Asset Management

Core Assets Stand Tall Among Investors

Korpacz Real Estate Investor Survey®
Third Quarter 2010

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Dear Reader:

Sensing that the recovery for the commercial real estate industry will be painfully slow, with very little rent growth and minimal leasing velocity, a flight to quality is evident among investors and is discussed in our lead story, "Core Assets Stand Tall Among Investors." It is clear that a tremendous amount of money (both debt and equity) is targeting commercial real estate.

While some capital is seeking what one participant described as "trauma" real estate, the bulk of it is focused on core, leading to competitive pricing and dips in overall cap rates. In this quarter's *Overall Cap Rate Analysis* section read which markets incurred the steepest quarterly declines and where surveyed investors expect rates to trend over the next six months.

This quarter, I am pleased to debut an expanded section on debt service. Take a look at page six to see Survey participants' thoughts on current interest rate levels and debt percentages (loan-to-value ratios) for each Survey market.

Also in this issue is our semiannual *National Lodging Highlights*, as well as information on four select lodging segments. These pages discuss the recent performance of the lodging industry, as well as how this sector will likely fare for the remainder of 2010.

Lastly, *Emerging Trends in Real Estate® 2011*, jointly published by PricewaterhouseCoopers LLP and the Urban Land Institute, is nearing completion. As always, it will be filled with insightful data and comments from leading investors throughout the country. Survey subscriptions through fourth quarter 2010 receive a complimentary copy. It should be e-mailed in mid-October, so remember to check your inbox!

I hope that you enjoy reading this issue. As always, I welcome your feedback and comments, as well as your suggestions on additional topics to cover.

Sincerely,

Susan Smith

Susan M. Smith
Editor-in-Chief

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National Highlights

Core Assets Stand Tall Among Investors

With commercial real estate fundamentals still ailing from the recession and lacking clear signs of near-term improvement, most investors remain focused on core assets and proven markets. "Both the debt and equity sides of the industry have strong appetites for quality properties," tells an investor. "Debt has clearly returned for core deals," attests a participant, who is a bit surprised at the speed at which debt availability has rebounded. A year ago, very little, if any, debt capital was available to do deals. Today, many investors describe the lending environment as "improved" and "better," yet still tough with regard to underwriting and terms. "We are getting a couple of deals done today that we surely could not have completed a year ago or even six months ago," reveals a participant.

As the amount of capital targeting core commercial assets has swelled over the past several months, it has created a "feeding frenzy" due to a lack of top-rated assets available for sale. "Competition is tough among buyers of quality properties," states a participant, who was recently stunned by some high-priced bids for empty office buildings in Dallas. While certain assets have the rent rolls and market area dynamics to support strong pricing, others do not. Nevertheless, risk-adverse investors awash with capital are assertively bidding to win deals and acquire core assets at this point in the cycle.

With a limited number of quality offerings to soak up all the pent-up capital, overall capitalization (cap) rates remain on a downward trend for most of the Survey's national and local markets. "We are seeing a downward tick in cap rates, but not to 2007 levels," remarks an investor. This quarter, the average overall cap rate declined in 26 of the Survey's 31 markets. "Acceptable pricing and returns for commercial real estate assets are reflective of alternative investment yields, which are not too great right now, and debt rates, which are still very low on a historical basis," explains a participant. Since many investors foresee interest rates staying low and the debt markets continuing to facilitate property trades, most participants expect overall cap rates for core assets to either "flatline" or "dip a bit further" through the remainder of this year.

Much of the capital targeting core assets had been waiting to pounce on an anticipated tsunami of underwater and distressed quality assets that never materialized to the extent predicted by many investors. "Troubled assets have come to market, but the volume is nowhere near what was expected," comments a participant. Nevertheless, most surveyed investors concur that the industry is not done deleveraging and that more stress and pain are ahead for many property owners and lenders. "Deleveraging is a slow and hurtful process," says an investor, who is keeping a watchful eye on the buying opportunities that could result from the tremendous amount of debt coming due in 24 to 48 months.

While more "motivated" selling is likely to occur in the near term as property owners struggle with refinancing issues, a skittish economic recovery, and stalled leasing markets, core assets will remain the preferred target for most eager buyers. As clearer signs of stability and recovery slowly emerge, and investors gain more confidence in the depth of the investment market, buyer and lender interest will likely spread to more noncore, value-added opportunities and secondary markets. For now, sellers who offer quality commercial real estate for sale will continue to receive a lot of attention. ✦

Overall Cap Rate Analysis

THE AVERAGE OVERALL CAPITALIZATION (CAP) RATE DECREASED IN 26 SURVEY MARKETS AND INCREASED IN ONLY FIVE OF THEM OVER THE PAST THREE MONTHS. "Cap rates have decreased for core assets," states a participant. As shown in Exhibit 1, one of the highest quarterly decreases is noted for the national apartment market (-56 basis points), where sales continue to occur with the assistance of Fannie Mae and Freddie Mac. In contrast, the quarterly increases range from one to five basis points.

According to surveyed investors, cap rate compression mostly continues to occur for better-positioned and well-located assets that exhibit stable rent rolls and limited near-term leasing risk. "Appetite for core product has returned well beyond what we expected at this point in time," shares an investor, although some investors continue to look for value-added opportunities.

Exhibit 1

OVERALL CAPITALIZATION RATES

Third Quarter 2010

National Markets	Average	Quarterly Change*
Apartment	7.12%	– 56
Regional Mall	7.81%	– 12
CBD Office	8.01%	– 14
Strip Shopping Center	8.09%	– 29
Power Center	8.38%	– 32
Warehouse	8.38%	– 22
Suburban Office	8.40%	– 20
MOB**	8.58%	+ 5
Net Lease	8.88%	– 10
Flex/R&D	9.15%	– 23
Apartment Markets		
Pacific Region	6.90%	– 39
Mid-Atlantic Region	7.15%	– 25
Southeast Region	7.75%	– 18
Office Markets		
Manhattan	6.23%	– 35
Washington, DC	6.64%	– 31
Northern Virginia	7.50%	– 35
San Francisco	7.69%	– 14
Suburban Maryland	7.75%	– 11
Los Angeles	7.76%	+ 5
San Diego	8.26%	+ 1
Denver	8.29%	– 11
Pacific Northwest	8.41%	– 22
Boston	8.51%	– 15
Chicago	8.57%	– 4
Philadelphia	8.71%	– 28
Charlotte	8.74%	– 67
Dallas	8.76%	– 1
Houston	8.82%	+ 3
Atlanta	8.95%	+ 1
Southeast Florida	9.19%	– 1
Phoenix	9.23%	– 3

* Quarterly basis-points shift
** Medical office buildings
Source: Korpacz Real Estate Investor Survey®

Exhibit 2

OVERALL CAPITALIZATION RATE FORECASTS

Third Quarter 2010

	CURRENT OVERALL CAP RATE	CHANGE OVER NEXT 6 MONTHS[a] (BASIS POINTS)	
MARKET	AVERAGE	RANGE	AVERAGE
National Regional Mall	7.81%	(150) – 0	(42)
National Power Center	8.38%	(b)	
National Strip Shopping Center	8.09%	(b)	
National CBD Office	8.01%	(100) – 75	(11)
National Suburban Office	8.40%	(b)	
Atlanta Office	8.95%	(b)	
Boston Office	8.51%	(b)	
Charlotte Office	8.74%	(100) – 100	15
Chicago Office	8.57%	(b)	
Dallas Office	8.76%	(b)	
Denver Office	8.29%	(c)	
Houston Office	8.82%	(b)	
Los Angeles Office	7.76%	(b)	
Manhattan Office	6.23%	(c)	
Northern Virginia Office	7.50%	(b)	
Pacific Northwest Office	8.41%	(b)	
Philadelphia Office	8.71%	(b)	
Phoenix Office	9.23%	(b)	
San Diego Office	8.26%	(b)	
San Francisco Office	7.69%	(100) – 0	(34)
Southeast Florida Office	9.19%	(c)	
Suburban Maryland Office	7.75%	(25) – 125	69
Washington, DC Office	6.64%	(b)	
National Flex/R&D	9.15%	(b)	
National Warehouse	8.38%	(b)	
Apartment			
National	7.12%	(b)	
Mid-Atlantic Region	7.15%	(b)	
Pacific Region	6.90%	(c)	
Southeast Region	7.75%	(b)	
National Net Lease	8.88%	(b)	
National Medical Office Buildings	8.58%	(b)	

(a) All changes are positive unless enclosed in parentheses and reflect the majority of investor responses.
(b) The majority of participants (over 55.0%) expect overall cap rates to hold steady over the next six months.
(c) Investor responses were equal between increase, decrease, and hold steady.
Source: Korpacz Real Estate Investor Survey®

Looking Forward

The "bottoming" of the industry continues to be recognized in investors' expectations that overall cap rates for the most part will either hold steady or decline over the next six months. As shown in Exhibit 2, overall cap rates are expected to hold steady in 22 of the Survey's 31 markets over the next six months. Interestingly, only five markets reported the potential for either an upward or downward near-term shift in overall cap rates.

Markets where most participants expected overall cap rates to decline in the near term include the national regional mall market (down as much as 150 basis points) and the San Francisco office market (down as much as 100 basis points). On the other hand, overall cap rates could potentially increase in Suburban Maryland and Charlotte over the next six months.

Key Indicator Breakout

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

Exhibit 3

BREAKOUT OF KEY INDICATORS

Third Quarter 2010

CBD OF:	DISCOUNT RATE RANGE	DISCOUNT RATE AVERAGE	OVERALL CAPITALIZATION RATE RANGE	OVERALL CAPITALIZATION RATE AVERAGE	RESIDUAL CAPITALIZATION RATE RANGE	RESIDUAL CAPITALIZATION RATE AVERAGE
Atlanta	7.75% – 14.00%	9.88%	7.00% – 10.00%	8.73%	7.50% – 10.00%	8.84%
Boston	7.75% – 12.00%	9.41%	5.75% – 10.50%	7.98%	6.00% – 10.50%	8.13%
Charlotte	8.00% – 10.50%	9.44%	7.00% – 10.00%	8.48%	7.50% – 10.00%	8.63%
Chicago	8.00% – 11.50%	9.00%	6.00% – 10.00%	7.89%	7.00% – 9.00%	8.17%
Dallas	8.00% – 11.50%	9.31%	7.00% – 11.50%	8.52%	7.25% – 11.00%	8.85%
Denver	7.75% – 11.00%	8.96%	7.00% – 9.00%	7.75%	7.50% – 10.00%	8.66%
Houston	8.00% – 12.00%	9.31%	7.00% – 10.00%	8.49%	7.00% – 10.00%	8.48%
Los Angeles	7.50% – 12.00%	9.15%	6.25% – 9.00%	7.65%	6.75% – 9.75%	8.04%
Manhattan	6.00% – 10.00%	7.81%	5.00% – 8.00%	6.23%	5.50% – 8.50%	6.83%
Pacific Northwest	7.50% – 12.00%	9.85%	6.00% – 10.00%	8.03%	6.00% – 9.00%	8.15%
Philadelphia	8.00% – 10.00%	9.13%	7.25% – 9.50%	8.45%	7.00% – 9.75%	8.48%
Phoenix	8.50% – 15.00%	10.50%	7.00% – 11.00%	8.95%	8.00% – 11.00%	8.97%
San Diego	7.50% – 12.00%	9.63%	7.00% – 9.00%	8.00%	7.00% – 10.00%	8.25%
San Francisco	7.50% – 11.00%	8.92%	5.50% – 10.00%	7.18%	6.00% – 10.00%	7.40%
Southeast Florida	7.00% – 16.00%	9.92%	7.25% – 12.00%	8.48%	7.00% – 12.00%	8.70%
Washington, DC	7.00% – 10.00%	8.02%	5.50% – 8.50%	6.64%	6.00% – 8.50%	7.13%
SUBURBS OF:	**DISCOUNT RATE RANGE**	**DISCOUNT RATE AVERAGE**	**OVERALL CAPITALIZATION RATE RANGE**	**OVERALL CAPITALIZATION RATE AVERAGE**	**RESIDUAL CAPITALIZATION RATE RANGE**	**RESIDUAL CAPITALIZATION RATE AVERAGE**
Atlanta	8.50% – 15.00%	10.70%	7.00% – 11.00%	9.16%	7.50% – 11.00%	9.23%
Boston	8.25% – 14.00%	10.25%	7.25% – 12.00%	9.04%	7.75% – 12.00%	9.18%
Charlotte	8.00% – 12.00%	9.70%	7.50% – 10.50%	9.00%	7.50% – 10.00%	8.98%
Chicago	8.50% – 13.00%	10.34%	7.00% – 11.00%	9.25%	8.00% – 11.00%	9.25%
Dallas	8.00% – 12.00%	9.71%	7.00% – 11.00%	9.00%	7.25% – 11.00%	8.90%
Denver	8.00% – 15.00%	11.23%	7.00% – 11.00%	8.83%	8.00% – 11.00%	9.19%
Houston	8.00% – 14.00%	9.98%	7.50% – 12.50%	9.15%	8.00% – 11.00%	8.98%
Los Angeles	7.00% – 12.00%	9.23%	6.50% – 9.00%	7.88%	7.00% – 10.25%	8.23%
Northern Virginia	6.00% – 10.50%	8.48%	5.75% – 9.00%	7.50%	7.00% – 9.00%	8.05%
Pacific Northwest	8.00% – 12.00%	10.35%	6.00% – 12.00%	8.80%	7.00% – 10.00%	8.70%
Philadelphia	8.50% – 11.00%	9.63%	7.75% – 10.00%	8.98%	8.00% – 11.00%	9.23%
Phoenix	9.50% – 16.00%	11.63%	8.00% – 11.00%	9.50%	8.00% – 11.00%	9.23%
San Diego	7.50% – 14.00%	10.13%	7.00% – 11.00%	8.53%	7.50% – 10.00%	8.55%
San Francisco	8.00% – 15.00%	10.14%	6.50% – 11.00%	8.19%	7.00% – 12.00%	8.49%
Southeast Florida	7.00% – 16.00%	10.52%	8.00% – 14.00%	9.91%	7.75% – 12.00%	9.30%
Suburban Maryland	7.25% – 10.00%	8.53%	7.00% – 9.00%	7.75%	7.50% – 10.00%	8.25%

Source: Korpacz Real Estate Investor Survey®

Valuation Issues

Rent Spikes

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

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

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

As shown in Exhibit 4, the use of rent spikes increased in 15 Survey markets, decreased in seven, and remained unchanged in five of them over the past year. The exhibit also includes the average spike percentage, the high end of the spike range, as well as the timing of the spike. Since most real estate sectors and markets are expected to remain weak over the near term, significant increases in rental rates are not anticipated for most surveyed markets going forward.

Some of the largest increased usages occurred in office markets where noticeable bottoms have been reached, such as Los Angeles. In addition, rent spikes are more prevalent in the national flex/R&D market, where 50.0% of surveyed investors are using a rent spike of up to 6.0% between years two and five. The average rent spike is 5.2%. On the other hand, a decline in spike usage is reported for Houston, Suburban Maryland, San Diego, and Northern Virginia.

For retail properties, the use of rent spikes has increased over the past year but remains minimal among our par-

Exhibit 4
RENT SPIKES
Third Quarter 2010

	% OF SURVEY PARTICIPANTS USING RENT SPIKES		CURRENT SPIKE		YEAR SPIKE USED		
	CURRENT QUARTER	YEAR AGO	AVERAGE	HIGH END OF RANGE	RANGE LOW	HIGH	AVERAGE
National Markets							
Regional Mall	16.7%	0.0%					
Power Center	20.0%	16.7%					
Strip Shopping Center	11.1%	0.0%					
CBD Office	40.0%	20.0%	6.3%	10.0%	3	6	4.1
Suburban Office	41.7%	33.0%	5.3%	7.0%	3	5	4.1
Flex/R&D	50.0%	28.6%	5.2%	6.0%	2	5	3.6
Warehouse	39.0%	16.7%	4.9%	10.0%	1	6	3.4
Net Lease	37.5%	42.9%					
MOB*	33.3%	11.1%	3.5%	5.0%	1	5	3.4
Office Markets							
Atlanta	0.0%	0.0%					
Boston	29.0%	0.0%					
Charlotte	0.0%	0.0%					
Chicago	44.0%	9.1%	4.9%	10.0%	1	6	3.9
Dallas	0.0%	0.0%					
Denver	50.0%	0.0%	3.6%	5.0%	1	5	3.1
Houston	0.0%	16.7%					
Los Angeles	60.0%	42.9%	4.5%	8.0%	1	8	3.8
Manhattan	16.7%	16.7%					
Northern Virginia	0.0%	16.7%					
Pacific Northwest	80.0%	25.0%	5.0%	10.0%	1	8	4.5
Philadelphia	0.0%	0.0%					
Phoenix	17.0%	0.0%					
San Diego	40.0%	50.0%	4.2%	10.0%	1	5	3.0
San Francisco	67.0%	55.6%	7.5%	18.0%	1	7	4.0
Southeast Florida	0.0%	20.0%					
Suburban Maryland	0.0%	12.5%					
Washington, DC	14.0%	25.0%					

*Medical office buildings
Source: Korpacz Real Estate Investor Survey®

ticipants – 16.7% for regional malls, 20.0% for power centers, and 11.1% for strip shopping centers. Combined, rent spikes range up to 5.0% for these three markets and occur in one of the first four years of a cash flow forecast. "Rents will increase at our premier centers first, where we have been able to hold occupancy and dictate tenant placement," adds an investor.

For niche markets, such as net lease and medical office buildings (MOB), some investors are using rent spikes while others are not. In the MOB market, for example, spike usage has increased as tenant demand remains strong, even growing in some areas of the country. On average, 33.3% of surveyed investors use a rent spike of up to 5.0% between years one and five.

Debt Service

Survey participants overwhelmingly indicate that debt availability is back, especially for strong assets with sound rent rolls and in good locations. "The desire to place debt has returned, especially for core assets and better plays," states an investor. Overall, debt loan-to-value percentages (LTV ratios) for the Survey's 35 markets indicate a tight range from 25.0% to 85.0% and an average of 58.0%. "Underwriting standards are better than a year ago," notes another.

While some survey participants state that "lenders are not lending at 80.0% LTVs for office deals," they certainly are lending at high LTVs for some apartment deals. "Good quality multifamily assets can easily get 70.0% to 75.0% LTVs and even higher (80.0% to 85.0%) using GSEs, like Fannie Mae and Freddie Mac," contends another.

Major sources of debt include life companies, as well as regional and local banks. Current interest rate levels for each market are shown in Exhibit 5. Overall, participants indicate that interest rates currently range from 3.75%

Exhibit 5

DEBT SERVICE

Third Quarter 2010

	INTEREST RATES (%)			DEBT PERCENTAGE			LEVERAGE PREMIUM ON IRRs (1)		
	LOW	HIGH	AVERAGE	LOW	HIGH	AVERAGE	LOW	HIGH	AVERAGE
National & Regional Markets									
Regional Mall	5.25	8.50	7.00	40	70	57	0	275	133
Power Center									
Strip Shopping Center	5.00	8.50	6.54	30	70	56	0	300	90
CBD Office	5.25	7.50	6.44	40	75	58	0	275	77
Suburban Office	5.00	8.00	6.34	40	70	58	0	1,500	263
Flex/R&D	5.00	8.00	6.60	50	70	60	0	1,500	560
Warehouse	4.75	8.00	6.23	50	70	58	0	500	213
Apartment									
National	3.75	8.50	5.68	50	80	62	25	300	178
Mid-Atlantic Region	4.75	9.00	6.21	50	85	67	0	300	116
Pacific Region	3.75	8.00	6.17	50	80	62	0	500	178
Southeast Region	3.75	8.00	5.66	50	80	62			
Net Lease	4.00	9.50	6.54	50	70	60	0	75	21
Medical Office Buildings	4.25	10.00	6.51	45	75	62	0	1,500	469
Office Markets									
Atlanta	5.25	8.00	6.54	50	70	57	0	500	238
Boston	4.75	9.00	6.42	50	80	58	0	500	205
Charlotte	5.00	10.00	6.71	50	70	60	0	700	309
Chicago	5.00	9.00	6.63	40	75	58	50	500	296
Dallas	5.00	8.00	6.75	50	70	57			
Denver	5.50	9.00	6.96	50	75	58	25	400	171
Houston	5.00	8.50	6.41	50	75	58	0	400	175
Los Angeles	4.75	7.50	5.81	50	75	62	100	500	308
Manhattan	5.00	7.50	6.17	50	70	59	50	200	142
Northern Virginia	5.25	7.00	6.25	50	70	60			
Pacific Northwest	4.00	10.00	6.44	50	75	61	50	500	233
Philadelphia	5.50	8.00	6.44	40	70	61	25	1,500	233
Phoenix	5.50	9.00	6.93	40	70	55			
San Diego	6.00	8.00	6.85	50	70	57	0	500	150
San Francisco	5.00	8.00	6.89	50	70	58	25	500	245
Southeast Florida	6.00	9.00	7.38	40	60	52	0	700	269
Suburban Maryland	5.50	8.00	6.59	50	70	57	0	400	100
Washington, DC	5.25	8.25	6.44	50	70	56			
Lodging Markets									
Full-Service	6.00	10.00	7.86	40	65	54	0	500	230
Economy/Limited-Service									
Luxury/Upper-Upscale	6.00	9.00	7.50	25	65	53	0	2,000	400
Extended Stay	6.00	9.00	7.75	40	60	53	50	500	206

(1) Basis points

Source: Korpacz Real Estate Investor Survey®

(in the apartment sector) to 10.00% and average 6.59%. "Interest rates are still low," remark various investors.

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

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

Lodging NOI Timing

Our lodging participants indicate that they use one of the following three NOI timing scenarios in direct capitalization (cap): prior 12 months; forecast (next) 12 months; or both (see Page 83). For each of the four lodging segments, most participants capitalize the prior-12-months income in direct cap.

Lodging Replacement Reserves

As a percentage of total revenue, the average replacement reserve for the lodging industry ranges from 3.67% to 3.80% and is used for the periodic replacement of building components and furniture, fixtures, and equipment (FF&E) during the life expectancy of the building (see Table LRR-1).

All hotel participants indicate that they deduct this replacement reserve from NOI before capitalization. For participants who use a separate structural replacement reserve, 86.0% deduct this reserve from NOI before capitalization. The remaining 14.0% do not deduct it.

Table LRR-1

LODGING REPLACEMENT RESERVES

(% of Total Revenue)

Segment	Range	Average
Full-Service	1.00% – 5.00%	3.69%
Economy/Limited-Service	2.00% – 5.00%	3.80%
Luxury/Upper-Upscale	1.00% – 6.00%	3.79%
Extended-Stay	1.00% – 6.00%	3.67%

Source: Korpacz Real Estate Investor Survey®

Lodging Management Fees

As a percentage of total revenue, average base management fees for the lodging industry range from 2.84% to 3.55% (see Table LMF-1). These rates remain relatively unchanged from a year ago. Incentive management fees are included in the Investor Response Tables located in the back of this issue.

Table LMF-1

LODGING MANAGEMENT FEES

(% of Total Revenue)

Segment	Range	Average
Full-Service	1.00% – 4.00%	2.84%
Economy/Limited-Service	3.00% – 4.50%	3.30%
Luxury/Upper-Upscale	2.00% – 5.00%	3.06%
Extended-Stay	3.00% – 6.00%	3.55%

Source: Korpacz Real Estate Investor Survey®

Buyers vs. Sellers

Due to a slow-moving economic recovery and weak fundamentals, market conditions continue to favor buyers. The percentage of our participants who believe that conditions favor either buyers or sellers more than the other is shown in Table VI-1. Overall, close to 78.0% of participants believe that market conditions favor buyers, nearly unchanged from 79.0% a year ago. At the same time, the portion of participants who feel that market conditions favor sellers increased over the past quarter from 7.0% to just over 12.0%. ✦

Table VI-1

BUYERS vs. SELLERS

Third Quarter 2010

National Markets	Buyers' Market*	Sellers' Market*
Regional Mall	50.0%	0.0%
Power Center	80.0%	0.0%
Strip Shopping Center	60.0%	11.0%
CBD Office	40.0%	0.0%
Suburban Office	58.0%	8.0%
Flex/R&D	100.0%	0.0%
Warehouse	46.0%	15.0%
Apartment	47.0%	26.0%
Net Lease	50.0%	0.0%
Medical Office Bldgs.	55.0%	33.0%
Office Markets		
Atlanta	100.0%	0.0%
Boston	71.0%	0.0%
Charlotte	50.0%	0.0%
Chicago	77.8%	11.0%
Dallas	60.0%	20.0%
Denver	67.0%	17.0%
Houston	67.0%	33.0%
Los Angeles	20.0%	20.0%
Manhattan	40.0%	20.0%
Northern Virginia	40.0%	40.0%
Pacific Northwest	20.0%	0.0%
Philadelphia	67.0%	17.0%
Phoenix	83.0%	0.0%
San Diego	60.0%	0.0%
San Francisco	67.0%	0.0%
Southeast Florida	50.0%	30.0%
Suburban Maryland	58.0%	14.0%
Washington, DC	57.0%	29.0%

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

Source: Korpacz Real Estate Investor Survey®

Economic News

Signs of an Industrial Recovery

By Chuck DiRocco, Director and Head of Research
Real Estate Business Advisory Services - PricewaterhouseCoopers LLP

Industrial real estate investments, often viewed as some of the less volatile deals, have been forced to deal with the same harsh economic concerns that have heavily impacted all other types of commercial real estate. As a result, availability rates that often hover around 6.5% have risen steadily, climbing for eleven consecutive quarters to 14.0% in the second quarter of 2010, as per CBRE Econometric Advisors. Moreover, the industrial sector has posted record-setting vacancy highs for all three property subtypes – warehouse, manufacturing, and R&D. In addition, rental rate declines, which continue to be a concern for owners, are projected to continue through 2011.

The demand for industrial space is strongly linked to trade (imports and exports), manufacturing, and inventory levels. Even though trade and manufacturing are the primary components that drive property absorption within this sector, inventory flows still possess a strong connection that operates on both sides of the economic cycle.

Imports and Exports

Total trade, combined imports and exports, fell 16.7% from its peak in mid-2008 to the low displayed in June 2009 (see Table ECO-1). Keep in mind that during that period the United States wasn't the only country in recession. Europe faced many similar issues as many European countries found themselves working on stimulus plans similar to the United States. In addition, consumers began pulling back spending on imported products, such as toys, electronics, and furniture. In fact, consumption declined 6.0% between the fourth quarter of 2007 and the second quarter of 2009.

Since the 2009-second-quarter trough, trade surged just shy of 16.0% through midyear 2010, according to the U.S Bureau of Economic Analysis. From May to June 2010, the goods deficit increased $7.7 billion as imports of goods increased $5.4 billion. The growth in imports is due to increases in consumer goods ($3.1 billion); automotive vehicles, parts, and engines ($1.3 billion); other goods ($0.6 billion); and capital goods ($0.5 billion). These positive gains are steps in the right direction for the recovery of the U.S. industrial sector since an increase in trade often signals a spike in productivity.

Manufacturing and Inventories

The manufacturing of goods peaked in the third quarter of 2007. Since that high point, manufacturing declined over 17.0%, bottoming in June 2009. The drop-off in consumer spending was the key catalyst to this decline as credit buying became a thing of the past and consumers focused on saving. Since bottoming, goods manufacturing has shown signs of recovery, increasing over 8.0% since mid-2009. While the sell-off of prior inventories might be leading this charge, new orders have also continued to improve.

Inventories peaked in the fourth quarter of 2007 following the start of the recession and a decline in spending. Seeing those signs, manufacturers did not overproduce and relied on existing supply to meet consumer demand. Through the second quarter of 2009, inventory levels declined 7.3%. Although slight declines continued between the second quarter of 2009 and midyear 2010, restocking is slowly occurring as inventory levels increased 1.2% in the second quarter of 2010. At the same time, consumption has increased 4.5% from its trough in late 2007.

Final Thoughts

Even though concerns still linger regarding the future path of the U.S. economy, the country's recent trends relating to trade, manufacturing, and inventories provide an improving outlook for the industrial sector as a whole. In fact, since peaking in the second quarter of 2008, negative net absorption trends are showing signs of improvement and are helping to instill the belief among property owners and investors that the industrial sector's recovery might be around the corner. ✦

Table ECO-1
KEY INDUSTRIAL DEMAND TRENDS

	QUARTER PEAKED	% CHANGE PEAK TO 2Q09	% CHANGE 2Q09 TO 2Q10
Total Trade	2Q2008	– 16.7%	+ 15.8%
Consumption	4Q2007	– 6.0%	+ 4.5%
Inventories	4Q2007	– 7.3%	– 1.0%
Manufacturing	3Q2007	– 17.1%	+ 8.3%
Net Absorption (1)	2Q2008	– 2.7%	– 2.1%

(1) % of stock
Source: Moody's Economy.com, CBRE Econometric Advisors.

National Regional Mall Market

A FRAGILE U.S. ECONOMY CONTINUES TO HAMPER THE SPENDING LEVELS OF BOTH RETAILERS AND CONSUMERS, WHO ARE UNCERTAIN OF THE DEPTH AND STRENGTH OF THE RECOVERY. "It is easy to question whether much steam exists behind the recent GDP numbers," notes an investor. Real GDP grew 2.4% at an annualized rate in the second quarter of 2010, a slowing from the 3.7% pace in the previous quarter, as per the Bureau of Economic Analysis. For the most part, consumer spending remains a positive for GDP growth as consumers have recently been spending more. However, with the labor market still soft and incomes barely growing, consumer spending will likely see only small gains during the upcoming months.

Same-store retail sales (excluding Wal-Mart) grew 2.8% on a year-over-year basis in June 2010, based on data from the Bank of Tokyo-Mitsubishi UFJ (BTU). Nearly 78.0% of the chain stores tracked by the BTU reported gains for this time period. Regional-mall type tenants that posted strong annualized gains in June 2010 included Abercrombie & Fitch (+9.0%), Aeropostale (+8.0%), and Limited Brands (+6.0%). On the other hand, retailers that struggled included The Buckle (-7.3%), The Wet Seal (-3.6%), and American Eagle Outfitters (-1.0%).

Despite some positive news, leasing activity remained sluggish in the national regional mall market during the second quarter of 2010. Specifically, the vacancy rate for the U.S. regional and super-regional mall sector increased ten basis points to reach 9.0%, the highest level on record since Reis began tracking malls at the start of 2000. In addition, this uptick marks the seventh consecutive quarterly increase. Nevertheless, certain mall owners note that the dynamics of the leasing market are stabilizing.

From an investment standpoint, sales activity also remains quiet. As a participant remarks, "Most deals involve either preferred equity or a partial interest and are not reflective of leased fee interests." Due to a lack of "true" comparable trades, many investors are having difficulty accurately valuing assets. Still, our Survey reveals that overall cap rates have narrowed this quarter for this overall market, as well as for its Class-A+ sector (see Table NRM-1). Over the next six months, 50.0% of surveyed investors expect OARs for this market to hold steady, while the other half expects them to decline an average of 41 basis points. ✦

Table 1

NATIONAL REGIONAL MALL MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.25% – 14.00%	6.75% – 14.00%	7.00% – 15.00%
Average	9.98%	10.04%	10.43%
Change (Basis Points)		– 6	– 45
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 10.50%	5.00% – 10.50%	5.00% – 11.00%
Average	7.81%	7.93%	7.98%
Change (Basis Points)		– 12	– 17
RESIDUAL CAP RATE			
Range	6.00% – 12.00%	5.00% – 12.00%	6.25% – 12.00%
Average	8.29%	8.23%	8.64%
Change (Basis Points)		+ 6	– 35
MARKET RENT CHANGE RATE[b]			
Range	(3.00%) – 3.00%	(3.00%) – 5.00%	(5.00%) – 3.00%
Average	0.58%	0.58%	0.50%
Change (Basis Points)		0	+ 8
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 4.00%	1.00% – 4.00%
Average	1.92%	2.21%	2.86%
Change (Basis Points)		– 29	– 94
AVERAGE MARKETING TIME[c]			
Range	3.00 – 18.00	3.00 – 18.00	3.00 – 24.00
Average	7.67	7.86	9.00
Change (%)		– 2.42	– 14.78

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

Table NRM-1

AVERAGE OVERALL CAP RATES

National Regional Mall Market

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

Source: Korpacz Real Estate Investor Survey®

National Power Center Market

THE DESIRE TO OWN POWER CENTERS HAS WANED FOR SOME INVESTORS AS THE ECONOMIC RECOVERY LIMPS ALONG LEAVING MANY LANDLORDS TO DEAL WITH EMPTY SPACES AND A DWINDLING LIST OF POTENTIAL TENANTS TO FILL THEM. "Changes in consumers' spending habits and a number of bankruptcies and consolidations in the big-box sector continue to negatively impact many centers," comments a participant. While some landlords are transforming empty big-box spaces into smaller, more marketable units, others are opting to demolish the space in order to develop new uses, such as office space, medical facilities, or recreational buildings.

Despite this market's challenges, certain investors remain comfortable acquiring quality power centers in dominant locations. In one recent sale, Inland Real Estate Acquisitions purchased two Dallas-area centers as part of a larger five-property purchase totaling nearly 1.4 million square feet. In this deal, Inland acquired the 233,182-square-foot Prestonwood Town Center and the 224,755-square-foot McKinney Towne Crossing. Both centers are less than four years old and almost fully leased to popular national tenants, such as Best Buy, Staples, Michael's, and PetSmart.

