

Active International Real Estate Index

U. S. Commercial Real Estate Market Study
VOL. I No. 3



An Assessment by Real Estate Professionals of Current Commercial Real Estate Market Conditions and Trends

HIGHLIGHTS

The Active International Index, a U.S. Commercial Real Estate Market Study, polled 1,748 real estate professionals throughout the United States on current and future market conditions, trends and various factors that impact commercial real estate values. In addition, the survey assesses conditions for leasing and investment markets for office, retail and industrial property over the six-month period from July to December 2005.

- Respondents, as in the last two quarterly surveys, clearly viewed the overall commercial real estate market very positively.
- Current office, retail and industrial sub-markets were all viewed positively as well, with the investment segment viewed somewhat more positively than the leasing segment in each instance.
- Overall the general condition of the markets was viewed to be about the same, or a little better, than six-months ago, with several sub-markets – most notably office and industrial leasing – clearly showing substantial improvement.
- Asking price, as in past surveys, continues to be the most consistent factor having the greatest negative impact on property sales across all markets.
- As expected, respondents anticipate that the recently announced closings due to corporate restructuring will have a significant impact on many markets, resulting in longer times to disposition and lower sales prices.
- So-called “Problem Properties” (Properties on the market for two years or more) were seen be a significant problem in corporate real estate portfolios. Substantial price reductions below market value and adaptive re-use are seen as the favored solutions currently being considered by their corporate owners.
- Sellers pricing attitudes continue to be viewed as somewhat less realistic, with no significant changes over the past quarter. Investors’ bidding attitudes, however, were mixed with many groups remaining very aggressive, while others – most notably foreign investors – becoming decidedly less aggressive.

INTRODUCTION

The condition of the commercial real estate markets continues to be of great interest as it is generally believed to be a reliable predictor of economic activity overall. The purpose of this quarterly survey is to provide a timely indicator of changes in the national real estate markets while hoping to gain a better understanding of the mitigating factors that impact commercial property values.

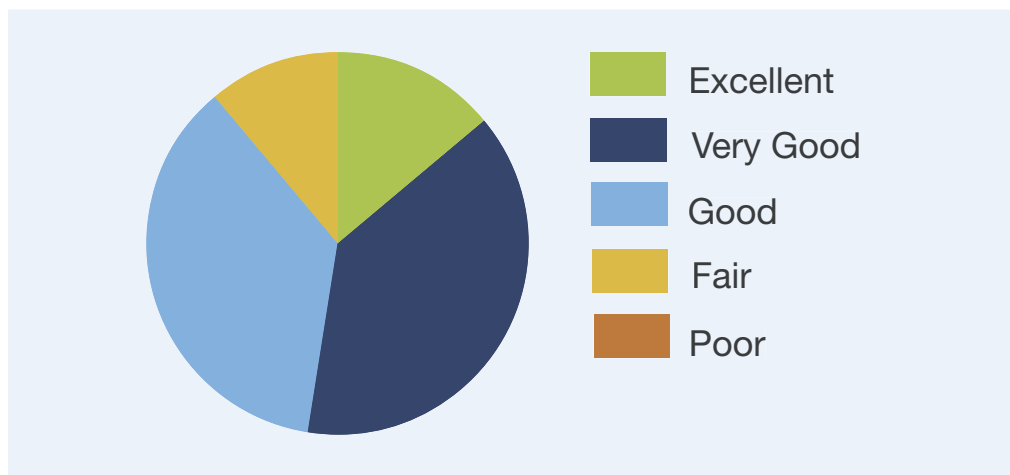
This, the third quarterly, nationwide survey polled 1,490 transaction professionals of Grubb & Ellis – a global leader in real estate transaction, management and consulting services – as well as 258 consultants, bankers and others intimately involved in commercial real estate activities. Participants were asked broad qualitative questions about conditions and trends in two (2) distinct transaction types (leasing and investment), three (3) distinct commercial property markets (office, retail & industrial) as well as several sub-markets in each.

Participants were also asked to evaluate the impact of various negative factors (size, age, condition, environmental issues & asking price) as well as to characterize the bidding attitudes of several investor categories (1031 & TIC, REITs, Foreign, Institutions, Value-Added and Core [Stabilized Properties]), as well as the current bidding attitudes of sellers. New to this survey are questions regarding the impact of current corporate restructuring on inventory levels and “problem properties,” as well as which disposition alternatives are currently being considered to effectively deal with these properties.

