

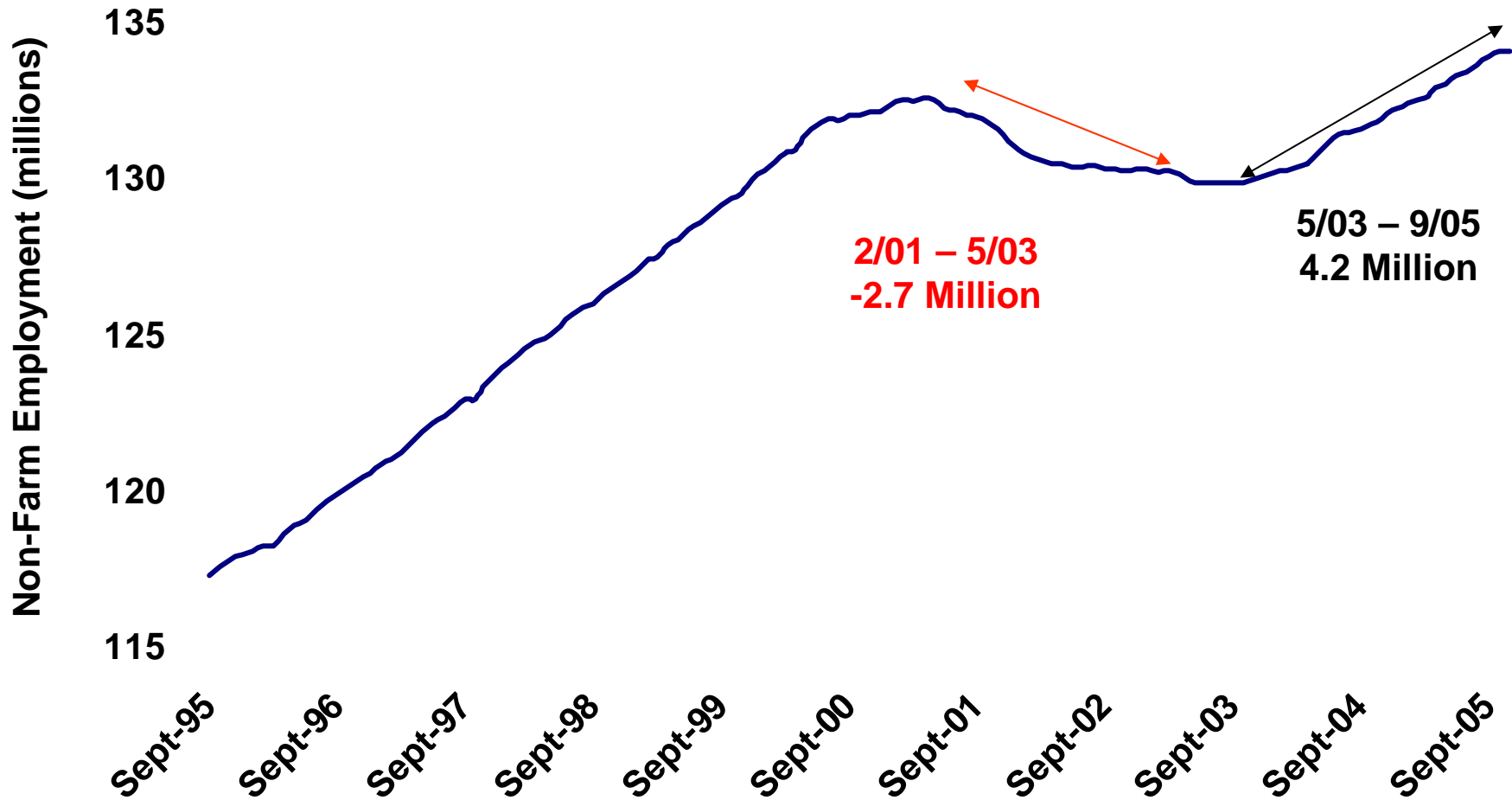


2006

Economic and Real Estate Outlook

Harvey E. Green
President and CEO

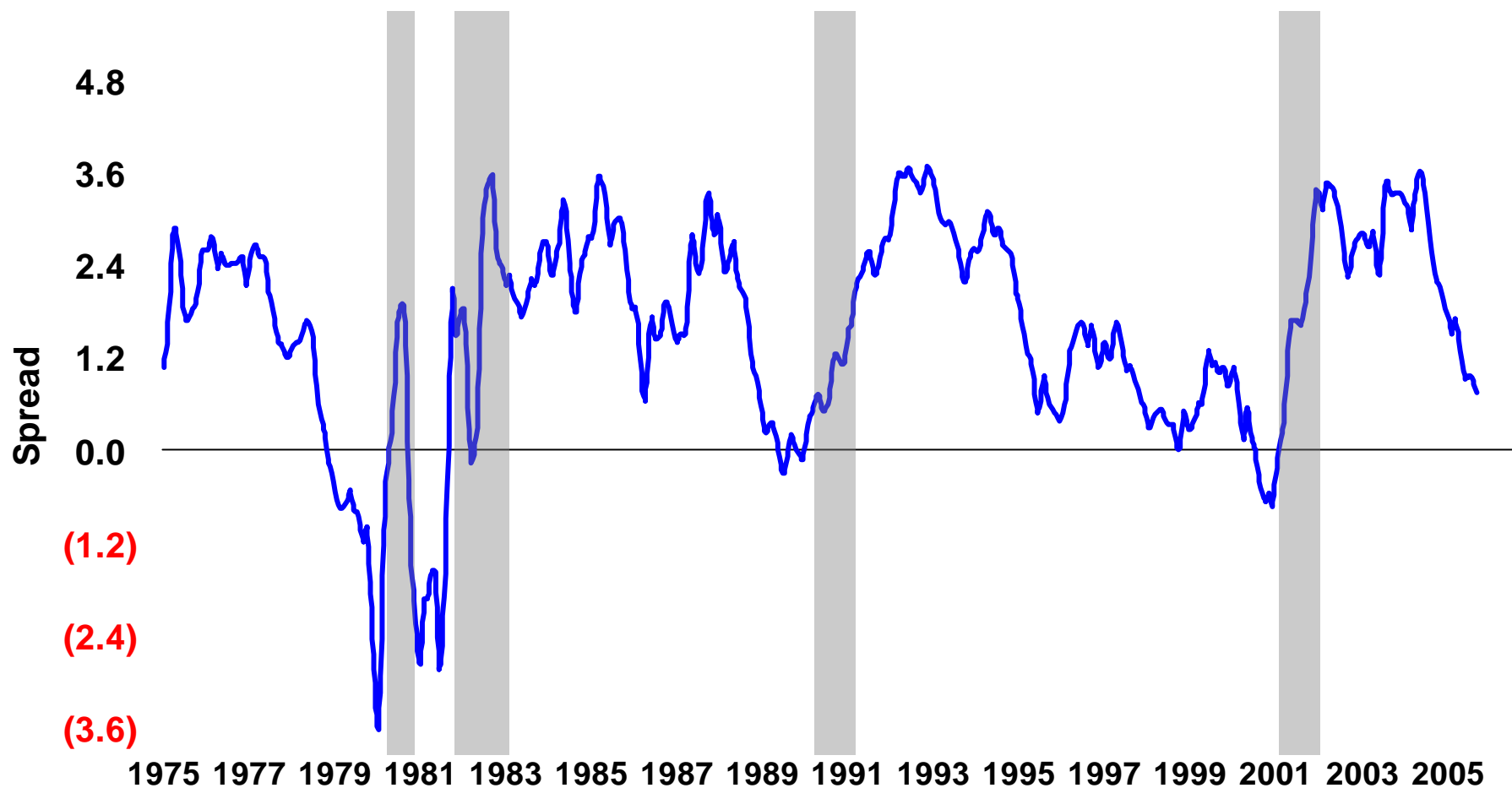
