

U.S. REAL ESTATE INVESTMENT OUTLOOK 2004

CBRE
INVESTORS
CB RICHARD ELLIS INVESTORS, LLC



CONTENTS

I.	EXECUTIVE SUMMARY: THE INVESTMENT ENVIRONMENT	1
II.	CAPITAL MARKETS IN TRANSITION	3
III.	ECONOMY ON TRACK	5
IV.	INVESTMENT OPPORTUNITIES	8
	A. Retail	9
	B. Multi-family	11
	C. Industrial	13
	D. Office	15
V.	FEATURE: STRATEGIC IMPLICATIONS OF MEGA TRENDS	18



I.

EXECUTIVE SUMMARY: THE INVESTMENT ENVIRONMENT

The U.S. economy, property markets and capital markets are at an inflection point that presents a challenging but potentially rewarding environment for real estate investment. The recovery of the nation's economy and real estate markets is gaining traction. The risk of the economic and property markets recovery being derailed are decreasing, and the worst appears to be past. At the same time, continued frenzied investor demand has increased the risk of a reversal in the capital markets. The number of properties offered for sale has increased throughout 2003, but this increase in supply has been met by an even stronger upsurge in investor demand, driving cap rates lower. Over the near term, cap rates are likely to trend upward, making it even more important than usual for potential buyers to make realistic assumptions about future performance. The opportunity is to acquire selected properties that are well positioned to benefit from the rebounding economy and property markets, participating in these recoveries and strong long-term capital market trends.

Capital Markets Perspective

Investment markets have become highly charged in 2003, driving cap rates lower and property prices higher. This performance is surprising given the generally poor state of the leasing markets and rapidly rising vacancies since 2000. A closer look at the drivers behind the intense bidding for properties reveals that falling cap rates are not irrational, but the favorable environment for sellers is also probably unsustainable.

The risk to investors is shifting from the property markets, which are showing signs of gradual improvement, to the capital markets, where a readjustment appears to be imminent. There will be a withdrawal of many of the highly leveraged, more entrepreneurial investors that have driven much recent investment demand. Cap rates will also edge up, reversing a trend that to-date has supported real estate values despite deteriorating fundamentals.

Over the longer term, increased transparency, a growing emphasis on income producing assets, and moderating expectations for overall investment returns will drive substantial institutional and individual capital to real estate.

Economic Backdrop

The U.S. economic expansion is gaining traction. Growth is widespread, driven by resilient household spending, surging defense outlays and, most importantly, increased business investment. Consumer spending has also strengthened, and Federal fiscal and monetary policy remains highly stimulative. The elements are falling into place that will spark the rebounds in employment and manufacturing necessary for the recovery of the real estate markets.

Yet the economic expansion will progress through different sectors and geographic regions at a varying pace. One of the strongest current growth engines is increased spending on defense and homeland security, which is benefiting the Washington, DC area and Southern California. There are signs of a pickup in basic commodity production and distribution activities tied to inventory rebuilding, which will contribute to growth in Chicago and Atlanta. Business investment in technology equipment and software are also showing signs of life, and Austin will be one of the first areas to feel the positive impacts of renewed I.T. spending. The deeply depressed business travel market will soon rebound, spurring growth in major business centers including Atlanta and Boston, and an upturn in advertising spending will flow to New York City.

Other industries will lag. Financial services face an extended recovery, meaning growth will be constrained in New York City and Boston over the near term. Telecom will remain weighed down by massive over-capacity, delaying a recovery in Dallas and Denver. Technology innovation will not return until there's a rebound in venture capital funding, meaning the road back for the Bay Area will be protracted.

Investment Opportunities

The recent economic downturn slashed tenant demand for nearly all property types. But the degree of distress varies substantially. Generally, the office and industrial markets took the biggest hit due to their reliance on retrenching business investment. Overall market conditions face a protracted recovery, but certain metro areas and product segments will outperform the general trend, and offer attractive investment opportunities. The consumer-driven multi-family and retail sectors have been relatively unscathed; since the multi-family supply/demand imbalance is less severe than in the office or industrial sectors, and since retail supply/demand fundamentals remain solid, they will be the first property types to recover.

Retail has been the best real estate performer over the past two-and-a-half years. Retail sales, the prime driver of demand for shopping center space, have been relatively strong. However, changing demographics and consumer preferences mean that some retail sectors are flourishing while others struggle. The growing preference for discount goods has especially disrupted the general merchandise and food categories. Wal-Mart, in particular, is threatening conventional department stores, supermarkets and other big box retailers all across the country. It is essential that shopping center investors understand these trends. Retail venues that offer upscale shoppers a uniquely attractive and convenient setting and store mix are positioned to thrive. Retail investments should be limited to upscale lifestyle centers, neighborhood/community centers in trade areas where Wal-Mart is not a threat, and 24/7 CBDs and Main Streets.

The **multi-family** sector has had strong long-term performance. Even unfavorable demographic trends over the past quarter century have not stunted the sector. However, apartments have taken a hit in the recent past due to weak labor markets and low interest rates drawing renters into homeownership. These trends will reverse with a full economic recovery and the rise in mortgage rates. There are opportunities to acquire multi-family housing, especially in under-supplied metropolitan areas.

The **industrial** market presents a challenging paradox: although space market fundamentals are poor, development has remained active and investor interest in stabilized properties is voracious. Net absorption dropped consistently during the economic downturn, although the nation's "gateway" distribution markets have significantly outperformed the secondary and tertiary markets. Investors can capitalize on the recovery in gateway markets by acquiring properties with limited near-term leasing exposure. Value-added opportunities are emerging in currently weak regional distribution markets. Investors looking solely for current income should focus on long term single-tenant net leased properties.

A perfect storm of factors caused **office** demand to crater beginning in early 2001. Just as office jobs started disappearing, cost-conscious companies decided it was time to use the space they had more efficiently and sublease the excess. Tenants delayed their search for new space in anticipation of further rent declines. Fortunately, in mid-2003 all of the indicators are pointing to a turnaround in demand. Sublease inventory is falling, vacancy rates are leveling off, and most companies have at least stopped cutting their workforces. While demand will soon return to healthy if not spectacular levels, the benefits of improving fundamentals will not be reflected in positive rent growth at the national level until mid-2004. Some markets will outperform the national average, and there are clear opportunities present today to participate in the coming recovery.

Mega Trends Implications

Rapidly changing demographic, technology and consumer preference trends have significantly impacted the nation's real estate markets, affecting overall real estate demand for each property type, as well as the geographic dispersal of that activity. These "mega trends" have also influenced which product segments or niches thrive and which barely survive.

Mega trends are ever evolving. Long-term structural changes may be temporarily derailed by short-term cyclical changes. The real estate community's response to these mega trends can result in the over-development of many products or the opening of formats that turn out to be the flavor-of-the-month. Other innovative products may successfully address the fundamental shifts in the economy's workings and people's lifestyles and preferences. It takes experienced real estate professionals to anticipate the impacts from these trends and to identify product concepts that can profitably capitalize on them. ■

II.

CAPITAL MARKETS IN TRANSITION

Investment markets have become highly charged in 2003, driving cap rates lower and property prices higher. This performance is surprising given the generally poor state of the leasing markets and rapidly rising vacancies since 2000. A closer look at the drivers behind the intense bidding for properties reveals that falling cap rates are not irrational; but, the favorable environment for sellers is also probably unsustainable. The risk to investors is shifting from the property markets, which are showing signs of gradual improvement, to the capital markets, where a readjustment appears to be imminent. Over the longer term, increased transparency, a growing emphasis on income producing assets, and moderating expectations for overall investment returns will drive substantial institutional and individual capital to real estate.

Current Trends

Although the elements of a recovery in market fundamentals are falling into place, it will be some time before they positively affect the performance of most real estate investments. Rents, particularly for office and industrial space, will be one of the last indicators to turn. And changes in net operating income (NOI) generally lag behind rents. Tenants who signed in at inflated rates in the late 90s will roll down to current levels. Space now available for sublease will become landlords' direct responsibility.

