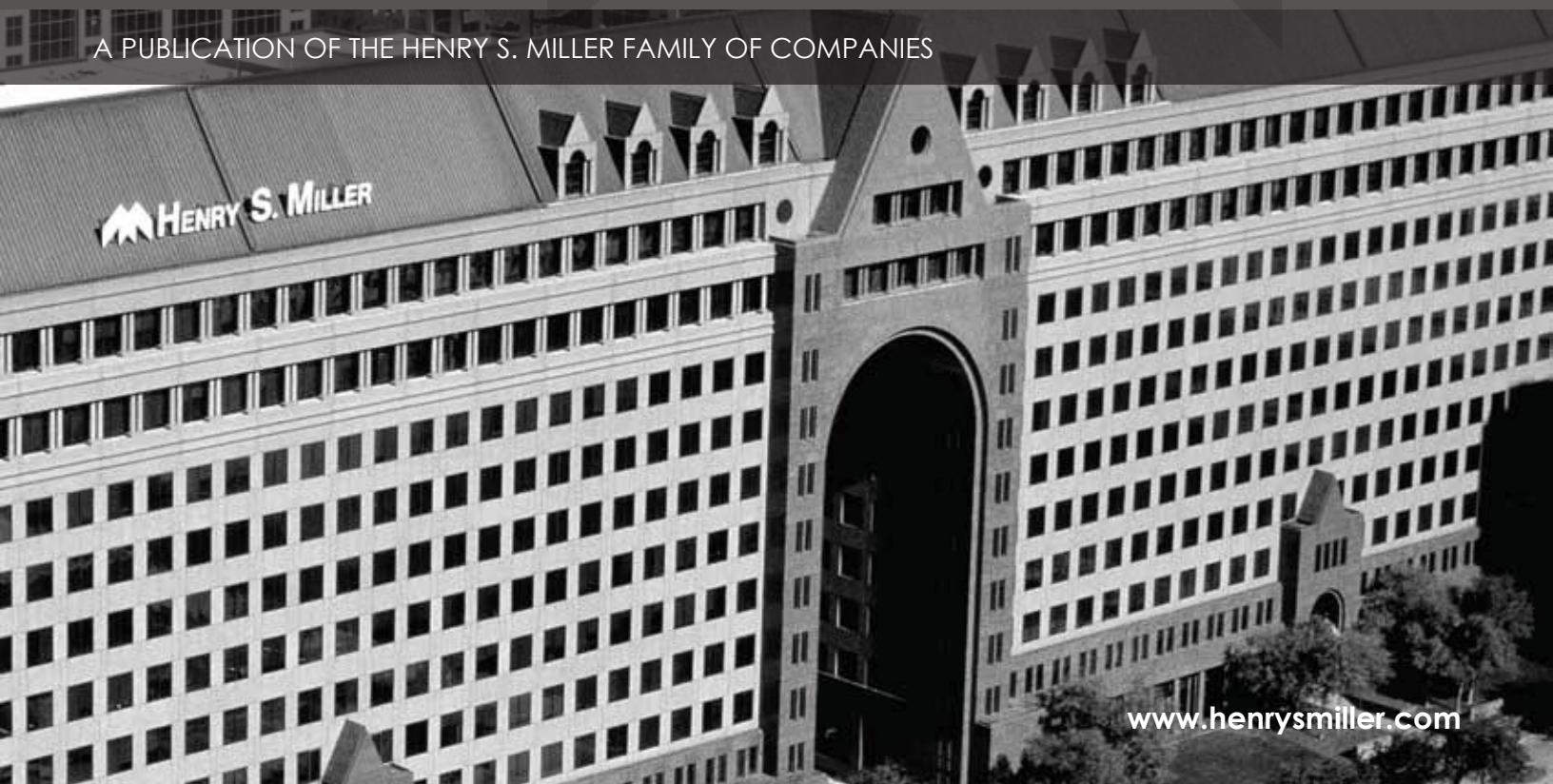


2010 Trends AND 2011 OUTLOOK

A PUBLICATION OF THE HENRY S. MILLER FAMILY OF COMPANIES





LAND: they are not making any more of it!

OR WAS IT "GO WEST, YOUNG MAN"

For many, investing in raw, undeveloped land seems foolish and far too risky, and may well not be for the faint of heart or for those who are "equity challenged". However, from this broker's 40 years of experience within the Dallas-Fort Worth real estate market, for the "non-equity challenged", patient, and reasonably sophisticated investor, observing historical trends, land can be an exceptional investment vehicle.

