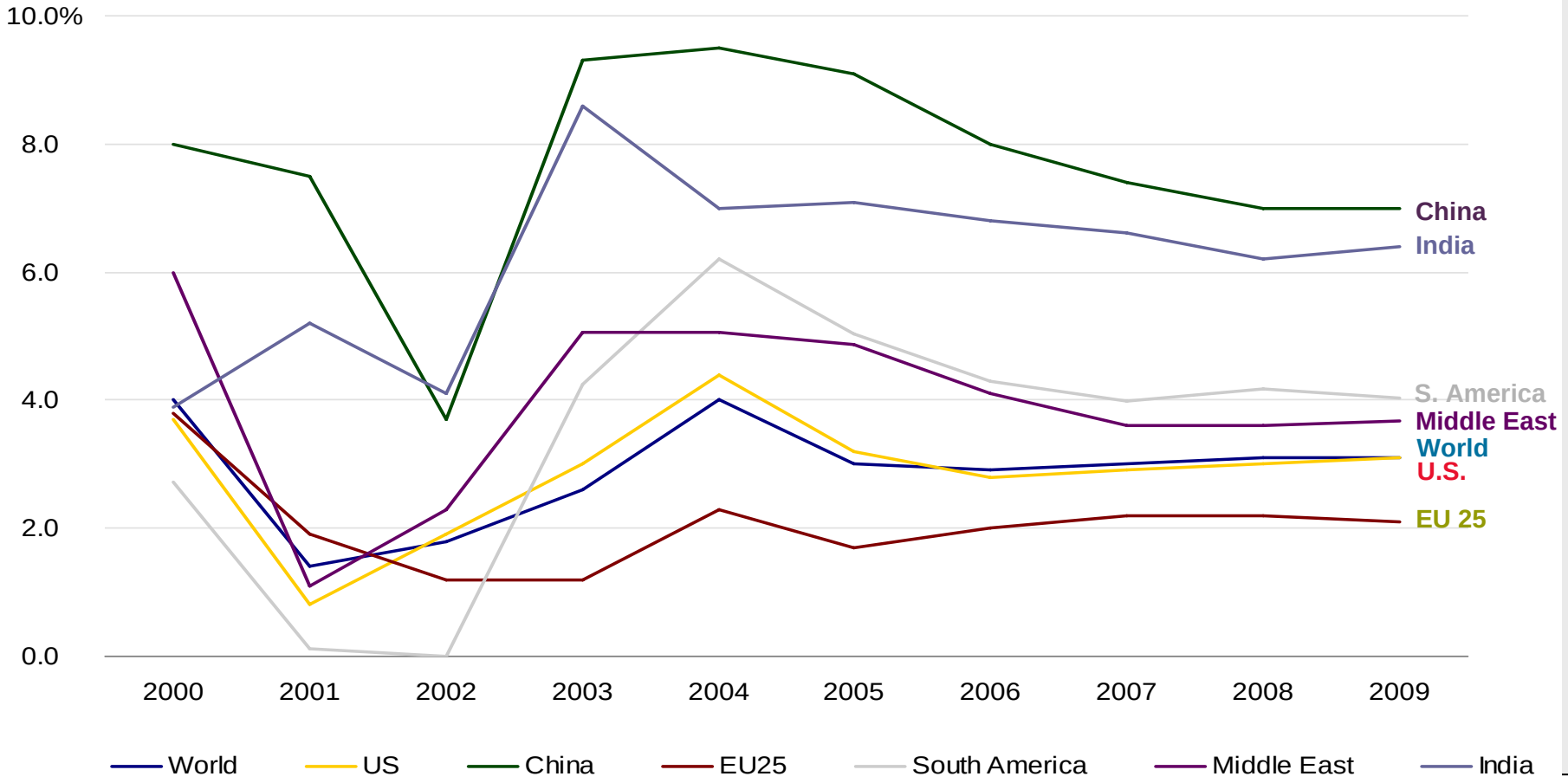
Overview

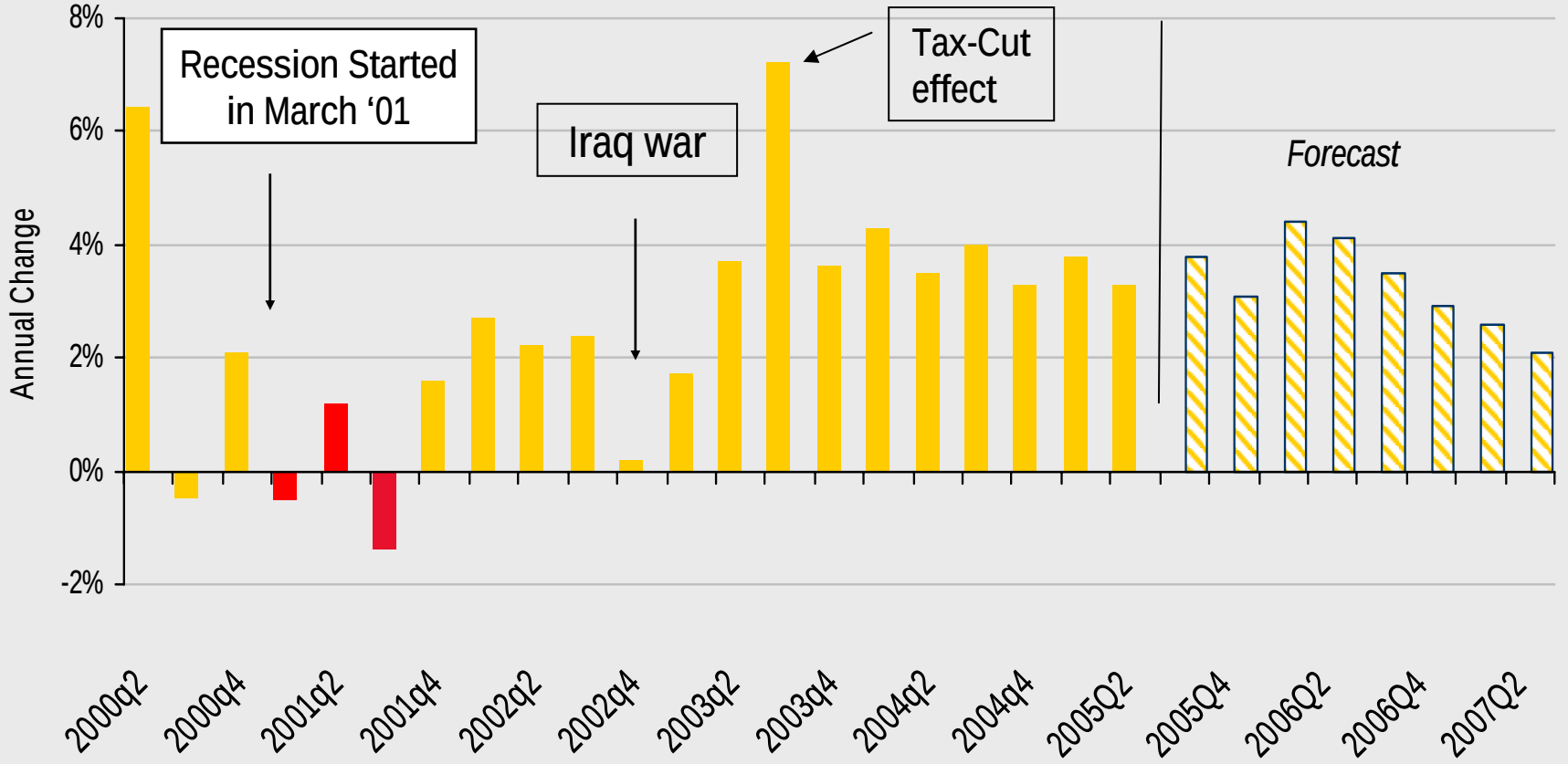
- The current picture
  - Economic Outlooks – specifically US
  - Property Markets – specifically US
  - Real Estate – as a growing investment choice
  - Global Capital Flows – the chase for yields/return
- What does the future hold?

The US and Europe Lag the World in Forecasted Growth

GDP GROWTH



U.S. GDP Growth to Average Over 3.5 % in 2005



Source: Economy.com, EIU

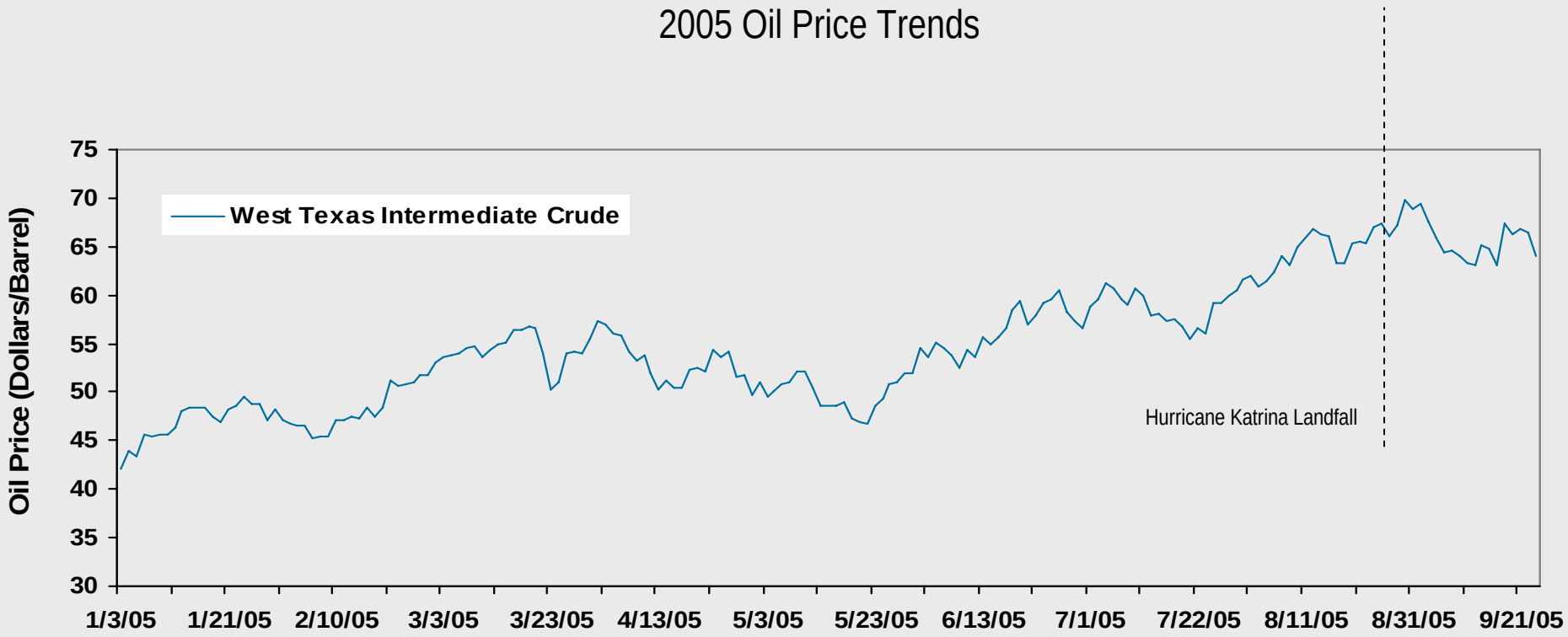
As of September 6, 2005





Oil Price Impact and Forecast

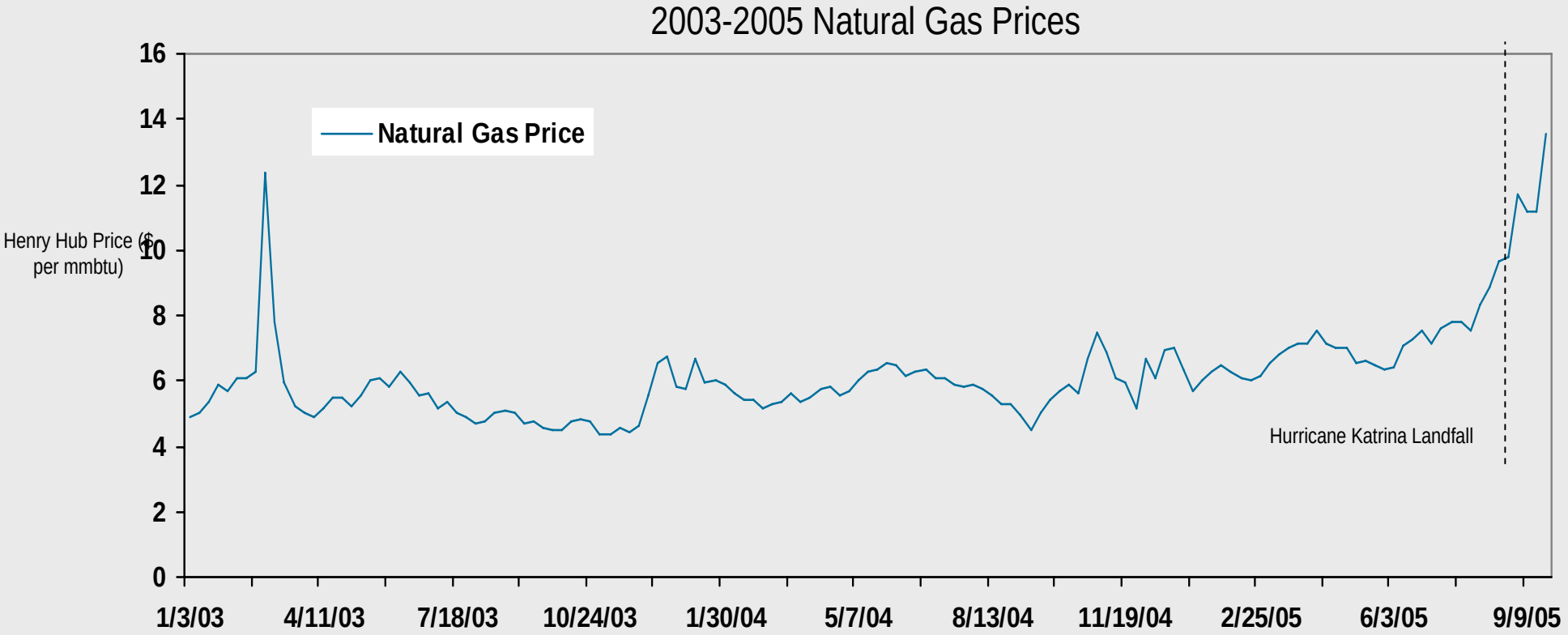
Oil prices have been at historic highs, yet most forecasts expect them to retreat



