

November 2008

## The RREEF Property Cycle Monitor: The Eye of the Storm

### Primary Contributors:

**Ross Adams**

Vice President  
Research – Industrial

**Alan Billingsley**

Director  
Head of Research  
North America

**Hope Nadji**

Director  
Research – Apartment

**Andrew J. Nelson**

Vice President  
Research – Retail

**Bill Hersler**

Vice President  
Research -- Office

**Alexander Symes**

Associate  
Research – Economics

With a US economy that has entered recession, the outlook for all four property sectors has weakened significantly. This recessionary economy follows four years of strong growth in absorption and rents that reached their cyclical peak in 2006/2007. The ongoing economic downturn was first triggered by a dramatically overbuilt housing market fueled by cheap and easy credit. Problems in the housing market, however, unveiled significant issues in the US and global banking systems. The excessive and imprudent use of debt extended far beyond the housing market, encompassing consumer debt and even commercial real estate. The unraveling of highly complex debt instruments resulted in the worst financial meltdown that has been experienced during the post-World War II period. Some of the nation's greatest and largest banks have liquidated, merged, or have otherwise been bailed out, and smaller regional banks are beginning to follow. While events are still unfolding, our expectation is for a recession that will last at least through mid-2009, with very weak growth through the remainder of the year. In total, we expect between 2 and 2.5 million jobs to be lost between 2007 and year-end 2009, producing a peak unemployment rate of over 8%. The housing market is forecast to reach bottom in late-2009, with an anemic recovery to begin in 2010. This forecast assumes a recession that is worse than that of 2001-2002, but similar in severity to that of 1990-1991.

Following a frightening seizing of the US credit markets in October, which quickly grew into a global event, the markets remain uncertain and volatile. Confidence has partially been restored by aggressive measures undertaken by the Federal Reserve and Department of the Treasury, plus coordinated efforts by the central banks of major global markets. These efforts have been tentatively successful in partially unclogging the debt markets. However, home prices will continue to fall and mortgage delinquencies will continue to rise, keeping these financial institutions under stress. Without new capital or the ability to borrow, several institutions, most tied to the housing crisis, have failed.

The financial market maelstrom and the general lack of liquidity are directly affecting the greater economy. Credit availability to US businesses and consumers is decreasing and reducing their ability to expand production and spending over the near-term. Slower economic growth is negatively affecting the labor market, which has shed over 760,000 jobs since January. In conjunction with the decrease in employed labor, the unemployment rate increased to 6.1% in September, a 150 basis points increase over the previous year. It is forecast to increase to 6.3% in October.

A number of positives remain in the economy. With a looming global recession, inflation has receded as a concern, and the prices for oil and other commodities have declined. New home starts have declined to historically low levels and home sales are beginning to rise, allowing the housing market to move toward recovery. When the banking sector recovers, lower mortgage rates and home prices will make homeownership more affordable and allow recovery in this sector. Currently non-financial businesses, though suffering during the current credit crisis, remain relatively healthy and will continue to expand as credit becomes more accessible. Exports continue to grow, although at a weakened pace. Lastly, the short-term credit market, although still vulnerable to shocks, appears to be improving. Risks to the overall economy remain on the downside, but recovery in 2010 still remains our baseline forecast.

In the midst of any recession, there is great uncertainty to any forecast, with many events that could turn it into a deeper recession. Unfortunately, there is little reason to expect that events could be more positive than the above base case forecast, so the risks are primarily on the downside. Any downside scenario would assume a significant crisis in investor confidence, with a sustained attitude of risk aversion and continued wide spreads for debt instruments that were previously viewed as low risk. In this downside scenario, we assume a recession that is similar to that experienced in 1980 through 1982. Job losses between 4 and 5 million are assumed, producing an unemployment rate peaking at around 9%. This economic scenario would have a significant impact on real estate markets, having the strongest negative impact on office and retail properties. Recovery would be delayed until 2011, when falling vacancy rates and positive rent growth would finally be achieved.

## **Recession has Turned Near-Term Real Estate Demand Negative**

In line with this economic outlook, institutional property fundamentals are projected to deteriorate through 2009 and 2010, with weak to negative demand. On the positive side, only a moderate pipeline of new construction is projected for completion, most of which will wind down in 2009. This near-term outlook is most severe for both the retail and office sectors. The retail sector is being especially hard hit as a result of the collapse of a consumer demand bubble. After years of strong retail sales growth in the US, consumers are retrenching, impacted by a weakening economy. The office sector, generally the most volatile of the four property sectors, is also being particularly hard hit as businesses and employment weakens, particularly for users of office space. For both the office and retail sectors, a significant rent decline is forecast.

The apartment sector is the outperformer of the four property types. Vacancy rates will rise in the US, focused mainly in markets where overbuilding in the for-sale was the greatest and excess supply is now competing with the dedicated rental stock. In markets less impacted by the housing bubble, fundamentals are stronger, with continued rent growth forecast. For the US as a whole, however, minimal rent growth is forecast.

The industrial sector falls somewhere between the underperforming and outperforming sectors, experiencing relative stability. Most industrial markets are holding steady, although overbuilding recently occurred in some urban periphery markets dominated by large distribution centers. Nevertheless, modest rent decline is forecast for the industrial market nationally.

Beyond 2010, more favorable conditions are expected for all four property sectors. With new construction starts at a near halt, due to high building costs, problematic financing and weak demand, new supply completions are expected to be minimal in 2010 and 2011. At the same time, demand is projected to shift into the positive, generally benefiting most real estate markets. By 2012, we expect healthy occupancy rates and positive rental growth, reflecting markets in full recovery.

While all parts of the US are being negatively impacted by the ongoing recession, the negative effects are not evenly dispersed. Technology and export industries remain relatively strong and accordingly, Austin, Denver, Portland, San Francisco, San Jose and Seattle are outperforming. In addition, Texas, with its strong energy sector, continues to outperform, benefiting both Dallas and Houston. A number of markets that have been and are expected to continue to be strong, long-term performers are taking the brunt of the effects from the downturn in the mortgage and finance industry. However, we expect these markets to benefit from a strong correction beginning in late-2010, including New York (primarily Manhattan), Orange County, San Diego and Southern Florida. A few markets are so dramatically overbuilt, that their recoveries will require a few years, such as Phoenix, Las Vegas, Riverside, Tampa and

Orlando. As usual, most Midwest metros will require some time to recover, due to slow economic growth. On the other hand, except for automobile manufacturing areas, they have not been as impacted by the current downturn. Widely differing risk and opportunity levels will be available for real estate investors in the coming year.

## Relative Performance by Property Sector

The following discussion of the four property sectors concludes that these sectors will continue to perform differently during the ongoing recession and into economic recovery. The major findings are as follows:

- The retail sector, which peaked in 2005, will decline through 2010 and then remain flat;
- The office sector, which peaked in 2007, is falling into decline in 2008, which will continue through 2009, with availability likely to require until 2012 to reach near-2007 levels;
- The industrial sector is set for a sharp slowdown in 2008 and persistently weak demand in 2009, but is forecast to regain balance in 2010 and 2011 when renewed demand and limited new supply will allow occupancy to firm up close to 2007 levels by 2011; and
- The apartment sector is forecast to decline modestly in 2008, and rebound by 2010 and 2011 to levels not seen since 2001.

The **retail sector** peaked early, fueled by a sizzling consumer market that was supported by an escalating housing market. Neither the consumer nor the housing markets were sustainable. Even with renewed economic growth expected in 2010, retail sales growth will be modest as consumers adjust to their reduced wealth in this post-housing bubble period.

The **office sector** is historically the most volatile and the most sensitive to economic performance. As a result, it will fall the farthest through 2010. However, it is forecast to achieve modest rebound once stabilization returns in 2012. Nevertheless, few metros will escape substantial declining rents, as this sector will be the most challenged and risky in the near-term. Some of the less stellar, but steady metros, such as Philadelphia and Baltimore, could be among the best performing markets during the downturn, while a few of the major metros, such as Boston, Houston, Los Angeles, and San Francisco should hold up better than most. Still, the new structures that emerge from the changing blueprints of the financial sector remain a wild card for a number of markets.

The **industrial sector**, historically a relatively steady performer, is expected to weather the downturn relatively well. Although vacancy rates will increase sharply in several markets that are impacted by the weak housing sector, other markets will remain fairly stable. Coastal, port, and major distribution markets are expected to outperform over the longer term, but near-term volatility is likely.

The **apartment sector**, which generally underperformed its peers during the economic expansion of the past five years, is relatively well poised for the future. The dominance of the for-sale housing market over the past several years, which culminated in a disastrous bubble that burst, edged out growth in this sector. As the impacts from this bubble unfold, a significant portion of US households will return to being renters. At the same time, favorable demographics will provide a new generation of renter households. While no sector is avoiding the impacts of the recessionary economy of 2008, apartments will be the least affected and will

be well positioned for strong growth going forward. This will be particularly true for those markets that avoided the extensive overbuilding of the for-sale housing market.

### **Property Cycle Monitor: Apartment**

The apartment sector began trading water this year after four years of positive growth. Its expansion was cut short, or at least paused, in recent months by the deepening trough in the nation's housing market and nine consecutive months of job losses. While the space fundamentals remain solid, a weak employment market and competition from a mushrooming shadow supply of single-family and condominium homes could translate to weaker occupancy trends and tepid rent growth over the next year. The US vacancy rate stood at 6.1% as of third quarter 2008, an increase of 40 basis points since year-end 2007. Our base case outlook for the remainder of 2008 and 2009 is for vacancy to drift upward to 6.8%, and assumes significantly lower short-term demand; a function of negative employment trends, competition from a shadow supply of homes, further home price declines enhancing affordability, and renters "doubling-up" or moving in with friends and family. The crux of apartment demand is jobs and household formation. Unfortunately, employment is declining, and household growth has become muted. Only a handful of markets proved to be exceptions to this downward trend.

