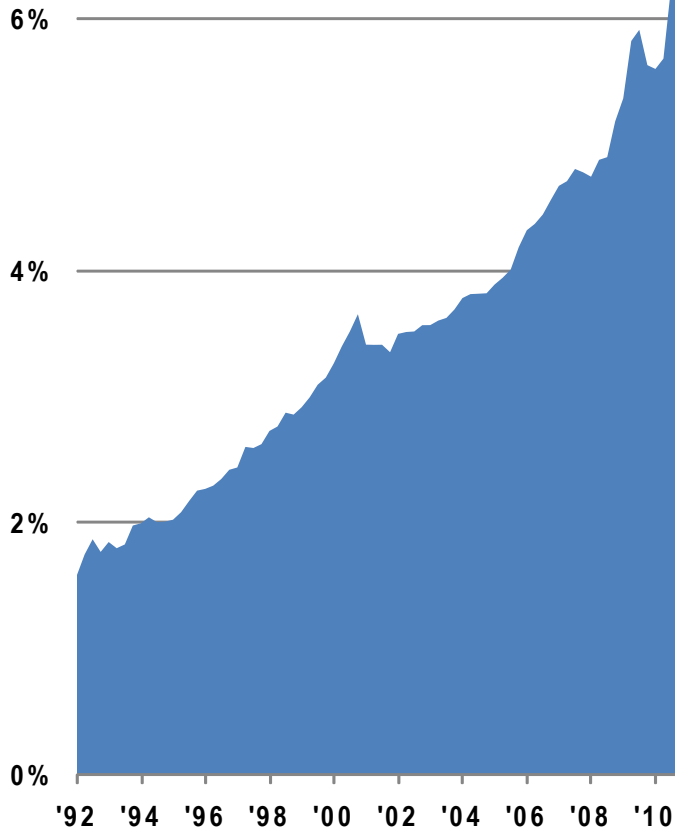


## Commercial Real Estate Profile

Spring 2011, Published March 8

### Changing Spending Habits...

Electronic Commerce Share of Retail Sales



Electronic spending is shifting some real estate demand from retail to industrial buildings. Amazon.com occupies 24.5 million square feet of distribution space and plans to add 7 million square feet in 2011.

Electronic retail sales increased from 2% of all retail sales in the early 1990's to just over 6% today. The trend accelerated during the recession of 2008 as lower priced (and often tax-free) online goods became more appealing.

The impact on retail real estate varies by merchandise category. Book stores, like Barnes & Noble (10% online sales in 2009, 15% in 2010), have been closing stores for several years to compete with online rivals. In January 2011, Borders Books filed for Chapter 11 and plans to close 275 stores, approximately 4.9 million square feet of store space.

Apparel companies like Gap Clothing (8% online sales in 2009, 9% in 2010) and Americrombie (9% in 2009, 10% in 2010) have also been evaluating and closing stores since before the 2008 recession. Online jewelry sales are growing and putting some of the highest paying mall tenants at risk, a concerning trend for mall operators.

According to Forrester Research, online retail sales will grow at an average annual rate of 10% from 2011 to 2015. The following retail categories had online sales growth of 10% or more in 2010.

#### Online Sales Growth above 10%

#### Examples

- Books & Magazine
- Computers/Peripherals/PDAs
- Consumer Electronics
- Flowers, Greetings & Misc. Gifts
- Jewelry & Watches

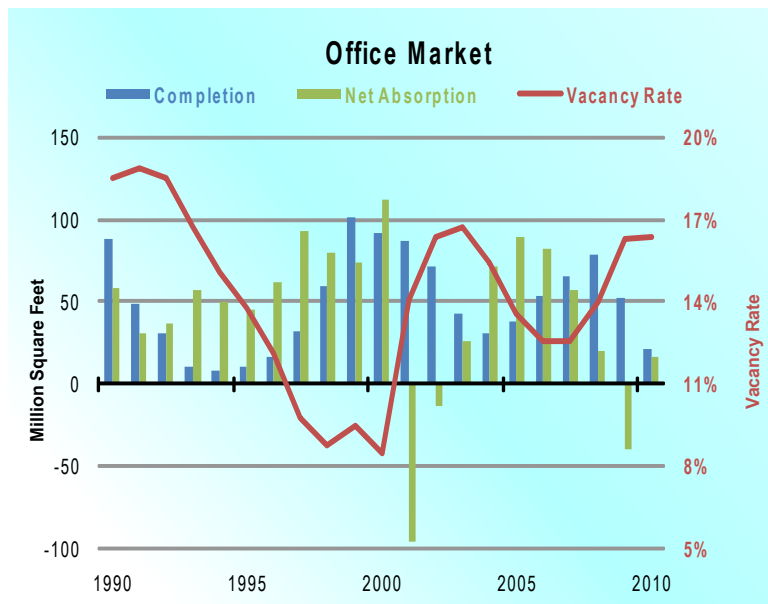


RadioShack®



# Commercial Real Estate Profile

## Office



Among the 8.4 million job losses from December 2007 to December 2009 (peak-to-trough), 29% were for office-using employment. Approximately 23%, or 307,000 of 1,346,000 positions, added in 2010 were created in the office-using category. However financial services, which lost 543,000 jobs from peak to trough, contracted by 66,000 jobs in 2010. (Bureau of Labor Statistics)

In 2011, inventory growth will likely drop to the lowest level since 1994 and demand will nearly quadruple from 2010's level, pushing the vacancy rate down by 1.2 percentage points. However, vacancy will not drop below its 14.6% historical average until mid-2014. (PPR Market Performance, February 10, 2011)

The table below measures annual change.

### Top and Bottom Trending Office Markets (Year over Year)

Leaders*	Vacancy			Effective Rent (\$/SF)		
	09Q4	10Q4	Change	09Q4	10Q4	Change

There were 0 out of 54 MSAs with rent growth above 3% and decreasing vacancy.

