Preview Issue May 2005

RERC CCIM

Investment Trends *Quarterly*

This issue is a sample only, and is intended to show you what to expect in future issues. With your data, future reports will include:

- *More transactions,*
- *More markets,*
- *More volume!*

RERC REAL ESTATE® RESEARCH CORPORATION

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RERC⌿CCIM Investment Trends Quarterly

An Exclusive Report for the CCIM Organization

Welcome

Real Estate Research Corporation (RERC) invites you to take a look at this **preview issue** of the new ***RERC/CCIM Investment Trends Quarterly***. This report is only a **sample of the type of information** you will be receiving in future issues, and is not considered a full report. We look forward to providing more transaction-based research and analysis in future reports.

Please note that it will take several quarters to fully develop this report as we build relationships with regional CCIM liaisons and expand upon the levels of research we can provide. We need your transaction information to make the report more complete. Log-on to **http://transactions.ccim.com/** to contribute your information to the CCIM Institute.

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If you have any questions or comments, please contact us by e-mail at **ccim@rerc.com**, or telephone us at **319-352-1500**.

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We are pleased to introduce you to the advisory board for the *RERC/CCIM Investment Trends Quarterly*. Members of this advisory board will be providing their support to this publication in a variety of ways, including sharing their insight on real estate-related trends, contributing special research, or guest-authoring articles in the report on topics such as real estate development, property-specific strategies, or globalization of real estate. Watch for more involvement from them as the *RERC/CCIM Investment Trends Quarterly* evolves.

We thank each of these individuals for their support and their contributions of time, talent, and knowledge:

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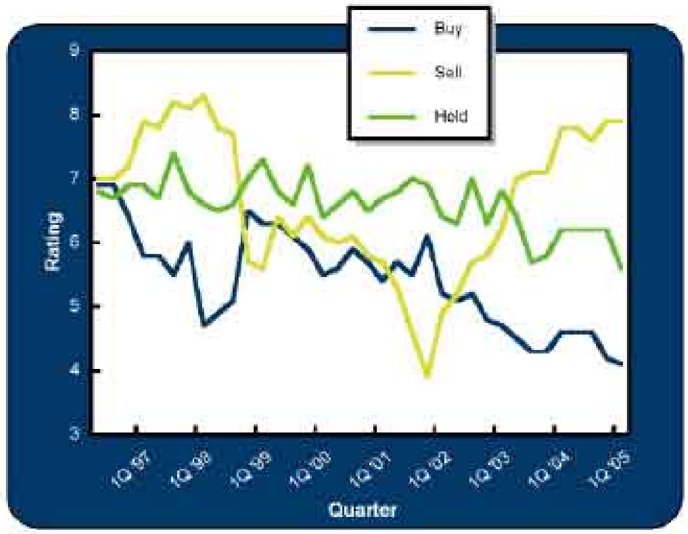
Real Estate
Holding Its Own in Softer Economy

As the markets react to recent corporate earnings statements, the pundits exclaim over lower GDP growth, and economists predict how the Federal Reserve will address indications of higher inflation, there is a sense of uncertainty about the economy and investment in general.

However, it is in this type of environment that one of real estate's greatest challenges—its propensity to lag the economy by 6 to 18 months—can also be one of its most stabilizing features. Since most real commercial real estate properties don't move on a moment's notice, there is time to study the fundamentals, evaluate return expectations, and make more informed decisions.

As the economy softens to a more sustainable level, real estate seems to be holding its own and returns are still higher year-to-date than those for stocks. But do high prices indicate that there is a real estate bubble in the making? Is the era of high returns coming to an end? What do the trends indicate? In real estate, as in life, analyzing the facts available—in this case the research—is key to placing investment expectations in line with reality.



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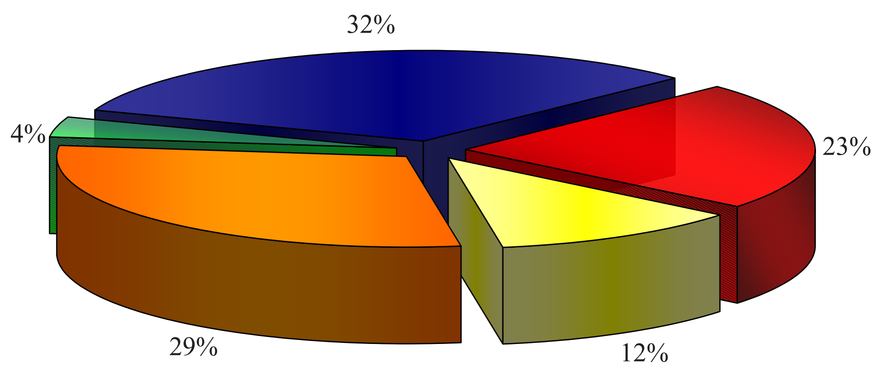
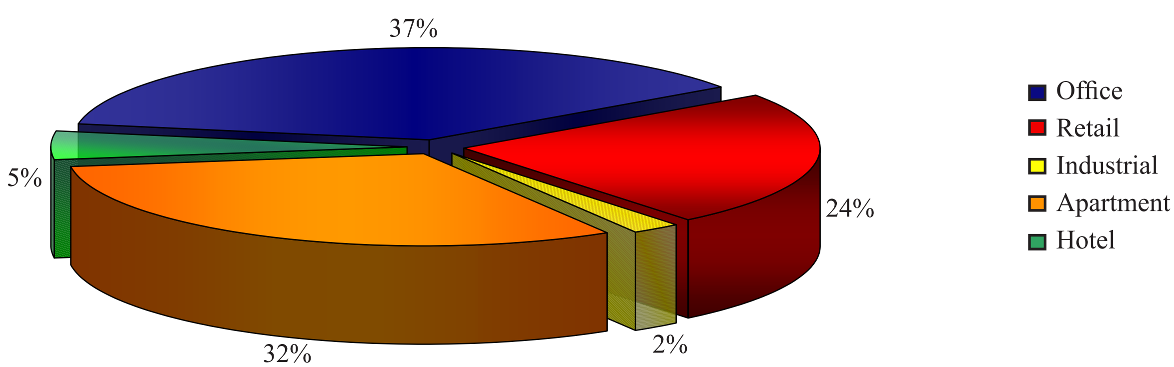


Transaction Distribution ($ Volume)



Economic Summary

- The April 20, 2005 Federal Reserve's Beige Book Report states that business activity continued to expand first quarter 2005 in all 12 Federal Reserve Districts. Manufacturing activity was described as "ahead of year-earlier" levels, and about half the districts reported that retail was up. Residential real estate remained strong in most areas, while commercial real estate conditions varied. Price pressures have intensified in a number of districts, and most report that high or rising energy prices are a concern across sectors.

