



LOCATION, LOCATION, LOCATION } SMALL BUSINESSES AND REAL ESTATE

The real estate market is hot...or is it frigid? Commercial space is tight...or is it plentiful?

In the past six months, speculation about the unpredictable nature of the real estate market, and its effect on the overall U.S. economy, has been a favorite topic of the business press.

Most of the pundits focus on the residential housing market. But businesses need a home, too. And the decision to

buy space, lease space, or operate in cyberspace could have a huge impact on your bottom line.

NOT YOUR FATHER'S OFFICE

Today, being "at the office" could mean a leased space in a suburban office park, a home study replete with flat-screen TV to keep an eye on the news, a company-owned brownstone in an urban setting, a "shared office" environment, or a "virtual office" that can be entered anywhere employees haul their laptops — from coffee shops to a university library to the beach.

The workplace requirements of clients and employees have never been more relaxed. In some industries, such as technology, the most accomplished companies tend to have the most casual workplace settings. These firms prefer to spend their money on technology and marketing, instead of corner offices, kitchenettes, and conference room space.

Yet, despite the much-touted flexibility of today's work world, the fifth wave of the CIT Small Business Outlook also

finds that the traditional office model is alive and well for small business.

REAL ESTATE: A CRITICAL PIECE OF THE PUZZLE FOR SMALL BUSINESS

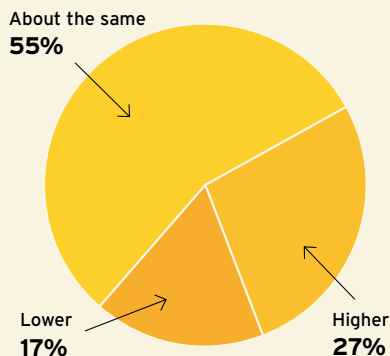
Although small businesses want to benefit from effective real estate, office space generates significant business costs. Specifically, small businesses devote about 12 percent of their expenses to real estate or business space costs (on average). In addition, about one of five small businesses (22 percent) plan on spending more money on real estate this year than last year, and one-quarter (27 percent) expect real estate costs to represent a higher percentage of their expenses during the next 24 months.

So how do small businesses balance the benefits and costs of real estate? And how do real estate issues mesh with businesses' other decisions, goals, plans, expectations, and hopes?

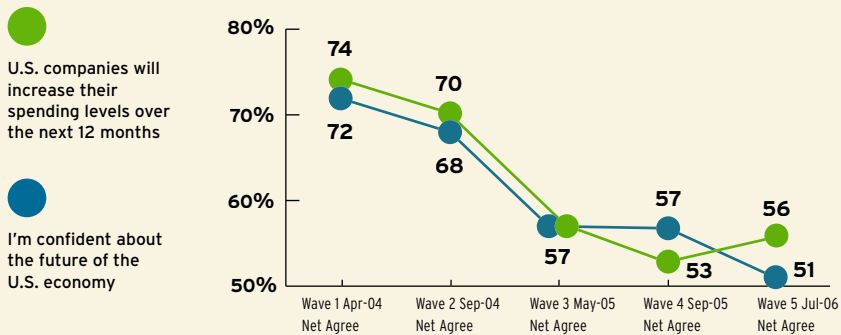
ABOUT THE SAMPLE

This fifth phase of the CIT Small Business Outlook, like the previous four, was conducted jointly by BusinessWeek

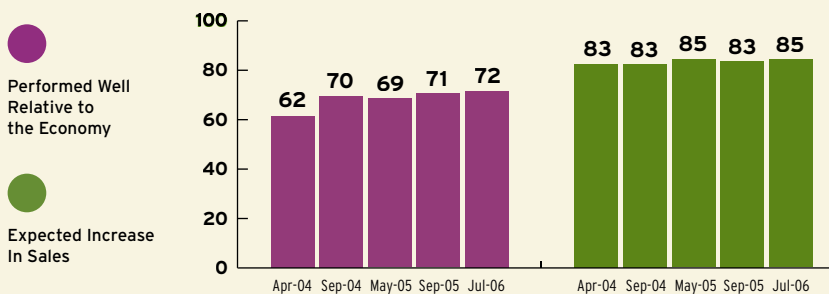
Q: Will real estate costs take up a higher or lower percentage of your business' expenses during the next 24 months?



