www.pwc.com/us/realestatesurvey

Fourth Quarter 2010

Risk Tolerance Improves for Noncore Assets

PwC Real Estate Investor Survey™

pwc

pwc

Dear Reader:

New look. New name. Same publication. With the recent rebranding of Pricewaterhouse-Coopers to simply PwC, the timing is perfect to freshen up the appearance of the Survey, as well as update its name to reflect PwC's proud ownership of the publication for the past 11 years. But rest assured, the methodology and production of the Survey, including its content and reporting, remain the same.

One thing that has changed over the past three months, however, is the willingness on the part of investors to look for acquisition opportunities beyond either super core markets and trophy assets or distressed properties. Reasons for this growing interest of "riskier" plays are highlighted in this quarter's lead story, "Risk Tolerance Improves for Noncore Assets."

Vibrant investment demand continues to put downward pressure on overall capitalization rates. This quarter's *Overall Cap Rate Analysis* section reports on the quarterly rate changes for each market, as well as where surveyed investors expect rates to trend over the next six months.

Lastly, the semiannual *Domestic Self-Storage Market*, contributed by Chris Sonne, senior managing director of the Self Storage Industry Group of Cushman & Wakefield is also included in this issue. Read it to see where cap rates are trending and investment sentiment sits for this niche asset class.

As the end of 2010 draws near, I wish you a very happy and healthy holiday season and a prosperous new year!

Sincerely,

Susan Smith

Susan M. Smith
Editor-in-Chief

In This Issue

PwC Real Estate Investor Survey

National Highlights

Risk Tolerance Improves for Noncore Assets

As investors see slight, yet promising, signs that the U.S. economy is likely to evade a double-dip recession and that the supply-demand dynamics of the still-frail commercial real estate industry have mostly bottomed, there is an increased willingness to look for buying opportunities beyond either super core markets and trophy assets or vastly distressed properties. "Interest in secondary locations, Class-B properties, and value-added Class-A plays is heating up," remarks a participant. "I'm starting to see a few buyers take on more risk," says another. Such behavior suggests that both investors and lenders are gaining more confidence in the performance of the economy and the industry as a whole.

While buyers are not yet rushing in droves to acquire noncore assets and offerings in secondary markets, riskier plays are enticing a growing number of investors as the market for trophy deals is becoming saturated with eager capital. Heading into 2010, most investors were looking to purchase assets described as either "treasures" – high-quality, well-located properties with strong occupancies and stable rent rolls – or "traumas" – assets in need of repair, tenants, capital or any combination of the three, which could be acquired well below replacement cost. "There was fierce competition at both ends of the quality spectrum, but no takers for the middle assets," states an investor.

By midyear 2010, the anticipated number of "trauma" assets fell short, leaving cash-laden investors targeting the same few top-notch offerings and prime markets. A flight-to-quality scenario had clearly emerged. At the same time, lending markets came back to life for quality deals, helping to further fuel investment demand for trophy assets. With a limited number of stellar offerings to satisfy investor demand, competition became intense for the best assets, particularly for core trophy office towers, resulting in lower overall cap rates and higher prices. In fact, the average price of office building sales closing above $25.0 million rose 27.0% year over year in November 2010, according to Real Capital Analytics. In contrast, the average price dipped 5.0% for sales between $10.0 and $25.0 million and rose only 9.0% for sales between $5.0 and $10.0 million.

Rising prices for an evaporating pool of core offerings, a desire for higher yields, and evidence that the economy and industry are both healing are main reasons investors are looking to widen investment parameters and take on additional risk. "We are more comfortable with the leasing markets now and are starting to look more seriously at value-added deals with moderate risk that we can manage and control well," shares an investor. In one recent value-added sale, Westcore Properties purchased the two-building, 40.0%-leased Mammoth Professional Office Park in Orange County that "it sees as positioned for the next market phase." In another value-added deal, the Class-A, 29.0%-leased Interchange Business Center in San Bernardino was acquired by a joint venture, which noted that the purchase "provided an attractive opportunity to capitalize on current market stress by acquiring a Class-A industrial space in a recovering market at a significant discount to replacement cost."

In 2011, most Survey participants expect many investors to continue to "move up the risk ladder" and look beyond core assets and prime markets for opportunities. As one long-time investor remarks, "Noncore assets have yet to experience the pricing surge currently occurring in the dominant gateway markets and could prove to be very smart investment plays at this point in the cycle." ✦

Overall Cap Rate Analysis

THE AVERAGE OVERALL CAPITALIZATION (CAP) RATE DECREASED IN 27 SURVEY MARKETS, INCREASED IN TWO OF THEM, AND HELD STEADY IN TWO OTHERS OVER THE PAST THREE MONTHS. As illustrated in Exhibit 1, the two highest decreases this quarter are reported for apartment markets – the national market and the Southeast region (declining 61 and 107 basis points, respectively). The national CBD office market also experienced a large drop this quarter due to aggressive bidding on the part of eager buyers for core assets, low interest rates, and an improved lending environment.

Although an increasing number of investors are expanding acquisition searches to include secondary markets and "impaired" assets, cap rate compression continues to mainly occur for better-positioned and well-located assets that exhibit stable rent rolls and limited near-term leasing risk.

Exhibit 1

OVERALL CAPITALIZATION RATES

Fourth Quarter 2010

National Markets	Average	Quarterly Change*
Apartment	6.51%	– 61
CBD Office	7.53%	– 48
Regional Mall	7.58%	– 23
Strip Shopping Center	7.63%	– 46
Warehouse	7.98%	– 40
Power Center	8.08%	– 30
Suburban Office	8.17%	– 23
MOB**	8.49%	– 9
Net Lease	8.69%	– 19
Flex/R&D	9.15%	0
Apartment Markets		
Pacific Region	6.58%	– 32
Mid-Atlantic Region	6.65%	– 50
Southeast Region	6.68%	– 107
Office Markets		
Manhattan	6.02%	– 21
Washington, DC	6.61%	– 3
Los Angeles	7.46%	– 30
San Francisco	7.57%	– 12
Suburban Maryland	7.65%	– 10
Northern Virginia	7.69%	+ 19
Pacific Northwest	8.25%	– 16
San Diego	8.25%	– 1
Denver	8.27%	– 2
Boston	8.31%	– 20
Chicago	8.41%	– 16
Houston	8.49%	– 33
Charlotte	8.53%	– 21
Philadelphia	8.69%	– 2
Dallas	8.75%	– 1
Atlanta	8.84%	– 11
Phoenix	9.23%	0
Southeast Florida	9.39%	+ 20

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

Exhibit 2

OVERALL CAPITALIZATION RATE FORECASTS

Fourth Quarter 2010

	OVERALL CAP RATE	EXPECTATIONS(1)		CHANGE(2)	
MARKET	AVERAGE	SHIFT	%	AVERAGE	RANGE
National Regional Mall	7.58%	(c)	66.7%		
National Power Center	8.08%	(c)	81.0%		
National Strip Shopping Center	7.63%	(c)	66.7%		
National CBD Office	7.53%	(b)	70.0%	(26)	(50) – 0
National Suburban Office	8.17%	(c)	66.7%		
Atlanta Office	8.84%	(c)	57.1%		
Boston Office	8.31%	(c)	42.9%		
Charlotte Office	8.53%	(b)	80.0%	(50)	(110) – 0
Chicago Office	8.41%	(b)	50.0%	(28)	(50) – 0
Dallas Office	8.75%	(c)	60.0%		
Denver Office	8.27%	(c)	60.0%		
Houston Office	8.49%	(c)	83.3%		
Los Angeles Office	7.46%	(c)	100.0%		
Manhattan Office	6.02%	(c)	80.0%		
Northern Virginia Office	7.69%	(c)	66.7%		
Pacific Northwest Office	8.25%	(c)	80.0%		
Philadelphia Office	8.69%	(c)	50.0%		
Phoenix Office	9.23%	n/a	n/a		
San Diego Office	8.25%	(c)	100.0%		
San Francisco Office	7.57%	(b)	55.6%	(29)	(100) – 0
Southeast Florida Office	9.39%	n/a	n/a		
Suburban Maryland Office	7.65%	n/a	n/a		
Washington, DC Office	6.61%	(c)	57.1%		
National Flex/R&D	9.15%	(c)	83.3%		
National Warehouse	7.98%	(c)	50.0%		
Apartment					
National	6.51%	(c)	57.1%		
Mid-Atlantic Region	6.65%	(c)	83.3%		
Pacific Region	6.58%	(c)	30.0%		
Southeast Region	6.68%	(c)	50.0%		
National Net Lease	8.69%	(c)	57.1%		
National Medical Office Buildings	8.49%	(c)	55.6%		

(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, combined with the reopening of the debt markets, continues to be recognized in investors' expectations that overall cap rates will either hold steady or decline over the next six months. As shown in Exhibit 2, Survey participants expect overall cap rates to hold steady in 24 of the Survey's 31 markets over the next six months. While four markets report the potential for decreases in the near term, none are expected to realize increases.

Markets where the majority of participants expect overall cap rates to decline in the near term include the national CBD office market (down as much as 50 basis points), the Charlotte office market (down as much as 110 basis points), the San Francisco office market (down as much as 100 basis points), and the Chicago office market (down as much as 50 basis points).

Key Indicator Breakout

Overall cap rates, discount rates, and residual cap rates for the CBD and suburban submarkets of 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 – less risk, lower overall cap rate. ✦

Exhibit 3

BREAKOUT OF KEY INDICATORS

Fourth Quarter 2010

CBD OF:	DISCOUNT RATE RANGE	AVERAGE	OVERALL CAPITALIZATION RATE RANGE	AVERAGE	RESIDUAL CAPITALIZATION RATE RANGE	AVERAGE
Atlanta	7.75% – 14.00%	9.89%	7.00% – 10.00%	8.66%	7.00% – 10.00%	8.75%
Boston	7.75% – 12.00%	9.29%	5.75% – 10.50%	7.79%	6.00% – 10.50%	8.04%
Charlotte	8.00% – 10.50%	9.40%	6.50% – 10.00%	8.23%	7.50% – 10.00%	8.56%
Chicago	7.00% – 11.50%	8.93%	6.00% – 10.00%	7.72%	7.00% – 9.00%	8.08%
Dallas	8.00% – 11.50%	9.27%	6.75% – 11.50%	8.50%	7.75% – 11.00%	9.00%
Denver	7.75% – 10.00%	8.56%	7.00% – 9.00%	7.58%	7.50% – 9.00%	8.13%
Houston	7.75% – 12.00%	9.50%	6.75% – 10.00%	8.17%	7.00% – 10.00%	8.21%
Los Angeles	7.50% – 12.00%	8.96%	5.00% – 9.00%	7.04%	7.00% – 9.25%	7.96%
Manhattan	6.00% – 10.00%	7.85%	5.00% – 8.00%	6.02%	5.50% – 8.50%	6.85%
Pacific Northwest	7.50% – 12.00%	9.40%	6.00% – 10.00%	7.85%	6.00% – 9.00%	8.00%
Philadelphia	8.00% – 10.00%	9.08%	7.25% – 9.50%	8.43%	7.00% – 9.50%	8.45%
Phoenix	8.50% – 15.00%	10.13%	7.00% – 11.00%	8.95%	7.75% – 10.00%	8.78%
San Diego	7.50% – 12.00%	9.63%	7.00% – 9.00%	7.98%	7.00% – 10.00%	8.25%
San Francisco	7.00% – 11.00%	8.67%	5.50% – 10.00%	7.03%	6.00% – 10.00%	7.43%
Southeast Florida	7.00% – 13.00%	9.80%	7.00% – 12.00%	8.88%	7.00% – 12.00%	9.00%
Washington, DC	7.00% – 10.00%	7.96%	5.50% – 8.50%	6.61%	6.00% – 8.50%	7.06%
SUBURBS OF:	**DISCOUNT RATE RANGE**	**AVERAGE**	**OVERALL CAPITALIZATION RATE RANGE**	**AVERAGE**	**RESIDUAL CAPITALIZATION RATE RANGE**	**AVERAGE**
Atlanta	8.50% – 15.00%	10.64%	7.00% – 11.00%	9.02%	7.50% – 11.00%	9.21%
Boston	8.25% – 14.00%	10.16%	7.00% – 12.00%	8.84%	7.50% – 12.00%	9.09%
Charlotte	8.00% – 12.00%	9.65%	7.50% – 9.50%	8.83%	7.50% – 10.00%	8.92%
Chicago	8.00% – 13.00%	10.25%	7.00% – 11.00%	9.09%	8.00% – 11.00%	9.27%
Dallas	8.00% – 11.50%	9.60%	7.00% – 11.00%	9.00%	7.25% – 11.00%	8.94%
Denver	8.00% – 15.00%	11.25%	7.50% – 11.00%	8.95%	8.00% – 11.00%	9.05%
Houston	8.00% – 14.00%	9.83%	7.00% – 12.50%	8.81%	7.00% – 11.00%	8.48%
Los Angeles	7.00% – 12.00%	9.10%	6.50% – 9.00%	7.88%	7.00% – 9.50%	8.15%
Northern Virginia	6.00% – 10.50%	8.60%	5.75% – 9.00%	7.69%	7.00% – 9.00%	8.05%
Pacific Northwest	8.00% – 12.00%	9.90%	6.00% – 12.00%	8.65%	7.00% – 10.00%	8.65%
Philadelphia	8.50% – 11.00%	9.58%	7.75% – 10.00%	8.96%	8.00% – 11.00%	9.21%
Phoenix	9.00% – 16.00%	11.38%	8.00% – 11.00%	9.50%	8.00% – 10.00%	9.13%
San Diego	7.50% – 13.00%	10.03%	7.00% – 11.00%	8.53%	7.50% – 10.00%	8.55%
San Francisco	7.50% – 15.00%	10.00%	6.50% – 11.00%	8.11%	7.00% – 12.00%	8.49%
Southeast Florida	7.00% – 16.00%	10.75%	8.00% – 13.00%	9.90%	7.50% – 12.00%	9.46%
Suburban Maryland	7.25% – 10.00%	8.47%	6.50% – 9.00%	7.65%	7.50% – 10.00%	8.31%

Source: PwC Real Estate Investor Survey

Valuation Issues

Tenant Improvement Allowances

Tenant improvement (TI) allowances vary across each major property sector, as well as geographies. According to Survey participants, TIs are rarely provided in the national regional mall and power center markets, where retail tenants typically receive space as a "vanilla box" and are responsible for their own build-outs. In most other markets, TIs are commonplace and vary based on whether the leased area is shell space (raw, new space) or existing, second-generation space.

As shown in Exhibit 4, TI allowances for shell space range up to $120.00 per square foot and average roughly $41.00 per square foot. Although this average is the same as a year ago, the high end of the range is much higher this quarter. Last year, it was $80.00 per square foot, suggesting that fundamentals continue to favor tenants.

For second-generation space, the average TI allowance sits at roughly $24.00 per square foot for the Survey markets while it is even lower for renewals at about $13.62 per square foot. These three figures are similar to the averages from a year ago.

The TI allowances presented in Exhibit 4 show what is typical in each market. In certain circumstances, excessive TI allowances are awarded to tenants as added inducements, like free rent. In the office sector, excessive TI allowances can range up to $50.00 per square foot and currently average $10.50 per square foot. Excessive TI allowances are very tenant specific and not all participants indicate that they are prevalent in the marketplace. As market conditions improve, the need to provide additional inducements to tenants, like excessive TI allowances and free rent, should subside.

Vacancy Assumptions

Current vacancy assumptions used by Survey participants in discounted cash flow analyses are contrasted with year-ago figures in Exhibit 5. Due to weak fundamentals, the number of months assumed vacant on rollover has increased in most Survey markets over the past 12 months. In addition, underlying vacancy and credit loss percentages have increased in many markets over the past year. At the same time, tenant retention estimates have increased in most Survey markets. ✦

Exhibit 4

TENANT IMPROVEMENT (TI) ALLOWANCES

Fourth Quarter 2010

	SHELL SPACE ($ per sq. ft.)			2ND-GENERATION SPACE ($ per sq. ft.)			RENEWALS ($ per sq. ft.)		
	LOW	HIGH	AVERAGE	LOW	HIGH	AVERAGE	LOW	HIGH	AVERAGE
NATIONAL MARKETS									
Strip Shopping Center	$0.00	$75.00	$22.19	$0.00	$30.00	$10.71	$0.00	$15.00	$3.75
CBD Office	$20.00	$75.00	$41.56	$15.00	$40.00	$26.43	$7.50	$30.00	$16.41
Suburban Office	$0.00	$80.00	$37.00	$0.00	$50.00	$21.35	$0.00	$25.00	$12.80
Flex/R&D	$0.00	$70.00	$26.08	$0.00	$25.00	$10.79	$0.00	$12.00	$5.17
Warehouse	$0.00	$25.00	$4.16	$0.00	$10.00	$1.76	$0.00	$2.50	$0.66
Medical Office Buildings	$20.00	$90.00	$53.33	$5.00	$50.00	$19.17	$2.50	$50.00	$12.81
OFFICE MARKETS									
Atlanta	$20.00	$100.00	$38.57	$7.50	$80.00	$26.46	$5.00	$55.00	$16.21
Boston	$15.00	$70.00	$47.86	$10.00	$50.00	$33.93	$5.00	$25.00	$16.79
Charlotte	$20.00	$45.00	$33.33	$5.00	$35.00	$19.17	$5.00	$20.00	$11.54
Chicago	$25.00	$80.00	$50.28	$10.00	$70.00	$36.56	$5.00	$40.00	$22.53
Dallas	$10.00	$60.00	$35.83	$5.00	$40.00	$20.42	$8.00	$25.00	$14.42
Denver	$10.00	$50.00	$35.00	$7.00	$40.00	$21.17	$2.00	$25.00	$9.50
Houston	$20.00	$45.00	$35.00	$5.00	$45.00	$19.83	$2.00	$25.00	$11.67
Los Angeles	$20.00	$90.00	$41.25	$10.00	$40.00	$25.00	$5.00	$25.00	$14.17
Manhattan	$25.00	$120.00	$67.50	$15.00	$80.00	$41.00	$15.00	$50.00	$26.50
Northern Virginia	$40.00	$100.00	$62.50	$20.00	$60.00	$32.50	$5.00	$35.00	$20.75
Pacific Northwest	$15.00	$100.00	$50.50	$25.00	$60.00	$40.83	$0.00	$25.00	$12.50
Philadelphia	$15.00	$45.00	$31.00	$5.00	$35.00	$18.50	$5.00	$20.00	$10.50
Phoenix	$30.00	$55.00	$40.83	$10.00	$30.00	$19.17	$5.00	$15.00	$9.92
San Diego	$20.00	$60.00	$36.88	$10.00	$30.00	$19.17	$2.50	$20.00	$10.69
San Francisco	$15.00	$80.00	$45.83	$5.00	$50.00	$25.00	$0.00	$30.00	$12.22
Southeast Florida	$5.00	$50.00	$32.20	$0.00	$50.00	$19.40	$5.00	$35.00	$13.70
Suburban Maryland	$35.00	$85.00	$50.63	$10.00	$50.00	$28.33	$5.00	$30.00	$17.50
Washington, DC	$40.00	$100.00	$66.07	$25.00	$70.00	$40.00	$10.00	$45.00	$24.29

Source: PwC Real Estate Investor Survey

EXHIBIT 5

VACANCY ASSUMPTIONS: OFFICE MARKETS

Fourth Quarter 2010

	MONTHS VACANT				TENANT RETENTION				UNDERLYING VACANCY & CREDIT LOSS			
	CURRENT		YEAR AGO		CURRENT		YEAR AGO		CURRENT		YEAR AGO	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National CBD	3 - 20	9	3 - 20	10	50.0% - 95.0%	70.0%	50.0% - 95.0%	69.09%	0.0% - 12.5%	6.0%	0.0% - 12.5%	5.77%
National Suburban	3 - 20	10	3 - 24	10	50.0% - 95.0%	66.0%	50.0% - 95.0%	65.54%	0.0% - 20.0%	6.0%	0.0% - 20.0%	6.35%
Atlanta	6 - 24	11	6 - 24	10	50.0% - 75.0%	63.0%	50.0% - 75.0%	65.00%	5.0% - 18.0%	10.0%	6.0% - 15.0%	9.89%
Boston	6 - 24	10	6 - 14	9	40.0% - 70.0%	64.0%	50.0% - 70.0%	66.07%	4.0% - 10.0%	6.0%	1.0% - 10.0%	5.77%
Charlotte	6 - 24	11	6 - 24	10	60.0% - 75.0%	67.0%	60.0% - 75.0%	67.08%	3.0% - 14.0%	8.0%	3.0% - 14.0%	8.17%
Chicago	6 - 12	9	6 - 24	11	50.0% - 85.0%	66.0%	50.0% - 85.0%	65.50%	4.0% - 15.0%	9.0%	4.0% - 15.0%	9.05%
Dallas	6 - 24	12	6 - 24	11	55.0% - 70.0%	67.0%	30.0% - 70.0%	64.75%	3.0% - 15.0%	8.0%	2.0% - 15.0%	8.58%
Denver	6 - 18	10	6 - 12	9	60.0% - 75.0%	67.0%	60.0% - 75.0%	69.50%	5.0% - 15.0%	9.0%	0.0% - 10.0%	7.15%
Houston	6 - 18	9	5 - 12	8	50.0% - 80.0%	68.0%	50.0% - 80.0%	67.92%	4.0% - 15.0%	8.0%	5.0% - 15.0%	7.23%
Los Angeles	4 - 12	8	2 - 12	8	50.0% - 75.0%	66.0%	50.0% - 75.0%	65.00%	1.0% - 10.0%	6.0%	2.0% - 15.0%	6.11%
Manhattan	5 - 18	9	5 - 18	9	60.0% - 75.0%	68.0%	60.0% - 75.0%	66.67%	2.5% - 10.0%	6.0%	1.0% - 10.0%	5.42%
Northern Virginia	6 - 18	10	3 - 18	10	50.0% - 75.0%	62.0%	50.0% - 75.0%	62.81%	1.0% - 14.0%	6.0%	1.0% - 14.0%	6.69%
Pacific Northwest	4 - 12	8	4 - 15	8	60.0% - 75.0%	68.0%	50.0% - 80.0%	69.00%	0.0% - 12.0%	4.0%	2.0% - 15.0%	6.10%
Philadelphia	6 - 12	8	6 - 12	8	50.0% - 75.0%	65.0%	60.0% - 70.0%	65.42%	5.0% - 15.0%	7.0%	5.0% - 12.0%	6.79%
Phoenix	6 - 18	11	6 - 12	10	50.0% - 75.0%	65.0%	60.0% - 75.0%	65.50%	5.0% - 15.0%	9.0%	5.0% - 15.0%	8.20%
San Diego	6 - 15	9	3 - 12	8	60.0% - 75.0%	67.0%	60.0% - 75.0%	68.00%	1.0% - 10.0%	6.0%	5.0% - 15.0%	7.85%
San Francisco	2 - 12	8	2 - 14	9	60.0% - 75.0%	69.0%	50.0% - 75.0%	68.33%	0.0% - 10.0%	5.0%	0.0% - 15.0%	5.64%
Southeast Florida	6 - 12	9	6 - 12	9	40.0% - 70.0%	63.0%	50.0% - 75.0%	65.71%	5.0% - 13.0%	8.0%	3.3% - 13.0%	7.11%
Suburban Maryland	6 - 12	9	6 - 24	10	55.0% - 75.0%	65.0%	50.0% - 70.0%	60.63%	1.0% - 10.0%	6.0%	1.0% - 12.0%	6.31%
Washington, DC	3 - 10	7	3 - 12	8	50.0% - 75.0%	66.0%	50.0% - 75.0%	64.29%	1.0% - 12.0%	5.0%	0.5% - 12.0%	4.68%

Source: Personal survey conducted by PwC during October 2010.

EXHIBIT 5

VACANCY ASSUMPTIONS: NATIONAL AND REGIONAL MARKETS

Fourth Quarter 2010

	MONTHS VACANT				TENANT RETENTION				UNDERLYING VACANCY & CREDIT LOSS			
	CURRENT		YEAR AGO		CURRENT		YEAR AGO		CURRENT		YEAR AGO	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National Regional Mall	3 - 20	8	3 - 20	9	50.0% - 80.0%	71.0%	50.0% - 80.0%	68.93%	3.0% - 10.0%	6.0%	1.0% - 10.0%	6.11%
National Power Center	6 - 18	10	6 - 18	10	50.0% - 75.0%	64.0%	50.0% - 75.0%	60.50%	3.0% - 12.0%	7.0%	3.0% - 15.0%	7.40%
National Strip Shopping Center	4 - 12	9	4 - 24	9	50.0% - 80.0%	66.0%	50.0% - 75.0%	62.94%	1.0% - 20.0%	7.0%	1.0% - 12.5%	6.38%
National Flex/R&D	6 - 18	11	6 - 21	10	50.0% - 70.0%	62.0%	25.0% - 75.0%	60.94%	3.0% - 10.0%	6.0%	1.0% - 10.0%	5.72%
National Warehouse	3 - 18	9	3 - 24	10	50.0% - 80.0%	64.0%	50.0% - 75.0%	61.04%	0.0% - 15.0%	5.0%	0.0% - 10.0%	4.98%
Apartment (National)									1.0% - 15.0%	7.0%		
Apartment (Mid-Atlantic Region)									3.0% - 10.0%	7.0%		
Apartment (Pacific Region)									4.0% - 15.0%	8.0%		
Apartment (Southeast Region)									4.0% - 10.0%	7.0%		
National Net Lease	6 - 24	14			50.0% - 100.0%	74.0%			0.0% - 15.0%	4.0%		
National Medical Office Buildings	6 - 18	10	6 - 18	10	50.0% - 90.0%	74.0%	60.0% - 90.0%	77.68%	2.0% - 12.5%	6.0%	2.0% - 12.5%	6.25%

Source: Personal survey conducted by PwC during October 2010.

Technology News & Trends

Social Networking and Real Estate Compatibility

By Scott Williamson, Director
Real Estate Risk Assurance – PwC LLP

Many companies are currently trying to determine the impact of social networking on their organizations by measuring the potential benefits against the perceived risks. As social networking services are becoming more and more interwoven with how customers, shareholders, and employees communicate, the challenge becomes how to harness such channels to add value to a business, specifically within the real estate sector. Social networking is generally understood to mean the use of online services or websites to allow users to interact and share information with typical examples including Facebook, LinkedIn, MySpace, and Twitter.

An Evolution in Communication

Companies are starting to understand that a radical shift has occurred in how people communicate. Even email has started to take a backseat to texting, Twitter, Facebook, and others as consumers use mobile devices to update and interact with friends through texting and online posting rather than by sending traditional emails. This communication evolution has forced companies to investigate ways to market products and influence brand recognition with this powerful consumer group. It has also started to impact the way many companies communicate and collaborate internally.

Some of the ways a company can capitalize on the benefit of social networking are obvious, such as increasing sales efforts through Twitter, creating user community discussion groups on MySpace, driving brand recognition through company sites on Facebook, and even posting product videos to YouTube. Some are less obvious, such as reducing communication through traditional call centers and decreasing costs by driving recruiting efforts through the use of LinkedIn. All of these are effective ways for a company to reach a new audience, create awareness, and hopefully increase revenue.

Real Estate and Social Media

Many real estate companies have recognized the explosion of social networking and have established a Facebook presence to post corporate communications and updates. While doing so helps to improve the efficiency of how people work and collaborate within a company, it does little to drive additional revenue.

In many cases, the marketing aspects of social networking do not directly benefit the revenue of many real estate companies, which tend to be more focused on business-to-business marketing versus marketing to individual consumers. Two notable exceptions, however, include multifamily and self-storage owners, who aggressively use multiple social networking channels to market properties, communicate sales, and create user groups for consumers. In addition, retail owners use these channels to market properties and promote events aimed at increasing consumer traffic and revenue at their properties.

Risks of Social Networking

The benefits of social networking do not come without risks, and it is important to keep them in mind when planning strategies. A key risk is negative impact to a company's reputation. Since a company cannot control the messaging on social networking sites, an individual may post harmful comments about a company's products, services, or internal issues. The quick speed of distribution from these sites can work against a company and rapidly spread negative messages across various channels.

An additional risk is security. Social media sites have become high-profile targets for hackers and malware to attempt to gather customer and corporate information. Plus, there have been instances where sensitive company information has been posted through social networking, resulting in a loss of intellectual property and competitive advantage. Therefore, it is critical to establish strong security safeguards to protect social media sites and lock down sensitive corporate data.

