Foreword

February 2010

Dear Readers,

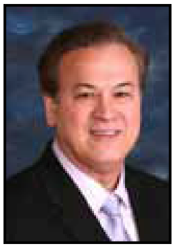
While it is in our nature to view with optimism the opportunities of a new year and a new decade, the industry-changing events of the past few years have left us all a little wiser and more cautious. If nothing else, it serves as yet another reminder to trust our instincts, and if something seems to be too good to be true, it probably is (or in the case of real estate, if values seem unsustainable, they probably are).

This, and other lessons learned from the past decade, will serve us well in the years ahead as we deal with lingering high unemployment, weakness in our banking system with tight credit standards, and a federal deficit that will weigh on economic growth for years to come. Although institutional real estate has been dealing with financing issues for some time, many regional players who rely on commercial banks are only now starting to feel the pain of loans coming due with additional equity being required before refinancing can occur. Despite the difficulties ahead, however, these challenges should also present some good buying or leasing opportunities for those with the resources to secure them.

As you may notice, the length of the ***RERC/CCIM Investment Trends Quarterly*** has been reduced. CCIM Institute members have asked for a more concise report, yet one that is still comprehensive. The report continues to offer national trends and analysis, views from CCIM members, and national and regional transaction averages. We hope you continue to find the information included herein helpful.

We also extend our appreciation to the many CCIM members who responded to RERC's investment surveys. (Those survey respondents who wished to be identified are listed in the back pages of the report.) Your survey responses are always important, but as we move forward in this environment, your expertise is even more critical to guiding us along the way.

Best wishes for a year filled with success and opportunity.



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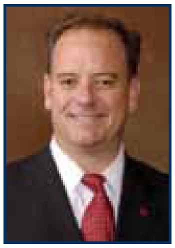

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Economic Background and Investment Environment

With the second consecutive quarter of positive economic growth now apparent, it is likely that the recession will be declared technically over. Although we aren't out of the woods yet, we are one step closer to recovery. However, it will take much more time for the businesses trying to sell their goods and services, the commercial property owners struggling to fill empty space, and the more than 15 million Americans that do not have jobs, to see their situations improve.

Despite the difficulties still ahead, it is a relief that as 2009 ends, the financial crisis, negative GDP growth, and worries about the housing market can finally be placed on the back burner (for now). The next two most critical problems—high unemployment and record-high deficits—are set to take center stage in 2010.

A Jobless Recovery Underway

Payroll losses have slowed dramatically during 2009, slowing from an average of 691,000 jobs lost per month in first quarter 2009, to an average of 69,000 jobs lost per month in fourth quarter. But according to the Bureau of Labor Statistics (BLS), the nation ended the year with a 10.0 percent unemployment rate and a total of 15.3 million persons without jobs. In December 2009, job loss was highest in the goods-producing sector, including manufacturing, construction, and wholesale trade; job growth was seen in temporary help services and health care.

The past 3 months of data suggest that the labor market is at or near bottom, but according to most experts, the labor market is not expected to improve substantially for some time, and unemployment is expected to remain at or near double-digit levels throughout 2010. (Interestingly, when the unemployment rate peaked at 10.8 percent at the end of 1982, it took more than 6 years for employment to increase to its pre-recession level.)

On a statewide basis, Michigan had the highest unemployment rate at 14.6 percent in December 2009. Nevada followed, with an unemployment rate of 13.0 percent, Rhode Island at 12.9 percent, South Carolina at 12.6 percent, and California at 12.4 percent. A total of 17 states (including the District of Columbia) ended the year with double-digit employment. The lack of tax revenues continues to negatively impact the budgets of state and local governments. Beyond the closing of state parks and facilities, reduction in days of governmental services provided, and increased fees already implemented, further cuts in programs and the public workforce, including teachers, police officers and fire fighters, medical personnel, and others, are expected.

The jobless recovery will be painful, but like the last recession, it will set the economy up for other gains during the decade to come, including increased productivity, which grew at a rate of 8.1 percent during third quarter 2009, and 6.9 percent in second quarter. The 8.1-percent growth is the largest reported increase in the past 6 years.

Debt and Deficits Drain Growth

Although most of us agreed that the record-high deficit and debt was necessary for getting the U.S. economy through the recession, we expected it to be a temporary fix and that fiscal sanity would return as the economy started to stabilize.

