Grubb & Ellis®

Property Solutions Worldwide

2003 Real Estate Forecast

GREAT PLAINS

Des Moines

Kansas City

Omaha

St. Louis

Wichita

Grubb & Ellis
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Global

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Property Solutions Worldwide

A letter from the President

The commercial real estate world may be a little confusing right now, but that doesn't mean there's any lack of action in the marketplace. Far from it.

While office and multi housing leasing markets continue to deteriorate, the industrial market stabilized toward the end of the year, and demand for shopping center space was nothing less than robust. What's more, demand for nearly all types of investment real estate accelerated as the year progressed. In fact, current conditions in the marketplace don't even come close to matching the negativity of the last major downturn in the early 1990s. You might remember when the government was forced to create the Resolution Trust Corporation - as the buyer of last resort—acquiring failing properties from their reluctant owners, the hard-pressed lenders.

Thanks to sturdy consumer spending, shopping centers, which had been at the bottom of investors' buy lists, have now moved to the top, particularly neighborhood centers anchored by grocery stores. Not surprisingly, it was the consumer who powered the economy quickly out of the gate at the beginning of the year only to slow again by year-end, a development that does call for caution and foster fears of a delayed recovery date for commercial real estate. Through it all though, interest rates sank to 40-year lows, providing liquidity to the real estate investment market and the economy—and some persistent optimism throughout the sector.

This year Grubb & Ellis has also experienced several strategic changes - especially in the way we do business. For the most part, we've focused on creating the integrated services structure we believe is necessary to continue to provide exceptional service to our clients, not to mention to meet the competition head on. In doing so, we have successfully expanded our menu of services to include timely and appropriate consulting services, such as site selection, financial services and solutions for solving the common disconnects between public and private joint ventures. Our affiliate program has been recognized as being a model for the industry. Our global alliance with a continually expanding Knight Frank has been strengthened even further through an agreement with Canada's leading integrated real estate services firm, Avison Young.

We remain convinced that 2003 will offer both significant opportunities and substantial challenges to our industry. To be certain, the winners going into the next up cycle will be those who effectively implement forward thinking strategies appropriate to their markets.

To that end, we sincerely hope you find this report, our seventh comprehensive national forecast, a valuable and strategic resource.

Barry M. Barovick
President and Chief Executive Officer

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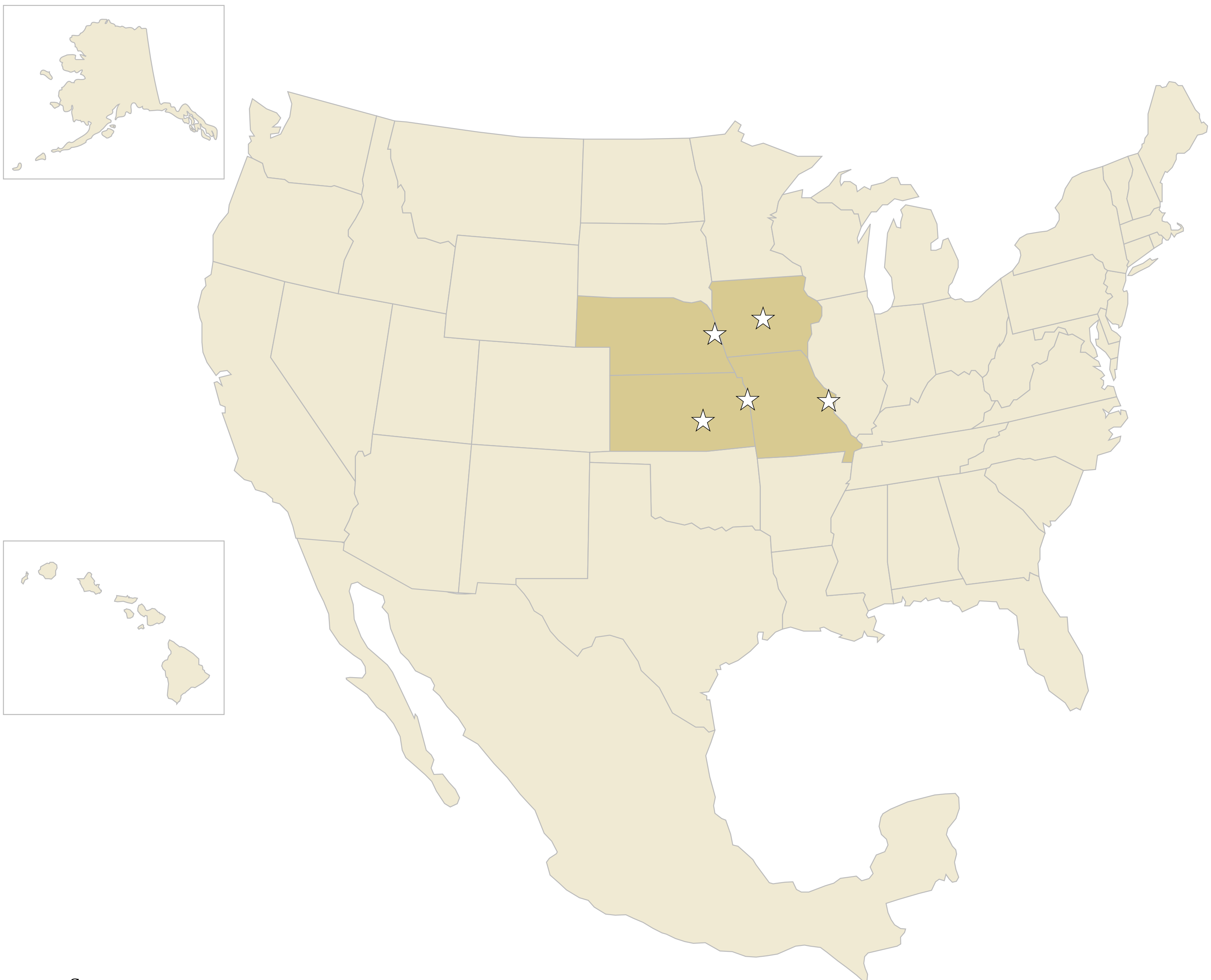


Sources:

Des Moines – Grubb & Ellis | Mid-America Pacific, Iowa Department of Economic Development, SIOR Comnparative Statistics of Industrial and Office Real Estate Markets, U.S. Census Bureau, Polk County Assessor

Kansas City – Grubb & Ellis | The Windbury Group, Grubb & Ellis Company, Greater Kansas City Chamber of Commerce, Mid-America Regional Council, Kansas City Business Journal, Home Builders Association of Greater Kansas City, U.S. Department of Labor, SRC, LLC

Omaha – Grubb & Ellis | Pacific Realty, Sales & Marketing Management, Metro Area Planning Agency (Omaha-Council Bluffs), Nebraska Department of Economic Development, Omaha Chamber of Commerce, U.S. Department of Labor Statistics

St. Louis – Grubb & Ellis | Krombach Partners, Ted Greenberg and Keith M. Kramer Associates, Inc.

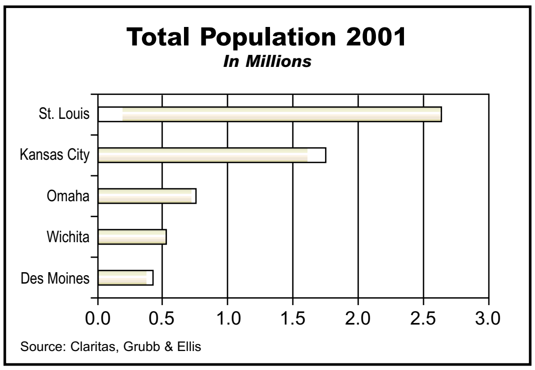
Wichita – Grubb & Ellis | Martens Commercial Group, LLC, The Martens Companies, Savage, Inc.

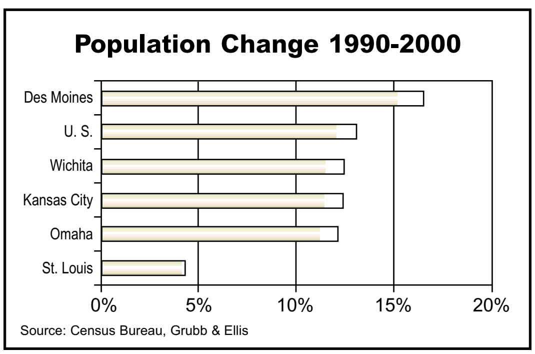
Note: Year-end 2002 numbers include estimates for the fourth quarter that were derived in November. Final published numbers may vary slightly. Totals may not add precisely due to rounding of numerals.

Overview

LOOK FOR MORE OF THE SAME IN 2003, WITH KANSAS CITY AND DES MOINES HOLDING FIRM; ST. LOUIS AND OMAHA RECOVERING SLOWLY; AND WICHITA STRUGGLING UNTIL THE AIRLINE INDUSTRY EMERGES FROM ITS SLUMP.

The five metropolitan markets featured in this report have diversified economies with a surprising dollop of technology and biotech companies represented in their economic profiles. All five areas registered solid population expansion in the 1990s, though below the supercharged rates of flashier, coastal metropolitan markets and in some cases below the U.S. average. To some extent, the more sedate growth of the Great Plains is due to the region's historic and continuing ties to agriculture, including manufacturing and financial services related to agricultural production, and the long-term decline in the number of Americans engaged in this pursuit. But these five markets are striving to remake themselves by attracting industries that offer strong growth prospects. Of 315 metropolitan areas analyzed, the Milken Institute ranks Kansas City (31), St. Louis (34), Wichita (39) and Omaha (52) quite highly in technology production, with Des Moines (116) in the middle of the pack.





During the 1990s, population expanded most rapidly in Des Moines, also the smallest of the five metropolitan areas. Des Moines was the only Great Plains market registering above average population growth - 16.1 percent compared to 13.1 percent in the U.S. At the other end of the spectrum, St. Louis registered population growth of just 4.5 percent over the past decade. The suburban communities surrounding St. Louis developed as rapidly as other markets in the Midwest, but population in the City of St. Louis fell, offsetting some of the gains in the suburbs. As in other regions of the country, the unemployment rates in the metropolitan areas of the Great Plains fell to record lows in the late 1990s, but the labor shortage in these areas was particularly acute due to their average to below-average rates of population growth.

These five markets offer similarities as well as important differences to investors seeking real estate assets and companies seeking a place to locate or expand. Of the five markets, Wichita stands out for the size of its manufacturing sector, which accounts for 25 percent of total employment compared to 13 percent in the U.S. Manufacturing employment in the U.S. stabilized around 1970, while in Wichita, manufacturing employment nearly doubled over the past 30 years. Wichita's reliance on aircraft manufacturers, including Boeing, Cessna, Raytheon and Bombardier, has boosted the city's fortunes in the good times while causing some pain when the airline industry stumbles, as it has during the economic downturn that began in 2001.

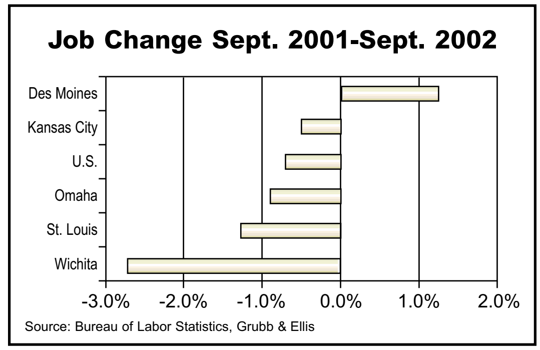
Kansas City's economy remained fairly stable during the recent recession. Vacancy rates have risen due to new construction and the phased relocation of Sprint to its new campus in Johnson County, Kansas. But the area's diverse economy and its below-average share of manufacturing industries, the most troubled sector of the U.S. economy, have kept Kansas City on an even keel as other areas have stumbled.

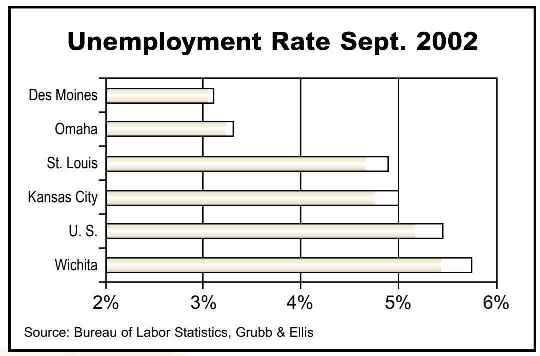
Des Moines, like Kansas City, remained fairly stable through the recession. Of the five Great Plains markets discussed in this report, Des Moines is the only state capital, which has helped to anchor the economy. The metro area has an extensive financial-services sector with the third-highest concentration of insurance headquarters in the world including KVI, Principal Financial Group and Allied Group. The FIRE sector (finance, insurance and real estate) accounts for 14 percent of local employment, more than twice the 6 percent share in the U.S. overall.

