

2009 Trends

A PUBLICATION OF THE HENRY S. MILLER FAMILY OF COMPANIES



DALLAS/FORT-WORTH TRENDS

The information contained herein represents the results of participants surveyed in the commercial real estate markets of North Texas for year end 2009. 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.

CAPITALIZATION RATES

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.

The capitalization rates reported are more reflective of Class B type properties and are broken out as follows: Class A – 35.7%, Class B – 46.1%, Class C – 17.2% and Class D – 0.9%. Approximately 75.0% of the respondents indicated that they deduct a reserve within their stabilized proforma.

Property Type	GOING-IN			STABILIZED			REVERSION		
	Avg	Range		Avg	Range		Avg	Range	
Apartments	8.60%	6.00%	15.00%	8.73%	5.00%	13.00%	8.73%	6.75%	11.00%
Office	9.17%	8.00%	11.00%	9.19%	7.00%	12.00%	9.38%	8.00%	12.00%
Retail	9.23%	7.00%	12.00%	9.22%	7.00%	12.00%	9.75%	8.50%	12.50%
Industrial	9.00%	8.00%	10.50%	9.25%	7.00%	15.00%	9.56%	8.50%	12.50%
Hotel	10.92%	7.00%	14.00%	11.35%	9.00%	14.00%	11.42%	9.00%	14.00%
Net Lease	8.26%	7.00%	10.00%	8.22%	7.00%	9.50%	8.90%	7.50%	10.00%

REVENUE & EXPENSE EXPECTATIONS

Property Type	YEAR 1		YEAR 2		THEREAFTER	
	Revenue	Expense	Revenue	Expense	Revenue	Expense
Apartments	0.82%	2.38%	2.79%	2.94%	3.24%	3.29%
Office	0.19%	2.06%	1.53%	2.47%	2.62%	2.56%
Retail	-0.13%	2.03%	0.67%	2.27%	2.90%	2.77%
Industrial	0.29%	2.00%	1.54%	2.25%	2.47%	2.57%
Hotel	-0.27%	2.23%	1.05%	2.68%	2.73%	3.18%

DISCOUNT RATES

The following table presents the range and the average discount rates for year end 2009. Most of the respondents indicated that a reserve was deducted within the cash flow.

Property Type	AVERAGE	MODE	LOW	HIGH
Apartments	9.74%	9.00%	7.00%	12.00%
Office	10.02%	10.00%	5.00%	12.00%
Retail	10.08%	10.00%	6.50%	12.50%
Industrial	9.89%	9.00%	5.00%	12.00%
Hotel	13.29%	14.00%	10.00%	15.00%
Ground Leases	8.36%	9.00%	6.50%	10.00%

HOLDING PERIOD

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

Property Type	AVERAGE	RANGE		MODE
Apartments	6.15	1.0	10.0	5.0
Office	6.49	1.0	10.0	5.0
Retail	7.06	1.0	25.0	5.0
Industrial	7.70	1.0	25.0	5.0
Hotel	6.82	3.0	10.0	5.0
Ground Lease	8.96	1.0	20.0	10.0

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VACANCY & COLLECTION LOSS

MULTI-TENANT	LOSS (%)		SINGLE TENANT	LOSS (%)	
	Avg	Mode		Avg	Mode
<u>Retail</u>			<u>Retail</u>		
Strip Center	11.90	10.0	Credit	4.81	5.0
Neighborhood	10.24	10.0	Non-Credit	9.41	10.0
Anchored	8.95	10.0			
Multi-anchor	9.00	10.0			
<u>Office</u>			<u>Industrial</u>		
Class A	10.84	10.0	Credit	5.05	5.0
Class B	12.96	15.0	Non-Credit	9.27	10.0
Garden (Class C)	14.00	15.0			
Small	11.45	15.0			
<u>Industrial</u>			<u>Office</u>		
Bulk	8.30	10.0	Credit	5.26	5.0
Flex	9.74	10.0	Non-Credit	10.30	10.0
<u>Apartments</u>					
Class A	11.59	10.0			
Class B	12.20	10.0			
Class C	13.78	10.0			

FORECAST FOR 2010

Apartment properties were viewed as being the best investment opportunity, followed by industrial, land, office, retail and hotel properties.

Property Type	DECLINING	STABLE	GOOD	GREAT
Apartment	17.1%	51.4%	25.7%	5.7%
Office	58.8%	41.2%	0.0%	0.0%
Retail	61.8%	38.2%	0.0%	0.0%
Industrial	15.6%	71.9%	12.5%	0.0%
Hotel	63.0%	25.9%	7.4%	3.7%
Land	61.8%	35.3%	2.9%	0.0%
Ground Lease	24.1%	37.9%	34.5%	3.5%
Net Lease	12.5%	46.9%	37.5%	3.1%
Overall/Avg	39.34%	43.60%	15.07%	2.00%

MARKET RECOVERY ASSUMPTIONS

Respondents were questioned as to when they feel the real estate market will recover for both the North Texas and U.S. markets.

# OF MONTHS	NORTH TEXAS	U.S.
0-6	0.0%	0.0%
7-12	30.4%	4.3%
13-18	41.3%	30.4%
19-24	17.4%	30.4%
24+	10.9%	34.8%

FINISH-OUT (Per Square Foot)

The following table reflects market averages and ranges for finish-out in office, industrial and retail properties. 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.

	OFFICE	INDUSTRIAL	RETAIL
<u>Shell</u>			
Average	\$27.86	\$8.77	\$26.07
Range	\$15.00-\$40.00	\$0.00-\$30.00	\$20.00-\$40.00
<u>New</u>			
Average	\$17.39	\$4.96	\$12.73
Range	\$4.00-\$40.00	\$0.00-\$20.00	\$0.00-\$30.00
<u>Renewal</u>			
Average	\$9.65	\$2.12	\$4.93
Range	\$1.00-\$25.00	\$0.00-\$10.00	\$0.00-\$20.00

REQUIRED LAND YIELDS

Property Type	LEVERAGED			
	AVG	MODE	LOW	HIGH
Residential Lot Development	26.33%	20.00%	12.00%	50.00%
Speculative Land Purchase	37.92%	20.00%	10.00%	100.00%
Property Type	UNLEVERAGED			
	AVG	MODE	LOW	HIGH
Residential Lot Development	22.08%	15.00%	15.00%	35.00%
Speculative Land Purchase	44.00%	30.00%	12.00%	200.00%

REASONABLE EXPOSURE TIME

Property Type	MONTHS		Property Type	MONTHS	
Apartments:	AVG	MODE	Land:	AVG	MODE
Class A	7.89	12.0	Leased Fee Sites	8.46	6.0
Class B	9.66	12.0	Net Leases	7.08	6.0
Other	12.40	12.0			
Office:			Industrial:		
High Rise	11.44	12.0	Bulk Warehouse	10.52	12.0
Class A Suburban	10.63	12.0	Office/Warehouse	10.19	12.0
Class B	12.33	12.0	Tech Flex	11.35	12.0
Other	13.58	12.0			
Retail:			Hotels:		
Regional	9.88	12.0	Full Service	16.10	12.0
Community	11.11	12.0	Limited Service	14.76	12.0
Neighborhood	10.64	12.0	Economy	14.90	12.0
Unanchored	12.20	12.0			

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