Note\*\*: 28 out of 54 MSAs had favorable vacancy trends. The top 10 MSAs are Raleigh NC, San Jose CA, Charlotte NC, Tampa FL, Salt Lake City UT, Richmond VA, Inland Empire CA, Austin TX, Jacksonville FL, Nashville TN

5 out of 54 MSAs had a favorable rent trends : New York NY (+2.8%), Austin TX (+1.1%), San Francisco CA (+0.9%), St. Louis MO (+0.3%), Oklahoma City OK (+0.3%)

#### Laggards\*\*\*

Stamford	17.8%	19.6%	1.8% ▲	\$25.57	\$25.12	-1.8% ▼
Los Angeles	17.6%	18.8%	1.2% ▲	\$28.59	\$27.19	-4.9% ▼
San Antonio	14.8%	15.7%	0.9% ▲	\$19.51	\$19.38	-0.7% ▼
Miami	22.3%	23.1%	0.8% ▲	\$26.39	\$25.61	-3.0% ▼
New Orleans	16.9%	17.7%	0.8% ▲	\$15.93	\$15.81	-0.8% ▼

<b>Favorable Vacancy Trend:</b>	28	<b>Rent Growth Above 0%:</b>	5
<b>Unfavorable Vacancy Trend:</b>	23	<b>Rent Growth Below 0%:</b>	49
<b>Neutral Vacancy Trend:</b>	3	<b>Neutral Rent:</b>	0
<b>Total MSAs:</b>	54	<b>Total MSAs:</b>	54

Property & Portfolio Research, 2010 Q4

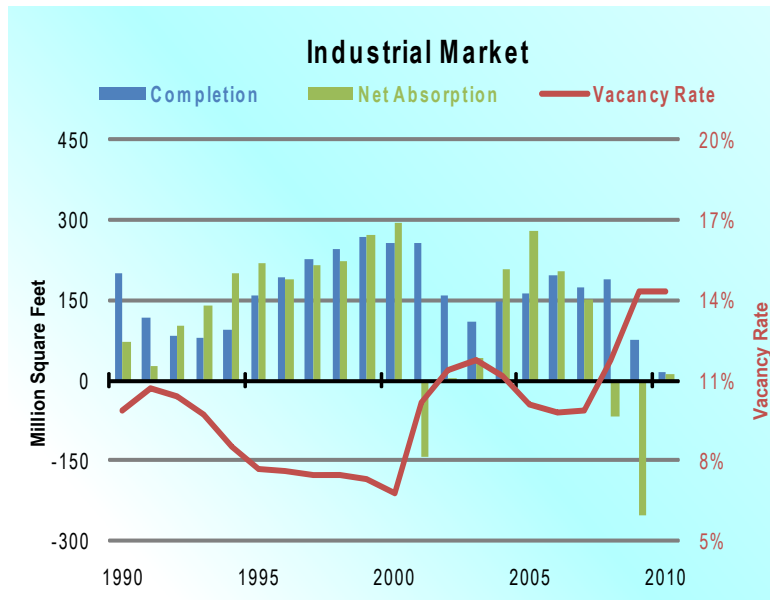
\* Leaders have the greatest vacancy decreases with rent growth above 3%; No MSAs met the criteria this quarter.

\*\* Vacancy trend MSAs sorted by largest vacancy decrease to smallest.

\*\*\*Laggards have the greatest vacancy increases with rent growth less than or equal to 0%.

# Commercial Real Estate Profile

## Industrial



Industrial vacancy is unchanged from a year ago.

Exports expanded 17% to \$1.8 trillion in 2010 and increased 31% from the trough in April 2009. Imports expanded 20% to \$2.3 trillion in 2010 and increased 35% from the trough in May 2009.

“To achieve the Obama administration’s target of about \$3.14 trillion by 2015, exports would have to expand by 15% each year.” (WSJ, February 11, 2011)

The table below measures annual change.

### Top and Bottom Trending Industrial Markets (Year over Year)

Leaders*	Vacancy			Effective Rent (\$/SF)		
	09Q4	10Q4	Change	09Q4	10Q4	Change

There were 0 out of 54 MSAs with rent growth above 3% and decreasing vacancy.

Note\*\*: 31 out of 54 MSAs had favorable vacancy trends. The top 10 MSAs are Phoenix AZ, Inland Empire CA, Columbus OH, Palm Beach County FL, Miami FL, Raleigh NC, Baltimore MD, Cincinnati OH, Memphis TN, North - Central New Jersey

2 out of 54 MSAs had a favorable rent trends: Norfolk VA (+4.3%), Raleigh NC (+1.5%)

#### Laggards\*\*\*

Nashville	11.0%	14.1%	3.1% ▲	\$3.67	\$3.50	-4.6% ▼
Stamford	12.2%	13.9%	1.7% ▲	\$5.04	\$4.99	-1.0% ▼
East Bay	7.8%	9.5%	1.7% ▲	\$4.81	\$4.56	-5.2% ▼
Long Island	15.1%	16.3%	1.2% ▲	\$6.28	\$5.73	-8.8% ▼
Sacramento	11.0%	12.2%	1.2% ▲	\$4.29	\$4.04	-5.8% ▼
<b>Favorable Vacancy Trend:</b>	31			<b>Rent Growth Above 0%</b>		2
<b>Unfavorable Vacancy Trend:</b>	23			<b>Rent Growth Below 0%:</b>		51
<b>Neutral Vacancy Trend:</b>	0			<b>Neutral Rent:</b>		1
<b>Total MSAs:</b>	54			<b>Total MSAs:</b>		54