Omaha is another major insurance center, led by the city's namesake Mutual of Omaha. Jobs in the FIRE and business services sectors account for a high 20 percent of total employment compared to 18 percent in the U.S. Call centers flock to Omaha due to its low business and living costs, the flat Midwestern accents of its populace, and a robust communications infrastructure that is a legacy of Offutt Air Force Base. In downtown Omaha, First National Bank recently completed a 40-story headquarters that is the tallest building between Chicago and Denver, and Union Pacific is building a 1.2 million square-foot headquarters. These projects are leaving large vacancies in their wake, which will keep the downtown office market soft for several years.

St. Louis, the largest of the Great Plains metropolitan areas, has seen its employment base erode moderately since 2001. The market is a major distribution hub with a high 20 percent of its total employment in the industrial sectors of manufacturing, wholesale trade, and trucking and warehousing, compared with the national average of 12 percent. Transportation companies are well represented in the local economy, including Boeing, DaimlerChrysler and American Airlines. Boeing's military division has received a $4.5 billion contract from South Korea to build 40 updated F-15s, which will be built in St. Louis through 2008.

Looking into 2003, the performance of the economies and real estate markets in these five metropolitan areas depends on the prospects for the U.S. economy, which appear shaky. On the positive side, inventories remain lean, and any upturn in demand from consumers and businesses should translate quickly into stronger manufacturing activity, which in turn should ripple through the rest of the economy. Interest rates, which are at 40-year lows, could move lower still if the Federal Reserve becomes convinced that another recession looms. And sales of homes, automobiles and general merchandise have held up admirably despite the sluggish employment market during the past two years. On the negative side, analysts have been suggesting for the past two years that consumer spending is poised to weaken, and 2003 could be the year this happens unless job growth picks up. Any recovery in 2003 is likely to be muted, with conditions especially weak in the first half. This suggests more of the same for these five Great Plains metropolitan areas, with Kansas City and Des Moines holding firm; St. Louis and Omaha recovering slowly; and Wichita struggling until the airline industry emerges from its slump, which could be delayed until 2004 or later.





Office

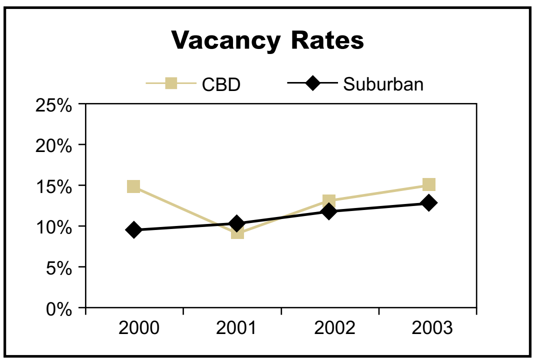
Tenants should allocate plenty of time to explore the market and acquire a thorough understanding of conditions. The savvy user can reap substantial incentives.

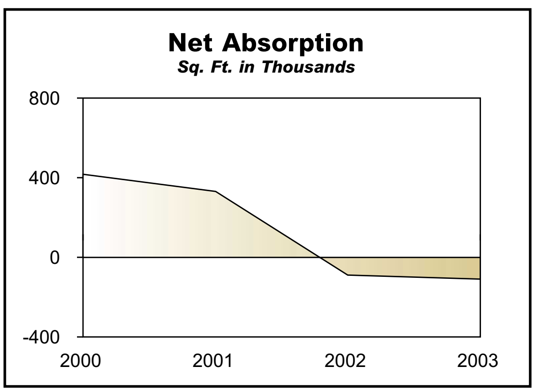
Des Moines

Market at a Glance
2002 Year End

	CBD	Suburban	Total
Rentable*	5,521	5,337	10,858
Vacant*	713	644	1,357
Vacancy Rate	12.9%	12.1%	12.5%
Absorbed*	-143	44	-99
Under Construction*	0	143	143
Rental Rate**			
Class A	$18.39	$16.34	$17.00
Class B	$14.65	$13.37	$13.75

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





Consistent with national office trends, Des Moines has and will continue to experience sluggish leasing activity coupled with an ample supply of vacant space. However, these same market conditions are not as pronounced as in many larger markets due to the market's role as an insurance headquarters center and the capital of Iowa.

Near term opportunities for office users will be found in taking advantage of the softness in the market and repositioning into more desirable space. In addition, a number of large users are consolidating operations into buildings offering larger floor plates with the goal of using space more efficiently. Properties offering these space configurations will be the ones to lease big blocks of space to quality tenants.

The Des Moines Central Business District will be the beneficiary of over 650,000 square feet of new corporate facilities when the Allied Insurance and Wells Fargo Financial buildings are completed. Initial concerns over lease-up for space being vacated as these companies move into their new facilities have been somewhat alleviated by accelerated growth within these same companies and decisions to keep employees in the older buildings. Although large corporate users have been loyal to the CBD, the reconstruction of Interstate 235 through the heart of the city has driven numerous smaller tenants to consider the suburbs. As a result, space in Class B and C buildings in the CBD is being offered at substantial discounts. Landlords owning these buildings are finding it difficult to attract new tenants despite a laundry list of incentives.

Absorption in 2003 is likely to be positive, sparked by the leasing of big blocks of office space. Landlords will continue to compete aggressively for new tenants and attempt to hold rental rates by offering rent abatement and above market improvement allowances in lieu of rate concessions. Landlords will place even more focus on tenant retention as they realize that the time required to re-lease space has significantly increased.

Office leasing activity will increase as the economy turns and companies begin to hire more employees. Recent leasing activity has largely come from mortgage companies whose business is driven by today's attractive interest rates. Going forward, landlords will need to be aggressive in securing tenants and creative in structuring lease deals. Tenants should allocate plenty of time to explore the market and acquire a thorough understanding of conditions. The savvy user can reap substantial incentives.

THE SUPERVALU WAREHOUSE AND DISTRIBUTION CENTER AND THE R.R. DONNELLY PRINTING PLANT ARE BEING PURCHASED SUBSTANTIALLY BELOW MARKET FOR USE AS MULTI-TENANT WAREHOUSE PROPERTIES.

Industrial

DES MOINES

Tenants will see increased indus-trial opportunities in 2003 in the form of owner driven incentives such as additional tenant improvement dollars, rent abatement and lower base rates. Tax abatement in some municipalities will be an inducement, as well. With the exception of tax abatement, these incentives are a result of a substantial increase in available space in late 2001, continuing through 2002. Several large single tenant properties were vacated, throwing over 1.2 million square feet onto the market. Buyers of industrial properties are finding that low interest rates are making acquisitions and build-to-suits more cost effective. Completion of the beltway to I-35 (Relocated Highway 5) south of the Des Moines International Airport, should increase user interest in business parks near the airport.

Opportunities beyond 2003 will continue providing tenants lower effective rental rate options, in part as a direct result of the conversion of the 556,000 square foot SuperValu warehouse and distribution center and the 640,000 square foot R.R. Donnelly printing plant, both being purchased substantially below market for use as multi-tenant warehouse properties. Buyers will continue to find even over-priced properties attractive because of low interest rates. The new NE 66th Interchange south of Ankeny, to be completed in 2004, will create increased interest in the industrial corridor north of I-80.

A major challenge during 2003 will be to educate both tenants and owners to the changing industrial market conditions. For example, the sum of EDS' vacant sublease space in northwest suburban Des Moines, plus the addition of SuperValu and R.R. Donnelly space equals a tenant's market. Tenants will have an excellent opportunity to expand or relocate, taking advantage of the lower rate scenario and leasing incentives. Owners will need to be more aggressive to retain existing tenants and attract new ones.

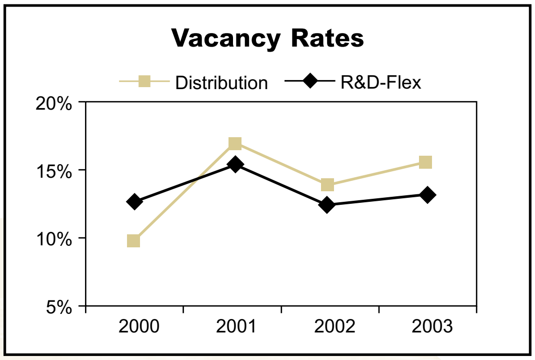
Beyond 2003 owners and developers will be challenged to find build-to-suit opportunities and determine the appropriate time to consider new spec buildings as vacancy levels decrease. They will also need to compete with lower cost options in the market. Rental rates will remain under downward pressure. Owners and investors will need to be mindful of competing speculative product being offered at below-market rents prior to considering additional investment opportunities. It is rumored that a large local company will vacate over 700,000 square feet of owned and leased space in late 2003 in favor of constructing a new, larger state of the art distribution facility. This will place even more pressure on the already competitive market.

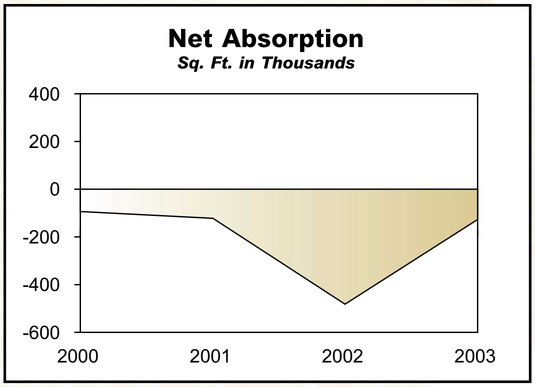
MARKET AT A GLANCE
2002 YEAR END

	WAREHOUSE/ DISTRIBUTION	R&D/ FLEX	TOTAL
Total*	20,845	6,605	27,450
Vacant*	2,940	817	3,757
Vacancy Rate	14.1%	12.4%	13.7%
Absorbed*	-402	-58	-460
Under Construction*	35	65	100
Rental Rate**	$3.50	$4.20	$3.85

*Square feet in thousands, includes owner-occupied, multi-tenant & single-tenant buildings at least 10,000 sq. ft.

** Weighted average asking rent/SF/year Triple Net





Retail

NOW THAT GENERAL GROWTH PROPERTIES HAS BROKEN GROUND ON JORDON CREEK TOWN CENTER, CONSISTING OF OVER 2 MILLION SQUARE FEET OF NEW DEVELOPMENT ON 200 ACRES, RETAILERS KNOW THEY NEED TO BE THERE.

DES MOINES

In late 2002, retailers began playing a chess game of where to locate in or around Jordan Creek Town Center in West Des Moines. Now that General Growth Properties has broken ground on the project, consisting of over 2 million square feet of new development on 200 acres, retailers know they need to be there. The trick is identifying where each is going. Development at Jordan Creek will be feverish in all directions and will connect the two interstate arterials at Civic Parkway and 74th Street.

Development opportunities exist around the perimeter of Jordan Creek for specialty centers as larger, big box parcels are owned or optioned by local developers looking for the big anchor. Speculative development in other areas of the city will be slowed by the wait-and-see attitude that many developers are taking with Jordan Creek.

Opportunities are abundant for retailers willing to locate in second-generation space in other parts of the city. Many big box spaces have been vacant for several years now. This trend will create opportunities for savvy investors to purchase strip centers at below market prices and redevelop vacancies for possible alternative uses, such as office space or call centers.

Growth opportunities will continue for years to come in the retail sector in and around Jordan Creek and also a planned, enclosed mall in Ames. New neighborhoods developing in these areas will create opportunities for retailers to open additional locations and for developers to construct neighborhood strip centers. However, this focused growth in just a few corridors will create a tenant's market for retailers and a buyer's market for investors in the B and C retail locations throughout the rest of the metro. Also, retailers will be mindful of the growth in the Highway 5 bypass south of Des Moines, as a number of new housing developments have been opened in this corridor.

The biggest challenge for landlords next year will be to backfill vacant big box space. The metro area has an excess supply of 20,000 square foot-plus spaces available for lease. Thus, landlords will continue to adjust downward their expectations for deals on second-generation space. The biggest challenge facing retailers is where to locate at Jordan Creek and finding a deal in the corridor where the economics will make sense. Land prices being sought at Jordan Creek are unparalleled in Des Moines.

Uncertainty is the word for long-term challenges. Recent Des Moines headlines include corporate layoffs, Des Moines based companies being acquired by out-of-state companies, state government economic troubles, and decreased consumer confidence. The result is that landlords are nervous for a retail market that could become over-stored after the addition of 2 million square feet at Jordan Creek. Economic growth will continue if the financial services and insurance sectors do not fall on hard times - which could be a big "if." The prudent landlord is taking every opportunity to backfill non-anchored shopping centers and prepare for the uncertainty ahead.

NEW/EXPANDING TENANTS
2002

MERCHANT	STORE TYPE	LOCATION(S)
Scheels Sports	Sporting Goods	Jordan Creek Town Center (under const.)
Famous Barr	Department Store	Jordan Creek Town Center (under const.)
Dillard's	Department Store	Jordan Creek Town Center (under const.)
Petsmart	Pet Supplies	University Ave (West Des Moines) and Ankeny
Pier One	Import/Home Décor	Ankeny
PF Chang's	Restaurant	Jordan Creek Town Center (under const.)

PROPERTIES ARE SELLING WELL BELOW REPLACEMENT COST, AND WHEN THE CURRENT LULL ENDS, SIGNIFICANT RETURNS CAN BE EXPECTED.