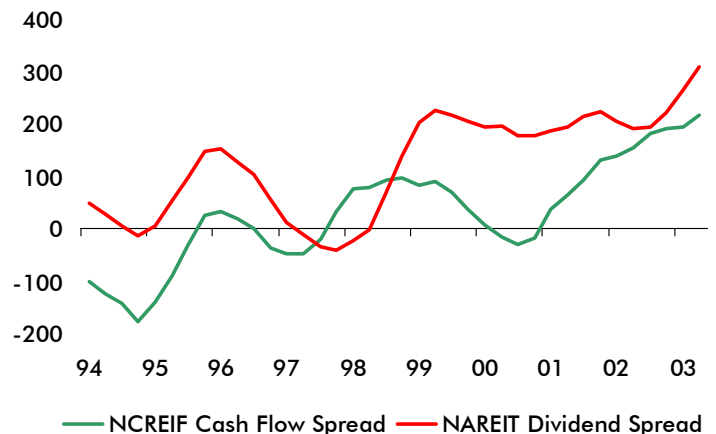
In the meantime, the capital markets will shift. The recent run-up in interest rates lays bare a risk to the robust real estate investment markets. There will be a withdrawal of many of the highly leveraged, more entrepreneurial investors that have driven much recent investment demand. Cap rates will also edge up, reversing a trend that to-date has supported real estate values despite deteriorating fundamentals.

Cap rates are largely driven by the interaction of three factors: interest rates, inflationary expectations and market fundamentals.

- 1) Interest rates are a proxy for alternative asset class returns and, in large part determine how much leveraged buyers can pay for properties. **Higher interest rates drive cap rates higher.**
- 2) Property is a real asset that has historically provided a hedge against inflation. If the expectation is that inflation will be high, investors will pay more for real assets to lock in that hedge. **Higher inflationary expectations drive cap rates lower.**
- 3) Market fundamentals do matter. Investors will pay more for properties if they perceive those properties will generate higher NOI in the future. NOI growth is driven by market fundamentals, primarily rents and occupancies. **The better the market fundamentals, the smaller the spread in cap rates versus interest rates.** Today's historically low cap rates mask the fact that the spread between cap rates and 10-year Treasuries is currently very wide, as shown in **Exhibit 1**, reflecting weak property market fundamentals.

Exhibit 1 High Spreads Reflect Weak Property Markets

**Basis Point Spread
Over 10-Year Treasuries
(4 Qtr. Moving Average)**



Source: NCREIF; NAREIT; CBRE Investors

Cap Rate Outlook Drivers

<u>FACTOR</u>	<u>OUTLOOK</u>	<u>IMPACT</u>
Market Fundamentals	Slowly Improving	↓
Inflationary Expectations	Staying Low	↔
Interest Rates	Increasing	↑
Bottom Line	Interest Rates Increase Before Market Fundamentals Improve = HIGHER CAP RATES	

An improving economy will keep pushing interest rates up, putting upward pressure on cap rates. While talk of deflation is fading fast, inflationary expectations should remain low, having little near-term impact on cap rates. Property market fundamentals will improve with the economy, but gradually. It will be some time before rents pick up and the perception of fundamentals brightens enough to drive cap rate spreads down. Interest rates will go up faster than market fundamentals improve, so an upward adjustment in cap rates is on the horizon.

Fundamentally Changing Role

The cyclical downward trend in cap rates is poised to reverse over the next 12 to 18 months, but there are still significant secular drivers that will drive continued investor demand for real estate over the longer term. There is something fundamental going on that is shifting real estate's role on the investment spectrum. Three key elements underlie this shift:

- **Increased Transparency.** The securitization of much of the industry and the explosion of real-time market information are phenomena of the past dozen years. The investment and property markets are permanently more transparent. Institutions and individuals feel more comfortable investing in transparent sectors.
- **Income Emphasis.** For Baby Boomers concerned with retirement, and for institutions looking for investments that fund their liabilities, income is the key. Both public and private real estate are great income generators. Real estate's role will expand in a world that increasingly emphasizes income yield over uncertain appreciation as the primary component of return.
- **Moderating Return Expectations.** Few investors anticipate a near-term repeat of the roaring 90s stock market. Most expect return-to-the-mean performance at best. Interest rates will trend upward, but remain moderate by historic standards. In this environment, real estate's unleveraged high single-digit/leveraged low double-digit returns look very attractive.

Investment Implications

The pace of the economic expansion will vary by geographic region. The recovery in the markets will vary by property type and metropolitan area. Likewise, the implication of an upward adjustment in cap rates varies by capital source, property type and market.

One of the hottest sources of investment capital has been highly leveraged, private buyers. They are particularly susceptible to rising interest rates. They are also some of the most entrepreneurial capital sources, ones who would be quick to shift to investment alternatives that are perceived to be more attractive.

A significant withdrawal of private buyers would accompany a rise in interest and cap rates. These buyers have competed with institutions for many assets, but have also actively acquired properties that do not appeal to institutional investors. Pricing of non-institutional properties would be disproportionately hit by a withdrawal of private buyers. Small office buildings and secondary and tertiary markets would be particularly impacted. Acquisitions of small industrial buildings by their leveraged users would subside. Older, smaller apartment complexes would have less investor demand.

Institutional investors would be relatively unscathed by higher interest rates. They remain under-allocated to real estate and need its income to fund their liabilities. As the more leveraged, private buyers withdraw, institutions will become more competitive buyers. Institutions will remain focused on larger office buildings in primary markets, and on newer and larger industrial projects and apartment communities. Pricing for these assets will be less affected than non-institutional properties, and recover with real estate market fundamentals.

The economic and property market outlook is the best it has been in over two years. The risks have shifted to the capital markets side. Institutions must not be blinded by the light of improving fundamentals. They must remain cautious in making investment decisions, selectively capitalizing on the opportunity to sell at still attractive prices. Institutions will be amply rewarded by the decision to stay active in the real estate market as pricing makes more sense going forward and the market fundamentals start their gradual ascent. The cyclical re-pricing that is likely to occur over the next 12 to 18 months will be mitigated by improving property market fundamentals, and the secular shifts that are driving long-term investor demand for real estate. ■

III.

ECONOMY ON TRACK

The U.S. economic expansion is gaining traction. Most importantly, economic growth is increasingly being driven by business investment. Consumer spending has also strengthened, and Federal fiscal and monetary policy remains highly stimulative. The elements are falling into place that will spark the rebounds in employment and manufacturing necessary for the recovery of the real estate markets. But the expansion will progress through different sectors and geographic regions at a varying pace.

Expansion Gaining Traction

The nation's gross domestic product (GDP) is expanding at an accelerating pace. Growth is widespread, driven by resilient household spending, surging defense outlays and increased business investment. Most encouraging is the uptick in equipment and software spending, indicating that the transition to a business-led expansion is taking hold. Production is picking up with continued healthy consumption trends.

There are numerous forces poised to drive the economy forward. Continued productivity gains are being increasingly translated into improved corporate profitability. Today's low inventory levels will need to be rebuilt to maintain sales, let alone expand market share. The weaker dollar improves U.S. companies' pricing power both abroad and domestically. Expanded and accelerated Federal tax cuts are stimulating consumption. Interest rates remain low enough to free up capital for investment. Heretofore deferred spending on technology equipment and software are being reversed as firms strive to remain competitive and productive.

Despite these positive forces, the U.S. economy is not out of the woods. The biggest threat to continued growth is that business investment doesn't pick up quickly enough and consumer activity cools. This risk has been magnified by the recent jump in interest rates. Although rates remain low by historic standards, refinancing activity and home sales — heretofore key economic drivers — will ease back. Households are receiving a boost from lower Federal taxes, yet what is really needed is a resumption of job growth to keep consumption on track. GDP growth needs to remain in the 3.0% to 4.0% range to drive meaningful employment gains.

The uncertainty that pervaded the economy in early 2003 has largely lifted. Increased investor and business confidence is being translated into stronger orders and spending. Firms must now start ramping up production and rebuilding inventories to match that spending. They must start substantial hiring to keep

consumer activity on track. And they must start leasing office and industrial space to accommodate new employees and to store replenished inventories. Businesses' willingness to continue acting on their re-gained confidence will ignite a recovery in the property markets.

Expansion Progresses Across Sectors and Regions

The economic expansion will progress through different sectors and geographic regions at a varying pace. One of the strongest current growth engines is increased spending on defense and homeland security. There are signs of a pickup in basic commodity production and distribution activities tied to inventory rebuilding. Business investment in technology equipment and software are also showing signs of life. The deeply depressed business travel market will soon rebound, as will advertising spending.

Recovery Across

The Economic Leaders

Metro areas achieving a new employment peak in 2003.



The economic recovery will gradually sweep across the country. A few metro areas were relatively unscathed by the economic downturn. Those areas, along with metros characterized by a large defense exposure and high population growth, are leading the economic recovery in 2003. They include San Diego, Southern California's Inland Empire, Phoenix, much of South Florida and Washington, DC.

Other industries will lag. Financial services face a protracted recovery. Telecom will remain weighed down by massive overcapacity. Technology innovation will not return until there's a rebound in venture capital funding.