- The U.S. economy closed out 2004 on a strong note, with final fourth quarter gross domestic product (GDP) growth at 3.8 percent and at 4.4 percent for the year. As RERC and others have suggested, GDP appears to be slowing slightly in 2005, with first quarter 2005 growth reported at 3.1 percent.

- The overall unemployment rate dropped to 5.2 percent, comparing favorably to 5.7 percent in March 2004. Job growth continues, with increases primarily in construction, mining, healthcare, and wholesale trade.

- Continuing their measured approach, the Federal Reserve Board raised the federal funds rate to 3.0 percent in May 2005.

- The Bureau of Labor Statistics reports that productivity increased 3.7 percent in the business sector and 2.1 percent in the non-farm business sector during fourth quarter 2004.

- In a recent survey conducted among leading economists by the *Wall Street Journal*, the economy may be able to sustain higher oil costs than previously thought. Approximately 31 percent of respondents felt that oil would have to sell in the $80- to $89-range to put the economy at risk, and 48 percent of respondents thought crude would have to top $90 a barrel to sap economic growth.

- The producer price index increased 0.7 percent in March 2005, led by a 3.3 percent jump in oil/energy prices. Wholesale inflation has risen by 4.9 percent over the last year.

- The Commerce Department reported that first quarter 2005 inflation increased to 2.2 percent on an annual basis.

- Consumer prices increased 0.6 percent in March 2005, mostly due to higher energy costs, building costs, and the lower dollar, reports the Bureau of Labor Statistics. However, even without the food and energy categories, "core" prices rose 0.4 percent after a 0.3 percent increase in February.

- The University of Michigan survey indicates that consumer sentiment fell for the fourth consecutive month, possibly due to high oil prices, continued unrest in the Mideast, and/or Washington gridlock. The mid-April report shows consumer sentiment at 88.7, its lowest reading in a year and a half. In addition, the 1-year price-increase expectation rose to 3.3 percent, the second highest since 1994.

RERC's Forecast and Conclusions

- GDP growth remains solid, but is expected to slow somewhat in 2005 and 2006. Employment and productivity gains continue.

- There are signs of beginning inflation, with indications in both producers' and consumers' price indices.

- The FOMC will continue to monitor inflation vs. economic growth.

- Business spending has continued this quarter, but consumers seem more wary due to continuing high oil prices, recently declining stock markets, and high debt levels.

Effect on Real Estate

- The Federal Reserve reported that from a wealth perspective, the state of U.S. households is improving. Soaring home values and rising stock prices drove the wealth of American households up 9 percent to a record $49 trillion at the end of 2004. However, mortgage debt increased by 13 percent to a level of $7.5 trillion.

- The Mortgage Bankers Association reports that seasonally adjusted delinquency rates for mortgage loans dropped to 4.23 percent in fourth quarter 2005, and foreclosure rates fell to 1.12 percent, their lowest level since third quarter 2000.

- The housing market is expected to remain strong, reports the National Association of Realtors (NAR), especially if 30-year mortgage rates remain below 6.0 percent for an extended length of time. Sales of existing single-family homes rose 1.0 percent in March, to a seasonably adjusted rate of 6.89 million. New-home sales increased 12 percent in March to a $1.43 million annual rate.

- NAR expects housing starts to increase by 1.4 percent to 1.98 million units in 2005, but new data from the Commerce Departments indicates that new house construction fell 17.6 percent in March, the biggest decline in 14 years. Although this federal data is recognized as spotty, the trend is troublesome since March data should typically reflect a high number of starts.

- NAR reports that the median existing home price for all housing types was $195,000 in March 2005, an 11.4 percent increase from a year ago and the biggest gain in 25 years. Despite record high pricing, evidence exists that prices are a reaction to inadequate supply and high demand. However, some experts suggest that since 23 percent of all homes purchased in 2004 were for investment purchases, a real estate bubble may be underway.

- Record levels of capital flowed to the commercial/multifamily mortgage markets in 2004, reports the Mortgage Bankers Association. The Federal Reserve recorded $2.29 trillion in commercial mortgage debt in 2004, an increase of $219.5 billion, or 10.6 percent, from a year earlier. Commercial banks held $982 billion, or 43 percent of the total, and commercial mortgage-backed securities pools held $423 billion, or 18 percent of the total. Life insurance companies held $251 billion, or 11 percent of the total, followed by savings institutions with $182 billion, or 8 percent of the total.

- Returns on stocks and bonds are much more volatile than those for commercial real estate and recently have been moving in a negative direction, while real estate returns remain relatively strong.

What Do The Financial Markets Tell Us?

Total Return % as of 3/31/2005

Market Indices	YTD	1-Year	3-Year	5-Year	10-Year
Consumer Price Index	0.79%	2.35%	2.37%	2.31%	2.39%
10-Year Treasury Bond*	4.31%	4.34%	4.21%	4.65%	5.31%
Dow Jones Industrial Average	-2.06%	3.59%	2.55%	1.20%	11.85%
NASDAQ Composite	-8.10%	0.25%	2.71%	-15.25%	9.36%
NYSE Composite	-1.14%	8.61%	4.13%	0.91%	9.60%
S&P 500	-2.15%	6.69%	2.74%	-3.16%	10.79%
NCREIF Index	3.51%	15.55%	10.12%**	9.99%**	10.91%**
NAREIT Index	14.55%	7.07%	17.47%	20.08%	13.85%

*Based on Average End of Month Returns
**Total Return % as of 12/31/2004
Sources: Morningstar, NCREIF, NAREIT, RERC Real Estate Report

- According to the Federal Reserve's Beige Book, commercial real estate markets varied during first quarter 2005. Office vacancy rates declined in New York, St. Louis, Minneapolis, and San Francisco. New commercial construction was robust in Cleveland, Atlanta, St. Louis, Dallas, and San Francisco, but slow in Richmond. Chicago reported steady vacancy and rental rates.

- With vacancy rates declining and returns less volatile than those for other investment classes, RERC's first quarter 2005 institutional survey respondents continued to rank real estate as a better investment than stocks, bonds, and cash, although stocks came in a close second.

