PricewaterhouseCoopers

Korpacz Real Estate Investor Survey®

First Quarter 2004

Dear Reader:

The year is starting off with a tremendous amount of capital searching for deals in all property sectors. Office, industrial, apartment, retail, and even lodging properties remain prime targets for investor funds. Could 2004 be another year full of record-breaking sales activity? Many investors believe that it might. Even with the improved performance of the stock market and continued weak industry fundamentals, funds are not expected to shift away from commercial assets too quickly. For more insight on this trend, read our lead story "Plentiful Capital Targets Commercial Assets."

Additional information on the amount of capital that is flooding the industry is presented in this quarter's *Real Estate Capital Markets* column, authored by Robert White, president of Real Capital Analytics, Inc. His article contains historical acquisition information for each major capital source, as well as expectations on how they are likely to perform in 2004.

More performance information is included in this quarter's *Economic News* column, which focuses on the improving national employment picture. While we have a long way to go before both the economy and demand for real estate space strongly improve, signs of job growth have indeed emerged.

And more good news can be found in our semiannual analysis of the National Lodging Market. After nearly three years of downward trends and distress, this sector is slowly rebounding and is expected to experience both occupancy and ADR gains in 2004. Consequently, transaction activity has picked up tremendously in this sector.

This issue marks the beginning of the 17th year of the *Korpacz Real Estate Investor Survey*®. As always, we welcome your suggestions on improving each issue, as well as additional markets to include and issues to cover. Thank you for your continued support.

Sincerely,

Peter F. Korpacz
Editor-in-Chief

PRICEWATERHOUSECOOPERS

Making News This Quarter

FIRST QUARTER
2004

VOLUME 17
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Palisades Center
Photograph Courtesy Of
The Pyramid Companies

National Highlights

Plentiful Capital Targets Commercial Assets

Despite an improving stock market and lingering fragile underlying fundamentals, a tremendous amount of capital continues to flood the commercial real estate industry. "We are not seeing any slow down in fund flows," assures a participant. "An overwhelming amount of capital is pouring into all property sectors," affirms another. The reason for this escalating trend is simple: real estate assets continue to provide much better returns than alternative investments.

This ongoing phenomenon, which some investors believed would have dissipated by now, continues to create an extremely competitive buying environment, especially for stable, well-leased properties, which remain the preferred asset for eager buyers. "We have bid against 30 other buyers on stable, core-plus deals," shares a participant. And with few such properties still available for sale, high prices and low overall cap rates remain the norm for the best properties in many markets. Even in vastly oversupplied office markets, such as Boston and San Francisco, where overall vacancy rates are remarkably high, properties for sale that offer both limited near-term leasing risk and quality tenants receive a tremendous number of bids.

While certain buyers, who have been squeezed out of winning stable core-plus office assets, have attempted instead to acquire office properties that are 70.0% to 80.0% leased and located in long-standing balanced markets, many of them have been surprised and disappointed with the aggressiveness of their pricing, too. "Even unstable assets are aggressively priced now," comments a participant, who believes that many buyers are not factoring vacancy into their analyses. "If you assume that an 80.0% leased property is 100.0% leased, you don't get the return to justify the risk," adds the participant.

Another problem that some investors believe is occurring with the current acquisition of both stable and unstable assets is the use of "outrageous" growth rates and rent spikes. "Some bidders are using multiple years of 10.0% rent spikes in markets that have never experienced such rent growth in their history," exclaims a participant. While investors recognize the importance of factoring in rent growth and the return to a balanced rental rate, it is apparent that some of them are using excessive growth rate assumptions in order to justify the returns at which they are buying assets. "When you underwrite acquisitions using exceptionally aggressive cap rates in a weak and/or declining market, it causes challenges and problems," explains a participant.

And unfortunately, the commercial real estate industry has yet to show much improvement, especially in the office sector, where most markets continue to contend with vast amounts of available space and lackluster demand. As a result, many national office market reports indicate that rental rates are expected to stay relatively flat over the next couple of years. "I don't see a lot of absorption and rent appreciation occurring in the near future," shares a participant. The good news, however, is that many individual markets are close to hitting bottom or have already done so. And in a select few, such as the Washington, DC District office market and Southeast Florida, signs of a rebound have already emerged in the form of increased leasing activity and consistent positive absorption.

Unlike other major office markets across the country, these two markets have limited exposure to Corporate America, which continues to enjoy the benefits of increased worker productivity and has yet to create sufficient job growth and the resulting demand needed for the office sector to regain equilibrium. Another factor hindering the creation of jobs in the United States is the increasing number of companies that are outsourcing jobs, both blue-collar and white-collar, to foreign countries. According to Forrester Research, 3.3 million tech-service jobs and $136 billion in wages are expected to leave the United States by 2015. "When you move the jobs away, you impact the amount of potential absorption in a market," explains a participant.

There are, however, positive signs that the national employment picture is improving. First, initial jobless claims, which have hovered around 350,000 for the past several weeks, are consistent with an improving economy. Second, continuous jobless claims have trended downward over the past several weeks. And lastly, the national unemployment rate has declined for the past five months and reached 5.6% in January 2004.

Until significant job growth occurs, however, companies are expected to squeeze as much out of their existing spaces as they can, limiting the need for near-term expansions and relocations. "Companies will be cautious about taking space and moving forward," remarks a participant.

Even though it is expected to take some time for the U.S. economy to spur a recovery in the office sector, as well as the other commercial property sectors, few investors expect investment demand to dissipate during 2004. "I think that capital availability will be with us through the year, even though a disconnection between funds and fundamentals will persist," predicts a participant. One reason for this belief is that interest rates are not expected to rise dramatically in 2004, given the fact that it's a presidential election year. As a result, a low-interest-rate environment should continue to keep capital plentiful and real estate returns some of the best around.

Useful Websites

Websites of interest this quarter are summarized below:

www.worldbusinesschicago.com: World Business Chicago is a private-public economic development corporation whose mission is to expand the Chicago regional economy through the growth of the private sector. It aggressively markets the competitive advantages of Chicago and its nine-county region in order to retain and to attract businesses. Their website offers information on local demographics, the labor force, and leading businesses, as well as overviews of metropolitan Chicago's industrial and office markets.

www.realfacts.com: RealFacts is a research organization and database publisher specializing in the multifamily housing market of 11 southwestern and western states – Texas, Oklahoma, Colorado, Utah, Arizona, New Mexico, Nevada, Idaho, California, Oregon, and Washington. Their research, data, and analyses are widely used and respected by owners, developers, brokers, lenders, and trade associations in those areas. RealFacts' database includes investment-grade complexes of 100 units or more. It is updated every quarter and contains current rents and occupancy rate information, ownership and management data, and sales and loan details. A variety of detailed reports are available from RealFacts, including property profiles and market overviews.

www.cityrating.com: Provides information about the most prominent metro areas in the nation, such as Seattle, Atlanta, Denver, Salt Lake City, and Washington, DC. Each city profile contains information relating to demographics, cost of living, population statistics, school rankings, and career and occupational outlook.

www.4hoteliers.com: Launched by a group of hoteliers and industry consultants in early 2002, this website provides news and information pertaining to the national and international lodging industry. It also highlights upcoming lodging industry events worldwide, newly released lodging books, and links to other lodging resources.

www.bayareahouston.com: This website is provided by the Bay Area Houston Economic Partnership, a nonprofit organization that works to stimulate economic development and employment in the region by attracting, retaining, and expanding industries that are compatible with the high quality of living offered in the region. The site contains building permit data, demographic statistics for both Galveston and Harris Counties, lists of major employers in different industries, education data, and local real estate market reports.

www.northernvirginia.org: Presented by the Northern Virginia Economic Coalition, this website serves to provide a forum for coordinating economic development activities and policies within Northern Virginia. The site contains an Economic Profile for Northern Virginia that includes extensive statistical information, charts, and ranking comparisons to other metro areas across the country. Covered statistics include population growth, housing market information, employment statistics – specifically in the technology industry, occupational breakdown, major area colleges and universities, income characteristics, new home construction, and retail sale projections.

www.hotelexecutive.com: Provides information on a broad range of lodging topics including FF&E, hospitality law, guest services, franchising, hotel markets, and finance and investment. ✥

Exhibit 1

REPLACEMENT RESERVES PER SQUARE FOOT

First Quarter 2004

	CURRENT QUARTER		YEAR AGO		
Market	**Range**	**Average**	**Range**	**Average**	**Change**
National Regional Mall	$0.10-$0.35	$0.24	$0.10-$0.35	$0.24	–7.69%
National Power Center	$0.10-$0.30	$0.17	$0.10-$0.25	$0.16	+6.25%
National Strip Shopping Center	$0.10-$0.50	$0.22	$0.10-$0.50	$0.19	+15.79%
National CBD Office	$0.10-$0.50	$0.26	$0.10-$0.50	$0.29	–10.34%
National Suburban Office	$0.10-$1.00	$0.30	$0.10-$1.00	$0.30	0.00%
Atlanta Office	$0.10-$0.50	$0.21	$0.10-$0.50	$0.24	–12.50%
Boston Office	$0.10-$0.50	$0.25	$0.10-$0.55	$0.26	–3.85%
Chicago Office	$0.10-$0.50	$0.24	$0.10-$0.35	$0.21	+14.29%
Dallas Office	$0.10-$0.25	$0.20	$0.10-$0.25	$0.20	0.00%
Houston Office	$0.10-$0.30	$0.21	$0.10-$0.25	$0.19	+10.53%
Los Angeles Office	$0.10-$1.00	$0.25	$0.10-$1.00	$0.24	+4.17%
Manhattan Office	$0.20-$1.00	$0.38	$0.15-$1.00	$0.43	–11.63%
Pacific Northwest Office	$0.10-$0.50	$0.22	$0.10-$0.50	$0.20	+10.00%
Philadelphia Office	$0.10-$1.00	$0.29	$0.15-$1.00	$0.28	+3.57%
San Francisco Office	$0.10-$1.00	$0.26	$0.00-$1.00	$0.24	+8.33%
Southeast Florida Office	$0.10-$0.50	$0.22	$0.15-$0.50	$0.25	–12.00%
Washington, DC Metro Office					
The District	$0.10-$1.00	$0.25	$0.10-$1.00	$0.25	0.00%
Northern Virginia	$0.10-$1.00	$0.26	$0.10-$1.00	$0.23	+13.04%
Suburban Maryland	$0.10-$1.00	$0.25	$0.10-$1.00	$0.26	–3.85%
National Flex/R&D	$0.05-$0.30	$0.14	$0.05-$0.30	$0.14	0.00%
National Warehouse	$0.05-$0.30	$0.13	$0.05-$0.30	$0.13	0.00%
National Apartment (per unit)	$100.00-$800.00	$283.09	$150.00-$800.00	$282.64	+1.10%

Valuation Issues

Replacement Reserves

Incorporating an appropriate reserve for the replacement of building components during a holding period plays an important role in accurately forecasting the real cash return potential of an acquisition. The ranges and averages of current and year-ago assumptions for replacement reserves are detailed in Exhibit 1. These figures do not include estimates for larger capital costs for items that are replaced only a few times during the life of a property and that are usually accounted for separately as capital improvements. The Survey Response Tables in the back of this issue show a sampling of specific replacement reserve assumptions for each commercial market surveyed.

Over the past year, the average replacement reserve increased in ten markets, decreased in seven, and was unchanged in five. The largest upward shift occurred in the national strip shopping center, which increased 15.79% from an average of $0.19 to reach $0.22 per square foot. By contrast, the largest decrease occurred in the Atlanta office market, which fell 12.50% from an average of $0.24 to reach $0.21 per square foot. Markets that reported no changes included the national suburban office market, Dallas, Washington, DC the District, national flex/R&D, and national warehouse.

Exhibit 2

MANAGEMENT FEES AND LEASING COMMISSIONS
First Quarter 2004

	MANAGEMENT FEES		LEASING COMMISSIONS	
Market	Range	Average	Range	Average
National Regional Mall[a]	2.50%-4.50%	3.60%	—	—
National Power Center	2.00%-6.00%	4.33%	2.00%-6.00%	4.33%
National Strip Shopping Center	2.50%-5.00%	3.69%	2.00%-6.00%	4.55%
National CBD Office	2.00%-4.00%	2.95%	1.00%-8.00%	4.81%
National Suburban Office	2.00%-5.00%	3.29%	2.00%-8.00%	4.98%
Atlanta Office	2.50%-4.00%	3.00%	2.00%-7.00%	4.05%
Boston Office	1.50%-4.00%	2.88%	3.00%-6.00%	4.53%
Chicago Office	1.00%-4.00%	2.60%	3.00%-7.00%	5.90%
Dallas Office	1.25%-4.00%	2.55%	2.50%-6.75%	5.18%
Houston Office	1.25%-4.00%	2.65%	2.00%-6.00%	5.17%
Los Angeles Office	1.00%-5.00%	2.78%	3.00%-6.00%	4.70%
Manhattan Office	1.50%-2.50%	2.19%	(a)	(a)
Pacific Northwest Office	2.00%-3.50%	2.96%	3.75%-6.00%	4.96%
Philadelphia Office	2.50%-5.00%	3.60%	2.10%-6.00%	3.94%
San Francisco Office	1.00%-5.00%	2.56%	3.50%-7.50%	5.56%
Southeast Florida Office	2.50%-5.00%	4.06%	2.00%-6.00%	4.25%
Washington, DC Metro Office				
The District	1.00%-4.00%	2.46%	2.50%-7.00%	4.26%
Northern Virginia	2.00%-4.00%	2.90%	2.50%-7.00%	4.46%
Suburban Maryland	2.00%-4.00%	2.65%	3.50%-7.00%	4.40%
National Flex/R&D	1.00%-5.00%	3.08%	2.00%-8.00%	5.14%
National Warehouse	0.50%-5.00%	2.75%	2.00%-8.00%	4.54%
National Apartment[a]	2.00%-6.00%	3.45%	—	—

(a) Some investors include leasing commissions in management fees; for those that do not, leasing commissions range from 3.50% to 4.00% and average 3.75%.

Management Fees

Management fees included in cash flow projections typically constitute either an in-house related duty that is expensed to an affiliated company or a third-party cost that is paid to an outside management company. Regardless of how they are contracted, management fees generally are included as an "above-the-line" operating expense and are deducted from revenue to derive net operating income (NOI).

The ranges and averages of current and year-ago assumptions for management fees are detailed in Exhibit 2. The management fees presented are expressed as a percentage of effective gross revenue (EGR). Over the past year, the average management fee increased in eight markets, decreased in 11, and remained unchanged in three. In the specific office market, management fees range from 2.19% in the Manhattan office market to 4.06% in the Southeast Florida office market.

Leasing Commissions

Although leasing commissions may be placed either above or below the NOI line, most investors consider them as "below-the-line" items. Like management fees, leasing commissions are usually expressed as a percentage of EGR. Since leasing services are typically provided as part of a regional mall's management agreement, separate leasing costs are generally not incurred for this property type. In addition, leasing commissions are normally not included when preparing cash flow analyses for apartment and regional malls investments. Instead, they are generally included as part of the management expense.

The ranges and averages of current and year-ago assumptions for leasing commissions are detailed in Exhibit 2. Over the past year, the average leasing commission increased in two markets, decreased in 15, and remained unchanged in two. Currently, they range from 3.94% in the Philadelphia office market to 5.90% in the Chicago office market.

Concessions

Due to a slow-growing economy, tepid demand and elevated vacancy rates continue to plague most office markets. As a result, the percentage of landlords offering concessions in order to entice new tenants remains very high and has even risen in several markets over the past year (see Exhibit 3). Currently, 86.95% of our participants indicate that concessions are commonly used in the 16 individual office markets included in our Survey. This figure has risen steady over the past three years. Specifically, it was 37.27% in the first quarter of 2001, 58.94% in the first quarter of 2002, and 81.04% in the first quarter of 2003.

Although inducements vary greatly between individual markets and properties, they typically include free rent, an excessive tenant improvement allowance, or a combination of both. Additional inducements, such as the reimbursement of either moving costs or lease buyouts, are offered on a select basis and typically are awarded to large, creditworthy tenants that will be occupying a significant portion of a property.

According to participants, free rent for new office leases ranges from one-half to 18 months and averages close to four months. Typically, the longer the lease term, the higher the amount of free rent. At 9.25 months, the Chicago office market indicated the highest average amount of free rent of all the city-specific office markets surveyed. Such a distinction reflects its current struggles due to lackluster demand and additions to supply.

An excessive tenant improvement (TI) allowance, which is an additional amount above the standard TI in the market, can run as high as $30.00 per square foot in certain markets. The average excessive TI is $10.75 per square foot

Exhibit 3

CONCESSIONS
First Quarter 2004

	PERCENT USING CONCESSIONS		MONTHS OF FREE RENT		EXCESSIVE TENANT IMPROVEMENT ALLOWANCE	
	Current	Year Ago	Current Range	Current Average	High End of The Range	Average
Office Market						
National CBD	100.00%	100.00%	0.50-12.00	6.25	$25.00	$15.00
National Suburban	88.24%	86.67%	0.50-12.00	6.25	20.00	11.00
Atlanta	100.00%	100.00%	1.00-6.00	3.50	7.00	3.50
Boston	100.00%	100.00%	0.00-6.00	3.00	25.00	15.00
Chicago	100.00%	100.00%	0.50-18.00	9.25	25.00	13.50
Dallas	100.00%	100.00%	0.50-6.00	3.25	10.00	7.50
Houston	85.71%	57.14%	1.00-6.00	3.50	10.00	7.50
Los Angeles	77.78%	50.00%	1.00-6.00	3.50	15.00	15.00
Manhattan	100.00%	100.00%	1.00-6.00	3.50	15.00	10.00
Pacific Northwest	100.00%	83.33%	1.00-3.00	2.00	20.00	11.00
Philadelphia	85.71%	62.50%	0.50-6.00	3.25	10.00	7.00
San Francisco	90.91%	87.50%	1.00-6.00	3.50	30.00	17.50
Southeast Florida	83.33%	66.67%	1.00-3.00	2.00	5.00	3.50
Washington, DC Metro						
The District	70.00%	50.00%	0.50-0.50	0.50	15.00	10.00
Northern Virginia	75.00%	77.78%	0.00-12.00	6.00	20.00	12.50
Suburban Maryland	77.78%	75.00%	0.50-2.00	1.25	15.00	12.50
Simple Average	89.65%	81.04%	0.66-6.91	3.78	$16.69	$10.75
National Flex/R&D	75.00%	—	0.00-6.00	3.00	—	—
National Warehouse	71.43%	—	0.00-6.00	3.00	—	—
National Apartment	—	—	0.00-3.00	1.42	—	—

for all the office markets surveyed. By comparison, this inducement averaged $7.02 per square foot two years ago.

Since many landlords prefer to keep face rental rates high even though market conditions warrant lower ones, concessions will likely remain prevalent until market fundamentals show significant signs of consistent improvement.

In the national flex/R&D and warehouse markets, concessions have also increased in use due to soft market conditions. In both of these markets, free rent can be as high as six months. Free rent has also become commonplace in the national apartment market, where supply remains ahead of demand in many areas. For apartments, free rent for a one-year lease averages 1.42 months, according to our participants.

Market Rent Growth Rent Assumptions

With most office markets still struggling to lower vacancy rates and absorb excessive amounts of space, initial market rent growth rate assumptions remain quite timid. The chart below traces the first quarter market rent growth rate averages from 1997 to 2004 for the individual office markets surveyed during those times.

The good news, however, is that the overall average market rent growth rate for all the office markets surveyed turned upward this quarter. Even though it remains to be seen if this occurrence will evolve into a long-running trend, it reflects an increase in optimism on the part of investors that a recovery is indeed underway.

	Overall Average Market Rent Growth Rate	% Change
1Q97	3.73%	—
1Q98	4.10%	9.67%
1Q99	3.86%	-5.86%
1Q00	3.09%	-19.94%
1Q01	2.84%	-8.09%
1Q02	0.92%	-67.61%
1Q03	0.81%	-11.96%
1Q04	0.90%	+11.11%

The two individual office markets that posted the highest average market rent growth rates this quarter were the Washington, DC District office market, which recorded an average of 2.35%, and the Southeast Florida office market, which recorded an average of 2.00%. Both of these markets have been mentioned numerous times by our participants as two of the best-performing real estate markets in the country.

On the other hand, the two individual office markets that posted the lowest average market rent growth rates this quarter were the Chicago office market, which recorded an average of –0.10%, and the Houston office market, which recorded an average of 0.07%. Both of these markets continue to struggle with supply-demand imbalances brought about by excessive building and large-tenant vacancies, respectively.

Lodging Valuation Issues

Replacement Reserves

Replacement reserve assumptions for each hotel segment surveyed appear in Exhibit 4. As a percentage of total revenue, the average replacement reserve ranges from 4.29% to 4.54% and is used for the periodic replacement of building components and furniture, fixtures, and equipment (FF&E) during the life expectancy of the building. These rates have remained relatively unchanged over the past three years.

All hotel participants indicate that they deduct the replacement reserve from NOI before capitalization. For participants who use a separate, structural replacement reserve, 55.0% indicate that they deduct this reserve from NOI before capitalization. The remaining 45.0% do not deduct it.

Management Fees

Base management fee assumptions for each hotel segment surveyed also appear in Exhibit 4. As a percentage of total revenue, average base management fees for all segments surveyed range from 2.69% to 3.25%. These rates have remained relatively unchanged over the past three years. Incentive management fees are included in the Investor Response Tables located in the back of this issue. ✦

Exhibit 4

RESERVES FOR REPLACEMENT AND MANAGEMENT FEES

(% of Total Revenue)

First Quarter 2004

LODGING SEGMENT	RESERVES FOR REPLACEMENT	MANAGEMENT FEES
Full-Service		
RANGE	3.00%-8.00%	1.00%-3.50%
AVERAGE	4.54%	2.70%
Economy/Limited-Service		
RANGE	4.00%-5.00%	2.00%-5.00%
AVERAGE	4.29%	3.21%
Luxury		
RANGE	3.00%-7.00%	1.00%-3.00%
AVERAGE	4.29%	2.69%
Extended-Stay		
RANGE	3.00%-5.00%	2.00%-5.00%
AVERAGE	4.31%	3.25%

Technology News & Trends

Top 5 Technology Trends To Watch in 2004

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

From a technology standpoint, the commercial real estate sector was mostly "business as usual" in 2003. There were no major technological breakthroughs that significantly impacted the industry, especially along the lines of the dot.com explosion that rocked the financial services sectors in the late 1990s. While 2004 is also not expected to produce industry-changing technology, there are a few innovations that are likely to improve the way that information is accessed, produced, and used during the coming year.

Five key technologies that are likely to become more widespread in 2004 are discussed below.

Business Intelligence Applications

Business intelligence applications have been around for some time and allow users to look at financial and nonfinancial data in ways that greatly exceed the capabilities of both accounting and property management applications. While real estate companies have been dabbling in such technologies for years, new regulatory requirements for public companies should cause such tools to become more widespread in the coming year.

After the fallout from the Enron collapse, for example, management is required to maintain a formal approach to detecting fraud. With their ability to easily allow managers to look at trends in volumes of data and to perform such fraud detection techniques as disaggregated analytics, business intelligence applications will likely be the chosen remedy.

Document Management

Document management products should also benefit from newly passed financial regulations. These technology products refer not only to the practice of converting paper documents to digital form, but also to the automation of the workflow that typically accompanies most paper forms in real estate companies today. With its ability to automate manual internal accounting and operational controls, its inherent ability to provide an audit trail of all user actions with regard to documents, and its programmed document retention capabilities, technologies surrounding document management applications are likely to be a large part of public companies' Sarbanes Oxley compliance procedures.

Data Marts

Over the years, real estate companies have become notorious for creating "silos" of data, spread throughout the company in the form of electronic spreadsheets, databases, word processing documents, and even email programs. In the past few years, however, corporate IT departments have realized that such databases lack proper data integrity and other system controls. As a result, they have initiated efforts to migrate these applications into more appropriate platforms. In many cases, this has just resulted in the maintaining of the same silos on simply better platforms. The next step in this evolution, which has already started at many companies, is to combine these databases into a form that promotes sharing of real estate data across departments and business units, thus creating a "data mart."

Property Maintenance and Work Orders

Real estate work order and maintenance operations were great benefactors of the technologies created in the past several years. Maintenance personnel can now use handheld devices to inspect and to report on the conditions of properties, quickly relaying information back to headquarters for use in preparing capital budgets. They can even be automatically paged when either a chiller malfunctions or a tenant has a leaky faucet. The use of technology to expedite such processes is expected to grow in 2004 and beyond.

Centralized Computing

Years ago, client-server technology was all the rage. It enabled employees to connect to a server that housed their company's volumes of data simply by installing software on their personal computer (PC). Then web-based computing came along, and employees no longer needed software on their PCs to connect to corporate data. Now, a hybrid of these two technologies – centralized computing - is gaining in popularity.

Using applications such as Citrix and Microsoft Terminal Services, employees are accessing accounting, property management, and other applications on a server situated at the company's home office by launching a small terminal emulation application on their own PC. This approach allows companies to deploy all their applications – whether web-based or client-server – on a centralized server. ✦

Economic News

U.S. Employment Picture Brightens

WHILE MANY WEEKLY, MONTHLY, AND QUARTERLY REPORTS OF KEY ECONOMIC INDICATORS HAVE PROVIDED STEADY PROOF THAT THE U.S. ECONOMY CONTINUES TO GROW AND TO RECOVER FROM THE RECENT RECESSION, THE TURNAROUND IS OCCURRING AT A PACE THAT MANY THOUGHT WOULD HAVE GAINED MORE MOMENTUM BY NOW. "The economic picture is better, but it's still weak," bemoans a participant. "We are still waiting for the economy to pick up steam and create jobs that will generate demand for office space," adds another. Unfortunately, the wait may be a little longer. Although many economists are optimistic that economic growth in 2004 will occur at the fastest pace experienced in five years, many companies have learned to "produce more with less" and will likely hold off on hiring new employees until they are forced to do so.

There are, however, positive signs that the employment picture is improving throughout the country. Initial jobless claims are consistent with an improving economy, continuous jobless claims have trended downward, and so too has the national unemployment rate.

Initial Jobless Claims

For initial jobless claims, the four-week moving average, which smoothes out week-to-week fluctuations, rose to 354,700 toward the end of February 2004. This average has hovered around 350,000 for several weeks and is indicative of an improving labor market. According to Economy.com, initial claims of 350,000 or less are consistent with an expanding labor market. By contrast, a level above 400,000 initial claims is representative of a contracting labor market.

Trends relating to four-week average initial jobless claims since mid-June 2003 are outlined below. If history is any indication of what the U.S. labor market can anticipate in terms of near-term job growth, the future looks upbeat. During the early 1990s, net job creation exceeded 150,000 per month once initial jobless claims reached the levels that have been reported over the past several weeks.

Four-Week Average

Period Ending	Initial Jobless Claims	% Change
2-14-04	352,000	+2.02%
1-24-03	345,000	-3.09%
12-27-03	356,000	-1.93%
11-29-03	363,000	-4.72%
11-1-03	381,000	-3.54%
10-4-03	395,000	-3.42%
9-6-03	409,000	+3.28%
8-9-03	396,000	-6.82%
7-12-03	425,000	-2.07%
6-14-03	434,000	—

Source: U.S. Department of Labor, Employment Training Administration; Economy.com

While new jobless claims increased slightly during the week ending February 14, 2004, continuing claims fell by 62,000. And when combined with the consecutive declines in continuing claims reported over the past several weeks, the cumulative decline in continuing claims was close to 300,000.

The five states that reported the steepest declines in initial jobless claims for the week ending February 14, 2004 are listed below.

Initial Jobless Claims

	Week Ending 2-14-04
North Carolina	-16,139
California	-12,879
Pennsylvania	-6,931
Illinois	-5,586
Missouri	-5,139

Source: U.S. Department of Labor; Employment and Training Administration

By contrast, the five states that reported the largest gains in initial jobless claims for the week ending February 14, 2004 are listed below.

Initial Jobless Claims

	Week Ending 2-14-04
Michigan	+1,423
Alabama	+646
Mississippi	+241
Louisiana	+74
Vermont	+25

Source: U.S. Department of Labor; Employment and Training Administration

National Unemployment Rate

The U.S. unemployment rate has also shown signs of improvement over the past several months, declining steadily since June 2003. A brief history of this indicator is shown below.

	U.S. Employment Rate
2004	
January	5.6%
2003	
December	5.7%
November	5.9%
October	6.0%
September	6.1%
August	6.1%
July	6.2%
June	6.3%

Source: Bureau of Labor Statistics

Outlook

While the U.S. labor market continues to show signs of stability and improvement, job growth in white-collar service industries still needs to materialize with some vigor. Until such growth occurs, the office sector will be unable to absorb the large amount of available space that still exists throughout it. With many investors and economists expecting the U.S. economy to continue to gain strength in 2004, consistent demand for office space could emerge in early 2005. ✦

Real Estate Capital Markets

Capital Flows: Increasing Demand And A Stockpile of Capital

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

THE YEAR IS STARTING WITH INCREDIBLE FORWARD MOMENTUM. First, sales activity reached new heights in the fourth quarter of 2003 when transactions of core properties priced at $5.0 million and greater surged to almost $40.0 billion. And second, capital continues to flow into the real estate industry from a wide variety of sources. In fact, nearly every investment sector is armed with more capital in 2004 than in 2003. The mounting weight of this new capital on top of the existing pent-up demand threatens to sink overall cap rates to even lower levels in the coming months.