As in most investments, of course, timing is everything. An investor makes money in a land investment when a second party desires to own it at a price in excess of what the investor has invested, not when the owner decides he needs or is under pressure to sell. While financing land (using leverage either provided by the seller or a third party) can be exceedingly risky, given good timing, the returns can be lucrative. Utilizing the concept of "leverage", one must also be significantly sensitive to the term "inverse leverage". The lucrative effect of good timing can easily have an equally strong negative effect in situations of bad timing.

A land investor need not waste his time understanding such terms as property management, capitalization rate, cash flow, positive operating income, or tax advantages. He does need to understand terms such as agriculture exemption, cow units per acre, improved pasture, and off-site construction costs. Additionally, ad-valorem influences such as zoning, utility access, present and future thoroughfare plans, and environmental issues should be well considered in the land investor's vocabulary.

Most types of investment products share volatile periods of strong demand and over supply. When in demand, their values increase. When in over supply, their values decrease. DFW currently has an abundant supply of raw land assets. However, as the cost of utility construction, new thoroughfares, and projected population increases come into play during active markets, demand frequently exceeds supply.

Over the last forty years, there have been four distinct cycles reflecting both ends of the land investing pendulum. While not quite as deep or destructive as the negative recessionary swing of the late 1980's, the current market certainly approaches that well remembered period. Interestingly, land values have been influenced as much by artificial dynamics, as they have by existing market conditions. Negative tax implications, deregulation, and other governmental influences all have had positive and negative artificial impact on land pricing. Most of the artificial influences were unpredictable, unforeseen, yet had dramatic effects on pricing.

Most income producing investors would just as soon go to Las Vegas and place their equity on either red on the roulette wheel or 7 on the dice table; however, many of the most successful local investors who believe that history does in fact repeat itself still bet on land.

It is my belief that, of all the real estate investment vehicles available today, land investments still represent the best opportunities. If one is to believe, as I do, that the Dallas-Fort Worth area will in fact grow by 750,000 jobs and 2 million people over the next 15 years, it is impractical to think we currently have sufficient infrastructure, housing, office and factory locations, ad valorem support facilities, and commercial structures to support this growth. Thus, well located land, within the traditional path of growth, with limited development liabilities, and possessing uses supported by the residing municipal authorities will be in strong demand.

Today, the average investor rejects any thought of land investment. Land prices have suffered devaluation if only in their timing for absorption. Extending the investment ownership period has a direct influence on the ultimate return. The heated markets of the mid 80's drove prices to levels not permitting economic development, much as it did in the 2005 to 2007 period when unsophisticated buyers were seeking an easy path to invest fee earning excess cash. Little consideration was given to the long term quality of the purchased asset, but much was given to the purchase path of least resistance.

The pricing adjustment that land is currently enduring will offer excellent opportunities. Dallas-Fort Worth will continue to grow. Municipalities will continue to find funding to provide the infrastructure necessary for growth. Employers will tend to locate jobs closer to new growth in order to economically encourage employees. Land will again become an attractive investment vehicle and someone else will want to own a particular tract more than its current owner and be willing to pay significantly higher prices to obtain it. These facts are inevitable. Over the last 40 years, anyone who acquired land in a similar present day market, in the northern Dallas-Fort Worth area, who could afford to wait and did not get greedy, made a sizeable profit. History will repeat itself. There is absolutely no reason to believe it won't. Well, except for those evil, unpredictable, artificial influences that always seem to come into play.

BUY LAND, they are not making any more of it. We have already gone west ("GO WEST, YOUNG MAN"). However, depending upon your particular financial situation, be sure your timing is right.

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DALLAS-FORT WORTH

YEAR END 2010 TRENDS & 2011 OUTLOOK

YEAR END 2010 TRENDS & 2011 OUTLOOK

The information contained herein represents the responses of participants surveyed in the commercial real estate markets of North Texas for year-end 2010. The respondents include local and national developers, asset managers, loan officers in local and national lending institutions, brokers, as well as appraisers/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. Approximately 65.6% of the respondents indicated that they deduct a reserve within their stabilized proforma.

The capitalization rates reported are more reflective of Class A and B type properties and are broken out as follows: Class A – 46.2%, Class B – 39.7%, Class C – 10.57% and Class D – 3.53%.