Property & Portfolio Research, 2010 Q4

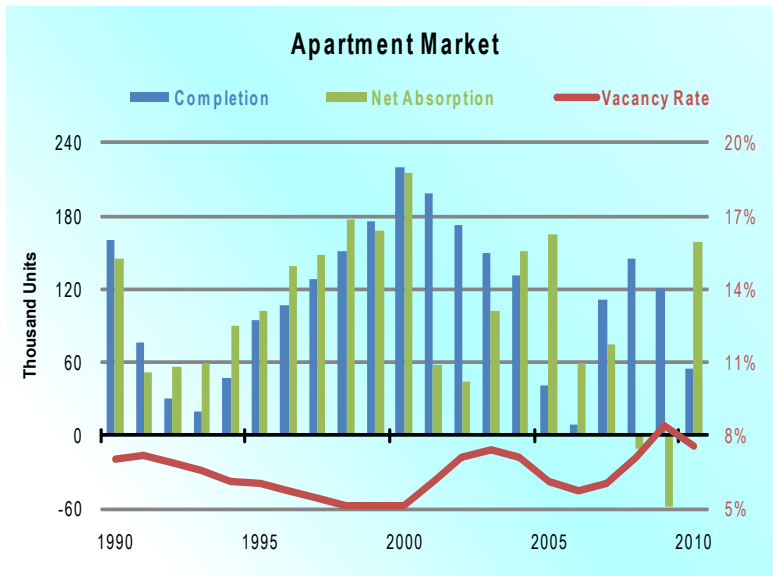
\* Leaders have the greatest vacancy decreases with rent growth above 3%; No MSAs met the criteria this quarter.

\*\* Vacancy trend MSAs sorted by largest vacancy decrease to smallest.

\*\*\* Laggards have the greatest vacancy increases with rent growth less than or equal to 0%.

# Commercial Real Estate Profile

## Apartment



Property & Portfolio Research, 2010 Q4, February 1, 2011

Apartment vacancy decreased to 7.6% from 8.4% a year ago.

“Rental demand (including 1-4 unit housing) grew by over 800,000 units as a result of overall household formation and declines in the national home ownership rate.” (CBRE Econometric Advisors, Spring 2011)

“In general, the strongest apartment recoveries will be in markets where the impact of slowing supply deliveries is greatest. Similarly, metros that typically contend with hefty levels of supply are benefiting most from the construction hiatus.” (PPR Market Performance, January 5, 2011)

The table below measures annual change.

### Top and Bottom Trending Apartment Markets (Year over Year)

Leaders*	Vacancy			Effective Rent (\$/unit)		
	09Q4	10Q4	Change	09Q4	10Q4	Change
Raleigh	13.6%	10.6%	-3.0% ▼	\$675	\$695	3.0% ▲
San Jose	7.2%	6.0%	-1.2% ▼	\$1,535	\$1,603	4.4% ▲
Denver	8.5%	7.4%	-1.1% ▼	\$851	\$892	4.8% ▲
Washington DC	6.8%	6.0%	-0.8% ▼	\$1,424	\$1,498	5.2% ▲
New York	5.5%	5.2%	-0.3% ▼	\$2,404	\$2,488	3.5% ▲
<b>Laggards**</b>						
San Diego	5.6%	5.7%	0.1% ▲	\$1,473	\$1,454	-1.1% ▼

Favorable Vacancy Trend:	49
Unfavorable Vacancy Trend:	2
Neutral Vacancy Trend:	3
<b>Total MSAs:</b>	<b>54</b>

Rent Growth Above 0%:	35
Rent Growth Below 0%:	19
Neutral Rent:	0
<b>Total MSAs:</b>	<b>54</b>

Property & Portfolio Research, 2010 Q4

\* Leaders have the greatest vacancy decreases with rent growth above 3%.

\*\* Laggards have the greatest vacancy increases with rent growth less than or equal to 0%. Only 1 MSA met the criteria.

# Commercial Real Estate Profile

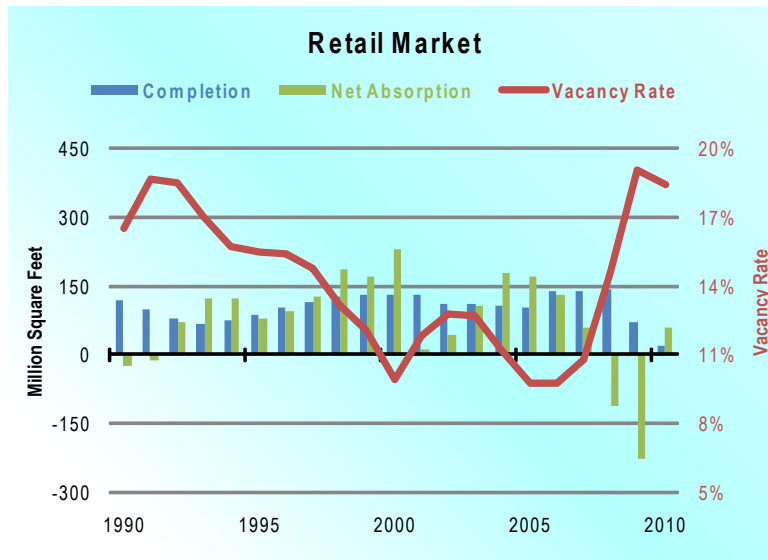
## Retail

Retail vacancy decreased to 18.4% from 19.1% a year ago.

As demand continues to outpace supply, vacancy will decline further in 2011. (PPR Market Performance, January 27, 2011)

“Sales of real estate jumped to \$8.3 billion in Q4, up 29% from Q3 and more than double the quarterly levels in the first half of the year. The transaction increase in late 2010 was clear for strip centers, malls, and other retail properties. These gains pushed 2010 volume to \$22.6 billion, up 51% from 2009’s cyclical low of \$15.0 billion, and within reach of 2008’s \$24.0 billion.” (Real Capital Analytics, Capital Trends, January 2011)

The table below measures annual change.



Property & Portfolio Research, 2010 Q4, February 1, 2011

### Top and Bottom Trending Retail Markets (Year over Year)

Leaders*	Vacancy			Effective Rent (\$/SF)		
	09Q4	10Q4	Change	09Q4	10Q4	Change

There were 0 out of 54 MSAs with rent growth above 3% and decreasing vacancy.