- RERC's required pre-tax yield rates and going-in and terminal capitalization rates decreased significantly for all property types (20 to 60 basis points), indicating that the downward changes in the market are likely structural rather than cyclical and may be here for the long term. Unless interest rates increase sharply and capitalization rate increases follow, real estate prices likely will remain high.

RERC's Forecast and Conclusions

- The residential real estate market remains strong as demand continues to grow and interest rates remain low.

- With the economy remaining strong and employment continuing, consumers will hold on and businesses will continue to grow.

- Commercial real estate vacancy rates are expected to continue to inch downward, and returns are likely to continue to increase over the next several quarters.

- Real estate returns appear quite positive in comparison to other investments.

- RERC's required pre-tax yield rates and capitalization rates for all property types decreased significantly.

Real Estate Indicators

Performance Indicators	Recent Data	Impact on Commercial Real Estate
Consumer Confidence	Consumer confidence at 103 in March, dropped to 98 in April.	Higher fuel prices may be affecting consumers, although spending will continue and retail rents will remain steady to increasing.
10-Year Treasury Rates	March 31, 2005 - 10-year Treasury at 4.50%. April 25, 2005 - 10-year Treasury at 4.25%.	Rates are historically low, and will help to keep capitalization rates low with little alternative investment pressure.
S&P 500 Index	YTD Return is -2.15%.	Stock market has not provided investors with good alternatives to real estate during past 2 years. Investor demand could continue to put upward pressure on prices.
Vacancy Rates	Vacancy rates to remain flat or decrease. Current rates per Torto Wheaton Research: CBD office vac.=13.2%, suburban office vac.=16.6%, industrial properties availability=10.6%, retail properties to be 6.5% (by year-end 2005), and apartment vac.=5.9%.	Lower vacancy rates are beginning to drive incomes higher, and ultimately prices will increase as well. High vacancies offer office properties the greatest upside potential.
Rental Rates	Rents continue to increase. RERC's expected rents are: 2.7% for CBD office, 2.6% for suburban office, 2.4% for warehouse, 2.3% for R&D, 2.6 to 2.8% for retail, 2.5% for apartments, and 3% for hotels.	Increasing rents are beginning to drive incomes higher, and ultimately prices will increase as well. Office properties have the greatest upside potential.
Real Estate Returns	Required returns (yield rates) are lower as a result of higher prices. Demand continues due to few alternative investment options.	Real estate returns are expected to continue positive. Real estate is becoming a mature investment alternative, a must-have asset class. Retail properties stand the greatest risk with the run-up in prices over the past several years. Hotels still have the greatest upside potential as business and consumer spending continue. Also, hotels report solid income returns with lagging appreciation returns.
Capitalization Rates	Actual capitalization rates are stabilizing. RERC's required going-in and terminal capitalization rates decreased 20 to 40 basis points from last quarter, indicating there is still a little room for movement.	Commercial real estate is expected to remain a solid performer, as indicated by the stabilizing of capitalization rates. Historically, apartments have been classified as low-risk, but the low cap rates are beginning to create risk with apartments being priced for perfection.

RERC Required Return Expectations[1] by Property Type

	Industrial		Retail			Office					
	Warehouse	R&D	Regional Mall	Power Center	Neighbor/ Comm.	CBD	Suburban	Apartment	Hotel	Average All Types	RERC Portfolio Index
Pre-tax Yield (IRR) (%)											
Range	7.5 - 12	7.8 - 12	7.5 - 10	7.5 - 12	7.5 - 12	7.5 - 12	8 - 12	7 - 12	10 - 13	7 - 13	**7 - 13**
Average*	**9.3**	**10.1**	**8.9**	**9.4**	**9.2**	**9.1**	**9.8**	**8.9**	**12.1**	**9.6**	**9.3**
Going-In Cap Rate (%)											
Range	6.5 - 10	7 - 10	6 - 8	6.5 - 8.5	6.8 - 8.3	6 - 9	7 - 9	6 - 7.5	9 - 10.5	6 - 10.5	**6 - 10.5**
Average*	**7.8**	**8.5**	**7.2**	**7.7**	**7.5**	**7.7**	**8.2**	**6.9**	**10**	**7.9**	**7.6**
Terminal Cap Rate (%)											
Range	7 - 10.5	7.5 - 10.5	6.5 - 8.5	7 - 9	7.5 - 9	6.5 - 10	7.5 - 10	6.5 - 8.3	9.3 - 11.3	6.5 - 11.3	**6.5 - 11.3**
Average*	**8.4**	**9.1**	**7.8**	**8.2**	**8.1**	**8.2**	**8.8**	**7.6**	**10.6**	**8.5**	**8.2**
Rental Growth (%)											
Range	0 - 4	0 - 5	1 - 4	1.5 - 4	1.5 - 4	0 - 5	0 - 5	0 - 5	1 - 4.5	0 - 5	**0 - 5**
Average*	**2.4**	**2.3**	**2.8**	**2.6**	**2.7**	**2.7**	**2.6**	**2.5**	**3**	**2.6**	**2.6**
Expense Growth (%)											
Range	2 - 3.5	2 - 3.5	2 - 3.5	2 - 3.5	2 - 3.5	2 - 3.5	2 - 3.5	2 - 3.5	2 - 4	2 - 4	**1 - 4**
Average*	**2.7**	**2.7**	**2.8**	**2.7**	**2.8**	**2.8**	**2.7**	**2.7**	**2.9**	**2.8**	**2.7**

1 This survey was conducted in January, February, and March 2005 and reflects expected returns for First Quarter 2005 investments.
* Ranges and other data reflect the central tendencies of respondents: unusually high and low responses have been eliminated.
Source: RERC Investment Survey

National Transactions Sampling by Property Type

	Office	Industrial	Apartment	Retail	Hotel	Total
Number of Transactions	193	71	176	138	22	600
Volume ($ Bil)	$11.14	$0.58	$9.36	$7.11	$1.48	$29.68
Unit Adjusted Price*						
Range**	$90 - $330	$35 - $135	$50,000 - $400,000	$50 - $280	$60,000 - $300,000	
Average	$168	$64	$135,000	$167	$172,000	
Median	$155	$57	$113,000	$156	$200,000	
Cap						
Range**						
Average						
Median						

