

RERC ♦ CCIM

Investment Trends

QUARTERLY

Third Quarter 2011 Report ♦ Vol. 7, No. 3



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CCIM Institute

Foreword

August 2011

Dear Readers,

We have known for some time that this is a slow recovery, but it became obvious in second quarter 2011 that the economy was stagnating. Economic growth was less than 1 percent for the first half of this year, unemployment has been increasing, and the housing market—despite record low mortgage rates—is still in decline. The combinations of these events have caused many to speculate whether the economy will fall back into recession, but as one pundit states, even if we don't head back into recession, it will feel like it.

As for investors, the past few weeks have served as a good reminder of just how quickly the investment outlook can change and how volatile the stock market is. Besides witnessing the massive ups and downs in the stock market, we have had to increase the nation's debt ceiling, live with the downgrading of our nation's credit rating to AA+, and watch the sovereign debt crisis spread across Europe. The uncertainty seems to grow daily. It is no wonder that investors are looking for investment opportunities with as little risk as possible. As for CCIM members, they continue to rate commercial real estate as the most highly-preferred investment in second quarter 2011, with cash at a close second.

As always, we would like to thank the many CCIM members who continue to complete RERC's research surveys for the *RERC/CCIM Investment Trends Quarterly*. We greatly appreciate your willingness to share your knowledge, ratings, and opinions with RERC so that we can compile, analyze, and report the information for other members of the CCIM Institute.

Sincerely,



Kenneth P. Riggs, Jr., CCIM, CRE, MAI
President & CEO
Real Estate Research Corporation (RERC)



Frank N. Simpson, CCIM
2011 CCIM Institute President
President, The Simpson Company

Investment Environment

Perhaps more than any other time except for when our nation was involved in a world war, we are very much aware of the fragility of the world's economies and the risk to all citizens. The sovereign debt crisis in Europe has spread beyond Greece and Portugal to Italy and Spain, the crisis in the Middle East and North Africa shows few signs of resolution, and we are seeing protestors riot and loot in London even while the French economy is declining.

The U.S. economy remains weak as well, and many believe another recession is just around the corner. At a time when the economy remains so fragile, investors are trying to avoid risk. However, during this downturn, the reputation of investors' go-to favorite—U.S. Treasuries—has been tarnished, given the recent credit downgrade from AAA status and the recent decline in returns of less than 2.5 percent.

Economic Highlights

Economy Slows

In a nationwide Gallup survey conducted in mid-July 2011, more than two-thirds of respondents said the U.S. economy was getting worse instead of better. This assessment was verified when gross domestic data (GDP) growth reports were released. With an increase of just 1.3 percent annualized growth during second quarter 2011, real GDP was far below expectations, according to the Bureau of Economic Analysis (BEA). Perhaps more importantly, first quarter GDP growth was revised down to 0.4 percent, indicating that the recovery had weakened considerably from 2010 and was much closer to falling back into negative territory than most of us knew.



Some investors have sought to avoid risk by investing in gold, but at more than \$1,600 an ounce, many investors believe the gold bubble is about to pop. Increasingly, investors are holding cash, with recent reports stating that U.S. bank holdings of cash in 2011 are up 83 percent to \$1.98 trillion.

Although returns are not as strong as we would like, investors are increasingly looking at commercial real estate as a safe haven in these turbulent times. It is tangible and transparent, and for the most part, investors know what they are getting when they invest in real estate. As noted in the pages of this report, besides rating commercial real estate as the most preferred investment alternative, CCIM members also gave commercial real estate overall a positive return versus risk rating.

As such, future economic growth forecasts have been downgraded, with the Federal Reserve lowering GDP growth range projections to 2.7 percent to 2.9 percent in 2011 and to 3.3 percent to 3.7 percent in 2012, which many economists say is still too optimistic, particularly since total growth was only 0.9 percent for the first half of 2011. The International Monetary Fund (IMF) lowered its economic growth expectations for the U.S. as well, projecting growth at 2.5 percent in 2011 and 2.7 percent in 2012.

Unemployment Increases

The improvement we were seeing in job growth at the beginning of 2011 all but disappeared in second quarter. In July, mass layoff announcements became the news of the day, as we read of 6,500 workers being cut from Cisco, 2,000 employees losing jobs at Research in Motion, 1,000 workers being eliminated from Goldman Sachs, 6,500 workers from Lockheed Martin receiving voluntary lay-off offers, 10,700 workers losing jobs with the closing of Borders Books, 13,000 employees scheduled for layoff at Merck, and more. While the numbers of lay-offs are daunting, the fact that the job losses cross multiple industries, including the tech and financial industries, is particularly worrisome.

The national unemployment rate inched up to 9.2 percent in June 2011, according to the Bureau of Labor Statistics (BLS), and the U-6 unemployment rate, which includes those who have given up looking for work or are marginally employed, increased to 16.2 percent. In addition, the labor participation rate fell to 64.1 percent in June, the lowest this rate has been since 1984.



Getting a Handle on the Debt

For the first time ever, the nation's long-term AAA credit rating (held since 1917) was downgraded to AA+. The credit rating agencies have warned repeatedly that the government needs to make significant progress in reducing the debt-to-GDP ratio (now nearly 75 percent and rising). In fact, Standard & Poor's has stated that our credit rating could be downgraded further within the next 6 to 24 months if debt is not reduced by at least \$4 trillion.

According to economists at JP Morgan, continued deterioration of the U.S. government's finances could increase the government's interest expenses by another \$100 billion a year. Besides increasing interest rates, a downgrade could cause the value of the dollar to decline, increase risk to the role of the dollar as the world's reserve currency, the stock market to fall, and the global financial markets to be negatively impacted.

Business and Consumer Confidence Falters

The pullback in demand by consumers has given businesses even more reason to hoard cash, look for additional sources of financing, hold back on hiring, and wait to invest in equipment. Manufacturing has slowed, with the July 2011 Institute of Supply Management PMI declining 4.4 percent to 50.9 percent, which still indicates growth (though just barely). Further, the New Orders Index declined to 49.2 percent, indicating contraction and increased lack of demand. But according to the Thomson Reuters/Paynet Small Business Lending Index, June borrowing by small U.S. businesses was up approximately 25 percent from year-ago figures, the highest level in more than 3 years.

Consumers continue to retrench, however. According to the Commerce Department, consumer spending dropped 0.2 percent in June 2011, the biggest drop in nearly 2 years. In addition, the Consumer Sentiment Index dropped to 63.7 in July 2011, down from 71.5 in June, as reported by the Thomson Reuters/University of Michigan Surveys of Consumers. The surveys also indicated that approximately 80 percent of survey respondents expected no financial improvement during the year ahead, and about 60 percent of respondents expected no financial gain over the next 5 years.

Inflation Remains Low

Inflation expectations remain relatively low. The Consumer Price Index for all Urban Consumers (CPI-U) decreased 0.2 percent in June 2011 on a seasonally-adjusted basis, reported the BLS, primarily due to recent declines in gasoline. (Over the past 12 months, the CPI-U increased 3.6 percent

before seasonal adjustment.) In addition, the Producer Price Index (PPI) for finished goods decreased 0.4 percent on a seasonally-adjusted basis in June, which followed increases of 0.2 percent in May and 0.8 percent in April. (Over the past 12 months, the PPI for finished goods climbed 7.0 percent before seasonal adjustment.)

Housing Market Continues to Struggle

The housing market continues to struggle as tight credit and growing uncertainty about the economic recovery discourages homebuyers. Existing-home sales declined each month during second quarter 2011, according to the National Association of Realtors (NAR). In addition, according to the Standard & Poor's Case-Shiller Home Price Index, prices for existing homes in 20 major U.S. cities fell 4.5 percent in May from a year earlier. While home prices rose in nine cities, led by Washington, D.C. and Boston, prices in the remaining 11 cities, led by Detroit and Tampa, declined on a seasonally-adjusted month-to-month basis. NAR also reports that the national median home price of existing homes was \$184,300 in June 2011, up slightly from a year ago. Distressed homes (foreclosures and short sales) generally sold at deep discounts, and accounted for 30 percent of sales in June.

However, according to the Census Bureau, housing starts increased 14.6 percent in June 2011 over starts in the previous month and 16.7 percent from a year ago. Sales of new single-family homes in June declined 1.0 percent below May sales, but increased 1.6 percent above year-ago sales.

CCIM Members Speak Out

The economy took a turn for the worse during second quarter 2011, as CCIM members saw deteriorating conditions in each region. CCIM members rated the national economy at 4.2 on a scale of 1 to 10, with 10 being high, down from 4.8 in first quarter. At 5.8, the East region maintained the highest rating of the regional economies, followed by a rating of 5.1 for the South regional economy. Meanwhile, the ratings for the West and Midwest regional economies decreased to 4.9 and 4.8, respectively.





Commercial Real Estate Highlights

With increased weakness in the economy and recent volatility in both the stock and bond markets, commercial real estate continues to serve as a safe haven for many investors. Commercial real estate is transparent, tangible, and with fundamentals improving, albeit slightly, there is potential for improving returns.

Banks Still Susceptible to Low Real Estate Values

Banks continue to have a great deal of risk associated with commercial real estate values of the properties in their portfolios, according to results of the 2011 *Survey of Credit Underwriting Practices* survey conducted by the Office of the Comptroller of the Currency. The survey indicated that 20 percent of banks reported easing in commercial-credit standards in 2011, a clear shift from the previous 3 years. The survey also notes that the return of liquidity in the secondary markets is a key contributor to easing standards.

The number of bank failures in 2011 is much improved over 2010 numbers, as well. There were 48 bank failures in the first 6 months of 2011, compared with 74 failures in the last 6 months of 2010. However, there is a large backlog of banks on the Federal Deposit Insurance Corporation's "problem list," with 888 banks listed in May 2011.

RERC/CCIM Investment Trends Quarterly Survey Results

Commercial real estate received the highest investment rating from CCIM members during second quarter 2011, although the rating declined to 5.8 on a scale of 1 to 10, with 10 being high, as shown in Exhibit 1. This is the first time this year that the investment rating for commercial real estate has declined. Given the renewed volatility in the stock market, it is not surprising that the rating for stocks fell to 4.8, while the rating for bonds declined to 4.2. The investment rating for cash improved to 5.0, second only to commercial real estate.

