

THE IRETO REPORT

Our Comprehensive Outlook on Global Investment Strategies



HAPPY NEW YEAR!

1st Quarter 2005

\$125 USD

THE IRETO REPORT
www.ireto.org

US REITs
30.4%

Returns In 2004
NAREIT
Composite REIT Index
Returns

Global REITs
38%

Returns In 2004
EPRA/NAREIT
Composite REIT Index
Returns

QUOTE:

"I try to learn from the past, but I plan for the future by focusing exclusively on the present. That's where the fun is." Donald Trump

INSIDE:

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Bryan Shaffer, Publisher

IRETO's 2005 Outlook

Success in 2005

By: Bryan Shaffer

Real Estate is Winning! For the last five years, major real estate indexes, the Wilshire REIT index and NAREIT index both outperformed the Standard & Poor's 500 index. With Large pension funds, foreign buyers and REITs (real estate investment trusts) all looking for assets, 2005 should be another great year for commercial real estate.

For this issue of the IRETO report we reviewed hundreds of market reports, spoke with our readers and talked with several experts. It is designed to present our opinion of the directions of markets and investment opportunities in 2005. With appreciation normalizing, rents slowly increasing in most markets, and interest rates slowly increasing, we believe that key in 2005 will be finding the right assets and having the right strategy for success. **PAGE 2**



2004 Returns

REITs

30.4%

S & P 500

9.2%

Property Sectors

Office



Retail



Indus-



Hotels



Multi-Family



Condo'



US 10YR Treasuries

Jan 2005

4.25%

Dec 2005

5.25%

IRETO's List...

10 Largest U.S. Single Asset Sales in 2004

	Property Name	City, State	Price USD	Price/ SF
1	Sears Tower	Chicago, IL	\$840 M	\$244
2	State Street Financial Center	Boston, MA	\$705 M	\$672
3	Marine Midland Bank Building	New York	\$456 M	\$380
4	Colorado Center	Santa Monica, CA	\$444 M	\$374
5	Bank of America Tower	Los Angeles, CA	\$435 M	\$311
6	Bertelsmann Bldg	New York, NY	\$426 M	\$387
7	180 Maiden Lane	New York, NY	\$355 M	\$325
8	One Beacon Street	Boston, MA	\$340 M	\$309
9	245 Summer Street/7 Water Street	Boston, MA	\$307 M	\$340
10	Park Place	Irvine, CA	\$260M	\$153

Source: Real Capital Analytics

1st Quarter 2005

FOR BREAKING NEWS:

www.ireto.org

THE IRETO REPORT

Success in 2005: Predictions & Strategies



From Page 1
 Our general view of 2005 is that it will be a positive year for most commercial real estate assets. We think Hotels & Retail are the best to own, and that office carries the most risk. We also believe that using good real estate judgment will be critical in 2005.

The key to success in addition to large capital inflows, will be for interest rates not to increase too quickly. We also need to experience improvements in rents and vacancy.

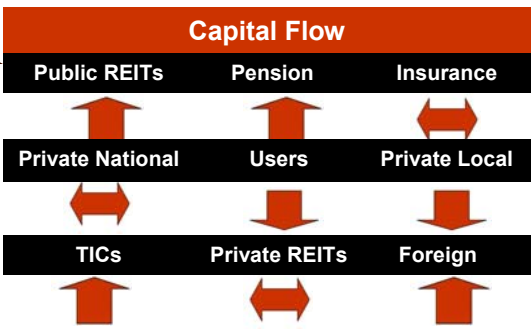
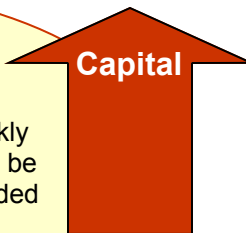
REITs, Pension Funds, Private Funds and Foreign Investors will drive the markets with increased investments, and will be net buyers. As for private money, we think about 60% of this investor type will be net sellers. In 2003, it was less than 50% and in 2004 it was around 55%. Below are our predictions and Strategies:

Capital is King

REITs, Foreign Investors, TIC and Pension Funds will keep the demand for stable assets strong. In 2005, we think foreign capital, will increase 20%, to over \$17 Billion USD. They will pay aggressive prices for top quality. This type of buyer will have limited, to no, interest in unstable assets.

