September 2006

The RREEF Property Cycle Monitor: Dramatic Recovery Gives Way to Steady Growth

Primary Contributors:

Alan Billingsley
Director
Research - Retail

Asieh Mansour
Managing Director
Research

Hope Nadji
Director
Research - Apartment

Sandy Naylor
Analyst
Research – Economics

Stephen Newbold
Vice President
Research – Office

Brooks Wells
Vice President
Research – Industrial

Introduction

At mid-year 2006, the four major US property types enjoyed the healthiest market fundamentals since 2000. After the strong occupancy gains of 2004 and 2005, the rate of improvement slowed somewhat during the first half of 2006. Net absorption this year appears likely to fall behind last year's impressive pace. Fortunately, supply-side activity remains contained, generally speaking. The vacancy rate dropped in all sectors through June 2006, with the exception of retail's slim 10 basis point increase. Effective rental growth has been broad-based across property sectors and geographic regions. Across all property types, however, the markets that were first to recover may have already seen the bulk of rental rate increases.

The stunning declines in vacancy characteristic of recovery appear to be behind us. The US real estate markets should finish 2006 with somewhat less absorption and somewhat more construction than experienced in 2005. The apartment sector should be the exception to this rule, posting much stronger 2006 net absorption as condo conversions – which subtract from the net absorption calculation – decline. Demand should continue to exceed supply in all sectors except retail, where the two are roughly in balance. The US apartment, industrial and office vacancy rates should all be lower at year-end 2006 than they were when the year began.

Looking ahead to 2007, the apartment, industrial and office sectors should be enjoying the benefits of the growth part of the cycle. Vacancy should continue to fall, if not at the dramatic rates seen earlier, while rents should continue to rise. Retail is expected to continue on its post-growth path, seeing a modest 60 basis point increase in the vacancy rate next year as construction ticks up. Rental growth near inflation is expected in most retail markets over the forecast horizon. (An overview of the growth cycle, from recovery through growth to post-growth and contraction, appears in the Appendix.)

Downside risks to this forecast may outweigh upside risks. Slowing economic and job growth in the near-term are expected to generate lower levels of net absorption in 2007 and 2008 than that enjoyed over the past few years. At the same time, the construction pipeline is ramping up after several years of improving market fundamentals. RREEF Research currently projects that construction will outweigh demand for one of the next five years in the office sector, two of the next five years in industrial, and three of the next five years in the retail and apartment sectors. Any economic slowdown that is greater than currently anticipated, perhaps as a result of a "hard landing" in the housing market, could tip the balance in favor of rising vacancy rates and the end of the growth phase of the cycle. Our baseline forecast is more sanguine: several years of growth appear on the horizon for apartment, industrial and office markets, with retail seeing a moderation in market fundamentals.

Real Estate Markets Face Weaker 2007 Economy

After performing very well in the first quarter, with real growth far above the economy's long-run potential, real GDP growth slowed to 2.9% in the second quarter of 2006. The deceleration in growth came from a cooling housing market and a slowdown in consumer spending. Surprisingly, business spending on capital equipment also came in much weaker than expected, with much of the weakness concentrated in the volatile high-tech sector.

Incoming economic data has been mixed lately. Aggregate demand appears to be moderating with softer labor market indicators, a slowdown in housing activity, and tightening financial conditions. Energy prices have moderated in recent weeks, however. The June release of the Fed's Beige Book points to moderation in activity across the regions. On the positive, however, corporate finances are robust, as are the general fundamentals for business investment, and net exports are getting a boost from improving demand from abroad and the weakening dollar.

The labor market is signaling mixed messages. Job growth, as measured by the payroll survey, has averaged 140,000 per month year-to-date through August. The unemployment rate, which is derived from the household survey, remains at 4.7%. The more timely weekly unemployment surveys support the case for a weakening trend in job growth, but much of the recent softness has been in the retail and construction sectors. Hourly earnings, however, increased by 0.4% in July or 3.8% over the past 12 months, indicating continued wage pressures given the still relatively tight labor market.

Industrial production continues to post solid gains. We are currently in a global capex recovery cycle. Domestic manufacturers have been increasing production of business equipment to meet increased demand both within the US and abroad. Capacity utilization has surged to 82.4%, the highest reading in more than six years.

With tight labor market conditions and high operating rates across the nation's industrial sector, the US economy's growth–inflation balance is becoming less favorable. High resource utilization in both the broad labor markets and the industrial economy is leading to some inflationary pressures.

Conditions are set for growth to slow over the balance of this year and into 2007. Higher interest rates, less fiscal stimulus, still high energy costs, and a slowdown in the housing market will restrain the pace of US economic activity.

Despite some moderation on the consumer side, the economy should expand in the near-term as businesses continue to boost investment. Businesses have cash to invest and to hire. Moreover, a stronger global economy and a weakening trend in the value of the dollar will support an increase in US exports.

In US real estate markets, a slower economic growth outlook suggests that absorption should decelerate in 2007 and 2008. Reduced levels of net absorption, compared to the past several years, appear more likely than a switch from positive to negative net absorption. Steady job creation should support new demand for office and industrial space, while housing market uncertainty and a rising number of young households should sustain apartment demand. The retail sector could be the sector most at risk in this economic climate, but our baseline forecast calls for sustained consumer spending and positive retail net absorption.

Property Cycle Monitor: Apartment

Since early 2005, a broad-based recovery in supply and demand fundamentals has resulted in a 120 basis point improvement in the US apartment vacancy rate to 5.5%. Net absorption through the first half of 2006 remains in negative territory, since condo conversions subtract from the net absorption measure. The sustained fall in vacancy through mid-year 2006 reveals, however, that apartment demand continues to outweigh supply. Construction activity remains subdued, with 43 thousand units built year to date. Following an unusually long trough, property NOIs have posted impressive gains as concessions began to burn off in all markets.

Two important shifts in the US economy and population are redefining the landscape of apartment demand. The first is the end of the US housing market boom, and the second is a momentous reversal of demographic trends in the prime renter-age cohort. The apartment sector recovery was delayed in this cycle due to the unprecedented rise of US homeownership between 2000 and 2005. As the housing market cooled this year and home affordability reached new lows, apartment demand enjoyed a boost when more households made the decision to rent. Furthermore, the leading edge of the echo-boomers graduated from college this year and began their careers. (For more information on this demographic shift, see Strategic Outlook #40: Demographic Change and the Coming Rise in Rental Households, November 2004.)

