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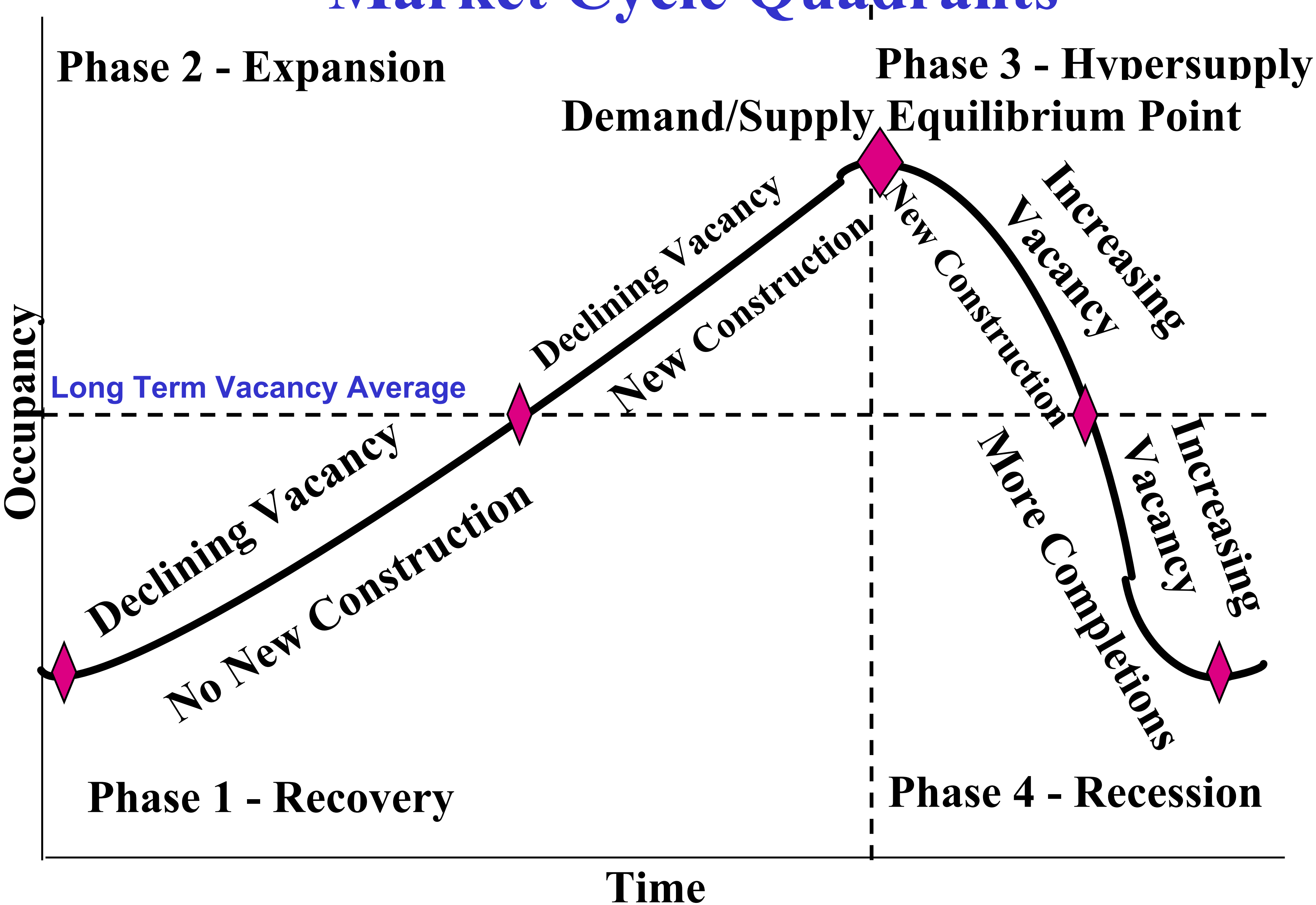
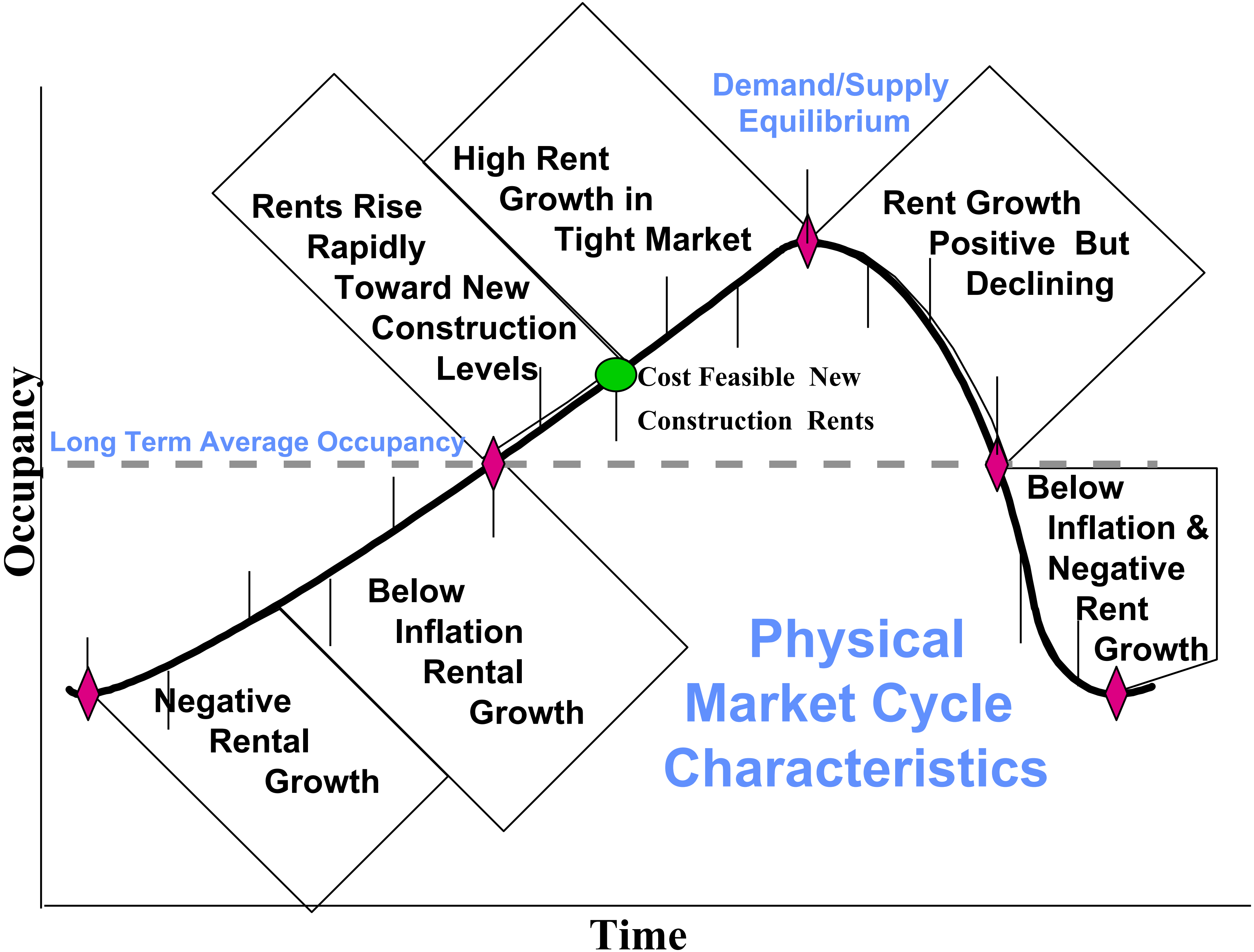
Market Cycle Analysis

Physical Cycle

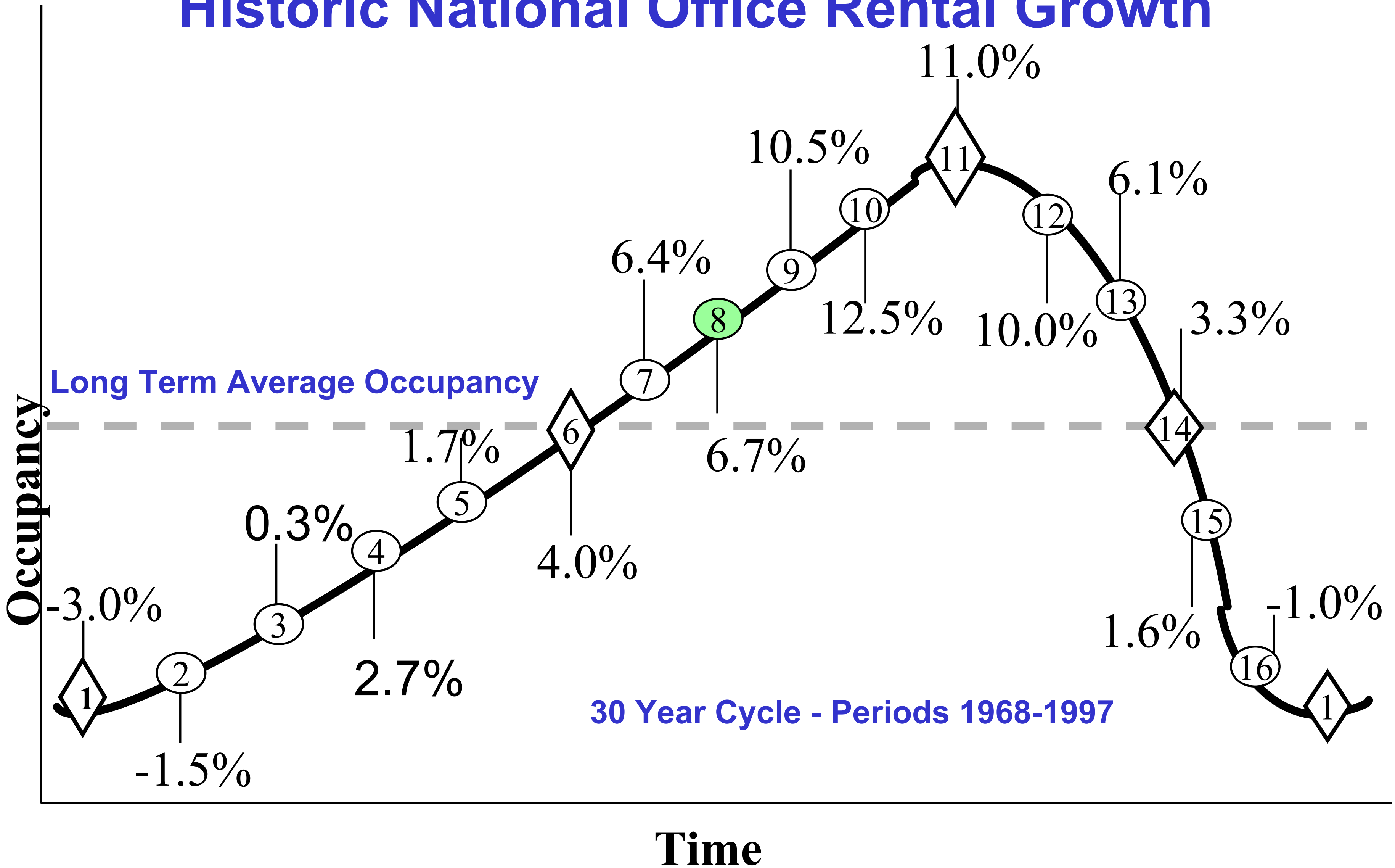
Demand, Supply and Vacancy affect Rental Growth

Market Cycle Quadrants

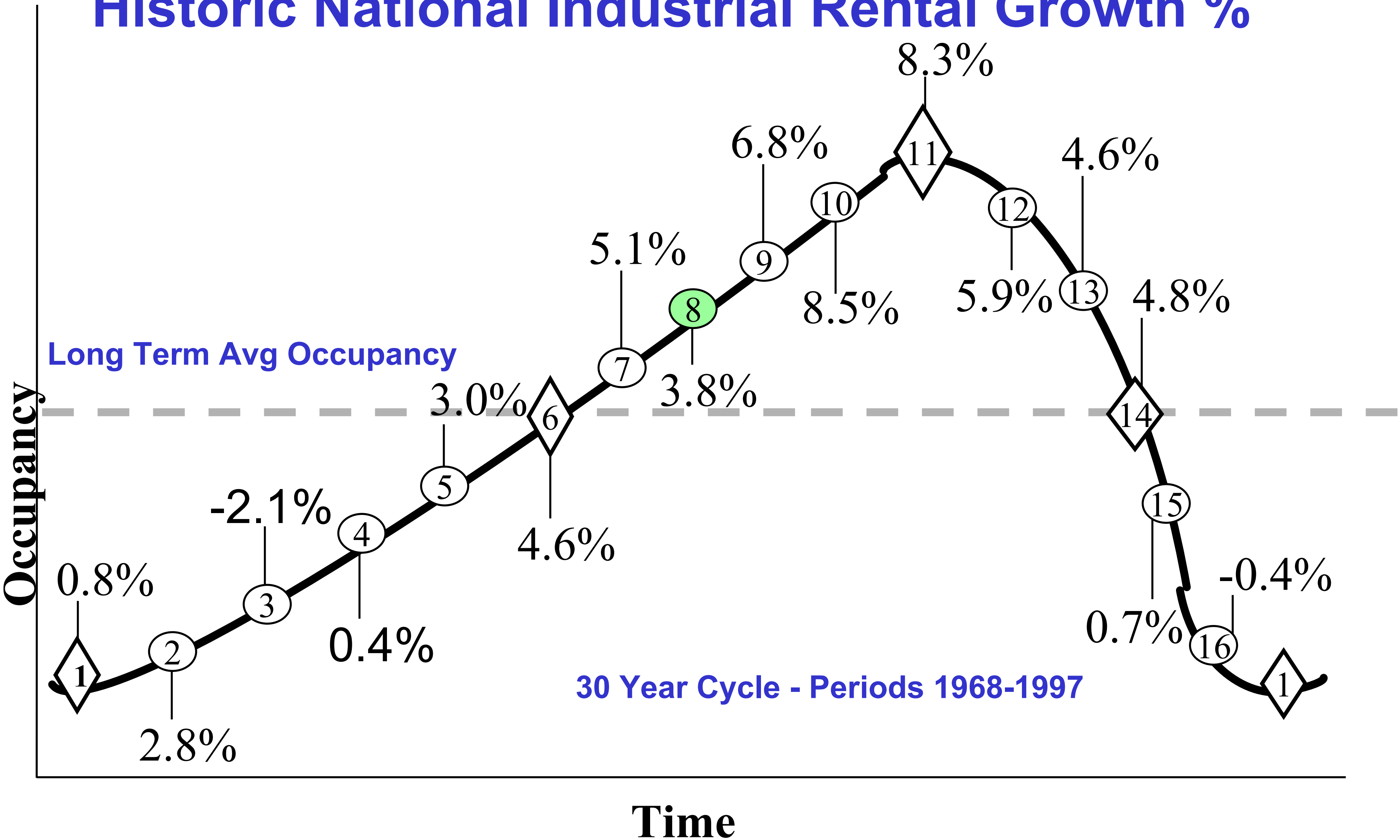



Demand/Supply Equilibrium
High Rent Growth in Tight Market
Rents Rise Rapidly Toward New Construction Levels
Rent Growth Positive But Declining
Cost Feasible New Construction Rents
Long Term Average Occupancy
Below Inflation & Negative Rent Growth
Below Inflation Rental Growth
Negative Rental Growth
Physical Market Cycle Characteristics
Occupancy
Time

