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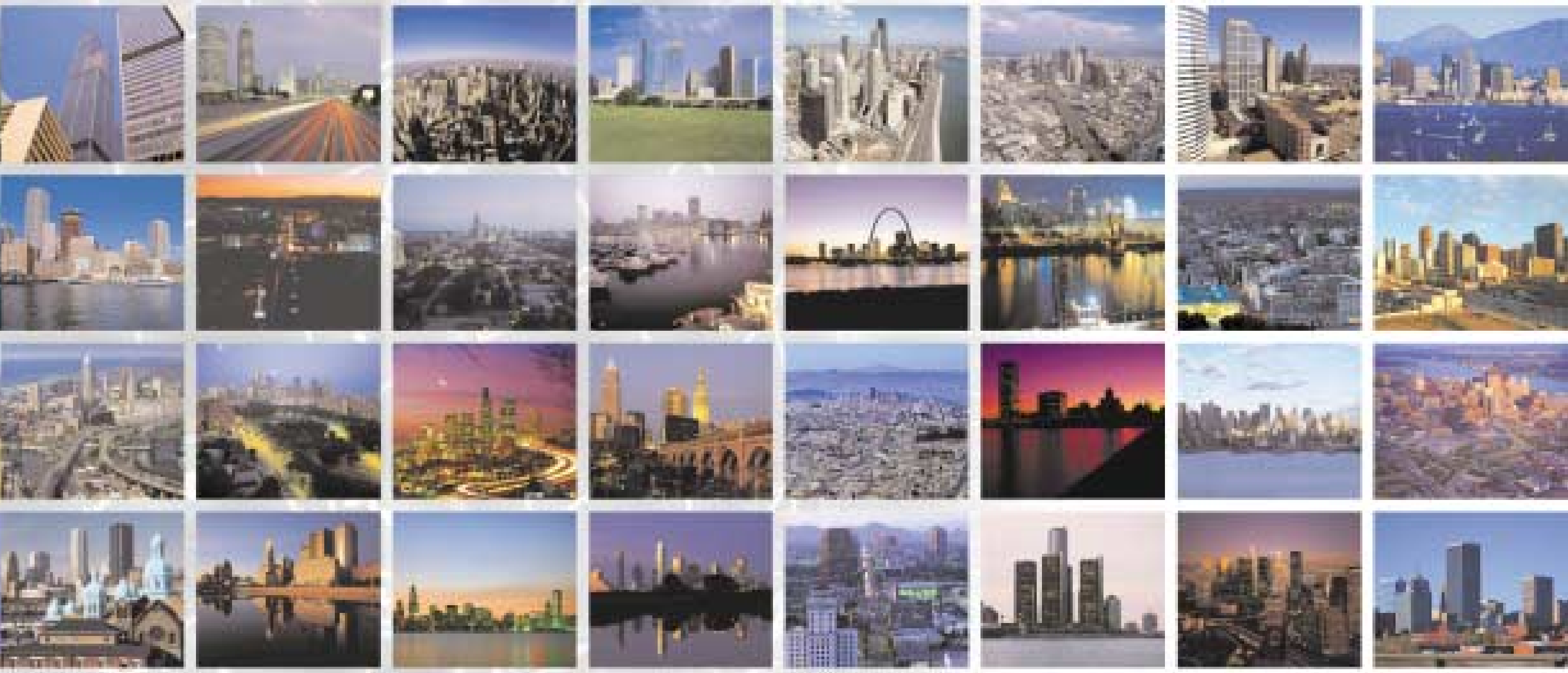

2004 REAL ESTATE FORECAST

GREAT PLAINS

DES MOINES
KANSAS CITY
OMAHA
ST. LOUIS
WICHITA

Grubb & Ellis
Knight Frank
Global

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Although there is no consensus on how quickly the economy will rebound and just how strong the recovery will be, many signs point to improving real estate markets in 2004.

And we would certainly all agree that it is about time. For the past three years, the real estate markets have been tempered by a recession that ended in 2001 followed by an unusually long period of continuing job losses lasting into the fall of 2003.

We expect that the economy will begin to move from the current jobless phase to job creation by the end of 2003. As this occurs, we will begin to see some improvement in all sectors, particularly office, industrial and multi housing. The retail market, which remained healthy throughout the recession, should get even stronger as job creation sparks an increase in consumer spending. At the same time, the red-hot real estate investment market may return to a more normal growth trajectory as interest rates increase.

For tenants who have yet to act on the opportunities presented by a soft leasing market, the good news is there is still time to negotiate reduced rents or trade up for better space. Our advice, however, is that tenants make their decisions early in the year if possible, because landlord concessions may become less generous as leasing activity picks up.

As we all know, an improving economy is only part of the story. It is imperative to have sound advice that is based on a strong knowledge of the local market and the capability to react quickly to the ever-changing market dynamics.

We believe that is where Grubb & Ellis' strengths bring a distinct competitive advantage. We are committed to providing quality transaction and management services to our clients. Through our global strategic alliance with Knight Frank and our Canadian alliance with Avison Young, we are able to provide our clients with seamless access to a comprehensive array of real estate services around the world.

The consolidation in our industry has given us a unique competitive advantage—Grubb & Ellis provides the local market knowledge and responsiveness of a boutique real estate firm with the global reach and resources of a large international organization. In other words, our size and highly respected local market knowledge allows us to be agile and provide customized real estate solutions.

We believe the information contained in our 2004 Forecast will prove to be a valuable and strategic resource as you plan for the coming year. As always, we hope you'll consider Grubb & Ellis for all of your commercial real estate needs.

Sincerely,

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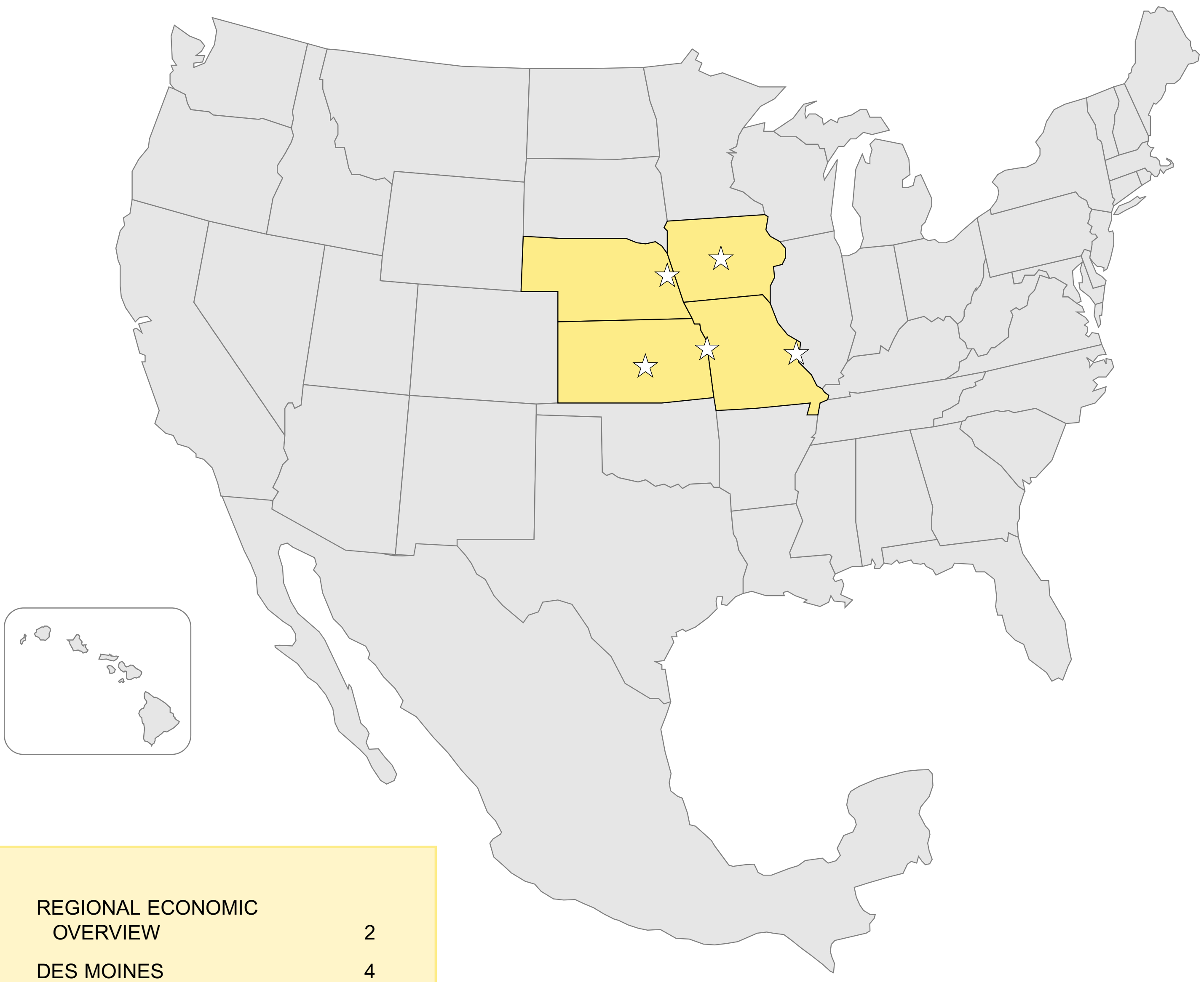

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Please contact your local Grubb & Ellis office for further information about this regional forecast or see the contributors on the last page.

Note: Year-end 2003 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 of numerals.

GREAT PLAINS

OVERVIEW

Expect modest growth for industrial and office in 2004, before improving in 2005. Retail should continue the same pace in 2004, then decline in 2005. Investors will be active in multi housing and industrial.

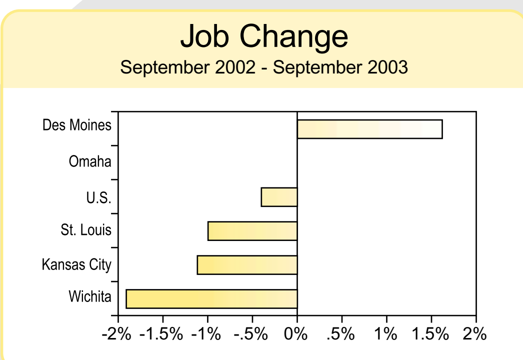
The five Midwestern markets covered in the Great Plains represent small to mid-sized metropolitan areas that are largely influenced by the national economy and experience similar trends as first-tier markets. The region's central location is a beneficial aspect, and provides a bridge between the active coastal mega-metropolitan markets.

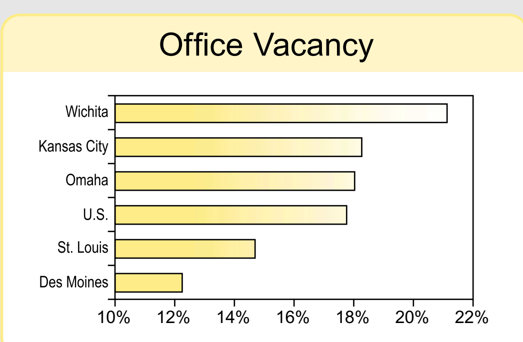
The region's commercial real estate markets are nearly parallel. In each of the five markets, retail is the leading product type with vast growth and limited ramifications of the economic downturn. However, the question remains whether or not retail can sustain the same rate of growth for much longer. Meanwhile, office and industrial are making a comeback in most of the cities after enduring a two-year slowdown.

St. Louis, the largest metropolitan area in the region, is the healthiest. Nearly every property type in the St. Louis market is performing well and is poised for further growth.

The St. Louis office market is recovering with a gradual uptick in demand and a shallow speculative construction pipeline. The recent trend towards corporate consolidations is further fueling activity. Companies such as MCI WorldCom, MasterCard International and Express Scripts constructed new corporate facilities. Now, two more companies are continuing this trend, as CitiGroup and A.G. Edwards move into their new headquarters facilities.

For the second consecutive quarter, demand for industrial space increased, posting positive absorption and stabilizing vacancies. A majority of the activity is taking place across the Mississippi River in Illinois in the 2,300-acre, Gateway Commerce Center. The giant warehouse/distribution park is prompting many companies, such as Proctor & Gamble, Dial Corporation, Unilever and Hershey Foods, to build large facilities here.





Big-box retailers continue to grow in St. Louis. Many developments are power centers anchored by large discounters such as Target and Wal-Mart. One of the largest retail developments in the area is St. Louis Mills, a 1.2-million-square-foot mall in Hazelwood. The mall has 18 anchors and more than 200 retailers, predominately discounters, illustrating the strength of discounters in today's economy.

Kansas City is perhaps one of the more stable markets in the Great Plains region. A diverse economy and steady residential growth keeps the city on an even keel and shielded from any drastic changes in a given industry. Retail is developing in nearly every part of the metropolitan area. The largest of the recent projects is in Kansas City, Kansas, near the Kansas Speedway. Village West, a 400-acre development anchored by Nebraska Furniture Mart, Cabela's Sporting Goods and Great Wolfe Lodge evolved into a retail destination. The Legends is the planned 1 million-square-foot shopping center component to Village West expected to kick-off construction in 2004.

The Kansas City office market did stumble somewhat in 2002, but the market proved its resiliency in 2003 by absorbing much of the space pushed on the market from corporate downsizing and restructuring. Vacancy peaked at 19.9 percent before declining to 18.2 percent. The office market is expected to continue improving over the course of the next two years as the economy strengthens and companies become more secure.