Source: Economy.com, except 9/26 noon data from Reuters

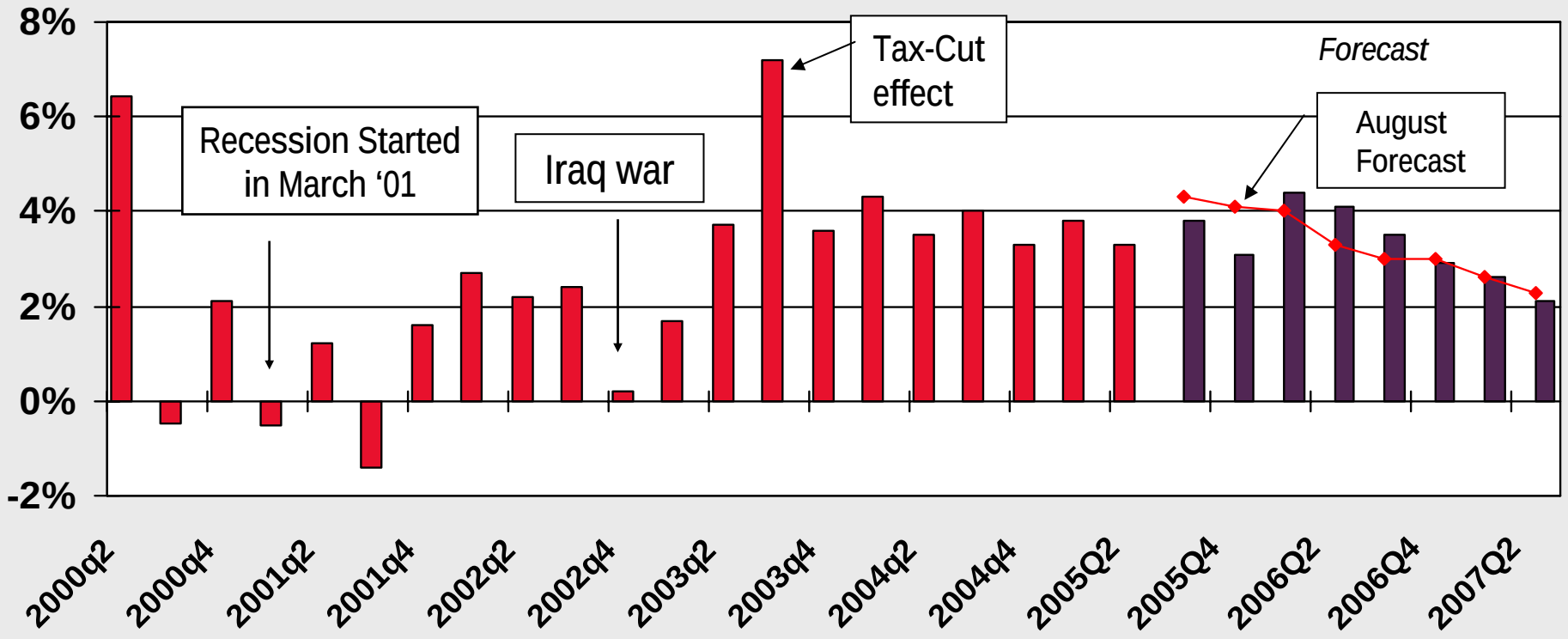
Natural Gas Prices Impact and Forecast

Natural Gas prices have been at historic highs, and are not expected to fall significantly through the winter heating season



Source: Economy.com

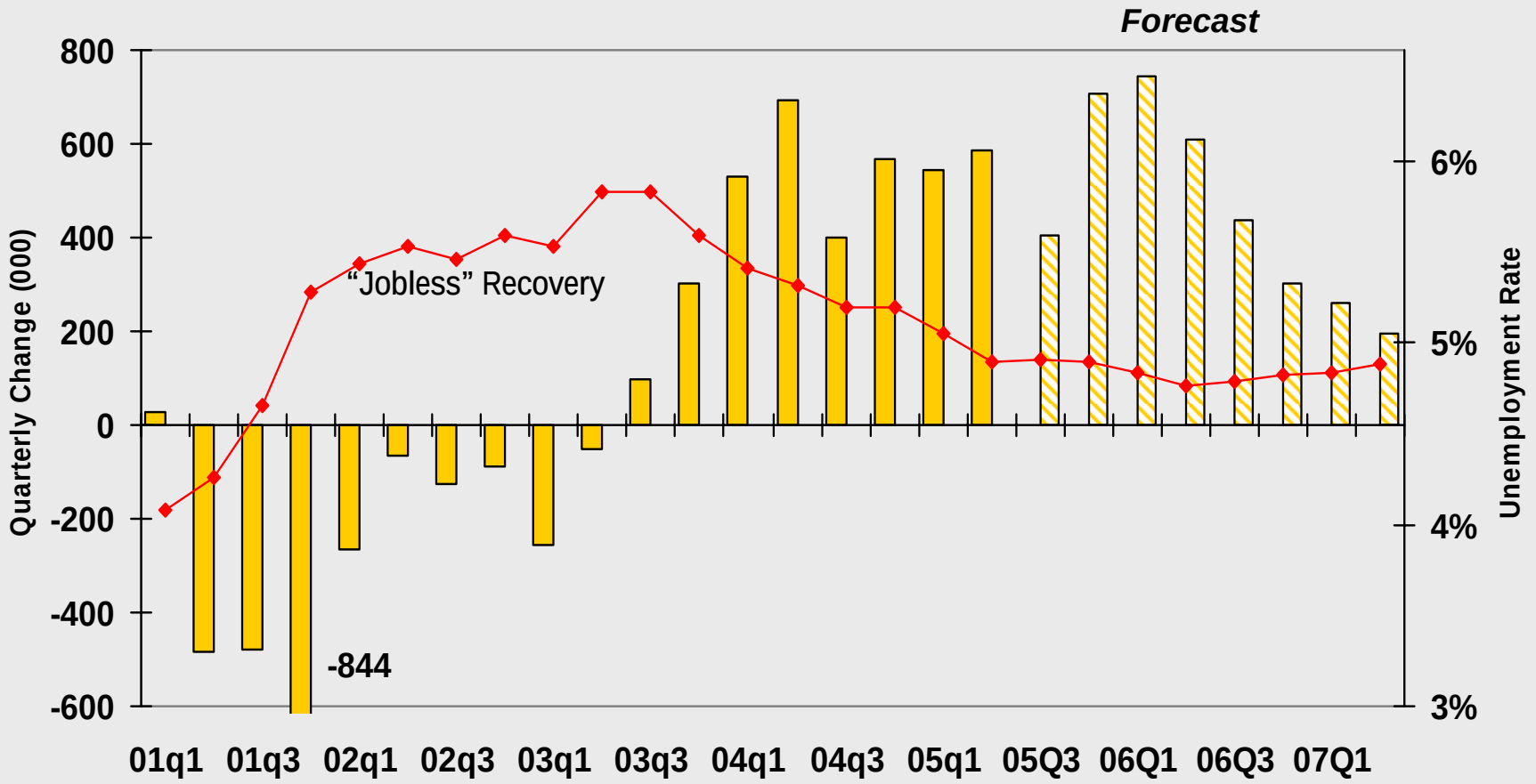
U.S. GDP Growth Forecast: Slight Decline due to Katrina



Source: Economy.com

As of September 14, 2005

Strong Job Market Will Boost Real Estate Demand



Source: Economy.com, LaSalle Investment Management

As of September 6, 2005

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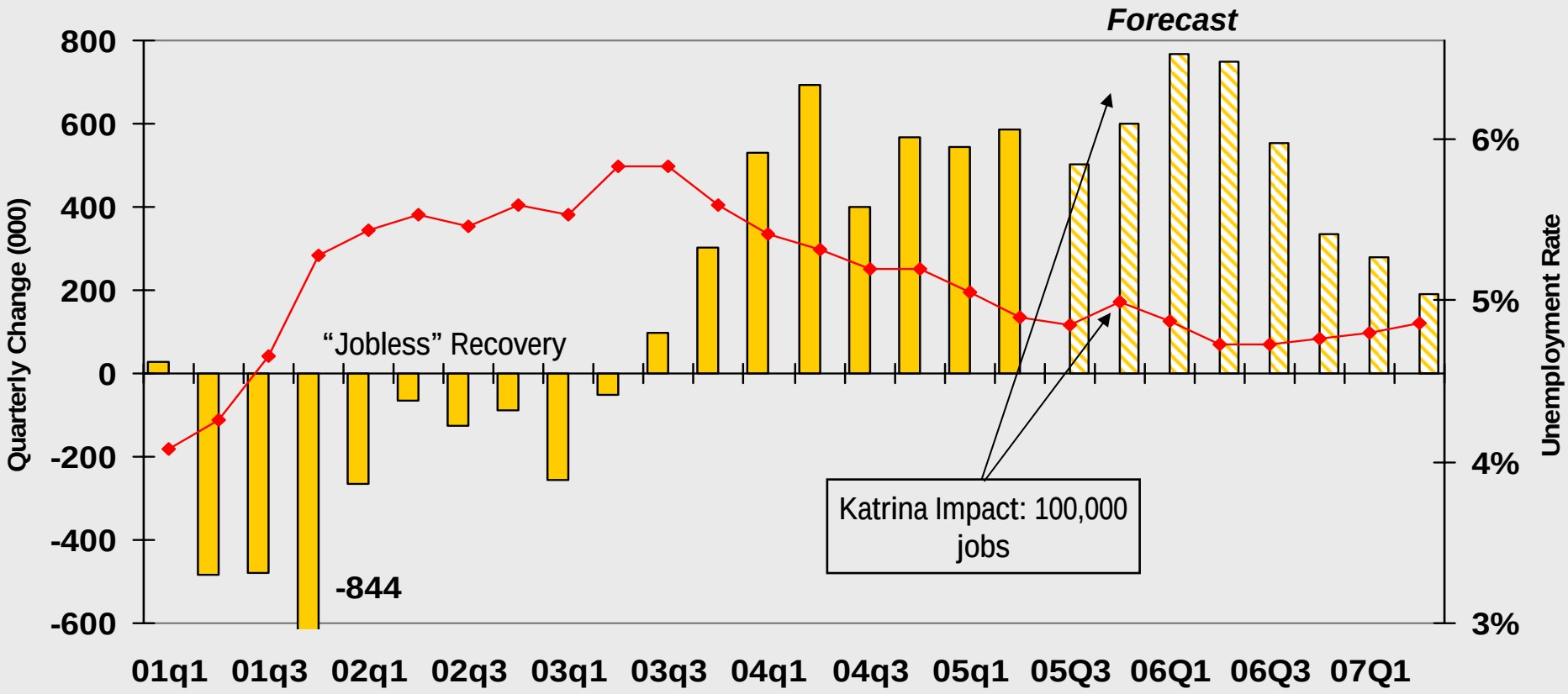
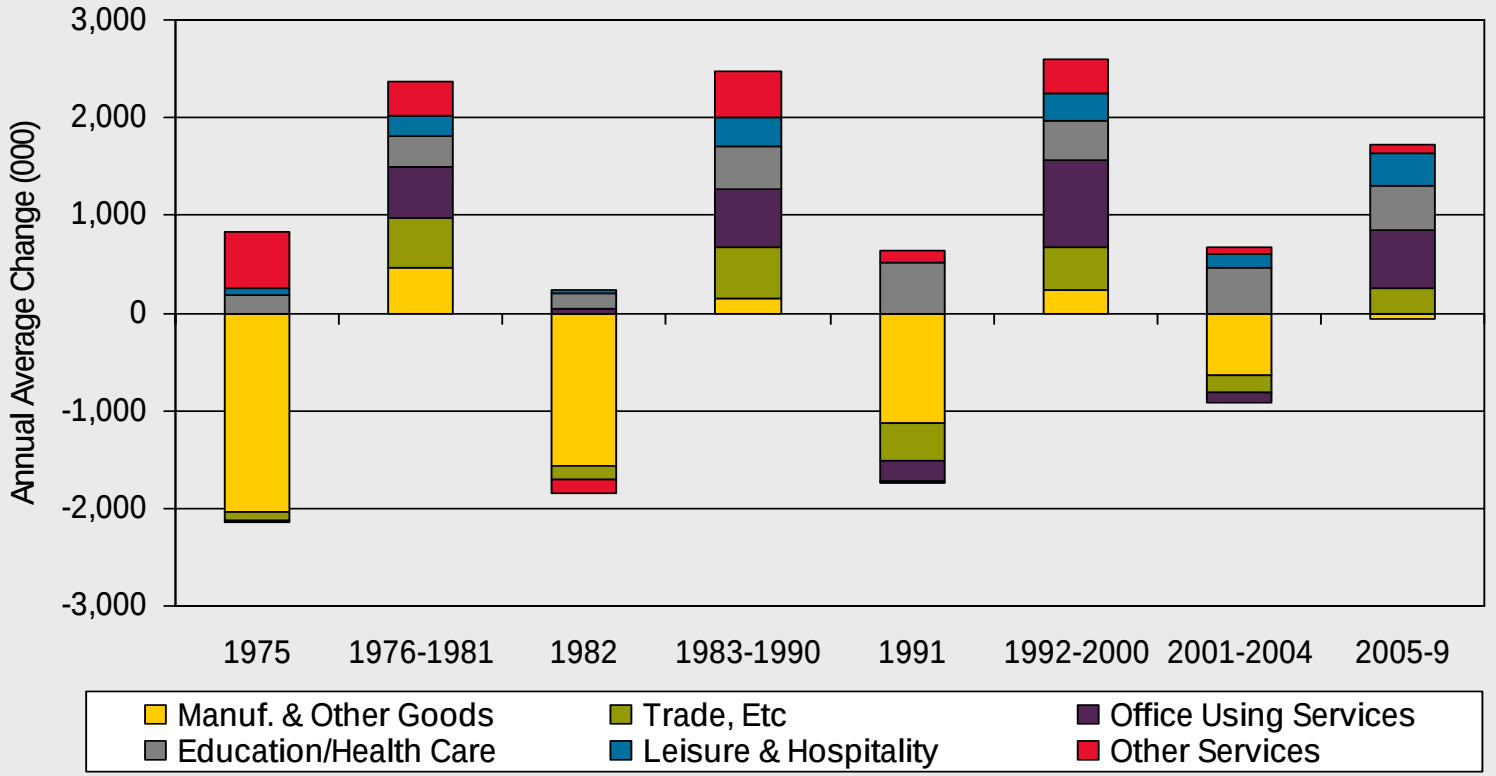
Job Growth Impact Expected to be Minor



