



YEAR END
2001

REAL ESTATE "RECESSION" OR "CORRECTION"?



Sam G. Kartalis
President/COO

IT'S NO SECRET THAT THE YEAR 2001 WAS NOT THE BEST YEAR FOR THE COMMERCIAL REAL ESTATE INDUSTRY IN TEXAS AND PROBABLY NATIONALLY. ALTHOUGH IT TOOK AWHILE FOR THE "EXPERTS" TO REALIZE AND ACCEPT THE FACT THAT WE WERE IN A "RECESSION," THOSE OF US IN THE INDUSTRY

ACKNOWLEDGED AND ACCEPTED THIS FACT SOMETIME DURING THE FIRST QUARTER OF 2001.

MANY OF OUR SPECIALTY GROUPS (SUCH AS RETAIL, INDUSTRIAL, CONSULTING, AND LAND) WERE NOT VERY AFFECTED, HOWEVER, OUR INVESTMENT GROUP PROBABLY FELT THE RECESSIONARY EFFECT MORE THAN THE OTHERS. TRANSACTIONS FOR INVESTMENT PROPERTIES DECLINED BECAUSE THE "BID/ASK" RATIO WAS GROSSLY "OUT OF SYNC."

SURPRISINGLY (OR PERHAPS NOT SO SURPRISINGLY) THE NUMBER OF BUYERS WAS NOT AFFECTED BY THE RECESSION AND THEY STILL EXIST TODAY, AND, IN FACT, BUYERS CONTINUE TO INCREASE IN SEARCH OF THE REALISTIC "DEALS."

MANY OWNERS HAVE BEEN RELUCTANT TO SELL THEIR PROPERTIES EVEN THOUGH THE VALUE OF THEIR PROPERTIES MAY HAVE SUFFERED SOMEWHAT DURING THIS RECESSIONARY PERIOD. FORTUNATELY, LENDERS ARE IN A MUCH BETTER POSITION THAN THE "80'S AND 90'S," BECAUSE THERE IS SUBSTANTIAL EQUITY "AHEAD OF THEIR LOANS." NEVERTHELESS, IT IS MY OPINION THAT PROPERTY OWNERS (ESPECIALLY OFFICE BUILDING OWNERS) MAY SENSE THE SUBTLE PRESSURE TO BECOME MORE REALISTIC IN SELLING THEIR BUILDINGS AT MORE REASONABLE ASKING PRICES.

I BELIEVE THAT THE INVESTMENT MARKET WILL HEAT UP BY THE END OF 2002 AND WILL CONTINUE TO IMPROVE IN THE NEAR FUTURE AS

AVAILABLE CASH AND INTERESTED BUYERS CONTINUE TO PRESSURE OWNERS TO SELL THEIR PROPERTY.

IT'S NO SECRET THAT THE OFFICE MARKET HAS BEEN OVERBUILT AND THAT OVERBUILDING HAS BEEN EXACERBATED BY THE LOSS OF SO MANY TENANTS AFFECTED BY THE RECESSION. DALLAS HAS PROBABLY BEEN AFFECTED, MORE THAN ANY OTHER MAJOR TEXAS MARKET, ALTHOUGH AUSTIN, WHICH UP UNTIL 2001 HAD A VERY ROBUST OFFICE MARKET, HAS NOW SEEN IT'S VACANCIES INCREASE DRAMATICALLY BECAUSE OF THE TECHNOLOGY "CRASH." HOUSTON AND SAN ANTONIO, ON THE OTHER HAND, SEEM TO HAVE FARED MUCH BETTER THAN AUSTIN AND DALLAS DURING THIS RECESSIONARY PERIOD.

FOR THOSE OF US WHO HAVE BEEN IN THE BUSINESS SINCE THE LATE 60'S AND EARLY 70'S, WE CONTINUE TO BE REMINDED THAT "NOTHING LASTS FOREVER," AND GOOD TIMES FOLLOW BAD TIMES FOLLOW GOOD TIMES, ETC.

