

2009 | REAL ESTATE FORECAST



CENTRAL TEXAS

Office

Industrial

Retail

Investment

Multi Housing

Land

Meeting the needs of each client

Grubb & Ellis Company pioneered sophisticated real estate market research, and today we continue to lead the industry in providing vital market information and insight on timely topics that may affect your real estate needs. Global economic trends, domestic legislative changes, corporate performance – these and other factors affect the demand for and value of commercial real estate.

Our dedicated research staff, which spans major markets throughout North America, has developed a strong foundation upon which our professionals create innovative solutions for their clients. You can access this information by visiting our 2009 Forecast Web site: www.grubb-ellis.com/research/forecast2009. Download our national overview or zero in on specific property types in your markets of interest. Print a report for a single market, or customize a book to suit your needs. We recognize that each of our clients is unique, and are committed to delivering the information you need to achieve your business objectives.

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Property Solutions Worldwide

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For a broader perspective, download the U.S. and global forecast reports summarizing our expectations for the coming year.

Please contact your local Grubb & Ellis office for further information about this regional forecast or see the list of contributors.

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To Grubb & Ellis Clients and Colleagues:

As we end 2008, it is becoming extremely clear that we are in the midst of what could be a lengthy and prolonged recession. Actually, our outlook for the commercial real estate industry changed dramatically during the third quarter of 2008 as the credit market unrest that first gripped the national economy in August 2007 escalated into a full-blown global financial crisis.

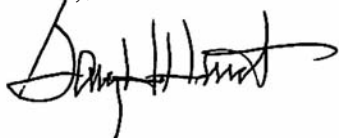
Although it is difficult to predict just how long and severe the current downturn will be, we believe that we have not seen the end of weakening consumer and business confidence, slowing manufacturing activity, and rising unemployment that is currently plaguing our economy. These are all factors that impact every aspect of the commercial real estate industry.

Within the commercial real estate market, the investment sector was the first to feel the effects of the credit crisis, and as a result property sales were down by two-thirds during the first three quarters of 2008 as compared with the same period in 2007. As I write this, access to capital remains extremely limited, and the leasing market is starting to more severely feel the effects of the economic uncertainty. Needless to say, this is probably the most challenging market we have experienced since the early 1990s. I can say that it is certainly the most challenging time I've seen in my 30 years in the real estate industry.

At this point we believe it most likely will be late 2010 before we begin to see a meaningful recovery throughout the commercial real estate industry. However, there are some bright spots. Low oil prices and interest rates will allow some commercial real estate sectors to recover quicker than others. And if you are a tenant with a requirement or an investor with cash, 2009 will offer considerable opportunity.

At Grubb & Ellis Company, we believe that within a challenging market there are opportunities. Our goal, as always, is to help our clients take advantage of them. We look forward to discussing the specifics of our 2009 Forecast with you, and to helping you meet your real estate goals now and into the future.

Sincerely,



Gary H. Hunt
Interim Chief Executive Officer
 Grubb & Ellis Company

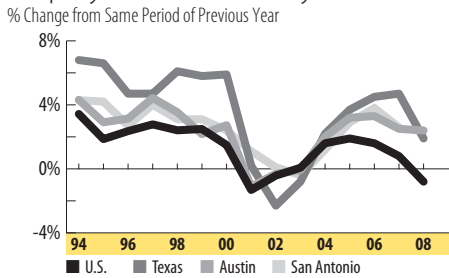
Grubb & Ellis goes above and beyond in-depth local market research and analysis. As our clients' needs have evolved from bricks and mortar requirements to encompass complex global real estate issues, our industry subject matter experts contribute focused, specialized expertise to the process. This added layer of analysis gives clients a more complete picture of the environment in which they operate and helps us leverage our market data to help owners, users and investors construct smart, innovative solutions to today's real estate needs.

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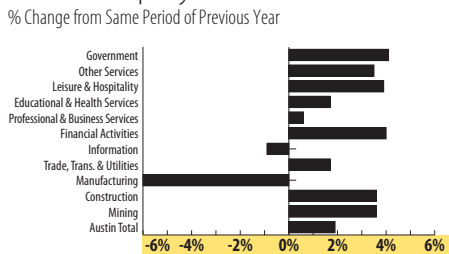
The effect of a struggling economy on the commercial real estate market has materialized in the form of reduced net absorption, increased overall vacancy and falling asking rents.

Employment Growth by Market



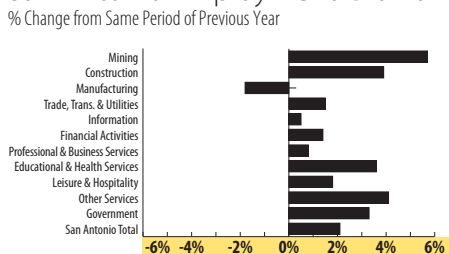
Employment Data is current as of September 2008
Source: U.S. Bureau of Labor Statistics

Austin Employment Growth



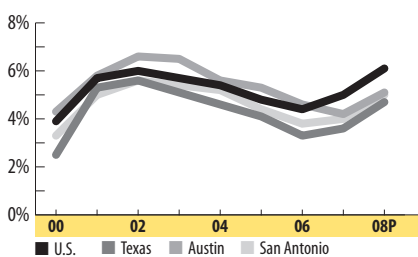
Employment Data is current as of September 2008
Source: U.S. Bureau of Labor Statistics

San Antonio Employment Growth



Employment Data is current as of September 2008
Source: U.S. Bureau of Labor Statistics

Unemployment Rate



Employment Data is current as of September 2008
Source: U.S. Bureau of Labor Statistics

The national economic downturn spilled over into Central Texas in 2008 as job growth weakened, unemployment increased and consumer spending plummeted. The effect of a struggling economy on the commercial real estate market has materialized in the form of reduced net absorption, increased overall vacancy and falling asking rates. Nevertheless, the economies of San Antonio and Austin remain among the healthiest in the nation.

The resiliency of the Central Texas real estate market is driven by a local economy that consistently outperforms the nation. Austin's economy is bolstered by numerous federal, state and local government agencies that employ more than 150,000 workers. San Antonio benefits from a large military population housed in several major installations. The congressionally-mandated BRAC program will further benefit the San Antonio area, bringing tens of thousands of new jobs and residents to the city.

Residents of both cities are among the most highly educated in the nation, thanks to more than a dozen local colleges and universities. Enrollment in Austin-area colleges alone exceeds 120,000 students annually. As a result, businesses located in Central Texas have access to a seemingly endless supply of highly skilled workers. Such wide-ranging economic drivers cushioned the impact of the national slump on the Austin and San Antonio markets in 2008.

Nonetheless, several key economic indicators will contribute to a struggling commercial real estate market in 2009. Job growth fell to

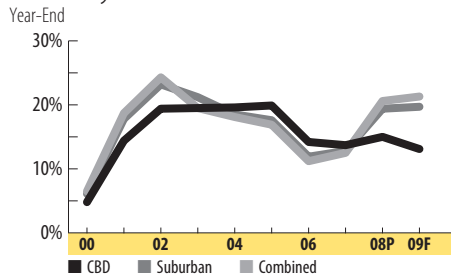
its lowest level since 2004 for San Antonio and 2003 for Austin. With both cities hovering around 2 percent job growth, the unemployment rate shot up. At 4.7 percent, Austin's unemployment rate is at its highest level since 2003 and more than 100 basis points above the 2007 rate. San Antonio's unemployment rate of 5.0 percent is 100 basis points above the 2007 level. Austin's employment numbers were impacted by layoffs among Dell and other high-tech employers, while San Antonio suffered from the relocation of AT&T to Dallas.

On a national level, plummeting consumer spending ravaged the consumption-driven American economy. Consumers slashed their purchases in 2008 in response to tight credit, skyrocketing unemployment and the loss of trillions of dollars in stock wealth, personal savings and home equity. The resulting layoffs and job losses pushed the national unemployment rate to 6.5 percent in October. Should an economic recovery not begin to take effect by mid-2009, the national unemployment rate could test levels not seen since the 1990-91 recession.

Commercial real estate's position as a lagging economic indicator points to continued softness in the commercial markets well into 2009. Strong population growth and steady economic performance will position Central Texas to benefit from the pending recovery.

