Real Estate

Rough Road Ahead For Investors

Korpacz Real Estate Investor Survey®
First Quarter 2008

www.pwcreval.com

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Dear Reader:

No one likes to be the bearer of bad news, especially me. But with all the dire messages out there about the weak performance of the economy, the overheated situation in the financial sector, and the fragile state of the housing market, it looks as though our chances of heading into a recession – if we aren't already there now – have increased tremendously over the past few months.

In our lead story, "Rough Road Ahead For Investors," read about how negative economic factors, such as job losses and weak retail sales growth, impact the industry – not just now, but in the near term. After speaking to numerous investors this quarter, I am sorry to write that things will probably get worse before they get better.

To help better understand where the commercial real estate industry is heading, I have included a four-page *Overall Cap Rate Analysis* section, which includes two new features that will be in the Survey on a quarterly basis going forward. The first is a breakout of three key assumptions – discount rates, overall capitalization rates, and residual capitalization rates – for the CBD and suburban submarkets of each individual office market. The second is an overall capitalization rate forecast for each market. I know that you will find this new information very valuable.

Also in this issue is the semiannual *National Lodging Highlights*, as well as information on the four lodging segments. With both demand and room rate growth decelerating, read this section to find out how each lodging segment will perform in 2008 and 2009.

To kick off 2008, the cover of the Survey, as well as its table of contents page, small and large tables, text layout, and various charts and graphs, have been updated to provide a fresh, more contemporary look. In the coming months, I look forward to debuting more features and enhancements.

As always, I invite your comments and feedback.

Sincerely,

Susan M. Smith

Susan M. Smith
Editor-in-Chief

In This Issue

National Highlights

Rough Road Ahead For Investors

EVERYWHERE INVESTORS TURN, BLEAK NEWS REPORTS BROADCAST THE MESSAGE THAT THE PROBLEMS THAT SPURRED THE HOUSING DOWNTURN AND SUBSEQUENT CREDIT CRUNCH HAVE UNFORTUNATELY OVERFLOWED INTO THE COMMERCIAL REAL ESTATE INDUSTRY. "Bad news is everywhere, and it all negatively impacts commercial real estate to some degree," bemoans a participant. Mortgage losses are up. Absorption levels are down. Consumer debt levels are up. Same-store retail sales growth is down. Foreclosure rates have soared, and financial write-downs appear far from over. While these occurrences alone cause many investors to feel uneasy, combined they convey the fearful message that a U.S. economic recession is not only imminent, but could already be here.

The latest piece of troubled news to darken the outlook of the U.S. economy and the commercial real estate industry was the U.S labor market's loss of 63,000 jobs in February 2008 – the most in nearly five years, according to the Bureau of Labor Statistics. This loss comes as a surprise to many economists, who expected either no gain or a minimal increase in jobs, and is amplified by a downward adjustment to January's job losses (revised to reflect a loss of 22,000 jobs).

The payroll losses in January and February occurred in various office-using employment sectors, including financial industries (a loss of 12,000 jobs) and temporary help (a loss of 28,000 jobs). While these job losses do not immediately shift the office sector's supply-demand imbalance in favor of tenants, the unwillingness of companies to hire additional workers and/or expand their space needs has been noticed by many landlords. "We definitely see fewer companies looking for space," shares a participant.

Since the office sector's fundamentals tend to lag shifts in the U.S economy, investors who foresee job loss trends throughout 2008 are bracing for rocky times in 2009 and 2010. "Flat or negative job growth in 2008 will be felt several months out when leases come up for renewal, and companies give back space in order to curtail spending," says an investor. Many investors, however, believe that a downturn in the office sector would be short lived due to its current sound fundamentals.

The same, however, may not be true for the retail sector, where a tremendous amount of new space is being delivered just as demand is falling. The retrenchment of the U.S. consumer has caused numerous retailers, such as Sharper Image, Pacific Sunwear, and Wilsons Leather, to close stores. "Many retail CEOs think that things will get worse, not better, over the next six to 12 months," remarks an investor. And, it appears that consumers agree. In February 2008, the Consumer Confidence Index fell sharply to 75. In comparison, the Index averaged about 103 throughout 2007.

Due to such bleak economic data, the bid-ask pricing gap that started to materialize following the credit crisis continues to widen, keeping sales activity to a minimum. "There is so much uncertainty right now that buyers and sellers don't know how to price assets," comments a participant. In addition, the ability to secure debt – any amount of debt – has become increasingly difficult. "Banks aren't even lending to each other," quips an investor. With some analysts predicting commercial real estate values to drastically fall in 2008 – forecasting declines of 20.0% or higher, many investors are crossing their fingers and hoping that fundamentals stay sound and the economy rebounds sooner rather than later. Buckle up; we could be in for a bumpy ride. ❖

Overall Cap Rate Analysis

THE FACT THAT BUYERS AND SELLERS STAND AT ODDS OVER PRICING PRESENTS A GOOD OPPORTUNITY TO EXAMINE OVERALL CAPITALIZATION RATE (OAR) TRENDS, AS WELL INTRODUCE TWO NEW QUARTERLY ADDITIONS TO THE SURVEY – (1) THE FORECASTING OF OVERALL CAP RATES FOR EACH MARKET AND (2) A BREAKOUT OF OVERALL CAP RATES FOR THE CBD (CENTRAL BUSINESS DISTRICT) AND SUBURBAN SUBMARKETS OF EACH INDIVIDUAL OFFICE MARKET. An analysis of the overall cap rates for the lodging industry, which tracks the changes over the past five years, is also included.

The following overall cap rate analysis will hopefully not only provide insight into where we have been and where we are, but it will shed some light on where we are going.

AVERAGE OAR COMPARISON

On a year-over-year comparative basis, the average overall capitalization rates for all the markets surveyed declined an average of 30 basis points between the first quarter of 2007 and the first quarter of 2008 (see Exhibit 1). The only exception was the Suburban Maryland office market, which reported a very small increase during that time period. The largest average OAR decline occurred in the Houston office market, which reported a drop of 118 basis points. The Houston office market posted steady declines in vacancy and robust increases in rental rates throughout 2007 and has drawn a lot of attention from investors.

Interestingly, some of the top-performing office markets in the country, such as Manhattan and Washington, DC, experienced some of the lowest declines in their average OARs over the past year. "Overall cap rates can't get much lower in Manhattan," comments a participant. Over the past year the average OAR declined only nine basis points for Manhattan, while it dipped 12 basis points for Washington, DC.

When analyzing the overall cap rate shifts on a quarterly basis, it is apparent that the current repricing environment has impacted overall cap rates. Over the past two quarters, the rate at which average OARs have declined has shrunk (see Exhibit 2). Between the first quarter of 2008 and the end of 2007, the average overall cap rate for each surveyed market increased an average of two basis points. By comparison, they decreased an average of about 15 basis points between the first and second quarters of 2007.

In an upset to the seemingly unending declines in average OARs, an increasing number of markets have reported slight upticks in their average overall cap rate for the past two quarters. In the fourth quarter of 2007, 13 of the 26 surveyed markets posted increases in their average OAR. In the first quarter of 2008, eleven markets posted increases in their average OAR while nine of them reported no change.

Individual office markets that reported back-to-back quarterly increases in average overall cap rates include Atlanta, Boston, Denver, and San Diego. While these markets performed very well during the recent expansion, a slowdown in job growth and untimely additions to supply are negatively impacting underlying fundamentals. "There is still a lot of construction, so rents have been flat," remarks a San Diego office participant. "We are most concerned about the impact of negative job growth on absorption," reveals an Atlanta office participant

Amid these increases and standstills, it is worth noting that overall cap rates remain at historically low levels. In comparison to the first quarter of 2005, the average OAR of all the markets surveyed is down about 130 basis points (see Exhibit 2). Over that three-year period, the largest OAR declines occurred in the San Francisco office

Exhibit 1

OVERALL CAPITALIZATION RATES

First Quarter 2008

National Markets	Average	Annual Change*
Apartment	5.79%	– 10
Warehouse	6.47%	– 31
CBD Office	6.63%	– 24
Regional Mall	6.68%	– 21
Power Center	7.13%	– 15
Surburban Office	7.13%	– 52
Strip Shopping Center	7.28%	– 10
Flex/R&D	7.47%	– 26
Office Markets		
Manhattan	5.55%	– 9
San Diego	6.08%	– 17
San Francisco	6.11%	– 45
Washington, DC	6.16%	– 12
Los Angeles	6.16%	– 43
Phoenix	6.55%	—
Denver	6.63%	—
Northern Virginia	6.83%	– 16
Suburban Maryland	6.92%	+ 3
Chicago	7.00%	– 22
Atlanta	7.08%	– 30
Houston	7.25%	– 118
Charlotte	7.27%	—
Boston	7.34%	– 23
Southeast Florida	7.80%	– 21
Pacific Northwest	7.81%	– 71
Dallas	7.95%	– 26
Philadelphia	8.15%	– 40
KDI**	6.89%	– 35

* Basis points
** Korpacz Dividend Indicator (see Definitions)
Source: Korpacz Real Estate Investor Survey®

Exhibit 2

OVERALL CAPITALIZATION RATE TRENDS

Basis Point Changes

MARKET	1Q08 OVER 4Q07	4Q07 OVER 3Q07	3Q07 OVER 2Q07	2Q07 OVER 1Q07	1Q08 OVER 1Q05
National Regional Mall	0	– 18	– 2	– 1	– 65
National Power Center	0	+ 13	– 6	– 22	– 91
National Strip Shopping Center	+ 4	+ 4	– 15	– 3	– 58
National CBD Office	– 1	– 4	– 15	– 4	– 163
National Suburban Office	– 7	– 4	– 5	– 36	– 150
Atlanta Office	+ 3	+ 3	– 15	– 21	– 133
Boston Office	+ 13	+ 7	– 25	– 18	– 141
Charlotte Office	+ 39	_a	_a	_a	_a
Chicago Office	+ 15	– 19	+ 5	– 23	– 121
Dallas Office	0	+ 4	– 22	– 8	– 95
Denver Office	+ 22	+ 3	– 35	_a	_a
Houston Office	– 34	– 13	– 16	– 55	– 194
Los Angeles Office	0	+ 2	– 18	– 27	– 228
Manhattan Office	+ 3	0	– 12	0	– 190
Northern Virginia Office	0	+ 2	0	– 18	– 117
Pacific Northwest Office	0	+ 8	– 79	0	– 115
Philadelphia Office	0	0	0	– 40	– 102
Phoenix Office	+ 5	_a	_a	_a	_a
San Diego Office	+ 4	+ 4	– 25	_a	_a
San Francisco Office	– 5	+ 9	– 32	– 17	– 234
Southeast Florida Office	0	0	– 21	0	– 114
Suburban Maryland Office	0	+ 9	+ 5	– 11	– 94
Washington, DC Office	+ 2	0	– 7	– 7	– 115
National Flex/R&D Market	– 13	+ 5	– 5	– 13	– 122
National Warehouse Market	– 1	– 5	– 5	– 20	– 141
National Apartment Market	+ 4	– 1	– 4	– 9	– 95
Simple Average	+ 2.0	+ 0.4	– 14.4	– 15.3	– 130.8

(a) Data was not available for this time period.

Source: Korpacz Real Estate Investor Survey®

market (down 234 basis points) and the Los Angeles office market (down 228 basis points). Like many other coastal cities, these West Coast powerhouses continue to draw a tremendous amount of interest and capital from investors. Although their average OARs have held relatively stable for the past two quarters, they remain extremely low in comparison to the other individual office markets in our Survey.

CBD and Suburban OARs

While overall capitalization rates vary between markets, they also do so within a given market for many of the same reasons – location, tenant quality, supply/demand imbalance, etc. We are pleased this quarter to debut a breakout of overall cap rates, as well as discount rates and residual cap rates, for the CBD and suburban submarkets of each individual office market in our Survey (see Exhibit 3).

In reviewing the breakout of OARs, it appears that for the most part overall cap rates are lower in the CBD submarkets than in the suburbs. In the first quarter of 2008, the average OAR for the CBD submarkets sat 44 basis points below the average for the suburbs. A main reason for this difference is that higher barriers to entry and a lack of available land for new development tend to keep the supply-demand equation a bit more balanced in a market's CBD. In addition, downtown cores tend to provide better forms of mass transportation and embody a 24-hour, live-work lifestyle that appeals to many individuals. As a result, CBD assets are generally perceived as providing less investment risk to the owner – less risk, lower overall cap rate.

The widest gap between CBD and suburban overall cap rates is seen in the Boston office market. Boston's high-tech sector, which was mainly concentrated in suburban office areas, got pummeled during the last recession. Consequently, Boston's local economy and office market were a bit slower to recover than many other major metro areas. Over the past couple of years, however, strong job growth spurred Boston's rebound, which has been particularly noticeable in its downtown core, where strong increases in rental rates have been reported.

Less of a difference in overall cap rates is seen in the CBDs and suburbs of Phoenix, Houston, and Dallas. In Dallas, perpetual additions to supply and a lack of a 24-hour, live-work downtown environment are the main reasons investors see very little difference in overall cap rates between CBD and suburban office assets.

Looking Ahead

It is important to remember that Survey participants reflect a cross section of major institutional equity real estate investors who invest primarily in institutional-grade property in the top-performing markets across the country. So, while various articles within magazines, newspapers, and trade publications indicate that overall cap rates "have noticeably increased," many of our participants have yet to see such occurrences. "We are mostly seeing higher cap rates for Class-B and Class-C properties," notes a participant. "We don't look at anything that isn't 'A' quality, so we haven't seen the 50- to 100-basis-point swing that some investors are talking about," comments another.

Nevertheless, an overwhelming majority of Survey participants expect overall cap rates to increase over the near term. "A pending recession and capital market turmoil should result in higher cap rates and decreasing values," remarks a participant. As shown in Exhibit 4, the increases range up to 200 basis points (in the Houston office market) and average 35 basis points.

Of all the national markets covered in our Survey, the regional mall market is expected to experience the highest average increase in overall cap rates over the next six months, climbing 75 basis points. "I think the mall market is in for a massive rise in cap rates over the next 6 to 24 months," predicts a regional mall participant. For many retail properties, a drop in consumer spending has weakened retail sales growth, causing some stores to close and downsize their expansion plans. With consumers spending less, retail landlords have a more difficult time raising rental rates and collecting per-

Exhibit 3

BREAKOUT OF KEY INDICATORS

First Quarter 2008

	Discount Rate		Overall Capitalization Rate		Residual Cap Rate	
CBD OF:	Range	Average	Range	Average	Range	Average
Atlanta	7.50% – 10.00%	8.43%	5.25% – 9.00%	6.91%	6.50% – 8.25%	7.53%
Boston	7.00% – 11.00%	8.54%	5.00% – 9.75%	6.74%	6.50% – 9.50%	7.65%
Charlotte	7.00% – 10.00%	8.40%	5.50% – 8.25%	6.88%	6.50% – 8.00%	7.20%
Chicago	7.00% – 10.00%	7.91%	4.50% – 9.00%	6.56%	6.75% – 8.00%	7.20%
Dallas	7.50% – 9.00%	8.53%	6.00% – 9.00%	7.67%	7.00% – 9.00%	8.18%
Denver	5.00% – 9.00%	7.88%	5.50% – 8.50%	6.44%	6.50% – 8.00%	7.19%
Houston	7.50% – 10.00%	8.46%	4.50% – 10.00%	7.22%	5.00% – 10.00%	7.63%
Los Angeles	5.00% – 11.00%	8.04%	3.00% – 9.00%	5.81%	6.00% – 9.00%	7.32%
Manhattan	6.00% – 9.00%	7.66%	3.00% – 8.00%	5.55%	5.75% – 9.25%	6.81%
Pacific Northwest	5.00% – 11.00%	8.63%	5.00% – 11.00%	7.31%	6.25% – 9.00%	7.53%
Philadelphia	8.00% – 10.50%	9.00%	5.00% – 9.00%	7.34%	7.75% – 9.50%	8.44%
Phoenix	5.00% – 8.25%	7.58%	4.00% – 8.50%	6.55%	6.70% – 9.00%	7.35%
San Diego	5.60% – 10.00%	7.96%	4.50% – 8.00%	5.99%	5.50% – 7.75%	6.72%
San Francisco	5.00% – 12.00%	7.48%	4.50% – 9.00%	5.83%	5.00% – 9.00%	6.64%
Southeast Florida	6.00% – 11.00%	8.25%	6.00% – 8.50%	7.15%	7.50% – 8.50%	7.75%
Washington, DC	6.00% – 9.50%	7.48%	5.00% – 8.00%	6.16%	5.00% – 9.00%	6.89%

	Discount Rate		Overall Capitalization Rate		Residual Cap Rate	
SUBURBS OF:	Range	Average	Range	Average	Range	Average
Atlanta	7.50% – 10.00%	8.50%	5.80% – 9.00%	7.13%	7.00% – 8.75%	7.69%
Boston	6.00% – 13.00%	8.97%	6.50% – 10.25%	7.89%	7.00% – 10.50%	8.27%
Charlotte	7.00% – 10.00%	8.50%	6.00% – 9.00%	7.40%	7.00% – 9.00%	7.85%
Chicago	7.00% – 11.00%	8.58%	5.70% – 9.50%	7.49%	7.00% – 10.50%	8.05%
Dallas	8.00% – 9.00%	8.45%	6.50% – 8.50%	7.67%	7.25% – 9.00%	8.05%
Denver	6.00% – 10.00%	8.48%	5.50% – 7.75%	6.70%	6.50% – 8.90%	7.56%
Houston	7.50% – 9.00%	8.34%	5.50% – 10.00%	7.34%	6.00% – 10.00%	7.85%
Los Angeles	5.00% – 12.00%	8.44%	3.00% – 9.00%	6.14%	6.00% – 9.00%	7.33%
Northern Virginia	6.00% – 11.00%	8.11%	5.00% – 9.00%	6.83%	6.50% – 9.50%	7.61%
Pacific Northwest	5.00% – 11.50%	8.50%	5.00% – 11.00%	7.25%	6.25% – 9.00%	7.63%
Philadelphia	8.50% – 11.00%	9.45%	6.00% – 11.00%	8.30%	8.00% – 10.00%	8.80%
Phoenix	6.00% – 11.00%	8.25%	4.00% – 8.50%	6.59%	6.80% – 8.00%	7.43%
San Diego	6.00% – 10.00%	8.00%	4.50% – 8.00%	6.24%	6.00% – 7.75%	6.96%
San Francisco	5.00% – 9.50%	7.83%	4.50% – 8.25%	6.55%	5.00% – 8.50%	6.91%
Southeast Florida	6.00% – 11.00%	8.52%	5.20% – 10.00%	7.81%	6.50% – 10.50%	8.06%
Suburban Maryland	6.00% – 11.00%	8.20%	5.00% – 9.00%	6.92%	6.00% – 9.50%	7.67%

Source: Korpacz Real Estate Investor Survey®

centage rent. As a result, incomes and property values should decline.

On the other hand, the national warehouse market is expected to experience the lowest average overall cap rate increase of the Survey's eight national markets over the next six months. Due to favorable supply-demand fundamentals and the ability to better start and stop additions to supply, the national warehouse market is not expected to see significant downward shifts in values as investors reprice risk. This sector's expected increase in cap rates ranges up to 75 basis points and averages just 25 basis points.

For the individual office markets, the average forecasted increase in overall cap rates is 31.9 basis points over the next six months. The Houston office market is expected to realize the highest average increase at 79.2 basis points, while the Washington, DC office market is expected to realize the lowest average increase at 16.7 basis points.

Washington, DC remains one of the tightest office markets in the country and performed extremely well during the last downturn. Even though it won't fully escape the problems associated with a slowdown in the economy and tighter debt markets, its troubles will likely be less severe and short lived.

Table LOR-1

OVERALL CAP RATE SHIFTS

Basis Point Changes

Lodging Segment	1Q03 to 1Q08	1Q05 to 1Q08	1Q07 to 1Q08
Full-Service	– 231	– 114	– 41
Economy/ Limited-Service	– 248	– 209	– 9
Luxury/ Upper-Upscale	– 220	–120	– 6
Extended-Stay	– 58	– 85	0

Source: Korpacz Real Estate Investor Survey®

Lodging Overall Cap Rates

Overall cap rates for hotel assets have declined significantly over the past five years. In the first quarter of 2003, the average OAR was 10.64% in the full-service segment, 12.06% in the economy/limited-service segment, 9.70% in the luxury/upper-upscale segment, and 11.33% in the extended-stay segment. These averages are 58 to 248 basis points higher than this quarter's averages (see Table LOR-1). Like other property types, however, the rate of decline has slowed over recent years. Since the lodging industry is usually quick to feel the impact of an economic slowdown, investors expect these rates to tick upward over the near term. ❖

Exhibit 4

OVERALL CAPITALIZATION RATE FORECAST

First Quarter 2008

MARKET	CURRENT OAR AVERAGE	CHANGE OVER NEXT 6 MONTHS* (BASIS POINTS) RANGE	AVERAGE
National Regional Mall	6.68%	25 – 100	75.0
National Power Center	7.13%	0 – 75	37.5
National Strip Shopping Center	7.28%	25 – 75	41.7
National CBD Office	6.63%	0 – 75	28.1
National Suburban Office	7.13%	0 – 100	42.5
Atlanta Office	7.08%	25 – 50	37.5
Boston Office	7.34%	25 – 25	25.0
Charlotte Office	7.27%	0 – 30	18.3
Chicago Office	7.00%	0 – 50	30.3
Dallas Office	7.95%	25 – 50	37.5
Denver Office	6.63%	0 – 50	25.0
Houston Office	7.25%	0 – 200	79.2
Los Angeles Office	6.16%	0 – 50	20.8
Manhattan Office	5.55%	25 – 25	25.0
Northern Virginia Office	6.83%	50 – 50	50.0
Pacific Northwest Office	7.81%	0 – 50	25.0
Philadelphia Office	8.15%	_a	_a
Phoenix Office	6.55%	0 – 25	16.6
San Diego Office	6.08%	_a	_a
San Francisco Office	6.11%	25 – 50	28.1
Southeast Florida Office	7.80%	25 – 50	37.5
Suburban Maryland Office	6.92%	25 – 50	37.5
Washington, DC Office	6.16%	0 – 25	16.7
National Flex/R&D Market	7.47%	25 – 75	45.8
National Warehouse Market	6.47%	0 – 75	25.3
National Apartment Market	5.79%	0 – 100	45.8
Simple Average	6.89%	13 – 63	35.5

*All changes are positive unless enclosed in parentheses

(a) An insufficient number of responses were reported for this market.

Source: Korpacz Real Estate Investor Survey®

Valuation Issues

Replacement Reserves

Incorporating an appropriate reserve for the replacement of building components during a holding period plays an important role in accurately forecasting the real cash return potential of an acquisition. The ranges and averages of current and year-ago assumptions for replacement reserves are shown in Exhibit 5. These figures do not include estimates for larger capital costs for items that are replaced only a few times during the life of a property and that are usually accounted for separately as capital improvements. The Investor Survey Response tables in the back of this issue show a sampling of specific replacement reserve assumptions for each commercial market surveyed.

Over the past year, the average replacement reserve increased in six markets, decreased in four markets, and was unchanged in 12 of them. The largest upward shift occurred in the national regional mall market, where the average increased 13.04% to $0.26 per square foot. The largest decrease occurred in the Pacific Northwest office market, where the average declined to $0.16 per square foot.

Table VI-1
PARTICIPANTS USING CONCESSIONS
Office Markets Only

Quarter	Average
1Q08	79.26%
1Q07	85.09%
1Q06	88.33%
1Q05	91.28%
1Q04	89.65%
1Q03	81.04%
1Q02	58.94%
1Q01	37.27%

Source: Korpacz Real Estate Investor Survey®

Management Fees

Management fees included in cash flow projections typically constitute either an in-house related duty expensed to an affiliated company or a third-party cost paid to an outside management company. Regardless of how they are contracted, management fees are generally included as an "above-the-line" operating expense and are deducted from revenue in order to derive net operating income (NOI). The ranges and averages of current and year-ago assumptions for management fees are detailed in Exhibit 6. These management fees are expressed as a percentage of effective gross revenue (EGR).

Leasing Commissions

Although leasing commissions may be

Exhibit 5
REPLACEMENT RESERVES PER SQUARE FOOT
First Quarter 2008

	Current Quarter		Year Ago		
Market	Range	Average	Range	Average	Change
National Regional Mall	$0.15 – $0.50	$0.26	$0.10 – $0.50	$0.23	+ 13.04%
National Power Center	$0.10 – $0.40	$0.17	$0.10 – $0.40	$0.17	0.00%
National Strip Shopping Center	$0.10 – $0.50	$0.20	$0.10 – $0.50	$0.20	0.00%
National CBD Office	$0.10 – $0.75	$0.23	$0.10 – $0.75	$0.22	+ 4.55%
National Suburban Office	$0.10 – $1.00	$0.29	$0.10 – $1.00	$0.29	0.00%
Atlanta Office	$0.10 – $0.30	$0.20	$0.10 – $0.50	$0.22	– 9.09%
Boston Office	$0.10 – $0.35	$0.21	$0.10 – $0.35	$0.21	0.00%
Charlotte Office	$0.15 – $0.25	$0.17			
Chicago Office	$0.10 – $0.50	$0.25	$0.05 – $0.50	$0.25	0.00%
Dallas Office	$0.10 – $0.35	$0.20	$0.10 – $0.35	$0.20	0.00%
Denver Office	$0.10 – $0.25	$0.18			
Houston Office	$0.10 – $0.35	$0.19	$0.10 – $0.35	$0.19	0.00%
Los Angeles Office	$0.10 – $1.00	$0.27	$0.10 – $1.00	$0.26	+ 3.85%
Manhattan Office	$0.10 – $1.00	$0.35	$0.10 – $1.00	$0.35	0.00%
Northern Virginia Office	$0.10 – $1.00	$0.24	$0.10 – $1.00	$0.24	0.00%
Pacific Northwest Office	$0.10 – $0.20	$0.16	$0.10 – $0.50	$0.20	– 20.00%
Philadelphia Office	$0.10 – $1.00	$0.27	$0.10 – $1.00	$0.28	– 3.57%
Phoenix Office	$0.10 – $0.25	$0.18			
San Diego Office	$0.10 – $0.25	$0.19			
San Francisco Office	$0.10 – $1.00	$0.19	$0.10 – $1.00	$0.23	– 17.39%
Southeast Florida Office	$0.10 – $0.50	$0.22	$0.10 – $0.50	$0.22	0.00%
Suburban Maryland Office	$0.10 – $1.00	$0.28	$0.10 – $1.00	$0.28	0.00%
Washington, DC Office	$0.10 – $1.00	$0.28	$0.10 – $1.00	$0.27	+ 3.70%
National Flex/R&D	$0.05 – $0.35	$0.15	$0.05 – $0.35	$0.15	0.00%
National Warehouse	$0.05 – $0.35	$0.13	$0.05 – $0.35	$0.12	+ 8.33%
National Apartment (per unit)	$100.00 – $600.00	$284.09	$100.00 – $500.00	$279.55	+ 1.62%

Exhibit 6

MANAGEMENT FEES AND LEASING COMMISSIONS

First Quarter 2008

	MANAGEMENT FEES		LEASING COMMISSIONS	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE
National Regional Mall	2.00% – 4.50%	3.36%	_a	_a
National Power Center	2.00% – 5.00%	3.06%	2.00% – 6.00%	4.50%
National Strip Shopping Ctr.	2.50% – 5.00%	3.53%	2.00% – 6.00%	4.45%
National CBD Office	0.50% – 4.00%	2.65%	2.00% – 7.50%	4.60%
National Suburban Office	2.00% – 5.00%	3.04%	2.00% – 8.00%	4.82%
Atlanta Office	2.00% – 4.00%	2.93%	2.00% – 7.00%	4.05%
Boston Office	2.00% – 4.00%	2.81%	_b	_b
Charlotte Office	1.50% – 4.00%	2.60%	_b	_b
Chicago Office	1.50% – 4.00%	2.48%	3.00% – 7.00%	5.50%
Dallas Office	1.25% – 4.00%	2.50%	3.00% – 6.50%	5.38%
Denver Office	2.00% – 3.00%	2.67%	_b	_b
Houston Office	2.00% – 4.00%	2.79%	3.00% – 6.75%	5.54%
Los Angeles Office	2.00% – 3.50%	2.82%	3.00% – 6.00%	4.64%
Manhattan Office	0.50% – 3.50%	1.83%	2.00% – 5.00%	3.75%
Northern Virginia Office	2.00% – 4.00%	2.79%	2.50% – 7.00%	4.43%
Pacific Northwest Office	3.00% – 3.00%	3.00%	3.00% – 6.00%	4.65%
Philadelphia Office	2.50% – 5.00%	3.56%	2.10% – 6.50%	4.40%
Phoenix Office	3.00% – 3.00%	3.00%	3.00% – 6.50%	4.63%
San Diego Office	3.00% – 3.00%	3.00%	3.00% – 6.00%	4.75%
San Francisco Office	1.00% – 5.00%	2.43%	2.50% – 7.50%	5.05%
Southeast Florida Office	2.00% – 5.00%	3.30%	3.00% – 6.50%	4.83%
Suburban Maryland Office	2.00% – 4.00%	2.79%	3.00% – 7.00%	4.70%
Washington, DC Office	1.50% – 4.00%	2.64%	2.50% – 7.00%	4.31%
National Flex/R&D	1.50% – 5.00%	3.22%	3.00% – 9.00%	5.38%
National Warehouse	0.50% – 4.00%	2.60%	0.00% – 8.00%	4.55%
National Apartment	1.00% – 6.00%	3.23%	_a	_a

(a) Most investors include leasing commissions in their management fee.
(b) An insufficient number of responses were reported for this statistic.

placed either above or below the NOI line, most investors consider them a "below-the-line" item. Like management fees, leasing commissions are usually expressed as a percentage of EGR. Since leasing services are typically provided as part of a regional mall's management agreement, separate leasing costs are generally not incurred for this property type. In addition, leasing commissions are normally not included when preparing cash flow analyses for apartment investments. Instead, they are generally included as part of the management expense. The ranges and averages of current assumptions for leasing commissions are detailed in Exhibit 6.

CONCESSIONS

Even though healthy fundamentals in most markets have allowed landlords to reduce their offering of concessions, most still provide some form of inducement to tenants (see Exhibit 7). Currently, about 80.0% of our participants indicate that concessions are common in the office sector. This figure continues to trend downward (see Table VI-1).

As U.S. economic growth slows and the pace of leasing activity declines, the use (and amount) of concessions could increase over the near term. Although inducements vary greatly between individual markets and properties, they typically include free rent and/or an excessive tenant improvement (TI) allowance - an additional amount above the standard TI in a given market. Additional inducements, such as the reimbursement of either moving costs or lease buyouts, are offered on a select basis and typically are awarded to large, creditworthy tenants that will be occupying a significant portion of a property.

At just over five months, the Chicago office market indicated the highest average amount of free rent of all the city-specific office markets in our Survey. This figure reflects its current struggles due to a slow-moving recovery and per-

Table VI-2

INITIAL-YEAR MARKET RENT CHANGE RATES

City-Specific Office Markets Only

Quarter	Average	Change
1Q08	3.92%	+ 12.97%
1Q07	3.47%	+ 42.80%
1Q06	2.43%	+ 56.77%
1Q05	1.55%	+ 72.22%
1Q04	0.90%	+ 11.11%
1Q03	0.81%	– 11.96%
1Q02	0.92%	– 67.61%
1Q01	2.84%	– 8.09%
1Q00	3.09%	– 19.94%
1Q99	3.86%	– 5.86%
1Q98	4.10%	—

Source: Korpacz Real Estate Investor Survey®

sistent additions to supply. At $15.00 per square foot, the Boston office market reported the highest average excessive TI allowance of all the individual office markets surveyed.

