# Korpacz Real Estate Investor Survey®

Second Quarter 2004

PRICEWATERHOUSECOOPERS

Dear Reader:

With the U.S. economy on the mend and tenant inquiries for space noticeably increasing, optimism is filling the air throughout much of the real estate industry. Unfortunately, many markets remain saturated with available space and provide vast opportunities for tenants looking either to upgrade space or to relocate. While soft market conditions are likely to linger for the remainder of 2004 and into 2005, our lead story "Confidence On The Rise," indicates that investors are more optimistic now that the worst seems to be behind us.

As the industry shows signs of improvement, an increasing number of investors are scouting for opportunistic deals. Although some exist, they are likely priced quite high due to the vast amount of capital targeting commercial real estate. While some investors believe that prices may decline as interest rates rise, this quarter's *Real Estate Capital Markets* column, authored by Robert White, president of Real Capital Analytics, Inc., sheds some light on why that might not occur.

Instead of buying existing assets, investors interested in development opportunities should read this quarter's *National Development Land Market,* our semiannual analysis of where the best land investments are likely to occur within each property sector – retail, office, industrial, apartment, and single-family.

Our next issue of the Survey will mark our fifth year of publication as part of PricewaterhouseCoopers LLP. As we promised back then, we have continued to improve this publication by adding new columns, markets, and tables. Over the next few quarters, we expect to continue to expand the Survey and debut additional enhancements that we know will be well received by our readers.

As always, we welcome your suggestions on improving each issue, as well as additional markets to include and issues to cover.

Sincerely,

Peter F. Korpacz

Peter F. Korpacz
Editor-in-Chief

PRICEWATERHOUSECOOPERS

# Making News This Quarter

SECOND QUARTER
2004

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*Photograph by:*
Peter F. Korpacz

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# Korpacz Real Estate Investor Survey

# National Highlights

## Confidence on the Rise

WHILE THERE'S NO DENYING THAT UNDERLYING FUNDAMENTALS ARE STILL WEAK THROUGHOUT THE REAL ESTATE INDUSTRY, A GROWING NUMBER OF INVESTORS SENSE THAT THE WORST IS INDEED OVER AND THAT FURTHER DETERIORATION IS UNLIKELY. "We haven't felt this much optimism in three years," exclaims a participant. "The industry's future looks bright again," quips another. For some of them, the proof of a turnaround started to materialize at the beginning of 2004 and has intensified over the past several weeks. "Our phones are ringing much more and more tenants are inquiring about expansion possibilities," shares an industrial-space investor.

In the office sector, an upturn in both space inquiries and leasing velocity have also combined to upgrade investors' opinions and outlooks about the industry. "Leasing velocity is picking up," attests a Manhattan investor, who is pleased with the city's performance and only expects the office sector to improve as the economy strengthens. Even in cities where large amounts of empty space still exist, investors believe that fundamentals have hit bottom. "I think that we are in a recovery here," states an investor in San Francisco, who notes that traffic during rush hour has intensified, suggesting that employment numbers are rebounding.

And in the industrial sector, some investors are quick to point out that certain markets are performing better than they were six to eight months ago. "There are more serious prospects for space, which is something we haven't seen for a while," enthuses a participant. The increase in optimism in this sector also stems from the fact that both U.S. productivity and U.S. factory orders have soared recently. "When companies bulk up on inventories, it can only help the warehouse sector," explains a participant.

While the recent upswing in "space shopping" activity is wonderful news for the stalled real estate industry, the fact that there is still no urgency on the part of many tenants to solidify deals is keeping investors from getting too overconfident. It is also keeping rental rate growth, if any, to a minimum and allowing tenants to still receive favorable concession packages in many instances. Until companies become less hesitant about taking space and moving forward, market conditions will continue to provide tenants with the upper hand during lease negotiations.

Landlords may remain the underdog when it comes to most lease negotiations, but the reverse is adamantly true when it comes to sale transactions, especially those involving stable assets. Due to a lack of alternative investment options and pent-up demand from nonleveraged buyers, the amount of capital targeting commercial real estate still seems unending. And prices for the best assets remain unbelievably aggressive. Even in markets where severe supply-demand imbalances are likely to keep a full recovery from happening in a timely manner, such as Boston and San Francisco, properties that offer limited near-term lease expirations, credit tenants, and stability are on the receiving end of hefty prices.

In some instances, the bidding for "credit and term" assets has been so aggressive that certain investors wonder how buyers are rationalizing their offers. "Our bid was almost 20.0% below the final price and we thought that we were being very aggressive," exclaims a participant, who believes that there is a big "push" to get funds out and invest right now. Other investors strongly agree. "Some buyers are just desperate to place their capital in real estate now," chimes another, whose recent bid on a stable downtown asset was 30.0% off the final price. "The competition is just killing us," bemoans another.

Due to their inability to compete effectively against aggressive bidders, some disheartened investors have turned their sights to "distressed" properties. Such assets typically have either current or near-term risks attached to them, such as large amounts of vacant space, upcoming lease expirations, and/or tenants with low-rated credit. Even though an increasing number of these properties have come to market recently, they too are priced quite aggressively by sellers. "We've seen 40.0% leased properties trade for nearly double what they should have traded for," shares a participant. "I wish I were a seller so that I could be arrogant and ask ridiculous prices for bad product," jibes another, who believes that the long-term impact of such aggressive buying is bad. If fundamentals don't come around in a timely manner and rents don't live up to the buyer's underwriting, some owners will be forced to sell in a few years.

So when will buyers start to see sale prices come down? Some investors believe that a rise in interest rates will create some much-needed relief. "When fundamentals improve and interest rates go up, it will be disruptive for six to nine months and create a much-need bid-ask gap," states a participant. Others, however, are doubtful that a rise in interest rates will impact the current buying spree. "Most of the buyers we are competing against are not interest rate driven," shares a participant, who believes that a rise in interest rates will help some, but not much.

What will likely help ease pricing is when money starts flowing back to the stock market for better returns and out of real estate and when investors realize that they are sufficient in their real estate allocations. For now, investors should expect to face tough competition, high prices, and rigid sellers.

## Useful Websites

Websites of interest this quarter are summarized below.

www.crenews.com: Commercial Real Estate Direct is a three-year-old service that delivers high-end news and information to professionals in the commercial real estate industry. It provides up-to-date market intelligence on the industry's mortgage business, equity raising, investment sales and CMBS. It also provides a host of information through its *Property Sales Database*, which details more than 1,600 large property transactions; CMBS *Pricing Matrix*, the industry's only weekly pricing survey; and its *CMBS Pipeline*, a calendar of upcoming transactions with historical pricing information.

www.keepmedia.com: Founded in 2002, KeepMedia™ is a premium content service, delivering current and archived articles from 140+ popular magazines and newspapers in one convenient location. KeepMedia subscribers can search for articles and can also enjoy personalization, a clipping service, and a self-organizing library. In fact, KeepMedia's patent-pending personalization and search technology hope to ensure that researchers are continually introduced to articles that match their interests.

www.money.cnn.com: Developed by the editors of *CNN* and *Money* magazine, this website is overloaded with information on and about the economy. It contains links and data on a variety of markets, stocks, earnings, commodities, IPOs, as well as news articles relating to Wall Street, technology, jobs, money, and real estate.

www.dsnretailingtoday.com: Established by DSN Retailing Today, this website provides timely, accurate news and features coverage of the constantly changing retail sector, including full-line discount department stores, catalog showrooms, specialty chains, off-price retailers, mid-tier department stores, membership warehouse clubs, and super centers. This website also offers an email newsletter, information on upcoming conferences and events, special reports, and classifieds.

www.cpnrealestate.com: Commercial Property Network is a Princeton-based organization that focuses on the lease, sale, and acquisition goals of companies seeking to expand, acquire, develop, promote, or sell properties throughout New Jersey and Eastern Pennsylvania. This website provides information, such as space totals, rental rates, and brief supply-demand histories, on each submarket. It also details subleasing opportunities in the region, as well as recent transactions and sale listings.

www.inc.com: Provided by Inc. magazine, this website offers advice, tools, and services, to help business owners and CEOs start, run, and grow their businesses more successfully. It contains information covering virtually every business and management task, including marketing, sales, finding capital, managing people, and more. It also includes access to news archives, an exclusive area dedicated to the Inc. 500, and detailed information on Inc-sponsored events.

www.choosemaryland.org: Sponsored by the Department of Business and Economic Development, this website provides information on Maryland's business climate and the programs available to businesses to ensure their success. This website also includes data pertaining to the area's demographics and quality of life, as well as commercial real estate statistics and two databases containing detailed information on individual industrial and office properties in the area.

### Property and Geographic Preferences

Since the amount of capital allocated for commercial real estate acquisitions has intensified over the past months, investment demand remains very strong for all property types. In fact, although the number of sale transactions in many sectors – warehouse, garden apartments, regional malls, and flex/R&D – is down slightly from last year, capital volumes are up. This trend suggests that competition among investors has strengthened causing prices to rise in many markets.

Even though investors remain drawn to assets that possess limited near-term leasing risks and that are occupied by credit tenants, an increasing number of them are looking into “opportunity” plays, particularly in office markets, such as Seattle and Atlanta, where evidence exists that a recovery is underway. Outside of the office sector, both retail assets, including power centers, malls, and grocery-anchored shopping centers, and garden apartments remain top picks for investors’ dollars but on a selective basis.

In terms of geographic preferences, both the East and West Coasts continue to rank as favorite investment locations. 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, and Washington, DC and its surrounding suburbs. In addition, Southeast Florida has been frequently mentioned by investors as a top-performing market for all property types.

### Retail

With shoppers continuing to shop and retail sale figures continuing to show growth, retail investments remain a main target of capital. Although fewer markets across the country have posted gains in both sales volume and pricing for strip centers, the number of sales involving strip centers continues to outpace that of regional malls. Specifically, a total of 221 strip shopping center assets sold in the first quarter of 2004 compared to 96 regional malls, according to Real Capital Analytics, Inc.

### CBD and Suburban Office

Although most CBD and suburban office markets still contain vast amounts of available space, leasing activity has started to pickup in several of them. As a result, investment activity remains extremely strong. Although most investors are interested in “the best assets in the best markets,” others are looking at less stable assets. While this suggests that an increasing number of investors are optimistic that a recovery is indeed underway, many of them are still concerned that insufficient job growth will prolong the recovery.

Top downtown markets noted by participants include Washington, DC, Manhattan, Philadelphia, and Portland. On the other hand, many investors are cautious about deals in oversupplied markets, such as Dallas, Houston, and Atlanta.

Suburban markets that are receiving the most investor interest include Northern Virginia, Suburban Maryland, portions of Los Angeles, and Palm Beach. By contrast, excessive amounts of supply are keeping a number of investors away from certain areas of Boston, Seattle, Philadelphia, and Atlanta.

### Warehouse and R&D

A lack of urgency on the part of tenants to commit to space continues to keep market conditions soft throughout most industrial markets. Nevertheless, the fact that investors are optimistic that improvements in the production of goods will soon foster more demand for industrial space is keeping acquisition activity strong.

For the most part, investors prefer newer warehouse assets with clear ceiling heights of 20 to 30 feet, up to 15.0% finished space, and proximity to major transportation networks. Frequently noted markets for acquisitions include Northern New Jersey, Northern Chicago, Miami, Inland Empire, and Denver. By contrast, investors are shying away from Phoenix and Orlando.

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.

### Apartment

Transaction activity in the national apartment market remains very robust, even though vacancy rates continue to inch upward in many apartment markets. Most investors prefer garden-style apartment assets over mid- and high-rise ones. Although some investors have been acquiring properties in “internal” markets, such as Phoenix and Dallas, most continue to favor markets along both the East and West Coasts of the country.

On the West Coast, investors remain drawn to Southern California, where rising home values have forced many individuals out of the “buying” market and into the “renting” one. On the East Coast, both sale prices and volume have increased tremendously in Miami.

With positive demographic trends, such as increasing levels of immigration, rising number of single-person households, and aging echo boomers, expected to keep demand for rental housing strong, demand for apartment assets should remain strong. ✦

# Technology News & Trends

## Should You Outsource Your Applications?

*By Scott Metro, Partner*
*Real Estate Performance and Technology Solutions Practice - PricewaterhouseCoopers LLP*

COMMERCIAL REAL ESTATE COMPANIES – MOST NOTABLY REITS, PENSION FUND ADVISORS, AND COMMERCIAL PROPERTY OWNERS AND MANAGERS – HAVE MORE FREQUENTLY STARTED TO CONSIDER USING SERVICE ORGANIZATIONS IN ORDER TO OUTSOURCE APPLICATIONS THAT SUPPORT THEIR PROPERTY MANAGEMENT AND ACCOUNTING DATA. This shift represents a groundbreaking move for many of them, since real estate firms have traditionally felt that when it came to housing proprietary data there was "no place like home."

Although supporting their critical systems in-house required increased staffing levels, acquiring complex hardware, and enhanced technology knowledge, such costs were easily justified when compared to the cost of their data getting into the wrong hands. In recent years, however, more and more real estate companies have started to rethink this attitude, as they start to replace some of their aging applications. Provided that their data remains safe, they reason that it just might make sense to let someone else worry about the technology needed to support their business. As a result, an increasing number of them have been turning to Application Service Providers (ASPs). A list of vendors and their websites is shown below.

### The ASP Model

Application outsourcing is currently a service offered by all of the major accounting and property management software vendors. Under this type of arrangement, the ASP vendor supplies and becomes responsible for all of the services that support the client's application – hardware, help desk, software and server upgrades, data backup, and recovery.

Typically, the client's applications are accessed in one of two ways. For those vendors whose products are entirely browser based, users log onto a secure website and access their data and application functionalities entirely over the web. For those vendors whose applications are not entirely browser based, terminal emulation software can be installed on each user's personal computer. This software connects to the vendor's server component and allows the user to access the software application.

### Pros and Cons

The ASP model provides several benefits to real estate companies. First, companies do not need to purchase and maintain the application and database servers required to support their applications. These systems are often medium- to high-end servers, requiring dedicated staff with extensive knowledge of hardware, operating systems, network operations, and security. Second, companies do not need to retain a dedicated staff to support and to maintain the application since the vendor, under an ASP arrangement, processes all routine maintenance, including upgrades and patches. These benefits all translate into significantly reduced costs for real estate companies that choose to have their applications hosted.

Of course, downsides exist. First, when applications are outsourced, so is the data. As a result, critical and proprietary accounting, property management, and portfolio performance data could all potentially be placed side-by-side a competitor's data. To reduce the risk of this occurrence, companies should make sure that the vendor maintains a detailed data security policy prior to signing up.

Second, making use of outsourced data for internal purposes is difficult. For example, trying to populate an in-house data warehouse with outsourced data is difficult since the way in which large amounts of data are transferred differs greatly from the way in which applications are simply accessed on screen. And lastly, vendors usually resist hosting highly customized versions of their applications. As a result, most outsourcing hosts offer applications that are "plain vanilla" versions of their products in order to avoid having specialists assigned to each client's specific version.

### Do Your Homework

Along with those reasons to consider application outsourcing, there are reasons to abstain from it, too. Real estate companies should weigh the pros and cons against their needs, compare costs of the two options, and perform due diligence on the vendor, inquiring as to whether the vendor has obtained third-party assurances over the integrity of their operations. ✦

| List of Outsourcing Vendors | |
|---|---|
| MRI Netsource | http://realestate.intuit.com |
| Yardi Hosting | www.yardi.com |
| PeopleSoft | www.peoplesoft.com/corp/en/hosting/overview |
| Realm | www.realm.com |
| SS&C | www.ssctech.com/direct |

# Economic News

## U.S. Economy on the Mend

THE U.S. ECONOMY HAS SHOWN STEADY SIGNS OF IMPROVEMENT OVER THE PAST THREE MONTHS. While favorable trends have materialized with regard to both GDP (gross domestic product) growth and corporate profits, some of the most encouraging improvements have occurred in the employment arena. Most notably, weekly initial jobless claims have remained below 350,000 since the start of May 2004, according to the Employment Training Administration. Historically, claims at that level are indicative of an improving labor market and consistent with monthly employment gains of at least 200,000 workers.

In addition, layoff announcements are becoming less frequent, while nonfarm employment figures are trending upward. Although the recent growth in nonfarm employment has been most widespread in the education and health-services sector, it has also been prevalent in the leisure and hospitality, financial, and business and professional sectors. As a result, many landlords, especially in the office sector, are noticing an increase in space inquiries from new and existing tenants. "Many of the calls have yet to turn into deals, but we are optimistic that they will in the near future," shares a participant.

Amid all this confidence, however, concerns and uncertainties still exist with respect to the U.S. labor market. Chief among them is the fact that job growth, while finally trending positive, is still weak in many metropolitan areas. While a few investors are quick to blame job outsourcing for lackluster U.S. job growth, the main problem is that many companies, which are achieving higher productivity numbers with fewer workers, are still reluctant to create additional jobs. Fortunately, many of them will soon need to employ more workers in order to sustain the demand that will arise as the economy gains strength.

### Consumer Confidence

Despite enhanced concerns about rising interest rates, higher energy costs, and the ongoing military tensions overseas, the Consumer Confidence Index has remained relatively unchanged over the past couple of months, as shown in Table E-1. Consumer Confidence remains the highest in the South Atlantic region of the country, while it is the lowest in the Middle Atlantic, East Central, and New England regions of the United States.

Even though the index ratings were favorable for both April and May and the index improved considerably from a year ago, a steady pattern of confidence has yet to emerge. The current "up-down" pattern suggests that much uncertainty still exists among consumers with regard to many aspects of the economy. For instance, although many consumers believe that the employment picture has brightened, an increasing number of them also believe that jobs have become more difficult to attain. Until the economy shows consistent signs of improvement and is able to eclipse the concerns of rising gas prices and inflation, as well as international turmoil, the Confidence Index will likely remain wobbly.

Table E-1

**Consumer Confidence Index**

| | |
|---|---|
| 2004 | |
| May | 93.2 |
| April | 93.0 |
| March | 88.5 |
| February | 88.5 |
| January | 97.7 |
| 2003 | |
| December | 94.8 |
| November | 92.5 |
| October | 81.7 |
| September | 77.0 |
| August | 81.7 |
| July | 77.0 |
| June | 83.5 |
| May | 83.6 |

Source: The Conference Board

### Labor Market

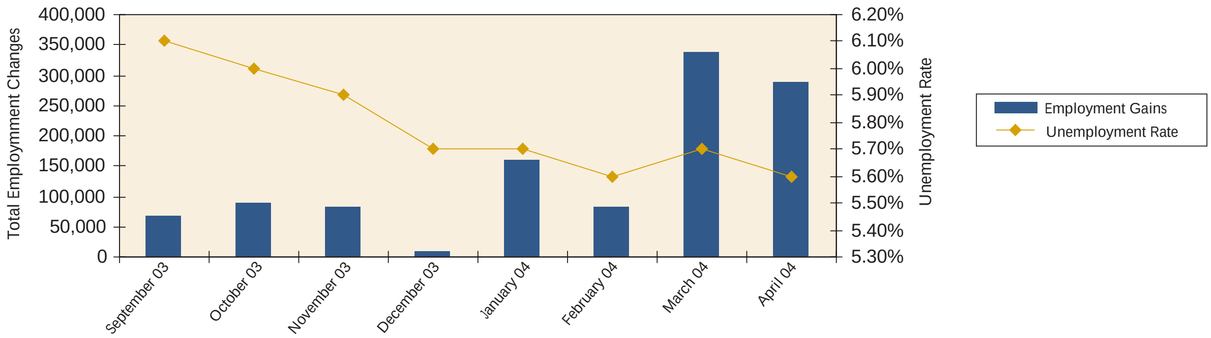
Healthy job gains during the first four months of 2004 have generated much optimism among investors. "We are very happy to see job growth turning positive," shares a participant. "We haven't been this optimistic in four years," exclaims another. Much of this enthusiasm stems from the fact that most of the recent job gains have been in the office-space-using industries. Business and professional services, for example, witnessed an increase of 123,000 jobs in April 2004, according to Economy.com. By contrast, manufacturing gains totaled 21,000 jobs during that month.

The recent changes in total nonfarm employment and the national unemployment rate are both shown in the following chart and contrasted in Exhibit 1.

When combined with the recent downward trend in initial jobless claims, the national employment picture has indeed shown marked improvement. Nevertheless, the labor market still stands 1.6 million jobs from its prerecession peak, according to Economy.com. The good news, however, is that this gap

Exhibit 1

## U.S. Employment Picture




Source: Bureau of Labor Statistics; compiled by PricewaterhouseCoopers LLP

| 2004 | Jobs Gained | Unemployment Rate | 2003 | Jobs Gained | Unemployment Rate |
|---|---|---|---|---|---|
| April | +288,000 | 5.6% | December | + 8,000 | 5.7% |
| March | +337,000 | 5.7% | November | + 83,000 | 5.9% |
| February | + 83,000 | 5.6% | October | + 88,000 | 6.0% |
| January | +159,000 | 5.7% | September | + 67,000 | 6.1% |

Source: Bureau of Labor Statistics; Economy.com

could close over the next six months if the current pace of job growth is sustained. While such an event is not likely to occur, the fact that hiring trends are expected to remain positive over the near term bodes well for both the economy and the real estate industry.

### Metropolitan Area Employment Leaders

In March 2004, 182 metropolitan areas recorded year-over-year increases in nonfarm employment, according to the Bureau of Labor Statistics. On the flip side, 87 metro areas reported decreases in employment figures, while five areas experienced no change in employment. The largest increases and decreases between March 2003 and March 2004 are contrasted in Table E-2.

In terms of percentage increases, the metropolitan statistical areas with the largest gains in employment over the past year were Green Bay, Wisconsin, (+4.7%), Bloomington, Indiana (+4.5%), Benton Harbor, Michigan and Las Vegas, Nevada (+4.3% each), McAllen-Edinburg-Mission, Texas (+3.7%), and Reno, Nevada (+3.5%). Those that posted the largest decreases were Columbia, South Carolina (-3.5%), Steubenville-Weirton, Ohio (-3.2%), Lawton, Oklahoma (-3.0%), Omaha, Nebraska (-2.7%), and Tuscaloosa, Alabama (-2.6%).

### Outlook

As the U.S. economy continues to rebound and to gain strength, the employment picture is expected to do the same. While more hiring on the part of companies will fuel leasing demand for all types of real estate, it will likely be some time before many office markets reach stabilized vacancy rates. "We are going to really lag behind the U.S. recovery this time around," bemoans a Boston participant. For many office markets, large amounts of space still exist as a result of corporate scandals, hasty overexpansion strategies, and abrupt dot.com busts. On the bright side, however, positive trends in the labor market are expected to continue and should eventually pull the office sector out of its slump. ✦

Table E-2

## Metropolitan Statistical Area Employment Performance

March 2003 - March 2004

| Top Five | Employment Change | Bottom Five | Employment Change |
|---|---|---|---|
| Washington, DC-MD-VA-WV | +60,600 | Detroit | -48,000 |
| Las Vegas | +35,000 | Boston | -27,800 |
| Phoenix-Mesa | +34,800 | San Jose | -19,000 |
| Orlando | +19,400 | San Francisco | -16,200 |
| Riverside-San Bernardino | +16,300 | Oakland | -13,400 |

Source: Bureau of Labor Statistics

# Real Estate Capital Markets

## Don't Expect Values to Fall as Interest Rates Rise

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

Initially, the rising interest-rate environment is likely to have a greater impact on capital flows than on either cap rates or pricing. A host of factors could keep overall cap rates low, some of which are particular to this cycle and some that have proven true time after time in past cycles. It is too simplistic to assume that higher interest rates will lead to higher cap rates and, thus, a decline in asset pricing. Before discussing these trends, it is first important to make a distinction between economic cycles and capital cycles, as the two are not interdependent.

### Economic Cycles vs. Capital Cycles

Recessions, expansions, and inflation result from macroeconomic cycles. Currently, the economy appears on the verge of a recovery cycle. Capital cycles refer to the flow of capital both in and out of commercial real estate. Capital cycles occur by reallocations of investment portfolios and result in major shifts in the ownership of commercial property. The buying binge of the public REITs from 1997 to 1998, the influx of Japanese investors in the late 1980s, and tax-driven syndications prior to that event are all examples of capital cycles that have had a profound impact on the real estate industry. The current capital cycle began in 2001, as investors of all types sought to establish or increase property investment.

The cap rate compression experienced since 2001 has resulted from a combination of historically low interest rates (endemic of the recessionary economic cycle) and strong investor demand (the start of the present capital cycle). Low interest rates did not necessarily create the demand for commercial real estate. They merely facilitated it and allowed one particular sector (the leveraged buyer) to dominate acquisitions. In actuality, the huge demand for commercial property investment now is being generated by an array of investors that have realized that real estate is a necessary component to any balanced portfolio. Quarterly cap rate trends for each major property sector over the past two years are shown in Chart 1.

