

MOUNTAIN/SOUTHWEST

TABLE OF CONTENTS

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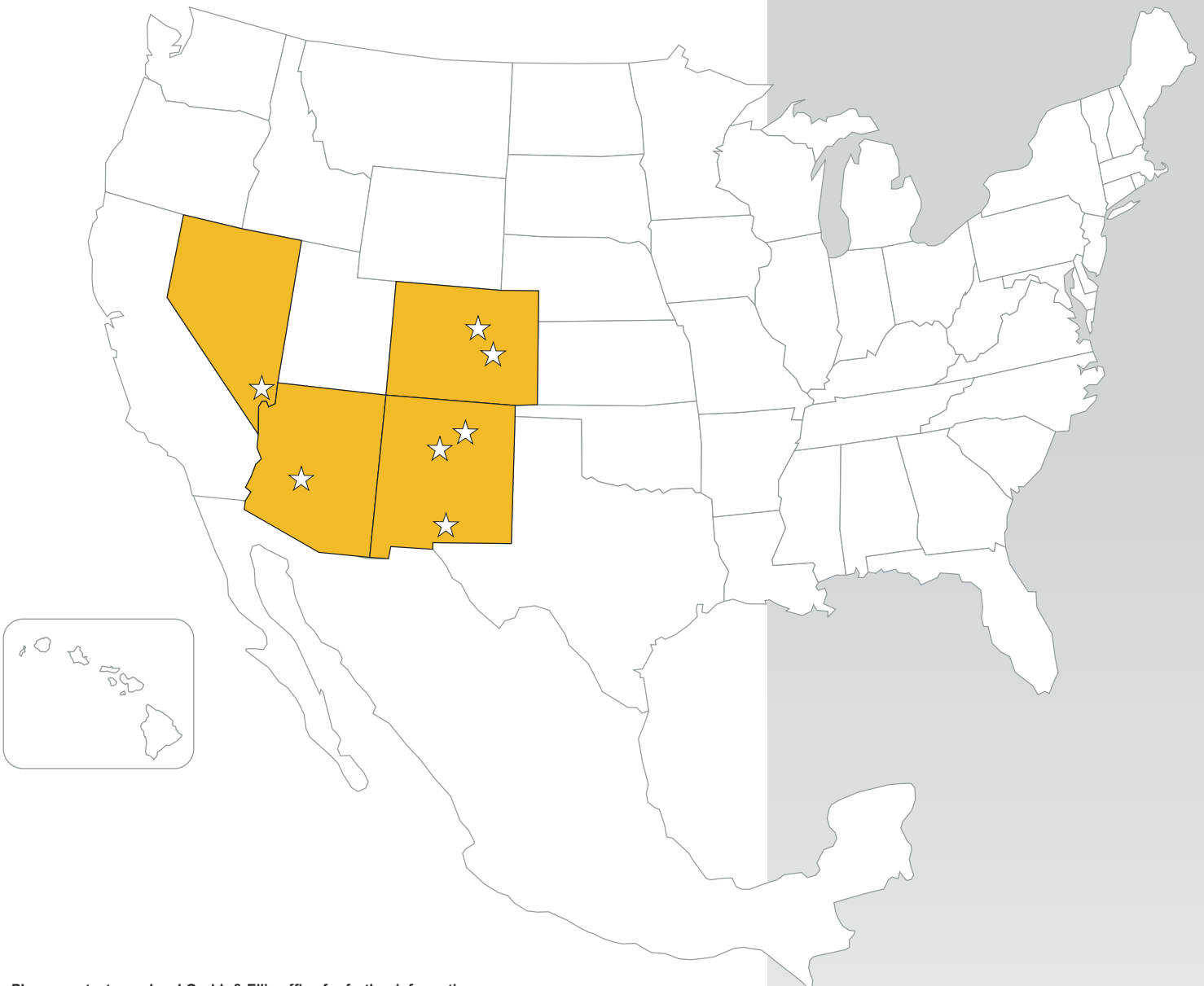
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| | |
|----------------------------|----|
| REGIONAL ECONOMIC OVERVIEW | 2 |
| ALBUQUERQUE | 3 |
| SANTA FE | 7 |
| LAS CRUCES | 8 |
| COLORADO SPRINGS | 9 |
| DENVER | 13 |
| LAS VEGAS | 19 |
| PHOENIX | 23 |
| GLOBAL CLIENT SERVICES | 29 |
| CONTRIBUTORS & SOURCES | 32 |



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Note: Year-end 2004 numbers include estimates for the fourth quarter that were derived in November. Final published numbers may vary slightly. Totals may not add precisely due to rounding of numerals.

MOUNTAIN/ SOUTHWEST

OVERVIEW

Spurred by population and job growth, the real estate markets within the Mountain/Southwest region are poised to improve rapidly during 2005.

As the national economy has improved over the past year, local and regional economies have correspondingly strengthened as well. The Mountain/Southwest region is recovering a bit slower than other parts of the country, but numerous indicators are clearly trending positively.

The seven metropolitan areas covered in this report have all experienced positive job growth during 2004 with Las Vegas leading the region. Denver and Colorado Springs rebounded during the year, reversing their negative job performances of the last two years. New job creation is the catalyst for an improved economy, which will eventually result in positive gains for commercial real estate.

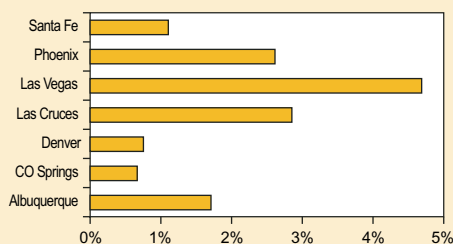
Additionally, this regional area continues to attract new people and businesses to their respective cities. Nevada, Arizona, and Colorado led the nation in population growth from 1990 to 2000, while New Mexico was ranked 12th during the same period. This trend does not appear to be ebbing any time in the near future. Forecasts from the U.S. Census Bureau indicate that both New Mexico and Arizona will increase their respective populations by over 20 percent from 2000 to 2015, while Nevada and Colorado are each projected to increase by at least 16 percent.

Relatively low cost of living in each of these seven cities continues to drive these population expansions. According to the ACCRA Cost of Living Index, all of the metropolitan areas in this study range from 84.9 to 103.1, with the exception of Denver and Santa Fe. Couple low cost of living with high quality of life, numerous cultural venues, access to a vast spectrum of recreational activities, and the overall lifestyle of the Mountain/Southwest, the increases in population are no surprise.

The commercial real estate markets within the Mountain/Southwest region are rebounding. The investment markets of each city have had record years as investors continue to seek out options such as real estate over a lackluster stock market. Retail sectors are also strong across the region as this market segment did not experience the dramatic rises in vacancy levels during the recent downturn. Office and industrial product remain the weaker segments in most markets; however, encouraging signs abound in nearly every market that 2005 will be a year of marked improvement for these properties. Profitable real estate opportunities exist for every party; landlords, tenants, buyers and sellers, in each of the Mountain/Southwest cities, it is just a matter of which opportunity makes the most sense for each entity.

Percent Change Job Growth

July 2003 to July 2004

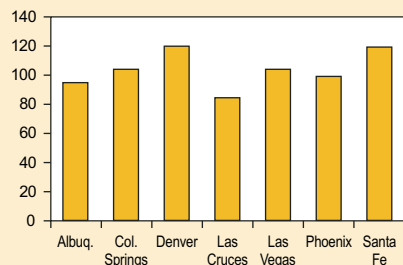


Percent Population Change

| | % Change 1990 to 2000 | Forecasted % Change 2000 to 2015 |
|------------|--------------------------|-------------------------------------|
| Arizona | 40.0% | 21.1% |
| Colorado | 30.6% | 16.0% |
| Nevada | 66.3% | 16.5% |
| New Mexico | 20.1% | 23.7% |

ACCRA Cost of Living Index

First Quarter 2004



Speculative projects are sprouting up as vacancy declines and construction costs rise.

The Albuquerque metro area office market ended 2004 on a healthy note. The rising vacancy trend finally abated and for the first time in four years, significant absorption of space occurred.

Recently completed office projects in the North I-25 area garnered the lion's share of this activity. The trend of developers building more speculative office projects will continue into 2005. Asking rates for these new projects will most likely exceed those of Class A buildings and be in the \$20 to \$22 per square foot range on a full service basis.

Dramatic rises in construction and tenant improvement costs will put both landlords and tenants in a precarious spot. Economically, landlords will not be able to provide tenant improvement allowances beyond what they previously allowed without raising rates significantly. Tenants will have to choose between paying a higher rate or funding a portion of the improvement costs themselves. These factors will most likely cause asking rates to increase in 2005. New construction projects are expected to have more absorption of space relative to older buildings. Additionally, the city of Albuquerque's proposed impact fees on new developments, if adopted, will also force landlords to increase asking rates for office projects started in 2005 to offset the proposed impact fees.

The Central Business District will continue to experience record vacancy levels of over 21 percent throughout much of 2005. Another negative will be the loss of Qwest's call center downtown which employed 230 workers. The challenge for the downtown office market will be filling the large vacancies in several older buildings. As the metro area's growth patterns trend to the west side and Rio Rancho, the desirability of having downtown office space will diminish. These growth patterns will spur more speculative projects in the North I-25 and West Mesa submarkets. Increased demand for office space will also be seen in the Uptown submarket in 2005. This demand will be driven by new mixed-use projects going in at Winrock Mall and across the street at ABQ Uptown.

As interest rates rise slightly in 2005, demand for owner-user properties will decrease and increase the time on the market for office condominiums. Tenants will focus on signing longer term deals to lock in the current rates for terms beyond five years. Landlord concessions will be based on free rent versus providing higher tenant improvement allowances. Landlords with state government tenants may see that the State of New Mexico will continue doing build-to-suit deals or even owning its own real estate in 2005.

ALBUQUERQUE

OFFICE

Market at a Glance

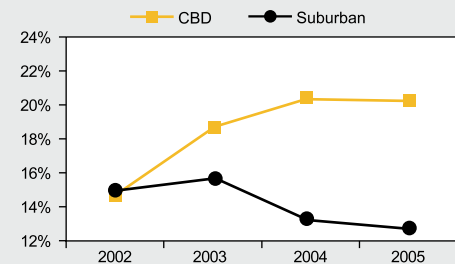
2004 Year End

| | CBD | Suburban | Total |
|---------------------|---------|----------|---------|
| Rentable* | 2,894 | 9,810 | 12,704 |
| Vacant* | 603 | 1,319 | 1,922 |
| Vacancy Rate | 20.8% | 13.4% | 15.1% |
| Absorbed* | (29) | 391 | 362 |
| Under Construction* | 0 | 207 | 207 |
| Rental Rate** | | | |
| Class A | \$18.10 | \$19.54 | \$19.00 |
| Class B | \$14.55 | \$15.18 | \$15.05 |

* Square feet in thousands, excludes owner-occupied, medical, government
 ** Weighted average asking rent/SF/year Full Service

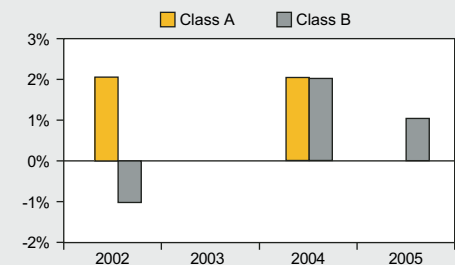
Vacancy Rates

All Classes of Space



Asking Rental Rates

Annual Percent Change



ALBUQUERQUE

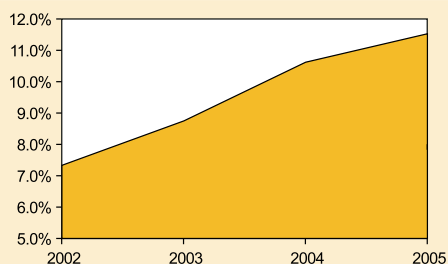
INDUSTRIAL

Market at a Glance 2004 Year End

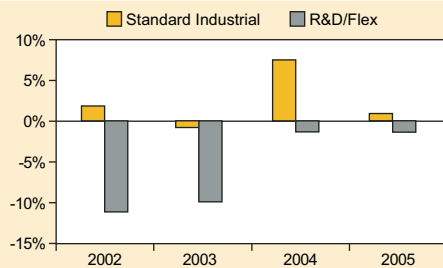
| | General Industrial | R&D/ Flex | Warehouse/ Distribution | Total |
|---------------------|--------------------|--------------|----------------------------|--------|
| Total* | 14,097 | 3,059 | 14,036 | 31,192 |
| Vacant* | 1,601 | 262 | 1,465 | 3,328 |
| Vacancy Rate | 11.4% | 8.6% | 10.4% | 10.7% |
| Absorbed* | -270 | 128 | 149 | 7 |
| Under Construction* | 798 | 0 | 593 | 1,391 |
| Rental Rate** | \$5.72 | \$8.81 | \$5.75 | \$5.98 |

* Square feet in thousands, includes owner-occupied
** Weighted average asking rent/SF/year Triple Net

Vacancy Rate All Product Types



Asking Rental Rates Annual Percent Change



Leasing market should remain slow as companies focus on ownership opportunities.