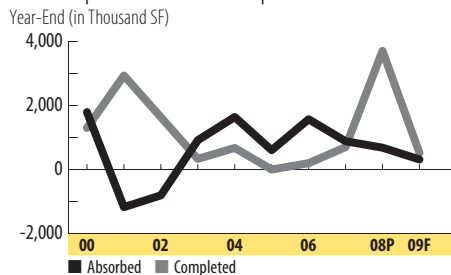
With more than 8.4 million square feet of vacant space citywide, tenants should be more selective in their search criteria.

Vacancy Rates



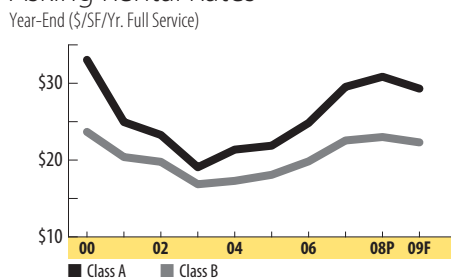
Source: Grubb & Ellis

Absorption vs. Completions



Source: Grubb & Ellis

Asking Rental Rates



Source: Grubb & Ellis

Key Leasing Transactions

2008

Lessee	Lessor	Property	Submarket	Size (SF)
Apple	Blackstone Group	Riata Crossing IV	Northwest	80,000
Field Asset Services	Moore & Associates	Frontera Crossing	Round Rock	76,000
DaVinci	Pomeroy Investment Corp.	Capitol Tower	Central Business District	70,000
Solar Winds	Bradfield Family Partnership	The Park on Barton Creek	Southwest	65,000
SMSC	Riverside Resources	Quarry Oaks II	Northwest	60,000

The Austin office market slowed in 2008 as the national economic downturn caused a decline in job growth and rise in unemployment. Weakening leasing activity caused a drawdown in net absorption at a time when more than 3.7 million square feet of office space entered the market. As a result, overall vacancy has risen 660 basis points since year-end 2007 to its current level of 19.4 percent.

Opportunities will abound for tenants in 2009. With more than 8.4 million square feet of vacant space citywide, tenants should be more selective in their search criteria. Stable firms should look to renew their leases with five to seven-year terms as landlords will become increasingly willing to offer lower effective rates and more favorable concessions.

Landlords of both newly constructed and recently purchased properties face a particularly difficult challenge in 2009. High construction costs have pressured rental rates upward even as demand has faltered. Investors have been hesitant to lower quoted rental rates as they attempt to meet their investment parameters. As a result, 2008 saw an increase in free and reduced rents even as quoted rates remained steady. However, market conditions in 2009 will

force landlords to reduce asking rental rates in order to stay competitive.

As landlords attempt to balance the need for positive returns on their investments with the realities of the market, a dramatic decline in construction activity will offer a much needed respite. Most new developments will not break ground until 2010 as the national credit crunch forces developers to put their plans on hold. Landlords should seize this opportunity to aggressively pursue tenants.

By submarket, the CBD sector continues to outperform its suburban counterparts. While tenants have the upper hand in suburban areas of Austin, landlords are in a favorable position downtown. A lack of construction activity, combined with renewed tenant interest will allow landlords in this submarket to maintain asking rents at a significantly higher level than other areas of Austin.

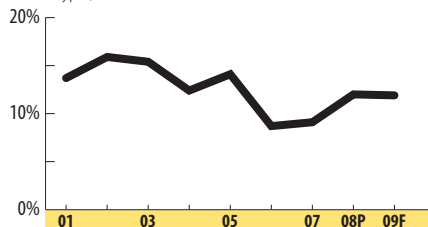
From an investment standpoint, activity remains relatively strong in the Austin market, as evidenced by the recent sale of Riata Corporate Park and Riata Crossing. However, current lending conditions are pushing some buyers out of the market. Nevertheless, those with access to sufficient capital may find opportunities by pursuing such product as Lehman Brothers' remaining downtown portfolio, which they have been trying to sell since early 2008.

2009 will likely see lighter transaction volume as tenants remain cautious, landlords seek to maximize their profits and investors grapple with a lack of available credit.

Austin's industrial market is heavily driven by consumption among the local population. As consumer spending and job growth have declined, so has the demand for industrial space.

Vacancy Rates

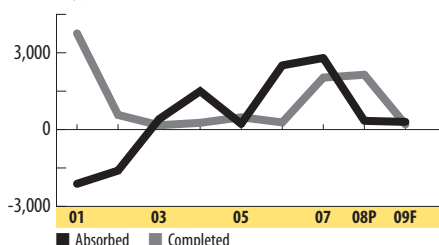
All Product Types, Year-End



Source: Grubb & Ellis

Absorption vs. Completions

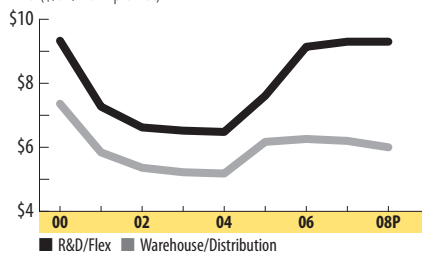
All Product Types, Year-End (in Thousand SF)



Source: Grubb & Ellis

Asking Rental Rates

Year-End (\$/SF/Yr. Triple Net)



Source: Grubb & Ellis

Key Leasing Transactions

2008

Lessee	Lessor	Property	Submarket	Size (SF)
HelioVolt	LIT Industrial Texas, LP	Expo Business Center	Southeast	122,400
Business Ink	Industrial Properties Corp	Vista Business Park	North	73,000
Formulation Technologies	HEP Davis Springs, LP	Davis Springs Corporate Center	Far NorthWest	70,000
HealthTronics	HEP Davis Springs, LP	Davis Springs Corporate Center	Far NorthWest	56,000
Daryl Flood Warehouse	Industrial Properties Corp	2400 Grande Avenue Pkwy	North	47,000

Austin's industrial leasing market finished 2008 in the black, in spite of a tenuous economy and tenant anxiety. While net absorption remained positive, the amount of space absorbed was the lowest annual total since 2005. Weaker than normal absorption, combined with construction completions of more than 2.1 million square feet pushed citywide vacancy to 12 percent at year end.

Absorption will stay flat in 2009 as tenants remain cautious amid a declining economy. Stable companies are looking to expand, but generally will occupy smaller amounts of space at reduced rents. Vacancy will mirror absorption as new construction deliveries plummet and existing space is slowly occupied.

Landlords were battered in 2008 by new construction completions and weaker absorption. While 2009 will offer a break in construction activity, owners must distinguish themselves from the competition in order to attract scarce tenants. Reduced quoted rental rates will be necessary for landlords to contend in an increasingly competitive market.

Tenants will have numerous opportunities to fill their space needs in the more than 8.7 million square feet of vacant space citywide. Asking rates have not declined enough to spark sufficient interest among tenants in

existing properties. However, landlords are increasingly willing to offer additional concessions and lower effective rates. Tenants have the opportunity to be selective when looking to expand.

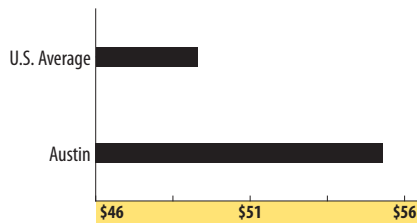
Flexible companies should look to the R&D/flex sector for expansion opportunities. Asking rates for flex space are between 60 and 70 percent cheaper than the traditional Class A and B space available on the market. With nearly 3.6 million square feet of vacant space in this sector, rates will remain favorable throughout 2009.

By submarket, the Southeast and North combined account for more than half of all vacant space citywide. Landlords find themselves in a precarious position of needing to maintain rates due to inflated construction costs while attempting to lure in tenants to the abundant vacant space available. Tenants should take advantage and pursue increased concessions and reduced rent at lease execution.

Austin's industrial market is heavily driven by consumption among the local population. Without being a regional distribution hub, local warehouse space relies on strong population and income growth to create demand for the abundant supply of product on the market. As consumer spending and job growth have declined, so has the demand for industrial space. Austin still benefits from a vibrant high-tech community and strong population growth. However, local economic indicators must improve before a drastic improvement in the market will be seen.

