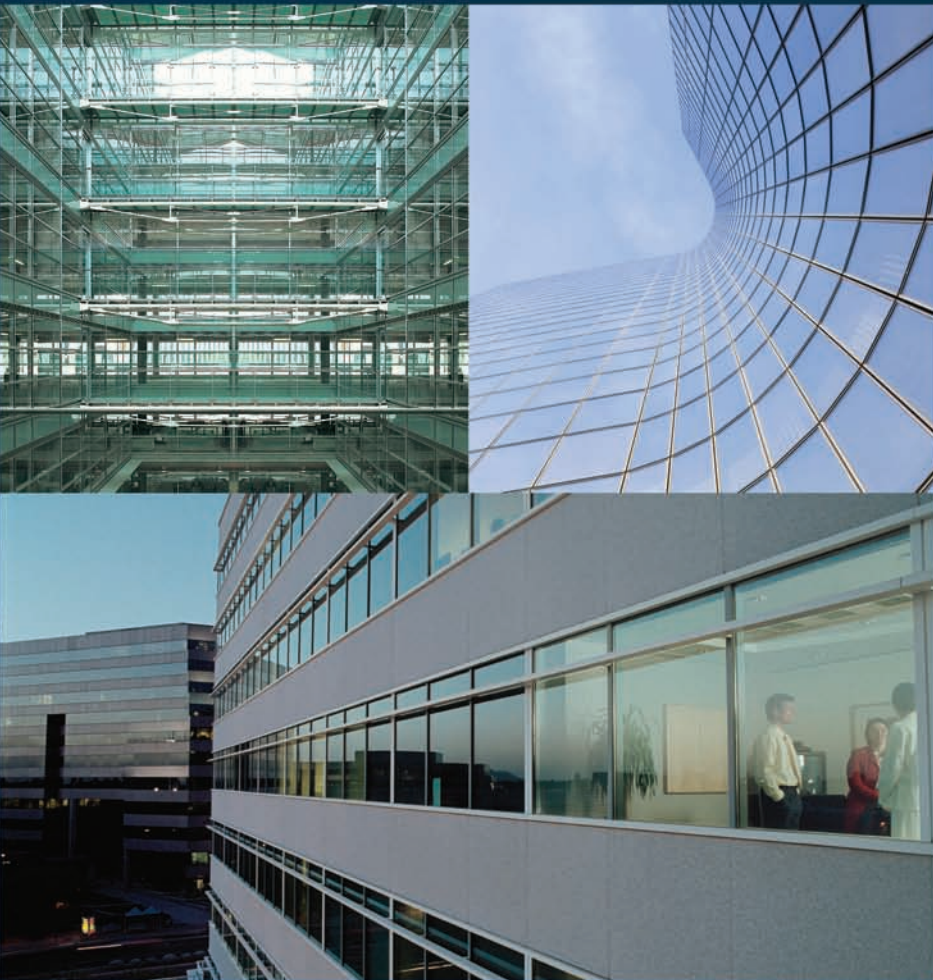


2008 | Real Estate Forecast



Southeast

Atlanta
Charleston
Charlotte
Columbia
Greenville
Nashville
Raleigh/Durham
Memphis
Gulfport

Occupancy Rates
Income | U.S. Retail
Shopping Centers
| Square Footage
tes | Construction
ail Sales | Logistics
ng Centers Under
Footage | Vacancy

Product Type | Key Investment Transactions | Occupancy Rates | Construction Completions
ion Rates | Job Growth | Median Household Income | U.S. Retail Sales | Logistics Markets
Population Change | Gross Domestic Product | Key Shopping Centers Under Construction
| Office Vacancy | Availability | Asking Rent by Corridor | Square Footage | Vacancy and
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Note: Year-end 2007 numbers include estimates for the fourth quarter that were derived in November. Final published numbers may vary slightly. Totals may not add precisely due to rounding.

To Grubb & Ellis Clients and Colleagues:

Commercial real estate has been caught up in the global credit squeeze that is roiling Wall Street and rattled Main Street. It is enough to make one long for the good old days when conservative neighborhood banks lent funds to local developers with whom they enjoyed long-standing relationships and then maintained those loans on their balance sheets. While many such relationships still flourish, it is equally likely that loans will be pooled, sliced into pieces and sold to investors around the world. For better or worse (mostly better), commercial real estate is now firmly entrenched in the global capital structure. This structure, which has vaulted real estate to the top of favored asset classes, is now being tested for reasons that have little to do with underlying market fundamentals – which remain healthy across most markets and property types. The problems began with subprime residential mortgages, moved into asset-backed commercial paper, and threaten to spread into other corners of the credit markets, creating losses likely to total in the hundreds of billions of dollars when the final tally is completed. Though default rates remain low for commercial real estate loans, the industry has become more risk averse as a result.

The ongoing turmoil in the credit markets has different implications for real estate buyers, sellers, tenants and landlords. In this report, we hope to put some of these implications – potential risks and rewards – into perspective. The times are as challenging as they have been since the last recession of 2001, and the possibility of a recession in 2008 is not off the table. Profits can still be made, but they are not a given as they have been for many in the great real estate bull market that arose from the ashes of the tech flameout in 2000. Tenants can look forward to better deals in 2008, but if the economy slows as expected, they may be less inclined to act on them.

We hope that you find the information in this report useful as you plan your strategy for the coming year.

Sincerely,



Robert Bach

Senior Vice President, Chief Economist

Grubb & Ellis Company

Grubb & Ellis goes above and beyond in-depth local market research and analysis. As our clients' needs have evolved from bricks and mortar requirements to encompass complex global real estate issues, our industry subject matter experts contribute focused, specialized expertise to the process. This added layer of analysis gives clients a more complete picture of the environment in which they operate and helps us leverage our market data to help owners, users and investors construct smart, innovative solutions to today's real estate needs.

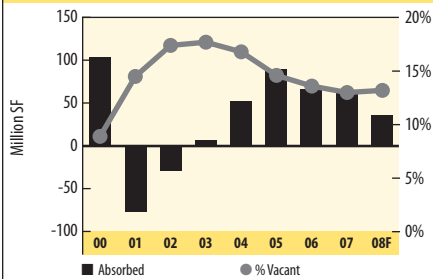
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National Overview

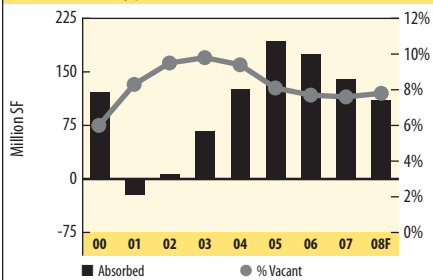
Housing will hit bottom by year-end 2008, and the credit markets will reach a new, risk-adjusted equilibrium by mid-year. The question is whether Main Street can move ahead as Wall Street retrenches.

U.S. Office Vacancy and Absorption
Year-End



Source: Reis, Grubb & Ellis

U.S. Industrial Vacancy and Absorption
All Product Types, Year-End



Source: Reis, Grubb & Ellis

Office and Industrial Review and Forecast
Year-End

Office Market	2007 Actual	2008 Forecast
Vacancy rate	13.0%	13.2%
Class A CBD rental rate ¹	\$50.11	\$51.62
Class A suburban rental rate ¹	\$29.38	\$29.97
Net absorption	65M SF	36M SF
Space completed	45M SF	55M SF
Industrial Market		
Vacancy rate	7.6%	7.8%
Warehouse/distribution rental rate ²	\$4.61	\$4.70
R&D/flex rental rate ²	\$10.43	\$10.64
Net absorption	140M SF	120M SF
Space completed	150M SF	160M SF

¹Asking rate per square foot per year full service

²Asking rate per square foot per year triple net

2007: Turning Point

A roller coaster is the only apt metaphor for 2007. The economy nearly stalled and the leasing markets slowed in the first quarter followed by an unexpected surge in the second quarter. Then the bottom fell out of the credit markets in August, triggered by rising defaults of subprime residential mortgages and extending to other sectors including commercial real estate. The fourth quarter brought more questions than answers as the credit markets continued to struggle and the specter of a recession beginning in 2008 prompted retailers to offer discounts early and often. Job creation decelerated for a third consecutive year, averaging 125,000 net new payroll jobs per month through October compared with 189,000 per month in 2006.

The **office** vacancy rate fell at a moderate pace through the first half of 2007 before leveling out in the second half of the year at 13.0 percent. Class A asking rental rates increased briskly in many markets with New York, Boston, San Francisco, Seattle, Austin and Houston recording annual gains above 20 percent. Strong tenant demand for space supported these increases, but two other trends magnified the gains. In hot construction markets such as Phoenix, developers charged premium rates for new space, raising the market-wide averages. And in hot investment markets such as Boston and San Francisco, investors who paid aggressive prices for properties boosted asking rents sharply in hopes of meeting

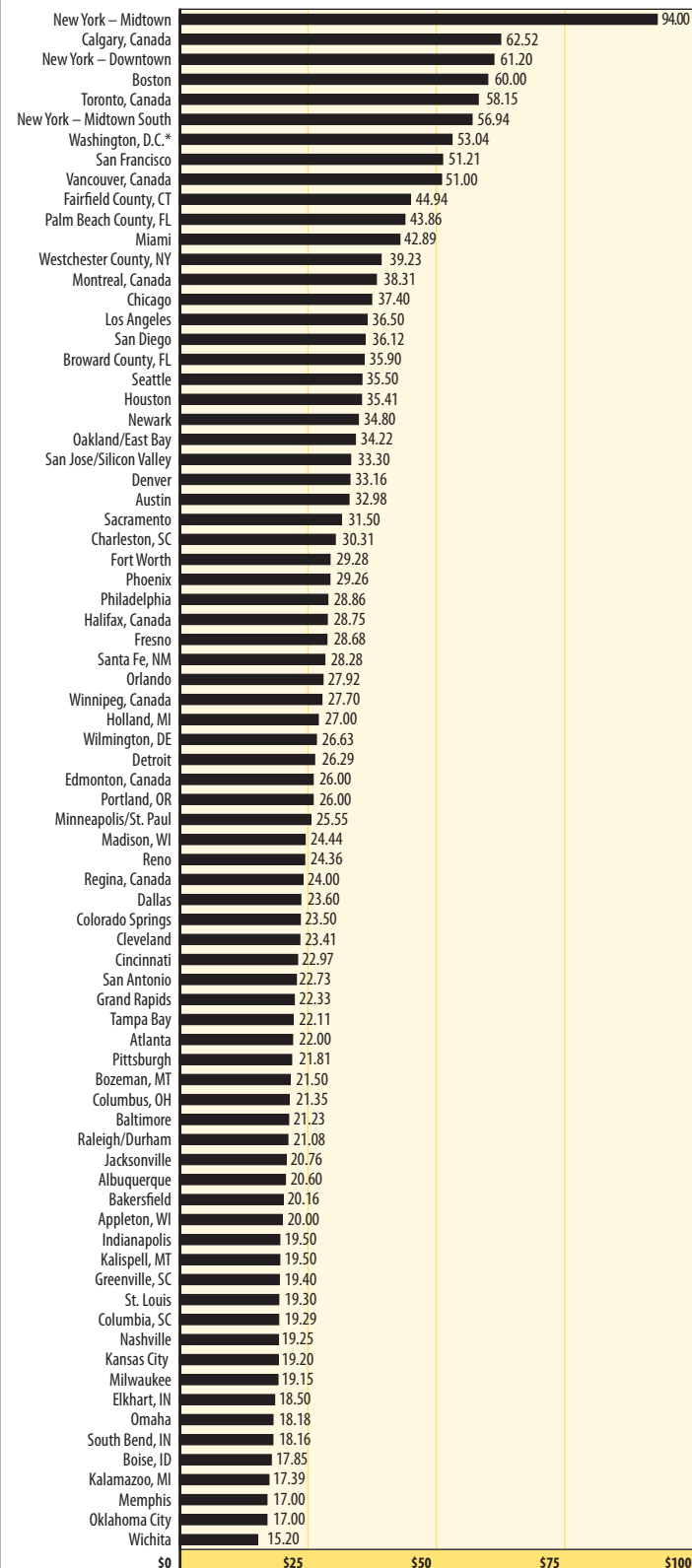
their pro formas – a.k.a. the “Blackstone Effect,” referring to Blackstone’s blockbuster \$39 billion acquisition of Equity Office Properties and the subsequent flipping of many of those assets at even richer prices.

The **industrial** vacancy rate changed little through 2007, a sign of market equilibrium. High-velocity construction pipelines were met with surging demand for space, particularly around seaports and inland distribution hubs such as Los Angeles and the Inland Empire, Dallas/Fort Worth and Houston, Atlanta, Chicago and eastern Pennsylvania. Massive amounts of new warehouse construction in some of the major markets kept a lid on rental rate increases, while a handful of smaller markets driven more by local dynamics saw the greatest rent gains in 2007 – including Austin, Las Vegas and San Jose.

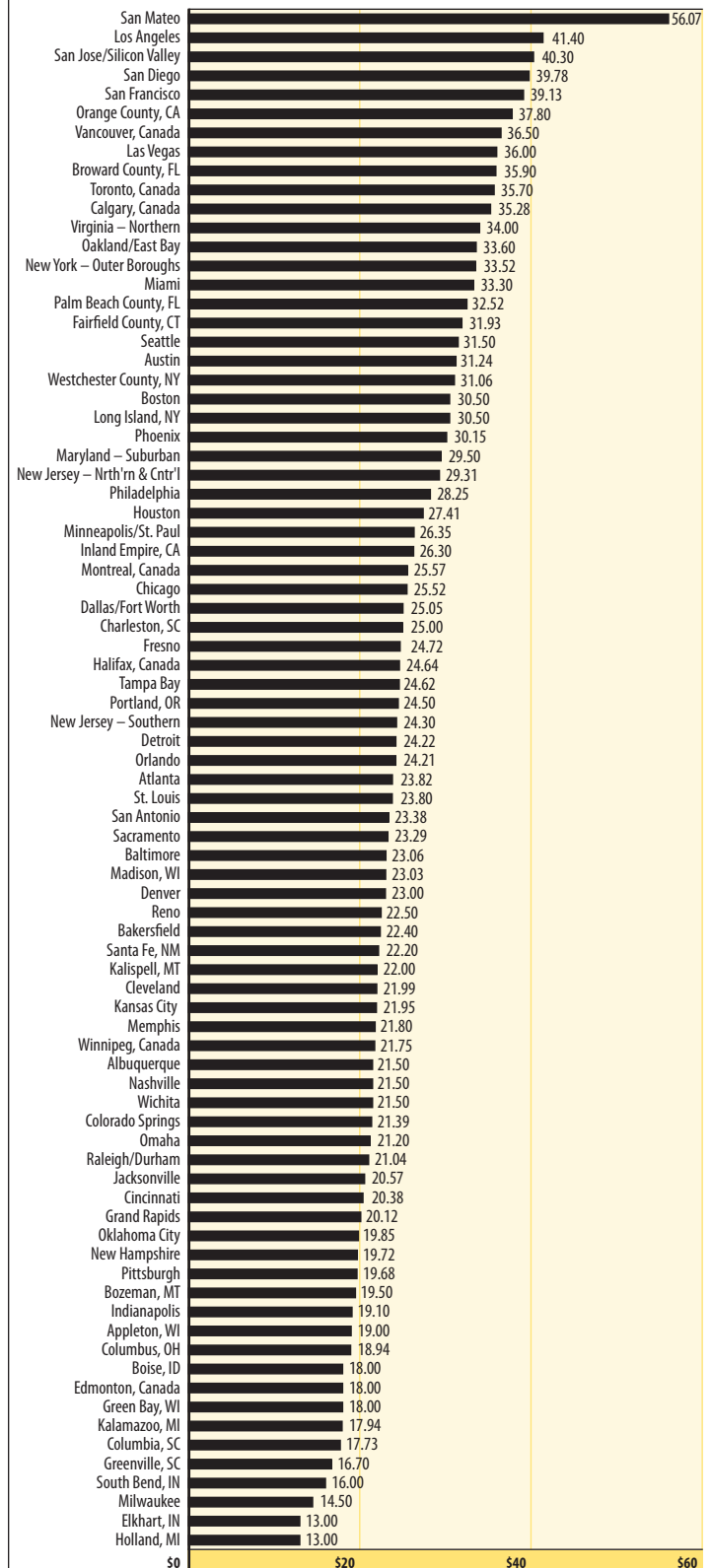
Consumers finally grew more conservative in 2007 as the housing slump turned nasty and the credit markets seized up. The average vacancy rate for neighborhood and community **retail** centers rose steadily through the second half of 2006 and 2007, but leasing velocity remained brisk, particularly in the first half of the year. Retailers targeting wealthy consumers fared better than those targeting the working and middle classes.

Multi housing was the only property type to benefit from the housing slump because more households chose or were forced to rent. Some markets and submarkets that were overbuilt with condos or experienced high levels of foreclosures began to see an increase in “shadow” supply.

CBD Class A Office Rental Rates, North America Year-End 2007



Suburban Class A Office Rental Rates, North America Year-End 2007



*District of Columbia

Rental rate data refer to average asking rental rates for Class A space that is available on the market at the end of 2007. Rates are per square foot, quoted on an annual, full service gross basis. Canadian data are courtesy of Avison Young. Canadian rental rates are in U.S. dollars using the exchange rate of \$1 Canadian = \$1 U.S.

National Overview

continued

Hospitality properties enjoyed a very good year thanks to growing business travel and convention activity. Tourism was strong, including international travelers lured to the U.S. in search of bargains owing to the weak dollar.

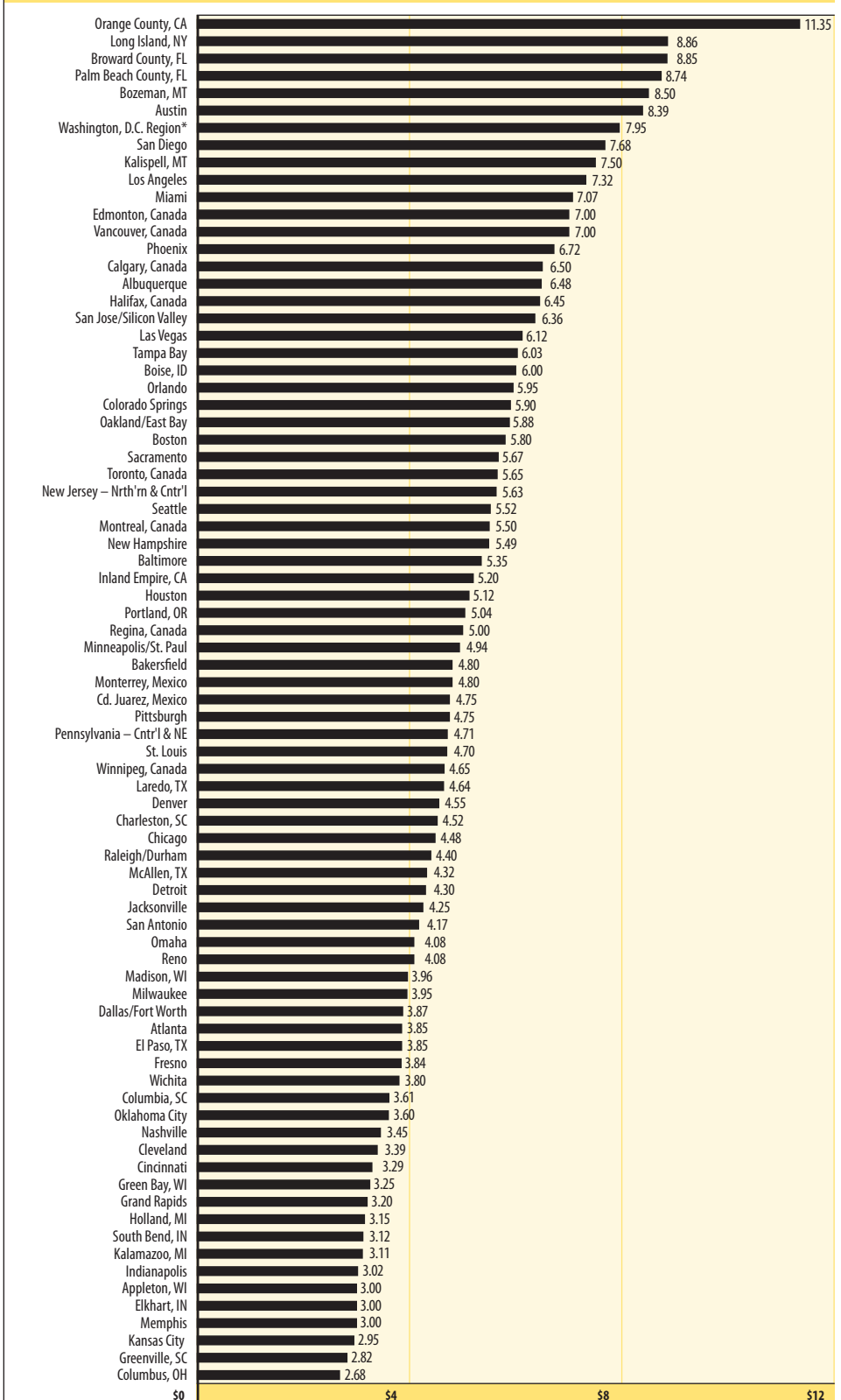
Investment capital flowing into commercial real estate through the first three quarters of 2007 exceeded the annual total for 2006, which was itself a record. But the turmoil that struck the global credit markets in the fall impacted real estate deal volume and pricing as the issuance of CMBS (commercial mortgage backed securities) slowed to a trickle and portfolio lenders grew more risk-averse. A gap opened between buyers expecting significant discounts and sellers clinging to pre-August pricing levels.