Throughout 2004 the Albuquerque industrial leasing market remained slow, while most of the activity occurred in buying or constructing owner-occupied buildings. In the new construction area, industrial office/warehouse condominiums remained very popular for smaller users in the North I-25 area and should continue in 2005. The bright spot in the leasing market was the positive absorption of space in newly constructed speculative warehouse and distribution projects in the West Mesa and South Valley areas. For 2005, the delivery of over 484,000 square feet of warehouse and distribution space in 14 projects will disproportionately increase supply relative to demand. This new distribution space will be approximately 40 percent absorbed by year-end 2005. The remaining unfilled space should provide opportunities for industrial tenants requiring distribution space.

2005 should see new speculative construction projects taper by mid-year. The majority of new construction activity will occur in large build-to-suit and owner-developed projects. The slowdown in speculative projects will occur as the result of recent completions remaining about 50 to 60 percent vacant. A lack of significant positive absorption in multi-tenant industrial properties may reduce new speculative starts. Users seeking to lease industrial spaces will continue to enjoy abundant choices and command concessions from landlords throughout 2005.

With the flurry of new construction activity, the availability of industrial zoned land will decrease, especially for large contiguous land tracts over 25 acres within Albuquerque's city boundaries. Users wanting to build their own spaces will be faced with buying scarce land at high prices and with rising construction costs. This trend should increase demand for older industrial buildings as long as the remodeling costs plus the purchase price are less than the price of a new building. The Downtown and Airport areas should be where the remodel strategy will occur the most in 2005, since these submarkets have the greatest number of functionally obsolete properties.

Another bright spot in 2005 will be the developing aviation cluster around Double Eagle airport on the West Mesa. The city of Albuquerque plans a \$35 million upgrade to the infrastructure at and around the Double Eagle airport. This will help to increase the availability of large industrial land tracts. Most importantly, it will attract supporting companies to locate near Eclipse Aviation, American Utilcraft Corporation and Aviation Technology Group in subsequent years.

A surge of new retail projects will provide opportunities for tenants and challenges for older centers.

New home construction is a harbinger for retail activity. The Albuquerque metro area experienced record housing starts in 2004 and the pace is expected to decrease only slightly in 2005.

As housing starts continue to flourish in the Far Northeast, West Mesa, Rio Rancho, and South Valley areas, opportunity for new retail growth will take place in these areas. Almost 1.6 million square feet of new retail projects are expected to be completed by year-end 2005. Of these, about 60 percent will be free-standing, big-box retailers and the remaining balance will be neighborhood and strip centers.

This surge in new retail construction will be a challenge for many older retail centers as many tenants relocate to new centers in growth areas. The impact for older centers will be longer lease up times to find replacement tenants. In turn, landlords of older centers may opt for concessions such as fixed common area maintenance charges, shorter lease terms, or providing tenant improvement allowances. Renovation strategies will be tough to justify economically in the face of rising construction costs. In centers with continued high vacancies, landlords will be looking at leasing to non-traditional tenants such as charter schools and even office users like non-profits. 2005 will also see obsolete centers torn down and replaced with free-standing concepts. The new Lowe's Home Improvement warehouse going up at Twelfth Street and I-40 is an example of this strategy.

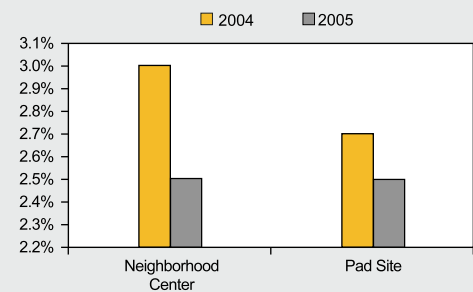
From an infill perspective, the Uptown area will benefit from several major retail projects that will get underway in 2005 and be completed in 2006. ABQ Uptown will be a mixed-use lifestyle center on 30 acres with residential, office and retail shops. The retail portion is limited to 170,000 square feet per the Uptown sector plan. Right across the street, the Winrock regional mall will undergo a transformation from a super regional mall concept to an outdoor power center format with big-box retail and restaurants. Not to be left out, Coronado Mall is also in the planning stages for a major renovation that should be approved in 2005. This new activity in Uptown may decrease the chances of any significant recovery in older centers in 2005.

Retail lease rates for newly constructed centers will remain at a premium for most of 2005 and even increase as construction costs continue to rise. Asking lease rates for older centers will remain stable or fall slightly as the amount of time on the market increases. Tenants will most likely continue seeking newer locations with higher rates versus selecting older locations with lower rates. As concessions become more abundant, some tenants will continue to side with the deal.

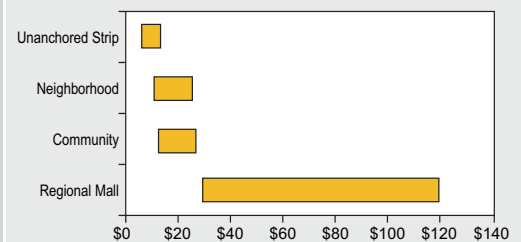
ALBUQUERQUE

RETAIL

Asking Rental Rates Annual Percent Change



Rent Range by Center Type In-Line Shop Space, \$/SF/Yr. NNN



ALBUQUERQUE

INVESTMENT AND MULTI HOUSING

The supply of investment properties will remain low as demand increases even more.

INVESTMENT

Investors will see much of the same in 2005—everyone wants to buy but no one wants to sell. This especially holds true for investments in the \$500,000 to \$2 million range. Demand will continue to heighten as the overall leasing market improves and vacancies decline. In addition, the trend of out-of-state investors, especially from California, searching the Albuquerque metro area for properties should continue to increase. Combined with a lack of supply and rising interest rates, pricing for investment product is expected to remain strong in 2005 for sellers. This, in turn, will keep overall capitalization rates stable.

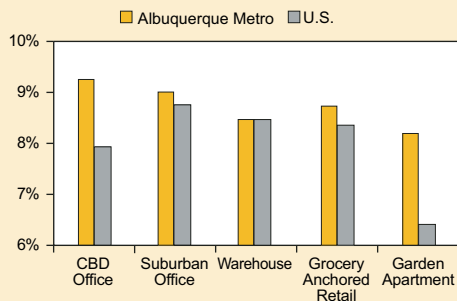
Office properties will experience a rise in capitalization rates of approximately 50 basis points and settle in the 8.5 to 9.5 percent range. The downtown area has several distressed office buildings with high vacancies and given the shortage of supply, these properties are likely to be traded in 2005 by opportunistic and value-added investors. Industrial and retail properties should see no change in capitalization rates during 2005 and remain in the 7.5 to 8.5 percent range. Investments leased to single tenants should be the most common option for both industrial and retail projects.

MULTI HOUSING

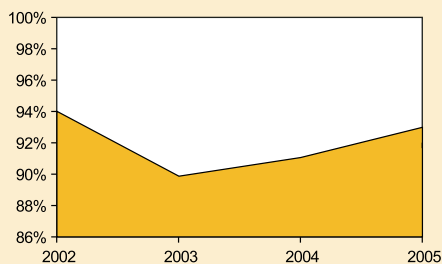
2004 ranks as one of the most vibrant years for multi housing investments that the Albuquerque metro area has seen. In spite of all time record levels of single family home purchases, demand for multi housing properties was extremely strong across all unit size mixes. This demand was fueled by historically low interest rates, a fairly stable occupancy level, and increased interest from investors outside of New Mexico. Interest rates are anticipated to increase 50 to 100 basis points in 2005. This increase should only have a marginal effect on investor demand for multi housing properties.

Occupancy levels should remain stable for 2005 and hover in the 92 to 93 percent range. This will be supported by only 508 new units being added to the inventory in the first half of 2005. Another 500 units are currently planned to begin construction in 2005 and all of these are located on the west side of Albuquerque on or near Coors Boulevard. The surge of activity for loft condominiums will not adversely affect the multi housing occupancy rate. Loft condominiums will command premium pricing and buyers will be leaving single family homes instead of apartments. Landlord concessions should be minimal in 2005 and will not be necessary in order to improve occupancy levels.

Average Capitalization Rates
Midyear 2003 to Midyear 2004



Multi Housing Occupancy Rate



Growth in tourism should continue to support the retail market, while the office market remains flat.

One of the major economic engines for Santa Fe is tourism. In 2004, Santa Fe's tourism industry continued to rebound with both occupancy and room rates increasing in the Plaza area.

Historically, a robust tourist market in Santa Fe has attracted many visitors that became prime candidates for purchasing vacation homes or relocating their businesses to the city. In 2005, the Santa Fe tourism market is expected to do well in terms of number of visitors, which will impact the local economy favorably. This anticipated increase in tourists will also continue to support Santa Fe's retail and art markets.

Santa Fe's retail sector was very active in 2004 with Class A and B plus projects experiencing practically no vacancies. Newly constructed retail centers experienced positive absorption, especially along the Cerrillos and St. Francis corridors. The tenant mix continues to be made up of national and regional retailers desiring a location in Santa Fe. The vacancy rate in 2005 is expected to be extremely low at .5 to 1 percent around the Plaza and approximately 5 to 7 percent in areas outside of the Plaza. No major retail projects are slated for completion in Santa Fe during 2005 and this lack of new supply should increase the asking rates for retail centers in the 3 to 5 percent range. Retail landlords will probably not be forced to give any major concessions to tenants.

Santa Fe's office market continued to be a tenant's market in 2004. This trend is expected to continue throughout much of 2005 and office rental rates should continue to be flat. The over-supply of Class A office space in Santa Fe will most likely continue in 2005 and rates will hold steady, causing landlords to absorb some of the increasing costs of building materials required for tenant improvements. This trend is keeping downward pressure on Class B space. In 2004, many business owners desired to purchase their own buildings rather than lease which contributed to a low rate of net absorption. Santa Fe did enjoy some active spurts of leasing activity in 2004 in the professional office category. In 2005, these professional users are expected to absorb space and help to stabilize the office market by year-end.

In the past three years a large percentage of multi housing units have been removed from the rental market as they were converted to condominiums. With remaining apartment projects having practically no vacancy, this segment of the market offers developers an extraordinary opportunity in Santa Fe.

SANTA FE

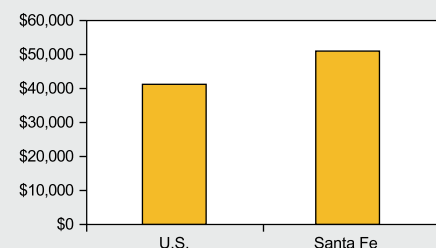
OVERVIEW

Rent Range by Product Type



* Retail In-Line Shop Space, \$/SF/yr. NNN
** Office, \$/SF/yr. Full Service

2004 Median Household Income



Source: Claritas

LAS CRUCES

OVERVIEW

Market at a Glance

2004 Year End

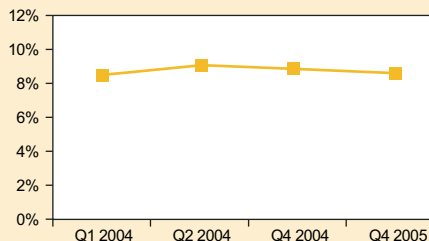
| | Total |
|---------------------|-----------|
| Rentable* | 3,103,341 |
| Vacant* | 280,852 |
| Vacancy Rate | 9.0% |
| Absorbed* | 85,000 |
| Under Construction* | 120,000 |
| Rental Rate** | |
| Neighborhood | \$9.78 |
| Power Center | \$18.32 |
| Strip | \$11.20 |

* Square feet in thousands

** Weighted average asking rent/SF/year triple net

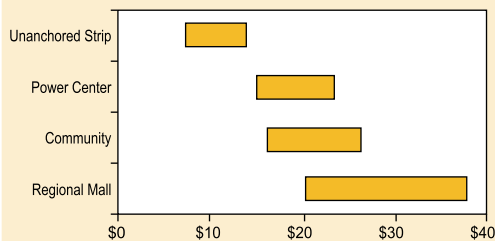
Vacancy Rate

All Product Types



Rent Range by Center Type

In-Line Shop Space, \$/SF/Yr. NNN



The trend for growth in Las Cruces has no end in sight as a space airport is developed and border trade takes off.

The Las Cruces area is one of the fastest growing communities in the United States. It has experienced phenomenal population growth over the last 10 to 15 years followed by subsequent growth in the retail market. In 2002, Las Cruces was ranked the best small metro area in the nation to do business in by *Forbes* magazine. It has remained near the top for the past two years. *Money* magazine also recently ranked Las Cruces as one of the top seven small metro areas in which to retire.

Main employers include the White Sands Missile Range and associated defense contractors, New Mexico State University, and a significant agricultural base. Las Cruces has also become known as a popular retirement destination. This trend is expected to increase as weather problems continue to spring up in Florida and the rest of the Southeastern United States. National retailer additions include Home Depot, Target, Super Wal-Mart, Best Buy, and very recently Staples, Bed Bath & Beyond, Old Navy, and Men's Wearhouse.