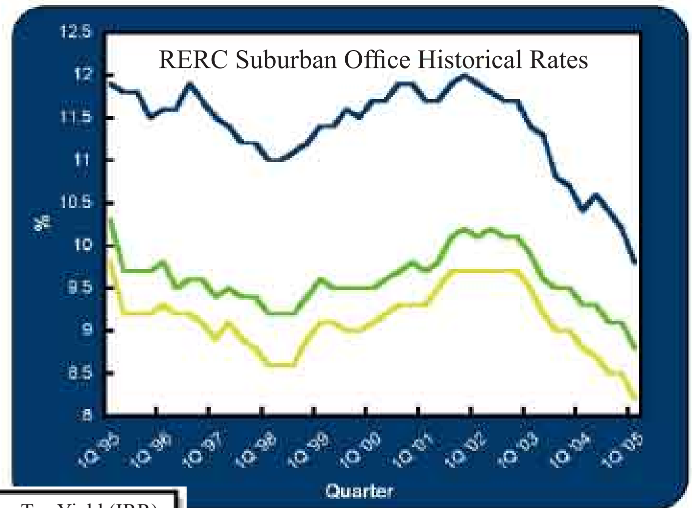
* Unit-adjusted price is given in price-per-square foot for office, industrial, and retail sectors. Apartment and hotel unit-adjusted price is given per living unit.
** Ranges are a result of the subjective elimination of outliers
Data was derived from a sample of commercial transactions nationwide.
Individual prices vary dramatically according to the individual characteristics of the asset.

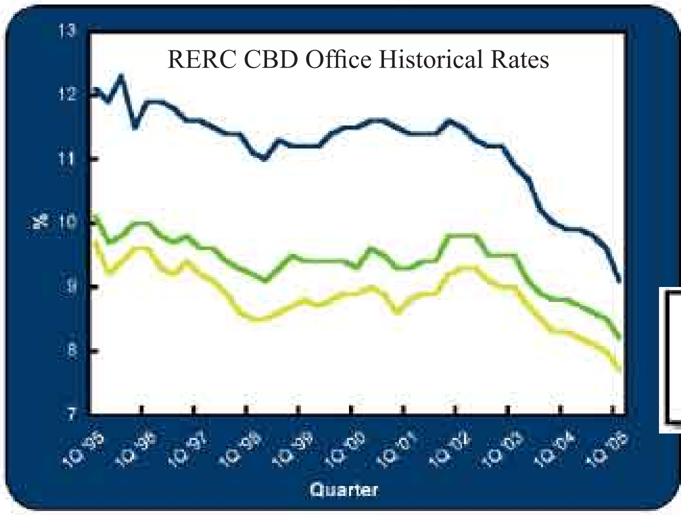
Office
Property Sector

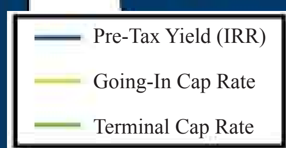
Although RERC's investment conditions ratings for CBD office and suburban office properties have improved quarter by quarter over the last year, office still ranks lower in investment potential than all the other property types RERC tracks, except for industrial R&D.

However, office jobs continue to increase, especially in the financial and services sectors, and little by little, new jobs are chipping away at office vacancy rates. According to Torto Wheaton Research, suburban office vacancy dropped to 16.6 percent by the end of 2004, while CBD office vacancy closed out the year at 13.2 percent. Vacancy rates are expected to remain relatively flat through 2006.

RERC's rental growth for CBD office is expected to increase 2.7 percent, and 2.6 percent for suburban office. Nationally, the required pre-tax yield rate for CBD office decreased 50 basis points to 9.1 percent from last quarter, and declined 40 basis points to 9.8 percent for suburban office. RERC's required going-in and terminal capitalization rates dropped 30 basis points for the suburban and CBD office property sectors.







Office Highlights

➤ Although business invested heavily in technological improvements during fourth quarter 2004 (18.4 percent), spending slowed during first quarter 2005 to 6.9 percent and most analysts anticipate slower productivity as the economy shifts to slower but steady expansion.

➤ The volume of office transactions increased by 65 percent to $77.2 billion in 2004, reports Real Capital Analytics.

➤ Torto Wheaton Research forecasts that higher demand for suburban office properties will continue.

Office Risk-Adjusted Returns

The Return of Office Returns

	NCREIF Returns	NCREIF St.Dev.*	RAR** Metric	RERC Returns	NCREIF vs.RERC
10-Year Average Returns					
Office - CBD	11.32%	4.48%	2.5	11.15%	0.17%
Office - Suburban	11.53%	6.52%	1.8	11.36%	0.17%
All Property Types	11.13%	3.46%	3.2	11.25%	-0.13%
12-Month Average Returns					
Office - CBD	13.31%	4.48%	3.0	9.60%	3.71%
Office - Suburban	13.08%	6.52%	2.0	10.25%	2.83%
All Property Types	15.77%	3.46%	4.6	10.03%	5.74%

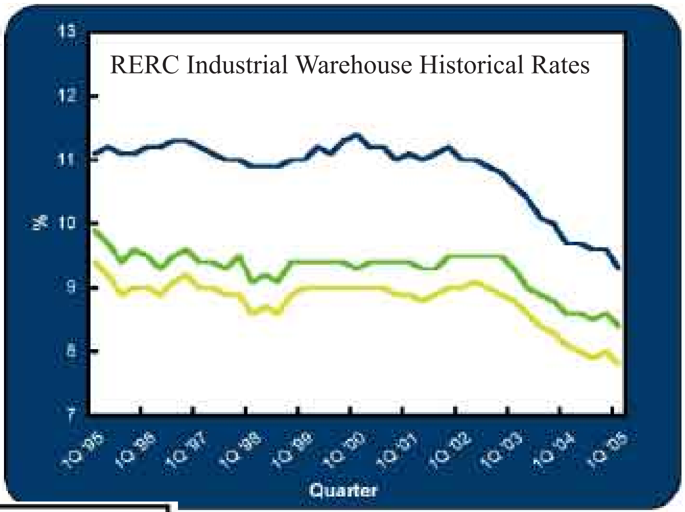
Sources: Spring 2005 *RERC Risk & Return Analysis*, NCREIF
*Standard deviations are based on a 10-year period from NCREIF data on an annual basis.
**RAR stands for risk-adjusted returns, and is calculated by dividing NCREIF returns by NCREIF standard deviation.

