STUART & COMPANY

INCOME PROPERTY

MARKET FOCUS

Highlights

- *The overall office vacancy rate rose to 5.1% in the second week of July 1997 from a 4.4% level in January 1997. The increase was entirely attributable to slippage in space located outside the CBD, where the Class A vacancy rate rose by more than two percentage points to 5.7%, while Class B product moved two percentage points to 4.9 percent vacant.*

- *The overall vacancy rate for community and neighborhood shopping center space rose from 5.8% at the end of 1996 to 8.2% at the end of the 2nd Quarter of 1997. Much of the worsening is explained by the Ernst bankruptcy.*

- *The overall apartment vacancy rate registered 4.0% as of July 1997, which is down from the 4.9% level of the second week of January 1997. The drop is attributable to declines in both one and two bedroom vacancy rates.*

- *There was no change in rental levels on the industrial product we survey between the 2nd week of January 1997 and the 2nd week of July 1997.*

Income Property Market Focus represents an exhaustive research effort which comprises the major sectors of the Salt Lake County income property market including: office, retail, industrial, and apartment properties.

Our study covers over 45 million square feet of space, including the most sophisticated income producing real estate in the Salt Lake market. It includes information and analysis related to such market indicators as vacancy rates, operating expenses, weighted average rental rates, and CAM charges.

Research for this study is conducted semi-annually by our firm in the second weeks of January and July respectively, with this issue covering the July 1997 period. The exception to the time frames indicated relates to vacancy data for shopping center space. This information is collected at the end of each quarter to maintain consistency with historical data associated with our *Shopping Center Profile*, which was first compiled in the second quarter of 1993.

In general, the overall income properties market continues to show signs of relative equilibrium, with certain increases in vacancy occurring in the office, industrial, and community/neighborhood shopping center sectors. On the other hand, vacancies tightened in both regional malls and apartments, with the latter dropping below the level of a year prior.

Rental rates in all of the general sectors we survey except industrial showed increases between the second week of January 1997 and the second week of July 1997, even though it should be noted that there were declines in certain subsectors of the four general real estate categories.

A particularly important development which is reflected in the data associated with this issue is the bankruptcy of Ernst, which helped push vacancy up in shopping center space, and which is in line with our prediction of some cannibalization which will occur in big box retailing.

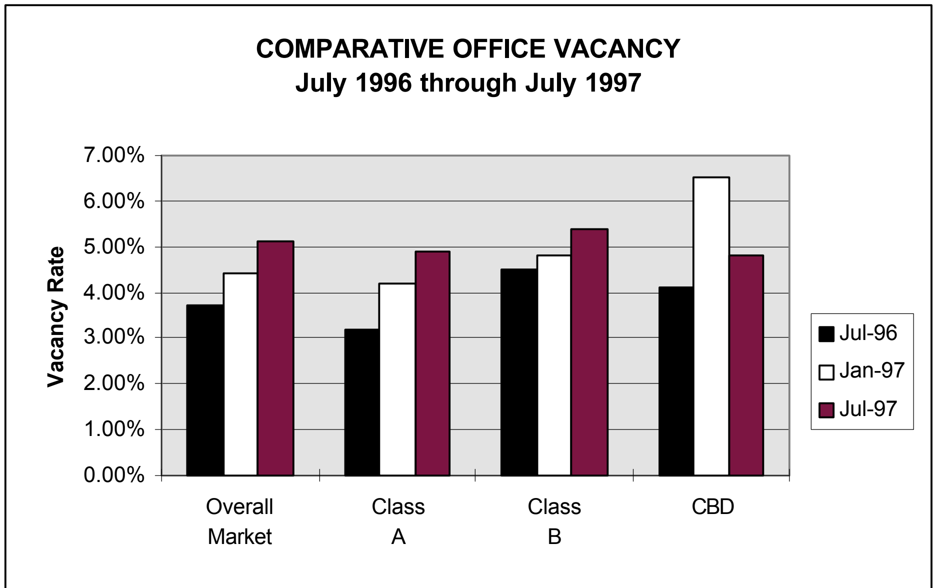
We would like to thank the local real estate community, including brokers, agents, investors, and managers whose assistance made this study possible.—***Stephen D. Stuart, MAI***