In the national warehouse market, the use of concessions has dropped quite a bit over the past year due to a strong landlords' market. Currently, only 53.33% of participants indicate that concessions are prevalent in the warehouse sector.

Market Rent Change Rates

With vacancy rates still very low, initial-year market rent change rate assumptions have increased in many office markets. Table VI-2 traces the first quarter averages for this key assumption from 1998 to 2008 for the individual office markets surveyed during those times.

Due to a slowing U.S. economy, a drop off in tenant demand, and additions to supply, the average initial-year market rent growth rate assumption is likely to trend downward in the coming year. The two office markets that posted the highest average market rent change rates this quarter were Manhattan (6.03%) and San Francisco (7.23%). The two office markets that posted the lowest averages were Philadelphia (2.58%) and Southeast Florida (2.75%).

Exhibit 8

REPLACEMENT RESERVES AND MANAGEMENT FEES (% of Total Revenue)

First Quarter 2008

LODGING SEGMENT	RESERVES FOR REPLACEMENT	MANAGEMENT FEES
FULL-SERVICE		
Range	4.00% – 8.00%	1.00 – 5.00%
Average	4.72%	2.94%
ECONOMY/LIMITED-SERVICE		
Range	4.00% – 5.00%	3.00% – 4.00%
Average	4.33%	3.25%
LUXURY/UPPER-UPSCALE		
Range	4.00% – 7.00%	1.00% – 3.00%
Average	4.61%	2.56%
EXTENDED-STAY		
Range	4.00% – 5.00%	3.00% – 4.50%
Average	4.50%	3.50%

Exhibit 7

CONCESSIONS

First Quarter 2008

	PERCENT USING CONCESSIONS		CURRENT MONTHS OF FREE RENT		CURRENT EXCESSIVE TENANT IMPROVEMENT ALLOWANCE	
	CURRENT	YEAR AGO	RANGE	AVERAGE	HIGH END OF THE RANGE	AVERAGE
Office Market						
National CBD	71.43%	92.31%	0.00 – 12.00	6.00	$20.00	$10.00
National Suburban	70.59%	94.12%	0.00 – 6.00	3.00	15.00	7.50
Atlanta	87.50%	100.00%				
Boston	70.00%	100.00%	0.30 – 4.00	2.15	25.00	15.00
Charlotte						
Chicago	90.91%	90.00%	1.00 – 9.60	5.30	25.00	12.50
Dallas	100.00%	100.00%	0.00 – 6.00	3.00	7.00	6.00
Denver	100.00%		1.00 – 5.00	3.00		
Houston	62.50%	100.00%	0.00 – 2.00	1.00	5.00	5.00
Los Angeles	62.50%	71.43%	1.00 – 2.00	1.50	10.00	7.50
Manhattan	75.00%	75.00%	0.00 – 9.00	4.50		
Northern Virginia	77.78%	77.78%	0.00 – 4.00	2.00	10.00	6.50
Pacific Northwest	100.00%	100.00%	1.00 – 7.00	4.00	25.00	13.50
Philadelphia	83.33%	85.71%	0.00 – 3.50	1.75	15.00	8.50
Phoenix	100.00%		1.00 – 1.00	1.00		
San Diego	100.00%		1.00 – 5.00	3.00		
San Francisco	63.64%	70.00%	1.00 – 6.00	3.50	25.00	12.50
Southeast Florida	85.71%	100.00%	0.50 – 3.00	1.75	20.00	11.00
Suburban Maryland	77.78%	77.78%	0.50 – 3.00	1.75	10.00	10.00
Washington, DC	27.27%	27.27%				
Simple Average	79.26%	85.09%	0.49 – 5.18	2.84	$16.31	$9.65
National Flex/R&D	80.00%	88.89%	1.00 – 5.00	3.00		
National Warehouse	53.33%	73.33%	0.50 – 3.00	3.00		
National Apartment			0.50 – 3.00	1.14		

Lodging Valuation Issues

Replacement Reserves

Replacement reserve assumptions for each hotel segment surveyed appear in Exhibit 8. As a percentage of total revenue, the average replacement reserve ranges from 4.33% to 4.72% and is used for the periodic replacement of building components and furniture, fixtures, and equipment (FF&E) during the life expectancy of the building. These rates have remained relatively unchanged over the past four years.

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

Management Fees

Base management fee assumptions for the lodging industry appear in Exhibit 8. As a percentage of total revenue, average base management fees range from 2.56% to 3.50%. Incentive management fees are included in the Investor Survey Response Tables located in the back of this issue. ❖

Technology News & Trends

Things to Do in a Slower Economy

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

As the credit crisis leaks its way into the commercial real estate industry, and the probability of a recession occurring in 2008 increases on an almost daily basis, many real estate companies are beginning to think about how to better deploy their staff. Over the past few years, many REITs, private equity firms, and CMBS issuers and servicers ramped up their staff in order to meet the demands of a booming economy and a rapid-fire deal environment. Now, with business slowing down and not likely to pick up until 2009, these companies are wondering what to do with excessive staff members in their accounting, asset and portfolio management, and valuation departments. Surprisingly, many real estate companies are not thinking about reducing headcounts. Instead, they are finding creative ways to leverage their highly qualified employees.

Take Stock of Applications

The process of choosing the technologies that support a real estate company is one that never has enough business user input. While the selection of new business applications – such as property management, deal modelling, or asset management – is often given a high priority by management, the day-to-day business of making money always seems to supersede committing resources to internal projects and initiatives. Companies can capitalize on the slower business climate by engaging their key application users to review the effectiveness of their current application suite.

A useful way to assess the adequacy of applications is by forming a steering committee made up of a few "power users," who are charged with collecting feedback on the key business applications used by the company. Any negative feedback collected during this exercise can be analyzed to determine whether there are critical application deficiencies or simply minor issues that require additional application training. Current economic conditions are not the only reason for companies to take another look at their applications. Most of the top real estate vendors, such as MRI, Argus, Resolve, and Yardi, either recently upgraded their application suites or plan to do so in the coming months. If users are unhappy with certain features in their current applications, there is a good chance that these vendors have received similar critiques and have incorporated enhancements into their new versions.

Training

Similar to the process of selecting business applications, training also often takes a back seat during busier times. When business paces are at their highest, employees are often brought on board quickly with minimal application training and the hope that they can learn critical applications "on the job." While this approach is successful in providing employees with rudimentary knowledge for basic functions, it pales in comparison to thorough training of critical applications. Without such intervention, employees may never learn about features that can make their job tasks more efficient. Furthermore, it is never too late to offer refresher training on critical business applications. "Lunch-and-learn" sessions are a great way to provide abbreviated training on a specific feature of an application. Plus, the session can be taught by a power user of the application – as opposed to the IT department – who can speak to the functionality of the application from the standpoint of an end user.

Taking Care of Deferred Maintenance

As shown in the accompany things-to-do checklist, now is not the time to stay idle. Short-term business slowdowns are a great time to perform some much-needed deferred maintenance on real estate applications. Companies choosing to maintain their headcount during these slower times are leveraging the knowledge of their employees to improve the general understanding of applications, better document policies and controls, and reassess the usefulness of applications. And with any luck, this slowdown will be just as some economists are predicting: short and sweet. ❖

Things-To-Do Checklist	
✓	Reassess critical application functionality
✓	Perform refresher training on applications
✓	Spruce up policies, procedures, and control documentation
✓	Clean up company contact and address lists

Economic News

SHAKING THINGS UP

By Steven P. Laposa, Ph.D., Director
Global Strategic Real Estate Research Group – PricewaterhouseCoopers LLP

WOULD YOU EVER WANT TO JOIN A CLUB THAT WOULD HAVE YOU AS A MEMBER? This simple question is a paraphrase of the famous Groucho Marx comment. It is also an important question as real estate investors analyze current economic and real estate cycles in order to strategically prepare for the future.

As 2008 unfolds, which economic club do you want to join: (1) the recession-imminent club; (2) the pregnant-pause club – as one economist recently described current conditions; or (3) the wishful-thinking club (a.k.a. the club for let-me-first-see-two-quarters-of-negative-GDP-growth skeptics).

BELIEF SYSTEMS

Several economists warn that a recession already started in December 2007. First, employment numbers were negative in January and February 2008, while chain store sales growth in January 2008 was at the lowest level since 1970. In addition, home prices continued to decline in most markets during the latter part of 2007, according to both the S&P/Case-Shiller Home Price Index and the National Association of Realtors.

A plethora of other economic news is equally negative, including Congress' recent approval of a $168.0-billion stimulus packaged aimed at jump-starting the economy, the U.S. dollar's continual freefall, the domination of the housing market's quagmire in the national and local media, and the Federal Reserves' dropping of the federal fund rate from 5.25% (August 2007) to 3.00% (January 2008). The cup is not even half full anymore given such news and Federal Reserve chairman Ben Bernanke's promise of additional cuts.

SHAKING THINGS UP

If the latest economic news isn't enough to dampen whatever optimism remains, the recent investment banking reports on both sides of the Atlantic that estimate commercial real estate values will significantly and drastically fall in 2008 – forecasting declines of 20.0% or higher – further diminish confidence. Such reports capture the attention of newsrooms and quickly filter to the industry. Has the economic prognosis for 2008 infected analysts such that commercial real estate values are really at such risk? Theoretically, it is possible for commercial real estate values to drop to the degree forecasted by these analysts. Practically, it may not be.

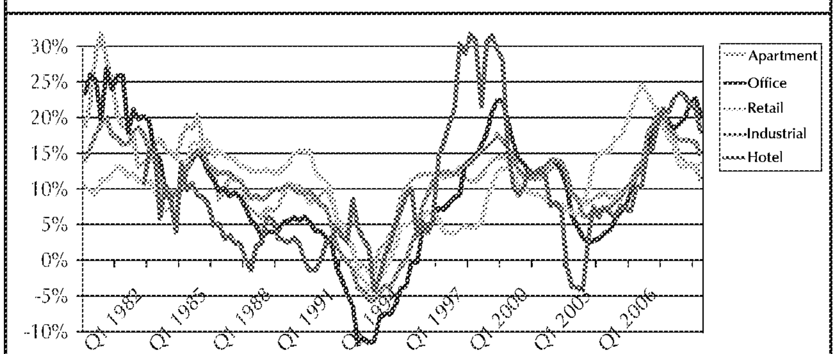
Exhibit E-1 shows total annual returns for each property sector, according to the National Council of Real Estate Investment Fiduciaries (NCREIF). Total returns are clearly cyclical. There are periods of negative returns during the recession of the early 1990s and a severe drop for hotels in the early part of this decade. Yet, at no time over the horizon did NCREIF total returns remotely approach -20.0%.

Using the same methodology of year-over-year changes in total returns and monthly data from the National Association of Real Estate Investment Trusts (NAREIT), large declines in REIT total returns occurred in the 1970s, October 1990 (-24.3%), and February 1999 (-22.5%). Although REIT total returns were -17.8% for 2007, historical patterns indicate a low probability for continued negative returns for 2008.

FINAL THOUGHT

Before deciding which club to join, it is important to remember that the relationship between economics and real estate is not always clear cut. Both are cyclical and need to be looked at jointly, as well as independently, especially during fragile times of economic uncertainty.

Exhibit E-1
ANNUALIZED RATE COMPARISON
1Q1979 to 4Q2007



Source: NCREIF, BEA, PricewaterhouseCoopers LLP

National Regional Mall Market

IT APPEARS THAT HIGHER GASOLINE PRICES, MOUNTING LEVELS OF PERSONAL DEBT, AND GROWING CONCERNS ABOUT THE SLUGGISH U.S. ECONOMY ARE TAKING THEIR TOLL ON CONSUMERS. "Aggressive consumer spending is a thing of the past, and many retailers are downwardly adjusting their retail sales projections for the near term," comments a participant. Overall, comparable same-store retail sales posted a 0.10% year-over-year decrease in December 2007, according to the Bank of Tokyo-Mitsubishi UFJ. By comparison, year-over-year growth was 3.8% in the prior month and 3.1% a year earlier.

On an annual basis, same-store retail sales increased 2.4% in 2007, much lower than that reported in 2006 (3.8%), 2005 (3.9%), and 2004 (4.0%). Stores that posted some of the largest year-over-year declines in retail sales in December 2007 were Target (-5.0%), Macy's (-7.9%), and Bon-Ton (-11.3%). By comparison, gains were reported by Costco (+5.0%), Neiman Marcus (+2.9%), and TJ Maxx (+3.0%). Unfortunately, an upturn in retail sales is not expected anytime soon. Personal bankruptcy filings are rising, while consumer confidence is declining.

In 2007, personal bankruptcy filings totaled more than 800,000 – a 40.0% jump from 2006, according to the National Bankruptcy Research Center. At the same time, the Consumer Confidence Index fell to 87.9 in January 2008 from 90.6 in December 2007. January's level is a tick above the lowest in the past 12 months – 87.8 in November 2007 – and well below the 110.2 recorded in January 2007.

To offset a slowdown in retail sales, some retailers are reducing expansion plans and/or closing stores. In late 2007, Blockbuster announced plans to close 282 stores, while Foot Locker announced plans to close 250 stores. Other well-known retailers, such as Macy's, Rent-A-Center, and Pacific Sunwear, have also announced plans to reduce store counts, while two retailers – CompUSA and Discovery Channel – have announced plans to close all of their stores. Store closings, however, are a "normal" occurrence in the retail sector and do not appear to bother retail landlords too much. "Tenants are always in a state of flux in the retail sector. Even during strong economic times, some retailers struggle and present problems to landlords," notes a participant, who believes that the current pace of store closings is nothing to be alarmed at.

What is alarming to many regional mall investors, however, is the degree to which the current credit market turmoil is negatively impacting regional mall valuations. "I think the market is in for a massive rise in cap rates over the next six to 24 months," attests an investor. "Cap rates will increase 50 basis points over the next six months," claims another. Although there has been little transactional information available to support such predictions, the widely held belief is that marginal properties will be difficult to sell due to a flight to quality and the anticipation of higher cap rates. ❖

Table 1
NATIONAL REGIONAL MALL MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 11.00%
Average	8.72%	8.53%	8.64%
Change (Basis Points)		+ 19	+ 8
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 9.50%	5.00% – 9.50%	5.00% – 9.50%
Average	6.68%	6.68%	6.89%
Change (Basis Points)		0	– 21
RESIDUAL CAP RATE			
Range	6.00% – 10.00%	6.00% – 11.00%	6.25% – 10.00%
Average	7.38%	7.94%	7.79%
Change (Basis Points)		– 56	– 41
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 3.90%	1.20% – 5.00%	1.20% – 5.00%
Average	2.63%	2.94%	2.94%
Change (Basis Points)		– 31	– 31
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[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	7.14	7.57	7.19
Change (%)		– 5.68	– 0.70

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

National Power Center Market

DUE TO LACKLUSTER RETAIL SALES GROWTH AND WEAKENED CONSUMER SPENDING HABITS, INVESTORS LOOKING TO ACQUIRE POWER CENTERS ARE DOING SO WITH MUCH MORE SCRUTINY AND MORE CONSERVATIVE UNDERWRITING. "We are not aggressively pursing any power center deals right now even though big-box retailers still dominate the retail sector," shares a participant. According to the Bank of Tokyo-Mitsubishi UFJ, comparable same-store retail sales declined 0.10% on a year-over-year basis in December 2007. A few big-box retailers, however, posted strong gains. Costco, for example, reported a year-over-year increase of 5.0% in December 2007, while BJ's Wholesale Club posted an increase of 3.0%.

While the year-over-year retail sales growth figures for Costco and BJ's are positive and above the overall average decline reported for December 2007, they sit well below the performances of prior months (see Table NPC-1). Disappointing retail sales growth is not keeping all investors at bay. In one recent transaction, Dunhill Partners recently acquired the 589,201-square-foot Fountains on the Lake power center located in the Houston suburb of Stafford for roughly $174.00 per square foot. This asset is anchored by Bed Bath & Beyond, Borders, Office Max, SteinMart, and Sports Authority and was 98.6% leased at the time of sale. In addition, this transaction included excess land that will allow the new owner to expand by as much as 50,000 square feet.

In another trade, De Rito Partners Development acquired the 1.06-million-square-foot Scottsdale Pavilions located in Scottsdale, Arizona for about $83.00 per square foot. Tenants at this center, which was 90.0% leased at the time of sale, include Circuit City, Michael's, Target, The Home Depot, and Petco. The new owner plans to invest at least $25.0 million in order to expand the center by 150,000 square feet and renovate the existing improvements.

Although overall cap rates (OARs) were not disclosed for these two deals, our Survey participants indicate that OARs vary based on a power center's percentage of big-box space. Specifically, the average OAR is 7.13% for properties with 100.0% big-box space. By comparison, it is 7.27% for properties where 85.0% of the gross leasable area (GLA) is occupied by big-box tenants and 7.38% for properties where 75.0% of the GLA is occupied by such tenants. Discount rates (IRRs) also vary, averaging 8.25% for 100.0% big-box space, 8.42% for properties with 85.0% big-box space, and 8.90% for properties with 75.0% big-box space. ✧

Table NPC-1
YEAR-OVER-YEAR, SAME-STORE SALES GROWTH
Select National Retailers

Retailer	Dec. 2007	Nov. 2007	Oct. 2007
Costco	5.0%	6.0%	7.0%
BJ's	3.0%	7.7%	4.8%
Target	– 5.0%	10.8%	4.1%
Wal-Mart	2.4%	1.5%	0.4%

Source: Bank of Tokyo-Mitsubishi UFJ, Ltd.

Table 2
NATIONAL POWER CENTER MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.75% – 11.50%	6.75% – 11.50%	6.75% – 11.50%
Average	8.23%	8.23%	8.63%
Change (Basis Points)		0	– 40
OVERALL CAP RATE (OAR)[a]			
Range	5.75% – 9.00%	5.50% – 9.00%	5.50% – 9.00%
Average	7.13%	7.13%	7.28%
Change (Basis Points)		0	– 15
RESIDUAL CAP RATE			
Range	6.50% – 9.50%	6.40% – 9.50%	6.50% – 9.50%
Average	7.55%	7.45%	7.77%
Change (Basis Points)		+ 10	– 22
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 4.00%	0.00% – 4.00%	0.00% – 5.00%
Average	2.88%	2.88%	3.07%
Change (Basis Points)		0	– 19
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[c]			
Range	3.00 – 9.00	3.00 – 9.00	3.00 – 9.00
Average	5.56	5.56	5.69
Change (%)		0	– 2.28

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

National Strip Shopping Center Market

CONSTANT ADDITIONS TO SUPPLY AND A SLOWDOWN IN TENANT EXPANSIONS CONTINUED TO INCREASE THE VACANCY RATE FOR COMMUNITY/NEIGHBORHOOD SHOPPING CENTERS THROUGHOUT 2007. "Developers who broke ground over the past six months without strong pre-leasing activity will be stuck with some empty space after they've completed their projects," predicts a participant. According to Reis, the vacancy rate for community/neighborhood centers reached 7.50% in 2007, the highest vacancy rate for this sector over the past five years (see Table SSC-1).

This sector's increase in vacancy is mainly due to continuous additions to supply. In the fourth quarter of 2007, approximately 12.0 million square feet were completed in the U.S. community/neighborhood shopping center sector. This figure represents the highest quarterly total over the past three years. When combined with the current unwillingness of many strip center tenants to expand, sign new leases, and/or commit to long-term renewal agreements, additional increases in vacancy are likely in 2008. In fact, Reis forecasts this sector's vacancy rate to reach 8.0% in 2008 – the highest level in 13 years.

Fortunately for many investors, not all sections of the country are feeling the impact of too much construction and too little demand in the retail sector. In certain infill areas, like Suburban Maryland and Northern Virginia, for example, vacancy rates are extremely low – 3.4% and 2.6%, respectively, in the fourth quarter of 2007, according to Reis.

Other tight markets include Orange County, Los Angeles, Seattle, San Francisco, and San Diego. "Many West Coast retail markets are doing very well because of strong population growth," states a participant.

Between 2000 and 2006, the western region of the country dominated population growth, experiencing an increase of 9.74%, based on data from the U.S. Census Bureau. By comparison, population for the entire United States grew by 6.39%. With an increase of 8.83%, the southern region of the country reported the second strongest population growth during that time. Much of this growth occurred in Georgia, where population grew by 14.4% between 2000 and 2006. As population has soared in Georgia, particularly in Atlanta, demand for retail goods and services has also surged. It is not surprising that Atlanta has become a top pick for institutional investors looking to acquire strip shopping center assets. ◆

Table 3
NATIONAL STRIP SHOPPING CENTER MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 10.00%	6.00% – 10.00%	6.00% – 10.00%
Average	8.34%	8.34%	8.39%
Change (Basis Points)		0	– 5
OVERALL CAP RATE (OAR)[a]			
Range	5.80% – 9.00%	5.80% – 9.00%	5.80% – 9.00%
Average	7.28%	7.24%	7.38%
Change (Basis Points)		+ 4	– 10
RESIDUAL CAP RATE			
Range	6.00% – 10.00%	6.00% – 10.00%	6.00% – 10.00%
Average	7.78%	7.75%	7.95%
Change (Basis Points)		+ 3	– 17
MARKET RENT CHANGE RATE[b]			
Range	1.20% – 3.90%	1.20% – 3.90%	1.20% – 4.00%
Average	2.86%	2.86%	2.81%
Change (Basis Points)		0	+ 5
EXPENSE CHANGE RATE[b]			
Range	3.00% – 4.00%	3.00% – 4.00%	3.00% – 4.00%
Average	3.10%	3.10%	3.10%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	2.00 – 12.00
Average	6.10	6.25	6.10
Change (%)		– 2.40	0

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

Table SSC-1
VACANCY RATE TRENDS
U.S. Community/Neighborhood Centers

Year	Average (Rounded)	Y-O-Y Change (Basis Points)
2007	7.50%	+ 40
2006	7.10%	+30
2005	6.80%	– 20
2004	7.00%	+20
2003	7.20%	—

Source: Reis, Inc.

National CBD Office Market

EVEN THOUGH MANY CBD OFFICE MARKETS ACROSS THE COUNTRY CONTINUE TO BOAST STRONG OCCUPANCY LEVELS AND RISING RENTAL RATES, THE RECENTLY RELEASED U.S. EMPLOYMENT FIGURES ARE MAKING MANY LANDLORDS A BIT ANTSY. "You get a sense that an increasing number of CBD markets are slowly starting to shift in favor of tenants," notes a participant. In January 2008, U.S. employment fell by 22,000 jobs, a large departure from the expectation of a gain of 75,000 to 100,000 jobs, according to Economy.com. Although the private sector managed to gain 1,000 jobs in January 2008, many office-using employment sectors, like financial activities and professional-and-business services, shed jobs.

While it remains to be seen if a job-loss trend is emerging, many investors acknowledge that absorption levels have declined in many major CBD markets over the past several months. As a whole, overall absorption totaled 11.6 million square feet for the 31 CBD markets tracked by Cushman & Wakefield in 2007. By comparison, overall absorption totaled 22.3 million square feet in 2006 and 15.2 million square feet in 2005. Individual CBDs that reported sharp declines in overall absorption in 2007 included Chicago, Midtown and Downtown Manhattan, Houston, and Washington, DC. In contrast, individual CBDs that reported strong gains in overall absorption in 2007 included Los Angeles, Atlanta, Bellevue, and Baltimore.

Despite year-over-year declines in absorption, overall absorption remains positive for many CBD markets. As a result, many landlords have been able to hold rental rates at current levels. In fact, increases in rental rates are still occurring in certain CBD markets, albeit at a much slower pace. This quarter, the average market rent change rate for this market held relatively steady at 4.05% – one of the highest rates ever recorded for this market in our Survey (see Table CBD-1). As tenants start to gain the upper hand in terms of lease negotiations, sharp declines in rental rate growth are not anticipated. Instead, landlords are likely to be more aggressive with respect to inducements while keeping face rental rates high. "Before landlords start to drop rental rates, they'll offer more free rent and additional work-letter dollars," attests a participant. ❖

Table CBD-1
MARKET RENT CHANGE RATES
National CBD Office Market

Quarter	Average	Change (Basis Points)
1Q08	4.05%	+ 2
4Q07	4.03%	– 7
3Q07	4.10%	+ 18
2Q07	3.92%	+ 38
1Q07	3.54%	+ 29
4Q06	3.25%	+ 21
3Q06	3.04%	+ 16
2Q06	2.88%	+ 52
1Q06	2.36%	+ 26
4Q05	2.10%	+ 57
3Q05	1.53%	+ 35
2Q05	1.18%	– 3
1Q05	1.21%	—

Source: Korpacz Real Estate Investor Survey®

Table 4
NATIONAL CBD OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 10.00%	6.00% – 10.00%	6.00% – 10.00%
Average	7.91%	7.84%	8.17%
Change (Basis Points)		+ 7	– 26
OVERALL CAP RATE (OAR)[a]			
Range	4.50% – 9.00%	4.00% – 9.00%	4.50% – 9.00%
Average	6.63%	6.64%	6.87%
Change (Basis Points)		– 1	– 24
RESIDUAL CAP RATE			
Range	5.75% – 9.50%	5.75% – 9.50%	5.75% – 10.00%
Average	7.29%	7.41%	7.78%
Change (Basis Points)		– 12	– 49
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 10.00%	0.00% – 10.00%	0.00% – 8.00%
Average	4.05%	4.03%	3.54%
Change (Basis Points)		+ 2	+ 51
EXPENSE CHANGE RATE[b]			
Range	1.50% – 4.00%	1.50% – 4.00%	1.50% – 4.00%
Average	2.96%	2.84%	2.87%
Change (Basis Points)		+ 12	+ 9
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	2.00 – 12.00
Average	6.85	6.86	7.05
Change (%)		– 0.15	– 2.84

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

National Suburban Office Market

THE PACE OF LEASING ACTIVITY HAS NOTICEABLY DECELERATED THROUGHOUT MUCH OF THE NATIONAL SUBURBAN OFFICE MARKET DUE TO A SLUGGISH U.S. ECONOMY. "During times of economic uncertainty, companies look for ways to save money and put expansion plans or relocation plans on hold," comments a participant. At the same time, however, developers are forging ahead with new office projects that continue to increase the level of supply in many markets. "Supply increases in suburban markets are a significant concern, particularly given a slowing economic environment," states another participant.

At the end of 2007, construction activity totaled 51.7 million square feet in the national suburban office market, according to Cushman & Wakefield. Approximately 43.9 million square feet (85.0%) were considered speculative with only about 53.0% of the space preleased.

Office space under construction in the suburbs has increased dramatically over the past four years (see Table NSO-1). Moreover, speculative space has greatly increased, growing from 60.0% to 85.0% of the total. Suburban office markets posting some of the highest additions to supply in the fourth quarter of 2007 included Phoenix (4.0 million square feet), Northern Virginia (3.2 million square feet), and Dallas (2.7 million square feet).

Since tenant demand over the near term is expected to remain sluggish in these suburban office markets, as well as many others, our participants expect property values (on average) to increase minimally in the national suburban office market over the next 12 months. Overall, an average value increase of 0.27% is expected. "I'm worried about the demand side of the equation and what a drop off in demand will do to values," reveals a participant. While some participants expect property values to decline as much as 15.0%, others expect them to rise as much as 5.0%. Last year, the average value change was 1.55% – a high of 5.0% and a low of -15.0%.

When combined with a slowdown in tenant demand and increases in supply, a weaker appreciation outlook will likely cause investors to search for opportunities in the top-performing suburban office markets. "We are focusing on buying well-leased assets in the best markets since they tend to hold up better against economic adversity in both the long and short run," shares a participant. Specific suburban locations targeted by participants include Seattle, Los Angeles, Long Island, San Francisco, and Boston.

Table 5

NATIONAL SUBURBAN OFFICE MARKET

First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 12.50%	7.00% – 12.50%	7.00% – 12.50%
Average	8.74%	8.75%	9.10%
Change (Basis Points)		– 1	– 36
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 10.50%	5.00% – 10.50%	5.00% – 10.50%
Average	7.13%	7.20%	7.65%
Change (Basis Points)		– 7	– 52
RESIDUAL CAP RATE			
Range	6.00% – 11.00%	6.00% – 11.00%	6.25% – 11.00%
Average	7.90%	7.96%	8.32%
Change (Basis Points)		– 6	– 42
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 8.00%	0.00% – 8.00%	0.00% – 7.00%
Average	3.14%	3.11%	2.78%
Change (Basis Points)		+ 3	+ 36
EXPENSE CHANGE RATE[b]			
Range	3.00% – 4.00%	2.50% – 4.00%	2.50% – 4.00%
Average	3.09%	3.07%	3.05%
Change (Basis Points)		+ 2	+ 4
AVERAGE MARKETING TIME[c]			
Range	2.00 – 9.00	2.00 – 9.00	2.00 – 9.00
Average	6.08	6.14	6.07
Change (%)		– 0.98	+ 0.16

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

Table NSO-1

CONSTRUCTION ACTIVITY

National Suburban Office Market

Quarter	Total (000s)	% of Speculative Space
4Q07	51,700	85.0%
4Q06	42,700	85.0%
4Q05	25,500	80.0%
4Q04	17,300	71.0%
4Q03	16,500	60.0%

Source: Cushman & Wakefield

Atlanta Office Market

TENANTS SEEKING OFFICE SPACE IN THE ATLANTA OFFICE MARKET HAVE AN EXPANDING ARRAY OF OPTIONS TO CHOOSE FROM AS A RESULT OF OFFICE CLOSINGS AND DOWNSIZINGS OF MORTGAGE-RELATED FIRMS, THE CONSOLIDATION OF SPACE FROM THE AT&T/BELLSOUTH MERGER, AND THE 5.0 MILLION SQUARE FEET OF NEW OFFICE INVENTORY ENTERING THE MARKET OVER THE NEXT TWO YEARS. At the same time, landlords in the market are working to secure leases nearing expiration, back-fill sublease space left by relocations to new buildings, and/or protect their assets from further corporate downsizings in an uncertain economy.

Further contributing to the favorable posture of tenants in this market is a Class-A vacancy rate of 24.8% in the central business district (CBD) and 14.6% in the suburbs, as reported by Cushman & Wakefield (C&W) for year-end 2007. The Atlanta office market had the highest Class-A CBD vacancy rate of the 31 CBD markets tracked by C&W in the fourth quarter of 2007 and is a sharp contrast to the national Class-A vacancy rate of 8.7%. Among the suburban Class-A markets, Atlanta is positioned in the bottom third of the 41 suburban markets tracked by C&W and is just above the U.S. suburban Class-A vacancy of 13.3%. Atlanta's suburban vacancy rate is likely to swell in the near term due to the 4.5 million square feet of new office space slated for delivery in 2008 and 2009.

Despite a slowdown in job growth, the Atlanta office market ended 2007 with 2.54 million square feet of Class-A absorption, up from 1.80 million square feet in 2006, according to C&W. "Atlanta tends to lag the nation, which in the case of a slowdown is a good thing," remarks a participant. The Georgia State Economic Forecasting Center estimates total annual nonagricultural employment growth to slow to 1.8% in 2008, compared with 2.0% in 2007. "We are most concerned about the impact of negative job growth on office space absorption," reveals a participant.