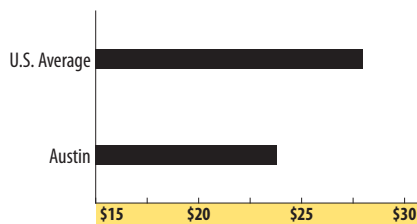
In spite of the troubling economic conditions nationwide, Austin remains one of the well-positioned retail markets in the country.

Median Household Income 2008 (in Thousands)



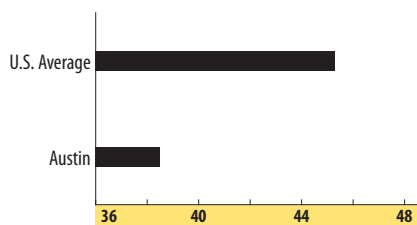
Source: Claritas

Typical Rent In-line Shop Space, 2008 (\$/SF/Yr. Triple Net)



Source: Grubb & Ellis

Retail Square Feet Per Capita 2008



Source: Claritas, Grubb & Ellis

Tenants Expanding or Downsizing 2008/2009

Expanding or New to Market	Downsizing
Dick's Sporting Goods	Circuit City
Home Depot	Kirkland's
OfficeMax	Linens 'n Things
Target	Shoe Pavilion
Wal-Mart	Starbucks

Coming off a banner year in 2007, the Austin retail market registered mixed results in 2008. Declining job growth, rising unemployment, reduced consumer spending and tightening lending standards will make 2009 a challenging year for tenants, landlords and investors alike.

More than 1.7 million square feet of retail space was added to the inventory in 2008. Although this marked a significant decline from the 3.4 million square feet delivered in 2007, the construction pipeline remains robust. A plethora of new developments that broke ground in the first half of 2008 will deliver as much as 5 million square feet in 2009. The majority of the space currently under construction is situated in high-growth areas in outlying communities such as Pflugerville, Hutto, Leander, Bastrop and San Marcos. As these projects wrap up over the next 12 months, new construction should fall off significantly as the national credit crunch limits access to available financing.

Consumers reined in spending in 2008 as the ranks of unemployed swelled, 401ks evaporated and gas prices soared. As consumers tightened their belts, many retailers suffered. Retailers such as Circuit City, Linens 'n Things and Starbucks were forced to cut back expansion plans and close existing locations. Conversely, discount retailers such as Wal-Mart performed reasonably well given overall market conditions. Landlords should be mindful of this dynamic and pay close attention to the moves made by these tenants in 2009. Moreover,

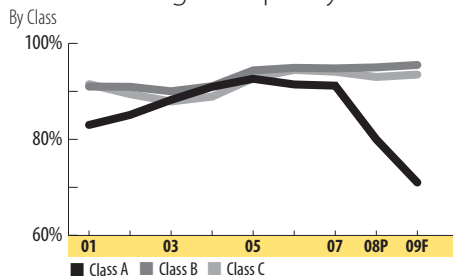
landlords should pursue regional and national tenants with easy access to capital and financing in 2009 as local "mom and pops" find it increasingly difficult to secure credit for expansion and relocation.

Due to rising store closings and a lack of available financing for new and expanding tenants, retail vacancy will likely crawl upward in 2009. Vacancy rates among neighborhood and community shopping centers could reach 11 percent, up from 10 percent at year-end 2008. Nevertheless, city-wide rental rates should post an increase of up to 2 percent as recently completed space delivers with significantly higher rates than seen in existing inventory. Second-generation shopping centers will struggle to fill the void left by vacating tenants as well-established retailers strategically locate in new shopping centers.

In spite of the troubling economic conditions nationwide, Austin remains one of the well-positioned retail markets in the country. The local median household income of \$55,339 is 12 percent higher than the national average, even with a relatively low cost of living. The dramatic decline in gas prices seen in the second half of 2008 has put more money back in the pockets of consumers. In addition, rapid population growth will continue to drive demand for all varieties of retail products in the coming years. As the national economy begins to come out of the downturn, Austin's retail market will soar to record heights.

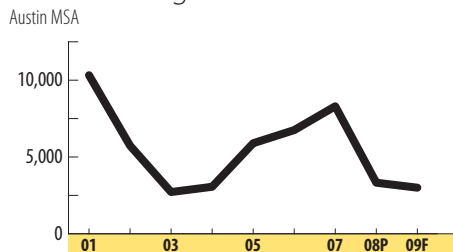
New construction deliveries flooded the Austin multi housing market in 2008 as more than 7,600 new units were added to the inventory. As a result, occupancy fell below 90 percent for the first time since 2004.

Multi Housing Occupancy



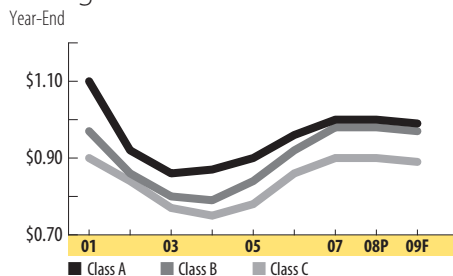
Source: Austin Investor Interests, LLC

Multi Housing Permits Issued



Source: Austin Investor Interests, LLC

Asking Rental Rates



Source: Austin Investor Interests, LLC

Key Multi Housing Transactions 2008

Buyer	Seller	Units	Property Name	Sale Price (millions)
TIAA-CREF	Invesco Real Estate	287	State House on Congress	\$53.3
Preiss Company	Falcon Southwest	498	University Estates	\$51.0
Bassham Residential	GenCap Partners, LP	402	Villages of Bella Vista	\$48.0
Frankel Family Trust	Trammell Crow Res.	386	Onion Creek Luxury Apartments	\$44.0
Northland Investments	Equity Residential	448	River Stone Ranch	\$41.7

Source: Real Capital Analytics, Grubb & Ellis, Austin Investor Interests, LLC

New construction deliveries flooded the Austin multi housing market in 2008 as more than 7,600 new units were added to the inventory. With fewer than 2,000 units absorbed citywide, leasing velocity was at its lowest level since 2001. As a result, occupancy fell below 90 percent for the first time since 2004.

2009 will be more of the same for a market awash in vacant space. Approximately 12,000 units remain under construction citywide, with an additional 2,500 approved, 5,900 submitted for approval and more than 12,000 proposed. Although the national credit crunch will force developers to halt some new developments, any new product added to the inventory in 2009 will further diminish citywide occupancy.

Citywide asking rents leveled off in the second half of 2008 as new supply far outweighed demand. After reaching a seven-year high of \$1.03 per square foot in the second quarter, Class A rental rates began to decline in the third quarter. Class A asking rents will be hit particularly hard in 2009 as the majority of new product delivered will be traditional Class A space. The last period of market softness (2001 to 2004) saw Class A rental rates decrease 24 percent before bottoming out after a three-year

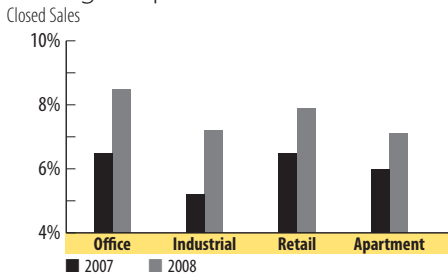
slide. It is unlikely that such a dramatic drop will occur in this market cycle. However, landlords are becoming more aggressive in the concessions and incentives they are willing to offer. Tenants should use this opportunity to selectively pursue discounted properties and negotiate additional concessions into their leases.

The CBD submarket was flooded with new condo and apartment units in 2008. Austin's goal of 25,000 downtown residents within 10 years has made this market an attractive option for developers and tenants alike. Although occupancy among downtown Class A rental properties took a steep decline in 2008, leasing velocity has remained strong. Additionally, condo sales remained robust, with lengthy waiting lists at several of the new CBD developments. Although the current market will temporarily force developers to slow their delivery of new product to this submarket, the CBD remains an attractive option for a wide variety of tenants. Landlords will respond aggressively as the credit markets improve.

Investors remain active in Austin's multi-family market. 55 closed transactions totaling 15,700 units traded hands in the first three quarters of 2008. Rising foreclosures are pushing more tenants into the leasing market, providing incentive for investors even as financing becomes increasingly difficult to acquire. 2009 will likely see increased cap rates amid declining prices. Well-capitalized investors have the opportunity to make a big splash in the Austin market, given current conditions.

