Grubb&Ellis®
Property Solutions Worldwide

2009 | REAL ESTATE FORECAST

SOUTHEAST 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.

Presented by

Grubb & Ellis - Houston, TX
713.626.8888

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

Grubb & Ellis
Property Solutions Worldwide

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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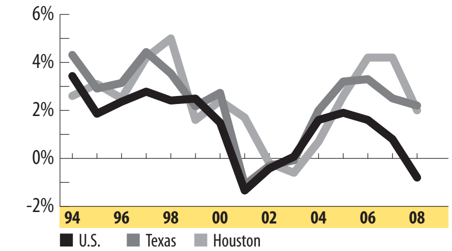
HOUSTON
Economic Overview

Houston's run of solid economic growth will come to an end in 2009 as the effects of the global and national economic downturn loom over the local economy.

Employment Growth by Market

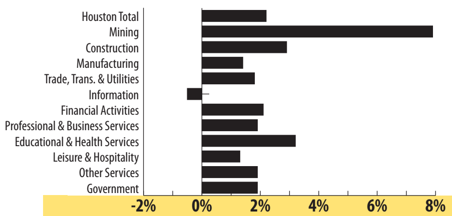
% Change from Same Period of Previous Year



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

Houston Employment Growth

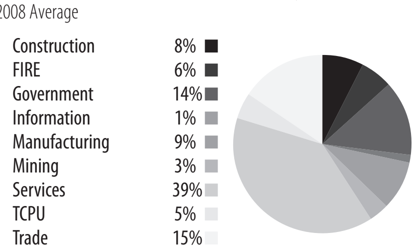
% Change from Same Period of Previous Year (by Sector)



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

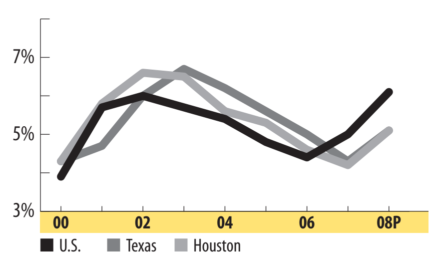
Share of Houston Employment Base

2008 Average



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

Unemployment Rate



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

Houston posted another solid year of economic expansion in 2008, outperforming most parts of the nation as the local economy benefited from the strong oil and gas market. Of the nation's 39 metro areas with a population of more than 1.5 million residents, the Houston-Sugar Land-Baytown area posted the largest employment gains. According to the Texas Workforce Commission, Houston employment grew at an annualized rate of 2.0 percent last year while the unemployment rate sits at 5.1 percent, well below the national unemployment rate of 6.5 percent.

Houston's economy has been driven by the energy industry the past few years as high oil and gas prices promoted healthy job growth. Despite the economic turbulence experienced across most of the nation resulting from the subprime fallout and frozen capital markets, Houston was able to buck the trend as the core industries thrived. The latest employment estimates showed sustained strength in some well-paid industries, with over-the-year job growth of 6.3 percent in oil and gas extraction, 9.6 percent in support activities for mining, 2.6 percent in durable goods manufacturing, 5.5 percent in architectural and engineering services and 3.7 percent in computer systems design and related services.

Houston has been relatively insulated from the rest of the country in recent years but that trend will likely come to an end in 2009. Local manufacturers have seen a boom in activity thanks to the robust domestic and international demand for oil exploration equipment. However, all signs point to a slowdown in this sector as the global and national economic problems have trickled down into the local economy, which will cause job growth to slow dramatically in 2009. One of the major problems has been the price of oil, which rose to nearly $150 per barrel just this past July, but collapsed below the $50 mark in just four months due to diminished demand and an overall sluggish economy. As a result, energy companies will be less inclined to hire new employees as new ventures become economically unfeasible. In addition, many companies will start to scale back their exploration efforts, especially if OPEC continues to make cuts to supply.

According to the latest report from the National Association of Purchasing Management, the Houston Purchasing Managers Index slipped to 51.5 in September, down sharply from 55.7 in August and 12.1 percent below the prior year. While September's reading was still positive, indicating increased production in the region over the next three or four months, it was the lowest reading for Houston since February 2003. The PMI has a possible range from 0 to 100, and 50 is neutral. Readings above 50 indicate coming growth in production.

