Korpacz Real Estate Investor Survey®

Second Quarter 2003

PRICEWATERHOUSECOOPERS

Dear Reader:

With the economy starting to shows signs of a recovery, one question buzzing around the real estate industry is "When will leasing demand return?" Unfortunately, it is too soon to tell. The national unemployment rate continues to tick upward at the same time that job growth remains stale. Until both situations are reversed on a consistent basis, demand for all forms of real estate will remain limited. To read more about the nation's employment situation, check out this issue's *Economic News* column.

In contrast to the industry's weak underlying fundamentals, its investment market remains full of activity. Read our lead story, "Waiting For The Rebound," to find out what investors have been up to over the past three months and what they expect to do until market conditions improve.

In a related article, this issue's *Real Estate Capital Markets* column takes a closer look at which buyers have been most active during the first four months of 2003 for each major property segment.

Also in this issue, our semiannual *National Development Land Market* discusses select development opportunities within each property type. As expected, some of the best remain in the single-family residential sector, where low interest rates continue to fuel homeownership. Our *National Golf Market* is also back this quarter and will alternate quarterly with the *National Waste Management Market*, both authored by Douglas Main of PricewaterhouseCoopers.

As an enhancement to the Survey, we are pleased to debut in this issue a new table entitled *Forecast Periods and Growth Rates*, which can be found on page 66. It contains the initial year range and average for each market's market rent growth rate and expense growth rate, as well as the range and average over the typical holding period.

We hope that you find this new table useful and contact us should you have suggestions for future tables and/or topics.

Sincerely,

Peter F. Korpacz

Peter F. Korpacz
Editor-in-Chief

PRICEWATERHOUSECOOPERS

Making News This Quarter

SECOND QUARTER
2003

VOLUME 16
NUMBER 2

PRICEWATERHOUSECOOPERS

Korpacz Real Estate Investor Survey

National Highlights

WAITING FOR THE REBOUND

LOW INTEREST RATES, AN ABUNDANCE OF CAPITAL, AND A LACK OF ALTERNATIVE INVESTMENT OPTIONS CONTINUE TO GENERATE AN OVERWHELMING DEMAND FOR WELL-LEASED PROPERTIES THAT HAVE VERY LITTLE NEAR-TERM LEASING RISK. "The investment market for assets that are stabilized with strong rent rolls remains on fire," confirms a participant, who points out that no one property type or location has been fully dismissed by investors. "Select opportunities exist across all markets and all property sectors," attests another. For the most part, however, investors remain drawn to both warehouse and apartment properties, which are expected to lead the industry's recovery.

This fervent desire to place capital into "reliable" real estate materialized early in 2002 as a result of stock market losses and the need for less volatile investments. Since that time, it has intensified greatly as an increasing number of investors have become more comfortable with and more acceptable of upper single-digit returns. "Real estate has been embraced by many investors as a true investment vehicle," explains a participant, who notes that stable properties with annual cash flow returns of 6.0% to 7.0% are very attractive to investors right now.

Unfortunately for eager buyers, stellar properties that produce such alluring yields have been declining in number lately. "Good deals are just difficult to find," reveals a participant. "Few quality assets are available," comments another. Interestingly, such statements are being made at a time when the number of properties offered up for sale has reportedly increased in all property segments since the start of 2003. According to several investors, however, one problem with many of these new offerings is that they possess some sought of undesirable risk, such as empty space, poor tenant quality, and/or near-term rollover, and are also overvalued.

While such properties will likely increase in popularity among investors once the economy greatly improves and leasing risks subside, rising vacancy rates and falling rental rates throughout the industry will deter most investors from acquiring these riskier properties for now. "It's difficult enough trying to invest in a good property now," explains a participant, who continues to grapple with high prices amid weak fundamentals. Nevertheless, favorable pricing and strong investment demand will continue to entice sellers of unstable assets to "test the waters."

With the number of quality assets up for sale waning and investment demand thriving, properties that do offer "credit and term" continue to receive the most attention and the highest prices. In some instances, as many as 30 buyers vie for one property and not much spread, if any, exists between the bid and the deal price. In fact, some prices still surprise investors, especially since fundamentals throughout the industry continue to weaken. "A lot of investors uncaringly have blinders on to what the fundamental side is doing," contends a participant. For the most part, such high-price bidding is due to private buyers, who have been the most active investment group so far this year and will likely remain so until interest rates rise. "We can't compete effectively with buyers that are highly leveraged," shares a public REIT participant.

The inability to successfully compete against private-leveraged buyers has greatly reduced both the number and frequency of investments for certain other buyers. In addition, it has pushed some investors to the sidelines temporarily or to other investment venues, such as buying into operating businesses and/or other real estate companies. It has also prompted some investors to switch to lending or to other niche investments, such as build-to-suit projects. And, it has caused others to turn off the capital spigot altogether and/or to take advantage of strong sellers' markets by disposing of select noncore assets. "It's a great time to sell if you have the right product," exclaims a participant.

In addition to fierce competition, the disconnect between the investment market and the industry's underlying fundamentals represents another reason that a rising number of investors have removed themselves from the acquisition side of the real estate industry. For many markets, the main problem stems from a lack of leasing demand that has pushed both effective rent levels and net operating income down. "We are disappointed at how much the fundamentals continue to decline," shares a participant. Even though dips in overall cap rates, discount rates, and residual cap rates have maintained property values in certain circumstances, most investors continue to experience write-downs on assets.

Although several investors are more confident using lower cap rates and discount rates now than they were a year ago, few equate their enthusiasm to the belief that the industry will turnaround soon. Many do, however, believe that the industry for the most part has hit bottom and that fundamentals are not likely to deteriorate much further over the near term. Unfortunately, the consensus is also that the recovery will be a long and slow challenge with the apartment sector leading the pack and the office sector crossing the finish line last.

Favorite Websites

Favorite websites this quarter are below.

www.cityfeet.com: A national online network for the commercial real estate industry that connects tenants and investors with property owners, agents, and other real estate professionals. Specifically, the website allows prospective buyers and tenants to access thousands of office, retail, and industrial listings at the local level via free search tools. The site's "SpaceWatch" feature also allows prospects to receive email updates on new listings that meet their specified search parameters. And property owners and agents can list, update, and monitor listings anytime.

www.facilitycity.com: An interactive website that targets top-level executives involved in the long- and short-term needs of their company's facilities. Provides a wide range of national, state, and local information including economic snapshots; articles by topic, issue, and industry; available real estate; and information on upcoming conferences and events.

www.investorwords.com: This website provides definitions for over 6,000 financing and investing terms and includes 20,000 links between related terms. The glossary is free to use and updated frequently in order to provide the up-to-date terminology used in the industry.

www.fdic.gov/bank/analytical/survey: This report summarizes the local real estate market observations of various government senior examiners and asset managers. The information is collected in both January and July with the report published the following month. Changes in market conditions are included for the single-family, multifamily, office, retail, and industrial segments of numerous major metropolitan areas.

www.downtownmap.com: A highly integrated map of downtown Washington, DC that shows the location of hotels, museums, theaters, and Metro Stations. Also includes an aerial photograph of the District, as well as a tool for determining the walking distance between locations; currently includes the District and East Mall submarkets; Maps for Midtown, Georgetown, and the West Mall are in progress.

www.construction.com: Provides information on construction industry trends and news. Also gives access to F.W. Dodge reports and statistics on construction projects throughout the country and assists in finding construction professionals and firms. Links are also provided for local construction publications.

www.officetimes.com: Offers timely information pertaining to both the San Francisco Bay and East Bay office markets. Includes recent articles, available properties, rental rates, vacancy rates, broker contacts, and links to various service providers of the office industry.

www.florida-business-data.com: In addition to providing demographic, economic, and commercial lending data, this website offers recent news stories, interactive mapping services, and government information on a regional, county, and local basis for the entire state of Florida.

www.beaconcouncil.com: The Beacon Council of Miami-Dade County is responsible for bringing new, job-generating investments to the community, while assisting existing businesses in their efforts to expand. Their website provides in-depth information on the area's economic, demographic, and international aspects.

Property And Geographic Preferences

Even though the underlying fundamentals of the national apartment market and the national warehouse market continue to deteriorate, both of these property types remain prime targets for investment capital. Their continued appeal stems from the notion that both will rebound faster than other property types once the anemic economy enters a sustained recovery. In addition to these long-standing favorites, grocery-anchored shopping centers in both high-density trade areas and infill locations also continue to pique investor interest. Other retail formats, mainly regional malls and power centers, also remain top picks but on a very selective basis.

In the office sector, too much uncertainty and vulnerability are keeping investors focused on only the best-performing properties in both CBD and suburban areas. By contrast, most investors are least interested in acquiring community centers and R&D properties, even though some pockets of opportunity exist in each.

Due to their perceived resilience against a weaker economy, both the East and West Coasts continue to rank as top locations for investments. Frequently mentioned states and areas that offer some of the better opportunities for most types of real estate investments include Southern California, metropolitan New York, Washington, DC, Chicago, and Philadelphia.

Warehouse and R&D

Weakening fundamentals in the national warehouse market are doing little to deter investors' appetites for this asset type. Properties attracting the most investor interest continue to be those leased to creditworthy tenants for at least the next few years. In addition, most investors prefer newer buildings with clear ceiling heights of 20 to 30 feet, up to 15.0% finished space, and proximity to major transportation networks.

Unfortunately for eager buyers, few such assets have been placed up for sale. As a result, competition is fierce among buyers and sale prices remain quite high. This trend is especially true in the best-performing warehouse markets, which some participants believe are Northern New Jersey, Chicago, Denver, and Dallas. Other top picks include Long Island, Charlotte, and Philadelphia. By contrast, investors are shying away from Seattle, Atlanta, Baltimore, and Pittsburgh, where weak demand continues to push vacancy rates upward.

While overall investing in flex/R&D assets continues to take a back seat to acquiring warehouse ones, properties that are occupied by credit tenants for at least the next few years are attracting numerous bidders and are trading at surprisingly low cap rates. A few areas noted as sound locations for flex/R&D investments include Northern New Jersey, Southern Florida, Los Angeles, Chicago, and Phoenix.

Apartment

Even though investment demand for apartments remains quite strong, most participants sense that the number of completed deals is down from prior years. One reason is that the "disconnect" between the investment side and the leasing side of this property segment continues to widen. Another is that most investors' portfolios already have their share of such assets. In addition, the rapid pace at which fundamentals have weakened throughout most top markets has temporarily pushed some investors to the sidelines.

Some of the best-performing markets noted by participants include San Francisco, Philadelphia, Boston, and the metropolitan areas of Washington, DC. In addition, both Southern California and metropolitan New York were "cautiously" listed as top picks by participants. On the other hand, most of Atlanta, Charlotte, and northern Seattle were considered inferior markets in terms of both performance and investment opportunities.

CBD and Suburban Office

With most CBD and suburban office markets combating rising vacancy rates and falling rental rates, only the best-performing office properties in the strongest markets remain of interest to most investors. Such assets, which need to posses both creditworthy rent rolls and limited near-term leasing risk, are expected to make it through the prolonged downturn with the least amount of trouble.

Downtown markets that participants consider prime investment targets include Washington, DC, Manhattan, Philadelphia, and Boston, where favorable balances between supply and demand exist and the chance of excessive overbuilding is minimal. On the other hand, most investors are either avoiding or cautiously approaching potential deals in oversupplied markets, such as Dallas, San Francisco, and Bellevue.

Suburban markets that are receiving the most investor interest include Long Island, Suburban Maryland, and portions of Los Angeles, where diverse economies have kept supply and demand relatively balanced. By contrast, excessive amounts of supply and unnecessary construction are keeping a number of investors away from Boston, Atlanta, and Dallas.

Retail

Retail investments continue to increase in popularity. Over the past year the number of sales across all retail formats, namely regional malls, grocery-anchored strip centers, and power centers, have risen. Of the three, however, grocery-anchored strip shopping centers remain the preferred retail asset. Unfortunately, finding one that is anchored by a leading grocery store and located away from rapidly expanding Wal-Mart, is becoming increasingly difficult.

Top retail markets overall include Washington, DC, San Diego, Fort Lauderdale, and Las Vegas, while a few of the weakest cities include Charlotte, Dallas, and Salt Lake City. ◆

Technology News & Trends

Strategic Information Systems Planning: No Time Like The Present

By Scott Metro, Partner

Real Estate Systems and Operations Practice – PricewaterhouseCoopers LLP

Introduction

Strategic information systems planning (SISP) involves determining both short- and mid-term hardware and software requirements that a company will need in order to keep pace with and to capitalize on technological advancements. It is vital to organizations that desire to keep pace with technology, as well as those that thrive continuously to seek improvements to the efficiency of their existing operations. Since the actual planning exercise involves all areas of a company, a typical real estate firm should include planning and interviewing sessions with its accounting, acquisitions, property, asset and portfolio management, and investor relations departments.

In these planning sessions, requirements and "wish lists" are first documented and prioritized. Second, a survey of available technological solutions is prepared, including specific real estate applications as well as general tools, software, and hardware. And then, after matching the requirements and "wish lists" against the functionality of the available technological solutions, a strategic plan for both purchasing and implementing the solutions is created.

Figure 1 illustrates the high-level steps involved in SISP.

Figure 1

STRATEGIC PLANNING PROCESS

When To Start SISP

There is no time like the present to implement SISP. As noted earlier, real estate software applications and reporting tools have recently made great strides forward in terms of accessibility, use, and functionality. Specifically, all major real estate accounting and property management packages now available have a web-based approach for easier access and use of their systems. Such an innovation means that companies no longer have to deal with deployment and version control issues that once plagued vendors' legacy client-server applications.

On top of this advancement, many tools and applications have been upgraded to include new functions. Yardi, MRI (Intuit), and RealPage, for example, either have introduced or will shortly introduce enhancements to their products that will completely manage affordable-housing assets. Given the intense reporting requirements mandated by the government on this real estate sector, these upgrades will greatly reduce the amount of manual processing and reporting that affordable-housing owners currently must perform.

Another reason to start SISP now is that several reporting tool vendors have recently released new products that are attractively priced for the real estate industry. One example is Cognos. Although it is not specifically a real estate tool, it is capable of performing complex stratifications that greatly facilitate the reporting of information to third parties, such as industry organizations and consultants.

Getting Started

How should companies get started with their SISP? First, since the day-to-day job of running the technology operations of a real estate company may leave an I/T manager little time to keep up with the latest in real estate technology, consider hiring an expert. Industry-specific consultants exist that can either perform the SISP exercise in its entirety or augment an internal team with deep industry and software knowledge.

Next, create some "quick wins" by formulating solutions that can be quickly and inexpensively implemented thereby creating a positive environment for the SISP process. And finally, stick with it. By abandoning the SISP process too soon, the newest advancements in the real estate technology sector could be easily overlooked. ◆

Economic News

Employment Trends Disappoint Investors

WHILE AN INCREASING NUMBER OF INVESTORS BELIEVE THAT THE U.S. ECONOMY REMAINS IN A VERY SLOW-GROWING RECOVERY, MANY OF THEM REMAIN TROUBLED BY THE NATION'S BLEAK EMPLOYMENT SITUATION. Their main concern is that few companies are likely to expand their workforces significantly over the near term until the economy shows stronger signs of improvement and both better demand and pricing power for goods and services returns. "Companies that are generating solid profits at extremely leaner levels of operation are in no rush to rehire," explains a participant.

Unfortunately, the end result is a continued weak demand for both new and expansion space and a greater chance that ongoing job losses, rising unemployment, and declining job growth relating to office employment trends will continue to push the recovery of the real estate industry further into the future. "One of the biggest problems facing real estate is that job growth is way down," confirms a participant. Although a lack of job growth has been most detrimental to the recovery of the office sector, which relies on job creation to generate demand for space, it has negatively impacted all sectors of the real estate industry. Without job growth, discretionary purchases tend to decline, while the need for rental housing and the warehousing of goods typically wanes.

Job Losses

As many companies continued to boost profits by slashing jobs, the total nonfarm employment figure declined for the third month following January 2003. Specific monthly changes over the past year follow.

Even though the job losses posted for May 2003 were smaller than analysts originally projected and no losses were posted for April 2003, the fact that March's preliminary losses were adjusted upward did not sit well with investors. While some of the losses over the past few months are attributable to military reservists who have been summoned to serve in the war, not all of these individuals were employed and, therefore, left jobs. Nevertheless, it has likely impacted employment data to some extent, which will likely be reversed once they return from active duty.

2002	National Nonfarm Employment Changes
May	- 4,000
June	-28,000
July	-179,000
August	+20,000
September	+65,000
October	+ 119,000
November	+1,000
December	-211,000
2003	
January	+158,000
February	-121,000
March	-151,000
April	0
May	-17,000

Source: Bureau of Labor Statistics

One of the hardest hit industries in the month of May was manufacturing, which lost 53,000 jobs, according to Economy.com. By contrast, noncyclical industries, such as health and education, continue to experience consistent job growth.

Unemployment Rate

The U.S. unemployment rate has increased monthly since the start of 2003 and has surpassed its peak level reached back in December of 2002 (see Exhibit 1). Specifically, it hit 6.1% in May 2003, just slightly above the 6.0% posted in April of this year. While three months of steady job losses contributed to this upward shift, an increase in the labor force was also a factor.

In order to reduce the current unemployment rate by the end of this year, employment needs to grow by at least 150,000 workers per month over the next seven months, according to Economy.com. Since such an event is not expected to occur, the jobless rate is projected to increase to 6.2% by year-end 2003.

Office Employment

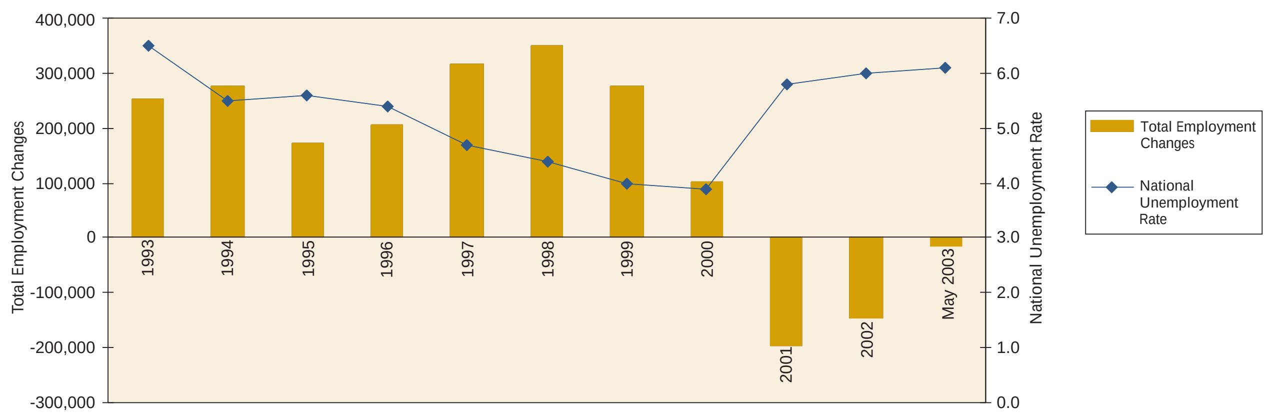
A declining trend in office employment growth is another top concern of investors. "Until job growth picks up, we don't expect to see much in the way of absorption in Chicago," shares a participant. "Negative job growth is killing us in Atlanta," bemoans another. And unfortunately, the same comments can be said for virtually every major metropolitan office market across the country. Since peaking at 6.9% in 1997 during the height of the last real estate expansion, office-using employment growth stumbled to 4.5% in 2000, -1.5% in 2001, and -1.0% in 2002 (see Exhibit 2).

Outlook

While many investors are expecting a strong increase in job growth at the end of 2004, few foresee the dramatic surges that occurred during the last expansion. "There are no big job growth drivers like last time," attests a participant, who believes that job growth will be much slower and steadier during the next expansion. In fact, data compiled from

Exhibit 1

NATIONAL EMPLOYMENT TRENDS
1993 - May 2003



Source: Bureau of Labor Statistics; compiled by PricewaterhouseCoopers LLP

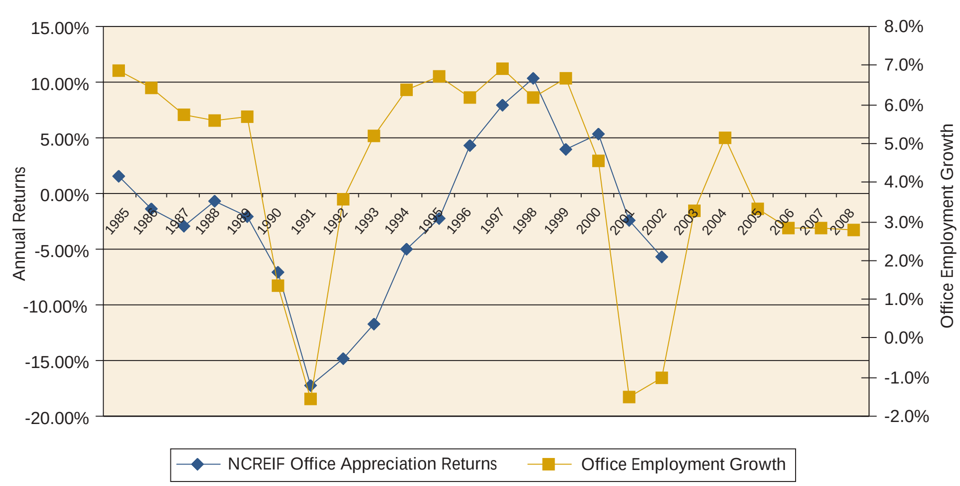
Torto Wheaton Research suggests that office employment will increase 5.1% in 2004, 3.3% in 2005, and between 2.8% and 2.9% from 2006 to 2008. By comparison, office employment grew between 5.2% and 6.9% from 1993 to 1999.

Although it is uncertain whether these projected increases will coincide with a dramatic improvement in the national economy, an historical relationship between employment growth rates and appreciation returns in the office sector suggest they will. As shown in Exhibit 2, employment growth and appreciation return patterns closely mirrored each other during the last recession, as well as during the current contraction. Interestingly, however, returns have failed to fall as much as they did during the last recession. One reason may be that unlike the prior recession favorable interest rates and overall cap rates have kept property values elevated. In addition, the increased availability of real estate data, as well as a more scrutinized lending and valuation environment, has created a "smarter and wiser" industry. Nevertheless, appreciation returns have trended below 0.0% for the last two years.

Although some investors believe that further declines in returns are possible in the immediate future if interest rates rise faster than fundamentals recover, many investors believe that such a scenario will not occur. Instead, many are optimistic that the U.S. economy will enter a sustained recovery at the end of 2004, with the real estate industry following roughly 12 months behind. As a result, both appreciation returns and office employment growth are expected to be positive at year-end 2004. ◆

Exhibit 2

OFFICE EMPLOYMENT AND APPRECIATION RETURNS



Source: Torto Wheaton Research; NCREIF; compiled by PricewaterhouseCoopers LLP

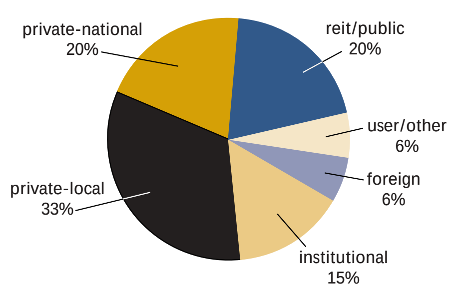
Real Estate Capital Markets

Capital Flows – Variations in the Mix of Investors for Each Property Type

By Robert M. White, Jr.
President, Real Capital Analytics, Inc.

Even though the six primary capital sources – private-national, REIT/public, user/other, foreign, institutional, and private local – remain active buyers of real estate and have contributed to the industry's recent increase in both acquisition volume and pricing, each has a unique set of risk parameters, return hurdles, costs of capital, and desired holding periods. It is these varied investment criteria that has led each sector to favor certain property types over others and has caused the composition of buyers for each property type to become so very different. It also explains why the overall mix of buyers for all core property types has been relatively diverse.

Composition of Investors
All Core Properties
As of April 30, 2003



Source: Real Capital Analytics, Inc.

During the first four months of 2003, the overall composition of investors has changed only slightly compared to all of 2002, with the private sector completing more investments currently than in all of 2002. So far this year, private-local buyers have represented approximately one-third of all acquisitions, while private-national buyers (equity funds, national developer/operators, and private REITs) have represented approximately one-fifth. One reason for this occurrence may be that private buyers generally are willing to accept more investment risk in terms of acquiring properties with vacancy and leasing exposure than buyers from other capital sources. Another explanation for the private sector's ownership dominance is that it can more aggressively leverage acquisitions. In other words, many private buyers are taking advantage of the current low-interest-rate environment and available cheap debt to bid up sale prices in order to win deals.

The following discussion summarizes the composition of investors for each major property type for assets that were either closed or under contact during the first four months of 2003.

Regional Malls

The investment arena for regional malls is an example of a split marketplace; both public and private capital has been active, but each has been targeting different assets. Although public REITs have been responsible for 55.0% of all acquisitions for the first four months of 2003, they have acquired over 90.0% of the larger, top-tier malls traded nationally and very few others. On the other hand, the private sector has acquired the majority of second-tier malls in both small and large markets. Many of these assets have leasing challenges and generate inline retail sales of less than $300.00 per square foot.

Strip Shopping Centers

Buyers of strip shopping centers have almost been derived equally from one of three capital sources: both local and national private firms and REITs. Activity by these three capital sources has been sufficient to create a competitive environment similar to or more aggressive than that of the office market, where all six capital sectors have been very active buyers. Due to the amount of fresh equity capital being raised by both public and private REITs, as well as local syndicates, prices and sales volume have skyrocketed for this property type.

