PRICEWATERHOUSECOOPERS

KORPACZ REAL ESTATE INVESTOR SURVEY®




Second Quarter 2006

Dear Reader:

The U.S. real estate industry continues to strengthen and both occupancies and rental rates are increasing. As a result, the construction pipeline is expanding with newly started projects, planned assets, and proposed properties – especially in the office sector. A major reason for the recent deluge of construction activity is the attraction of higher returns. Although many of our participants indicate that cap rates have "flattened out" and/or inched up in many tertiary and secondary markets, as well as for "lesser quality" assets, they remain quite low for "the best of the best." Our lead story, "Strong Market Trends Spark Development," includes some insight into why an increasing number of investors are looking for construction opportunities.

In a related story, this quarter's *Real Estate Capital Markets* column, authored by Robert White, president of Real Capital Analytics, Inc., focuses on the future path of overall cap rates amid rising interest rates. Read it to find out how increasing interest rates are impacting each buyer segment, as well as each property type.

Also this quarter, we include the *Domestic Self-Storage Market*, authored again by Charles Ray Wilson, CRE, MAI, and chief economist and founder of Self Storage Data Services, Inc. This article provides an update of general market conditions, as well as information on the industry's performance and investment trends, relevant to this niche asset class.

And, more insight into how the industry's recovery and continued growth is opening up development opportunities in each commercial property sector can be found in our semiannual *National Development Land Market*. What specific markets and property types will present the best investment prospects going forward?

In the months ahead, we will be bringing you new markets, expanded coverage, and extra features. If you have any comments or suggestions, please let us know. We are always listening!

Sincerely

Peter F. Korpacz
Editor-in-Chief

PRICEWATERHOUSECOOPERS

Making News This Quarter

SECOND QUARTER
2006

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National Highlights

Strong Market Trends Spark Development

As fundamentals continue to improve throughout each sector of the real estate industry, many investors are increasingly optimistic that growing occupancy levels will continue to bump up rental rates and cause assets to maintain and/or improve both net operating incomes and property values. "Rental rate growth is occurring to some degree in each office and industrial market that we have a presence in," shares a participant. "I think apartment assets are going to do very well going forward," comments another. "There is definitely a pronounced recovery occurring in the office sector," exclaims another, who expects rental rates at their top-performing properties to increase 6.0% to 7.0% over the next 12 to 18 months.

While such hefty rental rate growth is mainly reserved for the best assets in a given market, a growth trend in rents has definitely emerged. Of the 14 individual office markets included in our Survey, all but two (Pacific Northwest and Philadelphia) reported year-over-year increases in their average initial year market rent growth rate assumption. The increases ranged from 7 basis points (Chicago) to 289 basis points (San Francisco) and averaged 117 basis points. Moreover, participants report that some of the tightest U.S. office markets are experiencing "spikes" in rental rates. "Trophy assets in Manhattan are seeing a significant spike in rents," states a participant. "Some spaces in New York City are now as high as $150.00 per square foot," affirms another.

With rental rates on the rise and concessions on the decline, a significant number of investors are still looking to place capital in an emerging landlords' market. "It is definitely more of a landlords' market than it was in the past," confirms a participant. Sensing investors' continued interest, offerings have flooded the market. Unfortunately for many eager buyers, sellers remain steadfast in their asking prices, especially those marketing Class-A assets. "Sale prices are still quite high and cap rates are still quite low even though interest rates have moved up" attests a participant. As a result, the number of completed transactions has fallen recently. Specifically, acquisitions of retail properties dropped 60.0% in April 2006 compared to April 2005, while they fell 37.0% for industrial properties and 32.0% for apartment assets during that time, according to Real Capital Analytics, Inc. Only the office sector posted a modest year-over-year increase in acquisitions (4.0%) between April 2005 and April 2006.

While the decline in acquisitions is a result of high sale prices and rising interest rates, which have sidelined certain leveraged buyers, it is also due to a marked shift from acquisitions to the development of new properties, as well as the redevelopment of existing ones. "We are focusing on construction opportunities now," shares an office property investor. "Our current construction pipeline amounts to about $180.0 million," reveals a retail property investor. "Our development business has really taken off," touts an industrial property investor. A main reason for the industry-wide surge in development interest is that the returns for building new product are much higher than those for existing acquisitions. "Why buy it for a 6.0% cap rate when you can build it for a 9.0% return in a market where rents are expanding and demand is strong," questions a participant.

Another reason for the increased interest in development is that rental rates continue to rise in many markets, compensating developers for some of the recent increases in U.S. construction costs. Although construction costs are high, and are still escalating to some degree in many markets, it appears that they are not increasing as much as cap

Table NH-1
Office Space Construction Trends
(000s)

Quarter	CBD Sq. Ft.	CBD Change	Suburban Sq. Ft.	Suburban Change
1Q06	20,100	+1.4	28,800	+9.5
1Q05	18,700	-1.1	19,300	+1.7
1Q04	19,800	+0.5	17,600	-1.9
1Q03	19,300	-8.1	19,500	-15.6
1Q02	27,400	—	35,100	—

Source: Cushman & Wakefield

rates have declined for Class-A properties. "The gap between construction deals and acquisitions has widened," notes a participant.

While it is too soon to tell how the recently started, planned, and projected construction projects will impact the industry's overall fundamentals, which presently demonstrate favorable supply-demand balances, the current development rush bears watching. "Construction levels are way down in the office sector compared to years ago, but we still need to be careful about overbuilding," states a participant. Construction trends for the central business district (CBD) and suburban areas of the U.S. office sector are shown in Table NH-1.

Whether investors plan to add to their existing inventories through developing new assets or acquiring existing ones, increasing returns is a universal objective. As a result, many investors will continue to focus on improving net operating income by closely monitoring and reducing operating costs. In the apartment sector, for example, some owners are switching to individual utility meters for each apartment unit, while various other landlords in each property segment are renegotiating management and leasing contracts. As one participant remarks, "The more efficiently we operate, the better returns we can generate in the months ahead."

Useful Websites

Websites of interest this quarter are summarized below:

www.rebusinessonline.com: Provided by the largest publisher of commercial real estate magazines in the United States, this website offers real estate news, including transactions, development, and market trends, for all property types on a regional basis. A free daily e-newsletter covers upcoming auctions. Other features include a lease database, financial calculators, job listings, and directories of attorneys, architects, contractors, lenders, 1031-exchange intermediaries, and much more.

www.researchworldwide.com: Research Worldwide is an independent and dedicated research company that strives "to ensure transparency and communication of information, knowledge, awareness, and advice relating to the commercial real estate related industry worldwide via a 'Sharing of Knowledge' philosophy." Known as the Worldwide Commercial Real Estate Information Portal, this website provides real estate news at the international level. Available information includes daily news, who's who profiles, property listings, educational courses, upcoming conferences, and real estate market reports.

www.terraserver.com: This website specializes in digital satellite and aerial imagery, selling high-resolution digital images in JPEG format in varying sizes, as well as prints of those images. Free imagery browsing is available down to an eight-meter resolution level. A subscription service is available that allows users to view imagery down to maximum resolution (usually one to two meters). In addition, digital topographical maps, as well as custom made posters of satellite, aerial, and panoramic views of cities, states, countries, and various landmarks can be purchased. And for a fee, demographic reports surrounding specific intersections can be generated.

www.meyersgroup.com: Also known as Hanley Wood Market Intelligence, this resource provides economic and market statistics relating to 75 residential markets nationwide. This firm tracks and analyzes changes in the new residential construction market, as well as its impact on the building products manufacturing industry. While several published reports are available for purchase for apartment markets, a free weekly newsletter containing executive level analyses on economic and housing trends is also available.

www.realestatejournal.com: This website helps professionals involved in commercial real estate keep up to date on news and trends on a regional and national level. Visitors can search more than six billion square feet of space in over 80,000 office and industrial properties throughout the United States using such criteria as property type, size, and location. Tools on this site help users research financing options, estimate construction costs, and stay current on key investment indicators.

Content for this website comes from the editorial resources of *The Wall Street Journal,* WSJ.com, the editorial team of RealEstateJournal.com, an array of respected columnists, and other key resources. Each day, readers can browse news and feature articles from the site's front page, which includes the latest on commercial market trends, real estate investment trusts, regional market and economic issues, and more. Several free daily newsletters, a real estate glossary, construction cost data, and a mortgage calculator are also available.

Technology News & Trends

Where in the World Are My Properties? A GIS Overview

By Scott Metro, Partner
Real Estate Systems and Process Assurance – PricewaterhouseCoopers LLP

If you wanted to get driving directions for a trip from Boston, Massachusetts to Stowe, Vermont, it would be pretty natural to open up one of the major online map services – such as Yahoo!, Google, or MapQuest – and type in the starting and ending addresses in order to obtain the directions. Completing this seemingly simple exercise makes use of a very complex and powerful amalgamation of spatial data, attribute data, and technology commonly known as geographic information systems or GIS. GIS applications are as widely used by commercial businesses as they are by consumers, and it should come as no surprise that their use in the real estate industry is prevalent as well. What might come as a surprise, however, is the extent to which GIS and related tools are used in the industry on a daily basis.

What is GIS?

As defined above, GIS applications use spatial and attribute data in order to allow users to analyze information based on location. Spatial data consists of electronic maps of the world represented by coordinates, lines, and polygons that depict roads, various boundaries, and locations. The data is extremely accurate, taking into account such detail as the curvature of the earth and the difference between the earth's true and magnetic north poles.

Attribute data is related, nonspatial information that facilitates analysis of data based on location. An example of GIS attribute data could be as simple as a list of properties that when encoded with their geographic location is depicted as a series of dots on a map. It is this attribute data that is most important to the real estate industry because it can help real estate buyers, sellers, and to some extent lessees, make important decisions about which properties to buy, sell, and/or lease.

GIS attribute data can provide real estate professionals with facts about what exists nearby, above, and underneath a specific property. Google Earth and a similar site by Microsoft called Virtual Earth are great examples of consumer-oriented GIS services. By typing a valid property address into one of these online programs, you can find the location on a map, choose to view a satellite photo of the location, and/or get a list of restaurants located nearby the address.

GIS in Real Estate

Real estate companies use commercial versions of the same or similar software in order to help them make investment decisions. A real estate investor deciding whether to enter a particular market might choose to plot a prospective investment property on a digital map along with similar properties located within a two-mile radius. Additional attribute data, such as the anticipated ground breakings of new, similar properties, could also be plotted on the map with a different symbol or color. Using the same technology, a thematically shaded layer could be added that paints the map various colors in order to show average household income in the area surrounding the potential investment.

In fact, when it comes to obtaining data about a particular real estate market or submarket, the sky is the limit – literally. Satellite photos, crime statistics, known earthquake fault zones, and the location of protected wetlands are all examples of attribute data that can be "fed" into a GIS application.

GIS + Real Estate = Perfect Match

The real estate industry can seem proprietary when it comes to information technology. The industry uses its own type of software (think MRI, Yardi, Argus) and rarely injects new types of non-real estate financial technology into its core set of tools. Occasionally, however, a generic technology comes along and changes the way business is conducted in the industry. GIS represents one of those rare occasions. Due to its relevance, ease of use, and reasonable cost, GIS and real estate represent a match made in heaven. ✦

Types of GIS Usage in Real Estate
• Plot comparable properties during acquisition analyses
• Show household income data near potential investments
• Plot crime statistics by submarket for new investments
• Print maps and satellite photos for marketing brochures
• Provide driving directions for appraisers and inspectors

Economic News

Fuel For Thought

By Steve Laposa, Director
Global Strategic Real Estate Research Group – PricewaterhouseCoopers LLP

As 2006 continues to unfold, the U.S. economy and the real estate industry are providing investors with plenty of fuel for thought. First: energy prices – The media frenzy and daily bombardment about soaring and volatile energy prices have made it a central issue for nearly everyone. Second: interest rates – The Federal Reserve continues to inch up the federal funds rate and the yield curve is finally sloping upwards, albeit not to the degree some economists either forecasted or deem reasonable.

Unfortunately, our anxieties create more questions than answers about energy, the economy, and the real estate industry. For example, can the U.S. economy still grow with such high energy prices? What happens if gasoline eventually increases to $5.00 per gallon? Do downtown properties have more (or less) valuation risk than suburban properties?

Fuel Thought #1 - Energy

Conventional economic wisdom states that soaring energy prices negatively impact the economy based on empirical evidence. As energy prices increased in the later half of the 20th century, as in the 1970s and early 1980s, recessions generally followed. Yet, even though energy prices have approximately doubled in the last two years, the U.S. economy continues to churn along. In fact, the advanced estimate of gross domestic product (GDP) for the first quarter of 2006 is 5.3%. In the words of one economist, the U.S. economy has weathered the spike of energy prices "gracefully." Based on an analysis of quarterly data spanning nearly 30 years from the National Council of Real Estate Investment Fiduciaries (NCREIF), little correlation exists between changes in West Texas oil prices per barrel and either total returns for all properties or total returns for retail properties.

Fuel Thought #2 - Interest Rates

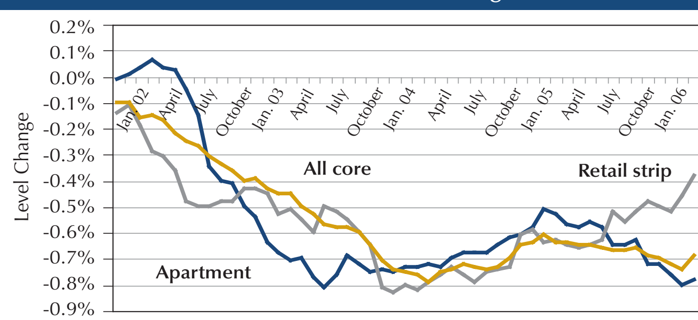
The study of interest rates is, pardon the pun, interesting. Over the last several years, analyzing the spread between the ten-year treasury and overall capitalization (cap) rates has been an industry staple. According to Real Capital Analytics, Inc., spreads between the ten-year treasury and overall cap rates have fallen from a high of 547 basis points in September 2002 to 190 basis points in March 2006. The Treasury Cap Ratio – an alternative measure of real estate risk (developed by Peter F. Korpacz and Steven Laposa) that is the ratio of the overall cap rate to the ten-year treasury rate (overall cap rate/ten-year rate) – has even declined from 2.05 in February 2004 to 1.39 in March 2006.

If interest rates, particularly the ten-year treasury rate, continue to gradually inch up during 2006 and overall cap rates remain stable, then spreads will decrease. The relationship between the ten-year treasury rate and the overall cap rate appears spurious due to the distinct actions and behaviors of capital market participants.

There may, however, be a turning point in the direction of overall cap rates. Exhibit 1 shows the monthly year-over-year change in the level of various overall cap rates. If the lines decrease, as each does through January 2004, then it means that overall cap rates are declining and the marginal change in the level of the overall cap rate is increasing. If the lines are stable, as they are in 2004, then it means that the year-over-year change in overall cap rates is generally constant. The turning point in overall cap rates has already occurred for national retail strip centers. As shown, the marginal change in this property sector's overall cap rate has been decreasing since January 2005. This trend is just starting in the national apartment sector with the recent up tick in 2006. ✦

Exhibit 1

Overall Cap Rates
Year-Over-Year Basis Change



Source: Real Capital Analytics, Inc., PricewaterhouseCoopers LLP

Real Estate Capital Markets

The Sensitivity of Capital and Cap Rates To Rising Interest Rates

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

Long-term interest rates have started to rise and property investors are closely watching overall capitalization rates (cap rates) in order to see how closely they will mirror these increases. Interestingly, cap rates may not be as highly correlated to interest rate increases as they have been in the past. In the first quarter of 2006, the benchmark ten-year U.S. treasury rate climbed 45 basis points and shot up another 25 basis points in April 2006. At the same time, however, cap rates continued to decline for office and industrial properties and increased only modestly for retail properties. In the apartment sector, however, cap rates rose an average of nearly 20 basis points. Apparently, the sensitivity to interest rate changes varies by property type and depends on a number of factors (see Table CM-1).

Table CM-1

Basis Point Change in Cap Rates
4Q05 to 1Q06

Source: Real Capital Analytics, Inc.

Cap Rate Lag Time and Resiliency

One reason for a nonuniversal shift in cap rates and interest rates is that cap rates on closed deals tend to lag changes in both market and economic conditions. After a price is agreed upon, a due-diligence and closing period of 60 to 90 days is common. As a result, prices for many deals that closed in the first quarter of 2006 may have been determined before the recent increases in interest rates. Since asking cap rates do not have a "built-in" lag, they are often a better reflection of current market conditions. However, changes in asking cap rates show similar trends to those of cap rates on closed deals. Therefore, a lag in data may explain a slow response to increases in interest rates, but it does not explain why cap rates continue to fall for office properties, while they have begun to rise for apartment assets.

The divergent movement of cap rates in the wake of rising interest rates largely results from capital market factors combined with the strength and outlook of underlying leasing trends. Currently, the office sector, and to a lesser extent the industrial sector, is perceived to have significant near-term upside potential as the recovery of both occupancies and rental rates gain momentum. This widely held optimism puts significant downward pressure on cap rates since many buyers are willing to accept low initial yields in exchange for substantial rent growth. For office properties, cap rates are falling more in markets with tight leasing fundamentals and little speculative development. Optimism over the leasing markets is a major reason that cap rates for certain properties and markets have been, and

Table CM-2

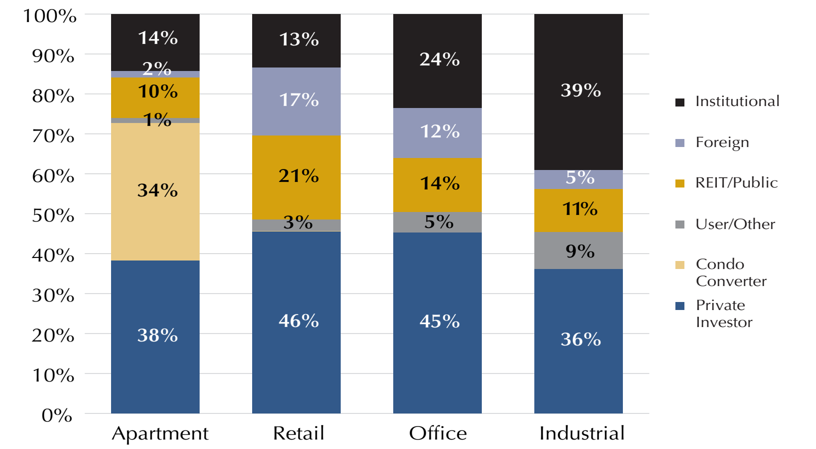
Buyer Sensitivity To Leverage

Buyer Type	2005 (4 mos)	2006 (4 mos)	% Change	Leverage	Average LTV
Condo Converter	8,036	6,341	-21.1%	Very High	95.0%
Private Investors	31,129	32,758	5.2%	High	75.0%
REIT/Public	11,911	9,208	-22.7%	Moderate	50.0%
Foreign	5,249	6,061	15.5%	Moderate	50.0%
Institutional	12,190	18,845	54.6%	Low	30.0%
User/Other	2,493	3,263	30.9%	None	0.0%
Total	**71,009**	**76,476**	**7.7%**	—	—

Source: Real Capital Analytics, Inc.

Chart CM-3

Buyer Composition
(12 months ending 3/2006)



Source: Real Capital Analytics, Inc.

may continue to be, resilient to increases in interest rates.

Buyer Sensitivity

The correlating change between cap rates and interest rates also depends on the mix of buyers since each group of investors has different sensitivities to interest rates. Private investors are typically more highly leveraged than most other buyers. When interest rates are low, leveraged private investors have the lowest cost of capital and, therefore, can pay more than most other types of buyers. Condo converters, for example, are the most highly leveraged buyers in the current market and typically finance 95.0% or more of their deals. On the other hand, institutional investors are at a particular disadvantage when interest rates are low since they are typically either low-leverage or nonleverage buyers. Along the same lines, REITs use only moderate leverage, typically 50.0% loan-to-value ratios, and are closely monitored by the public markets and Wall Street analysts.

Table CM-2 shows buyers' sensitivity to leverage and the changes in acquisitions over the past year. As shown, transactions by condo converters slowed the most, while private investors also lost market share. REITs posted the biggest drop in acquisitions largely because rising interest rates hammered share prices in addition to increasing their borrowing costs. In contrast, institutional investors posted the greatest increase in acquisitions.

Since interest rates affect each capital sector differently, markets that are dominated by private buyers are more sensitive to changes in interest rates than those that attract institutional and foreign players. The different compositions of buyers for each core property type help explain why cap rates in the apartment sector are more closely tracking increases in interest rates (see Chart CM-3).

The weighted average leverage used by apartment buyers is 72.0%, well above the average used by buyers of other property types (see Chart CM-4). A concentration of very highly leveraged condo converters makes the apartment sector particularly sensitive to rising interest rates. Conversely, the office and industrial sectors draw far more capital from institutional and foreign buyers, who are both among the least sensitive to interest rates.

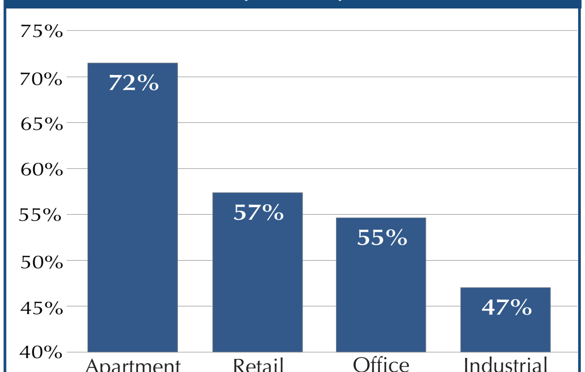
Conclusion

Even though rising interest rates place considerable upward pressure on cap rates, many other factors influence the movement of cap rates. Local market factors, primarily improvements in rents and occupancies, are keeping cap rates low for office and industrial acquisitions, while buyer composition, such as the retreating of highly leveraged condo converters, are pushing up cap rates in the apartment sector. With an abundance of capital still targeting commercial real estate, the influence of rising interest rates on cap rates bears watching.

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

Chart CM-4

Weighted Average Leverage of Buyers
4Q05 to 1Q06



Source: Real Capital Analytics, Inc.

Domestic Self-Storage Market

Pricing and Performance Trends – 1st Half 2006

By Charles Ray Wilson, CRE, MAI
Self Storage Data Services, Inc.

The first half of 2006 has proven to be very profitable for the domestic self-storage market. During that time, industry fundamentals continued to improve, new construction remained in balance, and capital, while it continued to flow into this asset class, became more selective.

The five self-storage REITs, with a combined equity capitalization of nearly $16.0 billion, outperformed all other REITs in 2005. Furthermore, the self-storage REITs posted total year-to-date returns of 13.03%, according to the National Association of Real Estate Investment Trusts. Mega deals within the self-storage industry continued into 2006 when Public Storage announced that it was acquiring Shurgard Storage Centers (Shurgard) for $5.0 billion. This deal comes on the heels of Extra Space's $2.3 billion acquisition of GE's Storage USA facilities last year.

The recent prices that investors have paid for existing facilities relative to their replacement costs could signal that the industry is heading towards another development cycle. From a new supply perspective, however, F. W. Dodge reports that the annual new supply of space being added to this property sector represents less than a 2.0% increase to the existing inventory. With the recent increase in both construction costs and interest rates, the likelihood that this sector will experience an oversupply of space anytime soon seems remote.

Table 1

DOMESTIC SELF-STORAGE MARKET
First Half 2006

KEY INDICATORS	FIRST HALF 2006	SECOND HALF 2005
DISCOUNT RATE (IRR)[a]		
Range	8.50%–10.50%	8.50%–11.00%
Average	9.75%	10.00%
Change (Basis Points)	—	–25
OVERALL CAP RATE (OAR)[a]		
Range	6.00%–8.75%	6.25%–9.00%
Average	7.40%	7.75%
Change (Basis Points)	—	–35
RESIDUAL CAP RATE		
Range	7.25%–9.50%	8.00%–9.00%
Average	8.50%	8.75%
Change (Basis Points)	—	–25
MARKET RENT CHANGE RATE[b]		
Range	2.50%–5.00%	2.50%–4.00%
Average	3.50%	3.00%
Change (Basis Points)	—	+50
EXPENSE CHANGE RATE[b]		
Range	2.75%–5.00%	2.50%–5.00%
Average	3.75%	3.50%
Change (Basis Points)	—	+25
AVERAGE MARKETING TIME (in months)		
Range	4.00–9.00	6.00–10.00
Average	7.00	8.00
% Change	—	–12.50

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

Source: Self Storage Data Services, Inc.

Current Investment Market Conditions

The seller's market of the past several years may be starting to shift as some owners are realizing that the low-risk, high-return environments they once enjoyed have changed. Not only are there more competitors, but they are more sophisticated in their management skills. In some markets, owners have become uneasy with the rate of lease-up and have either sold their facilities prior to reaching stabilization or considered doing so. The recent increases in interest rates and the decline in the number of 1031-exchange buyers may also signal a shift towards a buyers' market.

The REITs, while not aggressively seeking acquisitions as they once did, are at the same time willing to pay what it takes to acquire facilities that fit their strategies. There are some indications that the REITs' strategies may involve becoming more active in the second-tier markets.

Self-storage brokers report a decline in the volume of transactions compared to a year ago. They also report fewer inquiries from prospective investors. At the same time, brokers report an increase in the number of facilities being offered for sale in second- and third-tier cities. Nearly all agree, however, that the total dollar volume for the remainder of the year should be on pace with last year's volume even though the total number of transactions may be less. The slowdown in transactions could be due to the belief that sale prices have peaked since overall capitalization rate (cap rate) compression has stopped and long-term interest rates have bottomed out.