Historic National Office Rental Growth

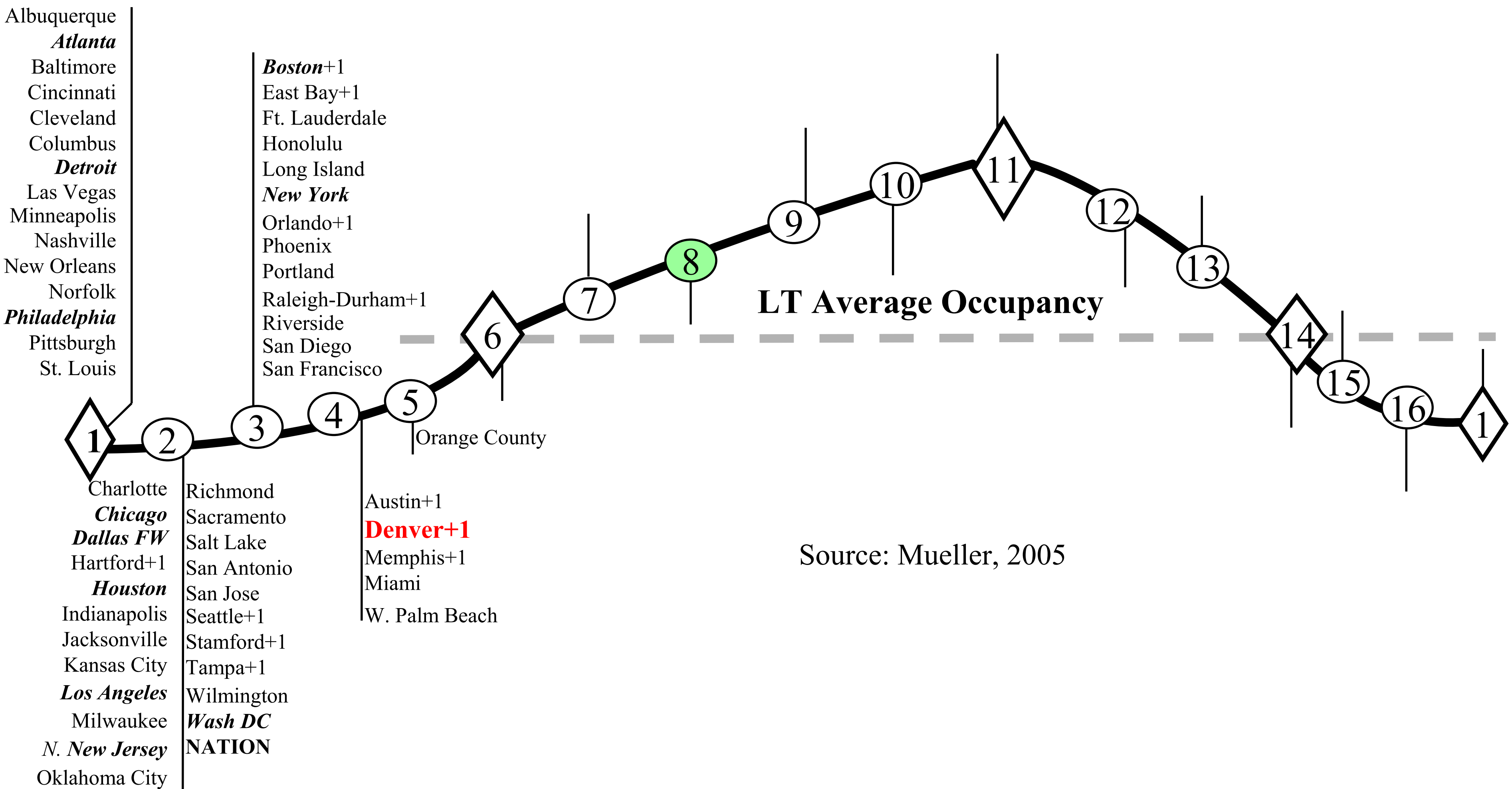


Historic National Industrial Rental Growth %



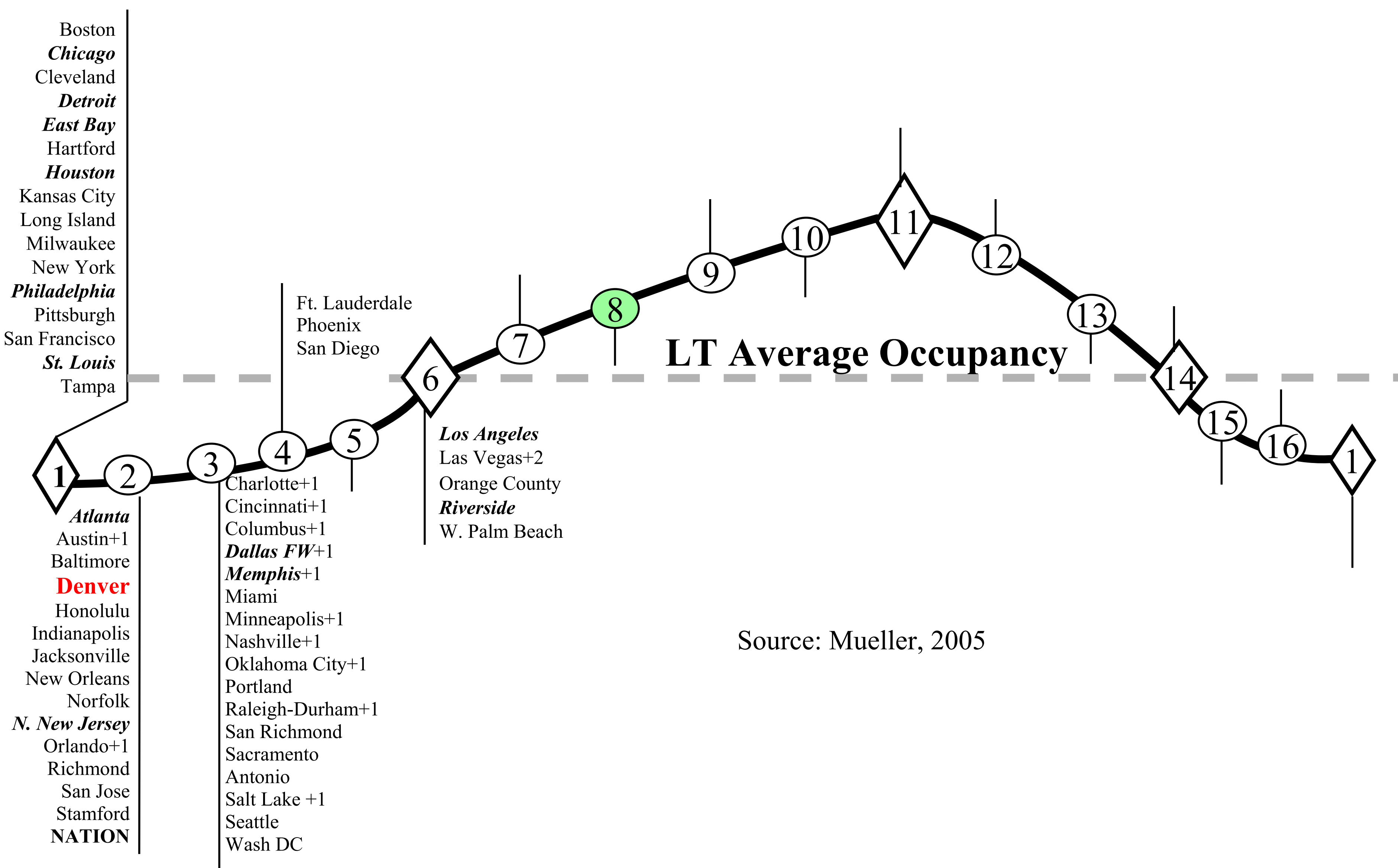
Office Market Cycle Analysis

3rd Quarter, 2005



Industrial Market Cycle Analysis

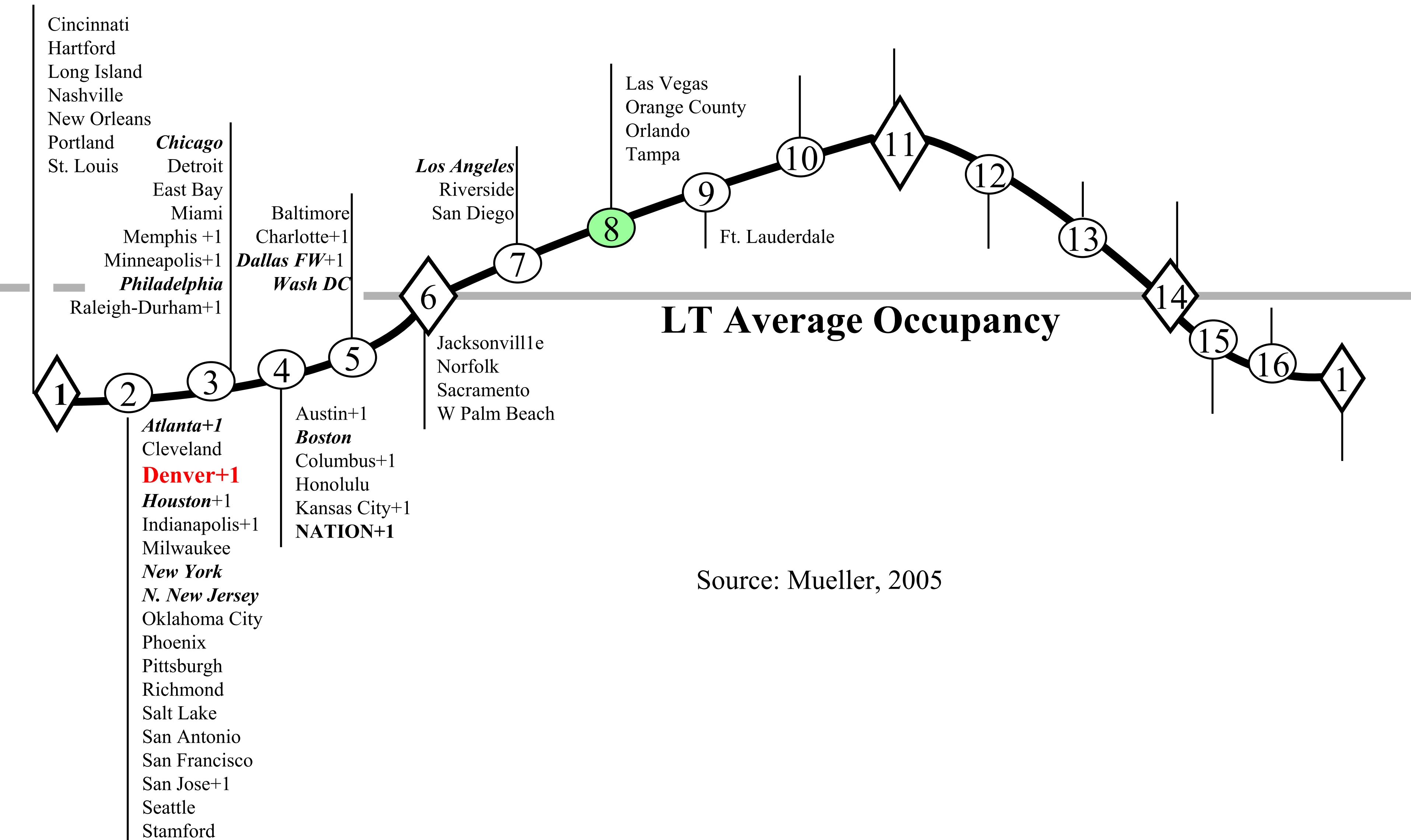
3rd Quarter, 2005



Source: Mueller, 2005

Multifamily Market Cycle Analysis

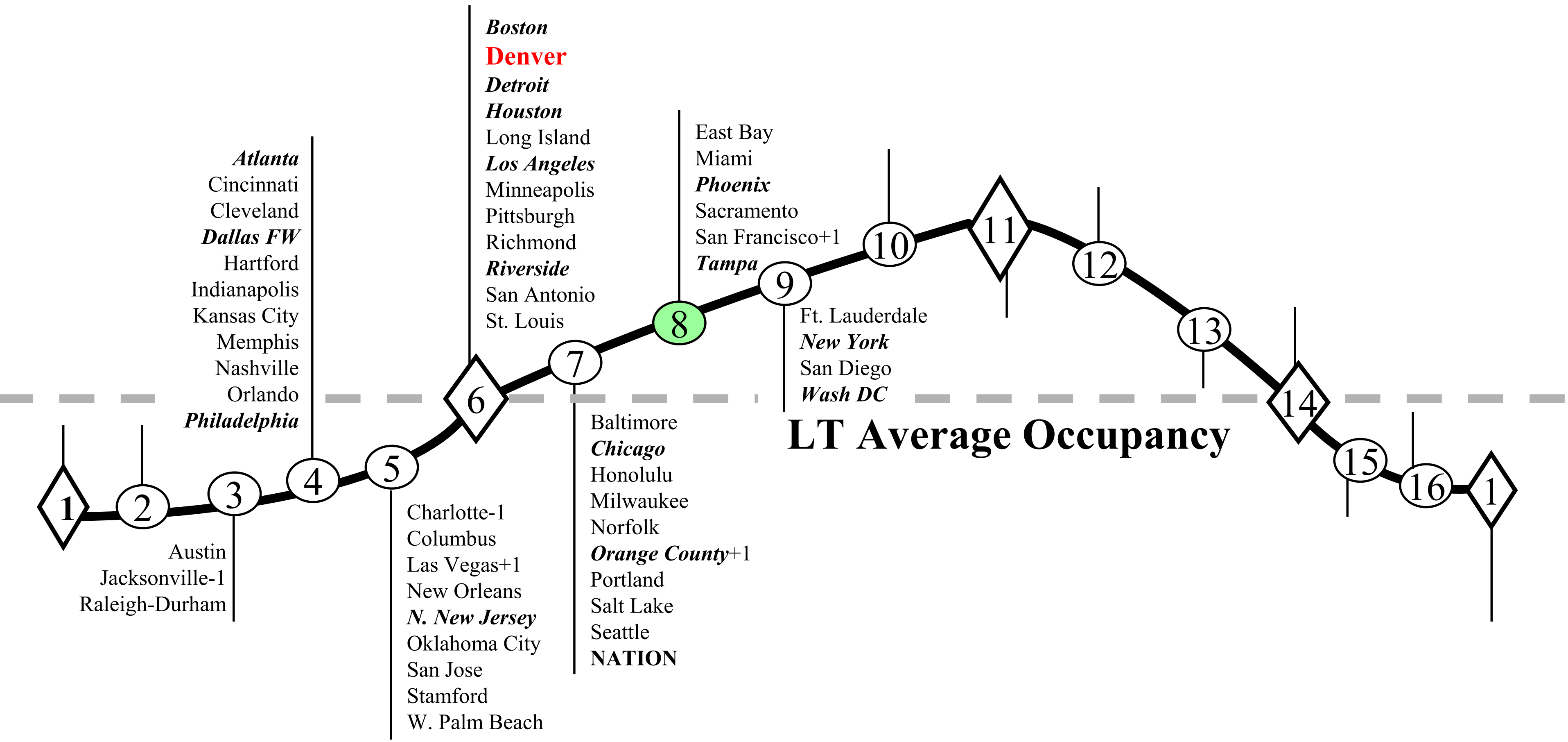
3rd Quarter, 2005



Source: Mueller, 2005

Retail Market Cycle Analysis

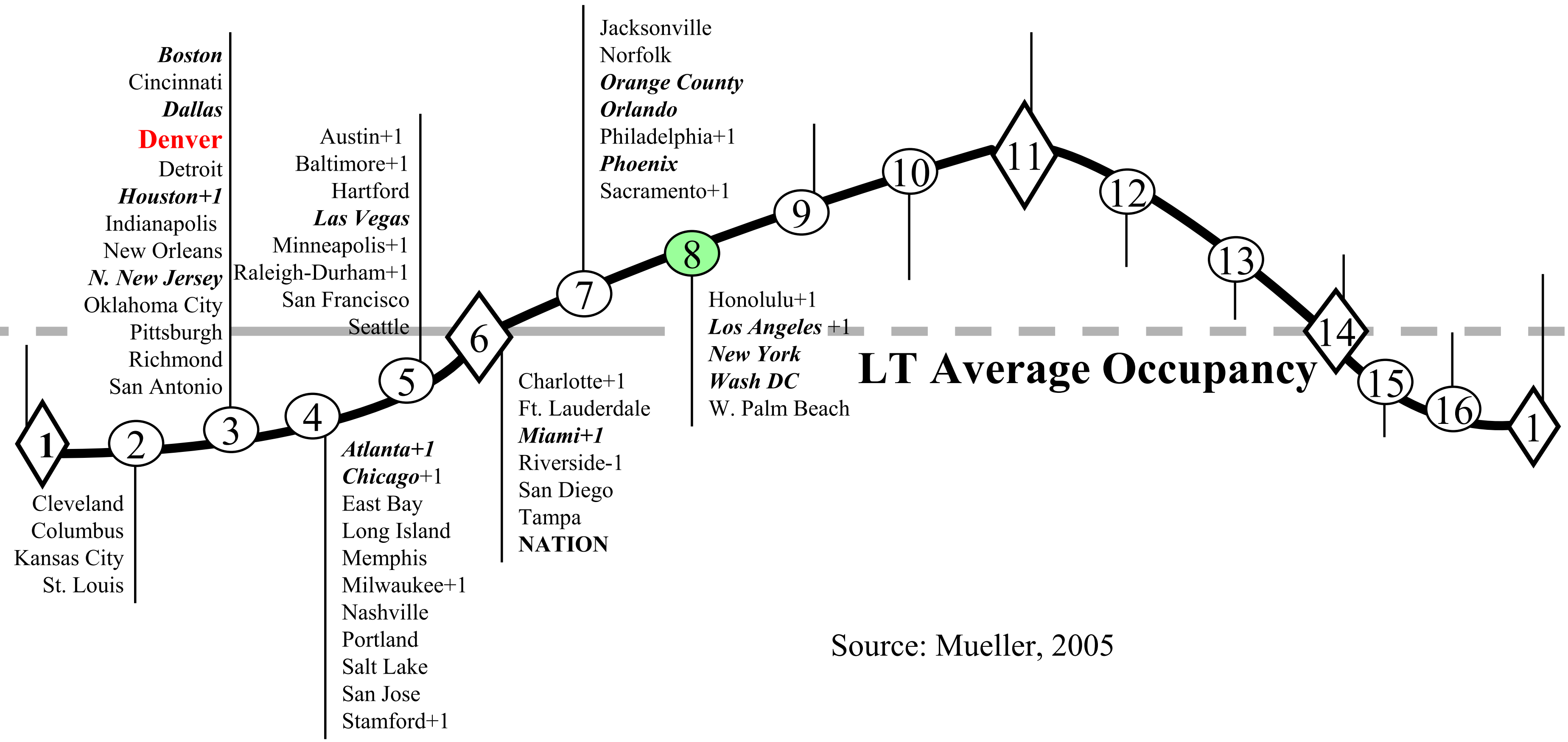
3rd Quarter, 2005



Source: Mueller, 2005

Hotel Market Cycle Analysis

3rd Quarter, 2005



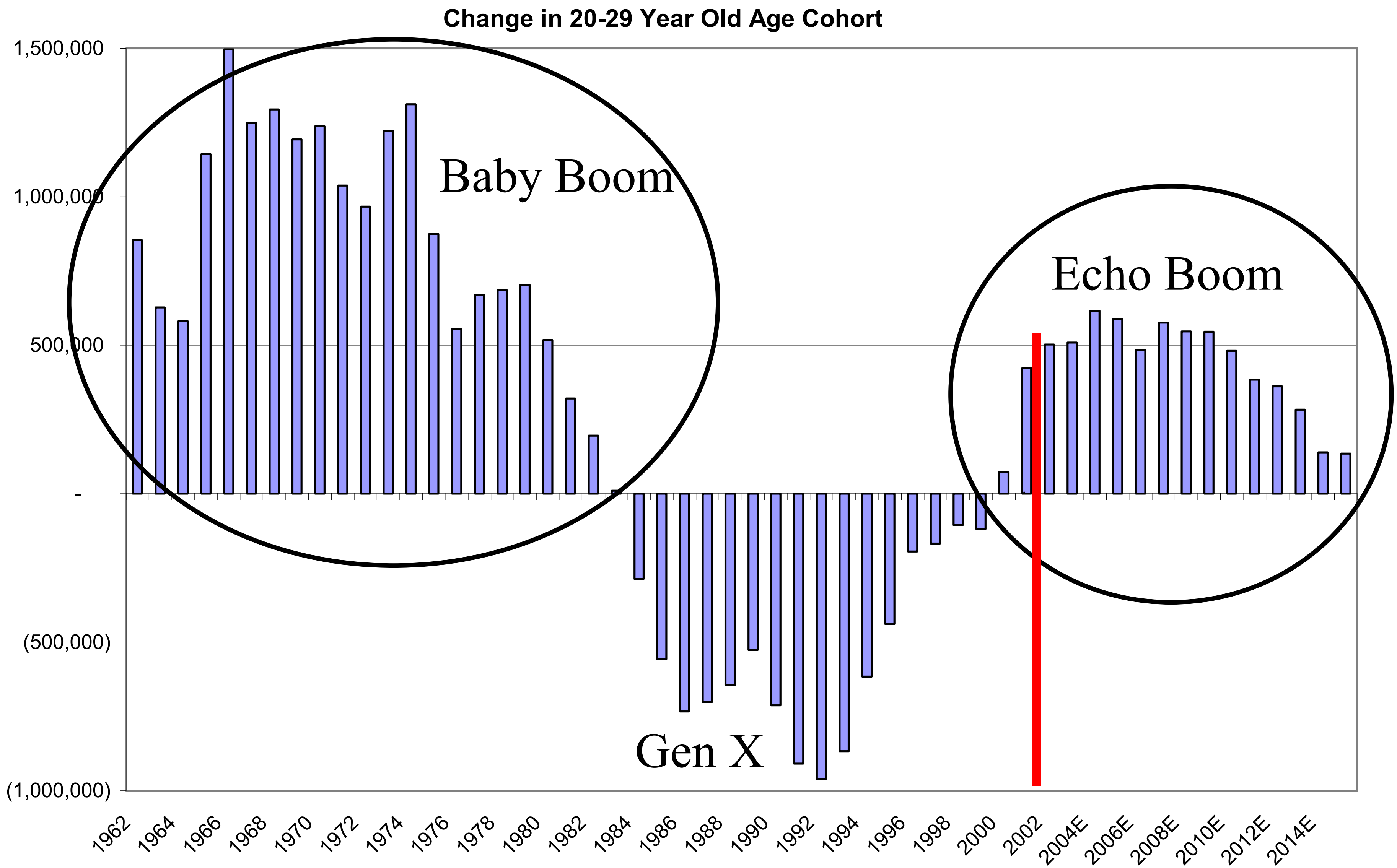
Source: Mueller, 2005

2000s Cycle

Demand

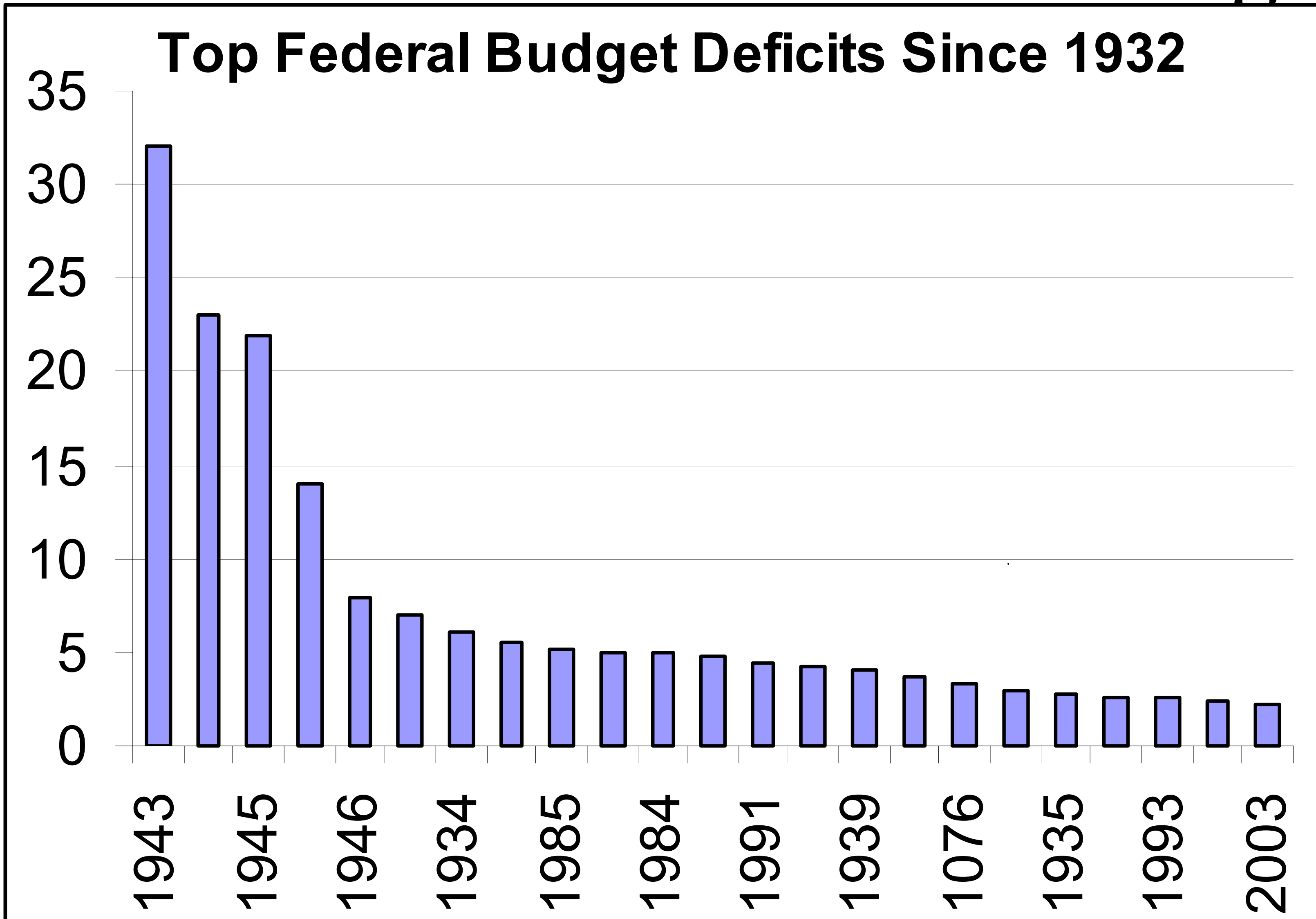
- Globalization - creates stable U.S. economy
- Job Growth out of Technology Change
- 2.4 million population growth per year for 10 years
