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Introduction

The U.S economy continued its modest recovery through the fourth quarter of 2010. The latest Federal Reserve survey showed improving economic conditions throughout the majority of the country. Real GDP increased to a 2.6% annualized rate during the third quarter and is forecasted to expand upwards of 3.5 to 4.0% during the fourth quarter. Sales of both new and existing homes have improved in recent months and the manufacturing sector continues to show positive momentum. Strong holiday sales, increased consumer spending and a drop in the unemployment rate also give rise to cautious optimism. However, many challenges still loom including: sluggish job growth, declining home prices, an abundance of foreclosures, tighter state and local budgets, increasing food/energy prices and rising interest rates.

Although property fundamentals are improving, NOI and occupancy are still challenged by a weak space market. The investment picture remains divided with the top assets in the best markets receiving the most attention although increasing interest in second tier properties is beginning to emerge from the investment community. According to the latest PwC Investor Survey, cap rates for all property types fell during the fourth quarter. Issuances within the CMBS market continued to increase as well as rising commercial and multi-family loan originations. Commercial real estate conditions are forecasted to improve throughout 2011, led by the multi-family sector.

The following summarizes key issues related to the current economic conditions:

- **Positive GDP Growth.** U.S. gross domestic product (GDP) grew at a 2.6% annual pace during the third quarter of 2010, following a 1.7% increase during the previous quarter.
- **Unemployment Rate Declines.** The unemployment rate decreased to 9.4% in December from 9.8% a month earlier. Private sector employers added 103,000 jobs during the latest period.
- **Construction Spending Rises.** Total construction spending increased 0.4% in November, led by a 0.7% rise in residential construction spending. Private non-residential construction declined 0.1% during November.
- **Durable Goods Orders Weak.** New orders for big-ticket manufactured goods decreased 1.3% in November. Outside the transportation sector, durable goods orders were broad-based and stronger than expected.
- **New Home Sales Increase.** In November, new home sales jumped 5.5% to a 290,000-unit pace from a downwardly revised 275,000 in October. The overall inventory of new homes declined to 197,000, the lowest level in more than 40 years. Currently, it was reported that 86,000 new homes are currently under construction as cautious builders remain hesitant to increase inventory.

Introduction (continued)

- **Leading Indicators Up.** The Leading Economic Index (LEI) increased 1.1% in November, which is an early sign that the expansion is gaining momentum and spreading. Nearly all components increased during the month, but housing still remains sluggish.
- **Retail Sales Rise.** In December, retail sales increased 0.6%. This marked the largest annual increase in more than a decade. During the holiday season, retail sales jumped 7.3%, the highest growth since 2005. Motor vehicle and part sales increased 1.1% and broad-based increases were recorded across other industries.
- **Business Inventories Increase.** Business inventories increased 0.2% in November, signaling a slowdown towards the end of the year. Business inventories have risen 6.8% on a year-over-year basis.
- **Wholesale Inventories Decline.** In November, wholesale inventories unexpectedly decreased 0.2% as sales at wholesalers increased 1.9% during the month.
- **Personal Income and Spending Rise.** Personal income and spending increased 0.3% and 0.4%, respectively, in November, signaling momentum in economic recovery.
- **Industrial Production Grows.** U.S. factory output grew 0.8% in December, helped by an unseasonably cold month across many parts of the country. Manufacturing output increased 0.4% in December.

Employment

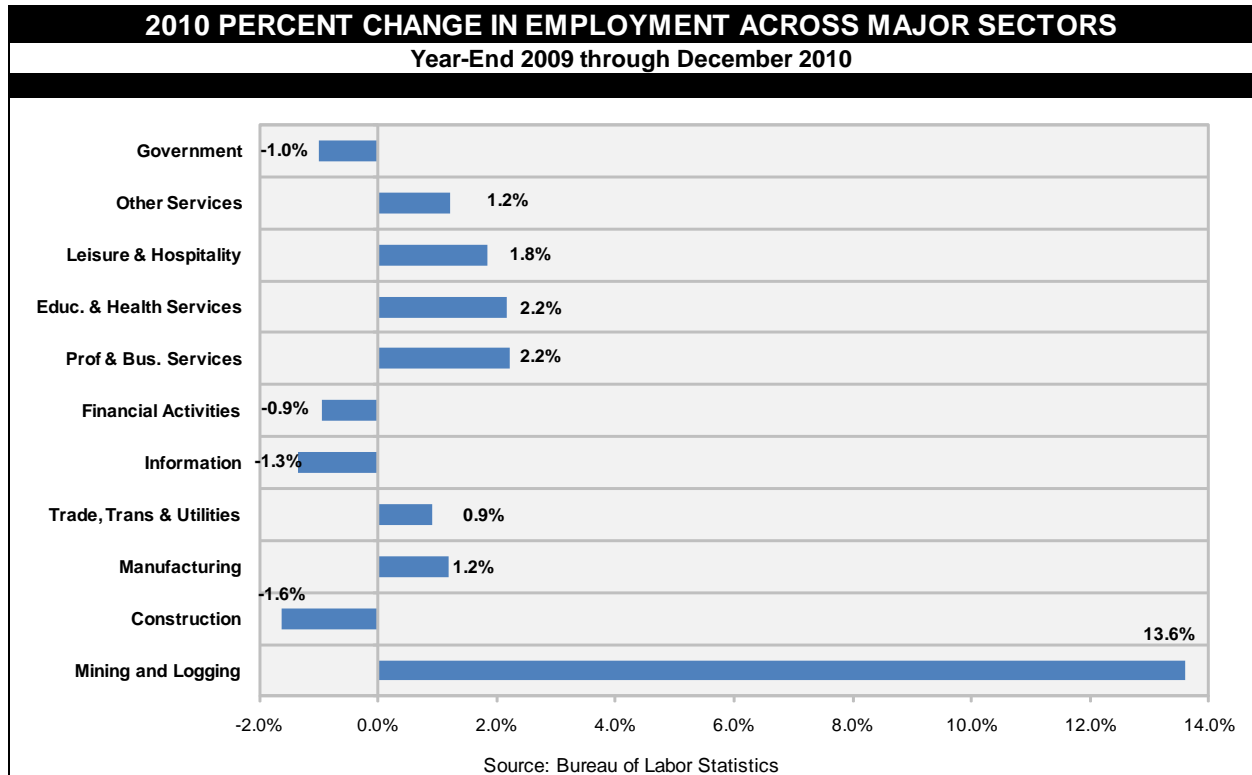
The unemployment rate decreased 40 basis points to 9.4% in December, the lowest level in 19 months. Payrolls for November and October were also revised higher by 70,000 jobs compared with prior estimates. However, private sector companies added a net total of 103,000 new jobs during December, below analyst expectations of 150,000 new jobs. It was reported that about 260,000 adults dropped out of the labor force and were no longer counted as unemployed by the government. Economists believe the labor market needs to gain at least 300,000 new jobs to make a difference in the unemployment rate and at least 150,000 to keep pace with population growth. Overall, the economy closed 2010 with 1.1 million jobs added, the best year for hiring since 2007.

Gains were primarily concentrated within two sectors in December. The leisure and hospitality sector added 47,000 jobs and 36,000 jobs were created within the health care sector. Job gains were also recorded within the retail, business services, education and manufacturing sectors. Meanwhile, the average workweek held at 34.3 hours. In December, average hourly earnings for all employees on private nonfarm payrolls increased by 0.1% to \$22.78.

UNITED STATES NON-FARM EMPLOYMENT BY INDUSTRY							
Historic & Current Figures (millions)							
INDUSTRY	Dec-10 Employment	Total Percent	2009 Employment	Total Percent	2008 Employment	Total Percent	% Change Dec-10 - 2009
Mining and Logging	768	0.6%	676	0.5%	768	0.6%	13.6%
Construction	5,603	4.3%	5,696	4.4%	6,704	5.0%	-1.6%
Manufacturing	11,670	8.9%	11,534	8.9%	12,822	9.5%	1.2%
Trade, Trans & Utilities	24,880	19.0%	24,653	19.0%	25,619	19.1%	0.9%
Information	2,711	2.1%	2,748	2.1%	2,908	2.2%	-1.3%
Financial Activities	7,585	5.8%	7,657	5.9%	8,000	6.0%	-0.9%
Prof & Bus. Services	16,854	12.9%	16,488	12.7%	17,220	12.8%	2.2%
Educ. & Health Services	19,772	15.1%	19,350	14.9%	19,033	14.2%	2.2%
Leisure & Hospitality	13,231	10.1%	12,991	10.0%	13,248	9.9%	1.8%
Other Services	5,379	4.1%	5,314	4.1%	5,445	4.1%	1.2%
Government	22,259	17.0%	22,481	17.3%	22,561	16.8%	-1.0%
Total Nonfarm	130,712	100.0%	129,588	100.0%	134,328	100.0%	0.9%

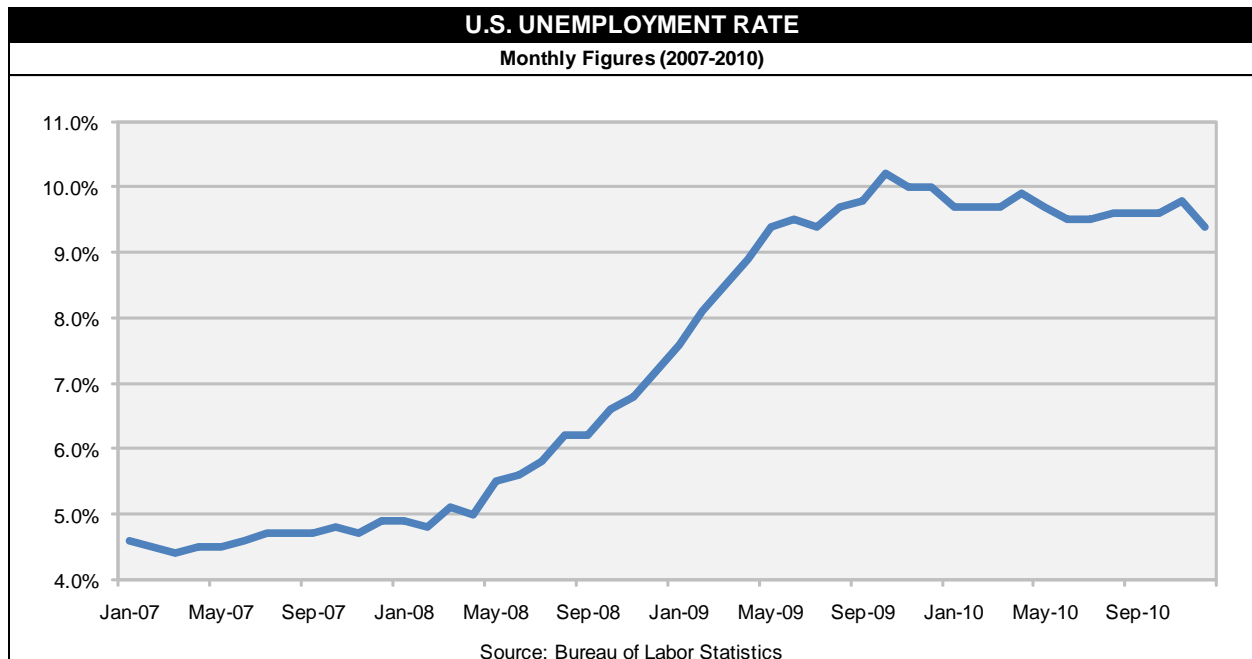
Source: Bureau of Labor Statistics

Employment (continued)



The change in employment through December 2010 showed four sectors (financial activities, information, construction and government) recording losses in employment since 2009. The number of unemployed persons decreased by 556,000 to 14.5 million in December.