Last Thoughts

Social networking advancements have the potential to create significant value for real estate firms. While many multifamily, self-storage, and retail companies are already using online media channels to drive revenue, other real estate sectors are likely to follow soon as social networking evolves and user populations continue to grow. While the use of social networking can be a tremendous benefit to a company, it is important to remember that the risks can also be significant and must be properly addressed and balanced against the potential value enhancement for a company. ✦

Economic News

Entering the Era of Less in 2011

By Chuck DiRocco, Director and Head of Research
Real Estate Business Advisory Services – PwC LLP

After over three troubling years, *Emerging Trends in Real Estate®2011* forecasts marginal improvements within the commercial real estate industry in the upcoming year and the transition into a new real estate cycle. Based on survey responses and one-on-one interviews completed for the report, the new year will begin an "era of less," as professionals are forced to face a shrunken industry, limited development opportunities, reduced returns, and condensed credit resources. In addition, the era of less might literally reflect reduced real estate holdings as many investors, believing you "can no longer make money from flipping," now chase rewards by targeting prime quality assets in top locations.

Bifurcation

In *Emerging Trends 2010*, a survey-driven barometer that ranks buy, sell, and hold recommendations for commercial real estate on a scale of 1 (abysmal) to 5 (fair) to 9 (excellent) projected a large gap between the pricing opinions of buyers and sellers for 2010. This disconnect in pricing was much more demonstrated at the beginning of 2010 as the market completed only a limited number of transactions. Since the second half of 2010, the gap has tightened as sales totaling roughly $75.0 billion have been completed through October 2010, according to Real Capital Analytics.

According to *Emerging Trends 2011*, forecasts for the 2011 buy-sell-hold barometer support this tightening trend as the spread narrows between buy and sell ratings. Interviewees believe that this change is largely due to buyers reducing the hunt for the perfect real estate deal, as well as sellers now being forced to close or take nothing at all.

Even though the buy-sell gap is closing, a large separation exists between investors interested in "trophy" assets and those seeking "other" asset classes. Investors continue to show a preference for real estate properties that offer a gateway coastal location, a 24-hour live-work-play atmosphere, a university setting, an infill area over the suburbs, and liquidity for a premium.

Focused Investment & No Development

Investment and development prospect ratings in cities with these favorable attributes see significant increases for 2011 while the other markets only offer slight gains. The top-five investment markets consist of: Washington, DC, New York, San Francisco, Austin, and Boston. Other areas that show positive investment opportunity for 2011 include Seattle and Los Angeles for gateway locations, Houston and Dallas due to business-friendly environments, and Denver for its strong transit and airport resources.

Growth looks doubtful for real estate development projects in 2011 according to interviewees and survey respondents. The construction pipeline remains very narrow at this point, but controlled development makes sense as owners continue to deal with increasing vacancies and declining rents. As one interviewee states, "Fortunately, nothing new is coming on line, so when the economy improves, rents can start to increase more quickly." Even though development opportunities look scarce throughout the nation, *Emerging Trends 2011* notes building prospects in the Washington, DC metropolitan area and in the apartment sector in select locations throughout the United States.

Economic Woes

The largest concern and question from *Emerging Trends 2011* interviewees focuses on the future strength of both domestic and global economies. Many angles impact commercial real estate, but one key driver is job growth, which has been lacking. Employment continues to be the missing element needed to sustain recovery and create growth in the real estate markets. Without a much needed jump in work and consistent pay, consumer confidence will continue to be exhausted. If this lingers, the bricks and mortar of commercial real estate could diminish as companies are forced to adapt and work under less office space. In turn, hotel travel will be reduced due to limited capital, and retail space demand will diminish as individuals save more to deal with a still-sluggish economic picture. While the future is uncertain, an "era of less" looks to be the mantra for commercial real estate in 2011. ✦

Special Commentary

The Negative Cash Flow Dilemma

By Scott M. Schafer, MAI, MRICS
Senior Managing Director, National Quality Control of Cushman & Wakefield Global Services, Inc.

The U.S. economic recession has taken its toll on the commercial real estate industry, resulting in higher vacancy rates, reduced levels of space absorption, and lower rental rates across all property sectors. These negative occurrences can have a dramatic impact on property cash flows and result in operating deficits, particularly for real estate assets with existing high vacancy, near-term rollover risk, and/or long initial lease-up periods.

As a result, participants in the commercial real estate industry, from appraisers and assessors to buyers and sellers, are being confronted with a growing incidence of negative cash flows. This phenomenon has rekindled the debate on the treatment of negative cash flows when valuing assets using discounted cash flow (DCF) analysis.

The Camps

How to address negative cash flows in DCF analysis has been debated in appraisal circles for decades. The "camps" are primarily split between those who believe that cash flows should be bifurcated by discounting the negative flows at a “safe” rate lower than that applied to the overall property and those who feel that making a distinction is inappropriate. In fact, an informal poll of appraisal professionals across the country indicates significant representation in each camp.

Making no distinction between the cash flows is favored by many for its simplicity and clarity of presentation. A search of industry literature, however, suggests that advocates of bifurcation argue, among other things, that discounting operating deficits at a lower "safe" rate provides a more accurate valuation by mitigating the effect of discounting negative flows at the "full" rate, thereby lowering the property value.

A sample cash flow forecast shown in Exhibit SC-1 shows the difference that can arise when bifurcation is applied. The difference between the two approaches in this example is $110,000. While this total may appear nominal to an appraiser or analyst, it can be significant to a prospective seller or an owner, who is seeking financing and clawing for every last dollar. This example clearly shows the need to accurately estimate "true" market value.

The Market

In estimating market value, it is critical to reflect the actions of likely purchasers regardless of the efficacies of theoretical or academic arguments. In fact, investor participants of the

Exhibit SC-1
CASH FLOW ANALYSIS (1)
No Bifurcation vs. Bifurcation

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Annual Cash Flow	($700,000)	($500,000)	$350,000	$500,000	$515,000	$530,450
Residual						
Residual capitalization rate					8.50%	
Indicated sale price					$6,240,588	
Less selling expenses (3.0%)					$187,218	
Net Residual					$6,053,371	
Total Cash Flow	($700,000)	($500,000)	$350,000	$500,000	$6,568,371	
Present Value (PV)						
No Bifurcation* (rounded)					**$3,270,000**	
Bifurcation (rounded)**					**$3,160,000**	
Resulting difference in PV					**$110,000**	

* 12.00% discount rate is applied to all cash flows
** 12.00% discount rate is applied to positive cash flows; 4.00% “safe” rate is applied to negative cash flows

(1) This example is provided for illustration-purposes only; developed by Cushman & Wakefield

PwC Real Estate Investor Survey overwhelmingly rejected bifurcation when queried on the treatment of negative cash flows in November 2010. Their comments provide compelling evidence that bifurcation of cash flows is not a common practice, and it appears to be largely confined to appraisers and academics. However, anecdotal evidence suggests that investors do select a higher-than-typical discount rate for an investment where negative cash flows are anticipated to reflect its amplified risk in comparison to the market.

Comments from select PwC Survey respondents include:

"We do not treat negative cash flow any differently than positive cash flow."

"Negative cash flows should be treated as additional investments. Applying lower discount rates introduces estimates that may vary greatly between appraisers/investors."

"We currently use bifurcation on a limited basis to test sensitivity, but not broadly."

Final Thoughts

Regardless of the academic argument for bifurcating cash flows, it is not the common practice currently followed in "the market." Thus, in estimating the value of commercial real estate with negative cash flows, care must be taken to select a single discount rate that adequately reflects the additional risk posed by the existence of operating deficits over the holding period.

The debate on the treatment of negative cash flows will likely not end here. As always, discussions with local investors are the key to understanding the proper treatment of operating deficits for each market, as well as each property type. ✦

Scott M. Schafer, MAI, MRICS, is a senior managing director in the National Quality Control of Cushman & Wakefield Global Services. He can be reached at (716) 852-7500.

Domestic Self-Storage Market

Cap Rate Compression Continues

By R. Christian Sonne, MAI, MRICS
Senior Managing Director, Self Storage Industry Group of Cushman & Wakefield, Inc.

Overall cap rates continue to decline for the domestic self-storage market as investors and lenders increase capital flows to this niche asset class. As interest rates have decreased and lending availability has improved, both new and existing equity investors continue to explore this property type. Since most investors agree that market conditions in terms of occupancy and income bottomed out earlier this year, sales activity has been robust for self-storage assets in the second half of 2010. One national investor says, "There has been a release of pent-up demand as investors are eager to do deals in the self-storage industry." As a result, overall cap rates continue to dip while equity return requirements remain relatively flat.

New equity players in self storage include Flagship Investment Group, backed by traditional Wall Street firm Kane Anderson Investment Group. Even large investors in other asset classes, such as Starwood Capital, are exploring investment opportunities in self storage. In addition, REITs remain in acquisition mode. At the same time, regional investors are seeking management efficiencies through strategic acquisitions.

On the debt side, financing opportunities continue to grow. Main Street banks, insurance companies, and even Wall Street CMBS are providing debt for self-storage deals. One mortgage broker reported that 14 CMBS lenders are now doing deals in self storage, including single-asset loans under $5.0 million. Reportedly, debt can be obtained near 5.0% for ten years with a 30-year amortization and loan-to-value ratios as high as 72.0%. However, financing must include strong sponsorship characterized by a strong balance sheet and asset-specific management experience.

Table DSS-1

DOMESTIC SELF-STORAGE MARKET

Second Half 2010

	SECOND HALF 2010	FIRST HALF 2010	SECOND HALF 2009
DISCOUNT RATE (IRR)[a]			
Range	10.00% – 12.00%	10.00% – 13.00%	10.00% – 13.00%
Average	10.75%	11.50%	11.50%
Change (Basis Points)		– 75	– 75
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 9.50%	7.00% – 10.00%	7.00% – 10.00%
Average	7.75%	8.45%	8.75%
Change (Basis Points)		– 70	– 100
RESIDUAL CAP RATE			
Range	8.00% – 10.50%	8.00% – 10.50%	8.00% – 10.50%
Average	9.00%	8.75%	9.00%
Change (Basis Points)		– 25	0
MARKET RENT CHANGE RATE[b]			
Range	1.00% – 5.00%	1.00% – 5.00%	1.00% – 5.00%
Average	3.50%	3.50%	3.00%
Change (Basis Points)		0	+ 50
EXPENSE CHANGE RATE[b]			
Range	2.00% – 5.00%	2.00% – 5.00%	2.00% – 5.00%
Average	3.00%	3.00%	3.00%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	3.00 – 9.00	3.00 – 12.00	3.00 – 12.00
Average	5.00	8.00	11.00
Change (%)		– 37.50	– 54.55

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

Source: Cushman & Wakefield

Why Buy

The desire to own self-storage assets is mainly due to its return history. Based on an analysis of total annual returns by property sector from NAREIT, self storage posts the highest average returns for the past five-, ten-, and 15-year histories. In the 15-year history, for example, self storage had an average return of 16.52%. Comparatively, office, industrial, retail, and apartments show average returns of 15.53%, 11.64%, 13.35%, and 12.79%, respectively.

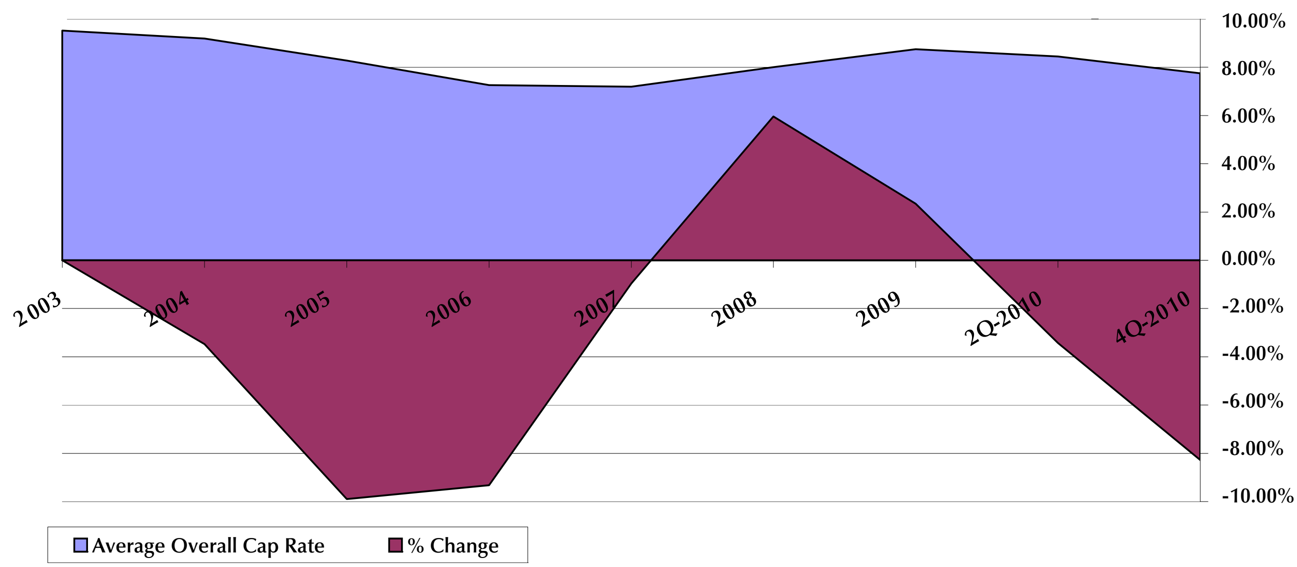
Overall Cap Rate Trends

As shown in Chart DSS-1, the initial period of cap rate compression

Chart DSS-1

AVERAGE OVERALL CAP RATE TRENDS

2003 through 4Q2010



Source: Cushman & Wakefield

between 2003 and 2005 was followed by a similar pace of expansion between 2006 and 2008. Currently, the pace of compression is similar to the pace of nearly a decade ago, suggesting that concerns about this asset class succumbing to the ill effects of a recession are unfounded. In fact, this sector's underlying market dynamics have declined at a slower pace compared to other asset classes, causing investment demand to grow and cap rates to decline.

As shown in Table DSS-1, overall cap rates range from 7.00% to 9.50% and average 7.75% this quarter. Cap rates at the low end of the range (as low as 7.00%) are mainly being seen for sturdier urban, in-fill properties that are operating on a stabilized basis.

Even though cap rates continue to be calculated using trailing 12 months (TTM) of effective gross income (EGI), expenses are adjusted or compared to market. The TTM is also benchmarked to the trailing three years to test the trend of an individual asset.

Analyzing self-storage deals is becoming more complex as over half the investors surveyed rely on discounted cash flow analysis over direct capitalization. Similarly, many are relying on equity yields over equity dividends. Much of this is a function of revenue growth as sophisticated management is able to increase income in place at a faster pace than asking rents. As a result, economic occupancy may exceed physical occupancy.

Deal Flow

Brokers are reporting a growth trend in transaction volume for both single assets and portfolios. In addition, virtually all brokers report multiple offers on listings – often near the list price. In strong markets, marketing times are down to three months or less. In fact, one broker reports that a stabilized facility could be sold (list, marketed, and closed) to a cash buyer "in one month," leaving some brokers to believe that sellers seem most interested in the ability of the buyer to close more than achieving the highest price.

Conclusions

Investors are demonstrating long-run confidence in the self-storage industry, causing cap rate compression to continue and new investors to explore the sector for opportunity. At the same time, self storage investors seek expansion as capital cost declines and availability increases. As transaction volume continues to grow, most expect cap rates to continue to decline in 2011. This behavior suggests a bullish outlook for the domestic self-storage market. ✦

R. Christian Sonne, MAI, MRICS is Senior Managing Director of Cushman & Wakefield's Self Storage Industry Group, a nationwide real estate consulting team specializing in appraisal and market study of the self-storage asset class. His email is chris.sonne@cushwake.com.

National Regional Mall Market

DESPITE WEAKER-THAN-EXPECTED SAME-STORE RETAIL SALES GROWTH, MANY INVESTORS AND PROPERTY OWNERS ARE OPTIMISTIC ABOUT THE TRENDS BEING OBSERVED IN THE NATIONAL REGIONAL MALL MARKET, ESPECIALLY FOR TOP-TIER PROPERTIES. In the third quarter of 2010, Reis reported that the vacancy rate for U.S. regional malls declined 20 basis points – the first quarterly decline in vacancy since the third quarter of 2007. Furthermore, asking rents held steady for the third quarter of 2010 after declining for seven consecutive quarters. As one investor notes, "More enthusiasm is definitely coming from the marketplace even though many owners are seeing very little, if any, positive impact on their bottom lines."

While certain mall owners remain challenged, others are performing quite well. REIT Simon Property Group, for example, posted third-quarter gains in occupancy, rents, and retail sales. Specifically, occupancy climbed 20 basis points while rents rose 4.8% during the quarter. Moreover, sales increased 3.6% to $491.00 per square foot.

Positive third-quarter results were also posted by REIT Taubman Centers, which reported rent growth of 1.9%. In a recent conference call, the CEO of Taubman said, "There is no clear pattern to consumer spending across our centers, but every part of our business seems to be firing on all cylinders, so we are cautiously optimistic."

Even though an improved outlook is keeping overall cap rates for Class-A+ malls below those for this sector as a whole (see Table NRM-1), regional malls received a lukewarm rating in the recently released *Emerging Trends in Real Estate®2011*, published by PwC and ULI - the Urban Land Institute. Specifically, regional malls ranked as the second least favored core property type among interviewees, placing 10th (out of 11) and scoring a 3.99 on a scale of 1 (abysmal) to 9 (excellent) with respect to investment prospects in 2011.

Although this ranking is a step better than where this sector fared last year, it underscores the ongoing issues and concerns facing regional mall property owners. A fortunate trend for this sector, however, has been a lack of new construction. With very few new regional malls sprouting up throughout the country, established centers with diverse rent rolls and strong locations will likely continue to dominate trade areas and perform the best in the near term. ✦

Table 1
NATIONAL REGIONAL MALL MARKET
Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 14.00%	6.25% – 14.00%	7.00% – 17.00%
Average	9.81%	9.98%	10.63%
Change (Basis Points)		– 17	– 82
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 10.50%	5.00% – 10.50%	5.00% – 11.00%
Average	7.58%	7.81%	8.06%
Change (Basis Points)		– 23	– 48
RESIDUAL CAP RATE			
Range	6.00% – 12.00%	6.00% – 12.00%	6.25% – 12.00%
Average	8.08%	8.29%	8.84%
Change (Basis Points)		– 21	– 76
MARKET RENT CHANGE RATE[b]			
Range	(3.00%) – 3.00%	(3.00%) – 3.00%	(5.00%) – 3.00%
Average	0.67%	0.58%	0.25%
Change (Basis Points)		+ 9	+ 42
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 5.00%
Average	1.92%	1.92%	2.79%
Change (Basis Points)		0	– 87
AVERAGE MARKETING TIME[c]			
Range	3.00 – 18.00	3.00 – 18.00	3.00 – 24.00
Average	7.42	7.67	9.00
Change (%)		– 3.26	– 17.56

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+	Overall Market
4Q10	6.53%	7.58%
3Q10	6.70%	7.81%
2Q10	6.93%	7.93%
1Q10	7.33%	8.34%
4Q09	7.40%	8.06%
3Q09	6.81%	7.98%
2Q09	6.57%	7.79%
1Q09	5.92%	6.99%

Source: PwC Real Estate Investor Survey

National Power Center Market

EVEN THOUGH RECENTLY RELEASED STATISTICS FROM A FEW SOURCES REVEAL THAT VACANCY RATES FOR CERTAIN U.S. RETAIL PROPERTY TYPES DIPPED SLIGHTLY IN THE THIRD QUARTER OF 2010, MANY INVESTORS QUESTION WHETHER THE DECLINES ARE THE START OF MUCH-AWAITED TRENDS OR MOMENTARY BLIPS. Based on data from Reis, the vacancy rate at regional malls declined 20 basis points in the third quarter while it held steady for community and neighborhood shopping centers. At the same time, CoStar Group measured drops in the vacancy rate at power centers, general retail centers, and shopping and specialty centers.

After numerous consecutive quarters of vacancy rate increases and givebacks of space by merchants, the prospect of a sustainable recovery for the retail sector is hard to image for many given the country's lofty unemployment rate (9.6% as of September 2010, as per Moody's Economy.com), a recent decline in U.S. personal income (down 0.1% in September 2010), and a decline in the Consumer Confidence Index (fell to 48.5 in September – its lowest level in seven months). Still, some retailers are expanding and leasing new space. Bed Bath & Beyond, for example, signed 230,000 square feet of leases with Developers Diversified Realty for new stores in 2010.

Another reason for investors' skepticism is that the improvement in the retail sector's supply/demand dynamics is mainly due to a drop-off in new construction. In the third quarter of 2010, the amount of newly delivered U.S. retail space totaled 5.6 million square feet, according to CoStar. In contrast, the U.S market saw 82.0 million square feet of new retail space during the first quarter of 2006. Since financing remains difficult to obtain for new construction, retail development will likely stay muted in the near term.

Also helping to keep new retail construction to a minimum is a lack of desire on the part of developers. According to *Emerging Trends in Real Estate® 2011*, recently published by PwC and ULI - the Urban Land Institute, development prospects for power centers are quite dismal among interviewees. In the report, power centers scored a 2.13 on a scale of 1 (abysmal) to 9 (excellent) with respect to development opportunities in 2011, ranking it as the third least favored core property type in terms of new development.

Due to the challenges that persist in the national power center market, most surveyed participants continue to use conservative underwriting assumptions in cash flow forecasts. As shown in Table 2, this market's average initial-year market rent change rate holds steady at -0.70% this quarter – the sixth consecutive negative average for this market. By comparison, the Survey's national strip shopping center market has never reported a negative average for this key indicator since it debuted in 1991. And, a negative average was reported only one time in the Survey's national regional mall market since it debuted in 1991 – in the first quarter of 2010 it was -0.17%. ✦

Table 2
NATIONAL POWER CENTER MARKET
Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 11.00%	8.50% – 12.00%	7.50% – 15.00%
Average	9.05%	9.75%	10.08%
Change (Basis Points)		– 70	– 103
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 10.00%	7.00% – 10.00%	7.50% – 10.00%
Average	8.08%	8.38%	8.60%
Change (Basis Points)		– 30	– 52
RESIDUAL CAP RATE			
Range	7.00% – 10.00%	7.50% – 10.00%	7.50% – 10.00%
Average	8.30%	8.65%	8.68%
Change (Basis Points)		– 35	– 38
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 3.00%	(10.00%) – 3.00%	(10.00%) – 3.00%
Average	(0.70%)	(0.70%)	(1.70%)
Change (Basis Points)		0	+ 100
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.80%	2.90%	2.90%
Change (Basis Points)		– 10	– 10
AVERAGE MARKETING TIME[c]			
Range	3.00 – 18.00	3.00 – 18.00	3.00 – 18.00
Average	9.30	9.60	10.50
Change (%)		– 3.12	– 11.43

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

National Strip Shopping Center Market

THE DESIRE TO OWN AND ACQUIRE WELL-ANCHORED, DOMINANT STRIP SHOPPING CENTERS REMAINS VERY STRONG AMONG INVESTORS, PARTICULARLY REITS AND INSTITUTIONAL BUYERS. "The best centers up for sale are getting the most attention from buyers," confirms a participant. In the third quarter of 2010, sales of grocery-anchored centers totaled $1.03 billion, up from $0.70 billion in the prior quarter, based on data from Real Capital Analytics. Year to date, sales volume has totaled $2.52 billion – 112.0% above the same period in 2009.

The West region of the country leads the nation with respect to transactions involving grocery-anchored shopping centers with 106 assets sold in the 12 months ending September 30, 2010. This figure represents 37.0% of the total U.S. centers sold during that time frame. The next highest total (60 assets) was reported for the Southeast region, followed by the Mid-Atlantic region with 47 grocery-anchored centers sold. In contrast, the Southwest region tallied the fewest property trades at 19.

As investment demand has heated up and the cost of debt remains low and more readily available for "the right assets," Survey participants are reporting a decline in overall capitalization (cap) rates. "Class-A centers that have category-leading anchors and steady income backed by high-credit-rated tenants are mostly trading below 8.0% cap rates," remarks an investor. As shown in Table SSC-1, the average overall cap rate for this market has declined over the past four quarters and stands at 7.63% this quarter. Over the next six months, most Survey participants (66.7%) forecast overall cap rates to hold steady in this market. The remaining participants expect OARs to decline up to 25 basis points.

While investors are more upbeat about the overall performance of this property type, they are not void of concerns. "The unemployment picture remains bleak and a drag on consumer spending and retailers' leasing decisions," says a participant. Nevertheless, Reis reported that positive absorption occurred for the U.S. neighborhood and community shopping center sector in the third quarter of 2010 – the first increase in occupied stock since the end of 2007, allowing the vacancy rate to remain at 10.9%. ✦

Table 3

NATIONAL STRIP SHOPPING CENTER MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 12.50%	6.00% – 12.50%	7.50% – 12.00%
Average	8.88%	9.19%	9.44%
Change (Basis Points)		– 31	– 56
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 9.50%	5.50% – 11.40%	7.25% – 11.00%
Average	7.63%	8.09%	8.53%
Change (Basis Points)		– 46	– 90
RESIDUAL CAP RATE			
Range	6.50% – 12.00%	6.50% – 12.00%	7.25% – 11.00%
Average	8.26%	8.51%	8.63%
Change (Basis Points)		– 25	– 37
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	0.61%	0.61%	0.69%
Change (Basis Points)		0	– 8
EXPENSE CHANGE RATE[b]			
Range	1.00% – 4.00%	1.00% – 4.00%	1.00% – 4.00%
Average	2.86%	2.83%	2.81%
Change (Basis Points)		+ 3	+ 5
AVERAGE MARKETING TIME[c]			
Range	2.00 – 18.00	2.00 – 18.00	2.00 – 18.00
Average	8.22	8.44	9.63
Change (%)		– 2.61	– 14.64

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)
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%	+ 28
1Q09	7.63%	+ 14
4Q08	7.49%	+ 25
4Q07	7.24%	– 3
4Q06	7.27%	—

Source: PwC Real Estate Investor Survey

National CBD Office Market

AS THE U.S. CBD OFFICE MARKET DEMONSTRATES SIGNS OF A PAINFULLY SLOW RECOVERY, TENANTS CONTINUE TO HAVE NUMEROUS LEASING OPTIONS AS SUPPLY REMAINS GREATLY AHEAD OF DEMAND IN MANY DOWNTOWN CORES. In the third quarter of 2010, the U.S. CBD office market posted an overall vacancy rate of 14.7% – well above where it was at the peak of the cycle in mid-2007 and higher than a year ago, as per Cushman & Wakefield (see Table CBD-1). Still, the current average stands ten basis points lower than the prior quarter. In addition, it continues the downward shift realized in the second quarter of 2010 after nine consecutive quarterly increases. "While small, it's good to see positive changes," says an investor.

Although some companies that were leasing space in Class-B office assets have taken advantage of lower rental rates in the Class-A segment by upgrading and relocating to "better" addresses, Class-A properties also remain challenged. In the third quarter of 2010, the Class-A overall vacancy rate was 14.7%, 20 basis points higher than a year ago. While a few surveyed investors indicate that tours of properties have increased and that "leasing activity is better than this time last year," most tenants are signing for the same, if not less, space. "Very few tenants are taking additional space right now," remarks a participant.

The flight to quality demonstrated in the CBD leasing market is also occurring in the CBD investment market, where cash-flush investors are aggressively pursuing the best assets for sale. Due to a limited number of quality offerings, a low-interest-rate environment, and investors' seemingly insatiable hunger for core office deals, the average overall capitalization (cap) rate for the Survey's national CBD office market declined 48 basis points this quarter and now sits 71 basis points lower than where it was a year ago.

Over the next six months, the majority of Survey participants forecast overall cap rates to decrease in this market. The expected decrease ranges up to 50 basis points and averages 26 basis points. Of the 31 Survey markets, the national CBD office market is one of only four markets where surveyed investors expect additional cap rate compression over the next six months. ✦

Table CBD-1

OVERALL VACANCY RATES

National CBD Office Market

Quarter	Average	Change (Basis Points)
3Q10	14.7%	– 10
2Q10	14.8%	– 20
1Q10	15.0%	+ 30
4Q09	14.7%	+ 40
3Q09	14.3%	+ 60
2Q09	13.7%	+ 120
1Q09	12.5%	+ 130
4Q08	11.2%	+ 60
3Q08	10.6%	+ 40
2Q08	10.2%	+ 30
1Q08	9.9%	+ 20
2Q07	9.7%	—

Source: Cushman & Wakefield

Table 4

NATIONAL CBD OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 11.00%	6.50% – 12.00%	6.75% – 14.00%
Average	8.65%	9.11%	9.39%
Change (Basis Points)		– 46	– 74
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 10.50%	6.00% – 10.50%	5.60% – 11.00%
Average	7.53%	8.01%	8.24%
Change (Basis Points)		– 48	– 71
RESIDUAL CAP RATE			
Range	5.50% – 10.50%	6.50% – 10.50%	6.50% – 11.00%
Average	7.59%	7.98%	8.44%
Change (Basis Points)		– 39	– 85
MARKET RENT CHANGE RATE[b]			
Range	(4.00%) – 4.00%	(5.00%) – 4.00%	(10.00%) – 3.00%
Average	0.60%	(0.15%)	(1.95%)
Change (Basis Points)		+ 75	+ 255
EXPENSE CHANGE RATE[b]			
Range	2.00% – 4.00%	2.00% – 4.00%	2.00% – 4.00%
Average	2.80%	2.85%	3.00%
Change (Basis Points)		– 5	– 20
AVERAGE MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 18.00
Average	7.85	8.15	8.00
Change (%)		– 3.68	– 1.88

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

National Suburban Office Market

The national suburban office market continued to deteriorate in the third quarter with many individual areas posting sizable year-over-year gains in vacancy. As a whole, the overall vacancy rate inched up ten basis points in the third quarter of 2010 to reach 19.6%, based on data compiled by Cushman & Wakefield. As shown in Table NSO-1, the current rate is one of the highest reported in quite some time. Since the peak of the cycle in mid-2007, this sector's overall vacancy rate has increased 540 basis points.