- Baby boomers at “highest income earning” years
    - second home market wave
- Echo boom children – college, first job, & renting
- Aging population not a major factor till 2014
- Employment growth - determines demand - WHEN

2000s Cycle



Source: National Center for Health Statistics and Legg Mason estimates

Government Stimulus Working?



Source: U.S. Census Bureau, Office of Management & Budget

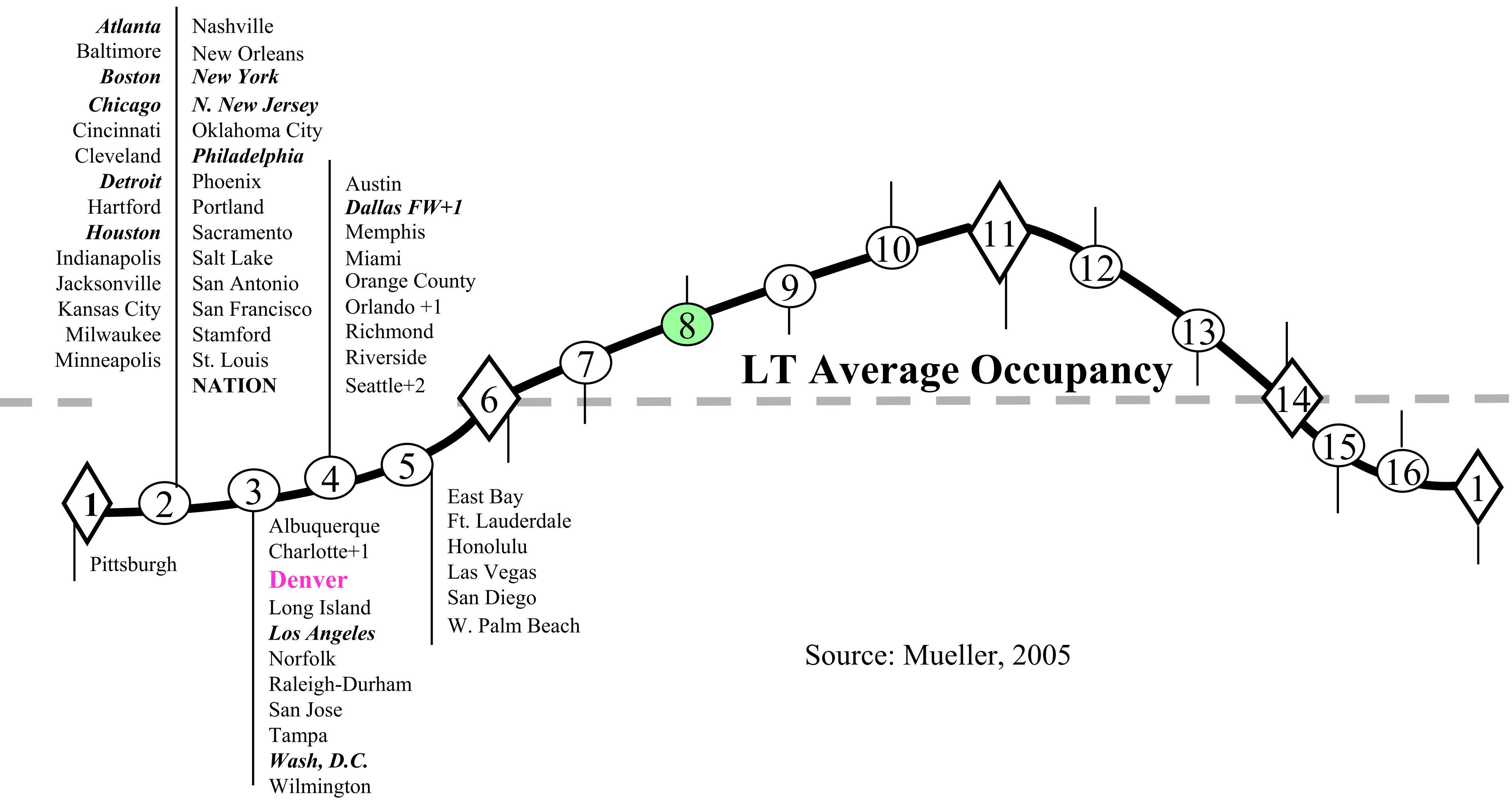
2000s Cycle

Supply Constraint

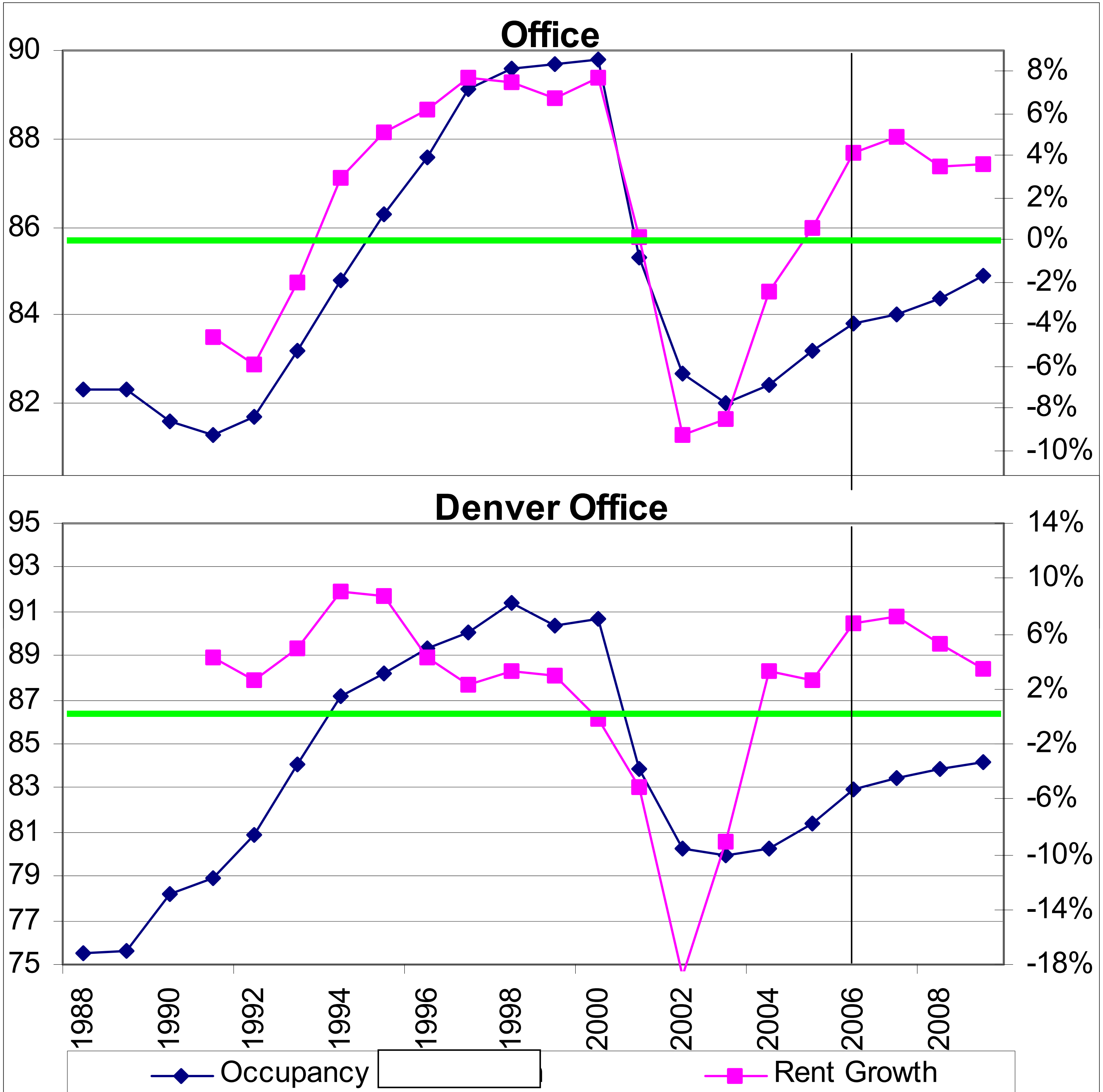
- Public Markets make R.E. Capital markets efficient
  - Economically driven capital - low spec construction
  - Research watchdogs
- Constrained Supply (economically driven capital)
  - construction labor harder to find
  - materials costs increasing
  - infrastructure problems constrain growth
- Feedback loop keeps demand and supply in better balance
  - greater transparency
  - Faster reaction to demand slowdown

