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News Release

Contact: Brooke Houghton
Phone: +1 312 228 2387
Email: brooke.houghton@am.jll.com

High-Tech Job Creation Growing Nearly Four Times Faster than Other Sectors; Driving U.S. Office Space Demand from Coast to Coast

Baltimore and NYC join West Coast high-tech star markets of San Francisco, Seattle and Silicon Valley

SAN FRANCISCO, Calif, Sept. 28, 2011 — The combination of consumers' unquenched demand for new technology and businesses' application of new technologies, such as cloud computing, to gain efficiencies has given the high tech industry a job growth rate nearly four times faster than the national average since the employment trough was reached in February 2010 (5.1 percent vs. 1.4 percent). Additionally, rising venture capital and initial public offering (IPO) activity is fueling key rapid evolution and growth segments of the high-tech industry. The services sector, which excludes manufacturing components of the high-tech industry, has the greatest direct impact on office space demand and is growing even faster at 5.9 percent, according to Jones Lang LaSalle's high tech report that tracks 18 U.S. markets and provides an overview of the impact high-tech growth is having on office space supply, demand and pricing conditions.

High-Tech Report Highlights

- The high-tech growth cycle appears to be in the early stages with plenty of running room ahead for more hiring. Data indicates that this cycle is markedly different from the tech boom of the late 1990s.
- Of the more than 500,000 office-using jobs created nationally since February 2010, 127,000 jobs or 25 percent were in high-tech services illustrating the high-tech sector's rapid growth rate.
- High-tech has accounted for 50 percent of total venture capital funding over the past four quarters. Biotechnology and medical devises combined comprise 25 percent.
- A national office market recovery is underway with established high-tech clusters substantially outperforming other areas of the office sector by recording strong rent growth, the highest net absorption levels and diminished space availabilities.

"Consumer demand for gadgets, apps and new forms of media, coupled with businesses' technological needs, are what's driving high-tech employment," said Colin Yasukochi, San Francisco-based Director of Research for Jones Lang LaSalle's Northwest Region. "Employment in the high-tech sector is a bright spot in an otherwise gray economic picture. While not strong enough to uplift the entire national economy, high-tech strength is impacting office markets across the country with San Francisco, Silicon Valley and Baltimore experiencing the strongest growth."

Rising venture capital

High-tech has accounted for 50 percent of total venture capital funding over the past four quarters with biotechnology and medical devices combined comprising 25 percent. Of the high-tech funding, Silicon Valley (San Francisco Bay Area total) dominated venture capital funding at nearly 40 percent with New England taking 12 percent and New York nearly 9 percent. Silicon Valley's market share over the same four quarters in 2000 – the funding peak – grew by almost 8 percentage points, while most other areas remained stable or shrank.

The high-tech growth cycle is in the early stages and differs greatly from the boom of the 1990s. This time around, venture capitalists are much more cautious, funding has been more contained and the types of companies receiving funding are more viable. Additionally, a gauge of high-tech industry strength is near its past highs, but stock valuations have declined and remain near past lows. This suggests earnings are supporting business operations and stock prices are not overvalued.

"Because venture capitalists are putting a dominant amount of money into the mobile, search, social media and cloud computing sectors of the high-tech industry we are naturally going to see increased job creation in these sectors and in the geographies where these firms reside," said Yasukochi.

High-tech employment vs. office-using employment

Office-using employment sectors comprise 20.9 percent of total employment in the U.S., while high-tech services makes up just 1.7 percent. Nonetheless, high-tech services jobs increased by 5.9 percent from the trough, while office-using sectors increased by 1.9 percent. Though traditional office users are greater in number, high-tech office users are increasing at three times the pace, and this growth is more concentrated in specific markets thus driving office demand to a greater degree in those places.

High-tech, healthcare services and energy-related employment are the strongest sectors in the U.S. economy, which overall has struggled to regain momentum especially in recent months. Unemployment remains high at 9.1 percent nationally as of August; however, there are bright spots in the overall employment landscape with all three of the aforementioned sectors surpassing their peak employment levels reached prior to the start of the recession, and are still adding jobs. These three sectors account for nearly 650,000 or 35 percent of the 1.8 million jobs added since the employment trough in February 2010. High-tech employment has surged growing its job base by 5.1 percent (5.9 percent for services and 3.6 percent for manufacturing), surpassing growth of any other sector on a percentage basis.

High-tech geographic clusters benefit

Geographies with clusters of high-tech growth are experiencing dramatic impacts on office space demand and local market conditions. The national office market recovery is underway with established high-tech clusters largely outperforming other clusters and recording strong rent growth, high net absorption and diminished space availabilities

San Francisco, Silicon Valley, Seattle, New York and Baltimore are the strongest markets on Jones Lang LaSalle's high-tech industry economic cycle clock [LINK]. San Francisco, San Francisco Peninsula, New York, Pittsburgh and Austin are achieving the top rent growth nationwide. Markets with growing high-tech cluster

strength and that are positioned for rising rents and demand over the next 12 months include Boston, Seattle, Portland, Raleigh-Durham and San Diego. Many of these markets are becoming landlord-favorable with more moving in that direction.