REITs

The equity continuing to flow into commercial real estate has not been distracted by either the steep rise in the stock market or the potential for higher interest rates that are expected to accompany an economic recovery. In fact, share prices for public REITs have been performing well relative to the market and inflows to real estate mutual funds remain steady. Still, growth of public REITs is being constrained by a lack of buying opportunities at acceptable yields.

Table 1

PUBLIC REIT ACQUISITIONS
(millions $)

	2001	2002	2003
Apartment	$2,476	$3,875	$3,388
Industrial	$1,496	$1,432	$2,464
Office	$3,112	$6,229	$5,117
Retail	$1,965	$14,061	$9,205
TOTAL	$9,049	$25,597	$20,175

Souce: Real Capital Analytics, Inc.

Even though public REITs could access much more capital in the current market, they generally have been hesitant to do so. In fact, public REITs acquired only slightly more properties than they sold in 2003. Specifically, they acquired approximately $20.0 billion in 2003 (see Table 1). Still, Public REITs, which are positioned to capture a greater share of 401K capital, where even a tiny portion equals a lot of cash, should continue to be strong buyers in 2004.

One reason is that recent regulatory changes should allow them to capture more foreign investments, particularly from Japan. Furthermore, they also have opportunities to form joint ventures with Australian firms and institutional investors.

Table 2

PRIVATE REIT ACQUISITIONS
(millions $)

	2001	2002	2003
Apartment	$0	$0	$25
Industrial	$270	$274	$363
Office	$293	$1,760	$3,252
Retail	$655	$904	$2,633
TOTAL	$1,218	$2,937	$6,272

Souce: Real Capital Analytics, Inc.

Meanwhile, the private REITs are wasting few opportunities and are raising cash in record amounts using a network of highly commissioned investment advisors. Last year, private REITs accounted for almost half of the fresh capital in the market and bought approximately $6.3 billion of properties (see Table 2). Private REITs have been exclusively targeting only office buildings, strip centers, and single-tenant industrial properties. Between existing firms, such as Inland, Wells, and WP Carey, and newly created private REITs, acquisitions from this sector could rise to $10.0 billion in 2004.

Institutional Investors

Pension funds and other institutional investors are currently the most frustrated potential buyers and likely represent the greatest pool of available capital for future acquisitions. With historically low interest rates, they have found it difficult to compete with leveraged buyers. In addition, most have very defined investment criteria and are targeting the same markets where competition among buyers is extremely intense. As a result, they accounted for only 14.0% of the total acquisitions in the industry last year, down from 26.0% in 2001 (see Table 3).

Even though many pension plans have significantly increased allocations to commercial real estate and have made their first foray into real estate in over a decade, many have become under allocated to real estate since the denominator effect is now working in reverse. Looking ahead to 2004, institutional players will need to be more competitive and acquisitive in 2004 in order to meet new allocations.

Table 3

INSTITUTIONAL ACQUISITIONS
(millions $)

	2001	2002	2003
Apartment	$3,242	$3,210	$3,273
Industrial	$5,201	$3,366	$2,340
Office	$5,172	$7,616	$7,105
Retail	$1,589	$1,855	$1,427
TOTAL	$15,204	$16,048	$14,145

Souce: Real Capital Analytics, Inc.

Foreign Investors

Foreign buyers are also flocking to U.S. commercial real estate and acquired $8.6 billion of assets in 2003 (see Table 4). In January 2004, German investors had already either bought or contracted to acquire over $2.3 billion of property, versus $3.6 billion bought in all of 2003. And Australians, who are new to the U.S. real estate market, invested almost $2.0 billion in just the past six months. Although foreign buyers have primarily targeted only office properties, they have recently been attracted to retail assets. In fact, most of the recent Australian deals involved retail assets and were in joint ventures with U.S. public REITs.

In 2004, the expectation is that capital will continue to flow into the industry from Australia, Germany, and the Middle East.

Private Buyers

Private investors still dominate the acquisition market and accounted for 52.07% of all acquisitions completed last year. Specifically, they acquired $52.6 billion of properties in 2003 (see Table 4). The main reason for such volume is that cheap debt and the ability to use high leverage continues to provide these buyers with the lowest cost of capital in the current market. Until interest rates rise, private buyers will maintain this advantage over both public REITs and institutions. Nevertheless, since so much pent-up demand exists from other capital sectors, the marketplace is likely to be just as competitive without leveraged private buyers when their ability to aggressively buy subsides.

Table 4

FOREIGN & PRIVATE SECTOR ACQUISITIONS
(millions $)

	2001	2002	2003
Foreign			
Apartment	$307	$611	$287
Industrial	$180	$357	$160
Office	$2,332	$6,826	$5,189
Retail	$248	$746	$2,922
TOTAL	$3,067	$8,540	$8,559
Private Sector			
Apartment	$10,582	$11,934	$17,015
Industrial	$3,847	$4,306	$5,660
Office	$14,406	$16,659	$19,683
Retail	$4,987	$7,933	$10,297
TOTAL	$33,822	$40,831	$52,655

Souce: Real Capital Analytics, Inc.

Real Capital Analytics, Inc. is a national research and consulting firm that focuses exclusively on the investment market for commercial real estate. It publishes monthly reports concerning capital flows, prices and yields, and the supply and demand of offerings. For information on these, as well as other services and publications, please visit their website at www.rcanalytics.com or contact them at 866-732-5328.

National Regional Mall Market

THE NATIONAL REGIONAL MALL MARKET REMAINS A PRIME TARGET OF INVESTMENT CAPITAL. One simple reason is that the retail industry has continued to perform exceptionally well over the past few years. In fact, unlike most other sectors in the real estate industry, asking rents for malls climbed 10.0% to $37.85 per square foot between the first quarter of 2000 and the third quarter of 2003, according to Reis, Inc. Furthermore, mall vacancy was just 5.7% in the third quarter of 2003, a decrease from 6.0% a year earlier. "Low interest rates during the recession and even now have kept consumers buying and in turn has kept demand for retail space strong," explains a participant.

Amid all these positive trends, however, the regional mall market continues to face problems. Key among them is the increasing popularity of big-box retailers and discount giants, such as Wal-Mart, Kohl's, and Target. In fact, the percentage of all retail sales attributed to department stores has declined from 6.0% to 3.5% over the past ten years, according to Customer Growth Partners. As a result, announcements of department store closings continue to occur. To combat this problem, some regional mall owners are retenanting and reinventing their assets with nontraditional anchor stores.

Despite these troubles, sales of regional malls totaled $8.5 billion in 2003, according to Real Capital Analytics, Inc. Although this figure is $3.1 billion below the total from 2002, several portfolio transactions occurred in that year. When excluding portfolio sales, the value of regional malls that traded on an individual basis rose by 70.0% between 2002 and 2003. One of the most active buyers last year was General Growth Properties, who reportedly acquired nearly $2.0 billion in mall assets. In one of its most recent transactions, the company purchased three B-quality regional malls – Maine Mall in South Portland Maine, Glenbrook Square in Fort Wayne, Indiana, and Sikes Center in Wichita Falls, Texas – for reportedly $550 million and a combined overall cap rate of 7.1%.

Even though such a cap rate is typically reserved for Class-A (and higher) assets, it reflects a strong sellers' market, strong investment demand, and a low-interest-rate environment. It also reminds investors that "buyers do not concentrate on just one rate-of-return calculation in order to decide whether to purchase an asset or not." According to our participants, overall capitalization rates for various regional mall classes this quarter are shown below.

OVERALL CAPITALIZATION RATES
FIRST QUARTER 2004

Class	Range	Average
A+	6.50% - 8.00%	7.10%
A	7.20% - 8.50%	7.68%
B+	7.50% - 9.50%	8.21%
B	8.00% - 9.75%	8.71%

With interest rates not expected to rise significantly over the near term, many investors speculate that overall cap rates should remain relatively low for regional mall assets over the next year. ◆

Table 1

NATIONAL REGIONAL MALL MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.50%–12.00%	8.50%–12.00%	10.00%–12.50%
Average	10.43%	10.46%	11.21%
Change (Basis Points)	—	–3	–78
OVERALL CAP RATE (OAR)[a]			
Range	6.50%–9.50%	6.50%–9.50%	7.25%–10.00%
Average	8.11%	8.11%	8.73%
Change (Basis Points)	—	0	–62
RESIDUAL CAP RATE			
Range	7.00%–10.00%	7.00%–10.00%	8.25%–10.50%
Average	8.61%	8.77%	9.42%
Change (Basis Points)	—	–16	–81
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–4.00%
Average	2.50%	2.50%	2.58%
Change (Basis Points)	—	0	–8
EXPENSE CHANGE RATE[b]			
Range	3.00%–3.00%	3.00%–3.00%	3.00%–3.00%
Average	3.00%	3.00%	3.00%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	5.00–18.00	5.00–18.00	3.00–18.00
Average	9.33	9.40	9.60
% Change	—	–0.74	–2.81

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

National Power Center Market

A POSITIVE OUTLOOK FOR THE RETAIL INDUSTRY SHOULD CONTINUE TO KEEP INVESTMENT ACTIVITY BRISK IN THE NATIONAL POWER CENTER MARKET IN THE COMING YEAR. "We are looking to increase our retail exposure this year," shares a participant. Within this market investors remain drawn to power centers that are located near fortress malls and/or leased long term to dominant big-box retailers that consistently outperform the industry as a whole. Unfortunately, competition for such assets remains extremely strong and prices can be quite high.

In one recent transaction, Inland Retail Real Estate Trust paid $123.5 million for the retail portion of The Waterfront located in Pittsburgh. Tenants at this 750,000-square-foot center include Barnes & Noble, Dick's Sporting Goods, Lowe's, and Target. The sale price equates to roughly $165.00 per square foot and an estimated overall capitalization rate of 8.5%. In another deal, Developers Diversified Realty Corp. acquired the 430,000-square-foot Flatiron Marketplace located in Broomfield, Colorado for about $128.00 per square foot. Tenants at this center, which sits just east of the 1.5-miilion-square-foot Flatiron Crossing regional mall, include Best Buy, Nordstrom Rack, and The Great Indoors.

Instead of buying existing power centers, some investors are opting to purchase "dark" retail assets in order to redevelop them into new big-box centers. Development company Levcor Inc., for example, recently acquired the vacant Kmart store inside the 610 Loop at the corner of 18th Street and TC Jester in Houston and plans to redevelop it into a 109,000-square-foot, multitenant, big-box project. The buyers are hopeful that the property, which had been vacant for seven years, will benefit from little existing competition and a recent residential building boom in the area.

While the soaring popularity of big-box and discount stores among consumers is a main reason that an increasing number of investors have been drawn to this property type, some investors warn that the national power center market could soon find itself oversupplied. "Everywhere you look there is another Wal-Mart or Target opening up," comments a participant.

In fact, according to the U.S. Commerce Department, construction of big-box and discount stores spiked in 2003. Wal-Mart, the nation's largest retailer, plans to add 306 stores nationwide in fiscal year 2004 and recently opened its 3,000th store in the United States. Other big-box chains plan to expand this year, too. Lowe's is looking to add 140 stores, while Target expects to build 100 stores. And Cosco plans to construct 30 new stores.

For investors looking to acquire power center assets, one participant believes that "retail performances have historically been the best in growth markets such as Atlanta, Dallas, and Los Angeles." According to the U.S. Census Bureau, those cities grew between 5.7% and 18.0% from 1990 and 2000. Another desirable area for retail investments is Florida, one of the fastest growing states in the country. ⌖

Table 2

NATIONAL POWER CENTER MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00%–12.00%	9.00%–12.00%	9.50%–12.50%
Average	10.33%	10.71%	11.21%
Change (Basis Points)	—	–38	–88
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–10.00%	8.00%–10.00%	8.50%–10.00%
Average	9.02%	9.15%	9.35%
Change (Basis Points)	—	–13	–33
RESIDUAL CAP RATE			
Range	9.00%–10.00%	9.00%–10.50%	9.00%–10.50%
Average	9.50%	9.67%	9.77%
Change (Basis Points)	—	–17	–27
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	2.38%	2.42%	2.50%
Change (Basis Points)	—	–4	–12
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.50%	2.00%–3.50%
Average	2.92%	2.96%	2.96%
Change (Basis Points)	—	–4	–4
AVERAGE MARKETING TIME (in months)			
Range	4.00–10.00	4.00–9.00	4.00–9.00
Average	6.92	6.92	6.79
% Change	—	0	+1.91

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

National Strip Shopping Center Market

THE FRENZY TO ACQUIRE STRIP SHOPPING CENTERS, PARTICULARLY THOSE ANCHORED BY LEADING GROCERY STORES, HASN'T SHOWN ANY SIGNS OF SLOWING DOWN. "Grocery-anchored centers remain the little darlings of the industry," exclaims a participant. Even though such strong investment demand continues to push up sale prices for the best assets, the number of properties sold in 2003 is nearly twice that of those sold just two years earlier. According to Real Capital Analytics, Inc. (RCA), a total of 970 significant strip shopping center sales occurred in 2003, well above the 596 properties that sold in 2001.

Sale prices have also continued to increase for strip shopping centers over the past three years. According to RCA, the average sale price for strip centers was $98.00 per square foot in 2001, $120.00 per square foot in 2002, and $116.00 per square foot in 2003. As prices have risen, overall capitalization rates (OARs) have declined. It appears, however, that the rate of decline has slowed down. This quarter, the average OAR for this market slipped only 8 basis points to reach 8.76%, the lowest average ever reported for this market since it debuted over 13 years ago. By comparison, the average fell 31 basis points in the first quarter of 2003.

AVERAGE OVERALL CAPITALIZATION RATES
1Q03-1Q04

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

While aggressive cap rates and lofty prices may dissuade some investors from currently acquiring strip shopping center assets, others seem undeterred by them. In one recent portfolio deal, for example, four suburban centers located in the Atlanta metropolitan area sold for a combined price of $39 million or roughly $195.00 per square foot. The properties in this transaction were anchored by Publix supermarkets and included the Shops at Laurel Springs located in Suwanee, which sold for $214.00 per square foot, Publix at Centerville located in Lithonia, which sold for $203.00 per square foot, Publix at Mt. Zion located in Morrow, which sold for $196.00 per square foot, and Publix at Old Peachtree located in Lawrenceville, which sold for $168.00 per square foot. Reportedly, the overall cap rate for the entire acquisition was in the low 7.0% range.

While this overall cap rate is at the low end of our range for this property sector, it reflects the superior location of the properties in what many consider a top retail market, as well as the intense investment demand for such assets. Although the buyer of these four centers is a private investment company, a variety of investors including 1031-exchange buyers, REITs, and pension funds have also been acquiring strip shopping centers. In fact, New Plan Excel Realty Trust recently formed a $150-million joint venture with JPMorgan Fleming Asset Management to acquire neighborhood and community centers. ◆

Table 3

NATIONAL STRIP SHOPPING CENTER MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.50%–12.00%	8.50%–12.00%	8.50%–13.00%
Average	10.10%	10.19%	10.84%
Change (Basis Points)	—	–9	–74
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–11.00%	7.00%–11.00%	8.00%–12.00%
Average	8.76%	8.84%	9.58%
Change (Basis Points)	—	–8	–82
RESIDUAL CAP RATE			
Range	8.00%–11.50%	8.00%–11.50%	8.75%–12.00%
Average	9.20%	9.33%	9.73%
Change (Basis Points)	—	–13	–53
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	2.23%	2.15%	2.00%
Change (Basis Points)	—	+8	+23
EXPENSE CHANGE RATE[b]			
Range	2.00%–4.00%	2.00%–4.00%	2.00%–4.00%
Average	3.08%	3.08%	3.09%
Change (Basis Points)	—	0	–1
AVERAGE MARKETING TIME (in months)			
Range	4.00–12.00	4.00–12.00	4.00–12.00
Average	6.85	6.85	7.06
% Change	—	0	–2.97

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

National CBD Office Market

THROUGHOUT THE NATIONAL CBD OFFICE MARKET, AN INCREASING NUMBER OF LANDLORDS ARE SENSING THAT THE WORST IS OVER. "Fundamentally, I think that many downtown markets are starting to firm up," shares a participant, who notes that leasing velocity has picked up in various markets, while rental rates have stabilized and concessions have started to abate in others. Even though most of these recent improvements have occurred in longstanding, sound CBD markets such as Boston and Washington, DC, fundamentals in many other CBD markets are expected to show marked improvement by the end of the year. "2004 should be the bottom of the cycle for a lot of downtown markets," predicts another participant.

Behind all this optimism, however, is the belief that the recovery for most downtown markets will occur slowly. "We don't expect to see the same rate of absorption and rent appreciation as we experienced coming out of the prior recession," comments a participant. In fact, many investors predict that the office sector will be the last property segment to fully rebound. "Somewhere out in late 2005 is when we expect downtown overall vacancy rates to fall back to normal levels," foretells another. Of course, this prediction could be pushed even farther into the future if insufficient job growth, caused by a lack of spending by corporate America and the outsourcing of jobs to foreign countries, impedes absorption levels.

Even though the recent dip in the national CBD office market's overall vacancy rate suggests that it has started to stabilize, it remains to be seen whether this shift materializes into a long-term trend. Specifically, this market's overall vacancy rate stood at 15.2% at year-end 2003, a 30-basis-point decline from the prior quarter's figure of 15.5%, according to Cushman & Wakefield. Despite the decline in back-to-back quarters, the year-end 2003 percentage represents a 40-basis-point increase from the year-end 2002 overall vacancy rate of 14.8%.

Individual downtown markets that reported the greatest declines in overall vacancy between year-end 2002 and year-end 2003 were New Haven, Connecticut, where the overall vacancy rate fell from 26.6% to 21.7%; Bellevue, Washington, where it dipped from 25.3% to 22.5%; and Orange County, California, where it declined from 19.2% to 16.4%. By contrast, CBDs that posted the highest increases in overall vacancy during that time period were Houston, Texas, where the CBD overall vacancy rate jumped from 16.4% to 20.9%; Silicon Valley, California, where it rose from 19.1% to 22.9%; and Miami, Florida, where it moved from 16.4% to 20.9%.

Fortunately for sellers, lofty vacancy rates are deterring few eager buyers who continue to have access to "cheap and plentiful capital." In Silicon Valley, for example, the Opus Center San Jose located in San Jose's CBD recently sold for about $300.00 per square foot. Although the 15-story, 343,361-square-foot property reportedly provides stable cash flows through 2011, approximately 20.0% of its net rentable area was vacant at the time of sale. ◆

Table 4

NATIONAL CBD OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.50%–12.25%	9.00%–12.25%	9.00%–12.50%
Average	10.51%	10.60%	10.92%
Change (Basis Points)	—	–9	–41
OVERALL CAP RATE (OAR)[a]			
Range	6.00%–10.50%	6.00%–10.75%	7.25%–12.00%
Average	8.77%	9.02%	9.40%
Change (Basis Points)	—	–25	–63
RESIDUAL CAP RATE			
Range	7.50%–11.00%	7.75%–11.00%	8.50%–12.00%
Average	9.27%	9.33%	9.70%
Change (Basis Points)	—	–6	–43
MARKET RENT CHANGE RATE[b]			
Range	-8.00%–5.60%	-8.00%–3.00%	-10.00%–3.00%
Average	0.78%	0.67%	0.71%
Change (Basis Points)	—	+11	+7
EXPENSE CHANGE RATE[b]			
Range	1.50%–3.00%	1.50%–3.00%	1.50%–3.00%
Average	2.79%	2.79%	2.86%
Change (Basis Points)	—	0	–7
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	3.00–12.00
Average	7.05	7.18	7.50
% Change	—	–1.81	–6.00

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

National Suburban Office Market

DESPITE WEAK UNDERLYING FUNDAMENTALS, SALE TRANSACTIONS REMAINED STRONG IN THE NATIONAL SUBURBAN OFFICE MARKET IN 2003. Specifically, a total of 1,261 significant suburban assets traded in 2003 at an average price of $134.00 per square foot, according to Real Capital Analytics, Inc. By comparison, a total of 925 properties were sold in 2001 at an average price of $133.00 per square foot, while 1,092 assets were transferred in 2002 at an average sale price of $137.00 per square foot. "Market conditions are still very soft, but an abundance of capital is still chasing the best deals," confirms a participant.

Some of the most expensive suburban office assets to trade over the past year have been located in various Los Angeles submarkets, such as Beverly Hills, Santa Clara, Santa Monica, and Burbank. In one sale, for example, Pinnacle at Burbank sold for approximately $365.00 per square foot. In another, Mission Towers II located in Santa Clara sold for about $362.00 per square foot. On the East Coast, sale prices of this magnitude have occurred in several suburban areas surrounding Washington, DC. "We've been selling assets in Northern Virginia recently and are happy with the investor interest and pricing," shares a participant. Virginia Square Plaza located in Arlington, for example, sold for $324.00 per square foot last year.

Unfortunately for buyers, the number of quality assets available for sale in these top-performing markets has reportedly declined creating a highly competitive environment among bidders. "Several offers get submitted on quality deals," comments a participant. The end result has been a rise in sale prices and a decline in overall capitalization rates. In fact, this quarter, our average OAR declined 16 basis points to reach 9.34%, a 62-basis-point decline from one year ago. In addition, the low end of the range for this key assumption declined 25 basis points to reach 7.00%, the lowest low-end point ever recorded for this property sector.

Despite aggressive sale prices and cap rates, some participants do not expect this market to return to a structural vacancy level for another five years. The average length of time is slightly over two years. Like its CBD counterpart, the main problem impeding this market's recovery is a lack of job growth. "Until companies start spending money and hiring people, absorption will remain very slow," states a participant, who wonders if occupancy levels will ever return to prerecession levels. "We may see some permanent shifts in what the industry considers stabilized occupancy," adds the participant.

One reason for the change is that technological advancements have enabled many employers to be more productive, thereby reducing space needs. Another reason is that more individuals work from home now either part time or full time than they did ten years ago. "We are a much more mobile society," continues the participant. And on top of this, the outsourcing of jobs to foreign countries will reduce office space requirements in the United States. ✦

Table 5

NATIONAL SUBURBAN OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–12.50%	9.00%–12.50%	9.50%–13.00%
Average	10.82%	10.82%	11.27%
Change (Basis Points)	—	0	–45
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–12.00%	7.25%–12.00%	8.00%–13.00%
Average	9.34%	9.50%	9.96%
Change (Basis Points)	—	–16	–62
RESIDUAL CAP RATE			
Range	8.25%–11.50%	8.25%–11.50%	8.75%–12.00%
Average	9.71%	9.76%	10.01%
Change (Basis Points)	—	–5	–30
MARKET RENT CHANGE RATE[b]			
Range	-10.00%–3.00%	-10.00%–3.00%	-10.00%–3.00%
Average	0.15%	0.15%	0.14%
Change (Basis Points)	—	0	+1
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.84%	2.84%	2.89%
Change (Basis Points)	—	0	–5
AVERAGE MARKETING TIME (in months)			
Range	5.00–12.00	6.00–12.00	3.00–12.00
Average	7.09	7.16	7.04
% Change	—	–0.98	+0.71

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

Atlanta Office Market

EVEN THOUGH THE ATLANTA OFFICE MARKET HAS SHOWN SIGNS OF STABILIZING, SOME INVESTORS ARE CONCERNED THAT INSUFFICIENT JOB GROWTH WILL PROLONG THIS MARKET'S RECOVERY. "Daily newspaper headlines still fail to highlight adequate job creation that is needed to sustain a recovery," remarks a participant. The reason for their unease is that even though Georgia recorded a net gain of 64,000 jobs in 2003, it also had the second highest amount of mass layoffs in that year, according to the Bureau of Labor Statistics.

Although most of the job gains in the state were located in metro Atlanta, many of them were outside of the white-collar service sectors that create office demand. As a result, the overall vacancy rates for both the CBD and nonCBD office submarkets have not significantly changed for the better over the past year. "Atlanta's fundamentals are basically flat," quips a participant. A quarterly history of this market's overall vacancy rates is shown below.

OVERALL VACANCY RATES

Quarter	CBD	NonCBD
4Q03	20.5%	25.4%
3Q03	18.8%	25.7%
2Q03	18.4%	25.4%
1Q03	17.3%	25.7%
4Q02	19.3%	23.5%

Source: Cushman & Wakefield

Despite the fact that vacancy rates remain high and job cuts are still occurring, there is still a sense that this market has reached "bottom" and that growth in office-using employment will occur in the latter part of 2004 and into 2005. As a result, some investors believe that now is the time to acquire office properties in metro Atlanta. "Coming out of a recession, we tend to focus on those markets, such as Atlanta, that experience job growth acceleration early in the recovery," shares a participant. After capitalizing on the upswing of the recovery, some buyers will then exit the market before the next round of construction starts.

One submarket that has attracted investor interest is Midtown. "We love Midtown," exclaims a participant. In fact, two of the highest priced assets to trade recently in this market were both located in Midtown. In the first transaction, The Proscenium located at 1170 Peachtree Street sold for $224.00 per square foot. This 527,500-square-foot asset was built in 2001 and was reportedly 88.0% occupied at the time of sale. In the second one, Atlantic Center Plaza traded for $232.00 per square foot. This 502,000-square-foot property was built in 2001 and was reportedly 86.0% occupied at the time of sale.

While these sale prices are not indicative of the entire market, they do suggest that buyers are more confident now that a recovery is near, especially for those submarkets located inside Interstate 285. And with a recovery close at hand for this market, some investors are confident that recoveries for other cities cannot be too far behind. As one participant points out, "Atlanta's a big market that typically foreshadows the recovery timing of other cities." ⯁

Table 6

ATLANTA OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–12.00%	9.00%–13.00%	10.00%–13.00%
Average	10.66%	11.02%	11.64%
Change (Basis Points)	—	–36	–98
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–11.00%	8.50%–11.00%	9.00%–12.00%
Average	9.20%	9.48%	10.02%
Change (Basis Points)	—	–28	–82
RESIDUAL CAP RATE			
Range	8.50%–10.25%	9.00%–12.50%	9.50%–12.50%
Average	9.39%	9.81%	10.39%
Change (Basis Points)	—	–42	–100
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	0.50%	0.33%	0.33%
Change (Basis Points)	—	+17	+17
EXPENSE CHANGE RATE[b]			
Range	1.50%–3.50%	1.50%–3.50%	1.50%–5.00%
Average	2.83%	2.93%	3.21%
Change (Basis Points)	—	–10	–38
AVERAGE MARKETING TIME (in months)			
Range	1.00–9.00	1.00–9.00	6.00–9.00
Average	6.75	7.07	8.25
% Change	—	–4.53	–18.18

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

Boston Office Market

EVEN THOUGH LEASING ACTIVITY PICKED UP STEAM IN THE BOSTON OFFICE MARKET AT THE END OF 2003, IT REMAINS TO BE SEEN IF SUCH ACTIVITY WILL DEVELOP INTO A MUCH-NEEDED, LONG-TERM TREND. "It's exciting to hear that net absorption was positive in the fourth quarter of 2003, but it won't mean too much if it doesn't carry over into 2004," comments a participant. Nevertheless, the fact that more space was recently leased than was vacated is a giant step in the right direction for this market.

Like many other markets, this one's fundamentals have been slow to recover from the eager dot.com expansions of the last economic upswing and the dramatic drop off in demand that occurred at the start of the recent recession. As a result, a tremendous amount of vacant space still exists, especially in the suburbs. According to Cushman & Wakefield (C&W), the overall vacancy rate stood at 26.0% in the suburbs as of the fourth quarter of 2004.

As shown in the table below, this rate is down from the start of 2003, but above where it was a year earlier. By comparison, this figure was a mere 9.2% at the height of the expansion in the fourth quarter of 1999, just five years ago.

Although the overall vacancy rate in the CBD has remained relatively unchanged over the past five quarters, it remains a far cry from the 2.3% posted five years ago. A large part of the problem is that a vast amount of sublease space still exists in the CBD, as well as in the suburbs. "Sublease space is still a healthy number throughout Boston," attests a participant. Specifically, close to 1.2 million square feet of sublease space remained in the CBD in the fourth quarter of 2003, according to C&W. For the suburbs, the amount was close to 4.6 million square feet. Unfortunately, some of the sublease space will likely revert to direct vacant space over the near term.