FINDINGS

CURRENT CONDITIONS IN THE U.S. COMMERCIAL REAL ESTATE MARKET - OVERALL

Q. From an overall perspective how would you describe the current commercial real estate market?
(RESPONSE SCALE = EXCELLENT, VERY GOOD, GOOD, FAIR, POOR, NOT SURE.)



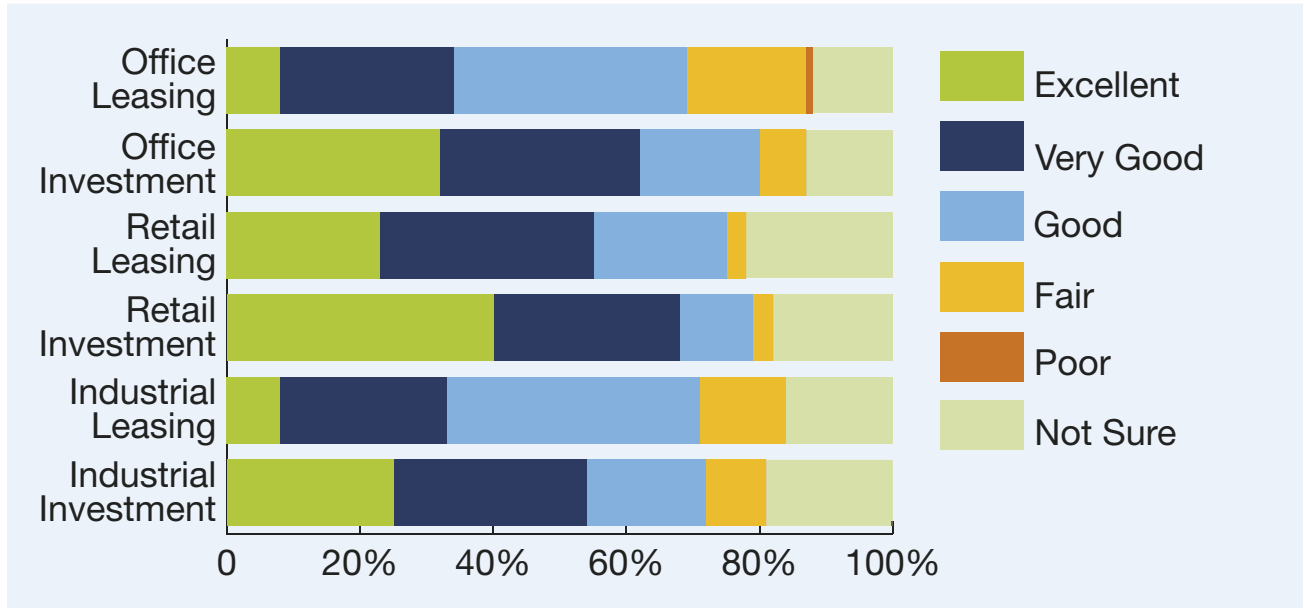
When respondents were asked how they would describe the current commercial real estate market, everyone (100%) had an opinion, and their opinion was, once again, very positive. Statistically, their opinion was essentially the same as in the past quarter, with 88% in this quarter vs. 87% in the past quarter saying excellent (14% vs.13%), very good (38% vs. 41%) or good (36% vs. 33%). Fewer (10% vs. 11%) said fair, and fewer still (0% vs. 2%) said poor.

CURRENT CONDITIONS IN THE U.S. COMMERCIAL REAL ESTATE MARKET (OFFICE, RETAIL, INDUSTRIAL)

Q. Considering how you rated overall real estate market conditions, how would you characterize the Leasing and Investment markets for the following property types?

OFFICE LEASING / INVESTMENT – RETAIL LEASING / INVESTMENT – INDUSTRIAL LEASING / INVESTMENT

(RESPONSE SCALE = EXCELLENT, VERY GOOD, GOOD, FAIR, POOR, NOT SURE.)