Table 2

Overall Capitalization Rates By Classification

Class-A Self-Storage		
Minimum	Maximum	Average
6.25%	7.25%	6.80%
Class-B Self-Storage		
Minimum	Maximum	Average
7.25%	8.50%	8.00%

Source: Self Storage Data Services, Inc.

Overall Capitalization Rates

Starting with this issue, Self Storage Data Services, Inc. (SSDS) will track cap rates by two facility classifications – Class A and Class B and below. While the class definitions are still being formulated by industry leaders, for the purposes of this report we have assumed Class-A facilities to be: properties that have more than 30,000 square feet of net rentable area, are professionally managed, are typically located in first-tier cities, and have asking rental rates in the upper one-third of their market. All other facilities are considered Class-B properties or below.

Chart 1 shows the overall capitalization rate trends for all self-storage facilities from the first quarter of 2003 through the first quarter of 2006. It is weighted toward Class-A facilities and does not reflect those facilities in non-urban or rural areas.

Class-A Facilities

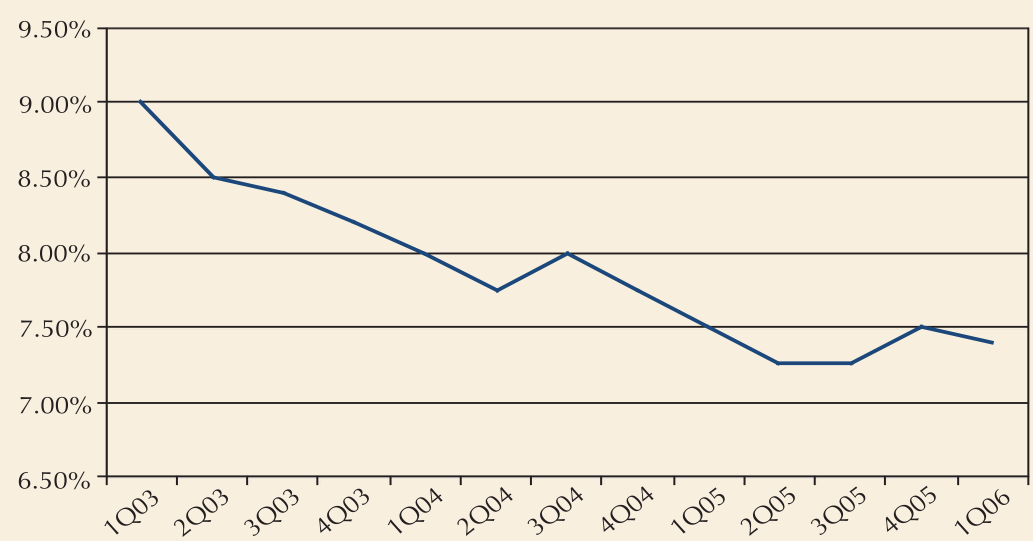
Excluding the mega transaction involving Public Storage and Shurgard, cap rates on most Class-A transactions today fall between 6.25% and 7.25% based upon stabilized, forward-looking net operating income (NOI) projections (see Table 2). Nevertheless, it is not uncommon to see day-one cap rates in the low 6.0% range in markets like California and Florida.

It seems unlikely that cap rates on Class-A self-storage facilities will increase significantly anytime soon for two reasons. First, most investors who prefer Class-A assets still have access to an abundance of low-cost capital. Second, Class-A facilities are generally in markets that have high barriers to entry and are continuing to provide the second highest yields (year to date) of all prop-

Chart 1

OVERALL CAPITALIZATION RATE TRENDS

Includes Both Portfolio and Individual Facility Sales



Source: Self Storage Data Services, Inc.

erty sectors other than apartment-related REITs.

Class-B (and below) Facilities

The market for these facilities has been driven by the historically low cost of capital and by the large number of 1031-exhange buyers. As interest rates increase and the number of exchange buyers decreases, cap rates for these assets will likely increase. However, there are some markets, California and Florida for example, that might not experience cap rate increases for sub-Class-A facilities due to the numerous aggressive buyers that exist in those markets.

Self-Storage Performance Index

Dramatic increases in asking rental rates, together with comparatively stable physical unit occupancies, and only modest increases in the cost of concessions resulted in a large improvement in this sector's operating performance during the first quarter of 2006 compared to the same period last year. As shown in Chart 2, The Self-Storage Performance Index© (SSPI) now stands at 109.2, up from 106.6 (restated) in the fourth quarter of 2005.

Asking Rental Rates

On a seasonally adjusted basis, the median asking rental rate nationwide jumped 9.4% in the first quarter of 2006 compared to the same quarter last year (see Table 3). Owners in the Midwest region of the country were able to increase asking rental rates over 12.0% during that time, the largest increase in the country. Although the Eastern region trailed the rest of the country, asking rental rates increased over 7.0% during that time period. Overall, 42 of the nation's 49 largest markets (excluding New Orleans) were able to increase asking rental rates during the first quarter of this year.

Physical Unit Occupancy

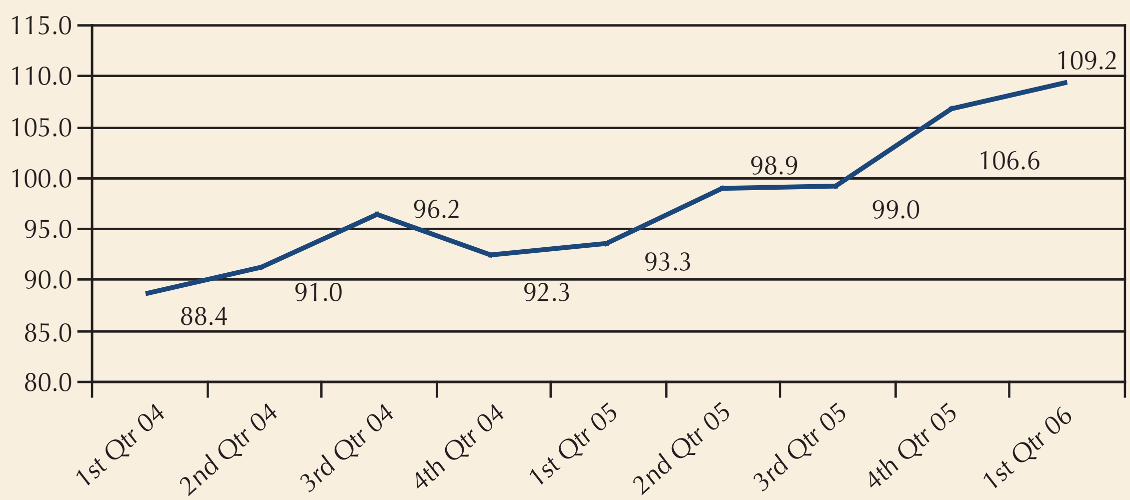
Median physical unit occupancy remains at 90.0% nationwide. In the first quarter of 2006, physical unit occupancies ranged from 84.0% in the Hartford, Connecticut MSA to 96.0% in the Charlotte-Gastonia-Concord, NC-SC MSA, which demonstrated the largest improvement in physical unit occupancy among the top 50 MSAs on a seasonally adjusted basis. On the other hand, the Detroit MSA showed the largest decline in physical unit occupancy during that time, dropping nearly 400 basis points to 85.0%. The story was different in the Western region of the country where median physical unit occupancies increased nearly 100 basis points, climbing from 88.2% to 89.1%. Slightly over two-thirds of the nation's 49 largest markets experienced year-over-year increases in physical unit occupancy in the first quarter of 2006.

Concessions

Proof that market conditions are improving is demonstrated by the decline in the number of facilities offering concessions. Nearly 17.0% fewer facilities offered concessions in the first quarter of 2006 than in the first quarter of 2005. Just over half (53.0%) of all facilities nationwide now offer concessions. This figure was nearly 70.0% just a year ago and represents the largest single decline since SSDS started tracking concessions.

Chart 2

SELF-STORAGE PERFORMANCE INDEX (SSPI)©



Base: 4th Quarter 2003 = 100
Source: Self Storage Data Services, Inc.

Table 3

PERFORMANCE AT A GLANCE Top 50 MSAs	QUARTERLY 1Q06 vs. 4Q05	SEASONALLY 1Q06 vs. 1Q05	ANNUALLY Trailing 4 Quarters
MEDIAN ASKING RENTAL RATE CHANGE	Up 4.5%	Up 9.4%	Up 2.1%
MEDIAN PHYSICAL UNIT OCCUPANCY CHANGE	No Change 0.0%	Up 0.2%	Up 0.1%
REVENUE PER OCCUPIED UNIT CHANGE	Up 4.2%	Up 10.2%	Up 2.5%

Source: Self Storage Data Services, Inc.

The overall effective cost of concessions offered, however, did not decline due to the increase in interest rates that generally impact the cost of concessions and to the use of more costly concessions by those facilities offering them. As a result, the effective cost of concessions offered actually increased 4.4% over the same period last year.

Revenue Per Occupied Unit

Nationwide, revenue per occupied unit increased 10.2% in the first quarter this year compared to the same quarter last year (2.5% on an annual basis). Based upon a sample of more than 17.0% of all facilities in the Western region of the country, which had a disproportionate number of facilities in California, revenue per occupied unit increased 13.4%. This was the result of a 10.0% increase in asking rents, a nearly 1.0% increase in occupancy, and fewer concessions. It should be noted that Self Storage Data Services, Inc.'s estimate of revenue per occupied unit does not include allowances for bad debt and/or for tenants paying below market rents.

Key Indicators

As shown in Table 1, both the discount rate and overall cap rate for the self-storage industry declined over the past six months. For the first half of 2006, the average discount rate stands at 9.75%, while the average cap rate sits at 7.40%. On the other hand, the average market rent change rate assumption increased over the past six months, rising to 3.50% in the first half of 2006. At the same time, favorable industry fundamentals and strong investor interest caused the average marketing time to decline.

Conclusion

When combined with the increasing implementation of professional management, demand from both consumers and commercial tenants remains strong and has contributed to higher revenue growth for the self-storage industry. Even though increases in revenue are being partially offset by marked increases in real estate taxes and property insurance, increases in operating expenses have generally been modest overall. While strong growth in profits and high property acquisition costs (relative to replacement costs) are the traditional leading indicators of a new development cycle, data from F.W. Dodge demonstrates modest and stable levels of new development for now. As a result, we expect that the self-storage industry will remain quite healthy over the next several months.

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Charles Ray Wilson, MAI, CRE is the founder of Charles R. Wilson & Associates, Inc., a full-service appraisal firm, and the founder of Self Storage Data Services, Inc., a leading manager and publisher of economic and operating statistics relating to the self-storage industry. For more information about SSDS please visit their website at www.ssdata.net. More information about Charles R. Wilson & Associates, Inc. can be found at www.crwilson.com. ✦

National Regional Mall Market

DESPITE HIGHER GASOLINE PRICES, RISING INTEREST RATES, AND ELEVATED LEVELS OF PERSONAL DEBT, THE CONSUMER CONFIDENCE INDEX ROSE TO ITS HIGHEST LEVEL IN ALMOST FOUR YEARS IN APRIL 2006. Specifically, it climbed to 109.6 in April 2006, up from 107.5 in March 2006 and the highest level since the index reached 110.3 in May 2002. It remains to be seen whether rising energy costs will dampen consumer confidence and spending over the near term. For now, many regional mall merchants, such as American Eagle Outfitters, The Children's Place, Guess?, and Bebe Stores, continue to report strong increases in year-over-year same-store retail sales.

Overall, same-store retail sales surged 6.9% in April 2006 in the United States, its largest gain since August 2003, according to The Bank of Tokyo-Mitsubishi UFJ. Regardless of rigorous consumer spending, some retailers continue to struggle and have announced plans to either close stores and/or scale back on store openings. RadioShack, for example, has closed 40 stores so far this year and is expecting to close a total of 480 stores by year's end. Another retailer, The Bombay Company, also recently announced plans to close 33 to 38 stores this year due to declining sales. And Sharper Image, which currently operates about 190 stores, plans to open only six to eight new stores this year, down considerably from the 20 new units it opened in 2005.

While certain retailers continue to struggle, the retail industry as a whole continues to perform well and attract investor interest. In the 12 months leading up to May 2006, a total of 100 malls traded throughout the country, according to Real Capital Analytics, Inc. Even though the volume of retail properties offered for sale remains quite heavy, transactions involving regional malls have declined recently. In fact, only 12 regional malls sold in the first quarter of 2006. One reason for the drop off in sales activity is that few quality assets are available for sale. "Many properties offered for sale now need to be repositioned and renovated," notes a participant. Another reason for the dip in completed deals is that overall capitalization rates (OARs) are starting to stabilize and are expected to, if they haven't already, trend upward. As shown in Table RM-1, the average OAR for this market has remained relatively unchanged for the past several quarters. ✦

TABLE RM-1
OVERALL CAPITALIZATION RATES
National Regional Mall Market

Quarter	Average	Change (Basis Points)
2Q06	7.09%	-4
1Q06	7.13%	+1
4Q05	7.12%	-5
3Q05	7.17%	0
2Q05	7.17%	0
1Q05	7.33%	-7
4Q04	7.40%	-17
3Q04	7.57%	-39
2Q04	7.96%	—

Source: Korpacz Real Estate Investor Survey®

Table 1

NATIONAL REGIONAL MALL MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00%–11.00%	7.00%–11.00%	7.00%–11.00%
Average	8.88%	8.95%	9.25%
Change (Basis Points)	—	–7	–37
OVERALL CAP RATE (OAR)[a]			
Range	5.00%–9.50%	5.50%–9.50%	5.50%–9.50%
Average	7.09%	7.13%	7.17%
Change (Basis Points)	—	–4	–8
RESIDUAL CAP RATE			
Range	6.25%–10.00%	6.25%–10.00%	6.50%–10.00%
Average	7.82%	7.86%	7.89%
Change (Basis Points)	—	–4	–7
MARKET RENT CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	0.00%–3.00%
Average	2.82%	2.82%	2.54%
Change (Basis Points)	—	0	+28
EXPENSE CHANGE RATE[b]			
Range	3.00%–3.00%	3.00%–3.00%	3.00%–3.00%
Average	3.00%	3.00%	3.00%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	4.00–12.00	4.00–12.00	4.00–12.00
Average	7.93	7.93	7.75
% Change	—	0	+2.32%

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

National Power Center Market

EVEN THOUGH THE PERFORMANCE OF INDIVIDUAL BIG-BOX AND DISCOUNT RETAILERS VARIES GREATLY FROM LOCATION TO LOCATION, MANY OF THEM CONTINUE TO OUTPERFORM TRADITIONAL MERCHANTS IN TERMS OF YEAR-OVER-YEAR RETAIL SALES GROWTH. In April 2006, for example, Federated Department Stores reported year-over-year same-store retail sales growth of -0.8%, while J.C. Penney posted a gain of 2.6%. By comparison, Target recorded a jump of 10.4%, while Costco published an increase of 7.0%. As a result, investment demand remains quite strong for well-located power centers that offer diverse tenant mixes and high barriers to entry.

In one recent deal, the Shoppes at Paradise Isle located in Destin, Florida sold for $242.00 per square foot, making it one of the highest recorded transfers in North Florida over the past five years. This 171,837-square-foot center, located along the Emerald Coast Highway at the intersection of Mid-Bay Bridge Road, was 92.0% leased at the time of sale. Tenants at this property include Best Buy, Linens 'n Things, PetSmart, and Office Depot. In another recent transaction, two power centers – the 209,000-square-foot Market at Polaris located in Columbus, Ohio and the 180,000-square-foot The Market at Clifty Crossing located in Columbus, Indiana – traded as part of a four-property portfolio deal for $304.00 per square foot and $124.00 per square foot, respectively.

TABLE PC-1
OVERALL CAPITALIZATION RATES
National Power Center Market

Quarter	Average	Change (Bpts.)
2Q06	7.36%	0
1Q06	7.36%	0
4Q05	7.36%	-46
3Q05	7.82%	-18
2Q05	8.00%	-4
1Q05	8.04%	-13
4Q04	8.17%	-50
3Q04	8.67%	-21
2Q04	8.88%	—

Source: Korpacz Real Estate Investor Survey®

Although many investors looking to acquire power centers sense that overall capitalization rates (OARs) will rise over the next 12 months as interest rates tick upward, most are confident that growth in net operating income will offset any of the anticipated increases in OARs. "Cap rates are going to move up, but income growth will beat their expansion," believes a participant. As shown in Table PC-1, the average OAR for this market has held steady for the past three quarters.

Within the national power center market, assets that possess larger amounts of inline store space are expected to yield slightly higher initial returns. As one investor points out, "There is more risk involved with leasing and maintaining smaller mom-and-pop stores." According to our participants, power centers consisting of 75.0% big-box space and 25.0% inline space indicate an average OAR of 7.63%. By comparison, the average OAR is 7.38% for power centers that contain at least 85.0% big-box space and 15.0% inline space. ✦

Table 2

NATIONAL POWER CENTER MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.25%–11.50%	7.50%–11.50%	7.75%–11.25%
Average	8.68%	8.71%	9.38%
Change (Basis Points)	–	–3	–70
OVERALL CAP RATE (OAR)[a]			
Range	5.50%–9.00%	5.50%–9.00%	6.00%–9.50%
Average	7.36%	7.36%	8.00%
Change (Basis Points)	–	0	–64
RESIDUAL CAP RATE			
Range	6.50%–9.25%	6.50%–9.25%	7.75%–9.75%
Average	7.77%	7.75%	8.63%
Change (Basis Points)	–	+2	–86
MARKET RENT CHANGE RATE[b]			
Range	0.00%–5.00%	0.00%–5.00%	0.00%–3.50%
Average	2.93%	2.93%	2.50%
Change (Basis Points)	–	0	+43
EXPENSE CHANGE RATE[b]			
Range	3.00%–3.00%	3.00%–3.00%	3.00%–3.00%
Average	3.00%	3.00%	3.00%
Change (Basis Points)	–	0	0
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	4.00–12.00
Average	7.00	7.00	7.92
% Change	–	0	–11.62

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

National Strip Shopping Center Market

EVEN THOUGH MANY INVESTORS ARE STILL EAGER TO ACQUIRE ASSETS IN THE NATIONAL STRIP SHOPPING CENTER MARKET, OVERALL SALES VOLUME HAS DECLINED IN THIS MARKET OVER RECENT MONTHS. "We haven't been as active a buyer as we were 12 to 15 months ago," shares a participant. Specifically, sales of strip centers fell 12.0% between the first quarter of 2005 and the first quarter of 2006, according to Real Capital Analytics, Inc. One reason for the decline in activity, particularly for grocery-anchored centers, is that increased competition from big-box merchants and bulk warehouse retailers continues to negatively impact the performance of traditional grocers.

As a result, a seemingly unending number of grocery store closings, bankruptcies, and consolidations continue to plague the retail industry. In fact, Winn-Dixie Stores recently announced that it will close an additional 35 stores, taking its total number of store closings to 361. Even though the grocery anchor at a strip shopping center typically generates less rental revenue than the other inline tenants at the center, it represents a main driving force for pulling in both customers and inline tenants. "In the retail sector, your center is only as strong as your anchor store," quips a participant.

Another reason for the recent dip in sales activity is that many available assets are priced quite high even though many investors sense that overall capitalization rates (OARs) have either leveled off or inched up in many markets. "We're noticing that the bid-ask gap is widening again," states a participant. As shown in Table SC-1, the average OAR held steady this quarter following two quarters of minimal declines.

Investors acquiring assets now will also face increased competition from new centers. According to Reis, Inc. the shopping center industry (community and neighborhood centers alone) is forecast to increase by 37.7 million square feet in 2006, resulting in a 20-basis-point rise in the national vacancy rate by year end. Despite these various challenges, both portfolio and single-property deals continue to occur. EQYInvest Texas LLC, for example, recently acquired a 30-property shopping center portfolio for about $402.0 million or an OAR of 7.2% (based on 2005's net operating income). ✦

TABLE SC-1
OVERALL CAPITALIZATION RATES
National Strip Shopping Center Market

Quarter	Average	Change (bps.)
2Q06	7.36%	0
1Q06	7.36%	-6
4Q05	7.42%	-3
3Q05	7.45%	-27
2Q05	7.72%	-14
1Q05	7.86%	-24
4Q04	8.10%	-29
3Q04	8.39%	-11
2Q04	8.50%	-26
1Q04	8.76%	-8
4Q03	8.84%	-22
3Q03	9.06%	—

Source: Korpacz Real Estate Investor Survey®

Table 3

NATIONAL STRIP SHOPPING CENTER MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00%–10.00%	7.00%–10.00%	7.50%–10.50%
Average	8.48%	8.58%	9.19%
Change (Basis Points)	—	–10	–71
OVERALL CAP RATE (OAR)[a]			
Range	5.80%–9.00%	5.80%–9.00%	6.25%–9.50%
Average	7.36%	7.36%	7.72%
Change (Basis Points)	—	0	–36
RESIDUAL CAP RATE			
Range	7.00%–10.00%	7.00%–10.00%	7.50%–10.00%
Average	7.97%	8.02%	8.56%
Change (Basis Points)	—	–5	–59
MARKET RENT CHANGE RATE[b]			
Range	2.00%–5.00%	2.00%–5.00%	0.00%–3.00%
Average	2.91%	2.91%	2.56%
Change (Basis Points)	—	0	+35
EXPENSE CHANGE RATE[b]			
Range	3.00%–4.00%	3.00%–4.00%	3.00%–4.00%
Average	3.13%	3.13%	3.13%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	2.00–12.00	2.00–12.00	4.00–12.00
Average	6.94	6.94	7.44
% Change	—	0	–6.72

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

National CBD Office Market

THE UNDERLYING FUNDAMENTALS OF THE NATIONAL CBD OFFICE MARKET CONTINUE TO IMPRESS MANY INVESTORS, ESPECIALLY THOSE WHO ARE EAGER TO PLACE ADDITIONAL FUNDS INTO THE COMMERCIAL REAL ESTATE INDUSTRY. "The office sector continues its steady recovery nationally and is presenting some good opportunities for our clients," comments a participant. Even though rising interest rates are restricting the acquisition ability of some leveraged buyers, many all-cash buyers, such as pension funds, are expanding their presence in the investment arena and are aggressively pursuing deals.

Overall, transaction activity of significant CBD office properties was up 10.0% in the first quarter of 2006 compared to the same time in 2005, according to Real Capital Analytics, Inc. Individual office markets that have recorded some of the highest numbers of trades over the past year include Manhattan, Chicago, Los Angeles, and Phoenix. "We think Phoenix will be a strong market going forward due to its population and employment growth trends and projections," comments a participant. In 2005, for example, the professional-and-business-service sector in the Phoenix-Mesa-Scottsdale statistical area posted an increase of 25,600 workers, while the financial-activities sector realized a gain of 7,900 workers. In 2004, these total increases were 15,300 workers and 4,200 workers, respectively.

TABLE CO-1
OVERALL VACANCY RATE TRENDS
National CBD Office Market

Quarter	Average %	Change (Basis Points)
1Q06	12.6%	+10
4Q05	12.5%	-80
3Q05	13.3%	-40
2Q05	13.7%	-50
1Q05	14.2%	-30
4Q04	14.5%	-30
3Q04	14.8%	-20
2Q04	15.0%	-20
1Q04	15.2%	0
4Q03	15.2%	-30
3Q03	15.5%	—

Source: Cushman & Wakefield

Table 4

NATIONAL CBD OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00%–10.00%	7.00%–10.00%	7.00%–12.25%
Average	8.43%	8.48%	9.36%
Change (Basis Points)	—	–5	–93
OVERALL CAP RATE (OAR)[a]			
Range	4.50%–9.50%	4.50%–9.50%	6.00%–10.00%
Average	7.23%	7.29%	8.00%
Change (Basis Points)	—	–6	–77
RESIDUAL CAP RATE			
Range	6.75%–10.00%	6.75%–10.00%	7.00%–10.75%
Average	8.05%	8.16%	8.70%
Change (Basis Points)	—	–11	–65
MARKET RENT CHANGE RATE[b]			
Range	0.00%–7.00%	0.00%–5.00%	-5.00%–5.00%
Average	2.88%	2.36%	1.18%
Change (Basis Points)	—	+52	+170
EXPENSE CHANGE RATE[b]			
Range	1.50%–3.00%	1.50%–3.00%	1.50%–3.00%
Average	2.85%	2.85%	2.85%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	3.00–12.00
Average	7.22	7.22	7.28
% Change	—	0	–0.82

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

Due to such vibrant employment growth, the overall vacancy rate for downtown Phoenix declined to 13.1% in the first quarter of 2006, according to Cushman & Wakefield. By comparison, this figure was 17.7% in the first quarter of 2005. Even though downtown Phoenix's overall vacancy rate is still above the national CBD average (see Table CO-1), its current and expected future performance has attracted investor interest. One CBD office property that recently traded there was U.S. Bank Center located at 101 North First Street, which sold to The Shidler Group for $178.00 per square foot. This 371,727-square-foot office tower is the second tallest building in Arizona, was built in 1976 and renovated between 2001 and 2005, and was about 75.0% leased at the time of sale. The acquisition also included a seven-story parking garage. Tenants at this property include U.S. Bank, Carter & Burgess, Valley Metro Rail, and the law firm of Campbell, Yost, Clare & Norell. ✦

National Suburban Office Market

STEADY EMPLOYMENT GAINS AND LIMITED AMOUNTS OF NEW SUPPLY CONTINUE TO BENEFIT THE NATIONAL SUBURBAN OFFICE MARKET BY REDUCING VACANCY RATES AND INCREASING RENTAL RATES IN MANY INDIVIDUAL AREAS. "Rental rates for the suburban office sector have noticeably increased over the last two quarters," comments a participant. In the first quarter of 2006, the overall weighted average rental rate for the national suburban office market was $22.71 per square foot, according to Cushman & Wakefield. By comparison, this figure was $21.73 per square foot a year earlier, indicating a 4.50% jump in the past 12 months.