Investors of all types, private individuals up to the largest pension funds, both domestic and foreign, have made decisions to reallocate their portfolios in favor of real estate. Granted, some investor demand may have resulted from a lack of alternative investment opportunities, but much more of it has been generated by an increasing number of opportunities to participate in this market. For example, real estate mutual funds, are tapping into the huge base of 401K capital, while private REITs and tenancy-in-common structures are allowing small-scale investors to own major commercial properties for the first time.

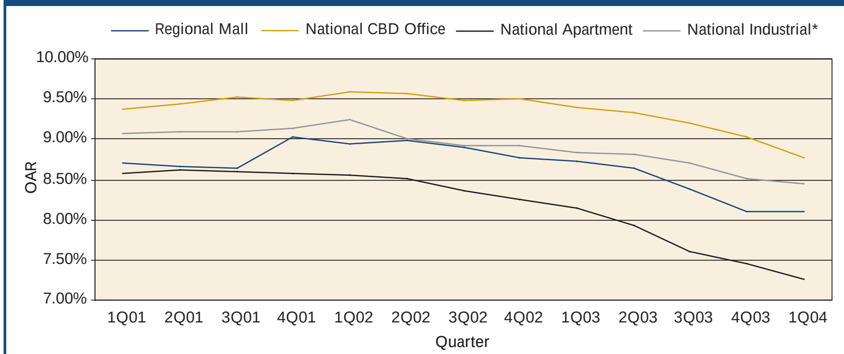
### Emerging Buyers

While much debate exists as to whether this capital shift is secular or cyclical, it may not matter over the near term since this cycle and the current reallocation of capital to commercial real estate is not yet finished. The private sector, as in past cycles, has led the trend and cheap debt has enabled them to crowd out both low-leveraged and unleveraged buyers (see Chart 2). Consequently, significant pent-up demand currently exists from other capital sources. Pension funds may represent the greatest pool of sidelined capital. Generally, pension funds and other institutional investors are not very sensitive to changes in mortgage rates.

Over the past decade, the trend among institutional investors has been away from direct property acquisitions in favor of more liquid investments in real estate securities, such as REITs and

**Chart 1**

OVERALL CAPITALIZATION RATE TRENDS

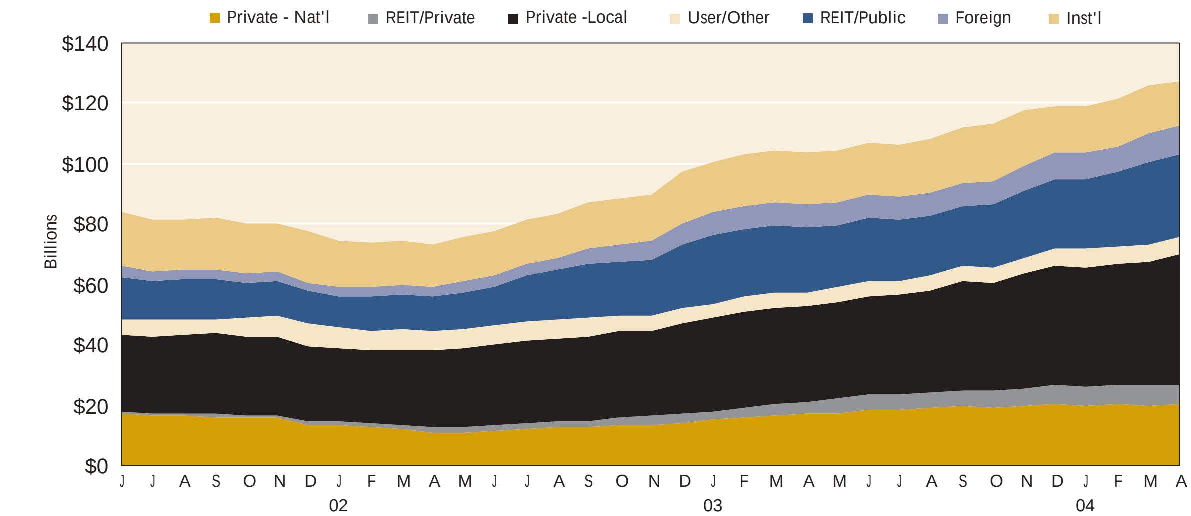



* The cap rates from 1Q01 to 1Q02 reflect those of the National Industrial Market. From 2Q02 forward, the cap rates are from the National Warehouse Market.

Source: Korpacz Real Estate Investor Survey®

Chart 2

**TOTAL ACQUISITIONS BY CAPITAL SECTOR**
**TRAILING 12 MONTHS – CORE PROPERTY TYPES**




*Source: Real Capital Analytics, Inc.*

CMBS. However, this trend is reversing itself, as institutional investors have realized that real estate securities fail to offer the same portfolio diversification benefits as direct asset ownership. By some estimates, pension funds have unfunded allocations totaling over $40.0 billion that must be invested in commercial property.

As rising interest rates erode the advantages of private-leveraged buyers, institutions are poised to immediately replace them as significant buyers. In the current capital cycle, the first phase has been characterized by private buyers. Phase II of the cycle, a wave of institutional capital, may just be starting. Thus, the composition of buyers is likely to change, but investor demand should remain strong.

## Compression of the Spread

Cap rates may stay relatively low. The "cap rate compression" experienced over the past three years may be replaced by a compression of the spread, or the risk premium associated with property investment. This spread is typically quoted as the difference between cap rates and treasury rates, and has historically narrowed during periods of economic recovery. One reason for such a trend is that buyers start to underwrite higher occupancies and/or future rent growth during a recovery and become willing to accept lower initial yields on acquisitions.

In addition, inflation has always benefited real estate, as the asset class has proven to be a good "hedge" in past economic cycles. In fact, during periods of high inflation, the spread between cap rates and treasuries has actually been negative, meaning that cap rates fell below interest rates for sustained periods of time.

## Demand for Class-A Assets

As the economic and capital cycles force changes to the investment market over the coming year, prices for Class-A properties should perform better than older, less well-located assets. After all, a "flight to quality" has historically accompanied other transitional periods and times of uncertainty in the U.S. economy. In addition, institutional buyers, which have demonstrated a strong preference for high-quality properties in the past, are expected to emerge as leading buyers in this phase of the capital cycle. Finally, since costs of new construction are spiking, the additional supply of new Class-A product may be more limited than in past recoveries. In fact, the 60.0% rise in steel prices over the past six months has already stalled some projects.

## Summary

As interest rates rise, don't expect cap rates to rise in tandem. This capital cycle is not over and investor demand will remain strong, especially from the institutional buyers that do not rely on debt to make acquisitions. In addition, the economic cycle of recovery and potential inflation will likely combine to compress spreads before it leads to any significant increase in overall cap rates.

Real Capital Analytics, Inc. is a national research and consulting firm. 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, please visit their website at www.rcanalytics.com or contact them at 866-732-5328. ◆

# National Regional Mall

INVESTMENT DEMAND IN THE NATIONAL REGIONAL MALL MARKET REMAINS VERY STRONG, ESPECIALLY FOR WELL-LEASED CENTERS THAT DOMINATE TRADE AREAS WHERE LITTLE OPPORTUNITY EXISTS FOR NEW COMPETITION. "Since the start of this year, we have bought three sound-performing malls," shares a participant. Although such malls continue to be quite pricey, competition is still fierce among prospective buyers who remain impressed by the untiring performance of the retail sector. "Unlike the office and warehouse sectors, the retail side of the industry has held up well due to sustained consumer spending," continues the participant.

Two dominant regional malls that recently traded were the Mall of Louisiana in Baton Rouge and a 50.0% interest in Riverchase Galleria in Birmingham, Alabama, which sold for a combined price of $430.8 million to General Growth Properties. Mall of Louisiana is a two-level, 1.2-million-square-foot center built in 1997 and anchored by Foley's, Dillard's, J.C. Penney, McRae's, and Sears. Reportedly, this mall is 91.0% occupied and generates annual sales of roughly $485.00 per square foot.

Riverchase Galleria is also a two-level center that contains 1.5 million square feet and is anchored by Parisian, Rich's, McRae's, Sears, and J.C. Penney. Reportedly, this mall is 93.0% occupied and generates annual sales of roughly $390.00 per square foot. The deal also included 57 acres of developable land.

Excluding the undeveloped land, the new owner expects these acquisitions to produce a first-year net operating income of about $25.9 million. Based on this prediction, the deal indicates an overall capitalization rate (OAR) of 6.0%. While this rate may seem low, it is within the range indicated by our participants this quarter. Specifically, OARs for all malls range from 5.50% to 9.50% and average 7.96% this quarter.

While the current OAR average represents a decline of only 15 basis points from last quarter, the average OAR has been trending downward for all mall classifications over the past two years. The chart above shows our current and historical OAR averages for each mall class, which are defined in the Definitions section in the back of this Survey.

Given the tremendous amount of capital looking to be placed into real estate and the strong performance of the retail sector, cap rates are expected to remain low, and could even decline more, over the near term. ✥

**AVERAGE OVERALL CAPITALIZATION RATES**

| | SECOND QUARTER 2004 | | SECOND QUARTER 2002 | |
|---|---|---|---|---|
| Class | Range | Average | Range | Average |
| A+ | 5.50% - 8.00% | 6.68% | 7.60% - 10.00% | 8.22% |
| A | 6.25% - 8.25% | 7.32% | 7.75% - 10.00% | 8.67% |
| B+ | 7.00% - 9.50% | 7.91% | 8.50% - 10.60% | 9.66% |
| B | 8.00% - 9.75% | 8.63% | 9.00% - 13.00% | 11.00% |
| C+ | 9.50% - 12.00% | 10.42% | 10.00% - 14.00% | 12.00% |

Table 1

**NATIONAL REGIONAL MALL MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 8.50%–12.00% | 8.50%–12.00% | 10.00%–12.50% |
| Average | 10.29% | 10.43% | 11.19% |
| Change (Basis Points) | — | –14 | –90 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 5.50%–9.50% | 6.50%–9.50% | 7.25%–10.00% |
| Average | 7.96% | 8.11% | 8.63% |
| Change (Basis Points) | — | –15 | –67 |
| **RESIDUAL CAP RATE** | | | |
| Range | 7.00%–10.00% | 7.00%–10.00% | 8.00%–10.50% |
| Average | 8.50% | 8.61% | 9.10% |
| Change (Basis Points) | — | –11 | –60 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | 0.00%–3.00% | 0.00%–3.00% | 0.00%–4.00% |
| Average | 2.50% | 2.50% | 2.67% |
| Change (Basis Points) | — | 0 | –17 |
| **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 | 4.00–18.00 | 5.00–18.00 | 3.00–18.00 |
| Average | 9.25 | 9.33 | 9.60 |
| % Change | — | –0.86 | –3.65 |

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

# National Power Center Market

WITH MANY BIG-BOX AND DISCOUNT RETAILERS, SUCH AS WAL-MART, TARGET, BEST BUY, AND LOWE'S, CONTINUING TO POST IMPRESSIVE YEAR-OVER-YEAR RETAIL SALES GAINS, INVESTMENT DEMAND IN THE NATIONAL POWER CENTER MARKET REMAINS EXTREMELY STRONG. Unfortunately, many investors note that "there is very little quality product available for sale." As a result, competition for the "best" assets on the market remains intense causing prices to stay elevated.

Within this market, most investors are searching for power centers that are located near fortress malls and/or leased long term to dominant big-box retailers that consistently outperform the industry as a whole. In one recent transaction, for example, Kimco Realty Corp. purchased Towson Marketplace, a 670,000-square-foot, 12-store, power center, for close to $130.00 per square foot. The center is located less than a mile from Towson Town Center, a dominant mall in the area, and includes stores such as Target, T.J. Maxx, and Toys R Us. In addition, Wal-Mart is set to move into the center's space that was previously occupied by Montgomery Ward.

Since few quality assets are available for sale, and those that are available can be priced quite high, some investors are opting to construct new power centers instead of buying existing ones. Cousins Properties Inc. (Cousins), for example, recently acquired a 30-acre parcel in a suburb of Richmond, Virginia in order to develop Hanover Square South, a 500,000-square-foot power center. The two main anchor stores will be a 110,000-square-foot BJ's Wholesale Warehouse, which already exists on the site, and a 124,000-square-foot Target, which acquired a 10-acre parcel from Cousins on which to build their store. There will also be 180,000 square feet of retail space on outparcels and an additional 71,000 square feet of retail space attached to Target. Reportedly, 75.0% of the center's entire space is preleased.

The Target store planned at Hanover Square South is just one of many new stores that Target Corporation plans to open in the coming months. According to the company's 2003 annual report, about 95 to 100 new Target stores are expected to open in 2004. Due to store closings, however, Target expects their net growth to be between 80 and 85 stores in 2004. This estimate is slightly below the company's net growth of 101 stores in 2003. As of January 31, 2004, a total of 1,553 Target stores existed in 47 states across the country.

One of the most recent Target stores to open was the 117,000-square-foot one at South Bay Center in South Boston. This full-service Target store replaced a former Kmart at the center and represented the neighborhood's first Target store. It contains a pharmacy, as well as a Starbucks Cafe. Reportedly, there was "huge demand" from local consumers to bring Target into the neighborhood. While it is still too early to speculate with much accuracy how this new Target will perform, same-store retail sales growth for Target stores overall has been extraordinary recently and according to some sources has even outshined competitor Wal-Mart. ✦

Table 2

**NATIONAL POWER CENTER MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 8.00%–11.50% | 8.00%–12.00% | 9.50%–12.50% |
| Average | 10.17% | 10.33% | 11.17% |
| Change (Basis Points) | — | –16 | –100 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 8.00%–9.50% | 8.00%–10.00% | 8.50%–10.00% |
| Average | 8.88% | 9.02% | 9.35% |
| Change (Basis Points) | — | –14 | –47 |
| **RESIDUAL CAP RATE** | | | |
| Range | 9.00%–10.00% | 9.00%–10.00% | 9.00%–10.50% |
| Average | 9.42% | 9.50% | 9.77% |
| Change (Basis Points) | — | –8 | –35 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | 1.50%–3.00% | 0.00%–3.00% | 0.00%–3.00% |
| Average | 2.63% | 2.38% | 2.42% |
| Change (Basis Points) | — | +25 | +21 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 3.00%–3.00% | 2.00%–3.00% | 2.00%–3.50% |
| Average | 3.00% | 2.92% | 2.96% |
| Change (Basis Points) | — | +8 | +4 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 4.00–10.00 | 4.00–10.00 | 4.00–9.00 |
| Average | 6.92 | 6.92 | 6.92 |
| % Change | — | 0 | 0 |

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

# National Strip Shopping Center Market

SINCE INVESTMENT DEMAND FOR WELL-LEASED, WELL-LOCATED STRIP SHOPPING CENTERS REMAINS EXTREMELY STRONG, SALE PRICES CONTINUE TO RISE. A total of 221 strip shopping centers traded in the first quarter of 2004 at an average sale price of $171.00 per square foot, according to Real Capital Analytics, Inc. By comparison, the average price per square foot in the first quarter of 2001 was $122.00 per square foot. This increase equates to an 11.91% compound annual rate of change during those three years.

As both sale prices and buying demand have become heated in this market, overall capitalization rates (OAR) have continued to trend downward. "With respect to cap rates in this sector, the motto seems to be – how low can you go?" quips a participant. This quarter, the average OAR fell another 26 basis points to reach 8.50%, the lowest average ever reported for this market. In addition, the low end of the range for this key assumption has also trended downward and reached 6.50% this quarter. The following table tracks our recent changes in this market's average OAR.

AVERAGE
OVERALL CAPITALIZATION RATES
1Q03-2Q04

| Quarter | Average | Change (bpts.) |
|---|---|---|
| 2Q04 | 8.50% | -26 |
| 1Q04 | 8.76% | -8 |
| 4Q03 | 8.84% | -22 |
| 3Q03 | 9.06% | -27 |
| 2Q03 | 9.33% | -25 |
| 1Q03 | 9.58% | -31 |

Some of the highest priced assets to trade recently were located in Florida, particularly in Broward and Palm Beach Counties, where a few participants have noted that both the local economy and population growth remain strong. In one deal, Boca Valley Plaza located in Boca Raton sold for $145.00 per square foot. This 121,000-square-foot center was built in 1988 and is anchored by a 42,000-square-foot Publix supermarket. The center was 90.0% leased at the time of sale. In another deal, West Creek Commons located in Coconut Creek sold for $153.00 per square foot. This 58,500-square-foot center was built in 2003 and was also anchored by a Publix supermarket. It was 100.0% occupied at the time of sale.

Although Publix supermarkets are predominantly located in Florida – 600 existed there at the end of 2003, it operated 148 in Georgia, 34 in South Carolina, 12 in Alabama, and 7 in Tennessee at the end of 2003. By comparison, it operated 741 supermarkets at the beginning of 2003; a gain of 60 new stores in one year. Looking ahead, the grocer plans to open about 57 new stores in 2004 and spend roughly $500 million on new markets, remodeling, expansions, and enhancements. Another expanding grocer is Albertsons Inc., who recently acquired JS USA Holdings, Inc., which operated approximately 202 supermarkets in the New England region of the country under the Shaw's and Star Market banners, for $2.48 billion. ✥

Table 3

**NATIONAL STRIP SHOPPING CENTER MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)**[a] | | | |
| Range | 8.50%–12.00% | 8.50%–12.00% | 8.50%–13.00% |
| Average | 10.06% | 10.10% | 10.76% |
| Change (Basis Points) | — | –4 | –70 |
| **OVERALL CAP RATE (OAR)**[a] | | | |
| Range | 6.50%–11.00% | 7.00%–11.00% | 7.00%–11.50% |
| Average | 8.50% | 8.76% | 9.33% |
| Change (Basis Points) | — | –26 | –83 |
| **RESIDUAL CAP RATE** | | | |
| Range | 8.00%–11.50% | 8.00%–11.50% | 8.50%–11.50% |
| Average | 9.06% | 9.20% | 9.61% |
| Change (Basis Points) | — | –4 | –55 |
| **MARKET RENT CHANGE RATE**[b] | | | |
| Range | 1.50%–3.00% | 0.00%–3.00% | 0.00%–3.00% |
| Average | 2.66% | 2.23% | 2.00% |
| Change (Basis Points) | — | +43 | +66 |
| **EXPENSE CHANGE RATE**[b] | | | |
| Range | 3.00%–4.00% | 2.00%–4.00% | 2.00%–4.00% |
| Average | 3.16% | 3.08% | 3.08% |
| Change (Basis Points) | — | +8 | +8 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 4.00–12.00 | 4.00–12.00 | 4.00–12.00 |
| Average | 6.88 | 6.85 | 6.94 |
| % Change | — | +0.44 | –0.86 |

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

# National CBD Office Market

WHILE MANY DOWNTOWN MARKETS THROUGHOUT THE COUNTRY CONTINUE TO BATTLE RISING VACANCY RATES AND LACKLUSTER LEASING ACTIVITY, CERTAIN OTHERS ARE STARTING TO EXPERIENCE A NOTICEABLE IMPROVEMENT IN TENANT DEMAND. "Leasing velocity has picked up in Midtown Manhattan," confirms a participant. "More tenants are inquiring about space and are completing deals," shares a San Francisco landlord. While such activity is indeed encouraging news, it remains to be seen whether long-term trends materialize. "We are by no means out of the woods yet, but it's nice to feel more positive," conveys another participant.

Downtown markets that witnessed the greatest declines in vacancy over the past year are contrasted in the following table with those that recorded the highest gains.

Despite their impressive performances, four of the five markets that experienced the greatest declines in overall vacancy over the past year still post rates well above the national average, according to Cushman & Wakefield. Nevertheless, more downtown markets reported declines in overall vacancy over the last than during the same time period a year earlier. Specifically, 19 CBD markets reported decreases in overall vacancy between the first quarter of 2003 and the first quarter of 2004. By contrast, only six of them posted declines between the first quarter of 2002 and the first quarter of 2003.

With more and more downtown markets starting to show signs of a turnaround, the number of CBD office acquisitions has grown significantly. In fact, CBD office sales surged close to 40.0% between the first quarter of 2003 and the first quarter of 2004, according to Real Capital Analytics, Inc. While much of this increase has been fueled by cheap capital and a lack of alternative investments, it suggests that investors are becoming more optimistic about this sector's underlying fundamentals. "There is a big push to get money out and be ready to capitalize on the pending recovery," explains a participant. As a result, an increasing number of investors are scouting the country for value-added investment opportunities. Unfortunately, even assets with near-term leasing risk are priced quite high and receive numerous bids. ✦

**OVERALL VACANCY RATE CHANGES**
**1Q03 TO 1Q04**

| Greatest Declines | 1Q03 | 1Q04 |
|---|---|---|
| Bellevue | 25.3% | 20.9% |
| Orange County | 20.1% | 16.1% |
| Palm Beach | 14.7% | 11.0% |
| Phoenix | 19.8% | 16.7% |
| New Haven | 20.2% | 17.6% |
| **Highest Gains** | | |
| Houston | 19.5% | 24.0% |
| St. Louis | 22.9% | 26.6% |
| Denver | 18.5% | 20.5% |
| Atlanta | 17.3% | 18.8% |
| Hartford | 21.5% | 22.9% |
| National rate | 15.3% | 15.2% |

Source: Cushman & Wakefield

Table 4

**NATIONAL CBD OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 8.00%–12.25% | 8.50%–12.25% | 9.00%–13.00% |
| Average | 10.25% | 10.51% | 10.88% |
| Change (Basis Points) | — | –26 | –63 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 6.00%–10.50% | 6.00%–10.50% | 7.25%–11.00% |
| Average | 8.55% | 8.77% | 9.34% |
| Change (Basis Points) | — | –22 | –79 |
| **RESIDUAL CAP RATE** | | | |
| Range | 7.50%–11.00% | 7.50%–11.00% | 8.00%–11.50% |
| Average | 9.25% | 9.27% | 9.56% |
| Change (Basis Points) | — | –2 | –31 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | -8.00%–5.60% | -8.00%–5.60% | -10.00%–3.00% |
| Average | 0.88% | 0.78% | 0.48% |
| Change (Basis Points) | — | +10 | +40 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 1.50%–3.00% | 1.50%–3.00% | 1.50%–3.00% |
| Average | 2.85% | 2.79% | 2.78% |
| Change (Basis Points) | — | +6 | +7 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 3.00–12.00 | 3.00–12.00 | 3.00–12.00 |
| Average | 7.11 | 7.05 | 7.36 |
| % Change | — | +0.85 | –3.40 |

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

# National Suburban Office Market

LIKE ITS CBD COUNTERPART, THE PERFORMANCE OF THE NATIONAL SUBURBAN OFFICE MARKET HAS BEEN A "MIXTURE OF GOOD AND BAD." Signs of improvement have been noted in several markets, such as Miami, New York's Westchester County, Atlanta, and even portions of Philadelphia. On the other hand, many suburban markets, such as Seattle, Dallas, and Boston, continue to contend with large amounts of vacant space, a lack of demand, and insufficient job growth.

The good news, however, is that the number of suburban markets reporting declines in overall vacancy rate is eclipsing those that are reporting increases. Specifically, only 9 suburban markets reported decreases in overall vacancy between the first quarter of 2002 and the first quarter of 2003, according to Cushman & Wakefield. This number surged to 28 between the first quarter of 2003 and the first quarter of 2004. While this positive movement is a result of increased leasing activity, it is also due to a dramatic slowdown in speculative construction in many suburban markets. Those markets that witnessed the greatest declines in vacancy over the past year are contrasted in the preceding table with those that recorded the highest gains.

While some markets are taking strides toward a recovery, it will likely be some time before most individual markets return to structural vacancy levels. "There are just too many space options for tenants right now," states a participant. Nevertheless, investment demand remains strong, particularly for stable, well-leased assets in markets that are inching towards a turnaround. In Atlanta, for example, a total of 44 suburban properties traded at an average price of $122.00 per square foot between April 2003 and March 2004, according to Real Capital Analytics, Inc. And in Northern Virginia, a total of 40 suburban assets sold at an average price of $197.00 per square foot during that time period.