Increased spending on defense procurement and homeland security particularly benefits the Washington, DC/Baltimore area and Southern California, buoying office and industrial demand.

Businesses' re-investment in technology equipment and software will kick-start industrial and office absorption in metros such as Austin and to a certain extent the San Francisco Bay Area. The widest economic support will be tied to the rebuilding of inventories. Industrial demand will ramp up with a re-generation of commodity and durable goods production, and related distribution activities. This will benefit a number of diversified metro areas, with particular support for Chicago and Atlanta, the economic hearts of manufacturing-intensive regions.

Business travel will start to recover from very depressed levels as sales calls and conference attendance pick up. This will initially support hotel demand and retail sales, and the overall economies of cities such as Chicago and Atlanta, and later higher priced markets like New York City, Boston and San Francisco. A concurrent pickup in advertising and media spending will support office demand in Manhattan and Los Angeles.

The lagging telecom sector will continue to be a drag on office demand in areas such as Denver, Dallas and Northern New Jersey. Protracted recoveries in the New York City, Boston and San Francisco office markets are largely due to their substantial financial services sectors. These latter markets will also be negatively affected by a slow return to spending on technology innovation.

The economic recovery will drive tenant demand for real estate. Although the recovery of the property markets is also dependent on supply issues, an understanding of local economic prospects provides a key backdrop as to how the space market recoveries will progress across the nation. ■

the Nation

Back On Track Next Year

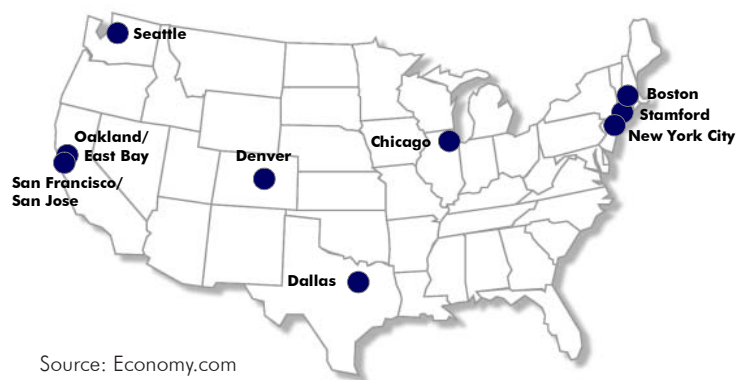
Metro areas recovering to a new employment peak in 2004.



By early 2004, metro areas that share some of the aforementioned characteristics plus have a large exposure to technology equipment, distribution activities, travel or energy will be back on track. These include Orange County, Austin, Houston, Atlanta and Miami. They will be followed in the latter part of the year by Los Angeles, and most of Northern New Jersey.

The Employment Laggards

Metro areas recovering to a new employment peak in 2005 or later.



Other regions will have a more middling performance. As they work off their excesses in manufacturing, technology and telecom, Chicago, Dallas, Oakland/East Bay, Seattle and Denver will be in full-fledged expansion by 2005. The prolonged recovery in financial services and technology innovation means it won't be until after 2005 that New York City, Boston and San Francisco will regain their lost ground.

IV.

INVESTMENT OPPORTUNITIES

The recent economic downturn slashed tenant demand for nearly all property types. But the degree of distress varies substantially. As the economic expansion gains traction in 2003, the real estate markets will begin a gradual recovery. The pace of the recovery will vary substantially by property type, product segment and metropolitan area.

In general, the consumer-driven sectors, including multi-family and retail, will be the first to recover. Demand for apartments will rebound with a full economic recovery, and occupancies will regain equilibrium relatively quickly. The retail outlook varies considerably by product segment. Neighborhood shopping centers have nothing to recover, while at the other end of the spectrum, many Class B/C malls are destined for oblivion.

The business-driven office and industrial sectors are more challenging. There is a severe supply overhang that will require a protracted absorption period to correct. However, several metropolitan office markets characterized by relatively moderate vacancy and strong economic fundamentals will return to health faster than the national average. Overall industrial conditions are weak, but a flight-to-quality trend will keep occupancies high in state-of-the-art, strategically located facilities.

The property markets are nearing an inflection point. The road to recovery will be gradual, but certain identifiable product segments and metropolitan markets will outperform the overall trends. They offer attractive opportunities to acquire selected assets in recovering markets, and then participate in a more vigorous capital market.



Retail has been the best real estate performer in the past two-and-a-half years. Retail sales, the prime driver of demand for shopping center space, have been relatively strong. However, changing demographics and consumer preferences mean that some retail sectors are flourishing while others struggle. The growing preference for discount goods has especially disrupted the general merchandise and food categories. Wal-Mart, in particular, is threatening conventional department stores, supermarkets and other big box retailers all across the country. It is essential that shopping center investors understand these trends. Retail venues that offer upscale shoppers a uniquely attractive and convenient setting and store mix are positioned to thrive. Retail investments should be limited to upscale lifestyle centers, neighborhood/community centers in trade areas where Wal-Mart is not a threat, and 24/7 CBDs and Main Streets.

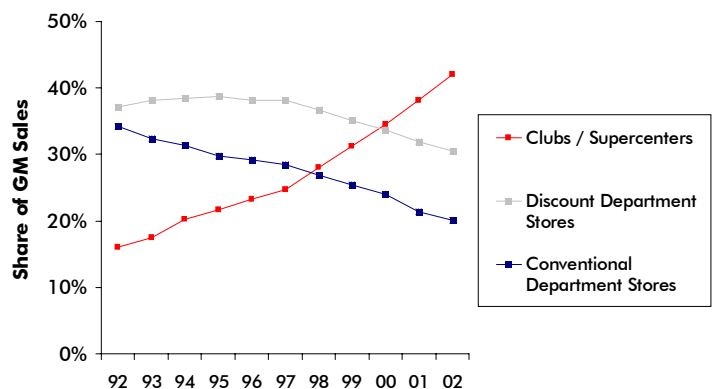
The American consumer has helped maintain the economy, with low interest rates spurring home and car purchases, and home refinancing freeing up cash to be spent at the local shopping center. Absorption has been positive in every quarter since the end of 2000, despite the national economic recession, September 11th, and the threats of SARS and the Iraqi war. The problem with this scenario, however, is that there will not be the big rebound in retail sales that's normally seen after a recession, because there is no pent up demand.

While retail sales growth has been maintained, there continue to be big changes in where Americans are spending their money. Discount retailing has shifted general merchandise and food sales in the past ten years, primarily through the power of Wal-Mart. Today almost three-fourths of general merchandise sales occur at a discounter – either a discount department store or a warehouse club/supercenter (which combines a discount department store with a full-sized supermarket). As shown in **Exhibit 2**, the warehouse club/supercenter concept (e.g., Costcos and Wal-Mart Supercenters) has become the dominant source for general merchandise. The real losing segment has been the conventional department store (e.g., Macy's). As a result, warehouse clubs/supercenters now have twice the share of conventional department stores, whereas ten years ago they were half. This loss of dominance by the traditional department store will continue to erode the performance of the ordinary regional mall.

The growing strength of warehouse clubs/supercenters is also impacting supermarkets. There was virtually no increase in real (adjusted for inflation) grocery store sales from 1992 through 2002, whereas food sales in the warehouse club/supercenter segment increased 15.3% per year. Wal-Mart is now the largest supermarket chain in the U.S., and it is continuing to expand. This makes it increasingly crucial to have only the dominant supermarket chain as an anchor in a neighborhood shopping center.

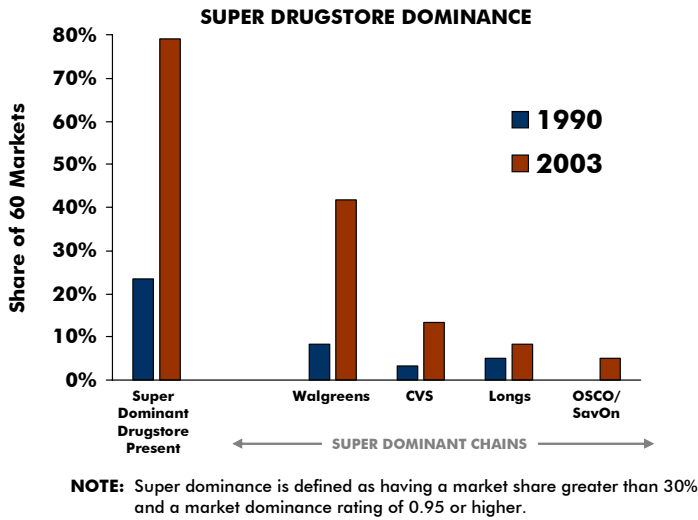
Ongoing shifts in the super drugstore segment also advocate caution in the acquisition of neighborhood shopping centers. Super drugstores have been consolidating, merging and growing in the past decade. In 1990, only 23% of 60 major metro markets had a “super dominant” drugstore chain (see **Exhibit 3**). Today, 79% have one. And in 42% of the metro areas, the super dominant chain is Walgreens. While this sounds like it would only be for the good of neighborhood centers, it may instead be a negative. Walgreens (and the number two chain, CVS) is actively pursuing the development of *freestanding* stores. With the growing dominance of freestanding drugstores (which are not attached to a shopping center) and the increasing number of drug sales by other channels (especially mail order/Internet), the reign of the super drugstore as shopping center anchor is fading.