According to the buyer, "These are well-located properties with credit tenants that will be strong performers in their respective markets." Interestingly, McKinney Towne Center was purchased from a distressed owner. As the bank loan on the asset came due, the buyer was able to purchase the loan from the bank and negotiate a deal with the borrower. Given the number of bad loans that many investors believe banks are still holding, additional distressed sales are expected to materialize over the near term. "The industry is not done deleveraging," notes an investor, who believes that more forced sales are to come.

In analyzing potential acquisitions, our Survey reveals that most investors still expect rental rates to decline over the next year (as much as 10.00%). Although this market's average initial-year market rent change rate held steady this quarter, it stands negative for the fifth consecutive quarter and well below the average reported during the peak of the cycle in mid-2007 (see Table NPC-1). ✦

Table NPC-1

INITIAL-YEAR MARKET RENT CHANGE RATES

National Power Center Market

Quarter	Average	Change (Basis Points)
3Q10	(0.70%)	0
2Q10	(0.70%)	+ 100
1Q10	(1.70%)	0
4Q09	(1.70%)	– 20
3Q09	(1.50%)	– 183
2Q09	0.33%	+ 33
1Q09	0.00%	– 136
4Q08	1.36%	– 95
3Q08	2.31%	– 57
3Q07	2.88%	—

Source: Korpacz Real Estate Investor Survey®

Table 2

NATIONAL POWER CENTER MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.50% – 12.00%	8.50% – 12.00%	7.50% – 15.00%
Average	9.75%	9.90%	9.92%
Change (Basis Points)		– 15	– 17
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 10.00%	7.50% – 10.00%	7.50% – 10.00%
Average	8.38%	8.70%	8.63%
Change (Basis Points)		– 32	– 25
RESIDUAL CAP RATE			
Range	7.50% – 10.00%	7.50% – 10.00%	7.50% – 10.50%
Average	8.65%	8.65%	8.88%
Change (Basis Points)		0	– 23
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 3.00%	(10.00%) – 3.00%	(10.00%) – 3.00%
Average	(0.70%)	(0.70%)	(1.50%)
Change (Basis Points)		0	+ 80
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	0.00% – 4.00%
Average	2.90%	2.90%	2.75%
Change (Basis Points)		0	+ 15
AVERAGE MARKETING TIME[c]			
Range	3.00 – 18.00	3.00 – 18.00	3.00 – 18.00
Average	9.60	10.20	9.50
Change (%)		– 5.88	+ 1.05

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

National Strip Shopping Center Market

EVEN THOUGH EQUITY INVESTORS REMAIN EAGER TO DEPLOY CAPITAL AT THIS POINT IN THE CYCLE, THEY ARE BEING PATIENT AND SELECTIVE WHEN TARGETING STRIP SHOPPING CENTER ASSETS. For the most part, buyers are looking for quality properties anchored by either grocery or drug stores and located in either in-fill areas or dominant trade areas. "We remain very bullish on centers with top-performing supermarkets," affirms a participant. In fact, sales volume for grocery-anchored shopping centers was up 120.0% on a year-over-year basis in the second quarter of 2010, according to Real Capital Analytics.

Over the past 12 months, the West Coast of the country reported the most sales involving grocery-anchored centers (a total of 63) and the highest average sale price at $170.00 per square foot. The second most active region was the Southeast with 48 properties sold at an average price of $124.00 per square foot. In contrast, the Southwest region had the fewest grocery-anchored center sales at 18 and the lowest average sale price at $112.00 per square foot (tied with the Midwest region, where 27 grocery-anchored assets sold).

While most of the recent buyers of grocery-anchored shopping centers have been institutional investors, private capital firms and individuals have also been active. In one recent sale, private buyer Vincent Theurer purchased Bergen County Retail in Bergenfield, New Jersey for $9.5 million, indicating a price of $594.00 per square foot and an overall cap rate (OAR) of 7.00%. While OARs have reportedly been higher than 7.00% for certain assets, they have also been lower. "We were an active bidder on an Austin retail asset, yet even at an unleveraged return near 6.00% we were not the winning bid," shares a participant.

With plentiful capital chasing very little quality product, our Survey reveals that overall cap rates continue to trend downward in this sector. As shown in Table SSC-1, the average OAR for this market has declined over the past three quarters. In addition, the low end of the OAR range declined to 5.50% this quarter, the lowest low end of the range ever reported for this market. Over the next six months, most Survey participants (67.0%) forecast overall cap rates to hold steady in this market. The remaining participants expect OARs to decline an average of 38 basis points. ✦

Table 3

NATIONAL STRIP SHOPPING CENTER MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 12.50%	7.00% – 12.50%	7.75% – 12.00%
Average	9.19%	9.46%	9.38%
Change (Basis Points)		– 27	– 19
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 11.40%	7.00% – 11.40%	7.50% – 11.00%
Average	8.09%	8.38%	8.41%
Change (Basis Points)		– 29	– 32
RESIDUAL CAP RATE			
Range	6.50% – 12.00%	7.00% – 12.00%	7.25% – 10.00%
Average	8.51%	8.63%	8.61%
Change (Basis Points)		– 12	– 10
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	0.61%	0.50%	0.93%
Change (Basis Points)		+ 11	– 32
EXPENSE CHANGE RATE[b]			
Range	1.00% – 4.00%	1.00% – 4.00%	1.00% – 4.00%
Average	2.83%	2.89%	2.79%
Change (Basis Points)		– 6	+ 4
AVERAGE MARKETING TIME[c]			
Range	2.00 – 18.00	2.00 – 18.00	2.00 – 18.00
Average	8.44	8.61	9.29
Change (%)		– 1.97	– 9.15

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

Table SSC-1

OVERALL CAP RATE TRENDS

National Strip Shopping Center Market

Quarter	Average	Change (Basis Points)
3Q10	8.09%	– 29
2Q10	8.38%	– 11
1Q10	8.49%	– 4
4Q09	8.53%	+ 12
3Q09	8.41%	+ 50
2Q09	7.91%	+ 28
1Q09	7.63%	+ 30
3Q08	7.33%	+ 13
3Q07	7.20%	– 16
3Q06	7.36%	—

Source: Korpacz Real Estate Investor Survey®

National CBD Office Market

DESPITE A WEAK U.S. EMPLOYMENT PICTURE AND FEEBLE TENANT DEMAND FOR CBD OFFICE SPACE, A TREMENDOUS AMOUNT OF CAPITAL IS TARGETING DOWNTOWN CORE OFFICE PROPERTIES. "A flight to quality is still driving the investment market," affirms a participant. For the first six months of 2010, sales of significant office assets totaled just over $8.0 billion, according to Real Capital Analytics. By comparison, total sales volume for CBD assets totaled $5.9 billion in 2009. Given the rise in offerings and the noticeable improvement in debt availability, investment activity should continue at a good pace for the rest of the year. "The second half of 2010 should be a busy one," predicts an investor.

Lackluster fundamentals, however, are likely to keep investors and lenders focused on the same quality assets and top-tier markets. At the same time, secondary cities will continue to see little to no attention from investors. As a result, the highly competitive bidding environment that has emerged recently for well-leased assets in sound locations is not expected to fade anytime soon. In turn, overall cap rates (OARs) could continue to dip as the vast amount of capital chasing deals overshadows the quantity of available product.

Although the overall vacancy rate for the national CBD office market improved slightly during the past three months (see Table CBD-1), oversupply issues and a slow recovery remain top concerns for CBD office building owners. CBD markets that posted declines in overall vacancy over the past year included Fort Lauderdale, San Francisco, and Atlanta. By comparison, the CBDs of Phoenix, Miami, and Baltimore reported the highest increases in overall vacancy over the past 12 months.

A stagnant leasing market in many CBDs has provided tenants with numerous space options and generous concessions. In fact, 90.0% of surveyed investors indicate that free rent is offered in the national CBD office market, ranging up to 15 months on a ten-year lease. The average amount of free rent is just over five months. "It's a great time for companies to look for space downtown," declares a participant. Until space is absorbed on a more consistent basis, most tenants will receive free rent and/or other concessions in exchange for signing downtown leases. ✦

Table 4

NATIONAL CBD OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.50% – 12.00%	6.75% – 12.50%	7.50% – 13.00%
Average	9.11%	9.28%	9.24%
Change (Basis Points)		– 17	– 13
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 10.50%	6.00% – 10.50%	5.00% – 11.00%
Average	8.01%	8.15%	8.11%
Change (Basis Points)		– 14	– 10
RESIDUAL CAP RATE			
Range	6.50% – 10.50%	6.50% – 10.50%	6.50% – 11.00%
Average	7.98%	8.20%	8.44%
Change (Basis Points)		– 22	– 46
MARKET RENT CHANGE RATE[b]			
Range	(5.00%) – 4.00%	(10.00%) – 3.00%	(10.00%) – 3.00%
Average	(0.15%)	(0.55%)	(1.88%)
Change (Basis Points)		+ 40	+ 173
EXPENSE CHANGE RATE[b]			
Range	2.00% – 4.00%	2.00% – 4.00%	2.00% – 4.00%
Average	2.85%	2.85%	3.00%
Change (Basis Points)		0	– 15
AVERAGE MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 18.00
Average	8.15	7.95	8.25
Change (%)		+ 2.52	– 1.21

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

Table CBD-1

OVERALL VACANCY RATES

National CBD Office Market

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

Source: Cushman & Wakefield

National Suburban Office Market

THE UNDERLYING FUNDAMENTALS OF THE NATIONAL SUBURBAN OFFICE MARKET CONTINUE TO SHOW WEAKNESS AS THE OVERALL VACANCY RATE HOVERED JUST BELOW 20.0% AT MIDYEAR 2010, BASED ON DATA FROM CUSHMAN & WAKEFIELD (C&W). Of the 37 suburban markets tracked by C&W, 25 of them reported higher year-over-year overall vacancy rates in the second quarter of 2010. The largest basis-point increases in vacancy were noted for Portland (+396 basis points), Long Island (+362 basis points), and Atlanta (+359 basis points). On the other hand, yearly improvement was reported for the suburbs of Silicon Valley, Baltimore, and the San Francisco Peninsula.

Despite some noted improvement in a few markets, tenants continue to have the upper hand with regard to lease negotiations and are receiving concessions from landlords anxious to either maintain or improve occupancy levels. In fact, 100.0% of our surveyed investors indicate that free rent is offered in the national suburban office market, ranging up to 12 months on a ten-year lease. The average amount of free rent is just over four months.

Excessive tenant improvement (TI) allowances are also available to certain tenants. This quarter, the Survey reveals that excessive TIs – the amount by which the awarded TI exceeds what is normal in a balanced market – range from $5.00 to $25.00 per square foot and average $10.50 per square foot in this market. When combined with stagnant rental rates, the need for tenant concessions continues to erode net operating income for many owners. "Preserving revenue remains a challenge at some of our properties," shares a participant.

Although very few survey participants anticipate rental rates in this sector to rise significantly over the near term, the average initial-year market rent change rate for this market did improve this quarter, rising 152 basis points to an average of -0.63% (see Table NSO-1). While the average for this key indicator remains negative, it is important to point out that the low end of the range for this cash flow assumption has greatly improved over the past three months, moving from -20.00% for the past four quarters to -10.00% this quarter. ✦

Table 5

NATIONAL SUBURBAN OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 13.00%	7.25% – 14.00%	8.00% – 14.00%
Average	9.45%	9.88%	10.24%
Change (Basis Points)		– 43	– 79
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 11.50%	6.00% – 12.00%	7.00% – 12.00%
Average	8.40%	8.60%	8.72%
Change (Basis Points)		– 20	– 32
RESIDUAL CAP RATE			
Range	7.00% – 11.50%	7.00% – 11.50%	7.50% – 11.50%
Average	8.56%	8.77%	8.85%
Change (Basis Points)		– 21	– 29
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 4.00%	(20.00%) – 3.00%	(20.00%) – 3.00%
Average	(0.63%)	(2.15%)	(2.42%)
Change (Basis Points)		+ 152	+ 179
EXPENSE CHANGE RATE[b]			
Range	2.00% – 4.00%	2.00% – 4.00%	1.00% – 4.00%
Average	2.77%	2.75%	2.89%
Change (Basis Points)		+ 2	– 12
AVERAGE MARKETING TIME[c]			
Range	2.00 – 24.00	3.00 – 24.00	3.00 – 18.00
Average	9.04	8.88	9.41
Change (%)		+ 1.80	– 3.93

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

Table NSO-1

INITIAL-YEAR MARKET RENT CHANGE RATES

National Suburban Office Market

Quarter	Average	Change (Basis Points)
3Q10	(0.63%)	+ 152
2Q10	(2.15%)	+ 31
1Q10	(2.46%)	– 11
4Q09	(2.35%)	+ 7
3Q09	(2.42%)	– 121
2Q09	(1.21%)	– 92
1Q09	(0.29%)	– 220
4Q08	1.91%	– 53
3Q08	2.44%	– 14
2Q08	2.58%	– 56
1Q08	3.14%	+ 3
4Q07	3.11%	—

Source: Korpacz Real Estate Investor Survey®

Atlanta Office Market

FOR BETTER AND FOR WORSE, OFFICE-SPACE-USING TENANTS IN ATLANTA ARE MAKING DECISIONS REGARDING REAL ESTATE NEEDS. Many tenants are either renewing leases before terms expire or relocating to capitalize on the favorable concession packages in this market. "It's an unsettling time for many landlords because they realize it is still a very strong tenants' market," remarks a participant. In fact, in an effort to avoid lowering asking rental rates, many landlords are offering generous incentives. This quarter, participants report that free rent ranges up to 20 months and averages just over ten months for a ten-year lease, the highest level among the 18 individual office markets surveyed.

Some tenants are also receiving an excessive tenant improvement (TI) allowance, which exceeds market TIs by between $5.00 and $35.00 per square foot. The average excessive TI allowance is $13.00 per square foot. "Many landlords are still facing challenges, but leasing activity has certainly increased," observes a participant. At 3630 Peachtree in Buckhead recently signed companies include advertising firm JWT (50,000 square feet), tea store operator Teavana (20,000 square feet), and investment firm VRA Partners (9,000 square feet). In Midtown, Regions Bank inked a letter of intent to occupy nearly 80,000 square feet in Atlantic Center Plaza while law firm Kilpatrick Stockton inked a nine-floor renewal at 1100 Peachtree for 15 years.

At the same time, however, some recently signed leases have returned space to the market. Although Bank of America renewed its ten-year lease early, it resulted in 200,000 square feet of available space at Bank of America Plaza in Midtown. At the same property, law firm Troutman Sanders is marketing two unused floors as sublease space, which would have a lease expiration date of May 2020.

Given record-high levels of vacant office space, a protracted economic recovery, and a high number of delinquent CMBS loans, many institutional investors have "redlined" Atlanta as a target market for now. However, some private investors believe these conditions breed opportunity and are strategizing timing plays. For instance, Dewberry Capital Corporation has the recently foreclosed 20-story Campanile Building under contract for $35.0 million. Dewberry was reportedly one of 30 bidders on the 23.0%-occupied asset, which Transwestern Investment Company purchased in 2007 for nearly three times the current contract amount.

Due to a scarcity of office transactions, average overall capitalization (cap) rates remain static this quarter. Further, the majority (71.4%) of surveyed participants expect overall cap rates to hold steady through the end of this year. Although transaction activity has been limited, investors anticipate an uptick in sales as CMBS lending returns to the market, albeit under stricter circumstances. "We expect to see new benchmarks for underwriting as the deals in the pipeline begin to close," predicts a participant. ✦

Table 6
ATLANTA OFFICE MARKET
Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.75% – 15.00%	7.75% – 14.00%	7.75% – 15.00%
Average	10.29%	10.43%	10.86%
Change (Basis Points)		– 14	– 57
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.00%	7.00% – 11.00%	6.75% – 11.00%
Average	8.95%	8.94%	9.01%
Change (Basis Points)		+ 1	– 6
RESIDUAL CAP RATE			
Range	7.50% – 11.00%	7.50% – 11.00%	8.00% – 11.00%
Average	9.04%	9.21%	9.08%
Change (Basis Points)		– 17	– 4
MARKET RENT CHANGE RATE[b]			
Range	(3.00%) – 0.00%	(5.00%) – 0.00%	(3.00%) – 3.00%
Average	(0.43%)	(0.44%)	(0.11%)
Change (Basis Points)		+ 1	– 32
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	1.00% – 3.00%
Average	2.32%	2.31%	2.61%
Change (Basis Points)		+ 1	– 29
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	1.00 – 12.00	3.00 – 12.00
Average	7.71	7.56	8.00
Change (%)		+ 1.98	– 3.63

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

Boston Office Market

While there are indications that the Boston office market is stabilizing, a few survey participants are less than impressed by its performance. "We aren't very bullish on this market, where net job growth has been nonexistent for so long," comments an investor. "We are attempting to exit this market," shares another.

These negative comments are mainly a reflection of weak fundamentals and the anticipation that the recovery will be a slow one. At the same time, other Survey participants are looking for ownership opportunities in Boston, especially in its CBD.

Like many other major U.S. metros, this market's CBD is outperforming its suburbs. In the second quarter of 2010, Boston's CBD posted an overall vacancy rate of 12.96%, below the national rate of 14.77%, according to Cushman & Wakefield (C&W). In the suburbs, the local overall vacancy rate was 21.65%, ahead of the national level of 19.46%. In the Class-A sector, the overall vacancy rate is even lower – 11.80% in the CBD, one of the lowest Class-A vacancy rates of any major U.S. office market tracked by C&W.

As challenges persist in the suburban sector of this office market, Survey investors continue to report higher average overall capitalization (cap) rates for Boston's suburbs than for its CBD. As shown in Table BOS-1, the average overall cap rate for this market's suburbs has been about 100 basis points above the average for its CBD for the past four years, fluctuating between 68 and 115 basis points.

The biggest near-term challenge for this market is job creation. "Some large companies continue to ship jobs out of state," contends a participant. Until the local and national economic recoveries gain momentum and generate jobs to fill empty office space, few landlords will have the ability to raise rental rates.

Although the initial-year market rent change rate assumption for this market improved 114 basis points this quarter (see Table 7), it remains negative for the seventh straight quarter. At the peak of the cycle in mid-2007, the average for this key indicator was approximately 3.90%. As companies returned space and tenants gained control of the market, the average tumbled continually between the third quarter of 2007 and the third quarter of 2009. ✦

Table 7
BOSTON OFFICE MARKET
Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.75% – 14.00%	7.75% – 14.00%	7.75% – 12.00%
Average	9.83%	9.93%	9.51%
Change (Basis Points)		– 10	+ 32
OVERALL CAP RATE (OAR)[a]			
Range	5.75% – 12.00%	5.75% – 12.00%	5.75% – 11.00%
Average	8.51%	8.66%	8.40%
Change (Basis Points)		– 15	+ 11
RESIDUAL CAP RATE			
Range	6.00% – 12.00%	6.00% – 12.00%	6.50% – 10.50%
Average	8.65%	8.69%	8.52%
Change (Basis Points)		– 4	+ 13
MARKET RENT CHANGE RATE[b]			
Range	(5.00%) – 1.00%	(10.00%) – 1.00%	(10.00%) – 0.00%
Average	(0.86%)	(2.00%)	(3.50%)
Change (Basis Points)		+ 114	+ 264
EXPENSE CHANGE RATE[b]			
Range	0.00% – 4.50%	3.00% – 4.50%	3.00% – 3.00%
Average	2.81%	3.11%	3.00%
Change (Basis Points)		– 30	– 19
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	2.00 – 12.00
Average	7.79	7.79	7.75
Change (%)		0	+ 0.52

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

Table BOS-1
AVERAGE OVERALL CAP RATES
Boston Office Market

Quarter	CBD	Suburbs	Spread(1)
3Q10	7.98%	9.04%	+ 106
2Q10	8.18%	9.14%	+ 96
1Q10	8.18%	8.98%	+ 80
4Q09	7.92%	8.98%	+ 106
3Q09	7.92%	8.89%	+ 97
2Q09	7.75%	8.82%	+ 107
1Q09	7.28%	7.96%	+ 68
3Q08	6.79%	7.94%	+ 115
3Q07	6.56%	7.64%	+ 108

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

Charlotte Office Market

OFFICE-SPACE-USING EMPLOYMENT GAINS IN CHARLOTTE AND INCREASED CLARITY SURROUNDING THE LOCAL BANKING INDUSTRY HAVE LED TO IMPROVING OFFICE FUNDAMENTALS IN THIS MARKET'S CBD. "Charlotte is firming up more rapidly than expected given the in-migration of companies and the impending stability of most banks," comments a participant. One of the primary office-space-using employment sectors, professional-and-business services, added 5,200 jobs between January 2010 and May 2010, based on data from the Bureau of Labor Statistics. Moreover, financial activities added 300 jobs during the same time period, suggesting a growing confidence in the local economy. "Wells Fargo now employs more people in Charlotte than it did when it acquired Wachovia," boasts an investor.

Even though Cushman & Wakefield reported that overall vacancy surged from 3.2% to 12.0% in Charlotte's CBD on a year-over-year basis in the second quarter of 2010, recent events provide an encouraging outlook for the submarket. First, One Bank of America Center removed 250,000 square feet of available space from the market. Second, Duke Energy Center opened with the majority of its 702,500 square feet leased to tenants, including Duke Energy (450,000 square feet), Wells Fargo (121,500 square feet), law firm Katten Muchin Rosenman (48,000 square feet), and real estate firm Cassidy Turley (11,000 square feet). "Companies that have funds are taking space and doing well," underscores a participant. Overall, the CBD posted positive net absorption of 704,111 square feet during the second quarter of 2010.

While leasing activity is on the rise in the CBD, it remains sluggish in the suburbs, which posted an overall vacancy rate of 19.8% at midyear 2010. "Smaller companies usually generate a lot of the demand for space in our suburbs, but many of them are not growing much now," says a participant.

Despite a lack of movement in suburban fundamentals, positive trends in the CBD resulted in an uptick in investors' estimates of future rent growth. As shown in Table CHR-1, the average initial-year market rent change rate improved for the third straight quarter and stands 100 basis points higher than a year ago. If the trend continues, this key indicator's average could turn positive next quarter. ✦

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

Quarter	Average	Change (Basis Points)
3Q10	(0.17%)	+ 33
2Q10	(0.50%)	+ 50
1Q10	(1.00%)	+ 17
4Q09	(1.17%)	0
3Q09	(1.17%)	– 4
2Q09	(1.13%)	– 173
1Q09	0.60%	– 107
4Q08	1.67%	– 123
3Q08	2.90%	– 20
2Q08	3.10%	– 60
1Q08	3.70%	—

Source: Korpacz Real Estate Investor Survey®

Table 8
CHARLOTTE OFFICE MARKET
Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 12.00%	8.00% – 12.00%	8.00% – 13.00%
Average	9.57%	9.98%	9.73%
Change (Basis Points)		– 41	– 16
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 10.50%	7.00% – 13.00%	6.50% – 13.00%
Average	8.74%	9.41%	9.21%
Change (Basis Points)		– 67	– 47
RESIDUAL CAP RATE			
Range	7.50% – 10.00%	7.50% – 11.00%	7.50% – 10.00%
Average	8.80%	8.95%	8.86%
Change (Basis Points)		– 15	– 6
MARKET RENT CHANGE RATE[b]			
Range	(4.00%) – 2.00%	(4.00%) – 0.00%	(4.50%) – 0.00%
Average	(0.17%)	(0.50%)	(1.17%)
Change (Basis Points)		+ 33	+ 100
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	0.00% – 3.00%
Average	2.79%	2.75%	2.54%
Change (Basis Points)		+ 4	+ 25
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	3.00 – 18.00	3.00 – 12.00
Average	6.08	7.00	6.75
Change (%)		– 13.14	– 9.93

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

Chicago Office Market

HESITANCY ON THE PART OF COMPANIES TO EXPAND AND LEASE SPACE CONTINUES TO BURDEN THE SUPPLY-DEMAND DYNAMICS OF THE CHICAGO OFFICE MARKET. "It is still very much a tenants' market," states a participant. Although one Survey investor notes that the downtown sector is performing better than the suburbs, both continue to post overall vacancy rates above national trends. In the second quarter of 2010, the CBD reported an overall vacancy rate of 16.65% while the suburbs recorded a rate of 23.38%, as per Cushman & Wakefield. By comparison, the U.S. rates were 14.77% and 19.46%, respectively, for that time frame.

Even though the CBD is outperforming the suburbs, its leasing velocity is down in comparison to its long-term historical average, providing tenants with numerous leasing options. In one new CBD lease, Health Care Service Corporation agreed to an 11-year deal for 58,000 square feet at 701 East 22nd Street. This lease will allow the company to relocate from Oakbrook Terrace and place all its employees on one floor. Extension leases have also occurred in the CBD. Law firm Neal, Gerber & Eisenberg both downsized and extended its lease at Two North LaSalle, taking 179,451 square feet.

Despite weak fundamentals and the likelihood of a drawn out recovery, core assets in this market continue to garner much attention from investors. "Competition is tough among buyers of quality product," states a participant. In a recent Class-A tower sale, KBS Real Estate Investment Trust II purchased 330 North LaSalle for just over $500.00 per square foot. This trophy building is certified LEED Gold and is 93.0% leased to a variety of tenants at a reported average lease rate of roughly $36.00 per square foot. The sale price for this asset represents the largest deal in this market for at least the past five years.

"While some assets have the fundamentals to back up pricing, others do not," comments a participant. In fact, most surveyed investors remain cautious about the potential for rental rate growth in the Chicago office market. As shown in Table CHO-1, this market's average initial-year market rent change rate remains negative for the seventh consecutive quarter. ✦

Table 9
CHICAGO OFFICE MARKET
Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 13.00%	8.00% – 13.00%	7.00% – 17.00%
Average	9.67%	9.76%	10.08%
Change (Basis Points)		– 9	– 41
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 11.00%	6.00% – 11.00%	6.00% – 11.00%
Average	8.57%	8.61%	8.49%
Change (Basis Points)		– 4	+ 8
RESIDUAL CAP RATE			
Range	7.00% – 11.00%	7.00% – 11.00%	7.25% – 11.00%
Average	8.71%	8.81%	8.83%
Change (Basis Points)		– 10	– 12
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 0.00%	(10.00%) – 0.00%	(10.00%) – 3.00%
Average	(2.22%)	(2.39%)	(1.39%)
Change (Basis Points)		+ 17	– 83
EXPENSE CHANGE RATE[b]			
Range	(5.00%) – 3.00%	(5.00%) – 3.00%	(5.00%) – 3.00%
Average	1.88%	1.69%	1.90%
Change (Basis Points)		+ 19	– 2
AVERAGE MARKETING TIME[c]			
Range	2.00 – 15.00	2.00 – 15.00	3.00 – 15.00
Average	8.06	8.06	9.18
Change (%)		0	– 12.20

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

Table CHO-1
INITIAL-YEAR MARKET RENT CHANGE RATES
Chicago Office Market

Quarter	Average	Change (Basis Points)
3Q10	(2.22%)	+ 17
2Q10	(2.39%)	+ 111
1Q10	(3.50%)	– 25
4Q09	(3.25%)	– 186
3Q09	(1.39%)	– 44
2Q09	(0.95%)	– 45
1Q09	(0.50%)	– 204
4Q08	1.54%	– 117
3Q08	2.71%	– 37
2Q08	3.08%	+ 13
1Q08	2.95%	– 14
3Q07	3.09%	—

Source: Korpacz Real Estate Investor Survey®

Dallas Office Market

EVEN THOUGH THE DALLAS OFFICE MARKET REMAINS SADDLED WITH EXCESS VACANT SPACE AND FRAGILE TENANT DEMAND, SALES TRANSACTION ACTIVITY IS GAINING MOMENTUM FOR HIGH-QUALITY ASSETS. "Sales activity is showing signs of picking up," indicates a participant, who "likes the prospects of Dallas." Investors are not only pursuing well-located core properties, but are looking at assets occupied by users. Cole Real Estate Investments, for example, just acquired the AT&T regional headquarters building in Dallas for $143.00 per square foot in an all-cash deal.

Many investors are tracking office assets in various stages of financial distress hoping to capitalize on "rock bottom" pricing. For instance, CBRE Investors outbid ten investors for the 302,747-square-foot Sterling Plaza and the 421,997-square-foot Preston Commons. While the sale price was not available, prior owner BentleyForbes recently transferred ownership to the lender Capri Capital following failed attempts to restructure its debt. The largest single-asset deal during the first half of 2010 involved a property recently posted for foreclosure. Frontier Equity purchased Overton Centre in Fort Worth from GE Capital Real Estate. This 411,000-square-foot, two-tower asset was 85.0% occupied at the time of the sale, up from 72.0% one year prior, an attraction for the buyer. Frontier plans to spend $3.5 million on renovations and system upgrades.

For the most part, asset pricing remains depressed in the Dallas market. Therefore, many owners are not selling unless they must. This quarter, surveyed investors estimate that office assets are worth an average of 78.0% of replacement cost. Over the next 12 months, participants expect asset values to decline an average of 8.67%. In contrast, some investors believe that the limited number of core assets coming to market is resulting in a "scarcity premium" with regard to pricing. In turn, some assets are garnering higher-than-expected prices in a market still facing challenges.

Despite the swell in deal flow, average overall capitalization (cap) rates moved minimally during the quarter. As shown in Table DAL-1, the average increased 12 basis points from one year ago, but has remained within a 24-basis-point range. The majority (75.0%) of participants expect cap rates to hold steady over the next six months. ✦

Table DAL-1

OVERALL CAP RATE TRENDS

Dallas Office Market

Quarter	Average	Change (Basis Points)
3Q10	8.76%	– 1
2Q10	8.77%	+ 3
1Q10	8.74%	– 14
4Q09	8.88%	+ 24
3Q09	8.64%	+ 26
2Q09	8.38%	+ 17
1Q09	8.21%	+ 54
3Q08	7.67%	– 24
3Q07	7.91%	– 30
3Q06	8.21%	—

Source: Korpacz Real Estate Investor Survey®

Table 10

DALLAS OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 12.00%	8.00% – 12.00%	8.00% – 12.00%
Average	9.51%	9.47%	9.49%
Change (Basis Points)		+ 4	+ 2
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.50%	7.00% – 11.50%	6.40% – 11.50%
Average	8.76%	8.77%	8.64%
Change (Basis Points)		– 1	+ 12
RESIDUAL CAP RATE			
Range	7.25% – 11.00%	7.25% – 11.00%	7.25% – 11.00%
Average	8.88%	8.89%	8.77%
Change (Basis Points)		– 1	+ 11
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 0.00%	0.00% – 0.00%	0.00% – 0.00%
Average	0.00%	0.00%	0.00%
Change (Basis Points)		0	0
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	6.80	6.90	7.70
Change (%)		– 1.45	– 11.69

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

Denver Office Market

EMERGING CONFIDENCE IN THE LOCAL ECONOMY, AS WELL AS READINESS ON THE PART OF TENANTS TO MAKE REAL ESTATE DECISIONS, HAS CREATED POSITIVE NET ABSORPTION IN THE DENVER OFFICE MARKET. "While market fundamentals are benefiting from growth in the 'new energy' industry, massive job growth is not likely," cautions a participant. During the first six months of 2010, absorption totaled 767,004 square feet in the CBD and 506,031 square feet in the suburbs, based on data by Cushman & Wakefield. These figures are a noteworthy improvement from a year ago when both sectors posted high negative net absorption totals.

Leasing activity is particularly strong in the CBD. In a new deal, Health Grades signed a lease for 67,000 square feet in the 34-story Denver Place. This move will be a consolidation of 235 employees from multiple locations in the West Denver submarket. In a CBD lease expansion, Newfield Exploration Company took two additional floors at 1001 17th Street, bringing its total occupied space to 66,000 square feet. In an intra-market move, Xcel Energy is leaving 110,000 square feet in Seventeenth Street Plaza for a 330,000-square-foot space in the newly constructed building at 1800 Larimer Street.

In contrast to this upbeat CBD leasing activity, CenturyTel's recent acquisition of Qwest and its announcement not to renew Qwest's 1.3-million-square-foot lease upon expiration in 2012 will return significant space to the CBD market. "While there has been recent leasing success downtown, the impact from the Qwest merger will be negative and the depth of the impact remains unknown," comments a participant.

