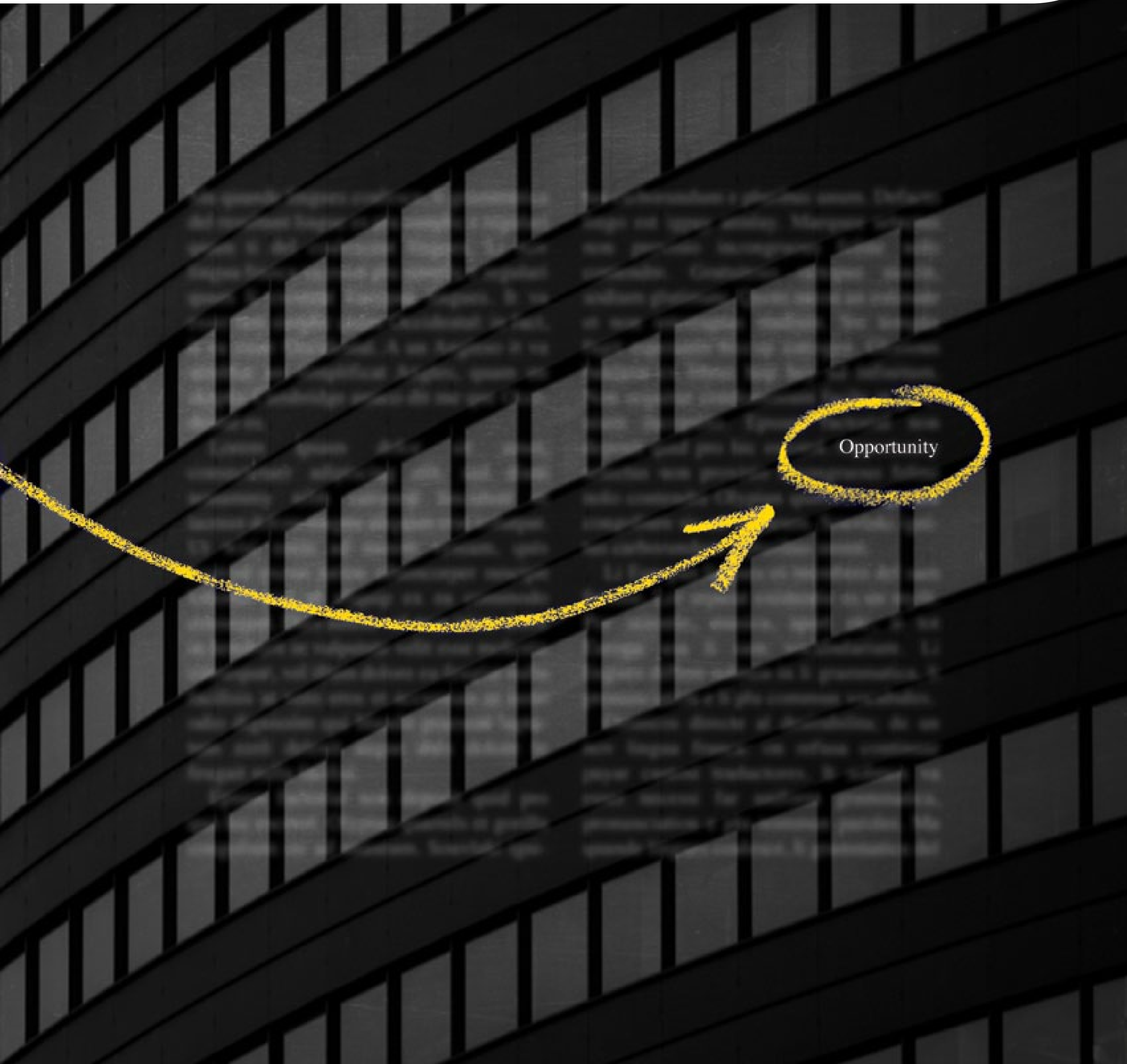
2012 Forecast



Sources
Claritas, CoStar, Deloitte, Department of Education, Federal Reserve, Dow Jones Venture-Source, Ernst & Young LLP, IHS Emerging Energy Research, International Council of Shopping Centers, Moody's Analytics, National Bureau of Economic Research, National Center for Education Statistics, National Retail Federation, PKF Hospitality Research, Pike Research, PricewaterhouseCoopers, Real Capital Analytics, Reis, Inc., San Jose Mercury News, Smith Travel Research, TreppWire, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Energy Information Administration, Urban Land Institute, Yahoo! Finance

Please contact your local Grubb & Ellis office for further information about this forecast.
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GRUBB & ELLIS.
From Insight to Results

Dear Clients and Colleagues:

At the end of each year we take time to reflect on the events and trends that have influenced the performance of the commercial real estate business and consider what these trends mean as we move forward. Our research professionals distill information gathered in local markets to help you understand what is happening nationally as well as locally across all asset classes. Certainly, the ambiguity and volatility in the marketplace has made this analysis more important than ever before. Continued weakness in the overall economy, defensive lenders, an uncertain capital environment, bifurcated property values, high unemployment and low consumer and business confidence continue to plague the industry and have made it difficult to plan for the future.

Several times this year I've heard people say, "*Times like these...*" You can complete the sentence a number of ways: "Times like these have made me reevaluate my business plan." "Times like these make it difficult to think long term." "Times like these shake my confidence when making decisions." No doubt those are valid, but something else is also true:

In times like these, the bold turn opportunities into long-term value.

Grubb & Ellis is helping clients — tenants, landlords, buyers and sellers — uncover these opportunities every day. By marrying specialized expertise with comprehensive, real time market analysis and a deep understanding of local and national market trends, we've made it a priority to ensure our clients have the information they need to make important decisions. And the creative real estate solutions we've offered have turned quite a few daunting challenges into real opportunities for future growth and value.

Markets may stall, but Grubb & Ellis professionals do not. So use this report and our newly designed forecast website to build knowledge and confidence, and know that we are standing by when you are ready to explore the opportunities that exist in today's marketplace.

Sincerely,

Thomas P. D'Arcy
President and Chief Executive Officer

Table of Contents

GRUBB & ELLIS. From Insight to Results

2011: Meeting Reduced Expectations

Grubb & Ellis expected a sluggish recovery in 2011, and that is what happened. GDP grew 1.8 percent, a little slower than our 2.5 percent forecast. We thought the labor market would add 125,000 net new payroll jobs per month, which, unfortunately, was on target — unfortunate because employers need to add 200,000 or more to begin absorbing the nation's long-term unemployed. The biggest surprise involved interest rates, which we did not forecast, but most analysts expected long-term rates to increase as the economy gained momentum. Instead, fears over the European debt crisis drove the 10-year Treasury, which began the year at 3.30 percent, to an incredibly low 1.72 percent on Sept. 22 before rising modestly by year-end.

The office market performed a bit better than the half-speed recovery we had expected — call it a two-thirds speed recovery. The vacancy rate ended the year at 16.8 percent, 20 basis points below our forecast but still well above the equilibrium vacancy rate of 12 to 14 percent. Absorption, completions and rental rates all came in slightly better than expected. Nonetheless, it was a sluggish recovery.

The industrial market was another story, doing quite a bit better than expected with absorption nearly double our forecast. Vacancy ended the year at 9.5 percent, 60 basis points under our forecast. Unfortunately for landlords, the improved demand — fueled by international trade and increasing freight shipments — was not enough to push rental rates higher.

The multi housing market was the star, exceeding everyone's expectations as vacancy plunged and rental rates increased on the shoulders of strong demand from foreclosed households, newly employed graduates and renters-by-choice — households who are deferring homeownership until their family circumstances dictate the need to buy.

Hospitality also outperformed in 2011 as business and leisure travel posted gains and the weak dollar attracted international travelers.

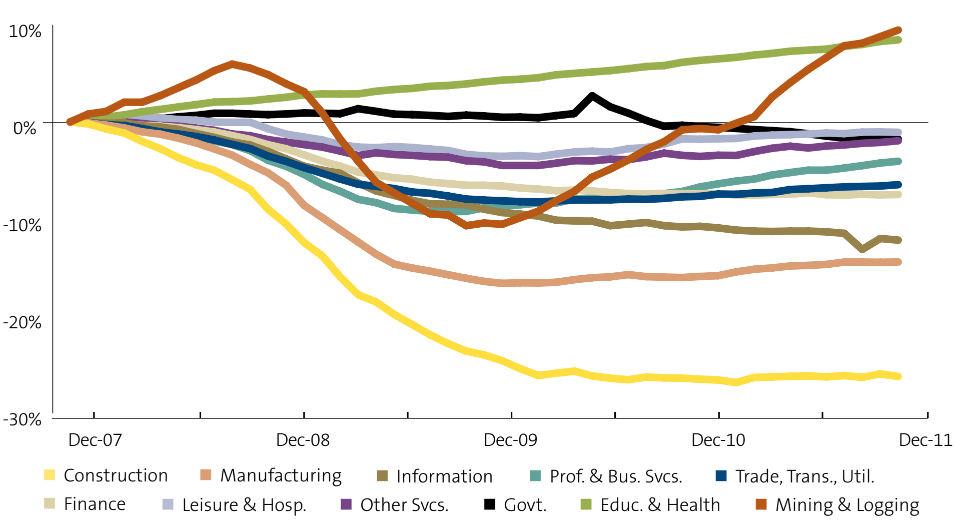
Shopping centers were the laggard with the exception of those targeting high-end consumers. Grocery-anchored centers in mature trade areas and fortress malls did the best while unanchored strip centers on the urban fringe had trouble filling space.

The investment market racked up big gains again in 2011 with a 75 percent increase in the dollar volume of property sales and average capitalization rates that edged lower for most property types. Investors, enamored with core assets in 2010, began to reach for more yield in 2011, targeting slightly riskier assets and markets.

2012: Another Subpar Year

Grubb & Ellis expects GDP growth in the range of 2.0 to 2.5 percent in 2012, still below the economy's long-term potential of around 3 percent. The unresolved European sovereign debt crisis and the political stalemate in the U.S. will weigh on growth. The eurozone is headed toward a recession, perhaps a deep one. The sovereign debt crisis could extend to U.S. banks, reducing their willingness to lend, while shrinking demand overseas would hurt U.S. exports. Expect the U.S. economy to muddle through, adding an average of 125,000 net new payroll jobs per month in 2012 — the same pace as 2011. With growth subdued and the Federal Reserve maintaining a highly accommodative monetary policy, 10-year Treasuries are

Job Change Since Recession Began
By Economic Sector



Sources: U.S. Bureau of Labor Statistics, Grubb & Ellis expected to rise only modestly, ending the year between 2.5 and 3 percent.

The five major property types are expected to move ahead in the following sequence:

1. **Multi Housing:** With the housing market at least a year away from a robust recovery and job growth on par with last year, the apartment market will tighten further in 2012. Look for vacancy to decline by another 40 basis points to end 2012 below 5 percent, on the heels of the robust 130-point drop in 2011. *Biggest risk: a surge in new construction.*

2. **Hospitality:** Look for revenue streams to fall short of their impressive gains in 2011 but not by much. *Biggest risk: ill winds from the eurozone could slow international travel.*

3. **Industrial:** Both demand and supply will accelerate in 2012, particularly supply as speculative development surges. Vacancy will fall further to end the year below 9 percent. Look for 5 percent gain in rental rates for warehouse/distribution space. *Biggest risk: potential for spec construction to outpace demand.*

4. **Retail:** Consumers, while back in the game, will not be star players in the economic recovery in 2012. Look for slow, spotty improvement in retail property markets with vacancy falling modestly. *Biggest risk: hard to get traction when consumers are not finished deleveraging and the housing market is still flat.*

5. **Office:** The sluggish recovery will extend into 2012 with the vacancy rate falling 110 basis points to end the year below 16 percent, still above equilibrium. Expect little movement in rents with the exception of supply-constrained and/or technology-driven markets. *Biggest risk: uncertainty over taxes and regulations could restrain hiring.*

Gradual improvement in leasing markets will encourage investors to expand their foray, begun tentatively last year, into riskier assets and markets. This, combined with continued appetite for core assets, will boost sales volume by another 25 percent in 2012. Look for cap rates to tighten marginally for non-distressed assets. Distress is expected to remain high but the composition will shift with fewer such properties on offer by banks and more from CMBS servicers as they move to unwind deals.

As part of our analysis this year, Grubb & Ellis created a series of Momentum Indexes, one each for the office, industrial and retail leasing markets and the investment market. The three leasing market indexes take into account the rate of change in labor markets, vacancy rates, rental rates and occupied space, and the investment index compares the dollar volume of sales in 2011 to the previous five-year total and adjusts that ratio for the size of each market. The results of this analysis are mapped and discussed in the corresponding sections of this report.

Year-End Review and Forecast

	2011 Forecast	2011 Actual	2012 Forecast
Economy			
GDP	2.5-3.0%	1.8%	2.0-2.5%
Monthly Job Change (thousands)	125	125	125
Office Market			
Vacancy rate	17.0%	16.8%	15.7%
Class A rental rate[1]	$30.94	$31.14	$31.38
Class B rental rate[1]	$22.64	$22.82	$22.86
Net absorption	35 MSF	38 MSF	53 MSF
Space completed	8 MSF	10 MSF	9 MSF
Industrial Market			
Vacancy rate	10.1%	9.5%	8.7%
General industrial rental rate[2]	$5.03	$4.94	$4.94
R&D/flex rental rate[2]	$9.15	$9.23	$9.25
Warehouse/distribution rental rate[2]	$4.30	$4.23	$4.44
Net absorption	60 MSF	110 MSF	127 MSF
Space completed	15 MSF	23 MSF	40 MSF

[1] Asking rate per square foot per year full service
[2] Asking rate per square foot per year triple net

Source: Grubb & Ellis

Office

Equilibrium will remain elusive until 2014.

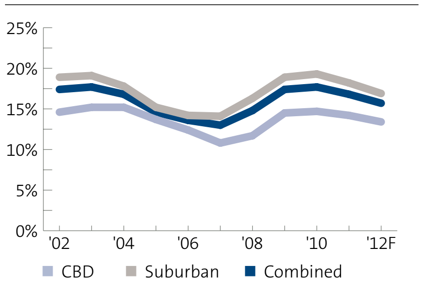
The office market recovery accelerated in 2011 but only to about 30 in a 45-mile-per-hour zone, leaving motorists frustrated. The vacancy rate fell 90 basis points, ending the year at 16.8 percent. While this certainly beat the increases registered in the prior three years, it fell short of the 200-basis-point decline that is the norm for a steady recovery. Net absorption last year totaled 38 million square feet, well ahead of the 9 million square feet registered in 2010 but trailing the 62 million square feet posted in 2007, the last year of the expansion. Some landlords began retracting concessions last year, pushing effective rents higher, but these moves typically were confined to Class A properties in the most desired submarkets, and then only after those landlords had kept concessions in place long enough to lure tenants from lesser-quality buildings. This trend, labeled "flight to quality," remains common in virtually every market across the U.S.

The average asking rental rate for Class A space was virtually flat in 2011 at $31.14 per square foot per year full service gross while the average Class B rate slipped 1.0 percent to end the year at $22.82 per square foot. The exception was a handful of markets powered by technology and energy companies, including San Francisco, San Jose, Calif., and Austin, Texas, as well as supply-constrained Manhattan. Speculative and build-to-suit construction starts increased slightly last year but remained near historic lows. The only market firmly in the expansion cycle was Washington, D.C., where developers delivered 18 new buildings with a combined 2.9 million square feet of space, nearly two-thirds of it pre-leased. In many markets, tenants continued to choose shorter-term (sub-five year) leases in order to keep their options open, forgoing more lucrative terms on offer for those willing to sign longer term leases.

The outlook is more opaque than usual this year given the ongoing turmoil in the eurozone and its potential to create a financial market contagion along the lines of the Lehman Brothers-inspired crisis in 2008. This would have an especially harsh impact on New York's financial sector, and market participants there are cautious about prospects for the coming year. A European recession, which is rolling across the continent, will crimp U.S. exporters selling into the region, which could, in turn, cool down some of the hot technology markets in the U.S., such as San Jose, the San Francisco Peninsula, Austin and Boston.

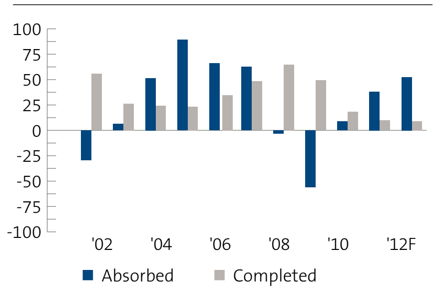
However, from the grass-roots level, the outlook is for stronger, not weaker, activity in 2012, and recent U.S. economic indicators seem to bear that out. Expect the national vacancy rate to end the year at 15.7 percent, propelled by net absorption totaling 52 million square feet combined with minimal new deliveries totaling 9 million square feet. This assumes that employers add 125,000 net new payroll jobs per month, 20 percent of which will be in office buildings at a ratio of 175 square feet per new employee.

U.S. Office Vacancy Rate
Year-End



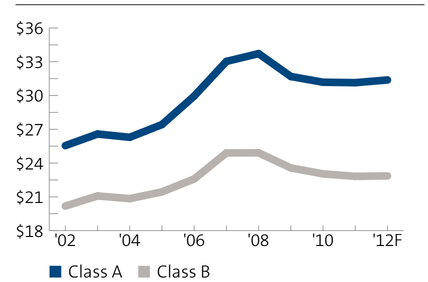
Source: Grubb & Ellis

U.S. Office Completions vs. Absorption
Year-End (in MSF)



Source: Grubb & Ellis

U.S. Office Asking Rental Rates
Year-End ($/SF/Yr. Full Service)



Source: Grubb & Ellis

Office

continued

The forecast further assumes that shadow space created during the recession will accommodate 25 percent of the net new demand. The national rental rate indexes will firm up by the end of the year, but landlord-pleasing increases are unlikely to appear before 2013 or 2014. Technology companies will drive demand in the markets where they are located. The healthcare sector will continue its inevitable expansion, pushing vacancy lower in medical office buildings, clinics and related properties. Cities with energy companies well-represented in their tenant bases will continue to expand, including major markets in Texas and Oklahoma and some surprising newcomers such as Pittsburgh.

By year-end 2012, assuming the financial markets can avoid a meltdown, the office market will be in better shape. However, equilibrium at the national level will remain elusive for at least one more year after that. Class A properties in most markets will continue to outperform, but only a small handful of markets will tighten to the point where opportunities arise for the owners of Class B properties to cut concessions, raise rental rates or upgrade their properties to Class A-minus status in order to recapture some of the tenants lost during the flight-to-quality cycle.

Northern California/ Pacific Northwest

At its core, this region presents a tale of two industries: technology and housing. Coastal markets with strong concentrations of technology companies are advancing while more affordable inland markets that attracted a lot of speculative housing construction during the bubble years are still contending with those excesses. On the shoulders of its big technology centers, the region's office market earns a score of 132 on the Momentum Index (U.S.=100), the strongest performance of any region.

Technology is driving growth in coastal office markets. In San Francisco, the San Francisco Peninsula and San Jose, asking rental rates increased at a double-digit pace in 2011. Major names such as Sony, Google and Facebook plus a litany of smaller and start-up companies drove demand. In Seattle, Facebook and Google have joined Microsoft and Amazon to tap the talent pool residing in the area.

Still, the recovery across the region is not very deep. In the Bay Area and Seattle, the recovery has not spread much beyond submarkets that are popular with tech companies. In Portland, the CBD, especially historic and creative space, has led the recovery. In Oakland and the East Bay, tenants were focused on closer-in and more prestigious submarkets. In Fresno, the best projects saw activity in 2011 while properties in less desirable areas went for months without a showing.

The level of optimism heading into 2012 is uneven across the region. In Sacramento, a major recovery in the office market is at least a year away as cuts in state government impact the economy. East Bay tenants will remain hesitant to sign long-term leases. Tightening conditions in popular coastal submarkets will divert activity to nearby, less expensive submarkets. The San Francisco CBD and Mid-Market areas will see a benign ripple effect as activity spreads beyond South-of-Market. In the South Bay, activity will ripple out from Palo Alto, Mountain View and Sunnyvale into Fremont, Newark and San Jose.

Portland's downtown will remain one of the strongest in the U.S. with rent increases projected for both Class A and B space. Demand will be brisk for creative and unique spaces in the CBD with some Class B and historic spaces commanding higher rents than run-of-the-mill Class A buildings. The coming year will remain a great time for tenants in suburban Portland.

In Seattle, tenants in areas popular with technology companies will be taken aback by a lack of options and elevated asking rents. But in non-core submarkets, concessions such as moving and tenant improvement allowances, free parking and free rent will be the norm.

Southern California

Southern California's recession was longer and deeper than the national average. Payroll employment began dropping six months ahead of the U.S., and it did not hit bottom until seven months after the U.S. The housing bust, especially severe inland, was a major culprit. The region is/was home to a bevy of mortgage companies, including some that played a starring role in the meltdown. While the region earns an above-average score of 124 on the Momentum Index, it's important to note that the recovery is launching from a relatively deeper trough.

