

Active International Real Estate Index

U. S. Commercial Real Estate Market Study
VOL. I No. 4



An Assessment by Real Estate Professionals of Current Commercial Real Estate Market Conditions and Trends

HIGHLIGHTS

The Active International Index, a U.S. Commercial Real Estate Market Study, polled 1,753 real estate professionals throughout the United States on current and future market conditions, trends and various factors that impact commercial real estate values. In addition, the survey assesses conditions for leasing and investment markets for office, retail and industrial property over the six-month period from October 2005 to March 2006.

- Respondents, as in the last three quarterly surveys, clearly viewed the overall commercial real estate market very positively, yet there were signs that the market might be weakening in some areas.
- Current office, retail and industrial sub-markets were all viewed positively, with the investment segment viewed somewhat more positively than the leasing segment in each instance.
- In a clear reversal of the last quarter's findings, respondents viewed the current markets to be somewhat, or significantly worse than six-months ago.
- Asking price, as in all past surveys, continues to be the most consistent factor having the greatest negative impact on property sales across all markets.
- Respondents continue to anticipate that the recently announced facility closings due to corporate restructuring will have a significant impact on many markets, resulting in longer times to disposition and lower sales prices.
- So-called "Problem Properties" (Properties on the market for two years or more) were continuing to be seen as a significant problem in corporate real estate portfolios. Substantial price reductions below market value and adaptive re-use are seen as the favored solutions currently being considered by their corporate owners.
- Further supporting a possible market softening, respondents indicated that sellers are becoming more realistic, and that the bidding attitudes of investors were becoming significantly less aggressive.

INTRODUCTION

The condition of commercial real estate markets continues to be of great interest as it is generally believed to be a reliable predictor of economic activity overall. The purpose of this quarterly survey is to provide a timely indicator of changes in the national real estate markets while gaining a better understanding of the mitigating factors that impact commercial property values.

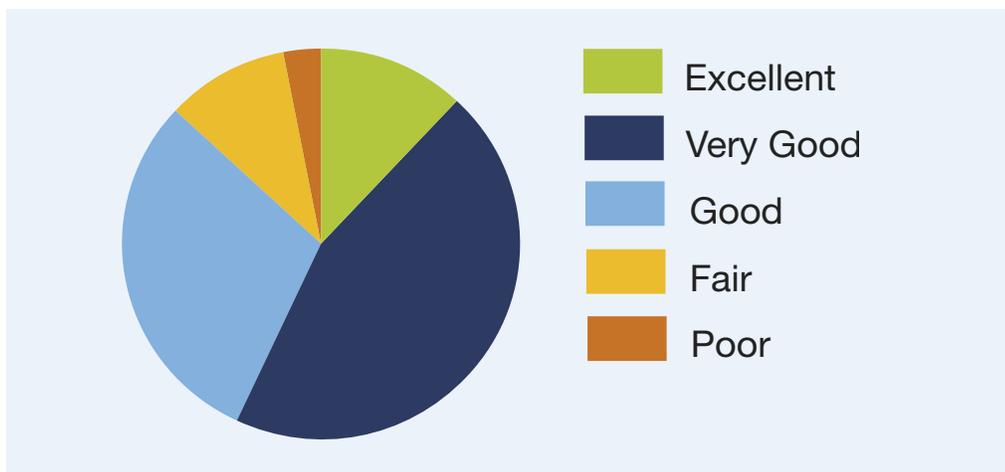
This, the fourth quarterly nationwide survey polled 1,490 transaction professionals of Grubb & Ellis – a global leader in real estate transaction, management and consulting services – as well as 263 consultants, bankers and others intimately involved in commercial real estate activities. Participants were asked broad qualitative questions about conditions and trends in two (2) distinct transaction types (leasing and investment), three (3) distinct commercial property markets (office, retail & industrial) as well as several sub-markets in each.

Participants were also asked to evaluate the impact of various negative factors (size, age, condition, environmental issues & asking price) as well as to characterize the bidding attitudes of several investor categories (1031 & TIC, REITs, Foreign, Institutions, Value-Added and Core [Stabilized Properties]), as well as the current bidding attitudes of sellers. In addition, participants were asked to evaluate the impact of current corporate restructuring on inventory levels and “problem properties,” as well as to identify those disposition alternatives that are currently being considered by their corporate owners to effectively deal with these surplus properties.

