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Third Quarter 2011

CRE: An Interesting Investment in a Disorderly Market

PwC Real Estate Investor Survey™

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Dear Reader:

Amid all the unsettling news and heightened uncertainty, investing in commercial real estate (CRE) is being viewed rather favorably among investors. CRE is tangible, offers transparency, and, as our lead story notes, is "An Interesting Investment in a Disorderly Market." Even in the face of a downgraded economic outlook, many investors expect CRE assets to perform well over the long term and generate better risk-adjusted returns than many alternative investments.

While some investors are looking for buying opportunities in the U.S. lodging sector, a resetting of the national economic outlook lowers its performance expectation for the year ahead. Nevertheless, this sector continues to demonstrate recovery momentum. Read our semiannual *National Lodging Highlights*, as well as the four additional lodging market pages, to find out more.

Also in this issue is a special report on green buildings authored by Dan Winters, managing principal of Evolution Partners. This informative article focuses on the value potential of investing in green assets. I want to thank Dan for contributing his knowledge and expertise.

Lastly, *Emerging Trends in Real Estate® 2012*, jointly published by PwC and the Urban Land Institute, is nearing completion. As always, it will be filled with insightful data and comments from leading investors throughout the country. Survey subscriptions through fourth quarter 2011 receive a complimentary copy.

Emerging Trends should be e-mailed in late October, so remember to check your inbox. Given all the challenges facing the industry, you don't want to miss it!

Sincerely,

Susan M. Smith
Editor-in-Chief

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PwC Real Estate Investor Survey

National Highlights

CRE: An Interesting Investment in a Disorderly Market

As the United States faces an array of challenges, including national debt and credit rating issues, volatility in the stock market, a slowdown in economic growth, and a stalled labor market, many investors view the commercial real estate (CRE) industry as a bright spot in an otherwise gloomy investment environment. Unlike stocks, bonds, and other paper assets, which tend to fluctuate more rapidly and react more swiftly to economic sentiment, commercial real estate is viewed as a more predictable investment asset. While CRE performance is also sensitive to economic shifts, changes tend to happen more slowly as assets are usually encumbered with long-term leases, allowing properties to better weather downside risk.

This is not to say that commercial real estate is without issues or risk; it has both, particularly at a time when economists have downgraded the U.S. economy's growth expectations and the term "double-dip recession" has resurfaced. As a lagging reactor to economic activity, a slowdown in GDP growth and a lack of job creation have clearly reduced the level of optimism revealed by investors at the start of this year even though the industry's underlying fundamentals continued to slowly improve through the first half of 2011. "There is little doubt that we have entered a period of slower growth and greater uncertainty," remarks a participant. As a result, there is concern that heightened insecurity among businesses and consumers, if persistent, will disrupt the slow-but-steady recovery within the industry.

An industry outlook consisting of weaker tenant demand and slower leasing activity translates into either stalled or diminished rent growth – another top concern for CRE investors. "We are very worried about the prospects of rent growth, especially in the office sector," shares an investor. Granted, there are certain high-profile office markets, like San Francisco and Manhattan, that are seeing rent appreciation. But, these cities are the exception more than the norm. At the peak of the real estate cycle in mid-2007, the average rent growth expectation reported for the Survey's 17 individual office markets ranged from 2.50% in the Pacific Northwest to 7.13% in Denver. The overall average was 4.09%. Toward the end of the recession, the average for this key indicator declined to 1.92%. Currently, it stands at 1.22%.

While feeble rent growth is frustrating to property owners, even more vexing is the use of overly aggressive rent growth assumptions by both buyers and lenders. "Buyers are underwriting recovery whether justified or not," claims a participant. "Their rent growth expectations have gone from realistic to futuristic," quips another. When combined with compressed overall cap rates, some investors believe this "built-in upside" has inflated cash flows and pricing, particularly for core assets, making it more difficult to compete for top properties. Even though troubles could arise if overall cap rates rise and stronger market fundamentals needed to support values fail to materialize, it appears that investors, especially those looking for long-term holds and reliable returns, are targeting the transparency and predictability typically offered by commercial real estate. ✦

Overall Cap Rate Analysis

IN THE THIRD QUARTER OF 2011, THE AVERAGE OVERALL CAPITALIZATION (CAP) RATE DECREASED IN 26 SURVEY MARKETS, INCREASED IN THREE OF THEM, AND HELD STEADY IN TWO. While average overall cap rates are still declining for many property types and geographic areas in our Survey, the rate of decline has slowed.

This quarter, the average rate of decline is ten basis points. By comparison, the average rate of decline was 14 basis points in the second quarter of 2011; 16 basis points in the first quarter of 2011; and 21 basis points in the fourth quarter of 2010.

Some of the most consistent declines in overall cap rates continue to occur in the national and regional apartment markets, where steady signs of recovery are attracting investment capital from both equity investors and lenders.

Exhibit 1

OVERALL CAPITALIZATION RATES

Third Quarter 2011

National Markets	Average	Quarterly Change*
Apartment	5.98%	– 12
CBD Office	6.91%	– 4
Strip Shopping Center	7.20%	– 13
Warehouse	7.45%	– 4
Suburban Office	7.47%	– 13
Regional Mall	7.50%	+ 2
Power Center	7.50%	+ 2
MOB**	8.10%	– 18
Net Lease	8.13%	– 21
Flex/R&D	8.67%	– 8
Apartment Markets		
Pacific Region	5.42%	– 18
Southeast Region	5.92%	– 18
Mid-Atlantic Region	5.98%	– 12
Office Markets		
Manhattan	5.75%	– 8
Washington, DC	5.98%	– 15
San Francisco	6.99%	– 12
Los Angeles	7.09%	– 16
Suburban Maryland	7.48%	– 2
Northern Virginia	7.58%	– 7
Boston	7.88%	– 12
Denver	7.97%	– 19
San Diego	7.99%	– 5
Pacific Northwest	8.01%	0
Dallas	8.04%	– 20
Houston	8.07%	– 15
Chicago	8.19%	– 8
Charlotte	8.41%	0
Philadelphia	8.62%	– 1
Atlanta	8.71%	+ 8
Phoenix	9.34%	– 6
Southeast Florida	9.50%	– 2

* Basis points
** Medical office buildings
Source: PwC Real Estate Investor Survey

Exhibit 2

OVERALL CAPITALIZATION RATE FORECASTS

Third Quarter 2011

	OVERALL CAP RATE	EXPECTATIONS(1)		CHANGE(2)	
MARKET	AVERAGE	SHIFT	%	AVERAGE	RANGE
National Regional Mall	7.50%	(c)	66.7%		
National Power Center	7.50%	(c)	60.0%		
National Strip Shopping Center	7.20%	(c)	72.7%		
National CBD Office	6.91%	(c)	50.0%		
National Suburban Office	7.47%	(c)	54.5%		
Atlanta Office	8.71%	(c)	57.1%		
Boston Office	7.88%	(c)	57.1%		
Charlotte Office	8.41%	(b)	60.0%	(38)	(75) – 0
Chicago Office	8.19%	(b/c)	44.4%		
Dallas Office	8.04%	(c)	83.3%		
Denver Office	7.97%	(c)	60.0%		
Houston Office	8.07%	(c)	100.0%		
Los Angeles Office	7.09%	(c)	100.0%		
Manhattan Office	5.75%	(c)	83.3%		
Northern Virginia Office	7.58%	(c)	100.0%		
Pacific Northwest Office	8.01%	(c)	83.3%		
Philadelphia Office	8.62%	(c)	57.1%		
Phoenix Office	9.34%	(b)	60.0%	(35)	(75) – (10)
San Diego Office	7.99%	(c)	80.0%		
San Francisco Office	6.99%	(c)	66.7%		
Southeast Florida Office	9.50%	(c)	60.0		
Suburban Maryland Office	7.48%	(a)	40.0%		
Washington, DC Office	5.98%	(c)	57.1%		
National Flex/R&D	8.67%	(c)	66.7%		
National Warehouse	7.45%	(c)	50.0%		
Apartment					
National	5.98%	(c)	84.6%		
Mid-Atlantic Region	5.98%	(c)	100.0%		
Pacific Region	5.42%	(c)	100.0%		
Southeast Region	5.92%	(c)	66.7%		
National Net Lease	8.13%	(c)	75.0%		
National Medical Office Buildings	8.10%	(c)	70.0%		

(1) Over the next six months, the majority of investor participants expect overall cap rates to:
(a) increase (b) decrease (c) hold steady
(2) All basis point changes are positive unless enclosed in parentheses
Source: PwC Real Estate Investor Survey

Looking Forward

Strong buyer interest, low interest rates, and a positive industry outlook continue to be recognized in investors' expectations that overall cap rates will either hold steady or decline in most markets over the next six months. As shown in Exhibit 2, the majority of Survey participants expect overall cap rates to hold steady in 26 of the Survey's 31 markets over the next six months.

At the same time, most surveyed investors see overall cap rates decreasing in only three Survey markets – the Charlotte, Chicago, and Phoenix office markets. Furthermore, most surveyed investors foresee overall cap rates rising in only one market (the Suburban Maryland office market).

Key Indicator Breakout

Overall cap rates, discount rates, and residual cap rates for the CBD and suburban submarkets for each individual office market in our Survey are in Exhibit 3. As shown, average overall cap rates remain lower for most CBD submarkets than for their suburban counterparts since higher barriers to entry and a lack of land for new development tend to keep supply and demand a bit more balanced in a market's CBD. As a result, CBD assets typically achieve higher rental rates. In addition, downtown cores tend to provide better forms of mass transportation and embody a 24-hour, live-work lifestyle that appeals to many individuals and firms. As a result, CBD assets are generally perceived as providing less investment risk to the owner – less risk, lower overall cap rate. ✦

Exhibit 3

BREAKOUT OF KEY INDICATORS

Third Quarter 2011

CBD OF:	DISCOUNT RATE RANGE	DISCOUNT RATE AVERAGE	OVERALL CAPITALIZATION RATE RANGE	OVERALL CAPITALIZATION RATE AVERAGE	RESIDUAL CAPITALIZATION RATE RANGE	RESIDUAL CAPITALIZATION RATE AVERAGE
Atlanta	7.75% – 14.00%	9.68%	7.00% – 10.00%	8.52%	7.00% – 10.00%	8.68%
Boston	7.00% – 12.00%	8.80%	5.75% – 10.50%	7.23%	6.00% – 10.50%	7.54%
Charlotte	8.00% – 10.50%	9.31%	6.50% – 10.00%	8.13%	7.00% – 10.00%	8.46%
Chicago	6.50% – 11.50%	8.67%	5.75% – 10.00%	7.38%	6.50% – 9.00%	7.61%
Dallas	7.50% – 11.00%	8.79%	6.25% – 10.00%	7.75%	7.00% – 10.00%	8.33%
Denver	7.75% – 10.00%	8.63%	6.50% – 8.00%	7.17%	6.50% – 9.00%	7.66%
Houston	7.25% – 12.00%	9.08%	6.25% – 10.00%	7.69%	7.00% – 10.00%	8.02%
Los Angeles	7.00% – 12.00%	8.46%	5.00% – 9.00%	6.90%	6.00% – 9.00%	7.63%
Manhattan	6.50% – 10.00%	7.71%	4.00% – 8.00%	5.75%	5.00% – 7.50%	6.13%
Pacific Northwest	7.00% – 12.00%	9.13%	5.50% – 10.00%	7.65%	6.50% – 9.00%	7.75%
Philadelphia	8.00% – 11.00%	9.15%	7.50% – 9.50%	8.35%	7.00% – 9.50%	8.42%
Phoenix	8.00% – 15.00%	9.94%	8.00% – 11.00%	9.16%	7.75% – 10.00%	8.66%
San Diego	7.50% – 12.00%	9.30%	7.00% – 9.00%	7.90%	7.00% – 9.00%	8.05%
San Francisco	6.50% – 10.00%	7.99%	4.60% – 9.00%	6.42%	5.50% – 9.00%	6.97%
Southeast Florida	7.00% – 14.00%	10.00%	7.00% – 13.00%	8.98%	7.00% – 12.00%	9.00%
Washington, DC	6.50% – 9.00%	7.56%	4.50% – 8.00%	5.98%	5.25% – 8.25%	6.54%
SUBURBS OF:	**DISCOUNT RATE RANGE**	**DISCOUNT RATE AVERAGE**	**OVERALL CAPITALIZATION RATE RANGE**	**OVERALL CAPITALIZATION RATE AVERAGE**	**RESIDUAL CAPITALIZATION RATE RANGE**	**RESIDUAL CAPITALIZATION RATE AVERAGE**
Atlanta	8.25% – 15.00%	10.36%	7.00% – 11.00%	8.91%	7.50% – 11.00%	9.07%
Boston	7.75% – 15.00%	9.89%	6.50% – 12.00%	8.52%	7.00% – 12.00%	8.52%
Charlotte	8.00% – 12.00%	9.65%	7.50% – 9.50%	8.70%	7.50% – 10.00%	8.85%
Chicago	8.00% – 13.00%	9.97%	7.00% – 11.00%	9.00%	7.00% – 11.00%	8.94%
Dallas	8.00% – 12.00%	9.38%	6.75% – 11.00%	8.33%	7.25% – 10.00%	8.40%
Denver	8.00% – 15.00%	10.90%	7.50% – 11.00%	8.78%	8.00% – 11.00%	8.88%
Houston	7.75% – 15.00%	9.92%	7.00% – 11.00%	8.46%	7.00% – 11.00%	8.35%
Los Angeles	7.00% – 12.00%	8.52%	6.00% – 9.00%	7.29%	6.00% – 9.00%	7.73%
Northern Virginia	7.50% – 10.00%	8.58%	5.75% – 9.00%	7.58%	7.00% – 9.00%	7.90%
Pacific Northwest	7.00% – 14.00%	10.04%	6.00% – 12.00%	8.38%	6.50% – 10.00%	8.38%
Philadelphia	8.50% – 11.00%	9.61%	7.75% – 10.00%	8.89%	8.00% – 11.00%	9.14%
Phoenix	9.00% – 16.00%	11.00%	8.00% – 11.00%	9.53%	7.75% – 10.00%	9.08%
San Diego	7.00% – 12.50%	9.45%	6.00% – 10.00%	8.08%	6.50% – 9.25%	7.95%
San Francisco	7.00% – 11.00%	9.04%	5.50% – 9.50%	7.56%	6.00% – 10.00%	7.76%
Southeast Florida	7.00% – 16.00%	10.75%	8.00% – 15.00%	10.02%	7.50% – 12.00%	9.29%
Suburban Maryland	7.25% – 9.50%	8.41%	6.00% – 9.00%	7.48%	7.25% – 9.75%	8.09%

Source: PwC Real Estate Investor Survey

Valuation Issues

Rent Spikes

A rent spike is an increase in market rent that is markedly higher than the general inflation rate. For example, if inflation is 3.0%, one might expect a spike to be at least 50.0% to 100.0% higher, or say 4.5% to 6.0%. According to participants, rent spikes typically occur during the first five years of a ten-year forecast. Although they are most often applied in a series of years, an unusually high spike may be applied for only a single year.

Participants who apply rent spikes maintain that they are both extremely property specific and heavily dependent on submarket conditions. Specifically, they are used "where and when appropriate" in markets where hard evidence exists that rents will increase substantially in the future. Such evidence includes a diversified economic base, strong job growth, and an above-average rate of absorption. Furthermore, since many participants time the use of rent spikes according to anticipated supply-demand conditions, they most commonly apply them during the latter part of a market's expansion phase.

Rent spikes are also used, but to a lesser extent, at the beginning of the recovery phase of the market cycle. The expectation is that rents will initially rise slowly until space demand gets ahead of acceptable supply. At that point, there is often a rent spike of relatively short duration until construction picks up the slack on the supply side.

As shown in Exhibit 4, the use of rent spikes increased in 18 Survey markets, decreased in two, and remained unchanged in seven of them over the past year. The exhibit also includes the average spike percentage, the high end of the spike range, as well as the timing of the spike. A surge in the use of rent spikes has occurred in the national power center market, where challenges exist for the near term but improvement is expected as the economic recovery strengthens over the next few years.

In the office sector, some of the largest increases in usage occurred in cities where noticeable bottoms have been reached, such as Manhattan. The average rent spike is 5.3%. Overall, 12 of the 18 individual office markets in our Survey report a rise in the use of rent spikes. "Rent spikes are very market and submarket specific; even property specific at times," shares an investor.

In addition, rent spikes are more prevalent in the national warehouse

Exhibit 4
RENT SPIKES
Third Quarter 2011

	% OF PARTICIPANTS USING RENT SPIKES		CURRENT SPIKE		YEAR SPIKE USED		
	CURRENT QUARTER	YEAR AGO	AVERAGE	HIGH END OF RANGE	RANGE LOW	RANGE HIGH	AVERAGE
National Markets							
Regional Mall	16.7%	16.7%					
Power Center	60.0%	20.0%	3.9%	7.0%	1	5	3
Strip Shopping Center	27.0%	11.1%					
CBD Office	50.0%	40.0%	7.4%	10.0%	1	5	3
Suburban Office	64.0%	41.7%	5.9%	10.0%	2	6	4
Flex/R&D	66.6%	50.0%	5.1%	8.0%	2	4	3
Warehouse	53.9%	39.0%	5.3%	8.0%	1	5	3
Net Lease	37.5%	37.5%					
MOB*	30.0%	33.3%					3
Office Markets							
Atlanta	14.0%	0.0%					
Boston	29.0%	29.0%					
Charlotte	0.0%	0.0%					
Chicago	44.0%	44.0%	5.4%	8.0%	2	5	4
Dallas	30.0%	0.0%					
Denver	60.0%	50.0%	4.4%	6.0%	2	7	4
Houston	30.0%	0.0%					
Los Angeles	67.0%	60.0%	5.2%	8.0%	1	7	4
Manhattan	67.0%	16.7%	7.4%	10.0%	1	5	3
Northern Virginia	16.0%	0.0%					
Pacific Northwest	67.0%	80.0%	4.0%	6.0%	1	8	4
Philadelphia	14.0%	0.0%					
Phoenix	20.0%	17.0%					
San Diego	80.0%	40.0%	4.9%	10.0%	1	7	4
San Francisco	77.0%	67.0%	6.4%	12.0%	1	7	4
Southeast Florida	0.0%	0.0%					
Suburban Maryland	0.0%	0.0%					
Washington, DC	33.0%	14.0%					

*Medical office buildings
Source: PwC Real Estate Investor Survey

market, where 53.9% of surveyed investors are using a rent spike of up to 8.0% between years one and five. The average rent spike is 5.3%. While the use of rent spikes has increased a bit in the national strip shopping center market, it has held steady in the national regional mall market.

For niche markets, such as net lease and medical office buildings (MOB), some investors are using rent spikes while others are not. In the MOB market, for example, spike usage has dipped a bit even as demand for this asset type remains strong. On average, 30.0% of surveyed investors use a rent spike when preparing a cash flow for a medical office building.

Debt Service

Survey participants overwhelmingly indicate that debt remains available, especially for core assets with sound rent rolls and in good locations. "I feel good about the capital markets in that there is still debt available to do deals," states an investor. Overall, debt loan-to-value percentages (LTV ratios) for the Survey's 35 markets indicate a range from 30.0% to 95.0% and an average of 59.4%. "Debt markets have bounced back and are more competitive," notes another.

Certain Survey participants, however, believe that lenders are not lending as much for office deals given the underlying stress in that sector. "Distress remains an issue for some office assets so lenders are a bit skittish about lending on office assets," states a participant. The opposite, however, could be said for the apartment sector, where Survey participants report some of the highest LTV ratios this quarter.

Major sources of debt include life insurance companies, as well as regional and local banks. Current interest rate levels for

Exhibit 5
DEBT SERVICE
Third Quarter 2011

	INTEREST RATES (%)			DEBT PERCENTAGE			PREMIUM ADDED (1)		
	LOW	HIGH	AVERAGE	LOW	HIGH	AVERAGE	LOW	HIGH	AVERAGE
National & Regional Markets									
Regional Mall	5.00	8.50	6.38	40	70	60	0	235	84
Power Center									
Strip Shopping Center	4.75	8.50	6.19	30	75	58	0	300	82
CBD Office	4.00	7.50	6.00	40	75	60	0	250	90
Suburban Office	4.00	7.50	5.59	40	70	58	0	1,200	229
Flex/R&D	4.50	8.00	5.71	50	75	62	100	1,200	505
Warehouse	4.25	6.50	5.14	50	75	59	0	500	178
Apartment									
National	3.50	7.75	5.15	50	80	65	25	300	158
Mid-Atlantic Region	3.85	9.00	5.38	50	85	65	0	300	103
Pacific Region	3.50	8.00	5.08	50	80	62	0	500	179
Southeast Region	3.50	5.50	4.41	50	80	64			
Net Lease	4.50	7.25	5.88	50	95	64	0	150	40
Medical Office Buildings	4.00	10.00	6.01	50	85	63	0	1,500	271
Office Markets									
Atlanta	4.80	8.00	6.20	50	70	58	0	500	213
Boston	4.50	9.00	6.19	50	80	59	0	500	185
Charlotte	4.50	8.00	5.84	50	70	60	0	700	294
Chicago	4.00	9.00	5.71	40	75	59	50	500	271
Dallas	4.00	7.50	5.54	50	75	60			
Denver	4.50	9.00	6.30	50	75	61	25	400	159
Houston	4.00	8.00	5.49	50	75	59	0	500	169
Los Angeles	4.00	7.00	5.41	50	75	62	50	500	258
Manhattan	4.50	7.50	5.75	40	75	58	50	200	150
Northern Virginia	4.50	7.00	5.63	50	70	60			
Pacific Northwest	4.50	10.00	5.88	50	75	62	50	500	210
Philadelphia	4.00	8.00	5.88	50	75	62	25	1,500	210
Phoenix	4.75	9.00	6.63	40	75	57			
San Diego	6.00	8.00	6.71	50	70	57	0	500	150
San Francisco	4.75	8.00	6.16	50	70	58	25	500	234
Southeast Florida	5.00	9.00	7.09	50	65	56	0	700	269
Suburban Maryland	4.75	7.50	6.03	50	70	58	0	250	75
Washington, DC	4.75	7.50	5.95	50	70	56			
Lodging Markets									
Full Service	4.00	9.00	7.00	40	75	56	0	500	150
Limited-Service Midscale & Economy	5.00	8.00	6.70	50	70	59			
Luxury/Upper Upscale	5.00	9.00	6.78	40	65	55	0	2,000	394
Select Service	6.00	9.00	7.75	40	60	53			

(1) Basis points added to "all cash" IRR (discount rate)
Source: PwC Real Estate Investor Survey

each market are shown in Exhibit 5. Overall, surveyed investors indicate that interest rates currently range from 3.50% (in the apartment sector) to 10.00% and average 5.99% – 60 basis points lower than the Survey average a year ago.

When the cost of debt capital is below the rate of return (IRR) on equity and the financed portion of a sale is in the 50.0%-to-60.0% range, some buyers can use positive leverage to bid up prices by a small margin above the all-cash price. Buyers who can access economical debt capital to finance a portion of the sale price can anticipate a better yield than the indicated property yield, offer slightly more for a property than an all-cash buyer, and thus win the bid.

By doing so, they can increase their equity IRR above the property IRR and thus fare better than they would have in an all-cash deal. Furthermore, they perceive only minimal additional risk as long as the financed portion is small enough to offset the possibility that the leverage might become negative. Current leverage premiums are included in Exhibit 5.

Lodging NOI Timing

Our lodging participants indicate that they use one of the following three NOI timing scenarios in direct capitalization (cap): prior 12 months; forecast (next) 12 months; or both (see Page 93). For each of the four lodging segments, participants are nearly divided between capitalizing either the prior 12-months income or the forecast 12-months income in direct cap.

Lodging Replacement Reserves

As a percentage of total revenue, the average replacement reserve of fixed assets for the lodging industry ranges from 3.10% to 3.94% (see Table LRR-1). All hotel participants indicate that they deduct this replacement reserve from NOI before capitalization. For participants who use a separate structural replacement reserve, 89.00% indicate that they deduct this reserve from NOI before capitalization. The remaining 11.00% do not deduct it.

Table LRR-1

LODGING RESERVES

(% of Total Revenue)

Segment	Range	Average
Full Service	1.00% – 5.00%	3.90%
Limited-Service Midscale & Economy	1.00% – 5.00%	3.40%
Luxury/Upper Upscale	1.00% – 6.00%	3.94%
Select Service	1.00% – 5.00%	3.10%

Source: PwC Real Estate Investor Survey

Lodging Management Fees

As a percentage of total revenue, average base management fees for the lodging industry range from 3.04% to 3.70% (see Table LMF-1). These rates are relatively unchanged from a year ago. Incentive management fees are included in the Investor Response Tables in the back of this issue.

Table LMF-1

LODGING MANAGEMENT FEES

(% of Total Revenue)

Segment	Range	Average
Full Service	2.50% – 4.00%	3.04%
Limited-Service Midscale & Economy	2.00% – 5.00%	3.45%
Luxury/Upper Upscale	2.00% – 5.00%	3.18%
Select Service	2.50% – 6.00%	3.70%

Source: PwC Real Estate Investor Survey

Buyers vs. Sellers

As signs of recovery emerge, sellers have started to gain control of certain sectors of the industry, such as apartments and dominant office markets, like Washington, DC (see Table VAL-1). Buyers, however, are favored in the flex/R&D market and oversupplied office markets, like Atlanta and Phoenix. On average, 31.4% of Survey participants believe market conditions favor buyers – down from 58.6% last year. At the same time, 26.4% view the market as favoring sellers, up from 12.3% a year ago. ✦

Table VAL-1

BUYERS vs. SELLERS

Third Quarter 2011

National Markets	Buyers' Market*	Sellers' Market*
Regional Mall	17.0%	0.0%
Power Center	20.0%	0.0%
Strip Shopping Center	27.0%	27.0%
CBD Office	13.0%	25.0%
Suburban Office	27.0%	9.0%
Flex/R&D	67.0%	0.0%
Warehouse	15.0%	31.0%
Net Lease	13.0%	63.0%
Medical Office Bldgs.	20.0%	40.0%
Apartment Markets		
National	15.0%	62.0%
Mid-Atlantic Region	33.3%	33.3%
Pacific Region	0.0%	67.0%
Southeast Region	33.3%	33.3%
Office Markets		
Atlanta	85.0%	0.0%
Boston	57.0%	0.0%
Charlotte	50.0%	0.0%
Chicago	56.0%	22.0%
Dallas	17.0%	17.0%
Denver	40.0%	40.0%
Houston	50.0%	17.0%
Los Angeles	0.0%	17.0%
Manhattan	0.0%	67.0%
Northern Virginia	50.0%	50.0%
Pacific Northwest	0.0%	33.3%
Philadelphia	43.0%	43.0%
Phoenix	60.0%	0.0%
San Diego	60.0%	0.0%
San Francisco	22.0%	11.0%
Southeast Florida	50.0%	33.0%
Suburban Maryland	20.0%	20.0%
Washington, DC	14.0%	57.0%

*Figures may not add up to 100.0% due to rounding and those participants who believe that market conditions are neutral.

Source: PwC Real Estate Investor Survey

Special Report: Green Buildings

Green Buildings Are The Place To Be.....

By Dan Winters, Managing Principal of Evolution Partners

Author's Note: With apologies to Eddie Albert, Eva Gabor, Arnold the Pig, and the rest of the Green Acres community in Hooterville, we at Evolution Partners strive to provide thoughtful commentary on green buildings and their tremendous value potential to an institutional real estate portfolio.

Green buildings continue their market penetration given persistent increases in energy and water costs and continuing changes in regulatory requirements. For institutional investors, green building investment strategies present opportunities for greater asset-based financial returns and a reduced risk profile.

Investors who embrace a green building strategy with their private equity manager selections and fund allocations will be well-positioned to achieve superior returns from their real estate portfolio. The alpha-return profile delivered by green building strategies stems from three primary areas: 1.) comparatively lower operating costs of the underlying assets, 2.) increased asset desirability in the leasing markets, and 3.) reduced incidence of asset obsolescence during the fund's life.

Taken together, these and other tangential factors, provide tremendous value potential to incrementally increasing a private equity fund's income return over the holding period, reducing overall portfolio risk, and positively impacting asset valuations upon fund exit.

Generating Alpha

Green buildings employ strategies that save money; LEED and Energy Star provide roadmaps to these savings. Assets with a LEED and/or Energy Star certification have efficient systems that reduce energy/water costs and increase tenant desirability compared to their market peers. These buildings are typically characterized as being well run, amenity rich, and highly regarded within their submarkets. They provide financial advantages over non-green buildings which can be monetized by knowledgeable investors, thus creating marginal alpha returns at a lower risk profile.

The financial benefits can be significant. Over a private equity fund's ten-year life, a green fund can be expected to outperform a non-green fund on both absolute income and overall asset price appreciation. Take as example a non-green real estate portfolio where energy and water costs are 25.0% of the total portfolio's operating expenses compared to a green building portfolio that reduces these costs by 33.0%. This efficiency-based cost reduction results in an 8.0% increase in net operating income year after year throughout the asset's holding period [25.0% energy costs x 33.0% reduction = 8.0% income gain]. Further, this 8.0% income advantage has value at time of exit based on the asset's terminal capitalization rate.

Accordingly, a $500.0 million non-green portfolio yielding a 6.0% cash return today and growing at 3.0% annually will be outperformed by a green portfolio with an 8.0% income advantage by an additional $27.5 million in cash income over a ten-year holding period.

Besides an absolute income advantage, green buildings have "core" characteristics, which increase the likelihood that these assets experience top-tier capitalization rates upon exit. This reduces portfolio exit risk. Holding the current overall cap rate constant at 6.0%, the green portfolio's 8.0% income advantage grows to deliver an additional $52.2 million in sale proceeds upon fund termination.

Therefore, investors enjoy nearly $80.0 million in alpha-driven returns by investing in a portfolio of certified LEED and/or Energy Star green buildings that reduce energy and water input costs by 33.0% over the fund's ten-year life.

Supply/Demand Imbalance

Besides direct financial impacts, sustainability initiatives mandated and implemented by major corporations are driving market demand for LEED-certified and/or Energy Star space. Sustainability initiatives focus significant attention on energy and water consumption, employee commuting patterns, and the organization's overall carbon footprint. There are also intangible factors and market goodwill attained by occupying LEED and/or Energy Star certified buildings. In many cities, this dynamic is leading to a bifurcation in the commercial leasing market, where certified buildings command strong top-line competitive advantages over conventional, non-green certified buildings.

Quantifying top-line income growth associated with an

asset's "greenness" is tricky business. There are many moving parts in any real estate transaction and a tenant's overall occupancy costs, while important, are but one of several primary decision drivers. What is clear, however, is if there are rent premiums to be had, LEED and/or Energy Star buildings will have a seat at the table while non-certified buildings may begin to suffer a negative market stigma that takes them out of the running for any green-driven top-line revenue opportunities.

Underwriting "Green"

Real estate risk factors come in many forms – operating cost volatility, vacancy, lease-up time, tenant credit quality, competitive market profile, rent growth, physical/functional/economic obsolescence, liability exposure, cap rate on sale, and other relevant issues. Reducing these risks is paramount to achieving a fund's return expectations and an important element of an investment manager's fiduciary duties.

Factoring sustainability-related issues into financial underwriting, particularly energy/water efficiency, location, and indoor environmental quality, are important considerations when making investment decisions with long-lived real assets, such as commercial real estate.

Assessing "sustainability risk" and determining an asset's "green gap" are key factors in making superior real estate investment decisions. Exposure to current energy and water costs and their future price increases is the most controllable operational risk. As leases roll over, asset-specific investment risks for poorly performing assets will be exposed. Market factors will drive poor-performing buildings to either 1) charge lower rent, 2) experience lower occupancy rates, or 3) make untimely investments in capital improvements. All of these factors can drive negative financial outcomes for a non-green portfolio.

Solid real estate asset underwriting requires a focus on 1) an absolute reduction in total risk exposure, and 2) the opportunity to achieve enhanced cash flow. LEED and/or Energy Star certified buildings provide a strong investment proposition and downside value hedge due to their many risk-reduction features. Clearly a fund manager's in-depth knowledge of green building value attributes and evolving market practices is important to avoiding upward portfolio drift along the risk spectrum over a fund's duration.

Transparency

Perhaps the most underappreciated driver behind green building is information-age transparency. The real estate market is rapidly evolving its transparency and disclosure practices. Transparency on asset-based features allows both investors and tenants to assess building attributes on a relative basis – green vs. non-green; efficient vs. non-efficient – and apportion risk accordingly.

The continued introduction of new information-driven products and services into the real estate industry will further drive a valuation wedge that favors green buildings over their non-green counterparts. Ultimately, transparency is the foundation of capital market efficiency. Investment managers and their institutional investors who invest in green building features and operate their assets at higher efficiency levels will be rewarded over those who do not.

Bottom Line

Leading real estate investors who implement green-building initiatives within their stable of investment managers will be well-positioned to reap the alpha-return rewards of superior income-based cash flows along with associated value gains derived from asset operational cost efficiencies. These investors will also have a leg up given the increasing green building supply/demand fracture and the ripple effects of a carbon-constrained economy over this next real estate cycle.

Investors who fail to incorporate green building attributes into their manager and fund allocations increase the probability of awakening to a real estate portfolio that contains much more risk than one previously thought.

You might recall the Green Acres episode where Arnold, distinguished by his ability to predict the weather with his tail, called for snow in the summer creating a awkward situation for Oliver……until the snow storm came as predicted and buried the city.

From our vantage point, green buildings provide a strong value proposition, and we've got more than a pig's tail to go on. Our view is that successful real estate investors begin with the end in mind. Given this benefit of "advance hindsight"…… how will your portfolio look in 2020? ✦

Dan Winters is managing principal of Evolution Partners, a real estate investment advisory firm specializing in high-performance green buildings, including LEED and Energy Star real estate projects. He can be reached at 202-997-3922 or dan@evolutionpartners.com.

Economic News

Renters: Back in a Big Way for Now

By Susan M. Smith, Director
Real Estate Business Advisory Services - PwC LLP

Owning a home has long been touted as the American dream. Prior to the economic recession in 2001 and the start of what many considered the "push for home ownership" across the nation, the U.S. home ownership rate grew from 62.9% in 1965 to 67.5% in the first quarter of 2001, according to the U.S. Census Bureau (UCB). Over this time period, the home ownership rate averaged 64.5%.

Following the eight-month recession that technically ended in November 2001, an expanding mortgage industry and favorable interest rates jump-started a boom in housing purchases, causing the home ownership rate in the United States to rise and peak at 69.2% during the second and fourth quarters of 2004 (see Chart ECO-1). A growing number of these new owners were less than 35 years of age. Between 2000 and 2002, as many individuals segued from renting to owning, the average vacancy rate in the multifamily sector soared.

After peaking in 2004, the U.S. home ownership rate started to trend downward as home prices climbed and inventory shrunk. This decline in ownership benefitted the multifamily sector, which saw a drop in vacancy. Such a correlation seems "normal" as those who can't afford to buy a home frequently become renters. But an interesting trend emerged in mid-2008, nearly midway through the recent recession, and continued for the next two years. It is over this time period that the vacancy rate in the U.S. multifamily sector rose at the same time that the U.S. home ownership rate declined.

While logic dictates that the housing crisis and its subsequent rise in foreclosures and fall in home ownership would create rental demand, it didn't – at least temporarily. One reason for this divergence was that the Great Recession forced many individuals to either "double up" or move back home. These trends were especially true among young people ages 25 to 34 years – *remember, this group represented the growing portion of new home owners during the housing boom.*

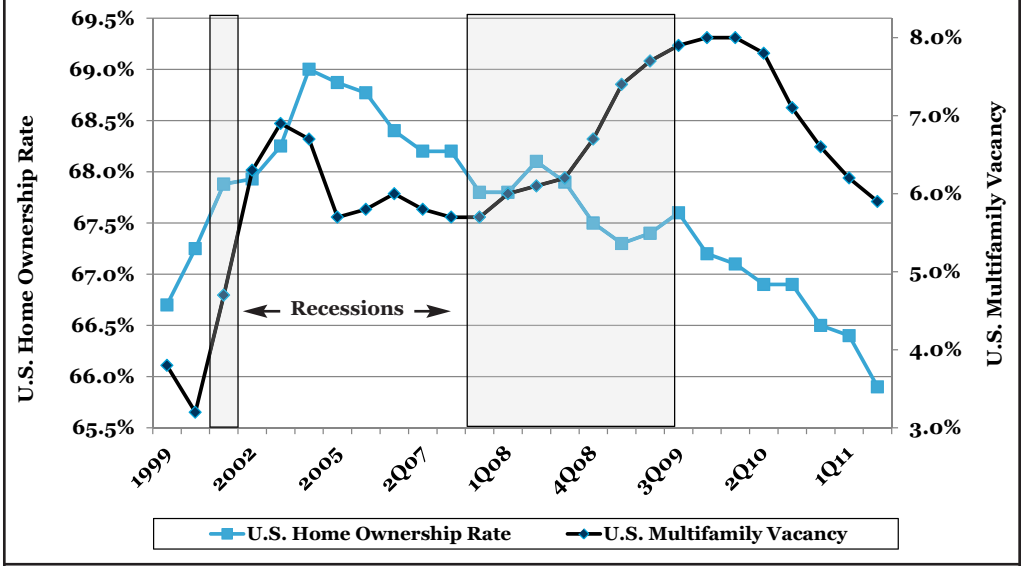
As the U.S. economy started to rebound and has added jobs in various sectors, pent-up housing demand has mainly benefitted the rental sector as stricter mortgage standards, declines in personal wealth, and the desire for mobility and job flexibility are either delaying or discouraging home ownership among all age groups. Between midyear 2009 and 2011, the vacancy rate dropped 180 basis points in the multifamily sector.

Although household formations are expected to rise as clearer signs of economic growth materialize, it remains to be seen whether the resulting housing demand will target the single-family sector or continue to benefit the multifamily sector, where many Americans have found a home, either by choice or necessity. ✦

Chart ECO-1

U.S. HOUSING TRENDS

1999 to Second Quarter 2011



Source: U.S. Census Bureau; Reis

PwC Real Estate Barometer

Real estate cycles vary across markets and geographic areas, as well as within markets and geographic locations based on property type — office, retail, industrial, and multifamily. This observation means that national cycles differ for the same property type across individual markets. It also means that within a specific location, the cycle for each property type can be in a different phase at any given time.

Even though the underlying fundamentals of the commercial real estate industry slowly improved across each sector and most regions through the first half of 2011, the weak U.S. labor market and stalled economic recovery have raised anxiety levels relating to the industry's near-term performance. "Today, many investors are less confident in the industry's future than they were six months ago," remarks a participant.