The Inland Empire's office market recovery is in the early innings. Renewed vitality, heavily dependent on the housing industry, may not return until home prices stabilize, which could be several years away.

Conditions across most of Los Angeles County remain soft, but Santa Monica posted double-digit gains in asking rents during 2011 on the strength of demand from entertainment and technology companies. Burbank, the locus of the region's entertainment industry, also built momentum last year. By the second half of 2012, look for a handful of other submarkets to show sustained, though modest, improvement; these would include downtown Los Angeles, the remainder of West Los Angeles, and the stronger areas in lower-tier submarkets such as El Segundo in the South Bay. Strong-credit tenants will dictate the best deal terms. This holds true among landlords as well; financially strong owners are more attractive to tenants seeking stability. Aggregate vacancy and rent numbers are expected to change little in 2012. The market will set the stage for a broader rebound in 2013 and beyond.

In Orange County, a number of tenants who had downsized too much when the recession struck compensated for that miscalculation by taking more space last year, which fueled decent absorption totals. Pent-up demand for office space exists, but businesses will wait to see how the economy and financial markets play out before making commitments in 2012. If all goes well, expect Class A rents to increase in the coming year, especially in properties where landlords offer tenant improvement dollars.

San Diego saw similar dynamics in 2011 with increased occupancy for top office properties. The labor market has been a bit stronger here than in the rest of Southern California. In 2012, expect landlords of top-tier properties to begin pushing rents higher. It will be several years, however, before office owners are truly out of the woods — a truism across Southern California.

Mountain/Southwest

The housing bust dealt a heavy blow to this region with payroll employment plunging by 9.6 percent from peak to trough compared with a 6.3 percent drop in the U.S. The two Nevada metros posted the steepest declines of all major U.S. markets with payrolls down 14.8 percent in Las Vegas and a jolting 17.3 percent in Reno. But growth has picked up, outpacing the average over the 12 months ending in September. The office market's Momentum Index score of 91 is below the U.S. average of 100.

The region's two largest office markets, Denver and Phoenix, both absorbed more than 1 million square feet in 2011, low by historic standards but a hopeful sign heading into 2012. Vacancy rates remained elevated, particularly in Phoenix, which is saddled with the highest rate of any major U.S. market. Though the flight-to-quality trend was evident, even Class A rental rates continued to slip as tenants sought good deals if only to pressure their existing landlords to match or beat offers from other landlords. Absorption hovered near zero during 2011 in Las Vegas with activity focused mostly on renewals. Market conditions were less hopeful in the region's smaller markets. Albuquerque and Reno have seen no growth in jobs since the recession ended, and Colorado Springs is barely above its trough reached last summer.

In the coming year, the office markets in Phoenix and Denver will extend their modest levels of activity. In Denver, large blocks of space in the CBD and Southeast submarkets will continue to diminish, driving some build-to-suit projects. Rates in the LoDo submarket will remain the highest in the city. Denver has a history of ambitious infrastructure projects, including Denver International Airport and the region's light rail and highway reconstruction projects. This plus the expanding energy and technology sectors will keep Denver growing in the long term. In Phoenix, the recovery will continue at a slow pace in 2012, but in 2013 and beyond, business relocation and population migration will resume, driving a return to market equilibrium by mid-decade.

In both Las Vegas and Reno, rental rates will remain stable in 2012 with vacancy falling slightly by year-end. Albuquerque will see some demand from smaller tenants of 5,000 square feet and less with Class A and B asking rents expected to hit bottom by year-end. In Colorado Springs, landlords who recently purchased properties at bargain prices will lower rental rates to attract tenants, pressuring other landlords to do the same.

Texas/Great Plains

The area stretching northward from Texas through Oklahoma and the Great Plains has been blessed by an abundance of energy and agricultural commodities, which will be in high demand from emerging markets across the globe for years to come. Additionally, the housing bubble and subsequent bust mostly bypassed the region, helping to insulate its financial institutions. The recession was milder and the recovery more robust here than in any other region, fueling an above-average score of 113 on the Momentum Index.

Houston regained its momentum in 2011 as shale gas exploration and deepwater drilling activity created demand for office space, particularly Class A space in the Energy Corridor and The Woodlands. Expect Class A rents to move higher in 2012. CBD tenants will find some good options in the space vacated by Hess Corporation, which built a new headquarters tower, and the space vacated by Devon Energy, which consolidated in Oklahoma City.

Dallas-Fort Worth benefited from strong employment growth, stable leasing fundamentals and a limited supply of new speculative construction during 2011. Some landlords will continue to offer aggressive incentives in 2012, but the options for tenants will be less abundant by year-end.

In Central Texas, Austin has seen payroll employment pass its pre-recession peak, one of very few metro areas to reach this milestone. The effects on the office market are evident with rents gaining 1.5 percent in 2011. California tech companies Facebook, NVIDIA and Polycom all expanded their Austin footprints last year. A new construction cycle may kick off by the end of 2012. In San Antonio, despite decent employment growth, the market will see some big holes this year as AT&T vacates 433,000 square feet and three companies vacate a combined 450,000 square feet when they occupy new campus facilities. A landlord's market remains several years away.

Oklahoma's major metros are riding the energy wave. Devon Energy's pending move to its new 50-story headquarters in downtown Oklahoma City may elevate vacancy temporarily, but other companies are positioning to backfill Devon's former space, leaving market rents unaffected. In Tulsa, several large national companies, including Cimarex Energy and Northwestern Mutual, are driving the Class A market close to full occupancy, pushing rental rates higher. This will open the door for well-located Class B properties to upgrade and offer a competitive package to Class A tenants.

Wichita and Little Rock, both on the fringe of the energy belt, have been slower to recover. Expect rents for Class A space in Wichita to remain steady in 2012 with Class A properties in the CBD, about 10 percent vacant, in the strongest position. In Little Rock, the market will be challenged in 2012 as Verizon sheds as much as 335,000 square feet in the Riverdale district and Southwest Power Pool leaves behind 90,000 square feet when it occupies its new campus in west Little Rock.

Great Lakes/Ohio Valley

The Midwest dodged a potentially crippling blow during the Great Recession. The highly controversial decision to rescue General Motors and Chrysler preserved the region's manufacturing base, setting the stage for the post-recession rebound in exports. However, this has benefited the industrial market more than the office market, which earned a Momentum Index score of 77, the lowest of any region.

In Chicago, vacancy in both the CBD and suburbs declined last year while remaining well above historical averages. Technology companies were a bright spot. Notably, Groupon added 220,000 square feet to its River North headquarters and 150,000 square feet in the East Loop. In 2012, expect modest improvement at best. Much of the shadow space emptied during prior layoffs will hit the market as leases expire, providing an unwelcome headwind. Tenants will be able to trade up in quality and reduce operating costs by signing long-term leases. Speculative construction is unlikely to return for several years.

Activity turned the corner last year in Ohio. Alcatel-Lucent signed a 120,000-square-foot lease in suburban Columbus, retaining hundreds of jobs at risk of moving out of state. The delivery of the 825,000-square-foot Great American Tower in downtown Cincinnati pushed the CBD vacancy rate into nosebleed territory. Cleveland's downtown also is undergoing a resurgence, highlighted by a 480,000-square-foot office building and an Aloft Hotel, the first new private construction downtown in 20 years. Look for continued, incremental gains in all three markets this year.

In Detroit, Blue Cross Blue Shield, Quicken Loans and DTE Energy migrated into nearly 750,000 square feet of vacant space downtown in 2011. CBD vacancy is now on par with the suburbs, but both remain among the highest in the country. Improvements in 2012 will be modest; the region's manufacturing renaissance is having a limited impact on demand for office space.

The two major Wisconsin metros are outperforming the region, particularly Madison where the coming year will bring reduced concessions and impetus for a new Class A project in the Far West submarket. In Milwaukee, vacancy will continue to decline, led by the premier Downtown East submarket and in suburban Brookfield and Pewaukee, home to many executives and business owners.

Minneapolis-St. Paul performed better than expected last year, reducing vacancy while burning off significant chunks of sublease space. Nearly all the activity was in Class A properties as tenants traded up. Continued improvement in 2012 should lead to noticeably tighter concessions by year-end.

A recovery is underway in Northern Indiana's manufacturing base, but that has done little to help South Bend's office market. Absorption was negative in 2011, and landlords will continue to offer rent abatements, shorter-term leases and other incentives in 2012.

Northeast/Mid-Atlantic

The region's economic recovery has been modestly stronger than other parts of the country, a mild surprise considering its starring role in the financial meltdown of 2008. This has carried over into the office market, which earned a score of 106 on the Momentum Index.

New York City's recovery was respectable last year if not robust, pushed ahead by the rebounding stock market. Tenants and investors sought trophy properties in Midtown Manhattan while Midtown South attracted leasing activity from technology companies and start-ups. Activity is expected to slow in 2012 as the European sovereign debt crisis drags on, exposing counterparty risk among U.S. financial institutions and imperiling banks' willingness to lend.

New York's moderate upturn helped breathe life into suburban markets. Northern and Central New Jersey absorbed more than 2 million square feet, nearly all of it in Class A space as tenants took advantage of low rents to move up in quality. In 2012, suburban downtowns with transit connections to Manhattan are expected to fare better than less accessible submarkets. These include Stamford, White Plains and New Jersey's Hudson Waterfront.

Boston's office market advanced on the shoulders of respectable job growth, absorbing well over 1 million square feet in 2011. Back Bay and Cambridge were the hot spots as the now familiar flight-to-quality instinct encouraged tenants to upgrade their spaces while rents were still reasonable. The technology, medical and education sectors will power demand in 2012, enabling landlords to raise rents modestly.

New Hampshire has yet to benefit from Boston's gradual recovery. Tenants played musical chairs in 2011, and there were plenty of extra chairs to go around. Expect landlords to stay aggressive in 2012 as they compete to keep their chairs occupied.

Washington, D.C., and its suburbs were well into the expansion cycle in 2011, the only market in the U.S. with this distinction. Developers delivered 18 new office buildings totaling 2.9 million square feet, with 64 percent of that space already committed. In 2012, 16 buildings totaling 3.6 million square feet are slated for completion, with a pre-lease rate of 49 percent. Despite talk of downsizing, federal agencies continue to drive demand, and the private sector is expanding, too. The CBD and East End submarkets will remain hot spots through 2012, joined by the Rosslyn-Ballston Corridor and Tysons Corner.

In Philadelphia and its environs, market conditions will remain weak in 2012 with little to no upward pressure on rental rates. Wilmington will contend with bank mergers, and Southern New Jersey could be at risk from defense budget cuts.

Pittsburgh's multi-decade economic restructuring is paying dividends. Downtown has been a hub of activity with continued expansion by the University of Pittsburgh Medical Center and PNC's announcement of a new 800,000-square-foot headquarters. Further Class A rent increases across the market in 2012 will encourage tenants to consider Class B and C space.

Southeast

By virtue of its dependence on the housing market, the Southeast's labor market has trailed other regions of the country. This weakness is reflected in the office market's below-average score of 88 on the Momentum Index.

Atlanta, an engine of growth emerging from prior recessions, has added virtually no new jobs. Employment hit a new low in August 2011, its lowest point since the recession began and in fact its lowest level since October 2003. The office market remained correspondingly weak last year. In 2012, tenants will see low rental rates and significant concessions, especially for long-term leases. Class A space will attract more activity, and properties with stable financials will improve before less stable ones.

In South Florida, downtown Miami is bracing for the delivery of Brickell World Plaza, which will add 600,000 square feet of vacant Class A space to the market early this year, raising Dade County's vacancy rate close to 20 percent. Abundant space opportunities will remain throughout the county in 2012. Leasing activity will be dominated by renewals, relocations and expansions of existing tenants. Strong ties to the residential sector in Broward and Palm Beach counties will hinder job growth, and rent discounts will remain on offer, especially for larger tenants with good credit and those willing to sign long-term leases.

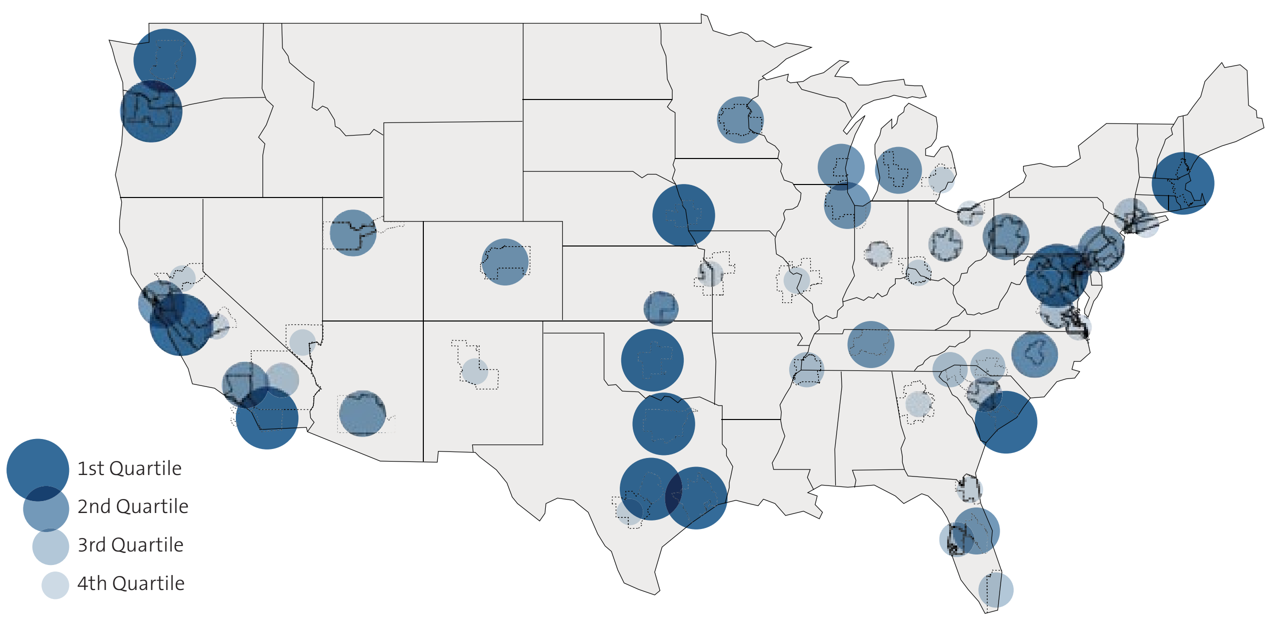
Recoveries in the other large Florida metros also will be weak. Orlando will see an additional 330,000 square feet of vacant Class A space with the completion of two new projects. Expect rental rates to remain flat through 2012. Additional rent declines are expected in Tampa before stabilizing by year-end. In Jacksonville, the vacancy rate has been trending higher, and concessions packages will remain generous in 2012.

In Raleigh-Durham, large user sales removed nearly 600,000 square feet of vacant space from the competitive inventory in 2011, contributing to a decrease in vacancy. Class A properties outperformed Class B by a wide margin as discounted rental rates fueled a flight to quality. A significant portion of leasing volume was driven by lateral tenant moves, and economic uncertainty led many smaller tenants to seek short-term leases despite the opportunity to lock in record-low rental rates. Construction remains almost nonexistent, which will lead to a rapid decline in prime Class A leasing options as demand improves in 2012. More landlords will hold the line on rents, and tenants seeking to lock in savings should do so early in the year.

Elsewhere across the South, the recovery has been sluggish. In Columbia, most activity in 2012 will come from existing tenants whose leases have expired or who are looking to upgrade or relocate. Effective rents are expected to creep forward. In Myrtle Beach, an oversupply of smaller buildings has pushed rents lower; this imbalance will extend into 2012. In Mobile, expect CBD vacancy to rise in the first half of 2012 as new space comes online.

Office Market Momentum

Based on 2011 Performance and Anticipated 2012 Performance



This map shows leasing market momentum with metropolitan areas displayed by quartile. Variables used to develop the rankings include employment growth over the last 12 months, 2011 change in vacancy and rent, 2011 absorption as a percent of occupied space, construction activity as a percent of total inventory, barriers to entry and distressed assets.

Industrial

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From Insight to Results

Large blocks of space will continue to outperform the broader market.

Demand for industrial real estate accelerated significantly in 2011. Total net absorption of 110 million square feet compares favorably to the 34 million square feet absorbed in 2010 and especially to the 64 million square feet absorbed two years into the recovery following the 2001 recession. The greatest milestone achieved in 2011 was the lease-up of all the space that went vacant due to the recession. During the six quarters of negative net absorption, 153 million square feet was returned to the market compared with nearly 160 million square feet re-absorbed between the second quarter of 2010 and the fourth quarter of 2011. This strong performance is especially significant considering that economic growth slowed to less than 2 percent during 2011.

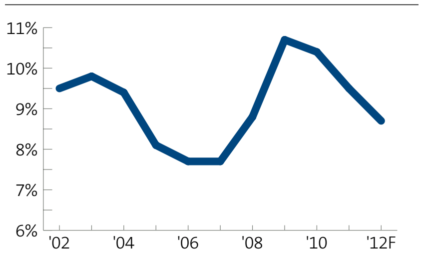
Every region and most markets saw absorption turn positive in 2011, but the recovery was not as widespread in terms of product type. Warehouse/distribution space outperformed, capturing three quarters of total demand while accounting for only half of the total inventory. Class A logistics space, a subset of warehouse/distribution, accounted for 20 percent of the total industrial inventory but 50 percent of demand in 2011. Smaller, second-generation warehouse spaces struggled to attract tenants throughout the year despite aggressive concession packages and depressed rent levels.

New supply was constrained throughout 2011, but signs of acceleration became apparent by year-end. The lack of new deliveries funneled demand to existing properties, reducing vacancies. The positive spread between demand and supply was nearly 90 million square feet, a total that was exceeded only once in the past decade, in 2005, when the spread was approximately 10 million square feet wider. During the four expansionary years prior to the recent recession, the demand-supply spread averaged just 62 million square feet.

This positive spread drove vacancy down 90 basis points in 2011. Once again, over the past decade, this improvement was exceeded only in 2005. Net asking rents stabilized in 2011, while net effective rents started to rise as free rent became less available and aggressive, first-year introductory rates were mostly eliminated.

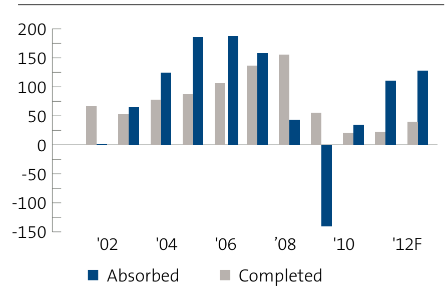
Demand will accelerate in 2012, but given the sluggish domestic and overseas economies, only by about 15 percent to 130 million square feet. Large blocks of space will continue to outperform. Third-party logistics providers are becoming an integral part of supply chains of an increasing number of companies, a trend that will continue to drive the Class A distribution sector. For the recovery to accelerate more significantly, the market needs the return of business and consumer confidence so that smaller, local businesses will commit to more space at longer terms. However, the requisite level of confidence is unlikely to emerge until the second half of the year, and the November elections could delay it until the

U.S. Industrial Vacancy Rate
Year-End



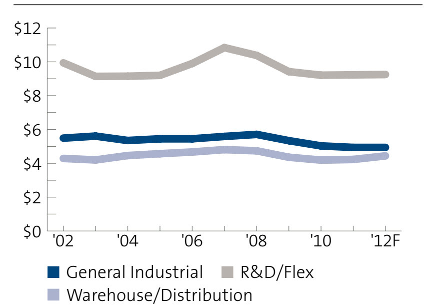
Source: Grubb & Ellis

U.S. Industrial Completions vs. Absorption
Year-End (in MSF)



Source: Grubb & Ellis

U.S. Industrial Asking Rental Rates
Year-End ($/SF/Yr. Triple Net)



Source: Grubb & Ellis

end of 2012. Near and on-shoring has the potential to accelerate demand for general industrial space. Caterpillar's decision to shift some production from Japan to North America could prove to be an exception. However, given the supply chain disruptions following the earthquake in Japan, the flooding in Thailand and rising labor costs in China, more U.S. manufacturers are likely to follow.

The more meaningful acceleration will be in new supply, which will double to 40 million square feet. Assuming a stronger economic recovery in 2013 and 2014, new deliveries will easily double again in 2013 and potentially in 2014, matching the 155 million square feet that was completed in 2008. While selective speculative building commenced in 2011, 16 or more markets across the county will see new construction begin this year without a lease already in place.

Rising construction will slow ongoing improvements in vacancy, but just slightly. The national vacancy rate will decline to 8.7 percent by the end of 2012, a level that is still 100 basis points above pre-recession levels. Rent growth will accelerate for warehouse/distribution properties, but the general industrial and R&D/flex segments will need another year before landlords can start raising rents.

Northern California/ Pacific Northwest

This is a diverse region whose drivers are technology companies in San Jose, international containerized imports in Oakland, Seattle and Portland, and local economic growth in Fresno and Sacramento, which also depends on the health of the state government. The Momentum Index score is 112, above the U.S. average of 100.