Below is a graph depicting unemployment since January 2007:

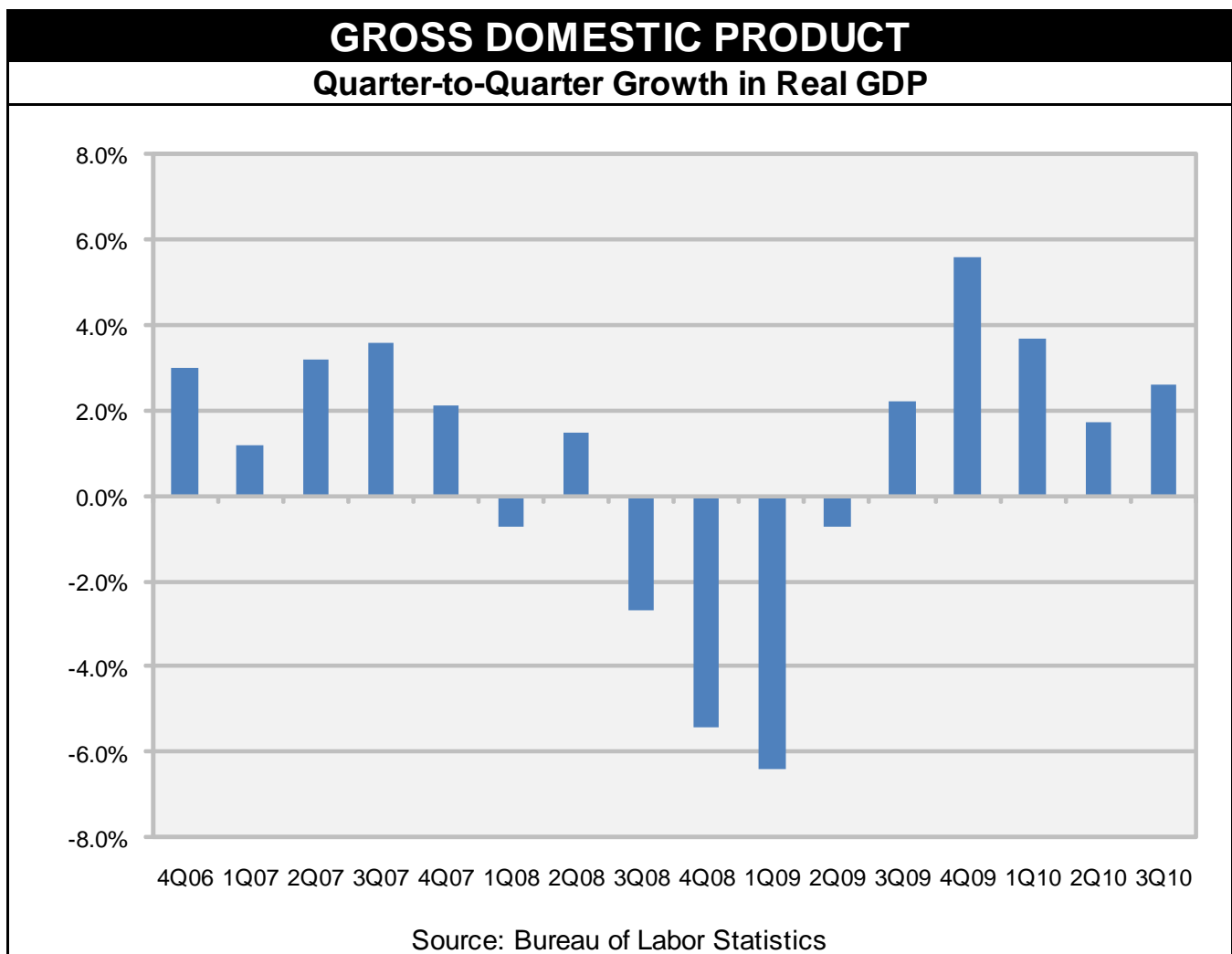


Gross Domestic Product (GDP)

The GDP growth rate is considered the most important indicator of economic health. When the GDP is growing, the expectation is that business, jobs and personal income will also grow. On the contrary, if GDP is contracting, then expectations are that businesses will hold off investing in new purchases and hiring new employees as they wait to see if the economy will improve. A negative GDP growth rate is indicative of a recession.

Final estimates for third quarter GDP showed the economy growing slightly faster than preliminary estimates had suggested. The U.S. economy grew 2.6% during the third quarter, which is stronger than the 2.5% pace in the preliminary release and also higher than the 2.0% growth reported in the advance release. This marks the fifth straight quarter that the U.S. economy has expanded. The increase in real GDP in the third quarter primarily reflected positive contributions from exports, personal consumption expenditures, private inventory investment, nonresidential fixed investment and federal government spending. Growth during the third quarter was offset by a negative contribution from residential fixed investment. Exports increased 6.8% in the final third quarter report and imports, which take away from growth, increased 16.8%. Since 4Q 2006, GDP growth has averaged 0.9% per quarter.

The following chart summarizes GDP growth on a quarterly basis since 4Q 2006:



Institute for Supply Management (ISM) Manufacturing Index

The ISM index, a national survey of purchasing managers, is calculated based on a weighted average of the following five sub-indexes: new orders (30%), production (25%), employment (20%), deliveries (15%), and inventories (10%). Economic activity in the manufacturing sector expanded in December for the 17th consecutive month and the overall economy grew for the 20th consecutive month. Both production and new orders continued to accelerate in December. Production rose from 55.0% in November to 60.7% while new orders increased from 56.6% to 60.9%. The ISM Index was primarily driven by gains in production. Eleven of the 18 manufacturing industries reported growth in December, led by the primary metals, machinery, computer and electronic products, chemical products and plastics. Strength in production, employment, orders and inventories all suggest that manufacturing firms continue to experience a sustained economic expansion. Overall, current readings are consistent with a stable manufacturing industry and an economy that reaccelerated in the fourth quarter.

MANUFACTURING AT A GLANCE - December 2010

Index	Series Index December	Series Index November	Percent Point Change	Direction	Rate of Change	Trend* (months)
Purchasing Managers' Index	57.0%	56.6%	0.4%	Growing	Faster	17
New Orders	60.9%	56.6%	4.3%	Growing	Faster	18
Production	60.7%	55.0%	5.7%	Growing	Faster	19
Employment	55.7%	57.5%	-1.8%	Growing	Slower	13
Supplier Deliveries	55.9%	57.2%	-1.3%	Slowing	Slower	19
Inventories	51.8%	56.7%	-4.9%	Growing	Slower	6
Customer Inventories	40.0%	45.5%	-5.5%	Too Low	Faster	21
Prices	72.5%	69.5%	3.0%	Increasing	Faster	18
Backlog of Orders	47.0%	46.0%	1.0%	Contracting	Slower	4
Exports	54.5%	57.0%	-2.5%	Growing	Slower	18
Imports	50.5%	53.0%	-2.5%	Growing	Slower	16

Source: Institute for Supply Management

*Number of months moving in current direction

- Purchasing Managers' Index (PMI).** A reading above 50.0% indicates that the manufacturing economy is generally expanding; below 50.0% indicates that it is generally contracting. Manufacturing continued to grow in December. However, the PMI has declined from an April 2010 high of 60.4% to a current reading of 57.0%.
- New Orders Index.** A New Orders Index above 48.8%, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders. The New Orders Index increased for the 18th consecutive month in May. Ten industries reported growth in new orders in December.
- Production Index.** An index above 50.4%, over time, is generally consistent with an increase in the Federal Reserve Board's industrial production figures. Nine industries reported growth in production in December.
- Employment Index.** An Employment Index above 49.7%, over time, is generally consistent with an increase in manufacturing employment. Nine of the eighteen manufacturing industries reported growth in December.
- Supplier Deliveries Index.** A reading above 50% indicates slower deliveries. Ten industries reporting slower supplier deliveries in December, marking the 19th consecutive month above 50%.
- Inventories Index.** An Inventories Index greater than 42.6%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' (BEA) figures on overall manufacturing inventories. Manufacturers' inventories expanded in December for the sixth consecutive month, but at a slower rate compared to the past three months.

Construction Spending

The Commerce Department reported U.S. construction spending increased in November for the third consecutive month, led by funding for homebuilding and federal government projects. The latest increase brought construction spending to its highest level in five months. Construction spending jumped 0.4% to an annual rate of \$810.2 billion in November; spending in November was lifted by investment in public projects, which increased 0.7% to \$318.5 billion, the highest level since July 2009. Stimulus funding resulted in increased construction spending on schools, office buildings and water supply plants. Low lending rates helped outlays on home improvements and construction to rise during November. Despite persistent housing market weakness, investment in private construction increased 0.3% in November to \$491.8 billion, the highest level since June 2010. Single-family construction spending rose 0.6% for the month, the first increase since April. This also marked the first increase since the expiration of the homebuyers' tax credit. However, private non-residential spending dropped 0.1% in November following a 0.7% decline the previous month. Private non-residential construction spending is now down 16.5% from year-ago levels.

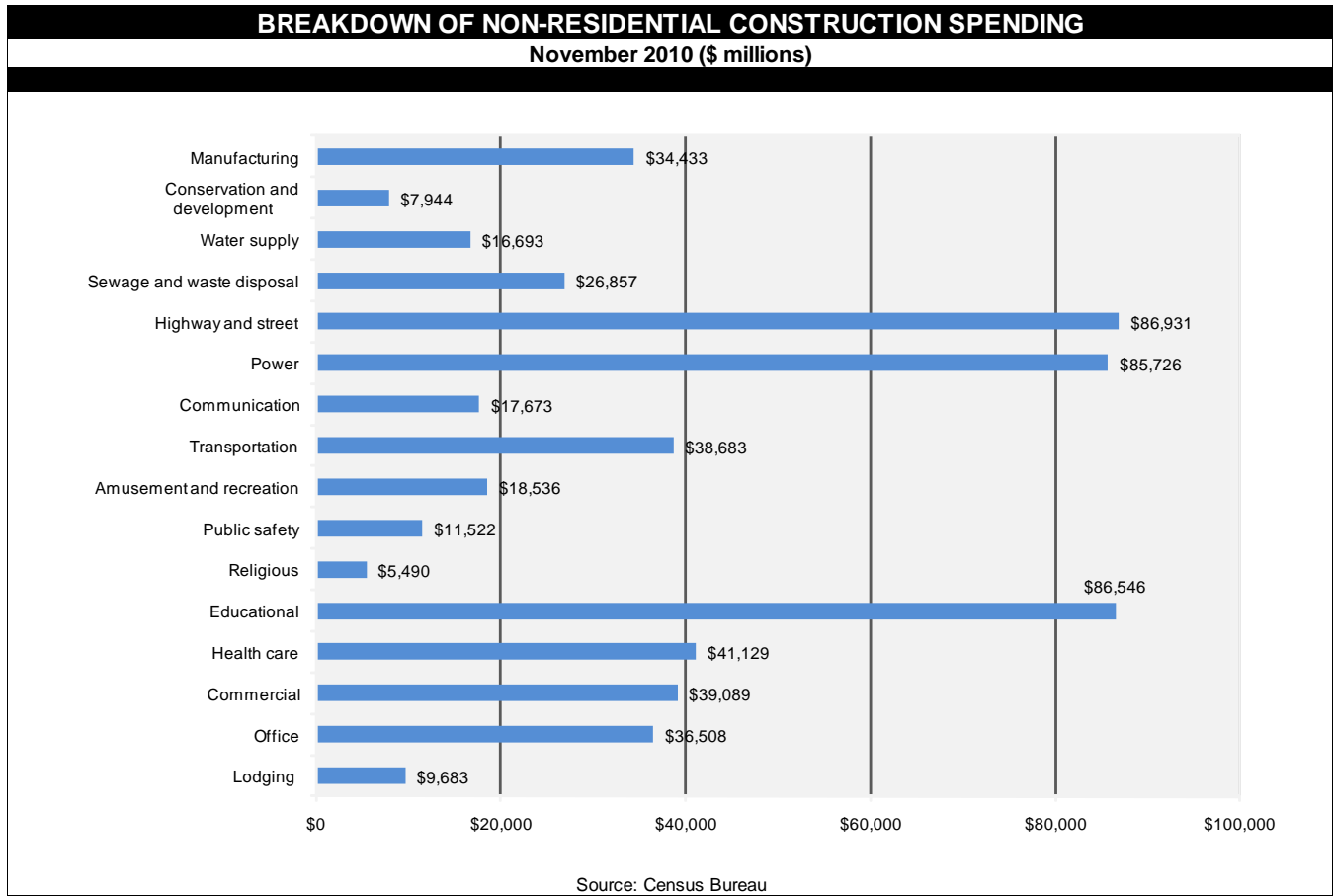
Of total construction spending, private construction accounted for 60.7% of total expenditures, while public construction accounted for 39.3% of total spending. Non-residential spending comprised 69.5% of total expenditures compared to 30.5% for non-residential projects. Within the non-residential sector, the largest declines in spending since November 2009 were recorded within the lodging (-48.4%), manufacturing (-34.7%), office (-18.9%) and commercial (-23.1%) sectors. The largest gains within the non-residential sectors during the past 12 months occurred within the conservation and development (+35.7%) and amusement and recreation (+11.1%) sectors.

