



CYCLE FORECAST — Real Estate Market Cycles

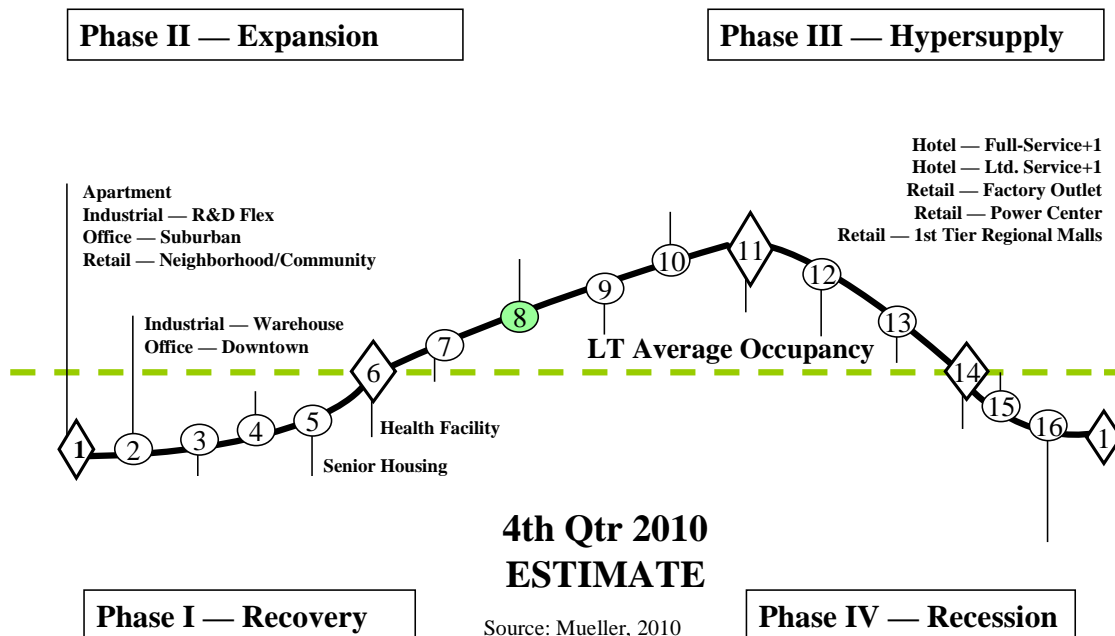
**Fourth Quarter 2010 Estimates
February 2010**

U.S. GDP had a strong finish in 4Q09 at 5.6% growth, which should help propel the recovery and eventually create jobs in the second half of 2010. Manufacturing indexes have been rising for over half a year, another indicator of the recovery. But it is employment growth that creates demand for income producing real estate. We predict occupancy should bottom and improvement should begin in four of the five property types.

- Office occupancies are forecast to improve 0.1% in 4Q10, with rent declining by 1.4% quarter-over-quarter.
- Industrial occupancies are forecast to improve 0.2% in 4Q10, with rents declining 0.8% quarter-over-quarter.
- Apartment occupancies are expected to improve 0.1% in 4Q10, with rents declining 0.8% quarter-over-quarter.
- Retail occupancies are expected to improve 0.1% in 4Q10, with rents declining 0.2% quarter-over-quarter.
- Hotels should see flat occupancy in 4Q10 and a RevPAR decline of 0.8% quarter-over-quarter.

The National Property Type Cycle Graph shows relative positions of most sub-property types — major markets are reviewed inside.

