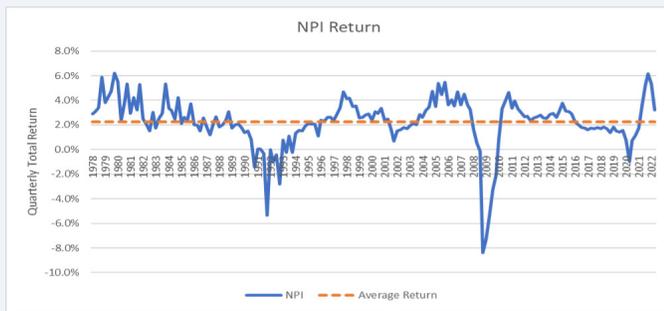


INSTITUTIONAL REAL ESTATE RETURNS DECLINING BUT ABOVE HISTORICAL AVERAGE

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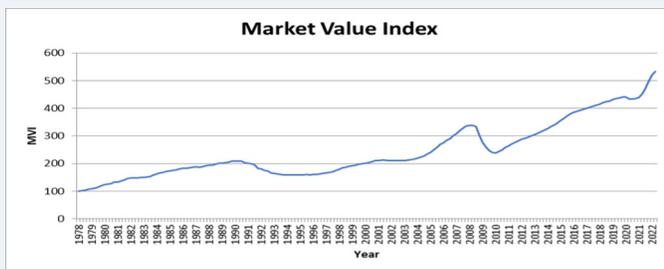
The quarterly total return was 3.23% for the second quarter which is down from 5.32% the first quarter but still above the average over the history of the NPI which is 2.25%. The quarterly return consisted of 0.97% from income and 2.26% from appreciation. Appreciation is after the deduction of capital expenditures.

Unleveraged NPI Returns



Market values before considering capital expenditures increased by 2.49% which propelled the Market Value Index (MVI) to another historical high.

NCREIF Market Value Index

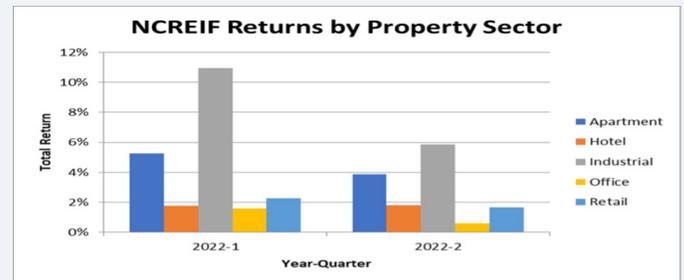


Returns Decline for all Sectors Except Hotels

Returns for each of the major property sectors declined during the second quarter except for hotels which managed a slight increase from 1.76% to 1.80%. Industrial properties continued to have the highest return at 5.86%. Apartment properties had the second highest return at 3.86% followed by retail at 1.68% and office at 0.58%. The office sector was the only one that had a negative appreciation

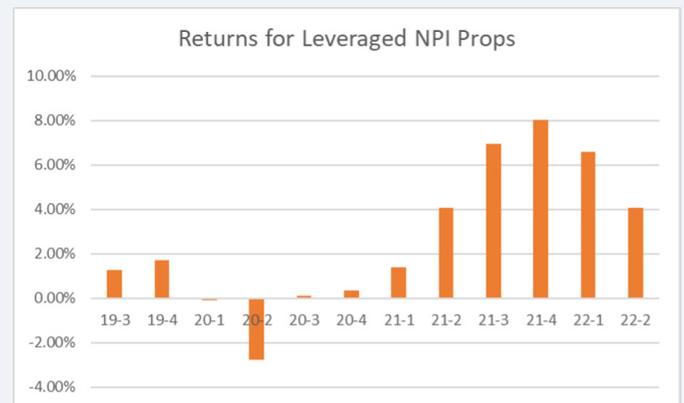
component of return.

Unleveraged Total Returns by Property Sector



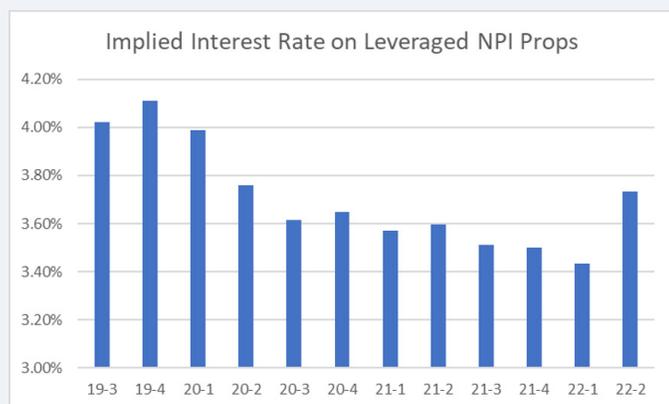
Properties with debt financing had a leveraged total quarterly return of 4.06%. As of quarter-end there were 4,463 properties with leverage and the weighted average loan to value ratio was 41%.

Returns for Properties with Leverage



The average interest rate on the leveraged properties rose from a record low of 3.43% the first quarter to 3.73% during the second quarter. This rate reflects what is currently being paid as interest on the leveraged properties compared to their loan balance. This would include fixed rate loans already in place. So, the increase in rate would only be for adjustable-rate debt or any new debt financing. As unleveraged returns fall and interest rates rise, leverage could become unfavorable at some point in time.

Implied Interest Rate for Leveraged Properties



Capitalization Rates

Market value weighted capitalization (cap) rates held steady at 3.83% during the fourth quarter despite rising interest rates. This is likely a result of an increase in the growth rate of Net Operating Income (NOI) for the quarter which rose to 4.05%, up from 2.57% the prior quarter. The future direction of cap rates will depend on whether any further increases in interest rates are offset by continued expectation of growth in property NOI and values.

Conclusion

A lot has happened in both public and private markets as well as the overall economy since the end of the 2nd quarter data was released. While returns were above the long-term average during the 2nd quarter, if the current downtrend continues, they may fall below this average next quarter. But at least so far, there are no signs of real estate entering a recession even if some definitions of recession would conclude that the overall economy is in one.