Many investors believe that office space fundamentals in this market have bottomed and are moving toward recovery. Simultaneously, the pace of investment sales is rising and the focus is on core assets with strong rent rolls. "Capital is flowing into Denver and stabilized, Class-A assets are getting some premium pricing," observes a participant. While certain investors indicate that stricter underwriting criteria make sales difficult to close, most surveyed investors (67.0%) still believe that current market conditions favor buyers. Nevertheless, this market's average initial-year market rent change rate improved for the fourth consecutive quarter and is up 182 basis points from its recent low of -2.90% at year-end 2009 (see Table DEN-1). ✦

Table 11

DENVER OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.75% – 15.00%	7.75% – 15.00%	7.75% – 15.00%
Average	10.09%	10.26%	9.88%
Change (Basis Points)		– 17	+ 21
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 10.00%
Average	8.29%	8.40%	8.14%
Change (Basis Points)		– 11	+ 15
RESIDUAL CAP RATE			
Range	7.50% – 11.00%	7.75% – 11.00%	7.00% – 11.00%
Average	8.92%	9.05%	8.28%
Change (Basis Points)		– 13	+ 64
MARKET RENT CHANGE RATE[b]			
Range	(20.00%) – 3.00%	(20.00%) – 3.00%	(10.00%) – 3.00%
Average	(1.08%)	(1.58%)	(1.90%)
Change (Basis Points)		+ 50	+ 82
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	3.00% – 3.50%
Average	2.75%	2.75%	3.10%
Change (Basis Points)		0	– 35
AVERAGE MARKETING TIME[c]			
Range	1.00 – 9.00	1.00 – 9.00	1.00 – 12.00
Average	5.73	5.73	6.03
Change (%)		0	– 4.98

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

Table DEN-1

INITIAL-YEAR MARKET RENT CHANGE RATES

Denver Office Market

Quarter	Average	Change (Basis Points)
3Q10	(1.08%)	+ 50
2Q10	(1.58%)	+ 82
1Q10	(2.40%)	+ 50
4Q09	(2.90%)	– 100
3Q09	(1.90%)	0
2Q09	(1.90%)	– 265
1Q09	0.75%	– 400
3Q08	4.75%	– 213
3Q07	6.88%	—

Source: Korpacz Real Estate Investor Survey®

Houston Office Market

WHILE HOUSTON'S POSITION AS A LEADER IN OIL AND GAS TECHNOLOGY PROPPED UP THE LOCAL ECONOMY DURING THE NATIONAL RECESSION, RECENT EVENTS HAVE INTRODUCED A GROWING UNREST TO SEVERAL EMPLOYMENT DRIVERS IN THIS MARKET. "Our uncertainty is tied to the potential deep-water drilling moratorium resulting from the April oil spill in the Gulf of Mexico and the federal government's position on NASA and the future of the space program," remarks a participant. These variables, plus the proposed merger of Houston-based Continental Airlines and Chicago-based United Airlines, are near-term risks for the already fragile office space demand trends in this market.

During the second quarter of this year, the Houston office market posted positive net absorption of 150,986 square feet, driven by Class-B and Class-C space in the suburbs. In the Class-A sector, high negative absorption in the suburbs resulted in a 329,262-square-foot loss in occupied space during the same period, as per Cushman & Wakefield. Despite these weak absorption trends, the suburban vacancy rate actually dipped ten basis points to 17.1% in the second quarter. At the same time, the overall vacancy rate for the CBD inched up 50 basis points to 12.9%. Several investors believe that the rising amount of Class-A sublease space in the CBD, which increased 14.3% on a year-over-year basis, will continue to hinder this sector's overall performance.

As the economic recovery drags on, financial stress expands for some building owners, increasing the number of troubled assets being tracked by prospective buyers. In the sale of one troubled asset this quarter, Black Forest Ventures, a private German investment firm, acquired the 71,000-square-foot Stanford Financial Group headquarters building, currently in receivership, for $12.2 million. Another active buyer, Boxer Property, purchased its third foreclosed asset this year in Houston. As a prior owner of the property, Boxer sold the 174,521-square-foot Northwest Commerce Building for roughly $14.3 million in 2007 to a private investor, which subsequently foreclosed on the asset. The servicer then assigned leasing and management duties to Boxer, who was the winner among seven bidders.

Amid the ongoing uncertainty surrounding the performance of the local economy and office market, average overall capitalization (cap) rates are relatively static. As shown in Table 12, cap rates inched up just three basis points in Houston this quarter. Over the next six months, 67.0% of surveyed participants expect rates to hold steady. On a positive note, results from the Survey indicate that investors are becoming more optimistic with regard to modeling cash flows as evidenced by this quarter's 20-basis-point improvement in the initial-year market rent change rate. In addition, the upper end of the range for this indicator moved from flat rent growth to 2.0% rent growth during the quarter. ✦

Table 12
HOUSTON OFFICE MARKET
Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 14.00%	8.00% – 14.00%	8.00% – 14.00%
Average	9.64%	9.68%	10.23%
Change (Basis Points)		– 4	– 59
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 12.50%	7.00% – 12.50%	7.00% – 12.00%
Average	8.82%	8.79%	8.90%
Change (Basis Points)		+ 3	– 8
RESIDUAL CAP RATE			
Range	7.00% – 11.00%	7.00% – 11.00%	7.25% – 10.00%
Average	8.73%	8.74%	8.50%
Change (Basis Points)		– 1	+ 23
MARKET RENT CHANGE RATE[b]			
Range	(5.00%) – 2.00%	(5.00%) – 0.00%	0.00% – 0.00%
Average	(0.30%)	(0.50%)	0.00%
Change (Basis Points)		+ 20	– 30
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 5.00%
Average	2.83%	2.92%	3.25%
Change (Basis Points)		– 9	– 42
AVERAGE MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	7.08	7.08	7.33
Change (%)		0	– 3.41

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

Los Angeles Office Market

SUPPLY CONTINUES TO OUTSTRIP DEMAND IN THE LOS ANGELES OFFICE MARKET, WHERE DIRECT ABSORPTION TOTALED -1.93 MILLION SQUARE FEET IN THE SECOND QUARTER OF 2010. Based on data from Cushman & Wakefield, only one of the seven submarkets that comprise this office market (San Gabriel Valley) posted positive direct absorption during the past three months. The largest givebacks of space occurred in Los Angeles West (-690,661 square feet), the Tri Cities (-569,609 square feet), and Los Angeles North (-500,623 square feet). On a positive note, however, the occupancy loss for this entire market in the second quarter of 2010 was 62.3% less than the second quarter of 2009.

Unfortunately, occupancy loss is just one challenge for office landlords in this market. Another problem is that existing leases continue to roll to much lower levels, making it difficult to sustain values over the near term. "Both new leases and renewals are being executed at much lower rates and with more concessions," comments an investor. This quarter, surveyed investors note that free rent is common in this market and ranges up to ten months on a ten-year lease. The average amount of free rent is 4.3 months.

For investors looking to acquire assets in this market, participants are quick to point out that more debt is available now than a year ago. In addition, our Survey indicates that overall capitalization (cap) rates for this market are narrowing (see Table 13). This quarter, the low end of the range for this key indicator increased while the high end of the range decreased. Nevertheless, the average remains well above that which was recorded during the peak of the cycle in mid-2007 (see Table LAO-1). Over the next six months, surveyed investors unanimously believe that overall cap rates will hold steady in this market.

While many investors contend that it remains a great time to buy, there is concern regarding the depth of the present economic recovery and its impact on both the lending industry and commercial real estate. "I'm not convinced that the recovery is real," remarks an investor. Until "real" job growth is created and generates demand for office space, a very one-sided and cautious investment market will prevail. ✦

Table 13

LOS ANGELES OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 12.00%	7.00% – 12.00%	7.00% – 14.00%
Average	9.19%	9.15%	9.50%
Change (Basis Points)		+ 4	– 31
OVERALL CAP RATE (OAR)[a]			
Range	6.25% – 9.00%	5.00% – 10.00%	5.00% – 10.00%
Average	7.76%	7.71%	7.62%
Change (Basis Points)		+ 5	+ 14
RESIDUAL CAP RATE			
Range	6.75% – 10.25%	6.50% – 10.25%	6.50% – 10.00%
Average	8.14%	8.12%	8.15%
Change (Basis Points)		+ 2	– 1
MARKET RENT CHANGE RATE[b]			
Range	(2.00%) – 2.00%	(5.00%) – 3.00%	(10.00%) – 4.00%
Average	0.00%	(0.50%)	0.33%
Change (Basis Points)		+ 50	– 33
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	0.00% – 3.00%
Average	2.92%	2.86%	2.75%
Change (Basis Points)		+ 6	+ 17
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	5.80	6.50	6.33
Change (%)		– 10.77	– 8.37

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

Table LAO-1

OVERALL CAP RATE TRENDS

Los Angeles Office Market

Quarter	Average	Change (Basis Points)
3Q10	7.76%	+ 5
2Q10	7.71%	– 22
1Q10	7.93%	+ 18
4Q09	7.75%	+ 13
3Q09	7.62%	+ 9
2Q09	7.53%	+ 54
1Q09	6.99%	+ 39
4Q08	6.60%	+ 40
3Q08	6.20%	0
2Q08	6.20%	+ 4
1Q08	6.16%	+ 2
3Q07	6.14%	—

Source: Korpacz Real Estate Investor Survey®

Manhattan Office Market

Slight increases in office-space-using employment and reports of positive absorption support the notion among many investors that the Manhattan office market is on the mend. Since the start of 2010, the financial-activities employment sector has added approximately 6,000 jobs in New York City, according to the Bureau of Labor Statistics. At the same time, the professional-and-business-services sector has added about 19,000 new jobs. Still, the current employee totals for these sectors remain well below where they were at the peak of the cycle. In 2007, employment totaled 467,600 workers in financial activities and 593,200 workers in professional-and-business services. As of June 2010, these figures stood at 429,100 workers and 572,700 workers, respectively.

Positive employment trends have spilled over into Manhattan's leasing market, where improvement in overall vacancy was noted in the second quarter of 2010. In the Midtown submarket, which was ravaged by the recent recession, Class-A vacancy declined from 13.9% in the first quarter of 2010 to 12.5% in the second quarter of 2010, as per Cushman & Wakefield. Despite this decrease, Midtown Class-A space boasts the highest vacancy rate in Manhattan.

Sensing that the Manhattan office market has bottomed and will likely improve ahead of many other metro areas, several investors are looking to acquire office building assets there now. Unfortunately, the combination of a large number of eager buyers and a limited number of prime offerings has created a highly competitive investment market. "Prices are creeping back up for certain assets," notes a participant.

At the same time, overall capitalization (cap) rates are on the decline in this market. As shown in Table MAN-1, Manhattan's average overall cap rate (OAR) fell 35 basis points this quarter after dipping seven basis points in the prior quarter. Still, the current average remains elevated in comparison to the peak of the cycle.

Although some surveyed investors anticipate OARs holding steady in this market over the next six months, others foresee decreases as much as 100 basis points. "Cap rate shifts for commercial real estate will mirror shifts in interest rates, which continue to be very low and are not likely to spike anytime soon," remarks a participant. ✦

Table MAN-1

OVERALL CAP RATE TRENDS

Manhattan Office Market

Quarter	Average	Change (Basis Points)
3Q10	6.23%	– 35
2Q10	6.58%	– 7
1Q10	6.65%	0
4Q09	6.65%	+ 14
3Q09	6.51%	– 3
2Q09	6.54%	+ 47
1Q09	6.07%	+ 26
4Q08	5.81%	+ 11
3Q08	5.70%	+ 18
3Q07	5.52%	– 32
3Q06	5.84%	—

Source: Korpacz Real Estate Investor Survey®

Table 14

MANHATTAN OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 10.00%	6.00% – 10.00%	6.00% – 12.00%
Average	7.81%	7.98%	8.15%
Change (Basis Points)		– 17	– 34
OVERALL CAP RATE (OAR)[a]			
Range	5.00% – 8.00%	5.00% – 8.00%	5.00% – 9.00%
Average	6.23%	6.58%	6.51%
Change (Basis Points)		– 35	– 28
RESIDUAL CAP RATE			
Range	5.50% – 8.50%	6.00% – 8.50%	6.50% – 9.00%
Average	6.83%	7.13%	7.27%
Change (Basis Points)		– 30	– 44
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 3.50%	(10.00%) – 3.00%	(20.00%) – 0.00%
Average	0.79%	(1.42%)	(6.00%)
Change (Basis Points)		+ 221	+ 679
EXPENSE CHANGE RATE[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	1.00% – 3.00%
Average	2.67%	2.67%	2.72%
Change (Basis Points)		0	– 5
AVERAGE MARKETING TIME[c]			
Range	3.00 – 9.00	3.00 – 9.00	2.00 – 9.00
Average	5.90	5.90	5.80
Change (%)		0	+ 1.72

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

Northern Virginia Office Market

EVEN THOUGH THE NORTHERN VIRGINIA OFFICE MARKET CONTINUES TO CAPTURE THE ATTENTION OF INVESTORS DUE TO POSITIVE TRENDS RELATING TO GOVERNMENT EMPLOYMENT GROWTH, AN IMBALANCE BETWEEN OFFICE SPACE SUPPLY AND DEMAND REMAINS A CHALLENGE FOR LANDLORDS, ESPECIALLY OUTSIDE THE BELTWAY. "It's a tale of two cities," quips a participant, who explains that pricing and demand is "very hot inside the Beltway." On the other hand, it is "lukewarm outside the Loop with few trades from which to judge market pricing."

Investors looking to acquire assets in this office market are paying close attention to location. "We are being very selective and focusing on office properties with serious transportation and job drivers," shares a participant. In one recent trade, KBS Realty Advisors acquired Dulles Station East I, a two-year-old, 186,734-square-foot Class-A asset that fronts the Dulles Toll Road, for roughly $366.00 per square foot. As part of the mixed-use project known as Dulles Station, this property is an access point of the proposed Route 28 Metro Station extension to Dulles International Airport.

Competition is strong for office assets offered for sale in this market since it is perceived by many investors as a "safe haven" for capital. "Despite weak fundamentals for the short term, the long-term appeal of this market has not been tarnished," states a participant. In addition, it appears that lenders are equally confident in this market's ability to perform well. In a recent refinancing deal, the owners of Rosslyn Metro Center secured a $43.5-million, ten-year, fixed-rate loan for the property, which is 43.0% leased to the U.S. General Services Administration.

Although investment activity continues to show signs of life, underwriting remains conservative on the part of both equity investors and lenders. As shown in Table NVO-1, surveyed investors continue to assume minimal rent growth in the first year of cash flow forecasts. For the second consecutive quarter, the average initial-year market rent change rate stands at 0.20%. At the peak of the cycle three years ago, the average for this key assumption was 2.94%. While most investors are confident that local rental rates will rise as the recovery takes hold, it is expected to be a slow process. ✦

Table 15
NORTHERN VIRGINIA OFFICE MARKET
Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 10.50%	6.00% – 11.00%	6.00% – 12.00%
Average	8.48%	8.58%	8.70%
Change (Basis Points)		– 10	– 22
OVERALL CAP RATE (OAR)[a]			
Range	5.75% – 9.00%	6.50% – 10.00%	5.00% – 11.00%
Average	7.50%	7.85%	7.98%
Change (Basis Points)		– 35	– 48
RESIDUAL CAP RATE			
Range	7.00% – 9.00%	7.00% – 9.50%	6.50% – 10.00%
Average	8.05%	8.15%	8.18%
Change (Basis Points)		– 10	– 13
MARKET RENT CHANGE RATE[b]			
Range	(2.00%) – 3.00%	(2.00%) – 3.00%	0.00% – 4.00%
Average	0.20%	0.20%	1.29%
Change (Basis Points)		0	– 109
EXPENSE CHANGE RATE[b]			
Range	1.50% – 3.00%	1.50% – 3.00%	3.00% – 3.00%
Average	2.79%	2.79%	3.00%
Change (Basis Points)		0	– 21
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 15.00
Average	6.30	6.30	8.21
Change (%)		0	– 23.26

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

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

Quarter	Average	Change (Basis Points)
3Q10	0.20%	0
2Q10	0.20%	– 47
1Q10	0.67%	+ 10
4Q09	0.57%	– 72
3Q09	1.29%	– 45
2Q09	1.74%	– 95
1Q09	2.69%	– 12
4Q08	2.81%	+ 2
3Q08	2.79%	– 15
3Q07	2.94%	—

Source: Korpacz Real Estate Investor Survey®

Pacific Northwest Office Market

FUNDAMENTALS IN THE PACIFIC NORTHWEST OFFICE MARKET ARE DESCRIBED AS "STATIC" BY SOME PARTICIPANTS DUE TO THE LUMBERING UNDERLYING ECONOMY, WHICH STRUGGLES TO GAIN MOMENTUM. "There's no real engine at this point to kick-start economic growth for this market," contends an investor. "It's been a mixture of good and bad news for this market," notes another. For example, while the financial-activities employment sector has continued to report job losses in the Seattle-Bellevue-Everett metropolitan division since the start of the year, the professional-and-business-services sector has added jobs on a monthly basis since January, according to the BLS.

The stress underlying this market is reflected in Seattle's ranking as the fourth financially troubled commercial real estate market in the country, as per Real Capital Analytics (RCA). RCA shows that Seattle had $3.38 billion in soured loans tied up in 155 distressed commercial properties during the first half of 2010. The bulk of this distress is due to Boston-based Beacon Capital Partners, which acquired a portfolio of office buildings in Seattle and Bellevue during the peak of the cycle.

Beacon paid record prices for the portfolio, which included Columbia Center in Seattle and City Center Bellevue. Since that time, office vacancy rates have soared while rental rates have fallen. In turn, cash flows and asset values have both declined. Overall, the near-term outlook for this market is one of much uncertainty. As shown in Table 16, investors are not expecting much upward movement in rental rates next year. In fact, this market's average initial-year market rent change rate remains well below historical levels (see Table PNW-1).

Despite a soft leasing market and the expectation that the recovery will be a slow one, Seattle and Portland continue to be markets that investors look at on a selective, cautious basis. Overall, surveyed participants view pricing in this market as "neutral," equally favoring buyers and sellers. From a pricing standpoint, prices range from 50.0% to 100.0% of replacement cost and average 75.0% of replacement cost, based on our Survey. "If you can find them, it remains a great time to buy quality office assets in this market," advises an investor. ✦

Table PNW-1

INITIAL-YEAR MARKET RENT CHANGE RATES

Pacific Northwest Office Market

Quarter	Average	Change (Basis Points)
3Q10	0.00%	– 20
2Q10	0.20%	+ 30
1Q10	(0.10%)	– 30
4Q09	0.20%	– 5
3Q09	0.25%	– 38
2Q09	0.63%	– 57
1Q09	1.20%	– 172
4Q08	2.92%	– 100
3Q08	3.92%	0
2Q08	3.92%	+ 12
3Q07	3.80%	—

Source: Korpacz Real Estate Investor Survey®

Table 16

PACIFIC NORTHWEST OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50% – 12.00%	8.00% – 14.00%	9.00% – 15.00%
Average	10.10%	10.63%	11.50%
Change (Basis Points)		– 53	– 140
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 12.00%	6.00% – 11.00%	8.00% – 12.00%
Average	8.41%	8.63%	9.50%
Change (Basis Points)		– 22	– 109
RESIDUAL CAP RATE			
Range	6.00% – 10.00%	7.00% – 10.00%	7.00% – 10.00%
Average	8.43%	8.80%	9.00%
Change (Basis Points)		– 37	– 57
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 0.00%	0.00% – 2.00%	0.00% – 2.00%
Average	0.00%	0.20%	0.25%
Change (Basis Points)		– 20	– 25
EXPENSE CHANGE RATE[b]			
Range	2.50% – 3.00%	2.50% – 3.00%	0.00% – 3.00%
Average	2.95%	2.80%	2.13%
Change (Basis Points)		+ 15	+ 82
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	6.00	6.80	7.25
Change (%)		– 11.76	– 17.24

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

Philadelphia Office Market

WITHIN THE PHILADELPHIA OFFICE MARKET, A CONTRAST EXISTS BETWEEN ACCELERATED LEASING ACTIVITY IN THE SUBURBS AND MODEST ACTION IN THE CBD. "Nothing much is happening downtown, where it is very hard to lease space," notes a participant. The CBD posted positive absorption for the quarter, but the midyear total remains negative at 587,146 square feet, based on data by Cushman & Wakefield (C&W). However, the average overall vacancy rate improved 70 basis points during the quarter, falling from 12.80% to 12.10%. Among the office markets tracked by C&W, the Philadelphia CBD displayed the fourth lowest overall vacancy rate behind Manhattan's three submarkets – Midtown South (9.3%), Downtown (9.9%), and Midtown (11.5%).

In comparison, Philly's suburbs posted 123,440 square feet of net absorption in the second quarter, a distinct difference from negative absorption exceeding 450,000 square feet a year ago. With a vacancy rate of 16.80%, the Philadelphia suburbs rank seventh in terms of vacancy among the U.S. suburban markets tracked by C&W. Companies that recently inked new leases in this market's suburbs include Publicis Touchpoint Solutions (60,000 square feet), 1&1 Internet (26,500 square feet), Microsoft (21,894 square feet), and World Gate Service (18,713 square feet).

Increased activity in this market has led to an improved outlook for future rent growth by surveyed participants. After three quarters of negative initial-year market rent growth expectations, this key indicator turned positive this quarter and stands at 0.17%. Likewise, the low end of its range moved from -10.00% to -5.00%, a level not seen since the third quarter of 2009.

Despite limited sales activity due to an ongoing bid-ask pricing gap, mounting stability in this market is exhibited by its declining average overall capitalization (cap) rate. As shown in Table PHL-1, the average cap rate fell 28 basis points this quarter and is down 48 basis points from a year ago. Survey participants' opinions vary concerning future cap rate swings over the next six months. While half of them expect cap rates to hold steady, 33.0% anticipate declines of up to 25 basis points while the balance foresees increases as much as 25 basis points. ✦

Table 17
PHILADELPHIA OFFICE MARKET
Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 11.00%	8.50% – 11.00%	9.00% – 11.00%
Average	9.38%	9.69%	9.87%
Change (Basis Points)		– 31	– 49
OVERALL CAP RATE (OAR)[a]			
Range	7.25% – 10.00%	7.50% – 11.00%	8.00% – 11.00%
Average	8.71%	8.99%	9.19%
Change (Basis Points)		– 28	– 48
RESIDUAL CAP RATE			
Range	7.00% – 11.00%	7.00% – 11.00%	8.00% – 10.00%
Average	8.85%	8.95%	9.17%
Change (Basis Points)		– 10	– 32
MARKET RENT CHANGE RATE[b]			
Range	(5.00%) – 3.00%	(10.00%) – 3.00%	(5.00%) – 3.00%
Average	0.17%	(0.58%)	0.18%
Change (Basis Points)		+ 75	– 1
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	2.50% – 3.00%	3.00% – 3.00%
Average	2.77%	2.94%	3.00%
Change (Basis Points)		– 17	– 23
AVERAGE MARKETING TIME[c]			
Range	4.00 – 18.00	4.00 – 18.00	3.00 – 9.00
Average	7.58	7.58	6.60
Change (%)		0	+ 14.85

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

Table PHL-1
OVERALL CAP RATE TRENDS
Philadelphia Office Market

Quarter	Average	Change (Basis Points)
3Q10	8.71%	– 28
2Q10	8.99%	– 11
1Q10	9.10%	+ 1
4Q09	9.09%	– 10
3Q09	9.19%	+ 7
2Q09	9.12%	+ 64
1Q09	8.48%	+ 31
4Q08	8.17%	+ 4
3Q08	8.13%	– 12
2Q08	8.25%	+ 10
1Q08	8.15%	0
3Q07	8.15%	—

Source: Korpacz Real Estate Investor Survey®

Phoenix Office Market

DESPITE A SURGE IN LEASING ACTIVITY IN THE FIRST SIX MONTHS OF THIS YEAR, ABSORPTION REMAINS NEGATIVE AS THE LOCAL ECONOMY HAS YET TO RECOVER FROM THE MASSIVE REAL-ESTATE-RELATED JOB LOSSES DURING THE NATIONAL RECESSION. "As the U.S. economy sputters, the situation worsens in Phoenix," states a participant, who predicts, "This area's recovery will fall farther behind until job growth takes hold." On the upside, leasing activity through midyear 2010 exceeded 1.7 million square feet, more than double the figure recorded one year ago, as per Cushman & Wakefield.

The largest lease thus far in 2010 was a full-building, 188,730-square-foot deal inked by eBay for ten years in the Chandler submarket. Other companies that signed new deals include outsourcing firm IQor (50,000 square feet), law firm Gammage and Burnham (31,200 square feet), Brookline College (26,485 square feet), and Nationwide Credit (22,551 square feet). Unfortunately, recent deals remain offset by space givebacks, resulting in lofty CBD and suburban vacancy rates (22.0% and 27.7%, respectively). These figures are both well above the national averages – 14.8% for the U.S. CBD market and 19.5% for the U.S. suburban market.

Given the tremendous amount of available space in this market, surveyed investors estimate that it could take up to five years to reach a stabilized vacancy rate, which participants estimate averages about 10.0% for this market. "Local players were saying it would be five years before any type of equilibrium is reached due to all the office development in this market, and we are one year into that estimate with probably four years left," states a participant.

As Phoenix's office market fundamentals struggle, its investment market remains riddled with troubled office assets and the highest volume of delinquent CMBS loans among 40 markets in the country. According to a recent report by Trepp, Phoenix ranked first with \$2.2 billion in delinquent loans, followed by Atlanta (\$1.9 billion) and Dallas (\$1.7 billion). The investment troubles related to this market are visible in its average overall capitalization (cap) rate, which rose 32 basis points over the past year and stands 273 basis points from its level in late 2007 (see Table PHO-1). Over the next six months, roughly 80.0% of Survey investors expect overall cap rates to hold steady in this market. ✦

Table PHO-1

OVERALL CAP RATE TRENDS

Phoenix Office Market

Quarter	Average	Change (Basis Points)
3Q10	9.23%	– 3
2Q10	9.26%	+ 14
1Q10	9.12%	+ 12
4Q09	9.00%	+ 9
3Q09	8.91%	+ 51
2Q09	8.40%	+ 102
1Q09	7.38%	+ 48
3Q08	6.90%	+ 40
3Q07	6.50%	—

Source: Korpacz Real Estate Investor Survey®

Table 18

PHOENIX OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.50% – 16.00%	8.50% – 16.00%	8.50% – 13.00%
Average	11.06%	11.04%	10.20%
Change (Basis Points)		+ 2	+ 86
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 10.50%
Average	9.23%	9.26%	8.91%
Change (Basis Points)		– 3	+ 32
RESIDUAL CAP RATE			
Range	8.00% – 11.00%	8.00% – 11.00%	8.00% – 10.00%
Average	9.10%	9.14%	9.03%
Change (Basis Points)		– 4	+ 7
MARKET RENT CHANGE RATE[b]			
Range	(15.00%) – 0.00%	(15.00%) – 0.00%	(15.00%) – 0.00%
Average	(4.20%)	(3.50%)	(5.90%)
Change (Basis Points)		– 70	+ 170
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	2.70%	2.75%	2.70%
Change (Basis Points)		– 5	0
AVERAGE MARKETING TIME[c]			
Range	3.00 – 12.00	3.00 – 12.00	3.00 – 12.00
Average	6.30	6.25	5.70
Change (%)		+ 0.80	+ 10.53

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

San Diego Office Market

LEASING CONDITIONS IN THE SAN DIEGO OFFICE MARKET REMAIN SLANTED IN FAVOR OF TENANTS WHILE LANDLORDS CONTEND WITH FALLING RENTAL RATES AND LIBERAL INCENTIVE PACKAGES TO MAINTAIN OCCUPANCIES. Overall, the average asking rental rate in the San Diego CBD was $26.40 per square foot as of midyear 2010, down 19.4% from its level a year ago, as per Cushman & Wakefield. The average asking rental rate in the suburbs declined 20.9% to $26.28 per square foot during the same time period. Surveyed participants concur that free rent of up to ten months on a ten-year lease is commonplace in this market. The average amount of free rent is four months.

Compared with one year ago, leasing activity has increased, particularly for larger blocks of space in the suburban submarkets. "We are seeing some bigger tenants starting to take chunks of space, but we are still not seeing the 2,500- to 10,000-square-foot tenants taking space," observes a participant. Sizeable lease deals this quarter involved Bridgepoint Education, which signed for 80,000 square feet in the Kearny Mesa submarket; online motorcycle parts store Bikebandit.com, which inked a three-year, 107,006-square-foot deal for its corporate headquarters in the Otay Mesa submarket; and Qualcomm, which signed a renewal for 86,331 square feet at Pacific Plaza in the Del Mar Heights submarket.

Although lease deals are closing and absorption trends are positive through midyear 2010, investors remain cautious regarding future rent growth expectations in this market. For the sixth consecutive quarter, this market's initial-year market rent change rate is negative. As shown in Table SDO-1, this key indicator fell 38 basis points this quarter. Despite this outlook, investors do not anticipate dramatic declines in asset values over the next 12 months, implying that this market may have "hit bottom." In fact, surveyed participants estimate an average value decline of less than 1.0% in the coming year, down from their estimate of nearly 11.0% as of year-end 2009.

In spite of the lackluster recovery in the local economy and a soft real estate market, San Diego continues to emerge as a solid long-term play for investors. "We still show up on most buyers' lists as a good place to invest even though we haven't had a lot of job growth," underscores a participant. ✦

Table 19

SAN DIEGO OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50% – 14.00%	7.50% – 14.00%	8.00% – 12.00%
Average	9.88%	10.05%	9.70%
Change (Basis Points)		– 17	+ 18
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.00%	7.00% – 11.00%	7.00% – 10.00%
Average	8.26%	8.25%	8.11%
Change (Basis Points)		+ 1	+ 15
RESIDUAL CAP RATE			
Range	7.00% – 10.00%	7.00% – 10.00%	7.00% – 9.00%
Average	8.40%	8.25%	8.19%
Change (Basis Points)		+ 15	+ 21
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 0.00%	(10.00%) – 0.00%	(10.00%) – 0.00%
Average	(2.30%)	(1.92%)	(4.38%)
Change (Basis Points)		– 38	+ 208
EXPENSE CHANGE RATE[b]			
Range	2.00% – 3.00%	0.00% – 3.00%	3.00% – 3.00%
Average	2.90%	2.50%	3.00%
Change (Basis Points)		+ 40	– 10
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 9.00
Average	5.63	6.30	5.92
Change (%)		– 10.63	– 4.90

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

Table SDO-1

INITIAL-YEAR MARKET RENT CHANGE RATES

San Diego Office Market

Quarter	Average	Change (Basis Points)
3Q10	(2.30%)	– 38
2Q10	(1.92%)	+ 38
1Q10	(2.30%)	+ 90
4Q09	(3.20%)	+ 118
3Q09	(4.38%)	+ 12
2Q09	(4.50%)	– 621
1Q09	1.71%	– 147
3Q08	3.18%	– 129
3Q07	4.47%	—

Source: Korpacz Real Estate Investor Survey®

San Francisco Office Market

RECENT OFFICE BUILDING PURCHASES SUGGEST THAT MANY INVESTORS REMAIN OPTIMISTIC ABOUT THE FUTURE PERFORMANCE OF THE SAN FRANCISCO OFFICE MARKET, ESPECIALLY ITS CBD. "We are bullish on this market's ability to rebound ahead of the nation," comments a participant. So far this year, $938.7 million of San Francisco CBD office buildings have traded, nearly three times the volume in 2009 and almost equal to the entire volume for 2008, based on data from Real Capital Analytics (RCA). Moreover, the pricing for many of these assets has exceeded the expectations of both buyers and sellers. "Looking back six months, I did not expect to see the fierce pricing and bidding we've encountered for certain assets," shares an investor.

In downtown San Francisco, the average sale price was $354.00 per square foot year to date through July 2010. For 2009, the average sale price was $300.00 per square foot, while it was $393.00 per square foot in 2008, as per RCA. CBD assets that traded so far this year include 255 California Street, which sold for $247.00 per square foot; The Pansini Building (170 Columbus Avenue), which transferred for $225.00 per square foot; 333 Market Street, which sold for $508.00 per square foot; and 351 California Street, which was acquired for $256.00 per square foot.

In the suburbs, sales activity has been far less robust than in the CBD this year with only four assets trading. As a whole, the suburbs of this office market continue to deal with oversupply issues relating to weak tenant demand due to a lack of job growth on the part of local companies. In the second quarter of 2010, the overall vacancy rate for the suburbs stood at 20.44%, up 190 basis points from a year ago, based on data from Cushman & Wakefield. In comparison, some other West Coast suburban metro areas, like San Diego and Silicon Valley, experienced declines in overall vacancy this past year.

Sensing that challenges will linger in the suburban sector of this office market, surveyed participants continue to report higher overall capitalization (cap) rates for San Francisco's suburbs than for its CBD. As shown in Table SFO-1, the average overall cap rate for this market's suburbs has been about 100 basis points above the average for its CBD for the past two quarters. During the peak of the cycle, this spread was much lower. On average, the spread has been about 84 basis points. ✦

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

Quarter	CBD	Suburbs	Spread(1)
3Q10	7.18%	8.19%	+ 101
2Q10	7.32%	8.33%	+ 101
1Q10	7.42%	8.25%	+ 83
4Q09	7.47%	8.40%	+ 93
3Q09	7.39%	8.29%	+ 90
2Q09	6.98%	7.73%	+ 75
1Q09	6.25%	7.03%	+ 78
3Q08	5.78%	6.57%	+ 79
3Q07	5.81%	6.41%	+ 60

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

Table 20
SAN FRANCISCO OFFICE MARKET
Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.50% – 15.00%	7.50% – 15.00%	8.00% – 14.00%
Average	9.53%	9.65%	9.75%
Change (Basis Points)		– 12	– 22
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 11.00%	5.75% – 11.00%	6.00% – 11.00%
Average	7.69%	7.83%	7.84%
Change (Basis Points)		– 14	– 15
RESIDUAL CAP RATE			
Range	6.00% – 12.00%	6.00% – 12.00%	6.25% – 12.00%
Average	7.94%	8.03%	8.13%
Change (Basis Points)		– 9	– 19
MARKET RENT CHANGE RATE[b]			
Range	(5.00%) – 7.60%	(5.00%) – 3.00%	(20.00%) – 3.00%
Average	1.46%	0.44%	(2.06%)
Change (Basis Points)		+ 102	+ 352
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	2.56%	2.56%	2.67%
Change (Basis Points)		0	– 11
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 12.00
Average	6.17	6.67	7.71
Change (%)		– 7.50	– 19.97

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

Southeast Florida Office Market

THE SOUTHEAST FLORIDA OFFICE MARKET CONTINUED TO SHOW SIGNS OF BOTTOMING OVER THE PAST THREE MONTHS AS OVERALL VACANCY EITHER DIPPED OR INCHED UP SLIGHTLY IN THE THREE MAIN AREAS THAT COMPRISE THIS MARKET – MIAMI, FORT LAUDERDALE, AND PALM BEACH. "Leasing activity has increased as tenants take advantage of lower rental rates," notes a participant. Most of the recently signed leases have been for space in Class-A suburban assets. In the first six months of 2010, suburban Class-A leasing activity totaled about 914,000 square feet, as per Cushman & Wakefield. At the same time, only 395,000 square feet of Class-A CBD space were leased.

