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ECONOMIC & REAL ESTATE OVERVIEW

4TH QUARTER 2009

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Introduction

Towards the close of 2009, the majority of economists and financial institutions believe the nearly two-year long recession ended during the third quarter as evidenced by moderating job losses, a rebounding stock market, and gains in money supply and interest rate spreads. In response to the economic crisis, the U.S. government passage of the \$700 billion Troubled Asset Relief Program (TARP) and the American Recovery and Reinvestment Act of 2009 have helped to slowly revive the economy. Despite the slowly growing optimism, soft labor market conditions continue to weaken fundamentals and demand for commercial properties.

Beset by stagnating rental rates, increasing vacancies, delayed or cancelled projects and increasing delinquency rates for commercial mortgage backed securities (CMBS), the commercial real estate market endured a challenging year in 2009. Commercial banks that provided loans during the commercial real estate boom now face capital shortfalls and have begun clearing their balance sheets of troubled assets. Although commercial real estate conditions are expected to remain weak into 2010, several positive developments have recently occurred such as the first executed bond deal in more than a year and several REIT IPO filings. Transaction volumes are forecasted to recover somewhat from their lows in 2008 and 2009 due to the return of some liquidity in the credit markets, but are still expected to lag historical averages.

The following summarizes key issues related to the current economic conditions:

- **Positive GDP Growth.** U.S. gross domestic product (GDP) grew at a 2.8% annual pace in the third quarter of 2009, following a 0.7% decline in the previous quarter.
- **Unemployment Rates Moderate.** The unemployment rate remained at 10.0% in December; however, employers unexpectedly cut 85,000 jobs during the month, cooling optimism from an encouraging November reading.
- **Construction Spending Decreases.** Total construction spending declined 0.6% in November versus a sharply downward revised drop of 0.5% in October. This marked the seventh straight month of decline. The weakness was widespread with spending on housing falling by the largest amount since June and non-residential building dipping for an eighth consecutive month.
- **Durable Goods Orders Rise.** New orders for big-ticket manufactured goods increased a modest 0.2% in November. A reversal in orders for nondefense aircraft, which dropped 32.6% in November after jumping 39.3% in October, dragged down overall transportation orders.

Real Estate Solutions

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Introduction (continued)

- **Consumer Confidence Increases.** Consumer confidence increased for the second consecutive month. Expectations for employment conditions six months from now improved slightly according to the survey.
- **Wholesale Inventories Fall.** In October, wholesale inventories increased by 0.3%, the first increase since August 2008. On a year-over-year basis, inventories were down 13.5% from their October 2008 level.
- **New Home Sales Decline.** New home sales decreased 11.3% in November. The sharp decline in new home sales in November likely reflects the initial expiration of the first-time homebuyer tax credit.
- **Leading Indicators Up.** The Leading Economic Index (LEI) increased 0.9% in November, the 8th straight monthly gain. The Conference Board LEI has been on an uptrend for more than half a year and it is now slightly higher than its latest peak in July 2007.
- **Retail Sales Jump Higher.** Retail sales increased 1.3% in November. On a year-over-year basis, retail sales were up 1.9%, the first increase since August 2008.
- **Consumer Credit Declines.** Consumer credit fell \$3.5 billion in October, a much smaller decline than the consensus estimate. Consumer credit has slowed dramatically with consumers using credit cards at the slowest pace on record (dating back to 1968).
- **Consumer Prices Increase.** The CPI increased 0.4% in November, led by a 4.1% increase in energy prices and a 2.3% rise in transportation costs. Food prices continue to moderate and inched up 0.1%.
- **Business Inventories Decline.** Business inventories across the supply chain increased 0.2% in October. Manufacturing inventories rose 0.4% in October, while wholesale inventories were up 0.3%.

Employment

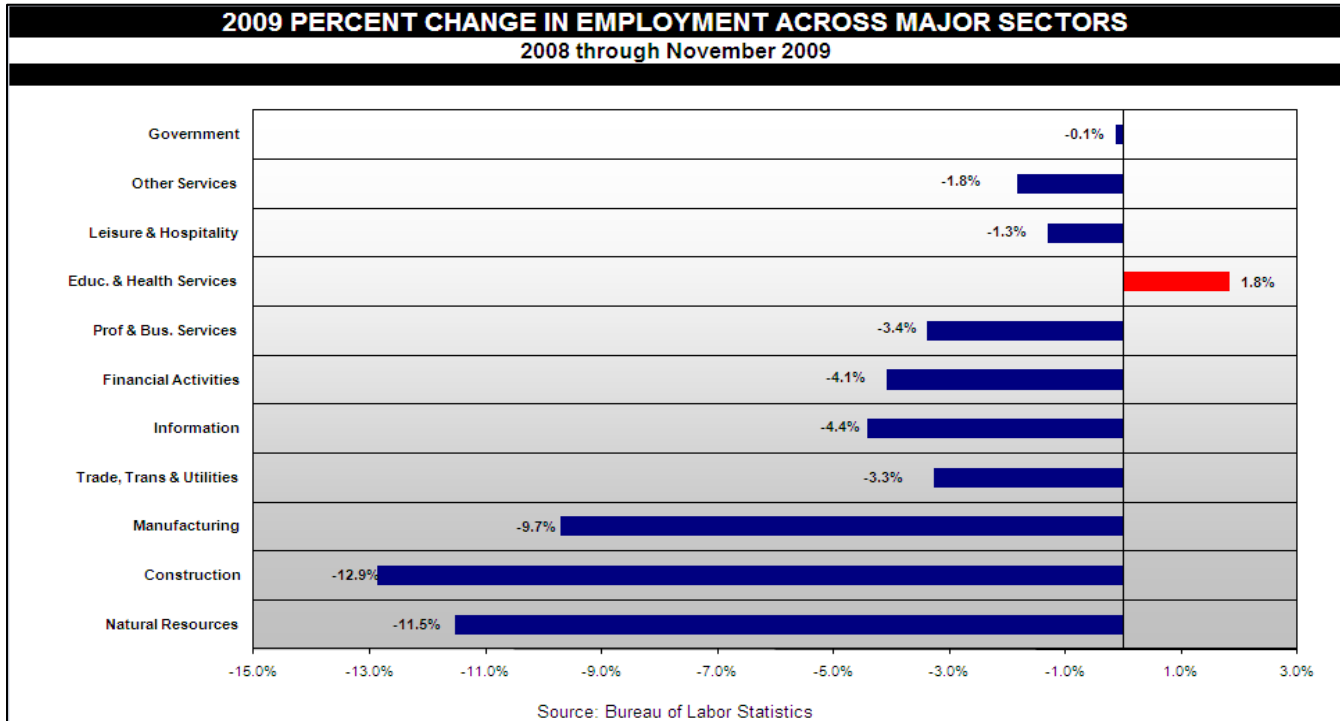
After more than 3.0 million jobs were trimmed in 2008, job losses continued through December of 2009. Losses for 2009 alone came to 4.2 million jobs, the most in one year since the government started tracking payrolls in 1939. However, the employment situation continues to gradually improve with the number of job losses getting smaller each month. In December, employers eliminated 85,000 positions.

Construction and manufacturing, two sectors of the economy particularly hard hit during the recession, again suffered large job losses in December. Construction lost 53,000 jobs while employment in manufacturing fell by 27,000 jobs. Perhaps the most encouraging news from December was a 46,500 net increase in temporary help jobs.

UNITED STATES NON-FARM EMPLOYMENT BY INDUSTRY							
Historic & Current Figures							
INDUSTRY	Dec-09	Total	2008	Total	2007	Total	% Change
	Employment	Percent	Employment	Percent	Employment	Percent	Dec-09 - 2008
Natural Resources	703	0.5%	789	0.6%	739	0.5%	-10.9%
Construction	5,907	4.5%	6,841	5.1%	7,465	5.4%	-13.7%
Manufacturing	11,630	8.9%	12,902	9.6%	13,777	10.0%	-9.9%
Trade, Trans & Utilities	24,962	19.1%	25,843	19.1%	26,658	19.3%	-3.4%
Information	2,806	2.1%	2,940	2.2%	3,018	2.2%	-4.6%
Financial Activities	7,695	5.9%	8,010	5.9%	8,252	6.0%	-3.9%
Prof & Bus. Services	16,814	12.8%	17,356	12.8%	18,131	13.1%	-3.1%
Educ. & Health Services	19,456	14.9%	19,080	14.1%	18,568	13.4%	2.0%
Leisure & Hospitality	13,096	10.0%	13,304	9.8%	13,635	9.9%	-1.6%
Other Services	5,374	4.1%	5,477	4.1%	5,507	4.0%	-1.9%
Government	22,467	17.2%	22,532	16.7%	22,333	16.2%	-0.3%
Total Nonfarm	130,910	100.0%	135,074	100.0%	138,083	100.0%	-3.1%

Source: Bureau of Labor Statistics

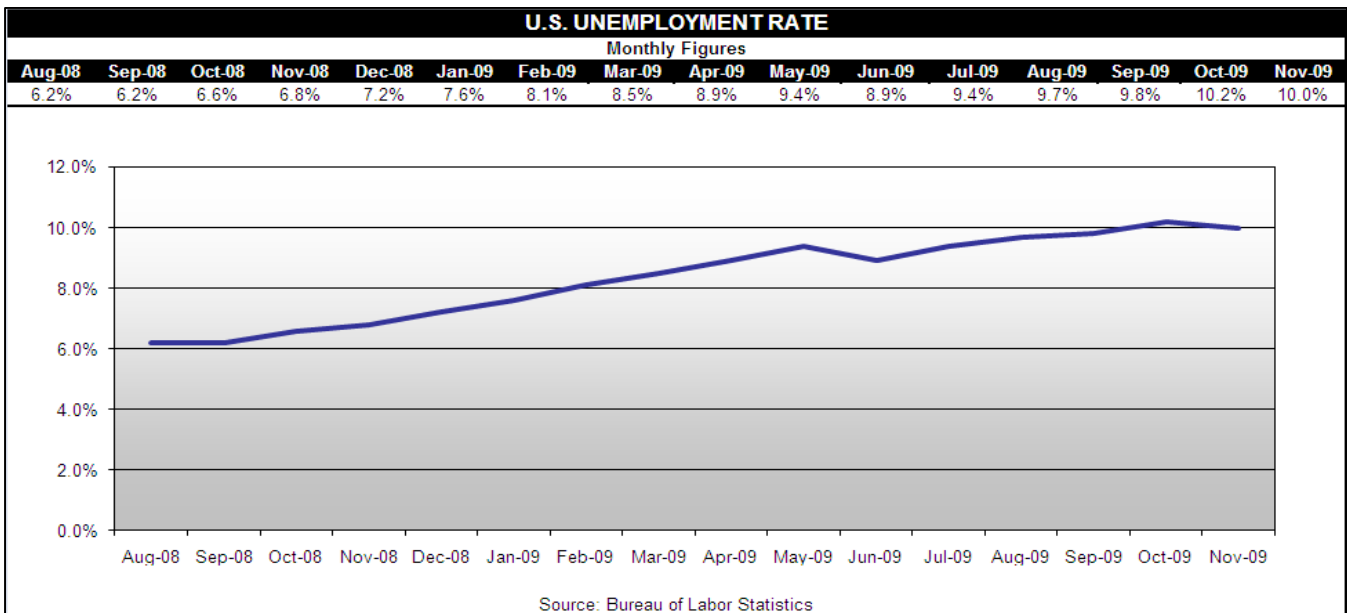
Employment (continued)



The change in employment through December 2009 showed only one sector, Educational and Health Services, recording gains in employment since 2008. Payroll employment has declined by nearly 4.1 million since 2008.

Despite an easing of job losses, the unemployment rate increased to 10.0% in December from 7.2% at the close of 2008. This represents the highest unemployment rate since June 1983.

Below is a graph depicting unemployment since July 2008.