STRATEGY

Most capital will seek stabilized assets; Buying unstable assets, quickly stabilizing, and quickly reselling would be a way to benefit. Sellers will be rewarded for improving assets and strong occupancy.



Interest Rates Going Up Slowly

Rates will slowly increase in 2005, but strong competition will keep plenty of reasonable debt in the Market. 10 year T-Bills will hit 5.25% by year-end.

US 10YR Treasuries	
Jan 2005	Dec 2005
4.25%	5.25%

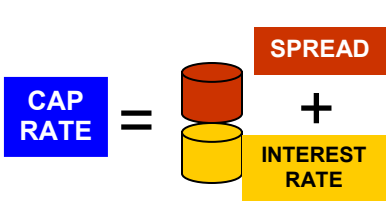
STRATEGY

10 Year fixed rate financing;
 Assignable;

Interest Rates		
Fed Funds	Libor	10 Year Ts
↑	↑	↑

CAP Rate Spreads Thin

Slowly increasing interest rates will help stabilize CAP rates at around 250 – 350 basis points above 10 year treasuries.



CAP RATE SPREADS	
2004	2005
300bp-400bp	250bp-350bp

STRATEGY

Be careful! Lower CAP Rate spreads, mean more risk. Also, when underwriting, assume higher exit CAP rates.

The Views in the report are those of the Author, Bryan Shaffer. Mr. Shaffer is President of the International Real Estate Trade Organization and is an acquisitions/dispositions officer with one of the world's largest real estate companies. He has bought, sold or leased over \$3 Billion USD of real estate around the world. Over 100 reports were reviewed with data from Price Waterhouse Coopers, Urban Land Institute, Real Capital Analytics, Global Analytics, Costar, Grubb & Ellis, CB Richard Ellis, Marcus & Millichap as well as members views and personal knowledge of markets. Real Estates Investments should be made from sound market research and due diligence. The International Real Estate Trade Association (IRETO) recommends that all readers do independent research and not rely on the opinions & information contain herein. We welcome your views and insights for future issues. To contribute: info@ireto.org

Think Global

With the exchange rate benefiting foreign capital, several more assets will be purchased by capital and capital partners from other countries.

STRATEGY

For both debt & equity capital, look to overseas sources. They require local expertise and should be aggressive.

"Investors who view the U.S. dollar as near the bottom and the economy as healthy could see the U.S. commercial real estate market as a bargain,"
Sally Gordon, Moody's Investors Service

2004 Rank	Country	% Change /04	
1	Germany	Decrease	-3%
2	Japan	Increase	+15%
3	United Kingdom	Increase	+20%
4	Canada	Increase	+5%
5	Netherlands	Increase	+20%
6	Australia	Increase	+12%

REITS will be Major Players

In 2004, REITs started aggressively buying assets; This trend should increase in 2005.

KEY FOCUS FOR REITs:

Funds From Operations (FFO)

= REIT's net income, excluding gains or losses from sales of property, and adding back real estate depreciation.

STRATEGY

REITs like cash flow and low tenant improvement exposure. Quickly finish leasing and needed improvements before sale.

Private Capital Will Sell

Aggressive CAP rates, Profits, and fears caused by increasing interest rates will push the private investor to be a net seller.

STRATEGY

Be careful; Sometimes if the price goes up to high on a stable asset, that asset now has more risk than a unstable asset. Take leasing risk over asset pricing risk.



Leasing & Occupancy



Capital will drive up Stabilized Pricing

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Adding Value

Can you make huge value gains at today's prices? The answer is clearly "yes." One reason that Real Estate markets are not always efficient. But what is even more important is having a creative vision for the asset. Changing the tenants or use can create huge value.