According to RERC's institutional investment survey respondents, the recommendation to hold commercial real estate dropped to 6.0 on a scale of 1 to 10, with 10 being high, during second quarter 2011, while the recommendation to buy remained at 6.6 and the recommendation to sell increased to 6.5. Exhibit 2 shows that this is the first time in more than a year that RERC's institutional investment survey respondents' hold recommendation took a back seat to both buying and selling this asset type.

As for the individual property types, the investment conditions rating for the apartment sector retained the top rating in second quarter 2011, though it declined slightly to 7.0 on a scale of 1 to 10, with 10 being high. At 5.1, the industrial sector continued to receive the second-highest rating, followed by the rating for the hotel sector at 5.0. The ratings for the retail and office sectors decreased to 4.8 and 4.5, respectively, as shown in Exhibit 3. While all of the property sector ratings (except for the hotel sector) declined slightly compared to the previous quarter, the ratings for the apartment, industrial, and hotel sectors remained at 5.0 or above.

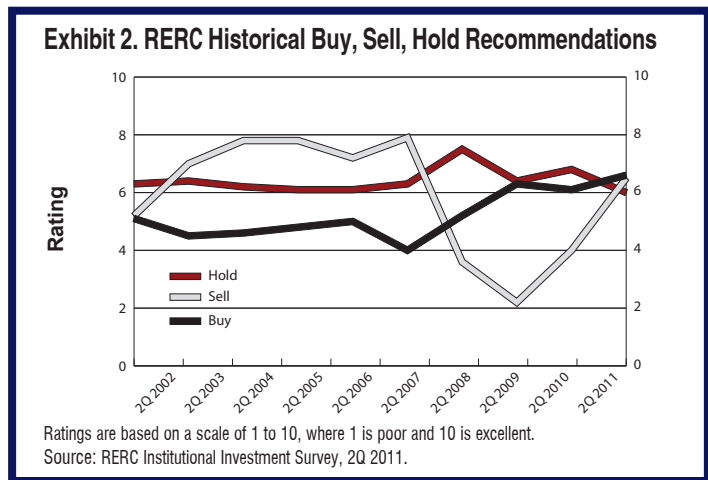
CCIM members rated return versus risk for commercial real estate overall at 5.3 on a scale of 1 to 10, with 10 being high, for second quarter 2011 (see Exhibit 4). Although the second quarter rating was down from 5.6 in first quarter, CCIM members believe that the return for this asset class still outweighs the risk.

As shown in Exhibit 4, the return versus risk rating for the apartment sector has consistently remained higher than the

Exhibit 1. CCIM Respondents Rate Investments

	2Q 2011	1Q 2011	4Q 2010	3Q 2010
Commercial Real Estate	5.8	6.0	6.3	5.6
Stocks	4.8	5.4	5.4	4.4
Bonds	4.2	4.3	3.8	4.2
Cash	5.0	4.6	4.2	4.8

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, 2Q 2011.





ratings for the other major property types. The apartment sector's return versus risk rating remained unchanged at 6.7 on a scale of 1 to 10, with 10 being high, during second quarter 2011. With a score of 5.1, the industrial sector received the second highest return versus risk rating. While the rating for the hotel sector remained unchanged at 4.8, the ratings for the retail and office sectors fell to 4.7 and 4.4, respectively. With the exception of the apartment and industrial sectors, the return versus risk ratings of the other three property sectors remained below 5.0, indicating that risk outweighs the returns for these property types.

The value versus price rating for commercial real estate overall decreased slightly to 5.4 on a scale of 1 to 10, with 10 being high, during second quarter 2011 (see Exhibit 4). Although this is a decline from the previous quarter, the rating continues to show that survey respondents think the overall value of this asset class is higher than the price.

Compared to the previous quarter, the value versus price ratings for each of the property sectors declined during second quarter 2011. At 5.4 on a scale of 1 to 10, with 10 being high, the industrial sector received the highest value versus price rating. While the rating for the apartment sector decreased to 5.2, the office and retail sectors each received a rating of 5.0. The rating for the hotel sector fell to 4.9 from the previous quarter, and received the only rating below 5.0. These lower scores indicate that survey respondents are less confident in the value of commercial real estate properties, and that the hotel sector may be overpriced in comparison to its value.

The 12-month trailing volume increased significantly for each of the property sectors for second quarter 2011. According to RERC's transaction analysis, the volume for the retail and hotel sectors rose 50 percent and 30 percent, respectively, while the volume for the apartment, office, and industrial sectors increased approximately 20 percent from the previous quarter. In addition, the size-weighted average



price per square foot of office space and of hotel rooms increased on a 12-month trailing basis for all transactions, while the price of retail space and of apartment units declined, and the price of industrial space was flat. In addition, 12-month trailing weighted-average capitalization rates for the apartment, office, and hotel sectors fell during second quarter, while the cap rates for the industrial and retail sectors remained unchanged.

The current quarter volume increased even more significantly for each of the property sectors during second quarter 2011. According to RERC's transaction analysis, current quarter volume for the retail and hotel sectors more than doubled, while the volume for the office sector increased by more than 50 percent. In addition, the quarterly size-weighted average price per square foot increased for all of the property sectors except the retail sector. The current quar-

Exhibit 3. Real Estate Investment Conditions Ratings

	2Q 2011	1Q 2011	4Q 2010	3Q 2010	2Q 2010
Office	4.5	4.7	4.4	3.8	4.0
Industrial	5.1	5.5	5.2	4.5	4.4
Retail	4.8	4.9	4.9	3.9	4.2
Apartment	7.0	7.1	6.6	6.0	5.9
Hotel	5.0	5.0	4.8	3.9	4.2

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, 2Q 2011.

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

	2Q 2011	1Q 2011	4Q 2010	3Q 2010	2Q 2010
Return vs. Risk					
Overall	5.3	5.6	5.4	4.9	5.4
Office	4.4	4.5	4.5	4.1	4.4
Industrial	5.1	5.5	5.2	4.8	4.8
Retail	4.7	4.8	4.9	4.2	4.7
Apartment	6.7	6.7	6.7	6.2	6.2
Hotel	4.8	4.8	4.7	4.1	4.4

Value vs. Price					
Overall	5.4	5.5	5.5	5.1	5.2
Office	5.0	5.1	4.8	4.7	4.7
Industrial	5.4	5.7	5.2	5.1	5.1
Retail	5.0	5.3	4.9	4.8	4.5
Apartment	5.2	5.4	5.3	5.4	5.2
Hotel	4.9	5.3	4.7	4.5	4.7

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, 2Q 2011.

ter average capitalization rates declined for the office, apartment, and hotel sectors, while the cap rates for the industrial and retail sectors increased.

Given the deterioration of the economy and continued uncertainty in the U.S. and global markets, investment risk seems to be even greater than in the past. As we write this report, the price of gold is more than \$1,700 an ounce and the stock market has been fluctuating wildly with every new piece of data that is released. It is no wonder that investors who wish to keep their sanity are seeking safety with their investments, which commercial real estate is known to provide. As noted in Exhibit 5, institutional real estate returns as reflected by the National Council of Real Estate Investment Fiduciaries (NCREIF) Index were quite reasonable, given the reduced amount of risk involved with this asset class. Even more attractive to some are the year-to-date returns of commercial real estate stocks via the National Association of Real Estate Investment Trust (NAREIT) Index.

Exhibit 5. What Do the Financial Markets Tell Us?

Compounded Annual Rates of Return as of 06/30/2011

Market Indices	YTD ⁴	1-Year	3-Year	5-Year	10-Year	15-Year
Consumer Price Index ¹	1.84%	3.40%	1.05%	2.13%	2.36%	2.42%
10-Year Treasury Bond ²	3.33%	3.08%	3.27%	3.74%	4.07%	4.66%
Dow Jones Industrial Average	1.42%	30.37%	6.09%	4.97%	4.20%	7.71%
NASDAQ Composite ³	4.55%	31.49%	6.55%	5.01%	2.53%	5.83%
NYSE Composite ³	4.46%	28.59%	-1.33%	0.36%	2.38%	5.37%
S&P 500	6.02%	30.69%	3.34%	2.94%	2.72%	6.50%
NCREIF Index	7.43%	16.73%	-2.56%	3.45%	7.64%	9.34%
NAREIT Index (Equity REITS)	10.62%	34.09%	5.38%	2.61%	10.68%	10.80%

¹Based on the published data from the Bureau of Labor Statistics (Seasonally Adjusted).

²Based on Average End of Day T-Bond Rates.

³Based on Price Index, and does not include the dividend yield.

⁴Year-to-date (YTD) averages are not compounded annually.

Sources: BLS, Federal Reserve Board, S&P, Dow Jones, NCREIF, NAREIT, compiled by RERC.

Summary

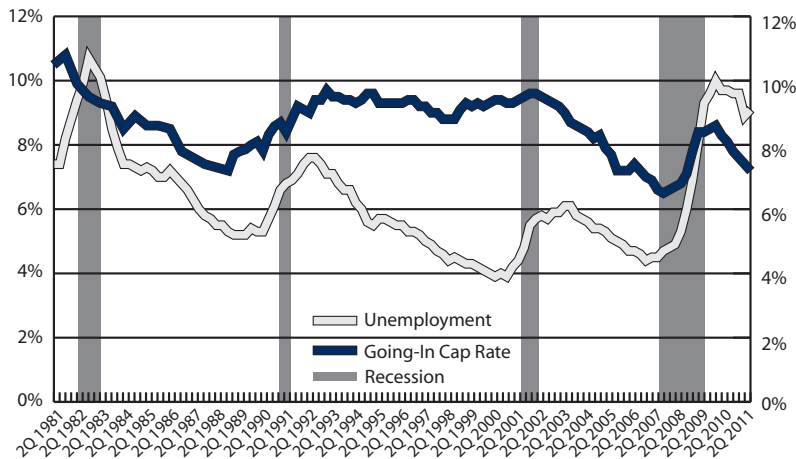
Commercial real estate, more than most investment alternatives, remains a reliable investment, particularly as investors search for safety during these turbulent economic times. It is tangible, transparent, and has the potential to provide reasonable returns, as outlined in the pages of this report. As a summary of our analysis of the investment environment and commercial property types, RERC notes:

- Barring any major shocks (the financial issues we have gone through these past few weeks were not—or should not have been—shocks), RERC expects the U.S. economy to continue to stumble along for the next couple years and for the recovery to remain fragile.
- Most consumers are still deleveraging, and are not able or willing to spend much more than they are already spending. Government spending will continue to taper off, unless another stimulus package is initiated.
- Unemployment rates will remain high for the rest of the year. Businesses are not seeing enough sales/demand to significantly increase hiring, and local, state, and federal governments are being downsized.
- Investment capital is increasingly available, although some investment survey respondents note availability is still low in their particular region.