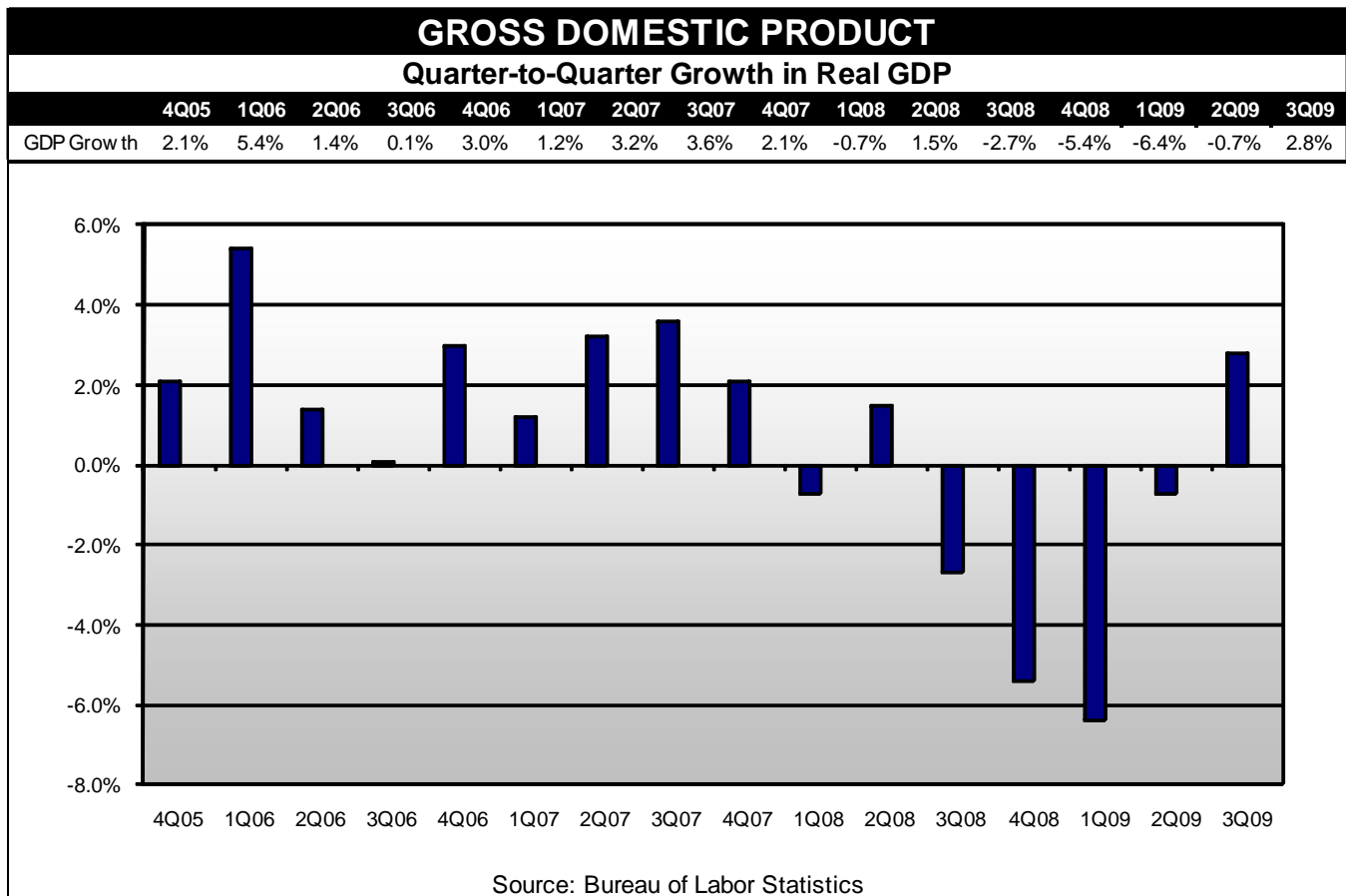


Gross Domestic Product (GDP)

The GDP growth rate is considered the most important indicator of economic health. When the GDP is growing, the expectation is that business, jobs and personal income will also grow. On the other hand, if GDP is contracting, then expectations are that businesses will hold off investing in new purchases and hiring new employees as they wait to see if the economy will improve. A negative GDP growth rate is indicative of a recession.

The Commerce Department reported that U.S. GDP increased at a 2.8% annual pace in the third quarter of 2009. This marked the first increase since the second quarter of 2008. The increase in real GDP in the third quarter primarily reflected positive contributions from personal consumption expenditures (PCE), exports, private inventory investment, federal government spending, and residential fixed investment. Also benefitting GDP for the period, declines in consumer spending and spending on durable/non-durable goods fell less than previously thought. Weakness in the second quarter GDP number was primarily attributed to nonresidential fixed investment. According to the U.S. Federal Reserve Bank of Philadelphia regional survey, economists cut their growth estimates for annualized GDP in the first quarter of 2010 to 2.3% from their earlier projections of 2.5%.

The following chart summarizes GDP growth on a quarterly basis since 3Q 2005.

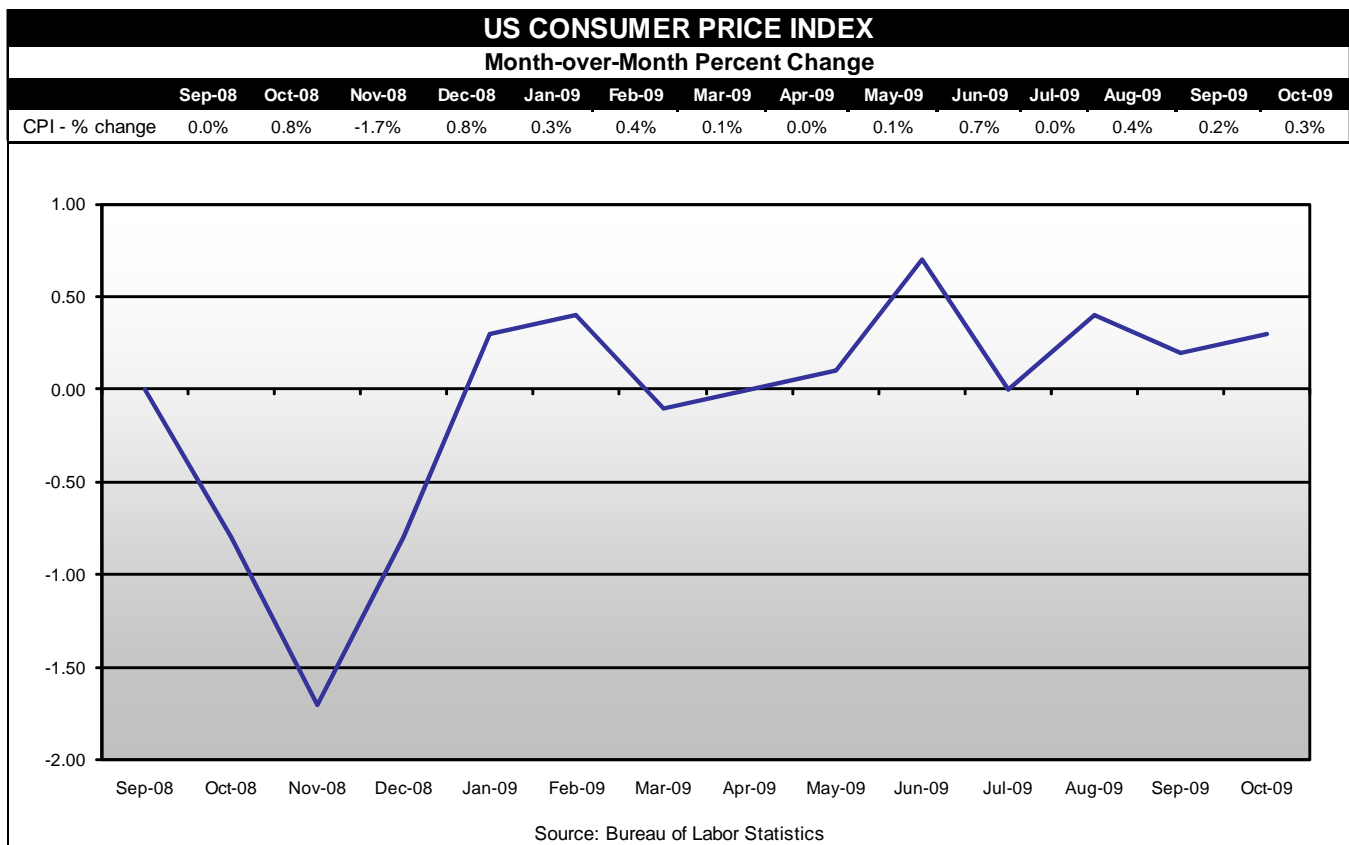


Consumer Price Index (CPI)

The Consumer Price Indexes program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

The Labor Department reported consumer prices increased slightly in October after increasing 0.2% in September. The energy index increased for the fifth time in the last six months, jumping 1.5% as the indexes for gas, fuel oil and electricity all rose. The indexes for used and new vehicles both increased sharply and accounted for over 90 percent of the index increase for all items less food and energy. The food index increased 0.1% in October and has posted a 0.6% decline during the past year. The moderation in housing costs has held down core inflation over the past year. Economists believe inflation is not likely to become a problem in 2010 and core inflation will likely moderate for another year or two.

Below is graph summarizing the month-over-month change in the CPI for the last 18 months.



Institute for Supply Management (ISM) Manufacturing Index

The ISM Manufacturing Index, a national survey of purchasing managers, is calculated based on a weighted average of the following five sub-indexes: new orders (30%), production (25%), employment (20%), deliveries (15%), and inventories (10%). Economic activity in the manufacturing sector expanded in November for the fourth consecutive month, and the overall economy grew for the seventh consecutive month. During this period, there have been gains in orders, production, vendor performance and employment. The improvement in orders is important as a leading indicator of growth. Although the ISM manufacturing PMI index decreased to 53.6 in November, the signs are still encouraging for continuing growth as both new orders and production are still at very positive levels, and the prices index fell 10 points, signaling less inflationary pressure on manufacturers' costs. Twelve of the 18 manufacturing industries reported growth in November. Since July, the export orders index has exceeded the 50% breakeven point, which supports future recovery.

MANUFACTURING AT A GLANCE - NOVEMBER 2009						
Index	Series Index November	Series Index October	Percent Point Change	Direction	Rate of Change	Trend* (months)
PMI	53.6	55.7	-2.1	Growing	Slower	4
New Orders	60.3	58.5	1.8	Growing	Faster	5
Production	59.9	63.3	-3.4	Growing	Slower	6
Employment	50.8	53.1	-2.3	Growing	Slower	2
Supplier Deliveries	55.7	56.9	-1.2	Slowing	Slower	6
Inventories	41.3	46.9	-5.6	Contracting	Faster	43
Customer Inventories	37.0	38.5	-1.5	Too Low	Faster	8
Prices	55.0	65.0	-10.0	Increasing	Slower	5
Backlog of Orders	52.0	53.5	-1.5	Growing	Slower	4
Exports	56.0	55.5	0.5	Growing	Faster	5
Imports	51.5	51.0	0.5	Growing	Faster	3

Source: Institute for Supply Management

*Number of months moving in current direction

- **PMI.** A reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally contracting. The PMI decelerated in November and registered 53.6%, indicating recovery in the sector, but at a slower rate of growth.
- **New Orders Index.** A new orders index above 48.8%, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders. The new orders index increased for the fifth consecutive month in November, increasing to 60.3%. Thirteen industries reported growth in new orders in November.
- **Production Index.** An index above 50.4%, over time, is generally consistent with an increase in the Federal Reserve Board's Industrial Production figures. Eleven industries reported growth in production in November.
- **Employment Index.** An employment index above 49.7%, over time, is generally consistent with an increase in manufacturing employment. Six of the 18 manufacturing industries reported employment growth in August.
- **Supplier Deliveries Index.** A reading above 50% indicates slower deliveries with seven industries reporting slower supplier deliveries in August.
- **Inventories Index.** An inventories index greater than 42.6%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' (BEA) figures on overall manufacturing inventories. Only the apparel, leather and allied products industry reported higher inventories in November.

Construction Spending

The U.S. Census Bureau reported that construction spending during November 2009 decreased 0.6% to a seasonally adjusted annual rate of \$900.1 billion. This represented the seventh consecutive month that spending on both residential and commercial projects declined and the slowest pace in more than six years. This represented 13.2% below the level of activity a year ago. During the first 10 months of 2009, construction spending amounted to \$794.0 billion, 12.6% below the \$1,064.1 billion for the same period in 2008. Total non-residential construction spending decreased by 0.2% during November and the residential component decreased 1.6%.

The weakness was widespread with spending on housing falling by the largest amount since June and non-residential building dipping for an eighth consecutive month. Private residential activity dropped by 1.6% in November to an annual rate of \$250.7 billion after a 4.8% jump in October, an increase that had been driven by builders trying to finish projects before the original November expiration for a home buyer's tax credit.