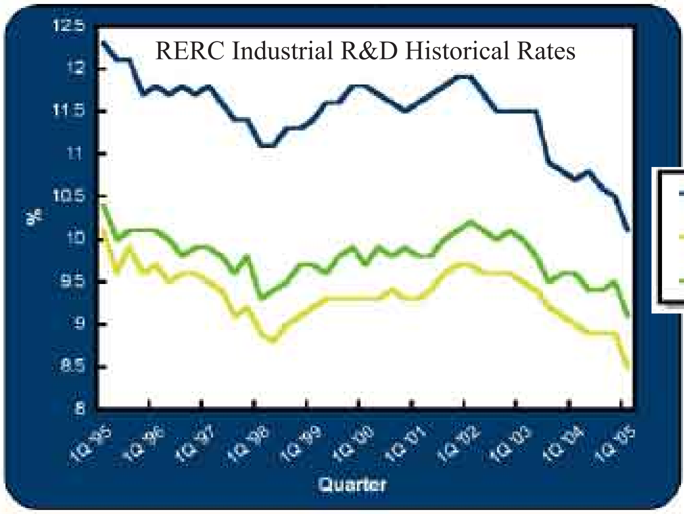
Industrial
Property Sector

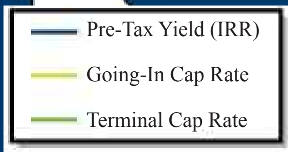
With space absorption in the national industrial sector finally turning positive in 2004 (176 million square feet absorbed, and 116 million square feet completed) and the availability rate declining to 10.6 percent, according to Torto Wheaton Research, there is finally some room for optimism among industrial property investors.

This new status is reflected in RERC's investment conditions ratings, which increased 40 basis points for both warehouse and for R&D properties over last quarter to 6.2 and 5.3, respectively (on a scale of 1 to 10, with 10 being high). Warehouse space in particular, especially in port and distribution hub cities, is in high demand. As such, RERC's institutional respondents expect rental growth to increase 2.4 percent for warehouse properties and 2.3 percent for R&D properties.

RERC's required institutional pre-tax yield rates declined to 9.3 percent for warehouse properties, a 30-basis point drop, and to 10.1 percent for R&D properties, a 40-basis point drop. In addition, RERC's required going-in and terminal capitalization rates for warehouse properties decreased 20 basis points each, while capitalization rates for R&D properties decreased 40 basis points each.







Industrial Risk-Adjusted Returns

Returns Positive for Warehouse While R&D Suffers

	NCREIF Returns	NCREIF St.Dev.*	RAR** Metric	RERC Returns	NCREIF vs.RERC
10-Year Average Returns					
Warehouse	11.70%	2.31%	5.1	10.82%	0.88%
R&D	12.92%	8.21%	1.6	11.45%	1.47%
All Property Types	11.13%	3.46%	3.2	11.25%	-0.13%
12-Month Average Returns					
Warehouse	13.22%	2.31%	5.7	9.55%	3.67%
R&D	9.91%	8.21%	1.2	10.50%	-0.59%
All Property Types	15.77%	3.46%	4.6	10.03%	5.74%

Sources: Spring 2005 *RERC Risk & Return Analysis*, NCREIF
*Standard deviations are based on a 10-year period from NCREIF data on an annual basis.
**RAR stands for risk-adjusted returns, and is calculated by dividing NCREIF returns by NCREIF standard deviation.

Industrial Highlights

- The Commerce Department reported durable spending declined 2.8 percent in March 2005, the largest drop in 2 ½ years, along with shipments, which fell 0.2 percent in March and 1.8 percent in February.

- Consumer spending on big-ticket items such as cars was flat in first quarter 2005 compared with a 3.9 growth rate in fourth quarter 2004.

- Torto Wheaton Research reports that at 5.9 percent, Los Angeles has the lowest availability of warehouse space.

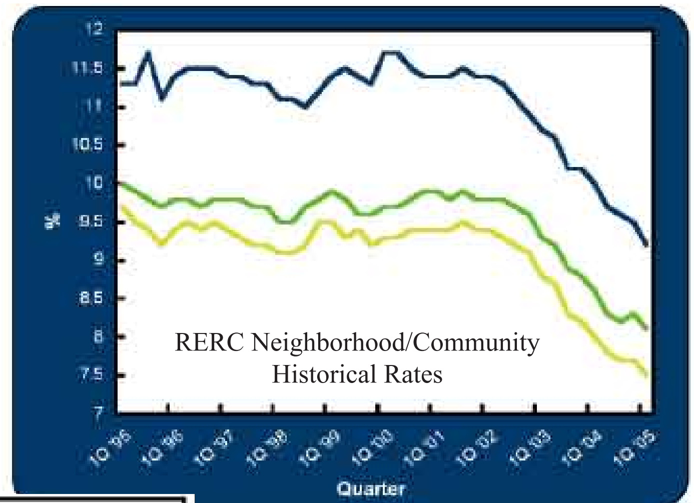
- New supply totaled 115 million square feet in 2004, up from 93 million square feet in 2003, reports Torto Wheaton Research.

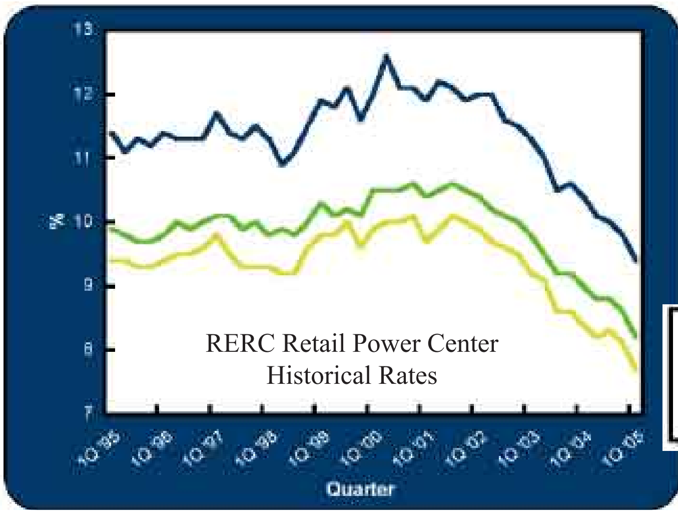
Retail
Property Sector

At 6.5 to 6.6, RERC's investment conditions ratings for retail properties are the highest of all the property types we track (on a scale of 1 to 10, with 10 being high). Even with continued store closings due to acquisitions and mergers, expected rental growth is expected to be relatively strong for retail properties in 2005.

According to Reis Inc., the vacancy rate for shopping malls remained at 5.3 percent, although the vacancy rate in strip malls edged up to 6.9 percent in first quarter 2005 from 6.8 percent the prior quarter. As long as consumers hold on, retail is expected to perform well, despite the completion of an expected 29 million square feet of strip mall construction this year (about 17 percent more than was built in 2004), and a continued increase in e-commerce sales (roughly now 2 percent of all overall retail sales).