20 Recent High Gain Sales

Rank	Sellers	City -Months held	Sold for	Gain	Type
1	Walton St Cap, HGA Cap. Grundbesitz & Anlage	New York, NY 22	\$353,000,000	\$87,166,667	Office
2	CalSTRS	San Diego, CA 46	\$148,271,000	\$58,271,000	Office
3	Branch Properties	Raleigh, NC 33	\$118,250,000	\$52,000,000	Retail
4	Transcontinental Realty Investors	Farmers Branch, TX 26	\$88,500,000	\$38,500,000	Office
5	Stellar Capital Mgmt, Brack Capital RE	Hackensack, NJ 50	\$108,600,000	\$30,200,000	Office
6	Beacon Cap. Partners, Lincoln Prop. Co	Woodland Hills, CA 36	\$162,000,000	\$28,000,000	Office
7	Developers Diversified, Coventry Partners	Lewisville, TX 28	\$51,079,854	\$24,479,854	Retail
8	Murray Hill Properties, ING Realty Partners	New York, NY 38	\$105,750,000	\$24,200,000	Office
9	Grosvenor Intn'l.	Woodland Hills, CA 39	\$64,500,000	\$23,250,000	Office
10	Urbana Realty Advisors	Atlanta, GA 29	\$45,500,000	\$23,000,000	Office
11	San Diego Science Ctr, Phase 3 Props	San Diego, CA 36	\$29,800,000	\$22,800,000	Industrial
12	Trammell Crow	Dallas, TX 2	\$27,400,000	\$22,228,000	Office
13	Parker Hansen, Pacific Coast Cap. Ptnrs	Valencia, CA 18	\$30,000,000	\$18,550,000	Office
14	Faison Enterprises	Herndon, VA 12	\$78,200,000	\$18,275,000	Office
15	Newport Federal	Cypress, CA 18	\$43,989,812	\$16,274,099	Office
16	Consolidated Investment Properties Inc.	Maplewood, MN 40	\$27,300,000	\$13,800,000	Retail
17	Weiss Group	Jupiter, FL 18	\$19,000,000	\$13,300,000	Industrial
18	Investcorp	Delray Beach, FL 13	\$69,513,859	\$12,853,859	Retail
19	Lamar Cos., Urdang & Associates	Cape Coral, FL 21	\$25,350,000	\$10,350,000	Retail
20	GMS Realty	Denver, CO 26	\$52,900,000	\$9,900,000	Retail

Source: Real Capital Analytics; Leasing or Improvements not factored;

World's Most Expensive Retail

1	New York – Fifth Ave
2	Paris – Champs Elysees
3	Hong Kong – Causeway Bay
4	London – Oxford Street
5	Dublin – Grafton Street

Office

1	London
2	Tokyo
3	Paris
4	Birmingham
5	Edinburgh

2005 World Market's











World GDP		
Year to Year	2004	2005
	4%	3%

- ⇒ Asia & Europe: Positive Real Estate Returns
- ⇒ Germany might go into recession
- ⇒ China might have bumps soon, but long-term positive

Equity markets	Jan 05	Dec 2005
US (S&P 500)	1186	1290
Japan (Topix)	1146	1200
Euro-12 (DJ Eurostoxx)	271	295
UK (FT All Share)	2429	2500
UK (FTSE-100)	4854	5000
MSCI Far East x Jap US\$	272	290

Currencies	07 Jan 05	Dec 2005
Yen/\$	105	100
\$/euro	1.30	1.40
\$/Pound	1.87	1.90

Special Section **Best US Office Markets**

Washington DC	Supply	Rents
		\$40.63
	Vacancy	CAP Rates
	8.8%	7.0%
San Diego	Supply	Rents
		\$31.32
	Vacancy	CAP Rates
	8.9%	7.9%
Los Angeles	Supply	Rents
		\$32.04
	Vacancy	CAP Rates
	14.6%	7.6%
New York City	Supply	Rents
		\$59.95
	Vacancy	CAP Rates
	8.1%	7.0%
Las Vegas	Supply	Rents
		\$25.41
	Vacancy	CAP Rates
	13.1%	8.2%
Miami	Supply	Rents
		29.30
	Vacancy	CAP Rates
	14.5%	6.7%
San Francisco	Supply	Rents
		\$26.95
	Vacancy	CAP Rates
	18.9%	8.2%
Honolulu, Hawaii	Supply	Rents
		\$26.95
	Vacancy	CAP Rates
	12.6%	8.5%
Tampa	Supply	Rents
		\$19.41
	Vacancy	CAP Rates
	15.5%	8.9%
Chicago	Supply	Rents
		\$28.00
	Vacancy	CAP Rates
	17.5%	7.6%

Key Markets will Produce Better Returns

Capital will seek quality markets; Foreign capital will only look at coast, major cities or resort areas. Shortage of properties will keep most American Markets strong.