Office

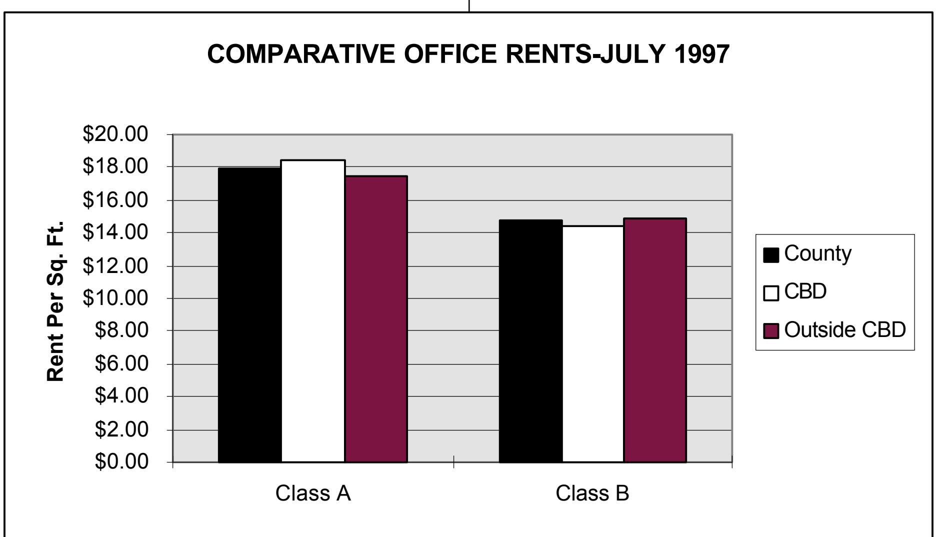
Developments associated with the office sector of our survey comprise multi-tenant Class A and B structures, with the following definitions used for classification:

Class A: Quality tenants, investment grade property, good design, well located. Well maintained and managed, exceptionally so if older building.

Class B: Average tenants, more speculative investment, ordinary design, average to good maintenance and management. Can be good to excellent space and design if an older non-landmark building.



In line with our objective of focusing only on pure income producing properties, buildings which are partially owner occupied are excluded from our study, the exception principally being on-site management offices. Additionally, only structures which contain at least 15,000 square feet of rentable space are included. Finally, buildings with more than 25% medical office finish are excluded, in line with an industry classification threshold. By applying these criteria our survey covers space in 84 separate projects, reflecting 7,540,035 square feet.



Respondents to the office portion of our survey were asked for such information as vacancy levels, rental rates, operating expenses, and sales data. With respect to rental rates, survey participants were asked not for listing rates, but for lease rates realistically attainable assuming typical TI's, size, length of lease term, and tenant strength.

Information for analyzing the space included in our study is associated with the second week of July 1997, with historical data on most of the properties available for time series analysis.

Vacancy Rates

Once again, some softening was witnessed as of our last survey in the office sector. As of the second week of July 1997, the overall vacancy rate in the office market registered 5.1%, up from 4.4% in January 1997, which in turn was above the 3.7% level of mid-year 1996. The overall increase in the vacancy was totally a function of softening which occurred in areas outside the Central Business District (CBD). More specifically, the overall vacancy rate in the CBD dropped to 4.8 percent in the second week of July 1997, an improvement from the 6.5% level at the beginning of the year. Both Class A and B space participated in the CBD improvement, with Class A space moving from 5.4 to 4.1 percent, while Class B space showed dramatic enhancement, falling from 10.3 to 6.9% vacant.

Outside of the CBD, Class A space slipped from 3.2 to 5.7% vacant, while Class B product moved two percentage points from 2.9 to 4.9 percent.

Overall Class A vacancy was 4.9% in July 1997, an increase from the 4.2% level of January 1997, which in turn was an increase from the 3.2% level of mid-year 1996. In connection with Class B space, the overall vacancy rate was 5.4% in the second week of July 1997, which compares to a 4.8% level in January 1997, and 4.5% relative to mid-year 1996.

Rental Rates

The weighted average rental rate for Class A space was $17.94 per square foot on a full service basis as of the second week of July 1997, which was a relatively minor increase of .50% from the $17.85 level of six months prior. Class A rents in the CBD are higher as compared to other areas in the county, with a weighted average rate of $18.44 per square foot, which is 1.4 percent higher than the $18.18 per square foot level of six months prior. Rents for Class A product outside the CBD stood at $17.45 per square foot in July 1997, down .7% from the $17.57 rate of six months prior.

Class B space indicated a weighted full service rent level of $14.71 per square foot, which is a 2.7% increase over the $14.33 per square foot level at the beginning of 1997. Class B space in the CBD declined from a level of $14.61 per square foot in January 1997, to $14.37 per square foot in July 1997. On the other hand, the weighted average rental rate for Class B space outside the CBD registered $14.82 per square foot as of the second week of July 1997, a rather substantial increase of 4.1% over the $14.23 per square foot level at the beginning of 1997.