Despite high vacancy rates and superfluous amounts of sublease space, investment demand for stable office buildings with minimal leasing risk remains very strong. "There is a lot of competition for core-plus, well-leased assets," affirms a participant, who notes that several offers get submitted for such deals. And investors are paying dearly for them, too. 1414 Massachusetts Avenue in the CBD, for example, recently sold for $538.00 per square foot, while 225 Franklin Street in the CBD is under contract for $349.00 per square foot. But the most expensive property to trade recently is the CBD's State Street Financial Center, a 1.1-million-square-foot, single-tenant office building encumbered with a 20-year lease, which is set to sell for $640.00 per square foot. ⌖

OVERALL VACANCY RATES

Quarter	CBD	NonCBD
4Q03	20.5%	26.0%
3Q03	18.8%	27.6%
2Q03	18.4%	27.5%
1Q03	17.3%	26.5%
4Q02	19.3%	25.1%

Source: Cushman & Wakefield

Table 7

BOSTON OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–13.00%	9.00%–14.00%	10.00%–13.00%
Average	10.85%	10.90%	11.42%
Change (Basis Points)	—	–5	–57
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–12.00%	7.50%–11.25%	7.50%–11.25%
Average	9.18%	9.26%	9.75%
Change (Basis Points)	—	–8	–57
RESIDUAL CAP RATE			
Range	8.00%–11.00%	8.00%–11.00%	8.75%–11.50%
Average	9.38%	9.53%	9.86%
Change (Basis Points)	—	–15	–48
MARKET RENT CHANGE RATE[b]			
Range	-3.00%–3.00%	-10.00%–3.00%	-5.00%–3.00%
Average	0.11%	-0.82%	0.06%
Change (Basis Points)	—	+93	+5
EXPENSE CHANGE RATE[b]			
Range	2.50%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.94%	2.90%	2.88%
Change (Basis Points)	—	+4	+6
AVERAGE MARKETING TIME (in months)			
Range	3.00–24.00	6.00–24.00	6.00–24.00
Average	8.00	8.06	8.50
% Change	—	–0.74	–5.88

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

Chicago Office Market

DESPITE A CONTINUED IMBALANCE BETWEEN SUPPLY AND DEMAND, THE CHICAGO OFFICE MARKET REMAINS A TARGET OF INVESTMENT CAPITAL. While some of the recent sales activity has occurred in the central business district (CBD), the bulk of it has occurred in the suburbs, where both direct and overall vacancy rates hover around 20.0%. Specifically, 45 suburban assets totaling close to 6.1 million square feet were either traded or contracted at an average sale price of $115.00 per square foot during the six months preceding March 2004, according to Real Capital Analytics, Inc.

Due to lofty vacancy rates, most of the recent sales in the suburbs have involved well-leased assets that are occupied by creditworthy individuals with long-term leases. The FedEx at Buffalo Grove, for example, which was 100.0% leased to FedEx, recently sold for $189.00 per square foot. In another recent deal, 9022 Heritage Parkway located in Woodridge sold for $176.00 per square foot. This 97,000-square-foot, 2-story property was 100.0% leased to Allstate Insurance. And 1101-1171 Tower Lane located in Bensenville traded for $163.00 per square foot. This 86,087-square-foot, 2-building property was 100.0% leased to U.S. Cellular.

Although various multitenant office buildings have also been sold recently in the suburbs, they have been kept to a minimum due to lackluster job growth, excessive amounts of vacant space, and the expectation that a substantial turnaround is not imminent. In fact, our participants expect that it could take up to six years for this entire market to reach an average structural vacancy rate of 9.5%. Their average time frame for this market to reach structural vacancy, which is the normal vacancy rate in a balanced market, is three years. Unfortunately, certain suburban submarkets that are burdened by excessive amounts of supply could take much longer to stabilize.

Like the suburbs, underlying fundamentals in the CBD have been negatively impacted by a lack of demand. "The downtown market is just stuck in a rut," quips a participant. Nevertheless, it remains one of the better downtown markets in the country. At the end of 2003, the overall vacancy rate for downtown Chicago stood at 15.8%, the eleventh lowest percentage of the 31 downtown markets analyzed by Cushman & Wakefield (C&W). By comparison, this figure was 15.4% at the end of 2002, the tenth lowest of the 32 CBD markets analyzed during that time by C&W.

Although the increase in the CBD's vacancy rate was relatively small over the past year, it indicates that more space became available than was leased during that time period. Unfortunately, with three new office towers under construction in the CBD, this trend could continue over the near term. When completed in 2005, the three new projects – 71 South Wacker Drive (a.k.a Hyatt Center), 111 South Wacker Drive, and One South Dearborn Street – will add another 3.27 million square feet to the CBD. Hopefully by then, steady office-space demand will return and allow the three towers to be delivered well leased without adversely impacting the rest of this market. ✦

Table 8

CHICAGO OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00%–13.00%	8.00%–13.00%	10.00%–13.00%
Average	10.39%	10.38%	11.20%
Change (Basis Points)	—	+1	–81
OVERALL CAP RATE (OAR)[a]			
Range	6.70%–11.00%	6.70%–11.00%	8.00%–10.50%
Average	8.85%	8.87%	9.33%
Change (Basis Points)	—	–2	–48
RESIDUAL CAP RATE			
Range	8.00%–11.00%	8.00%–11.00%	8.50%–11.00%
Average	9.04%	9.19%	9.56%
Change (Basis Points)	—	–15	–52
MARKET RENT CHANGE RATE[b]			
Range	-5.00%–3.00%	-2.00%–3.00%	-5.00%–3.00%
Average	-0.10%	0.04%	-0.32%
Change (Basis Points)	—	–14	+22
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.85%	2.88%	2.86%
Change (Basis Points)	—	–3	–1
AVERAGE MARKETING TIME (in months)			
Range	3.00–24.00	3.00–24.00	3.00–15.00
Average	9.40	9.50	8.33
% Change	—	–1.05	+12.85

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

Dallas Office Market

EVEN THOUGH THE DALLAS OFFICE MARKET CONTINUES TO RANK AS ONE OF THE MOST OVERSUPPLIED MARKETS IN THE COUNTRY, INVESTMENT ACTIVITY REMAINS STRONG. "It's one of the worst markets but it remains overrun with eager buyers," confirms a participant. Most of the recent sales activity has occurred in the suburban areas, such as Carrolton, Plano, and Irving. In fact, in the six months preceding February 2004, a total of 31 suburban assets totaling close to 6.7 million square feet traded at an average sale price of $89.00 per square foot, according to Real Capital Analytics, Inc.

By comparison, sale transactions for many of the top-performing suburban office markets were considerably less. Long Island, for example, which posted the third lowest overall vacancy rate in the country at 14.3% at the end of last year, according to Cushman & Wakefield, recorded only eight sales during that time period. And Suburban Maryland, which posted the fourth lowest overall vacancy rate in the county at 14.4% at the end of last year, according to Cushman & Wakefield, recorded eleven sales during that time period. By comparison, the overall vacancy rate for suburban Dallas stood at 25.8% at the end of 2003.

Although many of the suburban properties that have sold recently are well leased with limited near-term leasing exposure, others have had either large amounts of vacant space or imminent rollover risk. The allure, however, is that such properties are available at a lower percentage of replacement value than "stable" ones. "We just bought a Class-A property in Dallas that had 30.0% of the space rolling due immediately at a very attractive price," shares a participant, who notes that such buildings can trade for 30.0% to 40.0% of their replacement value and provide great upside potential.

Two nearly empty buildings that sold recently were the 235,000-square-foot Canal Plaza and the 220,000-square-foot Waterway Tower both located in Las Colinas, a submarket that historically has performed very well. The combined sale price for the two assets, which were both owned and occupied by Fidelity Investments, which relocated to nearby Westlake, was $42.00 per square foot. The buyer was Bandera Ventures who "feels bullish about the Las Colinas submarket and believes that Dallas is set to see a significant recovery in the next 12 to 24 months as more jobs are added."

Although other investors feel optimistic about this market's future, too, few expect its recovery to occur rapidly. "Market rents have hit bottom, but they won't be rising anytime soon," attests a participant, who adds that concessions are still rampant. Specifically, free rent can be as much as six months on a five-year deal. The average free rent amount is 3.25 months on a five-year lese. In terms of an excessive tenant improvement allowance (TI), which is an amount above the typical TI in the market, the average amount is $7.50 per square foot. Until the Dallas office market shows consistent signs of a recovery, concessions will continue to be commonplace in lease negotiations. ◆

Table 9

DALLAS OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.00%–12.25%	10.00%–12.25%	10.00%–13.00%
Average	11.15%	11.15%	11.63%
Change (Basis Points)	—	0	–48
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–12.00%	7.50%–12.00%	8.00%–12.00%
Average	9.77%	9.94%	10.31%
Change (Basis Points)	—	–17	–54
RESIDUAL CAP RATE			
Range	9.00%–11.00%	9.00%–12.00%	9.00%–12.00%
Average	9.75%	9.96%	10.08%
Change (Basis Points)	—	–21	–33
MARKET RENT CHANGE RATE[b]			
Range	-5.00%–3.00%	-10.00%–3.00%	-10.00%–3.00%
Average	0.50%	0.00%	0.20%
Change (Basis Points)	—	+50	+30
EXPENSE CHANGE RATE[b]			
Range	3.00%–3.00%	3.00%–3.00%	3.00%–3.00%
Average	3.00%	3.00%	3.00%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	6.00–12.00	6.00–12.00
Average	6.90	8.70	8.70
% Change	—	–20.69	–20.69

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

Houston Office Market

UNDERLYING FUNDAMENTALS IN THE HOUSTON OFFICE MARKET CONTINUED TO DETERIORATE THROUGHOUT 2003 CAUSING MANY INVESTORS IN THIS MARKET TO SPECULATE THAT A RECOVERY IS NOT IN THE IMMEDIATE FUTURE. "Rents are sliding and vacancies are increasing," confirms a participant. In fact, the overall vacancy rate in the CBD has more than doubled during the last 24 months. Specifically, it climbed to 20.9% in the fourth quarter of 2003, according to Cushman & Wakefield. By comparison, this figure was 9.0% just two years earlier. For the most part, the glut of vacant space is a result of the Enron collapse, which dumped a tremendous amount of space back into the market.

Although there is talk that ChevronTexaco may be relocating and expanding from their 550,000-square-foot office space located at downtown's Texaco Heritage Plaza to another CBD property that can provide them with one million square feet of space, no final announcements have been made. Some local analysts, however, speculate that the new proposed space is located in 1500 Louisiana, the 40-story, 1.2-million-square-foot tower built as Enron's headquarters. If the leasing and expansion do indeed occur, it will be quite beneficial to the CBD's currently unbalanced fundamentals.

In addition to ChevronTexaco's pending move, two other recent announcements bode well for Houston's current oversupply problems, too. First, energy company Citgo is thinking of relocating from Tulsa, Oklahoma to Houston, where it would need between 250,000 and 300,000 square feet of space. Citgo is reportedly considering four local buildings – Williams Tower in the Galleria area, the Aspen Technology building in west Houston, the BMC Software building on the West Belt, and Enron Center South downtown. And second, Houston is one of 12 cities vying to be the headquarters location for the Free Trade of the Americas (FTAA), a global endeavor that would create the world's largest free market.

On top of creating numerous jobs, the FTAA would also create demand for office space from supporting businesses and services. "It would bring a lot of jobs and be a huge boon to Houston's economy," comments a participant. Some analysts predict that it would generate $3.2 billion in related economic impact per year. Unfortunately, a decision to select the headquarters city is still several months away.

Until a final decision is rendered by the FTAA and both Citgo and ChevronTexaco affirm their plans, this market's direction in 2004 and 2005 is filled with much uncertainty. As a result, sale transactions will likely continue to be limited to well-leased, stable assets. Two such properties that recently sold were Clear Lake I and II located in Clear Lake, a southeast suburb of Houston. These two Class-A fully leased assets were built in 1984, were occupied mainly by Lockheed Martin and Wyle Labs, and sold for close to $80.00 per square foot. Reportedly, it took six months to secure a buyer since some investors were fazed by submarket's fundamentals and the properties' dependence on NASA contracts. ✦

Table 10

HOUSTON OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.50%–14.00%	9.50%–14.00%	10.00%–13.50%
Average	11.45%	11.48%	11.81%
Change (Basis Points)	—	–3	–36
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–12.00%	8.00%–12.00%	8.00%–12.00%
Average	9.73%	9.98%	10.11%
Change (Basis Points)	—	–25	–38
RESIDUAL CAP RATE			
Range	9.00%–12.00%	9.00%–12.00%	9.00%–12.00%
Average	10.09%	10.27%	10.31%
Change (Basis Points)	—	–18	–22
MARKET RENT CHANGE RATE[b]			
Range	-5.00%–5.00%	-5.00%–5.00%	-5.00%–3.50%
Average	0.07%	0.07%	1.39%
Change (Basis Points)	—	0	–132
EXPENSE CHANGE RATE[b]			
Range	1.00%–4.00%	1.00%–4.00%	1.00%–4.00%
Average	2.57%	2.75%	2.78%
Change (Basis Points)	—	–18	–21
AVERAGE MARKETING TIME (in months)			
Range	3.00–9.00	4.00–12.00	4.00–12.00
Average	7.00	8.50	8.36
% Change	—	–17.65	–16.27

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

Los Angeles Office Market

DESPITE GENERALLY WEAK UNDERLYING FUNDAMENTALS, INVESTOR INTEREST IN THE LOS ANGELES OFFICE MARKET REMAINS EXTREMELY STRONG, PARTICULARLY IN THE CENTRAL BUSINESS DISTRICT (CBD). "There is an outrageous amount of interest for downtown properties now," confirms a participant. Like many other downtown markets, most of the attention in this one focuses on well-leased, stable assets that provide little near-term leasing risk. One such sale was Supreme Real Estate's purchase of 660 Figuero Tower, which was 92.0% leased to tenants including Chevron and Bank of Scotland, for $224.00 per square foot.

In total, 15 CBD properties totaling about 7.5 million square feet either traded or were contracted at an average price of $174.00 per square foot in the six months preceding March 2004, according to Real Capital Analytics, Inc. While such a feverish pace of activity seems unusual for a downtown area that posted an 18.9% overall vacancy rate at the end of 2003, it suggests that investors are optimistic about this CBD's future performance. After all, its overall vacancy rate was a much higher 19.6% a year earlier, according to Cushman & Wakefield (C&W).

One reason for the CBD's decline in vacancy during 2003 was City National Bank's relocation from 606 S. Olive Street to Arco Plaza, where it leased 310,000 square feet for 15 years. Other large leases in the CBD last year included U.S. Bank's 154,000-square-foot, 12-year deal at 633 W. Fifth Street and Total Call International's agreement for 19,200 square feet at 707 Wilshire Boulevard. When combined with other new deals and numerous renewals, these leases helped the CBD to post positive net absorption for the year.

Due to the recent upswing in tenant demand, the average rental rate for direct available Class-A space in the CBD improved slightly from 2002 to 2003. Specifically, it rose from $25.56 per square foot at year-end 2002 to $26.88 per square foot at the end of 2003, according to C&W. Although some investors believe that this market is getting stronger and that rents for certain spaces will continue to rise, others believe that rental rates for the most part will hold steady until sublease vacancy subsides. "Rents in the best buildings may go up some more, but across the board they should remain quite flat," shares a participant.

The expectation that rental rates will either improve or hold steady over the near term is apparent in this quarter's average market rent change rate assumption, which gained 89 basis points and reached 1.75%. This quarter's increase was the highest amount posted of all the individual office markets we survey. The Dallas and Southeast Florida office markets both incurred the next highest increase at 50 basis points. Even though growth rate assumptions in this market are turning in favor of landlords, tenants still maintain the upper hand when negotiating leases in most office buildings throughout Los Angeles and will likely keep leasing activity brisk through both new deals and renewals. ⌖

Table 11

LOS ANGELES OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–15.00%	9.50%–15.00%	10.00%–15.00%
Average	11.10%	11.24%	11.76%
Change (Basis Points)	—	–14	–66
OVERALL CAP RATE (OAR)[a]			
Range	6.00%–11.00%	6.00%–11.00%	7.00%–11.00%
Average	8.67%	8.86%	9.19%
Change (Basis Points)	—	–19	–52
RESIDUAL CAP RATE			
Range	7.50%–11.00%	8.00%–11.00%	8.00%–11.00%
Average	9.13%	9.31%	9.59%
Change (Basis Points)	—	–18	–46
MARKET RENT CHANGE RATE[b]			
Range	-3.00%–5.00%	-5.00%–3.00%	-4.00%–3.00%
Average	1.75%	0.86%	1.18%
Change (Basis Points)	—	+89	+57
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.50%	2.00%–3.50%	2.00%–4.50%
Average	2.83%	2.83%	2.86%
Change (Basis Points)	—	0	–3
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	3.00–12.00
Average	7.25	7.25	7.22
% Change	—	0	+0.42

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

Manhattan Office Market

EVEN THOUGH LEASING ACTIVITY IN THE MANHATTAN OFFICE MARKET HAS NOTICEABLY PICKED UP OVER THE PAST SEVERAL MONTHS, SUPPLY-DEMAND FUNDAMENTALS STILL REMAIN OUT OF BALANCE. "Gross leasing activity has been very strong, but net absorption has been a real problem for this market," comments a participant. As a result, overall vacancy rates have shown little sign of downward movement, leaving many landlords to sense that low rental rates and tenant inducements will linger in this market in 2004.

Although some market reports enthusiastically indicate that the amount of sublease space in Manhattan continues to decline, the bad news is that much of the space has reverted to direct vacant space. As shown in the table below, 8.3 million square feet of sublease space existed in the Midtown submarket in the fourth quarter of 2003, according to Cushman & Wakefield. While this amount is down from the start of the year, both the direct and overall vacancy rates are up.

Nevertheless, some sublease space has been successfully leased. In fact, one of the largest sublease deals to occur recently in Manhattan was PricewaterhouseCoopers' 800,000-square-foot deal at 300 Madison Avenue, a 1.2 million-square-foot tower completed in 2003. The property, which was originally 100.0% leased to CIBC World Markets on a 30-year term, will be renamed PricewaterhouseCoopers Center.

AVAILABILITY DATA
MIDTOWN SUBMARKET

Quarter	Sublease Amount (Millions SF)	Vacancy Rate Direct	Vacancy Rate Overall
4Q03	8.30	8.3%	11.9%
3Q03	8.70	8.1%	11.9%
2Q03	9.17	8.0%	12.0%
1Q03	9.02	7.6%	11.5%

Source: Cushman & Wakefield

Other large lease deals that have occurred recently in this market include News America Publishing's new 100,000-square-foot deal at 1211 Avenue of the Americas, Thomas Publishing Company's lease renewal of its 115,000-square-foot space at Five Penn Plaza, and Keefe Bruyette Woods Inc.'s (KBW) 51,414-square-foot expansion at 787 Seventh Avenue, which brings KBW's total leased area at that address to 120,573 square feet.

In addition to leasing activity, this market has been abuzz with investment activity, despite sluggish fundamentals. "Manhattan is a proven market for rent growth and value appreciation," states a participant, who notes that, "the hard part is buying into it." Like other top markets with high barriers to entry, investors are interested in acquiring stable, well-leased assets in this one. Unfortunately, competition for such assets is very strong and has resulted in high prices and depressed cap rates. This quarter the average OAR slipped 14 basis points to reach 8.07%, 126 basis points below the average just one year ago. Only the Washington, DC District office market with an average of 7.89% posted a lower average OAR this quarter. ◆

Table 12

MANHATTAN OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.50%–12.00%	8.50%–12.00%	10.00%–15.00%
Average	9.93%	10.18%	11.58%
Change (Basis Points)	—	–25	–165
OVERALL CAP RATE (OAR)[a]			
Range	6.00%–10.00%	6.00%–10.00%	8.00%–10.50%
Average	8.07%	8.21%	9.33%
Change (Basis Points)	—	–14	–126
RESIDUAL CAP RATE			
Range	7.00%–10.00%	7.50%–10.00%	8.00%–10.00%
Average	8.45%	8.80%	9.35%
Change (Basis Points)	—	–35	–90
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	0.79%	0.93%	0.92%
Change (Basis Points)	—	–14	–13
EXPENSE CHANGE RATE[b]			
Range	3.00%–5.00%	3.00%–5.00%	3.00%–5.00%
Average	3.33%	3.33%	3.33%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	4.00–12.00	4.00–12.00
Average	7.42	7.67	7.75
% Change	—	–3.26	–4.26

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

Pacific Northwest Office

DUE TO BACK-TO-BACK QUARTERS OF STEADY LEASING ACTIVITY AND POSITIVE NET ABSORPTION, OVERALL VACANCY RATES HAVE DECLINED IN MANY SECTIONS OF THE PACIFIC NORTHWEST OFFICE MARKET. "Demand has grown and vacancies have stabilized throughout much of this market," attests a participant. As a result, many local investors sense that this market either has hit bottom or is very close to doing so. Unfortunately, a significant improvement in underlying fundamentals is not expected to occur until a consistent pattern of job growth emerges. "Our employment numbers were beat up pretty badly during the recession, so we have a ways to go until we recover," adds a participant.

One of the best-performing areas within this market is downtown Portland. Not only has its overall vacancy rate improved greatly over the past year, its ranking among the nation's top major office markets has advanced as well. The following table tracks these changes.

PORTLAND CBD

Quarter	Overall Vacancy Rate	Ranking (1 = best)
4Q03	14.5%	8
3Q03	14.7%	8
2Q03	15.8%	9
1Q03	15.4%	9
4Q02	16.2%	12

Source: Cushman & Wakefield

Regardless of this impressive performance and investors' feverish demand for stable assets, only one office property traded recently in downtown Portland. The asset, the Director Building located at 808 SW Third Avenue, was 90.0% leased to a variety of regional tenants and sold for $142.00 per square foot. Sales activity, however, could soon increase. Due to the vast amount of investment capital searching for sound assets in solid markets, an increasing number of owners are thinking about selling. "It's a strong sellers' market right now for good quality assets," confirms a participant, who notes that the number of properties up for sale both officially and unofficially has increased recently.

Sales activity has also been sluggish recently in downtown Seattle, where the overall vacancy rate has fluctuated over the past year. As shown in the following table, however, the submarket remains one of the best-performing downtown markets in the country.

SEATTLE CBD

Quarter	Overall Vacancy Rate	Ranking (1 = best)
4Q03	14.9%	10
3Q03	15.8%	10
2Q03	16.5%	10
1Q03	16.2%	11
4Q02	14.7%	8

Source: Cushman & Wakefield

Since most of the available space in downtown Seattle is located on mid- and low-level floors without quality views, high-rise space in certain Class-A properties still commands a rental premium and leases for as much as $30.00 per square foot, according to CB Richard Ellis. Class-A properties taller than 26 stories that have the most available space on their top ten floors are the IBM Building and 520 Pike Tower. ✦

Table 13

PACIFIC NORTHWEST OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.00%–15.00%	10.00%–15.00%	10.25%–14.00%
Average	11.81%	11.81%	11.71%
Change (Basis Points)	—	0	+10
OVERALL CAP RATE (OAR)[a]			
Range	8.00%–11.00%	8.00%–11.00%	8.00%–11.00%
Average	9.24%	9.24%	9.25%
Change (Basis Points)	—	0	–1
RESIDUAL CAP RATE			
Range	8.00%–10.00%	8.00%–10.00%	8.50%–10.00%
Average	9.26%	9.29%	9.46%
Change (Basis Points)	—	–3	–20
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	1.00%–3.00%
Average	1.90%	1.90%	2.42%
Change (Basis Points)	—	0	–52
EXPENSE CHANGE RATE[b]			
Range	2.00%–4.00%	2.00%–4.00%	2.00%–4.00%
Average	3.00%	3.00%	3.00%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	3.00–12.00
Average	6.50	6.50	6.43
% Change	—	0	+1.09

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

Philadelphia Office Market

THE DOWNTOWN AND SUBURBAN SUBMARKETS OF THE PHILADELPHIA OFFICE MARKET CONTINUE TO PERFORM VERY DIFFERENTLY, WITH THE DOWNTOWN REGION REMAINING THE DOMINANT HALF. While too much speculative construction activity is a main reason for the problems in the suburbs, tenant relocations have also contributed to the malaise. "We need job growth to pick up in the suburbs and translate into positive net absorption, increasing occupancy, and stabilizing rents," shares a participant. In the Radnor/Main Line submarket, for example, the relocation of pharmaceutical maker Wyeth to Montgomery County has left about 1.5 million square feet empty and available for immediate occupancy.

Due to Wyeth's move, the overall vacancy rate in the Radnor/Main Line submarket stood close to 28.0% at the end of 2003, according to CB Richard Ellis (CBRE). In neighboring Conshohocken and King of Prussia, market fundamentals are just as bleak. Overall vacancy rates for these two submarkets were 26.2% and 21.1%, respectively, at year-end 2003. Nevertheless, leasing activity is occurring, especially in Conshohocken where several new office buildings have been completed. "When you have such an abundance of new available space, it enables some tenants to relocate and/or to upgrade their space quality at virtually no additional cost to themselves," explains a participant.

Table 14

PHILADELPHIA OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–12.50%	9.00%–12.50%	10.00%–12.50%
Average	10.77%	10.91%	11.56%
Change (Basis Points)	—	–14	–79
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–11.50%	8.00%–12.00%	8.00%–12.00%
Average	9.61%	9.82%	10.06%
Change (Basis Points)	—	–21	–45
RESIDUAL CAP RATE			
Range	7.00%–11.00%	8.00%–11.00%	8.00%–11.00%
Average	9.71%	9.95%	10.03%
Change (Basis Points)	—	–24	–32
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	-5.00%–3.00%
Average	1.29%	1.07%	0.19%
Change (Basis Points)	—	+22	+110
EXPENSE CHANGE RATE[b]			
Range	2.50%–3.00%	2.50%–3.00%	2.50%–3.00%
Average	2.79%	2.79%	2.81%
Change (Basis Points)	—	0	–2
AVERAGE MARKETING TIME (in months)			
Range	4.00–12.00	4.00–12.00	4.00–12.00
Average	6.75	6.92	7.14
% Change	—	–2.46	–5.46

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

New office buildings constructed in the Conshohocken submarket over the past two years include the 16-story, 345,000-square–foot Eight Tower Bridge, which was reportedly 35.0% leased at year-end 2003, the 290,000-square-foot, seven-story 300 Four Falls, which was 22.0% leased at year-end 2003, and the 70,000-square-foot Millennium Three, which is close to 100.0% leased. The landlord of Millennium Three was fortunate to lease 60,000 square feet in 2003 and is finalizing a lease for the remainder of the building.

Despite chunks of available space in new buildings in Conshohocken, tenants looking to negotiate low rental rentals for available space there could be disappointed. The average asking rental rate for Class-A space in this submarket was $27.13 per square foot at year-end 2003, the highest of all the suburban submarkets, according to CBRE. In fact, space at 300 Four Falls, has been leased for $30.00 per square foot, indicating that certain prime office spaces still command premium rent.

In Philadelphia's CBD, vacancy has remained relatively steady over the past several quarters. Specifically, the direct vacancy rate stood at 11.93%, while the sublet vacancy rate was 2.75%, according to CBRE. These stable fundamentals, however, could soon be negatively impacted by the addition of Cira Centre, a 727,000-square-foot, 28-story office tower slated for completion by year-end 2005. So far, leases totaling 374,000 square feet have been signed to tenants including Dechert, a leading local law firm, which leased 245,000 square feet, Woodock Washburn, another law firm, which inked a deal for 109,000 square feet, and Attalus Capital, which committed to 20,000 square feet. ✦

San Francisco Office Market

EVEN THOUGH INCREASED LEASING ACTIVITY IN 2003 HELPED TO ERODE OVERALL VACANCY RATES IN THE SAN FRANCISCO OFFICE MARKET, A GLUT OF VACANT SPACE STILL EXISTS. "Leasing fundamentals are still very soft," confirms a participant. While much of the available space remains in the South of Market (SOMA) submarket, where the majority of technology space existed prior to the dot.com bust, a tremendous amount of it also exists in the Financial District submarket.

Specifically, 19.5% of the market's total space supply was available as of the fourth quarter of 2003, according to CB Richard Ellis. By comparison, this figure stood at 19.7% in the third quarter of 2003 and 20.6% in the second quarter of that year. In the SOMA submarket, overall vacancy was much higher during 2003 – 36.7% in the fourth quarter, 38.3% in the third quarter, and 37.4% in the fourth quarter. And for the Financial District submarket, these rates were 20.8%, 22.6%, and 23.6%, respectively.

While the high-tech slump of the late 1990s is largely responsible for creating much of the current vacant space, some investors indicate that the recent outsourcing of jobs to oversea countries, such as India and China, is another culprit. Although company "call center" jobs were some of the first ones to be moved overseas, white-collar jobs in both the engineering and software-programming field have quickly followed. While some investors see this as a long-term trend and problem, others are less concerned. "The U.S. economy is incredibly dynamic and job growth will come sooner than expected in spite of the much publicized off-shoring of jobs," assures a participant.