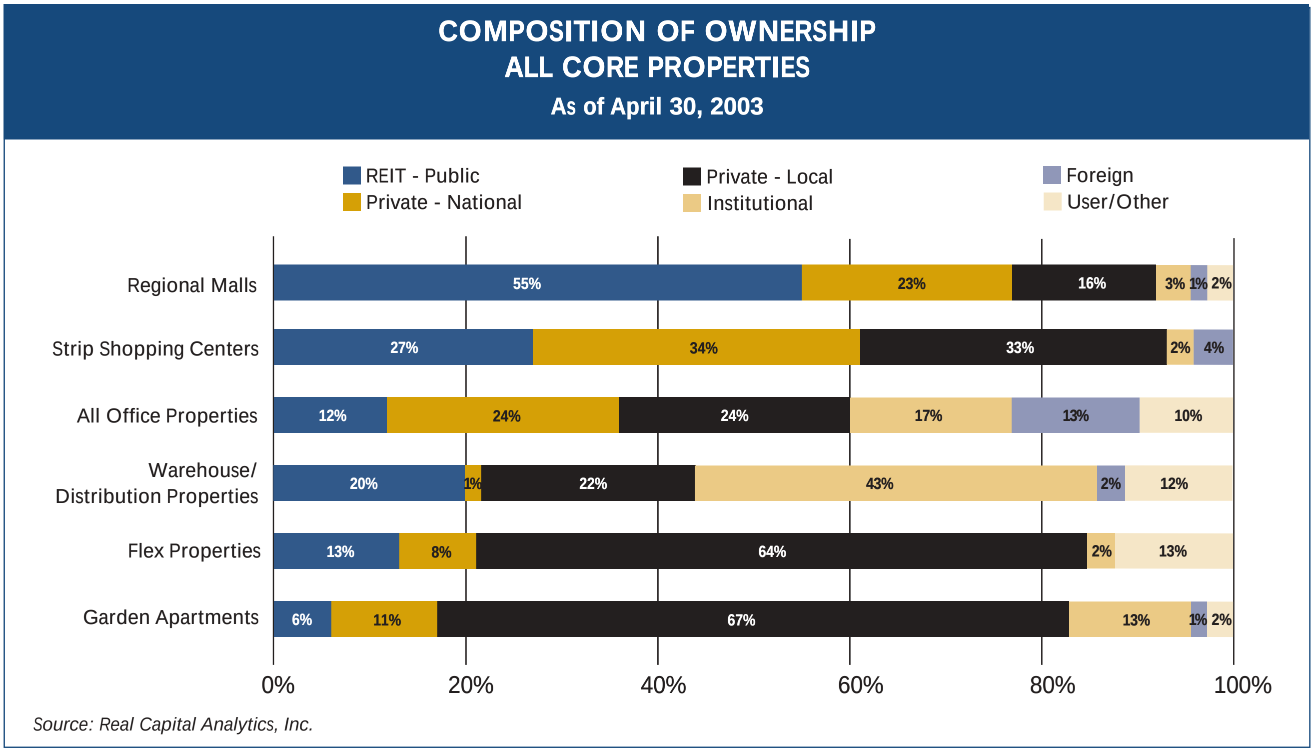
CBD and Suburban Office Buildings

The composition of investors for CBD and suburban office properties has created an extremely competitive environment among a very diverse set of eager buyers. In fact, no single capital sector accounted for more than 25.0% or less than 10.0% of the investment made in this property segment for the first four months of 2003.

Within this enthusiastic buying arena, foreign, REIT, and institutional investors have been focused primarily on major markets and have been nearly avoiding office properties located in secondary and smaller markets. As a result, many of these markets have not experienced the same degree of price appreciation as in most major markets.

Warehouse/Distribution Properties

Institutional investors, who typically vie for a greater share of industrial exposure than for any other property type, were the most active buyers of warehouse/distribution properties in the first four months of 2003. When many of these buyers stopped acquiring warehouse/



distribution properties on a large-scale basis through much of 2002, prices languished and yields for such properties became the highest among all property types. In the six months preceding April 2003, however, institutional buyers have reembraced this sector causing overall cap rates to fall.

Flex Properties

The buyer composition for flex properties has demonstrated a good example of weak demand from nearly all capital sources. In fact, local buyers and users accounted for nearly 80.0% of this property segment's recent acquisitions in the first four months of 2003. The few acquisitions made by other investors have primarily been for single-tenant properties, which enjoy a diverse and competitive mix of buyers across all property types.

One reason for the lack of investment interest for flex assets is that the high-tech fallout negatively impacted the perception of these properties among investors. As a result, it has been one of the few property types that has not strongly favored sellers.

Garden Apartments

The mix of buyers for garden apartments has been far less diverse during the first four months of 2003 than it was just two years ago. Private individuals and local buyers have accounted for two-thirds of the acquisitions in 2003, up from 50.0% in 2002 and 40.0% in 2001.

By contrast, both institutional buyers and REITs curtailed apartment acquisitions when the first signs of the recession arose and continue to shy away from this property type except in Southern California and a few other major markets. Without the competition of buyers that result from multiple capital sources, it will be tough for apartment prices to continue to rise.

Summary

Even though all capital sectors have remained active buyers so far in 2003, each segment's unique set of investment parameters and preferences should keep the composition of buyers relatively unchanged for the remainder of this year. Such a trend is based on the expectation that market fundamentals, economic climates, and interest rates are not expected to change dramatically over the near term. As a result, the most diversity is expected to remain in the office segment, while the least diversity is expected in the apartment sector. Furthermore, the strongest markets will continue to be those that have the greatest competition among buyers and the greatest diversity of capital sources.

Real Capital Analytics, Inc. is a national research and consulting firm that focuses exclusively on the investment market for commercial real estate. It publishes monthly reports concerning capital flows, prices and yields, and the supply and demand of offerings. For information on these, as well as other services and publications, pleased visit their website at www.rcanalytics.com or contact them at 646-742-9445. ◆

National Regional Mall Market

EVEN THOUGH MANY DEPARTMENT STORES AND TRADITIONAL INLINE STORE CHAINS CONTINUE TO REALIZE YEAR-OVER-YEAR DECLINES IN RETAIL SALES, TRANSACTION ACTIVITY IN THE NATIONAL REGIONAL MALL MARKET REMAINS QUITE BRISK. Specifically, 29 properties totaling over $1.2 billion traded hands in the first quarter of 2003, according to Real Capital Analytics, Inc. (RCA). And in the six months ending March 31, 2003, regional mall sales totaled nearly $4.0 billion.

Although many of the recent deals have been for individual properties, portfolio sales have also occurred. Blackstone Group, for example, purchased a three-mall package, which included Southdale Center in Edina, Minnesota, Tri County Mall in Cincinnati, Ohio, and Dakota Square in Minot, North Dakota, for a combined price of $425 million. And Pennsylvania Real Estate Investment Trust acquired a four-property, 3.6-million-square-foot portfolio from The Rouse Company that included The Galleria at Market East and The Exton Square Mall both in Pennsylvania and Cherry Hill Mall and Moorestown Mall both in New Jersey for a total price of $469 million.

Instead of buying existing regional malls, some investors are busy either building them or renovating old ones. CBL & Associates Properties Inc., for example, recently broke ground on Coastal Grand, a 1.5-million-square-foot project in Myrtle Beach, South Carolina. Slated to open in March 2004, this new center will include tenants such as Dillard's, Abercrombie & Fitch, Dick's Sporting Goods, and Bed, Bath & Beyond. And The Mills Corporation has started its $70-million overhaul of Forest Fair Mall, which it acquired in July 2002 and renamed Cincinnati Mills. While the layout will reportedly stay the same, the end result will be a blend of outlet, discount, and entertainment stores.

With so many investors vying for mall ownership, it is not surprising that new offerings rose to $3.6 billion during the first quarter of 2003, the highest level in two years, according to RCA. While this increase is good news for investors who are anxiously looking to acquire malls, it has caused cap rates to decline and prices to rise throughout the market. Although one participant notes that, "overall cap rates are stabilizing," the quarterly comparison shows that they have continuously declined over the past year.

Unfortunately, with participants expecting property values for regional malls to increase as much as 7.0% over the next 12 months, overall cap rates are not likely to rise significantly anytime soon. ◆

AVERAGE OVERALL CAPITALIZATION RATES
2Q02-2Q03

Quarter	Average	Change (bpts.)
2Q03	8.63%	-10
1Q03	8.73%	-5
4Q02	8.78%	-11
3Q02	8.89%	-9
2Q02	8.98%	—

Table 1

NATIONAL REGIONAL MALL MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.00%–12.50%	10.00%–12.50%	10.25%–13.00%
Average	11.19%	11.21%	11.54%
Change (Basis Points)	—	–2	–35
OVERALL CAP RATE (OAR)[a]			
Range	7.25%–10.00%	7.25%–10.00%	7.75%–10.50%
Average	8.63%	8.73%	8.98%
Change (Basis Points)	—	–10	–35
RESIDUAL CAP RATE			
Range	8.00%–10.50%	8.25%–10.50%	8.25%–11.00%
Average	9.10%	9.42%	9.63%
Change (Basis Points)	—	–32	–53
MARKET RENT CHANGE RATE[b]			
Range	0.00%–4.00%	0.00%–4.00%	0.00%–4.00%
Average	2.67%	2.58%	2.50%
Change (Basis Points)	—	+9	+17
EXPENSE CHANGE RATE[b]			
Range	3.00%–3.00%	3.00%–3.00%	3.00%–3.50%
Average	3.00%	3.00%	3.04%
Change (Basis Points)	—	0	–4
AVERAGE MARKETING TIME (in months)			
Range	3.00–18.00	3.00–18.00	3.00–24.00
Average	9.60	9.60	11.40
% Change	—	0	–15.79

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

National Power Center Market

ALTHOUGH DISCOUNT AND VALUE-ORIENTED RETAILERS CONTINUE TO LURE PRICE-CONSCIOUS CONSUMERS AMID AN ANEMIC ECONOMIC RECOVERY, MANY OF THESE STORES HAVE POSTED LOWER-THAN-ANTICIPATED SALES LEVELS. Wal-Mart, for instance, reported a meager 0.3% rise in year-over-year same-store sales in March 2003, their smallest gain since December 2000, according to the Bank of Tokyo-Mitsubishi. And Target, which experienced a 1.3% decline in year-over-year same-store sales in March 2003, did not achieve its profit plan for the first quarter of 2003.

While disappointing sales performances for March 2003 were a result of unseasonably cool spring weather, the onset of war, and a late Easter holiday, they are also due to a decline in consumer confidence. "People have so many things on their minds now – war, job security, the sluggish economy – that unnecessary spending is a low priority," states a participant. Such concerns are apparent in The Conference Board's Consumer Confidence Index, which declined to 61.4 in March 2003, marking its fourth consecutive monthly decrease. Monthly index trends are shown to the right. The good news, however, is that the Confidence Index rose sharply to 81.0 in April 2003. Although it is too soon to tell if this upward shift is the start of a rebounding trend, it's a hopeful sign for many retailers.

Even though the economy is expected to remain sluggish for the next several months and recent consumer confidence levels have mainly been below par, power centers leased to prominent retailers continue to attract investors. The Boardwalk Shopping Center in Austin, Texas, for example, which is anchored by both Wal-Mart and The Home Depot, was recently purchased for about $125.0 per square foot by Alexander & Baldwin Inc.

Investors are also drawn to stellar power centers that are located in established trade areas and/or near fortress malls. Inland Retail Real Estate Trust (Inland), for instance, recently acquired Overlook at King of Prussia, which is situated on the ring road of one of the nation's largest regional malls, for a staggering $305.00 per square foot. While this sale price seems unusually high, participants warn that bidding and pricing for such stellar properties is not uncommon. As one participant reveals, "we recently bid a mid-7.0% cap rate on one and lost the deal." Fortunately, this trend may reverse itself once interest rates start to rise. ◆

CONSUMER CONFIDENCE INDEX TRENDS

	Index	Change
2003		
April	81.0	+19.6
March	61.4	-2.3
February	64.8	-14.0
January	78.8	-1.9
2002		
December	80.7	-4.2
November	84.9	+5.3
October	79.6	-14.1
September	93.7	-0.8
August	94.5	-2.9
July	97.4	-8.9
June	106.3	-4.0
May	110.3	+1.8
April	108.5	-2.2
March	110.7	—

Source: The Conference Board

Table 2

NATIONAL POWER CENTER MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.50%–12.50%	9.50%–12.50%	10.75%–12.50%
Average	11.17%	11.21%	11.52%
Change (Basis Points)	—	–4	–35
OVERALL CAP RATE (OAR)[a]			
Range	8.50%–10.00%	8.50%–10.00%	8.75%–10.25%
Average	9.35%	9.35%	9.50%
Change (Basis Points)	—	0	–15
RESIDUAL CAP RATE			
Range	9.00%–10.50%	9.00%–10.50%	9.00%–11.00%
Average	9.77%	9.77%	9.85%
Change (Basis Points)	—	0	–8
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	2.42%	2.50%	2.57%
Change (Basis Points)	—	–8	–15
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.50%	2.00%–3.50%	2.00%–3.50%
Average	2.96%	2.96%	2.96%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	4.00–9.00	4.00–9.00	4.00–9.00
Average	6.92	6.79	6.79
% Change	—	+1.91	+1.91

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

National Strip Shopping Center Market

DESPITE WAL-MART'S GROWING POPULARITY AMONG GROCERY SHOPPERS, MANY INVESTORS REMAIN STEADFAST IN THEIR QUEST FOR GROCERY-ANCHORED STRIP SHOPPING CENTERS. "Wal-Mart's existing presence and the likelihood of its future presence in a trade area is definitely something we look at, but it's not our main focus," shares a participant. To combat any potential competition from the dominant retailer, some investors look to acquire centers that are anchored by either the number-one or the number-two grocer in that region. As one participant explains, "not everyone wants to shop at big-box superstores for their food."

Even though some investors downplay their concerns about Wal-Mart's impact on traditional supermarkets, two of the most recognized names in the grocery industry – Kroger and Publix – have taken steps to increase their presence, and ultimately their market share, in the industry. First, Kroger has remodeled, remerchandised, lowered prices, and introduced new services through many of its stores. In addition, it continues to expand its variety of supermarket chains. For example, it opened a new Ralphs grocery store in Murrieta, California and has signed a 20-year lease to operate another one in a new shopping center planned for downtown Los Angeles. And Publix is planning to open 69 new supermarkets in 2003. By comparison, it opened 76 new ones in 2002 and averaged 37 new stores per year in the late 1990s.

With both Kroger and Publix continuing to expand, more investment opportunities may open up in this market where many buyers continue to face tough competition and bidding wars due to a shortage of quality product up for sale. "Buyer demand greatly outweighs investment supply right now," confirms a participant. "Demand is outrageous and competition is fierce," attests another. As a result, overall cap rates (OARs) remain on a downward trend. A quarterly comparison of average OARs is shown below.

AVERAGE
OVERALL CAPITALIZATION RATES
2Q02-2Q03

Quarter	Average	Change (bpts.)
2Q03	9.33%	-25
1Q03	9.58%	-31
4Q02	9.89%	0
3Q02	9.89%	-12
2Q02	10.01%	—

While declining cap rates and strong buyer interest have allowed some investors to "take advantage of a sellers' market and turn a nice profit," they have made it difficult for many buyers to win deals. "We are finding it hard to compete with leveraged buyers on the best assets," reveals a participant, who instead has opted to look for value-added deals and development opportunities in either Chicago or Kansas City. Reportedly, shopping centers in these and other metropolitan areas are experiencing an increase in inline store leasing. One reason may be that individuals who have been out of work for some time are now deciding to open up their own businesses. ⌖

Table 3

NATIONAL STRIP SHOPPING CENTER MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.50%–13.00%	8.50%–13.00%	10.00%–13.00%
Average	10.76%	10.84%	11.32%
Change (Basis Points)	—	–8	–56
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–11.50%	8.00%–12.00%	8.50%–12.00%
Average	9.33%	9.58%	10.01%
Change (Basis Points)	—	–25	–68
RESIDUAL CAP RATE			
Range	8.50%–11.50%	8.75%–12.00%	9.00%–12.00%
Average	9.61%	9.73%	9.96%
Change (Basis Points)	—	–12	–35
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	2.00%	2.00%	1.89%
Change (Basis Points)	—	0	+11
EXPENSE CHANGE RATE[b]			
Range	2.00%–4.00%	2.00%–4.00%	2.00%–5.00%
Average	3.08%	3.09%	3.52%
Change (Basis Points)	—	–1	–44
AVERAGE MARKETING TIME (in months)			
Range	4.00–12.00	4.00–12.00	4.00–12.00
Average	6.94	7.06	6.80
% Change	—	–1.70	+2.06

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

National CBD Office Market

DOWNTOWN OFFICE PROPERTIES THAT OFFER STABLE RENT ROLLS WITH CREDIT TENANTS AND LIMITED NEAR-TERM LEASE EXPOSURE CONTINUE TO LURE INVESTMENT DOLLARS. "Investors remain very interested in acquiring properties without immediate rollover and leasing risks," confirms a participant. In fact, the demand from buyers has been so intense that new offerings of suburban and CBD properties combined were up over 40.0% year-over-year in the first quarter of 2003, according to Real Capital Analytics, Inc.

While the trend to invest in stabilized real estate is still a result of a lack of alternative investment options, it is also due to an increased realization among investors that real estate is a viable long-term investment. "More and more investors are becoming satisfied with 7.0% returns," explains another participant. Although this mindset could quickly erode once the stock market rebounds and other investment venues open up, many investors will likely retain a significant portion of their real estate holdings. "Investors have long memories and the money that they lost in the stock market will be remembered for a long time," assures a participant.

Another reason investors continue to direct capital into stable CBD assets is the belief that fundamentals in many markets have hit bottom and are not likely to deteriorate much further. "I don't think that fundamentals can get much worse," avows a participant. While that statement may be true for the handful of downtown markets, such as Manhattan, Washington, DC, and Philadelphia, that have continued to hold up relatively well throughout the downturn, it may be a bit premature for the bulk of CBD markets that continue to combat rising vacancy rates, declining rental rates, and untimely additions to supply.

Some of the worst-performing downtown markets include San Francisco, Bellevue, and Dallas, where overall vacancy rates ranged from 20.3% to 29.9% as of the first quarter of 2003, according to Cushman & Wakefield. Although most properties in these and other weak CBDs have been negatively impacted by a significant drop off in demand and an overhang of sublease space, certain ones are trading. In San Francisco, for example, 550 Kearney Street recently sold for close to $225.00 per square foot. Reportedly, this property is 98.0% leased, has minimal rollover for the next three years, and is the first sale in over two years to exceed $20.0 million in this market.

While this sale demonstrates that even well-leased properties in distressed markets are piquing investor interest, one participant wonders if a general decline in cap rates is artificially maintaining the values of such assets. "I would advise against buying Class-A properties in Class-B markets," warns the participant. The problem is that predicting exactly when such markets will dramatically recover is extremely challenging. While some CBDs are expected to show noticeable improvement by the end of next year, others remain far away from a marked recovery. ✦

Table 4

NATIONAL CBD OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–13.00%	9.00%–12.50%	9.75%–13.50%
Average	10.88%	10.92%	11.26%
Change (Basis Points)	—	–4	–38
OVERALL CAP RATE (OAR)[a]			
Range	7.25%–11.00%	7.25%–12.00%	7.00%–12.00%
Average	9.34%	9.40%	9.56%
Change (Basis Points)	—	–6	–22
RESIDUAL CAP RATE			
Range	8.00%–11.50%	8.50%–12.00%	8.50%–12.00%
Average	9.56%	9.70%	9.68%
Change (Basis Points)	—	–14	–12
MARKET RENT CHANGE RATE[b]			
Range	-10.00%–3.00%	-10.00%–3.00%	-10.00%–5.00%
Average	0.48%	0.71%	1.48%
Change (Basis Points)	—	–23	–100
EXPENSE CHANGE RATE[b]			
Range	1.50%–3.00%	1.50%–3.00%	2.00%–3.00%
Average	2.78%	2.86%	2.92%
Change (Basis Points)	—	–8	–14
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	3.00–12.00
Average	7.36	7.50	7.75
% Change	—	–1.87	–5.03

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

National Suburban Office Market

THE NATIONAL SUBURBAN OFFICE MARKET CONTINUES TO BE NEGATIVELY IMPACTED BY A SLOW GROWING ECONOMY THAT IS DOING LITTLE TO FUEL AN EXPANSION OF CORPORATE AMERICA. "Until companies feel comfortable with the future and start spending money and hiring people, demand for office space will remain nil," explains a participant. Unfortunately, with the economy not expected to noticeably improve until next year at the earliest, most individual suburban markets are expected to battle high vacancy rates and depressed rental rates through at least 2004.

Suburban office markets experiencing the most problems are those that relied too heavily on the high-tech sector to boost both employment growth and space demand, such as Boston and San Francisco. "Boston's suburbs are really bad," confirms a participant. Also struggling more than most markets are those that experienced continuous additions to supply at the same time that market conditions were deteriorating, such as Atlanta and Dallas. Of the 41 suburban markets tracked by Cushman & Wakefield, the ten that posted the highest overall vacancy rates for the first quarter of 2003 are shown below.

Bottom 10 Markets	1Q03 Overall Vacancy Rate
New Haven, CT	23.1%
Oakland, CA	23.4%
Chicago, IL	24.9%
San Francisco, CA	25.4%
Dallas, TX	25.4%
Atlanta, GA	25.7%
Portland, OR	26.0%
Boston, MA	26.5%
San Francisco Peninsula, CA	27.4%
Silicon Valley, CA	28.9%

Source: Cushman & Wakefield

In contrast to these excessively oversupplied markets, the best-performing suburban markets as of the first quarter of 2003 are shown below.

Top 10 Markets	1Q03 Overall Vacancy Rate
Ontario, CA	11.5%
Long Island, NY	15.2%
Suburban Maryland	15.4%
Los Angeles-North, CA	16.3%
Contra Costa, CA	16.4%
Bellevue, WA	16.4%
Los Angeles-Tri Cities, CA	16.5%
St. Petersburg/Clearwater, FL	16.6%
Northern, NJ	17.3%
Westchester County, NY	17.4%

Source: Cushman & Wakefield

Regardless of how individual suburban office markets are performing, it appears that both investment demand and prices remain elevated for well-leased, quality assets in all markets. In fact, two of the largest volumes of transactions over the past year have been completed in the suburban markets with extremely high overall vacancy rates. Specifically, $1,724.2 million worth of suburban office properties traded at an average price of $174.00 per square foot over that time period in Northern Virginia, where the overall vacancy rate stood at about 21.0% at the start of 2003. And in Dallas, where the overall vacancy rate was 25.4% in the first quarter of 2003, $1,085.3 million worth of assets sold at an average sale price of $104.00 per square foot in the year ending March 2003. ◆

Table 5

NATIONAL SUBURBAN OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.50%–13.00%	9.50%–13.00%	10.00%–13.00%
Average	11.13%	11.27%	11.45%
Change (Basis Points)	—	–14	–32
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–12.00%	8.00%–13.00%	8.50%–13.00%
Average	9.80%	9.96%	10.00%
Change (Basis Points)	—	–16	–20
RESIDUAL CAP RATE			
Range	8.75%–12.00%	8.75%–12.00%	8.75%–12.00%
Average	9.90%	10.01%	9.99%
Change (Basis Points)	—	–11	–9
MARKET RENT CHANGE RATE[b]			
Range	-10.00%–3.00%	-10.00%–3.00%	-10.00%–3.00%
Average	-0.03%	0.14%	0.63%
Change (Basis Points)	—	–17	–66
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.82%	2.89%	2.91%
Change (Basis Points)	—	–7	–9
AVERAGE MARKETING TIME (in months)			
Range	6.00–12.00	3.00–12.00	3.00–12.00
Average	7.27	7.04	7.20
% Change	—	+3.27	+0.97

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Atlanta Office Market

AS A RESULT OF NEGATIVE JOB GROWTH, A GLUT OF SUBLEASE SPACE CONTINUES TO IMPEDE THE RECOVERY OF THE ATLANTA OFFICE MARKET. "Quarterly job losses are killing this market," exclaims a participant, who points out that without job growth the need for both new and expansion space wanes. Although most of the job losses have occurred within technology firms, such as Lucent Technologies and Nortel Networks, companies in the manufacturing, finance, and, insurance sectors have also reduced their number of employees there.

Although there is hope that a few recent company consolidations will bring an influx of jobs to the region, they are not expected to materialize for at least another year. And even then, they are not likely to be too significant. As a result, many investors have come to grips with the fact that the near six-year run of stellar job growth that ended about three years ago will not be returning anytime soon. "When you go from an annual average job growth rate of 5.0% to below 0.0% it takes some getting used to," explains a participant. Nevertheless, certain investors, who cite this market's quality of life, low cost of living, and strong corporate presence, remain confident that in time it will persevere.

Until this recovery occurs, the market's overall vacancy rate is likely to continue increasing as a result of sublease space turning into direct vacant space. "More sublease space may not be coming onto the market, but it's not leaving either," quips a participant. In fact, at the end of the first quarter of 2003, the overall vacancy rate stood at 17.3% in the CBD and 25.7% in the suburbs, according to Cushman & Wakefield. By comparison, these rates were 16.9% and 21.3%, respectively a year earlier.

While many investors believe that this market has hit bottom, there is much uncertainty as to how long it will remain there before rebounding. "We could be in this rut for a long time," bemoans a participant. With so much understandable uncertainty linked to this market, it is not surprising that few Class-A assets have been either sold or offered up for sale recently. In fact, only five properties totaling roughly 860,000 square feet were sold in the first quarter of 2003. By comparison, 17 assets traded in the first quarter of 2000, while 13 and 8 properties, respectively, exchanged hands in the first quarters of 2001 and 2002.

In addition to weak fundamentals, the decline in sales activity is also due to low interest rates that allow distressed landlords to refinance rather than sell their properties. It is also a result of a drop in the number of quality assets placed up for sale. "The good ones are all gone," attests a participant. Fortunately for investors looking for deals, two major office towers, Centennial Tower in the CBD and One Capital City in Buckhead, have recently been put up for sale. While the asking prices for these assets range between $146.00 and $200.00 per square foot, it remains to be seen whether they will garner such prices at a time of much uneasiness. ✦

Table 6

ATLANTA OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–13.00%	10.00%–13.00%	11.00%–12.75%
Average	11.13%	11.64%	11.82%
Change (Basis Points)	—	–51	–69
OVERALL CAP RATE (OAR)[a]			
Range	8.60%–11.00%	9.00%–12.00%	9.00%–12.00%
Average	9.76%	10.02%	10.02%
Change (Basis Points)	—	–26	–26
RESIDUAL CAP RATE			
Range	9.25%–12.50%	9.50%–12.50%	9.50%–12.00%
Average	10.18%	10.39%	10.39%
Change (Basis Points)	—	–21	–21
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	0.33%	0.33%	0.50%
Change (Basis Points)	—	0	–17
EXPENSE CHANGE RATE[b]			
Range	1.50%–5.00%	1.50%–5.00%	3.00%–5.00%
Average	3.21%	3.21%	3.39%
Change (Basis Points)	—	0	–18
AVERAGE MARKETING TIME (in months)			
Range	6.00–9.00	6.00–9.00	6.00–12.00
Average	8.25	8.25	8.75
% Change	—	0	–5.71

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Boston Office Market

AS MORE COMPANIES RELOCATE, DOWNSIZE, AND GIVEBACK SPACE, THE FUNDAMENTALS OF THE BOSTON OFFICE MARKET CONTINUE TO DETERIORATE. "Until jobs are created that will generate the need for office space, more space will be put back into the market than is taken off," affirms a participant. Although most of the recent job losses here have been in the manufacturing and business services sectors, which encompass many of the area's high-tech businesses, a few firms outside of the high-tech sector have also cut jobs. Specific local companies that have reduced their workforce include Sun Microsystems, General Electric, Genuity, Fleet, and Fidelity.

