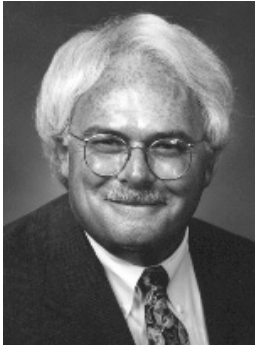


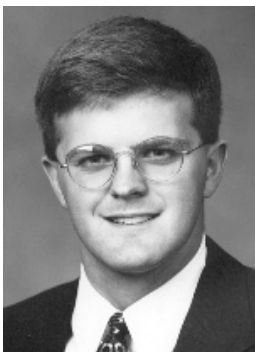
REAL ESTATE FINANCE



Roy G. Norwood, Jr.
President
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We expect 2004 to be distinguished by an abundance of capital, low interest rates, and frustrated investors who prefer high leverage. We continue to see softness in the markets today for most property types. However, the major southwestern U.S. commercial and multifamily markets are in far better shape than after the meltdown of the 80s. This softness manifests itself in concessions resulting in relatively low economic rents. The good news is

that there are opportunities to buy properties at or below replacement costs and the low interest rates have a positive impact on cash flow. The frustrating aspect is the challenge to get the desirable levels of leverage with first mortgage debt.



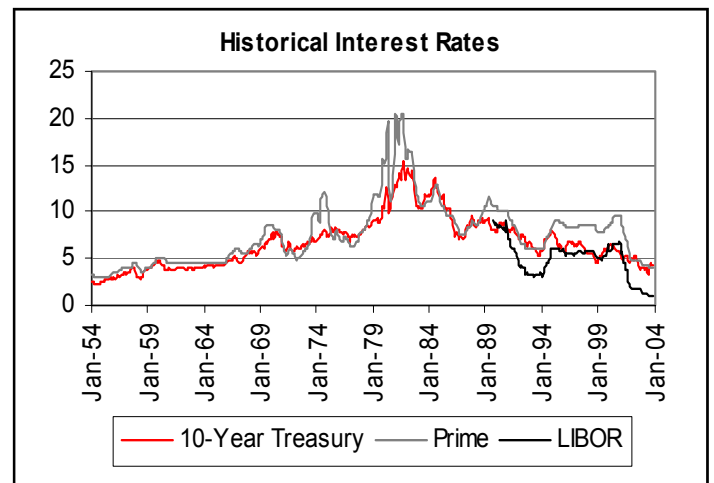
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Interest Rates - To truly appreciate today's interest rate environment one should look at it from a historical perspective. This interest rate chart plots the 10-year Treasury rates, LIBOR (London Interbank Offering Rate) and prime rates over the past half century. As one can see, we're enjoying the lowest rate environment since the late 1950s. More pertinent to many is how far rates have dropped over the past 25 years. Clearly, this is a great time

to be financing real estate as it pertains to interest rates.

The 10-year Treasury is the index for the majority of long-term, fixed rate commercial and multifamily loans made in the market today by most life companies, conduit lenders and agency lenders such as Fannie Mae and Freddie Mac. The 10-year Treasury closed 2003 at 4.27% and briefly went below 3.5% during the summer of 2003. LIBOR and prime are the indices commonly used for floating rate debt.

Investor Spreads - The investor spread is the margin over an index that results in the actual interest rate charged. These spreads are over an index such as the 10-year Treasury, prime, LIBOR, or the Freddie Mac Reference Notes. Investor spreads differ for property types, perceived risk, and financial market conditions. Currently the capital markets are efficient and real estate is perceived to be a good place to invest capital. Therefore, investor spreads are relatively narrow. For example, ten years ago investor spreads for long-term, fixed rate multifamily debt was approximately 330 basis points over the ten-year Treasury. Two years ago they had narrowed to around 220 basis points over the ten-year Treasury. Today, the spreads for multifamily debt are just north of 105 basis points over the ten-year Treasury.



Challenges in financing commercial real estate in today's market - In spite of today's low interest rates, there are still challenges financing real estate in today's market, particularly as it pertains to office and multifamily. The problems are concessions and economic vacancy. In today's prudent underwriting environment, we're focused on real net operating incomes (NOI) that are based on actual rental collections. When factoring in economic vacancy, it is difficult to deliver the desired loan proceeds based on debt service coverage. When proceeds are important and the underwritten NOI is a problem, some borrowers are considering floating rate debt and/or mezzanine debt. This is partially driven by the low cap rates being paid for investment property today.

