

RERC ♦ CCIM

Investment Trends

QUARTERLY

Second Quarter 2010 Report ♦ Vol. 6, No. 2



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CCIM Institute

Foreword

May 2010

Dear Readers,

As spring gets underway, it is encouraging to read about the additional signs of stabilization and recovery in the economy. We are finally seeing some positive job growth, an increase in manufacturing, more consumer spending, and even a portion of the government's stimulus plan for the housing market is being withdrawn. Despite the uncertainty and recurring fears, and with many ups and downs still to come, the economic recovery is underway.

We are starting to see some positive movement in the commercial real estate market too. Although the signals are somewhat mixed, new data from CCIM members shows that the ratings comparing value versus price of commercial real estate are up slightly. In addition, on a quarter-to-quarter basis, we are seeing volume starting to increase for some property types, prices inching upward, and capitalization rates decreasing. Although there is some improvement in the institutional market, unfortunately, regional property investors still have much pain ahead. Even so, for those looking to invest in commercial real estate for the long term, buying opportunities are the best they have been in decades. As such, Real Estate Research Corporation (RERC) believes that the recovery process for commercial real estate is beginning.

As always, we would like to thank the hundreds of respondents to our various investment surveys, many of whom are listed in the back pages of this report. Without your continued dedication to sharing in RERC's research on behalf of the industry, none of us would have as clear an understanding of the investment trends associated with this challenging market.

Sincerely,



Kenneth P. Riggs, Jr., CCIM, CRE, MAI
President & CEO
Real Estate Research Corporation (RERC)



Richard E. Juge, CCIM, CIPS, SIOR
2010 CCIM Institute President
President, RE/MAX Commercial Brokers, Inc.

Economic Background and Investment Environment

As in every economic recovery period, there are both positive and negative indicators in the stabilization process. For each encouraging sign we see, there is another signal that reminds us that it will be a long time before the U.S. economy is self-sustaining. For example, although home sales have been improving recently, many experts suggest that the housing market is on “government life support” and that it could further decline when various mortgage and incentive programs expire and foreclosures move forward. In addition, more jobs will be lost as business mergers and acquisitions continue and states and municipalities respond to budget shortfalls. When the Greece bailout was in doubt, we were reminded how precarious the economy is, how worried we still are, and how quickly the stock market can plummet.

We are seeing signs of recovery in the commercial real estate market as well, but the market is bifurcated and the recovery will be very uneven. Demand for some institutional-level properties where capital is in ready supply and investors are eager to buy is increasing. But there is also a lack of demand for second- and third-tier properties in most locations, and rents and pricing may remain flat or even erode further before recovery takes hold in these areas.

Confidence/Spending Starting to Increase

According to the Bureau of Economic Analysis (BEA), gross domestic product (GDP) grew at a 3.2-percent annual rate during first quarter 2010, following GDP growth of 5.6 percent in fourth quarter 2009. This was the third straight quarter of GDP growth after four quarters of decline. In addition, the core inflation rate was flat, increasing only 0.6 percent in first quarter 2010 (the lowest reading since first-quarter 1959).

Of critical importance to the economy is the fact that much of the increase in GDP growth in first quarter was based on consumer spending, which increased 3.6 percent on an annualized basis in first quarter 2010 versus the 1.6-percent growth in fourth quarter 2009. Household spending has been constrained by high unemployment, modest income growth, lower housing wealth, and tight credit for several years, and the consumer spending in first quarter was the strongest since early 2007.

Further, there is hope that we are on track for consumer spending to continue. The Conference Board’s Consumer Confidence Index rose to 57.9 in April 2010, and although

this is still down substantially from the 100+ levels that were common just a few years ago, it is the highest rating since the financial crisis occurred in September 2008.

Job Growth Needed

Although non-farm payroll employment increased by 162,000 in March 2010, the unemployment rate remained at 9.7 percent as the broader U-6 unemployment rate increased to 16.9 percent. According to the BLS, temporary help services, health care, and manufacturing employment continued to add jobs. In addition, census hiring contributed 48,000 federal government employees to the labor force in March.

While the worst appears to be over, the labor market is still in transition, and some economists view the high rate of unemployment as part of a structural shift in the economy that has been occurring for some time. It has been reported that approximately one-fourth of the jobs lost in the recession will never return, and as a result, high rates of unemployment will continue as businesses continue to use a variety of cost-cutting moves such as incorporating new software and computer technologies, outsourcing abroad, and increased productivity.

Business spending on equipment and software increased in first quarter 2010, but employers remain hesitant to add





to their payrolls. In addition, the increased number of bankruptcies, continued business mergers and acquisitions, and state and city governments operating with reduced tax revenues, will cause more jobs to be lost in the months ahead.

Can the Housing Market Stand without Government Support?

With the help of the government’s extended and expanded home buyer tax credit, existing-home sales increased 6.8 percent in March 2010 from the previous month, reaching a seasonally-adjusted annual rate of 5.35 million units. According to the National Association of REALTORS® (NAR), this is up 16.1 percent from year-ago sales, and the increase is occurring at the fastest pace since December 2009. Although the inventory of existing homes increased to 3.58 million in March 2010, the housing supply declined to 8.0 months in March from 8.5 months in February.

However, there is concern that with the expiration of the first time home buyer tax credit, housing will not be able to maintain its momentum, and prices will further decline as sales drop off. According to NAR, the national median existing home price for all housing types was \$170,700 in March, about the same as a year ago. Unfortunately, according to the S&P/Case-Shiller 20-City Home Price Index, home prices slipped for the fifth straight month in February, when the 20-city index fell by 0.9 percent from January levels. Prices in 19 of the 20 metro areas fell during February. In fact, home prices in Charlotte, Las Vegas, New York City, Portland, Seattle, and Tampa reached new lows since peaking several years ago.

Risk of Budget Deficits/Debt

As the nation begins to focus more on economic recovery, Federal Reserve Chairman Ben Bernanke reiterated during his April 27, 2010 presentation to Congress that the excessive debt the U.S. has is not sustainable, and that a plan to cut the budget deficit is needed soon. The risk such sovereign debt imposes has been resonating more clearly throughout the world, with the recent downgrading of the credit rating of Spain, Europe’s fourth largest economy, soon after Greece and Portugal’s ratings were cut.

According to the Congressional Budget Office (CBO), the U.S. federal budget deficit is expected to be about \$1.3 trillion for fiscal year 2010, and represents 9.2 percent of the nation’s GDP. President Obama’s 2011 budget proposal projects a record deficit of \$1.6 trillion, consuming 10.6 percent of expected GDP. The big concern is that if the U.S.

continues the path it is on and does not begin paying down its debt, it could face a similar fate as that currently being played out in Greece and the European Union.

CCIM Members Rate Real Estate

Despite these difficulties, economic activity is improving slightly, according to CCIM members, who rated the national economy at 4.2 on a scale of 1 to 10, with 10 being high, during first quarter 2010. Although this is up from the previous quarter, members state that we should continue to expect a slow recovery overall. The East, West, and Midwest regional economies received slightly lower first quarter ratings as compared to the previous quarter, while the rating for the South region increased over the previous quarter’s ratings. Interestingly, the East and South regional economies, rated at 4.7 and 4.9 respectively, had higher ratings than the national economy, while the West and Midwest regional economies were rated lower.

Since the health of the commercial real estate market depends on the health of the economy, and the economy—despite all its improvements—remains fragile (although strengthening), commercial real estate is also fragile. Not only are the fundamentals for each of the major property types weak, and will remain so as long as unemployment remains high, the investment side of this asset class continues to struggle, except in real estate investment trusts (REITs), which tend to adopt the characteristics of the stock market. Also, commercial real estate activity remains generally slow nationwide. The predominant activity is leasing, which has been increasing in some areas, as reported by many CCIM members in response to RERC’s surveys.

Regarding the investment outlook for the various investment alternatives, CCIM members rated commercial real estate the highest, as shown in Exhibit 1. Commercial real

| Exhibit 1. CCIM Respondents Rate Investments | | |
|--|---------|---------|
| | 1Q 2010 | 4Q 2009 |
| Commercial Real Estate | 6.0 | 5.7 |
| Stocks | 5.1 | 5.2 |
| Bonds | 4.6 | 4.5 |
| Cash | 5.2 | 5.1 |

Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC/CCIM Investment Trends Quarterly Survey, 1Q 2010.



estate received a score of 6.0 on a scale of 1 to 10, with 10 being high, outpacing the ratings for cash, stocks, and bonds. Among these investment alternatives, commercial real estate also saw the largest rating increase, climbing to 6.0 in first quarter 2010 from 5.7 in fourth quarter 2009. Despite the recent improvement seen in the stock market, the investment rating for stocks declined, the only investment option to do so.