Market recovery started strongly at the beginning of 2011 but slowed across the region by the summer with a relatively cool second half. Vacancy improved in 2011 but ended the year about 120 basis points above the national average. In the inland markets, user-buyers accounted for much of the activity, taking advantage of favorable SBA loans on top of depressed pricing. Oakland saw increased activity by 3PLs due to the port as well as food manufacturers and distributors. Portland is becoming a data center destination of choice, driving demand for a segment of the market that was underperforming. San Jose, which still has not fully recovered from the bursting of the 2001 bubble, has been a beneficiary of the growth of technology companies such as Google and Facebook. Nevertheless, its vacancy is the highest in the region at around 14 percent. Seattle is a somewhat unique West Coast seaport market as its industrial base does not correspond to the import volume of the Seattle and Tacoma ports. Seattle is mostly a local distribution market that was never severely overbuilt and thus weathered the recession comparatively well.

Market recovery will continue in 2012 across the region, but it will be weighted more heavily to the latter two quarters of the year. San Jose will continue to benefit from the tech sector, but its warehouse/distribution market will need to absorb the 609,000-square-foot building left vacant by the Solyndra bankruptcy. Several factors will drive demand in Portland. The market will be helped by the $4-billion Intel D1X facility, growth in the local manufacturing sector and data center demand. The uneven recovery underway in Seattle will continue. While the big-box segment will see rising rents and speculative new construction, the smaller, older segment of the market will struggle and could see further rent declines. Oakland joined the recovery late and 2012 will be another tough year. Investor and user-buyer demand, however, will accelerate. The inland markets of Fresno and Sacramento have yet to fully stabilize. An increase in confidence and growth of small business are necessary preconditions for these markets to start expanding again.

Speculative new construction will be the story of 2012, but this region will not contribute its fair share. While some small, niche buildings commenced construction in Portland, the only other markets that could see some speculative groundbreaking are Seattle and Silicon Valley.

Southern California

Southern California's Inland Empire, which accounts for less than 4 percent of total U.S. inventory, captured nearly 20 percent of total demand and produced the country's first large speculative groundbreaking post the Great Recession. The region's Momentum Index score of 135 is the strongest of any industrial market in the U.S. Nevertheless, conditions vary by market.

San Diego, which has a seaport but is mostly a local market, struggled during the year. Renewals and lateral moves by opportunistic businesses seeking favorable rates and locations defined 2011. Orange County, which does not directly benefit from containerized cargo flows, saw activity slow during the second half of 2011. Activity in the smaller segment of the market lags the larger segment considerably. However, with a vacancy rate around 5 percent, the market saw a tightening of concessions and stabilization of rents. Los Angeles County, the second largest industrial market after Chicago, benefits from a large population base in addition to the two ports. Its billion-square-foot market with a vacancy rate around 3 percent stands unmatched. Nevertheless, even Los Angeles landlords did not have the upper hand. During the recession, the average lease term declined from 4.1 years in 2008 to just 3.3 years in 2011. The period started with tenants seeking shorter terms to keep their options open and ended with landlords seeking shorter terms so as not to lock in depressed rents.

The path of the recovery will remain unaltered in 2012. San Diego will see increased demand, but the market will struggle to reduce its vacancy rate below 10 percent. Much of the activity will continue to be driven by renewals and relocations. Low mortgage rates and sales prices 40 percent off their highs make ownership often more attractive than leasing in Orange County. As such, demand will finally extend to smaller, Class B and C buildings, which have been struggling. Los Angeles County will keep its lead as the tightest market in the country. The top story of 2012 will be the return of confidence, measured by longer lease terms, as recovering rents will incentivize landlords and tenants to lock in space and term. Inland Empire will continue to be the most dynamic market. The market's performance is closely tied to containerized cargo flows. Activity at the ports slowed in the middle of 2011, but with decreased probability of another recession and low inventory levels, demand for logistics buildings will remain in place in 2012.

Inland Empire will see the vast majority of the region's new deliveries. By the end of 2012, as much as 11.5 million square feet of new space could be under development. The market is on track to see its vacancy fall below 5 percent, further accelerating development. Limited new deliveries also will occur in Orange and Los Angeles counties.

Mountain/Southwest

This region covers a part of the country that is more sparsely populated with markets that serve mostly their local population base. Only Phoenix and Denver have an industrial base that exceeds 100 million square feet. A Momentum Index score of 86 is the lowest of all regions.

Local markets have drivers that do not always move in unison. Albuquerque's industrial market is heavily dependent on the housing market, which has been struggling. The industrial market in Colorado Springs is being impacted by REOs, which continue to drive values down. The ongoing recovery in the Denver market, which benefits from the energy sector, has been slowed by the high level of obsolescence found in the available inventory. Las Vegas, which had benefited from strong growth before the recession, has not yet fully formed a bottom. In 2011, most leasing activity revolved around tenant relocations where tenants were able to find enticing lease rates and concessions in desirable parts of town. The market also is working through a high level of distressed and REO properties, which make market price more difficult to determine. Recovery in Reno picked up in 2011 with strong demand for existing and build-to-suit properties. Phoenix has been the best performing market in the region, attracting large tenants that historically would have ended up in California. The market is transforming from serving the local population to a regional distribution hub.

Phoenix and Denver are the two markets in the region with the best prospects for 2012. Phoenix will continue to attract big-box users. Overall rents will remain flat as general industrial and flex properties restrain the average. However, rent growth for big-box space will accelerate from the 5 percent recorded in 2011. The shortage of modern Class A distribution and flex product will drive build-to-suit activity in Denver. Class A rates will see double-digit growth, while Class B rates will hold steady. Albuquerque, Reno and Colorado Springs all started on a recovery path in 2011 that will extend into 2012. Rental rates will remain flat in the aggregate, but certain segments of the market, such as Class A, functional product, will perform well. These locations need a stronger residential housing market and job growth to improve. The bottom will finally be reached in the Las Vegas market in 2012 but not until much of the distressed real estate is absorbed. The loss to the borrowers and lenders can become a gain to all-cash buyers who capitalize on depressed pricing.

Speculative construction will be mostly limited to Phoenix, but Denver will start to contribute before 2012 ends.

Texas/Great Plains

This region benefits from the energy sector, making it the second-best performing region following Southern California with vacancy about 100 basis points below the national average. It consists of 2.1 billion square feet and posted a Momentum Index score of 114.

Nearly 60 percent of the regional inventory is in Texas, of which about half is in Dallas. Due to its population base and central location, Dallas is a national distribution market that was heavily overbuilt during the last cycle. However, the local recovery is firmly in place, and the local market accounted for nearly 70 percent of regional absorption, pushing vacancy close to single digits. Houston is the most dynamic market due to its proximity to the largest container port in the Gulf. The majority of 2011 activity in both markets was in the big-box segment. The two smaller Texas markets, Austin and San Antonio, have not seen the same level of activity, but San Antonio is benefiting from the Eagle Ford Shale oil play. Oklahoma markets are profiting from oil and natural gas. Both Oklahoma City and Tulsa have vacancies 300 basis points below the national average and user interest in ownership is strong. The two smallest markets in the region, Wichita and Little Rock, continue to outperform as they had little speculative construction. However, while Little Rock has much of its vacancy in the large warehouse segment, Wichita is starting to see a scarcity of larger, high-ceiling warehouse blocks.

Activity in the region is expected to accelerate in 2012. In Houston, the submarkets witnessing the most growth will continue to be East Southeast Far due to its location near the Port of Houston and North and Northwest. Asking rents will rise. The majority of demand in Dallas will continue to be in the big-box segment, pushing rents higher by the second half of 2012. The user-sale market will accelerate as long as SBA loans make owning attractive. Austin and San Antonio will see marginal improvements with gradually declining vacancies and a tightening in concessions. The Oklahoma markets will continue to have the energy sector's wind at their backs, generating positive absorption and declining vacancies. The smaller segment of the market will pick up as users accelerate purchases of buildings. Industrial demand in Wichita will strengthen, driven by the improving non-durable goods manufacturing segment. Little Rock landlords finally will be able to push rents in 2012 even though tenants will continue to seek Class A space at Class B rents.

Speculative new supply will be concentrated in Houston and Dallas. While Houston has seen smaller developments throughout the recovery, a new speculative development returning to Dallas would have been unthinkable a year ago. Strong demand for distribution space in Alliance Airport and DFW Airport should spur new development by the end of 2012.

Great Lakes/Ohio Valley

This region has the highest concentration of industrial real estate, accounting for a quarter of total national inventory. Its geography captures most of the Midwest markets, an area that was hit hard by the recession. The region lags the nation in vacancy by about 100 basis points, and in 2011 it was about 300 basis points short of its pro-rata share of demand. The Momentum Index score is 89.

Chicago is the most dominant market, three times the size of second-place Detroit. A national distribution market with access to six Class I railroads, Chicago took a large step toward full recovery in 2011 with strong demand driving vacancy down nearly 150 basis points. Detroit, home to the recovering auto industry, outperformed all expectations, seeing the eighth strongest demand across the country. The ongoing recovery also reached the three major Ohio markets, which recorded positive absorption, declining vacancy rates and increased build-to-suit construction. Ohio will continue to benefit from its rail infrastructure as the Class I railroads invest in their intermodal networks. The Minneapolis market did not decline as much during the recession, but it still has not registered any significant signs of recovery. With a sub-7 percent vacancy, though, it is the second tightest market in the region. The tightest market is Madison, which did not see much new construction even prior to the recession, with a sub-6 percent vacancy. The South Bend-Mishawaka market continues to struggle with high unemployment rates, negative demand and rising vacancies.

Market recovery will solidify but not meaningfully accelerate in 2012. While the majority of Detroit's demand in 2011 was for large spaces, rising auto production will benefit third and fourth-tier suppliers, the primary occupants of smaller, light industrial buildings. Ohio's industrial market will capitalize on natural gas drilling in the Marcellus Shale region while oil companies are exploring the potential of natural gas reserves in the Utica Shale, which runs further west into the state. This region alone could support over 200,000 jobs. The Chicago market is recovering at a faster pace than it did after the 2001 recession. Large tenants will continue to drive the market, allowing landlords to further tighten concessions and increase rents. The ongoing recoveries in Minneapolis and Madison will chip away at already low vacancy rates, but no acceleration in demand is expected. In the Elkhart-Goshen market, recent investment announcements by the RV industry could stimulate a local recovery.

New deliveries will be mostly limited to build-to-suit activity. Chicago is the best candidate for speculative new development as its supply of large, vacant blocks shrinks throughout 2012.

Northeast/Mid-Atlantic

The highest concentration of the U.S. population falls within this region. It is also home to the largest container port on the East Coast, the Port of New York/New Jersey. Drivers of demand range from the energy sector in Pittsburgh to technology companies in Boston to logistics operations in Central Pennsylvania. As a result, the market is a collection of individual performers that range in vacancy from sub-6 percent in Long Island to nearly 14 percent in Boston. In the aggregate, the region's vacancy lags the nation by about 100 basis points. The Momentum Index score of 95 is slightly below the U.S. average.

Market recovery was widespread across the region in 2011 with the majority of activity registered by large, functional logistics buildings in Central New Jersey and the I-81/78 Corridor. Pittsburgh, where recovery strengthened during the second half of the year, saw rising demand from energy companies, pushing vacancies to single digits. Tenants in New Hampshire, which has the second highest vacancy in the region, have absorbed much of the functional space, creating an imbalance between the available base and modern space needs. The Washington/Baltimore market saw big-box activity in its I-81 Corridor, but Baltimore submarkets continued to languish with high concessions and declining rents. The Port of Philadelphia has been growing, especially in the food import segment, benefiting the local industrial market.

Demand will solidify in 2012. More markets will see a shortage in the supply of large, modern logistics buildings. Food manufacturers and distributors in New Jersey will have a healthy appetite for industrial product as they respond to changing consumer tastes. In spite of strong demand, rent growth in Central Pennsylvania will be limited by vacancies across the Delaware River and below the Mason-Dixon Line, which will aggressively compete for tenants. However, lease terms will lengthen as the tendency toward short-term renewals fades in the face of a more stable economy. The Philadelphia market will see a slight uptick in activity, but occupancy gains will be insufficient to generate upward pressure on rents. While Baltimore will likely reach bottom in 2012, the distribution portion of the market will continue to see increased activity. Growth in Boston will be driven by tenants involved in energy, technology and consumer staples while tenants relying on government contracts will be affected by spending cuts. On balance, the Boston market will make little progress in vacancy and rents.

New supply will see a strong rise in the region. Markets where speculative construction is in progress or on the horizon include New Jersey, Central Pennsylvania, the Southern I-81 Corridor and Pittsburgh. Redevelopment activity will increase in New Hampshire.

Southeast

Containerized cargo is a major driver of industrial demand, and this region encompasses five major U.S. seaports: Norfolk, Charleston, Savannah, Jacksonville and Miami. It also enjoys increased traffic from intermodal and air cargo drivers in Memphis and a large, growing population base in Atlanta, which accounts for a third of the regional base of 1.9 billion square feet. The Momentum Index score of 95 is slightly below the U.S. average of 100.

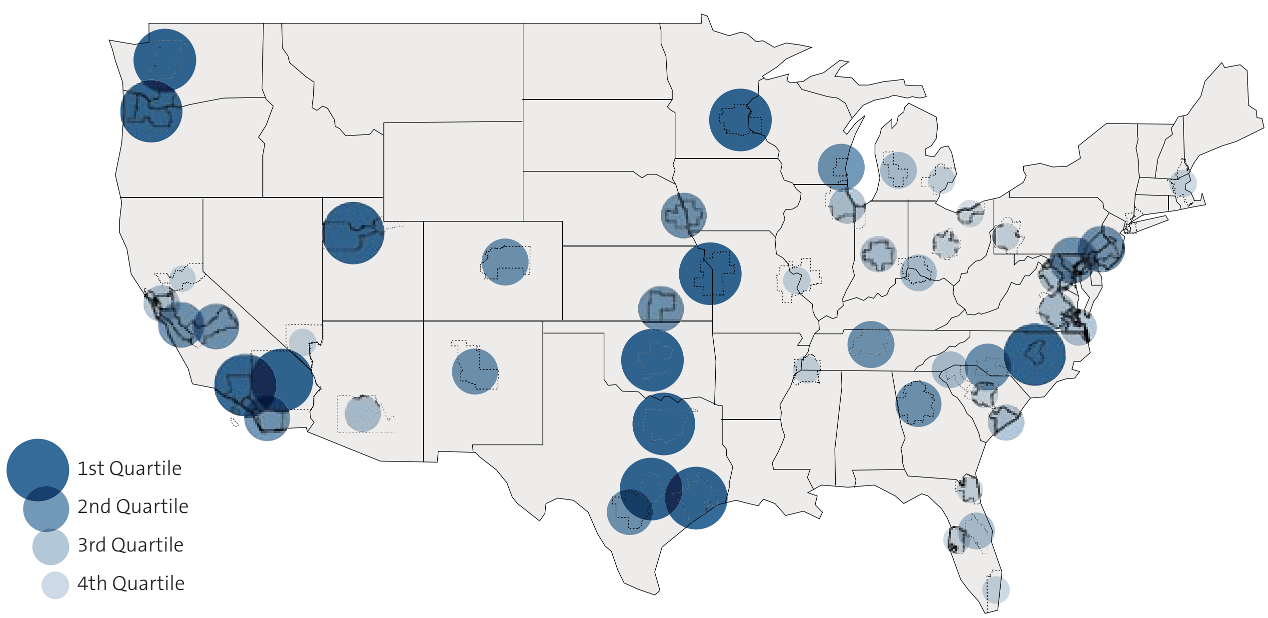
The Atlanta market has been working through the 85 million square feet that was left vacant following the recession. Activity picked up in 2011, but local vacancy stands about 300 basis points above the national average. Miami continues to be the best-performing market in South Florida due to the port and its strong ties to Latin America. The market is also the most constrained, limiting new deliveries. The Central Florida market saw vacancy double during the recession. The local recovery strengthened last year, but with vacancies nearly 150 basis points above the nation's, tenants have choices and landlords remain motivated. The North and South Carolina markets have been slow to recover. The bottom was reached in the middle of 2011 with 3PLs, pharmaceutical companies, medical device manufacturers and automobile parts manufacturers driving demand in Raleigh-Durham, and large warehouse users and distributors driving demand in Myrtle Beach and Columbia. The market in Mobile suffered through the recession and Hurricane Katrina. Demand was positive in 2011 for the first time since 2007.

Downsizing has slowed in Atlanta's industrial sector and growth will accelerate in 2012. Companies will start to secure long-term leases instead of asking for one-year renewals. The entertainment industry has become a new tenant in the market. While demand in Broward County will stagnate, vacancies will continue to decline in Palm Beach County. Miami will remain the strongest performer in South Florida, seeing its rents rise. Central Florida also will not perform in unison. While Orlando is on a firm path and landlords will start to push rents by the end of the year, the Tampa market will remain mostly flat throughout 2012. Central Florida could tighten quickly if large national retailers like hhgregg and Big Lots take advantage of the population base, location and depressed rents. The Columbia market will benefit from its access to the port, highway infrastructure and Boeing. Both manufacturers and distributors will be active, leading to build-to-suit developments. Depressed rents in Myrtle Beach will attract new leasing activity, but much square footage still needs to be absorbed, especially smaller spaces, before rents can start rising. Rents for Class A warehouse space in Raleigh-Durham will start to increase, while activity in Mobile will remain flat.

This region will not see the same level of speculative new construction as other parts of the country. Miami is the best candidate for speculative development, while Atlanta will see the most build-to-suits.

Industrial Market Momentum

Based on 2011 Performance and Anticipated 2012 Performance



This map shows leasing market momentum with metropolitan areas displayed by quartile. Variables used to develop the rankings include employment growth over the last 12 months, 2011 change in vacancy and rent, 2011 absorption as a percent of occupied space, construction activity as a percent of total inventory, barriers to entry and distressed assets.

Retail

Momentum will not build significantly until 2013.

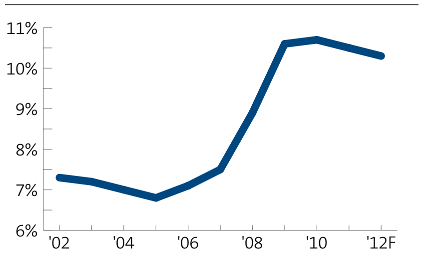
Look no further than the struggling housing market and weak job growth to explain why the recovery in the retail property market lagged other property sectors in 2011. Demand from mid-size tenants was limited while the majority of transactions were smaller deals. Neighborhood and community center vacancy rates were stable but not falling, while vacancies in regional malls inched up slightly. Power centers did relatively better, with a slight decline from the highest vacancy levels seen in the second quarter of 2010. Vacancy rates at U.S. malls hit record highs as some retailers reduced square footage or abandoned their expansion plans, according to recent data by Reis, Inc.

The recession reduced household buying power and, although the recovery is 2½ years old, consumers remained cautious. Home prices weakened further through much of 2011 while job creation, averaging about 125,000 per month, was below the level needed to bring down the unemployment rate. Even so, consumer spending held up surprisingly well despite confidence surveys indicating that consumers were severely depressed. Spending accelerated late in the year, prompting the National Retail Federation to raise its holiday sales forecast from an increase of 2.8 percent to a 3.8 percent gain – still well short of the 5.2 percent surge seen in 2010 that reversed the recession-induced plunge in 2009. At least some of that late-year acceleration in sales could have resulted from the fiercely competitive holiday season in which many retailers, including Kohl's, Target and Macy's, opened at midnight on Black Friday for the first time, and Walmart, Kmart, Marshalls and Sears reintroduced layaway programs.

While retail sales have posted some heartening trends over the last few months, this has yet to translate to appreciably greater demand for retail space from tenants. The pace of recovery lags prior recovery cycles, particularly those that followed a deep recession. Developers have added little new speculative construction in the last two to three years, which will funnel demand to existing centers, helping to fill empty space.

On the supply side, inventory growth advanced at a relatively steady average of 1.6 percent per year from 2000 to 2008, driven by the housing boom. Rising retail vacancies and loosening rent demands from landlords at struggling shopping centers are creating opportunities for non-traditional tenants to move into higher-visibility retail space. Such tenants include indoor go-cart tracks, trampoline facilities, nail salons, Ticketmaster branches, day care centers and cooking schools. The rise of "non-retail" retail tenants comes as traditional stores yield ground in U.S. shopping centers due to constrained consumer spending and retail overbuilding. Non-retail and non-restaurant businesses make up approximately 17 percent of leasable regional mall space, but that number could reach 25 percent within a decade according to the International Council of Shopping Centers.