Las Cruces will be poised for continued growth. As military bases around the nation contract or close, White Sands Missile Range, and its sister base Fort Bliss in El Paso, will continue to attract more types of defense and homeland security related projects and stimulate job growth. Southern New Mexico will be the home of the X-Prize Cup, a privately funded, yearly contest that will aid in the progression of private space tourism. This process will also result in the construction of a spaceport 37 miles to the north of town by the year 2007. Border development will likely accelerate as the border industries continue their rebound. The privately funded Verde Group is also expected to begin construction of its border community in Santa Teresa, NM. Federal, state, and city offices will be consolidated within the next three years into large buildings in downtown Las Cruces.

Major challenges to development will focus on problems of excessive growth. Water will become more of an issue as the population continues to develop, and water resources will spread thinner. Expect growing controversy on water distribution between commercial and agricultural needs.

As forecast, Colorado Springs' economic recovery began in earnest during 2004. There were a few setbacks; however, the setbacks were anticipated and our local economy adjusted accordingly.

Interestingly, some of the nation's political initiatives resulted in economic gains for the Pikes Peak Region. Homeland defense and other government-related industries made major expansions during the year and more are anticipated in 2005. In the private sector, Progressive Insurance completed its 330,000-square-foot office campus and announced plans for additional expansions in the near future; the California State Automobile Association relocated its claims center to a 110,000-square-foot Class A office building; TriWest Healthcare Alliance received a \$10 billion government contract resulting in an expansion of its regional support center and USAA expanded its national service center. Numerous other companies have also expanded, relocated or announced plans for growth in 2005. There were some employment downturns and occupancy losses associated with telemarketing call centers; however, gains in higher-paying telephone "support" centers offset some of these losses. The bottom line is: Colorado Springs is back on the front burner for more regional and national expansions.

Office construction reached 850,000 square feet during 2004 with 63 percent being developed by owner-users. The remaining construction was speculative but predicated on pre-leasing arrangements in 50 percent of the newly developed space. A new trend emerged during 2004 when several upscale office park condominium projects were begun. These projects are designed for small professional users who require upgraded facilities, long-term permanent locations, insulation against rental increases and tax investment advantages. Our forecast for 2005 indicates that over 600,000 square feet of new office space will be added to the market with a larger portion going to the speculative market.

As we forecast last year, 2004's vacancy rate declined and absorption posted a four-year high of 800,000 square feet. Overall asking rents bottomed in the \$10.00 per square foot NNN range and the sublease problem that plagued the market for several years all but disappeared—very little sublease space remained available. Our forecast for 2005 indicates a significant decline in the vacancy rate due to increased speculative space demands. Asking rents will show moderate increases along with operating expenses. Look for absorption levels to once again reach 800,000+ square feet.

The economic recovery of the Colorado Springs metropolitan area began in earnest during 2004 and our forecast calls for stronger performances in 2005. A full economic recovery remains tenuous due to national economic and political situations; however, it is a fact that nationally recognized companies and investors are making firm commitments to the Pikes Peak Region. Further expansions by defense-related and service sector industries are imminent and this will insure that our recovery continues in 2005 and beyond.

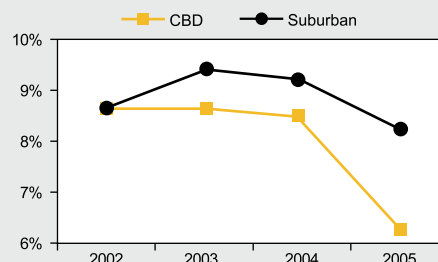


Market at a Glance 2004 Year End

| | CBD | Suburban | Total |
|---------------------|---------|----------|---------|
| Rentable* | 3,551 | 20,247 | 23,798 |
| Vacant* | 302 | 1,885 | 2,187 |
| Vacancy Rate | 8.5% | 9.3% | 9.2% |
| Absorbed* | 6 | 794 | 800 |
| Under Construction* | 0 | 150 | 150 |
| Rental Rate** | | | |
| Class A | \$14.85 | \$11.75 | \$12.75 |
| Class B | \$10.30 | \$9.70 | \$9.80 |

* Square feet in thousands, includes owner-occupied, medical, government
** Weighted average asking rent/SF/year Full Service

Vacancy Rates



Asking Rental Rates Annual Percent Change



COLORADO SPRINGS

INDUSTRIAL

Market at a Glance

2004 Year End

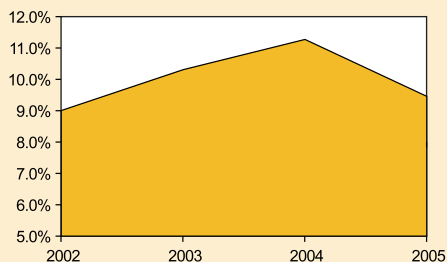
| | Standard Industrial | R&D/ Flex | Total |
|---------------------|---------------------|--------------|--------|
| Total* | 14,319 | 18,302 | 32,621 |
| Vacant* | 1,073 | 2,568 | 3,641 |
| Vacancy Rate | 7.5% | 14.0% | 11.2% |
| Absorbed* | 223 | 56 | 279 |
| Under Construction* | 63 | 40 | 103 |
| Rental Rate** | \$5.46 | \$7.11 | |

* Square feet in thousands, includes owner-occupied

** Weighted average asking rent/SF/year Triple Net

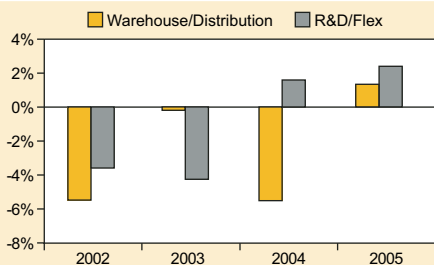
Vacancy Rate

All Product Types



Asking Rental Rates

Annual Percent Change



Absorption posts positive gains after three consecutive years of losses. Owner-users drive market along with user demands for upscale R&D space and smaller warehouse/distribution projects.

Vacant large floor plate high-tech and light manufacturing facilities continued to distort the industrial vacancy rate throughout 2004. Many of these buildings, which account for 50 percent of the industrial vacancy rate, were vacated by their owner-users during the recent economic downturn. Alternative uses have been found for several of these facilities including 70,000 square feet of the Quantum manufacturing facility which was leased by the Lockheed Corporation. The former Wigand-Osmose manufacturing facility was sold and the new owners invested a million dollars to convert it into a religious college. There are other conversions on the drawing board and several potential tenants have expressed interest in these larger facilities. Three existing owner-users of large facilities have also made expansion commitments. During February, chip-maker Atmel Corporation announced a \$40 million upgrade to its plant and during the latter part of 2004, the Intel Corporation announced another \$400 million upgrade project. Both projects are designed to meet the growing demand for custom semiconductors and wireless computer components. Ace Hardware completed a 251,000-square-foot distribution center expansion bringing its facility up to 750,000 square feet. Smaller warehouse/distribution buildings continued their exceptional performance during the year and demand continued to outpace supply. The vacancy rate in these buildings averaged 4 percent during 2004—well below the acceptable market equilibrium of 5 percent.

Boosted by the Ace Hardware distribution center expansion, construction increased from 312,000 square feet in 2003 to 632,000 square feet in 2004. Over 75 percent of 2004's construction was developed by owner-users. Many of the smaller users built their own facilities due to the shortage of suitable space in the speculative market. Ten small speculative buildings were completed based on pre-leasing arrangements. A few owner-developed buildings remained under construction at the end of 2004 and only two speculative projects totaling 62,500 square feet are proposed for 2005. The demand for warehouse/distribution space continues and more projects will be announced during the first part of 2005.

A partial rebirth of some of our existing high-tech/light manufacturing and distribution industries occurred in 2004. However, it appears that small R&D, assembly, sales and distribution users will provide the mainstay of industrial growth for the foreseeable future. The challenge for 2005 will be meeting the demand of these small warehouse/distribution users who have the capability of developing their own buildings if suitable speculative space is not available. Another challenge will be the anticipated expansion of Homeland Security and the subsequent granting of more defense-related contracts during the year. Recipients of these contracts, and their suppliers, will be under pressure to quickly find suitable space and begin operations.

Demand for upscale retail space in high-growth areas of Colorado Springs remains strong. National retailers continue their unprecedented expansion into the market and existing retailers are scrambling for better locations.

The Colorado Springs retail market continued to make unprecedented expansions during 2004. These expansions were partly fostered by a declining unemployment rate and the emergence of positive indicators of a long-awaited economic recovery. In conjunction with the improving economic news, the development and expansion of outlying residential areas continued throughout the year and the retail market struggled to keep up with the increased demand. After developing over 1.2 million square feet of new shopping centers during 2003, construction activity did take a breather during 2004. Only 450,000 square feet of new space was added to the market with most of this being pre-leased additions to the new centers developed in 2003. Amazingly, less than 4 percent of 2003's development (including 2004's additions), remained available for lease. There is 1.1 million square feet of new centers proposed for 2005 and the trend of build-to-suit expansions to existing centers will continue.

Unfortunately, the newer centers captured the preponderance of absorption activity during 2004, while the majority of the older centers continued to lose tenants. Several of the big-box anchor tenants are examining their current locations with an eye toward moving to higher traffic and income locations. Best Buy has already abandoned its Citadel Crossing location for a site within the First & Main Center and several others may make similar decisions in 2005. Smaller retailers have also migrated to the newer centers and for the first time in modern history, the non-anchored retail market suffered absorption losses. It is painfully obvious that many of these older centers will continue to lose tenants during 2005; however, this may be good news for the smaller retailer just entering the market. Asking rents are sure to decline and landlords will be more willing to offer concessions in order to keep these centers at reasonable levels of occupancy.

During 2004 national retailers continued their expansion into the Colorado Springs market. Ann Taylor, Pottery Barn, OshKosh, Sharper Image, Williams-Sonoma and others made their first foray into a market previously considered too small for their attention. A growing population exceeding the 500,000 mark and a retail market that topped \$10.4 billion during 2003 prompted these expansions.

The outlook for 2005 indicates that new occupancies will reach 400,000 square feet and the newer centers will capture the bulk of this activity. Vacancy rates in new centers will remain low and asking rents are expected to increase by 5 percent. The older centers may show some occupancy improvement; however, rental rate reductions and other concessions will be necessary to attract new tenants and to keep existing ones.

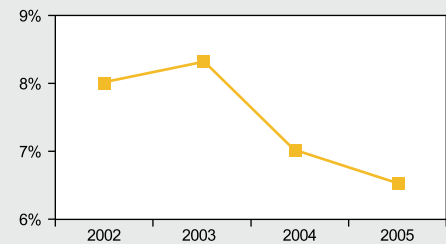


Market at a Glance 2004 Year End

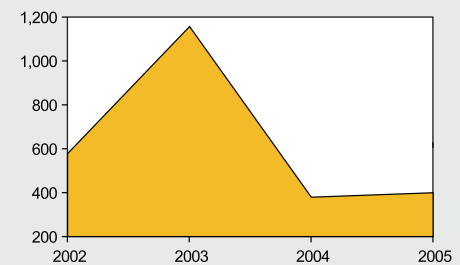
| | Standard Centers | Anchored Centers | Total |
|---------------------|------------------|------------------|---------|
| Total* | 5,949 | 9,785 | 15,734 |
| Vacant* | 580 | 520 | 1,100 |
| Vacancy Rate | 9.7% | 5.3% | 7.0% |
| Absorbed* | -58 | 427 | 369 |
| Under Construction* | 0 | 658 | 658 |
| Rental Rate** | \$10.80 | \$16.50 | \$12.45 |

* Square feet in thousands, does not include regional malls
** Weighted average asking rent/SF/year Triple Net

Vacancy Rate



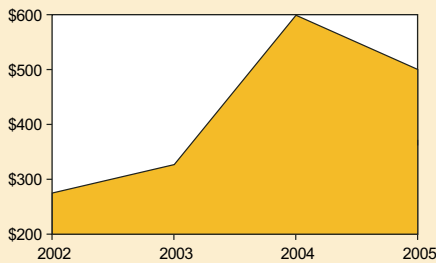
Net Absorption Sq. Ft. in Thousands



COLORADO SPRINGS

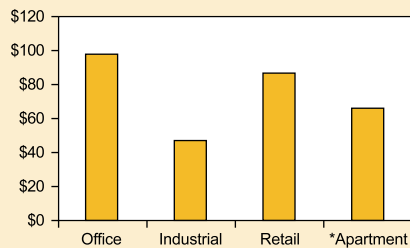
INVESTMENT, MULTI HOUSING & LAND

Colorado Springs Investment Volume
In Millions



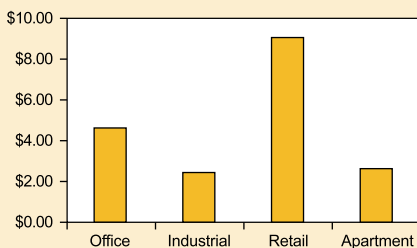
Improved Properties

2004 Average Property Sales Price
Dollars per Square Foot
*Apartment = Thousands per Unit



Apartments = \$66,000 unit

2004 Average Land Sales Price
Dollars per Square Foot



Platted & Unplatted

Unprecedented sales of improved properties push the market to a new historic high. Over \$600 million was invested in Colorado Springs commercial properties during 2004.