Most West Coast and East Coast markets report stabilized occupancy rates and superior rent growth. Vibrant Sunbelt markets, including Atlanta, Dallas, Houston and Phoenix, have benefited from strong increases in occupancy and double-digit concession reduction. On the downside, some areas appear oversupplied with condos, which may come back as shadow rentals. These markets include South Florida, downtown San Diego, Phoenix, Las Vegas, Atlanta, Tampa and Orlando. Fortunately, these are also some of the fastest-growing markets in the country, both in jobs and population.

RREEF Research expects the apartment market to continue its growth cycle into 2007 and beyond. While the economy is expected to slow somewhat over the next year or two, apartment market fundamentals should remain strong enough to keep the US vacancy rate near 5%. The apartment market appears to be facing a period of stable, low vacancy not unlike the mid 1990s. Demand should be supported by the rise in young echo-boom households, steady job growth, and expected further declines in the homeownership rate. The primary risk to this forecast is the possibility of recession and negative employment growth in the years ahead. Barring this, however, apartment fundamentals should only improve over the forecast horizon.

U.S. National Apartment Market Cycle			Forecast Years			
	2006Q2	2006	2007	2008	2009	2010
	GRW / PGW / REC / CON	GRW / REC	GRW	GRW	GRW	GRW
Job Growth	1.4%	1.4%	1.0%	1.3%	1.5%	1.3%
Net Abs. (Units) *	-5 K	81 K	93 K	78 K	107 K	123 K
Supply (Units)	43 K	98 K	89 K	95 K	110 K	119 K
% Vacant	5.5%	5.3%	5.2%	5.3%	5.3%	5.3%
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, Economy.com and RREEF Research

Factors Shaping the Apartment Cycle (Time Frame)

Drivers of Growth

- Job growth (on-going)
- Concession burnoff (short-term)
- Higher mortgage rates (on-going)
- Favorable demographics (on-going)

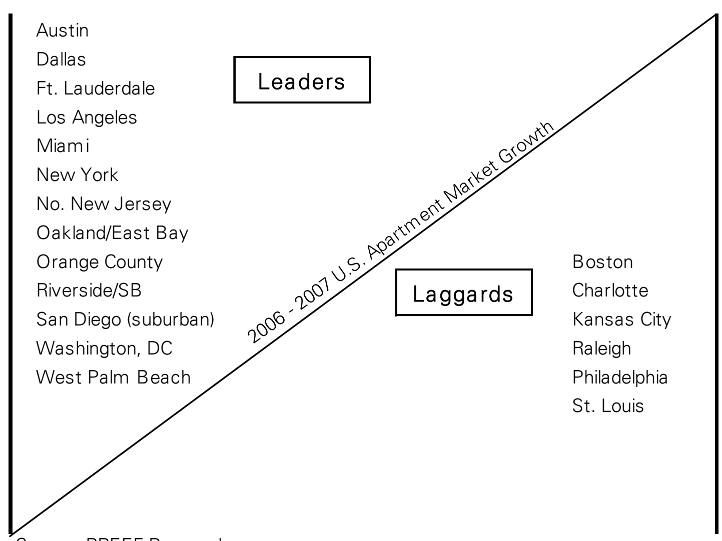
Constraints on Growth

- Concessions declining but still evident (short-term)
- Development pipeline (on-going)
- Affordable housing prices in select markets (on-going)
- Reconversion of condominium projects to for-rent housing (short-term)

Implications: Timing of the Cycle

- National market cycles into growth in 2006
- Coastal markets lead the way into growth
- Midwestern and Southern markets recover later

Apartment Leaders/Laggards[1]



Source: RREEF Research

[1] Markets not listed here are moving at or near the national pace.

U.S. Property Cycle Monitor
Apartment

September 2006

			Forecast				
		2006Q2	2006	2007	2008	2009	2010
U.S.	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	5.5%	5.3%	5.2%	5.3%	5.3%	5.3%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Atlanta	Stage	Recovery	Growth	Growth	Growth	Growth	Growth
	Vacancy	7.9%	6.2%	5.8%	6.5%	6.7%	7.2%
	Rent Momentum*	None	Increase	Increase	Increase	Increase	Increase
Austin	Stage	Recovery	Growth	Growth	Growth	Growth	Growth
	Vacancy	7.3%	7.1%	6.2%	7.0%	7.4%	6.8%
	Rent Momentum*	None	Increase	Increase	Increase	Increase	Increase
Baltimore	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.4%	4.5%	4.8%	4.9%	4.7%	4.6%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Boston	Stage	Contraction	Recovery	Growth	Growth	Growth	Growth
	Vacancy	4.7%	5.1%	6.0%	7.3%	7.4%	7.1%
	Rent Momentum*	None	None	None	Increase	Increase	Increase
Charlotte	Stage	Recovery	Recovery	Recovery	Growth	Growth	Growth
	Vacancy	8.1%	6.9%	5.9%	6.2%	6.4%	6.4%
	Rent Momentum*	None	None	None	None	Increase	Increase
Chicago	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	5.1%	5.0%	4.8%	4.6%	4.3%	3.9%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase +	Increase +
Dallas	Stage	Contraction	Recovery	Growth	Growth	Growth	Growth
	Vacancy	8.0%	7.6%	7.2%	7.4%	6.4%	5.8%
	Rent Momentum*	None	None	Increase	Increase	Increase	Increase
Denver	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	8.1%	6.7%	5.3%	5.9%	7.8%	8.2%
	Rent Momentum*	None	Increase	Increase	Increase	Increase	Increase
Ft. Lauderdale	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	2.9%	2.8%	2.6%	2.8%	2.9%	2.6%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase +
Houston	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	6.0%	5.9%	5.1%	5.0%	5.3%	5.6%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Los Angeles	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.0%	3.0%	3.2%	3.2%	3.5%	3.7%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase +
Miami	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.2%	3.3%	3.3%	3.4%	3.3%	3.2%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase +
Minn./St. Paul	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	5.4%	4.7%	4.1%	3.9%	3.9%	4.0%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
New York	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	2.9%	2.5%	2.3%	2.0%	2.3%	2.4%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase +
No. New Jersey	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.8%	3.4%	3.8%	3.8%	3.9%	4.0%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase +
Oakland/East Bay	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.9%	4.4%	3.9%	3.7%	3.6%	3.7%
	Rent Momentum*	Increase	Increase	Increase	Increase +	Increase +	Increase +
Orange County	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.3%	3.7%	5.0%	5.4%	5.6%	4.3%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase +
Orlando	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.8%	5.4%	5.2%	5.8%	5.3%	4.0%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase +
Philadelphia	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.4%	4.2%	4.2%	4.3%	4.3%	4.5%
	Rent Momentum*	Increase	Increase	Increase	Increase +	Increase +	Increase +
Phoenix	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	5.9%	6.0%	6.3%	6.6%	6.1%	6.3%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase +