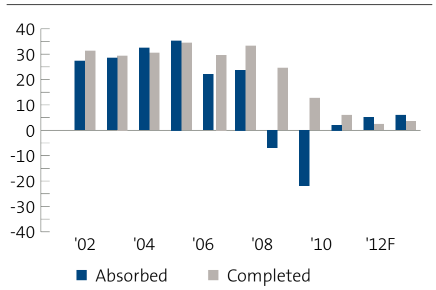
U.S. Retail Vacancy Rate*
Year-End



* Neighborhood and community centers

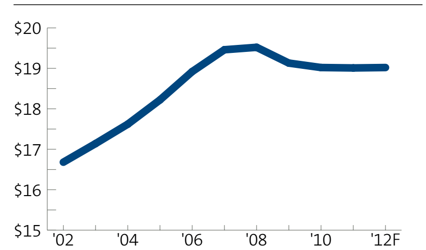
Source: Grubb & Ellis

U.S. Retail Completions vs. Absorption
Year-End (in MSF)



Source: Grubb & Ellis

U.S. Retail Asking Rental Rates*
Year-End ($/SF/Yr. Triple Net)



* Neighborhood and community centers

Source: Grubb & Ellis

The proliferation of online shopping sites also has turned up the pressure on traditional retailers. Online retail market share is now nearly 10 percent according to the Urban Land Institute's *Emerging Trends in Real Estate 2012* report. eBay and Amazon, the top two online retailers, have cut steeply into certain product types, especially books, electronics and toys. Retailers are adapting in surprising ways to the new competition. Some big-box stores, including Walmart and Target, are shrinking floor plans to fit urban locations. At the same time, big-box stores, drugstores and dollar stores are adding more grocery products to entice shoppers. Emphasizing foods that people buy frequently can increase visits and foot traffic. Some retailers, such as Macy's, are pursuing consumers through multiple channels, including large, visible flagship stores in key markets to build their brands, smaller stores in secondary markets and online sales.

Retailers have become much more nimble and flexible since the beginning of the recession, streamlining inventory and reconfiguring their supply chains as well as utilizing online and mobile promotions to attract savvy consumers. Top retailers have strong balance sheets and appropriate inventory levels leading to steady, consistent growth. The performance of franchises and smaller mom-and-pop stores has been less consistent, and they need to insure that occupancy costs are in line with sales.

According to the ICSC, in 2011 the retail real estate industry experienced fewer store closing announcements than during the same period in 2010. Although most retailers have already closed their worst performing stores, made operations as lean as possible and restructured many of their leases over the past few years, the ongoing economic uncertainty could lead to a substantial number of store closures in the first quarter of 2012. In the fourth quarter of 2011, discount retailers Syms and Filene's Basement filed for bankruptcy, planning to liquidate after the holiday season. Conditions in the sector remain challenging and will be so until consumers see significant job growth and feel more secure in their future. By conservative estimates, next year could bring more than 5,000 store closings.

On the investment side, retail remains a bifurcated market: deals are primarily being done in larger, primary markets, while there is less capital for deals in tertiary markets. Volatility in the debt and equity markets will continue for at least the first half of the year due to a choppy domestic economy and turmoil in global financial markets. The capital supply remains healthy for best-in-class, grocery-anchored retail centers in major MSAs. The flight to quality will continue with transaction volume greatly reduced from 2007 levels.

Despite lingering fears about a double-dip recession, falling unemployment figures and rising retail sales suggest that another recession is unlikely this year. While recovery will remain steady throughout 2012, momentum won't really build until 2013. Consumers must regain confidence for a full recovery to take place.

Northern California/ Pacific Northwest

The region's Momentum Index score is 117 (U.S.=100), trailing only Southern California. San Francisco is one of the hottest markets in the region with vacancies below 4 percent and rents in Union Square climbing past $60 per square foot. Retail activity in the Sacramento market is faring better than the last several years due primarily to rent adjustments by landlords. Vacancies are being absorbed but not without creatively structured leases and alternative, non-traditional uses helping to fill space.

The region is seeing an influx of new retailers and expanded urban locations. Big chain retailers, including Target, Fresh & Easy Neighborhood Market and CVS/Pharmacy, are expanding into San Francisco. Family Dollar and General Dollar are new competitors entering Fresno for the cost-conscious consumer. While Portland traditionally has been a tough market for big-box and national retailers, there has been a subtle shift in the local environment, leading to Walmart's aggressive expansion plans for 17 new stores in the metro area and Target's urban concept store downtown. In Seattle, filling vacant big-box spaces was challenging last year, but the coming year will bring more store openings.

The tech boom will drive demand in Silicon Valley. Retailers in the tech-oriented cities of Palo Alto, Mountain View and Cupertino have pushed average asking rents to $35 per square foot and beyond. Steady market activity continued on the Peninsula, bolstered by the improving economy in neighboring Silicon Valley. Conditions are

Retail

continued

less sanguine in the East Bay, where the retail recovery has been uneven. Prime properties in Fresno have been able to replace departing tenants quickly; the momentum has been strongest in North Fresno and North Clovis where discretionary income has held up better.

To the north, Portland's food cart and pop-up scenes remain vibrant. While the restaurant industry in Portland is a national standout, turnover has been an issue. Seattle's expanding population will generate more opportunities for retailers in 2012.

Southern California

This region scores 128 on the Momentum Index, the highest of any region. The market is ripe with opportunity where defunct tenants have vacated large spaces in good locations. Near the close of 2011, for instance, Hobby Lobby signed two leases totaling 151,200 square feet in Rancho Cucamonga and Temecula, both in former Mervyns stores.

Grocers also have been watching for opportunities. In the Inland Empire, Food 4 Less moved into 50,000 square feet in Rancho Cucamonga, and Cardenas Markets plans to occupy a former Ralphs store in Ontario. Big chains like Albertsons, Ralphs and Vons are not only competing with Target, Walmart and discounter WinCo Foods, but also with ethnic grocers, smaller value-formats such as Fresh & Easy, and dollar stores such as Dollar Tree, Family Dollar, Dollar General and 99¢ Only. Discount stores will continue to be Orange County's strongest performers, and they will aggressively vie for more vacant anchor spaces in San Diego as well.

Certain categories, including gyms and restaurants, have been expanding in the region, with 24 Hour Fitness and LA Fitness moving into new locations in Los Angeles and Orange County. Restaurants will remain active with many new eateries sprouting throughout Los Angeles. In San Diego, the ongoing $1-billion renovation of Westfield UTC will add a new dining terrace to the mall and make way for an ArcLight Cinemas and a 24 Hour Fitness Super Sport Club.

Overall, the Los Angeles retail market held steady near a 5 percent vacancy rate in 2011. In 2012, vacancy and rents will show modest improvement as economic conditions improve. Construction, including both renovations and new construction, will continue at a similar pace.

The Orange County retail market was not hit as hard as neighboring Los Angeles County and the Inland Empire. Rents have firmed up, but filling empty space remains challenging as only a few retailers are expanding. Stores will continue to close or downsize in 2012, creating opportunities for expansion-minded retailers. For example, Best Buy is decreasing store sizes, and Gap and Borders are closing stores, while banks such as Chase are looking to expand into the area.

San Diego witnessed positive net absorption in 2011, led by the North County. In 2012, the region's unemployment rate is expected to decline further, which will boost consumer spending and encourage expansion by established national tenants.

Throughout the region, the recession-induced panic to do deals has subsided and landlords are becoming more selective. Unless there is a sharp upturn in consumer spending, deal volume in 2012 will remain consistent with 2011.

Mountain/Southwest

The region earned a Momentum Index score of 85, the lowest in the U.S. This is related to the housing bust, which was particularly severe in Phoenix and Las Vegas, two of the region's key markets. Retail leasing and sales activity in the region proceeded at a moderate pace in 2011. The flight-to-quality trend will remain the theme in 2012 as tenants seek to add or improve locations.

In some areas, new speculative retail centers are expected to surge. In Albuquerque, a new 100,000-square-foot power center is planned for South Valley and another 100,000 square feet of speculative space will be delivered in Far Northeast Heights. Construction is scheduled for summer 2012 on The South Academy Center in Colorado Springs, a 350,000-square-foot Walmart/Sam's-anchored center. With no other large projects planned, Colorado Springs' vacancy rate is expected to remain flat at around 11 percent. Conversely, retail development in hard-hit Phoenix is sparse, although centers in higher-income locations are booming. Properties in well-established infill locations are the new hot spots in Phoenix. In Reno, with vacancy of 17.1 percent and difficult financing conditions, new development will be negligible in 2012. Retailers are closing their doors at a slower pace, and the increase in vacancy is being mostly offset with new store openings. Reno will see the market bottoming by mid-2012, then starting to trend slightly upward.

Denver was spared the worst of the downturn. Large malls including Park Meadows and Cherry Creek are not experiencing the large vacancies seen in other markets. Households are dining out more, supporting the restaurant segment.

Despite sluggish job growth, Albuquerque's retail market is poised for a banner year in 2012, led by tenant demand for space in newer, anchored centers. In Las Vegas, mom-and-pop retailers comprise a big segment of the market, and landlords continue to compete for them.

The region's retail market is expected to recover slowly through 2012, but velocity will not be strong enough to push lease rates higher.

Texas/Great Plains

The region's retail leasing market held up well during 2011, earning a Momentum Index score of 98. Oversupply will take a while to be absorbed, but recently vacated big-box stores are being filled at a steady pace.

The restaurant market has been very active with second-generation restaurant space hard to find. Mandola's Italian Market, P. Terry's Burger Stand and Torchy's Tacos expanded in Austin last year. The proliferation of quick-service and casual restaurant chains in Dallas-Fort Worth will intensify through 2012. Fast-food and casual restaurants remain active in Oklahoma City and San Antonio, where Cheddar's Casual Café, Logan's Roadhouse, Saltgrass Steak House and LongHorn Steakhouse added new sites.

New construction in the region will focus on grocery-anchored centers. In Austin, projects that have broken ground include The Trails at 620, featuring a luxury movie theater, and a Jamail's Fresh Market grocery-anchored center. Whole Foods is set to open two new Austin locations in 2012 and also recently opened in Oklahoma City. Dominant local grocer H-E-B continues to expand in Austin with three new stores and an additional store slated for completion in 2012 in San Antonio. Strong Hispanic population growth in North Texas will spur development and expansion of retailers that cater to the underserved Hispanic demographic. Development is ongoing at Little Rock's Park Avenue Shopping Center, anchored by Target, with Staples and Cheddar's Casual Café slated for 2012. Tulsa's high-end suburban retail market saw significant development in 2011, including Tulsa Hills, Whole Foods and Village on the Main. In San Antonio, Terrell Plaza, a 228,000-square-foot retail redevelopment anchored by a new 138,000-square-foot Target and 90,000 square feet of additional space, is also set to deliver in 2012.

In Houston, retailers are considerably more interested in expanding than they have been for years. Look for the market to approach equilibrium over the next 12 to 18 months.

Tenants are seeing new retail options in Oklahoma City's CBD and other areas of the city including Classen Curve in the north and the Outlet Shoppes at Oklahoma City to the west. Lifestyle centers in western submarkets of Little Rock have the highest vacancies in the market, but they are forecast to improve through 2012. Conversely, lifestyle centers remain the strongest center type in Wichita with vacancy rates below 5 percent and some of the highest rents in the market.

Great Lakes/Ohio Valley

The region's retail sector is showing signs of improvement, but with a Momentum Index score of 87, it trails the national average of 100.

In 2012, landlords will continue to face vacancy challenges. Non-traditional tenants, including a trampoline facility, laser tag and other forms of recreation in Cleveland and ice rinks and amusement centers in Cincinnati, are being considered as a way to fill empty spaces. Despite these ideas, older shopping centers are struggling. In Cincinnati, 90,000 square feet at Glenway Plaza was converted to self storage while Northgate Mall is in foreclosure. Minneapolis-St. Paul remains a tenants' market, but most landlords managed to ride out the rough patch that was 2011.

Throughout the region, restaurants and discount stores such as Marshalls, Family Dollar, Sav-A-Lot and Dollar General continue to outperform other categories.

Restaurant groups provide the greatest opportunity for tenant expansion in Minneapolis-St. Paul as many rely on investor capital instead of traditional lending to fund growth. Cincinnati witnessed a number of new restaurants in 2011, including Toby Keith's I Love This Bar & Grill, Johnny Rockets, Huey's 24/7 Diner, La Crepe Nanou, The Wine Loft and Ruth's Chris Steak House. Holy Grail Tavern & Grille was the first to open at The Banks, a 3-million-square-foot, mixed-use project along the Ohio River.

While expanding retailers such as hhgregg electronics and Ross Dress for Less have been adding new stores across Illinois, Hollywood Video, Blockbuster,

Retail

continued

Borders and Lowe's locations went dark, pushing vacancy higher. Chicago-area retailer expansions to watch in 2012 include Subway, Dollar General, Five Guys, Quiznos and CVS/Pharmacy stores.

Downtown revitalization is creating new opportunities for retailers in Ohio. Cleveland's CBD is undergoing over $1.5 billion in new development, including a casino attached to Tower City Center, and is attracting national retailers that withdrew from the city center in the last two decades. This may spur additional redevelopment for parking, hotel, retail and housing. Restoration projects in downtown Cincinnati have bumped up retailer demand by a small percentage.

Conditions in Columbus and Detroit continue to point toward a slow recovery, and while Chicago has been gradually picking up over the past year, activity remains marginally below pre-recession levels. Rental rates will be mostly unchanged in the year ahead. Light construction activity and favorable lease terms in the Cincinnati suburbs will divert modest tenant demand to backfill existing vacancies.

Activity was sluggish in the Twin Cities with a few pockets of activity and no new retail development in 2011. Landlords that are struggling may consider re-positioning their assets toward other uses such as medical office or non-profit.

Northeast/Mid-Atlantic

The region's Momentum Index score of 110 reflected signs of recovery and increased confidence in the retail leasing market in 2011. But the year ended with more second-generation, big-box vacancies, especially in the Washington/Baltimore metro area.

Despite challenging economic conditions, New Jersey's strong demographics will keep the state on the radar screen for expanding retailers. Months of pent-up demand led to feverish activity in Manhattan last year, and the market should continue to strengthen over the next 12 to 18 months. Chain retailers not already in Manhattan will look to enter the market, while demand from established retailers seeking to expand will remain high. Big-box and value retailers such as Target, Walmart and BJ's Wholesale continued to grow in Boston. In Philadelphia, 2011 marked a year of modest demand growth and limited construction, translating into stable rental rates. Construction will remain muted, pushing vacancies lower over the next 12 months. Pittsburgh continued to pique the interest of retailers in 2011, particularly grocers. New names to the market included The Fresh Market and Bottom Dollar Food, while existing brands such as Trader Joe's, Whole Foods, Aldi and Giant Eagle expanded. The CBD remained a focal point during the year, particularly Market Square, as a long list of new restaurants opened or announced openings.

Over 1.5 million square feet of retail development is planned in Boston's Seaport District through 2015, and 400,000 square feet of retail space in Quincy is slated to break ground in 2012. Pittsburgh's urban East End will remain a favorite of developers and retailers in 2012, with multiple projects in the pipeline.

Superfresh parent A&P declared bankruptcy and departed Washington, D.C. Most stores reopened as Fresh and Green's, ShopRite and SHOPPERS, but some former Superfresh stores remain vacant. Walmart announced plans to open four stores in the District of Columbia, all of which will be located in currently underserved areas.

While vacancies will decline in 2012, the pace of recovery should prove too slow to provide any upward pressure on rents.

Southeast

The Momentum Index score of 95 reflects continued weakness in the housing market through much of the region, particularly Florida and Atlanta.

Although there are positive indicators in Florida's Broward County, tenants there continue to enjoy abundant space opportunities. The majority of leasing activity is coming from smaller tenants looking for less than 5,000 square feet, but it will take some time for these spaces to get absorbed. Mid-sized and larger tenants will have a stronger hand at the deal table.

The key trends for 2012 in Atlanta's retail market are low cost of entry, expanding specialty stores, retailers catering to major events and online retailing.

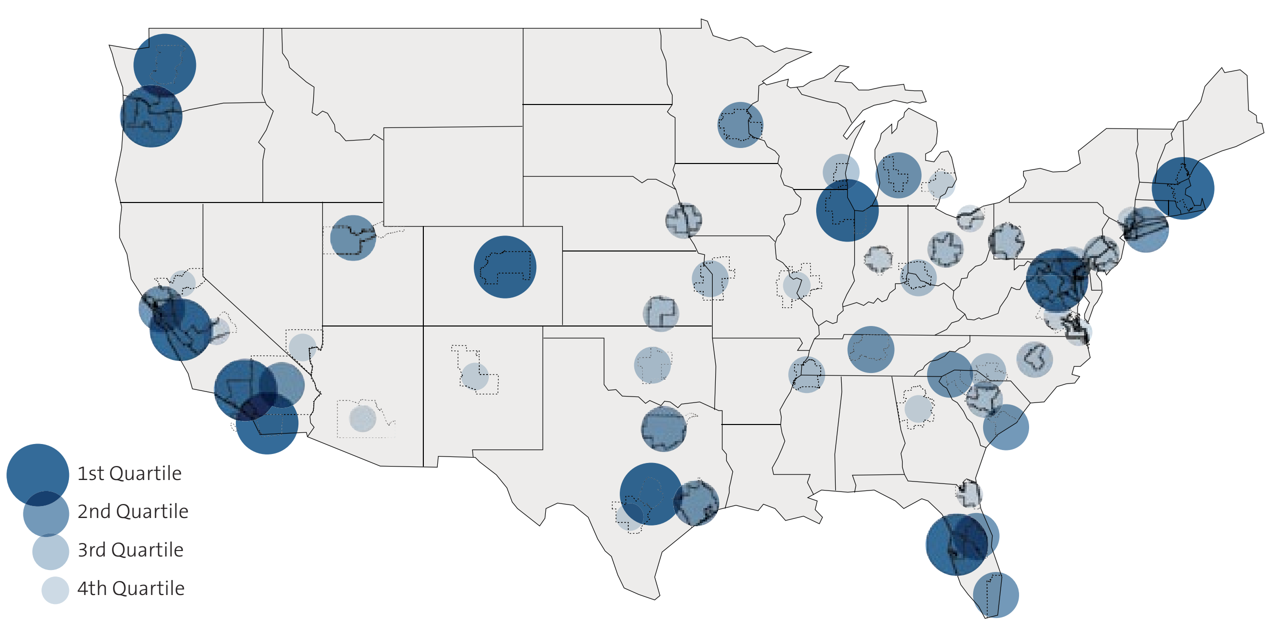
Retail developers have been disciplined throughout the region. Four build-to-suit retail facilities totaling 140,000 square feet are the only projects slated for delivery next year in Broward County. Columbia has witnessed some retail redevelopment projects in the past six months. In Jacksonville, a pocket of discount, do-it-yourself and fast-food retailers have prospered through the lean times and have spearheaded most new development in the market. There were a handful of construction completions in Raleigh-Durham last year, but nothing is on the books for 2012 other than a few small infill projects. The exception to the rule is Miami where plans are being put into place for several high-end retail developments downtown.

High-end luxury stores with a national presence will continue to dominate, particularly in Atlanta and Palm Beach, along with discount chains providing affordable consumer goods throughout the region. Stores like Ross Dress for Less, Dollar Tree and Walmart continue to expand in Tampa-St. Petersburg, while Aldi has begun to open stores across Florida.

Many retailers who will be new to the market are seeking opportunities in Myrtle Beach. Retailers are playing it safe when it comes to expansion in Columbia. Specialty food stores such as yogurt, sandwich shops and gourmet burger restaurants will take more space within the Atlanta city limits. In Orlando, some big-box retailers are expected to reduce their footprints while other retailers that have had expansion plans on hold appear to be testing the waters for new locations. New tenants will continue to enter the Raleigh-Durham market in 2012, and owners of the region's newest and best-located centers will be able to hold the line on rental rates as the recent flight to quality leaves the most desirable spaces in short supply. Second-generation restaurant space will remain in high demand as tenants seek to save money via infrastructure and equipment already in place.

The momentum evident at the end of 2011 is expected to carry over into 2012, translating into stronger leasing activity.

Retail Market Momentum
Based on 2011 Performance and Anticipated 2012 Performance



This map shows leasing market momentum with metropolitan areas displayed by quartile. Variables used to develop the rankings include employment growth over the last 12 months, 2011 change in vacancy and rent, 2011 absorption as a percent of occupied space, construction activity as a percent of total inventory, barriers to entry and distressed assets.

Investment

GRUBB & ELLIS
From Insight to Results

Expect sales to rise 25 percent in 2012, generating lower cap rates for non-distressed assets.

Commercial real estate sales rose sharply in 2011, increasing 75 percent on the heels of a 128-percent gain in 2010. The sharp increase disguised an easing of year-over-year gains beginning in August, the month when the debt ceiling debate came to a head and Standard & Poor's downgraded its rating on U.S. government debt.

Some large portfolio deals juiced sales in 2011 led by private equity firm Blackstone, which paid $9.15 billion for a 596-property retail portfolio sold by Australia's Centro Properties Group. Blackstone was the largest buyer in 2011 with the second through fourth positions occupied by healthcare REITs, a sign of strong investor appetite for this property type. Equity funds along with public REITs were net buyers in 2011 while institutional, cross-border and smaller private investors were net sellers.