VALUE OF CONSTRUCTION PUT IN PLACE - SEASONALLY ADJUSTED ANNUAL RATE							
(\$ millions)							
	Nov-10	Oct-10	Sep-10	Aug-10	Sep-09	Percent change	
						Nov. 2010 from - Oct-10	Nov-09
Total Construction	\$810,225	\$806,686	\$801,023	\$791,457	\$861,514	0.4%	-6.0%
Residential	\$246,784	\$244,961	\$236,205	\$233,205	\$257,046	0.7%	-4.0%
Non-Residential	\$563,441	\$561,725	\$564,818	\$558,252	\$604,468	0.3%	-6.8%
Lodging	\$9,683	\$9,827	\$10,702	\$11,384	\$18,748	-1.5%	-48.4%
Office	\$36,508	\$35,835	\$37,642	\$36,077	\$45,006	1.9%	-18.9%
Commercial	\$39,089	\$39,356	\$40,133	\$40,524	\$45,993	-0.7%	-15.0%
Health care	\$41,129	\$40,666	\$41,550	\$39,329	\$42,062	1.1%	-2.2%
Educational	\$86,546	\$85,529	\$88,897	\$89,917	\$93,505	1.2%	-7.4%
Religious	\$5,490	\$5,317	\$5,300	\$5,001	\$5,660	3.3%	-3.0%
Public safety	\$11,522	\$11,484	\$11,326	\$11,494	\$13,148	0.3%	-12.4%
Amusement and recreation	\$18,536	\$18,061	\$18,462	\$17,746	\$16,689	2.6%	11.1%
Transportation	\$38,683	\$38,425	\$40,832	\$38,478	\$38,840	0.7%	-0.4%
Communication	\$17,673	\$18,304	\$17,872	\$18,171	\$19,577	-3.4%	-9.7%
Power	\$85,726	\$85,054	\$78,049	\$77,534	\$84,518	0.8%	1.4%
Highway and street	\$86,931	\$87,788	\$86,963	\$85,561	\$81,370	-1.0%	6.8%
Sewage and waste disposal	\$26,857	\$27,180	\$26,481	\$27,064	\$24,798	-1.2%	8.3%
Water supply	\$16,693	\$16,062	\$16,134	\$16,402	\$15,982	3.9%	4.4%
Conservation and development	\$7,944	\$7,486	\$6,932	\$6,846	\$5,855	6.1%	35.7%
Manufacturing	\$34,433	\$35,351	\$37,545	\$36,725	\$52,719	-2.6%	-34.7%

Source: Census Bureau

Construction Spending (continued)

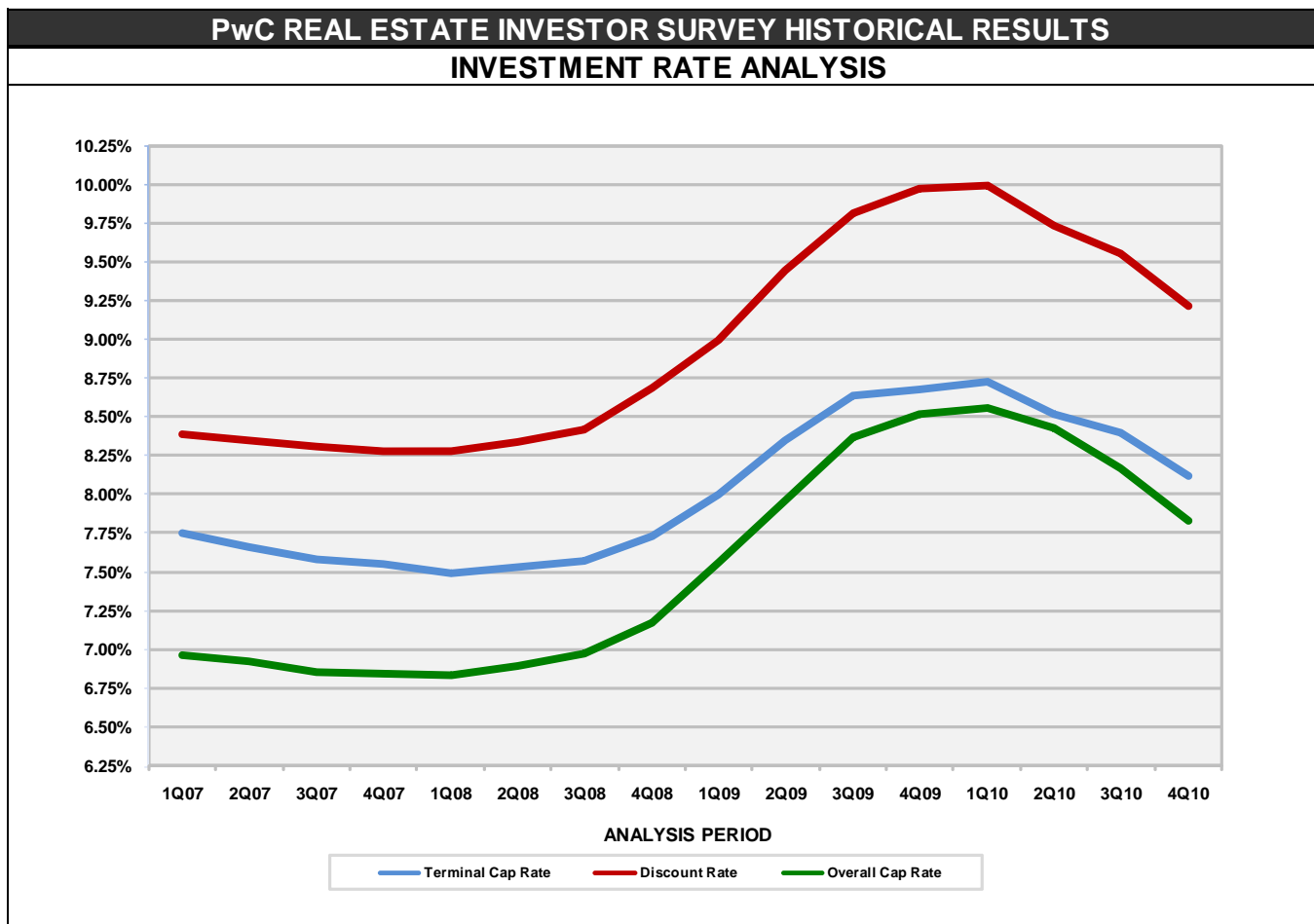
Below is a further breakdown of non-residential construction spending, which totaled a seasonally adjusted annual rate of \$563.4 billion during November 2010.



PwC Real Estate Investor Survey

- More than 100 institutional and private investors surveyed for the PwC Real Estate Survey reported that overall cap rates (OARs) have declined in 27 of the survey’s 31 tracked markets during the fourth quarter of 2010. Since 3Q10, the average decrease was 34 basis points across nearly all major property types. The report notes that core assets will likely remain the primary focus of investors, keeping competition and pricing strong for the best quality assets offered. However, there is an increased interest among survey participants in secondary locations, Class-B properties, and value-added Class-A plays as more players feel comfortable taking on slightly more risk.
- Terminal cap rates declined to 8.12% during 4Q10, the lowest level since 1Q09. The average decrease was 28 basis points (BPS) across nearly all major property types. This compares to a 52 BPS decrease for terminal cap rates between 4Q09 and 4Q10.
- Discount rates (IRR) have decreased across all surveyed markets and product types during 4Q10, the third consecutive quarterly decline. The average decline was 34 BPS across nearly all major property types since 3Q10. This compares to a 78 BPS decline for discount rates between 4Q09 and 4Q10.

Simple averages of the capitalization, terminal capitalization and discount rates are presented in the following table for the following property types: flex/R&D, warehouse, central business district (CBD) office, suburban office, apartment, strip center, regional malls and power centers.



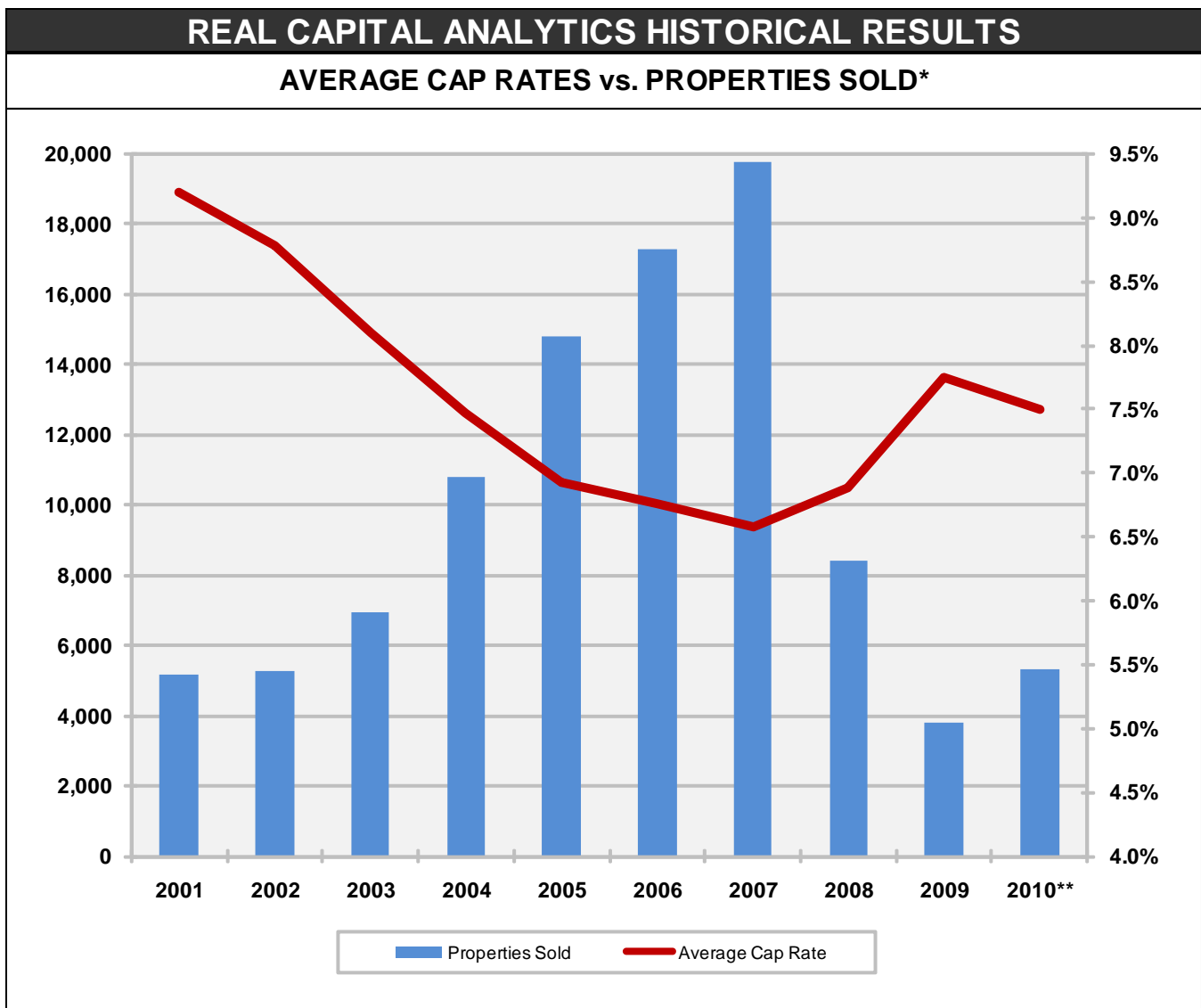
PwC Real Estate Investor Survey (continued)

4Q10 Survey Highlights

- Aggressive bidding by enthusiastic buyers for core assets, low interest rates, and an improved lending environment continues to compress overall capitalization rates for better-positioned and well-located assets with stable rent rolls.
- Susan Smith, editor-in-chief of the survey, stated, "The sentiment among investors has improved significantly from a year ago, demonstrating an acceptance of where the market is today and where it will likely be in the near term. Although some investors are now looking to take on more risk, a full movement to secondary markets and riskier plays won't occur until a healthier U.S. employment picture develops. To investors, job creation is the missing element needed to foster a full recovery, restore confidence, and, in turn, widen the tolerance for risk."
- OARs declined within nearly all major property types during 4Q10; the largest decreases were recorded within the apartment (61 BPS), CBD-office (48 BPS) and strip center (46 BPS) sectors. Rates within the flex/R&D stayed at 9.15%.
- As of 4Q10, flex/R&D properties had the highest average OARs at 9.15%, followed by the suburban-office (8.17%), power center (8.08%) and warehouse (8.38%) sectors. The lowest average OARs were recorded within apartment (6.51%), CBD-office (7.53%) and regional mall (7.58%) sectors. The simple average OAR across all sectors was 7.83%.
- Terminal cap rates declined across all property types during 4Q10; the largest decreases were recorded within the apartment (51 BPS), CBD-office (39 BPS) and power center (35 BPS) sectors. Since 4Q09, terminal cap rates across all property sectors have decreased an average of 56 BPS.
- As of 4Q10, flex/R&D properties had the highest terminal capitalization rate at 9.06%, followed by the power center (8.30%) and suburban-office (8.56%) sectors. The lowest terminal capitalization rates were recorded within the apartment (7.03%) and CBD-office (7.59%) sectors. The simple average terminal capitalization rate across all sectors was 8.12%.
- IRRs declined across all major property types during 4Q10; the largest decreases were recorded within the power center (70 BPS), apartment (49 BPS) and CBD-office (46 BPS) sectors. Since 4Q09, IRRs across all property sectors have decreased an average of 76 BPS.
- As of 4Q10, flex/R&D properties had the highest IRR at 10.15%, followed by the regional mall (9.81%) and suburban-office (9.14%) sectors. The lowest IRRs were recorded within the CBD-office (8.65%), strip center (8.88%) and apartment (8.91%) sectors. The simple average IRR across all sectors was 9.55%.
- Looking ahead, the survey reported that strong buyer interest, combined with the reopening of the debt markets, continues to be recognized in investors' expectations that overall cap rates will either hold steady or decline over the next six months.
- Participants were most optimistic regarding the apartment sector, where market fundamentals are forecasted to improve due to limited supply, favorable demographic trends and modest economic recovery.

Cap Rates vs. Sales

Stabilizing property fundamentals, better credit conditions, low interest rates and an increased number of potential investors in the market have helped spur a recovery within the commercial real estate sector during 2010. Through November, the number and volume of sales has already exceeded output recorded during 2009. Real Capital Analytics (RCA) reported that roughly 4,900 properties have traded through November 2010, which translates into roughly 5,300 transactions forecasted for 2010 within the office, industrial, retail, apartment and hospitality sectors. This represents an increase of 40% over 2009 output. Historically, the sales market was the strongest between 2005 and 2007, when an average of 17,300 sales transactions occurred annually. Although lagging historical activity, heightened competition among investors for trophy assets, within prime locations, continues to compress capitalization rates. Following a three-year run-up, capitalization rates have fallen to 7.5%, on par with averages recorded during 2004.



* Based on independent reports of properties and portfolios \$5 million and greater. Data believed to be accurate but not guaranteed.