Unfortunately, it looks like huge budget deficits will be with us for a good while longer and that we can expect them to go even higher than they are now. The president's recently proposed budget projects the current deficit to increase to a record $1.6 trillion in fiscal 2010, and the proposed budget for fiscal 2011 is $3.8 trillion with a projected deficit of $1.3

trillion. As reviewed by the Congressional Budget Office (CBO), 40 percent of the cost of government programs are currently being funded with borrowed money.

Criticism from congressional opponents and the public, who believe government spending at this rate is unsustainable and who are concerned about the $12.3 trillion debt burden overall (which is projected to be approximately $45,000 per U.S. citizen), is intensifying. For now, the answer seems to be that the spending is warranted in order to improve job growth. As the economy improves, however, difficult decisions about reducing spending, increasing tax revenues, or both, must be faced.

CCIM Members Rate Real Estate

CCIM members are less than optimistic about the U.S. economy, rating it at 3.9 on a scale of 1 to 10, with 10 being high, in fourth quarter 2009. This number has not changed since third quarter 2009, though there is significant improvement from a year ago when the CCIM members believed a rating of 2.6 was an accurate assessment of the U.S. economy. Although the economy remains in a fragile state, it is slowly and steadily improving.

CCIM members gave commercial real estate the strongest investment option rating for fourth quarter 2009, with a score of 5.7 on a scale of 1 to 10, with 10 being high, as shown in Exhibit 1. This continues the upward trend, and further indicates CCIM members' optimism about this asset class. At 5.2, stocks earned the second highest rating, followed by cash. In comparison, bonds earned the lowest investment rating, at 4.5. The rating for stocks and bonds decreased since third quarter, while cash remained unchanged.

As shown in Exhibit 2, RERC's institutional survey respondents gave commercial real estate a strong buy recommendation during fourth quarter 2009, while the hold recommendation for the fourth quarter was somewhat lower than the third quarter reading. Although the sell recommendation increased slightly during fourth quarter, it has remained generally low during the past few quarters.

The fourth quarter 2009 investment conditions ratings for the various property types were very similar to the third quarter ratings. Although the fourth quarter rating was down slightly from the third quarter rating, at 5.4, the apartment sector retained the highest rating on a scale of 1 to 10, with 10 being high, as shown in Exhibit 3. The hotel sector shared the lowest ratings with the office and retail sectors at 3.8. In addition, the apartment sector was the only property type with an investment conditions rating above 5.0 during fourth quarter. Interestingly, the hotel sector was the only property type whose rating increased from third quarter.

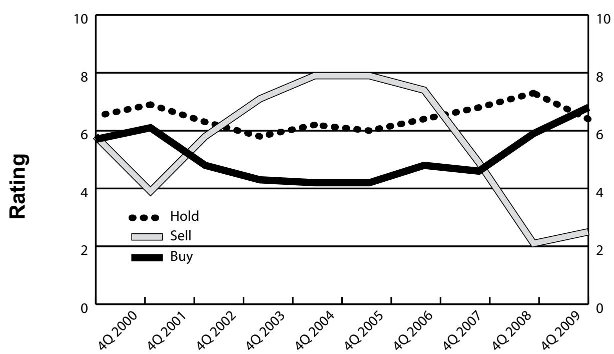
CCIM members ranked the overall return versus risk for commercial real estate at 4.8 on a scale of 1 to 10 with 10 being high, during fourth quarter 2009, as reflected in Exhibit 4. This is a slight decrease from the third quarter, and con-

Exhibit 1. CCIM Respondents Rate Investments

	4Q 2009	3Q 2009
Commercial Real Estate	5.7	5.6
Stocks	5.2	5.4
Bonds	4.5	4.6
Cash	5.1	5.1

Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC/CCIM Investment Trends Quarterly Survey, 4Q 2009.

Exhibit 2. RERC Historical Buy, Sell, Hold Recommendations



Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC Institutional Investment Survey, 4Q 2009.

Exhibit 3. Real Estate Investment Conditions Ratings

	4Q 2009	3Q 2009	2Q 2009	1Q 2009	4Q 2008
Office	3.8	3.8	3.5	3.7	3.2
Industrial	4.1	4.3	4.3	4.4	4.2
Retail	3.8	3.8	3.4	3.4	3.0
Apartment	5.4	5.5	5.1	5.5	5.7
Hotel	3.8	3.6	3.4	3.7	3.5

Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC/CCIM Investment Trends Quarterly Survey, 4Q 2009.

tinues the up and down trend demonstrated during the past year. This rating indicates that members feel that the risk of commercial real estate slightly outweighs the return on this asset class, and they are still uncertain about the prospects for returns.

