S&P/GRA Commercial Real Estate Indices ('SPCREX')
-- National & Property Sector Trends

By Larry Souza, Managing Director, Charles Schwab Investment Management

Commercial real estate fundamentals are holding up relatively well, although some major markets are experiencing lower transaction volumes, price appreciation, occupancy and rental growth rates. Labor market conditions (particularly in construction and financial services) have deteriorated over the past 12 months, reflected in slowing non-farm job growth and rising unemployment rates. Even in light of weakening economic fundamentals, wholesale price declines across the commercial real estate sectors are absent at this time.

Recent trends in the S&P/GRA Commercial Real Estate Indices (SPCREX) reflect deceleration in annual growth rates for the National Index, the Northeast, Midwest and Desert Mountain West regions, and the Office, Retail and Warehouse sectors. The Pacific West and Mid Atlantic South annual growth rates show improvement, as do Apartments.

Six of the 10 indices in the SPCREX index family dropped from January to February 2008. Price declines in the SPCREX National Composite Index were concentrated in:

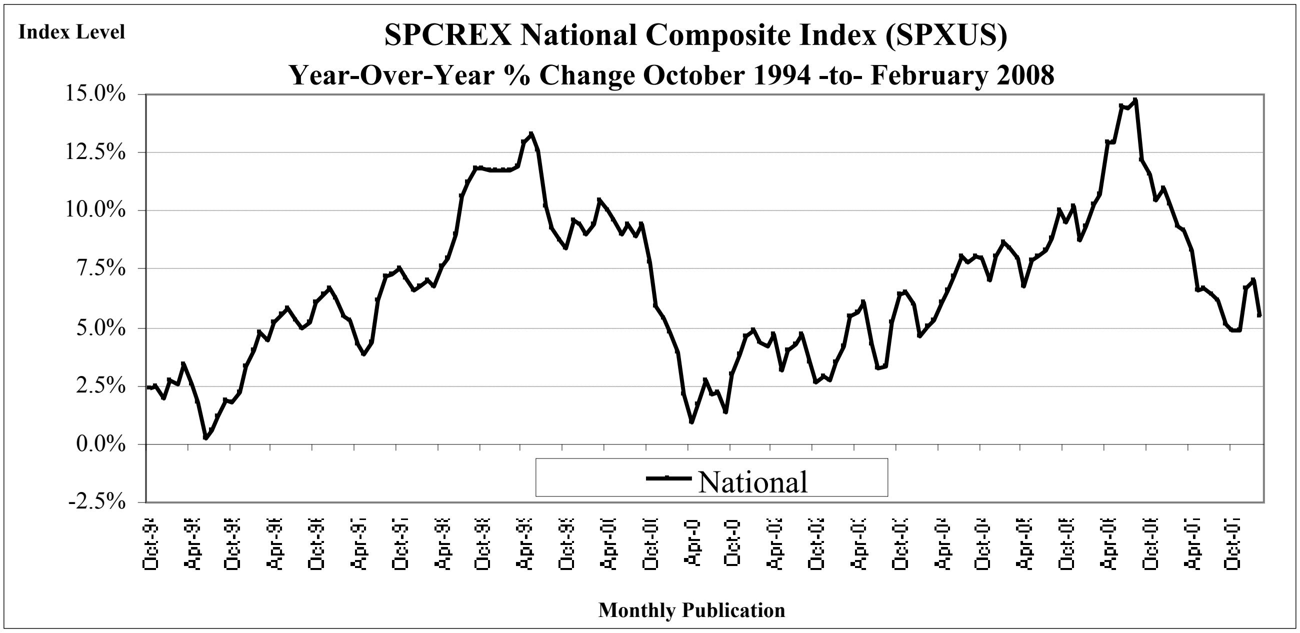
- The Northeast - New York-Boston Offices and Apartments, and Washington-Baltimore-Philadelphia Apartments;
- The Pacific West - Southern California Apartments and Warehouses, Northern California Offices, and the Pacific Northwest Offices and Warehouses;
- The Mid-Atlantic South - Atlanta Apartments and Warehouses;
- The Desert Mountain West – Retail, Apartments and Warehouses; and
- The Midwest - Apartments and Offices.

Metro groups showing significant declines in non-farm employment growth over the past year were the Pacific West (Southern California) and the Mid Atlantic South (Florida). Those whose employment growth rates have shown significant deceleration were the Desert Mountain West and the Pacific Northwest. And those whose employment growth rates have held up were the Midwest (Chicago), the Northeast, and the Pacific West (Northern California).

SPCREX National Composite Index

February's downward movement in the National Composite reflects the decay of influence from seasonally high transaction volumes. In February, there were fewer transactions than in December and January. February data included fewer year-end and first of the year tax related closings and, we believe, fewer transactions due to closings that were delayed during the worst of the credit crisis.