Overall, a total of 1,148 suburban assets were sold over the past year at an average price of $146.00 per square foot. With investment demand still strong and investors awash in capital, these figures could rise in the coming year. ✥

**OVERALL VACANCY RATE CHANGES**
**1Q03 TO 1Q04**

| Greatest Declines | 1Q03 | 1Q04 |
|---|---|---|
| Atlanta | 25.7% | 21.2% |
| Northern Virginia | 20.5% | 16.2% |
| Los Angeles North | 16.3% | 12.5% |
| Westchester County | 17.4% | 14.3% |
| Miami | 19.1% | 16.0% |
| **Highest Gains** | | |
| Seattle | 19.4% | 28.8% |
| Philadelphia | 19.2% | 23.3% |
| St. Louis | 18.5% | 21.6% |
| San Francisco | 25.4% | 26.9% |
| Ontario, CA | 11.5% | 13.0% |
| National rate | 21.2% | 20.3% |

Source: Cushman & Wakefield

Table 5

**NATIONAL SUBURBAN OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 8.50%–12.50% | 9.00%–12.50% | 9.50%–13.00% |
| Average | 10.63% | 10.82% | 11.13% |
| Change (Basis Points) | — | –19 | –50 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 7.00%–11.50% | 7.00%–12.00% | 8.00%–12.00% |
| Average | 9.11% | 9.34% | 9.80% |
| Change (Basis Points) | — | –23 | –69 |
| **RESIDUAL CAP RATE** | | | |
| Range | 8.00%–11.25% | 8.25%–11.50% | 8.75%–12.00% |
| Average | 9.62% | 9.71% | 9.90% |
| Change (Basis Points) | — | –9 | –28 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | -10.00%–3.00% | -10.00%–3.00% | -10.00%–3.00% |
| Average | 0.43% | 0.15% | –0.03% |
| Change (Basis Points) | — | +28 | +46 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 2.00%–3.00% | 2.00%–3.00% | 2.00%–3.00% |
| Average | 2.93% | 2.84% | 2.82% |
| Change (Basis Points) | — | +9 | +11 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 5.00–12.00 | 5.00–12.00 | 6.00–12.00 |
| Average | 7.14 | 7.09 | 7.27 |
| % Change | — | +0.71 | –1.79 |

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

# Atlanta Office Market

WHILE A VAST AMOUNT OF AVAILABLE SPACE STILL EXISTS IN THE ATLANTA OFFICE MARKET, THERE IS A GENERAL SENSE AMONG LOCAL INVESTORS THAT A RECOVERY IS UNDERWAY. "We are seeing fewer companies vacate and much less, if any, sublease space coming to market," shares an upbeat participant. Although hints of a recovery were noted in several submarkets in the mid to latter part of 2003, they have become more pronounced in the past few months as an increasing number of tenants scout the market for space. "There's definitely been an up tick in leasing activity and inquiries for space," confirms another participant.

A quarterly history of this market's overall vacancy rates over the past year is shown to the right. While some large lease transactions have helped to push the overall vacancy rates down, most of the recent deals and inquiries for space have come from smaller, regional companies. "We're not seeing the Fortune 500 companies looking for space here," attests a participant, who notes that many of them are still in a downsizing mode. In fact, much of the job growth in metropolitan Atlanta over the next 24 months reportedly is expected to come from companies with less than 200 employees.

Underlying all this market's good news, however, is the notion that the climb up from the bottom of the downturn will be a slow one. One main reason for this dim outlook is that recent net absorption figures are significantly below those historically posted for this market.

OVERALL VACANCY RATES

| Quarter | CBD | NonCBD |
|---|---|---|
| 1Q04 | 18.8% | 21.2% |
| 4Q03 | 20.5% | 25.4% |
| 3Q03 | 18.8% | 25.7% |
| 2Q03 | 18.4% | 25.4% |
| 1Q03 | 17.3% | 25.7% |

Source: Cushman & Wakefield

During its best years, this market absorbed between five and six million square feet of space annually. By comparison, net absorption was negative for all of 2003 and totaled just 250,000 square feet in the first quarter of 2004, according to Cushman & Wakefield. While many investors were disappointed with Atlanta's absorption performance in the first quarter of 2004, it definitely represents a step in the right direction.

As this market gains strength, sales activity is also expected to intensify in terms of competitiveness, pricing, and volume. In fact, one participant forecasts total sales at $1.5 to $2.0 billion in 2004. "There was very little sales activity in 2002, but it increased a bit in 2003 and we expect it to surge in 2004," shares another. Submarkets that are of most interest to investors are actually those that have some of the worst fundamentals, such as Buckhead and Midtown, where overall vacancy rates are estimated at "north of 20.0%." Still, they have historically performed quite well and also seem to have the strongest tenant demand right now. As a result, they are expected to rebound faster than this market as a whole. ✥

Table 6

ATLANTA OFFICE MARKET
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)**[a] | | | |
| Range | 9.00%–12.00% | 9.00%–12.00% | 9.00%–13.00% |
| Average | 10.30% | 10.66% | 11.13% |
| Change (Basis Points) | — | –36 | –83 |
| **OVERALL CAP RATE (OAR)**[a] | | | |
| Range | 8.00%–11.00% | 8.00%–11.00% | 8.60%–11.00% |
| Average | 8.88% | 9.20% | 9.76% |
| Change (Basis Points) | — | –32 | –88 |
| **RESIDUAL CAP RATE** | | | |
| Range | 8.50%–10.00% | 8.50%–10.25% | 9.25%–12.50% |
| Average | 9.45% | 9.39% | 10.18% |
| Change (Basis Points) | — | +6 | –73 |
| **MARKET RENT CHANGE RATE**[b] | | | |
| Range | 0.00%–3.00% | 0.00%–3.00% | 0.00%–3.00% |
| Average | 0.50% | 0.50% | 0.33% |
| Change (Basis Points) | — | 0 | +17 |
| **EXPENSE CHANGE RATE**[b] | | | |
| Range | 1.50%–3.50% | 1.50%–3.50% | 1.50%–5.00% |
| Average | 2.83% | 2.83% | 3.21% |
| Change (Basis Points) | — | 0 | –38 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 1.00–9.00 | 1.00–9.00 | 6.00–9.00 |
| Average | 7.00 | 6.75 | 8.25 |
| % Change | — | +3.70 | –15.15 |

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

# Boston Office Market

DECLINING RENTAL RATES AND RISING AVAILABILITY RATES CONTINUE TO PLAGUE THE BOSTON OFFICE MARKET. "The market just seems to be going sideways," bemoans a participant, who notes that job growth is virtually nonexistent. As a result, much of the sublease space that became available during the recession is converting to direct vacant space and is hindering this market's recovery. The end result is a prediction by some local investors that the Boston office market will be one of the last metro areas in the country to rebound.

Although most of the available space in this market is located in the suburbs, the downtown submarket could see a rise in vacant space due to the recent merger between Bank of America and Fleet-Boston Financial (Fleet). In total, Fleet occupies roughly 1.1 million square feet of office space downtown. While some analysts speculate that between 300,000 and 400,000 square feet of that space could be returned to the downtown market, no announcement has been made as of this writing. Even though the return of this space will not be devastating to this market, it represents another hurdle to overcome.

Due to the current supply-demand imbalance, landlords are working hard to fill empty spaces. "So many owners are burdened with vacant space that concessions are offered on almost every deal," reveals a participant. In fact, 100.0% of our participants indicate that concessions are prevalent in this market. Specifically, free rent ranges up to six months and averages three months on lease terms ranging up to ten years and averaging six years. An excessive tenant improvement allowance (TI) – defined as the amount by which an awarded TI exceeds that which is typical for the market – ranges from $5.00 to $25.00 per square foot and averages $15.00 per square foot.

Despite a lack of tenant demand and predictions of a drawn out recovery, pricing remains incredibly strong for stable, well-leased assets. In fact, some investors believe that it is too strong. "In a market where the fundamentals are so unappealing, we don't understand how some buyers rationalize their bids," comments a participant, who believes that some hurried buyers are looking for trouble. Nevertheless, trades are occurring. A total of 32 office properties were either sold or contracted in the Boston office market during the six months preceding mid-May 2004, according to Real Capital Analytics, Inc. The average sale price for these deals was $271.00 per square foot, approximately 162.0% above the national average for that time period.

The highest priced asset to trade during that time was One Brattle Square located in the Harvard Square submarket of Cambridge. It sold for an astounding $714.00 per square foot. Just four years earlier, this 98,100-square-foot, six-story asset traded for roughly $450.00 per square foot. Tenants at this fully leased property include Harvard University, EMI Group, and The Limited Inc. In addition to its location in a submarket with a single-digit vacancy rate, its lack of lease expirations until 2007 was likely another major draw for the buyer. ✦

Table 7

**BOSTON OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 9.00%–13.00% | 9.00%–13.00% | 9.00%–13.00% |
| Average | 10.76% | 10.85% | 11.01% |
| Change (Basis Points) | — | –9 | –25 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 7.00%–12.00% | 7.00%–12.00% | 7.25%–11.25% |
| Average | 9.01% | 9.18% | 9.25% |
| Change (Basis Points) | — | –17 | –24 |
| **RESIDUAL CAP RATE** | | | |
| Range | 8.00%–11.00% | 8.00%–11.00% | 8.00%–11.00% |
| Average | 9.30% | 9.38% | 9.43% |
| Change (Basis Points) | — | –8 | –13 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | -3.00%–3.00% | -3.00%–3.00% | -10.00%–3.00% |
| Average | 0.13% | 0.11% | –0.95% |
| Change (Basis Points) | — | +2 | +108 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 2.50%–3.00% | 2.50%–3.00% | 2.00%–5.00% |
| Average | 2.94% | 2.94% | 3.10% |
| Change (Basis Points) | — | 0 | –16 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 3.00–24.00 | 3.00–24.00 | 6.00–24.00 |
| Average | 8.00 | 8.00 | 8.13 |
| % Change | — | 0 | –1.60 |

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

# Chicago Office Market

WHILE SOME INVESTORS SENSE THAT THE WORST IS OVER FOR THE CHICAGO OFFICE MARKET, FEW BELIEVE THAT A FULL RECOVERY IS IMMINENT. One main problem is that lackluster job growth is hindering the absorption of office space. "More companies need to start hiring and expanding their workforces in order to erode the vacant space," explains a participant. Although employment figures for metropolitan Chicago have improved each month since the start of 2004, they have yet to spur strong absorption. In fact, the area's unemployment rate has remained above that of both Illinois and the country, as shown to the right.

Considering the fact that an unemployment rate below 5.0% was not uncommon for metropolitan Chicago during the economic boom of the mid-1990s, its current performance is quite disheartening. The good news, however, is that some positive trends are slowly emerging. Unemployment is starting to dip and tenant inquiries for space are starting to pickup. "Leasing activity in the suburbs appears to be increasing," comments a participant, who notes that several large tenants are investigating relocation and expansion opportunities. Once these tenants commit to space, it could trigger other companies into making space decisions and, in turn, "spark" absorption in the suburbs.

UNEMPLOYMENT RATES

| | Metro Chicago | Illinois | United States |
|---|---|---|---|
| March 2004 | 6.5% | 6.0% | 5.7% |
| February 2004 | 6.8% | 6.2% | 5.6% |
| January 2004 | 7.0% | 6.0% | 5.6% |

Source: Bureau of Labor Statistics

Much of the recent leasing activity in the suburbs has been concentrated in the Northern submarket, which includes the Lake County and Lake Shore areas. Specifically, this submarket reported net absorption of 257,000 square feet in the first quarter of 2004, according to CB Richard Ellis. Large lease transactions in this submarket over that time period included Bowe, Bell & Howell's 100,000-square-foot deal in Wheeling and Prinz International's 46,000-square-foot deal in Northbrook. Even with this leasing activity, however, a considerable amount of vacant space still exists in this submarket.

In the downtown submarket, much of the recent leasing activity has involved few new tenants. "Renewals and tenant shuffling make up the bulk of leasing activity downtown," confirms a participant. As a result, the overall vacancy rate showed little improvement and stood at 15.8% in the first quarter of 2004, according to Cushman & Wakefield. Unfortunately, this rate could rise over the near term due to the recent merger between Bank One and JP Morgan Chase.

Regardless of this market's current malaise, strong investment demand is propping up prices in many instances. In fact, one participant contends that "even amid distressed fundamentals, sellers' expectations are very high that someone will step up and pay the asking price." ◆

Table 8

**CHICAGO OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 8.00%–13.00% | 8.00%–13.00% | 9.00%–13.00% |
| Average | 10.50% | 10.39% | 10.83% |
| Change (Basis Points) | — | +11 | –33 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 6.70%–11.00% | 6.70%–11.00% | 7.50%–11.00% |
| Average | 8.86% | 8.85% | 9.13% |
| Change (Basis Points) | — | +1 | –27 |
| **RESIDUAL CAP RATE** | | | |
| Range | 8.00%–11.00% | 8.00%–11.00% | 8.00%–11.00% |
| Average | 9.09% | 9.04% | 9.32% |
| Change (Basis Points) | — | +5 | –23 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | -5.00%–3.00% | -5.00%–3.00% | -5.00%–3.00% |
| Average | 0.00% | –0.10% | –0.46% |
| Change (Basis Points) | — | +10 | +46 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 2.00%–3.00% | 2.00%–3.00% | 2.00%–3.00% |
| Average | 2.85% | 2.85% | 2.88% |
| Change (Basis Points) | — | 0 | –3 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 6.00–24.00 | 3.00–24.00 | 3.00–24.00 |
| Average | 10.00 | 9.40 | 9.36 |
| % Change | — | +6.38 | +6.84 |

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

# Dallas Office Market

WHILE MANY OFFICE MARKETS ACROSS THE COUNTRY HAVE STARTED TO SHOW SIGNS OF IMPROVEMENT, THE DALLAS OFFICE MARKET REMAINS IN A DEEP RUT. In fact, the overall vacancy rate for both the downtown and suburban submarkets has hovered near 30.0% for the past several quarters. Unfortunately for landlords, little relief seems in sight since few companies are eagerly looking to expand right now. And, a significant amount of build-to-suit projects are slated for delivery this year. Although constructing such buildings is a viable alternative to leasing space, companies that relocated to them generally create vacant space somewhere else within the market.

With so much space available throughout this market, tenants remain in control of most lease negotiations. As a result, many tenants continue to upgrade from Class-B to Class-A product and to renew existing leases at favorable rental rates. For new tenants, concessions are still rampant. Specifically, free rent can be as much as six months on a five-year deal and averages 3.25 months. Excessive tenant improvement allowances (TIs), which is the amount by which an awarded TI exceeds that which is typical for the market, range up to $10.00 per square foot and average $7.50 per square foot. Until this office market shows consistent signs of a recovery, concessions will continue to be commonplace.

Based on absorption figures, the best-performing submarket during the first quarter of 2004 was Turtle Creek, which recorded a net absorption of 172,700 square feet, according to Cushman & Wakefield. Based on vacancy rates, the top performer was Preston Center at 9.5% – the only submarket in the single digits for that time period. In contrast, the highest overall vacancy rates were reported by both Far North Central and Far North Stemmons submarkets at close to 33.0%.

Given the large imbalance between supply and demand, numerous investors are scouting the market for opportunistic deals. "The number of buyers looking for partly empty buildings is amazingly high," attests a participant, who notes that they typically are available at a lower percentage of replacement value than "stable" properties. One recent sale of such a property was Liberty Plaza I & II, a 219,000-square-foot, two-building, Class-A asset that was apparently 12.0% occupied at the time of sale. Reportedly, it sold for $50.00 per square foot. Although such properties were given little attention a year or two ago, an increasing number of investors are looking for them now. Such activity suggests that many investors are optimistic that this market has bottomed out.

Most of the recent sales activity has occurred in the suburban areas, such as Addison, Plano, and Irving. In the six months proceeding mid-May 2004, a total of 38 suburban assets totaling close to 6.0 million square feet were either sold or contracted throughout the Dallas/Forth Worth market, according to Real Capital Analytics, Inc. The average sale price for these properties was $77.00 per square foot, well below the national average of $135.00 per square foot. ✦

Table 9

**DALLAS OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 10.00%–12.25% | 10.00%–12.25% | 10.00%–13.00% |
| Average | 11.05% | 11.15% | 11.54% |
| Change (Basis Points) | — | –10 | –49 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 8.00%–10.00% | 8.00%–12.00% | 8.00%–12.00% |
| Average | 9.23% | 9.77% | 10.23% |
| Change (Basis Points) | — | –54 | –100 |
| **RESIDUAL CAP RATE** | | | |
| Range | 9.00%–11.00% | 9.00%–11.00% | 9.00%–12.00% |
| Average | 9.70% | 9.75% | 10.08% |
| Change (Basis Points) | — | –5 | –38 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | -5.00%–3.00% | -5.00%–3.00% | -10.00%–3.00% |
| Average | 0.88% | 0.50% | 0.00% |
| Change (Basis Points) | — | +38 | +88 |
| **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 | 3.00–12.00 | 3.00–12.00 | 6.00–12.00 |
| Average | 6.38 | 6.90 | 8.70 |
| % Change | — | –7.54 | –26.67 |

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

# Houston Office Market

EVEN THOUGH A LARGE AMOUNT OF SPACE STILL SITS EMPTY THROUGHOUT THE HOUSTON OFFICE MARKET, TWO RECENT EVENTS BY WELL-KNOWN ENERGY COMPANIES HAVE SOME LOCAL INVESTORS FEELING INCREASINGLY OPTIMISTIC ABOUT THIS MARKET'S FUTURE. First, ChevronTexaco recently purchased the 1.2-million-square-foot former Enron building located at 1500 Louisiana Street. With this purchase, ChevronTexaco will consolidate most of its Houston operations and staff into one building and also bring about 500 new jobs to the downtown submarket. And second, Citgo Petroleum Corporation (Citgo) announced that it is relocating its headquarters from Tulsa, Oklahoma to Houston.

Citgo's relocation is expected to bring 700 jobs to Houston and will boost the city's reputation as the energy center of the country. Although Citgo has not yet announced exactly where it will be establishing its new offices, it is reportedly looking for between 250,000 and 300,000 square feet. One option is to sublease space from BMC Software, which has about 650,000 square feet available at its Westchase campus. Another option is to lease some of the 600,000 square feet that sits empty in Williams Tower located in the Uptown District outside of the CBD.

Regardless of where Citgo leases space, it is expected to positively impact this market's fundamentals, which have been struggling for some time. In the CBD, for example, the overall vacancy rate has nearly tripled over the past two years. Specifically, it climbed from a mere 9.8% in the first quarter of 2002 to 24.0% in the first quarter of 2004, according to Cushman & Wakefield. In the suburbs, the overall vacancy rate has also climbed over the past 24 months, steadily moving from 17.6% in the first quarter of 2002 to 20.4% in the first quarter of 2004.

For the most part, the glut of vacant space downtown resulted from failed energy giant Enron, which dumped a tremendous amount of space back into the market. In the suburbs, much of the available space resulted from an abundance of speculative construction at a time when corporate downsizing, tenant move-outs, and lackluster demand for space were occurring. Due to the dramatic slowdown in speculative building and the positive projections of job growth for this market, some analysts expect Houston to see a noticeable turnaround over the next couple of years.

Even though this market is showing some signs of improvement, much of the recent sales activity involved only well-leased, stable suburban assets. In total, 30 suburban properties totaling 6.14 million square feet were either sold or contracted in the six months leading up to mid-May 2004, according to Real Capital Analytics, Inc. Several of these properties were largely occupied by strong credit tenants and were purchased by net lease investors. One of the highest priced assets to sell was Enclave on the Lake, a 171,100-square-foot, 6-story office building. It sold for $167.00 per square foot, a price that reflects its full occupancy by two notable tenants and lack of rollover during the next eight years. ❖

Table 10

**HOUSTON OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)**[a] | | | |
| Range | 9.50%–14.00% | 9.50%–14.00% | 10.00%–13.50% |
| Average | 11.46% | 11.45% | 11.79% |
| Change (Basis Points) | — | +1 | –33 |
| **OVERALL CAP RATE (OAR)**[a] | | | |
| Range | 8.00%–12.00% | 8.00%–12.00% | 8.00%–12.00% |
| Average | 9.63% | 9.73% | 10.18% |
| Change (Basis Points) | — | –10 | –55 |
| **RESIDUAL CAP RATE** | | | |
| Range | 8.75%–12.00% | 9.00%–12.00% | 9.00%–12.00% |
| Average | 10.02% | 10.09% | 10.32% |
| Change (Basis Points) | — | –7 | –30 |
| **MARKET RENT CHANGE RATE**[b] | | | |
| Range | -5.00%–5.00% | -5.00%–5.00% | -5.00%–3.00% |
| Average | 0.42% | 0.07% | 0.50% |
| Change (Basis Points) | — | +35 | –8 |
| **EXPENSE CHANGE RATE**[b] | | | |
| Range | 1.00%–4.00% | 1.00%–4.00% | 1.00%–4.00% |
| Average | 2.50% | 2.57% | 2.75% |
| Change (Basis Points) | — | –7 | –25 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 3.00–9.00 | 3.00–9.00 | 4.00–12.00 |
| Average | 6.80 | 7.00 | 8.50 |
| % Change | — | –2.86 | –20.00 |

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

# Los Angeles Office Market

THE LOS ANGELES OFFICE MARKET CONTINUED TO EDGE TOWARD A RECOVERY DURING THE PAST FEW MONTHS. Vacancy rates declined in many submarkets, as rental rates rose slightly in a handful of others. "Leasing activity has been quite steady over the past few months," confirms a participant. Although lease transactions are taking place throughout this market, some of the largest ones have occurred in the Westside submarket.

Creative Artists Agency, for example, recently committed to 180,000 square feet of space at 2000 Avenue of the Americas in Century City. And Crystal Stairs, a private nonprofit child care development agency in California, recently inked a deal for 100,000 square feet at 5100-5150 West Goldleaf Circle in Culver City. On a smaller scale, Internet shopping search firm Biz Rate signed a five-year, $6-million lease for 39,000 square feet at Westside Media Center II.

Such brisk leasing activity caused the overall vacancy rate in Los Angeles West to decline from 18.1% in the first quarter of 2003 to 16.8% in the first quarter of 2004, according to Cushman & Wakefield. While this percentage is indeed heading in the right direction, it is doing so at a cost to many landlords, who continue to drop rental rates in order to lure tenants. In fact, the average asking rental rate for Class-A (direct) space in West Los Angeles has declined annually over the past three years, as shown in the table.

Despite rental rate declines, investment activity in West Los Angeles, as well as in other submarkets, has been very strong. The majority of recent sales have occurred in the suburbs. Specifically, 65 suburban office properties were either sold or contracted at an average price of $182.00 per square foot in the six months preceding mid-May 2004, according to Real Capital Analytics, Inc. By comparison, only nine CBD assets traded during that period.

Such brisk sales activity suggests that many investors are optimistic that this market's fundamentals have indeed hit bottom and should continue to improve. One of the highest priced office assets to trade recently was the 80,000-square-foot building located at 331 N. Maple Drive in Beverly Hills. It sold for $412.00 per square foot to a joint venture between Praedium Group LLC and Lincoln Properties. While this property's unique image and location in the multimedia entertainment sector of Beverly Hills was a strong draw for the buyers, its long-term lease to Dreamworks SKG, which occupies nearly 80.0% of the building, was another. "Buyers continue to pay dearly for stability," confirms a participant. ✦

**LEASING TRENDS**
**WEST LOS ANGELES**

| Quarter | Overall Vacancy Rate | Asking Rental Rate* (Per Sq. Ft.) |
|---|---|---|
| 1Q04 | 16.8% | $33.24 |
| 1Q03 | 18.1% | $34.68 |
| 1Q02 | 18.1% | $35.28 |
| 1Q01 | 9.7% | $39.84 |

* Average for Class-A, direct space

Source: Cushman & Wakefield

Table 11

**LOS ANGELES OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 9.00%–13.00% | 9.00%–15.00% | 9.50%–15.00% |
| Average | 10.63% | 11.10% | 11.53% |
| Change (Basis Points) | — | –47 | –90 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 6.00%–11.00% | 6.00%–11.00% | 7.00%–11.00% |
| Average | 8.46% | 8.67% | 9.21% |
| Change (Basis Points) | — | –21 | –75 |
| **RESIDUAL CAP RATE** | | | |
| Range | 7.50%–10.75% | 7.50%–11.00% | 8.00%–11.00% |
| Average | 8.93% | 9.13% | 9.51% |
| Change (Basis Points) | — | –20 | –58 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | -2.00%–5.00% | -3.00%–5.00% | -5.00%–3.00% |
| Average | 1.61% | 1.75% | 0.58% |
| Change (Basis Points) | — | –14 | +103 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 2.00%–3.50% | 2.00%–3.50% | 2.00%–3.50% |
| Average | 2.83% | 2.83% | 2.78% |
| Change (Basis Points) | — | 0 | +5 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 3.00–12.00 | 3.00–12.00 | 3.00–12.00 |
| Average | 7.19 | 7.25 | 7.38 |
| % Change | — | –0.83 | –2.57 |

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

# Manhattan Office Market

THERE ARE MANY REASONS FOR INVESTORS TO FEEL ENCOURAGED BY THE RECENT PERFORMANCE TRENDS OF THE MANHATTAN OFFICE MARKET. First, many brokers and landlords note that leasing activity has noticeably increased. In addition, more and more tenants are actively planning, inquiring about, and viewing space. Second, the amount of sublease space has dramatically declined over the past year, forcing some tenants with large space requirements to consider only leasing direct space. And lastly, some landlords have reduced the amount of concessions offered to tenants. "Overall, we are delighted with how the city is performing," expresses a participant, who expects these trends to continue.