Although some companies opt to hold unneeded space resulting from staff reductions as "shadow space" in the hope that it will soon be reoccupied, others immediately offer it for lease. As a result, the amount of sublease space in this market has increased steadily from 9.94 million square feet in mid-year 2002 to 10.76 million square feet in the first quarter of 2003, according to Cushman & Wakefield. Unfortunately, as the prolonged downturn causes an increasing number of cost-conscious companies to return shadow space to the market, some investors expect the sublease total to keep growing throughout the rest of 2003.

The majority of sublease space, approximately 80.0%, is located in the suburbs, where overall vacancy rates exceed 30.0% in certain areas. Two of hardest hit pockets within the suburbs are Route 495 Northeast and Route 3 North, which posted overall vacancy rates of 33.2% and 33.3%, respectively, in the first quarter of 2003, according to CB Richard Ellis. Such elevated vacancy rates have resulted in a considerable rise in concessions, as well as a significant drop in rental rates. They have also reportedly caused one tenant there to offer its sublease space rent-free with the subtenant paying only real estate taxes and operating expenses. While not all landlords and tenants are finding it necessary to resort to such drastic measures, it strongly illustrates the magnitude of this market's problems.

Judging from the various transactions that have occurred recently throughout Boston, it appears that certain investors remain optimistic about its future. In total, ten CBD buildings and 13 suburban ones either traded hands or were contracted in the six months leading up to May 2003 at an average price of $292.00 per square foot and $125.00 per square foot, respectively, according to Real Capital Analytics, Inc. One of the highest prices paid during that time period was $315.00 per square foot for the John Hancock Tower located in the CBD.

While some of the properties that sold over that time period were bought for owner occupancy, most were purchased as investments and demonstrate investors' long-term confidence in this market. "Boston is definitely in a slump now, but it has the ability to come back strong," explains a participant, who is quick to highlight this market's status as a 24-hour city, its well-educated labor force, and its major educational and research institutions. ◆

Table 7

BOSTON OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–13.00%	10.00%–13.00%	10.50%–13.00%
Average	11.01%	11.42%	11.72%
Change (Basis Points)	—	–41	–71
OVERALL CAP RATE (OAR)[a]			
Range	7.25%–11.25%	7.50%–11.25%	8.00%–11.25%
Average	9.25%	9.75%	9.83%
Change (Basis Points)	—	–50	–58
RESIDUAL CAP RATE			
Range	8.00%–11.00%	8.75%–11.50%	9.00%–11.50%
Average	9.43%	9.86%	9.96%
Change (Basis Points)	—	–43	–53
MARKET RENT CHANGE RATE[b]			
Range	-10.00%–3.00%	-5.00%–3.00%	-5.00%–3.00%
Average	-0.95%	0.06%	0.06%
Change (Basis Points)	—	–101	–101
EXPENSE CHANGE RATE[b]			
Range	2.00%–5.00%	2.00%–3.00%	2.00%–3.00%
Average	3.10%	2.88%	2.89%
Change (Basis Points)	—	+22	+21
AVERAGE MARKETING TIME (in months)			
Range	6.00–24.00	6.00–24.00	6.00–24.00
Average	8.13	8.50	8.86
% Change	—	–4.35	–8.24

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Chicago Office Market

WHILE SOME LANDLORDS IN THE CHICAGO OFFICE MARKET SENSE THAT LEASING ACTIVITY THERE HAS PICKED UP A BIT, THEIR OPTIMISM FOR A NEAR-TERM RECOVERY IN THE CBD HAS BEEN DAMPENED BY THE UNTIMELY DELIVERY OF NEW SPACE. "Many investors want to clobber the developers who are still adding product to the market," exclaims a participant. The newest addition to the downtown is the Dearborn Center located at 131 South Dearborn. Although this property was 72.0% preleased at the time of completion, approximately 900,000 square feet of space remain available for leasing.

While this empty space alone hasn't pushed vacancy rates higher in the downtown submarket, it hasn't helped alleviate the pain there either. "A lack of demand and too much sublease space were enough to deal with, but now we also have ill-timed additions to supply to contend with," explains a participant. Unfortunately, the combined impact of all three problems caused the overall vacancy rate in the CBD to rise to 15.9% in the first quarter of 2003, according to Cushman & Wakefield (C&W).

Although this CBD's overall vacancy rate has increased over the past 15 months, its placement among the 31 downtown markets tracked by C&W has actually improved a bit. Such an occurrence suggests that Chicago's CBD possesses a much more diverse, stable economic base than most other major cities. "It's a reliable CBD market that didn't get flooded with high-tech tenants," observes a participant.

Table 8

CHICAGO OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–13.00%	10.00%–13.00%	9.00%–13.00%
Average	10.83%	11.20%	11.40%
Change (Basis Points)	—	–37	–57
OVERALL CAP RATE (OAR)[a]			
Range	7.50%–11.00%	8.00%–10.50%	8.50%–11.00%
Average	9.13%	9.33%	9.65%
Change (Basis Points)	—	–20	–52
RESIDUAL CAP RATE			
Range	8.00%–11.00%	8.50%–11.00%	8.00%–11.50%
Average	9.32%	9.56%	9.70%
Change (Basis Points)	—	–24	–38
MARKET RENT CHANGE RATE[b]			
Range	-5.00%–3.00%	-5.00%–3.00%	-2.00%–3.00%
Average	-0.46%	-0.32%	0.67%
Change (Basis Points)	—	–14	–113
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.88%	2.86%	2.85%
Change (Basis Points)	—	+2	+3
AVERAGE MARKETING TIME (in months)			
Range	3.00–24.00	3.00–15.00	3.00–15.00
Average	9.36	8.33	8.33
% Change	—	+12.36	+12.36

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

OVERALL VACANCY RATE & RANKING TRENDS

Quarter	Overall Vacancy	Rank out of 31 (1 = best)
1Q03	15.9%	10
4Q02	15.4%	10
3Q02	14.2%	8
2Q02	14.7%	11
1Q02	14.3%	12

Source: Cushman & Wakefield

With the CBD market showing such perseverance, it is not surprising that numerous investors are looking to buy assets there. In fact, the investment demand for established office properties is pushing both discount rates and capitalization rates down to unprecedented levels. Specifically, the average discount rate slid 37 basis points this quarter to land at 10.83% and represents the fourth lowest average ever reported for this market since it debuted in the third quarter of 1995. Equally impressive is the 20-basis-point decline in this market's average overall cap rate, which currently stands at 9.13%. In addition, the low end of the range for this key indicator dropped 50 basis points to reach 7.50%.

While the shifts in this market's cap rate are a direct result of a decline in interest rates, they also reflect investors' positive outlooks and favorable expectations for the CBD. "The downtown will eventually come back," predicts a participant. Still, with employment losses reportedly at an all-time high and little chance of either a surge in demand or significant rent appreciation over the near term, the road to recovery could be a long one.

Dallas Office Market

AN EXTREMELY WEAK LEASING MARKET CONTINUES TO KEEP AVAILABILITIES UP AND RENTAL RATES DOWN THROUGHOUT THE DALLAS OFFICE MARKET. "The fundamentals in Dallas are pretty terrible right now," confirms a participant. As a result, many property owners are struggling to maintain both occupancy levels and positive cash flows and to avoid foreclosure. Although many landlords have reduced the likelihood of foreclosure by either refinancing or lowering operating expenses and tax liabilities, some have been unable to elude it. Elman Investors, for example, recently lost its 207,000-square-foot Nortel Networks building in Richardson in foreclosure.

Since market conditions are not expected to change significantly anytime soon, the threat of foreclosure is likely to become a reality for other property owners going forward. Although some owners may be able to sidestep such an occurrence by selling assets now, most investors in this market are only interested in acquiring low-risk properties that are well leased for at least the next few years. On the other hand, properties with leasing difficulties and occupancy problems attract less investor interest, as well as lower prices. Nevertheless, one participant points out that "a vast number of properties with skinny pro forma numbers have been placed up for sale recently."

With good deals becoming increasing difficult to find, certain investors speculate that sales activity has waned over the past year. While the decline is attributed to a lack of quality product available for sale, it is also due to a general uneasiness about this market's future performance. "When it's very difficult to name the submarkets that are doing well, you know you have a serious problem on your hands," remarks a participant, who believes that the good ones are few and far between.

Although the overall vacancy rate for this market varies between sources, they are all quite alarming. According to Cushman & Wakefield (C&W), it was 26.23% as of the first quarter of 2003. Based on reports by CB Richard Ellis (CBRE) and Insignia/ESG Research Services Group (Insignia), it was 23.43% and 24.8%, respectively. In all three reports, the downtown submarket posted one of this market's highest overall vacancy rates, ranging from 29.15% from CBRE to 29.9% from both C&W and Insignia.

Outside the CBD, the picture is just as bleak. Several suburban submarkets, including Las Colinas and Richardson/Plano, recorded overall vacancy rates close to 30.0% at the end of the first quarter of 2003. "The Richardson corridor has rebounded a bit, but it still has a long way to go," comments a participant. And the Lewisville/Denton submarket posted an overall vacancy rate near 40.0% for that time period. On top of high vacancy rates, many suburban submarkets experienced negative net absorption during that time as well.

Unfortunately, few prospects exist that will generate significant and steady demand for office space over the immediate future. As a result, Dallas's fundamentals are expected to remain tough for quite a while. ✦

Table 9

DALLAS OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.00%–13.00%	10.00%–13.00%	10.00%–13.00%
Average	11.54%	11.63%	11.72%
Change (Basis Points)	—	–9	–18
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–12.00%	8.00%–12.00%	8.00%–12.00%
Average	10.23%	10.31%	9.88%
Change (Basis Points)	—	–8	+35
RESIDUAL CAP RATE			
Range	9.00%–12.00%	9.00%–12.00%	9.00%–12.00%
Average	10.08%	10.08%	9.97%
Change (Basis Points)	—	0	+11
MARKET RENT CHANGE RATE[b]			
Range	-10.00%–3.00%	-10.00%–3.00%	-10.00%–3.00%
Average	0.00%	0.20%	0.25%
Change (Basis Points)	—	–20	–25
EXPENSE CHANGE RATE[b]			
Range	3.00%–3.00%	3.00%–3.00%	3.00%–3.00%
Average	3.00%	3.00%	3.00%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	6.00–12.00	6.00–12.00	6.00–12.00
Average	8.70	8.70	8.36
% Change	—	0	+4.07

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Houston Office Market

AS A RESULT OF AN ANEMIC ECONOMIC RECOVERY, THE HOUSTON OFFICE MARKET CONTINUES TO BE NEGATIVELY IMPACTED BY CORPORATE DOWNSIZING, CONSOLIDATIONS, AND LAYOFFS. "This market has really softened in the last three to six months," attests a participant. In addition to losing approximately 13,000 jobs in the last 12 months, the amount of sublease space in this market has reportedly doubled since 2000. Unfortunately, these trends have led many investors to conclude that a recovery for this market is farther away than originally thought.

While much of the sublease space is concentrated in the suburbs, a large chunk also exists in the central business district (CBD). Specifically, 1.2 million square feet of sublease space existed downtown at the end of the first quarter of 2003, according to Cushman & Wakefield (C&W). By comparison, it totaled only 855,000 square feet one year earlier. One of the largest blocks of sublease space to recently hit the market here totals about 400,000 square feet and is located in Wells Fargo Plaza. Formally occupied by Houston-based Dynegy, which slashed nearly half of its workforce last fall, this space resulted from the company's exit from the feeble energy trading and marketing business. Unfortunately, since a number of downtown firms, such as BP, El Paso, ChevronTexaco, and Devon, continue to experience capital woes, the amount of sublease space in the CBD is expected to rise later this year.

Due to the downtown's jump in sublease space, it is not surprising that the CBD's overall vacancy rate increased considerably during the first quarter of 2003. In fact, it climbed 310 basis points to reach 19.5%. Such a shift represented the second highest increase of all the major CBD markets tracked by C&W during that period. In terms of performance, it placed 17th out of 31 CBD markets in the first quarter of 2003. By comparison, it ranked third just one year earlier.

Despite the rapid pace at which downtown Houston has recently deteriorated, many investors are convinced that it will recover and prosper. "This CBD is still a great long-term market," boasts a participant. Helping to boost investor morale has been a recent string of renewed leases, as well as a couple of new ones. One of the biggest renewal deals involved Kellogg Brown & Root, a leading engineering and construction firm in the energy industry, which extended two leases totaling 740,000 square feet at the CBD's Cullen Center complex. And one new lease involved the General Services Administration's rental of approximately 10,000 square feet at Three Allen Center.

On top of this positive leasing activity, a capital-intensive revitalization program that includes a new basketball arena, a light-rail system, and the Aquarium entertainment center also make investors upbeat about the CBD's future. Still, with so much space available for leasing both downtown and in the suburbs and the energy trading industry nearing extinction, many investors still question what the next demand driver will be in Houston and how long the market will take to rebound. ✦

Table 10

HOUSTON OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.00%–13.50%	10.00%–13.50%	10.00%–13.50%
Average	11.79%	11.81%	11.84%
Change (Basis Points)	—	–2	–5
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–12.00%	8.00%–12.00%	8.00%–12.00%
Average	10.18%	10.11%	10.02%
Change (Basis Points)	—	+7	+16
RESIDUAL CAP RATE			
Range	9.00%–12.00%	9.00%–12.00%	9.00%–12.00%
Average	10.32%	10.31%	10.31%
Change (Basis Points)	—	+1	+1
MARKET RENT CHANGE RATE[b]			
Range	-5.00%–3.00%	-5.00%–3.50%	0.00%–5.00%
Average	0.50%	1.39%	2.25%
Change (Basis Points)	—	–89	–175
EXPENSE CHANGE RATE[b]			
Range	1.00%–4.00%	1.00%–4.00%	3.00%–4.00%
Average	2.75%	2.78%	3.09%
Change (Basis Points)	—	–3	–34
AVERAGE MARKETING TIME (in months)			
Range	4.00–12.00	4.00–12.00	4.00–12.00
Average	8.50	8.36	7.64
% Change	—	+1.67	+11.26

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Los Angeles Office Market

ALTHOUGH THE LOS ANGELES OFFICE MARKET WAS SLOWER THAN MANY OTHER MAJOR OFFICE MARKETS TO FEEL THE INITIAL IMPACT OF THE NATIONAL RECESSION, IT HAS BEEN UNABLE TO SHIELD ITSELF COMPLETELY FROM THE SUBSEQUENT ANEMIC RECOVERY AND PROLONGED DOWNTURN. As a result, most of this market continues to battle an unfavorable balance between supply and demand and to report overall vacancy rates close to 20.0%. On a positive note, however, a steady string of large lease transactions, as well as a dramatic decline in new construction, have reduced the amount of available space in certain suburban submarkets over the past year.

Specifically, the overall vacancy rate for the Tri-Cities submarket declined from 18.1% in the first quarter of 2002 to 16.5% in the first quarter of 2003, according to Cushman & Wakefield (C&W). One sizable new lease that was signed there over that time period was Clear Channel Communications' 95,000-square-foot deal at 3300 West Olive Avenue. Others were Technicolor's 27,724-square-foot deal at 2255 North Ontario Street and Community Bank's 30,000-square-foot deal at 790 East Colorado Boulevard.

Another suburban submarket that experienced a decline in overall vacancy over that time period was Los Angeles West, where it slipped from 19.1% in the first quarter of 2002 to 18.1% in the first quarter of 2003, according to C&W. Two notable lease deals completed recently there include Rubin Postaer & Associates' 104,735-square-foot deal at 2525 Colorado Avenue in Santa Monica and Entravision Communications' 40,000-square-foot deal at 5700 Wilshire Boulevard.

Even though the Westside submarket's vacancy rate remains a long way from the single-digit ones that it boasted in the late 1990s, the belief that it will again flourish, and has possibly started to stabilize, continues to attract the attention of investors. Maguire Properties, Inc., for example, just contracted to buy the two-tower, 372,000-square-foot Cerritos Corporate Center for close to $242.00 per square foot, one of the highest prices paid for a property in this entire market during the first quarter of 2003.

In addition to this sale, 36 other properties totaling slightly over 6.6 million square feet either traded or were contracted at an average price of $191.00 per square foot in this market during the six months preceding May 2003, according to Real Capital Analytics, Inc. One reason for this tremendous sales volume is that quality offerings continue to be placed up for sale. "Owners who sense that the capital markets have peaked are rushing to take advantage of enthusiastic buyers now," explains a participant.

Along with the quality deals, however, there are also numerous sub-par ones. "Properties with weak rent rolls and large vacancies are also being offered up for sale," warns a participant. Although many investors continue to pass on such assets, certain opportunistic buyers are starting to search for less-than-stable properties in the hope that the downturn doesn't linger on too much longer. ✦

Table 11

LOS ANGELES OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.50%–15.00%	10.00%–15.00%	10.00%–15.00%
Average	11.53%	11.76%	11.85%
Change (Basis Points)	—	–23	–32
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–11.00%	7.00%–11.00%	7.00%–11.00%
Average	9.21%	9.19%	9.36%
Change (Basis Points)	—	+2	–15
RESIDUAL CAP RATE			
Range	8.00%–11.00%	8.00%–11.00%	8.50%–11.00%
Average	9.51%	9.59%	9.57%
Change (Basis Points)	—	–8	–6
MARKET RENT CHANGE RATE[b]			
Range	-5.00%–3.00%	-4.00%–3.00%	-1.00%–3.00%
Average	0.58%	1.18%	1.36%
Change (Basis Points)	—	–60	–78
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.50%	2.00%–4.50%	2.00%–5.00%
Average	2.78%	2.86%	3.04%
Change (Basis Points)	—	–8	–26
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	3.00–12.00
Average	7.38	7.22	7.70
% Change	—	+2.22	–4.16

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Manhattan Office Market

THE MANHATTAN OFFICE MARKET MAY BE ONE OF THE BEST-PERFORMING OFFICE MARKETS IN THE COUNTRY, BUT DIMINISHED DEMAND, INFLATED VACANCY RATES, AND REDUCED RENTAL RATES CONTINUE TO GIVE TENANTS THE UPPER HAND WHEN NEGOTIATING LEASES. "Landlords need to work a lot harder to sign tenants now," confirms a participant. Aside from a general lack of demand, the sizable amount of sublease space in this market is another major obstacle impeding owners' abilities to secure tenants. Unfortunately, it's a problem that won't disappear anytime soon. Sublease space accounted for 35.0% of the total available space in Midtown and 33.0% of the total space offerings in both Midtown South and Downtown at the start of this year, according to Cushman & Wakefield.

While a glut of sublease space is good news for tenants who have long been the underdog in this market, it is bad news for many landlords who have been forced to cut rental rates and/or to increase concession packages in order to lure tenants. Since many landlords prefer to keep the face value of rental rates high, both the use and amount of concessions have made a strong comeback here. In the second quarter of 2001, only 57.0% of participants indicated that concessions were used in this market. In the second quarter of 2002, this figure rose to 83.3%. Now, it stands at 100.0%.

Although concessions vary, most are offered in the form of free rent and/or an excessive tenant improvement (TI) allowance. Free rent for a ten-year lease currently ranges up to six months and averages 3.25 months, according to participants. Additional TI allowances, which are over and above a standard workletter, range from $5.00 per square foot to $10.00 per square foot and average $7.50 per square foot. In addition to offering concessions, some landlords are willing to fulfill existing lease obligations for new tenants and are rewriting leases to include cancellation options with minimal penalties.

Unfortunately for landlords, such concessions and perks are not always enough to offset the advantages that some tenants are discovering in the sublease market. In addition to lower rental rates, tenants are finding that a lot of sublease space is already built-out, ready for immediate move-in, and sometimes furnished. One tenant that has opted for sublease space in lieu of direct space is the law firm Clifford Chance US. After considering space at both Times Square Tower and 340 Madison Avenue, it has decided to sublease 380,000 square feet from Deutsche Bank at 31 West 52nd Street.

To ease future difficulties related to dismal direct leasing activity, some investors advise landlords to become more proactive by signing longer lease terms upfront, renewing major tenants earlier, and negotiating long-term leases with potential subtenants at rental rates that fall somewhere between those for direct leasing and subleasing. Although these approaches could result in contract rents that are below property owners' expectations, some landlords would rather collect steady streams of less-than-expected market rent than no rent at all. ✦

Table 12

MANHATTAN OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–12.00%	10.00%–15.00%	10.00%–15.00%
Average	10.67%	11.58%	11.92%
Change (Basis Points)	—	–91	–125
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–10.00%	8.00%–10.50%	8.00%–10.50%
Average	8.64%	9.33%	9.42%
Change (Basis Points)	—	–69	–78
RESIDUAL CAP RATE			
Range	7.50%–10.00%	8.00%–10.00%	8.00%–10.50%
Average	8.93%	9.35%	9.50%
Change (Basis Points)	—	–42	–57
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	0.93%	0.92%	0.83%
Change (Basis Points)	—	+1	+10
EXPENSE CHANGE RATE[b]			
Range	3.00%–5.00%	3.00%–5.00%	2.50%–5.00%
Average	3.33%	3.33%	3.25%
Change (Basis Points)	—	0	+8
AVERAGE MARKETING TIME (in months)			
Range	4.00–12.00	4.00–12.00	4.00–18.00
Average	7.75	7.75	8.67
% Change	—	0	–10.61

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Pacific Northwest Office Market

EVEN THOUGH SUBLEASE SPACE THROUGHOUT MOST MAJOR COMPONENTS OF THE PACIFIC NORTHWEST OFFICE MARKET – SEATTLE, PORTLAND, AND BELLEVUE – HAS DECLINED OVER THE PAST YEAR, THIS MARKET CONTINUES TO WALLOW IN AN EXUBERANT AMOUNT OF EXCESS SUPPLY. One reason for this ongoing problem is that leasing demand remains on a hiatus. Another is that much of the available space that has been removed from the sublease market has simply been converted to direct vacant space.

One area of this market noticeably experiencing this trend is suburban Bellevue, where the overall vacancy rate increased from 15.4% in the first quarter of 2002 to 16.4% in the first quarter of 2003, despite a nearly 240,000-square-foot decline in sublease space, according to Cushman & Wakefield. In suburban Seattle, the situation is just as bleak. Although the amount of sublease space there shrunk by close to 75,000 square feet during that time period, the overall vacancy rate climbed 670 basis points to reach 19.4%.

Although some investors speculate that this "shift of pain" from tenant to landlord may force some owners to sell certain properties, particularly those laden with excessive amounts of empty space, uncertainty surrounding the future of both this market and the national economy will likely keep investors vying for only stellar properties that offer stable rent rolls and limited near-term leasing exposure. Even though such properties exist throughout this market, very few have recently been offered up for sale. As a result, sale transactions have been kept to a minimum so far this year, especially in the downtown areas.

In Portland, for example, just two deals averaging $139.00 per square foot were either contracted or closed during the first five months of 2003, according to Real Capital Analytics, Inc. The first involved Plaza West, a 66,200-square-foot suburban office building built in 1982 and 90.0% occupied, which sold for $142.00 per square foot. The second was another suburban office building, the 42,446-square-foot former KPTV 12 Building, bought for owner occupancy at $136.00 per square foot. While sales activity in Seattle was less anemic over that time period, most transactions there also occurred outside of the CBD. Specifically, eight of the ten assets that either were contracted or closed during the first five months of 2003 occurred in the suburbs at an average price of roughly $112.00 per square foot.

One potential sale in downtown Seattle that many investors are likely watching closely is that of One Convention Place, a 17-story office tower built in the late 1990s. Reportedly, RREEF Funds is slated to pay more than $85.0 million or about $280.00 per square foot for the property, which is around 90.0% leased and located in a market that they believe will "experience a stronger-than-average rebound." Following on the heels of Metzler North America's recent deal to purchase downtown's Millennium Tower for roughly $320.00 per square foot, these two sales will no doubt set new, long-awaited benchmarks for CBD assets in Seattle when finalized. ◆

Table 13

PACIFIC NORTHWEST OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.25%–14.00%	10.25%–14.00%	10.25%–14.00%
Average	11.79%	11.71%	11.66%
Change (Basis Points)	—	+8	+13
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–11.00%	8.00%–11.00%	8.00%–11.00%
Average	9.38%	9.25%	9.20%
Change (Basis Points)	—	+13	+18
RESIDUAL CAP RATE			
Range	8.50%–10.00%	8.50%–10.00%	8.50%–10.00%
Average	9.46%	9.46%	9.45%
Change (Basis Points)	—	0	+1
MARKET RENT CHANGE RATE[b]			
Range	1.00%–3.00%	1.00%–3.00%	1.00%–3.00%
Average	2.30%	2.42%	2.55%
Change (Basis Points)	—	–12	–25
EXPENSE CHANGE RATE[b]			
Range	2.00%–4.00%	2.00%–4.00%	2.00%–4.00%
Average	3.00%	3.00%	3.02%
Change (Basis Points)	—	0	–2
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	3.00–12.00
Average	6.50	6.43	6.25
% Change	—	+1.09	+4.00

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Philadelphia Office Market

ALTHOUGH FEW INVESTORS EXPECT THE PHILADELPHIA OFFICE MARKET'S LEASING ACTIVITY TO IMPROVE DRAMATICALLY ANYTIME SOON, MANY HAVE BECOME AVID ADMIRERS OF ITS STABILITY AND DEPENDABILITY. "This market still appeals to investors because it's never the best, but it's never the worse," explains a participant, who further notes that many of the recent buyers in this market are "outsiders." Still, job losses and large pockets of vacant space have caused fundamentals here to weaken.

Like many office markets, the bulk of this one's difficulties are concentrated in the suburbs, where small companies that favor short-term leases are downsizing, relocating, or going out of business. "There is a lot of rollover problems year after year in the suburbs," affirms a participant. As a result, its overall vacancy rate rose to 19.2% in the first quarter of 2003, according to Cushman & Wakefield (C&W). By comparison, it was 18.0% at the end of 2002 and 17.2% a year earlier. Its latest rate places it 18th on C&W's list of the top 41 major suburban office markets in the country.

In contrast to the suburbs, steady leasing activity in the CBD has allowed it to maintain one of the nation's highest occupancy levels over the past year. Specifically, it posted a 13.3% overall vacancy rate for the first quarter of 2003, according to C&W. The only two downtown markets that boasted better figures were Midtown Manhattan at 11.5% and Washington, DC at 7.6%. Such a stellar performance has prompted two local investors to consider building separate office towers. In the first project, Liberty Property Trust is planning One Pennsylvania Place at 18th Street and JFK Boulevard, while Brandywine Realty Trust is developing Cira Centre at Amtrak's 30th Street Station. Fortunately, neither one is expected to break ground until anchor tenants are secured.

In addition to its stability, the ability to buy quality assets at attractive prices is another big draw to this market for investors. "Fundamentals may have softened, but the investment market continues to heat up," exclaims a participant. One seller looking to take advantage of the current demand from buyers is The Rubenstein Company, which put 2000 Market Street in the CBD up for sale in April 2003. This property, which Rubenstein purchased for $84.00 per square foot in 1997, stands nearly 100.00% leased to diverse tenants and has limited near-term leasing risk. While some investors believe that the property will sell for $100.00 per square foot, others believe that it could fetch above $120.00 per square foot.