Source: Economy.com, LaSalle Investment Management

As of September 6, 2005

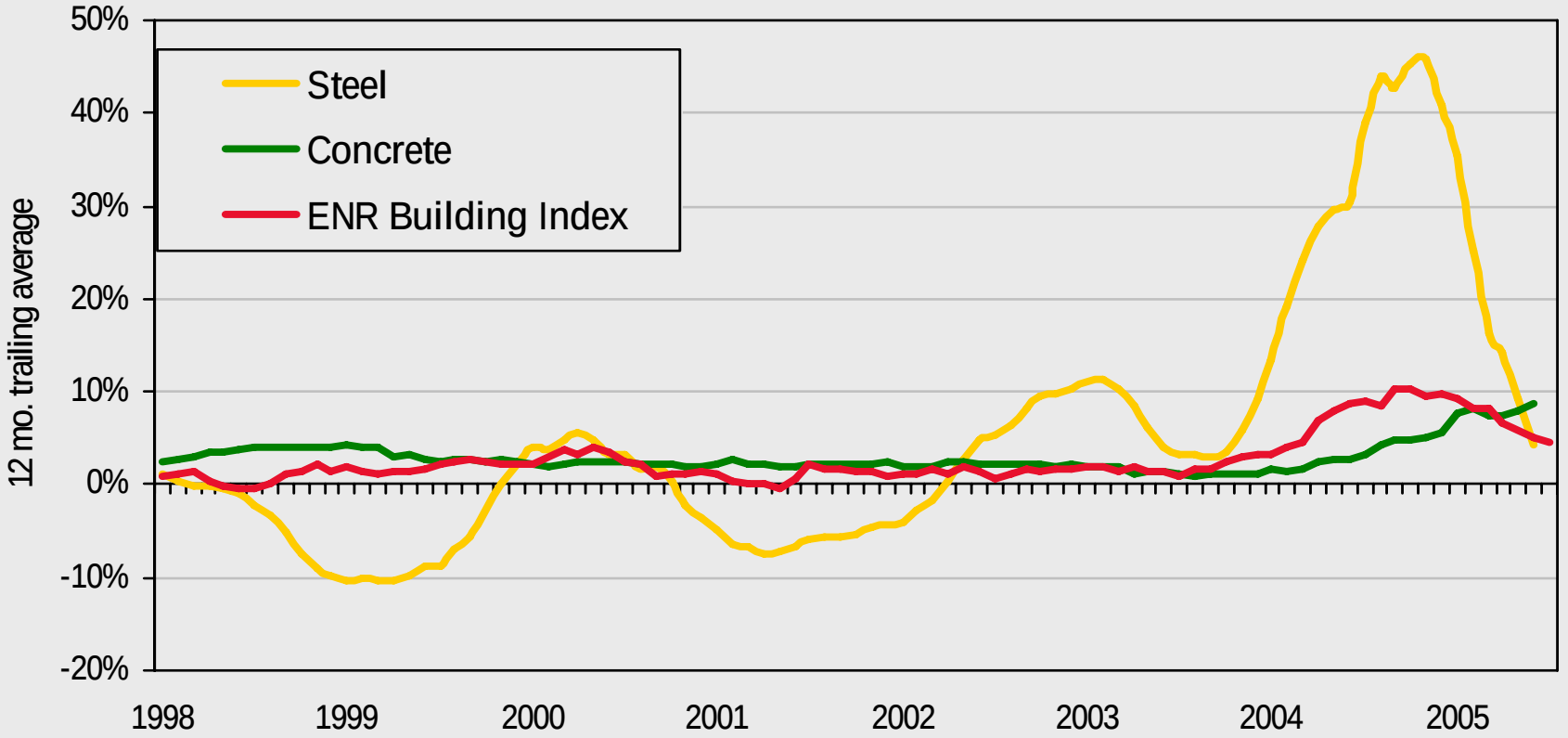
New Jobs Will be Dominated by Office-Based Services and Education/Health Care



Source: Economy.com

As of August 8, 2005

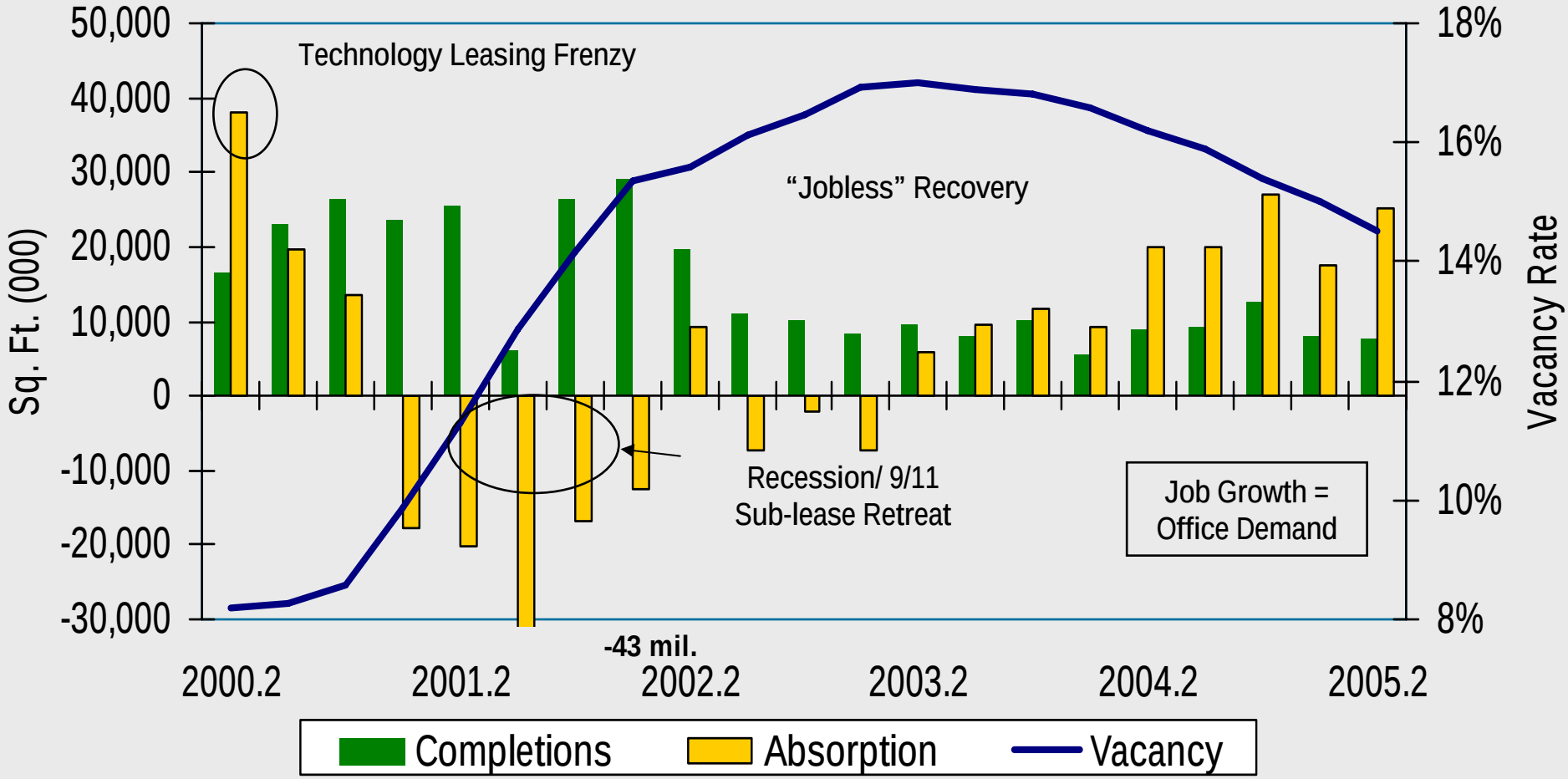
Construction Costs Slowed Down in May and June
Hurricane Impact: Back Up to double digit range in Q4



Source: Economy.com

As of July 18, 2005

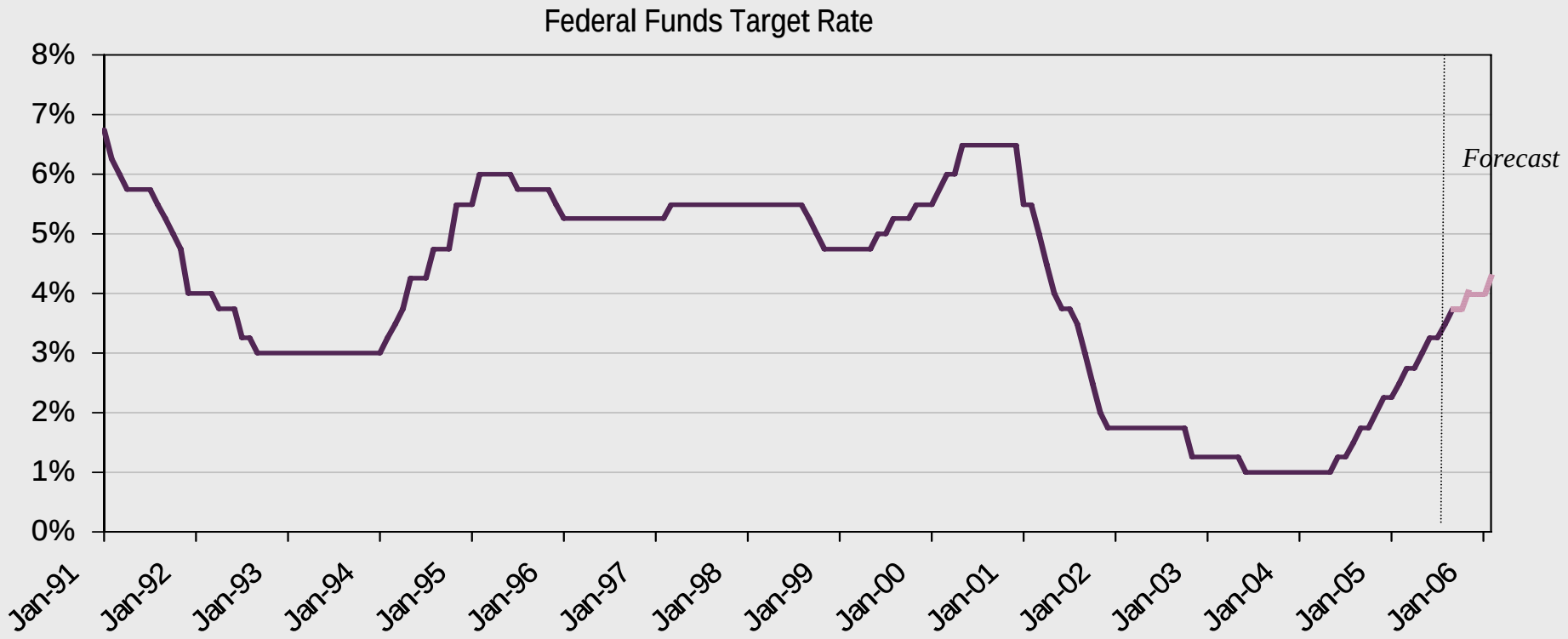
Strong Office Demand Recovery With Low Supply



Source: Torto Wheaton Research

As of 2Q2005

Fed Funds Rate Now at 3.75% and Likely to Move Up



- It is likely that the Fed will continue to raise interest rates despite the impact of Katrina.
- The Fed Funds Rate is currently at 3.75%. It is expected to increase to 4.0% by year end. The Fed has raised rates 250 bps since June 30, 2004.
- The amount of further tightening will depend largely on the future of long term interest rates and inflation.