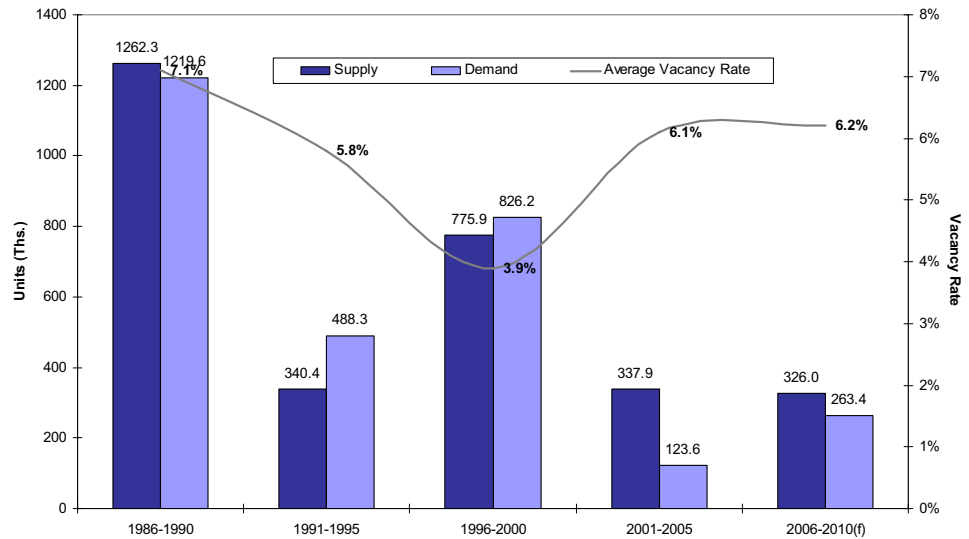
New supply under construction stands at a comfortably low level relative to historical trends, but given current economic conditions, any additional supply is difficult to absorb. Following the peak of the condo cycle, renewed interest in rental product resulted in construction of approximately 75,000 new units in 2007. Our projections for the next two years are for an estimated 89,000 and 86,000 units delivering in 2008 and 2009, respectively. Some of this product was committed and in the ground, slated to sell as condominiums, but is now marketed as rental product. Additional supply past these estimates should be constrained by the current credit conditions, allowing for the market to correct.

Looking forward, only the most stalwart developers will procure financing and therefore some projects noted for late-2009 delivery that are not already underway may be abandoned or postponed. The break in construction, coinciding with robust demographic trends, falling homeownership rates, and tighter credit conditions, which offsets the notable increase in affordability in some markets, could result in tighter market conditions than RREEF Research has projected. The mitigating factors in our more nuanced outlook are employment projections and the residual effect of the housing slump. Certainly, foreclosed homeowners may move into a single-family or condo rental as appears to be the case this year; however, if these rental homes are subject to foreclosure and the resident to eviction, these households may gravitate toward professionally managed apartments. Alternatively, a new business model may emerge whereby investors buy and professionally manage large blocks of single-family homes and condos as rental properties for several years until the transaction market stabilizes. Location, proximity to employment centers and the price of gasoline may challenge this business.

The National Multi-Housing Council (NMHC) recently released a report quantifying the current number of excess homes relative to what would be considered "normalized" six month inventory in a healthy, functioning transaction market. The inventory of new homes as of August 2008 was 10.9 months' supply, which translates to an estimated excess of 1.6 million single-family units and approximately 382,000 condominiums on the market.

The 110 basis point decline in the homeownership rate to 68.1% and the continued erosion in the base of owner-occupied households will have a profound impact on all rental properties, including apartments. RREEF Research projects that the market share of institutional apartment properties will trend up to an annual capture rate of approximately 7.5% of households forecast over the five-year horizon. This translates to net absorption of nearly 89,000 units annually. Weakness in 2006 (condos), 2008 and 2009 (economy) mutes the

US Apartment Sector - Cumulative Supply and Demand Trends & Forecast



\*Note: Forecast is only two years, not five.

Source: REIS and RREEF Research

cumulative demand expected in the 2006-2010 time frame. In perspective, this forecast demand level is only a fraction of absorption levels achieved historically, such as when the wave of Baby Boomers swept the 1980s, and the potential absorption, as the leading edge of Echo Boomers turns 32 next year.

In the near-term, only one market, San Francisco, is likely to out-perform the nation while several previously listed out-performers are now categorized as average. Portland, San Jose, Los Angeles and New York are all solid markets that slipped to Average from Out-Perform on shifting employment fortunes, while Seattle slipped based upon a projected 200 basis point increase in vacancy in 2009 due to new supply concerns. Marked deceleration in job growth for both Austin and Denver is occurring in tandem with significantly higher construction volumes, particularly Austin. Financing may not be available for some of the larger, high density projects slated for downtown Denver expected to break ground this fall, thus reducing projected 2009 completions. In this case, the vacancy rate would contract much faster and bring Denver back to stabilized levels.

More than half of the markets remain classified solidly in the Average category but several metros slipped to Under-Perform. Riverside-San Bernardino and Atlanta slipped from Average to Under-Perform as housing-related problems deepened. Five of the under-performing markets over the next year are located in Florida and we now classify two Texas markets as under-perform. Much of the US construction pipeline will deliver in Texas, where job formation still registers positive, albeit slowing, gains. Approximately 26% of new US supply slated for 2008 and 2009 combined will deliver in just three metros, Austin, Dallas and Houston, although Dallas and Houston apartment markets may be aided by tear-downs and Hurricane Ike. The East Coast markets continue to perform well, with vacancy rates below the US average. The finance-dependent metros, New York, Stamford, and parts of Northern New Jersey can expect a rent deceleration next year. The contraction will almost certainly worsen over the next 12 months. Strong rates of net absorption in Boston have been unable to surmount a flood of new supply, keeping occupancies flat. Washington, DC and Baltimore maintain stabilized occupancies despite economic deceleration.

We forecast the apartment sector will hold its own through 2009 as the US recovers from this period of economic uncertainty and profound financial upheaval. We anticipate a markedly lower US vacancy rate beginning in 2010 and 2011 as the economy is righted. Buoyant demographic trends will buttress the apartment sector performance. Of the four property sectors, apartments are the only sector forecast to produce positive albeit modest rent growth nationally. Forecast rent growth is expected to lag behind the rate of inflation during the next two years. However, a few outperforming markets are forecast to continue to achieve above-inflationary rent growth.

U.S. National Apartment Market Cycle		Forecast Years					
2Q2008		2008	2009	2010	2011	2012	
GRW	PGW				GRW		
REC	CON		CON	REC		GRW	
Job Growth	0.15% †	-0.1%	-0.7%	1.3%	2.3%	1.6%	
Net Abs. (Units) *	4 K	33K	43K	113K	122K	99K	
Supply (Units)	41 K	89K	86K	64K	83K	100 K	
% Vacant	5.9%	6.3%	6.8%	6.1%	5.6%	5.5%	
Rent Momentum	Increase	Increase	Increase	Increase+	Increase+	Increase	

Key: REC = Recovery GRW = Growth PGW = Post-Growth CON = Contraction  
 \* Note: Net absorption figure includes condo conversions.  
 Source: Global Insight, REIS, and RREEF Research † Year on Year Growth  
 This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.

## Factors Shaping the Apartment Cycle (Time Frame)

### Drivers of Recovery

- Job growth (negative in some areas, slower, but ongoing in others)
- Demographic trends (on-going and accelerating)
- Limited household and income growth (ongoing)
- Cost of new development and financing terms should moderate future construction
- Tougher mortgage underwriting stems out-migration to homeownership

### Constraints on Recovery

- Substitutability of housing options and effects of the for-sale inventory
- Growing affordability as home prices fall amidst rent increases
- Slow job and income growth
- Potential for rising construction volumes in low barrier to entry markets

## Implications: Timing of the Cycle

- National market is in established steady post-growth mode
- Most tech markets exhibiting improvement in supply/demand conditions
- Supply constrained markets with low housing affordability will out-perform affordable markets

## Apartment Metro Performance

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### US Apartment Market Metro Performance 2009

Out-Perform	Average*	Under-Perform
San Francisco	Baltimore	Atlanta
	Boston	Austin
	Chicago	Charlotte
	Denver	Dallas
	Kansas City	Ft. Lauderdale
	Los Angeles	Houston
	Minneapolis	Miami
	New York	Oakland
	Northern New Jersey	Orlando
	Orange County	Phoenix
	Philadelphia	Riverside-San Bern.
	Portland	Sacramento
	Raleigh	Tampa
	Saint Louis	West Palm Beach
	San Diego	
	San Jose	
	Seattle	
	Washington DC	

\* broadly in line with national trends

Source: RREEF Research

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**U.S. Property Cycle Monitor**  
**Apartment**