Operating Expenses

Operating expenses per square foot were reported on 76 separate properties. This includes information on over 90% of the properties included in our study, or 24 Class A developments and 52 Class B properties. It should be noted, that some of the developments were so new that historical data were not yet available.

With respect to Class A space, the weighted average operating expenses were $5.39 per square foot, with a range of $3.75 to $6.60 per square foot. On the other hand, Class B buildings registered weighted average operating expenses of $4.83 per square foot, with a range of $3.22 to $10.43 per square foot. It should be noted, that in dropping the highest Class B indicator the top end of the range drops to $6.00 per square foot.

Sales Activity

With respect to our research on sales activity, we altered our approach somewhat from our prior issue. More specifically, in our last study we simply asked survey respondents whether the property they represent sold during the last half of 1996, and at what price. This question led to information provided both on closed sales and on property transactions merely under contract, pending closing. In order to provide a common basis for transactional activity, we decided to include only closed sales from this point forward, as such data is more solid and also is associated with more definitive dates which can be independently verified if necessary. Admittedly, the weakness in this approach is that the closing date is more of a lagging indicator rather than a relatively coincident indicator, especially if there are considerable problems to be worked out which defer closing for a period of time.

Over the first half of 1997 there was solid volume of closing activity in the office sector of the market, with 765,764 square feet or 10.16% of the total space we survey having changed ownership. The total dollar volume of transactional activity was $73,945,000, with a weighted average sales price of $96.56 per square foot for the nine properties which closed. Three Class A developments closed, with a weighted average price of $105.64 per square foot. On the other hand, six Class B developments closed, with a weighted average price of $76.85 per square foot, and a range of $56.47 to $103.33 per square foot. It should be noted, that in dropping the highest Class B sale the top end of the range declines to a level of $85.23 per square foot.

In comparison to activity from the first half of 1997, the revised data (to reflect only closed sales), from the last half of 1996 shows only 1.8% or 131,383 square feet of the office properties in our study having changed hands. All were Class B properties, with a weighted average price of $59.48 per square foot, and a range of $46.14 to $69.27 per square foot.

Retail

In studying the retail market, we focus on both enclosed regional malls and on anchored neighborhood and community shopping centers which meet certain specified criteria. Along these lines, in connection with regional malls, all six properties in Salt Lake County participated in our survey. The sizes of these properties were obtained from the respective mall management offices, and are reported to comprise 4,413,247 gross leasable square feet in the aggregate. Anchor space is reported to consist of 2,666,102 square feet, while in-line space assumes the balance.

Vacancy, rental rate, CAM fee, and merchant association fee data on the regional malls is obtained by polling the management offices in the second weeks of January and July respectively. It should be noted, that in researching regional mall rents, respondents were asked to provide information not on asking rates, but rather lease rates which are actually attainable when deals are executed on *in-line space only*. In providing a representative lease rate for a given center, survey respondents were asked to assume typical conditions regarding tenant improvement allowances, space size, length of lease term, and tenant financial strength.

In respect to neighborhood and community shopping centers, we have been tracking data on such properties in Salt Lake County on a quarterly basis since the 2nd Quarter of 1993. Centers included within our research possess the following criteria:

(1) At least one store which accommodates, or which could conceivably be occupied by an anchor tenant. The industry generally describes anchors as key tenants which serve as traffic generators for the centers with which they are associated. Such occupants normally advertise heavily, and are often stable enough to stand on their own. Anchor tenants include supermar-

kets, full-line department stores, junior department stores, discount department stores, and variety stores. It should be noted that the physical character of some centers in the local market varies somewhat from the norm. This renders clear-cut anchor identification both problematic and subjective to a limited extent, due to the somewhat vague industry definitions of anchor space.

(2) Two or more in-line or satellite shops which are supportive or suscipient in character. Supportive stores include such enterprises as shoe and clothing establishments which normally engage in little, if any, advertising, and which allow for comparison shopping. Suscipient establishments often times supply convenience services and goods, and include such enterprises as food operations. Customers do not normally visit a shopping center with the intent to specifically patronize a suscipient business, but rather visit such on an ancillary basis.

Outparcel or pad developments are precluded from our analysis, unless they house at least two retail tenants. Applying the indicated parameters results in 61 centers being included in our survey.

Vacancy information is gathered on the community and neighborhood shopping centers at the end of each quarter, to maintain consistency with historical data associated with our *Shopping Center Profile*, which was first compiled in the second quarter of 1993. Researching such vacancy data entails physical observation of each property. Those spaces clearly not furnished for retail business are considered vacant for the purposes of our analyses. In other words, physical vacancy is measured on such shopping centers.