Source: Federal Reserve, Economy.com, LaSalle Investment Management Research

As of September 26, 2005

Real Estate Returns are Compelling, but Likely to Moderate

Average Annual Returns*

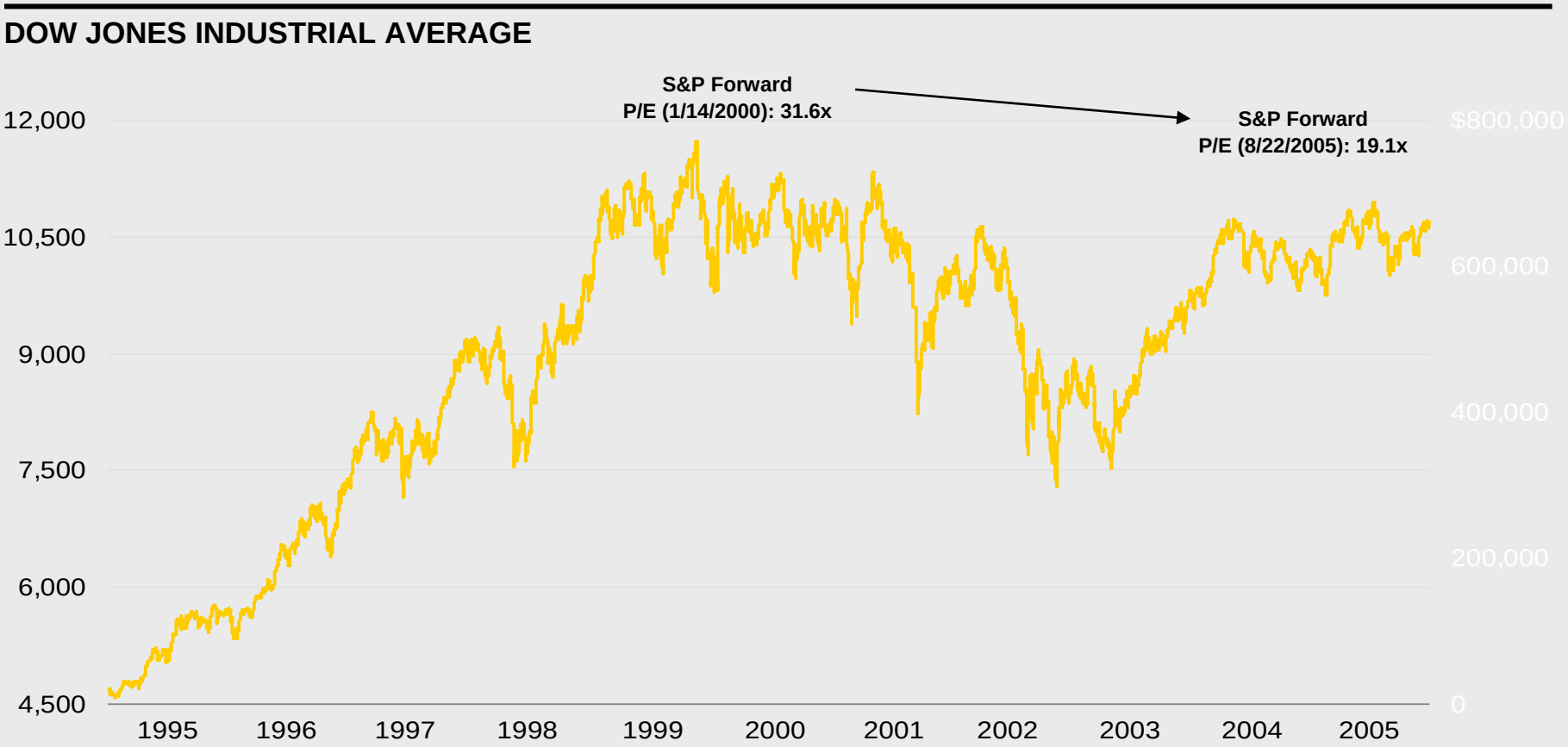
	5 Year	10 Year
Private Real Estate (Unleveraged)	9.9%	10.9%
Public Real Estate	21.9%	14.8%
Large Cap Stocks	-2.3%	12.1%
Small Cap Stocks	6.5%	11.2%
Corporate Bonds (Lehman)	8.6%	8.1%

- Real estate returns compare favorably to other asset classes over past ten years
- Real estate has lower volatility and higher income than other investment choices

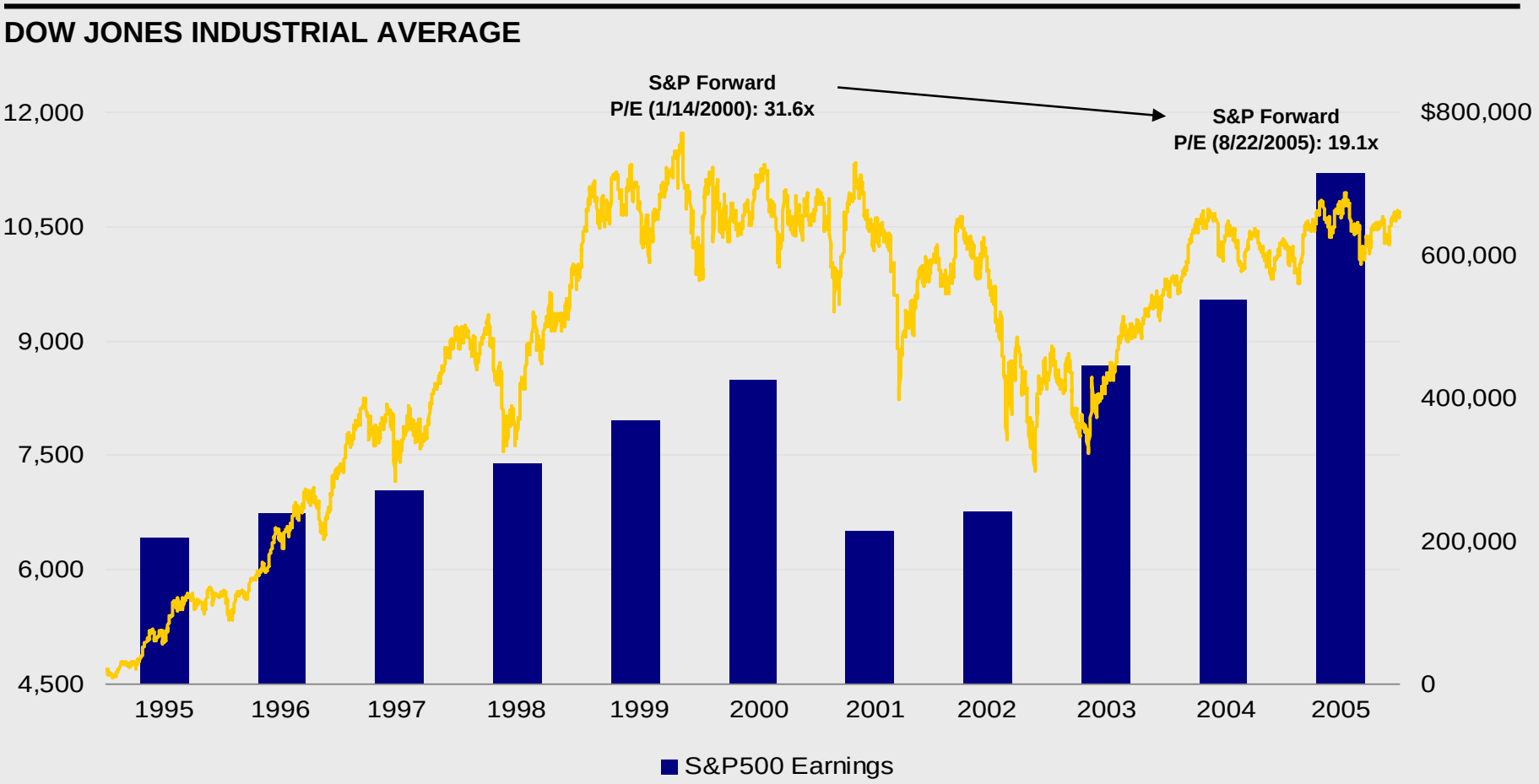
Note: quarterly data, annual holding period
Source: NAREIT (Equity REITs), NCREIF, Bloomberg, Ibbotson, LaSalle Investment Management

As of 1Q2005

US Equity Market Returning to Historic Highs



US Equity Market Returning to Historic Highs

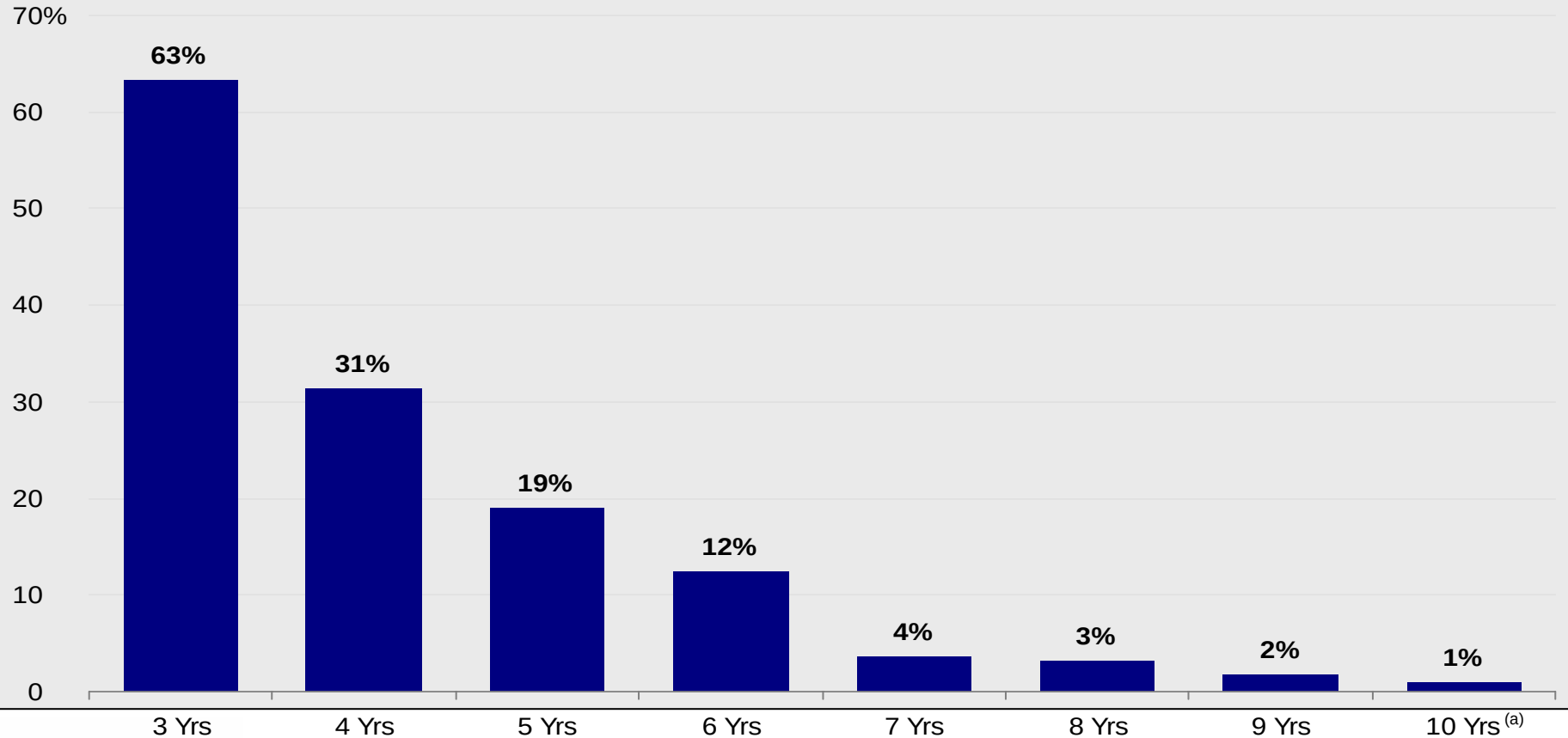


Jones Lang LaSalle®

Sustainability of Double-Digit Growth – Big Challenge!