**October 2008**

----- Forecast -----

2Q2008			2008	2009	2010	2011	2012
<b>U.S.</b>	Stage	Post-Growth	Post Growth	Contraction	Recovery	Growth	Growth
	Vacancy	5.9%	6.3	6.8	6.1	5.6	5.5
	Rent Momentum*	Increase	Increase	Increase	Increase +	Increase +	Increase
<b>Atlanta</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Growth	Post-Growth
	Vacancy	8.5%	9.0	9.6	8.7	8.2	8.3
	Rent Momentum*	Increase	None	Decrease	Increase	Increase +	Increase
<b>Austin</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	7.0%	8.1	9.6	8.2	6.2	6.0
	Rent Momentum*	Increase	None	Decrease	Increase +	Increase +	Increase
<b>Baltimore</b>	Stage	Post-Growth	Post Growth	Post-Growth	Recovery	Post-Growth	Post-Growth
	Vacancy	5.3%	5.4	5.2	4.4	3.8	4.2
	Rent Momentum*	Increase	None	Increase	Increase +	Increase	Increase
<b>Boston</b>	Stage	Post-Growth	Post-Growth	Post-Growth	Recovery	Recovery	Recovery
	Vacancy	6.1%	6.4	6.5	6.0	6.0	6.1
	Rent Momentum*	Increase	None	None	Increase	Increase	Increase
<b>Charlotte</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Post-Growth
	Vacancy	6.3%	7.1	7.8	6.0	5.1	5.8
	Rent Momentum*	Increase	None	Decrease	Increase +	Increase +	Increase
<b>Chicago</b>	Stage	Post-Growth	Contraction	Post-Growth	Recovery	Growth	Growth
	Vacancy	5.2%	5.2	5.5	4.8	4.4	4.0
	Rent Momentum*	Increase	Increase	Increase	Increase +	Increase +	Increase
<b>Dallas</b>	Stage	Post-Growth	Post Growth	Contraction	Recovery	Growth	Growth
	Vacancy	7.5%	7.3	8.4	6.8	5.8	5.7
	Rent Momentum*	Increase	Increase	Decrease	Increase+	Increase+	Increase
<b>Denver</b>	Stage	Growth	Post-Growth	Post-Growth	Recovery	Growth	Growth
	Vacancy	6.9%	7.6	7.6	6.3	5.7	5.6
	Rent Momentum*	Increase+	Increase	None	Increase	Increase +	Increase+
<b>Ft. Lauderdale</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Growth
	Vacancy	5.5%	6.1	6.6	6.0	4.3	4.9
	Rent Momentum*	Decrease	Decrease	Decrease	Increase	Increase+	Increase+
<b>Houston</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	9.4%	9.6	10.3	9.0	8.1	8.1
	Rent Momentum*	Increase	Decrease	Decrease	Increase+	Increase +	Increase
<b>Jacksonville</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Growth
	Vacancy	10.6%	11.2	14.3	11.2	7.3	5.8
	Rent Momentum*	None	Decrease	Decrease	Increase+	Increase +	Increase +
<b>Kansas City</b>	Stage	Post-Growth	Post-Growth	Post-Growth	Growth	Growth	Growth
	Vacancy	6.9%	7.0%	7.3%	7.6%	7.5%	7.5%
	Rent Momentum*	Increase	Increase	None	None	Increase	Increase
<b>Los Angeles</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Recovery	Growth
	Vacancy	4.2%	4.3	4.7	4.3	3.9	3.5
	Rent Momentum*	Increase	Increase	None	Increase +	Increase +	Increase
<b>Miami</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Growth
	Vacancy	4.6%	5.1	5.7	4.8	4.4	4.6
	Rent Momentum*	Decrease	Decrease	Decrease	Increase +	Increase+	Increase
<b>Minn./St. Paul</b>	Stage	Post-Growth	Post-Growth	Post-Growth	Recovery	Recovery	Growth
	Vacancy	4.1%	4.4	4.1	3.5	3.3	3.7
	Rent Momentum*	Increase	Increase	Increase	Increase +	Increase+	Increase
<b>New York</b>	Stage	Post-Growth	Post-Growth	Post-Growth	Growth	Growth	Growth
	Vacancy	2.3%	2.8	3.7	3.3	2.6	2.8
	Rent Momentum*	None	None	None	Increase +	Increase +	Increase +
<b>No. New Jersey</b>	Stage	Post-Growth	Post-Growth	Post-Growth	Growth	Post-Growth	Post-Growth
	Vacancy	3.6%	4.1	4.2	3.8	3.9	4.0
	Rent Momentum*	None	None	None	Increase +	Increase	Increase

\* Rent Momentum: Annual Rental Growth

None: 0% to 2%

Increase: 3% - 4%

Increase+: Over 4%

This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.

**U.S. Property Cycle Monitor**  
**Apartment**

**October 2008**

			----- Forecast -----				
2Q2008			2008	2009	2010	2011	2012
<b>U.S.</b>	Stage	Post-Growth	Post Growth	Contraction	Recovery	Growth	Growth
	Vacancy	5.9%	6.3	6.8	6.1	5.6	5.5
	Rent Momentum*	Increase	Increase	Increase	Increase +	Increase +	Increase
<b>Oakland/East Bay</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Growth
	Vacancy	4.2%	4.5	5.5	4.6	4.1	4.4
	Rent Momentum*	Increase	Increase	Decrease	Increase +	Increase +	Increase
<b>Orange County</b>	Stage	Post-Growth	Post-Growth	Post-Growth	Recovery	Recovery	Growth
	Vacancy	4.3%	4.4	4.7	4.0	3.6	3.6
	Rent Momentum*	Increase	Increase	Increase	Increase +	Increase +	Increase
<b>Orlando</b>	Stage	Contraction	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	8.6%	9.2	9.7	6.9	4.7	4.8
	Rent Momentum*	Decrease	Decrease	Decrease	None	Increase	Increase+
<b>Philadelphia</b>	Stage	#REF!	Post-Growth	Post-Growth	Growth	Growth	Growth
	Vacancy	4.3%	4.4	4.5	4.2	4.3	4.0
	Rent Momentum*	Increase	None	None	Increase	Increase	Increase
<b>Phoenix</b>	Stage	Contraction	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	8.9%	10.0	10.2	9.0	8.2	8.0
	Rent Momentum*	Decrease	Decrease	Decrease	Increase +	Increase +	Increase
<b>Portland</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Growth
	Vacancy	5.0%	5.1%	5.7%	4.8%	4.0%	4.2%
	Rent Momentum*	Increase	Increase	None	Increase +	Increase +	Increase
<b>Raleigh</b>	Stage	Post-Growth	Post-Growth	Post-Growth	Recovery	Growth	Growth
	Vacancy	7.9%	7.6	7.1	5.2	4.5	5.2
	Rent Momentum*	Increase	Increase	Increase	Increase +	Increase +	Increase
<b>Riverside/SB</b>	Stage	Contraction	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	6.2%	6.5	7.0	6.8	6.0	5.3
	Rent Momentum*	Decrease	Decrease	Decrease	Increase +	Increase +	Increase +
<b>Sacramento</b>	Stage	Contraction	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	5.1%	5.1%	5.3%	5.0%	4.6%	4.1%
	Rent Momentum*	Decrease	Decrease	None	Increase +	Increase +	Increase
<b>St. Louis</b>	Stage	Post-Growth	Post-Growth	Post-Growth	Growth	Growth	Post-Growth
	Vacancy	6.7%	6.8%	6.8%	6.1%	5.9%	5.9%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
<b>San Antonio</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	7.2%	7.6%	7.7%	7.5%	7.5%	7.1%
	Rent Momentum*	Increase	None	None	Increase	Increase	Increase
<b>San Diego</b>	Stage	Post-Growth	Post-Growth	Post-Growth	Recovery	Growth	Growth
	Vacancy	3.9%	3.9%	3.9%	3.5%	3.0%	3.4%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase +	Increase
<b>San Francisco</b>	Stage	Growth	Growth	Post-Growth	Post-Growth	Growth	Growth
	Vacancy	3.9%	3.7%	3.9%	3.8%	3.4%	3.2%
	Rent Momentum*	Increase +	Increase +	Increase	Increase +	Increase +	Increase
<b>San Jose</b>	Stage	Growth	Growth	Contraction	Recovery	Growth	Growth
	Vacancy	3.3%	3.6%	4.2%	4.0%	3.5%	2.8%
	Rent Momentum*	Increase +	Increase +	None	Increase +	Increase +	Increase
<b>Seattle</b>	Stage	Growth	Growth	Contraction	Recovery	Growth	Growth
	Vacancy	4.5%	5.2	7.0	5.9	5.4	5.4
	Rent Momentum*	Increase +	Increase +	None	Increase	Increase +	Increase+
<b>Tampa</b>	Stage	Contraction	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	7.8%	8.4	9.0	8.3	7.0	6.2
	Rent Momentum*	Decrease	Decrease	Decrease	Increase	Increase	Increase
<b>Washington, D.C.</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Growth
	Vacancy	5.4%	5.9	6.8	6.0	5.6	5.3
	Rent Momentum*	Increase	Increase	None	Increase +	Increase +	Increase
<b>West Palm Beach</b>	Stage	Contraction	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	8.2%	8.6	8.2	6.1	4.6	4.8
	Rent Momentum*	Decrease	Decrease	None	Increase +	Increase +	Increase

Sources: REIS and RREEF Research

\* Rent Momentum: Annual Rental Growth

None: 0% to 2%  
Increase: 3% - 4%  
Increase+: Over 4%

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## Property Cycle Monitor: Industrial

The US industrial market now reflects the broader slowdown that occurred in the US economy over the past several quarters. Linkages to troubled sectors, namely local housing production, import flows and consumer spending, influence the degree of downside volatility in individual markets. Exposure to energy, high-value international trade and high technology buoyed some western and southern metro markets, but the broader US contraction on the horizon will not likely spare many metro markets from distress in the coming year.

On a national basis, the US experienced several years of strong demand, tightening vacancy and briskly rising rents. Dynamic momentum ended at about mid-year 2007. Market fundamentals weakened through mid-year 2008, commensurate with the level of economic distress experienced during the past three quarters and in anticipation of weak economic performance in 2009.