2008: On the Razor's Edge

There is a 40 to 50 percent probability that a recession will commence in 2008. Even in the absence of a recession, gross domestic product is likely to expand at a sluggish pace. Monthly payroll job growth is expected to average less than 100,000 in 2008, quite modest but enough to keep a floor under demand for commercial real estate.

At that rate of job growth, the **office** market could absorb 36 million square feet, a cut of nearly half from 2007. With completions of 55 million square feet, 22 percent above 2007, office vacancy is expected to end 2008 at 13.2 percent, up a slim 20 basis points over the course of the year. The forecast for mostly stable market conditions would be compatible with Class A asking rent increases of 3 percent for CBD space and 2 percent for suburban space, a sharp decline from the latest year-over-year readings of 19 percent and 9 percent, respectively. **Greatest risk:** A repeat of the corporate downsizings that followed the 2001 recession.

Metro Warehouse/Distribution Rental Rates
Year-End 2007



*District of Columbia, Northern Virginia, Suburban Maryland

Rental rate data refer to average asking rental rates for warehouse/distribution space that is available on the market at the end of 2007. Rates are per square foot, quoted on an annual, triple-net basis. Canadian data are courtesy of Avison Young. Canadian rental rates are in U.S. dollars using the exchange rate of \$1 Canadian = \$1 U.S.

While the office market began to show a few cracks in the second half of 2007, **industrial** seems none the worse for wear. The possibility of slower retail sales growth and weaker imports due to the falling dollar could weigh on demand for distribution space. On the other hand, the weak dollar is supporting demand for manufacturing space, while the expanding tech sector is boosting demand for R&D/flex space. Expect the market to remain largely in balance over the next few quarters. **Greatest risk:** The global economy, which boomed in 2007, slows in a delayed reaction to the weakening U.S. economy.

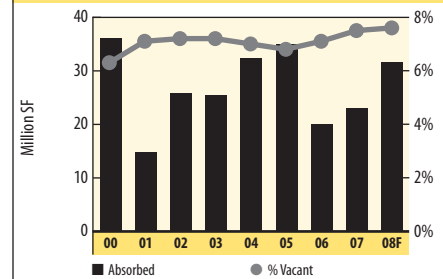
Demand for **retail** space is in the crosshairs of the macro-forces weighing down the U.S. economy, namely peak energy prices, high levels of household debt and the sinking housing market. Expect consumer spending growth to decelerate modestly due to a combination of more conservative spending on the part of consumers and more conservative consumer lending on the part of financial institutions. Stronger retailers will use the opportunity to grab market share from their weaker competitors through selective expansion and repositioning. **Greatest risk:** A rise in unemployment. With housing in the tank, wage growth is the main pillar supporting retail sales.

The best outcome for **multi housing** is to have conditions remain as they were late in 2007: modest job creation and wage growth, high rates of foreclosures, and slumping house prices that make renting look like a wise decision. And that is the most plausible scenario for 2008. **Greatest risk:** A recession would cause younger renters to double up with a roommate or move back with parents.

The **hospitality** market will face stronger headwinds in 2008 as weakening corporate profits restrain business and convention travel. Slower job growth could crimp tourism as well. The weak dollar will be a net plus for the market, funneling tourists and business travelers to properties in big cities, resort destinations and markets near the Canadian border. **Greatest risk:** Demand chills just as the construction pipeline delivers a surge in new supply.

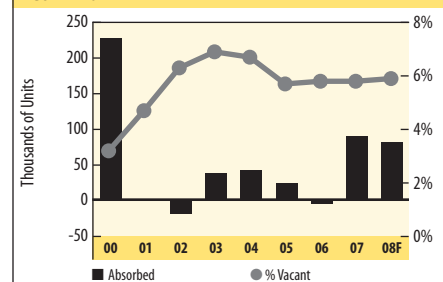
Expect buyers to return to the **investment** market in greater numbers. The new year will bring a new set of acquisition and disposition goals for investors, motivating buyers and sellers to close the expectations gap and meet somewhere in the middle. All-cash and low-leverage buyers including institutions, REITs and foreign investors will step up their purchases as the credit squeeze restrains high-leveraged private equity investors. Nonetheless, transaction volume is nearly certain to fall short of the 2007 record, perhaps by 25 percent. Capitalization rates are likely to increase up to 100 basis points with Class A properties in supply-constrained coastal markets anchoring the low end of that range and Class B and C properties in secondary and tertiary markets anchoring the high end. **Greatest risk:** The credit markets fail to regain their footing until well into the year, making lenders overly cautious and real estate investment and development deals harder to pencil out.

U.S. Retail Vacancy and Absorption Community and Neighborhood Centers, Year-End



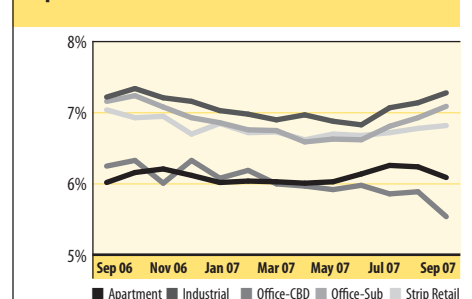
Source: Reis, Grubb & Ellis

U.S. Apartment Vacancy and Absorption Year-End



Source: Reis, Grubb & Ellis

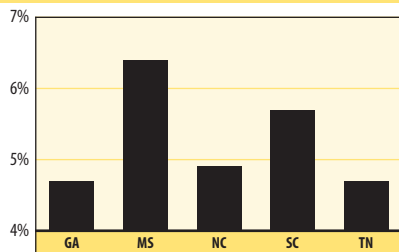
Capitalization Rates



Source: Real Capital Analytics, Grubb & Ellis

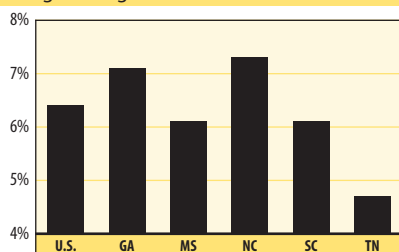
The Southeast region's economy is still performing despite the slowdown in the housing market and credit market crisis. Expect 2008 to be another positive year as employment and population growth will propel the region forward.

Unemployment Rate Seasonally Adjusted



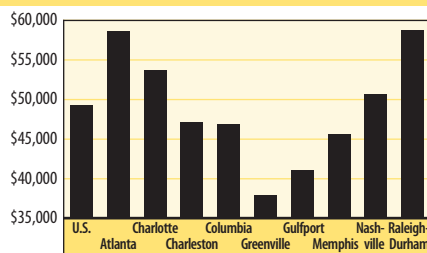
Source: U.S. Bureau of Labor Statistics

Personal Income Growth Percentage Change from Previous Year*



*Through second quarter 2007
Source: Bureau of Economic Analysis

Median Household Income 2007



Source: Claritas, Inc.

The Southeast's economy continued its positive momentum in 2007, but as in the rest of the country, concerns over the cooling housing market and credit crisis have constrained growth and led to fears of a recession. While the region will likely not see the gains it has in the past few years, economic conditions are still favorable.

Despite these concerns, unemployment rates in the Southeast have remained relatively steady, anywhere from approximately 3.5 percent in Nashville and Raleigh-Durham to nearly 5 percent in Memphis. Employment growth across the region peaked between mid-2006 and early 2007. However, employment growth has remained positive with Georgia showing the highest year-over-year change at 2.2 percent followed by Tennessee at 1.9 percent, South Carolina at 1.6 percent, North Carolina at 1.3 percent and Mississippi at 1.2 percent. In terms of personal income growth in 2007, four of the five states in the region rank in the top 25 in the nation; North Carolina (10th), Mississippi (13th), South Carolina (17th) and Tennessee (25th). Atlanta and the Research Triangle area of Raleigh-Durham have and will continue to see strong gains in population in the coming years. Atlanta, with its above average income coupled with a low cost of living is projected to exceed 7 million residents by 2020.

The office market in the region will see less leasing activity into the first part of 2008 as the fallout continues from the credit crisis, especially in markets where there is a heavy

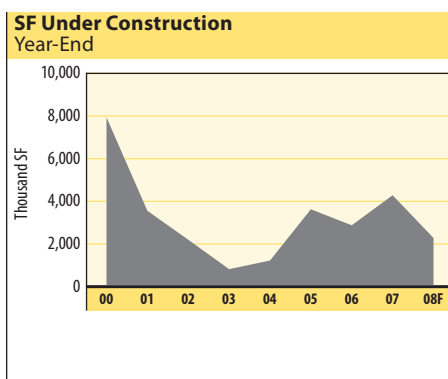
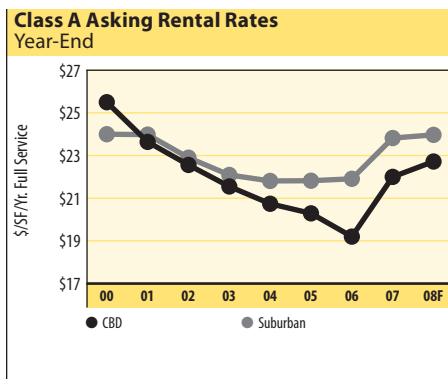
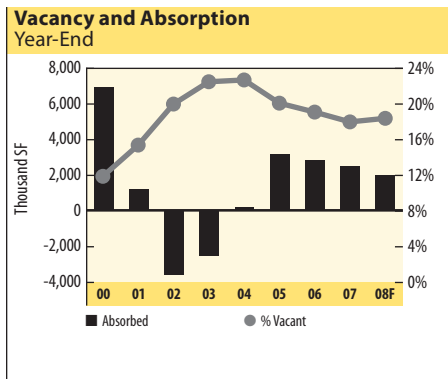
concentration of banking institutions, such as Charlotte. The construction pipeline will turn out significant new projects in some markets, specifically Atlanta and Columbia.

The Southeast's industrial sector remains strong. Memphis is home to FedEx and the world's largest cargo airport, Atlanta benefits from the Port of Savannah's ranking as the fourth-busiest port in the nation and Nashville is home to Nissan's largest North American manufacturing facility. Rental rates may rise as the region remains attractive to industrial users, especially as a distribution hub.

Strong population growth and positive employment and personal income growth should keep the retail sector headed in the right direction in 2008. Median household income exceeds the national average in Atlanta, Charlotte, Nashville and Raleigh-Durham, and it is on par in Charleston, Columbia and Memphis. As a whole, it appears the region can weather the housing downturn as long as the job market remains viable and people move to the region.

The region's business climate remains healthy. Sound infrastructure, positive population and employment trends, the low cost of living and high quality of life make the Southeast a prime target for employers who are expanding within the region or looking to expand into the region.

Opportunities abound in Atlanta office properties for both tenants and landlords to make financially favorable decisions.



Strong Population and Job Growth

Population and employment projections bode well for the Atlanta office market. The metro area's population is forecasted to grow to over 7 million by 2020 - the largest projected increase in the nation by the U.S. Census Bureau. Employment in Atlanta is expected to increase by 59,100 jobs in 2008 and 62,500 in 2009 according to the Economic Forecasting Center of Georgia State University.

Deliveries in 2008 and 2009

Delivery of new office buildings in 2008 will total approximately 2 million square feet including the 491,000-square-foot Sovereign and the 425,000-square-foot 3630 Peachtree, both in Buckhead. With another 2 million square feet projected to deliver in 2009 and rising construction costs, the construction pipeline is expected to stabilize thereafter.

Rising Rents and Operating Expenses

As more trophy office space comes online with rates in the high \$20s to low \$30s, expect landlords of existing buildings to reposition their assets and raise their rates, provided the economy is not in recession. Tenants in the market looking to relocate should carefully evaluate aggregate occupancy costs as operating expenses climb and concessions and tenant improvement allowances tighten. Class A tenants with 10-year leases expiring may essentially be paying rents equivalent to new trophy tower rents prompting relocation evaluations based on newer product with first-rate amenities versus rental rates. While rents are projected

to rise, Atlanta corporate tenants will maintain an economic edge given their substantially lower rental rates as compared to other major metropolitan markets.

Of main concern to landlords are the escalating costs of building operations, including property tax reassessments, rising construction costs and energy prices. Operating budgets will be scrutinized to identify opportunities to improve the bottom line such as employment of quality property managers and implementation of "green" technology and materials.

Infrastructure Challenges

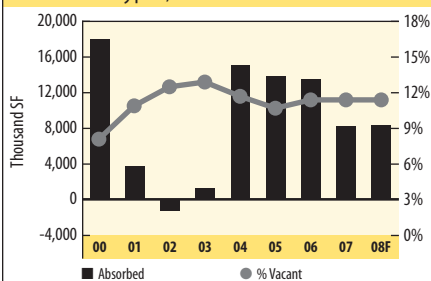
While Atlanta has a business climate poised for continued growth, the challenge lies in the metro area's infrastructure, particularly roadways and availability of water. Historically, Atlanta's road capacity has not kept up with the pace of population growth. The potential impact may adversely affect office leasing due to increasing numbers of tele-commuters and the desire for locations with proximity to mass transit. Landlords and tenants alike must take steps to help alleviate the extreme water deficit.

Atlanta Compares Well

The Atlanta office market will remain a market of opportunities. Corporate tenants have the luxury of available, quality space both in-town and in the suburbs, at rates that are relatively cost-effective. The Atlanta office market is one of the many reasons Georgia's business climate ranks second in the nation according to *Site Selection* magazine.

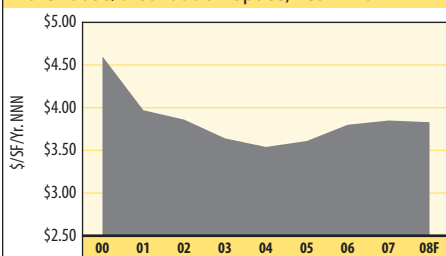
Coming off a year of marginal performance, the Atlanta industrial market shows positive signs with mega-distribution center leases.

Vacancy and Absorption
All Product Types, Year-End



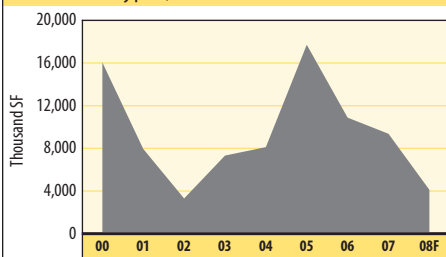
Source: CoStar Group, Inc., Grubb & Ellis

Asking Rental Rates
Warehouse/Distribution Space, Year-End



Source: CoStar Group, Inc., Grubb & Ellis

SF Under Construction
All Product Types, Year-End



Source: CoStar Group, Inc., Grubb & Ellis

Port Activity Up

Availability of real estate, a strategic transportation network and proximity to several East Coast ports are all factors that have established Atlanta as a major distribution hub. Projections of increasing import volume coming through the Eastern U.S. bode well for Atlanta's continued growth. Currently, as the second-busiest port on the East Coast and fourth-busiest in the nation, the Port of Savannah is well-positioned to benefit from congestion at West Coast ports. Inbound volume may raise demand so much as to necessitate development of a second port nearby, recently proposed as a joint Georgia/South Carolina port. While Atlanta benefits from its strategic location, the challenge of metro Atlanta's road congestion will only intensify. And, with gasoline at premium prices, some freight forwarders may transport only at non-peak times, resulting in slower speed to market of goods.

Mega-Distribution Centers Thrive

Overall, demand was lukewarm in 2007, however, several enormous distribution centers leased including: Sears Logistics (772,500 square feet) in Northeast Atlanta, the southeast regional locations for Dick's Sporting Goods (657,000 square feet), LG Electronics (612,000 square feet) and Clorox (515,000 square feet) in South Atlanta. Future large transactions include Whirlpool, which will build a 1.5 million-square-foot warehouse complex in South Atlanta by mid-2009, and Mizuno USA, which will occupy 301,320 square feet in the Northeast in early 2008. This big-box activity attests to the availability of

newer, readily available spaces in a market with economical lease terms.

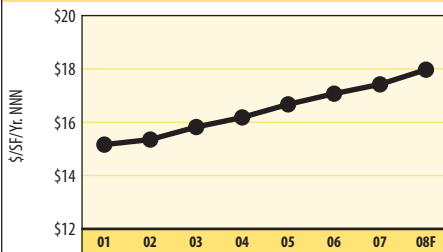
Sectors to Watch

Housing-related suppliers will have a major impact on the manufacturing sector in 2008. With the credit crunch, increasing construction prices and declining volume of building permits, expect suppliers of fixtures, furnishings and systems to stagnate and then contract. Manufacturing is a targeted emerging industry of Georgia and recent announcements of two major Chinese manufacturers are big wins that will aid in the state's credibility within the industry. Zhejiang Dongzheng Electrical Company's U.S. subsidiary, General Protecht U.S., will build a \$30 million facility on 200 acres in Barnesville. China's largest concrete-pumping equipment company, Sany Heavy Industry Co, Ltd., announced a plant in Peachtree City. The state also anticipates the opening of the Kia Motors plant in West Point with production to begin in 2009 of 300,000 vehicles a year.

Overall, the Atlanta industrial market is one of the largest but its vacancy is relatively high when compared to the primary markets across the country. This can be attributed to the glut of empty speculative space delivered to the market in 2006 and 2007. Some developers, such as Raco, Rooker, Duke and ProLogis, are still willing to take the risk and build large distribution centers, particularly in the Northeast, so vacancy is not expected to decrease much in the coming year.

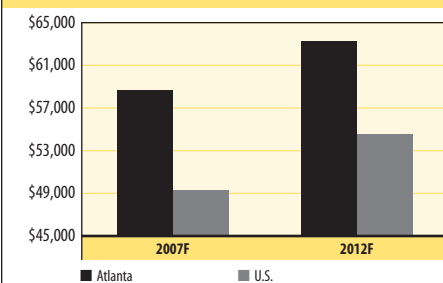
More mixed-use developments and high-end retailers to emerge in Atlanta.

Asking Rental Rates
Neighborhood & Community
Shopping Centers, Year-End



Source: REIS

Median Household Income



Source: Claritas, Inc.

Mixed-Use Development Dominates

Retail development will continue through the end of 2008 and into 2009 with mixed-use projects expected to deliver in many metro submarkets. Revenue increases and anticipation of a housing market rebound have prompted plans and new ground-breakings of mixed-use developments such as Town Brookhaven and Henry Marketplace. With rising oil stocks pushing \$100 per barrel and rising fuel prices, there is continued demand for pedestrian-friendly, live, work, play communities in the metro area such as 12th @ Midtown and power centers in outlying suburban areas convenient to offices and neighborhoods with a one-stop shopping concept. New developments that are underway are already preleased by big-box retailers such as Dick's Sporting Goods, Best Buy, TJ Maxx, Homegoods, Staples, Old Navy, Ulta, PETCO, Target, BJ's, Bed Bath & Beyond, Ross and Publix. Retail growth will remain strong with continued development of high-demand lifestyle communities and revitalization of existing shopping centers that will spur consistent lease activity by big-box and small-box retailers.