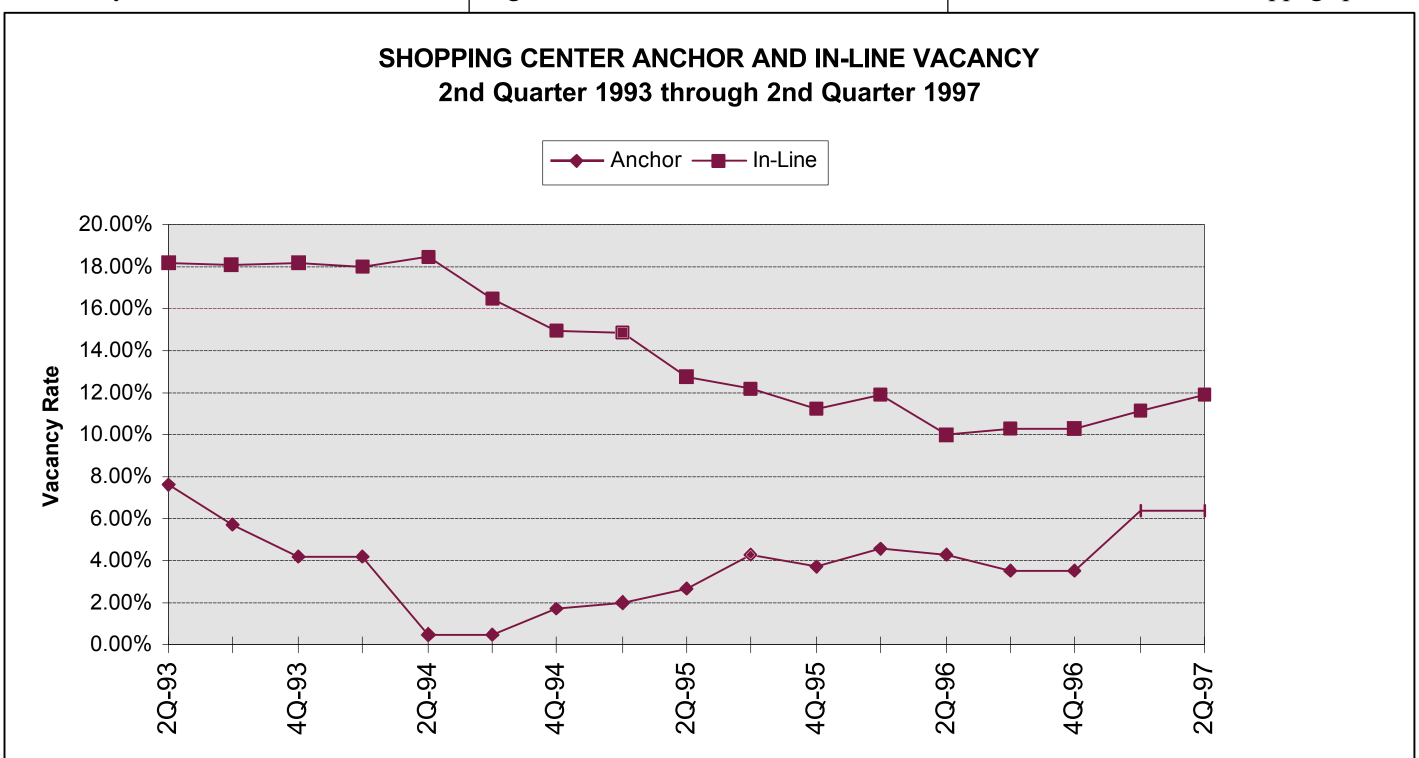
With the introduction of our *Income Property* study, the vacancy data began to be supplemented with information on rental rates and CAM fees. Along these lines, it should be noted that there was so much volatility relative to lease rates provided on two of the centers that it was deemed best to eliminate these properties from the analysis. Thus, rents are analyzed on 59 of the 61 properties included in our research.

As with the regional malls, in researching neighborhood and community shopping center rents, respondents were asked to provide information not on asking rates, but rather lease rates which are actually attainable when deals are executed on *in-line space only*. In providing a representative lease rate for a given center, survey respondents were asked to assume typical conditions regarding tenant improvement allowances, space size, length of lease term, and tenant financial strength. In the following sections is a summary of the results of the retail portion of our study.

Vacancy Rates

Regional Malls. The regional malls surveyed in our study registered a 3.9% vacancy rate in the second week of July 1997, which is down from the 5.9% vacancy rate in the second week of January 1997.