Office Market Cycle FORECAST

3rd Quarter, 2006 Estimates



Source: Mueller, 2005


Office
90
88
86
84
82
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
Denver Office
95
93
91
89
87
85
83
81
79
77
75
14%
10%
6%
2%
-2%
-6%
-10%
-14%
-18%
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Occupancy
Rent Growth

4.5%

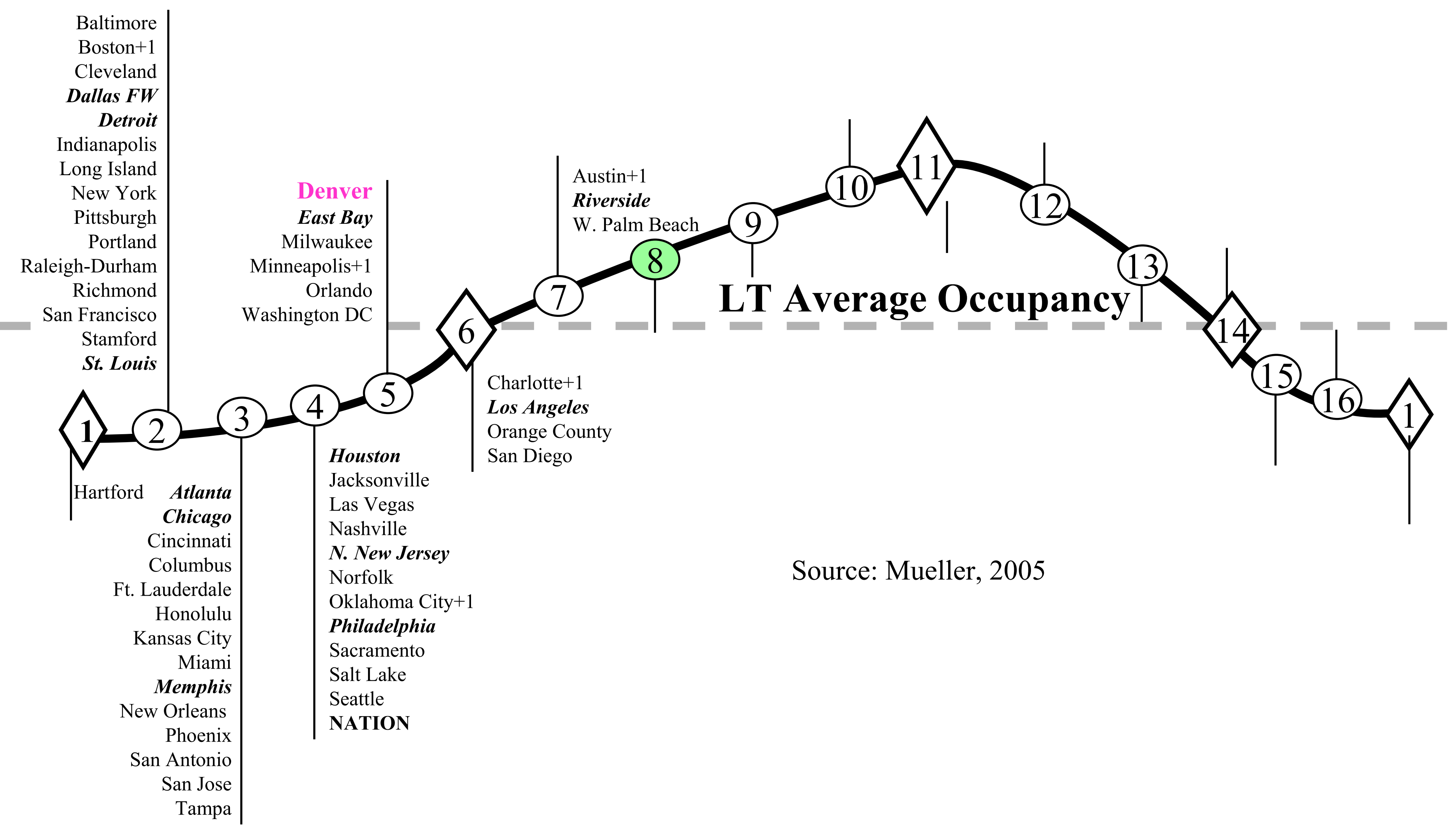
84%

7%

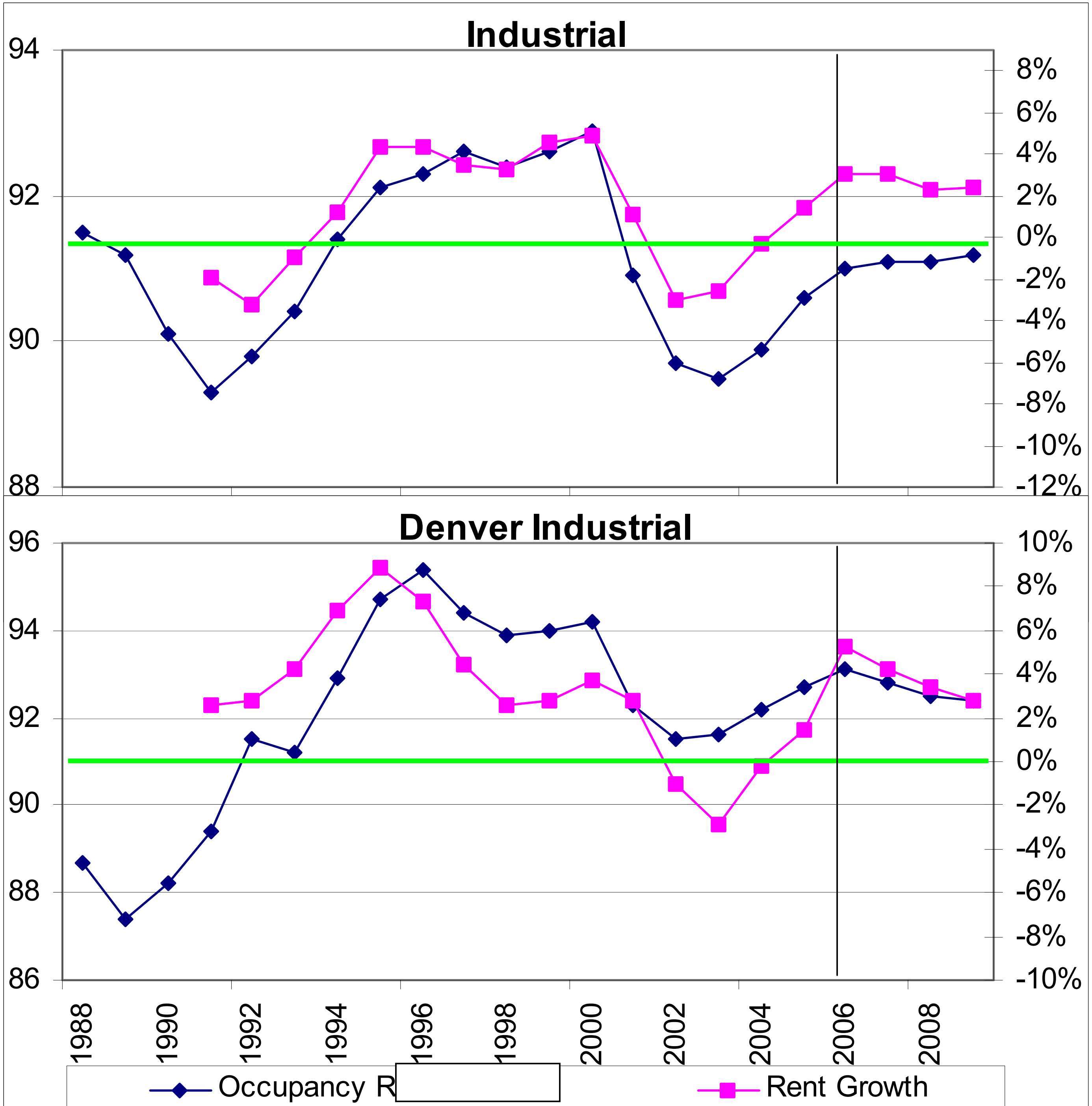
83%

Industrial Market Cycle FORECAST

3rd Quarter, 2006 Estimates



Source: Mueller, 2005


Industrial
94
92
90
88
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
Denver Industrial
96
94
92
90
88
86
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Occupancy R
Rent Growth