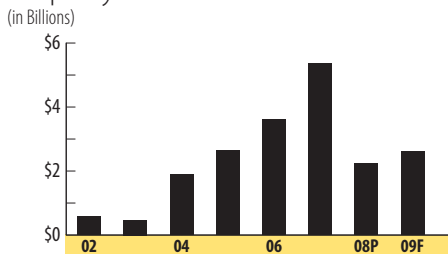
Market fundamentals in the Austin area mirrored the national trend of reduced sales volume and skyrocketing capitalization rates in 2008.

Average Capitalization Rate



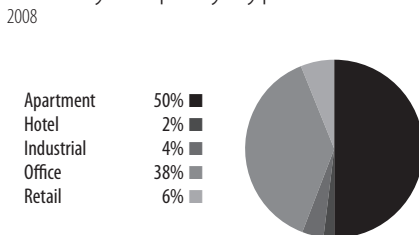
Source: Real Capital Analytics

Property Sales Volume



Source: Real Capital Analytics, Grubb & Ellis

Sales by Property Type



Source: Real Capital Analytics

Key Investment Transactions

Buyer	Seller	Property Type	Property Name	Size	Price (millions)
Northland Investments	Equity Residential	Apartment	Portfolio – 9 Properties	2,985 Units	\$270.0
Spear Street Capital	Equity Office	Suburban Office	Riata Corp. Park/Crossing	1,100,000 SF	\$215.0
AFIAA	Aspen Properties	CBD Office	Wells Fargo Tower	281,196 SF	\$60.0
Preiss Company	Falcon Southwest	Apartment	University Estates	498 Units	\$51.5
Silicon Laboratories	C.S.C.	CBD Office	200 W Cesar Chavez St	219,828 SF	\$50.1

Source: Real Capital Analytics, Grubb & Ellis

Investors were rattled in 2008 by a series of disturbances that shook the nation's financial and commercial markets. The collapse of several prominent investment banks and the corresponding contraction of the credit markets took buyers out of the investment market and changed the conditions in which transactions took place. The prospect of a prolonged recession will continue to hamper the investment markets nationwide in the first half of 2009. Nonetheless, opportunities will exist in Central Texas for well-positioned investors to make a move.

Market fundamentals in the Austin area mirrored the national trend of reduced sales volume and skyrocketing cap rates in 2008. Overall sales volume for investment-grade assets declined by 58 percent compared to 2007. By sector, multifamily sales decreased by 34 percent, while office, industrial and retail sales fell 71, 85 and 71 percent, respectively. Meanwhile, cap rates jumped by more than 100 basis points across all categories. Office and industrial product led the way with a 200 basis point increase in each sector, while multifamily and retail transactions saw cap rates increase an average of 110 and 140 basis points, respectively.

With deflating prices, many financially stable landlords chose to sit on their product in

2008. Cap rate levels will likely continue to rise in 2009, creating more opportunities for potential investors. Many owners, such as pension funds in need of cash and private owners facing reduced NOIs, will be looking to sell. Opportunistic buyers should take advantage of such scenarios as credit becomes more widely available and troubled landlords become more eager to move their properties, regardless of price.

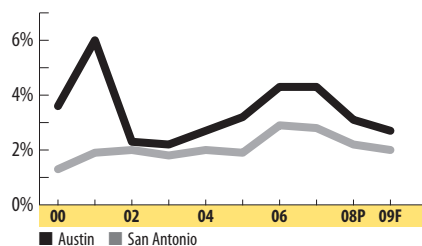
Nationwide, the top-performing property types in 2008 were student housing, medical office and freestanding drug stores. Shopping centers took a particularly large decline as numerous retailers were forced to scale back due to reduced consumer spending. Potential buyers should pay special attention to existing strip centers with high vacancy rates, as more commercial foreclosures become a real possibility.

2008 saw several major portfolio transactions occur in the Austin area, proof that interest remains high in the local investment market. Massachusetts-based Northland Investments took an apartment portfolio consisting of 9 properties for approximately \$270 million. Moreover, Spear Street Capital's purchase of Riata Corporate Park and Riata Crossing for an estimated \$215 million was one of the largest office transactions nationwide in 2008. While the local investment market will not return to 2007 levels, expect to see an uptick in such transactions by mid-year 2009 as Austin remains a rapidly growing market with a great deal of upside.

A soaring economy coupled with mounting appreciation values have made land a popular investment vehicle throughout Central Texas in recent years.

Population Growth

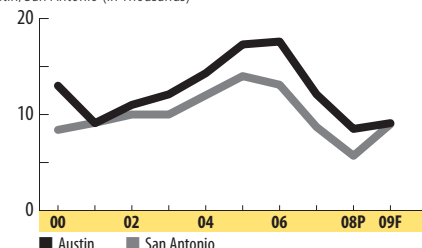
Austin/San Antonio



Source: U.S. Bureau of Census; Moody's Economy.com, Inc.

Single-Family Home Building Permits

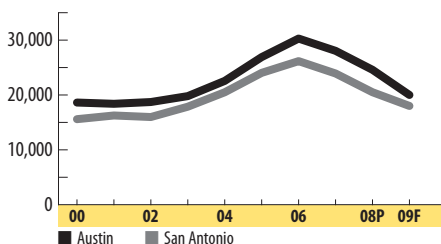
Austin/San Antonio (in Thousands)



Source: U.S. Bureau of Census, Moody's Economy.com, Inc.

Home Sales

Austin/San Antonio



Source: Texas A&M Real Estate Center

Austin and San Antonio are consistently ranked as the top metropolitan markets in the United States to live and work; which has translated to robust population and business growth over the years with no end in sight. The expanding metro areas and roadway improvements will eventually merge the two cities over the next decade. As a result of the overall appeal, developers continue to capitalize on the underlying strength and future growth prospects of Central Texas.

A soaring economy, coupled with mounting appreciation values have made land a popular investment in recent years. Nevertheless, investors remained cautious for much of 2008 due to uncertainty created by the declining economy and tightening credit markets. Since commercial properties tend to follow rooftops, the residential downturn has certainly had an impact on commercial land development activity.

The national credit collapse has deeply impacted national homebuilders as they have increasingly given up inventoried tracts of land in bankruptcies and foreclosures within the past year. Prices are cents on the dollar from market peaks and in some cases 50 to 70 percent lower than in 2007. Lot sales are down for the year despite the deep discounts; however, absorption continues to slowly eat away at the existing supply. Looking ahead, as the population grows, a need for more housing inventory product may be sooner than expected. Depending on the financial status of homebuilders, possibly next spring and summer will show signs of new developments.

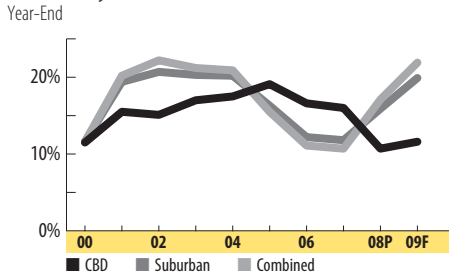
For commercial developments, activity is concentrated around smaller tracts in strong demographic areas as opposed to larger tracts farther out where there is greater risk and more infrastructure expenses. However, the consistent demand for the high profile tracts of land have allowed prices to remain stable after increasing at a rapid pace in prior years. In the year ahead, land prices are expected to stabilize, but at lower values than previously seen in late 2007 and early 2008. While interest is still there, commercial developers are feeling the effects of the credit crunch and bulk cash requirements are becoming typical even for proven developers.

For investors that currently have excess cash or financing available, many good land values are starting to appear. In some cases, over inflated values are receding to reasonable economic levels. Inventory is also increasing as a wave of new listings become available, but existing sellers are holding onto properties longer due to little or no interest from buyers. Some owners and investors who actually have debt against their projects are especially anxious in this uncertain economy. Those investors who can afford to wait before selling at lower values are primarily those with agricultural tax valuations.

Strong population growth will continue to make acquiring well-located parcels of land a priority in 2009. By the summer and fall of 2009, activity is expected to rebound and should make a complete return to historical averages by 2010 making the Central Texas area a healthy climate for new developments.

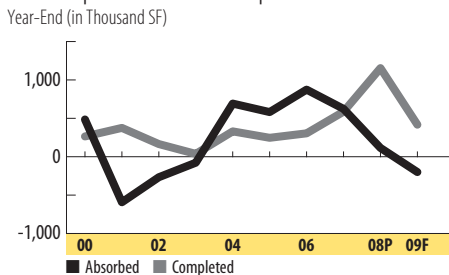
San Antonio's office leasing market concluded the year with lower absorption growth as area businesses became increasingly cautious in their real estate decisions due to tightening in the credit markets and a slowing national economy.