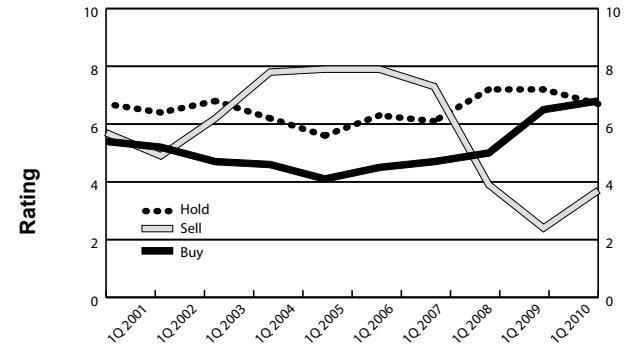
As demonstrated in Exhibit 2, RERC's institutional investment survey respondents gave commercial real estate a strong buy recommendation, with a rating of 6.8 on a scale of 1 to 10, with 10 being high, for the third consecutive quarter. With a rating of 6.7 in first quarter 2010, up slightly from the previous quarter, the recommendation to hold commercial real estate was almost as strong as the recommendation to buy. Interestingly, the sell recommendation increased substantially, with a rating of 3.7 in first quarter 2010 compared to a rating of 2.5 in the previous quarter, thus narrowing the gap between buyers and sellers. For investors in this asset class, now is the time to buy and hold commercial real estate.

CCIM members' investment conditions rating projections improved only slightly for the apartment and industrial property sectors, increasing to 5.5 and 4.2 respectively, on a scale of 1 to 10, with 10 being high. As shown in Exhibit 3, the investment conditions ratings remained flat at 3.8 for the office and hotel sectors, and declined slightly to 3.7 for the retail sector. As has been the case throughout the recession, the apartment sector remains the only property type with a rating that was mid-range or higher.

CCIM respondents to RERC's investment survey rated the overall return versus risk for commercial real estate at 5.1 on a scale of 1 to 10, with 10 being high, during first quarter 2010, as reflected in Exhibit 4. This is a slight increase from fourth quarter 2009, and indicates that survey respondents believe that the return on commercial real estate is starting to outweigh the risk, with confidence in this asset class continuing to grow.

CCIM members continued to rate the apartment sector as the highest return versus risk performer, with a score of 6.1 on a scale of 1 to 10, with 10 being high, for first quarter 2010. The industrial sector earned the next highest rating, at 4.7. The lowest-rated sector remained the hotel sector, with a score of 3.9. Survey respondents believe that the risk is still greater than the returns for the industrial, office, retail, and hotel property sectors.

Exhibit 2. RERC Historical Buy, Sell, Hold Recommendations



Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC Institutional Investment Survey, 1Q 2010.

Exhibit 3. Real Estate Investment Conditions Ratings

| | 1Q 2010 | 4Q 2009 | 3Q 2009 | 2Q 2009 | 1Q 2009 |
|-------------------|---------|---------|---------|---------|---------|
| Office | 3.8 | 3.8 | 3.8 | 3.5 | 3.7 |
| Industrial | 4.2 | 4.1 | 4.3 | 4.3 | 4.4 |
| Retail | 3.7 | 3.8 | 3.8 | 3.4 | 3.4 |
| Apartment | 5.5 | 5.4 | 5.5 | 5.1 | 5.5 |
| Hotel | 3.8 | 3.8 | 3.6 | 3.4 | 3.7 |

Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC/CCIM Investment Trends Quarterly Survey, 1Q 2010.

Exhibit 4. Historical Return/Risk and Value/Price Ratings

| | 1Q 2010 | 4Q 2009 | 3Q 2009 | 2Q 2009 | 1Q 2009 |
|------------------------|---------|---------|---------|---------|---------|
| Return vs. Risk | | | | | |
| Overall | 5.1 | 4.8 | 5.0 | 4.7 | 5.3 |
| Office | 4.1 | 4.1 | 4.2 | 4.0 | 4.6 |
| Industrial | 4.7 | 4.7 | 4.9 | 5.0 | 5.3 |
| Retail | 4.1 | 3.9 | 4.0 | 3.6 | 4.0 |
| Apartment | 6.1 | 5.8 | 5.8 | 5.2 | 6.3 |
| Hotel | 3.9 | 3.9 | 3.8 | 3.4 | 4.6 |

| Value vs. Price | | | | | |
|------------------------|-----|-----|-----|-----|-----|
| Overall | 5.5 | 4.7 | 4.8 | 4.9 | 5.1 |
| Office | 5.0 | 4.3 | 4.4 | 4.5 | 4.8 |
| Industrial | 5.0 | 4.7 | 5.0 | 4.9 | 5.4 |
| Retail | 4.9 | 4.2 | 4.4 | 4.3 | 4.5 |
| Apartment | 5.6 | 4.9 | 5.3 | 4.8 | 5.2 |
| Hotel | 4.7 | 4.0 | 4.1 | 3.9 | 4.7 |

Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC/CCIM Investment Trends Quarterly Survey, 1Q 2010.



CCIM respondents to RERC's investment survey rated the overall value versus price of the commercial real estate market at 5.5 on a scale of 1 to 10, with 10 being high, during first quarter 2010. As depicted in Exhibit 4, this is up from the fourth quarter 2009 rating, and is a positive sign for commercial real estate in that respondents believe the value of commercial real estate overall is finally greater than its price.

CCIM members generally believe that the value versus price of the individual property types was significantly improved, too. The apartment sector continued to have the highest rating among the other property sectors with a rating of 5.6 on a scale of 1 to 10, with 10 being high. The industrial and office sectors followed, each with a score of 5.0. At 4.7, the hotel sector maintained the lowest rating among the property sectors. The apartment, industrial, and office sectors all received ratings at or above 5.0, which indicates that respondents believe that their value outweighs the price.

In addition, private equity demand is increasing for high-quality commercial real estate, and prices are starting to inch upward, as noted in some of the averages shown in the accompanying transaction charts in this report. But, unlike the value returns in the previous cycle that were based on cap rate compression, private equity will be looking for increases in net operating income (NOI) in the form of rental growth and leverage. This seems to reflect the demand versus supply dynamic in the market place, where investors are competing for top-tier properties and driving the cap rates lower, combined with the fact that investors are willing to accept lower returns for a more conservative cash flow.

Commercial trends are stabilizing, but there is currently not a lot of movement due to the uncertainty among businesses and in the market, according to CCIM members. Although volume has increased slightly for all property sectors on a 12-month trailing basis, CCIM members have noted that there is still very little transaction activity occurring. However, for the properties that

are changing hands, private funds, large institutions, REITs, foreign investors, and cash-rich or high liquidity/net worth investors, are among the most active buyers. Based upon CCIM members' comments, office and retail properties are the most available due to foreclosures and distressed sales.

Banks, over-leveraged or distressed institutional/private investors, and other firms that own real estate (REO) needing to raise capital are the most active sellers, according to CCIM members.

Although some banks continue to "pretend and extend" the terms of their commercial real estate loans, several CCIM members noted that more banks are starting to "amend and extend" their loans for commercial real estate. This is effective for some of the better properties and loans, but many regional banks have no alternative other than to declare the loan delinquent.

CCIM respondents to RERC's survey stated that with less deal activity taking place, some of the best opportunity is in real estate consulting, working with lenders and special servicers, and servicing receivers who are taking properties back.

With respect to overall market returns, each of the market indices that RERC tracks in Exhibit 5 showed positive returns for first quarter 2010, including commercial real estate. The

| Exhibit 5. What Do the Financial Markets Tell Us? | | | | | | |
|---|--------|---------------|---------|--------|---------|---------|
| Compounded Annual Rates of Return as of 3/31/2010 | | | | | | |
| Market Indices | YTD | 1-Year (2009) | 3-Year | 5-Year | 10-Year | 15-Year |
| Consumer Price Index ¹ | 0.04% | 2.31% | 2.00% | 2.44% | 2.44% | 2.46% |
| 10-Year Treasury Bond ² | 3.72% | 3.39% | 3.74% | 4.08% | 4.38% | 4.92% |
| Dow Jones Industrial Average | 4.82% | 46.93% | -1.48% | 3.34% | 2.26% | 8.94% |
| NASDAQ Composite ³ | 5.68% | 56.87% | -0.33% | 3.70% | -6.25% | 7.44% |
| NYSE Composite ³ | 3.66% | 49.58% | -7.01% | 0.77% | 0.84% | 6.57% |
| S&P 500 | 5.39% | 49.77% | -4.17% | 1.92% | -0.65% | 7.75% |
| NCREIF Index | 0.76% | -9.59% | -4.31% | 4.19% | 7.13% | 8.69% |
| NAREIT Index (Equity REITS) | 16.07% | 57.75% | -10.60% | 3.80% | 11.42% | 10.49% |

¹Based on the published data from the Bureau of Labor Statistics (Seasonally Adjusted).
²Based on Average End of Day T-Bond Rates.
³Based on Price Index, and does not include the dividend yield.
Sources: BLS, Federal Reserve Board, S&P, Dow Jones, NCREIF, NAREIT, compiled by RERC.



Dow Jones Industrial Average (DJIA) ended the month of March at 10,856, a 5-percent increase from February and a 3-percent loss in January. Real estate stocks continued where they left off in 2009, with the National Association of Real Estate Investment Trusts (NAREIT) Index reporting a year-to-date rate of return of 16.07 percent. Even private equity real estate saw positive returns in first quarter, with a 0.76-percent increase in the National Council of Real Estate Investment Fiduciaries (NCREIF) Index.