FINDINGS

CURRENT CONDITIONS IN THE U.S. COMMERCIAL REAL ESTATE MARKET - OVERALL

Q. From an overall perspective how would you describe the current commercial real estate market?
(RESPONSE SCALE = EXCELLENT, VERY GOOD, GOOD, FAIR, POOR, NOT SURE)



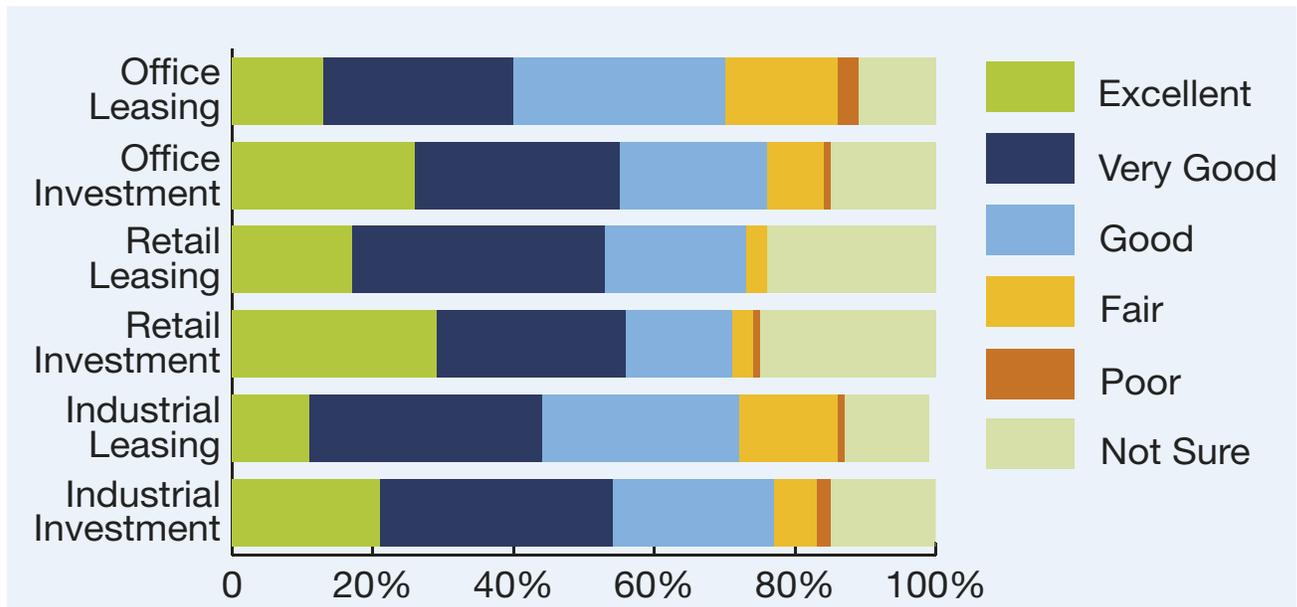
When asked to describe the current commercial real estate market respondents opinions were, once again, very positive with 87% in both this, and the previous quarter saying excellent, very good or good. Looking inside these numbers, however, indicates a possible softening in demand with 12% in this quarter vs. 14% in the past quarter saying excellent, 46% vs. 38% saying very good and 30% vs. 36% saying good. The same, (10% in both cases) said fair, but more (3% vs. 0%) said poor.

CURRENT CONDITIONS IN THE U.S. COMMERCIAL REAL ESTATE MARKET (OFFICE, RETAIL, INDUSTRIAL)

Q. Considering how you rated overall real estate market conditions, how would you characterize the Leasing and Investment markets for the following property types?