When considering space returned to or added to the suburbs, only Palm Beach's Class-A suburban office sector posted positive overall absorption for the first six months of 2010. Companies that signed significant Class-A suburban leases in Palm Beach County so far this year include Dycom Industries, which renewed for 20,971 square feet at Golden Beach Plaza II, and Novation Partners, which inked a new lease for 8,600 square feet at EcoPlex at Centrepark West in the Palm Beach International Airport submarket.

In Miami, companies have also been busy signing deals in both the suburbs and the CBD. However, Class-A overall absorption in the CBD was negative for the first six month of 2010. One reason is the delivery of new space. In addition to the recently opened 1450 Brickell, a 585,000-square-foot office tower, Met 2, a 750,000-square-foot office building, was completed in May 2010. As of June 2010, 66.6% of Met 2 remains vacant while 60.0% of 1450 Brickell is available.

In Fort Lauderdale, nearly one million square feet of leasing activity in the first six months of this year and a lack of new construction helped to push overall vacancy rates down in both the CBD and the suburbs in the second quarter of 2010, dipping to 16.49% and 16.96%, respectively. Nevertheless, these rates are still well above the figures posted during the peak of the cycle in mid-2007 (13.32% and 9.92%, respectively). As market conditions favor tenants, very few investors foresee the ability to increase rental rates. As shown in Table SEF-1, this market's average initial-year market rent change rate assumption remains negative for the fifth consecutive quarter. ✦

Table 21

SOUTHEAST FLORIDA OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 16.00%	7.00% – 16.00%	8.00% – 16.00%
Average	10.22%	10.22%	10.34%
Change (Basis Points)		0	– 12
OVERALL CAP RATE (OAR)[a]			
Range	7.25% – 14.00%	7.25% – 14.00%	6.70% – 11.00%
Average	9.19%	9.20%	8.80%
Change (Basis Points)		– 1	+ 39
RESIDUAL CAP RATE			
Range	7.00% – 12.00%	7.00% – 12.00%	7.75% – 10.50%
Average	9.00%	9.00%	8.90%
Change (Basis Points)		0	+ 10
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 3.00%	(10.00%) – 3.00%	(5.00%) – 3.00%
Average	(0.71%)	(0.71%)	(0.50%)
Change (Basis Points)		0	– 21
EXPENSE CHANGE RATE[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	3.00% – 3.00%
Average	2.79%	2.86%	3.00%
Change (Basis Points)		– 7	– 21
AVERAGE MARKETING TIME[c]			
Range	2.00 – 18.00	2.00 – 18.00	4.00 – 12.00
Average	7.50	7.50	7.40
Change (%)		0	+ 1.35

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

Table SEF-1

INITIAL-YEAR MARKET RENT CHANGE RATES

Southeast Florida Office Market

Quarter	Average	Change (Basis Points)
3Q10	(0.71%)	0
2Q10	(0.71%)	+ 36
1Q10	(1.07%)	+ 18
4Q09	(1.25%)	– 75
3Q09	(0.50%)	– 53
2Q09	0.03%	– 89
1Q09	0.92%	– 141
4Q08	2.33%	– 31
3Q08	2.64%	– 119
3Q07	3.83%	—

Source: Korpacz Real Estate Investor Survey®

Suburban Maryland Office Market

Few quality sale transactions make it difficult to gauge where the suburban Maryland office market stands in terms of pricing and property value. For the first eight months of 2010, sales volume totaled $247.6 million and involved the transfer of ten assets at an average price of $170.00 per square foot, as per Real Capital Analytics. This average sale price sits approximately 39.0% below the average from 2008.

Most of the recent acquisitions have involved assets located in the submarkets of Bethesda, Rockville, and Gaithersburg, where leasing trends and rental rates tend to outperform the market as a whole. While the direct vacancy rate for Montgomery County was 14.3% in the second quarter of 2010, it was 9.4% in Gaithersburg and 10.5% in North Bethesda. In comparison, Prince George's County noted a direct vacancy rate of 21.6% for the same time period. Submarkets with hefty direct vacancy rates in Prince George's County include Bowie (33.6%), Oxon Hill/Suitland (26.5%), and Greenbelt (25.3%).

Until the economic recovery gains traction and job growth spurs demand for office space, tenants will continue to hold the upper hand with regard to lease negotiations. This quarter, all surveyed investors state that free rent is commonplace in this market, ranging from one to 12 months on a ten-year lease and averaging six months. They also indicate that excessive tenant improvement (TI) allowances are sometimes awarded. This quarter, excessive TIs range from $5.00 to $25.00 per square foot and average about $12.00 per square foot.

While the need to entice both existing and potential tenants with free rent and other concessions continues to erode net operating incomes, the continued decline in overall capitalization (cap) rates has brought some stability to property values. As shown in Table SMO-1, the average overall cap rate dipped for the third consecutive quarter, slipping 41 basis points since year-end 2009. Looking ahead, Survey participants are in disagreement with regard to how overall cap rates will shift over the next six months. While 43.0% of investors foresee rates holding steady, the same portion expects them to increase. On the other hand, the least number of investors see cap rates decreasing. ✦

Table SMO-1

OVERALL CAP RATE TRENDS

Suburban Maryland Office Market

Quarter	Average	Change (Basis Points)
3Q10	7.75%	– 11
2Q10	7.86%	– 7
1Q10	7.93%	– 23
4Q09	8.16%	+ 8
3Q09	8.08%	+ 51
2Q09	7.57%	+ 22
1Q09	7.35%	+ 17
4Q08	7.18%	+ 16
3Q08	7.02%	0
2Q08	7.02%	+ 10
1Q08	6.92%	—

Source: Korpacz Real Estate Investor Survey®

Table 22

SUBURBAN MARYLAND OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.25% – 10.00%	7.00% – 11.00%	7.00% – 11.00%
Average	8.53%	8.81%	9.09%
Change (Basis Points)		– 28	– 56
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 9.00%	5.00% – 9.50%	5.00% – 10.00%
Average	7.75%	7.86%	8.08%
Change (Basis Points)		– 11	– 33
RESIDUAL CAP RATE			
Range	7.50% – 10.00%	7.50% – 10.00%	7.50% – 10.00%
Average	8.25%	8.46%	8.52%
Change (Basis Points)		– 21	– 27
MARKET RENT CHANGE RATE[b]			
Range	(2.00%) – 3.00%	(2.00%) – 3.00%	(5.00%) – 3.00%
Average	0.07%	0.49%	(0.19%)
Change (Basis Points)		– 42	+ 26
EXPENSE CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	2.00% – 3.00%
Average	2.57%	2.75%	2.94%
Change (Basis Points)		– 18	– 37
AVERAGE MARKETING TIME[c]			
Range	1.00 – 12.00	1.00 – 12.00	1.00 – 18.00
Average	6.75	7.86	8.94
Change (%)		– 14.12	– 24.50

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

Washington, DC Office Market

THE INVESTMENT SIDE OF THE WASHINGTON, DC OFFICE MARKET APPEARS TO BE HEATING UP DUE TO LOW INTEREST RATES AND THE RETURN OF DEBT FINANCING FOR ACQUISITIONS. "Market players are falling all over each other looking to give us money again – both debt and equity," shares a participant. In one recent office building sale, First Potomac Realty Trust bought 500 First Street, NW for $68.0 million. This 129,000-square-foot, Class-A asset is 100% leased to the U.S. government's General Services Administration through July 2016 and indicates a sale price of $527.00 per square foot.

Office building sales totaled $1.94 billion in this market between the second quarter of 2009 and the second quarter of 2010 and represented an average sale price of $485.00 per square foot, as per Real Capital Analytics. More than half of this total ($1.08 billion) was posted in the second quarter of 2010, supporting surveyed investors' claims that sales activity and pricing have really intensified over the past three months. "It has become a very active sales market with aggressive pricing," notes an investor.

Other properties that have traded recently include Two Constitutional Square, which sold for $518.00 per square foot; Washington Harbour, which traded for $456.00 per square foot; and the Evening Star Building at 1101 Pennsylvania Avenue, which TIAA-College Retirement Equities Fund is set to buy for an astounding $793.00 per square foot. Top buyers in this market have been institutional investors and include EDGE Fund Advisors, HSBC Holdings, Northwestern Mutual Life, and MRP Realty. On the other hand, top sellers include Prudential Real Estate Investors, Stonebridge Carras, and Walton Street Capital.

With plentiful capital chasing a limited number of quality offerings, the average overall capitalization (cap) rate in this market remains on a downward trend this quarter. As shown in Table WDC-1, it fell 31 basis points. At the same time, the low end of the range for this key indicator declined 50 basis points to 5.50%. Over the next six months, surveyed investors are split as to the direction of overall cap rates in this market. While 50.0% expect them to hold steady, the other 50.0% foresee them declining an average of 42 basis points. ✦

Table 23

WASHINGTON, DC OFFICE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.00% – 10.00%	7.50% – 10.00%	7.00% – 9.50%
Average	8.02%	8.17%	8.11%
Change (Basis Points)		– 15	– 9
OVERALL CAP RATE (OAR)[a]			
Range	5.50% – 8.50%	6.00% – 8.50%	5.00% – 8.50%
Average	6.64%	6.95%	6.98%
Change (Basis Points)		– 31	– 34
RESIDUAL CAP RATE			
Range	6.00% – 8.50%	6.00% – 8.50%	5.00% – 8.50%
Average	7.13%	7.33%	7.25%
Change (Basis Points)		– 20	– 12
MARKET RENT CHANGE RATE[b]			
Range	(2.00%) – 3.00%	(2.00%) – 3.00%	(4.00%) – 3.00%
Average	0.43%	0.43%	0.31%
Change (Basis Points)		0	+ 12
EXPENSE CHANGE RATE[b]			
Range	1.50% – 3.00%	1.50% – 3.00%	2.00% – 3.00%
Average	2.82%	2.82%	2.93%
Change (Basis Points)		0	– 11
AVERAGE MARKETING TIME[c]			
Range	2.00 – 18.00	2.00 – 18.00	3.00 – 18.00
Average	7.57	7.57	8.31
Change (%)		0	– 8.90

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

Table WDC-1

OVERALL CAP RATE TRENDS

Washington, DC Office Market

Quarter	Average	Change (Basis Points)
3Q10	6.64%	– 31
2Q10	6.95%	– 16
1Q10	7.11%	0
4Q09	7.11%	+ 13
3Q09	6.98%	+ 55
2Q09	6.43%	+ 17
1Q09	6.26%	+ 3
3Q08	6.23%	+ 9
3Q07	6.14%	– 19
3Q06	6.33%	—

Source: Korpacz Real Estate Investor Survey®

National Flex/R&D Market

THE DESIRE TO ACQUIRE PROPERTIES IN THE NATIONAL FLEX/R&D MARKET IS A LOW PRIORITY FOR MANY INVESTORS DUE TO WEAK FUNDAMENTALS AND A STRONGER DESIRE TO HARVEST CORE ASSETS AT THIS POINT IN THE CYCLE. "Flex is still struggling to gain the attention of investors because many of them perceive it as noncore," explains an investor. Nevertheless, a few flex/R&D assets have recently traded across the country. In one deal, The Gutierrez Company purchased 1000-1200 Technology Park Drive in Billerica, Massachusetts for an undisclosed amount. This two-story flex/R&D property was 30.0% to 40.0% leased at the time of sale. The seller reportedly bought this asset in 2004 for about $40.00 per square foot.

In another deal, Kearny II on Convoy Court in San Diego sold for $110.00 per square foot. This 49,049-square-foot property was reportedly 85.0% occupied at the time of sale. Elsewhere in California, Carlsbad Technology Center sold for $97.00 per square foot. Overall, sales of flex/R&D assets in the United States totaled roughly $3.3 billion through midyear 2010, as per Real Capital Analytics.

The largest number of property trades thus far in 2010 has occurred in the West region of the country with San Jose posting the highest total at 15. The allure of San Jose is not surprising. In the second quarter of 2010, it boasted the second highest average asking rental rate for flex/R&D space of the 60 U.S metro areas tracked by Grubb & Ellis. The Northeast region of the country has also been an active area for flex/R&D sales with Northern New Jersey and Boston leading with six and five property sales, respectively, during the first half of 2010.

When pricing flex/R&D assets, investors continue to use conservative underwriting assumptions in order to reflect a supply-demand imbalance that favors tenants. As shown in Table FLX-1, the average initial-year market rent change rate has remained virtually flat for the past four quarters. Within two to three years, however, a few surveyed investors note the use of rent spikes in cash flow projections. While one participant is using a spike of 6.0% in year two, two others are using a spike of 5.0% in either years three and four or years four and five. ✦

Table FLX-1

INITIAL-YEAR MARKET RENT CHANGE RATES

National Flex/R&D Market

Quarter	Average	Change (Basis Points)
3Q10	0.08%	+ 1
2Q10	0.07%	– 12
1Q10	0.19%	– 10
4Q09	0.29%	+ 65
3Q09	(0.36%)	– 118
2Q09	0.82%	– 18
1Q09	1.00%	– 78
4Q08	1.78%	– 72
3Q08	2.50%	– 11
3Q07	2.61%	—

Source: Korpacz Real Estate Investor Survey®

Table 24

NATIONAL FLEX/R&D MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.25% – 13.00%	8.25% – 13.00%	7.75% – 13.00%
Average	10.23%	10.05%	9.84%
Change (Basis Points)		+ 18	+ 39
OVERALL CAP RATE (OAR)[a]			
Range	7.50% – 12.00%	7.50% – 12.00%	7.00% – 11.50%
Average	9.15%	9.38%	8.77%
Change (Basis Points)		– 23	+ 38
RESIDUAL CAP RATE			
Range	7.50% – 11.50%	7.50% – 11.50%	7.50% – 12.50%
Average	9.17%	9.16%	9.11%
Change (Basis Points)		+ 1	+ 6
MARKET RENT CHANGE RATE[b]			
Range	(2.00%) – 3.00%	(2.00%) – 3.00%	(5.00%) – 3.00%
Average	0.08%	0.07%	(0.36%)
Change (Basis Points)		+ 1	+ 44
EXPENSE CHANGE RATE[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	2.00% – 4.00%
Average	2.83%	2.86%	3.00%
Change (Basis Points)		– 3	– 17
AVERAGE MARKETING TIME[c]			
Range	3.00 – 18.00	3.00 – 18.00	3.00 – 18.00
Average	8.92	8.92	9.71
Change (%)		0	– 8.14

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

National Warehouse Market

AFTER 11 CONSECUTIVE QUARTERS OF VACANCY RATE INCREASES IN THE NATIONAL INDUSTRIAL MARKET, A DOWNWARD SHIFT IN VACANCY OCCURRED IN THE SECOND QUARTER OF 2010 DUE TO IMPROVEMENT IN GLOBAL TRADING, FREIGHT SHIPMENTS, AND MANUFACTURING ACTIVITY. According to Cushman & Wakefield, overall vacancy for the U.S. industrial sector slipped to 10.6% at midyear 2010 after peaking in the previous quarter. "The warehouse sector is showing signs of recovery and stability, but it remains to be seen whether the momentum is sustainable," comments a participant.

As a whole, leasing activity for the first six months of 2010 was 25.6% higher than the total a year ago. "Negative absorption has stopped for the most part, but only a few areas are reporting strong positive leasing trends," notes a participant. The largest increases in leasing activity have occurred in the industrial markets of Greater Los Angeles (+6.7 million square feet), Atlanta (+2.1 million square feet), and the Inland Empire (+2.0 million square feet). On the other hand, two of the country's largest industrial hubs reported steep declines in leasing activity. A decline of 2.0 million square feet was reported in Dallas/Fort Worth while a loss of 1.7 million square feet was noted for Chicago.

Sensing the bottom of the cycle, many investors are eager to acquire warehouse product in prime locations. "Of all the property types, we are the most bullish on bulk warehouse," confirms an investor. Fortunately for buyers, financing is more readily available and is helping to spark sales of industrial product. On the flip side, however, very little quality product is available and strong competition exists for the "best" industrial assets up for sale. As one participant states, "While few investors are willing to sell industrial now, many are prepared to buy it."

As the amount of capital targeting warehouse assets eclipses the number of offerings, overall capitalization (cap) rates continue to decline in this market for the third consecutive quarter (see Table NWH-1). Over the next six months, surveyed investors remain split on where overall cap rates will trend. While 55.0% of Survey participants expect them to hold steady, 30.0% expect cap rates to decline while the remaining 15.0% foresee increases. ✦

Table 25
NATIONAL WAREHOUSE MARKET
Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	7.10% – 12.50%	7.10% – 12.50%	7.50% – 12.50%
Average	9.28%	9.35%	9.35%
Change (Basis Points)		– 7	– 7
OVERALL CAP RATE (OAR)[a]			
Range	6.50% – 12.00%	7.00% – 12.00%	6.50% – 12.00%
Average	8.38%	8.60%	8.46%
Change (Basis Points)		– 22	– 8
RESIDUAL CAP RATE			
Range	7.00% – 12.00%	7.00% – 12.00%	6.50% – 11.00%
Average	8.49%	8.64%	8.53%
Change (Basis Points)		– 15	– 4
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 3.00%	(10.00%) – 3.00%	(10.00%) – 3.00%
Average	0.02%	(0.44%)	(0.31%)
Change (Basis Points)		+ 46	+ 33
EXPENSE CHANGE RATE[b]			
Range	(2.00%) – 3.00%	1.00% – 3.00%	2.00% – 3.00%
Average	2.57%	2.56%	2.85%
Change (Basis Points)		+ 1	– 28
AVERAGE MARKETING TIME[c]			
Range	3.00 – 18.00	3.00 – 18.00	3.00 – 18.00
Average	8.88	9.25	9.08
Change (%)		– 4.00	– 2.20

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

Table NWH-1
OVERALL CAP RATE TRENDS
National Warehouse Market

Quarter	Average	Change (Basis Points)
3Q10	8.38%	– 22
2Q10	8.60%	– 13
1Q10	8.73%	– 7
4Q09	8.80%	+ 34
3Q09	8.46%	+ 53
2Q09	7.93%	+ 80
1Q09	7.13%	+ 40
4Q08	6.73%	+ 10
3Q08	6.63%	+ 10
3Q07	6.53%	—

Source: Korpacz Real Estate Investor Survey®

National Apartment Market

ALTHOUGH THE RETURN OF JOB GROWTH IS LESS THAN ROBUST AND A SHADOW MARKET OF SINGLE-FAMILY HOMES AND CONDOMINIUMS LOOMS OVER THE APARTMENT MARKET, OVERALL VACANCY FOR THIS SECTOR DROPPED IN THE SECOND QUARTER FOR THE FIRST TIME IN TWO YEARS. "Fundamentals have bottomed in most of our markets, where solid improvement is being seen in occupancies and demand," highlights a participant. According to Reis, overall vacancy for U.S. apartments fell from 8.0% to 7.8% as of midyear 2010 due in part to positive net absorption of 76,065 units in the second quarter of 2010 – notable progress from negative absorption of 36,304 units one year ago.

In conjunction with rising occupancies, effective rental rates inched up for the second consecutive quarter and stand at an average of $973.00 per unit, as per Reis. This figure falls short of the recent peak of $998.00 per unit in late 2008. Even though effective rents have increased, surveyed participants are still conservative in their cash flow analyses. In fact, this market's initial-year market rent change rate remains negative despite a 37-basis-point rise this quarter (see Table 26).

The combination of available financing for apartment assets via Fannie Mae and Freddie Mac, an emerging interest in this sector by life insurance companies, and favorable long-term investor sentiment for well-located apartment assets is driving transaction velocity. During the first six months of 2010, the top apartment buyers based on volume included Equity Residential, Behringer Harvard, Standard Portfolios, and Bernstein Management Corporation, as per Real Capital Analytics.

In a portfolio deal, Standard Portfolios acquired seven Class-A apartment communities in Arizona for $123.0 million. The portfolio reportedly attracted roughly 60 offers because Arizona granted the special servicer permission to sell the assets with assumable debt while in receivership. Due to a high number of willing buyers and a shortage of quality assets, this market is seeing fierce competition for quality assets. As a result, its average overall cap rate remains on a downward trend. As shown in Table APT-1, the average overall cap rate fell 56 basis points this quarter and is down 91 basis points since year-end 2009. ✦

Table APT-1

OVERALL CAP RATE TRENDS

National Apartment Market

Quarter	Average	Change (Basis Points)
3Q10	7.12%	– 56
2Q10	7.68%	– 17
1Q10	7.85%	– 18
4Q09	8.03%	+ 19
3Q09	7.84%	+ 35
2Q09	7.49%	+ 61
1Q09	6.88%	+ 102
3Q08	5.86%	+ 10
3Q07	5.76%	– 22
3Q06	5.98%	—

Source: Korpacz Real Estate Investor Survey®

Table 26

NATIONAL APARTMENT MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.00% – 14.00%	6.25% – 14.00%	7.50% – 14.00%
Average	9.40%	9.89%	10.06%
Change (Basis Points)		– 49	– 66
OVERALL CAP RATE (OAR)[a]			
Range	4.50% – 11.00%	5.00% – 11.00%	5.75% – 10.00%
Average	7.12%	7.68%	7.84%
Change (Basis Points)		– 56	– 72
RESIDUAL CAP RATE			
Range	5.25% – 11.00%	5.50% – 11.00%	5.75% – 9.75%
Average	7.54%	7.84%	8.06%
Change (Basis Points)		– 30	– 52
MARKET RENT CHANGE RATE[b]			
Range	(10.00%) – 3.00%	(10.00%) – 3.00%	(5.00%) – 3.00%
Average	(0.12%)	(0.49%)	0.04%
Change (Basis Points)		+ 37	– 16
EXPENSE CHANGE RATE[b]			
Range	0.00% – 4.00%	0.00% – 4.00%	2.00% – 3.00%
Average	2.42%	2.38%	2.77%
Change (Basis Points)		+ 4	– 35
AVERAGE MARKETING TIME[c]			
Range	1.00 – 18.00	1.00 – 18.00	3.00 – 18.00
Average	7.16	7.14	9.11
Change (%)		+ 0.28	– 21.41

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

Regional Apartment Markets

INVESTMENT CRITERIA FOR APARTMENT ASSETS VARY ACROSS GEOGRAPHIC REGIONS AND ARE SHOWN IN TABLE 27 FOR THE MID-ATLANTIC, PACIFIC, AND SOUTHEAST REGIONS. This quarter, a surge in transaction activity and investors' fondness for high-occupancy, well-located properties resulted in a decline in each region's average overall capitalization (cap) rates. The greatest compression occurred in the Pacific apartment region, where the average overall cap rate fell 39 basis points to 6.90% this quarter – below the average for the Mid-Atlantic (7.15%) and Southeast (7.75%) regions, as well as the national apartment market (7.12%).

Over the next six months, the majority of surveyed participants in the Mid-Atlantic (67.0%) and Southeast (50.0%) regions expect overall cap rates to hold steady. In the Pacific region, investor sentiment varies between expecting overall cap rates to hold steady, increase as much as 150 basis points, and decline as much as 75 basis points over the next six months.

Despite improvement in underlying apartment market fundamentals across many metropolitan areas during the quarter, investors remain cautious in underwriting future rent growth. In the Southeast region in particular, where apartments compete with a surplus of single-family homes and condominiums available for rent, surveyed participants foresee little near-term rent escalation. "We are starting to see improvement in occupancy throughout the southeast markets; however, we expect to wait for a while before we anticipate any rent growth," indicates a participant.

In the third quarter of 2010, the Southeast region's initial-year market rent change rate stands at -1.63%, despite a 16-basis-point increase over the past quarter. Many investors also expect near-term rental rate declines in both the Mid-Atlantic and Pacific regions, where the average for this key assumption has been negative for the past four quarters. ✦

Table 27
REGIONAL APARTMENT MARKETS
Third Quarter 2010

	MID-ATLANTIC REGION		PACIFIC REGION		SOUTHEAST REGION	
	CURRENT QUARTER	PRIOR QUARTER	CURRENT QUARTER	PRIOR QUARTER	CURRENT QUARTER	PRIOR QUARTER
DISCOUNT RATE (IRR)[a]						
Range	7.50% – 14.00%	7.50% – 14.00%	8.00% – 12.50%	8.00% – 12.50%	7.50% – 14.00%	7.50% – 14.00%
Average	10.33%	10.50%	9.92%	10.04%	9.73%	10.05%
Change (Basis Points)		– 17		– 12		– 32
OVERALL CAP RATE (OAR)[a]						
Range	4.50% – 10.00%	4.50% – 10.00%	5.00% – 9.00%	5.00% – 9.50%	5.75% – 10.00%	5.75% – 10.00%
Average	7.15%	7.40%	6.90%	7.29%	7.75%	7.93%
Change (Basis Points)		– 25		– 39		– 18
RESIDUAL CAP RATE						
Range	5.00% – 9.75%	5.00% – 9.75%	5.00% – 9.00%	5.00% – 9.00%	5.50% – 9.75%	5.50% – 9.75%
Average	7.52%	7.69%	7.00%	7.30%	7.69%	7.75%
Change (Basis Points)		– 17		– 30		– 6
MARKET RENT CHANGE RATE[b]						
Range	(5.00%) – 2.00%	(5.00%) – 2.00%	(5.00%) – 3.00%	(5.00%) – 2.50%	(10.00%) – 3.00%	(10.00%) – 3.00%
Average	(0.25%)	(0.58%)	(0.63%)	(0.79%)	(1.63%)	(1.79%)
Change (Basis Points)		+ 33		+ 16		+ 16
EXPENSE CHANGE RATE[b]						
Range	1.00% – 3.00%	1.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%	1.00% – 3.00%	1.00% – 3.00%
Average	2.58%	2.58%	2.71%	2.68%	2.42%	2.43%
Change (Basis Points)		0		+ 3		– 1
AVERAGE MARKETING TIME[c]						
Range	1.00 – 18.00	1.00 – 18.00	3.00 – 12.00	3.00 – 12.00	1.00 – 18.00	1.00 – 18.00
Average	7.08	7.17	7.00	7.07	7.58	7.58
Change (%)		– 1.26		– 0.99		0

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

National Net Lease Market

TRANSACTION VELOCITY PICKED UP STEAM THIS QUARTER IN THE NATIONAL NET LEASE MARKET, FUELED BY THE WILLINGNESS OF LENDERS TO UNDERWRITE CREDIT DEALS IN FIRST-TIER MARKETS. "In the net lease world, the financing is geared toward investment-grade tenants in core markets, so only the best part of the market is where deal flow is occurring," explains a participant. In addition, the bid-ask pricing gap narrowed due to a scarcity premium for quality product. "Buyers are opening their wallets for assets in good markets with lease terms over ten years and credit tenants rated BBB or higher," indicates an investor.

Concerned that the recent wave of net lease sales in core markets and a diminishing supply of such product are hastily increasing prices, some investors are turning to second-tier markets in search of more favorable offerings. Over the next six months, the majority of Survey participants (57.1%) expect overall capitalization (cap) rates to hold steady while the balance expects further compression.

Table NLM-1

OVERALL CAP RATE TRENDS

National Net Lease Market

Quarter	Average	Change (Basis Points)
3Q10	8.88%	– 10
2Q10	8.98%	+ 12
1Q10	8.86%	– 8
4Q09	8.94%	+ 4
3Q09	8.90%	+ 7
2Q09	8.83%	+ 25
1Q09	8.58%	+ 93
3Q08	7.65%	+ 11
3Q07	7.54%	– 17
3Q06	7.71%	—

Source: Korpacz Real Estate Investor Survey®

Reflecting a larger proportion of core trades, average overall cap rates declined ten basis points in this market this quarter (see Table NLM-1). Among the vast array of recent single-tenant retail trades, Inland American Real Estate Trust acquired a freestanding Kohl's store in Sacramento, California for $21.5 million at a reported overall cap rate of 8.0%, which falls within the range indicated by Survey participants.

Investor preferences for long-term leases and credit tenants are also visible in the sale-leaseback sector of this market. Over the past year, sale-leaseback deals totaled $24.8 billion, and represented just over 50.0% of all single-tenant transactions larger than $10.0 million, as per Real Capital Analytics.

Despite the unknowns associated with the proposed changes in the accounting treatment of leases and the impact on the appeal of long-term lease deals typically associated with sale-leaseback transactions, most investors remain focused on credit sale-leaseback deals in solid markets. For instance, One Liberty Properties acquired a three-property portfolio of Wendy's fast-food restaurants in Pennsylvania for $3.8 million this quarter. The sale terms include an initial 20-year lease with a nine-year renewal option. ✦

Table 28

NATIONAL NET LEASE MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 9.50%	8.00% – 9.50%	8.00% – 10.00%
Average	8.41%	8.50%	9.08%
Change (Basis Points)		– 9	– 67
OVERALL CAP RATE (OAR)[a]			
Range	6.25% – 12.00%	6.75% – 12.00%	7.00% – 10.00%
Average	8.88%	8.98%	8.90%
Change (Basis Points)		– 10	– 2
RESIDUAL CAP RATE			
Range	8.00% – 12.00%	8.00% – 10.50%	8.00% – 10.00%
Average	9.33%	9.25%	9.06%
Change (Basis Points)		+ 8	+ 27
MARKET RENT CHANGE RATE[b]			
Range	(1.00%) – 7.00%	(1.00%) – 7.00%	(1.00%) – 3.00%
Average	1.86%	1.50%	0.50%
Change (Basis Points)		+ 36	+ 136
EXPENSE CHANGE RATE[b]			
Range	0.00% – 7.00%	1.00% – 7.00%	1.00% – 4.00%
Average	2.58%	2.80%	2.00%
Change (Basis Points)		– 22	+ 58
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	2.00 – 12.00	2.00 – 12.00
Average	5.93	5.86	5.50
Change (%)		+ 1.19	+ 7.82

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

National Medical Office Buildings Market

A FINITE SUPPLY OF HIGH-QUALITY MEDICAL OFFICE SPACE, A SURPLUS OF EQUITY CHASING SUCH ASSETS, AND THE AVAILABILITY OF FINANCING FOR THIS SECTOR ARE HEATING UP THE COMPETITION IN THE NATIONAL MEDICAL OFFICE BUILDINGS (MOB) MARKET. "The market has tightened substantially in recent months," remarks a participant, who continues, "the demand for slightly lower-quality product is increasing since there isn't enough high-quality MOB space to meet buyer demand."

This quarter, just over half of surveyed participants characterize the national MOB market as favoring buyers. However, 33.0% of investors believe that the market "is definitely favoring sellers of good-quality MOBs." The remaining Survey participants deem the MOB investment market neutral – equally favoring buyers and sellers.

Both public and private REITs, due to their ability to buy on an all-cash basis, have been particularly active in the transaction market for MOBs during the first six months of 2010. MOB sales volume totaled $1.7 billion through midyear 2010, compared with $67.0 million during the first half of 2009, as per Real Capital Analytics. One of the top-ten buyers over the past 12 months, Healthcare Trust of America, has the 228,870-square-foot West Penn Allegheny Building under contract for $41.3 million, or $181.00 per square foot.

In two other MOB REIT purchases this quarter, Grubb & Ellis Healthcare REIT II acquired an MOB in Idaho for $205.00 per square foot and another in Ohio for $172.00 per square foot while equity investor CIM Group recently purchased a 96.0%-occupied MOB on Wilshire Boulevard in Los Angeles for an astounding $348.00 per square foot. The average sale price per square foot for MOBs over the past year is $224.00 per square foot, which is 23.8% higher than the average for traditional office space ($181.00 per square foot).

As shown in Table MOB-1, this market's average overall capitalization (cap) rate is down 33 basis points on a year-over-year basis as a result of an increase of high-quality property trades. Over the next six months, 67.0% of surveyed participants believe that cap rates will hold steady while 22.0% foresee cap rate increases of up to 125 basis points. The balance expect cap rates to decline as much as 50 basis points. ✦

Table 29

NATIONAL MEDICAL OFFICE BUILDINGS MARKET

Third Quarter 2010

	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 13.00%	8.00% – 13.00%	8.00% – 15.00%
Average	9.74%	10.05%	10.72%
Change (Basis Points)		– 31	– 98
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.50%	5.00% – 11.50%	7.50% – 11.00%
Average	8.58%	8.53%	8.91%
Change (Basis Points)		+ 5	– 33
RESIDUAL CAP RATE			
Range	7.00% – 12.00%	7.00% – 12.00%	7.50% – 12.00%
Average	8.81%	8.75%	8.99%
Change (Basis Points)		+ 6	– 18
MARKET RENT CHANGE RATE[b]			
Range	0.00% – 3.00%	0.00% – 3.00%	0.00% – 3.00%
Average	1.00%	0.94%	1.46%
Change (Basis Points)		+ 6	– 46
EXPENSE CHANGE RATE[b]			
Range	1.50% – 5.00%	1.50% – 4.00%	2.00% – 4.00%
Average	2.64%	2.64%	2.93%
Change (Basis Points)		0	– 29
AVERAGE MARKETING TIME[c]			
Range	2.00 – 12.00	1.00 – 12.00	3.00 – 24.00
Average	6.28	6.78	8.00
Change (%)		– 7.37	– 21.50

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

Table MOB-1

OVERALL CAP RATE TRENDS

Medical Office Buildings Market

Quarter	Average	Change (Basis Points)
3Q10	8.58%	+ 5
2Q10	8.53%	– 25
1Q10	8.78%	– 13
4Q09	8.91%	0
3Q09	8.91%	+ 33
2Q09	8.58%	+ 57
1Q09	8.01%	+ 3
4Q08	7.98%	+ 14
3Q08	7.84%	—

Source: Korpacz Real Estate Investor Survey®

National Lodging Highlights

The following information is extracted from "Hospitality Directions US" dated August 2010, published by PricewaterhouseCoopers.