- The office sector is gaining strength as an investment opportunity, with asking and effective rents increasing slightly.
- Investment recommendations declined slightly for the industrial sector, with some RERC investment survey respondents noting that the sector seems overpriced.
- Investment conditions declined slightly for the retail sector, with vacancy increasing.
- The apartment sector remains the safest commercial real estate property sector in which to invest, although there is risk of overpricing in the sector. However, vacancy further declined and asking and effecting rents increased during second quarter 2011.
- The hotel sector remains a good investment given its attractive pricing, although some survey respondents believe there is still much risk involved with the sector. Occupancy, ADR, and RevPAR increased in second quarter 2011, although RERC's required pre-tax yield rates and cap rates increased.

Snapshot of Real Estate Market Performance – 2Q 2011

Going-In Cap Rates vs. Unemployment



Sources: RERC, BLS, NBER, 2Q 2011.

Performance Indicator	Recent Data		Impact on Commercial Real Estate
Vacancy Rates	Office: 17.5% Industrial: 13.2% Retail: 11.0% Apartment: 5.9% Hotel: 71.6% (occupancy)		According to Reis, Inc., vacancy for the office sector remained unchanged. In contrast, the retail and apartment sectors' vacancy rates decreased. The industrial sector availability rate also fell during second quarter, according to Grubb & Ellis' preliminary research. Smith Travel Research reported that hotel occupancy increased during second quarter.
Rental Rates (RERC's surveyed rent growth expectations)	Office: 2.0% to 2.8% Industrial: 1.9% to 2.1% Retail: 2.1% to 2.4% Apartment: 3.6% Hotel: 3.6%		RERC's second quarter 2011 rental rate expectations were slightly higher for the office sector, regional retail mall sector, and apartment sector. In contrast, the expected rental rate for the industrial sector fell, along with those for the neighborhood/community retail and hotel sectors.
Real Estate Returns	RERC Required Returns: Office: 7.9% to 9.1% Industrial: 8.5% to 9.4% Retail: 8.0% to 8.9% Apartment: 7.9% Hotel: 10.7%	NCREIF Realized Returns: Office: 13.8% to 17.6% Industrial: 10.6% to 15.8% Retail: 14.1% to 15.7% Apartment: 21.4% Hotel: 14.4%	RERC's required returns for the industrial sector remained stable during second quarter 2011. In contrast, the required returns for the office, retail, and apartment sectors decreased, while those for the hotel sector increased slightly. With the exception of the apartment sector, whose rates remained unchanged, NCREIF's realized returns improved during second quarter.
Capitalization Rates	RERC Realized Cap Rates: Office: 6.5% Industrial: 7.6% Retail: 7.7% Apartment: 6.0% Hotel: 6.4%	NCREIF Implied Cap Rates: Office: 6.0% to 6.9% Industrial: 6.9% to 7.4% Retail: 6.8% to 7.3% Apartment: 5.7% Hotel: 7.0%	RERC's realized cap rates declined for all of the property sectors except for the industrial and retail sectors, which remained unchanged, during second quarter 2011. NCREIF's implied cap rates declined for the office, industrial, and apartment sectors, while those for the retail sector increased during second quarter. In contrast, the implied cap rates for the hotel sector remained unchanged compared to the previous quarter.

National Market Analysis

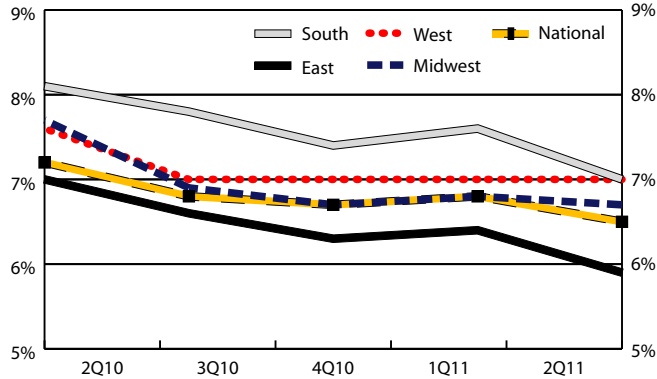
National Transaction Breakdown 12-Month Trailing Averages (07/01/10 - 06/30/11)					
	Office	Industrial	Retail	Apartment	Hotel
< \$2 Million					
Volume (Mil)	\$1,387	\$3,199	\$3,555	\$1,680	\$147
Size Weighted Avg. (\$ per sf/unit)	\$71	\$37	\$63	\$35,081	\$14,155
Price Weighted Avg. (\$ per sf/unit)	\$108	\$66	\$114	\$65,626	\$25,042
Median (\$ per sf/unit)	\$76	\$50	\$73	\$43,750	\$16,333
\$2 - \$5 Million					
Volume (Mil)	\$2,151	\$4,050	\$4,653	\$3,270	\$477
Size Weighted Avg. (\$ per sf/unit)	\$97	\$43	\$105	\$49,907	\$34,064
Price Weighted Avg. (\$ per sf/unit)	\$167	\$79	\$213	\$104,382	\$47,415
Median (\$ per sf/unit)	\$126	\$64	\$164	\$82,071	\$38,596
> \$5 Million					
Volume (Mil)	\$64,775	\$17,372	\$32,736	\$38,360	\$17,359
Size Weighted Avg. (\$ per sf/unit)	\$228	\$59	\$132	\$108,380	\$137,484
Price Weighted Avg. (\$ per sf/unit)	\$377	\$101	\$266	\$199,795	\$270,947
Median (\$ per sf/unit)	\$175	\$64	\$132	\$98,649	\$75,236
All Transactions					
Volume (Mil)	\$68,312	\$24,621	\$40,944	\$43,310	\$17,983
Size Weighted Avg. (\$ per sf/unit)	\$210	\$52	\$117	\$92,673	\$119,390
Price Weighted Avg. (\$ per sf/unit)	\$365	\$93	\$247	\$187,389	\$263,012
Median (\$ per sf/unit)	\$116	\$54	\$98	\$68,829	\$60,088
Capitalization Rates (All Transactions)					
Range (%)	4.0 - 13.1	4.0 - 12.4	4.0 - 12.1	4.0 - 12.5	4.3 - 12.5
Weighted Avg. (%)	6.5	7.6	7.7	6.0	6.4
Median (%)	7.6	7.6	7.7	6.4	7.5
Source: RERC.					

National Market Analysis

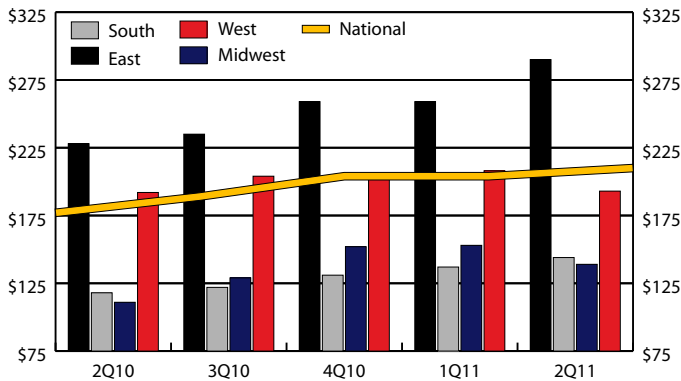
National Transaction Breakdown Current Quarter Rates (04/01/11 - 06/30/11)					
	Office	Industrial	Retail	Apartment	Hotel
< \$2 Million					
Volume (Mil)	\$470	\$1,000	\$1,173	\$581	\$57
Size Weighted Avg. (\$ per sf/unit)	\$65	\$34	\$57	\$34,510	\$12,038
Price Weighted Avg. (\$ per sf/unit)	\$105	\$65	\$115	\$66,496	\$23,704
Median (\$ per sf/unit)	\$69	\$46	\$70	\$44,417	\$14,583
\$2 - \$5 Million					
Volume (Mil)	\$764	\$1,427	\$1,827	\$1,217	\$161
Size Weighted Avg. (\$ per sf/unit)	\$95	\$43	\$104	\$48,146	\$30,783
Price Weighted Avg. (\$ per sf/unit)	\$167	\$82	\$211	\$102,232	\$42,850
Median (\$ per sf/unit)	\$125	\$64	\$146	\$81,289	\$35,738
> \$5 Million					
Volume (Mil)	\$22,446	\$4,913	\$16,336	\$11,332	\$6,323
Size Weighted Avg. (\$ per sf/unit)	\$246	\$63	\$113	\$105,940	\$189,153
Price Weighted Avg. (\$ per sf/unit)	\$431	\$99	\$185	\$219,094	\$316,738
Median (\$ per sf/unit)	\$170	\$68	\$103	\$93,750	\$114,994
All Transactions					
Volume (Mil)	\$23,680	\$7,340	\$19,336	\$13,130	\$6,541
Size Weighted Avg. (\$ per sf/unit)	\$222	\$52	\$106	\$88,071	\$150,575
Price Weighted Avg. (\$ per sf/unit)	\$416	\$91	\$183	\$201,506	\$307,407
Median (\$ per sf/unit)	\$107	\$53	\$95	\$66,964	\$75,986
Capitalization Rates (All Transactions)					
Range (%)	4.0 - 13.1	4.0 - 12.4	4.6 - 12.1	4.0 - 12.5	4.3 - 12.2
Weighted Avg. (%)	6.0	7.5	7.7	5.9	6.2
Median (%)	7.4	8.0	7.8	6.2	7.5
Source: RERC.					

