

Third Quarter 2005 Analysis  
December 2005

### Physical Market Cycle Analysis of All Five Major Property Types in More Than 50 MSAs.

On the 9th Anniversary of the Market Cycle Monitor:

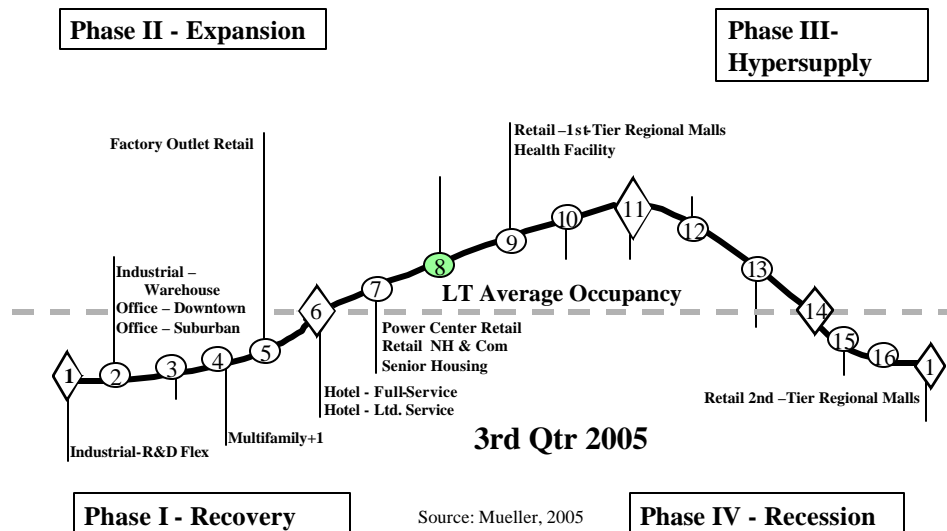
The Equity Research Department of Legg Mason Wood Walker, Inc. ("Legg Mason") has joined Stifel, Nicolaus and Company, Inc. ("Stifel Nicolaus"), a subsidiary of Stifel Financial Corp. (NYSE:SF), as part of the acquisition of substantially all of the Capital Markets business of Legg Mason by Stifel Nicolaus.

The Stifel Nicolaus Real Estate Team has 68 REITs and REOCs under coverage.

If you would like additional information, please contact any member of the team. Telephone numbers and addresses are unchanged. However, e-mail addresses will now be @stifel.com.

The National Property Type Cycle Graph shows relative positions of most subproperty types — major markets are reviewed inside.

### National Property Type Cycle Locations

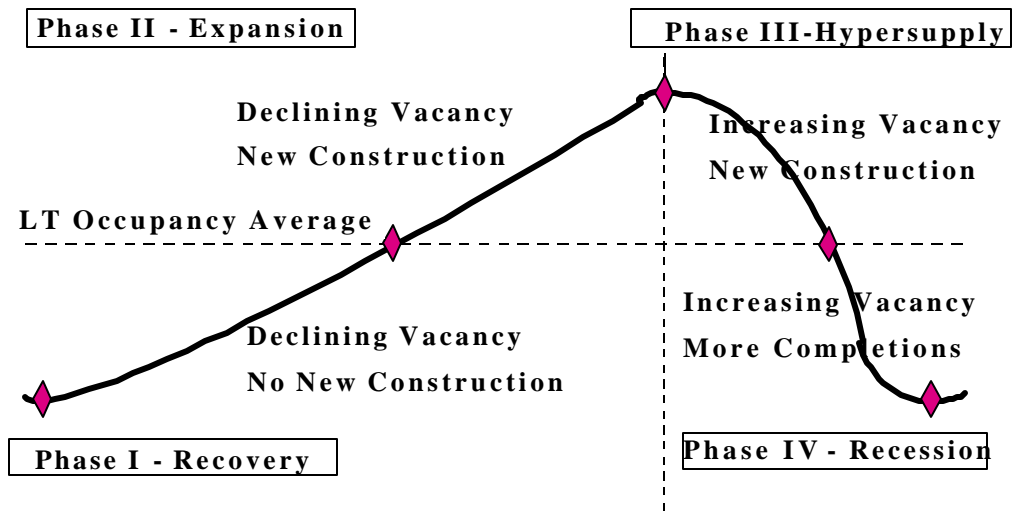


Glenn R. Mueller, Ph.D. (410) 454-5149 grmueller@stifel.com

All relevant disclosures and certifications appear on page 9 of this report.