The construction sector, undoubtedly impacted by the national economy, remains relatively healthy even though sales of new and existing homes have dropped within the past year. The strength of the local energy sector softened the blows administered by the housing-lending debacle. Fortunately, the effects of the subprime meltdown have not been as dramatic as in other markets such as Los Angeles and Miami where homeowners have seen all their equity dissipate as home prices fell by an average of 30 to 35 percent. Through the first 10 months of 2008, the number of home sales in the Greater Houston area was down 15 percent from the same period in the previous year. The good news is that the downward pressure on median home prices has been more moderate than elsewhere in the country and there is no appreciable excess supply. However, the Houston area has witnessed a large number of foreclosures hit the market to the tune of just over 1,000 per month. This trend will continue into 2009 before reaching its plateau. The bright side is that single-family home permits declined, which will allow the market to return to normal as demand catches up with supply.

The healthcare industry continues to boom in Houston with 8,200 jobs added in this sector over the past year, a 3.4 percent growth rate since August 2007. Memorial Hermann, Texas Children's, and Methodist Hospitals are growing and expanding their Texas Medical Center facilities. Private practices are also developing new facilities, including the Houston Town & Country Hospital, Midtown Medical Center and a renovation of the former Plaza Hotel. Since there remains a shortage of medical professionals in Houston, educational institutions are attempting to fill the void. Texas A&M and Texas Women's University are expanding their local nursing colleges and the Houston Community College System is forming a sixth college focused on health sciences.

In spite of the troubling economic conditions nationwide, Houston will remain one of the better positioned markets in the country. Even though consumers reined in spending as the unemployment rate swelled, 401ks evaporated and gas prices soared this past year, there is still significant strength available in buying power for the average local consumer. The 2008 estimated median household income for the area was $52,476. Meanwhile, the overall cost of living composite index in Houston was 90, which is considerably lower than the national composite index. Most impressively, Houston's strong, ongoing population growth provides local businesses with a workforce that is expected to exceed 6.3 million in the next five years. Population growth over the five-year span concluding with 2007 has averaged 2.1 percent or 106,000 residents per year and 2 percent or 114,100 persons projected for 2008 according to Moody's Economy.com.

Although the Houston economy expanded moderately last year outperforming much of the nation, it began to show signs of deceleration as job growth weakened, unemployment increased and consumer spending plummeted. The majority of the decline occurred in the city's non-energy economic base which has slipped in tandem with the national slowdown. The effect of a weakening economy had a modest influence upon Houston's commercial real estate market throughout the past year in the form of reduced net absorption and rising vacancy rates among all property types.

During the latter part of 2008, many national businesses reverted to a "wait and see" approach which will likely remain in the foreseeable future. The indecision and uncertainty of Wall Street, and the disputes in Washington, D.C., have led to a loss in confidence that has further agitated a struggling national economy. With rising unemployment, inflation and energy costs that have paralleled the ongoing credit crisis, the general consensus is that 2010 is earmarked as the year the economy will bounce back.

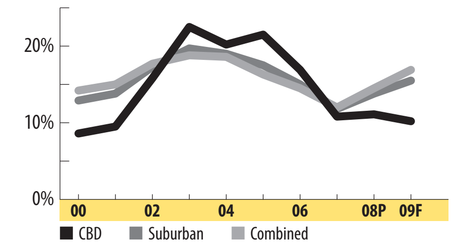
The forecast for 2009 will be more of the same as area businesses remain cautious in their operational decisions. In many cases, businesses will shelve their expansions plans and not take any risks until the economy begins its recovery. According to Dr. Barton Smith, Director of the University of Houston's institute for Regional Forecasting, the Houston market will likely see job losses in 2009 before bouncing back slightly in 2010, with the amount of cuts depending on the length and severity of the national recession. Commercial real estate's position as a lagging economic indicator points to continued softness in the commercial markets well into 2009. Over the longer term, Houston's formidable economic and demographic fundamentals bode well for the market. Strong population growth and steady economic performance will position Houston to benefit from the pending recovery.