The apartment sector continued to earn CCIM members' highest return versus risk rating for fourth quarter 2009, with a score of 5.8 on a scale of 1 to 10, with 10 being high, and was the only sector to receive a rating of 5.0 or more. At 4.7, the industrial sector earned the second-highest return versus risk rating. The hotel and retail sectors tied for having the lowest rating at 3.9. All sectors received a lower return versus risk rating during fourth quarter, with the exception of the apartment sector, whose rating remained unchanged, and the hotel sector, whose rating increased.

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

	4Q 2009	3Q 2009	2Q 2009	1Q 2009	4Q 2008
Return vs. Risk					
Overall	4.8	5.0	4.7	5.3	4.6
Office	4.1	4.2	4.0	4.6	3.8
Industrial	4.7	4.9	5.0	5.3	4.6
Retail	3.9	4.0	3.6	4.0	3.3
Apartment	5.8	5.8	5.2	6.3	5.8
Hotel	3.9	3.8	3.4	4.6	4.1
Value vs. Price					
Overall	4.7	4.8	4.9	5.1	4.5
Office	4.3	4.4	4.5	4.8	4.3
Industrial	4.7	5.0	4.9	5.4	4.7
Retail	4.2	4.4	4.3	4.5	3.8
Apartment	4.9	5.3	4.8	5.2	4.8
Hotel	4.0	4.1	3.9	4.7	4.1

Ratings are based on a scale of 1 to 10, where 1 is poor and 10 is excellent.
Source: RERC/CCIM Investment Trends Quarterly Survey, 4Q 2009.

CCIM members rated the value versus price for the commercial real estate market at 4.7 on a scale of 1 to 10, with 10 being high, during fourth quarter 2009. This is down from a rating of 4.8 in third quarter, and continues the steady decline in ratings this year.

In addition, the value versus price rating declined for each of the property types during fourth quarter, although the fourth quarter rating was still equal to or higher than year-ago ratings. Each sector earned a rating lower than 5.0 on a scale of 1 to 10, with 10 being high, indicating that investors feel that the price of these property types outweighs their value. As further shown in Exhibit 4, although the apartment sector led the way again with a rating of 4.9, it also experienced the biggest rating decline from third quarter. The industrial sector followed with a rating of 4.7. The retail and office sectors saw the next highest ratings of 4.2 and 4.3, respectively. The lowest property was from the hotel sector with a rating of 4.0.

The financial markets ended 2009 with significant gains overall, with the Dow Jones Industrial Average reporting an

annual return of 22.68 percent and the NASDAQ Composite showing a return of 43.89 percent. Real estate stocks also took off, as shown in Exhibit 5, with the National Association of Real Estate Investment Trusts (NAREIT) Index reporting a compounded annual rate of return of 54.78 percent during 2009. However, private commercial real estate lost 16.85 percent according to the National Council of Real Estate Independent Fiduciaries (NCREIF) Index.

Summary

Commercial real estate activity remains weak, but until confidence returns on the part of businesses and consumers, we will see little job growth—the critical component needed for commercial real estate usage—and the industry will continue to suffer.

In looking ahead, RERC reminds investors that:

- The economic recovery will be a slow process, and high unemployment will be with us for the foreseeable future.
- U.S. governmental policy, the federal deficit, and new regulations will cause significant fiscal instability in the economy for the coming decade.
- The U.S. capital markets will remain tight for some time.
- Institutional real estate has already taken many of their lumps, but smaller investors and borrowers present a looming crisis due to the fact that they have not marked-to-market their investments, and many regional banks are not able to continue to "extend and pretend."
- Cap rate expansion has been priced into commercial real estate prices, but valuations are still catching up.
- Commercial property sale prices are expected to remain flat or decline slightly, although declining rents could eventually cause further deterioration in prices.

Exhibit 5. What Do the Financial Markets Tell Us?