While led by regions and markets listed above, the downward movement in the National Composite was offset somewhat by price increases in some of the other property sectors tracked by the index. Recent trends in the National Composite show an annual deceleration similar to that experienced in the 1999-to-2001 period, when rates decelerated from +13.3% in May 1999 to +0.9% in April 2001.

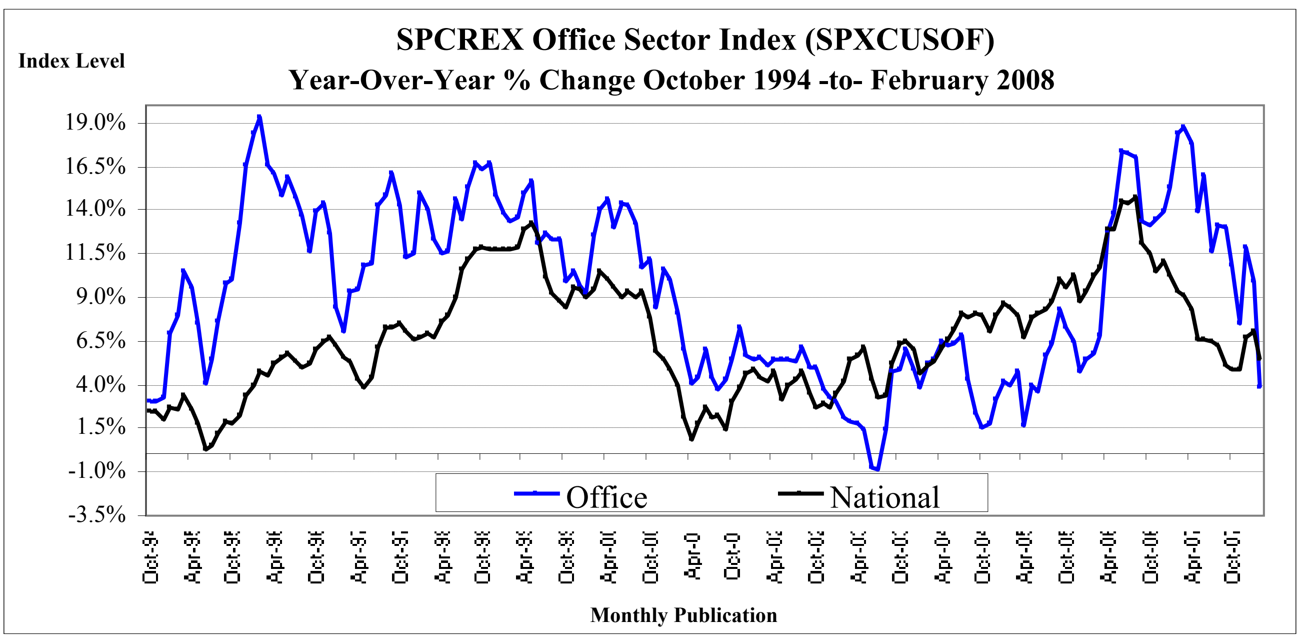


A Closer Look at Some of the Sectors

Offices

February's downward movement in the SPCREX Office Sector Index was driven by price declines concentrated in the Northeast (New York and Boston), the Pacific West (Northern California), the Pacific Northwest and the Midwest.

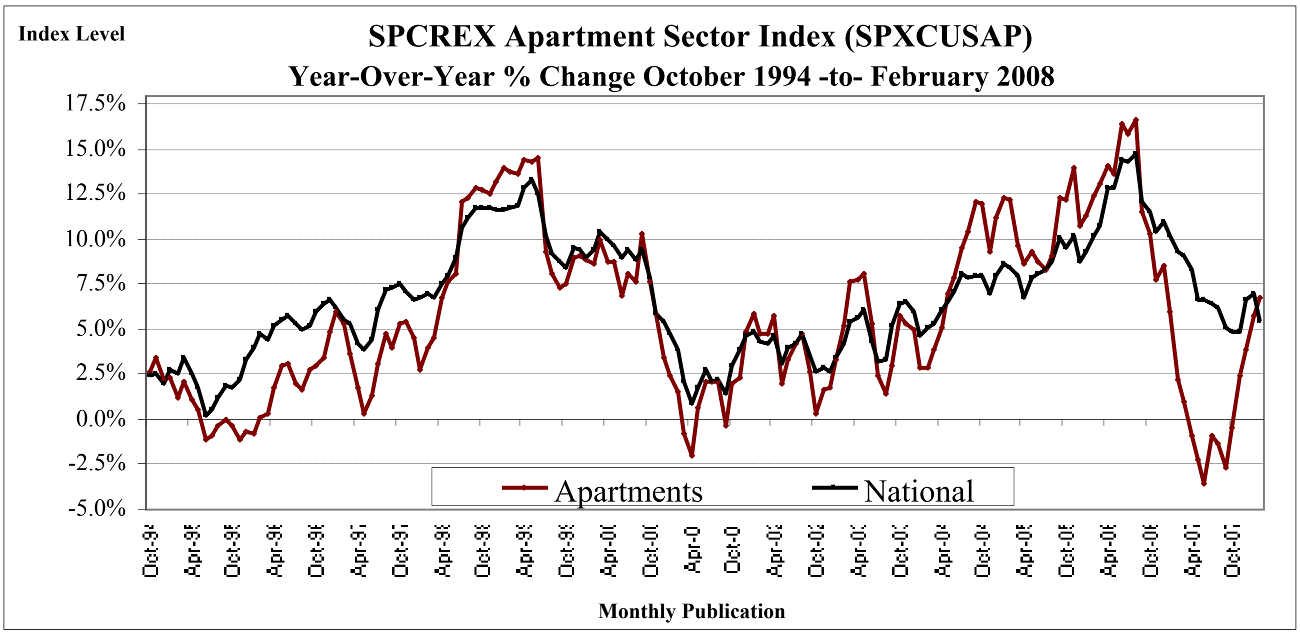
The office index peaked in August of 2007 and fell a sharp 5.2% by November 2007, but has rebounded slightly in the last few months. Growth rates for offices peaked at +18.8% in March 2007, and decelerated to +3.8% as of the February 2008 reported data, the lowest since +3.6% reported in June 2005. Annual deceleration reflected in this most recent cycle, is similar to that experienced during the 2000-to-2001 period, when rates dropped from +14.6% in April 2000 to +4.0% in April 2001.



