



Quarter in Review: Broad Growth Seen across Property Types and Markets

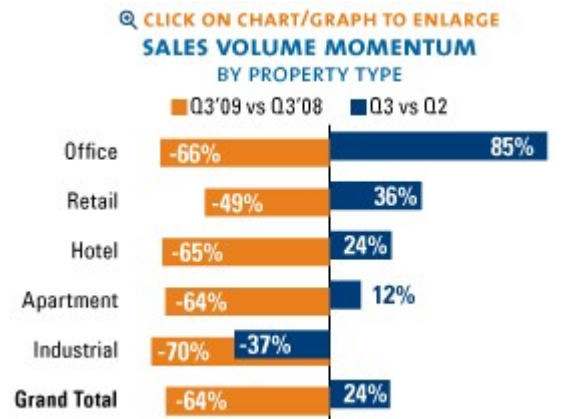
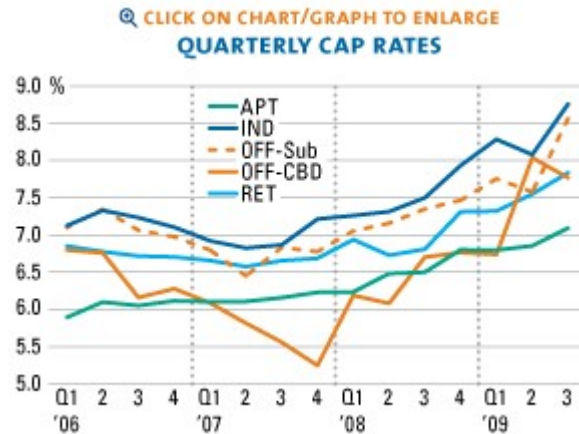
Cap rates still rising as distress remains a heavy load

The third quarter was unquestionably the strongest so far in 2009, with \$12.5 billion in volume, continuing the sequential quarterly growth from Q2 even though year-over-year comparisons are still broadly and materially negative. All property types (except industrial) showed positive growth in transactions over Q2, with office up an impressive 85%. The 24% growth in overall dollar volume was achieved despite 12% fewer properties selling. The resulting increase in average deal size can be interpreted as a positive signal since larger deals have been rare this year.

Another positive was the significant 20% pullback in the aggregate value of new offerings coming to market in Q3. While the volume of offerings still exceeded closings in Q3 by almost 2 to 1, the slowing is an important trend. Sellers are becoming more selective or realistic or perhaps they may have been able to extend or modify loans and are thus feeling less pressure to sell. Whatever the reason, this recent group of prospective sellers is more likely to be serious about disposing of the assets at current pricing levels.

Another apparent plus in Q3 was a falloff in the pace of new distress, down 33% in dollar volume and off a striking 58% in newly distressed properties over Q2. However, Q2 was inflated by several large corporate bankruptcies (GGP, Extended Stay, etc). The \$29b of commercial property falling subject to default, foreclosure or bankruptcy in Q3 is above levels in Q1 or prior and continues to dwarf the volume of properties sold. The percentage of sales associated with distress doubled in Q3 to 17% but is still well below expectations as lenders are generally favoring extensions and modifications over liquidations.