In terms of overall leasing activity, a total of 21.6 million square feet were leased in Manhattan in 2003, according to CB Richard Ellis. By comparison, a total of 18.8 million square feet were leased in 2002. And net absorption, while still negative, also improved during that time. Specifically, a negative 5.3 million square feet were absorbed in 2003, versus a negative 9.1 million square feet in 2002. Although negative absorption numbers still indicate that more space is coming onto the market than is being leased, many investors remain optimistic that tenant demand will continue to strengthen this market's fundamentals throughout 2004.

A challenge for many landlords of direct space, however, will continue to be sublease space alternatives that tempt both prospective and existing tenants. "There is still opportunity for tenants to upgrade and/or to negotiate favorable rents," comments a participant. Although sublease availabilities have declined significantly over the past year, they still represent a large chunk of this market's overall vacant space. In Midtown, for example, 30.4% of the total space available as of the first quarter of 2004 was sublease space, according to Cushman & Wakefield. In Midtown South and Downtown, the percentages were 18.3% and 19.5%, respectively, for that time period.

Regardless of this sublease space, Manhattan remains one of the best-performing downtown markets in the country. As a result, investment demand is extremely strong, especially for stable, well-leased assets with limited near-term lease expirations. "The buying market is very aggressive and sale prices are just crazy," exclaims a participant. The office building at 11 Madison Avenue, for example, traded for $312.00 per square foot at the end of 2003. Reportedly, the seller received a ton of bids from a variety of investors, including REITs and foreign entities. In the end, the asset was sold at roughly a 7.0% overall capitalization rate to a partnership comprised of two long-time real estate investors in the New York area.

Due to the abundance of capital in the real estate industry and the positive trends demonstrated by this office market over the past several months, Manhattan will likely remain a prime target of investment dollars over the near term. Consequently, buyers should be prepared to face strong competition and aggressive pricing. ✦

Table 12

**MANHATTAN OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 8.50%–12.00% | 8.50%–12.00% | 9.00%–12.00% |
| Average | 9.89% | 9.93% | 10.67% |
| Change (Basis Points) | — | –4 | –78 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 6.00%–10.00% | 6.00%–10.00% | 8.00%–10.00% |
| Average | 7.88% | 8.07% | 8.64% |
| Change (Basis Points) | — | –19 | –76 |
| **RESIDUAL CAP RATE** | | | |
| Range | 7.00%–10.00% | 7.00%–10.00% | 7.50%–10.00% |
| Average | 8.39% | 8.45% | 8.93% |
| Change (Basis Points) | — | –6 | –54 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | 0.00%–3.00% | 0.00%–3.00% | 0.00%–3.00% |
| Average | 0.79% | 0.79% | 0.93% |
| Change (Basis Points) | — | 0 | –14 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 3.00%–5.00% | 3.00%–5.00% | 3.00%–5.00% |
| Average | 3.33% | 3.33% | 3.33% |
| Change (Basis Points) | — | 0 | 0 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 3.00–12.00 | 3.00–12.00 | 4.00–12.00 |
| Average | 7.42 | 7.42 | 7.75 |
| % Change | — | 0 | –4.26 |

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

# Pacific Northwest Office Market

ALTHOUGH A FEW SUBMARKETS IN THE PACIFIC NORTHWEST OFFICE MARKET EXPERIENCED MINOR INCREASES IN VACANCY DURING THE FIRST QUARTER OF 2004, FUNDAMENTALS HAVE NOTICEABLY IMPROVED IN MANY SUBMARKETS ON A YEAR-OVER-YEAR BASIS. Like many other major office markets, most of these positive changes have occurred in downtown submarkets. In Portland's CBD, for example, the overall vacancy rate declined from 15.4% in the first quarter of 2003 to 14.6% in the first quarter of 2004, according to Cushman & Wakefield. In Bellevue's CBD, the decline was even more impressive, moving from 25.3% to 20.9% during that time period.

Although the overall vacancy rate also dipped in downtown Seattle over that period, declining from 16.2% to 15.6%, there is concern that near-term vacancies could push this figure upward once again. Reportedly, nine major tenants are expected to return more than two million square feet of office space to Seattle's downtown submarket over the next two years. Tenants that are expected to shed space by the end of 2004 include Amgen Inc., which is returning 150,000 square feet, Nordstrom Inc., which is unloading about 60,000 square feet, and Airborne Inc., which is giving back about 200,000 square feet.

Much of the available space, however, is expected to come from Washington Mutual (WaMu), which is constructing a new 1.1-million-square-foot office tower in conjunction with the Seattle Art Museum. WaMu currently occupies 1.5 million square feet of space in several downtown buildings and will likely vacate the majority of them once their new headquarters building is completed in 2006. With so much space expected to come back to downtown Seattle, many landlords remain proactive in both retaining and recruiting tenants. "Concessions are still quite generous for most tenants," confirms a participant.

In fact, all of our participants indicate that concessions are widely used throughout the Pacific Northwest office market. Free rent ranges up to three months and averages two months on lease terms ranging up to ten years and averaging seven years. An excessive tenant improvement allowance (TI) ranges from $2.00 to $30.00 per square foot and averages $16.00 per square foot. Just one year ago, excessive TIs ranged from $2.00 to $20.00 per square foot and averaged $11.00 per square foot. Until this market shows consistent signs of a rebound, many landlords will continue to offer considerable concession packages.

On the investment side, stable, well-leased assets in the Pacific Northwest office market continue to attract investor interest. And some are receiving hefty prices. "It's turned into a strong sellers' market for the best properties here," exclaims a participant. Robert Duncan Plaza in downtown Portland, for example, recently sold for $221.00 per square foot, one of the highest prices ever paid for a Portland office property. This 10-story, 375,000-square-foot asset was 98.0% leased to the General Services Administration, which has eight years remaining on its lease. ❖

Table 13

**PACIFIC NORTHWEST OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)**[a] | | | |
| Range | 10.00%–15.00% | 10.00%–15.00% | 10.25%–14.00% |
| Average | 11.65% | 11.81% | 11.79% |
| Change (Basis Points) | — | –16 | –14 |
| **OVERALL CAP RATE (OAR)**[a] | | | |
| Range | 8.00%–11.00% | 8.00%–11.00% | 8.00%–11.00% |
| Average | 9.01% | 9.24% | 9.38% |
| Change (Basis Points) | — | –23 | –37 |
| **RESIDUAL CAP RATE** | | | |
| Range | 8.00%–10.00% | 8.00%–10.00% | 8.50%–10.00% |
| Average | 9.20% | 9.26% | 9.46% |
| Change (Basis Points) | — | –6 | –26 |
| **MARKET RENT CHANGE RATE**[b] | | | |
| Range | 0.00%–3.00% | 0.00%–3.00% | 1.00%–3.00% |
| Average | 1.90% | 1.90% | 2.30% |
| Change (Basis Points) | — | 0 | –40 |
| **EXPENSE CHANGE RATE**[b] | | | |
| Range | 2.00%–4.00% | 2.00%–4.00% | 2.00%–4.00% |
| Average | 3.00% | 3.00% | 3.00% |
| Change (Basis Points) | — | 0 | 0 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 3.00–12.00 | 3.00–12.00 | 3.00–12.00 |
| Average | 6.50 | 6.50 | 6.50 |
| % Change | — | 0 | 0 |

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

# Philadelphia Office Market

EVEN THOUGH THE PHILADELPHIA OFFICE MARKET'S DOWNTOWN SUBMARKET CONTINUES TO OUTPERFORM ITS SUBURBAN COUNTERPART, NEW CONSTRUCTION AND AN OVERALL LACK OF DEMAND FOR BOTH NEW AND EXPANSION SPACE CONTINUES TO KEEP FUNDAMENTALS SOFT. "There's some tenant shuffling going on and a few tenants have moved out of the CBD," shares a participant. AAA Mid-Atlantic, for example, recently relocated from Center City to Wilmington, Delaware. As a result, the overall vacancy rate for the downtown submarket reached 13.7% in the fourth quarter of 2004, according to Cushman & Wakefield (C&W).

Although this figure is slightly above where it was a year earlier (13.2%), it represented the seventh lowest rate for the 32 downtown markets analyzed by C&W for that time period.

Unfortunately, the rise in overall vacancy during the past year was much worse in the suburbs. Specifically, the overall vacancy rate stood at 19.2% in the first quarter of 2003 and rose to 23.3% in the first quarter of 2004, the ninth highest rate of the 41 suburban markets analyzed by C&W.

Suburban Philadelphia's ranking, however, could very well change for the better in the near term due to some significantly large lease commitments. Pharmaceutical company Barr Labs, for example, recently leased 40,000 square feet at One Belmont Avenue in Bala Cynwyd, while cable giant Comcast Corporation inked a deal for 100,000 square feet at Applebrook in West Chester. In addition, biopharmaceutical company Cephalon Inc. leased 192,000 square feet at Brandywine Business Park in Frazer.

The recent pickup in suburban leasing activity is good news for Equity Office Properties Trust, who recently placed all of their suburban and Center City assets up for sale. This portfolio, which totals more than 2.5 million square feet, includes the Four Falls Corporate Center, a set of two six-story buildings totaling 254,000 square feet. Located in West Conshohocken, this asset is considered by many as the catalyst that established that area as a prime office space location. Although Conshohocken posted an overall vacancy rate of close to 30.0% in the first quarter of 2004, it is expect to recover and continues to attract investor interest.

Investor interest also remains strong for downtown assets. In fact, seven CBD properties totaling close to three million square feet were either sold or contracted in the six months leading up to mid-May 2004, according to Real Capital Analytics, Inc. Although the average sale price for these assets was $109.00 per square foot, 1701 Walnut (a.k.a the Allman Building) sold for $367.00 per square foot. And 1901 Market Street, which was 100.0% leased to Independence Blue Cross, sold for $207.00 per square foot. "I still see too many bidders with too much money to put to work," comments a participant. No doubt, the owners of Six Penn Center (a.k.a 1701 Market Street), a 305,000-square-foot, stable, well-leased office building recently placed up for sale, are hopeful that these trends continue during their marketing period. ❖

Table 14

**PHILADELPHIA OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 9.00%–12.50% | 9.00%–12.50% | 10.00%–12.50% |
| Average | 10.75% | 10.77% | 11.43% |
| Change (Basis Points) | — | –2 | –68 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 7.00%–11.50% | 7.00%–11.50% | 8.00%–12.00% |
| Average | 9.54% | 9.61% | 10.04% |
| Change (Basis Points) | — | –7 | –50 |
| **RESIDUAL CAP RATE** | | | |
| Range | 7.00%–11.00% | 7.00%–11.00% | 8.00%–11.00% |
| Average | 9.64% | 9.71% | 10.04% |
| Change (Basis Points) | — | –7 | –40 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | 0.00%–3.00% | 0.00%–3.00% | 0.00%–3.00% |
| Average | 1.50% | 1.29% | 0.79% |
| Change (Basis Points) | — | +21 | +71 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 2.50%–3.00% | 2.50%–3.00% | 2.50%–3.00% |
| Average | 2.79% | 2.79% | 2.79% |
| Change (Basis Points) | — | 0 | 0 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 4.00–12.00 | 4.00–12.00 | 6.00–12.00 |
| Average | 6.25 | 6.75 | 7.50 |
| % Change | — | –7.41 | –16.67 |

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

# San Francisco Office Market

DUE TO AN INCREASE IN BOTH DIRECT AND SUBLEASE LEASING ACTIVITY, THE SAN FRANCISCO OFFICE MARKET'S DOWNTOWN OVERALL VACANCY RATE DECLINED OVER THE PAST YEAR. Specifically, it fell from 20.3% in the first quarter of 2003 to 18.7% in the first quarter of 2004, according to Cushman & Wakefield. Although the decline suggests that this market has "turned a corner," it still has a way to go until a stabilized vacancy rate is achieved. While much of the available space remains in the South of Market (SOMA) submarket, where the majority of technology space existed prior to the dot.com bust, a tremendous amount of it also exists in the Financial District submarket.

The availability of so much space, however, has actually been a way for the city to draw new tenants to this market. "In a market saturated with available space, prospective tenants have a lot of space options and are usually able to negotiate favorable rental rates and lease terms," explains a participant. Gymboree Corporation, for example, recently committed to subleasing 160,000 square feet from Sun Microsystems at 500 Howard Street. This transaction, described by the tenant as a "great, great, great, great deal," will relocate Gymboree from its two corporate office buildings located in Burlingame, a suburb approximately 15 miles south of downtown San Francisco.

Other tenants that recently signed either new or renewal deals in the CBD include The Body Shop, which leased 13,000 square feet at 111 Sutter Street in the Financial District, and Kirkland & Ellis, which renewed its 47,255-square-foot lease at the Bank of America building also in the Financial District. In addition, Deloitte & Touche renewed their 285,000-square-foot lease at 50 Fremont Street and BAR Architects signed a new lease for 21,500 square feet at 543 Howard Street.

While many tenants are able to negotiate favorable rental rates when it comes to both new deals and lease renewals, landlords still maintain an upper hand on those deals that involve quality spaces with exceptional views. Although the average asking rent for a Class-A downtown property was nearly $31.00 per square foot in the first quarter of 2004, Redwood Grove Capital's lease on the 44th floor of the Transamerica Pyramid, a 48-story skyscraper in the Financial District, was reportedly inked at $60.00 per square foot. While this rate is well above the downtown's current average, it still dwarfs the triple-digit rental rates that some landlords received for such space there during the late 1990s.

Although leasing activity has picked up in this market's downtown, sale transactions have yet to do the same. According to Real Capital Analytics, Inc., only five CBD properties either traded or were contracted in the six months leading up to mid-May 2004. This number, however, may change over the near term. Reportedly, four downtown properties have been offered for sale recently. Unfortunately, a shortage of investment product and a surplus of capital are likely to push asking prices for these assets quite high. ✥

Table 15

**SAN FRANCISCO OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 8.50%–13.00% | 9.00%–13.00% | 9.00%–14.00% |
| Average | 10.16% | 10.41% | 11.36% |
| Change (Basis Points) | — | –25 | –120 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 7.00%–11.00% | 7.00%–11.00% | 7.50%–11.00% |
| Average | 8.82% | 9.02% | 9.49% |
| Change (Basis Points) | — | –20 | –67 |
| **RESIDUAL CAP RATE** | | | |
| Range | 7.00%–11.00% | 7.00%–11.50% | 8.00%–12.50% |
| Average | 9.03% | 9.18% | 9.61% |
| Change (Basis Points) | — | –15 | –58 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | 0.00%–3.00% | -5.00%–3.00% | -5.00%–3.00% |
| Average | 0.56% | 0.25% | 0.06% |
| Change (Basis Points) | — | +31 | +50 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 2.00%–3.50% | 2.00%–4.50% | 2.00%–4.50% |
| Average | 3.00% | 3.13% | 3.13% |
| Change (Basis Points) | — | –13 | –13 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 6.00–12.00 | 6.00–12.00 | 6.00–12.00 |
| Average | 8.88 | 8.88 | 8.75 |
| % Change | — | 0 | +1.49 |

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

# Southeast Florida Office Market

WITH VACANCY RATES TRENDING DOWNWARD AND LEASING ACTIVITY PICKING UP, MANY INVESTORS CONTINUE TO VIEW THE SOUTHEAST FLORIDA OFFICE MARKET IN A VERY POSITIVE LIGHT. "We are impressed at how well this market's office sector is recovering," shares a participant, who believes that it is one of the best-performing office markets in the country. Unlike other major office markets, this one is not overly influenced by any specific industry. In addition, it has limited exposure to Corporate America, which continues to impede the recovery of the U.S. economy.

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.

Of the three main areas that comprise this market, West Palm Beach County has shown the greatest improvement in the past year. Specifically, its overall vacancy rate declined from 17.4% in the first quarter of 2003 to 12.9% in the first quarter of 2004, according to CB Richard Ellis (CBRE). This decline is due to a tremendous amount of leasing activity, particularly in the Boca Raton submarket. Some of the largest leases recently signed there include Kaplan, Inc.'s 24,371-square-foot deal at 1615 South Congress Avenue, Ryan Beck & Company's 20,462-square-foot lease at 2650 North Military Trail, and GeoSyntec Consultants' 16,486-square-foot deal at 5901 Broken Sound Parkway.

The overall availability rate in Broward County also declined over the past year. However, its shift was quite small, dipping from 17.9% in the first quarter of 2003 to 17.2% in the first quarter of 2004, according to CBRE. While this decline was below that recorded in West Palm Beach County, it was above that of neighboring Miami-Dade County, which actually experienced a slight increase in overall vacancy during that time period.

Nevertheless, certain submarkets within Miami-Dade County performed quite well over the past year. In the Biscayne Boulevard submarket, for example, strong subleasing activity helped to push vacancy rates down. Companies that recently signed long-term subleases there include Mellon Bank, Pacific Credit, and Sterling Financial.

Due to Southeast Florida's overall displays of strength and recovery, a few participants expect it to stabilize over the next year. The average time frame is 2.3 years. While such optimism is keeping investors scouting for acquisition opportunities, a strong sellers' market currently exists, particularly for well-leased, stable assets. As a result, sale prices remain quite high and cap rates are quite low for the best properties available for sale. Unfortunately for eager buyers, one participant predicts that, "high sale prices, low cap rates, and intense competition among investors will be the norm for a while." ❖

Table 16

**SOUTHEAST FLORIDA OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 9.00%–12.00% | 9.00%–12.50% | 10.00%–12.50% |
| Average | 10.45% | 10.67% | 11.21% |
| Change (Basis Points) | — | –22 | –76 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 7.25%–11.00% | 7.25%–11.00% | 8.00%–11.50% |
| Average | 9.03% | 9.10% | 9.80% |
| Change (Basis Points) | — | –7 | –77 |
| **RESIDUAL CAP RATE** | | | |
| Range | 8.25%–11.00% | 8.25%–11.00% | 9.00%–11.00% |
| Average | 9.70% | 9.67% | 10.16% |
| Change (Basis Points) | — | +3 | –46 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | 0.00%–3.00% | 0.00%–3.00% | 0.00%–5.00% |
| Average | 1.80% | 2.00% | 1.50% |
| Change (Basis Points) | — | –20 | +30 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 2.00%–4.00% | 2.00%–4.00% | 2.00%–4.00% |
| Average | 2.90% | 2.90% | 2.96% |
| Change (Basis Points) | — | 0 | –6 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 6.00–12.00 | 6.00–12.00 | 4.00–24.00 |
| Average | 7.88 | 7.50 | 8.58 |
| % Change | — | +5.07 | –8.16 |

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

# Washington, DC Metro– The District Office Market

The Washington, DC district office market remains the tightest downtown market in the country, posting overall vacancy rates well below 10.0% for the past several quarters. "The District would be my top pick for the best office market in country," enthuses a participant. Much of its strength and stability is due to the hefty space needs of the federal government. It is also a result of office space demand from employers in the private sector, such as law firms and financial services companies.

To some investors, however, the recent performance of the District office market is viewed as "less than shining." "I don't think that the District is as great right now as other investors make it out to be," states a participant. One main reason for this belief is that demand for new space has been quite weak, especially in the small-tenant market. In fact, only one million square feet of office space was leased in the District in the first quarter of 2004, well below its quarterly average of 1.6 million square feet, according to Cushman & Wakefield (C&W).

On top of a slowdown in leasing activity, a tremendous amount of speculative office space under construction is also tarnishing some investors' opinions of this market's solidity. In total, 4.6 million square feet of new office space were under construction in the District at the end of the first quarter of 2004, of which 2.3 million square feet are expected to be delivered by the end of 2004, according to C&W. Unfortunately, few of the new buildings under construction are fully leased. And those that have leased space have done so mostly as a result of tenant shuffling from within the District.

Given this market's proven ability to overcome supply-demand imbalances, few investors seem bothered by the fact that the combined impact of new supply and a slowdown in demand will likely cause overall vacancy rates to rise soon. "Sales activity and pricing in the District remains very strong and competitive," notes a participant, who believes that it has even intensified over the past several months. Specifically, a total of 31 properties were either sold or contracted in the District in the six months leading up to May 2004, according to Real Capital Analytics, Inc.

The average sale price for these transactions was $332.00 per square foot. By comparison, the average price for the 204 CBD office properties that were either sold or contracted in the United States during that time period was $211.00 per square foot.

One of the highest priced assets to trade recently in the District was 1111 Pennsylvania Avenue, which sold for $450.00 per square foot. Reportedly, the property was leased to a single tenant at a below-market rental rate and was on the market for only about six weeks before it was scooped up. ❖

Table 17

**WASHINGTON, DC METRO– THE DISTRICT OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 8.00%–12.00% | 8.50%–12.00% | 9.00%–12.00% |
| Average | 9.53% | 9.64% | 10.29% |
| Change (Basis Points) | — | –11 | –76 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 6.50%–10.50% | 6.50%–10.50% | 7.00%–10.50% |
| Average | 7.83% | 7.89% | 8.29% |
| Change (Basis Points) | — | –6 | –46 |
| **RESIDUAL CAP RATE** | | | |
| Range | 6.50%–10.50% | 6.50%–10.50% | 8.00%–10.50% |
| Average | 8.31% | 8.44% | 8.92% |
| Change (Basis Points) | — | –13 | –61 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | 0.00%–6.00% | 0.00%–6.00% | 0.00%–6.00% |
| Average | 2.55% | 2.35% | 2.28% |
| Change (Basis Points) | — | +20 | +27 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 2.50%–3.00% | 2.00%–3.00% | 2.00%–3.00% |
| Average | 2.94% | 2.83% | 2.88% |
| Change (Basis Points) | — | +11 | +6 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 2.00–12.00 | 2.00–12.00 | 2.00–12.00 |
| Average | 5.50 | 5.64 | 6.33 |
| % Change | — | –2.48 | –13.11 |

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

# Washington, DC Metro– Northern Virginia Office Market

DUE TO A SIGNIFICANT AMOUNT OF LEASING ACTIVITY AND A DRAMATIC SLOWDOWN IN NEW CONSTRUCTION, THE FUNDAMENTALS OF THE NORTHERN VIRGINIA OFFICE MARKET HAVE STRENGTHENED CONSIDERABLY OVER THE PAST SEVERAL MONTHS. "Some large tenant leases have really helped to push vacancy rates down," confirms a participant. Much of the recent demand for space has come from the federal government. Specifically, the General Services Administration leased close to 100,000 square feet of space for five years at Two Ballston Plaza. Located in Arlington, this space will become the main office of the U.S. Department of Homeland Security.

In another large lease transaction, government defense contractor Northrop Grumman Information Technology inked a deal for 166,500 square feet of space at 15036 Conference Center Drive in Independence Center in Chantilly. This lease represents close to 50.0% of the Class-A, six-story building's rentable area. Entities unrelated to the federal government have also been busy signing new leases. Management consultants Booz Allen Hamilton, for example, signed a deal in the first quarter of 2004 to occupy 242,000 square feet – more than 50.0% of the space – at 13200 Woodland Park Drive (also known as One Dulles Tower).

In all, a total of 3.4 million square feet of leasing activity occurred in Northern Virginia in the first quarter of 2004, according to Cushman & Wakefield (C&W). That figure represents the highest amount recorded for the 41 suburban office markets analyzed by them during that time. When factoring in additions to supply, as well as space vacated by tenants, direct absorption totaled 577,619 square feet for that time period, the third highest level recorded for the 41 suburban office markets analyzed by C&W.

As this market shows marked improvement and is likely to continue to hedge toward a recovery, an increasing number of properties have come to market. Corporate Pointe Three located in Chantilly, for example, was recently placed up for sale. Although no asking price was available at the time of this writing, this 115,000-square-foot, Class-A property is reportedly fully leased to six tenants, including Kimberly-Clark and AAA Mid-Atlantic, and has no significant lease expirations until 2010. Such characteristics have some investors speculating that bids could be well above $200.00 per square foot.

Aside from stable, well-leased assets, an increasing number of office properties with empty space are being placed up for sale, too. "Some owners are looking to exit now, while capital is plentiful and buyer demand is hot," explains a participant. Still, in a market where some developers start to plan new buildings anytime vacancy rates begin to decline, few buyers are enticed by such buildings for now. ✦

Table 18

**WASHINGTON, DC METRO– NORTHERN VIRGINIA OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 8.50%–12.50% | 8.50%–12.50% | 9.50%–13.50% |
| Average | 10.42% | 10.43% | 11.34% |
| Change (Basis Points) | — | –1 | –92 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 7.25%–10.50% | 7.50%–10.50% | 8.00%–11.00% |
| Average | 8.91% | 9.11% | 9.54% |
| Change (Basis Points) | — | –20 | –63 |
| **RESIDUAL CAP RATE** | | | |
| Range | 7.50%–10.50% | 7.50%–11.00% | 8.00%–11.00% |
| Average | 9.02% | 9.29% | 9.61% |
| Change (Basis Points) | — | –27 | –59 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | 0.00%–3.00% | 0.00%–3.00% | 0.00%–3.00% |
| Average | 0.67% | 0.57% | 0.50% |
| Change (Basis Points) | — | +10 | +17 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 3.00%–3.00% | 2.00%–3.00% | 2.00%–3.00% |
| Average | 3.00% | 2.88% | 2.89% |
| Change (Basis Points) | — | +12 | +11 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 2.00–12.00 | 2.00–12.00 | 2.00–12.00 |
| Average | 6.50 | 6.75 | 6.43 |
| % Change | — | –3.70 | +1.09 |

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

# Washington, DC Metro–Suburban Maryland Office Market

AS THE SUBURBAN MARYLAND OFFICE MARKET CONTINUES TO LURE NONBIOTECH TENANTS FROM NEIGHBORING AREAS, AN INCREASING NUMBER OF INVESTORS ARE LOOKING AT THIS MARKET IN A FAVORABLE LIGHT. "This market is really turning out to be much more diversified in terms of its tenant composition, which is more appealing to investors" explains a participant. In total, 18 office properties were either sold or contacted in the six months leading up to May 2004, according to Real Capital Analytics, Inc. The average sale price for these transactions was $173.00 per square foot, well above the national average for that time period.