INVESTMENT

As forecast, the total sales of improved properties leapt ahead during the year and established a historic high. This record-setting trend was fostered by a pent-up investment demand and the willingness of more owners to sell. Low occupancies and declining rents had kept investor offers low; however, as the economic outlook began to improve, investors upped the ante and more owners sold. All classes of property, with the exception of industrial, produced price increases.

Investors returned to the market after seeing positive signs of a sustainable real estate recovery. Overall absorption levels edged upward, vacancies stabilized in the 9.5 percent range and rents bottomed. 2004 was a record-setting year for buy and sell decisions. A repeat performance in 2005 is not forecast; however, expect the investment market to produce sales nearing the \$500 million range. Investors who missed out on 2004's buying spree will pay higher prices for properties in 2005.

PROPERTY SALES

Apartment sales led the market with a total of \$187 million invested in 2,800 units. Office sales followed with 90 transactions totaling \$139 million. Six Class A office buildings were included and Equus Realty of Texas purchased two buildings at a modern-day low of \$67.70 per foot. Shopping centers and retail buildings followed with \$106.2 million invested in 86 sales. Sixteen shopping centers sold for \$54.8 million. Older, poorly located centers sold for an average of \$67.82 per foot, while the newer upscale centers averaged \$134.26 per foot. The industrial market produced 52 sales totaling \$46 million.

LAND SALES

The number of acres sold in 2004 reached 22,500, up from the 17,200 sold in 2003. \$186 million was invested in 2003 and \$161 million was invested in 2004. After increasing by 28 percent in 2003, overall land prices remained pretty much stable in 2004.

FORECAST

The supply of improved properties for sale will increase during 2005. Investors will be offering prices that many owners will find difficult to turn down. As the economy continues to recover, more upward pricing pressures will be placed on commercial properties. Investor and user interest in the purchase of some of the vacated industrial buildings will surface. These buildings comprise half of the industrial vacancy rate; however, they also represent the last opportunity to buy at the bottom of the market. More of our older and poorly performing shopping centers will be available as the newer centers continue to draw away tenants. Large investors will acquire several of the newer apartment complexes. The volume of land sales will decline but prices for high-traffic commercial land will rise.

The office market is tentatively embarking on a recovery, needing the catalyst of job growth to really spark a significant rebound. Several industries will create jobs in 2005, leading to a more stable market.

Denver's office market took encouraging steps forward on its road to recovery during 2004. While the steps were fairly diminutive, they were at least headed in the right direction.

Reversing a four-year trend, net absorption activity was positive for the overall market, resulting in lower vacancy levels. Asking rental rates have stabilized throughout the area, and we believe effective rates have reached the bottom of this current cycle. Substantial concessions are still prevalent; however, concessions will tighten up during 2005 as market conditions improve.

Job growth throughout Colorado has lagged over the last two years and jobs are what will propel the office market recovery. Expectations early in the year had projected moderate job creation; however, a slowdown in both the local and national economies at mid-year forced downward revisions of these forecasts. Metro Denver is likely to create only 2,100 new jobs in 2004, while Colorado's job growth is projected at just 1 percent. Despite these lowered forecasts, we have seen a few industries that we anticipate will lead the market in growth during 2005. Accounting, oil and gas, law firms and defense contractors are all expanding within the metro area. Of particular interest is the business and real estate activity among Denver law firms. At least eight of the larger firms have either recently completed expansions or are in negotiations. We believe this to be a leading indicator of a market recovery. Law firm activity often results in the creation of joint ventures and new businesses, thus leading to new jobs in other industries.

Another interesting phenomenon is the lack of large contiguous blocks of Class A space, particularly in the CBD and Southeast Suburban (SES) markets. Given the vast amount of space available, most would believe large blocks of space dominate the market. However, only 29 Class A properties metro wide can accommodate 50,000 square feet or more of contiguous space, of which only eight of these blocks are available within both the CBD and SES markets. Currently this lack of supply is resulting in a decreased amount of concessions for this product type and in 2005 should translate into an upswing in rental rates.

Tenants will still have the upper hand in 2005, and should carefully evaluate their real estate needs for the next five years and lock in the most favorable rates now. Landlords should remain creative and be nimble in working with tenants. Designing some of their vacant space into "spec" suites is a great option as the demand for quick occupancy has been strong. Denver's office market is clearly entering a recovery, which will expand during 2005.

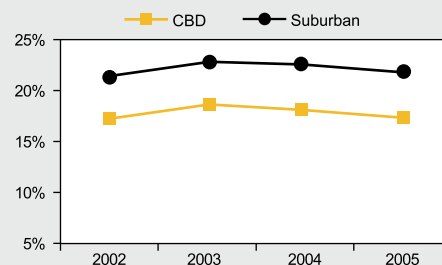


Market at a Glance 2004 Year End

| | CBD | Suburban | Total |
|---------------------|---------|----------|---------|
| Rentable* | 23,255 | 60,720 | 83,975 |
| Vacant* | 4,318 | 13,798 | 18,116 |
| Vacancy Rate | 18.6% | 22.7% | 21.6% |
| Absorbed* | 175 | 221 | 396 |
| Under Construction* | 0 | 0 | 0 |
| Rental Rate** | | | |
| Class A | \$23.06 | \$18.60 | \$19.85 |
| Class B | \$18.00 | \$16.04 | \$16.75 |

* Square feet in thousands, excludes owner-occupied, medical, government
** Weighted average asking rent/SF/year Full Service

Vacancy Rates All Classes of Space



Asking Rental Rates Annual Percent Change



DENVER

INDUSTRIAL

Absorption positive after two years of losses, and vacancy declining—all indicators are headed in the right direction for the industrial market. 2005 should be a year of marked improvement.

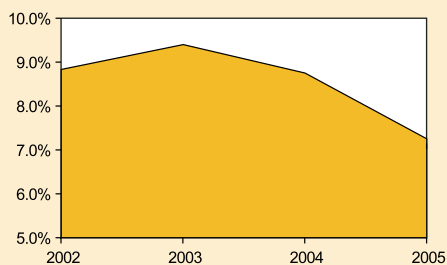
At the end of 2003, Denver's industrial sector had a great deal of momentum and it appeared the market would recover during 2004. Unfortunately, both the national and local economies stalled during mid-year and a strong recovery never materialized. As we look forward to 2005, Denver's industrial market is again on the rise with increased activity and strong momentum building. Net absorption has returned to the positive side of the ledger for the first time in two years and vacancy levels have slowly dropped throughout the year. Tenant demand has increased as has the size of transactions over the second half of the year. Once companies feel confident in the overall economy and in their industries specifically, we believe they will move forward with expansion and relocation plans, which will translate into a strong market during 2005.

Newer, more functional space will lease up rapidly once the market gains traction, as this is an existing trend that we expect to continue. Unfortunately, the vast amount of second and third generation space will continue to drag down the rest of the market. Approximately 80 percent of available industrial space is in buildings five years or older. The current gap in rental rates between these two classes of product is nearly \$2.00 per square foot and we expect this gap to widen considerably next year.

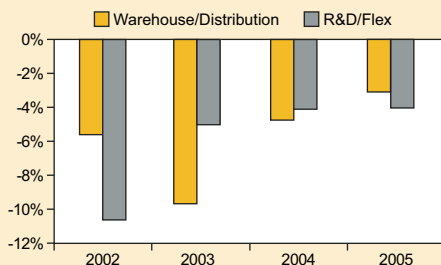
If a shortage of quality space materializes, new speculative construction may ramp up. ProLogis, Lauth, Majestic, and Catellus are major developers that have large industrial parks ready for development, with Panattoni positioning itself to increase their market presence as well. Construction has been constrained this year, with only 1.6 million square feet delivered, but if market conditions warrant, we could see a rapid rise in new construction, particularly in the I-70/E-470 quadrant. The demand for industrial zoned properties with yard space also continues to be strong. Strategic in-fill sites with good access to major arterials are a great buy for developers and owner-users alike.

Once again, the industrial sector is poised for a sustained recovery as soon as economic indicators, such as increased manufacturing, consumer confidence, and unemployment rebound and maintain their strength. The market has strong fundamentals and momentum and we do not believe it will sputter again. Several 300,000-square foot tenants are actively surveying the market and we believe these transactions will become reality in early 2005, propelling the industrial market's recovery.

Vacancy Rate
All Product Types



Asking Rental Rates
Annual Percent Change



Market at a Glance
2004 Year End

| | General Industrial | Incubator | R&D/Flex | Warehouse/Distribution | Total |
|---------------------|--------------------|-----------|----------|------------------------|---------|
| Total* | 34,963 | 30,194 | 23,171 | 86,539 | 186,114 |
| Vacant* | 3,096 | 2,197 | 4,424 | 6,608 | 16,325 |
| Vacancy Rate | 8.9% | 7.3% | 19.1% | 7.6% | 8.8% |
| Absorbed* | 403 | -68 | 394 | 771 | 1,500 |
| Under Construction* | 0 | 0 | 0 | 302 | 302 |
| Rental Rate** | \$5.35 | \$6.10 | \$8.50 | \$3.90 | \$5.50 |

* Square feet in thousands, includes owner-occupied
** Weighted average asking rent/SF/year Triple Net

Still standing strong among its counterparts, retail remains a great investment option. While it cannot remain "king" forever, retail opportunities will abound during 2005.

Denver's retail market remains the bright spot in the commercial real estate sector, as this segment has maintained its strength throughout the recession. Vacancy and rental rates have held steady, while net absorption activity has been strong. New retail development continues, as approximately 2.7 million square feet was delivered this year. Robust tenant demand continues to drive the market, particularly in new centers, and several new retailers are considering Denver in their expansion plans.

Retail properties remain a great investment vehicle especially since the stock market has not improved dramatically. Retail investment activity during 2004 was over \$677 million, nearly double the volume we experienced in 2003 and well over 2002's volume of \$276 million. The average price per square foot is up nearly 10 percent and capitalization rates are down on average 100 basis points from a year ago, a testament to the strong investor demand for retail product.

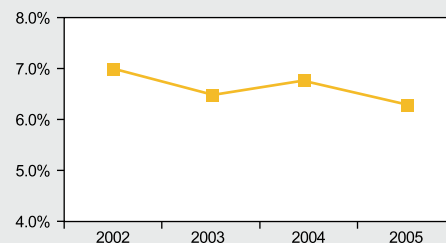
Last year we forecasted that the market was at its peak and we would experience a modest decline, however, at the end of 2004 we find ourselves still at the peak. We have not climbed higher, but neither have we descended by any discernible measure. Opportunities still exist for both buyers and sellers in Denver's retail investment market. Even as interest rates rise, the market will remain strong for at least 6 to 12 months as the market's momentum continues. Additionally, investors will remain cautious about returning to the stock market immediately and will still place a bulk of their funds in real estate.

During the last several years, all types of investors have turned to retail projects since retail has provided such stability. Many of these investors may not have as good an understanding of the retail market as true retail investors do and this could harm the market. Overbuilding within the retail sector could occur if non-retail developers move ahead with projects that are not thoroughly researched. Additionally, non-retail investors may not price their assets appropriately as the market shifts and may be frustrated with the slow sale process.

Retail remains an attractive investment because it is less management intensive than office or apartments and it is offering greater returns. The market will stay strong during 2005; however, values may decline slightly and cap rates may rise, but overall retail will continue to be a great investment option.



Vacancy Rate



Key Retail Investment Sales

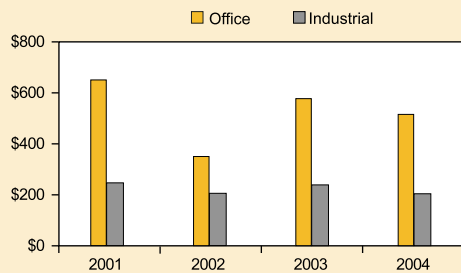
2004 Year End

| Center Name | Size (SF) | Price (mil) | Buyer | Seller |
|---------------------------|-----------|-------------|-------------------------------|------------------------------|
| Flatiron Marketplace | 421,482 | \$55.5 | Developers Diversified Realty | Madison Marquette Realty |
| Arvada Marketplace | 358,377 | \$51.6 | Inland Real Estate | Crow Holdings |
| The Village | 219,934 | \$41.4 | Gart Properties | The Estate of James Campbell |
| Cherry Hills Marketplace | 198,187 | \$41.3 | Principal Financial Group | Crow Holdings |
| Towne Center at Brookhill | 305,633 | \$28.8 | DBSI Group | Gallagher & Associates |
| Belleview Promenade | 101,838 | \$27.0 | DRA Advisors | TCD North, Inc. |

DENVER

INVESTMENT

Office/Industrial Historical Sales Volume
In Millions



2004 Projected

Sustained economic growth, low interest rates and lack of available product will maintain investor's interest to place funds in Denver in 2005.

Denver's commercial real estate investment market continues to be resilient as the general economy moves toward stability. Catching the swell of the national wave, investors like what they see in GDP, corporate profits, retail sales, business capital spending, job creation, consumer confidence, and the unemployment rate. Adding to this stable economic growth wave are many sources of available capital due to the continuing inexpensive interest rates for mortgage debt. Most investors expected the interest rate party to be coming to an end during the fourth quarter of 2004. Surprisingly, the historically low interest rate environment continues. The most asked question as we move into 2005 is "when will higher interest rates put enough pressure on cap rates to force them to rise as well?"