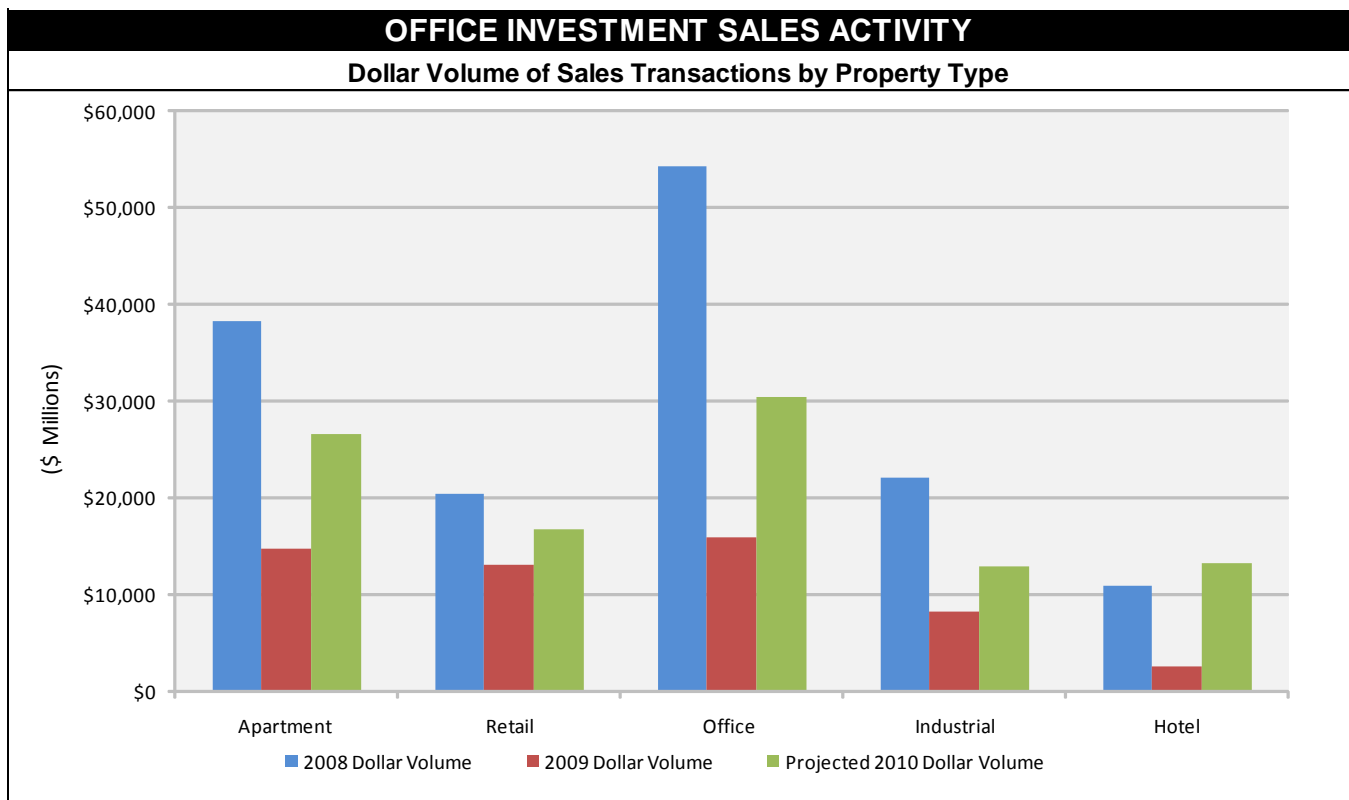
** Forecasted property sales based on actual data from November 2010

Commercial Property Sales Analysis

Based on data recorded through November 2010 from Real Capital Analytics, commercial property sales activity is projected to total \$100.0 billion in 2010, an 84.0% increase from 2009 totals. However, this total is still considerably lower than historical averages. Although commercial real estate sales in the United States remain limited by historical standards, the capital markets appear to be rebounding.

- Office:** Based on sales through November 2010, the office market is projected to record nearly \$30.5 billion in sales transactions during the year. This would represent a 92.0% increase from 2009 levels, but is still off by 44.0% from 2008 totals. Suburban properties have traded more than CBD properties.
- Industrial:** The industrial market is forecast to record \$12.9 billion in sales activity during 2010. This represents a projected gain of 57.0% from 2009 levels. Warehouse properties comprised 60.0% of total activity through November 2010.
- Retail:** Based on estimated figures, the retail market is projected to record \$16.7 billion in sales during 2010, a 28.0% increase over 2009 levels. Sales of strip centers have outpaced that of malls and other retail properties.
- Apartment:** Forecasted sales of apartment properties are expected to increase 80.0% to \$26.6 billion during 2010. Sales of mid- and high-rise apartments are forecasted to more than double, while a 34.0% increase in garden apartment sales is expected during 2010.

Sales transaction activity by property type is summarized in the table below:

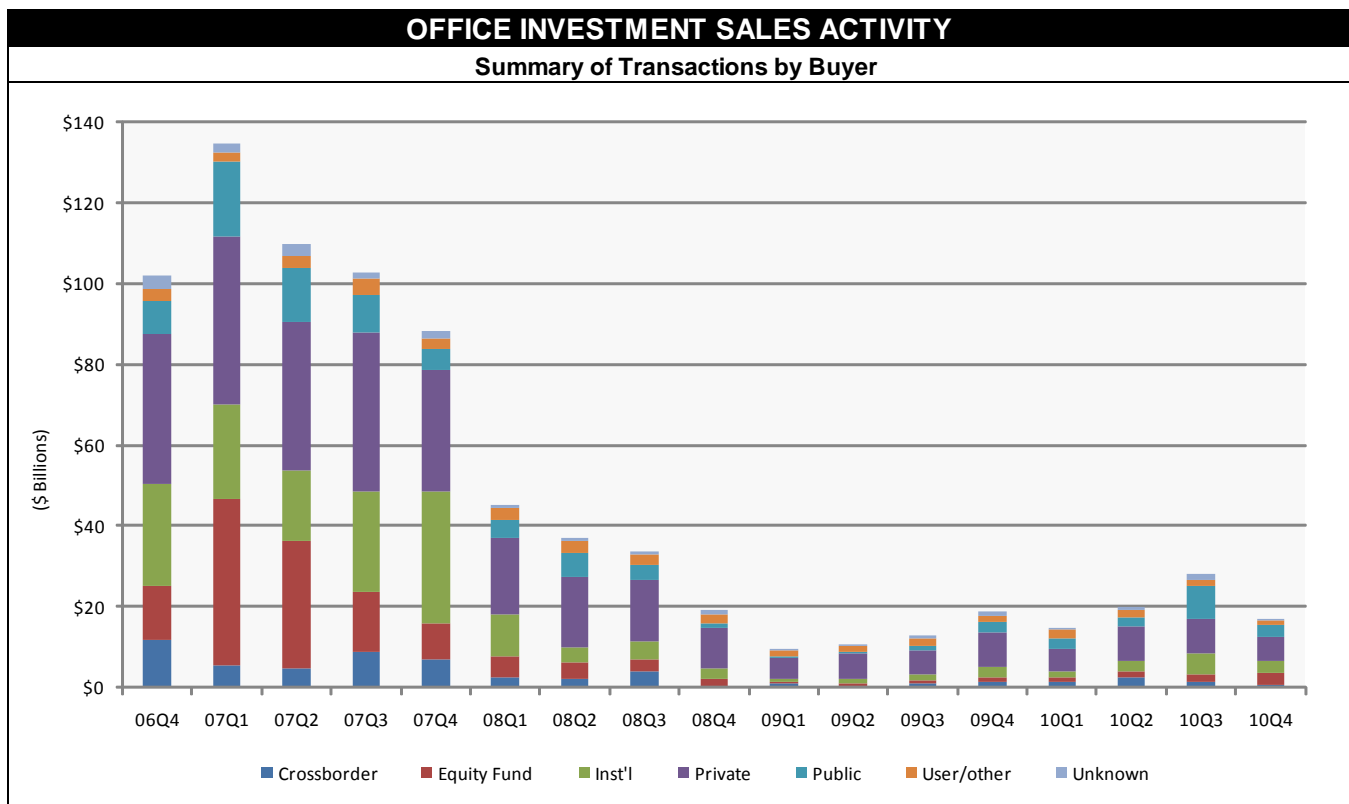


Source: Real Capital Analytics

Commercial Property Sales Analysis (continued)

In addition to the preceding data, we have also analyzed historical sales activity by buyer type. An improving outlook for property fundamentals and an easing of credit availability have brought more buyer groups to the market during 2010. However, gains in investment activity across buyer groups have been unequal. In 2009, private buyers dominated the market and still remain the most active investors, but the private sector is losing market share to other players. Accounting for 50.0% of total investment sales activity during 2009, private buyers accounted for roughly 36.0% of total investment sales activity so far in 2010. Between 4Q06 and 4Q08, private buyers transacted 36.6% of investment activity.

Other sectors have been active in the real estate arena. The public sector, comprised of REITs, REOCs and publically-listed funds, gained the largest market share in 2010. The public sector accounted for roughly 20.7% of sales transactions in 2010, up from 8.4% recorded in 2009. From 4Q06 to 4Q08, public buyers (REITs) accounted for 10.4% of sales activity. Institutional investors also increased buying output in 2010, accounting for 15.2% of transactions in 2010, up from 12.0% in 2009. Despite the increase, institutional investors are still smaller players in today's market than between 4Q06 to 4Q08, when they accounted for 21.6% of investment activity. After peaking during the first half of 2007 and accounting for 30.0% of investment activity, acquisitions by equity funds have declined considerably. From 3Q07 to 4Q08, equity investors represented just 11.0% of total investment activity and dipped to 5.5% in 2009. In 2010, equity investors have accounted for 9.1% of investment activity. Investment share from cross-border buyers has been relatively consistent since 3Q06. After accounting for 7.0% of activity through 2008, a slight uptick to 7.5% occurred during 2009. During 2010, cross-border investors have further increased their market share to 7.8%.



Commercial Property Sales Analysis (continued)

Significant 4Q 2010 Sales Transactions

Below are noteworthy sales transactions within the office, industrial, hospitality and retail sectors.

Office Sale Transactions						
Address	City	State	Size (SF)	Sale Price (\$ mil)	Price/\$SF	Buyer
111 Eighth Ave	New York	NY	2,921,914	\$1,770.0	\$605.8	Google Inc
200 Clarendon St	Boston	MA	1,783,423	\$930.0	\$521.5	Boston Properties, Inc.
71 S Wacker Dr	Chicago	IL	1,490,825	\$625.0	\$419.2	The Irvine Company
1330 Avenue of the Americas	New York	NY	534,000	\$400.0	\$749.1	RXR Realty
353 N Clark St	Chicago	IL	1,173,643	\$385.0	\$328.0	Tishman Speyer
1111 Bagby St	Houston	TX	1,149,635	\$321.5	\$279.7	Brookfield Office Properties
1001 E Lookout Dr	Richardson	TX	1,050,000	\$250.0	\$238.1	Health Care Service Corporation
2777 Crystal Dr	Arlington	VA	621,824	\$241.9	\$389.0	USAA Real Estate Company
1299 Pennsylvania Ave NW	Washington	DC	792,126	\$237.0	\$299.2	Canada Pension Plan
1111 Pennsylvania Ave NW	Washington	DC	331,074	\$220.0	\$664.5	INVESCO

Source: CoStar

Industrial/Flex Sale Transactions						
Address	City	State	Size (SF)	Sale Price (\$ mil)	Price/\$SF	Buyer
3700 Indian Ave	Perris	CA	1,309,754	\$80.0	\$61.1	Industrial Income Trust, Inc.
901 Page Ave	Fremont	CA	506,490	\$39.2	\$77.5	Stockbridge Capital Group, LLC
22150 Goldencrest Dr	Moreno Valley	CA	613,174	\$36.1	\$58.8	TA Associates Realty
1150 Commerce Blvd	Logan Township	NJ	599,500	\$35.5	\$59.2	Northwestern Mutual Life Ins.Co.
2842-2862 Spiegel Dr	Groveport	OH	937,308	\$33.9	\$36.2	Duke Realty Corporation
500 Bartram Pky	Franklin	IN	807,042	\$32.5	\$40.3	Capital Lease Funding, Inc
2501 E Valley Rd	Renton	WA	481,134	\$30.3	\$62.9	TIAA-CREF
1651 Interchange Dr	San Bernardino	CA	801,933	\$30.0	\$37.4	Behringer Harvard Holdings, LLC
141 W Manor Way	Robbinsville	NJ	811,318	\$29.1	\$35.9	SanMar Corp.
1600 N 25th Ave	Melrose Park	IL	458,620	\$28.4	\$61.9	Duke Realty Corporation

Source: CoStar

Hospitality Sale Transactions							
Name	City	State	Size (SF)	Rooms	Sale Price (\$ mil)	Price/Room (1000's)	Buyer
DoubleTree Hotel	New York	NY	3,089,080	760	\$331.6	\$436.4	RLJ Development, LLC
Milford Plaza Hotel	New York	NY	984,000	1,301	\$200.0	\$153.7	Rockpoint Group LLC
Radisson Hotel	Boston	MA	469,000	356	\$143.5	\$403.1	Northwood Investors LLC
Le Meridien	San Francisco	CA	1,013,367	360	\$143.0	\$397.2	Chesapeake Lodging Trust
Sheraton Delfina	Santa Monica	CA	350,000	310	\$102.8	\$331.6	Pebblebrook Hotel Trust
Roger Williams Hotel	New York	NY	472,060	193	\$90.0	\$466.3	LaSalle Hotel Properties
Sofitel Philadelphia	Philadelphia	PA	539,783	306	\$87.0	\$284.3	Pebblebrook Hotel Trust
Sheraton Premiere	Vienna	VA	581,800	443	\$84.5	\$190.7	The JBG Companies
Windmere Hotel	New York	NY	684,622	374	\$68.0	\$181.8	Stellar Management Co., Inc.
Grand Hyatt Tampa Bay	Tampa	FL	312,343	445	\$58.5	\$131.5	UBS Global Asset Management