Since real estate markets are dynamic over time and influenced by a host of factors, an in-depth analysis of historical and forecast stock data provided by CBRE Economic Advisors and Reis allows us to gauge each sector's likely shifts over the near term. The results of our PwC Real Estate Barometer research are shown in Charts REB-1 through Chart REB-4. The percentages in these charts represent the portion of the aggregate real estate stock available in the covered markets. Individual barometer readings for U.S. regions, as well as various metro areas, are shown for each sector in Forecast-1 through Forecast-4.

Office

Continuous growth in corporate profits spurred job creation and leasing demand for many individual cities in the U.S. office sector during the first half of this year. In fact, between year-end 2010 and the second quarter of 2011, overall vacancy declined for both the U.S. CBD and U.S. suburban office markets. Unfortunately, GDP growth has been downgraded, which could have a negative effect on the office sector's recovery.

As shown in Chart REB-1, 68.4% of the U.S. office stock will be in recovery by year-end 2011. In 2012, this percentage will decline a bit as a greater portion of stock enters the expansion phase.

Retail

The retail sector remains challenged by a fragile economy, conservative spending among consumers, and continuous store closings. As a result, the bulk of the U.S. retail sector remains in recession through year-end 2012 (see Chart REB-2). Although the amount of U.S. retail stock in recession will greatly decline by year-end 2013, a marked recovery is not expected until year-end 2014.

Industrial

While slight, consumer spending and growth in manufacturing, capital goods shipments, and business profits are benefitting the U.S. industrial sector, where overall vacancy remains on a downward trend. As a result, the portion of U.S. industrial stock in recovery is expected to surge over the next 15 months (see Chart REB-3).

Multifamily

As the top-performing sector in the industry, the recovery phase of the real estate cycle dominates the U.S. multifamily market, segueing more and more into the expansion phase annually through 2014 (see Chart REB-4). In fact, all of the 81 multifamily metro areas included in our research are expected to evade recession over the next four years. ✦

Definitions

Contraction: The phase following the market peak, characterized by softening market conditions and a shift in the supply/demand balance leading to increasing vacancy rates, slowing rental growth, and rising overall cap rates.

Expansion: The phase following recovery, characterized by strong demand and increasingly tight market conditions leading to low vacancy rates, robust rental growth, and decreasing overall cap rates.

Recession: The phase following contraction, characterized by very low demand and high levels of supply that were added during the previous two phases. Typically involves high vacancies, negative rental growth, and high overall cap rates.

Recovery: The phase following the market bottom, characterized by tightening market conditions and a shift in supply/demand balance leading to reduced vacancy rates, more balanced rental growth, and a stabilization of overall cap rates.

Stock: The total inventory of space, in square feet or units, in a given market.

Chart REB-1
PwC Real Estate Barometer
U.S. Office Market – 2011 to 2014

Recession Contraction
Recovery Expansion

2011 shows signs of decreasing vacancy. Even though recovery is on the horizon, job creation remains a concern.

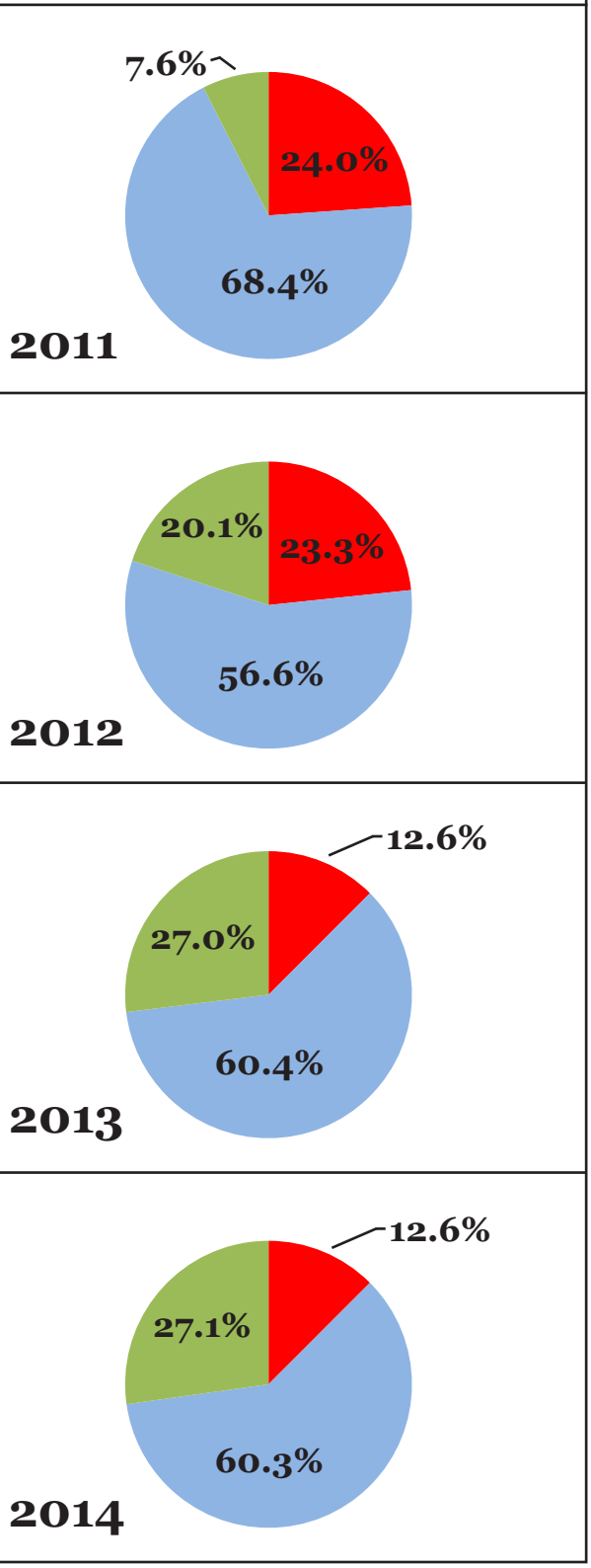


Chart REB-2
PwC Real Estate Barometer
U.S. Retail Market – 2011 to 2014

Recession Contraction
Recovery Expansion

Inconsistent consumer spending and store closings will keep the majority of retail stock in recession through 2012. A recovery will materialize in 2013.

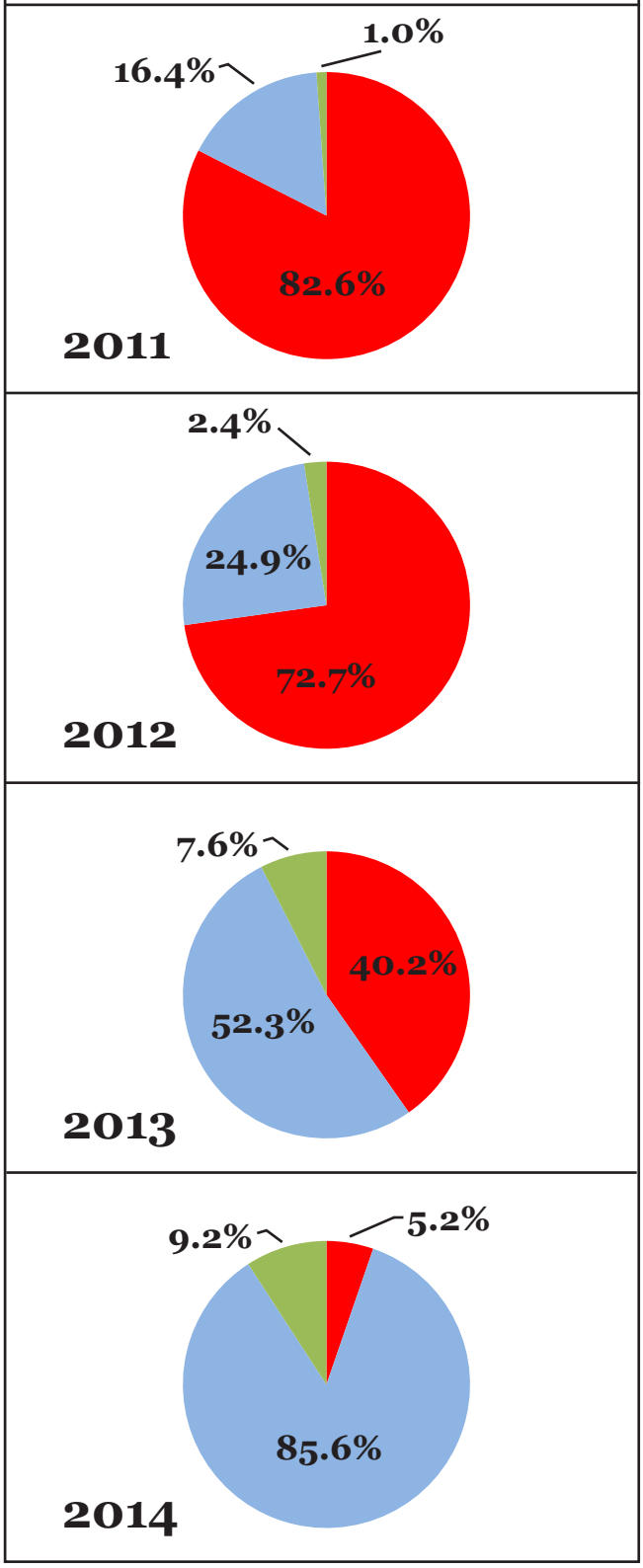


Chart REB-3
PwC Real Estate Barometer
U.S. Industrial Market – 2011 to 2014

Recession Contraction
Recovery Expansion

The portion of stock in recovery is expected to surge over the next 15 months, leading to an expansion in 2014.

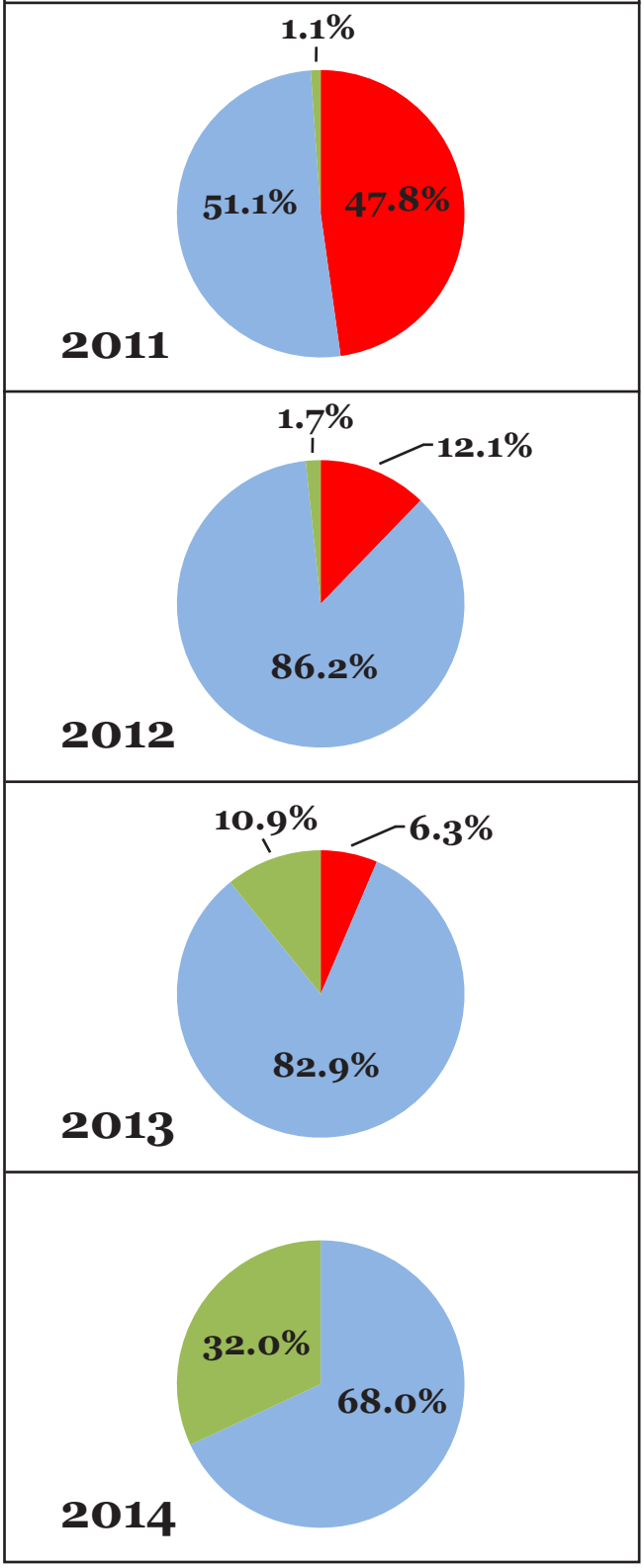
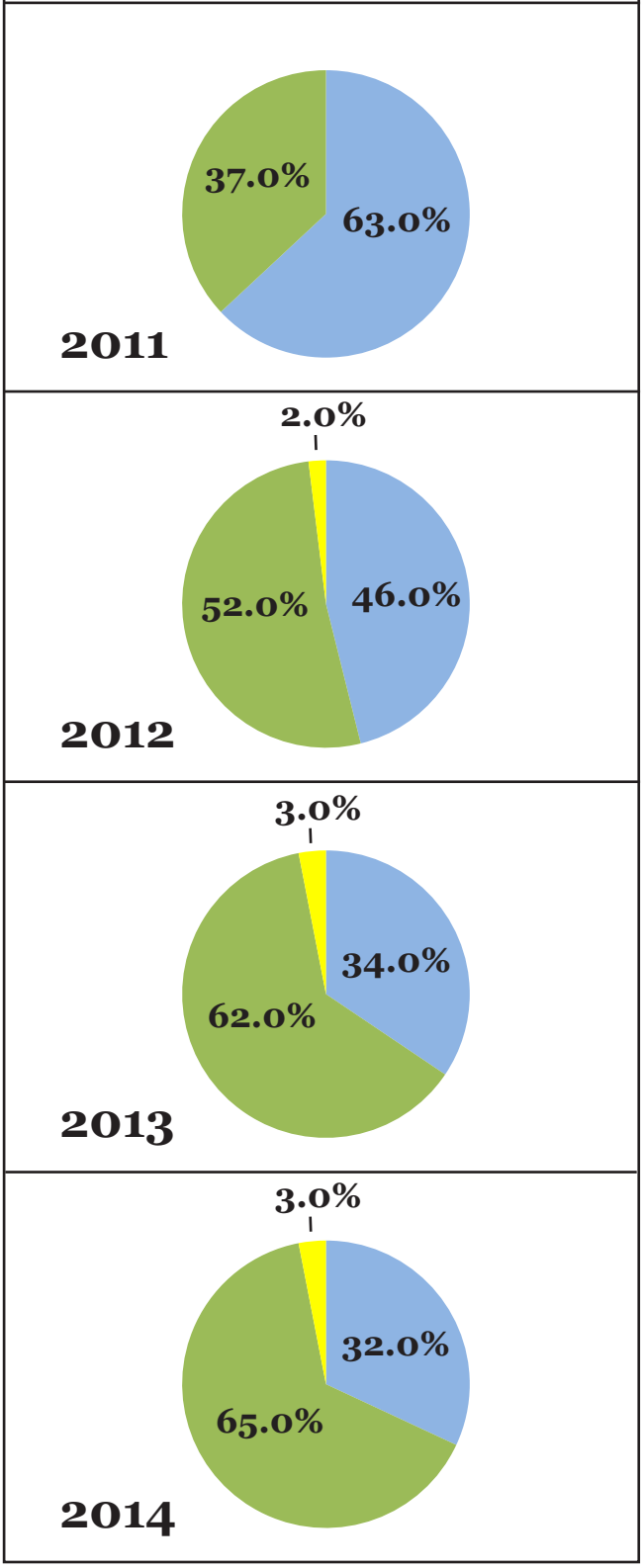


Chart REB-4
PwC Real Estate Barometer
U.S. Multifamily Market – 2011 to 2014

Recession Contraction
Recovery Expansion

Demographic trends continue to spur demand and lower vacancy. The amount of stock in expansion will continue to grow through 2014.



PwC Real Estate Barometer

U.S. Office Market Forecasts (2011 to 2014)

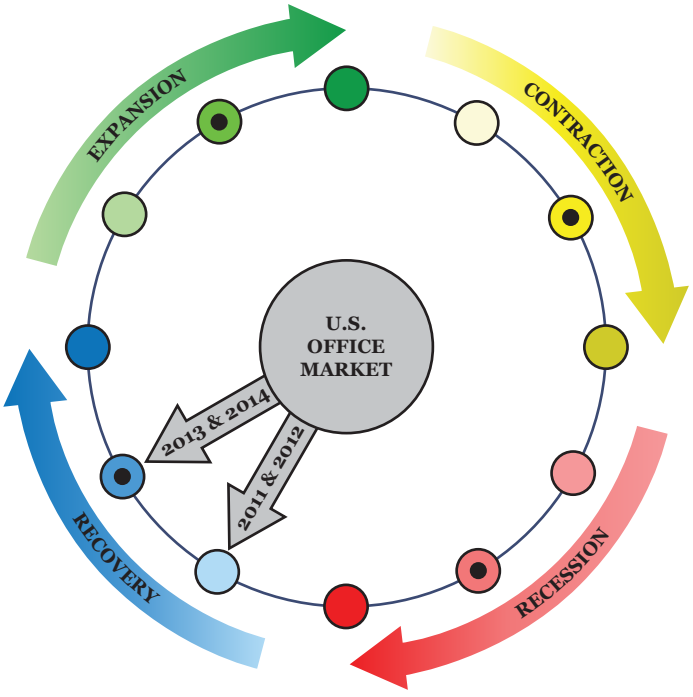
	2011	2012	2013	2014
United States				

NORTHEAST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Boston				
Edison				
Hartford				
Long Island				
New York				
Newark				
Philadelphia				
Pittsburgh				
Stamford				
Trenton				

MIDWEST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Chicago				
Cincinnati				
Cleveland				
Columbus				
Detroit				
Indianapolis				
Kansas City				
Minneapolis				
St. Louis				
Toledo				

WEST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Albuquerque				
Denver				
Honolulu				
Las Vegas				
Los Angeles				
Oakland				
Orange County				
Phoenix				
Portland				
Riverside				
Sacramento				
Salt Lake City				
San Diego				
San Francisco				
San Jose				
Seattle				
Tucson				
Ventura				

SOUTH REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Atlanta				
Austin				
Baltimore				
Charlotte				
Dallas				
Fort Lauderdale				
Fort Worth				
Houston				
Jacksonville				
Memphis				
Miami				
Nashville				
Orlando				
Raleigh				
San Antonio				
Tampa				
Washington, DC				
West Palm Beach				
Wilmington				



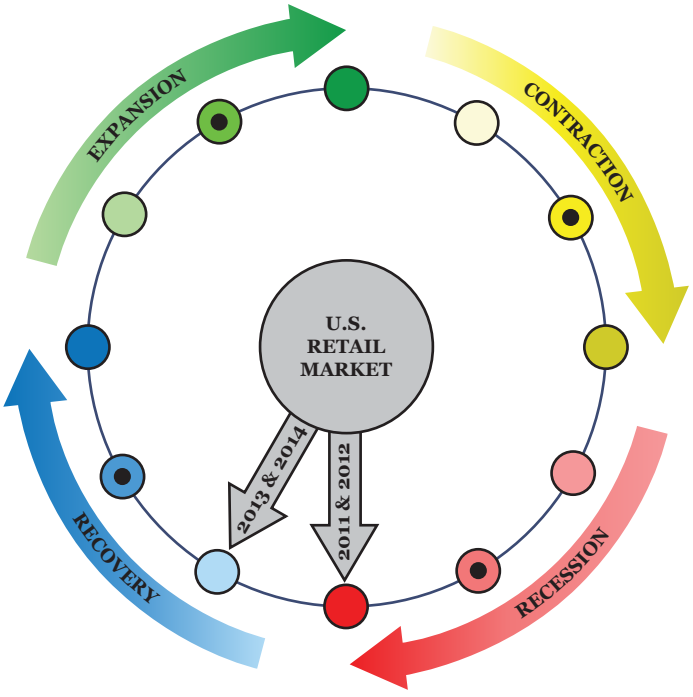
PwC Real Estate Barometer

U.S. Retail Market Forecasts (2011 to 2014)

	2011	2012	2013	2014
United States				

NORTHEAST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Boston				
Buffalo				
Central New Jersey				
Fairfield County				
Hartford				
Long Island				
New Haven				
Northern New Jersey				
Philadelphia				
Pittsburgh				
Rochester				
Syracuse				

MIDWEST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Chicago				
Cincinnati				
Cleveland				
Columbia				
Columbus				
Dayton				
Detroit				
Indianapolis				
Kansas City				
Milwaukee				
Minneapolis				
Omaha				
St. Louis				
Wichita				



WEST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Albuquerque				
Colorado Springs				
Denver				
Las Vegas				
Los Angeles				
Oakland-East Bay				
Orange County				
Phoenix				
Portland				
Sacramento				
Salt Lake City				
San Bernardino/Riverside				
San Diego				
San Francisco				
San Jose				
Seattle				
Tacoma				
Tucson				
Ventura				

SOUTH REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Atlanta				
Austin				
Baltimore				
Birmingham				
Charleston				
Charlotte				
Chattanooga				
Dallas				
Fort Lauderdale				
Fort Worth				
Greensboro/Winston-Salem				
Greenville				
Houston				
Jacksonville				
Knoxville				
Lexington				
Little Rock				
Louisville				
Memphis				
Miami				
Nashville				
New Orleans				
Norfolk				
Oklahoma City				
Orlando				
Palm Beach County				
Raleigh				
Richmond				
San Antonio				
Suburban Maryland				
Suburban Virginia				
Tampa				
Tulsa				

PwC Real Estate Barometer

U.S. Industrial Market Forecasts (2011 to 2014)

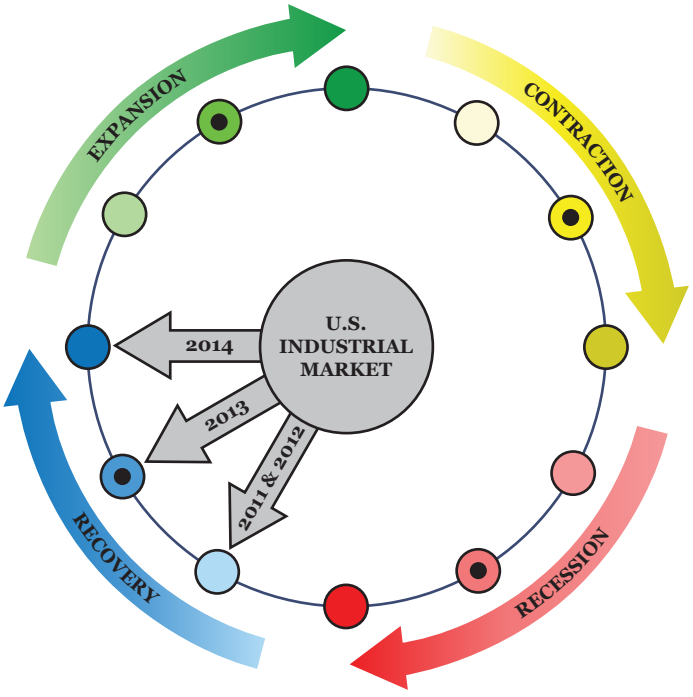
	2011	2012	2013	2014
United States				

NORTHEAST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Boston				
Edison				
Hartford				
Long Island				
New York				
Newark				
Philadelphia				
Pittsburgh				
Stamford				
Trenton				

MIDWEST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Akron				
Ann Arbor				
Chicago				
Cincinnati				
Cleveland				
Columbus				
Detroit				
Gary				
Indianapolis				
Kansas City				
Minneapolis				
St. Louis				

WEST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Albuquerque				
Denver				
Las Vegas				
Los Angeles				
Oakland				
Orange County				
Phoenix				
Portland				
Riverside				
Sacramento				
Salt Lake City				
San Diego				
San Francisco				
San Jose				
Seattle				
Tucson				
Ventura				

SOUTH REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Atlanta				
Austin				
Baltimore				
Charlotte				
Dallas				
Fort Lauderdale				
Fort Worth				
Houston				
Jacksonville				
Memphis				
Miami				
Nashville				
Orlando				
Raleigh				
Tampa				
Vallejo				
Washington, DC				
West Palm Beach				
Wilmington				



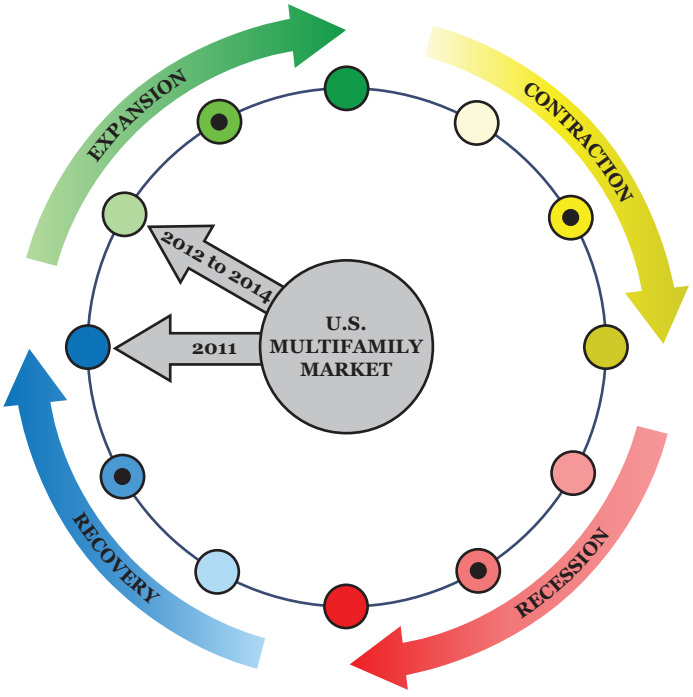
PwC Real Estate Barometer

U.S. Multifamily Market Forecasts (2011 to 2014)

	2011	2012	2013	2014
United States				

NORTHEAST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Boston				
Buffalo				
Central New Jersey				
District of Columbia				
Fairfield County				
Hartford				
Long Island				
New Haven				
New York				
Northern New Jersey				
Philadelphia				
Pittsburgh				
Rochester				
Syracuse				
Westchester, NJ				

MIDWEST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Chicago				
Cincinnati				
Cleveland				
Columbia				
Columbus				
Dayton				
Detroit				
Indianapolis				
Kansas City				
Milwaukee				
Minneapolis				
Omaha				
St. Louis				
Wichita				



WEST REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Albuquerque				
Colorado Springs				
Denver				
Las Vegas				
Los Angeles				
Oakland				
Orange County				
Phoenix				
Portland				
Sacramento				
Salt Lake City				
San Bernardino/Riverside				
San Diego				
San Francisco				
San Jose				
Seattle				
Tacoma				
Tucson				
Ventura				

SOUTH REGION				
MSA Name	**2011**	**2012**	**2013**	**2014**
Atlanta				
Austin				
Baltimore				
Birmingham				
Charleston				
Charlotte				
Chattanooga				
Dallas				
Fort Lauderdale				
Fort Worth				
Greensboro/Winston-Salem				
Greenville				
Houston				
Jacksonville				
Knoxville				
Lexington				
Little Rock				
Louisville				
Memphis				
Miami				
Nashville				
New Orleans				
Norfolk				
Oklahoma City				
Orlando				
Palm Beach County				
Raleigh				
Richmond				
San Antonio				
Suburban Maryland				
Suburban Virginia				
Tampa				
Tulsa				

National Regional Mall Market

TO INVESTORS IN THE NATIONAL REGIONAL MALL MARKET, BUYING OPPORTUNITIES REMAIN STRONGLY DIVIDED BETWEEN THE BEST ASSETS UP FOR SALE, WHICH ARE AGGRESSIVELY PRICED, AND THE WORST-PERFORMING ONES, WHICH ACCORDING TO ONE PARTICIPANT, "ARE NOT TRADING AT ANY PRICE." In addition, assets that fall somewhere in the middle of the quality spectrum are finding it difficult to trade due to a "lack of pricing direction." Nevertheless, sales of regional malls have remained pretty stable for the past two quarters as new offerings have nearly doubled over the past quarter. "A number of mall portfolios have been placed up for sale," confirms an investor.

With a total of 159 properties, the West region of the country reported the highest number of retail trades involving "mall & other" retail assets during the first six months of 2011, according to Real Capital Analytics. Closely behind the West region was the Southeast region with 121 "mall & other" property trades. In contrast, the Southwest region posted the fewest trades with 68 assets.

For owners, selling regional malls can prove to be difficult at a time when this sector's vacancy rate remains on an upward trend. In the second quarter of 2011, the vacancy rate for regional malls increased 20 basis points, marking the second quarterly increase for this sector, according to Reis. As the retail sector struggles to rebound, most buyers are targeting dominant regional malls in strong trade areas where opportunities for new development are limited. In addition, some investors are opting to focus on improving values of existing assets in lieu of adding to portfolios.

Investor preference for quality malls is evident when comparing average overall capitalization (cap) rates for various mall classifications. As shown in Table NRM-1, the average overall cap rate for Class-A+ malls remains on a downward trend since year-end 2009, standing at 6.10% this quarter. Even though the average for Class-B+ malls also dipped during that time period, it stands much higher at 7.88%. For Class-B malls, the average is 8.55% this quarter.

As a whole, the average overall cap rate for this market inched up this quarter to 7.50% after five consecutive quarterly declines, reflecting the concerns that investors have for this market's near-term performance. ✦

Table 1
NATIONAL REGIONAL MALL MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	5.25% – 14.00%	5.75% – 14.00%	6.25% – 14.00%
Average	9.56%	9.71%	9.98%
Change (Basis Points)		– 15	– 42
OVERALL CAP RATE (OAR)[a]			
Range	4.75% – 11.00%	5.00% – 11.00%	5.00% – 10.50%
Average	7.50%	7.48%	7.81%
Change (Basis Points)		+ 2	– 31
RESIDUAL CAP RATE			
Range	5.25% – 12.00%	5.75% – 12.00%	6.00% – 12.00%
Average	8.04%	8.19%	8.29%
Change (Basis Points)		– 15	– 25
MARKET RENT CHANGE[b]			
Range	(3.00%) – 3.00%	(3.00%) – 3.00%	(3.00%) – 3.00%
Average	1.50%	1.58%	0.58%
Change (Basis Points)		– 8	+ 92
EXPENSE CHANGE[b]			
Range	0.00% – 4.00%	0.00% – 3.00%	0.00% – 3.00%
Average	2.25%	2.17%	1.92%
Change (Basis Points)		+ 8	+ 33
MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 18.00	3.00 – 18.00
Average	6.58	7.08	7.67
Change (%)		– 7.06	– 14.21

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

Table NRM-1
AVERAGE OVERALL CAP RATES
National Regional Mall Market

Quarter	Class-A+ Malls	Class-B+ Malls
3Q11	6.10%	7.88%
2Q11	6.30%	8.05%
1Q11	6.45%	8.18%
4Q10	6.53%	8.38%
3Q10	6.70%	8.58%
2Q10	6.93%	8.68%
1Q10	7.33%	8.78%
4Q09	7.40%	8.88%

Source: PwC Real Estate Investor Survey

National Power Center Market

A WEAK U.S. ECONOMY, A DECREASE IN CONSUMER SPENDING, AND STORE CLOSINGS CONTINUE TO BURDEN MUCH OF THE NATIONAL POWER CENTER MARKET. During the U.S. recession in 2008, big-box retailer Circuit City filed for bankruptcy, closing all of its 567 stores. Shortly thereafter, Linens 'n Things filed for bankruptcy and eventually closed all of its 589 stores across the country. While both of these actions left a tremendous amount of big-box space empty, the situation has become more strained with the liquidation of both Blockbuster and Borders.

Finding merchants to occupy these large empty spaces is proving difficult at a time when individuals are saving more and retailers are expanding less. In fact, a recent Colliers International study of 233 national big-box stores closed during 2008 and 2009 found that 51.0% of them remained vacant as of April 2011. While some retailers, such as Bed Bath & Beyond, Best Buy, and T.J.Maxx, have stepped up to occupy certain empty big-box spaces, some landlords are opting to fill the spaces with various nontraditional uses, such as medical office space, movie theaters, and paintball arenas.

Colliers' study also found that for the empty big-box spaces that had been re-leased, the rental rates averaged 17.9% below those paid by prior tenants. Over the near term, our Survey reveals that investors remain glum with regard to their ability to raise rental rates. This quarter, the initial-year market rent change rate averages 0.80% for this market. As shown in Table PCM-1, this average remains well below historical levels. Nevertheless, it has been positive for three consecutive quarters following six quarters of negative averages.

For investors looking to acquire power center assets, location and tenancy remain key factors. "A strong trade area is vital for this asset type," remarks a participant. In one recent deal, Excel Trust purchased 433,500 square feet of The Promenade, a 730,000-square-foot power center located in Scottsdale, Arizona, for close to $255.00 per square foot. This Class-A property is reportedly located in an affluent trade area and boasts a 100.0% occupancy rate. Tenants included in the segment sold to Excel Trust were PetSmart, Pier 1 Imports, Trader Joe's, and OfficeMax. In addition, distress on the part of the seller was not a factor, according to the selling broker. ✦

Table PCM-1
INITIAL-YEAR MARKET RENT CHANGE RATES
National Power Center Market

Quarter	Average	Change (Basis Points)
3Q11	0.80%	+ 150
3Q10	(0.70%)	+ 80
3Q09	(1.50%)	– 381
3Q08	2.31%	– 57
3Q07	2.88%	– 33
3Q06	3.21%	+ 64
3Q05	2.57%	—

Source: PwC Real Estate Investor Survey

Table 2
NATIONAL POWER CENTER MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 12.00%	7.00% – 12.00%	8.50% – 12.00%
Average	8.73%	8.73%	9.75%
Change (Basis Points)		0	– 102
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 9.50%	6.00% – 9.50%	7.00% – 10.00%
Average	7.50%	7.48%	8.38%
Change (Basis Points)		+ 2	– 88
RESIDUAL CAP RATE			
Range	6.50% – 9.00%	6.50% – 9.00%	7.50% – 10.00%
Average	7.88%	7.80%	8.65%
Change (Basis Points)		+ 8	– 77
MARKET RENT CHANGE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	(10.00%) – 3.00%
Average	0.80%	0.80%	(0.70%)
Change (Basis Points)		0	+ 150
EXPENSE CHANGE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.80%	2.80%	2.90%
Change (Basis Points)		0	– 10
MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 18.00
Average	8.10	7.50	9.60
Change (%)		8.00	– 15.63

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

National Strip Shopping Center Market

FROM A PERFORMANCE STANDPOINT, MANY OWNERS OF STRIP SHOPPING CENTERS CONTINUE TO CONTEND WITH VACANCIES DUE TO MERCHANT DOWNSIZINGS, STORE CLOSINGS, AND RETAIL CONSOLIDATIONS. In the second quarter of 2011, the vacancy rate for neighborhood and community shopping centers either remained flat or increased in 59 of the 80 metro areas tracked by Reis, reflecting widespread weakness for this sector. Cities that posted strong year-over-year gains in vacancy include Louisville, where it climbed 200 basis points over the past year; Portland, where it grew 190 basis points; and Knoxville, where it increased 170 basis points over the past 12 months.

Many investors point out that high gas prices, lackluster job growth, and a general uncertainty about the economy's near-term performance continue to curtail consumer spending. As a result, investors are focusing on filling spaces with "necessity" retailers, such as dry cleaners, barbers, and banks. "Thank goodness you can't get a haircut on the Internet," quips a participant. In addition, many investors are searching for acquisitions in areas known to have the best trends with regard to disposable income and low vacancy rates, such as the submarkets surrounding Washington, DC.

In Suburban Maryland, for example, the retail vacancy rate was 8.7% while it was 6.5% in Suburban Virginia in the second quarter of 2011, as per Reis. These rates are quite favorable considering the U.S. retail vacancy rate of 11.0% for that time period. Investor interest has increased dramatically for retail assets located in Suburban Maryland over the past few years. In 2008, this area ranked 57th in terms of sales volume. So far for 2011, that ranking has risen to 15th, according to Real Capital Analytics.

Despite this market's challenges, investors are actively pursuing deals and competition is strong for both Class-A and "solid" Class-B assets. "Class-B interest has grown from a year ago, but the preference is still for less risk," says an investor. Such strong investment demand, along with low interest rates, is keeping the average overall capitalization (cap) rate for this market on a downward trend (see Table SSC-1). Over the next six months, about 72.7% of Survey participants foresee overall cap rates holding steady in this market. ✦

Table 3
NATIONAL STRIP SHOPPING CENTER MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.50% – 12.50%	6.75% – 12.50%	6.00% – 12.50%
Average	8.61%	8.85%	9.19%
Change (Basis Points)		– 24	– 58
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 9.50%	5.50% – 9.50%	5.50% – 11.40%
Average	7.20%	7.33%	8.09%
Change (Basis Points)		– 13	– 89
RESIDUAL CAP RATE			
Range	6.00% – 12.00%	6.50% – 12.00%	6.50% – 12.00%
Average	7.93%	7.97%	8.51%
Change (Basis Points)		– 4	– 58
MARKET RENT CHANGE[b]			
Range	0.00% – 4.00%	0.00% – 4.00%	0.00% – 3.00%
Average	1.41%	1.32%	0.61%
Change (Basis Points)		+ 9	+ 80
EXPENSE CHANGE[b]			
Range	2.00% – 4.00%	2.00% – 4.00%	1.00% – 4.00%
Average	2.98%	2.98%	2.83%
Change (Basis Points)		0	+ 15
MARKETING TIME[c]			
Range	2.00 – 18.00	2.00 – 18.00	2.00 – 18.00
Average	7.73	8.05	8.44
Change (%)		– 3.98	– 8.41

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

Table SSC-1
OVERALL CAP RATE TRENDS
National Strip Shopping Center Market

Quarter	Average	Change (Basis Points)
3Q11	7.20%	– 13
2Q11	7.33%	– 7
1Q11	7.40%	– 23
4Q10	7.63%	– 46
3Q10	8.09%	– 29
2Q10	8.38%	– 11
1Q10	8.49%	– 4
4Q09	8.53%	+ 12
3Q09	8.41%	+ 50
2Q09	7.91%	—

Source: PwC Real Estate Investor Survey

National CBD Office Market

UNDERLYING FUNDAMENTALS CONTINUE TO SHOW SIGNS OF IMPROVEMENT FOR THE NATIONAL CBD OFFICE MARKET ON BOTH A YEAR-OVER-YEAR AND QUARTERLY BASIS, CREATING GREATER DEMAND FOR OFFICE BUILDINGS, ESPECIALLY THOSE LOCATED IN COASTAL DOWNTOWN AREAS. In the second quarter of 2011, 11 of the 15 CBD office markets that reported the highest decreases in annual vacancy are located along the West or East Coasts of the United States, according to Cushman & Wakefield. They included Miami, San Francisco, Oakland, and Midtown New York. "More tenants are out actively looking now and thinking about expanding," comments a participant.