The industrial market also experienced a rise in vacancy, but was plagued more by inactivity rather than a surplus of space. Speculative construction was nearly nonexistent for the last 18 months while the market waits for demand to rebound. As employment levels increase, so too will demand for space.

Omaha is largely comprised of FIRE industries, accounting for 20 percent of the employment base. The Omaha industrial market remains stable, while office and retail are battling rising vacancies. Recent developments caused an oversupply of space and could push office vacancies upward to 30 percent in Downtown. Aging properties are also adding an influx of vacant space to a budding retail market as new developments are constructed. Projects such as Village Point and Papillion Promenade will add a mix of retailers to the market.

Wichita's employment is grounded in aircraft manufacturing, with the likes of Boeing, Raytheon and Cessna as some of the leading employers in the city. Manufacturing makes up as much as 25 percent of the area's employment, which acts as a precursor to the city's well-being. Currently, the airline industry is suffering through the economic downturn, and Wichita is feeling the effects. Massive layoffs devastated the market's industrial market, pushing vacancy up 290 basis points in the last year reaching 10.7 percent.

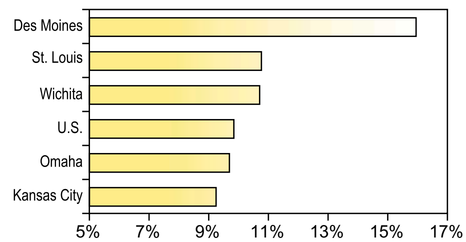
Wichita's retail and office markets are performing well. The retail sector remains very active, as the northeast and northwest quadrants continue to expand by adding additional retail to big box-anchored centers. For office, the decision to keep the Wichita-Sedgwick County Law Library in the core provides extra incentive for law firms to remain in the Central Business District. This decision, coupled with the expansions of Excel and VeriPrime will lead to improvements for Downtown and the office market.

Des Moines, the smallest of the five markets, consists of a strong financial services industry, and a high concentration of insurance companies. Expect 2004 to be a growth period for office, with an emphasis in financial services, medical and small build-to-suit opportunities. Wells Fargo potentially could have the largest impact in 2004 by planning an 800,000-square-foot campus in the western suburbs and expanding its presence in Downtown.

Des Moines' office is outperforming retail and industrial. The industrial market is flooded by a space surplus and lacks activity to turn it around in 2004. Meanwhile, Firestone Agricultural Tires is constructing an 850,000-square-foot facility in north Des Moines, leaving vacant space in its wake. The retail market is experiencing growth in west suburban submarkets, with over two million square feet at the Jordan Creek Town Center.

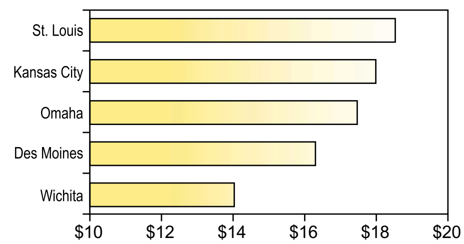
Expect modest growth for industrial and office in the upcoming year, before improving in 2005. Retail should continue the same pace in 2004, then decline the next year. Investors should be active in multi housing and industrial.

Industrial Vacancy



Average Suburban Grocery-Anchored

In-Line Rents Annualized, Per Square Foot, NNN



OFFICE

Medical office and financial facilities play a major role in future expansion in the suburban market. One million square feet of projects coupled with positive absorption contribute to growth in 2004 and years to come.

For the Des Moines metro office real estate market, the most important economic driver in 2004 is the continued expansion in the financial services industry. With Des Moines so heavily weighted in this sector, growth or contraction in this industry is exaggerated in the real estate market. Of course, the general economy and interest rate levels also play a role in the coming year's real estate market.

Medical office, as well as an increase in small build-to-suit office projects should emerge as hot trends in 2004. Both Iowa Health Systems and Mercy are planning major medical facilities in the western suburbs in the coming year. As evidenced in 2003, low interest rates led to a surge in businesses' building offices as opposed to leasing.

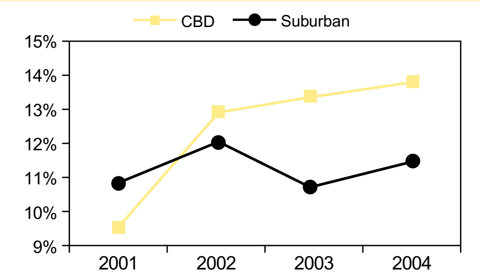
Market at a Glance

2003 Year End

	CBD	Suburb.	Total
Rentable*	5,630	5,344	10,974
Vacant*	755	579	1,334
Vacancy Rate	13.4%	10.8%	12.2%
Absorbed*	-42	163	121
Under Construction*	0	140	140
Rental Rate**			
Class A	$17.39	$16.11	$16.75
Class B	$14.01	$13.03	$13.52

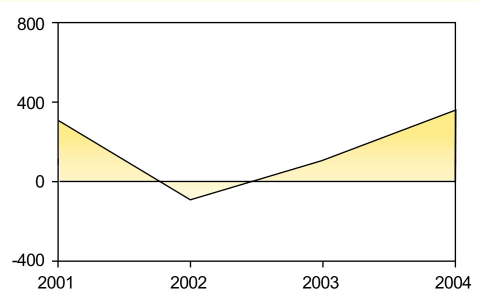
*Square feet in thousands; excludes owner-occupied, medical, government
** Weighted average asking rent/SF/year Full Service

Vacancy Rates



Net Absorption

Sq. Ft. in Thousands



The office market should expand in 2004. Projects already under construction and/or planned include well over 1 million square feet. This, coupled with a positive absorption rate in the office market, should make 2004 a growth period. In addition, as the economy rebounds, the slight improvement in office activity should manifest.

Effective rental rates probably bottomed out and should remain at about current levels in 2004. Free rent, the most frequent concession used in 2003, will again be prevalent in 2004. The suburban markets will fair better than the CBD.

Low interest rates and a generally good feeling about the local economy led to a limited amount of speculative office space built in 2003. This will increase slightly in 2004. New construction office rents are in the $12 to $14 net per square foot range and between $18 and $20 net in the medical submarket.

The largest impact for the coming year is the planned 800,000-square-foot Wells Fargo Mortgage office park in the western suburbs. In addition, Wells Fargo Financial is potentially looking at a major expansion of their presence in the CBD for 2004 and beyond. As this new product comes on-line, it will create vacant space as well as draw other office projects around their perimeter.

Homesteaders Life Company's purchase of the National Travelers Life Class A office building in the suburbs was the single largest commercial real estate office transaction in 2003. In addition, Wells Fargo Mortgage leased over 160,000 square feet on a short-term basis in anticipation of building their new campus. Shorter term leases continue to be the trend for 2004.

Firestone Agricultural Tire is completing construction on its new 850,000-square-foot worldwide distribution headquarters in 2004. Several large vacant facilities contribute to downward pressure on rates.

INDUSTRIAL

DES MOINES

After two years of increasing vacancy, it appears the Des Moines industrial market will endure the same trend as seen in years past. In 2003, leasing activity remained soft. For the first time in years, there are large blocks of space available to attract tenants.

Oversupply is the theme for 2004. The former SuperValu 560,000-square-foot warehouse and distribution center remains vacant, as well as the former R.R. Donnelly 640,000-square-foot printing facility. In 2004, Firestone Agricultural Tire will vacate its 440,000-square-foot warehouse in northeast Des Moines and approximately 600,000 square feet of leased space. On a brighter note, Firestone Agricultural Tires decided to keep its worldwide distribution headquarters in Des Moines and is completing construction on its new 850,000-square-foot facility in north Des Moines in the first quarter of 2004.

Stress on rates continues to be strong due to our abundance of space and the pressure is projected to linger. Effective rental rates will tick down in 2004 as newer bulk product competes with older properties. As an example, one property is being quoted with net rental rates 40 percent below newer product in the same submarket.

Landlords seeking to compete will offer free rent, moving allowances and expense caps to lure cost conscious tenants. While newer product in some submarkets enjoys limited tax abatement, it is not enough.

The strength in activity persists in the northwest submarket, as the surplus and variety of product coupled with interstate access remain dominant factors. Landlords, within walking distance of one another, vie for tenants, who in a soft market with abundant options, drive the deals.

No speculative development is foreseen in 2004. The glut of more recent construction and older product will force developers to look to other product types.

Build-to-suit activity is flat. Users, now have large blocks of space available at rental rates which make new construction financially unreasonable, even with low interest rates.

The most significant deal in 2003 was the sale of the former SuperValu warehouse and distribution center to an out-of-state investor at substantially below replacement cost, enabling a conversion of the facility to multi-tenant at below market rental rates.

Opportunistic investors continue to "invest in vacancy," particularly older properties which have been on the market for a prolonged period. Users, however, will be paying top dollar for smaller properties with low interest rates driving pricing.

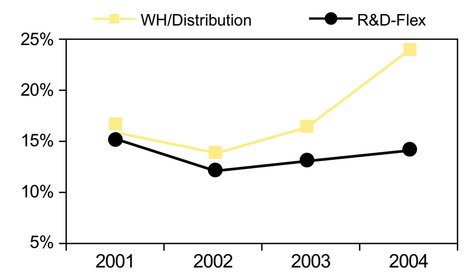
Market at a Glance

2003 Year End

	Warehouse Distribution	R&D/ Flex	Total
Total*	21,295	6,622	27,917
Vacant*	3,517	959	4,476
Vacancy Rate	16.5%	14.5%	16.0%
Absorbed*	-573	-27	-600
Under Construction*	0	114	114
Rental Rate**	$3.00	$4.50	

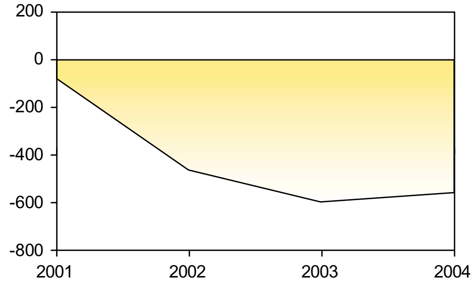
*Square feet in thousands; includes owner-occupied, multi-tenant & single tenant buildings at least 10,000 sq. ft.
** Weighted average asking rent/SF/year Full Service
***Flex rate increased due to more office space available in flex buildings

Vacancy Rates



Net Absorption

Sq. Ft. in Thousands



RETAIL

Low interest rates continue to spur new construction and development in the west suburbs. Premier retailers and restaurants are now taking interest in the Des Moines market.

The Des Moines retail market can best be characterized as being fractional. The healthy west suburban market is being led by new construction, increasing rental rates and positive absorption. Meanwhile, the northeast and southeast markets are best described by big-box vacancies, increasing landlord concessions and questions as to if effective rental rates have yet to bottom out.

Growth in 2004 continues to be led by west suburban developments. Expansion of white-collar employment in the financial services and insurance industries remains a catalyst for growth. Furthermore, General Growth Properties, Inc. opens the $200 million, 216-acre Jordan Creek Town Center, bringing an unparalleled level of excitement to the area by attracting dozens of restaurants and retailers to the MSA that typically would not locate in tertiary markets. Retail developments planned on several tracts along the Mall's perimeter and providing ample opportunities to tenants to locate stores in the Jordan Creek area. One such development, West Glen, anchored by SuperTarget, attracted several prestigious local retailers. However, retailers already located in Des Moines need time to adjust to new rent thresholds in this submarket, which will surpass $20.00 per square foot. Both landlords and tenants can expect rental rates to rise in the west suburban market in 2004, and limited concessions to be the status quo.

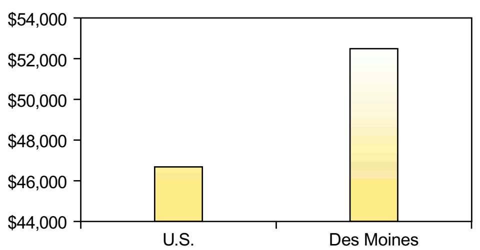
The City of West Des Moines is well poised for the Jordan Creek project. Millions of dollars spent on roads and other infrastructure prepare not only for the mall, but also a proposed Wells Fargo mortgage office development that could add 3,300 jobs to the immediate area providing a natural customer base for these upscale retailers.

While the future is bright in the west, landlords struggle to back-fill vacant retail space on the metro's northeast and southeast markets. With a few exceptions, retail remains stagnant in these markets. With lingering vacancy in big box, landlords continue to consider non-retail uses to fill space.

The emergence of Ankeny as one of the metro's strongest retail corridors continues in 2004, and shows no signs of stopping. Kohl's, Dress Barn, Michaels, Petco and Pier One opened stores in 2003, and Sportsman's Warehouse will open its first metro store in 2004.

The coming year will prove to be very eventful. The fever is running high for both landlords and tenants as developments around Jordan Creek Town Center begin to take shape. Names of a number of premier retailers and restaurants are being touted as having interest in Des Moines for the first time.