With demand steadily improving and rental rates trending upward, many landlords have been scaling back on concessions. "We've pulled back on the amount of free rent we offer tenants," shares a participant. Nevertheless, there appears to be no urgency on the part of tenants, especially small and midsized ones, to complete deals. "It is definitely more of a landlords' market in many parts of the country, but there are still alternatives for tenants looking to expand, renew, or relocate," explains a participant.

While few investors expect rental rates in most suburban office markets to skyrocket anytime soon, many are optimistic that future increases will be quite strong. "If vacancy rates continue to trend downward as they have been doing quarter after quarter, it will provide many landlords with additional opportunities to pop rents," affirms a participant. Overall vacancy rate trends for the national suburban office market are shown in Table SO-1. As shown, overall vacancy has declined 420 basis points over the past two years.

As a result of continuous declines in overall vacancy, the average market rent change rate for this market increased 41 basis points over the last quarter to reach 2.34%. This figure marks a 145-basis-point surge over the past year. In addition, the high end of the range for this key assumption increased 200 basis points this quarter. Due to these growth rate assumptions, many investors believe that property values for many suburban office properties will either stay relatively stable or increase slightly over the near term even though overall capitalization rates are likely to stabilize. "Going forward, property value appreciation is going to come more from income growth than from cap rate compression," attests a participant. ✦

TABLE SO-1
OVERALL VACANCY RATE TRENDS
National Suburban Office Market

Quarter	Average %	Change (Basis Points)
1Q06	16.1%	-60
4Q05	16.7%	-70
3Q05	17.4%	-50
2Q05	17.9%	-70
1Q05	18.6%	-40
4Q04	19.0%	-70
3Q04	19.7%	-30
2Q04	20.0%	-30
1Q04	20.3%	—

Source: Cushman & Wakefield

Table 5

NATIONAL SUBURBAN OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50%–12.00%	7.50%–12.00%	7.50%–12.50%
Average	9.25%	9.32%	9.90%
Change (Basis Points)	—	–7	–65
OVERALL CAP RATE (OAR)[a]			
Range	5.50%–10.50%	5.50%–10.50%	6.50%–10.50%
Average	7.82%	7.93%	8.45%
Change (Basis Points)	—	–11	–63
RESIDUAL CAP RATE			
Range	7.00%–11.00%	7.00%–11.00%	7.50%–11.00%
Average	8.46%	8.54%	9.07%
Change (Basis Points)	—	–8	–61
MARKET RENT CHANGE RATE[b]			
Range	0.00%–7.00%	0.00%–5.00%	-10.00%–3.00%
Average	2.34%	1.93%	0.89%
Change (Basis Points)	—	+41	+145
EXPENSE CHANGE RATE[b]			
Range	2.50%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.98%	2.92%	2.92%
Change (Basis Points)	—	+6	+6
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	3.00–12.00
Average	6.65	6.65	6.85
% Change	—	0	–2.92

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

Atlanta Office Market

AS THE ATLANTA OFFICE MARKET MOVES OUT OF RECOVERY AND INTO THE EXPANSION PHASE OF THE MARKET CYCLE, VACANCY RATES HAVE DIPPED BELOW 20.0% FOR THE FIRST TIME IN FOUR YEARS THANKS TO NEARLY ONE MILLION SQUARE FEET OF NET ABSORPTION. Specifically, vacancy in the central business district (CBD) fell to 18.8% in the first quarter of 2006, while it declined to 19.4% in the suburbs, according to CB Richard Ellis (CBRE). "Leasing momentum is gaining speed," confirms a participant. Furthermore, CBRE reports that average asking rental rates for office space rose for the second consecutive quarter to $20.20 per square foot during that time.

A clear indicator of the expansion phase in the Atlanta office market is the 3.1 million square feet of new construction, primarily located in the urban submarkets. Class-A office developments planned for delivery in 2007 include Terminus, a 581,000-square-foot tower in Buckhead; One Market Street, a 350,000-square-foot project in Midtown at Atlantic Station; and 55 Allen Plaza, a 350,000-square-foot development in the CBD.

While the office market's expansion is being driven by strong job growth in the leisure and hospitality, healthcare, and business service sectors, recent acquisitions of BellSouth, Scientific-Atlanta, and Georgia Pacific, combined with the uncertain future of Delta Airlines amid its restructuring, pose potential threats to this market's employment growth. In spite of these concerns, Georgia State University's economist Rajeev Dhawan anticipates that 63,000 new jobs will be created in 2006.

Due to this market's resiliency, many investors continue to favor Atlanta. "Several core offerings are in the market and are receiving significant attention," remarks a participant. Bank of America Plaza, Midtown's tallest office tower, is being offered for sale, while Hines Interests is preparing to market 1180 Peachtree. In addition, Sumitomo Life Realty put One Atlantic Center on the block. The marketing of these high-profile assets indicates the availability of capital and an elevated level of investor interest. Other Class-A properties for sale include 999 Peachtree in Midtown; Hewlett Packard's 20 Perimeter Summit Boulevard in Central Perimeter; and Tower Place 2000 and Piedmont Center 14, both located in Buckhead.

Overall capitalization rate trends for this market are shown in Table AO-1. ✦

Table 6

ATLANTA OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.75%–11.00%	7.00%–11.00%	8.25%–11.00%
Average	8.94%	9.13%	9.59%
Change (Basis Points)	—	–19	–65
OVERALL CAP RATE (OAR)[a]			
Range	5.75%–9.00%	6.50%–9.00%	7.00%–9.25%
Average	7.63%	7.88%	8.25%
Change (Basis Points)	—	–25	–62
RESIDUAL CAP RATE			
Range	7.00%–9.50%	7.00%–9.50%	8.00%–9.75%
Average	8.42%	8.43%	8.79%
Change (Basis Points)	—	–1	–37
MARKET RENT CHANGE RATE[b]			
Range	0.00%–6.00%	0.00%–3.00%	0.00%–3.00%
Average	2.08%	1.43%	1.14%
Change (Basis Points)	—	+65	+94
EXPENSE CHANGE RATE[b]			
Range	2.50%–3.00%	2.50%–3.00%	1.50%–3.00%
Average	2.92%	2.92%	2.83%
Change (Basis Points)	—	0	+9
AVERAGE MARKETING TIME (in months)			
Range	1.00–9.00	1.00–9.00	1.00–9.00
Average	6.00	6.00	6.00
% Change	—	0	0

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

TABLE AO-1
OVERALL CAPITALIZATION RATE TRENDS
Atlanta Office Market

Quarter	Average %	Change (Basis Points)
1Q06	7.88%	-1
4Q05	7.89%	-18
3Q05	8.07%	-18
2Q05	8.25%	-16
1Q05	8.41%	-20
4Q04	8.61%	-11
3Q04	8.70%	-18
2Q04	8.88%	-32
1Q04	9.20%	-28

Source: Korpacz Real Estate Investor Survey®

Boston Office Market

DESPITE A SLUGGISH LOCAL ECONOMY, DECLINING VACANCY RATES AND RISING RENTAL RATES HAVE SPARKED RENEWED INVESTMENT INTEREST IN THE BOSTON OFFICE MARKET. "We've just started to go back into Boston – into the suburbs," confirms a participant. The largest suburban office property transaction to occur recently was in Cambridge, where Beal Companies and Rockwood Capital Corporation joined to purchase Kendall Square for $210.5 million. In addition, Normandy Real Estate Partners increased its office space holdings in Boston to more than one million square feet by paying $140.0 million for a five-building, 804,959-square-foot office portfolio in the Route 128 submarket. Plus, ING Clarion acquired Stony Brook Office Park located in the Waltham submarket for $55.0 million.

The surge in investment activity is also occurring outside of the suburban office areas. In the Back Bay submarket of the CBD, for example, Liberty Mutual Group purchased 10 St. James Avenue for $475.0 million. Ten Post Office Square, located in the downtown financial district, was acquired by Broadway Real Estate Partners for $109.0 million. Additionally, an unnamed Irish investor procured a historic Downtown Crossing building for $32.6 million. This property is located along the Freedom Trail in a busy shopping corridor.

Along with investment activity, solid leasing gains and a "flight to quality" have depleted the number of premium office space options available in the CBD, especially in Class-A towers. As a result, Class-A asking rental rates rose to $42.27 per square foot in the first quarter of 2006, an approximate $1.00-per-square-foot increase since year-end 2005, according to CB Richard Ellis (CBRE). With fewer Class-A space options available, many landlords of Class-B/C space have been able to increase rental rates. In fact, the average asking rental rate for Class-B/C assets appreciated about $0.70 per square foot over the past few months. Boosts in asking rental rates foretell an eventual shift in negotiating power from tenants to landlords, a reduction in incentive packages, and an increase in competition for space. In addition, limited space options for large users could prompt office space development.

While Boston's suburban office market lacked formidable absorption during the first quarter of 2006, average asking rental rates still increased just over 1.0% to $18.19 per square foot based on data from CBRE. Of all its suburban areas, the 128 West submarket exhibited the greatest rental rate gain during the last quarter, jumping 11.0% to $24.56 per square foot in the first quarter of 2006. A participant notes that, "Strong leasing momentum throughout the suburban and Downtown areas bodes well for near-term building occupancies and rental rate growth."

This expectation could be particularly true for the Cambridge submarket, which posted the suburb's highest level of positive absorption in the first quarter of 2006. During that time, mounting demand emerged for lab space, which accounted for almost half of this submarket's absorption over the three-month period. ✦

Table 7

BOSTON OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50%–13.00%	7.50%–13.00%	8.00%–13.00%
Average	9.30%	9.42%	9.94%
Change (Basis Points)	—	–12	–64
OVERALL CAP RATE (OAR)[a]			
Range	6.00%–10.25%	6.00%–10.25%	6.50%–11.00%
Average	7.59%	7.72%	8.42%
Change (Basis Points)	—	–13	–83
RESIDUAL CAP RATE			
Range	7.00%–10.50%	7.00%–10.50%	7.50%–10.50%
Average	8.50%	8.54%	8.88%
Change (Basis Points)	—	–4	–38
MARKET RENT CHANGE RATE[b]			
Range	0.00%–5.00%	0.00%–3.00%	-1.00%–3.00%
Average	2.36%	1.36%	0.63%
Change (Basis Points)	—	+100	+173
EXPENSE CHANGE RATE[b]			
Range	2.50%–3.00%	2.50%–3.00%	2.50%–3.00%
Average	2.93%	2.93%	2.94%
Change (Basis Points)	—	0	–1
AVERAGE MARKETING TIME (in months)			
Range	2.00–24.00	2.00–24.00	3.00–24.00
Average	7.43	7.57	8.67
% Change	—	–1.85	–14.30

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

Chicago Office Market

STALE EMPLOYMENT GROWTH AND CONTINUOUS ADDITIONS TO SUPPLY ARE KEEPING THE CHICAGO OFFICE MARKET FROM EXPERIENCING SOME MUCH NEEDED IMPROVEMENT IN UNDERLYING FUNDAMENTALS. "At a time when most CBD office markets are getting stronger, Chicago's CBD is still struggling," comments a participant. "We thought that Boston would be one of the last office markets to recover, but it looks like it will be Chicago," notes another. In the first quarter of 2006, for example, downtown Chicago posted an overall vacancy rate of 18.2%, the seventh highest vacancy rate of the 30 downtown markets tracked by Cushman & Wakefield. CBD markets that posted higher overall vacancy rates during that time were Detroit, Hartford, Houston, Atlanta, Dallas, and Silicon Valley.

Unfortunately for landlords in Chicago's CBD, several new office towers totaling 3.3 million square feet are slated for delivery over the next few years. The next Class-A project to be completed will likely be 550 W. Adams Street, a 479,000-square-foot building located in the West Loop. The two major tenants at this property will be United States Gypsum Company and Humana Inc., which, combined, will lease about 74.0% of this building's rentable area. In the Central Loop, 108 N. State Street is expected to be completed by the end of 2007. Tenants that inked deals in this 400,000-square-foot office building include CBD Broadcasting (93,369 square feet) and Morningstar (260,000 square feet).

One of the largest new developments downtown is 300 N. LaSalle Street, a 1.35-million-square-foot project being planned by Hines Interests. Kirkland & Ellis is the major tenant at this property, which is scheduled for completion by early 2009. Another large-scale, Class-A project is Mesirow Financial's 1.1-million-square-foot tower at 351 N. Clark Street. So far, this building is about 64.0% preleased to Mesirow Financial and Jenner & Block.

Until job growth spurs consistent demand for office space and the delivery of new office space subsides, many investors expect office properties in this market to experience rising vacancy rates and falling rental rates. "Without much leasing velocity to spur rental rate growth, we have to be quite aggressive when negotiating deals downtown," shares a participant. This quarter, for example, the average market rent growth rate assumption was 0.68% for this market. This percentage is the lowest reported by the 14 individual office markets in our Survey. With an average of 1.21% (nearly twice that of Chicago), the Philadelphia office market reported the second lowest average this quarter.

Regardless of this market's malaise, properties are trading there. 321 North Clark Street, for example, was recently sold for $247.0 million or about $275.00 per square foot, while 111 East Wacker Drive was acquired for $198.0 million or about $215.00 per square foot. In addition, 33 N. Dearborn Street was purchased for about $134.00 per square foot, while 333 Wacker Drive traded for an undisclosed amount. ✦

Table 8

CHICAGO OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00%–11.00%	7.00%–11.00%	8.00%–12.00%
Average	8.60%	8.67%	9.55%
Change (Basis Points)	—	–7	–95
OVERALL CAP RATE (OAR)[a]			
Range	6.00%–9.50%	5.50%–9.50%	6.00%–11.00%
Average	7.55%	7.51%	8.16%
Change (Basis Points)	—	+4	–61
RESIDUAL CAP RATE			
Range	7.00%–9.50%	7.00%–9.50%	7.25%–10.00%
Average	8.33%	8.33%	8.68%
Change (Basis Points)	—	0	–35
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	0.68%	0.68%	0.61%
Change (Basis Points)	—	0	+7
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.82%	2.82%	2.83%
Change (Basis Points)	—	0	–1
AVERAGE MARKETING TIME (in months)			
Range	5.00–18.00	5.00–18.00	3.00–24.00
Average	7.86	8.15	9.00
% Change	—	–3.56	–12.67

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

Dallas Office Market

EVEN THOUGH EMPLOYMENT GROWTH IN THE FINANCIAL-ACTIVITIES, INFORMATION, AND PROFESSIONAL-AND-BUSINESS-SERVICES SECTORS CAUSED VACANCY RATES TO DECLINE IN THE DALLAS OFFICE MARKET OVER THE PAST YEAR, A SIGNIFICANT AMOUNT OF VACANT SPACE STILL EXISTS. Overall, leasing activity totaled 3.5 million square feet in suburban Dallas in the first quarter of 2006 – the highest annual amount posted by the 40 suburban office markets tracked by Cushman & Wakefield (C&W). Despite this impressive total, the overall vacancy rate in suburban Dallas dipped only 10 basis points during that time, reaching 23.7%. This figure, however, stands 170 basis points below the average a year earlier (25.4%).

A significant lease transaction that occurred in suburban Dallas over that time frame was Archon's 152,086-square-foot deal located at Commons at Las Colinas III in the Las Colinas/DFW Freeport submarket. Also in Las Colinas, Telvista, Inc. agreed to lease 80,863 square feet at Park West, while Comtel Telecom Asset (Comtel) signed an eight-year deal for 84,674 square feet in Waterway Tower in Las Colinas Urban Center. Comtel's lease boosts this asset's occupancy from 18.8% to 56.5%.

On top of these new leases, numerous sublease deals have also been occurring in Las Colinas. According to CoStar, about 2.6 million square feet of sublease space were available in Las Colinas at year-end 2002. At the end of the first quarter of 2006, this total was only 840,838 square feet. Overall, sublease totals have declined throughout suburban Dallas over the past four years as shown in Table DO-1. On average, about 778,000 square feet of sublease space have been absorbed annually since 2002.

While sublease space has shrunk to less than 100,000 square feet in Dallas's central business district (CBD) over the past four years, a tremendous amount of direct available space still exists there due to corporate relocations and consolidations. In the first quarter of 2006, the overall vacancy rate in the CBD stood at 28.2%, according to C&W. Although this figure is a much healthier 15.1% for the Class-A sector downtown, several pending relocations could push this percentage up. Bank One Corp., for example, may vacate 360,000 square feet at Bank One Center due to its merger with JP Morgan Chase. And Thanksgiving Tower is reportedly losing Chase Paymentech, which is vacating 270,000 square feet, while Fountain Place will have 244,000 square feet of additional available space with the departure of Hunt. ✦

TABLE DO-1
SUBLEASE OFFICE SPACE
Dallas Suburbs

Quarter	Square Feet	Change (Sq. Ft.)
1Q06	1,690,000	-750,000
1Q05	2,440,000	-1,040,000
1Q04	3,480,000	-1,200,000
1Q03	4,680,000	-120,000
1Q02	4,800,000	—

Source: Cushman & Wakefield

Table 9

DALLAS OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50%–11.50%	8.00%–11.50%	8.00%–11.50%
Average	9.13%	9.33%	9.53%
Change (Basis Points)	—	–20	–40
OVERALL CAP RATE (OAR)[a]			
Range	6.00%–10.00%	7.00%–10.00%	7.00%–10.00%
Average	8.33%	8.53%	8.65%
Change (Basis Points)	—	–20	–32
RESIDUAL CAP RATE			
Range	7.00%–11.00%	7.25%–11.00%	7.25%–11.00%
Average	8.75%	9.00%	9.00%
Change (Basis Points)	—	–25	–25
MARKET RENT CHANGE RATE[b]			
Range	0.00%–4.00%	0.00%–4.00%	0.00%–3.00%
Average	2.31%	2.31%	1.50%
Change (Basis Points)	—	0	+81
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.80%	2.80%	2.80%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	3.00–12.00
Average	6.38	6.38	6.38
% Change	—	0	0

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

Houston Office Market

POSITIVE LEASING TRENDS CONTINUE TO SLOWLY BENEFIT THE SUBURBS OF THE HOUSTON OFFICE MARKET, WHERE OVERALL VACANCY DIPPED BELOW 20.0% IN THE FIRST QUARTER OF 2006. During that time, about 2.16 million square feet of leasing activity occurred in the suburbs, according to Cushman & Wakefield. Companies that leased space recently outside the CBD include Deloitte & Touche, which inked a sublease deal for 44,633 square feet in the West Loop/ Galleria submarket; Stewart Mortgage Information, which agreed to lease 52,587 square feet in the Southwest/Sugarland submarket; and Krayton Polymers, which signed for 30,000 square feet in the N. Sam Houston Parkway submarket.

Even though the overall vacancy rate in Houston's CBD office market ranks as one of the highest in the country (at 22.4% in the first quarter of 2006), the recent signing of a few significant leases could push this figure down in the months ahead. Chevron USA, for example, leased 480,167 square feet at Continental Center. Following their relocation in the third quarter of 2006, this lease will raise Continental Center's occupancy to 99.0%. In another large-scale lease, EOG Resources executed a 15-year deal for 225,648 square feet at 1111 Bagby Street. The company plans to relocate to this 51-story, Class-A tower in April 2007.

Nevertheless, one participant notes that, "The vacancy level in the CBD has increased due to space being returned to the market." JPMorgan Chase, for example, is returning close to 200,000 square feet of office space upon vacating their space at the 75-story downtown skyscraper at 600 Travis Street. JPMorgan Chase will move their 800 workers from this space into their owned premises located at 601 Travis Street (JPMorgan Chase Center). Tenants looking for large blocks of Class-A space (50,000 square feet or greater) have several options. According to Studley, 37 such spaces existed throughout this market in the first quarter of 2006. This number is up from 31 in the previous quarter and 34 at the beginning of 2005.

Due to the tremendous amount of available space throughout this market, some participants believe that it will take up to five years to reach its structural vacancy point – the normal vacancy rate in a balanced market. Until that time draws near, many landlords will continue to offer aggressive concession packages to prospective tenants. In fact, close to 84.0% of our participants indicate that free rent is a staple in lease negotiations. Currently, free rent ranges from one to six months and averages 3.5 months on a five-year lease.

As a result of a sluggish recovery, the average initial return has changed very little for this market over the past several months. This quarter, the average overall capitalization rate remained at 8.69%, the third highest of the 14 individual office markets included in our Survey. This figure is unchanged from the first quarter of 2006, 8 basis points below the average from year-end 2005, and 23 basis points below the average from a year earlier. ✦

Table 10

HOUSTON OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50%–14.00%	8.00%–14.00%	8.00%–14.00%
Average	9.48%	9.54%	10.31%
Change (Basis Points)	—	–6	–83
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–12.00%	7.00%–12.00%	7.00%–12.00%
Average	8.69%	8.69%	8.92%
Change (Basis Points)	—	0	–23
RESIDUAL CAP RATE			
Range	7.25%–12.00%	7.25%–12.00%	7.25%–12.00%
Average	9.21%	9.25%	9.33%
Change (Basis Points)	—	–4	–12
MARKET RENT CHANGE RATE[b]			
Range	0.00%–7.00%	0.00%–6.00%	-5.00%–6.00%
Average	2.50%	2.25%	0.67%
Change (Basis Points)	—	+25	+183
EXPENSE CHANGE RATE[b]			
Range	3.00%–4.00%	2.50%–4.00%	2.50%–4.00%
Average	3.10%	3.00%	3.00%
Change (Basis Points)	—	+10	+10
AVERAGE MARKETING TIME (in months)			
Range	3.00–9.00	3.00–9.00	3.00–9.00
Average	6.80	6.80	6.80
% Change	—	0	0

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

Los Angeles Office Market

STEADY DEMAND FROM A VARIETY OF NEW AND EXPANDING OFFICE-USING EMPLOYERS, SUCH AS LAW FIRMS, ACCOUNTANTS, AND ENTERTAINMENT AND CONSULTING COMPANIES, IS KEEPING THE UNDERLYING FUNDAMENTALS VERY HEALTHY THROUGHOUT THE LOS ANGELES OFFICE MARKET. "Companies looking for large blocks of space are finding fewer options and fewer bargains," comments a participant. Companies that have recently leased space in this market include law firm Sidley Austin (186,000 square feet), IndyMac Bank (90,562 square feet), eHarmony (47,408 square feet), and One Legacy (27,800 square feet).

Due to such vibrant leasing activity, the overall vacancy rate for Central Los Angeles' CBD (central business district) declined 170 basis points over the past year, falling to 14.6% in the first quarter of 2006, according to Cushman & Wakefield (C&W). Outside of the Central CBD, the Hollywood submarket has been performing exceptionally well due to corporate migration and the conversion of some office inventory to other uses. In 2001, Hollywood's direct vacancy rate stood at 27.4%, well above the 14.6% figure posted at the end of the first quarter of 2006. This submarket's turnaround has captured the attention of investors. Broadreach Capital Partners, for example, recently acquired CNN Tower, a 14-story, 200,000-square-foot building located at 6430 Sunset Boulevard, for about $250.00 per square foot.

Outside of Central Los Angeles, other portions of this market also continue to reap the benefits of a robust local economy. In fact, three suburban areas posted single-digit vacancy rates in the first quarter of 2006. At 8.1%, North Los Angeles posted the lowest overall vacancy rate of the 40 suburban markets tracked by C&W. West Los Angeles and the Tri-Cities submarkets were close behind with overall vacancy rates of 8.3% and 8.5%, respectively, during that time.

Strong demand for office space in these three submarkets has spurred new development and investment activity. In West Los Angeles, for example, Cohen Brothers Realty Corp. plans to build a 400,000-square-foot office building targeted at creative tenants, such as media, entertainment, advertising, and public relations companies. This new facility is expected to be one of West Hollywood's largest office buildings and will reportedly cost more than $100.0 million. And in the Tri-Cities, ING Clarion's Lion Properties Fund purchased 500 N. Brand, a 419,000-square-foot, 22-story office building located in Glendale, for $334.00 per square foot from a joint venture affiliated with GE Pension Trust.

Other office properties that have sold recently in this market include World Trade Center located in Long Beach, Executive Center of Simi Valley, Corbell Plaza located in Sherman Oaks, Westwood Center located in Los Angeles, and Wing Office & Business Park located in Lakewood. Overall, 167 suburban office properties totaling over 20.0 million square feet were sold in Los Angeles at an average price of $264.00 per square foot in the 12 months leading up to June 2006, according to Real Capital Analytics, Inc. ✦

Table 11

LOS ANGELES OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00%–13.00%	7.00%–13.00%	8.00%–13.00%
Average	9.13%	9.19%	10.54%
Change (Basis Points)	—	–6	–141
OVERALL CAP RATE (OAR)[a]			
Range	5.00%–9.75%	4.60%–10.25%	5.00%–11.00%
Average	6.92%	7.11%	8.11%
Change (Basis Points)	—	–19	–119
RESIDUAL CAP RATE			
Range	6.00%–9.50%	6.00%–9.75%	7.50%–10.50%
Average	8.00%	8.04%	8.89%
Change (Basis Points)	—	–4	–89
MARKET RENT CHANGE RATE[b]			
Range	0.00%–8.00%	0.00%–8.00%	0.00%–5.00%
Average	3.25%	3.17%	2.15%
Change (Basis Points)	—	+8	+110
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.50%
Average	2.83%	2.83%	2.80%
Change (Basis Points)	—	0	+3
AVERAGE MARKETING TIME (in months)			
Range	4.00–10.00	4.00–10.00	3.00–12.00
Average	6.70	7.00	7.06
% Change	—	–4.29	–5.10

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

Manhattan Office Market

DUE TO A VIBRANT UNDERLYING ECONOMY, EXTREMELY TIGHT MARKET FUNDAMENTALS, AND HIGH BARRIERS TO ENTRY, THE MANHATTAN OFFICE MARKET REMAINS A PRIME TARGET FOR INVESTORS' CAPITAL. "Buyers are drawn to this market's stability and long-standing stellar performance," explains a participant. Becoming a landlord in this market, however, does not come cheaply. According to Real Capital Analytics, Inc., the average sale price for an office property in Manhattan was $453.00 per square foot in the 12 months leading up to April 2006. By comparison, the U.S average was $244.00 per square foot during that time frame.