Exhibit 2
Warehouse Clubs Take Over
General Merchandise



Source: U.S. Dept. of Commerce; CBRE Investors

Exhibit 3
Big Drugstore Chains Are Gaining Strength



Source: Metro Market Studies; CBRE Investors

Retail is in a constant state of flux. Demographic and consumer preference trends help determine which product types will prosper. The discounting fever is high now, and the continued expansion of Wal-Mart means never taking anything for granted. Regional malls and neighborhood centers are feeling the heat. However, increasing affluence and the time-starvation of the American consumer also means that convenient, appealing shopping environments which provide brand name goods and food services in affluent trade areas should do well. New hybrid centers (recently dubbed “power towns”) which combine the lifestyle center’s convenience and upscale specialty tenants with the best big box power center retailers are beginning to appear and may hold some promise. However, retail’s status as the latest investment darling has driven cap rates down to near record lows. This means that investors have to pay an extra premium to buy shopping centers today, one which may very well be taken away. Extra caution is now called for in buying retail in premier markets. ■

RETAIL

INVESTMENT OPPORTUNITIES

Lifestyle Village Centers

Cater to a growing consumer segment by investing in lifestyle village centers, which combine convenience with a traditionally-scaled “Main Street” environment containing brand name retailers and restaurants. Acquire established lifestyle centers or re-position underutilized centers.

Neighborhood/Community Centers

Acquire this established retail format which meets consumers’ needs for basic necessities in a convenient grocery-anchored setting. Increased awareness is required to counter the growing force of Wal-Mart and the fading role of super drugstores as neighborhood center anchors.

24/7 CBDs and Upscale Main Streets

24-hour downtowns provide an unparalleled retail environment that appeals to a growing base of downtown residents, tourists and workers. Target properties on prime CBD shopping streets. Also, acquire assets located on upscale neighborhood Main Streets that offer brand name shopping in a convenient, appealing pedestrian environment.



The multi-family sector has had strong long-term performance. Even unfavorable demographic trends over the past quarter century have not stunted the sector. However, apartments have taken a hit in the recent past due to weak labor markets and low interest rates drawing renters into homeownership. These trends will reverse with a full economic recovery and the rise in mortgage rates. There are opportunities to acquire multi-family housing, especially in under-supplied metropolitan areas.

Apartments have been providing stable returns for years, and as a result have been a long-standing investment favorite. Their strong performance has occurred despite demographic trends that have been relatively poor, constraining apartment absorption over the past decade. The saving grace is that construction of new units has also been restrained. The apartment vacancy rate fell from a high of 7.9% in 1986 to a record low 3.0% at year-end 2000, before climbing back up to 6.8% at the end of the first-half of 2003.

Housing demand is primarily driven by household formation, which in turn is largely determined by the age composition of the population. In the last decade, apartments had to contend with very poor demographic trends. As shown in **Exhibit 4**, growth in the prime renter age group, those aged 20-29, has shrunk over the past two decades. The 1970s peak growth was reflective of

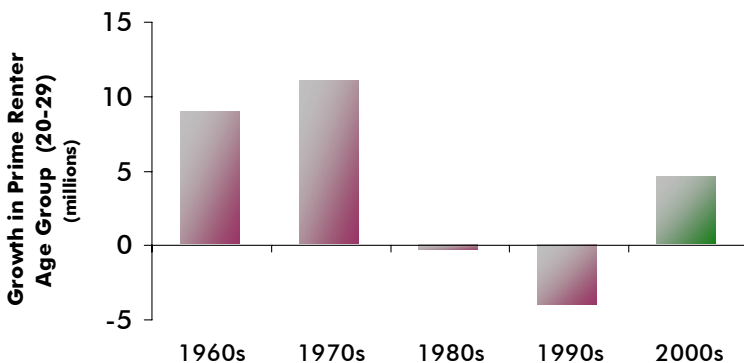
the baby boomers (born between 1946 and 1964) entering the “first apartment” age. The prime renter group actually shrunk sharply in the 1990s. This trend has now begun to reverse itself, as the leading edge of the echo boomers (children of the baby boomers born between 1977 and 1994) are starting to rent their own apartments.

In addition, growth of the over 65 age group will accelerate in the next decade due to the first set of aging baby boomers turning 65 in 2011. This older age group will become empty nesters and retirees, and as they downsize and simplify, will be potential multi-family dwellers.

In the short term, apartment demand is impacted by a wide range of factors, including job growth and fluctuations in housing affordability. In 2000, the absorption of apartment units was beginning to return to 1980s levels, as shown in **Exhibit 5**, but two forces caused the market to rapidly reverse direction in 2001. First, the recession-induced job losses weakened demand by causing renters to find roommates or move in with their parents. Second, historically low mortgage rates increased the affordability of homeownership, siphoning off those who were able to buy a house or condominium. As a consequence, apartment absorption was negative in both 2001 and 2002, for the first time in at least two decades. This caused the U.S. apartment vacancy rate to more than double since year-end 2000.

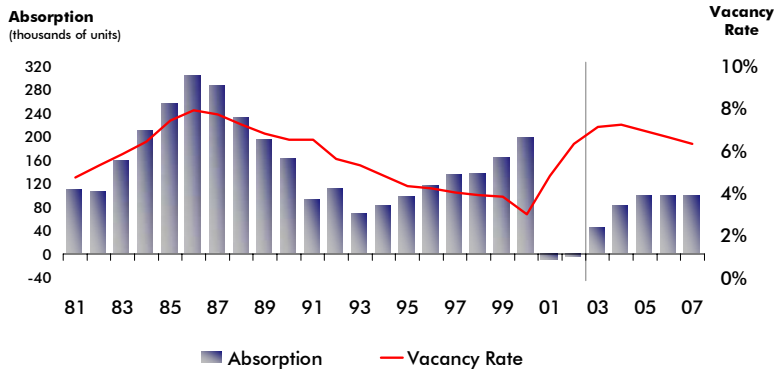
Continued new supply in the pipeline will cause the national apartment vacancy rate to increase well into 2004, albeit marginally, from its current levels. Over the next five years, however, several trends will begin to reverse direction and start to benefit apartment demand. A more robust economy, a rebound in the apartment-age cohort, continued immigration, and a reduction in housing affordability due to rising interest rates will reinvigorate apartment absorption. Construction activity will also abate, eventually bringing the vacancy rate down to 2002 levels by year-end 2007.

Exhibit 4
Long-Term Demographic Trends Are Shifting to Favor Apartments



Source: U.S. Census Bureau; CBRE Investors

Exhibit 5 Apartment Demand Has Been Hit Hard



Source: Reis; CBRE Investors

Major metropolitan areas with supply constraints and low housing affordability are the best long-term bets in multi-family housing. Markets that fit the bill include Southern California, the Bay Area and Seattle, on the West Coast; Boston, the New York region, and Washington DC in the Northeast; and South Florida. In these markets the high cost for single-family housing makes it very difficult for many to afford to buy homes, and construction will remain relatively limited. These are prime multi-family housing investment targets.

Demographic and other trends suggest that, with careful selection of properties in barriers-to-entry metro areas, apartments should continue to be attractive investments. Apartment demand will rebound with the economic recovery and the rise in mortgage rates. This provides the opportunity to acquire apartment communities in key infill locations. The aging population and their lifestyle preferences will fuel demand for upscale communities/towers, particularly in locations with cultural and social amenities.

The for-sale multi-family housing market has been doing exceedingly well in the recent past with an increasing share of the total for-sale housing. As a number of buyers are priced out of the single-family housing market, demand for condominiums has surged as buyers rushed to take advantage of low interest rates and became first-time homebuyers. This segment will decelerate in the near future as interest rates continue their upward movement. Over the longer term, condo sales will stabilize as the baby boomers downsize and echo boomers move into the first-home buying mode. ■

MULTI-FAMILY

Investment Opportunities

Lifestyle Communities/Upscale Urban

Acquire Class A multi-family communities and upscale urban towers. Target apartments designed for affluent professionals, empty nesters, and active seniors.