Source: CoStar

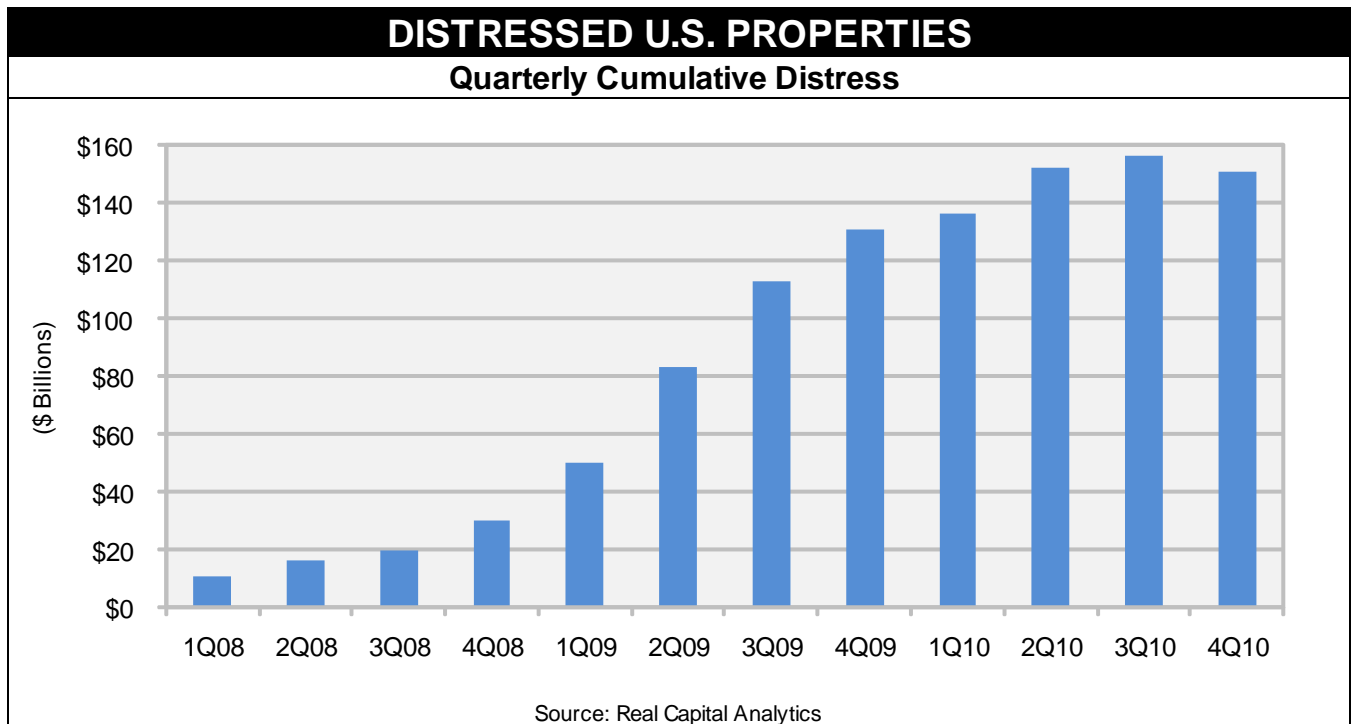
Retail Sale Transactions						
Name	City	State	Size (SF)	Sale Price (\$ mil)	Price/\$SF	Buyer
Pearlridge Center	Aiea	HI	1,135,261	\$245.0	\$215.8	Glimcher Realty Trust
Festival at Riva	Annapolis	MD	304,251	\$102.5	\$336.9	American Realty Advisors
Park West Place	Stockton	CA	597,787	\$92.5	\$154.7	Excel Trust, Inc.
Las Palmas Marketplace	El Paso	TX	634,867	\$83.5	\$131.5	Dunhill Partners, Inc.
The Shops at Centerra	Loveland	CO	481,855	\$75.5	\$156.7	DRA Advisors LLC
Atlantic Station	Atlanta	GA	558,025	\$75.3	\$134.9	North American Properties
Arcadia Hub Shopping Center	Arcadia	CA	351,871	\$70.0	\$198.9	Private Los Angeles Investor
Willow Festival	Northbrook	IL	405,227	\$64.0	\$157.9	Regency Centers Corporation
Winthrop Wellness Pavillion	Garden City	NY	125,495	\$62.6	\$498.6	Intercontinental Real Estate Corp.
White Center Shopping Center	Shrewbury	MA	278,940	\$56.0	\$200.8	Charter Realty & Development

Source: CoStar

Distressed Commercial Properties

As the economy worsened, Real Capital Analytics began to track distressed real estate assets in 2008. Real Capital Analytics' definition of distressed encompasses properties that are in default of their mortgages, including ones taken over by lenders, owned by a troubled or bankrupt entity or have a major tenant in bankruptcy; it also includes properties whose debt has been restructured and those taken over by the holders of junior debt.

During the past quarter, the total volume of distressed assets decreased for the first time since RCA began tracking distressed assets. As of fourth quarter 2010, roughly \$150.7 billion of distressed real estate is on the market. Historically, the largest increases in distressed properties occurred in 2009, where cumulative distress jumped roughly 160% to \$131.0 billion.

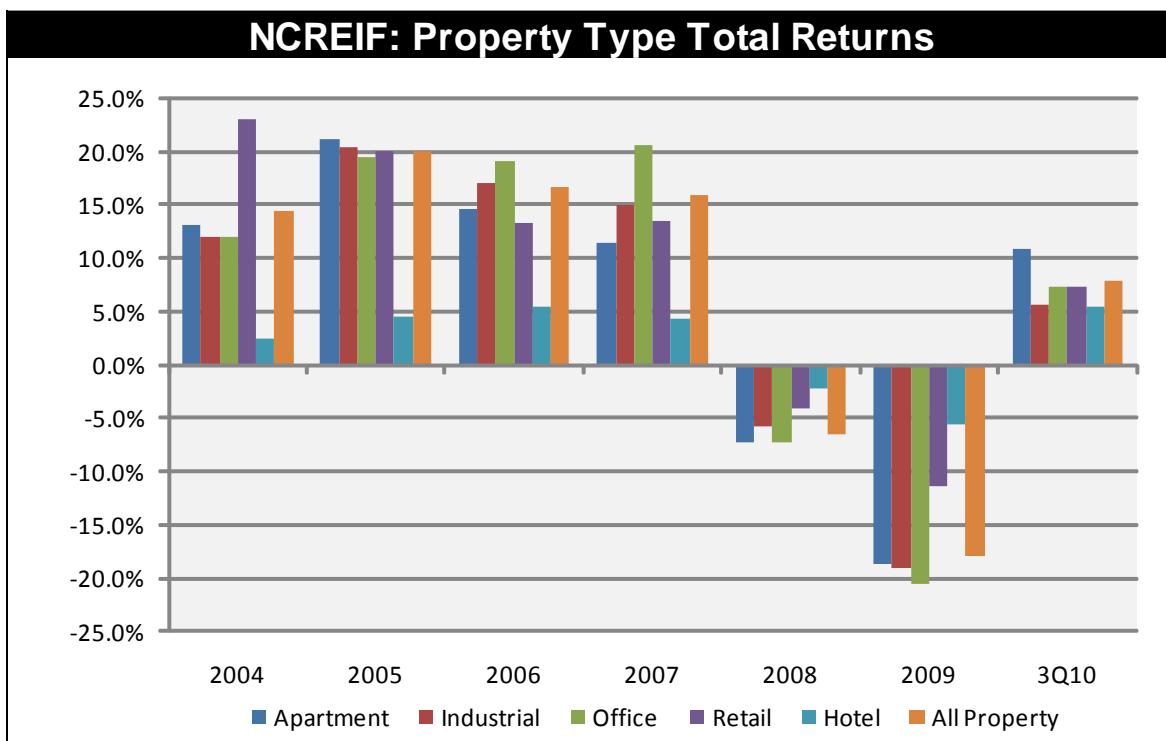


National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index

The NCREIF Property Index (NPI) is a quarterly time series composite total rate of return measure of investment performance of individual commercial real estate properties acquired in the private market for investment purposes only. Properties in the NPI are accounted for using market value accounting standards. NCREIF requires that properties included in the NPI be valued at least quarterly, using standard commercial real estate appraisal methodology. Each property must be independently appraised a minimum of once every three years. The capital value component of return is predominately the product of property appraisals. When entering the NPI, properties must be 60% occupied; investment returns are reported on a non-leveraged basis and properties must be owned/controlled by a qualified tax-exempt institutional investor or its designated agent.

NCREIF Property Index Annualized Returns by Property Type

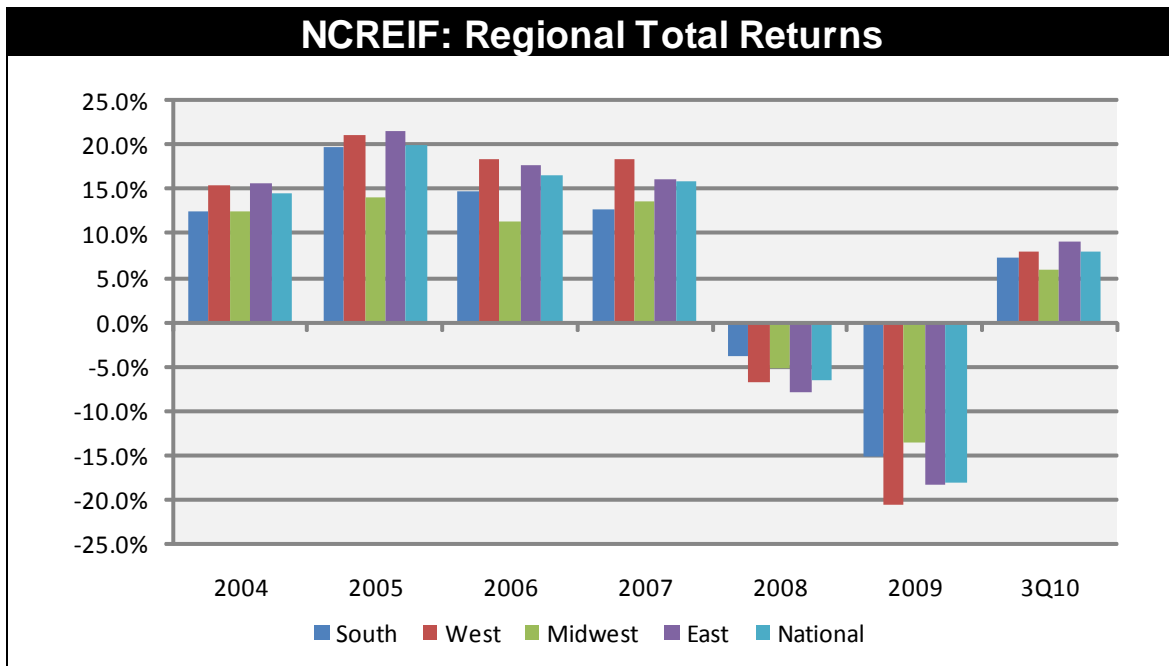
- Recovery has returned in 2010 for all sectors and regions after average declines of 18.0% in 2009. Through 3Q10, property returns have registered 7.9%.
- The apartment sector continues to outperform all other property sectors, returning 10.9% through 3Q10. Prior to falling in 2008/09, average annualized returns of 15.0% were recorded between 2004 and 2007.
- Although the industrial sector has underperformed the overall market so far in 2010, recording a 5.7% annualized return, the sector has recovered from 2009. The highest returns, at 20.3%, occurred in 2005.
- After recording the largest decline in 2009, the office sector posted a 7.4% return through 3Q10. Between 2005 and 2007, the office sector saw average annual returns in excess of 19.0%.
- The retail sector recorded a 7.3% return in property values through 3Q10 after falling 11.4% in 2009. At 23.0%, retail property returns posted the single strongest gain for any property type in 2003.
- Property returns within the hotel sector have fluctuated the least since 2004 as values have never increased nor decreased more than 5.5% per annum. Through 3Q10, hotel property returns totaled 5.4%, the smallest spread among property types to the decline in 2009.



NCREIF Property Index (continued)

NPI Annualized Returns by United States Region

- The South region recorded a 7.2% property return through 3Q10 after falling 15.1% in 2009. During 2008, property values here retained more value than other regions. Between 2004 and 2007, average property returns of 15.0% were recorded.
- After recording the largest decline last year, property returns in the West region have increased 7.9% through 3Q10. Between 2005 and 2007, annualized returns exceeding 18.0% were recorded.
- Property returns in the Midwest have consistently lagged other regions of the U.S. Through 3Q10, a 5.8% return was recorded, lagging the national average by 210 basis points.
- The East has outperformed all other regions through 3Q10, returning 9.1%. After falling 18.3% last year, recovery is evident. Between 2004 and 2007, average annualized returns of 17.8% were recorded.