In one recent Manhattan office building deal, Boston Properties signed an agreement to sell 280 Park Avenue located in Midtown for approximately $1.2 billion or about $1,117.00 per square foot. Boston Properties purchased this 43-story, 1.075-million-square-foot asset in 1997 for $321.0 million and expects to net $850.0 million after transaction and other costs. In a similar transaction, German syndicator Jamestown and Apollo Real Estate Advisors recently sold 1290 Avenue of the Americas for a gain of $554.0 million. Jamestown and its partner purchased the 34-story, 1.96-million-square-foot office tower in 2001 for $745.5 million and sold it for $1.25 billion or about $640.00 per square foot.

On a smaller scale, Broad Street Development and Crow Holdings Realty Partners IV recently acquired 370 Lexington Avenue, a 27-story, 296,000-square-foot office building, for $97.2 million or $328.00 per square foot. Also in Midtown, SL Green Realty sold 286 and 290 Madison Avenue for $63.0 million or approximately $420.00 per square foot. The buildings were 99.8% and 100.0% leased at the time of sale, respectively. This sale is expected to yield SL Green Realty a gain in excess of $30.0 million.

Strong investment demand, rental rate increases, and value appreciation expectations for Manhattan office properties are each keeping overall capitalization rates (OARs) low even though interest rates have moved upward. "Competition among investors has kept overall cap rates low, but I sense that they are starting to stabilize for many properties," comments a participant. OAR trends for this market are shown in Table MO-1. As shown, the average OAR for this market has declined an average of about 20 basis points per quarter for the past two years. ✦

TABLE MO-1
OVERALL CAPITALIZATION RATE TRENDS
Manhattan Office Market

Quarter	Average %	Change (Basis Points)
2Q06	6.30%	-11
1Q06	6.41%	-7
4Q05	6.48%	-20
3Q05	6.68%	-57
2Q05	7.25%	-20
1Q05	7.45%	-9
4Q04	7.54%	-32
3Q04	7.86%	-2
2Q04	7.88%	—

Source: Korpacz Real Estate Investor Survey®

Table 12

MANHATTAN OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00%–9.50%	6.00%–9.50%	7.00%–11.00%
Average	8.00%	8.02%	8.86%
Change (Basis Points)	—	–2	–86
OVERALL CAP RATE (OAR)[a]			
Range	5.00%–8.00%	5.00%–8.50%	5.50%–9.00%
Average	6.30%	6.41%	7.25%
Change (Basis Points)	—	–11	–95
RESIDUAL CAP RATE			
Range	7.00%–9.00%	7.00%–9.00%	7.00%–9.00%
Average	7.48%	7.55%	7.59%
Change (Basis Points)	—	–7	–11
MARKET RENT CHANGE RATE[b]			
Range	0.00%–6.00%	0.00%–5.00%	0.00%–6.00%
Average	3.50%	2.64%	2.29%
Change (Basis Points)	—	+86	+121
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	2.00–10.00	2.00–10.00	2.00–12.00
Average	4.93	4.93	5.36
% Change	—	0	–8.02

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

Pacific Northwest Office Market

MANY INVESTORS ARE VERY IMPRESSED BY THE RECOVERY AND STRENGTH OF THE PACIFIC NORTHWEST OFFICE MARKET, WHICH CONTINUES TO EXPERIENCE STRONG JOB GROWTH AND DEMAND FOR SPACE. "There is a real pronounced recovery happening in Seattle and Bellevue right now," notes a participant, who expects the vacancy rate in Seattle's CBD to decline about 150 basis points by the end of this year. One reason for this optimism is Safeco's recent announcement to relocate its headquarters from Redmond to downtown Seattle. This move will absorb 424,000 square feet at 1001 Fourth Avenue Plaza, filling about 70.0% of the space vacated by the relocation of Washington Mutual Bank into its newly constructed headquarters.

In the first quarter of 2006, downtown Seattle posted an overall vacancy rate of 11.6%, according to Cushman & Wakefield (C&W). This figure represents a 260-basis-point decline from the same time last year. While steady leasing activity is largely responsible for this decline, a lack of speculative office space has also helped. Although rental rates have increased over the past several months leaving some investors to believe that this submarket may be on the edge of another building boom, they still need to increase a bit more. "We would describe Seattle as experiencing high rent growth, but with construction costs so high they need to climb a bit higher," explains a participant.

Due to downtown Seattle's favorable market conditions, investor interest is quite strong and a few high-profile assets have traded recently. Smith Tower and the adjacent Florence Building, for example, were purchased by Walton Street Capital (Walton) for about $175.00 per square foot. Walton has been an active investor in Seattle over the past several years. In late 2005, it purchased a four-building, 1.2-million-square-foot portfolio for $345.0 million. In another recent deal, The Shorenstein Company purchased Blanchard Plaza for about $259.00 per square foot.

Elsewhere in this market, Bellevue is performing extremely well. In the first quarter of 2006, the overall vacancy rate in Bellevue's CBD dropped to 7.5%, according to C&W. In the suburbs, this figure declined to 22.2%. With large blocks of space nonexistent in this submarket's CBD, the new office tower currently under construction in downtown Bellevue (Lincoln Square) is 100.0% preleased. Microsoft has committed to 320,000 square feet of the 28-story, 540,000-square-foot tower, while Eddie Bauer has signed on for the remaining 220,000 square feet. Construction of Lincoln Square started in 2000 and was halted in mid-2002 after the dot.com fallout and subsequent national recession. Kemper Development purchased the stalled project in August 2003 and expects to finish it in midyear 2007.

Due to Bellevue's tight market conditions, Hines and Washington Capital Management have unveiled plans to construct Tower 333, a 20-story, 400,000-square-foot office building located at the intersection of 108th Avenue NE and NE 4th Street. This new project is slated for occupancy by year-end 2007. ✦

Table 13

PACIFIC NORTHWEST OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00%–14.00%	9.00%–14.00%	9.00%–14.00%
Average	11.02%	11.02%	11.02%
Change (Basis Points)	—	0	0
OVERALL CAP RATE (OAR)[a]			
Range	7.00%–11.00%	7.00%–11.00%	7.00%–11.00%
Average	8.88%	8.88%	8.88%
Change (Basis Points)	—	0	0
RESIDUAL CAP RATE			
Range	7.00%–10.00%	7.00%–10.00%	7.00%–10.00%
Average	8.85%	8.83%	8.94%
Change (Basis Points)	—	2	–9
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	1.90%	2.30%	1.90%
Change (Basis Points)	—	–40	0
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	6.25	6.50	6.50
% Change	—	–3.85	–3.85

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

Philadelphia Office Market

LEASE RENEWALS, TENANT EXPANSIONS, AND OFFICE SPACE CONVERSIONS BUOYED PHILADELPHIA'S CBD OFFICE MARKET DURING THE FIRST THREE MONTHS OF THIS YEAR. Viacom, the parent company of CBS Broadcasting, inked the largest deal of the quarter, taking 125,000 square feet at the newly renovated 1500 Spring Garden Street. In the Wannamaker building, Children's Hospital of Pennsylvania added more than 70,000 square feet to its existing commitment. MarketLab Research, a local research and marketing firm, is leasing 21,000 square feet at the same address, while Lupert Adler is taking 38,000 additional square feet at Cira Centre, the newest CBD office tower. Considerable Class-A lease transactions held the CBD vacancy rate steady at 15.6% for the first quarter of 2006, according to Cushman & Wakefield (C&W).

Office space conversions in the CBD emerged for both residential and complimentary uses. Capitalizing on the tourist-friendly location, the National Museum of American Jewish History plans to demolish 111 South Independence Mall, Viacom's former home, and construct their new museum. Lupert Adler's departure from the 70,000-square-foot Belgravia readies it for conversion to residential units. Grasso Holdings plans to convert 1530 Chestnut Street, another Class-B office property, to apartments. While residential development boosts activity downtown, Philadelphia's wage tax remains a barrier to entry for some office employers seeking space in the CBD.

Outside its CBD, suburban office market conditions in Philadelphia were bolstered by 1.9 million square feet of leasing activity through the first quarter of 2006. According to C&W, overall suburban vacancy was 20.2%, with several submarkets substantially tighter. Further illustrating the improving fundamentals of the suburban market, speculative construction is occurring for the first time in several years. BPG, an affiliate of Berwind Property Group, is developing 1000 Continental Drive, a 200,000-square-foot project in the King of Prussia submarket. This property will be the first new office building in this submarket in six years. Rental rates will range from $29.50 to $31.50 per square foot. BPG is also constructing a 120,000-square-foot property in the Valley Forge Corporate Center in Trooper. And, Brandywine Realty has started developing the first phase of Metroplex, a five-story, 121,000-square-foot development in the Plymouth Meeting submarket.

Vigorous sales activity in the Philadelphia office market reflects the sustained availability of capital at relatively low interest rates. The CBD sale of 1818 Market Street by GE Investments and Ashford Company to Triple Net Properties was reported at $162.00 per square foot. Liberty Property Trust sold an 80.0% interest in the equity of Comcast Center to the joint venture of Commerzleasing and Immobilien AG. In the King of Prussia submarket, Pitcairn Properties and SEB Immobilien-Investment GMBH joined to acquire both Chesterbrook and Glenhardie Corporate Centers. These properties exceed 1.2 million square feet of space in 17 buildings and reportedly sold for $251.0 million. ✦

Table 14

PHILADELPHIA OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00%–12.00%	8.00%–12.00%	9.00%–12.00%
Average	9.86%	9.86%	10.17%
Change (Basis Points)	—	0	–31
OVERALL CAP RATE (OAR)[a]			
Range	5.00%–11.00%	5.00%–11.00%	7.00%–11.00%
Average	8.86%	8.86%	9.13%
Change (Basis Points)	—	0	–27
RESIDUAL CAP RATE			
Range	7.00%–10.50%	7.00%–10.50%	7.00%–10.50%
Average	9.21%	9.32%	9.33%
Change (Basis Points)	—	–11	–12
MARKET RENT CHANGE RATE[b]			
Range	0.00%–3.00%	0.00%–3.00%	0.00%–3.00%
Average	1.21%	1.21%	1.42%
Change (Basis Points)	—	0	–21
EXPENSE CHANGE RATE[b]			
Range	2.50%–3.00%	2.50%–3.00%	2.50%–3.00%
Average	2.93%	2.86%	2.92%
Change (Basis Points)	—	7	+1
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	5.00–12.00
Average	5.79	5.79	6.70
% Change	—	0	–13.58

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

San Francisco Office Market

STEADY INCREASES IN OFFICE-USING EMPLOYMENT CONTINUE TO POSITIVELY IMPACT THE UNDERLYING FUNDAMENTALS OF THE SAN FRANCISCO OFFICE MARKET. "San Francisco is doing very well due to a lack of new construction and good job growth," notes a participant. In 2005, for example, the professional-and-business-services sector in the San Francisco-Oakland-Fremont area added roughly 9,400 workers, while the financial-activities sector added about 3,400 workers, according to the Bureau of Labor Statistics. Based on an average square-foot-per-employee figure of 242 square feet provided by our participants, these employment increases generated close to three million square feet of demand.

Given the fact that additions to supply were virtually nonexistant during that time, the San Francisco CBD office market recorded a 260-basis-point decline in overall vacancy, while its suburban office sector posted a 460-basis-point year-over-year drop in the first quarter of 2006, according to Cushman & Wakefield. Major lease transactions that occurred in the first quarter of 2006 include Advent Software's 116,200-square-foot deal at 600 Townsend Street; Nixon Peabody's 75,000-square-foot commitment at One Embarcadero; and Monitor Group's 33,000-square-foot lease at 101 Market Street.

Due to the steady decline in overall vacancy, certain developers are starting to plan for the area's next wave of new construction. Tishman Speyer, for example, is reportedly getting ready to start construction of their 33-story tower located at 555 Mission Street. Although the developer does not have an anchor tenant in place, this market's steady recovery may prompt it to break ground without one. Other developers lining up to start new office projects include Shorenstein Properties, which is looking to construct 350 Bush Street, a 19-story building, and Equity Office Properties, which is looking to develop an office building on a parking lot located at 75 Howard Street.

While a lack of anchor tenants could prevent these projects from coming to fruition anytime soon, another problem for developers is achieving an adequate rental rate. "This market is improving, but rental rates are still way off from their peak levels of the 1990s," states a participant. According to Cushman & Wakefield, the overall weighted average asking rental rate for office space in San Francisco's CBD was $34.73 per square foot in the first quarter of 2006. By comparison, this amount was $63.00 per square foot in the second quarter of 2001.

Rental rates, however, have been increasing over the past several quarters – a trend that many participants expect to continue. "We see rental rates increasing about 10.0% to 15.0% annually over the next few years," shares a participant. On average, participants in this market expect market rent to increase 4.39% in the first year of their analyses. This market rent growth rate assumption represents the highest reported for the 14 individual office markets in our Survey. At 3.50%, both Manhattan and Washington, DC posted the second highest average market rent growth rates this quarter. ✦

Table 15

SAN FRANCISCO OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00%–12.00%	7.00%–12.00%	7.50%–13.00%
Average	8.56%	8.88%	9.41%
Change (Basis Points)	—	–32	–85
OVERALL CAP RATE (OAR)[a]			
Range	5.00%–10.00%	5.00%–10.00%	6.00%–11.00%
Average	7.25%	7.33%	8.25%
Change (Basis Points)	—	–8	–100
RESIDUAL CAP RATE			
Range	6.50%–9.00%	6.50%–9.50%	7.00%–10.50%
Average	8.00%	8.08%	8.58%
Change (Basis Points)	—	–8	–58
MARKET RENT CHANGE RATE[b]			
Range	0.00%–15.00%	0.00%–15.00%	0.00%–3.00%
Average	4.39%	4.28%	1.50%
Change (Basis Points)	—	+11	+289
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.50%
Average	2.94%	2.94%	3.00%
Change (Basis Points)	—	0	–6
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	4.00–12.00
Average	7.00	7.13	7.83
% Change	—	–1.82	–10.60

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

Southeast Florida Office Market

DUE TO SIGNIFICANT AND STEADY GAINS IN OFFICE-USING EMPLOYMENT, LEASING ACTIVITY HAS BEEN NONSTOP THROUGHOUT THE SOUTHEAST FLORIDA OFFICE MARKET OVER THE PAST SEVERAL MONTHS. "Southeast Florida is an amazing story," exclaims a participant, who marvels at this market's job growth. In the West Palm-Boca Raton-Boynton Beach statistical area, for example, the professional-and-business-services sector experienced an increase of 11,500 workers in 2005, according to the Bureau of Labor Statistics. This increase follows a gain of 9,600 workers in 2004 and an increase of 4,500 workers in 2003.

Such strong job growth has caused the overall vacancy rate in Palm Beach County to dip from 13.0% at year-end 2005 to 12.6% in the first quarter of 2006, according to Cushman & Wakefield. Like many of Southeast Florida's submarkets, the suburban area of Palm Beach County is outperforming the CBD as a whole. Specifically, the overall vacancy rate for the suburbs stood at 12.5% in the first quarter of 2006, while it was 13.0% for the CBD. Within Palm Beach County, top-performing submarkets include Palm Beach, Palm Beach Gardens, and Boca Raton. Overall vacancy rates for these three submarkets ranged from 8.5% to 11.6% in the first quarter of 2006.

As vacancy rates have declined in Palm Beach County, rental rates have increased. "We are noticing that more and more underwriters are factoring in hefty rental rate increases," shares a participant. According to CB Richard Ellis, the overall average asking rental rate increased 8.0% from the first quarter of 2005 to the first quarter of 2006. The allure of rising rental rates continues to draw interest from numerous investors, many of whom seem content to pay high prices for local assets. In one recent transaction, Gardens Corporate Center, a 206,138-square-foot, 10-story office building, sold for $378.00 per square foot.

Further south in this market, Miami-Dade County also continues to experience brisk leasing velocity. As a result, overall vacancy reached 14.5% in the CBD and 10.8% in the suburbs in the first quarter of 2006. Tenants that recently signed deals in this county include Onboard Media, which leased 23,500 square feet in Miami Beach; Finder Corporation, which inked a deal for 22,600 square feet in Coral Gables; and CompuPay, which rented 20,400 square feet in Miami.

Investment activity in Miami-Dade County has also been strong due to favorable fundamentals. In fact, the recent agreement of Andrew Silverman (a New York investor) to buy the landmark Lincoln Place located in Miami Beach could set a new ceiling for what investors are willing to pay to have a presence in this market. Reportedly, Silverman signed a contract to acquire the 139,887-square-foot building for roughly $443.00 per square foot. This figure trumps the record price paid for the 246,000-square-foot, 21-story Esperante office tower located in downtown West Palm Beach in December 2005 ($423.00 per square foot). "It is pricey to acquire good assets here, but we believe that solid rent growth will occur and that it is worth the investment," states a participant. ✦

Table 16

SOUTHEAST FLORIDA OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00%–11.00%	8.00%–11.00%	8.00%–11.00%
Average	9.08%	9.43%	9.61%
Change (Basis Points)	—	–35	–53
OVERALL CAP RATE (OAR)[a]			
Range	5.40%–10.00%	5.40%–10.00%	7.00%–10.00%
Average	8.24%	8.35%	8.67%
Change (Basis Points)	—	–11	–43
RESIDUAL CAP RATE			
Range	7.50%–10.50%	7.00%–10.50%	7.50%–10.50%
Average	8.63%	8.66%	8.73%
Change (Basis Points)	—	–3	–10
MARKET RENT CHANGE RATE[b]			
Range	0.00%–5.00%	0.00%–5.00%	0.00%–3.00%
Average	3.25%	3.29%	2.57%
Change (Basis Points)	—	–4	+68
EXPENSE CHANGE RATE[b]			
Range	3.00%–4.00%	3.00%–4.00%	3.00%–4.00%
Average	3.08%	3.08%	3.08%
Change (Basis Points)	—	0	0
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	3.00–12.00
Average	6.90	6.75	6.90
% Change	—	+2.22	0

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

Washington, DC Metro– The District Office Market

STEADY EMPLOYMENT GAINS AND STRONG TENANT DEMAND CONTINUE TO KEEP THE UNDERLYING FUNDAMENTALS OF THE WASHINGTON, DC DISTRICT OFFICE MARKET EXTREMELY TIGHT. "Many companies, including the government, continue to expand and increase their space requirements in the District," notes a participant. In 2005, the government sector added 7,900 new jobs in the Washington-Arlington-Alexandria statistical area, while the financial-activities sector added 3,600 new jobs, according to the Bureau of Labor Statistics. While these numbers are notable, they pale in comparison to the professional-and-business-services sector, which added 26,900 new jobs in 2005.

As shown in Table DC-1, employment in each of these three sectors has been growing annually since 1999. Due to such stellar job growth, demand for office space has remained extremely vibrant and has kept this market's overall vacancy rate in the single digits. Specifically, Washington, DC posted an overall vacancy rate of 7.1% in the first quarter of 2006, according to Cushman & Wakefield. This rate has remained relatively unchanged over the past several quarters. In the first quarter of 2002, for example, it was 7.8%. The strength of this market is even more impressive given the fact that new office space continues to be delivered. "This market's fundamentals remain very strong even though additions to supply are occurring," comments a participant. In the first quarter of 2006, roughly 4.4 million square feet of speculative space were completed.

Given the District's favorable market conditions and the expectation that it will remain healthy in the near term, many investors are keen on acquiring assets there. Unfortunately for many eager buyers, prices remain very high. In one recent transaction, for example, UBS Realty Investors acquired a 457,000-square-foot, three-building portfolio – 901 E Street, 1146 19th Street NW, and 1101 Vermont Avenue NW – for a combined price of close to $420.00 per square foot. Reportedly, these assets "provide strong upside potential by allowing the buyer the opportunity to retenant approximately 50.0% of the portfolio over the next two years." ✦

TABLE DC-1
EMPLOYMENT TRENDS
Washington-Arlington-Alexandria, DC-VA-MD-WV

Employment Sector	Total Employed 1999	Total Employed 2005	Average Annual Gain
Financial Activities	143,300	161,000	2,950
Professional And Business Services	519,900	642,900	20,500
Government	570,100	631,000	10,150

Source: Bureau of Labor Statistics

Table 17

WASHINGTON, DC METRO– THE DISTRICT OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.50%–9.25%	7.00%–9.50%	7.00%–11.00%
Average	7.96%	8.18%	8.76%
Change (Basis Points)	—	–22	–80
OVERALL CAP RATE (OAR)[a]			
Range	5.00%–8.50%	4.50%–8.50%	6.00%–8.50%
Average	6.45%	6.50%	7.08%
Change (Basis Points)	—	–5	–63
RESIDUAL CAP RATE			
Range	5.00%–9.00%	5.00%–9.00%	6.50%–9.00%
Average	7.21%	7.34%	7.83%
Change (Basis Points)	—	–13	–62
MARKET RENT CHANGE RATE[b]			
Range	3.00%–5.00%	0.00%–5.00%	0.00%–5.00%
Average	3.50%	3.32%	2.91%
Change (Basis Points)	—	+18	+59
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	1.00–12.00	1.00–12.00	1.00–12.00
Average	5.06	5.06	5.17
% Change	—	0	–2.13

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

Washington, DC Metro–Northern Virginia Office Market

MANY LANDLORDS THROUGHOUT THE NORTHERN VIRGINIA OFFICE MARKET CONTINUE TO BENEFIT FROM CORPORATE EXPANSIONS AND STRONG ABSORPTION TRENDS. "Over the past year, job growth has been phenomenal here," exclaims a participant. In fact, Northern Virginia added over 43,000 new jobs in 2005, approximately 60.0% of the total jobs created in the Washington, DC metropolitan statistical area, according to CB Richard Ellis. Roughly 22,000 of the new jobs created in Northern Virginia during that year were added in Fairfax County, where net absorption totaled close to 634,700 square feet in the first quarter of 2006.

When combined with limited additions to supply, the overall vacancy rate in Fairfax County has declined significantly over the past several quarters (see Table NV-1). Over the past year, some of the best improvements in underlying fundamentals there have occurred in Herndon, where the availability rate dropped from 20.8% in the first quarter of 2005 to 15.19% in the first quarter of 2006. The positive trends in this submarket, however, have caused speculative development to once again increase.

TABLE NV-1
OVERALL VACANCY RATE TRENDS
Fairfax County

Quarter	Average %	Change (Basis Points)
1Q06	12.30%	-47
3Q05	12.77%	-77
2Q05	13.54%	-36
1Q05	13.90%	-130
4Q04	15.20%	-60
3Q04	15.80%	-220
2Q04	18.00%	0
1Q04	18.00%	—

Source: Cushman & Wakefield

Tishman Speyer (Tishman), for example, recently broke ground on a six-story, Class-A office building totaling 184,000 square feet. The asking rental rate is $38.00 per square foot for space in this building. Tishman is also developing two buildings in nearby Chantilly. Known as Plaza East, these new structures will each contain 123,400 square feet in five stories. The asking rental rate at these two Class-A buildings is $32.00 per square foot.

Other developers planning new projects for Fairfax County include Crimson Partners, which started work on the first of its two buildings totaling 540,000 square feet and located off the Dulles Toll Road, and Vardell Realty Investments, which commenced the development of the first of its two buildings totaling 445,000 square feet in Dulles Corner. Overall, close to two million square feet of speculative office space are planned for Fairfax County over the near term. While some investors believe that this surge in supply is occurring too soon, others are confident that Fairfax County's fundamentals will continue to improve and mirror those expected for Northern Virginia as a whole. ✦

Table 18

WASHINGTON, DC METRO–NORTHERN VIRGINIA OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00%–11.00%	6.00%–11.00%	7.50%–11.00%
Average	8.27%	8.45%	9.36%
Change (Basis Points)	–	–18	–109
OVERALL CAP RATE (OAR)[a]			
Range	5.00%–9.00%	5.00%–9.00%	6.00%–9.00%
Average	7.03%	7.06%	7.78%
Change (Basis Points)	–	–3	–75
RESIDUAL CAP RATE			
Range	7.00%–9.50%	7.00%–9.50%	7.00%–9.50%
Average	7.91%	8.02%	8.39%
Change (Basis Points)	–	–11	–48
MARKET RENT CHANGE RATE[b]			
Range	0.00%–4.00%	0.00%–4.00%	0.00%–4.00%
Average	2.86%	2.86%	2.07%
Change (Basis Points)	–	0	+79
EXPENSE CHANGE RATE[b]			
Range	3.00%–3.25%	3.00%–3.00%	3.00%–3.00%
Average	3.03%	3.00%	3.00%
Change (Basis Points)	–	+3	+3
AVERAGE MARKETING TIME (in months)			
Range	1.00–12.00	1.00–12.00	1.00–12.00
Average	6.75	6.75	6.75
% Change	–	0	0

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

Washington, DC Metro– Suburban Maryland Office Market

THE SUBURBAN MARYLAND OFFICE MARKET CONTINUES TO PERFORM EXCEPTIONALLY WELL DUE TO STEADY LEASING ACTIVITY FROM LARGE, SMALL, AND MID-SIZED TENANTS. "Demand for office space is coming from a variety of businesses that have varying space needs," adds a participant. One large-scale lease that recently occurred in this market was HMS Host's deal for 148,700 square feet at 6905 Rockledge Drive in Bethesda. HMS Host, a food and beverage concessionaire to the travel industry, will use the new space as its headquarters. In another large lease deal, Development Alternatives, a consulting firm, leased over 90,000 square feet at 7600 Wisconsin Avenue in Bethesda.