Even as the momentum of the U.S. economic recovery slows, lodging demand has continued to grow at a brisk pace, creating cautious optimism for the industry. Perhaps the most important contribution to the recent step-up in lodging demand came from the return of business travelers. During the recession, many companies took steps to reduce travel spending due to falling sales expectations, heightened financial uncertainty, and the consideration of stakeholder views on corporate spending. As the impact of these factors has passed, the drivers for business travel have returned in many markets and are providing an important short-term boost to demand. Long-term demand growth, however, will require a sustained recovery of the broader U.S. economy.

While a slowdown in economic growth has affected near-term confidence, the outlook for a successful transition to the next stage of economic recovery appears favorable. Many households have taken steps to reduce financial obligations and adjust to lower levels of equity and housing wealth, and consumer spending is expected to accelerate moderately in 2011. Plus, many businesses have demonstrated the confidence to resume investment spending and have increased average work weeks to support more output.

Supply

The current slowdown in hotel construction activity is a key element in the recovery of the operating performance of existing hotels. The pace of new construction starts fell from 133,000 rooms annually in 2008 to 47,000 room starts in 2009 and is on pace for 31,800 starts in 2010 (0.7% of existing room supply).

The construction pipeline has slowed most significantly in the luxury and upper-upscale segments. In midyear 2007, there were 18,500 upper-upscale rooms under construction with planned opening dates in 2008 (3.3% of existing room supply). Based on the June 2010 pipeline report issued by Smith Travel Research (STR), there are currently only 2,500 such rooms under construction with scheduled openings in 2011 (0.4% of existing room supply). Within that same report, zero properties with luxury brand affiliations were in construction to open in 2011.

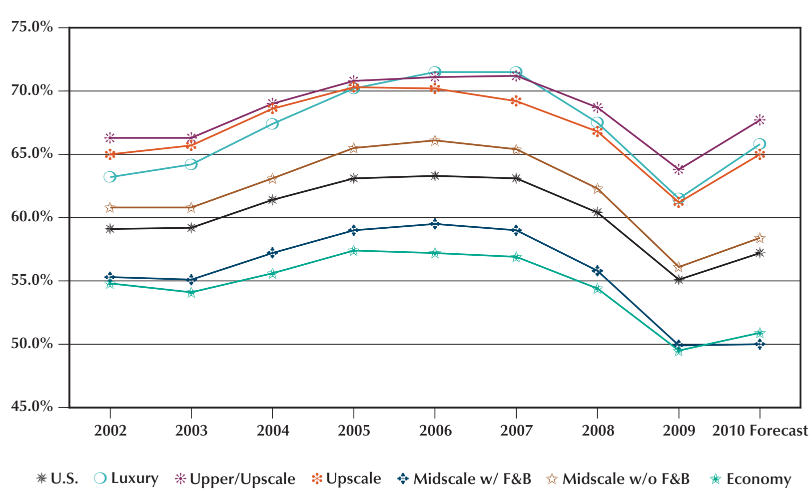
Demand

Entering the recession, lodging demand fell further and faster than the overall economy. Now, the situation has reversed. Even as the pace of economic recovery has slowed, the rate of recovery in lodging demand quickened in the first half of 2010.

Overall, lodging demand during the second quarter of 2010 averaged 2.77 million daily room nights (on a seasonally adjusted basis). This compares to 2.79 million and 2.81 million average daily room nights in 2006 and 2007, respectively, indicating that at recent levels, lodging demand has recovered to slightly below pre-recession totals. As a whole, U.S. lodging demand is expected to increase 6.7% in 2010. Since part of this demand growth will be absorbed by new supply, the U.S. lodging occupancy rate is forecast to increase only 4.7% to 57.2% in 2010 – an occupancy level 5.1 percentage points below the 20-year average of 62.3%.

The level of occupied room nights experienced in recent months has boosted expectations of occupancy levels for the balance of 2010 and has improved the ability of lodging operators to realize increases in average daily rate (ADR) in 2011.

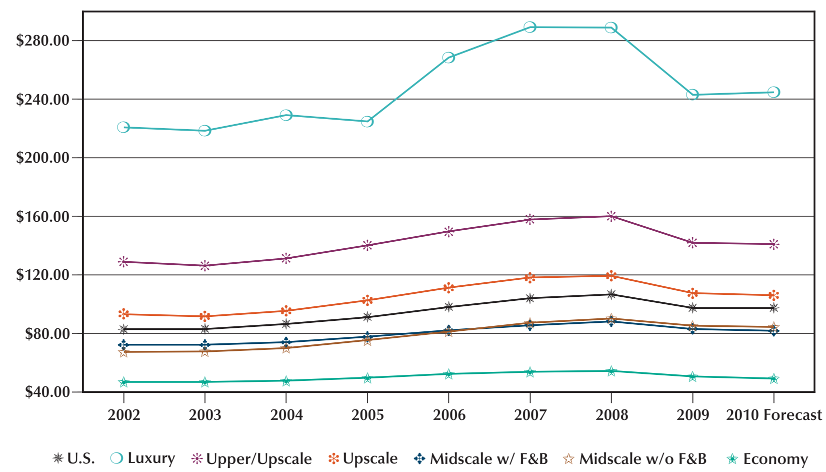
Exhibit L-1
Occupancy



Source: Smith Travel Research (2002 - 2009); PricewaterhouseCoopers LLP (2010 Forecast)

Exhibit L-2

Average Daily Rate (ADR)



Source: Smith Travel Research (2002 - 2009); PricewaterhouseCoopers LLP (2010 Forecast)

Occupancy

Overall occupancy for the lodging industry was 56.4% for the first half of 2010, a 4.4% increase from the same period in 2009, according to STR. Occupancy levels improved in each chain-scale segment over this time period with the luxury segment posting the largest gain of 10.3% (see Exhibit L-1). The upper-upscale and upscale segments were close behind with occupancy increases of 7.6% and 7.3%, respectively. On the other hand, the midscale-with-food-and-beverage segment reported the smallest occupancy gain of 1.3%.

Geographically, all nine regions of the country experienced improvement in occupancy between midyear 2009 and midyear 2010. The New England region, which includes the states of Connecticut, New Hampshire, Maine, Massachusetts, Rhode Island, and Vermont, posted the largest gain in occupancy during this time, climbing 9.9%.

Average Daily Rate (ADR)

The overall ADR for the lodging industry was $97.18 for the first half of 2010, a 2.0% decrease from the same period in 2009, according to STR (see Exhibit L-2). ADR fell in each chain-scale segment over this time period with the economy segment experiencing the largest decrease of 5.6%.

Within the United States, only the Middle Atlantic region, which includes the states of New York, New Jersey, and Pennsylvania and the West North Central region, which includes the states of North Dakota, South Dakota, Minnesota, Nebraska, Iowa, Kansas, and Missouri, posted marginal increases in ADR during this time, rising 1.6% and 0.2%, respectively.

RevPAR

The recent recovery in lodging demand has improved the context for price recovery. Though occupancy rates remain substantially below normal, even during recessionary periods, stronger demand is expected to stem the decline in ADR. After a year of transition in 2010 that will result in slightly lower ADR than in 2009, PricewaterhouseCoopers Hospitality & Leisure expects industry-wide ADR to recover 4.1% in 2011. As a result, RevPAR growth is projected to be 4.1% in 2010 and 6.7% in 2011.

Investment Activity

Despite the notion by many Survey participants that the lodging industry has "finally hit bottom," sales activity remains subdued in comparison to the activity that many anticipated. "Deal flow is way off from where I thought it would be given all the distress out there and the fact that the lodging industry has just endured the worst downturn in history," says a participant.

On a year-over-year basis, hotel sales volume was up 8.0% in the second quarter of 2010, according to Real Capital Analytics. When dissecting this percentage further, however, sales of full-service assets were up 25.0% while sales involving limited-service assets were down 32.0%.

In terms of geography, the West and Southeast regions of the country reported the most hotel sales with 62 and 63, respectively, in the 12 months ending June 30, 2010. The highest sale price per room, however, was reported in the Mid-Atlantic region during that period ($199,257 per room). On the other hand, the lowest sale price per room was reported in the Southeast.

As both the industry and financial markets recover and debt becomes more readily available for lodging transactions, the consensus among investors is that hotel trades will continue to grow in number. ✦

Various trends and forecasts have been extracted from *Hospitality Directions US*, published by PricewaterhouseCoopers Hospitality & Leisure group. Released in August 2010, this report 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, call Abhishek Jain at 646-471-2016 or email contact.hospitality@us.pwc.com.

National Full-Service Lodging Segment

DURING THE FIRST HALF OF 2010, THE UPSCALE CHAIN-SCALE SEGMENT SHOWED STRONG MOMENTUM. Most importantly, ADR during the second quarter of 2010, as well as weekly results through mid-August 2010, showed signs of stabilization relative to 2009. As a result, concerns of continued erosion of rates have been reduced among property owners and investors. According to Smith Travel Research, occupancy levels increased to 65.1% year-to-date in June 2010 for the upscale chain-scale segment, up 7.3% on a year-over-year basis.

Further helping to stabilize the upscale chain-scale segment in the near term is a reduction in supply growth, which peaked in this segment in 2009 with a 9.5% increase over 2008. In 2010, supply growth in this segment is expected to slow to 6.0% followed by an even further slowdown to 1.9% in 2011. Slower supply growth is expected to be critical to the improved performance of this segment, since many submarkets were in the process of absorbing new supply when the U.S. economic recession started.

As shown in Table FSM-1, the upscale chain-scale segment is expected to experience an increase in nominal RevPAR of 5.1% in 2010, as per PricewaterhouseCoopers *Hospitality Directions US* dated August 2010. In the midscale-with-F&B (food and beverage) segment, where the economic downturn has had an unusual impact on performance, nominal RevPAR growth is forecast to increase by just 0.1%.

Over the past two years, ADR declines have been less severe in the midscale-with-F&B segment than in some other segments while occupancy declines have been significant. Fortunately, occupancy levels in the second quarter of 2010 showed marked improvement, raising expectations for RevPAR stability in this segment in 2010.

Despite the challenges facing full-service hotel owners, this market's average overall capitalization (cap) rate declined 58 basis points over the past six months. Over the next six months, most Survey participants (75.0%) expect overall cap rates to hold steady in this market. ✦

Table FSM-1

LODGING FORECASTS

Segment	2010	Change From 2009
Upscale		
Occupancy	65.0%	+ 6.5%
ADR	$106.00	– 1.3%
Nominal RevPAR	$68.91	+ 5.1%
Midprice with Food & Beverage		
Occupancy	50.0%	+ 2.0%
ADR	$81.79	– 1.8%
Nominal RevPAR	$40.86	+ 0.1%

Source: *Hospitality Directions US, August 2010;* published by PricewaterhouseCoopers LLP

Table 30

NATIONAL FULL-SERVICE LODGING SEGMENT

Third Quarter 2010

	CURRENT QUARTER	FIRST QUARTER 2010	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	9.00% – 16.00%	10.00% – 16.00%	10.00% – 14.00%
Average	12.15%	12.43%	11.69%
Change (Basis Points)		– 28	+ 46
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 14.00%	6.00% – 14.00%	6.50% – 14.00%
Average	9.50%	10.08%	9.84%
Change (Basis Points)		– 58	– 34
RESIDUAL CAP RATE			
Range	7.00% – 12.00%	7.50% – 12.00%	7.50% – 12.00%
Average	9.89%	10.26%	10.22%
Change (Basis Points)		– 37	– 33
AVERAGE DAILY RATE CHG. RATE[b]			
Range	(5.00%) – 5.00%	(5.00%) – 3.00%	(5.00%) – 3.00%
Average	0.75%	(0.17%)	(0.50%)
Change (Basis Points)		+ 92	+ 125
OPERATING EXPENSE CHG. RATE[b]			
Range	0.00% – 4.00%	0.00% – 4.00%	1.50% – 5.00%
Average	2.28%	2.42%	3.13%
Change (Basis Points)		– 14	– 85
AVERAGE MARKETING TIME[c]			
Range	2.00 – 24.00	3.00 – 24.00	4.00 – 18.00
Average	7.63	9.31	8.22
Change (%)		– 18.05	– 7.18

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

National Economy/ Limited-Service Lodging Segment

ALTHOUGH PROPERTIES IN THE MIDSCALE-WITHOUT-FOOD-AND-BEVERAGE (F&B) CHAIN-SCALE SEGMENT DID NOT EXPERIENCE THE SAME BOOST IN OCCUPANCY DURING THE FIRST HALF OF 2010 AS SOME OF THE OTHER SEGMENTS, OCCUPANCY RATES IN THIS SEGMENT REMAIN SLIGHTLY ABOVE THE U.S. AVERAGE. According to Smith Travel Research (STR), occupancy levels increased to 57.3% year-to-date in June 2010 for the midscale-without-F&B segment, up 2.9% on a year-over-year basis.

In the economy segment, occupancy rates have generally traced a similar pattern as the U.S. average during the past ten years, albeit at a lower level. This relationship weakened in the first half of 2010 as the economy segment experienced less of an occupancy boost. Through June 2010, the economy segment reported occupancy of 49.7%, up 2.7% on a year-over-year basis, as per STR. While there are indications that ADR is stabilizing in this segment, it appears on track for a RevPAR gain in 2010 that is only slightly better than the midscale-with-F&B segment, according to PricewaterhouseCoopers *Hospitality Directions US* (see Table ELM-1).

On the supply side, growth has slowed less rapidly in the midscale-without-food-and-beverage (F&B) chain-scale segment than in other segments and is expected to result in a 4.0% increase in supply in 2010 (followed by growth of 1.8% in 2011). Supply concerns are muted in the economy segment, where growth has been on a downward trend since 2007. Supply growth for this segment is estimated at 0.5% in 2010 and just 0.3% in 2011.

The desire to acquire limited-service hotels remains strong among many investment groups, especially private in-state investors. According to Real Capital Analytics, this buyer group accounted for 57.0% of the total limited-service hotel deals that occurred in the 12 months ending June 30, 2010. "Buyers looking to acquire quality limited-service hotels are encountering a highly competitive, low overall-cap-rate environment," states a participant (see Table 31). ✦

Table 31

NATIONAL ECONOMY/LIMITED-SERVICE LODGING SEGMENT

Third Quarter 2010

	CURRENT QUARTER	FIRST QUARTER 2010	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.00% – 14.00%	10.00% – 15.00%	10.00% – 18.00%
Average	12.31%	12.75%	13.19%
Change (Basis Points)		– 44	– 88
OVERALL CAP RATE (OAR)[a]			
Range	8.00% – 12.00%	9.00% – 12.00%	9.00% – 14.00%
Average	10.20%	10.83%	10.85%
Change (Basis Points)		– 63	– 65
RESIDUAL CAP RATE			
Range	9.00% – 12.00%	9.00% – 12.50%	9.00% – 14.00%
Average	10.43%	11.25%	11.25%
Change (Basis Points)		– 82	– 82
AVERAGE DAILY RATE CHG. RATE[b]			
Range	(4.00%) – 3.00%	(4.00%) – 3.00%	(4.00%) – 3.00%
Average	(0.25%)	(1.10%)	(0.80%)
Change (Basis Points)		+ 85	+ 55
OPERATING EXPENSE CHG. RATE[b]			
Range	1.00% – 3.00%	1.00% – 5.00%	1.00% – 5.00%
Average	2.55%	2.85%	2.90%
Change (Basis Points)		– 30	– 35
AVERAGE MARKETING TIME[c]			
Range	4.00 – 12.00	4.00 – 12.00	4.00 – 12.00
Average	7.60	7.40	7.83
Change (%)		+ 2.70	– 2.94

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

Table ELM-1

LODGING FORECASTS

Segment	2010	Change From 2009
Midprice without F&B		
Occupancy	58.4%	+ 5.1%
ADR	$84.42	– 1.2%
Nominal RevPAR	$49.27	+ 3.8%
Economy		
Occupancy	50.9%	+ 3.9%
ADR	$49.14	– 3.3%
Nominal RevPAR	$25.01	+ 0.5%

Source: *Hospitality Directions US, August 2010;* published by PricewaterhouseCoopers LLP

National Luxury/Upper-Upscale Lodging Segment

Hotels in the U.S. upper-upscale lodging segment have taken valuable steps to replace losses in higher-rated commercial transient and group business with demand from lower-rated segments. As a result, occupancy levels have substantially recovered at upper-upscale hotels. According to Smith Travel Research, occupancy levels increased to 67.9% year-to-date in June 2010 for the upper-upscale chain-scale segment, up 7.6% on a year-over-year basis. This figure is only slightly below this segment's ten-year occupancy average (68.4%).

Initial signs of improved group bookings are expected to support business mix and rate decisions necessary to achieve above-average ADR gains for upper-upscale hotels in 2011, as per Hospitality Directions US, August 2010, published by PricewaterhouseCoopers (PwC). For 2010, however, a slight decrease in ADR is expected for this segment. As shown in Table LUM-1, ADR for the upper-upscale segment is forecast to decrease 0.7% in 2010. As a result, nominal RevPAR growth is projected at 5.5% for the year.

In the luxury segment, occupancy has shown steady improvement and ADR has recovered to levels similar to the first half of 2005. While this segment's recent recovery in RevPAR has outpaced that of the entire U.S. lodging industry, it is important to note that the luxury segment's fundamentals were particularly depressed during the second quarter of 2009. During the remainder of 2010, PwC anticipates occupancy gains for the luxury segment to slow on a year-over-year basis to approximately 4.4 percentage points with the focus shifting toward ADR recovery.

The noted recovery in this lodging segment has piqued the interest of many investors who believe that "now is a great time to buy hotels." As in other commercial real estate sectors, strong investor interest, coupled with a lack of quality product, has compressed overall capitalization (cap) rates. This quarter, the average overall cap rate for this market is 9.00%, down 28 basis points over the past six months. ✦

Table LUM-1

LODGING FORECASTS

Segment	2010	Change From 2009
Luxury		
Occupancy	65.8%	+ 7.1%
ADR	$244.69	+ 0.6%
Nominal RevPAR	$161.00	+ 7.7%
Upper Upscale		
Occupancy	67.7%	+ 6.2%
ADR	$141.02	– 0.7%
Nominal RevPAR	$95.41	+ 5.5%

Source: *Hospitality Directions US, August 2010;* published by PricewaterhouseCoopers LLP

Table 32

NATIONAL LUXURY/UPPER-UPSCALE LODGING SEGMENT

Third Quarter 2010

	CURRENT QUARTER	FIRST QUARTER 2010	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	8.00% – 18.00%	9.00% – 18.00%	8.00% – 18.00%
Average	11.41%	12.30%	11.41%
Change (Basis Points)		– 89	0
OVERALL CAP RATE (OAR)[a]			
Range	6.00% – 13.00%	7.00% – 13.00%	7.00% – 12.00%
Average	9.00%	9.28%	9.25%
Change (Basis Points)		– 28	– 25
RESIDUAL CAP RATE			
Range	6.00% – 12.00%	7.00% – 12.00%	7.00% – 11.25%
Average	9.45%	9.75%	9.25%
Change (Basis Points)		– 30	+ 20
AVERAGE DAILY RATE CHG. RATE[b]			
Range	(3.00%) – 20.00%	(5.00%) – 20.00%	(5.00%) – 3.00%
Average	3.69%	2.06%	(0.21%)
Change (Basis Points)		+ 163	+ 390
OPERATING EXPENSE CHG. RATE[b]			
Range	0.00% – 6.00%	0.00% – 6.00%	1.00% – 4.00%
Average	2.81%	2.81%	2.96%
Change (Basis Points)		0	– 15
AVERAGE MARKETING TIME[c]			
Range	2.00 – 20.00	4.00 – 20.00	1.00 – 18.00
Average	8.50	10.38	8.21
Change (%)		– 18.11	+ 3.53

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

National Extended-Stay Lodging Segment

WHILE ADRS REMAIN DEPRESSED FOR THE EXTENDED-STAY LODGING SEGMENT ON BOTH A QUARTERLY AND YEAR-TO-DATE BASIS, OCCUPANCY TRENDS SUGGEST CONTINUED STRONG DEMAND FOR THIS LODGING SEGMENT. For the first six months of 2010, ADR is down 5.9% for this segment as a whole, according to The Highland Group (THG). During that time frame, the mid-price segment of extended-stay lodging, which includes chains like Candlewood, Hawthorne, and MainStay, was hardest hit as rates fell 11.6%. In contrast, the upscale sector, which includes Homewood, Residence Inn, and Staybridge, experienced the smallest declines in rate, down just 1.8% for that time period.

Performances of select extended-stay hotel brands are shown in Table ESM-1. While the two hotel operators included in the table represent only a fraction of the extended-stay market, the year-over-year performance illustrates the trends occurring in this segment – ADR declines and occupancy gains. As per THG, overall occupancy in the extended-stay segment was 71.2% at midyear 2010, much higher than the U.S. lodging industry as a whole. The economy tier of the extended-stay segment reported the highest occupancy at 73.1%, as per THG. However, the mid-priced segment reported the highest year-over-year gain, rising 16.0% to 69.4%, as per THG.

Further boosting this segment's performance is a sharp decline in new room openings. At the end of the second quarter of 2010 about 6,800 extended-stay rooms were under construction – down 62.0% from the same time in 2009 and the lowest number of rooms under construction since 1995. Although such positive trends continue to attract the attention of investors, debt financing remains difficult for buyers of all lodging assets. "Certain lenders are still not comfortable with placing debt on hotel assets because they remain so tricky to value right now," explains a participant.

As the overall lodging industry moves into recovery and more positive trends occur, investors are confident that debt will more easily flow into this sector. ✦

Table 33
NATIONAL EXTENDED-STAY LODGING SEGMENT
Third Quarter 2010

	CURRENT QUARTER	FIRST QUARTER 2010	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	10.00% – 14.00%	10.00% – 14.00%	10.00% – 16.00%
Average	12.30%	12.30%	12.70%
Change (Basis Points)		0	– 40
OVERALL CAP RATE (OAR)[a]			
Range	7.00% – 11.50%	8.00% – 12.00%	9.00% – 13.00%
Average	9.70%	10.10%	10.90%
Change (Basis Points)		– 40	– 120
RESIDUAL CAP RATE			
Range	7.00% – 11.50%	8.00% – 11.00%	9.00% – 13.50%
Average	10.05%	10.25%	11.23%
Change (Basis Points)		– 20	– 118
AVERAGE DAILY RATE CHG. RATE[b]			
Range	0.00% – 3.00%	(1.00%) – 3.00%	0.00% – 3.00%
Average	1.30%	0.70%	1.38%
Change (Basis Points)		+ 60	– 8
OPERATING EXPENSE CHG. RATE[b]			
Range	1.00% – 3.00%	1.00% – 3.00%	1.00% – 3.00%
Average	2.40%	2.20%	2.40%
Change (Basis Points)		+ 20	0
AVERAGE MARKETING TIME[c]			
Range	2.00 – 24.00	3.00 – 24.00	4.00 – 12.00
Average	8.20	9.50	7.00
Change (%)		– 13.68	+ 17.14

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

Table ESM-1
SELECT HOTEL PERFORMANCES

	Occupancy	RevPAR	ADR
Choice Hotels (1)			
MainStay	59.3%	$38.06	$70.55
Change (2)	+ 400	– 2.9%	– 4.3%
Suburban	62.4%	$24.01	$41.51
Change (2)	+ 850	+ 4.2%	– 3.3%
Marriott International (3)			
TownePlace Suites	63.4%	$46.89	$73.92
Change (2)	+ 310	– 4.5%	– 9.2%
SpringHill Suites	64.6%	$62.71	$97.02
Change (2)	+ 380	+ 0.6%	– 5.3%

(1) 6 months ending 6-30-10; compared to 6-30-09
(2) Change for occupancy is reported in basis points
(3) 24 weeks ending 6-18-10; compared to 6-19-09; comparable company-operated N.A. properties

NATIONAL REGIONAL MALL MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PUBLIC REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	1.0% Year 1	1.0%	3.0%	6.00% to 8.00%	1.0%	7.75% to 10.00%	6.00% to 8.00%	6	75.0%	4.0% (Class A); 10.0% (Class B)	Does not use	4
INVESTMENT BANKER ✦ Forecast Period: 10 years Relies on DCF and direct capitalization; does extensive sensitivity analysis on residual cap rates, growth rates, and initial market rents; retail sales based on historical and market analysis; typical sales growth per market per year is at the inflation rate (CPI); analysis of TIs is an important cash flow forecast item.	0.0% Year 1; 2.0% to 3.0% Year 2	1.0% to 2.0%	3.0%	6.75% to 10.00%	1.5%	7.00% to 11.00%	6.50% to 10.50%	6 to 12	65.0% to 75.0%	7.5% to 10.0%	$0.25 to $0.40	6 to 10
REIT ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; may use a rent spike of 5.0% in years 2 and 3.	2.0% to 3.0%	2.0% to 3.0%	2.0% to 3.0%	6.00% to 10.00%	0.5%	10.00% to 11.50%	5.00% to 9.00%	6	75.0% to 85.0%	3.0% to 4.0%	$0.20	6 to 18
PUBLIC C CORP ✦ Forecast Period: 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; free rent is no longer awarded.	0.0% to 1.0%	2.0% to 3.0%	2.0% to 3.0%	7.00% to 10.00%	1.0% to 3.0%	9.50% to 12.50%	6.50% to 9.00%	3 to 12	70.0% to 75.0%	5.0% to 10.0%	$0.25 to $0.50	3 to 6
INVESTMENT BANKER ✦ Forecast Period: 7 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	(1.0%) to 1.0% Year 1	0.0% to 3.0%	2.0% to 3.0%	7.00% to 12.00%	1.0%	9.75% to 14.00%	7.00% to 10.00%	6 to 10	60.0% to 75.0%	3.0% to 8.0%	$0.25	4 to 10
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses mainly DCF analysis; in direct cap, capitalizes NOI before tenant improvements, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	(3.0%) to 2.0%	2.0% to 3.0%	2.0% to 3.0%	6.25% to 10.50%	0.5% to 2.5%	6.25% to 10.50%	5.75% to 10.50%	3 to 20	50.0% to 75.0%	5.0% to 10.0%	$0.20 to $0.50	6 to 12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

NATIONAL POWER CENTER MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
REALTY ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% Year 1; 0.0% to 3.0% Year 2; 1.0% to 3.0% Year 3	3.0%	3.0%	7.50% to 8.00%	1.0% to 4.0%	8.50% to 9.50%	7.25% to 8.50%	9 to 18	60.0% to 70.0%	3.0% to 5.0%	$0.10 to $0.20	12 to 18
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 1.0% to 2.0% Year 2	3.0%	3.0%	7.50% to 9.00%	1.0% to 2.0%	8.50% to 10.00%	7.50% to 9.50%	6 to 12	65.0% to 75.0%	8.0% to 10.0%	Does not use	12
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Primarily interested in high-credit deals; uses both DCF and direct capitalization but focuses on IRR; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	0.0% Years 1 & 2	2.0% to 3.0%	3.0%	8.00% to 8.50%	1.5% to 2.0%	8.50% to 9.50%	7.50% to 8.50%	9 to 18	50.0% to 60.0%	5.0% to 8.0%	$0.25 to $0.35	6 to 12
INVESTMENT BANKER ✦ Forecast Period: 5 to 10 years Considers power center investments "coupon clipper" deals; uses both DCF and direct capitalization; prefers urban areas with easy access and good anchor tenancy; credit is key; uses a rent spike of 5.0% in year 5.	0.0% to 3.0% Years 1 & 2	3.0%	3.0%	9.00% to 10.00%	2.0%	10.00% to 11.00%	7.00% to 9.00%	6 to 10	60.0% to 75.0%	5.0% to 12.0%	$0.10 to $0.20	6 to 9
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	(10.0%) to 0.0% Year 1; 0.0% to 3.0% Year 2; 3.0% Year 3	3.0%	3.0%	9.00% to 10.00%	1.0% to 2.0%	10.00% to 12.00%	9.00% to 10.00%	6 to 12	55.0% to 65.0%	5.0% to 10.0%	$0.20 to $0.40	3 to 6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

NATIONAL STRIP SHOPPING CENTER MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
DEVELOPER ✦ Forecast Period: 10 years Relies on direct capitalization; shifting away from DCF; uses effective rents; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	0.0% to 2.0% Year 1	3.0% to 4.0%	2.0% to 3.0%	8.00% to 9.00%	3.0%	9.00% to 10.00%	8.00% to 9.00%	6 to 12	70.0%	5.0% to 20.0%	$1.00 to $2.00	2 to 9
INVESTMENT BANKER ✦ Forecast Period: 10 years Does extensive sensitivity analysis on residual cap rates, growth rates, and initial market rents; retail sales based on both historical and market analysis; initial cash return is more important than IRR; TIs are an important cash flow forecast item.	0.0% Year 1	1.0% to 3.0%	3.0%	7.50% to 10.00%	2.0%	8.00% to 10.00%	7.25% to 9.50%	4 to 8	60.0% to 70.0%	7.5% to 12.5%	$0.15 to $0.30	6 to 12
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Invests primarily in 200,000- to 400,000-square-foot, well-anchored community centers and good credit quality anchored power centers; relies on DCF; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Years 1 & 2	2.0% to 3.0%	2.0% to 3.0%	8.00% to 9.50%	2.0% to 2.5%	9.00% to 10.50%	7.50% to 9.00%	9 to 12	50.0% to 60.0%	5.0% to 10.0%	$0.15 to $0.25	6 to 12
INVESTMENT BANKER ✦ Forecast Period: 7 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 2.0%	2.0% to 3.0%	2.0% to 3.0%	7.50% to 10.00%	0.5% to 1.5%	9.00% to 12.00%	7.25% to 9.50%	6 to 10	55.0% to 75.0%	3.0% to 8.0%	$0.25	4 to 9
REIT ✦ Forecast Period: 10 years Primarily uses direct capitalization in valuing assets; also uses yield capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 2.0%	3.0%	3.0% to 3.5%	8.00% to 8.50%	3.0%	8.00% to 8.50%	7.00% to 8.75%	12	67.0% to 75.0%	0.0% to 5.0%	$0.15 to $0.20	4
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	8.00% to 9.00%	1.0% to 3.0%	9.00% to 10.00%	7.00% to 8.50%	6 to 12	60.0% to 75.0%	1.0% to 5.0%	$0.10 to $0.25	12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	7.50% to 9.00%	1.0% to 3.0%	8.25% to 9.75%	7.00% to 8.50%	6	65.0% to 75.0%	6.0% to 8.0%		12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

NATIONAL CBD OFFICE MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses mainly DCF analysis; in direct cap, capitalizes NOI before tenant improvements, leasing commissions, and capital replacement reserve; does not use rent spikes.	(4.0%) to 4.0%	2.0% to 3.0%	2.0% to 3.0%	6.50% to 10.50%	0.5% to 2.5%	6.50% to 10.50%	6.00% to 10.00%	3 to 20	50.0% to 75.0%	5.0% to 10.0%	$0.20 to $0.50	6 to 12
INVESTMENT BANKER ✦ Forecast Period: 10 years Real cash-on-cash rate (after capital expenditures) is more important than IRR; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	7.25% to 9.00%	2.0%	7.50% to 10.00%	7.00% to 9.50%	6 to 12	60.0% to 75.0%	7.5% to 12.5%	$0.25 to $0.35	6 to 10
PUBLIC REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 10.0% in years 4 and 5.	(3.0%) to 3.0%	2.0% to 3.0%	3.0%	6.50% to 8.00%	1.0%	8.00% to 9.00%	6.00% to 8.00%	6 to 12	60.0% to 70.0%	5.0% to 8.0%	Does not use	4 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% in years 3 and 4.	0.0%	3.0%	3.0%	6.50% to 8.75%	1.0% to 2.0%	7.50% to 8.75%	6.50% to 8.00%	6 to 9	65.0% to 75.0%	10.0%	$0.20 to $0.25	12
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 5 to 10 years Uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that cap rates will hold steady over the next 6 months.	0.0%	2.0% to 3.0%	2.0% to 3.0%	8.00% to 8.50%	2.0% to 2.5%	9.00% to 10.00%	8.00% to 9.00%	6 to 12	60.0% to 75.0%	5.0% to 7.0%	$0.20 to $0.25	6 to 8
PUBLIC C CORP ✦ Forecast Period: 7 to 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; no longer uses a rent spike.	0.0% to 2.0%	2.0% to 3.0%	2.0% to 3.0%	6.50% to 8.00%	1.0% to 3.0%	11.00% to 12.00%	6.50% to 8.00%	3 to 12	70.0% to 75.0%	5.0% to 10.0%	$0.25 to $0.50	6 to 9
INSTITUTIONAL REAL ESTATE INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; believes overall cap rates will increase 50 to 75 basis points over the next six months.	0.0%	3.0% to 4.0%	4.0%	8.50% to 9.50%	4.0%	8.50% to 11.00%	8.75% to 10.50%	8 to 12	95.0% (government leasing)	2.0%		6 to 9
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	6.50% to 9.00%	1.0% to 2.0%	7.50% to 9.00%	6.00% to 8.00%	6 to 12	65.0% to 75.0%	0.0% to 7.0%	$0.10 to $0.25	12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