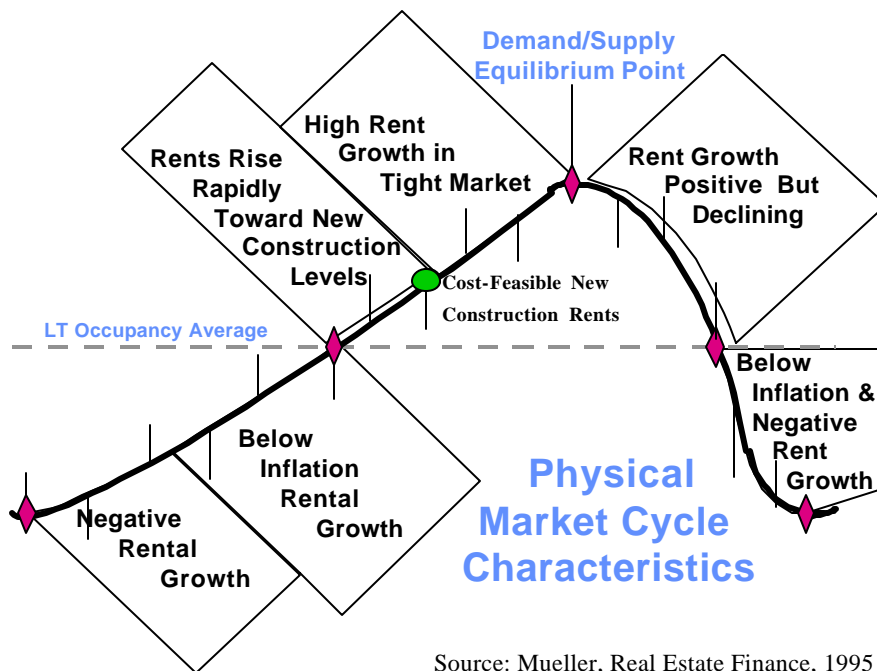
The cycle monitor analyzes occupancy movements in five property types in over 50 Metropolitan Statistical Areas (MSAs). Market cycle analysis should enhance investment-decision capabilities for investors and operators. The five property type cycle charts summarize almost 300 individual models that analyze occupancy levels and rental growth rates to provide the foundation for long-term investment success. Real estate markets are cyclical due to the lagged relationship between demand and supply for physical space. The long-term occupancy average is different for each market and each property type. **Long-term occupancy average** is a key factor in determining rental growth rates, a key factor that affects real estate returns.

### Market Cycle Quadrants



Source: Mueller, Real Estate Finance, 1995

Rental growth rates can be characterized in different parts of the market cycle, as shown below.