Despite elevated levels of distress, debt capital was plentiful last year. Many banks loosened standards for commercial real estate loans, and CMBS issuance totaled $30 billion through November, more than triple the same period in 2010, though financial market uncertainty hampered deals toward year-end. Insurance companies and GSEs such as Fannie Mae and Freddie Mac also were active.

Capitalization rates in 2011 declined for most property types with the exception of hotels, which saw more distressed properties in the sales mix. Tightening cap rates reflected strong demand for core properties in primary markets.

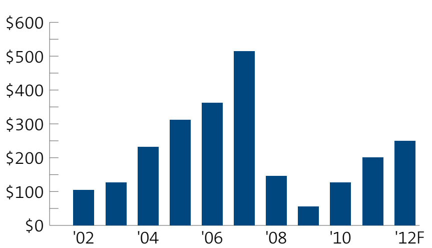
The wild card in 2012 will be the unresolved European debt crisis, which has the potential to send lenders and investors to the sidelines. If they stay in the game, expect commercial real estate sales to rise 25 percent in 2012, generating marginally lower cap rates for non-distressed assets.

Grubb & Ellis' annual Investment Opportunity Monitor, which identifies metropolitan markets with potential for investors over the next five years, tracks 16 to 20 variables divided into three categories — demographics, economics and real estate fundamentals. The variables are assigned weights based on their relative importance. The table on the next page lists the top 10 markets in the four largest property sectors.

For office investors, technology and/or biotech hubs are expected to offer the strongest opportunities. The top six markets on the list — San Francisco, Seattle, Austin, Texas, San Jose, San Diego and Orange County, Calif. — fit this profile as does No. 10 Boston. Also making the list were No. 7 Portland, Ore., and No. 8 Los Angeles. New York, last year's top-rated market, moved to the ninth slot due to the weak financial sector. Washington, D.C., last year's runner-up, didn't make the list this year, restrained by its strong construction pipeline and the uncertain outlook for federal spending.

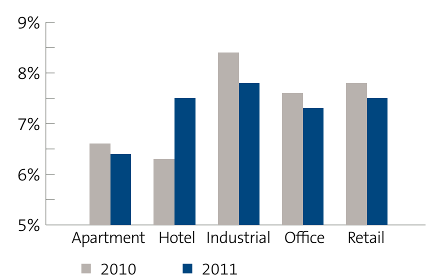
Although opportunities exist in local and regional industrial markets, the strongest prospects are in markets serving seaports or inland ports as these will benefit from growing international trade. The top nine markets fit this profile: Los Angeles, Houston, California's Inland Empire, Dallas-Fort Worth, Chicago, Miami, Oakland-East Bay, Calif., Atlanta and Philadelphia-Central Pennsylvania. Phoenix crept into the 10th position by virtue of its growing attraction for distributors serving Southern California.

U.S. Commercial Property Sales Volume
Year-End (in Billions)



Sources: Real Capital Analytics, Grubb & Ellis

Average Capitalization Rates
Closed Sales



Sources: Real Capital Analytics, Grubb & Ellis

Many of the characteristics contributing to a strong retail market also make for a good apartment market, which explains why seven markets appear on both lists: Los Angeles, Washington, D.C., Boston, San Diego, Portland, Ore., San Francisco and San Jose, Calif. Houston and Austin, Texas, which made the retail list, missed the apartment list by virtue of their reasonable home prices. Conversely, New York and Califonia's Oakland-East Bay and Orange County, which have higher home prices, made the apartment list but not retail.

In addition to the Opportunity Monitor, Grubb & Ellis calculated a Momentum Index for the investment market, which compares the dollar volume of sales in 2011 to the previous five-year total and adjusts that ratio for the size of each market. The results are discussed in each regional review and can be seen in the map on page 27.

Northern California/ Pacific Northwest

Home to some of the nation's hottest commercial real estate investment markets in 2011, this region scored 133 on the Momentum Index compared with the U.S. benchmark of 100. Only Southern California scored higher.

San Francisco investors, encouraged by robust leasing demand from technology tenants, paid up for well-located Class B office buildings regardless of their occupancy and condition. Strong demand from tech and healthcare tenants will motivate buyers in 2012. Look for the gap between buyers and sellers to narrow with buyers making up most of the difference. More owners will market their properties for sale. Expect an upswing in hotel sales.

In the East Bay, REITs and institutional buyers sought product at 30 to 50 percent of replacement cost while smaller private investors searched for assets with national tenancy. Expect a slow churn of troubled assets back to market via note and REO sales. Value-add properties will attract multiple bidders. Investors will seek stable retail and medical office assets in desirable locations at cap rates below 7 percent.

On the San Francisco Peninsula, 2011 got off to a fast start when RREEF bought the former Sun Microsystems campus to lease to Facebook, but momentum tapered off. The market is poised for an active 2012, fueled by tech-tenant interest. Office and R&D properties with substantial blocks of available space or large rollovers are buy candidates. Industrial owner-user sales will gain momentum, but retail property sales will be slow courtesy of the reluctant consumer.

Institutional buyers were well-represented in San Jose-Silicon Valley, contributing 40 percent of all activity. Owner-users also stepped up last year; Google, Apple and others made bold moves to secure

Market Strength Forecast 2011-2016*

Rank	Office	Industrial	Retail	Apartment
1	San Francisco	Los Angeles	Los Angeles	San Jose-Silicon Valley, CA
2	Seattle	Houston	Washington, D.C.	New York City
3	Austin, TX	Inland Empire, CA	Boston	Boston
4	San Jose-Silicon Valley, CA	Dallas-Fort Worth	San Diego	San Francisco
5	San Diego	Chicago	Seattle	Orange County, CA
6	Orange County, CA	Miami	Portland, OR	Los Angeles
7	Portland, OR	Oakland-East Bay, CA	San Francisco	San Diego
8	Los Angeles	Atlanta	Houston	Oakland-East Bay, CA
9	New York City	Philadelphia/Central, PA	San Jose-Silicon Valley, CA	Portland, OR
10	Boston	Phoenix	Austin, TX	Washington, D.C.

*Markets were ranked from 0 to 100 against 16-20 property, economic and demographic variables.

Source: Grubb & Ellis

space for future growth. Expect values to move slightly higher in 2012 with cap rates staying in the 6 to 7 percent range. Distressed assets will remain sparse.

Activity surged last year in Sacramento, fueled by distressed asset sales, pent-up investor demand and improved capital markets. Vulture buyers will lead the market in 2012, and core investors will be on the hunt.

Portland saw strong demand from institutional investors last year, driving down cap rates. Cap rate compression has ended, however, and buyers this year will focus more on leasing fundamentals. Product most in demand will include apartments and CBD office. Broken condo deals and REO properties will present risk-taking buyers with opportunities for upside in the multi housing space.

Seattle will remain a top pick for investors in 2012. Leasing conditions have improved to the point where builders are dusting off development plans and lenders are getting on board. Competition for trophy assets should further compress cap rates in the year ahead.

Southern California

Investor demand for apartments was on fire in 2011, pushing the Momentum Index to 156, the highest of any region.

In Los Angeles, institutions boosted acquisitions in 2011 while REITs pulled back to digest earlier buys. In 2012, multi housing will lead the market once again. Hospitality and retail sales, lifted by distressed offerings in 2011, will decelerate in 2012 as fewer distressed assets come to market. Industrial product, with the lowest vacancy rate in the U.S., will attract buyers. Office will lag as distress works through the market slowly. Buyer and seller expectations will match up better in the year ahead. Look for risk appetite to return in a big way.

Orange County investors were in a frenzy to buy in the first half of 2011, but lenders tightened criteria and activity slowed in the second half after the debt ceiling debate. All-cash buyers were active, chasing Class A stabilized assets. In 2012, look for activity to remain subdued unless banks loosen underwriting standards. Cap rates will be unchanged for Class A properties but could increase 100 basis points for Class B and C assets as more of those come to market.

The slow trickle of distressed assets to the Inland Empire market limited sales in 2011. REITs and a small pool of regional developers were hungry for Class A distribution centers. In 2012, look for troubled assets to drip into (rather than flood) the market. Investor demand will extend to Class B distribution centers. With distress more common among office and retail assets, expect note sales to increase for those property types.

San Diego also escaped a flood of distressed assets last year as lenders followed the "extend and pretend" strategy. REITs were active buyers in 2011 while private investors were subdued. Apartments will remain hot in 2012. Expect a wider array of financing sources. Distressed assets will return to the market slowly, continuing to thwart opportunistic investors.

Mountain/Southwest

The Mountain/Southwest region scored 109 on the Momentum Index, above the U.S. benchmark of 100. This suggests that buyers are beginning to look beyond the region's current woes (related to housing in Phoenix and Las Vegas, two of the region's key markets) to the potential for stronger economic growth in the years ahead.

Denver's market was solid in 2011 with CBD trophy assets setting new pricing levels; 1800 Larimer traded for $213 million or $430 per square foot, and 1515 Wynkoop traded for $118 million or $385 per square foot. The apartment market was on fire with sub-5 percent vacancy generating strong buyer interest. Look for more distressed sales in 2012 as CMBS servicers work through their backlogs. Class B stabilized properties will add to the velocity as yield-motivated buyers look beyond Class A.

In Phoenix, buyers sought well-priced, fully leased, stabilized properties. Class A and B multi housing assets traded at or above asking prices while other property sectors traded at or below them. Industrial build-to-suit projects for national credit tenants created sale-leaseback opportunities. With infill redevelopment projects gaining in popularity, look for well-located obsolete retail properties to bring higher prices. Banks will release more REO properties to the market in the second half of 2012.

In Las Vegas, the best opportunities for investors in 2012 will be under-performing, income-producing real estate where the landlord cannot maintain the property. The all-cash buyer will have many choices to purchase distressed assets, stabilize them, lease them at competitive rates and achieve capital appreciation.

Reno's investment market consisted mainly of user sales and bank foreclosures last year. No significant upward trend is expected in 2012. The industrial sector is attractive to e-commerce companies seeking tax advantages, opening up some investment opportunities.

Albuquerque property owners were unwilling to sell at depressed prices last year, and finding viable exchange options was an added complication. The exception was the apartment market where tenant and investor demand was strong. In 2012, expect more distressed assets to become available, attracting yield-hungry investors from other markets.

While other secondary markets were slow, Colorado Springs saw an influx of buyers last year. There was a high level of competition for trophy properties fostered by the availability of low-cost capital. REO and distressed properties received multiple offers. Expect the market to improve further in 2012 as more investors look to secondary markets.

Texas/Great Plains

The Texas/Great Plains region earned a score of 96 on the Momentum Index, slightly below the U.S. benchmark of 100. While investment volume was strong in the region's major markets, the relatively low sales prices in these wide-open spaces had a dampening effect on the overall volume of capital, which affected the score.

Investors like Austin for its soaring job growth, but volume last year fell short of expectations as owners held on to their properties, failing to capitalize on the buying frenzy. Investors once again are paying for vacancy, specifically for upside potential in office and multi housing properties. Core assets in the right location attracted multiple offers. Look for deal volume to pick up in 2012 as further cap rate compression lures more owners to test the market.

In 2011, Dallas-Fort Worth investors favored apartments, which will remain popular along with medical office in 2012. Investors also will seek core and value-add opportunities for office, industrial and retail. More industrial tenants are expected to take advantage of low interest rates and SBA loans to purchase buildings. All-cash and low-leverage buyers will be in a strong position to snap up the expected influx of distressed assets.

Sellers in Houston offered up prime assets in good locations in 2011, and there was no shortage of buyers to snap them up. Clarion Partners paid $510 million or $300 per square foot for the 1.7-million-square-foot Wells Fargo Plaza downtown. Expect stronger deal volume in 2012 as more debt capital becomes available and more distressed CMBS-financed properties come to market.

In San Antonio, a lack of quality product offered on the market hampered deal flow in 2011. With occupancies and rents improving, apartments offer strong potential for 2012. Office, industrial and retail properties, which are seeing slow but steady demand on the leasing side, also will appeal to investors in this steady-growth market.

Oklahoma City's growing economic base, expanding oil and gas industry, and strong private and public partnerships will lure out-of-state investors in 2012 and beyond. A lack of development and strong local ownership has resulted in limited opportunities for buyers. Most big sales in 2011 were off-market transactions. This trend will continue in 2012, placing upward pressure on rents and values.

Investors are showing strong interest in Wichita. The issue in 2012 will be a lack of available product. Value-added investment opportunities will be the norm, especially in the multi housing sector.

Great Lakes/Ohio Valley

With a Momentum Index score of just 66, the Midwest, which incorporates the Great Lakes and Ohio Valley regions, traditionally has featured neither the tight constraints on supply found in dense coastal cities nor the rapid growth prospects of Sun Belt markets. However, the rebound in manufacturing has rescued the Midwestern economy and attracted investors looking for stabilized assets offering secure income streams.

In Chicago, the weak dollar and comparatively better prospects in the U.S. than in Europe drew South Korean, Swiss and Hong Kong buyers for the first time since the recession. In 2012, there will be strong competition for both stabilized and distressed assets in the CBD. Suburban properties carrying more risk will attract scant interest. Distressed opportunities should increase as more loans roll over and many properties struggle to cover their operating costs.

Investment

continued

In the big three Ohio markets of Cleveland, Cincinnati and Columbus, national portfolio sales and repositioning accounted for a large share of activity in 2011. HPC's purchase of 338 healthcare and assisted living facilities from Carlyle, Blackstone's acquisition of 596 shopping centers from Centro, and Duke Realty Corp's strategy to pare down its exposure in Ohio all resulted in the transfer of numerous local properties.

Detroit endured an opaque market between 2008 and 2010 as lack of investment volume made cap rates indiscernible. Conditions have turned around. Most telling, institutional buyers, virtually nonexistent in 2008 and 2009, accounted for 50 percent of sales in 2011. Buyers sought retail, industrial and apartment properties while showing less interest in office. Look for sales volume to expand further in 2012, led by industrial and retail.

In Minneapolis-St. Paul, cap rates were aggressively low last year for multi housing and single-tenant national credit retail properties. There was less interest in other properties, but still it seemed that for every seller there was a willing buyer. Owners who were hesitant to sell for fear of not finding a suitable replacement property are now seeing enough activity to feel comfortable exploring a sale. Expect deal volume to climb further in 2012 as there is still a lot of cash to be invested.

Investors in Madison snapped up REOs and other opportunistic plays in 2011. As lenders released more property to the market, sellers became more realistic on pricing. Transaction volume rose in all sectors, led by multi housing. Expect the pricing gap between buyers and sellers to narrow slightly in 2012. Further opportunities from lenders and distressed sellers will entice well-capitalized investors to act.

Northeast/Mid-Atlantic

The Northeast/Mid-Atlantic region registered a score of 94 on the Momentum Index. Because this region contains some of the strongest property markets in the country, including New York, Boston and Washington, D.C., it could be that owners have been inclined to hold onto their properties, anticipating even stronger demand ahead. This would explain the slightly lower-than-average score.

Investors scoured Boston for "trophies and trash" — core and distressed assets. Apartments saw the most significant improvement in 2011. Sales in 2012 will increase as the gap narrows between buyers and sellers. Class A and B office properties with strong cash flows in the CBD and West 128 Corridor will attract buyers, as will well-located industrial. Local CMBS and distressed asset sales will increase as lenders deal with their backlog of problems.

Investors renewed their love affair with Manhattan in 2011. Prices increased and cap rates sank to levels seen at the 2007 peak. Expect demand to remain elevated in 2012, keeping cap rates low. A substantial amount of debt will roll over, and the funding will be there for owners to refinance. Interest in prime buildings will remain high, but the price per square foot could decrease slightly if the financial sector falters. The retail market will flourish with retail condominiums becoming a popular investment, and multi housing will remain popular.

In nearby Jersey City, Multi-Employer Property Trust acquired Newport Tower from Brookfield Office Properties for a Garden State record of $377.5 million or $356 per square foot. In 2012, Class A office assets with long-term leases to credit tenants will be highly prized. The anticipated completion of the Panama Canal expansion combined with the raising of the Bayonne Bridge will encourage buyers to pursue big-box warehouse product. Grocery-anchored retail centers also will be in play.

In Philadelphia and Pittsburgh, demand focused on Class A assets with credit tenants in prime submarkets. King of Prussia Mall was the year's biggest sale in Philadelphia, purchased by Simon Property Group from Lend Lease for $1.25 billion. Pittsburgh saw three iconic downtown office towers sell in 2011 — PPG Place, U.S. Steel Tower and 11 Stanwix Street. Expect investors to remain risk averse in 2012.

In Washington, D.C., many investors purchased existing office buildings that need capital infusions and new tenants — the classic value-add phase of the real estate cycle. Buyers from China, South Korea, Germany and Sweden were active. The region will continue to attract international investors in search of safety.

Southeast

The Southeast scored 83 on the Momentum Index. The sluggish economic recovery in Florida and Atlanta played a role, keeping prices low and discouraging activity in the vast mid-range of properties between core and distress.

Atlanta saw activity surge across all property sectors in 2011. Expect sales to ramp up again in 2012 as more properties are brought to market. Multi housing activity, strong for several years, may decline due to a reduction in offerings and increasing prices. Investors will chase trophy office, quality retail and industrial product with stable cash flows, and well-branded hospitality properties.

In Miami, pricing trends in 2011 related to the share of distressed assets in the sales mix; retail and industrial prices recorded solid increases, multi housing registered a modest gain and office posted an outright decline. Across South Florida, investors will pay top dollar in 2012 for Class A product with strong occupancy rates while others will bide their time, waiting to sharp-shoot troubled assets in receivership or foreclosure.

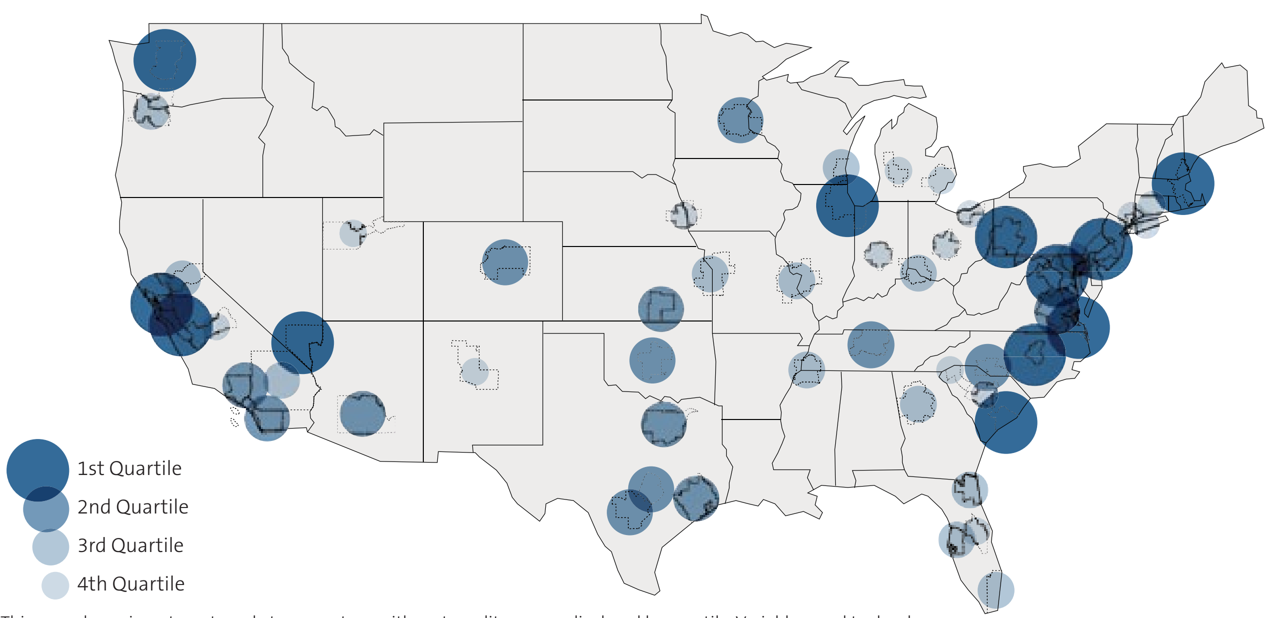
In the Central Florida markets of Orlando and Tampa, continued market uncertainty will dissuade many buyers from pulling the trigger unless the terms and pricing are ideal. Expect a gradual increase in sales this year. A greater representation of distressed assets in the sales mix will keep average prices steady.

Jacksonville investors were restrained in 2011 by a lack of quality product for sale. Class A, anchored retail centers have held their values, but the supply is limited. Multi housing has been a bright spot. The shortage of quality assets on the market will extend into 2012.

Multi housing led the market last year in Raleigh-Durham. Activity also increased for retail, industrial and office properties as pricing expectations became more realistic and more sellers brought properties to market. Volume will rise in 2012, driven by pent-up demand. Buyers, though cautious, will be more willing to take risks, and pricing will improve moderately. Multi housing will continue to dominate but by a smaller margin, limited by the number of properties that have already traded.

In Columbia, most financing was limited to owner-occupied properties over the last four years, but that is changing. Expect more activity in 2012. Volume will remain highest for multi housing assets, but demand will increase for office and industrial properties.