Nine REIT IPOs Successful in 2010

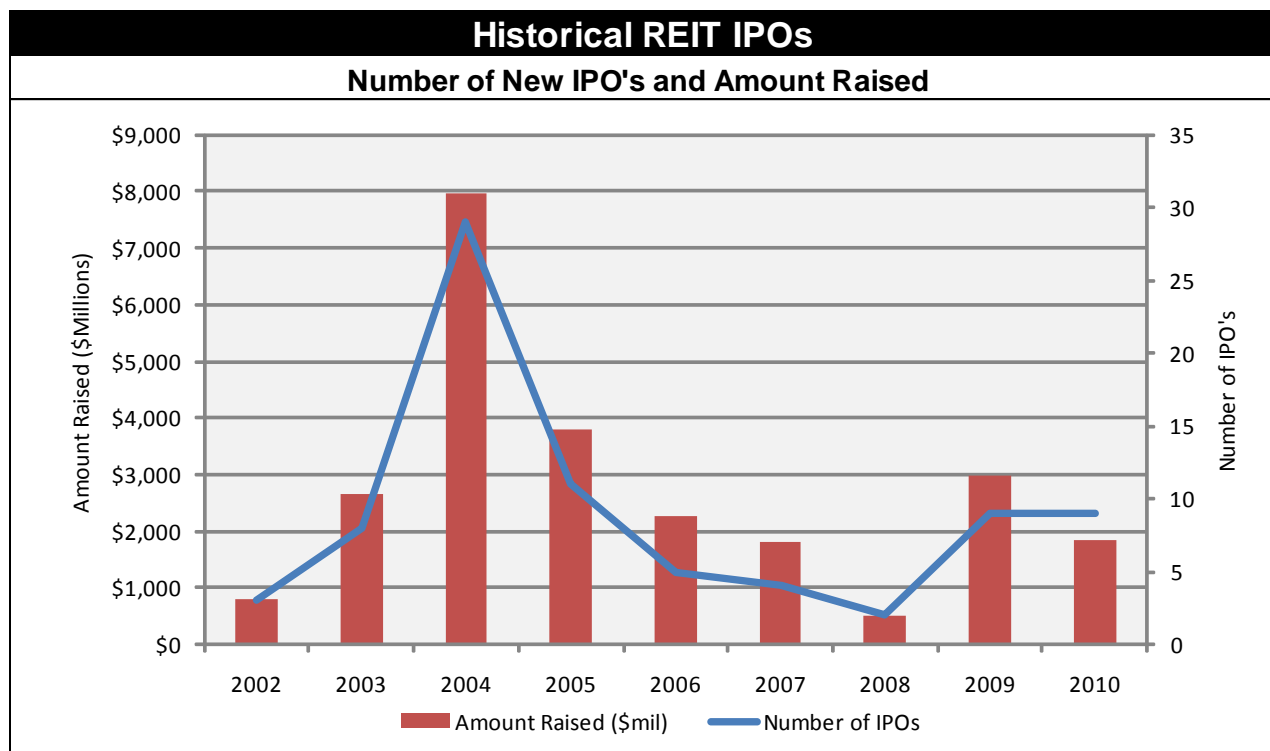
Seeking to take advantage of the distressed commercial property market, an increasing number of real estate and private equity firms have been assembling vehicles to capitalize on the distressed commercial property market. As property prices decrease, investors are increasingly seeking to acquire bargains. Many are forming publicly traded REITs to buy or originate debt used to finance offices, retail centers, industrial projects and multi-family projects. During 2010, nine REITs successfully filed for initial public offerings (IPOs).

In addition to significant capital being raised by existing REITs, recent IPOs have been designed to raise capital to deleverage existing property portfolios and increase growth in order to take advantage of expected market opportunities. The low interest rate environment, continued government support for the real estate industry, and stabilizing economic conditions have helped maintain investor interest for REIT equity.

2010 REIT IPOs						
Company Name	Ticker Symbol	Property Sector	IPO Date	Shares (millions)	Offering Price	Total Raised (millions)
Chesapeake Lodging Trust	CHSP	Lodging	1/21/2010	7.50	\$20.00	\$172.50
Piedmont Office Realty Trust	PDM	Office	2/10/2010	12.00	\$14.50	\$200.10
Terreno Realty Corp.	TRNO	Industrial	2/10/2010	8.75	\$20.00	\$201.25
Chatham Lodging Trust	CLDT	Lodging	4/15/2010	8.63	\$20.00	\$172.50
Excel Trust, Inc.	EXL	Retail	4/22/2010	15.00	\$14.00	\$210.00
Hudson Pacific Properties	HPP	Office	6/24/2010	12.80	\$17.00	\$237.60
Whitestone REIT	WSR	Retail	8/25/2010	2.20	\$16.00	\$26.00
CoreSite Realty	COR	Data Center	9/22/2010	16.90	\$16.00	\$270.00
Campus Crest Communities	CCG	Student Housing	10/13/2010	28.30	\$12.50	\$354.00

Source: Renaissancecapital.com

Below is a graph depicting historic REIT IPO activity.



Source: REIT.com , Renaissancecapital.com

FTSE National Association of REITS (NAREIT) U.S. Real Estate Index

Comprised of 119 REITS, The Financial Times of London and the London Stock Exchange (FTSE) NAREIT U.S. Real Estate index continued its positive growth during the fourth quarter of 2010. A 7.8% growth rate was achieved during the past three months. For 2010, a 28.4% gain was achieved within the index, outpacing gains recorded during the past few years. The largest advances among REITS during the fourth quarter were recorded within the industrial (21.7%) and lodging/resorts (19.9%) sectors. For 2010, the residential, retail and lodging/resorts sectors posted the highest gains. Office and industrial posted a composite 17.4% gain during 2010. Historically during the past ten years, health care, self storage and free-standing retail REITS have experienced the largest compound annual returns while industrial and lodging/resorts REITS generated the smallest compound annual returns.

Investment Performance by Property Sector and Subsector								
Property Sector/Subsector	Number of REITS	Total Return (%)			Compound Annual Total Returns			
		M-T-D	Q-T-D	Y-T-D	1-Year	3-Year	5-Year	10-Year
Equity REIT Index	119	5.0%	7.8%	28.4%	31.0%	-2.6%	2.1%	11.0%
Industrial/Office	31	6.5%	8.1%	17.4%	18.8%	-11.9%	-3.4%	6.2%
Industrial	8	9.9%	21.7%	18.8%	15.2%	-27.6%	-12.0%	3.5%
Office	17	5.2%	4.2%	19.0%	22.4%	-4.3%	1.1%	7.8%
Mixed	6	6.5%	4.0%	8.5%	10.7%	-4.1%	-4.7%	5.3%
Retail	27	3.6%	10.6%	34.0%	39.6%	-8.2%	-1.5%	13.5%
Shopping Centers	16	6.2%	11.2%	31.3%	30.1%	-11.4%	-3.6%	11.0%
Regional Malls	7	2.0%	11.0%	35.2%	46.8%	-9.0%	-2.3%	14.8%
Free Standing	4	2.3%	6.5%	38.4%	40.6%	11.3%	12.9%	18.1%
Residential	18	4.6%	10.8%	46.5%	52.3%	9.5%	7.3%	11.7%
Apartments	15	4.6%	11.1%	47.5%	53.6%	9.5%	7.4%	11.9%
Manufactured Homes	3	3.8%	5.6%	27.6%	29.6%	9.6%	5.2%	7.8%
Diversified	11	3.7%	1.0%	24.3%	29.1%	-0.7%	1.3%	10.3%
Lodging/Resorts	11	8.7%	19.9%	42.8%	48.5%	-7.5%	-1.9%	5.2%
Health Care	13	5.4%	1.6%	19.6%	15.0%	8.5%	12.5%	19.8%
Self Storage	4	6.5%	5.8%	29.5%	26.8%	9.7%	7.3%	18.3%
Timber	4	4.6%	4.6%	4.6%	NA	NA	NA	NA

Source: FTSE® Group and National Association of Real Estate Investments Trusts®. Data as of December 30, 2010

Below is a listing of the largest REITS by market cap within the FTSE NAREIT U.S. Real Estate Index.

REIT	Symbol	Property Subsector	Market Cap*
Simon Property Group, Inc.	SPG	Retail	29.0
Public Storage	PSA	Self Storage	17.7
Vornado Realty Trust	VNO	Diversified	15.7
Equity Residential	EQR	Residential	14.6
General Growth Properties, Inc.	GGP	Retail	13.9
HCP Inc.	HCP	Health Care	13.2
Boston Properties Inc.	BXP	Office	12.6
Host Hotels & Resorts Inc.	HST	Lodging/Resorts	12.2
AvalonBay Communities Inc.	AVB	Residential	9.6
Ventas Inc.	VTR	Health Care	8.4

*Values as of January 18, 2010 in billions of dollars

Commercial Lending Continues to Rebound

According to the Mortgage Bankers Association’s (MBA) Quarterly Survey of Commercial/Multi-family Mortgage Bankers Originations, 3Q10 commercial and multi-family mortgage loan originations were 32.0% higher than during the same period last year and 35.0% higher than the previous quarter. Since 3Q09, lending has increased within the industrial, multi-family, office and retail sectors and has slowed within the health care and hotel sectors. The overall increase in commercial/multi-family lending activity during 3Q10 was driven by increases in originations for industrial and multi-family properties. However, relatively low levels of loan maturities and a slow, albeit rising, sales market continued to dampen overall commercial mortgage demand. Origination volumes for life insurance companies and Fannie Mae and Freddie Mac were relatively strong during the third quarter; originations for CMBS remained very low in absolute terms, but picked up considerably on a percentage basis; and commercial mortgage borrowing at commercial banks fell on both a quarter-over-quarter and year-over-year basis. Commercial realtors cite the lack of financing as the main obstacle to a broad market recovery. Commercial loan originations are off roughly 80.0% from highs and commercial lending standards still remain tight.

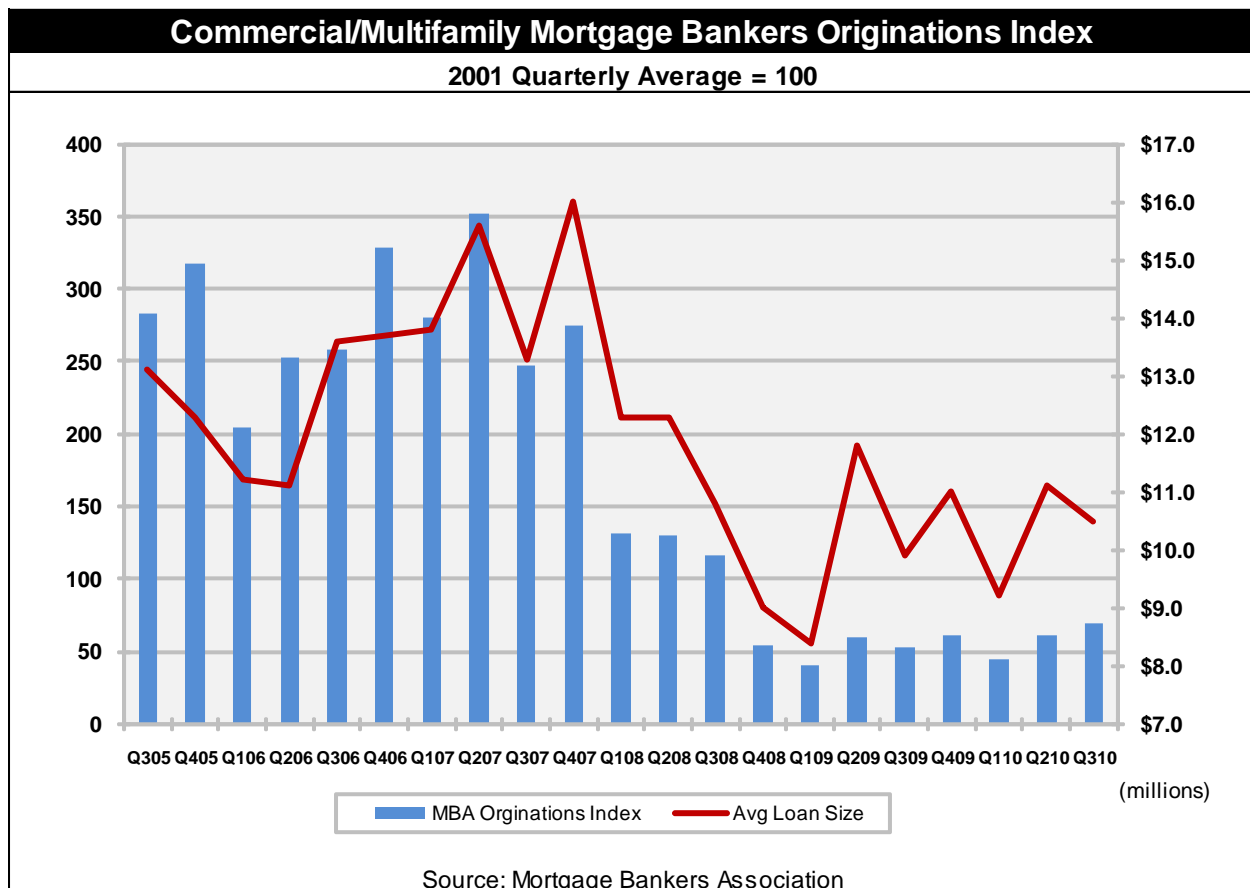
Lending Activity Change since 3Q09

Property Type	% Change
Overall	32.0%
Industrial	129.0%
Multi-Family	37.0%
Office	36.0%
Retail	19.0%
Hotel	-20.0%
Health Care	-46.0%

Source: MBA

Among investor types, loans for conduits for CMBS increased 940% during the third quarter 2010 compared to last year's third quarter. There was also a 154% increase in loans for life insurance companies and a 49% decrease in loans for commercial bank portfolios.