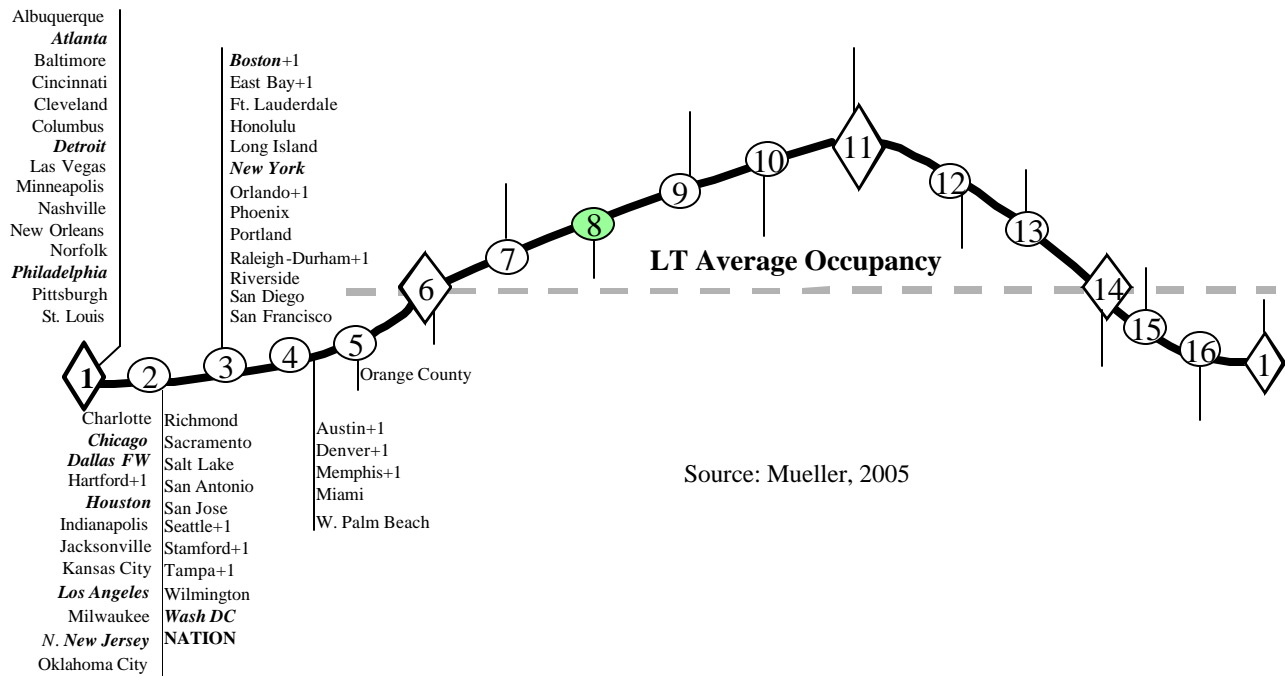


Source: Mueller, Real Estate Finance, 1995

## OFFICE

U.S. office markets improved another 0.2% in occupancy for 3Q05 and it appears national office absorption will reach 100 million square feet by the end of the year, the first time in four years, but still 30% below the absorption levels of the late 1990s. There are wide disparities across markets, with vacancies above 20% in some markets like Atlanta, Cleveland, Dallas-Fort Worth, Detroit, Pittsburgh, Stamford and Oklahoma City, while some markets have improved rapidly to vacancies below 10%, including Riverside/Inland Empire, Orange County, Minneapolis-St. Paul, Phoenix and Tampa. Sublease space continues to decline also and is at its lowest level in over four years. Suburban markets continue to improve faster than CBD markets but still have an average vacancy rate that is 1.5% higher than the CBD market average, due mainly to mergers and cost cutting. Washington, DC remains the best market in the country and currently has 51 million square feet under construction. We expect occupancy to improve almost 1% overall in 2005 and rental rates to remain relatively flat to slightly up for 2005. Results in 2006 should be similar.

### Office Market Cycle Analysis 3rd Quarter, 2005



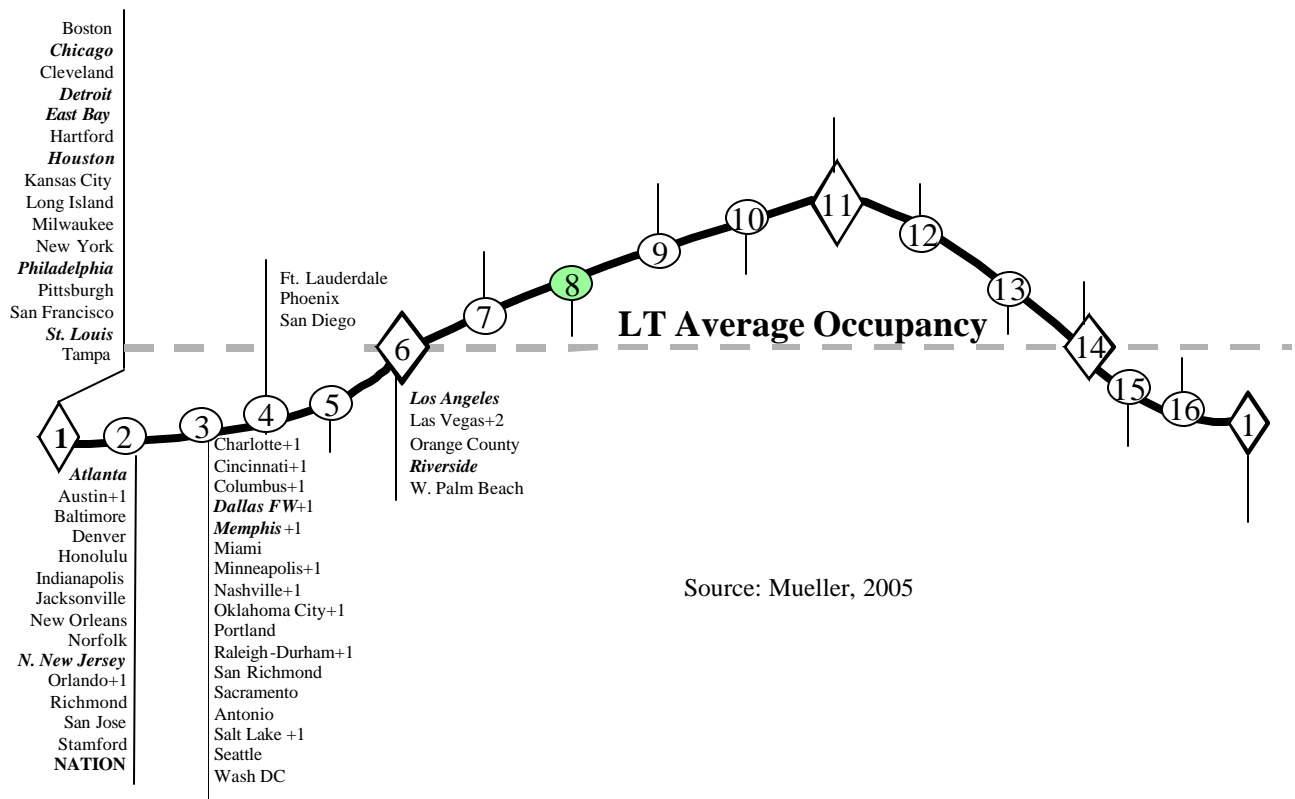
Note: The 11-largest office markets make up 50% of the total square footage of office space we monitor. Thus, the 11-largest office markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

Markets that have moved since the previous quarter are now shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, i.e., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress, or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

## INDUSTRIAL

Industrial occupancy improved again by 30 basis points in 3Q05, resulting in a 1% improvement in each of the past two years. Net absorption was 2.5 times the amount of new construction for the quarter, at 53 million square feet. There are five markets with vacancy rates below 7% including Jacksonville, Los Angeles, Milwaukee, Palm Beach, and Seattle. In addition, California's Inland Empire and Chicago led the year with absorptions around 16 million square feet. The current national vacancy rate is approximately 9.2%, which is only 0.7 percentage points away from the industrial long-term average of 8.5%, not quite enough to move industrial forward to cycle position #3, but this should happen in 4Q05. While markets vary dramatically, the forecast 1% occupancy improvement in 2005 is in place and 1% national average rental growth for 2005 is almost certain. We expect similar results for 2006 with the slow economic growth forecast.