* Rent Momentum: Annual Rental Growth

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

		2006Q2	2006	2007	2008	2009	2010
			Forecast				
Portland	Stage	Recovery	Growth	Growth	Growth	Growth	Growth
	Vacancy	5.6%	5.8%	5.6%	5.5%	4.9%	4.1%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Raleigh	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	9.0%	7.0%	6.5%	5.9%	5.6%	5.5%
	Rent Momentum*	None	Increase	Increase	Increase	Increase	Increase
Riverside/SB	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.8%	4.9%	6.1%	6.3%	5.0%	4.4%
	Rent Momentum*	Increase	Increase	Increase +	Increase +	Increase +	Increase +
Sacramento	Stage	Contraction	Recovery	Growth	Growth	Growth	Growth
	Vacancy	5.2%	5.1%	4.8%	4.4%	3.9%	3.6%
	Rent Momentum*	None	None	Increase	Increase	Increase	Increase
St. Louis	Stage	Contraction	Contraction	Recovery	Growth	Growth	Growth
	Vacancy	7.9%	8.1%	7.6%	7.8%	7.8%	7.7%
	Rent Momentum*	Increase	None	None	Increase	Increase	Increase
San Antonio	Stage	Contraction	Recovery	Growth	Growth	Growth	Growth
	Vacancy	6.4%	6.3%	6.4%	6.6%	6.4%	6.0%
	Rent Momentum*	None	None	None	None	None	None
San Diego	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.8%	4.1%	4.0%	4.2%	4.0%	3.8%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase +
San Francisco	Stage	Recovery	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.4%	3.9%	3.5%	3.4%	4.2%	4.6%
	Rent Momentum*	Increase	Increase	Increase +	Increase +	Increase +	Increase +
San Jose	Stage	Recovery	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.1%	3.9%	3.3%	4.0%	5.0%	5.1%
	Rent Momentum*	Increase	Increase	Increase	Increase +	Increase +	Increase +
Seattle	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	5.0%	4.9%	4.4%	5.7%	6.0%	5.6%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase +	Increase +
Tampa	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.8%	5.1%	5.3%	5.5%	4.9%	4.4%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Washington, D.C.	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.9%	3.8%	3.7%	3.3%	3.0%	2.7%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase +
West Palm Beach	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.2%	4.1%	3.9%	5.3%	4.7%	4.0%
	Rent Momentum*	Increase	Increase	Increase +	Increase +	Increase +	Increase +

Sources: REIS and RREEF Research

* Rent Momentum: Annual Rental Growth

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

Property Cycle Monitor: Industrial

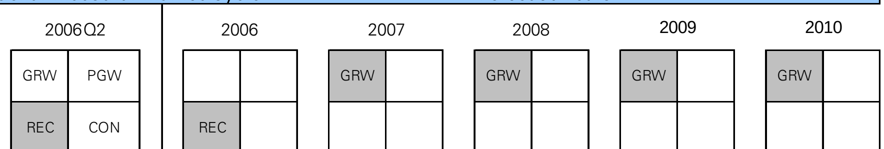
After a stellar 2005, when an unprecedented 298 million square feet of positive net absorption occurred, market conditions for the nation's industrial market stabilized during the first half of 2006. Although industrial demand has slowed, the recovery in the nation's industrial market that began two years ago remains in place. The US industrial market produced almost 83 million square feet of net absorption over the first six months of 2006, while 81 million square feet of new industrial space was delivered during the same period. Since peaking at 11.7% at the end of June 2004, the US industrial availability rate has declined 190 basis points to 9.8% by mid-year 2006.

The nation's Global Gateway hubs continue to lead the overall industrial market recovery. Strong demand and constrained new construction has created very tight market conditions in these coastal metros, with effective rental rates rising across all industrial sectors. Availability levels in the dominant Southern California and South Florida markets continue to decline. The Seattle/Tacoma and Oakland/East Bay industrial markets are now recovering at a more rapid pace.

The recovery of the battered R&D/flex sector continues to gain traction. Restrained new construction and over 12 million square feet of net absorption produced during the first half of 2006 has pushed the R&D/flex sector's availability rate down to 14.0%, 50 basis points lower than the beginning of the year and 380 basis points lower than the sector's peak at mid-year 2003. Tech-heavy San Jose, along with Dallas and Atlanta, have posted strong demand numbers for R&D/flex space during the first six months of 2006.

Slower US economic growth has dampened the industrial outlook for the remainder of 2006 and 2007. However, the key industrial demand drivers – trade flows, business investment, consumer spending, and manufacturing -- are expected to maintain their expansion, albeit at a more moderate pace. Metro economies that were supported by the nation's housing boom are likely to see reduced industrial demand and a more moderate rate of rental growth. Overall, sustained if slower growth should provide continued vitality to the US industrial market's recovery.

U.S. National Industrial Market Cycle — Forecast Years



	2006Q2	2006	2007	2008	2009	2010
Job Growth	1.4%	1.4%	1.0%	1.3%	1.5%	1.3%
Net Abs.	87 MSF	216 MSF	170 MSF	137 MSF	166 MSF	166 MSF
Supply	82 MSF	183 MSF	158 MSF	159 MSF	149 MSF	158 MSF
% Vacant	9.9%	9.7%	9.4%	9.5%	9.2%	9.1%
Rent Momentum	Increase	Increase	Increase	Increase	Increase	Increase

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

Source: Global Insight, Torto Wheaton, Economy.com and RREEF Research

Factors Shaping the Industrial Cycle (Time Frame)

Drivers of Recovery

- Job growth, consumer and business spending, trade flows (on-going)
- Asia's economic expansion (on-going)
- Increasing land and construction costs (on-going)
- Recovery and growth in high-tech (short-term/intermediate-term)