Community and Neighborhood Shopping Centers-Overall County. One of the most notable features of this issue of *Income Property Market Focus* is the increase in the overall vacancy rate for community and neighborhood shopping center space. More specifically, such vacancy rate rose from 5.8% at the end of 1996, to a level of 8.0% in the 1st Quarter of 1997. The rate inched up even further in the 2nd Quarter of 1997 to a level of 8.2%. It should be noted that this slippage places



the vacancy rate at a level between that registered between the 1st and 2nd Quarters of 1994.

The worsening in the overall shopping center vacancy is largely attributable to the bankruptcy of Ernst. As of the end of 1996 there were still three Ernst stores occupied in the centers we cover, at Brickyard, Willow Wood, and Family Center at Ft. Union. By the end of the 1st Quarter of 1997 all these stores were dark, resulting in 137,308 additional square feet of anchor space being dumped on the market. The overall anchor vacancy jumped from 3.5 to 6.4%, the highest level since the 2nd Quarter of 1993 when we began surveying shopping center space.

The Salt Lake County shop or in-line vacancy rate appears to have lost its downward momentum, never quite dipping into the single digit realm. Vacancy in this type of space generally declined from a high of 18.5% in the 2nd Quarter of 1994 to 10.0% as of 2nd Quarter 1996. However, in the last half of 1996 the rate inched up to 10.3%, and then showed further slippage in the first half of 1997, increasing to levels of 11.1% and 11.9% relative to the first and second quarters respectively.

Community & Neighborhood Shopping Centers-Northeast Quadrant. There has been rather dramatic weakening in vacancy in the northeast quadrant over the recent past. After bottoming out at a healthy 4.4% vacant rate in the 4th Quarter of 1996 (the lowest level we had seen since we began tracking shopping center space in the 2nd Quarter of 1993), the rate almost doubled to 8.2% in the 1st Quarter of 1997, followed by further weakening in the 2nd Quarter of 1997 to a level of 9.1%.

The change in the overall vacancy rate in the northeast quadrant was entirely attributable to a jump in the vacancy rate for anchor space, which went from 1.2% vacant at the end of 1996 to 7.4% in the 1st Quarter of 1997. Anchor space then remained relatively stable to the middle of 1997, declining to 7.3% as of the end of the 2nd Quarter.

Shop space showed little change between the end of the 4th Quarter of 1996 and the 1st Quarter of 1997, falling from 9.9 to 9.6 percent vacant. However, a rather large increase occurred in the 2nd Quarter, with the rate ending up at 12.2%.

Community and Neighborhood Shopping Centers-Southeast Quadrant. The overall vacancy rate for the southeast quadrant rose by a full percentage point from 6.3% at the end of 1996 to 7.3% in the 1st Quarter of 1997. The rate was then fairly stable to the end of the 2nd Quarter of 1997, ending up at 7.1%.

Anchor space performance partly contributed to the worsening in the overall vacancy rate, as it increased from 4.1% at the end of 1996 to 5.2% during the first half of 1997. In-line space also showed some weakening, going from 11.2% vacant at year end 1996 to 11.7% in the 1st Quarter of 1997. Some of the lost ground was recovered in the 2nd Quarter of 1997, when the in-line vacancy rate fell to 11.3%.

Community and Neighborhood Shopping Centers-Southwest Quadrant. The overall vacancy level in the southwest quadrant fell from a 6.0% level at the end of 1996 to 7.2% in the 1st Quarter of 1997. As of the end of the 2nd Quarter 1997, there was additional slippage in the rate, to a level of 7.4%.

The worsening in the overall vacancy rate in the southwest quadrant was entirely attributable to an increase in the vacancy level for in-line space, which increased by over four percentage points from 9.5% at the end of 1996 to 13.7% as of the end of the 1st Quarter of 1997. The in-line rate further weakened in the 2nd Quarter of 1997, climbing to 14.4%.

Anchor space has shown little change recently in the southwest quadrant, falling slightly from 4.4% as of the end of the 4th Quarter of 1996 to 4.2% during the first half of 1997.

Community and Neighborhood Shopping Centers-Northwest Quadrant. The overall vacancy rate in the northwest quadrant weakened by more than two percentage points, moving from 6.6% at year end 1996, to 8.8% during the first half of 1997.

The change in the vacancy rate in the northwest quadrant was largely the result of worsening in anchor space which deteriorated from 4.8% vacant at year end 1996 to 7.5% for the first half of 1997. In-line space also slackened somewhat from the end of 1996, going from 10.2% in 4th Quarter 1996 to 11.3% in 1st Quarter 1997. Little change was registered to the 2nd Quarter 1997, with in-line vacancy at 11.2%.