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Float or Fix - With interest rates at historical lows one can make a strong case for snagging a fixed rate loan. However many borrowers favor floating rate debt because they are comfortable with the interest rate environment and want to enjoy the enhanced cash flow effected by the lower floating rate debt. Rates vary according to many factors such as property type and market condition, but one could generalize and say fixed rates are around 6.0% for 10 year debt and floating rates are around 3.5%. So, it's easier to juice yields with a 3.5% rate versus a 6.0% rate. Many think floating rate debt is risky. If interest rates run up, a borrower may come up short on adequate proceeds when he tries to convert to a fixed rate. However, some borrowers will suggest that rates aren't likely to rise without inflation and inflation will cause rental rates to rise, which will enhance values, and is, therefore, self-correcting.

Mezzanine Debt - The last few years have seen a proliferation of mezzanine debt offered and used. Mezzanine debt is generally for short durations, usually around three years. Therefore, it is usually appropriately used for "value added" opportunities, such as rehabs, repositioning, conversion and, in the extreme, development. Typically, the value added aspect is necessary for mezzanine debt because the borrower must demonstrate an exit strategy and a stabilized property won't have enough upside to repay the mezzanine with the proceeds of a sale or re-finance. Mezzanine debt is structured in a variety of methods. Some mezzanine providers are looking only for an interest rate, albeit a premium rate generally in the mid-teens. Some mezzanine providers structure a cumulative, compounding, preferred return and a participation of the properties upside in value. Some providers structure a cumulative preferred return (cum pref) with an IRR lookback to achieve their yield.

Development Financing - Development financing is available with senior debt, mezzanine debt and equity. However, it is stringently underwritten and only special opportunities in special markets can obtain financing without significant and credit-worthy pre-leasing. There are certain submarkets, generally those with significant barriers to entry, that will support speculative development financing. Generally, in today's market, one needs pent-up demand, often resulting from zoning and growth restrictions placed by a municipality or other unique circumstances. Until job growth heats up, development financing will continue to be scarce.

Henry S. Miller Investment Banking Group provides debt and equity financing for existing and to-be-built multifamily and commercial properties. Please contact Roy Norwood at 972-419-8608 or Loy Shaw at 972-419-8607 for assistance with your financing needs.

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 2003. 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 238 transactions totaling approximately \$319.3 million during the second half of 2003. Of the respondents 5.1% were lenders, 15.5% were investors, 69.2% were brokers and 10.2% were other real estate professionals.

"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

End Users	43.9%
Out-of-State Investors	9.8
Local Investors	46.3

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

SOURCES OF FUNDS

Local Lender	23.1%
Non-Texas Bank	13.5
Individual/Cash	8.8
Other (Owner-Financed, Gov't, etc.)	27.5
Insurance	14.1
Pension	13.0



The capitalization rates reported are more reflective of Class A and B type properties and are broken out as follows: Class A – 35.1%, Class B – 56.5% and Class C – 8.4%. 68% of the respondents indicated that they deduct a reserve within their stabilized proforma.

CAPITALIZATION RATES

Property Type	Going-In		Stabilized		Reversion	
	Avg	Range	Avg	Range	Avg	Range
Apartments	7.1%	5.0-8.5%	8.1%	6.0-9.5%	8.3%	7.0-10.5%
Office	8.8	5.0-12.0	9.4	6.0-12.0	9.6	7.0-12.0
Retail	9.1	7.0-10.8	9.9	8.0-12.5	10.1	8.5-13.3
Industrial	8.6	6.0-10.0	9.0	7.0-10.0	9.6	9.0-12.0
Hotel	9.5	9.0-10.0	10.5	10.0-11.0	11.0	10.5-11.5

The discount rates presented in the table were allocated by property as follows: Class A – 36.9%, Class B – 51.6%, Class C – 5.3% and all types – 6.3%. 77.8% of the respondents indicated that a reserve was deducted within the cash flow.