And job growth is just what this market needs. Reportedly, employment in this region has been contracted by nearly 350,000 jobs since 2000, representing a job loss of about one in ten. Unfortunately, few investors expect the job market to bounce back with much consistency and vigor in 2004. "We anticipate a gradual climb back," shares a participant. In fact, our participants expect that it could take up to ten years for this market to reach an average structural vacancy rate of 8.0%. Structural vacancy is defined as the normal vacancy rate in a balanced market. Based on the amount of available space at the end of 2003 (roughly 15.8 million square feet) and the average square-foot-per-employee figure indicated by our participants (261 square feet), close to 35,000 new jobs need to be gained in this market in order for it to reach an 8.0% overall vacancy rate.

Even though clouds still linger over this market, the fact that it has "shown signs of emerging from its freefall" has prompted several investors to scout for potential acquisitions. Unfortunately competition for both stabilized assets and those that are 70.0% to 80.0% leased are aggressively priced. "It doesn't seem as if buyers are factoring in vacancy and long-term absorption into their analyses," comments a participant, who was one of 30 bidders in a recent offering. As market conditions improve and more properties are offered for sale, opportunities to win bids will hopefully improve. ✦

Table 15

SAN FRANCISCO OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–13.00%	9.00%–14.00%	10.00%–14.00%
Average	10.41%	10.68%	11.79%
Change (Basis Points)	—	–27	–138
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–11.00%	7.50%–11.00%	7.00%–11.00%
Average	9.02%	9.38%	9.40%
Change (Basis Points)	—	–36	–38
RESIDUAL CAP RATE			
Range	7.00%–11.50%	8.00%–11.50%	8.00%–12.00%
Average	9.18%	9.43%	9.83%
Change (Basis Points)	—	–25	–65
MARKET RENT CHANGE RATE[b]			
Range	-5.00%–3.00%	-5.00%–3.00%	-10.00%–3.00%
Average	0.25%	0.06%	–0.45%
Change (Basis Points)	—	+19	+70
EXPENSE CHANGE RATE[b]			
Range	2.00%–4.50%	2.00%–4.50%	2.00%–4.50%
Average	3.13%	3.13%	3.10%
Change (Basis Points)	—	0	+3
AVERAGE MARKETING TIME (in months)			
Range	6.00–12.00	6.00–12.00	4.50–12.00
Average	8.88	8.69	8.06
% Change	—	+2.19	+10.17

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

Southeast Florida Office Market

THE SOUTHEAST FLORIDA OFFICE MARKET, WHICH IMPRESSED INVESTORS WITH ITS ABILITY TO PERFORM QUITE WELL DURING THE RECENT DOWNTURN, CONTINUES TO DEMONSTRATE RESILIENCY AGAINST A SLOW-MOVING ECONOMIC RECOVERY. Unlike other major office markets across the country, this market has limited exposure to Corporate America, which has been a main driver behind the current sluggish economy. "We didn't experience the rash of job cuts and layoffs that other large markets did during the recession," explains a participant. As a result, much of this office market is already demonstrating signs of rebounding.

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

Of the three main areas that comprise this market, Palm Beach County has shown the greatest improvement in the past year. At the end of 2003, its overall vacancy rate reached 16.5%, according to CB Richard Ellis (CBRE). By comparison, this figure was 17.4% in the first quarter of 2003. The decline is due to a tremendous amount of leasing activity that occurred at the end of last year. Specific deals included Lydian Bank's 40,000-square-foot agreement in Boca Raton, Tenant Healthcare Corporation's 97,133-square-foot deal in Boca Raton, and Stayin' Alive Fitness Center's 25,000-square-foot lease in North Palm beach.

When combined with a multitude of other leases, these deals caused Palm Beach County to post a net absorption of just over 312,000 square feet in the fourth quarter of 2003, according to CBRE. Within Palm Beach County, the top corporate location remains Boca Raton, where consistent leasing activity over the past year helped to push overall vacancy down from 20.1% in the first quarter of 2003 to 16.5% in the fourth quarter of that year. "Small and mid-sized companies love the Boca Raton area," exclaims a participant. Although fundamentals are weaker in neighboring Palm Beach Gardens, the relocation of the Scripps Research Institute to that office submarket should help to increase leasing activity and to decrease vacancy.

Due to Southeast Florida's displays of stability, it continues to attract the attention of investors. "Everything in Southeast Florida has traded and the properties that haven't sold will be offered soon," quips a participant. As would be expected, much of the recent sales activity has occurred in Palm Beach County. Specifically, more than 2.1 million square feet of office space (almost 30 buildings) were sold in 2003, according to Cushman & Wakefield. The highest priced asset to trade last year was the Philips Point office tower in West Palm Beach's CBD. It sold for $327.00 per square foot, believed to be the highest price ever paid for a major office tower in this market. ✦

Table 16

SOUTHEAST FLORIDA OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–12.50%	9.00%–12.50%	10.50%–12.50%
Average	10.67%	10.56%	11.42%
Change (Basis Points)	—	+11	–75
OVERALL CAP RATE (OAR)[a]			
Range	7.25%–11.00%	7.00%–11.00%	8.00%–11.00%
Average	9.10%	9.06%	9.69%
Change (Basis Points)	—	+4	–59
RESIDUAL CAP RATE			
Range	8.25%–11.00%	8.25%–11.00%	9.00%–11.00%
Average	9.67%	9.61%	10.10%
Change (Basis Points)	—	+6	–43
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–5.00%	0.00%–5.00%
Average	2.00%	1.50%	1.33%
Change (Basis Points)	—	+50	+67
EXPENSE CHANGE RATE[b]			
Range	2.00%–4.00%	2.00%–4.00%	2.00%–4.00%
Average	2.90%	2.96%	3.04%
Change (Basis Points)	—	–6	–14
AVERAGE MARKETING TIME (in months)			
Range	6.00–12.00	4.00–24.00	4.00–24.00
Average	7.50	8.21	9.10
% Change	—	–8.65	–17.58

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

Washington, DC Metro–
The District Office Market

EVEN THOUGH THE AMOUNT OF AVAILABLE OFFICE SPACE INCREASED SLIGHTLY IN THE WASHINGTON, DC DISTRICT OFFICE MARKET IN 2003, IT REMAINED THE TIGHTEST DOWNTOWN OFFICE MARKET IN THE COUNTRY AND CONTINUED TO ATTRACT THE ATTENTION OF BOTH BUYERS AND DEVELOPERS. "The District is by far one of the best office markets in the country," exclaims a participant. While this market's longstanding stability is a result of a diverse economy, it's also due to the fact that many of its tenants, such as law firms and government agencies, conduct businesses that require a presence there.

Due to the District's stellar performance over the past few years, it has witnessed an exuberate amount of new office construction. Between 2001 and 2002, approximately five million square feet were added to this market, according to Cushman & Wakefield (C&W). Although strong leasing activity enabled the District to absorb most of this new space, additions to supply are starting to outpace demand. In 2003, seven new buildings totaling 2.4 million square feet were added to this market, while direct absorption totaled only 1.6 million square feet. Unfortunately, this trend is likely to continue in the year ahead. Specifically, a total of 1.2 million square feet of office space, none of which has been preleased, is set for delivery in 2004, according to CB Richard Ellis (CBRE).

While a rise in overall vacancy appears eminent, it is not expected to be too dramatic. One reason is that the federal government is reportedly set to sign some sizeable long-term deals that should help to alleviate some of the oversupply. In addition, some landlords have noticed an increase in the number of existing tenants looking to renew leases and/or to expand. Many of these tenants are taking advantage of lower rental rates and the offering of concessions, which come in the form of free rent and/or an above-standard tenant improvement allowance.

As the top-performing CBD market in the country, investment demand remains extremely strong. In fact, the District was the top investment market in the country in 2003 with $3.4 billion institutional office sales, according to CBRE. Buyers who have recently purchased assets in the District represent a broad range of players, including REITs, pension funds, foreign investors, and large private firms, and have paid upwards of $400.00 per square foot to gain a presence there, according to Real Capital Analytics, Inc. One of the highest priced sales to occur recently was the purchase of 1330 Connecticut Avenue NW for $376.00 per square foot. By comparison, the average price for the 202 significant CBD office properties that were either sold or contracted in the United States during the six months leading up to February 2004 was $238.00 per square foot. ◆

Table 17

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

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.50%–12.00%	8.50%–12.00%	10.00%–13.00%
Average	9.64%	9.78%	10.93%
Change (Basis Points)	—	–14	–129
OVERALL CAP RATE (OAR)[a]			
Range	6.50%–10.50%	7.00%–10.50%	8.00%–10.50%
Average	7.89%	8.04%	8.83%
Change (Basis Points)	—	–15	–94
RESIDUAL CAP RATE			
Range	6.50%–10.50%	7.75%–10.50%	8.00%–10.50%
Average	8.44%	8.67%	9.14%
Change (Basis Points)	—	–23	–70
MARKET RENT CHANGE RATE[b]			
Range	0.00%–6.00%	0.00%–6.00%	0.00%–3.50%
Average	2.35%	2.35%	2.41%
Change (Basis Points)	—	0	–6
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.83%	2.83%	2.94%
Change (Basis Points)	—	0	–11
AVERAGE MARKETING TIME (in months)			
Range	2.00–12.00	2.00–12.00	2.00–12.00
Average	5.64	5.64	6.08
% Change	—	0	–7.24

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

Washington, DC Metro–Northern Virginia Office Market

NUMEROUS LARGE LEASE TRANSACTIONS AND A LACK OF SPECULATIVE CONSTRUCTION COMBINED TO IMPROVE THE UNDERLYING FUNDAMENTALS OF THE NORTHERN VIRGINIA OFFICE MARKET IN 2003. "Things are definitely looking brighter in this market," exclaims a participant. Also helping to enliven Northern Virginia's current and future market conditions was a halt to significant sublease offerings. With demand for office space expected to remain strong in 2004, some analysts believe that large drops in vacancy rates will occur throughout this market in the near term.

In terms of overall performance, Northern Virginia's overall vacancy rate declined from 18.7% in the third quarter of 2003 to 17.3% in the fourth quarter of 2003, according to CB Richard Ellis (CBRE). Although many submarkets located closer to Washington, DC continue to post the lowest vacancy rates within this market, many of them have failed to experience dramatic, noticeable downward shifts in their vacancy rates. The overall vacancy rate in the Rosslyn/Ballston Corridor, for example, actually increased from 15.7% in the third quarter of 2003 to 16.3% in the fourth quarter of 2003, according to CBRE. And in both the Jefferson Davis Corridor and the City of Alexandria, overall availability rates remained virtually unchanged at 16.7% and 12.8%, respectively, over that time period.

By contrast, submarkets located outside of the Beltway, such as Tysons Corner, Reston, and Herndon, demonstrated some of the greatest improvement during that time. "Some of the best progress in vacancy has been made outside the Beltway," attests a participant. In the Reston/Herndon submarket, for example, the overall vacancy rate dipped from 25.6% in the third quarter of 2003 to 22.6% in the fourth quarter of 2003. One of the largest new leases to occur in that area during 2003 was Nextel's 184,332-square-foot deal at 12000 Sunrise Valley Drive in Reston.

While some landlords have been busy leasing space, others have been diligently marketing properties for sale. "We've been actively selling properties in the Dulles Toll Way and have been pleased with both investor interest and pricing" shares a participant. In the six months leading up to February 2003, a total of 20 office assets accounting for close to 3.6 million square feet traded hands in the Northern Virginia office market, according to Real Capital Analytics, Inc. The average sale price for these properties was $193.00 per square foot, approximately 135.0% above the average of all the suburban office properties sold in the United States over that time period.

Since this market is expected to gain strength in the upcoming year, investment activity, as well as sale prices, should remain elevated in 2004. ✦

Table 18

WASHINGTON, DC METRO–NORTHERN VIRGINIA OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.50%–12.50%	8.50%–13.50%	10.00%–13.50%
Average	10.43%	10.88%	11.72%
Change (Basis Points)	—	–45	–129
OVERALL CAP RATE (OAR)[a]			
Range	7.50%–10.50%	7.50%–11.00%	8.00%–11.00%
Average	9.11%	9.35%	9.61%
Change (Basis Points)	—	–24	–50
RESIDUAL CAP RATE			
Range	7.50%–11.00%	8.00%–11.00%	8.00%–11.00%
Average	9.29%	9.44%	9.77%
Change (Basis Points)	—	–15	–48
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	0.57%	0.50%	0.78%
Change (Basis Points)	—	+7	–21
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.88%	2.89%	2.94%
Change (Basis Points)	—	–1	–6
AVERAGE MARKETING TIME (in months)			
Range	2.00–12.00	2.00–12.00	2.00–12.00
Average	6.75	6.43	6.14
% Change	—	+4.98	+9.93

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

Washington, DC Metro– Suburban Maryland Office Market

As a result of steady leasing activity, limited additions to supply, and positive job growth, the Suburban Maryland office market ended 2003 on a favorable note. One reason it performed well was that both the federal government and their contractors continued to fuel demand for space. In fact, Lockheed Martin, Raytheon, and Northrop Grumman each completed major lease renewals in this market in 2003 and are expected to pursue additional space needs in the future.

Of the three counties that comprise this market – Montgomery, Prince George's, and Frederick – Montgomery contains the bulk of its office space at close to 46.3 million square feet. Prince George's County is next with approximately 18.1 million square feet, and Frederick County is last with just under 1.9 million square feet, according to Spaulding & Slye Colliers (SSC). Due to its size, Montgomery County remains the driving force behind this market's overall performance and typically outperforms the market as a whole.

Specifically, Montgomery County posted a 16.4% overall vacancy rate at the end of 2003, while Price George's County and Frederick County recorded rates of 19.7% and 17.6%, respectively, according to SSC. In terms of net absorption, Montgomery County absorbed 462,884 square feet, while Price George's County and Frederick County incurred a loss of 568,037 square feet and a gain of 6,712 square feet, respectively, in 2003.

One of the best-performing submarkets has been Silver Springs, where significant redevelopment efforts have drawn tenants from surrounding areas. In one recent lease transaction there, ULLICO Inc. relocated from the District to 8403 Colesville Road, where it leased 90,540 square feet. In another new deal, AT&T Systems leased 18,000 square feet of space at 12200 Tech Road in Silver Springs. By contrast, the market conditions in the submarket of Germantown continue to deteriorate as a result of vacancies. As a result, its overall vacancy rate increased from 24.0% in the first quarter of 2003 to 34.5% in the fourth quarter of 2003.

Even though certain areas of Suburban Maryland's office market are showing signs of improvement, elevated vacancy rates still allow most tenants to negotiate favorable rental rates and to receive various concessions. According to our participants, free rent ranges between one and two months based on an average lease term of 7.2 years. An excessive tenant improvement allowance (TI), which represents the amount given to a tenant that is above the standard TI in the market, can be as much as $15.00 per square foot. Fortunately for landlords, these inducements are likely to evaporate over the near term as this market gains strength. ◆

Table 19

WASHINGTON, DC METRO– SUBURBAN MARYLAND OFFICE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00%–12.50%	9.00%–14.00%	9.50%–14.00%
Average	10.27%	10.58%	11.61%
Change (Basis Points)	—	–31	–134
OVERALL CAP RATE (OAR)[a]			
Range	7.50%–10.50%	7.00%–10.50%	8.00%–10.50%
Average	8.59%	8.69%	9.34%
Change (Basis Points)	—	–10	–75
RESIDUAL CAP RATE			
Range	7.50%–11.00%	8.00%–11.00%	8.00%–11.00%
Average	9.08%	9.17%	9.68%
Change (Basis Points)	—	–9	–60
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.50%
Average	1.56%	1.75%	1.66%
Change (Basis Points)	—	–19	–10
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.93%	2.93%	2.94%
Change (Basis Points)	—	0	–1
AVERAGE MARKETING TIME (in months)			
Range	2.00–18.00	2.00–18.00	2.00–18.00
Average	7.50	7.50	7.92
% Change	—	0	–5.30

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

National Flex/R&D Market

AS THE ECONOMY SHOWS CONSISTENT SIGNS OF A RECOVERY, CERTAIN METRO AREAS IN THE NATIONAL FLEX/R&D MARKET ARE EXPERIENCING DIPS IN OVERALL VACANCY RATES AND UP TICKS IN RENTAL RATES. Unfortunately, these markets remain outnumbered by those that continue to combat elevated vacancy rates. "Overall, flex/R&D markets continue to fare worse than their warehouse counterparts," attests a participant. In the large industrial market of Dallas-Fort Worth, for example, the vacancy rate for flex space stood at 11.8% at year-end 2003, while the warehouse rate was 9.4%, according to CB Richard Ellis (CBRE).

Another market plagued by a lofty flex/R&D vacancy rate is Denver, where the availability rate for flex space reached 18.0% at year-end 2003, according to CoStar Realty Information. By comparison, this figure was 16.9% in the third quarter of 2003 and just 9.0% at year-end 2000. As a result of such weak fundamentals, only six flex/R&D properties were either sold or contacted in Denver in the six months leading up to February 2004, according to Real Capital Analytics, Inc. (RCA). The average sale price for these six assets was $72.00 per square foot, about 20.0% below the national average sale price for that time period.

Elsewhere in the country, transactions of flex/R&D properties have also been quite low. Overall, only a total of 171 flex properties, accounting for about 24.0 million square feet, were either sold or contracted in the United States between August 2003 and January 2004, according to RCA. By comparison, roughly 630 U.S. nonflex industrial properties, totaling close to 164.0 million square feet, were either sold or contracted during that time period.

Most of the recent flex/R&D sales have occurred in tight markets, where prices can be quite high. In San Diego, for example, where the industrial vacancy rate hovered around 7.5% throughout 2003, the flex building located at 4255 Ruffin Street recently sold for $185.00 per square foot. Another high priced flex-building sale to trade recently was the Crescent A&B at Quince Orchard located in Gaithersburg, Maryland. The 100.0% leased, 50,000-square-foot asset, which sold for $179.00 per square foot, is located in Montgomery County where the vacancy rate for flex space was 8.76% at midyear 2003, according to CBRE.

Even though acquiring flex/R&D properties remains a low priority for many investors, this market's average overall capitalization rate (OAR) has continued to drop since year-end 2002. This quarter, the average OAR slipped 17 basis points to reach 9.02%, a 53-basis-point decrease from one year ago. In addition, the high-end of the range for this key assumption declined 50 basis points to reach 10.50%. Just one year earlier, the high-end of the range stood at 12.00%. Even though such decreases have been occurring industry-wide, the fact that they have reduced the gap between this market's average OAR and that of the national warehouse market suggests that investors are becoming more confident with this market's likely future performance. ◆

Table 20

NATIONAL FLEX/R&D MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–12.00%	9.00%–12.00%	9.50%–15.00%
Average	10.53%	10.60%	11.18%
Change (Basis Points)	—	–7	–65
OVERALL CAP RATE (OAR)[a]			
Range	7.50%–10.50%	7.50%–11.00%	7.50%–12.00%
Average	9.02%	9.19%	9.55%
Change (Basis Points)	—	–17	–53
RESIDUAL CAP RATE			
Range	8.00%–11.00%	8.00%–11.00%	8.50%–12.00%
Average	9.44%	9.53%	9.75%
Change (Basis Points)	—	–9	–31
MARKET RENT CHANGE RATE[b]			
Range	-5.00%–3.00%	-10.00%–3.00%	-5.00%–3.00%
Average	1.19%	1.00%	1.19%
Change (Basis Points)	—	+19	0
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.96%	2.96%	2.96%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	3.00–18.00	3.00–18.00	3.00–18.00
Average	7.50	7.50	7.50
% Change	—	0	0

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

National Warehouse Market

EVEN THOUGH THE NATIONAL WAREHOUSE MARKET CONTINUES TO CONTEND WITH AN EXCESSIVE AMOUNT OF VACANT SPACE, MANY INVESTORS ARE OPTIMISTIC THAT 2004 WILL BRING AN IMPROVEMENT TO FLAGGING FUNDAMENTALS. "This sector has been surprisingly slow to recover, but will take a real turn for the better toward the end of 2004," attests a participant. And by the end of 2005, the majority of this market will have recovered, according to the third quarter 2003 issue of *Real Estate Value Cycles,* published by PricewaterhouseCoopers.

A main reason for such a positive outlook is that inventory levels have reached critically low points prompting manufacturing activity to rise over the past several months. "Increases in shipping and wholesale trade activity is an encouraging indicator that net absorption of warehouse space will pick up in 2004," explains a participant. Nevertheless, with so much space available throughout this market, few investors expect the road to recovery to be a short one. At the end of 2003, close to one billion square feet of warehouse space or roughly 11.6% of the nation's total warehouse inventory was vacant, according to Reis, Inc.

Not all individual warehouse markets are ailing. Many of the largest markets, including Northern New Jersey and the Inland Empire in California, which reportedly experienced tremendous net absorption in 2003, continue to perform very well. "We have been doing some speculative bulk warehouse in the Riverside-Ontario area and have been very pleased with absorption and rents," shares a participant. Another industrial market that has experienced consistent leasing activity is metropolitan Chicago. "You never get great returns from warehouse investments in Chicago, but it's a good consistent play," explains a participant.

Due to their ability to outperform this sector as a whole, investment activity in those three individual markets has been strong. In Northern New Jersey 19 industrial properties totaling close to 4.7 million square feet were either sold or contracted at an average price of $48.00 per square foot in the six months leading up to February 2004, according to Real Capital Analytics, Inc. In the Inland Empire 11 industrial properties totaling close to 3.6 million square feet were either sold or contracted at an average price of $49.00 per square foot during that time period. And in Chicago, a total of 39 properties were either sold or contracted at an average price of $36.00 per square foot during that time frame.

Even though this market overall has been slow to recover, buyers looking to acquire warehouse properties in these and other top markets should expect to face tough competition, high prices, and low overall cap rates. "Offerings have declined but there is still a tremendous amount of capital looking to be placed in warehouse assets," remarks a participant. As a result, a strong seller's market has emerged. In fact, an overwhelming 92.0% of our participants believe that sellers have the upper hand when it comes to negotiating sale transactions. ◆

Table 21

NATIONAL WAREHOUSE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00%–11.50%	8.50%–11.50%	9.00%–12.00%
Average	9.64%	9.88%	10.42%
Change (Basis Points)	—	–24	–78
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–10.25%	7.25%–10.250%	7.50%–11.00%
Average	8.45%	8.51%	8.84%
Change (Basis Points)	—	–6	–39
RESIDUAL CAP RATE			
Range	7.50%–11.00%	7.50%–11.00%	8.00%–11.00%
Average	8.98%	9.10%	9.38%
Change (Basis Points)	—	–12	–40
MARKET RENT CHANGE RATE[b]			
Range	-5.00%–5.00%	-5.00%–5.00%	-5.00%–5.00%
Average	1.57%	1.57%	1.32%
Change (Basis Points)	—	0	+25
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.93%	2.93%	2.96%
Change (Basis Points)	—	0	–3
AVERAGE MARKETING TIME (in months)			
Range	2.00–12.00	2.00–12.00	2.00–12.00
Average	6.54	6.54	6.46
% Change	—	0	+1.24

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

National Apartment Market

AS A RESULT OF INCESSANT ADDITIONS TO SUPPLY AND DORMANT RENTAL DEMAND, THE UNDERLYING FUNDAMENTALS OF THE NATIONAL APARTMENT MARKET CONTINUE TO WEAKEN. In fact, the number of vacant apartment units in the top 50 U.S. markets has more than doubled in the past three years, according to Reis, Inc. Unfortunately, this trend is not expected to reverse itself anytime soon. Reis predicts that the national apartment vacancy rate will rise to 7.0% by the end of 2004, up from 6.8% at the end of 2003.

Although apartment construction levels have declined significantly over the past five years, they are still too high when compared to the recent decline in demand. "Job losses and low interest rates have reduced the number of would-be renters," explains a participant. The end result is an oversupply of space that has depressed rental rates and has made concessions commonplace throughout most of this market. According to our participants, tenants that sign a one-year lease can receive as much as three months of free rent. The average amount of free rent for a one-year lease is nearly 1.5 months. "When will concessions abate?" wonders a participant.

Disappointingly, the answer to that question will likely be later rather than sooner. Despite current oversupply problems, nearly 107,000 units are expected to be added to an already saturated market in 2004, according to Reis. "We'll increase our development activity in select markets in 2004," shares a participant, who believes that the favorable long-term aspects of the industry far outweigh its current short-term troubles. Specifically, the number of households lead by 25- to 34-year-old individuals, considered the prime rental target, is forecast to increase by 584,000 between 2006 and 2010, according to Property & Portfolio Research. Furthermore, many investors expect the apartment sector to be the first property sector to fully rebound. "The apartment sector will come back quicker than any other property type," attests a participant.

Such expectations are likely the reasons that apartment properties also continue to sell at a feverish pace. In fact, sales volume of significant apartment assets surged to $8.0 billion in the fourth quarter of 2003, a total 10.0% higher than any other quarter on record, according to Real Capital Analytics, Inc. And for all of 2003, sales in the apartment sector outpaced all other property types and posted over a 20.0% increase in activity by both volume and number of transactions.

Strong investment demand, however, also continues to push sale prices up and overall capitalization rates (OARs) down. This quarter, the average OAR for the national apartment market declined 20 basis points to reach 7.25%, the lowest rate ever posted for this property segment in our Survey. Just 12 months earlier, the average OAR was 8.14%. The average internal rate of return (IRRs) for this market also continues to decline and reached 9.95% this quarter, 93 basis points below the average just one year ago. ✦

Table 22

NATIONAL APARTMENT MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00%–12.50%	9.00%–12.50%	9.00%–15.00%
Average	9.95%	10.22%	10.88%
Change (Basis Points)	—	–27	–93
OVERALL CAP RATE (OAR)[a]			
Range	5.50%–9.25%	5.50%–9.25%	6.00%–10.00%
Average	7.25%	7.45%	8.14%
Change (Basis Points)	—	–20	–89
RESIDUAL CAP RATE			
Range	6.00%–9.50%	6.00%–9.50%	7.00%–10.00%
Average	8.05%	8.03%	8.47%
Change (Basis Points)	—	+2	–42
MARKET RENT CHANGE RATE[b]			
Range	-2.00%–4.00%	-2.00%–5.00%	-2.00%–5.00%
Average	1.53%	1.75%	1.98%
Change (Basis Points)	—	–22	–45
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.50%	2.00%–4.00%	2.00%–4.00%
Average	2.79%	2.79%	2.93%
Change (Basis Points)	—	0	–14
AVERAGE MARKETING TIME (in months)			
Range	2.00–9.00	2.00–9.00	2.00–9.00
Average	5.62	5.75	5.81
% Change	—	–2.26	–3.27

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

National Net Lease Market

AS THE U.S. ECONOMY CONTINUES TO GAIN STRENGTH, TRANSACTION ACTIVITY IN THE NATIONAL NET LEASE MARKET IS EXPECTED TO REMAIN STRONG AND MAY EVEN INTENSIFY IN THE COMING YEAR. One reason for these expectations is that many companies are starting to experience increases in profits and may look toward their real estate holdings as a means of funding expansions and raising capital for necessary expenditures. Most of the activity, however, will likely be concentrated in the retail and industrial sectors of the industry, which are performing fairly well overall. On the other hand, net lease activity may be muted in the office sector, where oversupply issues and weak fundamentals may delay expansion needs.

Given the net lease market's strong sales performance between 2002 and 2003, it is hard to believe that the pace of transactions could get much higher. According to Real Capital Analytics, Inc., single-tenant transactions for office, retail, and industrial properties totaled $11.4 billion in 2003, an increase of 23.6% from 2002. Unlike investments in multitenant assets, most of the buyers in this market have been private national and local firms, many of which have been involved in 1031-exchange transactions. By contrast, both institutional and foreign investors have been the least active net lease buyers over the past year.

Unfortunately for all these eager buyers, the number of quality assets remains on a decline. "A lack of good quality deals has kept competition for the best assets very intense," attests a participant. As a result, prices remain elevated and cap rates are depressed for the top available assets. "We are stretching sometimes to win the best properties," adds the participant, who believes that some disciplined companies will wait until prices and cap rates return to "comfortable" levels before aggressively pursuing deals.

While some net lease investors may be content to wait for sale prices to dip, others are turning their focus to riskier net lease deals that involve below-investment-grade tenants. Although such transactions certainly carry greater risks, they typically generate better returns than those involving investment-grade tenants. In one recent transaction, American Pad & Paper (Ampad) completed a sale-leaseback transaction involving four of its manufacturing facilities totaling 924,000 square feet. The deal provided some much-needed capital to Ampad, which is in the process of exiting bankruptcy. It also presented the new owner with the opportunity to reap steady returns from Ampad's newly signed 20-year lease.