Compounded Annual Rates of Return as of 12/31/2009

Market Indices	2009	3-Year	5-Year	10-Year	15-Year
Consumer Price Index[1]	2.86%	2.28%	2.56%	2.57%	2.50%
10-Year Treasury Bond[2]	3.15%	3.82%	4.11%	4.45%	4.98%
Dow Jones Industrial Average	22.68%	-3.12%	1.95%	1.30%	9.24%
NASDAQ Composite[3]	43.89%	-2.06%	0.85%	-5.67%	7.64%
NYSE Composite[3]	24.80%	-7.71%	-0.18%	0.44%	6.87%
S&P 500	26.46%	-5.63%	0.42%	-0.95%	8.04%
NCREIF Index	-16.85%	-3.41%	4.75%	7.30%	8.79%
NAREIT Index (Equity REITS)	54.78%	-12.41%	0.36%	10.63%	9.77%

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

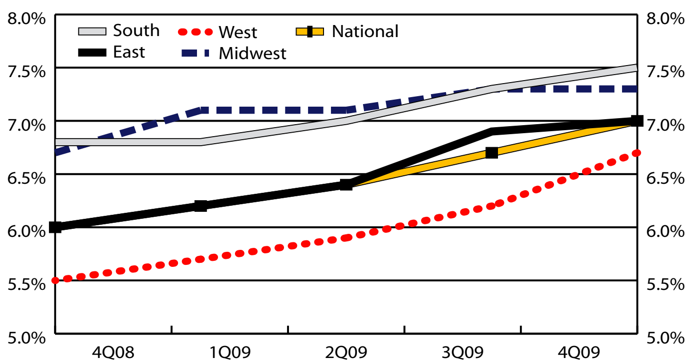
National Apartment Property Sector

- Many respondents to the survey for the *RERC/CCIM Investment Trends Quarterly* believe that the apartment property sector is still the most reliable property type in which to invest. Several survey respondents stated that the apartment sector offers the best investment opportunity due to lower rent and the continued need for alternative housing. Another respondent noted that the number of people who were homeowners and are now renters will continue to increase over the next few years.

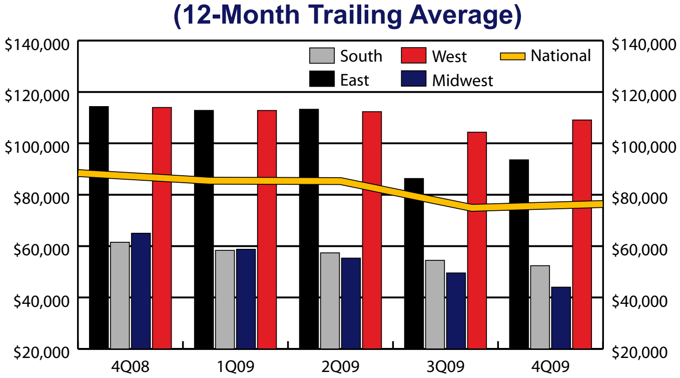
- RERC's 12-month trailing volume for the apartment sector did not change significantly in fourth quarter 2009 from the previous quarter, while the current quarter volume actually increased by 60 percent. The 12-month trailing size- and price-weighted averages increased, compared with the median price per apartment unit, which decreased from the previous quarter. The 12-month trailing weighted average and median capitalization rates increased by 30 basis points each.

- As with the other property types, the vacancy rate for the apartment sector has continued to rise throughout 2009. The vacancy rate increased to 8.0 percent in fourth quarter 2009, which is up 10 basis points from third quarter 2009, according to Reis, Inc., and is the highest vacancy level on record in the near-30-year history of Reis apartment research. Net absorption was only mildly positive, given that more than 28,000 new apartment units were added to the inventory.

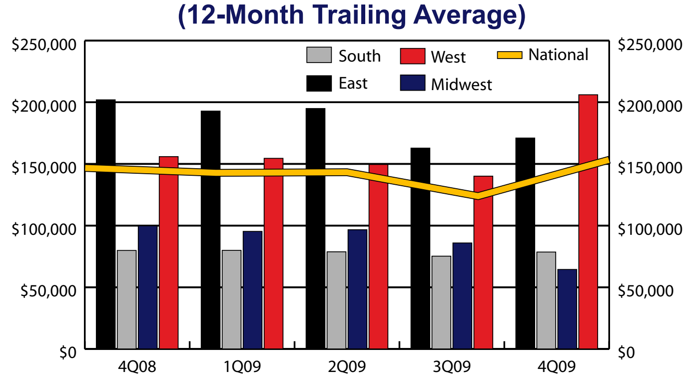
RERC Weighted Average Capitalization Rate
(12-Month Trailing Average)