New industrial space demand was sharply lower in the first half of 2008, reflected by the 36.4 million square feet of negative net absorption that occurred between year-end 2007 and mid-year 2008. The national vacancy rate increased 80 basis points to 10.4%, as a result. Of the 54 primary industrial markets tracked by RREEF Research, 18 posted positive net absorption and another nine metros experienced only modest negative demand. This leaves nearly half of all metros posting significant negative demand through the second quarter of 2008.

The traditional big-box warehouse hubs of Chicago and Atlanta, as well as global gateway and port markets of Los Angeles, Riverside, New York, Baltimore and Long Island, experienced higher levels of negative net absorption than we anticipated in early-2008. Local housing and economic woes caused Orange County, Phoenix and Orlando to post substantial space givebacks, which was widely anticipated. These three metros combined for 12 million square feet of negative net absorption through mid-year 2008. Reflecting the impact of weak economic growth and reduced import flows, Los Angeles and Chicago posted negative net absorption of 6.5 and 6.0 million square feet, respectively, through mid-year 2008. Leasing activity moderated in the primary tech markets of San Jose, Seattle and Austin, but underlying fundamentals held up relatively well. Texas is home to two of the best performing markets: Dallas/Ft. Worth and Houston. Northern California and the Pacific Northwest also remained healthy in relation to the rest of the nation. Performance in the northeast and southeast was mixed through the first half of 2008 with sharply negative trends in South Florida and relatively moderate negative trends in Central New Jersey, New York, Philadelphia and Baltimore.

The industrial development pipeline, while only about half the total size of those in the previous two growth cycles, ramped up when space demand began to falter in late-2007. We expect new construction deliveries in 2008 will total about 161 million square feet, while net absorption is expected to register negative 66 million square feet for the year. Market areas with the greatest development pipelines in 2008 include Riverside/Inland Empire, Dallas/Ft. Worth, Phoenix and Chicago. Turbulent conditions in the credit markets and observable negative demand in many markets will serve to sharply curb future development.

Weak economic growth will likely impact the industrial property market over the next two years. Softer economic growth will reduce import demand and the continuation of turmoil in the housing market in 2009 will impair demand for housing products. This is expected to contribute to negative industrial space demand during the remainder of 2008 and 2009. National vacancy is forecast to rise to 11.2% by year-end 2008 and then peak at 11.8% in 2009. These vacancy rates are comparable to those experienced in past recessions.

Market rent growth prospects during the next two years are expected to turn negative, particularly for large-bay warehouse product. National fundamentals eroded more sharply than

we expected through mid-year, although 24 metro markets still carry single-digit vacancy rates. Supply imbalances in many markets are causing leasing conditions to become more competitive.

Although demand fundamentals weakened in late-2007, many markets continue to experience stable or slightly positive rent momentum through mid-2008, but this will likely change in the near-term as fears about a sharper recession turn into reality. After several quarters of weak or negative demand, many markets should begin to experience rent declines on a broader basis. Orange County, Riverside, Phoenix and the Florida markets stand to lose a substantial portion of the exceptional rent gains achieved during the past two years. Other markets will have softer rent erosion in 2009, as overbuilding is less pronounced. It is unlikely that any markets will escape rent decline in the near-term, even with relatively low vacancies.

Some markets and submarkets have maintained relatively tight occupancies, so even modest positive demand should lead to near-term outperformance and show only modest rent erosion. Supply constraints in Northern California and the Pacific Northwest should keep these regions atop national averages. Texas stands to maintain positive momentum based on a strong energy sector and only moderate fallout from its balanced housing markets. However, energy is a volatile sector and plummeting oil prices could translate into less investment and activity in this sector.

Some of the markets that are hardest hit now are likely to outperform in the long-run. As industrial market fundamentals weaken in Florida and Southern California through 2009, buying opportunities for core industrial product in generally constrained, high quality markets may increase. Import flows will be weak in 2008 and 2009, but are expected to grow at about 6% annually thereafter. Port-influenced markets in the east and west should benefit over the medium to long-term. Multi-tenant industrial product in core locations should perform in line with their local metro economies and this sector should outperform in markets with high barriers to new supply via land constraints and high construction costs. Large-bay warehouse product in peripheral locations and multi-tenant product in housing-bubble markets will likely be the hardest hit in terms of occupancy and rent declines over the next two years and could take much longer to stabilize and recover. On average, rent declines nationally over the next two years are forecast to average in the mid-single digits percentage terms. Higher declines are forecast for big box warehouses, whereas smaller tenant space is expected to experience lower than average declines.

2Q2008		Forecast Years					
		2008	2009	2010	2011	2012	
GRW	PGW	PGW			GRW		
REC	CON		CON	REC		GRW	
Job Growth	0.15%†	-0.1%	-0.7%	1.3%	2.3%	1.6%	
Net Abs.	-36 MSF	-66 MSF	-24 MSF	159 MSF	215 MSF	219 MSF	
Supply	85 MSF	161 MSF	62 MSF	64 MSF	119 MSF	167 MSF	
% Vacant	10.4%	11.2%	11.8%	11.0%	10.2%	9.7%	
Rent Momentum	None	None	Decline	Increase	Increase+	Increase +	

Key: REC = Recovery GRW = Growth PGW = Post-Growth CON = Contraction

Source: Global Insight, Torto Wheaton, and RREEF Research

† Year on Year Growth

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## **Factors Shaping the Industrial Cycle (Time Frame)**

### **Drivers of Growth**

- Job growth, consumer and business spending, trade flows beginning in 2010
- Growth in exports will benefit some markets, even in the near term
- Global economic expansion, although this will be a muted assist in the near term
- Recent increases in land, construction costs, and financing have helped to moderate new construction starts
- Growth in high-tech (short-term/intermediate-term)

### **Constraints on Recovery**

- Declining housing sector (short-term)
- Elevated energy prices (ongoing)
- Flagging US construction sector (short/intermediate-term)

### **Implications: Timing of the Cycle**

- National market, led by the global gateway, tech markets and regional hubs, continues to grow
- Distressed housing markets are leading to retrenchment for some metros
- A constrained supply pipeline will aid recovery as US economy recovers (short-term)
- R&D/flex markets continued to perform relatively well, but downside risks are present as employment figures weaken

## Industrial Metro Performance

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### US Industrial Market Metro Performance 2008

Out-Perform	Average*	Under-Perform
Austin	Atlanta	Cincinnati
Charlotte	Baltimore	Columbus
Denver	Boston	Ft. Lauderdale
Houston	Central New Jersey	Minneapolis
Portland	Chicago	Orange County
San Jose	Dallas-Ft Worth	Orlando
Seattle	Los Angeles	Phoenix
	Miami	Riverside (Inland Empire)
	Philadelphia	West Palm Beach
	San Diego	
	Washington, DC	
	New York	
	Oakland/East Bay	

\* broadly in line with national trends

Source: RREEF Research

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**U.S. Property Cycle Monitor**  
**Industrial**

**October 2008**

----- Forecast -----

		2Q2008	2008	2009	2010	2011	2012
<b>U.S.</b>	Stage	Growth	Post Growth	Contraction	Recovery	Growth	Growth
	Vacancy	10.4%	11.2%	11.8%	11.0%	10.2%	9.7%
	Rent Momentum	None	None	Decline	Increase	Increase +	Increase +
<b>Atlanta</b>	Stage	Growth	Post Growth	Post Growth	Growth	Growth	Growth
	Vacancy	13.3%	14.1%	14.3%	13.4%	11.8%	12.0%
	Rent Momentum	Increase	None	Decline	Increase	Increase	Increase
<b>Austin</b>	Stage	Growth	Post Growth	Post Growth	Growth	Growth	Post Growth
	Vacancy	11.6%	12.8%	13.1%	12.2%	10.6%	9.4%
	Rent Momentum	Increase	None	Decline	Increase	Increase +	Increase
<b>Baltimore</b>	Stage	Post Growth	Post Growth	Post Growth	Growth	Growth	Growth
	Vacancy	14.4%	14.5%	15.1%	14.3%	13.2%	12.5%
	Rent Momentum	None	None	None	Increase	Increase +	Increase +
<b>Boston</b>	Stage	Recovery	Contraction	Recovery	Recovery	Growth	Growth
	Vacancy	14.8%	15.1%	15.0%	14.4%	13.6%	12.8%
	Rent Momentum	Increase	None	Decline	Increase	Increase +	Increase +
<b>Central New Jersey</b>	Stage	Post Growth	Post Growth	Post Growth	Growth	Growth	Growth
	Vacancy	10.6%	10.9%	11.3%	10.6%	9.6%	9.0%
	Rent Momentum	None	None	Decline	Increase	Increase +	Increase +
<b>Charlotte</b>	Stage	Growth	Post Growth	Post Growth	Growth	Growth	Growth
	Vacancy	9.2%	9.9%	10.5%	10.3%	9.7%	9.0%
	Rent Momentum	Increase +	None	Increase	Increase +	Increase +	Increase
<b>Chicago</b>	Stage	Recovery	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	11.5%	12.5%	13.2%	12.6%	11.9%	11.2%
	Rent Momentum	Increase	Decline	Decline	Increase +	Increase +	Increase
<b>Cincinnati</b>	Stage	Growth	Contraction	Contraction	Recovery	Growth	Post Growth
	Vacancy	9.1%	10.6%	11.9%	11.4%	10.9%	10.1%
	Rent Momentum	Increase	Decline	Decline	Increase	Increase +	Increase
<b>Columbus</b>	Stage	Growth	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	14.1%	16.1%	17.0%	15.9%	14.8%	14.2%
	Rent Momentum	Increase	Decline	Decline	Increase	Increase	Increase
<b>Dallas/Ft. Worth</b>	Stage	Growth	Post Growth	Post Growth	Growth	Growth	Growth
	Vacancy	11.0%	11.7%	11.9%	10.9%	10.3%	10.6%
	Rent Momentum	Increase	None	None	Increase	Increase	Increase
<b>Denver</b>	Stage	Recovery	Post Growth	Post Growth	Growth	Growth	Growth
	Vacancy	10.5%	10.6%	10.8%	10.0%	9.9%	10.3%
	Rent Momentum	Increase +	None	None	Increase	Increase	Increase
<b>Fort Lauderdale</b>	Stage	Growth	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	8.7%	9.6%	10.5%	9.5%	8.2%	6.9%
	Rent Momentum	Increase +	Decline	Decline	Increase +	Increase +	Increase +
<b>Houston</b>	Stage	Growth	Post Growth	Post Growth	Growth	Growth	Post Growth
	Vacancy	7.3%	8.0%	8.1%	7.2%	7.2%	7.4%
	Rent Momentum	Increase +	Increase	None	Increase	Increase	Increase
<b>Los Angeles</b>	Stage	Growth	Post Growth	Contraction	Recovery	Growth	Growth
	Vacancy	5.4%	6.0%	6.7%	6.3%	6.0%	6.1%
	Rent Momentum	Increase +	Decline	Decline	Increase	Increase +	Increase +
<b>Miami</b>	Stage	Post Growth	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	9.0%	9.6%	10.3%	9.1%	7.9%	7.1%
	Rent Momentum	Increase +	None	Decline	Increase +	Increase +	Increase +