Summary

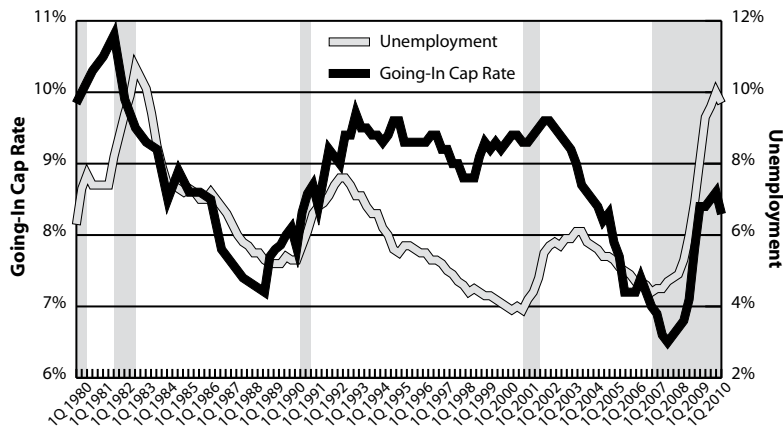
Although there are still many ups and downs ahead for both the economy and commercial real estate, the recovery is underway. In reviewing the data and insights provided by RERC's various investment survey respondents, work with RERC's institutional clients, and additional research and reviews that RERC conducts, we conclude that:

- The economic recovery is taking hold, but it remains fragile and susceptible to shocks (natural or man-made disasters, terrorist attacks, weakness in the European economy, or other unanticipated events);
- U.S. governmental policy, the federal deficit, and new regulations will cause significant fiscal instability in the economy for some years to come;
- The unemployment rate will remain high for the rest of the year, and may, in fact, be undergoing structural changes;
- There is speculation that interest rates may begin increasing this fall, although others expect the FOMC to hold rates down until 2011;
- Bank credit remains tight, but there is much private capital looking for high-quality properties at good prices;
- Lenders have advanced from a policy of "pretend and extend" to "amend and extend," limiting the number of distressed properties available for sale;
- The investment market is bifurcated in that top-tier assets are in great demand, but there is little demand for second- and third-tier assets; and
- The spread between returns for Class A assets and lower-tier assets is widening, and rents and sale prices remain low or may decline further for Class B and Class C properties in some locations.



Snapshot of Real Estate Market Performance – 1Q 2010

Going-In Cap Rate vs. Unemployment



Sources: RERC, BLS, NBER, 1Q 2010.

| Performance Indicator | Recent Data | | Impact on Commercial Real Estate |
|--|--|---|--|
| Vacancy Rates | Office: 17.3% Industrial: 10.5% Retail: 10.8% Apartment: 8.0% Hotel: 59.9% (occupancy) | | According to Reis, Inc., vacancy rates for the office and retail property sectors increased during first quarter 2010, while vacancy for the apartment sector remained unchanged. Vacancy in the industrial sector declined from the previous quarter, according to the CoStar Group. Smith Travel Research reported that hotel occupancy increased during first quarter. |
| Rental Rates (RERC's surveyed rent growth expectations) | Office: 1.1% to 1.2% Industrial: 1.0% to 1.2% Retail: 0.8% to 1.0% Apartment: 1.6% Hotel: 0.6% | | RERC's rental rate expectations for first quarter 2010 were higher in every sector when compared to those for fourth quarter 2009. Expectations for each property sector increased significantly, and hotel rental growth expectations became positive. |
| Real Estate Returns | RERC Required Returns: Office: 8.9% to 9.7% Industrial: 9.3% to 9.9% Retail: 9.1% to 9.8% Apartment: 8.5% Hotel: 11.5% | NCREIF Realized Returns: Office: -11.7% to -10.7% Industrial: -10.9% to -7.2% Retail: -9.1% to -5.5% Apartment: -9.3% Hotel: -13.3% | RERC's first quarter 2010 required returns were lower for every property sector. NCREIF's realized returns continued to improve, but remained negative in every sector. |
| Capitalization Rates | RERC Realized Cap Rates: Office: 8.2% Industrial: 8.3% Retail: 7.8% Apartment: 6.9% Hotel: 9.2% | NCREIF Implied Cap Rates: Office: 6.4% to 6.9% Industrial: 7.1% to 7.5% Retail: 6.7% to 7.5% Apartment: 5.6% Hotel: 4.8% | RERC's realized capitalization rates for first quarter 2010 were higher for both the office and retail property sectors. In contrast, cap rates for the apartment and industrial property sectors decreased, while the rate for the hotel sector remains unchanged. NCREIF's implied capitalization rates for first quarter were higher in each sector compared to the previous quarter. |

National Market Analysis

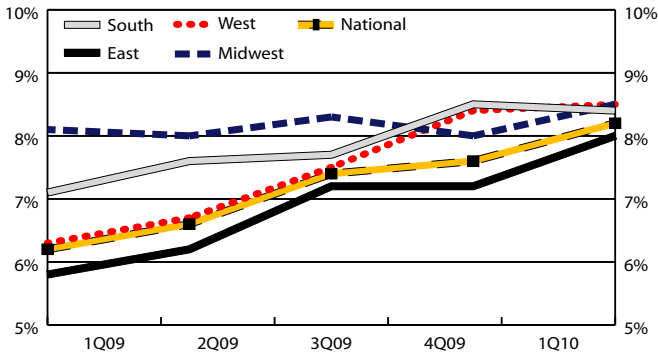
| National Transaction Breakdown | | | | | |
|--|------------|------------|------------|------------|------------|
| 12-Month Trailing Averages (04/01/09 - 03/31/10) | | | | | |
| | Office | Industrial | Retail | Apartment | Hotel |
| < \$2 Million | | | | | |
| Volume (Mil) | \$1,320 | \$2,462 | \$2,458 | \$1,081 | \$81 |
| Size Weighted Avg. (\$ per sf/unit) | \$85 | \$49 | \$84 | \$47,153 | \$21,203 |
| Price Weighted Avg. (\$ per sf/unit) | \$120 | \$78 | \$126 | \$71,362 | \$29,302 |
| Median (\$ per sf/unit) | \$90 | \$58 | \$85 | \$51,250 | \$21,875 |
| \$2 - \$5 Million | | | | | |
| Volume (Mil) | \$1,640 | \$2,675 | \$2,812 | \$2,059 | \$287 |
| Size Weighted Avg. (\$ per sf/unit) | \$113 | \$53 | \$138 | \$56,888 | \$33,161 |
| Price Weighted Avg. (\$ per sf/unit) | \$189 | \$89 | \$236 | \$108,841 | \$44,514 |
| Median (\$ per sf/unit) | \$161 | \$73 | \$196 | \$87,500 | \$36,175 |
| > \$5 Million | | | | | |
| Volume (Mil) | \$16,403 | \$6,184 | \$13,201 | \$15,064 | \$3,189 |
| Size Weighted Avg. (\$ per sf/unit) | \$170 | \$55 | \$155 | \$92,378 | \$114,459 |
| Price Weighted Avg. (\$ per sf/unit) | \$296 | \$102 | \$245 | \$191,537 | \$204,202 |
| Median (\$ per sf/unit) | \$170 | \$69 | \$158 | \$85,346 | \$88,235 |
| All Transactions | | | | | |
| Volume (Mil) | \$19,363 | \$11,321 | \$18,471 | \$18,203 | \$3,557 |
| Size Weighted Avg. (\$ per sf/unit) | \$153 | \$54 | \$137 | \$81,931 | \$88,194 |
| Price Weighted Avg. (\$ per sf/unit) | \$275 | \$94 | \$228 | \$175,048 | \$187,345 |
| Median (\$ per sf/unit) | \$112 | \$61 | \$112 | \$68,000 | \$44,444 |
| Capitalization Rates (All Transactions) | | | | | |
| Range (%) | 5.1 - 11.6 | 4.2 - 13.1 | 4.2 - 13.3 | 3.4 - 11.1 | 5.9 - 13.1 |
| Weighted Avg. (%) | 8.2 | 8.3 | 7.8 | 6.9 | 9.2 |
| Median (%) | 8.2 | 8.5 | 7.5 | 7.0 | 9.5 |
| Source: RERC. | | | | | |