National Property Type Cycle Forecast



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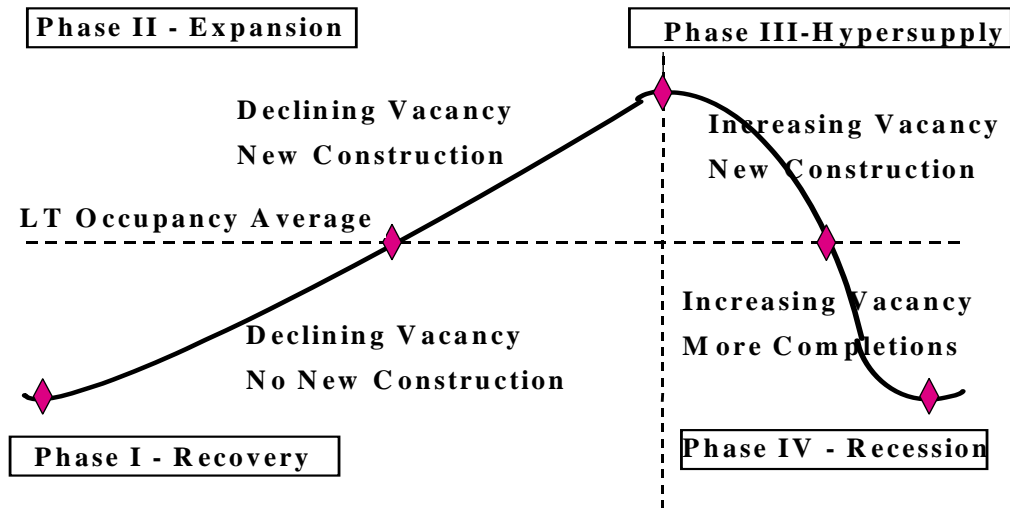
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All relevant disclosures and certifications appear on page 9 of this report.

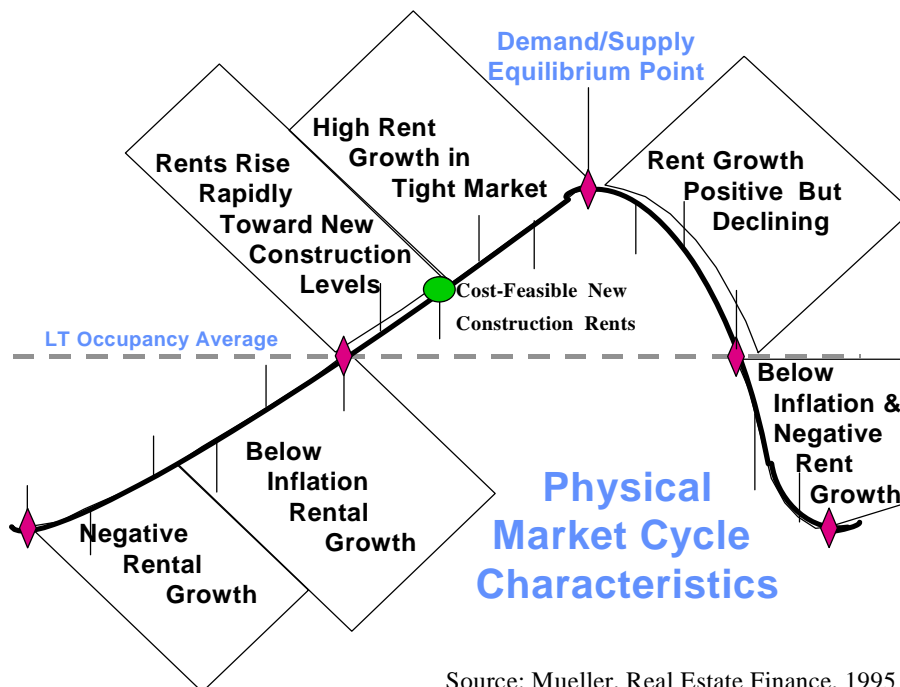
The cycle forecast analyzes occupancy movements in five property types in more than 50 Metropolitan Statistical Areas (MSAs). The market cycle analysis should enhance investment-decision capabilities for investors and operators. The five property type cycle charts summarize almost 300 individual models that analyze occupancy levels and rental growth rates to provide the foundation for long-term investment success. Real estate markets are cyclical due to the lagged relationship between supply and demand for physical space. The long-term occupancy average is different for each market and each property type. *Long-term occupancy average* is a key factor in determining rental growth rates — a key factor that affects real estate returns.