Spending Persists

Despite concerns over falling home prices, severe drought and rising energy costs, the national unemployment rate remains a very healthy 4.7 percent. Consumers are still spending, especially in the 18 to 35 age bracket. High-end and upper-middle retailers such as Ann Taylor, Chico's and Joseph A. Bank experienced a 6.2 to 15.4 percent increase in revenue from 2006, while middle to lower-level retailers such as The Gap, The Limited, Dillard's, Stein Mart, Target, Wal-Mart and Cato experienced losses and gains ranging from -5.0 to 6.4 percent. As the economy tightens, retail sales are not expected to decline, but rather shift. High-end retailers should remain unaffected by the market squeeze. Middle-level retailers may see revenue decreases while lower-level retailers may produce significant revenue gains into 2008.

Anticipated Buying Habits in Atlanta

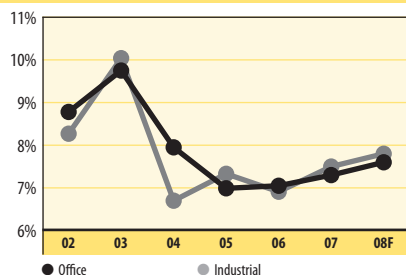
In the Atlanta area, expect to see a definite division in the buying habits of different income groups. Top-level earners will continue to purchase items such as clothing with an average price tag of \$600 to \$1,000 per item and feel little, if any, strain, while upper mid-range earners will feel some pinch but the effect will be small. Moderate to low income households will experience a minor to moderate reduction in their purchasing habits. A move of \$1 per gallon in fuel cost could increase overall individual family gas bills by \$1,000 per year, which is money that will not be spent on consumable goods. Short of a major event, the Atlanta retail sector will continue to thrive.

Key Suburban and Metro Shopping Center Developments 2007

Center Name	Location	Center Type	Size (SF)	Status
South Fulton Crossing	South Fulton Pkwy @ Hwy 92, Union City	Shopping Center/Power Center	938,321	Proposed
Dawson Marketplace	Dawson Forest Rd @ GA 400, Dawsonville	Shopping Center/Power Center	900,000	Proposed
Canton Marketplace	Cumming Hwy @ I-575, Canton	Shopping Center/Power Center	800,000	Proposed
Prospect Park	Old Milton Pkwy, Alpharetta	Shopping Center/Lifestyle Center	770,000	Proposed
SouthPoint	Hwy 20 @ Old Hwy 81, McDonough	Shopping Center/Lifestyle Center	570,000	Under Const.
Town Brookhaven	Peachtree Rd, Atlanta	Shopping Center/Lifestyle Center	550,000	Under Const.
Henry Marketplace	Mill Rd @ Jonesboro Rd, McDonough	Shopping Center/Power Center	500,000	Proposed
Barrow Crossing	GA Hwy 316 @ Hwy 81, Winder	Shopping Center/Regional Mall	500,000	Proposed
Suwanee Gateway	Lawrenceville Suwanee Rd @ I-85	Shopping Center/Power Center	350,000	Under Const.

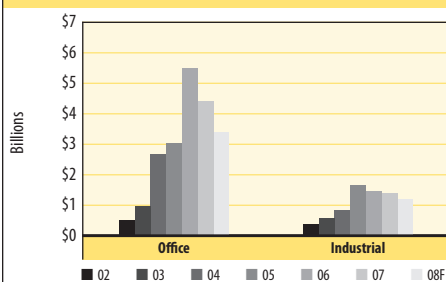
Atlanta's investment market will cool but will remain an attractive market to place capital.

Average Capitalization Rates



Source: Real Capital Analytics, Grubb & Ellis

Sales Volume



Source: Real Capital Analytics, Grubb & Ellis

Volume Cools

Sales volume of Atlanta commercial real estate assets was extremely robust in 2006 into the third quarter of 2007 when transaction volume began to slow - a trend that is expected to carry over into 2008. Transaction volume will trail 2007 until buyers and sellers see stability in debt markets, and their respective price expectations find common ground. Although the national investment market will be in a state of flux, the fact that Atlanta has strong population and employment projections as well as positive absorption in all product types, will position the local market well among major metropolitan areas.

Cap Rates Edge Up

Class A core investments will likely see no downward change in pricing - pricing may even trend up - whereas values for lesser assets will likely see some reversal of the cap rate compression that characterized the previous business cycle. Cap rates on suburban office properties may increase 25 to 50 basis points, particularly for opportunity plays. Cap rates on retail and multi-family may also require an additional 25 basis points to attract buyers.

Owners May Need to Hold

The repricing and tightening going on in the debt markets may affect investment strategies for buyers that acquired "value-add" deals in the last year or two. Higher cap rates, more costly and lower leverage loans could cause investors to hold on to assets longer than originally planned in an effort to wait out the market, hoping for more favorable conditions. However, it may be more likely that current credit markets will not soften significantly enough to cause cap rates to reverse to historic lows seen in 2007.

Less Frenzied Climate

In addition to the credit squeeze, rising construction costs (particularly for tenant improvements) and only moderate rent increases will cause buyers to be more conservative in their underwriting, which may dampen some of the bidding wars that had become commonplace in the investment arena. Categories of investors that will do well in the coming year are institutional investors who have allocated plenty of capital for real estate, and tenant-in-common (TIC) sponsors who now have fewer competitors. Overall there should be no shortage of equity capital to maintain market liquidity.

2008 Remains Positive

Fundamentally, Atlanta will continue to be a solid investment market supported by above average population and job growth and a reasonable supply of new space coming online.

Select Investment Transactions 2007

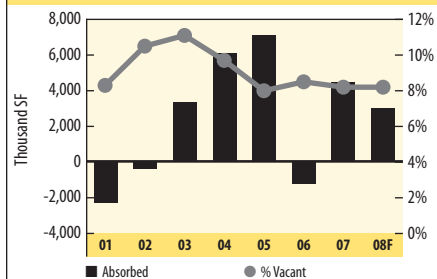
Building	Type	Size (SF)	Sale Price (Millions)	\$/SF	Buyer	Seller
Eleven Hundred Peachtree	Class A Office	581,333	\$153.8	\$265	Manulife Financial	CSL Twelfth Street Associates
Campanile	Class A Office	439,388	\$97.5	\$222	Transwestern	AT&T
Palisades (4 bldgs)	Class B Office	553,370	\$95.1	\$172	Shorenstein	Tishman Speyer
Riverview	Distribution Center	265,200	\$11.3	\$43	Weingarten	Republic Property
Overmyer Way (4 bldgs)	Distribution Center	241,000	\$9.5	\$39	Columbus Nova	Southeast Management
125 Westlake	Distribution Center	154,464	\$7.6	\$49	Weingarten	McDonald Development

Atlanta

Multi Housing and Land

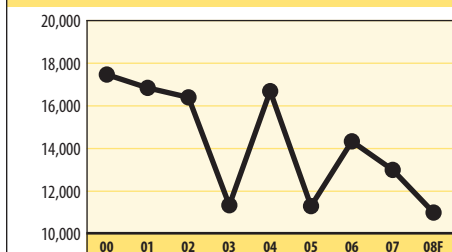
The construction pipeline of high-rise condominiums and sales of available land are expected to slow in the coming year.

Multi Housing Vacancy and Absorption
Year-End



Source: Reis

Multi Housing Units Authorized by Building Permits
Atlanta MSA



Source: Selig Center for Economic Growth of UGA, Grubb & Ellis Research
Based on U.S. Census Bureau

Multi Housing

Atlanta's tremendous population projections (7 million by 2020) and the shift in lifestyle preferences of baby boomers, prompted significant construction starts in 2007 of in-town Atlanta condominiums. According to Haddow & Company, the supply of condos in Atlanta should meet demand for another 31 months. This projection, coupled with the trend of investors fleeing the market and an increase of condo defaults, has led to a slowing construction pipeline.

While Atlanta had seen an increasing number of apartment to condominium conversions, some condo developers have reversed their plans, in light of the credit squeeze and local market conditions, and will develop apartments.

A growing trend in the condominium market is developers of new high-end towers offering luxury services to residents that save time, such as auto detailing, pet services and other concierge perks. Target buyers of new construction are primarily retirees and move-up professionals who can afford these services. Pricing of new construction in-town is unaffordable to most first-time buyers, forcing them to

refocus their search to resale opportunities in-town.

While the housing market is underperforming, Atlanta's above-average household incomes and low cost of living will continue to attract new residents and help cushion the blow of increased inventories and a credit-restricted environment.

Land

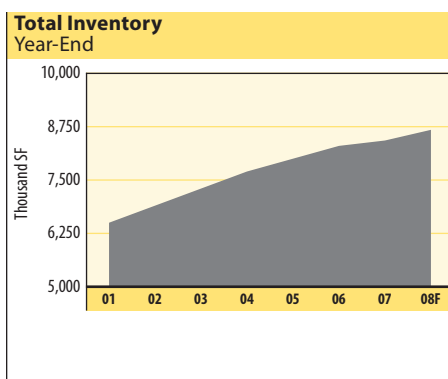
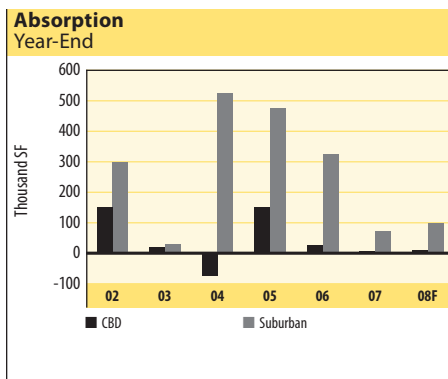
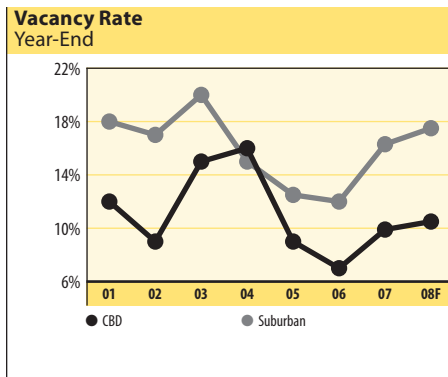
For roughly 15 years, Atlanta's land market has seen solid activity, however, the market has slowed due to the national economy and local factors. The number of active land buyers is declining and those that are active are speculative buyers capitalizing on discounted prices. Many banks are placing lots held for development on the market at nominal prices. The land acquisition efforts of large residential builders have essentially halted.

The statewide drought will certainly affect the land market in the coming year. With concerns about water supplies, an increasing number of counties may turn to restrictions for new rezoning requests or building permits. In addition, benefits would be gained by implementing or encouraging development policies in favor of sewer systems. Approximately 25 percent of all households in the 16-county metro Atlanta area are served by septic tanks, which are inferior stewards of water compared to sewer systems. Local governments face the challenge of regulating water while at the same time not suppressing development, which is a key driver of overall economic growth.

Select High-Rise Condominium Developments
2007

Property Name	Submarket	Units	Price Range	Developers	Delivery Date
Mansion on Peachtree	Buckhead	42	\$2.4 million to \$12 million	Holder Construction Co.	2008
Sovereign	Buckhead	82	\$1.2 million and up	Regent Partners	2008
1010 Midtown	Midtown	426	\$251,000 to \$1.6 million	Daniel Corp./Selig Enterprises	2008
Luxe	Midtown	117	\$350,000 to \$2 million	Paces Properties	2008
ViewPoint (Phase I)	Midtown	385	\$210,000 to \$480,000	Novare Group	2008
Trump Towers	Midtown	570	\$400,000 to over \$1 million	Wood Partners/Trump	2009

A decrease in net absorption will result in a moderate increase in vacancy in suburban markets. Meanwhile, the central business district maintains single-digit vacancy.



Vacancies Will Rise

In 2007, the Charleston office market saw a decrease in net absorption compared to prior years, as business expansion slowed in the wake of the ongoing housing slowdown. This was most noticeable in the suburban markets, which experienced moderate increases in vacancy rates. Compounding this, industries directly affected by the housing market drove up inventory by adding sublease spaces to the market. Among the suburban markets vacancy is expected to moderate between 15 and 20 percent as absorption more closely matches growing demand in 2008.

Hot Spot – North Charleston

Several large speculative office projects are underway in the area’s biggest submarket, North Charleston, as developers here remain bullish about long-term prospects. However, because of the large influx of new buildings in North Charleston in recent years, pricing among the newcomers has become aggressive in an effort to capture market share. While there has not been a decrease in lease rates among the existing Class A properties, concessions are likely to increase in the coming year.

Defense A Growing Sector

One sector that is producing a broader tenant base is government and defense-related industries, which are fueling growth among flex and light industrial office properties. Scientific Research Corporation, a communications solution provider for the U.S. Military, recently expanded its operation

to a 65,000-square-foot space in the new Remount Business Park. The ongoing conflicts abroad are expected to drive demand for this type of user in 2008.

CBD Redevelopments

The central business district remains the bright spot among Charleston submarkets. Continued redevelopment of former office properties to high-end residential has lowered inventory. The result has been a 9.9 percent vacancy in 2007 and rising lease rates. Several larger projects are on the horizon for the CBD as developers take advantage of reduced inventory and await rents that will support new construction.

Land Sales to Slow

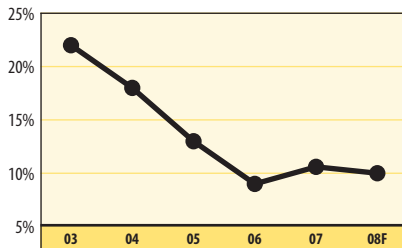
Slowing development has also affected commercial land sales, which cooled during 2007. Lower demand, increasing building costs and volatile interest rates have given prospective buyers and developers reason for pause. This will continue until absorption and demand start an upward climb. The result will likely be a leveling of land prices for the coming year.

Class B Opportunities

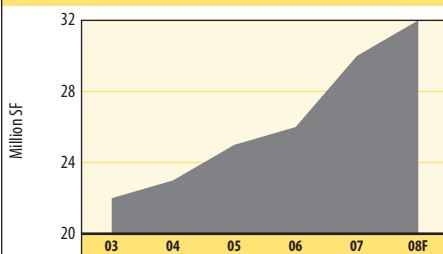
Owners and buyers of Class B office properties will see an opportunity to add significant value with upgrades. If purchased below replacement cost, savvy buyers can redevelop and capitalize on the low inventory in economical office choices, as owners of newer buildings cannot compete due to the recent spike in land and construction costs.

Spurred on by Port expansion plans, a wave of speculative development of Class A product will hit the market in the next several years. Rental rates for new warehouse/distribution hit a new high in 2007 and should stabilize in 2008.

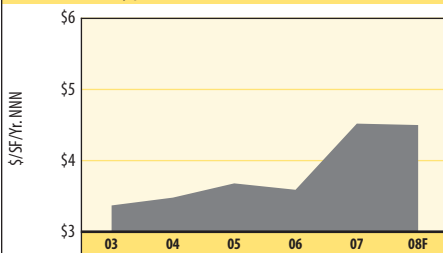
Vacancy Rate
All Product Types, Year-End



Total Inventory
Year-End



Asking Rates
All Product Types, Year-End



The Market Makeup

The Charleston industrial market has shown a tremendous amount of strength and promise in 2007. Charleston is a port-driven market, with approximately 30 million square feet of inventory. The product mix is comprised of heavy manufacturing facilities located primarily in Bushy Park, big-box distribution facilities of greater than 100,000 square feet, local distribution facilities, which range between 25,000 to 99,000 square feet, and flex space, or projects ranging from 10,000 to 24,999 square feet.

Vacancy Will Stabilize

2007 saw vacancy rates inch up as significant new construction was delivered to the market. Demand was slow in the beginning of 2007 resulting from a number of factors including; the turmoil in the credit market, skyrocketing fuel costs and the fact that many companies had completed expansions within the previous 18 months and they space needs were met for the short term. Activity has picked up in the market and is expected to return to traditional levels in 2008, stabilizing vacancy.

Buyers Abound

While overall deal velocity was off the pace set in 2006, especially in the leasing market, the appetite for purchasing existing product remains high. Users looking to be owners faced a tough challenge of finding any product for sale as buyers far outnumbered sellers in the market.

Port Expansion Inspires Confidence

Confidence in the latest planned Port expansion has generated attention from national industrial developers. Dallas-based Hill-

wood Development, New York-based The Rockefeller Group and Charlotte-based Childress Klien Properties, are three prime examples of this trend. These three groups have a combined total of 1,280 acres of land under contract. They have laid out plans to deliver up to 13 million square feet of new Class A distribution space over the next six to 10 years. These groups each plan to deliver over one million square feet of speculative product over the next 18 months. Market-wide, the forecast is for an estimated 2 million square feet of new speculative construction to deliver in the next 12 to 18 months.

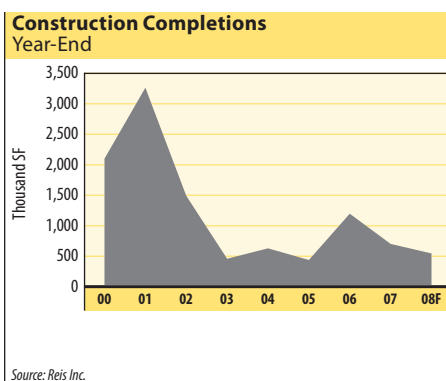
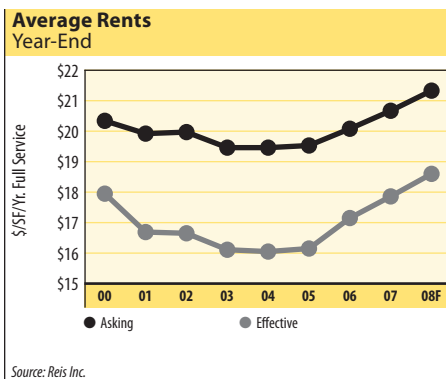
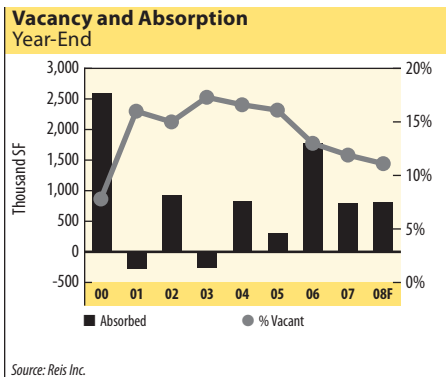
Construction Costs Push Up Rents

Increased land and construction costs have driven rental rates to a new market high of \$4.50 per square foot NNN for distribution centers. A shortage of supply has forced tenants to pay in order to secure the space they wanted. With the increasing inventory being delivered to the market in 2008, rental rates will plateau as owners compete for tenants in new product.

Outlook Positive

Barring a nationwide economic recession the outlook for the Charleston industrial market remains very positive for 2008. Tenants should have a good inventory of space to choose from, demand will remain stable and landlords will enjoy the elevated rental rates set in 2007.

A new development cycle will add several million square feet to the market, the lion's share of which will deliver in 2009. Meanwhile, demand is strong and tightness prevails.



Absorption has been running ahead of new supply causing low to minimal vacancy levels in chief submarkets, including Uptown (Charlotte's CBD) and SouthPark, making Charlotte an exceedingly strong market for landlords. It is now becoming one for developers, too, as new speculative projects spring up to meet the strong, abiding demand. In the Uptown market, Spectrum Properties has commenced work on 320,000 square feet of office space as part of its 32-story mixed-use tower at 300 S. Tryon Street. Completion is expected in late 2009. At 400 S. Tryon, a block away, Childress Klein is developing the 750,000-square-foot Wachovia Corporate Center, scheduled to deliver at about the same time. Indeed, according to a recent report in *Charlotte Business Journal*, a "boom" along a six-block stretch of S. Tryon Street plays host to more than \$2 billion of development of various types. Other substantial projects are planned and proposed for Trade and Stonewell streets not far away.