National Market Analysis

| National Transaction Breakdown | | | | | |
|--|------------|------------|------------|------------|-----------|
| Current Quarter Rates (01/1/10 - 03/31/10) | | | | | |
| | Office | Industrial | Retail | Apartment | Hotel |
| < \$2 Million | | | | | |
| Volume (Mil) | \$309 | \$570 | \$532 | \$250 | \$11 |
| Size Weighted Avg. (\$ per sf/unit) | \$80 | \$48 | \$88 | \$41,009 | \$18,812 |
| Price Weighted Avg. (\$ per sf/unit) | \$115 | \$75 | \$128 | \$69,953 | \$27,269 |
| Median (\$ per sf/unit) | \$83 | \$58 | \$87 | \$50,000 | \$13,971 |
| \$2 - \$5 Million | | | | | |
| Volume (Mil) | \$388 | \$726 | \$635 | \$380 | \$68 |
| Size Weighted Avg. (\$ per sf/unit) | \$118 | \$52 | \$163 | \$56,189 | \$30,361 |
| Price Weighted Avg. (\$ per sf/unit) | \$177 | \$89 | \$247 | \$108,215 | \$35,700 |
| Median (\$ per sf/unit) | \$152 | \$76 | \$203 | \$93,796 | \$30,934 |
| > \$5 Million | | | | | |
| Volume (Mil) | \$5,623 | \$1,148 | \$2,298 | \$4,118 | \$1,193 |
| Size Weighted Avg. (\$ per sf/unit) | \$176 | \$51 | \$142 | \$112,818 | \$169,401 |
| Price Weighted Avg. (\$ per sf/unit) | \$329 | \$81 | \$219 | \$239,440 | \$271,655 |
| Median (\$ per sf/unit) | \$166 | \$62 | \$175 | \$99,174 | \$123,333 |
| All Transactions | | | | | |
| Volume (Mil) | \$6,320 | \$2,444 | \$3,465 | \$4,748 | \$1,271 |
| Size Weighted Avg. (\$ per sf/unit) | \$162 | \$51 | \$133 | \$96,178 | \$128,994 |
| Price Weighted Avg. (\$ per sf/unit) | \$309 | \$82 | \$210 | \$220,000 | \$256,982 |
| Median (\$ per sf/unit) | \$109 | \$60 | \$113 | \$69,079 | \$50,000 |
| Capitalization Rates (All Transactions) | | | | | |
| Range (%) | 6.0 - 10.0 | 6.5 - 11.7 | 6.5 - 10.0 | 4.5 - 11.1 | - |
| Weighted Avg. (%) | 7.8 | 8.4 | 8.4 | 5.9 | - |
| Median (%) | 7.8 | 9.0 | 7.8 | 6.0 | - |
| Source: RERC. | | | | | |

National Office Property Sector

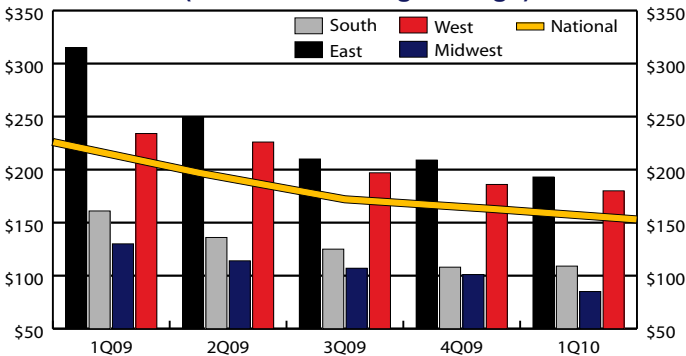
RERC Weighted Average Capitalization Rate (12-Month Trailing Average)



- Many respondents to the *RERC/CCIM Investment Trends Quarterly* survey said that office properties offered good opportunity for the future. However, respondents also expressed concern about the vacancy rate in the office property sector, which according to Reis, Inc., increased to 17.3 percent in first quarter 2010. Although vacancy levels have not been this high since 1994, the pace of increasing vacancy has slowed.

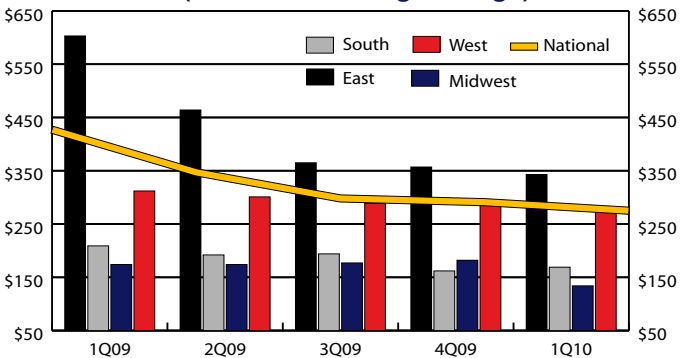
- Office sector volume increased by about 10 percent on a 12-month trailing basis during first quarter 2010. This was the first time in a year that volume increased. In contrast, the pricing for office properties continued to decline during first quarter. Both the 12-month trailing weighted average and median capitalization rates increased to 8.2 percent.

RERC Size-Weighted Average PPSF (12-Month Trailing Average)



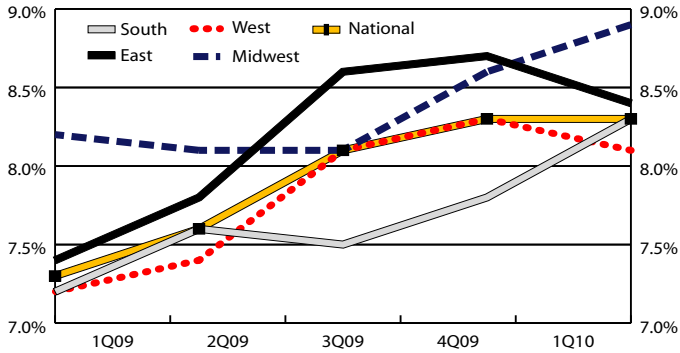
- One definite sign of stabilization in rental growth patterns in the office market is the fact that effective rent declines no longer far exceed asking rent declines. However, rental growth is not expected to turn positive until next year.

RERC Price-Weighted Average PPSF (12-Month Trailing Average)



National Industrial Property Sector

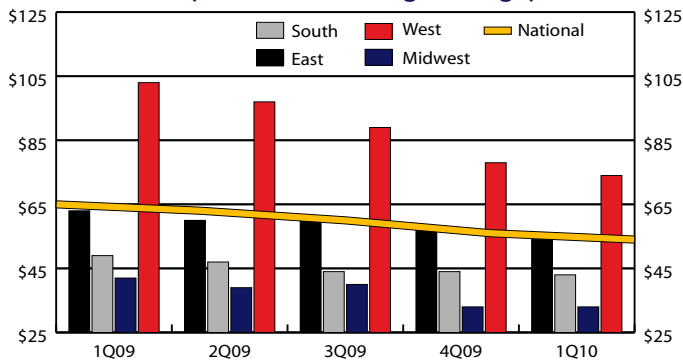
**RERC Weighted Average Capitalization Rate
(12-Month Trailing Average)**



♦ RERC/CCIM *Investment Trends Quarterly* survey respondents had mixed views regarding industrial property investment. Several respondents stated that industrial properties offered good opportunity, while others commented that due to the number of distressed sales, investing in the industrial sector was not advisable.

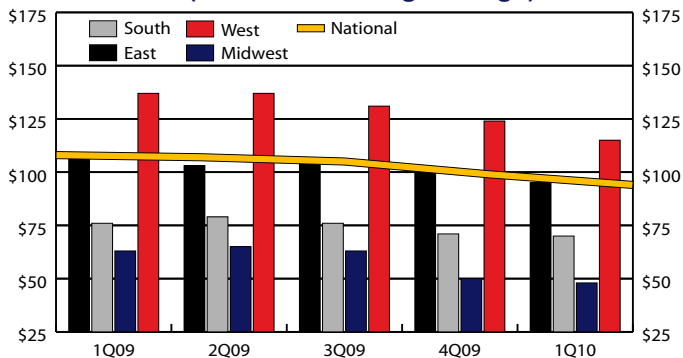
♦ RERC's 12-month trailing and current quarter transaction analysis of the industrial property sector showed little change in either volume or pricing during first quarter 2010. The 12-month trailing weighted average capitalization rate decreased to 8.3 percent, while the median capitalization rate increased to 8.5 percent.

**RERC Size-Weighted Average PPSF
(12-Month Trailing Average)**



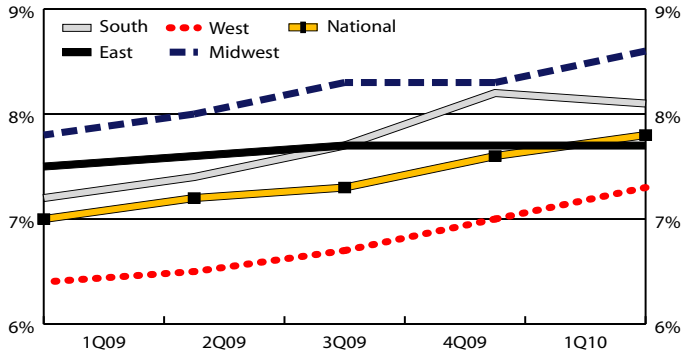
♦ According to the CoStar Group, the vacancy rate for industrial property space increased to 10.5 percent during first quarter 2010, as demand for industrial space continued to deteriorate. In addition, rental rates continued to decrease, as net absorption of industrial space declined. The good news is that, according to CoStar, the declines appear to be flattening and approaching bottom.