Market Cycle Quadrants



Source: Mueller, Real Estate Finance, 1995

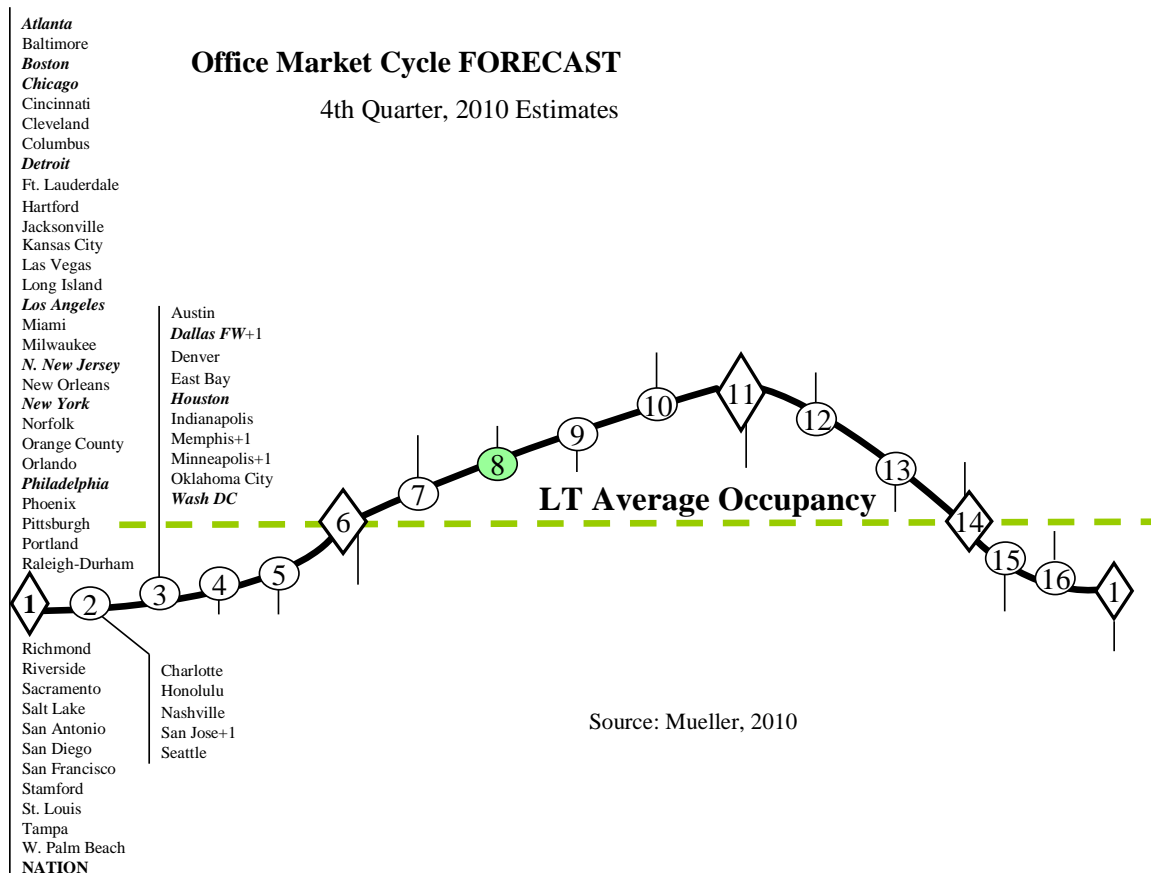
Rental growth rates can be characterized in different parts of the market cycle, as shown below.



Source: Mueller, Real Estate Finance, 1995

OFFICE FORECAST

Occupancies are forecast to improve 0.1% in 4Q10, as forecast employment growth in the second half of 2010 should start to affect demand. Year-over-year occupancies are expected to be down a mere 0.4% as we expect occupancies to bottom in 2Q10, stay on the bottom in 3Q10 and then begin a slow recovery in 4Q10. There is discussion that many firms over-fired and should begin rehiring as the economy improves. We believe this translates into the start of occupancy increases in 4Q10. On the other hand, the large amount of vacant space will leave tenants in the driver's seat and we forecast rents to drop 1.4% in 4Q10, creating a 7.8% annual rent decline from 2009 to year-end 2010.