HOUSTON
Office

Houston remains one of the nation's strongest office markets as a result of strong employment growth triggered by the oil and gas boom.

Vacancy Rates

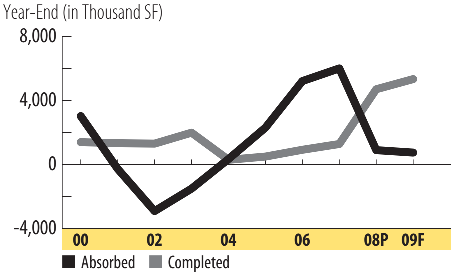
Year-End



Source: Grubb & Ellis

Absorption vs. Completions

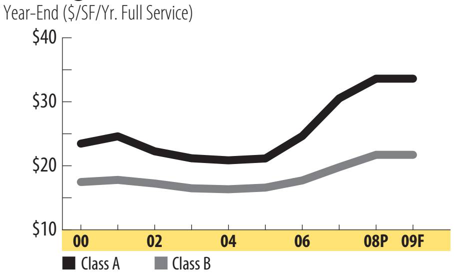
Year-End (in Thousand SF)



Source: Grubb & Ellis

Asking Rental Rates

Year-End ($/SF/Yr. Full Service)



Source: Grubb & Ellis

Houston's office leasing market tapped on the brakes in 2008 after posting a 10-year net absorption high of over 6 million square feet of growth in 2007. Despite the slowdown, Houston remains one of the nation's best performing markets as a result of strong employment growth triggered by the oil and gas boom. Houston's Katy Freeway/Energy Corridor submarket was the most active submarket citywide in 2008 as many oil and gas-related companies either expanded or made their move out west.

While citywide vacancy fell to its lowest level since 1999 and asking rents skyrocketed to record highs at the end of 2007, developers raced to provide relief by adding new buildings to the inventory. However, the considerable amount of new supply coupled with a slowing economy and reduced demand led to vacancy ticking upward throughout 2008. This trend will likely continue in 2009 as construction deliveries outpace leasing demand.

During the second half of 2008, the local office leasing market certainly transitioned from a landlord's to a tenant's market. Although end-of-year rents are higher in comparison to the close of 2007, rent growth has clearly slowed and landlords are offering more concessions. As the year came to a close, tenants were approaching renewals and new leases cautiously.

Houston will witness another substantial increase to its overall inventory in 2009 as an estimated 5 million square feet of new product is scheduled to come online. Not surprisingly, the majority of the construction activity is located in the Katy Freeway/ Energy Corridor, Northwest Freeway and Central Business District submarkets. With vacancy hovering around the 10 percent mark, the CBD will eventually receive some relief with two new office towers currently under construction. Hines' MainPlace and Trammell Crow's Discovery Tower will bring an additional 1.8 million square feet of Class A office space online but not until the 2010 to 2011 timeframe.

With the crisis on Wall Street causing an uproar throughout the real estate market, a slowing economy will lead to companies consolidating and downsizing as opposed to expanding as witnessed the past few years. This will lead to many of the new office buildings scheduled for delivery to sit with large chunks of vacant space, causing overall vacancy to steadily rise in 2009. In turn, landlords will be forced to become more aggressive in their negotiations by offering more concessions in order to stimulate tenant demand amid a worsening economy. Many companies will proceed with caution in 2009 until confidence is restored and they abandon their "wait-and-see" approach.

Key Leasing Transactions

2008

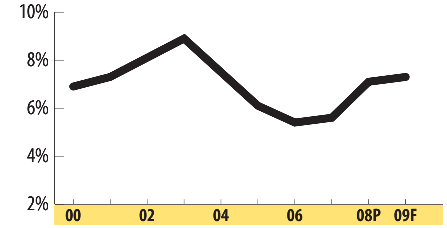
Lessee	Lessor	Property	Submarket	Size (SF)
The Shaw Group*	Wells Real Estate	1430 Enclave Pky.	Katy Freeway	312,564
Deloitte & Touche	Goddard Investment Group	1111 Bagby	CBD	291,300
Enbridge Inc.*	Fantome Tower LP	1100 Louisiana	CBD	260,000
Waste Management*	Behringer Harvard	1021 Main Street	CBD	194,913
Mustang Engineering	Core Real Estate	17000 Katy Freeway	Katy Freeway	174,295