Within the overall market, the supply/demand dynamics vary between individual suburban locations. "While many coastal CBD markets are showing signs of recovery, the same may not be said for their suburban areas," notes a participant. In San Francisco, for example, the downtown core has seen available space diminish over the past year while it has grown in the suburbs. Nevertheless, other West Coast suburban office markets, like Silicon Valley and San Diego, have seen underlying fundamentals improve over the past year. In Silicon Valley, overall vacancy dropped 411 basis points (to 19.2%) over the past year while it shrunk 140 basis points (to 16.1%) in San Diego.

In contrast, several other suburban office areas have seen spikes in overall vacancy over the past year, such as Oakland (+456 basis points to 21.7%), Long Island (+456 basis points to 19.1%), Orlando (+299 basis points to 22.7%), and Orange County (+292 basis points to 20.0%). Tenants looking for space in these markets are finding numerous options and plentiful incentives. In fact, surveyed investors unanimously report that free rent is prevalent throughout the national suburban office market, ranging up to 12 months on a ten-year lease. The average amount of free rent is 4.5 months.

The current challenges facing property owners in this sector are expected to linger for some time. On average, Survey participants expect it to take 3.4 years for this market to reach stabilized vacancy. In the meantime, very few investors are looking to acquire or develop suburban office product. "It needs to be something really special for us to step up to the plate and spend our time and resources," comments a participant. Until consistent signs of recovery emerge, this sentiment will likely hold true for many investors. ✦

Table 5

NATIONAL SUBURBAN OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.50% – 12.50%	7.00% – 13.00%	7.25% – 14.00%
Average	9.14%	9.45%	10.02%
Change (Basis Points)		– 31	– 88
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 11.50%	6.00% – 11.50%	6.75% – 12.00%
Average	8.17%	8.40%	8.75%
Change (Basis Points)		– 23	– 58
RESIDUAL CAP RATE			
Range	6.50% – 11.50%	7.00% – 11.50%	7.00% – 11.50%
Average	8.38%	8.56%	8.76%
Change (Basis Points)		– 18	– 38
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 4.00%	(10.00%) – 4.00%	(20.00%) – 3.00%
Average	(0.17%)	(0.63%)	(2.35%)
Change (Basis Points)		+ 46	+ 218
EXPENSE CHANGE RATE[b]			
Range	2.00% – 4.00%	2.00% – 4.00%	1.00% – 4.00%
Average	2.77%	2.77%	2.77%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	2.00 – 24.00	2.00 – 24.00	3.00 – 18.00
Average	8.96	9.04	8.77
Change (%)		– 0.88	+ 2.17

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

Table NSO-1

OVERALL VACANCY RATES

U.S. Suburban Office Market

Quarter	Average	Change (Basis Points)
3Q10	19.6%	+ 10
2Q10	19.5%	+ 10
1Q10	19.4%	+ 10
4Q09	19.3%	+ 310
4Q08	16.2%	+ 190
4Q07	14.3%	+ 10
2Q07	14.2%	– 30
4Q06	14.5%	– 220
4Q05	16.7%	– 230
4Q04	19.0%	—

Source: Cushman & Wakefield

Atlanta Office Market

DESPITE SOLID SHIFTS IN LEASING ACTIVITY, THE ATLANTA OFFICE MARKET REMAINS CHALLENGED BY A SLOW-MOVING ECONOMIC RECOVERY, LOFTY OFFICE VACANCY, AND A GUARDED PERSPECTIVE OF THIS MARKET BY SOME INVESTORS. Year-to-date leasing activity exceeded 6.6 million square feet through the third quarter of 2010, a 27.5% increase over the same figure one year ago, as per Cushman & Wakefield. "Activity primarily consists of consolidations and renewals of existing leases, but we are seeing positive activity none the less," observes a participant.

There have been some new leases signed this quarter, such as the relocation of the North American Electric Reliability Corporation, which is moving its headquarters from New Jersey to a 40,000-square-foot space in the Atlanta Financial Center in Buckhead. In the same submarket, Kids II inked a deal for 97,120 square feet at Terminus 200, helping raise this asset's occupancy to 60.0% from 9.0% at the beginning of 2010.

While the uptick in leasing activity is a positive for this office market, current conditions still favor tenants. Surveyed participants unanimously agree that free rent is prevalent in this market and can reach up to 20 months on a ten-year lease. The average free rent in this market is 10.1 months, which is the highest average among the 18 individual office markets surveyed. Plus, few investors are anticipating rent growth here in the near term. In fact, this market's average initial-year market rent change rate remained negative this quarter in spite of a 22-basis-point improvement (see Table ATL-1).

The imbalance between tenant demand and plentiful supply also remains a drag on pricing. Based on our Survey, prices range from 50.0% to 100.0% of replacement cost and average 80.8% of replacement cost. "Savvy investors realize that the Atlanta market is 'oversold' in terms of market perception and that opportunities exist to buy quality assets at values well below replacement cost," remarks an investor. In the largest local office trade of the quarter, Dewberry Capital acquired 1155 Peachtree in Midtown out of foreclosure for roughly $80.00 per square foot – nearly 37.0% lower than this market's 12-month average sales price, as per Real Capital Analytics. ✦

Table ATL-1

INITIAL-YEAR MARKET RENT CHANGE RATES

Atlanta Office Market

Quarter	Average	Change (Basis Points)
4Q10	(0.21%)	+ 22
3Q10	(0.43%)	+ 1
2Q10	(0.44%)	+ 28
1Q10	(0.72%)	– 33
4Q09	(0.39%)	– 28
3Q09	(0.11%)	– 62
2Q09	0.51%	– 93
1Q09	1.44%	– 17
4Q08	1.61%	– 158
4Q07	3.19%	– 19
4Q06	3.38%	—

Source: PwC Real Estate Investor Survey

Table 6

ATLANTA OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.75% – 15.00%	7.75% – 15.00%	7.75% – 15.00%
Average	10.27%	10.29%	10.71%
Change (Basis Points)		– 2	– 44
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.00%	7.00% – 11.00%	6.75% – 11.00%
Average	8.84%	8.95%	9.03%
Change (Basis Points)		– 11	– 19
RESIDUAL CAP RATE			
Range	7.00% – 11.00%	7.50% – 11.00%	8.00% – 11.00%
Average	8.98%	9.04%	9.14%
Change (Basis Points)		– 6	– 16
MARKET RENT CHANGE RATE[b]			
Range	(3.00%) – 0.00%	(3.00%) – 0.00%	(5.00%) – 3.00%
Average	(0.21%)	(0.43%)	(0.39%)
Change (Basis Points)		+ 22	+ 18
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	1.00% – 3.00%
Average	2.32%	2.32%	2.61%
Change (Basis Points)		0	– 29
AVERAGE MARKETING TIME[c]			
Range	2.00 – 15.00	2.00 – 12.00	3.00 – 12.00
Average	8.57	7.71	7.67
Change (%)		+ 11.15	+ 11.73

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

Boston Office Market

THE RECENT SALE OF THE 62-STORY, CLASS-A JOHN HANCOCK TOWER IN THE BOSTON OFFICE MARKET ILLUSTRATES THE STRONG INVESTMENT DEMAND FOR TROPHY ASSETS. At roughly $550.00 per square foot, the sale of New England's tallest office building represents one of the largest sales of a commercial building in the United States for at least the last two years. "The flight to quality assets and quality cash flows continues," states a participant. In fact, more than a dozen buyers reportedly vied for ownership of this asset, which was eventually sold to real estate investment trust Boston Properties, which is paying $289.5 million in cash and assuming $640.5 million in debt.

The John Hancock Tower is located in the CBD's Back Bay submarket, where vacancy has tightened over the past several months. As of the third quarter of 2010, the Back Bay posted an overall vacancy rate of 8.8%, the lowest of the six submarkets that comprise Boston's CBD, as per Cushman & Wakefield. Companies that recently signed new leases in the Back Bay submarket include Towers Watson, which leased 77,807 square feet at 800 Boylston Street, and Baupost, which leased 26,450 square feet at 10 St. James Avenue.

Elsewhere in the CBD, many property owners are seeing occupancy levels erode. In the Financial District, for example, overall absorption totaled just below one million square feet for the first nine months of 2010. And, in the Seaport submarket, the overall vacancy rate reached 21.0% in the third quarter. Further stressing these two submarkets will be the delivery of 759,000 square feet of new supply (709,000 square feet in the Financial District and 50,000 square feet in the Seaport) of which 38.7% remains available for lease.

In the suburbs, oversupply issues also exist and are expected to take longer to resolve than in the CBD. "Signs of tightening exist for the CBD and the close-in suburbs, but elsewhere little positive change is occurring," comments a participant. As a result, the average overall capitalization rate (OAR) for this market's CBD remains well below the average OAR for its suburbs (see Table BOS-1). This quarter, the average OAR for Boston's CBD stands 105 basis points lower than the average OAR for its suburbs. Until leasing momentum increases in the suburbs, this spread is likely to persist. ✦

Table 7

BOSTON OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.75% – 14.00%	7.75% – 14.00%	7.75% – 12.00%
Average	9.72%	9.83%	9.49%
Change (Basis Points)		– 11	+ 23
OVERALL CAP RATE (OAR)[a]			
Range	5.75% – 12.00%	5.75% – 12.00%	5.75% – 11.00%
Average	8.31%	8.51%	8.45%
Change (Basis Points)		– 20	– 14
RESIDUAL CAP RATE			
Range	6.00% – 12.00%	6.00% – 12.00%	6.00% – 10.50%
Average	8.56%	8.65%	8.52%
Change (Basis Points)		– 9	+ 4
MARKET RENT CHANGE RATE[b]			
Range	(5.00%) – 3.00%	(5.00%) – 1.00%	(7.00%) – 0.00%
Average	(0.07%)	(0.86%)	(2.50%)
Change (Basis Points)		+ 79	+ 243
EXPENSE CHANGE RATE[b]			
Range	0.00% – 4.50%	0.00% – 4.50%	3.00% – 5.00%
Average	2.81%	2.81%	3.14%
Change (Basis Points)		0	– 33
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	3.00 – 12.00
Average	7.29	7.79	7.92
Change (%)		– 6.42	– 7.95

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)
4Q10	7.79%	8.84%	+ 105
3Q10	7.98%	9.04%	+ 106
2Q10	8.18%	9.14%	+ 96
1Q10	8.18%	8.98%	+ 80
4Q09	7.92%	8.98%	+ 106
3Q09	7.92%	8.89%	+ 97
2Q09	7.75%	8.82%	+ 107
1Q09	7.28%	7.96%	+ 68
4Q08	6.94%	7.61%	+ 67

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

Charlotte Office Market

FOR THE FIRST TIME IN THE LAST SIX QUARTERS, THE OUTLOOK FOR RENT GROWTH IS POSITIVE IN THE CHARLOTTE OFFICE MARKET. Since second quarter 2009, the initial-year market rent change rate has been negative and reached a low of -1.17% in the fourth quarter of 2009. This key assumption surged 59 basis points this quarter to an average of 0.42% (see Table 8). While this figure is well below the average of 4.10% noted during the peak of the cycle three years ago, it represents positive movement.

In the Charlotte office market, surveyed investors estimate that it could take up to five years to reach stabilized vacancy, which participants estimate averages about 7.60%. The average estimated recovery period is just over three years.

According to the recently released *Emerging Trends in Real Estate®2011* (*ET 2011*), published by PwC and the Urban Land Institute, Charlotte scored a 4.82 on a scale of 1 (abysmal) to 9 (excellent) with respect to investment opportunities in 2011. This year's score is above the 4.55 received in the prior year. ET 2011 conveys that investors view Charlotte as an attractive prospect for many investors due to "continued population shifts to an affordable, temperate climate."

As office market fundamentals exhibit modest signs of improvement, the investment market remains stalled. This quarter, limited sales activity occurred and consisted primarily of deals with lenders or servicers. For example, a joint venture between Teachers Retirement System of Ohio and Parkway Properties closed on the 323,391-square-foot Carmel Crossing out of foreclosure. This three-building office park was 77.0% occupied at the time of the sale and sold for $101.00 per square foot, 23.5% below its previous sale in late 2003.

Despite the modest pace of sales activity, this market's average overall capitalization (cap) rate declined for the second straight quarter and stands at 8.53%. Over the next six months, most of our participants (80.0%) anticipate further cap rate compression of up to 100 basis points. The average estimated decline is 50 basis points. As one investor predicts, "Cap rate compression will continue to occur for well-leased, institutional-grade trades." ✦

Table CHR-1

OVERALL CAP RATE TRENDS

Charlotte Office Market

Quarter	Average	Change (Basis Points)
4Q10	8.53%	– 21
3Q10	8.74%	– 67
2Q10	9.41%	+ 13
1Q10	9.28%	+ 7
4Q09	9.21%	0
3Q09	9.21%	+ 25
2Q09	8.96%	+ 73
1Q09	8.23%	+ 39
4Q08	7.84%	+ 24
3Q08	7.60%	+ 4
2Q08	7.56%	+ 29
1Q08	7.27%	—

Source: PwC Real Estate Investor Survey

Table 8

CHARLOTTE OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 12.00%	8.00% – 12.00%	8.00% – 13.00%
Average	9.52%	9.57%	9.77%
Change (Basis Points)		– 5	– 25
OVERALL CAP RATE (OAR)[a]			
Range	6.50% – 10.00%	7.00% – 10.50%	6.50% – 13.00%
Average	8.53%	8.74%	9.21%
Change (Basis Points)		– 21	– 68
RESIDUAL CAP RATE			
Range	7.50% – 10.00%	7.50% – 10.00%	7.50% – 11.00%
Average	8.74%	8.80%	8.91%
Change (Basis Points)		– 6	– 17
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 2.00%	(4.00%) – 2.00%	(5.00%) – 0.00%
Average	0.42%	(0.17%)	(1.17%)
Change (Basis Points)		+ 59	+ 159
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	0.00% – 3.00%
Average	2.79%	2.79%	2.54%
Change (Basis Points)		0	+ 25
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	3.00 – 12.00
Average	6.08	6.08	6.42
Change (%)		0	– 5.30

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

Chicago Office Market

THE CHICAGO OFFICE MARKET HAS BEEN ABUZZ WITH ACTIVITY OF LATE, EXPERIENCING LEASING, SALES, AND EVEN PLANS FOR NEW OFFICE SPACE CONSTRUCTION. On the leasing front, new leasing activity totaled 2.9 million square feet in the CBD and 3.6 million square feet in the suburbs for the first nine months of 2010, according to Cushman & Wakefield (C&W). "Leasing activity is better," confirms a participant. Companies that have recently leased space include Accretive Health, Urban Retail Properties, Dental Network of America, and Treehouse Foods.

Despite this leasing activity, overall vacancy remains elevated in this market, standing at 16.6% in the CBD and 24.6% in the suburbs as of the third quarter of 2010, as per C&W. The current overall vacancy rate for Chicago's suburbs is the highest level in over seven years and reflects large givebacks of space from various tenants, such as SIRVA, which placed its entire 269,466-square-foot headquarters in Westmont up for sublease, and Sara Lee, which downsized and added 76,720 square feet of direct space to the leasing market in Rolling Meadows.

As a result of lofty vacancy rates, surveyed investors remain conservative in underwriting assets and preparing cash flows. As shown in Table CHO-1, this market's average initial-year market rent change rate (the rate of growth assumed in year one of a cash flow forecast) remains negative for the eighth consecutive quarter. On a positive note, however, the average has improved for the past three quarters. In comparison to the other office markets in our Survey, Chicago posts the third lowest average for this key indicator – behind Denver (-1.90%) and Phoenix (-2.50%).

Due to this market's strained ownership environment, some investors are perplexed by the recent announcement by Trammell Crow Company and Insite Real Estate to build a new one-million-square-foot, 34-story office tower at 301 S. Wacker, which is expected to open in 2014 at a cost of $350.0 million. Although no tenants have been signed to date, there is reportedly a lot of interest from potential tenants looking to expand or relocate in the next few years since large blocks of contiguous office space are difficult to come by in downtown Chicago. ✦

Table 9

CHICAGO OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 13.00%	8.00% – 13.00%	8.00% – 15.00%
Average	9.59%	9.67%	10.14%
Change (Basis Points)		– 8	– 55
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 11.00%	6.00% – 11.00%	6.00% – 11.00%
Average	8.41%	8.57%	8.74%
Change (Basis Points)		– 16	– 33
RESIDUAL CAP RATE			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 11.00%
Average	8.67%	8.71%	9.02%
Change (Basis Points)		– 4	– 35
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 1.00%	(10.00%) – 0.00%	(10.00%) – 0.00%
Average	(1.83%)	(2.22%)	(3.25%)
Change (Basis Points)		+ 39	+ 142
EXPENSE CHANGE RATE[b]			
Range	(5.00%) – 3.00%	(5.00%) – 3.00%	(5.00%) – 3.00%
Average	1.88%	1.88%	1.83%
Change (Basis Points)		0	+ 5
AVERAGE MARKETING TIME[c]			
Range	2.00 – 15.00	2.00 – 15.00	2.00 – 12.00
Average	7.33	8.06	8.70
Change (%)		– 9.06	– 15.75

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

Table CHO-1

INITIAL-YEAR MARKET RENT CHANGE RATES

Chicago Office Market

Quarter	Average	Change (Basis Points)
4Q10	(1.83%)	+ 39
3Q10	(2.22%)	+ 17
2Q10	(2.39%)	+ 111
1Q10	(3.50%)	– 25
4Q09	(3.25%)	– 186
3Q09	(1.39%)	– 44
2Q09	(0.95%)	– 45
1Q09	(0.50%)	– 204
4Q08	1.54%	– 117
3Q08	2.71%	– 37
2Q08	3.08%	—

Source: PwC Real Estate Investor Survey

Dallas Office Market

THE DALLAS OFFICE MARKET IS POISED FOR IMPROVEMENT IN UNDERLYING FUNDAMENTALS WITH A RECENT UPTICK IN LEASING ACTIVITY AND A NEAR-EMPTY CONSTRUCTION PIPELINE. The parade of seemingly inexhaustible new office supply is tapering off with less than 200,000 square feet of deliveries set for the remainder of 2010, only 750,000 square feet planned for 2011, and no new space in the pipeline to date for 2012, as per Cushman & Wakefield (C&W). This near-term freeze in construction has the potential to decrease vacancy, which stood at 29.1% in the CBD and 24.0% for the suburbs as of the third quarter of 2010. Compared to all the office markets tracked by C&W, Dallas has the highest vacancy rate among 31 CBDs and the fifth highest vacancy rate amid 37 suburban areas.

Although the corporate nature of this tenant market continues to battle downsizing and restructuring in a lagging economic recovery, overall leasing activity is on the rise. "Despite the high vacancy, we are seeing decent job growth and leasing activity," comments a participant. In fact, total space leased is up 29.4% as of third quarter 2010 compared with one year prior. Even so, the market posted negative net absorption totaling 869,657 square feet in the third quarter of 2010 as per C&W. On the plus side, this figure is roughly half of the negative 1.6 million square feet reported a year ago.

The combination of moderate tenant demand, copious office space, and maturing debt obligations contribute to metro Dallas having the "highest foreclosure postings filed (3,029) in about 19 years," as indicated by Foreclosure Listing Service. It is important to note, however, that this figure does not approach the historical high of 8,000 filings in the late 1980s. Nevertheless, Dallas scored a 5.50 on a scale of 1 (abysmal) to 9 (excellent) with respect to investment opportunities in 2011, according to the recently released *Emerging Trends in Real Estate®2011*, published by PwC and the Urban Land Institute. Still, many investors believe that this market has taken steps toward recovery as evidenced by an increase in its initial-year market rent change rate to 0.50% following three consecutive quarters of flat rent expectations (see Table DAL-1). ✦

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

Quarter	Average	Change (Basis Points)
4Q10	0.50%	+ 50
3Q10	0.00%	0
2Q10	0.00%	0
1Q10	0.00%	+ 50
4Q09	(0.50%)	– 50
3Q09	0.00%	– 27
2Q09	0.27%	– 187
1Q09	2.14%	– 7
4Q08	2.21%	– 137
4Q07	3.58%	+ 68
4Q06	2.90%	—

Source: PwC Real Estate Investor Survey

Table 10
DALLAS OFFICE MARKET
Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 11.50%	8.00% – 12.00%	8.00% – 12.00%
Average	9.44%	9.51%	9.48%
Change (Basis Points)		– 7	– 4
OVERALL CAP RATE (OAR)[a]			
Range	6.75% – 11.50%	7.00% – 11.50%	7.00% – 11.60%
Average	8.75%	8.76%	8.88%
Change (Basis Points)		– 1	– 13
RESIDUAL CAP RATE			
Range	7.25% – 11.00%	7.25% – 11.00%	7.25% – 11.00%
Average	8.97%	8.88%	8.81%
Change (Basis Points)		+ 9	+ 16
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 0.00%	(5.00%) – 0.00%
Average	0.50%	0.00%	(0.50%)
Change (Basis Points)		+ 50	+ 100
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	3.00% – 3.00%	3.00% – 3.00%
Average	2.92%	3.00%	3.00%
Change (Basis Points)		– 8	– 8
AVERAGE MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	7.40	6.80	7.70
Change (%)		+ 8.82	– 3.90

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

Denver Office Market

A TENANTS' MARKET, FEATURING FAVORABLE ASKING RENTAL RATES AND LIBERAL INCENTIVE PACKAGES, IS DRIVING LEASING ACTIVITY IN THE DENVER OFFICE MARKET. Average rental rates are $26.19 per square foot for the CBD as of the third quarter of 2010, as per Cushman & Wakefield. This rental rate has declined 11.0% over the past two years and sits well below the national CBD average of $36.50 per square foot.

In the suburbs, rents are down 6.8% over the same period and average $18.49 per square foot – below the national suburban average of $23.82 per square foot. Some investors indicate that office rents are on the verge of a rebound as one participant predicts, "In the CBD, leasing activity is up, and we expect rents to begin increasing soon." Tenants signing deals this quarter include Catholic Health Initiatives (161,000 square feet), Williams Exploration and Production (105,683 square feet), WildBlue Communications (90,750 square feet), and the United States Bureau of Prisons (90,750 square feet).

Along with offering reduced rents to attract and retain tenants, landlords are also offering enticements in the form of free rent and/or excessive tenant improvement (TI) allowances. Surveyed participants note that free rent ranges from one to 12 months on a ten-year lease. This quarter's free rent average of nearly six months is a noteworthy increase over the 3.5-month average a year ago.

In some cases, tenants are able to negotiate additional TI allowances, ranging from $5.00 to $20.00 per square foot and averaging $8.33 per square foot. These TI dollars are in addition to the typical TI for this market, which ranges from $7.00 to $40.00 per square foot and averages $28.08 per square foot for second-generation space.

Due to persistent challenges, average overall capitalization (cap) rates had been on the rise in this market since late 2007 (see Table DEN-1). Over the past two quarters, however, slight declines in the average overall cap rate may suggest a turn toward recovery for the Denver office market.

Over the next six months, 60.0% of surveyed participants expect overall cap rates to hold steady in this market, while the balance (40.0%) anticipates further cap rate compression of up to 50 basis points. ✦

Table 11
DENVER OFFICE MARKET
Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.75% – 15.00%	7.75% – 15.00%	7.75% – 15.00%
Average	9.91%	10.09%	9.93%
Change (Basis Points)		– 18	– 2
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 10.00%
Average	8.27%	8.29%	8.14%
Change (Basis Points)		– 2	+ 13
RESIDUAL CAP RATE			
Range	7.50% – 11.00%	7.50% – 11.00%	7.00% – 10.00%
Average	8.59%	8.92%	8.17%
Change (Basis Points)		– 33	+ 42
MARKET RENT CHANGE RATE[b]			
Range	(20.00%) – 3.00%	(20.00%) – 3.00%	(20.00%) – 3.00%
Average	(1.90%)	(1.08%)	(2.90%)
Change (Basis Points)		– 82	+ 100
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	3.00% – 3.50%
Average	2.70%	2.75%	3.10%
Change (Basis Points)		– 5	– 40
AVERAGE MARKETING TIME[c]			
Range	3.00 – 9.00	1.00 – 9.00	1.00 – 12.00
Average	6.00	5.73	5.00
Change (%)		+ 4.71	+ 20.00

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

Table DEN-1
OVERALL CAP RATE TRENDS
Denver Office Market

Quarter	Average	Change (Basis Points)
4Q10	8.27%	– 2
3Q10	8.29%	– 11
2Q10	8.40%	+ 1
1Q10	8.39%	+ 25
4Q09	8.14%	0
3Q09	8.14%	+ 35
2Q09	7.79%	+ 35
1Q09	7.44%	+ 48
4Q08	6.96%	+ 55
4Q07	6.41%	—

Source: PwC Real Estate Investor Survey

Houston Office Market

SALES ACTIVITY IS HEATING UP IN THE HOUSTON OFFICE MARKET AS SOME INVESTORS ARE CAPITALIZING ON OPPORTUNITIES TO PURCHASE TROUBLED ASSETS WITH NEAR-TERM LEASING NEEDS. Leading the way in acquisitions is Boxer Properties, which recently purchased the 151,835-square-foot One Northwest Centre, bringing total buys in the Houston market to 2.3 million square feet for this year. This Class-B asset was 51.0% occupied at the time of the sale, which reportedly closed in 40 days.

A local investor, M-M Properties, was the winning bidder among 15 for the Bank One Office Center foreclosed upon by PNC Realty Services earlier this year. The asset sold for $59.7 million and was 76.4% leased at the time the sale. However, near-term tenant rollover and subsequent relocations will free up 128,000 square feet to be re-leased at current market rates.

In addition, Brookfield Office Properties Canada reportedly has the 1.2-million-square-foot Heritage Plaza under contract for $325.0 million, which is currently 88.0% occupied and previously sold in July 2005 for $127.5 million. Finally, Walton Street Capital put its three-property Galleria Office Towers, which is 90.0% leased, on the market for sale. Local experts approximate the potential sale price at roughly $175.00 per square foot.

In *Emerging Trends in Real Estate® 2011*, published by PwC and the Urban Land Institute, Houston scored a 6 on a scale of 1 (abysmal) to 9 (excellent) with respect to investment opportunities in 2011, underscoring investor interest in this market. The report notes "intellectual capital and talent in the city," the presence of an "increasingly strategic port," and the "business-friendly Texas government and low taxes," as keys to Houston's long-term success.

As shown in Table HOU-1, this market's average initial-year market rent change rate, which turned positive this quarter, reflects investors' optimistic outlook with regard to future rent growth. At the same time, the average overall capitalization (cap) rate has declined and stands at 8.49% this quarter. Over the next six months, the majority (83.3%) of Survey participants expect overall cap rates to hold steady. ✦

Table HOU-1

INITIAL-YEAR MARKET RENT CHANGE RATES

Houston Office Market

Quarter	Average	Change (Basis Points)
4Q10	0.25%	+ 55
3Q10	(0.30%)	+ 20
2Q10	(0.50%)	– 50
1Q10	0.00%	0
4Q09	0.00%	0
3Q09	0.00%	– 100
2Q09	1.00%	– 292
1Q09	3.92%	+ 7
4Q08	3.85%	– 129
4Q07	5.14%	—

Source: PwC Real Estate Investor Survey

Table 12

HOUSTON OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.75% – 14.00%	8.00% – 14.00%	8.00% – 14.00%
Average	9.67%	9.64%	10.43%
Change (Basis Points)		+ 3	– 76
OVERALL CAP RATE (OAR)[a]			
Range	6.75% – 12.50%	7.00% – 12.50%	7.75% – 12.00%
Average	8.49%	8.82%	9.30%
Change (Basis Points)		– 33	– 81
RESIDUAL CAP RATE			
Range	7.00% – 11.00%	7.00% – 11.00%	8.00% – 10.00%
Average	8.34%	8.73%	8.76%
Change (Basis Points)		– 39	– 42
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 3.00%	(5.00%) – 2.00%	0.00% – 0.00%
Average	0.25%	(0.30%)	0.00%
Change (Basis Points)		+ 55	+ 25
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 5.00%
Average	2.83%	2.83%	3.25%
Change (Basis Points)		0	– 42
AVERAGE MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	7.17	7.08	7.33
Change (%)		+ 1.27	– 2.18

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

Los Angeles Office Market

THE INABILITY TO CREATE JOBS AND BOOST DEMAND FOR OFFICE SPACE CONTINUES TO BE A MAJOR OBSTACLE FOR THE RECOVERY OF THE LOS ANGELES OFFICE MARKET. Since the peak of the real estate cycle, sharp declines have occurred in various office-space-using job sectors in the Los Angeles-Long Beach-Glendale metro division. In its financial-activities sector, for example, employment totaled 246,700 workers in August 2007, but declined to 215,100 workers as of August 2010, according to the Bureau of Labor Statistics.