Vacancy Rates



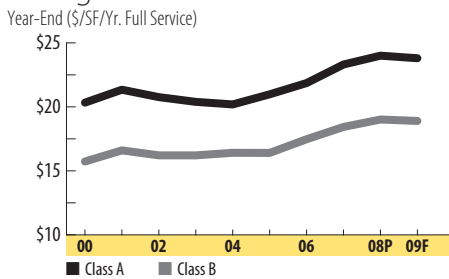
Source: Grubb & Ellis

Absorption vs. Completions



Source: Grubb & Ellis

Asking Rental Rates



Source: Grubb & Ellis

Key Leasing Transactions

2008

Lessee	Lessor	Property	Submarket	Size (SF)
Well Med	CLFP-University Park	University Park Tech Center	Northwest	38,237
City of San Antonio	Riverview Tower Partners	Riverview Towers	CBD	24,844
Galen Health Institute	K W Funds	One Technology Center	Northwest	24,563
Galen Health Institute	Brass Real Estate Funds	Brass Professional	Northwest	18,809
Nelson Scarborough	Brass Real Estate Funds	Brass Professional	Northwest	15,407

The end of a turbulent year for San Antonio's office leasing market concluded with significantly lower absorption growth in comparison to 2007. A catalyst to some of the local market changes this past year lies with the relocation of AT&T's corporate headquarters to Dallas and the closure and downsizing of banking and mortgage-related institutions.

The end of 2008 also brought forth a stream of modified leasing standards. While renewals are still active, they are primarily on three-year terms versus five. Leasing incentives are also being considered by landlords as an alternative to lowering rents. Looking into 2009, sublease space may become more of a steal than seen in the past. With the high amount of vacancy in newly delivered buildings, there is a closing window of time that landlords can continue to lease at current quoted rates before we see reductions in rents citywide.

San Antonio's overall vacancy jumped amid the steady delivery of new product into the market as new supply outweighed leasing demand during 2008. The large amount of space absorbed in 2006 and 2007 sparked a frenzy of new construction activity in the market of which 1,154,227 square feet was

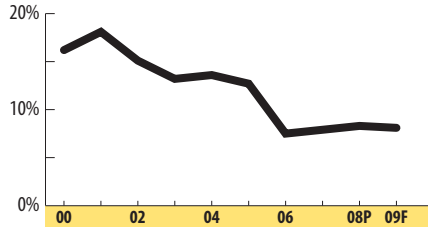
added in 2008. Sensitive to the economic conditions, speculative development will taper off significantly to approximately 417,000 square feet in 2009. In addition to AT&T vacating 175 E Houston, several large blocks of space are anticipated to return to the market over the course of 2009. Tesoro will consolidate its existing offices across San Antonio into a 618,000-square-foot campus at Ridgeway Park. The move will leave more than 250,000 square feet vacant at 300 Concord, McAllister Plaza and several other small offices around the city. Additionally, Frost Bank will vacate its existing 61,000-square-foot space at 4715 Fredericksburg Road.

Amidst the declining number of office building sales and increasing vacancy rates, investors and tenants should remember that San Antonio remains a very appealing market. Lower construction costs, a growing population and a sound infrastructure are some of the prime reasons that firms such as Microsoft are building in the Alamo City. The recent data center boom in the Westover Hills area is creating new and different opportunities. Despite weaker net absorption and higher vacancy projected for next year, the San Antonio office market will benefit from strong growth in other sectors as the economy rebounds in the second half of 2009.

San Antonio's low-cost business environment and strategic distribution location has kept the industrial market strong and more resilient than other cities that are feeling the economic challenges.

Vacancy Rates

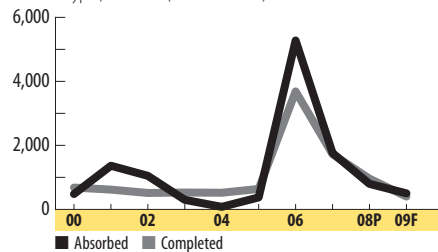
All Product Types, Year-End



Source: Grubb & Ellis

Absorption vs. Completions

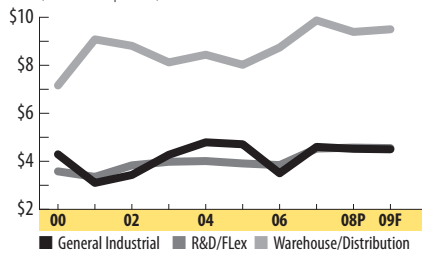
All Product Types, Year-End (in Thousand SF)



Source: Grubb & Ellis

Asking Rental Rates

Year-End (\$/SF/Yr. Triple Net)



Source: Grubb & Ellis

Key Leasing Transactions

2008

Lessee	Lessor	Property	Submarket	Size (SF)
Fiesta Warehousing	Port San Antonio	East Kelly	Port SA	188,000
Greenstar North America	Titan Industrial	Cornerstone Industrial	Northeast	180,000
Eye Care Centers	Verde	Tri County 35 Business	Northeast	108,750
Carrier	EastGroup Properties	Wetmore Business Center	North Central	82,800
Zachry Construction	EastGroup Properties	Wetmore Business Center	North Central	69,146

San Antonio's industrial market has benefited in recent years from the rapid growth in the manufacturing and industrial sectors nationwide. For 2008, there was almost 1 million square feet of new developments and 800,000 square feet of positive absorption. As the economy and demand grew in 2005, businesses expanded their production and facilities in the Alamo City. Toyota Manufacturing was welcomed on the south side and several automobile suppliers followed suit. The TriCounty area exploded with distribution centers while the Port of San Antonio and Union Pacific RR are continuously making improvements to their rail, air and truck capabilities to attract businesses.

Despite the recent expansion, the volatility in the economic climate has left local tenants and investors pondering how it will impact their future business. The good news is that the core elements that originally attracted businesses to San Antonio have not changed. San Antonio remains one of the most affordable places to live and conduct business. The increasing population and several accredited universities provide a stable and educated workforce. The region offers convenient access to Mexico and major interstates to transport goods that are in place and improving. This is a driving force for intermodal operations when gas prices

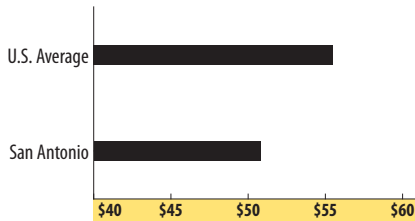
are on the rise. Port of San Antonio has developed an alternative shipping route from China into Port Lazaro Cardenas and then by rail to San Antonio, saving companies time and money. All of this and more are what sets San Antonio apart from other cities when companies are looking to make future business decisions.

Despite all the positives that San Antonio has to offer, in this uncertain economic climate, the industrial leasing market is not entirely unscathed. Developers are taking note of the small businesses that are closing their doors and the larger companies choosing to put off big expansion or relocation plans at this time. As a result, developers are switching their focus to leasing current developments rather than building new projects. This effort has dramatically decreased the construction pipeline for 2009 to less than 400,000 square feet.

In direct correlation to the positive absorption and nominal deliveries in the latter half of 2008, vacancy declined. Looking into 2009, the industrial leasing market should continue on the same trend. Triple net asking rents hit an all-time high at the end of 2007 and tapered off throughout 2008. A slight decline in rents may occur in 2009 for general industrial and warehouse/distribution space, but not to the same extent seen this past year. R&D/flex space took the biggest hit during 2008, and therefore rents are expected to increase in 2009. Overall, improvements to multi-modal capabilities have positioned San Antonio for a bright future once the national economy begins its recovery.

While a brief downturn is expected in the retail market in 2009, San Antonio will remain a favorable market for new and expanding retailers with its low barriers to entry, affordable rates and growing population.