Note\*\*: 45 out of 54 MSAs had favorable vacancy trends. The top 10 MSAs are Raleigh NC (-2.0%), San Jose CA (-1.8%), Houston TX (-1.8%), Honolulu HI (-1.4%), San Antonio TX (-1.3%), Boston MA (-1.3%), Hartford CT (-1.3%), Charlotte NC (-1.3%), Seattle WA (-1.3%), Salt Lake City UT (-1.3%)

1 out of 54 MSAs had a positive rent growth: San Jose CA (+0.8%)

#### Laggards\*\*\*

Fort Lauderdale	15.8%	17.7%	1.9% ▲	\$16.14	\$15.85	-1.8% ▼
New Orleans	31.0%	31.6%	0.6% ▲	\$11.33	\$10.74	-5.2% ▼
Jacksonville	29.2%	29.6%	0.4% ▲	\$15.52	\$14.52	-6.4% ▼
Milwaukee	19.0%	19.4%	0.4% ▲	\$13.05	\$12.81	-1.8% ▼
Oklahoma City	19.6%	19.7%	0.1% ▲	\$11.48	\$11.31	-1.5% ▼

<b>Favorable Vacancy Trend:</b>	45	<b>Rent Growth Above 0%:</b>	1
<b>Unfavorable Vacancy Trend:</b>	6	<b>Rent Growth Below 0%:</b>	53
<b>Neutral Vacancy Trend:</b>	3	<b>Neutral Rent:</b>	0
<b>Total MSAs:</b>	54	<b>Total MSAs:</b>	54

Property & Portfolio Research, 2010 Q4

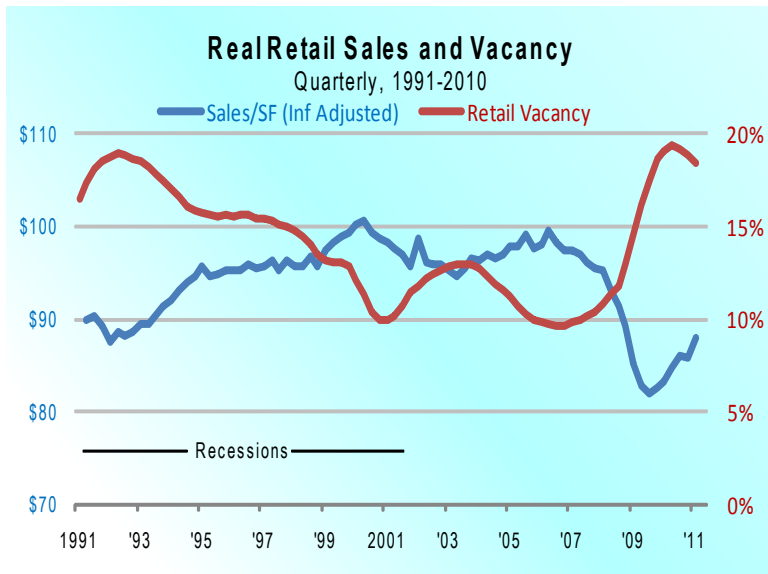
\* Leaders have the greatest vacancy decreases with rent growth above 3%; No MSAs met the criteria this quarter.

\*\* Vacancy trend MSAs sorted by largest vacancy decrease to smallest.

\*\*\* Laggards have the greatest vacancy increases with rent growth less than or equal to 0%.

# Commercial Real Estate Profile

## Retail Sales



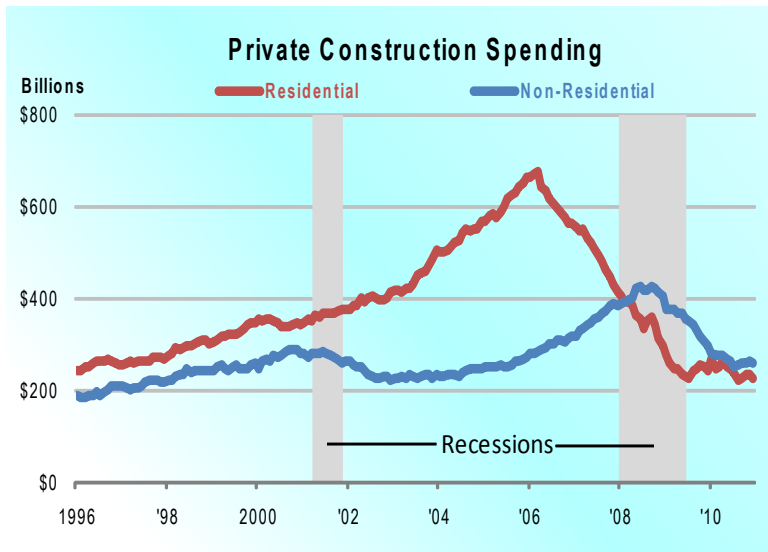
U.S. Census Bureau, January 2011  
Property & Portfolio Research, 2010 Q4  
Excludes sales from E-commerce (Internet Sales).

Retail sales per square foot increased 6% from a year ago. Retail vacancy decreased 0.7% from a year ago.

“Prosperity in the next decade by retailers requires a realistic plan for how the Great Recession may have altered consumer spending patterns.” (Marcus & Millichap, Spring 2011)

	E-commerce (in billions)	% of All Retail Sales
1995	\$53	2.1%
2000	\$114	3.5%
2005	\$164	4.0%
2010	\$263	6.0%

## Construction Spending



U.S. Census Bureau, February 1, 2011

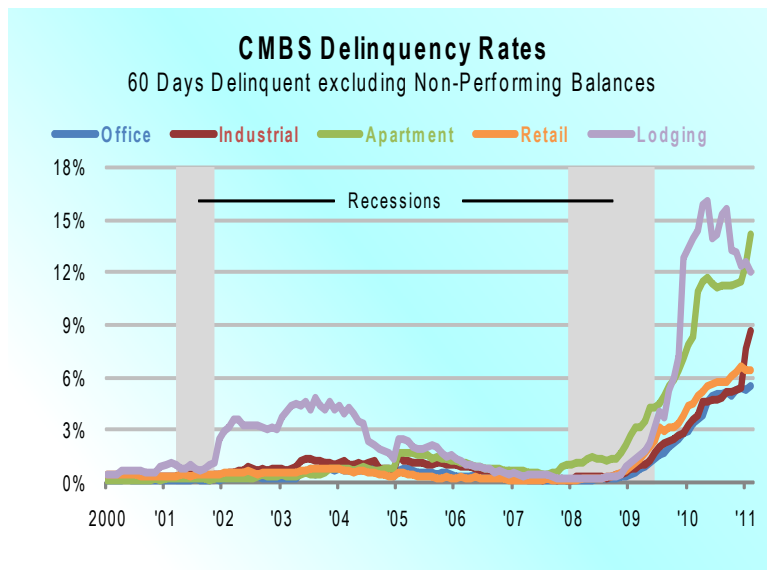
Residential construction spending is down 67% from the peak in March 2006, and is down 7% from a year ago.