Although returns for net lease deals have steadily declined over the past year, they are still very attractive in comparison to other investment vehicles. "Predictable, steady, stable returns are the driving force behind transactions in the industry today," explains a participant. This quarter, the average overall capitalization rate slipped 10 basis points to reach 8.28%, the lowest average ever reported for this market in our Survey. ✥

Table 23

NATIONAL NET LEASE MARKET
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.50%–12.00%	9.50%–12.00%	9.50%–13.00%
Average	10.64%	10.64%	11.00%
Change (Basis Points)	—	0	–36
OVERALL CAP RATE (OAR)[a]			
Range	6.80%–10.25%	6.80%–10.25%	7.50%–10.00%
Average	8.28%	8.38%	8.71%
Change (Basis Points)	—	–10	–43
RESIDUAL CAP RATE			
Range	7.50%–10.00%	7.50%–10.00%	8.00%–10.00%
Average	9.30%	9.30%	9.46%
Change (Basis Points)	—	0	–16
MARKET RENT CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.60%	2.55%	2.70%
Change (Basis Points)	—	+5	–10
EXPENSE CHANGE RATE[b]			
Range	1.50%–3.00%	1.50%–3.00%	2.00%–3.00%
Average	2.46%	2.46%	2.70%
Change (Basis Points)	—	0	–24
AVERAGE MARKETING TIME (in months)			
Range	1.00–6.00	1.00–6.00	3.00–12.00
Average	3.86	3.86	6.25
% Change	—	0	–38.24

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

National Lodging Highlights

AFTER NEARLY THREE YEARS OF DOWNWARD TRENDS AND DISTRESS, THE NATIONAL LODGING INDUSTRY IS SLOWLY REBOUNDING AND IS EXPECTED TO EXPERIENCE BOTH OCCUPANCY AND ADR GAINS IN 2004. "A lodging recovery has definitely begun," exclaims a participant. In fact, many investors and analysts believe that the turning point for the industry came in the third quarter of 2003. Since that time, corporate investment spending, manufacturing, and corporate profits have all increased steadily. As a result, increases in corporate travel are expected to contribute to the industry's rebound over the next few quarters.

DEMAND TRENDS & PROJECTIONS

Even though forecasts for both business and leisure travel vary among sources, optimism prevails. According to Travel Industry Association of America (TIA), domestic business trips are expected to increase 4.2% in 2004 and 3.5% in 2005. These increases mark TIA's first positive expectations since 1999. "Business travel has picked up in terms of frequency and budget numbers for a lot of companies," attests a participant. In terms of domestic leisure travel, TIA forecasts an increase of 3.2% in 2004 and a rise of nearly 2.0% in 2005.

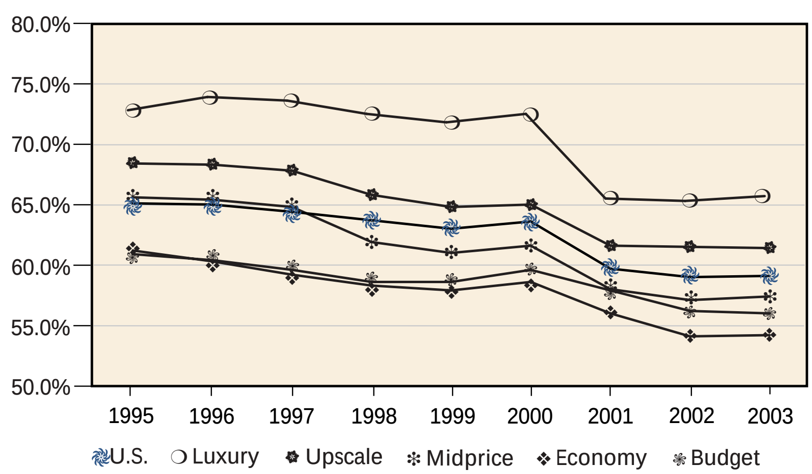
With an increase number of business travelers expected in 2004, meeting professionals are also optimistic about the year ahead. According to *FutureWatch 2004*, published annually by Meeting Professionals International and American Express, meeting planners estimate a 3.0% increase in spending in 2004. By comparison, spending declined 1.1% in 2003. Another finding in that study was that European planners expect to raise the proportion of travel to the United States by 50.0%, up 9.0% in 2004 versus 6.0% in 2003.

Although a rebound in demand will help elevate the industry's occupancy rate from 59.1% in 2002 to 61.2% in 2004, the 2004 forecast remains low in comparison to historical levels, according to PricewaterhouseCoopers (PwC's) Hospitality & Leisure. In addition, many travelers are still "hunting for bargains," according to one participant who notes that, "Demand tends to fall off quickly if you raise prices abruptly." As a result, the industry's average daily rate is projected to increase only moderately (1.9%) in 2004, according to PwC.

Following another year of occupancy gains in 2005 (up to 61.7%), ADR growth for the industry is expected to accelerate to 3.0% in 2005. When combined, these increases will advance revenue per available room (RevPAR) by 5.3% in 2004 and by 3.9% in 2005, according to PwC. The end result will be a 15.9% increase in profits in 2004, the first increase since 2000.

Exhibit L-1

OCCUPANCY RATES



Source: Smith Travel Research

SUPPLY TRENDS & PROJECTIONS

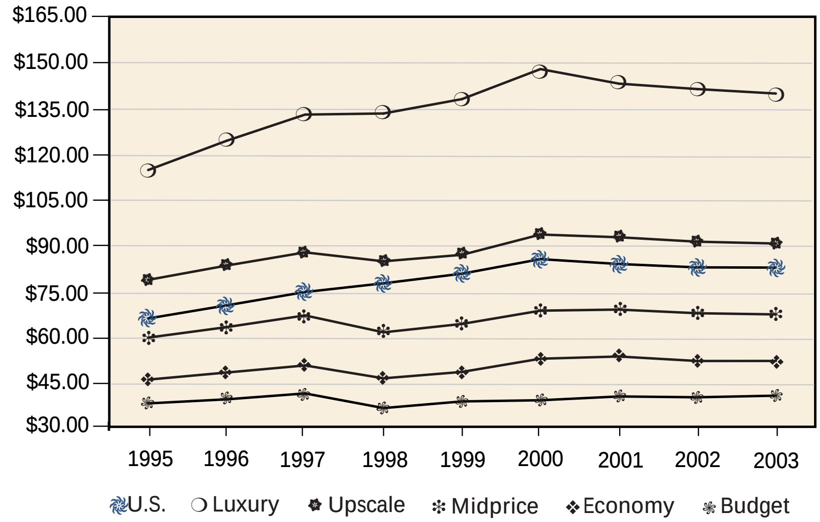
Even though net increases in room supply during the past two years have been lower than historical levels, some concerns exist that an improvement in the industry's performance will lead to an unneeded increase in new projects. "We don't need additions to supply now, but there is a lot more talk about new projects now than there used to be," shares a participant. Although an increased interest in new construction is a sign that both lenders and developers are more comfortable with the industry's fundamentals, supply growth in the industry contracted much more slowly coming out of this recession than in the 1990-1991 one.

PwC Hospitality and Leisure reports that it took four years for supply growth to move from peak to trough during the current economic cycle. Specifically, lodging supply growth peaked in 1998 with 160,000 room starts, representing 4.0% of existing supply. The trough was reached in 2002 with 68,000 room completions or 1.6% of existing supply. By comparison, in the cycle including the 1990-1991 recession, lodging supply peaked in 1987 at 123,000 room starts, representing 4.1% of existing supply, then declined to 28,000 room starts or 0.8% of existing supply in 1991.

While the recent downturn will likely deter some developers from breaking ground on new projects, others will likely continue to plan and to start new projects. In fact, construction for both 2004 and 2005 is expected to be nearly twice that of the amount completed after the recession of the early 1990s. Specifically, net quarterly changes in supply are expected to range between 1.3% and 1.6% in 2004 and 2005, according to PwC Hospitality and Leisure.

Exhibit L-2

AVERAGE DAILY ROOM RATES



Source: Smith Travel Research

Performance Trends & Forecasts

Occupancy

Overall occupancy for the lodging industry increased from 59.1% in 2002 to 59.2% in 2003, an increase of 0.2%, according to Smith Travel Research (STR) (see Exhibit L-1). Looking ahead to 2004, the largest occupancy gain is expected in the upscale chain segment (+2.9 percentage points), according to PwC. By comparison, the smallest gain is forecast in the midscale-with-food-and-beverage chain segment (+1.0 percentage point).

Along with higher occupancy levels, another sign that the industry is indeed healing is that jobs that were once vacated by layoffs are starting to be filled again. In addition, some hotels have started to restore services that were eliminated during the downturn, such as extended room service and business center hours and complimentary amenities and services.

Nevertheless, many investors and analysts are quick to point out that the industry, although heading in the right direction, remains extremely vulnerable to both real and perceived safety concerns. In fact, the orange alert issued by the Department of Homeland Security days before Christmas resulted in an occupancy decline of about 1.5 percentage points, costing the industry about $18.0 million in just seven nights, according to PwC. Although some of the effect is mitigated by cost-cutting measures that have been implement by hotels during the prolonged downturn, it demonstrates the industry's fragility.

Average Daily Rate (ADR)

Overall ADR for the lodging industry decreased from $83.35 in 2002 to $83.28 in 2003, a decline of 0.1%, according to Smith Travel Research (STR) (see Exhibit L-2). Looking ahead to 2004, the largest gain in ADR is expected in the upscale chain segment (+2.1 percentage points), according to PwC. By comparison, the smallest gain is predicted in the midscale-with-food-and-beverage chain segment (+0.6 percentage points)

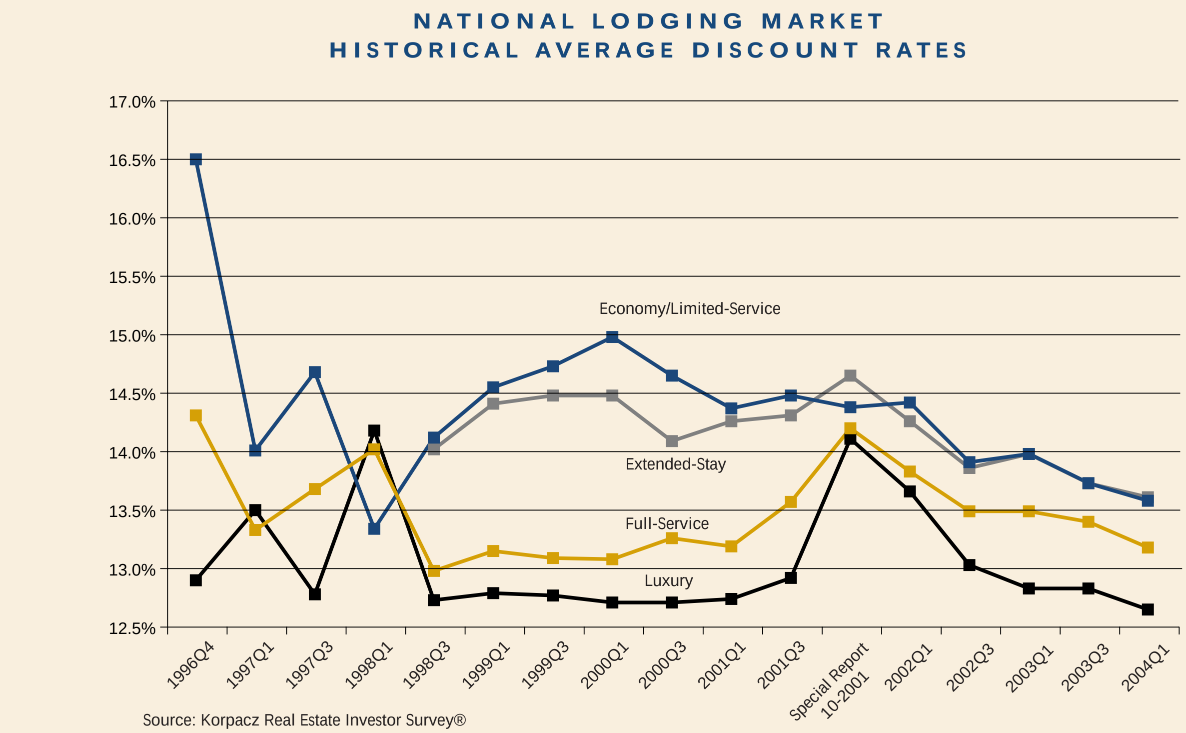
Investment Activity

With the lodging industry finally showing signs of a turnaround, transaction activity has picked up tremendously. "The volume of hotel trades is just unbelievable," exclaims a participant, who points out that the quality of the deals has also improved. While many investors contend that now is the time to sell hotels, others believe it is a good time to buy, too. "Buyers and sellers can both do well now," affirms another. Overall, 65.8% of our participants believe that industry fundamentals favor buyers. ✦

Trends and forecasts have been extracted from *PricewaterhouseCoopers Hospitality Directions,* a quarterly research journal published by PwC's Hospitality & Leisure Group. *Hospitality Directions* provides 12-quarter outlooks and forecasts for the U.S. lodging industry and each of the five chain-scale segments with respect to ADR, occupancy, RevPAR, demand, supply, and total receipts. For more information on this publication, as well as other products and services, please contact them at contact.hospitality@pwcglobal.com or call Cristina Ampil at 646-471-5003.

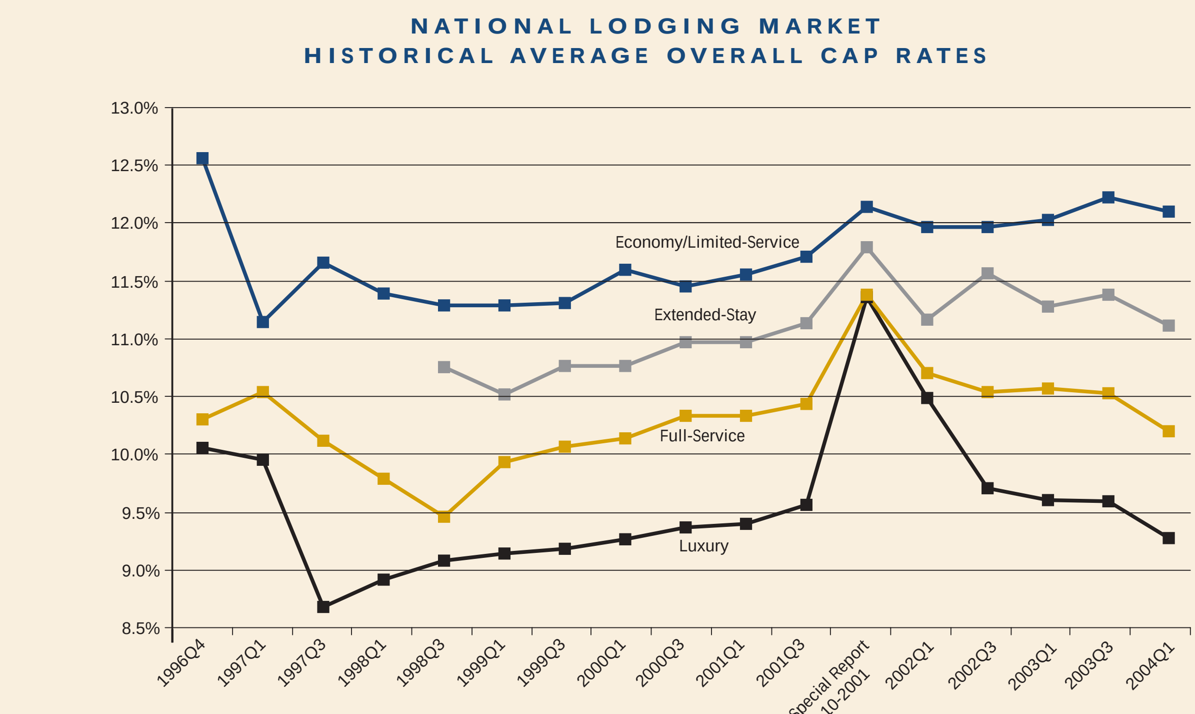
Average discount rate and average overall cap rates trends for each lodging segment are shown in the Exhibits below.

Exhibit L-3



Source: Korpacz Real Estate Investor Survey®
Note: As of 1997, lodging market information is reported in the first and third quarters of the year.

Exhibit L-4



Source: Korpacz Real Estate Investor Survey®
Note: As of 1997, lodging market information is reported in the first and third quarters of the year.

National Full-Service Lodging Segment

THE EMERGING RECOVERY OF BUSINESS TRAVEL HELPED TO STRENGTHEN DEMAND THROUGHOUT THE FULL-SERVICE LODGING SEGMENT IN THE SECOND HALF OF 2003. Specifically, demand increased by 8.4% in the upscale segment but remained flat in the midscale-with-food-and-beverage segment, according to the December 2003 issue of *PricewaterhouseCoopers Hospitality Directions.* Due to an upswing in business travel and a moderation of supply growth, demand for upscale lodging, which includes hotel chains such as Radisson, Courtyard, Amerisuites, and Hilton Garden Inns, is expected to remain extremely strong over the next 12 months. “The pace of bookings for meetings and conventions looks very good in 2004,” attests a participant.

In fact, in 2004 the upscale lodging segment is forecast to achieve its largest increase in occupancy since 1992, according to PwC Hospitality & Leisure. Specifically, demand in the upscale segment is forecast to grow 7.9%, helping to increase occupancy to 68.8% in 2004. This anticipated growth in demand follows two solid years of demand increases and will allow this segment’s average daily rate (ADR) to increase 2.1% in 2004 and approach the $100 mark in 2005. Moreover, the combined affect of gains in both occupancy and ADR in 2004 and 2005 will allow the upscale segment to regain 80.0% of the cumulative RevPAR decline that occurred between 2000 and 2003.

“The climb back to solid performances will be pretty quick for some full-service hotels in certain markets,” affirms a participant, who believes that longstanding meeting cities such San Francisco, New York, and Dallas should experience steep increases in RevPAR over the next two years. Other markets where full-service hotels are expected to perform well over the near term include Miami, Washington, DC, Los Angeles, and Boston. Still, some investors point out that RevPAR growth in many of these cities, while forecast to be strong, will remain below peak performances.

Due to the anticipated performance of this segment, investment demand has been extremely strong and many properties have traded. One investment firm that has been very active recently is Highland Hospitality Corporation, a newly formed, self-advised lodging REIT. At the end of 2003, it acquired three hotels – the 250-room Portsmouth Renaissance Hotel & Conference Center in Virginia, the 330-room Sugar Land Marriott Hotel & Conference Center in Texas, and the 176-room Virginia Beach Town Center Hilton Garden Inn – for an aggregate price of about $97,300 per room. And at the start of this year, it acquired the 351-room Hyatt Regency Savannah for nearly $142,500 per room. As a result of its recent public offering, this REIT will likely remain an active buyer in 2004. ◆

Table 26

NATIONAL FULL-SERVICE LODGING SEGMENT
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	THIRD QUARTER 2003	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	11.50%–15.00%	11.50%–15.00%	11.50%–15.00%
Average	13.20%	13.42%	13.51%
Change (Basis Points)	—	–22	–31
OVERALL CAP RATE (OAR)[a]			
Range	7.50%–12.00%	8.00%–13.00%	8.00%–13.00%
Average	10.28%	10.60%	10.64%
Change (Basis Points)	—	–32	–36
RESIDUAL CAP RATE			
Range	8.00%–13.00%	9.00%–13.00%	9.00%–13.00%
Average	10.53%	10.73%	10.67%
Change (Basis Points)	—	–20	–14
AVERAGE DAILY RATE CHG. RATE[b]			
Range	-2.00%–10.00%	-2.00%–10.00%	-5.00%–10.00%
Average	2.60%	2.38%	2.30%
Change (Basis Points)	—	+22	+30
OPERATING EXPENSE CHG. RATE[b]			
Range	2.00%–4.00%	1.00%–4.00%	1.00%–4.00%
Average	3.00%	2.92%	2.90%
Change (Basis Points)	—	+8	+10
AVERAGE MARKETING TIME (in months)			
Range	2.00–12.00	2.00–12.00	2.00–12.00
Average	6.00	6.72	7.00
% Change	—	–10.71	–14.29

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

National Economy/ Limited-Service Lodging Segment

DESPITE SUPPLY GROWTH OF NEARLY 24,400 ROOMS, OR 4.1%, IN 2003, THE MIDSCALE-WITHOUT-F&B (FOOD AND BEVERAGE) SEGMENT PERFORMED WELL DURING THAT YEAR. In fact, this segment sustained only moderate declines in RevPAR during the downturn, while recovery started sooner than in other chain scale segments. Specifically, the segment experienced a decline in RevPAR of only 2.3% between 2000 and 2002, compared to a decline of 8.9% for the industry, according to the December 2003 issue of *PricewaterhouseCoopers Hospitality Directions.* In contrast to the midscale-without-F&B segment, the economy segment's fundamentals were weaker. RevPAR for the segment declined 6.7% between 2000 and 2002 and declined another 1.2% in 2003.

Midscale-without-F&B hotel chains include Comfort Inn, Hampton Inn, Candlewood Hotels, and La Quinta Inns & Suites, which recently opened eight hotels accounting for 715 rooms in Arizona, Florida, Kentucky, Oklahoma, Tennessee, Texas, and Utah. Economy hotel chains include Motel 6, Super 8, Best Inns, Red Roof Inn, and Park Inn, which recently unveiled a new economy hotel concept. Construction of Park Inn's first prototype is expected to begin later this year.

With many hotel chains in this segment displaying signs of a recovery, it is not surprising that investor interest has also greatly improved. "Buyers in this market represent a mixture of private individuals, hotel companies, and REITs," comments a participant. Although most of the capital raised recently for hotel investments will likely be aimed at the upper, upscale segment of the industry, where more upside potential exists, some capital will be targeted toward the "reliability" of the economy/limited-service, too. "Limited-service hotels appeal to investors because they have a lower operating cost than other lodging segments and they have proven that they can persevere through downturns," explains a participant.

Even though fundamentals in this lodging segment are improving, most participants believe that buyers have the upper hand when negotiating sale transactions. Specifically, 57.1% of our participants believe that market conditions currently favor buyers, while only 14.3% of them sense that they favor sellers. "It's a good time to be a buyer now, but it is also a good time to be a seller," quips a participant.

When it comes to the expected future performance of this segment, there is a tighter consensus among our participants. An overwhelming majority (83.3%) expects occupancy for this segment either to increase as much as 100 basis points or to hold steady over the next six months. As one participant enthuses, "2004 is going to be a good year." ◆

Table 27

NATIONAL ECONOMY/LIMITED-SERVICE LODGING SEGMENT
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	THIRD QUARTER 2003	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	12.00%–16.00%	12.00%–16.00%	12.00%–16.00%
Average	13.60%	13.75%	14.00%
Change (Basis Points)	—	–15	–40
OVERALL CAP RATE (OAR)[a]			
Range	11.00%–14.00%	11.00%–14.00%	10.00%–14.00%
Average	12.13%	12.25%	12.06%
Change (Basis Points)	—	–12	+7
RESIDUAL CAP RATE			
Range	11.00%–15.00%	11.00%–15.00%	10.50%–15.00%
Average	12.42%	12.29%	12.13%
Change (Basis Points)	—	+13	+29
AVERAGE DAILY RATE CHG. RATE[b]			
Range	0.00%–4.00%	0.00%–4.00%	0.00%–8.00%
Average	1.25%	1.07%	1.78%
Change (Basis Points)	—	+18	–53
OPERATING EXPENSE CHG. RATE[b]			
Range	2.00%–4.00%	2.00%–4.00%	2.00%–4.00%
Average	3.00%	3.00%	2.96%
Change (Basis Points)	—	0	+4
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	3.00–12.00
Average	8.50	8.25	8.57
% Change	—	+3.03	+8.57

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

National Luxury Lodging Segment

WHILE ALL SEGMENTS OF THE LODGING INDUSTRY EXPERIENCED INCREASES IN DEMAND DURING THE SECOND HALF OF 2003, THE UPPER-UPSCALE SEGMENT EXPERIENCED PARTICULARLY STRONG DEMAND GROWTH OF 5.1%, ACCORDING TO THE DECEMBER 2003 ISSUE OF *PRICEWATERHOUSECOOPERS HOSPITALITY DIRECTIONS*. The strong rise in demand allowed the upper-upscale segment, which includes hotel chains such as Hilton, Westin, Ritz-Carlton, and Four Seasons, to pass its previous demand peak level set in the third quarter of 2000. With many analysts expecting business travel to gain strength in the coming year and supply growth to moderate, this segment's future looks bright.

The fact that luxury hotels are forecast to perform well amid an improving economy is a main reason for the recent resurgence in sales activity. "Investors see a lot of upside potential in high-end hotels," adds a participant, who notes that top-tier hotels suffered the hardest in 2001 when business travel slumped. Some investors, however, are quick to point out that adequate investment returns may not materialize right away. One problem is that occupancy levels in 2004 and 2005, while improved, will still be below those realized during the height of the last expansion. As a result, competition will continue among upper-upscale hotels, keeping ADR growth to a mere 1.9% in 2004. By the end of 2005, however, ADR is expected to rise 3.7%.

Table 28

NATIONAL LUXURY LODGING SEGMENT
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	THIRD QUARTER 2003	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.50%–15.00%	10.50%–15.00%	10.00%–15.00%
Average	12.67%	12.85%	12.85%
Change (Basis Points)	—	–18	–18
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–11.50%	7.00%–11.50%	7.00%–11.50%
Average	9.38%	9.69%	9.70%
Change (Basis Points)	—	–31	–32
RESIDUAL CAP RATE			
Range	8.00%–11.50%	8.00%–12.50%	8.00%–12.50%
Average	10.17%	10.13%	10.20%
Change (Basis Points)	—	+4	–3
AVERAGE DAILY RATE CHG. RATE[b]			
Range	-2.00%–9.00%	-2.00%–5.00%	-7.50%–5.00%
Average	2.44%	1.61%	1.06%
Change (Basis Points)	—	+83	+138
OPERATING EXPENSE CHG. RATE[b]			
Range	2.00%–4.00%	1.00%–3.00%	1.00%–3.00%
Average	2.94%	2.85%	2.85%
Change (Basis Points)	—	+9	+9
AVERAGE MARKETING TIME (in months)			
Range	4.00–12.00	4.00–12.00	4.00–12.00
Average	7.08	7.50	7.50
% Change	—	-5.60	-5.60

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

One high-profile luxury asset that traded recently was the Coronado, a 115-year-old, 688-room resort located in San Diego. The two institutional buyers – CNL Hospitality Properties and KSL Recreation – purchased the property for $383.0 million or roughly $556,700 per room from Ohio Public Employees Retirement System (OPERS), which acquired the property in 1997 for $330 million. OPERS spent $55.0 million renovating the property during its ownership and expects to gain about $28.8 million on the transfer.

Another luxurious hotel property offered up for sale along with seven other high-profile assets is the prestigious Grand Wailea Resort & Spa. Although located in South Maui, one of Hawaii's best-performing resort markets, the hotel has reportedly struggled financially for years. Built in 1991 for $600 million, the hotel contains 780 guestrooms and suites with rates ranging from $465 to $10,800 per night. Given its prime location and hefty room rates, some local real estate experts speculate that the sale price could easily reach between $400 and $500 million or between $513,000 and $641,000 per room.

The other six properties being offered for sale include the 796-room La Quinta Resort & Club in La Quinta, California, the 734-room Arizona Biltmore Resort & Spa in Phoenix, the 693-room Doral Golf Resort & Spa in Miami, the 474-room La Costa Resort & Spa in Carlsbad, California, the 216-room Emerald Point Resort at Lake Lanier Islands in Georgia, and the 279-room Claremont Resort & Spa in Berkeley, California. Given the superior quality of these assets, which can be bought individually, as a portfolio, or in multiples, the final sale price (or prices) will no doubt be carefully watched by the industry. ◆

National Extended-Stay Lodging Segment

WITHIN THE EXTENDED-STAY LODGING SEGMENT, THE UPPER-TIER AND LOWER-TIER SEGMENTS HAVE PERFORMED QUITE DIFFERENTLY OVER THE PAST COUPLE OF YEARS, A TREND THAT IS EXPECTED TO CONTINUE IN 2004. In the upper-tier segment of the extended-stay lodging market occupancies have remained quite strong, as some corporate travelers have gravitated from traditional upper-upscale and upscale hotels to business-oriented upscale extended-stay product. In fact, demand growth in this segment has slightly exceeded supply growth. In contrast, demand in the lower-tier segment of the extended-stay market has been much weaker, while supply growth has been relatively brisk.

Looking ahead to 2004, the combined impact of a revitalized U.S. economy and a decline in high-end supply growth is expected to advance the occupancy level of the upper-tier extended-stay segment to 74.8% in 2004, according to PricewaterhouseCoopers Hospitality & Leisure. After declining by a cumulative 8.0% since 2000, this segment's ADR is forecast to rise 2.9% in 2004. As a result of this segment's increases in both occupancy and ADR, RevPAR is forecast to increase 6.5% in 2004.

The lower-tier extended-stay market is also forecast to improve in 2004, though not as strongly as that of the upper-tier segment. Supply growth in the lower-tier segment is expected to remain modest during the upcoming year; specifically, PwC forecasts an increase in supply of 2.0% in 2004. As a result, occupancy in the lower-tier segment is forecast to slightly improve to 67.0%, while the ADR is forecast to increase by only 0.7%. The net result is a forecast 2.2% increase in RevPAR for this segment in 2004.