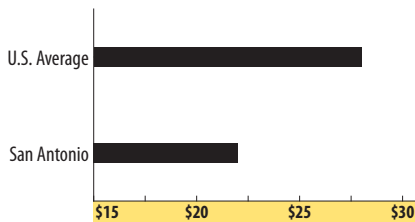
Median Household Income 2008 (in Thousands)



Source: Claritas

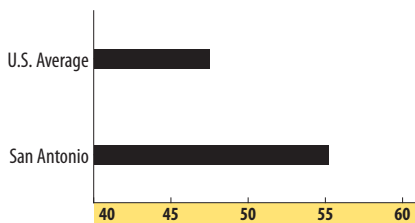
Typical Rent

In-line Shop Space, 2008 (\$/SF/Yr. Triple Net)



Source: Grubb & Ellis

Retail Square Feet Per Capita 2008



Source: Claritas, Grubb & Ellis

Tenants Expanding or Downsizing 2008/2009

Expanding or New to Market	Downsizing
HEB Grocery	Harold's
Wal-Mart	Linens 'n Things
Target	Circuit City
Nordstrom Rack	Mervyn's
West Elm	99 Cents Only

Although San Antonio's retail market held up relatively well in the face of the national economic storm this past year, the outlook has become cloudy for 2009. Slower job growth, reduced consumer spending and tightening lending practices will make 2009 a challenging year.

In 2009, retailers will do their best to capture their share of a dwindling discretionary spending base while landlords look to keep their shopping centers full. As consumers have become more cost conscious, retailers meeting basic needs at lower prices will capture a higher market share. As a result, most of the growth will likely come from value-oriented retailers in the local market.

Despite the national economic slowdown experienced this past year, developers that established financing prior to the tightened standards were able to push out new construction. In 2008, less than 4 million square feet of retail space was delivered to the market. Notable 2008 deliveries included Alamo Ranch and the first phase of Gateway Plaza. Approximately 3.5 million square feet of space was under construction at the end of 2008 including the Town Center at Creekside and the remainder of Park North Plaza.

In the year ahead, retail development will be scaled down as the rising cost of construction, slower tenant expansion and the national credit crunch limits access to available financing. Many projects will stay in the planned or proposed phases throughout 2009 due to a lack of preleasing needed to get the projects off the ground.

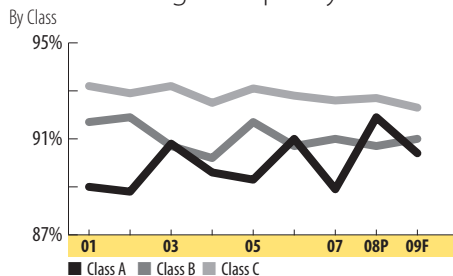
Many of the projects set to deliver next year will be met by a recent supply of second-generation space vacated by Circuit City, Linens 'n Things and Mervyn's. The bankruptcy and closing of national retailers will certainly have a negative impact on the local retail leasing market as landlords find it increasingly difficult to replace the void in those centers. Tenants trying to avoid going out of business will likely look for a break in rents and may be willing to sign longer terms to get it.

In response to hesitation in the slowing market, overall rental rates fell approximately 4.5 percent to \$14.75 triple net in 2008. Depending on the tenant composition and location of the center, rental rates will fall further in 2009. Unanchored retail centers or older centers in high-development areas will receive the brunt of the decline in rents while grocery or big-box anchored centers with relatively stable retailers will continue to perform well.

Although San Antonio is not immune to the economic downturn facing the nation, several factors will diminish the negative impact. San Antonio will continue to grow in population and remain an attractive city for new and expanding businesses. The influx from the BRAC relocation will also provide opportunities. However, downward pressure from the national economy as a whole will likely keep San Antonio's retail market from reaching its full potential any time in 2009.

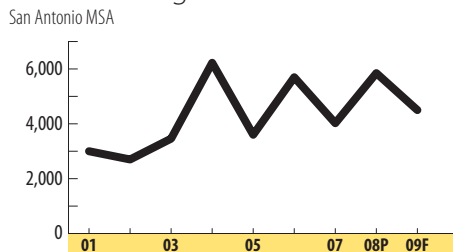
Favorable long-term economic and demographic outlooks for San Antonio are expected to support the local multi housing market, though a steady stream of new supply will likely produce a short-term slide in occupancy rates.

Multi Housing Occupancy



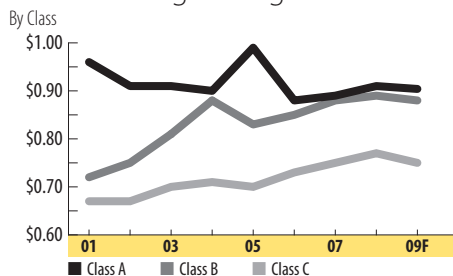
Source: Austin Investor Interests, LLC

Multi Housing Permits Issued



Source: Austin Investor Interests, LLC

Multi Housing Average Rents



Source: Austin Investor Interests, LLC

Key Multi Housing Transactions

Buyer	Seller	Units	Property Name	Sale Price (millions)
Woodlark Capital	USTA Apartments 10	276	Reserve	\$40.0
Resource Real Estate	TXCGL Properties	288	Park Hill	\$17.0
Concierge Asset Management	SRC Universal Partners	208	Sunrise Canyon	\$14.1
Concierge Asset Management	FPC/Sable Ridge Apts	333	Sable Ridge	\$10.9
Bascom Group	Deerfield Townhomes	149	Legacy Townhomes at Castle Hills	\$9.9

Source: Real Capital Analytics, Austin Investor Interests, LLC, Grubb & Ellis

Despite the relatively large number of units delivered in 2008, San Antonio's multi housing market occupancy still hovers around 90 percent, only 90 basis points lower than 2007. Overall occupancy has remained in the low 90s for several years, bolstered by an influx of Hurricane Katrina evacuees at the end of 2005. At the time, many Hurricane Katrina evacuees received housing credits from FEMA, which primarily benefited Class C units around the city. However, as of September 2008, FEMA stopped issuing payments, which caused a temporary rise in vacancy in Class C units. Since this increase is centered around a one-time occurrence, there is every indication that the effects should be temporary. Looking ahead, tighter lending standards should help to maintain occupancies in the near term as aspiring homebuyers stay in their units longer to save for down payments.

Spurred by the slightly lower occupancy rates than seen in 2007, more landlords resorted to offering concessions around the city. However, as the number of concessions increased throughout 2008, the value decreased to approximately 3.5 weeks of free rent on a 12-month lease. This caused a slight rise in effective rents while asking

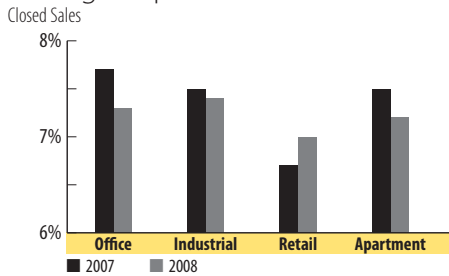
rents have remained stable at just under \$0.90 per square foot. In the year ahead, expect concessions to gradually increase as owners compete with the influx of new projects coming online.

On the construction front, San Antonio kept pushing out new units in 2008, producing a steady stream of deliveries similar to 2007. There were 6,101 units under construction in the third quarter of 2008 and over 3,000 units were permitted and expected to start in the fourth quarter. However for 2009, the number of proposed units has declined to around 8,000 units. Many developers with previous financing in place have completed their projects but are having difficulty obtaining financing for future projects. By unit type, only new affordable projects appear to be affected at this time as the conventional unit pipeline has only slightly wavered as a result of the slowing economy. Although the expected stall in construction due to the potential lack of financing has not hit the market yet, it is on the horizon for 2009.

The struggling national economy has certainly taken its toll on investment sales across the Alamo City. Difficulty in obtaining financing for buyers has reduced deal flow significantly in comparison to 2007 and 2006. Additionally, there has not been an increase in the average price per unit as fewer top-tier assets have traded, resulting in a lower return on investments exchanging hands. While the credit crisis appears to have taken its toll on the investment market, overall leasing fundamentals

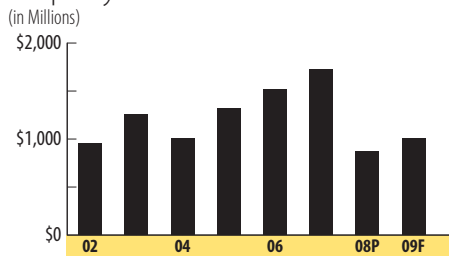
Although the local market fundamentals remain strong, hesitant investors will make 2009 a slow year. Eager investors will rely on local banks for lending and turn the brief downturn to their benefit.