**Lease Renewal*

HOUSTON
Industrial

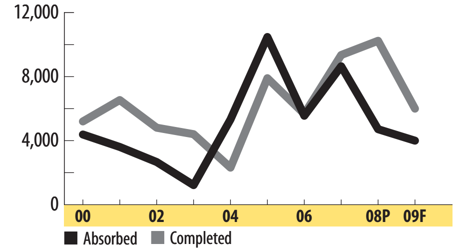
Healthy demand driven from the oil and gas services sector further solidified Houston's status as one of the top industrial markets nationwide.

Vacancy Rates
All Product Types, Year-End



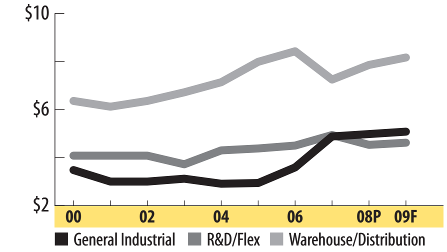
Source: Grubb & Ellis

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

Houston's industrial leasing market weathered the national economic crisis by posting another solid year of growth in 2008. Strong demand driven from the oil and gas services sector further solidified Houston's status as one of the top markets nationwide. Despite healthy annual absorption gains last year, Houston did witness a slowdown in leasing velocity compared to levels seen over the past four years. Leading the charge, the warehouse/distribution sector registered the largest annual absorption gain with companies such as Home Depot, Wilson Industries, Palmer Logistics, Frontier Logistics and Georgia Gulf Chemicals all inking sizeable deals.

High energy prices, a strong local economy and the expansion of the Port of Houston helped take Houston's industrial market into an expansion phase, as developers brought an additional 10 million square feet of new product online in 2008. This comes on the heels of over 9 million square feet added to the inventory in 2007. However, the surge of new projects coming online coupled with a slight drop in leasing demand has caused vacancy to edge up in 2008, a trend that is likely to continue throughout 2009. The largest project citywide is the 1.2 million-square-foot Bay Area Business Park located in Southeast Houston. Within the same submarket, First Industrial Realty commenced construction on InterPort Business Park Phase II, a 732,810-square-foot warehouse/distribution facility scheduled for completion during the first half of 2010.

In the year ahead, the challenge for Houston's industrial market will be tied to the rapid expansion of the inventory as leasing velocity slows which will cause overall vacancy to further increase. The increase will especially occur in areas where construction activity has been moving at a breakneck speed such as the East Southeast Far and Northwest Far submarkets. This will lead to many of the new projects to sit with large blocks of vacant space, leaving ample opportunities for tenants. Landlords and owners will battle for long-term, credit-worthy tenants as economic uncertainty will diminish tenants' willingness to commit to new projects. In turn, owners will be forced to be more creative in their deal making, leading to increased concession packages in 2009 to attract tenants. On the bright side, construction announcements have begun to subside, which will allow the market to recover quicker and avoid an overbuilt scenario as the ongoing credit crisis has made it difficult for developers to obtain financing for new developments. This will allow the opportunity for Houston's industrial market to regain its footing with the equilibrium between supply and demand reaching a healthy balance in the year ahead.

Key Leasing Transactions
2008

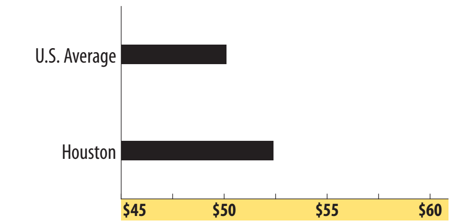
Lessee	Lessor	Property	Submarket	Size (SF)
Home Depot	Liberty Property Trust	8103 Fallbrook	Northwest Far	613,250
Palmer Logistics	First Industrial Realty	13001 Bay Area Blvd.	East Southeast Far	468,000
Wilson Industries	Clay Development	359 Old Underwood	East Southeast Far	450,000
Bison Building Materials	7611 Railhead LP	7611 Railhead	Northwest Far	274,291
Frontier Logistics	ML Realty Partners	1842 S. 16th Street	East Southeast Far	247,240

HOUSTON
Retail

Retailers will be negatively impacted by the combined effects of the national economic slowdown, housing downturn, ongoing credit crisis, and rising prices squeezing consumers in 2009.