Outside of the CBD, numerous properties are also up for sale. In fact, 22 suburban properties totaling 5.4 million square feet were placed up for sale in the first three months of 2003, according to Grubb & Ellis. While many close to the market speculate that most, if not all, of these properties will trade, one participant warns investors to proceed with caution since an increasing number of offerings have some sought of risk attached to them. ⌖

Table 14

PHILADELPHIA OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.00%–12.50%	10.00%–12.50%	10.50%–14.00%
Average	11.43%	11.56%	12.06%
Change (Basis Points)	—	–13	–63
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–12.00%	8.00%–12.00%	9.00%–12.00%
Average	10.04%	10.06%	10.47%
Change (Basis Points)	—	–2	–43
RESIDUAL CAP RATE			
Range	8.00%–11.00%	8.00%–11.00%	9.00%–11.00%
Average	10.04%	10.03%	10.14%
Change (Basis Points)	—	+1	–10
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	-5.00%–3.00%	-5.00%–3.00%
Average	0.79%	0.19%	0.39%
Change (Basis Points)	—	+60	+40
EXPENSE CHANGE RATE[b]			
Range	2.50%–3.00%	2.50%–3.00%	2.00%–3.00%
Average	2.79%	2.81%	2.67%
Change (Basis Points)	—	–2	+3
AVERAGE MARKETING TIME (in months)			
Range	6.00–12.00	4.00–12.00	4.00–12.00
Average	7.50	7.14	7.75
% Change	—	+5.04	–3.23

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

San Francisco Office Market

DESPITE VIBRANT LEASING ACTIVITY AND THE SENSE THAT UNSTEADY FUNDAMENTALS HAVE HIT BOTTOM, THE SAN FRANCISCO OFFICE MARKET REMAINS ON ROCKY GROUND. "We are seeing signs of improvement, but this market won't recover fully until 2008," predicts a participant. The main problem for this market continues to be an overwhelming imbalance between supply and demand. In fact, both its downtown and suburban submarkets continue to post two of the highest overall vacancy rates in the country.

While most of its available space is a result of high-tech "givebacks," it also stems from untimely additions to supply as well as troubles within corporate America. Arthur Andersen's (AA) difficulties, for example, recently caused an eight-floor, 140,000-square-foot deficit at 101 2nd Street. Although much of AA's space has been re-leased to a variety of companies, such as Ziff Davis Publishing, Nextant, Hong Kong Bancorp, and California Appellate Project, two of its full floors remain available.

Other companies that have recently leased either new or expansion space in this market's downtown include the doctor group of Brown & Toland, which inked a new deal for 46,315 square feet at 160 King Street; Citigroup, which signed a 10-year lease for close to 47,000 square feet of expansion space at One Sansome Street; and the law firm of Orrick, Herrington & Sutcliffe, which signed a new 15-year deal for 157,000 square feet atop the newly constructed 405 Howard Street, also known as Foundry Square II. In addition, the California Academy of Sciences leased the entire 204,000 square feet at 875 Howard Street.

Despite the signing of these and several other leases in the first three months of 2003, the overall vacancy rate for this market's CBD rose to 20.3% in the first quarter of 2003, according to Cushman & Wakefield. By comparison, it was 19.7% at year-end 2002, 17.6% in the first quarter of 2002, and just 10.0% at midyear 2001. Fortunately, the rate at which vacancy has risen downtown has slowed dramatically. This trend is especially true in the South of Market (SOMA) submarket where the bulk of leasing activity has recently occurred. "SOMA landlords are working hard to attract diverse tenants," comments a participant, who feels confident that SOMA will again establish itself as a desirable office location.

In contrast to the leasing market, activity within the investment market has been very sluggish. One problem is that only a few quality properties have been offered for sale. One of them was 550 Kearny Street, which sold for $223.00 per square foot in April 2003. Reportedly, this 197,000-square-foot property boasted an overall occupancy rate of 98.0% and was more than 50.0% leased to a variety of high-credit government tenants for at least the next three years. This sale represents the highest price per square foot paid in this market since July 2002 and strongly demonstrates that properties that offer "credit and term," even in the worst-performing markets, still appeal to investors. ◆

Table 15

SAN FRANCISCO OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–14.00%	10.00%–14.00%	10.00%–14.00%
Average	11.36%	11.79%	12.13%
Change (Basis Points)	—	–43	–77
OVERALL CAP RATE (OAR)[a]			
Range	7.50%–11.00%	7.00%–11.00%	7.00%–11.00%
Average	9.49%	9.40%	9.35%
Change (Basis Points)	—	+9	+14
RESIDUAL CAP RATE			
Range	8.00%–12.50%	8.00%–12.00%	8.00%–12.00%
Average	9.61%	9.83%	9.95%
Change (Basis Points)	—	–22	–34
MARKET RENT CHANGE RATE[b]			
Range	-5.00%–3.00%	-10.00%–3.00%	-10.00%–3.00%
Average	0.06%	-0.45%	–1.30%
Change (Basis Points)	—	+51	+136
EXPENSE CHANGE RATE[b]			
Range	2.00%–4.50%	2.00%–4.50%	2.00%–4.00%
Average	3.13%	3.10%	3.00%
Change (Basis Points)	—	+3	+13
AVERAGE MARKETING TIME (in months)			
Range	6.00–12.00	4.50–12.00	3.00–1200
Average	8.75	8.06	7.61
% Change	—	+8.56	+14.98

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Southeast Florida Office Market

EVEN THOUGH CERTAIN INVESTORS BELIEVE THAT THE BUSINESS CLIMATE IN THE SOUTHEAST FLORIDA OFFICE MARKET IS MORE STABLE THAN OTHER PARTS OF THE COUNTRY, IT HAS DONE LITTLE TO GENERATE SUFFICIENT DEMAND FOR NEW SPACE AND TO SHELTER THE AREA FROM THE NEGATIVE AFFECTS OF AN INSIPID ECONOMIC RECOVERY. "Too much supply and too little demand have pushed vacancy rates up and placed downward pressure on rental rates," explains a participant. Unfortunately, with very few companies searching for either new or expansion space, it will likely be some time before fundamentals noticeably improve.

Relatively small in inventory, the Southeast Florida office market stretches over three counties – from the middle of Palm Beach County, through Broward County, to the end of Dade County. The major office markets include West Palm Beach, Boca Raton, Fort Lauderdale, and Miami. Of these, Miami in Dade County contains the majority of institutional-grade office properties.

While most landlords are unhappy with this market's overall supply-demand imbalance, several tenants are taking advantage of declines in rental rates by signing early renewal deals and by relocating to better quality buildings. "There is a lot of tenant shuffling going on," confirms a participant, who noted that such occurrences usually help one submarket at the expense of another.

Table 16

SOUTHEAST FLORIDA OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.00%–12.50%	10.50%–12.50%	10.50%–13.00%
Average	11.21%	11.42%	11.50%
Change (Basis Points)	—	–21	–29
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–11.50%	8.00%–11.00%	8.00%–12.00%
Average	9.80%	9.69%	9.81%
Change (Basis Points)	—	+11	–1
RESIDUAL CAP RATE			
Range	9.00%–11.00%	9.00%–11.00%	9.50%–12.00%
Average	10.16%	10.10%	10.27%
Change (Basis Points)	—	+6	–11
MARKET RENT CHANGE RATE[b]			
Range	0.00%–5.00%	0.00%–5.00%	0.00%–7.00%
Average	1.50%	1.33%	1.50%
Change (Basis Points)	—	+17	0
EXPENSE CHANGE RATE[b]			
Range	2.00%–4.00%	2.00%–4.00%	2.00%–4.00%
Average	2.96%	3.04%	3.04%
Change (Basis Points)	—	–8	–8
AVERAGE MARKETING TIME (in months)			
Range	4.00–24.00	4.00–24.00	4.00–24.00
Average	8.58	9.10	8.40
% Change	—	–5.71	+2.14

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Tenants are also taking advantage of an increased use of concessions. In fact, this quarter, 71.4% of participants indicate that concessions are commonplace throughout this market.

Although concessions vary, most are offered in the form of free rent and/or an excessive tenant improvement (TI) allowance. Free rent for a ten-year lease currently ranges up to three months and averages two months, according to participants. Additional TI allowances, which are over and above a standard workletter, range from $2.00 per square foot to $15.00 per square foot and average $8.50 per square foot.

The extent to which concessions are both offered and used varies greatly based on the individual performances of both properties and submarkets. In the submarkets of Boca Raton and West Palm Beach in Palm Beach County, for example, where overall vacancy rates are upwards of 20.0%, many landlords with vacant space are increasingly using concessions in order to lure tenants. Nevertheless, properties with stable rent rolls and limited near-term lease exposure in these areas continue to draw strong investor interest.

In anticipation of this area's future recovery, three investors have recently acquired vacant land in Boca Raton's T-Rex Corporate Center, a 1.8-million-square-foot office park that is approximately 70.0% leased. In one of those deals, Stiles Corp. acquired 23 acres along Yamato Road for approximately $11.6 million, which included the development rights for 600,000 square feet of office space. While Stiles Corp. reportedly plans to build on the land, it will likely wait until market conditions within both Boca Raton and the T-Rex Corporate Center improve.

Washington, DC Metro– The District Office Market

BASED ON BOTH THE NUMBER AND SALE PRICES OF PROPERTIES TRADING HANDS, AS WELL AS THE TREMENDOUS AMOUNT OF NEW CONSTRUCTION OCCURRING, IT IS EASY TO CONCLUDE THAT THE WASHINGTON, DC DISTRICT OFFICE MARKET REMAINS A PRIME TARGET FOR INVESTMENT CAPITAL. "Leasing activity may have slowed down, especially from small- and mid-size tenants, but investors still love the District," exclaims a participant. In the six months leading up to mid-May 2003, 23 office properties were either sold or contracted here at an average sale price of $329.00 per square foot, according to Real Capital Analytics, Inc. By comparison, the average price for the 150 CBD properties sold and contracted in the United States over that time period was $193.00 per square foot.

Two of the highest priced sales to occur recently in the District were Westwind Capital Partners OBO Kan Am's purchase of a 70.0% interest in 1101 Pennsylvania Avenue for $493.00 per square foot and Lend Lease Real Estate Investment's acquisition of 700 13th Street NW for $394.00 per square foot. Instead of buying individual assets, certain investors are obtaining a multiple presence in this market by acquiring investment companies that have established portfolios there. Vornado Realty Trust, for example, recently purchased the Kaempfer Company, who held interests in six Class-A office properties totaling 1.8 million square feet. While one of these assets is located immediately outside of the District in Rosslyn, the other five are situated in the District and include the Warner Building at 1299 Pennsylvania Avenue, the Investment Building at 1501 K Street, the Bowen Building at 875 15th Street, 1925 K Street, and Executive Tower at 1399 New York Avenue.

The main reason that many investors remain drawn to this market and will pay such a premium for properties is that the District's diverse economy has allowed it to maintain a single-digit overall vacancy rate throughout the current downturn. Specifically, it posted a 7.6% overall vacancy rate in the first quarter of 2003, according to Cushman & Wakefield. By comparison, Midtown Manhattan recorded the next lowest rate at 11.5%.

Although this market's overall vacancy rate could rise over the near term once the close to six million square feet of space either being built or renovated are delivered, many investors believe that the vacancy rate will be impacted minimally. "It may not be enough space to satisfy the demand," comments a participant. While most other downtown markets would be unable to digest even a portion of the new construction occurring in this market, steady demand for large blocks of space and strong preleasing activity should enable the District to handle the additions to supply with little trouble. ◆

Table 17

WASHINGTON, DC METRO– THE DISTRICT OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–12.00%	10.00%–13.00%	10.00%–14.00%
Average	10.29%	10.93%	11.36%
Change (Basis Points)	—	–64	–107
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–10.50%	8.00%–10.50%	7.00%–11.00%
Average	8.29%	8.83%	9.11%
Change (Basis Points)	—	–54	–82
RESIDUAL CAP RATE			
Range	8.00%–10.50%	8.00%–10.50%	8.00%–11.00%
Average	8.92%	9.14%	9.31%
Change (Basis Points)	—	–22	–39
MARKET RENT CHANGE RATE[b]			
Range	0.00%–6.00%	0.00%–3.50%	0.00%–3.50%
Average	2.28%	2.41%	2.60%
Change (Basis Points)	—	–13	–32
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.50%
Average	2.88%	2.94%	2.93%
Change (Basis Points)	—	–6	–5
AVERAGE MARKETING TIME (in months)			
Range	2.00–12.00	2.00–12.00	2.00–18.00
Average	6.33	6.08	6.81
% Change	—	+4.11	–7.05

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Washington, DC Metro– Northern Virginia Office Market

ALTHOUGH THE UNDERLYING FUNDAMENTALS OF THE NORTHERN VIRGINIA OFFICE MARKET HAVE BEEN POSITIVELY AFFECTED BY THE SIGNING OF A FEW LARGE LEASES RECENTLY, MOST INDIVIDUAL SUBMARKETS CONTINUE TO BATTLE RISING VACANCY RATES. Submarkets experiencing the least troubles are located closer to Washington, DC, such as Fairfax, Alexandria, and Crystal City/Pentagon City. By contrast, submarkets located outside of the Beltway, such as Dulles North, Dulles South, and Reston/Herndon, are faring much worse. “Leasing is very slow outside of the Beltway,” confirms a participant.

While most of the problems in this market are a result of the high-tech meltdown, which dumped a tremendous amount of space back into the market, they have been aggravated further by low preleasing levels in newly-constructed buildings. Although the number of new projects breaking ground has indeed slowed down, new space continues to be delivered. In total, about 633,000 square feet of new space were delivered in the first quarter of 2003, of which only 56.0% was preleased, according to CB Richard Ellis (CBRE). On top of this activity, another 1.1 million square feet of speculative space were under construction at the end of the first quarter 2003, of which only 12.2% was preleased.

Even though the construction pipeline is expected to dry up significantly following 2003, another burden that could further impede the recovery of this market is the bankruptcy and possible exit of United Airlines from nearby Dulles International Airport. For many companies and developers, this market’s proximity to Dulles and the airline’s flight selection were main motivators for both leasing and building space. Fortunately, the impact of United’s departure from Dulles would probably be short lived since another airline would likely replace it.

One of the best-performing areas in Northern Virginia has been the Crystal City/Pentagon City submarket. First, at 9.43%, it posted the lowest overall vacancy rate of this market in the first quarter of 2003, according to CBRE. Second, it recently inked one of the largest lease transactions, which involved the General Services Administration signing a 548,000-square-foot deal for the entire Zachary Taylor Building. And lastly, it recently recorded one of the highest sale prices with the sale of 4501 North Fairfax Drive in Arlington for nearly $319.00 per square foot.

Although properties in other submarkets have also sold recently at quite impressive prices, they are typically newer properties that are well leased to creditworthy tenants. Until the market starts to show signs of a firm rebound and investors become more comfortable with the future, this trend will continue. ◆

Table 18

WASHINGTON, DC METRO– NORTHERN VIRGINIA OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.50%–13.50%	10.00%–13.50%	10.50%–14.00%
Average	11.34%	11.72%	11.92%
Change (Basis Points)	—	–38	–58
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–11.00%	8.00%–11.00%	9.00%–11.00%
Average	9.54%	9.61%	9.79%
Change (Basis Points)	—	–7	–25
RESIDUAL CAP RATE			
Range	8.00%–11.00%	8.00%–11.00%	8.50%–11.00%
Average	9.61%	9.77%	9.88%
Change (Basis Points)	—	–16	–27
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	0.50%	0.78%	1.20%
Change (Basis Points)	—	–28	–70
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.89%	2.94%	2.90%
Change (Basis Points)	—	–5	–1
AVERAGE MARKETING TIME (in months)			
Range	2.00–12.00	2.00–12.00	2.00–18.00
Average	6.43	6.14	6.88
% Change	—	+4.72	–6.54

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

Washington, DC Metro–Suburban Maryland Office Market

STEADY LEASING ACTIVITY, HIGH PRELEASING PERCENTAGES ON NEW DELIVERIES, AND LIMITED ADDITIONS OF SUBLEASE SPACE HAVE ENABLED THE SUBURBAN MARYLAND OFFICE MARKET TO REMAIN ONE OF THE TOP-PERFORMING SUBURBAN MARKETS IN THE COUNTRY. While much of this market's ability to weather the current downturn stems from its lack of exposure to the high-tech fallout, it's also due to an increasing awareness on the part of large companies that the area is a viable office space location.

Of the three counties that comprise this market – Montgomery, Prince George's, and Frederick – Montgomery contains the bulk of the office space at just over 40 million square feet. Prince George's County is next with approximately 11.8 million square feet, and Frederick County is last with just over one million square feet. Although Frederick County posted the lowest overall vacancy rate in the first quarter of 2003 at 10.77%, according to CB Richard Ellis, submarkets in Montgomery County typically outperform the market as a whole.

One of the strongest-performing submarkets in Montgomery County continues to be Rockville. In the first quarter of 2003, it posted a 9.87% direct vacancy rate, a 11.36% overall vacancy rate, and 71,223 square feet of positive net absorption. Due to the number of tenants in this submarket that are related to the Department of Health and Human Services (DHHS) and the National Institutes of Health, it has become a highly desirable location for companies in the thriving life-science industry. U.S. Pharmacopeia, for example, a nonprofit health organization that is headquartered in Rockville and serves the DHHS, has opted to remain there and build a new 150,000-square-foot expansion facility in lieu of moving.

Due to its long-standing stability, the Rockville submarket continues to attract the attention of numerous investors who continue to search for well-leased assets in favorable markets. In fact, three of the five properties that traded hands in Suburban Maryland in the first quarter of 2003 were located in Rockville, according to Real Capital Analytics, Inc. The first property, 11140 Rockville Pike, contained 118,967 square feet and sold for $168.00 per square foot. The second one, West Gude Office Park, sold for $154.00 per square foot and was 91.0% occupied by tenants that included Comcast and ADP. And the third one, Gateway Tower, sold for $177.00 per square foot.

Since this market's fundamentals are expected to remain favorable, and even improve, over the near term, certain participants expect property values to increase as much as 10.0% over the next 12 months. As a result, investors looking to acquire properties in this sellers' market should prepare to face tough competition and steadfast pricing. ✦

Table 19

WASHINGTON, DC METRO–SUBURBAN MARYLAND OFFICE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–14.00%	9.50%–14.00%	11.00%–14.00%
Average	11.33%	11.61%	11.86%
Change (Basis Points)	—	–28	–53
OVERALL CAP RATE (OAR)[a]			
Range	7.50%–10.50%	8.00%–10.50%	8.00%–11.00%
Average	9.07%	9.34%	9.70%
Change (Basis Points)	—	–27	–63
RESIDUAL CAP RATE			
Range	8.00%–11.00%	8.00%–11.00%	8.00%–11.50%
Average	9.50%	9.68%	10.00%
Change (Basis Points)	—	–18	–50
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.50%	0.00%–10.00%
Average	1.43%	1.66%	1.97%
Change (Basis Points)	—	–23	–54
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.93%	2.94%	2.88%
Change (Basis Points)	—	–1	+5
AVERAGE MARKETING TIME (in months)			
Range	2.00–18.00	2.00–18.00	2.00–18.00
Average	8.20	7.92	7.67
% Change	—	+3.54	+6.91

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

National Flex/R&D Market

WHILE THERE ARE FEWER INVESTORS LOOKING TO BUY FLEX/R&D PROPERTIES THAN WAREHOUSE ONES, A SCARCITY OF QUALITY OFFERINGS HAS CREATED A SELLERS' MARKET FOR CERTAIN FLEX/R&D ASSETS. "Prices have been driven to impressive levels for properties located in desirable areas and leased to strong tenants," affirms a participant. In Northern New Jersey, for example, where both leasing and construction activity continues at a brisk pace, Hilton Realty recently purchased the 171,245-square-foot North Brunswick Commerce Center for a reported $120.00 per square foot. By comparison, the average sale price of the 127 flex properties sold in the United States during the six months leading up to May 2003 was $79.00 per square foot, according to Real Capital Analytics, Inc. (RCA).

While this property's 97.0% occupancy rate is likely one reason for its above-average sale price, its location is another. Long regarded as one of the best distribution markets in the country, New Jersey's statewide industrial vacancy rate was 6.3% in the first quarter of 2003, according to Cushman & Wakefield. By comparison, the national industrial vacancy rate was 9.5% for that time period. Although a few submarkets within New Jersey posted vacancy rates around 15.0% during that time, investment demand remains strong. "We are looking to expand our presence in New Jersey," reveals a participant.

In addition to New Jersey, a few participants have mentioned South Florida as an area "experiencing good leasing activity of flex/R&D product." One reason is that the business climate there remains quite strong on both a regional and local level. As a result of tenant demand, a variety of assets have recently traded hands there. Parkwest at Gateway Center, for example, sold for about $74.00 per square foot. This property was built in 1999 and contained three, one-story buildings totaling 133,703 square feet.

Other parts of the country mentioned by participants as good locations for flex/R&D investments include Los Angeles, Chicago, and Phoenix. While all three of these cities recorded sales activity during the first three months of 2003, Phoenix/Mesa recorded the highest average sale price. Specifically, four properties were sold in the six months preceding May 2003 at an average sale price of $118.00 per square foot, according to RCA. By contrast, only three sales were recorded in Chicago at an average price of $61.00 per square foot over that time period, while eight sales were transacted in Los Angeles at an average price of $108.00 per square foot.

Even though investment interest has waned for this property type over the past year, the average overall cap rate in the national flex/R&D market continues to tick downward to 9.51%. This percentage is four basis points down from last quarter and 28 basis points down from a year ago. Although these shifts are attributable to the current low-interest-rate environment, they also reflect an improved outlook on behalf of investors. In fact, our participants expect property values to increase as much as 5.0% in this market over the next 12 months. ◆

Table 20

NATIONAL FLEX/R&D MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.50%–13.00%	9.50%–15.00%	10.50%–15.00%
Average	11.02%	11.18%	11.65%
Change (Basis Points)	—	–16	–63
OVERALL CAP RATE (OAR)[a]			
Range	7.50%–12.00%	7.50%–12.00%	8.00%–11.00%
Average	9.51%	9.55%	9.79%
Change (Basis Points)	—	–4	–28
RESIDUAL CAP RATE			
Range	8.50%–12.00%	8.50%–12.00%	8.50%–11.00%
Average	9.67%	9.75%	9.73%
Change (Basis Points)	—	–8	–6
MARKET RENT CHANGE RATE[b]			
Range	-10.00%–3.00%	-5.00%–3.00%	-2.00%–3.00%
Average	1.00%	1.19%	1.50%
Change (Basis Points)	—	–19	–50
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.50%–3.00%
Average	2.96%	2.96%	2.95%
Change (Basis Points)	—	0	+1
AVERAGE MARKETING TIME (in months)			
Range	3.00–18.00	3.00–18.00	3.00–12.00
Average	7.50	7.50	7.05
% Change	—	0	+6.38

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

National Warehouse Market

WEAK FUNDAMENTALS THROUGHOUT THE NATIONAL WAREHOUSE MARKET CONTINUE TO DISAPPOINT MANY INVESTORS. "I don't know if it is more surprising or more frustrating to us the way in which many of the markets that we have a presence in are performing so poorly," shares a participant. The main problem for many markets is that demand for both new and expansion space has yet to show steady signs of improvement. In addition, sublease space continues to turn into direct vacant space, burdening landlords even further.

With supply outpacing demand, the national warehouse market posted a 10.4% vacancy rate at year-end 2002, according to Property & Portfolio Research, Inc. (PPR). By comparison, this figure was 7.1% at year-end 2000 and 9.2% at year-end 2001. While the bad news is that vacancy rates indeed continue to rise, the good news is that the pace at which they are climbing appears to be slowing. "Compared to last year, fundamentals overall have stabilized," attests a participant. In fact, the year-end 2002 vacancy rate reflects only a 10-basis-point increase based on a quarter-over-quarter comparison, according to PPR.

Despite the fact that vacancy rates may be stabilizing and that positive net absorption has been reported in various markets for the first quarter of 2002, rental rates remain on a downward trend. After increasing 4.4% in 1999 and 3.6% in 2000, average rental rates declined 3.3% in 2001 and 4.3% in 2002. Even though this segment's vacancy rate is expected to dip slightly by the end of this year, a supply-demand imbalance will continue to support lower rental rates in 2003. Specifically, PPR forecasts a 2.1% decline in rental rates for 2003.

In addition to triggering a decline in rental rates, a lack of demand and a rise in vacancy rates are causing concessions to become virtually commonplace. "Concessions are included in practically every deal," exclaims a participant, who notes that a year ago they were a novelty to their tenants. Now, 71.4% of participants in this market indicate that concessions are customary when negotiating warehouse leases. By comparison, this percentage was 60.0% in the second quarter of 2002 and 12.5% in the second quarter of 2001. The most common concession for this property type is free rent, which currently ranges up to six months on a 10-year deal and averages three months.

While most landlords maintain a subordinate bargaining position with respect to tenants, the opposite is true when it comes to buyers. "Warehouse properties are a hot commodity to investors," boasts a participant. One reason is that compared to other property types, this segment has retained a lot of its stability during the downturn. In addition, it is expected to be one of the first to turnaround when a full economic recovery takes root. "We are not a high-risk investor, so we tend to gravitate toward the stability of warehouse ownership," shares a participant. Unfortunately for them and others, few quality properties are up for sale now and those that are available carry high price tags and attract numerous bidders. ◆

Table 21

NATIONAL WAREHOUSE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–11.50%	9.00%–12.00%	10.00%–12.00%
Average	10.20%	10.42%	10.79%
Change (Basis Points)	—	–22	–59
OVERALL CAP RATE (OAR)[a]			
Range	7.50%–11.00%	7.50%–11.00%	8.00%–10.00%
Average	8.82%	8.84%	9.00%
Change (Basis Points)	—	–2	–18
RESIDUAL CAP RATE			
Range	8.00%–11.00%	8.00%–11.00%	8.50%–11.00%
Average	9.34%	9.38%	9.60%
Change (Basis Points)	—	–4	–26
MARKET RENT CHANGE RATE[b]			
Range	-5.00%–5.00%	-5.00%–5.00%	-2.00%–3.00%
Average	1.50%	1.32%	1.40%
Change (Basis Points)	—	+18	+10
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.50%–3.00%
Average	2.97%	2.96%	2.95%
Change (Basis Points)	—	+1	+2
AVERAGE MARKETING TIME (in months)			
Range	2.00–12.00	2.00–12.00	3.00–9.00
Average	6.54	6.46	6.56
% Change	—	+1.24	–0.30

a. Rate on unleveraged, all-cash transactions   b. Initial rate of change

National Apartment Market

BASED ON THE SWARM OF INVESTORS THAT CONTINUE TO HOVER IN THE NATIONAL APARTMENT MARKET LOOKING FOR POTENTIAL ACQUISITIONS, IT IS HARD TO BELIEVE THAT UNDERLYING FUNDAMENTALS THERE CONTINUE TO DETERIORATE. "Vacancy rates have ticked up for a lot of apartment markets," confirms a participant. "Effective rents are down everywhere due to declines in occupancy and/or rent," attests another. Like many office markets across the country, the bulk of this sector's problems stem from a lack of demand. In addition to losing would-be renters to homeownership, economic uncertainty and concerns about job security are keeping the number of new renters to a minimum.