\* Rent Momentum: Annual Rental Growth

- None: 0% to 2%
- Increase: 3% - 4%
- Increase+: Over 4%

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**U.S. Property Cycle Monitor  
Industrial**

**October 2008**

		----- Forecast -----					
		2Q2008	2008	2009	2010	2011	2012
<b>U.S.</b>	Stage	Growth	Post Growth	Contraction	Recovery	Growth	Growth
	Vacancy	10.4%	11.2%	11.8%	11.0%	10.2%	9.7%
	Rent Momentum	None	None	Decline	Increase	Increase +	Increase +
<b>Minneapolis</b>	Stage	Growth	Post Growth	Contraction	Recovery	Growth	Growth
	Vacancy	8.7%	9.1%	9.5%	8.8%	8.3%	7.5%
	Rent Momentum	Increase +	Decline	Decline	Increase	Increase +	Increase +
<b>New York/NJ</b>	Stage	Growth	Post Growth	Contraction	Recovery	Growth	Growth
	Vacancy	9.4%	9.5%	10.0%	9.7%	9.3%	8.8%
	Rent Momentum	Increase	None	Decline	Increase	Increase +	Increase +
<b>Oakland/East Bay</b>	Stage	Post Growth	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	9.9%	11.0%	11.5%	10.8%	9.6%	8.3%
	Rent Momentum	Increase +	None	Decline	Increase	Increase +	Increase +
<b>Orange County</b>	Stage	Growth	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	7.5%	8.0%	9.5%	8.6%	7.6%	6.5%
	Rent Momentum	Increase +	Decline	Decline	Increase	Increase +	Increase +
<b>Orlando</b>	Stage	Post Growth	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	10.2%	11.2%	12.3%	11.3%	9.5%	9.0%
	Rent Momentum	Decline	Decline	Decline	Increase	Increase +	Increase +
<b>Philadelphia</b>	Stage	Growth	Post Growth	Post Growth	Growth	Growth	Growth
	Vacancy	10.3%	10.6%	11.0%	10.7%	9.9%	9.4%
	Rent Momentum	Increase	None	None	Increase	Increase	Increase
<b>Phoenix</b>	Stage	Post Growth	Contraction	Contraction	Recovery	Recovery	Growth
	Vacancy	13.7%	15.2%	15.4%	13.8%	12.5%	10.8%
	Rent Momentum	Increase	Decline	Decline	None	Increase +	Increase +
<b>Portland</b>	Stage	Post Growth	Contraction	Recovery	Growth	Growth	Growth
	Vacancy	7.3%	8.0%	7.8%	7.0%	6.6%	6.4%
	Rent Momentum	Increase	Decline	None	Increase +	Increase +	Increase
<b>Riverside/San Berdo</b>	Stage	Post Growth	Contraction	Contraction	Recovery	Recovery	Growth
	Vacancy	12.6%	13.9%	15.1%	12.9%	10.8%	9.4%
	Rent Momentum*	None	Decline	Decline	None	Increase +	Increase +
<b>San Diego</b>	Stage	Post Growth	Contraction	Recovery	Growth	Growth	Growth
	Vacancy	10.1%	10.7%	10.5%	9.7%	9.1%	9.2%
	Rent Momentum*	Increase	Decline	None	Increase	Increase	Increase
<b>San Jose</b>	Stage	Growth	Post Growth	Contraction	Recovery	Growth	Growth
	Vacancy	10.7%	10.8%	11.0%	10.4%	9.6%	8.7%
	Rent Momentum*	Increase +	Increase	Decline	Increase	Increase +	Increase +
<b>Seattle/Tacoma</b>	Stage	Growth	Post Growth	Post Growth	Growth	Growth	Growth
	Vacancy	6.6%	7.7%	8.0%	7.7%	7.3%	6.8%
	Rent Momentum*	Increase +	None	None	Increase	Increase +	Increase +
<b>Washington, D.C.</b>	Stage	Post Growth	Post Growth	Contraction	Recovery	Growth	Post Growth
	Vacancy	12.4%	12.9%	13.4%	12.6%	11.3%	10.4%
	Rent Momentum*	Increase	None	Decline	Increase	Increase +	Increase +

Source: Torto Wheaton and RREEF Research

\* Rent Momentum: Annual Rental Growth

None: 0% to 2%  
 Increase: 3% - 4%  
 Increase+: Over 4%

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## Property Cycle Monitor: Office

Office properties are typically the most volatile of the four major sectors as real estate moves through its economic cycles. The current recession confirms this reputation, as office moves from being the strongest and most favored sector in 2006 and 2007 to the most distressed in this current down cycle, which we forecast to endure through 2010. Net demand as of third quarter 2008 has been negative, with a growing number of markets turning more solidly negative. At the same time, new projects continue to be completed. Meltdowns in the housing and mortgage sectors have become exacerbated by collapses within the broader financial industries and have heightened uncertainties regarding the business climate. Demand growth is low as tenants have contracted or put expansion plans on hold. The mismatch of supply and demand has pushed availability to 13.5% at third quarter 2008, up 100 basis points from the end of 2007. Building owners, in an effort to fortify face rents, have been upping the free rent and concessions offered, but contract rents have inevitably been eroding.

Suburban submarkets remained more vulnerable to the downturn through third quarter 2008, rising by 130 basis points to 15.5%, compared with an uptick of only 10 basis points to 9.7% downtown. Due to the effects of the housing industry collapse, markets with economies having a high residential growth component saw availabilities soar. Exacerbating the demand erosion, developers made large bets on speculative office projects in these markets, with deliveries continuing into 2008 and 2009. As the year progressed, wait-and-see attitudes dominated the tenant scene, and, as the financial market turmoil spread to the core of Wall Street's most venerable commercial and investment banks, further drags on local economies affected by these companies have emerged.

In Greater New York (including Northern New Jersey), 11% of the metro's office inventory is leased or owned by what had been the 12 largest commercial and investment banks at the beginning of 2008, exposing the metro to significant impacts from this sector. But the scope of impact extends beyond Wall Street. Bank of America's acquisition of Merrill Lynch calls into question how Bank of America will allocate operations between Charlotte and New York. The expected new ownership of Wachovia by Wells Fargo Bank will also raise a similar issue relative to San Francisco and Charlotte, although this should be somewhat mitigated by Wells Fargo's lack of an East Coast presence. On the west coast, the recent sale of Washington Mutual in Seattle increases risk in the CBD of that metro, where it owns or leases significant space. However, the likelihood of scaling back of operations there is mitigated by the buyer's (JP Morgan Chase) lack of a major presence in the western regions. Further, the impacts extend beyond headquarter cities, reaching out to metros housing back office operations of the acquiring or acquired entities.

Regional banks around the US are either being taken over and liquidated by the Federal government, or are being merged with stronger banks. IndyBank in Pasadena, California, is being liquidated. National City, based in Cleveland, has been acquired by PNC Bank of Pittsburgh. Numerous other weak banks are expected to follow.

In forecasting near-term performance of various markets around the country, outperforming metros are typically those with globally linked economies, supply constraints, and/or significant demand drivers in the energy or technology fields, including Boston, Dallas, Houston, Los Angeles, San Francisco, and San Jose. In addition, some average, but steady, metros, including Chicago and Philadelphia, currently make the A-List simply because their otherwise lukewarm rent growth patterns make their near-term performance rise above more cyclically volatile metros.

Metros expected to lag in the near-term are generally those most impacted by the housing and financial sector meltdowns, or which otherwise trail in new job generation. These markets

include Atlanta, Miami, Minneapolis, New York, Orange County, Phoenix, Sacramento, and San Diego. Among these, Orange County, Phoenix, Sacramento and San Diego are taking the hardest lumps during the coming 12 months, and will take some time to work through supply overhangs. New York is being affected more by floundering demand than by the supply side in the short-term. While the most severely oversupplied submarkets will see the greatest rent erosion, some of these markets will rate among the highest in rent growth once recovery finally does kick-in.

The major risk facing the national office sector continues to rest with the demand-side. With the economy entering into a significant recession, forecasts are for job losses of 2 to 2.5 million, of which only 750,000 have been recorded to date. Clearly, the worst is yet to come, primarily in 2009 and 2010.

Here is our take on the outlook for the sector:

Office sector fundamentals show a significant weakening as completions outrun net absorption by the close of 2008. This will cause the national availability rate to rise by a total of 200 basis points during the year to 14.5%. The market is forecast to deteriorate considerably in 2009, reaching a year-end vacancy rate of 16.3% and this weakness is expected to spill over into 2010.