Investment Market Momentum
Based on 2011 Performance and Anticipated 2012 Performance



This map shows investment market momentum with metropolitan areas displayed by quartile. Variables used to develop the rankings include 2011 investment volume compared with the prior five years and also with the size of the market.

Multi Housing

GRUBB & ELLIS. From Insight to Results

The U.S. multi housing market took the lead in the commercial real estate recovery during 2011. According to Real Capital Analytics, the total sales volume climbed nearly 56 percent during the first 10 months of 2011 when compared to 2010's year-to-date numbers. Not only were effective rental rates on the rise, but occupancies also increased. Profitability growth drove the average sale price per unit to the highest level in history ($110,212 per unit, according to Real Capital Analytics), with capitalization rates generally ranging from 6.47 to 6.63 percent. These cap rates are down from the 6.66 to 6.99 percent range seen in 2010. The increase in occupancy was attributed to: a) tougher qualifying standards for prospective home buyers; and b) a shift in demographics, particularly the growth of the 18 to 34-year age group, which tends to favor renting over buying.

Multi housing will continue to be one of the most popular and sought-after commercial real estate investments. Recent evidence shows that fewer Americans see owning a home as a part of their "American Dream"; nor do they see it as a strategic and important investment. Polls reveal that recent college graduates, who have seen the pain of homeownership through their parents, are opting to rent. In many instances, this is a lifestyle choice that will likely prevail throughout their lives. As homeownership falls as a percentage of the population, the multi housing market will remain tight. Given this heightened demand, offers of free rent and other incentives will be taken off of the table.

Another factor greatly impacting the value of multi housing is the availability of financing for both the acquisition of stabilized income-producing projects and, more recently, for new multi housing construction. Fannie Mae and Freddie Mac reported new loan activity was at historical highs in 2011. Construction starts climbed across the country as developers and investors realized the positive dynamics of this market and recognized the availability of long-term, fixed financing options. That said, neither supply nor construction starts are at the levels needed to keep up with demand. The U.S. added approximately 38,000 units in 2011; there were 97,694 units added in 2010, 138,508 in 2009 and 119,330 in 2008. These totals are not even close to the roughly 300,000 units needed yearly to keep up with demand.

Population growth, job growth and a stable interest rate market, coupled with the fundamentals mentioned above, bode well for the multi housing investment market. While development will pick up, lenders are being cautious, which will hold construction back a bit. In many instances, high occupancies are limiting the ability for individuals to move into rental units; the creation of additional units is necessary for the market to continue its growth.

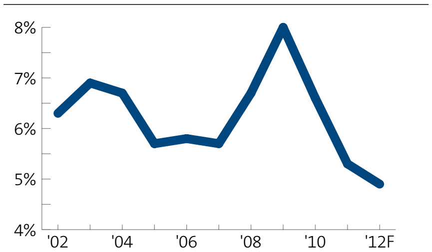
Ernest L. Brown, IV, CCIM

Executive Vice President and Managing Director

National Director, Multi Housing

U.S. Apartment Vacancy Rate

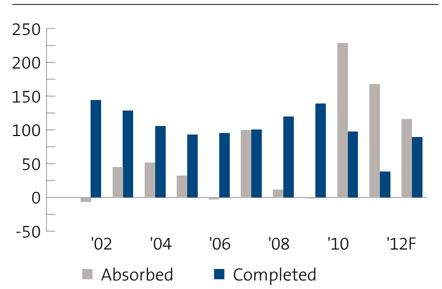
Year-End



Sources: Reis, Inc., Grubb & Ellis

U.S. Apartment Absorption vs. Completions

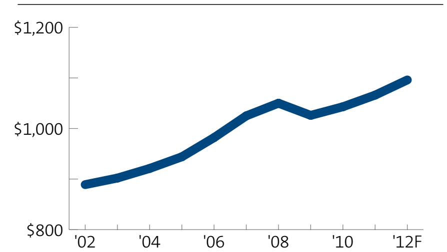
Year-End (in Thousands of Units)



Sources: Reis, Inc., Grubb & Ellis

U.S. Apartment Asking Rental Rate

Year-End



Sources: Reis, Inc., Grubb & Ellis

Senior Housing

GRUBB & ELLIS
From Insight to Results

Nationally, the average occupancy rate for senior housing is 89 percent and rising.

The senior housing and care industry provides both housing and services for seniors generally over the age of 75. The industry is commonly divided into four care segments: independent living, assisted living, memory care and skilled nursing facilities. Skilled nursing facilities are typically institutional settings but with a recent trend toward home-like design. The other care segments are typically multi housing-type settings with communal dining areas. Continuing care retirement communities usually incorporate all care segments.

There are approximately 21,100 investment-grade seniors housing and care properties containing 2.8 million units in the U.S. Investment-grade properties are age-restricted with at least 25 units. The total market capitalization rate for these properties is estimated in the range of $230 to $260 billion.

Senior housing started out with a big bang in the first half of 2011 with some major acquisitions taking place. Seller expectations of value are higher than what buyers are willing to pay but the gap is narrowing. There is trepidation in the marketplace due to flat occupancy numbers and lower than expected rate increases for existing facilities. Families are choosing to keep parents at home and only placing them in care facilities as a last resort. A volatile economy may push cap rates up, bridging the gap between buyer and seller expectations, which will create acquisition opportunities in the market in 2012. Cap rates for larger portfolio transactions are between 100 and 200 basis points better than for the one-off transactions and smaller portfolios.

Economic news and unemployment conditions also have slowed the acquisition market in senior housing. REITs continue to be well capitalized and have been scouring the marketplace for opportunities in medical office buildings, hospitals, skilled nursing facilities and assisted living/Alzheimer's properties. Throughout 2011, private equity groups were more aggressive than traditional REITs when pricing acquisition opportunities. When and if the housing market improves, independent living facilities will see a much needed increase in occupancy, thus creating new interest in this senior housing product in 2012.

The impact of the 11.1 percent decrease in Medicare slowed down the acquisitions of skilled nursing facilities, but only slightly. For the most part, the majority of the SNF operators knew this Medicare cut was coming and concentrated on improving operating efficiencies and looked to replace the lost revenues with private pay residents. Operators who did not prepare for this cut will become sellers in 2012.

In 2012, expect the start of new developments. A lot depends on the financing market and the loosening of funds from lenders to finance these new projects. Grubb & Ellis anticipates that these new developments will be in areas where demand and demographics are strong and there is a high barrier to entry.

Overall, the outlook for senior housing is optimistic for 2012. Every year, the baby boomers move a step closer to requiring the assistance provided by these facilities. Nationally, the average occupancy rate for senior housing is 89 percent and rising. Baby boomers will make up 26 percent of the population in 10 years and they will need housing and care. Currently, the supply will not be nearly enough to handle the demand that is anticipated.

Alan Ursillo
Senior Vice President
National Director, Senior Housing

Healthcare Properties

GRUBB & ELLIS
From Insight to Results

Data compiled by the U.S. Census Bureau tell the story: A large percentage of America's population, the baby-boom generation born between 1946 and 1964, is growing older. People aged 65 and older, accounting for 13.0 percent of the population in 2010, will comprise 16.1 percent in 2020 and 19.3 percent by 2030. As they age, they will require more medical services, thus driving demand for healthcare facilities.

The size of the healthcare property market is estimated at between $700 and $750 billion, about half the size of the national office market. Approximately one quarter of that total comprises medical office buildings.

A comparison of national asking rents for medical versus standard office shows that while MOB rents have slightly declined this year, they are higher, and their decline has been more muted, than standard office rates. Since reaching a cyclical peak in the second quarter of 2008, the average asking rental rate for medical office space fell 4.9 percent through the third quarter of 2011, less than half of the 10.5 percent drop in the average rate for standard office space.

On the investment side, average medical office building sale prices have traded in a tight band between $220 and $240 per square foot since 2007. Recent averages have drifted to the lower end of that band. In contrast, suburban office sale prices are hovering below $170 per square foot.

Medical transaction volume was down 37 percent year-to-date through the third quarter from the same period in 2010. Much of this decline stems from the slowing of portfolio sales — only $340 million in 2011 versus almost $2 billion for all of 2010, according to Real Capital Analytics.

Healthcare REITs dominated medical office building acquisitions in 2011. The recent softness in MOB sales may be a result of the REITs' focus on senior housing. Turmoil in the capital markets related to the European sovereign debt crisis also may be playing a role. As the capital markets move into calmer waters, hopefully in 2012, investor demand for medical office space will accelerate.

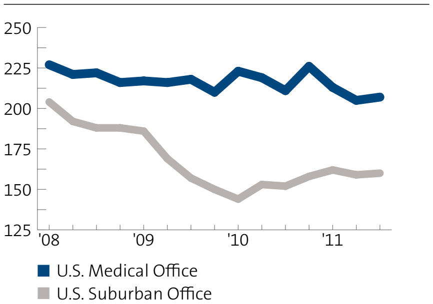
Grubb & Ellis recently conducted a survey of healthcare industry professionals from across the country. Fifty-four percent of respondents said their health system is actively pursuing the development of outpatient clinics and 87 percent are actively acquiring other healthcare systems. The survey also revealed that 27 percent of respondents believe their transaction volume in 2012 will be between $50 and $150 million. Sixty-three percent feel that the real estate market will stabilize in 2012. These sentiments point to continued growth and opportunity in the sector.

While no asset class is recession proof, healthcare properties might come closest to a recession-'resistant' property category, which has helped it remain attractive to investors through both recessions and expansions.

Todd Perman
Senior Vice President
National Director, Healthcare Properties

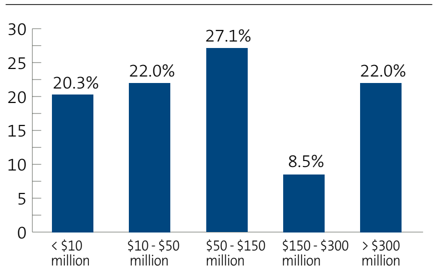
Garth Hogan
Senior Vice President
National Director, Healthcare Properties

Asking Rental Rates
Average Price ($/SF/Yr.)



Source: Real Capital Analytics, Inc.

Projected 2012 Transaction Volume
105 total respondents



Source: Grubb & Ellis

Hospitality

Divergence in underwriting views between sellers and buyers will continue in the hotel transactions market.

As 2012 begins, U.S. hotel markets are a study in conflicting data points and diverging trends. In 2011, hotel fundamentals—occupancy, average rate and the resulting RevPAR gains—all posted impressive results in most segments and geographies. Smith Travel Research reported RevPAR gains of 8.3 percent year-over-year through September 2011. And in October, transactions were running at a healthy pace as Real Capital Analytics reported an increase in both the number of hotels traded and dollar volume, up 104 and 122 percent, respectively, from the same period in 2010. Both trends were tracking positively in concert; hence an investment thesis was readily apparent.

Due to the macro-economic events since August 2011, notably the European sovereign debt crisis and the ensuing recession spreading across the eurozone, the U.S. hotel market has seen operating fundamentals and investor demand head in opposite directions. Operating fundamentals continued to perform well in August and September with RevPAR increases in the U.S. of 7.2 and 10 percent, respectively. However, transactions slowed to a crawl in the third quarter, led by a withdrawal of hotel REITs whose stock prices were pummeled severely, effectively crippling their financial capabilities. Coupled with mortgage debt becoming increasingly difficult to secure for acquisitions, re-financings and most certainly new construction, this has negatively impacted deal flow. Offshore private equity, particularly that of Chinese investors, continues to be active in the market, and there is an ample amount of capital to deploy. But with the dearth of debt available and difficult loan terms, the challenges of getting a transaction completed have increased.

In 2012, buyers have tempered their forecasts for RevPAR increases in the U.S. This is predicated upon the belief that RevPAR growth in excess of 6 percent may be unsustainable in the face of the macro-economic headwinds in both the U.S. and Europe. Analyst forecasts diverge widely. PKF Hospitality Research barely dropped its RevPAR growth forecast from 7.3 percent, now projecting increases in the 7 percent range. And, while PricewaterhouseCoopers is still forecasting 5 to 6 percent in year-over-year RevPAR growth, in late November, STR dropped its 2012 growth projection to 3.9 percent. The range in projected revenue streams coupled with more restrictive debt conditions may widen the gap between buyers and sellers, adding to the friction in the hotel transactions market.

Most participants in the hotel sector will be looking for the economy and financial markets to stabilize before ramping up their activities in 2012. It will be a stressful start to the year, and the hotly contested presidential and congressional elections will add to the stress as the year progresses.

Sam C. Winterbottom
Senior Vice President
National Director, Hospitality

Land

After bottoming in 2009, land sales picked up modestly in 2010 and remained level in 2011. Through the third quarter of 2011, land sales were just about even with the same period in 2010 at $13.6 billion, but the sales mix was different. Through the third quarter of 2011, industrial land sales were up 133 percent as the industrial leasing and user-sale market improved to the point where developers began ramping up for the next expansion cycle. Commercial land sales were flat by dollar volume but down 24 percent in terms of acreage as buyers focused on smaller, more expensive — and in some cases, infill — parcels. The reverse was true for residential land where sales were off 27 percent on dollar volume but up 4 percent on acreage, meaning that buyers focused on larger, less expensive parcels — a sign of more distressed sales and acquisitions by large builders banking land for future growth.

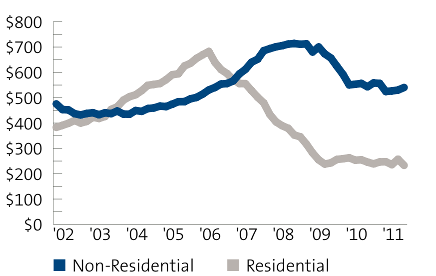
In 2012, expect a modest increase in land sales led by development sites for apartments and distribution centers, which are further along the recovery cycle. Apartment sites near major employment centers and transit stations will be in demand, particularly in fast-growing markets such as the major Texas metropolitan areas, Washington, D.C., Boston, Seattle and the San Francisco Bay Area. Industrial land sales will be weak overall but rising in markets serving ports and intermodal hubs where the recovery in vacancy rates is further along — California's Inland Empire, Chicago (Will County), Houston, Central Pennsylvania and Central New Jersey. Sales of development sites for office and retail projects are unlikely to see an appreciable increase in 2012 and will be limited to special one-off deals taking advantage of market niches such as infill and/or transit-oriented developments and build-to-suit projects. Residential land sales are expected to remain flat.

The one big exception to the generally weak pricing environment is agricultural land. The Kansas City Federal Reserve reported that prices for irrigated agricultural cropland in the Tenth District (Colorado, Kansas, Nebraska, Oklahoma, Wyoming and parts of New Mexico and Missouri) increased by 29.1 percent from the third quarter of 2010 to the third quarter of 2011. Non-irrigated farmland rose in value by 24.5 percent and ranchland increased by 14.2 percent. Other districts saw significant though lesser increases. Food prices increased by 4.7 percent over the 12 months ending in October 2011 compared with a 3.6 percent gain in overall consumer prices. While only a fraction of these increases goes to the farmers, that hasn't stopped buyers from bidding up land prices with the thesis that the growing middle class in emerging global markets will consume more meat and other agricultural products similar to the diets of U.S. consumers, while the latter will pay higher prices for organic produce and other specialty products.

Overall, look for land prices to remain fairly stable in 2012 with the exception of well-located apartment development parcels, industrial land near key ports and intermodal hubs, and agricultural land.

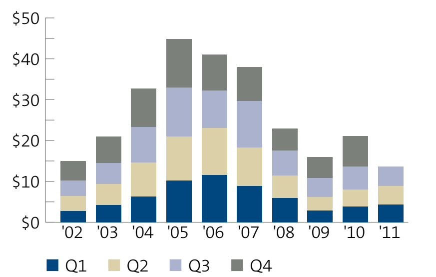
Gregory W. Coxon
Executive Vice President
Managing Director, Southwest Region

Value of Construction Put in Place
Seasonally Adjusted Annual Rate (in Billions)



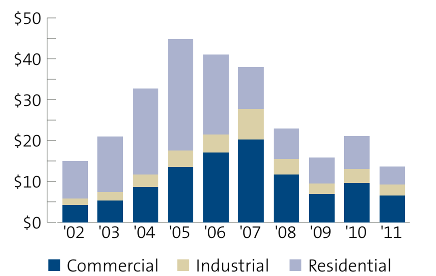
Sources: U.S. Census Bureau, Grubb & Ellis

Land Sales by Quarter
Commercial, Industrial & Residential (in Billions)



Sources: CoStar, Grubb & Ellis

Land Sales by Type
Annual Through 3Q 2011 (in Billions)



Sources: CoStar, Grubb & Ellis

Logistics

Logistics has become the most resilient and dynamic segment of the overall U.S. industrial real estate market. During the 2001 recession, this segment did not see a quarter of negative net absorption versus four quarters experienced by the entire industrial market. It also outperformed during the Great Recession, vacating 0.9 percent of total inventory over a four-quarter period versus 1.3 percent of total industrial inventory vacated over six quarters. Logistics real estate continued to outperform during the following recovery. While logistics accounts for only a quarter of total industrial space, it captured over 70 percent of total demand since the second quarter of 2010. Further, cumulative demand for overall industrial real estate did not turned positive until the end of 2011, while cumulative demand for logistics properties turned positive by mid-2010 and grew to a positive 75 million square feet at year-end 2011.

The primary risk to the stability of the logistics market is new supply. Logistics buildings are easy to build, which attracts institutions as well as national and local private developers. Since 2001, nearly 70 percent of all new construction was logistics buildings. The level of supply generally exceeded demand and the logistics vacancy rate averaged 190 basis points above industrial vacancy over the 11-year period.

The U.S. logistics vacancy rate peaked at 13.8 percent at the end of 2009. It fell over 300 basis points by the end of 2011, and it will dip into single digits by the end of 2012. The rate of improvement will decelerate in 2012 as new deliveries accelerate at a faster rate than demand, which remains constrained by the still-struggling national — and especially global — economies. Speculative new construction emerged in 2011 in a few coastal markets such as California's Inland Empire and Pennsylvania's I-81/78 Corridor, but it will spread to 16 major U.S. markets in 2012. Many markets are experiencing a shortage of large, quality blocks of space and this is the area on which developers will focus. Overall rents will rise, and rent growth will be strongest for large blocks of space. The Inland Empire saw double-digit rent growth in 2011 in this segment and this performance will be repeated by many additional markets in 2012.

Tim Feemster

Senior Vice President

National Director, Logistics

Logistics Building Classifications

Class A Buildings

- State-of-the-art functionality, systems and finishes
- Minimum of 28-foot clear height for buildings over 100,000 square feet
- Excellent truck door/building ratio (minimum of 1/7,500 square feet)
- Excellent truck yards with minimum of 135-foot truck turning radius
- Minimum of .60/3000 or ESFR sprinkler system

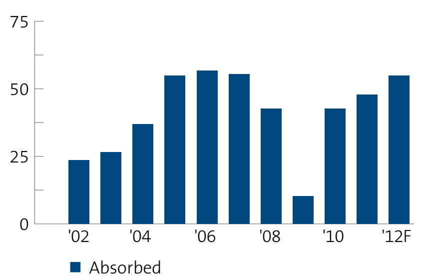
Class B Buildings

- Some functional obsolescence
- Fair to good building systems
- Minimum of 22-foot clear height for buildings over 100,000 square feet
- Adequate loading capability
- .33/3000 to .45/3000 sprinkler system
- Minimum of 110-foot truck turning radius

Class C Buildings

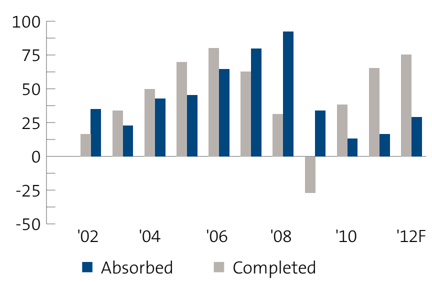
- Considerable functional obsolescence
- Less than 110-foot truck turning radius
- Below 22-foot clear height for buildings over 100,000 square feet
- Insufficient number of truck doors
- Non-calculated fire sprinkler system

U.S. Class A Logistics Demand
Year-End (in MSF)



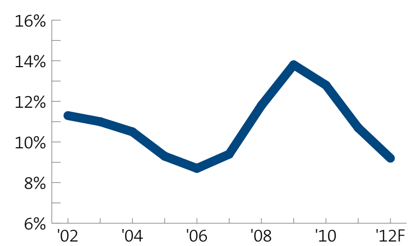
Source: Grubb & Ellis

U.S. Logistics Supply & Demand
Year-End (in MSF)



Source: Grubb & Ellis

U.S. Logistics Vacancy Rate
Year-End



Source: Grubb & Ellis

Data Centers

GRUBB & ELLIS. From Insight to Results

> Over the next 12 months, the data center industry will see an uptick in activity from healthcare organizations.

The national data center market exhibited strength despite the economy slowing in 2011. While 2010 activity was driven by hosting and Web 2.0 companies, there clearly was a shift in corporate users that sought build-to-suit options, taking advantage of the bonus depreciation as provided by the Reid McConnell Tax Act. Some 2011 notables included American Express, Chevron and Walgreens trying to put their capital to work rather than take down speculative space from wholesale developers.