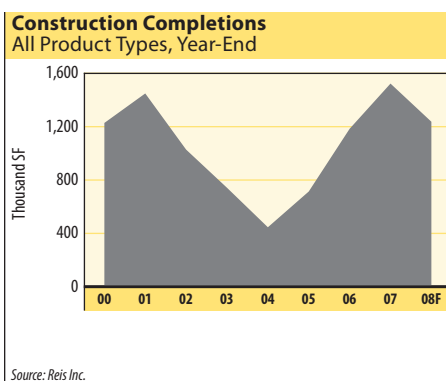
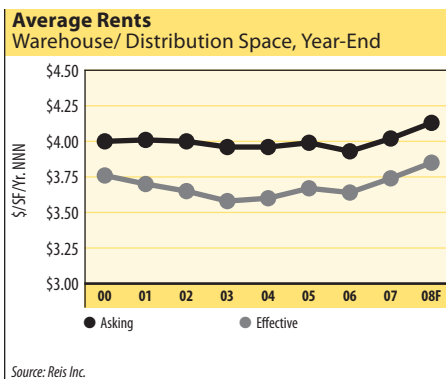
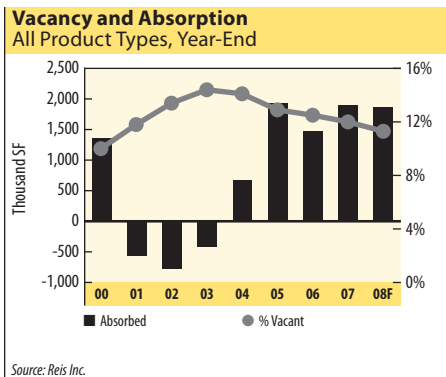
In the upscale SouthPark area a few miles to the south, where space and developable land are at a premium (vacancy below 3 percent is reported), Crescent Resources has submitted a rezoning request to allow the development of a 250,000-square-foot office building. In the meantime, suburban Class A space elsewhere in metro Charlotte should continue to attract the lion's share of demand. And other suburban locales are attracting new development as well. Accordingly, projects now are underway in the Highway 51 corridor in the south and along the I-77 corridor in the south-

west. Across the state line in Fort Mill, SC, also in the southwest, tax incentives have enhanced the attractiveness of development.

To the favorable dynamics of supply and demand can be added favorable rent trends, particularly in the Uptown submarket, where rates above \$30 per square foot are indicated. Averages ranging from \$23.00 to \$24.50 are expected for Uptown and SouthPark. While the well-publicized changes in the nation's capital markets are expected to affect investment activity everywhere, Charlotte has recorded some impressive numbers in the recent term. Over a nine-day span in October, investors spent in excess of \$219 million on SouthPark properties, according to *the Business Journal*. Included was the "record-breaking" \$171 million acquisition by Principal Financial Group of the office and retail components of Piedmont Town Center. The two office towers totaling 418,000 square feet, which sold at \$319 per square foot.

The new development cycle now underway will serve the strong pent-up demand that has accumulated in the Uptown market and elsewhere. With several million square feet expected to deliver over the next couple of years, it also is altering the dynamics of supply and demand as developers seek to fill their new projects. Favorable preleasing is indicated to date for the space underway.

Demand continues to exceed large volumes of new supply as vacancy heads down and rents show significant gains. Development should remain active, expanding to new areas in search of land.



The Charlotte industrial market continues to gather steam. The more than 1.5 million square feet of multi-tenant non-manufacturing space delivered in 2007 brought to a peak the trend of year-over-year increases in construction underway since 2004. Net absorption, running ahead of same-year completions since then, will do so again in 2008.

While the vacancy level is not truly low, the supply of quality space in favored locations is limited. So, too, is the supply developable land. Developers and tenants, accordingly, have been looking increasingly at building or buying in areas farther from the core. In Lincoln County in the far north, for example, Keith Corporation began site work in September for the fifth speculative building in its Lincoln County Industrial Park. A sixth has been approved. "Prospect activity is strong," noted a company executive to *Charlotte Business Journal*. "[O]ur largest spec building to date was recently leased to GE Security."

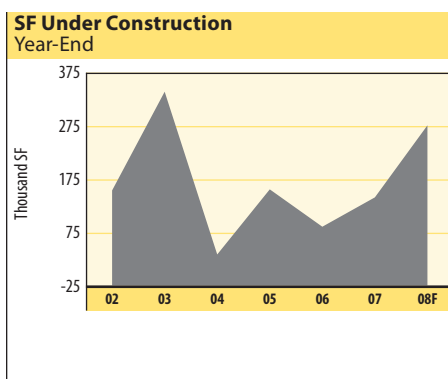
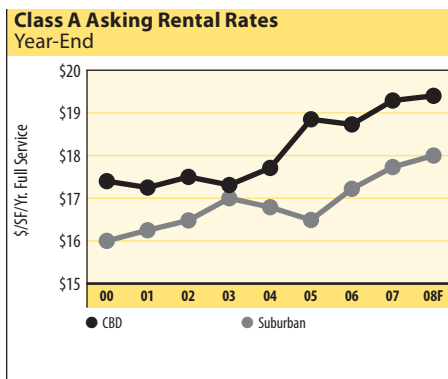
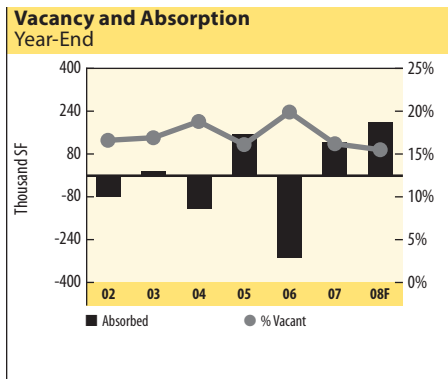
Major projects underway elsewhere include Verus Partners' 105-acre, 1.2 million-square-foot speculative Beltway Business Park off I-485 in the metro southwest, the principal area for development due, in part, to proximity to the airport. The company plans to market buildings here for purchase or lease; land is available for sale as well. Another Verus project delivered off I-485 in southwest suburban Pineville, the 168,000-square-foot speculative Gateway Distribution

Center. Other major developers active in the region include ING Clarion, Lord Baltimore, Beacon Partners and Trinity Partners.

The chief trend in development, meanwhile, features large speculative warehouse projects. While active development of such space in the southwest could push-up vacancy over the short term, the longer-term trend should be a decline in vacancy. Meanwhile, 2007 was the best year for industrial rent growth in a long while; continued improvement is expected. As reported by *the Business Journal*, Lincoln Economic Development Association notes that 85 percent of the prospects scouting the Charlotte area are looking for existing space "to save time in getting their operations started." User sales activity, meanwhile, remains strong for all types of industrial product, despite the credit crackdown. Beacon Partners, for example, has had good success in the recent sale of speculative warehouse buildings at its InnerLoop Business Park in north Charlotte.

Barring an unforeseen turn, this market bears all the marks of ongoing success. Demand, riding on the back of a healthy economy, should remain strong: absorption should maintain its advantage over same-term new supply for the foreseeable period. The search for affordable land, should lead developers increasingly to the South Carolina portion of the metro area (in the southwest). Tax incentives available across the state line enhance the attractiveness of building in that area.

Limited new supply has given the Columbia office market a chance to work through inventory, pushing down vacancy rates and giving rents a slight boost. Developers have begun to ramp up construction for 2008 and beyond.



Limited Supply Helps Market Stabilize

Speculative development was minimal in 2007 as the only significant building added to the inventory of multi-tenant space was the LEED-certified building at 1523 Huger Street. This lack of new product has allowed existing buildings to show improvements in both their vacancy rates and asking rental rates. The Columbia office market saw solid absorption, pushing down vacancy rates to close the year at 16 percent. Average asking rents increased 3 percent to end the year at \$18.88 for Class A product.

New Development On Drawing Board

Market improvements have given developers confidence to announce new projects that will be coming online between 2008 and 2010. Currently, two projects are under construction and will deliver 178,000 square feet in 2008 and other projects have been announced that will bring an additional 421,000 square feet of Class A office space online by 2010.

While these new projects will create opportunities for tenants in the market to upgrade their spaces, they will likely take some tenants from existing Class A and B buildings. The timing will be tough for owners of these properties as they are already bracing for the addition of over 450,000 square feet of Class B space that SCANA will be putting back on the market in downtown in 2009.

Call Centers Thrive

Columbia remains attractive to users looking for data and call center space. This has been driven by Columbia's location, availability of labor, quality of life, and low cost of living. In

2007, Staples moved into 85,000 square feet in Northeast Columbia, Saber Corporation moved into 39,000 square feet in the St. Andrews submarket, and Performance Food Products opened a 100-employee backoffice operation in West Columbia. Each of these tenants moved their operations from outside of the area.

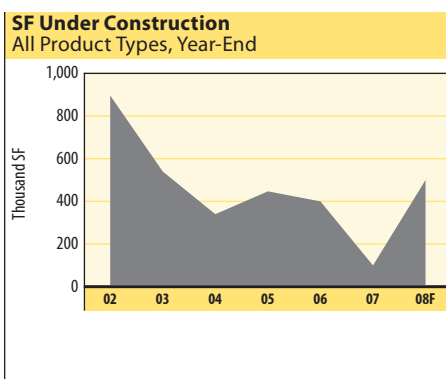
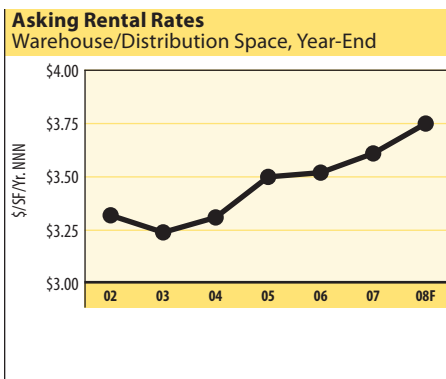
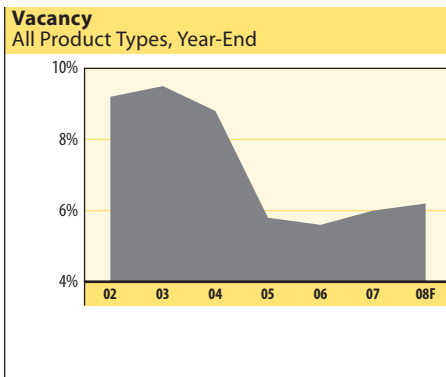
Strong Investment Activity

Like most cities around the country, 2007 was a record-setting year for Columbia office investments. Nearly 2.4 million square feet, or 21 percent of the entire office market, is being offered for sale. Office investors can achieve higher returns in Columbia as compared to many other larger markets, making Columbia extremely attractive to investors nationwide. While it is unlikely that this same volume of investment property will be on the market at the end of 2008, office investment is expected to remain healthy. The current credit crunch is a warning sign and may threaten the flow of capital into real estate in markets like Columbia.

Outlook Positive

2008 is expected to be another positive year for the office market. The work that Innovista is doing to attract tenants to their research campus from other markets, coupled with the reputation that Columbia has gained as a strong market, should contribute to stable demand in the coming year. Rental rates in Class B and C properties are expected to remain flat as tenants move within the market.

Columbia's industrial market enjoyed a solid year. Low vacancy and dramatic increase in rental rates should spur speculative development. Users will be challenged to find large blocks of space, particularly space available for sale.



Market to Expand

2007 saw moderate expansion in the Columbia industrial market attributable to smaller speculative developments and the expansion of existing tenants. Vacancy rates are hovering at 6.4 percent and are expected to remain in that area in 2008. However, 2008 will see the market progress to an expansion phase as some property types have reached critically low vacancy levels.

Rental Rates On the Upswing

Older, lower-priced space was absorbed during 2007 and new speculative space was delivered to the market, pushing up rental rates. Overall average rental rates rose 23 percent to \$4.33 per square foot in 2007. Most new construction has fallen into the category of general industrial space and as a result this sector has seen the largest rent increase of 31 percent, to an average of \$5.02.

The Water Issue

Columbia's transportation system is a huge draw for users of space. Manufacturers and distributors have been attracted to the Northeast submarket, particularly around Interstates 20 and 77. However, concerns over the water supply have developers delaying announcements of new projects in the area until the shortage has been addressed.

Submarket Roundup

Northwest Columbia, from St. Andrews Road into Irmo and Chapin, has seen rising demand for 5,000 to 15,000-square-foot spaces, particularly along Interstate 26. Because of the limited land supply, this

market is expected to remain tight. As rents in the submarket rise, expect more development in the area in 2008.

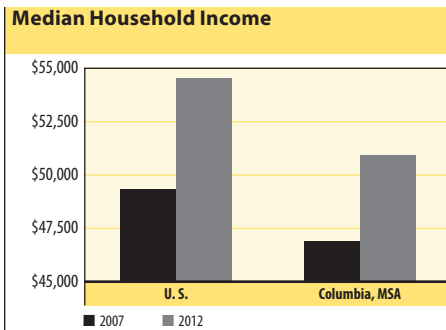
A lot of attention will be given to southern Lexington County in 2008. The location of the Saxe Gotha Industrial Park at Interstates 26 and 77, combined with incentives to new entrants to the market and an available, skilled workforce, make the area attractive to large users of space.

The largest impact on the Columbia industrial market will more than likely come from a development outside the market. Jafza International, a logistics company headquartered in Dubai, has purchased 1,300 acres in Orangeburg County and plans to build a logistics hub. While construction is not planned until 2009, its impact will likely be felt as more companies locate in the area to serve the facility.

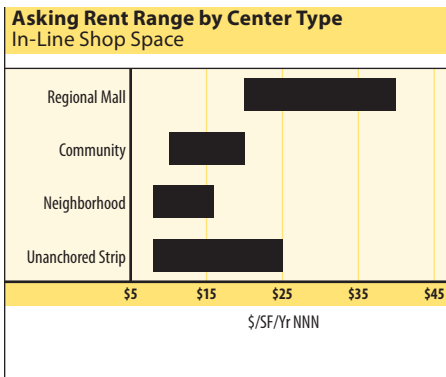
Opportunities in 2008

The Midlands economy should remain strong in 2008. There is an abundance of larger tenants searching for space, and many are implants from outside the Columbia market. Existing buildings are limited and in high demand with nearly zero vacancy in some submarkets. Increasing rents will make speculative development feasible and construction activity should pick up in 2008. Owners of existing buildings will be able to capitalize on rent increases, and new construction will offer tenants opportunities to move into higher quality buildings.

While 2006 brought record-breaking asking rents for new highend retail space, 2007 has seen more value retailers enter the market, driving up rental rates in second and third-generation spaces.



Source: Claritas, Inc.



Suburban Construction Moderates

While suburban retail development has slowed slightly, there has been some activity. Construction was completed on a new Belk's at the Village at Sandhills and condominiums and ground-floor retail space are underway in the Village. Hendon Properties announced plans to redevelop the Corley sawmill on Highway 378 in Lexington. Automobile dealerships have been active purchasing land in both Northeast Columbia around Killian Road and in West Columbia.

Urban Retail Prospers

Urban and infill retail in Columbia has remained strong, spurring developers to announce two new projects in Five Points as well as a 150,000-square-foot mixed-use development on a 3.85-acre parcel by the Congaree River in West Columbia.

Columbia welcomed new higher end tenants to the market including Ruth's Chris Steakhouse, three new Starbucks locations and a Coach store in Columbiana Centre Mall.

Retailers Expand

Wal-Mart made a big splash in the Columbia market in 2007 opening three new stores with one more under construction. Each development has an accompanying shadow center of just over 40,000 square feet. Land prices around these new projects have increased dramatically as has the development and redevelopment of retail space near the new centers. These projects were joined by the opening of a Target-anchored shopping center on Highway 378 in Lexington

as well as a new Kohl's store at Harbison Boulevard and St. Andrews Road. The Decker Boulevard corridor also received a boost in 2007 as Burlington Coat Factory and Steve and Barry's took over the former JC Penney space in Columbia Mall. A Bingo facility opened in the former Winn-Dixie space, and Fred's, a comedy club and CiCi's Pizza announced stores, all on Decker Boulevard.

2008 Outlook

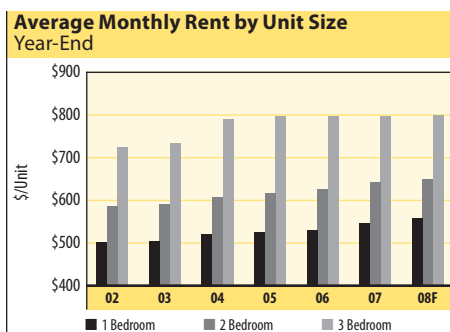
The retail market in 2008 could be more difficult to navigate than the dynamic market of 2007. Many retailers have pulled back expansion plans due to concerns over the possibility of a drop in consumer spending. This could cause problems for developers already facing tougher financing requirements resulting from a tightening credit market.

While retail vacancy rates are expected to remain low, the amount of speculative construction should decline. Rental rates are likely to rise in second and third-generation space; however, they should not increase as quickly at the high end of the market.

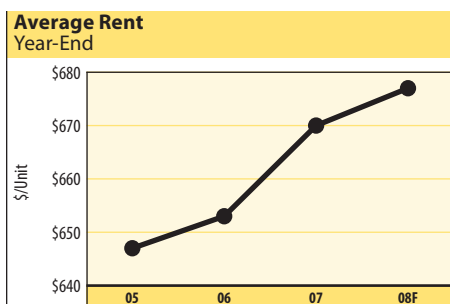
Tenant Opportunities

Opportunities in 2008 will exist for tenants willing to prelease space, allowing a developer to get a project off the ground. Tenants may also find opportunities to gain concessions from a landlord whose newer center has yet to be leased up. Owners of existing Class B and C properties will be able to attract tenants to their properties that may not be able to afford new construction.

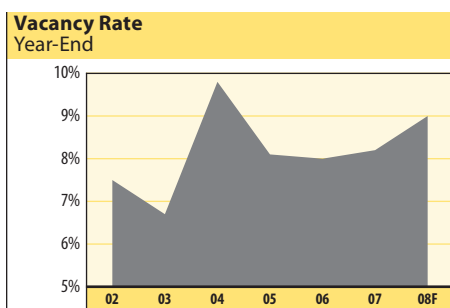
The Columbia multi housing market will face a true test of its resiliency in 2008. As 2007 comes to a close, many recently completed projects are in their initial lease-up phase.



Source: CMCOG



Source: CMCOG



Source: CMCOG

Units Hit the Market

Over 2,200 multi housing units were added to the market in 2007. Occupancy rates dropped slightly, now standing at 91.8 percent, and will likely drop similarly in 2008, to 91 percent, however, market fundamentals will remain strong. Average rents rose 2.6 percent in 2007 to \$670 per unit. With so many units being delivered, competition will increase, keeping rents flat.

The Northeast submarket added 1,044 units in 2007. Competition for renters along the I-20 corridor in the Northeast will be fierce. Opportunities exist to buy or build along the I-77 corridor, which has seen little new supply and is ripe for development.

The Lexington submarket saw 581 units delivered in mid to late 2007 and could see another project delivered in 2008. This market had been without a new project for years and then saw two delivered in succession.

The Northwest submarket saw no deliveries in 2007. The last meaningful project was in 2004 and lease-up went extremely well. High land costs, coupled with suppressed rents have made new development difficult. The submarket contains the Harbison/Irmo retail area, which has the largest concentration of retail development in Columbia and contains the Columbiana Mall. It also boasts excellent school systems and great access to I-26. Occupancy rates continue to be strong here and demand could support a project in the area.

The Southeast submarket has seen very limited growth in the last 10 years, but 304 units were delivered by Capstone in the form of Deer Meadow Village. This was an aggressive project for the area and other high-density projects are not expected as far out Garners Ferry Road.