Median Household Income

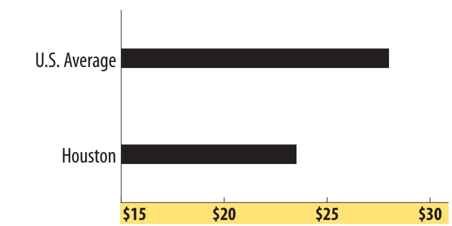
2008 (in Thousands)



Source: Claritas

Typical Rent

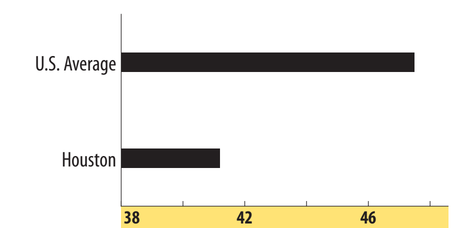
In-line Shop Space, 2008 ($/SF/Yr. Triple Net)



Source: Grubb & Ellis

Retail Square Feet Per Capita

2008



Source: CoStar, Claritas, Grubb & Ellis

Tenants Expanding or Downsizing

2008/2009

Expanding or New to Market	Downsizing
Wal-Mart	Circuit City
H-E-B	Linens 'n Things
Rooms To Go	Steve & Barry's
Ross Dress For Less	Tweeter
Charming Charlie	Starbucks
Dunkin' Donuts	99 Cents Only
Lenny's Sub Shops	GAP

Despite the economic downturn felt across the nation, Houston's retail market held up relatively well this past year. Compared to the rest of the United States, Houston benefited from stronger than average job growth driven mainly by the expanding energy sector. Other supporting factors included above-average population growth, housing affordability and a relatively low cost of living.

The retailer expansion witnessed over the past few years has led to an overabundance of new construction with over 15 million square feet of retail development under way. Deliveries accelerated this past year, as developers completed over 4 million square feet of retail space. Many of these projects were in the pipeline before the housing market slowdown.

The majority of the retail construction is situated in high-growth areas such as Katy, Pearland, Sugar Land, Tomball and The Woodlands. Houston's Inner Loop also has several retail developments totaling 2.1 million square feet. Investors and developers have capitalized on the underlying value of existing retail sites in the urban areas in order to create new environments for shopping, dining and entertainment.

An additional 5.6 million square feet of retail development is on the drawing board. However, with the credit markets frozen, many of these projects will likely be put on hold with developers having a difficult time securing the funds to construct some of these centers. In response to hesitation in the slowing market, asking rents remained flat over the past 12 months as landlords became more competitive, especially in areas where population growth has tapered off as a result of the housing slowdown.

Slower job growth, rising unemployment, reduced consumer spending and tightening lending standards will make 2009 a challenging year. The outlook for the retail leasing market is cloudy as landlords and owners deal with some retailers going into bankruptcy, closing stores and scaling back expansion plans while others will simply take a step back and allow the market to return to some state of normalcy.

In the year ahead, vacancy is expected to rise as a result of store closures while some retail centers will come online without sufficient leasing commitments. Landlords will be more willing to negotiate on rents and concessions to attract tenants. However, landlords may find it increasingly difficult to replace lost tenants as most retailers will hold out on any expansion plans until the economy rebounds.While consumers have become more cost conscious, value-oriented retailers meeting basic needs at lower prices will capture a higher market share. As a result, most of the growth in 2009 will be attributed to value-oriented retailers.

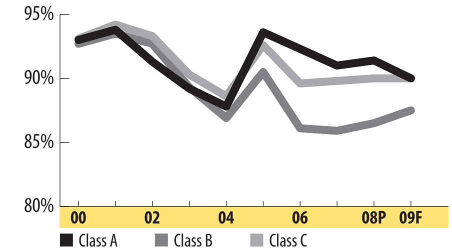
The retrenchment will lead to shopping center owners watching their asset values fall while operating incomes subside especially for underperforming centers. If there is a beacon of light, it is Houston's healthy long-term prospects, as population and employment growth will remain well above the national average.