Average Capitalization Rate



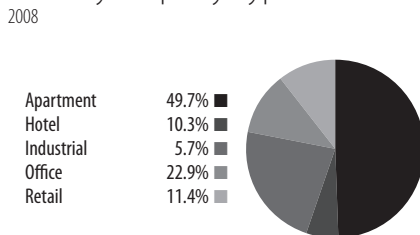
Source: Real Capital Analytics

Property Sales Volume



Source: Real Capital Analytics, Grubb & Ellis

Sales by Property Type



Source: Real Capital Analytics

Key Investment Transactions

2008

Buyer	Seller	Property Type	Property Name	Size (SF)	Price (millions)
Woodlark Capital	Royal Properties	Apartment	Reserve	276 Units	\$40.0
South West Business Corp.	Maier Siebel Baber JV Buchanan Street Partners	Office	Nowlin Building	236,410	\$38.5
AEW Capital	Weingarten Realty	Retail	Thousand Oaks	162,882	\$17.9
Sealy & Co.	Warmack & Co.	Industrial	9315 Broadway St	181,600	\$4.0

Source: Real Capital Analytics, Grubb & Ellis

The summer of 2007 marked the national slowdown of commercial real estate investments as banks began to stop or slow their lending activity. This culminated over the year into what is now known as the “credit crisis” or “credit crunch.”

In San Antonio, the greatest impact was felt by national and international investors with credit standing at the failing investment banks. However, local investors that received funding from regional banks fared well as these banks practiced stricter credit standards to protect their limited cash flow. Current investors with sound credit and ample liquid assets are not finding as many barriers to lending at local banks for investment purchases. Nevertheless, there are some exceptions, which include interest-only loans and modified requirements for construction lending. Many developments in the proposed or planning stages have paused due to stricter requirements for preleasing.

Market fundamentals in San Antonio mirrored the national trend of reduced sales volume in 2008. Overall sales volume for investment grade assets declined by nearly 50 percent compared to 2007. The local industrial market, which is dominated by several national developers, halted investments and construction, leading to the lowest deal volume among all

property types. Less than half a million square feet is on the table for construction in 2009. The office market led in transaction volume in 2008. However, investments and construction will taper off in the coming year due to reduced access to credit and large amount of space returning to the market. Alternatively, the retail and multi housing market only hit minor bumps on the road with sales down slightly from 2007. The sustained employment and population growth in San Antonio has maintained constant demand for affordable housing and retail stores as the rapidly growing market offers a great deal of upside to investors.

The biggest challenge over the next few years will be overcapitalized properties due to underwriting at projected cash flow versus cash in-place. Compared to the residential market, which has had an abrupt downturn, the decline in commercial properties will be more gradual and spread out into early 2010 due to the strong performance among some properties. However, they are not always performing to underwritten expectations. Although funds are available for the well capitalized and properly leveraged assets, most will hold their positions until later in 2009 to see if higher cap rates yield better investment opportunities.

Looking ahead into 2009, the San Antonio investment market is expected to waver pending an economic recovery and a thaw in the credit markets that will allow capital to begin moving. San Antonio is braced for such changes, but will take them in stride, waiting for a rebound in activity by 2010.

COMPANY PROFILE

Grubb & Ellis is a real estate services and investment firm committed to identifying and creating business and investment opportunities through real estate, uniquely tailored to our clients' individual needs.

Grubb & Ellis is one of the largest and most respected commercial real estate services and investment companies. With more than 130 owned and affiliate offices worldwide, Grubb & Ellis offers property owners, corporate occupants and investors comprehensive integrated real estate solutions, including transaction, management, consulting and investment services supported by proprietary market research and extensive local market expertise. Grubb & Ellis and its subsidiaries are leading sponsors of real estate investment programs that provide individuals and institutions the opportunity to invest in a broad range of real estate investment vehicles, including tax-deferred 1031 tenant-in-common exchanges, public non-traded real estate investment trusts and real estate investment funds.

Research plays an integral role in our business, and our professionals have earned a reputation for providing informed solutions that combine local market knowledge with detailed analysis. Strong knowledge about general economic issues and global trends – combined with specialized expertise for property types such as office, industrial, retail, land, medical office, multifamily and hospitality – provides our clients the information they need to achieve their corporate and investment goals.

Grubb & Ellis has the people, platform and best-in-class processes to deliver superior service whether a client needs help with a single investment property or multiple global facilities. Our consistent performance grounded in keen market insight plays a role in our success and is recognized by our clients. For example, in 2008, Grubb & Ellis was honored with Microsoft Corporation's Environmental Award for our successful efforts to reduce the company's impact on the environment. This commitment to continuous improvement and the development of programs and initiatives designed to meet a client's individual needs are the driving forces behind our more than 50 years of service excellence.

Seamless Integration of Real Estate Products and Services

Grubb & Ellis is a unique company that brings together traditional transaction and management real estate services with innovative investment programs offered through Grubb & Ellis Realty Investors. Our brokerage network offers insight into the pool of assets nationwide, maximizing investment opportunities for program investors. In turn, the property and asset management services of the company seek to drive value to each property, capitalizing on opportunities from acquisition to disposition – whether it be for our own portfolio or on behalf of our clients.

Structured Around the Needs of Our Clients

Our unique, comprehensive platform includes transaction services, management services, corporate services and a wide range of investment programs.

Transaction Services

Grubb & Ellis has one of the largest and most experienced real estate brokerage sales forces in the country. Our teams of specialists cover all aspects of commercial real estate and work closely with owners, occupants and investors to assess the ways in which real estate issues relate to – and contribute to – an organization's strategic business objectives. Last year, Grubb & Ellis and its affiliates completed 16,250 transactions valued at more than \$22 billion.

Transaction services include:

- Agency leasing
- Tenant representation
- Consulting services
- Valuation consulting
- Retail services
- Institutional investment services
- Private capital investment services
- Site selection

Grubb & Ellis was the recipient of Microsoft's Environmental Award in 2008

Global Client Services

As one of the nation's largest full-service commercial real estate firms, Grubb & Ellis delivers integrated property, facility and asset management services focused on cost-efficient operations, tenant retention and increasing property values to a host of corporate and institutional clients. The company and its affiliates manage a diverse portfolio totaling more than 275 million square feet of space. This portfolio includes headquarters, facilities and Class A office space for major corporations, as well as industrial, manufacturing and warehouse facilities, data centers, retail properties, medical buildings and multifamily assets for real estate occupants and investors. Additionally, Grubb & Ellis provides consulting services that help clients better understand their real estate portfolio, the current operating environment, and future opportunities that exist through smart, strategic planning.

Management services include:

- Property management
- Facility management
- Asset management
- Business and fulfillment services
- Consulting services
- Project/construction management
- Engineering services

Corporate services include:

- Consulting services
- Real property and lease administration
- Retail services
- Strategic planning
- Tenant representation
- Valuation services
- Site selection
- Project management
- Portfolio rationalization
- Disposition services

Investment Programs

Grubb & Ellis is one of the nation's leading sponsors of innovative commercial real estate investment programs. Grubb & Ellis Realty Investors, the company's real estate investment and asset management subsidiary, structures, acquires, manages and disposes of real estate for its clients. Through Private Client Accounts, the firm offers high net worth investors a comprehensive program to build or expand their commercial real estate portfolio to meet their investment objectives. In total, Grubb & Ellis Realty Investors oversees a portfolio of assets valued in excess of \$6.5 billion located throughout more than 30 states, and has completed acquisition and disposition volume totaling more than \$11 billion on behalf of program investors since its founding in 1998.

Investment programs include:

- 1031 tenant-in-common exchanges
- Public non-traded real estate investment trusts (REITs)
- Limited liability companies
- Wealth management
- Institutional investments
- Mutual funds
- Securities separate accounts and funds

This is neither an offer to sell nor a solicitation of an offer to buy any security. Such an offer may be made only by means of an offering document. Investors should read the offering materials and review the risks associated with any offering prior to making an investment and should be able to afford the loss of their entire investment. Securities offered through Grubb & Ellis Securities, Inc. member FINRA/SIPC.