Overall, respondents with an opinion viewed both of the office markets very positively. The office investment market, however, was viewed significantly more positively than the office leasing market with 92% saying excellent (36%), very good (35%) or good (21%) for office investment vs. 77% of respondents saying excellent (9%), very good (29%) or good (39%) for office leasing. More than twice as many (22%) said fair (21% vs. 8%) or poor (1% vs. 0%) for office leasing markets vs. office investment markets.

Retail markets as well – although not quite as pronounced on an overall basis as office markets – showed significantly more strength on the investment side. While viewed on an overall basis, the 97% who said excellent, very good or good in both instances are seemingly the same, the underlying numbers, however, indicate a much stronger investment market with almost half (48%) of respondents saying retail investment markets were excellent vs. slightly more than one quarter (29%) having the same opinion of retail leasing markets.

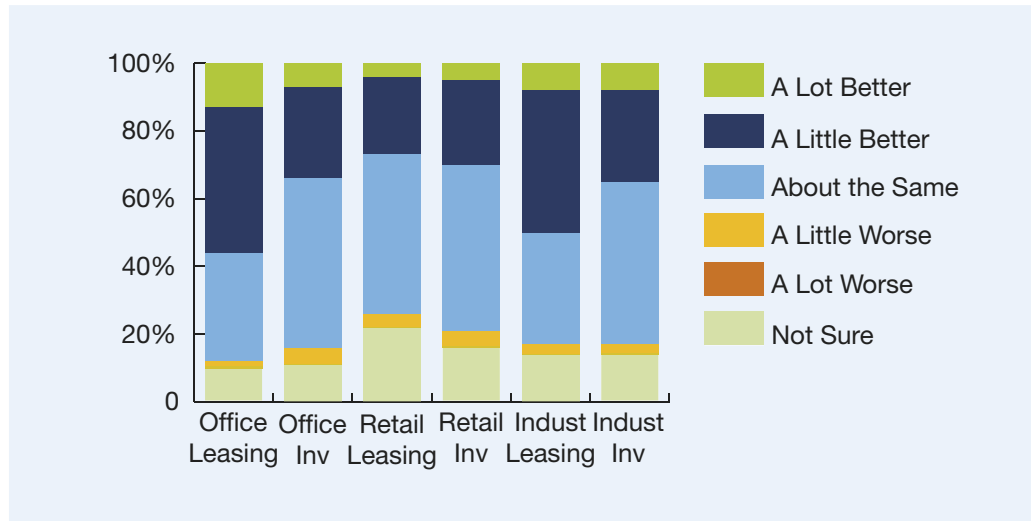
Industrial markets followed the same pattern with nine-in-ten (90%) saying excellent (31%), very good (37%) or good (22%) for industrial investment vs. 85% saying excellent (10%), very good (30%) or good (45%) for industrial leasing. Of those with a negative opinion, more had a negative opinion of industrial leasing markets with 15% saying fair (14%) or poor (1%) vs. only 11% saying fair (11%) or poor (0%) for industrial investment markets.

MARKET CONDITIONS TODAY VS. SIX-MONTHS AGO

Q. Considering your opinion of current market conditions, what would you say is the general condition of the Leasing and Investment markets today compared with six-months ago?

OFFICE LEASING / INVESTMENT - RETAIL LEASING / INVESTMENT - INDUSTRIAL LEASING / INVESTMENT

(RESPONSE SCALE = A LOT BETTER, A LITTLE BETTER, ABOUT THE SAME, A LITTLE WORSE, A LOT WORSE, NOT SURE.)



In every category, more than nine-in-ten respondents with an opinion (ranging from 92% for retail leasing to 98% for office leasing) said that market conditions were about the same, a little or a lot better than six-months ago.