U.S. Economic Conditions Favorable Employment Well Beyond Recovery



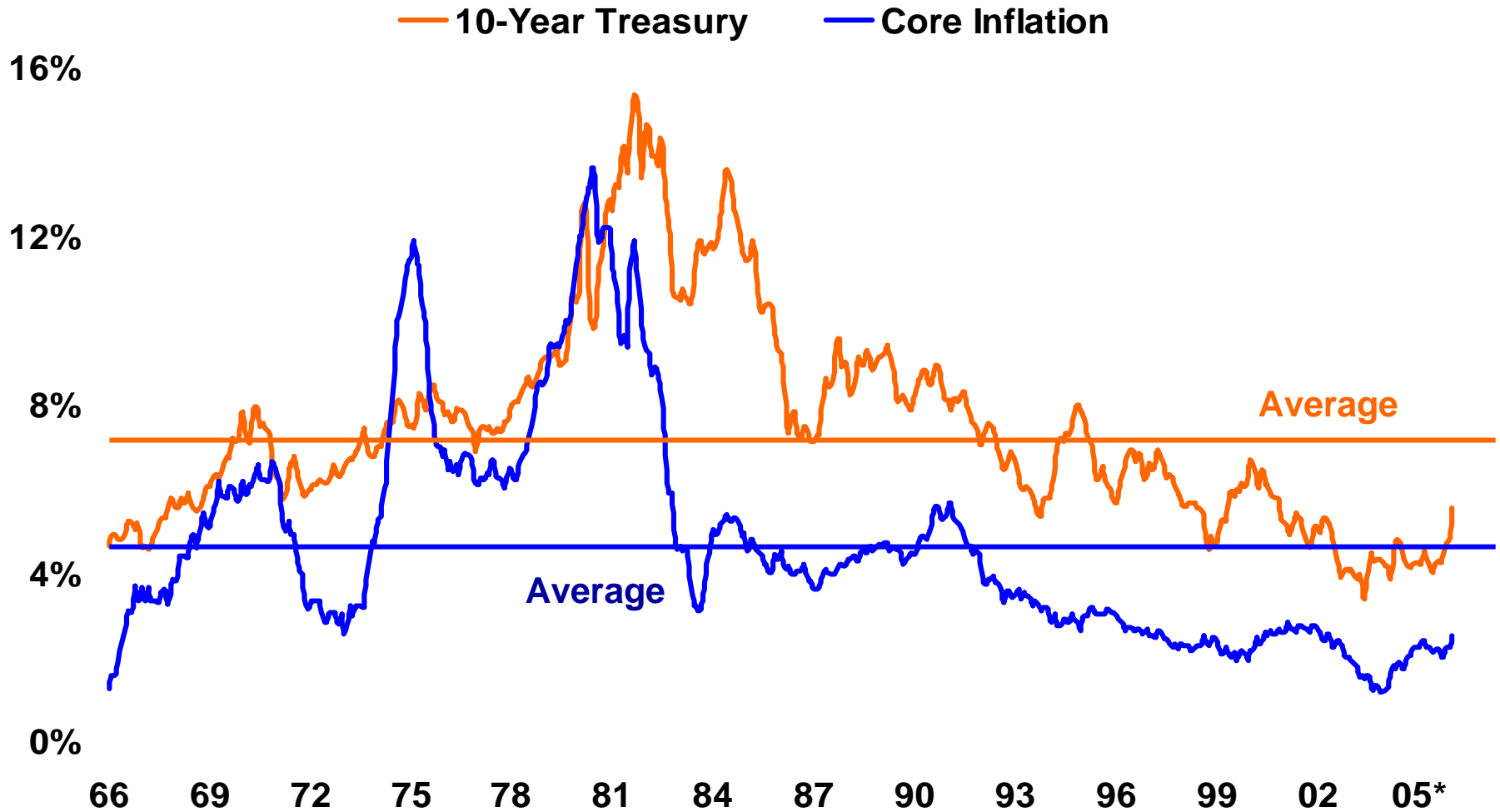
Falling Yield Curve Points to Economic Cooling