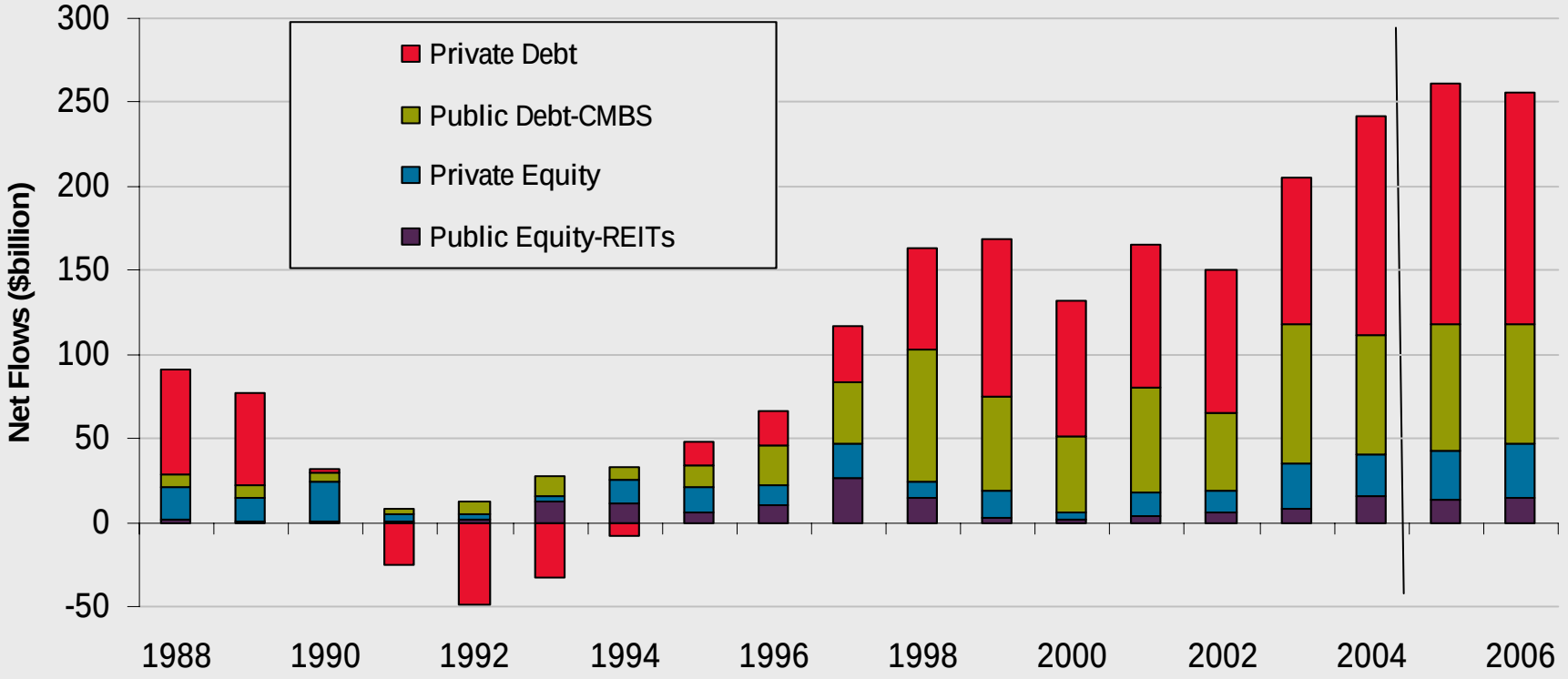
In a study of the S&P 500 companies, only 6 were able to sustain 10% EPS growth for 10 years in a row

S&P 500 COMPANIES WITH CONSECUTIVE EPS GROWTH OF >10%: 1994 – 2004



(a) Companies include: Bed Bath & Beyond, D.R. Horton Inc., Capital One Financial Corp, Harley-Davidson, Sysco Corp and Walgreen Co.

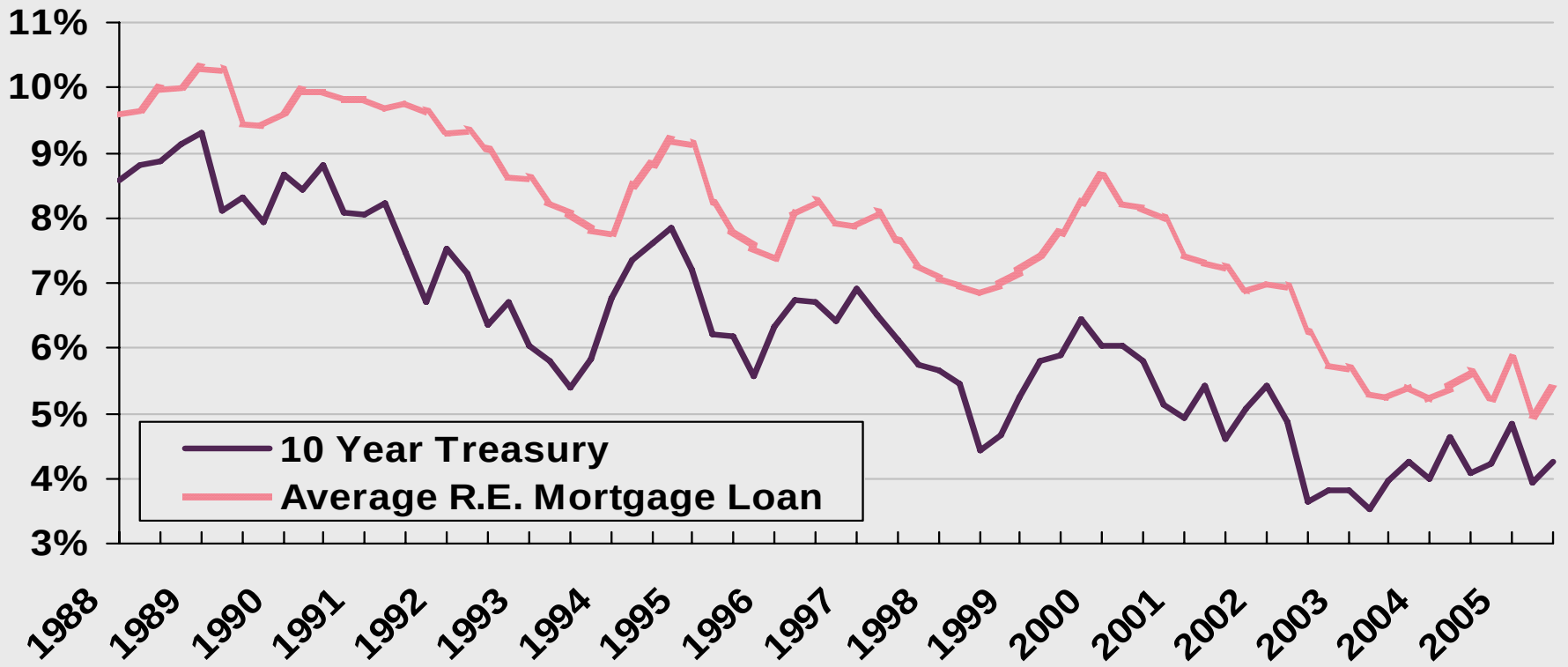
Capital Flows to Real Estate Are at Record Levels



- Institutional capital flows to real estate set a record in 2004, due to continued interest from equity investors and low interest rates.
- 2005 will also be another very strong year for real estate capital flows, as institutional investors try to meet allocation targets.

Sources: LaSalle Investment Management, NAREIT, Federal Reserve, ACLI, Commercial Mortgage Alert, P&I, R.A. Stanger, Bureau of Economic Analysis

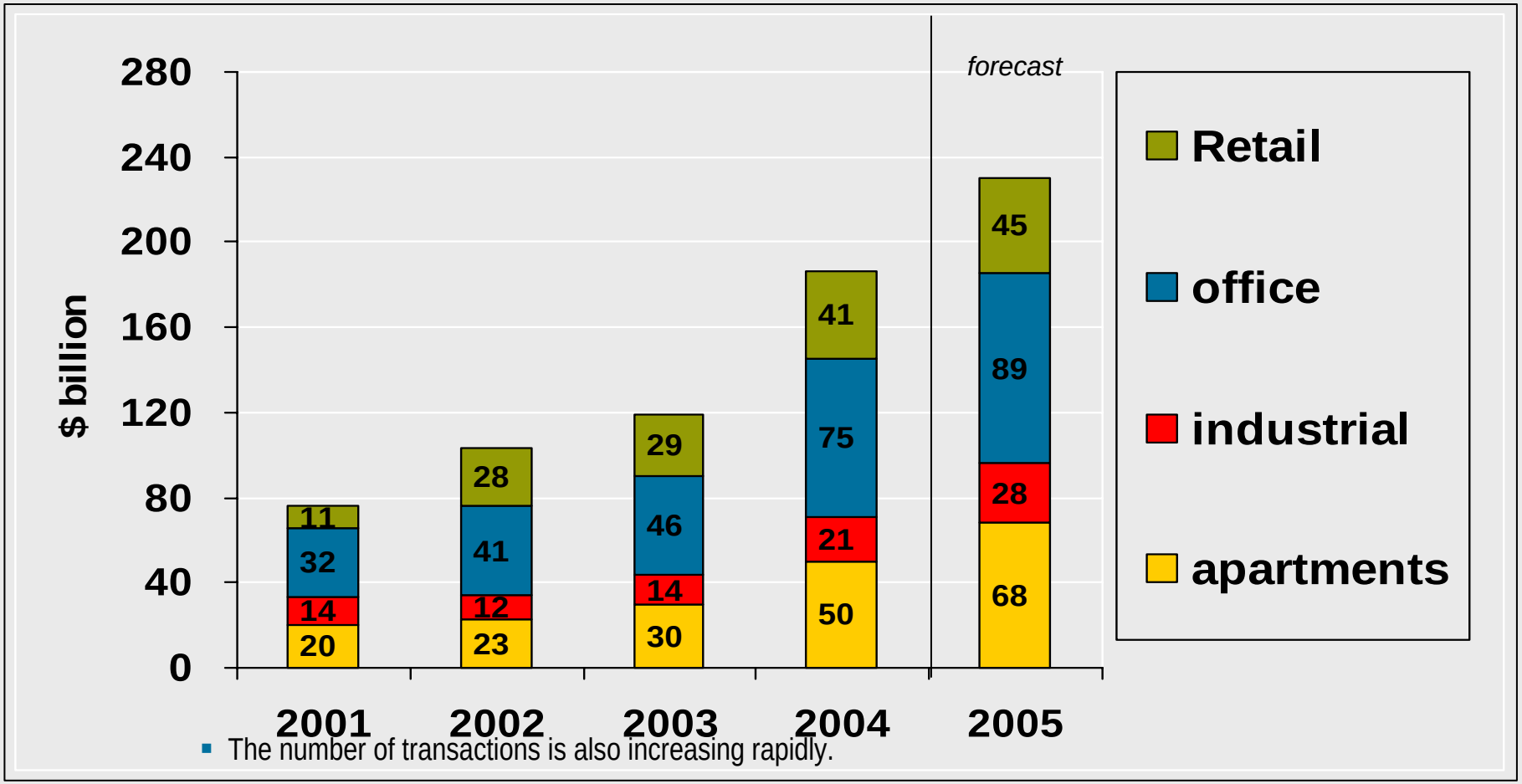
Long Term Interest Rates Are Still Low by Historical Standards