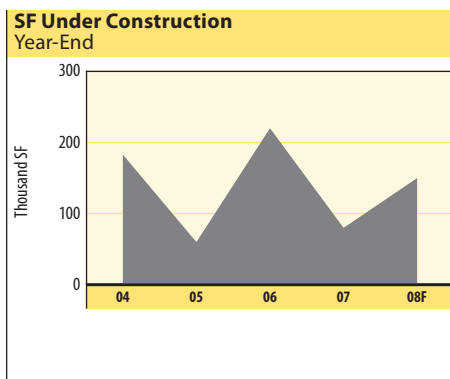
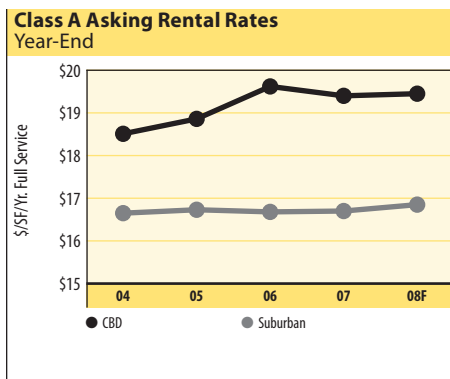
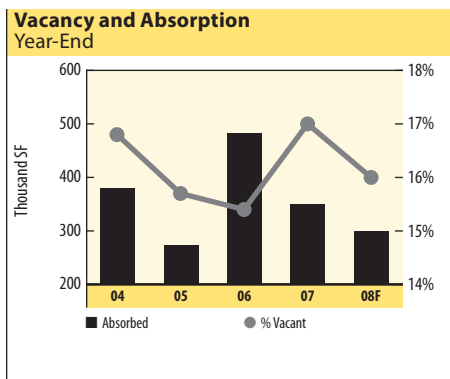
Student Housing Accelerates

The student housing phenomenon continues in downtown Columbia with new student housing being developed past Williams-Brice stadium, down Bluff Road, almost to I-77. Copper Beech Townhomes built 278 units for the fall 2007 school year which leased up well. Dinerstein plans to deliver 196 units in 2008 and there is a 388-unit project being given strong consideration that would not be delivered until the fall 2009 school year. As enrollment at the University of South Carolina continues to grow, developers will continue to push the envelope with new projects.

More To Come in 2008

Over 1,400 new units are expected in 2008. The Northeast will continue to see the bulk of the development, and any projects along the I-77 corridor should be well received. Because Columbia has typically struggled to attain rents that are acceptable to many multi housing developers, most developers choose Class B sites to make their project financially viable. Groups with the capital to purchase a Class A site will have an inherent advantage over many of their competitors in Columbia.

Engineering job growth has tightened vacancy and should push rents up, making new construction more feasible. However, the pressure on rates is being counterbalanced by looming vacancies and the overbuilt office condo market.



In what would have been a slow year in terms of activity in the Upstate office market, strong increases in the number of local engineering jobs has helped bring net absorption to about 350,000 square feet for 2007. Vacancy remained largely unchanged as market growth was offset by the completion of over 200,000 square feet of new office space.

Of the new construction, only one building was speculative. The seventh building at Independence Corporate Park delivered 80,000 square feet of space to the suburban market and was 97 percent occupied at the close of 2007. This, combined with the two buildings completed in downtown Greenville and downtown Spartanburg, which were 100 percent preleased, are indicative of market demand for new Class A space.

In need of office space for additional engineers, Fluor Corporation, General Electric, and Day & Zimmerman all reached deals accounting for half of the year's net absorption. While this growth is positive, the large quantities of space dedicated to just one field raises concerns about economic diversification and employee recruitment. In addition, Fluor's local expansions are largely tied to contracts awarded to build facilities in China, Texas and Arizona. Having a significant amount of office space dedicated to single construction projects creates uncertainty about the company's long-term needs.

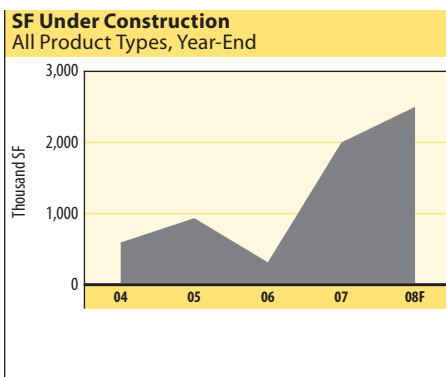
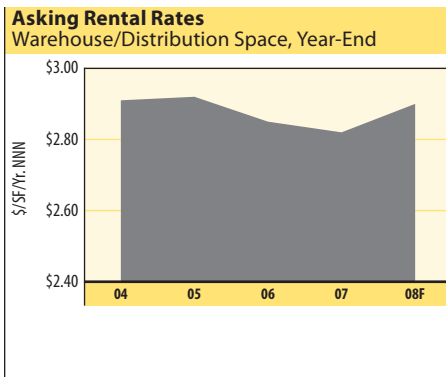
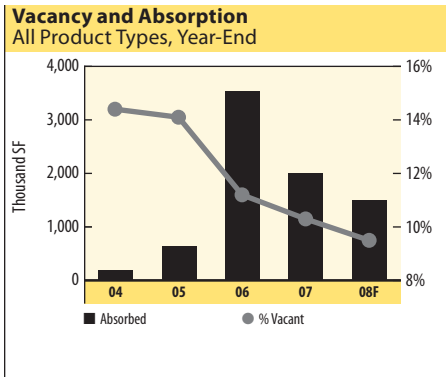
Class A properties in all submarkets enjoyed a strong year. Class A vacancy is half that of Class B properties, which are losing tenants to inexpensive Class A spaces and overbuilt office condos.

With over 1 million square feet, office condos have a significant impact on the market, specifically on the smaller spaces in Class B properties. While over 150,000 square feet of office condo space was absorbed in 2007, over 300,000 square feet of space remains on the market, indicating that office condos will impact absorption through 2009.

With only Johnson Development's 60,000-square-foot speculative building in downtown Spartanburg under construction, office development in 2008 is expected to be very low. Increasing construction costs, coupled with inexpensive lease rates, have made new development difficult. In addition, looming vacancies in downtown Greenville present a challenge for potential developers. The uncertainty surrounding the Bowater building after its merger with Abitibi-Consolidated and the pending movement of much of The South Financial Group's operations to its corporate campus in 2009, could put as much as 150,000 square feet of Class A space back on the market.

Absorption should moderate in 2008 as the market is not likely to see the same level of growth in the field of engineering. With no new construction, vacancy should drop and asking rates should rise. Looming vacancies in the Greenville CBD may hold best-in-market rates steady.

Investor interest in the market has increased as a result of over 5 million square feet of net absorption in the past two years. While it may be difficult to sustain this level of growth, a shift in warehouse demand may help.



Robust Demand

The Greenville industrial market has enjoyed strong demand for industrial space over the last two years, but the pace of growth is slowing. After absorbing over 3.5 million square feet in 2006, the market absorbed a little more than half of that in 2007. Demand in the market is still strong, but the supply of modern industrial facilities is diminishing, which may limit absorption.

Demand Fueled By Local Users

The expansion of the last two years has been fueled by growth in the warehouse and distribution sector. While this trend echoes a similar one experienced in most of the United States, the local dynamic is unique. Warehouse and distribution absorption in Greenville can largely be attributed to demand by local manufacturers needing spaces smaller than 100,000 square feet. The demand for these kinds of spaces has inspired some investors to convert large, single-tenant warehouses to multi-tenant distribution centers. The latest of which is Trinity Capital, which is dividing a 750,000-square-foot warehouse into as many as eight separate spaces.

Market Poised For Shift

The Greenville warehouse and distribution market may be on the verge of a shift. The market is well situated with access to one of the busiest eastern ports in Charleston and efficient local transportation infrastructure - two main components for major distribution facilities. Adidas recognized the viability of the Greenville market when they announced the construction of a major east coast facility

where it will consolidate the distribution operations from three other states. Its 1.9 million-square-foot facility is expected to be completed in 2009. With an abundance of readily developable land with the same ease of access, the market is poised for more major distribution facilities.

Market Draws New Investors

In addition to out-of-market users, the local market is piquing the interest of out-of-market investors as well. Eight consecutive quarters of industrial growth may have been a factor in Los Angeles-based CB Richard Ellis's purchase of 5 million square feet of Johnson Development's industrial portfolio for over \$250 million. Of that portfolio, over 2 million square feet was located in Greenville.

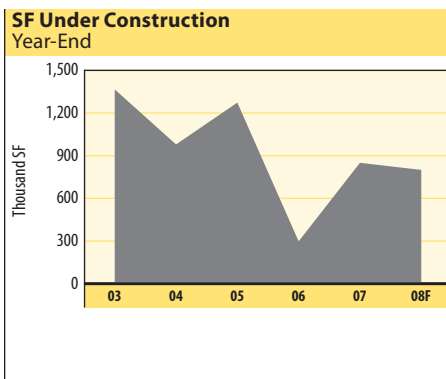
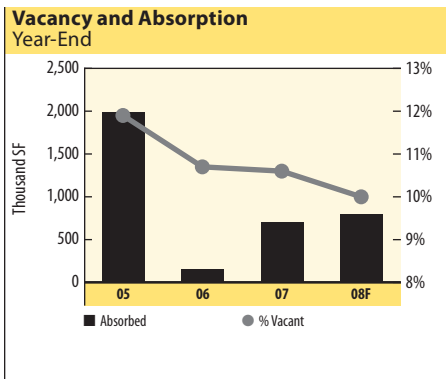
Rental Rates To Rise

Outside investment will put pressure on asking rates, as institutional owners focus more on profitability and may be better situated to wait for the market to come to them.

Vacancy To Drop Below 10 Percent

While the current wave of industrial growth is slowing, vacancy is expected to drop below 10 percent in 2008, and even further when Adidas's facility is complete in 2009. Given the quantity of older manufacturing and warehouse facilities on the market, tenants may be challenged to find functional space and the market may see more warehouse and distribution facility conversions.

New construction climbed back after a one-year hiatus. Several large proposed projects, poised to start construction in 2008, will keep absorption high in the next 24 months.



Housing Bucks National Trend

As the housing slump continues, expectations for retail in most other markets are subdued. Over the past five years, the Greenville market has avoided the rampant residential speculation that led to the current market corrections. As a result, expectations for local retail growth are better than in many other markets.

Centers Evolve With Shoppers

The major story of 2007 was the evolution of the regional mall. While the largest mall in the market, Haywood Mall, maintained its status as a premier retail location, three other malls underwent renovations to accommodate a change in the tastes of consumers. Westgate Mall in Spartanburg faced partial demolition to accommodate a freestanding Costco. The Anderson Mall is expanding to attract a new Dillard's. Most of the Greenville Mall was demolished to make room for a new retail shopping center.

The Greenville Mall's changes are noteworthy because the property was purchased by a Florida and California-based developer and then flipped to a second Florida-based developer, Menin Development, at a hefty profit. All eyes are on the mall to see what will become of this highly visible property in the busiest retail trade area. Because local development trends are relatively strong when compared to many markets, additional investment from other markets is expected to increase.

Woodruff Road is still the best-in-market trade area, although property available for development is limited. Other major retail developments are planned for Highway 14, Hillcrest, Cherrydale, Easley, and perhaps Pelham, assuming development concerns can be adequately addressed.

Mixed-Use Arrives

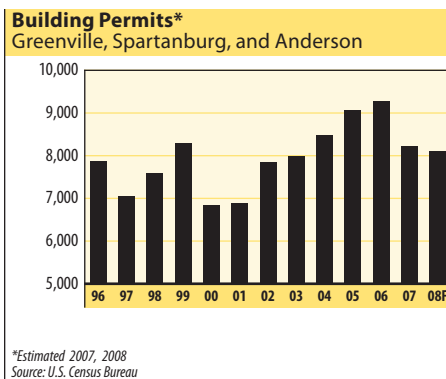
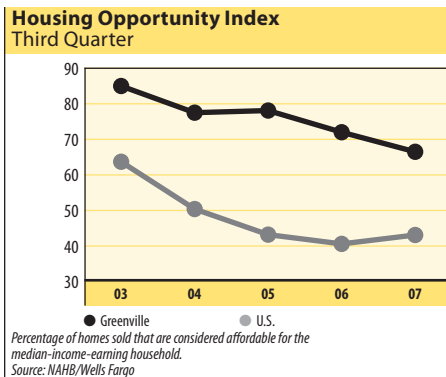
Mixed-use properties with a substantial retail component have been slow to hit this market, but the first was completed in the third quarter when McBee Station opened in downtown Greenville. The urban shopping center also includes a significant residential component. If the remaining retail space in the center can be successfully tenanted, more large scale mixed-use retail development could be headed downtown.

New Retailers

The most substantial tenant to now call the Greenville market home is the previously mentioned Costco, which completed stores in Greenville and Spartanburg in the third quarter. Another interesting development in the local market is the evolution of grocery stores. In 2005, the departure of Winn-Dixie from the Greenville market left a void that other grocers have attempted to fill. Most notably, Bloom used Greenville as one of its first expansion markets, having built six stores in the past two years. In addition, Bi-Lo has established three Super Bi-Lo concept stores in the market.

In 2008, several large projects are expected to start construction, absorption should remain high, vacancy should fall further, and rents will rise in the most attractive submarkets.

The cyclical nature of development, along with the indirect impact of housing market struggles, resulted in a drop in building permits. However, local housing struggles will turn around before markets undergoing major corrections.



Due to the lack of rampant speculation that plagued other markets in the last five years, the impacts of the inevitable housing slump on the Greenville market were expected to be slight. While there has been little direct impact on the local residential market, the struggles of national homebuilders and tightening lending standards has resulted in a drop in production of new homes locally. These housing struggles have combined with the cyclical nature of development to affect building permit totals slightly more than expected. In 2007, the number of building permits was considerably lower than that of 2006, but after six consecutive years of increasing totals, Greenville was due for a decrease. Still, the total number of permits issued is comparable to the healthy number issued in 2003 and 2004.

Strong job growth in the engineering field due to expansions by Fluor Corporation and General Electric, combined with the completion of The South Financial Group's corporate campus in 2009, is expected to keep residential growth healthy over the next 24 to 36 months.

One trend in local residential construction has been the emergence of multiple small local residential builders filling the void left by national homebuilders. While the activity of local builders is increasing, many are not positioned to withstand a prolonged local housing slump. Small builders outside of the hottest development areas are the most at risk.

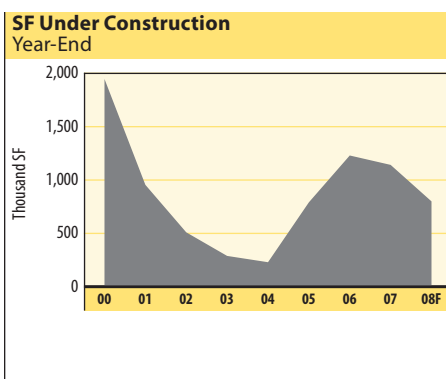
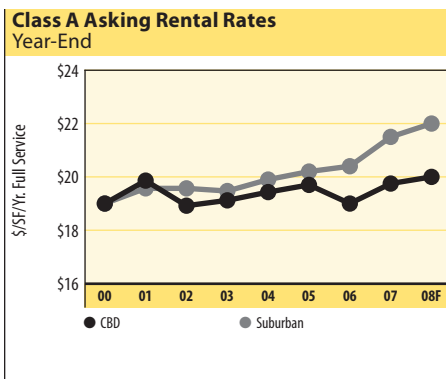
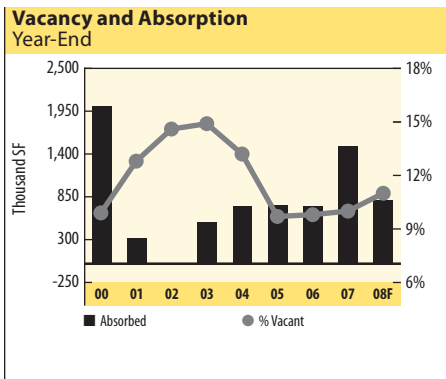
The unprecedented residential development of the last five years has placed a burden on local jurisdictions and infrastructure providers. In order to help address the concerns of new development, many communities are becoming more proactive with respect to their long-range planning efforts. Going forward, new development is more likely to deal with impact fees, traffic impact studies, design guidelines and tree ordinances.

These potential development challenges, as well as concerns about urban sprawl and gas prices, have made infill, multifamily, and mixed-use development more popular. One very successful project, McBee Station in downtown Greenville, is combining these concepts with affordability.

The long-term prospects for land in Greenville are strong, as the market is still considered very affordable, enjoys a high quality of life, and is still growing at a comfortable pace. One challenge to land affordability is the willingness of landowners to hold onto land while waiting for prices to rise. The success of The Pointe and Magnolia Park Town Center will help set the market for other landowners.

While development is slowing, the hottest areas are still seeing plenty of activity. The most active areas include the Golden Strip, southeast of Interstate 85 and Interstate 385; and the Golden Box, along Interstate 85 from west of Spartanburg to Boiling Springs.

Nashville continues to be a prime city for company relocations and this trend is expected to continue. The prime locations, for the past several years, are the Brentwood and Cool Springs submarkets.



The Milken Institute “Cost-of-Doing-Business Index” has ranked Tennessee as one of the least expensive states in which to do business. Tennessee’s attractiveness has become evident in the surge of leasing in the Nashville office market.

Several challenges face Nashville in the next several years, the foremost being the Central Business District. There are a flood of new developments taking place in the residential sector and several new office buildings under construction. However, can the Central Business District sustain all of the new developments? There has been leasing activity but the majority of it is from current tenants moving from one building to another. Anticipate increased vacancy in 2008.

SunTrust Plaza completed construction in 2007 and is adding 338,000 square feet of Class A space to the market. Construction started this quarter on The Pinnacle at Symphony Place and will add 500,431 square feet of Class A space to the Central Business District. The building is already 60 percent preleased and construction is scheduled to be completed by year-end 2009. Nissan’s new corporate headquarters building will be completed in the summer of 2008 and Nissan will vacate 240,000 square feet in the BellSouth Tower which opens up space for companies looking to locate in the CBD.

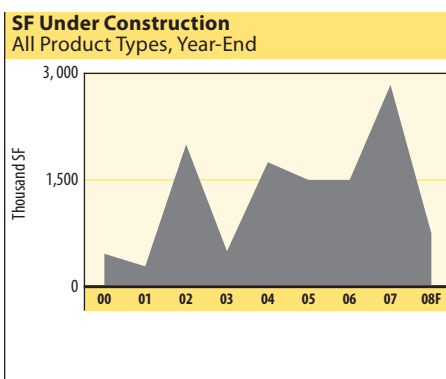
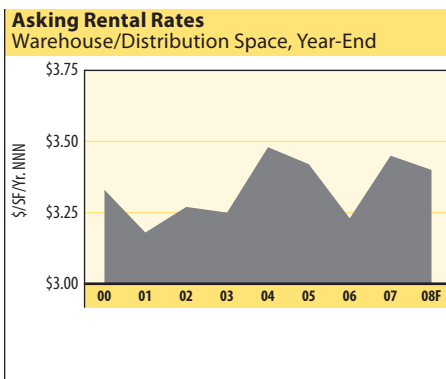
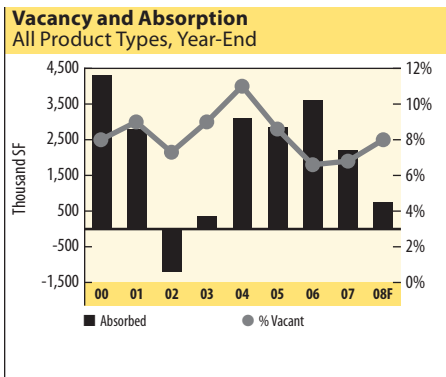
Brentwood, Cool Springs, Green Hills, MetroCenter, and West End continue to

have vacancy rates that remain well under 10 percent. Tenants will find it challenging to receive incentives from landlords, specifically in these submarkets. Green Hills and West End are commanding the highest Class A rental rates and are currently asking \$24.20 to \$24.50 per square foot; expect these rates continue to climb due to a lack of availability.

The West End submarket has been losing buildings from its inventory over the past several years due to hotel conversions and Vanderbilt University. If an anchor can be found for the planned 550,000-square-foot West End Summit, expect it to break ground. However, the additional inventory will not be added for several years keeping the vacancy rate tight.

Cool Springs continues to be hottest submarket in the MSA. Cool Springs is now commonly known as the “Miracle Mile” due to the influx of new corporations to the market and the new trend of single-tenant buildings which will carry through to 2008. Verizon has announced it has signed a lease for an 180,000-square-foot, \$55 million state headquarters and will employ approximately 1,300 individuals; 550 of these jobs will be from existing locations within the state. CHS Meridian also has announced that the company will occupy a 2-story 50,000-square-foot single-tenant building in the same area as Verizon and will free up space in the Green Hills submarket which has been tight for years.