Recession Unlikely in 2006

10-Year/3-Month Spread



Falling Inflation Has Allowed for Low Interest Rates A Major Driver of Real Estate Capital Flows



*Through September

Sources: Marcus & Millichap Research Services, Economy.com, Federal Reserve

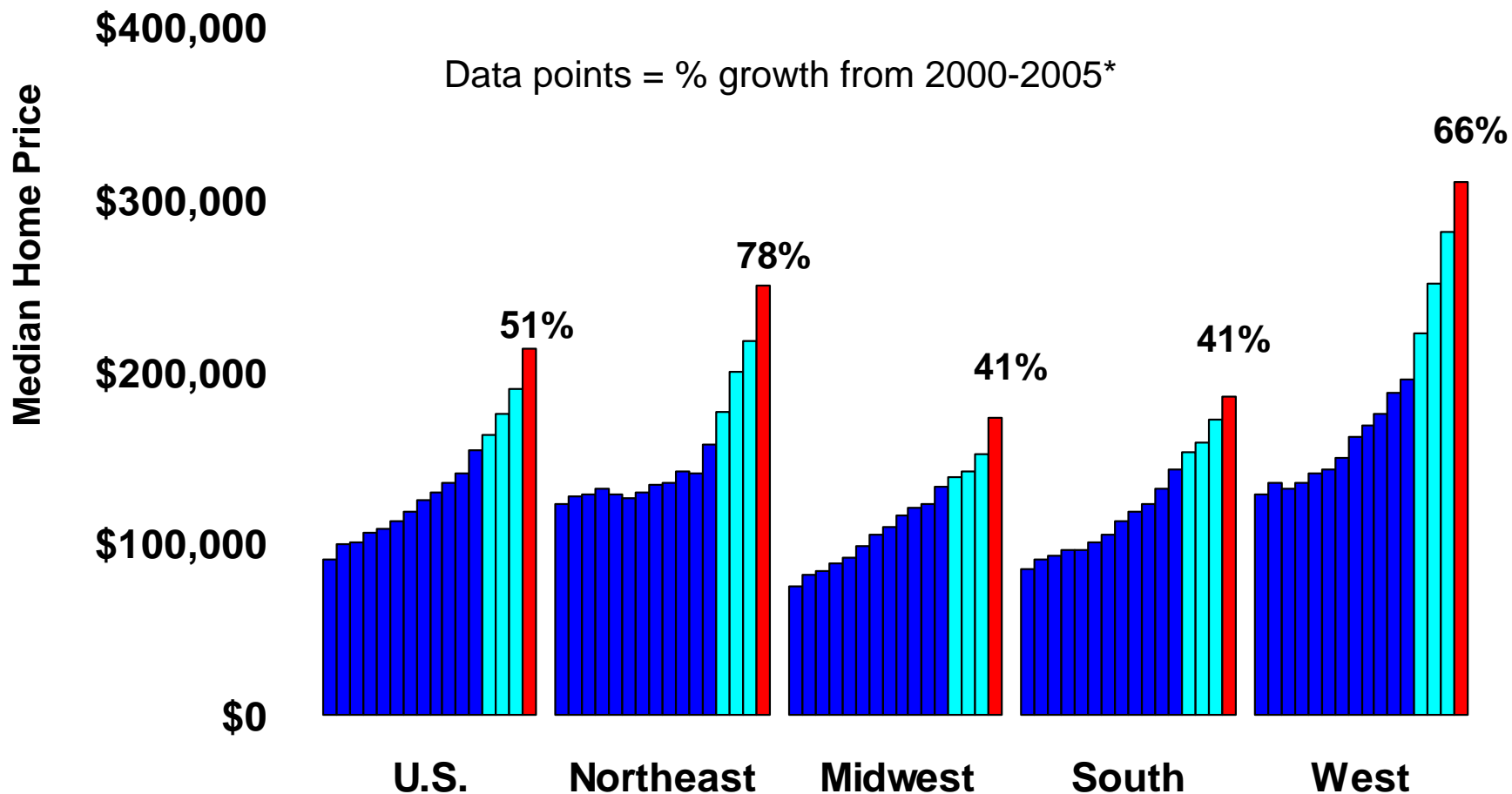
Marcus & Millichap
Real Estate Investment Brokerage Company