Source: Economy.com, J. L. Melody, LaSalle Investment Management Research

As of Sep. 23, 2004

Increasing Deal Flow

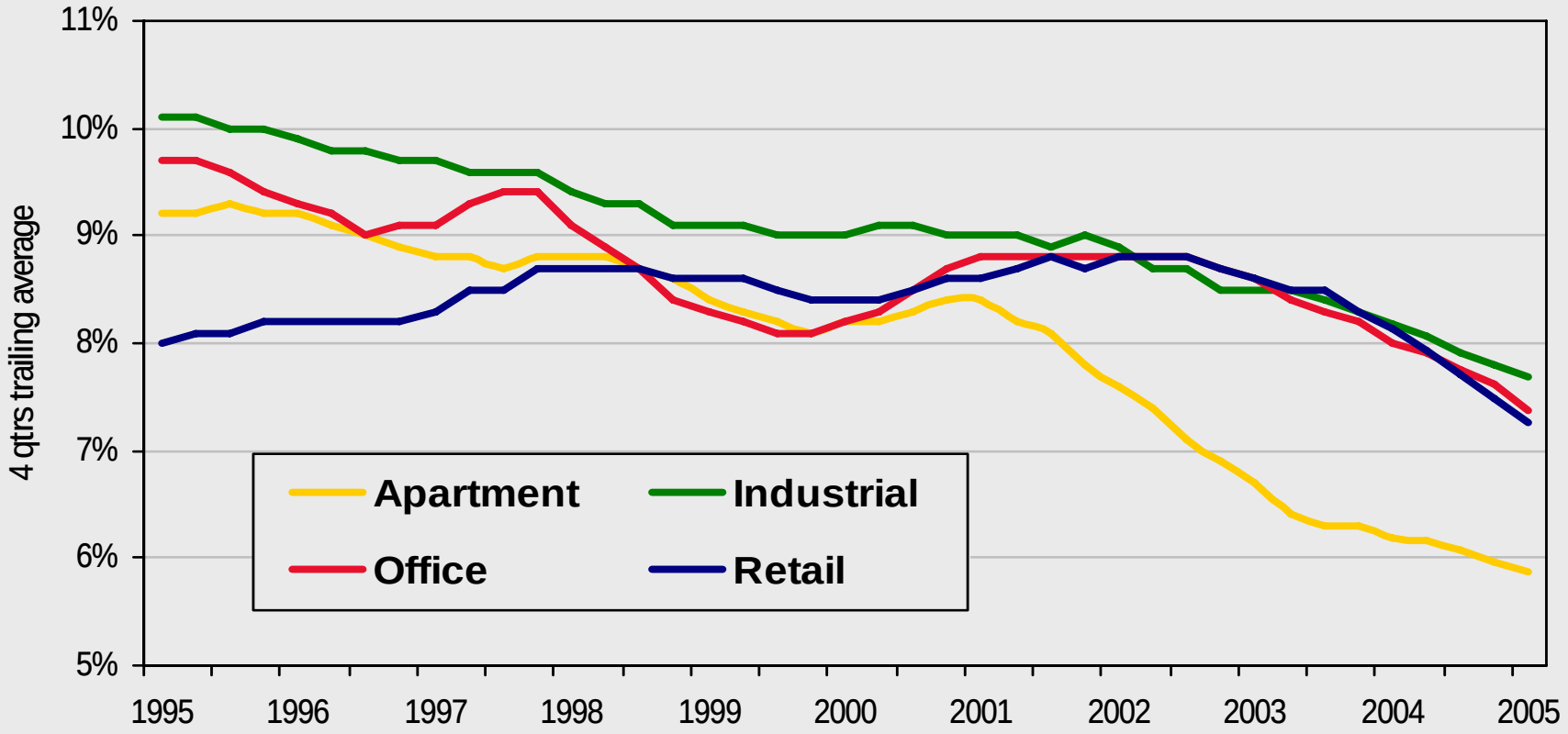


- The number of transactions is also increasing rapidly.

*Based on buyer data, and only included transaction of $5 million and greater. Please note the above transaction volume is only a subset of the total capital flow (inflow and outflow) in the U.S. for each year.

Source: Real Capital Analytics, LaSalle Investment Management

Real Estate Income Yields are Still Falling – Especially Apartments

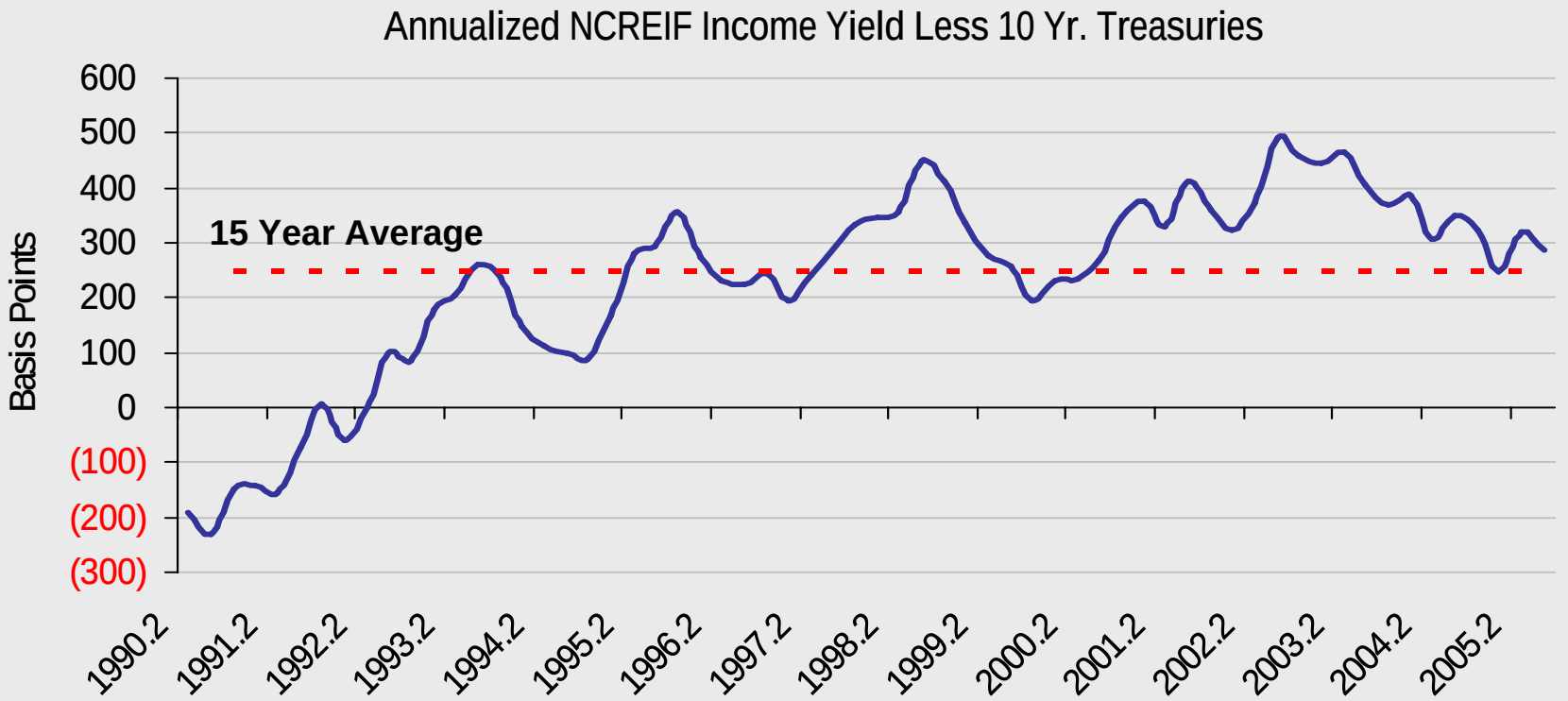


- Income yields are falling for all property types but exceed returns from new investments
- Apartment yields have diverged the most from long term average.

Source: NCREIF

As of 2Q2005

In-Place Real Estate Income Yields Tightening, But Still Above Long Term Average



- Current NCREIF trailing 4 quarter income yield of 7.1% is about 300 bps above treasury yield, down from 2003 but higher than long-term average.
- Going-in spreads of new core investments are typically 100-200 bps above 10 year treasuries.

Source: NCREIF, Bloomberg, LaSalle Investment Management Research

As of Sep. 23, 2005

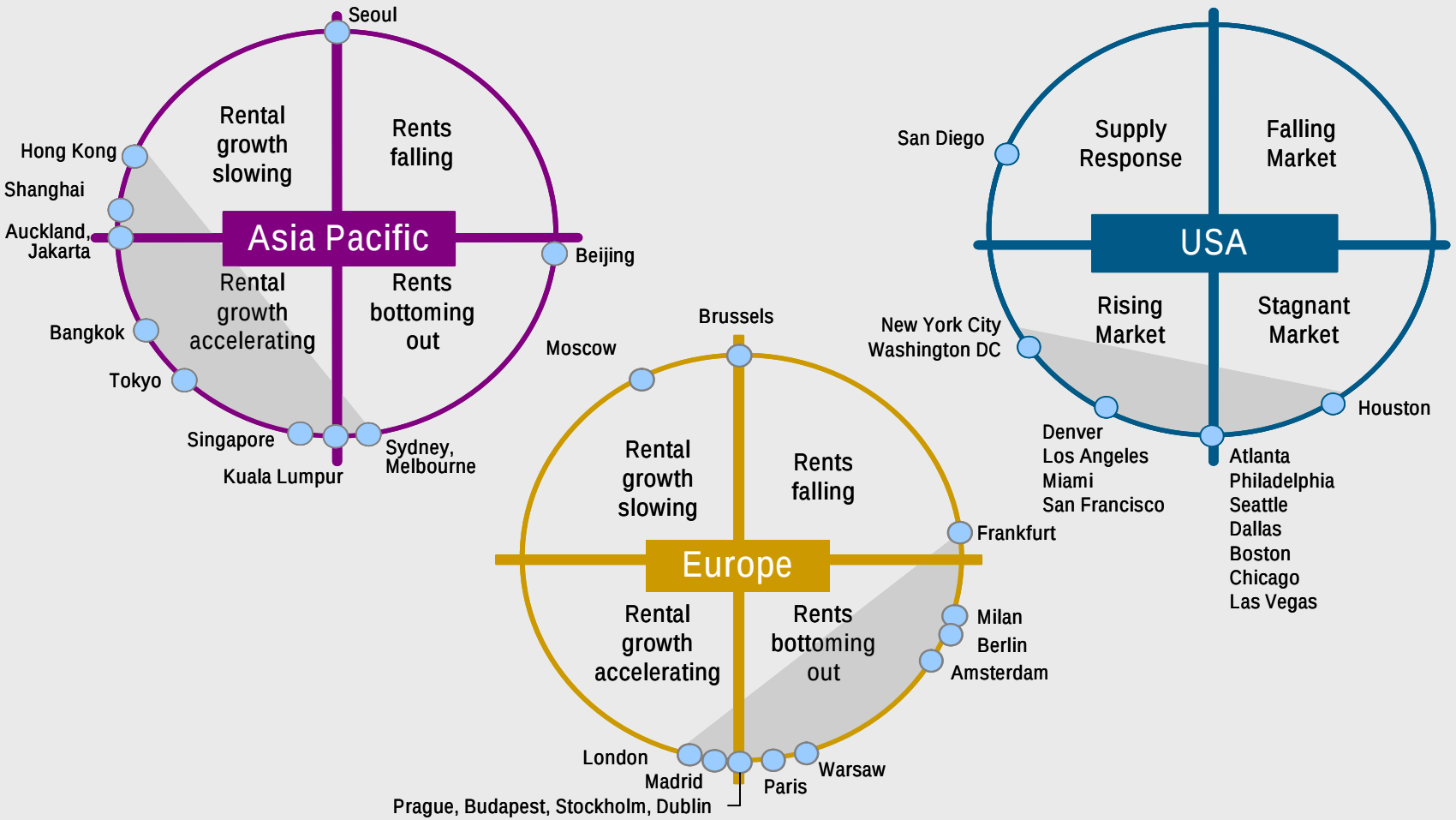
Key Drivers of Real Estate Performance in US

	Forecast – Next 12-24 Months	Impact on Real Estate Returns
Economy & Job Growth	↑	↑
Real Estate Market Conditions	↑	↑
New Construction/Supply	↔/↑	↔/↓
Construction Costs	↑↑	↑
Interest Rates	↑	↓
Capital Flows to Real Estate	↑↑	↑

"Real Estate will benefit from improving economy and strong investor interest"