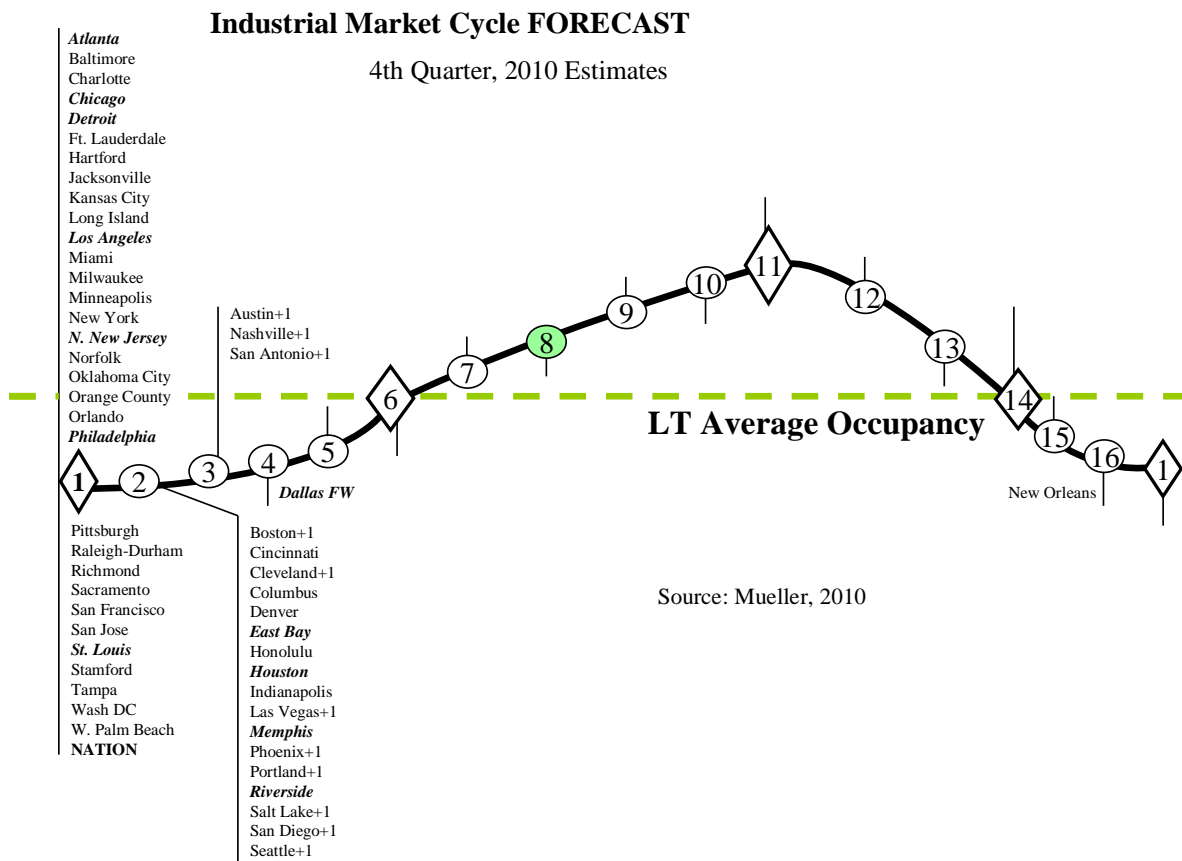


Note: The 11-largest office markets make up 50% of the total square footage of office space that we monitor. Thus, the 11-largest office markets are in ***bold italics*** to help distinguish how the weighted national average is affected.

Markets that have moved since the previous quarter are shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, e.g., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress, or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

INDUSTRIAL FORECAST

We forecast a 0.2% improvement in industrial occupancies in 4Q10, producing a 1.1% decline year-over-year. The U.S. manufacturing index increased throughout the second half of 2009 and the increased inventory levels in 2010 should create more demand for warehouse space. The strong economies in most international trade partners should also create additional export demand for space. Economic models show employment growth returning, which should improve retail demand and the need for more warehouse space. With the national vacancy level above 11%, we expect rents to decline 0.8% in 4Q10 and be down 4% year-over-year as tenants have the power to negotiate lower rents.