Below is a graph depicting the frequency of commercial/multi-family loan originations since 3Q05:



Commercial Mortgage Backed Securities (CMBS) Market

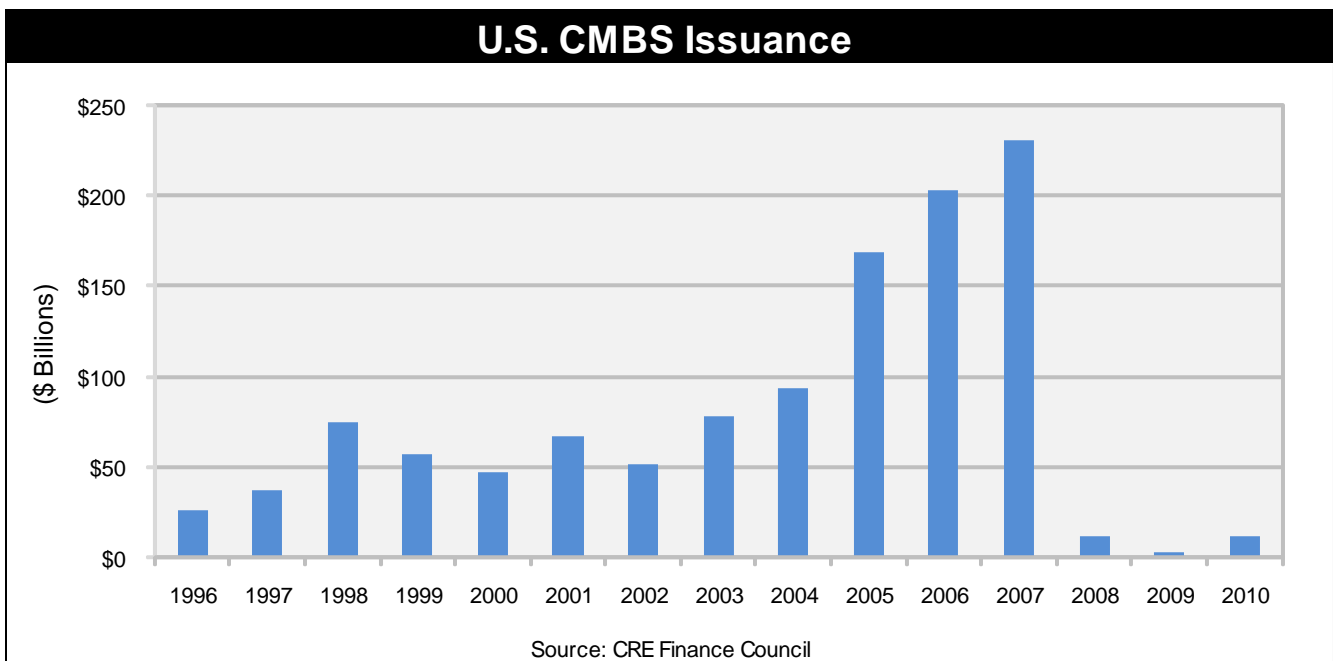
The renewal of the CMBS market is a critical step on the road to recovery for the commercial real-estate market as developers and owners have counted on the securities market for the majority of their financing during the past decade. Recent CMBS figures indicate market improvement is beginning to show up, but is still fragile. Banks including J.P. Morgan, Deutsche Bank and Goldman Sachs Group Inc., are increasingly rebuilding their CMBS operations.

After falling significantly in 2008 and recording little activity in 2009, the CMBS market has slowly rebounded in 2010. Based on data compiled by the CRE Finance Council and Commercial Mortgage Alert, approximately \$12.5 billion of CMBS issuances were recorded in 2010, with the majority of new issuances occurring within the fourth quarter. This is more than quadruple the activity recorded last year. At the height of the market in 2007, more than \$230 billion in CMBS issuances occurred.

Looking ahead to 2011, Annaly Capital Management Inc. is forecasting CMBS issuance to total upwards of \$35 to \$50 billion. The firm believes that banks will have to add commercial real estate loans to their portfolios as their balance sheets improve. According to its latest report, the firm estimates that roughly \$300 billion of commercial mortgages will mature during 2011, of which nearly 70% of that amount is from banks and thrifts.

Top 2010 CMBS Underwriters (in billions)	
J.P. Morgan	\$4.34
Deutsche Bank	\$2.15
Goldman Sachs	\$1.40
Citigroup	\$1.11
Bank of America	\$0.88
Barclays	\$0.87
Wells Fargo	\$0.42
RBS	\$0.31
Credit Suisse	\$0.15

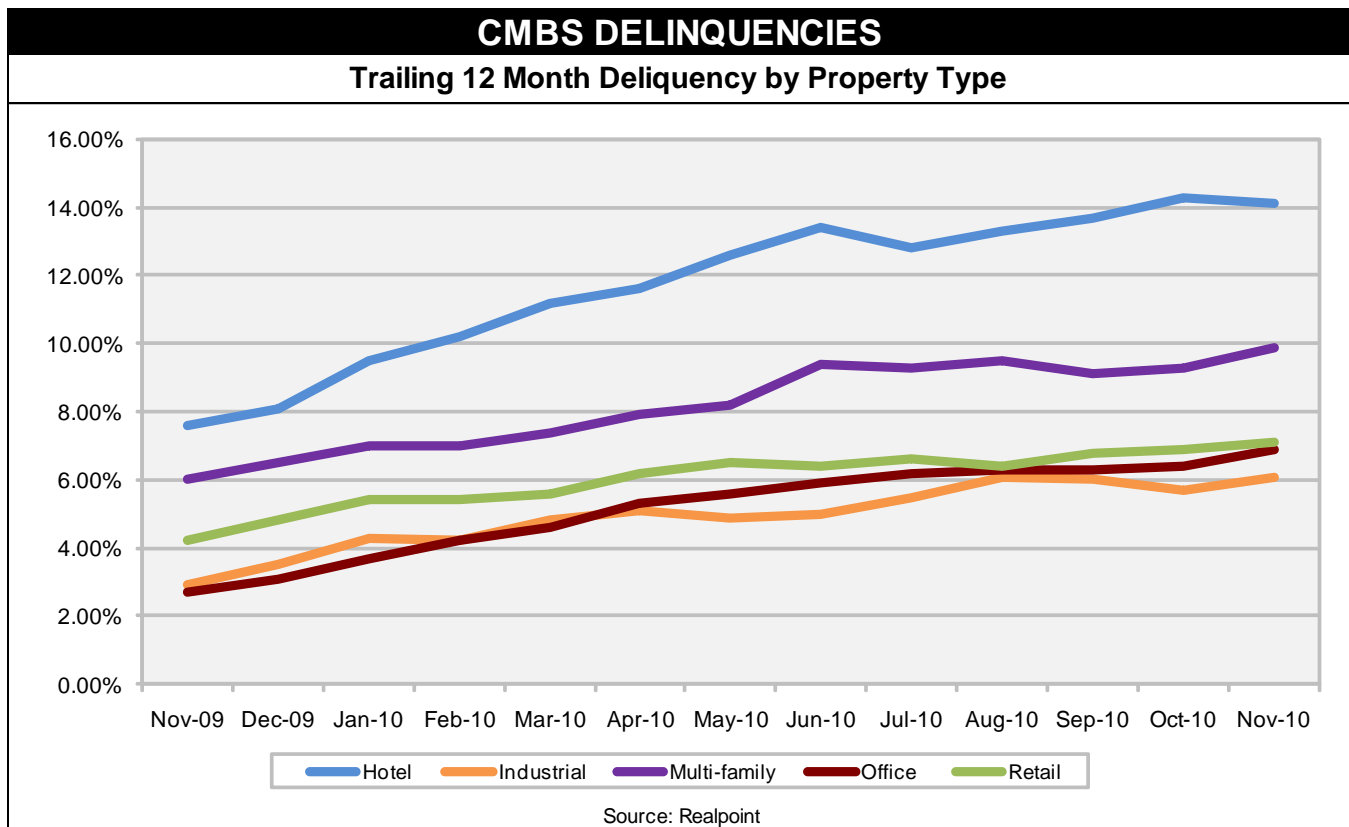
Source: Commercial Mortgage Alert



Delinquencies trended upward for all property sectors in November 2010 except hotels. Due to aggressive pro-forma underwriting, larger loan vintages between 2005 and 2008 continue to default and cause delinquencies. According to Realpoint, multi-family loans have been the greatest contributor to overall CMBS delinquency during the past six months. As of November 2010, the multi-family default rate stood at 9.9% compared to 6.0% one year ago. The retail default rate increased slightly to 7.1% in November, but still is of concern due to the possibility of additional store closings and bankruptcies. In November, delinquency rates increased 40 basis points within the industrial sector, 60 basis points within the multi-family sector and 50 basis points within the office sector. Since November 2009, CMBS delinquency rates have increased the most within the hotel sector (650 basis points). On the positive, the increase in delinquency rates has moderated during the past six months.

CMBS Market (continued)

Below is a chart depicting the monthly CMBS delinquencies during the past year:

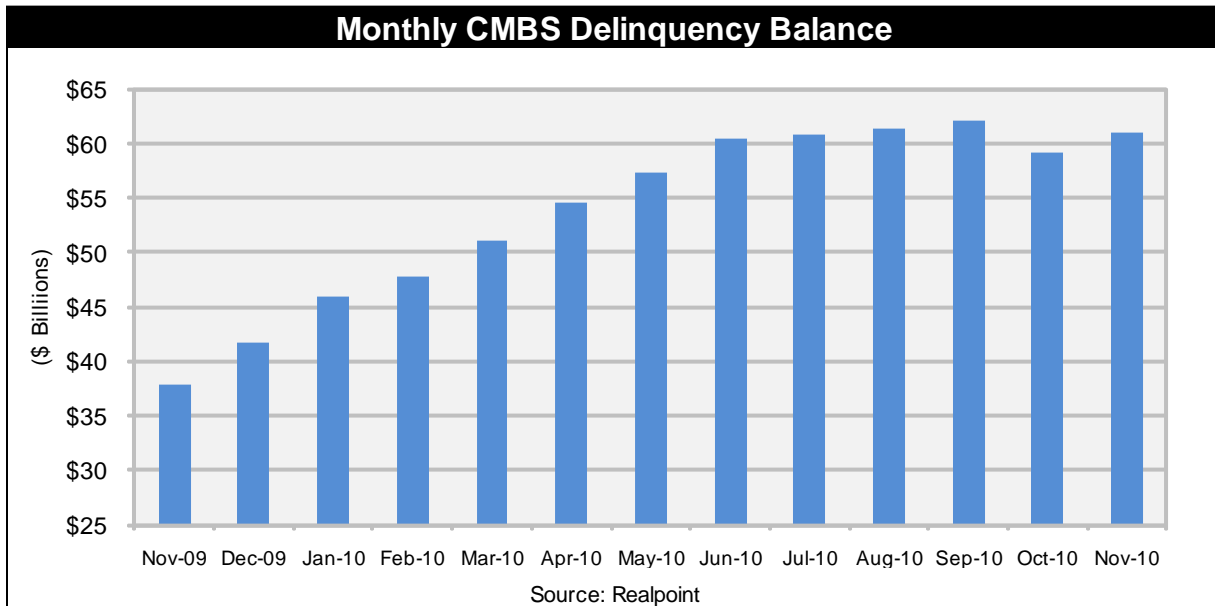


According to Realpoint, the delinquent unpaid balance for CMBS grew to \$61.1 billion in November 2010 after recording a decline for the first time in 14 months in October. The decline in October was primarily attributed to the resolution of the \$4.1 billion Extended Stay Hotel loan. The delinquent unpaid balance has increased roughly 60% since November 2009. Overall, the total unpaid balance for CMBS pools available for review for the November 2010 remittance was \$752.0 billion. Due to the recent activity, Realpoint forecasts the delinquent unpaid CMBS balance to register between \$60 and \$65 billion to close 2010, equating to a delinquency percentage between 8.0% and 8.5%. Large loan exposures that Realpoint is tracking include the \$4.93 billion floating-rate Equity Office Portfolio loan secured by 103 office properties, the \$3 billion Peter Cooper Village/Stuyvesant Town pari passu loan, the \$1.5 billion Farallon MHC portfolio loan, and the \$1.0 billion CNL Hotels and Resorts loan.