Community and Neighborhood Shopping Centers-Effective Age Categories. Some interesting phenomenon have been evident in examining vacancy data by age over the past several periods. The 0 to 5 year old space category barely held onto its lead, even though performance in this sector worsened to a 5.6% level in the 1st Quarter of 1997, from 0.4% relative to the prior quarter. This is the worst performance in the 0 to 5 year category since we began tracking vacancy by age in 4th Quarter of 1993. Conditions improved somewhat in the 2nd Quarter of 1997, with the vacancy rate falling to 4.8% in the 0 to 5 year category.

Interestingly, the 20+ year space category held onto second position in the 1st Quarter of 1997, even though there was deterioration in the vacancy rate from 3.2% in 4th Quarter 1996 to 5.8% in 1st Quarter 1997. The second place position was lost in the 2nd Quarter of 1997, when the vacancy rate further eroded to 8.3%, placing the 20+ category in third place behind the 5 to 10 year grouping.

The worst performance by age was registered by the 15 to 20 year category, which saw a weakening in the vacancy rate from 7.6 to 9.9 percent from 4th

Quarter 1996 to 1st Quarter 1997. Further deterioration was marked with an increase to a 10.6% vacant level in 2nd Quarter 1997.

Vacancy in the 5 to 10 year category tightened from 8.3% as of the 4th Quarter 1996, to 7.3% in the 1st Quarter of 1997. A slight change occurred during the next period, when the rate ended up at 7.5%.

The 10 to 15 year category showed substantial deterioration from 4.5% at year end 1996, to 9.8 percent in the 1st Quarter of 1997. Some of this slackening was erased in the subsequent period, when the rate fell to 9.3%.

Rental Rates

Regional Malls. The weighted average in-line rental rate for the regional malls surveyed for our study was $26.89 per square foot, up 9.4% from the $24.57 per square foot rate in the second week of January 1997. It should be noted, that rents were only available on five of the six properties in mid-year 1997, due to restructuring taking place at one of the malls. Due to the relatively small sample size, the omission of any one of the properties skews the weighted average rental rate. When data from the same properties is compared from period to period, only a 5.0% change in rent is indicated.

Community and Neighborhood Shopping Centers. The weighted average in-line rental rate for the 59 community and neighborhood shopping centers analyzed as of the 2nd week of July 1997 stood at $12.93 per square foot on a triple net basis. This is 2.1% higher than the $12.66 per square foot rate registered at the beginning of 1997, which in turn was a 2.2% expansion from mid-year 1996.

Of the quadrants, in-line rents were still highest in the northeast sector at $14.99 per square foot, a 4.8% rise over the $14.31 per square foot rate of January 1997. Rents continued to be lowest in the northwest quadrant at $10.87 per square foot, which was a 2.7 percent increase over the $10.58 per square foot rate of January 1997.

The second highest rents of the quadrants were still found in the southeast sector, which showed a rate of $12.15 per square foot, a 3.9% decline from the $12.64 per foot rate of January 1997.

The rental level in the southwest quadrant stood at $11.98 per square foot, which reflected the greatest percentage expansion of the quadrants at 7.0% over the $11.20 per square foot rate of January 1997.

CAM Fees

Regional Malls. The weighted average CAM (Common Area Maintenance) fee for the regional malls was reported to be $8.85 per square foot in the second week of July 1997, an increase over the $7.77 per square foot rate in January 1997. Additionally, all of the centers have merchant's association fees, which showed an increase of 26.4 percent over the $1.55 per square foot level of January 1997.

Neighborhood and Community Shopping Centers. In connection with this study, comparative information was available to analyze weighted average CAM fees for 60 centers associated with our study. In July 1997, the weighted average CAM fee was reported at $2.08 per square foot, a slight increase from the $2.06 per square foot rate of January 1997.

Common area maintenance fees were still highest in the northeast quadrant, where the highest rents are also found. More specifically, the July 1997 northeast quadrant CAM fee was reported at $2.25 per square foot, a 5.9% decline from the $2.39 per square foot level of January 1997.

The second highest CAM fees are found in the southeast quadrant at $2.06 per square foot, 6.7% beyond the $1.93 per square foot level of January 1997.

The lowest CAM fees were reported in the northwest quadrant at $1.94 per square foot, even though a substantive gain of 24.4% was reported from the $1.56 per square foot level of January 1997.

The southwest quadrant registered a weighted average CAM fee of $2.01 per square foot, a 10.4% increase from the $1.82 per square foot level of January 1997.

Sales Activity

With respect to regional malls, 21% of the total space closed during the first half of 1997, an increase from the 13.5% level of the last half of 1996. Obviously, with such a small sample very little absolute transactional activity represents a significant share of the overall market. The weighted average price per square foot was reported at $98.00, up from $62.89 in the last half of 1996.