Several new developers announced projects throughout the country in 2011: Vantage Data Centers, backed by Silver Lake Partners, had tremendous success in Santa Clara, Calif., and is now looking at other projects in Texas and further east; T5 MCF, backed by Iron Point Partners, had new projects underway in Los Angeles, Dallas and Atlanta; and Sabey Data Centers, backed by National Real Estate Advisors, expanded in Virginia and Manhattan. The barriers to entry remain the cost of the facilities and the technical expertise needed to build them. Many first-time developers, for instance, have trouble with pre-leasing commitments due to their tenants' technical concerns. In lieu of these hurdles, the data center market is distinct in that supply creates demand.

Larger developers reported a drop in construction pricing in 2011. Previously, speculative construction on technical space was often pegged at $1,000 per square foot. Developers are now quoting $800 per square foot. Similarly, these projects often are priced by the amount of megawatts they can accommodate; that number decreased from $10 million to $8 million per megawatt over the same timeline.

Lower construction costs paired with more competition is driving down local rental rates. It is important for companies to look at multiple markets in order to get the best possible leverage at their desired address. In 2011, for instance, one particular tenant had locations in two markets—one market was bullish, while the other was softer. The softer market had a 43 percent decrease in pricing compared with its counterpart.

The lines between wholesale (Digital Realty Trust, DuPont Fabros Technology, et al.) and colocation providers (Equinix, TELx, Savvis, et al.) blurred last year and this will continue into 2012. Historically, colocation companies were more likely to sell one rack at a time. At about 125 racks or 500KW, economies of scale took over and it made more economic sense to find a larger wholesale solution. This has been driven by wholesale providers offering both wholesale and colocation, as well as more colocation companies targeting larger transactions.

Over the next 12 months, the data center industry will see an uptick in activity from healthcare organizations. Additional growth will come from existing tenants that will cause developers to break ground on second phases. As an example, in Chicago, DuPont Fabros Technology was 71 percent preleased by the third quarter of 2011 from existing tenants that had taken occupancy less than three years earlier. It is extremely important that tenants negotiate expansion options in their agreements. Positive absorption from colocation and hosting companies also is expected in the year ahead.

Jim Kerrigan
Executive Vice President
National Director, Data Centers

Self Storage

GRUBB & ELLIS
From Insight to Results

High visibility is the new trend in self storage.

Although there has been renewed interest in self storage properties nationwide, listing and sales activity continues to be strongly influenced by available capital market financing. Building upon a trend that started after the 2008 recession, self storage is still seeing a bifurcation of transaction activity. As real estate cycled through the crisis, many investors in self storage properties, as in other property sectors, directed their capital toward quality products; the so-called "flight to quality." Class A properties in the best locations, well-positioned portfolios and large loans over $5 million have been attracting favorable lending terms and capitalization rate compression. Today's buyers include the storage REITs and those with institutional financial backing, which are chasing the Class A properties. These investors are flush with equity, quite competitive and have a low cost of funds.

Meanwhile, Class B and C transaction cap rates are holding steady and properties garnering only mediocre financing. A basic rule of thumb is that unless the facility can sell for more than $5 million and fit strict lending criteria, buyers can only expect so-so financing. Grubb & Ellis expects this trend to continue through at least the first half of 2012. Demand for B and C properties will build given the rising prices buyers are willing to pay for premium quality properties. However, debt financing will have to lead the way in making B and C facilities more attractive to buyers.

In the coming year, expect self storage to continue its migration toward a more retail-style property type, especially in big cities and central business districts. Storage facilities in the '70s and '80s were constructed as secondary-use structures, "land banking" until the land became more valuable to develop into a typical asset type, such as retail, office or apartments. In the '90s, storage became a more accepted investment. Instead of being tucked away in industrial complexes and behind shopping centers, product focused on location, demographics and construction quality. Additionally, facilities now are offering amenities such as conference rooms, office suites, wine and art storage, packing and shipping programs and concierge-style customer services.

In summary for 2012:

- We expect Class A compression of cap rates to continue as more institutional money enters the self storage market.
- We will see premium pricing and favorable financing terms for portfolio sales over $15 million.
- Private capital investors will remain aggressive even though they are limited by the debt market and thus not as competitive.

Stephen Mellon
Vice President
National Director, Self Storage

Clean Energy

GRUBB & ELLIS.
From Insight to Results

An oversupply of polysilicon, technological breakthroughs, competing alternatives within the electric vehicle and bio-energy sectors, and China's expansion have created a shifting landscape for clean energy. As a result, M&A and consolidation activity was strong in 2011; 2012 will see more of the same. Despite industry turmoil and the distraction of low natural gas prices, Grubb & Ellis' Clean Energy practice group expects exciting progress in 2012.

- The precipitous decline in polysilicon prices has improved solar's competitive position in the race for parity. Clean Edge projects installed solar PV costs in the U.S. — without subsidies — will be competitive with residential electricity prices in more than half the states by 2020.
- Pike Research predicts a doubling of total installed wind capacity in North America over the next six years. Community and offshore wind are growing in importance and market size.
- Drawing on data from Dow Jones VentureSource, Ernst & Young LLP reported a 73 percent increase overall in U.S. venture capital investment in cleantech in Q3 2011 versus Q3 2010, with fuel cell and energy storage companies accounting for the largest portion of the $1.1 billion total.

Ever-changing government incentives and policies (or a lack thereof, some would argue — especially at the federal level) make long-term planning nearly impossible. California is consistently the trendsetter but not all regulations are industry-friendly. Other states' stardom waxes and wanes based on incentive programs. New Jersey enjoyed strong growth in solar installations during 2011, but Massachusetts and Connecticut are expected to join California as top destinations in 2012 with Rhode Island ramping up for 2013. Efforts to expedite project permitting and interconnection agreements will be a focus across the board.

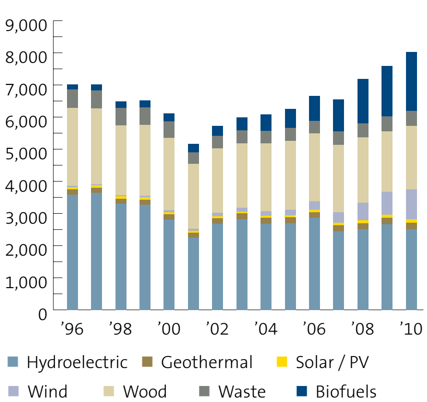
Transmission constraints must be addressed if states are to achieve their renewable portfolio requirements, which IHS Emerging Energy Research estimates will require over 70 GW of new renewable energy capacity by 2020.

U.S. wind and solar energy manufacturing activity is expected to continue to expand, but not as rapidly as in recent years. Other segments such as smart grid and energy storage are hoping for accelerated activity.

As the clean energy industry matures, financial, legal and project ownership structures are becoming more sophisticated. This is expanding the reach of the industry, allowing more deals to "pencil" and reach new customer segments. Likewise, innovative non-traditional engagement structures are allowing Grubb & Ellis' Clean Energy practice group to work with companies like SunEdison and Serious Energy to locate and secure specialized real estate for utility generation projects, distribute commercial solar installations (including rooftops) and participate in energy efficiency projects. Collaboration in 2012 will bring even greater efficiencies to clean energy companies looking to identify, control and manage real estate assets.

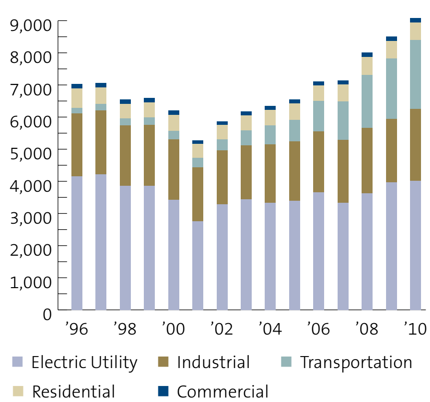
As the discipline of energy management moves to the mainstream of everyday business, energy efficiency and renewable energy generation become two points on the same continuum. Users increasingly intermingle these two approaches in their efforts to lower energy costs. Smart grid applications, particularly demand response systems, are at the forefront.

Renewable Energy Production and Consumption by Source
Trillions Btu



Sources: U.S. Energy Information Administration, Grubb & Ellis

Renewable Energy Production by Sector
Trillions Btu



Sources: U.S. Energy Information Administration, Grubb & Ellis

Robert Dean
Executive Vice President
Managing Director, Pacific Northwest
National Director, Clean Energy

Tracey Hyatt Bosman
Director, Strategic Consulting Group
National Director, Clean Energy

Technology

GRUBB & ELLIS. From Insight to Results

For the vast majority of 2011, the technology sector was in growth mode characterized by strong corporate profits reflected in NASDAQ fundamentals, record-breaking semiconductor sales and increased venture capital funding, all of which brought confidence to tenants, owners and investors of commercial real estate. Improving business prospects contributed to declining vacancies in tech-heavy markets such as the Silicon Valley, the San Francisco Peninsula, Boston, New York City, Austin, Texas, Chicago and the research technology triangle in the Raleigh-Durham, N.C., metro.

While there were many technology trends worthy of discussion, perhaps the most significant is the emergence of best-in-class tenants. These firms clearly dominate their competitors in their respective markets, leaving less market share for second- and third-place finishers. As noted in the graph below, sometimes market leaders amass huge hordes of cash which enables them to invest in other companies and real estate. Grubb & Ellis' Technology practice group expects this trend to continue for the foreseeable future.

As the giants of technology continue to grow, so do their real estate requirements. Recent quarters demonstrate the new buying and leasing habits of these tech firms. Web search titan Google spent $1.9 billion to acquire nearly 3 million square feet at 111 Eighth Ave., one of the largest and most historic buildings in New York. Google also is estimated to own or lease approximately one third of the real estate (in terms of valuation) in Mountain View, Calif. Facebook and Apple are making significant real estate investments in their headquarters cities of Menlo Park and Cupertino, Calif., respectively. Going forward, expect other dominating tech firms to incorporate future expansion and flexibility into their real estate planning.

According to PricewaterhouseCoopers, for the first three quarters of 2011, venture capitalists invested $21.2 billion in 2,725 transactions, representing 20 percent more capital and a three-percent uptick in deal flow compared to the same time period a year ago. The rebound in M&A activity gives startups the capital needed to fund growth and fuels their need for space. Historically, startups typically have located close to their funding source and/or other like-kind companies, and this should continue for reasons of convenience and M&A synergies.

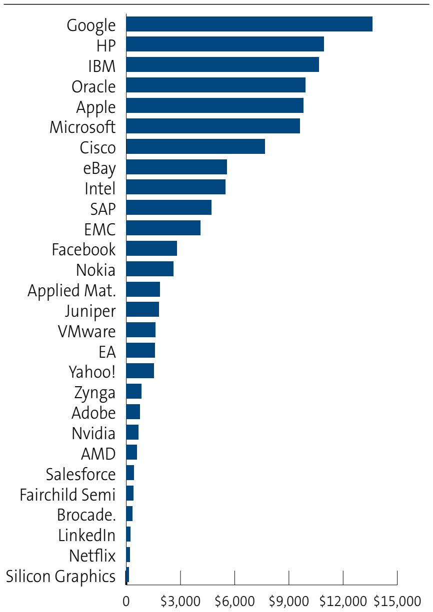
A newer trend in the segment is that some tech firms are gravitating towards CBD office markets in areas such as Boston, Chicago, San Francisco (South of Market) and New York City. This strategy leverages the quality of life amenities young talent wants. An example of this is Twitter, which in April 2011 finalized a 200,000-square-foot lease at Market Square in SOMA, a deal that will keep the company in San Francisco for at least the next six years. Similarly, Groupon, which recently went public, is leasing approximately 270,000 square feet in Chicago's River North market.

Richard Scott

Managing Director, Silicon Valley

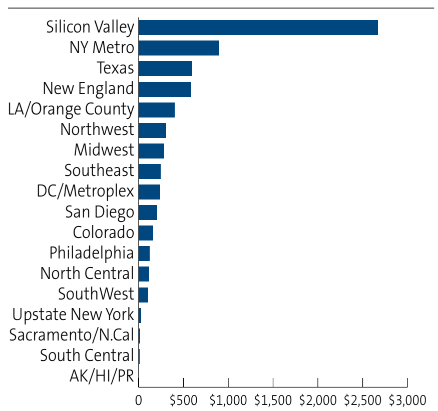
National Director, Technology

Notable Technology Companies
Cash or Cash Equivalents (in millions)



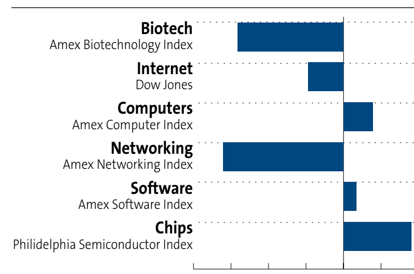
Sources: Yahoo Finance (from most recent 10K filing), Grubb & Ellis

Total 3Q11 Venture Capital Volume
By region (in millions)



Sources: PwC Third Quarter 2011, Grubb & Ellis

Key Technology Indices
YTD Change



Sources: San Jose Mercury News 11/8/2011, Grubb & Ellis

Education

GRUBB & ELLIS
From Insight to Results

After a 25-year period of remarkable expansion during which enrollment in for-profit institutions grew six-fold, the education sector is facing what some analysts suggest is its toughest challenge yet. During the second quarter of 2011, the top 10 largest schools averaged an approximate 15-percent decline in enrollment, with projections of yet further reductions in coming quarters. This about-face is largely due to federal legislation enacted in July 2011, which adds additional layers of regulations aimed at ensuring that schools are providing students with acceptable prospects for "gainful employment." The Department of Education's stated position is that some schools saddle graduates with heavy debt burdens without providing them with the types of employment opportunities requisite to pay back their debt. Students at for-profit institutions represent 12 percent of all higher education students — but 46 percent of all student loan dollars in default. Under new oversight, if a school fails these more stringent measures, they risk losing access to federal dollars which are vital to, if not the lifeblood of, their revenue stream.

With schools making wholesale changes to their programs, 2012 will usher in continued changes in the for-profit landscape as firms reposition themselves and adapt to a new regulatory environment. As schools reformulate their real estate strategies, look for a premium to be placed on flexibility in the form of contraction and termination options, and for the creation of efficiencies to play a larger role in space planning.

In 2012, expect to see public K-12 and higher education institutions facing enormous financial constraints due to significant reductions in tax revenue, as well as the end of the State Fiscal Stabilization Fund, a $48-billion ARRA-related appropriation. Consequently, state and local education budgets are feeling the pinch. More than 80 percent of the states with newly enacted 2012 budgets are making deep cuts in education spending. The need to do more with less will require schools to be more creative with real estate strategies, with an increase in sale-lease-back activity and outsourcing of real estate support the likely outcomes.

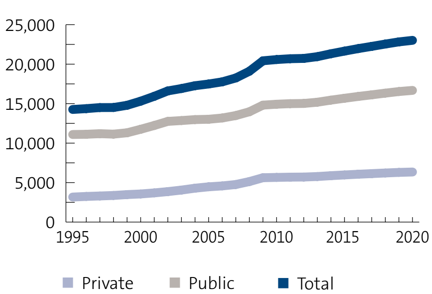
Enrollment in postsecondary degree-granting institutions is projected to increase 13 percent between 2009 and 2020 as Gen Y, or the echo boomers migrate through the education system. Therefore, despite current capital constraints, institutions of all types will need to ensure adequate student housing capacity to meet this surge in demand. Schools can meet this need without deploying precious capital through the creation of public-private partnerships and outsourcing the development and management of new student housing assets. Look for increased creativity in this regard and for schools to warm up to the idea of third-party owned and managed on-campus housing.

J. Robert Clements

Executive Vice President, Managing Director

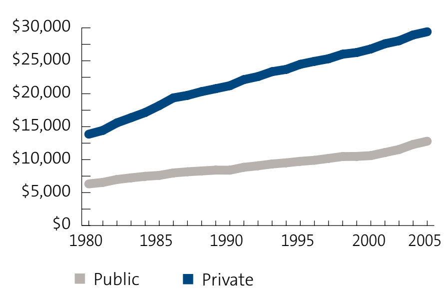
National Director, Education

U.S. Postsecondary Enrollment
(in Thousands)



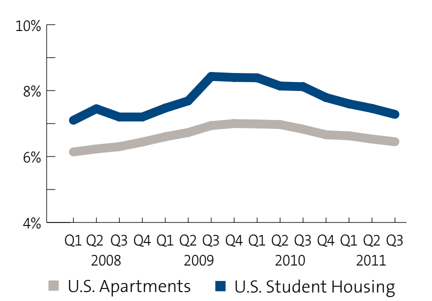
Source: Department of Education

Annual College Tuition Costs*



Source: National Center for Education Statistics
**Adjusted for Inflation*

Student Housing Cap Rates



Source: Real Capital Analytics

Law Firms

Following the lead of large corporations, multi-market law firms have begun to adopt an integrated approach to real estate management.

Law firms continued to push for greater value from their real estate in 2011. Reflecting the lingering effects of the Great Recession, law firms are relying more on improved operating efficiencies to drive profits, and less on increases in rates and hours billed. The trends of deleveraging, enhanced competitive positioning, outsourcing and increased process efficiency are expected to continue for the foreseeable future.

From a real estate perspective, 2011 was a year of adjusting to the new economic realities. We saw continuing restraint in tenant improvements expenditures and a more conservative approach to holding surplus space to accommodate future growth. While there were some law firms that expanded, the majority either maintained their real estate footprint or sought ways to decrease their square footage and/or reduce costs. Many firms decided to place surplus space on the sublease market to minimize the impact of underutilized space.

We expect to see law firms moving forward with greater discipline when it comes to real estate decision making in 2012. Following the lead of large corporations, multi-market law firms have begun to adopt an integrated approach to real estate management. Since the early 1990s, Fortune 500 corporations have been increasing the levels of control and sophistication applied to administering their real estate portfolios. The last 20 years have seen revolutionary change among corporate tenants in real estate oversight including centralized control, portfolio optimization, technology-based administration, financial analytics, standardization, workplace strategy and space design, purchasing, site selection, project management, technology integration and benchmarking. In contrast, law firms have historically placed greater emphasis on local partner influence in selecting real estate. However, competitive pressures are now mandating a more accountable approach among law firms, and we anticipate increased adoption of strategic real estate planning models. These newer methodologies are designed to align the real estate plan with the overall objectives of a given law firm, including:

- Increase in client services, education, and support
- Increased efficiency
- Greater flexibility
- Economic justification
- Greater densities/reduced square footage
- Lower costs/higher profits
- Lower capital expenditures
- Increased purchasing leverage
- Increased technology integration
- Greater administrative control
- Key performance indices/benchmarks
- Portfolio optimization
- Recruitment and retention
- Firm image and branding
- Increased litigation support
- Managed leverage of associates and staff

In general, market conditions for office space throughout the nation favor tenants and concessions remain high. Rents and construction costs remain at cyclical lows in many markets. Calendar year 2012 will continue to offer a favorable environment for law firms to negotiate leases in most markets. However, some markets, such as New York, San Francisco and the Silicon Valley have experienced significant increases in rental rates and decreases in concessions. Multi-market law firms should consider a proactive approach to balancing their portfolios to take advantage of favorable market conditions, disperse lease rollover exposure and the corresponding capital expenditures.

Jerry Igra
Executive Vice President
National Director, Law Firms

Religious Properties

GRUBB & ELLIS. From Insight to Results

In 2011, just as other commercial real estate sectors felt the effects of sluggish economic conditions, so did the market for churches and religious institutions. However, there are other factors, aside from economic, that influence a religious institution's real estate decision making.

Even in tough economic times there are select religious institutions in growth mode. In addition, there are always institutions adapting their overall worship experience; for example, changing from a traditional worship setting to one more contemporary in nature (big-box, retail storefront and/or industrial building complexes often come into play here). On the flip side, some congregations dwindle in size so that they are unable to support the operational and maintenance costs of their properties.

There are a number of specific challenges facing religious properties. Generally, current inventories of religious properties for sale are impacted by a significant amount of deferred maintenance and lack adequate parking. Zoning issues limit the available options for reuse. And financing has become increasingly difficult to obtain, with equity requirements having risen to at least 30 percent.

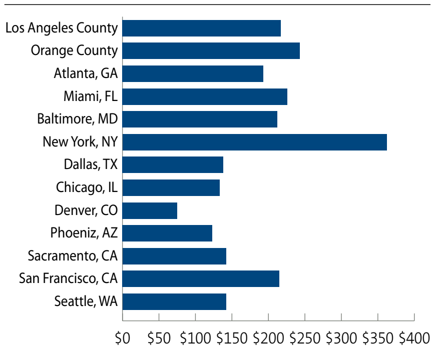
Numerous vacant big box retail locations are available for either sublease or purchase, and multi-tenant industrial assets continue to be available at reasonable rents and offer some of the better parking configurations. Start-ups often seek smaller retail storefront or industrial complex buildings as "interim facilities," with a longer-term goal of finding a permanent property to own rather than lease. In addition, shifting demographics result in various ethnic groups filling older religious facilities that had previously been used by other organizations.