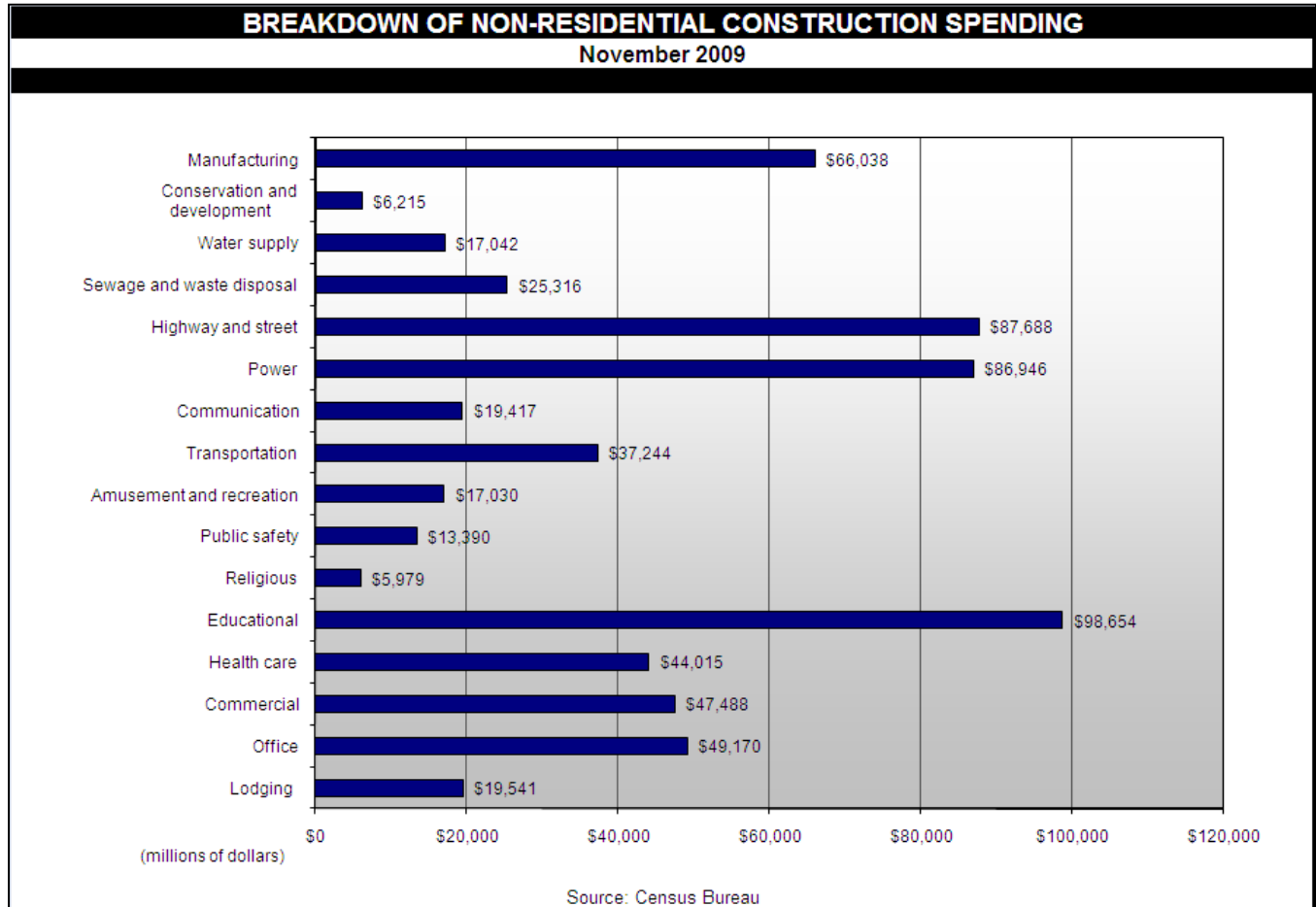
Of total construction spending, private construction accounted for 65% of total expenditures, while 35% were public. Non-residential spending comprised 71% of total expenditures compared to 29% for non-residential projects. During the past 12 months, residential construction declined 18.6% while construction for non-residential properties fell by 10.9%. Within the non-residential sector, the largest declines in spending were within the lodging (-45.6%), commercial (-38.0%) and office (-29.4%) sectors. On the positive, gains in total construction spending occurred within the conservation and development, power facilities and water supply sectors.

VALUE OF CONSTRUCTION PUT IN PLACE - SEASONALLY ADJUSTED ANNUAL RATE							
(millions of dollars)							
	Nov-09	Oct-09	Sep-09	Aug-09	Nov-08	Percent change	
						Nov 2009 from -	Oct 2008
Total Construction	900,079	905,591	910,461	925,524	1,037,322	2009	2008
Residential	258,907	263,009	251,563	252,733	317,981	-1.6%	-18.6%
Nonresidential	641,172	642,582	658,897	672,791	719,341	-0.2%	-10.9%
Lodging	19,541	19,739	21,689	23,232	35,930	-1.0%	-45.6%
Office	49,170	49,588	49,927	53,947	69,673	-0.8%	-29.4%
Commercial	47,488	47,836	51,681	52,677	76,654	-0.7%	-38.0%
Health care	44,015	45,199	45,527	47,223	49,549	-2.6%	-11.2%
Educational	98,654	98,706	99,578	103,326	104,377	-0.1%	-5.5%
Religious	5,979	5,799	6,073	6,138	7,280	3.1%	-17.9%
Public safety	13,390	13,393	14,067	14,039	14,821	0.0%	-9.7%
Amusement and recreation	17,030	17,478	17,802	18,450	20,532	-2.6%	-17.1%
Transportation	37,244	37,257	37,886	37,259	33,784	0.0%	10.2%
Communication	19,417	19,321	20,369	20,025	22,095	0.5%	-12.1%
Power	86,946	85,830	91,710	91,792	81,841	1.3%	6.2%
Highway and street	87,688	90,311	88,338	85,663	83,001	-2.9%	5.6%
Sewage and waste disposal	25,316	24,469	24,750	24,424	25,882	3.5%	-2.2%
Water supply	17,042	15,533	15,621	15,740	17,528	9.7%	-2.8%
Conservation and development	6,215	6,091	5,334	5,687	5,390	2.0%	15.3%
Manufacturing	66,038	66,034	68,547	73,170	71,005	0.0%	-7.0%

Source: Census Bureau

Construction Spending (continued)

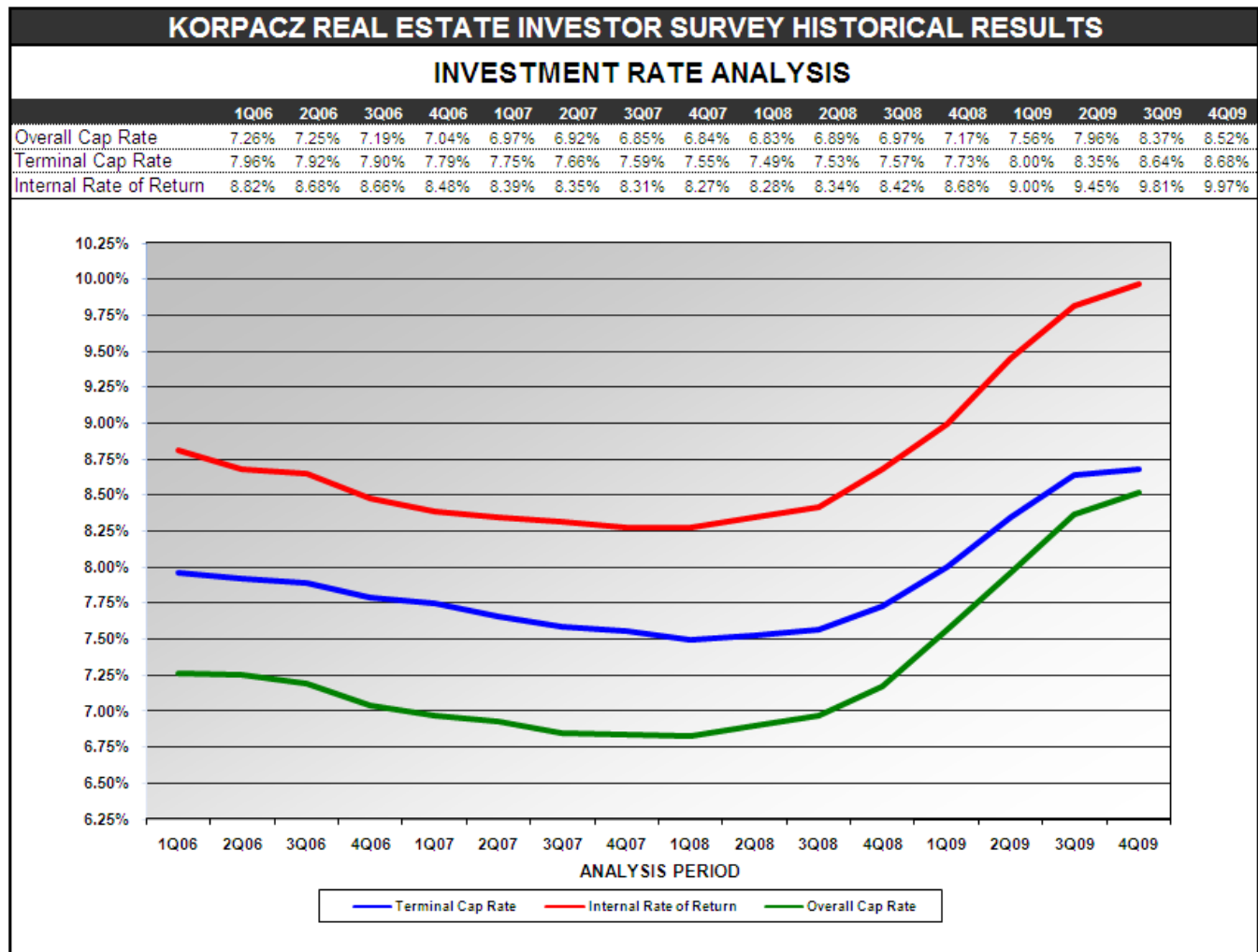
Below is a further breakdown of non-residential construction spending, which totaled \$6.8 billion in November 2009. Spending on educational facilities accounted for the largest percentage of construction spending.



Korpacz Real Estate Investor Survey

- More than 100 institutional and private investors surveyed for the Korpacz reported that overall cap rates (OARs) have increased for nearly all surveyed markets and product types during 4Q09. The average increase was 15 basis points across nearly all major property types since 3Q09. Respondents predicted that OARs will rise by an average of nearly 50 basis points (BPS) over the next six months across almost all property categories and metro markets. The largest increases were predicted within the Apartment (73 BPS), Suburban Office (69 BPS), Regional Mall (67.0 BPS) and Power Center (55 BPS). The smallest increase was forecasted for Strip Shopping Centers (29 BPS).
- Terminal cap rates have increased slightly during 4Q09. The average increase was 4 BPS across nearly all major property types since 3Q09. This compares to a 95 BPS rise for terminal cap rates since 4Q08.
- Discount rates (IRR) have increased for nearly all surveyed markets and product types during 4Q09. The average increase was 16 BPS across nearly all major property types since 3Q09. This compares to a 129 BPS rise for discount rates since 4Q08.

Simple averages of the capitalization, terminal capitalization and discount rates are presented in the following table for the following property types: Flex/R&D, Warehouse, CBD Office, Suburban Office, Apartment, Strip Center, Regional Malls and Power Centers.