Non-residential spending fell 38% from the peak in May 2008, and decreased 12% from a year ago.

“Mounting foreclosures and an unemployment rate that will average more than 9 percent in 2011 indicate home building may take time to rebound. Non-residential projects also will slow as budget-constrained state and local governments restrict funding for public works such as highways.” (Bloomberg, February 1, 2011)

# Commercial Real Estate Profile

## CMBS Delinquency



Trepp, February 2011

Industrial delinquency rose from 3.6% to 8.7% in the last year. Three Schron portfolios caused an \$822.5 million increase in industrial delinquency in January 2011.

Since December 2010, apartment delinquency rose from 11.5% to 14.2%. Three Empirian multifamily portfolios caused a \$1.1 billion increase in apartment delinquency during this period. (Trepp, February 2011)

### Delinquency Rates

	Feb 09	Feb 10	Feb 11
Office	0.6%	3.4%	5.5%
Industrial	0.8%	3.6%	8.7%
Apartment	3.1%	8.4%	14.2%
Retail	1.1%	4.5%	6.5%
Lodging	1.4%	14.0%	12.1%

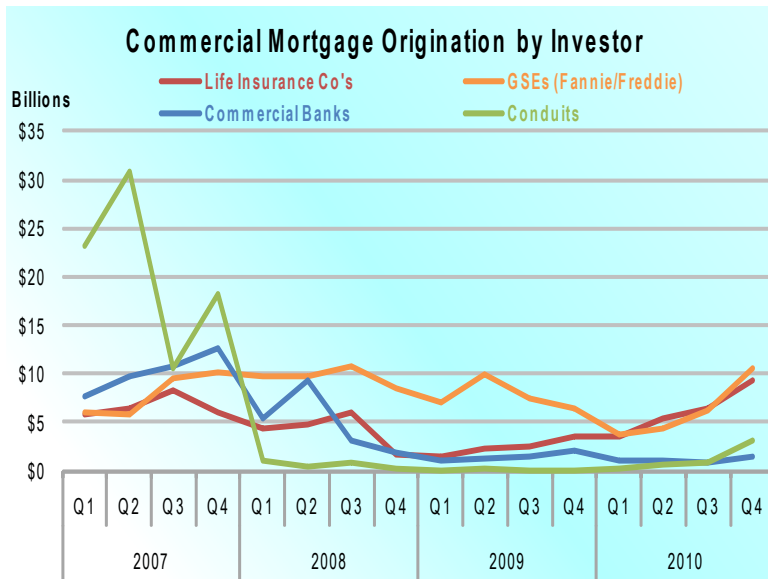
## Highest and Lowest Delinquency Rates by MSA

(\$ balance in millions; includes apartment, retail, industrial, and office, top 50 MSAs)

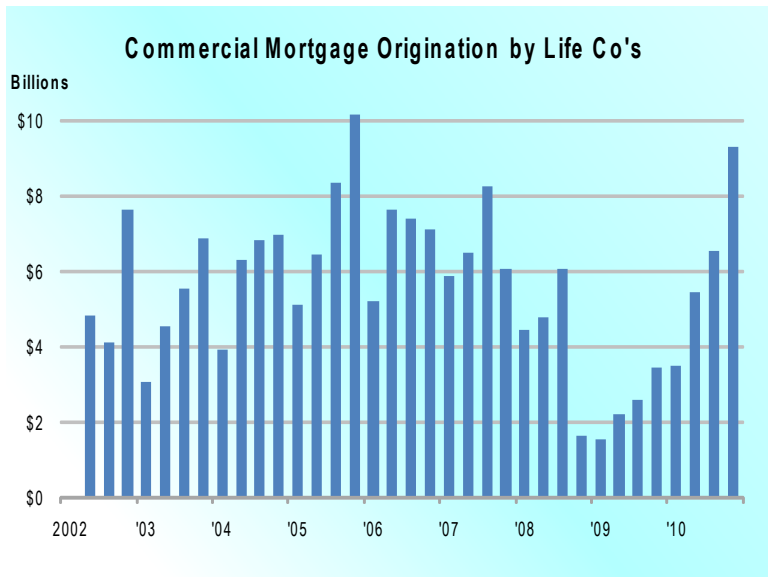
Highest	Balance	60+ Days	Lowest	Balance	60+ Days
Las Vegas, NV	\$2,177	26.6%	San Jose, CA	\$73	1.7%
Orlando, FL	\$712	20.8%	New Orleans, LA	\$21	1.7%
Phoenix, AZ	\$2,200	20.6%	Portland, OR	\$64	2.2%
Riverside, CA	\$1,210	20.3%	Boston, MA	\$284	2.7%
Tampa, FL	\$612	18.2%	Milwaukee, WI	\$59	3.0%
Memphis, TN	\$279	17.4%	Salt Lake City, UT	\$54	3.0%
Cincinnati, OH	\$452	16.8%	Seattle, WA	\$201	3.1%
Cleveland, OH	\$416	14.9%	Baltimore, MD	\$181	3.4%
Indianapolis, IN	\$421	13.8%	Virginia Beach, VA	\$118	3.7%
Atlanta, GA	\$1,626	13.1%	Washington, DC	\$840	3.8%

Trepp, February 2011

# Commercial Real Estate Profile



Mortgage Bankers Association Quarterly Data Book, 2010 Q4  
 Note: MBA last reported dollar values in 2004 and now uses an index. The values above are based on 2004 dollars.



Mortgage Bankers Association Quarterly Data Book, 2010 Q4  
 Note: MBA last reported dollar values in 2004 and now uses an index. The values above are based on 2004 dollars.