Transaction activity has steadily dissipated since a peak of nearly $2.4 billion in the third quarter of 2006. Office building sales in Atlanta totaled $700.0 million in the fourth quarter of 2007, according to Real Capital Analytics, Inc. Further, the majority of the fourth quarter's transactions involved suburban assets, with an average sale price of approximately $200.00 per square foot.

Two large office sales that closed in the fourth quarter of 2007 included Northpark Town Center in the Central Perimeter submarket and Midtown I and II in the urban Midtown submarket. A joint venture between AEW Capital and the Bank of Ireland paid $315.0 million for Northpark Town Center. The Midtown deal was a $242.0-million sale-leaseback agreement between Kan Am and AT&T/Bellsouth, which fully occupies the asset. Since sales activity has trended downward in Atlanta, the average overall cap rate has turned upward for the first time since 2003, increasing three basis points to 7.08% for the first quarter of 2008. ❖

Table 6
ATLANTA OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50% – 10.00%	7.50% – 10.00%	6.75% – 11.00%
Average	8.52%	8.48%	8.73%
Change (Basis Points)		+ 4	– 21
OVERALL CAP RATE (OAR)[a]			
Range	5.25% – 9.00%	5.25% – 9.00%	5.00% – 9.00%
Average	7.08%	7.05%	7.38%
Change (Basis Points)		+ 3	– 30
RESIDUAL CAP RATE			
Range	6.50% – 8.75%	6.50% – 8.75%	7.00% – 9.00%
Average	7.63%	7.61%	8.08%
Change (Basis Points)		+ 2	– 45
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 8.00%	0.00% – 8.00%	0.00% – 6.00%
Average	3.25%	3.25%	2.94%
Change (Basis Points)		0	+ 31
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.81%	2.81%	2.81%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	1.00 – 9.00	1.00 – 9.00	1.00 – 9.00
Average	5.50	5.50	5.58
Change (%)		0	– 1.43

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

Boston Office Market

AFTER EXPERIENCING STEADY ECONOMIC GROWTH OVER THE PAST FEW YEARS, THE DOWNTOWN BOSTON OFFICE MARKET RECORDED ITS LOWEST OVERALL VACANCY RATE IN SEVEN YEARS IN THE FOURTH QUARTER OF 2007. At the same time, average asking rental rates in the downtown area increased for the eleventh consecutive quarter, moving from $50.99 per square foot in the third quarter of 2007 to $53.87 per square foot at year-end 2007, according to CB Richard Ellis. As this market feels the impact of a slowdown in the national economy, some investors speculate that rental rates have peaked.

"Rental rates may move up a bit over the next few months, but we don't expect to see strong gains like we have in the past," comments a participant. Supporting this notion is the recent decline in this market's average initial-year market rent change rate, which dipped 22 basis points this quarter to reach 3.56%. Of the 18 individual office markets included in our Survey, 14 of them reported declines in their average initial-year market rent change rate this quarter. The downward shift for Boston's office market was the fifth lowest decline. At 188 basis points, the Houston office market posted the highest decline, while Dallas posted the lowest decline at 8 basis points. The average decline was 43 basis points.

In order to entice tenants to sign deals and in order for landlords to keep face rental rates high, it appears that some landlords are offering higher inducements, such as above-average tenant improvement allowances and large amounts of free rent. Even though the end result is a lower net effective rent, a strong face rental rate boosts the market's confidence even if it is just an illusion. This quarter, about 70.0% of our participants indicate that concessions are prevalent throughout the Boston office market. On a six-year lease, free rent can range up to four months. Moreover, excessive tenant improvement allowances – the amount by which an awarded tenant improvement allowance exceeds that which is typical for the market – can range up to $25.00 per square foot.

Despite this market's positive trends and fundamentals, turmoil in the capital markets and a widening bid-ask gap between buyers and sellers have brought Boston's investment market to a near standstill. "The number of offering packages crossing my desk has dropped dramatically," notes a participant. While some office property owners are still testing the waters with offerings, others have pulled properties from the market due to a lack of interest and the inability of bidders to reach pricing goals. The owners of Westford Technology Park East, for example, decided not to sell the one-million-square-foot asset located in Westford after a handful of offers fell short of the $200.0-million target price.

Even though most participants believe that market conditions still favor sellers, many of them will continue to feel frustrated as the real estate industry works through the current repricing phase of the real estate cycle. ❖

Table 7
BOSTON OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 13.00%	6.00% – 13.00%	7.00% – 13.00%
Average	8.86%	8.81%	9.03%
Change (Basis Points)		+ 5	– 17
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 10.25%	4.50% – 10.25%	5.50% – 10.25%
Average	7.34%	7.21%	7.57%
Change (Basis Points)		+ 13	– 23
RESIDUAL CAP RATE			
Range	6.50% – 10.50%	6.25% – 10.50%	7.00% – 10.50%
Average	8.01%	7.92%	8.31%
Change (Basis Points)		+ 9	– 30
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 5.00%	0.00% – 6.00%	0.00% – 6.00%
Average	3.56%	3.78%	3.50%
Change (Basis Points)		– 22	+ 6
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[c]			
Range	2.00 – 24.00	2.00 – 24.00	2.00 – 24.00
Average	6.71	6.71	7.25
Change (%)		0	– 7.45

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

Charlotte Office Market

EVEN THOUGH THE PRIMARY CATALYSTS OF CHARLOTTE'S LOCAL ECONOMY, WACHOVIA AND BANK OF AMERICA, ARE FACING THE STRAIN OF THE NATIONAL CREDIT CRISIS, STEADY – ALBEIT DECELERATED – OFFICE EMPLOYMENT GROWTH IS STILL GENERATING DEMAND FOR OFFICE SPACE IN THIS MARKET. Nevertheless, businesses related to the capital markets industry, such as securities attorneys, accountants, and consultants, are likely to experience a dip in business, employment needs, and space requirements over the near term.

Recent employment figures indicate a drastic slowdown in job growth for the professional-and-business-services sector with only 3,800 new jobs created between December 2006 and December 2007, a large decline from 2006's gain (see Table CHO-1). In the financial-activities sector, employment held steady between December 2006 and December 2007. After adding about 5,600 new jobs in 2006, this sector's lack of growth in 2007 is disappointing to landlords. Despite a much slower pace of employment growth in these sectors, Charlottes' economy should continue to benefit from job growth in the healthcare, education, and nonfinancial professional services industries in the coming months.

The underlying strength of the Charlotte office market is evidenced by record low vacancy rates over the past year in the urban submarkets. "With the three most influential areas – Downtown, Midtown, and SouthPark – posting vacancy under 10.0%, there has to be a ripple effect to the other submarkets," emphasizes a participant. Increasing rental rates for the remaining available urban space may prompt tenants to look for a better value in the suburban submarkets. "Class-A rents in SouthPark have increased from the $23.00-to-$24.00-per-square-foot range to the $27.00-to-$30.00-per-square-foot range," notes a participant.

Two suburban areas preparing to capitalize on the shortage of available urban office space are NC-51/Southeast and I-77/Southwest. In the Southeast, Ballantyne Corporate Park, a component of the 535-acre, master-planned community, has four Class-A "green" buildings under construction that will add 800,000 square feet to the market beginning this year. According to Cushman & Wakefield, the I-77/Southwest submarket had just over 600,000 square feet of space underway at year-end 2007. Much of this construction is along the I-77 Corridor, which is supported by Northlake Mall and the residential community surrounding Lake Norman. ❖

Table CHO-1

ANNUAL EMPLOYMENT GROWTH

Charlotte-Gastonia-Concord, North Carolina Metropolitan Division

Year	Financial Activities	Professional-and-Business Services
2003	+ 2,700	+ 400
2004	+ 1,300	– 400
2005	+ 3,400	+ 3,500
2006	+ 5,600	+ 6,100
2007*	0	+ 3,800

*Compared to December 2006
Source: Bureau of Labor Statistics

Table 8

CHARLOTTE OFFICE MARKET

First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 10.00%	7.00% – 10.50%	
Average	8.50%	8.50%	
Change (Basis Points)		0	
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 9.00%	5.00% – 9.00%	
Average	7.27%	6.88%	
Change (Basis Points)		+ 39	
RESIDUAL CAP RATE			
Range	6.50% – 9.00%	7.00% – 9.00%	
Average	7.58%	7.63%	
Change (Basis Points)		– 5	
MARKET RENT CHANGE RATE[b]			
Range	3.00% – 6.00%	3.00% – 6.00%	
Average	3.70%	4.10%	
Change (Basis Points)		– 40	
EXPENSE CHANGE RATE[b]			
Range	3.00% – 3.00%	3.00% – 3.00%	
Average	3.00%	3.00%	
Change (Basis Points)		0	
AVERAGE MARKETING TIME[c]			
Range	2.00 – 6.00	2.00 – 6.00	
Average	4.67	4.67	
Change (%)		0	

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

Chicago Office Market

AFTER FINALLY BATTLING BACK AGAINST POORLY TIMED CONSTRUCTION PROJECTS DURING THE PAST RECESSION, IT APPEARS THAT LANDLORDS IN THE CHICAGO OFFICE MARKET ARE AGAIN BRACING THEMSELVES FOR A BUMPY RIDE. Since 2006, Chicago's CBD has tightened thanks to decent gains in office-using employment. At the start of 2007, the overall vacancy rate in the CBD stood at 14.8%, according to Cushman & Wakefield. By the end of 2007, it had fallen to 11.9%. Companies that leased space in the CBD during 2007 included Citigroup, American Hospital Association, The Boston Consulting Group, and West Publishing Corporation.

In the suburbs, the amount of available space also declined, but to a lesser extent due to the addition of approximately 625,000 square feet of new office space. At the start of 2007, the overall vacancy rate in the suburbs stood at 19.6%, dipping to just 19.1% by the end of 2007. The submarkets that comprise Chicago's 95.0-million-square-foot suburban office area continue to perform quite differently. The small North Corridor submarket, which totals about 21.2 million square feet, posted the lowest overall vacancy rate at year-end 2007 (15.8%), while the much larger Northwest Corridor posted the highest rate (20.6%).

Companies that recently signed either new or renewal leases within the suburbs included Chicago Bridge & Iron Co., which inked a lease for 60,000 square feet at Tallgrass Corporate Center in Bolingbrook; Verizon Business Services and the Regus Group, which both renewed their leases for 41,121 square feet and 36,438 square feet, respectively, at Triangle Plaza in the O'Hare submarket; and Hallmark Services Corp., which signed a 15-year lease for 256,766 square feet at Naperville Woods Office Center. Reportedly, Hallmark received a significant tenant improvement allowance and free rent. Unfortunately for many landlords, inducements will remain all too commonplace during lease negotiations due to the impact of a weaker national economy, a slowdown in demand, and a robust development pipeline.

Property owners looking to sell assets in the Chicago office market are also facing challenges. "A lack of lending options is keeping the buying pool to a minimum, reducing offers, and diminishing values," comments a participant. For many sellers, a large bid-ask pricing gap has forced them to pull properties from the market and wait out the current price correction occurring in the industry. "There is a lot of confusion about how much property values have dropped, if at all, because sales activity has been so low," explains a participant. "No one wants to be the first one to jump off the diving board and test the water only to find out the pool's been drained," chuckles another.

With so many grey clouds lingering over head, many investors expect leasing and sales activity to be relatively quiet in the Chicago office market over the next several months. "It's a good time to prepare for the future," suggests an investor.

Table 9

CHICAGO OFFICE MARKET

First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 11.00%	6.50% – 11.00%	7.00% – 10.50%
Average	8.29%	8.22%	8.26%
Change (Basis Points)		+ 7	+ 3
OVERALL CAP RATE (OAR)[a]			
Range	4.50% – 9.50%	4.50% – 9.50%	5.50% – 9.50%
Average	7.00%	6.85%	7.22%
Change (Basis Points)		+ 15	– 22
RESIDUAL CAP RATE			
Range	6.75% – 10.50%	6.50% – 9.25%	7.00% – 9.50%
Average	7.65%	7.60%	7.97%
Change (Basis Points)		+ 5	– 32
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 10.00%	0.00% – 10.00%	0.00% – 8.00%
Average	2.95%	3.09%	2.30%
Change (Basis Points)		– 14	+ 65
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.90%	2.90%	2.83%
Change (Basis Points)		0	+ 7
AVERAGE MARKETING TIME[c]			
Range	5.00 – 18.00	3.00 – 18.00	3.00 – 18.00
Average	8.20	7.77	7.45
Change (%)		+ 5.53	+ 10.07

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

Dallas Office Market

TIGHTER LENDING RESTRICTIONS AND REPRICING ISSUES HAVE DRAMATICALLY REDUCED THE PACE OF SALES ACTIVITY IN THE DALLAS OFFICE MARKET OVER THE PAST FEW MONTHS. In the fourth quarter of 2007, sales volume totaled $500.0 million. By comparison, sales activity amounted to $2.65 billion in the third quarter of 2007 and averaged $750.0 million in the second and third quarters of that year. For ten of the past 12 quarters, the majority of office building sales occurred in the suburbs. In the third and fourth quarters of 2007, however, sales volume was higher in the central business district. One of the largest CBD sales to occur during the latter part of 2007 was Hines Interests' acquisition of JPMorgan Chase Tower for $290.0 million or roughly $240.00 per square foot.

Well-leased, Class-A office assets continue to receive the most attention from investors in this market, as well as in most major markets across the country. "The trend is back to core," attests a participant. In one such local transaction, Cannon Commercial sold the 1.4-million-square-foot, Class-A Galleria towers for a reported $211.00 per square foot. This landmark property consists of three buildings – Galleria I, totaling 469,000 square feet in 25 stories; Galleria II, consisting of 430,000 square feet in 24 stories; and Galleria III, totaling 520,000 square feet in 26 stories.

Located in the LBJ Freeway submarket, this prestigious office property was purchased by the seller in November 2006. During its short holding period, the seller increased both its occupancy and rental rates. Asking rental rates for Class-A space in the LBJ Freeway submarket have increased quite a bit over the past few quarters. At year-end 2007, the average asking rental rate for Class-A space was $21.24 per square foot, a 3.6% quarterly increase, according to Studley Inc.

This rate of growth is comparable to the average initial-year market rent change rate indicated by our participants for the Dallas office market this quarter. As shown in Table DOM-1, this market posted the 8th lowest average for this key assumption of the 18 individual office markets included in our Survey. The composite average for the Survey's office markets is 3.92% for the first quarter of 2008. San Francisco led the pack with an average of 7.23%, far above Dallas' average of 3.50%.

Table DOM-1

INITIAL-YEAR MARKET RENT CHANGE RATES

First Quarter 2008

Office Market	Rate
Pacific Northwest	3.60%
Boston	3.56%
Dallas	3.50%
Houston	3.26%
Atlanta	3.25%
Chicago	2.95%
Northern Virginia	2.94%
Suburban Maryland	2.81%
Southeast Florida	2.75%
Philadelphia	2.58%

Source: Korpacz Real Estate Investor Survey®

Table 10

DALLAS OFFICE MARKET

First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50% – 11.50%	7.50% – 11.50%	7.50% – 11.50%
Average	8.98%	8.98%	9.06%
Change (Basis Points)		0	– 8
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 10.00%	6.00% – 10.00%	6.00% – 10.00%
Average	7.95%	7.95%	8.21%
Change (Basis Points)		0	– 26
RESIDUAL CAP RATE			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 11.00%
Average	8.66%	8.66%	8.71%
Change (Basis Points)		0	– 5
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 7.00%	1.00% – 7.00%	0.00% – 5.00%
Average	3.50%	3.58%	2.90%
Change (Basis Points)		– 8	+ 60
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.67%	2.67%	2.67%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	6.30	6.30	6.30
Change (%)		0	0

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

Denver Office Market

THE CENTRAL BUSINESS DISTRICT (CBD) IS A LEADING PERFORMER IN THE DENVER OFFICE MARKET DUE TO STEADY DEMAND FROM TENANTS IN THE ENERGY SECTOR AND RELATED INDUSTRIES THAT HAS KEPT VACANCY RATES IN THE SINGLE DIGITS. Since the second quarter of 2007, the Denver CBD has maintained a sub-9.0% overall vacancy rate, according to Cushman & Wakefield (see Table DEM-1). Furthermore, the Class-A CBD office sector posted a 5.9% overall vacancy rate in the fourth quarter of 2007, down from 6.1% in the previous quarter. The Northwest and Southwest submarkets are following closely behind the CBD with overall vacancy rates of 10.6% and 11.8%, respectively.

Diminishing available space has resulted in speculative development in the CBD. The 1001 Seventeenth Street and 1400 Wewatta Street projects, containing a combined total of about one million square feet of office space, will open in 2008. Another CBD office project located at 1900 Sixteenth Street broke ground in the fourth quarter of 2007 and will add 335,000 square feet to the downtown submarket in early 2009. These additions to inventory are anticipated to ease the tightness in the CBD over the next 18 to 24 months. NonCBD deliveries are expected to total nearly one million square feet over the same time period.

Favorable vacancy rates and resulting rental rate growth continue to attract investors to the Denver office market. However, the velocity of transactions has slowed relative to the robust activity witnessed in early 2007. "There are some investors who are turning away from the CBD largely because of the prices paid and the aggressive income assumptions behind those prices," remarks a participant. In one recent deal, CB Richard Ellis, on behalf of Alaska Permanent Fund Corporation, purchased Independence Plaza, a 567,287-square-foot tower. Nearly 98.0% occupied at the time of sale, this asset garnered a price of $255.00 per square foot – above the average sale price for the Denver CBD over the past twelve months ($237.00 per square foot), as reported by Real Capital Analytics, Inc.

Commensurate with the slowdown in transaction activity and the unstable capital markets, the overall capitalization rate for the Denver office market ticked up 22 basis points during the first quarter of 2008. "We do not see a major surge in overall cap rates. We will see a truing up of cash flows before we see dramatic increases in yield rates," predicts a participant. ❖

Table 11
DENVER OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	5.00% – 10.00%	5.00% – 10.00%	
Average	8.30%	8.18%	
Change (Basis Points)		+ 12	
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 8.50%	4.00% – 8.50%	
Average	6.63%	6.41%	
Change (Basis Points)		+ 22	
RESIDUAL CAP RATE			
Range	6.50% – 8.90%	6.50% – 8.90%	
Average	7.40%	7.43%	
Change (Basis Points)		– 3	
MARKET RENT CHANGE RATE[b]			
Range	3.00% – 10.00%	3.00% – 10.00%	
Average	5.63%	6.88%	
Change (Basis Points)		– 125	
EXPENSE CHANGE RATE[b]			
Range	3.00% – 5.00%	3.00% – 5.00%	
Average	3.40%	3.40%	
Change (Basis Points)		0	
AVERAGE MARKETING TIME[c]			
Range	1.00 – 8.00	1.00 – 6.00	
Average	3.29	3.07	
Change (%)		+ 7.17	

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

Table DEM-1
OVERALL VACANCY RATE TRENDS
Denver CBD Office Market

Quarter	Rate	Change (Basis Points)
4Q07	8.60%	+ 30
3Q07	8.30%	– 60
2Q07	8.90%	– 130
1Q07	10.20%	– 70
1Q06	10.90%	– 370
1Q05	14.60%	– 410
1Q04	18.70%	– 30
1Q03	19.00%	—

Source: Cushman & Wakefield

Houston Office Market

AFTER POSTING STEADY DECLINES IN VACANCY RATES AND ROBUST INCREASES IN RENTAL RATES THROUGHOUT 2007, THE HOUSTON OFFICE MARKET STANDS READY TO FACE THE DIFFICULTIES THAT ACCOMPANY A NATIONAL ECONOMIC SLOWDOWN. "Even though overall growth will decelerate in the coming year, healthy market conditions should help alleviate some of the pain for the Houston area," remarks a participant. While this office market's bustling energy sector has resulted in strong demand for space from gas and oil companies, it also has sparked demand from supporting industries. "The local economy doesn't rely solely on the energy sector anymore," notes a participant. Nonenergy companies that recently leased space in Houston included IBM, Sterling Bank, Morgan Lewis, and Alert Logic.

The strength of Houston's office market is shown in its overall vacancy rate trends. In the fourth quarter of 2007, overall vacancy in the CBD stood at 11.7%, according to Cushman & Wakefield. A year earlier, this figure was 13.3%. In the suburbs, the overall vacancy rate declined from 15.2% in the fourth quarter of 2006 to 12.2% in the fourth quarter of 2007. Just two years ago, these rates were significantly higher – 21.8% for the CBD and 17.4% for the suburbs.

As vacancy rates have declined, landlords have been able to boost rental rates. According to Colliers International, the average rental rate for office space in downtown Houston climbed from $23.90 per square foot in 2006 to $36.40 per square foot in 2007, a 52.4% year-over-year increase – the greatest gain of any CBD in the nation in 2007. While other office market reports also show strong increases in rental rate growth for Houston, most of them are a bit less robust. For instance, Studley Inc. reports that the average asking rental rate for Class-A space jumped 36.3% year-over-year in Houston's CBD in the fourth quarter of 2007. Cushman & Wakefield pegs the annual increase in the CBD's average asking rental rate at 33.9%.

The expectation that the Houston office market will persevere through the current economic slowdown and remain a top-performing metro area in the country appeals to many investors. As a result, several office properties have sold recently. In one deal, Westway One, a 143,000-square-foot, Class-A office building located in the Northwest submarket sold to Behringer Harvard REIT I for an undisclosed amount. This property was completed in November 2007 and holds a LEED Silver certification. In another deal, the 224,000-square-foot, Class-B Kirkwood Atrium II in the Energy Corridor reportedly sold for slightly above $100.00 per square foot to BGK Group.

Steady interest from investors has prompted several office buildings to be offered for sale. Enclave on the Lake, a premiere 171,091-square-foot office building located in the Energy Corridor, is reportedly up for sale. In addition, the 567,400-square-foot, Class-A Five Post Oak Park in the Galleria submarket is available for sale. ✧

Table 12
HOUSTON OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50% – 10.00%	7.50% – 10.00%	7.50% – 14.00%
Average	8.41%	8.52%	9.28%
Change (Basis Points)		– 11	– 87
OVERALL CAP RATE (OAR)[a]			
Range	4.50% – 10.00%	5.00% – 10.00%	6.50% – 12.00%
Average	7.25%	7.59%	8.43%
Change (Basis Points)		– 34	– 118
RESIDUAL CAP RATE			
Range	5.00% – 10.00%	5.00% – 11.00%	7.25% – 12.00%
Average	7.76%	8.04%	8.94%
Change (Basis Points)		– 28	– 118
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 5.00%	2.00% – 15.00%	0.00% – 7.00%
Average	3.26%	5.14%	2.70%
Change (Basis Points)		– 188	+ 56
EXPENSE CHANGE RATE[b]			
Range	2.00% – 5.00%	2.00% – 4.00%	2.00% – 4.00%
Average	3.19%	2.93%	2.93%
Change (Basis Points)		+ 26	+ 26
AVERAGE MARKETING TIME[c]			
Range	2.00 – 9.00	2.00 – 9.00	2.00 – 9.00
Average	6.13	6.13	6.14
Change (%)		0	– 0.16

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

Los Angeles Office Market

THE LOS ANGELES OFFICE MARKET IS NOT EXPECTED TO COME AWAY FROM THE CURRENT ECONOMIC SLOWDOWN UNSCATHED, BUT IT WILL PROBABLY HOLD UP BETTER THAN MOST OTHER MAJOR OFFICE MARKETS ACROSS THE COUNTRY. Due to a diverse economy powered by technology, entertainment, tourism, and foreign trade, it remains a popular choice for corporate offices and attracts a dynamic workforce. "Values should come down, but they'll still be very high compared to other markets," comments a participant.

In 2007, the Los Angeles-Long Beach-Glendale metropolitan statistical area added 93,200 new nonfarm jobs, according to the Bureau of Labor Statistics. Approximately 14,900 (15.9%) of these new jobs were in the professional-and-business-services sector. Other office-using sectors also posted gains during the past year. As a result of steady employment growth and an increase in tenant space requirements, the overall vacancy rate in downtown Los Angeles markedly declined during 2007. Specifically, it dropped 240 basis points between the fourth quarters of 2006 and 2007 to reach 13.9%, according to Cushman & Wakefield (C&W).

Although most suburban submarkets posted increases in overall vacancy over the past year, fundamentals remain very strong in many of them. In West Los Angeles, for example, overall vacancy stood at 8.4% at year-end 2007. Such a low vacancy rate ranks it as the third tightest suburban office market of the 41 markets tracked by C&W. Interestingly, the two tightest suburban office markets in the country are Los Angeles (8.0%) and Los Angeles Tri-Cities (7.6%). Even though West Los Angeles' overall vacancy rate has increased over the past year due to the delivery of new space and an increase in sublease space, investors remain optimistic that it will continue to be one of the top-performing submarkets going forward.

Los Angeles' ability to withstand economic and fundamental downturns continues to lure investors. "Even if we head into a recession, Los Angeles will remain a target for many investors' dollars," believes a participant. In 2007, transaction volume totaled roughly $11.85 billion in Los Angeles with an average sale price of $316.00 per square foot, according to Real Capital Analytics, Inc. Top buyers in this market during 2007 included Maguire Partners, The Blackstone Group, Broadway Real Estate Partners, and Hines Interests.

The sales volume number for Los Angeles in 2007 falls behind two other powerhouse office markets – Manhattan at $40.91 billion and San Francisco at $12.43 billion. Another West Coast market that experienced strong sales activity in 2007 was San Diego, where transaction volume totaled $5.79 billion. Given such strong investment demand, it is not surprising that these markets posted the four lowest average cap rates of the 18 individual office markets in our Survey in the first quarter of 2008 – Manhattan at 5.55%, San Diego at 6.08%, San Francisco at 6.11%, and Los Angeles at 6.16%.

Table 13

LOS ANGELES OFFICE MARKET

First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	5.00% – 12.00%	5.00% – 13.00%	5.00% – 13.00%
Average	8.24%	8.29%	8.46%
Change (Basis Points)		– 5	– 22
OVERALL CAP RATE (OAR)[a]			
Range	3.00% – 9.00%	3.00% – 9.00%	5.00% – 9.00%
Average	6.16%	6.16%	6.59%
Change (Basis Points)		0	– 43
RESIDUAL CAP RATE			
Range	6.00% – 9.00%	6.00% – 9.00%	6.50% – 9.00%
Average	7.18%	7.20%	7.50%
Change (Basis Points)		– 2	– 32
MARKET RENT CHANGE RATE[b]			
Range	2.00% – 8.00%	2.00% – 8.00%	2.00% – 10.00%
Average	4.56%	4.83%	3.92%
Change (Basis Points)		– 27	+ 64
EXPENSE CHANGE RATE[b]			
Range	2.50% – 5.00%	2.50% – 5.00%	2.50% – 5.00%
Average	3.17%	3.17%	3.21%
Change (Basis Points)		0	– 4
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	3.00 – 10.00
Average	5.63	5.81	6.08
Change (%)		– 3.10	– 7.40

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

Manhattan Office Market

WITH MINIMAL AMOUNTS OF NEW CONSTRUCTION DEBUTING IN THE MANHATTAN OFFICE MARKET OVER THE NEXT THREE YEARS, MANY INVESTORS ARE OPTIMISTIC THAT IT COULD WEATHER A SIGNIFICANT DROP OFF IN TENANT DEMAND AND A HIGH NUMBER OF JOB CUTS. "Leasing activity has been very slow due to the turmoil in the financial markets, but fundamentals are extremely tight and still favor landlords," remarks a participant. Nevertheless, the future health of the Manhattan office market depends greatly on the extent to which the troubled financial sector rebounds from the subprime fallout and the sluggish economy.

Over the past few years, the financial-activities employment sector has been a strong driver of demand for office space in Manhattan. Since losing about 55,200 jobs in this sector during the last recession, New York City has gained close to 41,100 new jobs in the financial-activities sector over the past four years (see Table MO-1). Despite the recent gains in this sector, it appears that fewer financial companies are searching this market for new (or additional) space. On the other hand, the amount of sublease space offered by financial companies is expected to rise over the coming months.

Manhattan's proven ability to endure economic downturns better than most major CBD markets continues to be a strong reason for its long-standing appeal with investors. "This market has a proven track record for outperforming the country during good and bad times," notes a participant. Even during the last recession, this office market boasted extremely low vacancy rates.

Due to its stellar market conditions and historical performances, the re-pricing of risk currently occurring throughout the industry has yet to fully materialize in Manhattan. "Sale prices are still very high, especially for the best assets up for sale," comments a participant.

Although a severe economic downturn would likely turn this market in favor of buyers, sellers still hold the upper hand during price negotiations. Approximately 87.50% of our Survey participants believe a sellers' market still prevails in Manhattan, while the remaining 12.5% believe that market conditions equally benefit buyers and sellers.

Table MO-1
EMPLOYMENT GAINS
New York City, New York

Year	Financial Activities (000s)	Change
2007*	474.7	+ 16,300
2006	458.4	+ 13,300
2005	445.1	+ 9,600
2004	435.5	+ 1,900
2003	433.6	– 11,500
2002	445.1	– 28,500
2001	473.6	– 15,200
2000	488.8	+ 7,800
1999	481.0	+ 3,700
1998	477.3	+ 9,600
1997	467.7	—

* Month of December
Source: Bureau of Labor Statistics

Table 14
MANHATTAN OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 9.00%	6.00% – 9.00%	6.00% – 9.00%
Average	7.66%	7.63%	7.59%
Change (Basis Points)		+ 3	+ 7
OVERALL CAP RATE (OAR)[a]			
Range	3.00% – 8.00%	3.00% – 8.00%	3.00% – 8.00%
Average	5.55%	5.52%	5.64%
Change (Basis Points)		+ 3	– 9
RESIDUAL CAP RATE			
Range	5.75% – 9.25%	5.50% – 9.00%	5.50% – 9.00%
Average	6.81%	6.81%	6.88%
Change (Basis Points)		0	– 7
MARKET RENT CHANGE RATE[b]			
Range	3.00% – 10.00%	3.00% – 10.00%	3.00% – 10.00%
Average	6.03%	6.91%	6.34%
Change (Basis Points)		– 88	– 31
EXPENSE CHANGE RATE[b]			
Range	3.00% – 4.00%	3.00% – 4.00%	3.00% – 4.00%
Average	3.21%	3.21%	3.21%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	2.00 – 8.00	2.00 – 8.00	2.00 – 8.00
Average	3.94	3.94	3.94
Change (%)		0	0

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

Northern Virginia Office Market

ALTHOUGH OCCUPANCIES REMAIN GENERALLY HEALTHY FOR CLASS-A OFFICE PROPERTIES THROUGHOUT THE NORTHERN VIRGINIA OFFICE MARKET, MANY LANDLORDS HAVE NOTICED A MARKED SLOWDOWN IN LEASING ACTIVITY AND TENANT INTEREST. "Demand has absolutely decelerated," comments a participant, who reveals that 90 days had recently elapsed between space showings at their office buildings. While demand has somewhat improved, it is mostly from smaller tenants (around 5,000 square feet) looking for lower rental rates and higher concession packages. On the other hand, tenant demand is virtually nonexistent for large blocks of space.