OFFICE LEASING / INVESTMENT – RETAIL LEASING / INVESTMENT – INDUSTRIAL LEASING / INVESTMENT

(RESPONSE SCALE = EXCELLENT, VERY GOOD, GOOD, FAIR, POOR, NOT SURE)



Overall, respondents with an opinion viewed both of the office markets very positively. The office investment market, however, was viewed significantly more positive than the office leasing market with 90% saying excellent (31%), very good (34%) or good (25%) for office investment vs. 77% of respondents saying excellent (14%), very good (30%) or good (33%) for office leasing. Twice as many (22%) said fair (18% vs. 10%) or poor (5% vs. 1%) for office leasing markets vs. office investment markets.

Respondents views of the retail markets were somewhat mixed. Overall respondents opinions were essentially the same with 96% saying excellent, very good or good for leasing vs. 94% for investment. A closer look indicated a somewhat stronger market for investment with more than one-in-three (38%) saying retail investment markets were excellent vs. slightly more than one-in-five (22%) having the same opinion of retail leasing markets.

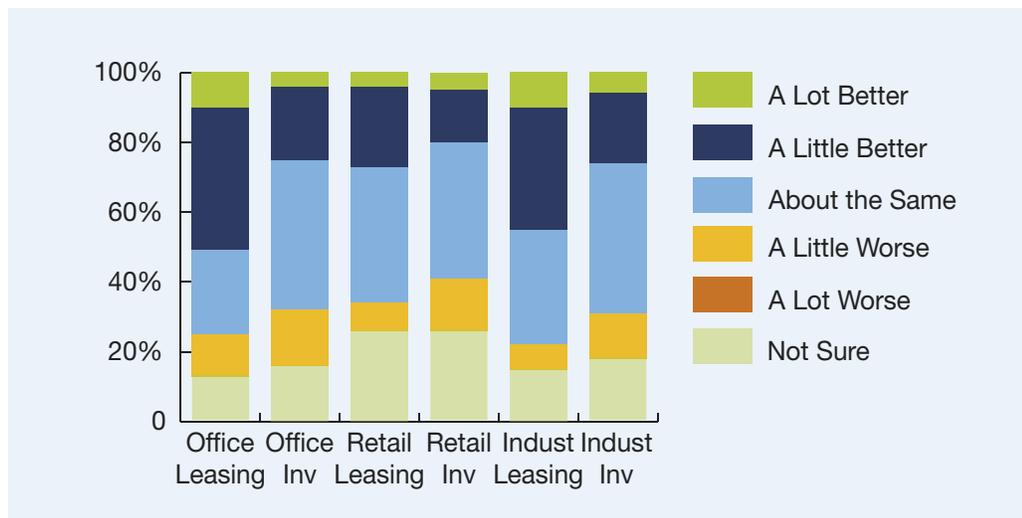
Industrial markets followed the same pattern with nine-in-ten (91%) saying excellent (25%), very good (39%) or good (27%) for industrial investment vs. 82% saying excellent (13%), very good (37%) or good (32%) for industrial leasing. Of those with a negative opinion, twice as many had a negative opinion of industrial leasing markets with 18% saying fair (16%) or poor (2%) vs. only 9% saying fair (7%) or poor (2%) for industrial investment markets.

MARKET CONDITIONS TODAY VS. SIX-MONTHS AGO

Q. Considering your opinion of current market conditions, what would you say is the general condition of the Leasing and Investment markets today compared with six-months ago?

OFFICE LEASING / INVESTMENT - RETAIL LEASING / INVESTMENT - INDUSTRIAL LEASING / INVESTMENT

(RESPONSE SCALE = A LOT BETTER, A LITTLE BETTER, ABOUT THE SAME, A LITTLE WORSE, A LOT WORSE, NOT SURE)