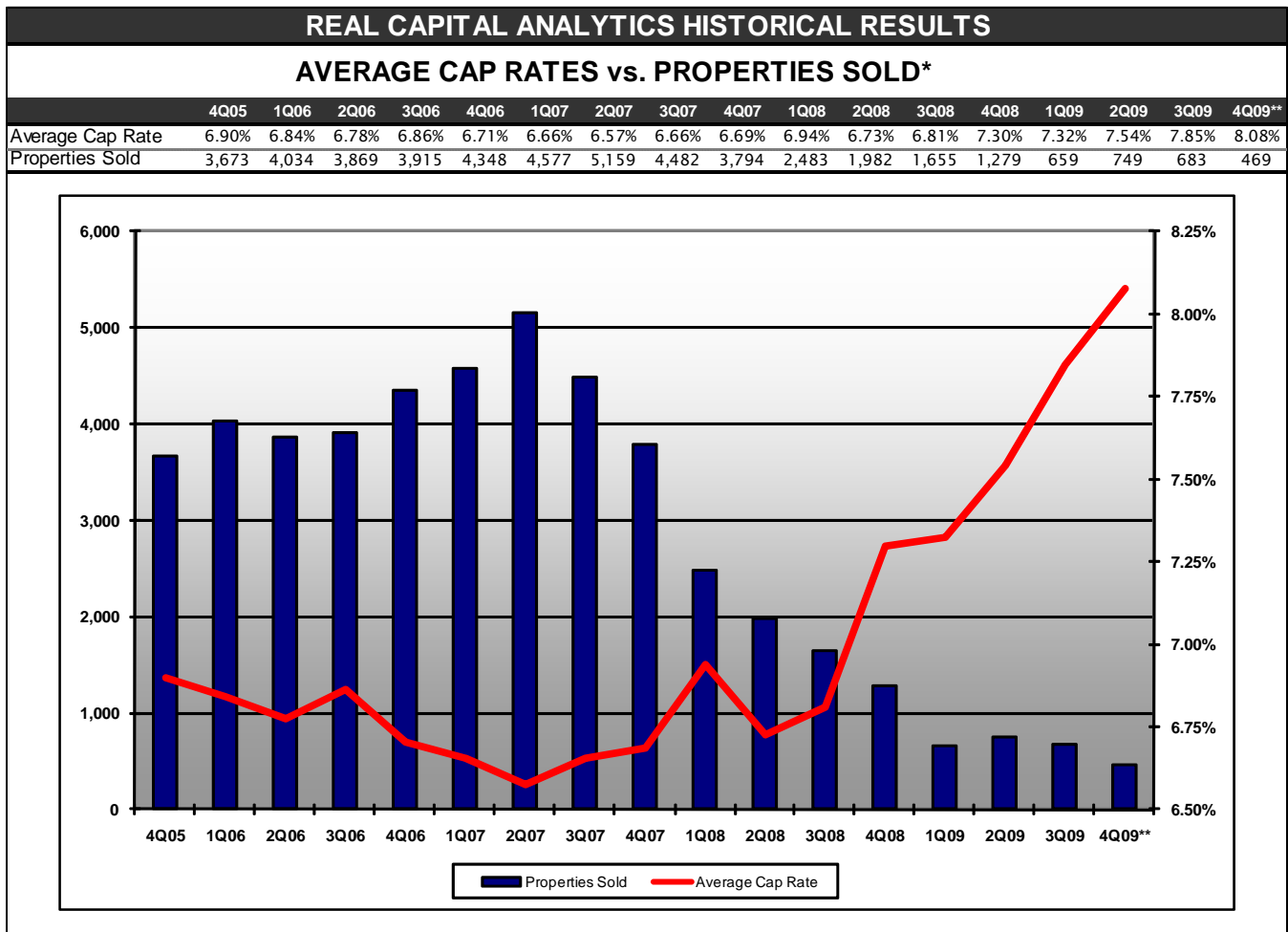


*Korpacz Real Estate Investor Survey (continued)***4Q09 Survey Highlights**

- OARs increased within nearly all major property types during 4Q09 with the largest increases recorded within the Flex/R&D (37 BPS), Warehouse (34 BPS) and CBD–Office (13 BPS) sectors. Within the Power Center sector, OAR's declined 3 BPS since 3Q09. Minimal increases occurred within the Suburban–Office (3 BPS) and the Regional Mall (8 BPS) sectors. Since 4Q08, OARs across all property sectors increased an average of 135 BPS.
- As of 4Q09, Flex/R&D properties had the highest average OARs at 9.14%, followed by Warehouse (8.80%) and Suburban–Office (8.75%). The lowest average OARs were recorded within Apartment (8.03%), Regional Mall (8.06%) and CBD–Office (8.24%) sectors. The simple average OAR across all sectors was 8.52%.
- Terminal cap rates increased across the majority of property types during 4Q09 with the largest gains recorded within the Warehouse (20 BPS) and Regional Mall (54 BPS) sectors. The Power Center (–20 BPS) and Suburban–Office (–9 BPS) categories recorded declines during the past quarter. Since 4Q08, overall cap rates across all property sectors increased an average of 95 BPS.
- As of 4Q09, Flex/R&D properties had the highest terminal capitalization rate at 9.20%, followed by Regional Malls (8.84%) and Suburban–Office (8.76%). The lowest terminal capitalization rates were recorded within the Apartment (8.19%) and CBD–Office (8.44%) sectors. The simple average terminal capitalization rate across all sectors was 8.68%.
- IRRs increased across all major property types during 4Q09 with the largest increases recorded within the Flex/R&D (43 BPS), Warehouse (39 BPS) and Regional Mall (20 BPS) sectors. The smallest increases occurred for Strip Center (6 BPS) and CBD–Office (15 BPS) properties, while the Suburban–Office Sector declined by 22 BPS during the past quarter. Since 4Q08, IRRs across all property sectors increased an average of 127 BPS.
- As of 4Q09, Regional Mall properties had the highest IRR at 10.63%, followed by Flex/R&D (10.27%) and Apartment (10.17%). The lowest IRRs were recorded within the CBD–Office (9.39%), Strip Center 9.44%) and Warehouse (9.74%) sectors. The simple average IRR across all sectors was 9.97%.

Real Capital Analytics

A weak economy and credit crunch greatly limited sales activity in 2009, characterized by few noteworthy transactions and a sharp fall in buying by foreign and institutional investors. After declining to 6.73% during 2Q07, average overall cap rates (OARs) have steadily risen since and currently stand at 8.08% through August 2009. This represents a 135 basis point increase from 2Q08. Real Capital Analytics (RCA) reported that an average of 640 properties sold per quarter so far this year, off 65% from 2008 totals. During the first two months of 4Q09, only 469 properties were sold. RCA reported 4Q09 OAR's within the various sectors: 9.1% for strip centers; 8.9% for flex; 8.5% for suburban office; 7.9% for warehouse; 7.4% for regional malls; 7.3% for garden apartments; 6.8% for CBD office; and 6.1% for mid/high-rise apartments.



* Based on independent reports of properties and portfolios \$5 million and greater. Data believed to be accurate but not guaranteed.

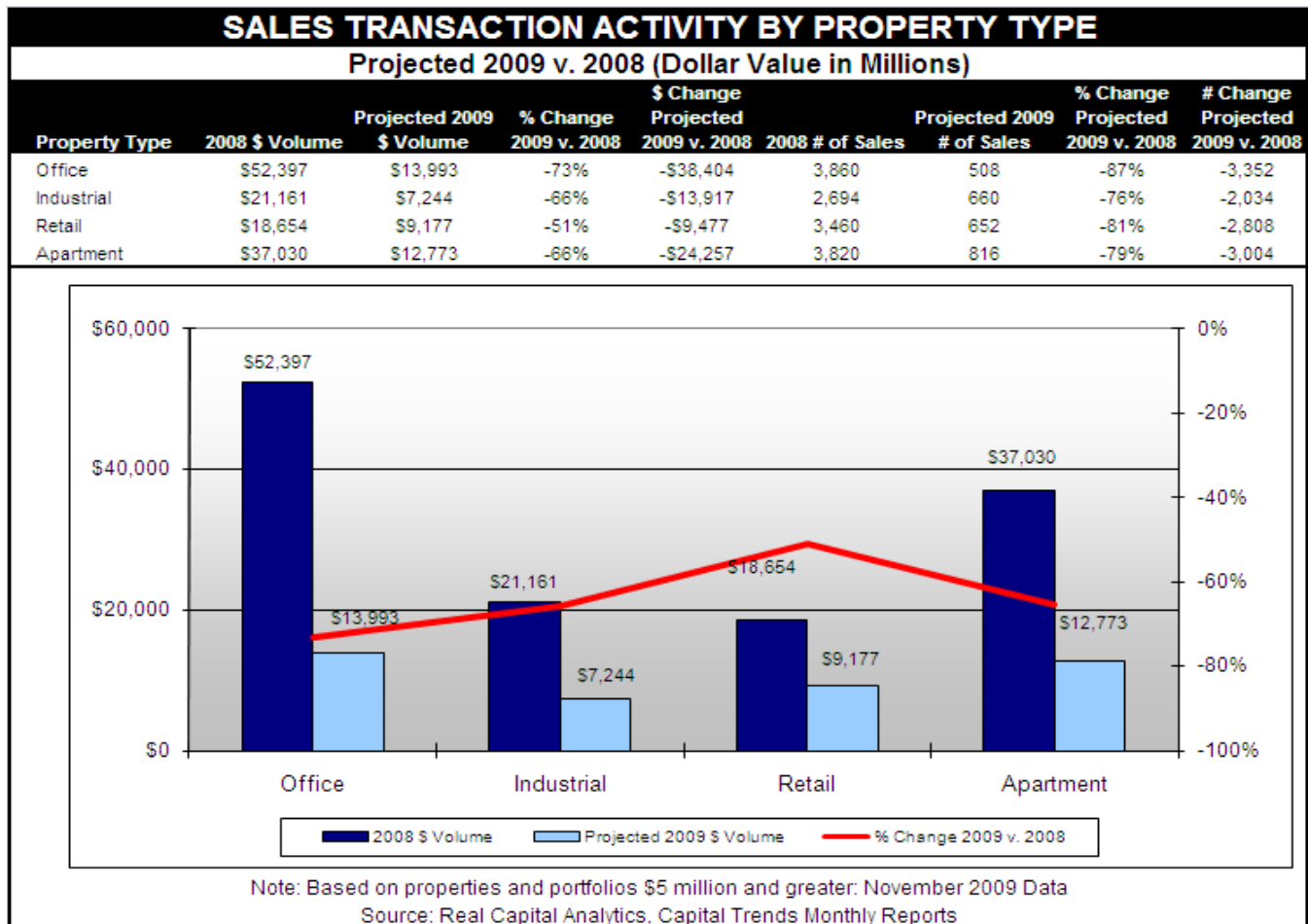
** Data is through November, 2009

Commercial Property Sales Analysis

Commercial property sales activity is projected to total \$43.2 billion in 2009, off 67% from 2008 totals and considerably lower than historical averages. The lack of available credit is constraining commercial real estate sales in the U.S. as potential buyers vie for affordable financing in a market where lenders are finding difficulty securitizing and re-selling mortgages. The widening disparity between investor demand and the supply of assets has exerted downward pressure on prices.

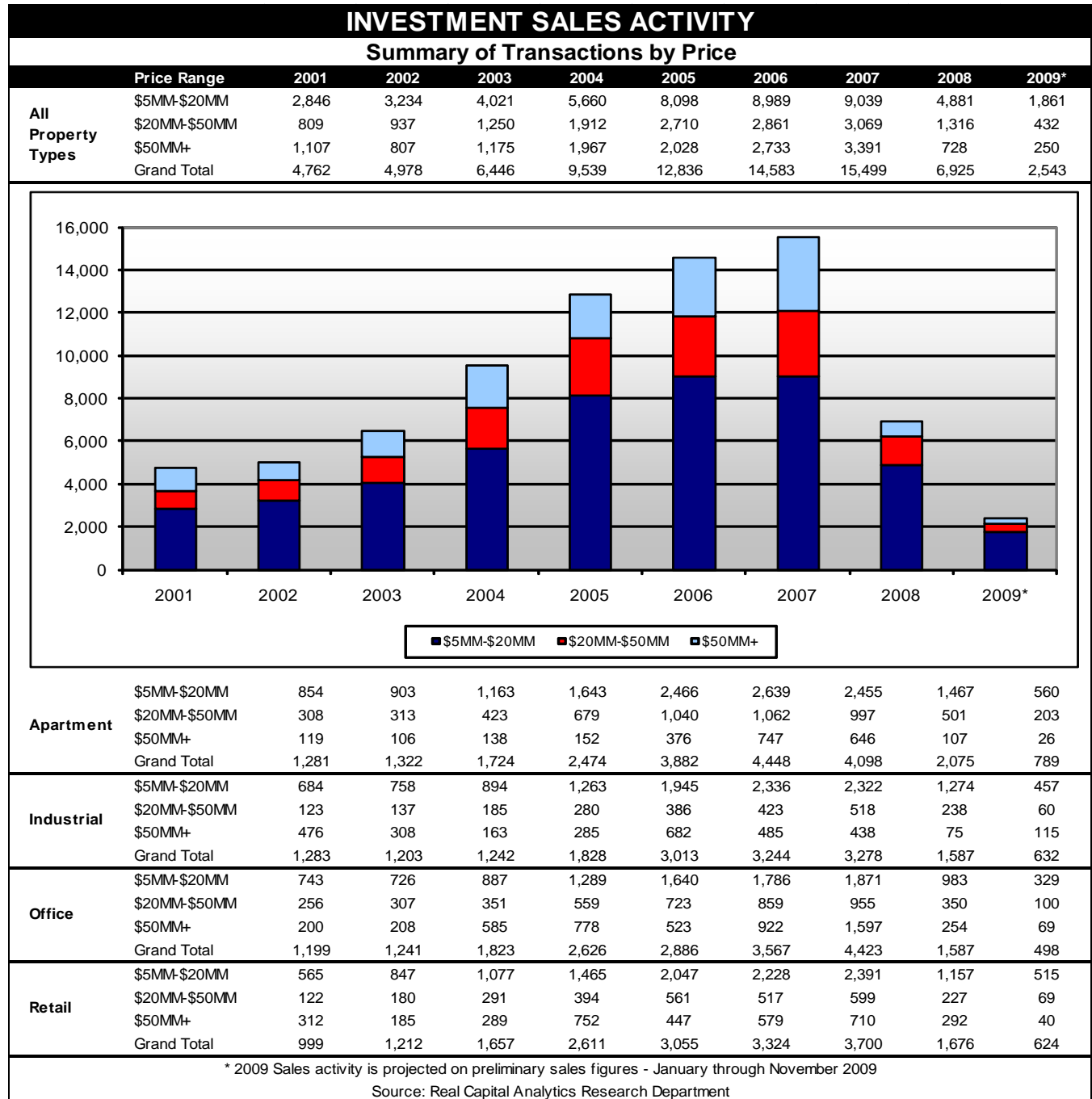
- **Office:** Based on sales through November 2009, the office market is projected to be the largest generator of property investment at \$14.0 billion. However, the sector is projected to decline by 73% from 2008 levels. From an analysis of the data, CBD properties have fared worse than suburban properties.
- **Industrial:** The industrial market is projected to record the lowest sales volume at \$7.2 billion. This represents a projected drop of 66% from 2008 levels. Sales of warehouse properties fell more than that of flex properties.
- **Retail:** For 2009, the retail market is projected to decline the least of the four property types. Projected sales, totaling \$9.2 billion, are forecasted to lag 2008 totals by 51%. As consumers limit spending and retailers close stores, the majority of retail REITS must contend with increased vacancies and declining revenues.
- **Apartment:** Projected sales of apartment properties totaled \$12.8 billion, a projected 66% drop from 2008 totals. Sales of garden apartments are projected to decline greater than that of and mid-high apartments.

Sales transaction activity by property type is summarized in the table below.



Commercial Property Sales Analysis (continued)

In addition to the preceding data, we have also looked at historical sales activity by price point on an overall basis and by asset class; this data is summarized below. Transaction activity remains sluggish through the majority of 2009. Projected over a full year, the number of transactions is projected to decline 65% from 2008 levels to nearly 2,600. This considerably lags the previous five-year moving average of roughly 12,000 deals per year. Office and retail property sales are forecasted to record the largest declines in 2009. Roughly 73% of total transactions are expected to fall within the \$5-\$20 million range in 2009, as large deals valued in excess of \$50 million are expected to comprise 10% of total activity. Looking ahead, it is forecasted that activity will gradually escalate as more investors explore distressed property opportunities and credit becomes gradually easier to obtain.



FTSE National Association of REITS U.S. Real Estate Index

Comprised of 106 REITS, The Financial Times of London and the London Stock Exchange (FTSE) NAREIT U.S. Real Estate index continued its resurgence through 2009. After decreasing 37.7% during 2008, a 28.0% gain was recorded during 2009. The largest advances among REITS during the year were recorded within the lodging/resorts (67.2%) and regional mall (63.0%) sectors. After declining more than 50% in 2008, the industrial/office sector posted a healthy 29.2% increase. Historically, health care, self storage and free-standing retail REITS have experienced the largest compound annual returns.