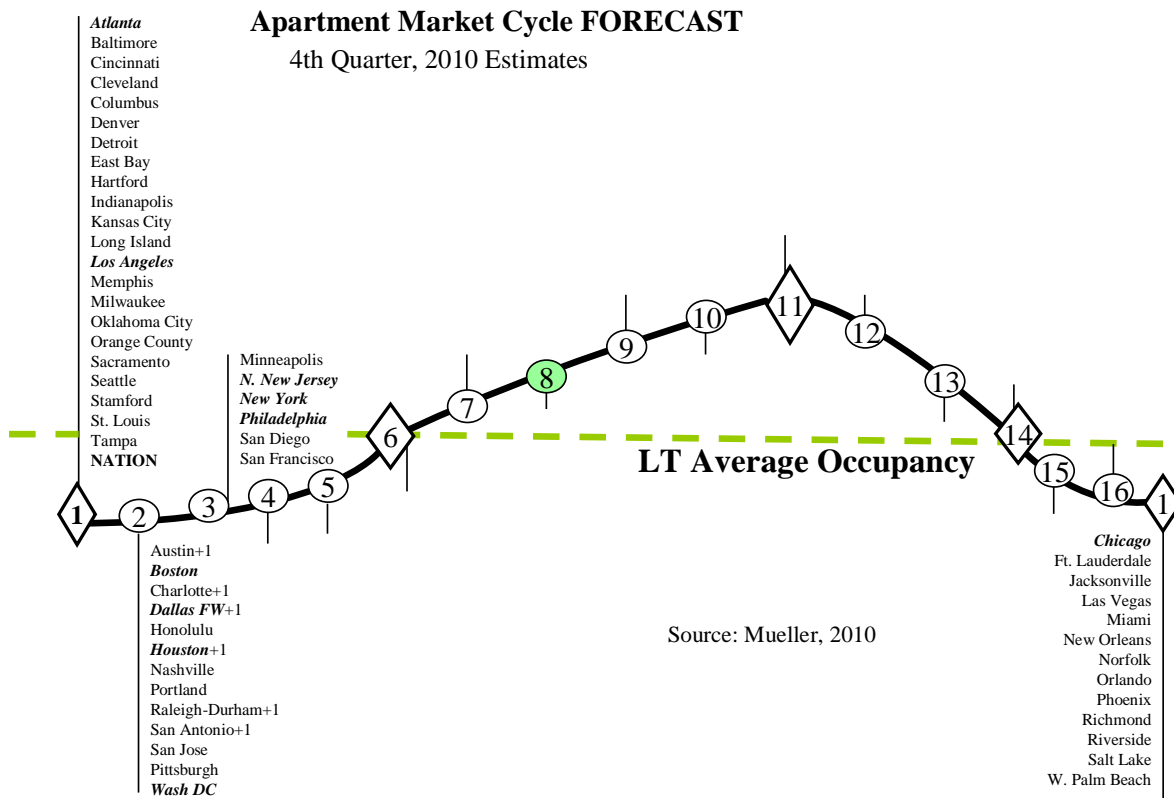


Note: The 12-largest industrial markets make up 50% of the total square footage of industrial space that we monitor. Thus, the 12-largest industrial markets are in **bold italics** to help distinguish how the weighted national average is affected.

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APARTMENT FORECAST

We forecast an occupancy increase of 0.1% for 4Q10 but a year-over-year decline of 0.8%. The onset of job growth should allow many people to move out on their own instead of living with parents or doubling- and tripling-up. Interest rates are also forecast to rise in the second half of 2010, which should slow the movement from rental to home ownership. This forecast assumes the first time home buyer tax credit will not be extended, especially with the mounting federal budget deficit. We estimate the national apartment rental rate decline should slow to 0.8% for 4Q10, resulting in a year-over-year decline of 4.3%.



Note: The 10-largest apartment markets make up 50% of the total square footage of apartment space that we monitor. Thus, the 10-largest apartment markets are in **bold italics** to help distinguish how the weighted national average is affected.