Overall, leasing activity totaled close to 1.3 million square feet in Suburban Maryland in the first quarter of 2006, according to Cushman & Wakefield (C&W). When factoring in tenant relocations and downsizings, direct absorption totaled roughly 378,000 square feet during that time. As a result of such positive leasing trends, this market's overall vacancy rate dipped below 10.0% during the first quarter of 2006. At 9.6%, this market's rate is the fifth lowest of the 40 suburban office markets tracked by C&W. The top four suburban office markets are located on the West Coast – Los Angeles North, Los Angeles West, Los Angeles Tri Cities, and Orange County.

As overall vacancy rates have declined, many landlords have been able to increase rental rates, especially in Class-A and quality Class-B assets. "Landlords of premier properties are starting to have more control over lease negotiations," comments a participant. This quarter, the average market rent change rate increased to 3.06%, a 12-basis-point increase from last quarter and a 125-basis-point surge from a year ago (see Table SM-1).

This market's positive performance continues to attract the attention of buyers even though some assets are priced quite high. In one recent deal, America's Capital Partners purchased One, Two, and Three Irvington Centre located in Rockville for close to $352.00 per square foot, well above the average sale price received for Class-A assets in this market in 2005. ✦

TABLE SM-1
AVERAGE MARKET RENT CHANGE RATES
Suburban Maryland

Time	Average ($/psf)	Change (Basis Points)
2Q06	3.06%	+12
1Q06	2.94%	+50
4Q05	2.44%	+63
3Q05	1.81%	0
2Q05	1.81%	+25
1Q05	1.56%	0
4Q04	1.56%	-1
3Q04	1.57%	0

Source: Korpacz Real Estate Investor Survey®

Table 19

WASHINGTON, DC METRO– SUBURBAN MARYLAND OFFICE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00%–11.00%	7.00%–11.00%	7.50%–12.00%
Average	8.52%	8.55%	9.22%
Change (Basis Points)	—	–3	–70
OVERALL CAP RATE (OAR)[a]			
Range	5.00%–9.00%	5.00%–9.00%	6.50%–9.00%
Average	7.08%	7.13%	7.67%
Change (Basis Points)	—	–5	–59
RESIDUAL CAP RATE			
Range	6.50%–9.50%	6.50%–9.50%	7.00%–9.50%
Average	7.91%	7.95%	8.44%
Change (Basis Points)	—	–4	–53
MARKET RENT CHANGE RATE[b]			
Range	0.00%–6.00%	0.00%–6.00%	0.00%–3.00%
Average	3.06%	2.94%	1.81%
Change (Basis Points)	—	+12	+125
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	1.00–12.00	1.00–12.00	1.00–12.00
Average	7.58	7.58	7.36
% Change	—	+2.99	+2.99

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

National Flex/R&D Market

LIKE THEIR OFFICE AND WAREHOUSE COUNTERPARTS, MANY INDIVIDUAL FLEX/R&D MARKETS THROUGHOUT THE COUNTRY HAVE RECENTLY EXPERIENCED DECLINES IN VACANCY DUE TO IMPROVED TENANT DEMAND AND A LACK OF NEW CONSTRUCTION. In Los Angeles County, for example, the overall vacancy rate for flex/R&D space declined to 5.4% in the first quarter of 2006, according to Delta Associates. Even though vacancy rates for flex/R&D space stand significantly higher in many other local markets, they have been trending downward as well. In Denver, for example, the overall vacancy rate for flex/R&D space declined to 16.3% at year-end 2005 due to the positive net absorption of approximately 111,000 square feet. And in Charlotte, it dipped to 19.2% in the first quarter of 2006.

As a result of positive shifts in underlying fundamentals, many landlords have increased asking rental rates for both flex and R&D space. According to Colliers International, the U.S. average rental rate for flex space increased 4.5% (to $9.08 per square foot) between year-end 2005 and the first quarter of 2006. Individual flex markets that posted the highest average rental rates as of March 2006 were the San Francisco Peninsula ($22.20 per square foot), Los Angeles/Ventura County ($16.60 per square foot), Pleasanton/Walnut Creek, California ($15.25 per square foot), and Washington, DC ($13.03 per square foot).

In contrast, individual flex markets that posted the lowest average rental rates as of March 2006 were Cincinnati ($4.00 per square foot), Nashville ($4.00 per square foot), Minneapolis ($4.60 per square foot), and Fresno, California ($4.80 per square foot).

With many flex/R&D markets showing signs of improvement, certain investors are searching for opportunities. "There are quite a number of buyers chasing this product given its current yield," confirms a participant. Of the eight major commercial property sectors included in our Survey, the national flex/R&D market has posted the highest average overall capitalization rate for some time (see Table FR-1). Despite this property sector's higher initial return, many investors continue to shy away from it. "Investor acceptance of this property type is not universal," states a participant, who believes that flex/R&D space is highly management intensive, easily susceptible to changes in the economy, and a risky asset play. ✦

TABLE FR-1
OVERALL CAPITALIZATION RATES
National Flex/R&D Market

	2006 Average	2005 Average
Regional Mall	7.09%	7.17%
Power Center	7.36%	8.00%
Strip Shopping Center	7.36%	7.72%
CBD Office	7.23%	8.00%
Suburban Office	7.82%	8.45%
Warehouse	7.04%	7.83%
Flex/R&D	**8.08%**	**8.63%**
Apartment	6.01%	6.52%
KDI*	7.49%	8.07%

*KDI - Korpacz Dividend Indicator (see Definitions)
Source: Korpacz Real Estate Investor Survey®

Table 20

NATIONAL FLEX/R&D MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.75%–10.50%	6.75%–10.50%	8.00%–12.00%
Average	9.02%	9.13%	9.92%
Change (Basis Points)	—	–11	–90
OVERALL CAP RATE (OAR)[a]			
Range	6.25%–10.00%	6.50%–10.00%	6.50%–10.25%
Average	8.08%	8.13%	8.63%
Change (Basis Points)	—	–5	–55
RESIDUAL CAP RATE			
Range	6.75%–10.50%	6.75%–10.50%	7.25%–10.50%
Average	8.43%	8.48%	8.95%
Change (Basis Points)	—	–5	–52
MARKET RENT CHANGE RATE[b]			
Range	0.00%–5.00%	0.00%–5.00%	-5.00%–3.00%
Average	2.33%	2.25%	1.19%
Change (Basis Points)	—	+8	+114
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.50%	2.00%–3.50%	2.00%–3.00%
Average	3.00%	3.00%	2.96%
Change (Basis Points)	—	0	+4
AVERAGE MARKETING TIME (in months)			
Range	3.00–18.00	3.00–18.00	3.00–18.00
Average	6.80	6.73	7.13
% Change	—	+1.04	–4.63

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

National Warehouse Market

THE NATIONAL WAREHOUSE MARKET CONTINUES TO PERFORM VERY WELL WITH MANY INDIVIDUAL MARKETS REPORTING STRONG DEMAND, DECREASING VACANCY RATES, AND INCREASING RENTAL RATES. "The recovery that began in mid-2004 is allowing landlords to move rents up and lock tenants into long-term leases," states a participant. Overall, the national industrial vacancy rate stood at 9.9% in the first quarter of 2006, according to CB Richard Ellis (CBRE). This figure is about 100 basis points below the same period in 2005 (10.7%). Individual markets that posted the lowest availability rates during that time include Houston (8.3%), Portland (6.8%), and Metro Los Angeles (7.2%). "The Pacific and Southwest regions of the country have been blistering with activity," notes a participant.

With many warehouse markets performing well, investment demand has been virtually insatiable. In fact, a record $10.5 billion of significant industrial assets traded in the first quarter of 2006, according to Real Capital Analytics, Inc. (RCA). Excluding CalEast's acquisition of CenterPoint Properties Trust for $3.4 billion, transaction activity for the industrial sector was up about 4.0% year over year in the first quarter of 2006. Industrial assets in the Western region of the country continue to attract the most investor interest and dominate the acquisition market. In Los Angeles, for example, a total of 190 industrial assets sold in the 12 months leading up to April 2006. Other active markets along the West Coast over that time included Seattle, Orange County, and San Jose.

Even though sales activity in Portland has paled in comparison to other West Coast cities, its industrial market continues to do well. At year-end 2005, for example, its vacancy rate hit 6.6%, the lowest rate in a decade and the eleventh straight quarter of improvement, according to Cushman & Wakefield. Despite its favorable performance, investment activity has been quite slow. One of the last significant multitenant properties to trade there was 7440 SW Bonita Road, which sold for $124.0 per square foot in February 2006. Overall, a total of 28 industrial properties sold in Portland in the 12 months leading up to April 2006. The average sale price for these assets was $27.00 per square foot.

On the East Coast of the United States, industrial sales activity has been quite robust in and around large metropolitan areas such as Boston, where 71 industrial properties traded hands in the 12 months leading up to April 2006, and Suburban Maryland, where 151 industrial properties sold during that time frame, according to RCA. "Most buyers are concentrating on the major hubs, which are all doing well," affirms a participant.

One smaller industrial market that is piquing investor interest is Cincinnati, Ohio, where the availability rate dropped to 7.2% in the first quarter of 2006, according to CBRE. "We are impressed at how Cincinnati's industrial sector is doing," comments a participant, who recently acquired a warehouse asset there and is looking for additional ones to purchase. ✦

Table 21

NATIONAL WAREHOUSE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.75%–11.50%	7.00%–11.50%	7.00%–11.50%
Average	8.29%	8.47%	9.07%
Change (Basis Points)	—	–18	–78
OVERALL CAP RATE (OAR)[a]			
Range	5.50%–9.00%	5.50%–9.00%	5.50%–10.00%
Average	7.04%	7.26%	7.83%
Change (Basis Points)	—	–22	–79
RESIDUAL CAP RATE			
Range	6.00%–10.00%	6.00%–10.00%	7.00%–11.00%
Average	7.74%	7.98%	8.67%
Change (Basis Points)	—	–24	–93
MARKET RENT CHANGE RATE[b]			
Range	-2.00%–5.50%	-2.00%–5.00%	-5.00%–5.00%
Average	2.29%	2.20%	1.83%
Change (Basis Points)	—	+9	+46
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.96%	2.93%	2.93%
Change (Basis Points)	—	+3	+3
AVERAGE MARKETING TIME (in months)			
Range	3.00–12.00	3.00–12.00	2.00–12.00
Average	7.00	6.93	6.82
% Change	—	+1.01	+2.64

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

National Apartment Market

THE WINTER MONTHS BROUGHT AN INCREASE IN INTEREST RATES, A REDUCTION IN CONCESSIONS, SLUGGISH APARTMENT ABSORPTION, AND A GENERAL DECELERATION IN CONDO CONVERSIONS. While conversions positively influenced the national apartment market's vacancy rate by reducing supply, the surge in apartment completions late last year, coupled with the typical cold weather slowdown, increased vacancy 10 basis points to 5.8% in the first quarter of 2006, according to Reis. For that time period, Fort Lauderdale, New York, Los Angeles, and Orange County reported the lowest apartment vacancy rates nationwide.

Following a record number of condo conversions in 2005, a total of 14,000 units, the lowest level of conversions since mid-2004, were converted during the first three months of this year, according to Reis. "Some of the condo converters are going to find that demand for their product is waning with interest rates going up," cautions a participant. While rising interest rates generally strengthen the multifamily market, the return of some condos to rental units may negatively impact apartment market fundamentals in the near term. This effect may be particularly evident in markets where a significant number of investors entered the condo market eager to benefit from a housing trend, such as South Florida.

Table 22

NATIONAL APARTMENT MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00%–12.50%	6.00%–13.00%	7.00%–13.00%
Average	8.60%	8.89%	9.34%
Change (Basis Points)	—	–29	–74
OVERALL CAP RATE (OAR)[a]			
Range	4.25%–8.00%	4.25%–8.00%	4.00%–9.00%
Average	6.01%	6.07%	6.52%
Change (Basis Points)	—	–6	–51
RESIDUAL CAP RATE			
Range	5.50%–9.00%	5.50%–9.00%	5.75%–9.50%
Average	7.13%	7.26%	7.59%
Change (Basis Points)	—	–13	–46
MARKET RENT CHANGE RATE[b]			
Range	-2.00%–9.00%	-2.00%–7.00%	-2.00%–5.00%
Average	3.24%	2.58%	1.79%
Change (Basis Points)	—	+66	+145
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.50%	2.00%–3.50%	2.00%–3.50%
Average	2.82%	2.81%	2.79%
Change (Basis Points)	—	+1	+3
AVERAGE MARKETING TIME (in months)			
Range	1.00–12.00	1.00–12.00	1.00–12.00
Average	5.44	5.69	5.75
% Change	—	–4.39	–5.39

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

TABLE A-1
OVERALL CAPITALIZATION RATE TRENDS
National Apartment Market

Quarter	Average	Change (Basis Points)
2Q06	6.01%	-5
1Q06	6.06%	-7
4Q05	6.13%	-15
3Q05	6.28%	-28
2Q05	6.52%	-22
1Q05	6.74%	-27
4Q04	7.01%	-4
3Q04	7.05%	-8
2Q04	7.13%	-12
1Q04	7.25%	-20

Source: Korpacz Real Estate Investor Survey®

At the same time, increases in both interest rates and overall capitalization rates are reducing margins in many apartment transactions. "A lot of leverage buyers are having trouble making their numbers work," highlights a participant. As a result, the slowdown in condo-conversion sales continues, dropping to 15.0% of all sales during the first quarter of 2006, according to Real Capital Analytics, Inc. By comparison, condo conversions accounted for about 25.0% of total apartment sales in 2005. Notable sales activity has continued to occur in Broward County and Orlando, but has slowed in Tampa, Naples/Sarasota, Phoenix, and Las Vegas relative to 2005.

While most investors agree that increases in interest rates will push up overall cap rates, a participant expects "multifamily to fare the best out of the four property types" in terms of value preservation. As shown in Table A-1, the average OAR for this market dipped only 5 basis points this quarter to reach 6.01%. Although this rate represents the lowest average ever reported for this market in our Survey, it does demonstrate a stabilizing trend. ✦

National Net Lease Market

TRANSACTION VOLUME IN EACH NET LEASE SEGMENT – SALE LEASEBACK, 1031 EXCHANGE, AND TRIPLE-NET-LEASED PROPERTIES – REMAINED VIGOROUS DURING THE FIRST QUARTER OF 2006. "The appetite to buy and sell has never been greater," summarizes a participant. The sheer volume of net lease transactions has resulted in a tighter variance between overall capitalization rates (OARs) for investment-grade and subinvestment-grade tenants. As a result, greater emphasis has been placed on the underlying fundamentals of the real estate in a net lease transaction. Given the shrinking gap between short-term and long-term interest rates, transaction activity may be further stimulated in the sale-leaseback sector as corporations seek alternate methods of raising capital.

In fact, sale leasebacks have emerged as a popular long-term capital source for convenience store ("c-store") operators. Commercial Net Lease Realty Inc., for example, recently entered into a $170.0 million sale-leaseback deal for a 74 c-store portfolio from Susser Holdings. While the c-store sector has historically been dominated by REITs, more institutions, including private 1031 investors, are considering c-store acquisitions due to their higher yields in the competitive retail investment market. Generally, c-stores backed by corporate credit are more appealing than those with franchise credit. Thus, in lieu of corporate credit, the valuation of the underlying real estate is critical. One drawback to c-store investments as a long-term player in the net lease market is their dependence on fuel sale revenues, since pricing pressures exist from other retailers.

Another significant retail sale-leaseback deal that occurred recently involved GE Capital Solutions Franchise Finance and Wisconsin Hospitality Group, which received $30.5 million for 13 of its franchised Applebee's restaurants. In another sale-leaseback transaction, German investor Kan Am purchased RadioShack's corporate headquarters, along with Store One (an interactive electronics showcase), for $222.0 million or approximately $126.00 per square foot. In addition, Houston-based Utex Industries completed a sale-leaseback deal with WP Carey that included their 500,000-square-foot corporate headquarters and manufacturing facilities for $14.7 million. Finally, First Industrial Realty Trust Inc. has partnered with UBS Wealth Management-North American Property Fund Ltd. to create a $900.0 million net lease co-investment program that will focus on investing in long-term, single-tenant net lease industrial properties throughout the United States.

Despite strong investor interest and the abundance of net lease transactions, "Cap rates are holding steady amid rising interest rates," remarks a participant. As shown in Table 23, the OAR for this market dropped only four basis points to 7.67%, the same level as year-end 2005. Even though one participant observes "that sellers in this market all desire the same thing – a low cap rate," some investors believe that cap rates will follow behind interest rates and gradually increase.

Table 23

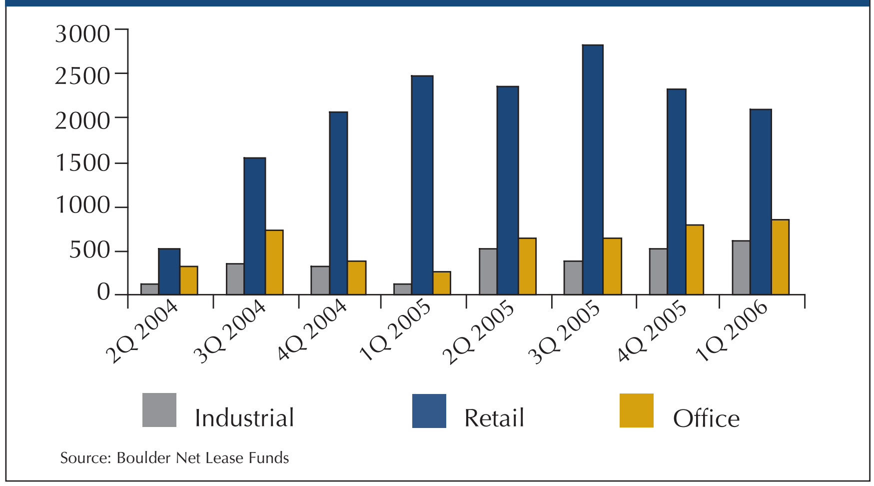
NATIONAL NET LEASE MARKET
Second Quarter 2006

KEY INDICATORS	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00%–12.00%	7.00%–12.00%	7.75%–12.00%
Average	9.90%	9.90%	10.10%
Change (Basis Points)	–	0	–20
OVERALL CAP RATE (OAR)[a]			
Range	6.00%–10.00%	6.50%–10.00%	6.50%–10.00%
Average	7.67%	7.71%	7.65%
Change (Basis Points)	–	–4	+2
RESIDUAL CAP RATE			
Range	7.50%–9.50%	7.50%–9.50%	7.50%–9.50%
Average	8.53%	8.59%	8.66%
Change (Basis Points)	–	–6	–13
MARKET RENT CHANGE RATE[b]			
Range	1.00%–3.00%	1.00%–3.00%	1.00%–3.00%
Average	2.19%	2.19%	2.19%
Change (Basis Points)	–	0	0
EXPENSE CHANGE RATE[b]			
Range	2.00%–3.00%	2.00%–3.00%	2.00%–3.00%
Average	2.44%	2.44%	2.69%
Change (Basis Points)	–	0	–25
AVERAGE MARKETING TIME (in months)			
Range	1.00–6.00	1.00–6.00	1.00–6.00
Average	3.40	3.40	3.20
% Change	–	0	+6.25

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

Chart NL-2

Properties Sold Per Quarter By Sector



Source: Boulder Net Lease Funds

Net Lease Offerings

Three main trends emerged in the national net lease market during the first quarter of 2006. First, properties are staying on the market longer as overall capitalization rates fall and interest rates move slightly higher. Second, the quality of properties being offered for sale is declining as owners attempt to unload the "dogs" or "non-core assets" of their portfolios into a supply-constrained market. Lastly, an oversupply of capital exists causing overall capitalization rate increases to lag interest rates. These trends resulted in a 3.8% increase in the number of available net lease properties and a 5.2% increase in their cumulative value during the first quarter of 2006.

Specifically, a total of 7,732 net lease assets with a combined value in excess of $25.6 billion were available in the first quarter of 2006. By comparison, a total of 7,348 available properties with a combined value of over $24.6 billion were being tracked just one quarter earlier. The current offerings are divided among the industrial, retail, and office sectors as shown in Chart NL-1.

Net Lease Sales History

Even though retail assets continue to represent the majority of net lease properties available for sale, the number of completed net lease deals in the retail sector slipped 10.0% in the first quarter of 2006 (see Chart NL-2).

Continuing the 2005 trend, the retail sector still posted the lowest mean selling price in the national net lease market at $1,810,000 in the first quarter of 2006. This figure was up nearly $17,400 from the prior quarter and is due to the larger number of net lease retail assets priced under $2.0 million. The office sector mean purchase price increased by $100,000 to $2.0 million during the first quarter of 2006. This rise in price reverses the $350,000 mean purchase price decrease in the fourth quarter of 2005.

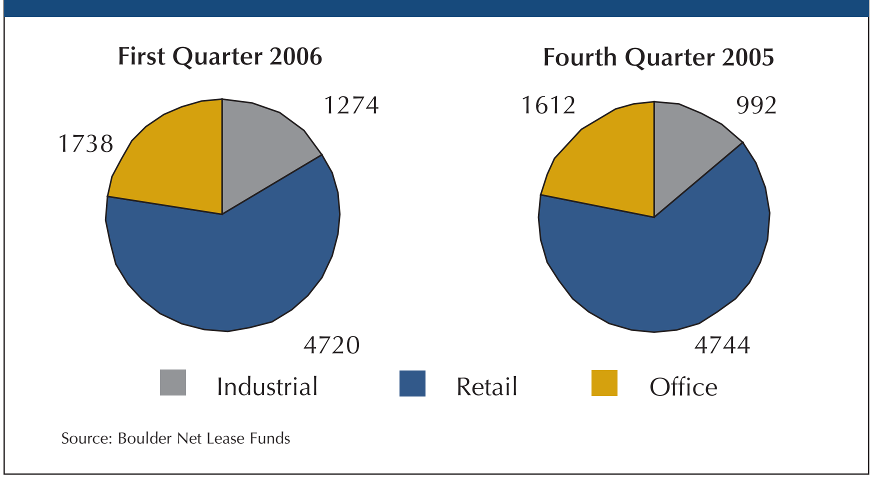
Geographic Analysis

Top-rated states for net lease property investments have changed little over the past quarter. States that offer the greatest number of properties for sale as compared to state population include Texas, Florida, California, Illinois, and Indiana. Similar to the prior quarter, properties in these five states represented 43.8% of the total net lease property offerings in the first quarter of 2006. Although the most difficult states in which to invest have historically been in the Northeast portion of the country, North Dakota, Iowa, New Jersey, Nebraska, and Pennsylvania currently offer the fewest net lease opportunities for investors.

The information contained on this page is courtesy of Boulder Net Lease Funds, a leading national real estate investment firm focused exclusively on 1031 Exchanges and net lease income properties. For information on their services and research data, please contact Jeff Rothbart at 847-753-8446 or visit their website at www.boulderfunds.com. ✦

Chart NL-1

Available Net Lease Properties



Source: Boulder Net Lease Funds

National Development Land Market

FOLLOWING SEVERAL QUARTERS OF STEADY TENANT DEMAND AND OCCUPANCY GROWTH, RENTAL RATES THROUGHOUT EACH COMMERCIAL PROPERTY SECTOR ARE FINALLY DEMONSTRATING STRENGTH AND IN MANY CASES ARE RISING QUITE MARKEDLY. As a result, many investors believe that now is the time to break ground and/or plan new projects. "There hasn't been too much new construction during the recent recovery, but it is on the way!" exclaims a participant. While fresh memories of overbuilding, high construction costs, steep land prices, and disciplined lenders are just a few of the reasons for the industry's downward trend in construction over the past few years, its recent performance and the expectation that its fundamentals will remain strong over the near term are likely to spark development activity.

While many areas within each of the four main property sectors – retail, office, warehouse, and apartment – will likely be able to handle some new development, certain investors are concerned that the next wave of new development will upset the favorable supply-demand balances that exist in several sectors because most of the construction is capital driven. "Development driven by the flow of capital is always hurtful," states a participant, who questions whether some developers are building because demand warrants it or because it is cheaper than buying. In the office sector, for example, overall capitalization rates for existing quality assets in the national CBD office market averaged 7.23% in our Survey this quarter. According to investors, yields for new office space development are approximately 150 to 300 basis points above that percentage.

Fortunately for the industry, high land prices, lofty construction costs, and still mindful lenders will likely keep development levels from ratcheting up too high. "The industry is smarter now and developers and lenders have long memories (hopefully)," quips a participant.

Exhibit L-1

DISCOUNT RATES (IRRs)
INCLUDING DEVELOPER'S PROFIT
Second Quarter 2006

	CURRENT QUARTER	FOURTH QUARTER 2005
Free & Clear		
RANGE	12.00% - 25.00%	12.00% - 25.00%
AVERAGE	18.15%	18.15%
CHANGE	—	0
Subject to Financing		
RANGE	_[a]	_[a]
AVERAGE	_[a]	_[a]
CHANGE	_[a]	_[a]

[a] Insufficient number of responses.

OPPORTUNITIES

Retail

While the retail sector overall continues to show stability in terms of occupancy and rental rate growth, certain areas present better opportunities than others. According to Reis, occupancy for community and neighborhood centers averaged about 93.0% in the first quarter of 2006. This rate is about 10 basis points above the prior quarter and is due to the completion of five million square feet of space and the absorption of just under three million square feet. Similarly, nonanchor asking rental rates increased just 0.8% between the fourth quarter of 2005 and the first quarter of 2006.

Retail markets that posted the highest increases in average asking rental rates in the first quarter of 2006 are contrasted in Table RDL-1 against those that recorded the lowest increases.