HOUSTON
Multi Housing

Strong population and job growth will underpin Houston's healthy multi housing market over the long term, though an influx of construction on the horizon will cool fundamentals in 2009.

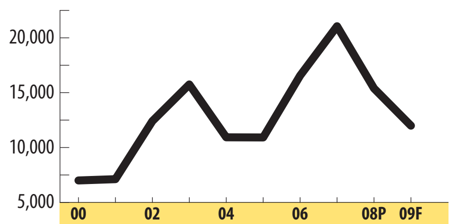
Multi Housing Occupancy

By Class



Source: O'Connor & Associates

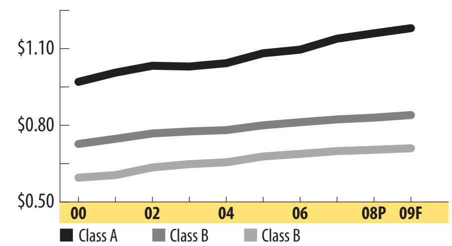
Multi Housing Permits Issued



Source: Texas A&M Real Estate Center, Moody's Economy.com

Asking Rents

Price per square foot



Source: O'Connor & Associates

Houston's multi housing leasing market posted a solid year of growth in 2008 as net absorption surpassed the previous year's levels. However, the annual absorption was far below the totals witnessed in 2005 when Houston saw an influx of Hurricane Katrina evacuees flood the market. Despite the national economic downturn, Houston still benefits from the oil and gas boom which has driven employment growth. Another contributing factor involves homeownership, which is relatively affordable but has become increasingly unattainable for many due to tighter financing stipulations, especially in the entry-level market. These factors coupled with the increasing number of foreclosures, has led to steady growth in the leasing market. Consequently, the local market witnessed positive growth among all property classes in 2008 with the Class A market recording the largest annual absorption gain. The sustained demand has led to many apartment owners raising rents across all classes, especially in Houston's more prestigious and sought-after neighborhoods.

Development activity was in high gear, as 2008 witnessed one of the more prolific years in construction deliveries with nearly 13,000 units added to the inventory, up 13 percent from the previous year. Houston has another 101 projects currently under way, which will bring an additional 26,000 units over the next few years. The steady demand created from Houston's robust population and job growth has been the driving factor behind the onslaught of new construction. However, with leasing demand expected to taper off slightly in 2009 due to deteriorating economic conditions, supply will likely outpace demand causing upward pressure on vacancy. As a result, many of the proposed projects will likely never come to fruition due to softening demand and the challenge in obtaining construction loans, which will cause construction activity to taper off.

Despite the slowing national economy, multi housing will remain a steady performer in 2009 as a result of healthy population growth, rising foreclosures and stringent underwriting regulations, which will prevent some renters from buying homes. With an influx of new supply, rent growth is expected to ease in 2009 as existing properties compete with new developments.

On the investment side, transaction velocity has fallen 47 percent during the past year, as tightened lending standards have reduced the buyer pool. Although demand for apartment projects is expected to slow in 2009, Houston will remain one of the better markets across the nation due to the attractive long-term demand drivers. In the near term, investors will be faced with the challenge of obtaining financing, the same problem seen across all sectors of the commercial real estate industry.

Key Multi Housing Transactions

2008

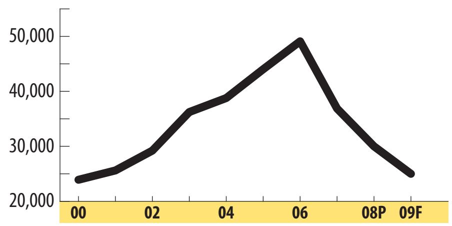
Buyer	Seller	Units	Property Name	Sale Price (millions)
Berkshire Realty Holdings	Venterra Properties	688	Bayou Park	$52.5
DRA Advisors	United Dominion Realty	712	Green Oaks	$44.9
Harbor Group International	CLK Properties	569	Holly Hall	$40.0
Harbor Group International	Southern Cross Construction	776	Baybrook Village I & II	$35.0
GE Capital	JTS Realty Services	400	Heritage at Park Row	$30.0