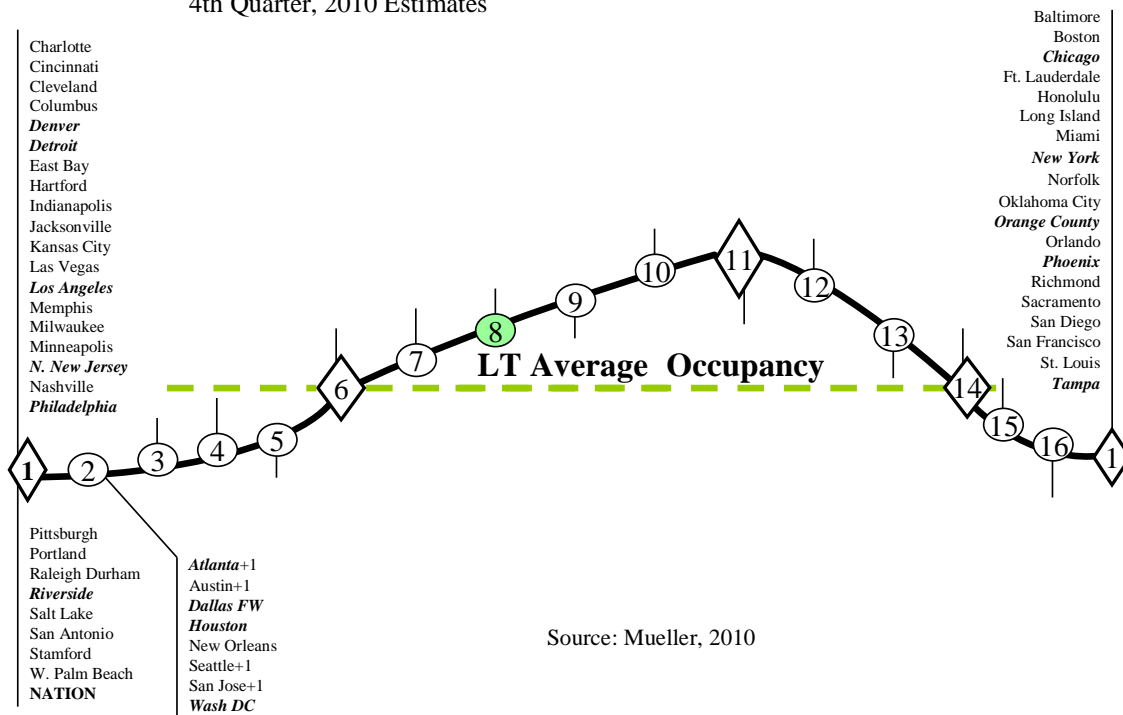
Markets that have moved since the previous quarter are shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, e.g., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress, or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

RETAIL FORECAST

Retail occupancy is forecast to improve 0.1% in 4Q10 and be down a mere 0.2% year-over-year. We expect moderate improvement in retail sales, which is the key to retailers being able to expand their space rental plans. Consumer spending should increase as employment improves, but the new credit card laws may hamper consumer spending as credit cards become harder to obtain. We expect rental decline of 0.2% in 4Q10 that could produce a 5.5% year-over-year decline in rents. We do not expect to see any rent increases until mid-to-late 2011 for retail.