Although it still remains a top pick for biotech firms, several nonhealth companies have recently committed to space there. The Mills Corporation, for example, one of the country's largest owners and developers of retail properties, recently signed a deal to relocate from Arlington, Virginia to Chevy Chase, Maryland. The company preleased 204,147 square feet of space at 5425 Wisconsin Avenue, a 412,000-square-foot, mixed-use facility currently under construction and slated for delivery in the second quarter of 2006.

Another nonbiotech tenant that has committed to space in the Suburban Maryland office market is TV One, a newly-created cable channel created jointly by Radio One and Comcast. This tenant, which reportedly also looked at space in the nearby District, inked a deal for 16,000 square feet of space at 1010 Wayne Avenue in Silver Springs. With the addition of TV One, Silver Springs is solidifying its role as the media center for the Washington, DC metropolitan area. Other media tenants located there include Discovery Communications, Telefutura, and Univision.

Other companies that have completed lease transactions throughout this market include American Nurses Association, University of Maryland, and Fannie Mae. Combined with numerous other tenant deals, leasing activity totaled 787,540 square feet in the first quarter of 2004 in this market, according to Cushman & Wakefield. Unfortunately, much of the leasing activity involved tenant reshuffling and relocation. As a result, this market's overall vacancy rate at the end of the first quarter of 2004 remained relatively unchanged from the prior quarter. Nevertheless, it was down from the prior year. The overall vacancy rate trends for this market are shown in the table below. ✥

**OVERALL VACANCY RATE CHANGES**
**SUBURBAN MARYLAND**

| Quarter | Overall Vacancy Rate |
|---|---|
| 1Q04 | 14.8% |
| 4Q03 | 14.4% |
| 3Q03 | 11.0% |
| 2Q03 | 16.7% |
| 1Q03 | 20.2% |

Source: Cushman & Wakefield

Table 19

**WASHINGTON, DC METRO–SUBURBAN MARYLAND OFFICE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 9.00%–12.50% | 8.00%–12.50% | 9.00%–14.00% |
| Average | 10.27% | 10.27% | 11.33% |
| Change (Basis Points) | — | 0 | –106 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 7.50%–10.50% | 7.50%–10.50% | 7.50%–10.50% |
| Average | 8.63% | 8.59% | 9.07% |
| Change (Basis Points) | — | +4 | –44 |
| **RESIDUAL CAP RATE** | | | |
| Range | 7.50%–11.00% | 7.50%–11.00% | 8.00%–11.00% |
| Average | 9.18% | 9.08% | 9.50% |
| Change (Basis Points) | — | +10 | –32 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | 0.00%–3.00% | 0.00%–3.00% | 0.00%–3.00% |
| Average | 1.57% | 1.56% | 1.43% |
| Change (Basis Points) | — | +1 | +14 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 3.00%–3.00% | 2.00%–3.00% | 2.00%–3.00% |
| Average | 3.00% | 2.93% | 2.93% |
| Change (Basis Points) | — | +7 | +7 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 2.00–18.00 | 2.00–18.00 | 2.00–18.00 |
| Average | 7.92 | 7.50 | 8.20 |
| % Change | — | +5.60 | –3.41 |

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

# National Flex/R&D Market

WITH MANY INDIVIDUAL FLEX/R&D MARKETS CONTINUING TO POST INCREASES IN VACANCY RATES AND DECLINES IN RENTAL RATES, INVESTMENT TRANSACTIONS IN THIS SECTOR HAVE BEEN WELL BELOW THOSE OF THE NATIONAL WAREHOUSE MARKET. Specifically, a total of 154 flex properties were either sold or contracted across the country during the six months leading up to May 2004, according to Real Capital Analytics, Inc. (RCA). By comparison, a total of 577 warehouse industrial properties were either sold or contracted throughout the country during that time period.

Similar to the warehouse market, most of the recent sale transactions in the flex/R&D market have occurred in the Western region of the country in markets such as Los Angeles, Portland, Silicon Valley, and San Diego. According to RCA, a total of 118 flex properties were sold in that region at an average price of $117.00 per square foot between April 2003 and March 2004. While this figure represented the highest average for the six regions of the country, it reflects the fact that many of the industrial markets located there have maintained favorable market fundamentals during the downturn.

The following table displays the average sale price of flex properties for each region of the country between April 2003 and March 2004. In sharp contrast to the Western region of the country, the Midwest region recorded both the lowest average sale price and the lowest number of flex property trades between April 2003 and March 2004, according to RCA. In total, only 22 flex assets were sold during that time period. Not surprisingly, the bulk of these flex sales occurred in the Chicago metropolitan area, an established industrial hub that boasted an overall industrial availability rate of 12.2% in the first quarter of 2004, according to Torto Wheaton Research.

Even though transaction volume for flex/R&D properties has been low in comparison to other property types, this market's average overall capitalization rate (OAR) has continued to drop since year-end 2002. This quarter, the average OAR slipped 21 basis points to reach 8.81%, a 70-basis-point decrease from one year ago.

While this decline mirrors a national trend of declining overall cap rates, it also reflects the expectation of property value appreciation. In fact, according to some participants, property values for this sector are forecast to increase as much as 5.0% over the next 12 months. The average expected increase is 1.86%, well above that expected for the national warehouse market. ✦

**FLEX PROPERTIES**
12 MONTHS ENDING MARCH 31, 2004

| Region | Average Sale Price Per Sq. Ft. |
|---|---|
| Mid-Atlantic | $90.00 |
| Midwest | $45.00 |
| Northeast | $75.00 |
| Southeast | $78.00 |
| Southwest | $88.00 |
| West | $117.00 |

Source: Real Capital Analytics, Inc.

Table 20

**NATIONAL FLEX/R&D MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 8.50%–12.00% | 9.00%–12.00% | 9.50%–13.00% |
| Average | 10.20% | 10.53% | 11.02% |
| Change (Basis Points) | — | –33 | –82 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 7.50%–10.50% | 7.50%–10.50% | 7.50%–12.00% |
| Average | 8.81% | 9.02% | 9.51% |
| Change (Basis Points) | — | –21 | –70 |
| **RESIDUAL CAP RATE** | | | |
| Range | 7.50%–11.00% | 8.00%–11.00% | 8.50%–12.00% |
| Average | 9.25% | 9.44% | 9.67% |
| Change (Basis Points) | — | –19 | –42 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | -5.00%–3.00% | -5.00%–3.00% | -10.00%–3.00% |
| Average | 1.29% | 1.19% | 1.00% |
| Change (Basis Points) | — | +10 | +29 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 2.00%–3.00% | 2.00%–3.00% | 2.00%–3.00% |
| Average | 2.96% | 2.96% | 2.96% |
| Change (Basis Points) | — | 0 | 0 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 3.00–18.00 | 3.00–18.00 | 3.00–18.00 |
| Average | 7.50 | 7.50 | 7.50 |
| % Change | — | 0 | 0 |

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

# National Warehouse Market

EVEN THOUGH THE NATIONAL WAREHOUSE MARKET AS A WHOLE CONTINUES TO EXPERIENCE AN INCREASE IN SPACE AVAILABILITY, AN INCREASING NUMBER OF INVESTORS AND LANDLORDS ARE OPTIMISTIC THAT IMPROVEMENTS IN BOTH U.S. PRODUCTION OF GOODS AND INVENTORY LEVELS WILL SOON FOSTER MORE DEMAND FOR INDUSTRIAL SPACE. “There are more serious prospects looking for space now than compared to six to eight months ago, but there still seems to be no urgency in executing deals,” explains a participant. Unfortunately, hesitation on the part of tenants to ink deals will only delay this sector’s rebound.

Although some of the tenants now shopping for space are looking either to relocate or to expand operations within their current market, others are looking to enter new markets. “We’ve had a few new companies looking at our properties in both Texas and Florida,” shares a participant. And this trend appears to be occurring elsewhere in the country as well. In the Sacramento region of California, for example, Kohl’s, Lowe’s, Wal-Mart, and PepsiCo are reportedly looking for giant warehouses, as well as vacant land for new development. In total, these four companies are scouting for 4.5 million square feet of warehouse space in the Sacramento area, a central location on the West Coast that has historically been a top distribution location for many major national retailers.

While no individual warehouse market in the country has been immune to the recent recession and slow-moving economic recovery, some have been less ill affected than others. For the most part, warehouse markets linked to seaports and international trade, such as Atlanta, Miami, Northern New Jersey, and Los Angeles, have outperformed the nation as a whole. According to Torto Wheaton Research, the top- and bottom-performing metropolitan markets during the first quarter of 2004 are shown in the table to the left.

Due to its dominant performance, investment activity of warehouse product on Long Island has been quite robust over the past six months. Specifically, 113 properties totaling 8.4 million square feet were sold in Long Island (and the outer boroughs of New York) during the six months preceding May 2004, according to Real Capital Analytics, Inc. These properties traded at an average price of $55.00 per square foot or 122.2% of the national average for that time period. ◆

**AVAILABILITY RATE**

| Top Five Markets | First Quarter 2004 |
|---|---|
| Los Angeles | 6.80% |
| Long Island | 7.00% |
| Riverside | 7.20% |
| Westchester | 7.80% |
| Orange County | 8.88% |
| Albuquerque | 8.88% |
| **Bottom Five Markets** | |
| Raleigh | 22.40% |
| Pittsburgh | 22.30% |
| Austin | 20.90% |
| San Jose | 16.30% |
| Atlanta | 16.20% |
| All major markets | 11.70% |

Source: Torto Wheaton Research

Table 21

**NATIONAL WAREHOUSE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 8.00%–11.50% | 8.00%–11.50% | 9.00%–11.50% |
| Average | 9.53% | 9.64% | 10.20% |
| Change (Basis Points) | — | –11 | –67 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 6.50%–10.00% | 7.00%–10.25% | 7.50%–11.00% |
| Average | 8.35% | 8.45% | 8.82% |
| Change (Basis Points) | — | –10 | –47 |
| **RESIDUAL CAP RATE** | | | |
| Range | 7.00%–11.00% | 7.50%–11.00% | 8.00%–11.00% |
| Average | 8.89% | 8.98% | 9.34% |
| Change (Basis Points) | — | –9 | –45 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | -5.00%–5.00% | -5.00%–5.00% | -5.00%–5.00% |
| Average | 1.68% | 1.57% | 1.50% |
| Change (Basis Points) | — | +11 | +18 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 2.00%–3.00% | 2.00%–3.00% | 2.00%–3.00% |
| Average | 2.93% | 2.93% | 2.97% |
| Change (Basis Points) | — | 0 | –4 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 2.00–12.00 | 2.00–12.00 | 2.00–12.00 |
| Average | 6.54 | 6.54 | 6.54 |
| % Change | — | 0 | 0 |

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

# National Apartment Market

EVEN THOUGH VACANCY RATES CONTINUE TO INCH UPWARD IN MANY APARTMENT MARKETS ACROSS THE COUNTRY, TRANSACTION ACTIVITY IN THE NATIONAL APARTMENT MARKET REMAINS VERY ROBUST. "Good, stable properties placed up for sale are still being scooped up pretty quickly, even though fundamentals are soft," confirms a participant. Although some investors have been acquiring properties in "internal" markets, such as Phoenix and Dallas, most continue to favor markets along both the East and West Coasts of the country.

On the West Coast, investors remain drawn to Southern California, where rising home values have forced many individuals out of the "buying" market and into the "renting" one. "There's a frenzy among buyers to get product in Southern California," attests a participant. Unfortunately for these eager buyers, an imbalance between product availability and investment demand has caused prices to continue to rise there. Le Club, for example, a 370-unit garden apartment complex in Moorpark, recently sold for $158,100 per unit. In another transaction, Palm Lake Villas, a 220-unit Class-A complex located in Palm Desert was acquired for nearly $95,500 per unit.

Although single-property apartment transfers constitute the bulk of transactions occurring in this property sector, portfolios are also trading. Sterling American Property Inc., for example, recently acquired a 1,737-unit, multi-family portfolio of nine properties located throughout Texas for $46.0 million or $26,482 per unit. And, an undisclosed buyer purchased a 1,091-unit, multi-family portfolio of five properties located throughout Atlanta for $109.6 million or $100,500 per unit.

As prices have risen, overall capitalization rates (OARs) have declined and remain on a downward trend. This quarter, the average OAR for this market dipped 12 basis points to reach 7.13%, the lowest rate ever posted for this property segment in our Survey. On top of this shift, the low end of the range for this key indicator dipped 25 basis points to reach 5.25%, another record low for this market. "We used to gasp when we heard of a property trading at below 6.0%, but it's almost commonplace now in certain parts of the country," explains a participant. The following table tracks the recent changes in this market's average OAR, according to our Survey.

**Table 22**

**NATIONAL APARTMENT MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 7.50%–12.50% | 8.00%–12.50% | 9.00%–13.00% |
| Average | 9.77% | 9.95% | 10.51% |
| Change (Basis Points) | — | –18 | –74 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 5.25%–9.25% | 5.50%–9.25% | 5.50%–9.50% |
| Average | 7.13% | 7.25% | 7.92% |
| Change (Basis Points) | — | –12 | –79 |
| **RESIDUAL CAP RATE** | | | |
| Range | 6.00%–9.50% | 6.00%–9.50% | 6.50%–10.00% |
| Average | 7.93% | 8.05% | 8.30% |
| Change (Basis Points) | — | –12 | –37 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | -2.00%–4.00% | -2.00%–4.00% | -2.00%–5.00% |
| Average | 1.47% | 1.53% | 1.91% |
| Change (Basis Points) | — | –6 | –44 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 2.00%–3.50% | 2.00%–3.50% | 2.00%–4.00% |
| Average | 2.77% | 2.79% | 2.91% |
| Change (Basis Points) | — | –2 | –14 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 2.00–9.00 | 2.00–9.00 | 2.00–9.00 |
| Average | 5.59 | 5.62 | 5.75 |
| % Change | — | –0.53 | –2.78 |

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

**AVERAGE OVERALL CAPITALIZATION RATES**

| Quarter | Average | Change (Bpts) |
|---|---|---|
| 2Q04 | 7.13% | -12 |
| 1Q04 | 7.25% | -20 |
| 4Q03 | 7.45% | -16 |
| 3Q03 | 7.61% | -31 |
| 2Q03 | 7.92% | -22 |
| 1Q03 | 8.14% | — |

With positive demographic trends, such as increasing levels of immigration, rising number of single-person households, and aging echo boomers, expected to keep demand for rental housing strong, few investors except prices and cap rates to change significantly anytime soon. ◆

# National Net Lease Market

WITH SO MANY INVESTORS LOOKING TO PLACE CAPITAL INTO THE NATIONAL NET LEASE MARKET, THE MOST COMMON WORDS USED BY INVESTORS TO DESCRIBE THIS MARKET CONTINUE TO BE "FIERCE," "OVERHEATED," AND "AGGRESSIVE." The main reason for such intense descriptions is that too much buyer demand combined with too little available product has made acquiring single-tenant assets very tough. "We continue to struggle to invest all the capital we've raised over the last 12 to 18 months," shares a participant, who also notes that it's increasingly difficult to find conservative replacement properties for 1031 exchanges.

Although many investors point out that new product becomes available for sale on a daily basis, few assets possess the right combination of mature cash flows, acceptable credit ratings, and desirable location. Unfortunately, with so many buyers vying for so few quality assets, some investors find themselves losing more deals now than they have in the past. "In the past month, we have definitely lost many more than we have won," reveals a participant, who points out that foreign investors have recently been some of the most aggressive buyers in the net lease market. One reason for the influx of off-shore money is that this market's current low returns do not trouble many European investors. "A lot of foreign money finds safe harbor here," adds the participant.

While the downward trend in overall capitalization rates (OARs) is intriguing to foreign investors, it is frustrating to many "local" investors. "With demand pushing cap rates to extremely low levels and rising prices creating residual problems, we may have to move to the sideline," attests a participant. And according to another participant, "In some recent deals, the cap rates have approached 6.50%, we just shake our heads." Unfortunately for exasperated investors, the average OAR declined 28 basis points this quarter to reach 8.00%, the lowest average ever reported for this market in our Survey. By comparison, this market's average OAR was 9.32% when it debuted in this Survey in the first quarter of 2000. The table to the left tracks the changes in this market's average OAR for the past two years.

AVERAGE
OVERALL CAPITALIZATION RATES
2Q02 - 2Q04

| Quarter | Average | Change (Bpts) |
|---|---|---|
| 2Q04 | 8.00% | -28 |
| 1Q04 | 8.28% | -10 |
| 4Q03 | 8.38% | +5 |
| 3Q03 | 8.33% | -27 |
| 2Q03 | 8.60% | -9 |
| 1Q03 | 8.71% | -6 |
| 4Q02 | 8.78% | -22 |
| 3Q02 | 9.00% | -15 |
| 2Q02 | 9.15% | — |

With so much capital flooding this market and alternative investments less appealing, many investors expect OARs to remain low for quite some time. As one participant quips, "I thought that cap rates would decline a bit when interest rates were inching up, but that was just wishful thinking!" ◆

Table 23

**NATIONAL NET LEASE MARKET**
Second Quarter 2004

| KEY INDICATORS | CURRENT QUARTER | LAST QUARTER | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[a]** | | | |
| Range | 9.50%–12.00% | 9.50%–12.00% | 9.50%–12.00% |
| Average | 10.50% | 10.64% | 10.71% |
| Change (Basis Points) | — | –14 | –21 |
| **OVERALL CAP RATE (OAR)[a]** | | | |
| Range | 6.80%–10.00% | 6.80%–10.25% | 7.50%–10.00% |
| Average | 8.00% | 8.28% | 8.60% |
| Change (Basis Points) | — | –28 | –60 |
| **RESIDUAL CAP RATE** | | | |
| Range | 7.50%–10.00% | 7.50%–10.00% | 8.00%–10.00% |
| Average | 9.20% | 9.30% | 9.38% |
| Change (Basis Points) | — | –10 | –18 |
| **MARKET RENT CHANGE RATE[b]** | | | |
| Range | 2.50%–3.00% | 2.00%–3.00% | 2.00%–3.00% |
| Average | 2.75% | 2.60% | 2.65% |
| Change (Basis Points) | — | +15 | +10 |
| **EXPENSE CHANGE RATE[b]** | | | |
| Range | 1.50%–3.00% | 1.50%–3.00% | 2.00%–3.00% |
| Average | 2.60% | 2.46% | 2.58% |
| Change (Basis Points) | — | +14 | +2 |
| **AVERAGE MARKETING TIME (in months)** | | | |
| Range | 1.00–6.00 | 1.00–6.00 | 2.00–12.00 |
| Average | 3.67 | 3.86 | 5.08 |
| % Change | — | –4.92 | –27.76 |

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.*

### TIMES ARE CHANGING

It was not too long ago that the downward slide of the golf industry seemed incessant and the typical news story of the day focused on either the financial troubles of another golf company or a fire sale. Now, evidence of a reversal of the downward skid is apparent. Is a recovery and expansion phase next to follow? The short answer appears to be yes, as more and more indicators suggest that the golf industry is indeed rebounding. While the current signs of recovery and growth do not mirror the "go-go" times of the mid-to-late 1990s, the golf industry's housecleaning efforts, a dramatic reduction in new construction, and an improving U.S. economy have combined to offer tangible evidence of a turnaround.

### INVESTMENT HIGHLIGHTS

Aside from Phil Michelson's much publicized win at The 2004 Masters, one of the biggest news items to hit the industry this year is the recent acquisition by CNL Hospitality Properties, Inc., an Orlando-based real estate investment trust, of the KSL Recreation portfolio from KSL Recreation Corporation, one of the nation's leading owners and operators of upscale destination resorts. This $2.2 billion transaction includes a total of 18 golf courses and 3,351 rooms. Two of the premier properties included in this transaction are highlighted below.

Grand Wailea Resort & Spa sits on 40 oceanfront acres at the base of Mount Haleakala in Maui and offers 780 luxury hotel rooms, six restaurants, meeting space, and a 50,000-square-foot European-style spa and fitness center, and three golf courses.

Doral Golf Resort & Spa in Miami, Florida includes a 692-room resort, a 50,000-square-foot spa, a 92,000-square-foot conference center, and five golf courses, including the famous Blue Monster course.

In other major investment news, American Golf reportedly is moving out of Texas and has placed 21 of its 27 facilities in Texas up for sale. The assets include nine private courses, five semi-private courses, and seven daily-fee courses and are located in Houston, Dallas, San Antonio, and Austin.

While prospects have shown interest in the entire portfolio, a number of industry sources believe that an alternative disposition option may be to sell the assets in groups of two and three properties. American Golf, however, wants to avoid selling the courses individually, since a large number of separate buyers would need to be found. Additionally, the closing of single-asset deals generally involves a more protracted allocation of resources than portfolio deals.

Fortunately for American Golf, many industry insiders feel that the timing of placing this Texas portfolio on the market

Table 24

**KEY GOLF INDICATORS[a]**
Spring 2004

| | SPRING 2004 | FALL 2003 | YEAR AGO |
|---|---|---|---|
| **DISCOUNT RATE (IRR)[b]** | | | |
| Range | 9.00%–21.00% | 9.00%–23.00% | 10.00%–24.50% |
| Average | 14.00% | 14.10% | 14.40% |
| Change (Basis Points) | — | –10 | –40 |
| **OVERALL CAP RATE (OAR)[b]** | | | |
| Range | 4.90%–21.20% | 5.67%–23.10% | 7.20%–19.00% |
| Average | 10.98% | 11.10% | 11.25% |
| Change (Basis Points) | — | –12 | –27 |
| **NET INCOME MULTIPLIER (NIM)[b,c]** | | | |
| Range | 4.30–18.20 | 4.10–16.50 | 5.25–13.00 |
| Average | 9.29 | 9.15 | 8.85 |
| Change (%) | — | +1.50% | +4.74% |
| **RESIDUAL CAP RATE[d]** | | | |
| Range | 8.90%–13.25% | 8.80%–13.50% | 9.10%–13.70% |
| Average | 11.00% | 11.05% | 11.15% |
| Change (Basis Points) | — | –5 | –15 |
| **REVENUE CHANGE RATE[e]** | | | |
| Range | 1.00%–4.00% | 1.00%–3.50% | 0.50%–4.00% |
| Average | 2.80% | 2.75% | 2.70% |
| Change (Basis Points) | — | +5 | +10 |
| **EXPENSE CHANGE RATE[e]** | | | |
| Range | 1.00%–4.00% | 1.00%–4.00% | 1.00%–4.50% |
| Average | 2.80% | 2.80% | 2.95% |
| Change (Basis Points) | — | 0 | –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.

is relatively good, as more investors have entered the market and the economy continues to show positive momentum. Nevertheless, our research reveals that single-asset deals still drive sales velocity in the golf industry.

### Management Opportunities

While many companies continue to expand their portfolios through acquisitions, others have shifted their attention to opportunities in the private equity club management arena, where traditionally the elected member board administers club management. Like other clubs, private equity clubs continue to feel the pinch of competition and changing demographics and lifestyles. As a result, they have turned to outside management for assistance.

The benefits of outsourcing management are numerous. Foremost, members are provided needed management oversight, operating continuity, long-term planning programs, access to a network of experts, better control of costs, and improved efficiencies. Under this type of arrangement, the club membership still maintains control of the club and its long-term direction, but is able to avoid the many pitfalls that are common to equity clubs, such as inconsistent oversight and the potential likelihood of incurring avoidable special assessments that result from operating issues.

### Key Indicators

As shown in Table 24, the average net income multiplier (NIM), which is defined as price divided by net operating income, increased marginally to 9.29 in Spring 2004 and has continued to experience marginal improvement over the past year. By comparison, the average overall capitalization rate, which is the inverse of the NIM, dropped below 11.00% for the first time since before 9/11. Although such a decline is viewed as a promising sign for the industry by some investors, it is too soon to tell if a long-term trend will materialize.