Investment

Last year was an interesting year for investment sales. Record low interest rates coupled with investors looking to diversify real estate investment portfolios, resulted in an increased appetite for investment product. Capitalization rate compression occurred as buyers chased reluctant sellers with favorable financing or 1031 exchange money.

The multifamily sector in the Des Moines area saw the addition of roughly 2,000 new units in 2002. Out-of-state developers took advantage of financing opportunities to build higher end units, which accounted for the majority of new construction. The number of units represents approximately four years worth of average absorption and has thus had a significant impact on vacancy rates, which were already trending upward due to the ease of financing available to first time homebuyers. Multifamily sales slowed from their 2001 pace due to lack of product and investors choosing to refinance versus sell.

Well-located, quality retail projects are selling at premiums while centers in secondary locations struggle for new tenants and to retain existing tenants. As the realization of a new General Growth Mall (Fall 2004) in the western suburbs draws near, concern over the potential of losing anchors is causing increased scrutiny when underwriting suburban centers.

Opportunities for 2003 lie with well-capitalized investors who have the ability to acquire properties at a deep discount due to increased vacancies and slow leasing activity. Properties are selling well below replacement cost, and when the current lull ends, significant returns can be expected.

The main challenge going forward for buyers is to find and correctly analyze the risk in a given investment property. For sellers, the main challenge is to identify properties in their portfolio that have been owned for some time and may have already appreciated beyond the target sales price, thus presenting a sale opportunity.

KEY INVESTMENT TRANSACTIONS
2002

BUYER	SELLER	PROPERTY TYPE	PROPERTY NAME	SALES PRICE (MILLIONS)
University Park-DM, LLC %Kimko Realty Corp.	8801 University LLC %Lehman Bros Holding	Strip Center	University Park	$10.1
Knapp, William C Revocable Trust	The Graham Group, Inc.	Multi Housing	Crescent Chase Apartments (120 units)	$7.2
Timberland Partners XXVII, LLP	Alpine Village Urbandale Associates, LLC	Multi Housing	Alpine Village Apartments (132 units)	$5.0
Town Square Apartments, LC	Town Square Acquisition Company, LLC	Multi Housing	Apartments (144 units)	$4.4
Forget Properties ION, IOA, & IOL, LLC	Walters Investment Intl/ DBA Walters HMS	Multi Housing	Apartments (72 units)	$4.3
Philip J. Colletier, M.D.	New Millennium, LC	Retail	Walgreens Property	$3.5
Colby's Pine Tree Plaza, LC	Pine Tree Altoona, LLC	Strip Center	Pine Tree Plaza	$3.0

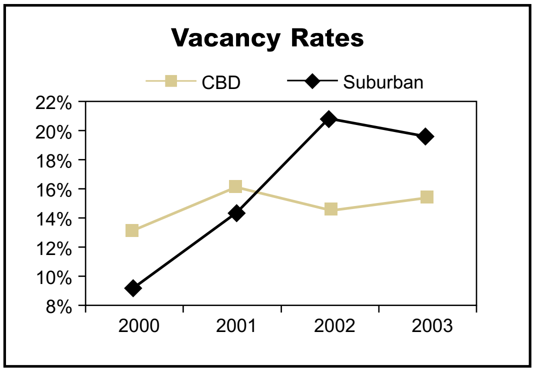
Office

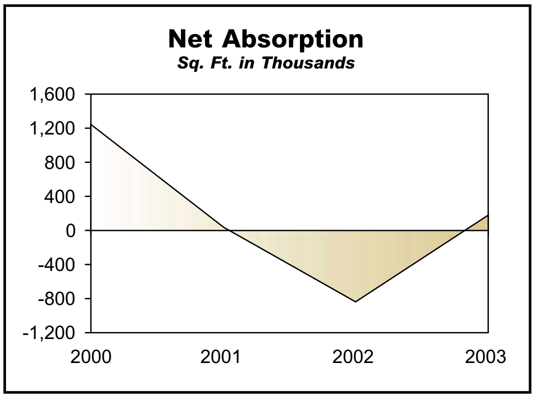
Sublease space, coupled with nearly one million square feet of space vacated by Sprint, pushed vacancy levels to the highest point in more than a decade.

Market at a Glance
2002 Year End

	CBD	Suburban	Total
Rentable*	12,026	31,296	43,322
Vacant*	1,741	6,475	8,216
Vacancy Rate	14.5%	20.7%	19.0%
Absorbed*	328	-1,164	-836
Under Construction*	600	616	1,216
Rental Rate**			
Class A	$17.66	$21.37	$20.03
Class B	$16.31	$17.70	$17.37

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





Kansas City's office vacancy surged in 2002 as a result of the economic slowdown. Overall vacancy surpassed 19 percent, an increase of more than 600 basis points in one year. Sublease space, coupled with nearly one million square feet of space vacated by Sprint, pushed vacancy levels to the highest point in more than a decade. Effective rental rates dropped 10 to 20 percent as landlords tried to compete with companies that sublet space at aggressive rates. Demand will rebound in 2003 but likely not before the third quarter. Activity in the first half of the year will be stagnant. Vacancy will continue upward, although at a slower pace than in 2002, cresting around 21 percent. Economic conditions should gradually improve as the year progresses, and the office market will slowly follow. However, substantial improvements will not be seen until late 2003 or early 2004. After experiencing some positive activity in the last half of the year, vacancy should drop below 18 percent by year-end.

Tenants will continue to benefit from the current economic climate for much of 2003, although landlords and owners should regain some negotiating power by the fourth quarter. Rental rates will remain flat, but the prevalence of concessions should begin to diminish as demand improves late in the year. Very few new speculative development projects will start before 2004, allowing the construction pipeline time to empty and preventing any further damage to the market from excess space. The largest project under construction in 2003 is the 270,000 square foot Plaza Colonnade located on the southeast side of the Country Club Plaza.

South Johnson County experienced the most turmoil over the last year. Vacancy rose above 25 percent, an increase of 1,140 basis points or 1.6 million square feet. Much of the increase was associated with Sprint transferring employees. Vacancy should begin to drop off during the next 12 months as Sprint nears the end of its space consolidation.

A similar increase will occur downtown when the 600,000 square foot Crown Center Tower is completed late in the year. Downtown's vacancy will spike approximately 400 basis points, pushing it over 19 percent as the Tower's tenants relocate from other buildings including the anchor tenant, Shook, Hardy & Bacon, which will leave a sizeable hole at One Kansas City Place. Further damage to downtown will be sustained in late 2004 when Blackwell Sanders leaves Two Pershing Square to assume its new position as the anchor of the Plaza Colonnade.

THE INDUSTRIAL MARKET IS CURRENTLY AT OR NEAR THE BOTTOM OF THE REAL ESTATE CYCLE WITH CONDITIONS SET TO REBOUND OVER THE NEXT SEVERAL MONTHS, BARRING ANY ECONOMIC RELAPSES.

Industrial

The Kansas City industrial market has been inactive over the last two years. A sluggish economy and weak demand for space has put a halt to new development throughout the entire metropolitan area. Speculative construction was limited to one 90,000 square foot office/warehouse project at the Airworld Industrial Park, adjacent to KCI Airport. In 2002, the local manufacturing industry eliminated more than 6,000 jobs, the most of any one industry, while wholesale companies lost an estimated 1,000 positions. The lack of industrial production and decreased demand caused vacancies to rise by 230 basis points surpassing 9 percent during 2002.

Employment growth is expected within manufacturing and wholesale adding an estimated 1,500 jobs in 2003 and an additional 4,000 jobs in 2004. The increase in employment will directly affect the demand for space. As demand increases, speculative construction could possibly return on a selective basis by 2004.

Current conditions continue to play in favor of users of space. The negotiating power will likely remain with users through much of the year until prospect activity rebounds around mid-year. The industrial market is currently at or near the bottom of the real estate cycle with conditions set to rebound over the next several months, barring any economic relapses.

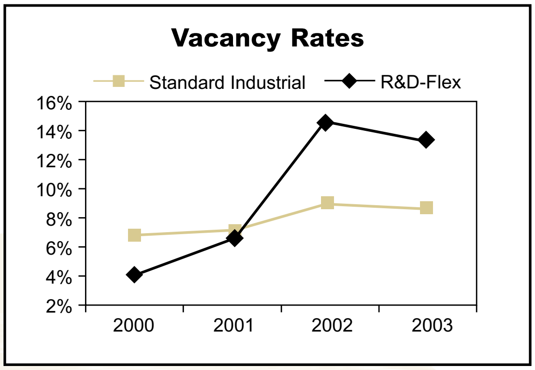
Local experts agree the national economy will guide the direction of industrial market activity. Assuming consumer spending continues at its active pace, the demand for the manufacturing, warehousing and distribution of goods should increase. Local area economists anticipate improvements within Kansas City's industrial market in 2003, resulting in positive activity for industrial real estate.

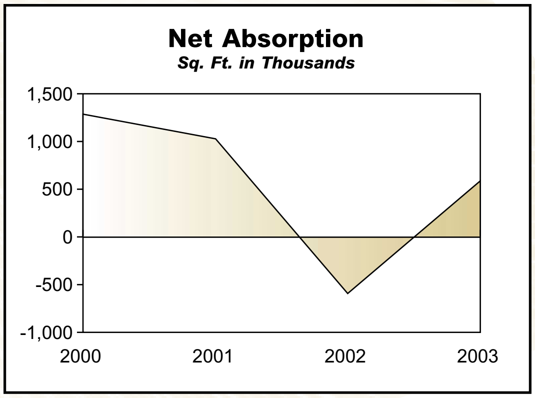
The challenges decision-makers now face is overcoming hesitancy to move forward on pending real estate decisions as they continue to work through the cyclical economic downturn. There is no better time to be in the market for real estate given the historically low interest rates and the surplus of quality space available. Vacancy should peak around 10 percent before beginning to work its way down slowly throughout the year. The 2003 year-end vacancy is projected to close around 8 percent with the decline continuing in 2004. The drop in vacancy will begin to sway the advantage back in favor of landlords and owners, ultimately causing some urgency for users to capitalize on current conditions before they expire.

MARKET AT A GLANCE
2002 YEAR END

	STANDARD INDUSTRIAL	R&D/ FLEX	TOTAL
Total*	108,097	8,775	116,872
Vacant*	9,880	1,274	11,154
Vacancy Rate	9.1%	14.5%	9.5%
Absorbed*	-282	-367	-649
Under Construction*	162	148	310
Rental Rate**	$2.73	$6.73	$3.64

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

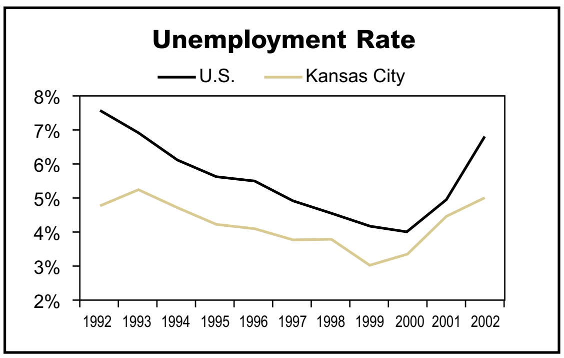


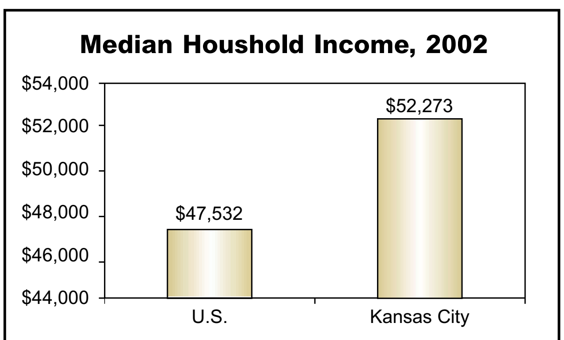


Retail

At 135th Street and Metcalf, the largest retail center in the city should break ground this year, The Walk at High Pointe, a 1.2 million square foot enclosed regional mall anchored by Famous Barr, AMC Theaters, Sears and Von Maur.

An unpredictable economy and wavering consumer confidence made 2002 the year of the discounter in the Kansas City retail market. Big box value retailers such as Target, Wal-Mart and Lowe's accounted for nearly all of the development. Some ambitious development plans will finally come to fruition in 2003, changing the face of Kansas City's retail market. The largest of these developments will be located near the Kansas Superspeedway in Kansas City, Kansas. The 400-acre development called Village West will become an impressive tourist attraction in conjunction with the Speedway featuring Cabela's Sporting Goods, Nebraska Furniture Mart, Warren Theatres, Great Wolf Lodge and a minor league baseball park. Cabela's opened in 2002 while the rest of the anchors will open in 2003. Further growth will continue in the area for the next several years to build upon the attractions.