For the most part, landlords have been able to hold rental rates at current levels. However, landlords are not in the same position as they were a year ago, especially in many of the submarkets located outside the Beltway, where additions to supply have weakened fundamentals. In Herndon/Reston, additions to supply pushed up the overall vacancy rate to 12.8% in the fourth quarter of 2007, roughly 230 basis points above the rate at the start of 2007. At the end of 2007, the average asking direct rental rate for office space in Herndon/Reston was $30.00 per square foot, according to CB Richard Ellis.

In submarkets located closer to the Beltway and immediately outside of Washington, DC, rental rates are higher due to stronger demand and limited additions to supply. In Arlington County, the average asking rental rate stood at just under $36.00 per square foot in the fourth quarter of 2007. Due to Arlington's low vacancy rate, higher rent level, and proximity to the District, it remains a top investment location for investors. In one recent sale there, Lowe Enterprises Investors recently acquired Jefferson Plaza, a 517,000-square-foot, Class-A office asset.

While the migration of new tenants into the Northern Virginia office market is down compared to prior years, it appears that renewal activity is up. In fact, several large tenants have renewed leases over the past few months. National Telecommunications Cooperative Association, for example, renewed its lease for 31,000 square feet at Stafford II in Arlington. In another renewal, Lockheed Martin signed an eight-year deal for its 71,507 square feet at 14550 Avion Parkway in Chantilly. "Our renewal percent has gone up over the past year because companies realize how expensive it is to move," comments a participant. In the first quarter of 2008, our participants indicated a tenant retention percentage ranging from 60.0% to 75.0% and averaging 67.2%. Two years ago, these figures were slightly lower, ranging from 50.0% to 70.0% and averaging 64.7%.

Overall, most investors expect the Northern Virginia office market to hold up reasonably well during the current economic slowdown and repricing. Even though one participant points out that values have dipped about 5.0% since the credit crisis, it is still too early to tell exactly how much prices have shifted due to a lack of recent sale transactions. ❖

Table 15
NORTHERN VIRGINIA OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 11.00%	6.00% – 11.00%	6.00% – 11.00%
Average	8.11%	8.11%	8.17%
Change (Basis Points)		0	– 6
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 9.00%	5.00% – 9.00%	5.00% – 9.00%
Average	6.83%	6.83%	6.99%
Change (Basis Points)		0	– 16
RESIDUAL CAP RATE			
Range	6.50% – 9.50%	6.50% – 9.50%	6.50% – 9.50%
Average	7.61%	7.61%	7.73%
Change (Basis Points)		0	– 12
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 4.00%	0.00% – 4.00%	0.00% – 4.00%
Average	2.94%	2.94%	2.94%
Change (Basis Points)		0	0
EXPENSE CHANGE RATE[b]			
Range	3.00% – 3.50%	3.00% – 3.50%	3.00% – 3.50%
Average	3.06%	3.06%	3.06%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	1.00 – 9.00	1.00 – 9.00	1.00 – 9.00
Average	5.07	5.07	5.07
Change (%)		0	0

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

Pacific Northwest Office Market

AMID ALL THE UNCERTAINTIES UNDERLYING BOTH THE FUTURE PATH OF THE U.S. ECONOMY AND THE LONG-TERM RAMIFICATIONS OF THE DISTRESSED CAPITAL MARKETS, THE PACIFIC NORTHWEST OFFICE MARKET CONTINUES TO PROVIDE INVESTORS WITH POSITIVE TRENDS AND OPTIMISM (ALBEIT SUBDUED). 2007 was a memorable year for the Pacific Northwest office market, where steady employment gains and strong local economies created an environment that favored both landlords and sellers. Even though restrained economic growth is anticipated for 2008, fundamentals will likely remain quite stable.

During the past year, most downtown landlords were able to increase rental rates throughout the three main areas that comprise this market – Seattle, Bellevue, and Portland – due to strong demand and limited additions to supply. Some of the most impressive rental rate increases were recorded in the CBD submarkets of Seattle and Bellevue. According to Cushman & Wakefield, the average rental rate for all classes of office space in downtown Seattle increased 26.0% in 2007. In downtown Bellevue, the surge was even more impressive at 32.0%. On the other hand, it was muted in Portland's CBD at only 9.0%.

When comparing the average initial-year market rent change rates for the 18 individual office markets included in our Survey, the Pacific Northwest office market ranks very high (see Table PNW-1). In fact, it posts the second highest gain over the past year, placing just behind the San Francisco office market. Healthy rental rate growth is one reason for this market's strong appeal among investors. Even though slower economic growth and turmoil in the debt arena should cause values to decline in the near term, investors still believe in this market's ability to persevere.

"A tremendous amount of capital is targeting office investments in Seattle," remarks a participant. And with prices likely to dip in the near term, the volume of capital aimed at this high-rated market will likely increase. In one recent trade, the two-building, 532,000-square-foot Kilroy Airport Center located next to Seattle-Tacoma International Airport sold for about $150.00 per square foot to ScanlanKemperBard Companies, who plans to rename the asset Sea-Tac Office Center. ❖

Table PNW-1
MARKET RENT COMPARISON*
Top Ten Surveyed Office Markets

Office Market	Change
San Francisco	+ 117
Pacific Northwest	+ 110
Chicago	+ 65
Los Angeles	+ 64
Dallas	+ 60
Philadelphia	+ 58
Houston	+ 56
Atlanta	+ 31
San Diego	+ 9
Washington, DC	+ 9

*Initial-year rate of change 1Q07 to 1Q08
Source: Korpacz Real Estate Investor Survey®

Table 16
PACIFIC NORTHWEST OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	5.00% – 13.00%	5.00% – 13.00%	5.00% – 13.00%
Average	9.52%	9.52%	9.98%
Change (Basis Points)		0	– 46
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 11.00%	5.00% – 11.00%	6.50% – 11.00%
Average	7.81%	7.81%	8.52%
Change (Basis Points)		0	– 71
RESIDUAL CAP RATE			
Range	6.25% – 10.00%	6.25% – 10.00%	7.00% – 10.00%
Average	7.94%	7.94%	8.42%
Change (Basis Points)		0	– 48
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 7.00%	0.00% – 7.00%	0.00% – 7.00%
Average	3.60%	3.70%	2.50%
Change (Basis Points)		– 10	+ 110
EXPENSE CHANGE RATE[b]			
Range	2.00% – 5.00%	2.00% – 5.00%	2.00% – 5.00%
Average	3.33%	3.33%	3.33%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	3.00 – 12.00
Average	5.08	5.08	5.92
Change (%)		0	– 14.19

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

Philadelphia Office Market

A SPIKE IN TRANSACTION ACTIVITY DURING THE FOURTH QUARTER OF 2007 IN THE PHILADELPHIA OFFICE MARKET IS ATTRIBUTABLE TO TWO LARGE-SCALE PROPERTY SALES. In the first deal, G&I VI Interchange Office, a joint venture between a fund managed by DRA Advisors and Brandywine Realty Trust, purchased the 29-building, 1.6-million-square-foot Brandywine portfolio for $285.0 million, or about $180.00 per square foot. This portfolio contained Class-A and -B properties in the Horsham, Bucks, LeHigh Valley, and Fort Washington suburban submarkets.

In the other deal, Berhinger Harvard purchased three CBD assets from IPC US REIT for $373.5 million, or approximately $143.00 per square foot. The properties included in this transaction were the Wanamaker Building (1.4 million square feet), United Plaza (621,348 square feet), and 1650 Arch Street (587,000 square feet). These sales helped raise this market's fourth quarter transaction volume to $760.0 million, significantly above the average reported during the first three quarters of 2007 ($243.0 million), according to Real Capital Analytics, Inc.

Despite the increase in transaction activity, the average overall cap rate remains at 8.15% for the fourth consecutive quarter – the highest rate among the 18 individual office markets covered by the Survey (see Table PHL-1). The pace of transactions is anticipated to slow and remain focused on equity players given tighter lending restrictions brought about by the national credit crisis. "Deals will get done with cash, so smaller, more highly leveraged buyers will have problems," remarks a participant.

Underlying fundamentals are surprisingly balanced as the local economy battles the national subprime mortgage crisis and slowing job growth. At year-end 2007, the CBD posted a Class-A vacancy of 7.1%, down from 8.5% in the third quarter, according to Cushman & Wakefield. Also on the positive side, limited deliveries of new office space are expected in 2008 and 2009. Nevertheless, a slowdown in demand is expected to impede rent growth and leasing activity. "Demand is unsure in 2008, but 2009 will likely see a downward movement in rental rates. Also, companies may be downsizing space per worker and renewing for less square footage than their current leases," notes a participant. ❖

Table 17
PHILADELPHIA OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 11.00%	8.00% – 11.00%	8.00% – 12.50%
Average	9.30%	9.30%	9.88%
Change (Basis Points)		0	– 58
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 11.00%	5.00% – 11.00%	5.00% – 12.00%
Average	8.15%	8.15%	8.55%
Change (Basis Points)		0	– 40
RESIDUAL CAP RATE			
Range	6.00% – 10.00%	6.00% – 10.00%	6.00% – 10.50%
Average	8.40%	8.40%	8.73%
Change (Basis Points)		0	– 33
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 5.00%	0.00% – 5.00%	0.00% – 5.00%
Average	2.58%	2.75%	2.00%
Change (Basis Points)		– 17	+ 58
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.83%	2.83%	2.86%
Change (Basis Points)		0	– 3
AVERAGE MARKETING TIME[c]			
Range	3.00 – 9.00	3.00 – 9.00	3.00 – 9.00
Average	5.30	5.30	5.25
Change (%)		0	+ 0.95

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

Table PHL-1
OVERALL CAPITALIZATION RATES
Philadelphia Office Market

Quarter	Average	Change (Basis Points)
1Q08	8.15%	0
4Q07	8.15%	0
3Q07	8.15%	0
2Q07	8.15%	– 40
1Q07	8.55%	– 20
1Q06	8.86%	– 31
1Q05	9.17%	– 44
1Q04	9.61%	—

Source: Korpacz Real Estate Investor Survey®

Phoenix Office Market

IN THE PHOENIX OFFICE MARKET, VACANCY RATES ARE RISING IN THE SUBURBS IN THE FACE OF ONGOING NEW DEVELOPMENT AND ARE HOLDING STEADY AS SINGLE DIGITS IN THE CENTRAL BUSINESS DISTRICT. Specifically, the Class-A sector in the CBD posted a 7.2% overall vacancy rate for the fourth quarter of 2007, according to Cushman & Wakefield (see Table PHO-1). The CBD is a mature market with limited land available for development. As a result, the two new high-rise developments that broke ground in the CBD toward the end of 2007 are expected to fill a need for space in the short term without having a negative impact on vacancy rates in the long term. The two new projects – CityScape and One Central Park East – total just over one million square feet and are slated for completion in 2009.

The bulk of nonCBD office construction in this market is occurring in the Scottsdale Airpark, Chandler/Gilbert, and West Valley submarkets. With more than 3.8 million square feet of new space scheduled for delivery in 2008, the suburban vacancy rate is expected to climb farther than the fourth quarter 2007 figure of 16.6%. "Even though too much construction is occurring in this market, buildings with larger blocks of space should fare well," remarks a participant.

Although office market fundamentals are being tested on the supply side due to excessive new construction and on the demand side due to an economic slowdown, this market captured the attention of investors in 2007. According to Real Capital Analytics, Inc., Phoenix ranked 16th out of 43 markets in terms of total dollar volume of office building sales in 2007. Still, overall volume fell off slightly from $680.0 million in the third quarter of 2007 to $600.0 million in the fourth quarter of 2007. "We may pursue something that's truly advantageous for us, but we are not purposely running to this market at this time," reveals a participant.

While the majority of sales in 2007 included suburban assets, a trophy CBD property closed during the fourth quarter. Hines acquired the one-million-square-foot One and Two Renaissance Tower for $280.00 per square foot. This asset was 95.0% leased at the time of sale with about 3.0% of the leases set to expire in 2008 and roughly 10.0% of them due for renewal in 2009 and 2010. Also in the CBD, Phelps Dodge Tower is reportedly under contract for $130.0 million. If this deal closes, its price of nearly $318.00 per square foot would set the top end of the range for Phoenix area office building sales. ✧

Table PHO-1

CLASS-A OVERALL VACANCY RATES

Phoenix Office Market

Quarter	CBD	NonCBD
4Q07	7.2%	16.6%
3Q07	7.4%	15.1%
2Q07	9.7%	15.5%
1Q07	7.8%	13.6%
4Q06	7.8%	11.0%
4Q05	12.1%	13.0%
4Q04	15.1%	17.2%

Source: Cushman & Wakefield

Table 18

PHOENIX OFFICE MARKET

First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	5.00% – 11.00%	5.00% – 11.00%	
Average	7.92%	7.88%	
Change (Basis Points)		+ 4	
OVERALL CAP RATE (OAR)[a]			
Range	4.00% – 8.50%	4.00% – 8.50%	
Average	6.55%	6.50%	
Change (Basis Points)		+ 5	
RESIDUAL CAP RATE			
Range	6.70% – 9.00%	6.70% – 9.00%	
Average	7.38%	7.46%	
Change (Basis Points)		– 8	
MARKET RENT CHANGE RATE[b]			
Range	1.00% – 6.00%	1.00% – 6.00%	
Average	4.25%	4.75%	
Change (Basis Points)		– 50	
EXPENSE CHANGE RATE[b]			
Range	3.00% – 5.00%	3.00% – 5.00%	
Average	3.50%	3.50%	
Change (Basis Points)		0	
AVERAGE MARKETING TIME[c]			
Range	2.00 – 9.00	2.00 – 6.00	
Average	4.07	3.64	
Change (%)		+ 11.81	

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

San Diego Office Market

THE COMBINATION OF NEW CONSTRUCTION, DECELERATING JOB GROWTH, AND RISING UNEMPLOYMENT IS PUSHING UP VACANCY RATES AND RESTRAINING RENT GROWTH IN THE SAN DIEGO OFFICE MARKET. As of year-end 2007, the overall vacancy rate increased to 14.0%, compared with 10.6% in January 2007, according to CB Richard Ellis. With nearly 1.9 million square feet of Class-A deliveries recorded in 2007, the Class-A vacancy rate hit 15.0% in the fourth quarter of 2007. Moreover, almost 1.6 million square feet of Class-A space are currently under construction in the suburban submarkets, which may negatively impact vacancy rates.

As some landlords fight to lease-up new office developments, others are hustling to retain tenants in existing properties by either lowering asking rental rates or offering more attractive concession packages. "There is still a lot of construction, so rents are staying flat," remarks a participant. The Survey data indicates a 25-basis-point drop for the average initial-year market rent change rate this quarter, dipping from 4.47% in the fourth quarter of 2007 to 4.22% in the first quarter of 2008.

In one new lease this quarter, UBS signed a lease to occupy the 22,000-square-foot top floor of the new 310,000-square-foot 20 Pacifica office tower beginning in April 2008. In another deal, Bridgepoint Education Inc., signed two leases for a combined 289,800 square feet at Kilroy Sabre Springs Campus. In the first lease, Bridgepoint will expand its occupancy in one building by 22,000 square feet. In the other lease, it will fully occupy Phase III of this project, a 147,500-square-foot office building.

Other tenants that recently leased space in San Diego's office market included Golden Eagle Insurance, which renewed its existing 82,000-square-foot lease at 525 B Street in the CBD; Qualcomm, which signed an 11-year lease to fully occupy the 77,300-square-foot Mira Oberlin Plaza located across from its headquarters in the Sorrento Mesa submarket; and the law firm of Mintz, Levin, Cohn, Ferris, Glovsky, and Popeo, which inked an 11-year, $24.0-million deal for 40,000 square feet as part of a relocation/expansion to the Gateway at Torrey Hills in the Del Mar Heights submarket.

As in many cities across the country, San Diego's red hot investment market is cooling off. In the fourth quarter of 2007, sales volume totaled $540.0 million, significantly lower than the $1.75-billion average recorded for the first three quarters of 2007. Even though sales volume is down, prices are still up. In a recent high-priced sale, TIAA-CREF paid $589.00 per square foot for the three-building Pacific Plaza at Torrey Hills. In addition, the fully occupied Hacienda Del Mar office building was acquired by Cardinal Investments for $411.00 per square foot in an off-market deal from Pflueger Holdings LLC. The overall cap rate on this transaction was reportedly just under 5.8%, comparable to the range indicated by our participants for this market in the first quarter of 2008.

Table 19
SAN DIEGO OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	5.60% – 10.00%	5.60% – 10.00%	5.60% – 10.00%
Average	7.92%	7.89%	8.08%
Change (Basis Points)		+ 3	– 16
OVERALL CAP RATE (OAR)[a]			
Range	4.50% – 8.00%	4.50% – 8.00%	4.50% – 8.00%
Average	6.08%	6.04%	6.25%
Change (Basis Points)		+ 4	– 17
RESIDUAL CAP RATE			
Range	5.50% – 7.75%	5.50% – 7.75%	5.50% – 7.75%
Average	6.86%	6.86%	6.93%
Change (Basis Points)		0	– 7
MARKET RENT CHANGE RATE[b]			
Range	1.00% – 8.00%	1.00% – 8.00%	1.00% – 6.00%
Average	4.22%	4.47%	4.13%
Change (Basis Points)		– 25	+ 9
EXPENSE CHANGE RATE[b]			
Range	2.50% – 5.00%	2.50% – 5.00%	2.50% – 5.00%
Average	3.19%	3.19%	3.33%
Change (Basis Points)		0	– 14
AVERAGE MARKETING TIME[c]			
Range	1.00 – 8.00	1.00 – 6.00	2.00 – 6.00
Average	3.94	3.78	4.07
Change (%)		+ 4.23	– 3.19

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

San Francisco Office Market

POSITIVE REVIEWS ABOUND REGARDING THE HEALTH AND FAVORABLE UNDERLYING MARKET CONDITIONS OF THE SAN FRANCISCO OFFICE MARKET. "Vacancy for Class-A office space is the tightest it's been in years," exclaims a participant. According to Cushman & Wakefield, the Class-A overall vacancy rate stood at 8.0% at year-end 2007, one of the lowest for a major CBD office market along the West Coast. At 7.6% and 5.3%, Seattle's CBD and Bellevue's CBD, respectively, posted lower rates.

When combined with limited additions to supply, strong leasing activity has resulted in positive net absorption trends in this market's CBD. In 2007, leasing activity downtown totaled close to 5.0 million square feet. The Class-A CBD sector accounted for approximately 78.0% of this total thanks to various large-scale lease transactions. In fact, eight CBD leases over 40,000 square feet, including two leases over 100,000 square feet, were completed during the last quarter of 2007, according to CB Richard Ellis. The largest leases included O'Melveny & Myer's 164,000-square-foot lease at Two Embarcadero Center and Barclay's 113,000-square-foot renewal at 45 Fremont Street.

Since the start of 2008, however, the momentum in downtown San Francisco's leasing arena has noticeably declined. "Sensing that the U.S. economy could slip into a recession, tenants are waiting to see if rental rates come down," comments a participant. With no urgency on the part of most tenants to sign deals, landlords with empty space to fill are left in limbo – hopefully temporarily. "It's a bit too early to tell what is going to happen," adds the participant. For now, landlords are holding firm on rental rates while tenants are postponing lease signings unless they absolutely have to do so.

One indication that the balance of power between landlords and tenants may soon shift more in favor of tenants is the recent dip in this market's initial-year market rent change rate. This quarter, the average for this key assumption declined 82 basis points to 7.23%. Nevertheless, this current rate is the highest of all the individual office markets included in our Survey. At 6.03%, the Manhattan office market posted the second highest average initial-year market rent change rate, while Denver posted the third highest at 5.63%. Interestingly, these two office markets also posted large declines in this key assumption during the first quarter of 2008, dropping 88 and 125 basis points, respectively.

Despite the current bumps that landlords are encountering in the San Francisco office market, its proven resiliency and ability to recover from a dramatic downturn continue to appeal to investors. "San Francisco is still ranked as a top pick for office building investments," affirms a participant. Class-A assets that recently traded there include 150 Spear Street, a 256,827-square-foot, 18-story tower, which sold for about $557.00 per square foot; and Hawthorne Plaza, a 441,400-square-foot, two-building complex, which traded for an undisclosed price. ◈

Table 20
SAN FRANCISCO OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	5.00% – 12.00%	5.00% – 12.00%	5.00% – 12.00%
Average	7.65%	7.83%	8.09%
Change (Basis Points)		– 18	– 44
OVERALL CAP RATE (OAR)[a]			
Range	4.50% – 9.00%	4.50% – 9.00%	4.00% – 9.00%
Average	6.11%	6.16%	6.56%
Change (Basis Points)		– 5	– 45
RESIDUAL CAP RATE			
Range	5.00% – 9.00%	5.00% – 9.00%	5.00% – 9.00%
Average	6.86%	6.88%	7.35%
Change (Basis Points)		– 2	– 49
MARKET RENT CHANGE RATE[b]			
Range	2.50% – 15.00%	2.50% – 15.00%	2.00% – 15.00%
Average	7.23%	8.05%	6.06%
Change (Basis Points)		– 82	+ 117
EXPENSE CHANGE RATE[b]			
Range	2.00% – 5.00%	2.00% – 5.00%	2.00% – 5.00%
Average	3.32%	3.32%	3.17%
Change (Basis Points)		0	+ 15
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	3.00 – 12.00
Average	5.36	5.36	6.44
Change (%)		0	– 16.77

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

Southeast Florida Office Market

ADDITIONS TO SUPPLY, A WEAKENING ECONOMY, AND INCREASES IN SUBLEASE SPACE HAVE COMBINED TO DAMPEN THE INVESTMENT OUTLOOK FOR THE SOUTHEAST FLORIDA OFFICE MARKET. "Property values could decrease as much as 5.0% over the next 12 months," remarks a participant. While not all Survey participants expect property values to decrease in the coming year, most agree that the rate of growth will decline quite a bit.

Overall, our Survey participants expect property values to increase an average of 1.70% in the year ahead. Just a year earlier, participants were much more enthusiastic, predicting an average value increase of 4.25%. As shown in Table SFO-1, investors' opinions of other key assumptions relating to this market have also grown glum over the past year. Excessive TIs are up, while the intial-year market rent change rate is down.

What a difference a year makes. Since the onset of the subprime lending crisis in the housing market in mid-2007, the commercial real estate industry has experienced a dramatic slowdown in investment activity, as well as a downward shift in leasing activity. "The commercial sector has suffered two blows – much tighter lending restrictions and an economic slowdown," remarks a participant. And unfortunately, the Southeast Florida office market has been unable to escape the negative affects of either one.

Tighter lending restrictions and the ensuing bid-ask pricing gap have reduced the pace of sales activity throughout this market. In the fourth quarter of 2007, sales volume totaled $22.0 million in Broward County, $15.0 million in Miami-Dade County, and $8.0 million in Palm Beach County, according to Real Capital Analytics, Inc. These amounts are an average of 67.0% below the prior quarter's totals. The largest quarterly decline occurred in Miami-Dade County (79.0%), while the smallest decrease occurred in Broward County (54.0%).

Once the bid-ask pricing gap closes, many investors are optimistic that deal flow will increase again throughout this market. Many institutional buyers, such as pension funds and insurance companies, consider this market's three main areas – Miami, Fort Lauderdale, and West Palm Beach – desirable locations for office building ownership. "Over the long term, we anticipate steady returns from our properties in Miami," shares a participant. ✦

Table 21
SOUTHEAST FLORIDA OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 11.00%	6.00% – 11.00%	6.00% – 11.00%
Average	8.55%	8.55%	8.64%
Change (Basis Points)		0	– 9
OVERALL CAP RATE (OAR)[a]			
Range	5.20% – 10.00%	5.20% – 10.00%	5.20% – 10.00%
Average	7.80%	7.80%	8.01%
Change (Basis Points)		0	– 21
RESIDUAL CAP RATE			
Range	6.50% – 10.50%	6.50% – 10.50%	6.50% – 10.50%
Average	8.09%	8.05%	8.20%
Change (Basis Points)		+ 4	– 11
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 5.00%	0.00% – 5.00%	0.00% – 8.00%
Average	2.75%	3.42%	3.83%
Change (Basis Points)		– 67	– 108
EXPENSE CHANGE RATE[b]			
Range	3.00% – 5.00%	3.00% – 5.00%	3.00% – 5.00%
Average	3.36%	3.36%	3.36%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	6.42	6.42	6.42
Change (%)		0	0

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

Table SFO-1
KEY ASSUMPTION COMPARISON
Southeast Florida Office Market

Statistic	Average 1Q08	Average 1Q07	Change
Initial-Year Market Rent Change Rate	2.75%	3.83%	– 108
Forecast Value Change	1.70%	4.25%	– 255
Excessive TI Allowance - (psf)	$11.00	$7.50	+ $3.50

Source: Korpacz Real Estate Investor Survey®

Suburban Maryland Office Market

WITH NEARLY TWO MILLION SQUARE FEET OF NEW OFFICE SPACE DELIVERED TO THE SUBURBAN MARYLAND OFFICE MARKET IN 2007 – AND ONLY 32.0% PRE-LEASED – THIS MARKET IS EXPECTED TO SEE VACANCY RATES CONTINUE TO CLIMB IN 2008. "Tenant demand has slowed, yet construction appears to be on the up-swing," states a participant. The majority of recent office building construction (about 800,000 square feet) has been delivered in Montgomery County, according to CB Richard Ellis. Frederick and Prince George's Counties delivered 430,000 square feet and 322,000 square feet, respectively, in 2007.

When combined with a slowdown in tenant demand, these additions to supply have caused vacancy rates to increase. In the fourth quarter of 2007, the overall vacancy rate for Suburban Maryland was 10.3%, according to Cushman & Wakefield. A year later, this rate increased to 11.9%. Unfortunately for landlords, it appears that this upward trend will continue due to the nearly 3.1 million square feet of new space expected to come on line by year-end 2009. Approximately 80.0% of this total is located in Montgomery County – with the majority (84.0%) located in the I-270 Corridor.

Developers adding product to the I-270 Corridor, which includes the top-performing submarkets of North Bethesda, North Rockville, Gaithersburg, and Germantown, are hoping that the Inter-County Connector (ICC) road project will increase the submarket's appeal among prospective tenants. The ICC six-lane, 18-mile toll road will link existing and proposed development areas between the I-270/I-370 and I-95/US 1 corridors within central and eastern Montgomery County and northwestern Prince George's County.

The top-performing submarkets of Montgomery County remain prime targets for investors' capital even though sales activity has slowed recently. In Bethesda, for example, JBG Companies purchased Artery Plaza, a 276,191-square-foot office building, for $489.00 per square foot. Tenants at this property include Cambridge Information, Edens & Avant, Greystone Servicing Corp., and PNC Financial. Reportedly, 55,000 square feet are leased at below market rent and expire by 2010.

Approximately 15 office buildings totaling $584.6 million dollars were either sold or contracted for sale in the six months leading up to March 2008, according to Real Capital Analytics, Inc. The average sale price was $288.00 per square foot. By comparison, the average sale price in Northern Virginia's office market during that time period was $294.00 per square foot.

Despite their proximity to each other, investors see Suburban Maryland as a slightly riskier office investment location that provides weaker rent growth potential. In the first quarter of 2008, this market's average overall cap rate was 6.92%; its average initial-year market rent growth rate was 2.81%. By comparison, Northern Virginia's average overall cap rate was 6.83%; its average initial-year market rent growth rate was 2.94%. ✧

Table 22
SUBURBAN MARYLAND OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 11.00%	6.00% – 11.00%	6.00% – 11.00%
Average	8.20%	8.20%	8.17%
Change (Basis Points)		0	+ 3
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 9.00%	5.00% – 9.00%	5.00% – 9.00%
Average	6.92%	6.92%	6.89%
Change (Basis Points)		0	+ 3
RESIDUAL CAP RATE			
Range	6.00% – 9.50%	6.00% – 9.50%	6.00% – 9.50%
Average	7.67%	7.64%	7.70%
Change (Basis Points)		+ 3	– 3
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 4.00%	0.00% – 4.00%	0.00% – 6.00%
Average	2.81%	2.81%	2.92%
Change (Basis Points)		0	– 11
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[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	5.79	5.79	5.79
Change (%)		0	0

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

Washington, DC Office Market

EVEN IN THE FUNDAMENTALLY STRONG WASHINGTON, DC OFFICE MARKET, WHERE THE OVERALL VACANCY RATE CONTINUES TO BE IN THE SINGLE DIGITS, SALES ACTIVITY HAS BEEN EXTREMELY SLOW SINCE THE ONSET OF THE CREDIT CRISIS THIS PAST YEAR. "The District hasn't escaped the problems recently created in the debt market," remarks a participant. Although many investors continue to shop for opportunities in this market, they are doing so cautiously while they try to figure out where pricing has settled. "We have been low bidding some offerings to see where things price out and have been getting some call backs from sellers," shares an investor. Although sellers are requesting higher initial offers, they do not appear completely discouraged by opening bids.

A Class-A office building that recently sold in Washington, DC's CBD submarket was 2000 M Street, NW. This 227,000-square-foot office building features a three-level, 375-vehicle parking facility and sold for close to $325.00 per square foot. At the time of sale, this asset was 100.0% leased to 21 tenants. Some of the contract rents at this property are reportedly below market and present some upside potential to the new owner. According to GVA Advantis, the average rental rate for Class-A space in the CBD was $48.09 per square foot in the third quarter of 2007.

Although the initial-year market rent change rate for this market has remained relatively stable for the past two quarters, it has increased quite a bit over the past five years (see Table DCO-1). Between the first quarter of 2003 and the first quarter of 2008, this market's initial-year market rent change rate increased 136 basis points. Fortunately for tenants, rental rates are showing signs of stabilizing due mainly to a slowdown in demand, additions to supply, and a sluggish national and local economy. "Leasing demand is down on the part of the GSA – U.S. General Services Administration," notes a participant. Nevertheless, landlords of core, trophy assets will continue to hold the upper hand during lease negotiations.

Market fundamentals, however, could start to swing more in favor of tenants if demand pulls back farther than most investors anticipate. "I am definitely more concerned about demand than I am about additions to supply," reveals an investor. If demand drops off, many landlords will attempt to hold face rental rates high, but will start to offer more inducements and cash incentives to prospective tenants. ❖

Table 23
WASHINGTON, DC OFFICE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 9.50%	6.00% – 9.50%	6.00% – 9.50%
Average	7.48%	7.48%	7.68%
Change (Basis Points)		0	– 20
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 8.00%	5.00% – 8.00%	5.00% – 8.00%
Average	6.16%	6.14%	6.28%
Change (Basis Points)		+ 2	– 12
RESIDUAL CAP RATE			
Range	5.00% – 9.00%	5.00% – 9.00%	5.00% – 9.00%
Average	6.89%	6.89%	7.04%
Change (Basis Points)		0	– 15
MARKET RENT CHANGE RATE[b]			
Range	3.00% – 7.00%	3.00% – 7.00%	3.00% – 7.00%
Average	3.77%	3.77%	3.68%
Change (Basis Points)		0	+ 9
EXPENSE CHANGE RATE[b]			
Range	3.00% – 3.50%	3.00% – 3.50%	3.00% – 3.50%
Average	3.06%	3.06%	3.06%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	1.00 – 9.00	1.00 – 9.00	1.00 – 9.00
Average	3.94	3.94	3.94
Change (%)		0	0

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

Table DCO-1
MARKET RENT CHANGE RATES
Washington, DC Office Market

Quarter	Average	Change (Basis Points)
1Q08	3.77%	+ 9
1Q07	3.68%	+ 36
1Q06	3.32%	+ 64
1Q05	2.68%	+ 33
1Q04	2.35%	– 6
1Q03	2.41%	—

Source: Korpacz Real Estate Investor Survey®

National Flex/R&D Market

STEADY GROWTH IN THE HIGH-TECH SECTOR AND HIGHER RENTAL RATES IN COMPARABLE OFFICE BUILDING LOCATIONS CONTINUE TO GENERATE DEMAND FOR SPACE IN THE NATIONAL FLEX/R&D MARKET. "Continued demand for high-tech goods and services is a definite plus for this unique property type," expresses a participant. Individual market performances, however, vary greatly. For the most part, the tightest flex/R&D markets are located along the West Coast and include long-standing favorites like Silicon Valley, La Jolla, and Los Angeles/Orange County.