**RERC Price-Weighted Average PPSF
(12-Month Trailing Average)**



National Retail Property Sector

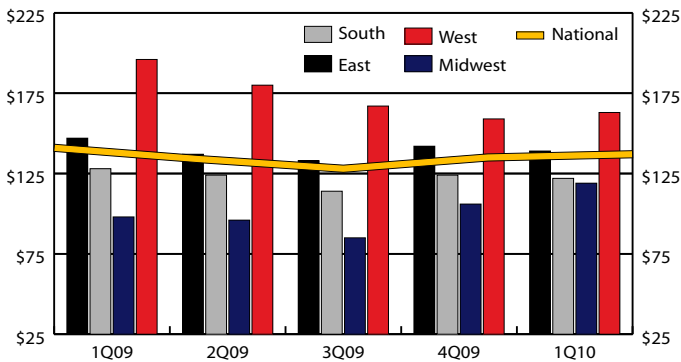
RERC Weighted Average Capitalization Rate (12-Month Trailing Average)



♦ The *RERC/CCIM Investment Trends Quarterly* survey respondents noted that in general, the retail sector has been hit hardest by the recession among the core property types. In addition, they said that retail properties are in high supply, and many are in distress or have already been through foreclosure. A few respondents said the retail sector offered the best sale prices because of high vacancy rates and reduced rents.

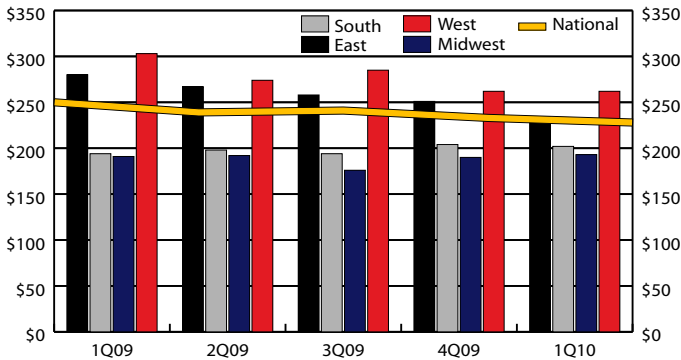
♦ Retail property transaction volume and pricing declined on a current quarter basis during first quarter 2010, with volume and pricing returning to third quarter 2009 numbers. In comparison, the 12-month trailing transaction analysis for first quarter showed little change from fourth quarter volume and pricing. The 12-month trailing transaction analysis weighted average capitalization rate increased to 7.8 percent, while the median capitalization rate remained unchanged.

RERC Size-Weighted Average PPSF (12-Month Trailing Average)



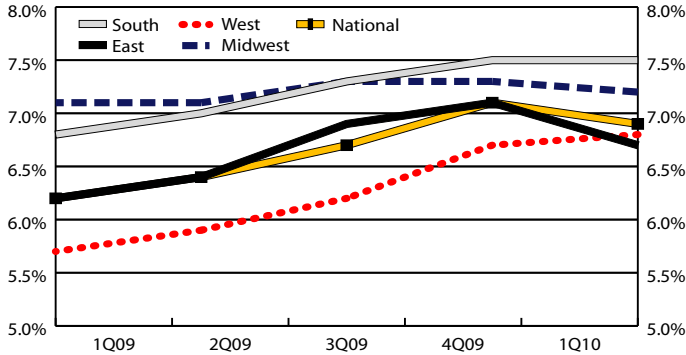
♦ According to Reis, Inc., fundamentals for the neighborhood/community retail sector continued to decline during first quarter 2010, although the decline was not as severe as in previous quarters. The vacancy rate increased by 20 basis points, but it was the smallest increase since first quarter 2008, and negative net absorption was 2.6 million square feet, which is slightly less than fourth quarter 2009 totals. Both asking and effective rents continued to decline.

RERC Price-Weighted Average PPSF (12-Month Trailing Average)



National Apartment Property Sector

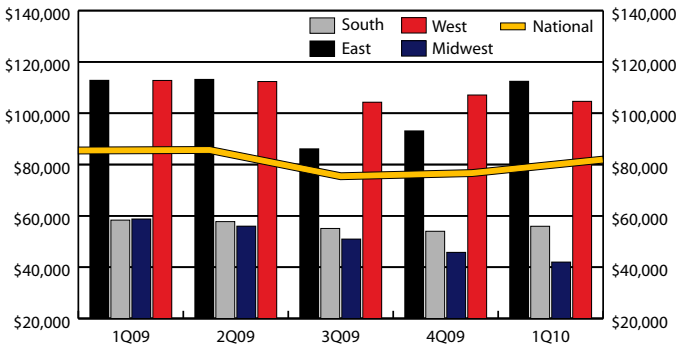
**RERC Weighted Average Capitalization Rate
(12-Month Trailing Average)**



◆ First quarter 2010 *RERC/CCIM Investment Trends Quarterly* survey respondents commented that apartment properties still have the best value and offer the best investment opportunity compared to the other core property types. While the outlook appears brighter for this sector than for other sectors, the pace of recovery will remain slow.

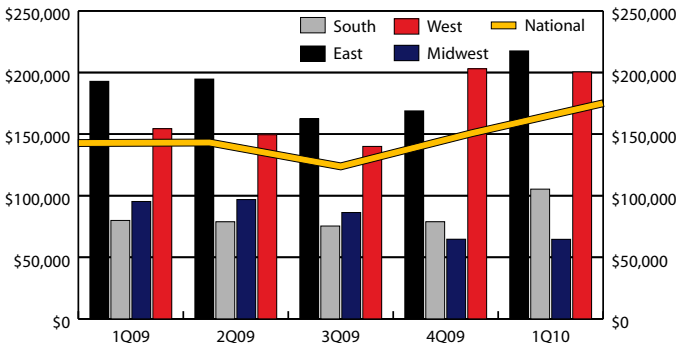
◆ During first quarter 2010, apartment property volume and pricing increased by 15 percent and 7 percent, respectively, on a 12-month trailing basis. In contrast, current quarter apartment volume decreased by 15 percent during first quarter from the previous quarter. The 12-month trailing weighted average capitalization rate decreased to 6.9 percent, while the median capitalization rate remained unchanged.

**RERC Size-Weighted Average PPU
(12-Month Trailing Average)**



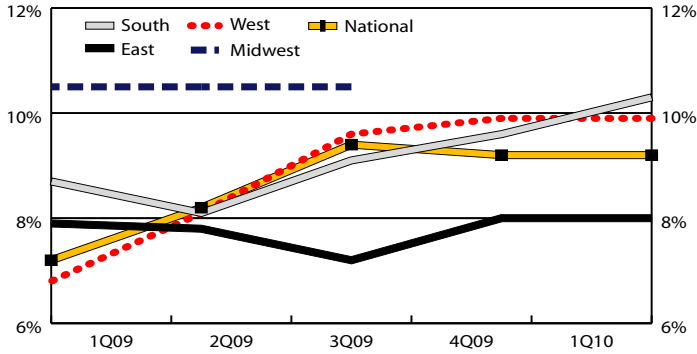
◆ According to Reis, Inc., the apartment market continued to stabilize in first quarter 2010. The vacancy rate for the apartment sector remained constant at 8.0 percent, although apartment vacancy is still at a historic high. In addition, rents, which had been declining, started to inch upward in some markets during first quarter.

**RERC Price-Weighted Average PPU
(12-Month Trailing Average)**



National Hotel Property Sector

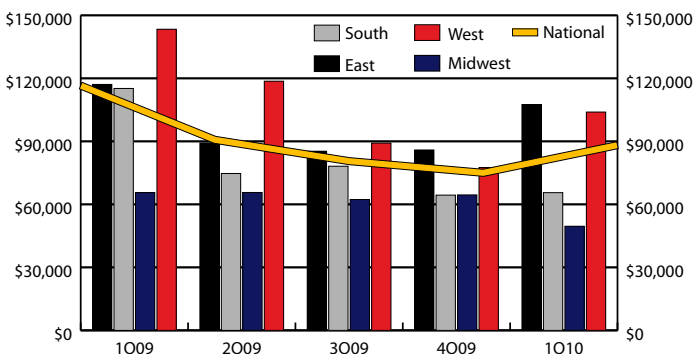
RERC Weighted Average Capitalization Rate (12-Month Trailing Average)



♦ *RERC/CCIM Investment Trends Quarterly* survey respondents commented that the hotel property sector is still not a reliable investment. Although some respondents stated that the hotel sector should recover quickly when the economy recovers, the majority of respondents believe that the hotel sector is the property type most likely to continue to experience weak demand because of continued low travel.

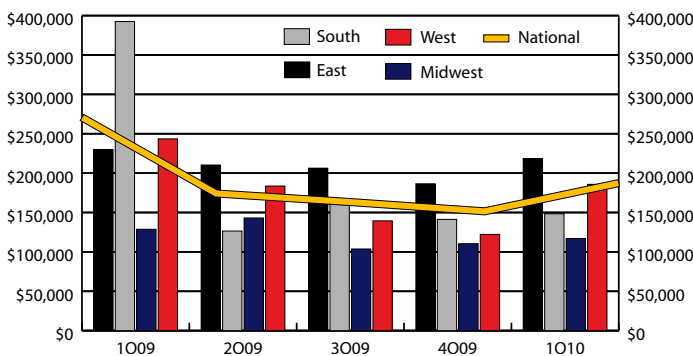
♦ Transaction volume for the hotel sector increased by approximately 20 percent on a 12-month trailing basis during first quarter 2010. The 12-month trailing size- and price-weighted average prices increased from the previous quarter. The 12-month trailing weighted average and median capitalization rates remained unchanged at 9.2 percent and 9.5 percent, respectively.