Median Household Income, 2003



Source: Claritas

New/Expanding Tenants
2003/2004

Merchant	Store Type	Location(s)
Dress Barn	Clothing	Ankeny
Super Target	Discount Store	West Des Moines
Super Target	Discount Store	Altoona
Lowe's	Home Improvement	Altoona
Walgreen's	Pharmacy	Multiple Locations
Sportsmans Warehouse	Sporting Goods	Ankeny
Pets Mart	Pet Supplies	West Des Moines
Pets Mart	Pet Supplies	Ankeny
Family Dollar	Discount Store	Multiple Locations

Capitalization rates appear to have stabilized in the Des Moines investment market, and sellers begin to consider offers. Buyers, in their search for product, are pursuing value-added or distressed properties.

INVESTMENT

In 2003, interest rates declined to an all-time low. Due to the low rates, Des Moines' investment activity continues to be strong across all product types. The office investment market, normally a small portion of the investment number, experienced some steady activity in 2003. Industrial had a significant deal in 2003, with the sale of the former SuperValu warehouse and distribution center sold to an out-of-state investor. To end the year on a high note, the sale of Westlake Apartments in early November, brought multi housing to the top of the chart.

Office investment purchases certainly were an example of "investing in the vacancy"—buying high vacancy product hoping to fill the space and produce the expected rate of return. It remains to be seen if this investment strategy will actually pay off in 2004. The location of the projects, as well as the general economics of next year will play key roles.

The SuperValu transaction was substantially below replacement cost, enabling the new owner to convert the facility to multi-tenant below market rental rates. The former R.R. Donnelly's printing facility is still looking for a buyer. Meanwhile, Firestone Agricultural Tire is building a new 850,000-square-foot facility for occupancy in Spring 2004, and its current location is on the market.

As seen in 2003, the major economic driver affecting Des Moines in 2004, continues to be interest rates. With Jordan Creek Town Center under construction and Wells Fargo announcing 2,000 new jobs, the epicenter of activity surrounds 74th Street and George Mills Parkway in West Des Moines. Land speculation around this new artery is gearing up for some long-awaited closings, which could test local price per square foot records.

The Governor's desire to make Des Moines a tech-friendly environment could help grab new market share, specifically the ever expanding bio-tech sector. Buyers continue to outpace interested sellers, so capitalization rates should hold steady at or near current lows. New home construction exceeds expectations, while land owners hold on for higher prices.

The 2004 projection for Des Moines is that it's been too good for too long. Even optimists are cynical that it will last. With rates and expansion edging northwest, a moderate oversupply of office and industrial is anticipated. The northwest suburb had record vacancies in multi housing in 2003, due to new construction coming on-line. However, recovery is underway from the negative impact of overbuilding last year and the incredible first-time home buyers rush as they slowly move toward normal occupancy.

Key Investment Transactions

2003

Buyer	Seller	Property Type	Property Name	Sales Price (Millions)
Westlake Investment, L.L.C.	CCC/MLP Westlake, L.L.C.	Apartments	Westlake Apartments	$23.0
Bridge Des Moines Properties, L.L.C.	The Graham Group, Inc.	CBD Office	Bank of America Building	$10.2
Super DSM L.L.C.	SuperValu, Inc.	Industrial	Former SuperValu Warehouse	$7.0
Halyard Clarke, L.L.C.	NBS Ankeny L.L.C	Industrial		$5.5
Des Moines Independent Community School	Federal Home Loan Bank of Des Moines	CBD Office	Federal Home Loan Bank Building	$4.6
Norman Forgot	Shattuck Realty Inc & Brad Johnson	Office		$3.5
Fivemon L.L.C.	Manning Family Limited Partnership	Office	LakePointe Office Building	$2.5
12 Tech, L.L.C.	Mid-Central Plastics, Inc.	Industrial		$2.4
Colby's Westbrooke, Plaza L.C.	Westbrooke Partners, L.P.	Strip Center	Westbrooke Plaza	$2.4

OFFICE

The next year presents a challenge for landlords. Deal velocity will still not be enough to balance supply and demand in 2004 maintaining downward pressure on asking and effective lease rates.

Kansas City's office market started down the long road to recovery in 2003 after enduring two years of difficult conditions as a result of the economic downturn. The 530 basis point surge in vacancy over the course of six quarters dating back to the last half of 2001 ultimately reached 19.9 percent, the highest vacancy level in more than a decade. This was later countered in 2003, by a 170 point descent, with almost the same abruptness in the first two quarters of the year. However, the momentum in vacancy reduction tapered off in the last half of the year setting a slow recovery pace for 2004.

A typical occurrence for the recovery stage of the real estate cycle, there have been few additions to the speculative construction pipeline since 2002. Of the 1.3 million square feet under construction, nearly 900,000 square feet of that is comprised of two projects. The first is the 600,000-square-foot Crown Center Tower expected to be ready for occupancy in early 2004, and the other is Plaza Colonnade, a 270,000-square-foot building that will be home to the Plaza library branch and Blackwell Sanders Peper Martin by midyear. An overall lack of demand for space likely will only lead to a few new speculative office projects in the next 12 to 24 months, allowing the construction pipeline to empty out. The limited construction will greatly assist absorption and expedite a market recovery once the economy solidifies and demand increases.

Although the market considerably improved over the last year, uncertainties linger. Several submarkets including South Johnson County, South/Southeast Kansas City and Downtown were saturated with more than 1 million square feet of space pushed on the market through subleases and expired leases as many large local employers went through mass layoffs and reorganizations in 2002. Nevertheless, the office market proved resilient, absorbing more than 800,000 square feet of the excess space during 2003. Expect this trend to continue as users absorb additional space moving the office market back into expansion mode by late 2005. However, the threat of additional layoffs will keep momentum tempered through much of 2004.

The next year presents a challenge for landlords. Deal velocity will still not be enough to balance supply and demand in 2004, maintaining downward pressure on asking and effective lease rates. In spite of this, as vacancy decreases, the number of viable options for tenants will diminish, eliminating some of their negotiating power and the need for aggressive concession offerings. Expect vacancy to gradually decline from 18.2 percent to approximately 17.1 percent by 2004 year-end, barring any unforeseen circumstances. In the next year, Downtown and South Johnson County should experience the most activity, while the Plaza remains the most stable.

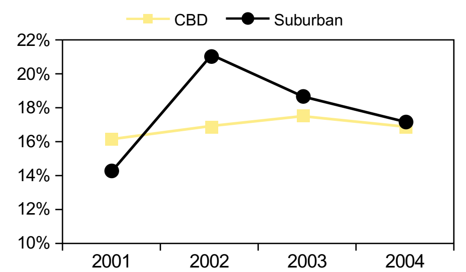
Market at a Glance

2003 Year End

	CBD	Suburb.	Total
Rentable*	12,535	31,636	44,171
Vacant*	2,196	5,850	8,046
Vacancy Rate	17.5%	18.5%	18.2%
Absorbed*	478	889	1,367
Under Construction*	0	670,020	670,020
Rental Rate**			
Class A	$18.88	$20.02	$19.62
Class B	$15.38	$16.14	$15.97

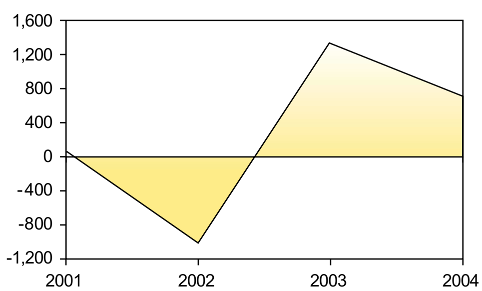
*Square feet in thousands; excludes owner-occupied, medical, government
** Weighted average asking rent/SF/year Full Service

Vacancy Rates



Net Absorption

Sq. Ft. in Thousands



The industrial market hit the bottom of the real estate cycle in early 2003, and is beginning to bounce back, setting conditions for a rebound over the next two years barring any further economic relapses.

INDUSTRIAL

KANSAS CITY

Limited activity continued to plague Kansas City's industrial market through the first six months of 2003. A sluggish economy and weak demand for space put a halt to new industrial development throughout the metropolitan area. Speculative construction was limited to two projects in 2003, and less than 800,000 square feet in the last two years. The only speculative projects completed in the last 18 months were the 97,000-square-foot distribution facility at Airworld and a 154,000-square-foot distribution building by Hunt Midwest.

Following the national trend, Kansas City's manufacturing industry eliminated nearly 6,000 jobs in 2003, and almost 12,000 in the last two years. Meanwhile, wholesale companies lost an estimated 1,000 positions in the previous year and 2,000 in the last 24 months. The employment decline and weak demand caused vacancies to rise by 250 basis points since the end of 2002, reaching 9.2 percent.

The economy does seem to be recovering slowly though, and employment growth is expected to follow within the manufacturing and wholesale industries adding an estimated 7,000 jobs in 2004, and an additional 4,000 jobs in 2005. The increase in employment should positively affect the demand for space. As demand increases, speculative construction could possibly return on a selected basis by 2005.

Conditions continue to play in favor of users of space, although not at the level experienced in the last three years. The industrial market hit the bottom of the real estate cycle in early 2003, and is beginning to bounce back, setting conditions for a rebound over the next two years barring any further economic relapses.

Local experts agree the national economy will guide the direction of industrial market activity. Assuming consumer spending continues at a steady pace, the demand for manufacturing, warehousing and distribution goods should increase. One small segment of the industrial market that could become a niche for the market is incubator space. As industries such as life sciences and technology grow, the need for incubator space will increase consequently.

The challenge decision-makers now face is overcoming hesitancy to move forward on pending real estate decisions as they continue to work through the cyclical economic downturn. Sale and leasing activity accelerated in the metropolitan area after the second quarter of 2003, and hopefully the current momentum is sustainable through 2004. Vacancy peaked last year at 9.7 percent and should decline through the upcoming year. The 2004 year-end vacancy is projected to close around 8 percent, with further decline continuing in 2005. The drop in vacancy will begin to sway the advantage back in favor of landlords, ultimately causing some urgency for users to capitalize on current conditions before they disappear.

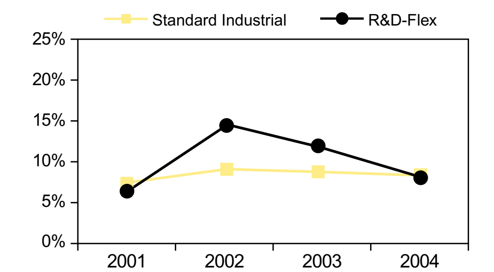
Market at a Glance

2003 Year End

	Standard Industrial	R&D/ Flex	Total
Total*	119,077	8,409	127,486
Vacant*	10,710	984	11,694
Vacancy Rate	9.0%	11.7%	9.2%
Absorbed*	-1,558	-96	-1,654
Under Construction*	0	58	58
Rental Rate**	$3.92	$6.05	$3.94

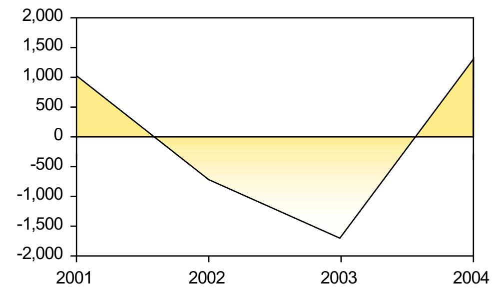
*Square feet in thousands; includes owner-occupied
** Weighted average asking rent/SF/year Triple Net

Vacancy Rates



Net Absorption

Sq. Ft. in Thousands



RETAIL

The retail market should peak in 2004 as many of the planned projects are completed, but 2005 will not be as explosive allowing supply and demand time to regain balance.

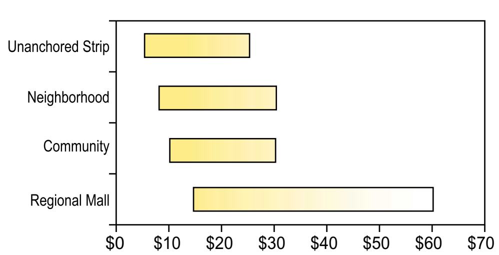
The Kansas City retail market experienced rampant development in 2003 as projects planned for several years finally came to fruition. The largest addition, near the Kansas Superspeedway in Kansas City, Kansas, is the 400-acre Village West development. Now an impressive tourist attraction in conjunction with the Kansas Speedway, the development features Cabela's Sporting Goods, Nebraska Furniture Mart, Great Wolf Lodge and the Kansas City T-Bones baseball park. The Legends, the 1 million square foot shopping center component of the development is expected to begin construction within the next year adding several high-end retailers and multiple restaurants to the area. Further growth will continue in this region over the next several years to capitalize upon the popularity of the attractions now in place.

In Johnson County, nearly every major intersection along 135th Street from State Line Road to Pflumm Road either added or proposed new retail in the last year. At State Line Road and 135th Street, Wal-Mart Supercenter and Lowe's opened on the northeast corner, while Target opened on the southeast corner in the State Line Station development. To the west at 135th Street and Nall Avenue, Cornerstone Village, a 324,000-square-foot retail center is expected to begin construction in 2004. The intersection of 135th Street and Metcalf Avenue is planned to be a vibrant area with Cormac's development proposed on the southeast corner stretching east to Lamar. Residential growth remains robust in Johnson County providing further support to these and many other developments as the population becomes denser in the south.

Retail continues to grow in the northland to service the growing population. Two new shopping centers constructed within close proximity to one another are at Interstate 29 and Barry Road. The first is Zona Rosa, a 500,000-square-foot mixed-use center anchored by Dick's Sporting Goods and Barnes & Noble. The other is The Shops at Boardwalk, a 130,000-square-foot lifestyle center anchored by Borders Books.