Another indicator of this sector's improved underlying fundamentals is the continuous drop in average marketing time. As indicated in Table 25, the average marketing time fell to 8.40 months in Spring 2004, down from 8.90 months a year ago. Such a steady decline suggests that more investors have stepped off the sideline and onto the playing field, a trend that most experts anticipate will continue through 2004 and into 2005.

### Summary

As predicted in our last National Golf Market report in the fourth quarter 2003 issue of this Survey, the improving economy has given a needed shot in the arm to the golf industry. While the current signs of recovery fail to mirror the fast-paced times of the mid-to-late 90s, they do offer sufficient positive evidence that the industry's housecleaning efforts, dramatic reduction in new construction, and an improving economy have combined to bring about a turnaround in underlying fundamentals. Most experts anticipate these favorable trends to continue through 2004 and into 2005, tempered to some degree by one of the industry's biggest challenges – how to increase the number of golfers.

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 25

**NATIONAL GOLF MARKET***

Spring 2004

| | SPRING 2004 | FALL 2003 | YEAR AGO |
|---|---|---|---|
| SELLING EXPENSE[A] | | | |
| Range | 0.50% to 6.50% | 1.00% to 6.15% | 0.80% to 6.30% |
| Average | 3.40% | 3.60% | 3.30% |
| Change (Basis Points) | — | –20 | +10 |
| MARKETING TIME (in months) | | | |
| Range | 2.00 to 18.00 | 3.00 to 16.00 | 2.50 to 19.00 |
| Average | 8.40 | 8.70 | 8.90 |
| Change (%) | — | –3.57% | –5.95% |
| CAPITAL RESERVE[B] | | | |
| Range | 1.00% to 11.00% | 1.00% to 12.00% | 1.00% to 12.00% |
| Average | 3.40% | 3.35% | 3.60% |
| Change (Basis Points) | — | +5 | –20 |
| MANAGEMENT FEE | | | |
| Base Fee | | | |
| Range | $38,900 to $434,000 | $37,500 to $485,000 | $40,100 to $380,000 |
| Average | $88,150 | $87,400 | $86,400 |
| Change ($) | — | +$750 | +$1,750 |
| Incentive (% of NOI)[C] | | | |
| Range | 1.00% to 50.00% | 1.00% to 40.00% | 2.50% to 30.00% |
| Average | 11.12% | 10.60% | 10.20% |
| Change (Basis Points) | — | +52 | +92 |
| Incentive (% of gross income) | | | |
| Range | 2.00% to 7.00% | 2.00% to 6.50% | 2.00% to 8.00% |
| Average | 4.16% | 3.90% | 4.10% |
| Change (Basis Points) | — | +26 | +6 |

* Data relating to discount, overall, and residual cap rates and changes rates are published every second and fourth quarters only.
A. Some respondents reported an initial flat fee. Selling expenses are generally inversely related to the price of the golf course.
B. As a % of gross income; upper end of the range typical of private clubs that own the majority of their own equipment. Courses or clubs that lease equipment have lower reserves.
C. Some respondents reported a base management fee as a percentage of gross income plus an incentive fee based on a percentage of net income as contractually defined.

# National Development Land Market

EVEN THOUGH THE U.S. ECONOMY IS ON THE MEND AND MUCH OF THE REAL ESTATE INDUSTRY IS AT, OR CLOSE TO, THE BOTTOM OF THE DOWNTURN, IT WILL LIKELY BE SOME TIME BEFORE THE NATIONAL DEVELOPMENT LAND MARKET IS ABUZZ WITH ACTIVITY. "Very few development opportunities exist right now," shares a participant. The main reason is that much of the real estate industry, with the exception of both single-family residential and the retail sector, continues to deal with oversupply issues. "Until we see real solid trends emerge, we'll just take it easy and work off our current inventory," reveals another.

In the office sector, lackluster job growth is the main culprit for stale office-space demand, while a sluggish economy is to blame for the reduced demand for space in the industrial sector. And in the apartment sector, continuous additions to supply and a slow-moving economy have combined to hinder fundamentals. In addition, low interest rates have allowed many would-be apartment renters to become homeowners. Regardless of this current malaise, the fact that many developers "sense that the worst is over" has caused a variety of commercial construction to start in certain markets. Until the economy shows definite signs of improvement, however, development land opportunities will remain very limited.

## DISCOUNT RATES

Even though limited development opportunities still exist throughout much of the real estate industry, the average discount rate remained unchanged over the past six months (see Exhibit L-1). The rates shown assume that entitlements are in place. Discount rates for projects that lack entitlements are typically increased between 300 and 1,000 basis points; the average increase is 542 basis points. This range and average are also unchanged from our last report in this market.

Metropolitan areas expected to experience strong demand for retail space over the next few years include Dallas-Fort Worth, San Diego, and Las Vegas. In addition, many sections of Florida, including Orlando, Fort Lauderdale, and Tampa are strong prospects for retail development due to the state's population growth.

Exhibit L-1

**DISCOUNT RATES (IRRs) INCLUDING DEVELOPER'S PROFIT**
Second Quarter 2004

| | CURRENT QUARTER | FOURTH QUARTER 2003 |
|---|---|---|
| Free & Clear | | |
| RANGE | 11.00% - 30.00% | 11.00% - 30.00% |
| AVERAGE | 18.45% | 18.45% |
| CHANGE | — | 0 |
| Subject to Financing | | |
| RANGE | 15.00% - 20.00% | 15.00% - 20.00% |
| AVERAGE | 18.13% | 18.13% |
| CHANGE | — | 0 |

## PROPERTY TYPES

### Retail

As the retail sector continues to perform well, development opportunities exists across all three property types – grocery-anchored centers, regional malls, and power centers. In fact, construction of big-box and discount stores spiked in 2003, according to the U.S. Commerce Department. Wal-Mart, the nation's largest retailer, plans to add 306 stores nationwide in fiscal year 2004, while The Home Depot expects to open 175 new stores.

Other big-box chains that plan to expand this year include Lowe's and Target, which are looking to add 140 and 100 stores, respectively. And Costco plans to construct 30 new stores. Aside from big-box development, the expansion of many grocery stores will also continue to fuel demand for retail sites in many areas. Publix, for example, plans to open 57 new stores in 2004.

### Office

Even though leasing activity is starting to increase in a number of office markets across the country, some investors believe that it is still too early to consider speculative office development. "Until we see concrete evidence of a turnaround, few new projects will break ground," comments a participant. The exception, however, involves those markets that received very few additions to supply during the downturn and that traditionally outperform the office sector as a whole, such as San Diego, Palm Beach, Long Island, and Washington, DC.

### Industrial

Even though many industrial markets continue to battle supply-demand imbalances due to a lack of demand, especially from mid-size space users, construction activity continues to occur. According to McGraw-Hill Construction, a division of McGraw-Hill Companies, warehouse construction advanced 3.0% between March 2003 and March 2004. With the U.S. economy showing improvement in both the production of goods and inventory levels, investors will likely continue to search for development land opportunities in the industrial sector. "We've seen a huge increase in inquiries from companies looking to bulk up their inventories," confirms a participant.

Going forward, markets that will likely present some of the best investment opportunities are those that have experienced limited additions to supply and steady demand over the past several months, such as Baltimore, Tampa, Long Island, and Las Vegas.

Another top choice for warehouse development has been Los Angeles, as well as neighboring Riverside County, where "jobs, sales, and income are all expected to grow at over 5.0% in 2005." In fact, construction is expected to start soon on Meridian, a 960-acre, master-planned business park on the site of the former March Air Force Base. In all, a total of 16 million square feet are planned for construction over the next 10 to 15 years.

### Apartment

Low interest rates for homebuyers may be pulling some demand from the apartment sector, but positive demographic trends, such as increasing levels of immigration, rising number of single-person households, and aging echo boomers, are keeping apartment construction levels very strong. The key to such investments, however, is location. Areas that may present some of the best opportunities for apartment development include Washington, DC, San Diego, Los Angeles, Phoenix, and Las Vegas. On the other hand, some investors suggest shying away from development in Atlanta, Dallas, and Houston, where continuous additions to supply have tarnished fundamentals.

### Single-family

Despite speculation that the Federal Reserve is preparing to raise interest rates, single-family residential construction remains very robust. In April 2004, single-family housing starts totaled 1.61 million, according to the U.S. Census Bureau. Although this figure is slightly below that of the prior month, it stands well above the March 2003 rate of 1.36 million. Until interest rates move much higher, the pace of homebuilding will likely remain strong. "Interest rates are not going to skyrocket overnight and even if they do go up, they are still way below pre-recession levels," explains a participant.

Metropolitan areas where single-family housing permits have been extremely strong include Atlanta, Dallas, Houston, Miami, Phoenix, Roanoke, and New York.

## 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, preferred absorption periods for participants ranged from 12 to 240 months. The mean absorption period is 62.0 months, or 5.2 years, unchanged over the past year.

## Forecast Assumptions

### Growth Rates for Lot Prices and Expenses

Growth rates for lot prices vary due to local market conditions. Participants report an overall range from 0.0% to 10.0% with a mean of 2.8%. Over the near term, most participants, 61.5%, forecast lot prices to increase at the rate of inflation. By comparison, 30.8% of them project increases greater than inflation, while the remainder expects increases less than inflation. Inflation growth rate assumptions range from 0.0% to 4.0% and average 2.2%.

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 2004 |
|---|---|
| Infrastructure | |
| RANGE | 2.00% - 5.00% |
| AVERAGE | 3.22% |
| Amenities | |
| RANGE | 2.00% - 5.00% |
| AVERAGE | 3.22% |
| Advertising | |
| RANGE | 2.00% - 4.00% |
| AVERAGE | 3.00% |
| Real Estate Taxes | |
| RANGE | 0.00% - 4.00% |
| AVERAGE | 2.38% |
| Administrative | |
| RANGE | 0.00% - 10.00% |
| AVERAGE | 3.63% |
| Contingency | |
| RANGE | 0.00% - 5.00% |
| AVERAGE | 3.00% |
| Other | |
| RANGE | 2.00% - 3.00% |
| AVERAGE | 2.75% |

## Outlook

As the real estate industry follows the U.S. economy into a recovery, development land opportunities should continue to increase across all property types. "We think that 2004 will be a good year and that 2005 will be even better," exclaims a participant. Identifying those markets that will offer the best opportunities, however, is a difficult task since most of them still face oversupply issues and are quite fragile. "We are sensing that things are improving, but we have a long way to go," states a participant.

Although some development land investors are preparing for the inevitable upturn by adding to their land inventories, elevated land prices will likely keep transactions to a minimum. "Land prices are trending upward because there is a shortage of good parcels and the cost to ready them for development keeps growing," explains a participant. Over the next 12 months, participants expect land values to increase as much as 25.0%. The average expected increase is 5.0%. ◆

## NATIONAL REGIONAL MALL MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2004

| | 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**<br>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% | 8.00% to 9.50% | 1.0% | 9.50% to 11.50% | 7.00% to 9.00% | 6 to 12 | 60.0% to 70.0% | 2.0% | $0.10 to $0.25 | 12 |
| **INVESTMENT BANKER ✦ Forecast Period: 10 years**<br>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% | 8.00% to 10.00% | 1.5% | 9.75% to 11.25% | 7.00% to 9.50% | 6 to 9 | 65.0% to 75.0% | 2.0% to 3.0% | $0.15 to $0.25 | 8 to 12 |
| **REIT ✦ Forecast Period: 10 years**<br>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. | 4.0% | 3.0% | 1.5% | 8.00% | 1.0% | 9.50% | 7.50% | 6 | 70.0% | 5.0% | $0.20 | 6 |
| **PENSION FUND ADVISOR ✦ Forecast Period: 10 years**<br>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 |
| **INVESTMENT BANKER ✦ Forecast Period: 10 years**<br>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% | 8.00% to 9.00% | 1.0% | 9.50% to 11.00% | 5.50% to 8.50% | 6 | 70.0% to 80.0% | 1.0% to 2.0% | $0.25 | 4 to 6 |
| **PENSION FUND ADVISOR ✦ Forecast Period: 10 years**<br>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% | 7.00% to 8.00% | 0.75% to 1.0% | 8.50% to 10.00% | 6.70% to 7.30% | 4 to 6 | 70.0% to 80.0% | 0.75% to 3.0% | $0.10 to $0.35 | — |

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

## NATIONAL POWER CENTER MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2004

| | 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**<br>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**<br>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% | 2.0% | 9.50% to 11.50% | 8.00% to 9.00% | 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**<br>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. | 2.0% to 3.0% Year 1; 3.0% thereafter | 3.0% | 3.0% | 9.50% to 10.00% | 2.0% to 2.5% | 9.00% to 10.00% | 8.00% to 9.00% | 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**<br>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% | 9.00% to 10.00% | 2.0% to 3.0% | 8.00% to 9.00% | 8.00% to 9.00% | 6 | 75.0% (nonanchors) | 3.0% | $0.10 to $0.15 | 4 to 6 |
| **LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years**<br>Uses mainly DCF analysis; in direct cap, capitalizes NOI before tenant improvements, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur. | 1.5% to 3.0% | 3.0% | 3.0% | 9.00% to 9.50% | 1.5% to 3.0% | 10.00% to 11.00% | 8.50% to 9.50% | 6 to 8 | 60.0% to 70.0% | 5.0% to 8.0% | $0.20 to $0.30 | 6 to 10 |
| **INVESTMENT ADVISOR ✦ Forecast Period: 5 years**<br>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% | 11.00% | 9.50% | 6 | 70.0% | 5.0% (nonanchors) | $0.20 | 9 |

PricewaterhouseCoopers

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

## NATIONAL STRIP SHOPPING CENTER MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2004

| | 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. | 1.5% to 3.0% | 3.0% | 2.5% | 8.00% to 10.00% | 2.0% to 4.0% | 9.00% to 11.00% | 7.50% to 9.50% | 3 to 9 (inline stores); 6 to 18 (anchors) | 60.0% to 70.0% | 5.0% to 10.0% | $0.20 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% | 9.00% to 11.50% | 2.0% | 10.00% to 12.00% | 8.50% to 11.00% | 4 to 8 | 65.0% | 5.0% to 7.5% | $0.15 | 6 to 9 |
| **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. | 2.0% to 3.0% Year 1; 3.0% thereafter | 3.0% | 3.0% | 8.50% to 9.50% | 2.0% to 3.0% | 9.00% to 10.50% | 8.00% to 9.00% | 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 |
| **INVESTMENT 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 and reflects concessions when they are scheduled to occur. | 3.0% | 3.0% | 3.0% | 8.00% to 9.00% | 1.5% | 9.00% to 10.50% | 6.50% to 8.50% | 6 | 70.0% | 2.0% | $0.25 | 4 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; does not use rent spikes. | 3.0% | 3.0% | 3.0% | 9.00% to 9.50% | 1.5% to 2.0% | 10.00% to 11.00% | 8.50% to 9.50% | 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% | 8.00% to 9.50% | 1.0% to 3.0% | 8.50% to 10.50% | 7.00% 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** Buys free and clear; interested in higher quality community centers; relies on DCF, uses direct capitalization as a check only; may apply rent spike if appropriate based on analysis of leases in place; uses face rents and reflects concessions when they are scheduled to occur; currently in reduction phase; some development interest. | 2.5% | 3.0% | 2.5% | 9.25% | 3.0% + any local tariffs | 10.75% | 9.25% | 7 | 65.0% | 7.0% | $0.15 | 6 |

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

## NATIONAL CBD OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2004

| | 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; uses rent spike of 5.0% to 8.0% during first five years in Southern California and Boston. | 0.0% to 5.6% Year 1 | 3.0% | 3.0% | 8.00% to 8.75% | 1.0% to 2.0% | 9.00% to 10.50% | 6.00% to 8.00% | 6 to 8 | 70.0% | 0.5% to 2.0% | $0.15 to $0.20 | — |
| **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% | 8.00% 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. | 1.0% | 3.0% | 2.0% to 3.0% | 8.75% to 9.50% | 2.0% | 10.00% to 10.75% | 8.50% to 9.00% | 5 to 10 | 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. | 1.0% | 3.0% | 2.5% | 9.50% | 3.0%+ local tariffs | 10.90% | 9.25% | 7 | 65.0% | 7.0% | $0.15 | 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% | 9.00% to 10.00% | 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. 8.0% to 3.0% | 3.0% | 2.5% | 7.50% to 11.00% | 1.5% to 4.0% | 9.00% to 11.00% | 7.00% to 10.00% | 6 to 18 | 50.0% to 65.0% | 5.0% to 15.0% | $0.20 to $0.50 | 3 to 9 |
| **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; uses rent spike in Northern California. | 0.0% | 3.0% | 3.0% | 7.50% to 9.25% | 2.0% | 9.00% to 11.00% | 7.50% to 9.00% | 9 to 12 | 60.0% | 7.0% to 10.0% | $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% | 7.50% to 9.00% | 1.0% to 2.0% | 8.00% to 10.00% | 7.00% to 9.00% | 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 2004.

## NATIONAL SUBURBAN OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2004

| | 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; uses rent spike of 4.0% to 10.0% during first four years in severely oversupplied markets. | 0.0% to 3.0% | 3.0% | 3.0% | 8.75% to 9.75% | 2.0% to 3.0% | 9.75% to 11.00% | 7.25% to 10.00% | 6 to 9 | 65.0% to 75.0% | 1.0% to 6.0% | $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. 8.0% to 3.0% | 3.0% | 2.5% | 8.50% to 11.00% | 1.5% to 4.0% | 9.50% to 12.00% | 7.50% to 11.00% | 6 to 12 | 50.0% to 70.0% | 5.0% to 15.0% | $0.15 to $0.50 | 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% | 3.0% | 2.5% | 9.50% | 3.0%+ any local tariffs | 11.00% | 9.50% | 7 | 65.0% | 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% | 11.00% to 12.00% | 9.50% to 10.50% | 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% | 11.00% to 11.50% | 12 | 60.0% to 70.0% | 5.0% | $0.15 to $0.30 | 5 |
| **PENSION FUND ADVISOR ✦ Forecast Period: 10 years** Relies on DCF, direct capitalization, and price per square foot; uses face rents and reflects concessions when they are scheduled to occur; uses rent spike in Northern California. | 0.0% | 3.0% | 3.0% | 8.25% to 9.50% | 2.0% to 3.0% | 10.00% to 12.00% | 7.25% to 9.25% | 9 to 12 | 60.0% | 7.0% to 10.0% | $0.30 to $0.50 | 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 3.0% over the forecast period | 3.0% | 9.00% to 10.00% | 1.5%; capped at $150,000 | 10.00% to 12.00% | 7.00% to 8.00% | 9 | 70.0% | 0.50% | $1.00 | 6 |

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

## ATLANTA OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2004

| | 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 OWNER/OPERATOR ✦ Forecast Period: 10 years** Mainly uses DCF analysis; 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% Year 1; 3.0% thereafter | Averages 3.0% over the holding period | 3.0% | 8.50% (CBD); 9.00% (suburbs) | 1.0% | 9.50% (CBD); 10.75% (suburbs) | 8.00% (CBD); 9.00% (suburbs) | 9 | 70.0% | 2.0% to 3.0% | $0.15 | 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; uses face rents and reflects concessions when they are scheduled to occur. | 0.0% to 3.0% | 3.0% | 3.0% | 9.00% (CBD); 9.25% (suburbs) | 2.0% | 10.00% (CBD); 10.00% to 11.00% (suburbs) | 8.00% to 8.50% (CBD); 9.00% to 10.00% (suburbs) | 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% | 9.00% (CBD); 9.75% (suburbs) | 3.0% | 10.50% (CBD); 11.00% (suburbs) | 9.00% (CBD); 9.75% (suburbs) | 6 to 8 | 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 2005 and 2006. | 1.0% to 2.0% | 1.5% to 2.5% | 2.0% | 9.00% to 9.50% (CBD); 9.50% to 10.00% (suburbs) | 1.0% to 3.0% | 9.50% to 11.00% (CBD); 9.50% to 11.00% (suburbs) | 8.50% to 9.50% (CBD); 7.50% to 9.50% (suburbs) | 6 to 9 | 65.0% to 70.0% | 7.0% | $0.10 to $0.20 | 1 to 2 |
| **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. | 0.0% Year 1 | 3.0% | 3.0% | 10.00% in both CBD and suburbs | 2.0% | 12.00% in both CBD and suburbs | 9.00% to 11.00% in both CBD and suburbs | 6 | 60.0% | 8.0% | $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 and reflects concessions when they are scheduled to occur. | 0.0% Year 1; 3.0% Years 2 to 4; 4.5% thereafter | 3.5% | 3.5% | 10.00% in both CBD & suburbs | 1.5% | 9.50% in both CBD & suburbs | 8.00% in both CBD & suburbs | 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 before TIs, leasing commissions, and capital replacement reserve. | 0.0% Year 1; 2.0% Year 2 | 3.0% | 3.0% | 9.25% (CBD); 9.50% (suburbs) | 1.5% to 2.0% | 9.00% in both CBD and suburbs | 8.00% in both CBD and suburbs | 8 | 70.0% | 10.0% | $0.15 | 9 |

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

## BOSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES*
Second Quarter 2004

| | 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; uses face rents and reflects concessions when they are scheduled to occur. | 0.0% | 3.0% | 3.0% | 8.25% (CBD); 8.75% to 9.25% (suburbs) | 2.0% to 3.0% | 10.00% (CBD); 10.50% (suburbs) | 8.00% (CBD); 9.00% (suburbs) | 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% | Based on estimate of residual value | 2.0% | 9.00% (CBD); 11.00% (suburbs) | 8.00% (CBD); 9.00% (suburbs) | 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% Years 1 and 2 | 3.0% | 3.0% | 9.50% (CBD); 10.50% (suburbs) | 1.5% | 11.00% (CBD); 13.00% (suburbs) | 10.00% (CBD); 11.25% (suburbs) | 9 | 60.0% | 5.0% | $0.30 | 12 to 24 |
| **INVESTMENT ADVISOR ✦ Forecast Period: 5 to 7 years** Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after 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% to 2.0% | 3.0% | 3.0% | 9.25% (CBD); 10.00% (suburbs) | 2.0% | 10.50% to 11.00% (CBD); 10.75% to 11.25% (suburbs) | 8.00% (CBD); 9.00% (suburbs) | 6 to 12 | 65.0% | 5.0% to 10.0% | $0.20 to $0.25 | 6 |
| **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. | Averages 2.0% over forecast period | 2.5% | 2.5% | 9.00% | 2.5% | 9.50% to 10.00% (CBD); 9.50% to 10.50% (suburbs) | 8.50% to 9.00% (CBD); 8.50% to 9.50% (suburbs) | 9 | 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 5 through 7. | 0.0% | 3.0% | — | 9.00% (CBD); 9.50% (suburbs) | 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% (CBD); 9.00% to 11.00% (suburbs) | 2.5% to 5.0% | 9.00% to 12.00% (CBD); 10.00% to 13.00% (suburbs) | 7.00% to 10.00% (CBD); 8.00% to 12.00% (suburbs) | 6 | 65.0% | 5.0% | $0.25 to $0.50 | 3 to 9 |

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

# CHICAGO OFFICE MARKET–INVESTOR SURVEY RESPONSES*

## Second Quarter 2004

| | 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 |
| **PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years**<br>Relies mainly on DCF analysis; also uses cost approach 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; uses rent spike of 4.0% in years 2007 and 2008 for suburban properties. | 0.0% Years 1-3 | 3.0% | 2.5% | 9.00% (CBD); 9.50% (suburbs) | 2.0% | 8.50% to 11.00% (CBD); 9.00% to 12.00% (suburbs) | 7.50% to 11.00% (CBD); 8.00% to 11.00% (suburbs) | 9 | 67.0% | 7.0% to 10.0% | $0.25 to $0.50 | 18 to 24 |
| **MORTGAGE BANKER ✦ Forecast Period: 10 years**<br>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 effective rent after all concessions are extracted. | 0.0% | 3.0% | 3.0% | 8.00% (CBD); 8.50% (suburbs) | 1.5% | 8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs) | 7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs) | 18 | 60.0% to 65.0% | 10.0% | $0.10 to $0.15 | 9 to 15 |
| **INSTITUTIONAL INVESTOR ✦ Forecast Period: 5 years**<br>Relies on DCF; forecasts higher expenses in Cook County; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses rent spike of 5.0% to 6.0% in 2006 in certain submarkets. | neg. 5.0% to 0.0% (CBD); neg. 2.0% (suburbs) | 3.0% | 3.0% | 8.00% to 10.00% (CBD); 9.00% to 11.00% (suburbs) | 2.0% to 4.0% | 13.00% | 8.00% to 10.00% (CBD); 9.00% to 11.00% (suburbs) | 24 to 36 (CBD); 18 to 24 (suburbs) | 65.0% | 10.0% to 15.0% | $0.25 to $0.35 | 6 to 9 |
| **INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years**<br>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% (CBD); 9.00% to 9.50% (suburbs) | 2.0% to 3.0% | 10.75% to 11.50% (CBD); 9.50% to 10.50% (suburbs) | 9.00% to 9.75% (CBD); 8.50% to 9.50% (suburbs) | 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**<br>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% | 2.0% to 3.0% | 3.0% | 8.75% to 10.00% | 1.5% to 2.0% | 10.00% to 11.00% | 8.50% to 9.50% (CBD); 9.50% to 10.50% (suburbs) | 6 to 15 (CBD); 8 to 16 (suburbs) | 70.0% | 7.0% to 15.0% (CBD); 10.0% to 15.0% (suburbs) | $0.20 | 9 to 12 |
| **LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years**<br>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% | 3.0% | 3.0% | 8.25% to 8.50% (CBD); 9.00% to 10.00% (suburbs) | 2.0% to 3.0% | 10.00% to 11.00% (CBD); 10.50% to 11.50% (suburbs) | 8.25% (CBD); 9.00% (suburbs) | 6 | 60.0% to 65.0% | 7.5% to 10.0% | $0.20 to $0.25 | 6 |
| **INVESTMENT ADVISOR ✦ Forecast Period: 10 years**<br>Relies on DCF; uses face rents and reflects concessions as they are scheduled to occur; prefers the West Loop; does not use rent spikes. | 0.0% Year 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% | 9.00% (CBD); 9.50% (suburbs) | 7.75% (CBD); 8.75% (suburbs) | 6 | 60.0% | 7.0% | $0.25 | 9 |
| **INVESTOR/DEVELOPER ✦ Forecast Period: 10 years**<br>Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve. | 0.0% | 2.5% | 3.0% | 8.50% to 9.50% (CBD); 9.00% to 10.00% (suburbs) | 0.75% to 1.5% | 9.50% to 10.50% (CBD); 10.50% to 11.50% (suburbs) | 8.00% to 9.50% (CBD); 8.50% to 10.00% (suburbs) | 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 2004.