Investment Performance by Property Sector and Subsector							
Property Sector/Subsector	Number of REITS	Total Return (%)			Compound Annual Total Returns		
		M-T-D	Y-T-D	2008	3-Year	5-Year	10-Year
Equity REIT Index	106	7.15	28.0	-37.7	-12.4	0.4	10.6
Industrial/Office	26	7.86	29.2	-50.3	-18.2	-3.0	7.5
Industrial	7	6.48	12.2	-67.5	-28.5	-11.4	4.7
Office	14	8.23	35.6	-41.1	-13.5	1.2	9.1
Mixed	5	8.61	34.9	-34.0	-15.9	-3.9	7.2
Retail	25	7.91	27.2	-48.4	-17.9	-4.4	11.8
Shopping Centers	15	5.27	-1.7	-38.8	-20.9	-6.1	9.6
Regional Malls	6	10.64	63.0	-60.6	-18.6	-4.9	13.3
Free Standing	4	3.95	25.9	-15.1	2.1	6.7	15.2
Residential	16	8.69	30.8	-24.9	-9.8	3.0	10.3
Apartments	14	8.88	30.4	-25.1	-10.0	3.2	10.6
Manufactured Homes	2	5.41	40.9	-20.2	-3.2	0.4	6.4
Diversified	8	7.69	17.0	-28.3	-13.3	-0.2	10.3
Lodging/Resorts	9	13.10	67.2	-59.7	-19.4	-5.9	5.4
Health Care	12	1.39	24.6	-12.0	3.9	10.5	19.9
Self Storage	4	4.31	8.4	5.1	-5.1	8.8	16.3
Specialty	6	8.17	31.5	-25.7	3.8	8.8	6.5

Source: FTSE® Group and National Association of Real Estate Investments Trusts®. Data as of December 31, 2009

Below is a listing of the largest REITS by market cap within FTSE NAREIT U.S. Real Estate Index.

REIT	Symbol	Property Subsector	Market Cap
Simon Property Group, Inc.	SPG	Regional Malls	22.07
Public Storage	PSA	Self Storage	14.16
Vornado Realty Trust	VNO	Diversified	12.40
Boston Properties Inc.	BXP	Office	9.35
Equity Residential	EQR	Residential	9.11
HCP Inc.	HCP	Health Care	8.72
Host Hotels & Resorts Inc.	HST	Lodging/Resorts	7.38
Ventas Inc.	VTR	Health Care	6.79
AvalonBay Communities Inc.	AVB	Residential	6.56
Prologis	PLD	Industrial	6.43

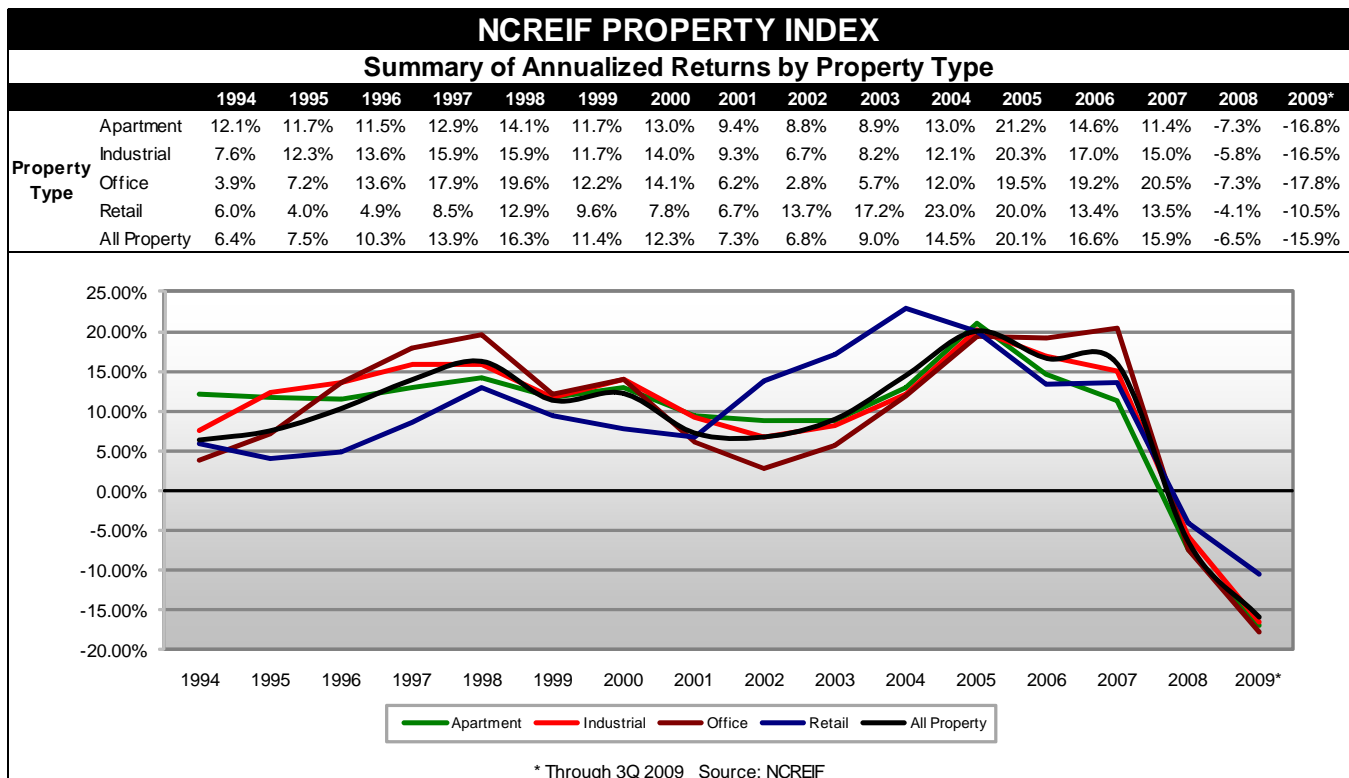
*Values as of December 31, 2009 in billions of dollars

National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index

The NCREIF Property Index (NPI) is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only. Properties in the NPI are accounted for using market value accounting standards, not historical cost. NCREIF requires that properties included in the NPI be valued at least quarterly, either internally or externally, using standard commercial real estate appraisal methodology. Each property must be independently appraised a minimum of once every three years. Because the NPI is a measure of private market real estate performance, the capital value component of return is predominately the product of property appraisals. As such, the NPI is often referred to as an “appraisal based” index. When entering the NPI, properties must be 60% occupied, investment returns are reported on a non-leveraged basis and properties must be owned/controlled by a qualified tax-exempt institutional investor or its designated agent. Properties exit the NPI when assets are sold or otherwise leave the database. All historical data remains in the database and in the Index. The Index represents investment returns from a single class of investor.

NCREIF Property Index Annualized Returns by Property Type

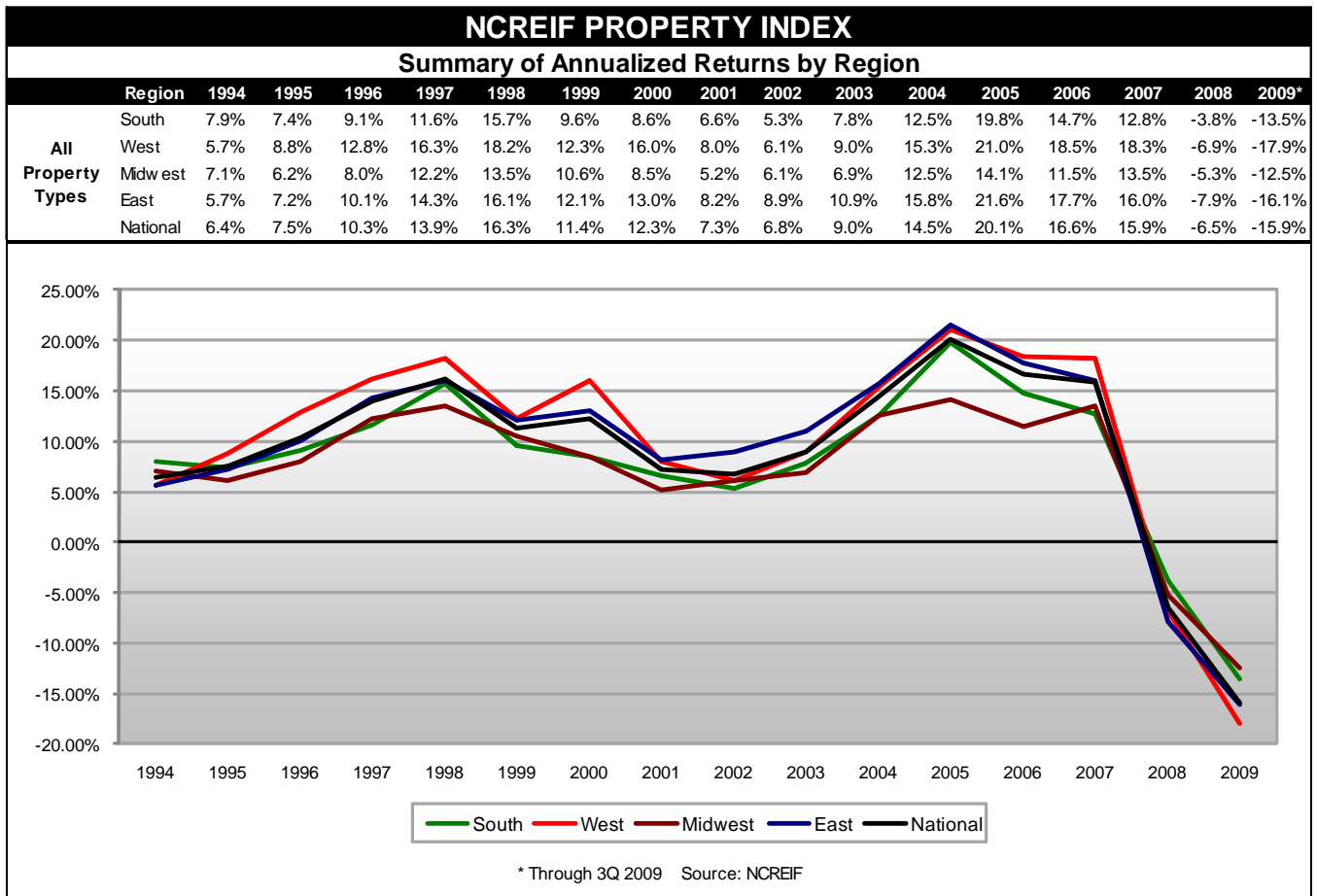
For the second consecutive year, all property types recorded negative annualized returns due to limited credit and challenging economic conditions. At -15.9%, the NPI index registered its lowest return in recorded memory. Through the third quarter of 2009, the office sector fared the worst (-17.8% return) and the retail sector (-10.5%) beat the national average. As the nation’s real estate market flourished from 1996 to 2000, fueled by the technology boom and robust stock market, the NPI enjoyed five consecutive years of double digit growth. A cool-down during the next three recessionary years brought the NPI moving average down from 12.8% to 7.7%. Beginning in 2004, a record run in real estate growth allowed the index to achieve a four-year moving average of 16.8% annualized gains through 2007 and breaking the 20.0% threshold in 2005. Between 1998 and 2008, the four property types averaged annualized returns between 10.8% and 12.1%.



NCREIF Property Index (continued)

NPI Annualized Returns by United States Region

After posting positive returns for 15 consecutive years beginning in 1993, the NPI Index turned negative in 2008 due to the economic downturn, which has continued throughout 2009. Since 2008, annualized returns across all property sectors declined by the largest amount in the West (-17.9%), followed by the East (-16.1%), South (-13.5%) and Midwest (-12.5%). From 1998-2008, average annualized returns registered 11.2% across all regions with the greatest rate of return occurring in the West (12.3%) and East (12.0%). Returns in the South (10.0%) and Midwest (8.8%) lagged behind the national average. The greatest periods of growth occurred between 1996-2000 and 2004-2007 when economic expansion resulted in robust years for the real estate industry.



Moody's Property Index

The Moody's/REAL Commercial Property Price Indices (CPPI) measure the change in actual transaction prices for commercial real estate assets based on the repeat sales of the same assets at different points in time. The index has been developed with the objective of supporting the trading of commercial property price derivatives and is designed to track same-property realized round-trip price changes based purely on the documented prices in completed, contemporary property transactions. Multiple pairs of commercial property sales are analyzed using the repeat-sale regression methodology to derive the change in prices actually executed in the marketplace. Because this approach is based on repeat sales of the same property, it minimizes the effects of the ever shifting composition of transactions in the property markets. The index uses no appraisal valuations. The commercial property index is based on the Real Capital Analytics database which attempts to collect price information for every commercial property transaction in the U.S. over \$2,500,000 in value, and a model developed by the MIT Center for Real Estate.