Because interest rates did not rise substantially and real estate remains an attractive investment option compared to the stock market, huge amounts of money continue to chase a limited number of offerings. This is particularly evident in the retail and industrial sectors. The number of industrial investment transactions eroded by over 50 percent from 2003. Industrial sellers are rare as they perceive an improving leasing market and expect that they can garner much higher prices over the next few years. Office properties are still attracting investors even though market fundamentals remain challenging. Improving absorption is a breath of fresh air as office investors seek

out well priced offerings. Betting on a sustained Denver recovery and improving job market, office investors are hoping to realize big profits in the next several years. Significant office sales occurred throughout the metropolitan area including two downtown high-rises and several notable suburban properties.

As expected the supply of available vacant office property declined dramatically as market conditions have boosted occupancies. The reduction of corporate downsizing and gradual improvement to the economy has led to a 50 percent reduction in sales volume when comparing 2004 to 2003 in 50,000-square-foot or larger vacant office buildings. Furthermore, prices for vacant buildings are on the rise. The price per square foot gap between well leased properties and low occupancy buildings has contracted this year as pricing is moving more toward equilibrium.

2005 will continue to see robust investment activity especially as the economy continues to improve. Local job growth will continue to be a leading indicator to the health of the commercial investment market. The rise of interest rates will impact the market as well, although we expect rates to increase moderately and so the market should not be adversely affected. Investors will continue to view real estate as a great asset and will keep looking for opportunities in each property segment.

Key Office/Industrial Investment Sales

2004

| Property Name | Type | Size (SF) | Price (mil) | Buyer | Seller |
|----------------------------------|-----------------|-----------|-------------|------------------------------|----------------------------------|
| Independence Plaza | CBD Office | 567,287 | \$73.9 | American Realty Advisors | Amstar Group |
| Tamarac Plaza | Suburban Office | 355,269 | \$37.1 | Brookwood Financial Partners | BetaWest/DLJ |
| Mile High Center | CBD Office | 394,151 | \$34.2 | The Broe Companies | TIAA Realty Inc. |
| Marketplace Towers | Suburban Office | 573,103 | \$31.3 | DPC Realty & Management | RIGF Liquidating Trust |
| Dartmouth Industrial Park | Industrial | 663,410 | \$31.0 | First Industrial Realty | TA Associates Realty |
| Nome St & Corum Distribution Ctr | Industrial | 762,324 | \$29.0 | Westfield Capital Partners | Thrivent Financial for Lutherans |

Denver's economic recovery is beginning to take hold, adding strength to the multi housing market. Vacancy is slowly declining; however, new construction hinders significant reductions in the near term.

The Denver metropolitan apartment market has faced many challenges over the past three years as vacancies reached a high of over 13 percent in 2003. Job losses in 2002 and 2003 forced apartment owners to compete for a finite supply of apartment renters by offering concessions coupled with rent reductions up to 25 percent. In addition, record low interest rates enabled many tenants to purchase homes, further decreasing the demand for apartments. The good news is that Denver's economy is now moving in the right direction. Positive job growth in 2005 coupled with a moderate decrease in new supply will continue to strengthen the apartment market.

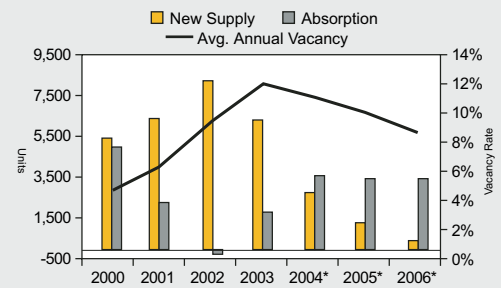
During 2004, the downward trend in overall vacancy has been established and it appears it will continue to decrease in the future. Net absorption of 4,193 units during 2004 is below the nearly 6,000 units absorbed in 2000; however, it is an improvement over 2003's level of just over 2,000 units. Projections estimate consistent absorption of 4,000 units through 2009, which will reduce the vacancy rate, albeit at a slower pace than desired.

Despite weak fundamentals in the market over the last three years, values have remained relatively stable. Real estate's solid yields, its perception as a safe haven investment, and low interest rates have combined to maintain investor demand in the market. In 2004, stocks were volatile and generally flat and, therefore, investors seeking cash-flow investments and wealth preservation continued to focus on real estate. One reason that investors are partial toward apartments is that they believe this sector is poised for a long-term recovery in Denver and this optimism plays a significant role in driving the market upward.

2005 will prove to be a great time to acquire multi housing projects as a long-term investment. Interest rates, while projected to rise, will not dissuade investors and the higher cost of capital will be accompanied by improving occupancies and increasing rents during the second half of 2005. The apartment market will continue to improve based on growing tenant demand that will be fueled by increasing job growth, a leveling off in home buying and favorable demographics.

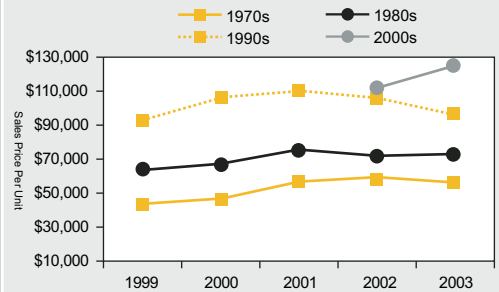


Multi Housing Supply and Demand



* Forecast

Average Sales Price Per Unit By Decade of Construction



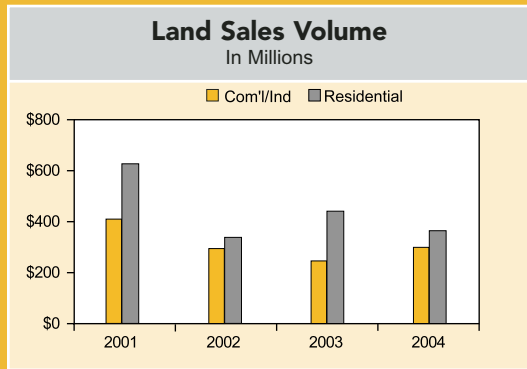
DENVER

LAND

Commercial land sales increased as market fundamentals improved across several real estate sectors. Land prices are rising as demand for sites increases.

After a couple of years of lackluster commercial and industrial land sales, 2004 proved to be a better year than anticipated. Total dollar volume of sales through August, approximately \$270 million, already surpasses last year's total volume of \$250 million. The number of transactions is down, but the average price per square foot is up over \$2.00 per square foot compared to last year. The majority of commercial land sales this year were for retail development, the strongest real estate sector in Denver. In fact, three of the top 10 land sales were to Wal-Mart, which is planning to open seven new "supercenters" in Colorado next year. Office development is still several years out as that market is just now beginning to rebound, while industrial development may take off next year due to a lack of quality space becoming available.

Several large industrial developers (Majestic, Catellus, ProLogis, and Lauth) control the majority of available industrial ground, especially in the I-70/E-470 corridor, so we will not see large land sales next year. However, these developers will sell sites to users who desire to build their own facilities in these quality business park environments. Since the majority of land is owned by a select group, we anticipate the price for these user sites will be well above \$3.00 per square foot.



2004 Projected

Denver International Airport (DIA) continues to be a magnet for growth in the Denver area. Several mixed-use developments are currently underway or planned. The most ambitious of these is HighPointe at DIA, an 1,800-acre project by Landmark Properties Group. At completion, this development will add millions of square feet of office, industrial, and retail space to the airport district along with over 2,800 new homes. Additionally, a resort hotel, conference center, and an 18-hole golf course are proposed. The project is so important to the area that both the city of Denver and Aurora are working together with the developer to make HighPointe at DIA a success. Also poised for continued development is the northern corridor, particularly near the intersection of E-470, Northwest Parkway, and I-25. Both retail and residential development will abound in this vicinity over the next several years.

During 2005 we expect to see the continuing trend of retail land sales, as well as more industrial user sales. Residential sales will be stable, as we saw a modest decline in these transactions this year. However, residential building permits have increased nearly 16 percent during 2004, so we expect residential construction activity to pick up in 2005. Land prices will increase next year as overall market fundamentals improve in each of the commercial sectors.

Key Land Transactions 2004

| Buyer | Seller | Use | Location | Acres | Sales Price (Mil.) | \$/SF |
|----------------------------------|---------------------------------|------------|--|-------|--------------------|---------|
| Wal-Mart Stores | Lakewood Reinvestment Authority | Retail | 7335 W. Colfax Ave. - Lakewood | 31.0 | \$22.5 | \$16.66 |
| Glenborough Development | Gateway East Business Park | Industrial | Tower Rd & I-70 - Aurora | 38.2 | \$16.8 | \$10.08 |
| Westminster Economic Development | Agur Foundation | Unknown | NWC 144th & Valley Highway - Westminster | 80.0 | \$9.1 | \$2.60 |
| Nobel/Sysco Food Services | FC Stapleton II, LLC | Industrial | 51st Ave. & Florence St. - Denver | 50.2 | \$6.6 | \$3.00 |
| Wal-Mart Stores | Amerishop Thornton LLC | Retail | 10001 Grant Street - Thornton | 20.0 | \$6.5 | \$7.46 |

The Las Vegas office market experienced sustained improvement in 2004. While rental rates are increasing and development costs are rising, 2005 is still expected to be another solid year for the office market.

Las Vegas generated steady job growth in 2004 and was ranked by *Forbes* in May 2004 as the second best city in the country for job growth. This employment activity in the service sector, combined with a low level of new office construction in 2003, resulted in the office market breaking below the 13 percent vacancy level during 2004. This performance is expected to form the foundation for continued modest improvement in 2005.

The strengthening of the office market has been fueled by the population growth and the pro-business climate in Southern Nevada. Over the past 10 years, Las Vegas has been one of the fastest growing cities in the country, and this growth has provided a need for services and, correspondingly, employees to support these services. Nevada's attractive tax structure has spurred new business relocations, especially from Southern California. Over the previous few years, these factors have combined to result in the Las Vegas office market being in a better position than what has been seen nationally, and have pushed the local market into an improved overall condition in 2004.

This positive momentum is anticipated to carry into 2005 but there are some cautions. Absorption made significant inroads beginning in the fourth quarter of 2003, but construction activity has picked up since the first half of 2004. The increase in new construction tempered net absorption during the latter part of 2004 and it is anticipated that this pattern will continue into 2005.

Slight declines in vacancy rates in 2005 will result in a corresponding increase in rental rates for both Class A and B space. This rate increase will continue the steady trend we have seen since 2002. For Class A space, Las Vegas has one of the highest full service rates in the country. As a result of rising construction costs and increasing land prices, rates for new construction are expected to increase at a greater pace. As businesses consider lesser-priced Class B product, demand will increase for this type of product and so will rates.

Due to increased demand, tenant incentives are expected to lessen in 2005. Overall, tenants will be able to find them, but less than in past years. Landlords with lower rental rates than the market as a whole will find increasing demand for their product in 2005. For investors, value-added product will be well positioned against inflated rental rates and stubbornly low cap rates on many existing office buildings. In addition, as interest rates rise in 2005, owner-occupied purchases will decrease as the occupancy costs of ownership become less financially attractive.

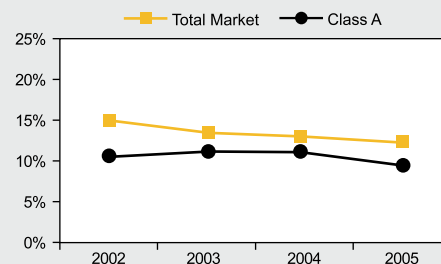


Market at a Glance 2004 Year End

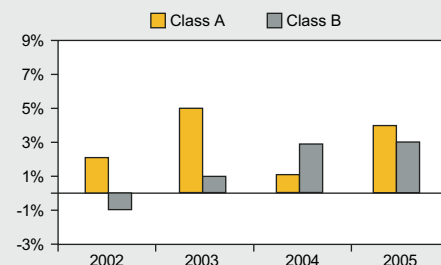
| | Total Market | Class A |
|---------------------|--------------|---------|
| Rentable* | 22,600 | 4,170 |
| Vacant* | 2,960 | 450 |
| Vacancy Rate | 13.1% | 10.8% |
| Absorbed* | 1,601 | 350 |
| Under Construction* | 1,450 | 475 |
| Rental Rate** | \$25.41 | \$28.01 |

* Square feet in thousands, excludes owner-occupied, medical, government
** Weighted average asking rent/SF/year Full Service

Vacancy Rates All Classes of Space



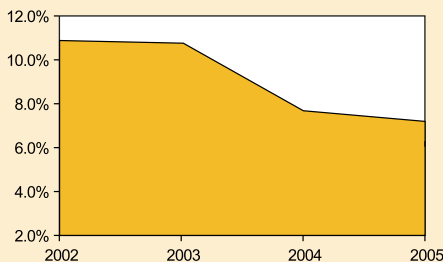
Asking Rental Rates Annual Percent Change



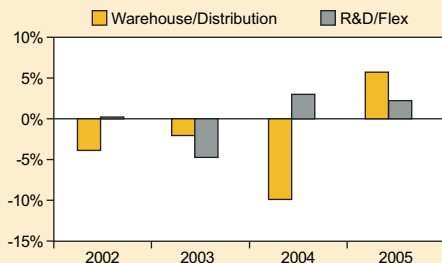
LAS VEGAS

INDUSTRIAL

Vacancy Rate
All Product Types



Asking Rental Rates
Annual Percent Change



Market at a Glance
2004 Year End

| | General Industrial | Incubator | R&D/Flex | Warehouse/Distribution | Total |
|---------------------|--------------------|-----------|----------|------------------------|--------|
| Total* | 32,000 | 3,400 | 10,200 | 31,500 | 77,100 |
| Vacant* | 2,880 | 296 | 510 | 2,205 | 5,891 |
| Vacancy Rate | 9.0% | 8.7% | 5.0% | 7.0% | 7.6% |
| Absorbed* | 2,000 | 250 | 625 | 2,125 | 5,000 |
| Under Construction* | 101 | 1,000 | 600 | 779 | 2,480 |
| Rental Rate** | \$8.40 | \$9.00 | \$10.80 | \$4.75 | \$7.27 |

* Square feet in thousands, includes owner-occupied
** Weighted average asking rent/SF/year Triple Net

Land prices continue to make big-box industrial development difficult to actualize. Developers who purchased land in previous years will have a substantial advantage over newcomers to the Las Vegas market.