ON THE POSITIVE SIDE, IT IS MY OPINION THAT FOR TEXAS, THIS "REAL ESTATE RECESSION" IS MORE OF A "CORRECTION" THAN A FULL FLEDGED RECESSION. TEXAS WILL CONTINUE TO ATTRACT NEW BUSINESS AND NEW JOBS AND WILL CONTINUE TO LEAD THE NATION WITH ITS HEALTHY ECONOMY, WHICH WILL DIRECTLY AND POSITIVELY IMPACT THE CONTINUED GROWTH OF ITS COMMERCIAL REAL ESTATE INDUSTRY. FOR EXAMPLE, THE GROWTH OF NEW JOBS IN DALLAS MAY HAVE SUFFERED SOMEWHAT FROM ITS HIGH OF 100,000 NEW JOBS PER YEAR BUT NEVERTHELESS THE CREATION OF NEW JOBS FOR THE METROPLEX SHOULD CONTINUE.

THIS COMPANY CONTINUES TO GROW AT A TIME WHEN MANY OF OUR COMPETITORS "DOWNSIZED" DURING THIS "CORRECTION PERIOD." WE HAVE BEEN SUCCESSFUL IN ATTRACTING EXPERIENCED AND CAPABLE PEOPLE WHO ARE INTERESTED IN ASSOCIATING WITH A COMPANY KNOWN FOR ITS FINANCIAL STRENGTH AND ITS OPPORTUNISTIC PHILOSOPHY. NO LESS IMPORTANT IS THE FACT THAT WE



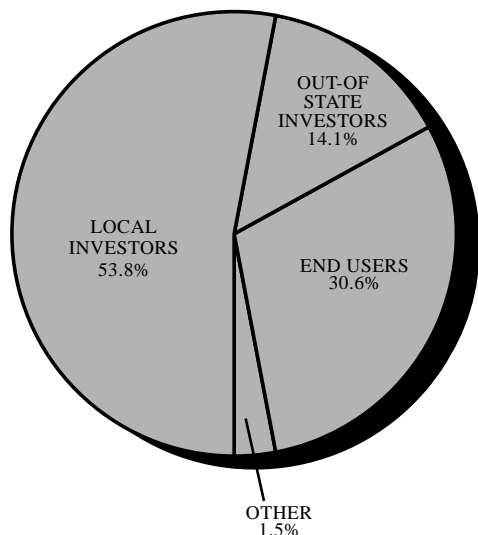
PROVIDE AN ENVIRONMENT WHICH IS NOT ONLY FRIENDLY TO, BUT EXTREMELY SUPPORTIVE OF ITS ENTREPRENEURIAL ASSOCIATES AND PROFESSIONAL STAFF.

IN ORDER TO EXPAND OUR SERVICES TO OUR CLIENTELE WE HAVE RECENTLY MADE THE DECISION TO ENLARGE OUR INVESTMENT BANKING OPERATION BY MERGING WITH STONEHILL REALTY CAPITAL INC., A LOCAL COMPANY OWNED AND OPERATED BY A LONG TIME DALLAS ENTREPRENEUR, JIM BROWNLOW, WHO WILL SERVE AS PRESIDENT AND CEO OF HENRY S. MILLER INVESTMENT BANKING GROUP. JIM HAS BEEN A VERY SUCCESSFUL MORTGAGE BROKER/BANKER AND IN TEXAS NATIONALLY FOR MANY YEARS AND WE ARE DELIGHTED TO ACCEPT HIS EXPERTISE. IN CLOSING, I WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK EACH OF YOU, OUR CLIENTS, WHO HAVE HELPED US GROW AND PROFIT IN THE TEXAS MARKET FOR OVER EIGHTY YEARS. WE WILL CONTINUE TO DO OUR BEST TO SERVE YOU AND WELCOME ANY COMMENTS AND/OR SUGGESTIONS THAT WOULD HELP US SERVE YOU BETTER.