Bi-Coastal Undersupply

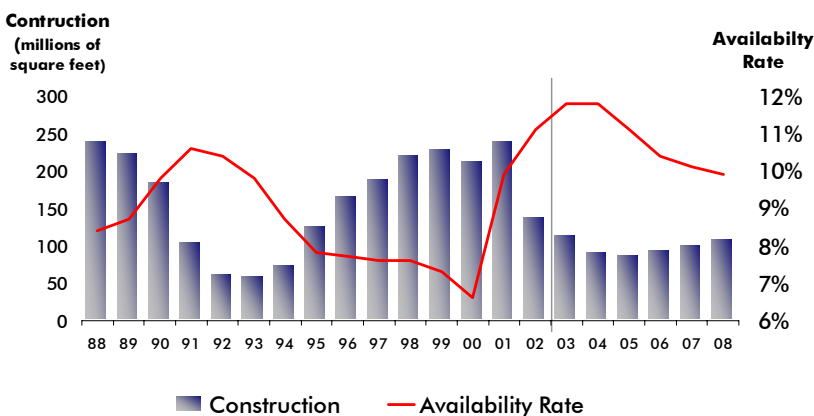
Target undersupplied markets in California and the Northeast, where there has been little recent construction and strong long-term demand drivers.



The industrial market presents a challenging paradox: although space market fundamentals are poor, development has remained active and investor interest in stabilized properties is voracious. Net absorption dropped consistently during the economic downturn, although the nation's "gateway" distribution markets have significantly outperformed the secondary and tertiary markets. Investors can capitalize on the recovery in gateway markets by acquiring properties with limited near-term leasing exposure. Value-added opportunities are emerging in currently weak regional distribution markets. Investors looking solely for current income should focus on long term single-tenant net leased properties.

It's important not to understate the near-term difficulties faced by industrial investors. While the sector is perceived to be stable, recent experience has been anything but. In 2000 the national average availability rate stood at only 6.6%, as shown in **Exhibit 6**, and many metro areas were essentially at full occupancy. Rents spiked up by an astonishing 10% from 1999 levels. By contrast, only two-and-a-half years later the availability rate stands at its highest level in at least two decades. Rents have been falling since 2000 and still have not hit bottom. The downturn in the R&D/flex sector has been the most dramatic, but every segment of the industrial market has suffered.

Exhibit 6
Construction Is Slowly Responding to High Availabilities



Source: CBRE Investors

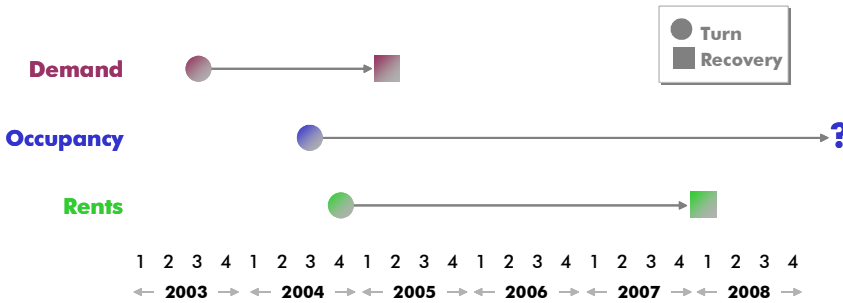
The market's deterioration would not be as great if the development pipeline had been shut off sooner. Many projects continue to come on-line even as availabilities rise. The reasons for the delayed response are numerous, including lots of capital chasing industrial product, continued strong tenant demand in a few markets, and perhaps most importantly the perception that speculative industrial development wasn't as risky as other property types. Now that it is becoming clear to most investors that industrial markets are in poor shape, development activity is gradually coming under control.

The recovery of the industrial market will be protracted. As shown in **Exhibit 7**, demand is gradually turning positive but it will take until 2005 to regain full strength; until then, there will be increased activity, but much of this will be churning that will not result in impressive net absorption. Occupancy will begin to improve in the latter half of 2004, but because of the gradual pace of the recovery it will take until after 2008 before occupancy returns to its historic average. High vacancies will stymie positive rent growth until the end of 2004, and rents will not recover to their 2000 peak until early 2008.

The directive is clear: a broad recovery for the national industrial market will be slow to develop, making careful market and product selection imperative over the near-term. Two particular types of markets provide the best opportunities now: 1) longer-term, secular trends favor the gateway markets with high exposure to international trade; and, 2) there are cyclical opportunities in regional distribution centers. Secondary and tertiary markets, particularly those exposed to the secularly declining manufacturing sector, should only be pursued in unique circumstances.

The areas best positioned to capture growing demand are gateway markets with the following characteristics: a large inventory of state-of-the-art distribution product; excellent transportation infrastructure, including major cargo airports, intermodal facilities and, for coastal areas, a large seaport; and, high exposure to international trade activity.

Exhibit 7
The Industrial Recovery Will Be Gradual



Source: CBRE Investors

The nation’s three largest markets – Greater Los Angeles, Chicago and Northern New Jersey – best fit the gateway market description. The prime opportunities are in supply constrained, infill submarkets near transportation infrastructure. Bidding for stabilized assets in these metro areas is intense, keeping pricing high, but development may be a viable value-added opportunity.

Regional distribution centers – such as Dallas-Fort Worth and Atlanta – have been hard-hit by the nation’s industrial recession. Vacancy rates are generally at or above the national average, in large part because construction activity continued even as demand plummeted, at least until recently. This will provide savvy investors with an opportunity to capitalize on the coming resurgence in demand, especially

in Sunbelt markets, by assuming some leasing risk. The best approach in these markets, however, is a buy-and-sell strategy, since there are few constraints to development and consequently little potential for substantial rent appreciation over the long-term.

Discriminating product selection is equally important. As cost-sensitive companies continue to consolidate their operations, there will be no slowdown in demand for “better mousetrap” distribution buildings. New, highly functional facilities posted net demand even during the national downturn, and these properties will be the first to benefit from the economic recovery. Conversely, older properties that aren’t readily usable for sophisticated logistics operations present major leasing challenges that generally will not be justified by market conditions.

Single-tenant net-leased properties with long term leases also provide investment opportunities, but stick to readily re-leasable facilities. Avoid special purpose buildings. The industrial market is slowly regaining its footing. Gateway markets will be the best performers over the long term, but regional distribution hubs are poised for a cyclical recovery and thus can reward investors seeking value-added returns. ■

INDUSTRIAL

Investment Opportunities

Gateway Market Accumulation

Capitalize on rejuvenated demand in large and diversified distribution markets by acquiring properties with limited near-term leasing exposure. Buy only state-of-the-art product. Accumulate a diversified portfolio.

Regional Distribution Market Recovery

Buy modern properties with near-term leasing exposure and ride the upswing in demand that will come with the economic expansion. Maximize returns via short-term holding periods.

Net Leased Properties

Acquire properties with long-term single-tenant net leases. Buy only readily re-leasable facilities.



A perfect storm of factors caused office demand to crater beginning in early 2001. Just as office jobs started disappearing, cost-conscious companies decided it was time to use the space they had more efficiently and sublease the excess. Tenants delayed their search for new space in anticipation of further rent declines. Fortunately, in mid-2003 all of the indicators are pointing to a turnaround in demand. Sublease inventory is falling, vacancy rates are leveling off, and most companies have at least stopped cutting their workforces. While demand will soon return to healthy if not spectacular levels, the benefits of improving fundamentals will not be reflected in positive rent growth at the national level until mid-2004. Some markets will outperform the national average, and there are clear opportunities present today to participate in the coming recovery.

In the quarter century for which real estate data has been systematically tracked, annual net absorption had never been negative until 2001. The factors contributing to the dearth of demand are primarily cyclical, meaning they are in the process of reversing as an economic recovery takes hold. But there are also some structural factors that will constrain office demand over both the near and long term. These factors are listed in **Exhibit 8**. On balance, net absorption has turned positive and will recover by mid-2004, but over the next five years it will not return to the levels of previous economic expansions.