# DALLAS OFFICE MARKET–INVESTOR SURVEY RESPONSES

## Second Quarter 2004

| | 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; uses rent spike of up to 15.0% in years 2 to 5. | 0.0% Year 1; 4.0% to 5.0% Year 2 | 3.0% | 3.0% | 9.00% to 9.50% in both CBD & suburbs | 1.5% to 2.0% | 10.00% to 12.00% (CBD); 10.50% to 12.25% (suburbs) | 8.50% to 9.50% (CBD); 8.00% to 9.00% (suburbs) | 10 | 65.0% | 6.0% to 7.0% | $0.15 to $0.25 | 3 |
| **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 5.0% to 0.0% | 3.0% | 3.0% | 9.25% to 10.00% (CBD); 9.50% to 10.25% (suburbs) | 2.0% to 4.0% | 10.50% (CBD); 11.00% (suburbs) | 9.00% (CBD); 9.50% (suburbs) | 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% | 9.50% (suburbs) | 2.5% | 10.75% to 11.00% (suburbs) | 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% | 10.00% (CBD); 12.00% (suburbs) | 9.00% in both CBD and suburbs | 6 | 60.0% | 4.0% | $0.25 | 6 |

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

# HOUSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES

## Second Quarter 2004

| | 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**<br>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; uses rent spike of up to 15.0% in years 2 to 5. | 3.0% to 5.0% | 1.0% to 3.0% | 3.0% | 9.25% in both CBD & suburbs | 1.5% to 2.0% | 10.00% to 11.50% (CBD); 10.25% to 11.50% (suburbs) | 8.50% to 9.00% in both CBD & suburbs | 10 | 65.0% | 6.0% to 7.0% | $0.15 to $0.25 | 3 |
| **LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 8 years**<br>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 |
| **REAL ESTATE ADVISOR ✦ Forecast Period: 10 years**<br>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% | 9.00% to 10.00% (CBD); 10.00% to 11.00% (suburbs) | 2.0% to 3.0% | 10.00% to 11.00% (CBD); 9.50% to 10.50% (suburbs) | 9.00% to 10.00% (CBD); 8.00% to 10.00% (suburbs) | 6 | 70.0% | 7.0% | $0.10 to $0.15 | 6 to 8 |
| **PENSION FUND ADVISOR ✦ Forecast Period: 10 years**<br>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**<br>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% Years 1 & 2 | 1.0% | 1.0% | 11.00% (CBD); 12.00% (suburbs) | 2.0% | 13.00% (CBD); 14.00% (suburbs) | 11.00% (CBD); 12.00% (suburbs) | 12 | 65.0% | 5.0% | $0.20 | 9 |
| **LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years**<br>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. 3.0% to 0.0% | 3.0% | 3.0% | 8.75% to 9.50% (CBD); 9.00% to 10.00% (suburbs) | 2.0% to 4.0% | 10.50% (CBD); 10.50% (suburbs) | 9.00% (CBD); 9.50% (suburbs) | 6 to 8 | 65.0% | 10.0% to 15.0% | $0.20 to $0.25 | 6 to 9 |

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

## LOS ANGELES OFFICE MARKET–INVESTOR SURVEY RESPONSES*
Second Quarter 2004

| | 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; focuses on suburban markets. | 1.0% to 3.0% | 3.0%; taxes 2.0% | 2.0% to 3.0% | 8.00% to 10.00% (suburbs) | 1.0% to 2.0% | 10.00% to 13.00% (suburbs) | 8.00% to 10.00% (suburbs) | 5 to 10 | 60.0% to 70.0% | 5.0% to 12.0% | $0.10 to $0.50 | 6 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% | 7.50% to 8.50% | 1.5% to 2.0% | 9.00% to 11.00% | 7.50% to 8.50% | 2 to 12 | 60.0% | 10.0% to 14.0% | $0.30 to $1.00 | 6 |
| **INVESTMENT BANKER ✦ Forecast Period: 10 years** Prefers DCF analysis; also uses direct cap; 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% | 2.0% | 12.00% (CBD); 9.00% to 10.50% (westside) | 7.00% to 9.00% | 4 to 6 | 65.0% to 75.0% | 5.0% to 10.0% | $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; uses rent spike of 5.0% to 8.0% during years three to five in various submarkets. | 0.0% to 3.0% | 3.0% | 3.0% | 8.25% to 8.50% (CBD); 7.75% to 8.25% (suburbs) | 1.0% to 2.0% | 9.75% to 10.25% (CBD); 9.00% to 9.50% (suburbs) | 6.00% to 9.00% (CBD) | 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. | 2.0% to 3.0% | 2.0% to 3.0% | 2.0% to 3.0% | 8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs) | 0.5% to 5.0% | 9.00% to 11.00% (CBD); 10.00% to 12.00% (suburbs) | 7.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs) | 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; prefers suburbs. | 0.0% | 3.5% | 3.0% | 8.00% (CBD); 9.00% (suburbs) | 1.0% to 2.0% | 10.00% to 12.50% (suburbs) | 7.50% (CBD); 9.00% (suburbs) | 3 to 12 | 65.0% | 5.0% to 12.0% | $0.20 | 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. | 3.0% to 5.0% | 2.5% | 2.0% | 10.00% (CBD); 9.50% (suburbs) | 1.0% | 12.00% to 13.00% (CBD); 11.00% to 12.00% (suburbs) | 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.

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

## MANHATTAN OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2004

| | 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**<br>Strongest interest is in Midtown; selling expenses exclude transfer tax which is ignored in analysis; 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% | 9.50% to 11.00% | 6.00% to 9.00% | 6 to 9 | 70.0% | 5.0% | $0.20 to $0.50 | 4 to 9 |
| **INVESTOR ✦ Forecast Period: 10 years**<br>Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents; selling expenses include transfer tax; uses a rent spike of 6.0% in 2005 and 2006. | 0.0% | 5.0% | — | 8.00% | 4.0% | 8.50% to 9.00% | 7.50% to 8.50% | 8 | 70.0% | 8.0% | $0.20 | 4 to 5 |
| **PENSION FUND ADVISOR ✦ Forecast Period: 10 years**<br>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% | 7.50% to 9.00% | 2.0% to 3.0% | 9.50% to 11.00% | 7.25% to 8.50% | 6 to 9 | 60.0% | 7.0% | $0.30 to $0.50 | 9 to 12 |
| **INVESTMENT ADVISOR ✦ Forecast Period: 5 to 7 years**<br>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% | 3.0% | 3.0% | 8.50% to 9.00% | 4.5% | 10.50% | 7.00% to 8.00% | 8 to 12 | 65.0% | 5.0% | $0.20 | 6 to 8 |
| **LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years**<br>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% | 0.5% to 5.0% | 9.00% to 12.00% | 6.50% to 10.00% | 6 to 9 | 65.0% | 5.0% | $0.25 to $0.75 | 3 to 9 |
| **REAL ESTATE ADVISOR ✦ Forecast Period: 5, 7, and 10 years**<br>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% | 7.00% to 9.00% | 1.5% to 2.0% | 9.50% to 11.00% | 7.00% to 9.00% | 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 2004.

## PACIFIC NORTHWEST OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2004

| | 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% | 9.30% | 3.0% + any local tariffs | 11.25% | 9.30% | 6 | 65.0% | 7.5% | $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% | 9.00% (CBD); 9.25% (suburbs) | 3.0% | 10.25% to 11.75% both CBD and suburbs | 8.00% to 11.00% both CBD and suburbs | 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% | 2.0% | 10.00% to 12.00% | 8.00% to 9.00% | 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. | 0.0% to 2.0% | 3.0% | 3.0% | 8.00% to 9.00% both CBD and suburbs | 2.0% | 10.00% to 10.50% (CBD); 10.00% to 15.00% (suburbs) | 8.00% to 9.00% both CBD and suburbs | 9 | 65.0% | 5.0% to 10.0% | $0.15 to $0.25 | 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 2004.

## PHILADELPHIA OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2004

| | 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 to 10 years**<br>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% (CBD); 10.50% (suburbs) | 3.0% | 12.50% | 11.50% to 12.00% (CBD); 11.00% to 11.50% (suburbs) | 12 | 65.0% to 75.0% | 7.5% | $0.15 to $0.30 | 5 |
| **REAL ESTATE ADVISOR ✦ Forecast Period: 11 years**<br>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% | 7.00% to 9.00% | 1.0% to 2.0% | 9.00% to 11.00% | 7.00% to 9.00% | 6 to 12 | 50.0% | 12.0% | $0.30 to $1.00 | 6 |
| **REIT ✦ Forecast Period: 10 years**<br>Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; focuses on suburban markets. | 3.0% | 2.5% | 2.5% | 10.50% (suburbs) | 2.0% | 10.00% to 12.00% (suburbs) | 9.00% to 11.00% (suburbs) | 6 | 65.0% | 5.0% | $0.20 | 6 |
| **REAL ESTATE ADVISOR ✦ Forecast Period: 7 to 10 years**<br>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% | 9.00% (CBD); 9.50% (suburbs) | 3.0% to 6.0% | 10.00% (CBD); 11.00% (suburbs) | 8.50% (CBD); 9.00% (suburbs) | 6 | 60.0% | 7.0% to 10.0% | $0.10 to $0.20 | 6 to 12 |
| **OPPORTUNITY FUND INVESTOR ✦ Forecast Period: 5 years**<br>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 suburbs. | 0.0% Years 1 & 2; 3.0% thereafter | 3.0% | 3.0% | 10.00% in both CBD and suburbs | 3.0% | 10.00% in both CBD and suburbs | 9.50% in both CBD and suburbs | 6 | 65.0% | 2.0% to 5.0% | $0.25 to $0.50 | — |
| **INVESTMENT BANKER ✦ Forecast Period: 10 years**<br>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 |
| **PRIVATE REAL ESTATE INVESTOR ✦ Forecast Period: 5 years**<br>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. | 2.0% | 2.5% | — | 9.25% (CBD); 9.75% (suburbs) | 2.5% | 9.00% to 10.00% (CBD); 9.50% to 10.00% (suburbs) | 9.00% to 10.00% in both CBD and suburbs | 8 | 75.0% | 9.0% | $0.20 | 4 |

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

## SAN FRANCISCO OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2004

| | 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% | 8.50% (CBD); 9.00% (suburbs) | 7.50% (CBD); 8.00% (suburbs) | 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 rents and reflects concessions when they are scheduled to occur; prefers the CBD. | 0.0% to 3.0% | 3.0%; taxes 2.0% | 2.0% to 3.0% | 8.00% to 10.00% (CBD) | 1.0% to 2.0% | 10.00% to 12.00% (CBD) | 8.00% to 10.00% (CBD) | 5 to 15 | 50.0% to 70.0% | 10.0% to 15.0% | $0.10 to $0.50 | 6 to 12 |
| **INVESTMENT ADVISOR ✦ Forecast Period: 5 to 7 years** Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; applies a rent spike of 5.0% to 7.0% in years 3 and 4. | 0.0% | 3.0% | 2.0% | 9.00% (CBD); 9.50% (suburbs) | 1.0% to 2.0% | 10.00% (CBD); 11.00% (suburbs) | 10.00% | 12 | 50.0% to 60.0% | 10.0% to 15.0% | $0.15 to $0.25 | 9 to 12 |
| **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% | 7.00% to 8.50% | 1.5% to 2.0% | 9.00% to 11.00% | 7.00% to 8.50% | 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. | 3.0% | 3.0% | 3.0% | 7.50% to 9.00% (CBD); 8.00% to 9.00% (suburbs) | 1.0% | 9.00% to 10.00% (CBD); 9.00% to 10.50% (suburbs) | 7.00% to 9.50% both CBD and suburbs | 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% | 10.25% to 10.75% | 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. | 0.0% | 3.5% | 3.0% | 8.00% to 10.50% (CBD) | 1.0% to 2.0% | 9.00% to 13.00% (CBD) | 7.50% to 10.00% (CBD) | 3 to 7 | 65.0% | 5.0% to 10.0% | $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% | Based on estimate of residual value | 2.0% | 9.00% (CBD); 10.50% (suburbs) | 8.00% (CBD); 9.00% (suburbs) | 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 2004.

## SOUTHEAST FLORIDA OFFICE MARKET–INVESTOR SURVEY RESPONSES
Second Quarter 2004

| | 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% | 9.00% to 10.50% | 1.0% to 2.0% | 9.00% to 12.00% | 8.00% to 11.00% | 6 to 12 | 65.0% | 5.0% | $0.10 to $0.20 | 9 to 12 |
| **INSTITUTIONAL OWNER/OPERATOR ✦ Forecast Period: 10 years** Mainly uses DCF analysis; 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. Not currently active in this market. | 3.0% | — | 3.0% | 8.75% (CBD) | 2.0% | 10.50% to 11.00% (CBD) | 9.00% (CBD) | 12 | 70.0% | 3.0% | $0.10 | 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% | 9.00% to 9.75% (CBD); 9.00% to 10.50% (suburbs) | 2.0% to 4.0% | 9.50% to 11.00% (CBD); 9.50% to 11.00% (suburbs) | 7.25% to 9.50% (CBD); 7.25% to 10.00% (suburbs) | 6 to 12 | 65.0% to 70.0% | 7.0% to 11.0% | $0.10 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. | 3.0% | 3.0% | 3.0% | 8.25% (CBD) | 1.0% to 2.0% | 9.50% (CBD); 10.00% to 11.00% (suburbs) | 8.00% (CBD) | 6 | 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. | 0.0% Years 1 & 2 | 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 |
| **REIT ✦ Forecast Period: 10 years** Valuation preference is DCF analysis; also uses direct cap; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserves; does not use rent spikes; prefers suburbs. | 2.0% | 2.5% | 2.0% | 10.00% to 11.00% (suburbs) | 2.0% | 9.00% to 10.50% (suburbs) | 9.50% to 10.50% (suburbs) | 6 | 65.0% | 5.0% | $0.20 | 6 |

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

# WASHINGTON, DC METRO–THE DISTRICT OFFICE MARKET*
## INVESTOR SURVEY RESPONSES
Second Quarter 2004

| | 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 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% | 8.00% to 10.50% | 1.0% to 3.0% | 9.50% to 11.00% | 7.50% to 8.50% | 6 | 65.0% | 0.0% to 7.0% | $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. | 3.0% | 3.0% | 3.0% | 8.00% to 8.50% | 2.0% to 3.0% | 8.50% to 10.00% | 7.00% to 8.00% | 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% | 6.50% to 8.50% | 1.5% to 2.0% | 9.00% to 11.00% | 6.50% to 8.50% | 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% | 8.00% | 2.0% | 8.50% to 9.00% | 7.50% | 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% | 7.25% to 9.00% | 2.0% to 3.0% | 9.50% to 10.50% | 7.00% to 8.50% | 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 before TIs, leasing commissions, and capital replacement reserve. | 0.0% to 3.0% | Averages 3.0% over holding period | 5.0% | 8.00% | 2.5% | 8.00% to 9.00% | 7.50% | 9 | 75.0% | 1.0% | $0.15 | 5 |

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

# WASHINGTON, DC METRO–NORTHERN VIRGINIA OFFICE MARKET*
## INVESTOR SURVEY RESPONSES
Second Quarter 2004

| | 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% | 8.00% to 10.00% | 1.0% to 3.0% | 10.00% to 12.00% | 7.50% to 10.50% | 6 to 12 | 65.0% | 3.0% to 10.0% | $0.15 to $0.25 | 2 to 6 |
| **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 | 3.0% | 3.0% | 9.00% to 9.50% | 2.0% to 3.0% | 10.00% to 11.00% | 8.50% to 9.50% | 6 to 9 | 55.0% to 60.0% | 1.0% to 2.0% | $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. | 3.0% | 3.0% | 3.0% | 8.25% (CBD); 8.25% to 9.00% (suburbs) | 2.0% | 8.50% to 9.25% (CBD); 9.25% to 10.00% (suburbs) | 8.00% in both CBD and suburbs | 6 | 70.0% | 1.5% to 2.0% | $0.10 | — |
| **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% | 8.25% to 9.25% | 2.0% to 3.0% | 9.00% to 11.00% | 7.25% to 9.00% | 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% | 7.50% to 9.50% | 1.5% to 2.0% | 9.00% to 11.00% | 7.50% to 9.50% | 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 2004.

## WASHINGTON, DC METRO–SUBURBAN MARYLAND OFFICE MARKET
## INVESTOR SURVEY RESPONSES
### Second Quarter 2004

| | 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. | 2.0% to 3.0% | 3.0% | 3.0% | 8.00% to 11.00% | 1.0% to 3.0% | 10.00% to 11.00% | 8.00% to 9.50% | 6 | 65.0% | 1.0% 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 9.50% | 7.50% to 8.50% | 9 | 65.0% | 8.0% | $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 | 3.0% | 3.0% | 9.50% to 10.00% | 2.0% to 3.0% | 10.00% to 11.00% | 8.50% to 9.50% | 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% | 8.50% to 9.50% | 2.0% | 9.00% to 11.00% | 8.00% to 9.00% | 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% | 7.50% to 9.00% | 1.5% to 2.0% | 9.00% to 12.00% | 7.50% to 9.00% | 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 2004.

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

Second Quarter 2004

| | 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% | 10.00% to 11.00% | 8.25% to 9.00% | 6 to 9 | 50.0% | 5.0% to 10.0% | $0.10 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% | 7.50% to 9.00% | 1.0% to 3.0% | 9.00% to 10.50% | 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% | 9.00% to 10.00% | 2.0% to 3.0% | 10.00% to 11.00% | 8.00% to 9.00% | 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; does not use rent spikes. | 1.0% to 3.0% Year 1; greater than CPI Years 2 & 3; CPI thereafter | 3.0% | 3.0% | 9.50% to 10.00% | 2.0% to 4.0% | 10.50% to 11.00% | 9.25% to 9.50% | 8 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% | 8.75% to 9.75% | 2.0% to 3.0% | 9.25% to 11.00% | 9.25% 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% | 8.50% to 9.50% | 1.0% to 4.0% | 10.00% to 11.00% | 8.50% to 9.50% | 12 | 50.0% to 65.0% | 3.0% to 5.0% | $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 & 2; 2.0% Year 3; 3.0% thereafter | 3.0% | 3.0% | 7.75% to 10.50% | 1.5% to 7.5% | 9.00% to 12.00% | 8.25% | 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 2004.

## NATIONAL WAREHOUSE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2004

| | 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% | 8.25% to 9.00% | 2.0% to 3.0% | 9.00% to 10.00% | 7.75% to 8.75% | 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% | 7.25% to 9.00% | 1.0% to 3.0% | 8.00% to 10.00% | 7.00% to 8.50% | 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% | 9.50% to 10.00% | 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. | 1.0% to 3.0% Year 1; greater than CPI Years 2 & 3; CPI thereafter | 3.0% | 3.0% | 9.25% to 9.75% | 2.0% to 4.0% | 10.00% to 10.50% | 8.75% to 9.25% | 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% | 8.25% to 9.25% | 2.0% to 3.0% | 9.00% to 11.00% | 7.25% 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% | 8.25% to 8.75% | 2.0% to 3.0% | 9.00% to 9.50% | 7.25% to 7.75% | 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% | 7.00% to 8.50% | 1.0% to 4.0% | 8.00% to 9.00% | 7.00% to 8.50% | 6 to 12 | 50.0% to 65.0% | 3.0% | $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% | 8.25% | 1.5% to 2.5% | 8.00% to 9.00% | 7.50% to 8.50% | 6 to 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 2004.

## NATIONAL APARTMENT MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2004

| | 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. | 1.0% to 2.0% | 2.0% to 3.0% | 6.0% to 8.0% | 8.00% | 3.0% | 10.00% | 7.00% to 7.50% | $200 | 6 |
| **REAL ESTATE ADVISOR ✦ Forecast Period: 10 years** Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; uses a separate structural replacement reserve, based on deferred maintenance; investments are concentrated in Southern California. | 0.0% Years 1&2; 2.0% to 4.0% thereafter | Average 3.0% over the forecast period | 5.5% | 6.75% to 7.25% | 1.5% for deals greater than $20 million; 2.0% otherwise | 8.00% to 9.25% | 5.75% to 6.75% | $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 3.5% | 3.0% to 3.5% | 5.0% to 12.0% | 7.00% to 8.50% | 2.0% to 3.0% | 8.50% to 10.50% | 5.50% to 8.00% | $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 8.00% | 2.0% to 3.0% | 9.00% to 10.00% | 6.75% 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 depending on age. | 0.0% to 3.5% | 2.5% to 3.0% | Varies | 7.25% to 8.50% | 1.0% | 10.50% | 7.50% | $150 to $350 | 5 |
| **REAL ESTATE ADVISOR ✦ Forecast Period: 5 and 10 years** Relies on DCF, also uses direct capitalization; in direct, capitalizes NOI after capital replacement reserve; uses an additional reserve for capital items. | 0.0% to 3.0% | 2.5% to 3.0% | 7.0% to 25.0% | 7.00% to 8.25% | 1.5% to 2.5% | 8.25% to 9.50% | 5.50% to 7.50% | $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 10.0% | 7.00% to 8.50% | 2.0% | 11.00% to 12.50% | 5.50% to 7.50% | $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 $250 per unit. | 0.0% to 2.0% | 3.0% | 8.0% to 11.0% | 7.50% to 8.50% | 2.0% | 8.00% to 8.50% | 5.75% to 6.50% | $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 2004.

## NATIONAL NET LEASE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2004

| | 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 | 7.00% to 8.50% | 0.0% | None | 2 maximum |
| **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 between 2.0% and 2.5% over the forecast period. | Office, industrial | 2.50% | 2.0% to 2.5% | Below & above investment grade | 9.50% | 3.0% to 4.0% | 10.00% to 11.00% | 7.25% to 7.75% | 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 | 9.25% | 3.0% | 10.50% | 8.10% | 0.0% | None | 3 |
| **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% | 7.75% to 10.25% | 7.00% to 10.00% | 0.0% | $0.15 (office) $0.10 (industrial) | 4 |
| **INVESTMENT ADVISOR ✦ Forecast Period: 5 to 10 years** Primary valuation method is direct capitalization; also uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacements reserve. | Office, warehouse, retail | Averages 1.5% to 2.0% over holding period | 1.5% to 2.0% | BBB and higher | 7.50% to 9.00% | 1.0% to 2.0% | 10.00% to 11.00% | 6.80% to 9.00% | 0.0% | $0.05 to $0.15 | — |
| **INVESTORS AND BROKERS** Primary valuation method is direct capitalization; also uses sales comparison approach. | Credit retail | (2) | (2) | BBB to A+ | (2) | (2) | (2) | 7.50% to 8.00% | 0.0% | None | (2) |
| **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% | None | 6 or less |
| **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 2004.

# NATIONAL DEVELOPMENT LAND MARKET—INVESTOR SURVEY RESPONSES*

## Second Quarter 2004

| | 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 120 acres; value of land currently under development totals $18.9 million; development is concentrated in Northwest suburban Chicago. | Industrial (95.0%) | 1 to 5 | 10.0% | Based on a % of specific line item | 3.0% | 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% | 2.0% to 3.0% | 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% | 0.0% | — | 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; 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% | — | Stable | — | 42 to 66 |
| **DEVELOPER** Primary method of pricing is comparable sales; analysis is prepared subject to financing; value of land currently under development is between $50.0 and $100.0 million; development is concentrated in Arizona and California. | Residential, retail | 1 to 5 | Varies | 3.0% | 3.0% | 20.00% | 20.00% minimum | 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 1,100 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 2004.