The source of demand drivers remains the critical issue to track in 2009. Office employment growth turned negative in 2008, and is likely to plummet further in 2009, outpacing the rate of job losses in the economy as a whole. Growth is expected to be anemic in 2010.

New office completions in 2008, at 73 million square feet, will be the highest level added since 2001. While supply is dramatically increasing vacancy, it is not to the same extent as occurred in 2001. Net absorption is forecast to turn negative during the second half of 2008, especially as sublease space finds its way to the market.

Fortunately, completions are forecast to decline by nearly 45% in 2009. However, with continued negative net absorption, vacancy rates will continue to climb.

In 2010, net absorption is forecast to turn modestly positive to a level comparable to that in the 2003 to 2004 period during the past recovery. At the same time, new completions are expected to reach bottom, declining by another 60%, setting the stage for recovery.

Growth in Class A effective rents has stalled and rates will decline in the coming year. Most of the two dozen metros tracked by RREEF Research are expected to see zero growth to declining rents during the next year. Those hit hardest are those that continue to feel the largest impacts of the housing sector fallout, combined with overhanging surges in new supply, including Orange County, Phoenix, Sacramento, and San Diego. New York also joins the list of metros with high levels of declining rents as tremors within the financial sector intensified recently.

Among the major markets, availability will hit 10% or higher in all by year-end 2008 or 2009. While most of the lowest rates will continue in the familiar metros of Los Angeles, New York, and San Francisco, all are expected to wake up to rates of 12.5% or more by 2009. Seattle also makes the list of lowest availability rates, but the recent takeover and sale of Washington Mutual, combined with looming deliveries in the CBD, cast uncertainty on the metro's core downtown area, and is also expected to be subjected to a similar availability in the 12.5% and up club.

The bottom of the cycle is expected to occur in 2009, with recovery being spurred by 2011, although metros with oversupply issues will lag. Looking to the medium-term, we forecast that

it will take until 2012 for the national office vacancy to return to just above the 12.5% level experienced in 2007.

Rent growth over the next two years is forecast to be substantially negative nationally. From peak in 2007 to trough in 2010, we forecast a double-digit overall rent decline of around 15%.

U.S. National Office Market Cycle		Forecast Years				
3Q2008		2008	2009	2010	2011	2012
GRW	PGW					GRW
REC	CON		CON	REC	REC	
Office Job Growth	-0.8%†	-0.6%	-1.3%	1.9%	3.2%	2.1%
Net Abs.	8 MSF	-4 MSF	-26 MSF	41 MSF	68 MSF	65 MSF
Supply	34 MSF	73 MSF	42 MSF	17 MSF	21 MSF	27 MSF
% Vacant	13.5%	14.5%	16.3%	15.5%	14.1%	12.9%
Rent Momentum	Decline	None	Decline	None	Increase	Increase+

Key: REC = Recovery GRW = Growth PGW = Post-Growth CON = Contraction

Source: Torto Wheaton, Economy.com and RREEF Research † Year on Year Growth

This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.

## Factors Shaping the Office Cycle (Time Frame)

### Drivers of Recovery

- Virtually non-existent in 2008 and 2009, financial sector recovery will be interdependent upon overall economic drivers
- Growth in high tech and energy will be positive forces in the intermediate-term, although high tech growth is waning
- Post-2008 slowdown in new construction will keep availability from surging more that it would otherwise. The peak in new construction in 2008 is about 30 million square feet below the peak year of deliveries in the past cycle.

### Constraints on Recovery

- Short-term office job losses (negative in 2008 and strongly negative in 2009)
- Wait-and-see attitudes as corporate business spending plans remain on hold. (short-term/intermediate-term)
- Continued fallout in the financial sector (short-term/intermediate-term)
- Peaking of construction volumes in 2008 (short-term)

### Implications: Timing of the Cycle

- National market has ground to a halt and is contracting.
- Overall negative growth of effective rents for the next 12 months at a national level.

Traditional CBD markets remain the safest haven in the short-term, and remain attractive in the longer term as the impacts of energy prices related to commuting remain of concern.

## Office Metro Performance

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### US Office Market Metro Performance 2008-2010

Out-Perform	Average*	Under-Perform
Boston	Austin	Atlanta
Dallas	Chicago	Fort Lauderdale
Houston	Denver	Miami
Los Angeles	Oakland	Minneapolis
Philadelphia	Portland	New Jersey
San Francisco	San Jose	New York
	Seattle	Orange County
	Washington DC	Phoenix
		Sacramento
		San Diego

\* broadly in line with national trends

Source: RREEF Research

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**U.S. Property Cycle Monitor**  
Office

October 2008

		----- Forecast -----					
		2Q2008	2008	2009	2010	2011	2012
<b>U.S.</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Growth
	Availability	13.2%	14.5%	16.3%	15.5%	14.1%	12.9%
	Rent Momentum*	Decline	None	Decline	None	Increase+	Increase+
<b>Atlanta</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Recovery	Growth
	Availability	17.2%	17.7%	19.5%	19.0%	16.9%	15.0%
	Rent Momentum*	Decline	Decline	Decline	None	Increase	Increase
<b>Austin</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Growth
	Availability	15.4%	19.6%	16.8%	13.9%	12.6%	12.8%
	Rent Momentum*	Decline	None	Decline	Increase	Increase+	Increase+
<b>Boston</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Growth
	Availability	11.1%	11.4%	12.0%	11.3%	10.8%	10.6%
	Rent Momentum*	None	Increase	Decline	None	Increase	Increase+
<b>Chicago</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Recovery	Growth
	Availability	15.2%	15.5%	17.4%	17.7%	16.4%	15.3%
	Rent Momentum*	Decline	Decline	None	None	Increase	Increase+
<b>Dallas</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Recovery	Recovery
	Availability	21.1%	22.5%	22.9%	21.9%	20.7%	20.0%
	Rent Momentum*	None	Increase	Decline	Increase	Increase+	Increase
<b>Denver</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Growth
	Availability	15.3%	16.3%	18.4%	17.3%	14.8%	13.0%
	Rent Momentum*	Decline	None	Decline	Increase	Increase+	Increase+
<b>Fort Lauderdale</b>	Stage	Contraction	Contraction	Contraction	Recovery	Growth	Growth
	Availability	13.6%	16.6%	18.4%	17.5%	14.7%	13.4%
	Rent Momentum*	Decline	Decline	Decline	None	Increase	Increase+
<b>Houston</b>	Stage	Growth	Growth	Post-Growth	Growth	Post-Growth	Post-Growth
	Availability	11.7%	12.9%	13.7%	13.0%	12.7%	12.4%
	Rent Momentum*	None	Increase	None	Increase	Increase	Increase
<b>Los Angeles</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Post-Growth
	Availability	11.0%	11.5%	12.7%	12.1%	11.6%	11.0%
	Rent Momentum*	Decline	None	None	Increase	Increase+	Increase+
<b>Miami</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Growth
	Availability	12.7%	15.7%	18.7%	20.0%	16.1%	12.9%
	Rent Momentum*	None	None	Decline	Decline	Increase	Increase+
<b>Minneapolis</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Growth
	Vacancy	14.3%	16.7%	18.1%	16.6%	14.4%	12.5%
	Rent Momentum*	Decline	Decline	Decline	None	Increase	Increase+

\* Rent Momentum: Annual Rental Growth

None: 0% to 2%

Increase: 3% - 4%

Increase+: Over 4%

This information is a forecast and due to a variety of uncertainties, and assumptions made in our analysis, actual events or results or the actual performance of the markets covered may differ from those presented.

			----- Forecast -----				
	2Q08		2008	2009	2010	2011	2012
<b>U.S.</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Growth
	Availability	13.2%	14.5%	16.3%	15.5%	14.1%	12.9%
	Rent Momentum*	Decline	None	Decline	None	Increase+	Increase+
<b>New Jersey</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Availability	16.5%	18.1%	19.5%	18.6%	17.6%	17.3%
	Rent Momentum*	Decline	Decline	Decline	None	Increase	Increase
<b>New York</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Growth
	Availability	6.1%	7.9%	12.8%	12.3%	10.8%	8.9%
	Rent Momentum*	Decline	Decline	Decline	None	Increase	Increase+
<b>Oakland/East Bay</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Growth	Post-Growth
	Availability	14.8%	16.2%	16.8%	15.7%	14.6%	12.7%
	Rent Momentum*	None	None	Decline	None	Increase+	Increase+
<b>Orange County</b>	Stage	Contraction	Contraction	Contraction	Contraction	Recovery	Growth
	Availability	17.1%	18.3%	18.6%	16.4%	14.3%	12.4%
	Rent Momentum*	Decline	Decline	Decline	None	Increase	Increase+
<b>Philadelphia</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Post-Growth
	Availability	12.3%	12.5%	13.0%	12.9%	11.4%	11.1%
	Rent Momentum*	None	Increase	None	Increase	Increase	Increase+
<b>Phoenix</b>	Stage	Contraction	Contraction	Contraction	Contraction	Recovery	Growth
	Availability	18.7%	21.3%	23.3%	21.4%	18.3%	15.8%
	Rent Momentum*	Decline	Decline	Decline	Decline	Increase+	Increase+
<b>Portland</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Post-Growth
	Availability	12.5%	13.5%	15.2%	14.2%	12.8%	12.2%
	Rent Momentum*	None	None	Decline	Increase	Increase+	Increase+
<b>Sacramento</b>	Stage	Contraction	Contraction	Contraction	Contraction	Recovery	Growth
	Availability	16.1%	18.4%	20.7%	19.0%	16.9%	15.1%
	Rent Momentum*	Decline	Decline	Decline	None	Increase+	Increase+
<b>San Diego</b>	Stage	Contraction	Contraction	Contraction	Contraction	Recovery	Growth
	Availability	15.8%	17.0%	17.6%	15.8%	13.9%	12.5%
	Rent Momentum*	Decline	Decline	Decline	None	Increase+	Increase+
<b>San Francisco</b>	Stage	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Growth	Post-Growth
	Availability	9.7%	12.5%	14.0%	12.6%	10.7%	8.8%
	Rent Momentum*	None	None	Decline	None	Increase+	Increase+
<b>San Jose</b>	Stage	Post-Growth	Post-Growth	Contraction	Growth	Growth	Post-Growth
	Availability	14.4%	16.4%	21.5%	19.0%	15.0%	12.4%
	Rent Momentum*	None	None	Decline	None	Increase+	Increase+
<b>Seattle</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Growth	Post-Growth
	Availability	9.6%	10.5%	12.5%	11.7%	10.1%	9.7%
	Rent Momentum*	None	Increase	Decline	None	Increase+	Increase+
<b>Washington DC</b>	Stage	Post-Growth	Post-Growth	Post-Growth	Growth	Growth	Growth
	Availability	11.4%	11.4%	12.1%	11.9%	11.0%	10.4%
	Rent Momentum*	None	Increase	Decline	Increase	Increase+	Increase+