NATIONAL SUBURBAN OFFICE MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 7 years Uses DCF and face rents; prefers 24-hour cities across the country; uses a rent spike in years 3 to 5; uses effective rents in DCF analysis.	0.0% to 2.0%	3.0%	2.5% to 3.0%	7.25% to 8.00%	1.0%	7.50% to 9.50%	7.50% to 8.50%	6 to 16	60.0%	2.0%	$0.15 to $0.25	6 to 12
INVESTMENT BANKER ✦ Forecast Period: 10 years Real cash-on-cash rate (after capital expenditures) is more important than IRR; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0%	2.0% to 3.0%	3.0%	7.50% to 10.00%	2.0%	9.00% to 10.50%	7.00% to 9.00%	6 to 10	60.0% to 70.0%	7.5% to 12.5%	$0.15 to $0.25	6 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% in years 3 and 4.	0.0% to 3.0%	3.0%	3.0%	7.00% to 8.75%	1.0% to 4.0%	8.00% to 9.50%	7.00% to 9.00%	6 to 18	50.0% to 70.0%	3.0% to 8.0%	$0.25 to $0.50	12 to 18
PUBLIC REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; prefers coastal markets.	(5.0%) to 1.0%	2.0% to 3.0%	3.0%	7.00% to 9.00%	1.0%	7.50% to 9.00%	6.50% to 9.00%	9 to 12	55.0% to 70.0%	5.0% to 9.0%	Does not use	3 to 6
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% Year 1	3.0%	3.0%	7.50% to 8.50%	2.0% to 3.0%	9.00% to 10.00%	8.00% to 9.00%	9	65.0%	6.0%	$0.20 to $0.30	3 to 6
INSTITUTIONAL REAL ESTATE INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs & leasing commissions.	0.0% to 1.0%	3.0% to 4.0%	4.0%	9.00% to 10.50%	4.0%	8.25% to 12.00%	9.00% to 11.50%	8 to 12	95.0% (government leasing)	2.0%	$3.00	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses mainly DCF analysis; in direct cap, capitalizes NOI before tenant improvements, leasing commissions, and capital replacement reserve; does not use rent spikes.	(4.0%) to 4.0%	2.0% to 3.0%	2.0% to 3.0%	7.00% to 11.00%	0.5% to 2.5%	7.00% to 11.00%	6.50% to 10.50%	3 to 20	50.0% to 75.0%	5.0% to 10.0%	$0.20 to $0.50	6 to 12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

ATLANTA OFFICE MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INSTITUTIONAL INVESTOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rent after all concessions are extracted.	0.0% Year 1; 0.0% to 1.0% Year 2	2.0% to 3.0%		7.50% to 8.50% (CBD); 8.50% to 9.50% (suburbs)	1.0% to 1.5%	8.50% to 10.00% (CBD); 9.00% to 11.00% (suburbs)	8.00% to 9.00% (CBD); 8.50% to 10.00% (suburbs)	6 to 9	65.0% to 70.0%	10.0% to 12.0%	$0.15 to $0.25	2 to 4
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	(3.0%) to 0.0%	3.0%	2.5% to 3.0%	8.75% to 9.50% (CBD); 9.25% to 10.00% (suburbs)	3.0% to 4.0%	8.75% to 10.50% (CBD); 9.00% to 10.75% (suburbs)	7.75% to 9.25% (CBD); 8.50% to 9.50% (suburbs)	8 to 12	50.0% to 60.0%	10.0%	$0.20 to $0.25	12
INVESTMENT BANKER ✦ Forecast Period: 5 to 10 years Prefers DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; no longer uses a rent spike.	0.0% Year 1; 1.0% to 2.0% Year 2	1.0% to 1.5%	1.0% to 1.5%	7.50% to 9.50% in both CBD & suburbs	1.0% to 3.0%	9.00% to 11.50% (CBD); 9.50% to 13.00% (suburbs)	7.75% to 9.50% (CBD); 7.75% to 10.00% (suburbs)	6 to 9	65.0% to 75.0%	5.0% to 7.0%	$0.10 to $0.25	5 to 7
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Years 1 & 2	0.0% to 3.0%	1.0% to 3.0%	8.00% to 10.00% in both CBD & suburbs	1.0% to 2.0%	8.00% to 10.00% (CBD); 9.50% to 11.00% (suburbs)	7.00% to 9.00% in both CBD & suburbs	6 to 10	50.0% to 70.0%	5.0% to 10.0%	$0.25	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses DCF, direct capitalization, and sales comparison approach; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% Year 1; 0.0% to 2.0% Year 2	3.0%	3.0%	8.00% to 9.00% in both CBD & suburbs	1.0% to 2.0%	7.75% to 9.25% (CBD); 8.50% to 9.50% (suburbs)	8.00% to 9.00% (CBD); 8.50% to 9.50% (suburbs)	9 to 12	65.0%	7.0% to 10.0%	$0.15 to $0.25	9 to 12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

BOSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0%	3.0%	3.0%	7.75% to 9.00% (CBD); 8.25% to 9.50% (suburbs)	2.0% to 3.0%	8.00% to 9.50% (CBD); 8.50% to 10.00% (suburbs)	7.00% to 8.50% (CBD); 7.50% to 9.00% (suburbs)	6 to 12	50.0% to 65.0%	8.0% to 10.0%	$0.20 to $0.25	10 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 3 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 1.0%	3.0% to 4.5%	3.0% to 5.0%	7.00% to 9.50% (CBD); 8.00% to 12.00% (suburbs)	1.0% to 2.0%	9.00% to 12.00% (CBD); 10.00% to 14.00% (suburbs)	7.00% to 9.50% (CBD); 8.00% to 12.00% (suburbs)	6 to 24	40.0% to 70.0%	4.0% to 5.0%	$0.15 to $0.50	2 to 12
VALUE-ADD INVESTOR ✦ Forecast Period: 5 years Uses DCF and direct capitalization; in direct cap, capitalizes NOI before Tis, leasing commissions, and capital replacement reserve.	(5.0%) to 0.0%	0.0% to 3.0%	3.0%	7.50% to 10.50% (CBD); 8.50% to 10.50% (suburbs)	2.5%	9.00% to 12.00% (CBD); 10.00% to 12.00% (suburbs)	9.00% to 10.50% (CBD); 9.50% to 11.00% (suburbs)	9 to 12	65.0%	6.0%	$0.15 to $0.25	12
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike in certain instances.	0.0%	3.0%	3.0%	8.50% to 9.50% (CBD); 9.00% to 10.00% (suburbs)	1.5%	9.00% to 12.00% in both CBD & suburbs	9.00% to 10.00% in both CBD & suburbs	9 to 12	65.0% to 70.0%	5.0% to 10.0%	$0.20 to $0.40	3 to 6
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0%	Up to 3.0%	3.0%	7.50% (CBD); 7.75% to 8.00% (suburbs)	2.0%	8.25% to 8.50% (CBD); 8.50% to 9.00% (suburbs)	7.00% to 7.50% (CBD); 7.25% to 8.00% (suburbs)	6 to 9	65.0%	5.0%	$0.15	6 to 9
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses mainly direct capitalization; major focus is on the initial cash-on-cash return; typically extends forecast period to capture impact of all lease expirations; uses face rents and reflects concessions when they are scheduled to occur.	(5.0%) to 0.0%	Up to 3.0%	Up to 3.0%	6.00% to 6.50% (CBD); 9.00% to 10.00% (suburbs)	1.3%	8.00% to 8.50% (CBD); 10.00% to 11.00% (suburbs)	5.75% to 6.00% (CBD); 8.25% to 9.25% (suburbs)	7 to 8	70.0%	4.0%	Does not use	8
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	(3.0%) to 0.0%	3.0%	3.0%	7.50% to 9.50% (CBD); 8.00% to 10.00% (suburbs)	0.5% to 3.0%	7.75% to 10.25% (CBD); 8.25% to 11.25% (suburbs)	6.00% to 9.00% (CBD); 7.50% to 10.25% (suburbs)	6 to 12	65.0% to 70.0%	5.0% to 8.0%	$0.20 to $0.35	3 to 6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

CHARLOTTE OFFICE MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 8 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% Years 1 & 2	3.0%	1.0% to 3.0%	7.50% to 9.00% in both CBD & suburbs	1.5%	8.25% to 9.00% in both CBD & suburbs	7.00% to 8.75% (CBD); 7.50% to 9.00% (suburbs)	6 to 12	65.0%	3.0% to 7.0%	$0.10 to $0.25	6 to 12
REIT ✦ Forecast Period: 10 years Uses all three approaches to value; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects overall cap rates to hold steady over the next six months.	(4.0%) to (1.0%)	3.0%	3.0%	8.25% to 9.00% in both CBD & suburbs	1.0%	9.50% to 10.50% in both CBD & suburbs	8.00% to 10.00% (CBD); 8.50% to 10.50% (suburbs)	6 to 12	70.0% to 75.0%	5.0% to 7.0%	$0.15 to $0.60	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 5 years Mainly uses DCF analysis, sales comparison approach, and cost approach; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0%	2.0%	2.0%	9.00% to 10.00% in both CBD & suburbs	1.0% to 1.5%	8.00% to 10.00% in both CBD & suburbs	8.00% to 9.00% (CBD); 8.50% to 9.50% (suburbs)	8	60.0%	10.0%	$0.15 to $0.25	6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 5 to 10 years Mainly uses DCF analysis and sales comparison approach; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; prefers the CBD; does not use rent spikes.	1.0% to 2.0%	2.5% to 3.0%		7.50% to 8.00% (CBD); 8.00% to 8.50% (suburbs)	1.0% to 1.5%	8.50% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	7.50% to 8.50% (CBD); 8.50% to 9.50% (suburbs)	7 to 9	65.0% to 75.0%	5.0% to 8.0%	$0.15 to $0.25	2 to 4
VALUE-ADDED INVESTOR ✦ Forecast Period: 5 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0%	3.0%		8.00% to 8.25% (CBD); 9.00% to 9.50% (suburbs)	2.0%	10.00% to 10.50% (CBD); 10.75% to 12.00% (suburbs)	8.00% (CBD); 9.00% to 9.50% (suburbs)	9 to 12	65.0%	10.0%	$0.15	5 to 8
PRIVATE EQUITY FIRM ✦ Forecast Period: 3 to 5 years Mainly uses DCF analysis; in direct capitalization, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions are neutral.	0.0%	3.0%	3.0%	9.00% to 10.00% (CBD); 10.00% (suburbs)	2.0%	10.00% (CBD)	9.00% to 10.00% (CBD)	18 to 24	70.0%	12.0% to 14.0%	$0.20	6 to 9

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

CHICAGO OFFICE MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 10 years Relies mainly on DCF analysis; also uses direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% in year 3.	0.0%	3.0%	3.0%	7.50% to 9.00% (CBD); 8.50% to 9.50% (suburbs)	2.0% to 3.0%	8.00% to 8.50% (CBD); 8.50% to 9.50% (suburbs)	7.50% to 10.00% (CBD); 8.50% to 10.50% (suburbs)	9 to 12	60.0%	10.0%	$0.25 to $0.50	6 to 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; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0%	Averages 2.0% to 3.0% over the holding period	2.0%	7.50% to 9.00% (CBD); 8.50% to 10.00% (suburbs)	1.5% to 2.3%	8.50% to 10.50% (CBD); 10.00% to 12.00% (suburbs)	7.50% to 9.00% (CBD); 8.00% to 10.00% (suburbs)	9 to 12	60.0% to 70.0%	10.0% to 12.0%	$0.25 to $0.50	4 to 6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses mainly direct capitalization; major focus is on the initial cash-on-cash return; typically extends forecast period to capture impact of all lease expirations; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	(10.0%) to 0.0%	3.0%	3.0%	7.00% to 7.50% (CBD); 10.00% to 11.00% (suburbs)	1.5%	8.50% to 9.00% (CBD); 11.00% to 12.00% (suburbs)	7.00% (CBD); 10.00% to 11.00% (suburbs)	10	75.0% to 85.0%	8.0%	Does not use	8
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 3 to 7 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents; uses a rent spike of 5.0% in years 3 through 5.	0.0%	3.0%	1.5% to 2.0%	7.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)	1.0% to 3.0%	8.00% to 10.00% (CBD); 9.00% to 11.00% (suburbs)	7.00% to 8.00% (CBD); 8.50% to 10.00% (suburbs)	6 to 9	60.0% to 70.0%	8.0% to 12.0%	$0.15 to $0.25	3 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	(5.0%) to 0.0%	3.0%	3.0%	7.50% to 8.00% (CBD); 8.50% to 9.00% (suburbs)	0.3% to 1.0%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	7.50% to 9.00% (CBD); 9.00% to 10.50% (suburbs)	9 to 12	65.0% to 70.0%	10.0% to 15.0%	$0.25 to $0.50	6 to 12
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 7 to 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0%	3.0%	3.0%	8.50% to 9.00% (CBD)	2.0%	9.00% to 10.00% (CBD)	8.00% to 8.50% (CBD); 9.00% to 10.00% (suburbs)	8 to 12	60.0% to 70.0%	10.0% to 12.0%	$0.20 to $0.25	6 to 12
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Relies on DCF; uses face rents and reflects concessions as they are scheduled to occur; prefers the West Loop; uses a rent spike of 8.0% in years 4 and 5.	0.0%	1.0% to 3.0%	3.0%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	1.0% to 2.0%	8.00% to 9.00% (CBD); 9.00% to 12.00% (suburbs)	6.00% to 7.00% (CBD); 7.00% to 8.00% (suburbs)	6	60.0%	7.0%	$0.25 to $0.30	2 to 3

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

DALLAS OFFICE MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization and sales comparison approach; uses effective rents; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0%	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%	6.0%	$0.25	3
REAL ESTATE ADVISOR ✦ Forecast Period: 5 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that this market currently favors buyers.	0.0% Years 1 & 2	3.0%	3.0%	9.00% to 9.25% (CBD); 9.00% to 9.50% (suburbs)	2.0% to 3.0%	9.50% (CBD); 11.50% to 12.00% (suburbs)	7.75% to 8.00% (CBD); 8.50% to 9.00% (suburbs)	9 to 12	70.0%	3.0%	$0.25	4 to 5
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 0.0% to 2.0% Year 2	3.0%	3.0%	8.25% to 9.50% in both CBD & suburbs	2.0% to 3.0%	8.00% to 9.00% (CBD); 8.75% to 9.75% (suburbs)	7.00% to 8.50% (CBD); 7.50% to 9.00% (suburbs)	8 to 12	50.0% to 65.0%	10.0% to 12.0%	$0.20 to $0.25	10 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	Averages 2.4% over the forecast period	3.0%	3.0%	8.00% to 8.25% (CBD); 8.50% (suburbs)	1.0% to 2.0%	9.00% to 9.75% (CBD); 9.25% (suburbs)	8.30% to 9.65% (CBD); 10.50% (suburbs)	8 to 12	70.0%	3.0% to 15.0%	$0.15 to $0.20	
REIT ✦ Forecast Period: 3 to 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Years 1 & 2	3.0%	3.0%	10.50% to 11.00% (CBD); 10.00% to 11.00% (suburbs)	2.0%	10.50% to 11.50% (CBD); 10.00% to 11.00% (suburbs)	10.50% to 11.50% (CBD); 10.00% to 11.00% (suburbs)	24	70.0%	15.0%	$0.20	9 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 4 to 8 years Uses both DCF and direct capitalization; also looks at discount to replacement cost; relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	0.0%	3.0%	3.0%	8.00% to 10.00% in both CBD & suburbs	1.0% to 2.0%	8.00% to 11.00% in both CBD & suburbs	7.00% to 10.00% (CBD); 8.00% to 10.00% (suburbs)	6 to 9	60.0% to 65.0%	6.0% to 10.0%	$0.25	4 to 6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

DENVER OFFICE MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PRIVATE REAL ESTATE INVESTOR ✦ Forecast Period: 5 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; no longer uses a rent spike; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 3.0% Year 2	3.0%	3.0%	9.00% to 11.00% (suburbs)	1.0% to 2.0%	12.00% to 15.00% (suburbs)	9.00% to 11.00% (suburbs)	10 to 15	60.0% to 70.0%	10.0% to 15.0%	$0.25	3 to 9
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 3 to 7 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 5.0% in years 3 and 4.	3.0% Years 1 & 2	3.0%	1.5% to 2.0%	7.50% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	1.0% to 3.0%	8.00% to 10.00% (CBD); 10.00% to 12.00% (suburbs)	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	6	70.0%	7.0% to 10.0%	$0.15 to $0.25	3 to 6
REIT ✦ Forecast Period: 1 to 11 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; believes market conditions favor buyers.	(5.0%) to 0.0%	0.0% to 3.0%	(2.0%) to 5.0%	8.00% to 10.00% (suburbs)			7.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)				$0.20 to $0.30	3 to 6
PENSION/CORE INVESTOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions favor buyers.	(20.0%) to 0.0% Year 1; (5.0%) to 0.0% Year 2	3.0%	3.0%	7.75% to 8.50% (CBD); 8.50% to 8.75% (suburbs)	1.5% to 2.0%	7.75% to 9.00% (CBD); 8.00% to 9.25% (suburbs)	7.00% to 8.00% (CBD); 7.50% to 8.50% (suburbs)	6 to 12	65.0%	7.0% to 9.0%	Does not use	6 to 9
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; does not use rent spikes; prefers the CBD submarket.	3.0% Years 1 & 2	3.0%	3.0%	8.00% to 10.00% (CBD); 9.00% to 10.00% (suburbs)	0.5%	8.00% to 11.00% in both CBD & suburbs	7.00% to 9.00% in both CBD & suburbs	6 to 12	75.0%	0.0% to 5.0%	$0.15 to $0.25	1

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

HOUSTON OFFICE MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization and sales comparison approach; uses effective rents; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0%	3.0%	3.0%	8.00% to 9.00% in both CBD & suburbs	1.5%	8.75% to 9.75% in both CBD & suburbs	8.50% to 9.50% 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: 3 to 8 years Uses both DCF and direct capitalization; also looks at discount to replacement cost; relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 0.0% to 2.0% Year 2	2.0% to 3.0%	3.0%	8.00% to 10.00% in both CBD & suburbs	1.0% to 2.0%	8.00% to 11.00% in both CBD & suburbs	8.00% to 10.00% in both CBD & suburbs	6 to 10	60.0% to 65.0%	5.0% to 10.0%	$0.25 to $1.00	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 2.0% Year 1	3.0%	3.0%	8.00% to 9.50% (CBD); 8.25% to 9.50% (suburbs)	2.0% to 3.0%	8.00% to 9.50% (CBD); 8.50% to 9.75% (suburbs)	7.00% to 8.75% (CBD); 7.50% to 9.00% (suburbs)	8 to 10	50.0% to 65.0%	8.0% to 10.0%	$0.20 to $0.25	10 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	Averages 2.4% over the holding period	3.0%	3.0%	8.25% to 8.50% (CBD)	1.0% to 1.5%	9.50% to 10.25% (CBD)	7.25% to 9.85% (CBD)	12	70.0%	6.0%	$0.15	6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 5 to 7 years Uses both DCF analysis and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions currently favor buyers.	0.0% Years 1 & 2	2.0% to 3.0%	2.0% to 3.0%	8.00% to 9.50% (CBD); 8.00% to 11.00% (suburbs)	1.0% to 3.0%	8.00% to 12.00% (CBD); 9.00% to 14.00% (suburbs)	8.00% to 10.00% (CBD); 8.00% to 11.00% (suburbs)	6 to 12	65.0% to 75.0%	7.0% to 15.0%	$0.15 to $0.30	6 to 12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

LOS ANGELES OFFICE MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT ADVISOR ✦ Forecast Period: 1 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions equally favor buyers and sellers.	2.0%	3.0%	3.0%	7.00% to 9.00% in both CBD & suburbs	0.5% to 1.0%	8.00% to 10.00% (CBD); 8.50% to 10.50% (suburbs)	7.00% to 9.00% in both CBD & suburbs	6 to 9	70.0% to 75.0%	3.0% to 5.0%	$0.10 to $0.25	1
REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 8.0% in years 5 and 6.	(2.0%) to 0.0%	2.0% to 3.0%	3.0%	7.00% to 8.50% in both CBD & suburbs	1.0%	7.50% to 9.00% (CBD); 7.00% to 9.00% (suburbs)	7.00% to 8.50% in both CBD & suburbs	9 to 12	60.0% to 70.0%	5.0% to 8.0%	Does not use	3 to 6
INVESTMENT BANKER ✦ Forecast Period: 5 to 10 years Prefers DCF analysis; also uses direct cap; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% in year 5.	0.0% to 2.0% Year 1; 3.0% Year 2	3.0%	3.0%	8.00% to 9.00% in both CBD & suburbs	2.0%	10.00% to 12.00% in both CBD & suburbs	7.50% to 9.00% (CBD); 8.00% to 9.00% (suburbs)	4 to 6	65.0% to 75.0%	5.0% to 10.0%	$0.10 to $0.25	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.		3.0%	3.0%	6.75% to 7.00% (CBD); 7.50% to 7.75% (suburbs)	1.0% to 2.0%	9.00% to 9.25% (CBD); 8.50% to 8.75% (suburbs)	7.00% to 7.85% (CBD); 7.00% to 8.25% (suburbs)	0 to 12	50.0% to 70.0%	5.0% to 9.0%	$0.20 to $0.30	
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Relies primarily on DCF; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	(2.0%)	3.0%	3.0%	7.50% to 9.00% in both CBD & suburbs	1.0% to 3.0%	8.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)	6.25% to 7.25% (CBD); 6.50% to 8.00% (suburbs)	6 to 12	60.0% to 65.0%	5.0% to 10.0%	$0.15 to $0.20	4 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0%	3.0%	2.0% to 3.0%	8.00% to 9.75% (CBD); 8.25% to 10.25% (suburbs)	2.0% to 3.0%	8.00% to 10.00% (CBD); 8.25% to 10.25% (suburbs)	7.00% to 8.50% (CBD); 7.25% to 9.00% (suburbs)	8 to 12	50.0% to 65.0%	6.0% to 8.0%	$0.20 to $0.25	10 to 12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

MANHATTAN OFFICE MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 10 years Strongest interest is in Midtown; uses both DCF and direct capitalization; no longer uses a rent spike; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0%	1.0% to 2.0%	3.0%	6.50% to 8.50%	3.0%	7.50% to 9.50%	6.50% to 8.00%	5 to 10	60.0% to 75.0%	5.0% to 10.0%	$0.25 to $0.50	4 to 9
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses mainly direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 10.0% in years 2 and 3.	0.0% to 3.0%	3.0%	3.0%	5.50% to 6.00%	4.0%	8.00%	5.00% to 5.50%	7 to 8	70.0% to 75.0%	2.5%	Did not disclose	7
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF analysis when valuing assets; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; no longer uses a rent spike.	0.0% to 3.5%	3.0%	3.0%	6.25%	4.0%	7.25%	5.25%	6	66.0%	2.0%	$0.10	6
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commission, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0% Year 1; 3.0% to 5.0% Year 2	2.0% to 3.0%	2.0% to 3.0%	7.00% to 8.50%	4.5%	8.00% to 10.00%	7.00% to 8.00%	6 to 12	60.0% to 75.0%	5.0% to 10.0%	$0.20 to $0.50	3 to 6
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses effective rents in DCF analysis; does not use rent spikes.	0.0%	3.0%	3.0% to 4.0%	6.50% to 7.50%	1.0% to 3.0%	7.00% to 8.25%	6.00% to 7.25%	6 to 12	65.0% to 70.0%	5.0% to 8.0%	$0.20 to $0.50	3 to 8
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; relies on DCF; uses face rents in DCF model, net effective rents in direct capitalization; prefers Midtown and Times Square.	0.0%	3.0%	3.0%	6.50% to 7.00%	1.5% to 2.0%	6.00% to 7.00%	5.00% to 6.00%	6 to 18	60.0%	5.0% to 10.0%	$0.30 to $1.00	

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

NORTHERN VIRGINIA OFFICE MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 1.0% to 2.0% Year 2	3.0%	3.0%	8.00% to 9.00%	2.0%	9.00% to 10.50%	7.50% to 9.00%	6 to 12	50.0% to 60.0%	8.0% to 12.0%	$0.15 to $0.25	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes 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 1.0% Year 1	1.5% to 3.0%	1.0% to 3.0%	7.75% to 9.00%	1.0% to 3.0%	7.50% to 9.25%	7.00% to 8.00%	9 to 12	60.0% to 75.0%	1.0% to 3.0%	$0.15 to $0.60	1 to 6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	0.0% Years 1 & 2; 3.0% Year 3	2.0% to 3.0%	3.0%	7.75% to 8.50%	2.0% to 3.0%	8.50% to 10.00%	7.00% to 8.00%	9 to 12	50.0% to 60.0%	4.0% to 6.0%	$0.15 to $0.25	9 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 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 2.5% over the forecast period	3.0%	3.0%	7.75%	2.0%	8.00%	7.25%	9	70.0%	2.0% to 8.0%	$0.10	
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	7.00% to 8.00%	1.5% to 2.0%	6.00% to 8.00%	6.50% to 8.00%	9 to 18	60.0%	8.0% to 14.0%	$0.30 to $1.00	1 to 4

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

PACIFIC NORTHWEST OFFICE MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions favor sellers; may use a rent spike of 3.0% in years 2 through 5.	0.0% Year 1	3.0%	3.0%	7.00% to 9.00% in both CBD & suburbs	0.5% to 1.0%	8.00% to 10.00% in both CBD & suburbs	6.00% to 9.00% in both CBD & suburbs	6 to 9	75.0% to 85.0%	0.0% to 5.0%	$0.10 to $0.25	1
PRIVATE INVESTOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1	2.5% to 3.0%	1.5% to 3.0%	6.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)	2.0% to 4.0%	10.00% to 12.00% in both CBD & suburbs	6.00% to 10.00% (CBD); 8.00% to 12.00% (suburbs)	9 to 12	60.0% to 75.0%	1.0% to 2.0%	Does not use	6 to 12
INVESTMENT BANKER ✦ Forecast Period: 5 to 10 years Uses DCF, direct capitalization, and price per square foot; does extensive sensitivity analysis; reliance is on projections and IRRs; uses face rents and reflects concessions when they are scheduled to occur; uses a rent spike of 5.0% in year 5.	0.0% Year 1; 0.0% to 3.0% Year 2	3.0%	3.0%	9.00% in both CBD & suburbs	2.0%	10.00% to 12.00% in both CBD & suburbs	8.00% to 10.00% in both CBD & suburbs	4 to 6	65.0% to 75.0%	5.0% to 12.0%	$0.10 to $0.25	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; may use a rent spike of 7.0% in year 4.	0.0% Year 1; 5.0% Year 2	3.0%		7.00% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	3.0%	7.50% to 10.00% (CBD); 9.00% to 10.50% (suburbs)	6.75% to 7.50% (CBD); 7.00% to 9.00% (suburbs)	6 to 9	60.0% to 65.0%	1.0% to 2.0%	$0.20 to $0.25	4 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects cap rates to hold steady over the next six months; uses a rent spike of 5.0% in year 4 and 10.0% in years 5 and 6.	0.0%	3.0%	2.0% to 3.0%	8.00% to 9.00% (CBD); 8.50% to 9.50% (suburbs)	3.0% to 4.0%	9.00% to 10.00% (CBD); 10.00% to 12.00% (suburbs)	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	9 to 12	50.0% to 65.0%	5.0% to 7.0%	$0.20 to $0.25	3 to 6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

PHILADELPHIA OFFICE MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PRIVATE INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses effective rents; expects overall cap rates to hold steady over the next six months.	(5.0%) to 0.0%	2.5% to 2.8%	2.8% to 3.0%	9.00% to 9.75% in both CBD & suburbs	3.0% to 4.0%	9.00% to 9.50% (CBD); 9.25% to 9.75% (suburbs)	9.00% to 9.25% (CBD); 9.00% to 9.50% (suburbs)	6 to 8	65.0% to 70.0%	8.0% to 10.0%	$0.25	6 to 9
REIT ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; focuses on suburban markets; uses effective rents; expects overall cap rates to decrease over the next six months.	3.0%	3.0%	3.0%	10.00% (suburbs)	2.0%	8.50% to 10.00% (suburbs)	8.50% to 10.00% (suburbs)	6 to 8	65.0%	5.0%	$0.20	6
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects cap rates to hold steady over the next six months.	0.0% Year 1; 2.0% Year 2	3.0%	3.0%	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	2.0% to 3.0%	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	7.50% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	9	65.0%	6.0%	$0.20 to $0.30	6 to 9
OPPORTUNITY FUND INVESTOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; prefers suburbs.	0.0% Years 1 & 2	3.0%	3.0%	8.50% to 9.00% in both CBD & suburbs	3.0%	9.00% to 10.00% in both CBD & suburbs	8.00% to 9.00% (CBD); 8.50% to 9.00% (suburbs)	6	65.0%	5.0%	$0.25	4 to 6
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% to 1.0% Year 1	2.0%	3.0%	7.50% to 9.00% (CBD); 8.00% to 9.50% (suburbs)	2.0%	8.00% to 9.75% (CBD); 8.50% to 10.50% (suburbs)	7.25% to 9.00% (CBD); 7.75% to 9.50% (suburbs)	6 to 9	60.0% to 65.0%	7.5% to 12.0%	$0.15 to $0.25	6 to 9

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

PHOENIX OFFICE MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PRIVATE REAL ESTATE INVESTOR ✦ Forecast Period: 5 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	(5.0%) to 0.0% Years 1 & 2	3.0%	3.0%	9.00% to 10.00% (suburbs)	1.0% to 2.0%	11.00% to 16.00% (suburbs)	9.00% to 10.50% (suburbs)	9 to 12	60.0% to 70.0%	10.0% to 15.0%	$0.20 to $0.25	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 4 to 8 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects cap rates to hold steady over the next six months.	0.0% Years 1 & 2	3.0%	3.0%	8.00% to 9.00% (CBD); 8.50% to 9.50% (suburbs)	1.5%	8.50% to 9.50% (CBD); 9.50% to 10.50% (suburbs)	7.00% to 8.50% (CBD); 8.00% to 9.50% (suburbs)	9 to 12	50.0% to 65.0%	7.0%	$0.25 to $0.50	3 to 6
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 3 to 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Years 1 & 2	3.0%	3.0%	9.00% to 11.00% in both CBD & suburbs	1.5% to 3.0%	12.00% to 15.00% in both CBD & suburbs	9.00% to 11.00% in both CBD & suburbs	9 to 18	60.0% to 70.0%	7.5% to 10.0%	$0.20 to $0.25	6 to 9
PUBLIC REIT ✦ Forecast Period: 10 years Uses all approaches to value; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that this market currently favors buyers; expects cap rates to hold steady over the next six months.	(7.0%) to (5.0%) Year 1; (1.0%) to 1.0% Year 2	3.0%	3.0%	8.25% to 9.00% in both CBD & suburbs	1.0%	10.00% to 10.50% in both CBD & suburbs	8.50% to 10.50% in both CBD & suburbs	6 to 12	70.0% to 75.0%	5.0% to 10.0%	$0.15 to $0.60	3 to 6
PENSION/CORE INVESTOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; believes that market conditions currently favor buyers.	(15.0%) to (10.0%) Year 1; (5.0%) Year 2	0.0% to 3.0%	3.0%	8.50% to 9.00% (CBD); 9.00% to 9.50% (suburbs)	2.0% to 2.5%	8.50% to 10.00% (CBD); 9.50% to 10.50% (suburbs)	8.00% to 9.00% (CBD); 9.00% to 10.00% (suburbs)	9 to 12	60.0%	7.0% to 10.0%	Does not use	9 to 12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

SAN DIEGO OFFICE MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PRIVATE INVESTOR ✦ Forecast Period: 3 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses a rent spike of 10.0% in year 3 in certain submarkets.	0.0% Years 1 & 2	3.0%	3.0%	8.00% to 9.00% in both CBD & suburbs	1.0% to 2.0%	10.00% to 12.00% (CBD); 11.00% to 14.00% (suburbs)	8.00% to 9.00% (CBD); 9.00% to 11.00% (suburbs)	9 to 12	60.0% to 70.0%	7.5% to 10.0%	$0.20 to $0.25	3 to 6
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; may use rent spikes in certain submarkets.	0.0% Year 1	3.0%	3.0%	8.00% to 10.00% in both CBD & suburbs	0.5%	8.50% to 10.50% in both CBD & suburbs	7.00% to 9.00% in both CBD & suburbs	6 to 9	70.0% to 75.0%	5.0%	$0.10 to $0.25	1
PUBLIC REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	(6.0%) to (2.0%) Year 1; (2.0%) to 0.0% Year 2	2.0% to 3.0%	3.0%	7.00% to 8.00% (CBD); 7.50% to 8.50% (suburbs)	1.0% to 1.5%	7.50% to 9.00% (CBD); 7.50% to 8.50% (suburbs)	7.00% to 8.00% (CBD); 7.00% to 8.50% (suburbs)	6 to 12	60.0% to 70.0%	5.0%	Does not use	
PENSION/CORE INVESTOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	(10.0%) to (5.0%) Year 1; (5.0%) to 0.0% Year 2	3.0%	3.0%	8.00% (CBD); 8.50% to 8.75% (suburbs)	1.5% to 2.0%	8.00% to 8.75% (CBD); 8.75% to 9.50% (suburbs)	7.25% to 8.00% (CBD); 8.00% to 8.50% (suburbs)	9	65.0%	7.0% to 9.0%	Does not use	9
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 1 to 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	2.5% to 3.5%	7.50% to 9.00% (CBD); 8.00% to 9.25% (suburbs)	1.5% to 2.5%	10.00% to 12.00% (CBD); 10.50% to 12.50% (suburbs)	7.75% to 9.00% (CBD); 8.00% to 9.25% (suburbs)	6 to 15	60.0% to 75.0%	5.0% to 10.0%	$0.15 to $0.20	4 to 12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