RERC Size-Weighted Average PPU (12-Month Trailing Average)



♦ According to Smith Travel Research, March 2010 was the fourth consecutive month of increased hotel demand. In addition, room revenue increased by 6.6 percent in March, after 18 consecutive months of decline. Hotel occupancy increased by 5.9 percent to 59.9 percent at the end of the last full week of March 2010. The average daily rate (ADR) decreased 1.6 percent to \$98.29, while revenue per available room (RevPAR) increased by 4.2 percent to \$58.89.

RERC Price-Weighted Average PPU (12-Month Trailing Average)



East Region Transaction Breakdown

| East Transaction Breakdown 12-Month Trailing Averages (04/01/09 - 03/31/10) | | | | | |
|--|------------|------------|-----------|-----------|-----------|
| | Office | Industrial | Retail | Apartment | Hotel |
| < \$2 Million | | | | | |
| Volume (Mil) | \$300 | \$637 | \$663 | \$195 | \$19 |
| Size Weighted Avg. (\$ per sf/unit) | \$74 | \$47 | \$83 | \$49,262 | \$22,158 |
| Price Weighted Avg. (\$ per sf/unit) | \$111 | \$76 | \$121 | \$67,134 | \$28,978 |
| Median (\$ per sf/unit) | \$77 | \$54 | \$84 | \$47,917 | \$23,571 |
| \$2 - \$5 Million | | | | | |
| Volume (Mil) | \$403 | \$703 | \$821 | \$627 | \$69 |
| Size Weighted Avg. (\$ per sf/unit) | \$116 | \$51 | \$138 | \$74,304 | \$36,438 |
| Price Weighted Avg. (\$ per sf/unit) | \$201 | \$85 | \$244 | \$112,274 | \$42,328 |
| Median (\$ per sf/unit) | \$152 | \$63 | \$196 | \$79,891 | \$36,186 |
| > \$5 Million | | | | | |
| Volume (Mil) | \$7,676 | \$1,660 | \$4,403 | \$5,455 | \$1,419 |
| Size Weighted Avg. (\$ per sf/unit) | \$213 | \$59 | \$156 | \$125,615 | \$125,973 |
| Price Weighted Avg. (\$ per sf/unit) | \$360 | \$106 | \$249 | \$235,023 | \$229,515 |
| Median (\$ per sf/unit) | \$205 | \$67 | \$158 | \$110,552 | \$74,942 |
| All Transactions | | | | | |
| Volume (Mil) | \$8,378 | \$3,000 | \$5,887 | \$6,277 | \$1,507 |
| Size Weighted Avg. (\$ per sf/unit) | \$193 | \$54 | \$139 | \$112,446 | \$107,521 |
| Price Weighted Avg. (\$ per sf/unit) | \$343 | \$95 | \$234 | \$217,546 | \$218,396 |
| Median (\$ per sf/unit) | \$112 | \$57 | \$112 | \$77,068 | \$53,125 |
| Capitalization Rates (All Transactions) | | | | | |
| Range (%) | 5.3 - 10.5 | 6.5 - 12.3 | 4.2 - 9.5 | 4.5 - 9.3 | 6.5 - 9.0 |
| Weighted Avg. (%) | 8.0 | 8.4 | 7.7 | 6.7 | 8.0 |
| Median (%) | 8.3 | 8.9 | 7.5 | 7.0 | 6.8 |
| Source: RERC. | | | | | |

South Region Transaction Breakdown

| South Transaction Breakdown 12-Month Trailing Averages (04/01/09 - 03/31/10) | | | | | |
|---|------------|------------|------------|------------|-------------|
| | Office | Industrial | Retail | Apartment | Hotel |
| < \$2 Million | | | | | |
| Volume (Mil) | \$364 | \$527 | \$770 | \$174 | \$16 |
| Size Weighted Avg. (\$ per sf/unit) | \$88 | \$42 | \$81 | \$31,855 | \$17,106 |
| Price Weighted Avg. (\$ per sf/unit) | \$117 | \$61 | \$119 | \$49,270 | \$23,489 |
| Median (\$ per sf/unit) | \$90 | \$50 | \$78 | \$34,821 | \$20,893 |
| \$2 - \$5 Million | | | | | |
| Volume (Mil) | \$350 | \$438 | \$753 | \$322 | \$86 |
| Size Weighted Avg. (\$ per sf/unit) | \$97 | \$37 | \$121 | \$29,336 | \$29,924 |
| Price Weighted Avg. (\$ per sf/unit) | \$156 | \$56 | \$205 | \$44,992 | \$42,166 |
| Median (\$ per sf/unit) | \$124 | \$47 | \$177 | \$34,074 | \$29,187 |
| > \$5 Million | | | | | |
| Volume (Mil) | \$2,279 | \$987 | \$3,939 | \$3,981 | \$646 |
| Size Weighted Avg. (\$ per sf/unit) | \$116 | \$46 | \$136 | \$62,614 | \$85,277 |
| Price Weighted Avg. (\$ per sf/unit) | \$179 | \$80 | \$218 | \$112,664 | \$165,694 |
| Median (\$ per sf/unit) | \$136 | \$57 | \$145 | \$58,232 | \$99,240 |
| All Transactions | | | | | |
| Volume (Mil) | \$2,992 | \$1,952 | \$5,463 | \$4,478 | \$748 |
| Size Weighted Avg. (\$ per sf/unit) | \$109 | \$43 | \$122 | \$55,949 | \$65,586 |
| Price Weighted Avg. (\$ per sf/unit) | \$169 | \$70 | \$202 | \$105,332 | \$148,372 |
| Median (\$ per sf/unit) | \$101 | \$50 | \$96 | \$43,952 | \$35,165 |
| Capitalization Rates (All Transactions) | | | | | |
| Range (%) | 6.9 - 10.1 | 6.6 - 10.7 | 5.8 - 10.6 | 5.6 - 10.6 | 10.0 - 10.7 |
| Weighted Avg. (%) | 8.4 | 8.3 | 8.1 | 7.5 | 10.3 |
| Median (%) | 8.1 | 9.0 | 7.9 | 7.7 | 10.4 |
| Source: RERC. | | | | | |

Midwest Region Transaction Breakdown

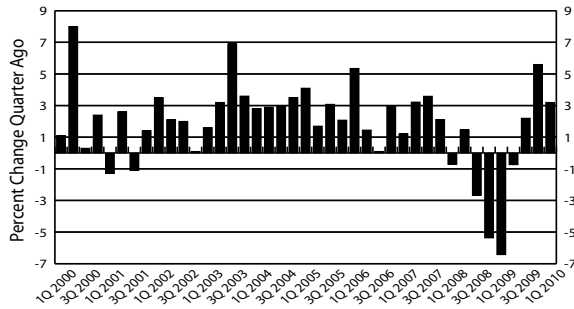
| Midwest Transaction Breakdown 12-Month Trailing Averages (04/01/09 - 03/31/10) | | | | | |
|---|------------|------------|------------|------------|-----------|
| | Office | Industrial | Retail | Apartment | Hotel |
| < \$2 Million | | | | | |
| Volume (Mil) | \$213 | \$363 | \$359 | \$132 | \$14 |
| Size Weighted Avg. (\$ per sf/unit) | \$63 | \$31 | \$65 | \$28,362 | \$14,879 |
| Price Weighted Avg. (\$ per sf/unit) | \$89 | \$46 | \$101 | \$37,702 | \$19,060 |
| Median (\$ per sf/unit) | \$68 | \$37 | \$64 | \$30,794 | \$13,451 |
| \$2 - \$5 Million | | | | | |
| Volume (Mil) | \$188 | \$343 | \$262 | \$194 | \$26 |
| Size Weighted Avg. (\$ per sf/unit) | \$76 | \$35 | \$110 | \$27,219 | \$18,808 |
| Price Weighted Avg. (\$ per sf/unit) | \$117 | \$52 | \$206 | \$46,658 | \$21,612 |
| Median (\$ per sf/unit) | \$93 | \$42 | \$161 | \$36,842 | \$20,948 |
| > \$5 Million | | | | | |
| Volume (Mil) | \$1,345 | \$701 | \$1,323 | \$736 | \$187 |
| Size Weighted Avg. (\$ per sf/unit) | \$91 | \$32 | \$158 | \$54,502 | \$82,638 |
| Price Weighted Avg. (\$ per sf/unit) | \$144 | \$46 | \$216 | \$74,139 | \$137,539 |
| Median (\$ per sf/unit) | \$105 | \$39 | \$154 | \$52,203 | \$76,588 |
| All Transactions | | | | | |
| Volume (Mil) | \$1,745 | \$1,407 | \$1,944 | \$1,062 | \$226 |
| Size Weighted Avg. (\$ per sf/unit) | \$85 | \$33 | \$119 | \$41,992 | \$49,586 |
| Price Weighted Avg. (\$ per sf/unit) | \$134 | \$48 | \$193 | \$64,586 | \$117,019 |
| Median (\$ per sf/unit) | \$76 | \$38 | \$79 | \$34,211 | \$21,029 |
| Capitalization Rates (All Transactions) | | | | | |
| Range (%) | 8.0 - 10.0 | 6.8 - 11.0 | 5.9 - 10.5 | 6.0 - 10.1 | — |
| Weighted Avg. (%) | 8.5 | 8.9 | 8.6 | 7.2 | — |
| Median (%) | 8.6 | 8.9 | 8.2 | 7.5 | — |
| Source: RERC. | | | | | |