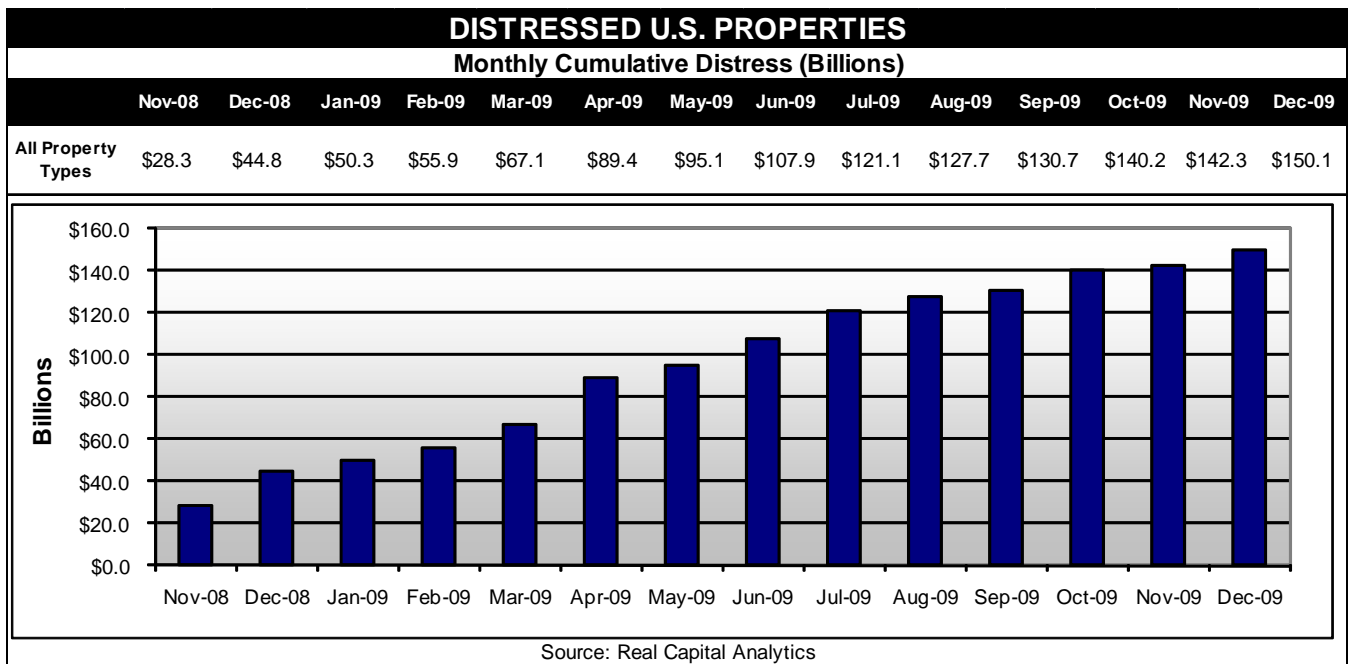
Noteworthy Trends

- The All Property Type Aggregate Index recorded a 1.5% price decline in the month of October. The National All Property Type Aggregate Index currently measures 36.4% below the level seen one year ago. Commercial property prices are 43.7% below the peak measured two years ago, in October 2007.
- Prices on commercial real estate have consistently fallen in each of the past twelve months. Value declines have averaged nearly 4% per month in 2009, spiking in April and May with price declines of 8.6% and 7.6%, respectively. Since then, the pace of declines has decreased.
- In October, an uptick in transaction volume was recorded compared to previous months. The month recorded the second highest number of sales, 407, and saw the largest monthly dollar volume of 2009, at \$5.4 billion. Of the 407 overall sales, 97 were repeat-sales transactions, totaling \$1.4 billion. Both by count and dollar volume, repeat-sales volume were higher in October than in any other month in 2009.
- Prices on properties at the national level fared slightly better in the third quarter as compared to the second, but all property types have now seen values fall 25–40%.
- The national property type Indices for the four major property types all posted value decline during the past year. However, during the third quarter, retail properties saw values increase 2.5% after seven consecutive quarters of flat to negative price growth. Office properties recorded the largest decline during the past quarter, declining 12.2%, while apartments fell 10.9% and prices within the industrial sector sank 8.1%.
- Commercial real estate prices are showing their worst performance in the South, where three of the four property types in the CPPI recorded annual declines greater than 30%. Apartments in the South saw price reductions of nearly 50% over the past year.
- Weak performance in New York's commercial real estate sector over the past year brought down the eastern office market overall. New York offices saw the largest annual price declines among the three metro-level office indices in the CPPI. Office prices in New York have fallen 38.1% over the past four quarters.

Distressed Commercial Properties

As the economy worsened, Real Capital Analytics (RCA) began to track distressed real estate assets in 2008. Real Capital Analytics' definition of distressed encompasses properties that are in default of their mortgages, including ones taken over by lenders, owned by a troubled or bankrupt entity or have a major tenant in bankruptcy; it also includes properties whose debt has been restructured and those taken over by the holders of junior debt.

During the past 12 months, the total volume of distressed assets has increased more than 500%. As of December 2009, roughly \$150 billion of distressed real estate is on the market. After more than \$26 billion of distressed properties were added from May to July, the pace of distressed property additions has slowed. The largest monthly increase (\$21 billion) occurred in April following the bankruptcy of General Growth Properties.



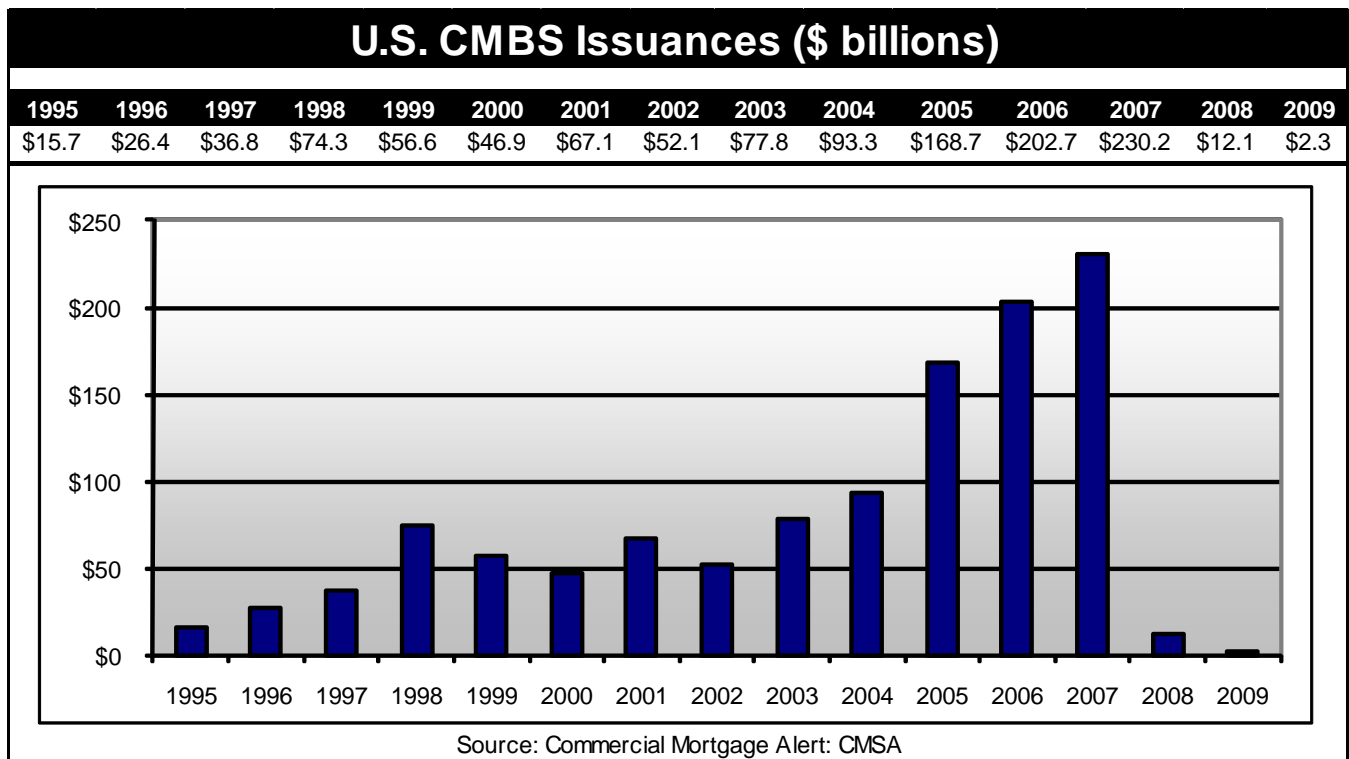
- The retail sector represents 31.0% of the total distressed assets among the five major property types. On the positive, distress increased by the smallest percentage during the past month.
- The hotel sector recorded the second greatest volume of distress at 25.0%. Due to the bankruptcy of Extended Stay and troubles in casino-hotel properties in Las Vegas and Atlantic City, distress is up 400% YTD.
- Roughly \$25.7 billion of office properties are in distress. However, the sector has proportionately lower levels of distress than the retail, hotel and apartment sectors. In November, Tishman Speyer Properties contributed major assets with its capitulation on a six-asset, \$1.7 billion office portfolio in Chicago of former EOP assets acquired from Blackstone.
- Distress within the apartment sector registered \$24.3 billion. Within the sector, mid/high-rise and low income properties have the highest rates of default. In contrast, niches such as student and senior housing remain solid investments. In November, Tishman Speyer Properties contributed major assets with its capitulation on \$3 billion in debt for Stuyvesant Town-Peter Cooper Village in Manhattan.
- The industrial sector is facing the lowest amount of trouble so far, with \$4.4 billion of distress spread across warehouse and flex properties.

Commercial Mortgage Backed Securities (CMBS) Problems

Limited financing in commercial real estate continued into the second half of 2009 with few new issuances of commercial mortgage-backed securities. As delinquencies escalate within commercial property sectors, investors have been kept at arm's length to reduce risk. This has resulted in a sizeable decline in commercial property sales. According to Real Estate Econometrics, the default rate for commercial mortgages in the U.S. reached a 16-year high, at 3.4%, in the third quarter of this year. Sam Chandan, chief economist at Real Estate Econometrics, stated, "The dramatic decline in real economic activity and labor markets since last September has undercut property fundamentals, increasing the number of recently originated loans that are at risk for delinquency and default because of cash flows falling short of principal and interest obligations." The firm projects that commercial mortgage defaults will continue to rise, peaking at 5.3 percent in 2011 before falling back, as loans from 2006 and 2007 miss aggressive cash-flow projections. About \$570 billion in commercial mortgages are due to be refinanced between 2010 and 2011, according to Foresight Analytics LLC. The firm estimates that defaults could cause some \$250 billion in commercial real estate losses to the banking sector.

As regulators grow increasingly concerned about the commercial real-estate market as rents and occupancies fall and defaults mount, The Term Asset-Backed Securities Loan Facility, or TALF program was enacted earlier in 2009. The goal of the program is to revive the CMBS market as well as markets for other securitized debt by offering low-cost financing from the Fed for investors buying these securities. CMBS offerings are considered one of the key tests for the TALF program.

Below is a chart detailing U.S. CMBS issuances. After a six-year period commencing in 2002 where CMBS issuances increased from \$52.1 billion to a peak of \$230.2 billion in 2007, issuances have fallen dramatically. In 2009, an estimated \$2.3 billion of U.S. CMBS issuances have been recorded.



CMBS Problems (continued)

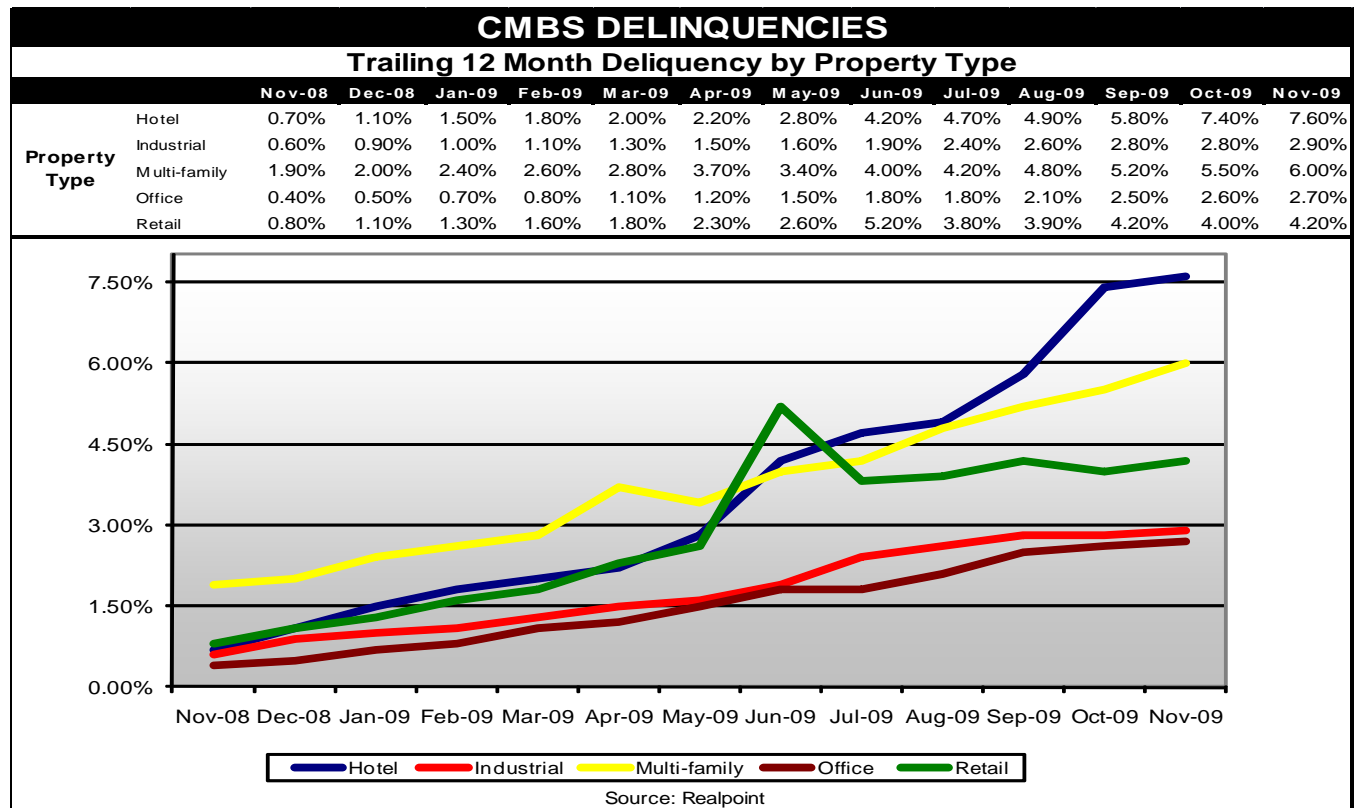
The Rise of CMBS Delinquencies

Weak economic conditions and limited financing continued to weaken commercial loan performance throughout 2009. Larger loan vintages between 2005 and 2007 continue to default, resulting in a spike in 2009 defaults. Both the volume and unpaid balance of CMBS loans transferred to special servicing on a monthly basis continue to raise questions about underlying credit stability in today’s market climate for these deals.