In the professional-and-business-services sector, job losses have been even greater. In August 2007, employment totaled 607,100 workers in this sector. As of August 2010, it equaled 509,000 workers – down nearly 100,000 workers in three years. Even this metro's government sector has experienced declines in employment, dropping from 571,200 workers in August 2007 to 550,500 employees in August 2010.

Drops in employment have translated into declines in occupancy as tenants either return space to the market upon rollover or reduce space needs for new leases. As a result, the overall vacancy rate remains on an upward trend. In the third quarter of 2010, the overall vacancy rate for the Los Angeles CBD was 17.8%, up 86 basis points on a quarterly basis and 177 basis points on an annual basis, as per Cushman & Wakefield. In the suburbs, the vacancy rate is even greater, standing at 18.7% in the third quarter of 2010, up 253 basis points on an annual basis.

While the general feeling among surveyed investors is that this office market as a whole has bottomed and is slowly rebounding, many are concerned about the continued impact on property values as space is re-leased at much lower rental rates. "We anticipate rents to continue to fall, even slightly, and remain in favor of tenants through the coming year," comments a participant.

As shown in Table LAO-1, the average initial-year market rent change rate remains very low for this market compared to its history – down over 400 basis points in three years. However, in anticipation of a drawn out recovery, 67.0% of participants are using rent spikes, ranging up to 8.00% and averaging 5.15%, in about the fourth year of cash flow forecasts. ✦

Table 13
LOS ANGELES OFFICE MARKET
Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 12.00%	7.00% – 12.00%	7.00% – 14.00%
Average	9.03%	9.19%	9.35%
Change (Basis Points)		– 16	– 32
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 9.00%	6.25% – 9.00%	5.00% – 10.00%
Average	7.46%	7.76%	7.75%
Change (Basis Points)		– 30	– 29
RESIDUAL CAP RATE			
Range	7.00% – 9.50%	6.75% – 10.25%	6.50% – 10.00%
Average	8.05%	8.14%	8.18%
Change (Basis Points)		– 9	– 13
MARKET RENT CHANGE RATE[b]			
Range	(3.00%) – 3.00%	(2.00%) – 2.00%	(5.00%) – 3.00%
Average	0.17%	0.00%	0.10%
Change (Basis Points)		+ 17	+ 7
EXPENSE CHANGE RATE[b]			
Range	1.00% – 3.00%	2.00% – 3.00%	2.50% – 3.00%
Average	2.75%	2.92%	2.93%
Change (Basis Points)		– 17	– 18
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	5.80	5.80	6.20
Change (%)		0	– 6.45

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)
4Q10	0.17%	+ 17
3Q10	0.00%	+ 50
2Q10	(0.50%)	– 14
1Q10	(0.36%)	– 46
4Q09	0.10%	– 71
2Q09	0.81%	– 200
4Q08	2.81%	– 152
2Q08	4.33%	– 50
4Q07	4.83%	+ 47
2Q07	4.36%	—

Source: PwC Real Estate Investor Survey

Manhattan Office Market

THE MANHATTAN OFFICE MARKET CONTINUES TO DISPLAY CAUTIOUS SIGNS OF RECOVERY AS THE LOCAL ECONOMY ADDS JOBS, CREATES DEMAND FOR OFFICE SPACE, AND OUTPERFORMS MUCH OF THE COUNTRY. "There is a reason why New York is always at the top of the 'buy' list for investors," comments a participant. In *Emerging Trends in Real Estate®2011*, published by PwC and the Urban Land Institute, New York City ranks as the second "U.S. market to watch" for commercial investing in the year ahead. Plus, it had the highest "buy" rating among *Emerging Trends* (*ET*) respondents. Overall, 64.9% of ET 2011 interviewees recommend buying office assets in New York City in 2011. San Francisco placed second at 62.5% while Washington, DC was third at 62.3%.

Due to limited additions to supply and a sense among tenants that the "worst is over," many landlords are noticing an increase in property tours, consolidations, and leasing activity. In one large lease deal, media company Meredith Corporation consolidated two separate offices in the Grand Central District into one nine-story, 213,000-square-foot space at 805 Third Avenue. In total, leasing activity totaled 13.0 million square feet in Midtown during the first nine months of 2010, according to Cushman & Wakefield. In turn, the overall vacancy rate shrunk to 11.0% in the third quarter of 2010.

Given Manhattan's lack of new supply and the anticipation that demand for office space will continue to slowly rise, some landlords are focusing on property renovations and repositioning in order to remain competitive and capture market share. For certain owners, this means refurbishing or redesigning lobbies and common areas. For others, it means increasing energy efficiency and being "green" to lure tenants. "Anybody can lower rental rates to attract tenants, but in this type of environment, the property really needs to stand out," says an investor.

The need for an asset to stand out, plus be well leased and well maintained, is also true in order for it to attract a buyer. "Quality assets continue to receive the most interest from investors," affirms an investor. In this market, strong buyer interest and a lack of quality assets continue to compress overall capitalization (cap) rates. As shown in Table MAN-1, Manhattan's average overall cap rate remains on a downward trend, dipping to 6.02% this quarter. ✦

Table MAN-1

OVERALL CAP RATE TRENDS

Manhattan Office Market

Quarter	Average	Change (Basis Points)
4Q10	6.02%	– 21
3Q10	6.23%	– 35
2Q10	6.58%	– 7
1Q10	6.65%	0
4Q09	6.65%	+ 14
3Q09	6.51%	– 3
2Q09	6.54%	+ 47
1Q09	6.07%	+ 26
4Q08	5.81%	—

Source: PwC Real Estate Investor Survey

Table 14

MANHATTAN OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 10.00%	6.00% – 10.00%	6.00% – 12.00%
Average	7.85%	7.81%	8.23%
Change (Basis Points)		+ 4	– 38
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 8.00%	5.00% – 8.00%	5.00% – 9.00%
Average	6.02%	6.23%	6.65%
Change (Basis Points)		– 21	– 63
RESIDUAL CAP RATE			
Range	5.50% – 8.50%	5.50% – 8.50%	6.00% – 9.00%
Average	6.85%	6.83%	7.25%
Change (Basis Points)		+ 2	– 40
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 5.00%	0.00% – 3.50%	(20.00%) – 0.00%
Average	1.25%	0.79%	(5.50%)
Change (Basis Points)		+ 46	+ 675
EXPENSE CHANGE RATE[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	1.00% – 3.00%
Average	2.67%	2.67%	2.75%
Change (Basis Points)		0	– 8
AVERAGE MARKETING TIME[c]			
Range	3.00 – 9.00	3.00 – 9.00	3.00 – 9.00
Average	4.80	5.90	5.90
Change (%)		– 18.64	– 18.64

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

Northern Virginia Office Market

LEASING TRENDS CONTINUE TO PAINT A POSITIVE PICTURE FOR THE NORTHERN VIRGINIA OFFICE MARKET AS BOTH GOVERNMENT AND NONGOVERNMENT TENANTS ARE MORE ACTIVELY LOOKING FOR SPACE AND SIGNING DEALS. During the first nine months of 2010, this market posted positive net absorption of 896,091 square feet, based on a report by CB Richard Ellis. With just below 300,000 square feet of net absorption, both Arlington and Fairfax Counties noted the highest absorption levels for that time period. In contrast, Loudoun County posted negative net absorption of nearly 7,000 square feet.

Although leasing activity has improved, some investors note that rental rates remain flat. "More space is being absorbed, but rental rates are holding steady," says an investor, who believes that market conditions still favor tenants even though some improvement has occurred.

As shown in Table NVO-1, surveyed investors continue to assume minimal rent growth in the first year of cash flow forecasts. This quarter, the average initial-year market rent change rate ticked up slightly to 0.25%. At the peak of the cycle in mid-2007, the average for this key assumption was 2.94% for this market.

Given the expectation among many investors that rental rate growth, if any, will stay low over the near term, stable properties with minimal leasing exposure remain prime targets of investors' dollars. "Steady assets are getting a lot of attention," a participant exclaims. In one recent deal, Colony Realty Partners acquired the ten-story, 231,928-square-foot trophy property at 3190 Fairview Park Drive in Falls Church for $320.00 per square foot.

Unfortunately, limited quality product is coming to market, and value-added assets for sale are still not garnering much attention. "Bidding is still thin for core-plus and value-added product," attests an investor. "Value-added deals are still generally difficult to underwrite with such slack tenant demand," remarks another.

As market fundamentals improve, the expectation is that opportunity-fund money, that is waiting on the sidelines, will become more comfortable being deployed. As a result, competition for assets will likely increase, pushing sale prices up and overall cap rates down. ✦

Table 15
NORTHERN VIRGINIA OFFICE MARKET
Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 10.50%	6.00% – 10.50%	6.00% – 12.00%
Average	8.60%	8.48%	8.70%
Change (Basis Points)		+ 12	– 10
OVERALL CAP RATE (OAR)[a]			
Range	5.75% – 9.00%	5.75% – 9.00%	5.00% – 11.00%
Average	7.69%	7.50%	8.02%
Change (Basis Points)		+ 19	– 33
RESIDUAL CAP RATE			
Range	7.00% – 9.00%	7.00% – 9.00%	6.50% – 10.00%
Average	8.05%	8.05%	8.16%
Change (Basis Points)		0	– 11
MARKET RENT CHANGE RATE[b]			
Range	(2.00%) – 3.00%	(2.00%) – 3.00%	(2.00%) – 3.00%
Average	0.25%	0.20%	0.57%
Change (Basis Points)		+ 5	– 32
EXPENSE CHANGE RATE[b]			
Range	1.50% – 3.00%	1.50% – 3.00%	1.50% – 3.00%
Average	2.79%	2.79%	2.91%
Change (Basis Points)		0	– 12
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 15.00
Average	6.00	6.30	7.79
Change (%)		– 4.76	– 22.98

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

Table NVO-1
INITIAL-YEAR MARKET RENT CHANGE RATES
Northern Virginia Office Market

Quarter	Average	Change (Basis Points)
4Q10	0.25%	+ 5
3Q10	0.20%	0
2Q10	0.20%	– 47
1Q10	0.67%	+ 10
4Q09	0.57%	– 72
3Q09	1.29%	– 45
2Q09	1.74%	– 95
1Q09	2.69%	– 12
4Q08	2.81%	– 13
4Q07	2.94%	—

Source: PwC Real Estate Investor Survey

Pacific Northwest Office Market

EVEN THOUGH THE PACIFIC NORTHWEST OFFICE MARKET HAS BEEN SLOW TO RECOVER FROM THE U.S. RECESSION, ITS APPEAL AMONG BUSINESSES AND EMPLOYEES MAKES IT A TARGET OF INVESTORS' DOLLARS. In *Emerging Trends in Real Estate®2011*, published recently by PwC and the Urban Land Institute, Seattle ranked as the sixth "U.S. market to watch" in the year ahead, finishing ahead of Houston, Los Angeles, and San Diego. In the report, Seattle is noted as "getting a boost from in-migration, gaining 160,000 residents since the recession." In addition, "young workers attracted to tech firms want 24-hour lifestyles near where they work."

At 54.0%, institutional investors represented the largest portion of buyers in this market over the past 12 months, followed by syndicators at 24.0% and REITs at 13.0%, according to Real Capital Analytics. On the other hand, foreign investors represent the largest percentage of sellers (30.0%). Given the tremendous pent-up demand of capital and the current low-interest-rate environment, market conditions favor both buyers and sellers. In fact, 60.0% of our participants believe this market is neutral – equally favoring buyers and sellers. As one investor states, "The next six to nine months could be a good time to sell or buy."

Like in many other major office markets, most investors are looking for stabilized assets with strong cash flows. In one such recent sale, Talon Private Capital acquired the newly developed Class-A Waterfront Place in Kirkland for a reported $422.00 per square foot. This 51,000-square-foot office building was built in 2008 and was 84.0% leased at the time of sale to a variety of tenants, such as MetLife, Bluetooth, and an architectural firm. Its premier location in the "technology corridor," between the tech hubs of South Lake Union and Redmond, likely contributes to its ownership appeal.

For buyers looking to acquire assets in this market, average overall cap rates remain on a downward trend. As shown in Table PNW-1, the average for this key indicator has declined for the past five quarters, dropping from 9.50% in the third quarter of 2009 to 8.25% this quarter. Over the next six months, the majority of Survey participants (80.0%) expect overall cap rates to hold steady in this market. The remaining 20.0% foresee a decline, ranging between 50 and 100 basis points. ✦

Table PNW-1

OVERALL CAP RATE TRENDS

Pacific Northwest Office Market

Quarter	Average	Change (Basis Points)
4Q10	8.25%	– 16
3Q10	8.41%	– 22
2Q10	8.63%	– 58
1Q10	9.21%	– 9
4Q09	9.30%	– 20
3Q09	9.50%	+ 50
2Q09	9.00%	+ 45
1Q09	8.55%	+ 99
4Q08	7.56%	– 25
4Q07	7.81%	—

Source: PwC Real Estate Investor Survey

Table 16

PACIFIC NORTHWEST OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50% – 12.00%	7.50% – 12.00%	9.00% – 15.00%
Average	9.65%	10.10%	11.10%
Change (Basis Points)		– 45	– 145
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 12.00%	6.00% – 12.00%	8.00% – 12.00%
Average	8.25%	8.41%	9.30%
Change (Basis Points)		– 16	– 105
RESIDUAL CAP RATE			
Range	6.00% – 10.00%	6.00% – 10.00%	7.00% – 10.00%
Average	8.33%	8.43%	8.90%
Change (Basis Points)		– 10	– 57
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 0.00%	0.00% – 2.00%
Average	0.30%	0.00%	0.20%
Change (Basis Points)		+ 30	+ 10
EXPENSE CHANGE RATE[b]			
Range	1.00% – 3.00%	2.50% – 3.00%	0.00% – 3.00%
Average	2.70%	2.95%	2.60%
Change (Basis Points)		– 25	+ 10
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	6.00	6.00	6.25
Change (%)		0	– 4.00

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

Philadelphia Office Market

THE PERFORMANCE OF THE PHILADELPHIA OFFICE MARKET CONTINUES TO VARY AS THE SUBURBS EXHIBIT SIGNS OF PROGRESS AND THE CBD STRUGGLES WITH LIMITED NEW LEASES AND NEGATIVE ABSORPTION. Over the past 12 months, overall vacancy in the suburbs improved from 17.6% to 16.9% as of the third quarter of 2010, as per Cushman & Wakefield. During the same time period, CBD vacancy grew from 11.9% to 12.6% due in part to Verizon's master lease termination at 1717 Arch Street, which added 365,000 square feet of available space to the downtown submarket.

This market's painfully slow economic recovery resulted in negative net absorption in both the CBD and the suburbs through the third quarter of 2010. In the suburbs, negative absorption of 44,125 square feet is a substantial improvement from a year ago when the total exceeded 960,000 square feet. In contrast, the CBD's year-to-date negative absorption of 999,112 square feet is roughly 58.0% greater than the prior year's total. "The CBD's leasing market continues to be quiet primarily due to the absence of sustainable job growth," summarizes a participant.

Despite the less-than-solid performance in the CBD, several large lease renewals occurred during the quarter including law firms Cozen O'Connor (202,000 square feet) and White and Willams (119,820 square feet). In addition, Verizon is maintaining 125,000 square feet at 1717 Arch Street for seven years, and Comcast subleased 43,230 square feet at the same location. New lease deals are occurring in the suburbs, where IMS Health (157,175 square feet) and Quest Diagnostics (136,157 square feet) signed for space in the King of Prussia submarket.

Although investment sales activity remains muted in Philadelphia, a couple of recent trades represent positive events for the CBD. REIT Brandywine Realty Trust (BRT) purchased 1717 Arch Street, the first trophy tower to change hands in the CBD since 2006. This asset was 63.0% occupied at the time of sale and sold for $129.0 million, or $125.00 per square foot. Also in the CBD, BRT purchased a partial interest in One and Two Commerce Square for a total of $100.0 million. In a value-added play downtown, Kimpton Hotels & Restaurants acquired the vacant Lafayette Building for $11.5 million and plans to spend $70.0 million redeveloping the asset as a hotel.

While the Philadelphia office market's steadiness continues to be tested by a lack of consistent job growth in office-space-using sectors, improvements in the suburbs' fundamentals and key events in the CBD resulted in an uptick in investors' estimates of future rent growth. Specifically, the average initial-year market rent change rate improved for the third consecutive quarter and stands at 0.58% (see Table 17). Moreover, surveyed participants estimate an average property value decline of just below 2.00% in the coming year, down from an estimate of nearly 6.00% as of year-end 2009. ✦

Table 17
PHILADELPHIA OFFICE MARKET
Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 11.00%	8.00% – 11.00%	9.00% – 11.00%
Average	9.33%	9.38%	9.80%
Change (Basis Points)		– 5	– 47
OVERALL CAP RATE (OAR)[a]			
Range	7.25% – 10.00%	7.25% – 10.00%	8.00% – 11.00%
Average	8.69%	8.71%	9.09%
Change (Basis Points)		– 2	– 40
RESIDUAL CAP RATE			
Range	7.00% – 11.00%	7.00% – 11.00%	8.00% – 11.00%
Average	8.83%	8.85%	9.18%
Change (Basis Points)		– 2	– 35
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 3.00%	(5.00%) – 3.00%	(10.00%) – 3.00%
Average	0.58%	0.17%	(0.75%)
Change (Basis Points)		+ 41	+ 133
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.50% – 3.00%
Average	2.75%	2.77%	2.96%
Change (Basis Points)		– 2	– 21
AVERAGE MARKETING TIME[c]			
Range	4.00 – 18.00	4.00 – 18.00	6.00 – 18.00
Average	7.58	7.58	8.00
Change (%)		0	– 5.25

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

Phoenix Office Market

THE OFFICE INVESTMENT CLIMATE IN PHOENIX UNQUESTIONABLY FAVORS BUYERS AS ASSET PRICES REMAIN WELL BELOW REPLACEMENT COST. This quarter, Survey participants estimate that office asset prices range from 40.0% to 100.0% of replacement cost. With an average price of 64.6% of replacement cost, Phoenix ranks last among the 18 individual office markets in our Survey. Furthermore, in *Emerging Trends in Real Estate®2011*, published by PwC and the Urban Land Institute, the Phoenix office market had the highest "sell" rating among the respondents. In particular, 40.2% of the interviewees recommend selling office assets in Phoenix, while just 20.6% recommend buying office properties in this market.

In an all-cash transaction involving some near-term leasing risk, a joint venture of Morgan Stanley and McCarthy Cook & Company acquired Park One and 24th & Highland for a total of $44.7 million from Teachers Insurance & Annuity. Park One was 74.0% occupied and the Highland property was 68.0% occupied at the time of sale. In the largest local office sale so far in 2010, Cole Real Estate Investments purchased Fountainhead Corporate Park located in Tempe. The University of Phoenix occupies the entire property, which traded for $142.8 million or $325.00 per square foot.

For the second time in just over five years, the Scottsdale Financial Center traded hands. CJK Investments acquired the property for $15.5 million, just over half of its sale price in May 2005 when it sold for $30.0 million. Based on our Survey, investors anticipate further declines in asset values of up to 20.0% in this market over the next 12 months, with an average decline of 7.5%. However, this expected decrease is below the 10.0% average indicated by surveyed investors just a year ago.

Although challenges remain in the Phoenix market with respect to a protracted economic recovery, weak tenant demand, and a highly competitive leasing environment due to an abundance of supply, many Survey investors note improvement with regard to future rent growth expectations this quarter (see Table PHO-1). Although this market's average initial-year market rent change rate remains negative, it improved 170 basis points over the past three months. ✦

Table PHO-1

INITIAL-YEAR MARKET RENT CHANGE RATES

Phoenix Office Market

Quarter	Average	Change (Basis Points)
4Q10	(2.50%)	+ 170
3Q10	(4.20%)	– 70
2Q10	(3.50%)	+ 70
1Q10	(4.20%)	+ 130
4Q09	(5.50%)	+ 40
3Q09	(5.90%)	– 162
2Q09	(4.28%)	– 553
1Q09	1.25%	0
4Q08	1.25%	– 350
4Q07	4.75%	—

Source: PwC Real Estate Investor Survey

Table 18

PHOENIX OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.50% – 16.00%	8.50% – 16.00%	8.50% – 16.00%
Average	10.75%	11.06%	10.40%
Change (Basis Points)		– 31	+ 35
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 10.50%
Average	9.23%	9.23%	9.00%
Change (Basis Points)		0	+ 23
RESIDUAL CAP RATE			
Range	7.75% – 10.00%	8.00% – 11.00%	8.00% – 10.00%
Average	8.95%	9.10%	9.03%
Change (Basis Points)		– 15	– 8
MARKET RENT CHANGE RATE[b]			
Range	(15.00%) – 1.00%	(15.00%) – 0.00%	(15.00%) – 0.00%
Average	(2.50%)	(4.20%)	(5.50%)
Change (Basis Points)		+ 170	+ 300
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	2.65%	2.70%	2.70%
Change (Basis Points)		– 5	– 5
AVERAGE MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	6.60	6.30	5.70
Change (%)		+ 4.76	+ 15.79

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

San Diego Office Market

A REBOUND IN THE SAN DIEGO OFFICE MARKET REMAINS HINDERED BY A LACK OF JOB FORMATION, PARTICULARLY IN OFFICE-SPACE-USING SECTORS. As shown in Table SDO-1, the unemployment rate for the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area rose to 10.6% as of September 2010, compared to the national average of 9.2%, as per the Bureau of Labor Statistics. Currently, the local rate is more than double the rate from nearly three years ago (4.5%).

The deficiency in office-space-using jobs has created a highly competitive leasing environment for landlords, resulting in a flight to quality for tenants. While some leases are being executed, the majority of recent lease transactions involve tenant relocations rather than new deals. This quarter, surveyed investors unanimously agree that free rent is common in this market, ranging from one to six months on a ten-year lease and averaging nearly four months. In certain instances, landlords offer excessive tenant improvement (TI) allowances of up to $10.00 per square foot. These TI dollars are over and above the typical TI allowance of $10.00 to $30.00 per square foot for second-generation space in this market.

From an investment perspective, just over half of Survey participants view San Diego as a buyers' market for office properties. The assets traded have included both well-leased core properties and those with lease-up risk. "We are starting to see a few buyers willing to take some risk with regard to near-term tenant rollover and vacancy," notes a participant.

Transaction activity totaled $450.0 million during the first three quarters of 2010, compared to $300.0 million in the prior year, as per Real Capital Analytics. In a recent trade, KBS Realty Advisors acquired Torrey West Reserve, which was reportedly more than 90.0% leased, for $231.30 per square foot – an approximate 15.5% decline in price from its transfer in 2004.

Based on our Survey, asset values are estimated to hold steady over the next 12 months, compared to one year ago when the estimate was a value decline of nearly 11.0%. This change suggests that the San Diego office market is at or near the bottom in terms of pricing and may be poised for an upturn. ✦

Table 19
SAN DIEGO OFFICE MARKET
Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50% – 13.00%	7.50% – 14.00%	8.00% – 14.00%
Average	9.83%	9.88%	10.01%
Change (Basis Points)		– 5	– 18
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 11.00%
Average	8.25%	8.26%	8.13%
Change (Basis Points)		– 1	+ 12
RESIDUAL CAP RATE			
Range	7.00% – 10.00%	7.00% – 10.00%	7.00% – 9.00%
Average	8.40%	8.40%	8.10%
Change (Basis Points)		0	+ 30
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 0.00%	(10.00%) – 0.00%	(10.00%) – 0.00%
Average	(1.20%)	(2.30%)	(3.20%)
Change (Basis Points)		+ 110	+ 200
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	0.00% – 3.00%
Average	2.90%	2.90%	2.50%
Change (Basis Points)		0	+ 40
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	5.75	5.63	5.88
Change (%)		+ 2.13	– 2.21

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

Table SDO-1
UNEMPLOYMENT RATES
U.S. and San Diego MSA

Year	United States	San Diego MSA
2Q10*	9.2%	10.6%
2Q09	9.3%	9.7%
2Q08	7.1%	6.0%
2Q07	4.6%	4.5%
2Q06	4.6%	4.0%
2Q05	5.1%	4.3%
2Q04	5.5%	4.7%
2Q03	6.0%	5.2%
2Q02	5.8%	5.2%
2Q01	4.7%	4.2%
2000	4.0%	3.9%

*As of September 2010
Source: Bureau of Labor Statistics

San Francisco Office Market

IN ANTICIPATION OF CONTINUED TENANT DEMAND, PARTICULARLY FROM TECH-RELATED COMPANIES, MANY INVESTORS REMAIN KEEN ON BUYING QUALITY ASSETS IN THE SAN FRANCISCO OFFICE MARKET. In *Emerging Trends in Real Estate®2011*, published by PwC and the Urban Land Institute, San Francisco ranks as the third "U.S. market to watch" for commercial investing in the year ahead. Plus, it had the second highest "buy" rating among *Emerging Trends* (*ET*) respondents. Overall, 62.5% of ET 2011 interviewees recommend buying office assets in San Francisco. In contrast, only 8.3% of respondents recommend selling office properties in this market.

The imbalance between the many investors looking to acquire properties and the few anxious to sell them has created a heated sales market for quality assets. In a recent Class-A trade, Manulife Financial, a Canadian financial-services group, acquired Market Center, a trophy two-tower, 770,044-square-foot office property for about $344.00 per square foot. This purchase represents Manulife's first office acquisition in the Bay Area and will add to its California portfolio that includes 18 office and industrial properties and totals nearly five million square feet.

Foreign investors, such as Manulife, continue to be drawn to the San Francisco office market due to its proven growth and ability to outperform other major office markets in the United States. In the past 12 months, foreign investors represented 15.0% of the buyer pool in this market, according to data by Real Capital Analytics. At 35.0%, private in-state investors represented the largest group of buyers followed by REITs at 26.0%.

Strong investment interest, low interest rates, and more easily available debt capital continue to compress this market's average overall capitalization (cap) rate. This quarter, it dipped 12 basis points to 7.57% and stands 37 basis points lower than a year ago. As shown in Table SFO-1, the average overall cap rate for this market's CBD remains below the average for its suburbs. While the spread was much narrower during the peak of the cycle (mid-2007) when optimism prevailed and many investors were focused on returns and not location, it has steadily widened and demonstrates investors' preference for downtown assets (see Table SFO-1). ✦

Table SFO-1

AVERAGE OVERALL CAP RATES

San Francisco Office Market

Quarter	CBD	Suburbs	Spread(1)
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
2Q09	6.98%	7.73%	+ 75
1Q09	6.25%	7.03%	+ 78
3Q08	5.78%	6.57%	+ 79
3Q07	5.81%	6.41%	+ 60

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

Table 20

SAN FRANCISCO OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 15.00%	7.50% – 15.00%	8.00% – 14.00%
Average	9.33%	9.53%	9.74%
Change (Basis Points)		– 20	– 41
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 11.00%	5.50% – 11.00%	6.00% – 11.00%
Average	7.57%	7.69%	7.94%
Change (Basis Points)		– 12	– 37
RESIDUAL CAP RATE			
Range	6.00% – 12.00%	6.00% – 12.00%	6.00% – 12.00%
Average	7.96%	7.94%	8.14%
Change (Basis Points)		+ 2	– 18
MARKET RENT CHANGE RATE[b]			
Range	(5.00%) – 5.00%	(5.00%) – 7.60%	(20.00%) – 3.00%
Average	1.26%	1.46%	(1.00%)
Change (Basis Points)		– 20	+ 226
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	2.56%	2.56%	2.67%
Change (Basis Points)		0	– 11
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	5.61	6.17	6.89
Change (%)		– 9.08	– 18.58

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

Southeast Florida Office Market

WHILE A FEW POSITIVE ACTIONS HAVE OCCURRED RECENTLY IN THE SOUTHEAST FLORIDA OFFICE MARKET, A STAGNANT ECONOMIC RECOVERY REMAINS AN IMPEDIMENT TO THIS MARKET'S RECOVERY. Most notably, unemployment continues to rise for the three main counties that comprise this market – Miami-Dade, Palm Beach, and Broward.

At 13.1%, Miami-Dade County posted the highest unemployment rate of the three counties as of September 2010, according to the Bureau of Labor Statistics. Palm Beach County was close behind at 12.4% while Broward County reported a rate of 10.5%. By comparison, the unemployment rate for Florida was 12.1% (not seasonally adjusted) in September 2010.

To put these unemployment rates into perspective, the three counties posted unemployment rates of 5.0%, 5.0%, and 3.8%, respectively, in September 2007 at the peak of the cycle.