## Originations

### Originations by Property Type

	2008	2009	2010
Office	8%	7%	12%
Industrial	4%	5%	7%
Apartment	29%	42%	42%
Retail	10%	11%	14%
Other*	48%	34%	25%

\*Other includes hotel and health care.

### Originations by Investor Class

	2008	2009	2010
Life Co's	22%	21%	42%
GSEs	50%	65%	42%
Comm Bank	25%	13%	8%
Conduits	3%	1%	8%

“We need to wind down Fannie-Freddie and substantially reduce the government’s footprint in the housing market.” (Treasury Secretary Tim Geithner, February 11, 2011)

It is unclear how the proposed GSE changes will impact apartment lending.

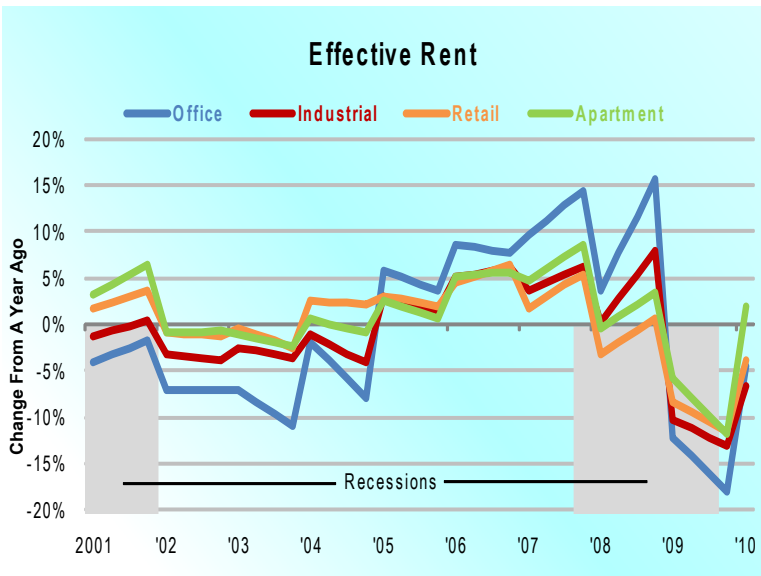
“Life insurance companies were a leading source of lending in 2010, with origination volumes 155 percent higher than 2009 levels. Life companies and FHA led the increase in dollar volumes, but a large percentage increase in originations for CMBS is likely the most symbolic change from 2009.” (Mortgage Bankers Association Quarterly Data Book, 2010 Q4)

### Life Co's Originations in Billions

2003	\$19.9
2004	\$23.9
2005	\$29.9
2006	\$27.2
2007	\$26.6
2008	\$16.8
2009	\$9.7
2010	\$24.7

# Commercial Real Estate Profile

## Effective Rents



CBRE Econometric Advisors and Property & Portfolio Research, 2010 Q4  
 Note: Calculation based on fourth quarter rent index.

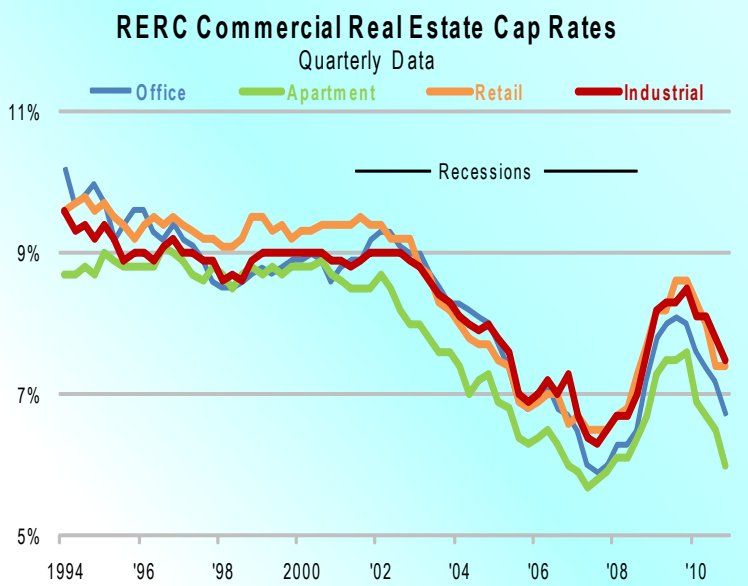
“Office rents have hit bottom in many markets and none are expected to suffer a decline of more than 3% in 2011. As demand returns to a market devoid of new supply, robust rental gains will begin in 2012.”

“Industrial rents are believed to have reached the bottom in the fourth quarter. Despite the vacancy space, rent is expected to grow 1.2% in 2011.”

“Apartment rents bottomed out early in 2010 and are on the rise. As vacancies continue to decline, rent recovery will be strong, with asking rents growing by 19% from trough to 2015.”

“Retail rent gains will be marginal at first and struggle to keep pace with inflation.” (CBRE Market Performance 2010 Q4)

## Cap Rates



RERC Investor Survey, 2010 Q4

“Apartment cap rate spread between primary and tertiary markets currently rests at 200 points, up from approximately 60 basis points in early 2007.”

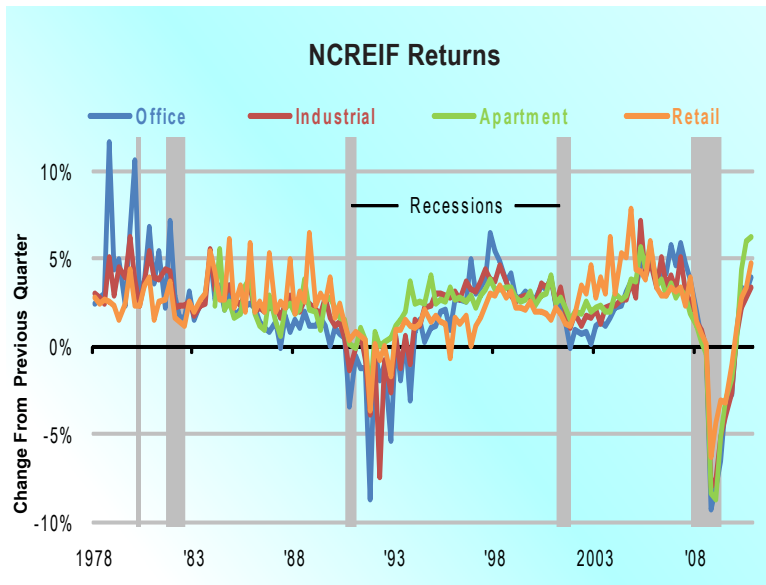
“Office class A cap rates in primary markets remain 125 basis points higher than at the peak in 2007. Cap rates for Class B and Class C deals increased 250 and 350 basis points respectively.”