West Region

Transaction Breakdown

| West Transaction Breakdown | | | | | |
|--|------------|------------|------------|------------|------------|
| 12-Month Trailing Averages (04/01/09 - 03/31/10) | | | | | |
| | Office | Industrial | Retail | Apartment | Hotel |
| < \$2 Million | | | | | |
| Volume (Mil) | \$444 | \$935 | \$666 | \$580 | \$32 |
| Size Weighted Avg. (\$ per sf/unit) | \$112 | \$79 | \$108 | \$65,536 | \$29,454 |
| Price Weighted Avg. (\$ per sf/unit) | \$145 | \$100 | \$152 | \$87,069 | \$36,877 |
| Median (\$ per sf/unit) | \$118 | \$85 | \$114 | \$70,833 | \$31,641 |
| \$2 - \$5 Million | | | | | |
| Volume (Mil) | \$696 | \$1,187 | \$975 | \$915 | \$105 |
| Size Weighted Avg. (\$ per sf/unit) | \$144 | \$81 | \$167 | \$94,980 | \$42,372 |
| Price Weighted Avg. (\$ per sf/unit) | \$218 | \$115 | \$261 | \$142,141 | \$53,518 |
| Median (\$ per sf/unit) | \$202 | \$99 | \$212 | \$125,000 | \$42,593 |
| > \$5 Million | | | | | |
| Volume (Mil) | \$5,087 | \$2,829 | \$3,536 | \$4,892 | \$938 |
| Size Weighted Avg. (\$ per sf/unit) | \$197 | \$71 | \$179 | \$114,951 | \$138,534 |
| Price Weighted Avg. (\$ per sf/unit) | \$294 | \$120 | \$283 | \$224,897 | \$205,670 |
| Median (\$ per sf/unit) | \$192 | \$81 | \$195 | \$111,301 | \$100,190 |
| All Transactions | | | | | |
| Volume (Mil) | \$6,226 | \$4,952 | \$5,177 | \$6,387 | \$1,076 |
| Size Weighted Avg. (\$ per sf/unit) | \$180 | \$74 | \$163 | \$104,634 | \$103,957 |
| Price Weighted Avg. (\$ per sf/unit) | \$275 | \$115 | \$262 | \$200,522 | \$185,734 |
| Median (\$ per sf/unit) | \$151 | \$88 | \$151 | \$92,132 | \$54,772 |
| Capitalization Rates (All Transactions) | | | | | |
| Range (%) | 5.1 - 11.6 | 4.2 - 13.1 | 4.7 - 13.3 | 3.4 - 11.1 | 5.9 - 13.1 |
| Weighted Avg. (%) | 8.5 | 8.1 | 7.3 | 6.8 | 9.9 |
| Median (%) | 8.0 | 8.0 | 7.3 | 6.4 | 10.4 |
| Source: RERC. | | | | | |

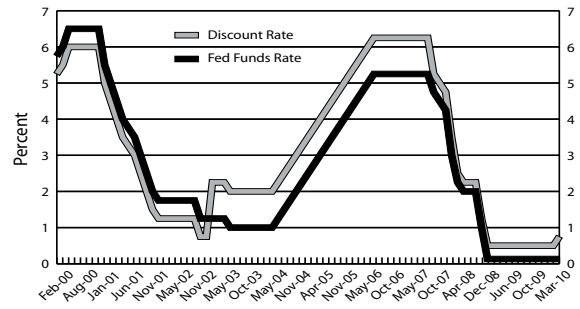
GDP



Source: Bureau of Economic Analysis.

According to the Bureau of Economic Analysis, real gross domestic product (GDP) increased 3.2 percent in first quarter 2010. Compared to a year ago, GDP increased 2.5 percent, the largest year-over-year increase since third quarter 2007. Consumer spending gave GDP a boost this quarter by increasing 2.6 percent. The economy will continue to struggle until demand fundamentals begin to improve.

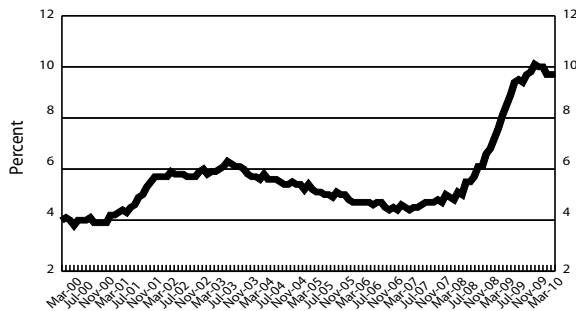
FOMC Policy Decisions



Source: Federal Reserve.

The Federal Open Market Committee (FOMC) kept the federal funds rate in the 0.0 to 0.25 percent range during first quarter 2010. However, the Federal Reserve did raise the discount rate to 0.75 percent, which is the first time the discount rate has changed in more than a year. The FOMC intends to keep the federal funds rate low until the unemployment rate declines.

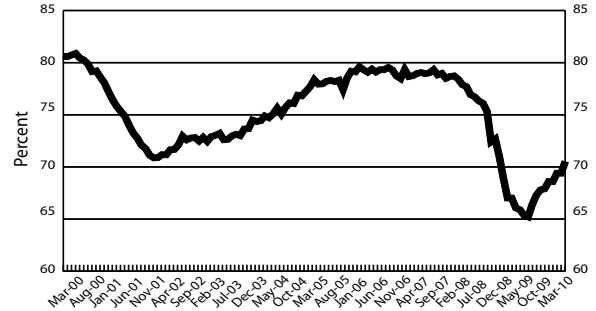
Unemployment



Source: Bureau of Labor Statistics.

The unemployment rate remained at 9.7 percent from January through March 2010. While the worst may be over, unemployment is still in a transition stage. With people trying to re-enter the labor force over the coming months, the unemployment rate is expected to increase. Furthermore, it will take years for the millions of displaced workers to find jobs again.

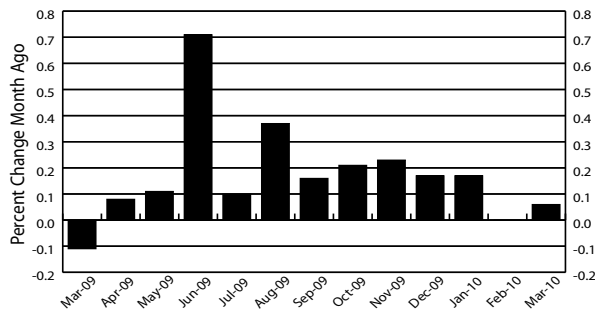
Manufacturing Utilization



Source: Federal Reserve.

With demand continuing, manufacturing utilization increased to 70.5 in March 2010, which is its highest point since December 2008. This is also the ninth consecutive month that manufacturing utilization has increased. As inventories continue to increase, optimism remains cautious.

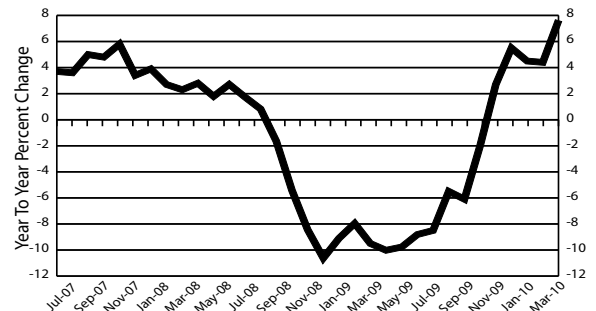
Consumer Price Index



Source: Bureau of Labor Statistics.

The Consumer Price Index (CPI) for March 2010 rose by 0.06 percent, up from the February reading. Inflation is still low, which points to a weak economy, though the CPI is not expected to move into negative territory, which would indicate deflation. The CPI is expected to begin increasing to normal levels next year.

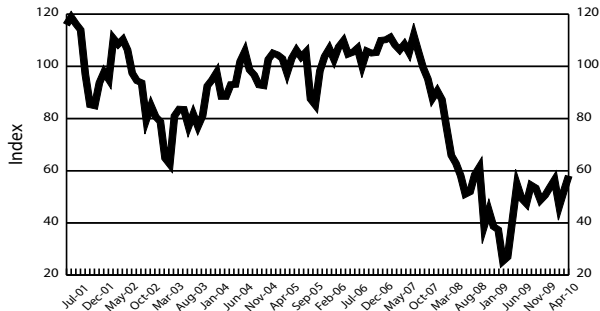
Retail Sales



Source: Census Bureau.

Retail sales increased 7.6 percent in March 2010 after declining in December 2009, showing strong consumer spending compared to a year ago. Despite this increase, unemployment is still high and consumers remain cautious.