Source: Experian/Applied Geographics Solutions

Johnson County will add to its already impressive mix of retailers with several new shopping centers. Wal-Mart Supercenter, Lowe's and Target all will open at 135th Street and State Line Road. To the west at 135th Street and Nall Avenue, Cornerstone Village, a 324,000 square foot retail center, will begin construction. At 135th Street and Metcalf, the largest retail center in the city should break ground this year, The Walk at High Pointe, a 1.2 million square foot enclosed regional mall anchored by Famous Barr, AMC Theaters, Sears and Von Maur. By 2004, some of the attention focused the last few years on 135th Street will begin to shift towards 151st and 159th streets. Retailers are already selecting future locations in anticipation of the residential development growing in the south.

The northland will add two new shopping centers within close proximity to one another 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 high-end center anchored by Borders Books.

To the east near Liberty, Missouri, the Liberty triangle is already adding several retailers such as Super Target, Home Depot, a Wal-Mart Supercenter and Kohl's. This trend will continue north of the triangle along Interstate 35 where countless new subdivisions are being added, as well as west of the triangle along Highway 152.

Key Shopping Centers Planned for 2003

2002

Center Name	Size (SF)	Anchors	Developer
Cornerstone Village	324,500	To Be Determined	RED Development
Kansas Speedway	590,000	Nebraska Furniture Mart, Cabela's	RED Development
Overland Point	270,000	Walgreens	Terra Venture Investments
Shawnee Crossing	314,550	To Be Determined	CB Richard Ellis
Shops at Boardwald	120,000	Borders Books	RED Development
South Market Shopping Center	450,000	Wal-Mart, Lowe's	Price Brothers
The Walk at High Pointe	1,249,953	Von Mauer, AMC, Famous Barr, Sears	Copaken White Blitt
Willshire Plaza Phase II	186,000	Kohls, Petsmart, TJ Maxx	David Block
Zona Rosa	500,000	Dick's Sporting Goods, Barnes & Noble	Steiner + Associates

THERE HAS BEEN A DRAMATIC INCREASE IN PRIVATE INVESTMENT CAPITAL IN THE MARKET WITH A SUBSTANTIAL AMOUNT OF 1031 EXCHANGE MONEY BEING INVESTED IN NON-INSTITUTIONAL PROPERTIES.

Investment

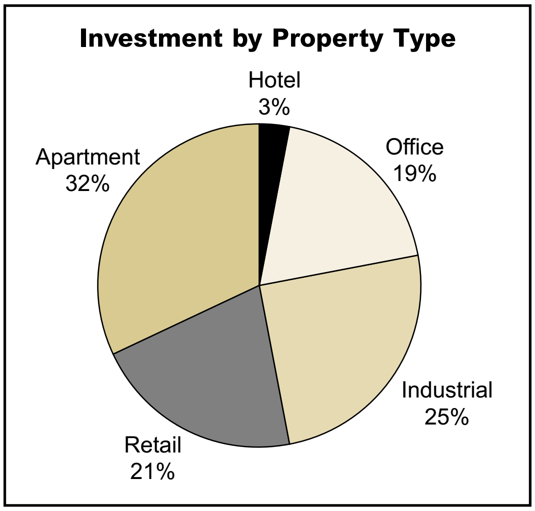
KANSAS CITY

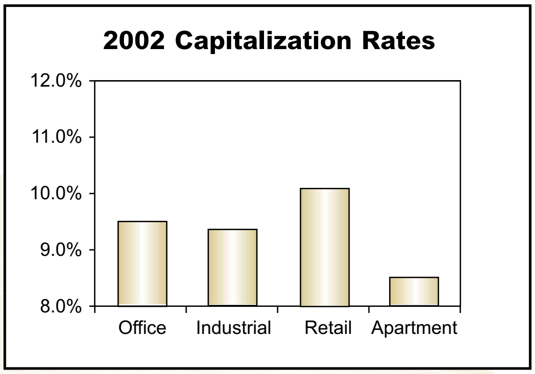
Historically low interest rates and an unpredictable stock market kept the real estate investment market steady in 2002. Although there was a small drop off in activity from previous years, it was not for the lack of available money. There was an imbalance of supply and demand as the market was full of buyers looking for predictable investment alternatives, but there was far less quality product available to be sold. Capital markets were favorable for sellers, although offerings were still short of investor demand. There was a large spread between what sellers were asking and what buyers would bid.

The positive leverage created by the Federal Reserve's numerous interest rate cuts allowed the investment market to push through any uncertainty stemming from the economy. As has been the case for the last two years, the preferred property types were Class A and B multi housing, grocery-anchored shopping centers and sale-leaseback transactions. Office properties were the least favored real estate investment due to the uncertainty in corporate boardrooms and numerous layoffs. Buyers are most interested in properties with existing leases to good credit tenants that will help them to avoid lease rollovers during the next two or three years. This order of preference will continue through 2003 until the economy is once again on solid ground and corporate spending rebounds.

Investment underwriting will continue to be conservative, especially on office and industrial properties. Sellers of office properties will be reluctant to bring many properties on the market to sell as rental rates are flat or declining and occupancies are down. The opportunity to take advantage of low interest rates to refinance and become better leveraged for the future might be more appealing for some owners.

However, the number of investment opportunities could increase over the next year as sellers choose to act before the stock market, interest rates, rental rates and occupancy levels begin to increase again later in the year. This added motivation, coupled with Kansas City's ability to recover quickly economically, will make 2003 another strong investment year for real estate. There has been a dramatic increase in private investment capital in the market with a substantial amount of 1031 exchange money being invested in non-institutional properties.





Office

The market is beginning to work its way through the excess inventory. Three consecutive quarters of positive absorption is clearly a good start.

OMAHA

Tenants have a wide choice of options in the downtown Class A market, which now has an ample supply of available space. The completion of First National Bank's new 750,000 square foot tower spurred the jump in this year's vacancy numbers. The reshuffling of offices once used by First National and the subsequent consolidation into the new tower has created an abundance of available prime real estate. Companies will be able to take advantage of full floor and multi-floor Class A space in many of the CBD's premier properties. It is an opportunity that was unseen for over a decade, and it comes with very attractive asking rents. The market will face another challenge in late 2004 when Union Pacific Railroad will complete its 1.1 million square foot headquarters building. Similar to First National Bank, consolidation will follow, leaving a lot of vacant space in its wake. The good news involves the City of Omaha's commitment to the area. Never in the history of the city has the downtown area had more public and private projects in motion. A new convention center, several new hotels, Gallup University's Riverfront Campus, the performing arts center and numerous multifamily projects are all now becoming a reality. The infrastructure has been put in place for sizable, sustainable growth.

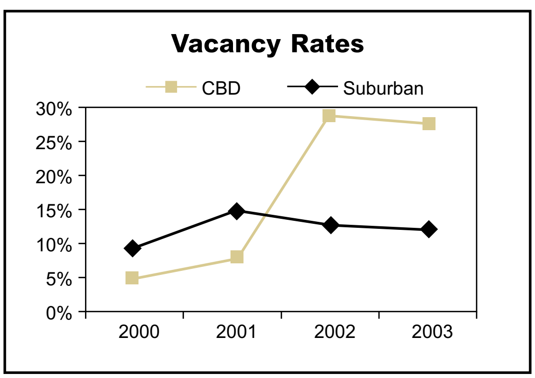
The suburban market began to slowly turn the corner in the second quarter of 2002 and ended the year with positive absorption. Similar to most markets, Omaha's 7.4 million square foot suburban market was significantly affected by two major influences: falling demand coupled with a record amount of sublease space offered by downsizing tenants. Fortunately, Omaha is a fairly conservative environment for development. New construction projects in 2002 were limited to approximately one third of development levels in recent years, and 2003 will bring more of the same. This has successfully kept the supply side of the equation under control. Importantly, demand picked up during the last three quarters of 2002. The end result was positive absorption and rising occupancy during the last nine months of the year. This was impressive, considering negative absorption continued to be a factor nationally in 2002.

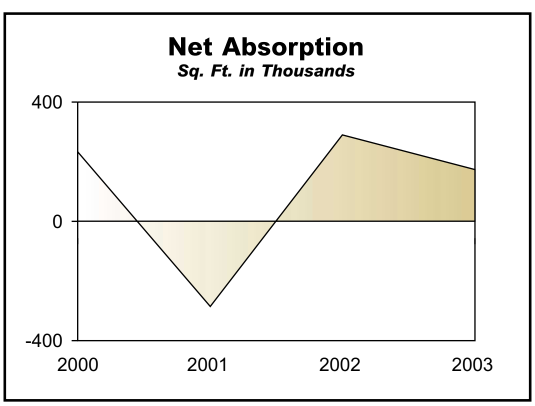
Landlord concessions are fairly common in lease transactions. These concessions will likely remain a factor in the suburban market until the vacancy rate moves closer to its historical equilibrium level of 9 to 10 percent. A slowdown in demand was certainly a factor in bringing concessions back to the negotiating table, but another major contributor was the sizeable amount of sublease space offered on the market, much of it at very attractive rates. The market is beginning to work its way through the excess inventory, however. Three consecutive quarters of positive absorption is clearly a good start.

Market at a Glance
2002 Year End

	CBD	Suburban	Total
Rentable*	3,569	7,393	10,962
Vacant*	1,025	985	2,020
Vacancy Rate	29.0%	13.3%	18.4%
Absorbed*	28	261	289
Under Construction*	1,200	113	1,313
Rental Rate**			
Class A	$24.64	$20.46	$21.75
Class B	$15.41	$17.40	$16.51

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





THOUGH LAGGING DEMAND HAS HAMPERED DEVELOPMENT, LOW INTEREST RATES PAIRED WITH LOW CONSTRUCTION COSTS MAY BE ENOUGH TO ENTICE SOME DEVELOPERS TO TEST THE MARKET IN 2003 WITH A SMALL AMOUNT OF SPECULATIVE SPACE.

Industrial

For the Omaha industrial market, 2002 can best be described as resolute with vacancy levels fluctuating by less than one hundred basis points throughout the year. With the last of national and regional companies pulling out of the warehouse and distribution market this past year, Omaha has hopefully seen the bottom. The conservative nature of the Omaha real estate community have acted as a rudder in many respects, helping to maintain a stable market despite the glut of new, speculative space and sublease space that washed over the suburbs in recent years. While much of the market activity this year can be attributed to a shuffling of tenants, there were examples of expansion as well.

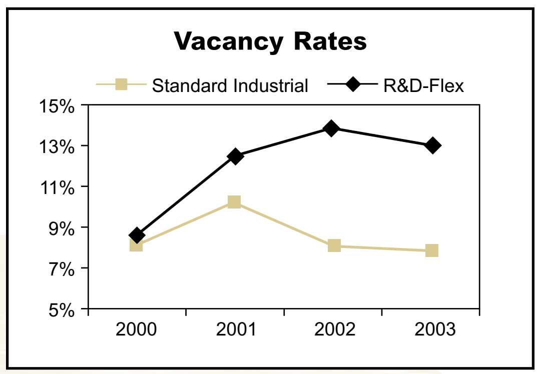
In 2003, Tenants will once again be positioned to take advantage of opportunities in the market with the supply of space still outweighing demand. With a variety of choices in all submarkets, incubator sized tenants will have little difficulty finding space that fulfills their location and budget needs. Larger tenants are likely to stay out in the western submarkets including areas along Interstate 80 in Sarpy County. On the landlord side, the opportunity will be in taking advantage of low interest rates to refinance existing buildings and portfolios. Maintaining the trend of last year, occupancy rates should increase as the construction pipeline empties, and rental rates should also firm up as a result. Though lagging demand has hampered near-term development, low interest rates paired with low construction costs may be enough to entice some developers to test the market in 2003 with a small amount of speculative space. Either way, the market should stay fairly calm with few new projects making a splash.

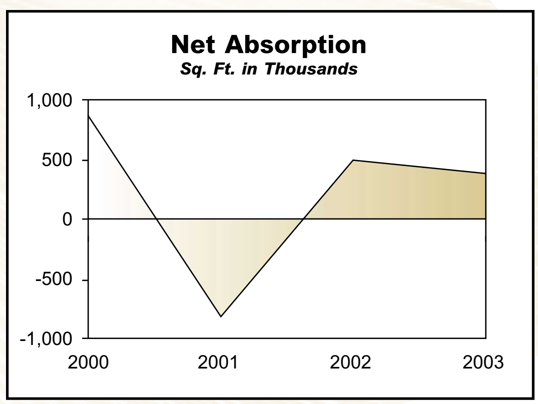
The challenges associated with the industrial market for the upcoming year will be similar to 2002 as landlords continue to search for ways to market their properties and generate transactions. In an economy that has forced numerous companies to cut costs, i.e. cut space, landlords will have to rely on real estate professionals for advice. In particular, the lack of manufacturing activity has hurt both the general and warehouse product types. Companies will continue to consolidate their space until there is a major swing in the economy. The flex market has become increasingly competitive with the remaining surplus of space constructed in 2001 continuing to hold the market back. Properties with good locations and low costs will be the ones to attract tenants. A back to basics approach including fostering relationships between tenants and landlords will be essential to procure deals in 2003.