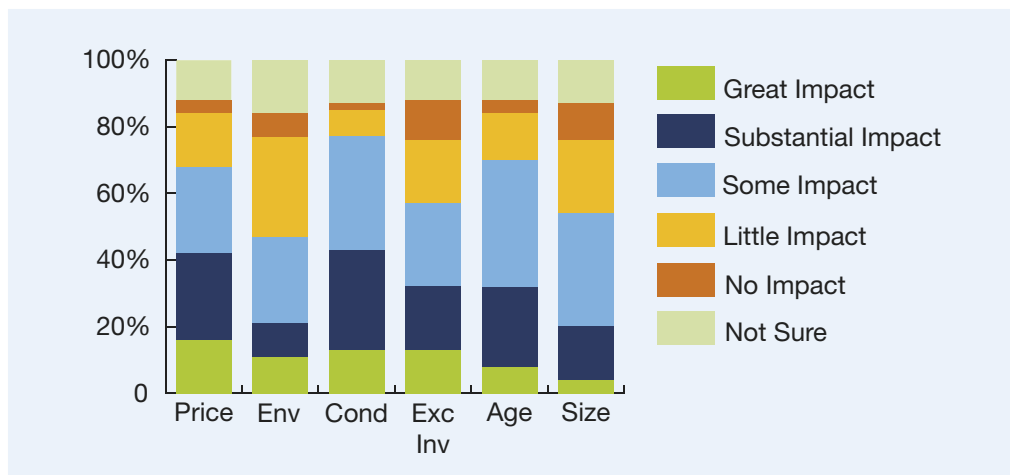
As expected from past surveys, there were wide variations within those numbers. Office leasing with 98% (36% about the same, 47% a little better and 15% a lot better) was clearly substantially more positive than retail leasing with 92% (58% about the same, 28% a little better and 6% a lot better).

IMPACT OF NEGATIVE FACTORS - OFFICE

Q. Of all the factors (excluding Interest and Cap Rates) that negatively impact the sale of Office properties in your market, can you rate which factors are currently having the greatest impact?

ASKING PRICE, ENVIRONMENTAL ISSUES, CONDITION, EXCESS INVENTORY, AGE, SIZE

(RESPONSE SCALE = NO IMPACT, LITTLE IMPACT, SOME IMPACT, SUBSTANTIAL IMPACT, GREAT IMPACT, NOT SURE.)



While on average, 13% of respondents did not have an opinion, those respondents with an opinion expressing great or substantial impact named condition and asking price (essentially the same at 49% and 47% respectively) as the factors

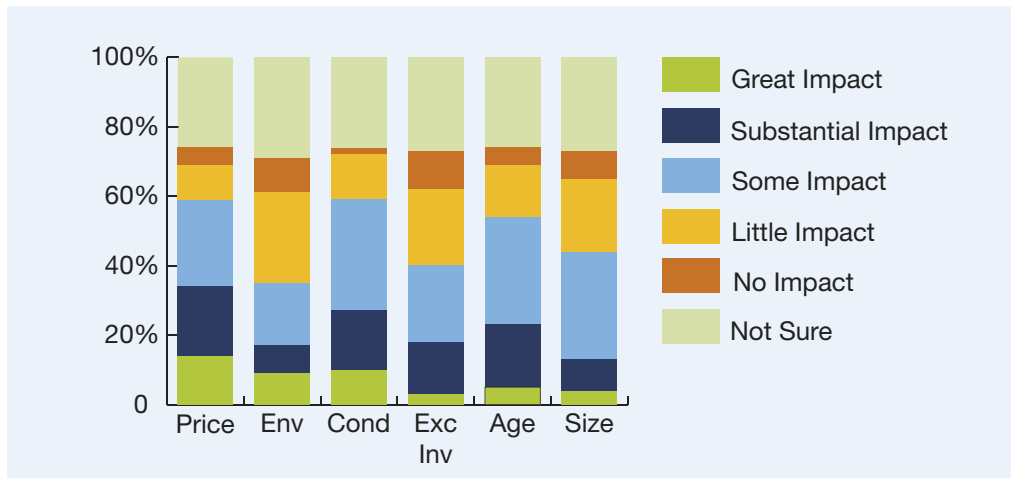
having the most negative impact on the sale of office properties. Age and excess inventory (both at 37%), environmental issues (25%) and size (23%) all trailed significantly.

IMPACT OF NEGATIVE FACTORS – RETAIL

Q. Of all the factors (excluding Interest and Cap Rates) that negatively impact the sale of Retail properties in your market, can you rate which factors are currently having the greatest impact?

ASKING PRICE, ENVIRONMENTAL ISSUES, CONDITION, EXCESS INVENTORY, AGE, SIZE

(RESPONSE SCALE = NO IMPACT, LITTLE IMPACT, SOME IMPACT, SUBSTANTIAL IMPACT, GREAT IMPACT, NOT SURE.)