SAM G. KARTALIS
President/COO

“Who are the active buyers in today’s market?” The following chart reflects the actual buyers, based on the number of transactions, according to the respondents.

ACTIVE BUYERS



TRENDS - The information contained herein is the result of a survey of participants in the commercial real estate markets of North Texas for the second half of 2001. The respondents include local and national developers, asset managers, loan officers in local and national lending institutions, brokers, as well as consultants, mortgage bankers and individual investors. Some of the data reported reflects a weighted average using the transactions and total dollar amounts as the basis. Thus, the respondents that were the most active within the period had more influence on the data reported.

The responding group as a whole participated in 313 transactions totaling approximately \$1.46 billion during the second half of 2001. Of the respondents, 17.9% were investors, 60.7% were brokers and 21.4% were other real estate professionals.

Direct capitalization, expressed as a rate, converts a single year’s net operating income into a value. The market recognizes three types of “Cap Rates.” The “going-in” rate is based on the investor’s analysis of the current income at time of purchase. The “stabilized rate” is based on the investment’s typical operating year at a stabilized occupancy. The “reversion rate” is the capitalization rate anticipated by investors at the time of resale.

CAPITALIZATION RATES

Property Type	Going-In		Stabilized		Reversion	
	Average	Range	Average	Range	Average	Range
Apartments	9.2%	7.5-12.0%	9.4%	8.5-11.0%	9.5%	8.5-10.0%
Office	9.7	8.5-10.5	9.9	9.5-10.5	10.2	10.0-10.5
Retail	10.5	8.5-14.0	10.1	9.5-11.0	10.3	9.5-11.0
Industrial	9.2	8.5-10.0	9.5	8.8-10.5	9.9	9.0-11.5
Hotel	10.5	10.0-11.0	11.5	11.0-12.5	12.5	11.5-13.5

The capitalization rates reported are more reflective of Class A and B type properties and are broken out as follows: Class A-44.7%, Class B-38.7%, Class C-16.7% .



We asked respondents to estimate changes in revenue and expenses by property type, which is demonstrated in the following table.

REVENUE AND EXPENSE

Property Type	Year 1		Year 2		Thereafter	
	Revenue	Expense	Revenue	Expense	Revenue	Expense
Apartments	1.82%	2.85%	3.00%	3.00%	3.05%	3.00%
Office	-0.40	2.83	2.43	2.67	2.83	2.50
Retail	1.78	2.61	2.56	2.56	2.89	2.67
Industrial	2.00	2.50	2.33	2.50	2.67	2.67
Hotel	2.00	3.60	1.20	3.00	3.00	3.00

We asked the investment community about their acceptable returns when investing in land. The following yield rates reflect primarily unleveraged returns.

YIELDS FOR LAND

Property Type	Average	Low	High
Pad Site	10.0%	10.0%	10.0%
Industrial	10.0	10.0	10.0
Residential Lot Development	22.5	20.0	25.0
Speculative Land Purchase	32.3	27.0	35.0

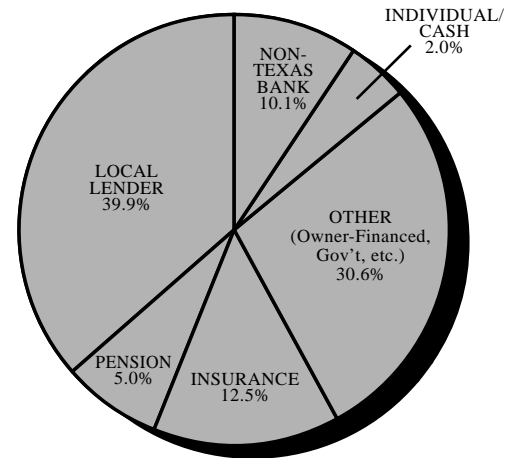
The following table reflects market averages and ranges for finish-out in office, industrial and retail properties. These are shown on a per square foot basis. Please note that the ranges for industrial reflect both bulk and flex type space. The upper end reflects flex space, with the lower end being more representative of warehouse or bulk type space and is usually only applied to the office portion.