Property Type	Going-In			Stabilized			Reversion		
	Average	Range		Average	Range		Average	Range	
Apartments	7.39%	5.00%	15.00%	7.62%	5.50%	14.00%	7.92%	5.75%	12.00%
Office	8.83%	7.00%	11.00%	9.10%	7.50%	13.00%	9.31%	8.00%	13.00%
Retail	8.68%	6.50%	13.00%	9.14%	7.00%	13.00%	9.40%	8.00%	13.00%
Industrial	8.54%	6.75%	12.00%	8.79%	7.00%	14.00%	9.04%	7.25%	14.00%
Hotel	9.95%	8.00%	15.00%	9.96%	8.00%	15.00%	10.27%	8.00%	15.00%
Net Lease	7.96%	6.50%	11.00%	7.85%	6.50%	10.00%	8.78%	7.00%	15.00%

REVENUE & EXPENSE EXPECTATIONS

We asked the respondents to estimate changes in revenue and expenses by property type; this is shown in the following table.

Property Type	Year 1		Year 2		Thereafter	
	Revenue	Expense	Revenue	Expense	Revenue	Expense
Apartments	3.11%	2.96%	3.48%	3.04%	2.80%	2.82%
Office	0.87%	2.50%	1.39%	2.54%	2.43%	2.46%
Retail	1.38%	2.15%	2.00%	2.31%	2.27%	2.31%
Industrial	1.78%	2.37%	3.07%	2.77%	2.83%	2.87%
Hotel	1.80%	2.10%	2.50%	2.88%	2.95%	2.80%



We are now seeing decision makers returning to commercial real estate acquisitions financed by reasonable costs of mortgage capital. Investors have been well served by retaining quality real estate investments during the recent recession. Leasing commercial real estate is on the upswing with very competitive and attractive rental rates for users. This should lead to banks and other capital sources returning to commercial real estate lending after mostly sitting on the sidelines for the last three years.

Vance C. Miller, Chairman/CEO - Henry S. Miller Cos.

DALLAS-FORT WORTH TRENDS

DISCOUNT RATES

The following table presents the range and the average discount rates for year-end 2010. Most of the respondents indicated that a reserve was deducted within the cash flow.

Property Type	Average	Mode	Low	High
Apartments	8.8%	9.0%	6.0%	12.5%
Office	9.9%	10.0%	8.0%	12.5%
Retail	10.0%	10.0%	8.0%	13.5%
Industrial	9.3%	10.0%	7.0%	12.5%
Hotel	12.0%	10.0%	10.0%	15.5%
Ground Leases	8.7%	8.0%	7.0%	13.5%

REASONABLE EXPOSURE TIME (MONTHS)

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

Property Type	Months		Property Type	Months	
Apartments:	Avg	Mode	Land:	Avg	Mode
Class A	6.48	6.0	Leased Fee Sites	7.20	12.0
Class B	9.22	12.0	Net Leases	6.71	6.0
Other	10.89	12.0			
Office:			Industrial:		
High Rise	8.19	12.0	Bulk Warehouse	9.32	12.0
Class A Suburban	8.53	12.0	Office/Warehouse	9.50	12.0
Class B	10.71	12.0	Tech Flex	11.06	12.0
Other	14.45	12.0			
Retail:			Hotels:		
Regional	9.74	12.0	Full Service	12.86	12.0
Community	9.74	12.0	Limited Service	12.79	12.0
Neighborhood	9.83	12.0	Economy	13.08	12.0
Unanchored	11.50	12.0			

"The recovery of the commercial real estate market will be led by the recovery in the real estate capital markets. The CMBS lenders are coming back to the market, albeit with tougher underwriting. We're starting to see some competition in the CMBS arena which will inevitably result in CMBS executions available for smaller "bread and butter" deals and more traditional levels of



Roy Norwood, President
Henry S. Miller Financial Services

leverage on a non-recourse basis.

HOLDING PERIOD (YEARS)

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

Property Type	Average	Range		Mode
Apartments	6.1	2.0	10.0	5.0
Office	6.8	2.0	12.0	5.0
Retail	6.9	2.0	20.0	5.0
Industrial	7.1	3.0	15.0	5.0
Hotel	6.5	3.0	15.0	5.0
Ground Lease	8.6	3.0	20.0	10.0



"While being an eternal optimist and thankful for our relative prosperity locally, I am still very concerned about the industrial market overall. Texas has been somewhat insulated from the meltdown industrial markets have experienced in other metropolitan areas. This has been partially avoided by responsible business, political people, and policies here in Texas. I will remain cautiously optimistic as our industrial market continues a slow and upward trend; however, until our national leadership either changes or is replaced, I will be skeptical that the uncertainty and poor policy making taking place in Washington will return us to the prosperity we experienced pre-2008. Thank God for Texas."

Greg Trout, SIOR, President - Office/Industrial Division

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.