### Industrial Market Cycle Analysis 3rd Quarter, 2005



Source: Mueller, 2005

Note: The 12-largest industrial markets make up 50% of the total square footage of industrial space we monitor. Thus, the 12-largest industrial markets are in **bold italic** type to help distinguish how the weighted national average is affected.

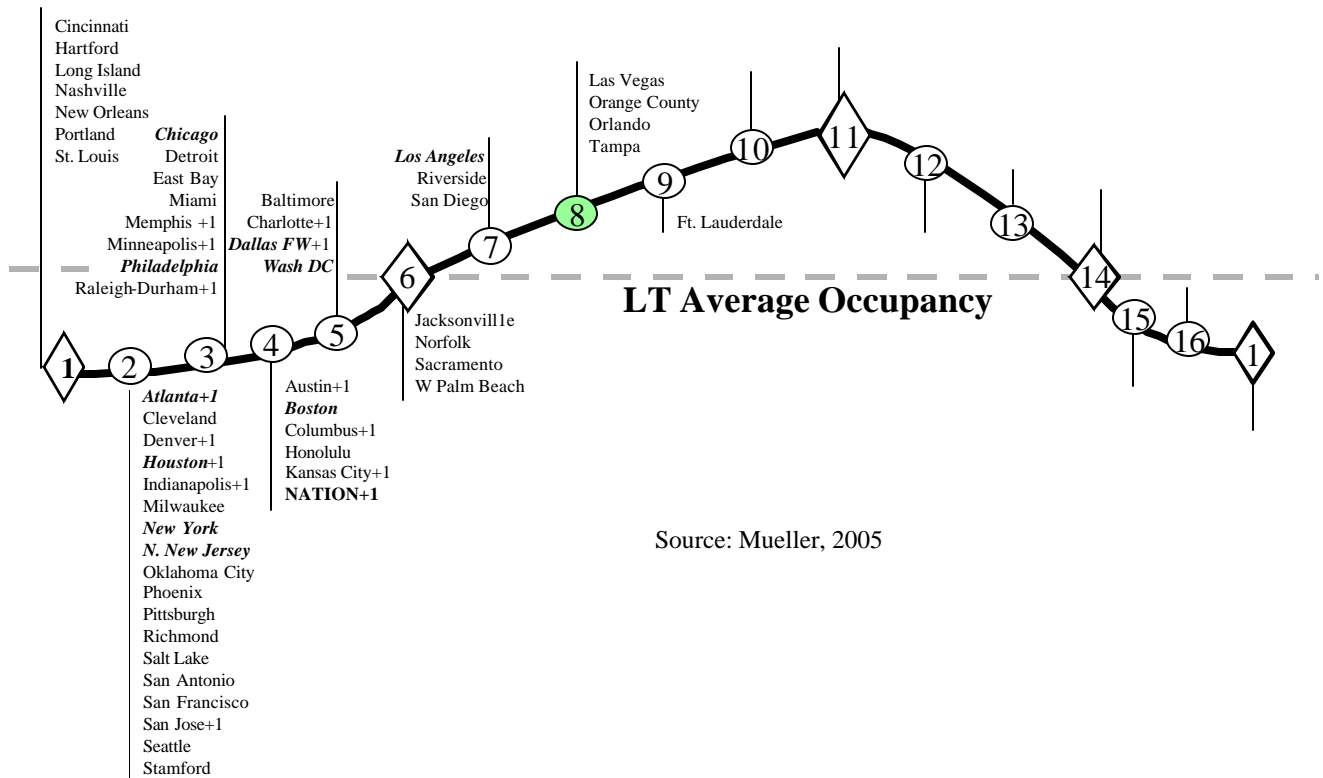
Markets that have moved since the previous quarter are shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, e.g., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress, or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

## Multifamily

Multifamily occupancy improved 20 basis points in 3Q05, which was enough to improve its cycle position to #4 in the recovery phase. Even with new and existing home sales continuing to be strong, employment of the echo-boom generation is driving demand for multifamily, as we have predicted for the past several years. Continued strong condo conversion activity and the increasing cost of land in primary markets are moderating rental supply. Positive supply/demand fundamentals are leading to increasing occupancy and rents in most markets. The National Association of Realtors recently issued research concluding that there is not a housing bubble and the majority of markets are building to meet existing demand. We note that rising mortgage rates are lengthening the time housing inventory is on the market, which temporarily is resulting in rental tenant retention. We still estimate a 60-basis-point occupancy improvement for the total year of 2005 and expect multifamily to reach its long-term average occupancy level in the latter half of 2006. We estimate rent growth of 1%–2% in 2005 and expect more improvement in 2006.