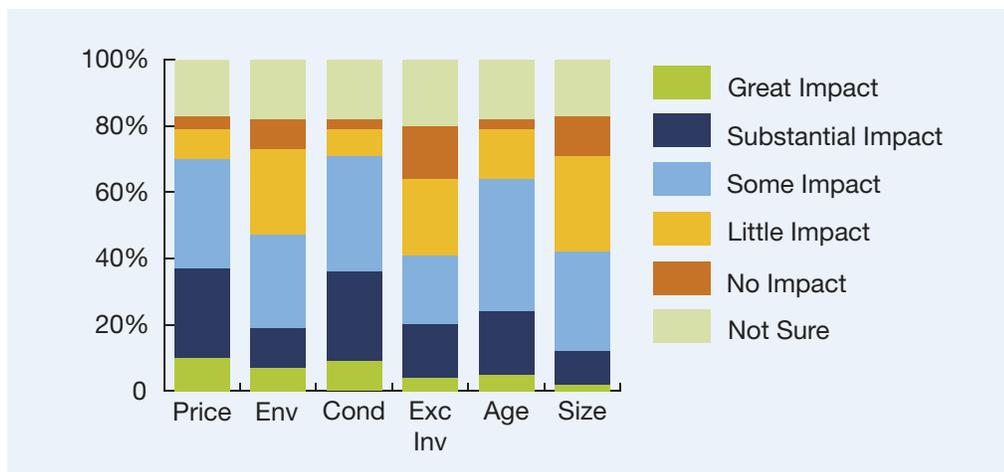
While respondents continue to view all markets positively – as indicated in the previous question – they viewed the current market conditions as either somewhat, or significantly, worse than six-months ago. The percentage of respondents saying about the same, a little or a lot better declined across the board in this quarter vs. last quarter ranging from industrial leasing declining from 97% to 92% (a small decline within the margin of error) to a significant decline in office investment from 95% to 81%.

IMPACT OF NEGATIVE FACTORS - OFFICE

Q. Of all the factors (excluding Interest and Cap Rates) that negatively impact the sale of Office properties in your market, can you rate which factors are currently having the greatest impact?

ASKING PRICE, ENVIRONMENTAL ISSUES, CONDITION, EXCESS INVENTORY, AGE, SIZE

(RESPONSE SCALE = NO IMPACT, LITTLE IMPACT, SOME IMPACT, SUBSTANTIAL IMPACT, GREAT IMPACT, NOT SURE)



While on average 18% of respondents did not have an opinion, those respondents with an opinion expressing great or substantial impact named asking price and condition (essentially the same at 45% and 44% respectively) as the factors

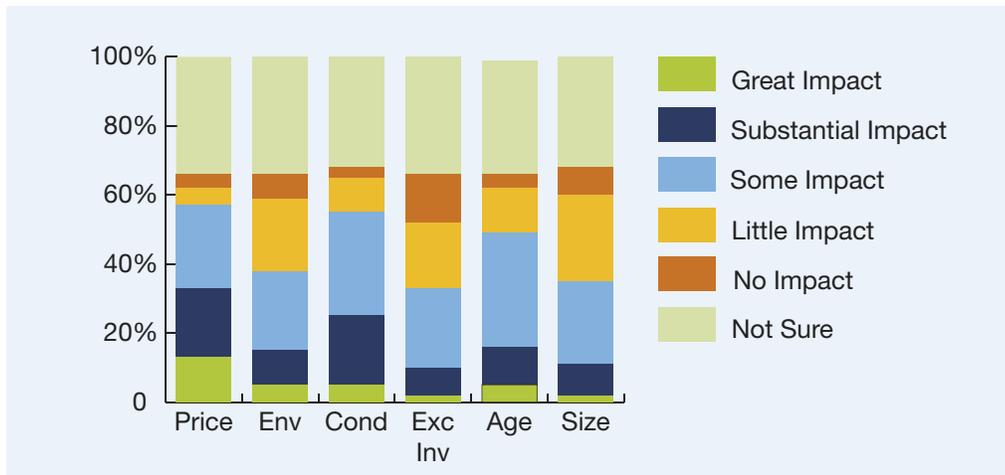
having the most negative impact on the sale of office properties. Age (29%), excess inventory (25%), environmental issues (24%) and size (14%) all trailed significantly.

IMPACT OF NEGATIVE FACTORS – RETAIL

Q. Of all the factors (excluding Interest and Cap Rates) that negatively impact the sale of Retail properties in your market, can you rate which factors are currently having the greatest impact?