Rent Range by Center Type

In-Line Shop Space, $/SF/Yr. NNN



Even with the projects underway, the extensive construction pipeline that fueled the development of the last two years appears to be losing momentum. Available land and willing developers remain plentiful, although retailers seem to be pulling back. Big-box retailers such as Wal-Mart, Target, Home Depot and Lowe's continue to add new locations as demand dictates, however in-line retailers are more conservative. Cause for concern is the lack of new retailers entering the market. In the last two years, Ultimate Electronics, Old Time Pottery and Wal-Mart Neighborhood Markets are some of the only big-box retailers to debut in Kansas City. The retail market should peak in 2004 as many of the planned projects are completed, but 2005 will not be as explosive.

Key Shopping Centers Planned for 2004

2003 Year End

Center Name	Size (SF)	Anchors	Developer
Cornerstone Village	324,000	Ultimate Electronics	RED Development
Crystal Springs	370,000	To Be Determined	Jack Waters
Olathe Crossing	400,000	To Be Determined	Maefield Development
Overland Station	To Be Determined	To Be Determined	Coremac
Shawnee Crossing	314,550	To Be Determined	CB Richard Ellis
State Line Station	500,000	Target, Linens-N-Things, Pier One	Coremac
Legends at Village West	1,000,000	To Be Determined	RED Development
Zona Rosa	500,000	Dick's Sporting Goods, Barnes & Noble	Steiner+Associates

The volume of activity in 2004, as well as the order of preferred asset classes should remain the same as 2003. Assuming interest rates do not dramatically change, capitalization rates should also mirror 2003.

Kansas City investment sales activity in 2003 was significant despite weak market fundamentals in primarily all asset classes. The driving factors that created this phenomenon were low interest rates and unusually high demand from investors.

A limited number of marquee commercial properties sold over the last 12 months. A few notables would be the 140,000-square-foot One Pershing Square office building purchased by its occupant, Blue Cross and Blue Shield, and TA's 1.6 million-square-foot, portfolio of 23 industrial buildings sold to local investors. Forthcoming announcements might also include the 640,000-square-foot City Center Square office building at 1100 Main Street and Brookside Shops, the 110,000-square-foot neighborhood shopping center. A growing trend in downtown is the conversion of obsolete warehouses and office buildings into residential lofts, such as the 255,000-square-foot Western Auto Building. Expect this to continue as demand for residential in Downtown increases as redevelopment plans are rolled out.

The preferred asset classes for investments are:

1. Multi housing
2. Single-tenant industrial, office and retail
3. Grocery-anchored shopping center of at least 100,000 square feet
4. Multi-tenant industrial buildings
5. Multi-tenant office buildings
6. Hotels

Multi housing investment volume in 2003 was the highest it has been in years. Approximately 12 complexes, containing more than 4,000 units sold. The most common capitalization rate was 6.5 percent. Vacancies over 15 percent, concessions up to two months free and flat rental rates are the current fundamentals. Fortunately, most feel that the market will return to normal in 2004.

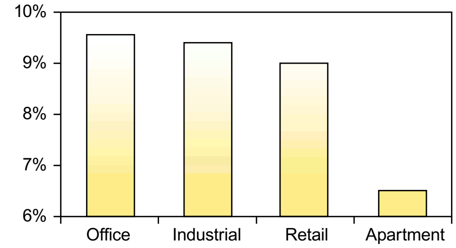
Single-tenant triple-net leased pharmacy properties such as Walgreen's and Eckerd Drug stores were primarily sold to 1031 exchange buyers. The limited supply and hyper demand for this product type drove cap rates down to 8 percent. Only three grocery-anchored shopping centers sold in 2003. The next year appears to be slated for similar volume. Should an A or B class grocery-anchored center be brought to market in 2004, the sales cap rate would likely be less than 9 percent.

The majority of industrial inventory is owned by three local investors known for holding their properties long-term. Despite strong demand, sale activity for 2004 is expected to be limited. Expect cap rates for Class A around 9 percent.

Due to the nature of office buildings, with poor fundamentals and ongoing costs of tenant improvements and leasing commissions; office sales activity is stagnate. The divide between seller and buyer expectations, coupled with cash flow problems continues to keep office properties one of the least desirable product types.

The volume of activity in 2004, as well as the order of preferred asset classes should remain the same as 2003. Assuming interest rates do not dramatically change, capitalization rates should also mirror 2003. Consequently, as fundamentals affecting each asset class improve, purchase prices will continue increase, making 2004 an even better seller's market than the previous year.

2003 Capitalization Rates



Data for Class A Propeties

OFFICE

For the first time in over a decade, opportunities now exist for companies to occupy space in well-managed, signature office properties and to share the skyline with Omaha's Fortune 500 Companies.

Omaha's suburban and downtown office markets are both well positioned for future growth, albeit for two dramatically different reasons. Similar to most suburban markets across the country, west Omaha saw a significant increase in available space during the past 24 months, largely caused by sublease space. Unlike the suburban market, there had not been any new office additions in the CBD since 1991, when 1200 Landmark Center was completed. Now, in a matter of 12 months, two new office projects reached completion, resulting in leasing opportunities not seen in the past 20 years.

Downtown Omaha is literally experiencing a rebirth. Over $1.8 billion of public/private investment recently catapulted Omaha's downtown and riverfront into a development mecca. Some of the current activity taking place includes new public projects like the convention center, performing arts center, and city riverfront projects including the government's National Parks Service Regional headquarters. Pair these with private projects, such as Omaha World-Herald, First National Tower, Union Pacific Headquarters, and Gallup University Campus. This boom of development causes a definite strain on the existing multi-tenant office market, however. The construction of First National Tower and Union Pacific Railroad headquarters projects totaling 1.9 million square feet, and the subsequent consolidation of employees into those respective buildings created a substantial oversupply of office space. While the construction of these two buildings creates a skyline never before seen in Omaha, vacancy will likely eclipse 30 percent by mid-to-late 2004. For the first time in over a decade, opportunities now exist for companies both large and small to occupy space up to 250,000 square feet in well-managed, signature office properties and to share the skyline with Omaha's Fortune 500 Companies such as ConAgra Foods, Qwest and Union Pacific. The combination of significantly reduced rental rates and a revitalized urban core will certainly make the leasing environment dynamic over the next three to five years.

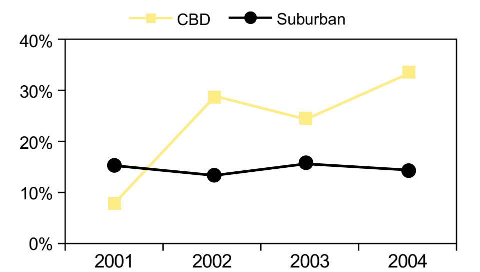
The suburban market also experienced an increase in vacancy over the past two years, but due to a fairly tight lid on new construction, the vacancy rate leveled off at approximately 14 percent. While major construction projects are taking place in the CBD, a mere 125,000 square feet of new multi-tenant buildings were constructed in 2003, with another 100,000 square feet of office slated for completion in 2004. These construction numbers are approximately half of those delivered annually between 2000 and 2002. This limited new supply helped the market stay relatively stable. Assuming no sizeable new sublease offerings are introduced, the suburban office market appears to be well positioned to benefit from an improving economy in relatively short order.

Market at a Glance
2003 Year End

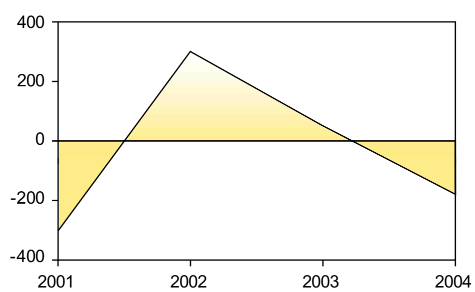
	CBD	Suburb.	Total
Rentable*	3,569	7,539	11,108
Vacant*	874	1,128	2,002
Vacancy Rate	24.5%	15.0%	18.0%
Absorbed*	16	30	46
Under Construction	0***		
Rental Rate**			
Class A	$18.38	$19.78	$19.39
Class B	$15.13	$17.04	$16.07

*Square feet in thousands; excludes owner-occupied, medical, government
** Weighted average asking rent/SF/year Full Service
***Does not include Union Pacific Railroad New Headquarters (1.2 million SF)

Vacancy Rates



Net Absorption
Sq. Ft. in Thousands



Significant new speculative projects did not occur in the past year. Turning off the speculative spigot helped position the market to absorb existing space at a faster rate than the past three to four years.

INDUSTRIAL

OMAHA

The Omaha industrial market remained relatively stable, with the overall vacancy rate at or near 9 percent for the past 18 months. That trend remained true for 2003 with the vacancy rate ending at 9.6 percent. For the overall metro, absorption levels also stabilized, and the year-end numbers showed a reduction in negative absorption stemming from an oversupply of space coming available in the second quarter of 2003.

Highlights within the market include areas such as the Central Omaha submarket, which has an occupancy rate over 95 percent and positive net absorption at nearly 100,000 square feet for 2003. Business parks located in the Southwest and West Sarpy County submarkets have also some of the most stable occupancy rates in the market, and still enjoy some of the best interstate access in the metro. Business parks situated along Interstates 80 and 29 provide ample opportunities for distribution centers, and are shaping up to be future hotspots for new development. Speculative flex projects constructed in 1999 and 2000 in the Southwest and West Sarpy submarkets finally saw absorption this past year, and will likely continue in those areas as long as the amount of new construction remains low.

Fortunately for landlords, significant new speculative projects in the Omaha area have not occurred in the past year. Turning off the speculative spigot helped position the market to absorb existing space at a much faster rate than the past three to four years. At this time, only one major speculative development is currently under construction with initial phases containing two buildings totaling over 175,000 square feet of warehouse/distribution. As far as rental rates are concerned, average asking rates for standard industrial and R&D/flex space declined in the past 12 to 18 months. This reduction will help position both product types to rebound much faster once demand picks up.

Omaha's industrial market mirrors the rest of the country, with a slight increase in vacancy rates from previous years and a definite reduction in new construction. The local economy remained healthy, with unemployment nearly 2 percent under the national rate of 6.1 percent as of August 2003. This fact kept the manufacturing and distribution segments in good shape, and is also apparent in the R&D/flex market. With only two quarters of positive results in both absorption and in vacancy, it is too early to call it a trend. However, the results do indicate that the market is headed in the right direction in 2004.

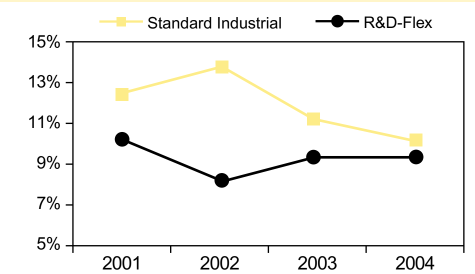
Market at a Glance

2003 Year End

	Standard Industrial	R&D/ Flex	Total
Total*/***	34,776	6,137	40,914
Vacant*	3,241	688	3,929
Vacancy Rate	9.3%	11.2%	9.6%
Absorbed*	-396	238	-158
Under Construction*	34	21	55
Rental Rate**	$3.54	$5.93	$4.17

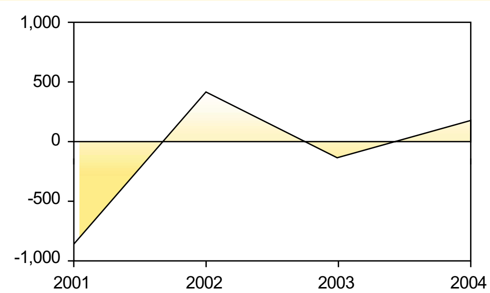
*Square feet in thousands; includes owner-occupied
** Weighted average asking rent/SF/year Triple Net
***Total does not include Council Bluffs Properties

Vacancy Rates



Net Absorption

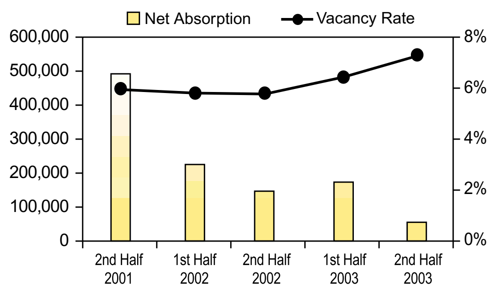
Sq. Ft. in Thousands



Perhaps the most noticeable macro event occurring in Omaha is the addition of restaurants. Just when you thought the list of eating choices had topped out, there is another restaurant concept entering the marketplace.