With respect to community and neighborhood shopping centers, in line with our new approach to tracking only closed sales activity, there was some revision to the numbers from our prior study. Along these lines, 2.6 percent of total inventory surveyed was traded in the last half of 1996, with a weighted average price of $30.18 per square foot. No sales were reported to have occurred in the first half of 1997.

Apartments

The multi-family residential portion of our study covers approximately 25,000 apartment units in projects comprising 50 or more units in Salt Lake County, which were built between 1965 and the present. This group comprised over 21,000,000 square feet of apartment space in our July 1997 study.

Respondents were asked about vacancy during the second week of July 1997. Only physical vacancy was measured, with survey participants asked how many units were not being lived in as of the time of the survey.

Respondents were also asked for prevailing rents on their apartment units. Since there is not substantial difference between asking and contract rents in the market, the rental levels established in our study are considered to fairly reflect current market rental conditions. Moreover, it should be noted that we made solid efforts to inject precision into our weighted average rental computations. In this vein, it should be noted that many of the apartment projects charge a number of separate prices for different types of units. Along these lines, a specific apartment development could charge, for example, different prices for a similar number of bedrooms based upon such factors as how large the apartments are, what type of views they have, whether they have washer/dryer hook-ups, etc. Where different prices are charged for unlike units in a given complex, we researched the total number of units associated with each price quoted. Such prices were then multiplied by their corresponding unit counts, with the resulting products for all the apartments added together to compute an aggregate rent for each type of unit. This number was then divided by the total number of units to obtain a weighted average rent for each of the different bedroom types for the projects surveyed.

Information available from the second week of July 1997 and historical information is presented as follows:

Vacancy

The vacancy rate for the projects associated with our survey stood at 4.0% as of July 1997, which is down from the 4.9% level of six months prior, and the 4.2% rate of July 1996. Vacancies were highest in three bedroom apartments at 6.2%, above the 5.0% level of six months prior. Vacancies in two bedroom apartments registered 4.5%, down from the 5.1 percent level at the beginning of 1997. One bedroom units were also down at a level of 3.2%, from the 5.0% level of January 1997. Studio units were up from the unsustainably low level of 1.8% in January 1997, rising to 2.7% vacant.

Rental Rates

The overall weighted average rental rate increased $11.55 per unit or 2.0% from the second week of January 1997, to the second week of July 1997. More specifically, the weighted average rental rate in January 1997 stood at $583.94, rising to $595.49 in July 1997.

Studio apartments, which saw the highest rate of increase as of our January 1997 study, reversed course and showed the lowest performance of all the unit types. In July 1997 the weighted average studio rent was $417.34 per unit, down 0.4% from the $418.96 level seen at the beginning of the year. This decline is somewhat counterintuitive given the fact that studio apartments show the highest occupancy of all unit types that we survey.

Rents in one bedroom apartments rose from a level of $505.38 in January 1997, to $512.50 in July 1997—a 1.4% increase. This is slightly higher than the 0.8% growth rate of the prior six months.

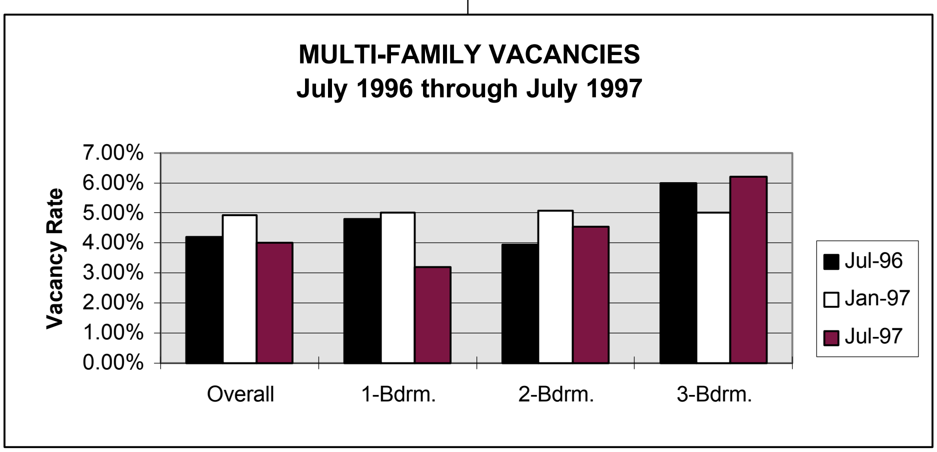
Two bedroom apartments registered the highest growth rate of units surveyed, rising by 2.6% from $614.39 to $630.29 per unit between January 1997 and July 1997. This beats the 1.0% growth rate from July 1996 to January 1997.