ASKING PRICE, ENVIRONMENTAL ISSUES, CONDITION, EXCESS INVENTORY, AGE, SIZE

(RESPONSE SCALE = NO IMPACT, LITTLE IMPACT, SOME IMPACT, SUBSTANTIAL IMPACT, GREAT IMPACT, NOT SURE)



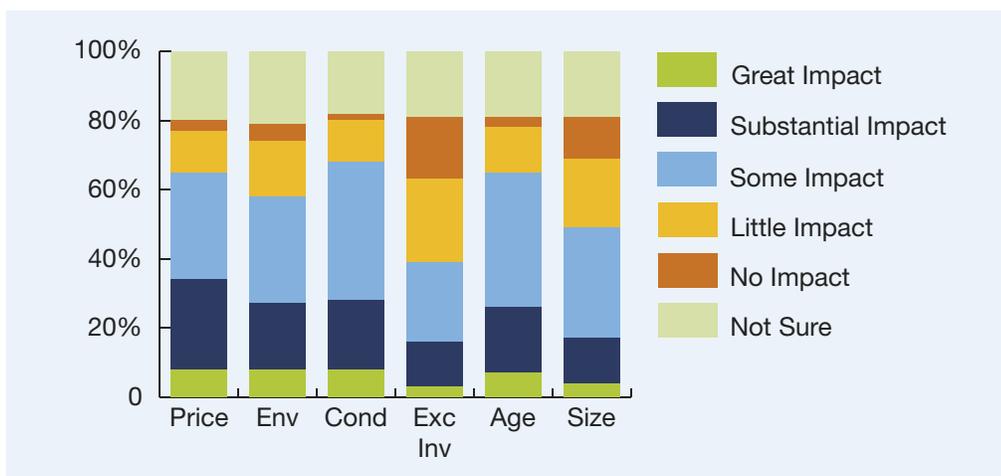
While more than one-in-three (34%) said that they were not sure, due once again to the specialized nature of retail marketing we previously discussed, those respondent with an opinion expressing great or substantial impact named asking price (51%) as the factor having the most negative impact on the sale of retail properties. Asking price was trailed by condition (37%), age (23%), environmental issues (22%), size (16%) and excess inventory (15%).

IMPACT OF NEGATIVE FACTORS - INDUSTRIAL

Q. Of all the factors (excluding Interest and Cap Rates) that negatively impact the sale of Industrial properties in your market, can you rate which factors are currently having the greatest impact?

ASKING PRICE, ENVIRONMENTAL ISSUES, CONDITION, EXCESS INVENTORY, AGE, SIZE

(RESPONSE SCALE = NO IMPACT, LITTLE IMPACT, SOME IMPACT, SUBSTANTIAL IMPACT, GREAT IMPACT, NOT SURE)

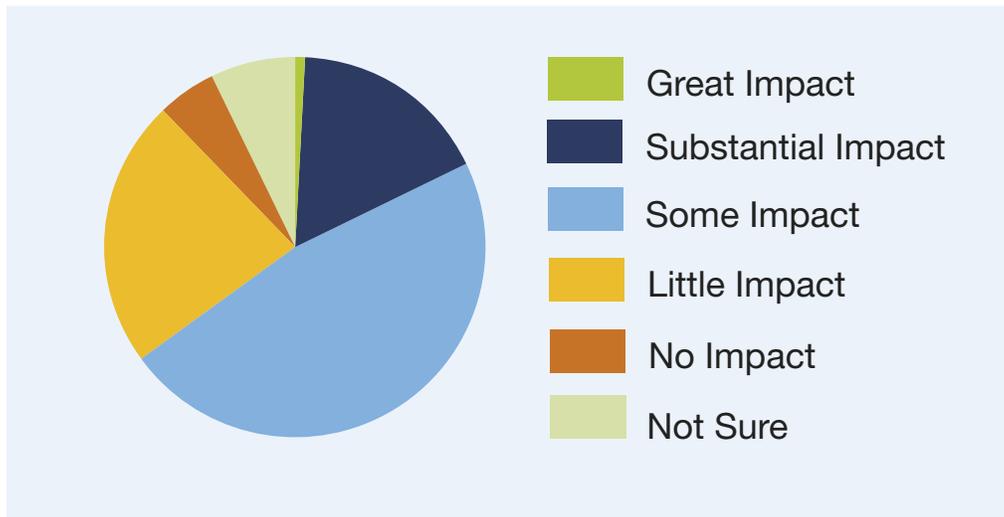


While once again – as with office properties – on average 17% of respondents did not have an opinion, of those respondents with an opinion expressing great or substantial impact named asking price (42%), environmental issues (35%) and condition (34%) as the factors having the most negative impact on the sale of industrial properties. They were trailed by age (32%), size (22%) and excess inventory (20%).