### Multifamily Market Cycle Analysis

3rd Quarter, 2005



Source: Mueller, 2005

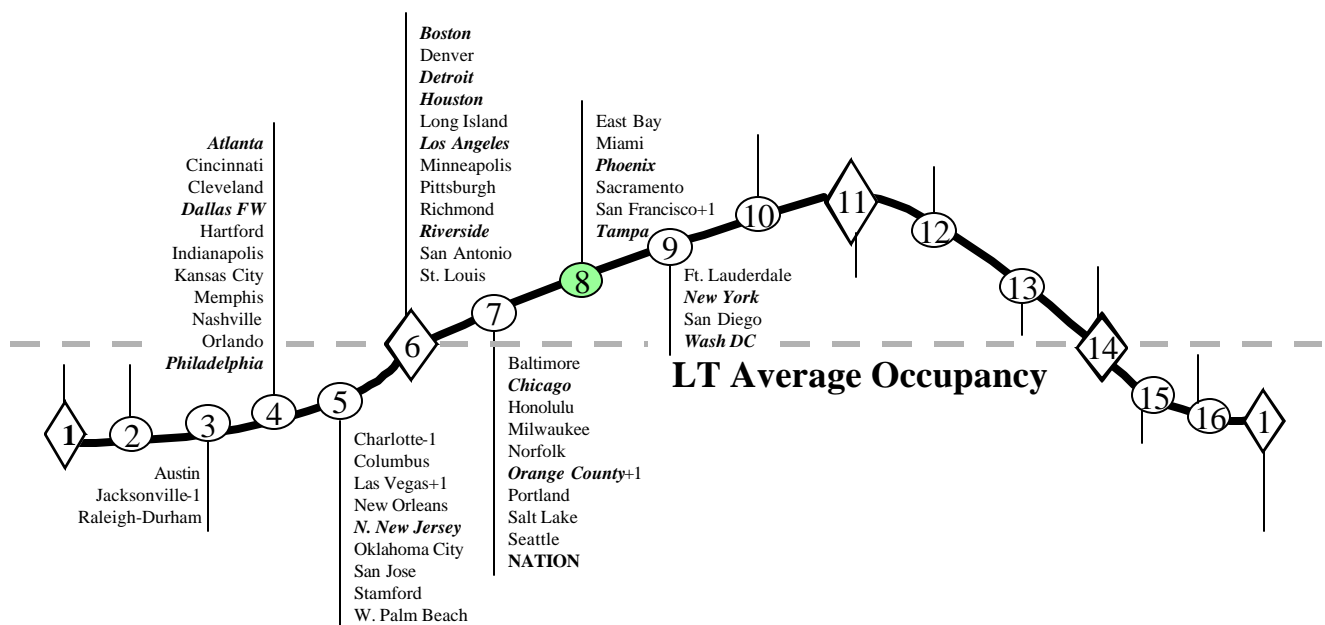
Note: The 10-largest multifamily markets make up 50% of the total square footage of multifamily space we monitor. Thus, the 10-largest multifamily markets are in **bold italic** type to help distinguish how the weighted national average is affected.

Markets that have moved since the previous quarter are shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, e.g., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress, or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

## RETAIL

Retail occupancy improved by 0.1% in 3Q05 while only three markets improved their market cycle position and two markets actually fell back as their occupancies deteriorated. The risks for retail occupancy seem to be mixed as rising consumer prices, especially for gas, and rising interest rates could reduce consumer demand, yet increasing employment provides more earning power for many new consumers. That being said, consumer spending has not yet slowed and retail experts have raised their holiday season sales outlook. The retail sector remains firmly in the growth phase, point #7 on the cycle and we expect positive forces to continue. We project occupancies will improve a total of only by 0.4% in 2005, which will provide rental growth at the 3%–4% level for the year.

### Retail Market Cycle Analysis 3rd Quarter, 2005



Source: Mueller, 2005

Note: The 15-largest retail markets make up 50% of the total square footage of retail space we monitor. Thus, the 15-largest retail markets are in **bold italic** type to help distinguish how the weighted national average is affected.