"High-tech innovations and a shift in workforce dynamics are changing the way companies view and use office space," said Peter Miscovich, Managing Director in Jones Lang LaSalle's Corporate Solutions group. "As these trends become more impactful, property owners will need to employ their own forward-looking strategies to remain relevant."

High-tech tenants such as Facebook, Google and Zynga typically seek creative space with open work spaces, exposed ceilings and brick surfaces. Landlords are increasingly adapting and reconfiguring office space to meet these demands.

"The old rule for planning corporate real estate was that 80 percent of the space was allotted to individuals who worked in their assigned offices and 20 percent of space was collaborative, but high-tech firms were the first to pioneer the concept of more open space," said Miscovich. "Today, 60 to 80 percent is collaborative and interactive space, and 20 to 40 percent is individual, but not territorial."

As a result, the average amount of space allotted per employee has dropped from about 400 square feet in1985 to 250 today. Another 100 square feet per employee is expected to drop away in the near future.

Regional outlook: The top five markets on Jones Lang LaSalle's economic clock, show varying degrees of impact on office property markets.

San Francisco: The top high-tech industry growth market with the most impacted office market. Booming high-tech industry employment growth of more than 15 percent is creating strong demand for office space and has boosted rents 18.5 percent over the past 12 months. Stiff competition between tenants for the best quality space is moving market rents toward pre-recession highs in some buildings and causing high-tech firms that prefer South of Market Street to head north into the CBD. The excitement has drifted into the capital markets space and investors are snapping up properties at rates last seen in 2007. The resurgence in high-tech is electrifying not only San Francisco, but the entire Bay Area.

Silicon Valley: The second best performing high-tech industry that has made significant impacts on certain office submarkets, but growth has not yet been strong enough to move the entire Silicon Valley market. Leasing activity in 2011 has been robust and concentrated as many Valley tech giants stake their claim on the office market in order to secure space for future growth. In many recent deals, space absorption is not expected to occur until the second half of 2011 or 2012. This will significantly change market statistics. Strong demand is creating limited space availabilities and sharply rising rents (20-30 percent), especially in the hotter submarkets of Palo Alto, Cupertino, Mountain View, and Sunnyvale.

New York: Although not the main driver of Manhattan's office market recovery that began in mid-2010, resurgence of the high-tech industry has certainly made a substantial contribution. After a significant decrease in 2009 caused by the epic financial collapse, high-tech employment has been consistently increasing every

quarter and creating new office space demand. That growth is concentrated in the Midtown South submarket containing the Chelsea and Flatiron districts that has the lowest vacancy rate in Manhattan at 6.7 percent.

Seattle: One of the largest high-tech clusters in the nation and experiencing above average job growth, yet office property fundamentals have only recently begun to experience significant change. Thousands of new high-tech industry jobs created in the Puget Sound region have boosted the office market over the past three quarters, most notably in the Seattle CBD. Struggling or once empty buildings at the start of the recession have experienced significant occupancy gains as a result of this rapid growth, avoiding serious financial hardships and default. Not only has this led to renewed optimism in the economy, but also within the office property market. As a result, landlords have begun raising rental rates and reducing concessions on the heels of large high-tech lease transactions.

Baltimore: Surprisingly strong high-tech cluster that emerged as a result of the federal government relocating the Defense Information Systems Agency's (DISA) headquarters from Northern Virginia to Fort Meade. High-tech tenants serving DISA are relocating to submarkets in the Baltimore region and their demand is outpacing available supply, leading to premiums almost 30 percent above the market average. While t all federal government programs will be intensely scrutinized in the coming months and years, cuts to DISA appear unlikely as increased intelligence funding has been a priority over the past several years.

Forecast 2011

While the U.S. office market strengthened every quarter after reaching cyclical lows in mid-2010, weak employment and economic growth cast doubt on the strength of the overall recovery. Future growth prospects are highest in the office markets that are heavily influenced by strong high-tech and energy industry growth. Urban areas will benefit from tenant trade-up activity and professional services job growth.

Looking forward, tenants could face a period of significantly decreased leverage by the late 2013/early 2014 timeframe should the current economic recovery regain strength and broaden to include more industries important to office demand creation. The development pipeline of office inventory under construction totaled just 18.9 million square feet at mid-year 2011, constituting less than half a percent of the total supply. This means few space options will surface through 2014 across the U.S., giving vacancy and demand nearly three years to align. Should this scenario emerge, consistent rent growth is likely to appear nationally over the next several years.

"If you keep an eye on high-tech clusters, growth speed, talent availability and the mobility of high-tech firms, you might pinpoint the next wave and location of growth," said Yasukochi.

Jones Lang LaSalle's statistics sourcebook

To review more detailed overview of Jones Lang LaSalle's inaugural High-Technology Industry Report, please link to the following statistics and charts:

- High-Tech Industry Economic Cycle Clock: Assesses each market's position in the high-tech industry economic growth cycle, several economic factors were observed including high-tech job and wage

growth, the concentration of high-tech office employment, venture capital funding and intellectual human capital.

- Office Property Clock: This analysis of the Jones Lang LaSalle office clock demonstrates where each market sits within its real estate cycle.
- Complete Market Rankings: Ranking list of local markets for ten key high-tech industry economic and office market metrics.

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