At the end of 2002, the overall vacancy rate for the national apartment market rose to 6.9%, according to Property & Portfolio Research Inc. (PPR). By comparison, this figure was 5.1% at year-end 1998 and 1999, 5.0% at year-end 2000, and 6.1% at year-end 2001. While a few individual cities, such as Boston, Chicago, Minneapolis, and San Diego, posted lower vacancy rates than the market as a whole at the end of 2002, most did not. Cities that recorded the highest vacancy levels for that time period included Atlanta at 13.1%, Charlotte at 12.8%, Raleigh at 12.3%, Memphis at 11.1%, and Phoenix at 10.2%, according to PPR.

While insufficient demand is certainly a contributing factor to Atlanta's lofty vacancy rate, continuous additions to supply is another. "There is a tremendous amount of new construction occurring in Atlanta's submarkets of Buckhead and Midtown," attests a participant. In fact, with a total of 11,864 units, Atlanta recorded the second highest number of construction starts in the fourth quarter of 2002, according to PPR. Houston, which ended 2002 with a 10.0% vacancy rate, ranked first with 12,250-unit starts for that time period.

Even though supply-demand imbalances are negatively impacting all apartment markets to some degree, investment demand remains "hot." One reason is that this property type continues to offer some of the best long-term returns of all the major real estate classes. Unfortunately, with the amount of buyers outnumbering sellers and a shortage of quality product available for sale, competition is intense among bidders who seem almost unconcerned about softening fundamentals. "With assets so cheap to finance, buyers can afford to pay higher prices despite subpar performances," explains a participant.

Even though a few participants indicate that prices for Class-A properties have dipped recently, sale prices overall remain on an upward trend due mostly to a drop in overall cap rates. "We are hearing about cap rates below 6.0% in Southern California and in certain Northeast CBDs," reveals a participant. While some participants expect apartment prices to begin to moderate in the second half of 2003 as buyers pay closer attention to sagging fundamentals, others expect the frenzy to last as long as readily available and inexpensive debt enable investors to remain assertive buyers. ◆

Table 22

NATIONAL APARTMENT MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–13.00%	9.00%–15.00%	10.00%–15.00%
Average	10.51%	10.88%	11.28%
Change (Basis Points)	—	–37	–77
OVERALL CAP RATE (OAR)[a]			
Range	5.50%–9.50%	6.00%–10.00%	7.25%–10.25%
Average	7.92%	8.14%	8.51%
Change (Basis Points)	—	–22	–59
RESIDUAL CAP RATE			
Range	6.50%–10.00%	7.00%–10.00%	7.50%–12.00%
Average	8.30%	8.47%	8.94%
Change (Basis Points)	—	–17	–64
MARKET RENT CHANGE RATE[b]			
Range	-2.00%–5.00%	-2.00%–5.00%	-2.00%–6.00%
Average	1.91%	1.98%	2.13%
Change (Basis Points)	—	–7	–22
EXPENSE CHANGE RATE[b]			
Range	2.00%–4.00%	2.00%–4.00%	2.00%–7.00%
Average	2.91%	2.93%	3.16%
Change (Basis Points)	—	–2	–25
AVERAGE MARKETING TIME (in months)			
Range	2.00–9.00	2.00–9.00	3.00–12.00
Average	5.75	5.81	6.81
% Change	—	–1.03	–15.57

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

National Net Lease Market

AS AN INCREASING NUMBER OF WILLING INVESTORS COMPETE FOR A DECLINING AMOUNT OF QUALITY ASSETS IN THE NATIONAL NET LEASE MARKET, AN UNBELIEVABLY COMPETITIVE ENVIRONMENT HAS EMERGED. "About 18 months ago we would compete with about 7 to 8 dominant bidders, but now its common to contend with as many as 30 offers," shares a participant. Since much of the growing interest is a result of investors looking for safe returns amid an anemic economic recovery, some investors expect the frenzy to result in a record-breaking number of deals this year and possibly next year as well.

Also helping to push up the number of transactions in the net lease arena are new synthetic lease guidelines established by the Federal Accounting Standards Bureau (FASB). A synthetic lease, also known as an off-balance-sheet lease, is actually a financing structure used by many public companies. Since the "loan" is accounted for as an operating lease, but treated favorably as a loan for both economic and tax purposes, its use has been very common over the years. Following the Enron scandal, however, problems associated with synthetic leases arose forcing FASB to implement new synthetic lease regulations.

Under FASB's new guideline known as Financial Interpretation Number 46, corporations have until June 15, 2003 to evaluate and to reveal any synthetic leases on their balance sheets. Companies that disclose these types of leases have three options. One, buy back the asset and place it on their balance sheet. Two, remain in the lease or create a new one as long as the landlord is a voting interest entity. Or three, replace it with a different type of agreement.

Since synthetic leases reportedly total between $120 and $500 billion, having just a fraction of them convert to sale-leaseback transactions would flood the national net lease market with additional investment opportunities. Although such an occurrence would likely weaken one of the tightest seller's markets of the past 15 years, it would also reduce pricing pressure and create more buying opportunities for those investors who have been sidelined due to high prices. In addition, it would likely cause overall capitalization rates, which have been on a downward trend since the third quarter of 2001, to rise. "Low overall cap rates, strong investment demand, and limited quality product have caused sale prices for most investment-grade assets to soar," reveals a participant.

While many investors find such lofty sale prices easy to justify based on current interest rates, one participant finds them harder to validate for a couple of reasons. First, defining acceptable credit ratings has become increasingly difficult. "Times have changed and it's harder to feel comfortable about tenant ratings," explains a participant. And second, the fact that overall cap rates and rental rates are both declining has raised concerns that investors may be paying far too much for net leased assets. As this participant notes, "We all like to win bids, but you need to be realistic." ◆

Table 23

NATIONAL NET LEASE MARKET
Second Quarter 2003

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.50%–12.00%	9.50%–13.00%	10.00%–13.00%
Average	10.71%	11.00%	11.44%
Change (Basis Points)	—	–29	–73
OVERALL CAP RATE (OAR)[a]			
Range	7.50%–10.00%	7.50%–10.00%	8.00%–10.50%
Average	8.60%	8.78%	9.15%
Change (Basis Points)	—	–18	–55
RESIDUAL CAP RATE			
Range	8.00%–10.00%	8.00%–10.00%	8.00%–10.00%
Average	9.38%	9.46%	9.50%
Change (Basis Points)	—	–8	–12
MARKET RENT CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.65%	2.70%	2.50%
Change (Basis Points)	—	–5	+15
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.58%	2.70%	2.65%
Change (Basis Points)	—	–12	–7
AVERAGE MARKETING TIME (in months)			
Range	2.00–12.00	3.00–12.00	4.00–12.00
Average	5.08	6.25	6.60
% Change	—	–18.72	–23.03

a. Rate on unleveraged, all-cash transactions b. Initial rate of change

National Golf Market

THE FOLLOWING IS A SUMMARY OF THE SPRING 2003 ISSUE OF THE GOLF FINANCING & INVESTMENT SURVEY, PUBLISHED BY THE GOLF GROUP OF PRICEWATERHOUSE-COOPERS LLP. This national survey contains information on trends and investor criteria specific to the golf industry.

The long-awaited acquisition of National Golf Properties (NGP)/American Golf Corporation (AGC) by Goldman Sachs/Starwood Capital occurred in February 2003, ending a highly publicized, tumultuous two-year-plus saga involving the industry's largest owner and operator of daily-fee golf. To many industry experts, this $1.0 billion purchase represented the largest golf deal in the industry's history, as well as the start of a new chapter for the industry, which many hope will focus more on industry standardization, stabilization, and promotion.

One sign that standardizations are occurring is the increasing use of third-party management by companies such as American Golf, Troon Golf, and KemperSports Management. In terms of stabilization, it appears that most of the uneasiness created by both the NGP/AGC deal and the controlled liquidation of Golf Trust of America has been alleviated and that the financial difficulties of several small- to mid-size golf companies and clubs are being addressed.

As the industry becomes more standardized and balanced, promotion and support from investors has also occurred. Specifically, our research indicates that the industry's encouraging performance as of late has resulted in new equity sources and has intensified interest by existing investors. In fact, investment activity for both large- and small-scale properties continues to intensify.

Many of these sales, however, involve courses that are located in secondary markets, generate less than $2.0 million in gross revenue, and experience EBIDTA (earnings before interest, depreciation, taxes, and amortization) margins below 15.0%. Since such courses are typically below the "radar screen" monitored by larger, multiple-course investors who have strict gross income, net earning, and return criteria, they are frequently acquired by noninstitutional, single-course investors who operate such course as small businesses. Such activity is a promising signpost for the industry's future.

For more information about this survey and PwC's golf services, please contact Douglas Main at (800) 832-6484 or visit our golf website at www.pwcgolfgroup.com. ◆

Table 24

KEY GOLF INDICATORS[a]
Spring 2003

	SPRING 2003	FALL 2002	YEAR AGO
DISCOUNT RATE (IRR)[b]			
Range	10.00%–24.50%	10.50%–29.00%	10.50%–26.50%
Average	14.40%	14.30%	14.40%
Change (Basis Points)	—	+10	0
OVERALL CAP RATE (OAR)[b]			
Range	7.20%–19.00%	5.67%–23.10%	6.00%–22.00%
Average	11.25%	11.10%	11.00%
Change (Basis Points)	—	+15	+25
NET INCOME MULTIPLIER (NIM)[b,c]			
Range	5.25%–13.00%	4.75%–12.50%	5.50%–13.50%
Average	8.85%	8.95%	8.90%
Change (%)	—	–1.13%	–0.56%
RESIDUAL CAP RATE[d]			
Range	9.10%–13.70%	9.25%–14.50%	9.00%–14.00%
Average	11.15%	11.25%	11.20%
Change (Basis Points)	—	–10	–5
REVENUE CAP RATE[e]			
Range	0.50%–4.00%	0.50%–5.00%	1.00%–4.50%
Average	2.70%	2.80%	3.00%
Change (Basis Points)	—	–10	–30
EXPENSE CHANGE RATE[e]			
Range	1.00–4.50	1.00–5.00	1.00–5.00
Average	2.95%	3.00%	3.10%
Change (Basis Points)	—	–5	–15

a. Includes daily-fee, semi-private & private and various property rights (fee simple, leased & leasehold).
b. Rate on unleveraged all-cash transactions.
c. The NIM commonly used in golf. OAR is the reciprocal.
d. Also referred to as the Terminal Rate. Typical holding period 5 to 10 years.
e. Some respondents indicated higher rates than the typical initial rate of change presented.

UPDATE

The unsolicited and hostile insider bid by Tri-White Corporation to take control of ClubLink (ticker: LNK), Canada's largest owner and operator of golf clubs, has reportedly been dropped.

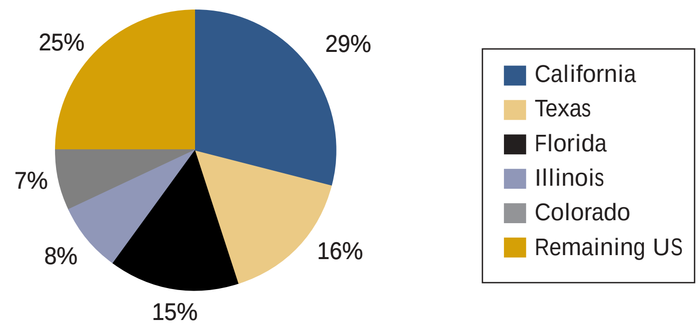
National Self Storage Industry

By R. Christian Sonne, MAI
Principal, Self Storage Economics, LLC

BASED ON OUR ANALYSIS OF OVER 500 SELF STORAGE SINGLE-ASSET TRANSACTIONS TOTALING OVER $1.0 BILLION OVER THE PAST THREE YEARS, AS WELL AS OVER 20 DEALS COMPLETED IN THE FIRST QUARTER OF 2003, PRICES CONTINUE TO RISE AND CAP RATES CONTINUE TO DECLINE NATIONWIDE (SEE FIGURE 1). Specifically, the average price per square foot jumped from $50.11 per square foot in 2000 to $58.73 in 2002, an increase of 17.20%. At the same time, the average overall cap rate declined 54 basis points from 2000 to reach 9.61% in 2002. When comparing these trends, it suggests that net operating income in the self storage industry also continues to rise across the country.

Figure 1

GEOGRAPHIC PREFERENCES
2000-2002



While it is too early to estimate whether the total number of transactions for 2003 will be similar to those of the past three years, which ranged from 164 to 183 per year, a strong sellers' market will likely keep them to a minimum. In addition, favorable returns and a lack of alternative investments have many owners questioning where they would invest their sale proceeds.

As a result, a lack of new offerings, especially in Western states where investment activity has historically been strong, will likely help limit sales activity this year.

Although total sales velocity for 2003 may end up being below that of prior years, geographic preferences appear to be the same as in prior years. As shown in Figure 1, the largest number of trades have occurred in California in the past three years. This state also leads in pricing with an average over the last three years of $63.62 per square foot.

On the buy side of this industry, there are plenty of eager investors who are anxious to take advantage of favorable returns and historically low financing rates. "It is possible to obtain a fixed-rate loan at 5.0% for ten years based on an amortization schedule of either 25 or 30 years," boasts one self storage investor, who adds that the demand for CMBS product has led many lenders to have high volume goals when it comes to self storage investments. While such favorable capital terms will keep enthusiastic buyers looking for opportunities, they will also allow existing owners to refinance instead of sell – another trend that could keep sales to a minimum this year.

Self Storage Economics, LLC is a full-service real estate consulting company specializing in the self storage asset class. For more information on its recent survey, as well as other services, please visit their website at selfstorageeconomics.com. ◆

Table 25

NATIONAL SELF STORAGE TRENDS

	2000	2001	2002	1Q2003
TOTAL NUMBER OF SALES	182	164	183	22
Change	—	-9.89%	11.59%	—
AVERAGE PRICE PER SQUARE FOOT	$50.11	$54.58	$58.73	$66.89
Change	—	8.92%	7.60%	13.89%
AVERAGE OVERALL CAPITALIZATION RATE	10.15%	9.69%	9.61%	8.89%
Change	—	-4.53%	-0.83%	-7.49%

Source: CoStar Realty Information, Inc; compiled by Self Storage Economics, LLC

National Development Land Market

WITH THE U.S. ECONOMY IN A SLOW-GROWING RECOVERY MODE AND DEMAND FOR ALL SEGMENTS OF THE REAL ESTATE INDUSTRY YET TO RETURN, ACTIVITY IN THE NATIONAL DEVELOPMENT LAND MARKET REMAINS SLOW. "We're in a real holding pattern now," reveals a participant. One exception, however, may be in the apartment sector where a number of new projects continue to break ground regardless of supply problems. Aside from this trend, most of the current activity involving land development revolves around single-family residential and build-to-suit office and industrial projects. "Very few developers are preparing sites for speculative builds," assures another.

Even though overall activity in the development land market has declined during the downturn and few developers are aggressively adding to their land inventories, land prices in many desirable markets remain high. One reason is that many markets have failed to realize extreme declines in overall improved property values as a result of declines in cap rates and aggressive competition among buyers. As a result, few landowners have felt bullied into lowering prices, especially in markets where fundamentals are likely to bounce back relatively quickly and select opportunities for development still exist. In addition, landowners who have foregone fire sales due to low-interest-rate financing are able to hold firm on pricing until the demand for land returns.

DISCOUNT RATES

Since opportunities for land development have remained scarce over the past six months, it is not surprising that average discount rates remain relatively unchanged from the fourth quarter 2002 issue of this Survey (see Exhibit L-1). The rates shown assume that entitlements are in place. Discount rates for projects that lack entitlements are typically increased between 175 and 1,000 basis points; the average increase is 553 basis points.

Exhibit L-1

DISCOUNT RATES (IRRs) INCLUDING DEVELOPER'S PROFIT
Second Quarter 2003

	CURRENT QUARTER	FOURTH QUARTER 2002
Free & Clear		
RANGE	11.00% - 35.00%	11.00% - 35.00%
AVERAGE	20.25%	20.21%
CHANGE	—	+4
Subject to Financing		
RANGE	15.00% - 30.00%	15.00% - 30.00%
AVERAGE	20.50%	22.08%
CHANGE	—	-158

PROPERTY TYPES

Retail

Amid job losses and increases in the number of both personal bankruptcies and debt, consumers continue to spend money. According to the Bank of Tokyo-Mitsubishi, retail sales increased a modest 2.0% on a year-over-year comparable-store basis in May 2003. Unfortunately, much of the growth was reported in discount store chains, such as Wal-Mart and Costco, which typically acquire their own land and construct their own buildings. Consequently, development land opportunities relating to retail properties are mostly limited to smaller strip shopping center ventures in high-growth areas, such as South Florida, Las Vegas, and Southern California.

Office

Due to rising vacancy rates and declining rental rates, developers remain on the sidelines in most CBD and suburban office markets. Although some of them have started to prepare for the next expansion by scouting out locations and preparing due diligence, few have ventured beyond the preliminary planning stage. "It is too early to prepare for the next upswing," believes a participant, who doesn't plan on doing much of anything until after 2004.

Until demand returns with some vengeance, new speculative office development will likely be relegated to select markets where sufficient demand exists, barriers to entry are high, and overall vacancy rates are reasonably low. Such suburban markets include Long Island, Northern New Jersey, and Suburban Maryland, while CBD markets include Washington, DC, Manhattan, and Philadelphia.

Warehouse

Despite increases in vacancy rates, the belief that warehouse markets will lead the upcoming real estate recovery has kept many developers looking for opportunities in this property sector. "The nation is under inventoried, so when the economy takes off, industrial will lead the real estate industry's rebound," predicts a participant.

This notion is likely one reason for the string of large build-to-suit and speculative warehouse projects that have been occurring in proven distribution hubs, such as Chicago and New Jersey. Michaels Stores, Inc., for example, recently announced plans to build a 700,000-square-foot, $50.0-million warehouse in New Lenox, Illinois, a southwest suburb of Chicago. And Matrix Development Group has broken ground on a 230,000-square-foot speculative warehouse located in New Jersey's infamous Exit 8A industrial market.

Other areas where industrial development opportunities likely exist include the favorable markets of Denver, Dallas, and Long Island.

Apartment

Even though many apartment markets are experiencing weaker underlying fundamentals as a result of continuous supply, some developers continue to forge ahead with projects. During the first four months of 2003, 1,009 new apartment projects totaling just over 99,000 units were started throughout the country, according to Property & Portfolio Research. Fortunately, numerous projects have been either postponed or shelved until favorable market conditions return.

Until this rebound occurs, however, low interest rates will continue to reduce demand by luring would-be renters away from apartments, especially Class-A ones. As a result, favorable development opportunities should remain few and far between over the near term. Some locations that present the best opportunities for apartment development include the infill areas surrounding major metropolitan markets, such as Washington, DC, Los Angeles, Boston, and Baltimore. New apartment projects in these areas benefit greatly from high barriers to entry, highly-educated workforces, and increasing obsolete and outdated competition.

Single-family

A low-interest-rate environment continues to keep single-family development land investors quite active. In fact, single-family building permits totaled close to 1.33 million in April of 2003, according to the U.S. Census Bureau. This total represents a 1.2% increase above the prior month and a 3.75% surge from April of 2002. "Our single-family communities are experiencing strong lot absorption," boasts a participant, who notes that demand is especially strong among both first-time and second-time homebuyers.

With interest rates expected to remain relatively low over the next 12 to 18 months, homeownership rates are likely to remain high, and could even continue to rise, throughout much of the country. As of the first quarter of 2003, the national homeownership rate, which is calculated by dividing the number of owner-occupied housing units by the number of occupied housing units or households, stood at 68.0%, according to the U.S. Census Bureau. By comparison, this rate was 65.5% in 1980 and 66.0% in 1998.

Absorption Period

The absorption period required to sell an entire project varies significantly depending on such factors as location, size, and property type. This quarter, participants report absorption periods ranging from 12 to 240 months. The mean absorption period is 62.4 months, or 5.2 years, unchanged from fourth quarter 2002.

Forecast Assumptions

Growth Rates for Lot Prices and Expenses

Growth rates used for lot pricing in DCF analyses vary due to local market conditions. Participants report an overall range from 0.00% to 10.00% with a mean of 2.90%. This figure is unchanged from the fourth quarter of 2002 and reflects developers' continued expectations of further declines in land values as a result of a slow growing economy, overall weak market conditions, and a lack of demand.

Over the near term, most participants, 53.9%, forecast lot prices to increase at the rate of inflation. By comparison, 38.5% of them project increases greater than inflation. Inflation growth rate assumptions range from 0.0% to 4.0% and average 2.33%, which is slightly above the average from our fourth quarter 2002 issue.

The ranges and averages for the reported expense growth rates are shown in Exhibit L-2.

Exhibit L-2

GROWTH RATES FOR DEVELOPMENT EXPENSES

EXPENSE	SECOND QUARTER 2003
Infrastructure	
RANGE	2.00% - 5.00%
AVERAGE	3.39%
Amenities	
RANGE	2.00% - 5.00%
AVERAGE	3.39%
Advertising	
RANGE	2.00% - 4.00%
AVERAGE	3.19%
Real Estate Taxes	
RANGE	0.00% - 4.00%
AVERAGE	2.81%
Administrative	
RANGE	0.00% - 10.00%
AVERAGE	3.69%
Contingency	
RANGE	0.00% - 5.00%
AVERAGE	2.81%
Other	
RANGE	2.00% - 3.50%
AVERAGE	2.90%

Outlook

With many investors expecting the economy to display definite signs of a sustained recovery at the end of next year, investment opportunities within the national development land market should again open up closely thereafter. Due to the positive affects of pent-up demand, the apartment and warehouse sectors are expected to lead the real estate industry into recovery. On the other end of the spectrum, too much empty space and the need for significant job growth will keep the majority of the office sector from feeling much immediate relief. ◆

NATIONAL REGIONAL MALL MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	8.75% to 10.50%	1.0%	10.50% to 12.50%	8.00% to 10.00%	6 to 12	60.0% to 70.0%	2.0%	$0.10 to $0.25	12
INVESTMENT BANKER ✦ Forecast Period: 10 years Relies on DCF and direct capitalization; does extensive sensitivity analysis on residual cap rates, growth rates, and initial market rents; retail sales based on historical and market analysis; typical sales growth per market per year is at the inflation rate (CPI); analysis of TIs is an important cash flow forecast item.	3.0%	3.0%	3.0%	9.00% to 10.00%	1.5%	10.25% to 11.25%	7.75% to 9.50%	3 to 4	65.0% to 70.0%	2.0% to 3.0%	$0.15 to $0.25	9 to 12
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use concessions.	3.0%	3.0%	1.5%	9.00%	1.5%	11.00%	8.00%	6	80.0%	5.0%	$0.25	9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Looks at DCF, direct capitalization, and price per square foot; uses face rents and reflects concessions when they are scheduled to occur; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0%	3.0%	3.0%	8.50% to 10.00%	2.0%	11.00% to 12.00%	9.50%	9	50.0%	5.0% to 7.0%	$0.35	9 to 18
REIT ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; applies rollover vacancy of 1.5%; replacement reserve is a dollar amount.	4.0%	3.0%	3.0%	9.00%	2.0%	12.00%	9.00%	2	75.0%	0.0%	—	3
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use concessions.	3.0%	3.0%	3.0%	8.00% to 8.50%	0.75%	10.00% to 10.75%	7.25% to 8.10%	6 to 8	70.0% to 80.0%	1.0% to 2.0%	$0.30 to $0.35	—

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

NATIONAL POWER CENTER MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
REALTY ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	2.0%	3.0%	3.0%	9.25% to 9.75%	1.5% to 3.0%	10.75% to 11.25%	9.00% to 9.50%	Does not use	65.0%	5.0% to 8.0%	$0.10 to $0.25	6
INVESTMENT BANKER ✦ Forecast Period: 10 years Considers power center investments "coupon clipper" deals; uses both DCF and direct capitalization; focuses on West Coast; prefers urban areas with easy access and good anchor tenancy; credit is key; IRR is 11.00% on centers with good credit tenants.	3.0%	3.0%	3.0%	9.00% to 10.00%	2.0%	11.00% to 12.00%	8.75% to 10.00%	4 to 6	65.0% to 75.0%	5.0% to 10.0%	$0.10 to $0.15	6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Primarily interested in high-credit deals; uses both DCF and direct capitalization but focuses on IRR; develops IRR using tenants' bond rate plus 200 to 400 basis points for real estate related risks; lower IRRs are for high-credit deals with "bond" leases; uses present value analysis of effective rents.	0.0% to 2.0% Years 1 & 2; 3.0% thereafter	2.0% to 3.0%	2.0% to 3.0%	9.75% to 10.00%	2.0% to 2.5%	10.50% to 11.50%	8.50% to 9.50%	4 to 8	60.0% to 70.0%	1.0% (anchors); 5.0% to 8.0% (nonanchors)	$0.10 to $0.20	6 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; prefers the Southwest.	3.0%	3.0%	3.0%	10.00% to 10.50%	2.0% to 3.0%	9.50% to 10.00%	9.50% to 10.00%	6	75.0% (nonanchors)	5.0%	$0.10 to $0.15	6 to 8
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; views as credit deal; some growth assumed in cap rate; focuses on acquisitions in Florida.	2.0% to 3.0%	3.0% to 3.5%	3.0% to 3.5%	9.50% to 10.50%	2.0%	11.00% to 12.50%	8.50% to 10.00%	4 to 8	70.0% to 80.0%	3.0% to 5.0%	$0.15 to $0.25	4 to 8
INVESTMENT ADVISOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	9.50%	1.5% to 2.0%	12.00%	9.50%	6	70.0%	5.0% (nonanchors)	$0.20	9