U.S. Home Prices Continue to Set Records

Existing Single-Family Homes

■ 1990-2001 ■ 2002-2004 ■ 2005*

Data points = % growth from 2000-2005*



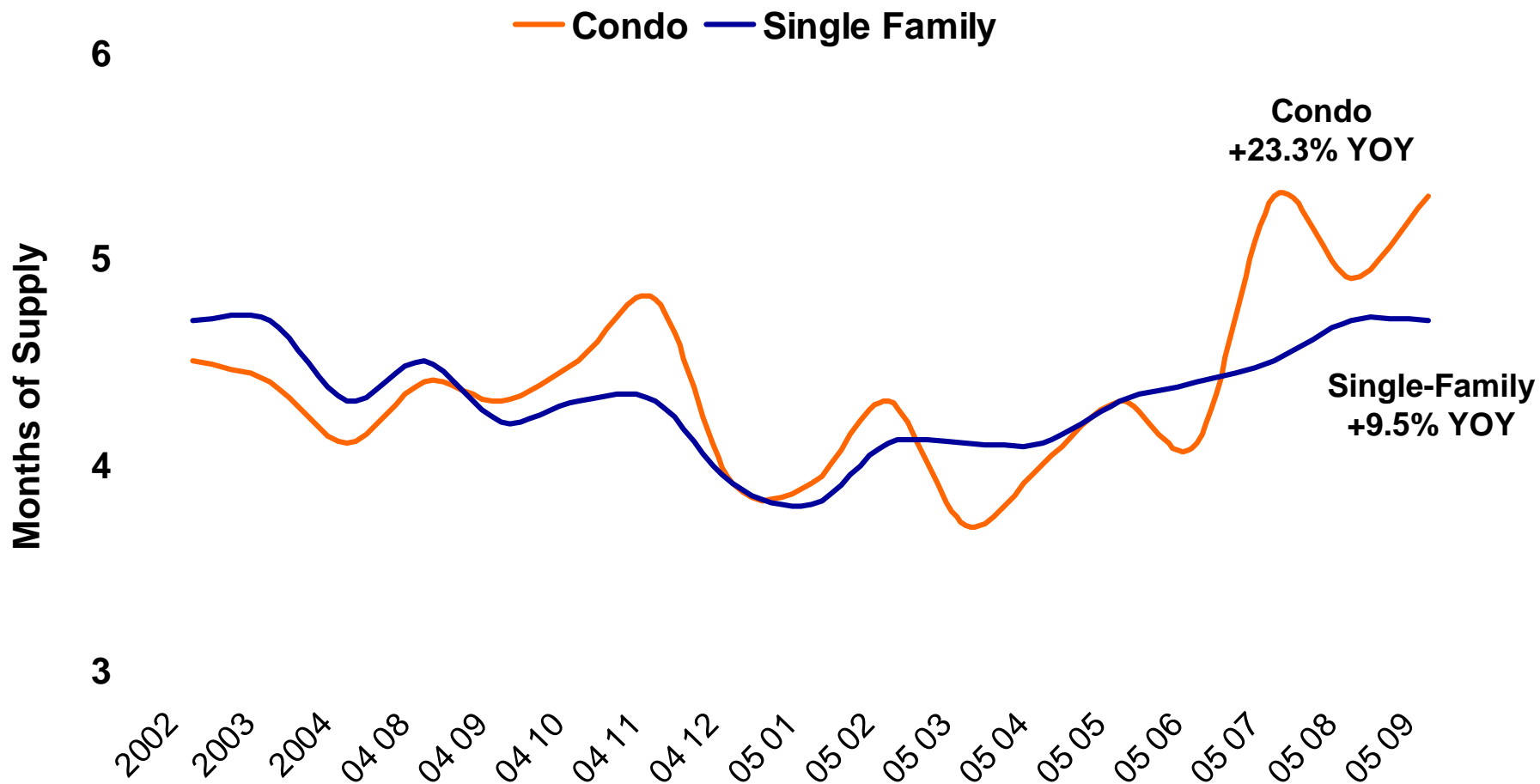
*September

Sources: Marcus & Millichap Research Services, Economy.com, National Association of Realtors