National Office Property Sector

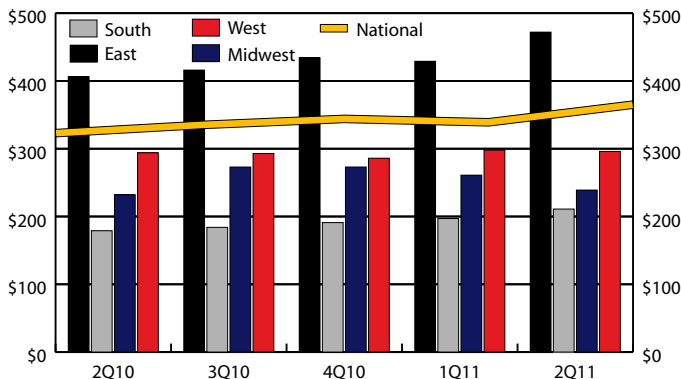
RERC Weighted Average Capitalization Rate (12-Month Trailing Average)



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



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



◆ During second quarter 2011, the majority of *RERC/CCIM Investment Trends Quarterly* survey respondents said that distressed office properties were among the most popular office transactions. Transactions of normal and foreclosed office properties also occurred, but they were not as common as those for distressed properties. Depending on the region, respondents reported that both buyers and sellers were finding office space attractively priced.

◆ Twelve-month trailing total transaction volume for the office sector increased by approximately 20 percent during second quarter 2011, and the size-weighted average price per square foot of office space also increased, though not significantly. The weighted-average capitalization rate declined to 6.5 percent on a 12-month trailing basis during second quarter, after increasing the previous quarter.

◆ After falling the previous quarter, office sector total volume increased significantly on a quarterly basis. The quarterly size-weighted average price per square foot increased nearly 20 percent in second quarter 2011, after fluctuating over the past several quarters.

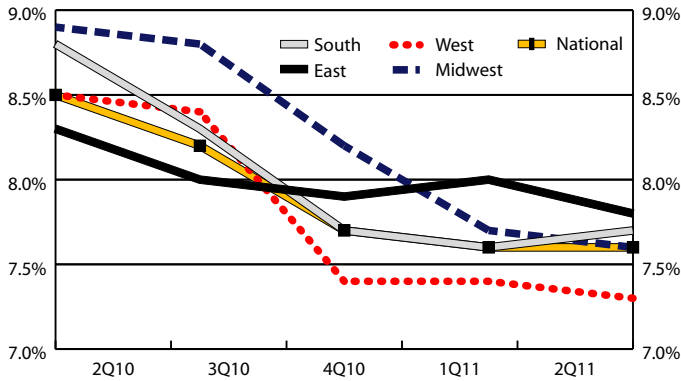
◆ Both volume and price increased for office transactions greater than \$5 million on a 12-month trailing basis during second quarter 2011. However, for transactions that totaled less than \$2 million, volume increased, while price decreased.

◆ According to Reis, Inc., the vacancy rate for the office sector remained unchanged at 17.5 percent during second quarter 2011. Net absorption was 3.9 million square feet, which was less than the amount of space absorbed during first quarter. Asking and effective rents rose by 0.3 percent and 0.4 percent, respectively.

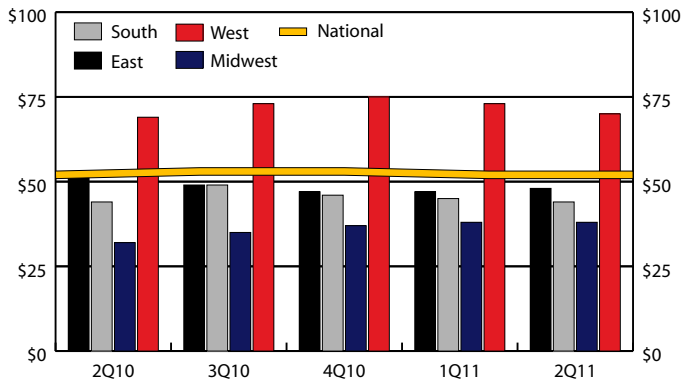


National Industrial Property Sector

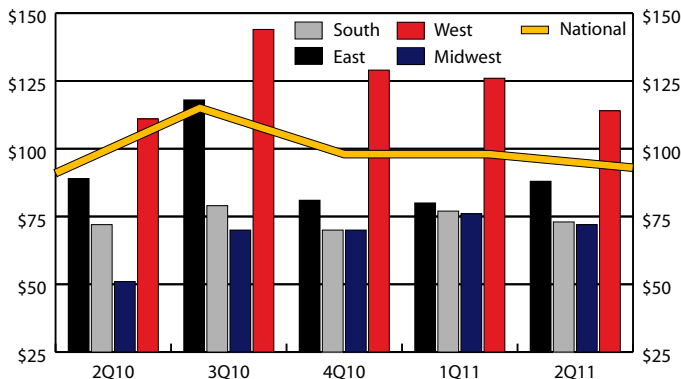
**RERC Weighted Average Capitalization Rate
(12-Month Trailing Average)**



**RERC Size-Weighted Average PPSF
(12-Month Trailing Average)**



**RERC Price-Weighted Average PPSF
(12-Month Trailing Average)**



♦ According to the *RERC/CCIM Investment Trends Quarterly* survey, many respondents stated that normal and distressed industrial properties were selling at prices particularly attractive to buyers during second quarter 2011. The industrial market continues to struggle as the job market remains weak and the manufacturing industry tries to gain momentum.

♦ The 12-month trailing total volume for the industrial sector increased approximately 20 percent during second quarter 2011, while the size-weighted average price per square foot remained flat after steadily increasing over the past year. The 12-month trailing weighted-average capitalization rate remained unchanged at 7.6 percent.

♦ On a quarterly basis, total volume for the industrial sector rose 40 percent during second quarter 2011 after declining first quarter. The quarter-to-quarter size-weighted average price per square foot increased 10 percent on a quarterly basis.

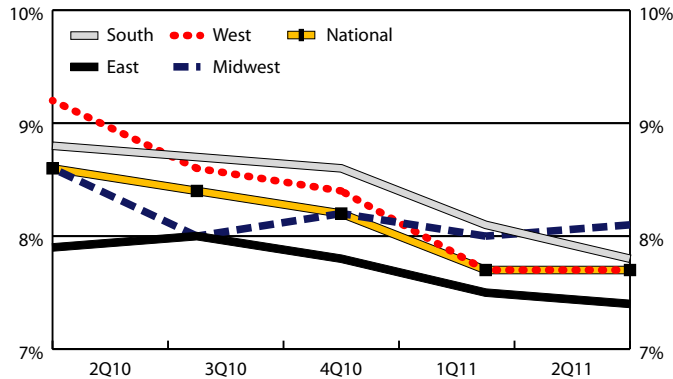
♦ Twelve-month trailing volume for transactions that totaled less than \$2 million increased during second quarter 2011, while the price declined. In contrast, the volume and price of industrial property transactions that totaled greater than \$5 million increased from the previous quarter.

♦ The industrial availability rate declined 10 basis points to 13.2 percent during second quarter 2011, according to Grubb & Ellis' preliminary research. Approximately 32 million square feet of industrial space was absorbed, and just 3.5 million square feet of property was completed, the smallest quarterly figure since the beginning of the recession. In addition, the asking net rent declined 0.2 percent.

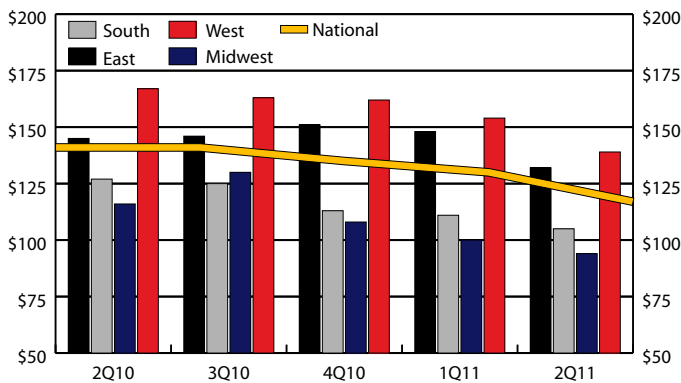


National Retail Property Sector

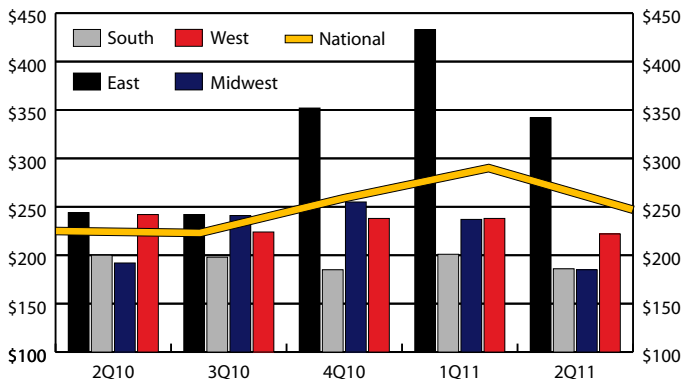
**RERC Weighted Average Capitalization Rate
(12-Month Trailing Average)**



**RERC Size-Weighted Average PPSF
(12-Month Trailing Average)**



**RERC Price-Weighted Average PPSF
(12-Month Trailing Average)**



♦ With weak retail sales, the retail property sector continued to struggle during second quarter 2011, according to *RERC/CCIM Investment Trends Quarterly* survey respondents. Distressed retail properties were selling better than normal and foreclosed retail properties, and like the other property sectors, retail property could be bought at an attractive price.

♦ While 12-month trailing total retail property volume rose 50 percent from the previous quarter, the size-weighted average price per square foot declined nearly 10 percent during second quarter 2011. The 12-month trailing weighted-average capitalization rate remained unchanged at 7.7 percent, halting the downward trend over the past year.

♦ On a quarter-to-quarter basis, retail sector total volume jumped significantly during second quarter 2011, while retail property price on a quarterly basis fell nearly 15 percent.

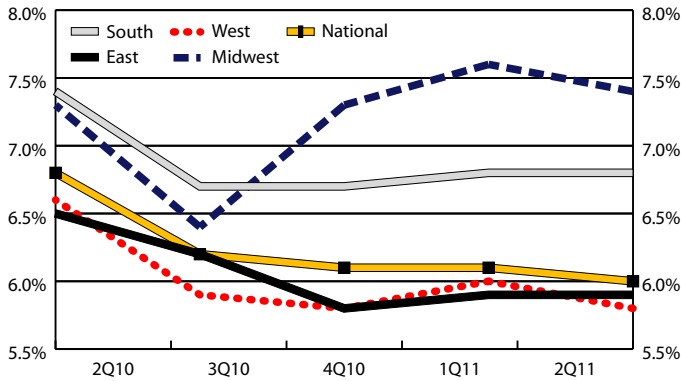
♦ Although retail sector volume increased on a 12-month trailing basis for transactions of less than \$2 million, between \$2 to \$5 million, and greater than \$5 million, the price for retail properties in each of these transaction categories decreased.