Not only is diversity evident in the extended-stay segment's performance forecasts, it is also apparent when analyzing key indicators. In comparison to the other lodging segments, the extended-stay segment continues to post one of the highest average overall cap rates (OAR) and the highest average discount rate (IRR). Specifically this quarter, the average OAR stood at 11.17%, while the average IRR was 13.63%. Even though these rates have both declined since both the third quarter of 2003 and last year, they remain quite high and suggest that investors continue to view the extended-stay lodging segment as one of the riskiest in the industry.

In terms of average daily rate (ADR) growth rate assumptions, however, this segment incurred one of the highest increases of the four lodging segments this quarter. Specifically, it moved up 29 basis points to reach 2.00%. Only the luxury lodging segment reported a higher increase; its average ADR growth rate assumption posted an 83-basis-point gain this quarter. ◆

Table 29

NATIONAL EXTENDED-STAY LODGING SEGMENT
First Quarter 2004

KEY INDICATORS	CURRENT QUARTER	THIRD QUARTER 2003	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	12.00%–15.00%	12.00%–15.00%	12.00%–16.50%
Average	13.63%	13.75%	14.00%
Change (Basis Points)	—	–12	–37
OVERALL CAP RATE (OAR)[a]			
Range	10.00%–13.00%	10.00%–14.00%	10.00%–14.00%
Average	11.17%	11.43%	11.33%
Change (Basis Points)	—	–26	–16
RESIDUAL CAP RATE			
Range	10.00%–13.50%	10.00%–15.00%	10.00%–15.00%
Average	11.42%	11.79%	11.71%
Change (Basis Points)	—	–37	–29
AVERAGE DAILY RATE CHG. RATE[b]			
Range	0.00%–4.00%	0.00%–4.00%	0.00%–8.00%
Average	2.00%	1.71%	2.58%
Change (Basis Points)	—	+29	–58
OPERATING EXPENSE CHG. RATE[b]			
Range	2.00%–5.00%	2.00%–5.00%	2.00%–5.00%
Average	2.75%	2.79%	2.81%
Change (Basis Points)	—	–4	–6
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	6.00–12.00
Average	7.93	7.88	7.75
% Change	—	+0.63	+2.32

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

NATIONAL REGIONAL MALL MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	8.00% to 9.50%	1.0%	9.50% to 11.50%	7.00% to 9.00%	6 to 12	60.0% to 70.0%	2.0%	$0.10 to $0.25	12
INVESTMENT BANKER ✦ Forecast Period: 10 years Relies on DCF and direct capitalization; does extensive sensitivity analysis on residual cap rates, growth rates, and initial market rents; retail sales based on historical and market analysis; typical sales growth per market per year is at the inflation rate (CPI); analysis of TIs is an important cash flow forecast item.	3.0%	3.0%	3.0%	8.00% to 10.00%	1.5%	9.75% to 11.25%	7.00% to 9.50%	6 to 9	65.0% to 75.0%	2.0% to 3.0%	$0.15 to $0.25	8 to 12
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use concessions.	4.0%	3.0%	1.5%	8.00%	1.0%	10.00%	7.50%	6	70.0%	5.0%	$0.20	6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Looks at DCF, direct capitalization, and price per square foot; uses face rents and reflects concessions when they are scheduled to occur; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0%	3.0%	3.0%	8.50% to 10.00%	2.0%	11.00% to 12.00%	9.50%	9	50.0%	5.0% to 7.0%	$0.35	9 to 18
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	8.75% to 9.75%	1.0%	10.00% to 11.50%	6.50% to 9.50%	6	70.0% to 80.0%	1.0% to 2.0%	$0.25	5 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use concessions.	3.0%	3.0%	3.0%	7.00% to 8.00%	0.75% to 1.0%	8.50% to 10.00%	6.70% to 7.30%	4 to 6	70.0% to 80.0%	0.75% to 3.0%	$0.10 to $0.35	—

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

PRICEWATERHOUSECOOPERS

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

NATIONAL POWER CENTER MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
REALTY ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	2.0%	3.0%	3.0%	9.25% to 9.75%	1.5% to 3.0%	10.75% to 11.25%	9.00% to 9.50%	Does not use	65.0%	5.0% to 8.0%	$0.10 to $0.25	6
INVESTMENT BANKER ✦ Forecast Period: 10 years Considers power center investments "coupon clipper" deals; uses both DCF and direct capitalization; focuses on West Coast; prefers urban areas with easy access and good anchor tenancy; credit is key; IRR is 11.00% on centers with good credit tenants.	3.0%	3.0%	3.0%	9.00% to 10.00%	2.0%	11.00% to 12.00%	8.75% to 10.00%	4 to 6	65.0% to 75.0%	5.0% to 10.0%	$0.10 to $0.15	6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Primarily interested in high-credit deals; uses both DCF and direct capitalization but focuses on IRR; develops IRR using tenants' bond rate plus 200 to 400 basis points for real estate related risks; lower IRRs are for high-credit deals with "bond" leases; uses present value analysis of effective rents.	0.0% to 2.0% Years 1 & 2; 3.0% thereafter	2.0% to 3.0%	2.0% to 3.0%	9.50% to 10.00%	2.0% to 2.5%	9.00% to 10.00%	8.00% to 9.00%	4 to 8	60.0% to 70.0%	1.0% (anchors); 5.0% to 8.0% (nonanchors)	$0.10 to $0.20	6 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; prefers the Southwest.	3.0%	3.0%	3.0%	9.00% to 10.00%	2.0% to 3.0%	8.00% to 9.00%	8.00% to 9.00%	6	75.0% (nonanchors)	3.0%	$0.10 to $0.15	4 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses mainly DCF analysis; in direct cap, capitalizes NOI before tenant improvements, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	1.5% to 3.0%	3.0%	3.0%	9.00% to 9.50%	1.5% to 3.0%	10.00% to 11.00%	8.50% to 9.50%	6 to 8	60.0% to 70.0%	5.0% to 8.0%	$0.20 to $0.30	6 to 10
INVESTMENT ADVISOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	9.50%	1.5% to 2.0%	11.00%	9.50%	6	70.0%	5.0% (nonanchors)	$0.20	9

PRICEWATERHOUSECOOPERS

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

NATIONAL STRIP SHOPPING CENTER MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	1.5% to 3.0%	3.0%	2.5%	8.00% to 10.00%	2.0% to 4.0%	9.00% to 11.00%	7.50% to 9.50%	3 to 9 (inline stores); 6 to 18 (anchors)	60.0% to 70.0%	5.0% to 10.0%	$0.20 to $0.30	6 to 12
INVESTMENT BANKER ✦ Forecast Period: 10 years Does extensive sensitivity analysis on residual cap rates, growth rates, and initial market rents; retail sales based on both historical and market analysis; initial cash return is more important than IRR; TIs are an important cash flow forecast item.	3.0%	3.0%	3.0%	9.00% to 11.50%	2.0%	10.00% to 12.00%	8.50% to 11.00%	4 to 8	65.0%	5.0% to 7.5%	$0.15	6 to 9
INVESTMENT FIRM ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 3.0%	3.0%	2.25%	8.75% to 9.25%	2.0% to 3.0%	9.00% to 10.00%	7.00% to 8.25%	6 to 8	65.0% to 70.0%	1.0%	$0.15 to $0.50	6 to 9
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 3 to 5 years Uses all three approaches to value; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rents after all concessions are extracted; does not use rent spikes.	0.0% to 2.0%	3.0%	2.0%	8.00% to 10.50%	2.0% to 4.0%	9.00% to 11.00%	9.00% to 10.00%	6	70.0%	8.0%	Does not use	6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	9.00% to 9.50%	1.5% to 2.0%	10.00% to 11.00%	8.50% to 9.50%	6	75.0%	5.0%	$0.10 to $0.15	4 to 6
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	8.00% to 9.00%	1.0% to 3.0%	9.00% to 10.50% (neighborhood centers); 9.00% to 10.75% (community centers)	7.50% to 9.00%	6 to 12	60.0% to 75.0%	1.0% to 3.0%	$0.10 to $0.25	6 to 12
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Invests primarily in 200,000- to 400,000-square-foot, well-anchored community centers and good credit quality anchored power centers; relies on DCF; uses effective rents.	0.0% to 2.0% Years 1 & 2; 3.0% thereafter	2.0% to 3.0%	2.0% to 3.0%	9.00% to 10.00%	2.0% to 3.0%	9.00% to 10.50%	8.50% to 9.50%	6 to 8	60.0% to 70.0%	1.0% (anchor); 5.0% to 8.0% (nonanchor)	$0.15 to $0.20	6 to 9

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

PRICEWATERHOUSECOOPERS

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

NATIONAL CBD OFFICE MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTMENT FIRM ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 3.0%	3.0%	2.5%	9.00% to 9.50%	2.0% to 3.0%	11.00%	8.75% to 9.25%	6	70.0%	2.0% to 3.0%	$0.25	6 to 9
INVESTMENT BANKER ✦ Forecast Period: 10 years Real cash-on-cash rate (after capital expenditures) is more important than IRR; real interest in newer CBD buildings at 8.0% to 10.0% cash-on-cash rates.	0.0% to 3.0%	3.0%	3.0%	9.00% to 10.50%	2.0%	10.00% to 12.00%	8.00% to 10.50%	6 to 8	60.0% to 70.0%	3.0% to 5.0%	Varies	6 to 9
INVESTMENT BANKER ✦ Forecast Period: 5 years Prefers DCF; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	1.0%	3.0%	2.0% to 3.0%	8.75% to 10.00%	2.0%	10.00% to 11.00%	8.50% to 9.50%	5 to 10	70.0%	5.0%	$0.20 to $0.50	6 to 9
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Buys free and clear; interested in attractive, well-located Class-A properties; relies on DCF; uses direct capitalization as a check only; uses face rents and reflects concessions when they are scheduled to occur; prime interest currently in development properties.	1.0%	3.0%	2.5%	9.50%	3.0%+ local tariffs	10.90%	9.25%	7	65.0%	7.0%	$0.15	6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	2.0%	1.5%	2.0%	10.00% to 10.75%	2.0% to 3.0%	11.25% to 12.25%	9.00% to 10.00%	6	70.0%	7.0%	$0.10 to $0.15	6 to 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	neg. 8.0% to 3.0%	3.0%	2.5%	7.50% to 11.00%	1.5% to 4.0%	9.00% to 11.00%	7.00% to 10.00%	6 to 18	50.0% to 65.0%	5.0% to 15.0%	$0.20 to $0.50	3 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Relies on DCF, direct capitalization, and price per square foot; uses face rents; OAR will differ if rents well-below market.	0.0%	3.0%	3.0%	7.75% to 9.50%	2.0%	10.00% to 11.00%	8.00% to 9.00%	9 to 12	60.0%	7.0% to 10.0%	$0.20 to $0.50	6 to 12
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	7.50% to 9.00%	1.0% to 2.0%	8.50% to 10.50%	7.00% to 9.00%	6 to 12	65.0% to 75.0%	1.0% to 7.0%	$0.10 to $0.25	6 to 12

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

PRICEWATERHOUSECOOPERS

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

NATIONAL SUBURBAN OFFICE MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses rent spike of 4.0% to 10.0% during first four years in severely oversupplied markets.	0.0% to 3.0%	3.0%	3.0%	8.75% to 9.75%	2.0% to 3.0%	9.75% to 11.00%	7.25% to 10.00%	6 to 9	65.0% to 75.0%	1.0% to 6.0%	$0.10 to $0.20	—
INVESTMENT BANKER ✦ Forecast Period: 10 years Real cash-on-cash rate (after capital expenditures) is more important than IRR; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	9.00% to 10.50%	2.0%	10.50% to 12.50%	8.50% to 10.50%	6 to 9	65.0%	5.0% to 7.5%	$0.15 to $0.25	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	neg. 8.0% to 3.0%	3.0%	2.5%	8.50% to 11.00%	1.5% to 4.0%	9.50% to 12.00%	7.50% to 11.00%	6 to 12	50.0% to 70.0%	5.0% to 15.0%	$0.15 to $0.50	6 to 12
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Buys free and clear; average IRR consists of a 6.50% to 7.50% real rate of return, plus inflation; the indicated growth scenarios help to determine sensitivity of investment to inflation; relies on DCF equity cap rate; use of face or effective rents varies with market.	0.0%	3.0%	2.5%	9.50%	3.0%+ any local tariffs	11.00%	9.50%	7	65.0%	8.0%	$0.25 to $0.50	6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	10.75% to 11.25%	2.0% to 3.0%	11.00% to 12.00%	9.50% to 10.50%	6	75.0%	5.0%	$0.10 to $0.15	6 to 8
REIT ✦ Forecast Period: 5 to 10 years Focuses on NOI cap rate, DCF, and cash-on-cash return; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	2.5%	10.50%	3.0%	12.00%	11.00% to 11.50%	12	60.0% to 70.0%	5.0%	$0.15 to $0.30	5
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Relies on DCF, direct capitalization, and price per square foot; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	8.25% to 9.50%	2.0% to 3.0%	10.00% to 12.00%	7.50% to 9.50%	9 to 12	60.0%	7.0% to 10.0%	$0.30 to $0.50	6 to 12
INVESTOR ✦ Forecast Period: 10 years Relies on DCF and direct capitalization; selling expenses capped at $150,000; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	0.0%	Average 2.5% over the forecast period	3.0%	9.00% to 10.00%	1.5%; capped at $150,000	10.00% to 12.00%	7.00% to 8.00%	9	70.0%	0.50%	$1.00	6

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

PRICEWATERHOUSECOOPERS

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

ATLANTA OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INSTITUTIONAL OWNER/OPERATOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% Year 1; 3.0% thereafter	—	3.0%	9.00% (suburbs)	1.0%	11.00% (suburbs)	9.50% (suburbs)	9	70.0%	2.0% to 3.0%	$0.10 to $0.15	6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses effective rent after all concessions are extracted.	0.0% to 3.0%	3.0%	3.0%	9.25% both CBD and suburbs	2.0%	10.75% (CBD); 10.00% to 11.00% (suburbs)	9.00% (CBD); 9.00% to 10.00% (suburbs)	6 to 10	70.0% to 75.0%	2.0% to 3.0%	$0.15	—
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 1.0%	3.0%	3.0%	9.25% (CBD); 10.25% (suburbs)	3.0%	10.50% (CBD); 11.50% (suburbs)	9.00% (CBD); 9.75% (suburbs)	6	65.0%	7.5% to 10.0%	$0.20 to $0.25	9
INVESTMENT BROKER ✦ Forecast Period: 10 years Prefers DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of up to 6.0% in 2005 and 2006.	1.0% to 2.0%	1.5% to 2.5%	2.0%	9.00% to 9.50% (CBD); 9.50% to 10.00% (suburbs)	1.0% to 3.0%	9.50% to 11.00% (CBD); 9.50% to 11.00% (suburbs)	8.50% to 9.50% (CBD); 8.50% to 10.00% (suburbs)	6 to 9	65.0% to 70.0%	5.0%	$0.10 to $0.20	1 to 2
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 8 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1	3.0%	3.0%	10.00% in both CBD and suburbs	2.0%	12.00% in both CBD and suburbs	9.00% to 11.00% in both CBD and suburbs	6	60.0%	8.0%	$0.25	6 to 9
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Relies on DCF; typical management fees are 2.5%; typical leasing fees are 5.0% on new leases, 2.0% on renewals; typical TIs are $15.00 for new leases, $7.50 for renewals; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 3.0% Years 2 & 3	3.0%	3.0%	8.50% in both CBD & suburbs	1.5%	9.00% to 10.00% (CBD); 9.00% to 10.00% (suburbs)	8.00% in both CBD & suburbs	6	60.0%	7.0%	$0.40 to $0.50	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; 2.0% Year 2	3.0%	3.0%	9.50% to 10.00%	1.5% to 2.0%	10.00% (CBD); 10.00% to 10.50% (suburbs)	8.50% (CBD); 9.00% (suburbs)	8	70.0%	10.0%	$0.15	9

PRICEWATERHOUSECOOPERS

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

BOSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	8.75% (CBD); 9.00% to 10.00% (suburbs)	2.0% to 3.0%	10.00% (CBD); 11.00% (suburbs)	8.00% (CBD); 9.00% (suburbs)	6	65.0%	7.5% to 10.0%	$0.20 to $0.25	6
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 5.0% in years five and six for suburban markets.	0.0% Years 1 and 2; 1.0% Year 3; 3.0% thereafter	3.0%	3.0%	Based on estimate of residual value	2.0%	9.00% (CBD); 11.00% (suburbs)	8.00% (CBD); 9.00% (suburbs)	6 to 12	60.0% to 65.0%	5.0% to 8.0%	$0.10 to $0.30	—
INVESTOR ✦ Forecast Period: 1 year Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; crosschecks against comparable sales.	0.0% Years 1 and 2	3.0%	3.0%	9.50% (CBD); 10.50% (suburbs)	1.5%	11.00% (CBD); 13.00% (suburbs)	10.00% (CBD); 11.25% (suburbs)	9	60.0%	5.0%	$0.30	12 to 24
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 2.0%	3.0%	3.0%	9.25% (CBD); 10.00% (suburbs)	2.0%	10.50% to 11.00% (CBD); 10.75% to 11.25% (suburbs)	9.00% (CBD); 10.00% (suburbs)	6 to 12	65.0%	5.0% to 10.0%	$0.20 to $0.25	6
INVESTOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% Years 1 to 3; 2.5% thereafter	2.5%	2.5%	9.00%	2.5%	10.50%	9.50%	9	65.0%	5.0%	$0.25	6
MORTGAGE BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents; uses rent spike of 4.0% to 5.0% in years 5 through 7.	0.0%	3.0%	—	9.00% (CBD); 9.50% (suburbs)	1.0% to 1.5%	11.00% to 12.00%	8.50% to 9.50%	10	60.0%	5.0%	$0.15 to $0.20	6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	8.00% to 10.00% (CBD); 9.00% to 11.00% (suburbs)	2.5% to 5.0%	9.00% to 12.00% (CBD); 10.00% to 13.00% (suburbs)	7.00% to 10.00% (CBD); 8.00% to 12.00% (suburbs)	6	65.0%	5.0%	$0.25 to $0.50	3 to 9

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

PRICEWATERHOUSECOOPERS

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

CHICAGO OFFICE MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Relies mainly on DCF analysis; also uses cost approach and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; uses rent spike of 4.0% in years 2006 and 2007 for suburban properties.	0.0% Years 1-3	3.0%	2.5%	9.00% (CBD); 9.50% (suburbs)	2.0%	9.50% to 11.00% (CBD); 9.50% to 12.00% (suburbs)	7.50% to 11.00% (CBD); 8.00% to 11.00% (suburbs)	9	67.0%	7.0% to 10.0%	$0.25 to $0.50	18 to 24
MORTGAGE BANKER ✦ Forecast Period: 10 years Relies on DCF and uses direct capitalization as a test; cost, rent, and value per square foot are true "sanity tests"; real estate taxes are a big issue (usually more than 50.0% of property expenses); uses effective rent after all concessions are extracted.	0.0%	3.0%	3.0%	8.00% (CBD); 8.50% (suburbs)	1.5%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	18	60.0% to 65.0%	10.0%	$0.10 to $0.15	9 to 15
INSTITUTIONAL INVESTOR ✦ Forecast Period: 5 years Relies on DCF; forecasts higher expenses in Cook County; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses rent spike of 5.0% to 6.0% in 2006 in the Eastwest corridor and CBD.	neg. 5.0% (CBD); neg. 2.0% (suburbs)	3.0%	3.0%	8.00% to 10.00% (CBD); 9.00% to 11.00% (suburbs)	2.0% to 4.0%	13.00%	8.00% to 10.00% (CBD); 9.00% to 11.00% (suburbs)	24 to 36	65.0%	10.0% to 15.0%	$0.25 to $0.35	3 to 6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; uses effective rents after all concessions are extracted.	0.0% to 2.0% Years 1 & 2; 3.0% thereafter	2.0% to 3.0%	2.0% to 3.0%	9.00% to 9.50% (suburbs)	2.0% to 3.0%	9.50% to 10.50% (suburbs)	8.50% to 9.50% (suburbs)	4 to 6	60.0% to 70.0%	2.0% to 3.0%	$0.15 to $0.20	6 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0%	2.0% to 3.0%	3.0%	8.75% to 10.00%	1.5% to 2.0%	10.00% to 11.00%	8.50% to 9.50% (CBD); 9.50% to 10.50% (suburbs)	6 to 15 (CBD); 8 to 16 (suburbs)	70.0%	7.0% to 15.0% (CBD); 10.0% to 15.0% (suburbs)	$0.20	9 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years 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%	8.75% to 9.25% (CBD); 9.75% to 10.25% (suburbs)	2.0% to 3.0%	10.00% to 11.00% (CBD); 10.50% to 11.50% (suburbs)	8.50% (CBD); 9.00% (suburbs)	6	60.0% to 65.0%	7.5% to 10.0%	$0.20 to $0.25	6
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Relies on DCF; uses face rents and reflects concessions as they are scheduled to occur; prefers the West Loop; uses rent spikes.	0.0% Year 1; 3.0% Years 2 & 3	3.0%	3.0%	8.25% to 8.75% (CBD); 8.50% to 8.75% (suburbs)	1.0% to 2.0%	8.50% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	8.00% to 8.50% (CBD); 9.00% (suburbs)	6	60.0%	7.0%	$0.25	9
INVESTOR/DEVELOPER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0%	2.5%	3.0%	8.50% to 9.50% (CBD); 9.00% to 10.00% (suburbs)	0.75% to 1.5%	9.50% to 10.50% (CBD); 10.50% to 11.50% (suburbs)	8.00% to 9.50% (CBD); 8.50% to 10.00% (suburbs)	9	50.0% to 70.0%	4.0% to 6.0%	$0.15 to $0.25	9

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

PRICEWATERHOUSECOOPERS

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

DALLAS OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization and sales comparison approach; uses effective rents; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses rent spike of up to 15.0% in years 2 to 5.	0.0% Year 1; 4.0% to 5.0% Year 2	3.0%	3.0%	9.00% to 9.50% in both CBD & suburbs	1.5% to 2.0%	10.00% to 12.00% (CBD); 10.50% to 12.25% (suburbs)	8.50% to 9.50% (CBD); 8.00% to 9.00% (suburbs)	10	65.0%	6.0% to 7.0%	$0.15 to $0.25	3
INVESTMENT ADVISOR ✦ Forecast Period: 3, 5, and 10 years Relies on DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; no longer applies rent spikes.	neg. 2.0% to 0.0%	3.0%	3.0%	9.00% to 10.00%	1.5%	11.00% to 12.00%	9.00% to 10.50%	6 to 9	60.0% to 75.0%	5.0%	$0.25	9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	neg 5.0% to 0.0%	3.0%	3.0%	9.25% to 10.00% (CBD); 9.50% to 10.25% (suburbs)	2.0% to 4.0%	10.50% (CBD); 11.00% (suburbs)	9.00% (CBD); 9.50% (suburbs)	6 to 9	65.0%	10.0% to 15.0%	$0.20 to $0.25	6 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; no longer applies a rent spike; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	10.00%	2.5%	11.00%	12.00%	9	67.0%	1.0%	$0.10 to $0.25	—
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	3.0%	3.0%	3.0%	10.00%	2.0%	11.50%	9.75% to 10.00%	6	60.0%	2.0% to 3.0%	$0.10	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 8 years Uses both DCF and direct capitalization; also looks at discount to replacement cost; relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	—	3.0%	3.0%	9.00% to 11.00%	2.0%	10.00% (CBD); 12.00% (suburbs)	9.00% in both CBD and suburbs	6	60.0%	4.0%	$0.25	6

PRICEWATERHOUSECOOPERS

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

HOUSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization and sales comparison approach; uses effective rents; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses rent spike of up to 15.0% in years 2 to 5.	3.0% to 5.0%	1.0% to 3.0%	3.0%	9.25% in both CBD & suburbs	1.5% to 2.0%	10.00% to 11.50% (CBD); 10.25% to 11.50% (suburbs)	8.50% to 9.00% in both CBD & suburbs	10	65.0%	6.0% to 7.0%	$0.15 to $0.25	3
INVESTMENT ADVISOR ✦ Forecast Period: 3, 5, and 10 years Relies on DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	neg. 2.0% to 0.0%	3.0%	3.0%	9.00% to 10.50%	1.5%	10.50% to 12.00%	9.50% to 11.00%	6 to 9	60.0% to 75.0%	5.0%	$0.30	9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	2.0%	2.5%	2.5%	9.00% to 10.00% (CBD); 10.00% to 11.00% (suburbs)	2.0% to 3.0%	10.00% to 11.00% (CBD); 9.50% to 10.50% (suburbs)	9.00% to 10.00% (CBD); 8.00% to 10.00% (suburbs)	6	70.0%	7.0%	$0.10 to $0.15	6 to 8
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	9.50% to 10.00%	2.0%	11.50% to 12.00%	10.00% to 10.50%	9	65.0%	3.0% to 8.0%	$0.10 to $0.20	—
PRIVATE INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses effective rent after all concessions are extracted.	neg. 5.0% Years 1 & 2	1.0%	1.0%	11.00% (CBD); 12.00% (suburbs)	2.0%	13.00% (CBD); 14.00% (suburbs)	11.00% (CBD); 12.00% (suburbs)	12	65.0%	5.0%	$0.20	9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	neg. 5.0% to 0.0%	3.0%	3.0%	9.50% to 10.50% (CBD); 9.75% to 10.75% (suburbs)	2.0% to 4.0%	10.50% (CBD); 10.75% (suburbs)	9.25% (CBD); 9.50% (suburbs)	6	65.0%	10.0% to 15.0%	$0.20 to $0.25	4 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 8 years Uses both DCF and direct capitalization; also looks at discount to replacement cost; relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0% to 4.0%	3.0%	9.50% to 11.00%	2.0%	10.50% to 13.50%	8.00% to 10.00%	6	60.0%	5.0% to 7.0%	$0.25	6 to 9

PRICEWATERHOUSECOOPERS

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

LOS ANGELES OFFICE MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
PENSION FUND ADVISOR ✦ Forecast Period: 7 to 10 years Relies on DCF; looks at value indicated by direct capitalization; uses face rents and reflects concessions when they are scheduled to occur; does not tie income or expenses directly to CPI; focuses on suburban markets.	1.0% to 3.0%	3.0%; taxes 2.0%	2.0% to 3.0%	8.00% to 10.00% (suburbs)	1.0% to 2.0%	11.00% to 14.00% (suburbs)	8.00% to 10.00% (suburbs)	5 to 10	60.0% to 70.0%	5.0% to 12.0%	$0.10 to $0.50	6 to 10
REAL ESTATE ADVISOR ✦ Forecast Period: 5, 7, and 10 years Buys turnaround situations as well as rotational plays in suburban markets; uses both DCF and direct capitalization; relies on DCF; uses face rents in DCF model, net effective rents in direct capitalization.	0.0%	2.5%	3.0%	7.50% to 8.50%	1.5% to 2.0%	9.00% to 11.00%	7.50% to 8.50%	2 to 12	60.0%	10.0% to 14.0%	$0.30 to $1.00	6
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses DCF, direct capitalization, and price per square foot; does extensive sensitivity analysis and correlates all value indications; uses face rents; IRRs for Class-A properties are 11.00% to 13.00%; investors looking at IRRs again; cash-on-cash analysis is becoming important with perceived risk in economy and current interest rates.	3.0%	3.0%	3.0%	9.00%	2.0%	11.00% to 15.00%	7.00% to 10.00%	4 to 6	65.0% to 75.0%	5.0% to 15.0%	$0.10 to $0.20	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses rent spike of 5.0% to 8.0% during years three to five in various submarkets.	0.0% to 3.0%	3.0%	3.0%	8.25% to 8.50% (CBD); 8.00% to 8.50% (suburbs)	1.0% to 2.0%	9.75% to 10.25% (CBD); 9.50% to 10.25% (suburbs)	6.00% to 8.00% (CBD)	6 to 9	70.0%	2.0%	$0.15 to $0.20	—
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	2.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	0.5% to 5.0%	9.00% to 11.00% (CBD); 10.00% to 12.00% (suburbs)	7.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)	9 to 18	65.0% to 75.0%	2.0% to 5.0%	$0.10 to $0.25	6 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; prefers suburbs.	0.0% to 5.0%	3.5%	3.0%	8.50% to 11.00% (suburbs)	1.0% to 2.0%	10.00% to 12.50% (suburbs)	8.00% to 10.50% (suburbs)	3 to 12	65.0%	5.0% to 12.0%	$0.10 to $0.40	3 to 9
INVESTOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; typically looks for Class-A, 150,000-square-foot and larger properties in tier-1 locations; likes opportunities for turnaround, repositioning, and select renovation projects.	3.0% to 5.0%	2.5%	2.0%	10.00% (CBD); 9.50% (suburbs)	1.0%	12.00% to 13.00% (CBD); 11.00% to 12.00% (suburbs)	9.00% to 11.00%	5	75.0%	5.0%	Does not use	6 to 8