Marcus & Millichap
Real Estate Investment Brokerage Company

Housing Market Showing Signs of Cooling

Months Of Available Inventory

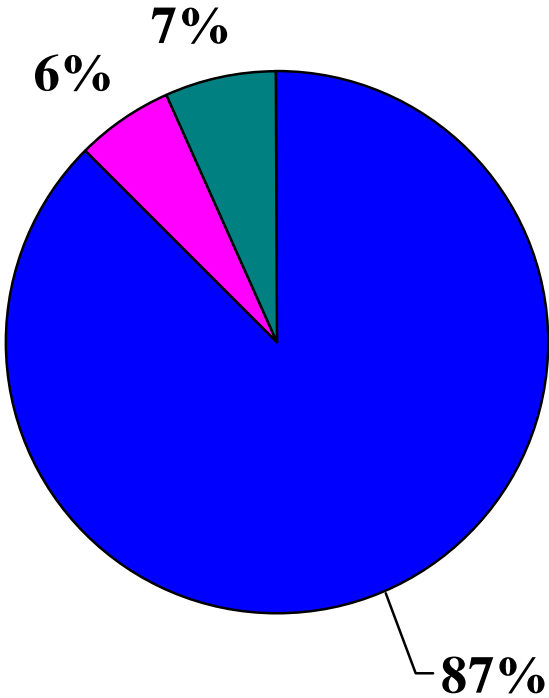


Move-Up Private Equity Another Major Market Driver

Real Estate Investment Transactions

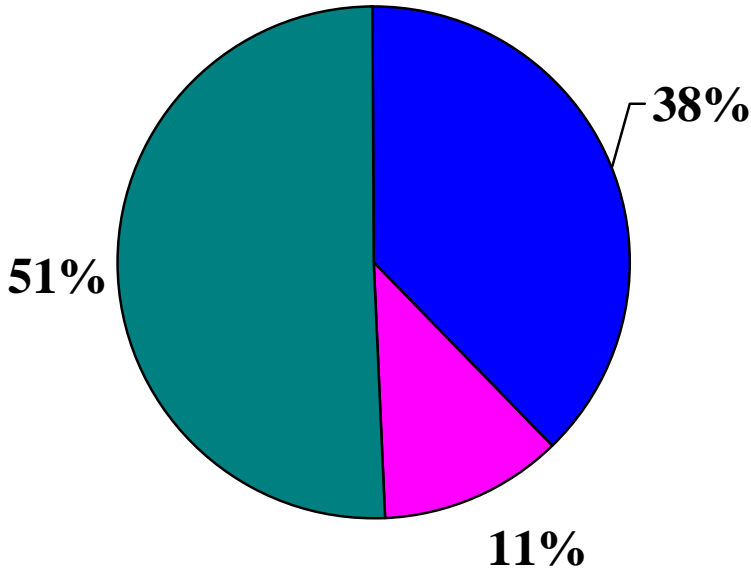
First Half 2005 Sales by Price Range

Number of Transactions



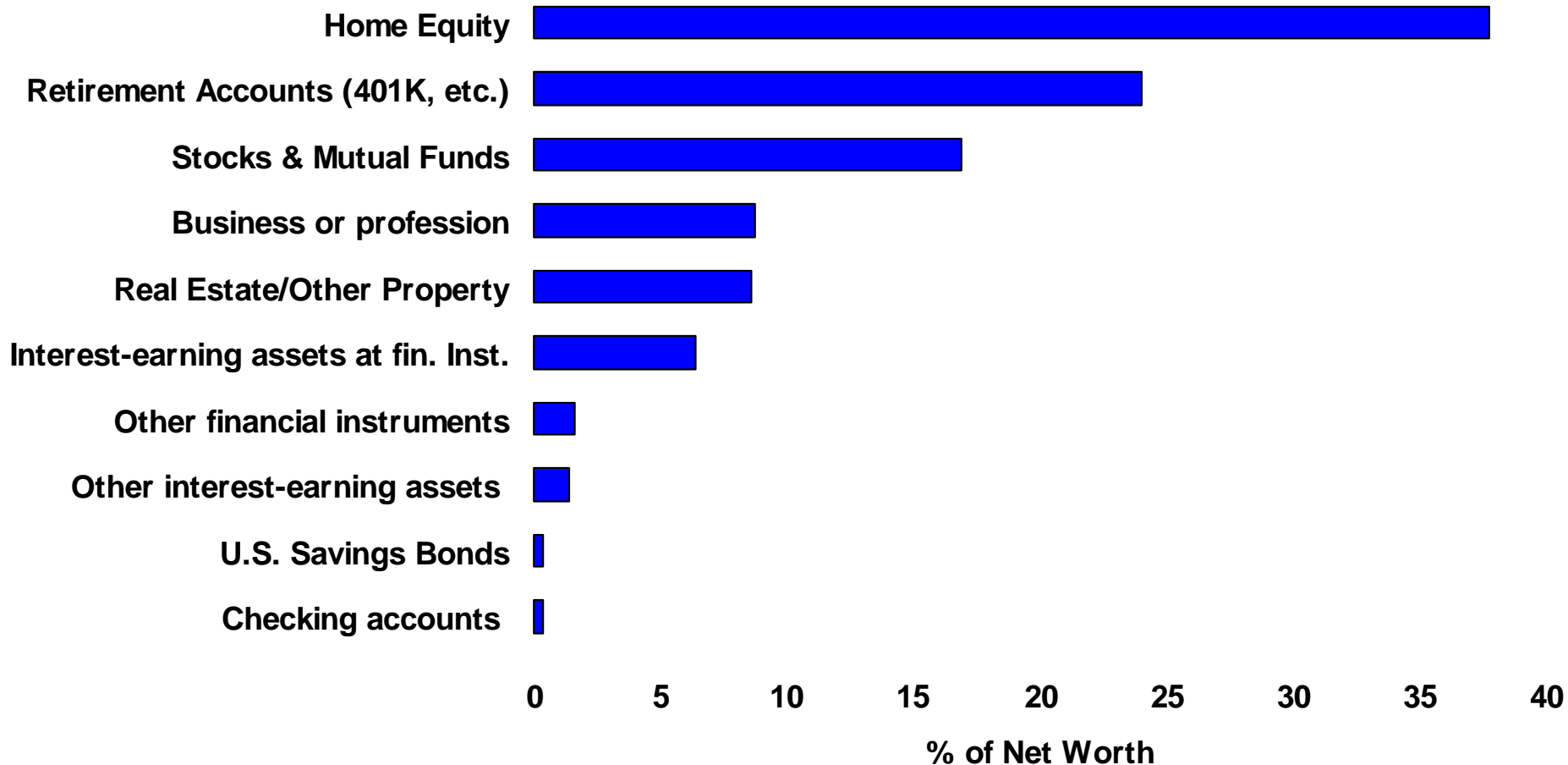
Dollar Volume

- Under \$10 Million
- \$10 - \$20 Million
- Over \$20 Million



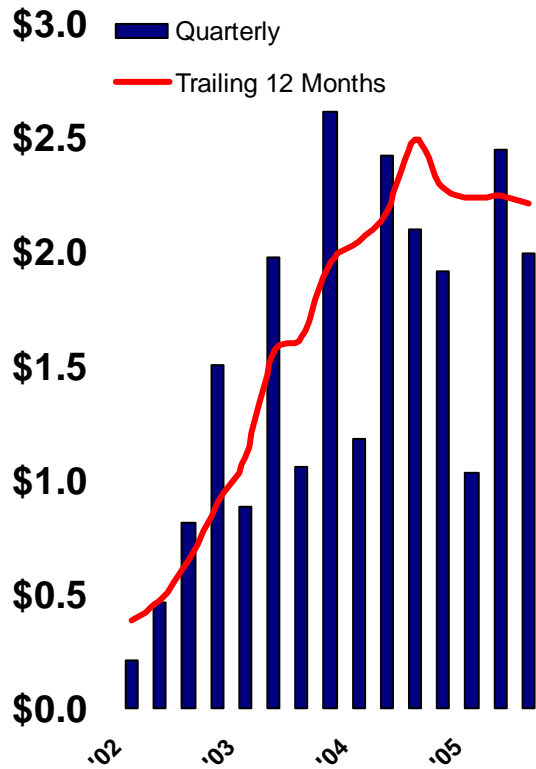
Despite Dominating the Investment Market, Private Investors Are Under-Invested in Real Estate