Retail Market Cycle FORECAST

4th Quarter, 2010 Estimates



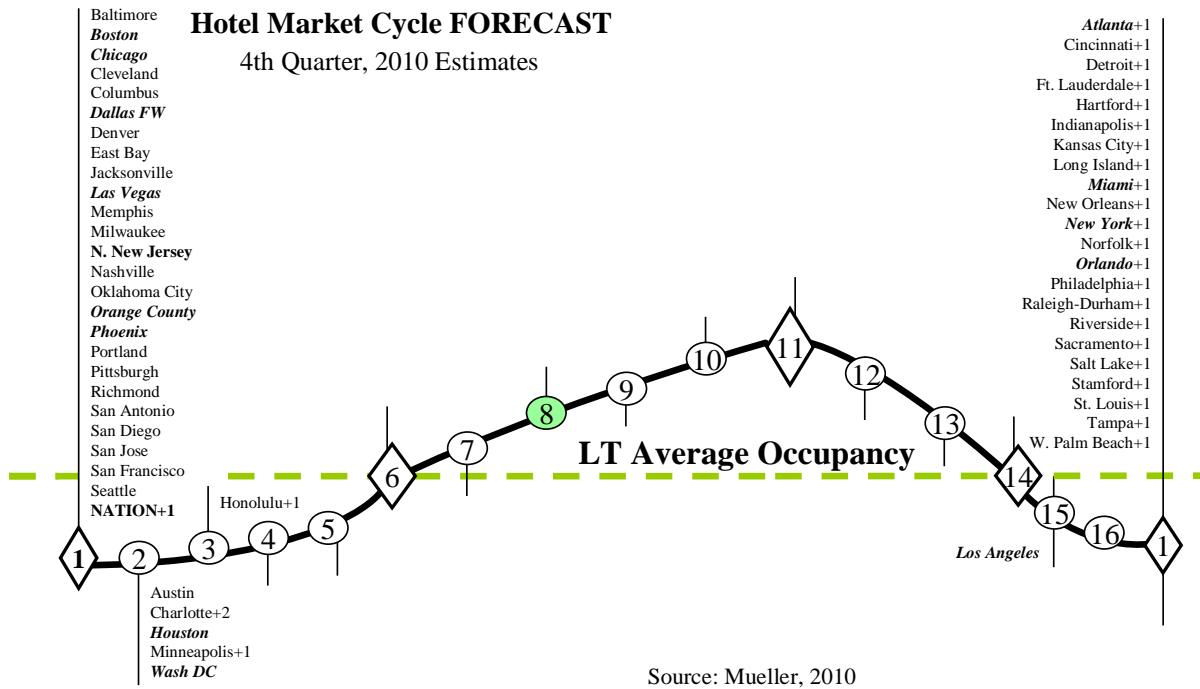
Source: Mueller, 2010

Note: The 15-largest retail markets make up 50% of the total square footage of retail space that we monitor. Thus, the 15-largest retail markets are in **bold italics** to help distinguish how the weighted national average is affected.

Markets that have moved since the previous quarter are shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, e.g., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress, or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

HOTEL FORECAST

Hotel occupancy is forecast to be flat (unchanged) in 4Q10 and 5.2% year-over-year. The improving GDP and employment should be felt by hotels in 2011 as both business and vacation travel improves. Operators and investors are doing everything they can to hang on to existing customers and entice them to increase their visits. Specials and free extra nights should continue in 2010. We estimate RevPAR may decrease 0.8% in 4Q10 as chains drop their rates to entice visitors, but be up by 1.1% for the full year of 2010.



Note: The 14-largest hotel markets make up 50% of the total square footage of hotel space that we monitor. Thus, the 14-largest hotel markets are in **bold italics** to help distinguish how the weighted national average is affected.

Markets that have moved since the previous quarter are shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, e.g., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress, or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