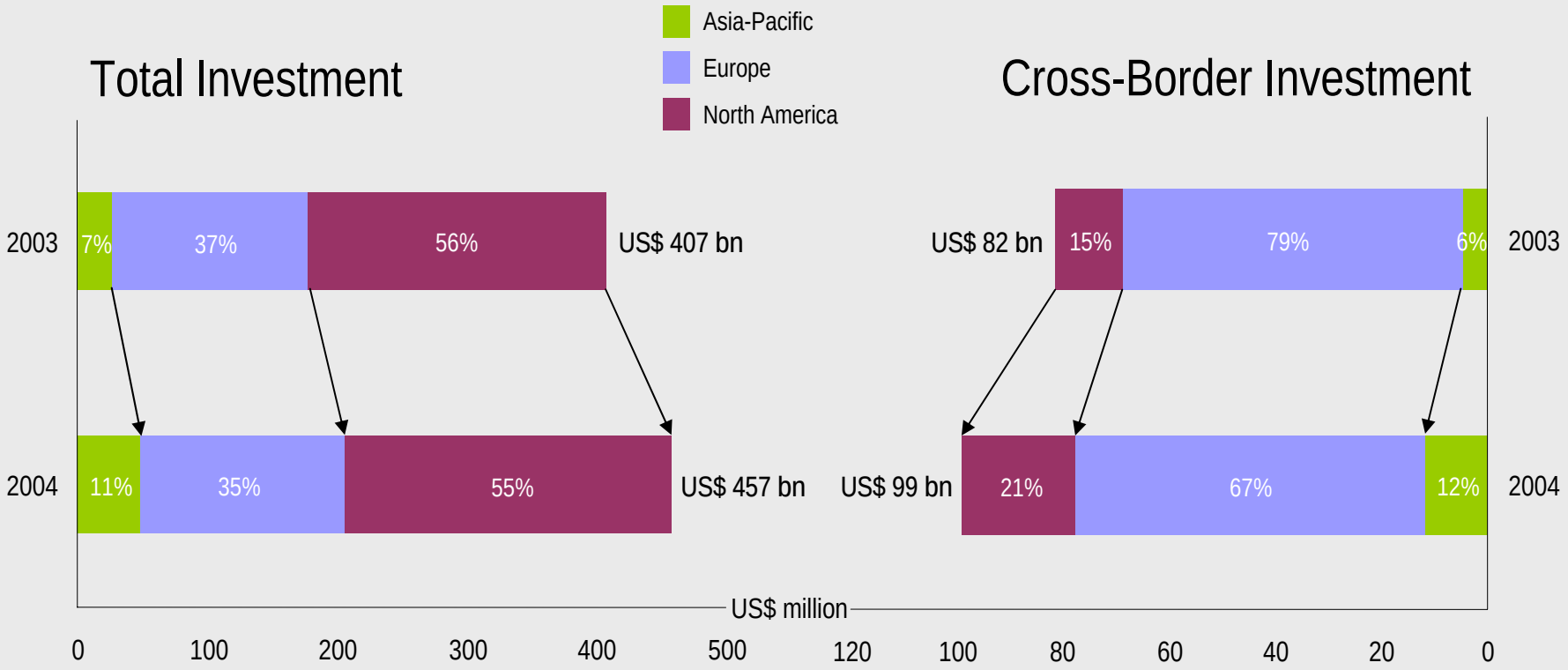
Office Market Cycles

Improving Occupier Markets



The size and shape of the market

Global direct real estate investment, 2003-2004



Source: Jones Lang LaSalle; Property Data (UK); KTI (Finland); Real capital Analytics (USA)

The size and shape of the market

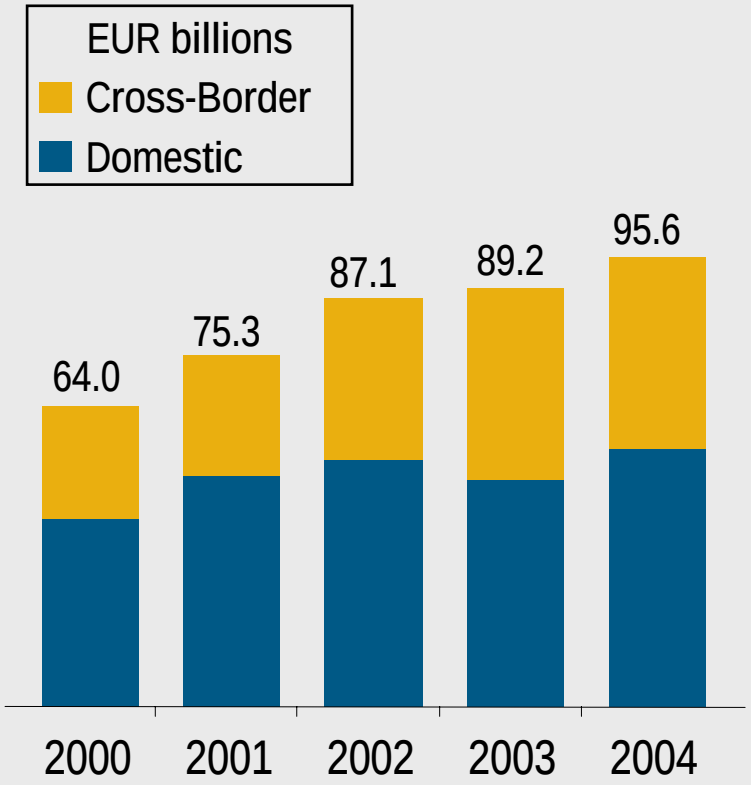
Global direct real estate investment, 2004

All figures are US$ billion	Domestic	Cross-Border		Total
		Inter-Regional	Intra-Regional	
Asia-Pacific	36.8	7.4	4.1	48.3
Europe	92.3	32.6	33.9	158.7
North America	229.5	19.9	1.1	250.4
Total	358.5	59.9	39.0	457.4

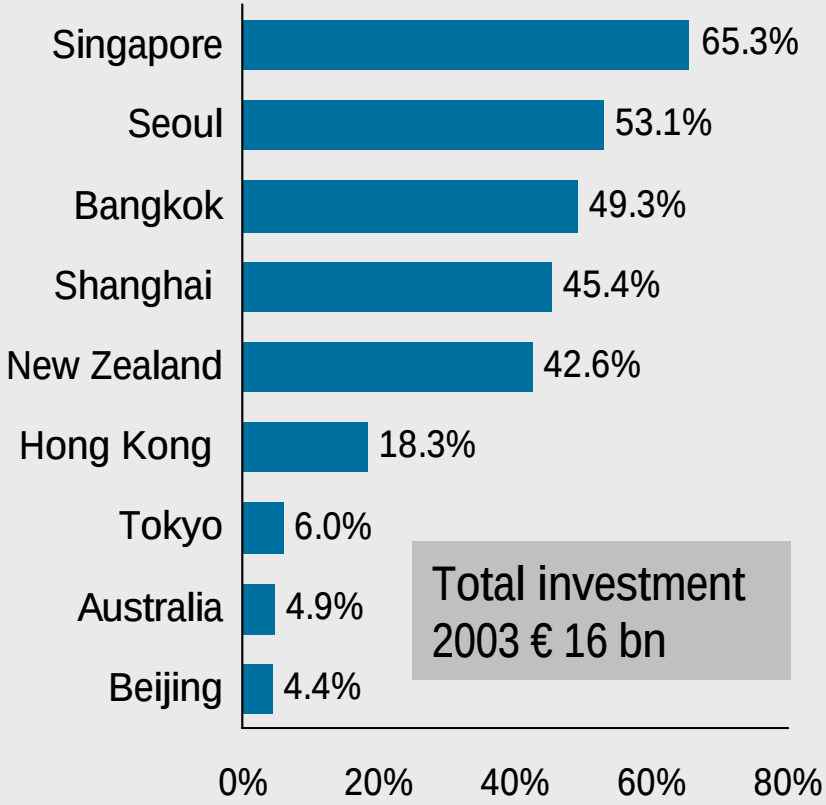
Source: Jones Lang LaSalle; Property Data (UK); KTI (Finland); Real capital Analytics (USA)

Cross-Border Real Estate Investment

Europe: Direct Real Estate Investment '00 – '04



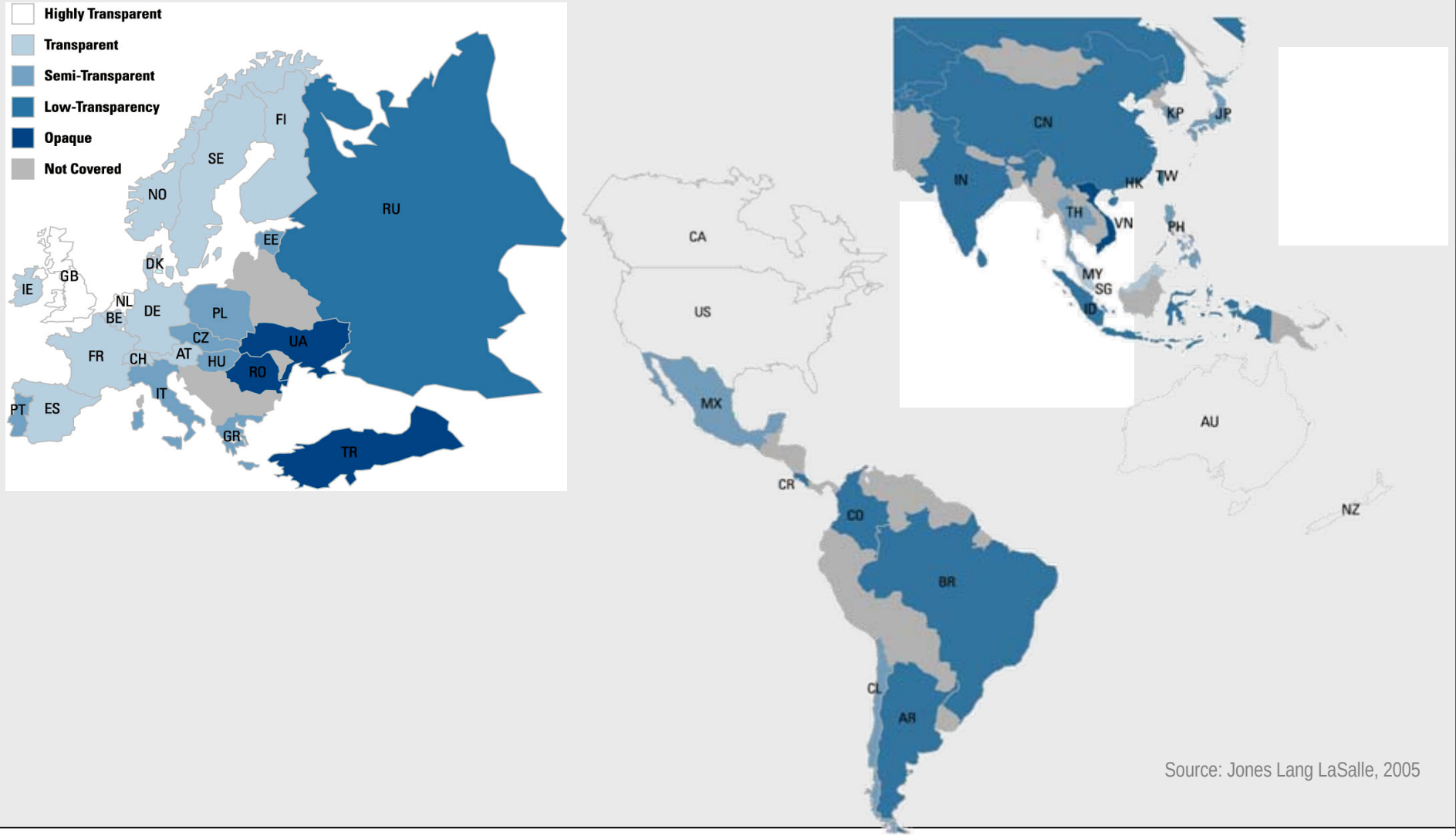
Asia: Cross Border Purchases as % of Total Investment, 2003



Cross-border investment activity is defined as any direct transaction that involves a foreign buyer or seller.