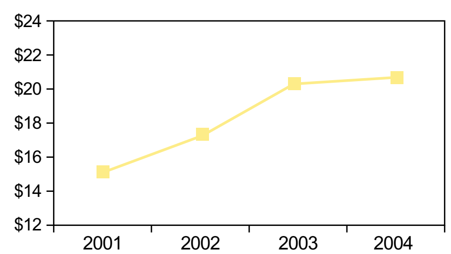
One year ago, the retail vacancy rate in Omaha was approximately 6 percent. It appears that by year-end the vacancy rate will increase to approximately 7.5 percent. In light of a total retail market size of 17.7 million square feet, the additional vacancy amounts to approximately 265,000 square feet of vacant space. As with any market, an increase in vacancy is to be avoided but the overall impact on Omaha is minimal. The properties affected most by the increased vacancy rate are older centers. Over the past year retailers have been able to upgrade to newer centers for slightly higher rents than what they had been paying. The migration from the older centers to the newer centers should continue well into 2004. Perhaps the other most noticeable macro event occurring in Omaha is the continued addition of restaurants. Just when you thought the list of eating choices had topped out in Omaha, there is yet another list of restaurant concepts entering the marketplace. Ted's Montana Grill, Qdoba, California Pizza Kitchen, The Noodle Company, Nothing But Noodles, Chipotle, Camille's, and Colton's have all indicated new store openings are planned for Omaha. Beyond the new restaurant concepts, the Omaha market will soon get to experience Village Pointe lifestyle center. With an anticipated May 2004 opening, Village Pointe located on the southwest corner of 168th Street and West Dodge, anchored by Scheels All Sports, Bed Bath & Beyond, Wild Oats, and Douglas Theaters should prove to be an excellent addition to the Omaha retail landscape.

Absorption & Vacancy Rate



Weighted Average Asking Rate

Omaha, Nebraska New Retail



Looking ahead to 2004, it is anticipated that vacancy rates will begin to stabilize as Omaha appears positioned to achieve continued growth. Residential growth in the Omaha MSA remains strong with a range of 3 percent to 6 percent growth depending upon the particular Omaha submarket. What should be of interest to the consumer and real estate professional is the evolving condition of the grocery business. Wal-Mart continues to achieve growth in marketshare in Omaha, pressing ahead with the addition or relocation of three Super Wal-Mart stores. The pressure on Wal-Mart's competitors will be significant. One of the projects Super Wal-Mart is considering is Papillion Promenade, an 850,000-square-foot project to be developed on the southwest corner of 72nd Street and Highway 370 in Sarpy County. Taking the place of the former Papillion Garden Mall site, the Papillion Promenade, which proposes a mix of big box, small shop, and restaurant pad sites, appears to be in a position to deliver.

New/Expanding Tenants

2003

New Retailers	Store Type	Submarket
Galyan's	Outdoor Equipment	West Dodge Rd Corridor
Pottery Barn	Home Furnishings	West Dodge Rd Corridor
Pottery Barn for Kids	Home Furnishings	West Dodge Rd Corridor
Williams-Sonoma	Housewares	West Dodge Rd Corridor
Ann Taylor Loft	Womens Clothing	West Dodge Rd Corridor
Expanding Retailer		
Gordmans	Discount Retailer	Council Bluffs (IA)
Gordmans	Discount Retailer	Hwy 370/75 Corridor (Bellevue)
Target	Department Store	Hwy 370/75 Corridor (Bellevue)

Market vacancy rate is 7.5 percent and could potentially come close to 8 percent before stabilizing. However, Omaha has consistently shown a resiliency in keeping retail projects filled, both old and new. Rental rates for Class A shop space ranges from $17 to $35 per square foot and big-box space ranges from $12 to $16 per square foot.

Multi housing continues to be the most sought after product type in Omaha, however velocity of trades is infrequent. Concentrated ownership in the hands of a few local owners dampened sales activity.

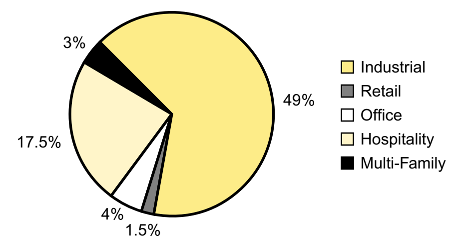
The current investment market in Omaha remains lackluster. While occupancies in the office market holds stable in the west Omaha submarket, new development downtown impacted the existing inventory by creating large vacancies in the Class B and C office buildings. First National Bank of Omaha opened the 750,000-square-foot tower at the end of 2002, the Gallup Organization completed their 300,000-square-foot first phase of the new campus downtown, and the National Park Service announced the commencement of development on a new 70,000-square-foot building to replace its existing offices. In addition, Union Pacific will have their 1.2 million-square-foot development ready for occupancy by mid-to-late 2004. The imbalance in supply and demand downtown has extended the marketing period for available properties. Trades remain infrequent with most activity directed toward the adaptive re-use of older vintage buildings to loft apartments and condominiums.

West Omaha experienced only three truly institutional investment sales in 2003, Park Place in Miracle Hills, the 10250 Building in Regency and Two Pacific Place. Total consideration for these combined sales was approximately $30 million with average prices of $113 per square foot. Two of the sales were to private local investor groups while Two Pacific was the result of the sale of Northern Natural Gas which included the trade of the corporate headquarters building.

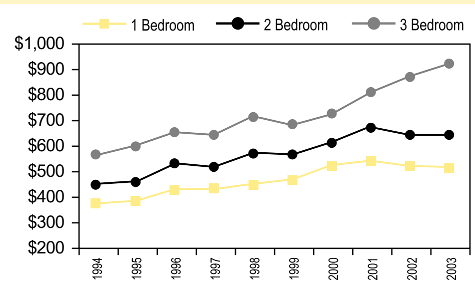
The multi housing market was also quiet in 2003 with only three sales of properties over 100 units, Amberwood Apartments in Lincoln, a 324-unit project, and in Omaha, the Chalet, a 246-unit project and Regency Apartments, a 433-unit project. Sales prices ranged from $33,025 per unit to $65,589 per unit. Capitalization rates remain competitive with trades in the 8 percent to 8.5 percent range. Multi housing continues to be the most sought after in Omaha, however velocity of trades is infrequent. Concentrated ownership in the hands of a few local owners dampened sales activity. Limited development of multi housing served to keep occupancy levels strong. In 2003, occupancies hovered around 92 percent to 93 percent, very respectable although down from historic highs of 97 percent to 98 percent.

Retail investment activity is focused on redevelopment, as evidenced by the city's largest mall, Westroads. The addition of Galyan's and the relocation of Younkers into a recently closed Jones Store is increasing value of this asset. The vacancy created by Younkers is expected to be back-filled by another department store, movie theater or combination of mid-sized boxes. Regency Court, a specialty mall in center city experienced a renovation that included the addition of Omaha's first Pottery Barn and Ann Taylor Loft. Also, Menards home improvement acquired the 238,000-square-foot multi-tenanted shopping center that it occupied, razed the center and redeveloped a new, freestanding store. There were no significant trades in 2003 of traditional shopping centers.

Percent Square Feet Sold
by Property Type



Metropolitan Rental Rate Trend
Monthly Rate by Unit Type



OFFICE

Tenants will continue to request free rent and improvement allowances, with possible increases in moving allowances. While this is still a tenant's market, the window of opportunity is closing.

For the first time since late 2001, the St. Louis office market appears to be in the beginning stages of a recovery. Activity is on the upswing, and major market indicators suggest that a gradual increase in demand should continue through 2004.

This is partly due to the increase in tenants taking advantage of soft leasing rates and locking in longer terms. Owners know that to effectively compete for tenants, and keep existing ones in place, properties must be priced right. Although an increase in activity sometimes translates into rising rates, this will not be the case in 2004. It will take some time for the market to recover from the many companies who downsized or closed their doors altogether in the last year. Rates will stay flat through mid-year, only possibly strengthening towards year-end.

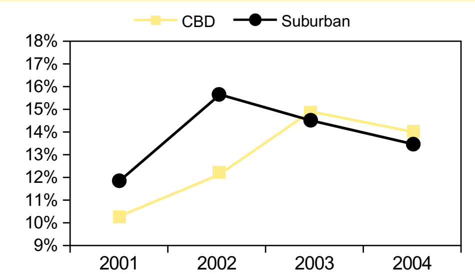
Market at a Glance

2003 Year End

	CBD	Suburb.	Total
Rentable*	18,268	35,747	54,015
Vacant*	2,723	5,212	7,935
Vacancy Rate	14.9%	14.6%	14.7%
Absorbed*	318	686	1,004
Under Construction*	0	273	273
Rental Rate**			
Class A	$17.08	$22.87	$21.10
Class B	$15.12	$18.87	$17.43

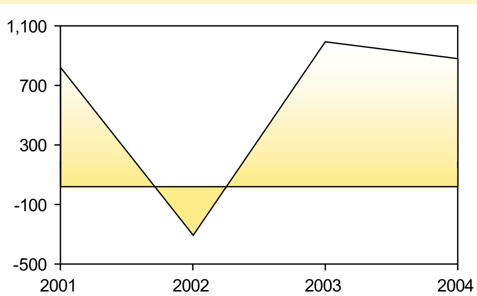
*Square feet in thousands; excludes owner-occupied, medical, government
** Weighted average asking rent/SF/year Full Service

Vacancy Rates



Net Absorption

Sq. Ft. in Thousands



St. Louis has not seen the increase in shorter lease terms that other cities have witnessed. Leases are typically in three to five-year terms. Tenants can find bargains in both the Downtown and West County areas—particularly along the Highway 40/Chesterfield corridor. Rates here average 15 percent to 25 percent lower than they were at their peak in 2000. Landlord concessions will still be a part of negotiations in the coming year. Tenants will continue to request free rent and improvement allowances, with possible increases in moving allowances. While this is still a tenant's market, the window of opportunity is shortening.

Speculative construction will stay to a trickle throughout 2004, rebounding only when market confidence is more solid later in the year. Currently, there is only 85,000 square feet of spec buildings under construction. In response to higher vacancies, developers are instead focusing on mixed-use and historic properties. This allows them to offset risk by obtaining tax credits and including the healthier retail and multi housing segments of the market. One example is the nearly complete 75,000-square-foot Meridian at Brentwood. This is anchored by Best Buy and located along the prime Highway 40 and Eager Road corridor. Construction also began on Boulevard I, a 10-story office building with retail, restaurants and apartment space. It is located across the street from the successful Saint Louis Galleria Mall. Other projects include the planned 250-room Renaissance Towers hotel and 16-story office building in Clayton. Nearby, THF Realty, Inc. is pushing forward on its plans to build two buildings that will house 1.2 million square feet of office space, 17,790 square feet of retail space, and a 250-room hotel.

Like the industrial market, there are a number of companies consolidating their office space. In the last few years, MCI WorldCom, MasterCard International and Express Scripts built large facilities to house all of their employees and office operations in one place. A few of the most recent design-build projects include CitiGroup's new 515,000-square-foot regional corporate headquarters facility in O'Fallon, Missouri, and A.G. Edwards' 800,000-square-foot headquarters Downtown. These new consolidation projects come at a cost—both will leave large chunks of the companies' former office space behind.

In the year ahead, opportunities for developers and landlords will lie in a few choice markets. St. Charles County is a prime location due to its growing population, skilled labor force, less expensive land and convenient interstate access. It does not have a large amount of multi-tenant office space, presenting a good opportunity for the right development. Clayton, one of St. Louis' tony locations, is a tight submarket—especially for Class A buildings—and is a strong candidate for potential development.

While the number of large tenants looking for space are few and far between, there are companies that recently took large blocks of space off the market. These include the 80,000 square feet Nexstar subleased from McCleod USA in St. Charles, the 60,267 square feet Express Scripts leased at Riverport Tower in Earth City, the 66,540 square feet Scottrade, Inc. subleased from Amdocs at Corporate Hill IV, and the 66,093 square feet MHP leased at Corporate Plaza in the Highway 40/Chesterfield submarket. All of these companies expanded into more space than previously occupied.

Despite weak fundamentals, low interest rates enticed a few buyers into the market. The 342,660-square-foot 1010 Market building was recently purchased by BGK Properties from CIGNA Investment Real Estate for $16.3 million. Cornerstone Equities bought West Park I from RREEF Funds for $11.4 million. In 2004, there will be more opportunistic buys to be had—before vacancies decline and interest rates rise.

The year ahead will be an interesting period in the office market cycle. The semi-recovered market is at a fork in the road. If interest rates stay low, the economy grows, companies start expanding, and new construction remains at a trickle, the market will slowly climb upward. However, if rates increase and the economy does not improve, absorption will stay low and it will be hard for the market to sustain any type of recovery.

St. Louis will most likely see a combination of all of these possibilities. Industries such as biotechnology, life science, information technology, health care, services and trade are all growing in St. Louis and will further fuel the office market in the coming year. Both tenants and owners will likely take a cautious "wait and see" approach, keeping rates flat for most of the year. Developers will respond by introducing new product slowly. The real opportunities in 2004 are for those companies planning to either move or renew their leases to capitalize on favorable conditions while they can.

INDUSTRIAL

New buildings also have the higher ceiling heights, super-flat floors and new technology systems—such as Radio Frequency Identifications (RFID's)—that are increasingly necessary for warehouse/distribution.

ST. LOUIS

While a recovery is just starting in St. Louis' office market, the industrial market is further along in its turnaround. For the second consecutive quarter, industrial properties are seeing higher absorption, stable vacancies and increasing demand.

The majority of the activity is taking place in the 2,300-acre Gateway Commerce Center in Madison County, Illinois. The demand is due in part to the area's lower ground costs, excellent highway access, neighboring rail system, and lucrative tax incentives. At the same time, many manufacturing and distribution companies are consolidating operations and relocating into larger facilities to reduce real estate costs and improve efficiencies. New buildings also have the higher ceiling heights, super-flat floors and new technology systems—such as Radio Frequency Identifications (RFID's)—that are increasingly necessary for warehouse/distribution companies to stay competitive.