SAN FRANCISCO OFFICE MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 1.0% Year 1; 1.0% to 3.0% Year 2	1.0% to 3.0%	3.0%	8.00% to 8.25% (CBD); 8.50% to 10.00% (suburbs)	1.0% to 1.5%	9.00% to 11.00% (CBD); 11.00% to 15.00% (suburbs)	7.00% to 9.00% in both CBD & suburbs	6	75.0%	0.0%	$0.25	3 to 5
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization but relies on DCF; uses face rents and reflects concessions when they are scheduled to occur; prefers the CBD.	1.0% to 2.0% Year 1	2.0% to 3.0%	2.0% to 3.0%	7.00% to 7.50% (CBD); 8.00% to 9.00% (suburbs)	1.0% to 2.0%	9.00% to 11.00% (CBD); 10.00% to 12.00% (suburbs)	7.00% to 8.00% (CBD); 8.00% to 9.00% (suburbs)	6 to 12	50.0% to 75.0%	5.0% to 10.0%	$0.15 to $0.40	6 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	(5.0%) to 3.0% Year 1	2.0% to 3.0%	2.0% to 3.0%	7.50% to 9.00% (CBD); 8.00% to 9.00% (suburbs)	1.0% to 2.0%	8.00% to 11.00% (CBD); 9.00% to 12.00% (suburbs)	7.50% to 9.00% (CBD); 8.00% to 9.50% (suburbs)	9 to 12	60.0% to 75.0%	5.0% to 10.0%	$0.25 to $0.50	6 to 9
INVESTMENT ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes that market conditions equally favor buyers and sellers.	7.6% Year 1	3.0%	3.0%	6.00% to 8.00% (CBD); 7.00% to 9.00% (suburbs)	0.5% to 1.0%	8.00% to 10.00% (CBD); 9.00% to 11.00% (suburbs)	6.00% to 8.00% (CBD); 7.00% to 9.00% (suburbs)	6	70.0%	5.0%	$0.10 to $0.25	1
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Prefers CBD; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% to 3.0%	3.0%	3.0%	6.50% to 7.50% (CBD); 7.00% to 8.00% (suburbs)	1.0%	8.00% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	5.50% to 7.00% (CBD); 6.50% to 8.00% (suburbs)	8 to 12	65.0% to 75.0%	1.0% to 3.0%	$0.10 to $0.25	12
REAL ESTATE COMPANY ✦ Forecast Period: 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses a rent spike of 10.0% in year 4 and 12.0% in years 5 and 6.	0.0%	2.0% to 3.0%	2.0% to 3.0%	6.50% to 7.50% (CBD); 7.50% to 8.50% (suburbs)	1.0%	7.50% to 8.50% (CBD); 8.00% to 9.00% (suburbs)	5.75% to 7.00% (CBD); 7.00% to 8.00% (suburbs)	8 to 10	60.0% to 70.0%	5.0% to 7.0%	Does not use	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0% Year 1; 2.0% to 2.5% Year 2	3.0%	3.0%	7.00% to 10.00% (CBD); 8.00% to 12.00% (suburbs)	1.0% to 2.0%	8.00% to 10.00% (CBD); 9.00% to 12.00% (suburbs)	6.00% to 10.00% (CBD); 7.00% to 11.00% (suburbs)	2 to 7	65.0%	5.0% to 10.0%	$0.10 to $0.30	2 to 8

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

SOUTHEAST FLORIDA OFFICE MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	(5.0%) to 0.0% Year 1; 0.0% Year 2	3.0%	3.0%	8.00% to 11.50% (suburbs)	2.5%	8.50% to 12.00% (CBD); 10.00% to 15.00% (suburbs)	9.00% to 14.00% (suburbs)	9 to 12	65.0%	6.0% to 9.0%	$0.15 to $0.25	2 to 12
INSTITUTIONAL INVESTOR ✦ Forecast Period: 1 to 7 years Uses DCF analysis only; uses face rents and reflects concessions when they are scheduled to occur; expects overall cap rates to move up 50 to 100 basis points over the next six months.	(5.0%) to 0.0% Year 1; 0.0% to 3.0% Year 2	3.0%	3.0%	9.00% to 12.00% in both CBD & suburbs	1.0% to 3.0%	11.00% to 16.00% (CBD); 12.00% to 16.00% (suburbs)	8.50% to 12.00% (CBD); 8.50% to 13.00% (suburbs)	9 to 12	60.0% to 70.0%	7.0% to 10.0%	$0.20 to $0.50	4 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	1.0% to 3.0%	3.0%	3.0%	7.75% to 8.75% in both CBD & suburbs	1.0% to 3.0%	8.50% to 9.50% in both CBD & suburbs	7.25% to 8.00% (CBD); 8.75% to 10.50% (suburbs)	6 to 12	65.0% to 70.0%	7.0% to 11.0%	$0.10 to $0.30	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after TIs, leasing commissions, and capital replacement reserve; does not use rent spikes.	0.0%	3.0%	3.0%	7.50% (CBD); 8.00% to 8.25% (suburbs)	1.0% to 2.0%	9.00% (CBD); 9.00% to 9.25% (suburbs)	7.50% (CBD); 8.75% to 10.30% (suburbs)	9 to 12	70.0%	3.25%	$0.15 to $0.20	
LIFE INSURANCE COMPANY ✦ Forecast Period: 3 to 10 years Uses both DCF and direct capitalization; also looks at discount to replacement cost; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% Years 1 & 2	2.0% to 3.0%	2.0% to 3.0%	7.00% to 9.00% (CBD); 8.00% to 10.00% (suburbs)	1.0% to 2.0%	7.00% to 10.00% in both CBD & suburbs	8.00% to 10.00% in both CBD & suburbs	6 to 12	50.0% to 70.0%	6.0% to 10.0%	$0.25 to $1.00	6
REIT ✦ Forecast Period: 10 years Valuation preference is DCF analysis; also uses direct cap; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserves; does not use rent spikes; prefers suburbs.	3.0%	3.0%	2.5% to 3.0%	9.00% to 10.50% (suburbs)	2.0%	8.50% to 10.50% (suburbs)	9.00% to 10.50% (suburbs)	6 to 9	65.0%	5.0%	$0.20	6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

SUBURBAN MARYLAND OFFICE MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1	2.0%	3.0%	8.00% to 9.00%	2.0%	7.50% to 10.00%	7.00% to 9.00%	6 to 9	55.0% to 65.0%	5.0% to 10.0%	$0.15 to $0.25	6 to 9
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; no longer uses rent spikes.	(2.0%) to 0.0% Year 1	3.0%	3.0%	7.50% to 10.00%	2.5% to 4.0%	7.25% to 9.00%	7.00% to 9.00%	6 to 9	60.0% to 70.0%	1.0% to 3.0%	$0.25 to $0.50	1 to 6
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1	3.0%	3.0%	7.50% to 8.50%	2.0% to 2.5%	8.00% to 9.00%	7.00% to 8.50%	9	65.0%	5.0% to 8.0%	$0.15 to $0.30	6 to 9
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% Year 1	2.0% to 3.0%	3.0%	7.50% to 8.00%	2.0% to 3.0%	8.00% to 9.00%	7.00% to 7.50%	9 to 12	50.0% to 60.0%	4.0% to 6.0%	$0.15 to $0.25	9 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1	3.0%	3.0%	7.50% to 9.00%	1.0% to 2.0%	8.00% to 9.50%	7.50% to 8.50%	6	65.0% to 75.0%	7.0% to 9.0%	$0.15 to $0.25	12
REIT ✦ Forecast Period: 10 years Looks at cash-on-cash return and the growth in the return over a 10-year period; does not price properties through DCF; does not use rent spikes.	0.0% to 3.0% Years 1 & 2	0.0% to 3.0%	3.0%	Does not use	2.0% to 2.5%	Does not use	7.00% to 8.00%	8	65.0%	1.0% to 3.0%	$0.10 to $0.25	3 to 7

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

WASHINGTON, DC OFFICE MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Year 1; 2.0% Year 2	3.0%	3.0%	7.00% to 8.50%	2.0%	7.50% to 10.00%	6.25% to 8.50%	6 to 10	65.0% to 70.0%	7.5% to 12.0%	$0.15 to $0.35	4 to 10
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserves but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur.	(2.0%) to 0.0% Year 1	1.5% to 3.0%	2.0% to 3.0%	7.00% to 8.50%	1.5% to 3.0%	8.00% to 9.00%	6.75% to 8.00%	6 to 9	60.0% to 70.0%	1.5% to 5.0%	$0.25 to $0.50	2 to 6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses present value analysis of effective rents; does not use rent spikes.	0.0%	2.0% to 3.0%	2.0% to 3.0%	6.50% to 7.00%	2.0% to 2.5%	7.00% to 8.00%	6.00% to 7.00%	6 to 9	50.0% to 60.0%	2.0% to 4.0%	$0.15 to $0.25	6 to 9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	0.0%	3.0%	3.0%	6.75% to 7.00%	2.0%	7.25% to 7.50%	6.35%	8 to 9	70.0%	1.0% to 7.0%	$0.25	9 to 18
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.	2.0% to 3.0%	3.0%	3.0%	6.00% to 6.50%	2.5%	8.00%	6.00%	7	70.0% to 75.0%	3.0% to 5.0%	Does not use	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	7.25% to 7.50%	2.0%	7.50% to 8.50%	6.25% to 7.00%	3 to 6	65.0% to 75.0%	7.0%	Does not use	12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

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

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes market conditions favor buyers.	2.0% to 3.0% Year 1	3.0%	3.0%	7.50% to 8.50%	3.0%	8.25% to 8.75%	7.50% to 8.25%	6 to 9	70.0%	3.0% to 5.0%	$0.15 to $0.40	6
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 4 to 8 years Uses mainly DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; does not use rent spikes; uses face rents and reflects concessions when they are scheduled to occur.	0.0% Years 1 to 3	3.0%	3.0%	9.00% to 10.00%	2.0% to 3.0%	9.00% to 13.00%	9.00% to 12.00%	9 to 12	50.0% to 65.0%	5.0% to 10.0%	$0.15 to $0.35	12
REAL ESATE SERVICES FIRM ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	(2.0%) to 0.0% Year 1	3.0%	3.0%	10.50% to 11.50%	2.0% to 3.0%	10.00% to 12.00%	9.50% to 11.00%	9 to 18	60.0% to 70.0%	5.0% to 10.0%	$0.15 to $0.35	8 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	(2.0%) to 0.0% Year 1	1.0% to 3.0%	1.0% to 3.0%	8.00% to 9.50%	3.0% to 6.0%	9.50% to 12.50%	8.50% to 10.00%	6 to 12	50.0% to 65.0%	5.0% to 10.0%	$0.25 to $1.00	3 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	7.75% to 8.75%	1.0% to 4.0%	8.75% to 10.00%	7.50% to 9.50%	9 to 18	50.0% to 65.0%	3.0% to 8.0%	$0.15 to $0.50	12 to 18
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 5 to 7 years Uses all three approaches to value, in direct capitization, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects overall cap rates to hold steady over the next six months.	0.0%	3.0%	3.0%	9.00% to 10.00%	2.0% to 3.0%	10.00% to 11.00%	8.00% to 9.00%	9	65.0%	6.0%	$0.15 to $0.25	3 to 6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

NATIONAL WAREHOUSE MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; believes market conditions favor buyers.	2.0% to 3.0%	3.0%	3.0%	7.50% to 9.00%	3.0%	8.00% to 10.00%	7.00% to 9.00%	6 to 12	50.0% to 70.0%	3.0% to 5.0%	$0.10 to $0.20	6
DOMESTIC PENSION FUND ✦ Forecast Period: 10 years Focuses on portfolio purchases; uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve.	0.0% to 3.0%	3.0%	3.0%	7.50% to 8.50%	1.0% to 3.0%	8.00% to 9.00%	6.50% to 8.00%	6 to 12	65.0% to 75.0%	0.5% to 2.0%	$0.10 to $0.25	12
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; uses face rents and reflects concessions when they are scheduled to occur; prefers the East Coast.	1.0% to 1.5%	2.8%	3.5%	9.00% to 11.00%	3.0%	10.00% to 12.50%	7.50% to 9.00%	9	60.0%	6.0%	$0.00 to $0.15	9
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	0.0%	3.0%	3.0%	7.25% to 9.00%	1.0% to 2.0%	8.00% to 10.00%	7.25% to 8.50%	6 to 9	65.0% to 75.0%	5.0% to 7.0%	$0.05 to $0.15	12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Mainly uses DCF; in direct capitalization, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; does not use rent spikes.	0.0%	2.0%	3.0%	8.00% to 10.00%	2.0% to 3.0%	9.00% to 11.00%	8.00% to 12.00%	3 to 12	50.0% to 75.0%	5.0% to 10.0%	$0.10 to $0.20	3 to 6
INSTITUTIONAL INVESTOR ✦ Forecast Period: 10 years Relies on DCF; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	0.0%	2.0% to 3.0%	3.0%	7.50% to 8.00%	2.0% to 3.0%	8.00% to 8.50%	7.00% to 7.50%	6 to 9	50.0% to 60.0%	2.0% to 4.0%	$0.10 to $0.20	6 to 9
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur; does not use rent spikes.	0.0% to 3.0%	3.0%	3.0%	7.25% to 8.75%	1.0% to 4.0%	8.00% to 9.50%	7.25% to 9.50%	9 to 18	50.0% to 65.0%	3.0%	$0.10 to $0.35	12 to 18
REAL ESTATE ADVISOR ✦ Forecast Period: 7 to 10 years Uses DCF and effective rents; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	(3.0%) to 0.0%	2.0% to 3.0%	2.5% to 3.0%	7.25% to 8.25%	1.0%	7.10% to 8.50%	8.50% to 10.00%	6 to 14	65.0%	2.0%	$0.05 to $0.15	6 to 12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

NATIONAL APARTMENT MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES		VACANCY	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	STRUCTURAL REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	TOTAL VACANCY	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	PER UNIT	MONTHS
INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; does not use a separate FF&E replacement reserve.	(3.0%) to 1.0%	3.0% to 4.0%	1.0% to 5.0%	6.00% to 10.00%	0.5% to 2.5%	6.00% to 10.00%	5.50% to 9.50%	$200 to $400	3 to 6
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; deducts FF&E reserve from NOI before capitalization; uses a separate FF&E replacement reserve of $100 to $150 per unit.	0.0%	3.0%	8.0% to 12.0%	6.00% to 8.00%	2.0% to 3.0%	7.25% to 8.75%	6.00% to 7.50%	$150 to $375	12
DOMESTIC PENSION FUND ✦ Forecast Period: 1 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; reflects concessions as they occur, may burn off on new property during lease-up period in strong market; does not use a separate structural replacement reserve.	(1.0%) to 3.0%	3.0%	3.0% to 15.0%	5.75% to 8.00%	2.0% to 3.0%	7.00% to 9.00%	5.50% to 7.50%	$250 to $750	12
REAL ESTATE ADVISOR ✦ Forecast Period: 5 and 10 years Relies more on stabilized cash-on-cash analysis after reserves than on DCF analysis and direct capitalization; buys nationwide; uses a separate FF&E replacement reserve.	0.0% to 2.0%	0.0% to 1.0%	5.0% to 8.0%	6.00% to 7.00%	1.0% to 1.5%	8.00% to 9.00%	5.00% to 6.00%	$250 to $500	1 to 2
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; sees overall cap rates holding steady.	0.0% to 3.0%	3.0% to 3.5%	5.0% to 10.0%	6.00% to 8.00%	1.0% to 4.0%	6.25% to 9.00%	5.50% to 7.25%	$200 to $300	1 to 3
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; buys 150- to 400-unit apartment complexes in first- and second-tier markets nationwide.	0.0%	0.0% to 3.0%	5.0% to 10.0%	6.00% to 8.00%	1.5% to 2.0%	7.00% to 9.50%	5.00% to 7.00%	$175 to $300	2 to 4
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; uses a separate FF&E replacement reserve of $200 to $300 per unit.	0.0% to 1.0%	0.0% to 2.0%	5.0% to 7.0%	10.00% to 11.00%	3.0% to 6.0%	11.00% to 13.00%	9.00% to 11.00%	$175 to $250	12 to 18

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

MID-ATLANTIC REGION APARTMENT MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES		VACANCY	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	STRUCTURAL REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	TOTAL VACANCY	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	PER UNIT	MONTHS
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 4 to 8 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; does not use a separate structural replacement reserve.	(5.0%) to 0.0%	1.0% to 3.0%	6.0% to 10.0%	5.75% to 9.75%	1.0% to 2.0%	7.50% to 14.00%	5.75% to 10.00%	$150 to $300	3 to 18
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; does not deduct FF&E reserve from NOI before capitalization; uses a separate structural replacement reserve of $150 to $250 per unit.	(5.0%) to 0.0%	3.0%	5.0% to 8.0%	7.50% to 8.00%	1.0% to 2.0%	8.00% to 9.00%	7.00% to 8.50%	$150 to $250	6 to 12
INVESTMENT ADVISOR ✦ Forecast Period: 5 to 7 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; does not use a separate FF&E replacement reserve.	(1.0%) to 2.0%	3.0%	6.0% to 8.0%	7.50% to 8.50%	1.0% to 2.0%	8.50% to 9.50%	7.00% to 8.00%	$250 to $300	6 to 9
PENSION EQUITY INVESTOR ✦ Forecast Period: 4 to 7 years Uses all three approaches to value; in direct capitization, capitalizes NOI after capital replacement reserve; uses a separate FF&E replacement reserve of $2,000 to $4,000 per unit.	0.0% to 2.0%	2.0%	5.0% to 9.0%	7.25% to 8.00%	2.0% to 3.0%	10.00% to 12.00%	6.50% to 7.50%	$250 to $350	6 to 9
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 8 to 10 years Mainly uses direct capitalization analysis; in direct cap, capitalizes NOI after capital replacement reserve; believes that market conditions are neutral, favoring buyers and sellers.	(1.0%) to 2.0%	3.0%	5.0% to 9.0%	7.00% to 9.00%	1.5% to 2.0%	10.00% to 12.50%	6.00% to 8.50%	$250 to $350	3 to 9
PUBLIC C CORP ✦ Forecast Period: 5 to 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; also uses a separate FF&E replacement reserve of $75 to $175 per unit.	1.0% to 2.0%	2.0% to 3.0%	5.0% to 8.0%	5.00% to 7.00%	1.5% to 3.0%	10.00% to 13.00%	4.50% to 6.50%	$75 to $175	1 to 3

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

PACIFIC REGION APARTMENT MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES		VACANCY	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	STRUCTURAL REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	TOTAL VACANCY	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	PER UNIT	MONTHS
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; uses a separate FF&E replacement reserve of $150 to $250 per unit.	(2.5%) to 3.0%	2.5% to 3.0%	4.0% to 15.0%	5.00% to 7.50%	1.0% to 2.0%	8.00% to 12.00%	6.00% to 8.00%	$250 to $350	6 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 10 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; does not deduct FF&E reserve from NOI before capitalization; uses a separate FF&E replacement reserve of $150 to $250 per unit.	(5.0%) to 0.0%	3.0%	5.0% to 8.0%	7.50% to 8.50%	1.0% to 2.0%	8.00% to 9.25%	7.00% to 8.50%	$150 to $250	6 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; buys 150- to 400-unit apartment complexes.	(5.0%) to (3.0%)	2.0%	5.0% to 10.0%	7.50% to 9.00%	2.0%	8.50% to 10.50%	8.00% to 9.00%	$250 to $350	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; does not use a separate FF&E replacement reserve.	0.0% to 3.0%	3.0%	5.0% to 10.0%	6.00% to 7.00%	1.0% to 4.0%	8.00% to 8.75%	5.00% to 6.25%	$150 to $250	6 to 12
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 8 to 10 years Mainly uses direct capitalization analysis; in direct cap, capitalizes NOI after capital replacement reserve; believes market conditions favor buyers.	0.0% to 2.0%	3.0%	6.0% to 10.0%	6.50% to 7.50%	1.5%	10.00% to 12.50%	5.50% to 7.50%	$250 to $350	3 to 9
PUBLIC C CORP ✦ Forecast Period: 5 to 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; also uses an FF&E replacement reserve of $150 to $300 per unit.	0.0%	2.0% to 3.0%	5.0% to 10.0%	5.00% to 7.00%	1.5% to 3.0%	11.00% to 12.50%	5.00% to 7.00%	$150 to $300	3 to 6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

SOUTHEAST REGION APARTMENT MARKET–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES		VACANCY	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	STRUCTURAL REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	TOTAL VACANCY	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	PER UNIT	MONTHS
PENSION EQUITY INVESTOR ✦ Forecast Period: 4 to 7 years Uses all three approaches to value; in direct capitization, capitalizes NOI after capital replacement reserve; uses a separate FF&E replacement reserve of $2,000 to $5,000 per unit.	0.0% to 2.0%	2.0%	9.0% to 10.0%	8.00% to 8.25%	2.0% to 3.0%	10.00% to 12.00%	7.50% to 8.50%	$250 to $350	6 to 9
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 4 to 8 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; does not use a separate structural replacement reserve.	(10.0%) to 0.0%	1.0% to 3.0%	6.0% to 10.0%	5.75% to 9.75%	1.0% to 2.0%	7.50% to 14.00%	5.75% to 10.00%	$150 to $300	9 to 18
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI before capital replacement reserve; does not use a separate FF&E replacement reserve.	0.0% to 3.0%	3.0%	5.0% to 10.0%	6.50% to 7.50%	1.0% to 4.0%	8.00% to 9.25%	5.75% to 7.00%	$150 to $250	6 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; buys 150- to 400-unit apartment complexes; uses a separate FF&E reserve of $250 to $350 per unit.	(10.0%) to (5.0%)	2.0%	7.5% to 10.0%	8.00% to 9.50%	2.0%	8.50% to 10.50%	8.00% to 9.00%	$250 to $350	3 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 7 years Prefers DCF analysis; also uses direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve; does not deduct reserves from NOI before capitalization; does not use a separate FF&E replacement reserve.	(2.0%) to 2.5%	3.0%	6.0% to 10.0%	7.50% to 9.00%	1.0% to 2.0%	8.00% to 9.50%	7.00% to 9.00%	$250 to $400	6 to 9

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

NATIONAL NET LEASE MARKET–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	PREFERRED PROPERTY TYPE	CHANGE RATES		PREFERRED CREDIT RATING	RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	UNDERLYING VACANCY & CREDIT LOSS	REPLACEMENT RESERVE	MARKETING TIME
		MARKET RENT	EXPENSES		CAP RATE	SELLING EXPENSES	FREE & CLEAR	FREE & CLEAR		PER SQUARE FOOT	MONTH
INVESTMENT MANAGEMENT COMPANY ✦ Preferred Lease Term: 15 to 30 years Mainly focuses on sale-leaseback deals and net lease sales; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects overall cap rates to hold steady over the next six months.	All varieties	0.0% to 3.0%	0.0% to 3.0%	CCC to A	8.00% to 12.00%	2.0%	(1)	7.50% to 10.50%	0.0% to 5.0%	Does not use	(1)
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 9 to 10 years Primary valuation method is direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; also uses DCF analysis; mainly focuses on net lease transactions.	Office, industrial	(1.0%) to 0.0%	1.5% to 2.5%	BB to A	9.50% to 10.50%	2.0% to 3.0%	8.00% to 9.00%	9.00% to 10.00%	0.0% to 5.0%	$0.10 to $0.20	3 to 12
PRIVATE INVESTMENT FIRM ✦ Forecast Period: 3 to 5 years Primary valuation method is sales comparison approach; also uses DCF analysis; mainly completes net lease sales; in direct cap, capitalizes cash flow after TIs, leasing commissions, and capital replacement reserve.	Drug stores, banks, restaurants	0.0% to 1.0%	1.0% to 2.0%	BB to AA	9.00% to 9.50%	1.5% to 1.8%	8.00%	8.75% to 9.00%	10.0% to 15.0%	$0.20	4 to 6
INVESTMENT ADVISOR ✦ Forecast Period: 3 to 5 years Primary valuation method is direct capitalization; also uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacements reserve; mainly focuses on net lease sales.	General-purpose office, warehouse	2.0% to 3.0%	1.0% to 3.0%	BBB– to A	8.00% to 8.25%	2.8% to 3.5%	8.00% to 8.25%	7.75% to 8.75%	3.0% to 5.0%	$0.05 to $0.15	5 to 7
PRIVATE INVESTOR ✦ Forecast Period: 5 to 10 years Primary valuation method is direct capitalization; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions.	Credit retail, restaurant, medical	0.0% to 3.0%	1.0% to 4.0%		8.50% to 10.00%	4.0% to 5.0%	8.50% to 9.50%	8.50% to 9.50%	1.0% to 3.0%	$0.15 to $0.75	6 to 8

(1) Did not disclose

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

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

	INITIAL-YEAR CHANGE RATES			RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	VACANCY ASSUMPTIONS			REPLACEMENT RESERVE	MARKETING TIME
	MARKET RENT	EXPENSES	CPI	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	MONTHS VACANT	TENANT RETENTION	UNDERLYING VACANCY & CREDIT LOSS	PER SQUARE FOOT	MONTHS
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 7 to 10 years Mainly uses direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; uses face rents and reflects concessions when they are scheduled to occur.	1.5% to 2.0% Years 1 to 3	3.5% to 4.0%	(1.0%) to 0.5%	8.25% to 8.75% (on campus); 9.00% to 10.00% (off campus)	2.0% to 3.0%	9.00% to 12.50% (on campus); 9.25% to 13.00% (off campus)	8.25% to 9.00% (on campus); 8.75% to 10.00% (off campus)	7 to 10	82.5% to 85.0%	5.0% to 12.5%	$0.20 to $0.25	6 to 8
REIT ✦ Forecast Period: 10 years Uses both DCF analysis and direct capitalization; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects cap rates to hold steady over the next six months.	1.0% to 3.0% Years 1 & 2	2.0% to 3.0%	3.0%	8.50% to 9.25% (on campus); 9.00% to 10.00% (off campus)	1.5% to 2.0%	9.00% to 10.00% (on campus); 10.00% to 11.00% (off campus)	7.75% to 8.25% (on campus); 8.25% to 9.00% (off campus)	6 to 12	70.0% to 80.0%	5.0% to 10.0%	$0.25 to $0.50	6
REIT ✦ Forecast Period: 1 to 10 years Mainly uses DCF analysis; in direct cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects cap rates to hold steady over the next six months.	0.0% to 1.5% Year 1	1.5% to 2.5%	(1.0%) to 2.5%	7.75% to 8.50% (on campus); 8.25% to 9.25% (off campus)	2.0% to 2.5%	8.50% to 9.50% (on campus); 9.50% to 11.00% (off campus)	7.75% to 8.75% (on campus); 8.50% to 9.50% (off campus)	9 to 18	60.0% to 80.0%	5.0% to 8.0%	$0.25 to $0.50	2 to 6
REAL ESTATE SERVICE FIRM ✦ Forecast Period: 7 to 10 years Uses all approaches to value; in direct cap, capitalizes NOI after capital replacement reserve but before TIs and leasing commissions; expects cap rates to decrease 25 to 50 basis points over the next six months.	1.0% to 2.0% Year 1; 2.0% to 3.0% Year 2	2.0% to 3.0%	2.5% to 3.0%	7.25% to 8.00% (on campus); 7.50% to 8.25% (off campus)	2.0%	8.00% to 8.75% (on campus); 8.25% to 9.00% (off campus)	7.00% to 8.00% (on campus); 7.25% to 8.25% (off campus)	6	70.0% to 80.0%	3.0% to 5.0%	$0.15 to $0.25	3 to 5
PRIVATE REAL ESTATE FIRM ✦ Forecast Period: 3 to 7 years Uses all approaches to value; indirect cap, capitalizes NOI before TIs, leasing commissions, and capital replacement reserve; expects cap rates to hold steady over the next six months.	0.0% to 3.0% Years 1 to 3	2.0% to 3.0%	2.0% to 3.0%	7.50% to 9.00% (on campus); 8.50% to 11.00% (off campus)	1.0% to 3.0%	8.00% to 10.00% (on campus); 9.00% to 11.00% (off campus)	7.50% to 9.00% (on campus); 8.00% to 11.00% (off campus)	6 to 18	70.0% to 80.0%	5.0% to 10.0%	$0.10 to $0.30	6 to 9

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

NATIONAL FULL-SERVICE LODGING SEGMENT–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES		RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	IS FF&E DEDUCTED FROM NOI PRIOR TO CAPITALIZATION?	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	YES/NO	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; believes market conditions favor buyers.	2.0% to 5.0%	1.5% to 2.0%	7.00% to 10.00%	1.0% to 3.0%	9.00% to 11.00%	7.00% to 9.50%	Yes	2.0% to 4.0%	1.0% to 2.0%	2 to 4
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 4 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months income; believes market conditions favor buyers.	(1.0%) to 1.0%	1.0% to 2.0%	9.00% to 9.50%	0.5% to 1.3%	10.00% to 12.00%	7.50% to 9.00%	Yes	2.5% to 3.0%	4.0%	3 to 5
OWNER/OPERATOR/DEVELOPER ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; expects overall cap rates to hold steady.	0.0% to 2.0%	2.0% to 4.0%	8.00% to 9.00%	1.0% to 2.0%	11.00% to 11.50%	8.00% to 10.00%	Yes	3.0%	4.0%	6 to 9
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; in direct cap, capitalizes next 12 months income.	(1.0%) to 3.0%	3.0%	9.00% to 10.50%	3.0% to 4.0%	10.00% to 12.00%	8.00% to 10.00%	Yes	2.5% to 3.5%	4.0% to 5.0%	10 to 12
PRIVATE HOTEL COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income.	3.0%	3.0%	11.00%	2.0%	10.00% to 14.00%	10.00% to 14.00%	Yes	3.0%	4.0% to 5.0%	2 to 12
REIT ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes both prior and next 12 months of income; believes market conditions favor buyers.	(5.0%) to 0.0%	0.0% to 2.0%	10.00% to 11.25%		11.00% to 14.00%	6.00% to 8.00%	Yes	1.0% to 3.0%	2.0% to 4.0%	3 to 6
PRIVATE OWNER/OPERATOR ✦ Forecast Period: 7 to 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.	0.0%	3.0%	10.00% to 11.00%	2.0% to 3.0%	15.00% to 16.00%	11.00%	Yes	3.0%	4.0%	At least 6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

NATIONAL ECONOMY/LIMITED-SERVICE LODGING SEGMENT–INVESTOR SURVEY RESPONSES
Third Quarter 2010

	INITIAL-YEAR CHANGE RATES		RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	IS FF&E DEDUCTED FROM NOI PRIOR TO CAPITALIZATION?	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	YES/NO	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
INVESTMENT BANKER ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; ADR for year one is estimated at $90.00.	0.0%	1.0% to 3.0%	10.00% to 11.00%	2.0% to 3.0%	12.25% to 13.25%	9.50% to 10.50%		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; expects ADRs and occupancy to hold steady over the next six months; current breakeven occupancy rate is estimated at 55.0%.	(3.0%) to 0.0%	1.0% to 3.0%	9.00% to 12.00%	5.0%	Does not use	8.00% to 12.00%	Yes	3.0% to 4.0%	3.0% to 5.0%	9 to 12
PRIVATE HOTEL COMPANY ✦ Forecast Period: 10 years Prefers Northeast, Southeast, and Southwest; uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; expects occupancy to hold steady and ADRs to increase over the next six months.	3.0%	3.0%	10.00% to 11.00%	2.0%	12.00% to 14.00%	11.00% to 12.00%	Yes	3.0%	2.0%	4 to 12
PENSION FUND ADVISOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; believes that market conditions currently favor buyers; expects occupancy to decline 200 basis points over the next six months.	(4.0%) to 0.0%	3.0%	9.00% to 11.50%	3.0% to 5.0%	10.00% to 13.00%	9.00% to 11.50%	Yes	3.0%	4.0%	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.	(1.5%) to 0.0%	2.5% to 3.0%	10.40%	2.0% to 5.0%	12.00%	9.00% to 9.50%		3.5% to 4.5%	5.0%	6