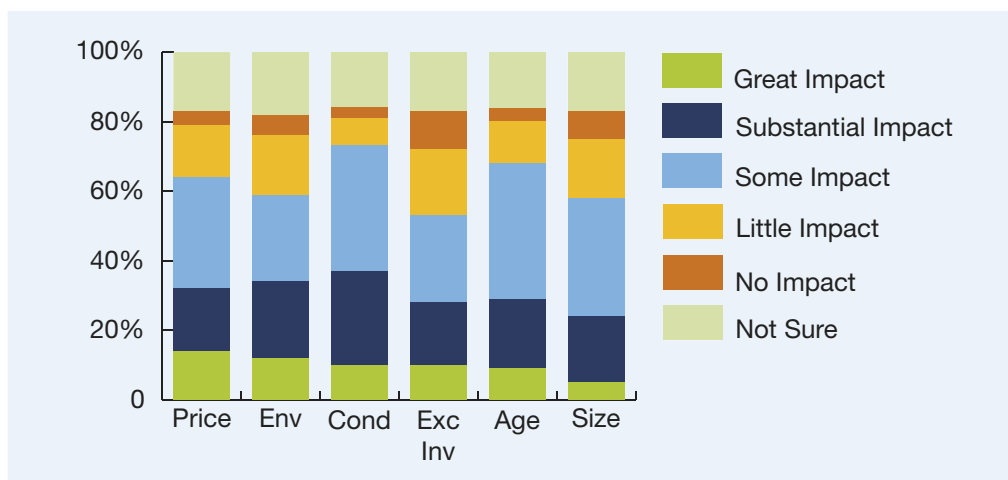
While more than one-in-four (27%) said that they were not sure, due once again to the specialized nature of retail marketing we previously discussed, those respondents with an opinion expressing great or substantial impact named asking price (47%) as the factor having the most negative impact on the sale of retail properties. Asking price was trailed by condition (36%), age (31%), excess inventory and environmental issues (both at 24%) and size (19%).

IMPACT OF NEGATIVE FACTORS - INDUSTRIAL

Q. Of all the factors (excluding Interest and Cap Rates) that negatively impact the sale of Industrial properties in your market, can you rate which factors are currently having the greatest impact?

ASKING PRICE, ENVIRONMENTAL ISSUES, CONDITION, EXCESS INVENTORY, AGE, SIZE

(RESPONSE SCALE = NO IMPACT, LITTLE IMPACT, SOME IMPACT, SUBSTANTIAL IMPACT, GREAT IMPACT, NOT SURE.)

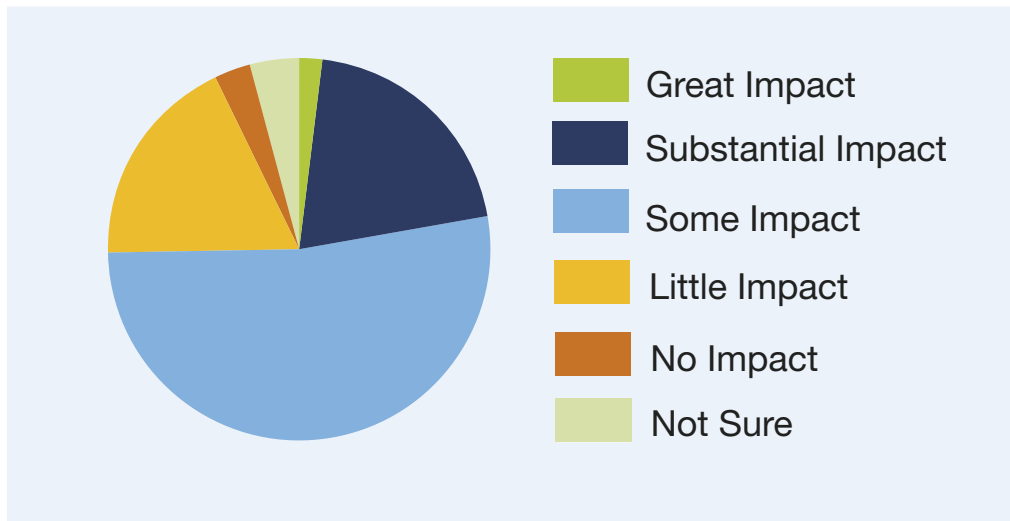


While once again – as with office properties – on average 17% of respondents did not have an opinion, of those respondents with an opinion expressing great or substantial impact, condition (44%), environmental issues (41%) and asking price (39%) as the factors having the most negative impact on the sale of industrial properties. They were trailed by age (36%), excess inventory (32%) and size (30%).