3%

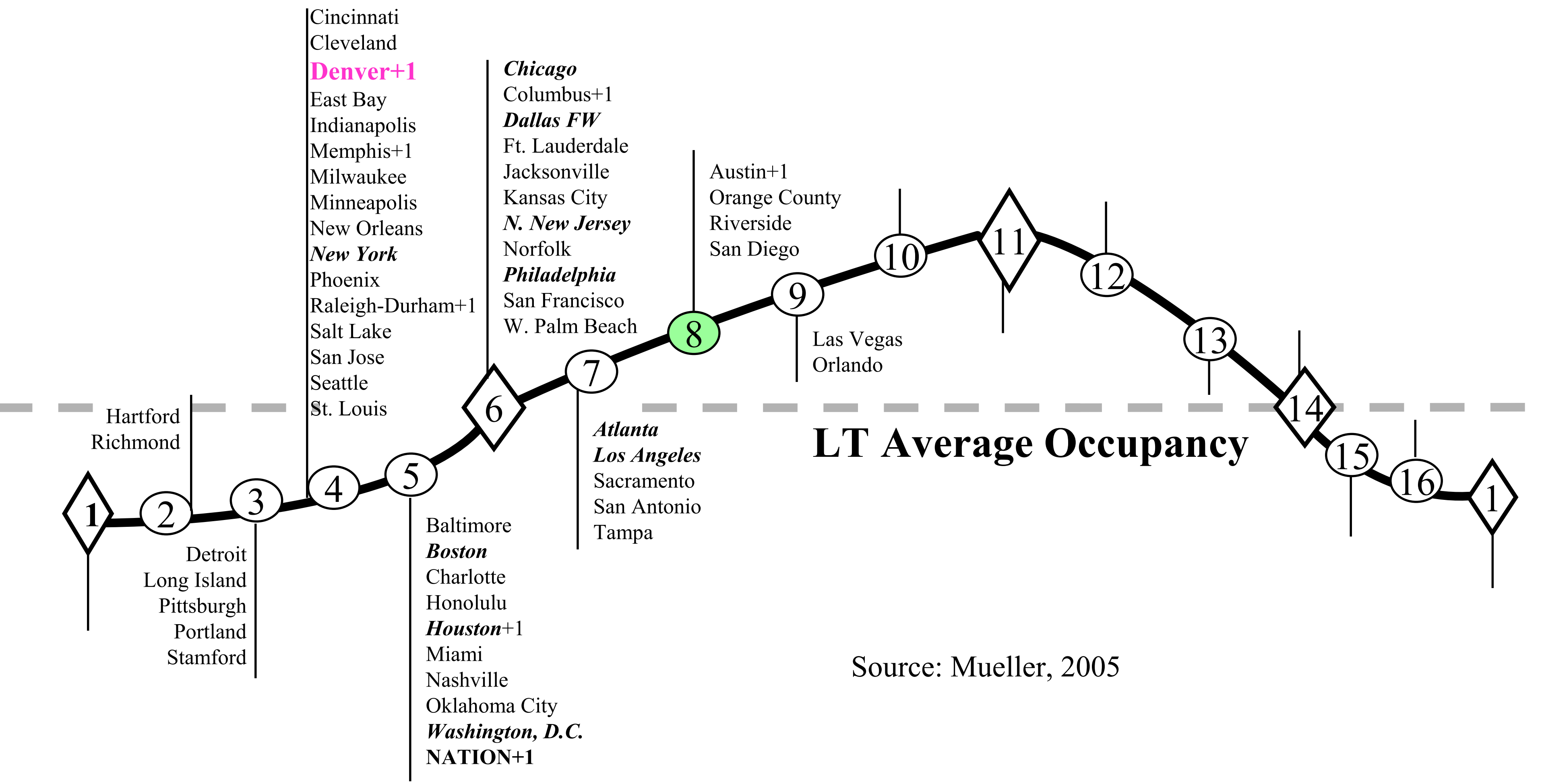
91%

5%

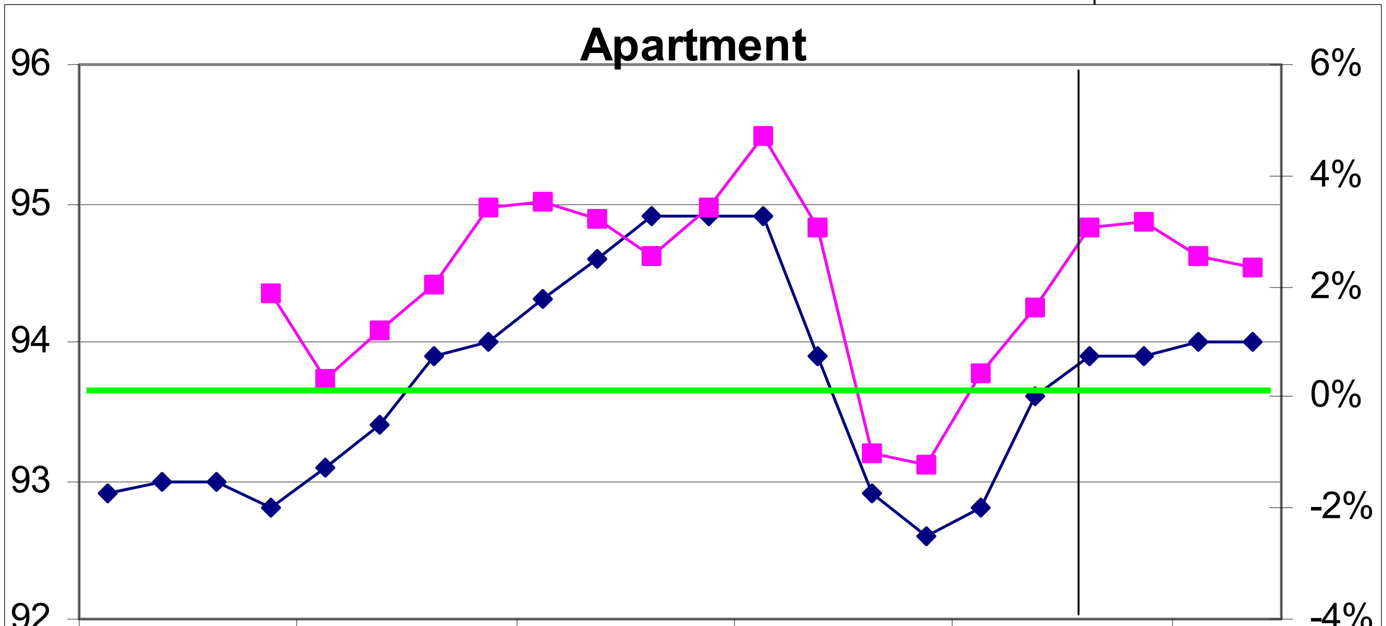
93%

Multifamily Market Cycle FORECAST

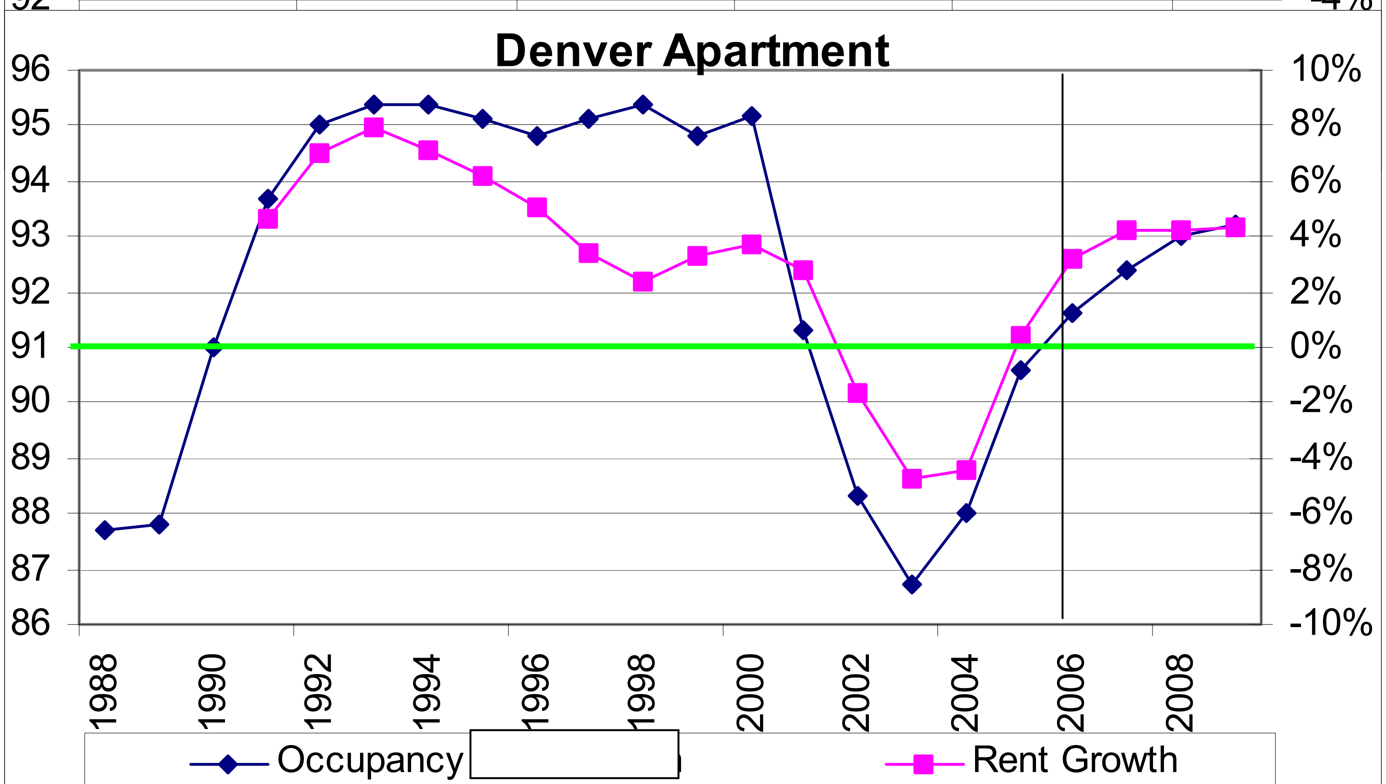
3rd Quarter, 2006 Estimates



Source: Mueller, 2005


Apartment
96
95
94
93
92
6%
4%
2%
0%
-2%
-4%

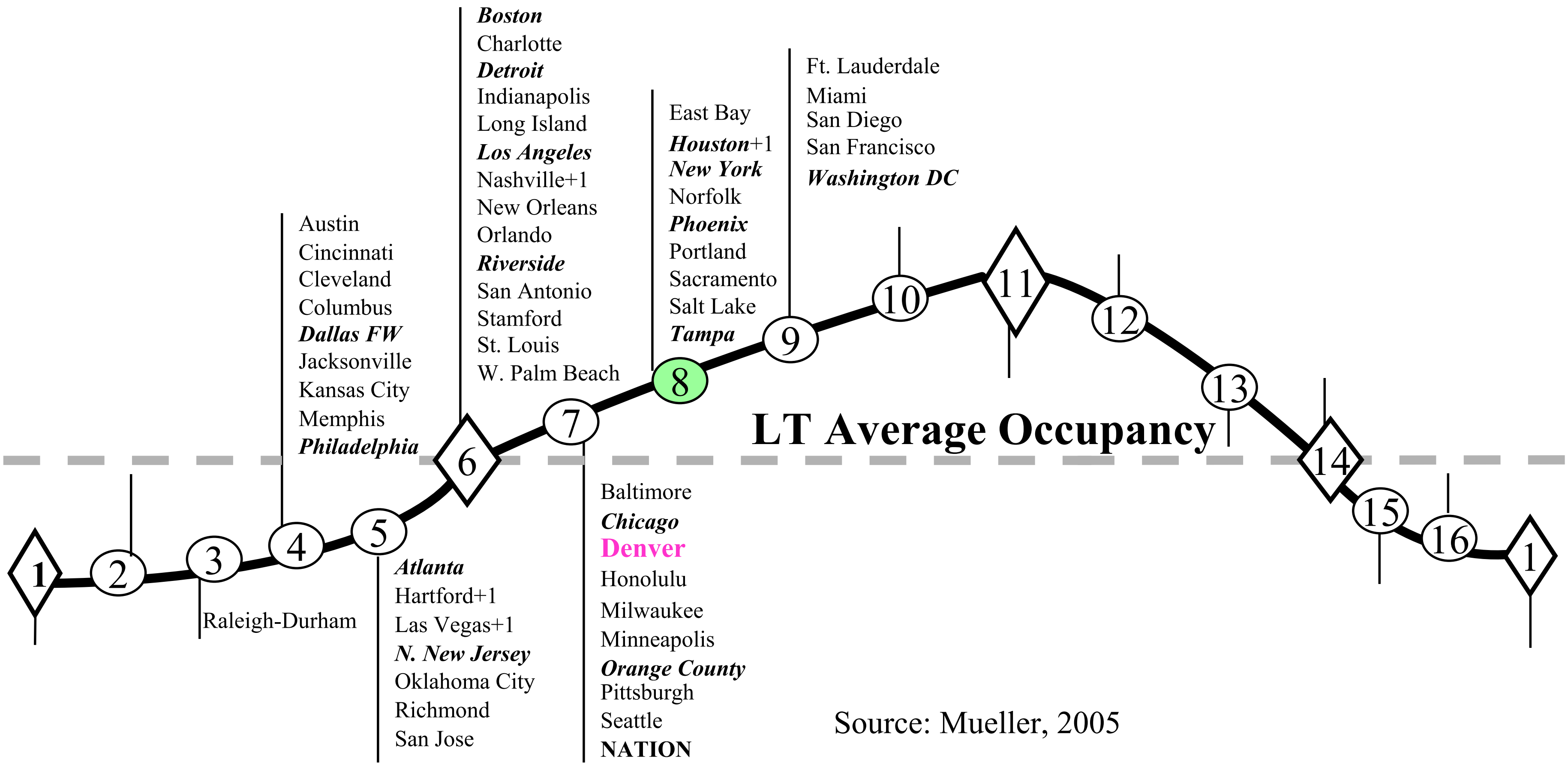
3%
93.5%


Denver Apartment
96
95
94
93
92
91
90
89
88
87
86
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Occupancy
Rent Growth