In Los Angeles County, the overall vacancy rate for flex/R&D space stood at 5.7% at year-end 2007, according to Delta Associates. In Orange County, the overall vacancy rate for flex/R&D space was a much tighter 3.7% at year-end 2007, down from 4.6% in 2006. Fundamentals should remain very strong in both counties over the near term due to limited additions to supply. As of year-end 2007, only 95,000 square feet of flex/R&D space were under construction in Orange County (of which 37.0% was pre-leased). In Los Angeles County, no flex/R&D buildings were under construction at that time.

Table FLX-1

MARKET RENT CHANGE RATES

National Flex/R&D Market

Quarter	Average	Change (Basis Points)
1Q08	2.75%	+ 14
1Q07	2.61%	+ 36
1Q06	2.25%	+ 96
1Q05	1.29%	+ 10
1Q04	1.19%	0
1Q03	1.19%	—

Source: Korpacz Real Estate Investor Survey®

The ability to absorb sublease space has been a benefit to this sector's stability. In the first quarter of 2007, sublease space totaled 14.9 million square feet in the U.S. flex market, according to CoStar Group, Inc. By the end of 2007, the total amount of sublease space shrunk to 12.3 million square feet. With less sublease space in the market, landlords have a better chance of increasing rental rates since fewer space options exist for tenants. "Sublease space tends to rent at rates less than market rent, so the less sublease space the better for us," comments an existing flex/R&D landlord.

Although the initial-year market rent change rate for this market has remained relatively stable for the past two quarters, it has increased quite a bit over the past five years (see Table FLX-1). Between the first quarter of 2003 and the first quarter of 2008, this market's initial-year market rent change rate increased 156 basis points. The recent increases in market rent are one reason that investors continue to pursue flex/R&D assets – higher returns represent another. This quarter, the average overall cap rate for the national flex/R&D market was 7.47%, 100 basis points above that for the national warehouse market. Even though investments in flex/R&D assets can run "hot and cold," the potential for higher returns is quite appealing to investors. ✧

Table 24

NATIONAL FLEX/R&D MARKET

First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.75% – 10.00%	6.75% – 10.00%	6.75% – 10.50%
Average	8.46%	8.46%	8.80%
Change (Basis Points)		0	– 34
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 9.00%	5.50% – 10.00%	5.50% – 10.00%
Average	7.47%	7.60%	7.73%
Change (Basis Points)		– 13	– 26
RESIDUAL CAP RATE			
Range	6.75% – 10.50%	6.75% – 10.50%	6.75% – 10.50%
Average	8.10%	8.07%	8.24%
Change (Basis Points)		+ 3	– 14
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 5.00%	0.00% – 5.00%	0.00% – 5.00%
Average	2.75%	2.75%	2.61%
Change (Basis Points)		0	+ 14
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[c]			
Range	3.00 – 18.00	3.00 – 18.00	3.00 – 18.00
Average	6.06	6.56	6.33
Change (%)		– 7.62	– 4.27

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

National Warehouse Market

DUE TO FAVORABLE SUPPLY-DEMAND FUNDAMENTALS AND THE ABILITY TO BETTER START AND STOP ADDITIONS TO SUPPLY, THE NATIONAL WAREHOUSE MARKET IS NOT EXPECTED TO SEE SIGNIFICANT DOWNWARD SHIFTS IN VALUES AS INVESTORS REPRICE RISK. "We expect warehouse values to stay relatively stable and have just very minor declines," shares a participant. "We see property values staying quite stable in the warehouse sector," notes another. In comparison to the office sector, the warehouse sector is not perceived as being as economically sensitive to job growth. And unlike the retail sector, it tends to be less impacted by changes in consumers' spending habits. "On the consumer side, less spending hurts retailers directly and warehouse assets indirectly," adds an investor.

Viewed by investors as a "safe haven," it is not surprising that many of them remain eager to pursue opportunities within the warehouse sector. "Our clients have the equity and the desire to acquire more warehouse assets, but no one knows how to price risk right now," states a participant. As a result of a widening bid-ask gap and the inability of many buyers to acquire debt, sales of significant industrial properties fell 22.0% in the fourth quarter of 2007, according to Real Capital Analytics, Inc. Nevertheless, huge portfolio sales during the first half of 2007 made it a record year in terms of sales volume. Over $46.0 billion of industrial properties changed hands in 2007, a 7.0% increase over 2006.

Warehouse markets that received the most dollars from investors in 2007 were Los Angeles ($2.9 billion), Chicago ($2.2 billion), Seattle ($1.1 billion), Dallas ($1.1 billion), and Atlanta ($1.0 billion). Such locations – described by investors as "global pathway markets" that possess dominant ports, vast interstate highway systems, and close proximity to international airports – will continue to see the most interest from investors. The highest average prices per square foot in 2007 were reported in the New York City Boroughs ($152.00 per square foot), San Diego ($149.00 per square foot), Los Angeles ($140.00 per square foot), and Orange County ($131.00 per square foot).

Sales activity is expected to remain very low in the warehouse sector for at least the first half of 2008 and will mainly include Class-A assets. In fact, a few transactions involving Class-A warehouse assets have already occurred in top-performing industrial markets, like Chicago. "Class-A assets will continue to trade and trade well," comments a participant. On the other hand, Class-B warehouse assets are expected to see less interest from buyers and higher increases in overall cap rates. In one recent transaction involving a Class-B warehouse portfolio, a participant noted that the overall cap rate was up 50 basis points from where it would have traded in 2007. As more current sales data becomes available and buyers and sellers close the bid-ask gap and regain confidence in the economy, sales activity will likely increase. But, it will take some time. ❖

Table 25
NATIONAL WAREHOUSE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	5.50% – 10.00%	5.50% – 11.50%	5.50% – 11.50%
Average	7.67%	7.87%	8.01%
Change (Basis Points)		– 20	– 34
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 8.00%	5.00% – 8.00%	5.00% – 8.50%
Average	6.47%	6.48%	6.78%
Change (Basis Points)		– 1	– 31
RESIDUAL CAP RATE			
Range	5.50% – 8.50%	6.00% – 10.00%	6.00% – 10.00%
Average	7.13%	7.27%	7.47%
Change (Basis Points)		– 14	– 34
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 10.00%	0.00% – 10.00%	(2.00%) – 5.00%
Average	3.23%	3.23%	2.71%
Change (Basis Points)		0	+ 52
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.50%	2.00% – 3.50%	2.00% – 3.50%
Average	3.00%	3.00%	3.00%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	5.59	5.84	5.77
Change (%)		– 4.28	– 3.12

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

National Apartment Market

The resilient fundamentals of the national apartment market are being complemented by the growing number of "new" renters falling out of homeownership, the aging echo-boomer generation, and the building restraint shown by apartment developers. The national apartment market is poised to benefit from the subprime mortgage debacle for two reasons. First, the woes in the residential market are forcing more people into the rental pool. Second, existing renters are staying put as home buying becomes cost prohibitive. Interestingly, it appears that the shadow market in many areas is not being exacerbated by additions to supply. Instead, it is being improved by the aforementioned increases in the number of renters.

The underlying health of the national apartment market is indicated by its fourth quarter 2007 vacancy rate of 5.6%, as reported by Reis. Moreover, the vacancy rate rises to only 6.0% and 6.3% in the next two years given the combination of rising demand and fewer than 100,000 units of new supply annually in 2008 and 2009. At year-end 2007, the top five apartment markets in terms of lowest vacancy were New York (2.1%), Long Island (3.0%), Northern New Jersey (3.2%), Fairfield County (3.3%), and Central New Jersey (3.4%). "Since apartment supply is constrained, markets with low housing affordability should perform well," highlights a participant. On the contrary, apartment markets struggling with vacancy at the end of 2007 were Memphis (10.4%), Colorado Springs (9.2%), and Columbia, South Carolina (8.9%).

From an investment perspective, the apartment market is following a trend similar to the other property sectors with a slowdown in transaction volume and an uptick in overall cap rates (OARs). In the first quarter of 2008, the average OAR increased four basis points to 5.79%. However, it remained the lowest OAR average of all the property markets tracked by our Survey. Excluding Archstone's $22.0-billion privatization in the fourth quarter of 2007, sales volume totaled $76.0 billion in 2007 – below that of 2005 ($86.0 billion) and 2006 ($92.0 billion), according to Real Capital Analytics, Inc. The top five markets for total sales volume in 2007 were Manhattan ($8.0 billion), Washington D.C./Northern Virginia ($3.7 billion), New York City boroughs ($2.0 billion), Chicago ($1.9 billion), and Los Angeles ($1.6 billion). Coincidentally, these were the top five markets for investment activity in 2006, albeit in a slightly different order.

With numerous buyers still eager to acquire apartment assets and many properties being offered for sale, 2008 could turn out to be another healthy transaction year for this sector. In South Florida, where the subprime crisis has been particularly detrimental, buyers are aggressively pursuing bank-owned properties and assets held by speculators from the condo craze. In San Francisco, where rent growth is at the top of the list nationally, a 17-property apartment portfolio is being marketed for $112.0 million.

Table 26
NATIONAL APARTMENT MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 10.50%	6.00% – 10.50%	6.00% – 11.00%
Average	8.15%	8.17%	8.28%
Change (Basis Points)		– 2	– 13
OVERALL CAP RATE (OAR)[a]			
Range	3.50% – 8.00%	3.50% – 8.00%	3.50% – 8.00%
Average	5.79%	5.75%	5.89%
Change (Basis Points)		+ 4	– 10
RESIDUAL CAP RATE			
Range	4.50% – 8.50%	4.50% – 8.50%	5.00% – 9.00%
Average	6.56%	6.58%	6.91%
Change (Basis Points)		– 2	– 35
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 8.00%	0.00% – 8.00%	(2.00%) – 9.00%
Average	3.51%	3.54%	3.50%
Change (Basis Points)		– 3	+ 1
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.75%	2.00% – 3.75%	2.00% – 3.50%
Average	2.91%	2.91%	2.86%
Change (Basis Points)		0	+ 5
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	5.79	5.75	5.67
Change (%)		+ 0.70	+ 2.12

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

National Net Lease Market

CASH BECOMES KING IN THE NATIONAL NET LEASE MARKET AS TRANSACTION ACTIVITY TAKES A PLUNGE DURING THE FOURTH QUARTER OF 2007 IN REBUTTAL TO THE NATION'S CREDIT CRISIS. "Unless there is a concrete reason for someone to sell an asset right now, they are not selling – and most sellers are choosing an all-cash buyer even if a leveraged buyer comes in at a higher number," remarks a participant. The number of net lease assets sold between the third and fourth quarters of 2007 declined an astonishing 73.0% – down from 12,266 assets in the third quarter of 2007 to just 3,290 in the fourth quarter of 2007, according to Boulder Net Lease Funds. The office sector saw the greatest decline in transactions during that time, dropping 77.6%. A total of 18,164 net lease assets were available for sale as of year-end 2007, down about 25.0% from the third quarter of 2007. Retail dominated the offerings (9,558 assets), followed by office (5,082 assets) and industrial (3,528 assets).

As the number of net lease transactions has plummeted, this market has become bifurcated in terms of tenant quality. Deals that are reaching fruition typically involve creditworthy tenants, such as Walgreens, The Home Depot, and Kohl's. "Strong demand always exists for stabilized product," emphasizes a participant. At the same time, the tightened debt market has resulted in a bid-ask pricing gap for net lease assets. As a participant explains, "A sellers' market exists for 'A' properties, while 'B' and 'C' properties are back where they belong with higher cap rates and indications of a buyers' market."

While our Survey indicates a minimal quarterly increase in this market's overall capitalization rate (OAR), participants anticipate OAR increases ranging from 15 to 50 basis points over the next six months. The average expected increase in OARs is 26 basis points. "We're still finding there to be a lag in seller expectations with some sellers expecting pricing on core deals that would result in negative leverage for buyers," summarizes a participant.

In the midst of a turbulent economy, sale-leaseback transactions remain a viable option for corporations to raise capital. Berry Plastics sold three manufacturing facilities totaling 1.4 million square feet to W.P. Carey for $87.0 million in a sale-leaseback deal during the fourth quarter of 2007. In another deal, Goodyear Tire and Rubber Company agreed to sell its technical center and research facilities in Akron, Ohio to Industrial Realty Group. Some of the assets will be leased back by Goodyear, while some will be redeveloped for commercial use.

In another sale-leaseback deal, HealthSouth Corporation in Birmingham, Alabama sold its 85-acre headquarters campus to Daniel Corporation in a $43.5-million transaction. Daniel will not only lease the headquarters building back to HealthSouth, but it will also complete an unfinished hospital facility that was under construction at the time of sale. HealthSouth plans to retain a 40.0% ownership in this development project.

Table 27
NATIONAL NET LEASE MARKET
First Quarter 2008

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 12.00%	8.00% – 12.00%	8.50% – 12.00%
Average	9.55%	9.55%	10.25%
Change (Basis Points)		0	– 70
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 10.00%	6.00% – 10.00%	6.00% – 10.00%
Average	7.63%	7.60%	7.65%
Change (Basis Points)		+ 3	– 2
RESIDUAL CAP RATE			
Range	6.50% – 10.00%	6.50% – 10.00%	7.50% – 9.50%
Average	8.13%	8.06%	8.41%
Change (Basis Points)		+ 7	– 28
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 3.00%	2.75% – 3.50%	2.50% – 3.00%
Average	2.33%	3.00%	2.69%
Change (Basis Points)		– 67	– 36
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.75%	2.50%	2.44%
Change (Basis Points)		+ 25	+ 31
AVERAGE MARKETING TIME[c]			
Range	1.00 – 6.00	1.00 – 6.00	1.00 – 6.00
Average	3.50	3.50	3.60
Change (%)		0	– 2.78

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

National Lodging Highlights

THE FOLLOWING INTRODUCTION IS EXTRACTED FROM "PRICEWATERHOUSE-COOPERS HOSPITALITY DIRECTIONS – U.S. EDITION" DATED FEBRUARY 2008.

The U.S. economy's rate of growth has decelerated significantly with some analysts assuming that the economy has already entered a recession. Frequent data revisions and the delay with which the National Bureau of Economic Research – the institution that determines the precise turning points in the economy – announces the beginning or end of a recession combine for a highly uncertain macroeconomic outlook.

Irrespective as to whether the economy is officially in a recession or not, it is apparent that the credit crisis that started in the subprime mortgage industry has quickly spread to other sectors of the economy, particularly construction and financial services, threatening the viability of the ongoing expansion.

As of February 8, 2008, Macroeconomic Advisers, a private company that provides U.S. economic outlooks, does not anticipate a recession – defined as two consecutive quarters of negative GDP growth. Declines in interest rates and the fiscal stimulus package passed by Congress and signed by the President are forecast to exert a positive influence on the economy during the second half of 2008.

Consistent with Pricewaterhouse-Coopers' (PwC's) recent outlooks, the U.S. lodging industry experienced a slowing in 2007 in terms of ADR and RevPAR growth, while supply growth accelerated. As consumers restrain discretionary spending growth due to higher energy prices, lower equity wealth, and continued declines in housing values, the U.S. lodging industry is also expected to experience further slowing in demand and room rate growth.

PROFITS

Due to continued increases, although at a slower pace, in both ADR and RevPAR, PwC's Hospitality & Leisure Advisory group forecasts industry profits (income before income taxes) of $28.0 billion in 2007 followed by $29.6 billion in 2008 and $32.5 billion in 2009. After three straight years of declines in 2001 through 2003, the lodging industry experienced a rebound in aggregate profits in 2004. In 2005, profits once again topped $22.0 billion and climbed to $26.7 billion in 2006.

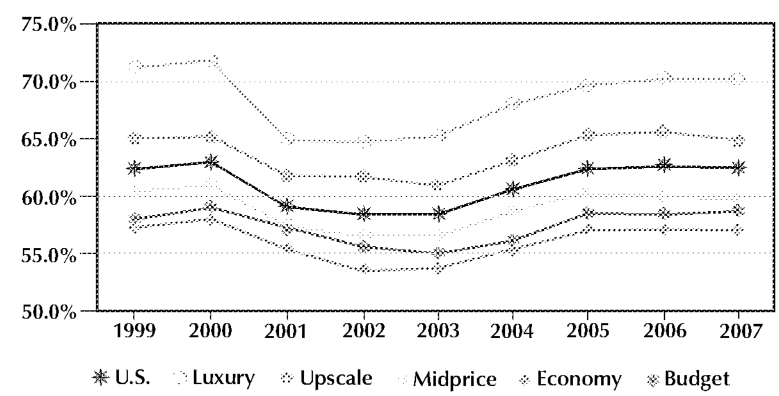
DEVELOPMENT

Supply growth accelerated in the lodging industry in 2006 and 2007. According to Smith Travel Research (STR), room starts totaled 141,500 in 2007, up slightly from 2006's total of 139,700. These annual figures are up significantly when compared to the room starts recorded between 2001 and 2005. During that four-year period, new room starts ranged from 68,400 in 2002 to 90,500 in 2001 and averaged 80,220. "Hotel construction seems to be peaking at the same time that demand is slowing, so I would expect a modest imbalance between supply and demand for a while," comments a participant.

Most of the hotel rooms in the construction pipeline are in the upscale segment, which includes brands such as Courtyard by Marriot and Hilton Garden Inn, and the midscale-without-food-and-beverage (F&B) segment, which includes brands such as Hampton Inn and Holiday Inn Express. In 2008, average room supply growth is forecast at 3.9% and 4.3%, respectively, in these two segments. In 2009, these figures are both forecast to increase to 4.4%.

Even though no immediate threat of an oversupply exists, many investors express concern that the delivery of many new projects is poorly timed. Alleviating their fears is the fact that stricter underwriting guidelines from lenders, high land prices, and high construction costs for both materials and labor will likely delay, postpone, or cancel some projects.

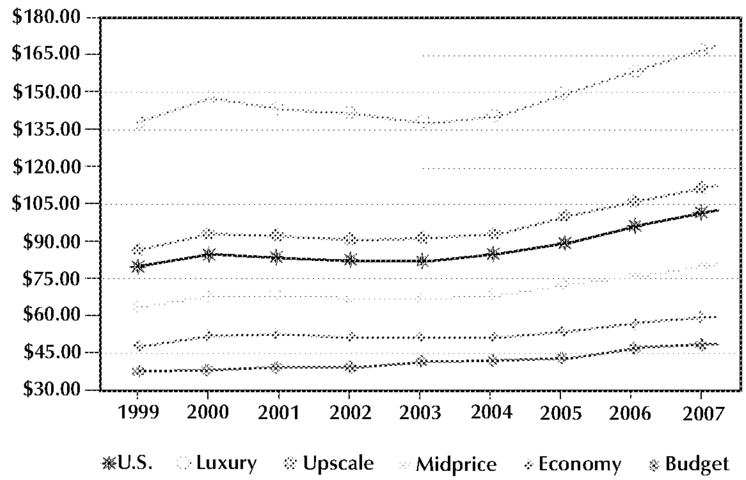
Exhibit L-1
OCCUPANCY RATES



Source: Smith Travel Research

Exhibit L-2

AVERAGE DAILY RATE (ADR)



Source: Smith Travel Research

INVESTMENT ACTIVITY

Tighter lending requirements, a fragile U.S. economy, and an expected deceleration in ADR and RevPAR growth have combined to calm the frenzied pace of sale transactions in the lodging industry. "We are definitely more cautious going into a hotel deal now than we were a year ago," shares a participant. After back-to-back years of record-breaking transaction volumes and huge mega deals, both the volume and number of property trades are expected to be much lower in 2008 compared to prior years. "Once the debt markets settle down, deals should pick up again," predicts a participant.

Hotel property sales that recently closed include Chartres Lodging Group's 4,867-room, five-property Adams Mark portfolio acquisition, which reportedly sold for around $100,000 per room. The hotels are located in Dallas (1,840 rooms), Denver (1,225 rooms), St. Louis (910 rooms), Buffalo (486 rooms), and Indianapolis (406 rooms). The new owner plans to spend approximately $238.0 million to renovate, rebrand, and reposition the five properties over the next 18 months. In another portfolio deal, a joint venture comprised of Interstate Hotels & Resorts and FFC Capital Corp. acquired 22 Exel Inns at an undisclosed amount. The new owner converted each of the assets to various Wyndham Worldwide brands.

PERFORMANCE TRENDS

Occupancy

Overall occupancy for the lodging industry was 63.2% for 2007, a 0.2% decrease from 2006 (63.3%), according to STR (see Exhibit L-1). Occupancy levels declined in each price segment over this time period with the exception of the upper-upscale segment, which posted an occupancy gain of 0.1%. The midprice-without-F&B price segment experienced the largest loss, moving down 0.7%. The luxury segment incurred the smallest loss in occupancy at 0.1%.

Geographically, the West North Central region of the United States – the states of North Dakota, South Dakota, Nebraska, Kansas, Minnesota, Iowa, and Missouri – realized the greatest increase in occupancy in 2007 with a gain of 2.4%. The next highest gain in occupancy (1.5%) was realized in the New England region – the states of Maine, New Hampshire, Vermont, Massachusetts, Connecticut, and Rhode Island. Within the New England region, Boston reported an occupancy gain of 1.9%, one of the highest annual increases reported for the top 25 individual markets tracked by STR.

Average Daily Rate (ADR)

Overall ADR for the lodging industry was $103.64 in 2007, a 5.9% increase from the same period in 2006 ($97.89), according to STR (see Exhibit L-2). Improvement in ADR was reported in all chain scale segments over the past year. The midprice-without-F&B segment posted the highest annual ADR increase at 7.1% with both the luxury and upscale price segments closely behind at 6.9% and 6.0%, respectively. The economy segment posted the lowest gain at 2.7%.

Within the United States, the Middle Atlantic region realized the greatest increase in ADR in 2007 at 8.5%. The top-performing market in the Middle Atlantic region in terms of annual ADR growth in 2007 was New York, which recorded an increase of 11.8%, the highest annual increase reported for the top 25 individual markets tracked by STR.

Various trends and forecasts have been extracted from *PricewaterhouseCoopers Hospitality Directions – U.S. Edition,* a quarterly research journal published by PricewaterhouseCoopers Hospitality & Leisure Group, which provides historical data and forecasts for the U.S. lodging industry and each of the six chain-scale segments with respect to ADR, occupancy, RevPAR, demand, supply, and revenue. For more information, please call Abhishek Jain at 646-471-2016 or email contact.hospitality @us.pwc.com.

National Full-Service Lodging Segment

WITH DEMAND GROWTH UNABLE TO KEEP PACE WITH THE TREMENDOUS AMOUNT OF NEW CONSTRUCTION OCCURRING IN THE UPSCALE LODGING SEGMENT, OCCUPANCY IN THIS SECTOR DIPPED FOR THE THIRD STRAIGHT YEAR. According to Smith Travel Research (STR), the upscale lodging segment posted an occupancy rate of 69.6% in 2007. While demand increased at 2.8% in 2007, supply outpaced demand with a growth rate of 3.7%. Supply growth started to outpace demand growth in 2006, when the growth rates were 1.7% and 1.5%, respectively.

Prior to 2006, difficult lead times and the high cost of constructing new upscale resorts kept additions to supply to a minimum. In 2004, for example, supply in the upscale segment grew by just 0.5%. In 2005, due to a strong U.S economy and a robust recovery in the lodging sector, many investors set their sights on developing new full-service hotels to keep up with strong demand. Unfortunately, many of these new projects are opening at a time when U.S. economic growth and lodging demand are slowing. "Full-service hotel properties have pretty long construction time frames, making it that much more difficult to properly time them," notes a participant.

Although the number of rooms in the midprice-with-F&B segment has declined over the past two years, so too has demand – and at a greater rate. These trends are expected to continue over the next two years causing downward shifts in ADR and RevPAR growth. In 2009, this segment's forecast occupancy rate of 58.6% represents its lowest level since 2004 (see Table FS-1).

One company busy rebranding and building full-service hotels in 2008 and 2009 is InterContinental Hotels Group (IHG). In one rebranding project, IHG is converting an eight-story, 588-room Executive West Hotel located in Louisville, Kentucky to a Crowne Plaza. In a ground-up project, IHG is constructing a 150-room Crowne Plaza near the Fort Lauderdale-Hollywood International Airport. And, IHG is also opening a 250-room Crowne Plaza near the Tampa International Airport. These three properties are each independently owned, under separate license agreements with a company within IHG.

Table FS-1
LODGING FORECASTS

Segment	2008	2009
Upscale		
Occupancy	68.9%	68.5%
ADR	$124.87	$130.71
RevPAR Growth	+ 4.6%	+ 4.1%
Midprice with Food & Beverage		
Occupancy	58.8%	58.6%
ADR	$89.45	$92.73
RevPAR Growth	+ 3.7%	+ 3.4%

Source: *Hospitality Directions – U.S. Editions*, published by PricewaterhouseCoopers LLP; February 2008

Table 28
NATIONAL FULL-SERVICE LODGING SEGMENT
First Quarter 2008

	CURRENT QUARTER	THIRD QUARTER 2007	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.25% – 14.00%	9.00% – 14.00%	9.25% – 14.00%
Average	10.84%	11.02%	11.26%
Change (Basis Points)		– 18	– 42
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 10.50%	6.00% – 10.50%	6.00% – 10.50%
Average	8.33%	8.30%	8.74%
Change (Basis Points)		+ 3	– 41
RESIDUAL CAP RATE			
Range	6.00% – 11.00%	6.00% – 11.00%	6.00% – 11.00%
Average	9.08%	8.98%	9.06%
Change (Basis Points)		+ 10	+ 2
AVERAGE DAILY RATE CHG. RATE[b]			
Range	3.00% – 8.00%	3.00% – 10.00%	3.00% – 7.00%
Average	4.39%	4.95%	4.44%
Change (Basis Points)		– 56	– 5
OPERATING EXPENSE CHG. RATE[b]			
Range	2.00% – 5.00%	2.00% – 5.00%	2.00% – 5.00%
Average	3.48%	3.48%	3.40%
Change (Basis Points)		0	+ 8
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	2.00 – 12.00
Average	5.94	5.61	5.75
Change (%)		+ 5.88	+ 3.30

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

National Economy/ Limited-Service Lodging Segment

THE TWO CHAIN SCALES THAT COMPRISE THE ECONOMY/LIMITED-SERVICE LODGING SEGMENT CONTINUE TO PERFORM QUITE DIFFERENTLY. On one side, the midscale-without-food-and-beverage (F&B) segment remains one of the top-performing chain scales within the lodging industry, posting impressive gains in both ADR and RevPAR growth over the past two years. In 2007, ADR grew by 7.1% in the midscale-without-F&B segment, while RevPAR increased by 6.0%, according to Smith Travel Research. In sharp contrast, the economy chain scale's performance continued to lag, recording ADR growth of 2.7% and RevPAR growth of 2.4% in 2007.

According to the February 2008 edition of *PricewaterhouseCoopers Hospitality Directions - U.S. Edition*, the disparity in these sectors' performances will continue through 2009. The midscale-without-F&B segment, which includes brands such as La Quinta Inn, Hampton Inn, and Wingate Inn, is forecast to achieve RevPAR growth of 5.8% in 2008 – the second highest growth rate of the six lodging segments (see Table EL-1). At 6.0%, the luxury segment is forecast to realize the highest RevPAR growth in 2008. On the other hand, the economy segment, which includes brands such as Super 8, Motel 6, Suburban Lodge, and Travelodge, is forecast to achieve RevPAR growth of 2.6% in 2008 – the lowest growth of the six lodging segments.

The weaker performance of the economy sector is due to the combined impact of a decline in demand and an increase in room supply. In 2007, average room supply in that sector grew at 2.0%, while demand grew at 1.7%. The difference between those two growth rates is amplified by the 1.1% decline in demand in 2006. Unfortunately, supply is expected to outpace demand over the next two years, increasing by 1.5% in 2008 and 1.6% in 2009. "Limited-service hotels remain attractive plays for developers because they are faster and cheaper to construct and have lower breakeven occupancy points," notes an investor. According to our participants, breakeven occupancy ranges from 50.0% to 70.0% and averages 59.0% for economy/limited-service hotels.

Table 29

NATIONAL ECONOMY/LIMITED-SERVICE LODGING SEGMENT

First Quarter 2008

	CURRENT QUARTER	THIRD QUARTER 2007	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.00% – 18.00%	10.00% – 18.00%	10.00% – 18.00%
Average	12.35%	12.35%	12.40%
Change (Basis Points)		0	– 5
OVERALL CAP RATE (OAR)[a]			
Range	6.50% – 14.00%	6.50% – 14.00%	6.50% – 14.00%
Average	9.58%	9.58%	9.67%
Change (Basis Points)		0	– 9
RESIDUAL CAP RATE			
Range	7.00% – 14.00%	7.00% – 14.00%	7.00% – 14.00%
Average	10.04%	10.04%	10.13%
Change (Basis Points)		0	– 9
AVERAGE DAILY RATE CHG. RATE[b]			
Range	1.00% – 9.00%	1.00% – 9.00%	1.00% – 9.00%
Average	4.08%	4.00%	4.00%
Change (Basis Points)		+ 8	+ 8
OPERATING EXPENSE CHG. RATE[b]			
Range	2.00% – 4.00%	2.00% – 4.00%	2.00% – 4.00%
Average	3.10%	3.10%	3.10%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	3.00 – 10.00	3.00 – 10.00	3.00 – 10.00
Average	6.40	6.40	6.40
Change (%)		0	0

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

Table EL-1

LODGING FORECASTS

	2008	2009
Midprice without F&B		
Occupancy	65.0%	64.9%
ADR	$93.10	$98.45
RevPAR Growth	+ 5.8%	+ 5.5%
Economy		
Occupancy	56.9%	56.8%
ADR	$55.20	$56.60
RevPAR Growth	+ 2.6%	+ 2.4%

Source: *Hospitality Directions – U.S. Editions*, published by PricewaterhouseCoopers LLP; February 2008

National Luxury/Upper-Upscale Lodging Segment

DESPITE ADDITIONS TO SUPPLY, THE NATIONAL LUXURY/UPPER-UPSCALE LODGING SEGMENT CONTINUES TO MAINTAIN A RELATIVELY FAVORABLE BALANCE BETWEEN SUPPLY AND DEMAND. "Demand for luxury accommodations is still strong, especially in the country's top cities," confirms a participant. Overall, the luxury chain scale, which includes hotel brands such as Four Seasons and Fairmont, posted an occupancy rate of 71.0% in 2007, according to Smith Travel Research. The upper-upscale chain scale's occupancy rate was a tad higher at 71.3%. By comparison, the U.S. average was 63.2% in 2007.