Sources: CBRE/Torto Wheaton and RREEF Research

\* Rent Momentum: Annual Rental Growth

None: 0% to 2%  
Increase: 3% - 4%  
Increase+: Over 4%

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## Property Cycle Monitor: Retail

Retail markets have continued to weaken this year, marking a sharp reversal from trends earlier in the decade. The US retail market slowed but with nonetheless positive absorption in 2007, down more than 25% from the four-year average through 2005. The retail vacancy rate finished 2007 at 7.2%, up 30 basis points from 2006's 6.9% rate, and 70 basis points above the year-end 2005 rate of 6.5%. Vacancies have since spiked to 7.9% as of mid-year 2008, as net absorption actually turned negative.

The downturn in housing and the turmoil in the credit markets are negatively affecting retail sales and contributing to the loss of consumer confidence. The fate of the retail market over the next few years will depend on an increase in consumer spending. After several years of torrid retail sales growth through mid-2007, sales have been flat over the past year and there has been a shift in spending. Discount stores continue to show relative strength against the weakness of more discretionary spending in apparel and department stores. Home-related sales have been especially weak. The exception to this trend occurred in the late-spring, as sales were bolstered by tax rebates from the stimulus package. In short, all factors point to continued weakness in retail sales growth and a subsequent slowdown in retail net absorption.

Looking to the rest of 2008, we forecast to end the year with 2.0 million square feet of net absorption. We also expect additions to supply to moderate slightly, from 26.4 million square feet in 2007 to 21.7 million in 2008. Overall, the vacancy rate is expected to continue its upward trend, ending 2009 at 8.3%. Thereafter, we anticipate construction activity to continue to be relatively muted while consumer spending, and thus retail property demand, regains momentum. This will reduce vacancies beginning in 2010 and provide for greater rent growth.

The primary risk to this forecast is continued weakness in the housing market and declining economic conditions. In addition, a shakeout among weaker retailers continues, with more bankruptcies, store closings, and reduced planned store openings, providing for a weaker leasing environment overall. Weakness in both consumer and capital markets could continue this trend, postpone prospects for recovery in the retail sector, and reduce opportunities in the longer-term.

Virtually all markets have seen at least a moderate decline in forecast over the past six months. The strongest markets remain in the Pacific Northwest (Seattle and Portland) and select global markets and tech (SF Bay Area, Denver, and Austin).

With few retailers signing leases in the current environment, and many retailers closing stores, market rents are difficult to determine. However, retailers can still be found to occupy space in stronger centers, but market rents can be down at least 15% from 2007 levels.

2Q2008		Forecast Years					
		2008	2009	2010	2011	2012	
GRW	PGW						
REC	CON	CON	CON	REC	REC	REC	
Retail Sales	1.4%†	2.9%	3.1%	3.7%	2.9%	3.1%	
Net Abs.	-2 MSF	-0.7 MSF	10 MSF	27 MSF	32 MSF	28 MSF	
Supply	5 MSF	21 MSF	17 MSF	24 MSF	26 MSF	23 MSF	
% Vacant	7.9%	8.4%	8.8%	8.4%	7.9%	7.5%	
Rent Momentum	Decline	Decline	Decline	Increase	Increase	Increase	

Key: REC = Recovery GRW = Growth PGW = Post-Growth CON = Contraction

Source: REIS, Economy.com, and RREEF Research

† Year on Year Growth

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## **Factors Shaping the Retail Cycle (Time Frame)**

### **Drivers of Recovery**

- Job growth in tech sector (ongoing)
- Limited household and income growth (ongoing)
- More restrained product deliveries

### **Constraints on Recovery**

- Slowing consumer spending growth (short-term/intermediate-term)
- Restrained home mortgage refinancing and home depreciation (short-term/intermediate-term)
- Higher prices for oil and natural gas (ongoing)
- Rising retailer bankruptcies and reduced planned store openings

### **Implications: Timing of the Cycle**

- Retail sector has turned weaker
- Few markets now growing, and most are retracting

### **Retail Metro Performance**

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#### **US Retail Market Metro Performance 2009**

<b>Out-Perform</b>	<b>Average*</b>	<b>Under-Perform</b>
Jacksonville	Austin	Atlanta
Long Island	Denver	Chicago
Los Angeles	Minneapolis	Dallas
Miami	Orlando	Fort Worth
Oakland/East Bay	Phoenix	Ft. Lauderdale
Portland		Houston
San Diego		Philadelphia
San Francisco		Riverside
San Jose		San Antonio
Seattle		St. Louis
Washington, DC		Tampa

\* broadly in line with national trends

Source: RREEF Research

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**U.S. Property Cycle Monitor**  
**Retail**

**October 2008**

----- Forecast -----

2Q2008			2008	2009	2010	2011	2012
<b>U.S.</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	7.9%	8.4%	8.8%	8.4%	7.9%	7.5%
	Rent Momentum*	Decline	Decline	Decline	Increase	Increase	Increase
<b>Atlanta</b>	Stage	Contraction	Contraction	Recovery	Recovery	Recovery	Recovery
	Vacancy	10.0%	10.3%	10.2%	9.9%	9.5%	9.1%
	Rent Momentum*	Decline	Decline	Increase	Increase	Increase +	Increase +
<b>Austin</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	9.5%	10.0%	10.2%	9.9%	9.1%	8.7%
	Rent Momentum*	None	None	Decline	Increase	Increase +	Increase +
<b>Baltimore</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	4.7%	5.2%	5.6%	5.5%	5.4%	5.1%
	Rent Momentum*	None	Decline	Decline	Increase	Increase	Increase
<b>Boston</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	5.1%	5.8%	6.1%	5.7%	5.3%	5.0%
	Rent Momentum*	Decline	Decline	Decline	Increase	Increase	Increase
<b>Charlotte</b>	Stage	Post-Growth	Post-Growth	Contraction	Recovery	Recovery	Recovery
	Vacancy	7.6%	8.1%	8.7%	8.6%	8.6%	8.3%
	Rent Momentum*	None	None	Decline	Increase	Increase	Increase
<b>Chicago</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	9.4%	9.8%	10.4%	9.4%	8.6%	7.7%
	Rent Momentum*	Decline	Decline	Decline	Increase	Increase +	Increase
<b>Dallas</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	12.1%	12.3%	12.6%	12.1%	11.3%	11.0%
	Rent Momentum*	Decline	Decline	None	Increase	Increase	Increase
<b>Denver</b>	Stage	Contraction	Post-Growth	Post-Growth	Recovery	Recovery	Recovery
	Vacancy	9.1%	8.9%	8.9%	8.3%	7.7%	7.5%
	Rent Momentum*	Decline	None	None	Increase	Increase +	Increase
<b>Ft. Lauderdale</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	7.9%	8.6%	9.0%	8.3%	7.9%	7.3%
	Rent Momentum*	Decline	Decline	Decline	Increase	Increase +	Increase +
<b>Fort Worth</b>	Stage	Post-Growth	Contraction	Contraction	Contraction	Recovery	Growth
	Vacancy	11.0%	11.6%	12.4%	12.7%	11.7%	10.7%
	Rent Momentum*	None	Decline	Decline	Decline	Increase	Increase +
<b>Houston</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	12.5%	13.0%	13.5%	13.3%	12.3%	11.6%
	Rent Momentum*	Decline	Decline	Decline	Increase	Increase +	Increase +
<b>Long Island</b>	Stage	Contraction	Contraction	Contraction	Contraction	Recovery	Recovery
	Vacancy	5.3%	6.1%	6.4%	6.4%	6.1%	5.7%
	Rent Momentum*	Decline	Decline	None	Decline	Increase	Increase
<b>Los Angeles</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	3.4%	4.2%	4.3%	4.3%	4.2%	4.1%
	Rent Momentum*	None	None	Decline	Increase	Increase	Increase
<b>Miami</b>	Stage	Contraction	Contraction	Recovery	Recovery	Recovery	Recovery
	Vacancy	5.2%	6.1%	6.1%	5.5%	5.2%	5.0%
	Rent Momentum*	Decline	Decline	Increase	Increase	Increase	Increase
<b>Milwaukee</b>	Stage	Contraction	Contraction	Contraction	Recovery	Contraction	Recovery
	Vacancy	8.7%	10.8%	11.3%	11.1%	11.2%	10.8%
	Rent Momentum*	None	Decline	Decline	Increase	Decline	Increase
<b>Minneapolis</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	8.4%	8.8%	9.2%	8.8%	8.6%	8.0%
	Rent Momentum*	Decline	Decline	None	Increase	Increase	Increase +
<b>N. New Jersey</b>	Stage	Post-Growth	Contraction	Post-Growth	Recovery	Recovery	Growth
	Vacancy	3.8%	4.9%	4.9%	4.8%	4.3%	3.9%
	Rent Momentum*	None	Decline	None	Increase	Increase	Increase