♦ According to Reis, Inc., the retail sector vacancy rate increased to 11.0 percent during second quarter 2011, after remaining at 10.9 percent for the past year. However, only 638,000 square feet of new neighborhood and community center space came online, the second-lowest level of new deliveries for any quarter since Reis began publishing quarterly data in 1999. Asking and effective rents were both flat this quarter.

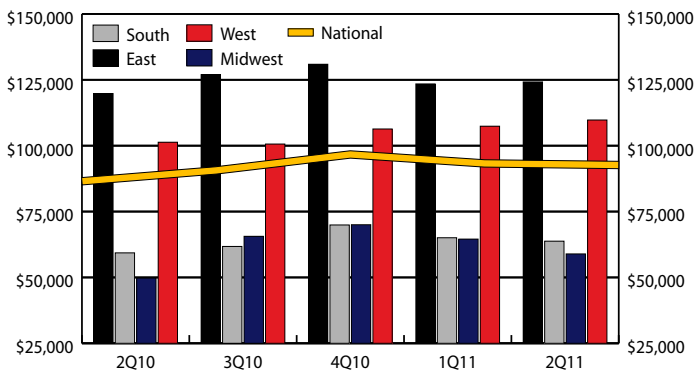


National Apartment Property Sector

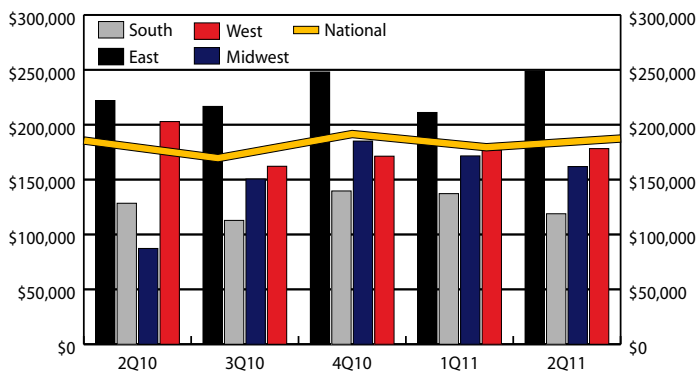
**RERC Weighted Average Capitalization Rate
(12-Month Trailing Average)**



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



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



◆ Despite the economic uncertainty, the apartment sector is expected to continue to perform well in most markets, according to *RERC/CCIM Investment Trends Quarterly* survey respondents. The majority of respondents reported that normal apartment properties (as opposed to distressed properties) sold the best within the apartment sector. In addition, the majority of respondents said that the apartment property prices were particularly attractive for sellers.

◆ The 12-month trailing total volume for the apartment sector rose 20 percent in second quarter from the previous quarter, while the size-weighted average price per unit declined slightly. The 12-month trailing weighted-average capitalization rate declined to 6.0 percent during second quarter 2011.

◆ Quarterly apartment sector total volume increased 45 percent in second quarter 2011, which was a huge difference from last quarter's decline. Likewise, the quarterly size-weighted average price per unit rose nearly 5 percent from the previous quarter.

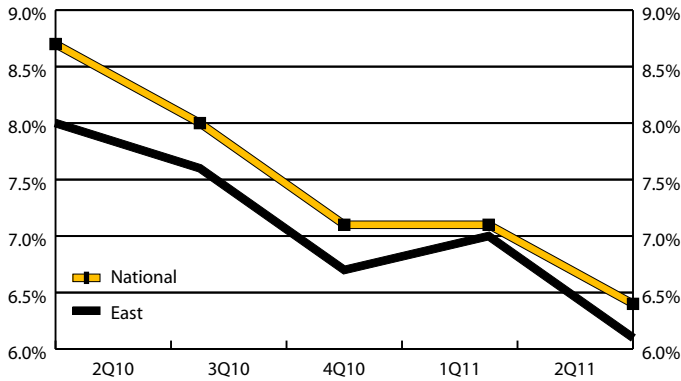
◆ While the apartment sector volume for transactions that totaled greater than \$5 million increased on a 12-month trailing basis during second quarter 2011, the size-weighted average price per unit remained mostly flat. In comparison, the volume for transactions of less than \$2 million rose while the size-weighted average price per unit decreased.

◆ The apartment sector vacancy rate declined to 5.9 percent during second quarter 2011, according to Reis, Inc. Asking and effective rents increased 0.6 percent. In addition, there were only approximately 8,700 new completions in second quarter, the second-lowest quarterly figure on record since Reis began publishing data in 1999.

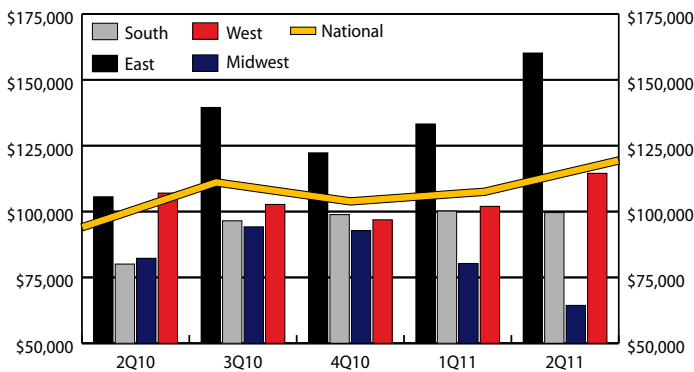


National Hotel Property Sector

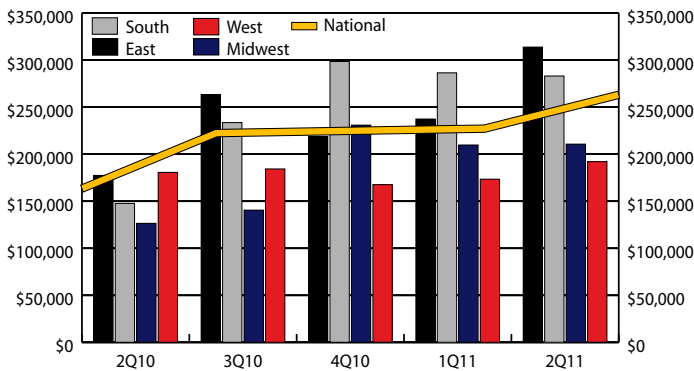
**RERC Weighted Average Capitalization Rate
(12-Month Trailing Average)**



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



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



- ◆ While distressed hotel properties sold well, normal and fore-closed hotel properties were not as popular, according to *RERC/CCIM Investment Trends Quarterly* survey respondents. The majority of respondents said that hotel sector pricing was too high during second quarter 2011.
- ◆ During second quarter 2011, the 12-month trailing total volume and size-weighted average price per unit increased approximately 30 percent and 10 percent, respectively. The weighted-average capitalization rate dropped to 6.4 percent on from the previous quarter on a 12-month trailing basis.
- ◆ On a quarter-to-quarter basis, hotel sector volume increased significantly during second quarter 2011 from the previous quarter, while the price per unit rose approximately 30 percent.
- ◆ Twelve-month trailing volume and price for transactions greater than \$5 million increased during second quarter 2011. However, while the volume for transactions of less than \$2 million also increased in second quarter, prices fell from the previous quarter.
- ◆ According to Smith Travel Research, hotel sector occupancy rose 2.8 percent to 71.6 percent compared to a year ago. Likewise, the average daily rate (ADR) increased 3.3 percent to \$102.33, and revenue per available room (RevPAR) rose 6.2 percent to \$73.30 during second quarter 2011.



East Region Transaction Breakdown

East Transaction Breakdown 12-Month Trailing Averages (07/01/10 - 06/30/11)					
	Office	Industrial	Retail	Apartment	Hotel
< \$2 Million					
Volume (Mil)	\$294	\$738	\$832	\$279	\$29
Size Weighted Avg. (\$ per sf/unit)	\$66	\$33	\$70	\$36,140	\$10,711
Price Weighted Avg. (\$ per sf/unit)	\$104	\$64	\$119	\$62,311	\$20,761
Median (\$ per sf/unit)	\$70	\$46	\$78	\$50,000	\$13,138
\$2 - \$5 Million					
Volume (Mil)	\$471	\$1,107	\$1,133	\$932	\$62
Size Weighted Avg. (\$ per sf/unit)	\$105	\$39	\$115	\$70,706	\$31,105
Price Weighted Avg. (\$ per sf/unit)	\$171	\$81	\$223	\$112,355	\$40,524
Median (\$ per sf/unit)	\$131	\$64	\$173	\$86,192	\$37,838
> \$5 Million					
Volume (Mil)	\$32,823	\$3,965	\$11,766	\$13,649	\$7,597
Size Weighted Avg. (\$ per sf/unit)	\$307	\$57	\$143	\$138,209	\$175,510
Price Weighted Avg. (\$ per sf/unit)	\$480	\$95	\$369	\$261,714	\$317,031
Median (\$ per sf/unit)	\$206	\$64	\$147	\$116,516	\$82,101
All Transactions					
Volume (Mil)	\$33,589	\$5,809	\$13,731	\$14,860	\$7,688
Size Weighted Avg. (\$ per sf/unit)	\$290	\$48	\$132	\$124,190	\$160,163
Price Weighted Avg. (\$ per sf/unit)	\$472	\$88	\$342	\$248,601	\$313,682
Median (\$ per sf/unit)	\$141	\$52	\$106	\$83,875	\$65,753
Capitalization Rates (All Transactions)					
Range (%)	4.0 - 10.9	4.0 - 11.1	4.0 - 11.7	4.0 - 12.2	4.7 - 8.3
Weighted Avg. (%)	5.9	7.8	7.4	5.9	6.1
Median (%)	7.0	7.9	7.5	6.6	7.0
Source: RERC.					

