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GLOBAL REAL ESTATE

COMMERCIAL REAL ESTATE INVESTMENT PERFORMANCE UPDATE AND OUTLOOK

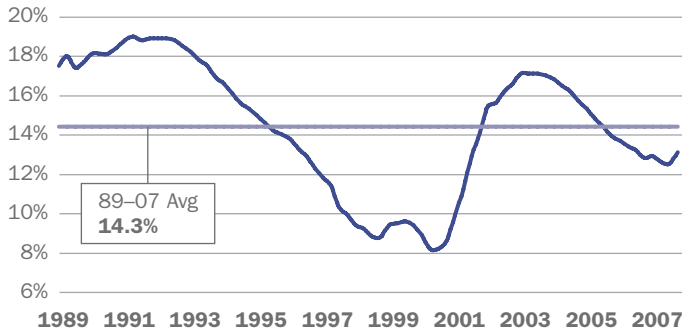
Despite the very slow 0.6% GDP growth in 4Q07 and the ongoing slump in the residential portion of the U.S. real estate sector, the performance of commercial real estate in the fourth quarter was quite strong. Commercial real estate performance is measured by the NCREIF National Property Index, which is compiled quarterly based on commercial property appraised values and cash flows. NPI results for 4Q07, released on schedule during the last week of January, showed a total return performance of 15.8% for the four quarters ending December 31, 2007. This represents a relatively lower return versus the 17.3% total return for the prior four-quarter period and versus the 20.2% cycle peak return posted for the four quarters ending March 31, 2006. Yet, the 15.8% return is stunning when examined against the weak macro-economic environment. The components of the return include a 5.6% income return and a 9.9% return from capital appreciation.

This strong performance underscores the distinction between commercial real estate and residential real estate returns. While commercial real estate racked up a 9.9% appreciation in value last year, residential real estate suffered value deterioration of 7.7% for the 12 months ending November 30, 2007, according to the Case-Shiller Home Price Index. How can it be that commercial and residential real estate perform so differently; aren't they both real estate?