Office

Steady demand for space, rising rental rates, and higher yields for developers have prompted an increase in construction activity in many individual office markets. "Some markets, like San Francisco, are seeing quite an improvement in demand and are starting to see some impressive growth in rents," comments a participant. While the strongest increases in rental rates for the office sector are mostly isolated to Class-A properties in the tightest submarkets, several investors point out that rental rates in Class-B assets are also seeing some improvement. "Many Class-B assets are benefiting from low vacancy rates in the Class-A segment," confirms a participant.

Although tight fundamentals in several top-performing metropolitan office markets warrant new construction, acquiring land in them and securing entitlements is very difficult. "High barriers to entry will keep many top office markets from experiencing oversupply problems," believes a participant. Other markets, however, where barriers to entry are low – such as Dallas and Atlanta – could experience problems if developers lack constraint. "Dallas is one of those markets where developers start to build as soon as any figure drops," bemoans a participant.

Industrial

A single-digit national vacancy rate in the industrial sector continues to spur new development. In fact, the amount of space under construction in the national industrial market increased for the ninth consecutive quarter to 109.7

million square feet, according to Grubb & Ellis. This figure is just 10.0% below the all-time peak recorded for this sector in the fourth quarter of 2000. Most of the recent construction has been concentrated in the Inland Empire (22.9 million square feet) and Atlanta (13.6 million square feet).

Industrial markets with the lowest overall vacancy rates in the first quarter of 2006 – where favorable supply-demand balances exist for landlords – include Tampa (4.3%), Las Vegas (5.0%), Long Island (5.6%), Palm Beach (6.7%), and Portland (6.8%), according to CB Richard Ellis.

Apartment

While construction activity has declined annually in the apartment sector over the past few years, positive demographic trends – such as rising interest rates and increasing immigration – have opened up development land opportunities in many areas. "We have about $200.0 million in the pipeline for 2006 and 2007," shares a developer. Overall, close to 100,000 new apartment units are expected annually over the next five years. "I think that apartments are going to do really well going forward because interest rates are rising and home buying will become more difficult," notes another participant.

Apartment markets that are currently experiencing the lowest vacancy rates and highest increases in asking rental rates will likely present the best development land opportunities going forward. They include Fort Lauderdale, Palm Beach, Miami, San Diego, Long Island, and Orange County.

Table RDL-1
Average Asking Rental Rate Growth
Select U.S. Retail Markets
First Quarter 2006

	Growth %
Top 5 Markets	
1. San Bernardino/Riverside	+2.0%
2. Sacramento	+1.8%
3. Suburban Virginia	+1.7%
4. Orlando	+1.7%
5. Orange County	+1.6%
Bottom 5 Markets	
1. Albuquerque	-1.2%
2. Kansas City	-0.6%
3. Birmingham	-0.5%
4. Dayton	-0.5%
5. Detroit	-0.4%

Source: Reis, Inc.

Discount Rates

Free-and-clear discount rates including developer's profit range from 12.00% to 25.00% and average 18.15% this quarter (see Exhibit L-1). These rates are unchanged from the fourth quarter of 2005 and assume that entitlements are in place. Discount rates for projects that lack entitlements are typically increased between 300 and 600 basis points; the average increase is 425 basis points. This range and average are unchanged from our last report on this market segment. An insufficient number of responses prevented us from reporting discount rates subject to financing this quarter.

Absorption Period

The absorption period required to sell an entire project varies significantly depending on such factors as location, size, and property type. This quarter, preferred absorption periods for participants ranged from 12 to 240 months. The mean absorption period is 60.0 months, or five years, virtually unchanged from the prior quarter.

Forecast Assumptions

Growth Rates for Lot Prices and Expenses

Growth rates for lot pricing vary due to local market conditions. Participants report an overall range from 0.0% to 10.0% with a mean of 3.1%. Over the near term, 40.0% of participants forecast lot prices to increase at the rate of inflation, while another 40.0% of them project increases greater than inflation. The remainder (20.0%) expects increases less than inflation. Inflation growth rate assumptions range from 0.0% to 4.0% and average 1.9%. The ranges and averages for the reported expense growth rates are shown in Exhibit L-2.

Exhibit L-2
GROWTH RATES FOR DEVELOPMENT EXPENSES

EXPENSE	SECOND QUARTER 2006
Infrastructure	
RANGE	2.50% - 3.00%
AVERAGE	2.90%
Amenities	
RANGE	2.50% - 3.00%
AVERAGE	2.90%
Advertising	
RANGE	2.50% - 3.00%
AVERAGE	2.90%
Real Estate Taxes	
RANGE	1.00% - 3.00%
AVERAGE	2.50%
Administrative	
RANGE	2.50% - 4.00%
AVERAGE	3.13%
Contingency	
RANGE	2.50% - 5.00%
AVERAGE	3.88%
Other	
RANGE	2.50% - 3.00%
AVERAGE	2.83%

Outlook

Even though rising occupancy levels and strengthening rental rates continue to open up opportunities for investors throughout each sector of the national development land market, caution still prevails in the minds of many investors. Although many believe that a serious oversupply problem is not likely to plague the industry in the months ahead, a few individual markets still need to digest large amounts of available space. As a result, some developers are opting to wait and are looking instead to acquire parcels of land in emerging markets in order to capitalize on improving fundamentals that likely lie ahead. ✦

NATIONAL REGIONAL MALL MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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%	7.50% to 9.00%	1.0%	8.00% to 9.00%	7.00% to 8.50%	6 to 12	60.0% to 70.0%	2.0%	$0.10 to $0.25	6 to 9
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%	6.50% to 10.00%	1.5%	7.00% to 11.00%	5.00% 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.	3.0%	3.0%	3.0%	8.00%	1.0%	9.00%	7.50%	4	75.0%	4.0%	$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; not currently active in this market.	2.0%	3.0%	3.0%	7.00% to 8.00%	2.0%	9.00% to 9.50%	6.50% to 7.00%	9	65.0%	4.0% to 6.0%	$0.30	9
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	7.50% to 8.25%	1.0%	8.50% to 9.50%	5.50% to 8.50%	6	70.0% to 80.0%	1.0% to 2.0%	$0.25	4 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years 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%	6.25% to 7.50%	0.75% to 1.0%	7.00% to 8.75%	5.50% to 6.80%	6 to 12	70.0% to 80.0%	0.5% to 3.0%	$0.15 to $0.30	9

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

NATIONAL POWER CENTER MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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.	0.0% to 4.0%	3.0%	3.0%	6.50% to 7.50%	—	7.50% to 8.50%	5.50% to 6.50%	6	65.0%	3.0%	$0.10 to $0.20	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0% to 5.0%	3.0%	3.0%	7.00% to 7.75%	1.0% to 2.0%	7.25% to 7.75%	6.00% to 7.50%	3 to 6	70.0%	5.0%	$0.10 to $0.40	12
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.	2.0% to 3.0% Year 1; 3.0% thereafter	3.0%	3.0%	7.50% to 8.50%	1.0% to 2.0%	7.50% to 8.50%	6.50% to 7.50%	3 to 6	65.0% to 75.0%	0.5% (anchors); 5.0% to 6.0% (nonanchors)	$0.10 to $0.20	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; prefers the Southwest.	3.0%	3.0%	3.0%	7.00% to 8.00%	2.0% to 3.0%	8.00% to 9.00%	7.00% to 8.00%	2	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.	2.5% to 3.5%	3.0%	3.0%	8.25% to 9.25%	1.5% to 3.0%	9.25% to 10.25%	7.75% to 8.75%	6 to 8	65.0% to 75.0%	5.0% to 8.0%	$0.15 to $0.25	6 to 10
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; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	7.25%	1.5% to 2.0%	8.50%	7.75%	6 to 12	75.0%	5.0% (nonanchors)	$0.20	9

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

NATIONAL STRIP SHOPPING CENTER MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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.	2.0% to 3.5%	3.0%	2.5%	7.00% to 9.50%	2.0% to 4.0%	8.00% to 10.00%	6.50% to 9.00%	3 to 9 (inline stores); 6 to 18 (anchors)	65.0% to 70.0%	4.0% 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%	8.00% to 10.00%	2.0%	8.50% to 10.00%	7.00% to 9.00%	4 to 8	65.0%	5.0% to 7.5%	$0.15	6 to 9
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Invests primarily in 200,000- to 400,000-square-foot, well-anchored community centers and good credit quality anchored power centers; relies on DCF; uses effective rents.	2.0% to 3.0% Year 1; 3.0% thereafter	3.0%	3.0%	7.50% to 8.50%	1.5% to 2.5%	8.00% to 9.00%	6.50% to 7.50%	3 to 6	65.0% to 75.0%	0.5% (anchor); 5.0% to 6.0% (nonanchor)	$0.15 to $0.20	6 to 9
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	7.50% to 8.50%	1.5%	7.00% to 9.00%	5.80% to 8.00%	6	70.0%	2.0%	$0.25	4 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	8.00% to 9.00%	1.5% to 2.0%	9.00% to 10.00%	8.00% to 9.00%	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%	7.00% to 8.50%	1.0% to 3.0%	6.00% to 9.00%	6.00% to 8.00%	6 to 12	60.0% to 75.0%	1.0% to 3.0%	$0.10 to $0.25	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0% to 5.0%	3.0%	3.0%	7.00% to 7.50%	1.0% to 3.0%	6.75% to 7.50%	6.50% to 7.00%	6	65.0% to 70.0%	5.0%	$0.10 to $0.30	12

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

NATIONAL CBD OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses rent spike of 5.0% to 10.0% during first five years in Southern California, Chicago, Denver, San Francisco, and Southeast Florida.	0.0% to 5.0%	3.0%	3.0%	6.75% to 7.75%	1.0% to 2.0%	7.00% to 8.00%	4.50% to 6.50%	6 to 8	70.0%	0.5% to 2.0%	$0.15 to $0.20	–
INVESTMENT BANKER ✦ Forecast Period: 10 years Real cash-on-cash rate (after capital expenditures) is more important than IRR; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	7.00% to 9.50%	2.0%	7.00% to 9.50%	6.50% to 9.00%	6 to 8	60.0% to 70.0%	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.	2.25% to 2.75%	3.0%	3.0%	7.75% to 8.75%	2.0%	8.50% to 9.50%	7.50% to 9.00%	5 to 10	70.0%	5.0%	$0.20 to $0.35	6 to 8
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses rent spikes in certain markets.	2.0% to 3.0%	3.0%	3.0%	7.00% to 7.50%	1.0% to 2.0%	7.00% to 7.75%	7.00% to 7.50%	3 to 6	70.0% to 75.0%	5.0%	$0.10 to $0.20	12
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%	1.5%	2.0%	9.00% to 10.00%	2.0% to 3.0%	9.00% to 10.00%	7.00% to 9.00%	6	75.0%	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; uses rent spike of 5.0% to 7.0% in years 2007, 2008, and 2009.	0.0% to 4.5%	3.0%	2.5%	7.00% to 10.00%	1.5% to 4.0%	7.50% to 10.00%	6.00% to 9.50%	6 to 18	60.0% to 70.0%	5.0% to 12.0%	$0.20 to $0.50	3 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Relies on DCF, direct capitalization, and price per square foot; uses face rents; OAR will differ if rents well-below market; uses rent spike of 5.0% in years 1 to 2 in certain CBDs.	5.0% Years 1 & 2; 3.0% thereafter	3.0%	3.5%	7.75% to 8.25%	1.0% to 2.0%	8.50% to 9.25%	6.25% to 7.00%	8 to 10	65.0% to 70.0%	5.0% to 7.0%	$0.25 to $1.00	6 to 9
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 5.0%	3.0%	3.0%	7.00% to 8.50%	1.0% to 2.0%	7.50% to 8.50%	5.50% to 8.00%	6 to 12	65.0% to 75.0%	0.0% to 7.0%	$0.10 to $0.25	6

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

NATIONAL SUBURBAN OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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 5.0%	3.0%	3.0%	7.00% to 8.50%	2.0% to 3.0%	7.00% to 8.75%	6.25% to 8.50%	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; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	8.50% to 10.00%	2.0%	9.50% to 11.00%	7.50% to 9.50%	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; uses rent spikes of 5.0% to 8.0% in 2007, 2008, and 2009.	0.0% to 5.0%	3.0%	2.5%	7.00% to 10.00%	1.5% to 4.0%	7.50% to 10.00%	6.50% to 9.50%	6 to 12	60.0% to 70.0%	5.0% to 12.0%	$0.15 to $0.50	6 to 12
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.	2.25%	2.0% to 3.0%	3.0%	8.25% to 8.75%	2.0% to 3.0%	8.75% to 9.75%	7.75% to 8.75%	7 to 8	67.75%	4.5% to 6.5%	$0.15 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; uses rent spikes of 4.0% to 5.0% in 2006 and 2007.	3.0%	3.0%	3.0%	8.00% to 9.00%	2.0% to 3.0%	8.00% to 9.00%	7.00% to 9.00%	6	75.0%	5.0%	$0.10 to $0.15	6 to 8
REIT ✦ Forecast Period: 5 to 10 years Focuses on NOI cap rate, DCF, and cash-on-cash return; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses effective rent after all concessions are extracted.	0.0%	3.0%	2.5%	10.00%	3.0%	11.50%	10.50%	12	60.0% to 70.0%	5.0%	$0.15 to $0.30	3
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Relies on DCF, direct capitalization, and price per square foot; uses face rents and reflects concessions when they are scheduled to occur; uses rent spike in certain markets.	3.0%	3.0%	3.5%	7.50% to 8.00%	2.0%	8.50% to 9.25%	6.50% to 7.25%	8 to 12	65.0%	7.0% to 10.0%	$0.25 to $1.00	5 to 8
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.	2.0%	Averages 3.0% over the forecast period	3.0%	8.00% to 9.00%	1.5%; capped at $150,000	10.00% to 12.00%	7.00% to 8.00%	8	70.0%	0.50%	$1.00	6

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

ATLANTA OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2006

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	8.50% (CBD); 8.00% to 8.25% (suburbs)	2.0%	6.75% to 8.00% (CBD); 8.75% to 9.00% (suburbs)	5.75% to 7.00% (CBD); 7.00% to 8.00% (suburbs)	9	65.0%	2.0%	$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 3.0%	3.0%	3.0%	8.75% (CBD); 9.25% (suburbs)	3.0%	9.00% (CBD); 9.00% (suburbs)	8.00% (CBD); 8.25% (suburbs)	6 to 8	65.0%	8.0% 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 7.0% in 2006 and 2007 in all submarkets except Downtown.	4.0% to 6.0% Year 1; 3.0% thereafter	2.5%	2.0%	7.5% (CBD); 7.00% to 7.50% (suburbs)	1.0% to 3.0%	8.75% to 9.75% (CBD); 8.00% to 9.00% (suburbs)	7.00% to 8.00% (CBD); 6.50% to 7.50% (suburbs)	6 to 9	70.0% to 80.0%	4.0% to 6.0%	$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% thereafter	3.0%	3.0%	8.00% in both CBD and suburbs	2.0%	10.00% (CBD); 11.00% (suburbs)	8.00 % to 9.00% in both CBD and suburbs	6	60.0%	7.0%	$0.25	3 to 6
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.	3.0% Years 1 to 3; 5.0% Years 4 to 6; 3.0% thereafter	3.6%	3.0%	9.50% in both CBD & suburbs	1.5%	9.50% (CBD); 9.00% (suburbs)	7.50% in both CBD & suburbs	6	60.0%	7.0%	$0.40 to $0.50	6
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%	8.50% (CBD); 8.75% (suburbs)	1.5% to 2.0%	8.00% (CBD); 8.25% (suburbs)	7.50% in both CBD and suburbs	6	70.0%	7.0% to 10.0%	$0.15	9

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

BOSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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.	1.0% to 2.0%	3.0%	3.0%	8.00% to 8.25% (CBD); 8.50% to 9.25% (suburbs)	2.0% to 3.0%	8.75% (CBD); 9.00% (suburbs)	7.50% (CBD); 7.750% (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 rent spike in CBD.	3.0% Year 1; 5.0% Year 2; 7.0% Year 3; 10.0% Year 4; 3.0% thereafter	3.0%	3.0%	Based on estimate of residual value	2.0%	7.50% (CBD); 9.50% (suburbs)	6.00% (CBD); 7.00% (suburbs)	6 to 12	60.0% to 65.0%	5.0% to 8.0%	$0.20 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)	7.00% (CBD); 10.00% (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; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% in years 2 and 3 in certain suburbs.	5.0% Year 1; 7.0% Year 2; 5.0% Year 3	3.0%	3.0%	7.00% to 7.50% (CBD); 8.00% to 9.00% (suburbs)	2.0%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	6.00% to 7.00% (CBD); 8.00% (suburbs)	6	70.0% to 75.0%	5.0%	$0.10 to $0.20	6
INVESTOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	Averages 3.0% over forecast period	2.5%	2.5%	8.50% (CBD); 8.75% (suburbs)	2.5%	7.50% (CBD); 7.50% (suburbs)	7.00% (CBD); 7.00% (suburbs)	9	65.0%	5.0%	$0.15	6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses mainly direct capitalization; major focus is on the initial cash-on-cash return; typically extends forecast period to capture impact of all lease expirations; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes	4.0%	–	–	7.00% (CBD); 8.00% (suburbs)	1.25%	8.00% (CBD); 9.00% (suburbs)	6.00% (CBD); 8.00% (suburbs)	9	70.0%	4.0%	Does not use	3
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; uses rent spikes of 5.0% in certain submarkets in years 2 to 4.	2.0% to 4.0%	3.0%	3.0%	7.00% to 9.00% (CBD); 7.50% to 9.00% (suburbs)	0.5% to 3.0%	7.75% to 10.25% (CBD); 8.25% to 11.25% (suburbs)	6.50% to 9.75% (CBD); 8.25% to 11.25% (suburbs)	6	70.0%	5.0%	$0.20 to $0.35	2 to 4

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

CHICAGO OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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 direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses rent spike of 5.0% in years three and four for certain suburban properties.	0.0% Years 1&2	3.0%	3.0%	8.00% (CBD); 8.00% to 9.50% (suburbs)	2.0%	7.50% to 8.50% (CBD); 8.00% to 9.50% (suburbs)	6.00% to 9.00% (CBD); 6.50% to 9.50% (suburbs)	9	67.0%	7.0%	$0.20 to $0.50	12 to 18
MORTGAGE BANKER ✦ Forecast Period: 10 years Relies on DCF and uses direct capitalization as a test; cost, rent, and value per square foot are true "sanity tests"; real estate taxes are a big issue (usually more than 50.0% of property expenses); uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	2.5% to 3.0%	8.00% (CBD); 8.50% (suburbs)	2.0%	8.50% (CBD); 9.00% (suburbs)	7.50% (CBD); 8.50% (suburbs)	6	75.0%	10.0%	$0.10 to $0.15	6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses mainly direct capitalization; major focus is on the initial cash-on-cash return; typically extends forecast period to capture impact of all lease expirations; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	Averages 0.0% over the holding period	Average 3.0% over the holding period	–	7.50% (CBD); 9.00% (suburbs)	1.5%	8.50% (CBD); 10.50% (suburbs)	6.50% (CBD); 9.50% (suburbs)	9	65.0%	8.0%	Does not use	5
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; uses effective rents after all concessions are extracted. 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%	8.00% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	2.0% to 2.5%	8.00% (CBD); 8.50% (suburbs)	7.00% to 8.00% (CBD); 7.50% to 8.50% (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; uses rent spike of 4% to 6% in years 3 and 6 in certain submarkets.	0.0%	2.0% to 3.0%	3.0%	7.50% to 9.00% (CBD); 7.00% to 8.50% (suburbs)	1.0% to 2.0%	7.00% to 9.00% in both CBD and suburbs	6.00% to 8.50% in both CBD and suburbs	6 to 15 (CBD); 8 to 16 (suburbs)	70.0%	7.0% to 15.0% (CBD); 10.0% to 15.0% (suburbs)	$0.05 to $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% to 2.0%	3.0%	3.0%	8.00% to 8.50% (CBD); 8.50% to 9.50% (suburbs)	2.0% to 3.0%	8.75% (CBD); 9.00% (suburbs)	7.50% (CBD); 8.00% (suburbs)	6	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; does not use rent spikes.	0.0% Year 1; 1.5% Year 2; 3.0% Years 3 & 4; 5.0% thereafter	3.0%	3.0%	8.75% (CBD); 9.00% (suburbs)	1.0% to 2.0%	8.00% (CBD); 9.25% (suburbs)	7.50% (CBD); 8.00% (suburbs)	6	60.0%	7.0%	$0.30 to $0.40	6
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%	7.50% to 8.50% (CBD); 8.50% to 9.00% (suburbs)	0.75% to 1.5%	8.00% to 10.00% (CBD); 9.00% to 11.00% (suburbs)	6.00% to 8.00% (CBD); 7.50% to 8.50% (suburbs)	9	50.0% to 70.0%	4.0% to 6.0%	$0.15 to $0.25	9

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

DALLAS OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2006

	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 spikes in first four years.	4.0% Year 1; 5.0% Years 2 & 3; 4.0% Year 4; 3.0% thereafter	3.0%	3.0%	7.25% (CBD); 7.25% (suburbs)	0.5%	8.00% (CBD); 8.00% (suburbs)	7.00% (CBD); 7.00% (suburbs)	2	70.0%	6.0%	$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.	0.0% to 1.5%	3.0%	3.0%	8.50% to 9.50% (CBD); 8.50% to 9.50% (suburbs)	2.0% to 4.0%	9.00% (CBD); 9.25% (suburbs)	8.00% (CBD); 8.50% (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.	0.0% to 3.0%	3.0%	3.0%	7.00% to 8.00% (CBD); 8.00% (suburbs)	0.5% to 2.5%	7.50% to 8.00% (CBD); 7.50% to 8.50% (suburbs)	6.00% to 7.00% (CBD); 7.50% to 8.00% (suburbs)	9	67.0%	2.0%	$0.10 to $0.35	–
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.	–	2.0%	3.0%	9.00% to 11.00%	2.0%	9.00% in both CBD and suburbs	9.00% to 10.00% in both CBD and suburbs	6	60.0%	4.0%	$0.25	6

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

HOUSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2006

	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 spikes in first four years.	6.0% Year 1; 4.0% Years 2&3; 3.0% thereafter	3.0%	3.0%	7.25% (CBD); 7.25% (suburbs)	1.0%	8.00% (CBD); 8.00% (suburbs)	7.00% (CBD); 7.00% (suburbs)	2	75.0%	6.5%	$0.10 to $0.35	3
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% to 4.0%	3.0% to 4.0%	3.0%	9.00% to 10.00% in both CBD and suburbs	2.0%	9.00% in both CBD and suburbs	7.00% to 10.00% (CBD)	6	60.0%	5.0% to 7.0%	$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; uses rent spikes of 4.0% to 5.0% in 2006 and 2007.	3.0%	3.0%	2.5%	9.00% to 10.00% (CBD); 10.00% to 11.00% (suburbs)	2.0% to 3.0%	9.00% to 10.00% (CBD); 8.00% to 9.00% (suburbs)	9.00% to 10.00% (CBD); 8.00% to 10.00% (suburbs)	6	75.0%	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; uses rent spikes of 5.0% to 7.0% in years 1 to 5.	0.0% to 7.0%	3.0%	3.0%	7.50% (CBD); 8.00% (suburbs)	0.5% to 2.0%	7.50% to 8.50% (CBD); 8.50% (suburbs)	7.00% to 7.50% (CBD); 7.50% to 8.50% (suburbs)	9	70.0%	2.0%	$0.10 to $0.35	–
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.	0.0%	0.0%	3.0%	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.	0.0% to 1.0%	3.0%	3.0%	8.50% to 9.50% (CBD); 8.75% to 10.00% (suburbs)	2.0% to 4.0%	9.25% (CBD); 9.50% (suburbs)	8.25% (CBD); 8.50% (suburbs)	6 to 8	65.0%	10.0% to 12.0%	$0.20 to $0.25	6 to 9

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

LOS ANGELES OFFICE MARKET–INVESTOR SURVEY RESPONSES*
Second Quarter 2006

	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.	2.0% to 4.0%	3.0%; taxes 2.0%	2.0% to 3.0%	7.50% to 9.50% (suburbs)	1.0% to 2.0%	10.00% to 13.00% (suburbs)	6.50% to 8.00% (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.	3.0%	2.5%	3.0%	6.00% (CBD); 7.50% (suburbs)	1.5% to 2.0%	7.00% (CBD); 8.00% (suburbs)	5.00% to 6.00% (CBD); 5.00% to 7.00% (suburbs)	2 to 12	50.0%	8.0% to 10.0%	$0.30 to $1.00	6
INVESTMENT BANKER ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct cap; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	8.00% to 9.00%	2.0%	11.00% (CBD); 9.00% to 10.00% (Westside)	6.50% to 8.00%	4 to 6	65.0% to 75.0%	5.0% to 10.0%	$0.10 to $0.20	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; uses rent spike of 6.0% to 8.0% in years 1 through 5 in various submarkets.	0.0% to 8.0%	3.0%	3.0%	7.00% to 7.50% in both CBD and suburbs	1.0% to 2.0%	7.50% in both CBD and suburbs	5.00% to 6.00% in both CBD and suburbs	6 to 9	70.0%	2.0%	$0.15 to $0.20	–
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies primarily on DCF; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	3.0% to 4.0%	3.0%	3.0%	7.75% to 9.50% in both CBD and suburbs	1.0% to 3.0%	8.25% to 10.75% in both CBD and suburbs	6.50% to 9.75% in both CBD and suburbs	6 to 12	60.0% to 65.0%	2.0% to 3.0%	$0.15 to $0.25	4 to 8
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses rent spike of 4.0% to 5.0% in years 3 to 5.	3.0%	3.0%	3.0%	7.75% to 8.00% (CBD); 8.25% to 9.00% (suburbs)	2.0%	8.75% in both CBD and suburbs	7.25% (CBD) 7.50% (suburbs)	6	65.0%	7.0% to 8.0%	$0.20 to $0.25	6 to 9