Small Business' Outlook on U.S. Economy



Small Businesses Are Holding Their Own



Research Services and CIT, a Fortune 500 commercial and consumer finance company. This research initiative has been tracking small business perceptions since April 2004, and prior waves of the study have focused on the need for capital, business growth, health care costs, and the balance between outside funding and control. Similar to the previous four surveys, the current phase includes a

majority of respondents who generate most of their revenue from serving other businesses, not from serving consumers.

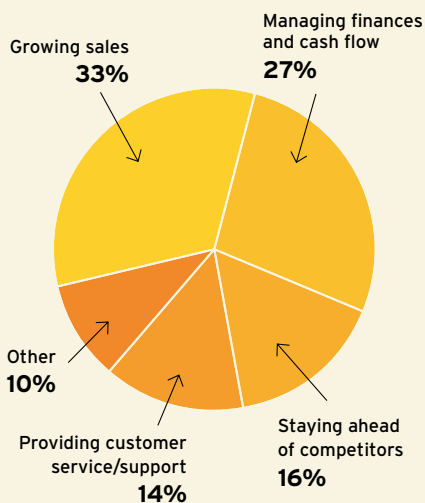
NO DOLDRUMS HERE

For the most part, economic perceptions and expectations of surveyed small businesses are stable since December 2004, but these expectations remain mixed. Small businesses' confidence in the future of the U.S. economy has slipped from 57 percent to 51 percent, down from a high of 72 percent in April 2004. In addition, just 32 percent of small businesses think that unemployment rates in the U.S. will fall over the next 12 months.

On the other hand, despite recent dire predictions of recession from several prominent economists, it's clear that down in the trenches – where the real work is being done – business is alive and well. For example, almost three out of four small businesses (72 percent) have performed well relative to the overall economy during the past year.

And small businesses are just as confident about their future success. The vast majority of businesses, 85 percent, expect their gross annual revenues to increase, and 72 percent of those who

Toughest Small Business Challenges This Year



expect increases say this will be due to the addition of new accounts. Also, exactly three-quarters of respondents say that now is a good time to invest in their own organizations. And just over half of survey participants (56 percent) predict that U.S. companies will increase spending levels over the next 12 months.

TECHNOLOGY REMAINS CRITICALLY IMPORTANT

Today, four out of five small businesses say that investing in technology is critical to the success of their companies or firms. And small businesses plan on spending more money on technology (56 percent) than on any other business initiative, including sales (44 percent), advertising (50 percent), or R&D (34 percent).

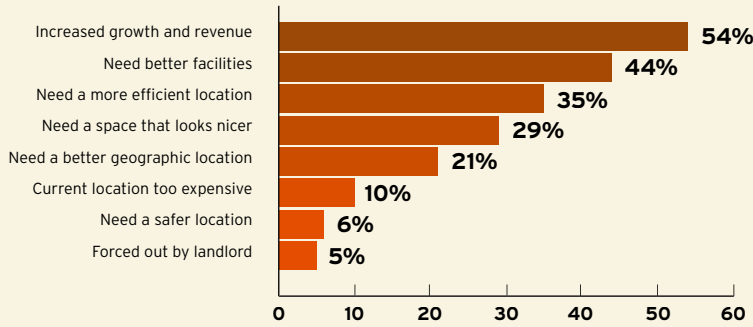
It makes sense that technology will be a prime area for investment in the near future. After all, companies that expect their revenue to grow over the next 12 months believe that this growth will be due to a wider breadth of products and services offered (37 percent), and growth of distribution channels (18 percent), both of which rely heavily on efficient technology.

RAISING CAPITAL FOR STRATEGIC AND TACTICAL REASONS

For many small businesses, maintaining enough capital to operate comfortably and not put out "fires" every month is a frequent challenge. In fact, more than half of survey participants (52 percent) say they are in need of additional funds. Although many say this need is driven solely by long-term strategic investment (40 percent), or solely by short-term tactical investment (16%), many say this need is equally influenced by both long-term strategic reasons and short-term tactical reasons (44 percent).

Where do businesses get the capital they need? A large majority of small businesses that need to raise funds continue to prefer commercial finance sources, such as banks or finance companies (63 percent), while investments from employees (14 percent) are the least attractive option. And when small businesses evaluate commercial finance sources, they tend to look for competitive interest rates (70 percent), followed by flexible financing terms (53 percent),

Reasons for Changing Locations



customer service (52 percent), and lender's reputation (47 percent).