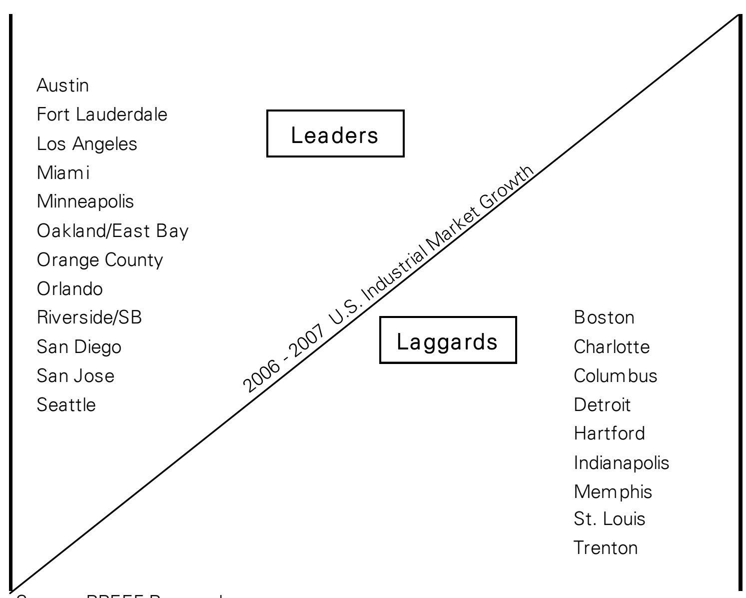
Constraints on Recovery

- Declining housing sector (short-term/intermediate-term)
- Elevated energy prices (on-going)
- New speculative development (intermediate-term)
- Higher interest rates (on-going)

Implications: Timing of the Cycle

- National market, led by the coastal areas, moving into growth mode in 2007
- Markets with oversupply of space lag national recovery (short-term)
- R&D/flex markets begin strengthening in 2006 - 2007

Industrial Leaders/Laggards[1]



Source: RREEF Research

[1] Markets not listed here are moving at or near the national pace.

U.S. Property Cycle Monitor
Industrial

September 2006

		2006Q2	2006	2007	2008	2009	2010
			Forecast				
U.S.	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	9.9%	9.7%	9.4%	9.5%	9.2%	9.1%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Atlanta	Stage	Recovery	Growth	Growth	Growth	Post Growth	Post Growth
	Vacancy	13.2%	12.9%	11.5%	11.5%	11.9%	11.8%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Austin	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	12.6%	11.3%	9.3%	9.7%	9.5%	8.3%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase	Increase	Increase
Baltimore	Stage	Recovery	Growth	Growth	Growth	Growth	Growth
	Vacancy	13.6%	12.9%	12.9%	12.8%	12.1%	11.7%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase +	Increase
Boston	Stage	Recovery	Recovery	Growth	Growth	Growth	Post Growth
	Vacancy	15.4%	14.2%	13.0%	12.3%	12.4%	12.7%
	Rent Momentum*	None	None	Increase	Increase +	Increase +	Increase
Central New Jersey	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	8.6%	8.2%	8.5%	9.1%	8.5%	7.9%
	Rent Momentum*	None	None	Increase	Increase	Increase +	Increase +
Charlotte	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	11.6%	11.3%	11.0%	12.0%	12.2%	11.8%
	Rent Momentum*	None	None	Increase	Increase	Increase	Increase
Chicago	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	12.1%	11.5%	10.9%	11.4%	10.7%	10.4%
	Rent Momentum*	Increase	Increase	Increase +	Increase +	Increase	Increase
Cincinnati	Stage	Recovery	Growth	Growth	Growth	Growth	Growth
	Vacancy	7.9%	7.6%	8.2%	8.3%	7.9%	7.4%
	Rent Momentum*	None	Increase	Increase	Increase	Increase	Increase
Dallas/Ft. Worth	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	11.4%	11.1%	10.5%	10.6%	10.2%	9.9%
	Rent Momentum*	Increase	Increase	Increase	Increase +	Increase	Increase
Denver	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	10.8%	10.9%	10.1%	9.5%	9.3%	9.1%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Fort Lauderdale	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.8%	5.0%	6.2%	6.1%	5.5%	5.0%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase	Increase	Increase
Houston	Stage	Growth	Growth	Growth	Post Growth	Post Growth	Post Growth
	Vacancy	8.2%	7.8%	7.5%	8.1%	8.2%	8.1%
	Rent Momentum*	Increase +	Increase +	Increase	Increase	Increase	Increase
Los Angeles	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.7%	4.5%	4.3%	4.2%	4.1%	4.1%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase
Miami	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	5.1%	5.5%	6.1%	6.4%	5.7%	5.2%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase	Increase	Increase
Minneapolis	Stage	Growth	Growth	Growth	Growth	Growth	Post Growth
	Vacancy	8.2%	6.9%	6.7%	7.0%	6.5%	6.8%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase	Increase	Increase
New York/NNJ	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	8.8%	8.7%	8.5%	8.5%	8.2%	7.9%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase +	Increase +
Oakland/East Bay	Stage	Recovery	Growth	Growth	Growth	Growth	Growth
	Vacancy	10.3%	9.3%	8.1%	8.1%	8.3%	7.6%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase +
Orange County	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	5.2%	5.2%	4.9%	4.7%	4.5%	4.5%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase +	Increase
Orlando	Stage	Growth	Growth	Growth	Growth	Growth	Post Growth
	Vacancy	7.6%	7.2%	6.7%	7.3%	7.5%	7.7%
	Rent Momentum*	Increase	Increase +	Increase +	Increase	Increase	Increase
Philadelphia	Stage	Recovery	Growth	Growth	Growth	Growth	Growth
	Vacancy	11.4%	11.2%	11.6%	11.7%	11.4%	11.2%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase

* Rent Momentum: Annual Rental Growth

None: 0% to 2%

Increase: 3% - 4%

Increase+: Over 4%

U.S. Property Cycle Monitor
Industrial *(continued)*

September 2006

			Forecast				
		2006Q2	2006	2007	2008	2009	2010
Phoenix	Stage	Growth	Growth	Growth	Growth	Post Growth	Post Growth
	Vacancy	8.8%	9.2%	8.7%	8.9%	9.3%	10.0%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase	Increase	Increase
Portland	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	7.9%	7.7%	7.4%	7.8%	8.2%	8.1%
	Rent Momentum*	Increase +	Increase +	Increase	Increase	Increase	Increase
Riverside/SB	Stage	Growth	Growth	Growth	Growth	Post Growth	Post Growth
	Vacancy	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
	Rent Momentum*	Increase +	Increase +	Increase +	Increase	Increase	Increase
St. Louis	Stage	Recovery	Growth	Growth	Growth	Growth	Growth
	Vacancy	8.8%	8.6%	8.7%	8.1%	8.2%	8.2%
	Rent Momentum*	Increase +	Increase	Increase	Increase	Increase	Increase
San Diego	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	8.9%	9.0%	8.7%	8.1%	7.4%	6.8%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase	Increase
San Jose	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	13.0%	12.3%	9.9%	8.1%	7.6%	7.3%
	Rent Momentum*	Increase	Increase	Increase +	Increase +	Increase +	Increase +
Seattle/Tacoma	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	7.2%	7.2%	6.9%	7.1%	6.7%	6.3%
	Rent Momentum*	Increase	Increase	Increase +	Increase	Increase	Increase
Washington, D.C.	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	11.2%	11.2%	11.5%	11.1%	10.4%	9.8%
	Rent Momentum*	Increase +	Increase +	Increase	Increase	Increase	Increase

Source: Torto Wheaton and RREEF Research

* Rent Momentum: Annual Rental Growth

None: 0% to 2%

Increase: 3% - 4%

Increase+: Over 4%

Property Cycle Monitor: Office

The US office market continues to improve but the pace of recovery has slowed. National office vacancy, which fell from 15.3% to 13.6% during 2005, now stands at 13.1%. Net absorption for the first half of 2006 was 34.0 million square feet, which is still respectable but below last year's pace, when the annual total was 90.0 million square feet.