South Region Transaction Breakdown

South Transaction Breakdown 12-Month Trailing Averages (07/01/10 - 06/30/11)					
	Office	Industrial	Retail	Apartment	Hotel
< \$2 Million					
Volume (Mil)	\$436	\$711	\$1,222	\$327	\$53
Size Weighted Avg. (\$ per sf/unit)	\$72	\$32	\$59	\$23,669	\$15,004
Price Weighted Avg. (\$ per sf/unit)	\$107	\$51	\$109	\$42,864	\$29,925
Median (\$ per sf/unit)	\$76	\$44	\$68	\$30,268	\$15,443
\$2 - \$5 Million					
Volume (Mil)	\$525	\$623	\$1,406	\$618	\$120
Size Weighted Avg. (\$ per sf/unit)	\$96	\$38	\$95	\$26,024	\$32,297
Price Weighted Avg. (\$ per sf/unit)	\$164	\$59	\$189	\$51,834	\$47,649
Median (\$ per sf/unit)	\$131	\$47	\$141	\$29,206	\$33,552
> \$5 Million					
Volume (Mil)	\$8,684	\$3,981	\$8,083	\$9,227	\$3,340
Size Weighted Avg. (\$ per sf/unit)	\$157	\$49	\$122	\$75,649	\$119,269
Price Weighted Avg. (\$ per sf/unit)	\$219	\$79	\$197	\$126,073	\$295,457
Median (\$ per sf/unit)	\$158	\$48	\$115	\$69,024	\$68,985
All Transactions					
Volume (Mil)	\$9,645	\$5,315	\$10,710	\$10,172	\$3,513
Size Weighted Avg. (\$ per sf/unit)	\$144	\$44	\$105	\$63,762	\$99,616
Price Weighted Avg. (\$ per sf/unit)	\$211	\$73	\$186	\$118,889	\$282,965
Median (\$ per sf/unit)	\$100	\$45	\$88	\$41,938	\$55,127
Capitalization Rates (All Transactions)					
Range (%)	4.0 - 10.1	6.2 - 10.0	5.8 - 12.0	4.0 - 10.4	5.5 - 12.5
Weighted Avg. (%)	7.0	7.7	7.8	6.8	8.1
Median (%)	8.0	7.9	7.7	7.5	9.0
Source: RERC.					

Midwest Region

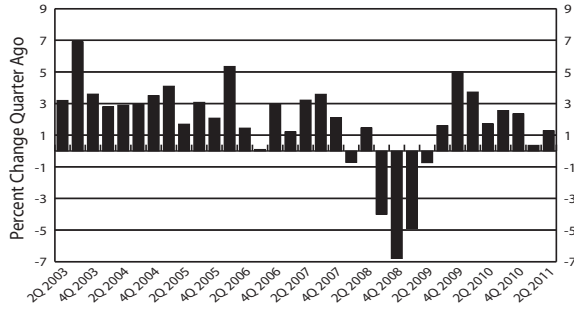
Transaction Breakdown

Midwest Transaction Breakdown					
12-Month Trailing Averages (07/01/10 - 06/30/11)					
	Office	Industrial	Retail	Apartment	Hotel
< \$2 Million					
Volume (Mil)	\$204	\$545	\$616	\$213	\$28
Size Weighted Avg. (\$ per sf/unit)	\$52	\$24	\$47	\$19,164	\$12,362
Price Weighted Avg. (\$ per sf/unit)	\$79	\$37	\$96	\$33,577	\$17,745
Median (\$ per sf/unit)	\$57	\$32	\$56	\$26,667	\$13,380
\$2 - \$5 Million					
Volume (Mil)	\$265	\$496	\$649	\$250	\$84
Size Weighted Avg. (\$ per sf/unit)	\$58	\$24	\$82	\$27,135	\$27,109
Price Weighted Avg. (\$ per sf/unit)	\$112	\$41	\$192	\$45,449	\$34,132
Median (\$ per sf/unit)	\$75	\$34	\$127	\$44,167	\$25,862
> \$5 Million					
Volume (Mil)	\$6,384	\$2,699	\$5,556	\$2,286	\$1,084
Size Weighted Avg. (\$ per sf/unit)	\$157	\$49	\$108	\$86,894	\$82,125
Price Weighted Avg. (\$ per sf/unit)	\$250	\$85	\$194	\$186,555	\$229,293
Median (\$ per sf/unit)	\$140	\$52	\$102	\$67,292	\$62,000
All Transactions					
Volume (Mil)	\$6,852	\$3,741	\$6,821	\$2,749	\$1,196
Size Weighted Avg. (\$ per sf/unit)	\$139	\$38	\$94	\$58,926	\$64,390
Price Weighted Avg. (\$ per sf/unit)	\$239	\$72	\$185	\$161,849	\$210,569
Median (\$ per sf/unit)	\$73	\$34	\$76	\$32,813	\$41,663
Capitalization Rates (All Transactions)					
Range (%)	4.2 - 10.9	5.9 - 12.4	5.0 - 11.3	5.7 - 11.1	-
Weighted Avg. (%)	6.7	7.6	8.1	7.4	-
Median (%)	7.9	7.6	8.5	7.5	-
Source: RERC.					

West Region Transaction Breakdown

West Transaction Breakdown 12-Month Trailing Averages (07/01/10 - 06/30/11)					
	Office	Industrial	Retail	Apartment	Hotel
< \$2 Million					
Volume (Mil)	\$454	\$1,205	\$885	\$861	\$36
Size Weighted Avg. (\$ per sf/unit)	\$86	\$64	\$85	\$56,539	\$19,947
Price Weighted Avg. (\$ per sf/unit)	\$124	\$90	\$129	\$83,290	\$26,989
Median (\$ per sf/unit)	\$97	\$75	\$92	\$65,192	\$19,118
\$2 - \$5 Million					
Volume (Mil)	\$889	\$1,816	\$1,465	\$1,469	\$211
Size Weighted Avg. (\$ per sf/unit)	\$117	\$65	\$127	\$75,866	\$40,630
Price Weighted Avg. (\$ per sf/unit)	\$182	\$96	\$237	\$131,455	\$54,611
Median (\$ per sf/unit)	\$146	\$86	\$197	\$120,652	\$45,455
> \$5 Million					
Volume (Mil)	\$16,884	\$6,722	\$7,331	\$13,199	\$5,338
Size Weighted Avg. (\$ per sf/unit)	\$207	\$73	\$154	\$123,457	\$127,788
Price Weighted Avg. (\$ per sf/unit)	\$307	\$123	\$231	\$189,597	\$198,493
Median (\$ per sf/unit)	\$173	\$78	\$180	\$123,188	\$83,000
All Transactions					
Volume (Mil)	\$18,227	\$9,743	\$9,682	\$15,529	\$5,585
Size Weighted Avg. (\$ per sf/unit)	\$193	\$70	\$139	\$109,744	\$114,517
Price Weighted Avg. (\$ per sf/unit)	\$296	\$114	\$222	\$178,204	\$191,952
Median (\$ per sf/unit)	\$130	\$78	\$124	\$95,000	\$62,264
Capitalization Rates (All Transactions)					
Range (%)	4.0 - 13.1	5.0 - 11.0	4.6 - 12.1	4.0 - 12.5	4.3 - 10.3
Weighted Avg. (%)	7.0	7.3	7.7	5.8	6.4
Median (%)	7.6	7.3	7.5	6.0	7.2
Source: RERC.					

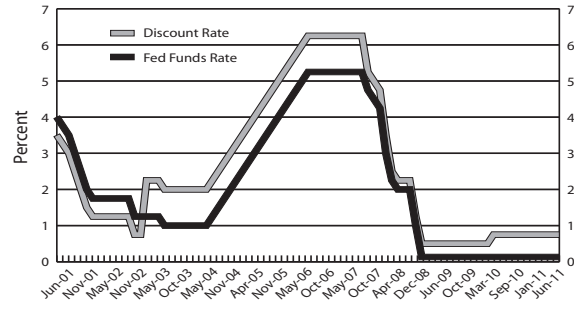
GDP



Source: Bureau of Economic Analysis.

According to the Bureau of Economic Analysis, real gross domestic product (GDP) growth rose 1.28 percent on an annualized basis in second quarter 2011. Furthermore, real GDP was revised down substantially from 1.9 percent to 0.4 percent during first quarter. The economic momentum remains weak, although slightly stronger growth is forecasted for the next few quarters.

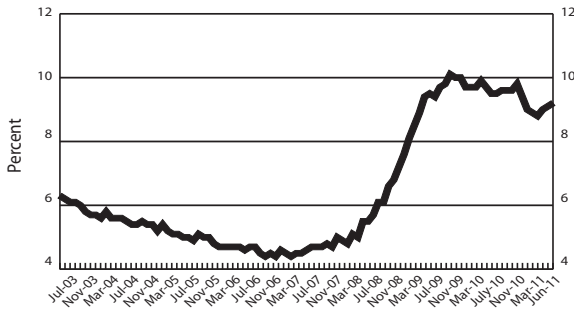
FOMC Policy Decisions



Source: Federal Reserve.

The Federal Open Market Committee's (FOMC's) monetary policy will remain unchanged for some time, with the federal funds rate remaining in the 0.0-percent to 0.25-percent range and the discount rate remaining at 0.75 percent. The FOMC expects the increase in headline inflation to recede in the near term, and noted that it was open to further stimulative measures if needed.

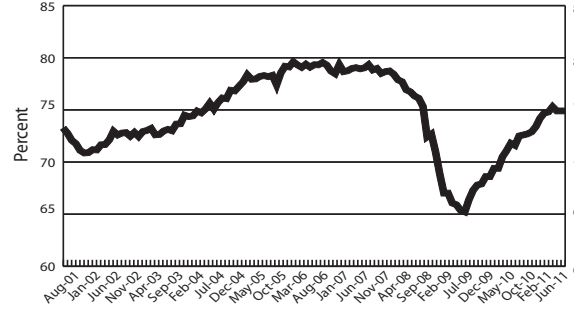
Unemployment



Source: Bureau of Labor Statistics.

The unemployment rate rose to 9.2 percent in June 2011 after consistently increasing during second quarter 2011. Furthermore, the broadest measure of unemployment (U-6), increased to 16.2 percent - the highest since June 2010. This weakness in the job market is due to lack of demand and employer uncertainty.