Exhibit 8 Cyclical and Structural Demand Drivers

	<u>2001 - 2003</u>	<u>2004 - 2008</u>
Jobs	↓	↑
Cost-consciousness		
• Subleasing	↓	↑
• Offshoring	↓	↓
• Cubicle Culture	↓	?
Rent Levels	↓	↔
Bottom Line	Unprecedented Collapse in Demand	Revitalized Demand... But Below Historic Levels

The first and most important demand inducer over the long term, of course, is **jobs**. Over 500,000 office-based jobs have been lost since March 2001, a stunning figure considering that mortgage lenders and other companies dependent on the housing market recently have been bursting at the seams. The bleeding has finally stopped and office-based employment is expanding again, albeit very slowly. Demand will get a further boost when, after three years of cutbacks, securities firms begin to add staff again in 2004; securities firms are particularly important contributors to office demand because they use more space per employee than most tenants.

A second and perhaps equally important contributor to the drop in occupied office space since the end of the boom has been companies' increasing **cost-consciousness**. Beginning at the end of 2000, companies with excess office space took advantage of high prevailing rental rates and low vacancies by **subleasing** it. Yet much of this sublease space sat empty throughout the recent downturn. When the economy improves and companies start concentrating more on increasing revenues than cutting costs, this excess "shadow" space will quickly become "expansion" space for new operations, bolstering net absorption.

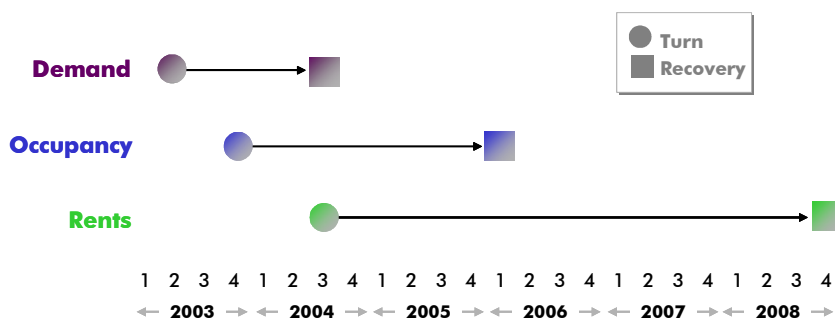
Offshoring, where companies move their back-office and other operations overseas, is another cost-cutting strategy that has been getting plenty of attention recently. While this secular trend will continue for the foreseeable future, constraining office space demand to a limited degree, it will not have the catastrophic impact that alarmists have predicted.

Using less space per employee, and more specifically the rise of **cubicle culture** in place of traditional private offices, is both a cyclical and secular trend. The secular component is real, as even highly compensated employees in some industries are increasingly comfortable with shared work areas. Yet there is a cyclical aspect as well: when revenues increase and falling unemployment makes companies compete for workers again, common areas (like conference and meeting rooms) and amenities (like break and lunch rooms) will grow. It's possible that companies will use office space smarter, but at the end of the day they might not use much less space than they did in their old private office configurations.

High **rents** were one of the reasons for the negative net absorption beginning in early 2001, as they both encouraged companies to put space on the sublease market and discouraged companies to sign new leases. Rents have since fallen by nearly 20% at the national level, and in certain markets rental rates are half or even less of what they were in 2000. The bottom has either been reached or is near in most markets, meaning rental rates won't be an impediment to demand going forward.

Improving demand is only the first part of the office market recovery. As shown in **Exhibit 9**, office demand has already turned positive, and by the second half of 2004 it will recover as hiring picks up. Occupancy will bottom at the end of 2003 and begin a gradual ascent back to healthy levels, driving the national vacancy rate down to the 12% to 13% range by mid-2006. Rents will bottom-out in mid-2004, and gradually regain their pre-recession peaks by the end of 2008. Rental rate growth will pick up momentum over the period, and outpace CPI inflation beginning in 2005.

Exhibit 9
The Office Recovery Will Build Momentum



Source: CBRE Investors

The office market recovery is finally beginning, but a combination of cyclical and structural factors means that the process will be gradual. The best near-term performers will be in metro areas with deep and diversified economic bases and relatively moderate vacancy rates. For investors interested in achieving value-added returns, technology markets should be monitored for emerging opportunities. Net leased properties are always attractive to investors who require steady current income. ■

OFFICE

Investment Opportunities

24/7 CBD & Edge City Market Recovery

Acquire assets with moderate leasing exposure in highly diversified metro areas. Focus on edge cities and 24/7 CBDs.

Opportunistic Pricing

In large, diversified portfolios, capitalize on lingering negative investor sentiment in high-tech markets with improving space market fundamentals. Buy only high-quality, well located properties.

Net Leased Properties

Execute sale/leasebacks to credit tenants. These properties provide a steady long-term income stream.





FEATURE: STRATEGIC IMPLICATIONS OF MEGA TRENDS

Shifts in demographics, technology and consumer preferences continue to reshape American cities and suburbs. It is critical to examine the underlying forces that are at work and their impact on property markets. Real estate investors have to keep up with these “mega trends” to identify assets that will be competitive today and in the future.

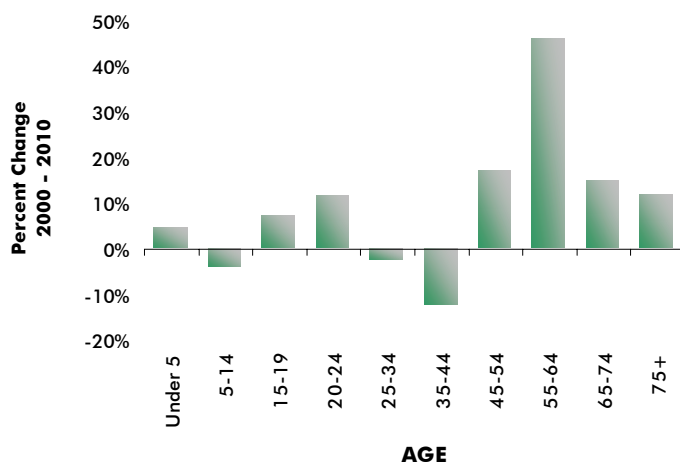
This section examines some of the major changes affecting real estate today and their investment implications.

Baby Boomers and Echo Boomers

No other demographic wave has had as much impact as the Baby Boomer generation (born 1946 - 1964). The Baby Boomers enjoyed their most economically productive years through the 1990s and buoyed home and retail sales and influenced labor markets. They will continue to be a strong force in shaping living, shopping and working environments.

As shown in **Exhibit 10**, the aging Baby Boomers will make the 55-64 age group the fastest growing segment of the population from 2000-2010, estimated to increase by 46%. The 45-54 age group will also experience strong growth, to become the largest segment by 2010. In this time period, the 20-24 age group will be the only “young” age cohort to show any significant growth.

Exhibit 10
The U.S. Population Is Aging



SOURCE: U.S. Census Bureau

This graying of society will impact all real estate product types. The Boomers are entering their peak earning years, indicating that more discretionary income will be available to spend. Upscale vacation resorts, second homes, cruise ships and the tourism industry, and “experiential” retail environments have benefited from the discretionary incomes of the Baby Boomers. Lifestyle village and entertainment centers will continue to benefit from these trends, as will hotels and tourist destinations. As this cohort becomes empty nesters and retirees over the next decade, they are also likely to demand upscale multi-family housing with social and cultural amenities in close proximity.

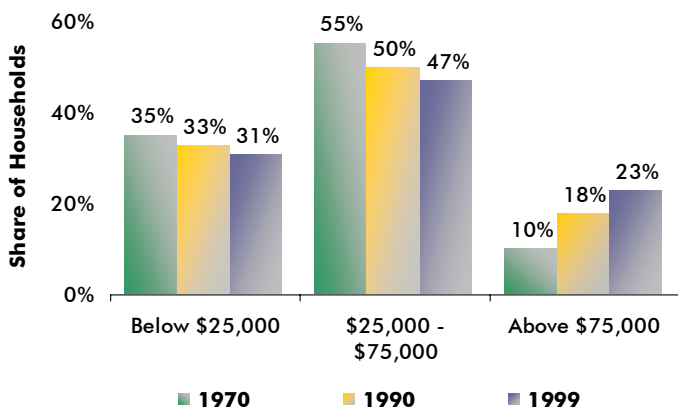
The Echo Boomers, on the other end of the spectrum (born 1977-1994) will be equally influential in affecting real estate trends. As they enter the typical renter age (20-29), demand for apartments will shore up. Since this generation is intimately attuned to technological innovations, their comfort level with on-line shopping will certainly keep retailers focused on creating cutting edge environments to counter the Internet threat. They are also attracted to urban, 24/7 lifestyles and developers are responding to that in many CBDs with loft-style live/work spaces and apartments.