While better fundamentals appeal to buyers, a shaky stock market is escalating the desire to deploy capital into well-performing CBD assets as risk-averse investors look for alternative investments, such as commercial real estate. In the first half of 2011, transactions involving CBD office buildings totaled $12.4 billion, up 112.0% on a year-over-year basis, according to Real Capital Analytics. On a quarterly basis, CBD office building sales totaled $7.8 billion in the second quarter of 2011 with trades in Washington, DC and Manhattan accounting for more than half of the volume.

Due to strong investment demand and low interest rates, the average overall capitalization (cap) rate for this market dipped slightly this quarter to 6.91% – one of the lowest averages reported for this market since it debuted in 1994. A quarterly history of average overall cap rates is shown in Table CBD-1. Even though the average quarterly decline is slight in comparison to prior quarters, the low end of the range for this key indicator fell 25 basis points to 4.75% this quarter.

Over the next six months, 50.0% of Survey participants foresee overall cap rates holding steady in this market, while the remainder expect declines of up to 50 basis points; the average expected decline is 22 basis points. "As long as interest rates stay low, overall cap rates won't shift too much," remarks an investor. According to our Survey, debt percentages for this market range from 40.0% to 75.0% and average 60.0% while interest rates range from 4.5% to 7.0% and average 6.0%. ✦

Table CBD-1
OVERALL CAP RATE TRENDS
National CBD Office Market

Quarter	Average	Change (Basis Points)
3Q11	6.91%	– 4
2Q11	6.95%	– 47
1Q11	7.42%	– 11
4Q10	7.53%	– 48
3Q10	8.01%	– 14
2Q10	8.15%	– 20
1Q10	8.35%	+ 11
4Q09	8.24%	+ 13
3Q09	8.11%	– 107
3Q08	7.04%	+ 36
3Q07	6.68%	—

Source: PwC Real Estate Investor Survey

Table 4
NATIONAL CBD OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	5.25% – 11.00%	5.50% – 11.00%	6.50% – 12.00%
Average	8.59%	8.49%	9.11%
Change (Basis Points)		+ 10	– 52
OVERALL CAP RATE (OAR)[a]			
Range	4.75% – 10.00%	5.00% – 10.00%	6.00% – 10.50%
Average	6.91%	6.95%	8.01%
Change (Basis Points)		– 4	– 110
RESIDUAL CAP RATE			
Range	5.25% – 10.50%	5.50% – 10.50%	6.50% – 10.50%
Average	7.33%	7.35%	7.98%
Change (Basis Points)		– 2	– 65
MARKET RENT CHANGE[b]			
Range	(4.00%) – 10.00%	(5.00%) – 5.00%	(5.00%) – 4.00%
Average	2.00%	1.39%	(0.15%)
Change (Basis Points)		+ 61	+ 215
EXPENSE CHANGE[b]			
Range	2.00% – 4.00%	2.00% – 4.00%	2.00% – 4.00%
Average	2.75%	2.78%	2.85%
Change (Basis Points)		– 3	– 10
MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	3.00 – 12.00
Average	7.25	7.78	8.15
Change (%)		– 6.81	– 11.04

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

National Suburban Office Market

POSITIVE LEASING TRENDS ARE OCCURRING IN THE MAJORITY OF SUBURBAN OFFICE MARKETS ACROSS THE COUNTRY, BUT FOR THE MOST PART THESE IMPROVEMENTS CONTINUE TO HAPPEN VERY SLOWLY. At midyear 2011, 25 of the 37 U.S. suburban areas tracked by Cushman & Wakefield (C&W) reported year-over-year declines in overall vacancy while 11 reported increases and one was unchanged. As with the national CBD office market, suburban areas showing the most improvement over the past year are located along the coasts of the country, such as Fort Lauderdale, Silicon Valley, Miami, and Portland.

While downward shifts in overall vacancy suggest this sector is healing, a closer look at the statistics shows that 12 of the individual markets that reported year-over-year declines still post overall vacancy rates above the national figure of 19.3%, as of the second quarter of 2011. The most oversupplied suburban office markets as per C&W are Phoenix, which posted an overall vacancy rate of 27.5%; Chicago, which recorded a rate of 24.9%; and the Inland Empire, where overall vacancy stood at 24.6%.

Of course, not all suburban office markets are struggling and feeling the negative impact of tenant relocations, vacancies, and consolidations. Markets outperforming the national average include Baltimore, which posted an overall vacancy rate of 12.7%; San Diego, which recorded a rate of 15.5%; and Fort Lauderdale, where overall vacancy stood at 16.2%.

As this sector shows signs of recovery, it has started to become more favorable from an investment perspective. "While suburban office has been out of favor in the capital markets, it is starting to improve," notes an investor. Optimism for this sector's near-term performance is recognized in its average initial-year market rent change rate this quarter.

As shown in Table NSO-1, the average for this key indicator remains on a positive trend, reaching above 1.00% for the first time since year-end 2008. Moreover, the high end of the range for this cash flow assumption increased to 5.00% this quarter (see Table 5). Although the low end of the range remains negative, it is much better than where it stood a year ago. ✦

Table 5
NATIONAL SUBURBAN OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	5.75% – 12.50%	6.00% – 12.50%	7.00% – 13.00%
Average	8.56%	8.73%	9.45%
Change (Basis Points)		– 17	– 89
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 11.00%	5.50% – 11.00%	6.00% – 11.50%
Average	7.47%	7.60%	8.40%
Change (Basis Points)		– 13	– 93
RESIDUAL CAP RATE			
Range	5.75% – 11.50%	6.00% – 11.50%	7.00% – 11.50%
Average	7.90%	8.00%	8.56%
Change (Basis Points)		– 10	– 66
MARKET RENT CHANGE[b]			
Range	(5.00%) – 5.00%	(5.00%) – 4.00%	(10.00%) – 4.00%
Average	1.27%	0.55%	(0.63%)
Change (Basis Points)		+ 72	+ 190
EXPENSE CHANGE[b]			
Range	2.00% – 4.00%	2.00% – 4.00%	2.00% – 4.00%
Average	2.82%	2.77%	2.77%
Change (Basis Points)		+ 5	+ 5
MARKETING TIME[c]			
Range	2.00 – 24.00	2.00 – 24.00	2.00 – 24.00
Average	8.18	8.77	9.04
Change (%)		– 6.73	– 9.51

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

Table NSO-1
INITIAL-YEAR MARKET RENT CHANGE RATES
U.S. Suburban Office Market

Quarter	Average	Change (Basis Points)
3Q11	1.27%	+ 72
2Q11	0.55%	+ 13
1Q11	0.42%	+ 59
4Q10	(0.17%)	+ 46
3Q10	(0.63%)	+ 152
2Q10	(2.15%)	+ 31
1Q10	(2.46%)	– 4
3Q09	(2.42%)	– 486
3Q08	2.44%	– 70
3Q07	3.14%	—

Source: PwC Real Estate Investor Survey

Atlanta Office Market

A REBOUND IN THE ATLANTA OFFICE MARKET REMAINS OBSTRUCTED BY A LACK OF CONSISTENT JOB GROWTH IN OFFICE-SPACE-USING EMPLOYMENT SECTORS. "Job growth has eluded Atlanta thus far, but we expect a rebound over the next several years," predicts a participant.

During the first six months of 2011, the professional-and-business-services sector grew by 10,100 jobs in the Atlanta-Sandy Springs-Marietta employment region, according to the U.S. Department of Labor. This figure compares to an increase of 13,800 workers during the same period last year. In the financial-activities sector, 3,400 jobs were lost from January to June 2011, compared to a decline of 600 jobs one year ago.

Ongoing economic uncertainty and unwillingness by many employers to hire additional staff and increase space needs contributed to a 7.4% decline in total office space leasing activity through midyear 2011, as per Cushman & Wakefield. Moreover, overall vacancy rates in Atlanta exceeded the national averages in both the CBD (23.1%) and suburbs (21.2%). By comparison, the U.S. averages were 13.9% and 19.0%, respectively. Unfortunately, these high rates could be exacerbated by space consolidations related to cutbacks by the federal government, which is a major office tenant in this metro, reportedly owning and leasing roughly 8.0 million square feet.

While fragile office fundamentals are drawing few institutional investors to Atlanta, some opportunistic buyers are seeking assets here. "Atlanta has been redlined by many investors for a long time, but we are starting to see that crack a bit as some investors are chasing yields and seeking opportunities to get into this market at a low point," says an investor. During the second quarter of 2011, this market saw a 44.0% uptick in investment sales to $301.0 million, based on data from Real Capital Analytics.

Sales velocity accelerated during the first six weeks of the third quarter of 2011, where the volume of office assets both sold and under contract reached $300.0 million. "Buyer interest has picked up significantly, and there have been several incidents of heated bidding for both core and opportunistic offerings," notes a participant. This quarter our Survey reveals that the majority (86.0%) of participants believe pricing in this market favors buyers.

While Atlanta juggles a slow-moving economic recovery and a fragile office sector, most investors remain conservative in modeling cash flow projections. As shown in Table 6, the average initial-year market rent change rate (investors' expectations of where rents will trend over the next year) remains at 0.07% this quarter. At the same time, the average overall capitalization (cap) rate inched up to 8.71% this quarter. Over the next six months, 57.1% of surveyed investors expect overall cap rates to hold steady while the balance anticipates them declining an average of 50 basis points. ✦

Table 6
ATLANTA OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.75% – 15.00%	7.75% – 15.00%	7.75% – 15.00%
Average	10.02%	9.95%	10.29%
Change (Basis Points)		+ 7	– 27
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 11.00%
Average	8.71%	8.63%	8.95%
Change (Basis Points)		+ 8	– 24
RESIDUAL CAP RATE			
Range	7.00% – 11.00%	7.00% – 11.00%	7.50% – 11.00%
Average	8.88%	8.80%	9.04%
Change (Basis Points)		+ 8	– 16
MARKET RENT CHANGE[b]			
Range	(3.00%) – 2.00%	(3.00%) – 3.00%	(3.00%) – 0.00%
Average	0.07%	0.07%	(0.43%)
Change (Basis Points)		0	+ 50
EXPENSE CHANGE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	2.32%	2.32%	2.32%
Change (Basis Points)		0	0
MARKETING TIME[c]			
Range	2.00 – 15.00	2.00 – 15.00	2.00 – 12.00
Average	7.86	8.29	7.71
Change (%)		– 5.19	+ 1.95

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

Boston Office Market

BOSTON'S UNDERLYING ECONOMY CONTINUES TO ADD JOBS TO VARIOUS OFFICE-SPACE-USING SECTORS, SUPPORTING THE BELIEF AMONG OFFICE BUILDING OWNERS THAT THIS MARKET'S RECOVERY IS REAL EVEN IF IT IS HAPPENING SLOWLY. During the first six months of 2011, the Bureau of Labor Statistics reports that the Boston-Cambridge-Quincy division added 2,100 jobs in the financial-activities sector and 6,900 jobs in the professional-and-business-services (PABS) sector. Furthermore, at its current total of 300,900 workers, employment in the PABS sector mirrors its total from 2006 and early 2007.

The positive vibe being felt in the Boston office market is reflected in the key cash flow assumptions reported by Survey participants this quarter. First, the average initial-year market rent change rate increased 43 basis points this quarter. In addition, the high end of the range for this key indicator, which reflects investors' expectations for rent growth over the next year, increased to 5.00% – a level last reported for this market in the first quarter of 2009. Second, this market's average overall capitalization (cap) rate dipped below 8.00% for the first time since the start of 2009.

As shown in Table BOS-1, the average overall cap rate reported by Survey investors remains lower for Boston's CBD than for its suburbs. In addition, the spread between the two averages has grown since the start of 2010 due to oversupply issues plaguing many suburban sectors and the inherent perception that such assets possess more challenges and present greater risk to owners. Whether perceived or actual, few investors are looking to take on much investment risk right now given the U.S. economy's anemic and unsettling recovery.

For the most part, recent sales activity in Boston has involved office buildings less than 300,000 square feet. Second quarter 2011 CBD office building trades included the 62,146-square-foot 131 Clarendon Street; the 37,492-square-foot 121 High Street; and the 100,379-square-foot 368 Congress Street. In the suburbs, second quarter 2011 sales involved larger buildings, such as 690 Canton Street in Westwood (164,695 square feet); 200 Newport Avenue in Quincy (145,762 square feet); and 35 Village Drive in Middleton (226,338 square feet). ✦

Table 7
BOSTON OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 15.00%	7.50% – 15.00%	7.75% – 14.00%
Average	9.35%	9.48%	9.83%
Change (Basis Points)		– 13	– 48
OVERALL CAP RATE (OAR)[a]			
Range	5.75% – 12.00%	5.75% – 12.00%	5.75% – 12.00%
Average	7.88%	8.00%	8.51%
Change (Basis Points)		– 12	– 63
RESIDUAL CAP RATE			
Range	6.00% – 12.00%	6.00% – 12.00%	6.00% – 12.00%
Average	8.03%	8.22%	8.65%
Change (Basis Points)		– 19	– 62
MARKET RENT CHANGE[b]			
Range	0.00% – 5.00%	0.00% – 4.00%	(5.00%) – 1.00%
Average	1.43%	1.00%	(0.86%)
Change (Basis Points)		+ 43	+ 229
EXPENSE CHANGE[b]			
Range	0.00% – 4.50%	0.00% – 4.50%	0.00% – 4.50%
Average	2.81%	2.81%	2.81%
Change (Basis Points)		0	0
MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	2.00 – 12.00
Average	6.71	6.71	7.79
Change (%)		0	– 13.86

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

Table BOS-1
AVERAGE OVERALL CAP RATES
Boston Office Market

Quarter	CBD	Suburbs	Spread(1)
3Q11	7.23%	8.52%	+ 129
2Q11	7.29%	8.71%	+ 142
1Q11	7.46%	8.75%	+ 129
4Q10	7.79%	8.84%	+ 105
3Q10	7.98%	9.04%	+ 106
2Q10	8.18%	9.14%	+ 96
1Q10	8.18%	8.98%	+ 80
3Q09	7.92%	8.89%	+ 97
3Q08	6.79%	7.94%	+ 115

(1) Basis-point spread for suburban rate
Source: PwC Real Estate Investor Survey

Charlotte Office Market

AS THE ECONOMIC RECOVERY IN CHARLOTTE BATTLES ONGOING UNCERTAINTY IN THE FINANCIAL MARKETS, INTERMITTENT JOB GROWTH HAS KEPT THE UNEMPLOYMENT RATE IN DOUBLE DIGITS. At midyear 2011, the preliminary unemployment rate in the Charlotte-Gastonia-Rock Hill metropolitan area reached 11.2%, as per the U.S. Department of Labor. While this level remains well above the national unemployment rate of 9.3%, it is an improvement over the local unemployment rate of 11.8% a year ago. Despite a bumpy economic climate, several surveyed investors note that Wells Fargo now employs more people in Charlotte than it did prior to the acquisition of Wachovia.

Even with historically high unemployment, the number of workers in the office-space-using sectors of financial activities and professional-and-business services increased during the 12 months leading up to June 2011. New jobs in these employment sectors added 1,700 and 2,100 workers, respectively, contributing to positive net absorption of 382,249 square feet in the Charlotte office market through the first six months of 2011, according to Cushman & Wakefield.

In addition to positive absorption, sublease space declined roughly 27.0% during the second quarter of this year. "The vacancies created by the large bank retrenchments are being filled by new-to-market tenants, which are predominantly financial institutions taking advantage of the market's highly skilled labor base and low cost of doing business," explains a participant.

Although many investors view Charlotte as a "job-growth engine" with a bright future, the sales market is at a standstill. This inactivity has made pricing difficult and kept this market's average overall capitalization rate static, at 8.41% this quarter.

As many investors monitor the ever-changing economic conditions, the outlook for future rent growth is cautious. This quarter's average initial-year market rent change rate continued a small upward trend, but at 0.75%, is well below the average during the peak of the cycle (see Table CHR-1). Overall, Survey participants estimate that a full recovery in this office market could take up to five years. The average expected recovery time is just under three years. ✦

Table CHR-1
INITIAL-YEAR MARKET RENT CHANGE RATES
Charlotte Office Market

Quarter	Average	Change (Basis Points)
3Q11	0.75%	+ 25
2Q11	0.50%	+ 8
1Q11	0.42%	0
4Q10	0.42%	+ 59
3Q10	(0.17%)	+ 33
2Q10	(0.50%)	+ 50
1Q10	(1.00%)	+ 17
3Q09	(1.17%)	– 407
3Q08	2.90%	—

Source: PwC Real Estate Investor Survey

Table 8
CHARLOTTE OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 12.00%	8.00% – 12.00%	8.00% – 12.00%
Average	9.48%	9.51%	9.57%
Change (Basis Points)		– 3	– 9
OVERALL CAP RATE (OAR)[a]			
Range	6.50% – 10.00%	6.50% – 10.00%	7.00% – 10.50%
Average	8.41%	8.41%	8.74%
Change (Basis Points)		0	– 33
RESIDUAL CAP RATE			
Range	7.00% – 10.00%	7.00% – 10.00%	7.50% – 10.00%
Average	8.66%	8.69%	8.80%
Change (Basis Points)		– 3	– 14
MARKET RENT CHANGE[b]			
Range	0.00% – 3.00%	0.00% – 2.00%	(4.00%) – 2.00%
Average	0.75%	0.50%	(0.17%)
Change (Basis Points)		+ 25	+ 92
EXPENSE CHANGE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.75%	2.79%	2.79%
Change (Basis Points)		– 4	– 4
MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	2.00 – 12.00
Average	6.17	6.17	6.08
Change (%)		0	+ 1.48

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

Chicago Office Market

POSTING AN UNEMPLOYMENT RATE QUITE BELOW THE NATIONAL LEVEL AT MIDYEAR 2011, THE CHICAGO METROPOLITAN AREA IS PROVING TO INVESTORS THAT ITS RECOVERY IS REAL, ESPECIALLY IN THE DOWNTOWN OFFICE CORE. Growth among companies created 4.1 million square feet of leasing activity in downtown Chicago during the first six months of 2011, according to Cushman & Wakefield. As a result, overall vacancy slipped to 14.9%, a decline of 150 basis points and the largest quarterly drop in vacancy in five years.

Outside of the central business district (CBD), the performance of the local office market has been less impressive as supply remains well ahead of demand. Unlike the CBD, the overall vacancy rate in the suburbs grew 160 basis points over the past year, reaching 25.0% in the second quarter of 2011. "Both cyclical and secular issues are impeding the recovery of the suburbs," says a participant, who foresees very little economic change in Chicago over the next year.

Higher vacancy rates in the suburbs are putting downward pressure on rental rates and keeping concessions plentiful, such as free rent. As shown in Table CHO-1, free rent levels remain on an upward trend for this market. This quarter, Survey participants unanimously agree that free rent is prevalent in this market, ranging from five to 15 months on a ten-year lease and averaging 10.4 months. A year ago, this average was 9.7 months. Two years ago, it was 6.6 months. As market conditions improve and property owners regain control of the leasing market, free rent will likely diminish.

Leasing issues are keeping sales activity extremely low in the suburbs as most investors look to avoid near-term leasing risk. "Although there is some talk about value-added and opportunity fund money available for riskier plays, most investors are still reluctant to pull the trigger on such deals," remarks an investor. In the CBD, investment sales slowed during the second quarter of 2011, but investor interest is still apparent. "Good offerings downtown will get numerous bids," states a participant.

The desire to invest in tangible assets, as well as low interest rates, is keeping overall capitalization (cap) rates on a downward trend. As shown in Table 9, the average overall cap rate stands at 8.19% this quarter. However, overall cap rates remain lower for CBD assets than for suburban ones. According to our Survey, overall cap rates average 7.38% for CBD assets while they average 9.00% for suburban ones (see page 4). ✦

Table 9
CHICAGO OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.50% – 13.00%	6.50% – 13.00%	8.00% – 13.00%
Average	9.32%	9.39%	9.67%
Change (Basis Points)		– 7	– 35
OVERALL CAP RATE (OAR)[a]			
Range	5.75% – 11.00%	6.00% – 11.00%	6.00% – 11.00%
Average	8.19%	8.27%	8.57%
Change (Basis Points)		– 8	– 38
RESIDUAL CAP RATE			
Range	6.50% – 11.00%	7.00% – 11.00%	7.00% – 11.00%
Average	8.27%	8.32%	8.71%
Change (Basis Points)		– 5	– 44
MARKET RENT CHANGE[b]			
Range	(10.00%) – 3.00%	(10.00%) – 3.00%	(10.00%) – 0.00%
Average	0.11%	0.06%	(2.22%)
Change (Basis Points)		+ 5	+ 233
EXPENSE CHANGE RATE[b]			
Range	1.50% – 3.00%	1.50% – 3.00%	(5.00%) – 3.00%
Average	2.83%	2.83%	1.88%
Change (Basis Points)		0	+ 95
MARKETING TIME[c]			
Range	2.00 – 15.00	2.00 – 15.00	2.00 – 15.00
Average	7.17	7.17	8.06
Change (%)		0	– 11.04

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

Table CHO-1
MONTHS OF FREE RENT
Chicago Office Market

Quarter	Range	Average
3Q11	5 to 15	10.4
3Q10	1 to 20	9.7
3Q09	0 to 15	6.6
3Q08	1 to 10	5.3
3Q07	1 to 15	8.0

Source: PwC Real Estate Investor Survey

Dallas Office Market

EVEN WITH POSITIVE EMPLOYMENT, POPULATION, AND ABSORPTION TRENDS, THE DALLAS OFFICE MARKET SUFFERS FROM HIGH VACANCY RATES IN BOTH ITS CBD AND SUBURBS. For instance, overall vacancy in the Dallas CBD reached 29.1% in the second quarter of 2011 and ranked the highest among the 31 CBDs tracked by Cushman & Wakefield. By comparison, overall vacancy for the U.S. CBD sector stood at 14.0%. The Dallas suburbs posted midyear overall vacancy of 22.9%, versus the national suburban rate of 19.0%.

Recent growth in office-space-using employment sectors played a part in an 11.5% year-over-year increase in total leasing activity as of June 2011. However, some investors believe that job gains came from backfilling cutbacks rather than adding new jobs. Therefore, the impact on office dynamics is minimal. "Many leases expiring two to three years out have already been restructured; therefore, demand for additional office space will have to come from expansions and new tenants," comments a participant.

Buoyed by local economic trends, investors are responding to the Dallas office market recovery with a positive outlook for future rent growth. This quarter's average initial-year market rent change rate increased 75 basis points to 1.83% (see Table DAL-1). While this level sits below the rent growth during the peak of the cycle, it represents a growing confidence among investors. Moreover, certain investors have started putting rent spikes in their cash flow analyses. "The first rent spike of 5.0% occurs in year two while a second spike of 8.0% is used in year three," shares a participant.

Gradually improving office fundamentals and a low interest rate environment have increased sales activity in the Dallas office market. Total dollar volume surged 203.0% on a year-over-year basis through midyear 2011, as per Real Capital Analytics. As investment activity has quickened, this market's average overall capitalization (cap) rate has come down over the past five quarters. This quarter, the average slid 20 basis points to 8.04%, just 37 basis points from its low of 7.67% three years ago. ✦

Table DAL-1
INITIAL-YEAR MARKET RENT CHANGE RATES
Dallas Office Market

Quarter	Average	Change (Basis Points)
3Q11	1.83%	+ 75
2Q11	1.08%	+ 58
1Q11	0.50%	0
4Q10	0.50%	+ 50
3Q10	0.00%	0
2Q10	0.00%	0
1Q10	0.00%	+ 50
4Q09	(0.50%)	– 50
3Q09	0.00%	– 300
3Q08	3.00%	– 58
3Q07	3.58%	—

Source: PwC Real Estate Investor Survey

Table 10
DALLAS OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50% – 12.00%	7.75% – 13.00%	8.00% – 12.00%
Average	9.08%	9.35%	9.51%
Change (Basis Points)		– 27	– 43
OVERALL CAP RATE (OAR)[a]			
Range	6.25% – 11.00%	6.50% – 11.00%	7.00% – 11.50%
Average	8.04%	8.24%	8.76%
Change (Basis Points)		– 20	– 72
RESIDUAL CAP RATE			
Range	7.00% – 10.00%	7.00% – 10.00%	7.25% – 11.00%
Average	8.36%	8.48%	8.88%
Change (Basis Points)		– 12	– 52
MARKET RENT CHANGE[b]			
Range	0.00% – 5.00%	0.00% – 3.00%	0.00% – 0.00%
Average	1.83%	1.08%	0.00%
Change (Basis Points)		+ 75	+ 183
EXPENSE CHANGE[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	3.00% – 3.00%
Average	2.67%	2.67%	3.00%
Change (Basis Points)		0	– 33
MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	6.40	6.20	6.80
Change (%)		+ 3.23	– 5.88

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

Denver Office Market

PROPERTIES IN BOTH THE CBD AND SUBURBS OF THE DENVER OFFICE MARKET ARE TRADING AT A RAPID PACE. During the first six months of this year, total sales volume of office properties reached nearly $616.0 million, as per Real Capital Analytics. Sales momentum continued during the first half of the third quarter with a total of $333.7 million office assets either sold or under contract.

Year-to-date, American Realty Advisors paid the highest price per square foot of $386.00 in its acquisition of 1515 Wynkoop in Denver's CBD. This asset was reportedly 90.0% occupied at the time of the sale and included 27,000 square feet of street-level retail. The overall capitalization (cap) rate for this sale was reportedly 6.5%.

Buyers eager to place capital in the Denver office market are looking for both single-asset and portfolio offerings. As part of a 14-property deal this quarter, Beacon Capital Partners is under contract to acquire the 1.2-million-square-foot Wells Fargo Center in the CBD. The estimated sale price is $213.00 per square foot. Also this quarter, DPC Development was involved in a two-property suburban sale in the Cherry Creek submarket. The first asset, Cherry Creek Corporate Center, traded for $55.00 per square foot and the new owner plans to renovate the asset. The second asset, the fully occupied Campus at Cherry Creek, sold for $138.00 per square foot.

Asset appreciation is one factor drawing investors to the Denver office market. Over the next 12 months, Survey participants expect values to increase an average of 3.1% in this market. Compared to the 18 individual office markets in our Survey, Denver ranks eighth in terms of expected appreciation. The three Survey office markets with the highest average expected value increases over the next year are Dallas (+7.0%), San Francisco (+6.4%), and Manhattan (+5.4%).

Much of this market's value appreciation is likely to come from declining overall cap rates and growing occupancies since rent growth expectations are limited. As shown in DEN-1, this market's average initial-year market rent change rate remains negative for the tenth straight quarter. ✦

Table 11
DENVER OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.75% – 15.00%	7.75% – 15.00%	7.75% – 15.00%
Average	9.76%	9.80%	10.09%
Change (Basis Points)		– 4	– 33
OVERALL CAP RATE (OAR)[a]			
Range	6.50% – 11.00%	6.50% – 11.00%	7.00% – 11.00%
Average	7.97%	8.16%	8.29%
Change (Basis Points)		– 19	– 32
RESIDUAL CAP RATE			
Range	6.50% – 11.00%	7.00% – 11.00%	7.50% – 11.00%
Average	8.27%	8.42%	8.92%
Change (Basis Points)		– 15	– 65
MARKET RENT CHANGE[b]			
Range	(20.00%) – 5.00%	(20.00%) – 5.00%	(20.00%) – 3.00%
Average	(0.80%)	(1.10%)	(1.08%)
Change (Basis Points)		+ 30	+ 28
EXPENSE CHANGE[b]			
Range	3.00% – 3.00%	3.00% – 3.00%	0.00% – 3.00%
Average	3.00%	3.00%	2.75%
Change (Basis Points)		0	+ 25
MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	1.00 – 9.00
Average	6.10	6.30	5.73
Change (%)		– 3.17	+ 6.46

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

Table DEN-1
INITIAL-YEAR MARKET RENT CHANGE RATES
Denver Office Market

Quarter	Average	Change (Basis Points)
3Q11	(0.80%)	+ 30
2Q11	(1.10%)	+ 10
1Q11	(1.20%)	+ 70
4Q10	(1.90%)	– 82
3Q10	(1.08%)	+ 50
2Q10	(1.58%)	+ 82
1Q10	(2.40%)	+ 50
4Q09	(2.90%)	– 100
3Q09	(1.90%)	0
2Q09	(1.90%)	– 665
3Q08	4.75%	—

Source: PwC Real Estate Investor Survey

Houston Office Market

RESURGENCE IN THE OIL AND GAS INDUSTRIES IS DRIVING LEASING ACTIVITY IN THE HOUSTON OFFICE MARKET. During the second quarter of 2011, elevated oil prices and a return to deepwater drilling generated demand for office space by energy companies and contributed to a 119.0% spike in total leasing activity, as per Cushman & Wakefield. "The Energy Corridor saw substantial new office space in 2007 through 2009, and much of that space is getting absorbed quickly by energy-related firms," remarks a participant.

This quarter, international oil and gas company British Petroleum reportedly agreed to lease 244,000 square feet, or 80.0%, of Three Eldridge Place in the Energy Corridor. In another recent energy-related deal, Newfield Exploration signed for 76,836 square feet at Four Waterway in the Woodlands submarket.

While several submarkets have seen declining vacancy due to an increase in leasing, others are struggling with weak demand and oversupply. "There is a wide disparity in the performance of various submarkets," remarks a participant. As shown in Table HOU-1, leasing activity in the Energy Corridor contributed to a 250-basis-point decline in vacancy in the Katy Freeway submarket between midyear 2010 and midyear 2011. At the same time, a rise in sublease space and additions to supply contributed to a 290-basis-point increase in CBD vacancy.

Despite positive trends in the Houston office market, tenants maintain an advantage during lease negotiations. This quarter, Survey participants unanimously agree that free rent is prevalent in this market, ranging from one to 12 months on a ten-year lease. The average amount of free rent is five months and remains unchanged from a year ago. On the upside, the average excessive tenant improvement (TI) allowance in this market has declined over the past 12 months from roughly $7.00 per square foot to $3.00 per square foot.

While most rental rates remain below the levels seen at the peak of the cycle in this market, investors note that certain areas are seeing rent increases, which may lead to new office development. "In west Houston, rents are back to where they were in 2008, which means we could see new office space built in the upcoming year," predicts a participant. ✦

Table HOU-1
SELECT SUBMARKET VACANCY
Houston Office Market

Submarket (1)	Overall Vacancy 2Q2011	Overall Vacancy 2Q2010	Change (Basis Points)
CBD	15.8%	12.9%	+ 290
West Loop/ Galleria	12.6%	12.1%	+ 50
SW Houston	22.5%	23.8%	– 130
Katy Freeway	15.7%	18.2%	– 250
Westheimer/ Gettner	15.0%	16.3%	– 130
North Belt	15.9%	24.2%	– 830

(1) Top six submarkets based on total square feet
Source: Cushman & Wakefield

Table 12
HOUSTON OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.25% – 15.00%	7.50% – 15.00%	8.00% – 14.00%
Average	9.50%	9.54%	9.64%
Change (Basis Points)		– 4	– 14
OVERALL CAP RATE (OAR)[a]			
Range	6.25% – 11.00%	6.50% – 11.00%	7.00% – 12.50%
Average	8.07%	8.22%	8.82%
Change (Basis Points)		– 15	– 75
RESIDUAL CAP RATE			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 11.00%
Average	8.19%	8.29%	8.73%
Change (Basis Points)		– 10	– 54
MARKET RENT CHANGE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	(5.00%) – 2.00%
Average	1.25%	0.83%	(0.30%)
Change (Basis Points)		+ 42	+ 155
EXPENSE CHANGE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.83%	2.83%	2.83%
Change (Basis Points)		0	0
MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	7.00	7.17	7.08
Change (%)		– 2.37	– 1.13

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

Los Angeles Office Market

DESPITE A YEAR-OVER-YEAR INCREASE IN NEW LEASING ACTIVITY, THE GREATER LOS ANGELES OFFICE MARKET REPORTED A SLIGHT INCREASE IN ITS OVERALL VACANCY IN THE SECOND QUARTER OF 2011 AS THE AMOUNT OF SPACE LEASED LAGGED BEHIND THE AMOUNT VACATED BY TENANTS. In a recent report by Cushman & Wakefield, tenants in this market are returning an average of 15.0% of their original space upon lease renewals. As a result, overall vacancy rose to 19.1% at midyear 2011, a 100-basis-point increase from a year ago.

Within this large office market, submarkets are performing quite differently. In Los Angeles West, for example, positive leasing trends have allowed overall vacancy to decline to 16.6%, prompting some property owners to increase rental rates. "West Los Angeles is leading this market's recovery like it usually does," remarks a participant. On the other hand, Los Angeles South is struggling due to givebacks of space and weak demand, ending the second quarter of 2011 with an overall vacancy rate of 22.6%.

While rental rates continue to favor tenants in most submarkets, investors' expectations for future rent growth have increased this quarter. As shown in Table LAO-1, the average initial-year market rent change rate – where investors forecast rents to trend over the next year – increased for the fifth consecutive quarter. In addition, the low end of the range for this cash flow assumption increased to 0.00% (up from negative 1.00% last quarter). These trends suggest that property owners are optimistic about the near-term performance of this market and its ability to continue to recover, albeit at a slow pace.

Investor interest in this market mainly surrounds better-positioned assets with stable occupancies and low near-term leasing risk. "Los Angeles remains a very attractive market for investors, but its challenges are steering buyers to trophy assets, which are hard to come by here," says a participant. For investors looking to acquire assets in this market, our Survey participants report that pricing ranges from 50.0% to 100.0% of replacement cost and averages 84.0%. In addition, they believe market conditions are neutral, equally favoring buyers and sellers, keeping the bid/ask pricing gap wide. ✦

Table 13
LOS ANGELES OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 12.00%	7.00% – 12.00%	7.00% – 12.00%
Average	8.49%	8.86%	9.19%
Change (Basis Points)		– 37	– 70
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 9.00%	5.00% – 9.00%	6.25% – 9.00%
Average	7.09%	7.25%	7.76%
Change (Basis Points)		– 16	– 67
RESIDUAL CAP RATE			
Range	6.00% – 9.00%	6.50% – 9.00%	6.75% – 10.25%
Average	7.68%	7.96%	8.14%
Change (Basis Points)		– 28	– 46
MARKET RENT CHANGE[b]			
Range	0.00% – 4.00%	(1.00%) – 4.00%	(2.00%) – 2.00%
Average	1.78%	1.00%	0.00%
Change (Basis Points)		+ 78	+ 178
EXPENSE CHANGE[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	2.00% – 3.00%
Average	2.75%	2.75%	2.92%
Change (Basis Points)		0	– 17
MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	5.83	5.83	5.80
Change (%)		+ 0.05	+ 0.57

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

Table LAO-1
INITIAL-YEAR MARKET RENT CHANGE RATES
Los Angeles Office Market

Quarter	Average	Change (Basis Points)
3Q11	1.78%	+ 78
2Q11	1.00%	+ 58
1Q11	0.42%	+ 25
4Q10	0.17%	+ 17
3Q10	0.00%	+ 50
2Q10	(0.50%)	– 83
3Q09	0.33%	– 345
3Q08	3.78%	– 116
3Q07	4.94%	+ 152
3Q06	3.42%	—

Source: PwC Real Estate Investor Survey

Manhattan Office Market

A LACK OF NEW SUPPLY AND A RECOVERY WELL AHEAD OF THE COUNTRY CONTINUES TO PROPEL OFFICE-SPACE DEMAND IN MANHATTAN. Much of the leasing activity thus far in 2011 has been in the Midtown submarket, where 11.1 million square feet of leasing activity occurred during the first six months of 2011, resulting in net absorption of 2.2 million square feet, as per Cushman & Wakefield. "Tenants of varying size are out and about looking to secure deals as available space dwindles," says a participant.

During the first half of 2011, 15 lease transactions that were each over 100,000 square feet occurred in Midtown. One of the largest second-quarter deals was Nomura Holding's 900,000-square-foot lease at 825 Eighth Avenue. Space options for tenants continue to decline as both direct and sublease space gets leased. In the second quarter of 2011, sublease space in Midtown totaled 3.87 million square feet. By comparison, this total was 8.13 million square feet in the second quarter of 2009.

Buoyed by strong leasing activity, the overall vacancy rates in Manhattan's three main office areas – Midtown, Midtown South, and Downtown – all sat below 10.0% in the second quarter of 2011. As space options have shrunk, rental rates have expanded to the delight of property owners, particularly those that own Class-A assets. "Rents are up an average of 15.0% at our Class-A Midtown property this year," shares a participant.

For the coming year, and even beyond, most surveyed investors are optimistic that rent growth will continue. This quarter, the average initial-year market rent change rate for this market grew 146 basis points to reach 4.96% – the highest reported for this market since mid-2008. In addition, most surveyed Manhattan investors are using rent spikes in cash flow forecasts. The first rent spike occurs in year one or two and ranges from 5.00% to 10.00% and averages 8.13%. The second rent spikes, if used, occurs in year two or three and ranges from 6.00% to 10.00% and averages 8.40%. Very few Survey participants are using rent spikes past year three.

Increases in rental rates are translating into higher income levels and rising property values, especially when combined with declining overall capitalization rates, As shown in Table MAN-1, this market's average overall cap rate has slipped 76 basis points over the past year and is reminiscent of the average during the peak of the cycle. ✦

Table MAN-1
OVERALL CAP RATE TRENDS
Manhattan Office Market

Quarter	Average	Change (Basis Points)
3Q11	5.75%	– 48
3Q10	6.23%	– 28
3Q09	6.51%	+ 81
3Q08	5.70%	+ 18
3Q07	5.52%	—

Source: PwC Real Estate Investor Survey

Table 14
MANHATTAN OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.50% – 10.00%	6.75% – 10.00%	6.00% – 10.00%
Average	7.71%	7.83%	7.81%
Change (Basis Points)		– 12	– 10
OVERALL CAP RATE (OAR)[a]			
Range	4.00% – 8.00%	4.00% – 8.00%	5.00% – 8.00%
Average	5.75%	5.83%	6.23%
Change (Basis Points)		– 8	– 48
RESIDUAL CAP RATE			
Range	5.00% – 7.50%	5.00% – 8.50%	5.50% – 8.50%
Average	6.13%	6.50%	6.83%
Change (Basis Points)		– 37	– 70
MARKET RENT CHANGE[b]			
Range	0.00% – 10.00%	0.00% – 10.00%	0.00% – 3.50%
Average	4.96%	3.50%	0.79%
Change (Basis Points)		+ 146	+ 417
EXPENSE CHANGE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	1.00% – 3.00%
Average	2.92%	2.92%	2.67%
Change (Basis Points)		0	+ 25
MARKETING TIME[c]			
Range	3.00 – 6.00	3.00 – 6.00	3.00 – 9.00
Average	4.08	4.17	5.90
Change (%)		– 2.16	– 30.85

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

Northern Virginia Office Market

BOASTING UNEMPLOYMENT RATES WELL BELOW THE NATIONAL LEVEL CONTINUES TO BE A MAJOR DRAW FOR INVESTORS LOOKING TO ACQUIRE ASSETS IN THE NORTHERN VIRGINIA OFFICE MARKET. In May 2011, Arlington, Fairfax, and Loudoun Counties each reported an unemployment rate of 4.1% while the City of Alexandria reported a rate of 4.5%. By comparison, the United States had an unemployment rate of 9.1% in May 2011. "Stability remains a strong driver behind purchase decisions for us, as well as other investors," shares a participant. So while many other metro areas struggle with job creation and unemployment, Northern Virginia's underlying economy is looked upon quite favorably by many.