Bulk warehouse space development is at an all-time high with 3 million square feet being delivered in 2008. Can leasing activity keep up with construction or will there be an oversupply by the end of the year?



Construction continues at a high rate of speed in the outlying counties. Currently there is 3 million square feet of construction underway which will be completed during 2008. Ninety-eight percent of the new product is bulk warehouse space and is located in the East and Southeast submarkets. The challenge for the Nashville industrial market in 2008 will be for leasing activity to keep pace with construction activity.

Due to high demand for warehouse space in the East submarket, the intersection of Couchville Pike and State Route 840 in Mt. Juliet has drawn new and established developers to start building bulk warehouse space. This four-corner intersection features four buildings under construction; one was completed at year-end 2007 and the other three during the first half of 2008. EDI, Opus Group, First Industrial and Duke Realty are the developers.

The Opus Group out of Minneapolis just entered the Nashville market and purchased 164 acres in Wilson County at the corner of State Route 840 and Couchville Pike to develop Couchville Pike Business Center. The industrial park will include three 700,000-square-foot buildings and one at 140,000 square feet; the first will be delivered in 2008. EDI of Tampa, Florida has also entered the market across State Route 840 from the Opus Group to develop Wilson Commerce. This project will consist of 4 buildings totaling almost 2 million square feet. The first building will deliver 556,500 square feet in 2008.

Currently, Elam Farms Industrial Park, a Panattoni development, is underway in the Southeast submarket off of I-24 in Murfreesboro. Elam Farms I has been delivered and Elam Farms II and III are under construction and will deliver in late spring 2008 adding an additional 700,000 square feet of bulk space.

Developers have been building outside of Davidson County due to lower prices, around \$3 per square foot. Due to the hilly topography developers not only have to pay for the land but also site work. Davidson County also has very few large tracts of land to develop.

Look for Beckwith Farms to start construction in 2008, also a Panattoni development. The first phase will be 800,000 square feet and the entire development could house 3.2 million square feet. Beckwith Farms is located at the Beckwith Interchange between Nashville and Mt. Juliet in Wilson County right outside of Davidson County.

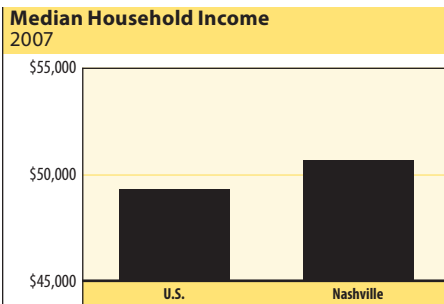
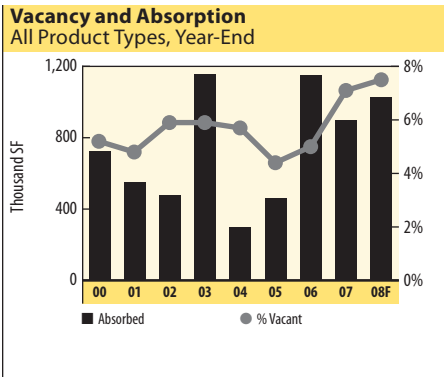
Rental rates in the industrial market are projected to slightly increase. Warehouse/distribution rates could go as high as \$3.60 a square foot due to increasing construction costs. If the bulk space that is added to the market in 2008 is not absorbed, rental rates could remain flat at approximately \$3.40 a square foot.

The trend for concessions in 2008 will most likely be tenant improvement allowances in bulk space rather than free rent to maintain the value of the building.

Nashville

Retail

Lifestyle centers continue to dominate the retail landscape in Nashville and the surrounding counties. Upscale retail is entering Sumner County for the first time.



Source: Claritas, Inc.

New/Expanding Retail Tenants
2007/2008

Merchant	Store Type	Location(s)
Costco	Discount	Nashville West
Barnes and Noble	Bookstore	Multiple Locations
Best Buy	Electronics	Multiple Locations
Kohl's	Discount	Multiple Locations
Cost Plus World Market	Home Goods	Multiple Locations
Dick's Sporting Goods	Sporting Goods	Multiple Locations
Home Depot	Home Improvement	Multiple Locations
Lowe's	Home Improvement	Multiple Locations
Kroger	Grocery	Multiple Locations
Publix	Grocery	Multiple Locations
Harris Teeter	Grocery	Multiple Locations
Whole Foods	Grocery	Hill Center
Ross Dress for Less	Discount	Multiple Locations
Target	Discount	Multiple Locations
Wal-Mart Supercenter	Discount	Multiple Locations
Red Robin	Restaurant	Multiple Locations
Verizon	Cellular	Multiple Locations

The hospitality, retail, finance, music, tourism, state government and healthcare service sectors complement the presence of a growing auto industry in the Nashville MSA. This diverse business profile provides an insulation factor to the local economy and delivers a balance to normal business cycles thereby maintaining an adequate level of disposable income for a healthy retail environment.

Although new residential projects are currently under construction and a good number of them will be completed in 2008, the Nashville CBD still does not have enough residents or parking to support a strong retail market in the downtown area. This could begin to change as the SoBro area is to begin developing mixed-use projects this year.

Lifestyle centers are all the rage in the Nashville retail market as the demand for new and existing malls decreases. The Avenues in Murfreesboro and the Hill Center at Green Hills opened in the third quarter of 2007.

Davidson County is finding new ways to compete with new developments in the outlying counties. Nashville West's last phase will be completed in 2008 off Charlotte Pike in West Nashville. Lenox Village, which started as a mixed-use residential community in the Southeast quadrant of Nashville, is adding a 450,000-square-foot lifestyle center and will be completed by the end of 2008. Bellevue Center Mall in West Nashville could have

new owners by 2008 and the plan is to tear down the 1.4 million-square-foot enclosed mall and develop a 1.2 million-square-foot lifestyle center.

These lifestyle centers contain diverse tenants that serve all the needs of the surrounding communities. Indian Lake Village, Hendersonville's first lifestyle center, is bringing upscale retailers to Sumner County for the first time in 2008. Mt. Juliet may begin its second lifestyle center called The Paddocks this year as well.

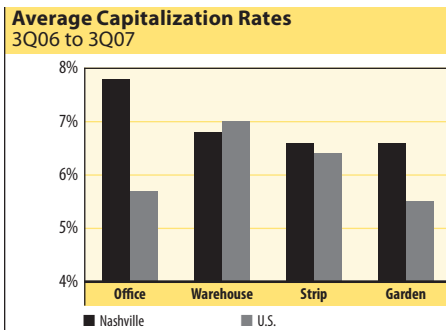
Look for Williamson and Rutherford County to begin new developments in 2008 due to a lack of new construction underway and the high demand in the two counties. The Cool Springs submarket in Williamson County is the hottest area in the Nashville MSA and is only 1 percent vacant.

Murfreesboro retail has been able to absorb new inventory and should be able to maintain this rhythm due to the fast population growth. From 1990 to 2000 the population of Murfreesboro increased 39.6 percent; each year the population increased by 5,000 individuals. With this increased growth, retail has been right behind it following its pace. Developments should start off of Medical Center Parkway and the Murfreesboro Gateway site.

Rental rates should increase unless new supply is not filled which could cause rental rates to drop slightly due to oversupply in the next several years.

Nashville Investment

Nashville will remain a sellers' market throughout 2008 as the investment climate will remain strong. Out-of-state investors will remain interested in the area and purchase properties as fast as they hit the market.



Source: Real Capital Analytics

The investment market has historically been local, but the recent interest in Nashville by national corporations such as Mars PetCare U.S., Nissan and Verizon is increasing the city's reputation. A rush in the number of out-of-state investors has been building with the growth of Nashville's profile in the office, industrial, multifamily, and retail sectors.

Nashville will remain a sellers' market throughout 2008 as the investment climate remains strong in the Nashville MSA. The demand for investment property exceeds the supply and competition between buyers will remain.

If economic conditions and interest rates remain on the same path, capitalization rates for high-demand properties should stay in the 7 to 9 percent range. Currently, there is stronger demand for high-grade real estate than for lower-grade properties and buyers are willing to pay a premium for properties that have long-term leases to

credit tenants. This trend should continue through 2008.

With the decline of the credit market in 2007, there could be risks involved in financing if confidence does not increase in 2008. The risk will be on the buyer's side which will affect the seller due to limits on financing.

Buyers in late 2006 and 2007 have been able to flip their properties within one to two years after purchase and have increased their profits by a substantial amount. Anticipate sellers to resume this trend as long as Nashville remains attractive to buyers and financing improves.

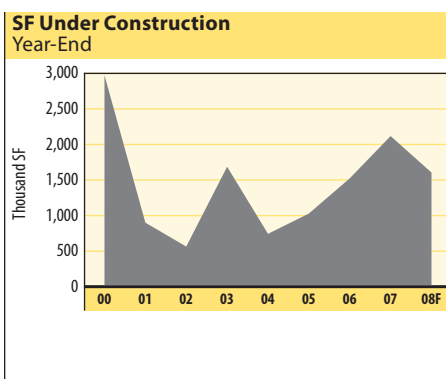
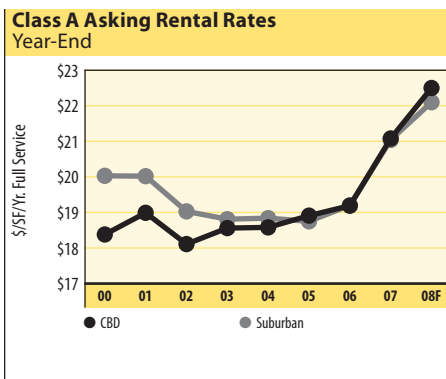
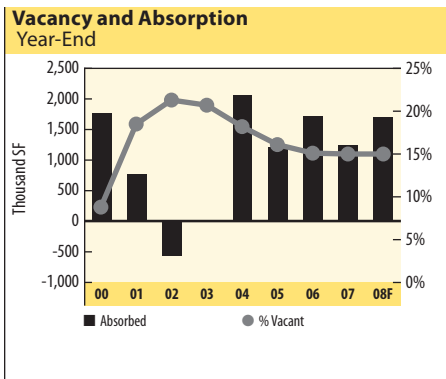
Multifamily properties have seen an increase in sales in the past year from out-of-town investors as well. Look for this interest to be maintained into 2008. Nashville homes sales have decreased but sales prices have not. In the Green Hills and the downtown areas of Nashville, apartment complexes have converted into condominiums helping to keep multifamily vacancies low.

The limited amount of available land is driving up prices but this has not deterred investors. Since prices along I-65 are still escalating, developments in 2008 will remain in the outlying counties. There will not be many opportunities for investors to buy land in Williamson County since most of the large tracks are owned by Duke, Crescent Resources, Southern Land, and First Industrial.

Key Investment Transactions 2007

Buyer	Property Name	Property Type	Size (SF)	Sale Price (millions)
New Dawns	Cherry Creek	Multifamily	627 Units	\$146.5
	Arbors of Brentwood		346 Units	
	Cambridge		360 Units	
	Preakness		260 Units	
Winthrop Realty Trust	Airpark Center	R&D/Flex	1,200,000	\$87.2
Venterra Realty	The Landings of Brentwood	Multifamily	724 Units	\$68.5
Behringer Harvard	Plaza I, II & Tower	Office	355,000	\$50.4
Wright Investment Properties	Double Tree	Hospitality	-	\$50.0
KTR Capital Partners	TN-KY Industrial Park	Warehouse	1,330,000	\$45.0
Birchmont Capital Advisors	Holiday Inn Express	Hospitality	272 Units	\$39.3
Mission Residential	Autumn Wood	Multifamily	460 Units	\$39.0
	Signature Pointe		340 Units	
Realty Associates Iowa Corp	Space Park North & Old Stone Bridge	Warehouse	1,000,000	\$33.0

Triangle office vacancy ended the year higher than anticipated as economic uncertainty and the returning of additional IBM/Lenovo space in Research Triangle Park sent absorption into the red in the third quarter for the first time since 2003.



A wave of construction completions hit the market in the fourth quarter only 20 percent preleased contributing to elevated vacancy. Another 2 million square feet are scheduled for completion in 2008 with 50 percent reported as preleased. The surge in new construction and a limited supply of Class A leasing options helped keep a lid on absorption throughout much of 2007. Most of the Triangle's largest blocks of space are now in Class B and C properties. As a result, companies with large requirements have opted in many cases to prelease in buildings under construction, activity that will not result in absorption until the space is delivered. Absorption will increase in 2008 as buildings are completed, but vacancy will remain flat unless significantly more space is preleased or absorption of existing space increases.

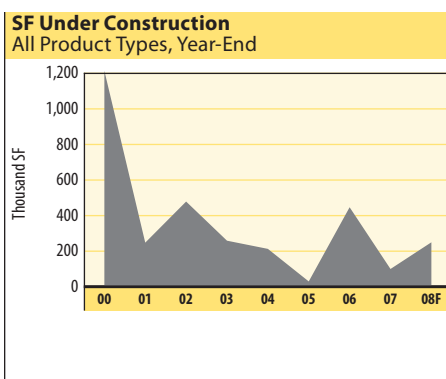
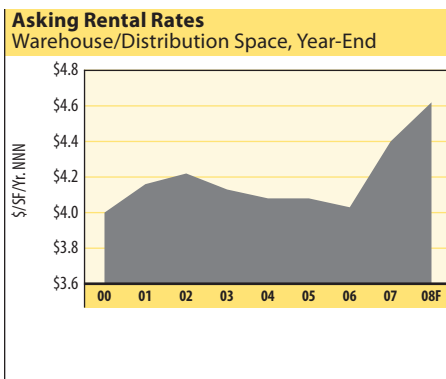
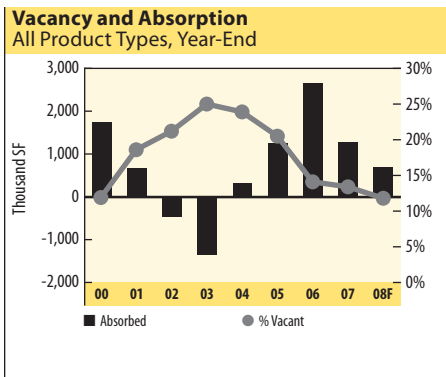
Class A asking rates rose significantly in 2007, driven in large part by new construction. Concessions diminished in most submarkets, but high tenant improvement allowances remain a problem for landlords. Class A vacancy will increase in 2008, but asking rates will rise as well. Rates in buildings currently under construction range from \$20 to \$30 with the weighted average at \$24.17, full service, and owners of existing buildings are increasing rates to close the gap with new construction.

Among the submarkets to watch in 2008 will be Downtown Raleigh, where the average Class A rental rate surpassed the average suburban rate for the first time. RBC Plaza will come online in 2008 as the Triangle's

tallest building and will add another corporate headquarters to the submarket. Campbell University announced it will move its law school from Buies Creek to Raleigh's CBD by 2009, a significant boost to revitalization efforts. Vacancy will increase in Chapel Hill and Durham as new buildings come online with little preleasing achieved. Research Triangle Park, where vacancy is already above 20 percent, faces the same challenge. Significant Class B vacancies in this submarket, however, present an opportunity to lure large corporate users seeking the value of an older building.

A murky economic outlook for 2008, combined with the uncertainty typical of an election year, will lead some tenants to be conservative with expansion plans. The long-term outlook for the Triangle, however, remains positive. While the region is not immune to the housing slump, it has been minimally impacted thus far thanks to robust population growth and reasonable home prices. The Triangle has also had great success in attracting new and expanding industries. Wins in 2007 included PRA International choosing Raleigh for its new corporate headquarters and INC Research announcing plans to add more than 1,000 new jobs. Aside from a potentially sluggish economy in 2008, the Triangle's greatest challenge will be a rise in anti-growth sentiment as the region deals with overcrowded schools and roads and stringent water restrictions as a result of one of the state's worst droughts on record.

The Triangle industrial market was once again the star of the show as strong demand and negligible construction kept vacancy heading steadily downward.



Industrial tenants leased space at a healthy clip in 2007, led by users of warehouse/distribution space. As projected, absorption was strong but was significantly lower than the 2.7 million square feet leased in 2006. Much of the market's pent-up demand had already been met, and quality leasing options became difficult to find in 2007. In many cases, multiple tenants found themselves vying for the same space, contributing to a 9 percent increase in the average warehouse/distribution asking rate. The flex sector improved as well, but at a far slower pace. Flex properties are in fierce competition with a glut of Class B office space, much of which was returned to the market in 2007 as IBM and Lenovo consolidated onto their respective campuses.

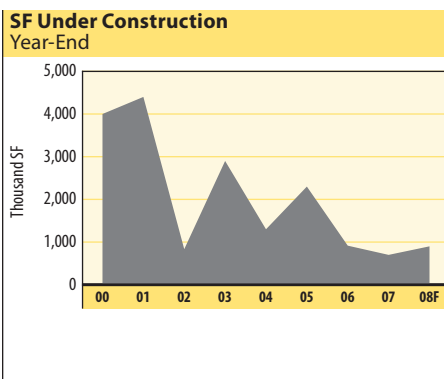
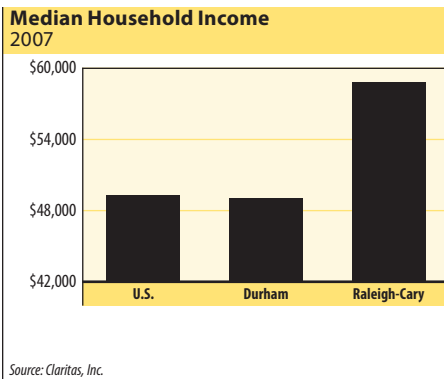
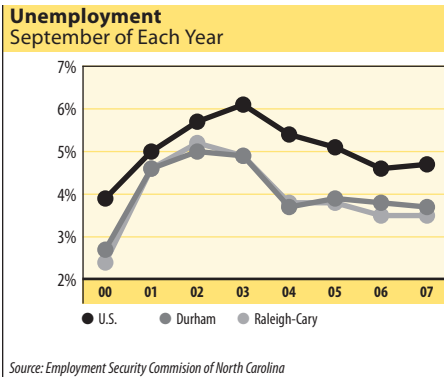
Despite rapidly improving leasing fundamentals, developers did not pull the trigger on new construction as expected in 2007. Just one building totaling 100,000 square feet is scheduled for completion in 2008, and it is 80 percent preleased. High land and construction costs drove many to seek investment opportunities with upside potential instead. Liberty Property Trust purchased 536,000 square feet at Keystone Business Park in Research Triangle Park (RTP); McFarlan Capital Partners bought the 576,000-square-foot former AP Parts building in RTP; and Crown West Realty purchased the 1.15 million-square-foot Carolinas Distribution Center in Clayton. The sales yielded returns of 69 percent, 85 percent and 61 percent respectively.

The meltdown in the housing market poses the most significant threat to the industrial sector going forward. Demand from companies tied to the construction industry played a significant role in the Triangle industrial market's recovery in recent years, potentially making the sector more susceptible to the slowdown than the region's office market. We have not seen significant contraction among these industrial users thus far, but some have put expansion plans on hold and others may return space to the market in 2008. The fallout, however, will not be on par with what was witnessed when the region's tech sector imploded, sending vacancy above 25 percent. While the Triangle's housing market has slowed, it has fared better than much of the nation, and a surge in commercial construction has allowed some companies to supplement their work. Additionally, the Triangle's tenant base has become more diversified with demand also strong among high-tech, medical, pharmaceutical, manufacturing and distribution companies.

Absorption will moderate in 2008 but will remain positive as long as the economy avoids a recession. With speculative construction still minimal, overall vacancy will stay on a downward track, and asking rates for warehouse/distribution space will continue to increase. R&D/flex vacancy will not fall substantially in 2008. It will likely be 2009 before the gap between flex and office rents widens enough to once again make flex space a cost-effective alternative to traditional office space.

Raleigh-Durham Retail

The Triangle retail sector remained healthy in 2007 as consumers once again proved resilient in the face of rising gas prices, turmoil in the credit markets and a severe correction in the national housing market.



Triangle vacancy rates held relatively steady between 7 and 7.5 percent throughout most of 2007. Vacancy rose sharply between 2002 and 2006 as developers added centers at a breakneck pace. Construction has since moderated, keeping vacancy from rising to an unhealthy level.