DISCOUNT RATES

Property Type	Year-End 2002 Average	Year-End 2003 Average	Year-End 2003 Low	Year-End 2003 High
Apartments	10.8%	9.3%	7.5%	10.0%
Office	10.3	10.2	9.0	11.0
Retail	10.6	9.5	8.5	11.0
Industrial	9.8	9.2	8.0	11.5
Hotel	12.3	11.5	10.5	12.5
Ground Leases	8.9	8.3	7.5	9.0

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

REVENUE AND EXPENSE EXPECTATIONS

Property Type	YEAR 1		YEAR 2		THEREAFTER	
	Rev.	Exp.	Rev.	Exp.	Rev.	Exp.
Apartments	1.53%	2.36%	3.29%	2.75%	3.39%	2.79%
Office	1.29	2.92	2.79	3.42	4.42	3.58
Retail	2.75	2.43	3.21	2.66	3.21	2.54
Industrial	2.54	2.19	3.04	2.54	3.21	2.65
Hotel	2.57	2.57	3.43	2.57	4.14	2.86

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 (MONTHS)

Property Type	Months	Property Type	Months
Apartments:		Land:	
Class A	5.9	Leased Fee Sites	7.2
Class B	6.3		
Other	6.9		
Office:		Industrial:	
High Rise	8.8	Bulk Warehouse	6.8
Class A Suburban	9.8	Office/Warehouse	6.2
Class B	11.7	Tech Flex	8.1
Other	8.0		
Retail:		Hotels:	
Regional	6.4	Full Service	9.0
Community	5.8	Limited Service	10.0
Neighborhood	6.0	Economy	9.6
Unanchored	6.7		

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

HOLDING PERIOD (YEARS)

Property Type	Average	Range	Mode
Apartments	5.5	2.0-10.0	5.0
Office	7.6	2.5-10.0	10.0
Retail	6.1	1.0-10.0	5.0
Industrial	7.0	2.0-15.0	5.0
Hotels	7.2	3.0-10.0	10.0
Ground Lease	8.9	4.0-30.0	10.0

Investment Opportunity in 2004

Retail properties were viewed as being the best investment opportunity, followed by industrial, land, apartment, hotel and office properties. The participants were asked to provide their forecast for 2004: great - 9.6%, good - 71.0% and stable - 19.4%.



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, which is usually only applied to the office portion.

FINISH-OUT

	Office	Industrial	Retail
<u>Shell</u>			
Average	\$29.11	\$13.86	\$23.33
Range	\$17.00-\$45.00	\$3.00-\$30.00	\$15.00-\$45.00
<u>New</u>			
Average	\$21.88	\$11.64	\$19.38
Range	\$15.00-\$30.00	\$2.50-\$30.00	\$10.00-\$30.00
<u>Renewal</u>			
Average	\$12.06	\$3.33	\$8.80
Range	\$5.00-\$20.00	\$1.00-\$5.00	\$3.00-\$15.00

We asked the investment community about their acceptable returns when investing in land.

YIELDS FOR LAND

Property Type	Leveraged			Unleveraged		
	Avg.	Low	High	Avg.	Low	High
Pad Site	16.6%	12.0%	22.5%	13.5%	9.0%	18.0%
Industrial	13.6	10.5	20.0	11.8	9.0	17.0
Residential Lot Development	27.1	20.0	35.0	17.6	12.0	25.0
Speculative Land Purchase	29.7	7.0	50.0	16.8	9.0	25.0

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 & COLLECTION LOSS

Multi-Tenant	Loss (%) (avg. & mode)	Single Tenant	Loss (%) (avg. & mode)
<u>Retail:</u>		<u>Retail:</u>	
Strip Center	9.4 / 10.0	Credit	3.8 / 5.0
Neighborhood	8.2 / 10.0	Non-Credit	7.5 / 10.0
Anchored	6.5 / 5.0		
Multi-anchor	6.4 / 5.0		
<u>Office:</u>		<u>Industrial:</u>	
Class A	10.6 / 10.0	Credit	3.5 / 5.0
Class B	12.4 / 10.0	Non-Credit	7.3 / 5.0
Garden (Class C)	13.7 / 15.0		
Small	13.6 / 10.0		
<u>Industrial:</u>		<u>Office:</u>	
Bulk	6.8 / 5.0	Credit	5.7 / 10.0
Flex	7.8 / 5.0	Non-Credit	9.1 / 10.0
<u>Apartments:</u>			
Class A	10.5 / 8.0		
Class B	10.6 / 10.0		
Class C	12.0 / 15.0		

Henry S. Miller Commercial is a full service Real Estate Company providing brokerage, leasing, asset and property management, corporate services, investment banking, development, construction management, consulting and appraisal services. Henry S. Miller Commercial is a member of The Commercial Network (TCN), one of the nation's largest networks of affiliated commercial real estate companies with over 1,200 professionals in 200 markets, worldwide.

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