Job growth in office-space-using sectors, such as professional-and-business services and financial activities, has helped to trigger demand for office space in this market. During the first seven months of 2011, nearly 8,500 new jobs were added to the professional-and-business-services sector while roughly 1,500 were added to the financial-activities sector. In turn, leasing activity for new leases totaled 1.2 million square feet during the first half of 2011, pushing down the overall vacancy rate to 15.0% in the second quarter of 2011, as per Cushman & Wakefield.

While still positive, the pace of overall leasing activity has slowed in this market as economic uncertainty has some businesses postponing decisions relating to space needs. Although submarkets inside the Beltway continue to post lower overall vacancy rates than those located outside of it, leasing activity has picked up in outer areas, like Tysons Corner and Reston/Herndon. In fact, absorption was positive for these submarkets during the first six months of 2011 while it was negative for Ballston and Rosslyn – two submarkets inside the Beltway.

From an investment standpoint, sales activity has been brisk thus far in 2011 with seven assets closing during the second quarter of 2011. Buyers looking to acquire assets here mainly include REITs, pension funds, and private equity investors, and there are reportedly a lot of offerings to choose from. "Buying opportunities are well above where they were this time last year," attests a participant. Although strong competition for assets continues to put downward pressure on overall capitalization rates, the average rate for this market remains higher than during the peak of the cycle (see Table NVO-1). ✦

Table 15
NORTHERN VIRGINIA OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50% – 10.00%	7.50% – 10.00%	6.00% – 10.50%
Average	8.58%	8.75%	8.48%
Change (Basis Points)		– 17	+ 10
OVERALL CAP RATE (OAR)[a]			
Range	5.75% – 9.00%	5.75% – 9.00%	5.75% – 9.00%
Average	7.58%	7.65%	7.50%
Change (Basis Points)		– 7	+ 8
RESIDUAL CAP RATE			
Range	7.00% – 9.00%	7.00% – 9.00%	7.00% – 9.00%
Average	7.90%	7.90%	8.05%
Change (Basis Points)		0	– 15
MARKET RENT CHANGE[b]			
Range	0.00% – 3.50%	0.00% – 3.50%	(2.00%) – 3.00%
Average	1.67%	1.58%	0.20%
Change (Basis Points)		+ 9	+ 147
EXPENSE CHANGE[b]			
Range	1.50% – 3.00%	1.50% – 3.00%	1.50% – 3.00%
Average	2.83%	2.83%	2.79%
Change (Basis Points)		0	+ 4
MARKETING TIME[c]			
Range	1.00 – 9.00	1.00 – 9.00	1.00 – 12.00
Average	5.33	5.33	6.30
Change (%)		0	– 15.40

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

Table NVO-1
OVERALL CAP RATE TRENDS
Northern Virginia Office Market

Quarter	Average	Change (Basis Points)
3Q11	7.58%	+ 8
3Q10	7.50%	– 48
3Q09	7.98%	+ 103
3Q08	6.95%	+ 14
3Q07	6.81%	—

Source: PwC Real Estate Investor Survey

Pacific Northwest Office Market

INVESTOR INTEREST REMAINS STRONG FOR THE PACIFIC NORTHWEST OFFICE MARKET, SPECIFICALLY SEATTLE, WHERE THE LOCAL "TECH-LED" ECONOMY CONTINUES TO MAKE PROGRESS TOWARD RECOVERY. "Economic data for this region is very promising for property owners even though change has been slow," remarks a participant. High expectations for this market's future performance are underscored in recent office building trades.

In downtown Seattle, 818 Stewart Street and 1918 Eighth Avenue were acquired by J.P. Morgan Asset Management for a combined price of $533.00 per square foot – one of the highest sale prices on the West Coast so far in 2011. 818 Stewart Street is a 14-story, Class-A tower totaling 232,126 square feet. Completed in 2008, it was 92.0% occupied at the time of sale and has Accenture as its anchor tenant. 1918 Eighth Avenue is a 36-story, Class-A tower totaling 668,333 square feet. Completed in 2010, it was 96.0% occupied at the time of sale and has Amazon.com as its anchor tenant.

More than 20 perspective buyers reportedly bid on these two office buildings and included REITs, pension funds, and foreign investors. Such strong interest speaks volumes about the long-term expectations for this market's performance. Optimism for this market is also shown in the trends for its average initial-year market rent change rate assumption, which reflects investors' expectations of rent growth over the next year.

As shown in Table PNW-1, the average for this key assumption surged 155 basis points this quarter, representing the highest quarterly increase of the 18 individual office markets in our Survey – ahead of both Manhattan (which reported an increase of 146 basis points) and San Francisco (which reported an increase of 132 basis points).

The bullish outlook for rent growth will likely continue and intensify as 67.0% of Survey participants report using rent spikes in their cash flow analyses. The first rent spike occurs between years one and five and ranges between 3.0% and 5.0%. The second rent spike, if used, ranges between 3.0% and 6.0% and occurs between years two and five. ✦

Table PNW-1
INITIAL-YEAR MARKET RENT CHANGE RATES
Pacific Northwest Office Market

Quarter	Average	Change (Basis Points)
3Q11	2.72%	+ 155
2Q11	1.17%	+ 65
1Q11	0.52%	+ 22
4Q10	0.30%	+ 30
3Q10	0.00%	– 20
2Q10	0.20%	+ 30
1Q10	(0.10%)	– 30
4Q09	0.20%	– 5
3Q09	0.25%	– 367
3Q08	3.92%	+ 12
3Q07	3.80%	—

Source: PwC Real Estate Investor Survey

Table 16
PACIFIC NORTHWEST OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 14.00%	7.00% – 14.00%	7.50% – 12.00%
Average	9.58%	9.71%	10.10%
Change (Basis Points)		– 13	– 52
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 12.00%	5.50% – 12.00%	6.00% – 12.00%
Average	8.01%	8.01%	8.41%
Change (Basis Points)		0	– 40
RESIDUAL CAP RATE			
Range	6.50% – 10.00%	6.50% – 10.00%	6.00% – 10.00%
Average	8.06%	8.19%	8.43%
Change (Basis Points)		– 13	– 37
MARKET RENT CHANGE[b]			
Range	0.00% – 7.30%	0.00% – 3.00%	0.00% – 0.00%
Average	2.72%	1.17%	0.00%
Change (Basis Points)		+ 155	+ 272
EXPENSE CHANGE[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	2.50% – 3.00%
Average	2.75%	2.75%	2.95%
Change (Basis Points)		0	– 20
MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	5.00	5.75	6.00
Change (%)		– 13.04	– 16.67

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

Philadelphia Office Market

AFTER NEARLY TWO YEARS OF A FLAT-LINED INVESTMENT CLIMATE, THE PHILADELPHIA OFFICE MARKET IS WITNESSING TRADES AND OFFERINGS IN BOTH ITS CBD AND SUBURBS. During the first six months of 2011, two CBD towers attracted buyers while three other assets hit the for-sale market. First, Two Liberty Place traded as part of a six-property portfolio for an estimated $215.00 per square foot. Second, a group of investors has reportedly agreed to acquire 1700 Market Street for $160.00 per square foot. Finally, three CBD office assets recently offered for sale include Two Penn Center, The Curtis Center, and Public Ledger.

In the suburbs, the largest year-to-date trade was Liberty Property Trusts' sale of a 32-property portfolio including office and flex assets. The deal totaled roughly 1.3 million square feet and sold for an estimated $89.00 per square foot. In more suburban deals this quarter, Veritas acquired the Class-A Four Greentree Center for $124.00 per square foot, and the Rothman Institute purchased Three Greentree Center for $85.00 per square foot.

Along with elevated sales activity and gradually improving economic conditions, Survey participants reveal a brighter outlook for Philadelphia's future rent growth. This quarter, the average initial-year market rent change rate for this market jumped 57 basis points to 1.32%, a level not seen since the end of 2008 when this key figure averaged 1.58% (see Table PHL-1).

Despite investors' positive stance regarding future rent growth, this market's average overall capitalization (cap) rate does not yet reflect notable changes in asset pricing. As shown in Table 17, the average overall cap rate stands at 8.62% this quarter, hovering around this point for the past four quarters. "Philadelphia's office market tends to stay relatively stable and has not been subject to the large pricing swings seen in many other office markets," remarks a participant.

Over the next 12 months, 71.0% of surveyed investors expect asset values to increase as much as 15.0% in this market. The balance of them anticipates value declines of up to 20.0%. ✦

Table 17
PHILADELPHIA OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 11.00%	8.00% – 11.00%	8.00% – 11.00%
Average	9.38%	9.37%	9.38%
Change (Basis Points)		+ 1	0
OVERALL CAP RATE (OAR)[a]			
Range	7.50% – 10.00%	7.50% – 10.00%	7.25% – 10.00%
Average	8.62%	8.63%	8.71%
Change (Basis Points)		– 1	– 9
RESIDUAL CAP RATE			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 11.00%
Average	8.78%	8.78%	8.85%
Change (Basis Points)		0	– 7
MARKET RENT CHANGE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	(5.00%) – 3.00%
Average	1.32%	0.75%	0.17%
Change (Basis Points)		+ 57	+ 115
EXPENSE CHANGE[b]			
Range	2.75% – 3.00%	2.75% – 3.00%	2.00% – 3.00%
Average	2.96%	2.96%	2.77%
Change (Basis Points)		0	+ 19
MARKETING TIME[c]			
Range	2.00 – 18.00	2.00 – 18.00	4.00 – 18.00
Average	7.29	7.29	7.58
Change (%)		0	– 3.83

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

Table PHL-1
INITIAL-YEAR MARKET RENT CHANGE RATES
Philadelphia Office Market

Quarter	Average	Change (Basis Points)
3Q11	1.32%	+ 57
2Q11	0.75%	0
1Q11	0.75%	+ 17
4Q10	0.58%	+ 41
3Q10	0.17%	+ 75
2Q10	(0.58%)	+ 17
1Q10	(0.75%)	0
4Q09	(0.75%)	– 93
3Q09	0.18%	– 57
2Q09	0.75%	0
1Q09	0.75%	– 133
3Q08	2.08%	– 50
3Q07	2.58%	—

Source: PwC Real Estate Investor Survey

Phoenix Office Market

THE PHOENIX OFFICE MARKET IS MAKING STRIDES TOWARD A RECOVERY AS INDICATED BY FALLING UNEMPLOYMENT, GROWING LEASING ACTIVITY, AND POSITIVE NET ABSORPTION. Encouraging events in the local economy include a 130-basis-point drop in the unemployment rate between January 2011 and May 2011 for the Phoenix-Mesa-Glendale metropolitan area, according to the U.S. Department of Labor. As of June 2011, the unemployment figure for this metropolitan area was 9.0% or 30 basis points below the U.S. unemployment rate.

A 42.0% year-over-year increase in total leasing activity contributed to this market's positive net absorption through midyear 2011. During the first six months of this year, net absorption totaled 321,122 square feet, as per Cushman & Wakefield. The bulk of this absorption occurred in the Class-A suburban office sector. The total absorption figure marks a vast improvement from a year ago when Phoenix posted negative absorption of more than 185,000 square feet.

Despite the uptick in leasing, tenants are still benefitting from landlord incentives in this market. Similar to last quarter, Survey participants unanimously agree that free rent exists in this market and ranges from two to 15 months on a ten-year lease. Companies that recently capitalized on this tenant-friendly environment include Cognizant Technology Solutions (130,888 square feet), Maricopa County Offices (73,000 square feet), and engineering firm Bechtel Corporation (72,494 square feet).

Although office fundamentals are showing progress, asset pricing in Phoenix remains weak relative to the peak of the cycle. For example, Scottsdale Centre in Paradise Valley recently traded for $20.9 million, compared to a sale price of $45.5 million roughly four years ago. This equates to a 54.0% drop in value. Over the next 12 months, certain Survey participants foresee values declining further – as much as 10.0%, while others foresee appreciation of as much as 5.0%.

Amid several positive trends, this market's average overall capitalization (cap) rate has stabilized in our Survey over the past few quarters. Still this quarter's average sits 284 basis points above the average as of the third quarter of 2007 during the height of the economic expansion. Looking ahead six months, 60.0% of surveyed investors believe overall cap rates will dip as much as 75 basis points in this market, while the balance expects them to hold steady. ✦

Table PHO-1
OVERALL CAP RATE TRENDS
Phoenix Office Market

Quarter	Average	Change (Basis Points)
3Q11	9.34%	+ 11
3Q10	9.23%	+ 32
3Q09	8.91%	+ 201
3Q08	6.90%	+ 40
3Q07	6.50%	—

Source: PwC Real Estate Investor Survey

Table 18
PHOENIX OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 16.00%	8.00% – 16.00%	8.50% – 16.00%
Average	10.47%	10.47%	11.06%
Change (Basis Points)		0	– 59
OVERALL CAP RATE (OAR)[a]			
Range	8.00% – 11.00%	8.00% – 11.00%	7.00% – 11.00%
Average	9.34%	9.40%	9.23%
Change (Basis Points)		– 6	+ 11
RESIDUAL CAP RATE			
Range	7.50% – 10.00%	7.75% – 11.00%	8.00% – 11.00%
Average	8.87%	9.03%	9.10%
Change (Basis Points)		– 16	– 23
MARKET RENT CHANGE[b]			
Range	(15.00%) – 3.00%	(15.00%) – 2.00%	(15.00%) – 0.00%
Average	(1.30%)	(1.40%)	(4.20%)
Change (Basis Points)		– 10	+ 290
EXPENSE CHANGE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	2.65%	2.65%	2.70%
Change (Basis Points)		0	– 5
MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	6.70	6.70	6.30
Change (%)		0	+ 6.35

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

San Diego Office Market

THE CLASS-A SECTOR LEADS THE RECOVERY IN THE SAN DIEGO OFFICE MARKET AS TENANTS CONTINUE A FLIGHT TO QUALITY DUE TO LOWER RENTAL RATES AND LANDLORD CONCESSIONS. Over the past 18 months, the average direct Class-A rental rate has dropped almost 8.0% in the CBD and just over 6.0% in the suburbs, as per Cushman & Wakefield (C&W).

Lower asking rates, in addition to incentives such as free rent, have allowed tenants to upgrade spaces for little or no additional cost. This quarter, Survey participants reveal that free rent ranges up to ten months on a ten-year lease; the average amount is four months.

Despite market conditions that favor tenants, total leasing activity dropped nearly 27.0% in the second quarter of 2011. During the same time period, Class-A leasing activity inched up 2.0%. Since the bulk of the leasing activity during the second quarter was Class-A suburban space, its vacancy dropped 100 basis points to 15.5%. In the CBD, slower leasing had a detrimental effect on vacancy, which climbed 300 basis points to 18.7% in the second quarter of 2011.

Over the last two years, sales activity in the San Diego office market waned as some investors believed frothy pricing moved ahead of market fundamentals. This quarter, however, has revealed some positive job growth trends, prompting both single-asset and portfolio sales. For instance, Forester Properties acquired 110 Plaza in downtown San Diego, the first Class-A asset to trade since 2008. In a multi-property deal this quarter, MIG Real Estate purchased five suburban Class-B properties totaling 367,002 square feet for $56.0 million.

Driven by recent sales activity, this market's average overall capitalization (cap) rate dipped below 8.00% for the first time since midyear 2009 (see Table SDO-1). While the downward trend in average cap rates suggests an improved investment outlook for the San Diego office market, many investors agree that a lack of meaningful job growth remains an obstacle to a robust recovery. Over the next six months, 80.0% of Survey participants expect cap rates to hold steady, while the balance foresees them decreasing up to 25 basis points. ✦

Table 19
SAN DIEGO OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 12.50%	7.50% – 12.50%	7.50% – 14.00%
Average	9.38%	9.63%	9.88%
Change (Basis Points)		– 25	– 50
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 10.00%	6.50% – 10.00%	7.00% – 11.00%
Average	7.99%	8.04%	8.26%
Change (Basis Points)		– 5	– 27
RESIDUAL CAP RATE			
Range	6.50% – 9.25%	7.00% – 10.00%	7.00% – 10.00%
Average	8.00%	8.29%	8.40%
Change (Basis Points)		– 29	– 40
MARKET RENT CHANGE[b]			
Range	(10.00%) – 3.41%	(10.00%) – 6.00%	(10.00%) – 0.00%
Average	(0.22%)	0.20%	(2.30%)
Change (Basis Points)		– 42	+ 208
EXPENSE CHANGE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.90%	2.90%	2.90%
Change (Basis Points)		0	0
MARKETING TIME[c]			
Range	1.00 – 9.00	1.00 – 9.00	1.00 – 12.00
Average	5.25	5.38	5.63
Change (%)		– 2.42	– 6.75

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

Table SDO-1
OVERALL CAP RATE TRENDS
San Diego Office Market

Quarter	Average	Change (Basis Points)
3Q11	7.99%	– 5
2Q11	8.04%	– 12
1Q11	8.16%	– 9
4Q10	8.25%	+ 1
3Q10	8.26%	+ 1
2Q10	8.25%	– 3
1Q10	8.28%	+ 15
4Q09	8.13%	+ 2
3Q09	8.11%	+ 195
3Q08	6.16%	+ 16
3Q07	6.00%	—

Source: PwC Real Estate Investor Survey

San Francisco Office Market

Driven by steady employment growth and an increase in leasing demand, a rebound in the San Francisco office market continues to occur, especially in the South of Market Street (SoMa) financial district. "Many tenants are actively taking more space now to prepare for future expansions," remarks a participant, who adds that in one of its buildings, a large block of space empty since 2008 now has tenants "fighting to occupy it." Given the SoMa's second quarter 2011 overall vacancy rate of 8.6%, the competition for space among tenants is understandable.

Companies that recently inked leases in the SoMa financial district include Moss Adams, which leased 28,577 square feet at 101 Second Avenue; Vertical Response, which signed for 28,121 square feet at 50 Beale Street; and State Compensation Insurance Fund, which signed for 28,578 square feet at 333 Bush Street. Although the NoMa (North of Market Street) financial district has also experienced positive absorption trends thus far in 2011, it posted a higher overall vacancy rate in the second quarter of 2011 (13.2%).

Outside of the CBD, many of San Francisco's suburban areas are also seeing positive leasing trends, but the bulk of investor interest lies with the CBD. "Downtown San Francisco is where we want to put our money," shares an investor. But according to some participants, pricing for the core assets up for sale is described as "very frothy" and "well ahead of fundamentals." While this practice is of concern to some buyers, especially as the U.S. economic recovery stumbles, others believe this market's underlying fundamentals will "catch up" and persevere over the long term.

Investors' preference for CBD office buildings is reflected in this market's average overall capitalization (cap) rates for its CBD and suburbs. As shown in Table SFO-1, the average overall cap rate for the CBD sits 114 basis points below the average for the suburbs. Although the averages for the CBD and suburbs both remain on a downward trend, the shifts have been greater for the CBD. Over the past two years, the average overall cap rate for the CBD declined 97 basis points, while it fell 73 basis points for the suburbs. ✦

Table SFO-1
AVERAGE OVERALL CAP RATES
San Francisco Office Market

Quarter	CBD	Suburbs	Spread(1)
3Q11	6.42%	7.56%	+ 114
2Q11	6.60%	7.61%	+ 101
1Q11	6.81%	7.97%	+ 116
4Q10	7.03%	8.11%	+ 108
3Q10	7.18%	8.19%	+ 101
2Q10	7.32%	8.33%	+ 101
1Q10	7.42%	8.25%	+ 83
4Q09	7.47%	8.40%	+ 93
3Q09	7.39%	8.29%	+ 90
3Q08	5.83%	6.57%	+ 74

(1) Basis-point spread difference for suburban rate
Source: PwC Real Estate Investor Survey

Table 20
SAN FRANCISCO OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.50% – 11.00%	7.00% – 11.00%	7.50% – 15.00%
Average	8.51%	8.59%	9.53%
Change (Basis Points)		– 8	– 102
OVERALL CAP RATE (OAR)[a]			
Range	4.60% – 9.50%	5.00% – 9.50%	5.50% – 11.00%
Average	6.99%	7.11%	7.69%
Change (Basis Points)		– 12	– 70
RESIDUAL CAP RATE			
Range	5.50% – 10.00%	6.00% – 10.00%	6.00% – 12.00%
Average	7.37%	7.49%	7.94%
Change (Basis Points)		– 12	– 57
MARKET RENT CHANGE[b]			
Range	0.00% – 10.00%	0.00% – 5.00%	(5.00%) – 7.60%
Average	4.03%	2.71%	1.46%
Change (Basis Points)		+ 132	+ 257
EXPENSE CHANGE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	2.67%	2.56%	2.56%
Change (Basis Points)		+ 11	+ 11
MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	5.44	5.78	6.17
Change (%)		– 5.88	– 11.83

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

Southeast Florida Office Market

A SLOW-MOVING RECOVERY CONTINUES TO KEEP INVESTORS OPTIMISTIC ABOUT THE LONG-TERM PERFORMANCE OF THE SOUTHEAST FLORIDA OFFICE MARKET. "We are hearing good things about Miami right now," says an investor. Over the past 12 months, overall vacancy declined in Miami-Dade, Palm Beach, and Broward Counties, according to Cushman & Wakefield. At 16.8%, Miami-Dade County led the area with the lowest overall vacancy rate in the second quarter of 2011 followed by Broward County at 16.9% and Palm Beach County at 20.1%.

Improved confidence in Miami's office market performance is recognized in the recent announcement of new mixed-use projects in the Downtown/Brickell submarket, as well as the recent sale of both the 31-story SunTrust International Center and 1 Herald Plaza both in Miami's CBD. Other submarkets that have witnessed property trades recently in Miami-Dade County include Airport West, where 9250 West Flager Street and 5835 Blue Lagoon Drive both sold; and Northeast Dade, where Triarch Capital Group acquired One Turnberry Place.

For investors looking to acquire assets in the Southeast Florida office market, our Survey participants report that sale prices range from 40.0% to 100.0% of replacement cost and average 75.0% of replacement cost. In addition, many surveyed investors continue to use conservative cash flow assumptions. As shown in Table SFL-1, the average initial-year market rent change rate reported by investors remains negative for the ninth straight quarter and is well below the average reported during the peak of the cycle.

Unfortunately, large increases in rental rates are not expected by Survey participants as none of them are currently using rent spikes in their cash flow analyses. On the other hand, all of them report that free rent remains available to tenants and ranges up to 12 months on a ten-year lease and averages 6.5 months. Excessive tenant improvement (TI) allowances are also awarded to certain tenants and can range up to $25.00 per square foot. The average extra TI amount is $8.40 per square foot. Once this market starts to show stronger signs of recovery, investors expect these additional incentives to subside. ✦

Table 21
SOUTHEAST FLORIDA OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 16.00%	7.00% – 16.00%	7.00% – 16.00%
Average	10.38%	10.38%	10.22%
Change (Basis Points)		0	+ 16
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 15.00%	7.00% – 15.00%	7.25% – 14.00%
Average	9.50%	9.52%	9.19%
Change (Basis Points)		– 2	+ 31
RESIDUAL CAP RATE			
Range	7.00% – 12.00%	7.00% – 12.00%	7.00% – 12.00%
Average	9.15%	9.17%	9.00%
Change (Basis Points)		– 2	+ 15
MARKET RENT CHANGE[b]			
Range	(10.00%) – 3.00%	(10.00%) – 3.00%	(10.00%) – 3.00%
Average	(0.92%)	(0.92%)	(0.71%)
Change (Basis Points)		0	– 21
EXPENSE CHANGE[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	1.00% – 3.00%
Average	2.75%	2.75%	2.79%
Change (Basis Points)		0	– 4
MARKETING TIME[c]			
Range	2.00 – 18.00	2.00 – 18.00	2.00 – 18.00
Average	6.75	6.75	7.50
Change (%)		0	– 10.00

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

Table SFL-1
INITIAL-YEAR MARKET RENT CHANGE RATES
Southeast Florida Office Market

Quarter	Average	Change (Basis Points)
3Q11	(0.92%)	0
2Q11	(0.92%)	0
1Q11	(0.92%)	– 50
4Q10	(0.42%)	+ 29
3Q10	(0.71%)	0
2Q10	(0.71%)	+ 36
1Q10	(1.07%)	+ 18
4Q09	(1.25%)	– 75
3Q09	(0.50%)	– 314
3Q08	2.64%	– 119
3Q07	3.83%	—

Source: PwC Real Estate Investor Survey

Suburban Maryland Office Market

TENANTS CONTINUE TO LEASE SPACE IN THE SUBURBAN MARYLAND OFFICE MARKET, BUT THE PACE OF NEW ACTIVITY HAS SLOWED IN COMPARISON TO LAST YEAR. While some of the decline is due to hesitancy among companies to make future commitments in the presence of such economic uncertainty, it is also due to the relocation of companies, as well as the reduced space needs of the federal government.

As shown in Table SMO-1, the overall vacancy rate has held relatively steady for Suburban Maryland over the past year, reaching a rate of 17.7% in the second quarter of 2011, as per Cushman & Wakefield.

In comparison to prior years, the current overall vacancy rate for this market is significantly higher, particularly compared to the peak of the cycle. Since midyear 2006, the overall vacancy rate has surged 780 basis points. For the national suburban office sector, it has grown only 350 basis points. Given the tremendous amount of empty office space in this market, some of our Survey participants anticipate it taking up to five years for this market to stabilize.

Table SMO-1
OVERALL VACANCY RATES
Suburban Maryland Office Market

Quarter	Suburban Maryland	U.S. Suburbs
2Q11	17.7%	19.0%
2Q10	17.8%	19.5%
2Q09	16.5%	18.3%
2Q08	13.1%	15.2%
2Q07	11.5%	14.2%
2Q06	9.9%	15.5%
2Q05	12.0%	17.9%

Source: Cushman & Wakefield

Within this market, much of the recent leasing activity has occurred in submarkets within Montgomery County – one of the two counties that makes up this market along with Prince George's County, where year-to-date leasing activity has been much weaker. Strong-performing submarkets in Montgomery County noted by investors include Silver Spring, Rockville, and Bethesda. "Bethesda is hot," declares an investor. As a result, strong investment demand exists for assets there. "Rockville also continues to lure investors," adds another. In fact, in the largest dollar-value office sale in this market since 2008, One Washingtonian Center in North Rockville, recently sold for $285.00 per square foot.

One positive for this market is that a limited amount of new supply has been delivered over the past few years. As the economy gains strength, investors are hopeful that tenant demand will increase, vacancy rates will fall, and rental rates will rise. For now, however, most property owners are content with "stability" and the sense that market fundamentals will not deteriorate going forward, but will instead, improve at a slow pace. As one investor remarks, "Some owners foresee a bit of rent growth over the near term; we would be happy just to see rents stabilize." ✦

Table 22
SUBURBAN MARYLAND OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.25% – 9.50%	7.25% – 9.50%	7.25% – 10.00%
Average	8.41%	8.41%	8.53%
Change (Basis Points)		0	– 12
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 9.00%	6.50% – 9.00%	7.00% – 9.00%
Average	7.48%	7.50%	7.75%
Change (Basis Points)		– 2	– 27
RESIDUAL CAP RATE			
Range	7.25% – 9.75%	7.50% – 10.00%	7.50% – 10.00%
Average	8.09%	8.19%	8.25%
Change (Basis Points)		– 10	– 16
MARKET RENT CHANGE[b]			
Range	(2.00%) – 3.00%	(2.00%) – 3.00%	(2.00%) – 3.00%
Average	1.00%	0.70%	0.07%
Change (Basis Points)		+ 30	+ 93
EXPENSE CHANGE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	2.60%	2.60%	2.57%
Change (Basis Points)		0	+ 3
MARKETING TIME[c]			
Range	1.00 – 9.00	1.00 – 9.00	1.00 – 12.00
Average	4.63	4.88	6.75
Change (%)		– 5.12	– 31.41

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

Washington, DC Office Market

INVESTORS REMAIN FOCUSED ON ACQUIRING PROPERTIES IN THE WASHINGTON, DC OFFICE MARKET AS THE U.S. ECONOMY'S RECOVERY FALTERS AND THE DESIRE TO INVEST IN HARD ASSETS RISES. "From a comparative standpoint, commercial real estate returns are looking very favorable against other alternatives, like stocks and bonds," says a participant. Of particular interest are commercial real estate assets located in stable markets with histories of stability and performance, such as Washington, DC.

Over the past year, the Washington, DC office market saw its overall vacancy rate decline 283 basis points, reaching 11.47% in the second quarter of 2011 – the fourth greatest annual decline of the 31 downtown markets tracked by Cushman & Wakefield. Helping to improve underlying fundamentals here has been an increase in leasing activity in the form of new leases and renewals. In one recent renewal, Carefirst BlueCross BlueShield renewed its 204,000-square-foot headquarters lease at 840 First Street NE for ten years.

While leasing activity was quite brisk during the first six months of 2011, a few investors note that activity has dipped a bit due to the economic uncertainty currently swirling around the country, as well as the industry. "The momentum has slowed over the past few weeks," shares a participant. In addition, there is concern about the amount of space that the government will return to the market due to Federal budget cuts. "I don't think outside investors are as envious of this market as they once were," quips the investor.

Overall, however, investor sentiment remains positive for this market. In fact, this market's average initial-year market rent change rate assumption (investors' expectations of where rents will trend over the next year) increased for the fourth consecutive quarter, reaching 2.36% (see Table WDC-1). This average is the fourth highest of the 18 individual office markets in our Survey. At 4.96%, the Manhattan office market reported the highest average for this key assumption, followed by San Francisco at 4.03%, and Pacific Northwest at 2.72%. These optimistic expectations, however, could weaken if the economy dips into a recession and the demand for office space wanes. ✦

Table 23
WASHINGTON, DC OFFICE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.50% – 9.00%	6.50% – 9.00%	7.00% – 10.00%
Average	7.56%	7.77%	8.02%
Change (Basis Points)		– 21	– 46
OVERALL CAP RATE (OAR)[a]			
Range	4.50% – 8.00%	4.75% – 8.00%	5.50% – 8.50%
Average	5.98%	6.13%	6.64%
Change (Basis Points)		– 15	– 66
RESIDUAL CAP RATE			
Range	5.25% – 8.25%	5.75% – 8.25%	6.00% – 8.50%
Average	6.54%	6.60%	7.13%
Change (Basis Points)		– 6	– 59
MARKET RENT CHANGE[b]			
Range	0.00% – 4.00%	0.00% – 4.00%	(2.00%) – 3.00%
Average	2.36%	2.21%	0.43%
Change (Basis Points)		+ 15	+ 193
EXPENSE CHANGE[b]			
Range	1.50% – 3.00%	1.50% – 3.00%	1.50% – 3.00%
Average	2.82%	2.82%	2.82%
Change (Basis Points)		0	0
MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	2.00 – 18.00
Average	5.36	5.57	7.57
Change (%)		– 3.77	– 29.19

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

Table WDC-1
INITIAL-YEAR MARKET RENT CHANGE RATES
Washington, DC Office Market

Quarter	Average	Change (Basis Points)
3Q11	2.36%	+ 15
2Q11	2.21%	+ 7
1Q11	2.14%	+ 107
4Q10	1.07%	+ 64
3Q10	0.43%	0
2Q10	0.43%	+ 29
1Q10	0.14%	0
4Q09	0.14%	– 17
3Q09	0.31%	—

Source: PwC Real Estate Investor Survey

National Flex/R&D Market

MANY INVESTORS LOOKING FOR OPPORTUNITIES IN THE NATIONAL FLEX/R&D MARKET ARE FOCUSING ON LOCATIONS WHERE TECHNOLOGY COMPANIES EITHER HAVE A LARGE PRESENCE OR ARE EXPANDING, SUCH AS SAN JOSE-SILICON VALLEY, WHERE FACEBOOK AND GOOGLE ARE ABSORBING SPACE AND ASKING RENTAL RATES ARE THE HIGHEST IN THE COUNTRY. Based on a second quarter 2011 report by Grubb & Ellis (G&E), the asking rental rate for flex/R&D space in San Jose-Silicon Valley was $13.36 per square foot on a triple-net-lease basis – the highest of the 59 metros tracked by G&E.

Sales of flex/R&D assets in San Jose totaled $259.3 million in the first six months of 2011, according to Real Capital Analytics (RCA). This was the second highest volume total for the West region of the country, where Las Vegas led with $633.2 million in total sales. Overall, the West region combined for $1.8 billion in flex/R&D sales – more than double the amount of the second-place total of $752.4 million in the Southeast region.

The lowest volume of trades thus far in 2011 occurred in the Mid-Atlantic region, totaling $257.9 million. Included in this figure is the transfer of the single-tenant 1701-1711 Research Boulevard in Rockville for about $363.00 per square foot; the 75.0%-occupied 5113 Berwyn Road in College Park for $49.00 per square foot; and 8005 Reichs Ford Road in Frederick, which was purchased for occupancy for $173.00 per square foot.

Overall, the number of flex/R&D properties traded across the country is up 40.0% on a year-over-year basis, according to RCA. Unfortunately, sale prices for flex/R&D assets have dipped recently on a price-per-square-foot basis and remain below offering prices. This trend, however, could soon reverse itself. As shown in Table FLX-1, this market's average initial-year market rent change rate surged this quarter and stands well above prior quarterly averages.

While it remains to be seen if the average for this key assumption continues to move upward, a few investors warn that cash flow assumptions for this sector "are well ahead of fundamentals" and, therefore, do not accurately reflect the challenges facing property owners. ✦

Table FLX-1
INITIAL-YEAR MARKET RENT CHANGE RATES
National Flex/R&D Market

Quarter	Average	Change (Basis Points)
3Q11	1.33%	+ 66
2Q11	0.67%	0
1Q11	0.67%	+ 59
4Q10	0.08%	0
3Q10	0.08%	+ 1
2Q10	0.07%	– 12
1Q10	0.19%	– 10
4Q09	0.29%	+ 65
3Q09	(0.36%)	– 118
2Q09	0.82%	—

Source: PwC Real Estate Investor Survey

Table 24
NATIONAL FLEX/R&D MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 13.00%	8.00% – 13.00%	8.25% – 13.00%
Average	9.58%	9.79%	10.23%
Change (Basis Points)		– 21	– 65
OVERALL CAP RATE (OAR)[a]			
Range	6.50% – 12.00%	6.50% – 12.00%	7.50% – 12.00%
Average	8.67%	8.75%	9.15%
Change (Basis Points)		– 8	– 48
RESIDUAL CAP RATE			
Range	7.00% – 10.50%	7.25% – 10.50%	7.50% – 11.50%
Average	8.65%	8.75%	9.17%
Change (Basis Points)		– 10	– 52
MARKET RENT CHANGE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	(2.00%) – 3.00%
Average	1.33%	0.67%	0.08%
Change (Basis Points)		+ 66	+ 125
EXPENSE CHANGE[b]			
Range	2.00% – 3.00%	1.00% – 3.00%	1.00% – 3.00%
Average	2.92%	2.83%	2.83%
Change (Basis Points)		+ 9	+ 9
MARKETING TIME[c]			
Range	2.00 – 18.00	2.00 – 18.00	3.00 – 18.00
Average	7.83	8.33	8.92
Change (%)		– 6.00	– 12.22

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

National Warehouse Market

ECONOMIC GROWTH, WHILE SLIGHT, CONTINUES TO POSITIVELY IMPACT THE FUNDAMENTALS OF THE NATIONAL WAREHOUSE MARKET, PARTICULARLY THE PORTION OF THE MARKET THAT TARGETS TENANTS SEEKING LARGE BLOCKS OF SPACE. "Users in need of space over 500,000 square feet have limited options," comments a participant. Overall, the U.S. industrial vacancy rate fell to a two-year low of 9.8%, down significantly from 10.4% a year ago, as per CoStar Group. Moreover, the U.S. warehouse sector has experienced five consecutive quarters of positive leasing activity totaling 103 million square feet.

Although the leasing activity and absorption figures are below expectations at this point in the recovery, many investors feel that positive trends will continue for the remainder of 2011 and into 2012 even if the economic recovery has lost a bit of steam. "Very few additions to supply and pent-up demand bode well for this sector," says an investor.

Expectations of better leasing activity and higher rental rates have pumped up investment demand for warehouse assets. "For investors, industrial properties are the second most popular asset next to apartments," contends a participant. During the first six months of 2011, sales of warehouse properties totaled $6.5 billion, indicating a 62.0% year-over-year gain, as per Real Capital Analytics. Cities that posted the highest volume of warehouse trades were Chicago with $719.6 million, Los Angeles with $590.6 million, and Dallas with $397.0 million.

For most investors, the main acquisition target is Class-A assets in top locations. While some investors prefer stabilized Class-A assets, others are starting to take on more risk associated with lease roll over and a bit of vacancy. Rising investment demand, expectations of income growth, and a low cost of capital continue to compress the average overall capitalization rate (OAR) in this market. As shown in Table NWM-1, the average OAR has declined for the past seven quarters. Nevertheless, it remains nearly 100 basis points above the level recorded during the peak of the cycle. Over the next six months, 54.0% of our surveyed investors see overall cap rates holding steady; 38.0% expect them to decline as much as 50 basis points; and the remainder see rates increasing. ✦

Table 25
NATIONAL WAREHOUSE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.80% – 12.50%	6.80% – 12.50%	7.10% – 12.50%
Average	8.54%	8.64%	9.28%
Change (Basis Points)		– 10	– 74
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 12.00%	6.00% – 12.00%	6.50% – 12.00%
Average	7.45%	7.49%	8.38%
Change (Basis Points)		– 4	– 93
RESIDUAL CAP RATE			
Range	6.50% – 12.00%	6.50% – 12.00%	7.00% – 12.00%
Average	7.93%	7.98%	8.49%
Change (Basis Points)		– 5	– 56
MARKET RENT CHANGE[b]			
Range	(5.00%) – 7.00%	(5.00%) – 3.00%	(10.00%) – 3.00%
Average	1.40%	0.90%	0.02%
Change (Basis Points)		+ 50	+ 138
EXPENSE CHANGE[b]			
Range	2.00% – 3.00%	(2.00%) – 3.00%	(2.00%) – 3.00%
Average	2.81%	2.62%	2.57%
Change (Basis Points)		+ 19	+ 24
MARKETING TIME[c]			
Range	1.00 – 18.00	2.00 – 18.00	3.00 – 18.00
Average	7.23	7.69	8.88
Change (%)		– 5.98	– 18.58

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

Table NWM-1
AVERAGE OVERALL CAP RATES
National Warehouse Market

Quarter	Average	Change (Basis Points)
3Q11	7.45%	– 4
2Q11	7.49%	– 27
1Q11	7.76%	– 22
4Q10	7.98%	– 40
3Q10	8.38%	– 22
2Q10	8.60%	– 13
1Q10	8.73%	+ 27
3Q09	8.46%	+ 183
3Q08	6.63%	+ 10
3Q07	6.53%	—

Source: PwC Real Estate Investor Survey

National Apartment Market

ONGOING SINGLE-FAMILY FORECLOSURES, RENTAL DEMAND FROM THE ECHO-BOOMER GENERATION, AND A LIMITED PIPELINE OF NEW SUPPLY ARE SUSTAINING THE ROBUST RECOVERY IN THE NATIONAL APARTMENT MARKET. Amid these positive factors, however, stale job growth and "persistently high" unemployment remain potential hazards to an enduring expansion in this sector. "It's a great time for the apartment market as we are able to push rents, but we can't ignore what's going on around us," warns a long-time participant.

