



The Greater Princeton Office Market real estate outlook felt worse than the reality based on actual transactions which took place - a total of 88 with net growth absorption of 600,000 square feet of office space leased. The pain we felt had to do with rising commodity pricing, continued subprime loan pressure affecting the financial institutions and displacement of US workers. This has led to a continued decrease in NJ population and an increase in the unemployment rate. It is tough to afford living and working in NJ when you are employed, try it when you are unemployed. In this report we will analyze each of these issues.

Oil and food pricing has escalated by alarming rates, making the G8 (Financial Ministers from eight industrialized nations) state that, "This increase is a threat to stable growth." That's why these Ministers get diplomatic immunity and can park anywhere they choose. Why has oil and gas moved up from \$45/Barrel to \$140/Barrel when there has been insignificant change in the cost of production? Probably because of the following reasons: 1. Industrial and development growth in high population areas such as China and India and greater demand for oil, 2. The Dollar's continued weakness compared to other major currencies, 3. Speculation by institutional investors on specific commodities; if there is enough money chasing a commodity, then pricing rise. How do we change this out of control spiraling of the oil commodity which has ultimately affected everyone? "We need to get off the Grid." Basically this concept promotes greater conservation and using alternative fuel sources. Thus far, these alternatives have not worked properly in our economic system. A perfect example is ethanol which is a low efficient fuel made from corn, the result of using this product will dramatically increase the cost of food. So there becomes another conflicting decision...do we eat or do we drive. Solar and wind power are good concepts but also have serious economic drawbacks of cost versus return and the period of time it will take to make this more efficient. Immediate solutions are to release 200,000 barrels more per day by the Saudis, continue offshore drilling with deep drilling at depths of 5-8,000 feet in the Gulf of Mexico and Asia (there are 11 subsea developments with 17 more on the books) and to build more nuclear power plants. None of these ideas really solve the problem and could create additional long term problems. So I once again return to "Getting off the Grid" and determining how we focus on using less energy.

The subprime implosion was created by Wall Street which proliferated mortgage backed securities. So a bank could make a loan to a person with a low credit score and sell the mortgage, which would ultimately go into a pool of loans. The problem is they did this with 10 million people who never intended to pay back the loan. There is trend to be spotted when intense speculation is taking place, these include: 1. relaxed credit standards, 2. glut of inexperienced buyers, 3. elaborate theories that justify rising prices and, 4. the media is focused on the speculation. If we follow this theory we just faced a residential bubble and now are facing an "oil super bubble." This has led to the loss of over 8,900 financial jobs in NJ in the last eighteen months and an increase of our unemployment rate to 5.5% for the state. Where have all the jobs gone, India, Budapest, and other parts of the world where the price of labor is more elastic.

Despite the bad news, The Princeton Market experienced a decrease in supply and in some cases, a rise in rents. In this report, we will explore the supply and demand of office space in the Greater Princeton Office Market and make predictions for the balance of 2008.