While a tremendous number of job losses in Southeast Florida are tied to the construction industry, office-space-using employment sectors, such as financial activities and professional-and-business services, have also been losing workers. According to CBRE Econometrics Advisors, office employment has declined by 4.0% in Palm Beach County over the past five years.

As office-space-using employment has dropped in Palm Beach County, its overall vacancy rate rose to 29.6% in the third quarter of 2010, according to CB Richard Ellis. This figure is the highest of the three counties. Miami's availability rate was 24.4% for that time period while Broward County posted a rate of 18.9%.

Overall, tenants remain in control of lease negotiations and are receiving aggressive concession packages. According to surveyed investors, free rent ranges up to 12 months and averages 6.5 months for a ten-year lease. By comparison, free rent averaged roughly two months in this market at the start of 2007.

With supply greatly ahead of demand in the Southeast Florida office market, investors continue to use conservative growth rate assumptions in cash flow forecasts. As shown in Table SFL-1, this market's average initial-year market rent change rate assumption (the growth rate used in year one of a cash flow forecast) remains negative for the sixth consecutive quarter. ✦

Table 21

SOUTHEAST FLORIDA OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 16.00%	7.00% – 16.00%	8.00% – 16.00%
Average	10.28%	10.22%	10.33%
Change (Basis Points)		+ 6	– 5
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 13.00%	7.25% – 14.00%	6.70% – 11.00%
Average	9.39%	9.19%	8.82%
Change (Basis Points)		+ 20	+ 57
RESIDUAL CAP RATE			
Range	7.00% – 12.00%	7.00% – 12.00%	7.75% – 10.50%
Average	9.23%	9.00%	9.02%
Change (Basis Points)		+ 23	+ 21
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 3.00%	(10.00%) – 3.00%	(10.00%) – 3.00%
Average	(0.42%)	(0.71%)	(1.25%)
Change (Basis Points)		+ 29	+ 83
EXPENSE CHANGE RATE[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	1.00% – 3.00%
Average	2.75%	2.79%	2.86%
Change (Basis Points)		– 4	– 11
AVERAGE MARKETING TIME[c]			
Range	2.00 – 18.00	2.00 – 18.00	2.00 – 18.00
Average	7.50	7.50	7.33
Change (%)		0	+ 2.32

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)
4Q10	(0.42%)	+ 29
3Q10	(0.71%)	0
2Q10	(0.71%)	+ 36
1Q10	(1.07%)	+ 18
4Q09	(1.25%)	– 75
3Q09	(0.50%)	– 53
2Q09	0.03%	– 89
1Q09	0.92%	– 141
4Q08	2.33%	– 109
4Q07	3.42%	—

Source: PwC Real Estate Investor Survey

Suburban Maryland Office Market

A LACK OF NEW CONSTRUCTION AND A PICK-UP IN LEASING ACTIVITY ARE POSITIVELY IMPACTING THE SUPPLY/DEMAND DYNAMICS OF THE SUBURBAN MARYLAND OFFICE MARKET. Like neighboring Northern Virginia, net absorption was positive in this market for the first nine months of 2010, totaling 146,790 square feet, as per CB Richard Ellis. Looking deeper at this figure, however, net absorption so far this year was positive for only two of the three counties that comprise this market. Prince George's County posted negative net absorption of 79,452 square feet. Montgomery County led the year-to-date leasing charge, accounting for 87.1% of this market's positive net absorption.

Helping to entice companies to sign leases is an abundance of empty Class-A space, which is available at much lower rental rates than in the past. As shown in Table 22, some surveyed investors are still incorporating rental rate declines in cash flow forecasts. Overall, this market's average initial-year market rent change rate remains quite low at 0.10%. Looking ahead, however, Survey participants are using higher market rent growth rate assumptions in year two (an average of 1.50%) and year three (an average of 2.60%) of their forecasts, suggesting further recovery for this market.

Generous concession packages are also enticing tenants to sign leases. In fact, surveyed investors unanimously report that free rent is prevalent in this office market, ranging up to 12 months on a ten-year lease. The average amount of free rent is 6.8 months. As this market continues to recover and leasing options for tenants become fewer in number, landlords should be able to regain a stronghold in the market and reduce free rent levels and increase rental rates. But, it will take time. "Everyone should prepare for a baby-steps recovery," asserts a participant.

According to one investor, a full recovery for this market stands five years away. Others are more optimistic, estimating an average recovery time of 18 months. The positive views expressed for this market's near-term performance are recognized in its average overall cap rate (OAR) trends. As shown in Table SMO-1, this market's average OAR dipped for the fourth straight quarter to reach 7.65% – below where it was a year ago, but elevated from the peak of the cycle. ✦

Table SMO-1

OVERALL CAP RATE TRENDS

Suburban Maryland Office Market

Quarter	Average	Change (Basis Points)
4Q10	7.65%	– 10
3Q10	7.75%	– 11
2Q10	7.86%	– 7
1Q10	7.93%	– 23
4Q09	8.16%	+ 98
4Q08	7.18%	+ 26
4Q07	6.92%	– 5
4Q06	6.97%	– 53
4Q05	7.50%	– 61
4Q04	8.11%	—

Source: PwC Real Estate Investor Survey

Table 22

SUBURBAN MARYLAND OFFICE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.25% – 10.00%	7.25% – 10.00%	7.00% – 11.00%
Average	8.47%	8.53%	9.05%
Change (Basis Points)		– 6	– 58
OVERALL CAP RATE (OAR)[a]			
Range	6.50% – 9.00%	7.00% – 9.00%	5.00% – 10.00%
Average	7.65%	7.75%	8.16%
Change (Basis Points)		– 10	– 51
RESIDUAL CAP RATE			
Range	7.50% – 10.00%	7.50% – 10.00%	7.50% – 10.00%
Average	8.31%	8.25%	8.54%
Change (Basis Points)		+ 6	– 23
MARKET RENT CHANGE RATE[b]			
Range	(2.00%) – 3.00%	(2.00%) – 3.00%	(5.00%) – 3.00%
Average	0.10%	0.07%	(0.13%)
Change (Basis Points)		+ 3	+ 23
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	2.00% – 3.00%
Average	2.40%	2.57%	2.94%
Change (Basis Points)		– 17	– 54
AVERAGE MARKETING TIME[c]			
Range	1.00 – 9.00	1.00 – 12.00	1.00 – 18.00
Average	5.13	6.75	8.75
Change (%)		– 24.00	– 41.37

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

Washington, DC Office Market

THE RECOVERY OF THE WASHINGTON, DC OFFICE MARKET CONTINUES TO GAIN STRENGTH AS TENANTS WHO WERE ONCE HESITANT ABOUT MAKING SPACE DECISIONS ARE FORGING AHEAD AND SIGNING LEASES. In one recent negotiation, the Department of Veteran Affairs signed two leases totaling 122,756 square feet at 1100 First Street, a recently constructed all-glass office building that was the first in the District's NOMA submarket to earn LEED Gold certification.

While U.S. government agencies remain the dominant demanders of office space in this market, law firms have also been active. McDermott Will & Emery, for example, signed a letter of intent to occupy 500 North Capital Street, NW in a relocation deal from 600 13th Street, NW. Due to the move, this firm will become the primary tenant in the 176,000-square-foot building, which will be known as the McDermott Building. In another law firm lease, Crowell & Moring renewed and expanded its presence to 377,825 square feet at 1001 Pennsylvania Avenue, NW.

Overall, leasing activity has resulted in year-to-date net absorption of 3.8 million square feet in the District, according to CB Richard Ellis. Helping to push up absorption numbers has been a lack of new supply. In fact, no new office projects have broken ground in the District in the past two quarters.

As demand pulls slightly ahead of supply, the overall vacancy rate for this market fell nearly 200 basis points between the first quarter of 2010 (12.0%) and the third quarter of 2010 (10.3%).

Washington, DC's ability to weather economic downturns better than other major office markets in the country is a main reason for its magnetic appeal among investors. In *Emerging Trends in Real Estate®2011*, recently published by PwC and the Urban Land Institute, this market coveted the top spot as the preferred location for commercial investing in the year ahead. Overall, 62.3% of *Emerging Trends* interviewees recommend buying office assets in the District in 2011. Only San Francisco at 62.5% and New York at 64.9% had higher "buy" recommendations.

Given the tremendous interest in buying trophy office assets in this market, competition is fierce among buyers vying for a very small pool of quality offerings. The imbalance between "good" offerings and investment demand has tilted pricing in favor of sellers, particularly those selling Class-A properties. "It's a sellers' market for trophy assets, but a clear buyers' market for properties rated Class B and below," surmises an investor.

Strong investor interest, combined with more-tolerant debt markets and low interest rates, also continues to compress overall capitalization (cap) rates. Over the next six months, surveyed investors are nearly split as to the direction of overall cap rates in this market. While 57.1% expect them to hold steady, the rest foresee them declining as much as 100 basis points – the average expected decline is 42 basis points. ✦

Table 23
WASHINGTON, DC OFFICE MARKET
Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 10.00%	7.00% – 10.00%	7.50% – 10.00%
Average	7.96%	8.02%	8.21%
Change (Basis Points)		– 6	– 25
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 8.50%	5.50% – 8.50%	5.50% – 8.50%
Average	6.61%	6.64%	7.11%
Change (Basis Points)		– 3	– 50
RESIDUAL CAP RATE			
Range	6.00% – 8.50%	6.00% – 8.50%	6.00% – 8.50%
Average	7.06%	7.13%	7.42%
Change (Basis Points)		– 7	– 36
MARKET RENT CHANGE RATE[b]			
Range	(1.00%) – 4.00%	(2.00%) – 3.00%	(4.00%) – 3.00%
Average	1.07%	0.43%	0.07%
Change (Basis Points)		+ 64	+ 100
EXPENSE CHANGE RATE[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
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 18.00	2.00 – 18.00
Average	6.29	7.57	8.36
Change (%)		– 16.91	– 24.76

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

National Flex/R&D Market

ALTHOUGH INVESTMENTS IN FLEX/R&D ASSETS ARE GENERALLY VIEWED AS "TRADITIONALLY VOLATILE," SPECIALIZED R&D MARKETS TYPICALLY MAKE GOOD INVESTMENT SENSE CLOSE TO THE MARKET BOTTOM. As the U.S. economy inevitably strengthens, high-tech, life-science, and computer industries are usually in the forefront of the recovery charge. As a result, *Emerging Trends in Real Estate®2011*, recently published by PwC and the Urban Land Institute, suggests that investors who favor flex/R&D assets should scope out opportunities in brainpower metros like Austin, San Jose, and Raleigh-Durham, as well as tech submarkets in Boston, Seattle's Silicon Forest, and the northern San Diego suburbs around La Jolla.

The San Diego flex/R&D market has long been a target for investment capital due to its high asking rental rates. In the third quarter of 2010, the average asking rental rate for available flex/R&D space in San Diego was $14.21 per square foot, according to Grubb & Ellis (G&E). While this average ranks as the highest of the 64 metro markets tracked by G&E, it represents a 6.75% decrease from a year ago. Overall, the average asking rental rate for the U.S. flex/R&D market stood at $9.23 per square foot as of the third quarter of 2010, a 5.2% decrease from a year ago.

Although lower rental rates have spurred leasing activity, many markets are simply experiencing a shuffling of existing tenants and not posting net absorption. "Tenants continue to search out the best deals," states a participant. In many instances, tenants that sign leases now are receiving periods of free rent, higher-than-usual tenant improvement allowances, and other incentives. This quarter, surveyed investors unanimously note the use of free rent, ranging up to 12 months on a ten-year lease. The average amount of free rent is roughly five months, almost one month more than a year ago.

The challenges facing property owners in this sector are reflected in the market rent change rates used by Survey participants. As shown in Table FLX-1, this market's average initial-year market rent change rate has remained virtually flat for the past four quarters. Until market conditions turn in favor of landlords, rental rates will likely see very little upward movement. ✦

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

Quarter	Average	Change (Basis Points)
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%	– 18
1Q09	1.00%	– 78
4Q08	1.78%	– 97
4Q07	2.75%	—

Source: PwC Real Estate Investor Survey

Table 24
NATIONAL FLEX/R&D MARKET
Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.25% – 13.00%	8.25% – 13.00%	8.00% – 13.00%
Average	10.15%	10.23%	10.27%
Change (Basis Points)		– 8	– 12
OVERALL CAP RATE (OAR)[a]			
Range	7.25% – 12.00%	7.50% – 12.00%	7.50% – 11.50%
Average	9.15%	9.15%	9.14%
Change (Basis Points)		0	+ 1
RESIDUAL CAP RATE			
Range	7.25% – 11.50%	7.50% – 11.50%	7.50% – 12.50%
Average	9.06%	9.17%	9.20%
Change (Basis Points)		– 11	– 14
MARKET RENT CHANGE RATE[b]			
Range	(2.00%) – 3.00%	(2.00%) – 3.00%	(5.00%) – 3.00%
Average	0.08%	0.08%	0.29%
Change (Basis Points)		0	– 21
EXPENSE CHANGE RATE[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	1.00% – 3.00%
Average	2.83%	2.83%	2.88%
Change (Basis Points)		0	– 5
AVERAGE MARKETING TIME[c]			
Range	2.00 – 18.00	3.00 – 18.00	3.00 – 18.00
Average	8.58	8.92	8.43
Change (%)		– 3.81	+ 1.78

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

National Warehouse Market

Despite record-high vacancies and continuing declines in rental rates, owning warehouse assets remains a primary goal for many investors. In the recently released *Emerging Trends in Real Estate®2011*, published by PwC and the Urban Land Institute, warehouses received the second highest "buy" rating of the 11 commercial property types tracked in the report. Specifically, 40.6% of *Emerging Trends* interviewees suggest buying warehouse assets in the year ahead. The only property type ranked higher was apartments, which received a 59.8% "buy" recommendation.

Deciding where to acquire warehouse assets remains a difficult task as many markets remain oversupplied in comparison to prior years. "We prefer the port markets," notes a participant, who recently bid on a bulk warehouse in Los Angeles, where the vacancy rate for industrial space was 8.1% as of the third quarter of 2010, according to CBRE Econometrics Advisors. In comparison, the U.S. industrial vacancy rate was 14.0% for that time frame.

Elsewhere in the country, investors remark favorably about the Texas markets of Houston and Dallas. In Houston, the vacancy rate has hovered around 10.0% for the past year while it was 15.9% in Dallas at the end of the third quarter of 2010. Another "water" market performing better recently is Miami, where the industrial vacancy rate dipped to 12.5% in the third quarter of 2010, down from 13.0% a year ago. Companies that recently leased warehouse space in Miami include PriceSmart (126,766 square feet), Ballistic Recovery Systems (124,894 square feet), Performance Depot (23,581 square feet), and Vanguard Utility Service (10,800 square feet).

Strong investment interest and a limited number of quality offerings continue to put downward pressure on overall capitalization (cap) rates. As shown in Table NWH-1, the average overall cap rate for this market has declined over the past four quarters and stands at 7.98% this quarter – similar to its level at midyear 2009 but well about its peak level.

"Cap rates have dropped fast and furious for the best of the best and now the market is responding with offerings," states a participant, who is eager to see "how things play out since the recent offerings do not appear to meet the definition of best." ✦

Table 25

NATIONAL WAREHOUSE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.80% – 12.50%	7.10% – 12.50%	7.50% – 12.50%
Average	9.05%	9.28%	9.74%
Change (Basis Points)		– 23	– 69
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 12.00%	6.50% – 12.00%	6.50% – 12.00%
Average	7.98%	8.38%	8.80%
Change (Basis Points)		– 40	– 82
RESIDUAL CAP RATE			
Range	7.00% – 12.00%	7.00% – 12.00%	6.50% – 12.00%
Average	8.29%	8.49%	8.73%
Change (Basis Points)		– 20	– 44
MARKET RENT CHANGE RATE[b]			
Range	(25.00%) – 3.00%	(10.00%) – 3.00%	(10.00%) – 3.00%
Average	0.00%	0.02%	(0.90%)
Change (Basis Points)		– 2	+ 90
EXPENSE CHANGE RATE[b]			
Range	(2.00%) – 3.00%	(2.00%) – 3.00%	1.00% – 3.00%
Average	2.62%	2.57%	2.69%
Change (Basis Points)		+ 5	– 7
AVERAGE MARKETING TIME[c]			
Range	2.00 – 18.00	3.00 – 18.00	3.00 – 18.00
Average	8.27	8.88	9.83
Change (%)		– 6.87	– 15.87

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

Table NWH-1

OVERALL CAP RATE TRENDS

National Warehouse Market

Quarter	Average	Change (Basis Points)
4Q10	7.98%	– 40
3Q10	8.38%	– 22
2Q10	8.60%	– 13
1Q10	8.73%	– 7
4Q09	8.80%	+ 34
3Q09	8.46%	+ 53
2Q09	7.93%	+ 80
1Q09	7.13%	+ 40
4Q08	6.73%	+ 25
4Q07	6.48%	—

Source: PwC Real Estate Investor Survey

National Apartment Market

A GROWING CONFIDENCE IN JOB SECURITY BY RENTERS AND A LACK OF NEW ADDITIONS TO SUPPLY HAVE TRANSLATED INTO POSITIVE NET ABSORPTION FOR THE NATIONAL APARTMENT MARKET. In fact, this market absorbed 93,898 units during the third quarter of 2010, a level not seen since 1999, based on data by Reis. Year to date, apartment absorption totals 167,303 units, compared with negative absorption of 20,954 units a year ago. Despite limited job growth, many renters acted on the belief that the worst is over economically and moved out of roommate and family arrangements. Therefore, overall apartment occupancy increased to 92.9% in the third quarter, compared with 92.0% at year-end 2009. "With a modest recovery, no new material supply, and encouraging demographic trends from the echo-boom generation, this sector should see a meaningful improvement in fundamentals in the near term," summarizes a participant.

While many investors recognize that the overall economy is exhibiting a "start-and-stop" recovery, they also feel that the apartment market is poised for positive rental rate trends over the next two years. This quarter's initial-year market rent change rate reveals investors' optimistic outlook, turning positive for the first time since the third quarter of 2009 and standing at 0.93% (see Table APT-1). "Rents have been declining for the past two to three years, but we anticipate flat rents for 2010 – a great improvement," observes a participant. Among the 82 metro areas tracked by Reis, the top three markets in terms of rent growth in the third quarter of 2010 include New York (+2.1%), Suburban Virginia (+1.9%) and Greenville, South Carolina (+1.7%).

The recent upturn in apartment sector fundamentals, coupled with more favorable debt markets, has stimulated investor interest in this property type. Apartment sales volume surged 63.0% in the third quarter and totaled $8.5 billion, as per Real Capital Analytics. As sales have increased, average overall capitalization (cap) rates have dipped, declining to below 7.00% in this market for the first time since the start of 2009 (see Table 26). Some investors attribute the slide in cap rates to the anticipated brightness surrounding demand trends. As one participant remarks, "Everyone is betting on the future and expecting growth in this sector over the next three years." ✦

Table APT-1

INITIAL-YEAR MARKET RENT CHANGE RATES

National Apartment Market

Quarter	Average	Change (Basis Points)
4Q10	0.93%	+ 105
3Q10	(0.12%)	+ 37
2Q10	(0.49%)	+ 42
1Q10	(0.91%)	– 1
4Q09	(0.90%)	– 94
3Q09	0.04%	– 15
2Q09	0.19%	– 155
1Q09	1.74%	– 97
4Q08	2.71%	– 83
4Q07	3.54%	—

Source: PwC Real Estate Investor Survey

Table 26

NATIONAL APARTMENT MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	5.50% – 14.00%	6.00% – 14.00%	6.50% – 14.00%
Average	8.91%	9.40%	10.17%
Change (Basis Points)		– 49	– 126
OVERALL CAP RATE (OAR)[a]			
Range	4.25% – 10.00%	4.50% – 11.00%	5.75% – 11.00%
Average	6.51%	7.12%	8.03%
Change (Basis Points)		– 61	– 152
RESIDUAL CAP RATE			
Range	5.00% – 9.75%	5.25% – 11.00%	5.75% – 10.75%
Average	7.03%	7.54%	8.19%
Change (Basis Points)		– 51	– 116
MARKET RENT CHANGE RATE[b]			
Range	(2.00%) – 5.00%	(10.00%) – 3.00%	(10.00%) – 3.00%
Average	0.93%	(0.12%)	(0.90%)
Change (Basis Points)		+ 105	+ 183
EXPENSE CHANGE RATE[b]			
Range	0.00% – 4.00%	0.00% – 4.00%	0.00% – 3.00%
Average	2.42%	2.42%	2.55%
Change (Basis Points)		0	– 13
AVERAGE MARKETING TIME[c]			
Range	0.00 – 18.00	1.00 – 18.00	1.00 – 18.00
Average	6.29	7.16	8.86
Change (%)		– 12.15	– 29.01

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

Regional Apartment Markets

INVESTMENT ASSUMPTIONS FOR APARTMENT ASSETS VARY ACROSS GEOGRAPHIC AREAS AND ARE SHOWN IN TABLE 27 FOR THE MID-ATLANTIC, PACIFIC, AND SOUTHEAST REGIONS. The optimistic outlook for the national apartment market is also visible in these three regions tracked by the Survey. For instance, the initial-year market rent change rate, a key indicator of an investor's perception of future rent growth, increased dramatically in all three regions this quarter. In both the Mid-Atlantic and Pacific regions, this assumption turned positive during the fourth quarter of 2010, standing at 0.92% and 0.38%, respectively. "In metro Philadelphia, well-located suburban garden and mid-rise apartments are reporting increases in occupancy and rents as complexes are being renovated to increase curb appeal," highlights a participant.

Along with a turn toward positive rent growth, vacancy levels are down in several major markets within these regions. Table RAPT-1 shows the vacancy, absorption, and effective rent trends for the four largest metropolitan areas in terms of apartment inventory within the Mid-Atlantic, Pacific, and Southeast regions. Overall vacancy for third quarter 2010 declined on a year-over-year basis for each metro area with the largest decline of 150 basis points seen in Suburban Maryland, Raleigh Durham, and Tampa. A driving force behind better fundamentals is a lack of development. "No new apartment supply will be delivered in 2011 and probably very little in the early part of 2012," predicts an investor.

As underlying real estate fundamentals improve for these regions, sales activity and product offerings are gaining momentum. In fact, new offerings of apartment assets for sale rose 40.0% in the third quarter of 2010, as per Real Capital Analytics. In a large single-property sale this quarter, Fieldstone Properties and Wrightwood Capital acquired a majority stake in the 97.0%-occupied Empirian Village in Greenbelt, Maryland for $119,917 per unit – 25.4% higher than its prior sale in mid-2008.

Elsewhere in the Mid-Atlantic region, Home Properties purchased The Courts at Fair Oaks, a 364-unit luxury community in Fairfax, Virginia for $192,582 per unit. In a value-added play, the joint venture of Blue Rock Partners and Konover South acquired The Park at Cambridge, a 344-unit, garden-style development in Orlando. This asset was 87.0% occupied when the lender sold it for $14.1, or $4.5 million less than its prior trade in February 2004. The buyer reportedly plans to renovate and upgrade the property.

Along with accelerated sales velocity, average overall capitalization (cap) rates fell this quarter. As shown in Table 27, cap rate averages in each of the three regions dipped below 7.00%. The Southeast region posted the largest average decline of 107 basis points; however, this region's cap rate is the highest among the three regions at 6.68%. Over the next six months, 50.0% of surveyed investors expect cap rates to hold steady in the Southeast region, while just over one-third anticipate cap rate compression of as much as 100 basis points.

Similarly, half of Survey participants foresee cap rates holding steady in the Pacific region though one-third expect declines of up to 75 basis points. In the Mid-Atlantic region, most participants (83.3%) believe cap rates will remain static while the balance expects declines of up to 25 basis points. ✦

Table RAPT-1

VACANCY, ABSORPTION, AND RENT GROWTH TRENDS

Select Metro Apartment Markets

	Vacancy		Net Absorption (Units)		Effective Rent Change (1)	
	3Q2010	3Q2009	3Q2010	3Q2009	3Q2010	3Q2009
Mid-Atlantic Region						
Suburban Virginia	5.3%	5.8%	1,743	895	2.1%	(0.2%)
Suburban Maryland	5.4%	6.9%	1,780	534	1.3%	0.1%
Baltimore	5.3%	6.3%	1,343	427	1.8%	0.3%
Raleigh Durham	7.1%	8.6%	1,768	(69)	1.3%	(0.2%)
Pacific Region						
Los Angeles	4.9%	5.4%	4,956	559	0.1%	(0.8%)
Orange County	5.9%	6.4%	1,645	1,204	0.5%	(1.4%)
Seattle	6.2%	7.3%	2,461	669	0.7%	(0.2%)
San Diego	4.5%	5.0%	680	195	0.3%	0.2%
Southeast Region						
Atlanta	10.5%	11.3%	4,208	2,107	0.6%	1.0%
Tampa	8.6%	10.1%	2,267	(919)	0.3%	(1.1%)
Orlando	9.8%	10.7%	1,447	267	0.4%	(0.8%)
Miami	6.0%	6.2%	498	(404)	(0.2%)	(0.8%)

(1) Quarterly change
Source: Reis

Table 27

REGIONAL APARTMENT MARKETS

Fourth Quarter 2010

	MID-ATLANTIC REGION			PACIFIC REGION			SOUTHEAST REGION	
	CURRENT QUARTER	PRIOR QUARTER	YEAR AGO	CURRENT QUARTER	PRIOR QUARTER	YEAR AGO	CURRENT QUARTER	PRIOR QUARTER
DISCOUNT RATE (IRR)[a]								
Range	6.00% – 14.00%	7.50% – 14.00%	7.50% – 14.00%	7.00% – 12.50%	8.00% – 12.50%	8.00% – 14.00%	7.50% – 12.00%	7.50% – 14.00%
Average	10.04%	10.33%	10.67%	9.54%	9.92%	10.14%	8.63%	9.73%
Change (Basis Points)		– 29	– 63		– 38	– 60		– 110
OVERALL CAP RATE (OAR)[a]								
Range	4.50% – 9.00%	4.50% – 10.00%	5.75% – 10.00%	4.50% – 8.50%	5.00% – 9.00%	6.00% – 10.00%	5.00% – 8.00%	5.75% – 10.00%
Average	6.65%	7.15%	8.13%	6.58%	6.90%	7.98%	6.68%	7.75%
Change (Basis Points)		– 50	– 148		– 32	– 140		– 107
RESIDUAL CAP RATE								
Range	5.00% – 9.75%	5.00% – 9.75%	5.75% – 10.00%	5.00% – 8.50%	5.00% – 9.00%	6.00% – 10.00%	5.50% – 9.75%	5.50% – 9.75%
Average	7.19%	7.52%	8.33%	6.44%	7.00%	7.96%	7.35%	7.69%
Change (Basis Points)		– 33	– 114		– 56	– 152		– 34
MARKET RENT CHANGE RATE[b]								
Range	(5.00%) – 4.00%	(5.00%) – 2.00%	(5.00%) – 2.00%	(5.00%) – 3.00%	(5.00%) – 3.00%	(5.00%) – 3.00%	(10.00%) – 3.00%	(10.00%) – 3.00%
Average	0.92%	(0.25%)	(0.67%)	0.38%	(0.63%)	(0.61%)	(0.04%)	(1.63%)
Change (Basis Points)		+ 117	+ 159		+ 101	+ 99		+ 159
EXPENSE CHANGE RATE[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%	1.00% – 3.00%
Average	2.58%	2.58%	2.75%	2.71%	2.71%	2.75%	2.42%	2.42%
Change (Basis Points)		0	– 17		0	– 4		0
AVERAGE MARKETING TIME[c]								
Range	1.00 – 18.00	1.00 – 18.00	3.00 – 18.00	1.00 – 12.00	3.00 – 12.00	3.00 – 18.00	1.00 – 18.00	1.00 – 18.00
Average	6.58	7.08	9.75	5.92	7.00	9.43	7.17	7.58
Change (%)		– 7.06	– 32.51		– 15.43	– 37.22		– 5.41

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

National Net Lease Market

DUE TO A LACK OF QUALITY PRODUCT AVAILABLE FOR SALE IN THE NATIONAL NET LEASE MARKET, INVESTORS' VORACIOUS APPETITE FOR CORE ASSETS ENCUMBERED WITH LONG-TERM CREDIT LEASES CONTINUES TO SHIFT THIS SECTOR'S INVESTMENT MARKET IN FAVOR OF CORE SELLERS. In fact, multiple bids for quality offerings are commonplace in this market due to the perceived "safety" of net lease investments and the overall belief that now remains a great time to buy. California's Department of General Services, for example, garnered more than 300 offers for its 7.3-million-square-foot office portfolio before selecting the winning bid of $2.3 billion for the sale-leaseback agreement. In another potential sale-leaseback deal this quarter, Realty Income Corporation is procuring a 136-property retail portfolio with 15- and 20-year lease terms for $250.0 million.