OFFICE SETTING FLEXIBILITY

Small businesses tend to be in different stages of growth, and there's an effective office setting for each stage. Although about half of small businesses are located in a traditional outside-the-home, leased office space, about one-fifth (19 percent) are located at home, while slightly more than one-fifth (21 percent) are located outside the home in property that the business owns. In addition, seven percent are located in a shared office setting, and about eight percent operate in a virtual office setting.

When it comes to work space, technology once again has a prominent role. For example, technology has decreased the need for space for 27 percent of small businesses, but technology has increased the need for space for 17 percent of small businesses. Moreover, the workplace improvement that small businesses want most is a technology upgrade (47 percent), followed by obtaining a larger workspace (35 percent) and obtaining more storage space (35 percent).

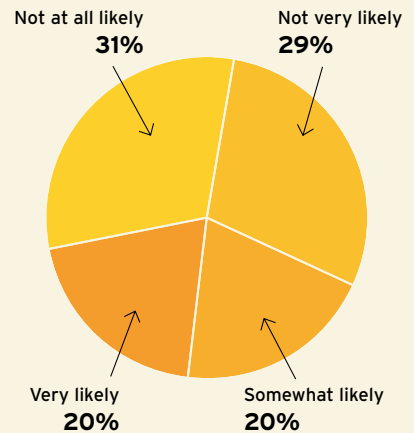
LIVING THE DREAM

Since small businesses are constantly evolving, it makes sense that four in ten (40 percent) expect to move from their current location within the next 24 months. And when small businesses decide to change locations, they often seek a number of benefits. For example, most businesses move to accommodate their increased growth and revenue (54 percent). In addition, many move to obtain better facilities (44 percent), a more efficient location (35 percent), and a space that looks nicer (29 percent).

Despite advances that allow small businesses to take advantage of non-traditional work settings, it seems that when small businesses move, most (58 percent) pursue a traditional leased, outside-the-home office situation, as opposed to purchasing a space (23 percent) or going to a shared office environment (11 percent). Less preferred moving options include home-based offices (3 percent) and virtual offices (1 percent).

One out of three businesses that plan to purchase a space (33 percent) say they hope to earn equity on the space as a real estate investment. In addition, seven in ten (70 percent) say they will contact a

Q: How likely is it that your business will move within the next 24 months?



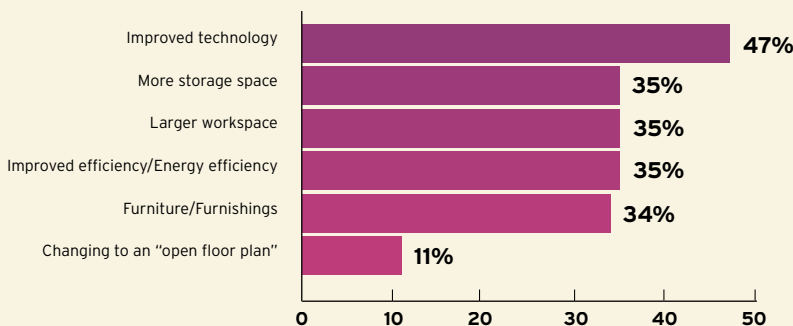
banker or mortgage broker to purchase the space.

Small businesses tend to prefer a balance of stability and flexibility in their office lease terms. For example, most companies that expect to sign a new lease within the next 24 months prefer a lease term of 2-5 years (65 percent). In contrast, a small number of businesses prefer terms of one year or less (20 percent), or a long-term lease of 6-10 years (9 percent).

SURVEY METHODOLOGY

The CIT Small Business Outlook is commissioned by CIT Group Inc. (NYSE: CIT), a Fortune 500 commercial and consumer finance company that works with global industry leaders and small businesses alike. The study is conducted by BusinessWeek Research Services (a division of the BusinessWeek marketing department). Representatives from 578 companies participated in the last survey. The sample was drawn from the BusinessWeek Market Advisory Board. Insight-Express, a market research firm based in Stamford, Connecticut, managed the online data collection. Participating companies have annual revenue of less than \$15 million. For more information about BusinessWeek Research Services, please contact Marc Scheer at (212) 512-2298.

Most Desired Workplace Improvements



To view The 2006 CIT Small Business Outlook survey, visit CIT.com.

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