The dominant performance of these lodging segments over the past few years has prompted several leading luxury hotel brands, such as Four Seasons, Rosewood, and Trump, to forge ahead with the construction of new projects. According to the February 2008 edition of *PricewaterhouseCoopers Hospitality Directions - U.S. Edition*, average room supply in the luxury segment grew 3.4% in 2006 – the highest rate of the six segments tracked by PwC. In 2007, average room supply grew by 2.3%. Even though a slowdown in room supply growth is expected in 2008 (2.6%) and 2009 (2.6%), it is expected to stay ahead of demand. As a result, many luxury hotels could see a decline in occupancy, ADR, and RevPAR.

New luxury hotels that recently opened, broke ground, or are scheduled to open in 2008 include the Four Seasons Hotels & Resorts' 175-room premier property located at 99 Church Street in Downtown Manhattan, Trump International Hotel & Tower's 339-room first-class property in Chicago, and Starwood Hotels & Resorts Worldwide's 229-room W hotel in Minneapolis.

Looking ahead, RevPAR for the luxury segment is forecast to increase by 6.0% in 2008, a slowdown from the record-setting 11.8% growth in 2006 and below the 6.7% growth in 2007 (see Table LU-1). In the upper-upscale segment, occupancy is forecast to hover around 71.0% through 2009. Although RevPAR growth for the upper-upscale segment is forecast to slow in 2008 and 2009 relative to its pace in 2004 and 2005, it will still be favorable to hotel owners. ◈

Table LU-1
LODGING FORECASTS

Segment	2008	2009
Luxury		
Occupancy	70.6%	70.6%
ADR	$309.46	$328.01
RevPAR Growth	+ 6.0%	+ 5.9%
Upper Upscale		
Occupancy	71.0%	71.1%
ADR	$167.58	$175.10
RevPAR Growth	+ 4.8%	+ 4.5%

Source: *Hospitality Directions – U.S. Editions*, published by PricewaterhouseCoopers LLP; February 2008

Table 30
NATIONAL LUXURY/UPPER-UPSCALE LODGING SEGMENT
First Quarter 2008

	CURRENT QUARTER	THIRD QUARTER 2007	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 13.00%	8.00% – 13.00%	8.00% – 13.00%
Average	10.56%	10.64%	10.83%
Change (Basis Points)		– 8	– 27
OVERALL CAP RATE (OAR)[a]			
Range	4.00% – 10.50%	4.00% – 10.50%	4.00% – 10.50%
Average	7.50%	7.53%	7.56%
Change (Basis Points)		– 3	– 6
RESIDUAL CAP RATE			
Range	5.00% – 11.00%	5.00% – 11.00%	4.00% – 11.00%
Average	8.72%	8.71%	8.69%
Change (Basis Points)		+ 1	+ 3
AVERAGE DAILY RATE CHG. RATE[b]			
Range	3.00% – 8.00%	3.00% – 8.00%	3.00% – 8.00%
Average	4.94%	5.25%	5.25%
Change (Basis Points)		– 31	– 31
OPERATING EXPENSE CHG. RATE[b]			
Range	2.00% – 4.00%	2.00% – 4.00%	2.00% – 4.00%
Average	3.22%	3.17%	3.17%
Change (Basis Points)		+ 5	+ 5
AVERAGE MARKETING TIME[c]			
Range	4.00 – 8.00	4.00 – 9.00	4.00 – 9.00
Average	5.50	5.58	5.58
Change (%)		– 1.43	– 1.43

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

National Extended-Stay Lodging Segment

WHEN COMPARED TO THE OTHER SEGMENTS OF THE LODGING INDUSTRY, THE EXTENDED-STAY SEGMENT HAS TYPICALLY ACHIEVED HIGHER PROFIT MARGINS DUE TO LOWER OPERATING COSTS AND A TENDENCY TO EXPERIENCE LOWER DECLINES IN REVENUES AND PROFITS DURING TIMES OF ECONOMIC DISTRESS. "The extended-stay segment may not experience a tremendous run up in growth when the industry is booming, but at the same time it doesn't fall as hard when the industry contracts," comments a participant.

Due to these factors, this segment's annual change in room supply has been significantly above that of the entire hotel industry for the past several years. According to Smith Travel Research, annual room supply growth averaged 0.9% in the overall industry from 2000 to 2006. By comparison, annual room supply growth averaged 5.1% for the extended-stay segment during that time period. These robust additions to supply have negatively impacted the revenue and income growth of the two property categories that comprise this segment – upper-tier properties and lower-tier properties.

In the upper-tier category, which includes brands such as Residence Inn and Homewood Suites, total revenue per room stood well above the lower-tier category's total in 2006. However, this category's net operating income declined sharply between 2005 and 2006. In the lower-tier category, which includes brands such as Extended-Stay America and TownPlace Suites, total revenue per room was less than half of the upper-tier category's total in 2006. However, growth in net operating income in the lower-tier category remained quite stable between 2004 and 2006.

Marriott International opened 18 new TownePlace Suites in 2007, bringing its total number of rooms in that brand to 14,122. In 2007, Marriott's TownPlace Suites reported strong increases in both ADR and RevPAR. Select extended-stay hotel performances are shown in Table ES-1. ❖

Table 31
NATIONAL EXTENDED-STAY LODGING SEGMENT
First Quarter 2008

	CURRENT QUARTER	THIRD QUARTER 2007	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	11.00% – 16.00%	11.00% – 16.00%	11.00% – 16.00%
Average	13.30%	13.30%	13.30%
Change (Basis Points)		0	0
OVERALL CAP RATE (OAR)[a]			
Range	9.50% – 13.00%	9.50% – 13.00%	9.50% – 13.00%
Average	10.75%	10.75%	10.75%
Change (Basis Points)		0	0
RESIDUAL CAP RATE			
Range	8.50% – 13.50%	8.50% – 13.50%	8.50% – 13.50%
Average	10.46%	10.54%	10.58%
Change (Basis Points)		– 8	– 12
AVERAGE DAILY RATE CHG. RATE[b]			
Range	1.00% – 5.00%	1.00% – 5.00%	1.00% – 5.00%
Average	3.25%	3.25%	3.25%
Change (Basis Points)		0	0
OPERATING EXPENSE CHG. RATE[b]			
Range	2.00% – 4.00%	2.00% – 4.00%	2.00% – 4.00%
Average	2.83%	2.83%	2.83%
Change (Basis Points)		0	0
AVERAGE MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	8.40	8.00	8.00
Change (%)		+ 5.00	+ 5.00

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

TABLE ES-1
SELECT HOTEL PERFORMANCES – 2007

	Occupancy	RevPAR	ADR
Choice Hotels (1)			
MainStay	68.5%	$47.98	$70.04
Change (2)	– 90	+ 2.8%	+ 4.1%
Suburban	67.3%	$27.01	$40.13
Change (2)	– 510	– 2.6%	+ 4.8%
Marriott International (3)			
TownePlace Suites	74.2%	$63.56	$85.65
Change (2)	– 110	+ 7.2%	+ 8.9%
SpringHill Suites	72.6%	$78.27	$107.86
Change (2)	+ 60	+ 5.0%	+ 4.2%

(1) 12 months ending 12-31-07; compared to 12-31-06
(2) Change for occupancy is reported in basis points
(3) 52 weeks ending 12-28-07; compared to 12-29-06; comparable company-operated N.A. properties

NATIONAL REGIONAL MALL MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PUBLIC REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF and direct capitalization; in direct cap, OARs range from 5.00% to 5.25% for Class-A+ properties and from 7.00% to 8.00% for Class-C+ properties.	3.0%	3.0%	3.0%	6.25% to 8.25%	1.0%	7.50% to 10.00%	5.00% to 8.00%	6	75.0%	4.0% to 10.0%	Does not use	
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	3 to 6
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; new tenants receive $20.00-per-square-foot TI.	3.0%	3.0%	3.0%	7.50%	1.0%	9.00%	7.00%	6	80.0%	4.0%	$0.20	6 to 12
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; looking at malls to redevelop.	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 after capital replacement reserve but before TIs and leasing commissions; does not use concessions.	3.0%	3.0%	3.0%	6.00% to 6.75%	0.8%	7.00% to 8.50%	5.10% to 6.80%	6	75.0%	0.5% to 3.0%	$0.25	9

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

NATIONAL POWER CENTER MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
REALTY ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 4.0%	3.0%	3.0%	6.50% to 7.50%	–	6.75% to 8.00%	5.75% to 6.75%	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 4.0%	3.0%	3.0%	6.75% to 7.50%	1.0% to 2.0%	6.75% to 7.25%	6.00% to 7.50%	3 to 6	70.0%	5.0%	$0.10 to $0.40	6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Primarily interested in high-credit deals; uses both DCF and direct capitalization but focuses on IRR; develops IRR using tenants' bond rate plus 200 to 400 basis points for real estate related risks; lower IRRs are for high-credit deals with "bond" leases; uses present value analysis of effective rents.	3.0%	3.0%	3.0%	7.00% to 8.00%	1.0% to 2.0%	7.00% to 8.00%	6.50% to 7.00%	3 to 6	65.0% to 75.0%	0.6% (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%	8.00% to 9.00%	7.25% to 8.25%	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.	1.2% to 3.9%	3.0%	3.0%	7.00% to 9.50%	1.0% to 3.0%	7.00% to 9.00%	6.00% to 8.00%	3 to 18	65.0% to 75.0%	4.0% to 8.0%	$0.20 to $0.30	3 to 6
INVESTMENT ADVISOR ✦ Forecast Period: 3 to 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; 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%	6.50% to 7.50%	6 to 12	75.0%	5.0% (nonanchors)	$0.20	9

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

NATIONAL STRIP SHOPPING CENTER MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	1.2% to 3.9%	3.0%	3.0%	7.00% to 9.50%	1.0% to 3.0%	7.00% to 9.00%	6.00% to 8.00%	3 to 9 (inline stores); 6 to 18 (anchors)	65.0% to 75.0%	4.0% to 10.0%	\$0.20 to \$0.30	3 to 6
INVESTMENT BANKER ✦ Forecast Period: 10 years Does extensive sensitivity analysis on residual cap rates, growth rates, and initial market rents; retail sales based on both historical and market analysis; initial cash return is more important than IRR; TIs are an important cash flow forecast item.	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	3 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.	3.0%	3.0%	3.0%	6.50% to 7.50%	1.5% to 2.5%	7.50% to 8.50%	6.50% to 7.00%	3 to 6	65.0% to 75.0%	0.6% (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.	3.5%	3.0%	3.0%	7.50% to 8.50%	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%	6.00% to 7.50%	1.0% to 3.0%	6.00% to 8.00%	6.00% to 7.50%	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%	3.0%	3.0%	6.75% to 7.25%	1.0% to 3.0%	6.75% to 7.50%	6.75% to 7.25%	6	65.0%	5.0%	\$0.10 to \$0.30	12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

NATIONAL CBD OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES: MARKET RENT	INITIAL-YEAR CHANGE RATES: EXPENSES	INITIAL-YEAR CHANGE RATES: CPI	RESIDUAL: CAP RATE	RESIDUAL: SELLING EXPENSE	DISCOUNT RATE (IRR): FREE & CLEAR	OVERALL CAP RATE (OAR): FREE & CLEAR	VACANCY ASSUMPTIONS: MONTHS VACANT	VACANCY ASSUMPTIONS: TENANT RETENTION	VACANCY ASSUMPTIONS: UNDERLYING VACANCY & CREDIT LOSS	REPLACEMENT RESERVE: PER SQUARE FOOT	MARKETING TIME: MONTHS
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses a rent spike of 5.0% to 10.0% during first five years in Southern California, Chicago, Denver, Houston, and Southeast Florida.	0.0% to 8.0%	3.0%	3.0%	6.25% to 8.00%	1.0% to 2.0%	6.25% to 8.50%	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
PUBLIC REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 5.0% to 10.0% in years 1 to 3 in Los Angeles and San Francisco.	4.0%	3.0%	3.0%	6.50% to 7.50%	1.0% to 2.0%	6.50% to 7.50%	4.50% to 6.50%	6	70.0%	5.0%	Does not use	
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.	3.0% to 8.0%	3.0%	3.0%	5.75% to 7.00%	1.0% to 2.0%	6.75% to 7.25%	6.50% to 7.00%	3 to 6	70.0% to 75.0%	6.0%	$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.	3.5%	1.5%	2.0%	8.00% to 9.00%	2.0% to 3.0%	9.00% to 10.00%	7.25% to 8.00%	6	80.0%	5.0%	$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 a rent spike of 4.0% to 8.0% in year 2008 and 2009 in certain cities.	0.3% to 6.0%	3.0%	2.5%	6.50% to 9.00%	0.4% to 1.5%	7.00% to 9.00%	5.50% to 8.50%	6 to 12	65.0% to 80.0%	5.0% to 8.0%	$0.10 to $0.35	2 to 6
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 a rent spike of 5.0% to 7.0% in years 1 to 3 in certain CBDs.	5.0% to 7.0%	3.0%	3.0%	7.00% to 8.00%	1.0% to 2.0%	7.50% to 8.50%	5.50% to 6.50%	6	65.0% to 70.0%	5.0% to 7.0%	$0.20 to $0.75	6
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 10.0%	3.0%	3.0%	6.00% to 7.50%	1.0% to 2.0%	6.00% to 8.50%	4.50% to 7.00%	6 to 12	65.0% to 75.0%	0.0% to 7.0%	$0.10 to $0.25	6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

NATIONAL SUBURBAN OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses a rent spike of 4.0% to 10.0% during first four years in severely oversupplied markets.	0.0% to 8.0%	3.3%	3.0%	6.75% to 8.00%	2.0% to 3.0%	7.00% to 8.25%	6.00% to 7.50%	6 to 9	65.0% to 75.0%	1.0% to 5.0%	$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 a rent spike of 5.0% to 8.0% in 2008 and 2009 in strong markets.	0.6% to 6.0%	3.0%	3.0%	7.00% to 9.00%	1.0% to 4.0%	7.50% to 9.50%	6.00% to 9.00%	6 to 12	60.0% to 70.0%	5.0% to 12.0%	$0.15 to $0.50	2 to 6
PUBLIC REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; prefers coastal market.	3.0%	3.0%	3.0%	7.50%	1.0%	7.00% to 9.00%	6.50% to 8.00%	6	70.0%	5.0%	Does not use	
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 a rent spike in certain markets.	3.5%	3.0%	3.0%	7.50% to 8.50%	2.0% to 3.0%	8.00% to 9.00%	7.00% to 9.00%	2	75.0%	5.0%	$0.10 to $0.15	6 to 8
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 5.0% in 2008, 7.0% in 2009, and 5.0% in 2010.	3.0%	3.0%	3.0%	6.50% to 8.50%	2.0% to 3.0%	8.00% to 9.00%	6.00% to 8.00%	2	75.0%	5.0%	$0.10 to $0.15	6 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.	3.0%	Averages 3.0% over the forecast period	3.0%	7.00% to 8.00%	1.5% capped at $150,000	10.00% to 12.00%	6.00% to 7.00%	8	70.0%	0.50%	$1.00	6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

ATLANTA OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	6.50% (CBD); 7.00% to 7.75% (suburbs)	2.0%	7.50% (CBD); 8.00% to 8.50% (suburbs)	5.25% (CBD); 5.80% to 7.00% (suburbs)	10	70.0%	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%	8.25% (CBD); 8.75% (suburbs)	3.0%	8.25% in both CBD & suburbs	7.50% in both CBD & suburbs	6 to 8	65.0%	8.0% to 10.0%	$0.20 to $0.25	9
INVESTMENT BANKER ✦ 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 4.0% to 8.0% in 2007 through 2009 in all submarkets except downtown.	4.0% to 8.0% Years 1 & 2; 3.0% to 6.0% Years 3 & 4; 3.0% thereafter	2.5%	2.0%	7.50% (CBD); 7.00% to 7.25% (suburbs)	1.0% to 3.0%	8.00% to 9.00% (CBD); 7.50% to 8.50% (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.	3.0%	3.0%	3.0%	8.00% in both CBD & suburbs	2.0%	8.00% to 10.00% in both CBD & suburbs	7.00 % to 9.00% in both CBD & 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; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	5.0% Years 1 to 3; 3.0% thereafter	3.0%	3.0%	7.75% (CBD); 7.25% (suburbs)	1.5%	8.00% in both CBD & suburbs	6.50% in both CBD & suburbs	6	60.0%	7.0%	$0.30	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.	3.0%	3.0%	3.0%	7.50% in both CBD & suburbs	1.0% to 2.0%	8.25% (CBD); 8.50% (suburbs)	7.25% in both CBD & suburbs	6	75.0%	5.0% to 8.0%	$0.15	9

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

BOSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI 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%	7.25% (CBD); 7.50% (suburbs)	2.0% to 3.0%	8.00% in both CBD & suburbs	6.75% (CBD); 7.00% (suburbs)	6	65.0%	5.0% to 7.0%	$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.	5.0% Year 1; 3.0% 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); 8.00% to 9.00% (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 & 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 in all submarkets.	5.0% Year 1; 4.0% Year 2; 3.0% thereafter	3.0%	3.0%	7.50% (CBD); 8.00% (suburbs)	1.5%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	7.00% (CBD); 7.50% to 8.00% (suburbs)	6	75.0%	5.0% to 10.0%	$0.20	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; does not use rent spikes.	Averages 3.0% over forecast period	3.0%	3.0%	7.50% (CBD); 7.75% (suburbs)	2.0%	7.75% (CBD); 8.00% (suburbs)	7.00% (CBD); 7.25% (suburbs)	6	70.0%	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.	3.0%	Averages 3.0% over the forecast period		6.50% (CBD); 9.00% (suburbs)	1.3%	8.00% (CBD); 9.50% (suburbs)	5.50% (CBD); 9.00% (suburbs)	8	70.0%	4.0%	Does not use	5
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 a rent spike of 6.0% in certain submarkets in years 1 to 3.	4.0% to 5.0%	3.0%	3.0%	7.50% to 9.50% (CBD); 8.00% to 9.25% (suburbs)	0.5% to 3.0%	7.75% to 10.25% (CBD); 8.25% to 11.25% (suburbs)	6.50% to 9.75% (CBD); 7.25% to 10.25% (suburbs)	4 to 6	70.0%	5.0%	$0.20 to $0.35	2 to 4

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

CHARLOTTE OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	3.0%	3.0%		7.00%	1.5%	7.00% to 8.00% in both CBD & suburbs	5.50% to 6.50% (CBD); 6.00% to 7.00% (suburbs)	6	75.0%		$0.15	6
REIT ✦ Forecast Period: 10 years Uses all three approaches to value; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; may increase market rent up to 6.0% in year one.	3.0% to 6.0%	3.0%	3.0%	7.00% to 7.50%	1.0% to 2.0%	8.00% to 9.00% in both CBD & suburbs	6.00% to 7.50% (CBD); 6.50% to 7.50% (suburbs)	6	75.0%	5.0%	$0.25 to $0.50	6
PENSION FUND ADVISOR ✦ Forecast Period: 5 years Mainly uses DCF analysis, sales comparison approach, and cost approach; 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%	8.00% (CBD); 8.50% (suburbs)	1.0%	8.00% to 10.00% in both CBD & suburbs	6.00% to 7.00% (CBD); 7.00% to 8.00% (suburbs)	8	70.0%	7.0%	$0.15 to $0.25	2
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Mainly uses DCF analysis and sales comparison approach; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; prefers the CBD.	5.0% Years 1 & 2; 4.0% Year 3	3.0%		7.00% to 7.50%	1.0%	9.00% (CBD)	7.50% to 8.25% (CBD)	6	75.0%	5.0%	$0.15	2
PRIVATE INVESTOR ✦ Forecast Period: 3 to 5 years Uses sales comparison approach, cost approach, and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; prefers the suburbs.	3.0%	3.0%		8.00% to 9.00%	3.0%		7.50% to 9.00% in both CBD & suburbs	9	75.0%		$0.20 to $0.25	6
VALUE-ADDED INVESTOR ✦ Forecast Period: 5 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; market rent is $24.00 per square foot for the CBD and $18.00 per square foot for the suburbs.	Averages 3.0% over the forecast period	Averages 3.0% over the forecast period		6.50% to 8.00%	1.5%	7.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)	6.50% to 8.00% (CBD); 7.00% to 8.50% (suburbs)	6 to 9	70.0%	5.0%	$0.15	6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

CHICAGO OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies 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 5.0% in years 2 and 3 for certain suburban properties.	0.0% Year 1	3.0%	3.0%	7.25% (CBD); 7.75% (suburbs)	2.0%	7.50% to 8.00% (CBD); 8.00% to 8.50% (suburbs)	6.00% to 9.00% (CBD); 6.50% to 9.50% (suburbs)	9	67.0%	7.0%	$0.25 to $0.50	12 to 18
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 a rent spike of up to 5.0% in years 1 and 2 in certain submarkets.	0.0% to 2.0%	2.0% to 3.0%	2.5%	7.50% to 8.00% (CBD); 8.00% to 8.50% (suburbs)	1.8% to 2.3%	7.50% to 8.50% (CBD); 8.00% to 8.50% (suburbs)	6.75% to 8.50% (CBD); 7.25% to 8.50% (suburbs)	9 to 12	60.0% to 70.0%	10.0%	$0.25 to $0.50	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 2.0% over the holding period	Average 3.0% over the holding period		7.25% (CBD); 10.50% (suburbs)	1.5%	7.50% (CBD); 9.50% (suburbs)	6.25% (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; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	0.0% to 2.0% Years 1 & 2; 3.0% thereafter	2.0% to 3.0%	2.0% to 3.0%	7.00% to 7.50% (CBD); 7.50% to 8.50% (suburbs)	2.0% to 2.5%	7.50% (CBD); 8.00% (suburbs)	7.00% (CBD); 7.50% (suburbs)	4 to 6	60.0% to 70.0%	2.0% to 3.0%	$0.15 to $0.20	6 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	7.25% (CBD); 7.75% (suburbs)	0.3% to 0.8%	7.50% to 8.00% (CBD); 7.00% to 8.50% (suburbs)	6.00% to 7.50% (CBD); 7.00% to 8.50% (suburbs)	6 to 12	65.0% to 70.0%	5.0% to 10.0%	$0.15 to $0.25	6 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	7.50% (CBD); 8.25% (suburbs)	2.0% to 3.0%	8.25% in both CBD & suburbs	7.25% (CBD); 7.50% (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.	5.0% Years 1 & 2; 3.0% thereafter	3.0%	3.0%	6.75% (CBD); 7.25% (suburbs)	1.0% to 2.0%	7.25% (CBD); 7.75% (suburbs)	5.50% (CBD); 6.00% (suburbs)	6	60.0%	7.0%	$0.30 to $0.40	6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

DALLAS OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization and sales comparison approach; uses effective rents; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	4.5% Year 1, 4.0% Year 2, 3.5% Years 3 & 4; 3.0% thereafter	3.0%	3.0%	7.25% in both CBD & suburbs	0.5%	8.00% in both CBD & suburbs	7.00% in both CBD & suburbs	2	65.0% to 70.0%	6.0%	$0.25	3
PRIVATE 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; uses a face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% to 7.0% in years 1 to 3 in Las Colinas, Far North Dallas, and the Tollway.	3.0% to 5.0%	2.0%	3.0%	8.00% to 9.00% (CBD); 7.75% to 8.00% (suburbs)	1.0% to 2.0%		8.00% (CBD); 6.50% to 8.00% (suburbs)	9	70.0%	5.0% to 10.0%	$0.10 to $0.20	
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 2.0%	3.0%	3.0%	8.25% to 9.00% in both CBD & suburbs	2.0% to 4.0%	8.50% in both CBD & suburbs	7.75% (CBD); 8.00% (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 after capital replacement reserve but before TIs and leasing commissions; applies a rent spike of 5.0% to 7.0% in 2008 and 2010 in Plano and the CBD; uses face rents and reflects concessions when they are scheduled to occur.	3.0% to 7.0%	3.0%	3.0%	7.00% to 8.00% (CBD); 7.75% (suburbs)	1.0% to 2.0%	7.50% to 8.75% (CBD); 8.25% (suburbs)	6.00% to 7.00% (CBD); 7.50% to 8.00% (suburbs)	6 to 9	65.0% to 70.0%	1.0% to 3.0%	$0.15 to $0.20	
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	3.0%	3.0%	3.0%	10.00%	2.0%	11.50%	9.75% to 10.00%	6	60.0%	2.0% to 3.0%	$0.10	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 8 years Uses both DCF and direct capitalization; also looks at discount to replacement cost; relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	3.0% to 4.0%	2.0%	3.0%	9.00% to 11.00%	2.0%	9.00% in both CBD & suburbs	7.00% to 9.00% (CBD); 7.00% to 8.00% (suburbs)	6	70.0%	4.0%	$0.25	6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

DENVER OFFICE MARKET–INVESTOR SURVEY RESPONSES
First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PRIVATE REAL ESTATE INVESTOR ✦ Forecast Period: 2 to 5 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 5.0% to 8.0% in early years; prefers the Southeast submarket.	5.0%	3.0%	3.0%	7.00% to 8.00% (suburbs)	1.0% to 2.0%	8.00% to 10.00% (suburbs)	6.00% to 7.50% (suburbs)	6 to 9	75.0%	7.0%	$0.20	3 to 6
PRIVATE REIT ✦ Forecast Period: 12 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	Averages 3.0% to 5.0% over the forecast period	5.0%	3.0%	8.00% in both CBD & suburbs	1.0%	5.00% to 8.00% (CBD); 6.00% to 9.00% (suburbs)	6.50% to 8.50% (CBD); 6.00% to 7.75% (suburbs)	9 to 12	70.0%	5.0%	$0.10 to $0.15	4
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 face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 4.0% to 8.0% in years 3 through 5.	3.0% to 6.0%	3.0%	3.0%	7.90% (CBD); 8.90% (suburbs)	0.5% to 2.5%	7.50% to 7.75% (CBD); 8.00% to 8.25% (suburbs)	6.75% to 7.00% (CBD); 7.00% to 7.25% (suburbs)	6	75.0%	3.0%	$0.10 to $0.25	3 to 6
PENSION/CORE INVESTOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions equally favor buyers and sellers.	Averages 3.0% over the forecast period	Averages 3.0% over the forecast period	3.0%	6.50% (CBD); 7.00% (suburbs)	1.5% to 2.0%	7.00% to 7.25% (CBD); 7.50% to 8.00% (suburbs)	6.50% to 7.00% (CBD); 6.75% to 7.50% (suburbs)	6 to 9	70.0% to 75.0%	6.0% to 8.0%	Does not use	4 to 8
PRIVATE REAL ESTATE INVESTOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 10.0% in year 1; prefers the CBD submarket.	10.0% Year 1; 8.0% Year 2; 7.0% Year 3; 6.0% Year 4; 3.0% thereafter	3.0%	3.0%	6.50% to 7.00% in both CBD & suburbs	0.5%	8.00% to 9.00% in both CBD & suburbs	5.50% to 6.00% in both CBD & suburbs	6	75.0%	5.0%		1
PRIVATE VALUE-ADDED INVESTOR ✦ Forecast Period: 3 to 5 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; market rent growth rates vary based on submarket and building class.	Varies	Varies	3.0%	7.00% (CBD); 7.25% (suburbs)	1.5%	8.50% in both CBD & suburbs	6.25% (CBD); 6.50% (suburbs)	7.5	75.0%	5.0%		2

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

HOUSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization and sales comparison approach; uses effective rents; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	4.1% Year 1; 3.7% Year 2; 3.5% thereafter	3.0%	3.0%	7.25% in both CBD & suburbs	0.5%	8.00% in both CBD & suburbs	7.00% in both CBD & suburbs	6 to 8	65.0% to 70.0%	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.	2.0% to 5.0%	3.0% to 4.0%	3.0%	9.00% to 10.00% in both CBD & suburbs	2.0%	9.00% in both CBD & suburbs	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	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 a rent spike of 5.0% in 2007.	3.5%	3.0%	3.0%	8.00% to 9.00% (CBD); 9.00% to 10.00% (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%	5.0%	$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 after capital replacement reserve but before TIs and leasing commissions; uses a rent spike of 5.0% in years 1 to 3 in certain submarkets.	3.0% to 5.0%	3.0%	3.0%	7.50% in both CBD & suburbs	0.5% to 2.0%	7.50% to 8.00% (CBD); 7.50% to 7.75% (suburbs)	5.00% to 6.00% (CBD); 5.50% to 6.50% (suburbs)	6	70.0%	2.0%	$0.15	6
PRIVATE 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; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% to 7.0% in years 1 to 3 in the CBD, Energy Corridor, and Westchase.	5.0%	2.0%	3.0%	7.75% to 8.00%	1.0% to 2.0%		6.50% to 8.00%	9	70.0%	5.0% to 10.0%	$0.10 to $0.20	
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.	3.0%	3.0%	3.0%	7.50% to 8.50% in both CBD & suburbs	2.0% to 4.0%	8.00% in both CBD & suburbs	7.00% in both CBD & suburbs	6 to 8	65.0%	6.0% to 8.0%	$0.20 to $0.25	6 to 9

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

LOS ANGELES OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PENSION FUND ADVISOR ✦ Forecast Period: 5 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%	3.0%	7.00% (CBD); 7.50% (suburbs)	1.0% to 2.0%	9.00% (CBD); 12.00% (suburbs)	6.50% (CBD); 7.50% (suburbs)	5 to 10	60.0% to 70.0%	5.0% to 10.0%	$0.10 to $0.50	5 to 8
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%	6.50% in both CBD & 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	60.0%	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% in both CBD & suburbs	2.0%	9.00% to 11.00% in both CBD & suburbs	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 after capital replacement reserve but before TIs and leasing commissions; uses a rent spike of 4.0% to 5.0% in years 1 through 4 in various submarkets.	3.0% to 5.0%	3.0%	3.0%	6.25% to 7.00% in both CBD & suburbs	1.0% to 2.0%	6.75% to 7.25% in both CBD & suburbs	4.20% to 6.40% in both CBD & suburbs	6 to 9	65.0% to 70.0%	1.0% to 2.0%	$0.10 to $0.30	
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies primarily on DCF; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	3.0% to 4.0%	3.0%	3.0%	7.25% to 9.00% in both CBD & suburbs	1.0% to 3.0%	7.75% to 10.25% in both CBD & suburbs	5.75% to 9.00% in both CBD & suburbs	6 to 12	60.0% to 65.0%	2.0% to 3.0%	$0.15 to $0.25	3 to 7
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 a rent spike of 4.0% to 5.0% in years 2 and 3.	3.0% to 5.0%	3.0%	3.0%	7.00% to 7.75% (CBD); 7.25% to 7.75% (suburbs)	2.0%	7.75% in both CBD & suburbs	6.50% in both CBD & suburbs	6	65.0%	5.0% to 7.0%	$0.20 to $0.25	6 to 9