A brief snapshot of the investment sales market is as follows:

- In evaluating 13 of the country's major metropolitan areas, average sale prices run from a low of $1.7 million in Baltimore to a high of $4.5 million in Los Angeles.
- Average prices per square foot range from a low of $75 per square foot in Denver to a high of $362 per square foot in New York.
- Based on a survey of eight major metropolitan areas, the volume of churches sold from January 2008 through December 2010 ranged from a high of 95 in Dallas to a low of 13 in New York.
- Average sale prices ranged from a low of $928,000 in Dallas to a high of $4.6 million in New York.
- The average time on the market required to sell ranged from a low of 264 days in Miami and Chicago to a high of an average of 455 days in Orange County, Calif.

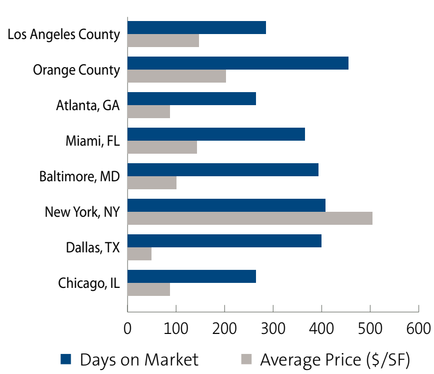
L. Thomas Morgan
Senior Vice President
National Director, Religious Properties

U.S. Churches for Sale (>$1 million)
Average Price ($/SF)



Source: CoStar

U.S. Churches Sold (>$1 million)



Source: CoStar

Financial Services Asset Management

By some estimates, the current impaired real estate debt stands at approximately $500 billion.

Many are perplexed by the high default rate accompanied by little evidence of impaired acquisition opportunities. Although the commercial real estate downturns of the 1980s and 1990s are markedly different, their outcomes may provide insight into how long today's situation may last.

During the '80s, the downturn was caused in part by retraction in the energy sector and overbuilding. The capital markets were in disarray, with inflation and interest rates both at double-digit levels, and residential was especially hit hard. The savings and loan industry virtually imploded, and in fact, what is today known as a savings/community bank is experiencing similar significant balance sheet problems.

The downturn of the '90s was caused by cutbacks on defense spending, along with overbuilding. California, previously unscathed in the '80s, experienced one of its worst commercial real estate downturns during this period, with some of the state's most venerable money center banks failing. One of the key metrics is the percentage of defaulted commercial real estate debt to overall debt. In the '90s that figure was just over 7 percent. The default rate now stands at 9.65 percent[1].

There are several notable differences when comparing the current downturn to the '90s. First, the commercial real estate exposure is significantly higher at $3.4 trillion. Second, in the '90s, the banks were required to mark-to-market under-collateralized debt. (Money center and savings banks have less draconian loss classification if sponsors can accept extended loan terms, though the debt may be under-collateralized. However, recent FASB accounting rule changes may correct this liberal approach to under-writing.) Third, the capital structures are more complex. An example includes CMBS, which is subject to pooling and servicing agreement/REMIC, directed certificate holders and other stakeholders.

By some estimates, the current impaired commercial real estate debt stands anywhere between $500 billion to $1 trillion. This is juxtaposed with $1.7 trillion of commercial real estate debt that is coming due between 2011 and 2015[2]. These numbers are episodic, and if the banks were required to do a wholesale mark-to-market, the losses would be catastrophic, causing most community banks to go out of business and further impacting money center banks' profitability. Based on this, it is likely the downturn will last a decade and perhaps longer, though we are already several years into this correction.

It was monetary policy and a lack of regulation that led to this downturn. Cheap money, engendering a housing bubble, and the off-balance sheet process of securitization were the causes. In this time of instability and market correction, there will be opportunity for investors who understand how to capitalize and underwrite these opportunities correctly. The world we had known has changed, and whether one is a lender or an investor, the perception of reality must be tested to make sure it is not just based on what we know, but rather on a paradigm shift tied to a multiplicity of national and global factors.

Conrad Andersen
Executive Vice President and Managing Director
National Director, Financial Services
Asset Management

[1] TreppWire: *April 2011 U.S. CMBS Delinquency Report*
[2] Deloitte: *Commercial Real Estate Outlook: Is There Cause for Optimism?*

Debt & Equity Finance

GRUBB & ELLIS
From Insight to Results

Strong, core deals will have significant lender interest from the life insurance companies, while agencies will more than likely break another record.

The strong recovery in the CMBS market witnessed in the second half of 2010 all but stalled over the past summer. With the downgrade of U.S. debt and impending problems in Greece and Europe in general, investor appetite switched more to treasuries and away from the perceived risk associated with CMBS. This caused CMBS spreads to widen, which created problems for those lenders sitting on loan inventory that had yet to be securitized. Several deals were pulled from the market due to waning investor appetite during the third quarter, while CMBS deals came back onto the market in the fourth quarter, albeit at a much slower pace.

The flight to quality seen in the third quarter caused interest rates on the 10-year T-Bill to plunge from the 2011 high of 3.75 percent on Feb. 8 to a low of 1.72 percent on Sept. 22, a 203-basis-point drop in nine months. From a borrower's perspective, one would think this is the time to refinance and/or purchase real estate to take advantage of the historically low index. The reality is most lenders were not chasing the index down, but rather were holding rates at fixed levels. Lenders returned to quoting rates versus spread. That being said, solid, core deals with strong sponsorship can garner rates in the sub- to mid-5 percent range.

The two most active lender groups in 2011 were life insurance companies and agencies — namely, Freddie Mac and Fannie Mae. Life insurance company lending for 2011 was estimated at $60 billion, which is a slight increase over 2010. Freddie and Fannie focused on core transactions with strong institutional sponsorship located in primary markets during 2011, and all indications suggest they will pursue the same transaction profile in 2012. More than likely they will increase their allocations. Both were active participants last year and are on pace to set a record for purchasing loans backed by apartment, student and senior housing projects in 2012. Fixed rate space as well as floating, where interest rates are at record lows, will remain their focus.

Banks were livelier in 2011. With most financial institutions flush with cash, the banks are eager to lend to their clients; however, equity and experience are prerequisites.

The trend witnessed throughout 2011 will continue into 2012. Strong, core deals will have significant lender interest from life insurance companies, while agencies will more than likely break another record. Strong investor appetite will prompt the smart folks on Wall Street to re-trench and emerge with CMBS 3.0, which is likely to resemble "life-co lite." All of this should result in an overall increase in capital for mortgages.

Jeff Majewski
Executive Managing Director
National Director, Debt & Equity Finance

Corporate Finance

GRUBB & ELLIS.
From Insight to Results

Credit-based financing structures such as Credit Tenant Loans will offer tremendous price advantages for assets to be occupied long-term.

This time last year, Grubb & Ellis' view was that the tender shoots of a real estate recovery had become visible and that 2011 would end on a good note. Capital is a leading indicator in real estate and many signs pointed to a better year. A sputtering U.S. economy, a dysfunctional political environment and global debt concerns caused events to unfold differently than forecasted. For 2012, we are hitting the reset button in some ways, as many expectations are similar to that of a year ago.

Grubb & Ellis' Corporate Finance group provides capital solutions for single-tenant assets on behalf of corporate occupiers, developers and third-party owners. From Grubb & Ellis' view, U.S. businesses remain a tale of two worlds. Investment-grade and large non-investment grade companies have strengthened balance sheets with low-cost debt and record stockpiles of cash. Conversely, smaller and weaker companies rely primarily on banks for credit, which remains hard to find. This appears unlikely to change in 2012. These companies will be further pinched as the economy improves and capital is needed to expand. Sale/leasebacks on quality real estate will provide attractive sources of capital for these businesses.

Real estate decisions won't be any easier for corporate occupiers in 2012. Tenants will continue to have the upper hand in most lease negotiations. The challenge, however, will be defining needs. The value placed by investors and lenders on the stability and security of lease term has rarely been at such a premium. Bargains will remain available in exchange for extending term — if only tenants can commit. Uncertainty exists at every turn for companies trying to make operational forecasts that define occupancy needs. Driving earnings by doing more with less is the general objective, but how much more with how much less remains difficult to predict. This is especially true for office space, as technology increases productivity while decreasing space requirements.

Corporate occupiers with strong credit will be able to leverage their financial strength in 2012, especially for core assets. Credit-based financing structures such as Credit Tenant Loans will offer tremendous price advantages for assets to be occupied long term. In addition, pending changes to lease accounting will eliminate off-balance sheet display for reporting purposes, making on-balance sheet structures an attractive option.

For investors, 2011 brought no discount for purchasing top-quality assets in major markets. High-grade, single-tenant and other core assets — especially in 24/7 gateway markets — reached 2007 peak pricing. Capital will still be attracted to these assets in 2012.

Investors and lenders will prolong risk aversion, limiting capital for speculative development. Other than multi housing, build-to-suits for businesses and the government will constitute most new development in 2012. These projects will remain highly competitive among developers, and contain significant capital-related risk. The Grubb & Ellis Corporate Finance Group's most active area of business during the past few years has been advising developers on capital solutions for build-to-suit projects and we expect this to continue in 2012.

Jeffrey W. Shell
Executive Vice President
National Director, Corporate Finance

> Multiple restaurants have filed for reorganization over the past few years, while others have struggled to avoid it.

While 2011 may be remembered as the year Borders filed for Chapter 11 reorganization, it was actually a slow year in the bankruptcy and restructuring world. A stagnant period left some companies holding on, while banks did not want to recognize losses. Most industry veterans do not expect a major increase in Chapter 11 filings in 2012 due to the Federal Reserve's "easy money policy" of not changing rates until at least 2013. Additionally, since 2012 is an election year, no major policy changes are expected.

Despite this relatively quiet period, one segment that has been hit hard is the restaurant industry. Multiple restaurants have filed for reorganization over the past few years, while others have struggled to avoid it. Franchisors are leaning on poor performing franchisees and many family-style restaurants are under pressure to maintain market share. Are there alternatives for the operator not wanting to broach an expensive Chapter 11 filing but also sliding toward violating bank covenants? Approaching landlords with creative methods for restructuring leases is a growing trend.

Many restaurants and retailers have asked their internal real estate departments to reach out to their landlords to seek reductions in rent. While this appears to be a responsible method, more often than not it turns into a quick swing for low hanging fruit. Said real estate departments are typically over-burdened to begin with and asking them to take on an additional challenge is like asking a house painter to paint a few more rooms — at the same pay.

An effective portfolio rent reduction program will take many facets into account, including the local real estate market, costs to the landlord (should the tenant relocate – always a threat) and inducements the tenant may be able to offer. More often than not, tenants simply will offer their landlord additional term in return for a reduction in rent, but other inducements may be appropriate. For example, creative strategies may include loosening strict tenant controlled use language, changing maintenance clauses, giving back part of a parking lot, or even changing the configuration of the tenant's space in order to give the landlord back space to rent to another tenant.

There is the obvious need to scour the tenant's lease in order to come up with an effective strategy, but the same level of due diligence is required when investigating the landlord's complete real estate position. Healthy companies are finding cooperative landlords when presenting a "trade" wherein the tenant invests in its own building improvements and renovation in return for a reduction in rent.

Steven Monroe
Vice Chairman
National Director, Restructuring

Ted Parris
Vice Chairman
National Director, Restructuring

GRUBB & ELLIS. From Insight to Results

The commercial appraisal industry remained resilient during 2011 despite continued lackluster fundamentals within the broader economy. Much of this resilience can be attributed to the need for property valuations surrounding the work-out process involving the nation's massive book of distressed loans, more than half of which are controlled by national, regional and community banks. Aside from the monitoring and work-out appraisal market, there is demand coming from sources such as CMBS origination, valuation for financial reporting and institutional investors.

CMBS: Back one minute; gone the next

The CMBS market began to show signs of a thaw during the first half of 2011. Originators began re-entering the space, primarily focusing on portfolios of well-leased assets such as shopping centers, net-leased industrials, etc. Calling itself CMBS 2.0, the industry proclaimed there would be increased scrutiny of appraisals, and there was. However, just as quickly as the CMBS market rekindled, it was gone. Spreads and loan-to-value ratios quickly collapsed in the face of brisk lender competition, while demand for the less attractive tranches evaporated due to a lack of sufficient institutional investor interest.

Valuation for Financial Reporting: Watching a quickly rising tide?

The long awaited transition from cost-based "book value" accounting to market-based asset valuations is becoming a reality. Recent changes in accounting rules have brought the U.S. into greater conformance with international accounting standards. This opens the door for valuations of leases and real property that are based on a professional opinion of fair value. These accounting changes are expected to be implemented over the next few years as the pace of accounting rule changes increases.

Institutional Investors: More attention on valuation

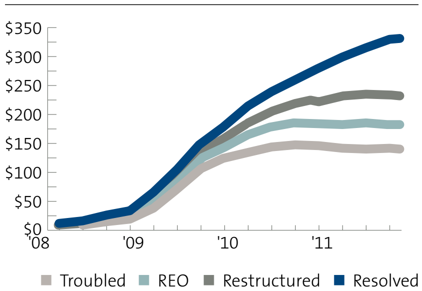
The institutional investor category primarily consists of public and corporate pension funds, endowments and foundations, life insurance companies, real estate investment trusts and sovereign wealth funds. In the U.S., the combined marketplace is estimated at $4.4 trillion. Many pension funds and life insurance companies have begun to employ appraisal management companies to update the values of their portfolios for financial reporting purposes. Their current concerns focus on the real-time credit and economic environment, property value losses, reduced property revenue, asset allocation and changing risk-adjusted investment opportunities.

In the coming year, look for a strong appraisal market due to continued monitoring and work-out opportunities, as well as the eventuality of a spike in business from a re-ignited CMBS market and/or the assignments generated from adoption of VFR standards.

Douglas Haney
President
Grubb & Ellis Landauer

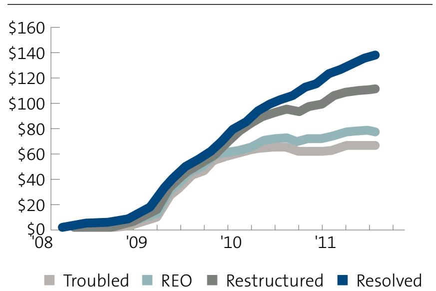
Eduardo Alegre
Executive Managing Director
Grubb & Ellis Landauer

Total Cumulative Distress
(in Billions)



Source: Real Capital Analytics

CMBS Cumulative Distress
(in Billions)



Source: Real Capital Analytics

Research

GRUBB & ELLIS.
From Insight to Results

Our research platform serves as the foundation for sound decision making.

Grubb & Ellis believes that sound real estate data and analysis underlies every smart real estate decision. There's little room for error when competition is fierce, margins are tight and organizations are trying to squeeze the most value out of their investments. Sound research helps ensure you are pursuing the most effective real estate strategies and evaluating the best possible solutions to achieve your business objectives.

This approach is nothing new for Grubb & Ellis. Research is part of our legacy, and we're known for delivering some of the highest quality research in the industry. We cover big-picture economic trends as well as specific drivers of local market demand for space. Our professionals regularly provide expert commentary to business organizations, government entities and the media on the forces shaping the commercial real estate landscape. We go beyond standard real estate statistics to explore how significant developments — such as election results, accounting rules or environmental legislation — may affect real estate owners, tenants and investors.

Our comprehensive insights are based on:

- Our professional research managers and their staff, whose critical function it is to build the base of market intelligence in each office and provide published reports and custom analyses to our clients. Grubb & Ellis pioneered the concept of hiring professional research managers to direct the company's research function. Our analysts undergo extensive training to ensure they understand the nuances of the real estate cycle, inflection points in the cycle, leading indicators, and the actions and advice that are appropriate for each phase of the cycle. Education and practical application of market data continues throughout our employees' careers.
- Our systems used to compile, maintain, analyze and disseminate our research. Grubb & Ellis was one of the first in the industry to use computerized market research and analysis and continues to make investments to improve and enhance the information available. In addition to subscribing to the top property databases, Grubb & Ellis maintains a proprietary, centralized web-resident data warehouse to track its property-specific data — including property details, images, available space, leasing and sales comparables and tenant information. This sophisticated system, which is thoroughly audited on a regular basis, is based on a rigorous set of research standards designed to ensure that data are consistent across markets.
- Our reports and publications through which we translate our extensive databases into analysis, insights and actionable recommendations for our clients. In addition to our annual national and local forecast reports, Grubb & Ellis produces quarterly Market Trends reports that analyze local and national market conditions by product type, a Weekly Market Insight electronic communication on a timely economic or real estate-related topic, a biannual Logistics Market Trends report and white papers on issues that are important to our clients.
- Our real estate professionals and extensive network of practice groups, whose familiarity with the people and the property in their submarkets and unique industry segments yields a daily, in-the-trenches grasp of changing market conditions. The creation of market intelligence is a team effort, with knowledge flowing constantly between our research teams, brokerage sales professionals, practice groups and investment specialists.
- Our strong research platform combined with the knowledge and expertise of our professionals enables us to deliver integrated solutions to our clients — from market to market and around the globe. It is a proven tool that forms the foundation of all the services we provide, allowing us to uncover opportunities when they may not be easily visible. And it's what gives Grubb & Ellis and our clients a competitive advantage in the marketplace.

We'd be happy to discuss the findings in this year's forecast or any of our publications. To keep abreast of research disseminated by Grubb & Ellis, please visit www.grubb-ellis.com/research.

Company Profile

GRUBB & ELLIS.
From Insight to Results

An emphasis on specialization means that our professionals are equipped to help clients capitalize on today's market opportunities.

Grubb & Ellis Company (NYSE: GBE) was founded in 1958. Over the last half century, the company has grown from a single office in San Francisco into one of the nation's largest and most respected commercial real estate services firms. Its 5,000 professionals in approximately 100 company-owned and affiliate offices draw from a unique platform of real estate services, specialty expertise and best-in-class processes to deliver integrated solutions to real estate owners, tenants and investors. Whether a client needs help with a single property or multiple global facilities, the solutions Grubb & Ellis delivers are supported by proprietary market research and extensive local expertise.

From Fortune 500 multinational companies, institutional investors and government agencies to small and mid-sized businesses and individual investors, clients look to Grubb & Ellis for a wide range of real estate solutions. We can assist with everything from selecting a location to do business, improving a property or portfolio's operating efficiency, increasing occupancy or otherwise maximizing the return on an investment. Our practice groups bring together professionals who have experience with particular property types and specific industries, seeking to ensure clients' needs are clearly understood and the most effective solutions are implemented.

Possessing one of the largest and most experienced real estate brokerage sales forces in the country, Grubb & Ellis' teams of specialists cover all aspects of commercial real estate and work closely with clients to assess the ways in which real estate issues relate to — and contribute to — an organization's strategic business objectives. Last year, Grubb & Ellis and its affiliates completed more than 14,000 brokerage transactions with a combined value of over $12 billion.

We continue to evolve our business so that we are ready and able to help our clients achieve their goals — no matter what the market conditions. Examples include the company's Financial Services Asset Management practice, which supports financial service firms in resolving issues, recovering value and managing risk in dealing with distressed real estate debt and properties, and Grubb & Ellis Landauer Valuation Advisory Services, which has experienced dramatic growth due to the market's demand for timely, accurate and comprehensive appraisal and valuation services.

We deliver integrated property, facility and asset management services focused on cost-efficient operations, tenant retention and increasing property values to a host of corporate and institutional clients. In total, Grubb & Ellis and its affiliates manage a diverse portfolio of nearly 300 million square feet of space. This portfolio includes headquarters, facilities and Class A office space for major corporations, as well as industrial, manufacturing and warehouse facilities, data centers, retail properties, medical buildings and multi housing assets for real estate occupants and investors. Additionally, Grubb & Ellis provides consulting services that help clients better understand their real estate portfolio, the current operating environment, and future opportunities that exist through smart, strategic planning.

Real Estate Services
for Real Estate Owners, Tenants and Investors

- Agency leasing
- Asset management
- Capital markets
- Consulting
- Disposition services
- Engineering services
- Facility management
- Lease administration
- Portfolio rationalization
- Project/construction management
- Property management
- Site selection
- Strategic planning
- Tenant representation
- Valuation services

Office Directory

GRUBB & ELLIS
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Corporate Headquarters
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714.667.8252

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251.438.4312

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602.952.3800
Tucson
520.321.3330

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Solomon Partners
479.271.6118
North Little Rock
Solomon Partners
501.978.4333

California
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714.939.6000
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661.862.5454
Fresno
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559.432.6200
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213.596.2222
LA East (San Gabriel)
562.364.2000
LA South Bay (Torrance)
310.491.2000
LA West
310.477.3800
Newport Beach
949.608.2000
Oakland
510.444.7500
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909.605.1100
Roseville
916.770.8900
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916.418.6000
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858.875.3600
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415.433.1050
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650.453.5000
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Idaho Commercial Group
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Pfefferle
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