MARKET AT A GLANCE
2002 YEAR END

	STANDARD INDUSTRIAL	R&D/ FLEX	TOTAL
Total*	34,653	5,950	40,603
Vacant*	651	966	1,617
Vacancy Rate	8.3%	13.8%	9.1%
Absorbed*	223	239	462
Under Construction*	12	58	70
Rental Rate**	$3.61	$6.09	$4.32

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





Retail

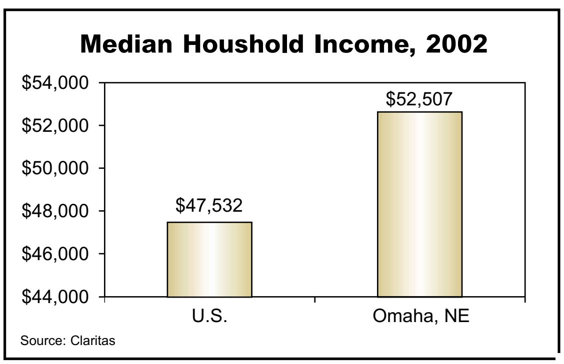
Some analysts have been surprised by the fact that Omaha is supporting seven new home improvement stores, two new Super Wal-Marts, one new Super Target and a new Jones Store, all of which opened in the past two years.

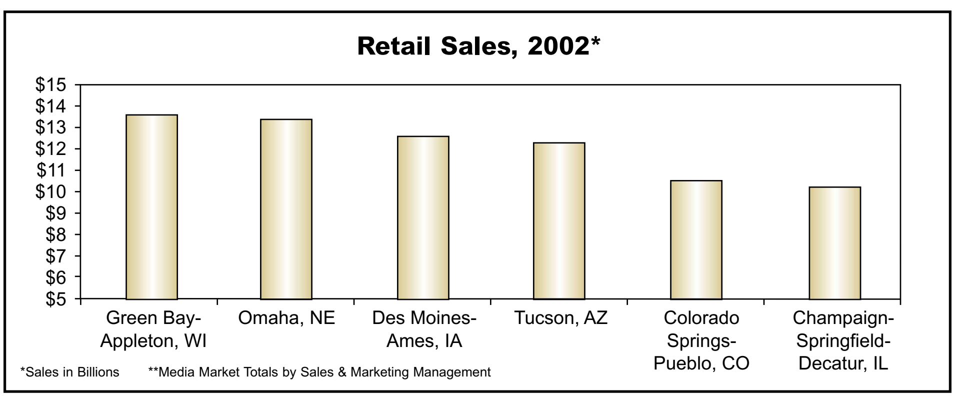
Omaha

Market at a Glance
Actual 2001 Year End
Projected 2002 Year End

	Total Market 2001	Total Market 2002
GLA*	17,091	17,693
Vacant*	1,037	1,123
Vacancy Rate	6.1%	6.3%
Absorbed*	645	590
Under Construction*	745	308
Rental Rate**	$10.18	$11.09

*Square feet in thousands, includes all property types i.e. community, free standing, neighborhood, power, specialty/theme, strip
** Weighted average asking rent/SF/year Triple Net





One of the most over-used phrases in the lexi-con of market analysts is... cautious optimism. And yet that is the phrase best describing the attitudes of retail market participants as Omaha heads into 2003. Most developers, retailers and consultants would have preferred that 2002 follow the course set in the three preceding years when the local market racked up unparalleled growth. Nevertheless, the market did expand during 2002, and there is room for more in 2003. Some analysts have been surprised by the fact that Omaha is supporting seven new home improvement stores, two new Super Wal-Marts, one new Super Target and a new Jones Store, all of which opened in the past two years. In 2002, several new big boxes were completed including Dick's Sporting Goods, another Gordmans (Omaha's fifth) and two Michael's. Not to be outdone, Omaha's restaurant landscape became more interesting in 2002 with the addition of P.F. Changs, Carrabbas, Timberlodge Steakhouse, Red Robin and two more Famous Dave's.

Looking ahead to 2003, there appears to be room for further growth in certain segments. Discount department store operator Gordmans will open two new stores in 2003. Other big box retailers planning to expand include Target, which is adding a store in south Sarpy County, and Wal-Mart, which will add two more Super Wal-Mart centers in both the west and northwest corridors of the city as well as a second Sam's Club. The most significant development currently on the radar screen is Village Pointe Lifestyle Center located in West Omaha. Encompassing 750,000 square feet, this newest upscale addition could attract many of the retailers missing or underrepresented in the local market.

Similar to the rest of the country, grocery anchored centers are doing extremely well in Omaha, especially in the areas of highest residential growth. Market vacancy rates are still low at about 6 percent, with rental rates for Class A shop space ranging from $17 to $25 per square foot triple net and big box space ranging from $12 to $15 per square foot triple net.

Investment

Investment sales of multi-tenant office properties have been scarce, as vacancy rates have reached the mid-teens. This has impacted valuations. Institutional owners have been focused on improving occupancy levels.

Multi-family

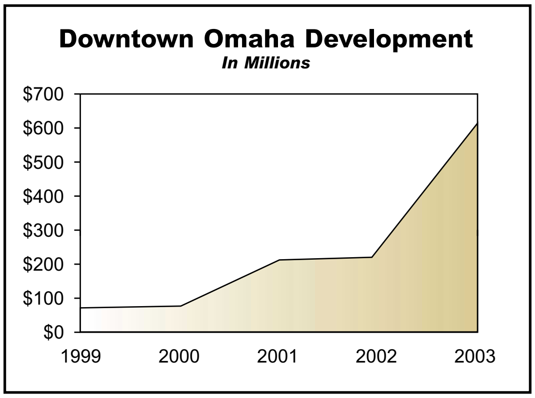
The surge in development over the past three years in the high-end luxury apartment segment has finally reached equilibrium with respect to absorption. While occupancy levels have firmed, they remain shy of the historically high levels of 97 to 99 percent experienced over the past several years. Rental rates remain flat with significant competition from the single-family home ownership market. Low interest rates for homes are the major competitive factor in rental pricing. The result of this pressure is to limit rental increases, although concessions are not widespread at this time. Sale velocity is restrained with only a handful of significant transactions taking place this year.

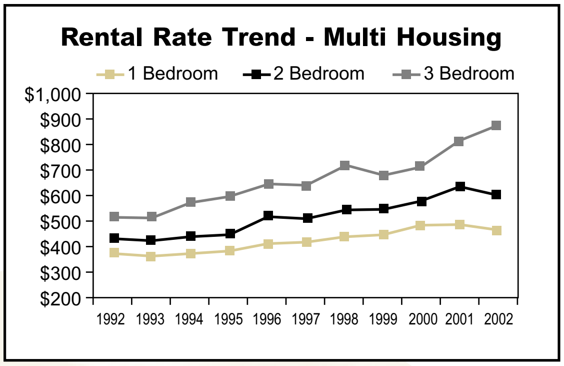
Office

The build-to-suit and owner-user market continues to fuel the growth in office transactions. Union Pacific, an Omaha-based company, is under construction on a 1.2 million square foot tower and will consolidate their citywide operations in this location. The Gallup Organization is under development with a 300,000 square foot corporate headquarters as the first phase of a 67-acre campus style development. First National Bank of Omaha held the grand opening of its 750,000 square foot tower. Overall, investment sales of multi-tenant properties have been scarce, as vacancy rates have reached the mid-teens. This has impacted valuations, and institutional owners have been focused on improving occupancy levels. It is expected that 2003 may see increased investment activity as owners reposition assets, coupled with the impact of low interest rates.

Retail

Continued development in this sector has taken precedence over investment sales. With two area malls trading over the past three years, new ownership has opted to expand their properties. Westroads Mall, the trade area's largest, is adding a Galyan's anchor and additional shop space as well as peripheral development with restaurants such as P.F. Changs and Macaroni Grill. Ownership of smaller shadow-anchored properties is concentrated in the hands of local investors, and there has been relatively little activity in the sale of these assets. Most grocery and drug anchored retail in the market is controlled by one investor whose preference is to own and operate. While the retail market remains healthy, there are a few new developments that provide investment opportunity. The northwest section of the city has seen significant development as a retail corridor with various restaurants, big box retailers and larger category killers locating stores here. It is conceivable that some of these recent developments will hit the market next year when the corridor stabilizes.





Office

THOSE COMPANIES FORTUITOUS ENOUGH TO BE LEASING SPACE RIGHT NOW ARE LOCKING IN SOME OF THE LOWEST RATES AND MOST FAVORABLE TERMS THIS MARKET HAS SEEN IN YEARS.

St. Louis

Like most cities across the country, St. Louis is experiencing an increase in vacancies, a decrease in lease rates and a significant drop in absorption. However, unlike most cities, St. Louis is keeping its head above water. Its advantageous mid-market size and diverse employment base are keeping vacancy increases mild and rental decreases modest compared to larger markets such as Chicago and Boston where vacancies have climbed past the 20 percent mark and rates have dropped dramatically. While these soft market conditions are bad news for building owners and developers, they are good news for tenants. Those companies fortuitous enough to be leasing space right now are locking in some of the lowest rates and most favorable terms this market has seen in years.

One of the key factors contributing to the lackluster conditions can be summed up in two words - sublease space. As companies continue to navigate through the rocky economic shoals, many are forced to downsize, merge or exit the market altogether - leaving a glut of office space behind. Currently, there is more than 1.2 million square feet of sublease space available, compared to just 290,447 square feet two years ago. Companies such as Cap Gemini Ernst & Young, Energizer and SWB Communications are currently subleasing their space. MCI WorldCom is also expected to be putting space back on the market in the coming year. Those submarkets posting the highest amount of sublease space include Downtown at 207,609 square feet, and the historically strong Highway 40/Chesterfield submarket with 388,224 square feet.

This abundance of supply has put downward pressure on rents. On average, lease rates are down approximately 15 percent from this time last year. Older Class A buildings are suffering somewhat as they are now forced to compete with the Class B inventory and the additional sublease space. Downtown, Highway 40/Chesterfield and the St. Charles submarkets have been particularly hard hit, with rates dipping substantially below normal asking prices. However, Clayton has managed to hold its own. Despite a 14 percent increase in its inventory last year, Clayton still has lower vacancies.

As landlords struggle to keep their buildings full, they are offering more than the typical discounted rates to attract and retain tenants. Options such as free rent, shorter lease terms and a buyout of a prospective tenant's current lease are all on the negotiating table. Sublease space can also be a particularly lucrative option for tenants as these deals sometimes include the furnishings, telecommunications equipment and computer systems left behind by the previous tenants. Fortunately, low interest rates and declining cap rates are providing owners a cushion during these challenging times.

One differential between this soft market and those seen in the past is that the current downturn appears to be economically driven rather than real estate driven. Unlike the tenuous times of the

Market at a Glance
2002 Year End

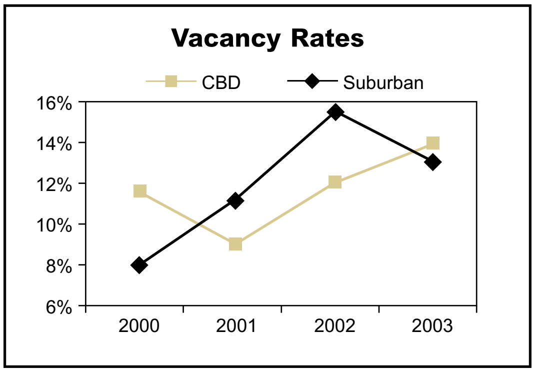
	CBD	Suburban	Total
Rentable*	17,530	34,428	51,958
Vacant*	2,127	5,332	7,459
Vacancy Rate	12.1%	15.5%	14.4%
Absorbed*	-207	-110	-317
Under Construction*	800	1,134	1,934
Rental Rate**			
Class A	$20.49	$23.15	$22.40
Class B	$15.94	$19.27	$18.03

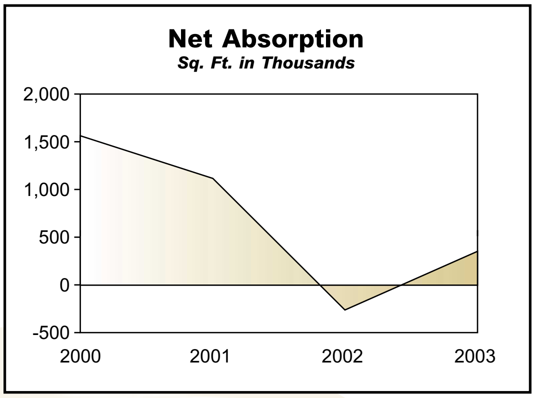
*Square feet in thousands, excludes owner-occupied, medical, government
** Weighted average asking rent/SF/year Full Service

early 1990s when the market contended with both economic and oversupply issues, this market does not appear to be overbuilt. Developers quickly halted speculative construction, which is down approximately 35 percent from year-end 2001. The majority of the 1.9 million square feet currently under construction is build-to-suit, owner-occupied space. A.G. Edwards is building 800,000 square feet of office space downtown, CitiGroup is in the midst of building its 515,000 square foot campus in St. Charles, and Magellan Health Services is getting close to moving into its new 238,000 square foot building at Riverport Commons.