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

MANHATTAN OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 10 years Strongest interest is in Midtown; 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 a rent spike of 5.0% in years 1 to 3 in Midtown and Downtown.	5.0% Years 1 to 3	3.0%	3.0%	6.00% to 8.00%	3.0%	7.00% to 9.00%	3.00% to 6.50%	3 to 6	75.0%	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 and 2008 and a rent spike of 7.5% in 2009.	7.5% to 10.0%	4.0%		6.50% to 7.50%	4.0%	7.50% to 8.50%	5.50% to 7.00%	6	75.0%	5.0%	$0.20	2 to 3
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses DCF, direct capitalization, and price per square foot; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; selling expenses include transfer tax.	7.0% to 8.0%	3.5%	3.5%	7.00% to 7.50%	2.0% to 3.0%	8.00% to 9.00%	5.25% to 6.00%	5 to 6	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; 4.0% Year 2; 3.0% Year 3	3.0%	3.0%	6.00% to 6.50%	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	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; selling expenses exclude transfer tax, which is ignored in analysis; does not use rent spikes.	5.0% to 7.0%	3.0%	3.0%	6.75% to 9.25%	0.3% to 3.0%	7.00% to 9.00%	5.00% to 8.00%	4 to 6	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%	6.50% to 7.00%	1.5% to 2.0%	6.00% to 7.00%	5.00% to 6.00%	6 to 18	60.0%	8.0%	$0.30 to $1.00	4

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

NORTHERN VIRGINIA OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% 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.	3.0% 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% to 70.0%	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%	7.00% to 7.50%	2.0% to 2.5%	7.50% to 8.50%	6.50% to 7.00%	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 a 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	3.5%	3.5%	7.25% to 8.00%	2.0% to 3.0%	8.00% to 8.75%	6.00% to 6.50%	6 to 10	65.0% to 70.0%	5.0% to 6.0%	$0.20 to $0.75	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%	6.50% to 7.00%	1.5% to 2.0%	6.00% to 8.00%	5.00% to 6.00%	6 to 18	60.0%	8.0% to 14.0%	$0.30 to $1.00	3 to 6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

PACIFIC NORTHWEST OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions favor sellers; uses a rent spike of 8.0% in years 1 to 3.	7.0% Years 1 to 2; 5.0% Year 3; 3.0% thereafter	3.0%	3.0%	6.25% to 7.00% in both CBD & suburbs	0.5%	8.00% to 9.00% in both CBD & suburbs	5.00% to 6.00% in both CBD & suburbs	6	75.0%	5.0%		1
PRIVATE 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%	8.00% to 8.50%	3.0%	10.00% to 11.00% (CBD); 10.50% to 11.50% (suburbs)	8.00% to 11.00% in both CBD & 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% to 4.0%	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 rent spike of 5.0% to 8.0% in various years.	0.0% to 2.0%	3.0%	3.0%	7.00% in both CBD & 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
PRIVATE 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
PRIVATE REIT ✦ Forecast Period: 12 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve, uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 6.0% to 8.0% in years 1 to 3 in Seattle and Bellevue.		5.0%	3.0%	7.50% in both CBD & suburbs	1.0%	5.00% to 7.00% in both CBD & suburbs	6.50% (CBD); 6.75% (suburbs)	6	75.0%	5.0%	$0.10 to $0.15	4

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

PHILADELPHIA OFFICE MARKET–INVESTOR SURVEY RESPONSES
First Quarter 2008

	Initial-Year Change Rates: Market Rent	Initial-Year Change Rates: Expenses	Initial-Year Change Rates: CPI	Residual: Cap Rate	Residual: Selling Expense	Discount Rate (IRR): Free & Clear	Overall Cap Rate (OAR): Free & Clear	Vacancy Assumptions: Months Vacant	Vacancy Assumptions: Tenant Retention	Vacancy Assumptions: Underlying Vacancy & Credit Loss	Replacement Reserve: Per Square Foot	Marketing Time: Months
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.	3.0%	3.0%		8.50% (CBD); 9.00% (suburbs)	2.5%	9.00% to 10.00% (CBD); 9.50% to 10.00% (suburbs)	8.00% (CBD); 10.00% (suburbs)	10	75.0%	8.0%	$0.20	4
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%	6.00% to 7.00%	1.0% to 2.0%	8.00% (CBD); 9.00% (suburbs)	5.00% (CBD); 5.00% to 6.00% (suburbs)	6 to 12	60.0%	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
PRIVATE 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 face rents and reflects concessions when they are scheduled to occur; prefers the central business district.	5.0%	3.0%	3.0%	7.75% (CBD); 8.00% (suburbs)	1.0%		6.75% to 8.00% (CBD)	9	70.0%	5.0% to 10.0%	$0.10 to $0.15	
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.	3.0%	3.0%	3.0%	8.50% (CBD); 8.00% (suburbs)	3.0%	8.50% in both CBD & suburbs	9.00% (CBD); 8.00% (suburbs)	6	65.0%	5.0%	$0.25	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% in both CBD & suburbs	2.0%	9.50% to 10.50% in both CBD & suburbs	7.50% to 9.50%	6 to 9	65.0%	5.0%	$0.15 to $0.25	6 to 9

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

PHOENIX OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PRIVATE REAL ESTATE INVESTOR ✦ Forecast Period: 5 to 7 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% in the first few years.	3.0% Years 1 & 2; 5.0% Years 3 & 4; 3.0% thereafter	3.0%	3.0%	8.00%		8.00% to 11.00% in both CBD & suburbs	5.50% to 8.50% in both CBD & suburbs	6 to 9	70.0%	5.0%		3 to 6
PRIVATE REIT ✦ Forecast Period: 12 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 10.0% in year 1 and 7.0% in year 2 in all submarkets except Downtown.	Averages 4.0% over the holding period	5.0%	3.0%	9.00% (CBD); 8.00% (suburbs)	1.0%	5.00% to 8.00% (CBD); 6.00% to 9.00% (suburbs)	6.50% to 8.50% (CBD); 6.00% to 7.50% (suburbs)	6	75.0%	5.0%	$0.10 to $0.15	4
PENSION FUND 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 and reflects concessions when they are scheduled to occur; uses a rent spike of up to 8.0% in years 3 through 5.	1.0% to 3.0%	3.0%	3.0%	7.00% to 7.75% (CBD); 7.50% to 8.00% (suburbs)	0.5%	7.75% to 8.25% (CBD); 8.00% to 8.50% (suburbs)	6.00% to 7.25% (CBD); 7.25% to 7.50% (suburbs)	5 to 8	65.0%	3.0%	$0.10 to $0.25	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; residual cap rates vary.	6.0% Year 1; 5.0% Year 2; 4.0% Year 3; 3.0% thereafter	3.0%			1.0% to 3.0%		6.00% (CBD); 6.50% (suburbs)	6 to 12	65.0%	1.0% to 2.0%		3
PENSION/CORE INVESTOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	Averages 3.0% over the forecast period	Averages 3.0% over the forecast period	3.0%	7.00% (CBD); 7.25% (suburbs)	1.5% to 2.0%	7.00% to 7.50% (CBD); 7.25% to 7.75% (suburbs)	6.50% to 7.00% (CBD); 6.75% to 7.25% (suburbs)	6 to 9	70.0%	5.0% to 7.0%	Does not use	6 to 9
INSTITUTIONAL INVESTOR ✦ Forecast Period: 3 to 5 years Mainly uses DCF analysis; in direct cap, capitalizes NOI after capital replacement reserve, but before TIs and leasing commissions; prefers the submarkets of Scottsdale, Midtown, and Airport.	6.0% Year 1; 4.0% Years 2 & 3; 3.0% thereafter		3.0%	6.70% (CBD); 6.80% (suburbs)	1.5%	7.50% to 8.00% in both CBD & suburbs	4.00% to 6.00% in both CBD & suburbs	6	70.0%	10.0%		3

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

SAN DIEGO OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PRIVATE INVESTOR ✦ Forecast Period: 2 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 4.0% to 6.0% in initial years in certain submarkets.	3.0%	3.0%	3.0%	7.00% (CBD); 7.00% to 7.50% (suburbs)		7.00% to 9.00% in both CBD & suburbs	5.00% to 7.00% in both CBD & suburbs	6 to 9	75.0%	5.0%	$0.15 to $0.25	3 to 4
PRIVATE REIT ✦ Forecast Period: 12 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	Averages 4.0% to 5.0% over forecast period	5.0%	3.0%	7.75%	1.0%	6.00% to 7.00% in both CBD & suburbs	6.00% to 8.00% in both CBD & suburbs	6	75.0%	5.0%	$0.10 to $0.15	4
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 3 to 5 years Uses DCF analysis, direct capitalization, and sales comparison approach; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; submarket preferences include Downtown, Del Mar, 56 Corridor, La Jolla, Torrey Pines, UTC, Carlsbad, and Poway.	4.5% to 5.0%	2.5%	2.5%	5.50% (CBD); 6.50% (suburbs)	1.5%	9.00% to 10.00% in both CBD & suburbs	4.50% to 6.50% (CBD); 5.50% to 7.50% (suburbs)	3	65.0% to 70.0%	1.5%		3 to 6
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 3 to 5 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 5.0% in year 1, 6.0% in year 2, and 5.0% in year 3.	5.0% Year 1; 6.0% Year 2; 5.0% Year 3	Averages 3.0% over forecast period	3.0%	7.00% to 7.25%	1.5%	8.00% to 8.50% (CBD); 8.25% to 8.75% (suburbs)	6.00% to 6.50% (CBD); 6.25% to 6.75% (suburbs)	6	75.0%	5.0%		2
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 4.0% to 8.0% in years 3 to 5.	3.0% to 5.0%	3.0%	3.0%	7.00% (CBD); 7.50% (suburbs)	2.0%	5.60% to 6.25% (CBD); 6.50% to 7.00% (suburbs)	5.00% to 6.00% (CBD); 6.00% to 6.75% (suburbs)	6 to 8	70.0%	1.0%	$0.10 to $0.25	3 to 6
FOREIGN INVESTOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; prefers the suburban submarkets.	1.0%	3.0%	3.0%	6.00% to 6.50%	2.0%	8.50% to 9.50% (CBD); 8.00% to 9.00% (suburbs)	6.50% to 7.50% (CBD); 6.00% to 7.00% (suburbs)	10	65.0%	2.0%		4
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; submarket preferences include Del Mar and Route 8 Corridor.	6.0% Years 1 & 2	3.0%	3.0%	6.50% to 7.25%	2.0% to 3.0%	9.00% (CBD); 9.50% (suburbs)	5.00% to 5.50% (CBD); 6.00% to 6.50% (suburbs)	6	65.0%	6.0%		6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

SAN FRANCISCO OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT ADVISOR ✦ Forecast Period: 10 years 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.	10.0% Years 1 & 2; 5.0% Year 3; 3.0% thereafter	5.0%	3.0%	6.25% (CBD); 6.50% (suburbs)	1.0% to 1.5%	7.00% (CBD); 7.50% (suburbs)	5.50% (CBD); 6.00% (suburbs)	6	70.0%	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.	3.0% to 6.0%	3.0%; taxes 2.0%	3.0%	6.00% to 7.00% (CBD)	1.0% to 2.0%	7.00% (CBD)	6.00% (CBD)	6 to 12	60.0% to 75.0%	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; uses a rent spike of 5.0% in years 1 and 2.	5.0% Years 1 & 2; 3.0% thereafter	3.0%	2.0%	7.75% (CBD); 7.50% to 8.00% (suburbs)	1.0% to 2.0%	7.00% to 8.00% in both CBD & suburbs	7.00% (CBD); 7.00% to 8.00% (suburbs)	6	75.0%	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%	5.00% to 6.00% (CBD); 5.50% to 7.00% (suburbs)	1.5% to 2.0%	7.00% (CBD); 8.00% (suburbs)	5.00% (CBD); 6.00% (suburbs)	6 to 18	60.0%	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% to 10.0%	3.0%	3.0%	6.50% to 7.50% (CBD); 7.00% to 8.50% (suburbs)	1.0%	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	5.00% to 7.00% in both CBD& 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; uses a rent spike of 10.0% to 15.0% in 2008 through 2010.	10.0% Year 1; 15.0% Years 2 to 3; 3.0% thereafter	3.0%	3.0%	7.00% to 8.00% (CBD); 7.50% to 8.50% (suburbs)	0.5% to 2.0%	7.00% to 8.00% (CBD); 7.50% to 8.50% (suburbs)	4.50% to 6.50% (CBD); 5.50% to 7.00% (suburbs)	6	75.0%	5.0%	$0.10 to $0.25	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	2.5%	3.0%	3.0%	7.00% to 9.00% (CBD)	1.0% to 2.0%	7.00% to 12.00% (CBD)	5.00% to 9.00% (CBD)	2 to 7	65.0%	5.0% to 8.0%	$0.10 to $0.30	4 to 7

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

CONFIDENTIAL TREATMENT REQUESTED BY BARCLAYS

SOUTHEAST FLORIDA OFFICE MARKET–INVESTOR SURVEY RESPONSES
First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
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 a 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; does not use rent spikes.	0.0% to 3.0%	3.0%		7.50% to 8.00% (CBD); 8.00% to 8.50% (suburbs)	1.0% to 3.0%	10.00% to 11.00% in both CBD & suburbs	8.00% to 8.50% (CBD); 8.50% to 9.00% (suburbs)	12	75.0%	5.0% to 7.0%	$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 a rent spike of 4.0% to 5.0% in years 2 through 4 in Miami.	0.0% to 3.0%	3.0%	3.0%	7.50% to 8.50% in both CBD & suburbs	1.0% to 2.0%	8.25% to 9.25% in both CBD & suburbs	7.00% to 7.50% (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 a rent spike of 4.0% to 5.0% in years 1 to 4 in Palm Beach.	3.0% to 5.0%	3.0%	3.0%	7.50% (CBD); 6.50% to 7.75% (suburbs)	1.0% to 2.0%	7.00% (CBD); 7.00% to 7.75% (suburbs)	6.00% (CBD); 5.20% to 6.50% (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; does not use rent spikes.	3.0% to 4.0%	3.0% to 4.0%	3.0%	8.00% in both CBD & suburbs	2.0%	7.00% to 10.00% in both CBD & suburbs	7.00% to 8.00% in both CBD & suburbs	3	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

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

LBEX-BARFID 0011657

SUBURBAN MARYLAND OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses effective rent after all concessions are extracted.	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.	2.5% to 3.0%	3.0%	3.0%	6.00% to 8.00%	2.5% to 4.0%	6.00% to 8.00%	5.50% to 8.00%	6	65.0%	1.0% to 3.0%	$0.25 to $0.45	1 to 6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rent after all concessions are extracted.	3.0%	3.0%	3.0%	6.75% to 7.25%	2.0%	7.50% to 8.50%	6.50% to 7.00%	9	65.0%	5.0%	$0.15 to $0.30	
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	0.0% to 2.0% Years 1 & 2; 3.0% thereafter	3.0%	3.0%	7.00% to 7.50%	2.0% to 2.5%	8.00% to 8.50%	7.00% to 7.50%	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 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%	6.25% to 6.75%	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

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

WASHINGTON, DC OFFICE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	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% to 5.0%	3.0%	3.0%	6.00% to 8.00%	2.5% to 4.0%	6.00% to 8.00% (CBD)	5.50% to 8.00%	6 to 12	65.0% to 75.0%	0.0% to 5.0%	$0.25 to $0.45	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%	6.50% to 7.00%	2.0% to 2.5%	7.00% to 7.50%	5.50% to 6.00%	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; uses a rent spike of 5.0% to 7.0% in year 2 or 3.	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 after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	3.0%	3.0%	3.0%	6.00% to 6.50%	2.0%	6.00% to 6.75%	5.00% to 6.00%	6 to 12	70.0%	1.0% to 2.0%	$0.15 to $0.25	
PENSION FUND ADVISOR ✦ Forecast Period: 7 to 10 years Relies on DCF, direct capitalization, and price per square foot; uses a rent spike of 5.0% to 7.0% in years 1 to 3; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	5.0% to 7.0% Years 1 to 3	3.5%	3.5%	7.00% to 7.75%	2.0% to 3.0%	8.00% to 9.00%	5.50% to 6.00%	6 to 12	65.0% to 70.0%	5.0% to 7.0%	$0.20 to $0.75	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%	6.75% to 7.25%	2.0%	6.75% to 7.00%	6.50% to 7.50%	3	70.0%	4.0%	$0.20 to $0.40	6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

NATIONAL FLEX/R&D MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
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.	4.0% to 5.0%	3.0%	3.0%	7.25% to 7.75%	1.0% to 2.0%	7.50% to 8.50%	5.50% to 6.00%	6 to 9	65.0% to 70.0%	3.0% to 5.0%	$0.10 to $0.25	3 to 4
PENSION FUND ADVISOR ✦ Forecast Period: 10 to 12 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rent after all concessions are extracted; uses a rent spike of 5.0% in years 2 to 5 in Los Angeles, Dallas, and Phoenix.	2.0% to 3.0%	3.0%	3.0%	7.50% to 8.50%	1.5%	8.00% to 9.50%	7.50% to 8.50%	9 to 12	70.0%	5.0%	$0.15 to $0.25	4
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; 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	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.	0.0% to 5.0%	3.0%	2.5%	7.00% to 10.50%	1.0% to 3.0%	8.00% to 10.00%	6.00% to 8.00%	6 to 12	55.0% to 75.0%	5.0% to 10.0%	$0.10 to $0.20	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	
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.	2.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	7.50% to 8.00%	2.0% to 3.0%	8.00% to 9.00%	7.00% to 7.50%	6 to 9	60.0% to 65.0%	1.0% to 2.0%	$0.10 to $0.15	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 5.0%	3.0%	3.0%	6.75% to 7.50%	1.0% to 4.0%	7.50% to 8.50%	6.00% to 7.50%	6 to 12	65.0%	3.0% to 5.0%	$0.05 to $0.35	6 to 8
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	3.0%	3.0%	3.0%	7.50% to 9.50%	2.0% to 3.0%	8.00% to 10.00%	7.00% to 9.00%	6	75.0%	3.0% to 5.0%	$0.10 to $0.15	4 to 6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

NATIONAL WAREHOUSE MARKET–INVESTOR SURVEY RESPONSES
First Quarter 2008

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs and leasing commissions; after capital replacement reserve but focuses on price per square foot for newer product.	4.0% to 5.0%	3.5%	3.5%	7.50% to 8.00%	2.0% to 3.0%	8.50% to 9.00%	5.50% to 6.00%	6 to 9	70.0% to 75.0%	3.0% to 5.0%	$0.10 to $0.15	3 to 4
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 10.0%	3.0%	3.0%	6.00% to 7.50%	1.0% to 3.0%	6.50% to 9.00%	5.00% to 7.00%	6 to 12	65.0% to 75.0%	0.3% 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.	3.5%	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.	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 $0.20	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.	3.0%	3.0%	3.0%	6.25% to 7.50%	2.0% to 3.0%	6.50% to 8.00%	5.00% to 7.50%	6 to 8	65.0% to 70.0%	0.5% to 4.0%	$0.05 to $0.15	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.	2.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	6.00% to 6.50%	2.0% to 3.0%	6.00% to 6.50%	5.50% to 6.00%	6 to 8	65.0% to 75.0%	1.0% to 2.0%	$0.10 to $0.15	4 to 8
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 a rent spikes.	0.0% to 3.0%	3.0%	3.0%	6.50% to 7.75%	1.0% to 4.0%	7.50% to 8.50%	5.75% to 6.75%	6 to 9	65.0% to 75.0%	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 cash flow after TIs, leasing commissions, and capital replacement reserve.	2.0% to 6.0%	3.0%	3.0%	6.50% to 7.50%	1.0% to 2.0%	6.90% to 7.80%	5.50% to 7.00%	6 to 12	65.0%	2.0%	$0.05 to $0.15	6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

NATIONAL APARTMENT MARKET–INVESTOR SURVEY RESPONSES
First Quarter 2008

	INITIAL-YEAR CHANGE RATES		VACANCY	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	TOTAL VACANCY	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	PER UNIT	MONTHS
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 2 to 5 years Uses both DCF and direct capitalization, in direct cap, capitalizes NOI after capital replacement reserve, does not use a separate structural replacement reserve.	4.0% to 5.0%	2.5% to 3.0%	2.0% to 7.0%	4.50% to 6.00%	1.5% to 2.0%	9.00% to 10.00%	4.50% to 6.50%	$250	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.	2.0% to 4.0%	Average 3.0% over the forecast period	5.5%	5.75% to 6.25%	1.5% for deals greater than $20 million; 2.0% otherwise	7.00% to 7.50%	4.50% to 5.75%	$300 to $350	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 8.0%	3.0% to 3.5%	3.0% to 12.0%	5.00% to 7.00%	2.0% to 3.0%	6.50% to 8.50%	4.50% to 7.00%	$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 after capital replacement reserve.	5.0% to 6.0% Years 1 to 3	3.0%	3.0% to 6.0%	5.50% to 7.75%	2.0%	7.50% to 8.50%	4.75% to 5.75%	$300 to $400	6
REIT ✦ Forecast Period: 10 years Specializes in this market; relies on DCF and direct capitalization; capitalizes NOI after capital replacement reserve; uses a separate structural replacement reserve of $100 to $400 per unit depending on age.	0.0% to 7.0%	3.0% to 3.8%	Varies	5.50% to 7.00%	1.0%	7.50% to 9.50%	4.00% to 6.00%	$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%	–	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% to 5.0%	3.0%	5.0% to 10.0%	6.50% to 7.50%	2.0%	7.50% to 9.50%	6.00% to 8.00%	$200 to $300	2
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

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

NATIONAL NET LEASE MARKET–INVESTOR SURVEY RESPONSES

First Quarter 2008

	PREFERRED PROPERTY TYPE	CHANGE RATES		PREFERRED CREDIT RATING	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	UNDERLYING VACANCY & CREDIT LOSS	REPLACEMENT RESERVE	MARKETING TIME
		MARKET RENT	EXPENSES		CAP RATE	SELLING EXPENSES	FREE & CLEAR	FREE & CLEAR		PER SQUARE FOOT	MONTH
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	0.0%	All ratings	(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 2.0% and 2.5% over the forecast period.	Office, industrial	0.0% to 2.5%	2.0% to 2.5%	Below & above investment grade	8.00% to 8.50%	3.0% to 4.0%	8.00% to 9.00%	6.75% to 8.00%	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	2.8%	3.0%	B (minimum)	8.25%	1.5%	10.25%	8.25%	0.0%	$0.20	4
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	8.00% to 10.00%	2.0%	8.00% to 8.00%	7.25% 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	Depends on market	Depends on market	BBB- and higher	6.50% to 7.50%	1.5%	9.00% to 11.00%	6.75% to 8.00%	0.0%	$0.05 to $0.15	3
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%	$0.10 to $0.15	(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)	2.0%	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

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

NATIONAL FULL-SERVICE LODGING SEGMENT–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES		RESIDUAL			DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	GROSS ROOM REVENUE MULTIPLIER	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	YEAR CAPPED	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	GRRM	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
REIT ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior and next 12 months of income; applies 6.00% to 8.00% OAR to prior 12 months of income, 7.00% to 9.00% OAR to next 12 months of income; prefers urban, resort, and convention markets.	5.0% to 7.0%	2.0% to 4.0%	8.00% to 9.00%	5	1.5% to 2.0%	10.00% to 12.00%	6.00% to 8.00%	Does not use	1.0% to 3.0%	4.0% to 5.0%	4
OWNER/OPERATOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income.	6.0% to 8.0%	3.0% to 5.0%	10.00%	5	2.0%	10.00%	6.50% to 8.50%		2.5%	4.0%	4 to 8
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 7 years Buys nationwide; uses DCF and direct capitalization; relies on DCF but is sensitive to market rates; growth rates are specific to the market, forecasts demand growth from the fundamental demand side based on forecast growth in room rate demand and models the mix of four different sources of business, each of which typically has a different rate.	4.0%	4.0%	8.00% to 10.00%	6 to 8	1.0%	12.00% to 14.00%	7.00% to 10.00%	Does not use	Varies	5.0% to 8.0%	2 to 3
OWNER, OPERATOR, FRANCHISER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; prefers West, Northeast, and Southeast.	5.0%	4.0%	8.50% to 10.00%	11	2.0%	10.00% to 12.00%	10.00%	Does not use	3.0%	5.0%	6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Prefers well-located properties in growing suburbs, airport markets, and conference centers with potential to turn around and add value.	3.0% to 4.0%	3.0%	8.25% to 9.25%	11	1.0% to 2.0%	9.25% to 10.50%	6.50% to 8.00%	Does not use	2.5% to 3.5%; 0.05% to 1.00% incentive fee	4.0% to 5.0%	6 to 8
PRIVATE HOTEL COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income.	3.0%	3.0%	10.00%	11	2.0%	10.00%	10.00%	Does not use	3.0%	4.0%	
PENSION FUND ADVISOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; prefers California (both Northern and Southern), Arizona, Seattle, Chicago, New York, and Mid-Atlantic region.	5.0% RevPAR growth in 2007	3.5%	6.00% to 8.00%	6	2.0% or $ specific	10.00% to 12.00%	6.00% to 8.00%	2.0 to 3.8	3.0%; 1.5% to 2.0% incentive fee	4.0% to 6.0%	4
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; prefers New York, Northeast, and South Atlantic region.	3.0%	3.0%	10.00% to 11.00%	11	1.5% to 2.0%	10.00% to 12.00%	9.00% to 10.50%	Does not use	3.0% minimum	4.0% minimum	

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

CONFIDENTIAL TREATMENT REQUESTED BY BARCLAYS

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

First Quarter 2008

	INITIAL-YEAR CHANGE RATES		RESIDUAL			DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	GROSS ROOM REVENUE MULTIPLIER	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	YEAR CAPPED	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	GRRM	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; deducts FF&E reserve from NOI before capitalization.	3.0% to 4.0%	3.0%	10.00% to 11.00%	6	2.0% to 3.0%	12.25% to 13.25%	9.50% to 10.50%	Does not use	3.0%	4.0%	6 to 9
OWNER-MANAGER ✦ Forecast Period: 3 years Focuses on direct capitalization; in direct cap, capitalizes prior 12 months of income; prefers Midwest, South, and Northeast.	3.5%	65.0% of revenues	10.00%	Does not use	Does not use	Does not use	9.00%	3.5 to 4.0	4.0%; 10.0% of distribution incentive fee	4.0%	9 to 10
PRIVATE HOTEL COMPANY ✦ Forecast Period: 10 years Prefers Northeast, Southeast, and Southwest; uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; deducts both FF&E and structural reserves from NOI before capping.	3.0%	3.0%	10.00%	10	2.0%	12.00%	10.00%	Does not use	3.0%; 10.00% AGOP incentive fee	4.0%	
PENSION FUND ADVISOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; deducts both FF&E and structural reserves from NOI before capping; prefers California, Denver, Seattle, Midwest (Chicago), and East Coast to New York.	3.5%	2.0% to 4.0%	8.00% to 10.50%	6	3.0% to 5.0%	10.00% to 13.00%	8.00% to 10.50%	1.5 to 2.5	3.0%; 1.0% to 2.0% incentive fee	4.0%	6
OWNER/OPERATOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; deducts both FF&E and structural reserve from NOI before capitalization; likes resort areas in major markets.	7.0% to 9.0%	3.0% to 4.0%	7.00% to 9.00%	11	2.0%	10.00%	6.50% to 8.00%	Does not use	3.0%	4.0% to 5.0%	3 to 6
MORTGAGE BANKER ✦ Forecast Period: 3 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; prefers major CBDs with barriers to entry in the Northeast and West.	1.0% to 5.0%	2.0% to 4.0%	11.00% to 14.00%	4 to 8	2.0% to 5.0%	13.00% to 18.00%	10.00% to 14.00%	Does not use	3.5% to 4.5%	5.0%	6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

LBEX-BARFID 0011665

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

First Quarter 2008

	INITIAL-YEAR CHANGE RATES		RESIDUAL			DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	GROSS ROOM REVENUE MULTIPLIER	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	YEAR CAPPED	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	GRRM	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
Owner ✦ Forecast Period: 5 years Mainly uses DCF analysis; in direct cap, capitalizes next 12 months of income; does not use gross revenue multiplier; prefers urban resort areas in the United States.	5.0%	3.0% to 4.0%	6.50% to 8.50%	5	2.0%	10.00%	7.00% to 8.50%		2.5%	4.0%	6 to 8
HOTEL OWNER/OPERATOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; does not use gross revenue multiplier.	5.0%	4.0%	8.00% to 9.00%	11	2.0% to 3.0%	11.00% to 13.00%	8.00%	Does not use	3.0%	5.0%	6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; deducts FF&E from NOI before capitalization.	3.0% to 6.0%	3.0%	8.00% to 9.00%	11	2.0%	8.00% to 10.00%	6.00% to 8.00%	Does not use	2.5% to 3.0%	4.0% to 5.0%	
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes either next 12 months of income or prior 12 months of income; prefers major urban and major beach resort markets.	3.0%	3.0%	10.00% to 11.00%	11	1.0% to 2.0%	11.00% to 12.00%	9.00% to 10.50%	Does not use	3.0%	4.0% minimum	
PRIVATE HOTEL COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; deducts FF&E reserve from NOI before capitalization.	3.0%	3.0%	10.00%	11	2.0%	11.00%	9.00%		3.0%; 10.0% AGOP incentive fee	4.0%	
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; prefers West Coast, East Coast, and Midwest.	Averages 2.5% over the forecast period	3.0%	5.00% to 8.50%	6 to 8	2.0%	8.00% to 11.00%	4.00% to 8.00%	3 to 4	1.5% to 2.0%; 1.0% to 3.0% incentive fee	5.0% to 7.0%	6
REIT ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; prefers urban, resort, and convention markets.	6.0% to 8.0%	2.0% to 4.0%	8.00% to 9.00%	5	1.5% to 2.0%	10.00% to 12.00%	5.00% to 7.00%	Does not use	1.0% to 3.0%	4.0% to 5.0%	4

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

NATIONAL EXTENDED-STAY LODGING SEGMENT–INVESTOR SURVEY RESPONSES

First Quarter 2008

	INITIAL-YEAR CHANGE RATES		RESIDUAL			DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	GROSS ROOM REVENUE MULTIPLIER	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	YEAR CAPPED	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	GRRM	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; deducts both FF&E and structural reserve from NOI before capitalization.	1.0% to 3.0%	3.0%	10.00%	10	3.0%	11.00%	10.50%		4.0%	5.0%	6
HOTEL OWNER/OPERATOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; FF&E is deducted from NOI before capitalization.	5.0%	3.0%	10.00% to 12.00%	10	2.0%	12.00% to 14.00%	10.00% to 11.00%	Does not use	3.0%	5.0%	6
INVESTMENT BANKER ✦ Forecast Period: 3 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; deducts both FF&E and structural reserve from NOI before capitalization.	3.0% to 4.0%	3.0%	10.50% to 11.50%	6	2.0% to 3.0%	13.00% to 14.00%	10.50% to 11.50%	Does not use	3.0%	4.0%	6 to 9
INVESTMENT BANKER ✦ Forecast Period: 5 years All hotels are new construction; uses both DCF and direct capitalization in DCF expects 15.00% yield upon stalization; in direct cap, applies a 20.00% OAR to the next 12 months of income; prefers Northern California and Pacific Northwest markets with barriers to entry.	3.0%	2.5%	10.50%	5	2.0%	15.00%	See investor description		3.5%	4.0%	12
MORTGAGE BANKER ✦ Forecast Period: 3 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; prefers Northeast and West.	1.0% to 5.0%	2.0% to 4.0%	10.00% to 13.50%	4 to 8	2.0% to 5.0%	12.00% to 16.00%	9.50% to 13.00%	Does not use	3.5% to 4.5%	5.0%	3 to 6
HOTEL OWNER ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes forecast stabilized income; focusing on acquisitions and new construction.	3.0%	2.5%	8.50%	5	2.0%		10.50%	Does not use	3.5%	4.0%	12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