Predictions of the Best Markets In the World

	Office	Retail	Industrial	Apartments
1	London	Dublin	Melbourne	Shanghai
2	Hong Kong	Milan	Paris	Hong Kong
3	Dublin	Tokyo	Tokyo	Madrid
4	Tokyo	Prague	Dublin	Warsaw
5	Warsaw	Manchester	Lisbon	Delhi

US Markets

	Office	Retail	Industrial	Apartments
1	Washington DC	San Diego	Los Angeles – Long Beach	Miami
2	San Diego	Washington DC	New Jersey	Washington DC
3	Los Angeles	Austin, TX	Phoenix	San Diego
4	New York City	Orange County, CA	Washington DC	New York
5	Las Vegas	New York	Atlanta	Orange County, CA

Retail will stay Hot!

Retail will again be the most desired asset class. Hotels are recovering very well and all asset classes will continue to be in demand.

Highest risk in Suburban Office: Be very careful with office.

Best Property Types

	rank 2004 year to year increase in per sq ft value*	IRETO's 2005 value increase	Per Square foot price at end of 2005
Retail	1	6.6%	4.7%
Hotel	2	7.2%	6.8%
Industrial	3	3.7%	4.6%
Apartments	4	4.4%	4.6%
CBD Office	5	3.3%	3.1%
Suburban Office	6	.9%	1.0%
All Classes		4.2%	3.7%

*Source National Real Estate Index, a Global Analytics Company expect Hotel Data



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- ◆ Build a profitable real estate portfolio by examining return forecasts for major sectors – office, industrial, retail, hotel, residential – and niche asset classes such as farmland, biotech, net lease student and senior housing
- ◆ Secure your investments by learning effective vetting techniques for consultants and investment managers