Slow population growth will also limit the growth of workers, which will mean firms will have to provide attractive, comfortable and convenient offices to attract and retain employees. Historically, this has meant locating workplaces convenient to the workers’ homes, which have generally been in the family-friendly suburbs. However, there has been a growing trend of young workers wanting to live and work in the urban cores. This may mean an increased appeal of downtown office locations, at least until the young workers begin to form families and decide to buy single family homes in the suburbs.

Affluence

Over the last thirty years, the share of American households that are upper income (those earning above \$75,000 in constant 2001 dollars) has increased from 9.5% to 24.6%. At the same time, the share of households that are lower and middle income has shrunk, as shown in **Exhibit 11**.

Exhibit 11 More Households Are Upper Income



SOURCE: U.S. Census Bureau

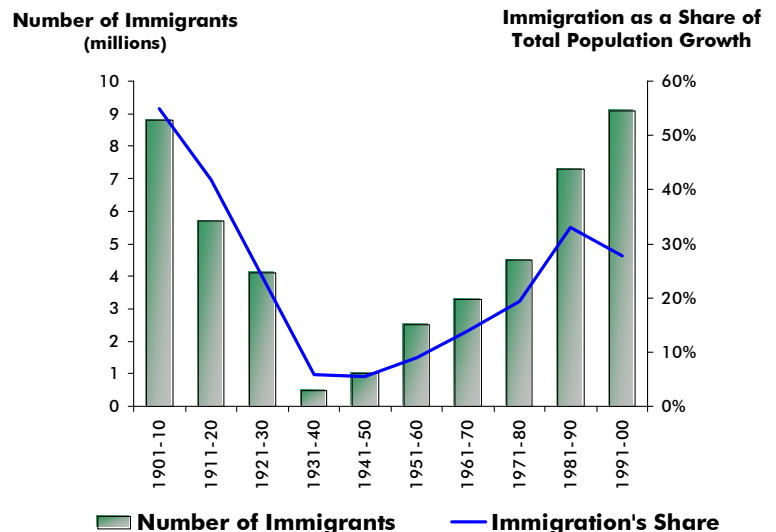
The implications of these income shifts are evident in the retail sector. Middle-serving conventional department stores are struggling while selected high-end retailers have generally been thriving (when the economy is not in recession). Value retailing – found in the big boxes – is also booming, as its convenience and assortment appeals to all income groups, and many big boxes carry merchandise (such as computers, home entertainment) targeted to those with more discretionary income. More high-income households also means increased spending on entertainment and leisure activities and a preference for unique environments such as lifestyle village centers and luxury resort hotels.

Higher income households also support demand for larger, more luxurious apartment and condominium units, and move-up and luxury single family homes.

Immigration and Multiculturalism

Two decades of intensive immigration are reshaping the nation's racial and ethnic mix with large-scale immigration from Asia and Latin America. Approximately 28% of the U.S. population growth between 1990 and 2000 was driven by net immigration, as shown in **Exhibit 12**. Thirteen metro areas considered to be traditional gateway cities absorbed more than 50% of the foreign born population. Metros with a higher share of immigrants are concentrated along the East and West coasts, and in the Southeast and Southwest. Outside of Chicago, very few are in the Midwest and the Mississippi Valley.

Exhibit 12 Immigration Is Growing



Source: U.S. Census Bureau; U.S. Bureau of Citizenship and Immigration Services; CBRE Investors

Undoubtedly, the immigrant population has helped the economy by contributing to the labor force and increased demand for real estate products. Immigration drives total levels of office and industrial absorption, which would slow significantly with a stagnant labor force. Immigrants also clearly support the housing market, by driving up apartment demand initially and once established, quickly transitioning to home ownership. Retail is impacted by the increased demand and the expanding diversity in the marketplace, offering exciting opportunities for micro-merchandising and recreating shopping environments reminiscent of recent arrivals' homelands.

Downtowns

Reinvestment or renewal of the urban core has been one of the greater challenges of the development and planning communities for the past few decades. To prevent core business districts from losing their appeal as the economic engines of their local economies, more cities are attempting to transform them into social and cultural hubs with 24/7 environments. These environments, along with short commute times and the lack of maintenance associated with a large suburban home, appeal to young professionals (single and married couples with no children) and empty nesters. They also draw tourists and suburban day trippers looking for an exciting and unique shopping, entertainment and cultural experience.

The resurgence of the downtowns is being led in most cases by the residential sector or large scale redevelopment efforts such as sports stadiums (e.g., Coors Field in Denver and Staples Center in Los Angeles). This is usually followed by retail and eventually new or redeveloped office properties as more people want to work in 24/7 environments. Older cores are getting an “adaptive reuse” makeover with residential and live/work loft spaces in old industrial or office buildings. Once there is a critical mass of permanent residents and visitors, retail establishments stay open longer to serve them rather than just the office workers, driving higher sales per square foot. As the character of the core changes, office buildings become more appealing to tenants looking for central locations for their employees. In the long run, a resurgence of downtowns would bolster total demand for office space in the central cores of many metro areas.

The Changing Face of Suburbia

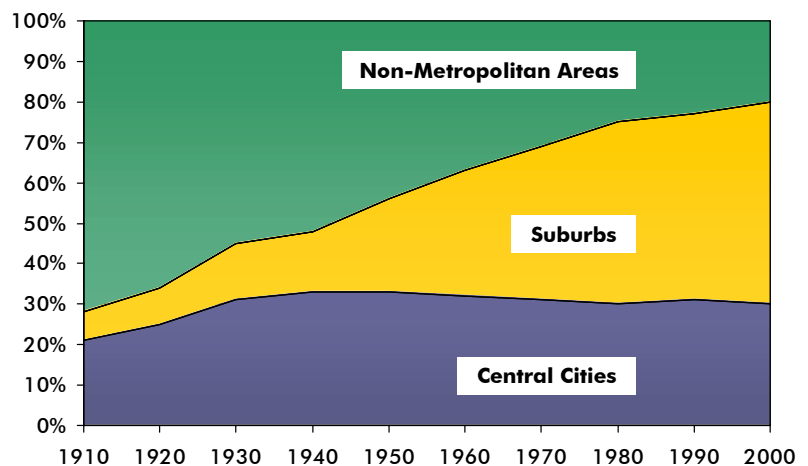
Despite the growing interest in the revival of downtowns, the dominant growth pattern in the U.S. continues to be the suburbanization of people and jobs. Suburban areas in the largest metropolitan areas are capturing the majority of population and employment growth. **Exhibit 13** illustrates the growing percentage share of population that the suburbs have captured in the past century. At the same time the rural non-metropolitan population has shrunk to only 20%.

According to the 2000 Census, 50% of Americans live in suburbs, compared to 31% in 1960. Suburbs are becoming more racially and ethnically diverse, with ethnic minorities making up 27% of suburban population, compared to 19% in 1990. There have also been significant changes in the characteristics of suburban households in the past few decades. For the first time, suburbs contained more non-family households (29%) than married couples with children (27%).

These changes have impacted consumption and housing patterns. Non-family households are more likely to rent apartments than families with children. In addition to increasing demand for multi-family housing in suburban locations, these households have an impact on retail development. Per capita expenditures on entertainment are higher for non-family households due to higher discretionary incomes, thereby increasing demand for a variety of dining options, retail and entertainment outlets. Suburban shopping centers are thus creating “retail-entertainment” experiences and themes to attract this growing demographic.

Jobs follow people. So suburbs are no longer merely “bedroom communities” but dominate employment growth with office buildings and other commercial facilities dotting the suburban landscape. Across the largest 100 metro areas, only 22 percent of people work within 3 miles of the city center and more than 35% work more than 10 miles from the central core. Office and industrial development will continue to push the boundaries of outer-ring suburbs due to cheaper development costs.

Exhibit 13
Suburbs Account For a Growing Share of Population

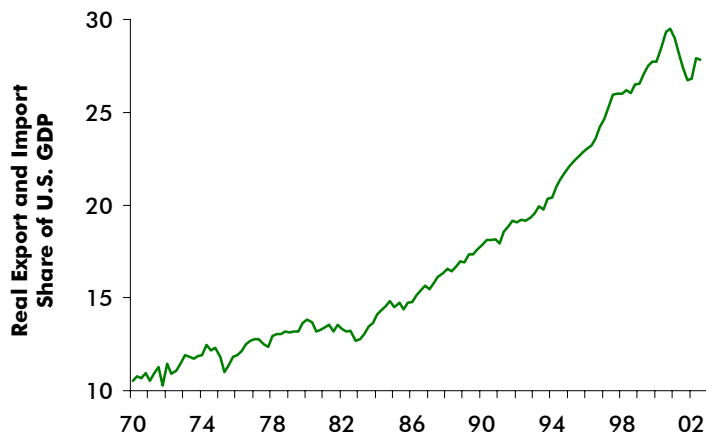


SOURCE: U.S. Census Bureau; CBRE Investors

Globalization

Goods and services sourcing is becoming increasingly globalized. Regions are specializing in economic functions based on their comparative advantages. As charted in **Exhibit 14**, international trade is swelling, increasing traffic on all modes of transportation.