FINISH-OUT

Property Type	New			Renewal		
	Average	Low	High	Average	Low	High
Office	\$18.86	\$10.00	\$25.00	\$9.06	\$6.00	\$13.50
Industrial	5.00	4.00	6.00	2.00	2.00	2.00
Retail	14.13	6.00	20.00	7.28	4.00	15.00

The following graph shows the sources of funds used in the transactions (based on the dollar amount of the transactions.)

SOURCES OF FUNDS



A discount rate (interest rate to the lender, yield to the investor) is the rate that equates the property's present value to its future income over a period of years and eventual resale. The following table presents the range and the average discount rates, as compared to the year-end 2000. The discount rates presented in the table were allocated by property type as follows: Class A-52.1%, Class B-19.3%, and Class C-21.4 and Other-7.1%.

DISCOUNT RATES

Property Type	Year-End 2000 Average	Year-End 2001 Average	Year-End 2001 Low	Year-End 2001 High
	Apartments	11.0%	11.2%	8.5%
Office	11.7	11.6	11.0	13.0
Retail	11.6	11.1	9.5	12.0
Industrial	10.6	11.0	10.0	12.0
Hotel	15.3	13.8	13.0	15.0
Ground Leases	9.4	9.2	8.0	10.0



When asked what would be a reasonable exposure time for a property to sell in the open market, the respondents answered as follows:

REASONABLE EXPOSURE TIME

Property Type	Months	Property Type	Months
Apartments:		Land:	
Class A	6.8	Leased Fee Sites	9.0
Class B	6.8		
Other	7.1		
Office:		Industrial:	
High Rise	10.2	Bulk Warehouse	6.8
Class A Suburban	11.5	Office/Warehouse	6.6
Class B	11.5	Tech/Flex	8.6
Other	9.2		
Retail:		Hotels:	
Regional	10.6	Full Service	14.0
Community	8.9	Limited Service	13.7
Neighborhood	8.3	Economy	11.8
Unanchored	8.4		

The following table reflects the anticipated term of ownership (from acquisition to resale) for certain property types.

HOLDING PERIOD (YEARS)

Property Type	Avg	Range	Mode	Property Type	Avg	Range	Mode
Apartments	4.7	3.0-7.0	5.0	Industrial	6.0	3.0-10.0	5.0
Office	7.0	4.0-10.0	5.0	Hotels	8.3	5.0-12.0	10.0
Retail	5.8	3.0-10.0	5.0	Ground Lease	7.9	4.0-15.0	10.0

INVESTMENT OPPORTUNITY IN 2001

Apartment properties were viewed as being the best investment opportunity, followed by industrial, retail, office, land and hotel properties. The participants were asked to provide their forecast for 2002; 5.3% said great, 31.6% think good, 52.6% say stable and 10.5% anticipate a decline.

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We asked the respondents what they used for a stabilized vacancy and collection loss when analyzing different property types. The following table summarizes their responses, presenting both the average and the mode.

VACANCY AND COLLECTION LOSS (Average and Mode)

Multi-Tenant	Loss (%)	Single Tenant	Loss (%)
Retail:		Retail:	
Strip Center	8.1/10.0	Credit	1.6/3.0
Neighborhood	7.2/8.0	Non-Credit	6.4/5.0
Anchored	5.1/5.0		
Multi-anchor	5.4/5.0		
Office:		Industrial:	
Class A	8.0/7.0	Credit	1.6/2.0
Class B	9.0/7.0	Non-Credit	6.0/5.0
Garden (Class C)	11.0/10.0		
Small	9.8/7.0		
Industrial:		Office:	
Bulk	4.8/5.0	Credit	2.6/5.0
Flex	7.8/10.0	Non-Credit	8.3/10.0
Apartments:			
Class A	6.8/7.0		
Class B	6.8/5.0		
Class C	8.9/7.0		

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