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

PRICEWATERHOUSECOOPERS

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

MANHATTAN OFFICE MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTMENT BANKER ✦ Forecast Period: 10 years Strongest interest is in Midtown; selling expenses exclude transfer tax which is ignored in analysis; uses both DCF and direct capitalization; leasing commissions equate to 32.0% of first-year rent plus 16.0% for inside broker on ten-year deals.	3.0%	3.0%	3.0%	8.50% to 10.00%	3.0%	9.50% to 11.00%	6.00% to 9.00%	6 to 9	70.0%	5.0%	$0.20 to $0.50	4 to 9
INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents; selling expenses include transfer tax; uses a rent spike of 6.0% in 2005 and 2006.	0.0%	5.0%	—	8.00%	4.0%	8.50% to 9.00%	7.50% to 8.50%	8	70.0%	8.0%	$0.20	4 to 5
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Reflects NYC reassessment at 40.0% to 45.0% of sale price with tax rate increases of 5.0% per year; looks at DCF, direct capitalization, and price per square foot; selling expenses include transfer tax.	1.0%	3.0%	3.0%	7.75% to 9.00%	2.0% to 3.0%	9.50% to 11.00%	7.50% to 8.50%	6 to 9	70.0%	7.0%	$0.30 to $0.50	9 to 12
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commission, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur; selling expenses include transfer tax.	0.0%	3.0%	3.0%	8.50% to 9.00%	4.5%	10.50%	8.50% to 9.00%	8 to 12	65.0%	5.0%	$0.20	6 to 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; selling expenses exclude transfer tax, which is ignored in analysis; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	7.50% to 10.00%	0.5% to 5.0%	9.00% to 12.00%	6.50% to 10.00%	6 to 9	65.0%	5.0%	$0.25 to $0.75	3 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 5, 7, and 10 years Uses both DCF and direct capitalization; relies on DCF; uses face rents in DCF model, net effective rents in direct capitalization; prefers Midtown and Times Square; selling expenses exclude transfer tax.	0.0%	3.0%	3.0%	7.00% to 9.00%	1.5% to 2.0%	9.50% to 11.00%	7.00% to 9.00%	6 to 18	50.0%	8.0%	$0.30 to $1.00	10

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

PRICEWATERHOUSECOOPERS

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

PACIFIC NORTHWEST OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Buys free and clear; interested in attractive, well-located Class-A properties; relies on DCF; uses direct capitalization as a check only; uses face rents and reflects concessions when they are scheduled to occur; underlying vacancy and credit loss may be lower based on occupancy, leases in place, and rollover risk; developmental preferred.	1.5%	3.0%	2.5%	9.30%	3.0% + any local tariffs	11.25%	9.30%	6	65.0%	7.5%	$0.25 to $0.50	6
INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	1.0%	3.0%	3.0%	8.50% to 9.50%	3.0%	10.25% to 11.75%	9.00% to 11.00%	3 to 12	75.0% to 80.0%	5.0% to 10.0%	Does not use	3 to 12
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses DCF, direct capitalization, and price per square foot; does extensive sensitivity analysis; reliance is on projections and IRRs; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	9.00% to 10.00%	2.0%	11.00% to 13.00%	8.75% to 10.00%	4 to 6	65.0% to 70.0%	5.0% to 10.0%	$0.15 to $0.20	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; may use a spike of 5.0% to 8.0% in various years.	0.0% to 2.0%	3.0%	3.0%	8.00% to 9.00% both CBD and suburbs	2.0%	10.00% to 10.50% (CBD); 10.00% to 15.00% (suburbs)	8.00% to 9.00% both CBD and suburbs	9	65.0%	5.0% to 10.0%	$0.15 to $0.25	6 to 9
INVESTOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur; prefers Puget Sound, Portland, Salt Lake City, and Reno.	Varies	2.0% to 4.0%	3.0%	9.50% to 10.00%	3.0% to 5.0%	10.75% to 13.00%	9.00% to 10.00%	6	70.0%	5.0% to 7.0%	$0.10 to $0.20	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Interested in Seattle and Portland; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rents after all concessions are extracted.	3.0%	3.0%	3.0%	9.00% to 10.00%	1.0% to 3.0%	10.50% to 14.00%	8.00% to 9.50%	6	70.0%	5.0%	$0.15 to $0.25	6

PRICEWATERHOUSECOOPERS

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

PHILADELPHIA OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
REIT ✦ Forecast Period: 7 to 10 years Focuses on NOI cap rate, DCF, and cash-on-cash return; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	1.5%	3.0%	2.5%	11.00% (CBD); 10.50% (suburbs)	3.0%	12.50%	11.50% to 12.00% (CBD); 11.00% to 11.50% (suburbs)	12	65.0% to 75.0%	7.5%	$0.15 to $0.30	5
REAL ESTATE ADVISOR ✦ Forecast Period: 11 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; no longer applies a rent spike.	0.0%	3.0%	3.0%	7.00% to 9.00%	1.0% to 2.0%	9.00% to 11.00%	7.00% to 9.00%	6 to 12	50.0%	12.0%	$0.30 to $1.00	6
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; focuses on suburban markets.	1.5%	2.5%	2.0%	10.50% (suburbs)	2.0%	10.00% to 12.00% (suburbs)	9.00% to 11.00% (suburbs)	6	65.0%	5.0%	$0.20	6
REAL ESTATE ADVISOR ✦ Forecast Period: 7 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	2.5%	2.5%	2.5%	9.50% (CBD); 10.00% (suburbs)	3.0% to 6.0%	10.25% (CBD); 11.00% (suburbs)	9.00% (CBD); 9.50% (suburbs)	6	50.0%	10.0%	$0.10 to $0.20	12
OPPORTUNITY FUND INVESTOR ✦ Forecast Period: 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; prefers suburbs.	0.0% Years 1 & 2; 3.0% thereafter	3.0%	3.0%	10.00% in both CBD and suburbs	3.0%	10.00% in both CBD and suburbs	9.50% in both CBD and suburbs	6	65.0%	2.0% to 5.0%	$0.25 to $0.50	—
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve (averaged to smooth out); does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	9.00% to 10.00%	2.0%	11.00% to 12.50%	9.00% to 10.50%	6 to 9	65.0%	5.0%	$0.15 to $0.25	6 to 9
PRIVATE REAL ESTATE INVESTOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	2.0%	2.5%	—	9.25% (CBD); 9.75% (suburbs)	2.5%	9.00% to 10.00% (CBD); 9.50% to 10.00% (suburbs)	9.00% to 10.00% in both CBD and suburbs	8	75.0%	9.0%	$0.20	4

PRICEWATERHOUSECOOPERS

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

SAN FRANCISCO OFFICE MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 3.0% Years 2-4; 5.0% thereafter	3.0%	3.0%	9.50%	1.0% to 1.5%	10.00% to 10.50%	9.50%	6	60.0%	7.0%	$0.25	9
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization but relies on DCF; uses face rents rents and reflects concessions when they are scheduled to occur; prefers the CBD.	0.0% to 3.0%	3.0%; taxes 2.0%	2.0% to 3.0%	8.00% to 10.00% (CBD)	1.0% to 2.0%	10.00% to 13.00% (CBD)	8.50% to 10.50% (CBD)	5 to 15	50.0% to 70.0%	10.0% to 15.0%	$0.10 to $0.50	6 to 12
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; applies a 5.0% rent spike in years 3 and 4.	0.0%	3.0%	2.0%	10.00% (CBD); 11.50% (suburbs)	1.0% to 2.0%	11.00% (CBD); 11.50% (suburbs)	10.00%	12	45.0% to 55.0%	15.0% to 20.0%	$0.15 to $0.25	9 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Buys turnaround situations as well as rotational plays in suburban markets; uses both DCF and direct capitalization; relies on DCF; uses face rents in DCF model, net effective rents in direct capitalization.	0.0%	3.0%	3.0%	7.00% to 8.50%	1.5% to 2.0%	9.00% to 11.00%	7.00% to 8.50%	6 to 18	40.0%	15.0%	$0.30 to $1.00	6 to 12
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Prefers CBD; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	7.50% to 9.00% (CBD); 8.00% to 9.00% (suburbs)	1.0%	9.00% to 10.00% (CBD); 9.00% to 10.50% (suburbs)	7.00% to 9.50% both CBD and suburbs	8 to 12	65.0% to 75.0%	1.0% to 3.0%	$0.10 to $0.25	6 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% Years 1 & 2; 3.0% thereafter	3.0%	3.0%	9.50%	1.0% to 3.0%	10.25% to 10.75%	9.50% to 10.50%	8	60.0%	3.0% to 5.0%	$0.25 to $0.35	9 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	neg. 5.0% to 0.0%	4.5%	3.0%	8.00% to 10.50% (CBD)	1.0% to 2.0%	9.00% to 13.00% (CBD)	7.50% to 10.00% (CBD)	3 to 7	70.0%	5.0% to 10.0%	$0.10 to $0.30	—
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rent after all concessions are extracted; uses a rent spike of 5.0% in years five and six in some submarkets.	0.0% Years 1-2; 2.0% Year 3; 3.0% Year 4; 5.0% Years 5-6; 3.0% thereafter	3.0%	3.0%	Based on estimate of residual value	2.0%	9.00% (CBD); 10.50% (suburbs)	8.00% (CBD); 9.00% (suburbs)	8 to 12	60.0%	7.0% to 9.0%	$0.15 to $0.30	—

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

PRICEWATERHOUSECOOPERS

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

SOUTHEAST FLORIDA OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
REIT ✦ Forecast Period: 5 to 10 years Core-plus buyer looking for mid-teen returns with moderate leverage; uses price per square foot, stabilized cap, and 10-year DCF as checks; uses face rents and reflects concessions when they are scheduled to occur.	2.0% to 3.0%	2.0% to 3.0%	2.5%	10.00% to 11.00%	2.0%	10.50% to 12.50%	9.00% to 11.00%	9 to 12	65.0%	5.0% to 7.0%	$0.25 to $0.50	9 to 12
INSTITUTIONAL OWNER/OPERATOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	3.0%	—	3.0%	8.75% (CBD)	2.0%	10.50% to 11.00% (CBD)	9.00% (CBD)	12	70.0%	3.0%	$0.10	6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	9.00% to 9.75% (CBD); 9.00% to 10.50% (suburbs)	2.0% to 4.0%	9.50% to 11.00% (CBD); 9.50% to 11.00% (suburbs)	7.25% to 9.50% (CBD); 7.25% to 10.00% (suburbs)	6 to 12	65.0% to 70.0%	7.0% to 11.0%	$0.10 to $0.30	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	8.25% (CBD)	1.0% to 2.0%	9.50% (CBD); 10.00% to 11.00% (suburbs)	8.00% (CBD)	6	70.0%	2.0% to 4.0%	$0.15 to $0.20	—
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 8 years Uses both DCF and direct capitalization; also looks at discount to replacement cost; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Years 1 & 2	3.0% to 4.0%	3.0%	9.50% to 11.00%	2.0%	11.00% to 12.00%	8.00% to 10.00%	6	65.0%	4.0%	$0.25	6 to 9
REIT ✦ Forecast Period: 10 years Valuation preference is DCF analysis; also uses direct cap; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserves; does not use rent spikes; prefers suburbs.	2.0%	2.5%	2.0%	10.00% to 11.00% (suburbs)	2.0%	9.00% to 10.50% (suburbs)	9.50% to 10.50% (suburbs)	6	65.0%	5.0%	$0.20	6

PRICEWATERHOUSECOOPERS

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

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

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	9.00% to 10.00%	2.0%	10.00% to 12.00%	8.00% to 10.50%	6	70.0%	2.0% to 5.0%	$0.10 to $0.20	6 to 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	8.00% to 10.50%	1.5% to 3.0%	9.50% to 11.00%	8.00% to 9.00%	6	65.0%	0.0% to 7.0%	$0.15 to $0.25	2 to 6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses present value analysis of effective rents; does not use rent spikes.	2.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	8.00% to 8.50%	2.0% to 3.0%	9.00% to 10.00%	7.50% to 8.00%	3 to 6	60.0% to 70.0%	1.0% to 2.0%	$0.15 to $0.20	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	0.0%	3.0%	3.0%	6.50% to 8.50%	1.5% to 2.0%	9.00% to 11.00%	6.50% to 8.50%	6 to 12	60.0%	8.0% to 14.0%	$0.30 to $1.00	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	8.00%	2.0%	8.50% to 9.00%	7.50%	6	70.0%	1.0%	$0.15	—
PENSION FUND ADVISOR ✦ Forecast Period: 7 to 10 years Relies on DCF, direct capitalization, and price per square foot; does not use rent spikes; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	1.0%	3.0%	3.0%	7.75% to 9.00%	2.0% to 3.0%	9.50% to 10.50%	7.00% to 8.50%	6 to 12	60.0%	5.0%	$0.30 to $0.40	9 to 12
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing	0.0% Year 1; 2.0% Years 2-3; 3.0% thereafter	Averages 2.5% over holding period	2.5%	9.00%	2.0%	9.00% to 9.50%	7.00% to 7.50%	6	65.0%	3.0%	$0.20 to $0.50	6

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

PRICEWATERHOUSECOOPERS

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

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

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	9.50% to 10.50%	2.0%	11.00% to 12.50%	9.00% to 10.50%	6 to 8	65.0%	5.0%	$0.15 to $0.25	6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	8.00% to 11.00%	1.5% to 3.0%	10.50% to 12.00%	7.50% to 10.50%	6 to 12	65.0%	3.0% to 10.0%	$0.15 to $0.25	2 to 6
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 10 years Mainly uses DCF; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	0.0% Year 1; 2.0% Years 2-3; 3.0% thereafter	Average 2.5% over the holding period	2.5%	9.50%	2.5%	9.50% to 10.00%	9.25% to 9.50%	6 to 8	60.0%	5.0%	$0.20 to $0.50	8
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	8.25% (CBD); 8.25% to 9.00% (suburbs)	2.0%	8.50% to 9.25% (CBD); 9.25% to 10.00% (suburbs)	8.00% in both CBD and suburbs	6	70.0%	1.5% to 2.0%	$0.10	—
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; also relies on price per square foot; assumes a flat rent and higher credit loss for tech tenants.	0.0% Years 1 to 3	3.0%	3.0%	8.75% to 9.50%	2.0% to 3.0%	10.00% to 11.00%	8.50% to 10.00%	6 to 12	50.0%	5.0% to 8.0%	$0.30 to $0.40	9 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	7.50% to 9.50%	1.5% to 2.0%	9.00% to 11.00%	7.50% to 9.50%	6 to 18	50.0%	8.0% to 14.0%	$0.30 to $1.00	3 to 6

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

PRICEWATERHOUSECOOPERS

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

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

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

PRICEWATERHOUSECOOPERS

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

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

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; focuses on price per square foot for newer product.	0.0%	3.0%	3.0%	8.75% to 9.50%	2.0% to 3.0%	10.00% to 11.00%	8.25% to 9.00%	6 to 9	50.0%	5.0% to 10.0%	$0.10 to $0.25	9 to 12
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Focuses on portfolio purchases; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 3.0%	3.0%	3.0%	8.00% to 9.50%	1.0% to 3.0%	9.50% to 11.00%	7.50% to 9.00%	6 to 12	65.0% to 75.0%	0.25% to 1.0%	$0.10 to $0.25	6 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	9.00% to 10.00%	2.0% to 3.0%	10.00% to 11.00%	8.00% to 9.00%	6 to 12	75.0%	5.0% to 8.0%	$0.10 to $0.15	4 to 6
REIT ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses rent spike of 5% in year three.	0.0% Years 1 & 2; greater than CPI Year 3; CPI thereafter	3.0%	3.0%	9.50% to 10.00%	2.0% to 4.0%	10.50% to 11.00%	9.25% to 9.50%	8 to 18	70.0%	5.0%	$0.10 to $0.15	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	8.75% to 9.75%	2.0% to 3.0%	9.25% to 11.00%	9.25% to 10.50%	6 to 9	65.0% to 70.0%	1.0% to 2.0%	$0.10 to $0.15	—
MORTGAGE BANKER ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	2.0%	3.0%	3.0%	9.00% to 9.50%	2.0% to 3.0%	10.00% to 10.50%	8.25% to 8.75%	9	65.0%	10.0%	$0.10 to $0.15	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	neg. 2.0% to 3.0%	3.0%	3.0%	9.00% to 10.00%	1.0% to 4.0%	11.00% to 12.00%	9.50% to 10.50%	Does not use	50.0% to 65.0%	6.0% to 10.0%	$0.05 to $0.20	6 to 8
DEVELOPER/INVESTOR ✦ Forecast Period: 3 to 10 years Uses both DCF and direct capitalization; relies on DCF; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Years 1 & 2; 2.0% Year 3; 3.0% thereafter	3.0%	3.0%	8.25% to 10.50%	1.5% to 7.5%	10.50% to 12.00%	8.50%	8 to 12	65.0%	3.0% to 10.0%	$0.05 to $0.25	8 to 12

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

PRICEWATERHOUSECOOPERS

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

NATIONAL WAREHOUSE MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; focuses on price per square foot for newer product.	0.0%	3.0%	3.0%	8.25% to 9.00%	2.0% to 3.0%	9.00% to 10.00%	7.75% to 8.75%	9 to 12	60.0%	5.0%	$0.15 to $0.20	9 to 12
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Focuses on portfolio purchases; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 3.0%	3.0%	3.0%	8.00% to 9.50%	1.0% to 3.0%	8.50% to 10.50%	7.50% to 8.50%	6 to 12	65.0% to 75.0%	0.25% to 1.0%	$0.10 to $0.25	6 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	10.50% to 11.00%	2.0% to 3.0%	9.50% to 10.00%	9.00% to 10.00%	6 to 12	75.0%	5.0% to 8.0%	$0.10 to $0.15	4 to 6
REIT ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% Years 1 & 2; CPI thereafter	3.0%	3.0%	9.25% to 9.75%	2.0% to 4.0%	10.25% to 10.50%	8.75% to 9.25%	8 to 18	70.0%	5.0%	$0.10 to $0.15	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	8.25% to 9.25%	2.0% to 3.0%	9.00% to 11.00%	7.25% to 9.50%	6 to 8	65.0% to 70.0%	0.5% to 4.0%	$0.05 to $0.15	—
MORTGAGE BANKER ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	3.0%	3.0%	3.0%	8.25% to 8.75%	2.0% to 3.0%	9.00% to 9.50%	7.25% to 7.75%	6	65.0%	5.0%	$0.05 to $0.15	2 to 4
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	neg. 2.0% to 3.0%	3.0%	3.0%	7.50% to 9.00%	1.0% to 4.0%	8.50% to 9.50%	7.50% to 9.00%	Does not use	50.0% to 65.0%	5.0% to 9.0%	$0.05 to $0.20	6 to 8
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses DCF and face rents; does not use rent spikes; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	2.0%	3.0%	2.5%	8.25%	1.5% to 2.5%	8.00% to 9.00%	7.50% to 8.50%	6 to 9	75.0%	3.0%	$0.07 to $0.10	5

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

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

NATIONAL APARTMENT MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES		VACANCY	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	RESERVE	MARKETING TIME
	Market Rent	Expenses	Total Vacancy	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Per Unit	Months
INVESTMENT BANKER ✦ Forecast Period: 5 years Prefers DCF analysis; in direct cap, capitalizes NOI after capital replacement reserve; does not use a separate structural replacement reserve.	1.0% to 2.0%	2.0% to 3.0%	5.0% to 10.0%	7.00% to 9.00%	2.0% to 3.0%	10.00% to 10.50%	6.25% to 8.25%	$200	6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; does not use a separate structural replacement reserve; investments are concentrated in Southern California.	0.0% Years 1&2; 3.0% to 4.0% thereafter	Average 2.5% to 3.5% over the forecast period	5.5%	7.75% to 8.00%	1.5% for deals greater than $20 million; 2.0% otherwise	9.50% to 10.00%	7.25%	$300	2 to 4
DOMESTIC PENSION FUND ✦ Forecast Period: 1 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; reflects concessions as they occur, may burn off on new property during lease-up period in strong market; uses a separate structural replacement reserve.	0.0% to 3.5%	3.0% to 3.5%	5.0% to 12.0%	7.00% to 8.50%	2.0% to 3.0%	9.00% to 10.50%	5.50% to 8.00%	$250 to $400	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 7 years Strong interest in this product nationwide; applies management fee of 3.0% to 4.0%; uses DCF and direct capitalization; emphasis is on initial returns and per unit pricing; in direct cap, capitalizes NOI before capital replacement reserve.	0.0%	3.0%	5.0% to 7.0%	7.00% to 8.00%	2.0% to 3.0%	9.00% to 10.00%	6.75% to 8.00%	$250 to $300	6
REIT ✦ Forecast Period: 10 years Specializes in this market; relies on DCF and direct capitalization; capitalizes cash flow after capital replacement reserve; uses a separate structural replacement reserve of $100 to $400 per unit.	0.0% to 3.5%	2.5% to 3.0%	Varies	7.25% to 8.50%	1.0%	10.50%	7.50%	$150 to $350	5
REAL ESTATE ADVISOR ✦ Forecast Period: 5 and 10 years Relies on DCF, also uses direct capitalization; residual cap rate is 25 basis points over the going-in cap rate on a 5-year holding period, 50 basis points over the going-in cap rate on a 10-year holding period; uses an additional reserve for capital items.	0.0% to 3.0%	3.0%	7.0% to 25.0%	7.25% to 8.25%	1.5% to 2.5%	8.50% to 9.50%	5.50% to 7.50%	$200 to $300	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; buys 150- to 400-unit apartment complexes in first- and second-tier markets nationwide.	3.0%	3.0%	5.0% to 7.0%	8.50% to 9.50%	2.0%	11.00% to 12.50%	6.00% to 8.00%	$200 to $250	5
PENSION FUND ADVISOR ✦ Forecast Period: 7 to 10 years Specializes in this market; increases annual rent in lieu of lease-by-lease analysis; uses management fee of 3.0% to 3.5% plus leasing costs and reserve (actually funded); relies on IRR primarily; also uses sales comparison and cost approaches; uses a separate structural replacement reserve of $200 per unit.	0.0% to 2.0%	3.0%	8.0% to 11.0%	7.50% to 8.50%	2.0%	8.50% to 9.00%	6.00% to 6.75%	$275 to $400	4

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

PRICEWATERHOUSECOOPERS

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

NATIONAL NET LEASE MARKET–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	PREFERRED PROPERTY TYPE	CHANGE RATES		PREFERRED CREDIT RATING	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	UNDERLYING VACANCY & CREDIT LOSS	RESERVE	MARKETING TIME
		Market Rent	Expenses		Cap Rate	Selling Expenses	Free & Clear	Free & Clear		Per Square Foot	Months
PRIVATE INVESTMENT FIRM Primary valuation method is DCF analysis; also uses direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	Office, retail R&D, industrial, banks, restaurants	Varies flat, fixed, or CPI	0.0%	Below & above investment grade	(1)	(1)	Depends on lease term	7.00% to 8.50%	0.0%	None	2 maximum
PRIVATE INVESTMENT FIRM Primary valuation method is direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; also uses DCF analysis; growth rates for both market rent and expenses average between 2.0% and 2.5% over the forecast period.	Office, industrial	2.50%	2.0% to 2.5%	Below & above investment grade	9.50% to 10.00%	3.0% to 4.0%	10.00% to 11.00%	7.50% to 8.50%	0.0%	$0.10 to $0.20	4 to 5
PRIVATE INVESTMENT FIRM Primary valuation method is sales comparison approach; also uses DCF analysis.	Drug stores	2.5%	3.0%	BBB- to AA	9.80%	3.0%	11.00%	8.10%	0.0%	None	2
REIT Primary valuation method is DCF analysis; also uses direct capitalization and sales comparison; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	Office, industrial, big-box retail	3.0%	3.0%	B to AAA	9.50%	2.0%	7.75% to 10.25%	7.50% to 10.00%	0.0%	$0.15 (Level)	4
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 10 years Primary valuation method is direct capitalization; also uses DCF analysis; in direct cap, capitalizes NOI after capital replacements reserve but before TIs and leasing commissions.	Office, warehouse, retail	Averages 1.5% over holding period	1.5%	BBB and higher	7.50% to 9.00%	1.0% to 2.0%	10.00% to 11.00%	6.80% to 9.00%	Does not use	$0.05 to $0.15	—
INVESTMENT ADVISOR Primary valuation method is DCF analysis; also uses direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	Office, industrial, retail	2.0%	2.0%	B+ to AAA	8.00% to 10.00%	(2)	10.00% to 12.00%	8.00% to 10.00%	0.0%	$0.10 to $0.20 (NN leases only)	6
PRIVATE INVESTOR Primary valuation method is direct capitalization; also uses DCF analysis; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	Retail, restaurant	(2)	(2)	BB to A	(2)	3.0%	10.00% to 12.00%	(2)	7.0% to 8.0%	None	6 or less
REAL ESTATE SERVICE FIRM Primary valuation method is DCF; also uses direct capitalization; prepares valuations subject to financing.	Drug stores	3.0%	3.0%	BBB	10.00%	2.0% to 3.0%	10.00% to 11.00%	8.00% to 9.00%	5.0%	$0.10 to $0.15	4 to 6

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

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

PRICEWATERHOUSECOOPERS

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

NATIONAL FULL-SERVICE LODGING SEGMENT–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES		RESIDUAL			DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	GROSS ROOM REVENUE MULTIPLIER	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	Average Daily Rate	Operating Expenses	Cap Rate	Year Capped	Selling Expense	Free & Clear	Free & Clear	GRRM	Base Fee	Percent of Total Revenues	Months
REIT ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior and forecast 12 months income; applies 8.00% to 10.00% OAR to prior 12 months income, 9.00% to 11.00% OAR to forecast 12 months income; prefers urban, resort, and convention markets.	3.0% to 5.0%	2.0% to 4.0%	9.50% to 10.00%	5	1.5% to 2.0%	13.00% to 15.00%	8.00% to 10.00%	Does not use	1.0% to 3.0%; Incentive fee varies	4.0% to 5.0%	4
INVESTMENT BANKER ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes forecast next 12 months income.	5.0%	3.0%	11.00% to 12.00%	6	2.0% to 3.0%	12.00% to 14.00%	10.50% to 11.50%	Does not use	3.0%	4.0% to 5.0%	4 to 5
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 7 years Buys nationwide; uses DCF and direct capitalization; relies on DCF but is sensitive to market rates; growth rates are specific to the market, forecasts demand growth from the fundamental demand side based on forecast growth in room rate demand and models the mix of four different sources of business, each of which typically has a different rate.	4.0%	4.0%	8.00% to 10.00%	6 to 8	1.0%	12.00% to 14.00%	8.00% to 10.00%	Does not use	Varies	5.0% to 8.0%	2 to 3
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; prefers urban markets and West Coast.	0.0% Years 1 & 2	3.0%	10.00% to 11.00%	11	2.0%	12.00% to 15.00%	10.50%	Does not use	2.5% to 3.0%; 10.0% of GOP incentive fee	4.0%	9 to 12
REIT ✦ Forecast Period: 5 or 10 years Uses both DCF and direct capitalization; checks cash-on-cash return for years two and three.	5.0% to 10.0%	3.0%	9.50% to 11.00%	6 or 11	2.0%	15.00%	9.50% to 12.00%	Does not use	3.0%	4.0%	—
OWNER-OPERATOR-FRANCHISER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes forecast next 12 months income.	3.0%	3.0%	10.00%	11	2.0%	13.00%	10.00%	Does not use	3.0%	4.0%	6
LIFE INSURANCE COMPANY ✦ Forecast Period: 7 to 10 years Prefers well-located properties in growing suburbs, airport markets, and conference centers with potential to turn around and add value.	0.0% to 3.0%	3.0%	10.00% to 11.50%	11	1.0% to 2.0%	12.50% to 13.50%	7.50% to 11.00%	Does not use	2.5% to 3.5%; 0.05% to 1.00% incentive fee	4.0% to 5.0%	9 to 12
PRIVATE HOTEL COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; prefers West, Northeast, and Southeast.	3.0%	3.0%	11.50%	10	2.0%	12.00%	11.50%	Does not use	3.0%; 10.0% AGOP incentive fee	4.0%	—
PENSION FUND ADVISOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; prefers California (both Northern and Southern), Arizona, Seattle, Chicago, New York, and Mid-Atlantic region.	0.0% for 12 months, then a 3.0% increase in RevPAR	2.5%	9.00% to 13.00%	6	2.0% or $ specific	12.00% to 14.00%	9.00% to 12.00%	2.0 to 2.5	1.5% to 2.0%; 1.5% to 2.0% incentive fee	4.0% to 6.0%	4