Exhibit 14 Trade Has Become Increasingly Important



SOURCE: Economy.com

Increased globalization has reduced the cost to manufacture certain goods. More and more consumer goods, for example, are being made in Asia and Latin America, which has allowed many of the big box retailers to significantly discount merchandise. Discounters have been able to thrive because of these low prices. Globalization also drives the growing importance of distribution centers proximate to major ports-of-entry, be they harbors, airports or rail hubs. However, trade also reduces the demand for manufacturing and assembly facilities, as these functions are increasingly moving to less expensive locations outside the U.S.

Another aspect of the continued globalization of the U.S. economy is the trend of offshoring of white-collar jobs. Doomsday projections are hitting the airwaves as more and more companies move white-collar, service jobs to other countries. According to Gartner, a high-technology consulting group, between now and the end of 2004, 10% of jobs at American I.T. vendors and services providers and 5% of I.T. jobs at user companies will be outsourced internationally. Through 2005, fewer than 40% of the I.T. workers whose jobs have been moved overseas will be redeployed back in the U.S.

White-collar offshoring has significant implications for office markets. Financial services companies – banks, brokerages, insurance companies – are most likely to offshore as they typically spend more on I.T. than other companies. A net drop in office space usage in the short-term, as the process undergoes streamlining, is expected. In the longer-term, financial services will be more concentrated in the world financial and economic capitals and the demand for office space in these locations will expand. They will retain headquarters activities and benefit from burgeoning new financial services, while back office functions shift to the most cost-competitive locations.

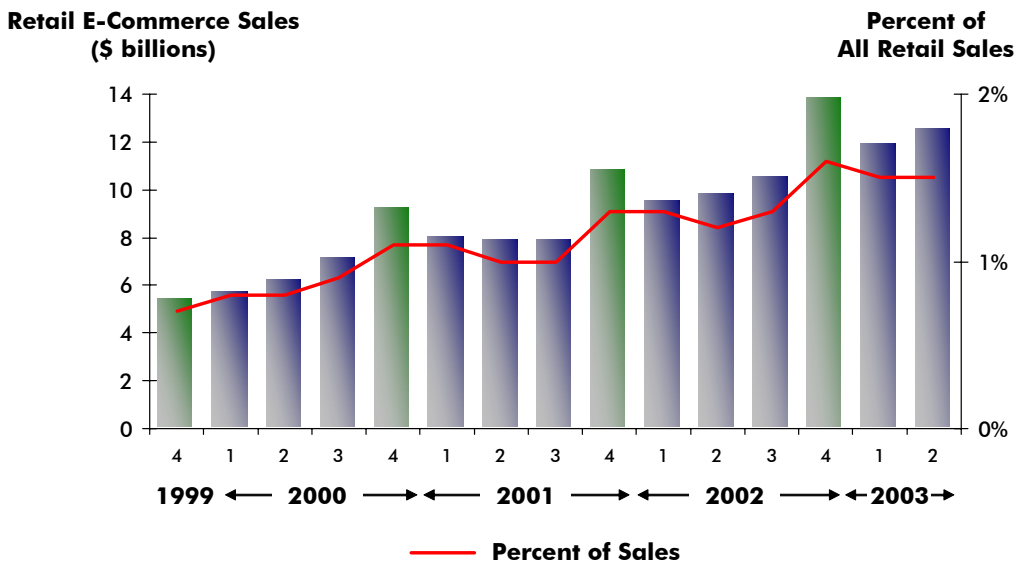
Technology

Technological innovations pervade nearly every aspect of economic and personal activity. One of the most hotly debated is the Internet. As illustrated in **Exhibit 15**, sales on the Internet are steadily climbing. According to the U.S. Census Bureau, retail e-sales have increased from a little over \$5 billion in 4th quarter 1999 to an estimated \$12.5 billion in the 2nd quarter of 2003. The Internet is not likely to lead to the demise of shopping centers. Instead, there is talk of the benefits of being “multi-channel,” with bricks and mortar locations offering brand recognition and loyalty, in-place distribution systems, and ability to accept returns. However, the increasing use of the Internet drives down prices on selected commodities, which could impact big box tenants in power centers. Another fallout of the growing popularity of e-commerce may be the potential decline in the value of shopping centers as sales per square feet, and eventually rents, fall. All in all, centers offering convenience and a strong “sense of place” will prevail.

State-of-the-art distribution centers with high ceilings, heavy floor-loads, and cross-docking capability are in demand. E-commerce firms need flexible functional space near their customers. Many fulfillment companies/e-tailers require giant big boxes to meet their sophisticated automation requirements.

A new technological innovation may help older buildings remain competitive as “smart buildings”. Wi-Fi (wireless fidelity) is an increasingly popular networking standard that creates wireless local area networks (LANs) in homes and offices at speeds of more than 11 megabits/second. This allows anyone with a laptop and a wireless card to connect to the Web at high speeds from within 300 feet of a wireless access point or “hot spot”. If successful, Wi-Fi has the power to make the Internet truly ubiquitous.

Exhibit 15 Internet Sales Are Escalating



Source: U.S. Census Bureau; CBRE Investors

Conclusion

These “hot spots” are either being rolled out or expected to be unveiled in hundreds of locations including airports, hotels, and Starbucks, Borders, McDonalds, even Circle K convenience stores and gas stations. Since Wi-Fi is less intrusive and cheaper to install than a traditional wired solution, costing on average 25% less, it is a low-risk financial decision for small businesses or companies located in hard-to-wire locations. Big businesses are supplementing their wired networks with Wi-Fi to enhance connectivity and productivity. The biggest concern with the Wi-Fi revolution is security and the vulnerability of corporations to hackers and spies.

Wi-Fi solves the problem of the “last mile” where the cables were close but it was cost-prohibitive to bring them into older, unwired buildings. Now older office and apartment buildings in non-wired neighborhoods are viable as buildings where tenants can connect to the Internet and remain competitive. Retail stores can become connected or “unwired” at very low costs, creating higher foot traffic. Constraints to connectivity will shrink, making the boundaries of inside/outside and near/far blurry.

Demographic, technology and consumer preference trends are ever evolving. Long term structural changes may be temporarily derailed by short term cyclical changes. The real estate community’s response to these mega trends can result in the over-development of many products or the opening of formats that turn out to be the flavor-of-the-month. Other innovative products may successfully address the fundamental shifts in the economy’s workings and people’s lifestyles and preferences. It takes experienced real estate professionals to anticipate the impacts from these trends and to identify real estate product concepts that can profitably capitalize on them. ■

**DEPARTMENT OF
INVESTMENT RESEARCH**

Doug Herzbrun
Managing Director
dherzbrun@cbreinvestors.com

Jane Dorrel
Senior Director
jdorrel@cbreinvestors.com

Lee Meniffee
Director
lmeniffee@cbreinvestors.com

Shubhra Jha
Associate Director
sjha@cbreinvestors.com

LOS ANGELES

865 South Figueroa Street, Suite 3500
Los Angeles, CA 90017
P + 213 • 683 • 4200 F + 213 • 683 • 4301

BOSTON

800 Boylston Street, Suite 1475, Boston, MA 02199
P + 617 • 425 • 2800 F + 617 • 425 • 2801

LONDON

17-19 Stratford Place, London U.K. W1C 1BQ
P + 44 • 207 • 882 • 8100 F + 44 • 207 • 882 • 8683

PARIS

223 rue Saint-Honore
75001 Paris, France
P + 33 • 1 • 58 • 62 • 5555 F + 33 • 1 • 58 • 62 • 5556

MILAN

Via dei Giardini 4
20121 Milan, Italy
P +39 • 2 • 655 • 6701 F + 39 • 2 • 655 • 67050

BERLIN

Charlottenstrasse 60
10 117 Berlin, Germany
P + 49 • 307 • 261 • 540 F + 49 • 307 • 261 • 54100

TOKYO

Izumi Garden Tower 29th Floor
1-6-1 Roppongi, Minato-ku
Tokyo, Japan 106-6029
P + 81 • 3 • 6229 • 3800 F + 81 • 3 • 6229 • 3801

www.cbreinvestors.com

03:060

