



An Explanation of Our Research Methodology

What follows is a short description of the differences between Delta Associates and Transwestern market research methods vs. our competitors. This will give our readers guidance in understanding why our co-branded market data is superior, yet often different, from that published by others.

Inventory

We include owner-occupied and single-tenant buildings in our inventory. Reasons:

- So that we capture all economic activity affecting the market. Importantly, we can draw a reasonable correlation between job growth and absorption – the former being an extremely important indicator of future demand for space.
- So that we do not have to continually move buildings between owner-occupied and multi-tenant inventory due to the buildings selling or leasing.

The scale of buildings included in our inventory may be different from the scale used by others. Our office inventory consists of buildings 15,000 SF and up. Some competitors' inventories may be based on a larger minimum – in addition to excluding owner-occupied/single-tenant buildings.

Our inventory remains constant except for building deliveries and demolitions/conversions. Major renovation projects are removed from the inventory while the buildings undergo renovation, and then are returned to the inventory when the projects are completed.

Result: Our reported inventory is generally larger than that reported by other firms.

Vacancy

We use an economic vacancy rate. If space is leased, we do not include it in our vacancy rate. By way of comparison, if space is leased, but not yet occupied, CoStar includes that space in its published vacancy rates. We believe that, in general, economic vacancy is a better measure of market conditions than is physical vacancy. Our goal is to correlate market conditions with decision-making.

Our reported vacancy rate is a direct vacancy rate – it excludes sublet space. We also separately report vacancy including sublet space.

Note that our vacancy data for the Dallas/Ft. Worth market is based on a physical vacancy rate. Additionally, our net absorption figures for Dallas/Ft. Worth include the absorption of sublet space. These exceptions are noted in our reports for that market. Reporting conventions in this market differ from others and our reports for Dallas/Ft. Worth take these historical conventions into account.

Result: Our reported vacancy rate typically is lower than that reported by CoStar and generally modestly lower than that reported by other firms.



Net Absorption

Here is where the greatest differences exist in market data between Delta-Transwestern numbers and those of other firms. Our net absorption calculations are based on:

- *Change in leased (but existing) space from the beginning to the end of the period*
- *A constant inventory (that is, changes in inventory do not create positive or negative absorption)*
- *Inclusion of owner-occupied and single-tenant properties*
- *Exclusion of sublet space, except as noted above.* If sublet space becomes a significant factor, as it did in many markets in the 2001-2003 period, we report separately its effect on absorption of direct space.

Of note, many brokerage firms that report on market conditions limit their inventory to multi-tenant space, since this is their daily focus. While this may make sense from a business perspective, such reporting does not capture the complexity of the market as a whole, particularly in relation to job growth.

We have tested the accuracy of CoStar's listing data over the years and across markets and have found the firm to be reasonably accurate at this. However, CoStar's absorption is not consistent with ours, for the following reasons: (1) It is based on change in physically occupied space; (2) It may have sublet changes included (this seems inconsistent from market to market); and (3) It has been known to be impacted by changes in inventory that really have no bearing on market conditions, such as the reclassification of space from flex to office status for an owner's marketing purposes.

Result: Our absorption figures tend to reflect the reality of the marketplace and are slightly larger than those reported by others, due to the inclusion of owner-occupied/single-tenant buildings.