The Las Vegas economy continued its strong performance during 2004 and there is no reason it will not continue in 2005. The gaming industry remains one of the best indicators of the depth of economic growth in Southern Nevada, and once again, Steve Wynn is leading the way towards yet another wave of expansion. The much awaited multi-billion dollar mega-resort, Wynn Las Vegas, has moved from concept to reality and is scheduled to open in the spring of 2005. In addition, many other high profile projects are either in the planning stages or under construction all along the world-famous Strip. Clearly, the gaming industry remains bullish on the future of Las Vegas.

One of the pitfalls of dramatic economic expansion is increased development cost. In 2004, we saw dramatic increases in the price of land for all types of product throughout the valley. Easily visible is the skyrocketing cost of housing, where we have seen prices nearly double over the past two years for similar product. The same holds true by examining industrial market statistics, although the trends are not as readily apparent. Much of the recent industrial development has been planned for some time and the underlying land was secured when prices were more affordable.

With rising land prices, it is becoming more difficult for many projects to make financial sense. It is not unusual to see industrial land selling for as much as \$16.00 per square foot. Simply, it has become difficult for developers to offer reasonable rates and even more difficult to lure companies into our market. Nevada's tax structure is still the primary reason companies look to Southern Nevada as a desirable place to start their business or relocate. Coupled with the increased cost of housing, other markets such as Phoenix have become more competitive.

The scarcity of reasonably priced industrial land has also resulted in an overall slowdown of new development and a reduction in vacancy rates. In 2004, we saw the return to single-digit vacancies for the first time since early 2001. With the reduction in supply, the trend for 2005 will be increasing lease rates and the elimination of rent concessions. In addition, several major developers with phases remaining in already successful industrial parks will benefit from other developers' difficulties acquiring land in 2005. In the southwestern portion of the valley, there is an abundance of county-owned land available for long-term ground leases for industrial users. Many will choose this alternative over ownership to reduce the initial cost of development, creating a substantial amount of activity in this submarket.

As we head into 2005 and 2006, construction on several large projects is expected to get underway. The valley's explosive population growth continues to fuel the development of strip centers in sprawl areas.

With excellent absorption across the board, 2004 was a very good year for retail in Las Vegas. Continuing low vacancy and increasing rents were the norm and this trend should continue into 2005. Southern Nevada continues to be one of the fastest growing communities in the country and is consistently recording positive job growth. Retail developers and tenants alike will continue to benefit from the market's positive trends at least through 2006.

Grocery-anchored centers continue to be built, although at a much slower pace in the peripheral suburban markets. This pattern is more the result of exceptionally high development levels in the previous couple of years rather than a reduction in demand or available development sites. All major players are planning new locations, with Wal-Mart grocery-only prototypes taking the lead.

Supplementing the anchored centers are dozens of unanchored strip centers in the 10,000 to 20,000-square-foot range being built on newly completed or expanded major roadways, typically in strong growth areas. These convenience centers are usually located in or adjacent to sprawl areas where anchored centers are not yet justified by residential rooftops. They are often built on a speculative basis, are able to achieve rents in the range of \$2.00 to \$2.50 per square foot per month, triple net, and are often fully leased prior to completion.

Few power or regional centers began construction in 2004, although several are planned with late 2005 or early 2006 start dates. In addition, several major centers are planned on or near Las Vegas Boulevard on the south end of The Strip. Other hot development areas include those along the I-215 Beltway in the southwest and far north markets.

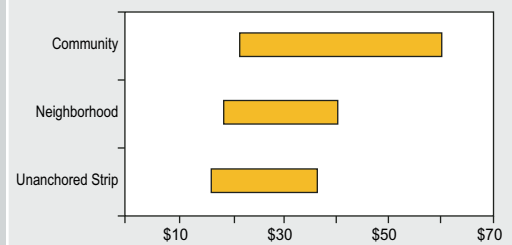
Historically in Las Vegas, retail development has correlated directly to housing starts and sales. One important concern arising through 2004 was the lack of reasonably priced developable land. In fact, parcels available for residential development have become very costly, resulting in significant increases in the price of new and resale homes across the valley. This has made it increasingly difficult for first-time homeowners to find affordable homes. If people cannot afford to purchase homes in Las Vegas, will they look to other areas to relocate? This is a significant, new reality in Las Vegas, which may begin to cool the growth of retail development across the valley over the long term.

Retail investment sales remain brisk, although they did slow in 2004 despite continuing demand, due to the lack of "for sale" product. This slight decline is attributable to high project sales volumes in the prior two years. Smaller unanchored centers will continue to sell well, starting in the low 7.0 percent cap range, and will remain the preference for 1031 buyers.

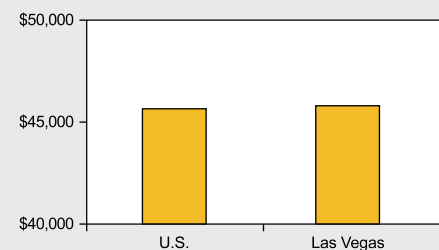


Rent Range by Center Type

In-Line Shop Space, \$/SF/Yr. NNN



2004 Median Household Income

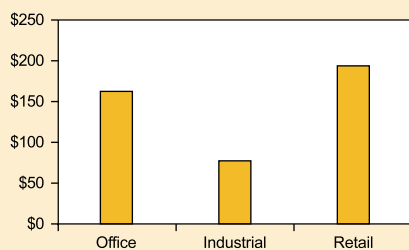


Source: Claritas

LAS VEGAS

INVESTMENT

2004 Average Property Sales Price
Dollars Per Square Foot



Demand for quality investment product remains high, while the supply continues to dwindle. Investors willing to focus on redevelopment efforts in the coming year could come out on top.

The investment market in Las Vegas showed no signs of slowing during 2004. While 2003 was a record year for the market, 2004 proved that the city has staying power. Continued low interest rates and highly competitive cap rates have made Las Vegas a low risk market and an investor's paradise, albeit a challenging one. While interest rates may rise during the coming year, the largest increases will be in short term rates, which have little effect on commercial lending.

Development in Las Vegas continues at a steady pace, although not quite at the same velocity we have seen in prior years. Demand for quality investment properties is high, while supply is dwindling. Once on the market, properties continue to sell quickly as competition is fierce. Complicating the supply issue even further, many owners are concerned about the tax ramifications of a sale since finding exchange properties remains challenging and may not be worth the potential risk. This environment is not likely to change in 2005.

Land prices continue to drive up the cost of new projects, resulting in higher rents to tenants. The hot product in the coming year will be older, under-performing properties. These projects will appeal to the speculative investor who is willing to refurbish existing properties that can be purchased for a lower cost and retented at higher lease rates.

At the same time, sellers are holding all the cards and are able to pick and choose from a wide variety of buyers. While buyers may complain about prices, property values in Las Vegas are appreciating at a very fast pace and many investors are still anxious to capture their share of the high returns the market is experiencing.

The majority of the independent investors in Las Vegas during 2004 came from Southern California, where they have become accustomed to cap rates in the 6 percent range. Las Vegas was seen as an attractive alternative as a result of its 7 to 8.5 percent cap rates and rapidly expanding economy.

During 2005, the rest of the nation will certainly follow the Californians' lead and place their trust in one of the most vibrant real estate markets in the country. Investors are expected to come from other markets such as New York, Florida, Washington, D.C. and Chicago, where prices are off the charts and cap rates are dropping. There is no end in sight for Las Vegas with the recent proliferation of high-rise condos and timeshare projects. With low unemployment, reasonable cap rates and upside investment opportunities, the Las Vegas investment market will be robust for many years to come.

Key Investment Transactions

2004

| Buyer | Seller | Property Type | Property Name | Sales Price (Mil.) |
|------------------------------|---------------------------|-------------------|--------------------------------|--------------------|
| Inland Western Las Vegas LLC | Ch Realty II/Best L.P. | Retail | Best on the Boulevard | \$35.5 |
| Farmers Group, Inc. | Vegan Properties, Inc. | Office | Greystone Office Park | \$29.5 |
| Westcliff Investments, LLC | Westcliff 201 LLC (et al) | Office | Westcliff House Office Park | \$27.4 |
| Mammoth Equities, LLC | Bella Plaza LP | Office/Industrial | Bella Office & Warehouse Plaza | \$23.5 |
| Charleston Plaza LLC (et al) | KIR Charleston 036, LLC | Retail | Charleston Plaza | \$21.5 |
| AHP of Nevada, Inc. | Delta Point LLC | Office | Delta Point | \$21.5 |

A stabilized local economy will drive the metro Phoenix office market into a year of positive change in 2005.

The future of the office market remains optimistic as continued economic strides during 2005 will fuel a heightened demand for office space. The local economy is one of the best in the United States, ranking second in the nation for job growth at the end of 2004. Non-farm jobs in metro Phoenix are forecasted to grow by 3 percent in 2005, compared to a national job growth rate of 1.7 percent. Consistent with its performance in 2004, the construction industry is expected to have the most elevated levels of job growth. Affordable housing and significant population growth were major contributors to the construction industry's record job growth throughout 2004. Population growth, forecasted to experience a rate of 3.4 percent throughout the state, will continue to directly affect the growth of the housing market, particularly in West Phoenix.

Net absorption levels in 2004 were modest, but consistently positive. The recovering office market in metro Phoenix will continue to experience slight increases in demand throughout 2005. However, persistently low interest rates will hinder net absorption from reaching significant levels, as tenants will continue to be lured from leasing to owning their space. Office demand will begin to spread out to areas in West Phoenix, where supply is minimal and competition is sparse. Not only is there a lack of competition, but an abundance of affordable housing allows landlords to offer an attractive package to tenants who want their employees to live close to work. The suburban submarkets, which are predicted to have an increased amount of leasing activity, will continue to have the healthiest performances in 2005. The weak and previously unimpressive CBD should experience a motivating kick from the newly established biotech industry, the continued development of high-end infill housing, the expansion of the Phoenix Civic Plaza and a sophisticated light-rail transit system in the works.

In 2004, construction costs rose by an estimated 30 percent. Increased land and construction costs will have a direct impact on the amount of new supply delivered to the market in 2005. Until rental rates increase and construction costs stabilize, office condo developments will be less risky and more profitable for developers. Geographically, North Scottsdale and West Phoenix should experience the highest level of construction activity. Several office projects in North Scottsdale will be breaking ground on subsequent phases in 2005.

Vacancy, which dipped below 20 percent in 2004, will decrease with the higher levels of demand and lower levels of supply in 2005. As vacancy rates approach the mid-teens, rental rates are expected to steadily increase as a result of the much higher cost of new construction.

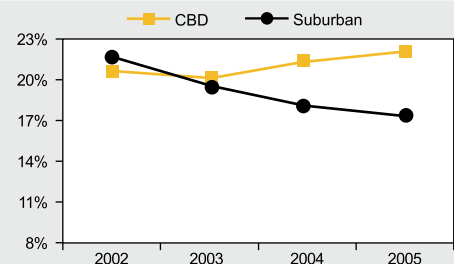


Market at a Glance
2004 Year End

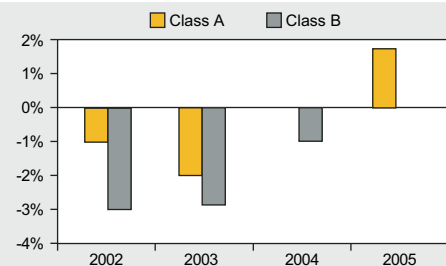
| | CBD | Suburban | Total |
|---------------------|---------|----------|---------|
| Rentable* | 14,471 | 39,146 | 53,617 |
| Vacant* | 3,141 | 7,046 | 10,187 |
| Vacancy Rate | 21.7% | 18.0% | 19.0% |
| Absorbed* | 50 | 973 | 1,023 |
| Under Construction* | 0 | 500 | 500 |
| Rental Rate** | | | |
| Class A | \$21.60 | \$23.25 | \$22.60 |
| Class B | \$16.75 | \$19.00 | \$18.20 |

* Square feet in thousands, excludes owner-occupied, medical, government
** Weighted average asking rent/SF/year Full Service

Vacancy Rates
All Classes of Space



Asking Rental Rates
Annual Percent Change



PHOENIX

INDUSTRIAL

Affordable housing and lower business costs will continue to bring out-of-state manufacturing and distribution companies to metro Phoenix, which will strengthen the industrial market in 2005.