Over half of the area's 2 million square feet under construction is located in Gateway Commerce Center. Unilever recently completed its 1.3 million-square-foot distribution facility here, and Hershey Foods' 1.1-million-square-foot super-regional distribution center is now under construction. These companies join neighbors Proctor & Gamble and Dial Corporation. Both recently built new facilities here totaling 806,000 square feet and 812,000 square feet, respectively. Some of these newer buildings have brought a fair amount of Class B office/ warehouse/distribution space back on the market—posing a great opportunity for tenants looking at this property type.

The small amount of speculative construction, 677,896 square feet, is primarily for properties in the 10,000 to 40,000-square-foot range located in West St. Louis and St. Charles Counties. Future development will continue here as the area's rising population growth and skilled labor market attract more companies.

Some large transactions that recently took place include K-V Pharmaceutical Company's purchase of the 275,505-square-foot One Corporate Woods Drive building, Vi-Jon's 350,000-square-foot lease at Fountain Lakes, and the 542,000-square-foot sublease at 13330 Lakefront Drive. Due to increased activity, landlords are holding back slightly on concessions. If included, they are most likely in the form of rental abatement.

The industrial market will strengthen throughout 2004. Leasing rates should remain stable, slowly increasing as more space is absorbed. Tenants considering moving should do so now. The market will not see leasing rates this low for much longer. Properties on the market for a while will gradually fill up. Landlords will be less likely to offer as many concessions and will try to hold on tight to asking rates.

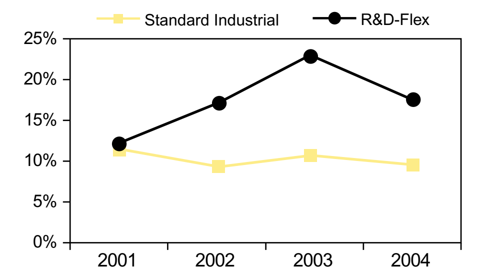
Market at a Glance

2003 Year End

	Standard Industrial	R&D/ Flex	Total
Total*	195,986	7,546	203,532
Vacant*	20,345	1,710	22,055
Vacancy Rate	10.4%	22.7%	10.8%
Absorbed*	1,570	-286	1,284
Under Construction*	1,785	247	2,032
Rental Rate**	$3.24	$8.42	$3.94

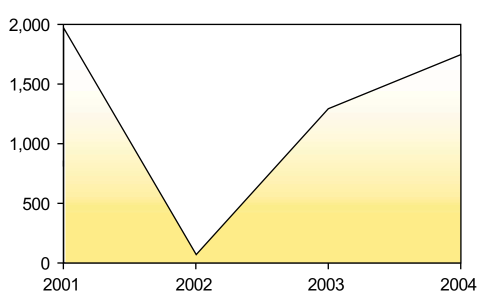
*Square feet in thousands; includes owner-occupied
** Weighted average asking rent/SF/year Triple Net

Vacancy Rates



Net Absorption

Sq. Ft. in Thousands



This is turning out to be the decade of the discounter. It is the power centers anchored by major discounters, such as Target Stores, Wal-Mart and Home Depot that are most active.

RETAIL

While the retail segment of the St. Louis market is busier than ever, success depends on who you are and where you are located. Strong big box tenants continue to grow in all parts of the market, while the smaller to mid-sized tenants in other areas are not doing as well. High-end retail is also suffering as consumers shy away from spending top dollar in the soft economy. Leasing rates are following suit, increasing slightly for the stronger properties, and remaining flat to decreasing for older neighborhood centers. Many national retailers plan to enter the St. Louis market in the next few months, and several others are planning expansions in the coming year.

This is turning out to be the decade of the discounter. It is the power centers anchored by major discounters, such as Target Stores, Wal-Mart, Kohl's and Home Depot, that are most active. As consumers continue to seek more for their dollar, there is no end in sight to this trend. All of these retailers have recently opened and/or plan to open more stores in 2004.

Discount retailers carrying more specialized product lines are also active. Stores such as Best Buy, Circuit City and Ultimate Electronics continue to reach for more market share. Best Buy is nearing completion on its new store at the Meridian in Brentwood, Ultimate Electronics is adding an additional store, and Circuit City is relocating three of its stores in the coming year. American TV & Appliance is entering the St. Louis market in 2004 with four 130,000-square-foot stores and a 150,000-square-foot distribution facility.

Discounters are also behind St. Louis Mills' new 1.2 million-square-foot mall in Hazelwood. The mall has 18 anchors, 200 retailers and a variety of restaurants and entertainment venues. Anchors include a Marshalls MegaStore, and outlets for Pottery Barn, Williams Sonoma and Off 5th, an outlet for Saks Fifth Avenue.

The Chesterfield Valley and St. Charles County areas are in the midst of a development boom. Chesterfield Commons, the massive 1.2 million-square-foot strip center, continues to grow and add more retailers. Home Depot will soon join anchors Target and Sam's. In addition to the stores that already set up shop in St. Charles, there are four new retail development proposals in the works that would bring more than 2 million square feet of space within two miles of intersections Highways 40 and N.

In 2004, tenants will find the best rates in the secondary neighborhood centers. Rates for these properties will stay flat, possibly dipping, as the power centers anchored by the big box tenants continue to draw more consumers and higher rates. Developers will continue to eye opportunities in choice markets, primarily along Brentwood and Eager Roads and the western portions of St. Louis and St. Charles Counties, where consumer buying trends are firmly established.

New/Expanding Tenants
2003/2004

Merchant	Store Type	Location(s)
Crate & Barrel	Home Accessories	The Boulevard I
Kohl's	Department Store	Watson Rd.
Best Buy	Electronics	The Meridian Phase I
Circuit City	Electronics	St. Louis Mills, Chesterfield Commons, Gravois Bluffs
Ultimate Electronics	Electronics	Gravois Bluffs, Promenade
Home Depot	Home Improvement	Chesterfield Valley
24 Hour Fitness	Gym	South County & West County
American TV& Appliance	Electronics/Appliances/ Furniture	St. Louis Mills, Gravois Bluffs Phase III, Fairview Heights, IL

INVESTMENT

In 2004, the St. Louis investment market may see a surge in activity. Pent-up demand could further inflate prices and, depending on what happens with the capital markets, buyers and sellers will react quickly.

The gap is narrowing between buyer demands and seller expectations in the St. Louis investment market. After another year contending with a soft economy, reality set in. Many that bought at the height of the market would not realize any appreciation on a resale basis in today's market. The combination of historically low interest rates and a roller coaster stock market has made real estate investment a more attractive alternative for the non-institutional investor. Consequently, there is an undersupply of available product. Most owners will continue to hold on to their assets until the market has firmly recovered. Low interest rates are making this more feasible.

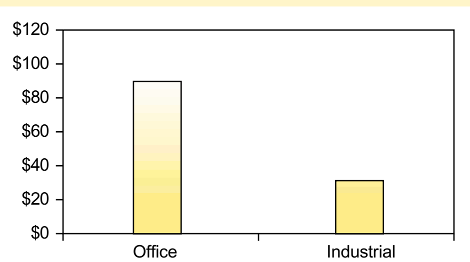
There is an abundance of office investment capital looking for both Class A and Class B properties. While investors typically seek out the well-occupied buildings, many are looking at properties with lower occupanicies as a value creation opportunity. There are a number of properties—with a combined sales price estimated at $200 million—that are scheduled to close in 2004. The largest one of these is the 750,000-square-foot Bank of America Plaza that American Financial Realty Trust is purchasing for $82 million. BGK Equities recently purchased the 342,660-square-foot 1010 Market Building for $16.3 million.

Properties that will see the most institutional interest in 2004 are top quality industrial buildings that are well-located and have long-term leases. These will go fast and at top dollar. Local trade buyers will dominate the investment scene as many are motivated by the benefits of tax-deferred exchange. One of the few institutional transactions includes the recent sale of the light industrial, six-building, Class B package purchased by T.A. Associates.

Limited product with unlimited buyers is also the case in the multi housing market. Demand is strong for all product types including the large multi-building transactions to the smaller multi housing buildings. Investors will also be on the lookout for grocery-anchored retail centers. Historically, the St. Louis apartment market is a strong market—with occupancies averaging in the 94 percent to 98 percent range for well-located properties. This is primarily due to St. Louis' tough zoning restrictions that keep a tight lid on new development.

Average Sales Price, 2003

Dollars Per Square Foot



In 2004, the St. Louis investment market may see a surge in activity. Pent-up demand could further inflate prices and, depending on what happens with the capital markets, buyers and sellers will react quickly. If the economy returns to a full rebound and stock portfolios improve for the non-institutional investor, real estate will become less attractive. However, a full market recovery would increase activity for the institutional-grade investors—allowing them to reallocate more funds towards real estate in their portfolios. They will invest quickly, buying quality product before property prices start climbing higher.

Key Investment Transactions

2003

Buyer	Seller	Property Type	Property Name	Sales Price (Millions)
BGK Properties	TimesSquare Real Estate Investors	Office	1010 Market	$16.3
Cornerstone Equities	RREEF Funds	Office	West Park I	$11.4
Peter Pan I, LLC	Real Estate Investors Four I, LLC	Industrial	I-70 Business Center	$2.8
MEH, Inc.	Stephen C. Murphy	Industrial	11669-11677 Lilburn Park Rd	$1.6

By pursuing infill sites, developers can bypass some of the guesswork of new construction. Market elements such as nearby restaurants, retail, schools, housing and quality of life factors are already established.

MULTI HOUSING

The St. Louis multi housing market is known for its consistency in both demand and stability. However, a slight decrease occurred in occupancies—from 95.2 percent at the start of 2003, to the current 94 percent rate. This dip is partly due to the unusually low interest rates that are encouraging more people to purchase instead of rent. There has also been an increase in the amount of new apartment, loft and condominium space.

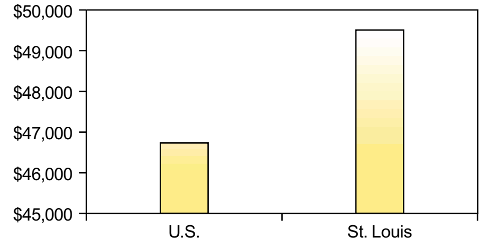
Typically, St. Louis' tough zoning restrictions kept new construction to a minimum. However, new trends in the market are fueling activity. The increase in infill projects is one of them. By pursuing infill sites, developers can bypass some of the guesswork associated with new construction. Market elements such as nearby restaurants, retail, schools, housing and quality of life factors are already established. At the same time, the trend, "live where you work, and work where you live" concept took hold in the area. Many are tired of commuting hassles and want to bring their housing, employment and shopping needs closer together.

This is the theory behind the Boulevard I. Construction has begun on this mixed-use residential, office and retail community. Located along the successful Brentwood/Clayton/Eager Roads corridor, this lifestyle community has 156 residential units and features a suburban atmosphere and wide range of retail services. Construction has also started on the Station Plaza in Kirkwood. This mixed-use development will have 206 residential units accompanying 24,000 square feet of retail space and 53,000 square feet of office space. The recently opened M-Lofts in Lafayette Square leased over half of its 36 units in less than a month. It includes 11,000 square feet of retail and restaurant space.

Developers are also continuing to turn to residential conversion projects. Office buildings vacant for decades are being brought back to life in the form of loft and condominium space. There are approximately 4,000 units Downtown, with another 400 units either under or nearing construction. Historic tax credits are helping fund these efforts. One of the latest projects includes the $26.5 million renovation of two historic buildings at 1600 Locust Street. Plans include 82 condos along with street-level retail.

These new developments will have a "trickle up" effect on the market, as residents typically prefer new construction. However, some of these new developments come with high price tags which will deter younger segments of the market. In the coming year, occupancies and rental rates will stay flat, developers will keep a close eye on how deep the Downtown conversion market is, and the western portions of St. Louis and St. Charles Counties will continue to grow.

Median Household Income, 2003



Source: Claritas

WICHITA

OFFICE

Wichita is a tale of two cities in analyzing the office market. While new construction sites pop up on the east side, the amount of available office space in the CBD continues to increase.

Office space in Wichita is a great value and plenty is available for the taking. Wichita is near the top of the list of cities based upon vacancy rate, with almost 1.7 million square feet of space available, and near bottom in offering rates for Class A space. The challenge becomes finding the demand from inside and outside for absorption.

The good news: 2003 represented the turning point for the market. The Wichita-Sedgwick County Law Library gave the core area positive news when they announced the purchase of the 33,000-square-foot Executive Center for relocation of the law library. The fact that this facility stayed in the core area will go a long way in keeping other law firms near it and the courts. A potential expansion of a major employer and the promise of a new start-up employer locating in the CBD would change the local landscape. Excel, the meat-processing subsidiary of ConAgra is adding new jobs and looking to expand its current 100,000 square feet by an additional 50,000 square feet. The start-up VeriPrime, Inc., a food assurance company, has announced up to 400 new jobs in the downtown area.

In the CBD the anticipated 200,000-square-foot, mixed-use public/private partnership development first announced in 2002 remains in the planning stage. Reportedly, BassPro Shop, which could cause a significant amount of ancillary development around this project, will anchor the development. When this project moves forward, expect to see a renewed interest in the CBD. The office sector of this mixed-use development benefits from the lack of new significant core development for over 15 years. The Old Town area, adjacent to the CBD, continues to strengthen with the addition of a multi screen theater, two national restaurant chains, and the relocation of a 20,000-square-foot law firm.