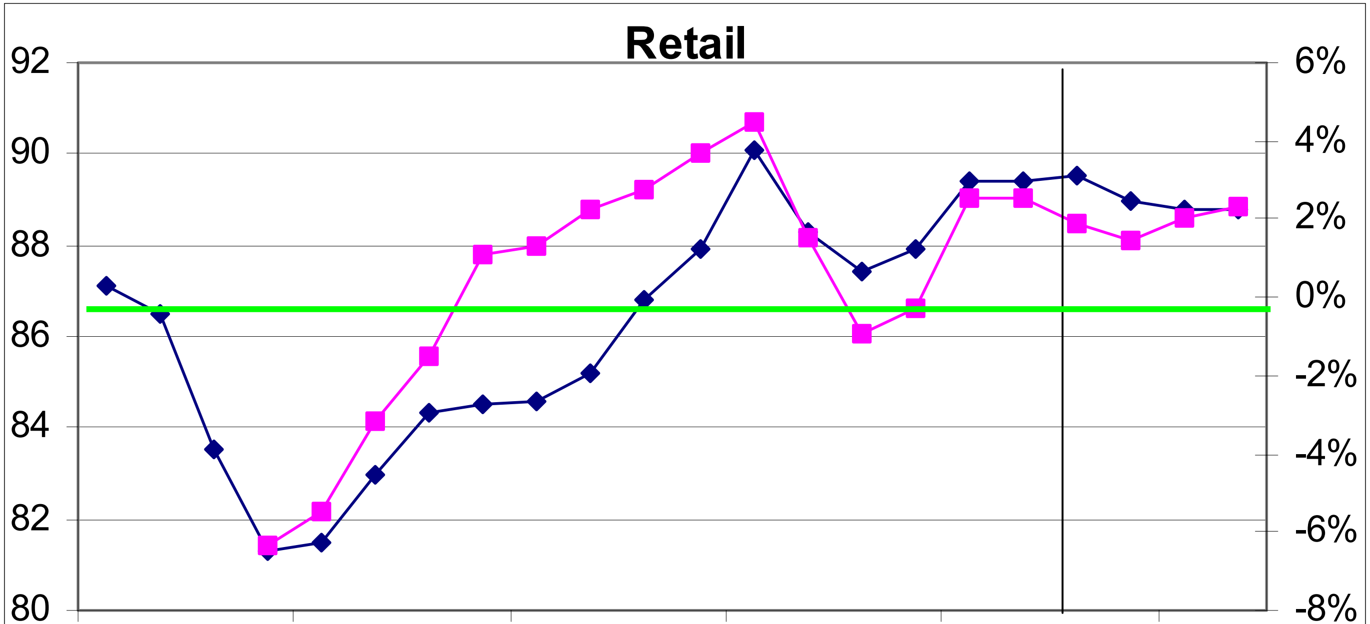
4%
91.5%

Retail Market Cycle FORECAST

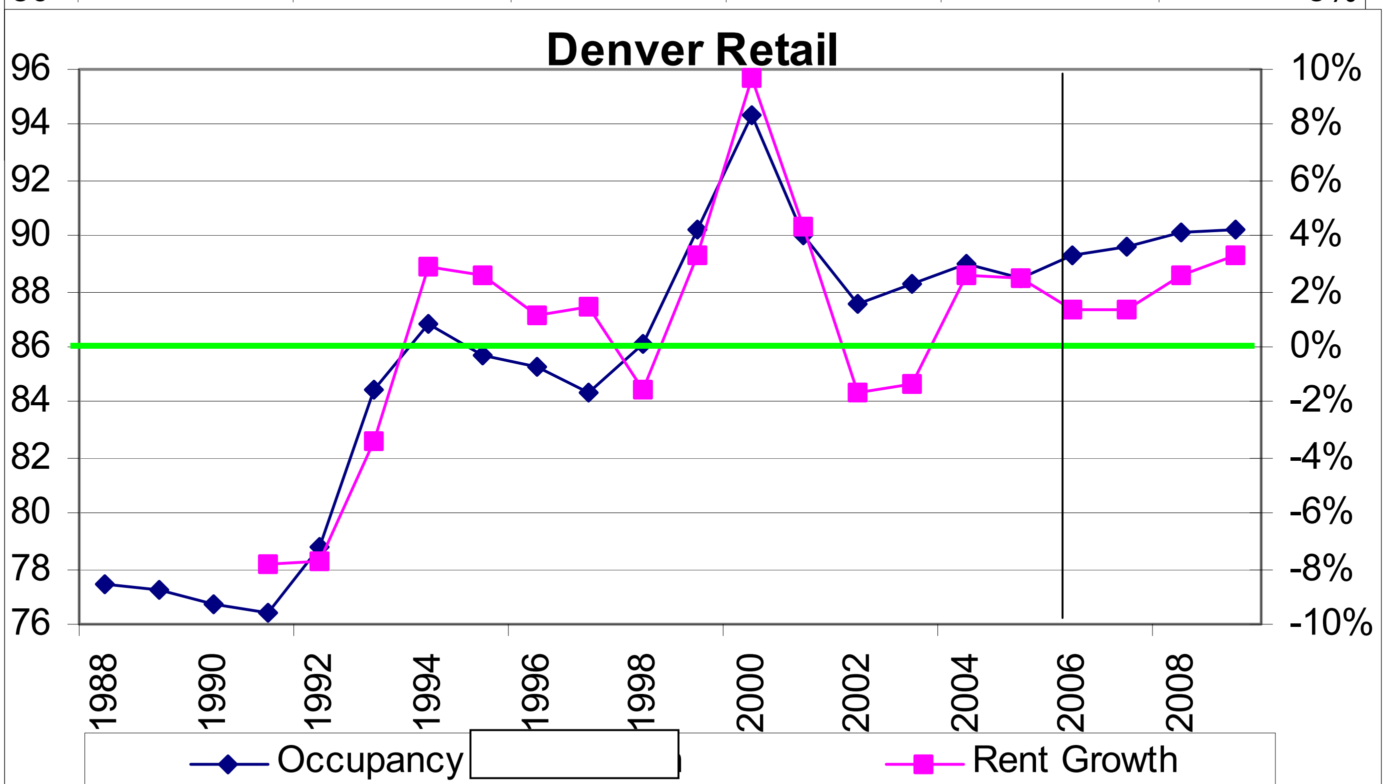
3rd Quarter, 2006 Estimates



Source: Mueller, 2005


Retail
92
90
88
86
84
82
80
6%
4%
2%
0%
-2%
-4%
-6%
-8%

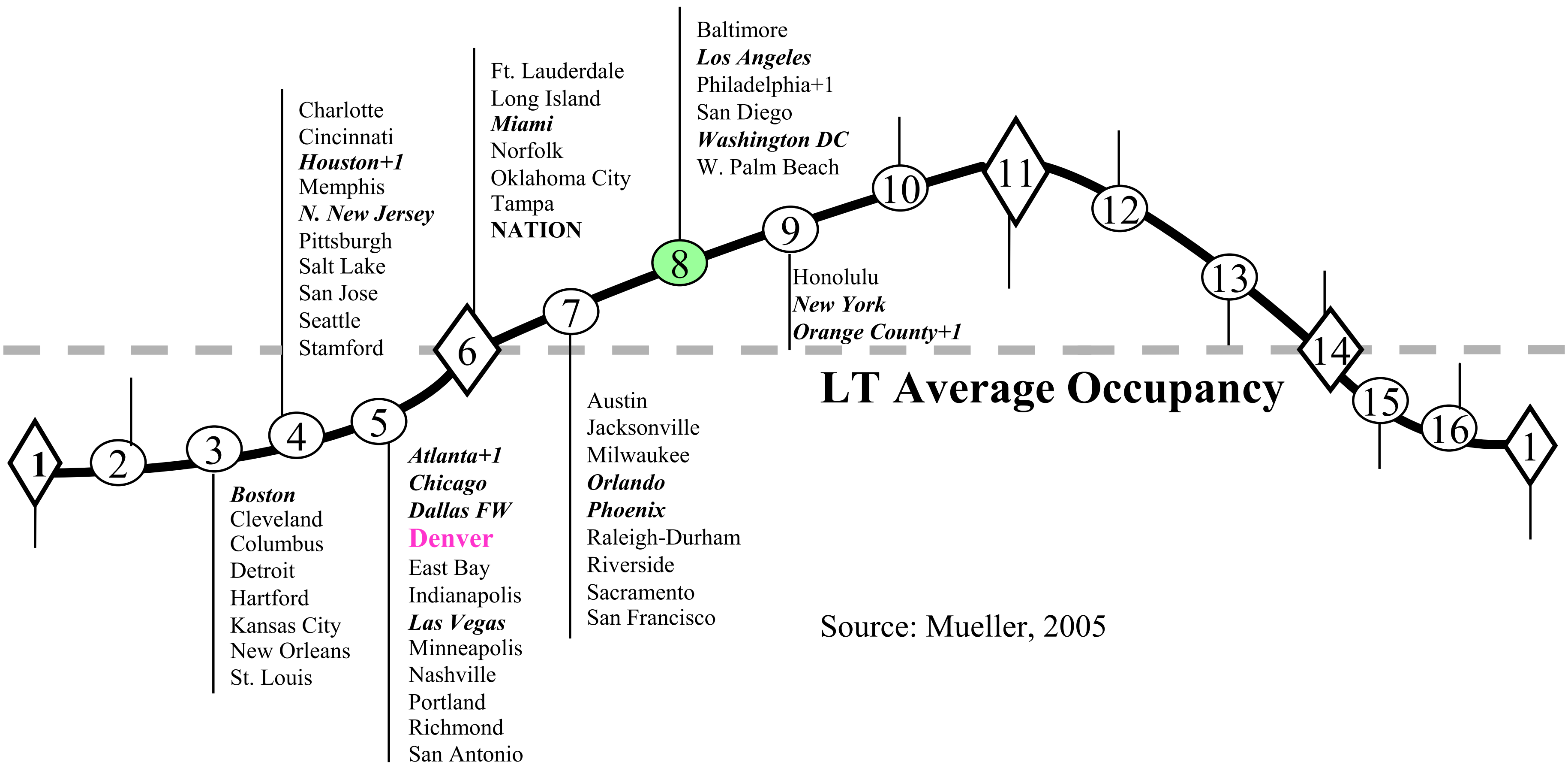
1.8%
89%

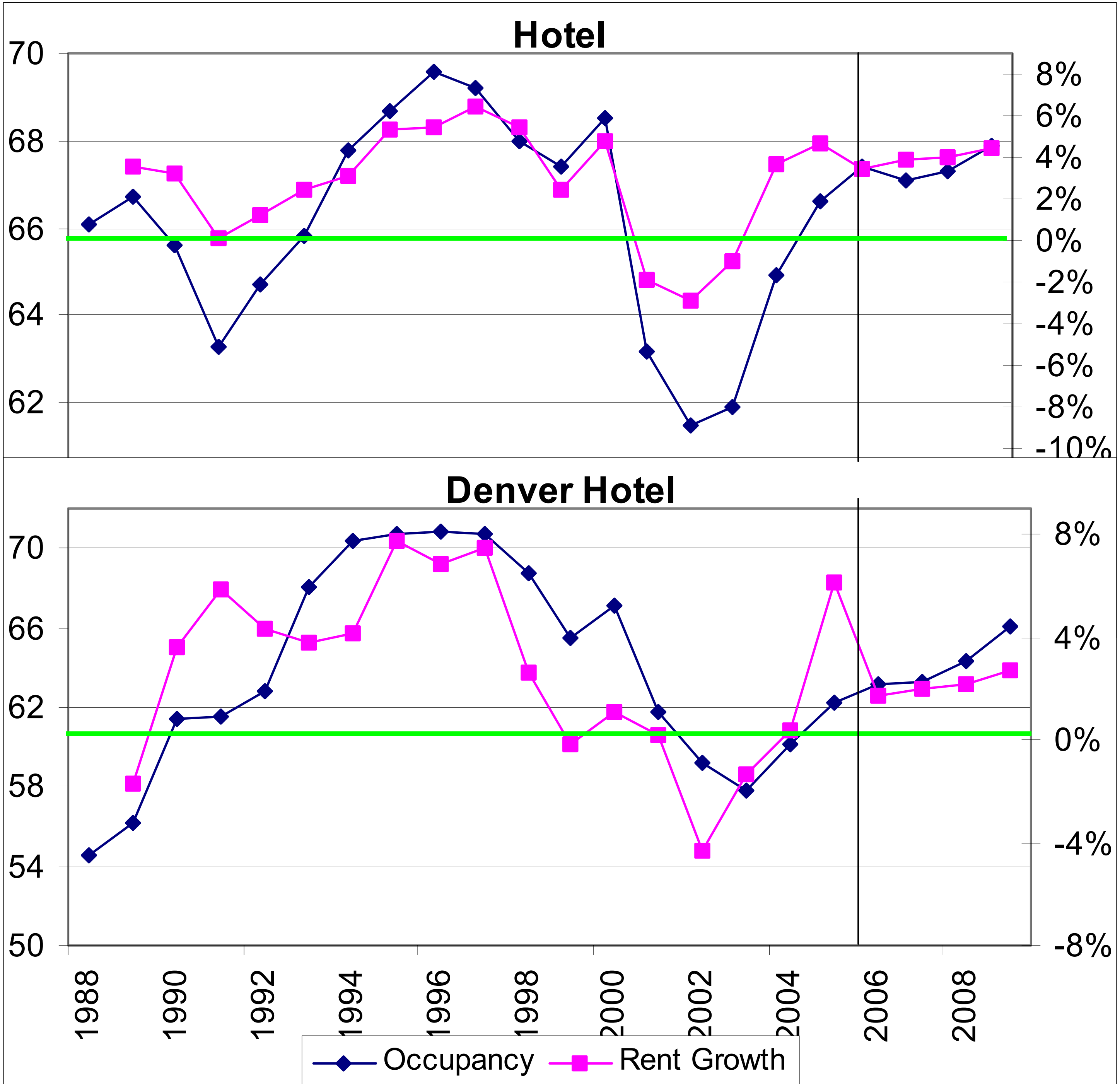

Denver Retail
96
94
92
90
88
86
84
82
80
78
76
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Occupancy
Rent Growth

1.5%
89%

Hotel Market Cycle FORECAST

3rd Quarter, 2006 Estimates




Hotel
70
68
66
64
62
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
Denver Hotel
70
66
62
58
54
50
8%
4%
0%
-4%
-8%
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Occupancy
Rent Growth

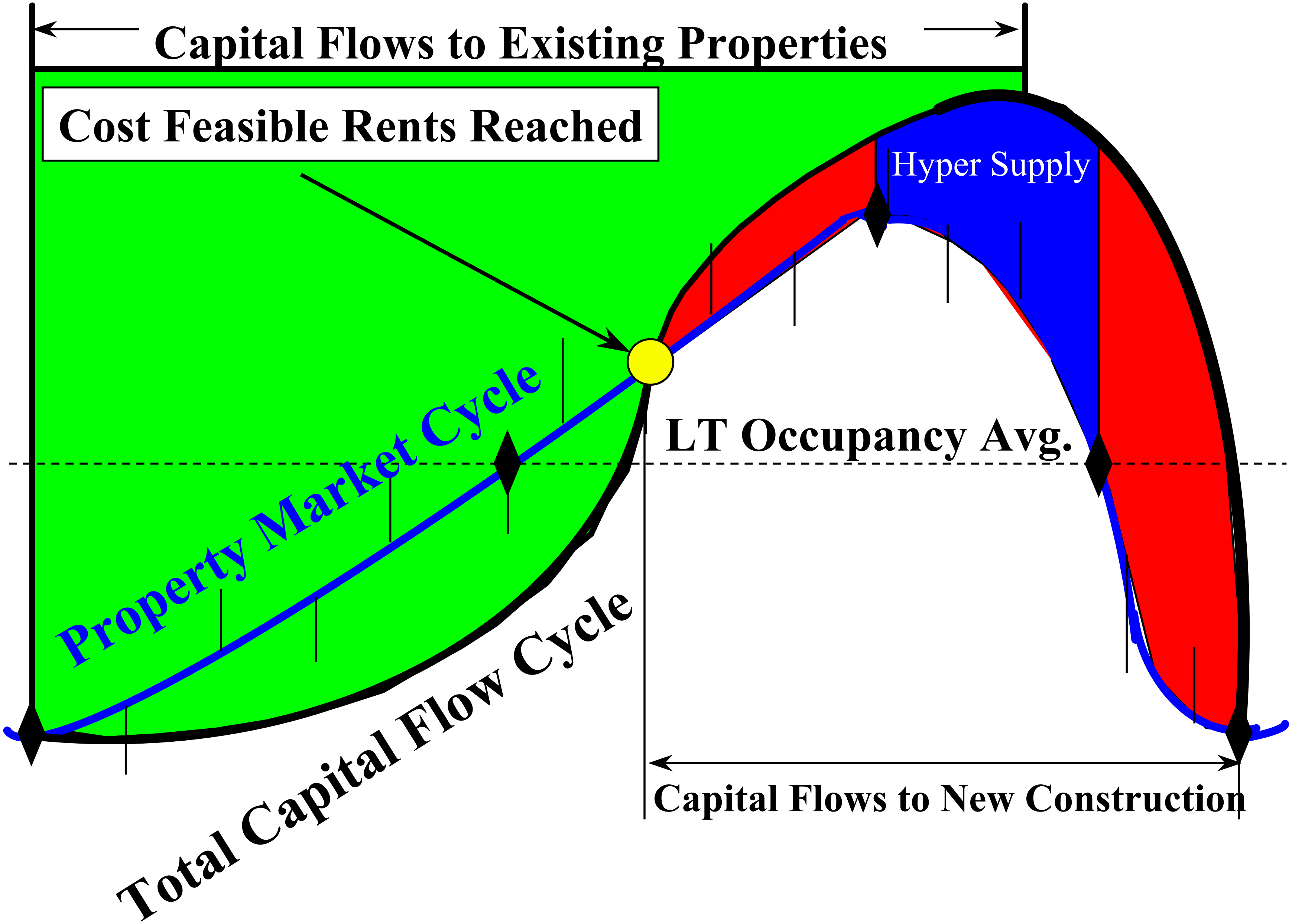
3.5%
67.5%

2%
63%

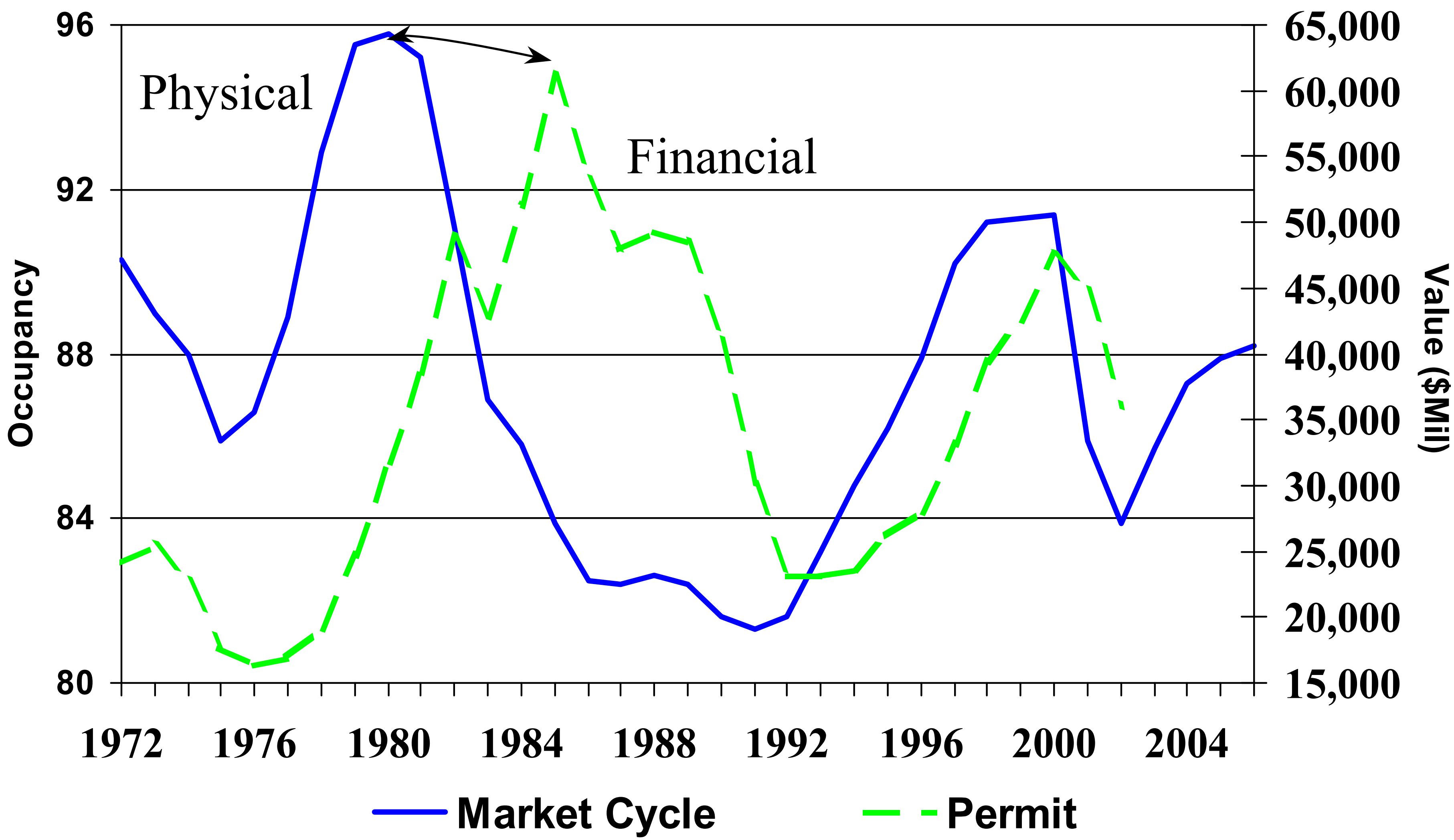
Real Estate
Financial Cycles

Capital Flows
Affect Prices

Market Cycle Capital Flow Impact

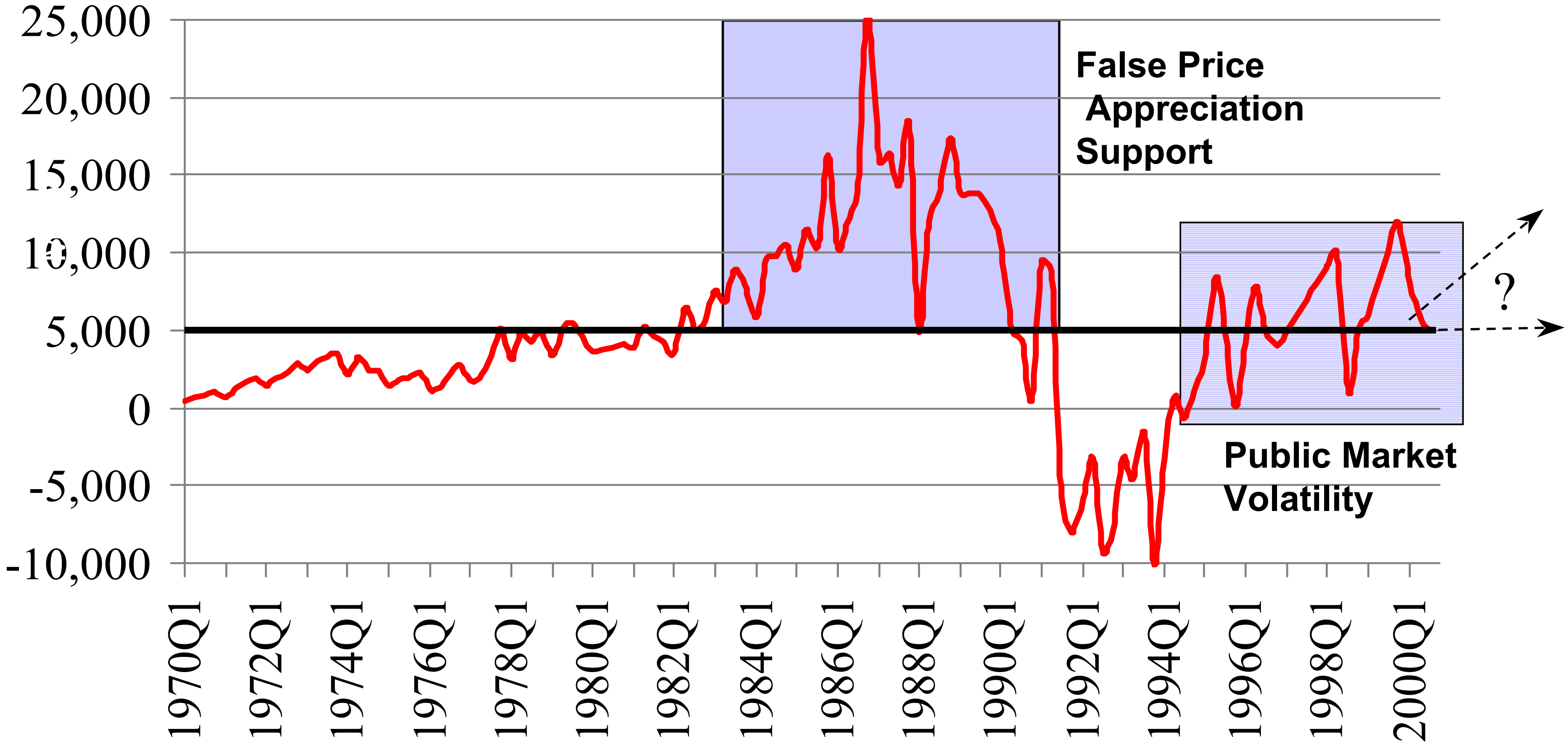


National Office Physical Market Cycle vs Financial Cycle - New Permit Values



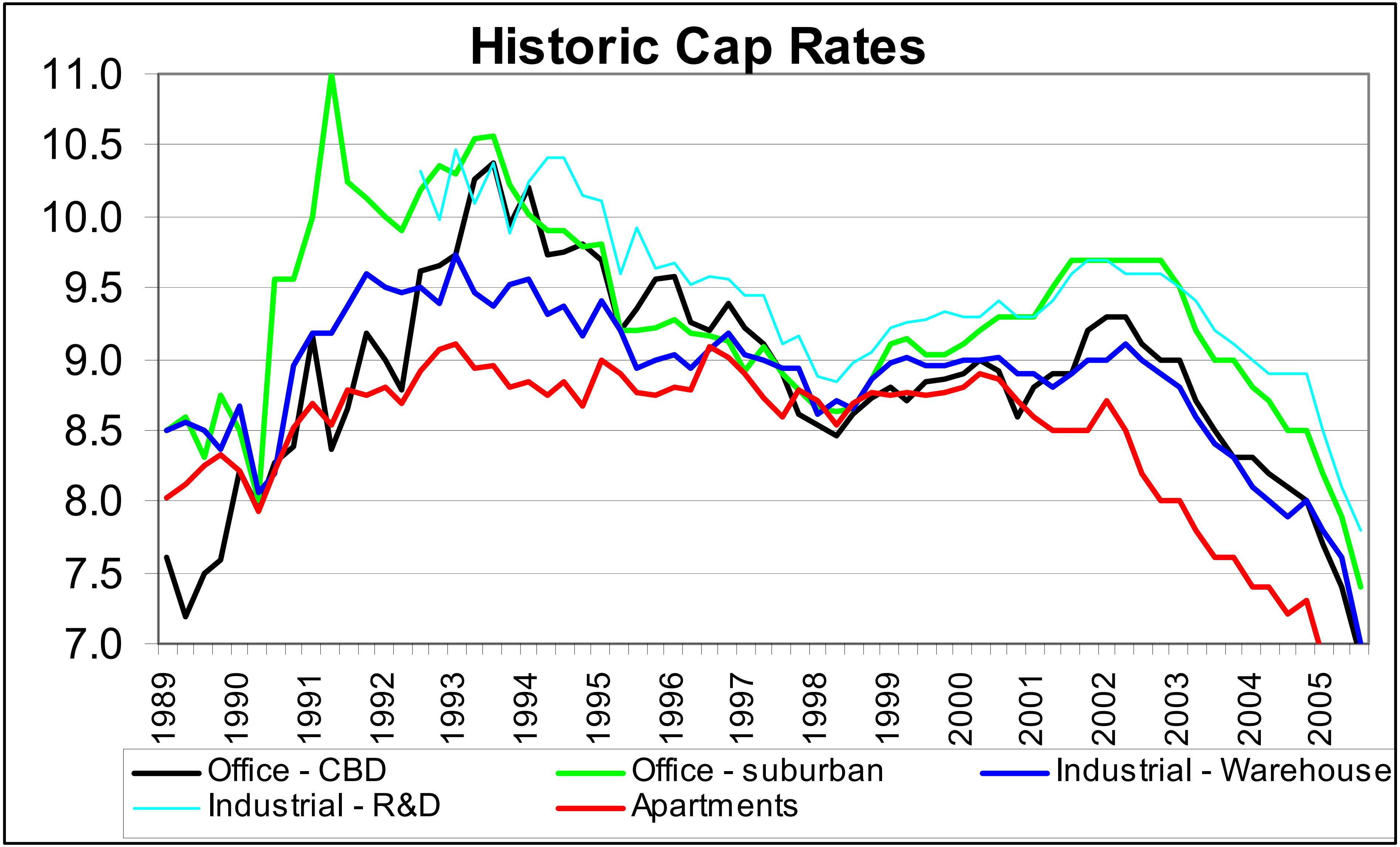
Source: BEA, CB Commercial, Mueller

Flow of Funds Commercial Mortgages All Sectors (1976 - 2001)