Source: Real Capital Analytics, Grubb & Ellis

HOUSTON
Land

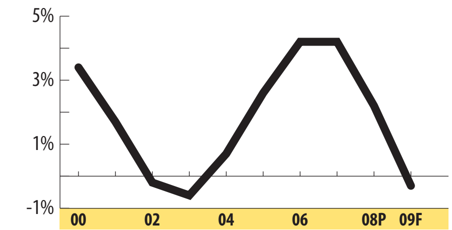
Houston still shows signs of growth compared to the rest of the nation as a result of solid job growth driven mainly by the energy-based economy and housing affordability.

Single-Family Home Building Permits
Houston



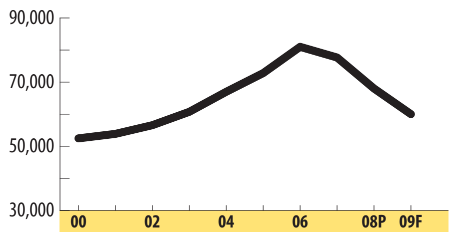
Source: TAMU Real Estate Center, U.S. Bureau of Census

Historical Employment Growth
Houston



Source: U.S. Bureau of Labor Statistics

Home Sales
Houston



Source: TAMU Real Estate Center

Houston's land investment market also felt the effects of the credit crunch, a stagnant national economy and the subprime loan debacle as single-family housing permits declined in 2008. Single-family home starts fell to 30,000, down substantially from nearly 40,000 starts in 2007 and 50,000 starts two years ago. Although housing starts were down among all categories, the effects were mainly felt in the entry-level sector. The subprime mortgage fallout has crippled the entry-level homebuilders, causing a few to even close their doors.

Houston will likely see thousands of starter homes hit the market throughout 2009 as a result of adjustable rate mortgages and mass foreclosures. The Houston area has already witnessed a large number of foreclosures reaching a rate of just over 1,000 per month this past year. This trend will continue into 2009 before reaching its plateau.

While the national credit crunch has deeply impacted homebuilders and developers alike, land prices leveled out in 2008 after increasing at a rapid pace in prior years. Expect land prices to remain flat or slightly decline throughout 2009 as many owners and developers may run out of time as they wait on the market to recover.

On the bright side, Houston still shows signs of growth compared to the rest of the nation as a result of strong employment and population growth. Also, Houston's median home price currently stands at $156,600 compared to $218,400 nationally. Although entry-level homes have all but shut down, there still remains relatively healthy demand for move-up and executive housing, especially in Houston's more sought after locations and neighborhoods. Master-planned communities will continue to be magnets for home buyers and support future commercial development projects.

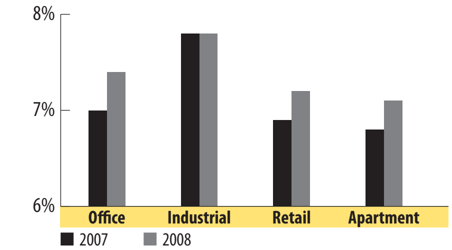
A problem facing investors is the lack of quality tracts of land and high prices in areas that have been most active in recent years. Although Houston's far eastern submarket is slow to develop, it may become a more attractive buy due to lower land costs and proximity to the Port of Houston. Investors are able to find quality tracts in the $5,000 to $6,000 per acre in Chambers County as opposed to $30,000 and $40,000 per acre found in west Houston. However, future growth will remain westerly biased for Houston.

Another trend to watch in 2009 will be the sustained development of mixed-use and commercial projects. With the sheer amount of houses built over the last few years, retail developers will play catch up by developing in areas that lack the retail to support the number of rooftops. However, ongoing liquidity challenges will prevent some developers from obtaining financing, while economic uncertainty will curb prospective tenants' willingness to commit to new projects. The decline in construction starts has an upside, though, as the lack of new supply will keep Houston's commercial real estate's down cycle relatively mild. Over the longer term, Houston's formidable economic and demographic fundamentals bode well for the market.