RERC's required pre-tax yield rates for regional malls are reported at 60 basis points lower than a quarter ago, with the decrease in required pre-tax yield rates for power centers and neighborhood/community centers slightly less severe with a decline of 40 and 30 basis points, respectively. RERC's required going-in and terminal capitalization rates declined as well, down 30 to 40 basis points for regional malls, 40 basis points for power centers, and 20 to 30 basis points for neighborhood/community centers.





Pre-Tax Yield (IRR)
Going-In Cap Rate
Terminal Cap Rate

Retail Risk-Adjusted Returns

Reversal of Fortune

	NCREIF Returns	NCREIF St.Dev.*	RAR** Metric	RERC Returns	NCREIF vs.RERC
10-Year Average Returns					
Neigh/Comm	12.12%	4.50%	2.7	11.04%	1.08%
Power Center	12.83%	4.60%	2.8	11.34%	1.49%
Regional Mall	11.04%	7.97%	1.4	11.02%	0.02%
All Property Types	11.13%	3.46%	3.2	11.25%	-0.13%
12-Month Average Returns					
Neigh/Comm	22.28%	4.50%	4.9	9.50%	12.78%
Power Center	20.86%	4.60%	4.5	9.83%	11.03%
Regional Mall	27.15%	7.97%	3.4	9.40%	17.75%
All Property Types	15.77%	3.46%	4.6	10.03%	5.74%

Sources: Spring 2005 *RERC Risk & Return Analysis*, NCREIF
*Standard deviations are based on a 10-year period from NCREIF data on an annual basis.
**RAR stands for risk-adjusted returns, and is calculated by dividing NCREIF returns by NCREIF standard deviation.

Retail Highlights

➤ Oil prices rose to an all-time high of $57.27/barrel in early April, but have since retreated. Gasoline prices are expected to remain at more than $2/gallon.

➤ The Commerce Department reports that consumer spending increased by 0.6 percent in March, following a 0.7 percent increase in February.

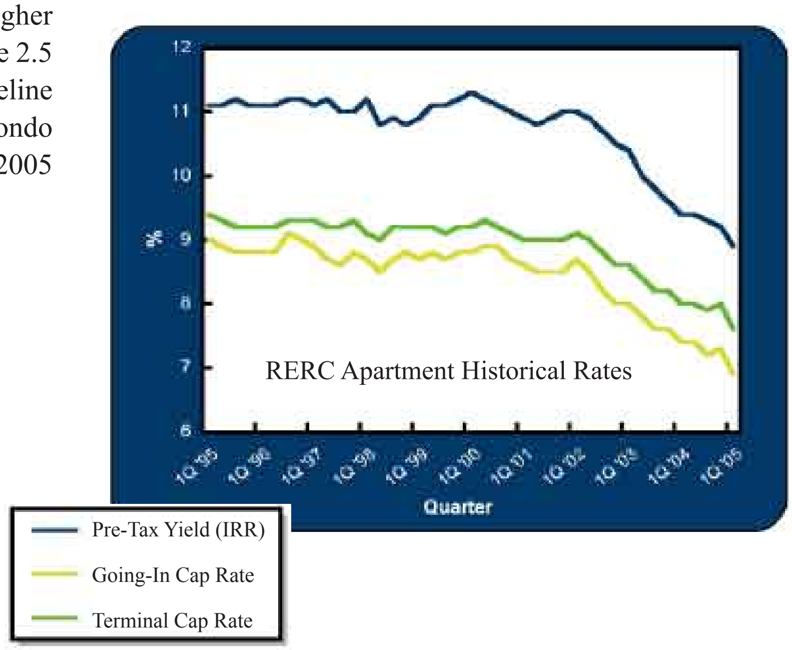
➤ Strength in the building supply retail segment continues for the short term, as home building continues to boom and commercial building increases.

Apartment
Property Sector

Capital continues to flow to apartments, with the volume of apartment transactions increasing to 27 percent of total commercial real estate deals, surpassing the retail sector, reports Torto Wheaton Research. In addition, we saw the strongest net absorption of apartments in 4 years in 2004, as the national vacancy rate declined to 5.9 percent for the year.

At 6.4 (on a scale of 1 to 10 with 10 being high), RERC's institutional survey respondents rated first quarter 2005 investment conditions for apartments 50 basis points higher than last quarter, with rental growth expected to increase 2.5 percent. This is not surprising, as the construction pipeline remains full, and there are more apartment and condo conversion completions expected to take place in 2005 alone than during the last 2 years combined. However, given continued low interest rates, apartment occupancy will not improve much more until 2006, despite increased hiring and household formation among the echo boomers.

RERC's required pre-tax yield rates for apartments on the national level fell to 8.9 percent for first quarter 2005, and required going-in capitalization rates fell below the 7-percent level.



Apartment Highlights

- The volume of apartment transactions increased by 52 percent to $45.8 billion in sales in 2004, states Real Capital Analytics.
- The amount of new apartment space entering the planning phase has surged since June 2004, reports Property and Portfolio Research and Reed Construction.
- Florida, Southern California, and the Washington, D.C. metro areas lead the nation in rent growth—along with 35 percent of the nation's employment and population growth—reports Torto Wheaton Research.

Apartment Risk-Adjusted Returns

Strong Returns, Low Volatility, Satisfied Investors

	NCREIF Returns	NCREIF St.Dev.*	RAR** Metric	RERC Returns	NCREIF vs.RERC
10-Year Average Returns					
Apartment	11.62%	1.98%	5.9	10.69%	0.93%
All Property Types	11.13%	3.46%	3.2	11.25%	-0.13%
12-Month Average Returns					
Apartment	13.81%	1.98%	7.0	9.20%	4.61%
All Property Types	15.77%	3.46%	4.6	10.03%	5.74%

Sources: Spring 2005 *RERC Risk & Return Analysis*, NCREIF
*Standard deviations are based on a 10-year period from NCREIF data on an annual basis.
**RAR stands for risk-adjusted returns, and is calculated by dividing NCREIF returns by NCREIF standard deviation.

Hotel
Property Sector

RERC's investment conditions for hotels increased to 6.2 (on a scale of 1 to 10, with 10 being high) during first quarter 2005. Expected rental growth is reported at 3.0 percent, the highest rental growth rate percentage of any of the property types RERC tracks, due in part to the weak dollar and to the strengthening tourism industry. The most popular destination markets among tourists remain New York, Florida, and California.