Office completions remain in check, with 22 million square feet completed in the first half of 2006 compared to last year's annual total of 35.0 million square feet. Development activity is concentrated in a handful of metros, most notably Washington DC plus New York, Phoenix, San Diego and Las Vegas.

In the face of these continued improvements, rental growth has become established on a more widespread basis, particularly for Class A space. Class B assets in submarkets with double-digit vacancy lag the recovery.

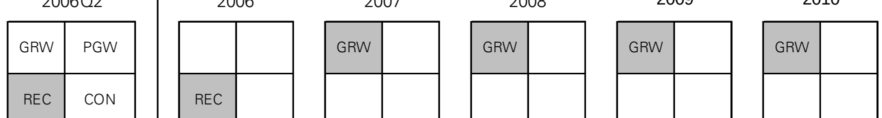
Further modest improvements are projected in the second half of 2006. National office vacancy is forecast to fall by 30 basis points to 12.8%, with net absorption of 73 million square feet for the year and 51 million square feet of new construction deliveries.

The recovery will continue, albeit at a slower rate, in 2007. National vacancy is forecast to fall by 50 basis points to 12.3% next year. Net absorption is projected to fall to 55 million square feet in 2007, which is still above the 15-year historic average of 47.0 million square feet per year. This reduction is attributable to an expected slowdown in the pace of national office job growth, from 2.1% this year to 1.2% in 2007.

Four of the leading metro markets currently have a sub 10% vacancy rate: Miami, New York, Orange County and Washington DC. This reflects the locations where recovery has occurred first, namely, Florida, Manhattan, Southern California and the District of Columbia. The strongest markets over the next five years, as measured by sustained low availability rates, will be Los Angeles, New York, Seattle and Washington DC.

A handful of metros, while now in the early stages of recovery, will continue to lag the national trend, most notably: Atlanta, Dallas, Central New Jersey and Philadelphia. The pace of recovery is accelerating more in some metros than others. Six of the 22 markets covered by this analysis are forecast to achieve vacancy declines of 150 basis points or more in 2006: Austin, Chicago, Houston, Portland, San Jose and Seattle.

U.S. National Office Market Cycle — Forecast Years



	2006Q2	2006	2007	2008	2009	2010
Office Job Growth	2.0%	2.1%	1.3%	1.6%	1.9%	2.0%
Net Abs.	35 MSF	73 MSF	54 MSF	42 MSF	53 MSF	60 MSF
Supply	22 MSF	51 MSF	44 MSF	46 MSF	56 MSF	59 MSF
% Vacant	13.1%	12.8%	12.3%	12.2%	12.1%	11.9%
Rent Momentum	None	Increase	Increase +	Increase +	Increase	Increase

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

Source: Global Insight, Torto Wheaton, Economy.com and RREEF Research

Factors Shaping the Office Cycle (Time Frame)

Drivers of Recovery

- Job growth (on-going but slowing)
- Strong corporate balance sheets driving business spending (short-term/intermediate-term)
- Recovery and growth in high tech (intermediate-term/long-term)
- Manageable construction volumes (on-going)

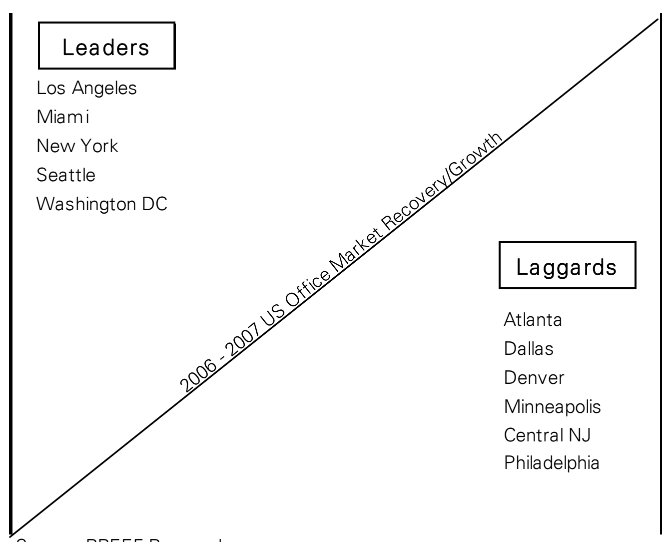
Constraints on Recovery

- Higher interest rates (on-going)
- Slowing job growth and net absorption (intermediate-term)

Implications: Timing of the Cycle

- National market moving from recovery to growth in 2006 - 2007
- Most tech markets exhibiting improvement in supply/demand conditions
- Leading suburban markets starting to rebound.

Office Leaders/Laggards[1]



Source: RREEF Research

[1] Markets not listed here are moving at or near the national pace.