IMPACT OF CURRENT CORPORATE RESTRUCTURING

Q. In light of current market conditions, how much impact do you believe the many recently announced closings of a large number of corporate owned facilities – due to bankruptcy, outsourcing, etc. – will have on the markets in those areas?

(RESPONSE SCALE = NO IMPACT, LITTLE IMPACT, SOME IMPACT, SUBSTANTIAL IMPACT, GREAT IMPACT, NOT SURE.)

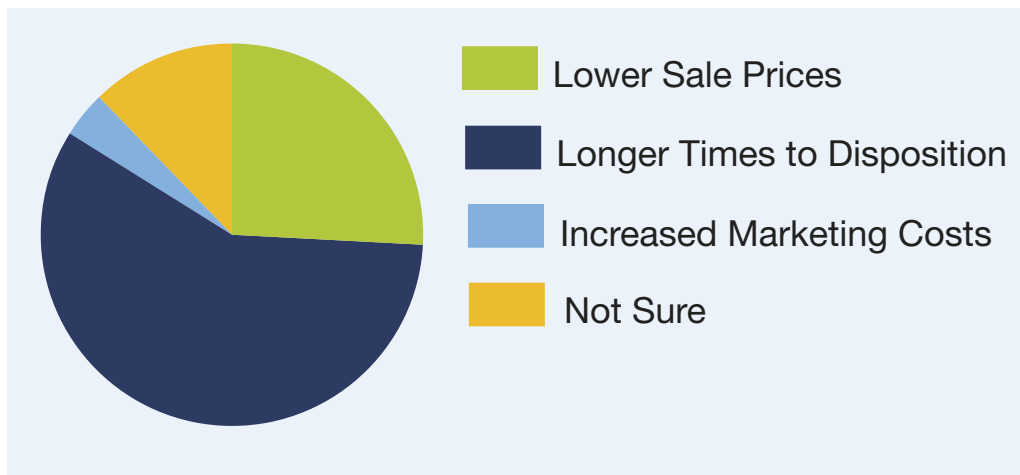


Most (96%) of respondents had an opinion, and of those with an opinion, more than three-out-of-four (78%) said great impact (3%), substantial impact (21%) or some impact (53%). Less than one-in-ten (8%) said little or no impact, both at (4%).

EFFECTS OF INCREASED INVENTORY

Q. Assuming an increase in inventory due to a large number of corporate-owned facilities now closing, what do you believe will be the effects on the sale of these properties?

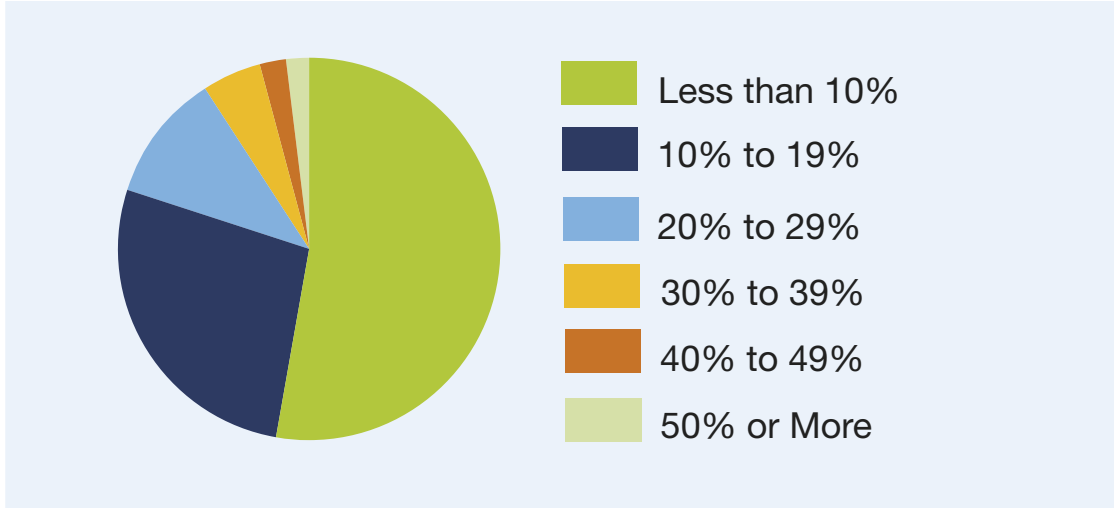
(RESPONSE SCALE = LOWER SALES PRICES, LONGER TIME TO DISPOSITION, INCREASED MARKETING COSTS.)