FINISH-OUT (PER SQUARE FOOT)			
	Office	Industrial	Retail
<u>Shell</u>			
Average	\$33.40	\$7.83	\$30.00
Range	\$15.00-\$45.00	\$5.00-\$21.00	\$20.00-\$50.00
<u>New</u>			
Average	\$19.77	\$4.50	\$15.54
Range	\$2.00-\$35.00	\$2.00-\$10.00	\$5.00-\$30.00
<u>Renewal</u>			
Average	\$7.65	\$1.79	\$5.00
Range	\$0.50-\$15.00	\$0.50-\$5.00	\$0.00-\$10.00

YEAR END 2010 & 2011 OUTLOOK

REQUIRED LAND YIELDS

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

LEVERAGED				
Property Type	Avg.	Mode	Low	High
Residential Lot Development	25.20%	30.00%	15.00%	50.00%
Speculative Land Purchase	32.90%	15.00%	10.00%	100.00%
Ground Lease	13.10%	20.00%	6.00%	20.00%

UNLEVERAGED				
Property Type	Avg.	Mode	Low	High
Residential Lot Development	19.00%	15.00%	12.50%	35.00%
Speculative Land Purchase	30.30%	25.00%	15.00%	100.00%
Ground Lease	10.80%	8.00%	8.00%	18.00%



"2011 will be the prelude for years of growth in the Dallas-Fort Worth office market. With the second highest concentration of corporate headquarters in the U.S., the metroplex continues to outperform the rest of the country and Corporate America is taking note. A combination of the Central Time Zone, a pro-business right-to-work state atmosphere, low cost of housing, a youthful and highly educated work force and an abundance of affordable Class A office space has the region primed for some major corporate and regional relocations. Expect Dallas-Fort Worth to orchestrate multiple relocations in the next five years."

Dan Arnold, SIOR, President - Corporate Services Division

INVESTMENT OPPORTUNITY IN 2011

Apartment properties were viewed as being the best investment opportunity followed by net lease investments, industrial, land, office, retail and hotel properties. The participants were asked to provide their forecast for 2011:

Property Type	Declining	Stable	Good	Great
Apartment	3.0%	21.2%	54.5%	21.2%
Office	3.1%	78.1%	18.8%	0.0%
Retail	19.4%	58.1%	19.4%	3.2%
Industrial	0.0%	43.3%	56.7%	0.0%
Hotel	22.2%	48.1%	22.2%	7.4%
Land	26.5%	41.2%	23.5%	8.8%
Ground Lease	16.0%	40.0%	36.0%	8.0%
Net Lease	7.7%	34.6%	46.2%	11.5%
Overall/Avg	12.24%	45.58%	34.66%	7.51%



"The current economic climate has made it very difficult for Land owners in the Metroplex, but there is a light at the end of the tunnel. We are seeing some good opportunities for investors - now is the time to make a move."

*Ray Utley, President
Land & Ranch Division*

VACANCY & COLLECTION LOSS

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.

Multi-Tenant	Loss (%)		Single Tenant	Loss (%)	
	Avg	Mode		Avg	Mode
<u>Retail</u>			<u>Retail</u>		
Strip Center	11.10	10.0	Credit	3.60	5.0
Neighborhood	10.70	10.0	Non-Credit	9.00	10.0
Anchored	8.10	10.0			
Multi-anchor	8.60	10.0			
<u>Office</u>			<u>Industrial</u>		
Class A	10.50	10.0	Credit	5.05	5.0
Class B	12.90	10.0	Non-Credit	9.27	10.0
Garden (Class C)	12.80	10.0			
Small	12.60	10.0			
<u>Industrial</u>			<u>Office</u>		
Bulk	7.60	10.0	Credit	6.10	5.0
Flex	8.80	10.0	Non-Credit	10.90	10.0
<u>Apartments</u>					
Class A	7.00	7.0			
Class B	8.30	10.0			
Class C	10.40	10.0			

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	6.5%	2.2%
7-12	21.7%	4.4%
13-18	39.1%	22.2%
19-24	26.1%	15.6%
24+	6.5%	55.6%

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Comparable Sales Study
Cash-flow Modeling & Analysis

AUCTIONS

Live Auction
Sealed Bid Auction
Online Auctions



"I am Bullish on Texas, Bullish on the Dallas-Fort Worth metropolitan area and looking forward to a great finish to 2011, to boost us into the next commercial real estate boom!"

*Sam Kartalis, President/COO
Henry S. Miller Realty Services*

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A LEADING REAL ESTATE APPRAISAL & CONSULTING FIRM

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