IMPACT OF CURRENT CORPORATE RESTRUCTURING

Q. In light of current market conditions, how much impact do you believe the many recently announced closings of a large number of corporate owned facilities – due to bankruptcy, outsourcing, etc. – will have on the markets in those areas?

(RESPONSE SCALE = NO IMPACT, LITTLE IMPACT, SOME IMPACT, SUBSTANTIAL IMPACT, GREAT IMPACT, NOT SURE)

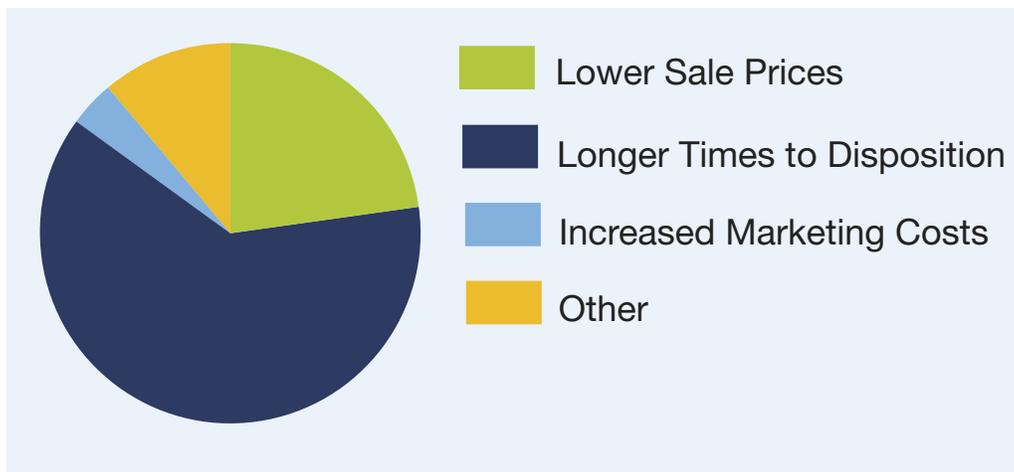


Most (93%) of respondents had an opinion, and of those with an opinion, seven-out-of-ten (71%) said great impact (2%), substantial impact (19%) or some impact (50%). 24% said little impact, and one-in-twenty (5%) said no impact.

EFFECTS OF INCREASED INVENTORY

Q. Assuming an increase in inventory due to a large number of corporate-owned facilities now closing, what do you believe will be the effects on the sale of these properties?

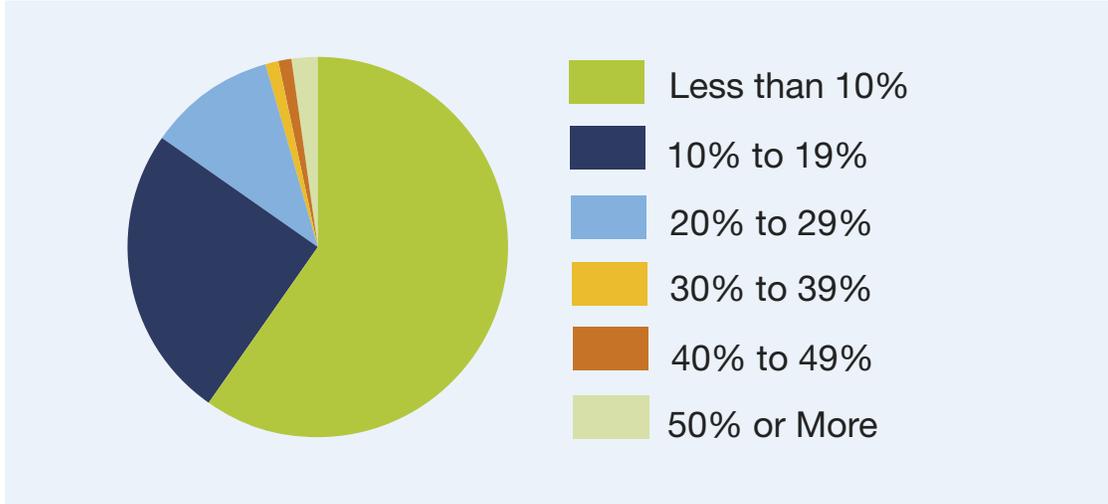
(RESPONSE SCALE = LOWER SALES PRICES, LONGER TIME TO DISPOSITION, INCREASED MARKETING COSTS)