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Industry-Wide Events

Event Date	Event Title	City	Sponsor
January 7, 2005	Annual Conference	Philadelphia, PA	AREUEA
January 9, 2005	Annual Symposium	Miami	NAREIM
January 9, 2005	Public Funds Summit	Scottsdale	Opal
January 9, 2005	Real Estate Connect NYC	New York, NY	Inman News
January 11, 2005	Public Funds Summit	Scottsdale, AZ	
January 11, 2005	Real Estate Conference	New York	NYSSCPA
January 12, 2005	New Year's Networking Celebration	New York	RELA
January 13, 2005	The International Builder's Show	Orlando, FL	NAHB
January 18, 2005	GAIM USA 2005	Boca Raton, FL	IIR
January 18, 2005	Real Estate Capital Markets Conference	New York, NY	NAIOP
January 19, 2005	9th Annual ULI Europe Conference--Europe: Property Development, Investment & Finance	Paris, France	ULI
January 19, 2005	Annual Meeting	La Quinta, CA	NMHC
January 19, 2005	Private Placements Industry Forum	New York, NY	IIR
January 24, 2005	Family Office Management	Coral Gables, FL	IIR
January 24, 2005	Real Estate Finance Conference	Denver	CLE
January 26, 2005	Winter Forum on Private Fund Investing	Laguna Beach, Calif.	IMN
January 26, 2005	Winter Forum on Real Estate Opportunity & Private Fund Investing	Laguna Beach, CA	IMN
January 27, 2005	Real Estate Fund Administration	Luxembourg	MGI
January 27, 2005	Winter Conference	New York, NY	AFIRE
January 30, 2005	3rd Annual IREIF Institutional Real Estate Investing Forum	Scottsdale, AZ	SRI
February 2005			
February 1, 2005	Real Estate Forecast	Los Angeles	UCLA
February 2, 2005	Investment Education	New Orleans	Opal
February 3, 2005	Client Educational Seminar	La Quinta, CA	RREEF
February 6, 2005	23rd Annual REIP	Tucson, AZ	IIR
February 8, 2005	Breakfast Meeting	New York	RELA
February 10, 2005	Land Use Law Conference	Charlotte	CLE
February 14, 2005	Real Estate 2005	Los Angeles, CA	RECG
February 14, 2005	Reinvention Retail: Community, Lifestyle & Entertainment	Beverly Hills, California	ULI
February 16, 2005	Open Air Centers	Phoenix	ICSC
February 20, 2005	ULI Study Tour: Dubai with ULI		ULI
February 22, 2005	Real Estate Investment in Japan	Tokyo	IMN
February 23, 2005	Winter Conference		NCREIF
February 24, 2005	Inaugural European CMBS Conference	New York, NY	IMN
March 2005			
March 6, 2005	Real Estate for Pension Professionals	Naples, FL	IFE
March 8, 2005	Breakfast Meeting	New York	RELA
March 8, 2005	MIPIM: Building the World	Cannes, France	MIPIM
March 9, 2005	Annual Conference & Expo	Anaheim, CA	CRA
March 9, 2005	CEO Leadership Forum	Chicago, IL	PREA
March 9, 2005	Leadership Forum	Chicago	PREA
March 10, 2005	2005 Spring Conference	Chicago, IL	PREA
March 11, 2005	Property Tax Appeals	Denver	CLE
March 13, 2005	10th Year Anniversary Public Funds Summit	New York, NY	IMN
March 16, 2005	IIR's 6th Annual Mezzanine Finance Forum	New York, NY	IIR
March 21, 2005	The British GRI	London, UK	GRI
March 29, 2005	World Business Forum, Los Angeles 2005	Los Angeles	
April 2005			
April 2, 2005	Expo Italia Real Estate	Rho-Però (Milan), Italy	
April 4, 2005	Developing Golf Courses & Resort Communities	Orlando, Florida	ULI
April 5, 2005	Deal Finder Breakfast	San Diego	IRETO
April 6, 2005	Alternative Investing Summit East	Amelia Island, Fla.	Opal
April 6, 2005	Introduction to Redevelopment	Concord, CA	CRA
April 6, 2005	Law & Accounting Conference	Washington	NAREIT
April 11, 2005	Redevelopment Institute	San Ramon, CA	CRA
April 12, 2005	Deal Finder Breakfast	Irvine	IRETO
April 20, 2005	IRETO's Kick-Off Event	Los Angeles	IRETO
April 21, 2005	Deal Finder Breakfast	Beverly Hills	IRETO
April 21, 2005	Global Capital Markets Connections 2005	Beverly Hills, California	IRETO

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Industry-Wide
Guide at
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Featured Events

February 6, 2005 23rd Annual REIP

One of the best Investor Conferences in the United States. Several Plan Sponsors and Pension Fund Advisors will attend.

Bryan Shaffer of IRETO will be the Moderator of the International Investment Panel.

February 14, 2005 Real Estate 2005

Always one of the largest and best Southern California Events. Great Speakers; Full Day.

IRETO's Deal Finder Breakfast

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April 5, 2005 in San Diego
April 12, 2005 in Irvine
April 21, 2005 in Beverly Hills
May 5, 2005 in Chicago
May 10, 2005 in New York
May 24, 2005 in Las Vegas

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Deal-Making Breakfasts

April 5, 2005 in San Diego
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 May 24, 2005 in Las Vegas

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 Top Buyers, Sellers, Brokers & Lenders
7:30 to 9:00 AM

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What are this years secrets?

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Bringing Local & International Capital & Market Players Together

Beverly Hills, California -Beverly Hills Hotel- April 21, 2005
 PRE-EVENT April 20, 2005 Event Kickoff Party

International Conferences

Buy America at a Discount A Must for Global Investors

With the United States' Dollar at all-time lows against other currencies, Foreign Investors can place capital in the U.S at a substantial Discount. Learn the Secrets to Cashing In on U.S. Real Estate!

Overseas Lunches

London --- June 14, 2005
 Sydney --- TBA