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



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

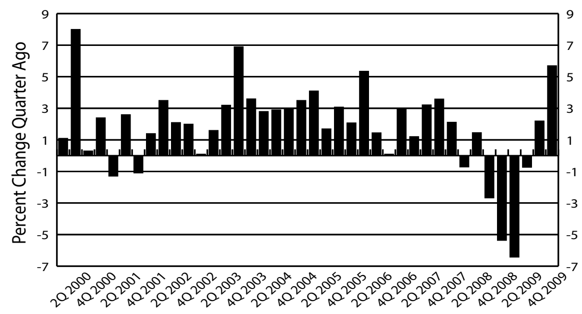


West Region Transaction Breakdown

West Transaction Breakdown 12-Month Trailing Averages (01/01/09 – 12/31/09)					
	Office	Industrial	Retail	Apartment	Hotel
< $2 Million					
Volume (Mil)	$443	$869	$641	$590	$36
Size Weighted Avg. ($ per sf/unit)	$117	$79	$107	$72,037	$28,693
Price Weighted Avg. ($ per sf/unit)	$150	$104	$151	$91,334	$35,728
Median ($ per sf/unit)	$121	$88	$112	$75,000	$28,448
$2 – $5 Million					
Volume (Mil)	$666	$1,164	$998	$963	$105
Size Weighted Avg. ($ per sf/unit)	$151	$86	$167	$97,124	$38,816
Price Weighted Avg. ($ per sf/unit)	$228	$125	$261	$140,539	$51,304
Median ($ per sf/unit)	$213	$105	$222	$130,435	$42,593
> $5 Million					
Volume (Mil)	$3,829	$2,588	$3,026	$4,377	$560
Size Weighted Avg. ($ per sf/unit)	$212	$78	$170	$120,730	$109,863
Price Weighted Avg. ($ per sf/unit)	$326	$132	$284	$235,971	$140,687
Median ($ per sf/unit)	$213	$96	$193	$116,494	$84,515
All Transactions					
Volume (Mil)	$4,939	$4,621	$4,665	$5,930	$701
Size Weighted Avg. ($ per sf/unit)	$188	$80	$157	$109,091	$77,297
Price Weighted Avg. ($ per sf/unit)	$297	$125	$261	$206,088	$121,826
Median ($ per sf/unit)	$157	$93	$149	$96,039	$48,165
Capitalization Rates (All Transactions)					
Range (%)	5.0 - 11.6	5.9 - 13.1	4.7 - 13.3	3.4 - 8.5	5.9 - 13.1
Weighted Avg. (%)	8.2	8.3	6.9	6.7	9.9
Median (%)	7.7	8.0	7.0	6.4	10.4

Source: RERC.

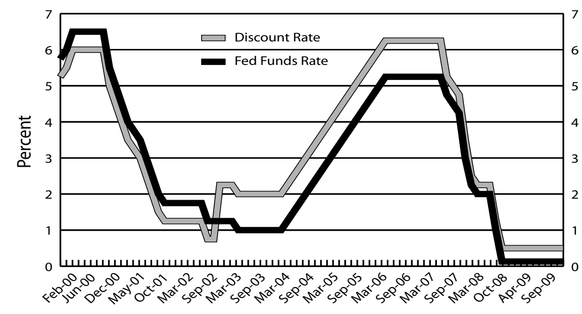
GDP



Source: Bureau of Economic Analysis.

Real gross domestic product (GDP) growth rose 5.7 percent in fourth quarter 2009, the third largest increase of the decade, although much of the increase was due to a drawdown in business inventories. Consumers remain wary about spending, and business owners are concerned about excess production. Expectations are for slow economic growth in 2010.

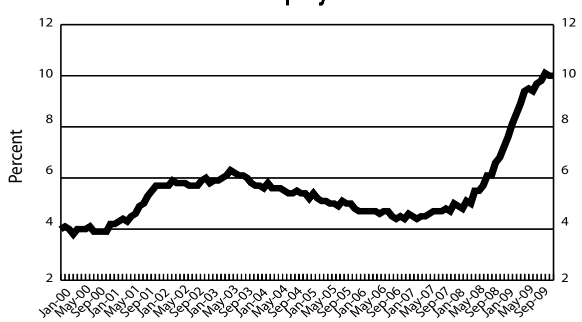
FOMC Policy Decisions



Source: Federal Reserve.