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

NATIONAL STRIP SHOPPING CENTER MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
LIFE INSURANCE COMPANY ◆ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 3.0%	3.0% to 3.5%	3.0%	9.00% to 11.50%	2.0% to 4.0%	9.00% to 11.50%	8.50% to 11.00%	3 to 9 (inline stores); 6 to 18 (anchors)	50.0% to 70.0%	5.0% to 10.0%	$0.15 to $0.30	6 to 12
INVESTMENT BANKER ◆ Forecast Period: 10 years Does extensive sensitivity analysis on residual cap rates, growth rates, and initial market rents; retail sales based on both historical and market analysis; initial cash return is more important than IRR; TIs are an important cash flow forecast item.	3.0%	3.0%	3.0%	9.25% to 10.50%	2.0%	11.00% to 13.00%	9.00% to 11.00%	4 to 8	65.0%	5.0% to 7.5%	$0.15	4 to 9
INVESTMENT FIRM ◆ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 3.0%	3.0%	2.25%	8.75% to 9.25%	2.0% to 3.0%	9.00% to 10.00%	7.00% to 8.25%	6 to 8	65.0% to 70.0%	1.0%	$0.15 to $0.50	6 to 9
PRIVATE INVESTMENT FIRM ◆ Forecast Period: 3 to 5 years Uses all three approaches to value; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rents after all concessions are extracted; does not use rent spikes.	0.0% to 2.0%	3.0%	2.0%	8.50% to 11.00%	2.0% to 4.0%	11.00% to 13.00%	9.00% to 9.50%	6	70.0%	8.0%	Does not use	6
REAL ESTATE ADVISOR ◆ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserves; does not use rent spikes.	3.0%	3.0%	3.0%	9.50% to 10.00%	1.5% to 2.0%	10.25% to 11.25%	10.00% to 11.50%	6	75.0%	5.0%	$0.10 to $0.15	4 to 6
DOMESTIC PENSION FUND ◆ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	9.00% to 10.00%	1.0% to 3.0%	9.75% to 11.00% (neighborhood centers); 10.00% to 11.00% (community centers)	8.00% to 9.00%	6 to 12	60.0% to 75.0%	1.0% to 3.0%	$0.10 to $0.25	6 to 12
INSTITUTIONAL INVESTOR ◆ Forecast Period: 10 years Invests primarily in 200,000- to 400,000-square-foot, well-anchored community centers and good credit quality anchored power centers; relies on DCF; uses effective rents.	0.0% to 2.0% Years 1 & 2; 3.0% thereafter	2.0% to 3.0%	2.0% to 3.0%	9.75% to 10.50%	2.0% to 3.0%	11.50% to 12.00%	9.50% to 10.00%	6 to 8	60.0% to 70.0%	1.0% (anchor); 5.0% to 8.0% (nonanchor)	$0.15 to $0.20	6 to 9

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

NATIONAL CBD OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTMENT FIRM ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 3.0%	3.0%	2.5%	9.00% to 9.50%	2.0% to 3.0%	11.00%	8.75% to 9.25%	6	70.0%	2.0% to 3.0%	$0.25	6 to 9
INVESTMENT BANKER ✦ Forecast Period: 10 years Real cash-on-cash rate (after capital expenditures) is more important than IRR; real interest in newer CBD buildings at 8.0% to 10.0% cash-on-cash rates.	0.0% to 3.0%	3.0%	3.0%	9.00% to 10.50%	2.0%	10.00% to 12.00%	8.50% to 10.50%	6 to 8	60.0% to 70.0%	3.0% to 5.0%	Varies	6 to 9
INVESTMENT BANKER ✦ Forecast Period: 5 years Prefers DCF; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0%	3.0%	2.0% to 3.0%	9.00% to 10.50%	2.0% to 3.0%	10.50% to 12.50%	9.00% to 10.00%	6 to 10	60.0% to 70.0%	5.0%	$0.20 to $0.50	6 to 9
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Buys free and clear; interested in attractive, well-located Class-A properties; relies on DCF; uses direct capitalization as a check only; uses face rents and reflects concessions when they are scheduled to occur; prime interest currently in development properties.	0.75%	2.8%	2.5%	9.75%	3.0%+ local tariffs	11.00%	9.25%	7	65.0%	7.0%	$0.25 to $0.50	6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	2.0%	1.5%	2.0%	10.00% to 10.75%	2.0% to 3.0%	11.25% to 12.25%	10.75%	6	70.0%	7.0%	$0.10 to $0.15	6 to 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	neg. 10.0% to 3.0%	3.0%	3.0%	9.00% to 11.50%	1.0% to 4.0%	9.00% to 11.00%	8.50% to 11.00%	6 to 18	50.0% to 65.0%	5.0% to 15.0%	$0.20 to $0.40	3 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Relies on DCF, direct capitalization, and price per square foot; uses face rents; OAR will differ if rents well-below market.	0.0%	3.0%	3.0%	8.00% to 10.00%	2.0%	10.00% to 11.00%	8.50% to 9.00%	6 to 8	60.0%	5.0% to 7.0%	$0.20 to $0.50	6 to 12
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	8.50% to 9.50%	1.0% to 2.0%	9.00% to 11.00%	8.00% to 10.00%	6 to 12	65.0% to 75.0%	1.0% to 7.0%	$0.10 to $0.25	6 to 12

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

NATIONAL SUBURBAN OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	8.75% to 9.75%	2.0% to 3.0%	9.50% to 11.50%	8.50% to 11.00%	6 to 9	65.0% to 70.0%	1.5% to 8.0%	$0.10 to $0.20	—
INVESTMENT BANKER ✦ Forecast Period: 10 years Real cash-on-cash rate (after capital expenditures) is more important than IRR; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	9.00% to 10.50%	2.0%	10.50% to 12.50%	8.50% to 10.50%	6 to 9	65.0%	5.0% to 7.5%	$0.15 to $0.25	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	neg. 10.0% to 3.0%	3.0%	3.0%	9.50% to 12.00%	1.0% to 4.0%	9.50% to 11.00%	9.00% to 11.50%	6 to 12	50.0% to 70.0%	5.0% to 15.0%	$0.20 to $0.40	6 to 12
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Buys free and clear; average IRR consists of a 6.50% to 7.50% real rate of return, plus inflation; the indicated growth scenarios help to determine sensitivity of investment to inflation; relies on DCF equity cap rate; use of face or effective rents varies with market.	0.0%	2.8%	2.5%	10.00%	3.0%+ any local tariffs	11.30%	10.00%	7	60.0%	8.0%	$0.25 to $0.50	6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	10.75% to 11.25%	2.0% to 3.0%	11.50% to 12.00%	11.00%	6	75.0%	5.0%	$0.10 to $0.15	6 to 8
REIT ✦ Forecast Period: 5 to 10 years Focuses on NOI cap rate, DCF, and cash-on-cash return; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	2.5%	10.50%	3.0%	12.00%	11.50% to 12.00%	12	60.0% to 70.0%	7.5%	$0.15 to $0.30	6
PENSION FUND ADVISOR ✦ Forecast Period: 7 to 10 years Relies on DCF, direct capitalization, and price per square foot; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	8.75% to 10.00%	2.0% to 3.0%	10.50% to 12.00%	8.75% to 10.00%	9 to 12	60.0%	7.0% to 10.0%	$0.30 to $0.40	6 to 12
INVESTOR ✦ Forecast Period: 10 years Relies on DCF and direct capitalization; selling expenses capped at $150,000; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	0.0%	Average 2.5% over the forecast period	3.0%	9.00% to 10.00%	1.5%; capped at $150,000	10.00% to 12.00%	8.00% to 8.50%	9	70.0%	0.50%	$1.00	6

*Representative sample; due to space constraints, not all responses are included.

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

ATLANTA OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTOR/DEVELOPER ✦ Forecast Period: 7 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve, but before TIs and leasing commisions; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.5%	3.0%	10.00% to 12.50%	3.0%	11.50% to 13.00%	9.50% to 11.00%	9 to 12	55.0% to 60.0%	10.0%	$0.25 to $0.30	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses effective rent after all concessions are extracted.	0.0% to 3.0%	3.0%	3.0%	9.25% to 9.50%	2.0%	10.75% to 11.50%	8.60% to 9.50%	6 to 10	70.0% to 75.0%	2.0% to 3.0%	$0.15	—
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 1.0%	3.0%	3.0%	9.75% to 10.50%	3.0%	11.50% to 12.50%	9.75% to 10.25%	6	65.0%	7.5% to 10.0%	$0.20 to $0.25	9
INVESTMENT BROKER ✦ Forecast Period: 10 years Prefers DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of up to 6.0% in certain markets in 2005.	0.0%	1.5% to 2.5%	2.0%	9.50% to 10.00%	1.0% to 3.0%	9.00% (CBD); 11.00% (Suburbs)	9.00% to 9.50% (CBD); 9.00% to 10.50% (Suburbs)	4 to 6	65.0% to 70.0%	2.0% to 4.0%	$0.10 to $0.20	7 to 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 8 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	—	5.0%	3.0%	10.00% to 12.00%	2.0%	11.00% to 12.00%	9.00% to 11.00%	6	50.0%	7.0%	$0.25	6 to 9
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Relies on DCF; typical management fees are 2.5%; typical leasing fees are 5.0% on new leases, 2.0% on renewals; typical TIs are $15.00 for new leases, $7.50 for renewals; uses face rents.	0.0% Years 1 & 2; 3.0% Years 3 & 4; 5.0% thereafter	3.0%	3.0%	10.00%	1.5%	10.00% to 10.50%	9.00% to 9.50%	6	60.0%	7.0%	$0.40 to $0.50	9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses DCF, direct capitalization, and sales comparison approach; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	0.0% Year 1; 2.0% Year 2	3.0%	3.0%	9.50% to 10.00%	1.5% to 2.0%	10.50% to 11.00%	10.00%	8	70.0%	10.0%	$0.15	9

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

BOSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserves; uses face rents and reflects concessions when they are scheduled to occur.	neg. 5.0% to 0.0%	2.0% to 3.0%	3.0%	9.50% to 10.50%	2.0% to 3.0%	11.50% to 12.50%	9.00% to 10.00%	6	65.0%	7.5% to 10.0%	$0.20 to $0.25	6
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 5.0% in years five and six for suburban markets.	0.0% Years 1 and 2; 1.0% Year 3; 3.0% thereafter	3.0%	3.0%	9.00% to 10.00%	2.0%	9.50% to 10.00%	8.50% to 9.00%	6 to 12	60.0% to 65.0%	5.0% to 8.0%	$0.10 to $0.30	—
INVESTOR ✦ Forecast Period: 1 year Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; crosschecks against comparable sales.	0.0% for two years	3.0%	3.0%	10.00%	1.5%	11.50% to 12.00%	10.25% to 11.25%	9	60.0%	5.0%	$0.30	12 to 24
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0%	3.0%	3.0%	10.50% to 11.00%	2.5%	10.50% to 11.00%	10.75% to 11.25%	8 to 9	60.0%	5.0%	$0.35 to $0.55	9
INVESTOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% Years 1 to 3; 2.5% thereafter	2.5%	2.5%	9.00%	2.5%	10.50%	9.50%	6	65.0%	5.0%	$0.25	6
MORTGAGE BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents; uses rent spike of 4.0% to 5.0% in years 4 and 5.	0.0% Years 1 to 3	3.0%	—	9.50%	1.0% to 1.5%	11.00% to 12.00%	8.50% to 9.50%	10	60.0%	5.0%	$0.15 to $0.20	6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	8.00% to 10.00%	2.5% to 5.0%	9.00% to 12.00%	7.50% to 10.00%	6	65.0%	5.0%	$0.35	8

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

CHICAGO OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Relies on DCF; uses direct capitalization as a check only; real estate taxes are a major issue; prefers suburban markets; uses face rent and reflects concessions when they are scheduled to occur.	0.0%	3.0%	2.5% to 3.0%	9.00% to 10.00%	2.0%	10.00% to 12.00%	8.50% to 9.50%	6 to 9	70.0%	8.0%	$0.10 to $0.25	9 to 12
MORTGAGE BANKER ✦ Forecast Period: 10 years Relies on DCF and uses direct capitalization as a test; cost, rent, and value per square foot are true "sanity tests"; real estate taxes are a big issue (usually more than 50.0% of property expenses); uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	8.50% to 10.00%	2.5%	10.50% to 12.00%	8.50% to 10.00%	12	60.0% to 65.0%	10.0%	$0.10 to $0.15	9 to 15
INSTITUTIONAL INVESTOR ✦ Forecast Period: 5 years Relies on DCF; forecasts higher expenses in Cook County; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses rent spike of 5.0% to 6.0% in year 2006 in the Eastwest corridor and CBD.	neg. 5.0% (CBD); neg. 2.0% (suburbs)	3.0%	3.0%	9.00% to 11.00%	2.0% to 4.0%	13.00%	9.00% to 10.00%	12 to 18	70.0%	10.0% to 15.0%	$0.25 to $0.35	3 to 6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; uses effective rents after all concessions are extracted.	0.0% to 2.0% Years 1 & 2; 3.0% thereafter	2.0% to 3.0%	2.0% to 3.0%	9.50% to 10.00%	2.0% to 3.0%	10.75% to 11.50%	9.00% to 9.75%	4 to 6	60.0% to 70.0%	2.0% to 3.0%	$0.15 to $0.20	6 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% to 2.0% Year 1 (CBD); 0.0% to 1.0% Year 1 (suburbs)	2.0% to 3.0%	3.0%	8.75% to 10.00%	1.5% to 2.0%	10.25% to 11.00%	8.50% to 9.50% (CBD); 9.50% to 10.50% (suburbs)	6 to 12 (CBD); 8 to 15 (suburbs)	65.0%; (CBD); 60.0% (suburbs)	7.0% to 15.0% (CBD); 10.0% to 15.0% (suburbs)	$0.20	9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	neg 5.0% to 0.0%	3.0%	3.0%	9.50% to 10.50%	2.0% to 3.0%	11.50% to 12.50%	9.00% to 10.00%	6	60.0% to 65.0%	7.5% to 10.0%	$0.20 to $0.25	6
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Relies on DCF; uses face rents and reflects concessions as they are scheduled to occur; prefers the West Loop.	0.0% Years 1 & 2; 3.0% Years 3 & 4; 4.5% thereafter	3.0%	3.0%	9.00% to 9.50% (CBD); 9.50% to 9.75% (suburbs)	1.0% to 2.0%	10.00%	8.00% to 8.50% (CBD); 9.00% (suburbs)	6	60.0%	7.0%	$0.25	9
INVESTOR/DEVELOPER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	neg. 2.0% to 0.0%	2.5%	3.0%	9.00% to 10.50%	0.75% to 1.5%	10.50% to 11.50%	8.75% to 9.75%	9	50.0% to 70.0%	4.0% to 6.0%	$0.15 to $0.25	9

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

DALLAS OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization and sales comparison approach; uses effective rents; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% Years 1 & 2; 3.0% thereafter	3.0%	3.0%	9.00% to 12.00%	1.5% to 5.0%	10.50% to 13.00% (CBD); 10.00% to 12.00% (suburbs)	8.00% to 12.00%	9 to 12	60.0%	7.0% to 10.0%	$0.15 to $0.25	12
INVESTMENT ADVISOR ✦ Forecast Period: 3, 5, and 10 years Relies on DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; no longer applies rent spikes.	neg. 2.0% to 0.0%	3.0%	3.0%	9.00% to 10.00%	1.5%	11.00% to 12.00%	9.00% to 10.50%	6 to 9	60.0% to 75.0%	5.0%	$0.25	9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	neg 10.0% to 0.0%	3.0%	3.0%	10.00% to 11.00%	2.0% to 4.0%	11.50% to 12.00%	9.50% to 10.00%	6 to 9	65.0%	10.0% to 15.0%	$0.20 to $0.25	6 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; no longer applies a rent spike; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	10.00%	2.5%	11.00%	12.00%	9	67.0%	1.0%	$0.10 to $0.25	—
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	3.0%	3.0%	3.0%	10.00%	2.0%	11.50%	9.75% to 10.00%	6	60.0%	2.0% to 3.0%	$0.10	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 8 years Uses both DCF and direct capitalization; also looks at discount to replacement cost; relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	—	3.0%	3.0%	9.00% to 11.00%	2.0%	11.00% to 13.00%	9.00% to 11.00%	6	60.0%	4.0%	$0.25	6

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

HOUSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization and sales comparison approach; uses effective rents; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 3.0%	3.0% to 3.5%	3.0%	9.00% to 12.00%	1.5% to 5.0%	10.00% to 12.00%	9.00% to 12.00%	6 to 10	60.0% to 65.0%	8.0% to 10.0%	$0.15 to $0.25	12
INVESTMENT ADVISOR ✦ Forecast Period: 3, 5, and 10 years Relies on DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	neg. 2.0% to 0.0%	3.0%	3.0%	9.00% to 10.50%	1.5%	10.50% to 12.00%	9.50% to 11.00%	6 to 9	60.0% to 75.0%	5.0%	$0.30	9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	2.0%	2.5%	2.5%	10.75%	2.0% to 3.0%	11.00% to 11.50%	9.75% to 10.75%	6	70.0%	7.0%	$0.10 to $0.15	6 to 8
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	9.50% to 10.00%	2.0%	11.50% to 12.00%	10.00% to 10.50%	9	65.0%	3.0% to 8.0%	$0.10 to $0.20	—
PRIVATE INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses effective rent after all concessions are extracted.	neg. 5.0%	1.0%	1.0%	11.00%	2.0%	13.50%	11.00%	9	65.0%	5.0%	$0.20	9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	neg. 5.0% to 0.0%	3.0%	3.0%	10.00% to 10.50%	2.0% to 4.0%	11.50% to 12.00%	9.50% to 10.50%	6	65.0%	10.0% to 15.0%	$0.20 to $0.25	4 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 8 years Uses both DCF and direct capitalization; also looks at discount to replacement cost; relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0% to 4.0%	3.0%	9.50% to 11.00%	2.0%	10.50% to 13.50%	8.00% to 10.00%	6	60.0%	5.0% to 7.0%	$0.25	6 to 9

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

LOS ANGELES OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
PENSION FUND ADVISOR ✦ Forecast Period: 7 to 10 years Relies on DCF; looks at value indicated by direct capitalization; uses face rents and reflects concessions when they are scheduled to occur; does not tie income or expenses directly to CPI.	1.0% to 3.0%	3.0%; taxes 2.0%	2.5% to 3.5%	9.00% to 10.50%	1.5% to 3.0%	11.00% to 14.00%	9.00% to 10.50%	6 to 12	60.0% to 70.0%	5.0% to 12.0%	$0.10 to $0.50	8 to 10
REAL ESTATE ADVISOR ✦ Forecast Period: 5, 7, and 10 years Buys turnaround situations as well as rotational plays in suburban markets; uses both DCF and direct capitalization; relies on DCF; uses face rents in DCF model, net effective rents in direct capitalization.	0.0%	2.5%	3.0%	8.00% to 10.00%	1.5% to 2.0%	10.00% to 12.00%	8.00% to 10.00%	2 to 12	60.0%	10.0% to 14.0%	$0.30 to $1.00	6
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses DCF, direct capitalization, and price per square foot; does extensive sensitivity analysis and correlates all value indications; uses face rents; IRRs for Class-A properties are 11.00% to 13.00%; investors looking at IRRs again; cash-on-cash analysis is becoming important with perceived risk in economy and current interest rates.	3.0%	3.0%	3.0%	9.00%	2.0%	11.00% to 15.00%	7.00% to 10.00%	4 to 6	65.0% to 75.0%	5.0% to 15.0%	$0.10 to $0.20	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	8.25% to 9.00%	1.0% to 2.0%	10.50% to 10.75%	7.00% to 9.00%	6 to 9	70.0%	2.0%	$0.15 to $0.20	—
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Years 1 & 2; 3.0% thereafter	2.0%	2.0% to 3.0%	9.00% to 10.50%	0.5% to 5.0%	9.50% to 12.00%	8.00% to 11.00%	9 to 18	65.0% to 75.0%	2.0% to 5.0%	$0.10 to $0.25	6 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	neg. 5.0% to 0.0%	3.5%	3.0%	8.50% to 11.00%	1.0% to 2.0%	10.00% to 12.50%	8.00% to 10.50%	3 to 12	65.0%	5.0% to 12.0%	$0.10 to $0.40	3 to 9
INVESTOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; typically looks for Class-A, 150,000-square-foot and larger properties in tier-1 locations; likes opportunities for turnaround, repositioning, and select renovation projects.	1.0% to 3.0%	2.5%	2.0%	9.50% to 10.50%	1.0%	12.00% to 12.50%	9.00% to 11.00%	5	75.0%	5.0%	Does not use	6 to 8

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

MANHATTAN OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTMENT BANKER ✦ Forecast Period: 10 years Strongest interest is in Midtown; selling expenses include transfer tax; uses both DCF and direct capitalization; leasing commissions equate to 32.0% of first-year rent plus 16.0% for inside broker on ten-year deals.	3.0%	3.0%	3.0%	8.50% to 10.00%	3.0%	10.00% to 11.50%	8.00% to 10.00%	6 to 9	70.0%	1.0% to 5.0%	$0.20 to $0.50	4 to 9
INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents; selling expenses include transfer tax.	0.0%	5.0%	—	9.00%	4.0%	10.00%	8.00%	4	70.0%	9.0%	$0.15	4 to 5
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Reflects NYC reassessment at 40.0% to 45.0% of sale price with tax rate increases of 5.0% per year; looks at DCF, direct capitalization, and price per square foot; selling expenses include transfer tax.	1.0%	3.0%	3.0%	8.00% to 9.50%	2.0% to 3.0%	10.00% to 11.00%	8.50% to 9.50%	6 to 9	60.0%	5.0%	$0.30 to $0.50	9 to 12
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commission, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur; selling expenses include transfer tax.	0.0% to 2.0%	3.0%	3.0%	9.50% to 10.00%	5.25%	11.00% to 11.50%	8.00% to 9.00%	8 to 12	65.0%	5.0%	$0.25 to $0.40	6 to 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; selling expenses exclude transfer tax which is ignored in analysis; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	7.50% to 10.00%	2.5% to 7.0%	9.00% to 12.00%	8.00% to 10.00%	6	65.0%	5.0%	$0.35 to $0.75	8
REAL ESTATE ADVISOR ✦ Forecast Period: 5, 7, and 10 years Uses both DCF and direct capitalization; relies on DCF; uses face rents in DCF model, net effective rents in direct capitalization; prefers Midtown and Times Square; selling expenses exclude transfer tax.	0.0%	3.0%	3.0%	8.00% to 10.00%	1.5% to 2.0%	10.00% to 12.00%	8.00% to 10.00%	6 to 18	50.0%	8.0%	$0.30 to $1.00	10

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

PACIFIC NORTHWEST OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Buys free and clear; interested in attractive, well-located Class-A properties; relies on DCF; uses direct capitalization as a check only; uses face rents and reflects concessions when they are scheduled to occur; underlying vacancy and credit loss may be lower based on occupancy, leases in place, and rollover risk; developmental preferred.	1.5%	3.0%	2.5%	9.50%	3.0% + any local tariffs	11.60%	9.25%	6	70.0%	6.0%	$0.25 to $0.50	6
INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	1.0%	3.0%	3.0%	8.50% to 9.50%	3.0%	10.25% to 11.75%	9.00% to 11.00%	3 to 12	75.0% to 80.0%	5.0% to 10.0%	Does not use	3 to 12
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses DCF, direct capitalization, and price per square foot; does extensive sensitivity analysis; reliance is on projections and IRRs; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	9.00% to 10.00%	2.0%	11.00% to 13.00%	8.75% to 10.00%	4 to 6	65.0% to 70.0%	5.0% to 10.0%	$0.15 to $0.20	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; may use a spike of 5.0% to 8.0% in various years.	3.0%	3.0%	3.0%	9.00% to 10.00%	2.0%	11.00% to 13.00%	8.75% to 10.00%	4 to 6	65.0% to 70.0%	5.0% to 10.0%	$0.15 to $0.20	6 to 9
INVESTOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur; prefers Puget Sound, Portland, Salt Lake City, and Reno.	Varies	2.0% to 4.0%	3.0%	9.50% to 10.00%	3.0% to 5.0%	10.75% to 13.00%	9.00% to 10.00%	6	70.0%	5.0% to 7.0%	$0.10 to $0.20	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Interested in Seattle and Portland; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rents after all concessions are extracted.	3.0%	3.0%	3.0%	9.00% to 10.00%	1.0% to 3.0%	10.50% to 14.00%	8.00% to 9.50%	6	70.0%	5.0%	$0.15 to $0.25	6

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

PHILADELPHIA OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
REIT ✦ Forecast Period: 7 years Focuses on NOI cap rate, DCF, and cash-on-cash return; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	1.5%	3.0%	2.5%	11.00%	3.0%	12.50%	11.50% to 12.00%	12	60.0% to 70.0%	10.0%	$0.15 to $0.30	6
REAL ESTATE ADVISOR ✦ Forecast Period: 11 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; no longer applies a rent spike.	0.0%	3.0%	3.0%	8.00% to 10.00%	1.0% to 2.0%	10.00% to 12.00%	8.00% to 10.00%	6 to 12	50.0%	12.0%	$0.30 to $1.00	6
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	0.0%	2.5%	2.0%	10.50%	2.0%	10.00% to 12.00%	10.50%	6	65.0%	5.0%	$0.20	6
REAL ESTATE ADVISOR ✦ Forecast Period: 7 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	2.5%	2.5%	2.5%	9.50% to 10.00%	3.0% to 6.0%	11.50% to 12.00%	9.00% to 9.50%	6	50.0%	10.0%	$0.15 to $0.20	12
OPPORTUNITY FUND INVESTOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; prefers suburbs.	0.0% Years 1 & 2; 3.0% thereafter	3.0%	3.0%	10.00%	3.0%	10.75%	10.00%	6	65.0%	2.0% to 5.0%	$0.25 to $0.50	—
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve (averaged to smooth out); does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	9.00% to 10.00%	2.0%	11.00% to 12.50%	9.00% to 10.50%	6 to 9	65.0%	5.0%	$0.15 to $0.25	6 to 9
REAL ESTATE INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 2.5% thereafter	2.5%	2.5%	10.50%	4.0%	11.25%	10.00%	7 to 9	60.0%	8.0%	$0.25	6 to 9