As shown in Table APT-1, effective rent growth turned positive for the U.S. apartment market in 2010, growing 2.3%, based on data by Reis. Amid a stop-and-start economic recovery, effective rents inched up just under 1.0% during the first half of 2011, a level similar to a year ago. Still, Reis forecasts accelerated rent growth during the second half of this year, bringing the annual average to 3.8% as additions to supply remain modest.

On average, apartment inventory increased by roughly 114,000 new units annually between 2007 and 2010. In contrast, Reis estimates new supply to total 40,330 units for 2011, or just 35.0% of the prior four-year average. Some investors believe demand will continue to outpace supply while others are more cautious with regard to overbuilding. "In this sector, there will be such a lack of supply that the expected level of new units won't overwhelm the market," predicts a participant. Yet, another participant warns, "Developers need to get projects completed and leased up now before the upside is gone."

Vivid improvements in fundamentals and a historically low cost of capital propelled transaction volume despite steep competition among eager buyers. In the second quarter alone, total sales volume approached $14.0 billion, a level not seen since early 2008, as per Real Capital Analytics. Due to the large number of well-capitalized investors seeking quality product, this market's average overall capitalization rate dipped below 6.00% this quarter for the first time since midyear 2008. While most investors still favor core assets, nearly one fourth of total sales in the past year included some level of distress. "Buyers able to see the upside of a good deal must be willing to take on a few headaches," explains a participant. ✦

Table APT-1
EFFECTIVE RENT GROWTH AND SUPPLY TRENDS
National Apartment Market

Year	Rent Growth	Completions (Units)
2011*	3.8%	40,330
2010	2.3%	97,824
2009	(2.3%)	138,508
2008	2.4%	119,330
2007	4.7%	100,630
2006	4.4%	95,205
2005	3.0%	93,227
2004	2.1%	105,808

*Estimate
Source: Reis

Table 26
NATIONAL APARTMENT MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	4.75% – 14.00%	5.25% – 14.00%	6.00% – 14.00%
Average	8.34%	8.63%	9.40%
Change (Basis Points)		– 29	– 106
OVERALL CAP RATE (OAR)[a]			
Range	3.75% – 10.00%	4.00% – 10.00%	4.50% – 11.00%
Average	5.98%	6.10%	7.12%
Change (Basis Points)		– 12	– 114
RESIDUAL CAP RATE			
Range	4.75% – 9.75%	4.75% – 9.75%	5.25% – 11.00%
Average	6.38%	6.35%	7.54%
Change (Basis Points)		+ 3	– 116
MARKET RENT CHANGE[b]			
Range	(2.00%) – 8.00%	(2.00%) – 5.00%	(10.00%) – 3.00%
Average	2.00%	1.70%	(0.12%)
Change (Basis Points)		+ 30	+ 212
EXPENSE CHANGE[b]			
Range	0.00% – 4.00%	0.00% – 4.00%	0.00% – 4.00%
Average	2.68%	2.49%	2.42%
Change (Basis Points)		+ 19	+ 26
MARKETING TIME[c]			
Range	0.00 – 18.00	0.00 – 18.00	1.00 – 18.00
Average	5.85	5.54	7.16
Change (%)		+ 5.60	– 18.30

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

Regional Apartment Markets

Investment criteria for apartment assets vary across geography and are shown in table 27 for the mid-Atlantic, Pacific, and Southeast regions. This quarter, the average initial-year market rent change rate, an indication of investors' rent growth forecasts, increased in each of the three Survey regions. The largest increase occurred in the Southeast region (+37 basis points), followed by the Pacific region (+25 basis points), and the Mid-Atlantic region (+9 basis points). "In markets like New York, Washington DC, and San Francisco, rents peaked in the third quarter of 2008, and we are back there now in many cases," remarks a participant.

The optimistic outlook for rent growth is attributed to healthy fundamentals in this sector. Table RAPT-1 outlines vacancy, absorption, and rental rate trends for select areas for the second quarters of 2011 and 2010 as well as the fourth quarter of 2010. A lack of new supply, positive demographic trends, and an unwillingness to purchase homes due to economic uncertainty resulted in increased demand and falling vacancy rates for many apartment areas. As of midyear 2011, the lowest vacancy rates were in San Diego (3.7%), Los Angeles (4.4%), and both Baltimore and Suburban Virginia (4.6%).

Solid market conditions are attracting both single-asset and portfolio buyers to this property sector. For instance, Harbor Group International acquired 1,984 units in six properties in the Mid-Atlantic region for $190.0 million. The new owner plans to spend an additional $7.75 million in improvements. In a multiproperty trade in the Pacific region, a joint venture between Angelo Gordon and the Prado Group procured an eight-property portfolio for $55.0 million. These assets are located in San Francisco and collectively total 291 units. In a single-asset deal in the Southeast region, Camden Property Trust acquired The Paces in Atlanta for $20.7 million. This 250-unit property was reportedly 54.0% occupied at the time of the sale, and the buyer is planning a renovation.

Like the national apartment market, vigorous sales activity in each Survey region has compressed overall capitalization (cap) rates, albeit at a lesser pace than the prior quarter. The average overall cap rate in both the Southeast and Pacific regions slipped 18 basis points this quarter while it declined 12 basis points in the Mid-Atlantic region (see Table 27). ✦

Table RAPT-1

VACANCY, ABSORPTION, AND EFFECTIVE RENT TRENDS

Select Metro Apartment Markets

	Vacancy			Net Absorption (Units)			Effective Rent Change (1)		
	2Q2011	4Q2010	2Q2010	2Q2011	4Q2010	2Q2010	2Q2011	4Q2010	2Q2010
Mid-Atlantic Region									
Suburban Virginia	4.6%	5.0%	5.9%	890	1,232	623	0.7%	0.9%	1.6%
Suburban Maryland	4.9%	4.9%	6.6%	638	749	887	0.7%	0.5%	0.7%
Baltimore	4.6%	5.0%	6.4%	218	1,010	693	0.6%	1.0%	(0.6%)
Raleigh Durham	5.8%	6.7%	8.2%	522	719	950	0.6%	0.5%	0.4%
Pacific Region									
Los Angeles	4.4%	4.9%	5.5%	1,308	1,498	1,162	0.2%	0.3%	(0.2%)
Orange County	4.7%	5.4%	6.4%	679	1,166	653	0.7%	0.4%	0.2%
Seattle	5.0%	5.8%	7.3%	707	1,267	1,434	0.6%	0.7%	1.7%
San Diego	3.7%	4.2%	4.9%	549	679	158	0.4%	0.7%	1.1%
Southeast Region									
Atlanta	8.7%	9.7%	11.5%	1,667	2,928	1,752	0.4%	0.2%	0.6%
Tampa	6.9%	7.8%	10.1%	683	1,274	843	0.2%	0.9%	0.3%
Orlando	7.8%	8.6%	11.5%	382	1,497	1,288	0.6%	0.3%	(1.0%)
Miami	5.4%	5.7%	6.3%	511	(74)	96	2.6%	1.9%	0.6%

(1) Annual
Source: Reis

Table 27

REGIONAL APARTMENT MARKETS

Third Quarter 2011

	MID-ATLANTIC REGION			PACIFIC REGION			SOUTHEAST REGION		
	CURRENT	PRIOR QUARTER	YEAR AGO	CURRENT	PRIOR QUARTER	YEAR AGO	CURRENT	PRIOR QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]									
Range	5.60% – 14.00%	5.80% – 14.00%	7.50% – 14.00%	6.00% – 12.50%	6.00% – 12.50%	8.00% – 12.50%	6.50% – 11.00%	6.50% – 11.00%	7.50% – 14.00%
Average	9.32%	9.40%	10.33%	8.77%	8.81%	9.92%	7.90%	7.98%	9.73%
Change (Basis Points)		– 8	– 101		– 4	– 115		– 8	– 183
OVERALL CAP RATE (OAR)[a]									
Range	4.00% – 7.50%	4.00% – 8.00%	4.50% – 10.00%	4.00% – 7.00%	4.00% – 7.50%	5.00% – 9.00%	5.00% – 7.00%	5.00% – 7.50%	5.75% – 10.00%
Average	5.98%	6.10%	7.15%	5.42%	5.60%	6.90%	5.92%	6.10%	7.75%
Change (Basis Points)		– 12	– 117		– 18	– 148		– 18	– 183
RESIDUAL CAP RATE									
Range	4.50% – 9.75%	4.50% – 9.75%	5.00% – 9.75%	4.00% – 8.50%	4.00% – 8.50%	5.00% – 9.00%	5.50% – 9.75%	5.50% – 9.75%	5.50% – 9.75%
Average	6.65%	6.73%	7.52%	6.17%	6.19%	7.00%	6.73%	6.85%	7.69%
Change (Basis Points)		– 8	– 87		– 2	– 83		– 12	– 96
MARKET RENT CHANGE[b]									
Range	(5.00%) – 5.00%	(5.00%) – 6.00%	(5.00%) – 2.00%	0.00% – 6.00%	0.00% – 5.00%	(5.00%) – 2.50%	(10.00%) – 4.00%	(10.00%) – 3.00%	(10.00%) – 3.00%
Average	1.92%	1.83%	(0.25%)	2.83%	2.58%	(0.63%)	0.75%	0.38%	(1.63%)
Change (Basis Points)		+ 9	+ 217		+ 25	+ 346		+ 37	+ 238
EXPENSE CHANGE[b]									
Range	1.00% – 3.00%	1.00% – 3.00%	1.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%	1.00% – 3.00%	0.00% – 3.00%	1.00% – 3.00%
Average	2.58%	2.58%	2.58%	2.79%	2.79%	2.71%	2.50%	2.25%	2.42%
Change (Basis Points)		0	0		0	+ 8		+ 25	+ 8
MARKETING TIME[c]									
Range	1.00 – 18.00	1.00 – 18.00	1.00 – 18.00	1.00 – 12.00	1.00 – 12.00	3.00 – 12.00	1.00 – 18.00	1.00 – 18.00	1.00 – 18.00
Average	6.17	6.17	7.08	5.83	5.83	7.00	6.75	6.75	7.58
Change (%)		0	– 12.85		0	– 16.71		0	– 10.95

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

National Net Lease Market

DEAL FLOW IN THE NATIONAL NET LEASE MARKET REMAINS RESTRAINED DUE TO ONGOING ECONOMIC UNCERTAINTY AND THE ASSOCIATED IMPACT ON THE CREDITWORTHINESS OF TENANTS. More than ever, lenders are scrutinizing the quality of tenants as a prerequisite to funding in this highly competitive sector. "Lenders want tenant security in a big way and deals that lack it can't get capital at any price," underscores a participant. In addition, many corporations are "cash rich" due to strong earnings and a low cost of capital, reducing the need for sale-leaseback transactions to fund operations and expansions.

"Some of our markets are slowly improving while others appear to be stuck in neutral and not moving at all," remarks an investor. Sales of single-tenant net lease industrial assets increased 43.0% between the first and second quarters of 2011, as per Real Capital Analytics. The single-tenant net lease office sector followed with a 22.0% increase in volume during the same time period while trades in the retail sector were down 23.0%.

As investors look for opportunities to place funds in this sector, some are seeking less traditional net lease transactions. In a recent deal, United Trust Fund (UTF) entered into two new construction sale-leaseback deals with the Sisters of Mercy, one of the largest Catholic Health Systems in the country. The to-be-built assets will include an orthopedic hospital in Missouri and a medical office building in Oklahoma with development costs of $111.0 and $92.0 million, respectively. UTF structured the deal as a forward-funding, build-to-suit sale-leaseback that provided Sisters of Mercy with low-cost construction financing, off-balance-sheet treatment, and a primary 14-year lease term on an absolute net lease.

Investor interest in single-tenant credit deals, a competitive marketplace, and low interest rates continue to compress this market's average overall capitalization (cap) rate. This quarter, the average overall cap rate fell for the fifth consecutive quarter and stands at 8.13% (see Table NLM-1). Looking ahead six months, 75.0% of surveyed investors see overall cap rates holding steady in this market while the balance anticipate overall cap rates declining up to 50 basis points. ✦

Table NLM-1
OVERALL CAP RATE TRENDS
National Net Lease Market

Quarter	Average	Change (Basis Points)
3Q11	8.13%	– 35
2Q11	8.48%	– 2
1Q11	8.50%	– 19
4Q10	8.69%	– 19
3Q10	8.88%	– 10
2Q10	8.98%	+ 12
1Q10	8.86%	– 8
4Q09	8.94%	+ 4
3Q09	8.90%	+ 7
2Q09	8.83%	+ 25
1Q09	8.58%	—

Source: PwC Real Estate Investor Survey

Table 28
NATIONAL NET LEASE MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 9.00%	7.00% – 9.00%	8.00% – 9.50%
Average	7.97%	8.13%	8.41%
Change (Basis Points)		– 16	– 44
OVERALL CAP RATE (OAR)[a]			
Range	5.25% – 10.25%	6.00% – 10.25%	6.25% – 12.00%
Average	8.13%	8.34%	8.88%
Change (Basis Points)		– 21	– 75
RESIDUAL CAP RATE			
Range	7.00% – 12.00%	7.00% – 12.00%	8.00% – 12.00%
Average	8.85%	9.00%	9.33%
Change (Basis Points)		– 15	– 48
MARKET RENT CHANGE[b]			
Range	(3.00%) – 4.00%	(3.00%) – 4.00%	(1.00%) – 7.00%
Average	1.07%	1.07%	1.86%
Change (Basis Points)		0	– 79
EXPENSE CHANGE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 7.00%
Average	1.82%	1.82%	2.58%
Change (Basis Points)		0	– 76
MARKETING TIME[c]			
Range	1.00 – 18.00	1.00 – 18.00	2.00 – 12.00
Average	5.81	5.94	5.93
Change (%)		– 2.19	– 2.02

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

National Medical Office Buildings Market

SALES ACTIVITY REMAINS STEADY IN THE NATIONAL MEDICAL OFFICE BUILDINGS (MOB) MARKET AS EQUITY BUYERS LOOK TO PLACE FUNDS AND DEBT BUYERS DESIRE TO CAPITALIZE ON AFFORDABLE FINANCING. For many MOB investors, however, a distinct flight to quality exists. "Investors are seeking A+ characteristics in every deal and if a key factor is missing, the pricing will reflect the shortfall," notes an investor. Some investors believe buyers have not only become more sensitive to physical asset qualities but also to issues such as remaining lease terms, ground leases, and purchase options.

The end result of such attention to detail is a pricing spread between assets with and without top-notch attributes. For example, our Survey reveals a 72-basis-point spread between the average overall capitalization (cap) rates for on-campus and off-campus assets this quarter. Specifically, the average overall cap rate stands at 7.74% for on-campus assets while it is 8.46% for off-campus properties.

Investors' fondness for first-rate MOBs pushed the average sale price up nearly 25.0% during the first six weeks of the third quarter of 2011 compared to the prior quarter, as per Real Capital Analytics. In a recent on-campus trade, ProMed Properties acquired the Biewind & Tupper Buildings located in the Boston CBD and proximate to (and fully occupied by) the Tufts-New England Medical Center for roughly $444.00 per square foot – well above this sector's national average sale price of $202.00 per square foot in the second quarter of 2011.

As shown in Table MOB-1, heightened competition for pristine MOB assets led to another quarter of overall cap rate compression, placing the current average comparable to the rate reported in early 2009.

Over the next six months, 70.0% of surveyed investors expect overall cap rates to hold steady in this market; 20.0% anticipate increases of up to 125 basis points; and 10.0% expect declines of up to 50 basis points. "Cap rates for core MOBs will likely remain competitive and might dip slightly lower over the near term as this sector's fundamentals appear to have stabilized," observes a participant. ✦

Table 29
NATIONAL MEDICAL OFFICE BUILDINGS MARKET
Third Quarter 2011

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 13.00%	7.50% – 13.00%	8.00% – 13.00%
Average	9.24%	9.47%	9.74%
Change (Basis Points)		– 23	– 50
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 11.00%	6.00% – 11.50%	7.00% – 11.50%
Average	8.10%	8.28%	8.58%
Change (Basis Points)		– 18	– 48
RESIDUAL CAP RATE			
Range	6.50% – 12.00%	7.00% – 12.00%	7.00% – 12.00%
Average	8.38%	8.50%	8.81%
Change (Basis Points)		– 12	– 43
MARKET RENT CHANGE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	1.15%	1.15%	1.00%
Change (Basis Points)		0	+ 15
EXPENSE CHANGE[b]			
Range	0.00% – 4.00%	0.00% – 4.00%	1.50% – 5.00%
Average	2.33%	2.33%	2.64%
Change (Basis Points)		0	– 31
MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	2.00 – 12.00
Average	5.55	5.90	6.28
Change (%)		– 5.93	– 11.62

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

Table MOB-1
OVERALL CAP RATE TRENDS
National Medical Office Buildings Market

Quarter	Average	Change (Basis Points)
3Q11	8.10%	– 18
2Q11	8.28%	– 6
1Q11	8.34%	– 15
4Q10	8.49%	– 9
3Q10	8.58%	+ 5
2Q10	8.53%	– 25
1Q10	8.78%	– 13
4Q09	8.91%	0
3Q09	8.91%	+ 33
2Q09	8.58%	+ 57
1Q09	8.01%	—

Source: PwC Real Estate Investor Survey

National Lodging Highlights

THE FOLLOWING IS EXTRACTED FROM "HOSPITALITY DIRECTIONS US" DATED AUGUST 2011, PUBLISHED BY PWC.

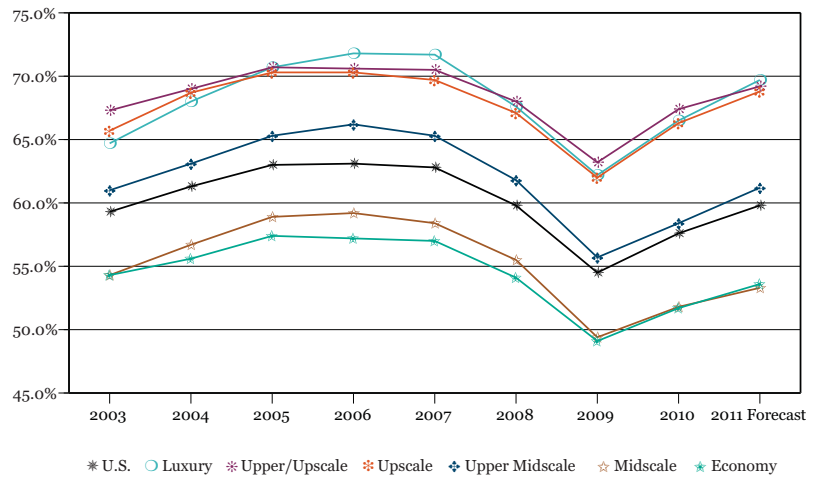
While the U.S. lodging sector continues to demonstrate recovery momentum, a resetting of the national economic outlook lowers expectations for the lodging sector's performance in the year ahead. Earlier this summer, it was believed that slower economic growth was explained by temporary factors, and that the U.S. economy would soon regain momentum. This view has been altered by recent events, including incoming data reflecting a faltering economy, the evolving European sovereign debt crisis, U.S. debt negotiations, and deteriorating financial conditions.

Even though the lodging sector's performance in the second quarter of 2011 slightly exceeded PwC's expectations, with occupancy and average daily rate (ADR) 4.5% and 3.5% ahead of prior year results, respectively, PwC's outlook now incorporates a substantial resetting of economic growth expectations for RevPAR growth for the remainder of 2011 and into 2012.

The reduced outlook for the lodging sector reflects the balanced consideration of weaker economic fundamentals on one hand, and solid year-to-date lodging trends on the other. The steady growth of lodging demand during recent months, even as the economy slowed, demonstrates the underlying momentum of the lodging recovery. In addition, recent occupancy gains, as well as indications that group business is gradually returning, provide a base for further recovery of lodging pricing. At the same time, supply growth remains suppressed.

PwC's lodging forecast anticipates RevPAR growth of 7.5% in 2011 and 6.2% in 2012. Growth in 2012 reflects a solid 5.1% increase in ADR, but a slowing of occupancy gains to 1.0%. Overall, 2012 RevPAR is expected to reach a level of 1.6% below the nominal peak achieved in 2007. These projections recognize the sensitivity of some aspects of travel to economic conditions, and perhaps more importantly in the current environment, the potential challenges to travel demand presented by economic uncertainty and wavering confidence.

Exhibit L-1
OCCUPANCY



Source: Smith Travel Research (2003 - 2010); PwC (2011 Forecast)

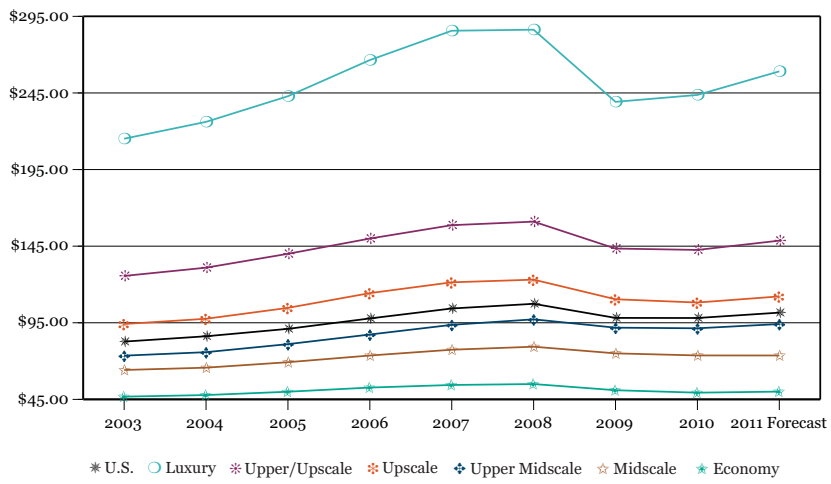
DEMAND

Slower economic growth in recent quarters, reduced business and consumer confidence, and greater uncertainty surrounding the economic outlook have reduced PwC's forecast of lodging recovery, but not reversed it. Aspects of travel closely linked to the economic cycle are expected to pull back while some trips will be shortened or cancelled. At the same time, however, travel driven by key corporate initiatives, growing business sectors, and the redemption of previously suspended activities is expected to continue to expand. Thus, statistics lean in favor of continued demand growth. Even so, this situation can change quickly.

The composition of lodging demand for the first half of 2011 shows that activity in the group segment has continued to trail the recovery of transient demand, though the gap is gradually closing. Year-to-date occupancy data through June for upper-tier hotels show that the occupancy level accounted for by the business group segment averaged 16.2% lower than in 2007. Meanwhile, the share of available rooms occupied by the business transient travelers during the first half of 2011 was only 0.8% below its 2007 level. The group segment continued to strengthen during the first half of 2011, but upper-tier hotels still have ground to cover to return to a mix of business that will help optimize profitability.

Exhibit L-2

AVERAGE DAILY RATE (ADR)



Source: Smith Travel Research (2003 - 2010); PwC (2011 Forecast)

Supply

Lodging supply growth remains suppressed. Though construction starts picked up in the first half of 2011 relative to 2010, the activity represents less than 1.0% of existing supply. This pace, combined with heightened economic uncertainty, is expected to result in limited new hotel openings through 2012. In perspective, the anticipated pace is equivalent to about 100 hotel rooms opening per day over the next six quarters – well below the approximate 300 hotel rooms per day experienced over the past five years.

Occupancy

Occupancy for the U.S. lodging industry was 59.2% for the first half of 2011, a 5.0% increase from the same period in 2010, according to Smith Travel Research (STR). Occupancy improved in each of STR's chain-scale segments over this time frame with the upper-midscale chain-scale segment posting the largest gain of 5.8%. The luxury segment was close behind with an occupancy increase of 5.7%. On the other hand, the upper-upscale segment reported the smallest gain at 2.8%.

Looking ahead on an annual basis, occupancy for the U.S. lodging industry is forecast to increase 3.8% in 2011. As shown in Exhibit L-1, occupancy increases are forecast for each chain-scale segment in 2011 with the luxury chain-scale segment leading with an increase of 4.8%.

Average Daily Rate (ADR)

ADR for the U.S. lodging industry was $100.54 for the first half of 2011, a 3.3% increase from the same period in 2010, as per STR. ADR grew in each chain-scale segment over this time period with the exception of the mid-scale segment. The luxury segment reported the highest year-over-year increase in ADR at 6.3%.

In the United States, the Pacific region, which includes the states of California, Oregon, Washington, Hawaii, and Alaska, reported the strongest growth in ADR during this time, rising 5.2%.

Looking ahead on an annual basis, ADR for the U.S. lodging industry is forecast to increase 3.6% in 2011. As shown in Exhibit L-2, ADR growth is forecast for each chain-scale segment in 2011 with the exception of the mid-scale segment, which is projected to see ADR hold relatively steady. With an increase of 6.3%, the luxury chain-scale segment is forecast to have the highest gain in ADR in 2011.

Investment Activity

Sales volume has surged for hotel assets recently, climbing 149.0% on a year-over-year basis in the second quarter of 2011. According to Real Capital Analytics, hotel trades totaled $8.7 billion for the first half of 2011 with transactions in the full-service sector ($7.0 billion) outpacing those in the limited-service category ($1.6 billion).

Coastal markets, including Manhattan, Los Angeles, Boston, and Miami, dominated the acquisition market for hotels in the first half of 2011. Specifically, hotel sales in Manhattan totaled $1.7 billion during the first six months of 2011. San Diego, which boasted the two largest hotel deals during the first half of 2011, was close behind with a sales volume total of $1.6 billion. The third-ranked city was Los Angeles with sales volume of $499.0 million.

Recent buyers in the market have mainly been REITs, such as Sunstone Hotel Investors, Pebblebrook Hotel Trust, and Apple REIT. However, a more eclectic group of bidders, such as equity funds and foreign buyers, are surfacing as they too look for opportunities in the lodging sector as prices rise in other commercial real estate segments, such as apartments. ✦

For more information on *Hospitality Directions US*, published by PwC Hospitality & Leisure, call Abhishek Jain at 646-471-2016 or email contact.hospitality@us.pwc.com.

National Full-Service Lodging Segment

DEFINITION: LODGING WITH RESTAURANTS AND LOUNGE FACILITIES, MEETING SPACE, AND A MINIMUM SERVICE AND AMENITIES LEVEL; MODERATE TO LOWER UPPER-TIER PRICING; CORRESPONDS TO STR'S FULL-SERVICE HOTELS IN THE UPSCALE, UPPER MIDSCALE, AND MIDSCALE CHAIN SCALES; INCLUDES BRANDS SUCH AS DOUBLETREE, RADISSON, AND RAMADA.

While RevPAR recovery in the upscale segment has been broadly similar to that of the U.S. average, many upscale hotels have achieved this feat by rebuilding occupancy at the expense of ADR. For 2011, occupancy for the upscale segment is estimated to be 1.9% ahead of the segment's ten-year average while real ADR is expected to be 9.1% below its trend. Overall, PwC forecasts occupancy for the upscale segment at 68.8% for 2011 while it forecast ADR to increase to $112.20 (see Table FSM-1).

In the upper-midscale sector, deciphering trends is more difficult this year due to the reclassification of a number of Best Western brands from midscale to upper midscale, which resulted in a 6.4% increase in room supply in this segment during the 12 months through June 2011. Since an increase in supply is expected to restrict ADR growth, PwC forecasts ADR growth of 3.0% for 2011 – well below the levels achieved in this segment during the peak of the expansion in 2005 (+6.9%) and 2006 (+7.7%).

Although various full-service hotel assets have traded thus far in 2011, some surveyed investors speculate that deal flow could decline substantially due to rising economic uncertainty and the sector's close ties to the performance of the economy. "If the economy starts to falter again, it could give investors a reason to pause," states a participant.

In reviewing Survey responses on whether buyers or sellers control pricing in this lodging segment, a mixed viewpoint emerges. Survey participants are evenly divided – 33.3% believe that buyers have the upper hand during negotiations; 33.3% feel that control rests with sellers; and 33.3% sense that the market is neutral, equally favoring buyers and sellers. ✦

Table FSM-1

LODGING FORECASTS

Segment	2011	Annual Change
Upscale		
Occupancy	68.8%	+ 3.7%
ADR	$112.20	+ 3.7%
Nominal RevPAR	$77.17	+ 7.6%
Upper Midscale		
Occupancy	61.2%	+ 4.7%
ADR	$94.17	+ 3.0%
Nominal RevPAR	$57.60	+ 7.9%

Source: *Hospitality Directions US, August 2011;* published by PwC

Table 30

NATIONAL FULL-SERVICE LODGING SEGMENT

Third Quarter 2011

	CURRENT	1Q2011	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00% – 12.00%	9.50% – 12.00%	9.00% – 16.00%
Average	10.75%	10.95%	12.15%
Change (Basis Points)		– 20	– 140
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 10.00%	7.50% – 10.00%	6.00% – 14.00%
Average	7.96%	8.79%	9.50%
Change (Basis Points)		– 83	– 154
RESIDUAL CAP RATE			
Range	6.00% – 12.00%	8.00% – 12.00%	7.00% – 12.00%
Average	9.13%	9.79%	9.89%
Change (Basis Points)		– 66	– 76
AVERAGE DAILY RATE[b]			
Range	(1.00%) – 8.00%	(1.00%) – 8.00%	(5.00%) – 5.00%
Average	3.33%	2.58%	0.75%
Change (Basis Points)		+ 75	+ 258
OPERATING EXPENSES[b]			
Range	1.00% – 4.50%	1.00% – 4.00%	0.00% – 4.00%
Average	2.88%	2.71%	2.28%
Change (Basis Points)		+ 17	+ 60
MARKETING TIME[c]			
Range	2.00 – 24.00	2.00 – 24.00	2.00 – 24.00
Average	8.80	9.17	7.63
Change (%)		– 4.03	+ 15.33

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

National Limited-Service Midscale & Economy Lodging Segment

DEFINITION: MIDSCALE LODGING WITH "ROOMS ONLY" AND NO FOOD OR BEVERAGE EXCEPT POSSIBLE CONTINENTAL BREAKFAST; INCLUDES ALL ECONOMY LODGING; LOWER-TIER PRICING; CORRESPONDS TO STR'S LIMITED-SERVICE HOTELS IN THE MIDSCALE CHAIN SCALE AND ALL HOTELS IN THE ECONOMY CHAIN SCALE; INCLUDES BRANDS SUCH AS HOWARD JOHNSON, SLEEP INN, AND MOTEL 6.

Occupancy and ADR levels in the midscale lodging segment were negatively impacted during the recession and have not recovered to the same degree as the broader industry. Even though year-over-year comparisons in the midscale segment are impacted by the reclassification of Best Western properties, PwC forecasts gradual growth for this segment's occupancy and ADR through 2012 (see Table ELM-1).

In 2011, PwC forecasts ADR to hold steady and occupancy to increase 2.9% in the midscale segment. Even though PwC forecasts a slowdown in occupancy growth in the midscale segment in 2012, a rebound in ADR growth will help to grow RevPAR by 4.1% – the highest annual growth rate for this segment since 2006.

In the economy segment, RevPAR performance continues to trace a weaker-than-average path due to suppressed pricing. In 2011, PwC forecasts RevPAR for the economy segment to be 16.8% below the segment's ten-year average. By comparison, RevPAR for the U.S. lodging industry is forecast to trend 5.9% below its ten-year average in 2011.

While a majority of Survey participants feel that market conditions currently favor buyers, too much uncertainty is steering investors away from this lodging class. The challenges facing this lodging segment are reflected in its average overall capitalization (cap) rate, which at 9.80% is the highest of the four lodging segments in the Survey. Looking ahead over the next six months, most Survey participants expect overall cap rates in this market to either hold steady or decrease as much as 50 basis points. ✦

Table 31
NATIONAL LIMITED-SERVICE MIDSCALE & ECONOMY LODGING SEGMENT
Third Quarter 2011

	CURRENT	1Q2011	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.00% – 14.00%	10.00% – 14.00%	10.00% – 14.00%
Average	11.38%	11.94%	12.31%
Change (Basis Points)		– 56	– 93
OVERALL CAP RATE (OAR)[a]			
Range	8.00% – 12.00%	8.00% – 12.00%	8.00% – 12.00%
Average	9.80%	9.80%	10.20%
Change (Basis Points)		0	– 40
RESIDUAL CAP RATE			
Range	8.50% – 12.00%	8.50% – 12.00%	9.00% – 12.00%
Average	10.00%	10.00%	10.43%
Change (Basis Points)		0	– 43
AVERAGE DAILY RATE[b]			
Range	(3.00%) – 8.00%	(3.00%) – 7.00%	(4.00%) – 3.00%
Average	3.20%	2.60%	(0.25%)
Change (Basis Points)		+ 60	+ 345
OPERATING EXPENSES[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	1.00% – 3.00%
Average	2.70%	2.70%	2.55%
Change (Basis Points)		0	+ 15
MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	4.00 – 12.00
Average	7.90	7.90	7.60
Change (%)		0	+ 3.95

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

Table ELM-1
LODGING FORECASTS

Segment	2011	Annual Change
Midscale		
Occupancy	53.3%	+ 2.9%
ADR	$73.65	0.0%
Nominal RevPAR	$39.24	+ 2.9%
Economy		
Occupancy	53.6%	+ 3.6%
ADR	$50.07	+ 1.4%
Nominal RevPAR	$26.82	+ 5.1%

Source: *Hospitality Directions US, August 2011;* published by PwC

National Luxury/Upper-Upscale Lodging Segment

DEFINITION: HIGH-QUALITY LODGING OFFERING PERSONALIZED GUEST SERVICES, TYPICALLY WITH EXTENSIVE AMENITIES, AND UPPER-TIER PRICING; CORRESPONDS TO STR'S LUXURY AND UPPER-UPSCALE CHAIN SCALES; INCLUDES BRANDS SUCH AS RITZ CARLTON, FOUR SEASONS, MARRIOTT, SHERATON, AND HYATT.

The solid pace of RevPAR recovery in the luxury segment continued in the second quarter of 2011 allowing this chain-scale segment to post a 12.3% year-over-year RevPAR increase during the first half of 2011, according to STR. Although the performance of the luxury segment fell dramatically from September 2008 to March 2009 (a 28.2% RevPAR decline over seven months), luxury hotels have recovered lost RevPAR quickly. In fact, the luxury segment is now operating at a level closer to the segment's long-term average real RevPAR than both the upper-upscale or upscale segments.

As rate gains have exceeded expectations in the luxury segment, an improved outlook has emerged for 2011. As shown in Table LUM-1, ADR for the luxury segment is forecast to increase 6.3% in 2011. By comparison, ADR is forecast to increase 4.2% for the upper-upscale segment. A key weakness for the upper-upscale segment has been its transient ADR, which was 10.3% below its 2007 level during the first half of 2011 – compared to 1.4% below at hotels outside of the upper-tier category.

While still challenged, the improvements already noted and forecast for this lodging segment continue to lure investment capital. Most investors, however, are being very particular with regard to purchases, paying close attention to both performance and location. "Markets with strong economies and diverse lodging demand from both business and leisure travelers are piquing investor interest," remarks an investor. Cities where luxury hotels have traded recently include Denver, where a 613-room Marriott sold; Washington, DC, where an 888-room Grand Hyatt sold; and Napa Valley, where a 275-room Marriott resort sold. ✦

Table LUM-1

LODGING FORECASTS

Segment	2011	Annual Change
Luxury		
Occupancy	69.7%	+ 4.8%
ADR	$259.09	+ 6.3%
Nominal RevPAR	$180.59	+ 11.5%
Upper Upscale		
Occupancy	69.2%	+ 2.6%
ADR	$148.60	+ 4.2%
Nominal RevPAR	$102.82	+ 7.0%

Source: *Hospitality Directions US, August 2011;* published by PwC

Table 32

NATIONAL LUXURY/UPPER-UPSCALE LODGING SEGMENT

Third Quarter 2011

	CURRENT	1Q2011	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00% – 14.00%	8.00% – 14.00%	8.00% – 18.00%
Average	10.56%	10.58%	11.41%
Change (Basis Points)		– 2	– 85
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 10.00%	5.00% – 11.00%	6.00% – 13.00%
Average	8.05%	8.28%	9.00%
Change (Basis Points)		– 23	– 95
RESIDUAL CAP RATE			
Range	6.00% – 12.00%	6.00% – 12.00%	6.00% – 12.00%
Average	8.88%	9.05%	9.45%
Change (Basis Points)		– 17	– 57
AVERAGE DAILY RATE[b]			
Range	(2.00%) – 20.00%	(2.00%) – 20.00%	(3.00%) – 20.00%
Average	4.95%	4.55%	3.69%
Change (Basis Points)		+ 40	+ 126
OPERATING EXPENSES[b]			
Range	0.00% – 6.00%	0.00% – 6.00%	0.00% – 6.00%
Average	2.80%	2.85%	2.81%
Change (Basis Points)		– 5	– 1
MARKETING TIME[c]			
Range	2.00 – 20.00	2.00 – 20.00	2.00 – 20.00
Average	7.35	7.70	8.50
Change (%)		– 4.55	– 13.53

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

National Select-Service Lodging Segment

DEFINITION: UPSCALE AND UPPER-MIDSCALE LODGING WITH "ROOMS ONLY" AND NO FOOD OR BEVERAGE EXCEPT POSSIBLE BREAKFAST; MODERATE PRICING; EXCLUDES ECONOMY PROPERTIES; CORRESPONDS TO STR'S SELECT-SERVICE HOTELS IN THE UPSCALE CHAIN SCALE AND LIMITED-SERVICE HOTELS IN THE UPPER-MIDSCALE CHAIN SCALE; INCLUDES BRANDS SUCH AS HAMPTON INN, RESIDENCE INN, AND COMFORT INN.

As demand growth has returned to the select-service lodging market, investor interest has intensified with buyers targeting both single assets and portfolio deals. In one recent off-market sale, Noble Investment Group acquired the Residence Inn Midtown Atlanta 17th Street, located near the city's urban commercial and cultural core. While the purchase price was not disclosed, the local buyer is expected to renovate this 160-suite hotel in the coming months.