According to Trepp’s most recent CMBS performance report, the percentage of commercial loans 30 or more days delinquent increased 42 basis points to 6.07% in December from November. This jump was primarily attributed to the \$4.1 billion Extended Stay hotel loan. Extended Stay Hotels LLC is in the process of debt restructuring and business recapitalization after filing for Chapter 11 bankruptcy protection in June. Its debt consists of \$7.6 billion across 681 residence hotels. As a result, the lodging sector was the hardest hit as delinquency rates stood at 13.87% in November. Within the multifamily sector, delinquency rates jumped nearly 50 basis points since November to 9.27%. Retail delinquency rates reached 5.50% from 4.78%, a month earlier, office loans rose up to 3.42% from 3.14% and industrial delinquent loans jumped 65 basis points to 3.98% since November.

In a positive development, a settlement to convert U.S. CMBS loans affiliated with bankrupt General Growth Properties (GGP) back to performing status would lessen market concern that the sector would be susceptible to increased losses. According to Fitch Ratings, \$9.7 Billion of loans secured by 92 properties would emerge from bankruptcy in early 2010 if confirmed by the bankruptcy court.

Below is a chart tracking CMBS delinquencies. During the past 12 months, delinquencies have clearly trended upward for all property types. Hotel delinquencies are the highest at 7.60%, followed by a 6.0% delinquency rate for the multi-family sector. Delinquencies are the lowest within the office and industrial sectors.

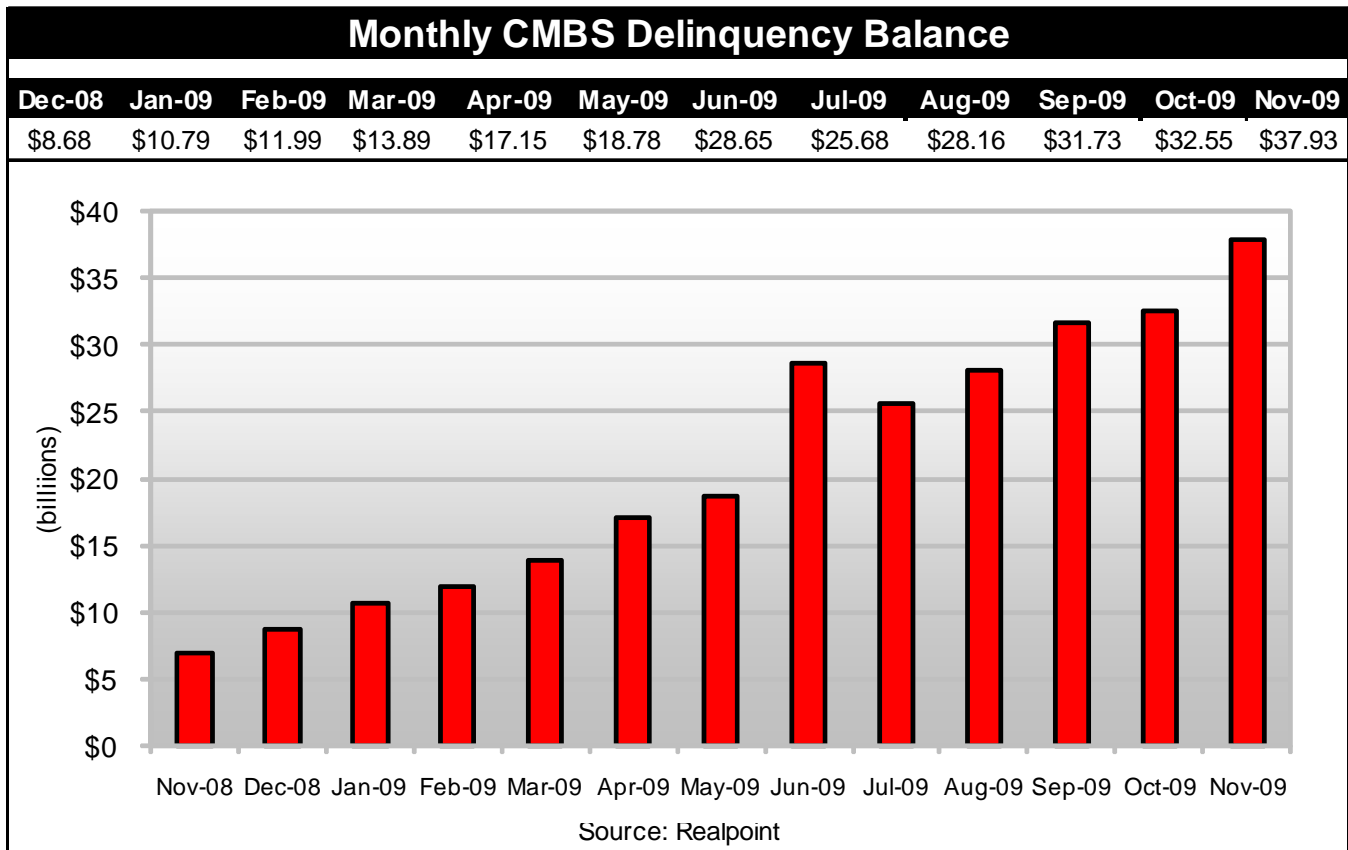


CMBS Problems (continued)

Realpoint Monthly CMBS Research

According to Realpoint, a national credit-rating agency that has been tracking monthly commercial mortgage-backed securitization delinquency trends across various categories since January 2001, the delinquent unpaid balance for CMBS continues to increase after a slight dip in July. After reaching \$37.93 billion in November, the delinquent unpaid balance is up more than 500% from 12 months ago. Four of the five delinquent loan categories experienced an increase in November with only the 60-day delinquent bucket declining. Realpoint is projecting delinquencies between \$40-\$50 billion through the first quarter of 2010.

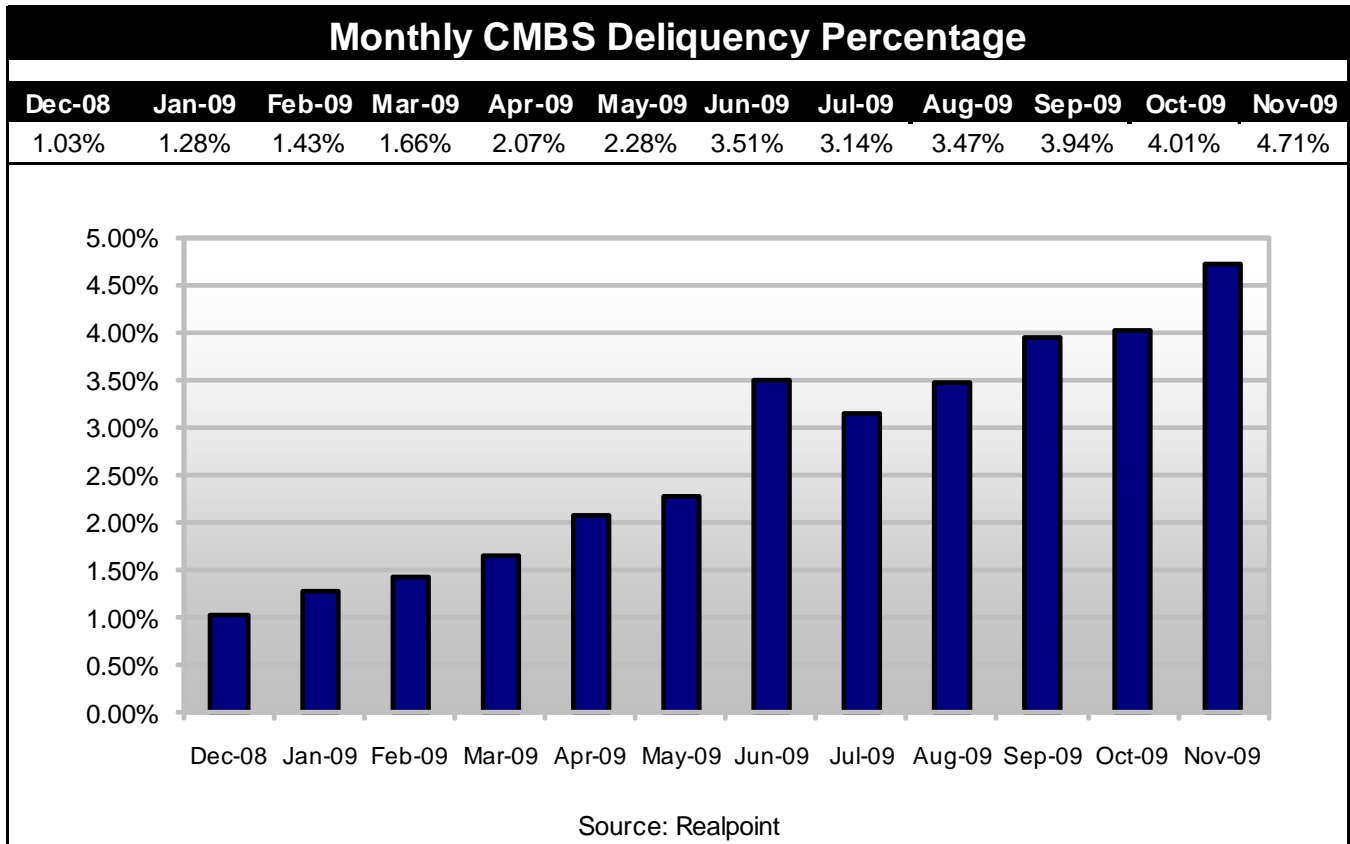
Below is a chart depicting the monthly CMBS delinquency balance during the past 12 months:



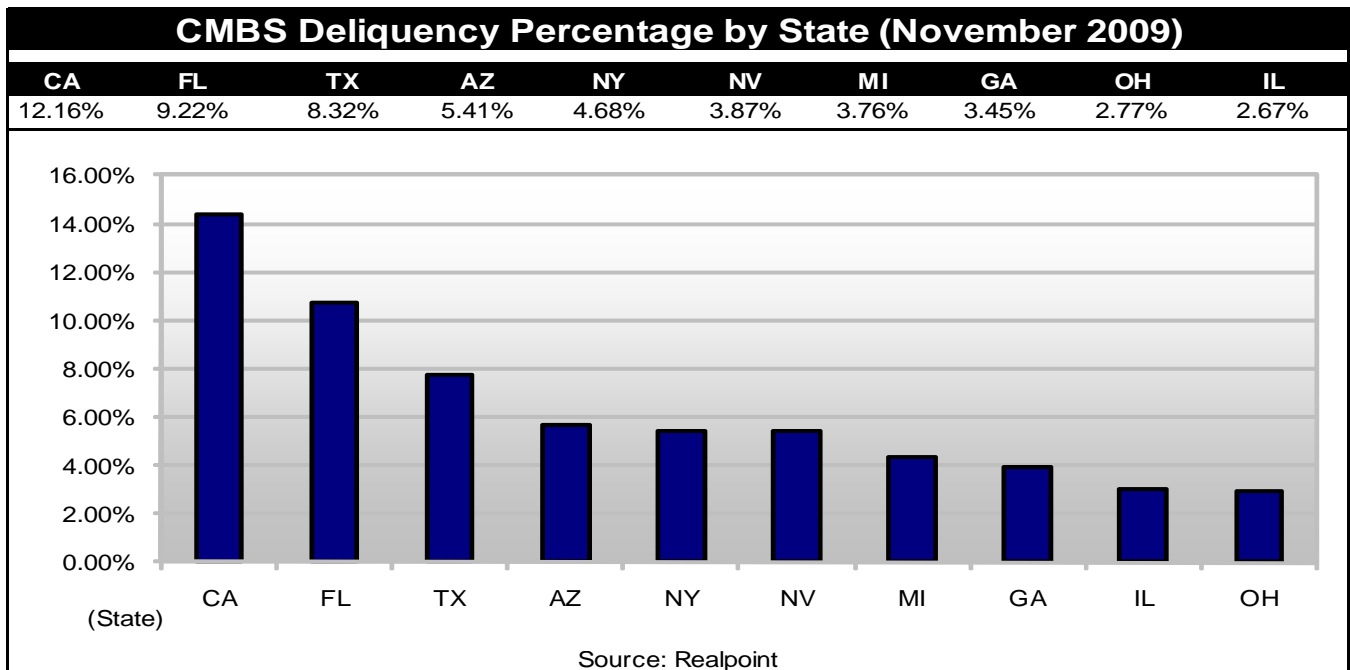
The monthly CMBS delinquency ratio for November 2009 of 4.71% was 70 basis points higher than the October 2009 total. During the past 12 months, the delinquency percentage has jumped more than 400%. Based upon an updated trend analysis, Realpoint projects the delinquency percentage to increase between 5% and 6% through the first quarter of 2010 and may surpass 7% though mid-2010. The negative outlook results from several large loans from recent vintage transactions continuing to show signs of stress along with continued balloon maturity defaults from older transactions. Realpoint also maintains its negative outlook for both the retail and hotel sectors into 2010 and is monitoring negative trends surrounding several large struggling multi-family loans that have near-term default risk. The top three states by delinquency exposure have remained consistent since January 2009, as California, Texas and Florida collectively comprise nearly 30% of delinquencies as of November 2009. The 10 largest states by delinquent unpaid balance account for roughly 56% of CMBS delinquencies.