INVESTMENT AND PROPERTY CHARACTERISTICS: OFFICE MARKETS

First Quarter 2008

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		STRUCTURAL VACANCY		YEARS TO STRUCTURAL VACANCY		TIs - NEW (PSF)		TIs - RENEWAL (PSF)	
MARKET [1]	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National CBD	(5.00%) – 10.00%	2.23%	60.00% – 110.00%	88.86%	4.00% – 15.00%	7.79%	1 – 5	2.2	$10.00 – $60.00	$27.73	$5.00 – $45.00	$12.14
National Suburban	(15.00%) – 5.00%	0.27%	70.00% – 120.00%	93.93%	5.00% – 20.00%	9.48%	0 – 5	1.7	$0.00 – $50.00	$22.45	$0.00 – $20.00	$8.00
Atlanta	(5.00%) – 5.00%	1.19%	80.00% – 120.00%	95.00%	7.00% – 12.00%	10.05%	0 – 4	1.8	$15.00 – $40.00	$23.50	$5.00 – $20.00	$9.57
Boston	(5.00%) – 5.00%	1.36%	35.00% – 110.00%	85.56%	5.00% – 10.00%	8.42%	0 – 3	1.6	$20.00 – $60.00	$38.33	$5.00 – $25.00	$13.06
Charlotte	0.00% – 5.00%	1.33%	75.00% – 120.00%	93.50%	6.00% – 10.00%	8.20%	0 – 5	2.4				
Chicago	(5.00%) – 3.00%	(1.31%)	50.00% – 120.00%	88.18%	6.00% – 11.00%	9.03%	0 – 7	2.9	$10.00 – $75.00	$41.25	$5.00 – $35.00	$19.84
Dallas	0.00% – 5.00%	1.70%	50.00% – 125.00%	88.33%	3.00% – 15.00%	8.00%	0 – 3	1.5	$10.00 – $35.00	$19.00	$3.00 – $15.00	$8.80
Denver	1.00% – 5.00%	4.00%	60.00% – 95.00%	74.17%	7.00% – 15.00%	9.83%	2 – 3	2.3	$16.00 – $35.00	$25.17	$8.00 – $15.00	$11.00
Houston	0.00% – 10.00%	3.43%	50.00% – 125.00%	93.13%	5.00% – 12.00%	7.50%	0 – 2	0.8	$8.00 – $40.00	$20.25	$3.00 – $15.00	$7.25
Los Angeles	(5.00%) – 10.00%	2.94%	80.00% – 110.00%	93.21%	5.00% – 10.00%	7.58%	0 – 3	1.3	$10.00 – $45.00	$27.92	$5.00 – $25.00	$12.07
Manhattan	0.00% – 10.00%	6.21%	85.00% – 110.00%	95.36%	5.00% – 10.00%	6.21%	0 – 3	0.9	$35.00 – $60.00	$42.86	$0.00 – $40.00	$18.93
Northern Virginia	(15.00%) – 10.00%	1.29%	90.00% – 120.00%	98.13%	3.00% – 10.00%	6.86%	0 – 3	1.0	$3.00 – $45.00	$24.83	$3.00 – $25.00	$15.21
Pacific Northwest	0.00% – 5.00%	2.00%	80.00% – 105.00%	95.83%	4.00% – 15.00%	7.17%	0.5 – 1	0.9	$10.00 – $35.00	$23.50	$5.00 – $15.00	$9.00
Philadelphia	(2.50%) – 10.00%	1.75%	50.00% – 120.00%	89.00%	5.00% – 12.00%	7.70%	1 – 3	2.0	$10.00 – $40.00	$24.38	$5.00 – $15.00	$9.38
Phoenix	1.00% – 3.00%	2.50%	90.00% – 90.00%	90.00%	10.00% – 15.00%	11.25%	2 – 3	2.5	$17.00 – $45.00	$28.00	$7.00 – $15.00	$11.00
San Diego	(5.00%) – 5.00%	0.67%	85.00% – 95.00%	88.75%			1 – 3	2.3	$18.00 – $50.00	$30.50	$8.00 – $15.00	$11.00
San Francisco	(5.00%) – 10.00%	4.61%	60.00% – 110.00%	90.56%	3.00% – 10.00%	7.06%	1 – 5	3.4	$20.00 – $70.00	$34.25	$0.00 – $20.00	$10.50
Southeast Florida	0.00% – 15.00%	3.67%	90.00% – 110.00%	97.86%	5.00% – 10.00%	6.50%	0.5 – 3	1.3	$12.00 – $50.00	$24.00	$5.00 – $20.00	$9.83
Suburban Maryland	(10.00%) – 15.00%	3.00%	80.00% – 120.00%	96.25%	5.00% – 15.00%	8.14%	0 – 2	0.5	$3.00 – $45.00	$27.58	$3.00 – $25.00	$14.86
Washington, DC	0.00% – 6.00%	4.06%	75.00% – 120.00%	98.90%	4.00% – 10.00%	6.17%	0 – 2	0.5	$10.00 – $50.00	$30.36	$5.00 – $35.00	$20.28

[1] An insufficient number of responses were received for certain markets.

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

INVESTMENT AND PROPERTY CHARACTERISTICS: NATIONAL MARKETS

First Quarter 2008

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		CLASS-A+ and A MALLS IRRs		OAR		IRRs	CLASS-B+ and B MALLS OARs		OCCUPANCY		STABILIZED
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
Regional Mall	(5.00%) – 5.00%	1.70%	90.00% – 125.00%	112.00%	6.50% – 12.00%	8.48%	5.00% – 8.30%	6.09%	7.00% – 14.00%	9.89%	5.75% – 9.50%	7.60%	90.00% – 99.00%	95.50% (Class–B to A+)
Power Center	(10.00%) – 5.00%	(1.42%)	85.00% – 130.00%	100.83%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	90.00% – 95.00%	94.13%
Strip Shopping Center	(2.00%) – 5.00%	1.61%	90.00% – 140.00%	105.28%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	85.00% – 97.00%	93.83%

	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
Flex/R&D	(15.00%) – 5.00%	0.30%	80.00% – 120.00%	99.50%	5.00% – 100.00%	41.79%	$0.00 – $15.00	$5.36	$0.00 – $5.00	$2.27
Warehouse	(5.00%) – 6.00%	2.00%	80.00% – 120.00%	100.36%	0.00% – 15.00%	7.33%	$0.00 – $10.00	$2.15	$0.00 – $2.50	$0.43
Apartment	0.00% – 10.00%	2.62%	75.00% – 125.00%	98.39%	N/A	N/A	N/A	N/A	N/A	N/A

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

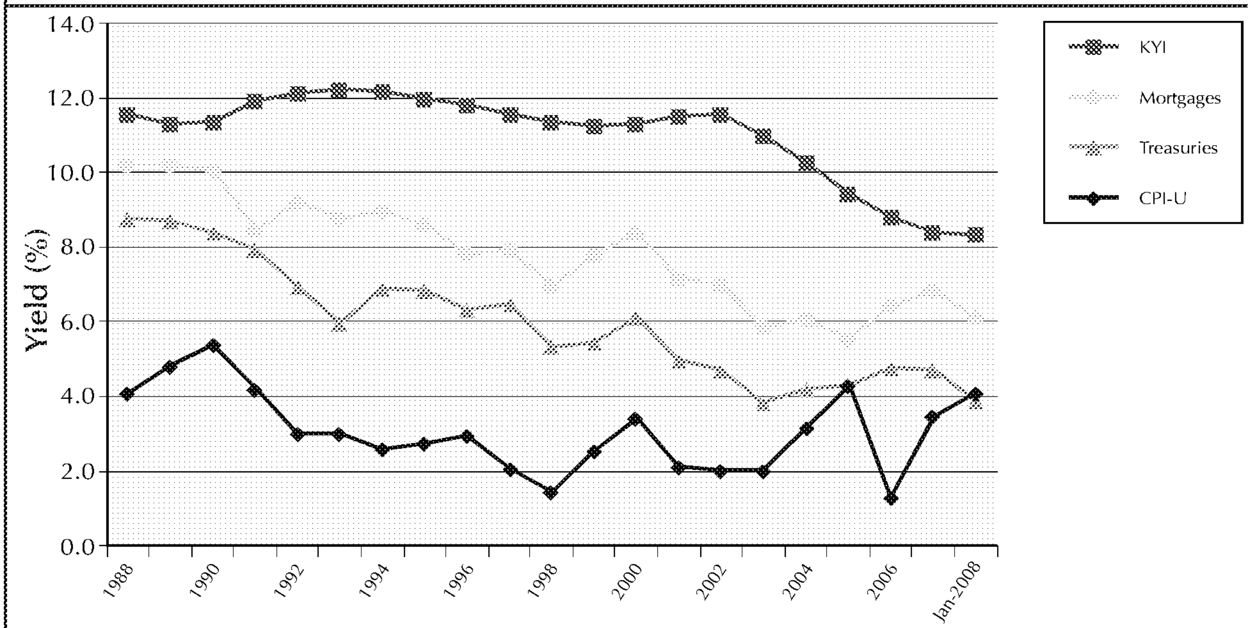
PRICEWATERHOUSECOOPERS

YIELD COMPARISONS
January 1, 2008

	2003 AVERAGE	2004 AVERAGE	2005 AVERAGE	2006 AVERAGE	2007 AVERAGE	2007 OCTOBER	2008 JANUARY
Korpacz Yield Indicator (KYI)[a]	11.00%	10.28%	9.43%	8.81%	8.41%	8.32%	8.33%
Long-Term Mortgages[b]	5.87%	6.08%	5.57%	6.45%	6.84%	7.10%	6.13%
10-Year Treasuries[c]	3.86%	4.21%	4.29%	4.76%	4.72%	4.56%	3.91%
Consumer Price Index Change[d]	2.03%	3.16%	4.30%	1.32%	3.50%	1.22%	4.10%
SPREAD TO KYI (Basis Points)							
Long-Term Mortgages	513	420	386	236	157	122	220
10-Year Treasuries	714	607	514	405	369	376	442
Consumer Price Index Change	897	712	513	749	491	710	423

a. A composite IRR average of the markets surveyed.
b. 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; Following 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; For January 2008, source is Cushman & Wakefield Sonnenblick-Goldman, 5- to 10-year fixed-rate debt, minimum 65.0% LTV.
c. Source: Federal Reserve; the annual average change is the mean of the four corresponding quarters.
d. Source: U.S. Department of Labor; quarterly changes are annualized based on the index change from the prior quarter; the annual average change is the mean of the four corresponding quarters.

COMPARATIVE YIELDS
January 1, 2008



DIVIDEND COMPARISONS
January 1, 2008

	2003 AVERAGE	2004 AVERAGE	2005 AVERAGE	2006 AVERAGE	2007 AVERAGE	2007 OCTOBER	2008 JANUARY
Korpacz Dividend Indicator (KDI)[a]	9.23%	8.62%	7.94%	7.42%	7.01%	6.87%	6.89%
Equity REITs[b]	6.67%	5.27%	4.75%	4.19%	3.93%	4.12%	4.91%
S&P 500[c]	1.76%	1.63%	1.71%	1.80%	1.76%	1.77%	1.89%
SPREAD TO KDI (Basis Points)							
Equity REITs	256	335	319	323	308	275	198
S&P 500	747	699	623	562	525	510	500

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

INSTITUTIONAL-GRADE VS. NONINSTITUTIONAL-GRADE PROPERTY RATES

First Quarter 2008

	INSTITUTIONAL IRRs		OARs		NONINSTITUTIONAL IRRs		OARs		SPREAD TO INSTITUTIONAL AVERAGE IRR	AVERAGE OAR
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	BASIS POINTS	BASIS POINTS
National Regional Mall	7.00% – 11.00%	8.72%	5.00% – 9.50%	6.68%	8.50% – 14.50%	11.00%	5.00% – 12.00%	8.28%	228	160
National Power Center	6.75% – 11.50%	8.23%	5.75% – 9.00%	7.13%	NA	NA	NA	NA	NA	NA
National Strip Shopping Center	6.00% – 10.00%	8.34%	5.80% – 9.00%	7.28%	7.00% – 13.00%	10.11%	7.00% – 11.00%	8.75%	177	137
National CBD Office	6.00% – 10.00%	7.91%	4.50% – 9.00%	6.63%	7.50% – 12.00%	9.74%	5.50% – 10.00%	8.32%	183	143
National Suburban Office	7.00% – 12.50%	8.74%	5.00% – 10.50%	7.13%	7.50% – 14.00%	10.08%	5.50% – 11.75%	8.38%	134	154
Atlanta Office	7.50% – 10.00%	8.52%	5.25% – 9.00%	7.08%	8.75% – 10.50%	9.56%	6.75% – 8.75%	8.00%	104	82
Boston Office	6.00% – 13.00%	8.86%	5.00% – 10.25%	7.34%	8.50% – 15.50%	10.69%	6.75% – 11.50%	8.63%	183	124
Charlotte Office	7.00% – 10.00%	8.50%	5.50% – 9.00%	7.27%	–[a]	–[a]	–[a]	–[a]	–[a]	–[a]
Chicago Office	7.00% – 11.00%	8.29%	4.50% – 9.50%	7.00%	8.25% – 12.00%	9.79%	6.50% – 11.50%	8.54%	129	98
Dallas Office	7.50% – 11.50%	8.98%	6.00% – 10.00%	7.95%	9.00% – 13.50%	11.25%	8.25% – 12.00%	10.50%	227	255
Denver Office	5.00% – 10.00%	8.30%	5.50% – 8.50%	6.63%	–[a]	–[a]	–[a]	–[a]	–[a]	–[a]
Houston Office	7.50% – 10.00%	8.41%	4.50% – 10.00%	7.25%	8.50% – 11.25%	9.56%	5.50% – 11.25%	8.81%	115	231
Los Angeles Office	5.00% – 12.00%	8.24%	3.00% – 9.00%	6.16%	6.50% – 16.00%	10.80%	7.00% – 11.00%	8.33%	256	222
Manhattan Office	6.00% – 9.00%	7.66%	3.00% – 8.00%	5.55%	7.50% – 11.00%	9.20%	3.50% – 9.25%	6.75%	154	115
Northern Virginia Office	6.00% – 11.00%	8.11%	5.00% – 9.00%	6.83%	–[a]	–[a]	–[a]	–[a]	–[a]	–[a]
Pacific Northwest Office	5.00% – 13.00%	9.52%	5.00% – 11.00%	7.81%	6.25% – 16.00%	12.18%	7.75% – 12.00%	9.90%	266	209
Philadelphia Office	8.00% – 11.00%	9.30%	5.00% – 11.00%	8.15%	9.00% – 11.50%	10.00%	8.25% – 10.50%	9.25%	70	110
Phoenix Office	5.00% – 11.00%	7.92%	4.00% – 8.50%	6.55%	8.50% – 12.00%	9.71%	5.00% – 9.00%	6.92%	179	37
San Diego Office	5.60% – 10.00%	7.92%	4.50% – 8.00%	6.08%	–[a]	–[a]	–[a]	–[a]	–[a]	–[a]
San Francisco Office	5.00% – 12.00%	7.65%	4.50% – 9.00%	6.11%	6.25% – 14.00%	9.63%	5.00% – 10.25%	7.77%	198	179
Southeast Florida Office	6.00% – 11.00%	8.55%	5.20% – 10.00%	7.80%	8.00% – 13.00%	10.33%	7.50% – 11.00%	9.33%	178	153
Suburban Maryland Office	6.00% – 11.00%	8.20%	5.00% – 9.00%	6.92%	–[a]	–[a]	–[a]	–[a]	–[a]	–[a]
Washington, DC Office	6.00% – 9.50%	7.48%	5.00% – 8.00%	6.16%	–[a]	–[a]	–[a]	–[a]	–[a]	–[a]
National Flex/R&D	6.75% – 10.00%	8.46%	5.50% – 9.00%	7.47%	9.00% – 11.50%	9.90%	8.00% – 10.00%	9.00%	242	307
National Warehouse	5.50% – 10.00%	7.67%	5.00% – 8.00%	6.47%	7.50% – 13.00%	9.46%	6.00% – 9.50%	7.81%	100	37
National Apartment	6.00% – 10.50%	8.15%	3.50% – 8.00%	5.79%	7.50% – 12.50%	9.63%	4.50% – 11.00%	6.69%	196	20
All Markets Surveyed (Simple Average)		8.33%		6.89%		10.14%		8.42%	181	153

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

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

PRICEWATERHOUSECOOPERS

INCOME CAPITALIZED IN DIRECT CAPITALIZATION[a]

First Quarter 2008

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	28.6%	14.3%	71.4%	71.4%	0.0%	14.3%
Power Center	12.5%	12.5%	87.5%	87.5%	0.0%	0.0%
Strip Shopping Center	20.0%	11.1%	60.0%	66.7%	20.0%	22.2%
Office						
National CBD	7.7%	0.0%	76.9%	83.3%	15.4%	16.7%
National Suburban	18.8%	12.5%	50.0%	68.8%	31.3%	18.8%
Atlanta	50.0%	25.0%	50.0%	75.0%	0.0%	0.0%
Boston	0.0%	0.0%	90.0%	100.0%	10.0%	0.0%
Charlotte	0.0%		100.0%		0.0%	
Chicago	27.3%	18.2%	72.7%	81.8%	0.0%	0.0%
Dallas	42.9%	28.6%	57.1%	71.4%	0.0%	0.0%
Denver	0.0%		100.0%		0.0%	
Houston	33.3%	22.2%	66.7%	66.7%	0.0%	11.1%
Los Angeles	40.0%	28.6%	50.0%	71.4%	10.0%	0.0%
Manhattan	25.0%	14.3%	62.5%	85.7%	12.5%	0.0%
Northern Virginia	33.3%	37.5%	55.6%	62.5%	11.1%	0.0%
Pacific Northwest	16.7%	33.3%	83.3%	66.7%	0.0%	0.0%
Philadelphia	16.7%	14.3%	66.7%	71.4%	16.7%	14.3%
Phoenix	0.0%		100.0%		0.0%	
San Diego	0.0%		66.7%		33.3%	
San Francisco	23.1%	20.0%	69.2%	80.0%	7.7%	0.0%
Southeast Florida	14.3%	14.3%	85.7%	85.7%	0.0%	0.0%
Suburban Maryland	33.3%	37.5%	55.6%	62.5%	11.1%	0.0%
Washington, DC	45.5%	40.0%	45.5%	60.0%	9.1%	0.0%
National Flex/R&D	11.1%	20.0%	88.9%	80.0%	0.0%	0.0%
National Warehouse	20.0%	23.5%	66.7%	70.6%	13.3%	5.9%
National Apartment[b]	68.2%	59.1%	18.2%	31.8%	13.6%	9.1%
All Markets Surveyed	27.2%	23.7%	62.6%	70.2%	10.2%	6.0%

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

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

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

LODGING INCOME CAPITALIZED IN DIRECT CAPITALIZATION

First Quarter 2008

SEGMENT	PRIOR 12 MONTHS[a] CURRENT	PRIOR 12 MONTHS[a] YEAR AGO	FORECAST 12 MONTHS[b] CURRENT	FORECAST 12 MONTHS[b] YEAR AGO	BOTH[c] CURRENT	BOTH[c] YEAR AGO
Full-Service	30.0%	22.2%	60.0%	66.7%	10.0%	11.1%
Economy/Limited-Service	66.7%	50.0%	33.3%	50.0%	0.0%	0.0%
Luxury/Upper-Upscale	55.6%	37.5%	44.4%	62.5%	0.0%	0.0%
Extended-Stay	50.0%	0.0%	50.0%	100.0%	0.0%	0.0%
All Segments Surveyed (Simple Average)	45.8%	29.2%	50.0%	66.7%	4.2%	4.2%

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

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

FORECAST PERIODS AND GROWTH RATES
First Quarter 2008

	FORECAST PERIOD		MARKET RENT GROWTH RATES INITIAL YEAR		FORECAST PERIOD AVERAGE		EXPENSE GROWTH RATES INITIAL YEAR		FORECAST PERIOD AVERAGE	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National Regional Mall	10 – 10	10	0.00% – 3.90%	2.63%	1.40% – 3.40%	2.93%	3.00% – 3.00%	3.00%	3.00% – 3.00%	3.00%
National Power Center	3 – 10	9	0.00% – 4.00%	2.88%	1.40% – 4.00%	2.99%	3.00% – 3.00%	3.00%	3.00% – 3.00%	3.00%
National Strip Shopping Center	10 – 10	10	1.20% – 3.90%	2.86%	1.40% – 3.40%	2.93%	3.00% – 4.00%	3.10%	3.00% – 4.00%	3.10%
National CBD Office	10 – 10	10	0.00% – 10.00%	4.05%	0.60% – 6.00%	3.40%	1.50% – 4.00%	2.96%	3.00% – 3.00%	3.00%
National Suburban Office	5 – 10	10	0.00% – 8.00%	3.14%	0.00% – 6.00%	3.17%	3.00% – 4.00%	3.09%	3.00% – 3.50%	3.05%
Atlanta Office	3 – 10	9	0.00% – 8.00%	3.25%	2.00% – 4.50%	3.17%	2.00% – 3.00%	2.81%	2.00% – 3.00%	2.88%
Boston Office	5 – 10	10	0.00% – 5.00%	3.56%	3.00% – 5.00%	3.32%	3.00% – 3.00%	3.00%	3.00% – 3.00%	3.00%
Charlotte Office	3 – 10	7	3.00% – 6.00%	3.70%	2.50% – 3.50%	3.00%	3.00% – 3.00%	3.00%	2.50% – 3.00%	2.92%
Chicago Office	5 – 10	9	0.00% – 10.00%	2.95%	2.00% – 5.00%	2.99%	2.00% – 3.00%	2.90%	2.00% – 3.00%	2.91%
Dallas Office	3 – 10	9	0.00% – 7.00%	3.50%	0.00% – 3.70%	2.54%	2.00% – 3.00%	2.67%	3.00% – 3.00%	3.00%
Denver Office	2 – 12	8	3.00% – 10.00%	5.63%	3.00% – 8.00%	4.28%	3.00% – 5.00%	3.40%	3.00% – 3.00%	3.00%
Houston Office	5 – 10	9	0.00% – 5.00%	3.26%	2.00% – 7.50%	3.68%	2.00% – 5.00%	3.19%	3.00% – 4.00%	3.17%
Los Angeles Office	3 – 12	9	2.00% – 8.00%	4.56%	3.00% – 5.00%	3.46%	2.50% – 5.00%	3.17%	3.00% – 3.00%	3.00%
Manhattan Office	5 – 10	9	3.00% – 10.00%	6.03%	3.00% – 5.00%	4.13%	3.00% – 4.00%	3.21%	3.00% – 4.00%	3.19%
Northern Virginia Office	5 – 10	10	0.00% – 4.00%	2.94%	3.00% – 4.00%	3.16%	3.00% – 3.50%	3.06%	3.00% – 3.50%	3.06%
Pacific Northwest Office	5 – 12	10	0.00% – 7.00%	3.60%	3.00% – 5.00%	3.63%	2.00% – 5.00%	3.33%	3.00% – 3.25%	3.05%
Philadelphia Office	5 – 11	9	0.00% – 5.00%	2.58%	3.00% – 3.00%	3.00%	2.00% – 3.00%	2.83%	3.00% – 3.00%	3.00%
Phoenix Office	3 – 12	8	1.00% – 6.00%	4.25%	3.00% – 4.00%	3.38%	3.00% – 5.00%	3.50%	3.00% – 3.00%	3.00%
San Diego Office	2 – 12	9	1.00% – 8.00%	4.22%	2.00% – 5.00%	3.40%	2.50% – 5.00%	3.19%	2.50% – 3.00%	2.95%
San Francisco Office	5 – 12	9	2.50% – 15.00%	7.23%	3.00% – 9.00%	4.82%	2.00% – 5.00%	3.32%	3.00% – 3.00%	3.00%
Southeast Florida Office	5 – 12	9	0.00% – 5.00%	2.75%	0.00% – 5.00%	3.33%	3.00% – 5.00%	3.36%	2.00% – 3.00%	2.93%
Suburban Maryland Office	5 – 10	10	0.00% – 4.00%	2.81%	3.00% – 3.25%	3.06%	3.00% – 3.00%	3.00%	3.00% – 3.00%	3.00%
Washington, DC Office	5 – 10	10	3.00% – 7.00%	3.77%	3.00% – 4.50%	3.55%	3.00% – 3.50%	3.06%	3.00% – 3.50%	3.05%
National Flex/R&D	10 – 12	10	0.00% – 5.00%	2.75%	0.00% – 5.00%	3.00%	2.00% – 3.00%	2.94%	2.00% – 3.50%	3.00%
National Warehouse	5 – 12	10	0.00% – 10.00%	3.23%	0.00% – 4.00%	2.88%	2.00% – 3.50%	3.00%	2.00% – 3.50%	2.97%
National Apartment	1 – 10	8	0.00% – 8.00%	3.51%	1.00% – 6.00%	3.57%	2.00% – 3.75%	2.91%	2.50% – 3.50%	3.00%
National Net Lease	3 – 15	7	0.00% – 3.00%	2.33%	0.00% – 15.00%	3.88%	2.00% – 3.00%	2.75%	2.00% – 3.00%	2.75%

Source: Personal survey conducted by PricewaterhouseCoopers LLP during January 2008.

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 tranaction, 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; includes upscale and midscale-with-food-and-beverage chain segments

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; includes luxury and upper-upscale chain segments

MANAGEMENT FEE

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

NET OPERATING INCOME (LODGING NOI)

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

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

OCCUPANCY[4]

Rooms sold divided by rooms available

OPERATING EXPENSES

The 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

░ **Atherton-Newport Investments (ANI)** filed a voluntary **Chapter 11** bankruptcy petition after failing to meet its debt service. ANI is a holding company that controls about 5,000 units of **multifamily property** in **Las Vegas, Phoenix, Seattle,** and **South Florida**. Each property is reportedly owned by a separate single-purpose entity, none of which are considered debtors in the bankruptcy.

░ According to **DataQuick Information Systems**, the **median home price** in **California fell almost 15.0%** in 2007 as sales volume dropped dramatically. The median home price was reported as **$402,000** as of December 2007, compared to **$472,000** one year prior and a peak of **$484,000** in Spring 2007.

░ **Wal-Mart** is testing a new, smaller size grocery store in the Phoenix area called **Marketside** – the retail giant's first new trade name in 20 years. Marketside stores contain approximately 20,000 square feet, about **10.0% of a Wal-Mart Supercenter**, and target shoppers who find the mammoth stores inconvenient.

░ After purchasing $400.0 million in properties in 2007, **Crescent Hotels & Resorts** is planning **$600.0 million** in **acquisitions** for 2008. The financing for these buys will come from equity raised through a new fund. Already in 2008, Crescent purchased the **Georgian Terrace Hotel** in Atlanta, **Hotel Carteret** near Manhattan, and the **Baymont Inn & Suites International Drive** in Orlando.

░ **Prologis** announced that all of its new development in the United States will comply with the environmental standards set forth by the **U.S. Green Building Council**. Moreover, Prologis intends to register all of its buildings in either the design or planning stage for **LEED certification**.

░ **Advance Realty Group** of Bedminster, New Jersey sold two office properties totaling 500,000 square feet to **Normandy Real Estate Partners** of Morristown, New Jersey. **Park Place**, located 30 minutes from New York City, is a campus of four Class-A office buildings containing 352,000 square feet and is 93.0% occupied. The other asset, **310 Madison Avenue** in Morristown, is a 59,000-square-foot medical office building.

░ A **record-breaking** deal in **Bristol, Connecticut** was completed when a New York City-based investor purchased a **1.3-million-square-foot warehouse/distribution property for $60.5 million**. The primary tenants at the property include Firestone Building Products Co., Arett Sales, and Clark Steel, which all signed **new ten-year leases**.

░ **Oxford Lodging Advisory and Investment Group** acquired a **4,867-key, five-property Adams Mark hotel portfolio** for an estimated $100,000 per key. The new owner plans to spend **$240.0 million on renovating and rebranding** the assets, which are located in Dallas, Denver, St. Louis, Indianapolis, and Buffalo.

░ **Westminster Troy** acquired a fully leased, **150,000-square-foot flex office condominium** in Troy, Michigan. The tenant in the property, **Valeo North America**, recently signed a five-year lease. The first floor of this property is **lab space**, while office space spans the remaining two floors.

░ **Transwestern Investment Company** made the winning offer **($96.0 million)** among **14 bids** for a 336,939-square-foot office complex in the **Camelback** area of **Phoenix**. This asset's prime location, 20.0% lease turnover during the next three years, and below-market rental rates were attractive to potential buyers.

░ **Arden Realty** is offering **5.0 million square feet** of its **Southern California office portfolio** for sale with a desired closing date of early 2008. The office space is located in **Los Angeles County** (3.7 million square feet), **Orange County** (235,000 square feet), and **San Diego County** (1.0 million square feet). Arden will consider offers on the properties as a portfolio, groups of buildings, or on an individual basis.

░ On behalf of **Archstone**, Cushman & Wakefield is marketing an **858-unit apartment portfolio** for sale. The properties are located in the Woodley Park, Cleveland Park, and DuPoint Circle neighborhoods of **Washington, D.C.** While an asking price has not been published, local press indicates an estimate of **$295.0 million** for the Class-A and B multifamily assets. ❖

REAL ESTATE
INVESTOR SURVEY

VOL. 21, NO. 1
First Quarter 2008

Korpacz Real Estate Investor Survey® is published quarterly by
PricewaterhouseCoopers LLP
Korpacz Real Estate Investor Survey
P.O. Box 988
Florham Park, NJ 07932
Web site: www.pwcreval.com
Email: korpacz.survey@us.pwc.com

Editor-in-Chief: Susan M. Smith, MAI
Associate Editor: Amy E. Olson
Research Associate: Adriana Chaves
Production Manager: Christy Hunnefield
Circulation Manager: Jeanine McCallum
Business Manager: Maria L. Isgro

Subscription Rates. Online/PDF: One year $350. Rates are subject to change without notice. **Make checks payable to**
PwC - Korpacz Survey

Survey inquiries: 973-236-4830 (8:30 AM to 5:30 PM EST); 813-329-0050 FAX.

Change of Address: Two weeks written notice is required to ensure uninterrupted service. Please include old address, new address, and the date the change is effective.

Every effort has been made in this publication to provide accurate information regarding the subject matter covered. It is sold with the understanding that this publication does not render legal, accounting, appraisal, counseling, investment, or other professional services. If such services or other expert assistance are required, the services of a competent professional person should be sought.

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.

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

Index of Recurring Survey Topics

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

Index of Special Reports

Topic	Last Quarter Covered
Domestic Self-Storage Market	Fourth 2007
e-Commerce and Retail Real Estate	Second 1999
Effective Rent	Third 1993
Green Building Macro Trends	Third 2007
Institutional-Grade Real Estate	Second 1994
Medical Office Space	Fourth 2007
Net Lease Market	First 2000
October 11, 2001*	2001
Power Centers	Third 1995
Real Estate Value Cycles	First 2000
Regional Mall Market	Second 1996
REITs	Second 1998
Self Storage Industry	First 2003
Terrorism Insurance	Second 2002

*16-page supplement following 9/11

*connectedthinking

PricewaterhouseCoopers