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

PRICEWATERHOUSECOOPERS

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

NATIONAL ECONOMY/LIMITED-SERVICE LODGING SEGMENT–INVESTOR SURVEY RESPONSES

First Quarter 2004

	CHANGE RATES		RESIDUAL			DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	GROSS ROOM REVENUE MULTIPLIER	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	Average Daily Rate	Operating Expenses	Cap Rate	Year Capped	Selling Expense	Free & Clear	Free & Clear	GRRM	Base Fee	Percent of Total Revenues	Months
INVESTMENT BANKER ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes forecast next 12 months income.	3.0% to 4.0%	3.0%	12.00% to 13.00%	6	2.0% to 3.0%	13.00% to 14.00%	11.00% to 12.00%	Does not use	3.0%	4.0% to 5.0%	6 to 9
OWNER-MANAGER ✦ Forecast Period: 3 years Focuses on direct capitalization; in direct cap, capitalizes prior 12 months income; prefers Midwest, Southeast, and Southwest.	0.0%	63.0% of revenues	11.00%	Does not use	Does not use	Does not use	11.50%	2.0 to 3.5	4.0%; 10.0% of distribution incentive fee	4.0%	9 to 10
PRIVATE HOTEL COMPANY ✦ Forecast Period: 10 years Prefers Northeast, Southeast, and Southwest; uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; deducts both FF&E and structural reserves from NOI before capping.	3.0%	3.0%	12.00%	10	2.0%	12.00%	12.00%	Does not use	3.0%; 10.00% AGOP incentive fee	4.0%	—
PENSION FUND ADVISOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes forecast next 12 months income; deducts both FF&E and structural reserves from NOI before capping; prefers California, Denver, Seattle, Midwest (Chicago), and East Coast to New York; currently not buying this asset class.	0.0%	2.0% to 4.0%	12.00% to 13.00%	6	3.0% to 5.0%	13.00% to 15.00%	12.00% to 13.00%	1.0 to 2.0	3.0%; 1.0% to 2.0% incentive fee	4.0%	6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; prefer major markets; does not use gross rooms revenue multiplier; deducts both FF&E and structural reserves from NOI before capping.	0.0%	3.0%	13.00% to 15.00%	11	3.0%	13.00% to 14.00%	11.50% to 14.00%	Does not use	2.0% to 3.0%; 10.0% of GOP incentive fee	5.0%	12
MORTGAGE BANKER ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; prefers major CBDs with barriers to entry in the Northeast and West.	0.0% to 2.0%	2.0% to 4.0%	11.50% to 13.50%	6 to 11	2.0% to 5.0%	14.00% to 16.00%	11.00% to 13.00%	Does not use	3.0% to 5.0%	4.0% to 5.0%	3 to 12

PRICEWATERHOUSECOOPERS

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

NATIONAL LUXURY LODGING SEGMENT–INVESTOR SURVEY RESPONSES*

First Quarter 2004

	CHANGE RATES		RESIDUAL			DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	GROSS ROOM REVENUE MULTIPLIER	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	Average Daily Rate	Operating Expenses	Cap Rate	Year Capped	Selling Expense	Free & Clear	Free & Clear	GRRM	Base Fee	Percent of Total Revenues	Months
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; prefers resort, gateway cities, and CBD markets.	0.0%	3.0%	10.00% to 10.50%	11	2.0% (4.0% in Manhattan)	11.00% to 14.00%	9.50%	Does not use	2.0% to 3.0%; 10.0% of GOP incentive fee	5.0%	12
PRIVATE INVESTMENT COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes forecast next 12 months income; does not use gross revenue multiplier.	5.0% to 9.0%	3.0%	9.00% to 10.50%	11	2.0% to 3.0%	12.00% to 13.00%	8.00% to 10.00%	Does not use	3.0%	4.0%	6 to 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 7 to 10 years Uses both DCF and direct capitalization; in direct capitalization, capitalizes a blended 12-month income.	0.0% to 2.0%	3.0%	10.00% to 11.00%	11	2.0%	12.50% to 13.50%	8.00% to 11.00%	Does not use	2.5% to 3.0%	4.0% to 5.0%	—
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes either forecast next 12 months income or prior 12 months income; prefers major urban and major beach resort markets.	neg. 2.0% Years 1&2; 3.0% thereafter	3.0%	10.50% to 11.50%	11	1.0% to 2.0%	11.00% to 13.50%	10.25% to 11.50%	Does not use	3.0%	4.0% minimum	—
PRIVATE HOTEL COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income.	3.0%	3.0%	10.75%	11	2.0%	12.00%	11.00%	—	3.0%; 10.0% AGOP incentive fee	4.0%	—
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes forecast next 12 months income; prefers West Coast, East Coast, and Midwest.	1.0% growth in RevPar	2.5%	8.00% to 10.00%	6 to 8	2.0%	12.00% to 15.00%	8.00% to 10.00%	3 to 4	1.5% to 2.0%; 1.0% to 3.0% incentive fee	5.0% to 7.0%	6
REIT ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; prefers urban, resort, and convention markets.	3.0% to 5.0%	2.0% to 4.0%	9.50% to 10.00%	5	1.5% to 2.0%	13.00% to 15.00%	7.00% to 9.00%	Does not use	1.0% to 3.0%	4.0% to 5.0%	4
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes forecast next 12 months income.	3.0%	3.0%	10.00%	11	2.0%	13.00%	8.0%	Does not use	3.0%	4.0%	6
INVESTMENT BANKER ✦ Forecast Period: 10 years Prefers DCF; also uses direct capitalization analysis; in direct cap, capitalizes forecast next 12 months income.	3.0% to 5.0%	3.0%	12.00% to 14.00%	11	2.0%	15.00%	12.00% to 14.00%	Does not use	4.0% to 5.0%	5.0%	8 to 12

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

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

NATIONAL EXTENDED-STAY LODGING SEGMENT–INVESTOR SURVEY RESPONSES

First Quarter 2004

	CHANGE RATES		RESIDUAL			DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	GROSS ROOM REVENUE MULTIPLIER	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	Average Daily Rate	Operating Expenses	Cap Rate	Year Capped	Selling Expense	Free & Clear	Free & Clear	GRRM	Base Fee	Percent of Total Revenues	Months
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; prefers CBD markets.	0.0%	2.0%	10.00% to 11.00%	11	2.0% to 3.0%	12.50% to 14.00%	10.00% to 11.00%	Does not use	2.0% to 3.0%; 10.0% of GOP incentive fee	3.0% to 5.0%	9 to 12
INVESTMENT BANKER ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income.	3.0%	3.0%	12.00%	10	2.0%	14.00%	11.00%	Does not use	3.0%	5.0%	6
INVESTMENT BANKER ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes forecast next 12 months income.	3.0% to 4.0%	3.0%	11.00% to 12.00%	6	2.0% to 3.0%	13.00% to 14.00%	10.00% to 12.00%	Does not use	3.0%	4.0% to 5.0%	6 to 9
INVESTMENT BANKER ✦ Forecast Period: 3 years All hotels are new construction; uses both DCF and direct capitalization; in DCF expects 15.00% yield upon stabilization; in direct cap, applies a 20.00% OAR to the forecast next 12 months income; prefers Northern California and Pacific Northwest markets with barriers to entry.	2.0%	2.0%	10.50%	3	2.0%	15.00%	See investor description	—	3.5%	4.0%	12
MORTGAGE BANKER ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; prefers Northeast and West.	0.0% to 3.0%	2.0% to 5.0%	10.50% to 13.50%	6 to 11	2.0% to 5.0%	13.00% to 15.00%	10.00% to 13.00%	Does not use	3.0% to 5.0%	3.0% to 5.0%	3 to 12
INVESTMENT BANKER ✦ Forecast Period: 1 year Uses direct capitalization; applies OAR to either or both prior 12 months income or forecast next 12 months income depending on history and product position; growth rates depend on market and position of hotel within the market; prefers major metro areas .	Varies	Varies	—	—	—	—	10.00% to 12.00%	Does not use	3.0%; may also use 3.00% franchise fee	3.0% to 5.0%	6 to 9
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes forecast next 12 months income.	3.0%	3.0%	11.50%	11	3.0%	12.00%	12.00%	—	4.0%	5.0%	6

PRICEWATERHOUSECOOPERS

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

INVESTMENT AND PROPERTY CHARACTERISTICS: OFFICE MARKETS

First Quarter 2004

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		STRUCTURAL VACANCY		YEARS TO STRUCTURAL VACANCY		TIs - NEW (PSF)		TIs - RENEWAL (PSF)	
Market	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average
National CBD	(5.00%)-5.00%	0.27%	70.00%-130.00%	94.25%	5.00%-15.00%	8.61%	1-5	2.6	$10.00-$45.00	$27.19	$4.00-$20.00	$10.67
National Suburban	(5.00%)-5.00%	(0.58%)	70.00%-130.00%	96.35%	5.00%-12.00%	7.46%	0-5	2.3	$0.00-$40.00	$18.69	$0.00-$20.00	$7.92
Atlanta	(5.00%)-0.00%	(0.42%)	60.00%-99.00%	85.20%	7.50%-12.00%	10.19%	0-4	2.3	$10.00-$30.00	$16.30	$5.00-$10.00	$7.85
Boston	(5.00%)-5.00%	(0.75%)	35.00%-100.00%	84.06%	5.00%-12.00%	8.79%	0-7	3.3	$15.00-$50.00	$27.19	$0.00-$25.00	$8.71
Chicago	(5.00%)-3.00%	(1.64%)	70.00%-108.00%	86.77%	6.00%-15.00%	9.52%	0-6	3.0	$10.00-$50.00	$30.91	$5.00-$25.00	$12.92
Dallas	(5.00%)-5.00%	0.75%	50.00%-100.00%	80.63%	3.00%-15.00%	7.38%	0-3	1.6	$10.00-$30.00	$18.00	$3.00-$20.00	$10.00
Houston	(10.00%)-15.00%	0.50%	50.00%-110.00%	81.79%	5.00%-12.00%	6.60%	0-5	1.6	$8.00-$25.00	$16.83	$3.00-$20.00	$7.83
Los Angeles	(7.00%)-5.00%	0.13%	65.00%-100.00%	88.13%	5.00%-15.00%	9.00%	0-3	1.8	$10.00-$45.00	$22.50	$5.00-$15.00	$8.06
Manhattan	(5.00%)-10.00%	1.80%	70.00%-130.00%	90.83%	5.00%-10.00%	6.64%	0-4	1.8	$30.00-$50.00	$41.88	$10.00-$20.00	$15.83
Pacific Northwest	1.50%-2.00%	1.83%	80.00%-110.00%	98.13%	4.00%-7.50%	5.88%	0.5-3	1.9	$10.00-$25.00	$18.92	$5.00-$10.00	$6.70
Philadelphia	0.00%-5.00%	1.75%	50.00%-85.00%	84.50%	5.00%-12.00%	7.00%	1-3	2.0	$8.00-$35.00	$19.50	$2.00-$10.00	$7.80
San Francisco	(15.00%)-10.00%	(0.22%)	60.00%-110.00%	81.56%	3.00%-15.00%	8.06%	2-10	4.1	$0.00-$50.00	$30.56	$0.00-$20.00	$10.67
Southeast Florida	0.00%-5.00%	1.60%	85.00%-110.00%	93.75%	5.00%-11.00%	7.00%	1-5	2.5	$12.00-$35.00	$18.75	$5.00-$15.00	$8.38
Washington, DC Metro												
The District	0.00%-10.00%	2.88%	80.00%-130.00%	101.25%	4.00%-8.00%	5.71%	0-3	1.0	$3.00-$50.00	$28.79	$3.00-$35.00	$15.57
Northern Virginia	(2.00%)-3.00%	0.83%	85.00%-115.00%	95.63%	5.00%-14.00%	7.70%	0-4	1.5	$3.00-$50.00	$28.17	$3.00-$25.00	$14.00
Suburban Maryland	0.00%-4.00%	1.14%	90.00%-130.00%	102.19%	5.00%-12.00%	7.70%	0-5	1.3	$3.00-$50.00	$25.71	$0.00-$25.00	$9.08

PRICEWATERHOUSECOOPERS

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

INVESTMENT AND PROPERTY CHARACTERISTICS: NATIONAL MARKETS

First Quarter 2004

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		CLASS-A+ and A MALLS IRRs		CLASS-A+ and A MALLS OAR		CLASS-B+ and B MALLS IRRs		CLASS-B+ and B MALLS OARs		STABILIZED OCCUPANCY	
Market	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average
Regional Mall	0.00%-7.00%	3.58%	85.00%-150.00%	115.00%	9.00%-11.50%	10.06%	6.50%-8.50%	7.39%	10.50%-13.50%	11.58%	7.50%-9.75%	8.46%	85.00%-99.00%	93.25% (Class-B to A+)
Power Center	0.00%-3.00%	0.63%	80.00%-130.00%	103.13%									93.00%-97.00%	95.17%
Strip Shopping Center	0.00%-5.00%	1.61%	95.00%-140.00%	105.42%									85.00%-97.00%	93.88%

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		FINISHED SPACE %		TIs - NEW (PSF/UNIT)		TIs - RENEWAL (PSF/UNIT)	
Market	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average
Industrial										
Flex/R&D	(10.00%)-5.00%	1.00%	80.00%-110.00%	100.95%	5.00%-100.00%	37.19%	$0.00-$15.00	$4.03	$0.00-$5.00	$1.41
Warehouse	(10.00%)-5.00%	0.13%	80.00%-120.00%	103.33%	0.00%-15.00%	8.14%	$0.00-$10.00	$2.48	$0.00-$1.00	$0.40
Apartment	(5.00%)-5.00%	1.81%	80.00%-125.00%	102.71%						

PRICEWATERHOUSECOOPERS

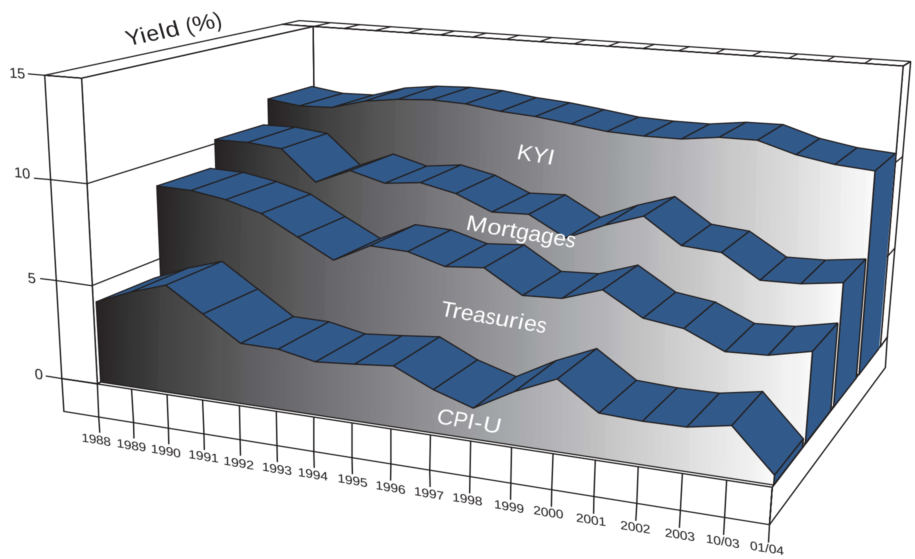
Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2004.

YIELD COMPARISONS
January 1, 2004

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

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

COMPARATIVE YIELDS
January 1, 2004



DIVIDEND COMPARISONS
January 1, 2004

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

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

INSTITUTIONAL-GRADE VS. NONINSTITUTIONAL-GRADE PROPERTY RATES

First Quarter 2004

	INSTITUTIONAL				NONINSTITUTIONAL				SPREAD TO INSTITUTIONAL	
	IRRs		OARs		IRRs		OARs		AVERAGE IRR	AVERAGE OAR
Market	Range	Average	Range	Average	Range	Average	Range	Average	Basis Points	Basis Points
National Regional Mall	8.50%-12.00%	10.43%	6.50%-9.50%	8.11%	11.25%-16.50%	13.13%	8.50%-14.00%	11.06%	270	295
National Power Center	9.00%-12.00%	10.33%	8.00%-10.00%	9.02%	NA	NA	NA	NA	NA	NA
National Strip Shopping Center	8.50%-12.00%	10.10%	7.00%-11.00%	8.76%	9.00%-14.00%	11.42%	8.50%-12.00%	9.95%	132	119
National CBD Office	9.00%-12.25%	10.51%	6.00%-10.75%	8.77%	10.00%-14.00%	12.38%	8.50%-13.00%	10.79%	187	202
National Suburban Office	9.00%-12.50%	10.82%	7.25%-12.00%	9.34%	10.00%-15.00%	12.48%	8.50%-14.00%	10.77%	166	143
Atlanta Office	9.00%-13.00%	10.66%	8.50%-11.00%	9.20%	10.25%-13.50%	11.88%	9.00%-11.25%	10.41%	122	121
Boston Office	9.00%-14.00%	10.85%	7.50%-11.25%	9.18%	10.00%-17.00%	12.73%	8.50%-14.00%	10.53%	188	135
Chicago Office	8.00%-13.00%	10.39%	6.70%-11.00%	8.85%	8.50%-15.00%	12.27%	7.50%-12.50%	10.30%	188	145
Dallas Office	10.00%-12.25%	11.15%	7.50%-12.00%	9.77%	12.00%-14.25%	13.13%	10.50%-12.50%	11.54%	198	177
Houston Office	9.50%-14.00%	11.45%	8.00%-12.00%	9.73%	10.75%-17.00%	13.34%	9.25%-14.00%	11.66%	195	193
Los Angeles Office	9.00%-15.00%	11.10%	6.00%-11.00%	8.67%	10.75%-21.00%	14.52%	8.00%-13.00%	10.64%	342	197
Manhattan Office	8.50%-12.00%	9.93%	6.00%-10.00%	8.07%	9.75%-14.50%	11.50%	6.50%-11.50%	9.31%	157	124
Pacific Northwest Office	10.00%-15.00%	11.81%	8.00%-11.00%	9.24%	11.25%-20.00%	14.53%	9.00%-12.00%	10.60%	272	136
Philadelphia Office	9.00%-12.50%	10.77%	8.00%-12.00%	9.61%	9.50%-13.50%	11.22%	9.50%-11.50%	10.19%	45	58
San Francisco Office	9.00%-14.00%	10.41%	7.50%-11.00%	9.02%	10.00%-17.50%	12.77%	8.50%-12.00%	10.33%	236	131
Southeast Florida Office	9.00%-12.50%	10.67%	7.00%-11.00%	9.10%	—[a]	—[a]	—[a]	—[a]	—[a]	—[a]
Washington, DC Metro Office										
The District	8.50%-12.00%	9.64%	7.00%-10.50%	7.89%	—[a]	—[a]	—[a]	—[a]	—[a]	—[a]
Northern Virginia	8.50%-13.50%	10.43%	7.50%-11.00%	9.11%	—[a]	—[a]	—[a]	—[a]	—[a]	—[a]
Suburban Maryland	9.00%-14.00%	10.27%	7.00%-10.50%	8.59%	9.00%-13.50%	11.00%	8.50%-11.50%	9.54%	73	95
National Flex/R&D	9.00%-12.00%	10.53%	7.50%-11.00%	9.02%	10.00%-15.00%	11.64%	8.50%-13.50%	9.93%	111	91
National Warehouse	8.50%-11.50%	9.64%	7.25%-10.25%	8.45%	9.25%-14.00%	11.08%	7.50%-12.50%	9.70%	144	125
National Apartment	9.00%-12.50%	9.95%	5.50%-9.25%	7.25%	9.25%-15.00%	11.50%	6.00%-11.00%	8.46%	155	121
All Markets Surveyed (Simple Average)	—	10.54%	—	8.85%	—	12.36%	—	10.32%	182	147

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

PRICEWATERHOUSECOOPERS

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

INCOME CAPITALIZED IN DIRECT CAPITALIZATION[a]

First Quarter 2004

MARKET	METHOD 1 CURRENT	METHOD 1 YEAR AGO	METHOD 2 CURRENT	METHOD 2 YEAR AGO	METHOD 3 CURRENT	METHOD 3 YEAR AGO
National Retail						
Regional Mall	16.7%	20.0%	83.3%	80.0%	0.0%	0.0%
Power Center	16.7%	42.9%	83.3%	42.9%	0.0%	14.2%
Strip Shopping Center	20.0%	25.0%	70.0%	62.5%	10.0%	12.5%
Office						
National CBD	9.1%	9.1%	81.8%	81.8%	9.1%	9.1%
National Suburban	18.8%	14.3%	62.5%	64.3%	18.8%	21.4%
Atlanta	14.3%	28.6%	85.7%	71.4%	0.0%	0.0%
Boston	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%
Chicago	33.3%	36.4%	66.7%	63.6%	0.0%	0.0%
Dallas	16.7%	16.7%	83.3%	83.3%	0.0%	0.0%
Houston	14.3%	12.5%	71.4%	75.0%	14.3%	12.5%
Los Angeles	33.3%	36.4%	66.7%	63.6%	0.0%	0.0%
Manhattan	20.0%	40.0%	60.0%	40.0%	20.0%	20.0%
Pacific Northwest	33.3%	28.6%	66.7%	71.4%	0.0%	0.0%
Philadelphia	14.3%	42.9%	71.4%	42.9%	14.3%	14.2%
San Francisco	18.2%	20.0%	81.8%	80.0%	0.0%	0.0%
Southeast Florida	16.7%	28.6%	83.3%	57.1%	0.0%	14.3%
Washington, DC Metro						
The District	44.4%	42.9%	55.6%	57.1%	0.0%	0.0%
Northern Virginia	42.9%	25.0%	57.1%	75.0%	0.0%	0.0%
Suburban Maryland	25.0%	28.6%	75.0%	71.4%	0.0%	0.0%
National Flex/R&D	23.1%	23.1%	76.9%	76.9%	0.0%	0.0%
National Warehouse	13.3%	14.3%	80.0%	78.6%	6.7%	7.1%
National Apartment[b]	72.2%	72.2%	22.2%	16.7%	5.6%	11.1%
All Markets Surveyed	23.5%	27.6%	72.0%	66.2%	4.5%	6.2%

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

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

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

LODGING INCOME CAPITALIZED IN DIRECT CAPITALIZATION

Third Quarter 2003

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

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

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

FORECAST PERIODS AND GROWTH RATES

First Quarter 2004

	Forecast Period		Market Rent Growth Rates: Initial Year		Market Rent Growth Rates: Forecast Period Average		Expense Growth Rates: Initial Year		Expense Growth Rates: Forecast Period Average	
Market	Range	Average	Range	Average	Range	Average	Range	Average	Range	Average
National Regional Mall	10 - 10	10.0	0.00%-3.00%	2.50%	2.00%-4.00%	2.96%	3.00%-3.00%	3.00%	3.00%-3.00%	3.00%
National Power Center	5 - 10	8.8	0.00%-3.00%	2.38%	2.50%-3.00%	2.94%	2.00%-3.00%	2.92%	2.00%-3.00%	2.90%
National Strip Shopping Center	3 - 10	9.4	0.00%-3.00%	2.23%	2.00%-4.00%	2.87%	2.00%-4.00%	3.08%	2.00%-4.00%	3.05%
National CBD Office	3 - 10	8.9	-8.00%-5.60%	0.78%	0.00%-6.00%	2.25%	1.50%-3.00%	2.79%	2.00%-3.00%	2.92%
National Suburban Office	3 - 10	8.8	-10.00%-3.00%	0.15%	0.00%-6.00%	2.56%	2.00%-3.00%	2.84%	2.00%-3.50%	2.94%
Atlanta Office	5 - 10	9.5	0.00%-3.00%	0.50%	2.00%-3.60%	2.86%	1.50%-3.00%	2.83%	2.00%-3.00%	2.86%
Boston Office	5 - 10	8.8	-3.00%-3.00%	0.11%	0.00%-3.00%	2.41%	2.50%-3.00%	2.94%	2.50%-3.00%	2.94%
Chicago Office	5 - 10	9.2	-5.00%-3.00%	-0.10%	2.00%-3.00%	2.54%	2.00%-3.00%	2.85%	2.00%-3.00%	2.92%
Dallas Office	3 - 10	8.8	-5.00%-3.00%	0.50%	0.00%-5.00%	2.40%	3.00%-3.00%	3.00%	3.00%-3.00%	3.00%
Houston Office	3 - 10	9.0	-5.00%-5.00%	0.07%	1.00%-5.00%	2.67%	1.00%-4.00%	2.57%	1.00%-4.00%	2.71%
Los Angeles Office	5 - 10	9.0	-3.00%-5.00%	1.75%	2.00%-3.50%	2.94%	2.00%-3.50%	2.83%	2.50%-3.25%	2.94%
Manhattan Office	5 - 10	9.1	0.00%-3.00%	0.79%	2.00%-5.00%	3.39%	3.00%-5.00%	3.33%	3.00%-3.00%	3.00%
Pacific Northwest Office	5 - 10	9.2	0.00%-3.00%	1.90%	2.00%-3.00%	2.75%	2.00%-4.00%	3.00%	3.00%-3.00%	3.00%
Philadelphia Office	5 - 11	8.3	0.00%-3.00%	1.29%	2.50%-3.00%	2.86%	2.50%-3.00%	2.79%	2.50%-3.00%	2.86%
San Francisco Office	5 - 10	9.0	-5.00%-3.00%	0.25%	2.00%-13.00%	4.22%	2.00%-4.50%	3.13%	2.50%-3.25%	2.98%
Southeast Florida Office	5 - 10	9.0	0.00%-3.00%	2.00%	2.00%-4.00%	2.96%	2.00%-4.00%	2.90%	2.00%-3.00%	2.83%
Washington, DC Metro Office										
The District	5 - 10	9.6	0.00%-6.00%	2.35%	2.50%-4.50%	3.22%	2.00%-3.00%	2.83%	2.00%-3.00%	2.85%
Northern Virginia	5 - 10	9.4	0.00%-3.00%	0.57%	1.50%-3.00%	2.50%	2.00%-3.00%	2.88%	2.00%-3.00%	2.88%
Suburban Maryland	5 - 10	9.4	0.00%-3.00%	1.56%	2.00%-3.00%	2.79%	2.00%-3.00%	2.93%	2.00%-3.00%	2.94%
National Flex/R&D	3 - 10	9.0	-5.00%-3.00%	1.19%	0.00%-3.00%	2.53%	2.00%-3.00%	2.96%	2.00%-3.00%	2.96%
National Warehouse	5 - 10	9.4	-5.00%-5.00%	1.57%	0.00%-3.00%	2.72%	2.00%-3.00%	2.93%	2.00%-3.00%	2.95%
National Apartment	1 - 10	8.2	-2.00%-4.00%	1.53%	0.00%-4.00%	2.89%	2.00%-3.50%	2.79%	2.00%-3.50%	2.92%
National Net Lease	5 - 15	9.0	2.00%-3.00%	2.60%	0.00%-3.00%	2.11%	1.50%-3.00%	2.46%	1.50%-3.00%	2.46%

PRICEWATERHOUSECOOPERS

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

Definitions

General

CHANGE RATE
Annual compound rate of change

Market Rent
Achievable current rent if vacant

Expenses
Total property expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

RESIDUAL
Estimated total price at conclusion of forecast period

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

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

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

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

STRUCTURAL VACANCY
Normal vacancy rate in a balanced market

VACANCY ASSUMPTIONS

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

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

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

Apartment

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

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

Development Land

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

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

Golf

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

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

Industrial

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

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

for minimal distribution, research and development, and specialized office space

WAREHOUSE[3]

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

Lodging

AVERAGE DAILY RATE (ADR)[4]

Room revenue divided by rooms sold

ECONOMY/LIMITED-SERVICE LODGING

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

EXTENDED-STAY LODGING

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

FULL-SERVICE LODGING

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

GROSS ROOMS REVENUE MULTIPLIER (GRRM)

The relationship, or ratio, between sale price and gross rooms revenue

LUXURY LODGING

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

MANAGEMENT FEE

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

NET OPERATING INCOME (LODGING NOI)

Income remaining after deduction of all property expenses: in direct capitalization, investors capitalize one of the following:

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

OCCUPANCY[4]

Rooms sold divided by rooms available

OPERATING EXPENSES

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

PROFPAR

Profit per available room

PROPERTY EXPENSES

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

RESERVE FOR REPLACEMENT

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

REVPAR

Revenue per available room

Net Lease

PROVISION 1031

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

SALE-LEASEBACK

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

Retail

FORTRESS MALL

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

POWER CENTER[2,3]

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

REGIONAL MALL[2,3]

An enclosed shopping center that contains at least two department stores and has climate-controlled walkways that are lined with smaller retail shops

REGIONAL MALL CLASSIFICATIONS

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

STRIP SHOPPING CENTER[2,3]

An open row of stores either with or without anchor stores that offer convenience (neighborhood centers) and general merchandise (community centers)

Waste Management

CAPACITY

Availability of unused landfill space plus processing capacity of operating incinerators

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

GATE OR TIP FEE

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

RESOURCE CONSERVATION AND RECOVERY ACT (RCRA) SUBTITLE D

Requirements:

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

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

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

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

Index of Recurring Survey Topics As of 1st Quarter 2003

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

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