U.S. Property Cycle Monitor
Office

September 2006

		2006Q2	2006	2007 (Forecast)	2008 (Forecast)	2009 (Forecast)	2010 (Forecast)
U.S.	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	13.1%	12.8%	12.3%	12.2%	12.1%	11.9%
	Rent Momentum*	None	Increase	Increase +	Increase +	Increase	Increase
Atlanta	Stage	Recovery	Recovery	Recovery	Recovery	Recovery	Growth
	Vacancy	18.1%	17.5%	17.2%	16.4%	15.7%	15.0%
	Rent Momentum*	None	Increase	Increase	Increase	Increase	Increase
Austin	Stage	Recovery	Recovery	Recovery	Recovery	Growth	Growth
	Vacancy	16.1%	15.0%	14.9%	14.5%	13.0%	11.2%
	Rent Momentum*	None	Increase	Increase +	Increase +	Increase	Increase
Boston	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	13.4%	12.0%	10.6%	10.1%	10.0%	10.5%
	Rent Momentum*	None	None	Increase	Increase	Increase +	Increase +
Chicago	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	15.6%	15.0%	13.9%	13.6%	14.1%	13.5%
	Rent Momentum*	None	None	None	Increase	Increase	Increase
Dallas	Stage	Recovery	Recovery	Recovery	Recovery	Recovery	Recovery
	Vacancy	22.0%	22.1%	20.7%	20.6%	20.3%	19.5%
	Rent Momentum*	None	None	None	None	Increase	Increase
Denver	Stage	Recovery	Recovery	Recovery	Recovery	Growth	Growth
	Vacancy	15.6%	15.8%	15.5%	14.8%	14.1%	13.4%
	Rent Momentum*	None	Increase	Increase	Increase +	Increase +	Increase
Houston	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	15.8%	15.1%	13.9%	13.7%	13.8%	13.2%
	Rent Momentum*	None	Increase	Increase	Increase	Increase	Increase
Los Angeles	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	10.4%	10.2%	9.8%	9.9%	10.1%	10.2%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Miami	Stage	Growth	Growth	Growth	Post-Growth	Post-Growth	Post-Growth
	Vacancy	8.4%	8.2%	9.1%	11.3%	12.4%	10.3%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase	Increase	Increase
Minneapolis	Stage	Recovery	Recovery	Recovery	Recovery	Growth	Growth
	Vacancy	17.0%	16.5%	15.9%	16.0%	14.6%	14.0%
	Rent Momentum*	None	None	Increase	Increase	Increase	Increase
New York	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	7.6%	6.5%	5.3%	5.4%	6.0%	6.3%
	Rent Momentum*	Increase	Increase +	Increase +	Increase	Increase	Increase
Central NJ	Stage	Recovery	Recovery	Recovery	Recovery	Recovery	Recovery
	Vacancy	16.6%	16.4%	16.0%	16.2%	16.1%	16.0%
	Rent Momentum*	None	None	Increase	Increase	Increase	Increase
Oakland/East Bay	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	14.2%	13.4%	11.9%	11.2%	10.6%	10.0%
	Rent Momentum*	None	Increase	Increase +	Increase +	Increase	Increase
Orange County	Stage	Growth	Growth	Growth	Growth	Post-Growth	Post-Growth
	Vacancy	8.1%	8.1%	9.0%	10.0%	10.6%	10.7%
	Rent Momentum*	Increase	Increase +	Increase +	Increase	Increase	Increase
Philadelphia	Stage	Recovery	Recovery	Recovery	Recovery	Recovery	Recovery
	Vacancy	13.5%	13.0%	12.8%	13.4%	13.0%	12.6%
	Rent Momentum*	None	None	Increase	Increase	Increase	Increase
Phoenix	Stage	Recovery	Recovery	Growth	Growth	Post-Growth	Post-Growth
	Vacancy	11.8%	13.2%	13.3%	12.2%	11.9%	11.2%
	Rent Momentum*	None	Increase	Increase +	Increase +	Increase	None
Portland	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	12.7%	11.8%	11.2%	12.0%	12.4%	12.5%
	Rent Momentum*	None	Increase	Increase +	Increase +	Increase	Increase
San Diego	Stage	Growth	Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth
	Vacancy	10.9%	11.0%	12.2%	12.5%	11.5%	10.9%
	Rent Momentum*	Increase	Increase +	Increase +	Increase	Increase	Increase
San Francisco	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	12.5%	11.9%	11.1%	10.6%	10.8%	11.3%
	Rent Momentum*	Increase +	Increase +	Increase +	Increase +	Increase	Increase
San Jose	Stage	Recovery	Recovery	Growth	Growth	Growth	Growth
	Vacancy	14.4%	12.4%	10.5%	8.6%	9.5%	9.3%
	Rent Momentum*	None	Increase	Increase	Increase +	Increase +	Increase
Seattle	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	10.7%	9.9%	9.3%	9.7%	9.8%	9.8%
	Rent Momentum*	Increase	Increase	Increase +	Increase +	Increase	Increase
Washington DC	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	9.2%	8.8%	9.7%	10.2%	10.4%	10.5%
	Rent Momentum*	Increase	Increase +	Increase	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%

Property Cycle Monitor: Retail

In the first half of 2006, the US retail market saw modest absorption of 7 million square feet – healthy, but below last year's rate of about 14 million. The retail vacancy rate is on track to finish 2006 at 6.7%, slightly higher than 2005's 6.5% rate. Net absorption of 26 million square feet this year should nearly match last year's level. A pickup in supply-side activity, from 26 million square feet in 2005 to 31 million in 2006, is expected to lead to a modest uptick in vacancy. Steady construction in the face of weakening retail sales and net absorption in 2007 should bump the vacancy rate up to 7.3%, where it is expected to hover over the rest of the forecast horizon.

With construction activity in check, the fate of the retail market over the next two years will depend on how consumer spending holds up in the face of a slowing US economy. Retail net absorption is expected to slow from an average of 26 million square feet in 2004–2006 to 20 million square feet in 2007–2010. Retail sales growth remained strong through the first half of 2006, but a decline in retail sales growth appears imminent. Consumers are facing several impediments to the continued expansion of their spending. The average household already spends more than it earns in income, and going forward, a cooling housing market will constrain household net worth as US employment growth slows.

The primary risk to this forecast is a sharper-than-expected decline in the housing market. Our current expectation is that home price growth will slow over the next 24 months without turning negative, at least at the national level. If households face a decline in their net worth due to falling home prices, they may choose to rein in retail spending and thus set the stage for lower retail net absorption.

Most markets have seen little change in forecast or market fundamentals over the past six months. Stronger year-to-date net absorption than expected in Baltimore, San Jose, Philadelphia, Phoenix, and Tampa have led to an upgraded forecast. Houston and Minneapolis are the only metros to witness a slight downgrade in forecast expectations.