Suburban development received a significant boost with four major announcements. The relocation of Commerce Bank and Foulston Siefkin Law firm to the Waterfront development at 13th Street and Webb Road will anchor the 160-acre development announced last year. Occupancy is slated for June 2005. The Webb Road medical office corridor continues to expand with the relocation of Greene Vision Group, the 54,000-square-foot Kansas Spine Hospital, and the proposed 90,000-square-foot estimated expansion of the Wichita Clinic at 21st Street and K-96.

Given the amount of available space, rents will remain relatively flat for existing office space. In the CBD, Class A space will remain in the $14.50 per square foot range and $9.00 per square foot for Class B space. The suburban rate for new Class A is approaching $22.00 per square foot and existing Class B is in the $12.50 per square foot range.

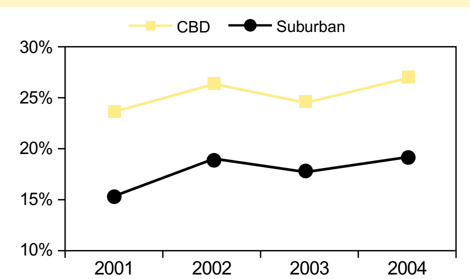
Market at a Glance

2003 Year End

	CBD	Suburb.	Total
Rentable*	3,960	4,060	8,020
Vacant*	983	731	1,714
Vacancy Rate	24.8%	18.0%	21.4%
Rental Rate**			
Class A	$14.43	$15.66	$14.83
Class B	$9.01	$12.92	$10.76

*Square feet in thousands; excludes owner-occupied, medical, government
** Weighted average asking rent/SF/year Full Service

Vacancy Rates



This sector witnessed a larger than expected drop in activity during 2003. Anticipate that the bottom will be found in 2004 as 1 million square feet of quality industrial/manufacturing becomes available.

INDUSTRIAL

The 2003 forecast derived from three key market components that created a negative impact—1) economic recovery; 2) expiration of aviation backlog orders, and 3) Boeing's turnover of space back to the market. While the nation began its economic recovery, the local economy will trail the national trends by up to 12 months. The rapid collapse of the backlog orders devastated employment, highlighted by a two-year loss of 12,600 manufacturing jobs. This figure represents nearly 23 percent of the manufacturing jobs in the local economy. Although the majority of the job losses are behind us, additional jobs will be lost through 2004. Recovery is on the horizon, and slated to be felt in this market late in 2005.

Virtually every aircraft manufacturer in Wichita mothballed manufacturing space, either on a temporary or permanent basis. Boeing placed in excess of 900,000 square feet on the market this year alone, with another 135,000 square feet coming on the market in 2004. This represents nearly 1 million square feet of quality industrial/manufacturing space, creating significant opportunity for new manufacturers seeking larger space coupled with Wichita's highly skilled labor force.

Over the past year, industrial asking rental rates declined from $3.87 per square foot to $3.55 per square foot. Given the recent amount of space that came back to market, expect industrial rental rates to continue a gradual decline through 2004 and the first quarter of 2005. Very little new R&D space came on the market in the last 12 months, balancing the supply. Consequently, rental rates for Class A R&D space remained steady, or even slightly increased.

The area has strengthened its ability for growth through the implementation of the Greater Wichita Economic Development Coalition. This effort, led by the private sector but funded through private/public sources, creates a focused effort of recruitment and retention. The targeted goal for this regional effort is 8,000 new jobs. Strong support from the business community, local elected officials and the Lt. Governor, show much promise for this initiative.

The opportunity for growth and development of new industrial parks heightens, while the City of Wichita initiated a strategy to identify industrial land within the city limits, other communities in Sedgwick County are providing prime industrial sites, with zoning and infrastructure in place. The largest single vacant industrial site offered by the City of Bel Aire consists of 1,100 acres; shovel ready, with rail and direct access to two four-lane highways. This central continental location, with an aggressive mix of state and local incentives, is attractive to large industrial users.

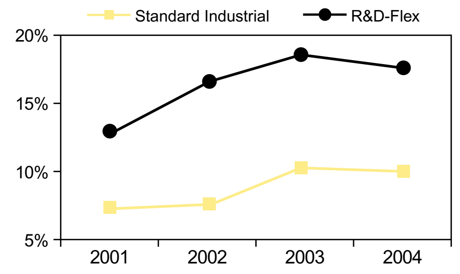
Market at a Glance

2003 Year End

	Standard Industrial	R&D/ Flex	Total
Total*	22,399	716	23,115
Vacant*	2,335	134	2,469
Vacancy Rate	10.4%	18.7%	10.7%
Rental Rate**	$3.58	$9.75	$4.99

*Square feet in thousands; includes owner-occupied
** Weighted average asking rent/SF/year Triple Net

Vacancy Rates



RETAIL

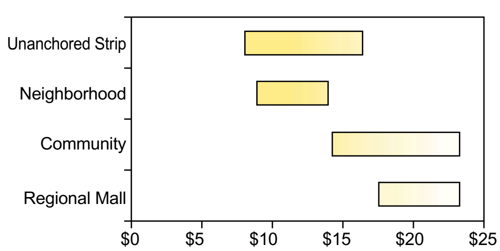
An ample supply of prime retail sites, reasonable construction costs, strong demand and low interest rates will combine to keep 2004 a very active year for retail development in Wichita.

The retail sector of the Wichita commercial real estate market is clearly the bright spot. The continued expansion of the city's northeast and northwest quadrants creates significant opportunities for retailers. The northwest sector saw tremendous success with the 433,000-square foot New Market Square retail development at 21st Street and Maize Road. This Slawson Companies' development opened in July 2001, with a Wal-Mart Super Center, and is now joined by Old Navy, Borders Books, and Gart Sports, to name a few. Phase I is at 98 percent occupancy, spurring the start of the 425,000-square-foot phase II. Store openings are planned for fall of 2004 and include an announced Super Target Store.

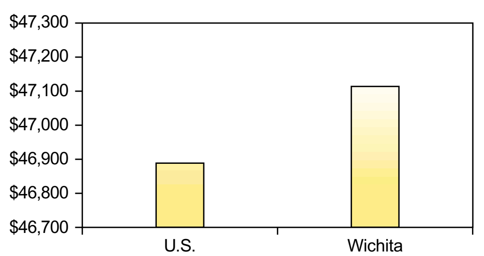
Northeast retail growth pushed an additional two miles east in the last year with strong development along the Webb Road Corridor, at 21st Street and 13th Street North. The Waterfront project, at 13th Street and Webb Road, is home to three of four new restaurants announced including PF Chang's and Fox & Hound. It contains up to 200,000 square feet of retail space and up to 600,000 square feet of office and medical office space. Retail at 21st Street North and Greenwich will flourish with the 500,000-square-foot Regency Lakes and Slawson Companies' 120-acre project. A Super Target will anchor Regency Lakes. The mixed-use developments will offer an array of high-end retail, office and residential.

Rent Range by Center Type

In-Line Shop Space, $/SF/Yr. NNN



Median Household Income, 2003



Wichita's first lifestyle center reached 100 percent completion in 2003. Bradley Fair, at 21st Street and Rock Road, filled out the south end of its development with the addition of Ultimate Electronics and an 8,000-square-foot, multi-tenant out-parcel. The Shops at Tallgrass, a boutique center also at 21st Street and Rock Road, will complete construction of the third and final building consisting of 16,300 square feet in 2004.

Other areas of development to watch include east and west Kellogg, or US Highway 54/400. Michael's will relocate 23,885 square feet in 2004 to the Wal-Mart/Lowe's-anchored power center on east Kellogg. West Kellogg will see change with the completion of the west Kellogg interchanges at Tyler and Maize Roads. The relocation of major automobile dealerships to west Kellogg over the past three years lays a solid foundation for anticipated growth.

The conversion of existing, out-dated theatre buildings into retail space will be prominent in 2004. In progress is the redevelopment of the former Northrock 6 Theatre into 58,000 square feet of multi-tenant retail space and Cinema's East, both along the popular Rock Road corridor. Warren's Premier Palace East at Greenwich and Kellogg is on the market for redevelopment use. This redevelopment activity is spurred by the construction of Warren's Old Town Theatre offering six screens, and expansion of the Warren East Theatre in 2003.

Wichita and the surrounding communities represent significant opportunity in 2004 for real estate investors in any investment range. The management-active investor can lock in double-digit returns.

INVESTMENT & MULTI HOUSING

Investors seeking higher yields continue to pursue real estate with the belief that the monetary policy will see a continuation of low interest rates, reflected in the bond market, other capital markets, and even the triple-net, credit-tenant real estate market.

Existing, multi-tenant properties that require some degree of management offer returns significantly above the 7.5 to 8.0 percent threshold. The rapid pace of new development in Wichita has created several overlooked areas of opportunity for the management-active investor. Couple this with the current cost of capital, and a smart purchase can lock in double-digit returns for an extended period of time. Leverage this further through a 1031 exchange and the investor has the potential to realize returns not seen in the last 15 years.

The inventory of existing investment property is dominated by older, neighborhood and strip retail centers and small, multi-tenant office properties. Purchase opportunities exist in the core area, but require a very skilled eye to separate the winners from the losers. Sale/leaseback opportunities provide an excellent opportunity for the investor with between $1.0 and $3.0 million to invest.

New construction in Wichita continues to provide product for the triple-net investor. Most of these deals involve a national credit tenant, on leases of ten years or longer. Most long-term leases today will contain an upward rent adjustment on periodic intervals. While Walgreen's continue to lead the pack boasting of sales yielding returns in the sub 7 percent range, most of the credit deals in Wichita have remained in the 8.5 percent or higher cap rate ranges.

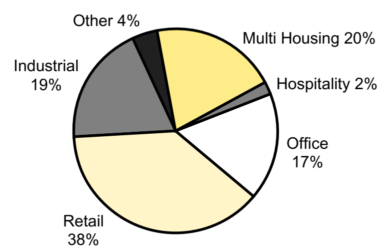
Land sales emerged in 2003 as an active component of the market. The number of prime parcels and out-parcels available for sale at development prices greatly increased, providing a window of opportunity to compete with the large land developers for retailers and end users. Land prices are trending upward, some at a relatively high rate, depending on location. This sector also provides a great end game for strategic 1031 trades and those who desire to cash out.

MULTI HOUSING

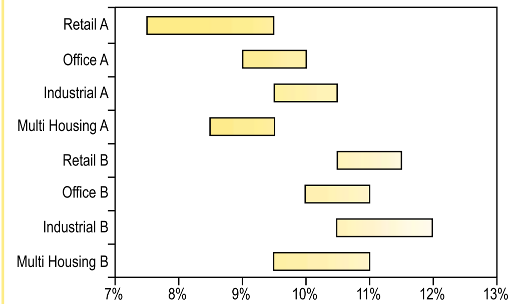
The multi housing market saw a difficult 2003. The combination of job losses and the shift to home ownership due to the affordable level of interest rates saw vacancy rates increase. Effective rental rates declined, particularly in older units that need extensive rehab. Even with no new projects under construction or on the drawing board, vacancy rates are expected to remain at current levels.

Increased vacancy rates have found most multi housing property owners holding on for better times. Few multi housing deals are expected for 2004.

Investment Dollar Volume
by Market Sector



Cap Rate Range
by Market Sector/Class



CORPORATE SERVICES

Corporate America continues to struggle to meet both public and private shareholder requirements for profits, growth and competitive advantage.

This stems from a recent and current period of economic uncertainty, intense global competition, heightened geopolitical tensions and severe profit pressures. Corporate real estate continues to play an increasingly critical role in enabling the enterprise to meet these objectives. Balancing short-term financial needs with mid- and long-term business needs is at the core of the challenge for CRE. CRE remains a very difficult challenge due to strategic uncertainty and the short-term nature of business planning coupled with relative long-term commitment lengths of real estate. The defining issue is whether the partners that corporate leaders have trusted in previous cycles can provide the solutions to help them meet these ever changing business objectives and competitive environments.

While industry participants debate whether opportunities for improvement to corporate bottom lines are becoming limited as efficiencies increase, the extent to which CEO's are looking for real estate's contribution to the enterprise bottom line is never ending. Many firms have yet to adopt the knowledge and industry practices for strategic planning, portfolio rationalization and cost reduction processes to achieve this objective. For those that have been successful, the ongoing challenge is to address the changing dynamics of the workplace, human resource, business and infrastructure needs to support the competitive advantage of the enterprise. The spectrum of strategic planning encompasses many different facets, such as (1) incremental; (2) standardization; and/or (3) value based. The strategic dilemma is due to real estate requiring long lead times for planning, large and visible expenditures, and assets that are difficult and expensive to exit or alter as needs change. Consequently the integration with a knowledge-rich provider can assist CRE departments in resolving these issues.

A recent Grubb & Ellis Corporate Services forum identified a list of key actions for companies that can provide some of the greatest impact on financial results.