In a multiproperty sale, Hersha Hospitality Trust sold 18 hotel assets, mainly consisting of Residence Inns and Hampton Inns, to an affiliate of Starwood Capital Group for an aggregate purchase price of $155.0 million, or about $80,560 per room. The hotels range in size from 72 rooms to 150 rooms and are located throughout the East Coast – six in Pennsylvania, six in Connecticut, two in Virginia, and one in each of New Jersey, Massachusetts, North Carolina, and Maryland.

Hersha sold this portfolio as part of its "noncore disposition program" aimed at realigning its portfolio towards urban gateway markets with higher growth opportunities. The sale price was based on trailing 12-months income and a reported overall capitalization (cap) rate of 8.4%. This rate matches the average reported in our Survey this quarter by our investor participants (see Table 33).

Over the next 12 months, all of our Survey participants in the select-service lodging segment expect property values to rise. Expectations range up to 40.0% and average 11.7% for this segment – the highest expected value appreciation of the four lodging segments in the Survey (see Table SSL-1). ✦

Table 33
NATIONAL SELECT-SERVICE LODGING SEGMENT
Third Quarter 2011

	CURRENT	1Q2011
DISCOUNT RATE (IRR)[a]		
Range	10.00% – 15.00%	10.00% – 15.00%
Average	11.55%	11.55%
Change (Basis Points)		0
OVERALL CAP RATE (OAR)[a]		
Range	5.00% – 12.00%	5.00% – 12.00%
Average	8.40%	8.40%
Change (Basis Points)		0
RESIDUAL CAP RATE		
Range	6.00% – 12.00%	6.00% – 12.00%
Average	9.00%	10.05%
Change (Basis Points)		– 105
AVERAGE DAILY RATE[b]		
Range	0.00% – 10.00%	0.00% – 10.00%
Average	5.40%	5.00%
Change (Basis Points)		+ 40
OPERATING EXPENSES[b]		
Range	1.00% – 3.00%	1.00% – 3.00%
Average	2.50%	2.50%
Change (Basis Points)		0
MARKETING TIME[c]		
Range	2.00 – 12.00	2.00 – 12.00
Average	6.70	6.70
Change (%)		0

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

Table SSL-1
EXPECTED VALUE CHANGE*
Survey Lodging Markets

Segment	Range	Average
Full Service	(10.0%) to 30.0%	3.9%
Limited-Service Midscale & Economy	(2.0%) to 30.0%	5.9%
Luxury/Upper Upscale	0.0% to 25.0%	6.4%
Select Service	0.0% to 40.0%	11.7%

* Over the next 12 months
Source: PwC Real Estate Investor Survey

NATIONAL REGIONAL MALL MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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
PUBLIC REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	1.0% to 2.0%	1.0%	3.0%	6.00% to 8.00%	1.0%	7.75% to 10.00%	6.00% to 8.00%	6	75.0%	4.0% (Class A); 10.0% (Class B)	Does not use	4
INVESTMENT BANKER ✦ Forecast Period: 10 years Relies on DCF and direct capitalization; does extensive sensitivity analysis on residual cap rates, growth rates, and initial market rents; retail sales based on historical and market analysis; typical sales growth per market per year is at the inflation rate (CPI); analysis of TIs is an important cash flow forecast item.	3.0%	3.0%	3.0%	5.75% to 11.00%	1.5%	7.00% to 12.00%	5.50% to 11.00%	6 to 12	65.0% to 75.0%	7.5% to 10.0%	$0.25 to $0.50	3 to 9
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; no longer uses rent spikes.	2.0%	3.0%	3.0%	6.00% to 12.00%	0.5%	8.00% to 12.00%	5.00% to 11.00%	4 to 6	75.0% to 80.0%	4.0% to 5.0%	$0.20	6 to 12
PUBLIC C CORP ✦ Forecast Period: 7 to 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; free rent is no longer awarded.	1.0% to 2.0%	2.0% to 3.0%	2.0% to 3.0%	6.50% to 9.00%	1.0% to 3.0%	9.25% to 12.00%	6.25% to 8.50%	3 to 9	70.0% to 75.0%	5.0% to 7.0%	$0.25 to $0.50	3 to 6
INVESTMENT BANKER ✦ Forecast Period: 7 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 2.0%	0.0% to 2.0%	2.0% to 3.5%	6.25% to 12.00%	1.0%	8.75% to 14.00%	5.75% to 10.00%	6 to 10	60.0% to 75.0%	3.0% to 9.0%	$0.25	4 to 10
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses mainly DCF analysis; 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%) to 3.0%	2.0% to 4.0%	1.0% to 3.0%	5.25% to 8.75%	0.5% to 2.5%	5.25% to 8.75%	4.75% to 8.25%	3 to 20	50.0% to 75.0%	5.0% to 10.0%	$0.20 to $0.50	6 to 12

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL POWER CENTER MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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: 3 to 6 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% Year 1; 1.0% to 2.0% Year 2; 2.0% Year 3	3.0%	2.0% to 3.0%	7.00% to 9.00%	1.5% to 2.5%	8.00% to 12.00%	7.00% to 9.50%	9 to 12	60.0% to 75.0%	5.0% to 10.0%	$0.10 to $0.25	9 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses 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% Year 1; 1.0% to 2.0% Year 2; 3.0% Year 3	3.0%	3.0%	7.25% to 8.50%	1.0% to 2.0%	7.50% to 8.75%	7.00% to 8.50%	6 to 12	65.0% to 75.0%	8.0% to 10.0%	Does not use	12
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Primarily interested in high-credit deals; uses both DCF and direct capitalization but focuses on IRR; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	0.0% to 2.0%	2.0% to 3.0%	2.5% to 3.0%	7.00% to 7.50%	1.5% to 2.0%	7.50% to 8.50%	6.50% to 7.00%	9 to 12	60.0% to 65.0%	5.0% to 8.0%	$0.20 to $0.30	3 to 9
INVESTMENT BANKER ✦ Forecast Period: 5 to 10 years Considers power center investments "coupon clipper" deals; uses both DCF and direct capitalization; prefers urban areas with easy access and good anchor tenancy; credit is key; uses a rent spike of 5.0% in year 5.	0.0% to 3.0% Years 1 & 2	2.0% to 3.0%	1.0% to 3.0%	9.00%	2.0%	8.00% to 11.00%	6.50% to 8.00%	6 to 10	60.0% to 75.0%	5.0% to 10.0%	$0.10 to $0.20	6 to 9
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; may use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0% Year 1; 1.5% to 3.0% Year 2	3.0%	3.0%	6.50% to 8.00%	1.0% to 2.0%	7.00% to 9.00%	6.00% to 9.00%	6 to 10	65.0% to 75.0%	5.0% to 10.0%	$0.20 to $0.40	3 to 6

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL STRIP SHOPPING CENTER MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 INVESTOR ✦ Forecast Period: 10 years Relies on direct capitalization; shifting away from DCF; uses effective rents; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	0.0% to 2.0%	3.0% to 4.0%	2.0% to 3.0%	8.00% to 9.00%	3.0%	9.00% to 10.00%	8.00% to 9.00%	6 to 12	70.0%	5.0% to 20.0%	$1.00 to $2.00	2 to 6
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; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	3.0%	3.0%	3.0%	7.00% to 10.00%	2.0% to 3.0%	8.00% to 10.00%	6.50% to 9.00%	6 to 12	60.0% to 70.0%	7.5% to 12.5%	$0.15 to $0.30	4 to 10
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 face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	2.5% to 3.0%	2.5% to 3.0%	6.00% to 7.00%	2.0% to 2.5%	7.00% to 7.50%	5.50% to 6.50%	6 to 9	60.0% to 65.0%	5.0% to 10.0%	$0.15 to $0.25	3 to 6
INVESTMENT BANKER ✦ Forecast Period: 7 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 2.0%	2.0% to 3.0%	2.0% to 3.0%	7.00% to 10.00%	0.5% to 1.5%	8.75% to 12.00%	6.25% to 9.25%	6 to 10	55.0% to 75.0%	3.0% to 8.0%	$0.25	4 to 9
REIT ✦ Forecast Period: 10 years Primarily uses direct capitalization in valuing assets; also uses yield capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	1.0% to 3.0%	3.0%	3.0% to 4.0%	7.50% to 8.50%	3.0% to 5.0%	8.00% to 8.50%	6.00% to 8.50%	12 to 18	67.0% to 75.0%	3.0% to 7.0%	$0.15 to $0.25	3 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.	0.0% to 3.0%	3.0%	3.0%	6.50% to 9.00%	1.0% to 3.0%	7.00% to 9.50%	5.50% to 7.50%	6 to 12	60.0% to 75.0%	1.0% to 5.0%	$0.10 to $0.25	6 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses 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%	6.50% to 8.00%	1.0% to 3.0%	7.00% to 8.00%	6.25% to 7.25%	6	65.0% to 75.0%	6.0% to 8.0%	$0.10 to $0.20	12

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL CBD OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 mainly DCF analysis; in direct cap, capitalizes NOI before tenant improvements, leasing commissions, and capital replacement reserve; does not use rent spikes.	(4.0%) to 6.0%	2.0% to 4.0%	1.0% to 3.0%	5.25% to 10.50%	0.5% to 2.5%	5.25% to 10.50%	4.75% to 10.00%	3 to 20	50.0% to 75.0%	5.0% to 10.0%	$0.20 to $0.50	6 to 12
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.	3.0%	3.0%	3.0%	6.50% to 9.00%	1.5% to 2.5%	7.50% to 10.00%	6.00% to 9.00%	6 to 12	60.0% to 75.0%	7.5% to 12.5%	$0.20 to $0.50	6 to 10
PUBLIC REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 10.0% in years 3 and 4.	1.0% to 5.0%	2.0% to 3.0%	2.0% to 3.0%	6.50% to 8.50%	1.0%	6.50% to 9.00%	5.50% to 8.00%	6 to 12	60.0% to 70.0%	5.0% to 8.0%	Does not use	2 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses 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; uses a rent spike of 5.0% in years 3 and 4.	0.0%	3.0%	3.0%	6.00% to 7.00%	1.0% to 2.0%	7.00% to 7.75%	5.50% to 6.75%	6 to 9	65.0% to 75.0%	10.0%	$0.20 to $0.30	12
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 5 to 10 years Uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that overall cap rates will hold steady over the next six months.	0.0% to 2.0%	2.0% to 3.0%	2.0% to 3.0%	7.25% to 8.25%	2.0% to 2.5%	9.00% to 10.00%	7.00% to 8.25%	6 to 12	60.0% to 75.0%	5.0% to 9.0%	$0.20 to $0.25	6 to 8
PUBLIC C CORP ✦ Forecast Period: 5 to 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; no longer uses a rent spike.	1.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	5.50% to 7.50%	1.0% to 3.0%	9.00% to 11.00%	5.50% to 7.00%	3 to 6	70.0% to 75.0%	5.0% to 7.0%	$0.25 to $0.50	3 to 6
REIT ✦ Forecast Period: 7 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	(1.0%) to 3.0%	2.0% to 3.0%	2.0% to 3.0%	6.50% to 9.00%	1.0%	9.00% to 10.50%	6.50% to 9.00%	7 to 12	70.0% to 75.0%	5.0% to 10.0%	$0.15 to $0.60	3 to 6

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL SUBURBAN OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 7 years Uses DCF and face rents; prefers 24-hour cities across the country; uses a rent spike of 5.0% in year 3 and 6.0% in year 4; uses effective rents in DCF analysis.	1.0% to 3.0%	3.0%	2.5% to 3.0%	6.50% to 7.25%	1.0%	6.75% to 7.50%	5.50% to 7.00%	6 to 14	60.0%	2.0%	$0.15 to $0.25	6 to 12
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; does not use rent spikes.	3.0%	3.0%	3.0%	7.00% to 9.00%	2.0%	8.00% to 10.00%	7.00% to 9.00%	6 to 12	60.0% to 70.0%	7.5% to 12.5%	$0.15 to $0.25	6 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% to 7.0% in year 4.	0.0% to 3.0%	3.0%	3.0%	6.50% to 8.25%	1.0% to 4.0%	7.75% to 9.25%	6.00% to 8.00%	6 to 12	50.0% to 70.0%	3.0% to 8.0%	$0.25 to $0.50	6 to 18
PUBLIC REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; prefers coastal markets.	0.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	7.00% to 9.00%	1.0%	7.00% to 9.00%	6.00% to 9.00%	9 to 12	55.0% to 70.0%	5.0% to 9.0%	Does not use	2 to 6
PRIVATE EQUITY INVESTOR ✦ 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; uses a rent spike of 4.0% in year 3 and 5.0% in year 4.	2.0% to 3.0%	3.0%	3.0%	7.50% to 8.50%	2.0% to 3.0%	8.00% to 9.50%	8.00% to 9.00%	9	65.0% to 75.0%	6.0%	$0.20 to $0.30	3 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.	0.0% to 3.0%	3.0%	3.0%	7.00% to 8.00%	1.0% to 3.0%	7.50% to 9.00%	5.50% to 8.00%	6 to 15	65.0% to 75.0%	0.0% to 3.0%	$0.10 to $0.25	6 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses mainly DCF analysis; in direct cap, capitalizes NOI before tenant improvements, leasing commissions, and capital replacement reserve; does not use rent spikes.	(4.0%) to 4.0%	2.0% to 4.0%	1.0% to 3.0%	5.75% to 10.50%	0.5% to 2.5%	5.75% to 10.50%	5.25% to 10.00%	3 to 20	50.0% to 75.0%	5.0% to 10.0%	$0.20 to $0.50	6 to 12

Source: Personal survey conducted by PwC during July 2011.

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ATLANTA OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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: 5 to 7 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.	1.0% to 2.0% Years 1 & 2	2.0% to 3.0%		7.00% to 8.00% (CBD); 7.50% to 8.50% (suburbs)	1.0% to 1.5%	8.00% to 9.50% (CBD); 8.50% to 10.00% (suburbs)	7.20% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	6 to 9	65.0% to 70.0%	8.0% to 10.0%	$0.15 to $0.25	3 to 4
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 after capital replacement reserve but before TIs and leasing commissions.	0.0%	3.0%	2.5% to 3.0%	8.50% to 9.50% (CBD); 9.00% to 10.00% (suburbs)	3.0% to 4.0%	8.50% to 10.00% (CBD); 8.75% to 10.75% (suburbs)	7.75% to 9.00% (CBD); 8.25% to 9.25% (suburbs)	8 to 12	50.0% to 60.0%	10.0%	$0.20 to $0.25	10 to 12
INVESTMENT BANKER ✦ Forecast Period: 5 to 10 years Prefers DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 4.5% in year 3, 5.0% in year 4, and 4.0% in year 5.	0.0% to 1.0%	1.0% to 1.5%	1.0% to 2.0%	7.50% to 9.50% in both CBD & suburbs	1.0% to 3.0%	8.50% to 11.00% (CBD); 9.00% to 12.00% (suburbs)	7.00% to 9.00% (CBD); 7.25% to 9.50% (suburbs)	6 to 9	65.0% to 75.0%	5.0% to 7.0%	$0.10 to $0.25	2 to 5
LIFE INSURANCE COMPANY ✦ Forecast Period: 4 to 7 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% Years 1 & 2	0.0% to 3.0%	1.0% to 3.0%	7.00% to 10.00% (CBD); 8.00% to 10.00% (suburbs)	1.0% to 2.0%	8.00% to 10.00% (CBD); 8.50% to 11.00% (suburbs)	7.00% to 9.00% in both CBD & suburbs	5 to 10	50.0% to 70.0%	5.0% to 10.0%	$0.25 to $0.75	4 to 7
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; 0.0% to 2.0% Year 2	3.0%	3.0%	8.00% to 9.00% in both CBD & suburbs	1.0% to 2.0%	7.75% to 9.25% (CBD); 8.25% to 9.25% (suburbs)	8.00% to 9.00% (CBD); 8.25% to 9.25% (suburbs)	9 to 12	65.0%	7.0% to 10.0%	$0.15 to $0.25	9 to 12

Source: Personal survey conducted by PwC during July 2011.

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BOSTON OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	3.0% to 5.0%	3.0%	3.0%	7.00% to 8.50% (CBD); 7.25% to 8.75% (suburbs)	2.0% to 3.0%	7.25% to 8.50% (CBD); 7.75% to 9.00% (suburbs)	6.00% to 7.50% (CBD); 6.50% to 8.25% (suburbs)	6 to 8	65.0%	4.0% to 6.0%	$0.20 to $0.25	10 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 3 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 1.0%	3.0% to 4.5%	3.0% to 5.0%	7.00% to 9.50% (CBD); 8.00% to 12.00% (suburbs)	1.0% to 2.0%	9.00% to 12.00% (CBD); 10.00% to 14.00% (suburbs)	7.00% to 9.50% (CBD); 8.00% to 12.00% (suburbs)	6 to 24	40.0% to 70.0%	4.0% to 5.0%	$0.15 to $0.50	2 to 12
VALUE-ADD INVESTOR ✦ Forecast Period: 3 to 5 years Uses DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% Year 1; 0.0% to 3.0% Year 2	0.0% to 3.0%	3.0%	6.50% to 10.50% (CBD); 7.00% to 10.50% (suburbs)	2.5%	9.00% to 12.00% (CBD); 10.00% to 15.00% (suburbs)	7.50% to 10.50% (CBD); 8.00% to 11.00% (suburbs)	9 to 12	65.0%	6.0%	$0.15 to $0.25	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; uses face rents and reflects concessions when they are scheduled to occur; uses a minor rent spike in certain instances.	0.0% Year 1; 0.0% to 4.0% Year 2	3.0%	3.0%	7.00% to 8.50% (CBD); 7.50% to 9.00% (suburbs)	1.5%	8.00% to 10.00% in both CBD & suburbs	7.00% to 8.00% (CBD); 8.00% to 10.00% (suburbs)	9 to 12	65.0% to 75.0%	5.0% to 10.0%	$0.20 to $0.40	3 to 6
PRIVATE EQUITY INVESTOR ✦ 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 4.0% in year 3.	0.0%	Up to 3.0%	3.0%	7.00% to 7.50% (CBD); 7.50% to 7.75% (suburbs)	2.0%	8.00% to 8.25% (CBD); 8.50% to 8.75% (suburbs)	7.00% (CBD); 7.25% to 7.50% (suburbs)	6 to 9	65.0%	5.0%	$0.15	6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses mainly direct capitalization; major focus is on the initial cash-on-cash return; typically extends forecast period to capture impact of all lease expirations; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	Up to 3.0%	Up to 3.0%	6.00% to 6.50% (CBD); 9.00% to 10.00% (suburbs)	1.3%	8.00% to 8.25% (CBD); 10.00% to 11.00% (suburbs)	5.75% to 6.00% (CBD); 8.50% to 9.25% (suburbs)	7 to 8	70.0%	4.0%	Does not use	4 to 6

Source: Personal survey conducted by PwC during July 2011.

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CHARLOTTE OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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: 8 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; expects overall cap rates to hold steady over the next six months.	0.0%	3.0%	1.0% to 3.0%	7.50% to 9.00% in both CBD & suburbs	1.0% to 1.5%	8.00% to 9.00% in both CBD & suburbs	7.50% to 8.75% (CBD); 7.50% to 9.00% (suburbs)	6 to 12	65.0%	7.0% to 15.0%	$0.10 to $0.25	6 to 12
REIT ✦ Forecast Period: 7 to 10 years Uses all three approaches to value; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects overall cap rates to decrease up to 25 basis points over the next six months.	0.0% to 2.0%	2.5% to 3.0%	2.5% to 3.0%	7.50% to 9.00% in both CBD & suburbs	1.0%	9.00% to 10.50% in both CBD & suburbs	6.50% to 8.50% (CBD); 7.50% to 9.50% (suburbs)	6 to 12	70.0% to 75.0%	5.0% to 7.0%	$0.15 to $0.60	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 5 years Mainly uses DCF analysis, sales comparison approach, and cost approach; 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; does not use rent spikes.	0.0%	2.0%	2.0%	9.00% to 10.00% in both CBD & suburbs	1.0% to 1.5%	8.00% to 10.00% in both CBD & suburbs	8.00% to 9.00% (CBD); 8.50% to 9.50% (suburbs)	8	60.0%	10.0%	$0.15 to $0.25	6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 5 to 10 years Mainly uses DCF analysis and sales comparison approach; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; prefers the CBD; does not use rent spikes.	2.0% to 3.0%	2.5% to 3.0%		7.00% to 7.50% (CBD); 7.75% to 8.50% (suburbs)	1.0% to 1.5%	8.00% to 8.75% (CBD); 9.00% to 10.00% (suburbs)	7.00% to 7.50% (CBD); 8.00% to 9.00% (suburbs)	7 to 9	65.0% to 75.0%	5.0% to 8.0%	$0.15 to $0.25	2 to 4
VALUE-ADDED INVESTOR ✦ Forecast Period: 5 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; may use rent spikes; expects overall cap rates to decrease 25 to 75 basis points over the next six months.	0.0% to 2.0%	3.0%		7.75% to 8.25% (CBD); 8.50% to 9.50% (suburbs)	1.5% to 2.0%	10.00% to 10.50% (CBD); 11.00% to 12.00% (suburbs)	7.75% to 8.00% (CBD); 9.00% to 9.50% (suburbs)	9 to 12	65.0% to 70.0%	10.0%	$0.15	6 to 8
PRIVATE EQUITY FIRM ✦ Forecast Period: 3 to 5 years Mainly uses DCF analysis; in direct capitalization, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions are neutral.	0.0%	3.0%	3.0%	9.00% to 10.00% (CBD); 10.00% (suburbs)	2.0%	10.00% (CBD)	9.00% to 10.00% (CBD)	18 to 24	70.0%	12.0% to 14.0%	$0.20	6 to 9

Source: Personal survey conducted by PwC during July 2011.

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CHICAGO OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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: 5 to 10 years Relies mainly on DCF analysis; also uses 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; uses a rent spike of 5.0% in years 3 and 4.	0.0%	3.0%	2.5% to 3.0%	7.00% to 9.00% (CBD); 7.50% to 9.50% (suburbs)	2.0% to 3.0%	7.50% to 8.50% (CBD); 8.00% to 9.50% (suburbs)	6.50% to 10.00% (CBD); 7.50% to 10.50% (suburbs)	9 to 12	60.0% to 67.0%	10.0% to 15.0%	$0.25 to $0.50	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.	0.0%	2.0% to 3.0%	2.0%	6.50% to 9.00% (CBD); 7.00% to 9.50% (suburbs)	1.5% to 2.3%	8.00% to 10.50% (CBD); 9.50% to 12.00% (suburbs)	6.50% to 9.00% (CBD); 7.50% to 10.00% (suburbs)	9 to 12	60.0% to 70.0%	10.0% to 12.0%	$0.25 to $0.50	4 to 6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses mainly direct capitalization; major focus is on the initial cash-on-cash return; typically extends forecast period to capture impact of all lease expirations; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	(10.0%) to 0.0%	3.0%	3.0%	7.00% to 7.50% (CBD); 10.00% to 11.00% (suburbs)	1.5%	8.50% to 9.00% (CBD); 11.00% to 12.00% (suburbs)	7.00% (CBD); 10.00% to 11.00% (suburbs)	10	75.0% to 85.0%	8.0%	Does not use	4 to 8
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 3 to 7 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents; uses a rent spike of 5.0% in years 2 through 4.	3.0%	3.0%	2.0% to 2.5%	7.00% to 8.00% (CBD); 8.50% to 10.00% (suburbs)	1.0% to 3.0%	7.00% to 10.00% (CBD); 8.00% to 11.00% (suburbs)	6.00% to 7.50% (CBD); 8.00% to 10.00% (suburbs)	6 to 9	70.0%	7.0% to 10.0%	$0.15 to $0.25	3 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0%	3.0%	3.0%	6.50% to 7.50% (CBD); 8.00% to 9.50% (suburbs)	0.3% to 1.0%	6.50% to 8.00% (CBD); 8.50% to 10.00% (suburbs)	5.75% to 6.50% (CBD); 8.00% to 10.00% (suburbs)	6 to 12	65.0% to 70.0%	5.0% to 8.0%	$0.15 to $0.25	6 to 12
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 7 to 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	1.0% to 2.0%	3.0%	3.0%	7.50% to 8.50% (CBD)	2.0%	9.00% to 10.00% (CBD)	7.00% to 8.00% (CBD)	8 to 12	60.0% to 75.0%	7.0% to 10.0%	$0.20 to $0.25	6 to 9

Source: Personal survey conducted by PwC during July 2011.

pwc

DALLAS OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization and sales comparison approach; uses effective rents; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 3.0%	2.0% to 3.0%	3.0% to 6.0%	8.00% to 10.00% (CBD); 7.25% to 8.50% (suburbs)	0.5%	8.00% to 9.00% in both CBD & suburbs	7.00% to 8.50% in both CBD & suburbs	6 to 8	65.0% to 70.0%	5.0% to 8.0%	$0.25	3 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 5 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that this market is neutral, equally favoring sellers and buyers.	0.0% to 3.0%	3.0%	3.0%	8.50% to 9.00% (CBD); 8.75% to 9.00% (suburbs)	2.0% to 3.0%	8.50% to 9.00% (CBD); 10.50% to 11.00% (suburbs)	7.75% to 8.00% (CBD); 8.00% to 8.75% (suburbs)	9 to 12	70.0%	5.0%	$0.25 to $0.35	3 to 5
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	7.25% to 8.75% (CBD); 7.75% to 9.00% (suburbs)	2.0% to 3.0%	7.50% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	6.25% to 8.00% (CBD); 6.75% to 8.00% (suburbs)	6 to 8	65.0%	8.0% to 10.0%	$0.20 to $0.25	10 to 12
PENSION FUND 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; uses face rents and reflects concessions when they are scheduled to occur.	3.0% to 5.0%	3.0%	3.0%	7.50% to 8.00% (CBD); 7.75% (suburbs)	1.5% to 2.0%	8.25% to 9.75% (CBD); 8.25% to 8.75% (suburbs)	7.00% to 8.50% (CBD); 7.00% to 11.00% (suburbs)	8 to 12	70.0%	4.0% to 8.5%	$0.15	
PRIVATE INVESTOR ✦ Forecast Period: 3 to 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 2.0%	1.0% to 2.0%	2.0% to 3.0%	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	1.5% to 2.0%	8.00% to 10.00% (CBD); 10.00% to 12.00% (suburbs)	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	3 to 6	60.0% to 75.0%	3.0% to 7.0%	$0.15 to $0.25	3 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 4 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.	0.0%	3.0%	3.0%	8.00% to 10.00% in both CBD & suburbs	1.0% to 2.0%	8.00% to 11.00%(CBD); 8.00% to 10.00% (suburbs)	7.00% to 10.00% (CBD); 8.00% to 10.00% (suburbs)	4 to 9	50.0% to 65.0%	6.0% to 10.0%	$0.25 to $0.50	4 to 6

Source: Personal survey conducted by PwC during July 2011.

pwc

DENVER OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 INVESTOR ✦ Forecast Period: 5 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; no longer uses a rent spike; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 3.0% Year 2	3.0%	3.0%	8.50% to 11.00% (suburbs)	1.0% to 2.0%	11.50% to 14.00% (suburbs)	9.00% to 11.00% (suburbs)	10 to 15	60.0% to 70.0%	10.0% to 15.0%	$0.25	3 to 9
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 3 to 7 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 5.0% in years 2 and 3.	3.0% to 5.0%	3.0%	2.0% to 2.5%	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	1.0% to 3.0%	8.00% to 10.00% (CBD); 9.00% to 11.00% (suburbs)	6.50% to 7.50% (CBD); 7.50% to 9.00% (suburbs)	6	70.0%	7.0% to 9.0%	$0.15 to $0.25	2 to 4
REIT ✦ Forecast Period: 1 to 11 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; believes market conditions favor sellers.	1.0% to 3.0% Year 1; 2.0% to 4.0% Year 2	3.0%	0.0%	6.50% to 7.50% (CBD); 8.00% to 9.00% (suburbs)	2.0%	9.00% (CBD); 10.00% (suburbs)	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	7 to 9	75.0%	0.0% to 3.0%	$0.10 to $0.20	4 to 6
PENSION FUND INVESTOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions currently favor buyers.	(20.0%) to 0.0% Year 1; (5.0%) to 3.0% Year 2	3.0%	3.0%	7.50% to 7.75% (CBD); 8.00% to 8.25% (suburbs)	1.5% to 2.0%	7.75% to 8.00% (CBD); 8.00% to 8.50% (suburbs)	7.00% (CBD); 7.50% to 7.75% (suburbs)	6 to 9	65.0% to 70.0%	7.0%	Does not use	6 to 9
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 3 to 8 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%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	1.5% to 2.5%	12.00% to 15.00% (suburbs)	8.50% to 10.50% (suburbs)	6 to 12	60.0% to 70.0%	5.0% to 10.0%	$0.20 to $0.25	6 to 12

Source: Personal survey conducted by PwC during July 2011.

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HOUSTON OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization and sales comparison approach; uses effective rents; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 3.0% Year 1; 3.0% to 5.0% Year 2	3.0%	3.0% to 6.0%	7.00% to 7.50% in both CBD & suburbs	1.5%	8.50% to 9.50% in both CBD & suburbs	7.00% to 8.50% in both CBD & suburbs	6 to 8	65.0% to 70.0%	4.0% to 7.0%	$0.10 to $0.50	3 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 3 to 8 years Uses both DCF and direct capitalization; also looks at discount to replacement cost; relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 2.0% to 4.0% Year 2	2.0% to 3.0%	3.0%	8.00% to 10.00% in both CBD & suburbs	1.0% to 2.0%	8.00% to 11.00% in both CBD & suburbs	7.50% to 10.00% (CBD); 8.00% to 10.00% (suburbs)	6 to 10	50.0% to 70.0%	5.0% to 10.0%	$0.25 to $0.75	5 to 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	7.25% to 8.25% (CBD); 7.50% to 8.50% (suburbs)	2.0% to 3.0%	7.25% to 8.75% (CBD); 7.75% to 9.00% (suburbs)	6.25% to 8.00% (CBD); 7.50% to 8.25% (suburbs)	7 to 10	65.0%	7.0% to 9.0%	$0.20 to $0.25	10 to 12
PENSION FUND 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; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 3.0% Years 2 & 3	3.0%	3.0%	8.25% to 8.50% in both CBD & suburbs	1.0% to 1.5%	9.00% to 10.00% (CBD); 9.25% to 10.00% (suburbs)	7.00% to 8.00% (CBD); 8.50% to 8.75% (suburbs)	6 to 12	65.0% to 70.0%	4.0% to 5.0%	$0.15	4 to 6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 3 to 7 years Uses both DCF analysis and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions currently favor buyers; uses a rent spike of 5.0% in years 2 and 3.	0.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	7.00% to 9.50% (CBD); 7.50% to 11.00% (suburbs)	1.0% to 3.0%	8.00% to 12.00% (CBD); 9.00% to 14.00% (suburbs)	6.50% to 10.00% (CBD); 7.00% to 11.00% (suburbs)	6 to 12	65.0% to 75.0%	7.0% to 15.0%	$0.15 to $0.30	6 to 12

Source: Personal survey conducted by PwC during July 2011.

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LOS ANGELES OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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: 1 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions equally favor buyers and sellers.	3.2%	3.0%	3.0%	6.00% to 8.00% in both CBD & suburbs	0.5% to 2.0%	7.00% to 9.00% in both CBD & suburbs	6.00% to 8.00% in both CBD & suburbs	6 to 12	70.0% to 80.0%	5.0%	$0.10 to $0.15	1 to 2
REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 8.0% in years 4 and 5.	1.0% to 2.0%	2.0% to 3.0%	2.0% to 3.0%	7.50% to 8.50% (CBD); 6.50% to 8.50% (suburbs)	1.0%	7.50% to 9.00% (CBD); 7.00% to 9.00% (suburbs)	7.00% to 8.50% (CBD); 6.50% to 8.50% (suburbs)	9 to 12	60.0% to 70.0%	5.0% to 8.0%	Does not use	3 to 6
INVESTMENT BANKER ✦ Forecast Period: 5 to 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; uses a rent spike of 5.0% in year 5.	0.0% to 2.0%	1.0% to 3.0%	1.0% to 3.0%	8.00% to 9.00% in both CBD & suburbs	2.0%	9.00% to 12.00% in both CBD & suburbs	6.50% to 9.00% (CBD); 7.00% to 9.00% (suburbs)	4 to 9	65.0% to 75.0%	5.0% to 10.0%	$0.10 to $0.25	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 but before TIs and leasing commissions; uses a rent spike of 5.0% in year 3, 8.0% in years 4 and 5, and 5.0% in year 6.	0.0% to 3.0%	3.0%	3.0%	6.25% to 6.75% (CBD); 6.50% to 7.50% (suburbs)	1.0% to 2.0%	7.50% to 8.00% (CBD); 7.00% to 8.50% (suburbs)	5.00% to 6.00% (CBD); 6.75% to 7.50% (suburbs)	8	70.0%	1.0%	$0.15 to $0.30	3 to 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies primarily on DCF; also uses 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%	7.50% to 9.00% in both CBD & suburbs	1.0% to 5.0%	7.50% to 9.50% (CBD); 8.00% to 9.50% (suburbs)	6.00% to 7.25% (CBD); 6.00% to 8.00% (suburbs)	6 to 12	60.0% to 65.0%	5.0% to 10.0%	$0.15 to $0.25	4 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	3.0% to 4.0%	3.0%	2.0% to 3.0%	7.00% to 8.50% (CBD); 7.25% to 9.00% (suburbs)	2.0% to 3.0%	7.25% to 8.25% (CBD); 7.50% to 8.75% (suburbs)	6.00% to 7.50% (CBD); 6.50% to 7.75% (suburbs)	8 to 10	65.0%	4.0% to 6.0%	$0.20 to $0.25	10 to 12

Source: Personal survey conducted by PwC during July 2011.

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MANHATTAN OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 10 years Strongest interest is in Midtown; uses both DCF and direct capitalization; may use a rent spike of 7.5% in years 1 to 3; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	3.0% to 7.5%	3.0%	3.0%	6.00% to 7.00%	4.0%	7.00% to 9.00%	5.00% to 7.00%	6 to 8	65.0% to 75.0%	5.0% to 10.0%	$0.15 to $0.25	3 to 6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses mainly 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 rent spike of 10.0% in years 2 and 3.	0.0% to 10.0%	3.0%	3.0%	5.00% to 5.50%	4.0%	8.00%	4.00% to 5.00%	7 to 8	70.0% to 75.0%	2.5%	Did not disclose	3
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 10 years Mainly uses DCF analysis when valuing assets; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; may use a rent spike of 10.0% in years 1 and 2.	4.0% to 10.0%	3.0%	3.0%	5.25% to 6.00%	4.0%	6.50% to 8.00%	5.25% to 6.00%	6	70.0%	5.0%	$0.20 to $0.25	3
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commission, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0% to 5.0%	2.0% to 3.0%	2.0% to 3.0%	5.00% to 7.50%	1.5% to 4.5%	7.00% to 10.00%	5.00% to 8.00%	6 to 12	60.0% to 75.0%	5.0% to 10.0%	$0.15 to $0.50	3 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rents in DCF analysis; does not use rent spikes.	3.0% to 5.0%	3.0%	3.0% to 4.0%	6.00% to 6.75%	1.0% to 3.0%	6.75% to 7.25%	5.50% to 6.25%	6 to 8	65.0% to 70.0%	5.0% to 8.0%	$0.20 to $0.50	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; relies on DCF; uses face rents in DCF model, net effective rents in direct capitalization; prefers Midtown and Times Square.	4.0% to 5.0%	3.0%	3.0%	6.50% to 7.00%	1.5% to 2.0%	7.00% to 8.00%	5.50% to 6.50%	6 to 8	65.0%	3.0% to 6.0%	$0.20 to $0.25	4 to 6

Source: Personal survey conducted by PwC during July 2011.

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NORTHERN VIRGINIA OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; expects overall cap rates to hold steady over the next six months.	3.0% Years 1 to 3	3.0%	3.0%	8.00% to 9.00%	2.0%	8.50% to 10.00%	7.00% to 9.00%	6 to 12	55.0% to 65.0%	8.0% to 12.0%	$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 cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 2.0%	1.5% to 3.0%	1.0% to 2.5%	7.50% to 8.50%	1.0% to 3.0%	7.50% to 9.00%	7.00% to 8.00%	9 to 12	60.0% to 75.0%	1.0% to 3.0%	$0.15 to $0.50	1 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; expects overall cap rates to hold steady over the next six months.	1.0% to 2.0%	2.5% to 3.0%	3.0%	7.00% to 7.50%	2.0% to 3.0%	7.50% to 8.00%	6.50% to 7.00%	6 to 9	60.0% to 65.0%	3.0% to 5.0%	$0.15 to $0.25	6 to 9
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.	0.0% Year 1; 1.5% to 3.0% Year 2	3.0%	3.0%	7.50% to 8.50%	1.0% to 4.0%	7.75% to 9.50%	7.25% to 9.00%	9	70.0%	5.0%	$0.15 to $0.25	3 to 6
REIT ✦ Forecast Period: 10 years Looks at cash-on-cash return and the growth in the return over a ten-year period; does not price properties through DCF; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 3.0%	3.0%	3.0%	Does not use	Does not use	Does not use	5.75% to 8.50%	8	65.0%	1.0% to 3.0%	$0.25	3 to 6

Source: Personal survey conducted by PwC during July 2011.

