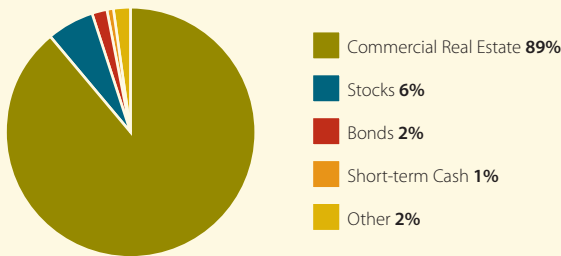


Private Capital Investment Fall 2006 Survey

The Grubb & Ellis Private Capital Investment Group invited its clients to complete a short online survey consisting of four key questions facing private real estate investors. The respondents included high-net-worth individuals, partnerships and other groups specializing in commercial real estate deals valued in the range of \$2 million to \$15 million. A total of 268 responses were returned.

1. I'd rather invest in:

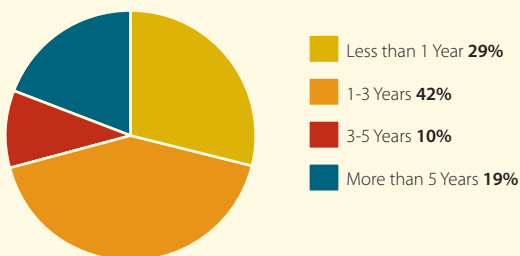


Source: Grubb & Ellis

1. Real Estate Remains a Preferred Asset Class: An overwhelming 89 percent of respondents identify commercial real estate as their preferred asset class; 6 percent favor stocks and mutual funds; 3 percent favor bonds and short-term cash instruments; and 2 percent favor other investments.

Since the respondents are already real estate investors, their preference for real estate is to be expected. But the results show that investors, by an overwhelming majority, are willing to stay in this asset despite interest rates that, until recently, had risen steadily. Their faith signifies a belief that commercial real estate is not in a bubble and that investors can continue to earn competitive returns. This finding is significant because private investors typically rely on leverage to a greater degree than their institutional counterparts, so they would be the first to depart in the face of intolerably high interest rates or better returns from other asset classes.

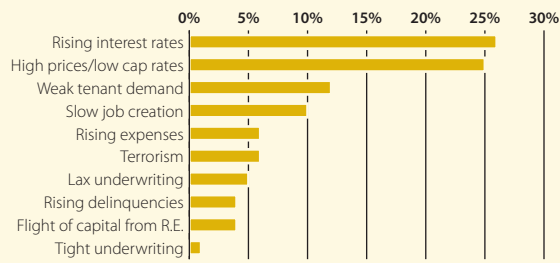
2. How long will the real estate market stay strong?



Source: Grubb & Ellis

2. All Good Things Must End: Asked how long the real estate market will stay strong, 42 percent suggest one to three years – the most popular answer. A sizeable minority, 29 percent, believe the good times will end in less than a year. Call them the pessimists – the group most concerned over the potential for rising interest rates, a slowing economy and other trends not favorable to real estate. Then there are the optimists; 10 percent say real estate will remain strong for the next three to five years, while the remaining 19 percent expect the good times to continue for more than five years. This latter group (the super-optimists) discounts the potential for a damaging hike in cap rates, believing that real estate was under-priced through the 1990s and that the steady decline in cap rates over the past four years represents a “return to normalcy,” not a speculative bubble waiting to pop.

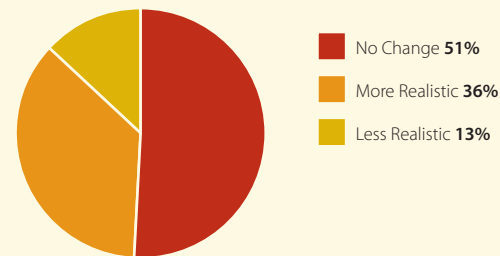
3. What is the top risk factor for real estate investors over the next 12 months?



Source: Grubb & Ellis, Note: Totals do not add to 100% due to rounding.

3. The Risks: Asked to pick the most serious risks to real estate from a list of 10 potential risks, over half of the respondents cited risks related to an overheating market: rising interest rates and high prices/low cap rates. The Federal Reserve Open Market Committee's decision to hold the federal funds rate steady at its August 2006 meeting and the subsequent decline in long-term rates should give a measure of comfort to this group. Just over one-quarter of respondents cited risks related to a softening market – weak tenant demand, slow job creation and rising delinquencies. Rising operating expenses and the potential for another terrorist attack were each named by just 6 percent of respondents. Also far down the list of concerns was underwriting standards, with 5 percent stating that they are too lax and 2 percent believing they are too tight. Only 4 percent fear a flight of capital out of real estate – the primary catalyst for the bull market of the past four years.

4. Have sellers become more or less realistic compared to six months ago?



Source: Grubb & Ellis

4. The Mindset of Sellers: Compared with six months ago, about half of the respondents say there has been no change in the attitude of sellers. However, 36 percent of respondents state that sellers have become more realistic, meaning they are less likely to hold out for a high price, while just 13 percent say that sellers have become less realistic. The responses suggest that the market has moved somewhat in favor of buyers since the beginning of the year, and that sellers are somewhat more willing to negotiate in order to lock in their profits.

Overall, the survey paints a picture of continued robust demand for commercial real estate assets but with some shifting currents:

- There is no real consensus on how much longer the bull market for commercial real estate will last.
- There is a clear consensus that the risks to the market are on the side of overly robust economic growth, namely rising interest rates and high prices, cited by more than 50 percent of the respondents. About one-quarter of respondents cited risks relating to softer growth or a recession, namely weak tenant demand, slow job creation and rising delinquencies. Rising expenses, a complaint heard often among landlords, actually is fairly far down the list of investors' concerns.
- There has been a subtle but discernable change in the psychology of the market over the last six months, with the market moving in favor of buyers.

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