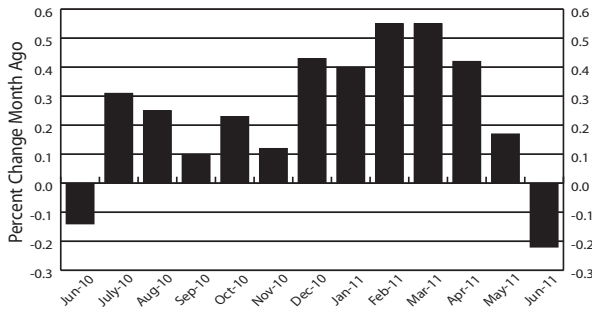
Manufacturing Utilization



Source: Federal Reserve.

In June 2011, factory output increased at a 0.2 percent annual rate after decreasing the previous 2 months. However, total output increased at an annual rate of just 0.8 percent during second quarter after increasing 4.8 percent in the first quarter. The decline in output during second quarter was due primarily to disruptions in auto production, which is expected to linger for a few months.

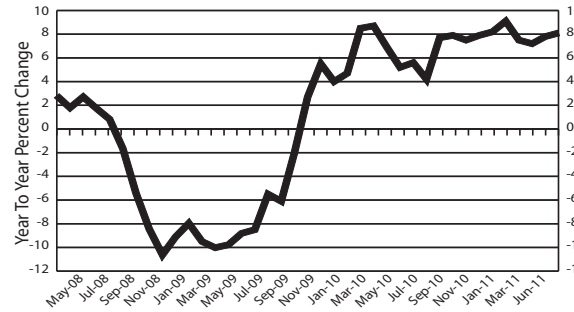
Consumer Price Index



Source: Bureau of Labor Statistics.

The Consumer Price Index (CPI) fell 0.2 percent to 224.30 in June 2011, the first decline in a year. In addition, although the CPI was up 1.5 percent annualized over the past 3 months, this was the slowest pace since August 2010. The core CPI increased 0.3 percent for the second consecutive month. Although this gain was larger than expected, it is expected to be temporary.

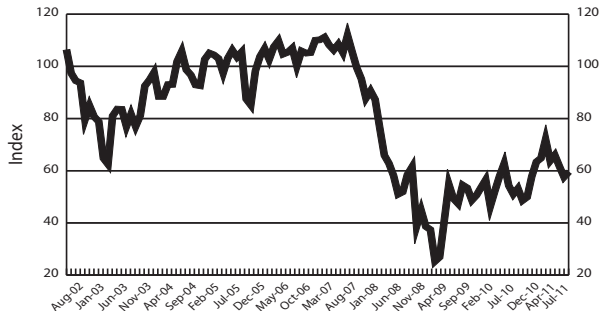
Retail Sales



Source: Census Bureau.

Retail sales increased 0.1 percent in June 2011 from previous month sales, and were 8.1 percent higher than a year ago. However, retail sales remain weak overall, and with a weak job market and a sluggish residential real estate market, are expected to remain relatively slow in the near term.

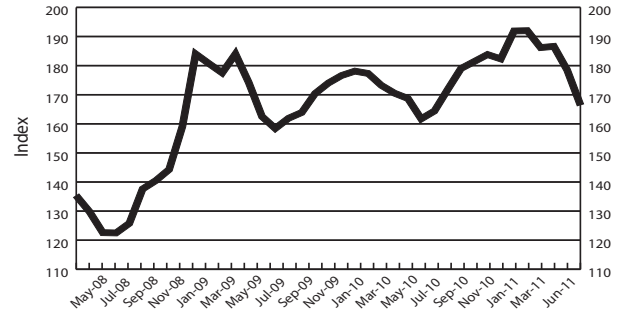
Consumer Confidence



Source: The Conference Board.

Consumer confidence rose 1.9 points to 59.5 points in July 2011, although this gain did little to reverse the cumulative 8.4-point decline in confidence over the past 2 months. With mixed fundamentals and consumers uneasy about the debt-ceiling debate and deficit, this gain, though slight, came as a surprise.

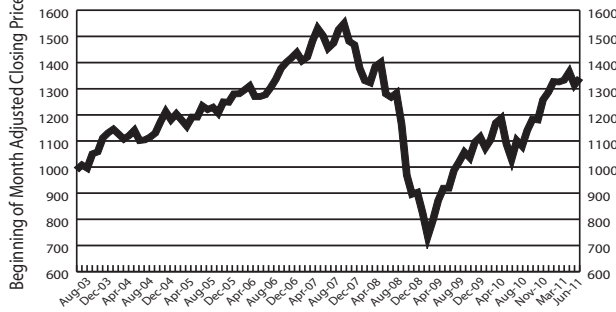
Housing Affordability



Source: NAR.

The National Association of REALTORS® (NAR) Housing Affordability Index measures whether or not a typical family could qualify for a mortgage on a typical home. The Housing Affordability Index fell to 166.5 in June 2011, the lowest it has been in a year. However, this still indicates that a family is more than able to afford a median-priced home.

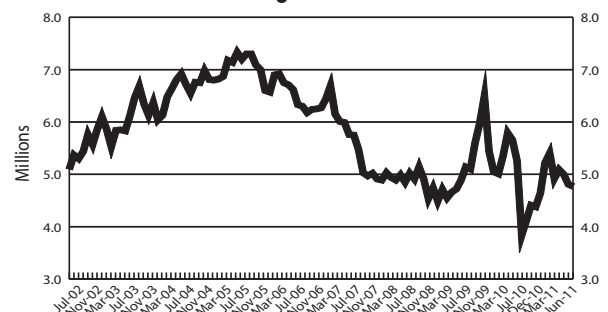
S&P 500



Source: S&P.

The S&P 500 remained largely unchanged during second quarter and ended June 2011 at 1,339.67. Stocks have been struggling for the past few weeks due to the debt crisis in the U.S. and Europe, along with the draw-down of QE2, but for investors with a steel-coated stomach, stocks remain a desirable investment.

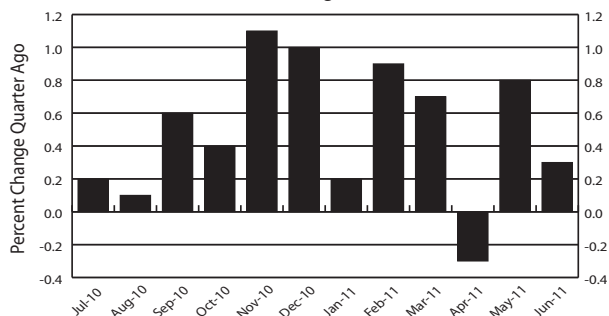
Existing Home Sales



Source: NAR.

Existing home sales fell 0.8 percent in June 2011, at an annualized rate of 4.77 million units. This is the slowest pace since November 2010 and the third consecutive decline in home sales. Compared to a year ago, sales are down 8 percent. However, this is better than the double-digit declines in May and April.

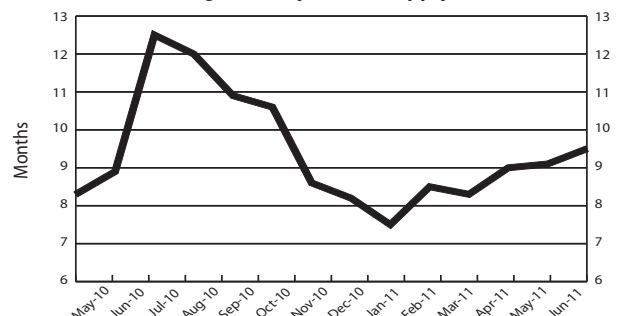
Index of Leading Indicators



Source: The Conference Board.

The Conference Board's Index of Leading Indicators rose 0.3 percent in June 2011, confirming the sentiment that the soft patch of economic growth will linger a few months longer.

Single Family Home Supply



Source: NAR.

The single-family home supply rose to 9.5 months in June 2011, the highest reading since November 2010. This remains considerably above the normal rate of around 6.0 months. A combination of softer sales and an increase in listings drove up supply.

Scope & Methodology

The analysis provided in the *RERC/CCIM Investment Trends Quarterly* is conducted by Real Estate Research Corporation (RERC). The information is gathered in raw form from surveys sent to CCIM designees and candidates, and from sales transactions collected from various sources, including CCIM members, various key commercial information exchange organizations (CIEs), the media, assessors' offices, RERC contacts in the marketplace, and other reliable public and private resources. All sales transactions are aggregated, analyzed, and reported on by RERC.

Published quarterly, the *RERC/CCIM Investment Trends Quarterly* report provides timely insight into transaction volume, pricing, and capitalization rates for the core income-producing properties.

RERC Definitions

Capitalization Rate: The capitalization rate is defined as the first year "stabilized" net operating income (NOI) (NOI is before capital expenditures – tenant improvements, leasing commissions, reserves – and debt service) divided by the present value (or purchase price). Capitalization rates included are transaction-based medians and price-weighted averages.

RERC Capitalization Rate and Ranges: Capitalization rates and ranges listed throughout this report are based on RERC's proprietary realized capitalization rate model, which includes available transaction-based capitalization rates, NCREIF Index Returns, and other market factors, but is heavily weighted toward transaction-based capitalization rates for each property type within each market.

Price-Weighted Average: The price-weighted average is developed through weighting each asset based on the gross sales price. Therefore, larger dollar properties are given more weight than the smaller dollar properties, with the weighted average reflecting more weight towards institutional real estate.

Size-Weighted Average: The size-weighted average is developed through weighting each asset based on its gross square footage – simply an aggregation of all the gross sales prices divided by the aggregation of the gross square footage.

National/Regional Market Analysis: RERC ranks the investment potential of the metros and property types it covers based on various space market and financial market criteria, including pricing, capitalization rates, vacancy rates, and other factors.

Investment Conditions Rating: A rating of 1 through 10 (with 10 being high) reflecting survey respondents' collective views of the investment environment for a particular property type in comparison with other property types. The rating may take into account supply and demand, economic conditions, pricing, rental rates, or other factors.

NCREIF Definitions

NCREIF: The National Council of Real Estate Investment Fiduciaries (NCREIF) is an independent organization dedicated to the compilation, validation, and distribution of performance data for the institutional real estate investment community.

Total Return: The total return includes appreciation (or depreciation), realized capital gain (or loss), and income. It is computed by adding the income and capital appreciation return on a quarterly basis.

Implied Cap Rate (Income Return): The implied capitalization rate measures the portion of return attributable to each property's NOI. It is computed by dividing the total NOI by the total quarterly investment.