“Single-tenant net-lease retail properties with relatively healthy credit tenants will continue to top investors’ preference due to its perceived safety in a low-yield environment.” (Marcus & Millichap, Spring 2011)

### RERC Cap Rates

Property Type	2007 Q4	2008 Q4	2009 Q4	2010 Q4
Office	6.0%	7.2%	8.0%	6.7%
Industrial	6.5%	7.6%	8.5%	7.5%
Apartment	5.9%	6.7%	7.6%	6.0%
Retail	6.5%	7.7%	8.6%	7.4%
Total	6.2%	7.3%	8.2%	6.9%

# Commercial Real Estate Profile



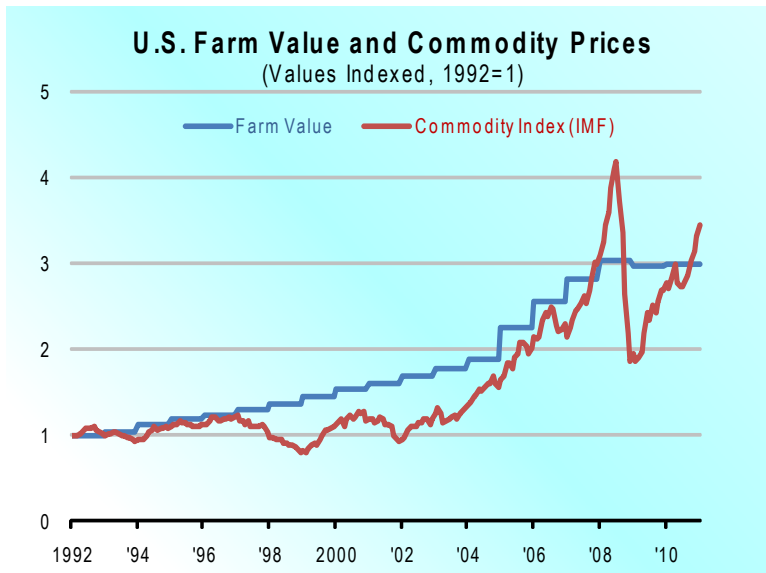
NCREIF, 2010 Q4

## NCREIF

### Quarterly Returns

	2010 Q2	2010 Q3	2010 Q4
Office	3.4%	3.1%	4.0%
Industrial	2.2%	2.8%	3.4%
Apartment	4.4%	6.0%	6.3%
Retail	2.8%	3.4%	4.8%

The NCREIF Property Index (NPI) rose 4.6% in 2010 Q4, the fourth straight positive quarter, but is still down 26% since 2008 Q4. The NPI produced a total return of 13% for 2010. The NCREIF property index is a measure of unleveraged private equity returns.



USDA, Ag Land Values and Cash Rents Annual Summary, August 4, 2010  
International Monetary Fund, Primary Commodity Price Index, February 22, 2011

## Farmland

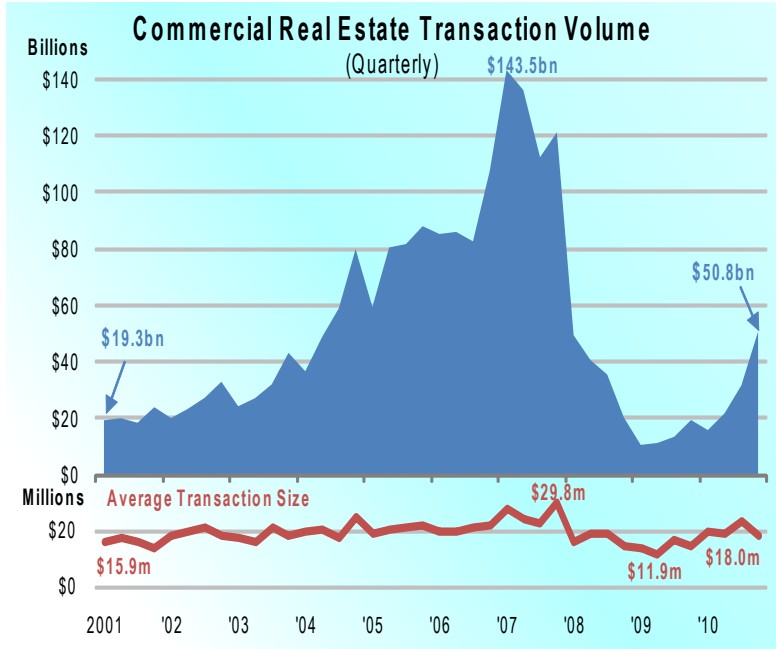
The U.S. farm economy continued to strengthen following a sharp recession. Commodity prices are booming from a year ago; the prices of cotton, corn, wheat, and soybeans are up 119%, 49%, 39%, and 35%, respectively. (USDA, November 2010)

Farm income was \$82 billion in 2010 (preliminary), up 31% from 2009 and 26% higher than the 10-year average of \$65 billion for 2000-2009. Cash receipt from sales of farm commodities is up 10.4% from 2009. (USDA, Farm Income and Costs: 2010 Farm Sector Income Forecast)

Farmland values in key upper Midwest states increased 10%, prices of irrigated farmland jumped 12% in Kansas and Nebraska in the third quarter compared with last year. (Federal Reserve Bank of Chicago, Federal Reserve Bank of Kansas city, Third Quarter 2010)