The industrial market was consistently strong throughout 2004 and should have a record performance in 2005. The demand for industrial space in metro Phoenix will be positively impacted by the growing local economy. In 2004, several out-of-state businesses, mostly from California, relocated to the Valley to be a part of its favorable and inexpensive business climate. With the continuance of a stable economy and positive market consistencies, local and out-of-state businesses will gain even more confidence in the industrial market. California manufacturing and distribution companies will continue to migrate into metro Phoenix, particularly the opportunistic Southwest Valley, to escape high operating expenses, labor costs and taxes. Metro Phoenix, touted as one of the most affordable housing markets in the Western United States, continues to experience a significant housing boom as population growth is rising rapidly.

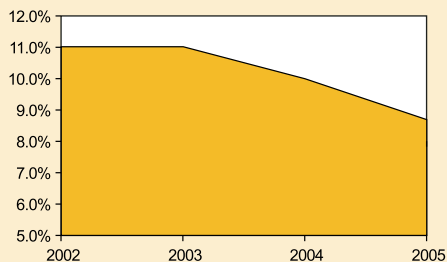
As a result of the housing boom, the Valley will be a prime location for homebuilding, housing supply, and furniture distribution companies in 2005 and beyond. The West Valley, which will experience the most housing growth, will see the highest levels of demand from these businesses.

Demand will continue to rise in 2005, particularly for small to mid-size general industrial space and "for sale" properties. Industrial sales activity should continue at the same pace as 2004. Larger, bulk distribution and larger "high-tech" space will continue to languish but will have a stronger year in 2005. The strained manufacturing market should begin a modest recovery in 2005, which will increase the amount of leasing and sales activity in mid to large-size buildings.

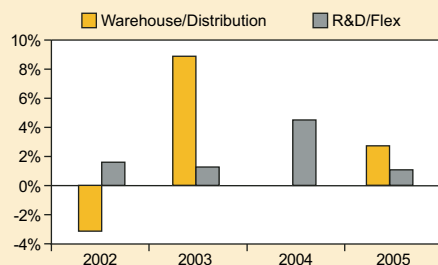
The costs of steel, concrete and lumber are steadily on the rise. As construction costs spiral upward, construction activity will be somewhat limited. However, the West Valley will experience ongoing activity and will host the majority of new industrial developments throughout the year. Pre-leasing and build-to-suit developments will become more eminent. The redevelopment of older industrial buildings in infill locales, such as the Sky Harbor submarket, will also become a more popular trend in 2005. Rental rates will increase and concessions will decrease to reflect the higher costs of land and construction. Small to mid-size space should see the most notable rental rate jumps in 2005.

In summary, 2005 will be a solid year for the metro Phoenix industrial market. With many economic indicators stimulating industrial demand, net absorption will reach impressive levels and vacancy will drift down into the single-digits. Tenants and landlords alike will have good reason to have confidence in the market.

Vacancy Rate
All Product Types



Asking Rental Rates
Annual Percent Change



Market at a Glance
2004 Year End

| | General Industrial | Incubator | R&D/Flex | Warehouse/Distribution | Total |
|---------------------|--------------------|-----------|----------|------------------------|---------|
| Total* | 91,313 | 31,957 | 20,279 | 96,504 | 240,053 |
| Vacant* | 8,127 | 3,515 | 3,711 | 9,457 | 24,005 |
| Vacancy Rate | 8.9% | 11.0% | 18.3% | 9.8% | 10.0% |
| Absorbed* | 2,025 | 286 | 1,140 | 2,500 | 5,951 |
| Under Construction* | 325 | 180 | 40 | 475 | 1,020 |
| Rental Rate** | \$0.56 | \$0.63 | \$0.92 | \$0.37 | \$0.57 |

* Square feet in thousands, includes owner-occupied
** Weighted average asking rent/SF/month Triple Net

The Phoenix retail market experienced a remarkable performance last year. The forecast is a continuation of this decade long trend of strength and confidence.



The metro Phoenix retail market will continue to be robust during 2005. There is no indication from any market factors to suggest otherwise. Population growth throughout the Phoenix area has been and will remain the key driver of the retail market. The Phoenix population is advancing at more than double the national rate, and is projected to continue for the next two decades according to the U.S. Census Bureau. Maricopa County is growing by approximately 267 people a day which is approximately 317,000 new residents since 2000. The growing population base is creating significant demand for additional retail space; and construction shows no signs of slowing in either the commercial or residential sectors.

As expected, the majority of new retail space is being delivered outside of the Phoenix center. There are many dated retail centers in the Phoenix metro area. A significant opportunity exists to redevelop the multitude of neighborhood centers in superb infill locations. There are many examples of these dated neighborhood centers having been recently redeveloped with excellent results for the owner, tenants and local residents.

The housing market will continue to be strong. Last year, the record of single-family housing permits issued was shattered with a total of approximately 60,000 permits. Home builders remain optimistic even with rising interest rates because of positive forecasts of job and population growth. The estimate for job growth from the Arizona DES is a forecast of over 128,000 new jobs over the next two years.

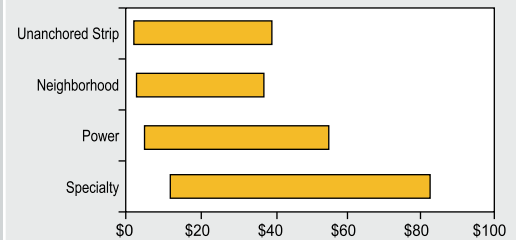
The short-term forecast for the metro Phoenix retail market is overwhelmingly positive. With the current levels of single-family building permits being issued, an ever increasing population base and very positive projected job growth, there are almost no negative market indicators. The low interest rate environment continues to fuel retail construction and investments sales. With a huge supply of land for homebuilding and retail development, it is unlikely that any single factor will slow this successful sector in the near future.

PHOENIX

RETAIL

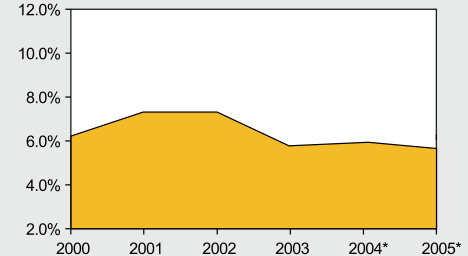
Rent Range by Center Type

In-Line Shop Space, \$/SF/Yr. NNN



Vacancy Rate

Overall Market



*Projected

Planned Shopping Centers

| Name | Location | City | Size | Completion Date |
|-----------------------------|--------------------------------|------------------|-----------|-----------------|
| Crossroads Towne Center | Gilbert Rd & Germann Rd | Chandler/Gilbert | 1,272,219 | 2006 |
| Tempe Marketplace | Loop 101 & Loop 202 SWC | Tempe | 1,045,490 | 2006 |
| Goodyear Regional Mall | Bullard Ave & McDowell Rd SWC | Goodyear | 1,000,000 | 2006 |
| Queen Creek Town Center | Ellsworth Rd & Ocotillo Rd NWC | Queen Creek | 800,000 | 2006 |
| Gilbert Gateway Town Center | Power Rd & Ray Rd NWC | Gilbert | 800,000 | 2005 |
| Village at Chauncy Ranch | Scottsdale Rd & Loop 101 SSWC | Scottsdale | 600,000 | 2005 |

PHOENIX

INVESTMENT

For office and industrial investors, demand for product continues to outweigh supply. A healthy retail investment market persists due to record setting housing growth and low vacancy.

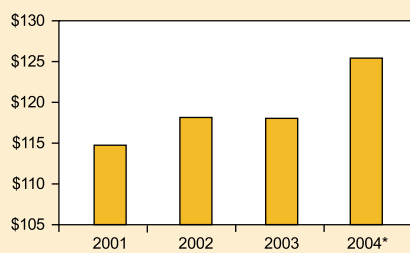
Strong investor demand for Phoenix investment real estate will continue to keep cap rates at historically low levels. Although modest increases in interest rates are expected during 2005, these increases should do little to push cap rates higher. Investor optimism about improving leasing fundamentals and local economic conditions will offset any impact from higher interest rates. Capital for real estate investments will continue to flow from all traditional sources, including REITs, institutional and private investors.

Phoenix office property pricing should move higher in 2005 as a result of two important factors. First, the demand for office investment properties will remain strong due to an abundant supply of capital. This oversupply of capital, coupled with a modest supply of available properties for sale, will create a supply and demand imbalance pushing prices higher. Second, investors are increasingly optimistic about the prospects for rental growth. Strong economic conditions should continue to fuel solid absorption levels. At the same time, limited new construction will allow vacancies to drop, putting upward pressure on rents. With improving rental rates, investors will be able to underwrite higher future returns.

The retail investment market will remain strong through 2005. The strength of the retail investment market has been, and will continue to be, the continuing boom in housing, a vacancy rate below 6 percent and historically low interest rates. Transactions below \$10 million are being aggressively sought out by local and California 1031 buyers, while transactions over \$10 million are increasingly being purchased by tenant-in-common entities. Prices per square foot should increase slightly, as they have done for the last five years. Capitalization rates for retail investments should be flat during 2005, having decreased during 2003 and 2004. Overall, due to the triple net nature of retail investments which allows for landlord recovery of insurance and property tax costs, this investment product will continue to be sought out by investors.

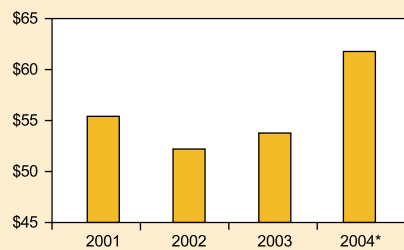
The demand for industrial product continues to overshadow the supply as investor's interest remains strong. The anticipated increase in interest rates during 2005 should have little impact on sales, as investors continue to perceive rates as being relatively low compared with historic numbers. Private capital remains the driving force in the market, while institutional investors are focused on critical mass purchases. Buyers are looking for deals in a seller's market, and focusing on opportunities for turn-around sales after repositioning a property. Many sellers are becoming creative to overcome the obstacles of current loans or vacancies. While development should see resurgence in 2005, the costs of existing product will be less than new, due in large part to the increasing costs of land and construction.

Office Price Trends
Dollars Per Square Foot



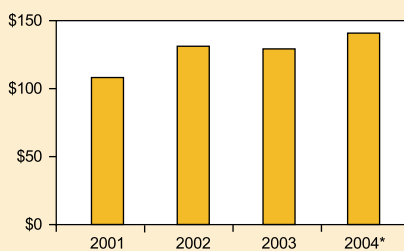
*Projected

Industrial Price Trends
Dollars Per Square Foot



*Projected

Retail Price Trends
Dollars Per Square Foot



*Projected

Records were shattered in 2004 as nearly 60,000 new housing permits were issued. This follows the predictions of real estate professionals that the 2003 record of 47,000 permits would be topped.

2004 proved to be a record-crushing year as the Phoenix area saw nearly 60,000 new housing permits issued. The demand for residential land remains substantial, as land on the fringes of Phoenix continues to lead the way, selling at record prices. Residential builders continue to look for land throughout Maricopa County and Northern Pinal County to meet the continued demand for new housing developments. The western boundaries of metro Phoenix have seen explosive development, due in part to the success of DMB's Verrado master-planned community. Activity along the Loop 303, Sun Valley Parkway and I-10 corridors should be vibrant in 2005, as local and national homebuilders continue to break ground on new developments, including Stardust Development's Tartesso master-planned community. Northern Pinal County continues to be attractive to builders as the lower land costs offer the opportunity for affordable housing developments. Pulte/Del Webb's newest 3,200 acre "Anthem" community will break ground in 2005 in Florence. While rising interest costs and the increased drive times have the potential to influence the rate of growth, those are not expected to significantly diminish housing demand in 2005. Major gains in home appreciation, however, are expected to be moderate.

2005 should see a continued rise in the price of raw land throughout the metro Phoenix market. Investors, including those from California and Las Vegas, see the market as reasonably priced in comparison to other parts of the country. Their demand for investment development land continues to drive up prices and has sellers less willing to offer terms. Sellers often are demanding short escrows and cash deals.