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

SAN FRANCISCO OFFICE MARKET–INVESTOR SURVEY RESPONSES*
Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 3.0% Years 2-4; 5.0% thereafter	3.0%	3.0%	9.50%	1.0% to 1.5%	10.00% to 10.50%	9.50%	6	60.0%	7.0%	$0.25	9
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization but relies on DCF; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%; taxes 2.0%	2.5% to 3.5%	8.50% to 10.50%	1.0% to 2.0%	11.00% to 14.00%	8.50% to 10.50%	5 to 15	50.0% to 70.0%	10.0%	$0.10 to $0.50	6 to 12
INVESTMENT ADVISOR ✦ Forecast Period: 3 to 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0%	3.0%	3.0%	10.00% to 12.50%	1.0% to 2.0%	12.50%	10.00%	12	45.0% to 55.0%	12.0% to 15.0%	$0.15 to $0.25	6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Buys turnaround situations as well as rotational plays in suburban markets; uses both DCF and direct capitalization; relies on DCF; uses face rents in DCF model, net effective rents in direct capitalization.	0.0%	3.0%	3.0%	8.00% to 10.00%	1.5% to 2.0%	10.00% to 12.00%	8.00% to 11.00%	6 to 18	40.0%	15.0%	$0.30 to $1.00	6 to 12
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Prefers CBD; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	8.50% to 9.50%	1.0%	10.00% to 11.50%	8.00% to 11.00%	8 to 12	65.0% to 75.0%	1.0% to 3.0%	$0.10 to $0.25	6 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% Years 1 & 2; 3.0% thereafter	3.0%	3.0%	9.50%	1.0% to 3.0%	10.75% to 11.00%	9.50% to 10.50%	8	60.0%	3.0% to 5.0%	$0.25 to $0.35	9 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	neg. 5.0% to 0.0%	4.5%	3.0%	8.00% to 10.50%	1.0% to 2.0%	9.00% to 13.00%	7.50% to 10.00%	3 to 7	70.0%	6.0% to 12.0%	$0.10 to $0.30	—
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rent after all concessions are extracted; uses a rent spike of 5.0% in years five and six in some submarkets.	0.0% Years 1-2; 2.0% Year 3; 3.0% Year 4; 5.0% Years 5-6; 3.0% thereafter	3.0%	3.0%	10.50% to 11.50%	2.0%	12.00%	9.25% to 10.00%	8 to 12	60.0%	7.0% to 9.0%	$0.15 to $0.30	—

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

SOUTHEAST FLORIDA OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
REIT ✦ Forecast Period: 5 to 10 years Core-plus buyer looking for mid-teen returns with moderate leverage; uses price per square foot, stabilized cap, and 10-year DCF as checks; uses face rents and reflects concessions when they are scheduled to occur.	2.0% to 3.0%	2.0% to 3.0%	2.5%	10.00% to 11.00%	2.0%	10.50% to 12.50%	9.00% to 11.00%	9 to 12	65.0%	5.0% to 7.0%	$0.25 to $0.50	9 to 12
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 10 years Relies on DCF and direct capitalization; contract rents above market are reduced to market for pricing; uses effective rents; in direct cap; capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	2.0% to 5.0%	3.0% to 3.5%	3.0% to 3.5%	9.00% to 10.00%	2.0%	10.50% to 12.00%	8.00% to 10.50%	4 to 8	75.0% to 80.0%	5.0% of noncredit space	$0.15 to $0.25	4 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	9.50% to 9.75% (CBD); 10.00% to 10.50% (suburbs)	2.0% to 4.0%	10.75% to 11.25% (CBD); 11.75% to 12.25% (suburbs)	9.50% to 10.25%	6 to 9	65.0% to 70.0%	8.0% to 11.0%	$0.20 to $0.30	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% Year 1	3.0%	3.0%	9.50% to 10.50%	2.0%	11.00% to 12.00%	9.00% to 11.00%	9	65.0% to 70.0%	2.0% to 4.0%	$0.15 to $0.20	—
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 8 years Uses both DCF and direct capitalization; also looks at discount to replacement cost; uses face rents and reflects concessions when they are scheduled to occur.	—	3.0% to 4.0%	3.0%	9.50% to 11.00%	2.0%	11.00% to 12.00%	8.00% to 10.00%	6	65.0%	4.0%	$0.25	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization and sales comparison approaches as secondary analytical tools; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 1.0% Year 1; 2.0% Year 2; 3.0% thereafter	3.0%	3.0%	9.75% (Class A) to 11.00% (Class B)	2.0% to 4.0%	10.75% to 11.75%	10.00%	9	60.0%	10.0%	$0.20 to $0.30	6 to 24

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

WASHINGTON, DC METRO–THE DISTRICT OFFICE MARKET*
INVESTOR SURVEY RESPONSES
Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	9.00% to 10.00%	2.0%	10.00% to 12.00%	8.00% to 10.50%	6	70.0%	2.0% to 5.0%	$0.10 to $0.20	6 to 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	8.50% to 10.50%	1.5% to 3.0%	11.00%	8.00% to 9.50%	6	65.0%	5.0%	$0.15 to $0.25	2 to 6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses present value analysis of effective rents; does not use rent spikes.	2.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	8.50% to 9.00%	2.0% to 3.0%	10.00% to 10.50%	8.00% to 8.50%	3 to 6	60.0% to 70.0%	1.0% to 2.0%	$0.15 to $0.20	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	0.0%	3.0%	3.0%	8.00% to 10.00%	1.5% to 2.0%	10.00% to 12.00%	8.00% to 10.00%	6 to 12	60.0%	8.0% to 14.0%	$0.30 to $1.00	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	8.25% to 8.50%	2.0%	9.50% to 10.50%	8.00%	6	70.0%	1.0%	$0.15	—
PENSION FUND ADVISOR ✦ Forecast Period: 7 to 10 years Relies on DCF, direct capitalization, and price per square foot; does not use rent spikes; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	1.0%	3.0%	3.0%	8.25% to 9.50%	2.0% to 3.0%	10.00% to 11.00%	8.00% to 9.00%	6 to 12	60.0%	5.0%	$0.30 to $0.40	9 to 12
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing	0.0% Year 1; 2.0% Years 2-3; 3.0% thereafter	Averages 2.5% over holding period	2.5%	9.00%	2.0%	9.00% to 9.50%	7.50% to 8.00%	6	65.0%	3.0%	$0.20 to $0.50	6

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

WASHINGTON, DC METRO–NORTHERN VIRGINIA OFFICE MARKET*
INVESTOR SURVEY RESPONSES
Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	9.50% to 10.50%	2.0%	11.00% to 12.50%	9.00% to 10.50%	6 to 8	65.0%	5.0%	$0.15 to $0.25	6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	8.50% to 11.00%	1.5% to 3.0%	10.50% to 12.00%	8.50% to 10.50%	6 to 12	65.0%	3.0% to 10.0%	$0.15 to $0.25	2 to 6
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 10 years Mainly uses DCF; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	0.0% Year 1; 2.0% Years 2-3; 3.0% thereafter	Average 2.5% over the holding period	2.5%	9.50%	2.5%	9.50% to 10.00%	9.25% to 9.50%	6 to 8	60.0%	5.0%	$0.20 to $0.50	8
REAL ESTATE INVESTOR ✦ Forecast Period: 3 to 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0%	3.0%	3.0%	9.50% to 10.00%	2.0% to 3.0%	12.50% to 13.50%	9.00% to 10.00%	6	65.0%	5.0%	$0.10 to $0.20	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; also relies on price per square foot; assumes a flat rent and higher credit loss for tech tenants.	0.0% Years 1 to 3	3.0%	3.0%	10.00% to 10.50%	2.0% to 3.0%	11.50% to 12.00%	9.50% to 10.50%	6 to 12	50.0%	5.0% to 8.0%	$0.30 to $0.40	9 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	8.00% to 10.00%	1.5% to 2.0%	10.00% to 12.00%	8.00% to 10.00%	6 to 18	50.0%	8.0% to 14.0%	$0.30 to $1.00	3 to 6

* Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

WASHINGTON, DC METRO–SUBURBAN MARYLAND OFFICE MARKET
INVESTOR SURVEY RESPONSES
Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	9.50% to 10.50%	2.0%	11.00% to 12.50%	9.00% to 10.50%	6 to 9	70.0%	5.0%	$0.15 to $0.25	6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	9.00% to 11.00%	1.5% to 3.0%	11.00% to 11.50%	8.50% to 10.00%	6	65.0%	3.0% to 8.0%	$0.15 to $0.25	2 to 6
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rent after all concessions are extracted; does not use rent spikes.	3.0%	3.0%	3.0%	8.50% to 9.50%	2.0%	9.00% to 10.00%	7.50% to 8.00%	6	65.0%	5.0%	$0.15 to $0.30	—
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	0.0% to 2.0% Years 1 & 2; 3.0% thereafter	2.0% to 3.0%	2.0% to 3.0%	9.50% to 10.00%	2.0% to 3.0%	11.25% to 11.75%	9.25% to 9.75%	6 to 9	60.0% to 70.0%	1.0% to 2.0%	$0.10 to $0.20	6 to 9
REAL ESTATE INVESTOR ✦ Forecast Period: 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0%	3.0%	3.0%	8.75% to 9.75%	2.0%	11.00% to 12.00%	9.00% to 9.50%	6 to 12	60.0%	5.0%	$0.30 to $0.40	12 to 18
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0%	3.0%	3.0%	8.00% to 10.00%	1.5% to 2.0%	11.00% to 14.00%	8.00% to 10.00%	6 to 18	50.0%	10.0%	$0.30 to $1.00	6 to 12

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

NATIONAL FLEX/R&D MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; focuses on price per square foot for newer product.	0.0%	3.0%	3.0%	9.00% to 10.00%	2.0% to 3.0%	11.50% to 12.50%	9.00% to 11.00%	6 to 9	50.0%	5.0% to 10.0%	$0.20 to $0.25	9 to 12
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Focuses on portfolio purchases; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 3.0%	3.0%	3.0%	8.50% to 9.50%	1.0% to 3.0%	9.50% to 11.00%	7.50% to 9.00%	6 to 12	65.0% to 75.0%	0.25% to 1.0%	$0.10 to $0.25	6 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	10.20% to 10.75%	2.0% to 3.0%	11.00% to 12.00%	10.00% to 11.00%	6 to 12	75.0%	5.0% to 8.0%	$0.10 to $0.15	4 to 6
REIT ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses rent spike of 5% in year three.	0.0% Years 1 & 2; greater than CPI Year 3; CPI thereafter	3.0%	3.0%	9.50% to 10.00%	2.0% to 4.0%	11.00% to 11.50%	9.50%	6 to 15	70.0%	5.0%	$0.10 to $0.15	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	9.25% to 9.75%	2.0% to 3.0%	10.50% to 11.50%	9.50% to 10.50%	6 to 9	65.0% to 70.0%	1.0% to 2.0%	$0.10 to $0.15	—
MORTGAGE BANKER ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	2.0%	3.0%	3.0%	9.00% to 9.50%	2.0% to 3.0%	10.00% to 10.50%	8.25% to 8.75%	9	65.0%	10.0%	$0.10 to $0.15	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	neg. 2.0% to 3.0%	3.0%	3.0%	9.00% to 10.00%	1.0% to 4.0%	12.00%	10.50%	Does not use	50.0% to 65.0%	6.0% to 10.0%	$0.05 to $0.20	6 to 8
DEVELOPER/INVESTOR ✦ Forecast Period: 3 to 10 years Uses both DCF and direct capitalization; relies on DCF; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Years 1 and 2; 2.0% Year 3; 3.0% thereafter	3.0%	3.0%	9.00% to 10.50%	1.5% to 7.5%	11.50% to 13.00%	8.00% to 11.00%	8 to 12	65.0%	3.0% to 10.0%	$0.05 to $0.25	8 to 12

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

NATIONAL WAREHOUSE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; focuses on price per square foot for newer product.	0.0%	3.0%	3.0%	8.75% to 9.50%	2.0% to 3.0%	9.75% to 10.50%	8.50% to 9.25%	9 to 12	60.0%	5.0%	$0.15 to $0.20	9 to 12
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Focuses on portfolio purchases; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 3.0%	3.0%	3.0%	8.50% to 9.50%	1.0% to 3.0%	9.50% to 11.00%	7.50% to 9.00%	6 to 12	65.0% to 75.0%	0.25% to 1.0%	$0.10 to $0.25	6 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	10.50% to 11.00%	2.0% to 3.0%	10.00% to 11.00%	9.00% to 10.00%	6 to 12	75.0%	5.0% to 8.0%	$0.10 to $0.15	4 to 6
REIT ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% Years 1 & 2; CPI thereafter	3.0%	3.0%	9.50% to 10.00%	2.0% to 4.0%	10.50% to 11.00%	9.00% to 9.50%	6 to 15	70.0%	5.0%	$0.10 to $0.15	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	8.60% to 9.25%	2.0% to 3.0%	10.00% to 10.50%	7.50% to 9.50%	6 to 8	65.0% to 70.0%	0.5% to 4.0%	$0.05 to $0.15	—
MORTGAGE BANKER ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	3.0%	3.0%	3.0%	8.50% to 9.00%	2.0% to 3.0%	9.00% to 9.50%	7.50% to 8.00%	6	65.0%	5.0%	$0.05 to $0.15	2 to 4
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	neg. 2.0% to 3.0%	3.0%	3.0%	8.00% to 9.25%	1.0% to 4.0%	10.00% to 11.00%	8.00% to 9.25%	Does not use	50.0% to 65.0%	5.0% to 9.0%	$0.05 to $0.20	6 to 8
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses DCF and face rents; does not use rent spikes; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	2.0%	3.0%	2.5%	8.75%	1.5% to 2.5%	9.25%	8.25%	9	75.0%	3.0%	$0.07 to $0.10	5

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

NATIONAL APARTMENT MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	CHANGE RATES		VACANCY	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	RESERVE	MARKETING TIME
	Market Rent	Expenses	Total Vacancy	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Per Unit	Months
INVESTMENT BANKER ✦ Forecast Period: 5 years Prefers DCF analysis; in direct cap, capitalizes NOI after capital replacement reserve; does not use a separate structural replacement reserve.	0.0% to 2.0%	2.0% to 3.0%	5.0% to 9.0%	7.25% to 9.25%	2.0% to 3.0%	10.00% to 11.00%	7.00% to 9.00%	$225	6 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; does not use a separate structural replacement reserve; investments are concentrated in Southern California.	0.0% Year 1; 2.0% to 3.0% Year 2; 3.0% to 4.0% thereafter	Average 2.5% to 3.5% over the forecast period	5.5%	8.00%	1.5% for deals greater than $20 million; 2.0% otherwise	10.00%	7.50%	$300	2 to 4
DOMESTIC PENSION FUND ✦ Forecast Period: 1 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; reflects concessions as they occur, may burn off on new property during lease-up period in strong market; uses a separate structural replacement reserve.	0.0% to 3.0%	3.0%	5.0% to 12.0%	7.50% to 9.00%	2.0% to 3.0%	10.00% to 11.00%	6.00% to 9.00%	$250 to $400	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 7 years Strong interest in this product nationwide; applies management fee of 3.0% to 4.0%; uses DCF and direct capitalization; emphasis is on initial returns and per unit pricing; in direct cap, capitalizes NOI before capital replacement reserve.	0.0%	3.0%	5.0% to 7.0%	7.00% to 7.75%	2.0% to 3.0%	9.00% to 10.00%	7.00% to 8.00%	$250 to $300	6
REIT ✦ Forecast Period: 10 years Specializes in this market; relies on DCF and direct capitalization; capitalizes cash flow after capital replacement reserve; uses a separate structural replacement reserve of $100 to $400 per unit.	2.0% to 5.0%	2.5% to 3.0%	Varies	8.00%	1.0%	11.00%	7.50%	$150 to $350	5
REAL ESTATE ADVISOR ✦ Forecast Period: 5 and 10 years Relies on DCF, also uses direct capitalization; residual cap rate is 25 basis points over the going-in cap rate on a 5-year holding period, 50 basis points over the going-in cap rate on a 10-year holding period; uses an additional reserve for capital items.	0.0% to 3.0%	3.0%	7.0% to 25.0%	7.75% to 8.75%	1.5% to 2.5%	9.00% to 10.00%	6.50% to 8.50%	$200 to $300	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; buys 150- to 400-unit apartment complexes in first- and second-tier markets nationwide.	3.0%	3.0%	5.0% to 7.0%	8.50% to 9.50%	2.0%	11.00% to 12.50%	7.75% to 9.25%	$200 to $250	5
PENSION FUND ADVISOR ✦ Forecast Period: 7 to 10 years Specializes in this market; increases annual rent in lieu of lease-by-lease analysis; uses management fee of 3.0% to 3.5% plus leasing costs and reserve (actually funded); relies on IRR primarily; also uses sales comparison and cost approaches; uses a separate structural replacement reserve of $150 per unit.	2.5% to 3.25%	3.25%	8.0% to 10.0% (at least)	7.50% to 8.50%	2.0%	10.00% to 10.50%	7.50% to 8.25%	$275 to $400	4

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

NATIONAL NET LEASE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	PREFERRED PROPERTY TYPE	CHANGE RATES		PREFERRED CREDIT RATING	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	UNDERLYING VACANCY & CREDIT LOSS	RESERVE	MARKETING TIME
		Market Rent	Expenses		Cap Rate	Selling Expenses	Free & Clear	Free & Clear		Per Square Foot	Months
PRIVATE INVESTMENT FIRM Primary valuation method is DCF analysis; also uses direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	Office, retail R&D, industrial, banks, restaurants	Varies flat, fixed, or CPI	0.0%	Below & above investment grade	(1)	(1)	Depends on lease term	7.50% to 9.50%	0.0%	None	Typically holds properties
PRIVATE INVESTMENT FIRM Primary valuation method is direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; also uses DCF analysis; growth rates for both market rent and expenses average 2.5% over the forecast period.	Office, industrial	2.5% to 3.0%	2.0% to 3.0%	Below & above investment grade	9.50% to 10.00%	3.0% to 4.0%	10.00% to 11.00%	7.50% to 9.00%	0.0%	$0.10 to $0.20	4 to 5
PRIVATE INVESTMENT FIRM Primary valuation method is sales comparison approach; also uses DCF analysis.	Drug stores	2.5%	3.0%	BBB- to AA	9.80%	3.0%	11.00%	8.30%	0.0%	None	2
REIT Primary valuation method is DCF analysis; also uses direct capitalization and sales comparison; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	Office, industrial, big-box retail	3.0%	3.0%	B+ to AAA	9.50%	2.0%	9.50% to 10.50%	8.00% to 10.00%	0.0%	$0.15 (Level)	4
INVESTORS AND BROKERS Primary valuation method is direct capitalization; also uses sales comparison approach.	Drug stores, retail	(2)	(2)	BBB to A+	(2)	(2)	(2)	9.00%	0.0%	None	(2)
INVESTMENT ADVISOR Primary valuation method is DCF analysis; also uses direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	Office, industrial, retail	2.0%	2.0%	B+ to AAA	8.00% to 10.00%	(2)	10.00% to 12.00%	8.00% to 10.00%	0.0%	$0.10 to $0.20 (NN leases only)	6
PRIVATE INVESTOR Primary valuation method is direct capitalization; also uses DCF analysis; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	Retail, restaurant	(2)	(2)	BB to A	(2)	3.0%	10.00% to 12.00%	(2)	7.0% to 8.0%	Yes; if landlord has replacement responsibility	6 to 12
REAL ESTATE SERVICE FIRM Primary valuation method is DCF; also uses direct capitalization; prepares valuations subject to financing.	Drug stores	3.0%	3.0%	BBB	10.00%	2.0% to 3.0%	10.00% to 11.00%	8.00% to 9.00%	5.0%	$0.10 to $0.15	4 to 6

(1) Does not consider any residual value
(2) Did not disclose

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

NATIONAL DEVELOPMENT LAND MARKET—INVESTOR SURVEY RESPONSES*

Second Quarter 2003

	PROPERTY TYPES	ABSORPTION CRITERIA	CHANGE RATES			DISCOUNT RATE (IRR)		FORECAST VALUE CHANGE NEXT 12 MONTHS		MARKETING PERIOD
		Years	Lot Prices	Development Costs	CPI	Free & Clear	Subject to Financing	Range	Average	Months
DEVELOPER/BROKER Primary method of pricing is comparable sales; analysis is prepared subject to financing; project size ranges from 3 to 100 acres; value of land currently under development totals $10.0 million; development is concentrated in Northwest suburban Chicago.	Industrial (95.0%)	1 to 5	10.0%	Based on a % of specific line item	4.0%	11.00%	15.00%	8.0% to 12.0%	10.0%	36 to 48
DEVELOPER Primary method of pricing is DCF; analysis is prepared subject to financing; project sizes are 1,000 acres and greater; value of land currently under development ranges from $50.0 to $75.0 million; development is concentrated in Colorado and the Western United States.	Residential, office, industrial	1 to 5	3.0% to 5.0%	3.0% to 4.0%	2.0% to 3.0%	—	15.00% to 20.00%	0.0%	0.0%	36 to 60
DEVELOPER Primary method of pricing is comparable sales; analysis is prepared free and clear of financing; project size ranges from 50 to 250 acres; value of land currently under development totals $9.0 million; development is concentrated in the Midwest region of the United States.	Industrial, office, medical	1 to 20	2.5%	2.5%	2.5%	15.00%	20.00%	neg. 10.0%	—	360
DEVELOPER/INVESTOR Primary methods of pricing are DCF and comparable sales; analyses are prepared free and clear of financing; project size ranges from 5 to 150+ acres; value of land currently under development totals $25.0 million; development is concentrated in Chicago, California, and Texas.	Distribution, office	1 to 5	Less than CPI	3.0% to 5.0%	2.5%	15.00% to 18.00%	25.00% to 50.00%	Down	—	42 to 66
DEVELOPER Primary method of pricing is comparable sales; analysis is prepared subject to financing; value of land currently under development is $100.0 million; development is concentrated in Arizona and California.	Residential, retail	1 to 5	4.0%	4.0%	4.0%	25.00%	—	5.0%	—	24 to 72
DEVELOPER Uses pricing method other than DCF or comparable sales; analysis is prepared free and clear of financing; project size is 18 acres; value or land currently under development totals $5.0 million; development is concentrated in the Midwest region of the United States.	—	6 to 10	12.0%	Based on a % of revenue	—	20.0%	—	up to 12.0%	—	22
DEVELOPER Primary method of pricing is bulk sales analysis project size ranges from 80 to 614 acres; value of land currently under development totals $80.0 million; development is concentrated in the San Francisco Bay area and Sacramento and Bakersfield, California.	Master-planned single-family	1 to 5	More than CPI	—	25.0%	—	30.0%	25.0%	—	2 to 3

*Representative sample; due to space constraints, not all responses are included.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

INVESTMENT AND PROPERTY CHARACTERISTICS: OFFICE MARKETS

Second Quarter 2003

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		STRUCTURAL VACANCY		YEARS TO STRUCTURAL VACANCY		TIs - NEW (PSF)		TIs - RENEWAL (PSF)	
Market	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average
National CBD	(10.00%)-5.00%	(1.00%)	70.00%-105.00%	88.75%	4.00%-15.00%	8.11%	0-5	2.4	$10.00-$45.00	$27.50	$4.00-$20.00	$11.06
National Suburban	(10.00%)-5.00%	(1.85%)	70.00%-120.00%	92.05%	4.00%-11.00%	7.13%	0-5	2.3	$0.00-$35.00	$18.54	$0.00-$20.00	$8.04
Atlanta	(10.00%)-3.00%	(1.83%)	70.00%-99.00%	87.20%	7.50%-12.00%	10.19%	0-4	2.4	$10.00-$30.00	$15.38	$5.00-$10.00	$7.85
Boston	(20.00%)-5.00%	(3.38%)	60.00%-100.00%	86.00%	3.00%-10.00%	8.14%	0-7	2.8	$0.00-$50.00	$26.00	$0.00-$25.00	$11.22
Chicago	(10.00%)-3.00%	(1.75%)	70.00%-120.00%	89.58%	6.00%-12.00%	8.87%	0-6	3.3	$10.00-$50.00	$29.04	$5.00-$25.00	$13.05
Dallas	(10.00%)-5.00%	0.58%	65.00%-100.00%	82.50%	3.00%-15.00%	8.75%	0-3	1.7	$10.00-$20.00	$15.50	$3.00-$15.00	$7.00
Houston	(5.00%)-15.00%	2.90%	60.00%-110.00%	83.93%	5.00%-12.00%	7.10%	0-2	0.8	$8.00-$20.00	$13.50	$3.00-$10.00	$5.33
Los Angeles	(10.00%)-5.00%	(0.56%)	65.00%-100.00%	87.17%	5.00%-15.00%	8.50%	0-5	2.1	$10.00-$45.00	$21.67	$5.00-$15.00	$8.61
Manhattan	(5.00%)-10.00%	0.10%	45.00%-110.00%	83.33%	5.00%-10.00%	6.36%	0-4	1.5	$30.00-$45.00	$37.50	$5.00-$20.00	$11.67
Pacific Northwest	1.50%-2.00%	1.83%	80.00%-110.00%	98.13%	4.00%-7.00%	5.50%	0.5-3	1.9	$10.00-$25.00	$18.92	$5.00-$10.00	$6.70
Philadelphia	(5.00%)-2.00%	(0.25%)	60.00%-100.00%	85.50%	5.00%-12.00%	7.17%	1-2	1.7	$14.00-$28.00	$20.50	$5.00-$15.00	$7.20
San Francisco	(15.00%)-10.00%	(3.31%)	60.00%-110.00%	87.50%	3.00%-15.00%	8.57%	2-7	3.8	$0.00-$50.00	$27.81	$0.00-$20.00	$9.38
Southeast Florida	(5.00%)-2.00%	(0.50%)	85.00%-110.00%	95.00%	7.00%-11.00%	8.50%	1-5	2.2	$10.00-$27.00	$17.90	$5.00-$15.00	$9.70
Washington, DC Metro												
The District	0.00%-10.00%	2.67%	80.00%-115.00%	98.61%	5.00%-8.00%	5.83%	0-3	1.0	$3.00-$60.00	$30.67	$0.00-$35.00	$14.83
Northern Virginia	(30.00%)-3.00%	(2.14%)	75.00%-120.00%	94.44%	5.00%-14.00%	6.93%	0-4	1.7	$3.00-$50.00	$26.75	$0.00-$25.00	$12.38
Suburban Maryland	0.00%-10.00%	1.75%	85.00%-115.00%	97.81%	5.00%-12.00%	7.10%	0-3	0.9	$3.00-$50.00	$25.08	$0.00-$25.00	$11.33

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

INVESTMENT AND PROPERTY CHARACTERISTICS: NATIONAL MARKETS

Second Quarter 2003

	Forecast Value Change Next 12 Months		Price as % of Replacement		Class-A+ and A Malls IRRs		Class-A+ and A Malls OAR		Class-B+ and B Malls IRRs		Class-B+ and B Malls OARs		Stabilized Occupancy	
Market	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average
Regional Mall	0.00%-7.00%	3.60%	85.00%-150.00%	109.00%	9.75%-12.00%	10.68%	7.25%-9.50%	7.88%	11.00%-13.50%	11.97%	8.50%-11.00%	9.47%	85.00%-99.00%	92.14% (Class-B to A+)
Power Center	0.00%-0.00%	0.00%	80.00%-115.00%	100.00%									93.00%-97.00%	95.20%
Strip Shopping Center	(5.00%)-5.00%	1.06%	80.00%-125.00%	102.50%									85.00%-97.00%	93.86%

	Forecast Value Change Next 12 Months		Price as % of Replacement		Finished Space %		TIs - New (PSF/Unit)		TIs - Renewal (PSF/Unit)	
Market	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average
Industrial										
Flex/R&D	(10.00%)-5.00%	1.00%	80.00%-110.00%	100.95%	5.00%-100.00%	37.19%	$0.00-$15.00	$4.03	$0.00-$5.00	$1.41
Warehouse	(5.00%)-5.00%	1.79%	80.00%-120.00%	103.64%	0.00%-15.00%	7.17%	$0.00-$10.00	$2.27	$0.00-$1.00	$0.40
Apartment	(5.00%)-5.00%	1.46%	80.00%-125.00%	102.14%						

PRICEWATERHOUSECOOPERS

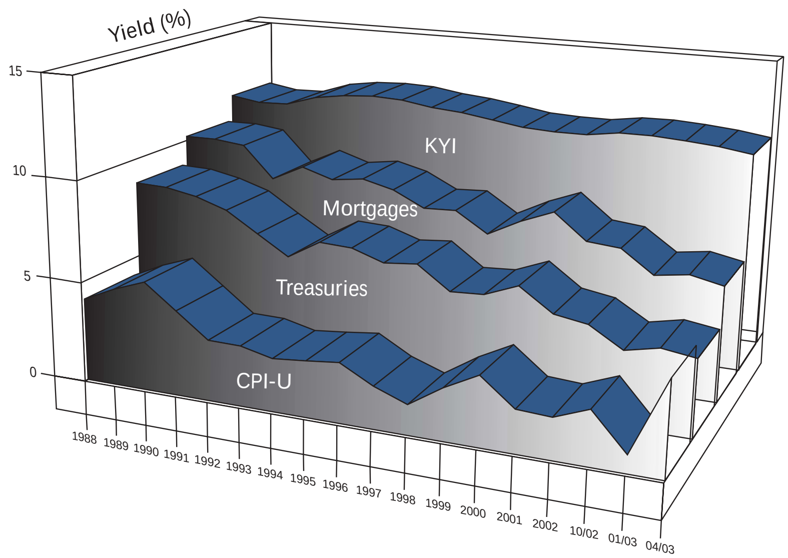
Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

YIELD COMPARISONS
April 1, 2003

	1998 AVERAGE	1999 AVERAGE	2000 AVERAGE	2001 AVERAGE	2002 AVERAGE	2002 OCTOBER	2003 JANUARY	2003 APRIL
Korpacz Yield Indicator (KYI)[a]	11.35%	11.28%	11.29%	11.54%	11.56%	11.47%	11.35%	11.10%
Long-Term Mortgages[b]	6.93%	7.76%	8.43%	7.16%	7.02%	5.90%	6.15%	5.81%
10-Year Treasuries[c]	5.34%	5.45%	6.10%	4.96%	4.71%	3.71%	4.07%	3.84%
Consumer Price Index Change[d]	1.48%	2.54%	3.41%	2.11%	2.02%	2.67%	0.88%	4.62%
SPREAD TO KYI (Basis Points)								
Long-Term Mortgages	442	352	286	438	454	557	520	529
10-Year Treasuries	602	583	519	658	685	776	728	726
Consumer Price Index Change	987	874	788	943	954	880	1047	648

a. A composite IRR average of the markets surveyed.
b. 10-year or longer term for commercial and industrial property. Source: Crittenden Publishing, Inc.; compiled by PricewaterhouseCoopers LLP.
c. Source: Federal Reserve; the annual average change is the mean of the four corresponding quarters.
d. Source: U.S. Department of Labor; quarterly changes are annualized based on the index change from the prior quarter; the annual average change is the mean of the four corresponding quarters.