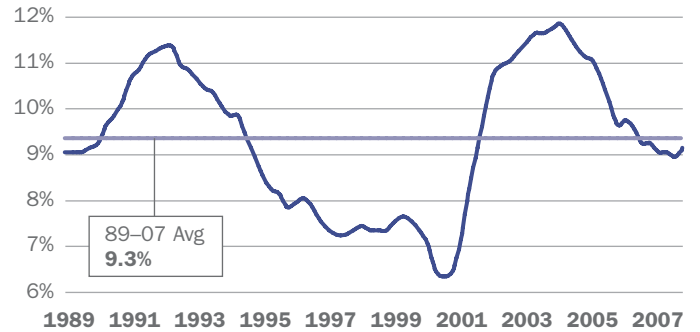


COMMERCIAL REAL ESTATE: FUNDAMENTAL BALANCE

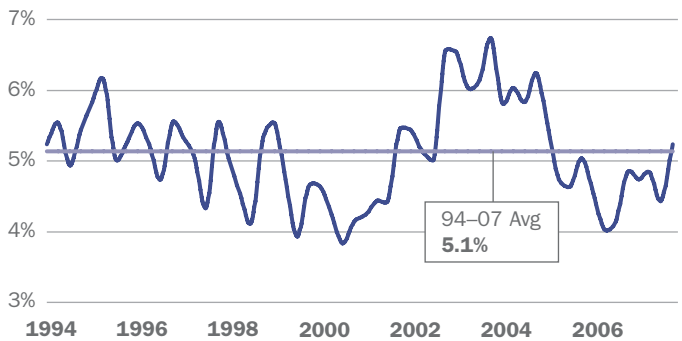
OFFICE VACANCY



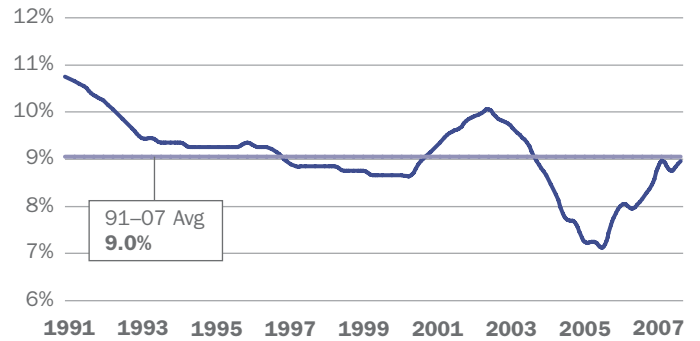
INDUSTRIAL VACANCY



APARTMENT VACANCY



RETAIL VACANCY



Source: Torto Wheaton Research

They do indeed share some characteristics: They are both hard assets rather than financial assets; they have important geographic components; and they are influenced by the performance of the macro-economy. But these similarities are dwarfed by their differences. More importantly, commercial and residential real estate are driven by different fundamentals and by different financing mechanisms. Both fundamentals and financing have played a role in recent performance differences.

With regard to supply and demand fundamentals, commercial real estate remained roughly in balance on a national basis through 2007 after reaching cyclical lows in vacancy rates in 2006. All four major property types have vacancy rates at or below their long-term averages as shown in the charts below. The balance has held chiefly because, construction of new commercial space has been controlled.

In contrast, the residential sector has accumulated a historically large overhang of excess supply. For example, given the very slow pace of new home sales in December 2007, the current supply of new homes would take 9.6 months to absorb. This is the largest overhang in 20 years. Until the excess supply is sold, new home construction cannot recover. The recent pace of construction has shrunk to a level in line with the 1991 recession.

The supply/demand balance and the controlled construction in commercial real estate reflects the high costs of construction and the absence of excess credit for financing. Lenders have provided construction financing sufficient enough to keep supply and demand for commercial space in rough alignment across market geographies. Rents have risen to compensate for the rising construction costs, while some markets have accumulated a modest over-supply, without distorting the national balance.

More liberal financing was available for commercial real estate purchasers, at least until last summer. Available cheap funds allowed several large REIT portfolios to change hands and helped to bolster commercial real estate values. As abundant, cheap financing disappeared, fewer property transactions were completed in the closing months of 2007.

In the residential sector, excessive financing was the villain. Aggressively marketed residential mortgage financing, especially sub-prime financing, made home purchase accessible to a larger number of households than ever before. This increased the demand for homes and stimulated strong construction activity. The pace of construction dropped off only when it became clear that sales were suffering because the flood of mortgage money was no longer available. The flood stopped when delinquency rates spiked indicating that underwriting standards were inadequate. The construction pipeline did not shut down fast enough to avoid the overhang of excess supply now weighing on the market. At the same time, foreclosures have been adding to excess supply.

COMMERCIAL REAL ESTATE PROSPECTS FOR THE YEAR AHEAD

With prospects for the U.S. economy questionable because of recession fears, 2008 will be challenging for both commercial and residential real estate. On the commercial side, weak or recessionary economic growth will slow down

absorption of space and constrain rent growth. However, expiring leases, which were signed five or more years ago, will re-lease at much higher rents even if there is no rent growth in 2008 because rent levels have grown so much over the last five years. So, fundamentals for commercial real estate should remain a largely positive albeit weaker force on investment performance.

Capital markets will not be as supportive. Part of the impact of the sub-prime residential mortgage meltdown in 2007 resulted in shifting prices for risk. Simply put, investors are now looking for more compensation for taking risks. This shift is showing up in commercial real estate valuations. The recently created Moody's REAL Commercial Property Price Index showed a 2.4% decline in November. This is in line with the pace of value declines during the last recession when the NPI suffered a 1.0% value decline in 2001 and a 1.6% decline in 2002. On a total return basis, the ongoing income flow of real estate should help cushion the value decline; that flow is shown in the 5.6% income return for the four quarters ending in December 2007. Reflecting the cushioning impact of income, NPI total returns were 7.3% in 2001 and 6.8% in 2002.

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