While more than one-in-ten respondents (12%) did not have an opinion, of those respondents with an opinion, most (58%) believed that longer times to disposition would be the major effect, followed by lower sales prices (26%) and increased marketing costs (5%).

DISPOSITION OF PROBLEM PROPERTIES

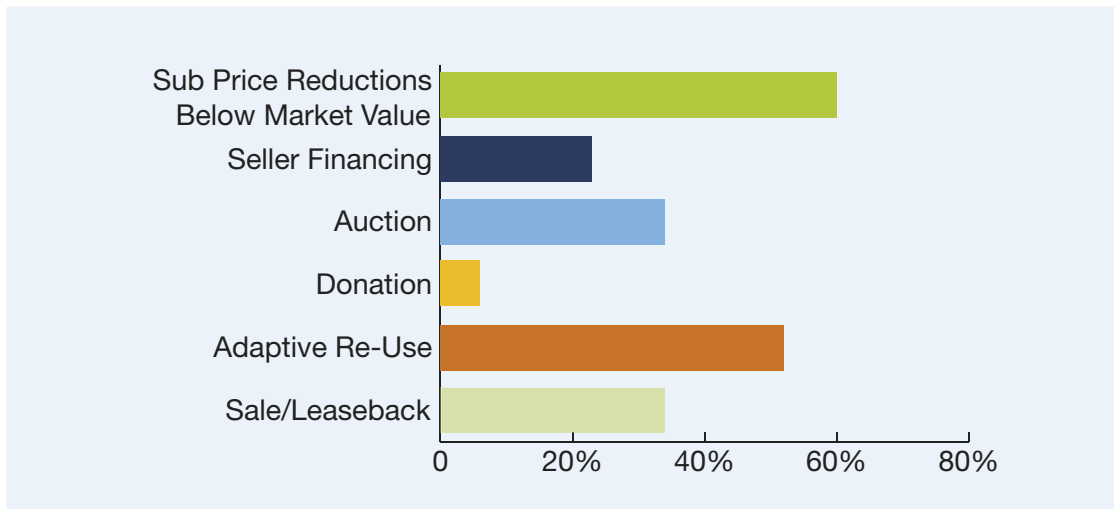
Q. Of all the corporate-owned facilities currently available in your market areas, what percentage of these properties could be considered “problem properties?” (Properties on the market for two years or more.)
 (RESPONSE SCALE = LESS THAN 10%, 10% TO 19%, 20% TO 29%, 30% TO 39%, 40% TO 49%, 50% OR MORE.)



Of the 90% of respondents with an opinion, half (53%) said less than 10% of the properties available in their market area could be considered “problem properties.” More than one-in-four respondents (27%) said 10 to 19% and surprisingly large percentages said 20 to 29% (11%) or 30 to 39% (5%). Few (2% in each instance) said 40 to 49% or 50% or more.

Q. When faced with “problem properties,” what disposition alternatives have your corporate clients considered, or are considering?

(RESPONSE SCALE = SUBSTANTIAL PRICE REDUCTIONS BELOW MARKET VALUE, SELLER FINANCING, AUCTION, DONATION, ADAPTIVE RE-USE, SALE/LEASEBACK.)



Six-in-ten respondents (60%) said that when faced with the disposition of “problem properties” their clients considered substantial price reductions below market value. Substantial price reductions below market value was trailed by adaptive re-use (52%), auction and sale / leaseback (both at 34%), seller financing (23%) and donation (6%).