Baby Boomers' Net Worth Concentration

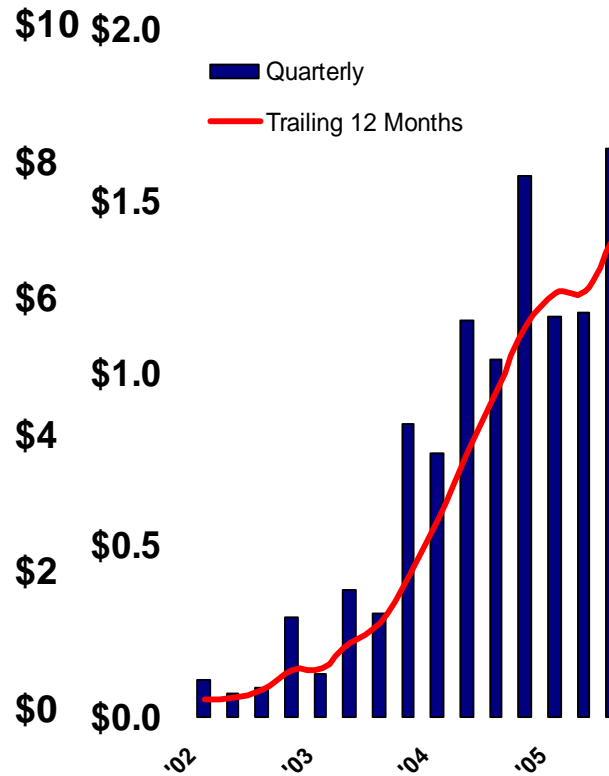


Key Trends Impacting Private Real Estate Investors

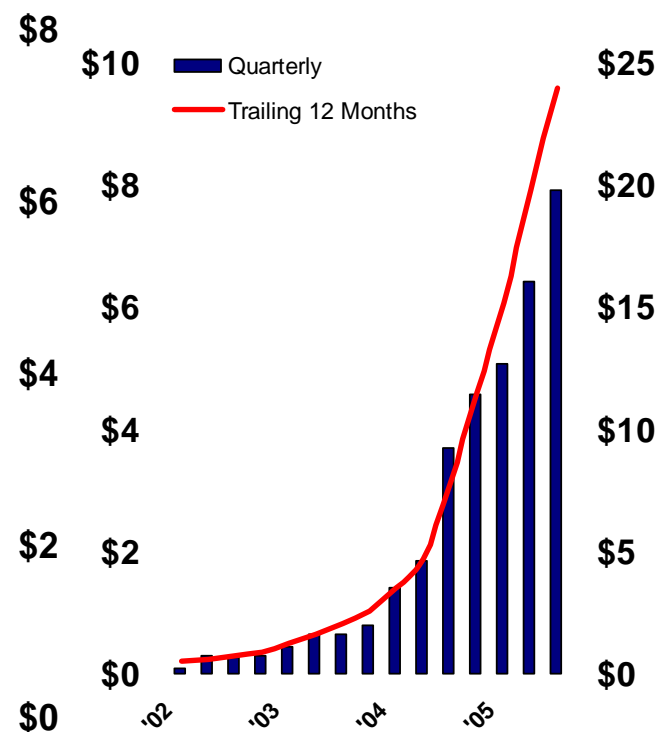
acquisitions by
Private REITs



acquisitions by
TIC Sponsors