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

MANHATTAN OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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; uses rent spike of 7.0% in years two and three in Midtown.	3.0%	3.0%	3.0%	7.00% to 8.50%	3.0%	7.00% to 9.00%	5.50% to 7.00%	6 to 9	70.0%	5.0%	$0.20 to $0.50	2 to 3
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 10.0% in 2007 through 2009.	0.0%	5.0%	—	7.25%	4.0%	8.00% to 9.00%	7.00% to 8.00%	6	70.0%	6.0%	$0.20	2 to 3
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.	4.0%	3.0%	3.0%	7.25% to 8.00%	2.0% to 3.0%	8.00% to 9.00%	5.75% to 6.50%	6 to 9	65.0% to 70.0%	4.0% to 6.0%	$0.30 to $1.00	5 to 8
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; uses face rents and reflects concessions when they are scheduled to occur; selling expenses include transfer tax.	5.0% Year 1; 7.0% Year 2; 5.0% Year 3	3.0%	3.0%	7.00% to 7.50%	4.5%	7.00% to 9.00%	6.00% to 7.00%	6	70.0% to 75.0%	5.0%	$0.10 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; selling expenses exclude transfer tax, which is ignored in analysis; uses rent spike of 5.0% in years one through three in Midtown.	3.0% to 5.0%	3.0%	3.0%	7.00% to 9.00%	0.25% to 3.0%	7.50% to 9.50%	5.50% to 8.00%	6 to 9	70.0%	5.0%	$0.20 to $0.50	2 to 6
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.	3.0%	3.0%	3.0%	7.00% to 8.00%	1.5% to 2.0%	6.00% to 7.00%	5.00% to 6.00%	6 to 18	50.0%	8.0%	$0.30 to $1.00	10

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

PACIFIC NORTHWEST OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2006

	CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			RESERVE	MARKETING TIME
	Market Rent	Expenses	CPI	Cap Rate	Selling Expense	Free & Clear	Free & Clear	Months Vacant	Tenant Retention	Underlying Vacancy & Credit Loss	Per Square Foot	Months
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Buys free and clear; interested in attractive, well-located Class-A properties; relies on DCF; uses direct capitalization as a check only; uses face rents and reflects concessions when they are scheduled to occur; underlying vacancy and credit loss may be lower based on occupancy, leases in place, and rollover risk; developmental preferred.	1.5%	3.0%	2.5%	9.50%	3.0% + any local tariffs	11.25%	9.75%	9	65.0%	9.0% to 10.0%	$0.25 to $0.50	6
INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	1.0%	3.0%	3.0%	8.75% (CBD); 9.00% (suburbs)	3.0%	10.00% to 11.00% (CBD); 10.50% to 11.50% (suburbs)	8.00% to 11.00% in both CBD and suburbs	3 to 12	75.0% to 80.0%	5.0% to 10.0%	Does not use	3 to 12
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses DCF, direct capitalization, and price per square foot; does extensive sensitivity analysis; reliance is on projections and IRRs; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	8.00% to 9.00%	2.0%	9.00% to 12.00%	7.00% to 9.00%	4 to 6	65.0% to 70.0%	5.0% to 10.0%	$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; may use a spike of 5.0% to 8.0% in various years.	0.0% to 2.0%	3.0%	3.0%	7.00% in both CBD and suburbs	2.0%	9.00% to 10.00% (CBD)	7.00% to 8.50% (CBD)	9	65.0%	5.0% to 10.0%	$0.15 to $0.25	6 to 9
INVESTOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur; prefers Puget Sound, Portland, Salt Lake City, and Reno.	Varies	2.0% to 4.0%	3.0%	9.50% to 10.00%	3.0% to 5.0%	10.75% to 13.00%	9.00% to 10.00%	6	70.0%	5.0% to 7.0%	$0.10 to $0.20	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Interested in Seattle and Portland; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rents after all concessions are extracted.	3.0%	3.0%	3.0%	9.00% to 10.00%	1.0% to 3.0%	10.50% to 14.00%	8.00% to 9.50%	6	70.0%	5.0%	$0.15 to $0.25	6

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

PHILADELPHIA OFFICE MARKET–INVESTOR SURVEY RESPONSES

Second Quarter 2006

	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; uses face rents and reflects concessions when they are scheduled to occur.	1.5%	3.0%	2.5%	10.00% (CBD); 10.50% (suburbs)	3.0%	12.50%	10.00% (CBD); 12.00% (suburbs)	12	65.0% to 75.0%	5.0%	$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%	8.00% (CBD); 9.00% (suburbs)	5.00% (CBD); 7.00% (suburbs)	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.	3.0%	3.0%	3.0%	10.00% (suburbs)	2.0%	9.00% to 11.00% (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%	9.00% (CBD); 9.50% (suburbs)	3.0% to 6.0%	10.00% (CBD); 11.00% (suburbs)	8.50% (CBD); 9.00% (suburbs)	6	60.0%	7.0% to 10.0%	$0.10 to $0.20	6 to 12
OPPORTUNITY FUND INVESTOR ✦ Forecast Period: 5 years 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%	9.50% in both CBD and suburbs	3.0%	9.50% in both CBD and suburbs	9.50% (CBD); 8.50% (suburbs)	6	65.0%	2.0% to 5.0%	$0.25 to $0.50	3
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%	8.50% to 9.50% (CBD); 8.50% to 9.50% (suburbs)	2.0%	9.50% to 10.50% (CBD); 9.50% to 10.50% (suburbs)	7.50% to 9.50%	6 to 9	65.0%	5.0%	$0.15 to $0.25	6 to 9
INVESTMENT BANKER ✦ 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.	0.0% Years 1 & 2	3.0%	–	8.50% (CBD); 9.00% (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	10	75.0%	10.0%	$0.20	4

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

SAN FRANCISCO OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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.	1.5% Year 1; 3.0% Years 2-4; 5.0% thereafter	3.0%	3.0%	8.50% (CBD); 9.00% (suburbs)	1.0% to 1.5%	8.50% (CBD); 9.00% (suburbs)	7.50% (CBD); 8.00% (suburbs)	6	60.0%	7.0%	$0.25	9
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization but relies on DCF; uses face rents and reflects concessions when they are scheduled to occur; prefers the CBD.	2.0% to 7.0%	3.0%; taxes 2.0%	2.0% to 3.0%	7.50% to 8.50% (CBD)	1.0% to 2.0%	8.00% to 11.00% (CBD)	7.00% to 8.00% (CBD)	5 to 15	50.0% to 70.0%	5.0% to 10.0%	$0.10 to $0.50	6 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; applies a rent spike of 10.0% in years 2 to 4.	15.0% Year 1; 10.0% Year 2; 8.00% Year 3; 3.0% thereafter	3.0%	2.0%	6.50% (CBD); 7.50% (suburbs)	1.0% to 2.0%	8.00% (CBD); 9.00% (suburbs)	7.00% (CBD); 8.00% (suburbs)	9	80.0%	5.0%	$0.15 to $0.25	3
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.	3.0%	3.0%	3.0%	7.00% to 8.50%	1.5% to 2.0%	7.00% (CBD); 8.00% (suburbs)	5.00% (CBD); 6.00% (suburbs)	6 to 18	50.0%	10.0%	$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%	7.00% to 8.50% (CBD); 7.50% to 9.00% (suburbs)	1.0%	7.50% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	6.50% to 9.00% in both CBD and suburbs	8 to 12	65.0% to 75.0%	1.0% to 3.0%	$0.10 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.	0.0% Years 1 & 2; 3.0% thereafter	3.0%	3.0%	8.00% (CBD); 8.50% (suburbs)	1.0% to 3.0%	8.00% (CBD)	7.00% to 8.50% (CBD)	8	60.0%	3.0% to 5.0%	$0.25 to $0.35	6 to 9
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.	2.5%	3.0%	3.0%	7.50% to 9.00% (CBD)	1.0% to 2.0%	8.00% to 12.00% (CBD)	6.00% to 10.00% (CBD)	2 to 7	65.0%	5.0% to 8.0%	$0.10 to $0.30	4 to 7
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% to 15.0% in years two through five in some submarkets.	5.0% Year 1; 10.0% Year 2; 15.0% Years 3 to 4; 10.0% Year 5; 3.0% thereafter	3.0%	3.0%	Based on estimate of residual value	2.0%	7.50% (CBD); 7.50% (suburbs)	6.00% (CBD); 6.50% (suburbs)	8 to 12	70.0%	7.0% to 9.0%	$0.15 to $0.30	–

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

SOUTHEAST FLORIDA OFFICE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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; uses rent spike of 4.0% to 10.0% in years 2 and 3.	4.0% to 5.0%	3.0%	3.0%	8.00% to 9.00%	1.0% to 2.0%	8.00% to 9.50%	8.00% to 9.50%	6 to 12	65.0%	5.0%	$0.10 to $0.30	9 to 12
INSTITUTIONAL INVESTOR ✦ Forecast Period: 5 to 7 years Uses DCF analysis only; uses face rents and reflects concessions when they are scheduled to occur; uses rent spike of 5.0% to 10.0% in years 1 through 4 in Broward, Palm Beach, and Dade Counties; IRR represents stabilized occupancy.	3.0% to 5.0%	3.0%	–	8.00% to 8.50% (CBD); 8.50% to 9.00% (suburbs)	1.0% to 3.0%	10.00% to 11.00% in both CBD and suburbs	8.00% to 8.50% (CBD); 8.50% to 9.00% (suburbs)	3 to 6	75.0%	5.0%	$0.25 to $0.50	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; uses rent spike of 4.0% to 5.0% in years two through four in Miami.	0.0% to 3.0%	3.0%	3.0%	8.25% to 9.00% (CBD); 8.25% to 9.00% (suburbs)	2.0% to 4.0%	8.75% to 9.75% (CBD); 8.75% to 9.75% (suburbs)	7.00% (CBD); 8.50% (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; uses rent spike of 4.0% in Palm Beach.	3.0%	3.0%	3.0%	7.75% (CBD); 7.50% to 7.75% (suburbs)	1.0%	8.00% (CBD); 7.00% to 8.00% (suburbs)	6.60% (CBD); 5.40% to 7.00% (suburbs)	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.	3.0% to 4.0%	3.0% to 4.0%	3.0%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	2.0%	8.00% to 10.00% (CBD); 8.00% to 10.00% (suburbs)	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	6	70.0%	4.0%	$0.25	3 to 6
REIT ✦ Forecast Period: 10 years Valuation preference is DCF analysis; also uses direct cap; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserves; does not use rent spikes; prefers suburbs.	3.0%	3.0%	3.0%	8.50% to 10.50% (suburbs)	2.0%	8.50% to 10.50% (suburbs)	8.50% to 10.00% (suburbs)	6	65.0%	5.0%	$0.20	6

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

WASHINGTON, DC METRO–THE DISTRICT OFFICE MARKET*
INVESTOR SURVEY RESPONSES
Second Quarter 2006

	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%	7.50% to 9.00%	2.0%	7.50% to 9.50%	6.50% to 8.00%	6	70.0%	2.0% to 5.0%	$0.10 to $0.20	2 to 3
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.	4.0%	3.0%	3.0%	7.00% to 8.00%	1.0% to 3.0%	7.00 to% 9.00% (CBD)	6.00% to 8.00%	6 to 12	65.0%	0.0% to 5.0%	$0.15 to $0.25	1 to 6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses present value analysis of effective rents; does not use rent spikes.	3.0%	3.0%	3.0%	7.00% to 7.50%	2.0% to 2.5%	7.50% to 8.50%	6.00% to 7.00%	3 to 6	65.0% to 75.0%	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.	3.0%	3.0%	3.0%	5.00% to 7.00%	1.5% to 2.0%	7.00% to 9.00%	5.00% to 6.00%	6 to 12	60.0%	8.0%	$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%	6.50% to 7.00%	2.0%	6.50% to 7.25%	5.00% to 6.20%	8	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 after capital replacement reserve but before TIs and leasing commissions.	4.0% Years 1 & 2	3.0%	3.5%	7.25% to 8.00%	2.0% to 3.0%	8.25% to 9.25%	5.50% to 6.75%	6 to 12	65.0% to 70.0%	5.0%	$0.25 to $1.00	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	3.0% to 5.0%	3.0%	3.0%	7.00% to 7.50%	2.0%	7.00% to 7.50%	6.50% to 7.50%	3	70.0%	4.0%	$0.20 to $0.40	12

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

WASHINGTON, DC METRO–NORTHERN VIRGINIA OFFICE MARKET*
INVESTOR SURVEY RESPONSES
Second Quarter 2006

	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%	8.50% to 9.50%	2.0%	9.50% to 11.00%	7.50% to 9.00%	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.	2.0% to 4.0%	3.0%	3.0%	7.50% to 8.50%	1.0% to 3.0%	7.50% to 9.00%	7.00% to 8.00%	6	65.0%	1.0% to 3.0%	$0.15 to $0.25	1 to 6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	2.0% Year 1; 3.0% thereafter	3.0%	3.0%	8.00% to 8.50%	2.0% to 2.5%	8.00% to 9.00%	7.50% to 8.50%	6 to 9	65.0% to 70.0%	1.0% to 2.0%	$0.10 to $0.20	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	7.00% to 7.50%	2.0%	7.50% to 8.00%	6.75%	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; uses rent spike of 4.0% in years 1 and 2; also relies on price per square foot; assumes a flat rent and higher credit loss for tech tenants.	4.0% Years 1 & 2	3.0%	3.0%	7.25% to 8.00%	2.0% to 3.0%	8.00% to 8.75%	6.00% to 6.75%	6 to 10	65.0% to 70.0%	5.0% to 6.0%	$0.30 to $1.00	6 to 8
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.	3.0%	3.0%	3.0%	7.00% to 8.50%	1.5% to 2.0%	6.00% to 8.00%	5.00% to 6.00%	6 to 18	50.0%	8.0% to 14.0%	$0.30 to $1.00	3 to 6

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

WASHINGTON, DC METRO–SUBURBAN MARYLAND OFFICE MARKET*
INVESTOR SURVEY RESPONSES
Second Quarter 2006

	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%	8.50% to 9.50%	2.0%	9.50% to 11.00%	7.50% to 9.00%	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.	3.0%	3.0%	3.0%	7.00% to 8.50%	1.0% to 3.0%	8.00% to 9.00%	7.00% to 8.00%	6	65.0%	1.0% to 3.0%	$0.15 to $0.25	1 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%	6.50% to 7.50%	2.0%	7.50% to 8.50%	6.00% to 7.00%	6	70.0%	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	3.0%	3.0%	8.00% to 8.50%	2.0% to 2.5%	8.50% to 9.50%	7.50% to 8.50%	6 to 9	65.0% to 70.0%	1.0% to 2.0%	$0.10 to $0.20	6 to 9
REAL ESTATE INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	4.0%	3.0%	3.0%	7.50% to 8.25%	2.0%	8.25% to 9.00%	6.75% to 7.25%	6 to 10	65.0% to 70.0%	5.0% to 6.0%	$0.30 to $0.80	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	3.0%	3.0%	3.0%	7.50% to 9.00%	1.5% to 2.0%	7.00% to 9.00%	5.00% to 7.00%	6 to 18	50.0%	10.0%	$0.30 to $1.00	6 to 12

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

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

Second Quarter 2006

	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.	3.0%	3.5%	3.5%	7.75% to 8.50%	2.0% to 3.0%	8.75% to 9.00%	6.25% to 6.75%	6 to 9	65.0%	3.0% to 5.0%	$0.10 to $0.25	6 to 9
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.	3.0%	3.0%	3.0%	7.50% to 9.00%	1.0% to 3.0%	8.00% to 9.50%	6.50% to 9.00%	6 to 12	65.0% to 75.0%	0.25% to 1.0%	$0.10 to $0.25	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%	7.00% to 9.00%	2.0% to 3.0%	8.00% to 9.00%	7.00% to 9.00%	6 to 12	75.0%	3.0% to 5.0%	$0.10 to $0.15	4 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 3.5%	3.0%	2.5%	8.00% to 10.50%	1.5% to 3.0%	8.00% to 10.00%	7.50% to 10.00%	6 to 18	55.0% to 70.0%	5.0% to 11.0%	$0.10 to $0.30	6 to 18
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%	7.50% to 9.50%	2.0% to 3.0%	6.75% to 9.00%	7.50% to 9.00%	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%	8.50%	2.0%	10.00%	8.50%	6 to 8	75.0%	10.0%	$0.10	6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 5.0%	3.0%	3.0%	6.75% to 7.50%	1.0% to 4.0%	7.50% to 8.00%	6.50% to 8.00%	6 to 12	50.0% to 65.0%	3.0% to 5.0%	$0.05 to $0.35	6 to 8
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies mainly on DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 4.0% to 5.0% in years 2 through 4 in most core markets.	0.0% to 3.0%	3.0%	2.5% to 3.0%	7.50% to 9.00%	2.0% to 3.0%	8.50% to 10.50%	7.00% to 7.80%	4 to 9	70.0%	3.0%	$0.10 to $0.15	3 to 6

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

NATIONAL WAREHOUSE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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.	3.0%	3.0%	3.0%	7.50% to 8.00%	2.0% to 3.0%	8.75% to 9.25%	6.25% to 6.75%	6 to 9	65.0% to 70.0%	3.0% to 5.0%	$0.10 to $0.15	8 to 10
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Focuses on portfolio purchases; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 3.0%	3.0%	3.0%	7.00% to 8.50%	1.0% to 3.0%	7.50% to 9.00%	5.50% to 8.00%	6 to 12	65.0% to 75.0%	0.25% to 1.0%	$0.10 to $0.25	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%	6.00% to 8.00%	2.0% to 3.0%	7.00% to 9.00%	6.00% to 8.00%	6 to 12	75.0%	5.0% to 8.0%	$0.10 to $0.15	4 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	7.00% to 8.00%	1.0% to 2.0%	6.75% to 7.50%	6.50% to 7.50%	3 to 6	70.0%	7.0%	$0.05 to $0.15	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; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	7.00% to 8.50%	2.0% to 3.0%	7.25% to 8.75%	6.25% to 8.50%	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%	8.00% to 8.25%	3.0%	8.00% to 9.00%	7.25% to 7.75%	6	75.0%	5.0%	$0.10	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; uses rent spike of 4.0% to 8.0% in years 2 to 4, if appropriate.	neg. 2.0% to 3.0%	3.0%	3.0%	6.75% to 7.50%	1.0% to 4.0%	7.00% to 8.00%	6.00% to 7.50%	6 to 12	50.0% to 65.0%	3.0%	$0.05 to $0.35	6 to 8
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses DCF and face rents; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	1.0% to 3.0%	3.0%	3.0%	7.00% to 7.75%	1.5% to 2.5%	6.90% to 7.80%	6.25% to 7.25%	6 to 8	75.0%	3.0%	$0.05 to $0.15	5

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

NATIONAL APARTMENT MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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.	2.5% to 3.5%	2.25% to 3.25%	5.0% to 8.0%	7.00% to 8.00%	2.5%	8.50% to 9.50%	6.00% to 7.00%	$250 to $300	5 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; uses a separate structural replacement reserve, based on deferred maintenance.	1.0% Year 1; 2.0% Year 2; 2.0% to 4.0% thereafter	Average 3.0% over the forecast period	5.5%	6.25% to 6.75%	1.5% for deals greater than $20 million; 2.0% otherwise	7.00% to 8.00%	4.50% to 6.00%	$275 to $325	1 to 3
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.	3.0% to 5.0%	3.0% to 3.5%	3.0% to 12.0%	5.50% to 7.50%	2.0% to 3.0%	7.00% to 8.50%	5.00% to 8.00%	$250 to $350	6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Strong interest in this product nationwide; applies management fee of 3.0% to 3.5%; uses DCF and direct capitalization; emphasis is on initial returns and per unit pricing; in direct cap, capitalizes NOI before capital replacement reserve.	5.0% Years 1 and 2	3.0%	3.0% to 6.0%	7.25% to 8.00%	2.0%	8.00% to 8.75%	5.25% to 6.25%	$300 to $400	6
REIT ✦ Forecast Period: 10 years Specializes in this market; relies on DCF and direct capitalization; capitalizes cash flow after capital replacement reserve; uses a separate structural replacement reserve of $100 to $400 per unit depending on age.	0.0% to 7.0%	3.00% to 3.50%	Varies	6.00% to 8.00%	1.0%	8.50% to 11.00%	4.75% to 7.00%	$150 to $350	3
REAL ESTATE ADVISOR ✦ Forecast Period: 5 and 10 years Relies on DCF, also uses direct capitalization; in direct, capitalizes NOI after capital replacement reserve; uses an additional reserve for capital items.	0.0% to 6.0%	2.5%	7.0% to 25.0%	5.50% to 7.00%	1.5% to 1.75%	7.00% to 8.50%	4.50% to 5.00%	$200 to $300	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; buys 150- to 400-unit apartment complexes in first- and second-tier markets nationwide.	3.0%	3.0%	5.0% to 10.0%	7.00% to 8.50%	2.0%	11.00% to 12.50%	5.50% to 7.50%	$200 to $250	5
PENSION FUND ADVISOR ✦ Forecast Period: 7 to 10 years Specializes in this market; increases annual rent in lieu of lease-by-lease analysis; uses management fee of 3.0% to 3.25% plus leasing costs and reserve (actually funded); relies on IRR primarily; also uses sales comparison and cost approaches; uses a separate structural replacement reserve of $250 per unit.	0.0% to 2.0%	3.0%	8.0% to 11.0%	7.50% to 8.50%	2.0%	8.00% to 8.50%	5.75% to 6.50%	$275 to $400	4

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

NATIONAL NET LEASE MARKET–INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	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	6.25% to 8.00%	0.0%	None	2 maximum
PRIVATE INVESTMENT FIRM ✦ Forecast Period: Term of lease Primary valuation method is direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; also uses DCF analysis; growth rate for market rent averages between 2.5% and 3.0% over the forecast period.	Office, industrial	2.5% to 3.0%	2.0% to 2.5%	Below & above investment grade	8.00% to 8.75%	3.0% to 4.0%	10.00% to 11.00%	6.75% to 7.50%	0.0%	$0.10 to $0.20	4 to 5
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 5 years Primary valuation method is sales comparison approach; also uses DCF analysis.	Office, industrial	1.0%	2.0%	B minimum	8.75%	3.0%	9.50%	8.50%	2.0%	$0.15	3
REIT ✦ Forecast Period: 10 to 15 years 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	9.00% to 9.50%	2.0%	7.75% to 10.25%	7.00% to 10.00%	0.0%	$0.15 (office); $0.10 (industrial)	4
INVESTMENT ADVISOR ✦ Forecast Period: 3 to 10 years Primary valuation method is direct capitalization; also uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacements reserve.	Office, warehouse, retail	2.0%	2.5%	BB and higher	7.50% to 8.00%	1.5%	10.00% to 11.00%	6.75% to 8.00%	0.0%	$0.05 to $0.15	1 maximum
INVESTORS AND BROKERS ✦ Forecast Period: 5 years Primary valuation method is direct capitalization; also uses sales comparison approach.	Drug Stores, credit retail, banks	(2)	(2)	BBB to A+	(2)	(2)	(2)	6.00% to 8.00%	0.0%	None	(2)
PRIVATE INVESTOR ✦ Forecast Period: 3 to 10 years 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)	4.0%	10.00% to 12.00%	(2)	7.0% to 8.0%	None	6 or less

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

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

NATIONAL DEVELOPMENT LAND MARKET—INVESTOR SURVEY RESPONSES*

Second Quarter 2006

	PROPERTY TYPES	ABSORPTION CRITERIA	CHANGE RATES			DISCOUNT RATE (IRR)		FORECAST VALUE CHANGE NEXT 12 MONTHS		MARKETING PERIOD
		Years	Lot Prices	Development Costs	CPI	Free & Clear	Subject to Financing	Range	Average	Months
DEVELOPER/BROKER Primary method of pricing is comparable sales; analysis is prepared subject to financing; project size ranges from 3 to 120 acres; value of land currently under development totals $7.0 million; development is concentrated in Northwest suburban Chicago.	Industrial (95.0%)	1 to 3	10.0% to 15.0%	Based on a % of specific line item	4.0%	12.00%	15.00%	–	–	24 to 36
DEVELOPER Primary method of pricing is comparable sales; analysis is prepared subject to financing; project size ranges from 8 to 30 acres; value of land currently under development totals $45.0 million; development is concentrated in the Western United States.	Resort	1 to 5	6.0%	3.0%	–	$15.00	–	4.0% to 6.0%	5.0%	12 to 24
DEVELOPER Primary method of pricing is comparable sales; analysis is prepared free and clear of financing; project size ranges from 50 to 250 acres; value of land currently under development totals $9.0 million; development is concentrated in the Midwest region of the United States.	Industrial, office, medical, retail	1 to 20	2.5%	2.5%	3.0%	15.00%	20.00%	5.0%	–	360
DEVELOPER/INVESTOR Primary methods of pricing are DCF and comparable sales; analyses are prepared free and clear of financing; project size ranges from 5 to 150+ acres; development is concentrated in Chicago, California, and Texas.	Distribution, office	1 to 5	Less than CPI	3.0% to 5.0%	2.5%	15.00% to 18.00%	–	Stable	–	42 to 66
DEVELOPER Primary method of pricing is comparable sales; analysis is prepared subject to financing; value of land currently under development is between $50.0 and $100.0 million; development is concentrated in Arizona and California.	Residential, retail	1 to 5	Varies	3.0%	3.0%	20.00%	20.00% minimum	5.0%	–	24 to 72
DEVELOPER Uses pricing method other than DCF or comparable sales; analysis is prepared free and clear of financing; project size is 18 acres; value or land currently under development totals $15.0 million; development is concentrated in the Midwest region of the United States.	Resort, Commercial	6 to 10	12.0%	Based on a % of revenue	–	20.0%	–	up to 12.0%	–	22
DEVELOPER Primary method of pricing is bulk sales analysis; project sizes range from 100 to 2,000 acres; value of land currently under development totals $150.0 million; development is concentrated in the San Francisco Bay area and Sacramento and Bakersfield, California.	Master-planned single-family	1 to 5	20.0%	–	–	–	–	15.0% to 20.0%	17.50%	2 to 3