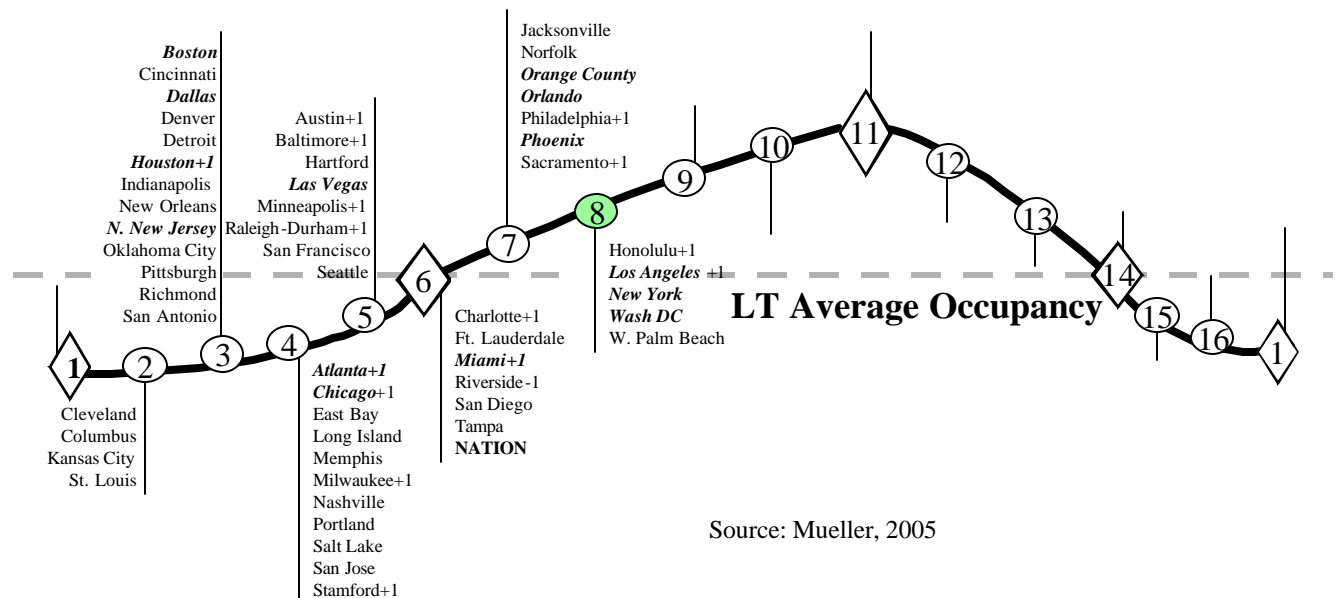
Markets that have moved since the previous quarter are now shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, i.e., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress, or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

## HOTEL

Hotel occupancies improved yet another 0.3% in 3Q05. Hotel occupancies remain at the long-term national average position #6 on the cycle chart. Again this quarter, 14 markets improved occupancy rates at levels higher than the national average, moving forward in their cycle positions as well, and only one market, Riverside retreated one cycle position with a slight occupancy decline. We expect the continued strong demand for lodging to impact occupancy positively, but we are reaching a point in the cycle at which operators are looking to push rate, because rate increases impact the bottom line more favorably than occupancy increases. Additionally, rate has driven the majority of RevPAR increases during 2005, but we look for this trend to accelerate in 2006 since initial reports suggest that hotel managers are more comfortable raising rates in 2006 after the success achieved this year. Leisure and business travel continue strong as airlines continue to provide low prices to attract travelers. Supply forecasts still look reasonable and spikes in construction costs from hurricanes make new building more difficult and expensive. We are projecting a 1.3% occupancy increase for the overall year of 2005, a very healthy recovery for the year. We expect RevPAR to hit 7%–8% for the year overall.

### Hotel Market Cycle Analysis

3rd Quarter, 2005



Note: The 14-largest hotel markets make up 50% of the total square footage of hotel space we monitor. Thus, the 14-largest hotel markets are in **bold italic** to help distinguish how the weighted national average is affected.

Markets that have moved since the previous quarter are now shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, i.e., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress, or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

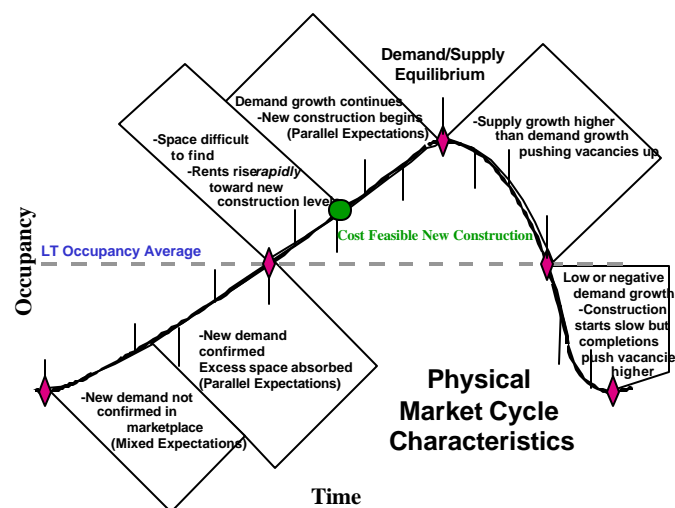
### MARKET CYCLE ANALYSIS — Explanation

**Supply and demand interaction is important to understand. Starting in Recovery Phase I at the bottom of a cycle** (see chart below), the marketplace is in a state of oversupply from previous new construction or negative demand growth. At this bottom point, occupancy is at its trough. Typically, the market bottom occurs when the excess construction from the previous cycle stops. As the cycle bottom is passed, demand growth begins to slowly absorb the existing oversupply and supply growth is nonexistent or very low. As excess space is absorbed, vacancy rates fall, allowing rental rates in the market to stabilize and even begin to increase. As this recovery phase continues, positive expectations about the market allow landlords to increase rents at a slow pace (typically at or below inflation). Eventually, each local market reaches its *long-term occupancy average* whereby rental *growth is equal to inflation*.