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PACIFIC NORTHWEST OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions favor sellers.	7.3% Year 1	3.0%	3.0%	6.50% to 8.50% in both CBD & suburbs	1.0%	7.00% to 9.00% in both CBD & suburbs	6.00% to 9.00% in both CBD & suburbs	6 to 10	70.0% to 80.0%	5.0%	$0.15 to $0.25	1 to 2
PRIVATE INVESTOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 0.0% to 2.5% Year 2	2.5% to 3.0%	1.5% to 3.0%	7.50% to 9.00% (CBD); 7.50% to 10.00% (suburbs)	2.0% to 4.0%	10.00% to 12.00% in both CBD & suburbs	7.50% to 10.00% (CBD); 7.50% to 12.00% (suburbs)	6 to 12	50.0% to 75.0%	1.0% to 2.0%	Does not use	6 to 12
INVESTMENT BANKER ✦ Forecast Period: 5 to 10 years Uses DCF, direct capitalization, and price per square foot; 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; uses a rent spike of 5.0% in year 5.	0.0% to 2.0% Year 1; 0.0% to 3.0% Year 2	1.0% to 3.0%	2.0% to 3.0%	9.00% in both CBD & suburbs	2.0%	9.50% to 11.00% in both CBD & suburbs	7.50% to 10.00% in both CBD & suburbs	4 to 6	65.0% to 75.0%	5.0% to 12.0%	$0.10 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; may use a rent spike of 5.0% in year 1 and 6.0% in years 2, 3, and 5.	5.0% Year 1; 6.0% Year 2	2.5% to 3.0%	3.0%	6.50% to 8.00% (CBD); 8.00% to 10.00% (suburbs)	3.0% to 3.5%	7.50% to 8.50% (CBD); 8.00% to 10.00% (suburbs)	5.50% to 7.25% (CBD); 7.00% to 9.00% (suburbs)	6 to 9	60.0% to 70.0%	0.0% to 2.0%	$0.20 to $0.25	1 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects cap rates to hold steady over the next six months; uses a rent spike of 5.0% in years 4 and 5.	1.0% to 3.0% Year 1; 3.0% to 5.0% Year 2	3.0%	3.0%	7.00% to 8.50% (CBD); 7.50% to 9.00% (suburbs)	3.0% to 4.0%	7.00% to 9.00% (CBD); 8.00% to 11.00% (suburbs)	6.50% to 8.00% (CBD); 7.50% to 9.00% (suburbs)	6 to 12	60.0% to 70.0%	3.0% to 5.0%	$0.15 to $0.25	3 to 6

Source: Personal survey conducted by PwC during July 2011.

pwc

PHILADELPHIA OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses effective rents; expects overall cap rates to hold steady over the next six months.	0.0% to 2.0%	2.8%	3.0%	8.50% to 9.25% (CBD); 8.75% to 9.50% (suburbs)	3.0% to 4.0%	8.25% to 9.25% (CBD); 8.75% to 9.75% (suburbs)	8.00% to 8.75% (CBD); 8.50% to 9.25% (suburbs)	7 to 9	65.0% to 70.0%	8.0% to 10.0%	$0.25	6 to 9
REIT ✦ 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 suburban markets; uses effective rents; expects overall cap rates to hold steady over the next six months.	1.0% Year 1; 2.0% Year 2	3.0%	3.0%	10.00% (suburbs)	2.0%	8.50% to 10.00% (suburbs)	8.50% to 10.00% (suburbs)	6 to 8	65.0%	5.0%	$0.20	6
PRIVATE EQUITY INVESTOR ✦ 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; expects cap rates to hold steady over the next six months.	2.0% to 3.0%	3.0%	3.0%	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	2.0% to 3.0%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	7.50% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	9	65.0% to 75.0%	3.0% to 6.0%	$0.20 to $0.30	6 to 9
OPPORTUNITY FUND INVESTOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; prefers suburbs.	1.0% Year 1; 3.0% Year 2	3.0%	3.0%	8.00% to 9.00% (CBD); 8.50% to 9.00% (suburbs)	3.0%	9.00% to 10.00% in both CBD & suburbs	7.50% to 9.00% (CBD); 7.75% to 9.00% (suburbs)	6	65.0%	5.0%	$0.25	4 to 6
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; does not use rent spikes.	3.0%	3.0%	3.0%	7.50% to 9.00% (CBD); 8.00% to 9.50% (suburbs)	2.0% to 3.0%	8.00% to 9.50% (CBD); 8.50% to 10.00% (suburbs)	7.50% to 9.00% (CBD); 8.00% to 9.50% (suburbs)	6 to 9	60.0% to 65.0%	7.5% to 10.0%	$0.20 to $0.25	6 to 9

Source: Personal survey conducted by PwC during July 2011.

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PHOENIX OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 INVESTOR ✦ Forecast Period: 5 to 10 years Mainly uses DCF analysis; 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; does not use rent spikes.	0.0% Years 1 & 2	3.0%	3.0%	8.50% to 10.00% (suburbs)	1.0% to 2.0%	11.00% to 16.00% (suburbs)	8.75% to 10.50% (suburbs)	9 to 12	60.0% to 70.0%	10.0% to 15.0%	$0.20 to $0.25	3 to 6
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 3 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 0.0% to 2.0% Year 2	3.0%	3.0%	8.75% to 10.00% (CBD); 9.00% to 10.00% (suburbs)	1.5% to 3.0%	10.00% to 15.00% in both CBD & suburbs	9.00% to 11.00% in both CBD & suburbs	9 to 20	60.0% to 75.0%	7.5% to 10.0%	$0.20 to $0.25	6 to 12
PUBLIC REIT ✦ Forecast Period: 7 to 10 years Uses all approaches to value; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that this market currently favors buyers; expects overall cap rates to decrease 25 to 50 basis points over the next six months.	(1.0%) to 3.0%	2.5% to 3.0%	2.5% to 3.0%	7.50% to 9.00% (CBD); 7.75% to 9.00% (suburbs)	1.0%	9.00% to 10.50% in both CBD & suburbs	8.00% to 10.50% in both CBD & suburbs	6 to 12	70.0% to 75.0%	5.0% to 10.0%	$0.15 to $0.60	3 to 6
PENSION/CORE INVESTOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; believes that market conditions currently favor buyers.	(15.0%) to 0.0% Year 1; (5.0%) to 0.0% Year 2	0.0% to 3.0%	3.0%	8.50% to 9.00% (CBD); 9.00% to 9.50% (suburbs)	2.0%	8.50% to 9.50% (CBD); 9.50% to 10.00% (suburbs)	8.00% to 8.75% (CBD); 9.00% to 9.50% (suburbs)	9 to 12	60.0%	7.0% to 10.0%	Does not use	9 to 12
PRIVATE EQUITY FIRM ✦ Forecast Period: 10 to 11 years Mainly uses DCF analysis; in direct capitalization, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions favor buyers.	0.0% Year 1; 0.0% to 1.0% Year 2	3.0%	0.0%	8.00% to 8.50% (CBD); 8.50% to 9.50% (suburbs)	2.0%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	8.00% to 10.00% (CBD); 8.00% to 11.00% (suburbs)	8 to 10	75.0%	8.0% to 12.0%	$0.10 to $0.20	4 to 6

Source: Personal survey conducted by PwC during July 2011.

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SAN DIEGO OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 INVESTOR ✦ Forecast Period: 3 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses a rent spike of 5.0% to 10.0% in year 3 in certain submarkets.	0.0% Year 1; 3.0% to 8.0% Year 2	3.0%	3.0%	8.00% to 9.00% (CBD); 7.25% to 8.50% (suburbs)	1.0% to 2.0%	10.00% to 12.00% (CBD); 9.75% to 11.50% (suburbs)	8.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)	9 to 12	60.0% to 70.0%	7.5% to 10.0%	$0.20 to $0.25	3 to 6
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; may use rent spikes in certain submarkets.	3.4% Year 1; 5.5% Year 2	3.0%	3.0%	7.00% to 9.00% in both CBD & suburbs	0.5% to 1.0%	8.00% to 10.00% in both CBD & suburbs	7.00% to 9.00% in both CBD & suburbs	9	70.0% to 80.0%	0.0% to 5.0%	$0.10 to $0.25	1 to 2
PUBLIC REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 8.0% in years 4 and 5.	0.0% to 1.0% Year 1; 0.0% to 3.0% Year 2	2.0% to 3.0%	2.0% to 3.0%	7.00% to 8.50% (CBD); 6.50% to 8.00% (suburbs)	1.0% to 1.5%	7.50% to 8.50% (CBD); 7.00% to 8.00% (suburbs)	7.00% to 8.00% (CBD); 6.00% to 8.00% (suburbs)	6 to 12	60.0% to 70.0%	5.0%	Does not use	
PENSION/CORE INVESTOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; may use rent spikes in years 4 through 7; expects overall cap rates to hold steady over the next six months.	(10.0%) to 0.0% Year 1; (5.0%) to 3.0% Year 2	3.0%	3.0%	7.75% (CBD); 8.00% (suburbs)	1.5% to 2.0%	8.00% (CBD); 8.50% to 8.75% (suburbs)	7.00% to 7.25% (CBD); 7.75% (suburbs)	9	65.0% to 70.0%	7.0%	Does not use	9
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 3 to 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 1.5% to 3.0% Year 2	3.0%	2.5% to 3.5%	7.50% to 9.00% (CBD); 8.00% to 9.25% (suburbs)	1.5% to 3.0%	9.00% to 12.00% (CBD); 10.50% to 12.50% (suburbs)	7.75% to 9.00% (CBD); 8.00% to 9.25% (suburbs)	6 to 15	60.0% to 75.0%	5.0% to 10.0%	$0.15 to $0.25	3 to 9

Source: Personal survey conducted by PwC during July 2011.

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SAN FRANCISCO OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 10.0% in year 5.	5.0% to 7.0% Years 1 & 2	3.0%	3.0%	6.50% to 7.25% (CBD); 7.25% to 8.25% (suburbs)	1.0% to 1.5%	7.00% to 8.00% (CBD); 7.75% to 9.00% (suburbs)	6.00% to 7.00% (CBD); 7.00% to 8.00% (suburbs)	6	70.0%	5.0%	$0.25	3 to 5
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization but relies on DCF; uses face rents and reflects concessions when they are scheduled to occur; prefers the CBD; does not use rent spikes.	1.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	6.50% to 7.50% (CBD); 7.50% to 8.50% (suburbs)	1.0% to 2.5%	7.50% to 9.00% (CBD); 9.00% to 11.00% (suburbs)	6.50% to 7.50% (CBD); 7.00% to 8.50% (suburbs)	5 to 10	60.0% to 75.0%	5.0% to 10.0%	$0.15 to $0.40	4 to 8
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; may use rent spikes.	3.0% to 5.0%	2.0% to 3.0%	2.0% to 3.0%	7.50% to 9.00% (CBD); 8.00% to 9.00% (suburbs)	2.0% to 3.5%	8.00% to 10.00% (CBD); 9.00% to 11.00% (suburbs)	6.50% to 9.00% (CBD); 7.50% to 9.50% (suburbs)	9 to 12	60.0% to 75.0%	5.0% to 10.0%	$0.25 to $0.50	6 to 9
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions equally favor buyers and sellers; uses a rent spike of 13.7% in year 1 and 13.1 % in year 2.		3.0%	3.0%	6.00% to 8.00% in both CBD & suburbs	0.5% to 1.0%	7.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)	6.00% to 8.00% in both CBD & suburbs	6	75.0% to 100.0%	0.0% to 5.0%	$0.10 to $0.26	1 to 2
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.	5.0% to 10.0%	3.0%	3.0%	6.00% to 7.00% (CBD); 6.50% to 8.00% (suburbs)	0.5% to 2.0%	7.00% to 7.75% (CBD); 7.50% to 8.50% (suburbs)	4.60% to 4.90% (CBD); 5.50% to 7.00% (suburbs)	8 to 12	65.0% to 75.0%	1.0% to 3.0%	$0.10 to $0.25	6 to 12
REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 10.0% in year 2 and 12.0% in year 3.	5.0% to 10.0%	2.0% to 3.0%	2.0% to 3.0%	6.50% to 7.50% (CBD); 7.00% to 8.00% (suburbs)	1.0%	6.50% to 8.00% (CBD); 7.00% to 8.50% (suburbs)	5.00% to 7.00% (CBD); 6.50% to 8.00% (suburbs)	7 to 10	60.0% to 70.0%	5.0% to 7.0%	Does not use	3 to 6

Source: Personal survey conducted by PwC during July 2011.

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SOUTHEAST FLORIDA OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 EQUITY INVESTOR ✦ Forecast Period: 3 to 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0%	3.0%	3.0%	7.50% to 10.00% (suburbs)	2.5%	8.50% to 14.00% (CBD); 10.00% to 15.00% (suburbs)	8.00% to 13.00% (CBD); 8.00% to 15.00% (suburbs)	9 to 12	65.0%	6.0% to 9.0%	$0.15 to $0.25	2 to 6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 1 to 7 years Uses DCF analysis only; uses face rents and reflects concessions when they are scheduled to occur; expects overall cap rates to move up 50 to 100 basis points over the next six months.	(5.0%) to 0.0% Year 1; 0.0% to 3.0% Year 2	3.0%	3.0%	9.00% to 12.00% in both CBD & suburbs	1.0% to 3.0%	11.00% to 13.00% (CBD); 12.00% to 16.00% (suburbs)	8.50% to 12.00% (CBD); 8.50% to 13.00% (suburbs)	9 to 12	60.0% to 70.0%	7.0% to 10.0%	$0.20 to $0.50	4 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; does not use rent spikes.	1.0% to 3.0%	3.0%	3.0%	7.75% to 8.75% in both CBD & suburbs	1.0% to 3.0%	8.50% to 9.50% in both CBD & suburbs	7.25% to 8.00% (CBD); 8.75% to 10.50% (suburbs)	6 to 12	65.0% to 70.0%	7.0% to 11.0%	$0.10 to $0.30	6 to 9
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 4 to 8 years Uses mainly DCF analysis; 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.	(10.0%) to 0.0%	1.0% to 3.0%	1.0% to 3.0%	8.50% to 10.00% (CBD); 9.00% to 10.50% (suburbs)	1.0% to 3.0%	8.50% to 10.00% (CBD); 10.00% to 12.00% (suburbs)	7.50% to 8.50% (CBD); 8.50% to 10.00% (suburbs)	6 to 12	40.0% to 70.0%	7.0% to 13.0%	$0.20 to $0.35	6 to 18
LIFE INSURANCE COMPANY ✦ Forecast Period: 3 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; does not use rent spikes.	0.0% Years 1 & 2	2.0% to 3.0%	3.0% to 5.0%	7.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)	1.0% to 2.0%	7.00% to 10.00% in both CBD & suburbs	7.00% to 10.00% (CBD); 8.00% to 11.00% (suburbs)	6 to 12	50.0% to 70.0%	5.0% to 10.0%	$0.25 to $1.00	3 to 6
REIT ✦ Forecast Period: 10 years Valuation preference is DCF analysis; also uses direct cap; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; prefers suburbs.	0.0%	3.0%	2.0% to 3.0%	9.00% to 10.00% (suburbs)	2.0%	8.50% to 10.50% (suburbs)	9.00% to 10.00% (suburbs)	6 to 9	65.0%	5.0%	$0.20	6

Source: Personal survey conducted by PwC during July 2011.

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SUBURBAN MARYLAND OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0% Years 1 to 3	3.0%	3.0%	7.50% to 8.50%	2.0% to 3.0%	7.50% to 9.50%	7.00% to 9.00%	6 to 12	60.0% to 70.0%	5.0% to 10.0%	$0.20 to $0.25	4 to 9
LIFE INSURANCE COMPANY ✦ 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; no longer uses rent spikes.	(2.0%) to 0.0%	2.0% to 3.0%	2.0% to 3.0%	7.50% to 9.75%	2.0% to 3.0%	7.25% to 9.00%	7.00% to 9.00%	6 to 10	60.0% to 70.0%	1.0% to 3.0%	$0.25 to $0.50	1 to 6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 3.0% Year 1; 3.0% to 6.0% Year 2	3.0%	3.0%	7.25% to 7.75%	2.0% to 2.5%	8.00% to 9.00%	7.00% to 7.50%	6 to 9	65.0% to 70.0%	5.0% to 8.0%	$0.15 to $0.30	3 to 5
REIT ✦ Forecast Period: 10 years Looks at cash-on-cash return and the growth in the return over a 10-year period; does not price properties through DCF; does not use rent spikes; expects overall cap rates to increase over the next six months.	0.0% to 3.0% Years 1 & 2	3.0%	3.0%	Does not use	2.0% to 2.5%	Does not use	6.00% to 7.25%	8	65.0%	1.0% to 3.0%	$0.10 to $0.25	3 to 6
PRIVATE EQUITY FIRM ✦ Forecast Period: 3 to 7 years Mainly uses DCF analysis; in direct capitalization, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions equally favor buyers and sellers.	0.0% Years 1 to 3	0.0% to 3.0%	3.0%	8.25%	2.5%	8.50%	7.50%	9 to 12	65.0% to 75.0%	10.0%		

Source: Personal survey conducted by PwC during July 2011.

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WASHINGTON, DC OFFICE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0% Years 1 to 3	3.0%	3.0%	6.00% to 7.00%	2.0%	7.50% to 9.00%	5.00% to 7.50%	3 to 9	65.0% to 75.0%	7.5% to 10.0%	$0.15 to $0.25	3 to 5
LIFE INSURANCE COMPANY ✦ 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.	2.0% to 3.0% Year 1; 3.0% to 3.5% Year 2	1.5% to 3.0%	1.5% to 2.5%	7.00% to 8.25%	1.5% to 3.0%	7.25% to 8.75%	6.00% to 8.00%	7 to 10	60.0% to 70.0%	1.5% to 5.0%	$0.25 to $0.50	2 to 5
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; uses a rent spike of 5.0% in year 3.	3.0% to 4.0%	2.0% to 3.0%	2.5% to 3.0%	6.00% to 6.50%	2.0% to 2.5%	6.50% to 7.00%	5.00% to 6.00%	4 to 6	60.0% to 70.0%	1.0% to 3.0%	$0.15 to $0.25	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0% to 4.0%	3.0%	3.0%	5.25% to 6.50%	1.0% to 2.0%	6.50% to 8.00%	4.50% to 6.50%	9	70.0%	5.0%	$0.25	3 to 6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses mainly direct capitalization; major focus is on the initial cash-on-cash return; typically extends forecast period to capture impact of all lease expirations; does not use rent spikes.	2.0% to 3.0%	3.0%	3.0%	6.00% to 6.50%	2.5%	8.00%	6.00%	7	70.0% to 75.0%	3.0% to 5.0%	Does not use	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses 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% Year 1; 2.0% to 3.0% Year 2	3.0%	3.0%	6.50% to 7.00%	2.0%	7.00% to 7.25%	5.00% to 6.25%	3 to 6	65.0% to 75.0%	7.0%	$0.15 to $0.25	12

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL FLEX/R&D MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 EQUITY INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes market conditions favor buyers; uses a rent spike of 6.0% in years 2 and 3.	2.0% to 3.0% Year 1; 3.0% to 5.0% Year 2	3.0%	3.0%	7.00% to 8.00%	1.5% to 3.0%	8.00% to 8.75%	7.00% to 8.00%	6 to 9	70.0%	3.0% to 5.0%	$0.15 to $0.40	2 to 6
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 4 to 8 years Uses mainly DCF analysis; 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% Years 1 to 3	3.0%	3.0%	9.00% to 10.00%	2.0% to 3.0%	9.00% to 13.00%	9.00% to 12.00%	9 to 12	50.0% to 65.0%	5.0% to 10.0%	$0.15 to $0.35	12
REAL ESATE SERVICES FIRM ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 0.0% to 3.0% Year 2	3.0%	3.0%	9.50% to 10.50%	2.0% to 3.0%	9.00% to 11.00%	9.00% to 10.50%	9 to 18	60.0% to 70.0%	5.0% to 10.0%	$0.15 to $0.35	8 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% in year 3 and 8.0% in year 4.	0.0% to 3.0% Year 1; 2.0% to 5.0% Year 2	2.0% to 3.0%	2.0% to 3.0%	7.25% to 8.75%	2.5% to 6.0%	8.50% to 10.50%	7.50% to 8.50%	6 to 12	50.0% to 70.0%	5.0% to 10.0%	$0.25 to $1.00	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.	0.0% to 3.0%	3.0%	3.0%	7.50% to 8.25%	1.0% to 4.0%	8.25% to 9.00%	6.50% to 9.00%	9 to 18	50.0% to 65.0%	3.0% to 8.0%	$0.15 to $0.50	6 to 18
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 5 to 7 years Uses all three approaches to value, in direct capitization, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects overall cap rates to hold steady over the next six months.	2.0% to 3.0% Years 1 & 2	3.0%	3.0%	8.50% to 9.50%	2.0% to 3.0%	9.50% to 10.50%	8.00% to 9.00%	9	65.0%	6.0%	$0.15 to $0.25	3 to 6

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL WAREHOUSE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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 EQUITY INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes market conditions favor buyers; uses a rent spike of 6.0% in year 3.	2.0% to 3.0%	3.0%	3.0%	6.50% to 8.50%	1.0% to 2.0%	8.00% to 10.00%	6.50% to 8.50%	6 to 12	65.0% to 70.0%	3.0% to 5.0%	$0.10 to $0.25	2 to 6
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; may use a rent spike of 7.0% in years 1 and 2.	1.0% to 7.0%	3.0%	3.0%	7.00% to 8.50%	1.0% to 3.0%	7.50% to 9.00%	6.25% to 8.00%	6 to 12	65.0% to 75.0%	0.5% to 2.0%	$0.10 to $0.25	6 to 12
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; prefers the East Coast.	1.0% to 1.5%	2.8%	3.5%	9.00% to 11.00%	3.0%	10.00% to 12.50%	7.50% to 9.00%	9	60.0%	6.0%	$0.00 to $0.15	9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses 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% Year 1; 2.0% to 3.0% Year 2	3.0%	3.0%	7.00% to 8.25%	1.0% to 2.0%	7.25% to 8.75%	6.50% to 8.00%	6 to 12	60.0% to 75.0%	5.0% to 7.0%	$0.05 to $0.15	12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF; in direct capitalization, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	0.0% to 3.0% Year 1; 1.0% to 2.0% Year 2	2.0%	3.0%	7.00% to 9.00%	2.0% to 3.0%	7.50% to 9.00%	6.75% to 8.75%	3 to 10	50.0% to 80.0%	5.0% to 10.0%	$0.10 to $0.20	2 to 4
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.	1.0% to 2.0%	2.5% to 3.0%	2.5% to 3.0%	6.50% to 7.00%	2.0% to 3.0%	7.00% to 8.00%	6.00% to 6.50%	6 to 9	60.0% to 65.0%	2.0% to 4.0%	$0.10 to $0.20	3 to 6

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL APARTMENT MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES		VACANCY	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	STRUCTURAL REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	TOTAL VACANCY	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	PER UNIT	MONTHS
INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; does not use a separate FF&E replacement reserve.	(1.0%) to 8.0%	2.0% to 4.0%	1.0% to 5.0%	4.75% to 9.50%	0.5% to 2.5%	4.75% to 9.50%	4.25% to 9.50%	$200 to $400	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; deducts FF&E reserve from NOI before capitalization; does not use a separate FF&E replacement reserve.	0.0%	3.0%	6.0% to 10.0%	5.50% to 7.00%	2.0% to 3.0%	6.50% to 7.50%	4.25% to 6.50%	$150 to $375	12
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; does not use a separate FF&E replacement reserve.	1.0% to 7.0%	3.0%	3.0% to 15.0%	5.00% to 7.00%	1.0% to 3.0%	6.00% to 7.75%	4.00% to 7.00%	$250 to $750	6 to 9
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve; uses a seperate FF&E reserve; believes market conditions currently favor sellers.	2.0% to 4.0%	2.0% to 3.0%	4.0% to 6.0%	5.00% to 6.00%	2.0% to 3.0%	6.50% to 7.00%	4.50% to 5.50%	$200 to $300	2 to 5
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; sees overall cap rates holding steady; does not use a separate FF&E reserve.	0.0% to 5.0%	2.8% to 3.5%	4.0% to 7.0%	5.00% to 6.00%	1.0% to 4.0%	6.25% to 7.50%	5.00% to 6.25%	$200 to $300	1 to 3
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; uses a separate FF&E reserve of $250 to $350 per unit.	0.0% to 3.0%	0.0% to 3.0%	2.0% to 8.0%	4.75% to 7.00%	1.5% to 2.0%	6.00% to 8.00%	3.75% to 6.00%	$200 to $350	1 to 2

Source: Personal survey conducted by PwC during July 2011.

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MID-ATLANTIC REGION APARTMENT MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES		VACANCY	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	STRUCTURAL REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	TOTAL VACANCY	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	PER UNIT	MONTHS
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 4 to 8 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; does not use a separate FF&E replacement reserve; believes market conditions favor buyers.	(5.0%) to 0.0%	1.0% to 3.0%	6.0% to 10.0%	5.75% to 9.75%	1.0% to 2.0%	7.50% to 14.00%	5.75%	$150 to $300	3 to 18
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; does not deduct reserves from NOI before capitalization; uses a separate FF&E replacement reserve of $150 to $250 per unit.	1.0% to 4.0% Year 1; 3.0% to 5.0% Year 2	3.0%	5.0% to 8.0%	6.00% to 7.00%	1.0% to 2.0%	5.60% to 6.75%	5.00% to 6.00%	$150 to $250	6 to 12
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; uses a separate FF&E replacement reserve of $150 to $250 per unit; believes market conditions favor buyers.	2.0% to 5.0%	3.0%	4.0% to 8.0%	6.00% to 7.50%	1.0% to 2.0%	7.00% to 8.50%	6.00% to 7.50%	$250 to $300	6 to 9
PRIVATE INVESTOR ✦ Forecast Period: 5 to 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; also uses a separate FF&E replacement reserve of $75 to $175 per unit.	2.0% to 3.0% Years 1 & 2	2.0% to 3.0%	3.0% to 7.0%	4.50% to 7.50%	1.5% to 3.0%	9.00% to 11.00%	4.00% to 7.00%	$75 to $175	1 to 3
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 7 to 10 years Mainly uses direct capitalization analysis; in direct cap, capitalizes NOI after capital replacement reserve; believes that market conditions currently favor sellers.	2.0% to 5.0%	3.0%	5.0% to 9.0%	5.50% to 7.00%	1.5% to 2.0%	10.00% to 12.50%	5.25% to 7.00%	$250 to $350	2 to 4
PENSION FUND INVESTOR ✦ Forecast Period: 4 to 7 years Uses all three approaches to value; in direct capitization, capitalizes NOI after capital replacement reserve; uses a separate FF&E replacement reserve of $1,000 to $2,000 per unit.	2.0%	2.0%	5.0% to 8.0%	6.25% to 7.00%	2.0% to 3.0%	9.00% to 11.00%	5.50% to 7.00%	$300 to $350	4 to 6

Source: Personal survey conducted by PwC during July 2011.

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PACIFIC REGION APARTMENT MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES		VACANCY	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	STRUCTURAL REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	TOTAL VACANCY	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	PER UNIT	MONTHS
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; uses a separate FF&E replacement reserve of $150 to $250 per unit; FF&E is deducted from NOI before capitalization.	0.0% to 5.0%	2.5% to 3.0%	3.0% to 10.0%	4.00% to 6.50%	1.0% to 2.0%	8.00% to 12.00%	4.00% to 7.00%	$250 to $350	6 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; does not deduct FF&E reserve from NOI before capitalization; uses a separate FF&E replacement reserve of $150 to $250 per unit.	1.0% to 5.0%	3.0%	5.0% to 8.0%	7.50% to 8.50%	1.0% to 2.0%	6.00% to 7.00%	5.00% to 6.50%	$150 to $250	6 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; uses a separate FF&E replacement reserve of $250 to $300 per unit.	1.0% to 3.0%	2.0% to 3.0%	4.0% to 6.0%	5.00% to 7.00%	1.5% to 2.0%	6.50% to 7.75%	4.00% to 6.00%	$200 to $350	1 to 2
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; does not use a separate FF&E replacement reserve; FF&E is not deducted from NOI before capitalization.	3.0% to 5.0% Years 1 & 2	3.0%	5.0% to 6.0%	5.50% to 6.25%	1.0% to 4.0%	7.25% to 8.25%	4.25% to 5.50%	$150 to $250	6 to 12
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 7 to 10 years Mainly uses direct capitalization analysis; in direct cap, capitalizes NOI after capital replacement reserve; believes market conditions equally favor buyers and sellers; does not use a separate FF&E reserve.	3.0% to 6.0%	3.0%	4.0% to 8.0%	5.25% to 6.50%	1.5%	10.00% to 12.50%	5.25% to 6.50%	$250 to $350	1 to 3
PUBLIC C CORP ✦ Forecast Period: 5 to 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; also uses an FF&E replacement reserve of $75 to $175 per unit.	0.0% to 2.0%	2.0% to 3.0%	5.0% to 7.0%	4.50% to 7.50%	1.5% to 3.0%	9.00% to 11.00%	4.00% to 7.00%	$75 to $175	3 to 6

Source: Personal survey conducted by PwC during July 2011.

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SOUTHEAST REGION APARTMENT MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES		VACANCY	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	STRUCTURAL REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	TOTAL VACANCY	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	PER UNIT	MONTHS
PENSION FUND INVESTOR ✦ Forecast Period: 4 to 7 years Uses all three approaches to value; in direct capitization, capitalizes NOI after capital replacement reserve; uses a separate FF&E replacement reserve of $1,000 to $2,000 per unit.	2.0% to 3.0%	2.0%	5.0% to 8.0%	6.25% to 7.00%	2.0% to 3.0%	9.00% to 11.00%	6.00% to 7.00%	$300 to $350	4 to 6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 4 to 8 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; does not use a separate FF&E replacement reserve.	(10.0%) to 0.0%	1.0% to 3.0%	6.0% to 10.0%	5.75% to 9.75%	1.0% to 2.0%	7.50%	5.75%	$150 to $300	9 to 18
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; does not use a separate FF&E replacement reserve; expects overall cap rates to hold steady over the next six months.	1.0% to 3.0%	3.0%	5.0% to 8.0%	6.00% to 7.00%	1.0% to 4.0%	7.25% to 8.50%	5.00% to 6.00%	$150 to $250	6 to 12
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; uses a separate FF&E reserve of $250 to $350 per unit.	0.0% to 2.0%	2.0% to 3.0%	5.0% to 8.0%	6.00% to 8.00%	1.5% to 2.0%	7.00% to 8.50%	5.00% to 6.50%	$200 to $350	1 to 3
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 7 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; does not deduct reserves from NOI before capitalization; uses a separate FF&E replacement reserve of $250 to $350 per unit.	2.0% to 4.0% Years 1 & 2	3.0%	5.0% to 10.0%	5.50% to 7.00%	1.0% to 1.5%	6.50% to 8.00%	5.50% to 7.00%	$250 to $400	6 to 9
REIT ✦ Forecast Period: 2 to 5 years Mainly uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; also uses a separate FF&E replacement reserve of $250 to $800 per unit.	0.0% to 2.0%	2.5%	4.0% to 6.0%	5.50% to 7.00%	1.0% to 1.5%	7.00%	5.00% to 6.50%	$100 to $200	1 to 6

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL NET LEASE MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	PREFERRED PROPERTY TYPE	CHANGE RATES		PREFERRED CREDIT RATING	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	UNDERLYING VACANCY & CREDIT LOSS	REPLACEMENT RESERVE	MARKETING TIME
		MARKET RENT	EXPENSES		CAP RATE	SELLING EXPENSES	FREE & CLEAR	FREE & CLEAR		PER SQUARE FOOT	MONTH
MANAGEMENT COMPANY ✦ Forecast Period: 15 to 20 years Mainly focuses on sale-leaseback deals and net lease sales; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; expects overall cap rates to hold steady over the next six months.	All varieties	0.0% to 3.0% Years 1 to 3	0.0% to 3.0%	B to AAA				7.25% to 9.00%		Does not use	2 to 12
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 9 to 15 years Primary valuation method is direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; also uses DCF analysis; mainly focuses on net lease transactions.	Office, industrial	(1.0%) to 0.0% Year 1; 0.0% to 1.0% Year 2	1.0% to 1.5%	BB to A	9.00% to 10.00%	2.0% to 3.0%	8.00% to 9.00%	8.00% to 9.50%	0.0% to 5.0%	$1.00 to $5.00	3 to 12
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 5 to 8 years Primary valuation method is sales comparison approach; also uses DCF analysis; mainly completes net lease sales; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	Drug stores, banks, restaurants	1.0% to 2.0% Years 1 & 2	1.0% to 2.0%	BB to AA	8.50% to 9.00%	2.0% to 2.5%	7.00% to 8.00%	8.00% to 8.50%	5.0% to 10.0%	$0.20 to $0.25	2 to 4
INVESTMENT ADVISOR ✦ Forecast Period: 3 to 5 years Primary valuation method is direct capitalization; also uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacements reserve; mainly focuses on net lease sales.	General-purpose office, warehouse	2.0% to 4.0% Years 1 & 2	1.0% to 3.0%	BBB– to A	7.00% to 7.50%	4.0% to 5.0%	7.00% to 8.00%	6.50% to 7.25%	3.0% to 5.0%	$0.15 to $0.25	2 to 3
PRIVATE INVESTOR ✦ Forecast Period: 5 to 10 years Primary valuation method is direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	Credit retail, restaurant, medical	(3.0%) to 0.0%	1.0% to 3.0%	BB– to AAA+	8.50% to 9.00%	8.0% to 12.0%	8.00% to 8.75%	8.00% to 8.75%		Does not use	6 to 9
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 10 to 30 years Primary valuation method is DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; mainly focuses on sale-leaseback deals.	Office, retail R&D, industrial, banks, health care	0.0% to 3.0%	0.0% to 3.0%	CCC to A	8.00% to 12.00%	2.0%	Depends on lease term	7.00% to 10.00%	0.0% to 5.0%	Does not use	6 to 18

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL MEDICAL OFFICE BUILDINGS MARKET–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT 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: 5 to 10 years Mainly uses 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.	1.5% to 2.0% Years 1 to 3	3.5% to 4.0%	(1.0%) to 0.0%	8.25% to 8.75% (on campus); 9.00% to 10.00% (off campus)	2.0% to 3.0%	8.50% to 12.50% (on campus); 9.25% to 13.00% (off campus)	8.25% to 9.00% (on campus); 9.25% to 10.00% (off campus)	7 to 10	82.5% to 85.0%	5.0% to 12.5%	$0.15 to $0.25	6 to 8
REIT ✦ Forecast Period: 10 years Uses both DCF analysis and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects overall cap rates increase over the next six months.	1.0% to 3.0% Years 1 & 2	2.0% to 3.0%	3.0%	7.50% to 8.25% (on campus); 8.00% to 8.75% (off campus)	1.0% to 2.0%	8.50% to 9.50% (on campus); 9.50% to 10.50% (off campus)	7.00% to 8.00% (on campus); 7.75% to 8.75% (off campus)	6 to 12	70.0% to 80.0%	2.0% to 5.0%	$0.25 to $0.50	6
REIT ✦ Forecast Period: 1 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects overall cap rates to hold steady over the next six months.	0.0% to 1.5%	1.5% to 2.5%	0.0% to 2.5%	7.00% to 8.00% (on campus); 7.50% to 8.25% (off campus)	1.5% to 2.5%	8.00% to 9.00% (on campus); 9.00% to 11.00% (off campus)	7.25% to 7.75% (on campus); 7.50% to 8.25% (off campus)	6 to 15	60.0% to 85.0%	3.0% to 8.0%	$0.25 to $0.50	2 to 6
REAL ESTATE SERVICE FIRM ✦ Forecast Period: 5 to 10 years Uses all approaches to value; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; expects overall cap rates to decrease 25 to 50 basis points over the next six months.	2.0% to 3.0% Years 1 & 2	2.0% to 3.0%	2.0% to 3.0%	7.00% to 7.75% (on campus); 7.25% to 8.00% (off campus)	1.0% to 2.0%	7.50% to 8.50% (on campus); 7.75% to 8.50% (off campus)	6.75% to 7.50% (on campus); 7.00% to 8.00% (off campus)	6	70.0% to 80.0%	3.0% to 5.0%	$0.15 to $0.25	2 to 3
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 3 to 7 years Uses all approaches to value; indirect cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects overall cap rates to hold steady over the next six months.	0.0% to 3.0% Years 1 to 3	2.0% to 3.0%	2.0% to 3.0%	7.50% to 9.00% (on campus); 8.50% to 11.00% (off campus)	1.0% to 3.0%	8.00% to 10.00% (on campus); 9.00% to 11.00% (off campus)	7.50% to 9.00% (on campus); 8.00% to 11.00% (off campus)	6 to 18	70.0% to 80.0%	5.0% to 10.0%	$0.10 to $0.30	6 to 9

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL FULL-SERVICE LODGING SEGMENT–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES		RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	IS FF&E DEDUCTED FROM NOI PRIOR TO CAPITALIZATION?	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	YES/NO	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
OWNER/OPERATOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; believes market conditions equally favor buyers and sellers.	5.0%	3.5% to 4.0%	8.00% to 11.00%	1.0% to 2.0%	10.00% to 12.00%	7.00% to 10.00%	Yes	3.0%	5.0%	6 to 12
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 4 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; believes market conditions favor buyers; expects overall cap rates to hold steady over the next six months.	(1.0%) to 1.0%	1.0% to 2.0%	9.00% to 9.50%	0.5% to 1.3%	10.00% to 12.00%	7.50% to 9.00%	Yes	2.5% to 3.0%	4.0%	3 to 5
OWNER/OPERATOR ✦ Forecast Period: 3 to 8 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; expects overall cap rates to increase over the next six months.	6.0% to 8.0%	3.0%	9.00% to 11.00%	2.0% to 5.0%	10.00% to 12.00%	7.50% to 8.50%	Yes	3.0% to 4.0%	1.0% to 3.0%	2 to 6
PRIVATE COMPANY ✦ Forecast Period: 3 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; believes that market conditions currently favor sellers.	4.0% to 5.0%	3.5% to 4.5%	6.00%	2.0% to 3.0%		6.00%	Yes	2.5% to 3.5%	Does not use	
REAL ESTATE ADVISER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months income; expects overall cap rates to hold steady over the next six months.	3.0% to 4.0%	3.0%	8.00% to 10.00%	3.0% to 4.0%	9.00% to 10.50%	6.00% to 9.00%	Yes	2.5% to 3.5%	4.0% to 5.0%	8 to 10
PRIVATE INVESTOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes both prior 12 months and next 12 months income; believes that overall cap rates will hold steady over the next six months and that market conditions currently favor buyers.	0.0% Years 1& 2	1.0% to 3.0%	10.00% to 12.00%	1.0% to 3.0%	11.00%	9.00% to 10.00%	Yes	3.0%	3.0% to 5.0%	12 to 24

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL LIMITED-SERVICE MIDSCALE & ECONOMY LODGING SEGMENT–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES		RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	IS FF&E DEDUCTED FROM NOI PRIOR TO CAPITALIZATION?	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	YES/NO	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
REAL ESTATE ADVISER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; expects overall cap rates to decrease over the next six months.	3.0% to 4.0%	3.0%	9.00% to 10.00%	3.0% to 4.0%	10.00% to 12.00%	9.00% to 10.00%	Yes	4.0% to 5.0%	4.0% to 5.0%	8 to 12
OWNER/MANAGER ✦ Forecast Period: 3 years Focuses on direct capitalization; in direct cap, capitalizes prior 12 months of income; expects ADRs and occupancy to hold steady over the next six months; current breakeven occupancy rate is estimated at 55.0%; sees ADRs and occupancy holding steady over the next six months.	(3.0%) to 0.0%	1.0% to 3.0%	9.00% to 12.00%	5.0%	Does not use	8.00% to 12.00%	Yes	3.0% to 4.0%	3.0% to 5.0%	9 to 12
PRIVATE HOTEL COMPANY ✦ Forecast Period: 10 years Prefers Northeast, Southeast, and Southwest; uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; expects occupancy to hold steady and ADRs to increase over the next six months; believes market conditions currently favor buyers.	3.0%	3.0%	10.00% to 11.00%	2.0%	10.00% to 12.00%	11.00% to 12.00%	Yes	3.0%	2.0%	4 to 12
REAL ESTATE ADVISER ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; believes that market conditions currently favor buyers; expects occupancy to decrease 25 to 50 basis points over the next six months.	2.0% to 8.0%	2.5%	8.50% to 10.50%	2.0% to 3.0%	10.00% to 14.00%	8.00% to 10.00%	Yes	2.0%	4.0% to 5.0%	5 to 9
OWNER/OPERATOR ✦ Forecast Period: 3 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; believes overall cap rates will increase 50 to 100 basis points over the next six months; expects ADRs and occupancy to increase in the next six months.	5.0% to 7.0%	3.0%	9.00% to 11.00%	2.0% to 5.0%	10.00% to 13.00%	8.00% to 10.00%	Yes	3.5% to 5.0%	1.0% to 3.0%	2 to 6

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL LUXURY/UPPER-UPSCALE LODGING SEGMENT–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES		RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	IS FF&E DEDUCTED FROM NOI PRIOR TO CAPITALIZATION?	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	YES/NO	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 5 years Mainly uses DCF analysis; in direct cap, capitalizes next 12 months of income; does not use gross revenue multiplier; expects overall cap rates to hold steady over the next six months.	3.0% to 5.0%	3.0% to 4.0%	7.50% to 9.00%	0.5% to 1.0%	10.00% to 12.00%	7.00% to 8.00%	Yes	2.5% to 3.0%	4.0%	2 to 4
INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; expects overall cap rates to decrease up to 25 basis points over the next six months.	(2.0%) to 5.0%	2.0%	6.25% to 9.25%	0.5% to 2.5%	9.25%	5.75% to 8.75%	Yes	3.0% to 5.0%		6 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; believes that market conditions currently favor sellers.	3.0% to 4.0%	3.0%	8.00% to 9.00%	3.0% to 4.0%	9.00% to 10.00%	6.50% to 8.50%	Yes	3.0% to 5.0%	4.0% to 5.0%	8 to 10
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; expects occupancy to increase 25 to 50 basis points over the next six months.	5.0% to 8.0%	2.0% to 4.0%	6.00% to 8.00%	1.0% to 2.0%	9.00% to 11.00%	6.00% to 8.00%	Yes	2.0% to 4.0%	1.0% to 2.0%	2 to 4
PRIVATE HOTEL COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; expects overall cap rates to hold steady over the next six months.	3.0%	3.0%	10.00%	2.0%	10.00% to 11.00%	9.50% to 10.00%	Yes	3.0%	2.0%	4 to 12
PRIVATE INVESTOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; prefers West Coast, East Coast, and Midwest.	10.0% to 20.0%	4.0% to 6.0%	7.00% to 10.00%	1.0% to 3.0%	11.00% to 13.00%	7.00% to 10.00%	Yes	3.0%	4.0% to 5.0%	5 to 7

Source: Personal survey conducted by PwC during July 2011.