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

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

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES		RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	IS FF&E DEDUCTED FROM NOI PRIOR TO CAPITALIZATION?	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	YES/NO	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
PRIVATE EQUITY INVESTOR ✦ Forecast Period: 5 years Mainly uses DCF analysis; in direct cap, capitalizes next 12 months of income; does not use gross revenue multiplier; expects overall cap rates to hold steady over the next six months.	0.0% to 3.0%	3.0% to 4.0%	7.50% to 9.00%	0.5% to 1.0%	10.00% to 12.00%	7.00% to 8.00%	Yes	2.5% to 3.0%	4.0%	2 to 4
INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; expects overall cap rates to decrease up to 25 basis points over the next six months.	(3.0%) to 3.0%	2.0% to 3.0%	8.00% to 10.00%	0.5% to 2.5%	8.00% to 10.00%	7.00% to 9.00%	Yes	3.0% to 5.0%		6 to 12
LIFE INSURANCE COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; believes that market conditions currently favor buyers.	(1.0%) to 0.0%	3.0%	9.75% to 11.00%	3.0% to 4.0%	10.00% to 11.50%	8.00% to 10.00%	Yes	2.5% to 3.0%	4.0% to 5.0%	10 to 12
REAL ESTATE ADVISOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; expects occupancy to decrease up to 200 basis points over the next six months.	3.0% to 8.0%	1.0% to 3.0%	6.00% to 8.00%	1.0% to 2.0%	9.00% to 11.00%	6.00% to 8.00%	Yes	2.0% to 4.0%	1.0% to 2.0%	2 to 4
PRIVATE HOTEL COMPANY ✦ Forecast Period: 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; expects overall cap rates to increase over the next six months.	3.0%	3.0%	10.00%	2.0%	10.00% to 11.00%	10.00% to 11.00%	Yes	3.0%	2.0%	4 to 12
PRIVATE INVESTOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; prefers West Coast, East Coast, and Midwest.	10.0% to 20.0% Year 1	4.0% to 6.0%	8.00% to 11.00%	2.5% to 3.0%	11.00% to 14.00%	8.00% to 11.00%	Yes	3.0%	4.0% to 5.0%	6 to 12
OWNER/OPERATOR ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes next 12 months of income; market conditions are neutral to buyers and sellers.	5.0%	3.5%	9.00% to 12.00%	1.0% to 2.0%	10.00% to 12.00%	8.00% to 10.00%	Yes	3.0%	5.0%	6 to 12

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

NATIONAL EXTENDED-STAY LODGING SEGMENT–INVESTOR SURVEY RESPONSES

Third Quarter 2010

	INITIAL-YEAR CHANGE RATES		RESIDUAL		DISCOUNT RATE (IRR)	OVERALL CAP RATE (OAR)	IS FF&E DEDUCTED FROM NOI PRIOR TO CAPITALIZATION?	MANAGEMENT FEES	RESERVE FOR REPLACEMENT OF FIXED ASSETS	MARKETING TIME
	AVERAGE DAILY RATE	OPERATING EXPENSES	CAP RATE	SELLING EXPENSE	FREE & CLEAR	FREE & CLEAR	YES/NO	BASE FEE	PERCENT OF TOTAL REVENUES	MONTHS
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; expects overall cap rates to hold steady over the next six months.	1.0% to 3.0%	3.0%	10.00% to 11.50%	2.0%	11.00%	11.00%	Yes	3.0% to 4.0%	5.0%	6 to 12
HOTEL OWNER/OPERATOR ✦ Forecast Period: 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes both prior and next 12 months of income; expects overall cap rates to hold steady over the next six months.	2.0% to 3.0%	2.0% to 3.0%	9.00% to 10.00%	1.0% to 2.0%	12.00% to 14.00%	8.00% to 10.00%	Yes	2.5% to 3.0%		2 to 3
INVESTMENT BANKER ✦ Forecast Period: 5 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income; expects overall cap rates to decrease between 25 and 100 basis points over the next six months.	1.0% to 3.0%	1.0% to 2.0%	7.00% to 10.00%	2.0% to 4.0%	10.00% to 14.00%	7.00% to 10.00%	Yes	4.0% to 6.0%	1.0%	2 to 6
REAL ESTATE ADVISOR ✦ Forecast Period: 3 to 5 years Uses both DCF and direct capitalization; in direct cap, capitalizes both next 12 months of income and prior 12 months of income; believes that market conditions currently favor buyers.	0.0%	1.0% to 3.0%	10.00% to 11.00%	1.0% to 3.0%	12.00%	9.00% to 10.00%	Yes	3.0%	4.0% to 6.0%	12 to 24
PRIVATE INVESTOR ✦ Forecast Period: 3 to 10 years Uses both DCF and direct capitalization; in direct cap, capitalizes prior 12 months of income.	0.0%	3.0%	10.50% to 11.50%	2.0% to 3.0%	13.00% to 14.00%	10.50% to 11.50%		3.0% to 3.5%		6 to 9

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

INVESTMENT AND PROPERTY CHARACTERISTICS: OFFICE MARKETS

Third Quarter 2010

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		STRUCTURAL VACANCY		YEARS TO STRUCTURAL VACANCY		TENANT IMPROVEMENT ALLOWANCE (PSF) NEW DEALS (1)		RENEWAL LEASES	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National CBD	(15.00%) – 15.00%	2.19%	50.00% – 100.00%	76.67%	5.00% – 12.50%	8.07%	1 – 7	3.3	$15.00 – $60.00	$32.74	$7.50 – $30.00	$15.47
National Suburban	(15.00%) – 10.00%	(1.10%)	50.00% – 100.00%	81.25%	5.00% – 15.00%	10.39%	0 – 7	3.5	$0.00 – $80.00	$29.30	$0.00 – $25.00	$12.80
Atlanta	(10.00%) – 5.00%	(2.14%)	50.00% – 100.00%	80.83%	5.00% – 12.00%	9.82%	0 – 7	2.9	$7.50 – $100.00	$32.82	$5.00 – $55.00	$16.07
Boston	(25.00%) – 10.00%	(5.76%)	50.00% – 110.00%	84.64%	5.00% – 12.00%	8.79%	0 – 5	2.1	$10.00 – $70.00	$41.61	$5.00 – $25.00	$16.79
Charlotte	(15.00%) – 10.00%	0.50%	60.00% – 100.00%	81.88%	3.00% – 15.00%	7.60%	1 – 5	3.1	$5.00 – $45.00	$26.46	$5.00 – $20.00	$11.13
Chicago	(15.00%) – 10.00%	(2.50%)	40.00% – 100.00%	69.72%	8.00% – 15.00%	10.78%	1 – 5	3.4	$10.00 – $80.00	$43.42	$5.00 – $40.00	$22.53
Dallas	(35.00%) – 3.00%	(8.67%)	50.00% – 100.00%	78.00%	5.00% – 15.00%	9.80%	0 – 7	2.3	$5.00 – $60.00	$27.75	$8.00 – $25.00	$13.08
Denver	(10.00%) – 10.00%	0.40%	50.00% – 100.00%	71.46%	5.00% – 15.00%	11.25%	2 – 5	3.4	$7.00 – $50.00	$27.46	$2.00 – $25.00	$9.63
Houston	(20.00%) – 5.00%	(2.75%)	50.00% – 110.00%	80.00%	5.00% – 15.00%	8.40%	1 – 3	1.9	$5.00 – $45.00	$25.81	$2.00 – $20.00	$10.50
Los Angeles	(5.00%) – 10.00%	1.63%	50.00% – 100.00%	77.50%	3.00% – 12.00%	7.60%	0 – 6	2.8	$10.00 – $90.00	$32.71	$5.00 – $25.00	$14.50
Manhattan	0.00% – 20.00%	6.00%	50.00% – 100.00%	83.75%	5.00% – 12.00%	8.69%	0 – 5	1.8	$15.00 – $75.00	$48.94	$15.00 – $50.00	$25.63
Northern Virginia	(7.50%) – 10.00%	1.65%	80.00% – 100.00%	92.00%	6.00% – 15.00%	9.25%	0 – 3	2.1	$20.00 – $80.00	$43.35	$5.00 – $35.00	$21.80
Pacific Northwest	0.00% – 10.00%	4.38%	50.00% – 100.00%	75.00%	5.00% – 18.00%	9.25%	2 – 4	3.0	$15.00 – $100.00	$46.08	$0.00 – $25.00	$12.50
Philadelphia	(20.00%) – 3.00%	(2.08%)	50.00% – 100.00%	75.83%	5.00% – 12.50%	8.29%	1 – 4	2.2	$5.00 – $45.00	$24.75	$5.00 – $20.00	$10.50
Phoenix	(20.00%) – 0.00%	(9.58%)	40.00% – 100.00%	72.08%	5.00% – 15.00%	10.42%	2 – 5	3.7	$10.00 – $60.00	$33.75	$5.00 – $15.00	$10.56
San Diego	(5.00%) – 5.00%	(0.63%)	60.00% – 100.00%	77.71%	5.00% – 15.00%	8.17%	2 – 7	3.8	$10.00 – $60.00	$28.02	$2.50 – $20.00	$10.69
San Francisco	(5.00%) – 20.00%	4.50%	40.00% – 100.00%	75.71%	3.00% – 10.00%	7.06%	1 – 5	2.9	$5.00 – $80.00	$35.73	$0.00 – $30.00	$12.22
Southeast Florida	(25.00%) – 4.00%	(6.20%)	40.00% – 100.00%	76.00%	5.00% – 30.00%	10.50%	1 – 5	2.6	$0.00 – $50.00	$25.92	$5.00 – $35.00	$13.25
Suburban Maryland	(20.00%) – 10.00%	0.50%	65.00% – 100.00%	83.33%	5.00% – 12.00%	8.67%	0 – 5	2.0	$10.00 – $85.00	$36.63	$5.00 – $30.00	$19.17
Washington, DC	(10.00%) – 20.00%	3.08%	70.00% – 110.00%	93.75%	5.00% – 12.50%	7.33%	0 – 3	1.0	$25.00 – $80.00	$48.32	$14.00 – $45.00	$25.86

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

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

INVESTMENT AND PROPERTY CHARACTERISTICS: NATIONAL AND REGIONAL MARKETS

Third Quarter 2010

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		CLASS-A+ and A MALLS IRRs		OARs		CLASS-B+ and B MALLS IRRs		OARs		STABILIZED OCCUPANCY	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National Regional Mall	0.00% – 10.00%	2.08%	70.00% – 100.00%	88.75%	6.25% – 11.50%	9.40%	5.00% – 8.50%	7.16%	8.50% – 14.00%	11.05%	7.50% – 10.50%	8.90%	87.50% – 97.00%	92.21%
National Power Center	(20.00%) – 10.00%	(2.50%)	60.00% – 110.00%	85.83%									88.00% – 95.00%	92.00%
National Strip Shopping Center	(15.00%) – 20.00%	1.88%	20.00% – 110.00%	83.13%									80.00% – 95.00%	91.06%

	FORECAST VALUE CHANGE NEXT 12 MONTHS		PRICE AS % OF REPLACEMENT COST		FINISHED SPACE %		TIs - 2ND GENERATION SPACE (PSF/UNIT)		TIs - RENEWAL (PSF/UNIT)	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National Flex/R&D	(10.00%) – 10.00%	0.63%	60.00% – 100.00%	80.00%	10.00% – 80.00%	40.00%	$0.00 – $25.00	$11.42	$0.00 – $12.00	$5.17
National Warehouse	(30.00%) – 15.00%	3.09%	50.00% – 100.00%	75.68%	0.00% – 20.00%	7.12%	$0.00 – $10.00	$1.49	$0.00 – $2.50	$0.63
Apartment (National)	(25.00%) – 15.00%	0.37%	60.00% – 110.00%	85.96%						
Apartment (Mid-Atlantic Region)	(20.00%) – 10.00%	(0.17%)	60.00% – 125.00%	84.00%						
Apartment (Pacific Region)	(25.00%) – 25.00%	(2.33%)	65.00% – 125.00%	83.50%						
Apartment (Southeast Region)	(15.00%) – 10.00%	(0.67%)	60.00% – 110.00%	85.00%						
National Net Lease	(20.00%) – 10.00%	(1.00%)	50.00% – 125.00%	92.19%			$4.00 – $25.00	$14.38	$4.00 – $20.00	$9.06
National Medical Office Buildings	(20.00%) – 10.00%	(1.28%)	50.00% – 115.00%	96.25%			$5.00 – $50.00	$20.00	$2.50 – $50.00	$12.81

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

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YIELD COMPARISONS

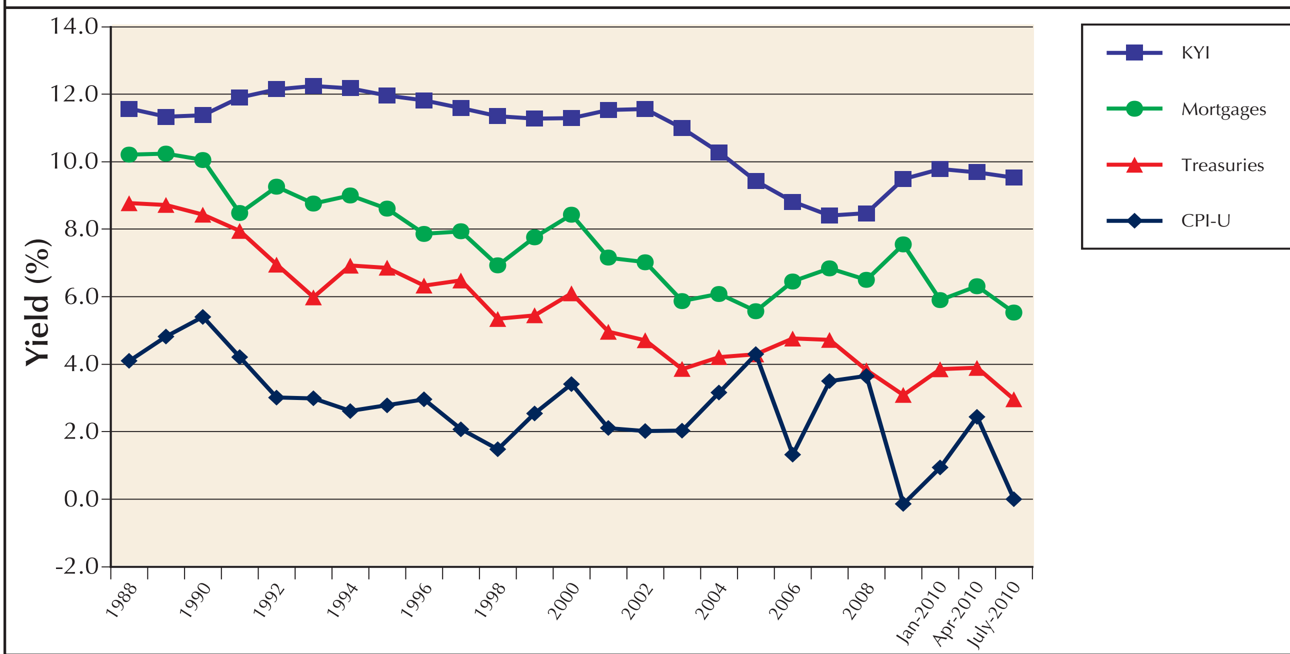
July 1, 2010

	2005 AVERAGE	2006 AVERAGE	2007 AVERAGE	2008 AVERAGE	2009 AVERAGE	2009 OCTOBER	2010 JANUARY	2010 APRIL	2010 JULY
Korpacz Yield Indicator (KYI)[a]	9.43%	8.81%	8.41%	8.47%	9.49%	9.78%	9.79%	9.69%	9.53%
Long-Term Mortgages[b]	5.57%	6.45%	6.84%	6.50%	7.55%	6.65%	5.90%	6.31%	5.53%
10-Year Treasuries[c]	4.29%	4.76%	4.72%	3.82%	3.09%	3.21%	3.85%	3.89%	2.96%
Consumer Price Index Change[d]	4.30%	1.32%	3.50%	3.65%	(0.14%)	1.53%	0.94%	2.44%	0.00%
SPREAD TO KYI (Basis Points)									
Long-Term Mortgages	386	236	157	197	194	313	389	338	400
10-Year Treasuries	514	405	369	465	640	657	594	580	657
Consumer Price Index Change	513	749	491	482	963	825	885	725	953

a. A composite IRR average of the markets surveyed (excluding hotels).
b. Fixed-rate mortgages; immediate funding. Source: CB Richard Ellis/L.J. Melody Capital Markets; reflects conventional funding, 70% average LTV commercial loans; fixed rates, 15-year average term.
c. Source: Federal Reserve; the annual average change is the mean of the four corresponding quarters.
d. Source: U.S. Department of Labor; quarterly changes are annualized based on the index change from the prior quarter; the annual average change is the mean of the four corresponding quarters.

COMPARATIVE YIELDS

July 1, 2010



DIVIDEND COMPARISONS

July 1, 2010

	2005 AVERAGE	2006 AVERAGE	2007 AVERAGE	2008 AVERAGE	2009 AVERAGE	2009 OCTOBER	2010 JANUARY	2010 APRIL	2010 JULY
Korpacz Dividend Indicator (KDI)[a]	7.94%	7.42%	7.01%	6.99%	8.09%	8.49%	8.42%	8.33%	8.15%
Equity REITs[b]	4.75%	4.19%	3.93%	5.07%	6.62%	4.02%	3.73%	3.86%	4.16%
S&P 500[c]	1.71%	1.80%	1.76%	2.19%	2.90%	2.26%	2.01%	1.87%	2.14%
SPREAD TO KDI (Basis Points)									
Equity REITs	319	323	308	192	147	447	469	447	399
S&P 500	623	562	525	480	519	623	641	646	601

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

INSTITUTIONAL-GRADE VS. NONINSTITUTIONAL-GRADE PROPERTY RATES

Third Quarter 2010

	INSTITUTIONAL IRRs		OARs		NONINSTITUTIONAL (BASIS-POINT SPREAD TO INSTITUTIONAL RATES) IRRs		OARs	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National Regional Mall	6.25% – 14.00%	9.98%	5.00% – 10.50%	7.81%	50 – 350	192	25 – 500	279
National Power Center	8.50% – 12.00%	9.75%	7.00% – 10.00%	8.38%	NA	NA	NA	NA
National Strip Shopping Center	6.00% – 12.50%	9.19%	5.50% – 11.40%	8.09%	50 – 800	278	50 – 1,000	303
National CBD Office	6.50% – 12.00%	9.11%	6.00% – 10.50%	8.01%	(a)	(a)	(a)	(a)
National Suburban Office	7.00% – 13.00%	9.45%	6.00% – 11.50%	8.40%	50 – 250	129	25 – 300	138
Atlanta Office	7.75% – 15.00%	10.29%	7.00% – 11.00%	8.95%	100 – 200	163	50 – 200	119
Boston Office	7.75% – 14.00%	9.83%	5.75% – 12.00%	8.51%	100 – 1,000	321	100 – 500	239
Charlotte Office	8.00% – 12.00%	9.57%	7.00% – 10.50%	8.74%	100 – 400	225	100 – 200	150
Chicago Office	8.00% – 13.00%	9.67%	6.00% – 11.00%	8.57%	100 – 600	288	100 – 300	217
Dallas Office	8.00% – 12.00%	9.51%	7.00% – 11.50%	8.76%	(a)	(a)	(a)	(a)
Denver Office	7.75% – 15.00%	10.09%	7.00% – 11.00%	8.29%	(a)	(a)	(a)	(a)
Houston Office	8.00% – 14.00%	9.64%	7.00% – 12.50%	8.82%	0 – 300	158	0 – 400	192
Los Angeles Office	7.00% – 12.00%	9.19%	6.25% – 9.00%	7.76%	0 – 300	125	0 – 200	100
Manhattan Office	6.00% – 10.00%	7.81%	5.00% – 8.00%	6.23%	50 – 385	168	50 – 385	218
Northern Virginia Office	6.00% – 10.50%	8.48%	5.75% – 9.00%	7.50%	(a)	(a)	(a)	(a)
Pacific Northwest Office	7.50% – 12.00%	10.10%	6.00% – 12.00%	8.41%	75 – 500	363	50 – 500	196
Philadelphia Office	8.00% – 11.00%	9.38%	7.25% – 10.00%	8.71%	50 – 200	118	50 – 150	90
Phoenix Office	8.50% – 16.00%	11.06%	7.00% – 11.00%	9.23%	(a)	(a)	(a)	(a)
San Diego Office	7.50% – 14.00%	9.88%	7.00% – 11.00%	8.26%	(a)	(a)	(a)	(a)
San Francisco Office	7.50% – 15.00%	9.53%	5.50% – 11.00%	7.69%	25 – 500	197	25 – 400	197
Southeast Florida Office	7.00% – 16.00%	10.22%	7.25% – 14.00%	9.19%	(a)	(a)	(a)	(a)
Suburban Maryland Office	7.25% – 10.00%	8.53%	7.00% – 9.00%	7.75%	(a)	(a)	(a)	(a)
Washington, DC Office	7.00% – 10.00%	8.02%	5.50% – 8.50%	6.64%	25 – 200	73	25 – 100	56
National Flex/R&D	8.25% – 13.00%	10.23%	7.50% – 12.00%	9.15%	100 – 500	283	100 – 400	250
National Warehouse	7.10% – 12.50%	9.28%	6.50% – 12.00%	8.38%	100 – 500	263	100 – 300	225
National Apartment	6.00% – 14.00%	9.40%	4.50% – 11.00%	7.12%	25 – 400	238	25 – 400	183
Apartment (Mid-Atlantic Region)	7.50% – 14.00%	10.33%	4.50% – 10.00%	7.15%	25 – 500	291	25 – 400	203
Apartment (Pacific Region)	8.00% – 12.50%	9.92%	5.00% – 9.00%	6.90%	300 – 500	350	200– 400	267
Apartment (Southeast Region)	7.50% – 14.00%	9.73%	5.75% – 10.00%	7.75%	25 – 400	271	25 – 400	204
National Medical Office Buildings	8.00% – 13.00%	9.74%	7.00% – 11.50%	8.58%	100 – 400	234	50 – 400	182

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

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

INCOME CAPITALIZED IN DIRECT CAPITALIZATION
Third Quarter 2010

MARKET	METHOD 1 (a) CURRENT	YEAR AGO	METHOD 2 (a) CURRENT	YEAR AGO	METHOD 3 (a) CURRENT	YEAR AGO
National Retail						
Regional Mall	16.7%	14.3%	83.3%	71.4%	0.0%	14.3%
Power Center	20.0%	16.7%	80.0%	83.3%	0.0%	0.0%
Strip Shopping Center	22.2%	28.6%	66.7%	42.9%	11.1%	28.6%
Office						
National CBD	10.0%	0.0%	80.0%	77.8%	10.0%	22.2%
National Suburban	25.0%	25.0%	60.0%	41.7%	15.0%	33.3%
Atlanta	29.0%	22.2%	71.0%	77.8%	0.0%	0.0%
Boston	14.3%	0.0%	85.7%	100.0%	0.0%	0.0%
Charlotte	16.7%	16.7%	83.3%	83.3%	0.0%	0.0%
Chicago	11.1%	11.1%	77.8%	77.8%	11.1%	11.1%
Dallas	40.0%	33.3%	60.0%	66.7%	0.0%	0.0%
Denver	33.3%	25.0%	66.7%	75.0%	0.0%	0.0%
Houston	50.0%	40.0%	50.0%	60.0%	0.0%	0.0%
Los Angeles	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%
Manhattan	17.0%	16.7%	83.0%	66.7%	16.7%	16.7%
Northern Virginia	50.0%	25.0%	50.0%	62.5%	0.0%	12.5%
Pacific Northwest	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%
Philadelphia	40.0%	20.0%	60.0%	60.0%	0.0%	20.0%
Phoenix	50.0%	0.0%	50.0%	100.0%	0.0%	0.0%
San Diego	20.0%	0.0%	80.0%	100.0%	0.0%	0.0%
San Francisco	0.0%	0.0%	100.0%	100.0%	0.0%	0.0%
Southeast Florida	25.0%	33.3%	75.0%	66.7%	0.0%	0.0%
Suburban Maryland	20.0%	25.0%	80.0%	62.5%	0.0%	12.5%
Washington, DC	43.0%	50.0%	57.0%	37.5%	0.0%	12.5%
National Flex/R&D	0.0%	12.5%	100.0%	87.5%	0.0%	0.0%
National Warehouse	30.8%	25.0%	61.5%	58.3%	7.7%	16.7%
Apartment[b]						
National	56.0%	86.0%	44.0%	14.0%		
Mid-Atlantic Region	83.3%		16.7%			
Pacific Region	83.0%		17.0%			
Southeast Region	60.0%		40.0%			
National Net Lease	38.0%		38.0%		24.0%	
National Medical Office Buildings	11.1%	25.0%	77.8%	75.0%	11.1%	0.0%

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

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

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

LODGING INCOME CAPITALIZED IN DIRECT CAPITALIZATION
Third Quarter 2010

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

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

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

FORECAST PERIODS AND CHANGE RATES: OFFICE MARKETS

Third Quarter 2010

	FORECAST PERIOD		MARKET RENT CHANGE RATES INITIAL YEAR		FORECAST PERIOD AVERAGE		EXPENSE CHANGE RATES INITIAL YEAR		FORECAST PERIOD AVERAGE	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National CBD Office	5 – 10	10	(5.00%) – 4.00%	(0.15%)	0.00% – 5.00%	2.64%	2.00% – 4.00%	2.85%	2.00% – 3.50%	2.85%
National Suburban Office	5 – 10	9	(10.00%) – 4.00%	(0.63%)	0.00% – 5.00%	2.53%	2.00% – 4.00%	2.77%	2.00% – 4.00%	2.95%
Atlanta Office	3 – 10	7	(3.00%) – 0.00%	(0.43%)	0.00% – 3.00%	2.07%	0.00% – 3.00%	2.32%	1.00% – 3.00%	2.71%
Boston Office	3 – 10	8	(5.00%) – 1.00%	(0.86%)	(5.00%) – 4.50%	2.14%	0.00% – 4.50%	2.81%	0.00% – 4.50%	2.89%
Charlotte Office	3 – 10	7	(4.00%) – 2.00%	(0.17%)	0.00% – 3.00%	1.49%	2.00% – 3.00%	2.79%	2.00% – 3.00%	2.83%
Chicago Office	3 – 10	8	(10.00%) – 0.00%	(2.22%)	0.00% – 5.00%	3.00%	(5.00%) – 3.00%	1.88%	2.00% – 3.00%	2.94%
Dallas Office	3 – 10	8	0.00% – 0.00%	0.00%	0.00% – 3.00%	1.98%	3.00% – 3.00%	3.00%	3.00% – 3.00%	3.00%
Denver Office	1 – 11	7	(20.00%) – 3.00%	(1.08%)	(2.00%) – 5.00%	2.46%	0.00% – 3.00%	2.75%	2.00% – 3.00%	2.92%
Houston Office	2 – 10	8	(5.00%) – 2.00%	(0.30%)	0.00% – 5.00%	2.38%	2.00% – 3.00%	2.83%	2.00% – 3.00%	2.92%
Los Angeles Office	1 – 10	9	(2.00%) – 2.00%	0.00%	0.00% – 5.00%	2.76%	2.00% – 3.00%	2.92%	2.00% – 3.00%	2.92%
Manhattan Office	5 – 10	9	0.00% – 3.50%	0.79%	3.00% – 8.00%	4.50%	1.00% – 3.00%	2.67%	2.00% – 3.00%	2.83%
Northern Virginia Office	5 – 10	10	(2.00%) – 3.00%	0.20%	2.00% – 3.00%	2.75%	1.50% – 3.00%	2.79%	2.50% – 3.00%	2.96%
Pacific Northwest Office	5 – 10	9	0.00% – 0.00%	0.00%	0.00% – 10.00%	4.55%	2.50% – 3.00%	2.95%	2.50% – 3.00%	2.95%
Philadelphia Office	5 – 10	8	(5.00%) – 3.00%	0.17%	1.50% – 3.00%	2.50%	2.00% – 3.00%	2.77%	3.00% – 3.00%	3.00%
Phoenix Office	3 – 10	8	(15.00%) – 0.00%	(4.20%)	0.00% – 10.00%	2.40%	0.00% – 3.00%	2.70%	2.00% – 3.00%	2.90%
San Diego Office	1 – 10	8	(10.00%) – 0.00%	(2.30%)	0.00% – 4.10%	2.62%	2.00% – 3.00%	2.90%	2.00% – 3.00%	2.90%
San Francisco Office	5 – 10	9	(5.00%) – 7.60%	1.46%	2.00% – 7.00%	4.35%	0.00% – 3.00%	2.56%	2.00% – 3.00%	2.83%
Southeast Florida Office	1 – 10	7	(10.00%) – 3.00%	(0.71%)	(5.00%) – 4.00%	1.23%	1.00% – 3.00%	2.79%	1.00% – 3.00%	2.75%
Suburban Maryland Office	3 – 10	9	(2.00%) – 3.00%	0.07%	(1.00%) – 5.00%	2.25%	0.00% – 3.00%	2.57%	0.00% – 3.00%	2.79%
Washington, DC Office	10 – 10	10	(2.00%) – 3.00%	0.43%	0.00% – 5.00%	2.73%	1.50% – 3.00%	2.82%	2.50% – 3.00%	2.96%

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

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

	FORECAST PERIOD		MARKET RENT CHANGE RATES INITIAL YEAR		FORECAST PERIOD AVERAGE		EXPENSE CHANGE RATES INITIAL YEAR		FORECAST PERIOD AVERAGE	
MARKET	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE	RANGE	AVERAGE
National Regional Mall	5 – 10	9	(3.00%) – 3.00%	0.58%	(3.00%) – 4.00%	2.21%	0.00% – 3.00%	1.92%	2.00% – 4.00%	2.88%
National Power Center	5 – 10	9	(10.00%) – 3.00%	(0.70%)	1.00% – 5.00%	2.75%	2.00% – 3.00%	2.90%	3.00% – 3.00%	3.00%
National Strip Shopping Center	4 – 10	9	0.00% – 3.00%	0.61%	0.00% – 5.00%	2.18%	1.00% – 4.00%	2.83%	2.50% – 4.00%	3.03%
National Flex/R&D	4 – 10	8	(2.00%) – 3.00%	0.08%	0.00% – 4.00%	2.25%	1.00% – 3.00%	2.83%	1.00% – 3.00%	2.83%
National Warehouse	5 – 11	9	(10.00%) – 3.00%	0.02%	0.00% – 5.00%	2.57%	(2.00%) – 3.00%	2.57%	0.00% – 3.00%	2.63%
Apartment (National)	1 – 10	7	(10.00%) – 3.00%	(0.12%)	(2.00%) – 5.00%	2.38%	0.00% – 4.00%	2.42%	0.00% – 3.50%	2.70%
Apartment (Mid-Atlantic Region)	4 – 10	7	(5.00%) – 2.00%	(0.25%)	1.00% – 5.00%	3.00%	1.00% – 3.00%	2.58%	1.00% – 3.00%	2.67%
Apartment (Pacific Region)	5 – 10	9	(5.00%) – 3.00%	(0.63%)	1.00% – 5.00%	2.75%	2.00% – 3.00%	2.71%	2.00% – 3.00%	2.88%
Apartment (Southeast Region)	2 – 10	6	(10.00%) – 3.00%	(1.63%)	0.00% – 4.00%	2.25%	1.00% – 3.00%	2.42%	0.00% – 3.00%	2.67%
National Net Lease	3 – 30	10	(1.00%) – 7.00%	1.86%	0.00% – 15.00%	3.29%	0.00% – 7.00%	2.58%	0.00% – 3.00%	1.65%
National Medical Office Buildings	1 – 10	7	0.00% – 3.00%	1.00%	0.00% – 5.00%	2.07%	1.50% – 5.00%	2.64%	2.00% – 5.00%	2.92%

Source: Personal survey conducted by PricewaterhouseCoopers LLP during July 2010.

PRICEWATERHOUSECOOPERS

Definitions

General

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

CHANGE RATE
Annual compound rate of change

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

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

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 lodging

KORPACZ YIELD INDICATOR (KYI)
A composite IRR average of the surveyed markets excluding 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

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

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

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

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

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

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.

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

PACIFIC REGION
As per NCREIF, includes the states of Washington, Oregon, and California

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

Development Land

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

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.

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

PROFPAR
Profit per available room

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

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

REVPAR
Revenue per available room

NET LEASE

PROVISION 1031
A tax code that allows the seller of an investment property to defer capital gains taxes by exchanging the sale proceeds for an investment in a similar property or properties within 180 days of the original closing

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

RETAIL

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

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

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

POWER CENTER[2,3]
An open center dominated by at least 75.0% large big-box anchors, including discount stores, warehouse clubs, and value-oriented category stores; a minimal amount of inline store space

REGIONAL MALL[2,3]
An enclosed shopping center that contains at least two department stores and has climate-controlled walkways that are lined with smaller retail shops

REGIONAL MALL CLASSIFICATIONS[3]

Class	Inline Retail Sales PSF
A+	$600 and up
A	$450 to $599
B+	$350 to $449
B	$250 to $349
C	Less than $250

STRIP SHOPPING CENTER[2,3]
An open row of stores either with or without anchor stores that offer convenience (neighborhood centers) and general merchandise (community centers)

Various sources for these definitions include [1]*The Dictionary of Real Estate Appraisal, 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.

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

The information in this survey is gathered through on-line questionnaires and telephone interviews. As such, the findings and opinions expressed reflect those of our investor participants and do not necessarily reflect those of PricewaterhouseCoopers LLP. Although we do not represent that the survey is statistically accurate, its results provide important insight into the thinking of a significant portion of the equity real estate marketplace.

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

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*16-page supplement following 9/11

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