Source: Jones Lang LaSalle, March 2005

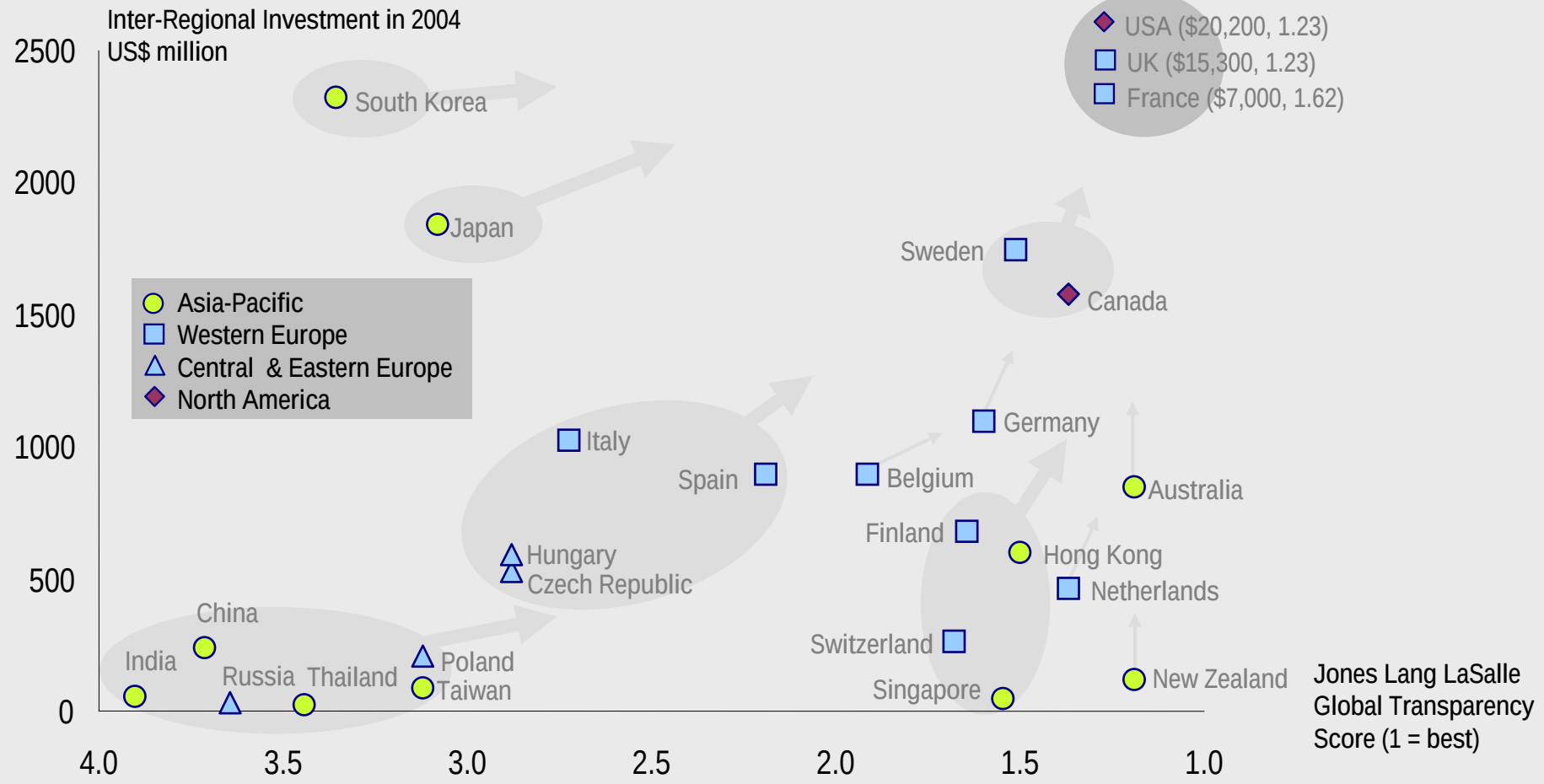
Global Transparency in Real Estate



Source: Jones Lang LaSalle, 2005

What does the future hold?

Investment driven by improving transparency



Source: Jones Lang LaSalle;LaSalle Investment Management; Property Data (UK); KTI (Finland); Real capital Analytics (USA)

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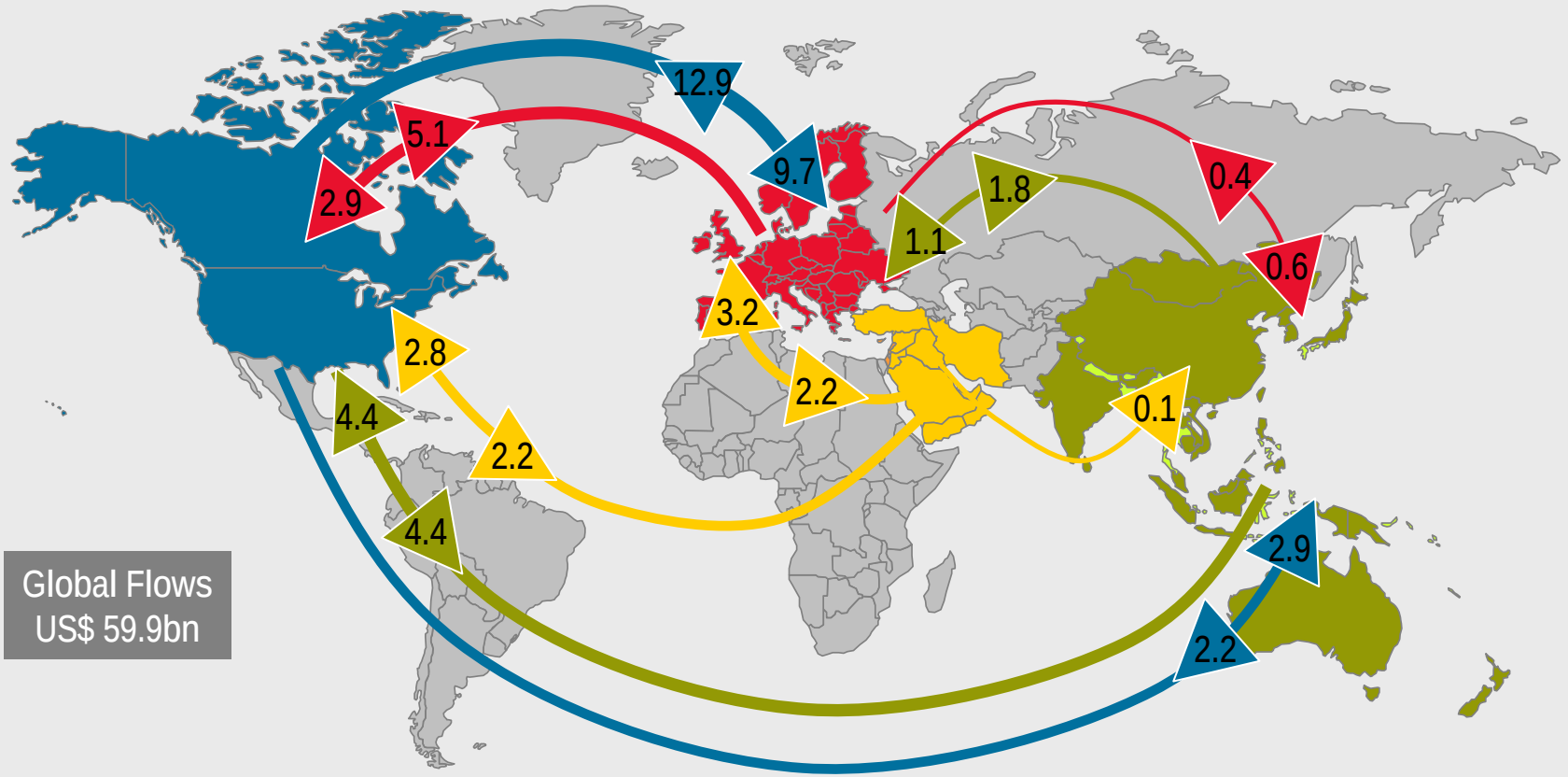
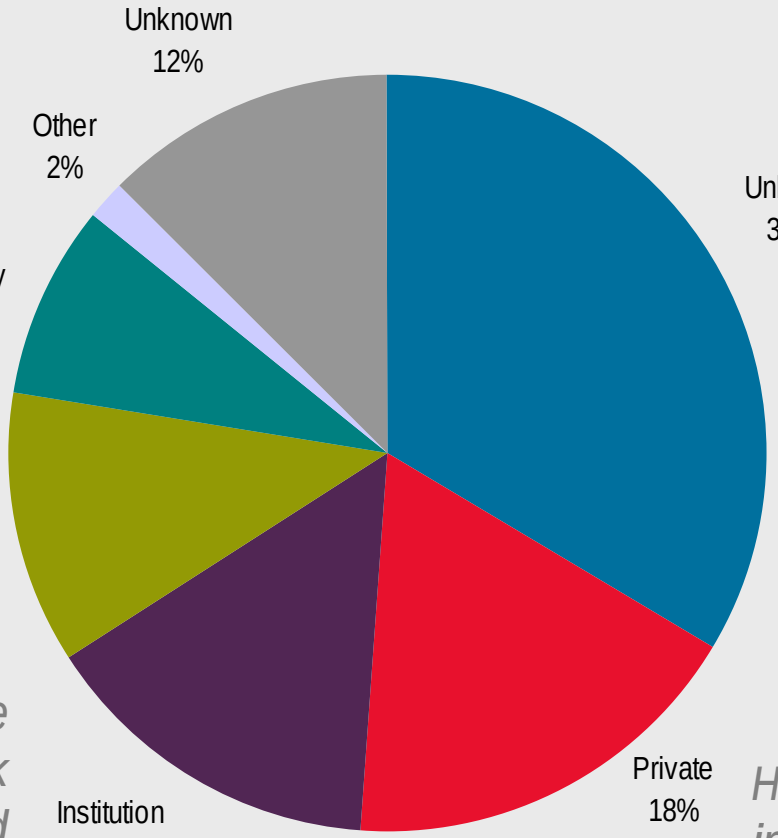
Source and destination of Inter-Regional investment, 2004



Source: Jones Lang LaSalle; Property Data (UK); KTI (Finland); Real capital Analytics (USA)
Note: Direction of arrow indicates flow of capital (e.g. European investors made purchases in North America amounting to US$ 2.9 bn, and sales of US$ 5.1 bn)
Note: US$ 5.2 billion of transactions involve both Inter-Regional buyer and seller (e.g. French buying from UK in the USA)

Sources of global capital



Opportunity and third-party managed funds

Inter-Regional Investment by Investor type, 2004

REITs and other listed property companies

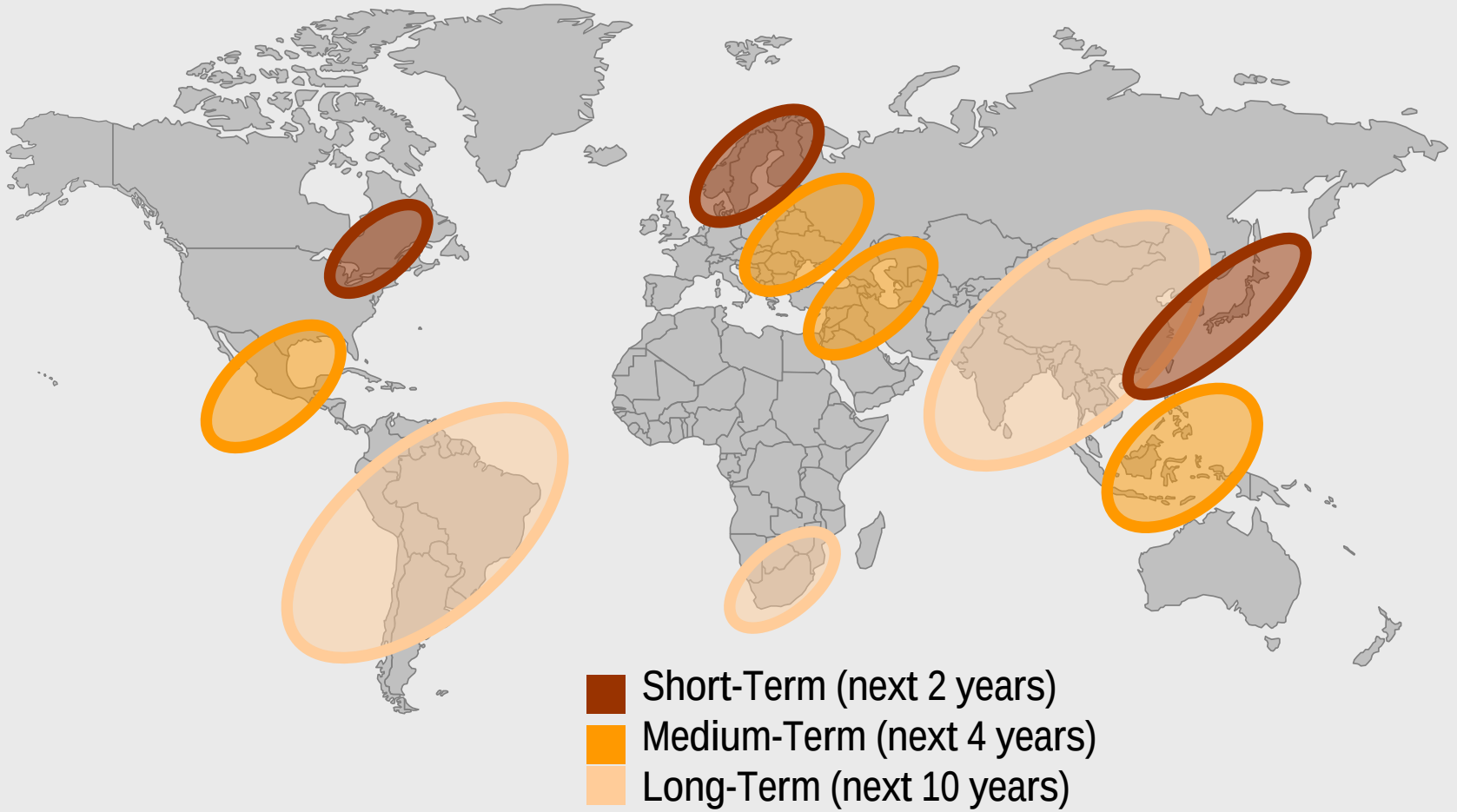
Pension funds, insurance companies, bank sponsored funds and finance companies

High net worth individuals, families and syndicates

Source: Jones Lang LaSalle; Property Data (UK); KTI (Finland); Real capital Analytics (USA)

What does the future hold?

Key destination markets



Source: Jones Lang LaSalle