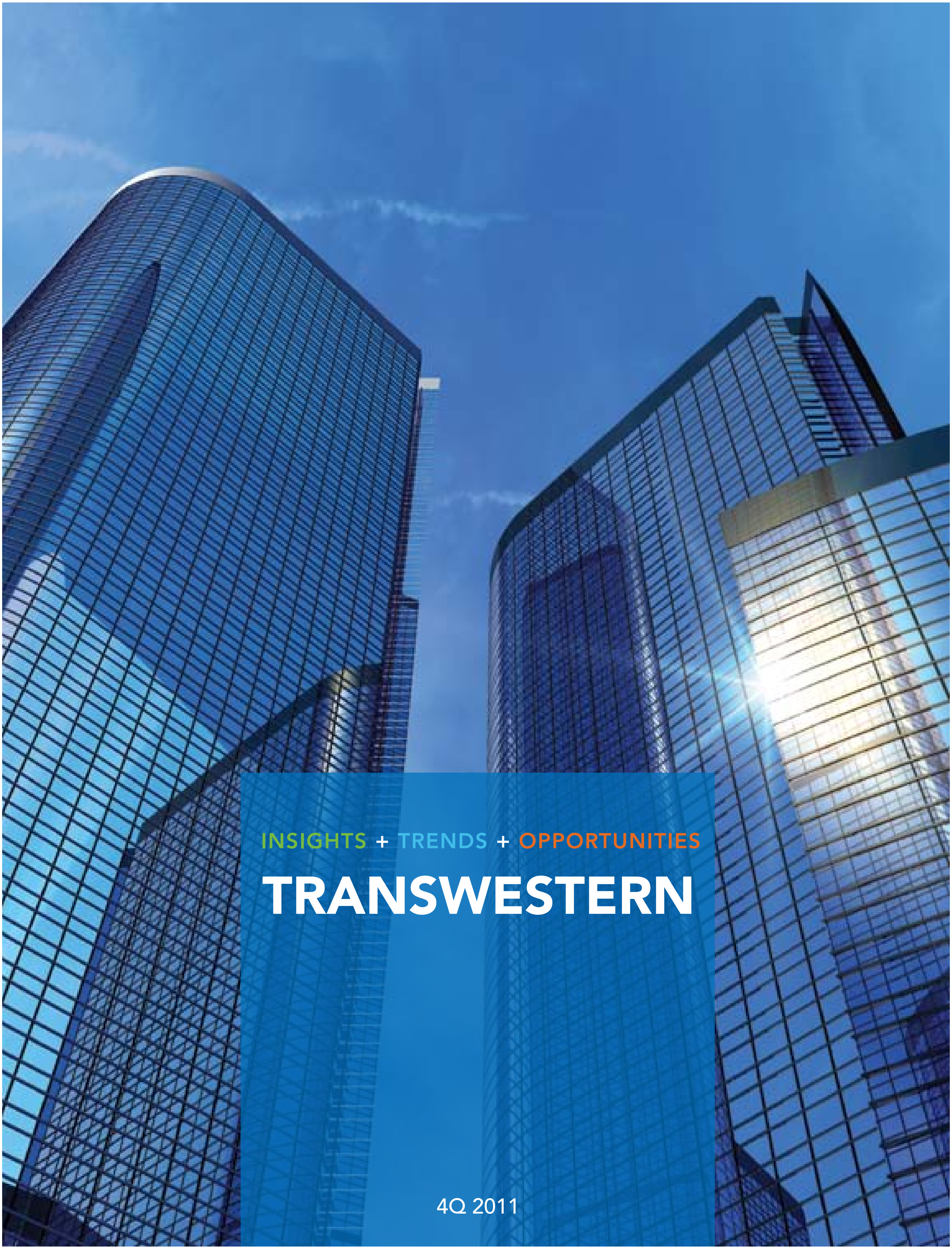

INSIGHTS + TRENDS + OPPORTUNITIES

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Transwestern is a national, privately-held operating company specializing in commercial real estate services, investment and development. The firm's fully integrated approach delivers value to owners, investors and users of commercial real estate through innovation, penetrating market intelligence and legendary service delivered by teams of local experts. Transwestern has product specialties in office, industrial, retail, multifamily and healthcare and is an industry leader in sustainability solutions and in market research through its affiliate, Delta Associates.

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In this edition:

Congratulations to our friends and clients who have been recognized for their outstanding contributions to our industry in *Real Estate Forum's* 65th Anniversary edition.

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A Message from Larry Heard

Relentless Pursuit of Excellence

By Larry P. Heard
President & Chief Executive Officer

Years ago, Transwestern established four brand pillars. These precepts serve as foundational elements on which our firm stands. **Client Experience**, **Thought Leadership**, **Distinct Operating Model** and **Values** are our pillars and every action we take as a firm is designed to enhance one or more of these tenets.