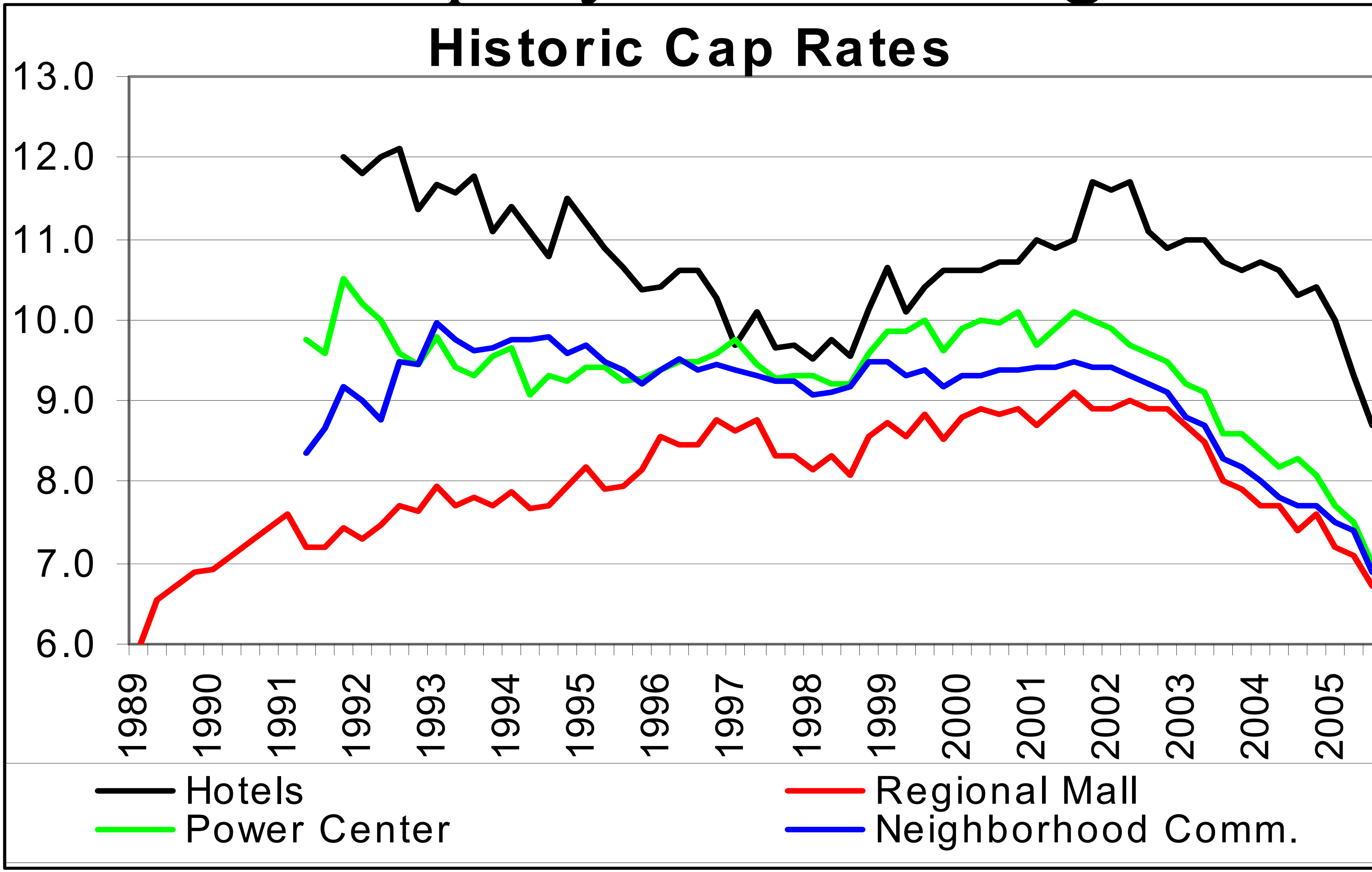
Source: Federal Reserve

Property Prices Strong



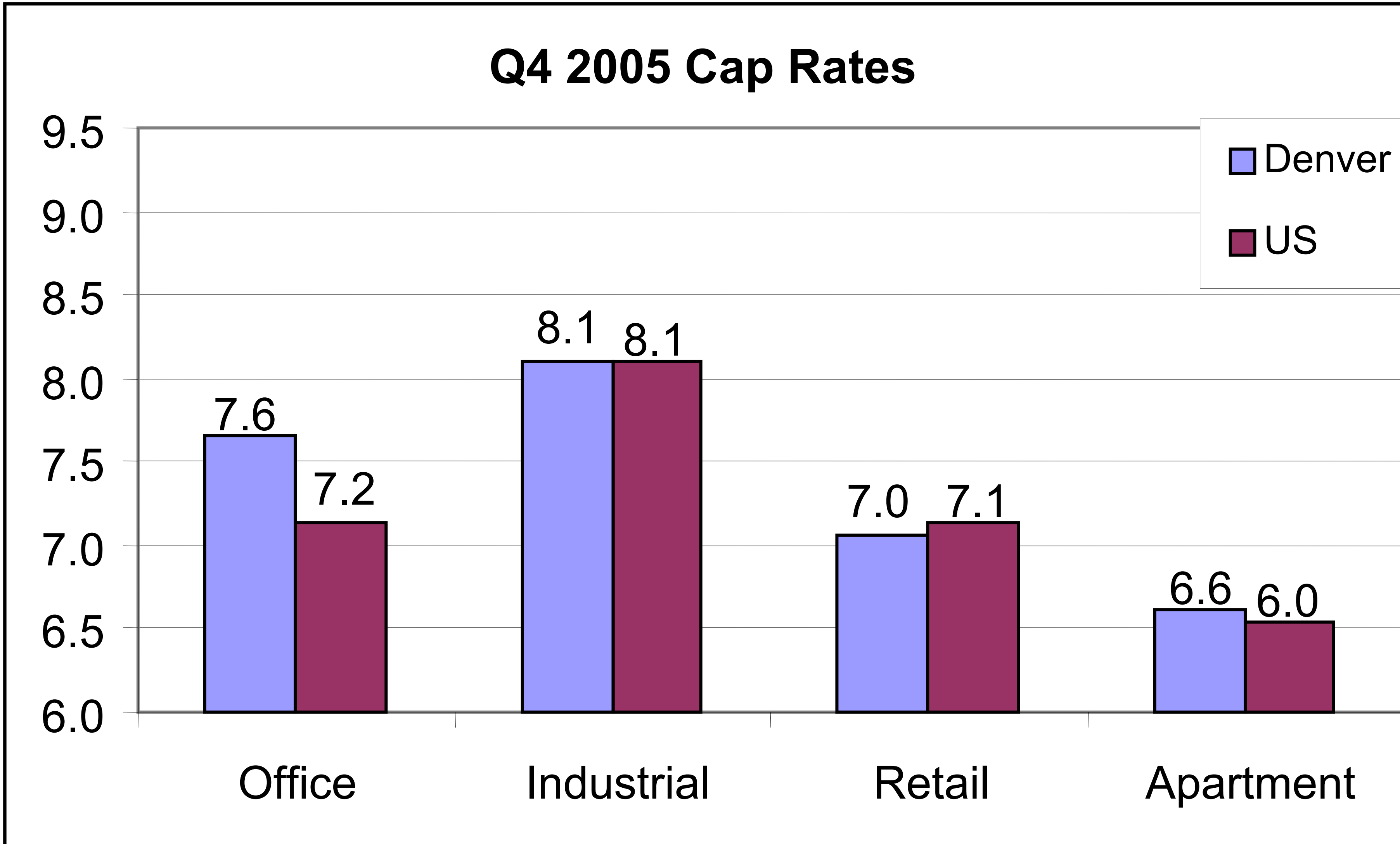
Source: Real Estate Research Corporation - Chicago

Property Prices Strong



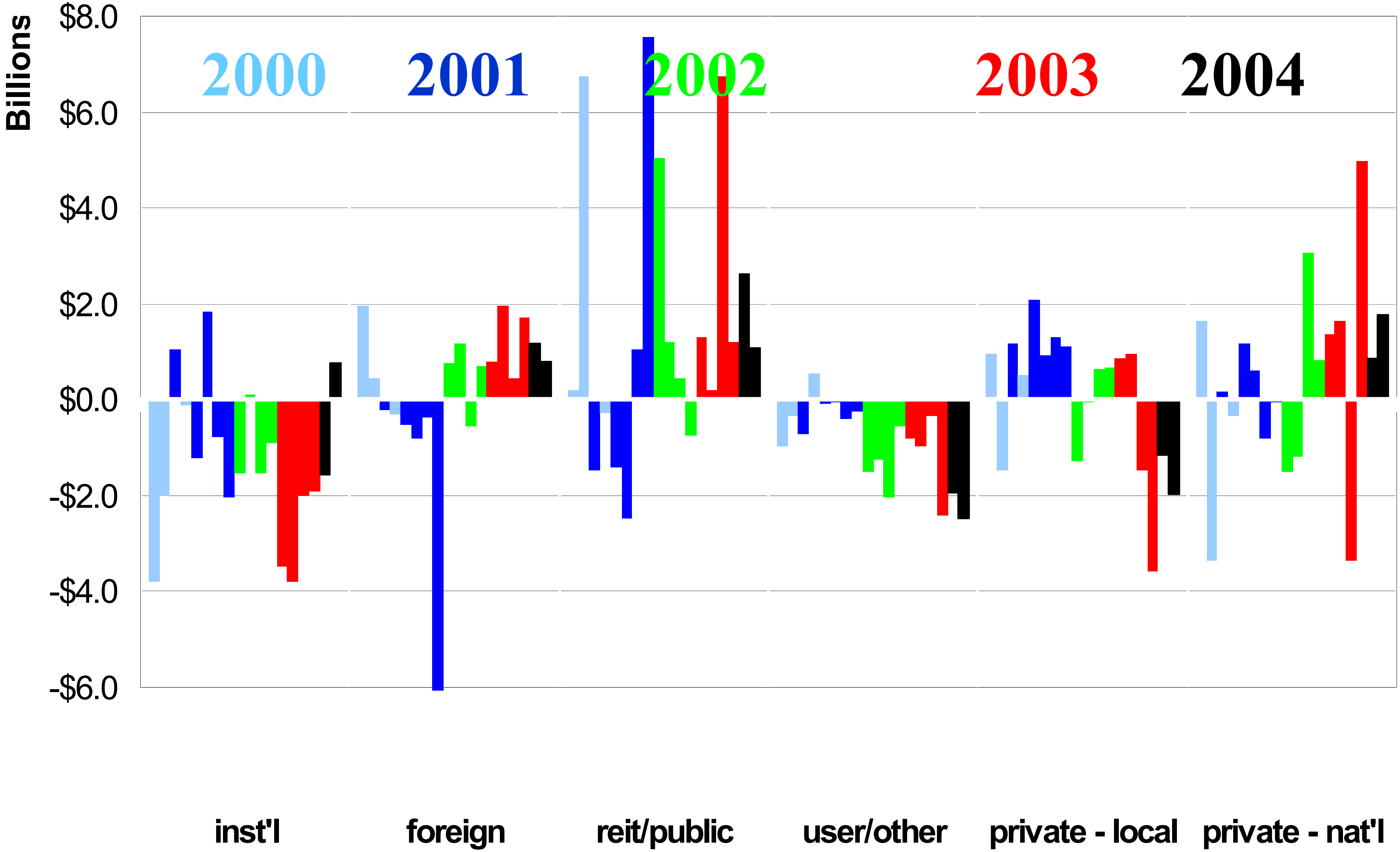
Source: Real Estate Research Corporation - Chicago

Transaction Pricing



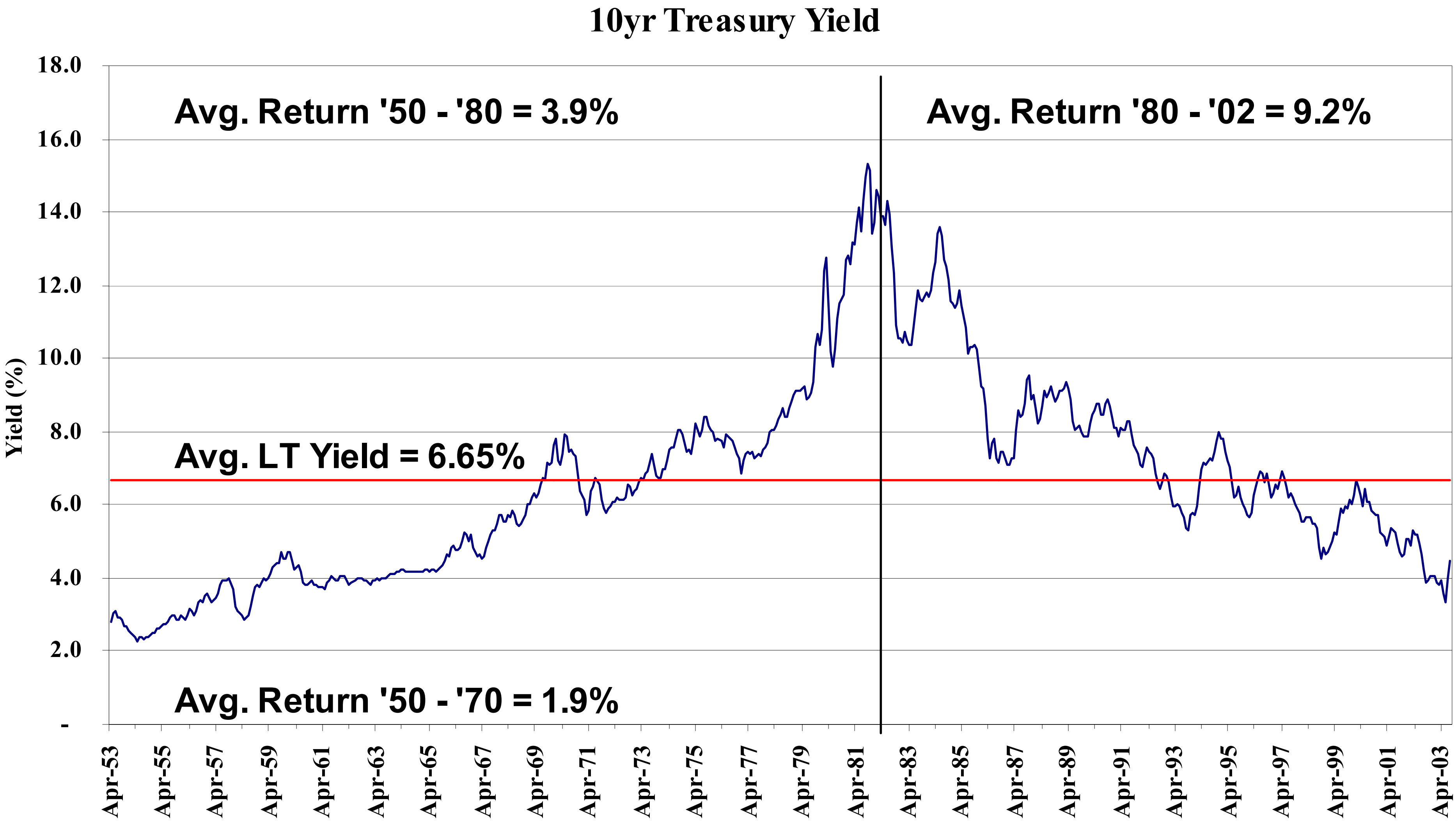
Source: Real Capital Analytics, New York **www.rcanalytics.com**