Three bedroom units broke the $800 per unit barrier, rising to $814.18 in July 1997 from the $798.31 level of January 1997—a 2.0% growth rate. This is beyond the meager .1% increase shown in three bedroom apartments from the second week of July 1996 to the second week of January 1997.

Sales Activity

Relative to the apartment projects we track, during the first half of 1997 only one sale was reported to have closed. This was a 95 unit project which represented .38% of all apartment units. Since this property sold in conjunction with office space, it was not possible to segregate the consideration attached to the apartments only.

During the last half of 1996 four sales were reported to have closed. In the aggregate these properties represented 858 units. The weighted average price per unit was $51,198, with a weighted price per square foot of apartment space at $56.33.



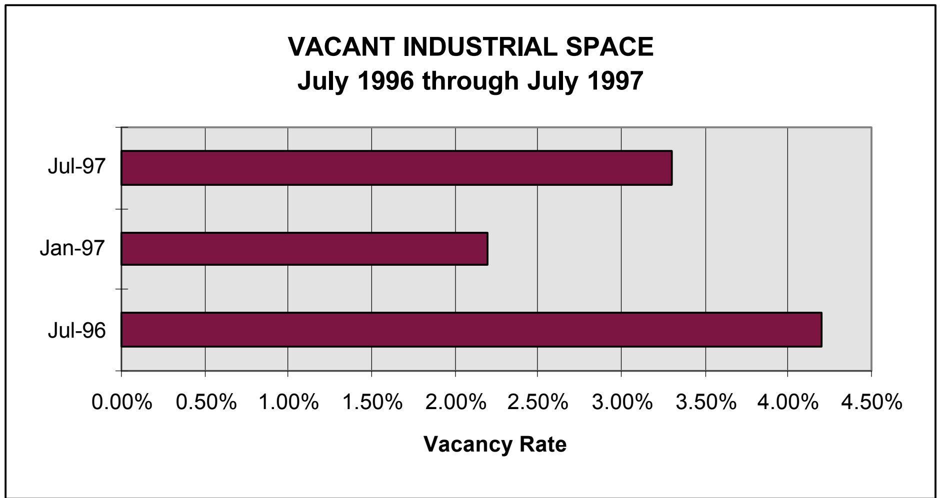
Industrial

In the Salt Lake County industrial market much of the aggregate space is owner occupied, and most "big box" projects consists of few tenants. As a result, the number of industrial income properties associated with our survey is smaller than most of the other property types we survey.

We only include properties in our research with at least 35,000 square feet of main level space, with mezzanine space excluded from our analysis due to the difficulty in initially measuring and periodically monitoring changes in the total level of such space. Also, we only incorporate projects which were built within 30 years of the inception of our survey (1965 and newer). To include developments older than this would result in our including product not in line with the spirit of our study, which is to focus on the highest relative quality developments in the overall income properties market.

Two new projects were added to our July 1997 survey, including 163,443 square feet of space associated with Presidential, which is south of Utah 201 and east of Bangerter Highway, and 113,356 feet associated with a project recently constructed south of 12300 South and west of Interstate 15. This results in 3,371,748 square feet being monitored in our study.

Survey respondents were asked for information on vacancy levels and prevailing lease rates. Along these lines, survey participants were asked not for listing rates, but for lease rates which are actually attainable when deals are executed. They were also asked to assume typical characteristics relative to unit size, level of office finish, length of lease term, and tenant financial strength.



Vacancy Rates

According to our findings, the overall vacancy rate was 3.3% in July 1997, up from 2.2% in January 1997, albeit still lower than the 4.2% level registered in July 1996. Seventy three percent of all projects surveyed in January 1997 had no vacancy whatsoever.

Rental Rates

In analyzing rental rates, no adjustments were made for lease expense structure due to the inherent difficulty in adjusting so many properties to a common basis. It should be noted that such structures are fairly constant on the surveyed properties over time. Seventy percent of survey respondents quote lease rates on their projects on a blended basis for office and warehouse space, while the remainder charge separate rates for office and warehouse areas respectively. The two groups of data on blended rates and segregated rates had to be kept mutually exclusive in the analysis, since the level of office space in the surveyed projects could vary over time, rendering valid time series presentation impossible.

Respecting blended rates, the weighted average level in the second week of January 1997 was at $.39 per square foot, which reflects no change from the rent level of the second week of January 1997.

As with rents which are quoted on a blended basis, no change was registered in segregated rates which stood at $.67 and $.38 for office and warehouse respectively, the same as the January 1997 levels.

Sales Activity

Once again, no sales were reported in the industrial sector during the first half of 1997, although it should be noted that one property was traded.

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