CMBS Problems (continued)

Below is a chart illustrating the monthly CMBS delinquency percentage during the past 12 months:



Below is a chart depicting states with the highest CMBS delinquency percentages within the United States.



Possible Easing of Capital Markets

Representing the first post-bust CMBS sale in more than 18 months, Developers Diversified Realty Corp., owner of 670 shopping centers in the United States, Brazil and Canada, sold \$400 million of new commercial mortgage bonds in November. The \$400 million loan represents about half of the value of the underlying properties. By comparison, in the years before the financial crisis began in mid-2007, banks were willing to lend more than 70% of a property's value because the debt could be easily sold as CMBS. The sale was the first deal to be sold under the Fed's Term Asset-Backed Securities Loan Facility, known as TALF, which seeks to lower funding costs for issuers by offering investors funding for the purchase of the securities. Strong investor interest allowed Developers Diversified to price the deal below existing levels for the CMBS issues. The credit-starved real-estate industry and federal regulators are hoping that Developers Diversified's debt sale will pave the way for other CMBS deals and help revive a market that had been one of the most important funding sources for commercial real estate in the past decade. The return of the new-issue CMBS market is considered essential to help avert what could be a serious crisis in the market for offices, hotels, strip malls and other commercial property.

Inland Western Retail Real Estate Trust Inc., owner of roughly 300 retail properties nationwide, recently closed on \$625 million in new financing from J.P. Morgan Chase & Co. to pay down its existing debt. The bank is expected to convert the \$500 million first-mortgage part of the financing into a CMBS offering and sell through private placements the remaining \$125 million in "mezzanine," or junior, debt. The \$625 million in 10-year financing is backed by 55 retail stores owned by Inland throughout the country, and represents 75% of the property's value. The Inland offering, if successful, would reflect positively to the CMBS market because it will likely get done without federal assistance. Earlier this year, the Federal Reserve expanded its Term Asset-Backed Securities Loan Facility, or TALF, program to include CMBS because the Fed was concerned about the lack of real estate financing.

Another CMBS deal being marketed to investors right now is a \$460 million offering backed by properties owned by private-equity firm Fortress Investment Group. Properties backing the bonds will include real estate in Miami, Orlando and Jacksonville, including right-of-way and excess rail parcels, according to the term sheet. That deal, led by Bank of America Corp., also doesn't expect to use TALF.

Capitalizing on Distress: A Flurry of REIT IPO's to End 2009

In 2009, an increasing number of real estate and private equity firms assembled vehicles to capitalize on the distressed commercial property market. As property prices continue to plunge, investors are increasingly seeking to acquire bargains and take advantage of the federal government's promise to provide low-rate financing to investors willing to buy existing mortgage debt held by banks. Many are forming publicly traded REITs to buy or originate debt used to finance offices, retail centers, industrial projects and multifamily projects. Real estate investment bankers at Robert W. Baird forecast the number of real estate investment trust IPOs increasing in 2010 as the health of the public equity market increases and believes multifamily is slightly favored among all asset classes because of access to mortgage debt from agencies such as Fannie Mae.

In the largest U.S. initial public stock offering of 2009, Starwood Capital Group, a private-equity firm specializing in real-estate investments, raised \$951.5 million through its IPO in August. Starwood Property Trust Inc., intends to invest the proceeds in commercial mortgage-backed securities sold under the U.S. government's public-private investment program. Since November, ten REITs filed for IPO across several sectors. Three office REITs filed for IPO's including Halvern Realty, Inc., Callahan Capital Properties and Piedmont Office Realty. Two retail REITs (Whitestone Realty Trust and Excel Trust), two industrial REITs (Americold Realty Trust and Terreno Realty Corporation), and two lodging REITs (Pyramid Hotels and Resorts, Inc. and Chatham Trust) also filed for IPO's since November. NorthStar Healthcare Investors Inc. represented the sole healthcare REIT to file during this period.

REIT IPO's (continued)

Below is a chart providing detail on the REIT IPO filings during the fourth quarter of 2009.

4th Quarter IPO Filings from REITS

Company Name	Proposed NYSE Symbol	File Date	Amount	Overview
Excel Trust, Inc.	EXL	12/24/2009	\$300 million	Excel Trust, a newly formed retail REIT targeting value oriented community properties, filed to raise up to \$300 million. The San Diego, CA-based company plans to acquire, finance, develop, lease, own and manage community and power centers, grocery anchored neighborhood centers and freestanding retail properties. Excel Trust was incorporated on Dec. 15 and has no operating history.
Halvern Realty, Inc.	HALV	12/18/2009	\$400 million	Halvern Realty, a newly formed REIT that will acquire, own and manage a portfolio of office properties, filed to raise up to \$400 million. The Los Angeles, CA-based company, which was founded last month and has no operating history to date.
Americold Realty Trust		12/14/2009	\$690 million	Americold Realty Trust, a REIT focused on ownership, operation, acquisition and development of temperature-controlled warehouses, filed to raise up to \$690 million. The Atlanta, GA-based company, was founded in 1931 and booked \$802 million* in sales over the last 12 months. Americold is 89.6% controlled by the Yucaipa Companies.
Callahan Capital Properties, Inc.	CCP	12/11/2009	\$500 million	Callahan Capital Properties, a newly organized REIT that will manage a diversified portfolio consisting primarily of Class A office properties, filed to raise up to \$500 million. The Chicago, IL-based company was founded in 2006 and has no operating history to date. Management is led by Timothy Callahan, former CEO of Trizec Properties and Equity Office Properties Trust.
NorthStar Healthcare Investors, Inc.	NRH	12/7/2009	\$200 million	NorthStar Healthcare Investors, a newly-formed corp. that focuses on acquiring and owning senior housing facilities and other healthcare properties, filed to raise up to \$200 million. The New York, NY-based company plans to qualify as a REIT. Post IPO, NorthStar's portfolio will consist of 66 senior housing facilities in 14 states.
Pyramid Hotels & Resorts, Inc.	PYR	12/7/2009	\$275 million	Pyramid Hotels & Resorts filed to raise up to \$275 million. The Boston-based company, which was just recently incorporated last month and expects to qualify as a REIT, has no operating history to date; it plans to acquire and invest in luxury and upper upscale hotels in the top 35 travel markets in the US, as well as resort properties in select destination markets.
Piedmont Office Realty Trust, Inc.		11/27/2009	\$345 million	Piedmont Office Realty Trust, a REIT specializing in high-quality office buildings with 73 properties, filed to raise up to \$345 million. The Johns Creek, GA-based company was founded in 1997 and booked \$589 million in sales over the last 12 months.
Terreno Realty Corporation	TRNO	11/10/2009	\$300 million	Terreno Realty Corporation (TRNO), a newly organized REIT focused on acquiring industrial real estate in six major coastal U.S. markets, announced terms for its IPO. The San Francisco, CA-based company plans to raise \$300 million by offering 15 million shares at \$20.00 per share. Terreno Realty was founded in 2007.
Whitestone REIT	WSR	11/4/2009	\$50 million	Whitestone REIT, an equity REIT seeking to own and operate properties in established or developing diverse neighborhoods, filed to raise up to \$50 million. Net proceeds will be for the acquisition of new properties and loans and the redevelopment of existing properties. Founded in 1998, The Houston, TX-based company booked \$32 million in sales over the last 12 months,
Chatham Lodging Trust		11/4/2009	\$230 million	Chatham Lodging Trust, a recently organized company planning to operate as a REIT and invest in upscale branded hotels, filed to raise up to \$230 million. The Palm Beach, FL-based company, which was founded just last month and has yet to acquire any properties.

Source: Renaissancecapital.com

Retail: Is a Better Future Ahead?

2009 proved to be a challenging year for the real estate industry, characterized by difficult lending conditions, struggling retailers, a quiet investment sales market and an adverse leasing environment. Due to the worst consumer-spending slump in decades brought on by the housing, financial and credit crisis, retail businesses have been forced to scale back their operations, close stores and even go bankrupt. Other retailers have coped by adjusting business models, store counts and product offerings. In addition, the growth of online retailers and shopping sites has weakened demand for brick and mortar space. This continues to alter the landscape at malls and on main streets across the country. As property owners struggle to maintain occupancy levels due to weak demand from retailers, Reis, Inc. reported that vacancy rates at U.S. strip malls hit an 18-year high in the fourth quarter and the vacancy rate for large regional malls reached the highest level in at least 10 years. The firm predicts the vacancy rate at neighborhood and community centers to keep rising, and rents to continue falling through 2011. As a result of weak sales, many stores are pushing to negotiate lower rents adding to pressure on landlords.

The recession has accelerated the wave of retail failures, forcing thousands of local, regional and national retailers to increase layoffs,

Notable 2009 Bankruptcies	
Company	Month filed
The Walking Company	Dec
Penn Traffic	Nov
InkStop	Oct
Samsonite	Sept
Escada	Aug
Finally	Aug
Crabtree & Evelyn	July
Eddie Bauer	June
Anchor Blue	May
Filene's Basement	May
Bi-Lo	Apr
Z Gallerie	Apr
Ultra Jewelry	Apr
Big 10 Tires	Apr
Drug Fair	Mar
Everything but Water	Feb
Ritz Camera	Feb
S&K Famous Brand	Feb
Fortunoff	Feb
Gottschalks	Jan

Source: About.com

close stores and shutter their operations for good. Tight

lending terms and the reduced exposure to retailers has made it difficult for retailers to find capital to reorganize under bankruptcy-court protection. Although the amount of store closings is less than previously forecast, at least ten nationwide chains shuttered more than 200 stores in 2009, including Blockbuster, KB Toys, Starbucks and Waldenbooks. Circuit City Stores, Inc., the nation's second-biggest consumer electronics retailer, closed 567 U.S. stores that range in size from 20,000 to 25,000. The pullback in spending, triggered by declining consumer confidence and high unemployment rates has recently driven notable retailers such as Fortunoff, Drug Fair, Bi-Lo, Escada, Samsonite and Eddie Bauer into bankruptcy.

Giving hope for the new year, U.S. retail chain store sales ended 2009 on a strong note. According to the International Council of Shopping Centers Inc., December same-store sales rose 2.8%, the strongest monthly performance of 2009, and the best showing since April of 2008. The organization expects a rebound in 2010, with sales for the calendar year rising 3.0% to 3.5%, the strongest showing since sales rose 4.8% in 2006. Shopping center executives predict customer traffic and retailer sales to continue to grow meaningfully over the next six months and anticipate improvement in capitalization rates.

Notable 2009 Store Closings	
Company	Stores Closed
Blockbuster	960
Circuit City	567
KB Toys	461
Movie Gallery	450
Ritz Camera	365
Starbucks	287
Goody's	273
Jones Apparel Group	265
Waldenbooks	240
Foot Locker	200
Zale Corporation	191
Van Heusen	175
Ann Taylor	163
Charming Shoppes	162
InkStop	161
Family Dollar	160
Popeye's (AFC)	150
S&K Famous Brands Inc.	135
Eddie Bauer	121
Office Depot	118

Source: About.com

About FTI Schonbraun McCann Group

FTI Schonbraun McCann Group (SMG), is a global consulting firm dedicated to creating integrated financial, tax and real estate solutions for clients having underlying value in real estate operations and assets. SMG provides an unsurpassed range of advisory services and represents leading public and private real estate entities including owners/developers, financial institutions, investment banks, opportunity funds, insurance companies, hedge funds, and pension advisors who are challenged by today's changing market conditions. FTI Schonbraun McCann Group is the real estate advisory business of FTI Consulting, Inc.

About FTI Consulting

FTI Consulting, Inc. (NYSE: FCN) is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. With more than 3,300 professionals located in most major business centers in the world, we work closely with clients every day to anticipate, illuminate, and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

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