Despite the economic obstacles, a handful of industries are faring well. Healthcare is at the top of this list. Magellan Health Services' new home at Riverport Commons will add 500 new jobs to the area. St. John's Mercy Healthcare is rumored to be leasing the 108,000 square foot building in Sunset Hills currently occupied by Safeco. The Missouri Foundation for Health also plans to move into 15,000 square feet at the Grand Central Building at Union Station. DuPont Protein Technologies is one of the largest prospects currently in the market, entertaining several options for nearly 100,000 square feet of space. The mortgage business is another industry booming right now as low interest rates and refinancing have kept these companies hopping. Wells Fargo's capital markets group plans to double its space at the UMB Bank Building in Clayton.

While the market does appear to be bottoming out, tenants clearly will hold the cards in the coming year. Companies can wisely use this time to look into early renewal options and lock in favorable terms. This is also a time when many tenants will choose to upgrade to significantly nicer space at costs about the same - and sometimes lower - than their existing space. The first wave of an office recovery will most likely come as the glut of available sublease space is absorbed. Lease rates should stay consistent, possibly dipping some, before trending up a year from now.





Industrial

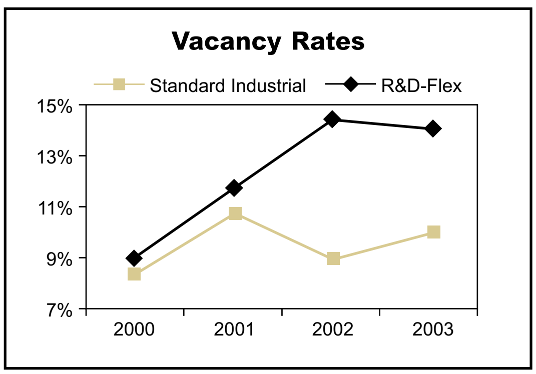
THANKS TO EXCELLENT HIGHWAY AND RAIL ACCESS PLUS LUCRATIVE TAX INCENTIVES, MADISON COUNTY, ILLINOIS, HAS ATTRACTED A HOST OF COMPANIES BUILDING LARGE REGIONAL DISTRIBUTION CENTERS.

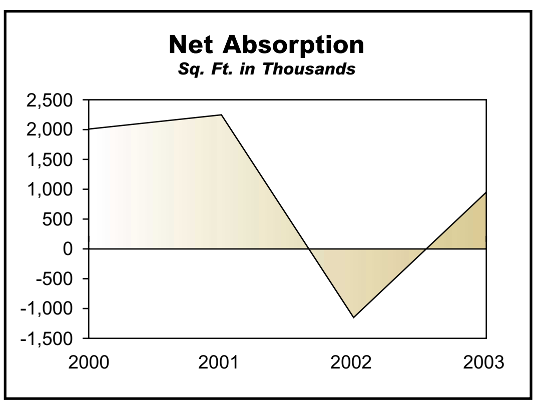
ST. LOUIS

MARKET AT A GLANCE
2002 YEAR END

	STANDARD INDUSTRIAL	R&D/ FLEX	TOTAL
Total*	193,787	6,722	200,509
Vacant*	17,606	970	18,576
Vacancy Rate	9.1%	14.4%	9.3%
Absorbed*	-1,134	-48	-1,183
Under Construction*	2,879	510	3,389
Rental Rate**	$3.65	$8.62	$4.89

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





After three consecutive quarters of increased vacancies and plummeting absorption, it appears that the St. Louis industrial market is starting to show signs of life. For the first time in a year, the market has posted a positive quarterly absorption rate, and activity, although spotty, appears to be increasing. While this is welcome news for the market, St. Louis still has a long way to go before it reaches healthy levels. Years of speculative construction combined with a recessionary economy have culminated in abundant inventory and declining rental rates.

In the last three years, there has been over 11 million square feet added to St. Louis' industrial market - primarily in the warehouse-distribution sector. Of that, a substantial 8.8 million square feet has been leased. However, with overall vacancies skyrocketing from 6.1 million square feet at the start of 2001 to the current 20.2 million, the majority of vacant space is clearly coming at the expense of the older inventory. Fortunately, the construction pipeline is just about empty. The 3.3 million square feet that is currently going up is almost exclusively dedicated to build-to-suit or owner-occupied projects.

There are a few tenants taking advantage of low rates and locking in favorable terms. Vi-Jon Laboratories recently leased 340,000 square feet at Fountain Lakes Industrial Park in St. Charles, United Industries leased 403,000 square feet in Earth City, and Weekends Only Furniture Company leased 75,000 square feet in Hazelwood.

One pocket in the market that does not seem to be feeling the effects of a slowdown is Gateway Commerce Center in Madison County, Illinois. Thanks to excellent highway access, neighboring rail system, and lucrative tax incentives, the area has attracted a host of companies building large regional distribution centers. Joining neighbors such as Proctor & Gamble and Dial Corporation, ProLogis is in the midst of building its 1.3 million square foot distribution center for UniLever. When complete, Gateway Commerce Center will have over 3.6 million square feet built at this 2,300-acre site. Owners of the park are also pursuing efforts to set up a foreign trade zone, which would allow companies that import products from outside the United States to defer, reduce or eliminate import duties.

While activity is increasing slightly, the pace of recovery will likely slow in the year ahead. Leasing rates will remain flat until more space is absorbed. As tenants start taking advantage of low rates, activity should increase and help put the market back on track in the coming year.

Retail

Brentwood Square, a new strip center which opened last year just south of the Galleria, has successfully leased all of its 200,000 square feet. Further west, Chesterfield Commons is also a striking success.

The St. Louis retail market is faring better than its office and industrial counterparts. Low interest rates and advertisements for zero percent financing are still enticing consumers to spend their money, albeit at a much slower pace. Fortunately, landlords do not have to contend with a surplus of sublease space or speculative development, and occupancies remain stable. However, recent same-store sales are hovering in the average category. The combination of a roller coaster stock market, limited employment growth and the threat of war are putting considerable pressure on consumer spending and slowing down activity.

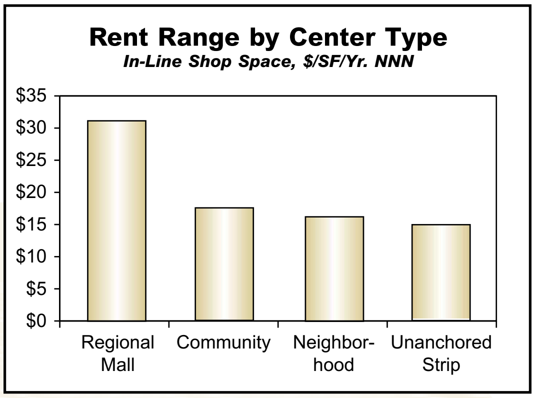
Higher-end retailers are seeing less activity as consumers opt to spend their money at the discount stores. Target, Wal-Mart and Kohl's are performing well. Wal-Mart has announced plans to double its stores across the country, with new ones recently going up in Wentzville and Chesterfield, and another one proposed in Maplewood. Save-A-Lot plans to double its St. Louis store count. Deal$ Nothing Over A Dollar stores have witnessed tremendous growth, and 60 more stores are expected to open this year.

While high-end shopping has taken a hit, the new Westfield Shoppingtown West County Mall recently reopened with much fanfare. The nearly 1.2 million square foot center is 83 percent leased and anchored by Famous-Barr, J.C. Penney, Lord & Taylor and newcomers Nordstrom and Galyan's Sports & Outdoor Adventure. So far, business has been brisk. However, the mall is one of six that Westfield America Trust owns in the St. Louis area, and it is likely that a lot of the activity will be at the expense of its other malls.

Activity should remain healthy at neighborhood strip centers that have good locations, good access and strong anchor tenants. Brentwood Square, a new strip center which opened last year just south of the Galleria, has successfully leased all of its 200,000 square feet. Further west in the Chesterfield Valley, Chesterfield Commons is also a striking success. A prime location with strong tenants, this 1.3 million square foot center has benefited from strong anchors including Target, Wal-Mart and over 20 restaurants.

New/Expanding Tenants
2002

Merchant	Store Type	Location(s)
Nordstrom	Department Store	Westfield Shoppingtown West County
Lord & Taylor	Department Store	Westfield Shoppingtown West County
Galyan's Sports & Outdoor Adventure	Sports Apparel/Equipment	Westfield Shoppingtown West County
Hollister	Women's & Men's Apparell	Westfield Shoppingtown West County
Ann Taylor Loft	Women's Fashion	Westfield Shoppingtown West County
Coldwater Creek	Women't Fashion	Westfield Shoppingtown West County
J. Jill	Women's Fashion	Westfield Shoppingtown West County
Coach	Leather Accessories	Westfield Shoppingtown West County
Cheesecake Factory	Restaurant	St. Louis Galleria
Save-A-Lot	Grocery	Expansion Planned



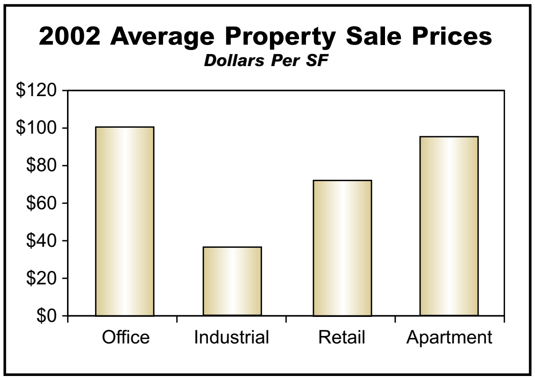
In the coming year, discount retailers and well-located, well-anchored strip centers will be poised for growth. Overall, retail sales will be average as consumers make their way through this fragile economy. Businesses will position themselves for survival by slashing extra services and keeping inventory lines lean.

Investment

IN THE COMING MONTHS, THE ST. LOUIS INVESTMENT MARKET WILL MOVE IN DIFFERENT DIRECTIONS FOR NON-INSTITUTIONAL VERSUS INSTITUTIONAL GRADE PROPERTIES.

ST. LOUIS

Despite St. Louis' weak leasing market, the non-institutional investment market is active. The combination of historically low interest rates and the fallen stock market has made real estate a more attractive alternative for investors. The non-institutional side of the market is also seeing a great deal of pent-up demand. There is too much money chasing too little product, with sellers are taking a more cautious "wait and see" approach.



However, activity is down for the institutional grade office investment market. St. Louis' slowing employment and population growth have hurt this end of the market. TrizecHahn, owners of both St. Louis Place and the Metropolitan Square Building, has indicated its interest in exiting St. Louis over the next several years.

There have been a handful of recent office sales including the four-building Corporate Hill package selling for $51.2 million, breaking out to $102.57 per square foot. BGK Equities also recently paid approximately $33 million for the 12-building, 413,000 square foot Corporate Square office complex in Creve Coeur. TA Associates recently purchased three buildings in Clayton for $29 million.

Properties seeing the most institutional interest are top quality industrial buildings. Well-located, long-term leased buildings in good condition - particularly new construction - will go fast and at top dollar. TriStar Business Communities recently completed a $23.1 million, 806,000 square foot investment at Gateway Commerce Center. This newly constructed building will be leased to Proctor & Gamble. Emerson recently sold its 237,000 square foot building at 9797 Reavis Road for $5 million.

Limited product combined with a seemingly unlimited supply of buyers continues to drive the multifamily market. Demand is strong for all product types ranging from large multi-building transactions to smaller multifamily buildings. Investors will also be on the lookout for grocery-anchored retail centers.

In the coming months, the St. Louis investment market will move in different directions for non-institutional versus institutional grade properties. The non-institutional side will continue to see rising prices, lower cap rates and multiple offers for both office and industrial properties. The low interest rates will also make it financially beneficial for tenants to become owners of their buildings. Institutional money, however, will taper off until the economy starts to rebound in the year ahead.

Multi Housing

ATTRACTED BY THEIR LOW-MAINTENANCE LIFESTYLE, CONSUMERS ARE FLOCKING TO HIGHER-END CONDOMINIUM DEVELOPMENTS IN BOTH URBAN AND SUBURBAN LOCATIONS.

ST. LOUIS

After several years of strong demand and increasing rents, vacancy rates are starting to inch upwards throughout most sectors of the multifamily market. The market is starting to consolidate due in part to the weakened economy. In an effort to reduce living expenses, more people are sharing apartment units or moving in with their parents. Low interest rates are also a contributing factor, making it possible for many renters to become homeowners instead.

While the market has softened somewhat, the overall occupancy is still a strong 95.2 percent, down very slightly from 96 percent at this time last year. This stability is partly attributable to the fact that St. Louis is a difficult market for new apartment construction. There are many barriers to entry that deter new construction and have kept the market tight. These barriers have curtailed supply, leaving renters with fewer choices and driving rents up in the last several years. Rates have gone up an average of 3.3 to 4 percent annually over the last three years. These higher rents have made it much more economical for developers to justify new construction. In the last 18 months, eight new apartment projects with 1,969 units have opened. There are also three more projects currently under construction that will add an additional 756 units.