## INVESTMENT AND PROPERTY CHARACTERISTICS: OFFICE MARKETS
Second Quarter 2004

| | 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 | (5.00%)-5.00% | 0.89% | 70.00%-130.00% | 94.25% | 5.00%-15.00% | 9.06% | 1-5 | 2.3 | $10.00-$45.00 | $26.79 | $4.00-$20.00 | $10.75 |
| National Suburban | (5.00%)-5.00% | (0.33%) | 70.00%-130.00% | 95.96% | 5.00%-12.00% | 7.63% | 0-5 | 1.9 | $0.00-$40.00 | $18.58 | $0.00-$20.00 | $8.00 |
| Atlanta | (10.00%)-0.00% | (2.50%) | 70.00%-95.00% | 84.38% | 7.50%-12.00% | 10.19% | 0-4 | 2.1 | $10.00-$30.00 | $17.25 | $5.00-$10.00 | $7.85 |
| Boston | (5.00%)-5.00% | (0.08%) | 35.00%-100.00% | 86.56% | 5.00%-12.00% | 8.79% | 0-7 | 3.3 | $15.00-$50.00 | $28.21 | $0.00-$25.00 | $8.71 |
| Chicago | (10.00%)-3.00% | (1.42%) | 70.00%-108.00% | 86.95% | 6.00%-15.00% | 9.88% | 0-6 | 2.7 | $10.00-$50.00 | $31.36 | $5.00-$25.00 | $13.15 |
| Dallas | 0.00%-5.00% | 1.40% | 50.00%-100.00% | 80.63% | 3.00%-15.00% | 7.67% | 0-2 | 1.2 | $10.00-$30.00 | $17.50 | $3.00-$20.00 | $10.63 |
| Houston | (10.00%)-15.00% | 0.67% | 50.00%-110.00% | 81.67% | 5.00%-12.00% | 6.88% | 0-5 | 1.6 | $8.00-$25.00 | $17.60 | $3.00-$20.00 | $8.20 |
| Los Angeles | (7.00%)-5.00% | 0.25% | 65.00%-100.00% | 88.75% | 5.00%-15.00% | 9.00% | 0-3 | 1.8 | $10.00-$45.00 | $22.50 | $5.00-$15.00 | $8.06 |
| Manhattan | (5.00%)-10.00% | 1.80% | 70.00%-130.00% | 90.83% | 5.00%-10.00% | 6.64% | 0-4 | 1.8 | $30.00-$50.00 | $41.88 | $10.00-$20.00 | $15.83 |
| Pacific Northwest | 1.50%-2.00% | 1.83% | 80.00%-110.00% | 98.13% | 4.00%-7.50% | 5.88% | 0.5-3 | 1.9 | $10.00-$25.00 | $18.92 | $5.00-$10.00 | $6.70 |
| Philadelphia | 0.00%-5.00% | 1.92% | 50.00%-115.00% | 84.50% | 5.00%-12.00% | 7.00% | 1-3 | 2.0 | $8.00-$35.00 | $19.20 | $2.00-$10.00 | $7.60 |
| San Francisco | (15.00%)-10.00% | 0.33% | 60.00%-110.00% | 81.56% | 3.00%-15.00% | 8.06% | 2-10 | 4.1 | $0.00-$50.00 | $30.56 | $0.00-$20.00 | $10.94 |
| Southeast Florida | 0.00%-5.00% | 2.00% | 90.00%-110.00% | 95.00% | 5.00%-11.00% | 7.50% | 1-4 | 2.3 | $12.00-$27.00 | $18.33 | $5.00-$15.00 | $8.33 |
| Washington, DC Metro | | | | | | | | | | | | |
| The District | (10.00%)-10.00% | 0.94% | 80.00%-130.00% | 102.25% | 4.00%-9.00% | 6.21% | 0-2 | 0.5 | $3.00-$60.00 | $31.91 | $1.50-$35.00 | $13.81 |
| Northern Virginia | 0.00%-3.00% | 1.00% | 85.00%-120.00% | 98.21% | 5.00%-14.00% | 7.88% | 0-3 | 0.9 | $3.00-$50.00 | $28.80 | $3.00-$25.00 | $14.30 |
| Suburban Maryland | 0.00%-4.00% | 1.08% | 90.00%-130.00% | 101.79% | 5.00%-12.00% | 7.63% | 0-2 | 0.6 | $3.00-$50.00 | $25.10 | $0.00-$25.00 | $10.60 |

PricewaterhouseCoopers

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

## INVESTMENT AND PROPERTY CHARACTERISTICS: NATIONAL MARKETS

Second Quarter 2004

| | FORECAST VALUE CHANGE NEXT 12 MONTHS | | PRICE AS % OF REPLACEMENT COST | | 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% | 3.25% | 85.00%-150.00% | 115.00% | 8.00%-11.50% | 9.76% | 5.50%-8.50% | 7.00% | 9.50%-13.50% | 11.18% | 7.00%-9.75% | 8.27% | 85.00%-99.00% | 93.25% (Class-B to A+) |
| Power Center | 0.00%-3.00% | 0.63% | 80.00%-130.00% | 103.13% | | | | | | | | | 93.00%-97.00% | 95.17% |
| Strip Shopping Center | 0.00%-5.00% | 1.36% | 95.00%-140.00% | 106.07% | | | | | | | | | 85.00%-95.00% | 93.43% |

| | FORECAST VALUE CHANGE NEXT 12 MONTHS | | PRICE AS % OF REPLACEMENT COST | | 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% | 1.86% | 80.00%-110.00% | 100.95% | 5.00%-100.00% | 39.64% | $0.00-$15.00 | $4.36 | $0.00-$5.00 | $1.51 |
| Warehouse | (10.00%)-5.00% | 0.14% | 90.00%-120.00% | 104.17% | 0.00%-15.00% | 8.14% | $0.00-$10.00 | $2.63 | $0.00-$1.00 | $0.41 |
| Apartment | (5.00%)-5.00% | 2.04% | 80.00%-125.00% | 103.79% | | | | | | |

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

## YIELD COMPARISONS

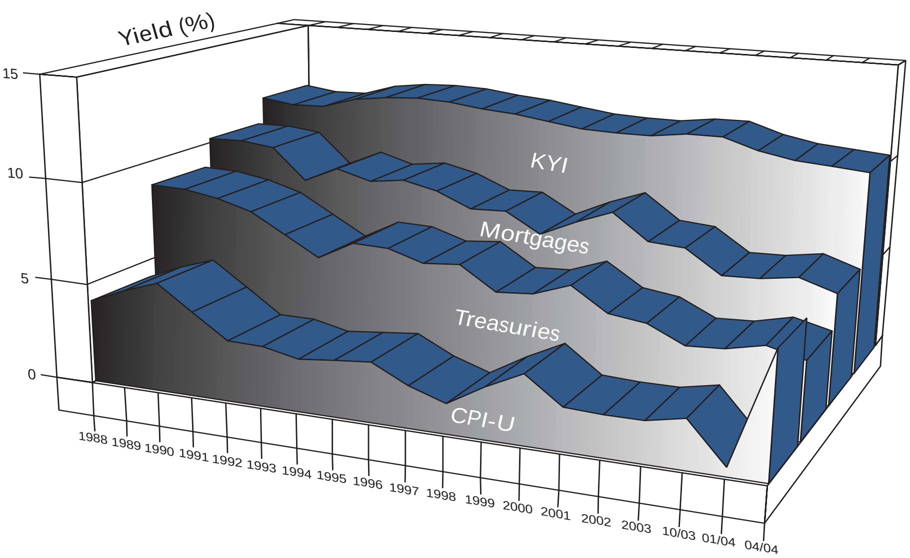
April 1, 2004

| | 1999 AVERAGE | 2000 AVERAGE | 2001 AVERAGE | 2002 AVERAGE | 2003 AVERAGE | 2003 OCTOBER | 2004 JANUARY | 2004 APRIL |
|---|---|---|---|---|---|---|---|---|
| Korpacz Yield Indicator (KYI)[a] | 11.28% | 11.29% | 11.54% | 11.56% | 11.00% | 10.68% | 10.54% | 10.40% |
| Long-Term Mortgages[b] | 7.76% | 8.43% | 7.16% | 7.02% | 5.87% | 5.92% | 6.20% | 5.62% |
| 10-Year Treasuries[c] | 5.45% | 6.10% | 4.96% | 4.71% | 3.86% | 3.96% | 4.38% | 3.91% |
| Consumer Price Index Change[d] | 2.54% | 3.41% | 2.11% | 2.02% | 2.03% | 2.39% | 0.43% | 6.05% |
| SPREAD TO KYI (Basis Points) | | | | | | | | |
| Long-Term Mortgages | 352 | 286 | 438 | 454 | 513 | 476 | 434 | 478 |
| 10-Year Treasuries | 583 | 519 | 658 | 685 | 714 | 672 | 616 | 649 |
| Consumer Price Index Change | 874 | 788 | 943 | 954 | 897 | 829 | 1011 | 435 |

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, 2004




## DIVIDEND COMPARISONS

April 1, 2004

| | 1999 AVERAGE | 2000 AVERAGE | 2001 AVERAGE | 2002 AVERAGE | 2003 AVERAGE | 2003 OCTOBER | 2004 JANUARY | 2004 APRIL |
|---|---|---|---|---|---|---|---|---|
| Korpacz Dividend Indicator (KDI)[a] | 9.13% | 9.14% | 9.42% | 9.55% | 9.23% | 9.00% | 8.85% | 8.68% |
| Equity REITs[b] | 7.76% | 7.20% | 6.40% | 6.70% | 6.67% | 5.99% | 5.52% | 5.01% |
| S&P 500[c] | 1.28% | 1.13% | 1.33% | 1.60% | 1.76% | 1.67% | 1.56% | 1.60% |
| SPREAD TO KDI (Basis Points) | | | | | | | | |
| Equity REITs | 137 | 194 | 302 | 285 | 256 | 301 | 333 | 367 |
| S&P 500 | 785 | 801 | 809 | 795 | 747 | 733 | 729 | 708 |

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 2004

| | 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 | 8.50%-12.00% | 10.29% | 5.50%-9.50% | 7.96% | 11.25%-16.50% | 13.55% | 8.50%-14.00% | 10.95% | 326 | 299 |
| National Power Center | 8.00%-11.50% | 10.17% | 8.00%-9.50% | 8.88% | NA | NA | NA | NA | NA | NA |
| National Strip Shopping Center | 8.50%-12.00% | 10.06% | 6.50%-11.00% | 8.50% | 9.00%-13.50% | 11.06% | 6.50%-12.00% | 9.25% | 100 | 75 |
| National CBD Office | 8.00%-12.25% | 10.25% | 6.00%-10.50% | 8.55% | 10.00%-14.00% | 12.15% | 8.33%-13.00% | 10.47% | 190 | 192 |
| National Suburban Office | 8.50%-12.50% | 10.63% | 7.00%-11.50% | 9.11% | 9.50%-15.00% | 12.41% | 8.00%-14.00% | 10.54% | 178 | 143 |
| Atlanta Office | 9.00%-12.00% | 10.30% | 8.00%-11.00% | 8.88% | 10.25%-13.00% | 11.34% | 9.00%-11.25% | 9.97% | 104 | 109 |
| Boston Office | 9.00%-13.00% | 10.76% | 7.00%-12.00% | 9.01% | 10.00%-17.00% | 12.64% | 8.50%-14.00% | 10.36% | 188 | 135 |
| Chicago Office | 8.00%-13.00% | 10.50% | 6.70%-11.00% | 8.86% | 8.50%-15.00% | 12.20% | 7.50%-12.50% | 10.22% | 170 | 136 |
| Dallas Office | 10.00%-12.25% | 11.05% | 8.00%-10.00% | 9.23% | 12.00%-14.25% | 13.13% | 10.50%-12.50% | 11.54% | 208 | 231 |
| Houston Office | 9.50%-14.00% | 11.46% | 8.00%-12.00% | 9.63% | 10.75%-17.00% | 13.31% | 9.25%-14.00% | 11.63% | 185 | 200 |
| Los Angeles Office | 9.00%-13.00% | 10.63% | 6.00%-11.00% | 8.46% | 10.75%-21.00% | 13.91% | 8.00%-13.00% | 10.30% | 328 | 184 |
| Manhattan Office | 8.50%-12.00% | 9.89% | 6.00%-10.00% | 7.88% | 9.75%-14.50% | 11.50% | 6.50%-11.50% | 9.00% | 161 | 112 |
| Pacific Northwest Office | 10.00%-15.00% | 11.65% | 8.00%-11.00% | 9.01% | 11.25%-20.00% | 14.33% | 9.00%-12.00% | 10.33% | 268 | 132 |
| Philadelphia Office | 9.00%-12.50% | 10.75% | 7.00%-11.50% | 9.54% | 9.50%-13.50% | 11.19% | 9.50%-11.50% | 10.06% | 44 | 52 |
| San Francisco Office | 8.50%-13.00% | 10.16% | 7.00%-11.00% | 8.82% | 10.00%-17.00% | 12.56% | 8.50%-12.00% | 10.25% | 240 | 143 |
| Southeast Florida Office | 9.00%-12.00% | 10.45% | 7.25%-11.00% | 9.03% | —a | —a | —a | —a | —a | —a |
| Washington, DC Metro Office | | | | | | | | | | |
| The District | 8.00%-12.00% | 9.53% | 6.50%-10.50% | 7.83% | —a | —a | —a | —a | —a | —a |
| Northern Virginia | 8.50%-12.50% | 10.42% | 7.25%-10.50% | 8.91% | —a | —a | —a | —a | —a | —a |
| Suburban Maryland | 9.00%-12.50% | 10.27% | 7.50%-10.50% | 8.63% | —a | —a | —a | —a | —a | —a |
| National Flex/R&D | 8.50%-12.00% | 10.20% | 7.50%-10.50% | 8.81% | 9.50%-15.00% | 11.50% | 8.25%-13.50% | 9.82% | 130 | 101 |
| National Warehouse | 8.00%-11.50% | 9.53% | 6.50%-10.00% | 8.35% | 8.75%-14.00% | 11.02% | 7.25%-12.50% | 9.61% | 149 | 126 |
| National Apartment | 7.50%-12.50% | 9.77% | 5.25%-9.25% | 7.13% | 8.50%-15.00% | 11.31% | 5.25%-11.00% | 8.24% | 154 | 111 |
| All Markets Surveyed (Simple Average) | — | 10.40% | — | 8.68% | — | 12.30% | — | 10.15% | 190 | 147 |

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

## INCOME CAPITALIZED IN DIRECT CAPITALIZATION[a]

### Second Quarter 2004

| 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 | 16.7% | 20.0% | 83.3% | 80.0% | 0.0% | 0.0% |
| Power Center | 16.7% | 16.7% | 83.3% | 83.3% | 0.0% | 0.0% |
| Strip Shopping Center | 25.0% | 25.0% | 62.5% | 62.5% | 12.5% | 12.5% |
| Office | | | | | | |
| National CBD | 11.1% | 9.1% | 77.8% | 81.8% | 11.1% | 9.1% |
| National Suburban | 21.4% | 13.3% | 57.1% | 66.7% | 21.4% | 20.0% |
| Atlanta | 14.3% | 28.6% | 85.7% | 71.4% | 0.0% | 0.0% |
| Boston | 0.0% | 0.0% | 100.0% | 100.0% | 0.0% | 0.0% |
| Chicago | 27.3% | 35.7% | 72.7% | 64.3% | 0.0% | 0.0% |
| Dallas | 16.7% | 16.7% | 83.3% | 83.3% | 0.0% | 0.0% |
| Houston | 16.7% | 14.3% | 66.7% | 71.4% | 16.7% | 14.3% |
| Los Angeles | 33.3% | 33.3% | 66.7% | 66.7% | 0.0% | 0.0% |
| Manhattan | 20.0% | 20.0% | 60.0% | 60.0% | 20.0% | 20.0% |
| Pacific Northwest | 33.3% | 33.3% | 66.7% | 66.7% | 0.0% | 0.0% |
| Philadelphia | 14.3% | 57.1% | 71.4% | 28.6% | 14.3% | 14.3% |
| San Francisco | 18.2% | 27.2% | 81.8% | 77.8% | 0.0% | 0.0% |
| Southeast Florida | 20.0% | 42.9% | 80.0% | 50.0% | 0.0% | 7.1% |
| Washington, DC Metro | | | | | | |
| The District | 33.3% | 50.0% | 66.7% | 50.0% | 0.0% | 0.0% |
| Northern Virginia | 33.3% | 37.5% | 66.7% | 62.5% | 0.0% | 0.0% |
| Suburban Maryland | 28.6% | 33.3% | 71.4% | 66.7% | 0.0% | 0.0% |
| National Flex/R&D | 25.0% | 23.1% | 75.0% | 76.9% | 0.0% | 0.0% |
| National Warehouse | 14.3% | 13.3% | 78.6% | 80.0% | 7.1% | 6.7% |
| National Apartment[b] | 76.5% | 72.2% | 17.6% | 22.2% | 5.9% | 5.6% |
| All Markets Surveyed | 25.7% | 29.0% | 68.8% | 66.0% | 5.5% | 5.0% |

**Note:** Lines may not add to up to 100.0 due to rounding.

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 INCOME CAPITALIZED IN DIRECT CAPITALIZATION

### First Quarter 2004

| MARKET | PRIOR 12 MONTHS[a] CURRENT | PRIOR 12 MONTHS[a] YEAR AGO | FORECAST 12 MONTHS[b] CURRENT | FORECAST 12 MONTHS[b] YEAR AGO | BOTH[c] CURRENT | BOTH[c] YEAR AGO |
|---|---|---|---|---|---|---|
| Full-Service | 37.5% | 36.4% | 50.0% | 36.4% | 12.5% | 27.2% |
| Economy/Limited-Service | 66.7% | 57.1% | 33.3% | 42.9% | 0.0% | 0.0% |
| Luxury | 37.5% | 28.6% | 62.5% | 57.1% | 0.0% | 14.3% |
| Extended-Stay | 33.3% | 25.0% | 66.7% | 62.5% | 0.0% | 12.5% |
| All Markets Surveyed (Simple Average) | 42.9% | 36.4% | 53.6% | 48.5% | 3.6% | 15.1% |

**Note:** Lines may not add to up to 100.0 due to rounding.

a. Percentage of our lodging participants who capitalize the prior 12 months income in direct capitalization.
b. Percentage of our lodging participants who capitalize the forecast next 12 months income in direct capitalization.
c. Percentage of our lodging participants who analyze both the prior 12 months income and the forecast next 12 months income in direct capitalization.

# FORECAST PERIODS AND GROWTH RATES

## Second Quarter 2004

| | 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 | 10 - 10 | 10.0 | 0.00%-3.00% | 2.50% | 2.00%-4.00% | 2.96% | 3.00%-3.00% | 3.00% | 3.00%-3.00% | 3.00% |
| National Power Center | 5 - 10 | 8.8 | 1.50%-3.00% | 2.63% | 2.50%-3.00% | 2.94% | 3.00%-3.00% | 3.00% | 3.00%-3.00% | 3.00% |
| National Strip Shopping Center | 10 - 10 | 10.0 | 1.50%-3.00% | 2.66% | 2.25%-3.00% | 2.86% | 3.00%-4.00% | 3.16% | 3.00%-4.00% | 3.13% |
| National CBD Office | 5 - 10 | 9.3 | -8.00%-5.60% | 0.88% | 0.00%-6.00% | 2.31% | 1.50%-3.00% | 2.85% | 2.00%-3.00% | 2.90% |
| National Suburban Office | 3 - 10 | 9.1 | -10.00%-3.00% | 0.43% | 0.00%-6.00% | 2.57% | 2.00%-3.00% | 2.93% | 2.00%-3.50% | 2.97% |
| Atlanta Office | 5 - 10 | 9.5 | 0.00%-3.00% | 0.50% | 2.00%-3.60% | 2.86% | 1.50%-3.00% | 2.83% | 2.00%-3.00% | 2.86% |
| Boston Office | 5 - 10 | 8.9 | -3.00%-3.00% | 0.13% | 0.00%-3.00% | 2.52% | 2.50%-3.00% | 2.94% | 2.50%-3.00% | 2.94% |
| Chicago Office | 5 - 10 | 9.3 | -5.00%-3.00% | 0.00% | 2.00%-3.00% | 2.55% | 2.00%-3.00% | 2.85% | 2.00%-3.00% | 2.95% |
| Dallas Office | 5 - 10 | 9.3 | -5.00%-3.00% | 0.88% | 0.00%-5.00% | 2.75% | 3.00%-3.00% | 3.00% | 3.00%-3.00% | 3.00% |
| Houston Office | 5 - 10 | 9.4 | -5.00%-5.00% | 0.42% | 1.00%-5.00% | 2.80% | 1.00%-4.00% | 2.50% | 1.00%-4.00% | 2.67% |
| Los Angeles Office | 5 - 10 | 9.0 | -2.00%-5.00% | 1.61% | 2.00%-4.00% | 2.94% | 2.00%-3.50% | 2.83% | 2.50%-3.25% | 2.94% |
| Manhattan Office | 5 - 10 | 9.1 | 0.00%-3.00% | 0.79% | 2.00%-5.00% | 3.39% | 3.00%-5.00% | 3.33% | 3.00%-3.00% | 3.00% |
| Pacific Northwest Office | 5 - 10 | 9.2 | 0.00%-3.00% | 1.90% | 2.00%-3.00% | 2.75% | 2.00%-4.00% | 3.00% | 3.00%-3.00% | 3.00% |
| Philadelphia Office | 5 - 11 | 8.3 | 0.00%-3.00% | 1.50% | 2.50%-3.00% | 2.86% | 2.50%-3.00% | 2.79% | 2.50%-3.00% | 2.86% |
| San Francisco Office | 5 - 10 | 9.0 | 0.00%-3.00% | 0.56% | 2.00%-9.00% | 3.52% | 2.00%-3.50% | 3.00% | 2.50%-3.25% | 2.98% |
| Southeast Florida Office | 5 - 10 | 9.0 | 0.00%-3.00% | 1.80% | 2.00%-4.00% | 2.95% | 2.00%-4.00% | 2.90% | 2.00%-3.00% | 2.80% |
| Washington, DC Metro Office | | | | | | | | | | |
| The District | 5 - 10 | 9.6 | 0.00%-6.00% | 2.55% | 3.00%-4.50% | 3.28% | 2.50%-3.00% | 2.94% | 2.50%-3.00% | 2.95% |
| Northern Virginia | 5 - 10 | 9.7 | 0.00%-3.00% | 0.67% | 1.50%-3.00% | 2.50% | 3.00%-3.00% | 3.00% | 3.00%-3.00% | 3.00% |
| Suburban Maryland | 5 - 10 | 9.3 | 0.00%-3.00% | 1.57% | 2.00%-3.00% | 2.75% | 3.00%-3.00% | 3.00% | 3.00%-3.00% | 3.00% |
| National Flex/R&D | 3 - 10 | 9.0 | -5.00%-3.00% | 1.29% | 0.00%-3.00% | 2.52% | 2.00%-3.00% | 2.96% | 2.00%-3.00% | 2.96% |
| National Warehouse | 5 - 10 | 9.4 | -5.00%-5.00% | 1.68% | 0.00%-3.00% | 2.71% | 2.00%-3.00% | 2.93% | 2.00%-3.00% | 2.95% |
| National Apartment | 1 - 10 | 8.1 | -2.00%-4.00% | 1.47% | 0.00%-4.00% | 2.79% | 2.00%-3.50% | 2.77% | 2.00%-3.50% | 2.90% |
| National Net Lease | 5 - 15 | 9.0 | 2.50%-3.00% | 2.75% | 0.00%-3.00% | 2.17% | 1.50%-3.00% | 2.60% | 1.50%-3.00% | 2.60% |

PricewaterhouseCoopers

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2004.

# 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

### EXCESSIVE TENANT IMPROVEMENT ALLOWANCE[3]
The amount by which an awarded tenant improvement allowance exceeds that which is typical for the market

### FORECAST PERIOD[1]
A presumed period of ownership; a period of time over which expected net operating in-come 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

### REPLACEMENT COST[1]
The cost of construction, at current prices, of a building having utility equivalent to the building being appraised but built with modern materials and according to current standards, design, and layout

### 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

### STRUCTURAL VACANCY
Normal vacancy rate in a balanced market

### 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 released 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

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, [3]investor interviews, and [4]Smith Travel Research.

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

## Lodging

### AVERAGE DAILY RATE (ADR)[4]

Room revenue divided by rooms sold

### 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

### OCCUPANCY[4]

Rooms sold divided by rooms available

### 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, [3]investor interviews, and [4]Smith Travel Research.

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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 |

*connectedthinking

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