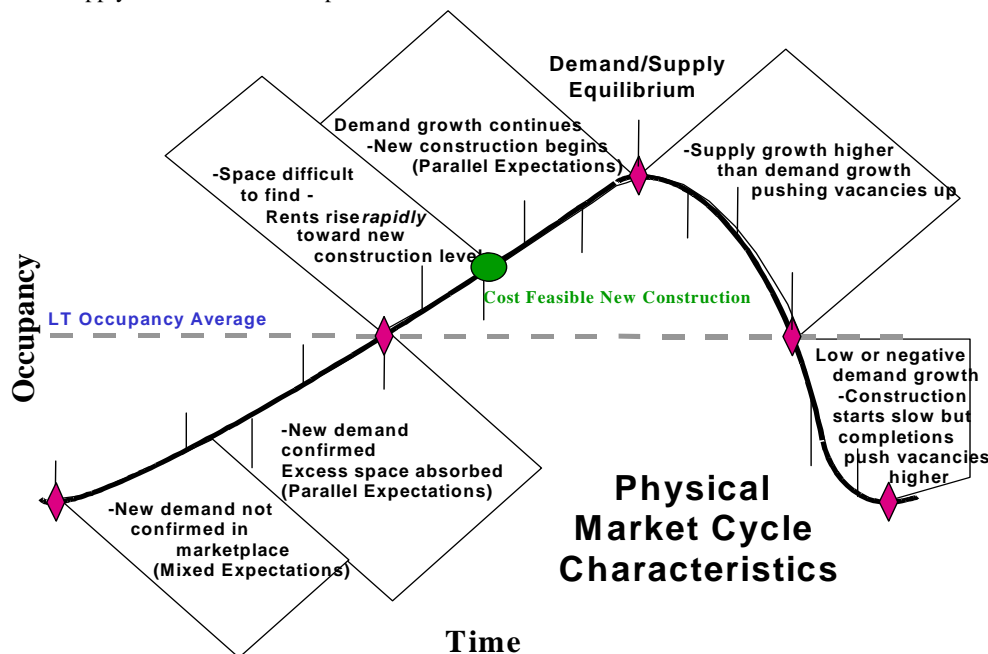
MARKET CYCLE ANALYSIS — Explanation

Supply and demand interaction is important to understand. Starting in Recovery Phase I at the bottom of a cycle (see chart below), the marketplace is in a state of oversupply from previous new construction or negative demand growth. At this bottom point, occupancy is at its trough. Typically, the market bottom occurs when the excess construction from the previous cycle stops. As the cycle bottom is passed, demand growth begins to slowly absorb the existing oversupply and supply growth is nonexistent or very low. As excess space is absorbed, vacancy rates fall, allowing rental rates in the market to stabilize and even begin to increase. As this recovery phase continues, positive expectations about the market allow landlords to increase rents at a slow pace (typically at or below inflation). Eventually, each local market reaches its *long-term occupancy average* whereby *rental growth is equal to inflation*.

In Expansion Phase II, demand growth continues at increasing levels, creating a need for additional space. As vacancy rates fall below the *long-term occupancy average*, signaling that supply is tightening in the marketplace, rents begin to rise rapidly until they reach a "cost-feasible" level that allows new construction to commence. In this period of tight supply, rapid rental growth can be experienced, which some observers call "rent spikes." (Some developers may also begin speculative construction in anticipation of cost-feasible rents if they are able to obtain financing.) Once cost-feasible rents are achieved in the marketplace, demand growth is still ahead of supply growth — a lag in providing new space due to the time to construct. Long expansionary periods are possible and many historical real estate cycles show that the overall up-cycle is a slow, long-term uphill climb. As long as demand growth rates are higher than supply growth rates, vacancy rates will continue to fall. The cycle peak point is where demand and supply are growing at the same rate *or equilibrium*. Before equilibrium, demand grows faster than supply; after equilibrium, supply grows faster than demand.

Hypersupply Phase III of the real estate cycle commences after the peak/equilibrium point #11 — where demand growth equals supply growth. Most real estate participants do not recognize this peak/equilibrium's passing, as occupancy rates are at their highest and well above long-term averages, a strong and tight market. During Phase III, supply growth is higher than demand growth (hypersupply), causing vacancy rates to rise back toward the long-term occupancy average. While there is no painful oversupply during this period, new supply completions compete for tenants in the marketplace. As more space is delivered to the market, rental growth slows. Eventually, market participants realize that the market has turned down and commitments to new construction should slow or stop. If new supply grows faster than demand once the long-term occupancy average is passed, the market falls into Phase IV.

Recession Phase IV begins as the market moves past the long-term occupancy average with high supply growth and low or negative demand growth. The extent of the market down-cycle will be determined by the difference (excess) between the market supply growth and demand growth. Massive oversupply, coupled with negative demand growth (that started when the market passed through long-term occupancy average in 1984), sent most U.S. office markets into the largest down-cycle ever experienced. During Phase IV, landlords realize that they will quickly lose market share if their rental rates are not competitive; they then lower rents to capture tenants, even if only to cover their buildings' fixed expenses. Market liquidity is also low or nonexistent in this phase, as the bid-ask spread in property prices is too wide. The cycle eventually reaches bottom as new construction and completions cease, or as demand growth turns up and begins to grow at rates higher than that of new supply added to the marketplace.



Source: Mueller, Real Estate Finance, 1995

This Research currently monitors five property types in more than 50 major markets. We gather data from numerous sources to evaluate and forecast market movements. The market cycle model we developed looks at the interaction of supply and demand to estimate future vacancy and rental rates. Our individual market models are combined to create a national average model for all U.S. markets. This model examines the current cycle locations for each property type and can be used for asset allocation and acquisition decisions.

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