Where is U.S. Real Estate $ Capital Coming From



Source: Real Capital Analytics, New York

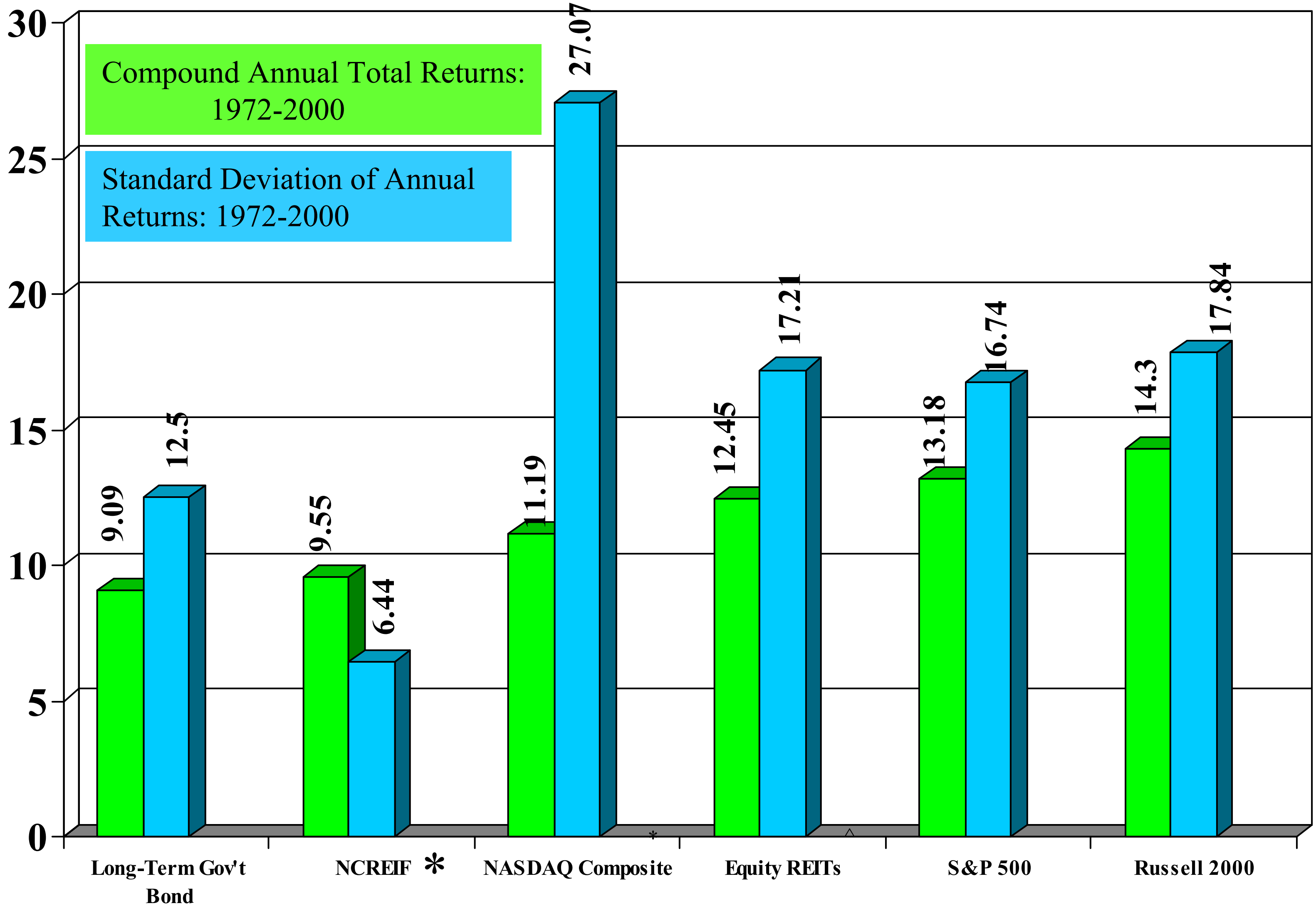
Reduce Bond Allocation to Minimum Level as Rates Rise



Economic Forecast

- US weathered high oil $ & disasters
- Improving economy should raise interest rates
- BUT
- Harvard Study by Barro
  - Threat of Geo-Political Risk
  - Drives the risk free rate down (flight to safety)
  - US or Israel bombs Iran – risk up in last month

28 Year Compound Annual Returns and Standard Deviation of Annual Returns

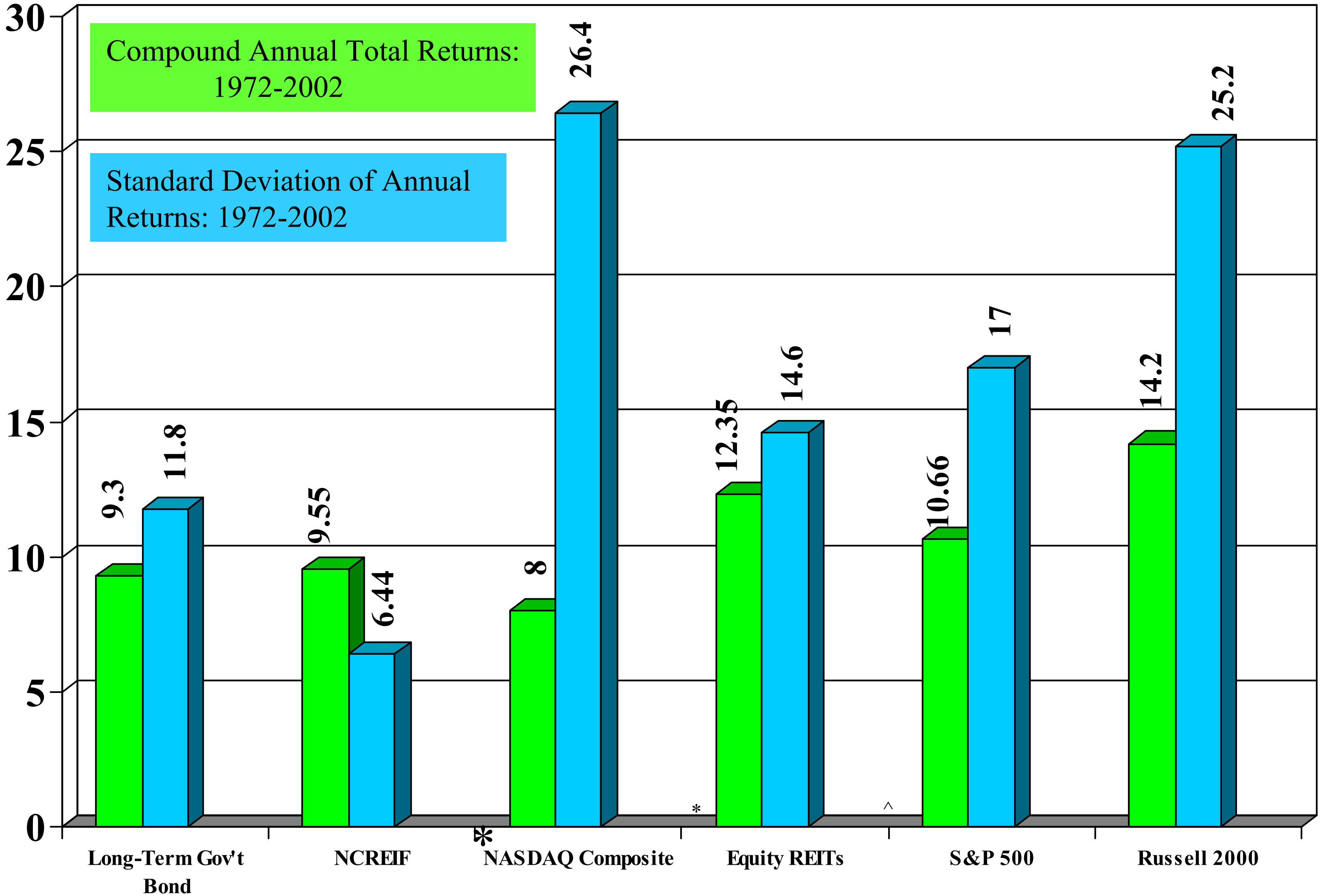


Source: National Association of Real Estate Investment Trusts, Ibbotson Associates, NASDAQ.

Notes: *-Series begins January 1979.

^-Price appreciation only.

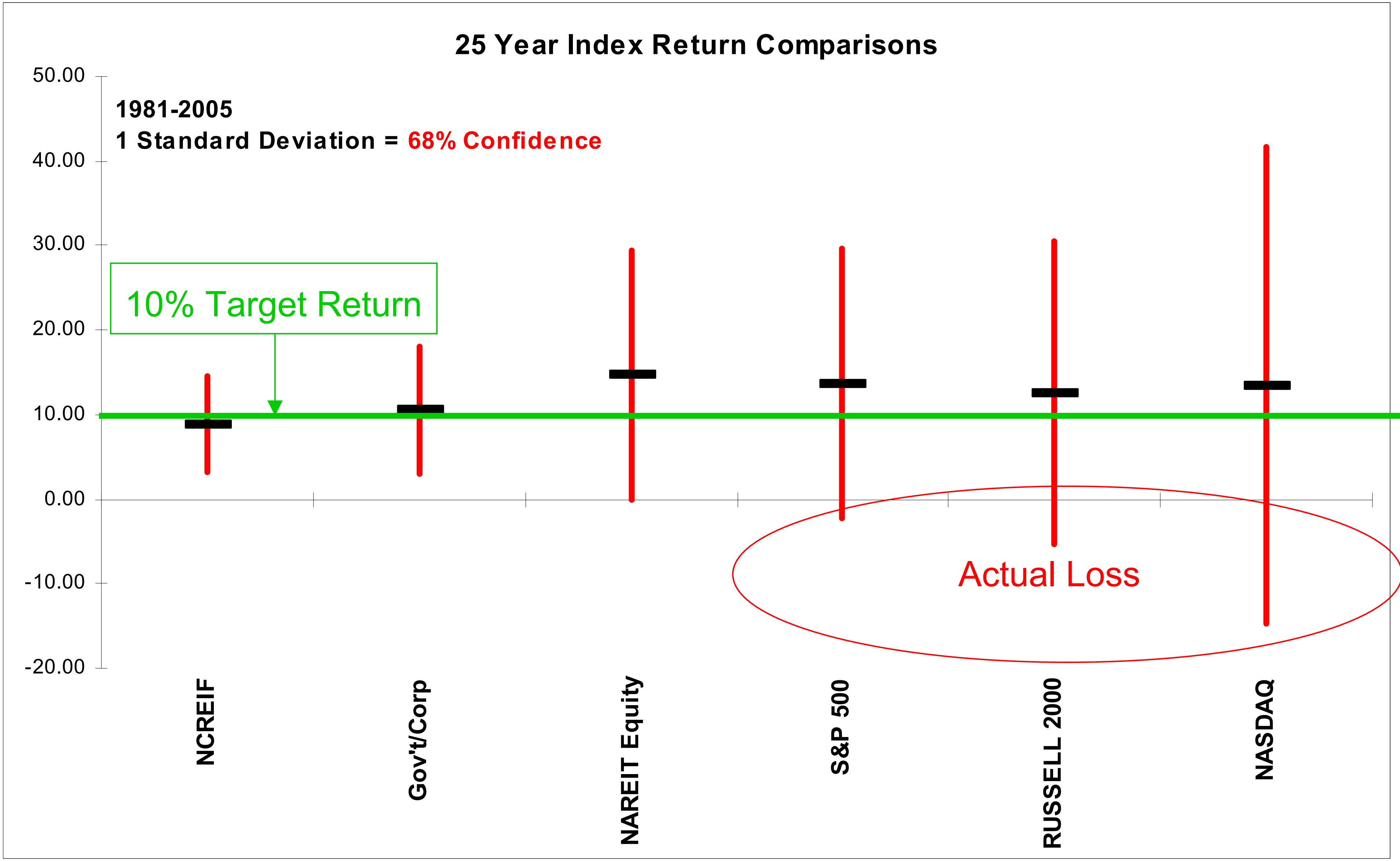
30 Year Compound Annual Returns and Standard Deviation of Annual Returns



Source: National Association of Real Estate Investment Trusts, Ibbotson Associates, NASDAQ.

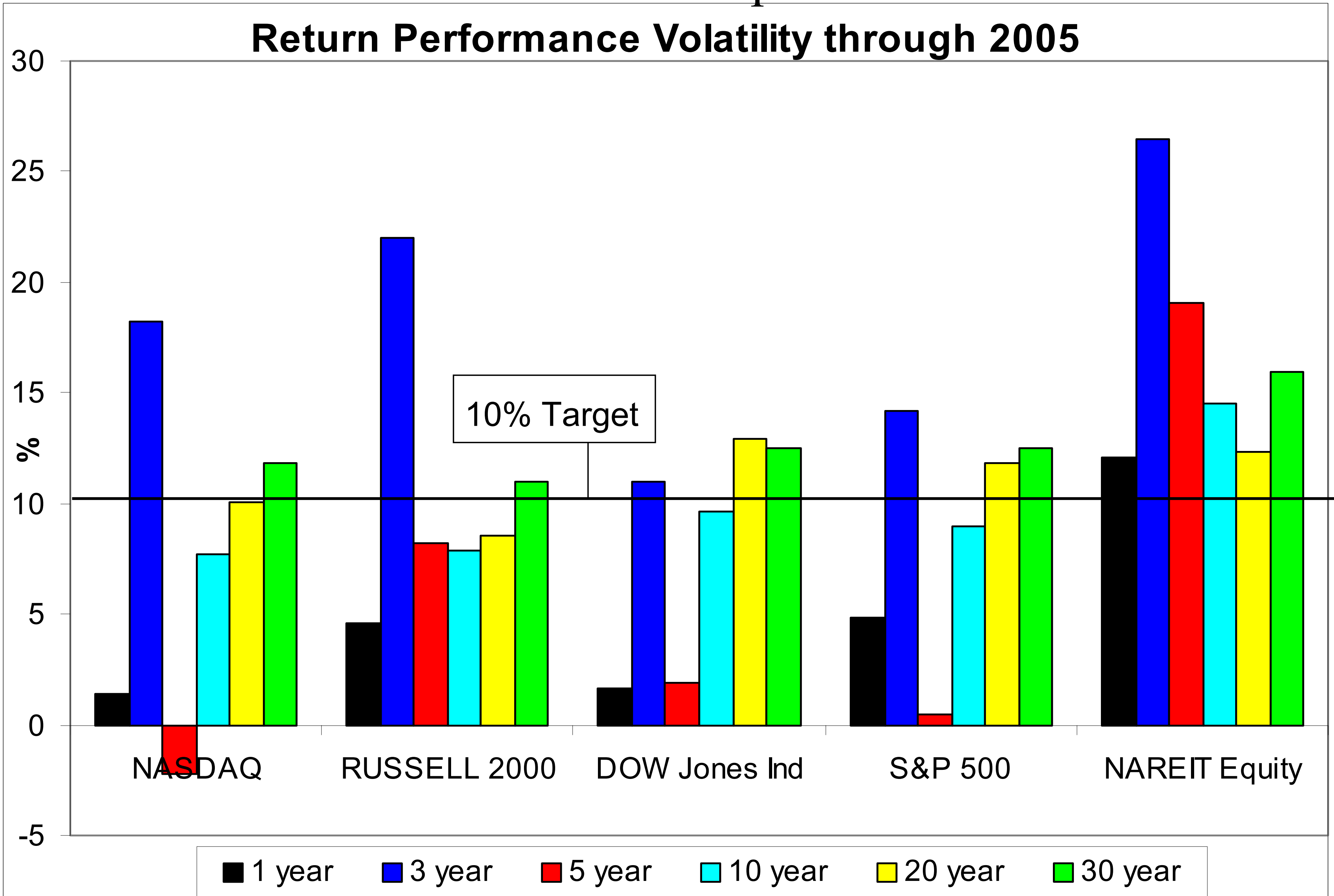
Notes: *-NCREIF Series begins January 1979. ^-Price appreciation only.

Risk = How Much Loss



Sources: NCREIF, SLH Corp Bond Index, NAREIT, S&P, Frank Russell, NASDAQ

REITs exhibit the most consistent performance of all Indices



Sources: NASDAQ, Frank Russell, Dow Jones, S& P, NAREIT

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Real Estate Market Cycle Monitor

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