To bypass the barriers to entry for new construction, developers are also pursuing infill site developments. There are several infill developments coming on line in 2003, including 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 commercial space. Also, Conrad Properties will soon start construction on the Metro Lofts. This 213-unit development will be the first major apartment project to be built in the Central West End in over 15 years.

Condominium developments continue to fare well in St. Louis. Attracted by their low-maintenance lifestyle, consumers are flocking to these higher-end developments in both urban and suburban locations. The Hi-Pointe Lofts was recently completed in Richmond Heights and has just six units remaining. The 72-unit Edison Brothers luxury hotel and condominium development has only 10 units remaining. There are also a number of other new condominiums in the downtown area, particularly in the Washington Avenue section. Ten of the 20 units at McGowan Brothers' redeveloped 1324 Washington are already pre-sold. The $28 million rehabbed Continental Building recently opened with 40 percent of its condominiums taken and lease rates ranging as high as $6,000 per month.

Looking ahead, the uncertain economy and the new product that has come online should put some downward pressure on occupancies. Leasing rates will remain stable, possibly dropping slightly as the additional space is absorbed.

Source: Ted Greenberg and Keith M. Kramer Associates, Inc.

WICHITA

Office

A PLANNED 200,000 SQUARE FOOT, MIXED-USE PUBLIC/PRIVATE PARTNERSHIP DEVELOPMENT ALONG THE EAST BANK OF THE ARKANSAS RIVER WOULD BE THE FIRST NEW CLASS A PROJECT FOR THE CORE AREA IN NEARLY 15 YEARS.

When compared to other markets across the country, Wichita's office market is defined by relatively low rental rates and high vacancies. The lingering impacts of the flight of corporate headquarters and the bank mergers of the 1990s continue to haunt the market in the form of 1.1 million square feet of available "bulk" corporate space. Current office space demand and tenant requirements do not hold promise for any significant absorption of this bulk corporate space in 2003. Looking beyond this specific segment of the market, however, one finds a much stronger and more viable office market.

Suburban development will remain strong with the announcement of the Waterfront at 13th and Webb Road. This 160-acre mixed-use development will pump up to 750,000 square feet onto the market at completion. Slawson Companies' mixed-use project at 21st and Webb Road will add 25,000 square feet of office. Both projects are expected to begin tenancy in 2004. Development in the northwest area, primarily single tenant buildings from 5,000 to 15,000 square feet, will continue along the Ridge Road corridor between 21st Street and K-96. Rates in the suburban market are predicted to strengthen slightly in 2003. Class A rates start at $16.75 per square foot trending to a high of $24.00, and Class B rates range from $12.50 to $14.00 per square foot.

Will 2003 be an active year for the core area? A planned 200,000 square foot, mixed-use public/private partnership development along the east bank of the Arkansas river would be the first new Class A project in nearly 15 years. This along with other redevelopment projects in the Old Town area may ease the suburban flight of past years. Rental rates in the core area will remain stable in 2003 with Class A rates from $14 to $16 per square foot and Class B rates likely between $8.00 and $9.00 per square foot.

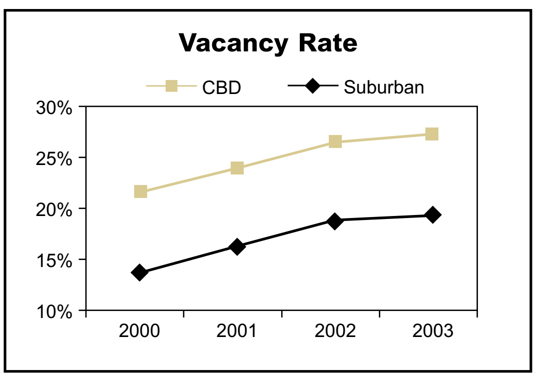
The national economy and resultant corporate belt tightening has placed 40,000 square feet of sublease space on the market throughout Wichita. Available sublease space in the suburbs consists primarily of recent Class A construction, with little discount in rental rates. Sublease space in the core area is generally offered at discounts as high as 25 to 40 percent.

The strongest subtype remains medical office with specialty hospitals redefining location requirements for the medical community. Medical offices have clustered along Webb Road in the northeast near the Kansas Heart Hospital. The Galichia Heart Hospital, which opened in the northeast in 2002, is predicted to bring more medical office development to North Woodlawn. Development at a more tempered pace is expected in the northwest quadrant along Ridge Road between 29th and 37th Streets.

MARKET AT A GLANCE
2002 YEAR END

	CBD	SUBURBAN	TOTAL
Rentable*	3,576	3,816	7,392
Vacant*	938	720	1,658
Vacancy Rate	26.2%	18.9%	22.4%
Rental Rate**			
Class A	$14.50	$16.75	$15.92
Class B	$8.74	$12.89	$11.47

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



Industrial

THE LOW LEVEL OF NEW AIRPLANE ORDERS AND SIGNIFICANTLY LOWER EMPLOYMENT IN THE AEROSPACE MANUFACTURING SECTOR SHOULD NOT DIMINISH 2003 PRODUCTION, THANKS TO ORDER BACKLOGS KEEPING WAREHOUSE DEMANDS STEADY.

Traditionally strong and tight, the Wichita industrial market has loosened up over the past 18 months. A downturn in the local economy, in large part due to significant layoffs within the aerospace industry, brought activity to a trickle early in the year. Strengthened sales activity due to low interest rates and availability of mortgage money is expected to continue through 2003, however. The low level of new airplane orders and significantly lower employment in the aerospace manufacturing sector should not diminish 2003 production, thanks to order backlogs keeping warehouse demands steady. Boeing made an unexpected announcement this year that its historic Plant One and Plant One warehouse, a total of 500,000 square feet, may be up for sale. Boeing will continue to pull out of non-campus based leases through 2003, which would make up to 390,000 square feet available by year end.

Rental rates are stable to slightly increasing from $3.55 to $3.87 per square foot. However, while the dollar side of the deal remains stable, lease terms are shorter. In the warehouse segment, for example, there is an increased call for month-to-month terms or three-month blocks with a duration up to one year.

Weakness in the market has not stifled development or announcements of planned projects. The northeast quadrant continues to outpace the southwest quadrant for new industrial development. Venture Industrial Park and Regency Industrial Park both front along K-96. Two Comotara infill locations are available for build-to-suit users. Although Wichita did not successfully win the Target Distribution Facility, the 120-acre site remains ready to go and is drawing considerable attention. Proposed development in the west includes areas near K-42 and West Street and 119th and K-96. West side development will be limited in 2003, growing stronger in 2004.

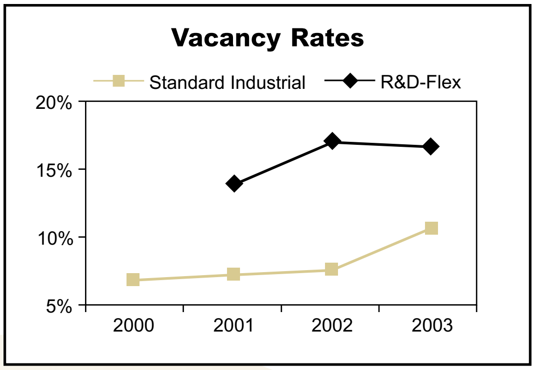
Rock Road Business Center will add 24,000 square feet of needed Class B flex space in 2003. Class A flex space, primarily centered in Northrock Business Park, is at $12 per square foot. The Class A market appears to be softening as reflected in long-term vacancies in high cube and other Class A properties fronting K-96.

The long-term outlook for this segment remains cautiously positive. The timing of three key market components has the potential to significantly impact the market. They are: (1) economic recovery, (2) expiration of the backlog orders and, (3) Boeing's actual turnover of space to the market. 2003 thru 2005 will be interesting years for Wichita's industrial market.

Market at a Glance
2002 Year End

	Standard Industrial	R&D/ Flex	Total
Total*	22,218	732	22,950
Vacant*	1,673	122	1,795
Vacancy Rate	7.5%	16.7%	7.8%
Rental Rate**	$3.87	$9.49	$4.90

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

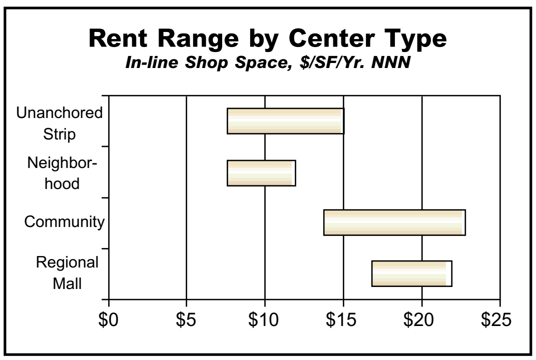


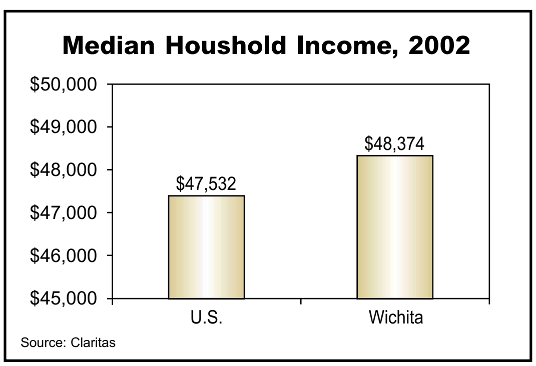
Retail

Regional malls faced with vacancy concerns in 2001 and 2002 are now thriving.

Wichita

Demand from national retailers for prime loca-tions was strong throughout 2002 and will remain strong through 2003 despite a soft local economy. Big box conversions and absorption of vacant mid-size box locations were abundant in 2002, helping to hold the overall Northeast vacancy rate to 6 percent. New tenants to the market included: Dick's Sporting Goods, Gart Sports, David's Bridal, The Great Frame Up, Caraba's Italian Grill, Krispy Kreme and Starbucks, which is under construction on a former gas station site. Tenants relocating from Kellogg (US Highway 54/400) due to ongoing highway expansion include: Men's Wearhouse, Office Depot, Gordman's, LazyBoy, Carlos O'Kelly's, McDonald's and Taco Bell. While several mid-to-big box retailers are looking at the market, the majority of 2003 activity will come from 1,200 to 5,000 square foot users and restaurant pad sites. Rental rates will remain strong, edging upward slightly in prime locations through 2003.





Regional malls faced with vacancy concerns in 2001 and 2002 are thriving. Simon Property Group's Towne West Square filled voids left by Service Merchandise and Montgomery Wards closures with an expansion of Dillard's and the addition of Dick's Sporting Goods. Towne East Square saw the much-anticipated opening of a new 120,000 square foot Von Maur, the relocated Men's Warehouse and, new to the market, Abercrombie & Fitch, and Hollister's. Stein Mart has left a vacancy within Towne East, which should be absorbed by year-end 2003. New Market Square, located in the Northwest and currently 424,000 square feet, added Gart Sports, Eric Fisher Salon, The Great Frame Up, HR Block Premier, Starbuck's and several other local businesses in 2002 and early 2003. An additional 50,000 square feet will be added in 2003 to complete Phase 2.

Planned development of neighborhood and small strip centers currently in the pipeline for 2003 underscores the pent up demand near new residential developments and new Dillon's Super Store grocery locations. Wichita is not a market with an abundance of traditional grocery anchored space, rather strip centers develop rapidly surrounding the free-standing grocery stores. Areas to watch in 2003 and 2004 are the rapidly developing intersection of 37th Street North and Woodlawn, Slawson's mixed use development at 21st and Webb and Phase 2 of Cambridge Market, also at that intersection.

One Kellogg Place, located on east Kellogg (Highway 54/400) and Greenwich Road, anchored by Lowe's and Wal-Mart, opened in 2002 and is demonstrating a slower fill in than anticipated. A 32,000 square foot neighborhood center next to Wal-Mart will open in 2003 with well-known local tenancy.

INVESTORS WILL PAY PREMIUMS FOR TRIPLE NET LEASED PROPERTIES. THE CREDIT OF THE TENANT IS SIGNIFICANT BECAUSE IT OFTEN ALLOWS THE PURCHASER TO LIMIT OR AVOID ALTOGETHER ANY PERSONAL LIABILITY ON THE FINANCING.

Investment

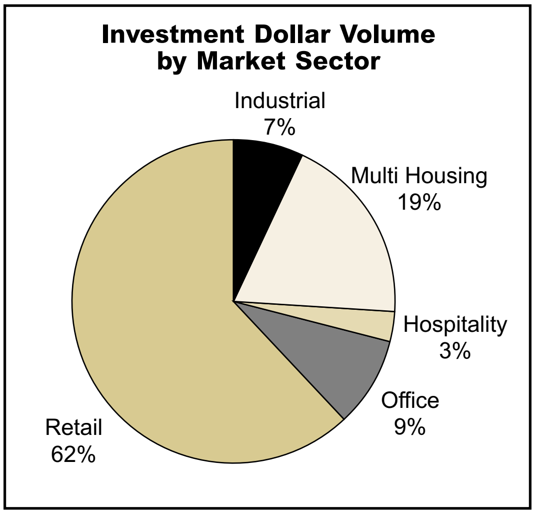
The high level of activity in the investment segment of the local real estate market is expected to continue through 2003. The increasing utilization of 1031 exchanges with their tax deferral feature, historic low interest rates and the current state of the economy are major factors in keeping this segment very strong. Bonds and money funds are at record low yields, and the prospect of poor returns is keeping individuals from investing new funds into the market.