The Federal Open Market Committee (FOMC) kept the federal funds rate in the 0.0 to 0.25 percent range and the discount rate at 0.50 percent. The FOMC still believes that inflationary pressure is low, and given the fragile economy, expects to keep rates low for "an extended period."

Unemployment



Source: Bureau of Labor Statistics.

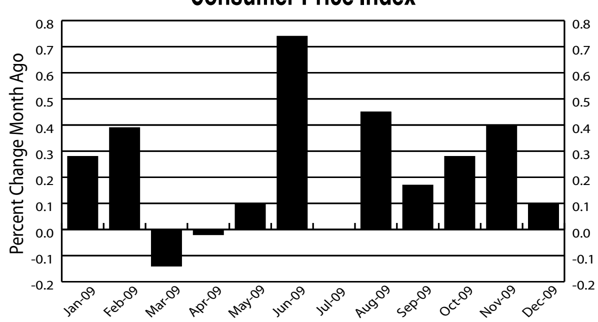
Unemployment remained at 10.0 percent in December, making it the third consecutive month at this rate or higher. Job growth is key to increasing consumer confidence and spending, in addition to reducing vacancy rates for commercial properties. Double-digit unemployment rate is expected to be with us for much of 2010, at least.

Manufacturing Utilization

Source: Federal Reserve.

December 2009 marked the sixth straight month that manufacturing utilization has increased. This is welcome news for an economy just pulling out of recession, and offers hope that increased production will continue.

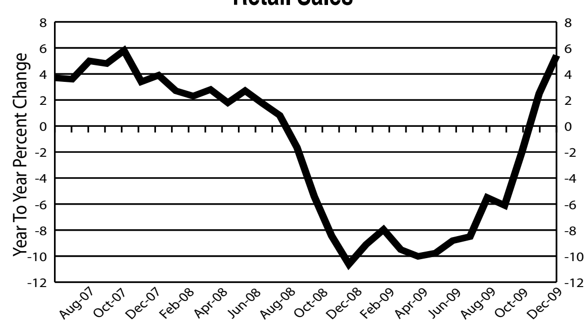
Consumer Price Index



Source: Bureau of Labor Statistics.

The Consumer Price Index (CPI) rose by 0.1 percent in December 2009, marking the fifth consecutive increase in 2009. Despite the increases, CPI has remained low, due in great part to low fuel prices, and has helped to keep inflation concerns at bay for now.

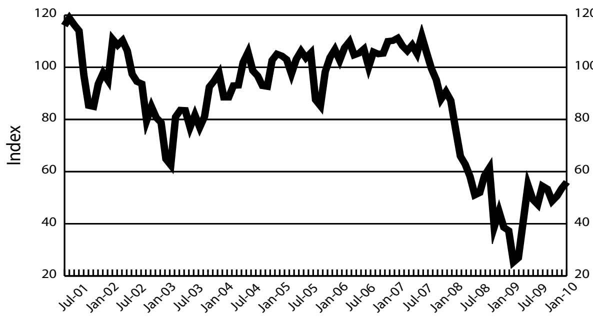
Retail Sales



Source: Census Bureau.

Retail sales were disapointing in December 2009 after posting solid gains in November. Even so, December 2009 sales were an improvement over year-ago sales. Until jobs return, retail sales are expected to remain subdued.

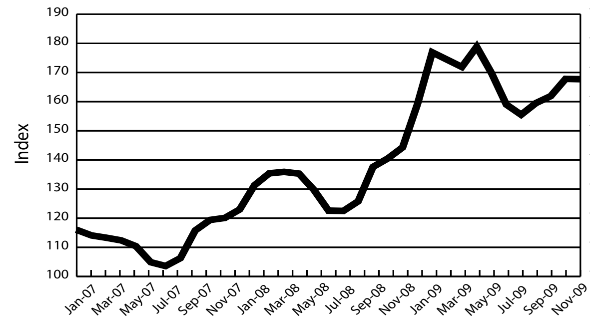
Consumer Confidence



Source: The Conference Board.

Consumer confidence is up more than 120 percent from its February 2009 lows, and up more than 4 percent from last month. Despite these increases, consumer confidence remains low on historical levels.