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

INVESTMENT AND PROPERTY CHARACTERISTICS: OFFICE MARKETS

Second Quarter 2006

	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	0.00%-10.00%	3.03%	70.00%-115.00%	92.88%	5.00%-15.00%	8.63%	1-5	2.3	$10.00-$45.00	$26.43	$5.00-$20.00	$12.13
National Suburban	(5.00%)-5.00%	1.25%	70.00%-125.00%	96.04%	0.00%-12.00%	7.50%	0-5	1.7	$0.00-$40.00	$17.46	$0.00-$20.00	$8.38
Atlanta	0.00%-5.00%	2.33%	85.00%-95.00%	90.50%	7.50%-12.00%	10.19%	0-4	1.7	$10.00-$30.00	$17.88	$6.00-$10.00	$8.45
Boston	0.00%-5.00%	1.50%	35.00%-110.00%	88.21%	5.00%-12.00%	8.43%	0-5	2.9	$15.00-$60.00	$31.25	$5.00-$25.00	$11.79
Chicago	0.00%-10.00%	2.00%	50.00%-110.00%	90.68%	6.00%-15.00%	9.30%	0-5	2.7	$10.00-$70.00	$35.63	$3.00-$35.00	$13.81
Dallas	0.00%-3.00%	1.13%	50.00%-100.00%	82.50%	3.00%-15.00%	8.00%	0-3	1.5	$10.00-$30.00	$17.50	$3.00-$15.00	$8.13
Houston	0.00%-10.00%	2.50%	50.00%-110.00%	84.17%	5.00%-12.00%	7.30%	0-5	1.6	$8.00-$30.00	$18.60	$3.00-$10.00	$5.80
Los Angeles	(7.00%)-8.00%	0.20%	80.00%-100.00%	94.00%	5.00%-15.00%	8.13%	0-3	1.6	$10.00-$40.00	$24.60	$5.00-$15.00	$9.30
Manhattan	0.00%-10.00%	4.33%	85.00%-120.00%	95.83%	5.00%-10.00%	6.36%	0-3	1.1	$35.00-$65.00	$45.63	$10.00-$25.00	$18.75
Pacific Northwest	0.00%-2.00%	1.17%	80.00%-110.00%	98.13%	4.00%-30.00%	9.75%	0.5-3	1.9	$10.00-$30.00	$19.33	$5.00-$10.00	$7.20
Philadelphia	0.00%-5.00%	2.00%	85.00%-120.00%	94.38%	5.00%-12.00%	7.00%	1-3	2.0	$10.00-$30.00	$18.17	$5.00-$10.00	$7.33
San Francisco	0.00%-15.00%	5.63%	40.00%-105.00%	84.29%	3.00%-15.00%	8.57%	1-5	3.1	$20.00-$50.00	$32.19	$0.00-$25.00	$10.81
Southeast Florida	0.00%-15.00%	4.10%	90.00%-120.00%	97.50%	5.00%-10.00%	7.60%	0.5-3	1.6	$12.00-$50.00	$23.80	$5.00-$20.00	$9.80
Washington, DC Metro												
The District	0.00%-10.00%	4.25%	75.00%-120.00%	101.15%	4.00%-10.00%	6.44%	0-2	0.5	$3.00-$60.00	$36.75	$5.00-$35.00	$17.50
Northern Virginia	0.00%-10.00%	4.07%	90.00%-120.00%	101.88%	3.00%-10.00%	6.86%	0-2	0.8	$3.00-$50.00	$29.83	$3.00-$25.00	$15.67
Suburban Maryland	0.00%-10.00%	3.69%	80.00%-120.00%	99.06%	5.00%-12.00%	7.79%	0-2	0.7	$3.00-$50.00	$29.25	$3.00-$25.00	$14.83

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

INVESTMENT AND PROPERTY CHARACTERISTICS: NATIONAL MARKETS

Second Quarter 2006

	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%-5.00%	3.42%	100.00%-150.00%	117.00%	7.00%-10.00%	8.55%	5.50%-8.30%	6.40%	8.50%-12.00%	9.93%	6.00%-9.50%	7.83%	85.00%-99.00%	93.25% (Class-B to A+)
Power Center	-10.00%-5.00%	-0.50%	85.00%-130.00%	101.00%									90.00%-95.00%	94.14%
Strip Shopping Center	(5.00%)-5.00%	2.00%	90.00%-140.00%	106.79%									85.00%-96.00%	94.07%

	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	0.00%-5.00%	2.92%	80.00%-115.00%	103.00%	5.00%-100.00%	37.99%	$0.00-$15.00	$4.29	$0.00-$5.00	$1.81
Warehouse	(10.00%)-10.00%	2.14%	90.00%-120.00%	104.09%	0.00%-15.00%	8.55%	$0.00-$10.00	$2.49	$0.00-$1.00	$0.40
Apartment	(5.00%)-15.00%	3.14%	80.00%-125.00%	103.53%						

PRICEWATERHOUSECOOPERS

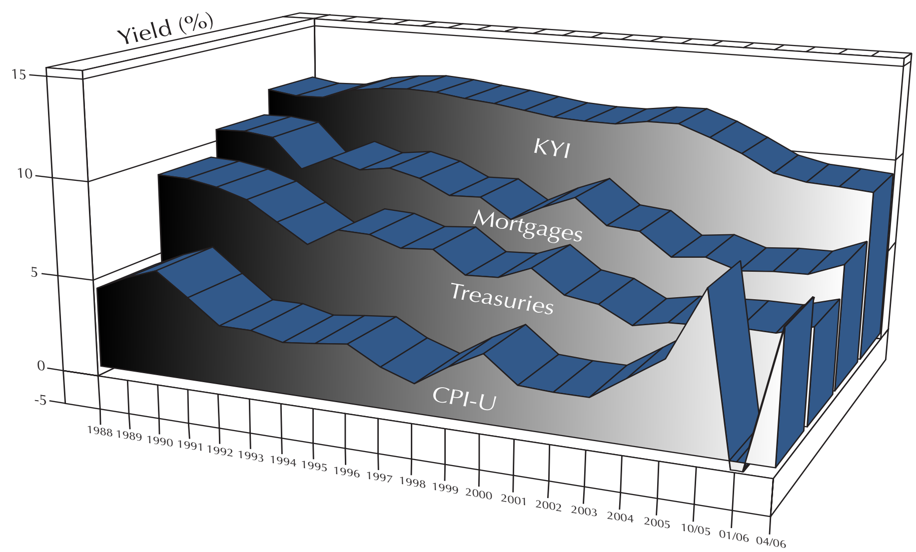
Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

YIELD COMPARISONS
April 1, 2006

	2001 AVERAGE	2002 AVERAGE	2003 AVERAGE	2004 AVERAGE	2005 AVERAGE	2005 OCTOBER	2006 JANUARY	2006 APRIL
Korpacz Yield Indicator (KYI)[a]	11.54%	11.56%	11.00%	10.28%	9.43%	9.09%	9.01%	8.89%
Long-Term Mortgages[b]	7.16%	7.02%	5.87%	6.08%	5.57%	5.73%	5.77%	6.77%
10-Year Treasuries[c]	4.96%	4.71%	3.86%	4.21%	4.29%	4.39%	4.37%	4.88%
Consumer Price Index Change[d]	2.11%	2.02%	2.03%	3.16%	4.30%	7.78%	-1.81%	6.45%
SPREAD TO KYI (Basis Points)								
Long-Term Mortgages	438	454	513	420	386	336	324	212
10-Year Treasuries	658	685	714	607	514	470	464	401
Consumer Price Index Change	943	954	897	712	513	131	1082	244

a. A composite IRR average of the markets surveyed.
b. 3-year or longer term for commercial property; fixed-rate mortgages; immediate funding. Source: Crittenden Publishing, Inc.; For January 2005, data is based on a survey conducted by PricewaterhouseCoopers LLP and reflects fixed-rate debt of 5 to 10 years, 25- to 30-year amortization, immediate funding; For April 2005, source is CB Richard Ellis/L.J. Melody Capital Markets; typical terms include 10-year term, 25-year amortization, immediate funding, 75.0% to 80.0% loan-to-value ratio.
c. Source: Federal Reserve; the annual average change is the mean of the four corresponding quarters.
d. Source: U.S. Department of Labor; quarterly changes are annualized based on the index change from the prior quarter; the annual average change is the mean of the four corresponding quarters.

COMPARATIVE YIELDS
April 1, 2006



DIVIDEND COMPARISONS
April 1, 2006

	2001 AVERAGE	2002 AVERAGE	2003 AVERAGE	2004 AVERAGE	2005 AVERAGE	2005 OCTOBER	2006 JANUARY	2006 APRIL
Korpacz Dividend Indicator (KDI)[a]	9.42%	9.55%	9.23%	8.62%	7.94%	7.64%	7.57%	7.49%
Equity REITs[b]	6.40%	6.70%	6.67%	5.27%	4.75%	4.56%	4.57%	4.06%
S&P 500[c]	1.33%	1.60%	1.76%	1.63%	1.71%	1.75%	1.78%	1.76%
SPREAD TO KDI (Basis Points)								
Equity REITs	302	285	256	335	319	308	300	343
S&P 500	809	795	747	699	623	589	579	573

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

INSTITUTIONAL-GRADE VS. NONINSTITUTIONAL-GRADE PROPERTY RATES

Second Quarter 2006

	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	7.00%-11.00%	8.88%	5.00%-9.50%	7.09%	8.50%-14.50%	11.73%	6.50%-13.50%	9.68%	285	259
National Power Center	7.25%-11.50%	8.68%	5.50%-9.00%	7.36%	NA	NA	NA	NA	NA	NA
National Strip Shopping Center	6.00%-10.00%	8.48%	5.80%-9.00%	7.36%	7.00%-13.00%	10.45%	7.00%-11.50%	9.04%	197	168
National CBD Office	7.00%-10.00%	8.43%	4.50%-9.50%	7.23%	7.50%-13.00%	10.50%	6.75%-12.50%	9.19%	207	196
National Suburban Office	7.00%-12.00%	9.25%	5.50%-10.50%	7.82%	8.50%-13.50%	11.02%	6.50%-12.50%	9.30%	177	148
Atlanta Office	6.75%-11.00%	8.94%	5.75%-9.00%	7.63%	8.75%-11.00%	9.96%	7.00%-9.75%	8.75%	102	112
Boston Office	7.50%-13.00%	9.30%	6.00%-10.25%	7.59%	8.50%-15.50%	11.27%	7.00%-11.50%	9.18%	197	159
Chicago Office	7.00%-11.00%	8.60%	6.00%-9.50%	7.55%	9.00%-13.00%	10.25%	7.25%-11.00%	8.86%	165	131
Dallas Office	7.50%-11.50%	9.13%	6.00%-10.00%	8.33%	10.50%-13.50%	11.88%	9.50%-12.00%	10.96%	275	263
Houston Office	7.50%-14.00%	9.48%	7.00%-12.00%	8.69%	9.25%-17.00%	12.03%	9.25%-14.00%	10.97%	255	228
Los Angeles Office	7.00%-13.00%	9.13%	5.00%-9.75%	6.92%	9.75%-16.00%	12.25%	7.50%-11.50%	9.00%	312	208
Manhattan Office	6.00%-9.50%	8.00%	5.00%-8.00%	6.30%	7.50%-11.50%	9.63%	6.00%-9.25%	7.88%	163	158
Pacific Northwest Office	9.00%-14.00%	11.02%	7.00%-11.00%	8.88%	11.00%-16.00%	13.58%	8.00%-12.00%	10.08%	256	120
Philadelphia Office	8.00%-12.00%	9.86%	5.00%-11.00%	8.86%	9.50%-12.00%	10.63%	8.50%-10.50%	9.63%	77	77
San Francisco Office	7.00%-12.00%	8.56%	5.00%-10.00%	7.25%	8.25%-15.00%	11.13%	7.00%-11.50%	8.75%	257	150
Southeast Florida Office	7.00%-11.00%	9.08%	5.40%-10.00%	8.24%	—[a]	—[a]	—[a]	—[a]	—[a]	—[a]
Washington, DC Metro Office										
The District	6.50%-9.25%	7.96%	5.00%-8.50%	6.45%	—[a]	—[a]	—[a]	—[a]	—[a]	—[a]
Northern Virginia	6.00%-11.00%	8.27%	5.00%-9.00%	7.03%	—[a]	—[a]	—[a]	—[a]	—[a]	—[a]
Suburban Maryland	7.00%-11.00%	8.52%	5.00%-9.00%	7.08%	—[a]	—[a]	—[a]	—[a]	—[a]	—[a]
National Flex/R&D	6.75%-10.50%	9.02%	6.25%-10.00%	8.08%	9.00%-13.00%	10.50%	7.25%-13.00%	9.42%	148	134
National Warehouse	6.75%-11.50%	8.29%	5.50%-9.00%	7.04%	8.00%-13.00%	9.95%	7.00%-12.00%	8.55%	166	151
National Apartment	6.00%-12.50%	8.60%	4.25%-8.00%	6.01%	6.25%-15.00%	10.18%	4.50%-10.50%	7.24%	158	123
All Markets Surveyed (Simple Average)	—	8.89%	—	7.49%	—	10.99%	—	9.20%	210	171

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

PRICEWATERHOUSECOOPERS

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

INCOME CAPITALIZED IN DIRECT CAPITALIZATION[a]

Second Quarter 2006

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%	16.7%	83.3%	83.3%	0.0%	0.0%
Power Center	14.3%	16.7%	85.7%	83.3%	0.0%	0.0%
Strip Shopping Center	12.5%	12.5%	75.0%	75.0%	12.5%	12.5%
Office						
National CBD	0.0%	0.0%	88.9%	88.9%	11.1%	11.1%
National Suburban	15.4%	15.4%	61.5%	61.5%	23.1%	23.1%
Atlanta	16.7%	14.3%	83.3%	85.7%	0.0%	0.0%
Boston	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%
Chicago	25.0%	20.0%	75.0%	70.0%	0.0%	10.0%
Dallas	16.7%	16.7%	83.3%	83.3%	0.0%	0.0%
Houston	16.7%	16.7%	66.7%	66.7%	16.7%	16.7%
Los Angeles	33.3%	33.3%	66.7%	66.7%	0.0%	0.0%
Manhattan	20.0%	20.0%	60.0%	60.0%	20.0%	20.0%
Pacific Northwest	33.3%	33.3%	66.7%	66.7%	0.0%	0.0%
Philadelphia	16.7%	16.7%	66.7%	66.7%	16.7%	16.7%
San Francisco	22.2%	18.2%	77.8%	81.8%	0.0%	0.0%
Southeast Florida	16.7%	16.7%	83.3%	83.3%	0.0%	0.0%
Washington, DC Metro						
The District	44.4%	40.0%	55.6%	60.0%	0.0%	0.0%
Northern Virginia	42.9%	28.6%	57.1%	71.4%	0.0%	0.0%
Suburban Maryland	28.6%	28.6%	71.4%	71.4%	0.0%	0.0%
National Flex/R&D	27.3%	30.8%	72.7%	69.2%	0.0%	0.0%
National Warehouse	21.4%	13.3%	71.4%	80.0%	7.1%	6.7%
National Apartment[b]	73.7%	68.4%	21.1%	26.3%	5.3%	5.3%
All Markets Surveyed	26.3%	24.2%	68.3%	70.1%	5.4%	5.7%

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

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

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

LODGING INCOME CAPITALIZED IN DIRECT CAPITALIZATION

First Quarter 2006

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	25.0%	28.6%	62.5%	57.1%	12.5%	14.3%
Economy/Limited-Service	66.7%	66.7%	33.3%	33.3%	0.0%	0.0%
Luxury	28.6%	28.6%	71.4%	71.4%	0.0%	0.0%
Extended-Stay	16.7%	20.0%	83.3%	80.0%	0.0%	0.0%
All Markets Surveyed (Simple Average)	33.3%	36.0%	63.0%	60.0%	3.7%	4.0%

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

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

FORECAST PERIODS AND GROWTH RATES
Second Quarter 2006

	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	2.00%-3.00%	2.82%	2.50%-3.50%	2.93%	3.00%-3.00%	3.00%	3.00%-3.00%	3.00%
National Power Center	5 - 10	9.1	0.00%-5.00%	2.93%	2.00%-4.00%	3.08%	3.00%-3.00%	3.00%	3.00%-3.00%	3.00%
National Strip Shopping Center	10 - 10	10.0	2.00%-5.00%	2.91%	3.00%-3.30%	3.04%	3.00%-4.00%	3.13%	3.00%-4.00%	3.13%
National CBD Office	5 - 10	9.3	0.00%-7.00%	2.88%	1.75%-6.00%	3.48%	1.50%-3.00%	2.85%	3.00%-3.50%	3.05%
National Suburban Office	5 - 10	9.0	0.00%-7.00%	2.34%	0.00%-6.00%	3.15%	2.50%-3.00%	2.98%	2.50%-3.50%	3.04%
Atlanta Office	5 - 10	9.4	0.00%-6.00%	2.08%	2.00%-3.60%	3.00%	2.50%-3.00%	2.92%	2.00%-3.00%	2.83%
Boston Office	5 - 10	8.7	0.00%-5.00%	2.36%	2.50%-7.00%	3.44%	2.50%-3.00%	2.93%	2.50%-3.00%	2.94%
Chicago Office	5 - 10	9.8	0.00%-3.00%	0.68%	0.00%-4.00%	2.61%	2.00%-3.00%	2.82%	2.00%-3.50%	2.96%
Dallas Office	5 - 10	9.3	0.00%-4.00%	2.31%	0.00%-3.60%	2.45%	2.00%-3.00%	2.80%	3.00%-3.00%	3.00%
Houston Office	5 - 10	9.4	0.00%-7.00%	2.50%	2.00%-3.50%	3.10%	3.00%-4.00%	3.10%	3.00%-4.00%	3.08%
Los Angeles Office	5 - 10	9.3	0.00%-8.00%	3.25%	3.00%-4.00%	3.17%	3.00%-3.00%	3.00%	3.00%-3.00%	3.00%
Manhattan Office	5 - 10	9.1	0.00%-6.00%	3.50%	3.00%-7.00%	3.71%	3.00%-5.00%	3.33%	3.00%-3.50%	3.07%
Pacific Northwest Office	5 - 10	9.2	0.00%-3.00%	1.90%	2.00%-5.00%	3.13%	2.00%-4.00%	3.00%	3.00%-3.00%	3.00%
Philadelphia Office	5 - 11	8.3	0.00%-3.00%	1.21%	2.00%-3.00%	2.71%	2.50%-3.00%	2.93%	2.50%-3.00%	2.93%
San Francisco Office	5 - 10	8.7	0.00%-15.00%	4.39%	2.00%-10.00%	5.08%	2.00%-3.00%	2.94%	3.00%-3.00%	3.00%
Southeast Florida Office	5 - 10	8.3	0.00%-5.00%	3.25%	2.50%-5.00%	3.46%	3.00%-4.00%	3.08%	2.00%-3.00%	2.92%
Washington, DC Metro Office										
The District	5 - 10	9.6	3.00%-5.00%	3.50%	3.00%-4.50%	3.36%	3.00%-3.00%	3.00%	3.00%-3.00%	3.00%
Northern Virginia	5 - 10	9.7	0.00%-4.00%	2.86%	3.00%-3.50%	3.11%	3.00%-3.25%	3.03%	3.00%-3.00%	3.00%
Suburban Maryland	5 - 10	9.7	0.00%-6.00%	3.06%	3.00%-3.80%	3.15%	3.00%-3.00%	3.00%	3.00%-3.00%	3.00%
National Flex/R&D	5 - 10	9.6	0.00%-5.00%	2.33%	0.00%-5.00%	2.86%	2.00%-3.50%	3.00%	2.00%-3.50%	3.00%
National Warehouse	5 - 10	9.7	-2.00%-5.50%	2.29%	0.00%-3.50%	2.84%	2.00%-3.00%	2.96%	2.00%-3.00%	2.96%
National Apartment	1 - 10	8.4	-2.00%-9.00%	3.24%	0.00%-7.00%	3.33%	2.00%-3.50%	2.82%	2.00%-3.50%	2.92%
National Net Lease	3 - 15	7.1	1.00%-3.00%	2.19%	0.00%-3.00%	1.85%	2.00%-3.00%	2.44%	2.00%-3.00%	2.44%

Source: Personal survey conducted by PricewaterhouseCoopers LLP during April 2006.

PRICEWATERHOUSECOOPERS

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 income is projected for purposes of analysis and valuation

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

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

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

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

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

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

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

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

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

GARDEN APARTMENT[1]
Development consisting of two- to three-story structures built in a garden-like setting with an abundance of lawn, plants, flowers, etc.; customarily located in the suburbs or rural-urban fringe.

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

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

Industrial

FLEX/R&D[3]
An industrial property with 14- to 20-foot clear ceiling heights, up to 100.0% finished

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

office space including lab and clean-room space (up to 60.0% finished office space excluding lab and clean-room space), and dock-high and/or grade-level loading used for minimal distribution, research and development, and specialized office space

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

LODGING

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

CHAIN SCALE LODGING SEGMENTS[4]
Based on the actual, system-wide average room rates of the major chains, the five chain scale segments include luxury, upper-upscale, upscale, midscale with food and beverage, midscale without food and beverage, and economy. Independent hotels are included as a separate category.

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

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

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

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

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

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

POWER CENTER[2,3]
An open center dominated by at least 75.0% large big-box anchors, including discount stores, warehouse clubs, and value-oriented category stores; 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)

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

Industry News

■ **Trizec Properties**, now one of Southern California's largest office property owners, acquired a $1.63 billion, four-million-square-foot office portfolio from **Arden Realty Incorporated** (Arden). The closing of the acquisition coincides with **GE Real Estate's** $4.8 million purchase of Arden.

■ **Wal-Mart Stores, Inc.** has agreed to sell their South Korean retail business for **$882.0 million** to the locally based Shinsegae Company. Shinsegae, which owns 79 **E-Mart** hypermarkets in Korea, will continue to operate the 16 Wal-Mart stores under the **E-Mart** brand.

■ **Braveheart Holdings**, an affiliate of Westmont Hospitality Group, and **Cadim Incorporated**, joined to acquire **Boykin Lodging Company** (Boykin) for **$416.0 million**. Boykin currently owns interests in 21 U.S. hotels totaling 5,871 rooms in 13 states.

■ **Peachtree Center**, located in **Downtown Atlanta**, has leased more than 127,600 square feet of space in 2006. This 2.5-million-square-foot office and retail development is owned by **Colonnade Properties**. Due to the new leases, the property stands 64.0% occupied with rents ranging from **$16.00 to $18.00 per square foot**.

■ **Tyco Healthcare** has inked one of the largest headquarters transactions in the **Boston** market this year. The medical device manufacturer and distributor leased nearly 500,000 square feet at the **Cabot Business Park**.

■ **Accor North America** (Accor) is selling six **Sofitel** hotels in six different U.S. markets for **$370.0 million**, or approximately $200,000 per room. The buyer is a joint venture of **GEM Realty Capital and Whitehall Street Global Real Estate**. Accor will retain a 25.0% interest in, as well as manage, the hotel properties.

■ **Glimcher Realty Trust** is planning to sell five of its **regional malls** in Houston, Charlotte, Montgomery, and Tampa. The firm expects the total consideration of the transactions to range from **$250.0 to $270.0 million**, net of expenses.

■ **The Whitehall Street Real Estate Funds, Goldman Sachs & Company's** primary real estate investment group, has acquired 130 U.S. hotels for **$1.2 billion**. The seller, **Theraldson Motels Incorporated**, the nation's largest independent hotel management and development company, will continue to manage the properties.

■ **The Bank of New York** is selling its 388 local retail banking locations to **JPMorgan Chase** for **$3.1 billion**, creating one of the largest inter-bank retail portfolio transactions. In exchange, The Bank of New York will obtain JPMorgan Chase's corporate trust business.

■ **ZOL Development** of Houston has acquired 1,226 acres of undeveloped property on the **Texas Gulf Coast** and is planning two mixed-use communities with high-density retail components. The full build-out carries a **$3.0 billion** cost and a 20-year timeline. **Morris Architects** of Houston is designing the communities.

■ Sales at **General Growth Properties** malls jumped nearly 7.0% in the first quarter of 2006 to a record **$444.00 per square foot**. Occupancy also reached a peak at 91.1% during that time period. In addition, net operating income at General Growth Properties' malls increased **9.2%** over the same period in 2005.

■ **Brookfield Properties Corporation** purchased two office buildings in the Pentagon City market of Arlington County from **National Retail Properties**. The 12-story properties total 554,000 square feet and are **100% leased** by the U.S. government through 2014.

■ The 80-year-old landmark **Roosevelt Office Building** in Downtown Los Angeles is being converted into **223 condominiums** by developer Roosevelt Lofts at a cost of $80.0 million. The townhouses will range from 800 to 2,600 square feet, while the 17 penthouses will exceed 2,000 square feet. An early **2007 opening** is planned with prices starting in the **mid-$400,000 range**. ✦

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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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