The Triangle's housing market has slowed, but it has fared better than the rest of the nation thus far. Existing home sales fell 10 percent through the first three quarters of the year with high-end homes most affected. However, as local home sales have slowed, leasing has picked up. Apartment vacancy fell slightly in 2007 despite significant construction completions. The region's strong job market and highly touted quality of life continue to fuel explosive population growth. The population has grown by 22 percent since 2000 and 70 percent since 1990. Job growth slowed but remained strong in 2007 with unemployment ending September at 3.7 percent.

Among new retailers entering the Triangle market were Golfsmith and hhgregg. Golfsmith leased the 60,000-square-foot former Best Buy space at Pleasant Valley Promenade on Glenwood Avenue. Hhgregg opened stores at 6200 Capital Boulevard and at Alexander Place. Activity was also strong among specialty grocers. Trader Joe's, which opened its first Triangle location in Cary in 2006, announced plans to open a Chapel Hill store and is rumored to be considering the recently sold Holly Park shopping center for its first Raleigh store. Fresh Market moved its

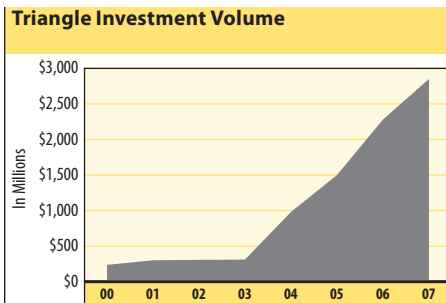
Falls Village store just up the road to Sutton Square and announced it will open its first Chapel Hill location at Glenwood Square. Discount grocer Aldi opened its third Triangle store at Eastgate Shopping Center on Wake Forest Road, and Whole Foods expanded its Raleigh store by 1,800 square feet.

Among the markets to watch going forward will be Southern and Eastern Wake Counties and the fringes of the Research Triangle Park (RTP) submarket. In Southern Wake County, massive residential and retail projects are being planned in Apex as the town's population explodes. The future interchanges of I-540 are also a draw. In Eastern Wake County, Knightdale is witnessing a similar scenario thanks to the recent completion of I-540 to the US 64 bypass. The town's population is expected to increase by 23 percent by 2011. RTP, the Triangle's largest office and industrial submarket, suffers from a lack of amenities. Developers will seek to fill that void in the coming years with major mixed-use projects in areas such as Morrisville, Perimeter Park and Brier Creek.

Provided the economy avoids a recession, the retail market should hold steady in 2008. Construction will continue to come onto the market at a consistent but manageable pace, keeping vacancy from rising or falling significantly. Renovations of older centers will remain prevalent as the market grows ever more competitive.

Raleigh-Durham Investment

The Triangle investment market experienced its fourth consecutive recordsetting year as nearly \$2.85 billion in property traded hands, a 33 percent increase over the previous year's volume.



Source: Real Capital Analytics, County Revenue Offices

Regional and national investors were active in the Triangle throughout much of 2007, seeking opportunities offering better returns than those in tier one markets. With the exception of a handful of transactions, the year belonged to private equity, which poured into the region.

The Triangle investment market began 2007 on a strong note with \$917 million in property sold in the first quarter alone, the highest volume ever witnessed in a single quarter. Improving leasing fundamentals and a large supply of strong offerings generated the perfect conditions for a record-breaking quarter. Office sales dominated the transaction volume with nearly \$400 million in activity. Most noteworthy was Argus Realty's purchase of downtown Raleigh's Wachovia Capitol Center for \$153 million. At \$282 per square foot, it was the highest price ever paid for a Triangle office building.

Capitalization rates trended downward early in the year when the cost of money was low. Rates for most retail and multi housing transactions were below 7.5 percent, and a shortage of quality product led buyers to

look to marginal properties for their investment opportunities. This trend ended by the second quarter when the price of capital increased and declining prices intensified pressure on sellers to bring their product to market. Second-quarter volume was strong nonetheless with nearly \$746 million in property traded.

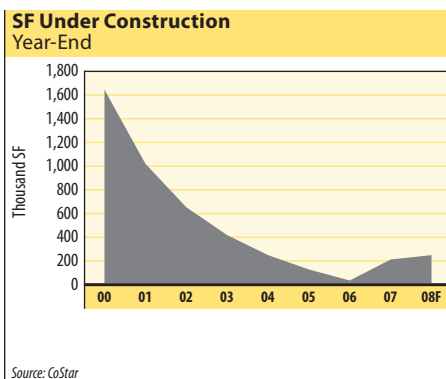
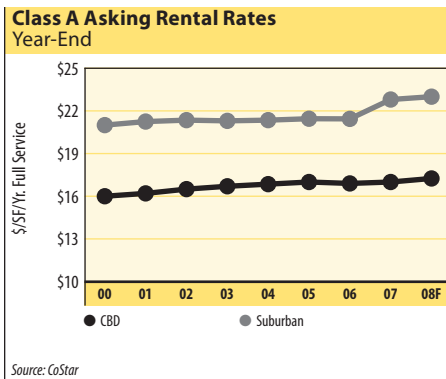
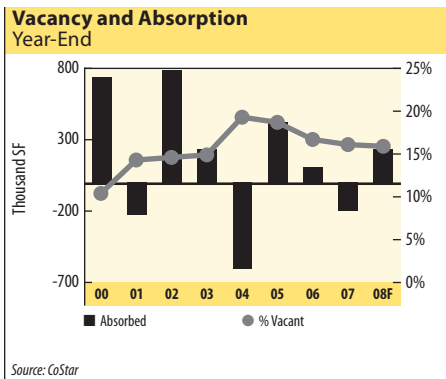
The third quarter was equally strong with \$737 million trading hands despite turmoil in the credit markets. It is important to note, however, that the total volume was significantly impacted by the closing of two sizable portfolio sales. Grosvenor Investment Management purchased Research Tri-Center for \$105 million, the Triangle's largest industrial sale in 2007. America's Capital Partners paid nearly \$94 million for Meridian Office Park.

Several noteworthy properties are scheduled to close over the next 12 months, setting the stage for another strong year. The tightening credit markets will have less of a dampening effect than will a lack of available product. Although the current environment has led some highly leveraged properties to be retraded and delayed closing of some transactions, demand will continue to outpace supply. Investors with cash to place remain eager to find opportunities in the rapidly growing Triangle market. Private equity and tenant-in-common groups will look to the region for additions to their portfolios in 2008. A smaller pool of buyers will bring prices down, opening the door to investors who were outbid or remained on the sidelines at the height of the market.

Key Investment Transactions 2007 Year-End

Property Type	Buyer	Property	Sale Price (millions)
Office	Argus Realty	Wachovia Capitol Center	\$153.4
Industrial	Grosvenor Investment Management	Research Tri-Center	\$105.0
Office	America's Capital Partners	Meridian Office Park	\$93.0
Multi Housing	GE Capital	Alexan Place	\$59.4
Retail	Dividend Capital	Beaver Creek Commons	\$53.0
Office	KBS Real Estate Investment Trust	Crescent Green	\$48.0
Multi Housing	American Realty Advisors	Weston Lakeside	\$45.0
Office	America's Capital Partners	Keystone Office Park	\$44.8
Office	Intercontinental Real Estate	4700 Falls	\$33.0
Industrial	Liberty Property Trust	Keystone Industrial Park	\$25.5

Memphis, one of the Southeast's largest population centers, has seen a minor resurgence in the office market. East Memphis and the 385 Corridor continue to be the most sought after submarkets and that will remain the case in 2008.



With over 700,000 people, Memphis is the largest city in Tennessee, the 17th largest city in the nation, and the second largest in the Southeast region. With an MSA population of over 1.2 million, and a prime location in the Southeast, Memphis has attracted 23 new companies since 2005 and is home to four Fortune 500 Companies: Autozone, FedEx, International Paper and Service Master.

The Memphis office market started 2007 off slow but has begun showing signs of a minor upswing led by across the board rental rate increases. The Memphis office market continues through the recovery that began in 2005.

New construction in the Memphis MSA is virtually nonexistent and has been since 2003. New construction remains minimal with only one building delivering in 2007; 17,986 square feet in the second quarter in the Northeast submarket. Boyle Investments broke ground last quarter on a Class A, 150,571-square-foot building in the East submarket. Forty percent of the building is preleased and it will be completed in the summer of 2008.

Comcast has signed a lease with Highwood's to be a single-tenant in a 62,000-square-foot building in the 385 Corridor which broke ground in the third quarter of 2007 and will complete construction in the third quarter of 2008.

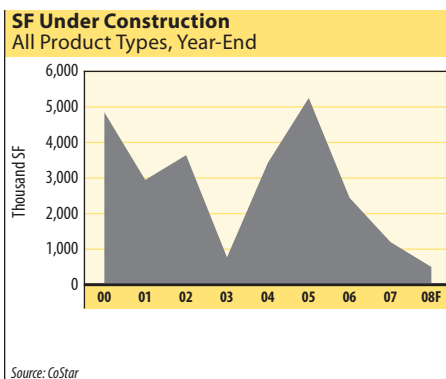
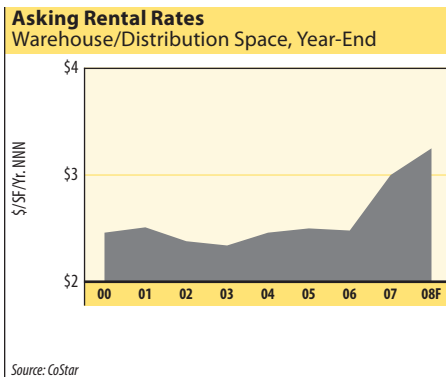
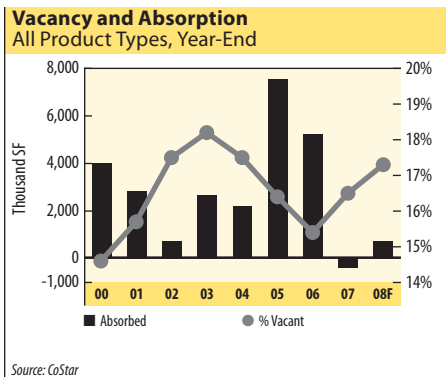
In East Memphis, if Class A vacancy remains below 10 percent, several of the proposed Class A buildings should break ground by the beginning of 2008.

The East submarket continues to be the favorite submarket for businesses to relocate to. Demand will continue for space in the East and if companies cannot find space than the 385 Corridor is their next choice. The East is favorable because of its heavy residential population. Individuals want to be close to their homes, restaurants and entertainment.

Class A vacancy in the 385 Corridor and East submarkets will remain under 10 percent causing demand for Class B space to increase. As vacancy drops in Class B space, there will be little space to lease in these two submarkets. This trend will spark new Class A construction. Other submarkets are trying to catch up with these two submarkets and need corporate relocations to compete.

Tenants in the 385 Corridor and East Memphis submarkets will find it challenging to receive incentives from landlords as vacancy continues to decline in prime buildings. Tenants in the Midtown, North, Airport, and Downtown submarkets will receive aggressive incentives as these submarkets continue to soften. The challenge will be to keep tenants in these northern and western areas of the city versus the ongoing trend of businesses relocating to the eastern suburbs.

Toyota announced that Tupelo, Mississippi, approximately 108 miles southeast of Memphis, has been chosen for a new manufacturing facility which could mean new opportunities for auto suppliers to enter the region.



Memphis has been known for more than 24 years as America’s distribution center. For 12 consecutive years Memphis International Airport has been cited as the world’s largest cargo airport by Airports Council International. Memphis is home to the worldwide headquarters and world hub of FedEx. Memphis International Airport has started construction on phase one of a new \$7 million cargo facility.

Construction continues at a high velocity but will slow down while developers see if space is leased before breaking ground on new projects. Currently there is over 2 million square feet of construction underway with the majority of the space available for lease. New product will be completed throughout the remainder of 2007 and into 2008. The greatest concentration of this new construction is taking place in the DeSoto and Southeast submarkets and the majority will be bulk warehouse space.

Heightened leasing activity for several years has caused a surge of new developments resulting in an oversupply of bulk product. DeSoto County continues to be a hot market, but vacancy will rise due to construction exceeding absorption with the addition of 1.9 million square feet of product to be delivered in 2008.

This could turn around with Toyota announcing that Tupelo, Mississippi, approximately 108 miles southeast of

Memphis, has been chosen for a new manufacturing facility. This is a good opportunity for auto suppliers to locate to Memphis due to its favorable infrastructure.

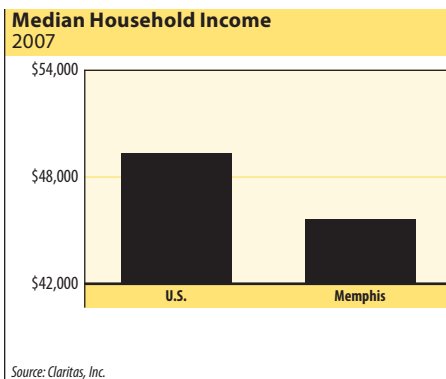
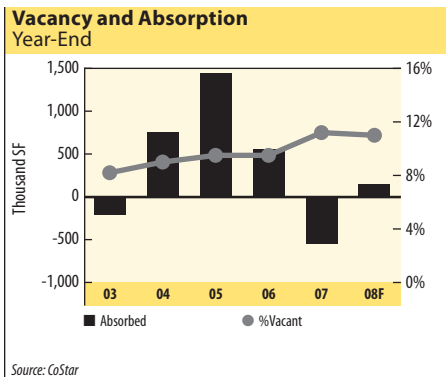
The Memphis industrial market has strong leasing activity but can it keep up with new product being delivered? With a large amount of new bulk space being developed, it could be challenging for older space to compete with new space. Tenants looking to expand or move into the market will be able to find large new Class A spaces. Older generation spaces may find it difficult to attract new companies with all of the new development being delivered.

Rental rates will remain stagnant in 2008 and it will remain a tenant’s market. The majority of leases signed will be five-year terms with four to six months free rent. Three-year leases are typically giving free rent before the term.

There are several companies looking to come into the Memphis market. Pratt Industries, a packing manufacturer, has received a five-year PILOT (“payment in lieu of taxes”). Pratt plans to bring one of its smaller distribution centers to Memphis. Valley Consumer Products leased 303,595 square feet and Flextronics signed a lease to occupy 214,320 square feet, both in the Southeast submarket. Cartridge World announced it is considering Memphis for a distribution center as well.

Memphis Retail

There has been very little development in the past several years. Look for development to expand out into the eastern and southern suburbs by late 2008.



New/Expanding Tenants
2007/2008

Merchant	Store Type
Target	Discount
Wal-Mart Supercenter	Discount
Aldi	Grocery
JCPenny	Department
Dick's Sporting Goods	Sporting Goods
Home Depot	Home Improvement
Verizon	Cellular

Memphis retail development has been virtually nonexistent in the past year. Most of the recent large retail developments were built from 2004 to 2006. The recent lull in construction activity mirrors problems associated with the housing and subprime lending markets. Retail has a direct correlation to consumer confidence and related spending and both of these factors have had a negative impact on the Memphis market.

This lack of activity does not necessarily reflect a market downturn, rather a more conservative wait-and-see approach. Look for retail construction to pick up once the market's housing and lending woes have weathered the current flurry of negative activity.

Downtown has begun to lose retailers and this could continue into 2008. Peabody Place, a 300,000-square-foot mall, has seen its vacancy rate climb. When the mall was built several years ago leasing activity was strong, but now retailers are moving out. However, with more residential units being built this may shift again in the next several years.

Currently, there is less than 200,000 square feet under construction. Only 30,000 square feet will be delivered in the first quarter of 2008 in small strip centers.

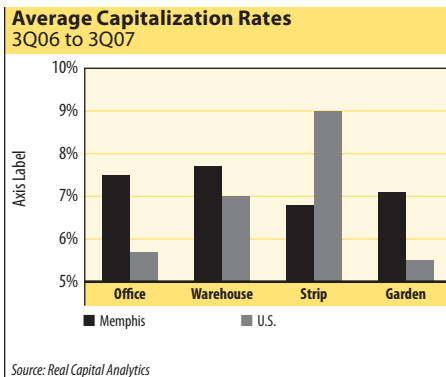
New construction may move forward by the end of 2008 and into 2009 if vacancy remains low. People are moving out into the suburbs; expect future development to be in the eastern and southern sections of the city which would include: Cordova, Collierville, Germantown, Southaven, and Mississippi.

The most sought after submarkets for retailers have been and will continue to be Collierville and Southaven. Southaven, located in DeSoto County, Mississippi, borders the southern portion of Memphis. It does not have enough retail to support the new residential population. Development has been pushing out in this direction for several years and will continue into 2008.

Aldi foods is bulking up in Memphis adding three more locations to their current six. it plan on adding six more in the next few years. Cartridge World is looking to expand into the Memphis market and is looking to open five new stores in the next year. Alphagraphics also wants to break into the market and is planning on opening six stores by 2010.

Rental rates will stay stagnant throughout 2008 unless new construction is built which would drive up the rates slightly. Memphis continues to be a landlord's market with very few concessions available.

Memphis is the only city in the United States that currently offers the “payment in lieu of taxes” (PILOT) program. Out-of-state developers are investing in the city due to its numerous incentives.



Memphis in the past has been known as a distressed city but is staging a sudden turnaround. The city of Memphis is investing approximately \$3.1 billion in downtown developments; a record high for the city.

At present there is over \$1 billion in projects under construction, including 4,000 condos, 200 single-family homes; and over \$2 billion in new bioscience and medical facilities.

Memphis has not been resistant to the decline in sales 2007 has brought to the country. The distinction in Memphis from other areas is that it is an undervalued city which has made it attractive to investors. Average home values in Memphis appreciated nearly 12 percent from 2003 to 2006. In certain areas, values have increased at an even greater pace; Lakeland at 39.9 percent, Arlington at 36.4 percent, Collierville at 36.4 percent, and Germantown at 22.2 percent.

Out-of-state developers are capitalizing on Memphis due to the city’s “payment in lieu of taxes” (PILOT) program. Investors benefit from this program because taxes for a specified development are frozen at pre-development points for 10 years. As money is put into the property and the value increases, the tax dollars will not.

For developers to be eligible for the PILOT program they must invest 50 percent of the project’s total capital into new construction, rehab or site improvements. The Memphis government is proactive and is the only city in the United States offering the PILOT program at this time. The program is designed for large and small investors looking for incentives for their money.

Memphis has seen an escalation in industrial, office, multifamily, and retail sales in 2007. Investment sales plummeted in the second half of 2006 and gained momentum at a fast pace in 2007. Office has been a hot market for institutional-grade investors. Industrial is being bought up by foreign investors while retail has been mixed.

Capitalization rates have fallen between 7 and 8 percent. Expect this to continue and the rates should not exceed 9 percent in all sectors.

2008 may start off slow due to fluctuations in the debt markets. Investors will test the waters for the short term but investment sales will pick up in the second half of the year if not before.

Key Transactions 2007

Property Name	Property Type	Size (SF)	Sale Price(millions)
Lenox Office Park	Office	189,644	\$90.0
Nonconnah Corporate Park	R&D/Flex	1,200,000	\$39.0
Legacy Farm	Multifamily	368 units	\$36.5
Barlett Industrial Center	R&D/Flex	515,000	\$36.1
Summitt Distribution Center	Warehouse	790,000	\$32.1
Parkway Place	Strip	150,000	\$30.0

***Office inventory is back to near pre-Katrina levels.
Expansion in 2008 could significantly soften the market.***

South Mississippi has historically been primarily a blue collar market. Since the advent of gaming in 1992, the job market has transitioned to a tourism and services market. In 2007 it is estimated that almost 50 percent of South Mississippi jobs are in the service sector and almost 30 percent would be considered blue collar jobs. Finance/insurance/real estate positions make up less than 5 percent of the South Mississippi job market.

Prior to hurricane Katrina, Gulf Coast office space inventory was estimated to be only 850,000 square feet. Occupancy was a healthy 92 percent with most of the vacancy in Class B or C buildings. Hurricane Katrina damaged or destroyed approximately 30 percent of the inventory. Losses were heaviest in the downtown areas of Gulfport and Biloxi and along the U.S. Highway 90 beach front.