U.S. National Retail Market Cycle		Forecast Years				
	2006Q2	2006	2007	2008	2009	2010
	GRW / PGW / REC / CON	PGW	PGW	PGW	PGW	PGW
Retail Sales	8.3%	8.6%	5.0%	4.3%	4.2%	4.0%
Net Abs.	7 MSF	26 MSF	18 MSF	18 MSF	21 MSF	21 MSF
Supply	9 MSF	31 MSF	29 MSF	22 MSF	21 MSF	20 MSF
% Vacant	6.6%	6.7%	7.3%	7.4%	7.3%	7.2%
Rent Momentum	Increase	Increase	Increase	Increase	Increase	Increase

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

Source: Global Insight, REIS, Economy.com and RREEF Research

Factors Shaping the Retail Cycle (Time Frame)

Drivers of Recovery

- Job growth (on-going)
- Household and income growth (on-going)

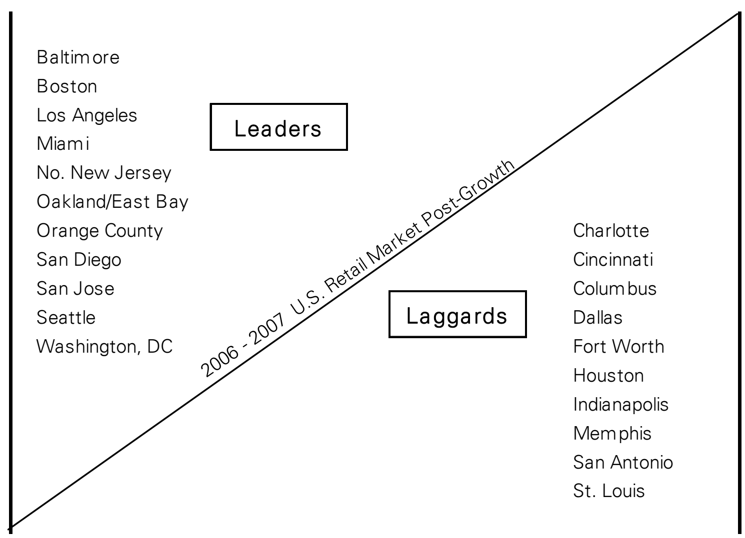
Constraints on Recovery

- Slowing consumer spending growth (short-term/intermediate-term)
- Restrained home mortgage refinancing and housing market wealth gains (short-term/intermediate-term)
- Still elevated energy prices (on-going)

Implications: Timing of the Cycle

- The retail sector remains stable, holding to the post-growth stage of the cycle
- Most markets witness balanced market conditions and rising rents

Retail Leaders/Laggards[1]



Source: RREEF Research

[1] Markets not listed here are moving at or near the national pace.

U.S. Property Cycle Monitor
Retail

September 2006

			Forecast				
		2006Q2	2006	2007	2008	2009	2010
U.S.	Stage	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth
	Vacancy	6.6%	6.7%	7.3%	7.4%	7.3%	7.2%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Atlanta	Stage	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth
	Vacancy	8.2%	8.9%	9.4%	9.5%	9.5%	9.2%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Austin	Stage	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth
	Vacancy	8.0%	8.1%	8.4%	8.5%	8.3%	8.3%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Baltimore	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.9%	4.0%	4.2%	4.2%	4.2%	4.1%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Boston	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.0%	4.3%	4.8%	4.9%	4.7%	4.5%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Charlotte	Stage	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction
	Vacancy	7.0%	7.4%	9.3%	9.9%	9.3%	9.0%
	Rent Momentum*	None	None	None	None	None	None
Chicago	Stage	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth
	Vacancy	6.9%	6.9%	7.2%	7.2%	7.3%	7.4%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Dallas	Stage	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction
	Vacancy	10.5%	10.5%	10.7%	10.8%	10.4%	10.3%
	Rent Momentum*	None	None	None	None	None	None
Denver	Stage	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth
	Vacancy	8.0%	8.2%	8.1%	8.0%	7.8%	7.6%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Ft. Lauderdale	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	5.2%	5.2%	5.3%	5.4%	5.4%	5.3%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Fort Worth	Stage	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction
	Vacancy	10.8%	10.7%	11.8%	11.9%	11.3%	10.8%
	Rent Momentum*	None	None	None	None	None	None
Houston	Stage	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction
	Vacancy	10.9%	10.8%	11.1%	11.2%	11.2%	11.2%
	Rent Momentum*	None	None	None	None	None	None
Long Island	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.0%	4.6%	4.8%	4.9%	4.7%	4.5%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Los Angeles	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	2.8%	2.7%	3.6%	4.0%	4.0%	3.7%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Miami	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.4%	3.8%	3.9%	4.1%	4.3%	4.1%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Minneapolis	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	6.9%	6.8%	7.5%	7.3%	7.2%	7.1%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
N. New Jersey	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.9%	4.0%	4.2%	4.4%	4.2%	4.0%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Oakland/East Bay	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	2.8%	2.9%	4.3%	4.6%	4.3%	4.0%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Orange County	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	2.4%	2.5%	3.4%	3.6%	3.6%	3.5%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Orlando	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	5.2%	5.3%	5.8%	5.9%	5.9%	5.8%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Philadelphia	Stage	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth
	Vacancy	6.6%	6.6%	7.7%	7.8%	7.6%	7.4%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase

* Rent Momentum: Annual Rental Growth

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

		2006Q2	2006	2007	2008	2009	2010
			Forecast				
Phoenix	Stage	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth
	Vacancy	6.1%	6.2%	7.4%	7.8%	7.7%	7.6%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Portland	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.6%	4.6%	5.0%	5.3%	5.1%	5.0%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
St. Louis	Stage	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth
	Vacancy	9.4%	9.8%	10.1%	10.0%	9.7%	9.3%
	Rent Momentum*	None	None	None	None	None	None
San Antonio	Stage	Contraction	Contraction	Contraction	Contraction	Contraction	Contraction
	Vacancy	9.5%	9.3%	9.5%	9.4%	9.2%	9.1%
	Rent Momentum*	None	None	None	None	None	None
San Diego	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	2.8%	3.0%	4.0%	4.2%	4.3%	4.3%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
San Francisco	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.2%	3.4%	3.6%	3.9%	4.1%	3.6%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
San Jose	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	2.6%	2.5%	2.6%	2.8%	2.9%	2.8%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Seattle	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.4%	3.5%	4.0%	4.2%	4.4%	4.4%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Tampa	Stage	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth	Post-Growth
	Vacancy	6.1%	6.4%	6.5%	6.8%	6.7%	6.5%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
Washington, D.C.	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	3.4%	3.6%	4.0%	4.3%	4.5%	4.3%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase
West Palm Beach	Stage	Growth	Growth	Growth	Growth	Growth	Growth
	Vacancy	4.4%	4.6%	6.0%	6.3%	6.2%	6.1%
	Rent Momentum*	Increase	Increase	Increase	Increase	Increase	Increase