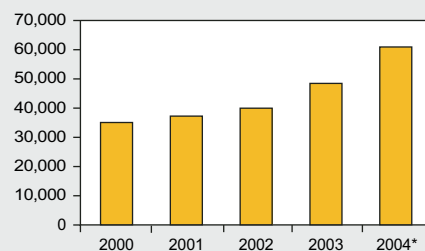
The State Land Department continues to be a major player in the Metro Phoenix land market, experiencing a record setting year in sales in 2004. Properties were sold in the Northwest Valley, Scottsdale and Northeast Phoenix at public auction for record high prices, totaling over \$300 million worth of land sold. Grubb & Ellis|BRE Commercial, LLC had the opportunity to participate in several transactions, including the trust's largest sale ever, in excess of \$100 million. In 2005, the State Land Department is slated to auction hundreds of acres of Trust Land in the metro Phoenix and Tucson markets. In some areas, where the supply is catching up with the builder demand, expect a decrease in the intensity of bidding, and perhaps more moderate prices for trust land. A proposed Land Trust Reform is unlikely to have any effect on the market in 2005, as the legislative discussion of the issue stalled during 2004. Voter approval of any reform package is unlikely prior to 2006.

PHOENIX

LAND

Annual Housing Permits

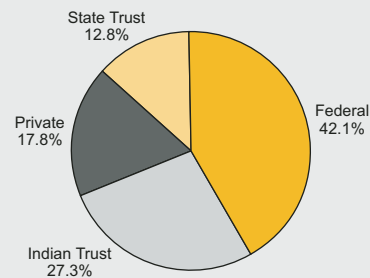
Metro Phoenix & Northern Pinal County



* Grubb & Ellis Projection
Source: RL Brown

Vacancy Rate

Overall Market

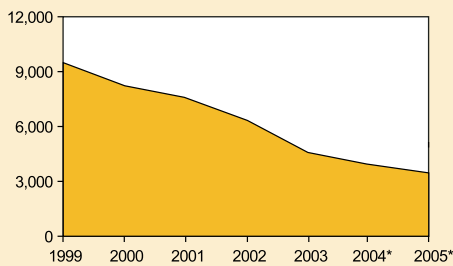


Source: Arizona State Land Department

PHOENIX

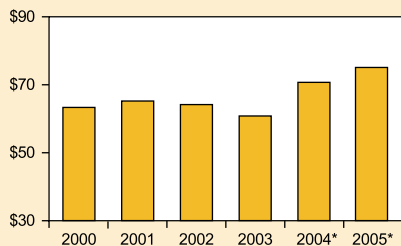
MULTI HOUSING

Historical Construction
Units Per Year



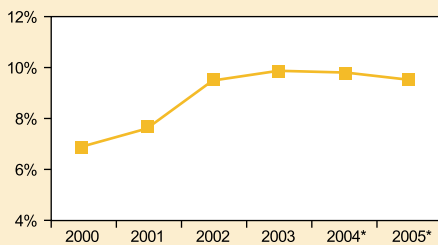
*Projected

Average Apartment Prices Per Square Foot
100 Units or Greater



*Projected

Vacancy Rate



*Projected

New supply of multi housing units is expected to continue the downward trend of completions since 1999. Strong population and job growth projections and inevitable increases in interest rates will reduce vacancy.

In 2005, approximately 3,500 multi housing units are projected, which is slightly less than 2004's deliveries. 1999 was the most recent high point in units constructed, as 9,372 units were completed. The metro Phoenix multi housing market inventory is now over 220,000 units in properties containing 100 units or more.

Phoenix population growth is advancing at more than double the national rate, and is projected to continue for the next two decades according to the U.S. Census Bureau. Maricopa County is growing by approximately 267 people a day which translates to 317,000 new residents since 2000.

Perhaps the most significant factor contributing to the rebound of the multi housing market is job growth. The Arizona Department of Economic Security is projecting an increase of 128,000 new jobs over the next two years. Population and job growth directly affect the positive absorption of apartment units. Recent years have not seen consistent absorption levels in the market; however, 2005's activity is projected to be stable.

Rental rates have remained flat in recent years with an average of \$0.83 per square foot in stabilized properties without utilities or furniture. 2005 is projected to have rental increases as long as concessions continue to burn off. Most properties are currently offering at least one month free rent on a 12-month lease.

Historical vacancy rates in recent years have hovered in the 9 to 10.5 percent range in stabilized properties. With all of the positive factors affecting the market in 2005, the vacancy rate is projected to go down. The record number of new single-family homes, fueled by low interest rates, will continue to negatively impact demand within the multi housing market. The draw of single family ownership will continue to siphon away tenants; however, the major difference in 2005 is the forecast of strong population and job growth, and significant reductions in construction.

The forecast for investment activity is competitive. The fear of rising interest rates is offset by rising net operating incomes. All major factors concerning the market demonstrate that comparatively, 2005 will be the best year to own multi housing property since 1998.

The manufactured housing sector has attracted interest as competition intensifies for investments yielding consistent returns. The demand for senior mobile home parks that can be financed exceeds supply. The shortage of institutional quality parks, and the large amount of money searching for higher yields, has money managers considering investments in short-term-stay parks, which have been trading at cap rates that are 150 to 400 basis points higher than mobile home and RV parks with mostly annual leases.

GLOBAL CLIENT SERVICES

CORPORATE SERVICES

While the country is in the prolonged early stages of a lackluster economic recovery, there has yet to be a dramatic impact on Corporate America's real estate strategies. Job growth has been slow, uncertainty is high and the lessons learned about rapid expansion in the 1990s linger. These factors are dampening capital spending and putting pressure on corporate executives to do more with less. Common real estate themes include:

SURPLUS PROPERTY PROGRAMS – Many of the best surplus property programs were developed over 10 years ago. However, for many organizations the portfolio has been fully evaluated, and the easy opportunities have been converted to cash. What's new is the institutionalization of the process of identifying and disposing of surplus property. Inside corporations, annual real estate planning typically includes a surplus property review. Externally, service providers have organized around a series of exit strategies that include traditional and accelerated marketing techniques for all types and qualities of property. The process is efficient and cost-effective.

WORKSPACE PLANS – The reluctance to invest capital in real estate has created opportunities for corporate real estate executives to get creative with regard to their workspace. Fifteen years ago, the goal was to drive utilization down to 250 square feet per employee. Now expectations are approaching 200 square feet per person combined with productivity improvements. Planners and workplace consultants have created many new occupancy techniques including organizational algorithms, furniture systems and remote/location office sharing concepts.

UTILIZATION OF OUTSOURCING PARTNERS – Outsourcing continues as corporations and service providers alike gain experience with the concept. The practice of migrating to single point of accountability with one or two service providers for activities such as transaction management, lease administration and project management has been proven to reduce costs. In addition, there is a clear trend toward reducing the internal overhead burden by asking alliance partners to do more – by taking on more of a role in ongoing real estate activity and consolidating multiple activities in fewer service providers.

GLOBALIZATION – A successful real estate executive must have the ability to develop and execute strategies in all corners of the earth. Many choose to address this need via alliances. Another model is to organize around a series of real estate partners in multiple markets. The first alternative minimizes the cost of administering and monitoring multiple local relationships while giving up a degree of control. In the second, the issues and advantages are exactly the opposite. Where a corporation falls on this continuum typically varies depending on the situation.

FINANCIAL REPORTING AND ACCOUNTING – The recent rash of corporate financial accounting scandals has resulted in a trend toward straightforward real estate transactions. Synthetic leases and other creative mechanisms are being scrutinized by senior financial management, auditors and the board and as a result are rarely acceptable.

There is also a move to develop consistent accounting standards for the corporate real estate industry with the goal of making benchmarking more meaningful. Since most accounting policy decisions are controlled outside the realm of influence for a typical real estate executive, this process is evolving slowly. Formal and informal industry benchmarking groups have been organized that adjust participant data to enable useful comparisons.

VALUATION – The flow of capital into real estate due to reduced returns from alternative investments has driven real estate pricing upward. Corporations are taking advantage of these historically high values and cashing out of owned real estate via sale leasebacks and other techniques.

GLOBAL CLIENT SERVICES

TECHNOLOGY – The software industry has not yet developed a real estate portfolio management product that is flexible enough to meet the varying needs of global corporations, but they continue to inch in the right direction. Development issues include the lack of standardization in the corporate real estate industry as well as the choice by software developers to spend research and development dollars in other industries where the perceived market potential is greater. The most

effective systems are typically developed in-house, usually at great cost and are designed around specific business issues. A small percentage of corporates have adopted this strategy. The majority have bought off-the-shelf solutions, undergone some customized programming, and forced the corporate needs into the software capabilities. This is not an ideal situation for forward thinking real estate organizations but still much better than the choices available in the recent past.

REQUIRED SKILL SETS – The job requirements of a corporate real estate executive continue to migrate toward strategic planning and alliance partner management. Accordingly, the key skills sets are changing as well. No longer is it as important to have traditional real estate capabilities that can be acquired efficiently in the marketplace. Critical disciplines include strategic planning and technology as well as process, relationship and financial management. Corporate real estate professionals are less likely to follow a traditional career path and are more frequently coming out of areas such as corporate finance, legal, strategic planning and general administration.

INVESTMENT SERVICES

The institutional investment grade commercial real estate market is awash in capital. Investors are confronted with brutal competition to acquire assets. Many owners, sensing a historic opportunity to dispose of properties at low cap rates, have been significant net sellers, only to be confronted with their inability to redeploy this capital. Are buyers taking undue risks? Buyers want to know: If we wait long enough, can we skip over the inevitable trouble that is brewing and get back to a “normal” nine-cap world? Most importantly, how can we buy some property?

Investors are employing various strategies to compete for acquisitions. Some are “paying up,” either lowering their return thresholds or making more aggressive assumptions about property performance. Others are nurturing relationships with sellers and their brokers to avoid being left at the altar yet again. Still others are migrating to out-of-favor markets and properties. And there are those who have chosen to wait it out.

While there may be some excesses in the market, our view is that there has been a rationalization of the risk premium for real estate. At a national level, the spread between going in cap rates and treasury securities exceeds the lows from the last cycle. So cap rates may remain stable even as interest rates rise. With the exception of a couple of markets, and for new trophy assets with long term credit leases, pricing is still well below replacement cost. So there is room for price per square foot to go up.

The evolution of the CMBS and public REIT markets has brought a level of information transparency that the real estate investment industry has historically lacked. This, in combination with the large influx of capital, has led to a reduction in return expectations for investment properties. Should interest rates rise significantly, or if improved investment alternatives cause a rapid migration of capital out of real estate, these trends could change. This seems unlikely.

Overall leasing fundamentals are improving, suggesting that there is an opportunity for improved returns in 2005, while sellers will continue to enjoy a low cap rate environment.



GLOBAL CLIENT SERVICES

MANAGEMENT SERVICES

In the coming year, facilities management outsourcing, centralized services, insurance and risk management and business controls will dominate the landscape faced by real estate owners and managers.

OUTSOURCING – The pace of outsourcing real estate and facilities functions continues to accelerate. Since the early 1990s, corporations have outsourced the management of hundreds of millions of square feet of space to third party real estate providers, and this trend will continue as companies seek to achieve their performance objectives. Outsourcing of transaction management services, lease administration services and facility management services is a proven and viable option for achieving significant cost reductions, enhanced productivity and increased shareholder value. There is a fundamental shift in the way companies view their real estate portfolios and the role of the facility manager. Corporations increasingly view real estate and facility management not as cost centers but as an integral part of the overall corporate strategy. This has had a major impact on the role of facility managers, as companies look for an increasing amount of value-added services above and beyond traditional maintenance and engineering. These services range from strategic occupancy planning, workplace strategy and space utilization to a variety of office services such as printing, document management and mailroom operations. For firms looking to outsource real estate and facilities functions, a carefully planned and well designed outsourcing program will result in a host of tangible benefits to a company's internal business units and its bottom line.

CENTRALIZED SERVICES – Centralized facility support services will play a fundamental role in helping companies achieve cost reduction and operational efficiencies in their real estate portfolios. A centralized and coordinated approach enables companies to integrate processes, technology and people, resulting in substantial cost efficiencies and measurable gains in productivity and quality. It also eliminates redundancies in personnel, allows for the consistent utilization and support of proven technologies, and ensures consistent processes and reporting throughout the real estate organization. These benefits are especially profound for companies with large and geographically dispersed real estate portfolios.

RISK MITIGATION – High-profile incidents over the past few years have forced property owners and managers to remain especially vigilant in the face of a variety of threats, new and old. War, terrorism, natural disasters, fires and power outages have put emergency plans and emergency response personnel to the test. Owners and managers of real estate continue to place a high priority on implementing effective emergency plans to ensure that properties, facilities and occupants are equipped to handle a wide variety of situations. These threats also continue to have a dramatic effect on property insurance costs. Though rates are beginning to stabilize from their post-9/11 levels, this is small consolation to property owners and managers who have had to assume significantly higher deductibles—and risk—to avoid massive rate increases.

BUSINESS CONTROLS/SARBANES-OXLEY – The scandals in recent years have significantly increased the focus on public companies' internal control activities. As corporations and accounting firms grapple with the more stringent reporting and audit requirements of the Sarbanes-Oxley Act, companies increasingly require service providers to establish and document internal accounting and operational controls on their behalf in the areas of accounting, purchasing and financial reporting. This has had a substantial impact on the cost of doing business for public companies and their service providers. Providers that have developed and implemented strong internal control programs will have a major competitive advantage.

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