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NATIONAL SELECT-SERVICE LODGING SEGMENT–SELECT SURVEY RESPONSES

Third Quarter 2011

	INITIAL-YEAR CHANGE RATES		RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	IS FF&E DEDUCTED FROM NOI PRIOR TO CAPITALIZATION?	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	YES/NO	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
OWNER/MANAGER ✦ Forecast Period: 1 to 4 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; deducts both FF&E and structural reserve from NOI before capitalization; expects overall cap rates to hold steady over the next six months.	0.0% to 2.0%	1.0% to 2.0%	9.00% to 12.00%	5.0%	11.50%	8.00% to 12.00%	Yes	3.0% to 4.0%	3.0% to 5.0%	9 to 12
REAL ESTATE ADVISER ✦ Forecast Period: 3 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; expects overall cap rates to decrease between 50 and 150 basis points over the next six months; believes market conditions currently favor sellers.	5.0% to 8.0%	2.0% to 3.0%	7.00% to 9.00%	1.0% to 2.0%	10.00% to 12.00%	7.00% to 10.00%	Yes	2.5% to 6.0%	1.0%	4 to 6
REIT ✦ Forecast Period: 4 years Uses both DCF and direct capitalization; in direct cap, capitalizes both the prior 12 months of income and the next 12 months of income; expects overall cap rates to hold steady over the next six months; believes that market conditions currently favor sellers.	5.0% to 10.0%	3.0%	6.00% to 10.00%	2.0% to 3.0%	10.00% to 15.00%	5.00% to 9.00%	Yes	3.0% to 4.0%	3.0% to 5.0%	2 to 12
OWNER/MANAGER ✦ Forecast Period: 3 to 8 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; expects overall cap rates to increase between 50 and 100 basis points over the next six months; believes that market conditions equally favor buyers and sellers.	6.0% to 8.0%	3.0%	8.00% to 10.00%	2.0% to 5.0%	10.00% to 12.00%	6.00% to 9.00%	Yes	3.5% to 5.0%	1.0% to 3.0%	2 to 6
INVESTMENT FIRM ✦ Forecast Period: 3 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes the next 12 months of income; expects overall cap rates to hold steady over the next six months; believes that market conditions currently favor buyers.	2.0% to 8.0%	2.5%	8.50% to 10.50%	2.0% to 3.0%	10.50% to 13.00%	8.00% to 10.00%	Yes	2.5% to 3.5%	4.0% to 5.0%	5 to 9

Source: Personal survey conducted by PwC during July 2011.

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INVESTMENT AND PROPERTY CHARACTERISTICS: OFFICE MARKETS

Third Quarter 2011

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		STRUCTURAL VACANCY		YEARS TO REACH STRUCTURAL VACANCY		TENANT IMPROVEMENT ALLOWANCE (PSF) NEW DEALS (1)		RENEWAL LEASES	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National CBD	0.00% – 10.00%	4.2%	50.00% – 100.00%	80.5%	4.00% – 12.50%	7.8%	1 – 7	3.0	$10.00 – $75.00	$32.14	$7.50 – $30.00	$15.89
National Suburban	(10.00%) – 10.00%	3.2%	40.00% – 100.00%	81.9%	5.00% – 15.00%	9.8%	0 – 7	3.1	$0.00 – $80.00	$28.93	$0.00 – $25.00	$12.80
Atlanta	(10.00%) – 15.00%	1.6%	65.00% – 100.00%	83.3%	5.00% – 12.00%	9.7%	0 – 7	3.0	$7.50 – $85.00	$31.16	$5.00 – $55.00	$16.21
Boston	(25.00%) – 15.00%	1.0%	50.00% – 110.00%	84.3%	3.00% – 12.00%	8.4%	0 – 5	2.1	$10.00 – $70.00	$40.00	$5.00 – $25.00	$16.79
Charlotte	(15.00%) – 15.00%	2.0%	70.00% – 100.00%	84.4%	3.00% – 15.00%	7.6%	1 – 5	2.8	$5.00 – $50.00	$27.13	$5.00 – $30.00	$12.38
Chicago	(10.00%) – 15.00%	5.1%	30.00% – 100.00%	72.8%	7.00% – 15.00%	10.6%	1 – 5	3.2	$5.00 – $80.00	$42.69	$5.00 – $40.00	$22.53
Dallas	0.00% – 20.00%	7.0%	50.00% – 100.00%	80.0%	6.00% – 15.00%	9.5%	0 – 3	1.8	$5.00 – $60.00	$28.75	$8.00 – $25.00	$14.42
Denver	(10.00%) – 15.00%	3.1%	50.00% – 100.00%	78.0%	8.00% – 20.00%	12.8%	1 – 5	3.0	$7.00 – $50.00	$27.00	$2.00 – $25.00	$9.38
Houston	0.00% – 15.00%	4.7%	20.00% – 110.00%	75.8%	5.00% – 15.00%	8.2%	1 – 3	2.1	$5.00 – $60.00	$28.56	$2.00 – $25.00	$11.67
Los Angeles	0.00% – 10.00%	2.3%	50.00% – 100.00%	84.0%	3.00% – 12.00%	8.1%	0 – 6	2.8	$10.00 – $70.00	$32.50	$5.00 – $30.00	$13.75
Manhattan	0.00% – 10.00%	5.4%	50.00% – 100.00%	84.6%	3.00% – 12.00%	7.8%	0 – 5	1.7	$20.00 – $120.00	$55.83	$15.00 – $50.00	$26.25
Northern Virginia	(7.50%) – 10.00%	0.9%	80.00% – 110.00%	92.5%	5.00% – 15.00%	8.5%	0 – 3	1.9	$20.00 – $100.00	$47.13	$5.00 – $35.00	$19.79
Pacific Northwest	(5.00%) – 10.00%	3.5%	25.00% – 110.00%	75.5%	5.00% – 20.00%	9.1%	2 – 5	3.5	$10.00 – $100.00	$42.50	$0.00 – $50.00	$15.42
Philadelphia	(20.00%) – 15.00%	0.5%	55.00% – 100.00%	78.6%	5.00% – 12.50%	8.3%	1 – 5	2.4	$5.00 – $45.00	$25.42	$5.00 – $20.00	$10.42
Phoenix	(10.00%) – 5.00%	(2.5%)	40.00% – 100.00%	67.9%	5.00% – 20.00%	12.8%	2 – 5	3.7	$10.00 – $55.00	$30.00	$7.00 – $15.00	$10.50
San Diego	(5.00%) – 5.00%	1.0%	70.00% – 100.00%	84.6%	1.00% – 15.00%	7.0%	1 – 6	3.2	$10.00 – $60.00	$31.25	$5.00 – $20.00	$11.31
San Francisco	(5.00%) – 20.00%	6.4%	60.00% – 100.00%	79.6%	3.00% – 12.00%	7.2%	1 – 5	2.6	$5.00 – $80.00	$33.54	$0.00 – $30.00	$11.94
Southeast Florida	(25.00%) – 10.00%	(2.2%)	40.00% – 100.00%	75.0%	5.00% – 30.00%	10.5%	1 – 5	2.7	$0.00 – $50.00	$25.80	$5.00 – $35.00	$13.70
Suburban Maryland	(10.00%) – 10.00%	0.6%	70.00% – 105.00%	88.8%	5.00% – 12.00%	8.6%	0 – 5	1.8	$10.00 – $85.00	$39.06	$5.00 – $30.00	$16.88
Washington, DC	(10.00%) – 10.00%	3.4%	70.00% – 120.00%	98.4%	5.00% – 10.00%	6.5%	0 – 3	0.7	$25.00 – $100.00	$52.68	$10.00 – $45.00	$24.64

(1) Includes both second-generation and new space; a breakout of TI allowances is included in the fourth quarter issue of each Survey.

Source: Personal survey conducted by PwC during July 2011.

INVESTMENT AND PROPERTY CHARACTERISTICS: NATIONAL AND REGIONAL MARKETS

Third Quarter 2011

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		CLASS-A+ and A MALLS IRRs		OARs		CLASS-B+ and B MALLS IRRs		OARs		STABILIZED OCCUPANCY	
MARKET	**RANGE**	**AVERAGE**	**RANGE**	**AVERAGE**	**RANGE**	**AVERAGE**	**RANGE**	**AVERAGE**	**RANGE**	**AVERAGE**	**RANGE**	**AVERAGE**	**RANGE**	**AVERAGE**
National Regional Mall	0.00% – 10.00%	2.5%	80.00% – 125.00%	97.2%	5.25% – 11.50%	8.68%	4.75% – 8.50%	6.51%	6.75% – 14.00%	10.20%	6.00% – 10.50%	8.21%	87.50% – 97.00%	92.5%
National Power Center	(20.00%) – 10.00%	(1.9%)	60.00% – 110.00%	91.3%									80.00% – 95.00%	90.5%
National Strip Shopping Center	(15.00%) – 10.00%	1.7%	20.00% – 120.00%	88.6%									80.00% – 97.00%	91.2%

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		FINISHED SPACE %		TIs - 2ND GENERATION SPACE (PSF/UNIT)		TIs - RENEWAL (PSF/UNIT)	
MARKET	**RANGE**	**AVERAGE**	**RANGE**	**AVERAGE**	**RANGE**	**AVERAGE**	**RANGE**	**AVERAGE**	**RANGE**	**AVERAGE**
National Flex/R&D	(10.00%) – 10.00%	3.0%	60.00% – 100.00%	83.5%	10.00% – 80.00%	39.6%	$0.00 – $25.00	$10.79	$0.00 – $12.00	$5.17
National Warehouse	(30.00%) – 20.00%	3.8%	60.00% – 100.00%	84.2%	0.00% – 20.00%	7.6%	$0.00 – $10.00	$1.43	$0.00 – $2.50	$0.61
Apartment (National)	(3.00%) – 15.00%	4.6%	85.00% – 105.00%	95.0%						
Apartment (Mid-Atlantic Region)	(20.00%) – 10.00%	2.3%	60.00% – 125.00%	97.8%						
Apartment (Pacific Region)	(25.00%) – 25.00%	4.4%	70.00% – 125.00%	96.3%						
Apartment (Southeast Region)	(15.00%) – 10.00%	1.0%	60.00% – 110.00%	85.6%						
National Net Lease	(20.00%) – 15.00%	0.9%	70.00% – 150.00%	100.4%			$4.00 – $25.00	$15.63	$4.00 – $20.00	$9.06
National Medical Office Buildings	(20.00%) – 10.00%	0.1%	50.00% – 120.00%	98.0%			$5.00 – $40.00	$19.75	$2.50 – $40.00	$12.53

Source: Personal survey conducted by PwC during July 2011.

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YIELD COMPARISONS

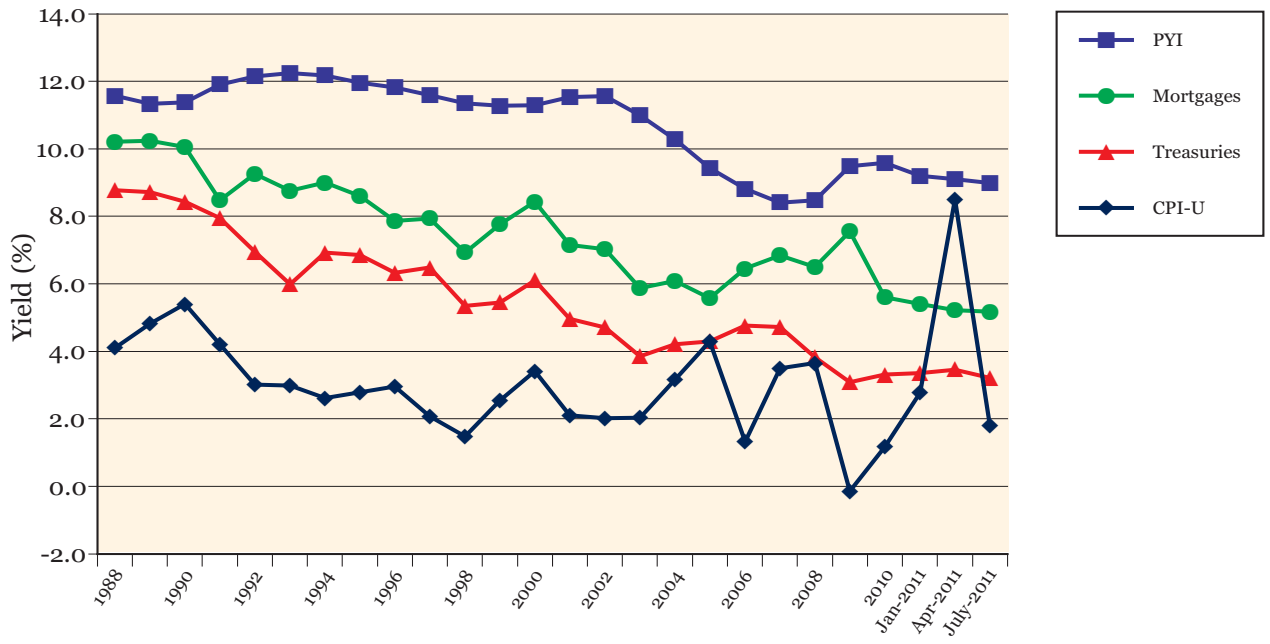
July 1, 2011

	2006 AVERAGE	2007 AVERAGE	2008 AVERAGE	2009 AVERAGE	2010 AVERAGE	2010 OCTOBER	2011 JANUARY	2011 APRIL	2011 JULY
PwC Yield Indicator (PYI)[a]	8.81%	8.41%	8.47%	9.49%	9.58%	9.32%	9.20%	9.10%	8.99%
Long-Term Mortgages[b]	6.45%	6.84%	6.50%	7.55%	5.60%	4.64%	5.41%	5.22%	5.17%
10-Year Treasuries[c]	4.76%	4.72%	3.82%	3.09%	3.31%	2.54%	3.36%	3.46%	3.22%
Consumer Price Index Change[d]	1.32%	3.50%	3.65%	(0.14%)	1.17%	1.28%	2.77%	8.51%	1.81%
SPREAD TO PYI (Basis Points)									
Long-Term Mortgages	236	157	197	194	398	468	379	388	382
10-Year Treasuries	405	369	465	640	627	678	584	564	577
Consumer Price Index Change	749	491	482	963	841	804	643	59	718

a. A composite IRR average of the markets surveyed (excluding hotels).
b. Fixed-rate mortgages; immediate funding. Source: CB Richard Ellis/L.J. Melody Capital Markets; reflects conventional funding, 70% average LTV commercial loans; fixed rates, 15-year average term.
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

July 1, 2011



DIVIDEND COMPARISONS

July 1, 2011

	2006 AVERAGE	2007 AVERAGE	2008 AVERAGE	2009 AVERAGE	2010 AVERAGE	2010 OCTOBER	2011 JANUARY	2011 APRIL	2011 JULY
PwC Dividend Indicator (PDI)[a]	7.42%	7.01%	6.99%	8.09%	8.21%	7.94%	7.78%	7.63%	7.54%
Equity REITs[b]	4.19%	3.93%	5.07%	6.62%	3.88%	3.78%	3.58%	3.48%	3.30%
S&P 500[c]	1.80%	1.76%	2.19%	2.90%	2.00%	1.96%	1.81%	1.77%	1.84%
SPREAD TO PDI (Basis Points)									
Equity REITs	323	308	192	147	433	416	420	415	424
S&P 500	562	525	480	519	621	598	597	586	570

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

INSTITUTIONAL-GRADE VS. NONINSTITUTIONAL-GRADE PROPERTY RATES

Third Quarter 2011

	INSTITUTIONAL				NONINSTITUTIONAL (BASIS-POINT SPREAD TO INSTITUTIONAL RATES)			
	IRRs		OARs		IRRs		OARs	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National Regional Mall	5.25% – 14.00%	9.56%	4.75% – 11.00%	7.50%	50 – 350	192	25 – 500	279
National Power Center	7.00% – 12.00%	8.73%	6.00% – 9.50%	7.50%	NA	NA	NA	NA
National Strip Shopping Center	6.50% – 12.50%	8.61%	5.50% – 9.50%	7.20%	50 – 800	235	25 – 1,000	250
National CBD Office	5.25% – 11.00%	8.59%	4.75% – 10.00%	6.91%	(a)	(a)	(a)	(a)
National Suburban Office	5.75% – 12.50%	8.56%	5.00% – 11.00%	7.47%	50 – 250	129	25 – 300	154
Atlanta Office	7.75% – 15.00%	10.02%	7.00% – 11.00%	8.71%	(a)	(a)	(a)	(a)
Boston Office	7.00% – 15.00%	9.35%	5.75% – 12.00%	7.88%	100 – 1,000	320	100 – 500	238
Charlotte Office	8.00% – 12.00%	9.48%	6.50% – 10.00%	8.41%	100 – 400	225	100 – 200	138
Chicago Office	6.50% – 13.00%	9.32%	5.75% – 11.00%	8.19%	100 – 600	288	100 – 300	217
Dallas Office	7.50% – 12.00%	9.08%	6.25% – 11.00%	8.04%	(a)	(a)	(a)	(a)
Denver Office	7.75% – 15.00%	9.76%	6.50% – 11.00%	7.97%	200 – 800	450	100 – 500	242
Houston Office	7.25% – 15.00%	9.50%	6.25% – 11.00%	8.07%	(a)	(a)	(a)	(a)
Los Angeles Office	7.00% – 12.00%	8.49%	5.00% – 9.00%	7.09%	0 – 300	125	0 – 200	100
Manhattan Office	6.50% – 10.00%	7.71%	4.00% – 8.00%	5.75%	50 – 350	166	50 – 350	203
Northern Virginia Office	7.50% – 10.00%	8.58%	5.75% – 9.00%	7.58%	(a)	(a)	(a)	(a)
Pacific Northwest Office	7.00% – 14.00%	9.58%	5.50% – 12.00%	8.01%	50 – 500	221	(a)	(a)
Philadelphia Office	8.00% – 11.00%	9.38%	7.50% – 10.00%	8.62%	50 – 200	118	50 – 150	90
Phoenix Office	8.00% – 16.00%	10.47%	8.00% – 11.00%	9.34%	(a)	(a)	(a)	(a)
San Diego Office	7.00% – 12.50%	9.38%	6.00% – 10.00%	7.99%	(a)	(a)	(a)	(a)
San Francisco Office	6.50% – 11.00%	8.51%	4.60% – 9.50%	6.99%	25 – 500	197	25 – 400	197
Southeast Florida Office	7.00% – 16.00%	10.38%	7.00% – 15.00%	9.50%	(a)	(a)	(a)	(a)
Suburban Maryland Office	7.25% – 9.50%	8.41%	6.00% – 9.00%	7.48%	(a)	(a)	(a)	(a)
Washington, DC Office	6.50% – 9.00%	7.56%	4.50% – 8.00%	5.98%	(a)	(a)	(a)	(a)
National Flex/R&D	8.00% – 13.00%	9.58%	6.50% – 12.00%	8.67%	100 – 500	267	100 – 400	233
National Warehouse	6.80% – 12.50%	8.54%	6.00% – 12.00%	7.45%	100 – 500	267	100 – 300	221
National Apartment	4.75% – 14.00%	8.34%	3.75% – 10.00%	5.98%	25 – 400	205	25 – 400	163
Apartment (Mid-Atlantic Region)	5.60% – 14.00%	9.32%	4.00% – 7.50%	5.98%	25 – 400	254	25 – 400	188
Apartment (Pacific Region)	6.00% – 12.50%	8.77%	4.00% – 7.00%	5.42%	(a)	(a)	(a)	(a)
Apartment (Southeast Region)	6.50% – 11.00%	7.90%	5.00% – 7.00%	5.92%	25 – 400	254	25 – 400	204
National Medical Office Buildings	7.00% – 13.00%	9.24%	6.00% – 11.00%	8.10%	100 – 400	228	50 – 300	169

(a) Participants are not currently pursuing noninstitutional investments in this market.

Source: Personal survey conducted by PwC during July 2011.

pwc

INCOME CAPITALIZED IN DIRECT CAPITALIZATION
Third Quarter 2011

	PERCENTAGE OF SURVEY RESPONDENTS USING:					
	METHOD 1 (a)		METHOD 2 (a)		METHOD 3 (a)	
MARKET	CURRENT	YEAR AGO	CURRENT	YEAR AGO	CURRENT	YEAR AGO
National Retail						
Regional Mall	17.0%	16.7%	83.0%	83.3%	0.0%	0.0%
Power Center	20.0%	20.0%	80.0%	80.0%	0.0%	0.0%
Strip Shopping Center	18.0%	22.2%	73.0%	66.7%	9.0%	11.1%
Office						
National CBD	0.0%	10.0%	100.0%	80.0%	0.0%	10.0%
National Suburban	18.0%	25.0%	64.0%	60.0%	18.0%	15.0%
Atlanta	29.0%	29.0%	71.0%	71.0%	0.0%	0.0%
Boston	14.0%	14.3%	86.0%	85.7%	0.0%	0.0%
Charlotte	20.0%	16.7%	80.0%	83.3%	0.0%	0.0%
Chicago	22.0%	11.1%	78.0%	77.8%	0.0%	11.1%
Dallas	60.0%	40.0%	40.0%	60.0%	0.0%	0.0%
Denver	20.0%	33.3%	80.0%	66.7%	0.0%	0.0%
Houston	50.0%	50.0%	50.0%	50.0%	0.0%	0.0%
Los Angeles	33.0%	0.0%	67.0%	100.0%	0.0%	0.0%
Manhattan	17.0%	17.0%	83.0%	83.0%	0.0%	16.7%
Northern Virginia	33.0%	50.0%	50.0%	50.0%	17.0%	0.0%
Pacific Northwest	0.0%	0.0%	83.0%	100.0%	17.0%	0.0%
Philadelphia	29.0%	40.0%	71.0%	60.0%	0.0%	0.0%
Phoenix	40.0%	50.0%	60.0%	50.0%	0.0%	0.0%
San Diego	20.0%	20.0%	80.0%	80.0%	0.0%	0.0%
San Francisco	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%
Southeast Florida	25.0%	25.0%	75.0%	75.0%	0.0%	0.0%
Suburban Maryland	0.0%	20.0%	75.0%	80.0%	25.0%	0.0%
Washington, DC	17.0%	43.0%	67.0%	57.0%	17.0%	0.0%
National Flex/R&D	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%
National Warehouse	23.0%	30.8%	69.0%	61.5%	8.0%	7.7%
Apartment[b]						
National	80.0%	56.0%	20.0%	35.0%		
Mid-Atlantic Region	83.0%	83.3%	17.0%	16.7%		
Pacific Region	83.0%	83.0%	17.0%	17.0%		
Southeast Region	67.0%	60.0%	33.0%	40.0%		
National Net Lease	25.0%	38.0%	38.0%	38.0%	38.0%	24.0%
National Medical Office Buildings	30.0%	11.1%	70.0%	77.8%	0.0%	11.1%

Note: Lines may not add to up to 100% due to rounding.

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

b. **Method 1:** NOI after deducting capital replacement reserve.
Method 2: NOI before deducting capital replacement reserve.

LODGING INCOME CAPITALIZED IN DIRECT CAPITALIZATION
Third Quarter 2011

	PRIOR 12 MONTHS[a]		FORECAST 12 MONTHS[b]		BOTH[c]	
SEGMENT	CURRENT	YEAR AGO	CURRENT	YEAR AGO	CURRENT	YEAR AGO
Full Service	33.0%	63.0%	50.0%	12.0%	17.0%	25.0%
Limited-Service Midscale & Economy	60.0%	60.0%	40.0%	40.0%	0.0%	0.0%
Luxury/Upper Upscale	20.0%	25.0%	70.0%	63.0%	10.0%	12.0%
Select Service	60.0%		20.0%		20.0%	

Note: Lines may not add to up to 100% due to rounding.

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

FORECAST PERIODS AND CHANGE RATES: OFFICE MARKETS

Third Quarter 2011

	FORECAST PERIOD		MARKET RENT CHANGE RATES INITIAL YEAR		FORECAST PERIOD AVERAGE		EXPENSE CHANGE RATES INITIAL YEAR		FORECAST PERIOD AVERAGE	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National CBD Office	5 – 10	9	(4.00%) – 10.00%	2.00%	2.00% – 7.00%	3.36%	2.00% – 4.00%	2.75%	2.00% – 4.00%	2.75%
National Suburban Office	5 – 10	9	(5.00%) – 5.00%	1.27%	0.00% – 5.00%	2.75%	2.00% – 4.00%	2.82%	2.00% – 4.00%	2.95%
Atlanta Office	3 – 10	7	(3.00%) – 2.00%	0.07%	0.00% – 5.00%	2.21%	0.00% – 3.00%	2.32%	1.50% – 3.00%	2.79%
Boston Office	3 – 10	8	0.00% – 5.00%	1.43%	(5.00%) – 4.50%	2.51%	0.00% – 4.50%	2.81%	0.00% – 4.50%	2.89%
Charlotte Office	3 – 10	7	0.00% – 3.00%	0.75%	0.00% – 4.00%	2.06%	2.00% – 3.00%	2.75%	2.00% – 3.00%	2.79%
Chicago Office	3 – 10	8	(10.00%) – 3.00%	0.11%	0.00% – 5.00%	3.09%	1.50% – 3.00%	2.83%	2.00% – 3.00%	2.88%
Dallas Office	3 – 10	8	0.00% – 5.00%	1.83%	0.00% – 10.00%	3.87%	1.00% – 3.00%	2.67%	2.00% – 10.00%	3.50%
Denver Office	1 – 11	7	(20.00%) – 5.00%	(0.80%)	1.50% – 5.00%	2.98%	3.00% – 3.00%	3.00%	3.00% – 3.00%	3.00%
Houston Office	3 – 10	8	0.00% – 3.00%	1.25%	0.00% – 13.00%	4.37%	2.00% – 3.00%	2.83%	3.00% – 9.00%	3.92%
Los Angeles Office	1 – 10	9	0.00% – 4.00%	1.78%	0.00% – 5.00%	3.17%	1.00% – 3.00%	2.75%	1.00% – 5.00%	2.92%
Manhattan Office	5 – 10	9	0.00% – 10.00%	4.96%	3.00% – 10.00%	4.88%	2.00% – 3.00%	2.92%	2.00% – 3.00%	2.92%
Northern Virginia Office	5 – 10	10	0.00% – 3.50%	1.67%	2.00% – 3.50%	2.88%	1.50% – 3.00%	2.83%	2.50% – 3.00%	2.96%
Pacific Northwest Office	3 – 10	8	0.00% – 7.30%	2.72%	0.00% – 10.00%	4.23%	1.00% – 3.00%	2.75%	1.00% – 3.50%	2.83%
Philadelphia Office	3 – 10	7	0.00% – 3.00%	1.32%	1.75% – 3.00%	2.77%	2.75% – 3.00%	2.96%	3.00% – 3.00%	3.00%
Phoenix Office	3 – 11	9	(15.00%) – 3.00%	(1.30%)	0.00% – 5.00%	2.35%	0.00% – 3.00%	2.65%	2.00% – 3.00%	2.85%
San Diego Office	3 – 10	8	(10.00%) – 3.41%	(0.22%)	1.00% – 5.00%	3.25%	2.00% – 3.00%	2.90%	2.00% – 3.00%	2.90%
San Francisco Office	5 – 10	9	0.00% – 10.00%	4.03%	2.00% – 9.00%	4.97%	0.00% – 3.00%	2.67%	2.00% – 3.00%	2.83%
Southeast Florida Office	1 – 10	7	(10.00%) – 3.00%	(0.92%)	(5.00%) – 4.00%	1.00%	1.00% – 3.00%	2.75%	1.00% – 3.00%	2.70%
Suburban Maryland Office	3 – 10	9	(2.00%) – 3.00%	1.00%	(1.00%) – 5.00%	2.41%	0.00% – 3.00%	2.60%	0.00% – 3.00%	2.70%
Washington, DC Office	5 – 10	10	0.00% – 4.00%	2.36%	3.00% – 5.00%	3.37%	1.50% – 3.00%	2.82%	2.50% – 3.00%	2.96%

Source: Personal survey conducted by PwC during July 2011.

FORECAST PERIODS AND CHANGE RATES: NATIONAL AND REGIONAL MARKETS

Third Quarter 2011

	FORECAST PERIOD		MARKET RENT CHANGE RATES INITIAL YEAR		FORECAST PERIOD AVERAGE		EXPENSE CHANGE RATES INITIAL YEAR		FORECAST PERIOD AVERAGE	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National Regional Mall	7 – 10	10	(3.00%) – 3.00%	1.50%	(2.00%) – 5.00%	2.50%	0.00% – 4.00%	2.25%	2.00% – 4.00%	2.92%
National Power Center	3 – 10	8	0.00% – 3.00%	0.80%	1.00% – 3.00%	2.38%	2.00% – 3.00%	2.80%	2.00% – 3.00%	2.88%
National Strip Shopping Center	1 – 10	9	0.00% – 4.00%	1.41%	0.00% – 4.09%	2.36%	2.00% – 4.00%	2.98%	3.00% – 4.00%	3.05%
National Flex/R&D	4 – 10	8	0.00% – 3.00%	1.33%	0.00% – 5.00%	2.54%	2.00% – 3.00%	2.92%	2.00% – 3.00%	2.92%
National Warehouse	5 – 10	9	(5.00%) – 7.00%	1.40%	0.00% – 5.00%	2.52%	2.00% – 3.00%	2.81%	0.00% – 3.00%	2.69%
Apartment (National)	1 – 10	8	(2.00%) – 8.00%	2.00%	0.00% – 6.00%	3.13%	0.00% – 4.00%	2.68%	0.00% – 4.00%	2.80%
Apartment (Mid-Atlantic Region)	4 – 10	7	(5.00%) – 5.00%	1.92%	1.00% – 6.00%	3.25%	1.00% – 3.00%	2.58%	1.00% – 3.00%	2.67%
Apartment (Pacific Region)	5 – 10	9	0.00% – 6.00%	2.83%	1.00% – 5.00%	3.42%	2.00% – 3.00%	2.79%	2.00% – 3.00%	2.88%
Apartment (Southeast Region)	2 – 10	6	(10.00%) – 4.00%	0.75%	0.00% – 4.00%	2.48%	1.00% – 3.00%	2.50%	0.00% – 3.00%	2.67%
National Net Lease	3 – 30	11	(3.00%) – 4.00%	1.07%	0.00% – 20.00%	3.29%	0.00% – 3.00%	1.82%	0.00% – 3.00%	1.96%
National Medical Office Buildings	1 – 10	6	0.00% – 3.00%	1.15%	0.00% – 5.00%	2.20%	0.00% – 4.00%	2.33%	0.00% – 5.00%	2.65%

Source: Personal survey conducted by PwC during July 2011.

Definitions

General

BASIS POINT
1/100th of a percentage point (0.01%).

CHANGE RATE
Annual compound rate of change.

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.

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.

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

MEDICAL OFFICE BUILDING (MOB)
A multitenant office building containing physicians' offices and exam rooms, and in some cases pharmacies and ancillary hospital-service space to conduct outpatient services, such as diagnostic testing, rehabilitation, and day-surgery operating procedures. MOBs are different from general office buildings since they typically require more plumbing and electrical and mechanical systems to accommodate equipment unique to medical practices.

NET OPERATING INCOME (NOI)
Income remaining after deduction of all property expenses (including real estate taxes). 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 leasin commissions

OVERALL CAPITALIZATION RATE
Initial rate of return in an all-cash transaction; the overall cap rates reported in this Survey reflect investors' expectations of property performance and are applied to one of the three net operating income levels noted above.

PROJECTION PERIOD[1]
A presumed period of ownership; a period of time over which expected net operating income is projected for purposes of analysis and valuation; also referred to as "forecast" period by Survey participants

PwC DIVIDEND INDICATOR (PDI)
A composite OAR average of the surveyed markets excluding lodging.

PwC YIELD INDICATOR (PYI)
A composite IRR average of the surveyed markets excluding lodging and development land

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

REPLACEMENT COST[1]
The estimated cost to construct, at current prices as of the effective appraisal date, a substitute for the building being appraised, using modern materials and current standards, design, and layout.

REPLACEMENT 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.

SHADOW SPACE[3]
Space within an occupied office suite that is not currently utilized by a tenant and is also not being marketed for subleasing

STRUCTURAL VACANCY[3]
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

GARDEN APARTMENT[1]
Development consisting of two- or three-story, walk-up structures built in a garden-like setting; customarily a suburban or rural-urban fringe development.

HIGH-RISE APARTMENT[5]
Multifamily housing development consisting of at least four stories.

MID-ATLANTIC REGION
As per NCREIF, includes Delaware, Maryland, Virginia, North Carolina, and South Carolina, as well as Washington, DC.

PACIFIC REGION
As per NCREIF, includes Washington, Oregon, and California.

SOUTHEAST REGION
As per NCREIF, includes Alabama, Arkansas, Florida, Georgia, Mississippi, and Tennessee.

Development Land

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

Various sources for these definitions include [1]*The Dictionary of Real Estate Appraisal, Fifth Edition,* published by the Appraisal Institute, [2]International Council of Shopping Centers, [3]investor interviews and PwC, [4]Smith Travel Research, and [5]National Multi Housing Council.

DEVELOPER'S PROFIT[1,3]
A market-derived figure that reflects the amount a developer expects to receive for his or her contribution to a project and risk

INDUSTRIAL

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

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

LODGING

AVERAGE DAILY RATE (ADR)[4]
Room revenue divided by rooms sold.

LIMITED-SERVICE MIDSCALE & ECONOMY[3,4]
Midscale lodging with "rooms only" and no food or beverage except possible continental breakfast; includes all economy lodging; lower-tier pricing; corresponds to STR's limited-service hotels in the midscale chain scale and all hotels in the economy chain scale; includes brands such as Howard Johnson, Sleep Inn, and Motel 6.

EXTENDED-STAY[3]
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[3,4]
Lodging with restaurant and lounge facilities, meeting space, and a minimum service and amenities level; moderate to lower upper-tier pricing; corresponds to STR's full-service hotels in the upscale, upper midscale, and midscale chain scales; includes brands such as Doubletree, Radisson, and Ramada.

LUXURY/UPPER UPSCALE[3,4]
High-quality lodging offering personalized guest services, typically with extensive amenities, and upper-tier pricing; corresponds to STR's luxury and upper-upscale chain scales; includes brands such as Ritz Carlton, Four Seasons, and Hyatt.

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 ongoing 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.

SELECT SERVICE[3,4]
Upscale and upper-midscale lodging with "rooms only" and no food or beverage except possible breakfast; moderate pricing; excludes economy properties; corresponds to STR's select-service hotels in the upscale chain scale and limited-service hotels in the upper-midscale chain scale; includes brands such as Hampton Inn, Residence Inn, and Comfort Inn.

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.

LIFESTYLE CENTER[2]
Most often located near affluent residential neighborhoods, this center type caters to the retail needs and "lifestyle" pursuits of consumers in its trading area. It has an open-air configuration and typically includes at least 50,000 square feet of space occupied by upscale national chain specialty stores. Other elements, such as restaurants and entertainment, design ambience and amenities like fountains and street furniture, make the lifestyle center serve as a multi-purpose leisure-time destination. One or more conventional or fashion specialty department stores often act as anchors.

OUTLET CENTER[2]
Consist mostly of manufacturers' outlet stores selling their own brands at a discount. Usually located in rural or occasionally in tourist locations. A strip configuration is most common, although some are enclosed or arranged in a "village" format.

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, and 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[3]

Class	Inline Retail Sales (Per Sq. Ft.)
A+	$600 and up
A	$450 to $599
B+	$350 to $449
B	$250 to $349
C	Less than $250

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).

Various sources for these definitions include [1]*The Dictionary of Real Estate Appraisal, Fifth Edition,* published by the Appraisal Institute, [2]International Council of Shopping Centers, [3]investor interviews and PwC, [4]Smith Travel Research, and [5]National Multi Housing Council.

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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.

The information in this survey is gathered through on-line questionnaires and telephone interviews. As such, the findings and opinions expressed reflect those of our investor participants and do not necessarily reflect those of PwC. 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.

Investor Survey Responses: The individual investor responses contained in the large tables in the back of each issue are a representative sample. Due to space constraints, not all responses are included.

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*16-page supplement following 9/11

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