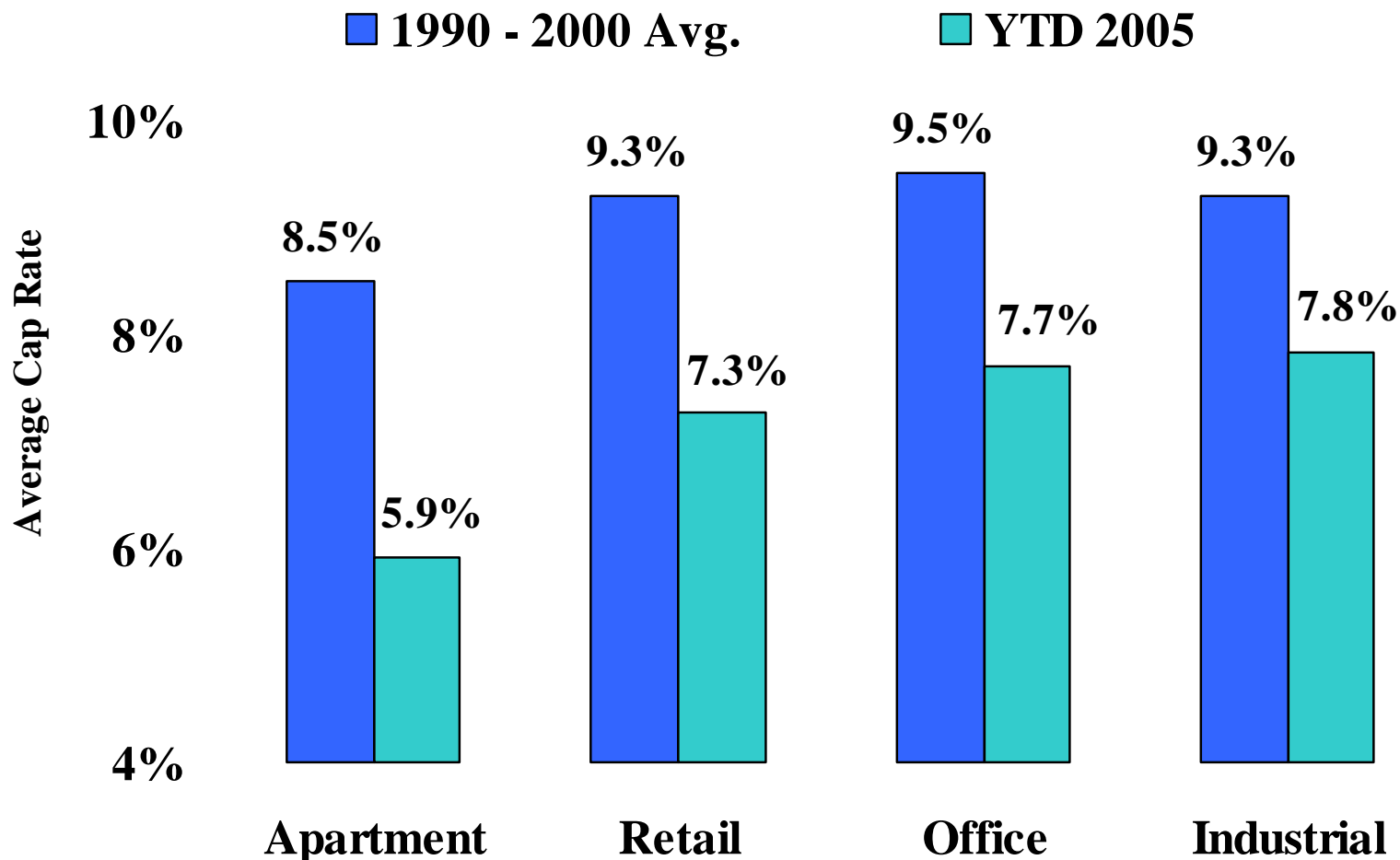
acquisitions by
Condo Converters



Data represents sales over \$5 million.

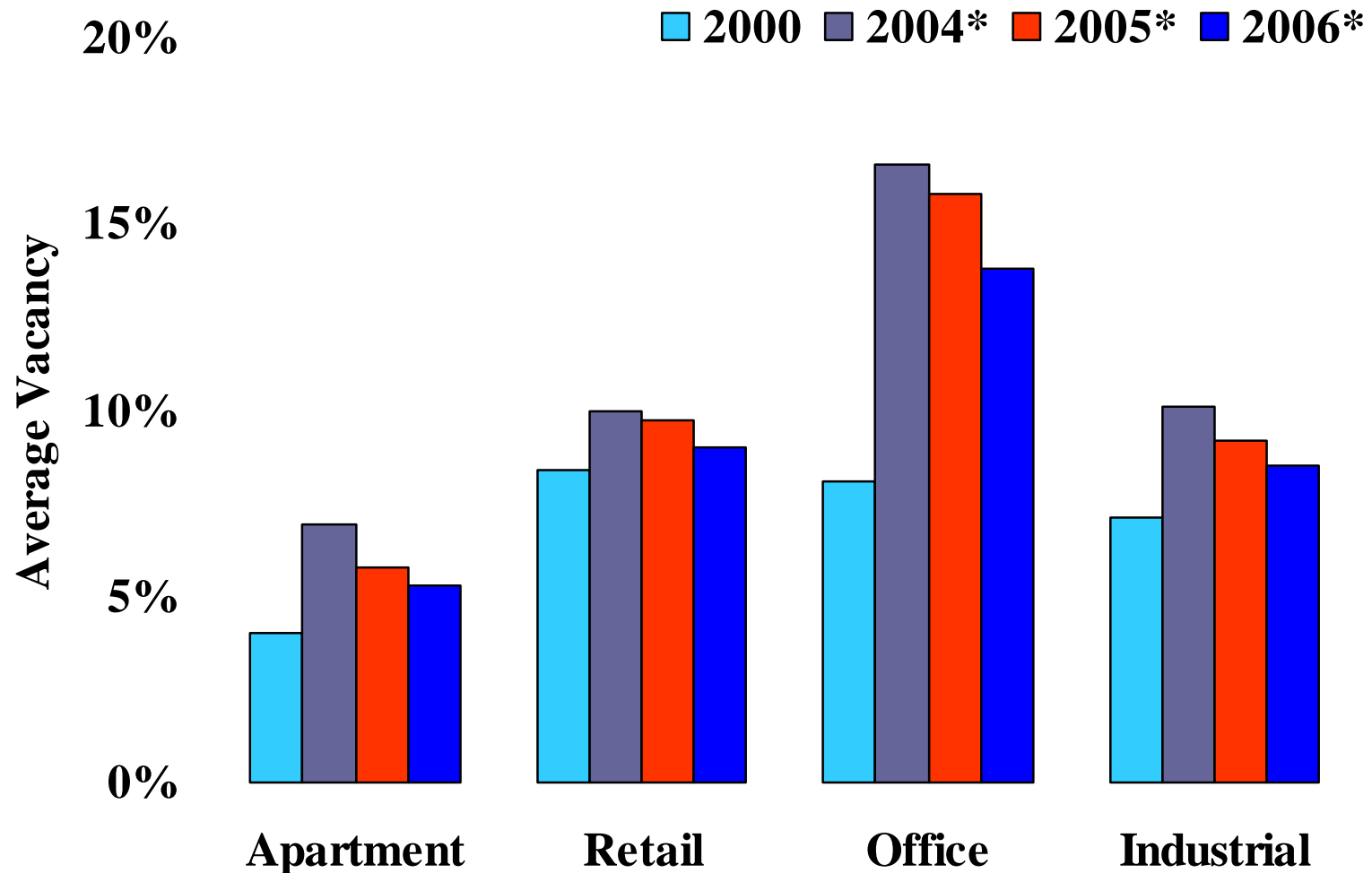
Sources: Marcus & Millichap Research Services, Real Capital Analytics