As the number of quality offerings has fallen in the single-tenant retail and office sectors, the pace of transactions has followed suit. According to Real Capital Analytics, single-tenant retail sales volume fell 16.7% from the second to third quarter of 2010 while single-tenant office deals dropped nearly 47.0%. However, single-tenant industrial net lease sales volume rose 14.4%. "Industrial assets are favored because they have less re-leasing costs compared with office assets, allowing an investor to trade more easily and spread risk," explains a participant. Warehouse giant ProLogis plans to sell $1.02 billion of assets, the majority of which are warehouse properties, to Blackstone Real Estate Advisors.

With a growing number of net lease investors targeting a shrinking pool of quality assets, this market's average overall capitalization (cap) rate remains on a downward trend. As shown in Table NLM-1, the average dipped 19 basis points this quarter, reaching 8.69%. "As private and institutional investors seek high-quality net lease assets, cap rates have come down over the past three months and will likely continue to dip in the near future because there is not enough product to meet demand," predicts an investor. As the supply of quality offerings dwindles, the majority of Survey participants (62.5%) expect overall cap rates to hold steady over the next six months. The remainder anticipate further cap rate compression of up to 75 basis points. ✦

Table NLM-1

OVERALL CAP RATE TRENDS

National Net Lease Market

Quarter	Average	Change (Basis Points)
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%	+ 73
4Q08	7.85%	+ 25
4Q07	7.60%	– 5
4Q06	7.65%	—

Source: PwC Real Estate Investor Survey

Table 28

NATIONAL NET LEASE MARKET

Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 9.50%	8.00% – 9.50%	8.00% – 10.00%
Average	8.41%	8.41%	9.00%
Change (Basis Points)		0	– 59
OVERALL CAP RATE (OAR)[a]			
Range	6.25% – 12.00%	6.25% – 12.00%	7.00% – 10.00%
Average	8.69%	8.88%	8.94%
Change (Basis Points)		– 19	– 25
RESIDUAL CAP RATE			
Range	7.50% – 12.00%	8.00% – 12.00%	8.00% – 10.00%
Average	9.15%	9.33%	9.13%
Change (Basis Points)		– 18	+ 2
MARKET RENT CHANGE RATE[b]			
Range	(1.00%) – 3.00%	(1.00%) – 7.00%	(1.00%) – 3.00%
Average	1.43%	1.86%	0.30%
Change (Basis Points)		– 43	+ 113
EXPENSE CHANGE RATE[b]			
Range	0.00% – 4.00%	0.00% – 7.00%	1.00% – 4.00%
Average	1.96%	2.58%	2.00%
Change (Basis Points)		– 62	– 4
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	2.00 – 12.00
Average	5.21	5.93	6.33
Change (%)		– 12.14	– 17.69

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

National Medical Office Buildings Market

THE INVESTMENT MARKET FOR MEDICAL OFFICE BUILDINGS (MOBS) IS BIFURCATED BETWEEN THE "HAVES" AND THE "HAVE-NOTS" AS INVESTORS' PENCHANT FOR QUALITY PRODUCT FAVORS SELLERS OF SUCH ASSETS IN THE MARKETPLACE. "Many high-quality assets in prime locations (the 'haves') are trading at or above their asking prices, but lower-quality properties and those in second-tier locations (the 'have-nots') are more difficult to both finance and sell," explains a participant. "The not-so-good MOB product is sitting out there languishing mostly because the financing side of the industry is not looking too favorably upon it," underscores an investor.

While the velocity of MOB sales has trended upward modestly since the beginning of 2009, the attractiveness of large MOB deals is growing for institutional investors. "The market has shifted to a preference for large deals rather than smaller, one-off trades partly because financing is more obtainable than it was 24 months ago," comments an investor. For instance, REIT Healthcare Trust of America has agreed to acquire 960,000 square feet of Class-A MOB space located in three states for $196.6 million in an off-market deal. In addition, Behringer Harvard recently acquired nine MOBs in the Miami-Fort Lauderdale area for a reported $46.6 million from Tenet Healthcare Corporation.

As a growing number of investors look to place capital into quality MOB space, competition has increased pricing. In the third quarter of 2007, the average sale price for MOBs was approximately $200.00 per square foot, compared with an average of $239.60 per square foot reported for the third quarter of 2010, as per Real Capital Analytics. Many investors attribute the recent rise in pricing to simple economics – a limited number of offerings and an abundance of demand.

Amid an undersupply of quality offerings and an oversupply of eager capital, average overall capitalization rates (OARs) dipped nine basis points to 8.49% in the fourth quarter (see Table MOB-1). Slightly more than half (56.0%) of Survey participants expect OARs to hold steady in this market over the next six months.

Although the development pipeline is showing some signs of life, new additions to supply are likely to remain deliberate. "Current development opportunities are very specific, and there doesn't appear to be enough reward to drive investors to take the risk of speculative development," notes an investor. ✦

Table 29
NATIONAL MEDICAL OFFICE BUILDINGS MARKET
Fourth Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50% – 13.00%	8.00% – 13.00%	8.00% – 13.00%
Average	9.59%	9.74%	10.37%
Change (Basis Points)		– 15	– 78
OVERALL CAP RATE (OAR)[a]			
Range	6.75% – 11.50%	7.00% – 11.50%	7.50% – 11.50%
Average	8.49%	8.58%	8.91%
Change (Basis Points)		– 9	– 42
RESIDUAL CAP RATE			
Range	7.00% – 12.00%	7.00% – 12.00%	7.50% – 12.00%
Average	8.73%	8.81%	8.96%
Change (Basis Points)		– 8	– 23
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	1.17%	1.00%	1.46%
Change (Basis Points)		+ 17	– 29
EXPENSE CHANGE RATE[b]			
Range	1.50% – 5.00%	1.50% – 5.00%	0.00% – 4.00%
Average	2.64%	2.64%	2.54%
Change (Basis Points)		0	+ 10
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	3.00 – 24.00
Average	6.39	6.28	8.14
Change (%)		+ 1.75	– 21.50

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

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

Quarter	Average	Change (Basis Points)
4Q10	8.49%	– 9
3Q10	8.58%	+ 5
2Q10	8.53%	– 25
1Q10	8.78%	– 13
4Q09	8.91%	+ 93
4Q08	7.98%	—

Source: PwC Real Estate Investor Survey

National Development Land Market

AS DEVELOPMENT LAND INVESTORS CONTINUE TO STRUGGLE WITH THE LINGERING EFFECTS OF THE U.S. ECONOMIC DOWNTURN, MOST SURVEY PARTICIPANTS FOUND IT DIFFICULT TO RESPOND TO THIS QUARTER'S QUESTIONNAIRE. "The market remains extremely compromised," notes an investor, who believes that a recovery is nonexistent in the U.S. land market except for special situations. "Every deal is so different that it's difficult to specify a reasonable range for rates."

While a few surveyed investors opted to simply omit responses, such as discount rates and growth rates, a couple skipped filling out the survey entirely due to a tremendous sense of uncertainty and a lack of "real" sales activity. "Land developers really have no true sense of where the market is right now," confirms a participant. As one investor remarks, "In 95.0% of the cases, vacant development land is completely worthless." In one recent deal, a participant reveals that it's selling a 5.7-acre industrial site to a user at a price 50.0% below the contracted price from two years ago.

Due to a lack of sufficient data, specific key indicators are excluded for this market this quarter. In the second quarter of 2010, discount rates ranged from 15.00% to 30.00% and averaged 21.63%. As the months progress, a better sense of certainty will hopefully follow, allowing the Survey's development land participants to once again respond with a greater level of comfort.

The following is extracted from Emerging Trends in Real Estate®2011, published by PwC and the Urban Land Institute.

BEST BETS 2011

Buy Land

It will not get any cheaper than it is now, but prepare to wait (a long time) for the right development opportunity. Infill sites hold greater promise than greenfield locations.

DEVELOPMENT

Stay on Vacation

Except for some apartments, the odd warehouse, and select build-to-suit office projects, new construction activity will be basically nonexistent. "Why build when you can buy for so much less?" Demand for new premium product is probably "three to five years out," so plan accordingly and time recovery.

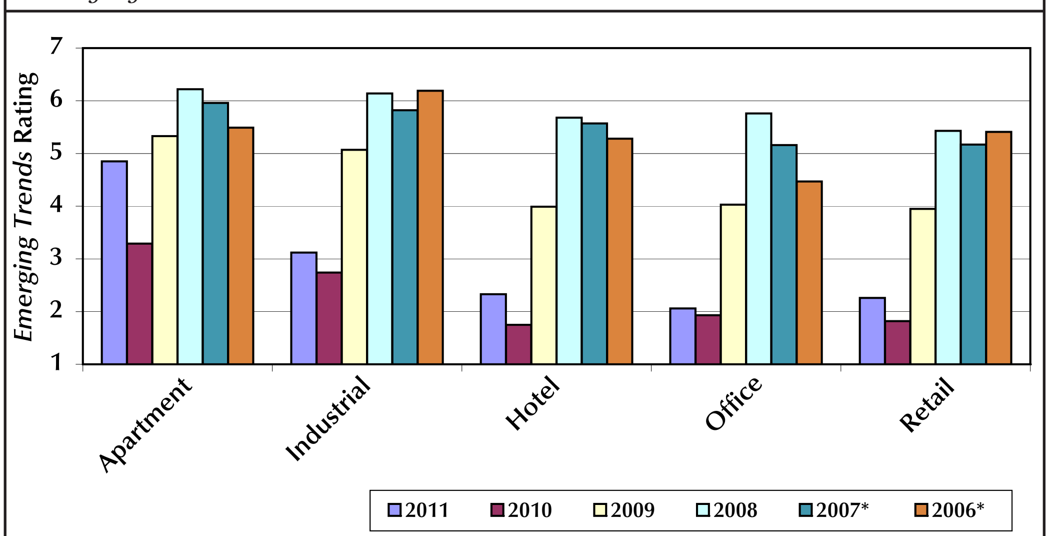
Schedules for anything on the drawing board stretch out as the focus shifts to redevelopment and enhancement activity. Commercial developers should "think beyond the U.S.," looking to export talent to emerging markets that need new facilities. Homebuilders remain severely challenged: bulging inventories of existing houses hold back new construction, and prices continue to sink in some markets.

APARTMENTS

Development

Low cap rates on existing apartments "open the door to new construction." In some markets, "you can develop for less than buying." Expect apartment REITs to start projects, taking advantage of credit lines and superior balance-sheet positions to obtain financing. ✦

Chart NDL-1
DEVELOPMENT PROSPECTS
Emerging Trends 2006 to 2011



Source: *Emerging Trends*®; for 2006 and 2007 some categories reflect an average of two or more property types

NATIONAL REGIONAL MALL MARKET–INVESTOR SURVEY RESPONSES

Fourth Quarter 2010

	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% Year 1	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.	0.0% Year 1; 2.0% to 3.0% Year 2	1.0% to 2.0%	3.0%	6.75% to 10.00%	1.5%	7.00% to 11.00%	6.50% to 10.50%	6 to 12	65.0% to 75.0%	7.5% to 10.0%	$0.25 to $0.40	6 to 10
REIT ✦ 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; may use a rent spike of 5.0% in years 2 and 3.	2.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	6.00% to 10.00%	0.5%	10.00% to 11.50%	5.00% to 9.00%	6	75.0% to 80.0%	3.0% to 4.0%	$0.20	6 to 18
PUBLIC C CORP ✦ Forecast Period: 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.	0.0% to 1.0%	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 1.0% Year 1	0.0% to 3.0%	2.0% to 3.0%	6.75% to 12.00%	1.0%	9.25% to 14.00%	6.25% to 10.00%	6 to 10	60.0% to 75.0%	3.0% to 8.0%	$0.25	4 to 10
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; uses face rents and reflects concessions when they are scheduled to occur.	(3.0%) to 2.0%	2.0% to 3.0%	0.0% to 2.0%	6.00% to 10.00%	0.5% to 2.5%	6.00% to 10.00%	5.50% to 9.50%	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 October 2010.

NATIONAL POWER CENTER MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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: 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.	0.0% Year 1; 0.0% to 3.0% Year 2; 1.0% to 3.0% Year 3	3.0%	3.0%	7.50% to 8.00%	1.0% to 4.0%	8.50% to 9.50%	7.25% to 8.50%	9 to 18	60.0% to 70.0%	3.0% to 5.0%	$0.10 to $0.20	12 to 18
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%	3.0%	7.50% to 9.00%	1.0% to 2.0%	8.50% to 10.00%	7.50% to 9.50%	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% Years 1 & 2	2.0% to 3.0%	2.5% to 3.0%	7.50% to 8.50%	1.5% to 2.0%	8.00% to 9.00%	7.00% to 8.00%	9 to 12	50.0% to 60.0%	5.0% to 8.0%	$0.20 to $0.30	6 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% to 10.00%	2.0%	8.00% to 11.00%	7.00% to 9.00%	6 to 10	60.0% to 75.0%	5.0% to 12.0%	$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; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	(10.0%) to 0.0% Year 1; 0.0% to 3.0% Year 2; 3.0% Year 3	3.0%	3.0%	7.00% to 9.00%	1.0% to 2.0%	8.00% to 10.00%	7.00% to 10.00%	6 to 12	55.0% to 65.0%	5.0% to 10.0%	$0.20 to $0.40	3 to 6

Source: Personal survey conducted by PwC during October 2010.

NATIONAL STRIP SHOPPING CENTER MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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
DEVELOPER ✦ 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; initial cash return is more important than IRR; TIs are an important cash flow forecast item.	0.0%	1.0% to 3.0%	3.0%	7.50% to 10.00%	2.0%	8.00% to 10.00%	7.25% to 9.50%	4 to 8	60.0% to 70.0%	7.5% to 12.5%	$0.15 to $0.30	6 to 12
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Invests primarily in 200,000- to 400,000-square-foot, well-anchored community centers and good credit quality anchored power centers; relies on DCF; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	2.5% to 3.0%	2.5% to 3.0%	7.50% to 8.00%	2.0% to 2.5%	8.00% to 9.00%	6.50% to 7.50%	9 to 12	50.0% to 60.0%	5.0% to 10.0%	$0.15 to $0.25	6 to 9
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%	7.25% to 10.00%	0.5% to 1.5%	8.75% to 12.00%	6.75% to 9.50%	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.	0.0% to 2.0%	3.0%	3.0% to 3.5%	8.00% to 8.50%	3.0%	8.00% to 8.50%	6.75% to 8.50%	12	67.0% to 75.0%	3.0% to 5.0%	$0.15 to $0.25	4 to 6
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	7.00% to 8.50%	1.0% to 3.0%	7.50% to 9.25%	6.50% to 8.00%	6 to 12	60.0% to 75.0%	1.0% to 5.0%	$0.10 to $0.25	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%	7.00% to 8.25%	1.0% to 3.0%	7.75% to 9.00%	6.75% to 8.00%	6	65.0% to 75.0%	6.0% to 8.0%	$0.10 to $0.20	12

Source: Personal survey conducted by PwC during October 2010.

NATIONAL CBD OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 4.0%	2.0% to 3.0%	0.0% to 2.0%	6.00% to 10.50%	0.5% to 2.5%	6.00% to 10.50%	5.50% 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.	0.0%	3.0%	3.0%	7.25% to 9.00%	2.0%	7.50% to 10.00%	7.00% to 9.50%	6 to 12	60.0% to 75.0%	7.5% to 12.5%	$0.25 to $0.35	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 8.0% in years 4 and 5.	0.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	6.50% to 8.00%	1.0%	7.00% to 9.00%	6.00% to 8.00%	6 to 12	60.0% to 70.0%	5.0% to 8.0%	Does not use	4 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 7.25%	1.0% to 2.0%	7.50% to 8.00%	6.50% to 7.25%	6 to 9	65.0% to 75.0%	10.0%	$0.20 to $0.25	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 cap rates will hold steady over the next 6 months.	0.0%	2.0% to 3.0%	2.0% to 3.0%	7.50% to 8.50%	2.0% to 2.5%	9.00% to 10.00%	7.50% to 8.50%	6 to 12	60.0% to 75.0%	7.0% to 10.0%	$0.20 to $0.25	6 to 8
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; no longer uses a rent spike.	1.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	5.50% to 8.00%	1.0% to 3.0%	9.00% to 11.00%	5.50% to 8.00%	3 to 9	70.0% to 75.0%	5.0% to 7.0%	$0.25 to $0.50	3 to 6
INSTITUTIONAL REAL ESTATE INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; believes overall cap rates will increase 50 to 75 basis points over the next six months.	0.0%	3.0% to 4.0%	4.0%	8.50% to 9.50%	4.0%	8.50% to 11.00%	8.75% to 10.50%	8 to 12	95.0% (government leasing)	2.0%		6 to 9
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%	6.00% to 8.00%	1.0% to 2.0%	7.00% to 8.50%	6.00% to 7.50%	6 to 12	65.0% to 75.0%	0.0% to 7.0%	$0.10 to $0.25	12

Source: Personal survey conducted by PwC during October 2010.

pwc

NATIONAL SUBURBAN OFFICE MARKET–INVESTOR SURVEY RESPONSES

Fourth Quarter 2010

	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 in years 3 to 6; uses effective rents in DCF analysis.	1.0% to 3.0%	3.0%	2.5% to 3.0%	7.00% to 7.50%	1.0%	7.00% to 8.00%	6.00% to 8.00%	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.	0.0%	2.0% to 3.0%	3.0%	7.50% to 10.00%	2.0%	9.00% to 10.50%	7.00% to 9.00%	6 to 10	60.0% to 70.0%	7.5% to 12.5%	$0.15 to $0.25	6 to 9
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% in years 3 and 4.	0.0% to 3.0%	3.0%	3.0%	7.00% to 8.75%	1.0% to 4.0%	8.00% to 9.50%	7.00% to 9.00%	6 to 18	50.0% to 70.0%	3.0% to 8.0%	$0.25 to $0.50	12 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.	(3.0%) 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%	6.50% to 9.00%	9 to 12	55.0% to 70.0%	5.0% to 9.0%	Does not use	3 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.	0.0%	3.0%	3.0%	7.50% to 8.50%	2.0% to 3.0%	9.00% to 10.00%	8.00% to 9.00%	9	65.0%	6.0%	$0.20 to $0.30	3 to 6
INSTITUTIONAL REAL ESTATE INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs & leasing commissions.	0.0% to 1.0%	3.0% to 4.0%	4.0%	9.00% to 10.50%	4.0%	8.25% to 12.00%	9.00% to 11.50%	8 to 12	95.0% (government leasing)	2.0%	$3.00	6 to 9
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 3.0%	0.0% to 2.0%	6.50% to 11.00%	0.5% to 2.5%	6.50% to 11.00%	6.00% to 10.50%	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 October 2010.

ATLANTA OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rent after all concessions are extracted.	0.0% Year 1; 0.0% to 1.0% Year 2	2.0% to 3.0%		7.50% to 8.50% (CBD); 8.50% to 9.50% (suburbs)	1.0% to 1.5%	8.50% to 10.00% (CBD); 9.00% to 11.00% (suburbs)	8.00% to 9.00% (CBD); 8.50% to 10.00% (suburbs)	6 to 9	65.0% to 70.0%	10.0% to 12.0%	$0.15 to $0.25	2 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	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 4.0% to 5.0% in years 3 to 5.	0.0% Year 1; 1.0% to 2.0% Year 2	1.0% to 1.5%	1.0% to 1.5%	7.50% to 9.50% in both CBD & suburbs	1.0% to 3.0%	9.00% to 11.50% (CBD); 9.50% to 13.00% (suburbs)	7.25% to 9.25% (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	5 to 7
LIFE INSURANCE COMPANY ✦ 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; 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 11.00% (CBD); 9.50% to 11.00% (suburbs)	7.00% to 9.00% in both CBD & suburbs	6 to 10	50.0% to 70.0%	5.0% to 10.0%	$0.25	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses DCF, direct capitalization, and sales comparison approach; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% Year 1; 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 October 2010.

BOSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES

Fourth Quarter 2010

	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%	3.0%	3.0%	7.50% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	2.0% to 3.0%	7.75% to 8.75% (CBD); 8.25% to 9.50% (suburbs)	6.75% to 8.00% (CBD); 7.00% to 8.50% (suburbs)	6 to 12	50.0% to 65.0%	8.0% to 10.0%	$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 12.00% (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: 5 years Uses DCF and direct capitalization; in direct cap, capitalizes NOI before Tis, leasing commissions, and capital replacement reserve.	0.0%	0.0% to 3.0%	3.0%	7.50% to 10.50% (CBD); 8.50% to 10.50% (suburbs)	2.5%	9.00% to 12.00% (CBD); 10.00% to 12.00% (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	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 rent spike in certain instances.	0.0%	3.0%	3.0%	8.50% to 9.50% (CBD); 9.00% to 10.00% (suburbs)	1.5%	9.00% to 12.00% in both CBD & suburbs	9.00% to 10.00% in both CBD & suburbs	9 to 12	65.0% to 70.0%	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; does not use rent spikes.	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% (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.	(5.0%) to 0.0%	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 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	(3.0%) to 0.0%	3.0%	3.0%	7.50% to 9.50% (CBD); 8.00% to 10.00% (suburbs)	0.5% to 3.0%	7.75% to 10.25% (CBD); 8.25% to 11.25% (suburbs)	6.00% to 9.00% (CBD); 7.50% to 10.25% (suburbs)	6 to 12	65.0% to 70.0%	5.0% to 8.0%	$0.20 to $0.35	3 to 6

Source: Personal survey conducted by PwC during October 2010.

pwc

CHARLOTTE OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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.	0.0%	3.0%	1.0% to 3.0%	7.50% to 9.00% in both CBD & suburbs	1.5%	8.25% to 9.00% in both CBD & suburbs	7.00% to 8.75% (CBD); 7.50% to 9.00% (suburbs)	6 to 12	65.0%	3.0% to 7.0%	$0.10 to $0.25	6 to 12
REIT ✦ Forecast Period: 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%	3.0%	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.	1.0% to 2.0%	2.5% to 3.0%		7.50% to 8.00% (CBD); 8.00% to 8.50% (suburbs)	1.0% to 1.5%	8.50% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	7.50% to 8.50% (CBD); 8.50% to 9.50% (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; does not use rent spikes.	0.0%	3.0%		8.00% to 8.25% (CBD); 9.00% to 9.50% (suburbs)	1.5% to 2.0%	10.00% to 10.50% (CBD); 10.75% to 12.00% (suburbs)	8.00% (CBD); 9.25% to 9.50% (suburbs)	12	65.0%	10.0%	$0.15	5 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 October 2010.

pwc

CHICAGO OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 cash flow after 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%	7.50% to 9.00% (CBD); 8.50% to 9.50% (suburbs)	2.0% to 3.0%	8.00% to 8.50% (CBD); 8.50% to 9.50% (suburbs)	7.50% to 10.00% (CBD); 8.50% to 10.50% (suburbs)	9 to 12	60.0%	10.0%	$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%	Averages 2.0% to 3.0% over the holding period	2.0%	7.50% to 9.00% (CBD); 8.25% to 10.00% (suburbs)	1.5% to 2.3%	8.50% to 10.50% (CBD); 10.00% to 12.00% (suburbs)	6.75% to 9.00% (CBD); 8.00% 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 3 through 5.	0.0%	3.0%	1.5% to 2.0%	7.50% to 8.50% (CBD); 8.50% to 10.00% (suburbs)	1.0% to 3.0%	7.00% to 10.00% (CBD); 8.00% to 11.00% (suburbs)	7.00% to 8.00% (CBD); 8.00% to 10.00% (suburbs)	6 to 9	70.0%	8.0% to 12.0%	$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.	1.0%	3.0%	3.0%	7.00% to 8.50% (CBD); 8.00% to 9.50% (suburbs)	0.3% to 1.0%	7.75% to 9.00% (CBD); 8.50% to 10.00% (suburbs)	6.75% to 8.00% (CBD); 8.00% to 10.00% (suburbs)	6 to 12	65.0% to 70.0%	10.0% to 15.0%	$0.10 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.	0.0%	3.0%	3.0%	7.50% to 8.50% (CBD)	2.0%	9.00% to 10.00% (CBD)	7.50% to 8.50% (CBD);	8 to 12	60.0% to 70.0%	10.0% to 12.0%	$0.20 to $0.25	6 to 12
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Relies on DCF; uses face rents and reflects concessions as they are scheduled to occur; prefers the West Loop; uses a rent spike of 8.0% in years 4 and 5.	0.0%	1.0% to 3.0%	3.0%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	1.0% to 2.0%	8.00% to 9.00% (CBD); 9.00% to 12.00% (suburbs)	6.00% to 7.00% (CBD); 7.00% to 8.00% (suburbs)	6	60.0%	7.0%	$0.25 to $0.30	2 to 3

Source: Personal survey conducted by PwC during October 2010.

DALLAS OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 currently favors buyers.	0.0%	3.0%	3.0%	8.50% to 9.00% (CBD); 9.00% to 9.25% (suburbs)	2.0% to 3.0%	9.00% (CBD); 11.00% to 11.50% (suburbs)	7.75% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	9 to 12	70.0%	3.0% to 5.0%	$0.25 to $0.35	3
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.	0.0% to 2.0%	3.0%	3.0%	7.75% to 9.00% (CBD); 8.00% to 9.25% (suburbs)	2.0% to 3.0%	8.00% to 9.00% (CBD); 8.50% to 9.50% (suburbs)	6.75% to 8.50% (CBD); 7.25% to 8.75% (suburbs)	8 to 12	55.0% to 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.	0.0% to 1.0%	3.0%	3.0%	8.00% to 8.25% (CBD); 8.50% (suburbs)	1.5% to 2.0%	8.50% to 8.75% (CBD); 9.00% (suburbs)	8.00% to 8.50% (CBD); 9.50% to 11.00% (suburbs)	8 to 12	70.0%	4.0% to 8.5%	$0.15	
REIT ✦ 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%	3.0%	3.0%	10.50% to 11.00% (CBD); 10.00% to 11.00% (suburbs)	2.0%	10.50% to 11.50% (CBD); 10.00% to 11.00% (suburbs)	10.50% to 11.50% (CBD); 10.00% to 11.00% (suburbs)	24	70.0%	15.0%	$0.20	9 to 12
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% in both CBD & suburbs	7.00% to 10.00% (CBD); 8.00% to 10.00% (suburbs)	6 to 9	60.0% to 65.0%	6.0% to 10.0%	$0.25	4 to 6

Source: Personal survey conducted by PwC during October 2010.

DENVER OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 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%	12.00% 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 3 and 5.	3.0% Year 1; 3.0% to 5.0% Year 2	3.0%	1.5% to 2.0%	7.50% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	1.0% to 3.0%	8.00% to 10.00% (CBD); 9.00% to 11.00% (suburbs)	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	6	70.0%	7.0% to 10.0%	$0.15 to $0.25	3 to 6
REIT ✦ Forecast Period: 1 to 11 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; believes market conditions favor buyers.	(5.0%) to 0.0%	0.0% to 3.0%	(2.0%) to 5.0%	8.00% to 10.00% (suburbs)			7.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)				$0.20 to $0.30	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; believes that market conditions favor buyers.	(20.0%) to 0.0% Year 1; (5.0%) to 2.0% Year 2	3.0%	3.0%	7.75% to 8.00% (CBD); 8.50% (suburbs)	1.5% to 2.0%	7.75% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	7.00% to 7.50% (CBD); 7.50% to 8.00% (suburbs)	6 to 12	65.0%	7.0% to 9.0%	Does not use	6 to 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%	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 18	60.0% to 75.0%	5.0% to 10.0%	$0.20 to $0.25	6 to 9

Source: Personal survey conducted by PwC during October 2010.

HOUSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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%	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; 0.0% to 2.0% 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	8.00% to 10.00% in both CBD & suburbs	6 to 10	60.0% to 65.0%	5.0% to 10.0%	$0.25 to $1.00	6 to 9
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.	0.0%	3.0%	3.0%	7.75% to 9.00% (CBD); 8.00% to 9.25% (suburbs)	2.0% to 3.0%	7.75% to 9.00% (CBD); 8.25% to 9.50% (suburbs)	6.75% to 8.50% (CBD); 7.00% to 8.50% (suburbs)	8 to 10	50.0% to 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.	0.0% Year 1; 3.0% Year 2	3.0%	3.0%	8.25% to 8.50% (CBD); 8.00% to 8.50% (suburbs)	1.0% to 1.5%	9.50% to 10.25% (CBD); 9.25% to 10.00% (suburbs)	7.25% to 8.75% (CBD); 8.75% to 9.00% (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: 5 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.	0.0% Year 1	2.0% to 3.0%	2.0% to 3.0%	8.00% to 9.50% (CBD); 8.00% to 11.00% (suburbs)	1.0% to 3.0%	8.00% to 12.00% (CBD); 9.00% to 14.00% (suburbs)	8.00% to 10.00% (CBD); 8.00% 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 October 2010.