While one-in-ten respondents (10%) did not have an opinion, of those respondents with an opinion, most (62%) believed that longer times to disposition would be the major effect, followed by lower sales prices (24%) and increased marketing costs (4%).

DISPOSITION OF PROBLEM PROPERTIES

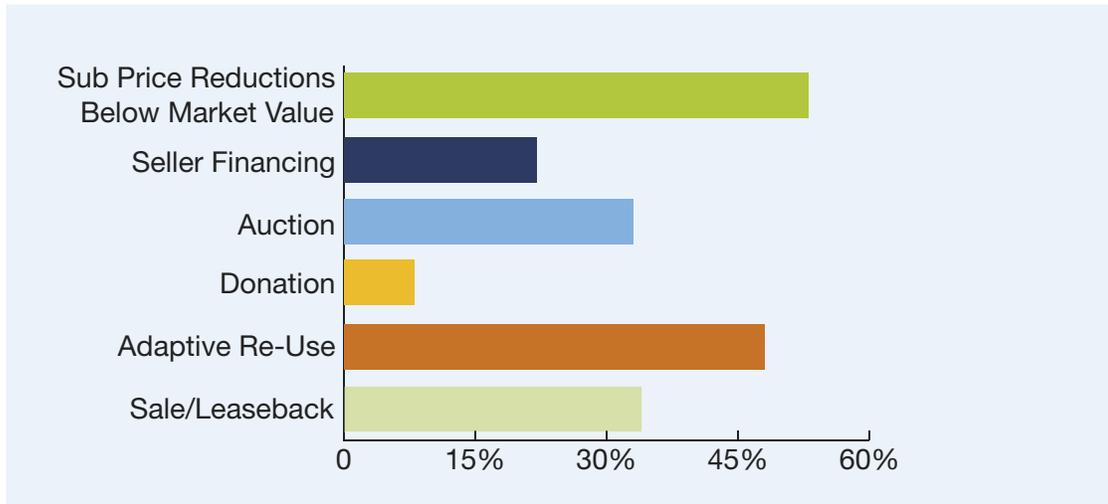
Q. Of all the corporate-owned facilities currently available in your market areas, what percentage of these properties could be considered “problem properties?” (Properties on the market for two years or more.)
 (RESPONSE SCALE = LESS THAN 10%, 10% TO 19%, 20% TO 29%, 30% TO 39%, 40% TO 49%, 50% OR MORE)



Of the 92% of respondents with an opinion, more than half (55%) said less than 10% of the properties available in their market area could be considered “problem properties.” Almost one-in-four (23%) said 10% to 19%, one-in-ten (10%) said 20 to 29%, and almost none (1%) said 30% to 39%.

Q. When faced with “problem properties,” what disposition alternatives have your corporate clients considered, or are considering?

(RESPONSE SCALE = SUBSTANTIAL PRICE REDUCTIONS BELOW MARKET VALUE, SELLER FINANCING, AUCTION, DONATION, ADAPTIVE RE-USE, SALE/LEASEBACK)



More than half of respondents (53%) said that when faced with the disposition of “problem properties” their clients considered substantial price reductions below market value. Substantial price reductions below market value was trailed by adaptive re-use (48%), sale/leaseback (34%), seller financing (22%) and donation (8%).