COMPARATIVE YIELDS
April 1, 2003



DIVIDEND COMPARISONS
April 1, 2003

	1998 AVERAGE	1999 AVERAGE	2000 AVERAGE	2001 AVERAGE	2002 AVERAGE	2002 OCTOBER	2003 JANUARY	2003 APRIL
Korpacz Dividend Indicator (KDI)[a]	9.08%	9.13%	9.14%	9.42%	9.55%	9.50%	9.44%	9.30%
Equity REITs[b]	6.01%	7.76%	7.20%	6.40%	6.70%	7.01%	7.05%	7.21%
S&P 500[c]	1.57%	1.28%	1.13%	1.33%	1.60%	1.95%	1.81%	1.91%
SPREAD TO KDI (Basis Points)								
Equity REITs	307	137	194	302	285	249	230	209
S&P 500	751	785	801	809	795	755	763	739

a. A composite OAR (initial rate of return in an all-cash transaction) average of the markets surveyed.
b. Source: National Association of Real Estate Investment Trusts; average annualized dividend yield calculated by PricewaterhouseCoopers LLP; dividend yields are as of the last day of the prior quarter.
c. Source: Standard & Poors; average annual dividend yield calculated by PricewaterhouseCoopers LLP; dividend yields are quarterly yields as of the last day of the prior quarter.

INSTITUTIONAL-GRADE VS. NONINSTITUTIONAL-GRADE PROPERTY RATES

Second Quarter 2003

	INSTITUTIONAL				NONINSTITUTIONAL				SPREAD TO INSTITUTIONAL	
	IRRs		OARs		IRRs		OARs		AVERAGE IRR	AVERAGE OAR
Market	Range	Average	Range	Average	Range	Average	Range	Average	Basis Points	Basis Points
National Regional Mall	10.00%-12.50%	11.19%	7.25%-10.00%	8.63%	11.75%-17.50%	14.22%	9.25%-15.00%	11.33%	303	270
National Power Center	9.50%-12.50%	11.17%	8.50%-10.00%	9.35%	NA	NA	NA	NA	NA	NA
National Strip Shopping Center	8.50%-13.00%	10.76%	7.00%-11.50%	9.33%	9.50%-14.00%	11.93%	9.00%-13.50%	10.38%	117	105
National CBD Office	9.00%-13.00%	10.88%	7.25%-11.00%	9.34%	10.00%-15.00%	12.83%	9.00%-14.00%	11.50%	195	216
National Suburban Office	9.50%-13.00%	11.13%	8.00%-12.00%	9.80%	10.50%-15.00%	12.71%	9.00%-14.50%	11.43%	158	163
Atlanta Office	9.00%-13.00%	11.13%	8.60%-11.00%	9.76%	9.75%-14.50%	12.56%	9.50%-12.50%	11.19%	143	143
Boston Office	9.00%-13.00%	11.01%	7.50%-11.25%	9.25%	10.50%-14.50%	12.75%	8.50%-12.75%	10.71%	174	146
Chicago Office	9.00%-13.00%	10.83%	7.50%-11.00%	9.13%	10.75%-14.50%	12.57%	9.00%-12.50%	10.49%	174	145
Dallas Office	10.00%-13.00%	11.54%	8.00%-12.00%	10.23%	11.00%-16.50%	13.67%	8.75%-15.00%	11.75%	213	152
Houston Office	10.00%-13.50%	11.79%	8.00%-12.00%	10.18%	11.50%-16.50%	14.06%	9.75%-15.00%	12.16%	227	198
Los Angeles Office	9.50%-15.00%	11.53%	7.00%-11.00%	9.21%	11.50%-20.50%	14.80%	9.00%-13.00%	11.05%	327	184
Manhattan Office	9.00%-12.00%	10.67%	8.00%-10.00%	8.64%	9.70%-13.50%	11.78%	8.50%-11.50%	9.71%	111	107
Pacific Northwest Office	10.25%-14.00%	11.79%	8.00%-11.00%	9.38%	11.25%-18.00%	14.43%	9.00%-13.00%	10.78%	264	140
Philadelphia Office	10.00%-12.50%	11.43%	8.00%-12.00%	10.04%	11.25%-13.50%	12.38%	10.00%-11.50%	10.63%	95	59
San Francisco Office	9.00%-14.00%	11.36%	7.50%-11.00%	9.49%	10.50%-18.50%	14.10%	8.75%-12.00%	10.88%	274	139
Southeast Florida Office	10.00%-12.50%	11.21%	8.00%-11.50%	9.80%	—[a]	—[a]	—	—	—	—
Washington, DC Metro Office										
The District	9.00%-12.00%	10.29%	7.00%-10.50%	8.29%	—[a]	—[a]	—	—	—	—
Northern Virginia	9.50%-13.50%	11.34%	8.00%-11.00%	9.54%	—[a]	—[a]	—	—	—	—
Suburban Maryland	9.00%-14.00%	11.33%	7.50%-10.50%	9.07%	10.00%-13.50%	12.63%	8.50%-11.50%	9.88%	106	88
National Flex/R&D	9.50%-15.00%	11.02%	7.50%-12.00%	9.51%	10.50%-15.00%	12.14%	8.50%-15.00%	10.55%	118	91
National Warehouse	9.00%-11.50%	10.20%	7.50%-11.00%	8.82%	9.50%-14.50%	11.42%	7.75%-14.00%	10.07%	114	116
National Apartment	9.00%-13.00%	10.51%	5.50%-9.50%	7.92%	10.00%-15.00%	12.23%	6.25%-12.00%	9.17%	145	137
All Markets Surveyed (Simple Average)	—	11.10%	—	9.30%	—	12.90%	—	10.76%	180	146

a. Our participants are not currently pursuing noninstitutional investments in this market.

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

INCOME CAPITALIZED IN DIRECT CAPITALIZATION[a]

Second Quarter 2003

MARKET	METHOD 1 CURRENT	METHOD 1 YEAR AGO	METHOD 2 CURRENT	METHOD 2 YEAR AGO	METHOD 3 CURRENT	METHOD 3 YEAR AGO
National Retail						
Regional Mall	20.0%	20.0%	80.0%	80.0%	0.0%	0.0%
Power Center	16.7%	42.9%	83.3%	42.9%	0.0%	14.2%
Strip Shopping Center	25.0%	33.3%	62.5%	55.6%	12.5%	11.1%
Office						
National CBD	9.1%	18.2%	81.8%	72.7%	9.1%	9.1%
National Suburban	13.3%	20.0%	66.7%	60.0%	20.0%	20.0%
Atlanta	28.6%	57.1%	71.4%	42.9%	0.0%	0.0%
Boston	0.0%	11.1%	100.0%	89.9%	0.0%	0.0%
Chicago	35.7%	45.5%	64.3%	55.5%	0.0%	0.0%
Dallas	16.7%	25.0%	83.3%	75.0%	0.0%	0.0%
Houston	14.3%	25.0%	71.4%	62.5%	14.3%	12.5%
Los Angeles	33.3%	30.8%	66.7%	61.5%	0.0%	7.7%
Manhattan	20.0%	40.0%	60.0%	40.0%	20.0%	20.0%
Pacific Northwest	33.3%	33.3%	66.7%	66.7%	0.0%	0.0%
Philadelphia	57.1%	42.8%	28.6%	42.9%	14.3%	14.3%
San Francisco	22.2%	20.0%	77.8%	80.0%	0.0%	0.0%
Southeast Florida	42.9%	14.3%	50.0%	71.4%	7.1%	14.3%
Washington, DC Metro						
The District	50.0%	25.0%	50.0%	75.0%	0.0%	0.0%
Northern Virginia	37.5%	22.2%	62.5%	77.8%	0.0%	0.0%
Suburban Maryland	33.3%	28.6%	66.7%	71.4%	0.0%	0.0%
National Flex/R&D	23.1%	27.3%	76.9%	72.7%	0.0%	0.0%
National Warehouse	13.3%	20.0%	80.0%	80.0%	6.7%	0.0%
National Apartment[b]	72.2%	73.7%	22.2%	15.8%	5.6%	10.5%
All Markets Surveyed (Simple Average)	29.0%	30.7%	66.0%	63.2%	5.0%	6.1%

a. Method 1: NOI after capital replacement reserve but before TIs (tenant improvements) and leasing commissions.
Method 2: NOI before capital replacement reserve,TIs, and leasing commissions.
Method 3: Cash flow after capital replacement reserve, TIs, and leasing commissions.

b. Method 1: NOI *after* capital replacement reserve.
Method 2: NOI *before* capital replacement reserve.
Method 3: Cash flow *after* capital replacement reserve.

LODGING NOI TIMING

First Quarter 2003

MARKET	PRIOR 12 MONTHS CURRENT	PRIOR 12 MONTHS YEAR AGO	FORECAST 12 MONTHS CURRENT	FORECAST 12 MONTHS YEAR AGO	BOTH CURRENT	BOTH YEAR AGO
National Lodging						
Full-Service	36.4%	36.4%	36.4%	36.4%	27.2%	27.2%
Economy/Limited-Service	57.1%	57.1%	42.9%	42.9%	0.0%	0.0%
Luxury	28.6%	28.6%	57.1%	57.1%	14.3%	14.3%
Extended-Stay	25.0%	28.6%	62.5%	57.1%	12.5%	14.3%
All Markets Surveyed (Simple Average)	36.4%	37.5%	48.5%	46.9%	15.1%	15.6%

FORECAST PERIODS AND GROWTH RATES

Second Quarter 2003

	Forecast Period		Market Rent Growth Rates: Initial Year		Market Rent Growth Rates: Forecast Period Average		Expense Growth Rates: Initial Year		Expense Growth Rates: Forecast Period Average	
Market	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average
National Regional Mall	5 - 10	9.2	0.00%-4.00%	2.67%	2.00%-3.00%	2.80%	3.00%-3.00%	3.00%	3.00%-3.00%	3.00%
National Power Center	5 - 10	8.3	0.00%-3.00%	2.42%	3.00%-4.00%	3.13%	2.00%-3.50%	2.96%	2.00%-3.50%	2.95%
National Strip Shopping Center	3 - 10	9.3	0.00%-3.00%	2.00%	2.00%-4.00%	2.79%	2.00%-4.00%	3.08%	2.00%-4.00%	3.06%
National CBD Office	3 - 10	8.9	-10.00%-3.00%	0.48%	0.00%-3.00%	2.20%	1.50%-3.00%	2.78%	2.00%-3.00%	2.90%
National Suburban Office	3 - 10	8.8	-10.00%-3.00%	-0.03%	0.00%-5.00%	2.17%	2.00%-3.00%	2.82%	2.00%-3.00%	2.89%
Atlanta Office	5 - 10	9.3	0.00%-3.00%	0.33%	2.00%-3.60%	2.78%	1.50%-5.00%	3.21%	2.00%-5.00%	3.20%
Boston Office	5 - 10	9.1	-10.00%-3.00%	-0.95%	0.00%-5.00%	2.72%	2.00%-5.00%	3.10%	2.00%-3.00%	2.90%
Chicago Office	3 - 10	8.8	-5.00%-3.00%	-0.46%	2.00%-3.00%	2.62%	2.00%-3.00%	2.88%	2.00%-3.00%	2.88%
Dallas Office	3 - 10	8.8	-10.00%-3.00%	0.00%	0.00%-3.00%	1.81%	3.00%-3.00%	3.00%	3.00%-3.00%	3.00%
Houston Office	3 - 10	9.0	-5.00%-3.00%	0.50%	1.00%-3.00%	2.40%	1.00%-4.00%	2.75%	1.00%-3.00%	2.58%
Los Angeles Office	5 - 10	9.0	-5.00%-3.00%	0.58%	2.00%-3.50%	2.86%	2.00%-3.50%	2.78%	2.50%-3.25%	2.94%
Manhattan Office	5 - 10	9.1	0.00%-3.00%	0.93%	2.00%-7.00%	3.55%	3.00%-5.00%	3.33%	3.00%-3.00%	3.00%
Pacific Northwest Office	5 - 10	9.2	1.00%-3.00%	2.30%	2.50%-3.00%	2.83%	2.00%-4.00%	3.00%	3.00%-3.00%	3.00%
Philadelphia Office	5 - 11	8.8	0.00%-3.00%	0.79%	2.50%-3.00%	2.78%	2.50%-3.00%	2.79%	2.50%-3.00%	2.90%
San Francisco Office	3 - 10	8.8	-5.00%-3.00%	0.06%	2.00%-6.00%	3.17%	2.00%-4.50%	3.13%	3.00%-3.50%	3.06%
Southeast Florida Office	5 - 10	8.8	0.00%-5.00%	1.50%	2.00%-6.00%	3.25%	2.00%-4.00%	2.96%	2.00%-3.50%	2.94%
Washington, DC Metro Office										
The District	5 - 10	9.6	0.00%-6.00%	2.28%	2.50%-4.00%	3.07%	2.00%-3.00%	2.88%	2.00%-3.00%	2.88%
Northern Virginia	3 - 10	8.6	0.00%-3.00%	0.50%	0.00%-3.00%	2.07%	2.00%-3.00%	2.89%	2.00%-3.00%	2.88%
Suburban Maryland	5 - 10	9.2	0.00%-3.00%	1.43%	2.00%-3.00%	2.70%	2.00%-3.00%	2.93%	2.00%-3.00%	2.92%
National Flex/R&D	3 - 10	9.0	-10.00%-3.00%	1.00%	1.00%-3.00%	2.59%	2.00%-3.00%	2.96%	2.00%-3.00%	2.96%
National Warehouse	5 - 10	9.4	-5.00%-5.00%	1.50%	2.00%-3.00%	2.80%	2.00%-3.00%	2.97%	2.00%-3.00%	2.96%
National Apartment	1 - 10	8.65	-2.00%-5.00%	1.91%	0.00%-4.00%	2.89%	2.00%-4.00%	2.91%	2.00%-4.00%	2.93%
National Net Lease	5 - 15	9.5	2.00%-3.00%	2.65%	2.00%-3.50%	2.43%	2.00%-3.00%	2.58%	2.00%-3.00%	2.58%

PricewaterhouseCoopers

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2003.

DEFINITIONS

GENERAL

CHANGE RATE
Annual compound rate of change

Market Rent
Achievable current rent if vacant

Expenses
Total property expenses

DISCOUNT RATE (IRR)
Internal rate of return in an all-cash transaction, based on annual year-end compounding

FORECAST PERIOD[1]
A presumed period of ownership; a period of time over which expected net operating income is projected for purposes of analysis and valuation

INSTITUTIONAL-GRADE REAL ESTATE
Real property investments that are sought out by institutional buyers and have the capacity to meet generally prevalent institutional investment criteria

KORPACZ DIVIDEND INDICATOR (KDI)
A composite OAR average of the surveyed markets excluding net lease and lodging

KORPACZ YIELD INDICATOR (KYI)
A composite IRR average of the surveyed markets excluding net lease, lodging, and development land

MARKETING TIME
The period of time between the initial offering of a property for sale and the closing date of the sale

NET OPERATING INCOME (NOI)
Income remaining after deduction of all property expenses. In direct capitalization, investors capitalize one of the following:

1. NOI after capital replacement reserve deduction but before TIs and leasing commissions
2. NOI before capital replacement reserve deduction, TIs, and leasing commissions
3. Cash flow after capital replacement reserve deduction, TIs, and leasing commissions

OVERALL CAPITALIZATION RATE (OAR)
Initial rate of return in an all-cash transaction

RENT SPIKE
An increase in market rent that is markedly higher than the general rate of inflation

RESERVE
Amount allocated for periodic replacement of building components during a property's economic life

RESIDUAL
Estimated total price at conclusion of forecast period

Cap Rate
Overall capitalization rate used in calculation of residual price; typically applied to the NOI in the year following the forecast

Selling Expense
Transaction expenses (legal, brokerage, marketing, etc.) paid by the seller

RESPONDENT TYPE
Classification of survey participants into descriptive categories (e.g., domestic pension fund, REIT, investment advisor)

SHADOW SPACE
Space within an occupied office suite that is not currently utilized by a tenant and is also not being marketed for subleasing

VACANCY ASSUMPTIONS

Months Vacant
The number of months a space remains unleased at the expiration of a vacating tenant lease

Tenant Retention
Percentage of leased rentable area that is expected to be re-leased by the existing tenants at lease expiration

Underlying Vacancy/Credit Loss
Percentage of total revenue uncollected due to unexpected vacancy or credit loss (in addition to any rent loss from vacancies at lease expirations)

APARTMENT

NET OPERATING INCOME (APARTMENT NOI)
Income remaining after deduction of all property expenses (which includes leasing commissions); in direct capitalization, investors capitalize one of the following:

1. NOI after capital replacement reserve
2. NOI before capital replacement reserve
3. Cash flow after capital replacement reserve

DEVELOPMENT LAND

DEVELOPMENT LAND
Land that has been purchased, readied for subdivision development (i.e. entitlements and infrastructure), and subsequently sold to builders

DEVELOPER'S PROFIT[1]
A market-derived figure that reflects the amount a developer expects to receive for his or her contribution to a project

GOLF

NET INCOME MULTIPLIER[1]
The relationship between price or value and net operating income expressed as a factor; the reciprocal of the overall rate

MANAGEMENT FEES
Generally defined as either fixed or incentive (based on a percentage of either NOI or gross income); most common is a combination of the two; the complexity of the club, as well as the size of the facility, influences the fee charged

INDUSTRIAL

FLEX/R&D[3]
An industrial property with 14- to 20-foot clear ceiling heights, up to 100.0% finished office space including lab and clean-room space (up to 60.0% finished office space excluding lab and clean-room space), and dock-high and/or grade-level loading used for minimal distribution, research and development, and specialized office space

WAREHOUSE[3]
An industrial property with 16- to 30-foot clear ceiling heights, up to 15.0% finished office space, and dock-high loading facilities used for the storage and distribution of goods

Various sources for these definitions include [1]*The Dictionary of Real Estate Appraisal, Third Edition,* published by The Appraisal Institute, [2]International Council of Shopping Centers, and [3]investor interviews.

LODGING

ECONOMY/LIMITED-SERVICE LODGING
Lodging with "rooms only" operation and no food and beverage except possibly continental breakfast; lower-tier pricing

EXTENDED-STAY LODGING
Lodging with rooms that generally include work stations with two-line phones, access to fax machines; mid- and upper-price lodgings include kitchenettes, separate lounging area; weekly rates

FULL-SERVICE LODGING
Lodging with restaurant and lounge facilities, meeting space, and a minimum service and amenities level; moderate to lower upper-tier pricing; includes all-suite lodgings

GROSS ROOMS REVENUE MULTIPLIER (GRRM)
The relationship, or ratio, between sale price and gross rooms revenue

LUXURY LODGING
High-quality lodging offering personalized guest services, typically with extensive amenities; upper-tier pricing; includes four- and five-star resorts

MANAGEMENT FEE
An expense item representing the sum paid for or the value of management service, including incentives, expressed as a percentage of total revenues

NET OPERATING INCOME (LODGING NOI)
Income remaining after deduction of all property expenses: in direct capitalization, investors capitalize one of the following:

1. Prior 12 months
2. Forecast next 12 months
3. Both of the above

OPERATING EXPENSES
The on-going expenditures incurred during the ordinary course of business necessary to maintain and continue the production of gross revenues, not including reserves, debt service, and capital costs

PROFPAR
Profit per available room

PROPERTY EXPENSES
Includes all necessary operating expenses and a reserve for replacement of building components and FF&E

RESERVE FOR REPLACEMENT
An allowance that provides for the periodic replacement of building components, and furniture, fixtures, and equipment, which deteriorate and must be replaced during the building's economic life

REVPAR
Revenue per available room

NET LEASE

PROVISION 1031
A tax code that allows the seller of an investment property to defer capital gains taxes by exchanging the sale proceeds for an investment in a similar property or properties within 180 days of the original closing

SALE-LEASEBACK
A transaction in which an owner sells a property that it fully occupies to a third party and then leases the space back from the new owner

RETAIL

FORTRESS MALL
The dominant performing Class-A+ malls in the country whose inline stores generate at least $450 per square foot in retail sales; they contain inline and anchor stores that are both well established and unmatched in the trade area

POWER CENTER[2,3]
An open center dominated by at least 75.0% large big-box anchors, including discount stores, warehouse clubs, and value-oriented category stores; a minimal amount of inline store space

REGIONAL MALL[2,3]
An enclosed shopping center that contains at least two department stores and has climate-controlled walkways that are lined with smaller retail shops

REGIONAL MALL CLASSIFICATIONS

Class	Inline Retail Sales PSF
A+	$450 and up
A	$350 to $449
B+	$300 to $349
B	$250 to $299
C+	$200 to $249
C	$125 to $199
D	Less than $125

STRIP SHOPPING CENTER[2,3]
An open row of stores either with or without anchor stores that offer convenience (neighborhood centers) and general merchandise (community centers)

WASTE MANAGEMENT

CAPACITY
Availability of unused landfill space plus processing capacity of operating incinerators.

Landfill Capacity is an inventory concept equal to unused capacity from the previous period plus expansions less the volume of municipal solid waste (MSW) disposed during the period.

GATE OR TIP FEE
A gate or posted tip fee is synonymous with a coupon fee or rack rate charged by a hotel. A gate tip fee includes surcharges, state fees, and/or royalties but excludes volume and transportation considerations.

RESOURCE CONSERVATION AND RECOVERY ACT (RCRA) SUBTITLE D

Requirements:

- Installation of composite liners and leachate collection, groundwater, and air monitoring systems.
- Daily landfill cover, caps on closed landfills, and methane collection and recovery systems.
- Expensive geological and engineering studies
- Financial assurances that landfill owners/operators will monitor and maintain sites for a 30-year period following closure.
- Proof of financial resources to take corrective action, if required.

Various sources for these definitions include [1]*The Dictionary of Real Estate Appraisal, Third Edition,* published by The Appraisal Institute, [2]International Council of Shopping Centers, and [3]investor interviews.

REAL ESTATE
INVESTOR SURVEY

VOL. 16, NO. 2
Second Quarter 2003

Korpacz Real Estate Investor Survey®
is published quarterly by
PricewaterhouseCoopers LLP
1747 Veterans Highway, Suite 48
Islandia, NY 11722
Web site: www.pwcreval.com

Editor-in-Chief: Peter F. Korpacz, MAI
Associate Editor: Susan M. Smith
Production Manager: Bernadette T. Korpacz

Subscription Rates. Print: One year U.S. $350, foreign $370. Online: One year $275. Rates are subject to change without notice. Make checks payable to
PwC - Korpacz Survey

Survey inquiries: (631) 234-5143; FAX (631) 851-2016 (8:30 AM to 5:30 PM EST).

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Survey Process: Survey participants represent a cross section of major institutional equity real estate investors who invest primarily in institutional-grade property. As such, the information presented is not generally applicable to noninstitutional-grade investments. In addition, the information represents investors' investment expectations and does not reflect actual property performances.

Initially, participants are interviewed regarding their assumptions used in analyzing their U.S. investments. Subsequently, surveys are completed by mail with telephone follow-ups. Although we do not represent that the survey is statistically accurate, its results provide important insight into the thinking of a significant portion of the equity real estate marketplace.

Index of Recurring Survey Topics As of 1st Quarter 2003

Topic	Quarter Covered
Concessions	First
Face/Effective Rents	Third
Leasing Commissions	First
Leveraged IRRs	Third
Management Fees	First
Property & Geographic Preferences	Second and Fourth
Rent Spikes	Third
Replacement Reserves	First
Vacancy Assumptions	Fourth

Your worlds  Our people