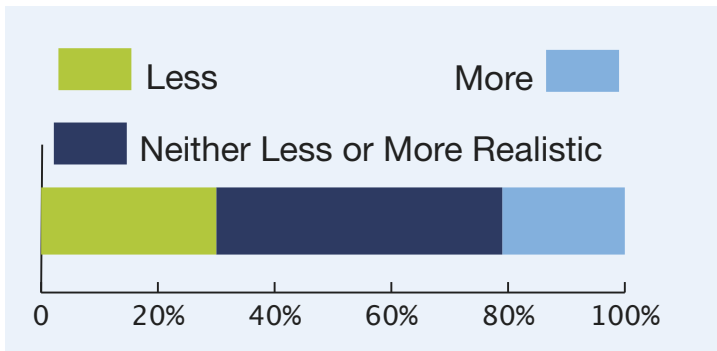
PRICING ATTITUDES OF SELLERS

Q. Have sellers become more or less realistic compared to six-months ago?

(RESPONSE SCALE = LESS REALISTIC, NEITHER LESS OR MORE, MORE REALISTIC.)

PRICING ATTITUDES OF SELLERS (CONTD.)

While a significantly higher percentage of respondents (30%) said that sellers were less realistic than those respondents (21%) who said that sellers were more realistic, almost half (49%) believed that sellers were neither less than more realistic than six-months ago.

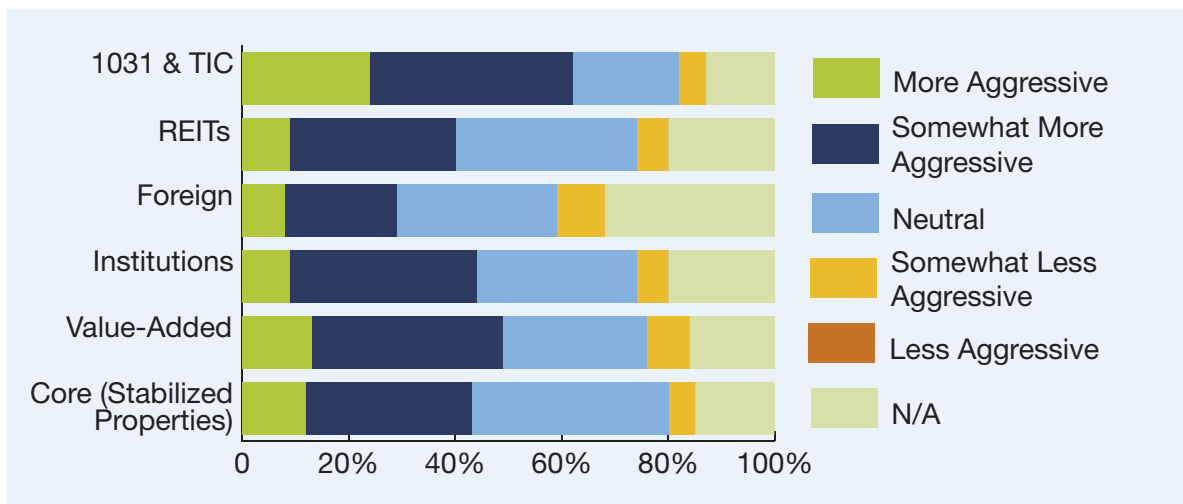


BIDDING ATTITUDE OF INVESTORS

Q. Over the past six-months how would you characterize the bidding attitude of the following investor categories?

1031 & TIC, REITs, FOREIGN, INSTITUTIONS, VALUE-ADDED, CORE (STABILIZED PROPERTIES)

(RESPONSE SCALE = MORE AGGRESSIVE, SOMEWHAT MORE AGGRESSIVE, NEUTRAL, SOMEWHAT LESS AGGRESSIVE, LESS AGGRESSIVE, NOT SURE/NA.)



Clearly 1031 & TIC investors were viewed as the most aggressive bidders with 71% (27% & 44%) saying more aggressive or somewhat more aggressive for this group. Value-added investors trailed significantly but were still perceived as very aggressive bidders with 59% (16% & 43%). Institutions at 55% (11% & 44%) were next, followed by core (stabilized properties) and REITs both at 50% (13% & 37% and 12% & 38% respectively). Foreign investors at 42% (11% & 31%) were the only group where more than half of respondents (57%) viewed the group as neutral (45%), or somewhat less aggressive (12%).



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