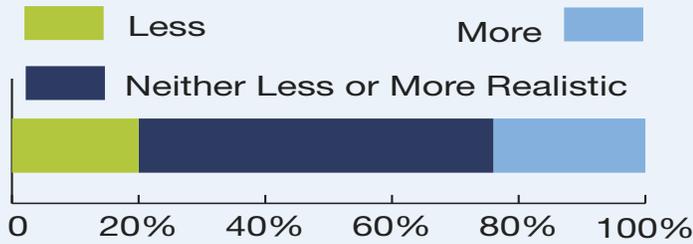
PRICING ATTITUDES OF SELLERS

Q. Have sellers become more or less realistic compared to six-months ago?

(RESPONSE SCALE = LESS REALISTIC, NEITHER LESS OR MORE, MORE REALISTIC.)

PRICING ATTITUDES OF SELLERS (CONTD.)

In a reversal of the last quarter respondents now see sellers as more realistic. (24% vs. 21%) said that sellers were more realistic as opposed to the (20% vs. 30%) who said that sellers were less realistic. More than half (56% vs. 49%) said that sellers were neither less or more realistic than six-months ago.

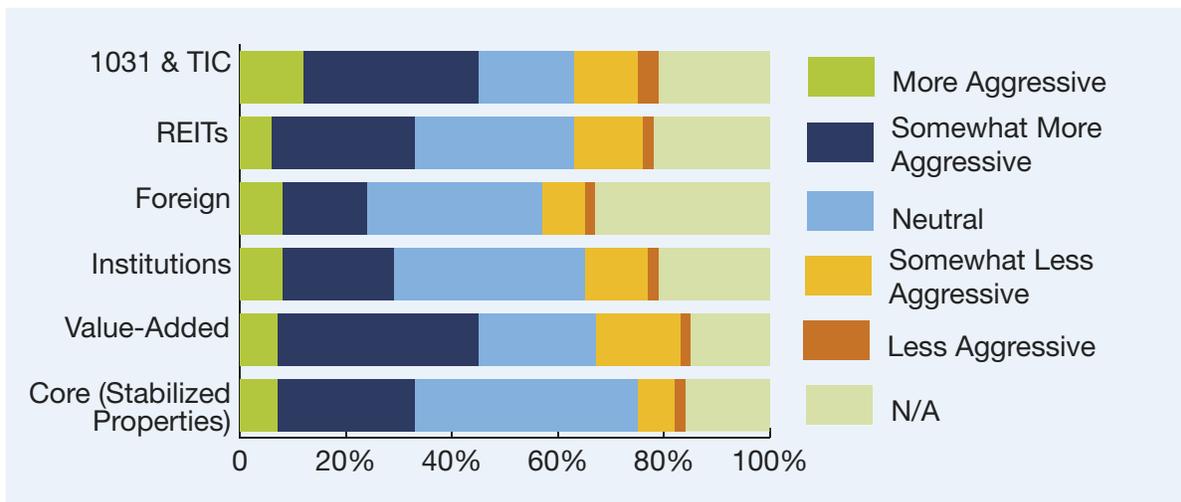


BIDDING ATTITUDE OF INVESTORS

Q. Over the past six-months how would you characterize the bidding attitude of the following investor categories?

1031 & TIC, REITs, FOREIGN, INSTITUTIONS, VALUE-ADDED, CORE (STABILIZED PROPERTIES)

(RESPONSE SCALE = MORE AGGRESSIVE, SOMEWHAT MORE AGGRESSIVE, NEUTRAL, SOMEWHAT LESS AGGRESSIVE, LESS AGGRESSIVE, NOT SURE/NA)



In every instance, the bidding attitudes of investors were viewed by respondents as statistically less aggressive than in the last quarter. The percentages saying more aggressive or somewhat more aggressive declined for 1031 & TIC investors from 71% to 57%, value-added investors from 59% to 53%, institutional investors from 55% to 37%. REITs from 50% to 43%, core investors from 50% to 39% and foreign investors, the only group under 50% last quarter at 42% declined even further to only 36% saying more or somewhat more aggressive.



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