HOUSTON
Investment

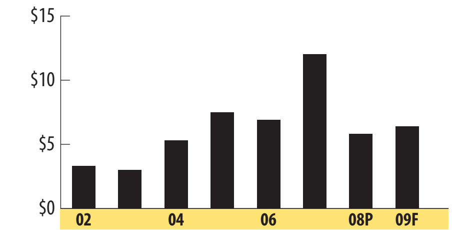
The national credit crisis and business downturn will drag the investment market into a difficult period marked by value losses, rising foreclosures and reduced property revenues, but Houston will remain one of the top markets to invest in 2009.

Average Capitalization Rate
Closed Sales



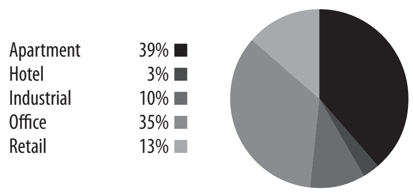
Source: Real Capital Analytics

Property Sales Volume
(in Billions)



Source: Real Capital Analytics, Grubb & Ellis

Sales by Property Type
2008



Source: Real Capital Analytics

Despite the national economy teetering on the edge of a recession and the global financial crisis, Houston's investment market remained one of the more attractive markets in the United States throughout 2008. Houston was not totally insulated from the problems as a softening economy and frozen credit markets caused total transaction volume to fall by 52 percent from the previous year's $12 billion volume. The challenge for buyers is overcoming stringent financing requirements and a run-up in borrowing costs causing a constraint of capital. In addition, buyers are forced to bring more money to the table as equity requirements have increased to an average of 30 to 40 percent.

Leading the way in 2008, office and apartment properties were the most popular investments, combining to make up approximately 75 percent of the deal volume. Office assets benefited from high occupancies and record rental rates, causing total returns to surge. One of the more notable deals in 2008 involved Hines Real Estate Investment Trust closing on the acquisition of the 1.5 million-square-foot, 64-story Williams Tower, one of Houston's most recognizable buildings, for $271.5 million.

Houston's investment market has been moving at breakneck speed the last few years as flexible lending practices and low interest rates made it easy for investors to obtain financing. Now that the tide has turned, there will be fewer buyers in the marketplace as the financial conditions have eliminated high-leveraged buyers. In addition, there will be fewer offerings hitting the market as sellers that can afford to hold on will wait and see where the market goes next. On the other hand, owners of distressed properties will have no choice but to put their assets on the market with hopes of selling in order to avoid foreclosure. In the short run, the disconnection between buyers and sellers will continue to dampen transaction velocity in Houston, putting downward pressure on prices. As a result, investors are advised to focus on asset management and leasing strategies to hold and attract tenants, limiting declines in property cash flows.

Overall fundamentals in Houston have remained solid thanks to strong employment and population growth. With the recent infusion of $250 billion into the nation's largest financial institutions, the credit markets could start to normalize in 2009 as capital begins to flow once again. Therefore, investment activity in 2009 should start to improve after transaction volume came to a halt at the end of 2008. However, we will not see a return to pre-crisis conditions as new standards will be put in place to avoid another similar situation.

Key Investment Transactions
2008

Buyer	Seller	Property Type	Property Name	Size (SF)	Sale Price (millions)
Hines Real Estate Investment Trust	Fosterlane Holdings	Office	Williams Tower	1,480,623	$271.5
FMC Technologies Inc	Inland Real Estate Group	Industrial	FMC Technologies	462,717	$71.9
Post Investment Group	Farb Realty	Apartment	Broadway Square	2,469 (units)	$61.5
AmREIT	WCF Development	Retail	Shadow Creek Town Center	616,372	$115
Inland American Real Estate Trust	RLJ Development	Hotel	Homewood Suites	162 (units)	$41

Source: Real Capital Analytics, Grubb & Ellis

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®
Property Solutions Worldwide

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.

CONTRIBUTORS AND SOURCES

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

Contributors

Project Manager

Ariel Guerrero, AVP, *Client Services Manager - Texas*

Aaron Chovanetz, *Sr. Research Analyst*

Brittany White, *Database Coordinator*

Sources

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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

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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.

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