Apartments

February's downward movement in the SPCREX Apartment Sector Index was driven by price declines concentrated in the Northeast, the Pacific West (Southern California), the Midwest and the Mid Atlantic South (Atlanta); and offset somewhat by upward movements in transactions seen in Florida, Seattle and Portland.

The apartment index first peaked in September of 2006, but dropped by 6.4% through April of 2007. Since then, apartment prices have generally risen, with the index up 2.8% from April 2007 through February 2008. Annual growth rates peaked at +16.6% in August 2006, decelerated to -3.5% in June 2007 and have recovered to +6.7% as of February 2008. Annual deceleration during this most recent down cycle is similar to that experienced during the 1999-to-2001 period, when rates dropped from +14.6% in June 1999 to -2.0% in April 2001.



Metro Group Employment Conditions

As of February 2008, almost every metro group represented in the SPCREX index saw non-farm employment growth rates drop significantly. Job losses concentrated in residential construction and financial activities were most severe in markets exposed to the housing down turn: for example, Los Angeles, Orange, Riverside and San Bernardino counties in Southern California, and Miami, Ft. Lauderdale, Miami Beach, Tampa Bay, St. Petersburg and Clearwater in Florida.

Metro group labor markets showing significant deceleration in annual job growth compared to this time last year were in the Mid Atlantic South (again, particularly Florida) from +1.7% to -0.3%, the Desert Mountain West from +2.3% to +0.5%, and the Pacific West (Southern California) from +0.9% to -0.7%.

Metro groups whose annual employment growth rates have held up relatively well compared to this time last year were Chicago the Northeast, and Northern California.

Some of the non-farm payroll statistics are presented below:

Metro Groups	Feb. 2007 Absolute Change YOY Non-Farm Employment	Feb. 2008 Absolute Change YOY Non-Farm Employment	Feb 2007 YOY Percent Change Non-Farm Employment	Feb 2008 YOY Percent Change Non-Farm Employment	Feb. 2007 Unemployment Rate	Feb. 2008 Unemployment Rate
NE - New York -Boston	163,600	**95,300**	1.6%	**0.9%**	5.1%	**4.6%**
NE - Washington, Et.Al.	67,400	**59,100**	0.9%	**0.8%**	3.8%	**4.1%**
PW - Southern California	71,500	**-53,000**	0.9%	**-0.7%**	4.5%	**5.4%**
PW - Northern California	50,800	**28,400**	1.4%	**0.8%**	4.6%	**5.2%**
PW - Pacific North West	83,800	**49,800**	3.2%	**1.8%**	5.2%	**4.7%**
MAS - Atlanta, Et.Al.	162,700	**89,700**	3.1%	**1.7%**	4.4%	**5.1%**
MAS - Miami, Et.Al.	93,300	**-15,800**	1.7%	**-0.3%**	3.2%	**4.3%**
DMW - Phoenix, Et.Al.	99,600	**19,400**	2.3%	**0.5%**	3.8%	**4.3%**
MW - Chicago	36,600	**30,500**	0.8%	**0.7%**	5.0%	**5.7%**
MW - Other	-19,100	**-9,200**	-0.3%	**-0.1%**	6.0%	**6.2%**
Source: Bureau of Labor Statistics.			www.bls.gov			

Larry Souza is a Managing Director with Charles Schwab Investment Management, and works closely with Standard and Poor's on the methodology and maintenance of the S&P/GRA commercial indices ('SPCREX').