Despite Weak Operations, Increased Capital Flows Compressing Real Estate Cap Rates



U.S. Property Fundamentals Improving

Change in Vacancy by Sector



*Forecast

Sources: Marcus & Millichap Research Services, Property & Portfolio Research (PPR), Reis

Marcus & Millichap

2006 Real Estate Investment Outlook

- 1. Fundamentals Will Continue to Improve In Most Property Types**
- 2. Sales Activity Will Remain Strong Through First Half of 2006:**
 - More Properties Put On the Market
 - Perception of Market Peak
 - Concern Over Rising Interest Rates
- 3. Sales Activity Likely to Level Off in Latter Part of 2006:**
 - Niche Plays and Speculation to Taper Off, Particularly Condo Conversions
- 4. Cap Rates to Remain Generally Stable For Apartments, Retail, Compress For Office, Industrial**
- 5. Pricing Correction Limited to a Few Local Markets**
- 6. Market and Property Type Rotation Will Increase**
 - Medical Office, R&D, Hospitality, Industrial Big Winners
 - Lagging Markets with Growth Prospects, Stable Bets Big Winners

Long-Term Real Estate Investment Outlook

- 1. Cap Rates Will Move Up In Reaction to Cyclical Drivers:**
 - Higher Interest Rates
 - Some Pressure on Pricing
- 2. Higher Cap Rates Unlikely a Result of a Major Price Correction**
 - Prices Likely to Stagnate While NOIs Improve, Pushing Up Yields
 - Higher Interest Rates Offset by Improving NOIs (In Most Cases)
 - Limited Inventory of Troubled Assets (Very Limited Compared to Past Cycles)
- 3. Structural Changes will Keep Cap Rates From Reverting All the Way Back to Long-Term Averages**

Factors Behind a Favorable Outlook for Real Estate Investments

- 1. Private investors still dominate with 87% of real estate sales activity:**
 - Substantial equity build-up, consolidating into larger assets.**
- 2. Partnerships and private funds have more capital to invest than ever.**
- 3. 76 million aging baby boomers need low risk, cash flow investments and wealth preservation/transfer.**
- 4. T.I.Cs and 1031 exchanges fostering sales activity.**
- 5. Pension funds are increasing real estate allocation – real estate currently accounts for only 3.5% of their total assets.**

Factors Behind a Favorable Outlook for Real Estate Investments

- 6. Insurance companies are becoming more aggressive in placing both debt and equity.**
- 7. Commercial banks in solid financial condition, still increasing real estate allocation (cautious on construction lending).**
- 8. CMBS issuance reaching \$150-\$200 billion in '05, up at least 50% from '04. This source of liquidity did not exist in 1994.**
- 9. U.S. cap rates still attractive despite lower spread to the rest of developed world:**
 - Foreign acquisitions of U.S. real estate up 10% in '05**
- 10. User demand improving while construction is becoming more difficult, limiting future supply.**

Real Estate Investment Market

Risks and Challenges

- 1. Unexpected Capital Market Disruption**
 - Interest Rate Jump (Trade Deficit/Currency/Inflation)
- 2. Achieving Operational Efficiencies, Maximizing NOI**
 - Rising Operating Costs, Technology, Staffing, Competition
- 3. Exit strategy – Underwriting, Pro-Forma Pricing, Cap rates**
- 4. High Prices Leading to Too Much Construction, Particularly Office**
- 5. Energy Prices Pressuring Consumer Spending Down, Interest Rates Up (worst of both worlds)**
- 6. Wage pressure, Energy Prices Causing higher inflation by late '06-'07**
- 7. Housing Market Cooling Becoming a Hard Landing**
 - Less Job Growth, Less Consumer Spending, Some Lender Pullback

Real Estate Investment Market Opportunities

1. Urban Revitalization

- The empty nester wave will grow
- Condo speculation concerning in some markets

2. Mixed-Use Development, Re-development

3. Geographic Market Rotation

- Market diversification is critical going forward

4. Capital Flows into Emerging Product Types

- “Herd” movement can be leveraged - can also be risky

5. Choosing and Positioning Assets in Alignment with Local Economic Recovery

2006 Supply/Demand Index

Apartment, Retail, Office Markets

Top 10 Markets

Washington, D.C.
San Diego
Orange County, CA
Los Angeles
Las Vegas
Riv-San Bernardino, CA
Seattle
Fort Lauderdale
New York City - Manhattan
Oakland

Improving Markets

Phoenix
Boston
Tampa
Orlando
Denver
Portland
West Palm Beach
San Jose/San Francisco
Atlanta
Austin

Commercial Real Estate Industry Trends, Issues and Opportunities

- 1. Industry Consolidation**
- 2. Fee Compression and Rising Client Expectations**
- 3. Broker Payout**
- 4. Support Infrastructure and Rising Operating Costs**
- 5. The Wall Street Factor**
 - Direct Role in the Business; Securitization and Liquidity**
- 6. Portfolio Reshaping by Investors (Consolidation)**
- 7. Real Estate Globalization**
 - Capital Markets, Leasing, Corporate Representation**
- 8. Technology (Efficiencies, New Markets and Threats)**



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