**In Expansion Phase II, demand growth continues at increasing levels, creating a need for additional space.** As vacancy rates fall below the *long-term occupancy average*, signaling that supply is tightening in the marketplace, rents begin to rise rapidly until they reach a cost-feasible level that allows new construction to commence. In this period of tight supply, rapid rental growth can be experienced, which some observers call “rent spikes.” (Some developers may also begin speculative construction in anticipation of cost-feasible rents if they are able to obtain financing.) Once cost-feasible rents are achieved in the marketplace, demand growth is still ahead of supply growth — a lag in providing new space due to the time to construct. Long expansionary periods are possible and many historical real estate cycles show that the overall up-cycle is a slow, long-term uphill climb. As long as demand growth rates are higher than supply growth rates, vacancy rates will continue to fall. The cycle peak point is where demand and supply are growing at the same rate *or equilibrium*. Before equilibrium, demand grows faster than supply; after equilibrium, supply grows faster than demand.

**Hypersupply Phase III of the real estate cycle commences after the peak/equilibrium point #11 — where demand growth equals supply growth.** Most real estate participants do not recognize this peak/equilibrium’s passing, as occupancy rates are at their highest and well above long-term averages, a strong and tight market. During Phase III, supply growth is higher than demand growth (hypersupply), causing vacancy rates to rise back toward the long-term occupancy average. While there is no painful oversupply during this period, new supply completions compete for tenants in the marketplace. As more space is delivered to the market, rental growth slows. Eventually, market participants realize that the market has turned down and commitments to new construction should slow or stop. If new supply grows faster than demand once the long-term occupancy average is passed, the market falls into Phase IV.

**Recession Phase IV begins as the market moves past the long-term occupancy average with high supply growth and low or negative demand growth.** The extent of the market down-cycle will be determined by the difference (excess) between the market supply growth and demand growth. Massive oversupply, coupled with negative demand growth (that started when the market passed through long-term occupancy average in 1984), sent most U.S. office markets into the largest down-cycle ever experienced. During Phase IV, landlords realize that they will quickly lose market share if their rental rates are not competitive; they then lower rents to capture tenants, even if only to cover their buildings’ fixed expenses. Market liquidity is also low or nonexistent in this phase, as the bid–ask spread in property prices is too wide. The cycle eventually reaches bottom as new construction and completions cease, or as demand growth turns up and begins to grow at rates higher than that of new supply added to the marketplace.



Source: Mueller, Real Estate Finance, 1995

The Stifel Nicolaus Real Estate Research Group currently monitors five property types in more than 50 major markets. We gather data from numerous sources to evaluate and forecast market movements. The market cycle model we developed looks at the interaction of supply and demand to estimate future vacancy and rental rates. Our individual market models are combined to create a national average model for all U.S. markets. This model examines the current cycle locations for each property type and can be used for asset allocation and acquisition decisions.



### **Important Disclosures and Certifications**

**I, Glenn R. Mueller, certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issuers; and I, Glenn R. Mueller, certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.**

The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by us and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities referred to herein. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of Stifel, Nicolaus & Company, Inc. or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed within.

Stifel, Nicolaus & Company, Inc. is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as a placement agent in private transactions. Moreover, Stifel Nicolaus, its shareholders, directors, officers and/or employees, may from time to time have long or short positions in such securities or in options or other derivative instruments based thereon.

This investment research report is classified as objective for the purposes of the FSA requirements relating to Conflicts of Interest management. No investments or services mentioned are available in the European Economic Area to private customers or to anyone in Canada other than a Designated Institution. Additional information is available upon request. Please contact a Stifel Nicolaus entity in your jurisdiction.

**Additional information is available upon request**

© 2005 Stifel, Nicolaus & Company

# Stifel, Nicolaus & Company, Inc. Equity Research

410 + 454 + extension

Hugo J. Warns III, CFA, Director of Research, x5577

## Financial Services

### *Banks & Thrifts*

(804) 698-5979 Adam C. Barkstrom, CFA  
(804) 698-5999 Edward D. Timmons  
x5247 David J. Bishop, CFA

### *Community Banks*

(804) 698-5948 Bryce W. Rowe, CFA  
(804) 698-5971 P. Carter Bundy

### *Non-Bank Financials*

x5505 Christopher C. Brendler, CFA  
x4546 Richard W. McCaffery, CFA

### *Property/Casualty Insurance*

(212) 247-4358 Michael G. Paisan  
(212) 247-4617 Marisol Myung

### *Regional P&C Insurers/Brokers*

x4661 Meyer Shields, FCAS, MAAA  
x4098 Matthew V. Roswell, CFA  
x4538 Michael W. Phillips

## Real Estate

### *Industrial, Retail REITs*

x5018 David M. Fick, CPA  
x4143 Nathan Isbee

### *Office REITs*

x5520 John W. Guinee  
x4830 Eli N. Fleminger

### *Health Care REITs*

x5142 Jerry L. Doctrow  
x4881 John D. Wallace

### *Multifamily REITs*

x4131 Rod Petrik  
x5873 Tamara J. Fique

### *Real Estate Strategy*

x5149 Glenn R. Mueller, Ph.D.