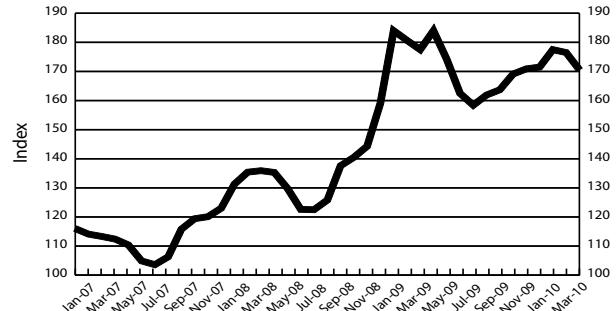
Consumer Confidence



Source: The Conference Board.

The Consumer Confidence Index increased to 57.9 in April, which is the highest it has been for more than a year. After declining in February, consumer confidence appears to be recovering, though confidence is still stuck at levels consistent with recession. It is clear that there is still uncertainty about the economy, which is expected to have a slow recovery.

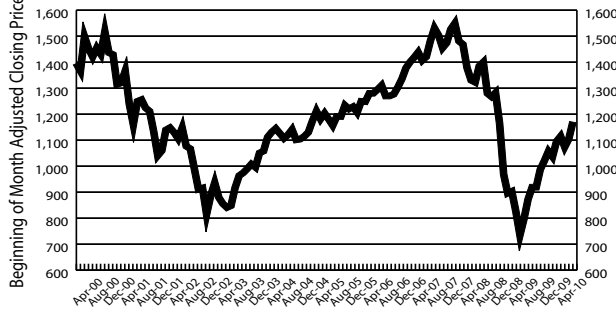
Housing Affordability



Source: NAR.

The National Association of REALTORS® (NAR's) affordability index measures whether or not a typical family could qualify for a mortgage on a typical home. This is defined by averages of home prices, family income, and mortgage rates. To read the index, a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies there is more than enough income to qualify for a loan on a median-priced home, assuming a 20 percent down payment.

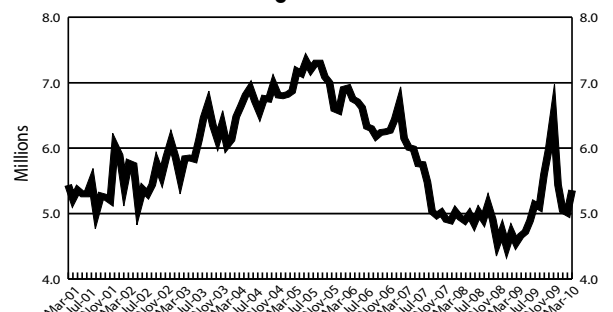
S&P 500



Source: S&P.

The S&P 500 ended March 2010 at 1169.43, up 0.06 percent from February, continuing the trend of slow and steady increases with slight declines every few months. With the economic troubles in Europe, the S&P 500 is expected to drop, but it is yet to be determined by how much and for how long.

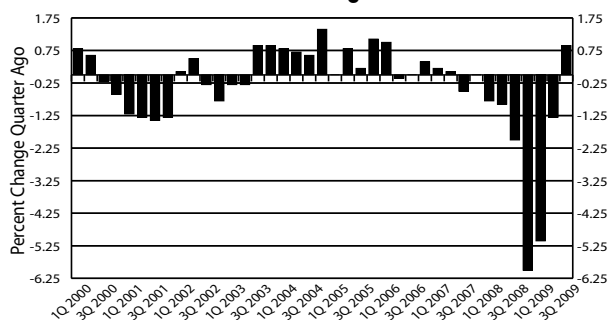
Existing Home Sales



Source: NAR.

Existing home sales increased by 6.8 percent to 5.35 million units in March 2010. Since December 2009, sales have continued to rise and are comparable to the end of 2007 sales. This increase is attributed to the extended and expanded homebuyer tax credit, and existing home sales are expected to increase until the tax credit expires in June. Although there is concern that housing will drop without the government's aid, 2010 is expected to be a better year for existing home sales.

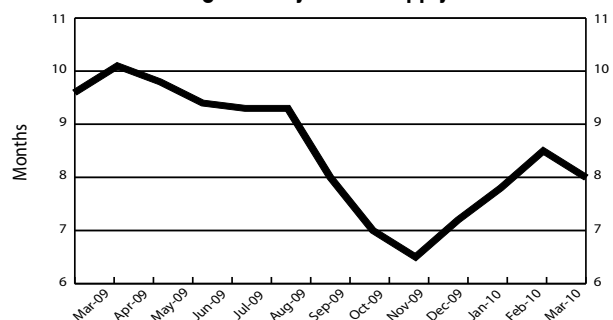
Commercial Leading Indicator



Source: NAR.

The Commercial Leading Indicator (CLI) for third quarter 2009 increased by nearly 1 percent. While this increase is not amazing, it is certainly better than the declines of the past year. The CLI factors in 13 variables affecting commercial real estate, such as unemployment, retail sales, and the NAREIT Price Index.

Single Family Home Supply



Source: NAR.

The March 2010 single family housing supply was 8.0 months, a 0.5-percent decrease from February, and was due to the gain in sales. Despite this decrease, the current reading is still well above the natural rate of around 6.0 months.

Scope & Methodology

The analysis provided in the *RERC/CCIM Investment Trends Quarterly* is conducted by Real Estate Research Corporation (RERC). The information is gathered in raw form from surveys sent to CCIM designees and candidates, and from sales transactions collected from various sources, including CCIM members, various key commercial information exchange organizations (CIEs), the media, assessors' offices, RERC contacts in the marketplace, and other reliable public and private resources. All sales transactions are aggregated, analyzed, and reported on by RERC. Additional data and forecasts are provided courtesy of the REALTORS® Commercial Alliance and Torto Wheaton Research.

Published quarterly, the *RERC/CCIM Investment Trends Quarterly* report provides timely insight into transaction volume, pricing, and capitalization rates for the core income-producing properties.

RERC Definitions

Capitalization Rate: The capitalization rate is defined as the first year "stabilized" net operating income (NOI) (NOI is before capital expenditures – tenant improvements, leasing commissions, reserves – and debt service) divided by the present value (or purchase price). Capitalization rates included are transaction-based medians and price-weighted averages.

RERC Capitalization Rate and Ranges: Capitalization rates and ranges listed throughout this report are based on RERC's proprietary realized capitalization rate model, which includes available transaction-based capitalization rates, NCREIF Index Returns, and other market factors, but is heavily weighted toward transaction-based capitalization rates for each property type within each market.

Price-Weighted Average: The price-weighted average is developed through weighting each asset based on the gross sales price. Therefore, larger dollar properties are given more weight than the smaller dollar properties, with the weighted average reflecting more weight towards institutional real estate.

Size-Weighted Average: The size-weighted average is developed through weighting each asset based on its gross square footage – simply an aggregation of all the gross sales prices divided by the aggregation of the gross square footage.

National/Regional Market Analysis: RERC ranks the investment potential of the metros and property types it covers based on various space market and financial market criteria, including pricing, capitalization rates, vacancy rates, and other factors.

Investment Conditions Rating: A rating of 1 through 10 (with 10 being high) reflecting survey respondents' collective views of the investment environment for a particular property type in comparison with other property types. The rating may take into account supply and demand, economic conditions, pricing, rental rates, or other factors.

NCREIF Definitions

NCREIF: The National Council of Real Estate Investment Fiduciaries (NCREIF) is an independent organization dedicated to the compilation, validation, and distribution of performance data for the institutional real estate investment community.

Total Return: The total return includes appreciation (or depreciation), realized capital gain (or loss), and income. It is computed by adding the income and capital appreciation return on a quarterly basis.

Implied Cap Rate (Income Return): The implied capitalization rate measures the portion of return attributable to each property's NOI. It is computed by dividing the total NOI by the total quarterly investment.

Capital Appreciation Return: The capital appreciation return measures the change in market value adjusted for any capital improvements/expenditures and partial sales divided by the average quarterly investment.

Annual and Annualized Returns: Annual returns are computed by chain-linking quarterly rates of return to produce time-weighted rates of return for the annual and annualized periods under study. For time periods beyond 1 year, the annualized returns are expressed as the annual compounded rate of return.

Allocation: The distribution, expressed as a percentage of the overall investment, in a particular geographic area by property type.

For a detailed description of the proceeding returns, as well as the calculations used by NCREIF to derive these figures, please visit <http://www.ncreif.org/indices>.

The combined returns are the weighted average of the returns for each property type according to the proportionate market value of properties surveyed relative to the total market values surveyed during a time period.

RERC Defined Regions and MSAs

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

Metropolitan Statistical Area (MSA): A geographic unit comprised of one or more counties around a central city or urbanized area with 50,000 or more population. Contiguous counties are included if they have close social and economic links with the area's population nucleus.

With a few exceptions, the MSAs within this report coincide with the U.S. Office of Management and Budget's December 2005 definitions for each MSA. For example, St. Paul, Minn., and Bloomington, Minn., as well as many other suburbs, are included within the Minneapolis MSA.

Note of Caution: It is imperative to exercise caution when comparing the data contained herein to previous reports published by RERC. The data herein is not "fixed," and will be updated and changed as additional transaction information is gathered and analyzed.

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