Our Commitment

A strong, integrated delivery platform combined with the expertise of our professionals offers our clients a partnership unlike any other in the industry. We bring strategic thinking and exceptional service to each and every engagement. We deliver perspective, insight and innovation to help our clients achieve their desired outcomes. And we execute effectively and efficiently, enabling us to form long-lasting collaborative relationships with property owners, investors and corporate users of real estate.

To locate a Grubb & Ellis office near you, please visit www.grubb-ellis.com/offices.

Grubb & Ellis is one of the most widely quoted sources when it comes to real estate market trends and their implications.

For more than 50 years, Grubb & Ellis has made real estate market research a cornerstone of its business. The company has built a reputation for consistently delivering some of the highest quality research reports in the industry and regularly provides expert commentary on the forces shaping the commercial real estate landscape. As the issues facing real estate owners, corporate users and investors grow increasingly complex, sound research and analysis become even more vital, and our research is a tool our professionals rely on to help their clients solve real estate issues, uncover opportunities and achieve larger organizational objectives.

Grubb & Ellis research reports span from coast to coast and around the globe. We cover big-picture economic trends as well as specific drivers of local market demand for space. We provide standard real estate statistics and also respond to significant developments, such as the credit crisis of 2008. Our research is used by our clients, the media and the industry at large to help explain current conditions and predict what the future has in store.

Grubb & Ellis leverages four integrated components to create our unique and comprehensive insights:

- Our professional research managers and their staff, whose critical function it is to build the base of market intelligence in each office and provide published reports and custom analyses to our clients. Grubb & Ellis pioneered the concept of hiring

professional research managers to direct the company's research function, which is widely viewed as having the most accurate grass-roots level data in the industry. Incoming research analysts and brokers are trained to understand the nuances of the real estate cycle, inflection points in the cycle, leading indicators, and the actions and advice that are appropriate for each phase of the cycle.

- Our systems used to compile, maintain, analyze and disseminate our research. Grubb & Ellis was a pioneer in the field of computerized market research and analysis and continues to make investments to improve and enhance the information available. Most of the company's offices have been tracking data for more than two decades. In addition to subscribing to the top property databases in the industry, Grubb & Ellis has built a proprietary, centralized Web-resident data warehouse to track its property-specific data, including property details, images, available space, leasing and sales comparables, and tenant information, all in an easy-to-use format. This sophisticated system is based on a rigorous set of research standards designed to ensure that data are consistent across markets.
- Our reports and publications through which we translate our extensive databases into analysis, insights and actionable recommendations for our clients. In addition to our annual national and local forecast reports, Grubb & Ellis produces quarterly Market Trends reports

that analyze local and national market conditions throughout North America by product type, a Weekly Market Insight electronic communication on a timely economic or real estate-related topic, quarterly capital markets reports and white papers on issues that are important to our clients.

- Our real estate professionals, whose familiarity with the people and the property in their submarkets yields a daily, in-the-trenches grasp of changing market conditions. The creation of market intelligence is a team effort, with knowledge flowing constantly between our research teams, sales professionals and investment specialists. This knowledge is integrated with our professionals' insight and experience, forming a solid foundation from which to advise clients, and giving Grubb & Ellis and its clients a competitive edge.

Among our clients, we have seen an increased demand for more accurate data and sharper analysis fueled by increased market transparency and a strong need for accountability. Real estate investors as well as corporations in all sectors of the economy are closely examining their real estate strategies and searching for timely and smart market research that will help guide and support their decisions. Providing this information is one of the things Grubb & Ellis does best.

To keep abreast of research disseminated by Grubb & Ellis, please visit www.grubb-ellis.com/research.

Grubb & Ellis research teams across the U.S. work together to ensure our clients have the most up-to-date market knowledge.

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Sources

Austin American Statesman; Austin Chamber of Commerce; Austin Business Journal; Austin Investor Interests; Capitol Market Research; CCIM Forecast Symposium – Austin & San Antonio; Claritas/National Decision Systems (NDS); Commercial Property News; CoStar Group; Federal Reserve Bank of Dallas; Federal Reserve Board of Governors; Globe St.com; Imark Online; Inman News; Moody's Economy.com; National Multi-Housing Council; O'Connor & Associates; Real Capital Analytics; Real Estate Alert; Real Estate Forum; Red News; Reis, Inc.; RIS Media; San Antonio Business Journal; San Antonio Express News; Shopping Centers Today; State of Texas website; Texas A&M Real Estate Center; Texas Real Estate Business; Texas State Demographer; Texas Workforce Commission; Tierra Grande, July 2008 "Sizzling Land"; Urban Land Institute; U.S. Bureau of the Census; U.S. Bureau of Labor Statistics; Wall Street Journal.

Grubb & Ellis offers its clients an integrated platform of real estate services and investment programs. We strive to meet the evolving needs and investment objectives of corporate owners and occupants as well as institutional and private investors.

Transaction Services

- Agency leasing
- Tenant representation
- Consulting services
- Valuation consulting
- Retail services
- Institutional investment services
- Private capital investment services
- Site selection

Management Services

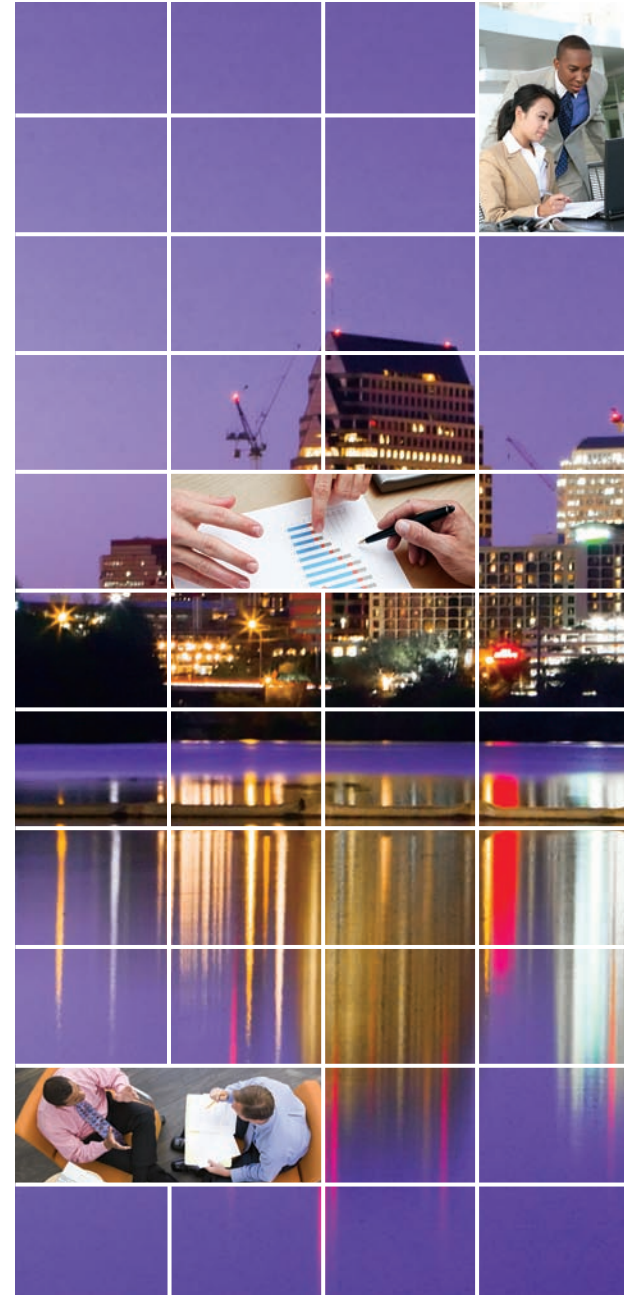
- Property management
- Facility management
- Asset management
- Business and fulfillment services
- Consulting services
- Project/construction management
- Engineering services

Corporate Services

- Consulting services
- Real property and lease administration
- Retail services
- Strategic planning
- Tenant representation
- Valuation services
- Site selection
- Project management
- Portfolio rationalization
- Disposition services

Investment Programs

- 1031 tenant-in-common exchanges
- Public non-traded real estate investment trusts (REITs)
- Limited liability companies
- Wealth management
- Institutional investments
- Mutual funds
- Securities separate accounts and funds



The direct or indirect purchase of real property involves significant risks. Investors should consult their own tax advisors and legal counsel. Always remember that each property is unique and past performance is no guarantee of future results.