## Transportation

### *Trucking/Airfreight/Logistics/Railroads*

x5158 John G. Larkin, CFA  
x5164 David G. Ross  
x5316 Matthew S. Grady

## Business & Consumer Services

### *Education and e-Learning*

(216) 430-1733 Robert L. Craig  
(216) 430-1734 Jerry R. Herman, CFA  
(216) 430-1726 Drew Crum, CPA

### *Food & Beverage*

(703) 836-6253 George I. Askew  
x4317 Oliver E. Wood

(212) 247-4295 Mark Swartzberg

(212) 247-4502 Mark S. Astrachan

### *Hardlines Retail*

(212) 247-4305 David A. Schick  
x4834 Thomas D. Shaw  
(212) 247-4535 Lamont Williams, CFA

### *Home Furnishings*

(804) 698-5983 John A. Baugh, CFA  
(804) 698-5941 Brian E. Nelson

### *Internet Consumer Services*

(703) 366-2288 Scott W. Devitt  
(703) 366-2286 Marla A. Block

### *Lodging and Gaming*

x4131 Rod Petrik  
x5923 Steven M. Wieczynski, CFA

x5862 Gabriel J. Buerkle

### *Softlines Retail*

(212) 956-5011 Richard E. Jaffe  
(212) 956-5639 Megan E. Roesch

## Health Care

### *Health Care-Specialty Providers*

x5142 Jerry L. Doctrow  
x5595 Robert R. Hawkins  
x5689 Eric T. Gommel

### *Health Care Services*

x5997 Thomas A. Carroll  
x5161 Jamie F. Shurtleff, CFA

### *Biotechnology/Life Sciences*

(212) 247-4615 Edward H. Nash  
(212) 247-4639 Christopher M. Holterhoff

### *Medical Devices*

(314) 342-4042 Greg Simpson

## Portfolio Strategy

x4472 Richard E. Cripps, CFA  
x5333 Timothy M. McCann  
x4731 Michael S. Scherer

## Industrial

### *Aerospace & Defense*

x4828 Troy J. Lahr  
x4778 Hunter K. Keay

### *Capital Goods*

x4496 Barry B. Bannister, CFA  
x5146 Robert Connors

### *Energy Infrastructure*

(303) 291-5257 Ethan Bellamy

### *Infrastructure*

(303) 291-5246 Jeff Beach

### *Mining*

x4138 Paul Forward, CFA

### *Utilities*

(314) 342-2158 Selman Akyol  
(314) 342-2164 Vishal Sharma

## Technology

### *Information Technology Services*

x5093 William R. Loomis, CFA  
x5906 George A. Price, Jr.  
x5610 Shlomo H. Rosenbaum

### *Computer Services & Electronic Processing*

x4807 Daniel R. Perlin, CFA  
x4662 David E. Saunders

### *Infrastructure Software*

x4316 Todd C. Weller, CFA  
x5920 Chad B. Chilcot

### *Enterprise Software*

x5173 Christopher D. Wright

### *Semiconductors*

(214) 647-3516 Cody G. Acree, CFA  
(214) 647-3514 W. Blake Fischer, CFA  
(214) 647-3528 Stephen Lin

### *Semiconductor Capital Equipment*

(214) 647-3509 Patrick J. Ho

## Telecom & Media

### *Media - Cable, Content*

(303) 291-5247 Ted Henderson  
(303) 291-5212 Patrick Newton

### *Media & Internet*

(303) 291-5201 Kit Spring

### *Telecom Services*

x5775 Christopher C. King

### *Telecom & Media Regulatory*

(202) 778-1595 Blair Levin  
(202) 778-1978 Rebecca Arbogast  
(202) 778-4341 David Kaut

## Research Administration

x5255 Linda M. Olszewski Research Marketing  
(314) 342-2045 Carol Popp Research Marketing  
(314) 342-2284 Travis Thompson Research Marketing  
(314) 342-2157 Greg Trusty Research Marketing  
x5753 R. Glenn Wharton Systems Analyst  
x5617 Laura R. Kuhl, PHR Dept. Administrator  
x5095 Kenya A. Overstreet Production Coordinator

## Publications

x5172 Harriet Weiner Director of Publications  
x5895 Maureen Caldaro Supervisory Analyst  
x5778 Kathleen W. Shipley Supervisory Analyst  
x5969 Gwen G. Wagner, CFA Supervisory Analyst  
x5668 Christian Bell Editor  
(303) 291-5334 Diana Stewart Editor  
x5576 Jerry Schluderberg Production Coordinator  
x5661 Kristal N. Stuckey Production Coordinator