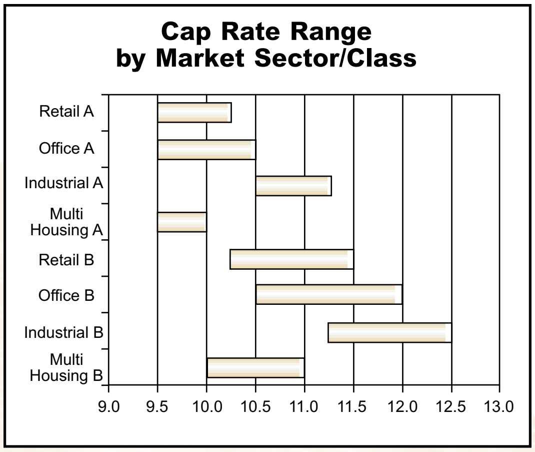
For Class A investment property, the most important criterion is the credit strength of the tenant, the lease term and the responsibilities of the landlord. Investors will pay premiums for triple net leased properties. The credit of the tenant is significant because it often allows the purchaser to limit or avoid altogether any personal liability on the financing. In regard to the other two factors, lease term tends to be the most important in determining the rate of return. Initial lease terms below 10 years on new projects will be offered at significantly higher rates than those with an extended primary term. The breakpoint in the local market for existing properties tends to center around leases with less than 7 years remaining. Again, in these cases, investors will demand a premium in the rate of return.

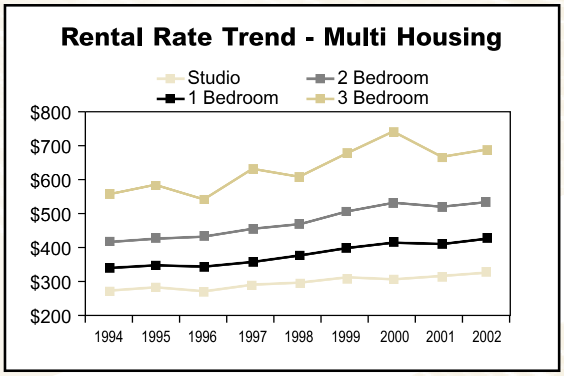
The Class B investment property segment has continued to show strength primarily due to weakness of competing investment alternatives. The two factors investors are typically looking for are location and upside potential. In this instance, location is critical when the investor will need to deal with a lease expiration and re-tenancy. The stronger the location, the greater the chance to successfully re-lease the property. Investors attracted to Class B properties also are looking for upside potential through repositioning the property or increasing a below market lease rate.

MULTI HOUSING

Wichita's overall vacancy rate has been stable with the downtown area at an all-time low of 6.5 percent vacant. Demand for apartments in the redeveloped areas of Old Town remains very strong and holds opportunity for developers and investors in 2003. Rent levels have generally remained static except for three bedroom units, which have had to compete with the attractive home buying market. Vacancy rates are expected to remain stable in 2003. New development announcements are expected in 2003, while inquiries for appropriately zoned land are on the increase.







Corporate Services

Corporate America is setting sail on a year fraught with economic uncertainty, intense global competition, heightened geopolitical tensions and severe profit pressures. Its leaders once again must tighten their belts and head for the doors marked leaner, meaner, faster and more efficient. Real estate resides behind each of these doors, and whether pushed or pulled to get there, corporate leaders have realized the critical importance of real estate to their bottom lines and the working environment of their employees. Resources and partners exist to help meet these challenges. 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 objectives.

Fifteen years ago, Corporate Service groups were a new concept, transactionally oriented and born of the need for companies to reduce overhead by outsourcing a function that was neither profitable nor constant. Today there is scarce recognition of the distance between those early groups and the service structure and modeling of the new high-level providers.

Industry participants debate whether opportunities for improvement to corporate bottom lines are becoming limited as efficiencies increase, but there is still a strong argument that the majority of companies have yet to adopt these practices. For most companies, a lot of work remains to reduce bottom-line costs, quickly and effectively, through strategic thinking followed by practical implementation.

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. The Corporate Services Group wrestles with these constantly to integrate them into cohesive, strategic plans for our clients.

Alignment with Business Unit Strategies

* Consolidation planning and mergers – who, where, when
* Identification of surplus space – advance notice of what is to become redundant
* Planning the sublease, buyout, or sale – who pays, how much and when
* Setting up the mechanics to expedite dispositions – marketing, legal, financial, authority

Confirmation of Portfolio Data/Reconciliation of Costs

* Lease data scrub
* Key lease dates are met
* Cash management – pay on last possible dates
* Discounts – are they there and are they applied?
* Lease payables audits – taxes, operating costs, CAMS

Real Estate Processes

* Cycle time review and enhancements
* Supporting technology
* Churn management
* Value engineering

Occupancy Flexibility Models

* Trading rent for terms
* Focusing on the sublet/assignment clauses
* Pre-negotiating termination costs and timetable
* Securing the expansion, contraction and renewal clauses.

These and a litany of other cost reduction ideas, additional services and procedural improvements challenge the progressive corporate real estate executive and the service provider.

But what of the future? Increasingly companies are looking at expanding and leveraging the role of the real estate department, or alternately the real estate department is looking for more opportunities to reduce costs. In the near future, **corporate real estate executives who have already addressed the basics will focus on infrastructure resource management.** This concept will encompass office services, communications, human resources, security and safety, travel, information technology and a host of other services that today just touch real estate but can tremendously impact its utility, efficiency and long-term cost. To succeed in this direction, Grubb & Ellis continues to invest in new tools, processes, technologies and human talent. This will allow us to continue to enhance our roles as critical strategic partners on a global basis with Corporate America.

Management Services

In our 2001 Forecast, Grubb & Ellis predicted that outsourcing, energy management, the Internet and telecommunications would be hot issues. For 2002, the forecast issues were emergency preparedness and, again, energy management. As we look toward 2003, we see the following challenges and opportunities facing the management sector of corporate real estate services.

Insurance and Risk.
Prior to 9/11, the primary goal of property and facility management was to optimize the relationship between service and costs. Historically, insurance was not a significant factor in the cost equation. Now, not only are insurance premiums skyrocketing, certain types of insurance are commercially unavailable. Insurers are imposing new coverage restrictions or exclusions, such as mold and terrorism, mandating higher deductibles and self-insured retentions, reducing capacity, and requiring more underwriting information than ever before. Risks with favorable loss experience are seeing premiums double, while risks with adverse loss experience are seeing even higher increases or are facing the prospect of non-renewal. The insurance market is currently unable to offset investment income against underwriting losses. Insurers and reinsurers will continue increasing costs, mandating higher deductibles and self-insured retentions, and reducing coverage and focusing on true risk underwriting in order to maintain shareholder equity. This trend will have a major impact on the costs and risk of real estate development, ownership and management. Managers will be called upon to develop and implement stronger loss control measures and stricter building security and emergency planning programs.

Outsourcing and Benchmarking.
As the economy continues to falter, property and facility owners are looking more critically at the performance of their in-house and outsourced services providers and asking, "How do we compare to others in our market/industry?" Annual operating cost surveys available from BOMA and IFMA provide valuable general industry data, but benchmarking becomes more meaningful when the data conforms to the specific operations of the property. This precise data, while more timely and meaningful, is also expensive and difficult to obtain. Managers and service providers who can offer specific market and industry benchmarking information will be more highly valued by their employers and clients.

Energy Management.
Utilities account for approximately 30 percent of total operating costs, and so energy management offers property and facility managers the opportunity to create value. The challenge is to manage supply and demand to meet owner/occupier energy requirements in both regulated and deregulated environments. Sophisticated computer software, analytical tools and good old-fashioned experience are required to succeed in this highly complex arena. Energy management presents many problems for the unsophisticated, but also opportunities for managers who are prepared to meet this continuing challenge.

Indoor Air Quality.
Some new twists have cropped up in this area that will be an issue for property and facility managers. The threat of bioterrorist attacks is real enough that the U.S. Department of Health and Human Services issued recommendations for government and commercial buildings to make air intakes less accessible. This represents another complicated challenge for managers. The other "new" IAQ issue, which has recently become more prominent, is mold. A disturbing trend has been for insurance companies to eliminate coverage for damage due to water and mold. Again, this will require resourceful action on the part of managers to minimize the risk to building owners and occupiers.

Globalization.
As multinational companies look for ways to improve operating efficiencies, international corporate facility management outsourcing will increase. This trend presents a tremendous opportunity for service providers who are able to offer consistent service across time zones and international boundaries. The key to providing such service is finding and hiring qualified personnel who not only know how to manage real estate, but also know local laws and business customs. Integrated, multilingual, multi-currency, web-enabled software systems will play a key role in facilitating the growth of effective international facilities management.

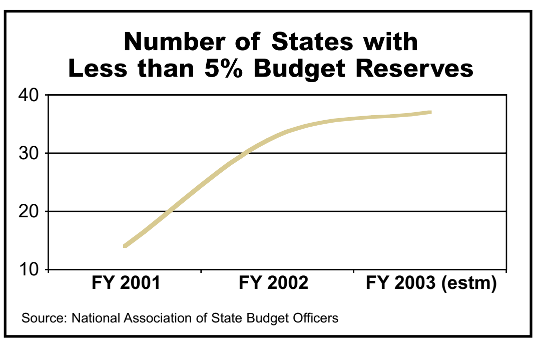
Consulting

With no improvement in bottom line performance in sight, organizations will be taking a more proactive approach to assets in 2003. The following are three trends to watch.

1. Labor-Based Portfolio Optimization

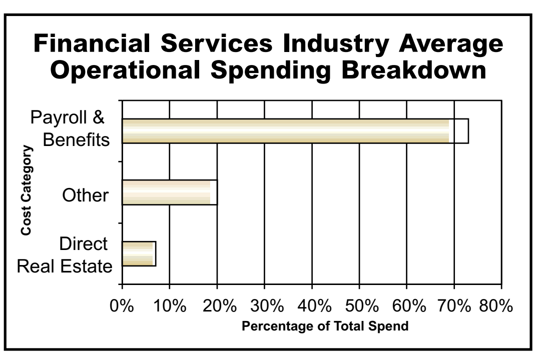
During 2002, corporate users of real estate focused on immediate cost-cutting activities. Consolidation occurred as leases expired. In 2003, corporate users are evaluating both labor and real estate as the cornerstones of a pro-active strategy to improve overall productivity.

By evaluating total workforce issues – recruiting costs, quality of labor, absenteeism and turnover, retention, productivity, HR policies and procedures, and wages and benefits – coupled with an understanding of real estate and infrastructure needs, corporate executives are developing proactive plans for business optimization and associated asset re-allocation. Locational decisions are based on the most advantageous operations, as a whole. This proactive approach not only seeks to cut costs, but also to better align the workforce and operational goals, with real estate acting in support of such. The on-going management of location-based performance metrics will be a priority over the reactionary real estate procurement/disposition actions of the past.



Number of States with Less than 5% Budget Reserves

Source: National Association of State Budget Officers



Financial Services Industry Average Operational Spending Breakdown

2. The Public Sector's Role in the Private Sector

Public agencies are facing increased budgetary pressure and diminishing tax bases. In response, they are increasingly looking at their own assets and financing capabilities as ways to create value and rebuild their budgets.

We will continue to see an increase in public agencies' pursuit of strategies to more efficiently utilize assets and dispose of under-utilized space. Real assets represent one-time revenue upon disposition, as well as on-going tax revenue as they are placed back on the tax roll under private ownership.

Of greater impact, we will see an increase of the public sector's participation in a traditionally private role – real estate development. Development participation offers public agencies a way to generate on-going income. Public agencies offer unique financing mechanisms and infrastructure contributions. Teaming with savvy real estate entrepreneurs, who identify niche markets and bring experience, they can develop projects that, if traditionally financed, would not have been feasible.

3. Buyer's Market, But Who's Buying?

With non-core assets on the market and poor investment performance, this would seem like the time to buy. But, where's the demand? Large scale corporate expansions are few and far between. In addition, users are backing away from complex financial structures, once geared toward accelerating acquisitions through credit-based financing. In 2003, we expect complex financing of the recent past to revert back to more transparent vehicles and traditional methods (e.g. more costly), inhibiting new activity.

Similarly, leasing strategies are changing. At the end of 2002, large property owners combed their tenant roster to identify and form alliances with their largest space users. In an up real estate market, landlords had the upper hand, basing alliances on the tenant's commitment to more space. In today's down cycle, the power has shifted back to the tenant, who is seeking long-term flexibility along with below market or reduced rents.

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