LOS ANGELES OFFICE MARKET–INVESTOR SURVEY RESPONSES

Fourth Quarter 2010

	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.	0.0%	3.0%	3.0%	7.00% to 9.00% in both CBD & suburbs	0.5% to 1.0%	8.00% to 10.00% (CBD); 8.50% to 10.50% (suburbs)	6.00% to 8.00% (CBD); 7.00% to 9.00% (suburbs)	6 to 9	70.0% to 75.0%	3.0% to 5.0%	$0.10 to $0.25	1
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 3.0%	2.0% to 3.0%	2.0% to 3.0%	7.00% to 8.50% in both CBD & suburbs	1.0%	7.50% to 9.00% (CBD); 7.00% to 9.00% (suburbs)	7.00% to 8.50% in both CBD & 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	7.00% to 9.00% in both CBD & suburbs	4 to 6	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.	0.0% to 3.0%	3.0%	3.0%	7.00% (CBD); 7.50% to 7.75% (suburbs)	1.0% to 2.0%	8.00% to 9.00% (CBD); 7.75% to 8.75% (suburbs)	5.00% to 6.00% (CBD); 8.00% to 9.00% (suburbs)	8	70.0%	1.0%	$0.15 to $0.30	
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.	(3.0%)	3.0%	3.0%	7.25% to 9.25% in both CBD & suburbs	1.0% to 3.0%	8.00% to 10.00% (CBD); 9.00% to 10.00% (suburbs)	6.25% to 7.25% (CBD); 6.50% to 8.00% (suburbs)	6 to 12	60.0% to 65.0%	5.0% to 10.0%	$0.15 to $0.20	4 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses 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%	2.0% to 3.0%	7.50% to 9.00% (CBD); 8.00% to 9.50% (suburbs)	2.0% to 3.0%	7.75% to 9.25% (CBD); 8.00% to 9.75% (suburbs)	6.50% to 8.00% (CBD); 7.00% to 8.50% (suburbs)	8 to 10	50.0% to 65.0%	6.0% to 8.0%	$0.20 to $0.25	10 to 12

Source: Personal survey conducted by PwC during October 2010.

MANHATTAN OFFICE MARKET–INVESTOR SURVEY RESPONSES

Fourth Quarter 2010

	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; no longer uses a rent spike; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% Year 1; 3.0% Year 2	1.0% to 2.0%	3.0%	6.50% to 8.50%	3.0%	7.50% to 9.50%	6.50% to 8.00%	5 to 10	60.0% to 75.0%	5.0% to 10.0%	$0.25 to $0.50	4 to 9
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; uses a rent spike of 10.0% in years 2 and 3.	0.0% to 3.0%	3.0%	3.0%	5.50% to 6.00%	4.0%	8.00%	5.00% to 5.50%	7 to 8	70.0% to 75.0%	2.5%	Did not disclose	4 to 7
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; no longer uses a rent spike.	4.0% to 5.0%	3.0%	3.0%	6.00% to 6.75%	4.0%	7.00% 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.	0.0% to 3.0% Year 1; 3.0% to 5.0% Year 2	2.0% to 3.0%	2.0% to 3.0%	7.00% to 8.50%	4.5%	8.00% to 10.00%	5.00% to 7.00%	6 to 12	60.0% to 75.0%	5.0% to 10.0%	$0.20 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.	0.0%	3.0%	3.0% to 4.0%	6.50% to 7.50%	1.0% to 3.0%	7.00% to 8.25%	5.75% to 7.25%	6 to 12	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.	0.0%	3.0%	3.0%	6.50% to 7.00%	1.5% to 2.0%	6.00% to 7.00%	5.00% to 6.00%	6 to 18	60.0%	5.0% to 10.0%	$0.30 to $1.00	

Source: Personal survey conducted by PwC during October 2010.

NORTHERN VIRGINIA OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 cash flow after 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%	3.0%	8.00% to 9.00%	2.0%	9.00% to 10.50%	7.50% to 9.00%	6 to 12	50.0% to 60.0%	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.	(2.0%) to 2.0%	1.5% to 3.0%	1.0% to 2.5%	7.75% to 9.00%	1.0% to 3.0%	7.50% to 9.25%	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.	0.0% Years 1 & 2; 3.0% Year 3	2.0% to 3.0%	3.0%	7.75% to 8.50%	2.0% to 3.0%	8.50% to 10.00%	7.00% to 8.00%	9 to 12	50.0% to 60.0%	4.0% to 6.0%	$0.15 to $0.25	9 to 12
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%	3.0%	3.0%	7.75%	2.0%	8.00%	7.25%	9	70.0%	5.0%	$0.15 to $0.25	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	7.00% to 8.00%	1.5% to 2.0%	6.00% to 8.00%	6.50% to 8.00%	9 to 18	60.0%	8.0% to 14.0%	$0.30 to $1.00	1 to 4

Source: Personal survey conducted by PwC during October 2010.

PACIFIC NORTHWEST OFFICE MARKET–INVESTOR SURVEY RESPONSES

Fourth Quarter 2010

	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; may use a rent spike of 3.0% in years 2 through 5.	0.0% Year 1; 5.0% 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	6.00% to 9.00% in both CBD & suburbs	6 to 9	70.0% to 75.0%	3.0% to 5.0%	$0.10 to $0.25	1
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%	6.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)	2.0% to 4.0%	10.00% to 12.00% in both CBD & suburbs	6.00% to 10.00% (CBD); 8.00% to 12.00% (suburbs)	9 to 12	60.0% 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; does extensive sensitivity analysis; reliance is on projections and IRRs; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% in year 5.	0.0% 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%	9.00% 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 7.0% in year 4.	0.0% Year 1; 5.0% Year 2	2.5% to 3.0%		6.50% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	3.0% to 3.5%	7.50% to 8.50% (CBD); 8.00% to 10.00% (suburbs)	6.00% to 7.50% (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	4 to 12
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.	0.0% to 3.0%	3.0%	3.0%	7.50% to 9.00% (CBD); 8.00% to 9.50% (suburbs)	3.0% to 4.0%	8.00% to 10.00% (CBD); 9.00% to 12.00% (suburbs)	7.50% to 9.00% (CBD); 8.00% to 10.00% (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 October 2010.

PHILADELPHIA OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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%	2.5%	2.8% to 3.0%	9.00% to 9.50% in both CBD & suburbs	3.0% to 4.0%	8.75% to 9.25% (CBD); 9.00% to 9.50% (suburbs)	8.75% to 9.25% (CBD); 8.75% to 9.50% (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 decrease over the next six months.	3.0%	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.	0.0% Year 1; 2.0% Year 2	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%	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.	0.0% Years 1 & 2	3.0%	3.0%	8.50% to 9.00% in both CBD & suburbs	3.0%	9.00% to 10.00% in both CBD & suburbs	8.00% to 9.00% (CBD); 8.50% 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.	0.0% to 1.0%	2.0%	3.0%	7.50% to 9.00% (CBD); 8.00% to 9.50% (suburbs)	2.0%	8.00% to 9.75% (CBD); 8.50% to 10.50% (suburbs)	7.25% to 9.00% (CBD); 7.75% to 9.50% (suburbs)	6 to 9	60.0% to 65.0%	7.5% to 12.0%	$0.15 to $0.25	6 to 9

Source: Personal survey conducted by PwC during October 2010.

PHOENIX OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 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.	(5.0%) to 0.0% Years 1 & 2	3.0%	3.0%	9.00% to 10.00% (suburbs)	1.0% to 2.0%	11.00% to 16.00% (suburbs)	9.00% 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
REAL ESTATE ADVISOR ✦ Forecast Period: 4 to 8 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.	0.0%	3.0%	3.0%	8.00% to 9.00% (CBD); 8.50% to 9.50% (suburbs)	1.5%	8.50% to 9.50% (CBD); 9.50% to 10.50% (suburbs)	7.00% to 8.50% (CBD); 8.00% to 9.50% (suburbs)	9 to 12	50.0% to 65.0%	7.0%	$0.25 to $0.50	3 to 6
PRIVATE INVESTMENT FIRM ✦ 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% Years 1 & 2	3.0%	3.0%	9.00% to 10.00% in both CBD & 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 18	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 cap rates to hold steady over the next six months.	(1.0%) to 1.0%	2.5% to 3.0%	2.5% to 3.0%	7.75% to 9.00% (CBD); 8.00% to 9.00% (suburbs)	1.0%	9.00% to 10.50% in both CBD & suburbs	8.50% 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 (5.0%) 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% to 2.5%	8.50% to 10.00% (CBD); 9.50% to 10.50% (suburbs)	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	9 to 12	60.0%	7.0% to 10.0%	Does not use	9 to 12

Source: Personal survey conducted by PwC during October 2010.

SAN DIEGO OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 10.0% in year 3 in certain submarkets.	0.0% Year 1; 0.0% to 3.0% Year 2	3.0%	3.0%	8.00% to 9.00% in both CBD & suburbs	1.0% to 2.0%	10.00% to 12.00% (CBD); 11.00% to 13.00% (suburbs)	8.00% to 9.00% (CBD); 9.00% to 11.00% (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.	0.0% Year 1; 5.0% Year 2	3.0%	3.0%	8.00% to 10.00% in both CBD & suburbs	0.5% to 1.0%	8.50% to 10.50% in both CBD & suburbs	7.00% to 9.00% in both CBD & suburbs	6	70.0%	1.0%	$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; does not use rent spikes.	(2.0%) to 0.0% Year 1; 0.0% to 2.0% Year 2	2.0% to 3.0%	2.0% to 3.0%	7.00% to 8.00% (CBD); 7.50% to 8.50% (suburbs)	1.0% to 1.5%	7.50% to 9.00% (CBD); 7.50% to 8.50% (suburbs)	7.00% to 8.00% (CBD); 7.00% to 8.50% (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; does not use rent spikes.	(10.0%) to 0.0% Year 1; (5.0%) to 2.0% Year 2	3.0%	3.0%	8.00% (CBD); 8.50% to 8.75% (suburbs)	1.5% to 2.0%	8.00% to 8.75% (CBD); 8.75% to 9.50% (suburbs)	7.25% to 7.75% (CBD); 8.00% to 8.50% (suburbs)	9	65.0%	7.0% to 9.0%	Does not use	9
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 1 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% Years 1 & 2	3.0%	2.5% to 3.5%	7.50% to 9.00% (CBD); 8.00% to 9.25% (suburbs)	1.5% to 2.5%	10.00% 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 $0.20	4 to 12

Source: Personal survey conducted by PwC during October 2010.

SAN FRANCISCO OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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.	0.0% to 1.0% Year 1; 1.0% to 3.0% Year 2	1.0% to 3.0%	3.0%	8.00% to 8.25% (CBD); 8.50% to 10.00% (suburbs)	1.0% to 1.5%	9.00% to 11.00% (CBD); 11.00% to 15.00% (suburbs)	7.00% to 9.00% in both CBD & suburbs	6	75.0%	0.0%	$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.	1.0% to 2.0%	2.0% to 3.0%	1.0% to 3.0%	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	1.0% to 2.0%	8.50% to 11.00% (CBD); 9.00% to 12.00% (suburbs)	6.50% to 7.50% (CBD); 8.00% to 9.00% (suburbs)	5 to 12	65.0% 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; does not use rent spikes.	(5.0%) to 3.0%	2.0% to 3.0%	2.0% to 3.0%	7.50% to 9.00% (CBD); 8.00% to 9.00% (suburbs)	1.0% to 2.0%	8.00% to 11.00% (CBD); 9.00% to 12.00% (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.	2.4%	3.0%	3.0%	6.00% to 8.00% (CBD); 7.00% to 9.00% (suburbs)	0.5% to 1.0%	7.00% to 9.00% (CBD); 9.00% to 11.00% (suburbs)	6.00% to 8.00% (CBD); 7.00% to 9.00% (suburbs)	6	75.0%	5.0%	$0.10 to $0.25	1
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Prefers CBD; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	6.50% to 7.50% (CBD); 7.00% to 8.00% (suburbs)	1.0%	7.50% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	5.50% to 7.00% (CBD); 6.50% to 8.00% (suburbs)	8 to 12	65.0% to 75.0%	1.0% to 3.0%	$0.10 to $0.25	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 12.0% in years 4 and 5.	2.0% to 5.0%	2.0% to 3.0%	2.0% to 3.0%	6.50% to 7.50% (CBD); 7.50% to 8.50% (suburbs)	1.0%	7.00% to 8.00% (CBD); 7.50% to 8.50% (suburbs)	5.50% 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
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; does not use rent spikes.	0.0% Year 1; 2.0% to 2.5% Year 2	3.0%	3.0%	7.00% to 10.00% (CBD); 8.00% to 12.00% (suburbs)	1.0% to 2.0%	8.00% to 10.00% (CBD); 9.00% to 12.00% (suburbs)	6.00% to 10.00% (CBD); 7.00% to 11.00% (suburbs)	2 to 7	65.0%	5.0% to 10.0%	$0.10 to $0.30	2 to 8

Source: Personal survey conducted by PwC during October 2010.

SOUTHEAST FLORIDA OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0%	3.0%	3.0%	7.50% to 11.50% (suburbs)	2.5%	8.50% to 12.00% (CBD); 10.00% to 15.00% (suburbs)	8.00% to 12.00% in both CBD & suburbs	9 to 12	65.0%	6.0% to 9.0%	$0.15 to $0.25	2 to 12
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 10 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%	2.0% to 3.0%	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); 9.00% to 11.00% (suburbs)	6 to 12	50.0% to 70.0%	6.0% to 10.0%	$0.25 to $1.00	6
REIT ✦ Forecast Period: 10 years Valuation preference is DCF analysis; also uses direct cap; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserves; does not use rent spikes; prefers suburbs.	3.0%	3.0%	2.5% to 3.0%	9.00% to 10.50% (suburbs)	2.0%	8.50% to 10.50% (suburbs)	9.00% to 10.50% (suburbs)	6 to 9	65.0%	5.0%	$0.20	6

Source: Personal survey conducted by PwC during October 2010.

SUBURBAN MARYLAND OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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.	0.0%	2.0%	3.0%	8.00% to 9.00%	2.0%	7.50% to 10.00%	7.00% to 9.00%	6 to 9	55.0% to 65.0%	5.0% to 10.0%	$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 NOI after capital replacement reserve but before TIs and leasing commissions; 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 10.00%	2.5% to 4.0%	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.	0.0% Year 1; 3.0% to 6.0% Year 2	3.0%	3.0%	7.50% to 8.00%	2.0% to 2.5%	8.00% to 9.00%	7.00% to 8.00%	9	65.0%	5.0% to 8.0%	$0.15 to $0.30	3 to 6
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.	0.0% to 3.0% Years 1 & 2	3.0%	3.0%	Does not use	2.0% to 2.5%	Does not use	7.00% to 8.00%	8	65.0%	1.0% to 3.0%	$0.10 to $0.25	3 to 7
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%	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%	Did not disclose	

Source: Personal survey conducted by PwC during October 2010.

pwc

WASHINGTON, DC OFFICE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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.	0.0% Year 1; 2.0% Year 2	3.0%	3.0%	7.00% to 8.50%	2.0%	7.50% to 10.00%	6.25% to 8.50%	6 to 10	65.0% to 70.0%	7.5% to 12.0%	$0.15 to $0.35	4 to 10
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.	(1.0%) to 1.0% Year 1; 0.0% to 2.0% Year 2	1.5% to 3.0%	1.5% to 2.5%	7.00% to 8.50%	1.5% to 3.0%	7.50% to 9.00%	6.75% to 8.00%	6 to 10	60.0% to 70.0%	1.5% to 5.0%	$0.25 to $0.50	2 to 6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses present value analysis of effective rents; does not use rent spikes.	0.0%	2.0% to 3.0%	2.5% to 3.0%	6.50% to 7.00%	2.0% to 2.5%	7.00% to 8.00%	6.00% to 7.00%	6 to 9	50.0% to 60.0%	2.0% to 4.0%	$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 before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0% to 4.0%	3.0%	3.0%	6.75% to 7.00%	1.0% to 2.0%	7.00% to 8.00%	5.75% 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%	3.0%	3.0%	7.00% to 7.25%	2.0%	7.50% to 8.00%	6.25% to 7.00%	3 to 6	65.0% to 75.0%	7.0%	$0.15 to $0.25	12

Source: Personal survey conducted by PwC during October 2010.

NATIONAL FLEX/R&D MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 4.0% Year 2	3.0%	3.0%	7.25% to 8.50%	1.5% to 3.0%	8.25% to 8.75%	7.25% to 8.50%	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.	(2.0%) to 0.0% Year 1; 0.0% to 3.0% Year 2	3.0%	3.0%	10.50% to 11.50%	2.0% to 3.0%	10.00% to 12.00%	9.50% to 11.00%	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 years 3 and 4.	(2.0%) to 0.0%	1.0% to 3.0%	1.0% to 3.0%	8.00% to 9.50%	3.0% to 6.0%	9.50% to 12.50%	8.50% to 10.00%	9 to 12	50.0% to 65.0%	5.0% to 10.0%	$0.25 to $1.00	3 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	7.75% to 8.75%	1.0% to 4.0%	8.75% to 10.00%	7.50% to 9.50%	9 to 18	50.0% to 65.0%	3.0% to 8.0%	$0.15 to $0.50	12 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.	0.0% Year 1; 2.0% Year 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 October 2010.

pwc

NATIONAL WAREHOUSE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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.	2.0% to 3.0%	3.0%	3.0%	7.50% to 9.00%	3.0%	8.00% to 10.00%	7.00% to 8.50%	6 to 12	65.0% to 70.0%	3.0% to 5.0%	$0.10 to $0.20	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.	0.0% to 3.0%	3.0%	3.0%	7.50% to 8.50%	1.0% to 3.0%	8.00% to 9.00%	6.50% to 8.00%	6 to 12	65.0% to 75.0%	0.5% to 2.0%	$0.10 to $0.25	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%	3.0%	3.0%	7.25% to 8.25%	1.0% to 2.0%	7.75% to 8.75%	7.25% to 8.50%	6 to 9	65.0% 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%	2.0%	3.0%	7.50% to 10.00%	2.0% to 3.0%	8.50% to 10.00%	8.00% to 11.00%	3 to 10	60.0% to 80.0%	5.0% to 10.0%	$0.10 to $0.20	3 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.	0.0% to 2.0%	2.5% to 3.0%	2.5% to 3.0%	7.00% to 7.50%	2.0% to 3.0%	7.50% to 8.50%	6.50% to 7.50%	6 to 9	50.0% to 60.0%	2.0% to 4.0%	$0.10 to $0.20	6 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	7.25% to 8.75%	1.0% to 4.0%	8.00% to 9.50%	7.25% to 9.50%	9 to 18	50.0% to 65.0%	3.0%	$0.10 to $0.35	12 to 18
REAL ESTATE ADVISOR ✦ Forecast Period: 7 to 10 years Uses DCF and effective rents; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	0.0% to 2.0%	2.0% to 3.0%	2.5% to 3.0%	7.25% to 8.00%	1.0%	6.80% to 8.00%	6.00% to 8.00%	6 to 14	65.0%	2.0%	$0.05 to $0.15	6 to 12

Source: Personal survey conducted by PwC during October 2010.

NATIONAL APARTMENT MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 2.0%	3.0% to 4.0%	1.0% to 5.0%	5.50%	0.5% to 2.5%	5.50% to 10.50%	5.00% to 10.00%	$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 before capital replacement reserve; deducts FF&E reserve from NOI before capitalization; uses a separate FF&E replacement reserve of $100 to $150 per unit.	0.0%	3.0%	8.0% to 12.0%	5.75% to 7.25%	2.0% to 3.0%	7.00% to 8.50%	4.25% to 6.75%	$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.	0.0% to 5.0%	3.0%	3.0% to 15.0%	5.75% to 7.50%	2.0% to 3.0%	7.00% to 8.75%	5.50% to 7.50%	$250 to $750	12
REAL ESTATE ADVISOR ✦ Forecast Period: 5 and 10 years Relies more on stabilized cash-on-cash analysis after reserves than on DCF analysis and direct capitalization; buys nationwide; uses a separate FF&E replacement reserve.	0.0% to 2.0%	0.0% to 1.0%	5.0% to 8.0%	6.00% to 7.00%	1.0% to 1.5%	8.00% to 9.00%	5.00% to 6.00%	$250 to $500	1 to 2
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.	0.0% to 3.0%	2.8% to 3.5%	5.0% to 10.0%	6.00% to 7.50%	1.0% to 4.0%	6.25% to 9.00%	5.50% to 6.50%	$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.	0.0% to 2.0%	0.0% to 3.0%	5.0% to 10.0%	6.00% to 8.00%	1.5% to 2.0%	7.00% to 9.25%	4.50% to 7.00%	$150 to $300	1 to 3
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; uses a separate FF&E replacement reserve of $200 to $300 per unit.	0.0% to 2.0%	0.0% to 2.0%	5.0% to 10.0%	8.00% to 9.50%	3.0% to 6.0%	9.00% to 11.00%	7.00% to 9.00%	$200 to $250	10 to 12

Source: Personal survey conducted by PwC during October 2010.

MID-ATLANTIC REGION APARTMENT MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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.	(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% to 9.00%	$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%	3.0%	5.0% to 8.0%	6.50% to 7.50%	1.0% to 2.0%	6.00% to 7.50%	5.50% to 7.00%	$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; does not use a separate FF&E replacement reserve.	(1.0%) to 2.0%	3.0%	6.0% to 8.0%	7.50% to 8.50%	1.0% to 2.0%	8.50% to 9.50%	7.00% to 8.00%	$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%	2.0% to 3.0%	3.0% to 7.0%	5.00% to 7.00%	1.5% to 3.0%	10.00% to 13.00%	4.50% to 6.00%	$75 to $175	1 to 3
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 8 to 10 years Mainly uses direct capitalization analysis; in direct cap, capitalizes NOI after capital replacement reserve; believes that market conditions are neutral, favoring buyers and sellers.	0.0% to 3.0%	3.0%	5.0% to 9.0%	6.00% to 7.50%	1.5% to 2.0%	10.00% to 12.50%	5.50% to 7.50%	$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 $2,000 to $4,000 per unit.	0.0% to 2.0%	2.0%	5.0% to 9.0%	7.25% to 8.00%	2.0% to 3.0%	10.00% to 12.00%	6.50% to 7.50%	$250 to $350	6 to 9

Source: Personal survey conducted by PwC during October 2010.

PACIFIC REGION APARTMENT MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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.	(2.5%) to 3.0%	2.5% to 3.0%	4.0% to 15.0%	5.00% to 7.50%	1.0% to 2.0%	8.00% to 12.00%	6.00% to 8.00%	$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.	(5.0%) to 0.0%	3.0%	5.0% to 8.0%	7.50% to 8.50%	1.0% to 2.0%	8.00% to 9.25%	7.00% to 8.50%	$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 seperate FF&E replacement reserve of $150 to $300 per unit.	0.0% to 3.0%	2.0%	5.0% to 10.0%	5.50% to 7.00%	1.5% to 2.0%	7.00% to 8.75%	6.00% to 8.00%	$150 to $300	1 to 3
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.	0.0% to 3.0%	3.0%	5.0% to 10.0%	5.75% to 6.75%	1.0% to 4.0%	7.25% to 8.25%	4.50% to 6.00%	$150 to $250	6 to 12
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 8 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.	0.0% to 3.0%	3.0%	5.0% to 8.0%	5.25% to 6.50%	1.5%	10.00% to 12.50%	5.50% to 7.50%	$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 $150 to $300 per unit.	0.0%	2.0% to 3.0%	5.0% to 10.0%	5.00% to 7.00%	1.5% to 3.0%	11.00% to 12.50%	5.00% to 7.00%	$150 to $300	3 to 6

Source: Personal survey conducted by PwC during October 2010.

pwc

SOUTHEAST REGION APARTMENT MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 EQUITY 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 $2,000 to $5,000 per unit.	0.0% to 2.0%	2.0% to 3.0%	6.0% to 9.0%	7.50% to 8.00%	2.0% to 3.0%	10.00% to 12.00%	7.25% to 8.00%	$250 to $350	6 to 9
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 structural replacement reserve.	(10.0%) to 0.0%	0.0% 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.	0.0% to 3.0%	3.0%	5.0% to 10.0%	6.00% to 7.25%	1.0% to 4.0%	7.50% to 9.00%	5.00% to 6.25%	$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%	3.0%	6.0% to 10.0%	7.50% to 9.00%	1.5% to 2.0%	7.75% to 9.00%	7.00% to 8.00%	$150 to $350	3 to 6
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; does not use a separate FF&E replacement reserve.	0.0% to 2.5%	3.0%	6.0% to 10.0%	7.00% to 8.00%	1.0% to 1.5%	7.50% to 9.00%	6.00% to 8.00%	$250 to $400	6 to 9

Source: Personal survey conducted by PwC during October 2010.

pwc

NATIONAL NET LEASE MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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
INVESTMENT MANAGEMENT COMPANY ✦ Preferred Lease Term: 15 to 30 years Mainly focuses on sale-leaseback deals and net lease sales; 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.	All varieties	0.0% to 3.0%	0.0% to 3.0%	CCC to A	8.00% to 12.00%	2.0%	(1)	7.00% to 10.00%	0.0% to 5.0%	Does not use	(1)
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%	1.0% to 1.5%	BB to A	9.50% to 10.50%	2.0% to 3.0%	8.00% to 9.00%	9.00% to 10.00%	0.0% to 5.0%	$0.10 to $0.20	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%	1.0% to 2.0%	BB to AA	8.50% to 9.00%	1.8% to 2.0%	8.00%	8.50% to 8.75%	10.0% to 15.0%	$0.20	3 to 5
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 3.0%	1.0% to 3.0%	BBB– to A	7.50% to 8.00%	2.8% to 3.5%	8.00% to 8.25%	7.00% to 8.00%	3.0% to 5.0%	$0.10 to $0.20	3 to 4
PRIVATE INVESTOR ✦ Forecast Period: 5 to 10 years Primary valuation method is direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	Credit retail, restaurant, medical	0.0% to 3.0%	1.0% to 4.0%		8.50% to 10.00%	4.0% to 5.0%	8.50% to 9.50%	8.50% to 9.50%	1.0% to 3.0%	$0.15 to $0.75	6 to 8

(1) Did not disclose

Source: Personal survey conducted by PwC during October 2010.

NATIONAL MEDICAL OFFICE BUILDINGS MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	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 cap rates to hold steady over the next six months.	1.0% to 3.0% Years 1 & 2	2.0% to 3.0%	3.0%	8.50% to 9.25% (on campus); 9.00% to 10.00% (off campus)	1.5% to 2.0%	9.00% to 10.00% (on campus); 10.00% to 11.00% (off campus)	7.75% to 8.25% (on campus); 8.25% to 9.00% (off campus)	6 to 12	70.0% to 80.0%	5.0% to 10.0%	\$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 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%	7.50% to 8.50% (on campus); 8.25% to 8.75% (off campus)	2.0% to 2.5%	8.00% to 9.00% (on campus); 9.00% to 11.00% (off campus)	7.25% to 8.25% (on campus); 8.00% to 9.25% (off campus)	9 to 18	60.0% to 80.0%	3.0% to 8.0%	\$0.25 to \$0.50	4 to 9
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 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 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 October 2010.

NATIONAL DEVELOPMENT LAND MARKET–INVESTOR SURVEY RESPONSES
Fourth Quarter 2010

	PROPERTY TYPES	ABSORPTION CRITERIA	CHANGE RATES			DISCOUNT RATE (IRR)		FORECAST VALUE CHANGE NEXT 12 MONTHS	MARKETING PERIOD
		YEARS	LOT PRICES	DEVELOPMENT COSTS	CPI	FREE & CLEAR	SUBJECT TO FINANCING	RANGE	MONTHS
DEVELOPER/BROKER Primary method of pricing is comparable sales; analysis is prepared subject to financing; project size ranges from 3 to 19 acres; value of land currently under development totals $4.5 million; development is concentrated in Northwest suburban Chicago.	95.0% Industrial	1 to 5		Based on a % of specific line item	0.0%			(10.0%) to (50.0%)	120 to 240
PRIVATE INVESTMENT COMPANY Primary method of pricing is DCF; analysis is prepared free and clear of financing; project size ranges from 400 to 2,000 acres; value of land currently under development is $100 million; prefers Chicago and Florida markets, Midwest and Phoenix.	Master-planned single-family	6 to 10	0.0%	0.0%	0.0%	20.00%		0.0%	60 to 144
DEVELOPER Primary method of pricing is comparable sales; analysis is prepared free and clear of financing; project size ranges from 20 to 250 acres; value of land currently under development totals between $15.0 and $25.0 million; development is concentrated in the Midwest and Southeast regions of the United States.	Industrial and commercial	Over 20		% of specific revenue	3.0%	15.00% to 30.00%	15.00% to 30.00%	0.0%	12 to 240
DEVELOPER Primary method of pricing is DCF; analysis is prepared free and clear of financing; project size ranges from 50 to 762 acres; development is concentrated in Arizona, California and Washington.	Single-family/ wetlands mitigation	1 to 5	0.0%	0.0% to 5.0%	3.0%			0.0% to 5.0%	12 to 24
DEVELOPER Primary method of pricing is comparable sales; analysis is prepared subject to financing; value of land currently under development is between $50.0 and $100.0 million; development is concentrated in Arizona and California.	Residential	1 to 5		3.0%	3.0%	20.00%	20.00%		24 to 72
DEVELOPER Primary method of pricing is DCF; analysis is prepared subject to financing; project sizes are between 700 and 8,000 acres; development is concentrated in California, Hawaii, and Arizona.	Residential	6 to 10	0.0% to 3.0%			20.00% to 25.00%			60 to 72

Source: Personal survey conducted by PwC during October 2010.