According to Torto Wheaton Research, revenue per available room (RevPAR) is expected to continue strong in 2005, but will eventually decelerate as supply growth accelerates. With occupancy and average daily rate gains, year-end RevPAR increased by 10.0 percent for full-service hotels and 9.6 percent for limited-service hotels.

RERC's first quarter 2005 required pre-tax yield rates dropped to 12.1 percent, or 50 basis points from last quarter, and required going-in and terminal capitalization rates each dropped 40 basis points.

Hotel Highlights

- Travel is back, with 46.1 million international visitors traveling to the U.S. in 2004, 12 percent more than the year before.
- Those travelers spent $93.7 billion, an increase of 17 percent from the year before, says the Commerce Department.
- According to Hotel Business research, the Northeast and Mid-Atlantic are the regions where real estate investment trusts are most likely to acquire hotels.

Risk-Adjusted Returns

Returns Poised to Improve

	NCREIF Returns	NCREIF St.Dev.*	RAR** Metric	RERC Returns	NCREIF vs.RERC
10-Year Average Returns					
Hotel	13.34%	11.18%	1.2	12.94%	0.40%
All Property Types	11.13%	3.46%	3.2	11.25%	-0.13%
12-Month Average Returns					
Hotel	10.56%	11.18%	0.9	12.38%	-1.82%
All Property Types	15.77%	3.46%	4.6	10.03%	5.74%

Sources: Spring 2005 *RERC Risk & Return Analysis*, NCREIF
*Standard deviations are based on a 10-year period from NCREIF data on an annual basis.
**RAR stands for risk-adjusted returns, and is calculated by dividing NCREIF returns by NCREIF standard deviation.

Metro
Property Sector

In addition to a look at the national markets, RERC will provide investment criteria and transaction information on 40 metropolitan U.S. markets. These market reports will be developed over the next few quarters as we strengthen relationships with CCIMs in these areas and receive more transaction information from you. A sample of the kind of information you can expect for each market we cover is found on the following two pages on the Chicago metro.

Eventually, we will be providing information on the following 40 metro markets:

Atlanta
Austin
Baltimore
Boston
Charlotte
Chicago
Cincinnati
Cleveland
Columbus
Dallas/Ft. Worth
Denver
Detroit
Hartford
Honolulu
Houston
Indianapolis
Kansas City
Las Vegas
Lost Angeles
Memphis
Miami
Minneapolis
Nashville
New York
Newark
Omaha
Orlando
Philadelphia
Phoenix
Pittsburgh
Portland
Richmond
Salt Lake City
San Antonio
San Diego
San Francisco
Seattle
St. Louis
Tampa
Washington, D.C.

Chicago
Metro Report

Your Picture Here

Your Name, CCIM

Metro Trends & Highlights

The Chicago-area economy grew moderately during first quarter 2005. Consumer spending slowed slightly, while business spending increased. Manufacturing remained solid, with additional workers hired (few reports of layoffs were in the auto industry). Business loans for financing equipment and inventory increased, with credit quality generally stable. There was evidence of price increases, but overall cost and price pressures remained moderate.

Commercial Real Estate Highlights

- The commercial real estate markets continued to be quite active in the Chicago area. Vacancy rates and rents were generally stable, with some improvement in suburban Chicago.
- The new 1 million-square-foot office tower at 111 S. Wacker Drive is being marketed at a price of $375 a square foot. Scheduled for completion in June, the store will be anchored by Deloitte. If the target price is met, this would be the highest price paid for an office building on a per-square-foot basis since the market last peaked in 1990, reports the Chicago Tribune.
- Home Depot, Inc. is on its way to becoming one of the largest users of industrial warehouse space in the Chicago area. Home Depot recently leased the new spec-built 800,000-square-foot distribution center at 1701 Remington Drive in Bolingbrook, adding to the 1.4 million square feet space of distribution space it leases less than 2 miles from the new location.
- Sara Lee Corporation announced it is moving its corporate headquarters from the Loop to the former Spiegel's building in Downers Grove. Approximately 1,000 workers will relocate, taking up approximately 8 ½ stories of the 12-story building. Sara Lee is also looking for a nearby R&D center for new product development.

Chicago Space Market Research

	Inventory		Completions	Vacancy or Avail Rate		Net Absorption		Asking Rents	
	Buildings	Stock (SF x 1000)	(SF x 1000)	Curr Qtr (%)	YTD Chng (BPS)	Curr Qtr (SF x 1000)	YTD (SF x 1000)	Curr Qtr ($/SF)	Net or Gross
Office									
Class A	435	117,089	-	18.3	-80	1,555	2,571	17.96	Net
Class B/C	1,013	97,698	-	17.2	30	349	173	19.71	Gross
Office Total	1,448	214,787	2,460	17.8	-30	1,904	2,744	17.38	Net
Industrial									
Manufacturing	7,806	507,070	-	9.2	20	621	519	4.18	Net
Warehouse	6,751	460,543	-	14.2	-80	5,977	11,055	4.56	Net
R&D	1,232	63,961	-	16.0	-60	450	1,175	9.05	Net
Industrial Total	15,851	1,034,840	11,893	11.9	-20	6,547	12,342	4.84	Net
Retail	-	85,848	779	10.4	-	-	-	20.68	-
Multi-Housing	690,829 units		7,936	6.3	-50	15,704 units		945/month	

Source: Torto Wheaton Research

Chicago

1st Quarter 2005

RERC Investment Criteria for Chicago

	Pre-Tax Yield (%)				Going-In Cap Rate (%)				Terminal Cap Rate (%)				Anticipated Growth Rates		
	RERC Estimate	Chicago Survey	Midwest Region	U.S.	RERC Estimate	Chicago Survey	Midwest Region	U.S.	RERC Estimate	Chicago Survey	Midwest Region	U.S.	1-Year Value	1-Year Rents	5-Year Rents[1]
CBD	10.2	9.9	10.4	10.1	8.4	8.1	8.6	8.3	9.1	8.8	9.2	9.0	0.2	1.8	4.8
Suburban	10.3	10.1	10.5	10.3	8.6	8.4	8.7	8.5	9.2	9.0	9.3	9.2	-1.8	0.3	4.1
Warehouse	9.8	9.8	10.1	10.1	8.3	8.2	8.6	8.4	8.9	8.8	9.2	9.0	1.6	0.3	-0.8
R&D	10.2	10.2	10.5	10.4	8.7	8.6	9.0	8.8	9.3	9.2	9.6	9.4	0.5	-0.3	-0.8
Regional Mall	9.4	9.6	9.8	9.7	7.7	7.9	8.1	8.0	8.1	8.3	8.6	8.6	1.0	1.7	2.6
Power Center	9.7	9.9	10.1	9.9	7.9	8.0	8.3	8.2	8.5	8.6	8.9	8.8	2.0	2.1	2.6
Neigh/Comm.	9.5	9.7	10.0	10.0	7.9	8.1	8.3	8.1	8.4	8.6	8.9	8.7	2.0	2.1	2.6
Apartment	9.1	9.1	9.4	9.4	7.4	7.5	7.6	7.4	8.0	8.0	8.3	8.1	2.9	1.7	2.6
Hotel	12.4	12.1	12.0	11.9	10.4	10.1	10.3	9.9	10.9	10.6	10.8	10.5	1.3	4.7	13.9
Average	10.1	10.0	10.3	10.2	8.4	8.3	8.6	8.4	8.9	8.9	9.2	9.0	1.1	1.6	3.5