# Commercial Real Estate Profile

## Transaction Volume



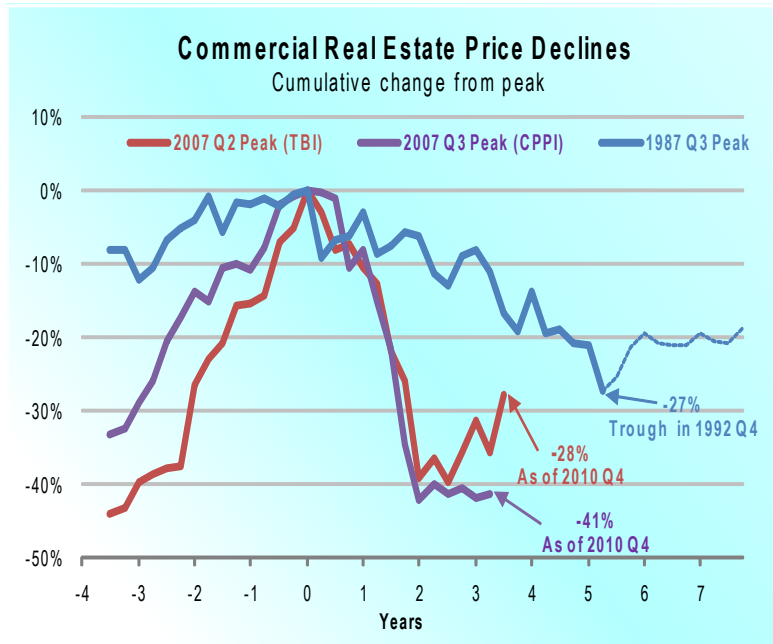
Real Capital Analytics, 2010 Q4

Transaction volume reached \$50.8 billion, a 381% increase from the trough in 2009 Q1 but is still only 35% of the market's peak in 2007.

Manhattan, Los Angeles and Chicago are the top three markets in 2010, with Manhattan volume increasing more than 200% over 2009. 27 of the 40 most active markets at least doubled in volume from 2009. (Real Capital Analytics, Capital Trends, January 2011)

### Total Number of Properties Sold

Type	2007	2008	2009	2010	'07-'10 % Change
Off	4,226	1,718	636	1,148	-73%
Ind	3,734	1,749	750	1,257	-66%
Apt	4,580	2,271	1,027	1,493	-67%
Ret	4,168	2,138	1,227	1,178	-72%
<b>Total</b>	<b>17,104</b>	<b>7,876</b>	<b>3,640</b>	<b>5,076</b>	<b>-70%</b>



MIT TBI Pricing Index, 2010 Q4  
Moody's/REAL CPPI, 2010 Q4

## CRE Price

MIT Transaction Based Index (TBI) is 28% below the 2007 peak. Prices rose 12% from Q3. The MIT TBI measures transaction prices of properties sold from the NCREIF database. The supply and demand sides of the index decreased 11% and 4% respectively in Q4.

The Moody's/REAL CPPI is down 41% from the peak. This source is considered more reliable than TBI because it is based on sales from Real Capital Analytics. (MIT Center for Real Estate, February, 2011)

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## Commercial Real Estate Profile

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### Additional Observations

#### PROPERTY MARKETS

Prudential Real Estate Investors (PREI) U.S. Quarterly Market Perspective, January 2011 - "Property types with relatively short lease durations (apartments and hotels) have seen broad improvements in performance, while those with longer leases (retail, office and industrial) have stabilized at or near record vacancy levels and will begin to improve in coming quarters."

#### OFFICE

PREI U.S. Quarterly Market Perspective, January 2011 - "Absorption will lag job creation, which means that demand for space will be tepid until hiring picks up substantially from current levels. Investor demand for office properties has narrowly focused on gateway cities such as New York, Washington and Boston. As a result, in some instances prices in these markets are approaching pre-crisis price levels. Suburban and second-tier cities have remained out of favor, but this will likely change as confidence in the recovery grows and investors' risk appetite improves."

#### INDUSTRIAL

PREI U.S. Quarterly Market Perspective, January 2011 - "Demand for warehouse space picked up in the second half of 2010, focused on the largest national logistics hubs, while new supply has all but stopped. Recent increases in global trade, retail sales and manufacturing output are all good signs for the sector. However, before the segment recovers, it must deal with the overhang of excess capacity."

#### APARTMENT

PPR Market Performance, January 2011 - "In the absence of new construction, vacancy should fall by another 70 basis points in 2011 and will continue to fall through 2014, ending in the 6% range by 2015. Total demand increased 1.3% in 2010. The growth is due to pent-up demand from the recession, the increase in jobs, the decline in the rate of home ownership and the mounting population of the 20-something prime rental age cohort. Even though the demand in the first half of 2011 is expected to be moderate, the outlook is extremely positive driven by job creation and excellent demographics."

#### RETAIL

PREI U.S. Quarterly Market Perspective, January 2011 - "The retail segment hit historic high vacancy rates in 2010, with rents falling to their lowest level in a decade. Shopping centers face competition from online retailers and must deal with bankruptcies of some major chains, such as A&P and Blockbuster."

#### COMMERCIAL MORTGAGE ORIGINATIONS

Mortgage Bankers Association Quarterly Data Book, 2010 Q4 - "Commercial and multifamily mortgage originations jumped 63 percent in the fourth quarter, pulling the annual total for 2010 to \$110 billion. When compared to 2009 Q4, the increase was mostly driven by a 170 percent increase in loans for office properties and a 169 percent increase for hotel properties."

#### OTHER NEWS

The Federal Reserve Board, January 2011 - "The January 2011 Senior Loan Officer Opinion Survey on Bank Lending Practices indicated that a modest net fraction of banks continued to ease standards and terms for commercial and industrial (C&I) loans to large and middle-market firms over the fourth quarter. Banks reported an increased willingness to make consumer installment loans. Changes in standards and terms on loans to households were small and mixed. Demand increased for business loans, including C&I loans, particularly for large or middle-market firms. Moderate net fractions of banks reported decreased demand for all types of residential mortgage loans. Banks did not indicate much change in demand for consumer loans."