INVESTMENT AND PROPERTY CHARACTERISTICS: OFFICE MARKETS
Fourth Quarter 2010

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		STRUCTURAL VACANCY		YEARS TO 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	(15.00%) – 15.00%	2.81%	50.00% – 100.00%	80.00%	5.00% – 12.50%	8.20%	1 – 7	3.2	$15.00 – $75.00	$34.00	$7.50 – $30.00	$16.41
National Suburban	(15.00%) – 10.00%	0.82%	40.00% – 140.00%	85.94%	5.00% – 15.00%	10.10%	0 – 7	3.4	$0.00 – $80.00	$29.18	$0.00 – $25.00	$12.80
Atlanta	(10.00%) – 5.00%	(0.57%)	50.00% – 100.00%	80.83%	5.00% – 12.00%	9.80%	0 – 7	3.1	$7.50 – $100.00	$32.52	$5.00 – $55.00	$16.21
Boston	(25.00%) – 20.00%	(0.60%)	50.00% – 110.00%	85.00%	5.00% – 12.00%	8.80%	0 – 5	2.1	$10.00 – $70.00	$40.89	$5.00 – $25.00	$16.79
Charlotte	(15.00%) – 10.00%	0.50%	60.00% – 100.00%	81.25%	3.00% – 15.00%	7.60%	1 – 5	3.1	$5.00 – $45.00	$26.25	$5.00 – $20.00	$11.54
Chicago	(15.00%) – 10.00%	(0.81%)	30.00% – 100.00%	70.00%	7.00% – 15.00%	10.70%	1 – 5	3.3	$10.00 – $80.00	$43.42	$5.00 – $40.00	$22.53
Dallas	(35.00%) – 10.00%	(5.25%)	50.00% – 100.00%	78.50%	5.00% – 15.00%	9.60%	0 – 7	2.4	$5.00 – $60.00	$28.13	$8.00 – $25.00	$14.42
Denver	(10.00%) – 10.00%	1.40%	50.00% – 100.00%	71.46%	10.00% – 15.00%	12.00%	1 – 5	3.1	$7.00 – $50.00	$28.08	$2.00 – $25.00	$9.50
Houston	(20.00%) – 15.00%	(0.58%)	20.00% – 100.00%	74.17%	5.00% – 15.00%	8.40%	1 – 3	2.1	$5.00 – $45.00	$27.42	$2.00 – $25.00	$11.67
Los Angeles	0.00% – 10.00%	2.17%	50.00% – 100.00%	79.50%	3.00% – 12.00%	7.60%	0 – 6	2.8	$10.00 – $90.00	$33.13	$5.00 – $25.00	$14.17
Manhattan	0.00% – 20.00%	5.25%	50.00% – 100.00%	85.00%	3.00% – 12.00%	7.80%	0 – 5	1.7	$15.00 – $120.00	$54.25	$15.00 – $50.00	$26.50
Northern Virginia	(7.50%) – 10.00%	1.38%	80.00% – 105.00%	92.08%	5.00% – 15.00%	8.60%	0 – 3	2.0	$20.00 – $100.00	$47.50	$5.00 – $35.00	$20.75
Pacific Northwest	0.00% – 10.00%	5.63%	50.00% – 100.00%	71.25%	3.00% – 18.00%	9.00%	2 – 4	3.0	$15.00 – $100.00	$45.67	$0.00 – $25.00	$12.50
Philadelphia	(20.00%) – 3.00%	(1.67%)	50.00% – 100.00%	75.83%	5.00% – 12.50%	8.30%	1 – 4	2.2	$5.00 – $45.00	$24.75	$5.00 – $20.00	$10.50
Phoenix	(20.00%) – 0.00%	(7.50%)	40.00% – 100.00%	64.58%	5.00% – 15.00%	10.40%	2 – 5	3.7	$10.00 – $55.00	$30.00	$5.00 – $15.00	$9.92
San Diego	(5.00%) – 5.00%	0.00%	60.00% – 100.00%	78.96%	5.00% – 15.00%	7.50%	2 – 7	3.8	$10.00 – $60.00	$28.02	$2.50 – $20.00	$10.69
San Francisco	(5.00%) – 20.00%	5.21%	50.00% – 100.00%	77.14%	3.00% – 12.00%	7.20%	1 – 5	2.9	$5.00 – $80.00	$35.42	$0.00 – $30.00	$12.22
Southeast Florida	(25.00%) – 4.00%	(6.20%)	40.00% – 100.00%	76.00%	5.00% – 30.00%	10.50%	1 – 5	2.6	$0.00 – $50.00	$25.80	$5.00 – $35.00	$13.70
Suburban Maryland	(10.00%) – 10.00%	2.00%	65.00% – 105.00%	87.50%	5.00% – 12.00%	9.00%	0 – 5	1.8	$10.00 – $85.00	$39.48	$5.00 – $30.00	$17.50
Washington, DC	(10.00%) – 20.00%	3.71%	70.00% – 110.00%	96.07%	5.00% – 12.50%	6.90%	0 – 3	0.9	$25.00 – $100.00	$53.04	$10.00 – $45.00	$24.29

(1) Includes both second-generation and new space; a breakout of TI allowances is included in the fourth quarter issue of the Survey starting with 4Q09.

Source: Personal survey conducted by PwC during October 2010.

INVESTMENT AND PROPERTY CHARACTERISTICS: NATIONAL AND REGIONAL MARKETS
Fourth Quarter 2010

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		CLASS-A+ and A MALLS IRRs		CLASS-A+ and A MALLS OARs		CLASS-B+ and B MALLS IRRs		CLASS-B+ and B MALLS OARs		STABILIZED OCCUPANCY	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National Regional Mall	0.00% – 10.00%	2.50%	75.00% – 100.00%	92.00%	6.00% – 11.50%	9.35%	5.00% – 8.50%	6.99%	8.00% – 14.00%	10.93%	7.25% – 10.50%	8.64%	87.50% – 97.00%	92.29%
National Power Center	(20.00%) – 10.00%	(1.25%)	60.00% – 110.00%	87.50%									88.00% – 95.00%	92.00%
National Strip Shopping Center	(15.00%) – 20.00%	3.13%	20.00% – 110.00%	83.13%									80.00% – 95.00%	91.00%

	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%	2.00%	60.00% – 140.00%	88.00%	10.00% – 80.00%	40.00%	\$0.00 – \$25.00	\$10.79	\$0.00 – \$12.00	\$5.17
National Warehouse	(30.00%) – 15.00%	2.32%	50.00% – 100.00%	82.00%	0.00% – 20.00%	7.12%	\$0.00 – \$10.00	\$1.76	\$0.00 – \$2.50	\$0.66
Apartment (National)	(10.00%) – 15.00%	2.68%	70.00% – 110.00%	90.50%						
Apartment (Mid-Atlantic Region)	(20.00%) – 10.00%	0.71%	60.00% – 125.00%	85.00%						
Apartment (Pacific Region)	(25.00%) – 25.00%	0.46%	65.00% – 125.00%	85.00%						
Apartment (Southeast Region)	(15.00%) – 10.00%	0.17%	60.00% – 110.00%	83.13%						
National Net Lease	(10.00%) – 10.00%	1.61%	50.00% – 125.00%	92.81%			\$4.00 – \$25.00	\$14.38	\$4.00 – \$20.00	\$9.06
National Medical Office Buildings	(20.00%) – 10.00%	(0.68%)	50.00% – 115.00%	96.25%			\$5.00 – \$50.00	\$19.17	\$2.50 – \$50.00	\$12.81

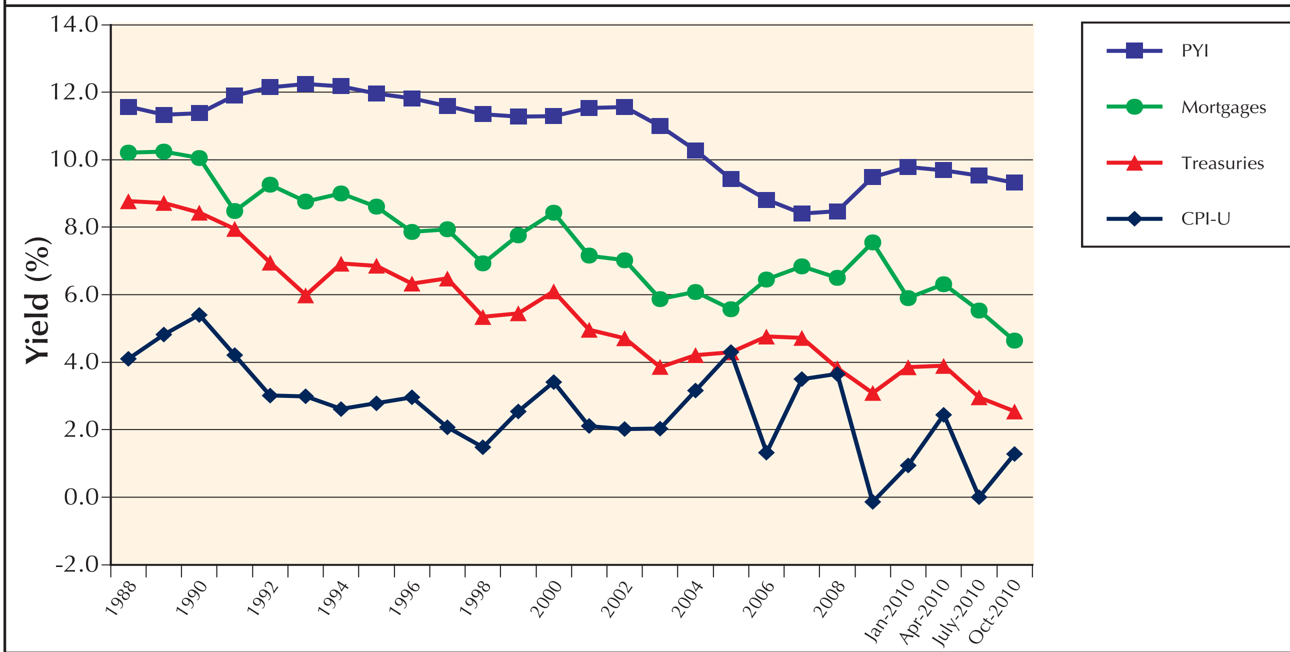
Source: Personal survey conducted by PwC during October 2010.

YIELD COMPARISONS
October 1, 2010

	2005 AVERAGE	2006 AVERAGE	2007 AVERAGE	2008 AVERAGE	2009 AVERAGE	2010 JANUARY	2010 APRIL	2010 JULY	2010 OCTOBER
PwC Yield Indicator (PYI)[a]	9.43%	8.81%	8.41%	8.47%	9.49%	9.79%	9.69%	9.53%	9.32%
Long-Term Mortgages[b]	5.57%	6.45%	6.84%	6.50%	7.55%	5.90%	6.31%	5.53%	4.64%
10-Year Treasuries[c]	4.29%	4.76%	4.72%	3.82%	3.09%	3.85%	3.89%	2.96%	2.54%
Consumer Price Index Change[d]	4.30%	1.32%	3.50%	3.65%	(0.14%)	0.94%	2.44%	0.00%	1.28%
SPREAD TO PYI (Basis Points)									
Long-Term Mortgages	386	236	157	197	194	389	338	400	468
10-Year Treasuries	514	405	369	465	640	594	580	657	678
Consumer Price Index Change	513	749	491	482	963	885	725	953	804

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
October 1, 2010



DIVIDEND COMPARISONS
October 1, 2010

	2005 AVERAGE	2006 AVERAGE	2007 AVERAGE	2008 AVERAGE	2009 AVERAGE	2010 JANUARY	2010 APRIL	2010 JULY	2010 OCTOBER
PwC Dividend Indicator (PDI)[a]	7.94%	7.42%	7.01%	6.99%	8.09%	8.42%	8.33%	8.15%	7.94%
Equity REITs[b]	4.75%	4.19%	3.93%	5.07%	6.62%	3.73%	3.86%	4.16%	3.78%
S&P 500[c]	1.71%	1.80%	1.76%	2.19%	2.90%	2.01%	1.87%	2.14%	1.96%
SPREAD TO PDI (Basis Points)									
Equity REITs	319	323	308	192	147	469	447	399	416
S&P 500	623	562	525	480	519	641	646	601	598

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
Fourth Quarter 2010

	INSTITUTIONAL IRRs		OARs		NONINSTITUTIONAL (BASIS-POINT SPREAD TO INSTITUTIONAL RATES) IRRs		OARs	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National Regional Mall	6.00% – 14.00%	9.81%	5.00% – 10.50%	7.58%	50 – 350	192	25 – 500	279
National Power Center	8.00% – 11.00%	9.05%	7.00% – 10.00%	8.08%	NA	NA	NA	NA
National Strip Shopping Center	6.00% – 12.50%	8.88%	5.50% – 9.50%	7.63%	50 – 800	278	50 – 1,000	303
National CBD Office	6.00% – 11.00%	8.65%	5.50% – 10.50%	7.53%	(a)	(a)	(a)	(a)
National Suburban Office	6.50% – 12.50%	9.14%	6.00% – 11.50%	8.17%	50 – 250	129	25 – 300	154
Atlanta Office	7.75% – 15.00%	10.27%	7.00% – 11.00%	8.84%	(a)	(a)	(a)	(a)
Boston Office	7.75% – 14.00%	9.72%	5.75% – 12.00%	8.31%	100 – 1,000	321	100 – 500	239
Charlotte Office	8.00% – 12.00%	9.52%	6.50% – 10.00%	8.53%	100 – 400	225	100 – 200	150
Chicago Office	7.00% – 13.00%	9.59%	6.00% – 11.00%	8.41%	100 – 600	288	100 – 300	217
Dallas Office	8.00% – 11.50%	9.44%	6.75% – 11.50%	8.75%	(a)	(a)	(a)	(a)
Denver Office	7.75% – 15.00%	9.91%	7.00% – 11.00%	8.27%	(a)	(a)	(a)	(a)
Houston Office	7.75% – 14.00%	9.67%	6.75% – 12.50%	8.49%	(a)	(a)	(a)	(a)
Los Angeles Office	7.00% – 12.00%	9.03%	5.00% – 9.00%	7.46%	0 – 300	125	0 – 200	100
Manhattan Office	6.00% – 10.00%	7.85%	5.00% – 8.00%	6.02%	50 – 385	168	50 – 385	218
Northern Virginia Office	6.00% – 10.50%	8.60%	5.75% – 9.00%	7.69%	(a)	(a)	(a)	(a)
Pacific Northwest Office	7.50% – 12.00%	9.65%	6.00% – 12.00%	8.25%	(a)	(a)	(a)	(a)
Philadelphia Office	8.00% – 11.00%	9.33%	7.25% – 10.00%	8.69%	50 – 200	118	50 – 150	90
Phoenix Office	8.50% – 16.00%	10.75%	7.00% – 11.00%	9.23%	(a)	(a)	(a)	(a)
San Diego Office	7.50% – 13.00%	9.83%	7.00% – 11.00%	8.25%	(a)	(a)	(a)	(a)
San Francisco Office	7.00% – 15.00%	9.33%	5.50% – 11.00%	7.57%	25 – 500	197	25 – 400	197
Southeast Florida Office	7.00% – 16.00%	10.28%	7.00% – 13.00%	9.39%	(a)	(a)	(a)	(a)
Suburban Maryland Office	7.25% – 10.00%	8.47%	6.50% – 9.00%	7.65%	(a)	(a)	(a)	(a)
Washington, DC Office	7.00% – 10.00%	7.96%	5.50% – 8.50%	6.61%	(a)	(a)	(a)	(a)
National Flex/R&D	8.25% – 13.00%	10.15%	7.25% – 12.00%	9.15%	100 – 500	283	100 – 400	250
National Warehouse	6.80% – 12.50%	9.05%	6.00% – 12.00%	7.98%	100 – 500	283	100 – 300	233
National Apartment	5.50% – 14.00%	8.91%	4.25% – 10.00%	6.51%	25 – 400	220	25 – 400	170
Apartment (Mid-Atlantic Region)	6.00% – 14.00%	10.04%	4.50% – 9.00%	6.65%	25 – 500	291	25 – 400	203
Apartment (Pacific Region)	7.00% – 12.50%	9.54%	4.50% – 8.50%	6.58%	300 – 500	350	200– 400	267
Apartment (Southeast Region)	7.50% – 12.00%	8.63%	5.00% – 8.00%	6.68%	25 – 400	271	25 – 400	204
National Medical Office Buildings	7.50% – 13.00%	9.59%	6.75% – 11.50%	8.49%	100 – 400	234	50 – 300	178

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

Source: Personal survey conducted by PwC during October 2010.

INCOME CAPITALIZED IN DIRECT CAPITALIZATION

Fourth Quarter 2010

MARKET	METHOD 1 (a) CURRENT	METHOD 1 (a) YEAR AGO	METHOD 2 (a) CURRENT	METHOD 2 (a) YEAR AGO	METHOD 3 (a) CURRENT	METHOD 3 (a) YEAR AGO
National Retail						
Regional Mall	16.7%	14.3%	83.3%	71.4%	0.0%	14.3%
Power Center	20.0%	20.0%	80.0%	80.0%	0.0%	0.0%
Strip Shopping Center	22.2%	25.0%	66.7%	50.0%	11.1%	25.0%
Office						
National CBD	10.0%	0.0%	80.0%	80.0%	10.0%	20.0%
National Suburban	25.0%	25.0%	60.0%	50.0%	15.0%	25.0%
Atlanta	29.0%	33.3%	71.0%	66.7%	0.0%	0.0%
Boston	14.3%	14.3%	85.7%	85.7%	0.0%	0.0%
Charlotte	20.0%	16.7%	80.0%	83.3%	0.0%	0.0%
Chicago	0.0%	10.0%	88.0%	80.0%	12.0%	10.0%
Dallas	40.0%	40.0%	60.0%	60.0%	0.0%	0.0%
Denver	40.0%	0.0%	60.0%	100.0%	0.0%	0.0%
Houston	50.0%	33.3%	50.0%	66.7%	0.0%	0.0%
Los Angeles	33.3%	0.0%	67.0%	100.0%	0.0%	0.0%
Manhattan	17.0%	16.7%	83.0%	66.7%	16.7%	16.7%
Northern Virginia	50.0%	37.5%	33.3%	50.0%	17.0%	12.5%
Pacific Northwest	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%
Philadelphia	40.0%	20.0%	60.0%	80.0%	0.0%	0.0%
Phoenix	50.0%	0.0%	50.0%	100.0%	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%	37.5%	75.0%	50.0%	25.0%	12.5%
Washington, DC	14.0%	42.9%	71.0%	42.9%	15.0%	14.3%
National Flex/R&D	0.0%	0.0%	100.0%	87.5%	0.0%	0.0%
National Warehouse	25.0%	27.3%	67.0%	58.3%	8.0%	9.1%
Apartment[b]						
National	58.0%	62.5%	42.0%	14.0%		6.3%
Mid-Atlantic Region	83.3%		16.7%			
Pacific Region	83.0%		17.0%			
Southeast Region	67.0%		33.0%			
National Net Lease	38.0%	20.0%	38.0%	40.0%	24.0%	40.0%
National Medical Office Buildings	11.1%	14.3%	77.8%	85.7%	11.1%	0.0%

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 2010

SEGMENT	PRIOR 12 MONTHS[a] CURRENT	PRIOR 12 MONTHS[a] YEAR AGO	FORECAST 12 MONTHS[b] CURRENT	FORECAST 12 MONTHS[b] YEAR AGO	BOTH[c] CURRENT	BOTH[c] YEAR AGO
Full-Service	63.0%	37.5%	12.0%	37.5%	25.0%	25.0%
Economy/Limited-Service	60.0%	66.7%	40.0%	33.3%	0.0%	0.0%
Luxury/Upper-Upscale	24.5%	57.1%	63.0%	42.9%	12.5%	0.0%
Extended-Stay	60.0%	66.7%	0.0%	0.0%	40.0%	33.3%

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
Fourth Quarter 2010

	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%) – 4.00%	0.60%	1.00% – 6.00%	2.98%	2.00% – 4.00%	2.80%	2.00% – 3.50%	2.80%
National Suburban Office	5 – 10	9	(10.00%) – 4.00%	(0.17%)	(2.00%) – 5.00%	2.46%	2.00% – 4.00%	2.77%	2.00% – 4.00%	2.95%
Atlanta Office	3 – 10	7	(3.00%) – 0.00%	(0.21%)	0.00% – 3.00%	2.07%	0.00% – 3.00%	2.32%	1.00% – 3.00%	2.71%
Boston Office	3 – 10	8	(5.00%) – 3.00%	(0.07%)	(5.00%) – 4.50%	2.14%	0.00% – 4.50%	2.81%	0.00% – 4.50%	2.89%
Charlotte Office	3 – 10	7	0.00% – 2.00%	0.42%	0.00% – 4.00%	1.75%	2.00% – 3.00%	2.79%	2.00% – 3.00%	2.83%
Chicago Office	3 – 10	8	(10.00%) – 1.00%	(1.83%)	0.00% – 5.00%	3.03%	(5.00%) – 3.00%	1.88%	2.00% – 3.00%	2.94%
Dallas Office	3 – 10	8	0.00% – 3.00%	0.50%	0.00% – 10.00%	3.04%	2.00% – 3.00%	2.92%	3.00% – 10.00%	3.58%
Denver Office	1 – 11	7	(20.00%) – 3.00%	(1.90%)	(2.00%) – 5.00%	2.45%	0.00% – 3.00%	2.70%	2.00% – 3.00%	2.90%
Houston Office	3 – 10	8	0.00% – 3.00%	0.25%	0.00% – 10.00%	3.20%	2.00% – 3.00%	2.83%	2.00% – 3.00%	2.92%
Los Angeles Office	1 – 10	9	(3.00%) – 3.00%	0.17%	0.00% – 5.00%	3.12%	1.00% – 3.00%	2.75%	1.00% – 3.00%	2.75%
Manhattan Office	5 – 10	9	0.00% – 5.00%	1.25%	3.00% – 8.00%	4.28%	1.00% – 3.00%	2.67%	2.00% – 3.00%	2.83%
Northern Virginia Office	5 – 10	9	(2.00%) – 3.00%	0.25%	2.00% – 3.00%	2.78%	1.50% – 3.00%	2.79%	2.50% – 3.00%	2.96%
Pacific Northwest Office	5 – 10	9	0.00% – 3.00%	0.30%	0.00% – 10.00%	4.02%	1.00% – 3.00%	2.70%	1.00% – 3.00%	2.70%
Philadelphia Office	5 – 10	8	0.00% – 3.00%	0.58%	1.50% – 3.00%	2.57%	2.00% – 3.00%	2.75%	3.00% – 3.00%	3.00%
Phoenix Office	3 – 10	8	(15.00%) – 1.00%	(2.50%)	0.00% – 5.00%	2.38%	0.00% – 3.00%	2.65%	2.00% – 3.00%	2.81%
San Diego Office	1 – 10	8	(10.00%) – 0.00%	(1.20%)	0.00% – 5.00%	2.73%	2.00% – 3.00%	2.90%	2.00% – 3.00%	2.90%
San Francisco Office	5 – 10	9	(5.00%) – 5.00%	1.26%	2.00% – 7.00%	4.48%	0.00% – 3.00%	2.56%	2.00% – 3.00%	2.83%
Southeast Florida Office	1 – 10	7	(10.00%) – 3.00%	(0.42%)	(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%	0.10%	(1.00%) – 5.00%	2.30%	0.00% – 3.00%	2.40%	0.00% – 3.00%	2.70%
Washington, DC Office	5 – 10	10	(1.00%) – 4.00%	1.07%	1.00% – 5.00%	2.95%	1.50% – 3.00%	2.82%	2.50% – 3.00%	2.96%

Source: Personal survey conducted by PwC during October 2010.

pwc

FORECAST PERIODS AND CHANGE RATES: NATIONAL AND REGIONAL MARKETS
Fourth Quarter 2010

	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	5 – 10	9	(3.00%) – 3.00%	0.67%	(3.00%) – 4.00%	2.29%	0.00% – 3.00%	1.92%	2.00% – 4.00%	2.83%
National Power Center	5 – 10	9	(10.00%) – 3.00%	(0.70%)	1.00% – 3.00%	2.50%	2.00% – 3.00%	2.80%	2.00% – 3.00%	2.88%
National Strip Shopping Center	4 – 10	9	0.00% – 3.00%	0.61%	0.00% – 4.50%	2.27%	1.00% – 4.00%	2.86%	2.50% – 4.00%	3.03%
National Flex/R&D	4 – 10	8	(2.00%) – 3.00%	0.08%	0.00% – 4.00%	2.25%	1.00% – 3.00%	2.83%	1.00% – 3.00%	2.83%
National Warehouse	5 – 11	9	(25.00%) – 3.00%	0.00%	0.00% – 5.00%	2.63%	(2.00%) – 3.00%	2.62%	0.00% – 3.00%	2.65%
Apartment (National)	1 – 10	8	(2.00%) – 5.00%	0.93%	(1.00%) – 5.00%	2.55%	0.00% – 4.00%	2.42%	0.00% – 3.50%	2.70%
Apartment (Mid-Atlantic Region)	4 – 10	7	(5.00%) – 4.00%	0.92%	1.00% – 5.00%	2.88%	1.00% – 3.00%	2.58%	1.00% – 3.00%	2.67%
Apartment (Pacific Region)	5 – 10	9	(5.00%) – 3.00%	0.38%	0.00% – 5.00%	2.96%	2.00% – 3.00%	2.71%	2.00% – 3.00%	2.88%
Apartment (Southeast Region)	2 – 10	6	(10.00%) – 3.00%	(0.04%)	0.00% – 4.00%	2.33%	1.00% – 3.00%	2.42%	0.00% – 3.00%	2.67%
National Net Lease	3 – 30	11	(1.00%) – 3.00%	1.43%	0.00% – 20.00%	3.71%	0.00% – 4.00%	1.96%	0.00% – 3.00%	1.88%
National Medical Office Buildings	1 – 10	6	0.00% – 3.00%	1.17%	0.00% – 5.00%	2.06%	1.50% – 5.00%	2.64%	2.00% – 5.00%	2.89%

Source: Personal survey conducted by PwC during October 2010.

pwc

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 leasing 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.

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

STRUCTURAL VACANCY
Normal vacancy rate in a balanced market.

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

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

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

Apartment

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

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

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 the states of Delaware, Maryland, Virginia, North Carolina, and South Carolina, as well as Washington, DC.

PACIFIC REGION
As per NCREIF, includes the states of 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

DEVELOPER'S PROFIT[1,3]
A market-derived figure that reflects the

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, [4]Smith Travel Research, and [5]National Multi Housing Council.

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.

CHAIN SCALE LODGING SEGMENTS[4]

Based on the actual, system-wide average room rates of the major chains, the five chain scale segments include luxury, upper-upscale, upscale, midscale with food and beverage, midscale without food and beverage, and economy. Independent hotels are included as a separate category.

ECONOMY/LIMITED-SERVICE LODGING

Lodging with "rooms only" operation and no food and beverage except possibly continental breakfast; lower-tier pricing.

EXTENDED-STAY LODGING

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

FULL-SERVICE LODGING

Lodging with restaurant and lounge facilities, meeting space, and a minimum service and amenities level; moderate to lower upper-tier pricing; includes all-suite lodgings; includes upscale and midscale-with-food-and-beverage chain segments.

LUXURY LODGING

High-quality lodging offering personalized guest services, typically with extensive amenities; upper-tier pricing; includes four- and five-star resorts; includes luxury and upper-upscale chain segments.

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.

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 PSF
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, [4]Smith Travel Research, and [5]National Multi Housing Council.

REAL ESTATE INVESTOR SURVEY

VOL. 23, NO. 4
Fourth Quarter 2010

PwC Real Estate Investor Survey
is published quarterly by PwC

Web site: www.pwc.com
Email: korpacz.survey@us.pwc.com

Editor-in-Chief: Susan M. Smith, MAI
Senior Editor: Amy E. Olson
Business Manager: Maridel Gutierrez

Subscriptions: For information about subscription pricing, please call our publication department at 1-800-654-3387.

Survey Inquiries: 1-800-654-3387 (8:30 AM to 5:30 PM EST); 813-329-0050 FAX.

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 online 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.

Index of Valuation Issues

Index of Highlighted Special Reports

*16-page supplement following 9/11

Disclaimer:

pwc.com