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**U.S. Property Cycle Monitor**  
**Retail**

**October 2008**

			----- Forecast -----				
		2Q2008	2008	2009	2010	2011	2012
<b>U.S.</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	7.9%	8.4%	8.8%	8.4%	7.9%	7.5%
	Rent Momentum*	Decline	Decline	Decline	Increase	Increase	Increase
<b>Oakland/East Bay</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	4.5%	5.1%	5.3%	4.8%	4.0%	3.4%
	Rent Momentum*	None	Decline	None	Increase	Increase +	Increase +
<b>Orange County</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	3.4%	4.4%	4.6%	4.5%	4.1%	3.8%
	Rent Momentum*	Decline	Decline	Decline	Increase	Increase +	Increase +
<b>Orlando</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Growth
	Vacancy	7.3%	8.2%	8.4%	8.1%	7.3%	6.4%
	Rent Momentum*	Decline	Decline	None	Increase	Increase	Increase +
<b>Philadelphia</b>	Stage	Post-Growth	Post-Growth	Contraction	Contraction	Recovery	Recovery
	Vacancy	6.3%	6.9%	7.8%	7.8%	7.5%	7.0%
	Rent Momentum*	None	Decline	Decline	None	Increase	Increase
<b>Phoenix</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	7.3%	7.7%	8.2%	7.7%	6.9%	6.8%
	Rent Momentum*	Decline	Decline	Decline	Increase	Increase +	Increase
<b>Portland</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Growth
	Vacancy	5.4%	5.7%	6.0%	5.9%	5.4%	4.8%
	Rent Momentum*	Decline	Decline	None	Increase	Increase +	Increase +
<b>St. Louis</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	10.6%	11.3%	11.8%	11.6%	10.8%	10.0%
	Rent Momentum*	None	Decline	Decline	None	Increase +	Increase
<b>San Antonio</b>	Stage	Post-Growth	Contraction	Contraction	Recovery	Growth	Growth
	Vacancy	10.6%	11.1%	11.6%	11.1%	10.0%	9.4%
	Rent Momentum*	None	Decline	None	Increase	Increase +	Increase +
<b>San Diego</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Growth
	Vacancy	4.2%	4.5%	4.6%	4.4%	4.1%	3.8%
	Rent Momentum*	Decline	Decline	None	Increase	Increase	Increase +
<b>San Francisco</b>	Stage	Contraction	Contraction	Post-Growth	Recovery	Recovery	Recovery
	Vacancy	4.0%	4.3%	4.3%	4.0%	3.6%	3.5%
	Rent Momentum*	None	None	None	Increase	Increase	Increase
<b>San Jose</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	3.6%	3.9%	4.2%	4.0%	3.8%	3.6%
	Rent Momentum*	None	Decline	None	Increase	Increase +	Increase +
<b>Seattle</b>	Stage	Contraction	Contraction	Contraction	Recovery	Contraction	Recovery
	Vacancy	4.1%	4.3%	4.5%	4.4%	4.4%	4.2%
	Rent Momentum*	None	Decline	None	Increase +	Decline	Increase +
<b>Tampa</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	7.5%	8.2%	8.6%	8.1%	7.4%	6.9%
	Rent Momentum*	Decline	Decline	Decline	Increase	Increase +	Increase
<b>Washington, D.C.</b>	Stage	Post-Growth	Post-Growth	Contraction	Growth	Growth	Post-Growth
	Vacancy	4.0%	4.1%	4.4%	4.2%	3.9%	4.0%
	Rent Momentum*	None	None	Decline	Increase +	Increase +	Increase
<b>West Palm Beach</b>	Stage	Contraction	Contraction	Contraction	Recovery	Recovery	Recovery
	Vacancy	7.4%	8.0%	8.0%	7.6%	7.1%	6.7%
	Rent Momentum*	Decline	Decline	None	Increase	Increase +	Increase +

Sources: REIS and RREEF Research

\* Rent Momentum: Annual Rental Growth

None: 0% to 2%

Increase: 3% - 4%

Increase+: Over 4%

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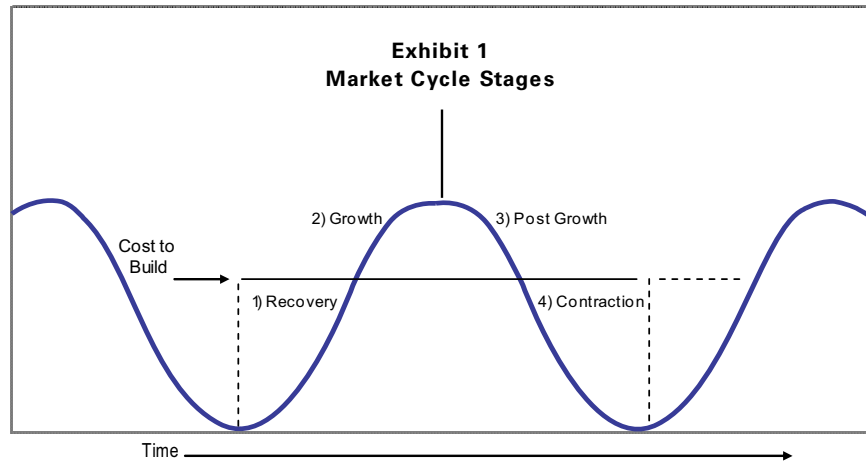
## APPENDIX

### Classifying Markets in the Cycle

Among the 50 markets for which baseline forecasts are prepared, 25 to 30 from each property sector are included in the Property Cycle Monitor. Along with the national market, the markets included in the Monitor are classified in their respective cycle stage in the current market and over a five-year time horizon. It is possible for individual markets to experience cycles with higher or lower frequency than five years.

Property market cycle designations are based on four distinct stages shown in Exhibit 1.

<u>Stages</u>	<u>General Conditions</u>
1) Recovery	High but declining vacancy – demand exceeding supply – stable to rising rents/values
2) Growth	Low and declining vacancy – demand exceeding supply – rising rents supportive of construction – rising values
3) Post Growth	Low but increasing vacancy – supply exceeding demand – rising/flattening rents/values
4) Contraction	High or increasing vacancy – supply exceeding demand – falling rents/values



Source: RREEF Research

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## Rent Momentum

Following the designation of cycle stages, a rent category is assigned to the national and primary metro markets for each year of the forecast period. Rent categories are assigned based on the general typology displayed in Exhibit 2. They are intended to show the general *momentum* behind potential changes in rent, not an actual numerical increase or decrease in rates.

**Exhibit 2**  
**Rent Categories and**  
**The Property Cycle**

Momentum Category	Cycle Stages			
	Contraction	Recovery	Growth	Post-Growth
Increase +		✓	✓	
Increase		✓	✓	✓
None	✓	✓		✓
Decrease	✓			
Decrease +	✓			

Source: RREEF Research

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## Main Offices

### Frankfurt

Mergenthalerallee 73-75  
65760 Eschborn  
Germany  
Tel: +49 69 71704 906

### Hong Kong

48/F Cheung Kong Centre  
2 Queen's Road Central  
Hong Kong  
Tel: +852 2203 8888

### London

1 Appold Street  
Broadgate  
London  
EC2A 2UU  
United Kingdom  
Tel: +44 20 7545 8000

### New York

280 Park Avenue  
23W Floor  
New York  
NY10017-1270  
United States  
Tel: +1 212 454 3900

### San Francisco

101 California Street  
26<sup>th</sup> Floor  
San Francisco  
CA 94111  
United States  
Tel: +1 415 781 3300

### Tokyo

Floor 17  
Sanno Park Tower  
2-11-1 Nagata-cho  
Chiyoda-Ku  
Japan  
Tel: +81 3 5156 6000

## RREEF Research

**Peter Hobbs**  
Head, Global Real Estate Research  
+44 20 7547 4855

**Asieh Mansour**  
Chief Economist and Strategist  
+1 415 262 2044

### Europe

**Brenna O'Roarty**  
Director  
+44 20 7545 6099

**Lonneke Löwik**  
Vice President  
+44 20 7545 6328

**Maren Våth**  
Vice President  
+49 69 717 04 204

**Ermina Topintzi**  
Assistant Vice President  
+30 210 7256 153

**Susannah Hunter**  
Assistant Vice President  
+44 20 7545 5150

### Asia Pacific

**Tan Yen Keng**  
Vice President  
+852 2203 8062

**Koichiro Obu**  
Vice President  
+81 3 5156 6000

**Henry (Wei) Chin**  
Vice President  
+852 2203 7908

### North America

**Alan Billingsley**  
Director  
+1 415 262 2017

**Brooks Wells**  
Director  
+1 212 454 6437

**Hope Nadji**  
Director  
+1 415 262 2022

**Andrew J. Nelson**  
Vice President  
+1 415 262 7735

**Bill Hersler**  
Vice President  
+1 415 262 2075

**Ross Adams**  
Vice President  
+1 415 262 2097

**Jaimala Patel**  
Vice President  
+1 212 454 1752

**Stella Yun Xu**  
Assistant Vice President  
+1 415 262 7715

Publication Address:  
RREEF  
101 California Street  
26<sup>th</sup> Floor  
San Francisco, CA 94111  
USA

Website:  
[www.rreef.com](http://www.rreef.com)

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