Capital Appreciation Return: The capital appreciation return measures the change in market value adjusted for any capital improvements/expenditures and partial sales divided by the average quarterly investment.

Annual and Annualized Returns: Annual returns are computed by chain-linking quarterly rates of return to produce time-weighted rates of return for the annual and annualized periods under study. For time periods beyond 1 year, the annualized returns are expressed as the annual compounded rate of return.

Allocation: The distribution, expressed as a percentage of the overall investment, in a particular geographic area by property type.

For a detailed description of the proceeding returns, as well as the calculations used by NCREIF to derive these figures, please visit <http://www.ncreif.org/indices>.

The combined returns are the weighted average of the returns for each property type according to the proportionate market value of properties surveyed relative to the total market values surveyed during a time period.

RERC Defined Regions and MSAs

West: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

Midwest: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

South: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Oklahoma, Tennessee, Texas

East: Connecticut, Delaware, Kentucky, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, Washington D.C., West Virginia

Metropolitan Statistical Area (MSA): A geographic unit comprised of one or more counties around a central city or urbanized area with 50,000 or more population. Contiguous counties are included if they have close social and economic links with the area's population nucleus.

With a few exceptions, the MSAs within this report coincide with the U.S. Office of Management and Budget's December 2005 definitions for each MSA. For example, St. Paul, Minn., and Bloomington, Minn., as well as many other suburbs, are included within the Minneapolis MSA.

Note of Caution: It is imperative to exercise caution when comparing the data contained herein to previous reports published by RERC. The data herein is not "fixed," and will be updated and changed as additional transaction information is gathered and analyzed.

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Contributors

Shahid K. Abdulla	Broadway National Bank	San Antonio, TX
Geoffrey Adams	Keller Williams Commercial Real Estate	Phoenix, AZ
Abraham J. Adler	Ciminelli Real Estate Services of Florida	Tampa, FL
Hal Alpert	Alpert Commercial Real Estate	San Francisco, CA
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Ben Claybaker	Claybaker Properties, LLC	Nashville, TN

Brion Costa	Marcus & Millichap	Los Angeles, CA
Joe Costello	Joe Costello Co.	Springfield, MO
Brad Crumpecker	Robinson Clay KW Commercial	Dallas, TX
Mike Dallas	Mike Dallas Properties	Austin, TX
Patrick J. Doherty	The LMC Group	Wilmington, NC
Skip Duemeland	Duemelands Commercial	Minneapolis, MN
David Dunn	CBSHome	Omaha, NE
Robin Eschliman	Eschliman Commercial Real Estate	Lincoln, NE
Gerard Ezinwoke	Cushman & Wakefield	Toronto - CANADA
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William E. Gamble	Gamble Real Estate	Mississippi
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Jeff Gibbs	Thomas A. Duke Company	Detroit, MI
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Randall S. Hall	BrokerOne Real Estate	Casper, WY
Scot E. Hall	Wolf Realty, Inc.	Phoenix, AZ
Ryan Harrison	Magi Real Estate	San Antonio, TX
Daren Hebold	Daigle Commercial Group	Maine
Brandon Heck	Jones Development Company	Kansas City, KS
Eric Higgins	Sandner Commercial Real Estate, Inc.	Birmingham, AL
Eric Hillenbrand	SEPG Associates, LLC	Indianapolis, IN
Michael W. Hotlen	First Weber Group, Commercial	Milwaukee, WI

Contributors

Steven Hughes	Colliers	Tampa, FL	Thomas Larson	Re/Max Commercial Property Solutions	Chicago, IL
Ernie Hunter	Ernie Hunter Realtors	Rockford, IL	Howard Lee	Tower Realty Partners	Orlando, FL
Gary Hunter	Westlake Associates, Inc.	Seattle, WA	Chris Leon	Realty World	San Francisco, CA
Andy Hyde	Select Realty Advisors	Philadelphia, PA	John Levinsohn	Levi Investment Realty, Inc.	Indianapolis, IN
Steve Jacquemn	S.J. Financial Group, Inc.	St. Louis, MO	Lon Lundberg	D.K. Commercial	Idaho
Ghassan Jadoun	Prudential Tropical	Tampa, FL	Michael Lunn	Re/Max Commercial Property Solutions	Chicago, IL
Brandon Jaehne	General Property & Services	Houston, TX	Gordon MacLean	NWF Realty, Inc.	Florida
Michael P. Jakubiec	Michael P. Jakubiec Investment Real Estate, Inc.	Chicago, IL	Julie Majors	Colorado State Land Board	Denver, CO
Jody Jedele	Tierra Bella Realty	Charlotte, NC	Stan Makris	CalPERS	Sacramento, CA
Bruce Johnson	Block Real Estate Services, LLC	Kansas City, KS	Kelly E. McCormack	GE Capital	Orlando, FL
Tammy Johnson	Commercial Realty Partners	Birmingham, AL	G. Walter Meagher	Fidalgo Commercial-Investment Real Estate Services	Skagit County, WA
Michael Johnston	CapitalSource	Dallas, TX	Nick Miner	Commercial Properties, Inc.	Phoenix, AZ
Damon Jordan	The Swearingum Group, Inc.	Detroit, MI	Terry Moore	ACI Apartments	San Diego, CA
Linda Joyner-Jones	Rock'n Roll Realty	Lewiston, ID / Clarkston, WA	Istvan Mozes	Beachfront Realty, Inc.	Miami, FL
Robert Kane	Bull Realty	Atlanta, GA	Aleksander Murshteyn	Spinnaker Group, Inc.	Massachusetts / Rhode Island
Pat Kaster	River City Realtors, Inc.	Green Bay, WI	Bruce Newman	Proptek Realty, Inc.	Orlando, FL
Kevin Kawaoka	NAI Capital	Los Angeles, CA	Tai Ngo	Lee & Associates - Industry, Inc.	Los Angeles, CA
Wickliffe Kelley	Fenley Realty, Co.	Miami, FL	Nick Nicketakis	CBSRE	Chicago, IL
James Kinsey	ERG Property Advisors, LLC	New York	Peter Ogden	Ogden & Company, Inc.	Milwaukee, WI
Charles Knauer	GSA	San Diego, CA	Marc Oram	Re/Max Commercial Associates, LLC	Miami, FL
Richard Knutson	Cornish & Carey NKF	San Francisco, CA	Gui Orliac	Octavia Capital	San Francisco, CA
Kenneth Krawczyk	K.S.K. Services, Inc.	Milwaukee, WI	Bruce Pearson	Manulife Real Estate	Chicago, IL
Kenneth Kujawa	Century 21 Signature Realty	Detroit, MI	Joe Pelayo	Total Real Estate Consultants	Miami, FL

Contributors

Leslie Phelps	Coldwell Banker Commercial United	Houston, TX
Shad Phipps	CB Richard Ellis	Columbus, OH
Luciano Rappa	Kaizen Realty Partners	Miami, FL
Brantley Ray	10/12 Properties, LLC & Murphy Appraisal Services, LLC	New Orleans, LA
Gaston Reboredo	Re/Max Commercial Associates, LLC	Miami, FL
Francis Rentz	SouthLand Commercial	Tallahassee, FL
Dennis K. Ridley	TD Real Estate	Denver, CO
William Robbie	Re/Max Properties, Inc.	Colorado Springs, CO
James P. Robertson	Long Commercial Services	Tucson, AZ
Daqn Robinson	Lidstrom Commercial Realtors	Minnesota
Adam Von Romer	Capital Commercial Real Estate Group, Inc.	Miami, FL
Dennis Rooklyn	Somerset International Properties, Inc.	Los Angeles, CA
Joseph Rose	PNC Bank	St. Louis, MO
Jeff Ryer	Ryer Associates Commercial Real Estate, Inc.	Connecticut
W. R. Sargent	Colliers	Columbia, SC
Scott M. Schmitt	Coldwell Banker Commercial	Minneapolis, MN
Sandy Schonberger	Schonberger Associates, LLC	New Jersey
Chris Schreiber	Kiemle & Hagood	Washington / Idaho
Mel Schultz	New Concepts Management Group, Inc.	Minneapolis, MN
Kamlesh Shah	KS Homes & Investment Properties	Chicago, IL
Frank Simpson	The Simpson Company	Atlanta, GA
Richard S. Slaton	U.S. Trust, Bank of America	Atlanta, GA

R. Tom Smith	SVN Bluestone & Hockley	Portland, OR
D. Scott Smith	Work Force, Inc.	Baltimore, MD
Brian Spring	NAI Spring Realty	Canton, OH
Alan Stamm	Century 21 Consolidated	Las Vegas, NV
Rob Stefka	Commercial Investment Services	Omaha, NE
Debra Lee Stevens	The Stevens Company	Boston, MA
John Stone	Colliers International	Tampa, FL
Dewey Struble	Sperry Van Ness	Reno-Sparks, NV
Andy Sumlin	Barry Real Estate Companies	Atlanta, GA
Daniel Summerlin	NAI Beverly-Hanks	North Carolina
Duke Suwyn	Colliers International	Grand Rapids, MI
John Sweeney	Professional Property Services	Cincinnati, OH
Tom Tapia	Cornerstone Realty Services, LLC	Portland, OR
Juan Teran	Teran and Associates, Inc.	Tucson, AZ
Nick A. Tillema	Access Group	Indianapolis, IN
Jeff Tompkins	Integrated Realty Group	Denver, CO
Soozi Jones Walker	Commercial Executives	Las Vegas, NV
Maurion Watkins	Wells Fargo Bank, N.A.	Atlanta, GA
David Weinstein	Sunburst Property Management	Allentown, PA
Dean Weitenhagen	Fleetwood Commercial Real Estate Services	Des Moines, IA
Bob White	Adams Commercial Real Estate	Atlanta, GA
Richard Whitney	Whitney Commercial Real Estate Services	Charlotte, NC
Verne Whittaker	CW Walker & Assoc.	Portland, OR

Contributors

Jeff Wilke	Graham & Company	Huntsville, AL
David L. Williamson	BancorpSouth Bank	Birmingham, AL
Dave Winder	Lee & Associates	Boise, ID
Garron Wright	Interstate Partners	Nashville, TN
Daniel Zelonker	Mizrach Realty Associates	Miami, FL

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