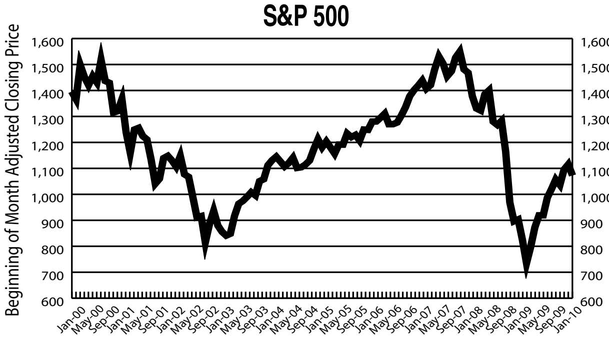
Housing Affordability



Source: NAR.

NAR's affordability index measures whether or not a typical family could qualify for a mortgage on a typical home. A value of 100 means that a family with a median income has exactly enough income to qualify for a mortgage on a median-priced home, while a value above 100 signifies there is more than enough income to qualify for a mortgage on a median-priced home, assuming a 20-percent down payment.

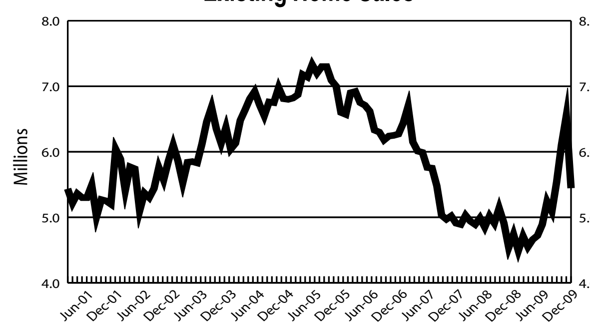
S&P 500



Source: S&P.

There has been steady improvement in the S&P during the last 3 quarters of 2009, although the S&P 500 ended January 2010 at 1073.87. This was down 3.7 percent from December 2009, but the reading was still up more than 46 percent over the past year.

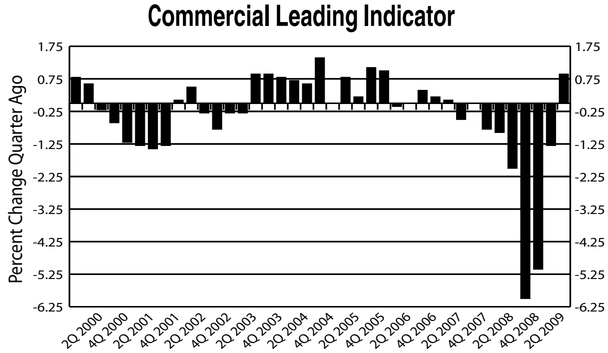
Existing Home Sales



Source: NAR.

Existing home sales were down more than 16 percent in December after increasing for 3 months. The decline was attributed primarily to the end of the first-time home buyer tax credit, which may have pushed buying in November. Expectations are that sales will pick up again because interest rates and prices are still low, and the credit has been extended through the spring.

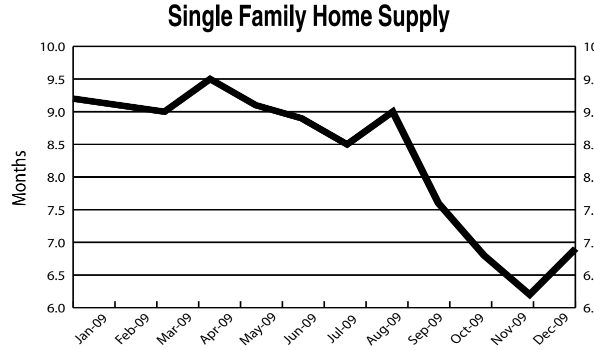
Commercial Leading Indicator



Source: NAR.

The Commercial Leading Indicator (CLI) increased by nearly 1 percent in third quarter 2009. Although the increase is not large, it is significant in that it is a reversal of the declines during the past year. The CLI factors in 13 variables affecting commercial real estate, such as unemployment, retail sales, and the NAREIT Price Index.

Single Family Home Supply



Source: NAR.

The December 2009 supply of single family homes was 6.9 months, a 25-percent reduction since the beginning of the year. Despite the reduction overall, the December supply was an increase from the prior month's 6.2-month supply.