CRE AS ENABLER OF CORPORATE BUSINESS PLANS & STRATEGIES

- Interviews with business unit and corporate stakeholders to integrate a corporate portfolio strategy
- Successful communication of portfolio implications to business units and senior management
- Integrating a business understanding into the CRE process
- Portfolio optimization and rationalization for all occupants
- Consolidation and co-location planning
- Financial underwriting and balance sheet analysis
- Risk Management
- Reduction of overall portfolio and transaction costs
- Identification and aggressive disposition of surplus space
- Restructuring of current space to increase efficiencies of occupancy
- Creating metrics and benchmarks to measure portfolio performance and business unit support
- Creating short- and long-term business plans for portfolio
- Process re-engineering and value creation

But what of the future? The function of CRE is to enable the business units to be successful and enhance their competitive advantage. This includes business, financial, portfolio, transaction, and work place solutions. The strategic contribution for CRE and global service providers will rest in value added solutions and effective implementation on behalf of the enterprise. Consequently the talent and knowledge capital of CRE groups and providers will increasingly be more intelligent and effective in making these financial and operational contributions to their customers, enterprise and bottom line.

TRENDS TO WATCH

During 2003, the lagging economy promoted a wait-and-see outlook, even though it has begun to show signs of sporadic recovery. Companies continued lay-offs, restructuring and never ending tightening of fiscal budgets even further. Clearly, proactive CRE business and portfolio approaches have made material contributions to the enterprise's performance. However, this effort will need to continue to show increased measurable contributions to the enterprise in future years. In 2004 we expect an increasing amount of aggressive actions in the way all real estate occupiers manage their portfolios, as organizations seek to improve performance. The following are three trends to watch in 2004.

1. LABOR-BASED PORTFOLIO OPTIMIZATION

From 2000-2003, corporate users of real estate focused on immediate and incremental cost-cutting activities. As leases expired, firms consolidated into larger locations to increase efficiencies. During 2003, corporate users took a more proactive, strategic approach to controlling total operating expenses, with labor and real estate as the cornerstones of this strategy. We expect this to continue.

Companies are seeking to optimize both operations and portfolios. By evaluating *total* labor/workforce issues—recruiting costs, quality of labor, absence and turnover, productivity, retention programs, policies and procedures, and wages and benefits—coupled with an understanding of real estate and infrastructure needs, corporate executives are developing proactive business cases for optimization, along with associated asset re-allocation strategies. Locational decisions are based on the most advantageous business operations, as a whole. This proactive approach not only seeks to cut costs, but also to better align the workforce and operational goals.

2. CORPORATE REAL ESTATE "RISK" MANAGEMENT

With the consistent management of risk of long-term commitments to support increasingly changing global business plans, *the difficulty for CRE will continue to grow*. CRE is challenged with managing a number of major components of real estate risk, such as (1) duration issues of commitment; (2) terminal value of the assets when the business direction changes; and (3) market risk of costs.

Understanding market cycles and associated timing of new commitments will be critical in reducing the risk of long term high market costs. Parallel work in incremental, standardization and value-based strategies will enhance business performance. In addition, accurate demand forecasting will provide a proactive framework for the years ahead.

3. AGGRESSIVE SURPLUS ASSET STRATEGIES

Most CRE departments have remaining assets that have little or no demand from the market. The "low hanging fruit" was quickly resolved early in the current economic cycle, and most other surplus assets have been disposed of. What is left will cause a visible problem for CRE departments in 2004. Consequently, the normal marketing strategies of tracking and/or trailing the falling market pricing will need to change. On a collective basis for Corporate America, it is a very large amount of obsolete or third tier space that clearly has little or no demand, and is an unpopular weight on the corporate balance sheet.

To address these assets, corporations will need to *establish aggressive pricing processes and approaches that allow it to get in front of market pricing*. The consistent corporate strategy has been to reduce its liability and risk, and thus clean the enterprise and balance sheet of these remaining liabilities. With the increased visibility and exposure, we anticipate corporations to begin to bring a large amount of space on the market that will lead the local market pricing until the liability is eliminated.

The economy's performance will drive investment real estate in 2004 more than in the previous three years. Despite the sluggish economy and weak leasing market fundamentals since 2001, investor demand for real estate has been strong, aided by low interest rates and large inflows of capital. With a recovery on the horizon, sales levels and investor returns in 2004 will be more closely aligned with the strength of the economic recovery, interest rates and the performance of the leasing market.

The abundance of capital earmarked for real estate in recent years is due to the poor performance of equities versus the upper-single-digit returns afforded by real estate. With a recovery ahead, some capital will return to equities at the expense of real estate. However, the recovery should boost the weak leasing market, which investors largely ignored in recent years as they paid high prices to secure yields as low as 5-6%. The owners of poorly performing assets with variable rate mortgages cannot hold out indefinitely, compensating for high vacancies with low debt service, if interest rates rise soon. A recovery that brings improved leasing activity will soften but not entirely mitigate the blow of rising interest rates. Private investors relying on debt may move to the sidelines in 2004, making way for institutional investors whom they out-bid over the past few years.

OFFICE

More than any other sector, the fate of the office market in 2004 depends on job growth. Employment increases should encourage more leasing, which will help building owners offset upward adjustments in their mortgage rates. But if interest rates rise before leasing activity improves, the hit to the bottom line may be unbearable for some owners, generating more delinquencies. The recent and promising job creation numbers offer a glimmer of hope for 2004, but not a strong one given the usual lag in the real estate market's recovery.

INDUSTRIAL

This property sector is very sensitive to economic shifts, suggesting that it will bounce back more quickly than the office market. Owners can look forward to improved leasing and firming cash flows in 2004.

RETAIL

During the 2001 recession and jobless recovery of 2002 and 2003, consumer spending remained surprisingly resilient, supporting retail leasing and investor demand. The economic recovery will only increase consumer spending and retail leasing. Grocery-anchored centers will continue to offer strong cash flows and a safe position in any economy. But investors should cast a wary eye on properties that are susceptible to competition from new supercenter and neighborhood market formats introduced by Wal-Mart and other discounters.

MULTI HOUSING

Investors have been willing to overlook massive job losses and interest-rate-driven home purchases over the past three years, focusing instead on the favorable demographics of the Echo Boom Generation, which is nearing apartment-renting age. Despite growing construction levels in many markets, look for investor demand to remain strong in 2004 as the economy puts new renters in the market and rising interest rates limit home buying.

The retail property market is at the top of its game in terms of both leasing and investment, especially compared to the other three core property categories. Consumers have carried not only the retail market, but the entire economy through the recession of 2001 and the jobless recovery of 2002 and 2003. Business capital spending fell off a cliff in 2000 and has only recently begun to pull itself up from the bottom, draining demand for office space and, to a lesser extent, industrial space. Multi housing properties, which usually hold up well during a downturn, have been buffeted by mortgage rates at 40-year lows, which have drawn renters into the ownership market. This leaves retail properties, which largely were ignored by institutional buyers through most of the 1990s, at the top of investors' buy lists, particularly grocery anchored centers, which are considered to be recession-proof; everyone has to eat, as buyers are fond of reciting. But a more pertinent question is: are they Wal-Mart-proof? And if they have survived the onslaught of the super center format, will they survive a second wave of Wal-Mart Neighborhood Markets, designed to capture the dollars of the traditional grocery store customer? So far, investors are betting that they will, particularly infill centers in developed trade areas that offer a measure of protection from competitors.

Of all retail concepts, power centers have traveled the furthest the fastest in the hearts of investors. Thought to be susceptible to downsizing big-box retailers and Internet sales, power centers that have survived the big-box shakeout are now viewed as attractive candidates for acquisition, especially for investors unable to find suitable grocery-anchored properties. Malls have further bifurcated into the Class A fortress malls that are secure from competition and Class B and C malls that will require substantial dollars for renovation, redevelopment into open-air or Main Street formats, or demolition and reuse for residential or industrial development, depending on their trade area.

Unanchored strip centers, once thought to be terrible investment candidates due to their propensity for overbuilding, now present very favorable acquisition targets in gentrifying central and mid-city neighborhoods where household income is high and competition from other retailers is low. Similarly, the decades-long efforts of city planners and municipal governments to revitalize their downtowns is bearing fruit, not just in the 24-hour markets like Boston and San Francisco but in smaller, 24-hour wannabe markets like San Diego and Indianapolis. Investors can find mixed-use opportunities with street-level retail in both new and rehabbed buildings—a product type that may be particularly attractive to private buyers.

The retail property market is likely to get even stronger in the coming year. While some analysts suggest that spending will decline as the tax cuts and wave of mortgage refinancings pass into history, the majority view holds that spending will rise as the recovering economy puts more people to work, which will provide additional support for an already healthy property type.

MANAGEMENT SERVICES

In our 2003 Forecast, Grubb & Ellis predicted that insurance and risk management issues, indoor air quality, energy management and globalization would be the major trends facing the property and facility management industry. These issues continue to dominate the landscape. As we look forward to 2004, we see the following challenges and opportunities facing real estate owners and managers.

CORPORATE FACILITY MANAGEMENT

THE EVOLUTION OF OUTSOURCING

The pace of outsourcing real estate and facilities functions continues to accelerate. Since the early 1990s, corporations and institutions have outsourced hundreds of millions of square feet of space to third party real estate providers who specialize in providing a full range of real estate and facilities services. Countless other companies are expected to follow suit. With a lackluster economy and increasing pressure on corporate earnings, we expect the outsourcing trend to continue in earnest for corporations with significant real estate portfolios. Outsourcing of transaction management services, lease administration services and facility management services continues to be a proven and viable option for achieving significant cost reductions, enhanced productivity and increased shareholder value.

Along with the increased pace of outsourcing, we also see a fundamental shift in the way companies view their real estate portfolios and the role of the facility manager. Corporations are increasingly viewing real estate and facility management not as cost centers but as an integral part of the overall corporate strategy. This trend has had a major impact on the role of traditional facility managers, as companies look to facility management providers for an increasing amount of value-added services above and beyond traditional maintenance and engineering. These services range from strategic occupancy planning, workplace strategy and space utilization to a variety of office services such as printing, document management and mailroom operations. Facility managers will be expected to play a much more active and strategic role as companies look to drive efficiencies in their overall occupancy costs.

For those companies looking to outsource real estate and facilities functions, a carefully planned and well designed outsourcing program will result in a host of tangible benefits to a company’s internal business units and its bottom line.

CENTRALIZED FACILITY SUPPORT SERVICES

As companies scrutinize their real estate portfolios for cost reduction opportunities and operational efficiencies, centralized facility support services will continue to play a fundamental role in helping companies achieve these goals. A centralized and coordinated approach to facility management enables companies to integrate processes, technology and people, resulting in substantial cost efficiencies and measurable gains in productivity and quality. Centralization of services eliminates redundancies in personnel, allows for the consistent utilization and support of proven technologies, and ensures consistent processes and reporting throughout the real estate organization. These benefits can be realized by any company in any industry, but they are especially profound for companies with large and geographically dispersed real estate portfolios.

TECHNOLOGY SOLUTIONS

The rapid advance and maturation of web-based solutions and mobile technology will have a major impact on how corporate real estate portfolios are managed and operated for years to come. Technology touches virtually every aspect of real estate, from building automation and infrastructure to portfolio reporting, purchasing, work order management and lease management. These advances create critical opportunities for companies to streamline their real estate processes, eliminate redundancies and increase productivity without substantially increasing capital investment. Companies that strategically and successfully deploy web-based technologies and mobile solutions will realize these tangible benefits and stay in closer touch with their customers, vendors and their portfolio as a whole.

PROPERTY MANAGEMENT

PREPARING FOR THE UNEXPECTED

Several high-profile incidents over the past few years have forced property owners and managers to remain especially vigilant in the face of a variety of threats, new and old. War, terrorism, natural disasters, high-rise fires, and even massive power outages have put emergency plans and emergency response personnel to the test. The headlines serve as continual reminders that these threats are ever present. Owners and managers of real estate will continue to place a high priority on establishing and implementing effective emergency plans to ensure that properties, facilities and occupants are equipped to handle a wide variety of emergency situations. These threats also continue to have a dramatic effect on property insurance costs. Though property insurance rates are beginning to stabilize from their post-9/11 levels, this is small consolation to property owners and managers who have had to assume significantly higher deductibles—and risk—to avoid massive rate increases.

BUSINESS CONTROLS/SARBANES-OXLEY

The increasing focus on the control of internal activities by public corporations in the wake of scandals in recent years is having a significant impact on their service providers. As corporations and accounting firms grapple with the more stringent reporting and audit requirements of the Sarbanes-Oxley Act of 2002, companies will increasingly require their service providers to establish and document internal accounting and operational controls on behalf of their clients in the areas of accounting, purchasing, and financial reporting. This trend is already having a substantial impact on the cost of doing business for public companies and their service providers. Service providers should expect an immediate and increased demand for information on their internal business controls and processes. Those providers who have developed and implemented strong internal control programs will have a major competitive advantage.

PUBLIC/PRIVATE PARTNERSHIPS

Just as corporations have turned to real estate service firms to provide solutions for their portfolios, governmental entities are gearing up to follow suit. Budget constraints have placed increasing demands on federal, state and local governments to reduce operating expenses and generate revenue from their extensive real estate assets through leasing, disposition or converted use. Many government agencies are shifting their strategy of transferring unused assets to local governments and are now dealing directly with private developers and managers of real estate in order to generate returns. These assets include a variety of closed military bases, hospitals, and other vacant or obsolete properties.

The U.S. General Services Administration, which manages a large portion of the government's real estate portfolio, is also looking increasingly to property management firms to manage its occupied portfolio. This strategic initiative, which is expected to expand quickly over the next few years, is driven largely by an effort to reduce costs and deal with the challenge of an aging workforce within the GSA that is expected to retire over the next five years.

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