[1]5-Year Rents is RERC's Estimate for the average per year rent growth, based on survey response and Torto Wheaton Research
Metro survey results may not be statistically valid.
Source: RERC Investment Survey

Chicago Economic Indicators

	1Q 2005	% Change Last Quarter	Annual % Change	5-Year Avg. % Change	10-Year Avg. % Change
Population (thousands)	9,391.51	-	0.66%	0.79%	0.80%
Total Employment	4,446,452	0.01%	1.18%	-0.29%	0.39%
Unemployment Rate	6.07%	9.48%	-10.29%	7.73%	3.46%
Single Family Res. Perm (# of units)	7070	-	2.92%	2.42%	3.04%
Multifamily Res. Perm. (# of units)	-	-	-21.03%	0.78%	3.43%
Home Mortgage Price Index (1987Q1=100)	287.28	1.13%	9.12%	9.45%	7.31%

Sources: Bureau Labor Statistics, U.S. Census Bureau, Freddie Mac & Fannie Mae

Chicago Transactions Sampling by Property Type

	Office	Industrial	Apartment	Retail	Hotel	Total
Number of Transactions	14	13	2	5	4	38
Volume ($ Mil)	$1,557.12	$75.80	$45.00	$499.23	$409.80	$2,586.95
Unit Adjusted Price*						
Range**	$45 - $170	$30 - $90				
Average	$97	$48				
Median	$95	$39				
Cap						
Range**						
Average						
Median						

* Unit-adjusted price is given in price-per-square foot for office, industrial, and retail sectors. Apartment and Hotel unit-adjusted price is given per living unit.
** Ranges are a result of the subjective elimination of outliers
Data was derived from a sample of commercial transactions nationwide.
Individual prices vary dramatically according to the individual characteristics of the asset.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RERC Scope and Methodology

REPORT METHODOLOGY

The RERC Real Estate Investment Survey summarizes the required rates of return (ex ante), property selection criteria, and investment outlook of a representative sample of large institutional investors and regional respondents throughout the United States. We survey both regional and institutional investors across the nation quarterly, questioning them on specific investment criteria in their local marketplace and trends across the country. The results are collected, averaged, and then displaced in our quarterly report.

Published quarterly, the data provides timely insight into yields, return criteria, and risk adjustments that institutional investors rely on when making acquisitions. The survey data is used by investors, developers, appraisers, and financial institutions to monitor changing market conditions and to forecast financial performance.

Findings reflect ex-ante required returns, or goals, of investors contemplating acquisitions. Thus, the RERC survey acts as a barometer of current market perceptions and confidence among the nation's top professionals.

Readers should also recognize that underwriting assumptions and practices, as well as underlying definitions of key terms, will vary slightly among survey respondents. Therefore, the greatest benefit to an investor who is interpreting survey results over time is an appreciation of the trends of various measuring devices and contemplation of the relationship of one measuring device to another. It is equally important to keep in mind that the investment survey reports required returns, not actual or historical performance. Performance data is available from other sources.

RERC DEFINITIONS

Basis Point Spread (bps): The difference between the yield (as defined) and an alternative investment with a comparable life (10-Year Treasuries, Moody's Baa, Moody's Aaa).

Going-In (Overall) Capitalization Rate: Going-in capitalization rate is usually defined as the first year NOI (before capital items of tenant improvements and leasing commissions and debt service but after real estate taxes) divided by present value (or purchase price).

Holding period: Average period of time that a property type is held for investment.

Marketing Time: The period of time between the offering of a property for sale and securing a bona fide buyer.

Pre-tax Yield (IRR, Discount Rate): The pre-tax yield is the rate of interest that discounts the pre-income tax cash flows received on an unleveraged investment back to a present value that is exactly equal to the amount of the original equity investment. (It is in effect a time-weighted average return on equity and, as used here, is synonymous with the term "yield.")

Renewal Probability: Percentage probability that is expected for an existing tenant to renew their lease after the expiration date.

RERC Estimate vs. Survey Rates: In addition to the survey responses (survey rates) that RERC receives and analyzes each quarter, RERC also developed a model that incorporates unemployment, vacancy rates, and other financial and space market data. This modeled information, combined with the data received from the survey responses, is the RERC Estimate.

RERC Portfolio Index (RPI): The RPI is RERC's required return utilizing a weighted average based on the NCREIF Property Index.

Reserves: Amount allocated for periodic replacement of long-lived building components during a property's economic life.

Terminal (Residual) Capitalization Rate: Terminal cap rate is the rate used to estimate resale or reversion value at the end of the holding period. Typically, it is the NOI in the year following the last year of the holding period that is capitalized. Similar to the going-in capitalization rate, but applied at the end of the holding investment period.

Time to Release: Number of months a space remains unleased at the expiration of a vacating tenant.

Vacancy Loss: Percentage of total revenue uncollected due to space that remains vacant over a typical holding period.

RERC DEFINED REGIONS:

West: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

Midwest: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

South: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Oklahoma, Tennessee, Texas

East: Connecticut, Delaware, Kentucky, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, Washington D.C., West Virginia

Note of Caution: It is imperative to exercise caution when interpreting required rates of return. RERC national return data shows a normal range of expected returns from all categories of investment-grade properties. Obviously, properties with greater investment risk will be at the high end of the scale. Rates obtained from this survey are not directly applicable to non-investment grade properties.

We also note that investors generally strive to achieve a diversified portfolio; this motivation partially explains the variation in IRR requirements. Ranges and other data reflect the central tendencies of respondents, and unusually high and low responses have been eliminated.