Sources: REIS and RREEF Research

* Rent Momentum: Annual Rental Growth

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

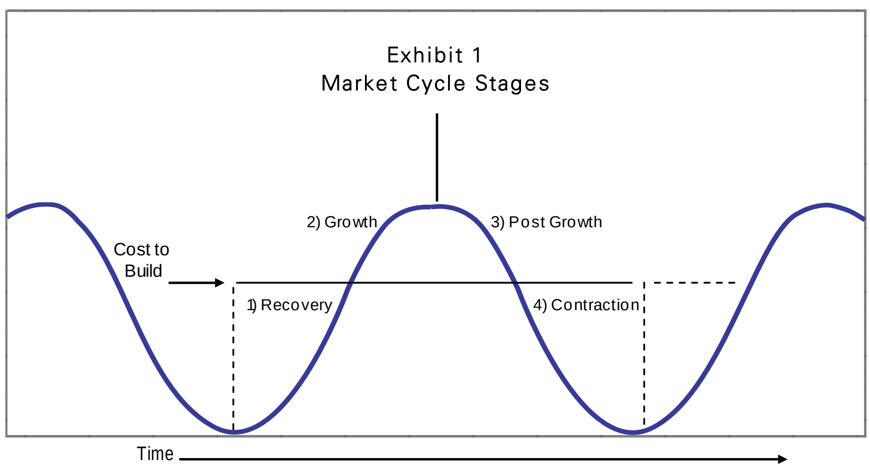
APPENDIX

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.

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

Stages	General Conditions
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

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	Contraction	Recovery	Growth	Post-Growth
Increase +		✓	✓	
Increase		✓	✓	✓
None	✓	✓		✓
Decrease	✓			
Decrease +	✓			

Source: RREEF Research

ANALYST CERTIFICATION

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report.

Asieh Mansour
Managing Director of Research

Main Offices

San Francisco
101 California Street
26th Floor
San Francisco, CA 94111
USA
Tel: (415) 781-3300

Chicago
875 N. Michigan Avenue
41st Floor
Chicago, IL 60611
USA
Tel: (312) 266-9300

New York
280 Park Avenue
40th Floor
New York, NY 10017-1270
USA
Tel: (212) 454-3900

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

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

Publication Address:
101 California Street
26th Floor
San Francisco, CA 94111
USA

Internet:
www.rreef.com

RREEF Real Estate Research

101 California Street, 26th Floor, San Francisco, CA 94111 Tel: (415) 781-3300

RREEF

Asieh Mansour
Managing Director
(415) 262-2044

Alan Billingsley
Director
(415) 262-2017

Hope Nadji
Director
(415) 262-2022

Stephen Newbold
Vice President
(415) 262-2040

Western Europe

Peter Hobbs
Global Head of Real Estate and Infrastructure Research
+44 20 7547 4855

Brenna O'Roarty
Vice President
+44 20 7545 6099

Maren Väth
Vice President
+49 69 717 04 204

Susannah Hunter
Assistant Vice President
+44 20 7547 3305

Lonneke Löwik
Assistant Vice President
+44 20 7545 6328

Henry (Wei) Chin
Assistant Vice President
+44 20 7545 6611

Andri Eglitis
Associate
+49 69 717 04 442

Ermina Topintzi
Associate
+44 20 755 6674

RREEF is the brand name of the real estate and infrastructure division for the asset management activities of Deutsche Bank AG. In the US this relates to the asset management activities of RREEF America L.L.C.; in Australia: Deutsche Asset Management (Australia) Limited (ABN 11 076 098 596) Australian financial services license holder; in Hong Kong: Deutsche Asset Management (Hong Kong) Limited ("DeAMHK"); in Japan: Deutsche Securities Inc.; and in the United Kingdom: RREEF Limited, DB Absolute Return Strategies Limited and DWS Investment Trust Managers Limited; in addition to other regional entities in the Deutsche Bank Group.

RREEF offers a diverse menu of investment options, including: separate accounts, core and value-added private investment vehicles and investments in publicly-traded real estate securities. We also have an extensive track record in the property reassignment business.

This material is intended for informational purposes only and does not constitute investment advice or a recommendation or an offer or solicitation and is not the basis for any contract to purchase or sell any security or other instrument, or for Deutsche Bank and its affiliates to enter into or arrange any type of transaction as a consequence of any information contained herein. To the extent permitted by applicable law, no member of the Deutsche Bank group, or the Issuer of this document or any officer, employee or associate of them accepts any liability whatsoever for any direct or consequential loss arising from any use of this presentation or its contents, including for negligence. This document is only for professional investors. No further distribution is allowed without prior written consent of any member of the Deutsche Bank AG Group.

Although the information contained in the material has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness. Opinions expressed are our present opinions only, reflecting prevailing market conditions and are subject to change. Opinions and estimates involve a number of assumptions which may not prove valid and may be changed without notice. In preparing this material, we have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources. Neither this material, nor any of its contents, may be used for any purpose without the consent and knowledge of RREEF.

Past performance is not indicative of future results.

Investment in such asset classes/strategies mentioned herein may be suitable only for sophisticated investors and requires the financial ability and willingness to accept the high risks and lack of liquidity inherent in an investment in the asset class or strategy.

The information contained in this document is selective and is for illustrative purposes only and is subject to updating, completion, revision, verification or other amendment.

For Investors in the United Kingdom:

Issued in the United Kingdom by RREEF Limited. Authorized and regulated by the Financial Services Authority. This document is directed only at persons falling within the following exemptions from s.21 of the United Kingdom Financial Services and Markets Act 2000 ("FSMA"): (i) authorized firms under FSMA and certain other investment professionals falling within article 19 of the FSMA (Financial Promotion) Order, (the "FPO"); (ii) high net worth entities (not individuals) falling within article 49 FPO; and (iii) persons who receive this document outside the United Kingdom. The distribution of this document in the United Kingdom to anyone not falling within the foregoing categories is not permitted by the Issuer and may contravene FSMA. No one in the United Kingdom who is not either a high net worth entity or person with professional experience in matters relating to investments as referred to in the foregoing should treat this document as constituting a promotion to him, or act on it for any purpose whatsoever.

For Investors in Australia and Hong Kong:

This document is only for the information of professional investors. An investment with RREEF is not a deposit with or any other type of liability of Deutsche Bank AG ARBN 064 165 162, Deutsche Asset Management (Australia) Limited or Deutsche Asset Management (Hong Kong) Limited or any other member of the Deutsche Bank AG Group and the capital value of and performance of an investment with RREEF is not in any way guaranteed by Deutsche Bank AG, Deutsche Asset Management (Australia) Limited or Deutsche Asset Management (Hong Kong) Limited or any other member of the Deutsche Bank AG Group. Investments are subject to investment risk, including possible delays in repayment and loss of income and principal invested.