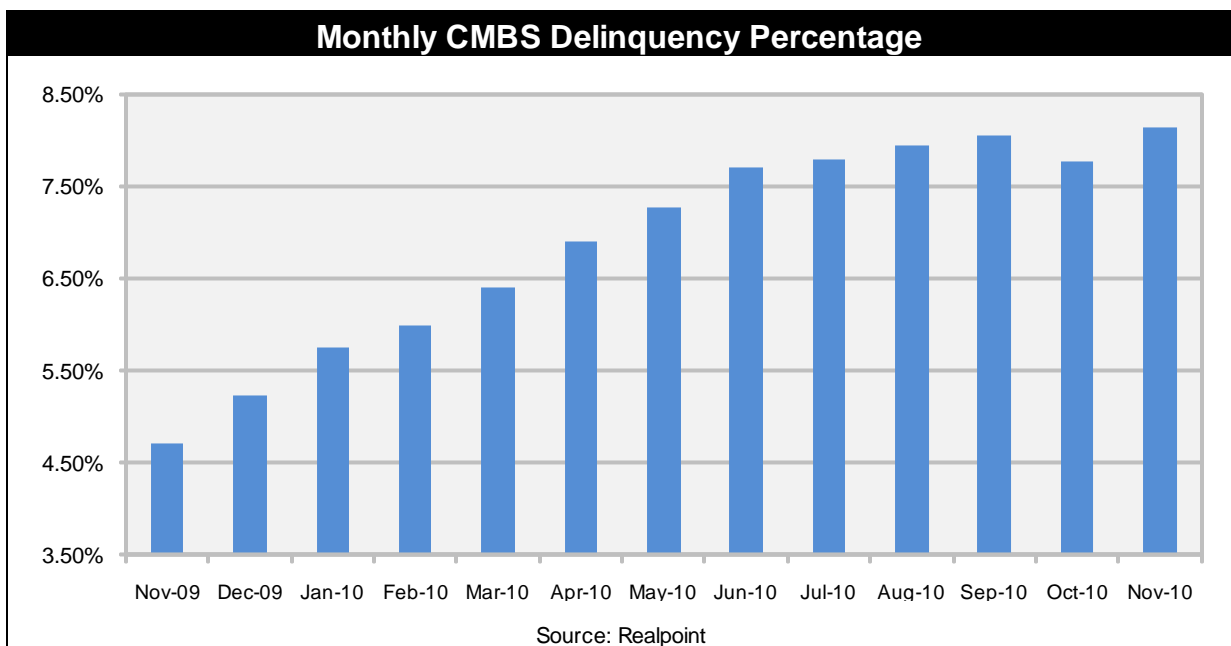
Other reporting agencies have positive outlooks. In the latest Loan Delinquency Index results from Fitch Ratings, U.S. CMBS delinquencies closed out 2010 at 8.23%. In 2011, Fitch predicts delinquencies to peak at or near 10%, lower than its original forecast of 12%. Fitch reports that stabilizing market fundamentals and returning liquidity are allowing special servicers to resolve an increasing amount of loans. Moody’s managing director Nick Levidy stated, “The rate of increase in newly delinquent loans is likely to continue moderating in the coming year as capital markets continue to heal and the flow of loans in special servicing slows.” Standard & Poor’s cites that market participants have been upwardly revising their forecasts for the CMBS market.

CMBS Market (continued)

Below is a chart depicting the monthly CMBS delinquency balance during the past year:



Below is a chart illustrating the monthly CMBS delinquency percentage during the past year:



Multi-Family Sector Leading the Way

The multi-family sector bottomed in 4Q09 and is now leading all commercial property sectors in recovery. The sector's recovery is surprising in light of weak job growth. Researchers speculate that many employed Americans who have been living with roommates or family since the start of the recession have gained confidence in their own job security and are moving out on their own. U.S. Census data suggests that 2 million people between the ages of 20 and 35 moved in with family or roommates over the past five years, and that pent-up demand will fuel further absorption of multi-family units. The latest fourth quarter 2010 U.S. data from Reis Inc. cites a 50 basis-point drop in apartment vacancy to 6.6% as net absorption increased by over 57,800 units. Rises in asking and effective rents continued to trend upward in the final months of 2010, with each increasing by 0.5%.

The combination of available financing for apartment assets via Fannie Mae and Freddie Mac, an emerging interest by life insurance companies, and favorable long-term investor sentiment is driving transaction velocity. Multi-family transactions are projected to total \$26.6 billion in 2010, greater than the \$14.7 billion recorded during 2009, but still off the \$38.2 billion recorded in 2008. A fundamental reset of prices is occurring for multi-family buildings as many buildings are trading for values that are well below construction costs, positioning buyers to be profitable. Marcus & Millichap forecasts 130,000 new units to the national apartment supply in 2010, with another 55,000 entering the market in 2011.

Below are significant multi-family transactions executed during the fourth quarter of 2010. Highlighting activity, Fortress Investment Group LLC acquired the 3,221-unit Parkmerced Apartment complex in San Francisco for a reported \$592 million. INVESCO was active late in 2010, spending roughly \$183 million for ownership in Alexan Solero Apartments in Plantation, FL and Ladd Tower in Portland, OR.

4Q 2010 Multifamily Sale Transactions							
Name	City	State	Size (SF)	Units	Sale Price (\$ millions)	Price/ Unit (\$ thousands)	Buyer
Parkmerced Apartments	San Francisco	CA	3,089,080	3,221	\$592.0	\$245.1	Fortress Investment Group LLC
Gateway Apartment Complex	Orange	CA	984,000	884	\$241.8	\$273.5	The Irvine Company
Seaport Apartments	Boston	MA	469,000	465	\$193.8	\$416.8	JPMorgan Asset Management
William Beaver House	New York	NY	1,013,367	197	\$184.4	\$936.1	CIM Group, LP
Millenium at Metropolitan Park	Arlington	VA	350,000	300	\$118.5	\$395.0	ING Clarion Partners, LLC
Highlands at Plaza Square	New Brunswick	NJ	472,060	415	\$112.6	\$271.3	John Hancock
Alexan Solero Apartments	Plantation	FL	539,783	481	\$104.0	\$216.2	INVESCO
Camden Westwind Farms	Ashburn	VA	581,800	464	\$89.5	\$192.9	Associated Estates Realty Corp.
Fox Run Apartments	Plainsboro	NJ	684,622	776	\$86.5	\$111.5	AvalonBay Communities, Inc.
Anavia	Anaheim	CA	312,343	250	\$80.6	\$322.4	Essex Property Trust, Inc.
Ladd Tower	Portland	OR	310,000	332	\$79.4	\$239.0	INVESCO

Source: CoStar

Released by PricewaterhouseCoopers and the Urban Land Institute, investors and professionals forecast the most favored areas for multi-family acquisition to be in San Francisco, Los Angeles, New York, Washington D.C. and Seattle. Barrier-to-entry-markets, specifically the 24-hour metro areas, are the preferred locations

Looking ahead, a strengthening multi-family market is forecasted in the face of continued tepid job growth as consumers choose to rent and stay put in their apartment units instead of purchasing homes. Due to increased renter demand, owners are expected to limit concessions such as free rent. Grubb & Ellis predicts limited development in the near term with only 56,000 being delivered, the lowest level since the early 1990's. The continuing trend of home foreclosures, which is forecasted to total 3.8 million during 2009 and 2010, has also turned large numbers of former homeowners into renters. Axiometrics Inc. predicts average vacancy rates to decline to 5.8% in 2011 along with a 5.0% increase in effective rents. Other firms foresee the average national apartment occupancy above 95.0% by the end of 2011.

Property Forecast

Market conditions are expected to moderate and improve in 2011, characterized by stabilizing vacancy rates, and increased absorption. However, many obstacles still remain in the near-term due to macroeconomic factors such as weakened household growth and slow job creation. NOI and occupancy are still challenged by a weak space market despite falling cap rates. Looking ahead, high single digit returns for core properties and low to middle double-digit returns for higher risk investments are forecasted for investors.

The multi-family sector continues to benefit from higher demand while the office, warehouse and retail sectors are expected to experience slowly improving conditions.

National Association of Realtors (NAR) and CBRE Econometric Advisors forecast the following:

- **Office:** Despite sluggish job growth, vacancy rates are projected to decline to 16.4% by the end of 2011 as absorption strengthens. New completions will drop as developers wait for excess space to be absorbed.
- **Industrial:** Vacancy rates are projected to decrease 70 basis points to 13.2% by the end of 2011 as excess warehouse space gets absorbed. Developers begin to regain confidence despite flat rental growth.
- **Retail:** Retail vacancy rates are forecasted to remain around 13.0% with roughly 5.0 million sf of absorption in 2011. A slight uptick in construction activity is forecasted from 2010 levels.
- **Multi-Family:** The multi-family sector is forecasted to outperform the three other sectors. Vacancy rates expected to decline for the third consecutive year and dip under 6.0%.

	Actuals		Forecast				
	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011
OFFICE							
Vacancy Rate	16.70%	16.60%	16.70%	16.80%	16.80%	16.60%	16.40%
Net Absorption ('000 sf)	3,042	6,705	-2,353	1,128	2,357	5,723	7,155
Completions ('000 sf)	5,611	3,585	2,824	4,952	1,771	180	396
Rent Growth	-0.50%	-0.30%	-0.40%	-0.40%	-0.40%	-0.40%	-0.40%
INDUSTRIAL							
Vacancy Rate	14.10%	14.00%	13.90%	13.80%	13.60%	13.40%	13.20%
Net Absorption ('000 sf)	-5,186	10,459	14,382	23,937	30,851	36,562	42,613
Completions ('000 sf)	6,551	2,639	5,702	3,087	10,676	11,604	14,717
Rent Growth	-1.30%	-0.40%	-1.20%	-0.90%	-0.90%	-0.90%	-0.70%
RETAIL							
Vacancy Rate	13.10%	13.10%	13.10%	13.10%	13.10%	13.00%	13.00%
Net Absorption ('000 sf)	-637	994	179	595	1,045	1,484	1,907
Completions ('000 sf)	762	743	1,252	1,323	1,019	319	1,734
Rent Growth	-1.00%	-1.10%	-0.60%	-0.30%	-0.10%	0.00%	0.10%
MULTI-FAMILY							
Vacancy Rate	6.00%	5.80%	6.40%	6.20%	5.80%	5.30%	5.80%
Net Absorption (Units)	90,474	39,651	-72,149	46,563	65,728	82,251	-47,590
Completions (Units)	15,193	12,339	11,012	11,580	12,501	14,647	17,076
Rent Growth	-0.10%	0.40%	0.20%	0.30%	0.30%	0.40%	0.40%

Source: NAR/CBRE-Econometric Advisors

Webinar Survey Results

In December, FTI Schonbraun McCann Group (SMG) presented the webinar “What is Happening to Real Estate Values?” The webinar reviewed the factors contributing to real estate values in the “new” economy as well as identified current trends, applicable valuation methods and expectations for future value appreciation. During the course of the presentation, a series of survey questions were asked of attendees that focused on future expectations within the commercial real estate marketplace. Over 170 of the commercial real estate professionals who attended the webinar responded to the survey.

Following are highlights of the survey results:

Nearly half of the survey participants believe that the **greatest risk factor to future real estate values** is market condition changes affecting net operating income, followed closely by capital market changes affecting refinancing opportunities.

The Northeast region of the United States was seen as possessing the **greatest potential for value growth**, followed by the Southeast and Southwest regions; however, participants were skeptical of the value potential for the Midwest region and were mostly indifferent with regard to the Northwest region.

The **asset class** clearly favored for growth potential by participants was the multi-family sector, but no asset type emerged as a clear second choice. Conversely, the office sector was viewed as having the least potential for growth along with retail and industrial assets, albeit to a lesser degree.

According to the survey respondents, expectations are that **normal market activity** will likely not return in 2011, but rather in two or more years. Delaying this recovery is job growth, which the overwhelming majority of participants believed was the greatest issue limiting transaction activity.

The full survey results are as follows:

1. Which risk factor presents the greatest risk to future real estate values?
 - 46.78% – Market condition changes affecting NOI
 - 38.60% – Capital market changes affecting refinancing
 - 9.36% – Legislative or legal factors affecting taxation
 - 5.26% – Liquidity conversion of the assets to cash

2. Which location possesses the greatest potential for value growth?
 - 36.99% – Northeast
 - 27.75% – Southeast
 - 8.09% – Midwest
 - 20.23% – Southwest
 - 6.94% – Northwest

3. Which location possesses the least potential for value growth?
 - 18.34% – Northeast
 - 19.53% – Southeast
 - 34.91% – Midwest
 - 20.71% – Southwest
 - 6.51% – Northwest

Webinar Survey Results (continued)

4. Which asset class possesses the greatest potential for value growth?
 - 13.75% – Office
 - 13.13% – Retail
 - 10.00% – Industrial
 - 47.50% – Multi-family
 - 15.63% – Hospitality

5. Which asset class possesses the least potential for value growth?
 - 31.48% – Office
 - 21.60% – Retail
 - 22.84% – Industrial
 - 12.35% – Multi-family
 - 11.73% – Hospitality

6. How long do you think it will be before we reach "normal" market activity?
 - 4.27% – One year
 - 34.76% – Two years
 - 27.44% – Three years
 - 33.54% – More than three years

7. Which will present the greatest issue for real estate market values during the time it takes to achieve "normal" market activity?
 - 60.98% – Job growth
 - 7.93% – Income and wage changes
 - 8.54% – Refinancing opportunities
 - 13.41% – Market conditions (i.e., vacancy and rental rates)
 - 9.15% – Deleveraging

Today's market is filled with much uncertainty. Accurate valuation assessments require a keen understanding of current market dynamics coupled with relevant information and the application of appropriate methods. The SMG valuation team recognizes and employs the necessary effort to accomplish the task and stands ready to provide the service you require.

About FTI Schonbraun McCann Group

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