Pre-Katrina, full service gross rental rates for Class A buildings were in the \$19 to \$21 per square foot range. The initial jump in demand for office space due to the shortage of inventory caused an immediate spike in rental rates for existing Class A buildings to \$23 to \$24 per square foot. Higher construction and insurance costs caused an increase in rental rates for new construction to \$24 to \$26 per square foot.

As of the fourth quarter of 2007, office inventory is back to near pre-Katrina levels (estimated at approximately 800,000 square feet). Overall population estimates are still slightly lower and demand for office space is low. Occupancy is estimated to be 90 percent.

There is between 150,000 and 200,000 square feet of new office space proposed for 2008. In addition, there is another 50,000 to 75,000 square feet yet to be renovated between the Gulfport and Biloxi CBDs. Most of the space that is still in need of renovation will likely be brought back online as tenants are secured.

There are signs that insurance rates for commercial property may begin to become more affordable in 2008. Lower insurance rates would help to fuel rebuilding and expansion of the hospitality and gaming sectors of the tourism market. This would translate into more jobs and some increased demand in office space.

There are still many unanswered questions and some uncertainty in the office market at this time. All indications are that this area will rebound and be stronger than ever.

The industrial market is still rebounding from the effects of hurricane Katrina.

Since hurricane Katrina, the Gulfport industrial market has been extremely active. Industrial market demand has increased fueled by displaced distributors and manufacturers along with an influx of building contractors and building supply companies. These companies expanded to the Gulf Coast to assist in the rebuilding efforts post storm. Vacant shipbuilding facilities were absorbed after having been on the market for three to five years and the vacancy rate in manufacturing properties was erased almost overnight.

R&D/flex space saw a spike in occupancy to an average of 90 percent post storm. 2007 saw a slow increase in vacancy. Rental rates still remain strong with pre-storm constructed R&D/flex space realizing a range of \$7.25 to \$8.00 per square foot full service.

The Port of Gulfport is the third busiest port on the Gulf of Mexico. Currently the port is undergoing a \$200 million capital improvement program which includes a 60-acre landfill expansion project to be used to expand and enhance container-handling capabilities, the addition of 230,000 square feet of warehouse space and 60,000 square feet of covered space.

Cargo handled at the Port of Gulfport in 2004 and 2005 was at or near record levels (approximately 2.5 million tons). The port experienced a significant decline after hurricane Katrina, but is expected to surpass pre-Katrina levels in 2008.

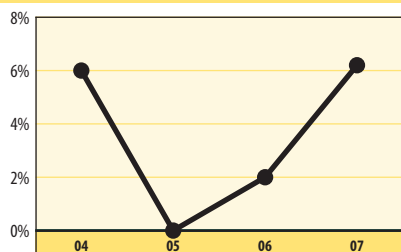
Gulfport's industrial property inventory is currently estimated at 2.5 million square feet. The vacancy rate is approximately 6 percent.

Since Katrina, two shipbuilders have relocated to Gulfport: U.S. Marine and Trinity Yachts. Trinity Yachts, an elite mega-yacht manufacturer, relocated its manufacturing facility to Gulfport from New Orleans after purchasing a 392,040-square-foot building situated on 50 acres of land. U.S. Marine, Inc., a premiere builder of high-performance special mission capable boats for the military and other agency use, expanded into the Bayou Bernard Industrial Park, absorbing nearly 105,000 square feet of manufacturing space. The shipbuilder is situated on 12 acres. Soprema, a roofing and waterproofing materials manufacturer, broke ground and completed a 56,000-square-foot manufacturing facility this year bringing 50 new jobs to Gulfport.

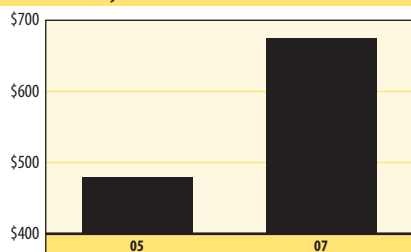
At the current rate of absorption, the supply of surplus developable industrial land could be eliminated in 2008. Given the demand for industrial land near interstate corridors, it is likely that future industrial parks will have to be created in order to supply such demand. According to Larry Barnett, executive director of the Harrison County Development Commission, only 180 acres of land remain in the Bayou Bernard Industrial District.

Vacancy rates have risen to normal levels as more units have come back online. However, rental rates remain high in the wake of hurricane Katrina.

Apartment Vacany Rate
Harrison County



Average One Bedroom Rental Rates
Harrison County



Before hurricane Katrina devastated the Mississippi Gulf Coast housing market, Harrison County had an estimated 12,000 apartment units in its inventory. Approximately 50 percent were rendered uninhabitable from the storm. After two years, approximately half of those are back on the market bringing the inventory up to about 9,000 units at the end of 2007. Of the remaining 3,000 units, about 1,350 have been completely demolished. Additionally, many of the apartment complexes along the beach are being converted to condominiums.

The removal of such a large percentage of units from the competitive inventory caused rental rates to spike. Rental rates are anywhere from 23 percent to more than 40 percent higher at the end of 2007 than they were in 2005 before the storm.

With vacancies back to normal levels as units have been placed into service, there may be a reduction in rental rates sometime around mid-2008. While the vacancy rate is estimated to be 6.2 percent for Harrison County, it is higher in Gulfport than in Biloxi, 8.2 percent and 5.5 percent, respectively. As expected, the average rental rate in Biloxi is slightly higher than in Gulfport across all unit types. The addition of approximately 750 units in three new projects under construction in or near Biloxi should even things out. The new units should be placed in service by the end of the second quarter.

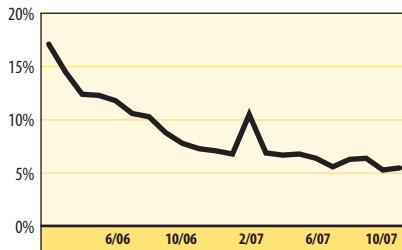
The gaming/tourism market is expanding creating even more jobs. Margaritaville, a joint venture with Harrah's and Jimmy Buffet, is currently under construction with their \$700 million first phase. The addition of thousands of condominium units will further help to expand the gaming/tourism market.

The Mississippi Gulf Coast is rebounding. Most of the estimated 30,000 jobs taken by Katrina have been replaced. Post-Katrina population is still down approximately 5 percent. The return of the population base is directly related to the availability of jobs and affordable housing.

The new units under construction and the refurbished units that will come back in service in 2008 should easily be absorbed. It may take a few more years before the supply of affordable housing is replenished.

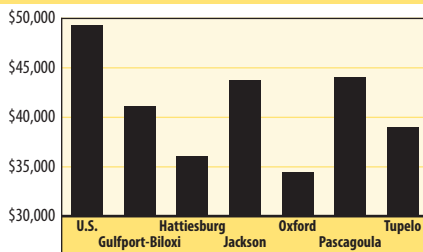
Retail sales in 2006 were up more than 45 percent over 2005 as Harrison County digs out and moves forward toward a bright future.

Gulfport-Biloxi MSA Unemployment
Since January of 2006



Source: Bureau of Labor Statistics

Median Household Income



Source: Claritas, Inc.

The driving force behind the increase in retail sales since the early 1990s has been the thriving gaming and tourism industries. With over 11 million visitors annually, the entire Gulf Coast has seen an influx of industry service businesses as well as thousands of new, better paying jobs.

The tremendous increase in retail sales in 2006 was primarily due to people rebuilding their homes and replacing possessions lost in hurricane Katrina. This is expected to continue through and beyond 2008.

With an estimated 4 to 5 million square feet of retail space in Harrison County and occupancies hovering near 96 percent for Class A non-mall space and near 92 percent for Class B space, developers are optimistic about the future growth of the retail industry over the next decade.

There are currently four major new developments in the pipeline at strategic market points. The owners of Edgewater Mall are planning an expansion which will bring that property from 900,000 square feet to over 1 million square feet; Developers Diversified Realty Trust, owners of the 540,000-square-foot Crossroads Center at Interstate 10 and Highway 49, have purchased approximately 60 acres at Interstate 10 and Lorraine Road for its 750,000-square-foot Promenade

Center; Peyton Cottrell Interests and others have purchased property at Interstate 10 and Interstate 110 for an 800,000-square-foot Target Center; and local real estate investors have purchased approximately 90-acres at Interstate 10 and Highway 49 for an 800,000-square-foot center. Construction is expected to begin as leasing progresses.

As a result of hurricane Katrina, there are numerous redevelopment projects underway all along the Coast in varying stages of construction.

Perhaps the most significant development that will affect the entire Gulf Coast of Mississippi, particularly Harrison County, is the completion of the two U.S. Highway 90 bridges reconnecting the three coastal counties. This project was completed in November of 2007.

While there is much optimism, the mortgage market problems and rising oil prices are affecting all areas of business and are expected to continue into next year. This may delay the construction start of some projects in the pipeline.

Company Profile

For 50 years, Grubb & Ellis has built a reputation for providing high quality service and innovative solutions to our clients.

With a 50-year history in commercial real estate, Grubb & Ellis offers a full spectrum of services to help clients identify and solve their commercial real estate needs. We specialize in customized solutions that are aligned with specific business strategies, from traditional leasing or ownership considerations to complicated transactions and advisory engagements that require integration across multiple areas of expertise. With one of the largest footprints in North America, we address every aspect of commercial real estate across the complete range of industries and specialties. Our client relationships are shaped by a deep understanding of our client's needs, a collaborative working style and a company-wide commitment to service excellence. We work to manage each client's unique real estate needs, whether it's advising on a single transaction, performing as a full-service real estate department or somewhere in between.

Service Delivery to Meet Client Needs

With one of the industry's most extensive office networks, Grubb & Ellis continues to broaden its resources and structure itself around the needs of our clients. Our teams of specialists cover all aspects of commercial real estate, including office, industrial, retail, investment, multi housing and land. These teams work closely with owners, occupants and investors to assess the ways in which real estate issues relate to – and contribute to – an organization's strategic business objectives.

For example, our Global Logistics practice is in the forefront of supply chain issues as clients' distribution needs have evolved from bricks and mortar to encompass complex global supply chain issues. Our industry-first Global Logistics Certification Program incorporates topics ranging from supply chain management and optimization to warehouse design and technology, as well as network analysis tools, intermodal transportation, security, ports, material handling and regulations affecting logistics activities. Behind it all, information on supply chain conditions is based on true national logistics market intelligence, tracked by Grubb & Ellis.

Transaction services:

Transaction services are offered by some of the most skilled professionals in the marketplace, representing over \$25 billion in sales and lease negotiations and renewals in fiscal 2007. In addition to industry expertise, local market knowledge and specialized resources, Grubb & Ellis' transaction professionals provide services including:

- Site selection, space expansion and consolidations
- Subleases/dispositions
- Facility relocations and acquisitions
- Build-to-suits
- Real estate needs analysis
- Interpretations of market trends and competitive analysis
- Occupancy projections and budgeting
- Qualification of prospects
- Recommendations on pricing and positioning for long-term value
- Maximization of occupancy levels

Management Services

Grubb & Ellis delivers integrated property, facility and asset management services to a diverse corporate and institutional client base. We provide customized programs that focus on reducing operating costs, retaining tenants and securing long-term income streams that add value to properties. Our management professionals are experienced in many asset types – from high-end office properties, manufacturing and warehouse facilities, to data centers, retail outlets, medical office and multi housing properties. We've earned a reputation for consistent quality service, demonstrated by the fact that nearly one third of all new property and facility management assignments come from existing clients.

Clients also count on us for:

- Business and fulfillment services
- Engineering services
- Energy management
- Call center support
- Emergency preparedness planning

Accurate and timely financial reporting, leading-edge mobile technology solutions, and standardized, documented policies and procedures designed to satisfy Sarbanes Oxley requirements and the most demanding internal controls are critical components of our value-added management services.

Consulting Services

As broader business goals increasingly meld with site-specific real estate issues, Grubb & Ellis has assembled a team of professionals dedicated to helping clients think through critical issues and create detailed real estate strategies that complement business goals.

Changes in ownership, market shifts, new regulations, expansions, consolidations and procurement and outsourcing initiatives all have a significant impact on your specific real estate plans. Acting as a partner, or as the adjunct real estate department, we help our clients examine the range of issues associated with their needs and build detailed real estate strategies to complement their short- and long-term objectives. Our professionals understand industry trends and business needs and how to translate them into real estate assets and operations.

Specific solutions include:

- Strategic portfolio planning
- Business location services
- Valuation and appraisal issues
- Due diligence
- Financial and investment analysis/cost reduction

Depth of Specialized Expertise

Through Grubb & Ellis' Global Client Services, our Corporate Services and Institutional Investment groups provide specialized teams of professionals that are dedicated to solving multi-market and multi-service line real estate issues for the largest corporate and investment clients. Offering expertise in office, industrial and retail properties, as well as investments of all types, our professionals deliver effective real estate solutions through a single point of contact, ensuring effective communication between clients and the vast resources of the Grubb & Ellis network. Clients, in turn, gain immediate access to real estate professionals with the highest level of experience.

Solutions for the Corporate Client

When it comes to corporate clients, Grubb & Ellis has a deep understanding of the procurement processes, diversity requirements, financing needs and reporting challenges of today's corporations. Global

support resources, advanced technology and internal networking via sponsored specialty practices bring best-in-class execution to every assignment.

Areas of expertise include:

- **Tenant Representation Services:** Tenants with both single and multi-market needs capitalize on Grubb & Ellis' proprietary market research and extensive local market knowledge. Professionals assist throughout the space procurement process, from evaluating space needs and recommending creative solutions, to lease negotiation and move management.
- **Facility Management:** A pioneer in outsourced facility management services, Grubb & Ellis has the expertise to handle the most sophisticated facility requirements, including engineering services, transition support, centralized purchasing and financial reporting, technology evaluation and support, environmental and OSHA compliance, and 24x7 call centers.
- **Project Management:** Utilizing best practices in design and construction are additional ways Grubb & Ellis helps clients optimize value and improve operating efficiency. We understand development and tenant improvement projects. Our project management professionals provide expert advice in the areas of planning, design management, construction and post construction.
- **Real Property Administration Services:** Through a dedicated service center, Grubb & Ellis provides comprehensive real property administration services for both leased and owned properties. Utilizing our proprietary database, we offer clients value-added services including lease abstracting, audit and database development, rent and operating expense processing, lease escalation and CAM processing, and lease maintenance and reporting.

Solutions for the Institutional Investor

Grubb & Ellis assists institutional investors in the acquisition and disposition of institutional-grade assets across all property types on a local, national and global basis. In addition, institutional owners also look to Grubb & Ellis to maximize their investment returns through:

- **Property Management:** Our experience with a broad spectrum of property types enables us to provide customized solutions for some of the most prestigious corporate headquarters and Class A offices, as well as retail, manufacturing, warehousing and data centers.
- **Asset Management:** Grubb & Ellis develops and implements tailored asset management strategies that integrate proactive property management, focused marketing and leasing, and aggressive tenant retention efforts to achieve our clients' investment goals and objectives, for a single property or portfolio of assets.
- Financial reporting, including cash flow analysis, proforma analysis and financial modeling
- General service and contract administration

Providing the Answers You Need

Grubb & Ellis delivers perspective, discernment and innovation every day to achieve desired outcomes for our clients. We bring a commitment to strategic thinking and client service, a track record of creativity and the ability to execute effectively and efficiently. We build long-lasting, collaborative relationships with a solid understanding of our clients' goals and strategies. We listen carefully, learn quickly and act decisively to execute commercial real estate solutions that deliver measurable results. For more information or to view our locations, please visit us at www.grubb-ellis.com.

Grubb & Ellis is one of the most widely quoted sources when it comes to real estate market trends and their implications.

Over nearly half a century, our Company has built a reputation for delivering some of the most consistent, reliable real estate research and analysis in the industry, providing our clients the information they need to make sound business decisions and establishing Grubb & Ellis as one of the most widely quoted sources when it comes to market trends and their implications. "According to Grubb & Ellis..." is heard consistently in board rooms and in the press, forming the basis of smart real estate decisions and overall business strategy. Respected business and trade publications, admired multi-market corporations and the industry's savviest owners and investors rely on us for timely, in-depth reports on both big-picture trends and significant local developments. *The Wall Street Journal, Bloomberg Business News, The New York Times, The San Francisco Chronicle, The Los Angeles Times, The Washington Post, The Miami Herald* and *Crain's* are just a few of the publications that look to Grubb & Ellis for expert commentary on the forces shaping today's commercial real estate landscape.

A network of 125 research professionals in more than 100 local offices leverage four components to achieve our unique and comprehensive research insights:

- ***Our professional research managers and their staff***, whose critical function it is to build the base of market intelligence in each office and provide published reports and custom analyses to our clients. Grubb & Ellis pioneered the concept of hiring professional research managers to build

the Company's research function, which is widely viewed as having the most accurate grass-roots level data in the industry. Incoming research analysts and brokers are trained to understand the nuances of the real estate cycle, inflection points in the cycle, leading indicators, and the actions and advice that are appropriate for each phase of the cycle.

- ***Our systems*** used to compile, maintain, analyze and disseminate our research. Grubb & Ellis was a pioneer in the field of computerized market research and analysis. Most of the Company's offices have been tracking data for more than two decades. In addition to subscribing to the top property databases in the industry, Grubb & Ellis has built a proprietary, centralized Web-resident data warehouse to track its property-specific data, including property details, images, available space, leasing and sales comparables, and tenant information, all in an easy-to-use format. The system is based on a rigorous set of research standards designed to ensure that data are consistent across markets.
- ***Our reports and publications*** through which we translate our extensive databases into analysis, insights and actionable recommendations for our clients. In addition to our annual national and local forecast reports, Grubb & Ellis produces quarterly Market Trends reports that analyze local and national market conditions throughout North America by product type, quarterly capital markets reports and white papers on timely topics.

- ***Our real estate sales professionals***, whose familiarity with the people and the property in their submarkets yields a daily, in-the-trenches grasp of changing market conditions. The creation of market intelligence is a team effort, with knowledge flowing constantly between our research teams and our sales professionals.

This knowledge is integrated with our professionals' insight and experience, forming a solid foundation from which to advise clients, and giving Grubb & Ellis and its clients a competitive edge.

The field of real estate research is changing as rapidly as the industry itself, which is demanding more accurate data and sharper analysis, fueled by increasing market transparency, the securitization of real estate and the need for accountability to investors. And it's not just institutional investors who are driving the demand for stronger research. Corporations in all sectors of the economy are re-thinking their real estate strategies to free resources that can be more wisely invested in core business segments. They need timely, accurate and insightful market research to guide decisions. To meet this need, Grubb & Ellis will continue to invest in research with the goal of ensuring that our clients have access to the very best market intelligence in the industry.

For ongoing research information, please visit www.grubb-ellis.com/research.

Grubb & Ellis research teams across the country work together to ensure our clients have the most up-to-date market knowledge.

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square Footage | Vacancy and Absorption | Warehouse/Distribution Rates | SF Under Construction Completions | New and Expanding Retail Tenants | Total Construction | Asking Rental Rates | Logistics Markets | Average Unemployment Rate | Office Investment Volume | Average Property Under Construction | CBD and Suburban Office Investment Volume | Total Investment Sales | Vacancy and Absorption | Warehouse/Distribution Rates | SF Under Construction | Investment Completions | New and Expanding Retail Tenants | Total Construction | Asking Rental Rates | Logistics Markets | Average Unemployment Rate | Office Investment Volume | Average Property Under Construction | CBD and Suburban Office Investment Volume | Total Investment Sales | Vacancy and Absorption | Warehouse/Distribution Rates | SF Under Construction | Investment by Product Type | New and Expanding Retail Tenants | Total Construction | Asking Rental Rates | Capitalization Rate | Average Unemployment Rate | Office Investment Volume | Average Property Sale Price | Population | CBD and Suburban Office Investment Volume | Total Investment Sales | Vacancy Rates | Office Vacancy | Warehouse/Distribution Rates | SF Under Construction | Investment by Product Type | New and Expanding Retail Tenants | Total Construction | Asking Rental Rates | Capitalization Rate | Average Unemployment Rate | Office Investment Volume | Average Property Sale Price | Population | Suburban Office Investment Volume | Total Investment Sales | Vacancy Rates | Office Vacancy