The greater share of distressed assets trading contributed to the erosion of

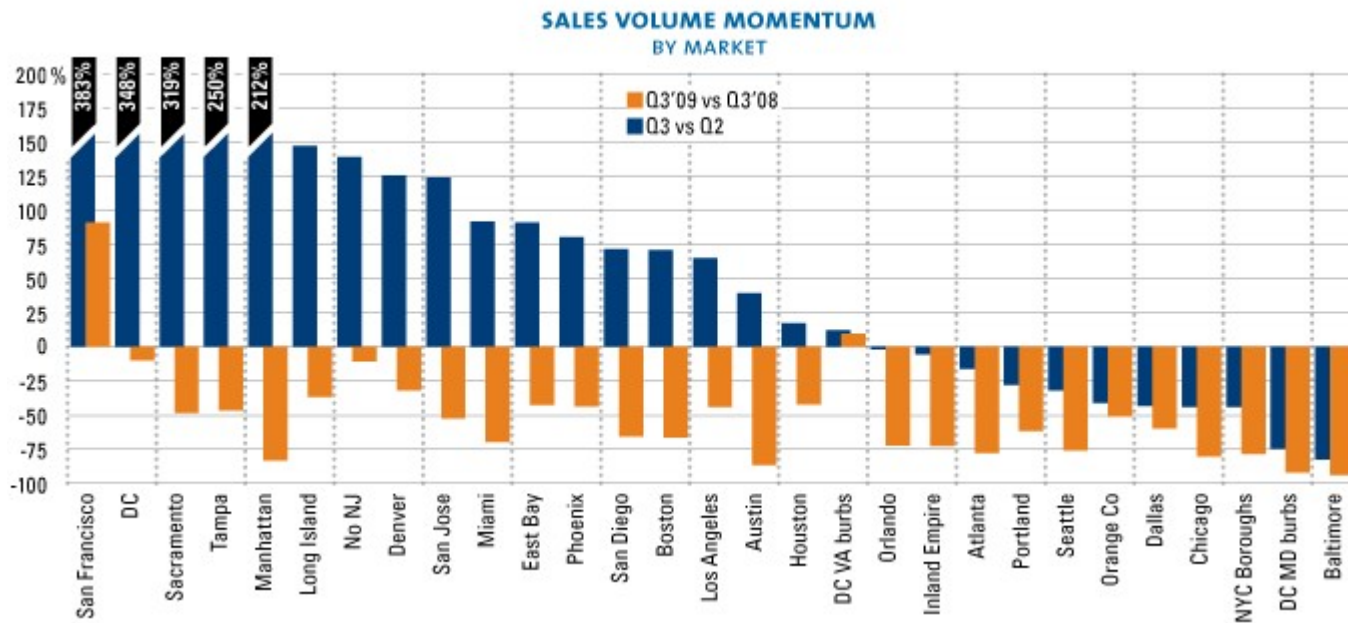


	Volume (2009 YTD)					
	Closed		Offered		Newly Distressed	
	\$ Bil	# Props	\$ Bil	# Props	\$ Bil	# Props
Garden	\$6.45	448	\$14.82	909	\$8.89	838
Mid/Highrise	\$2.30	132	\$4.52	244	\$6.06	289
APT Total	\$8.75	580	\$19.34	1,153	\$14.95	1,127
Full Service	\$1.35	67	\$3.99	159	\$13.41	213
Limited Service	\$0.61	50	\$2.58	255	\$10.43	861
HOT Total	\$1.96	117	\$6.57	414	\$23.84	1,074
Flex	\$1.51	118	\$7.68	596	\$1.51	158

pricing in Q3. Cap rate increases in Q3 across property types generally ranged between 25 and 75 bps and were as steep or steeper than in any other period since the credit crunch began. The exception: CBD office yields dipped in Q3 on the strength of high-priced sales of low-vacancy assets such as 1999 K Street in Washington at a reported 6.3% yield, but CBD properties have also experienced the greatest spike in yields - 250 bps - over the past two years.

Warehouse	\$3.76	370	\$10.34	740	\$1.91	274
IND Total	\$5.27	488	\$18.02	1,336	\$3.41	432
CBD	\$4.34	79	\$9.07	172	\$9.89	143
Suburban	\$6.51	307	\$15.63	864	\$7.94	422
OFF Total	\$10.86	386	\$24.70	1,036	\$17.83	565
Mall & Other	\$2.47	235	\$8.88	744	\$16.24	429
Strip	\$3.23	215	\$7.90	565	\$7.01	385
RET Total	\$5.70	450	\$16.78	1,309	\$23.25	814
Grand Total	\$32.55	2,021	\$85.42	5,248	\$83.27	4,012

An encouraging element of third quarter activity is the broad nature of positive growth in sales quarter-to-quarter, if not only in every property type other than industrial, but also in almost every major market as well. The strongest market performance was a stunning 383% rise in San Francisco - one of just two markets along with the DC Virginia suburbs - to show positive year-over-year growth. The handful of markets with sequential declines included few surprises - such as the NYC Boroughs, down 44% vs. Manhattan's 212% rise - and Chicago, the largest market with negative numbers. Even though markets such as Detroit, Orange County and Baltimore - along with the DC Maryland suburbs - all lost volume, other markets typically considered troubled, such as Phoenix, Miami and Tampa posted significant gains in sales activity.



All data subject to future revision; based on properties & portfolios \$5 million and greater.