Our **Thought Leadership** pillar was in full view recently as the nationwide **Better Buildings Challenge** was launched at a Transwestern managed office building in Washington, D.C. We have worked diligently over many years to stay on the forefront of many development, investment and property management initiatives. Our results in operational energy efficiency and reducing the cost to operate large commercial real estate assets are now widely recognized. This is just the latest example of our relentless pursuit of excellence on behalf of our investors, clients and partners across the country.

All the best to each of you during this holiday season. We are both appreciative and thankful for our business relationship and for the personal relationships that have been elevated and fortified over time.

Looking optimistically forward to the future,

Larry

Economic Outlook:

What does the European debt crisis mean for U.S. commercial real estate?

Much of the global economic focus during the past few months has been on the European debt crisis and its potential effects on the rest of the world. Several proposals to resolve this crisis have been floated, including the most recent on November 30 that involved a coordinated strategy among central banks to ease the European credit crunch. Still, while this latest proposal increases liquidity, it does not address the main problem of excessive sovereign debt. The lack of political resolve to find a coordinated solution to the debt crisis has magnified the problem, and even caused some economists to suggest that euro zone countries may abandon the common currency. If this intransigence persists, what might the effects be on the U.S. economy, and in turn, our commercial real estate markets?

One possibility of a continuing European debt crisis is that consumer demand in Europe remains stagnant, pushing the E.U. nations into recession. This would have repercussions in China, which counts Europe as its largest export market. If consumer demand in Europe and China both slow, global prices for commodities are likely to decline, a trend that has already begun. For U.S. consumers, who over the past few years saw an increase in commodity prices far exceeding wage increases, this is a positive development. In particular, the rising price of gasoline diverted Americans' discretionary income away from consumer goods and toward a basic need. Downward pressure on gasoline prices and other staples could help Americans' real household income gain traction, further boosting Americans' consumer confidence and willingness to spend, which will aid U.S. economic growth.

This is not the preferred approach to a U.S. economic recovery. Steady, global economic growth is the less volatile and more desirable path. But not all developed economies trend the same way at the same time. It is possible a recession in Europe and a slowdown in China could make goods more affordable to American consumers at a time when they still need all the help they can get. With consumer spending responsible for 70% of U.S. GDP, growth in consumer spending is essential for a more robust domestic recovery.

Regarding U.S. commercial real estate, the traditional notion of real estate as an inflation hedge suggests that a low-inflation environment created by economic weakness in Europe and China might pull capital away from real estate. However, tremendous volatility in the stock market has meant that capital continues to find its way to real estate – even in a protracted recovery, real estate may be the most desirable asset class on a risk-adjusted basis. The stable nature of real estate – on a relative basis – makes it a worthwhile investment during these unpredictable times. In addition, the modest pipeline of new product in most commercial asset classes means that as domestic demand improves tighter markets will follow.

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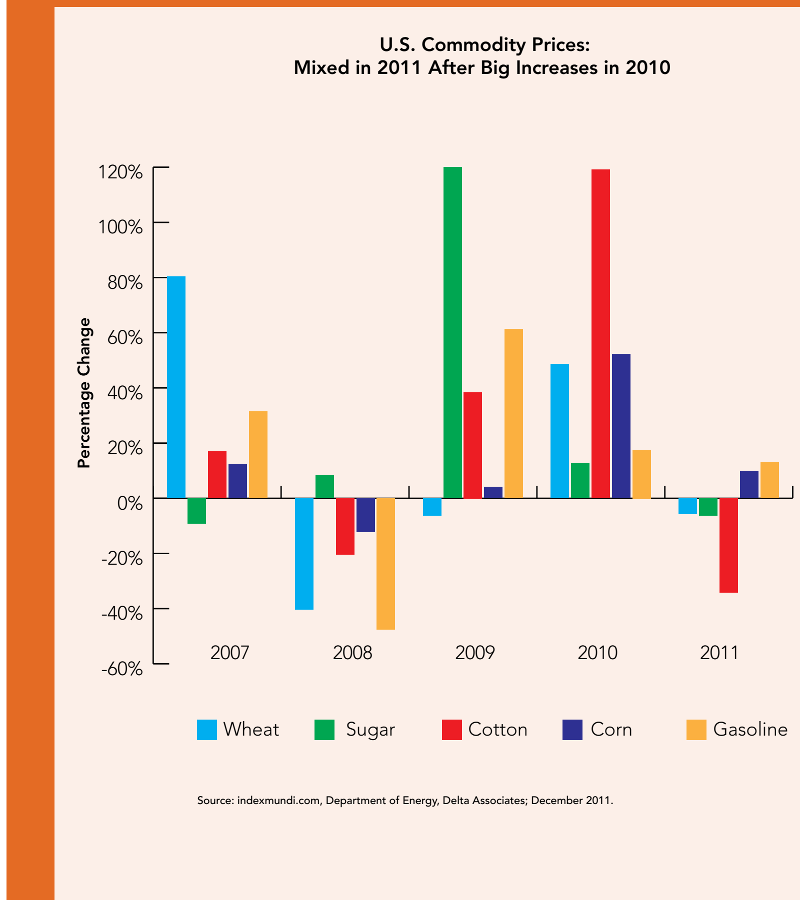

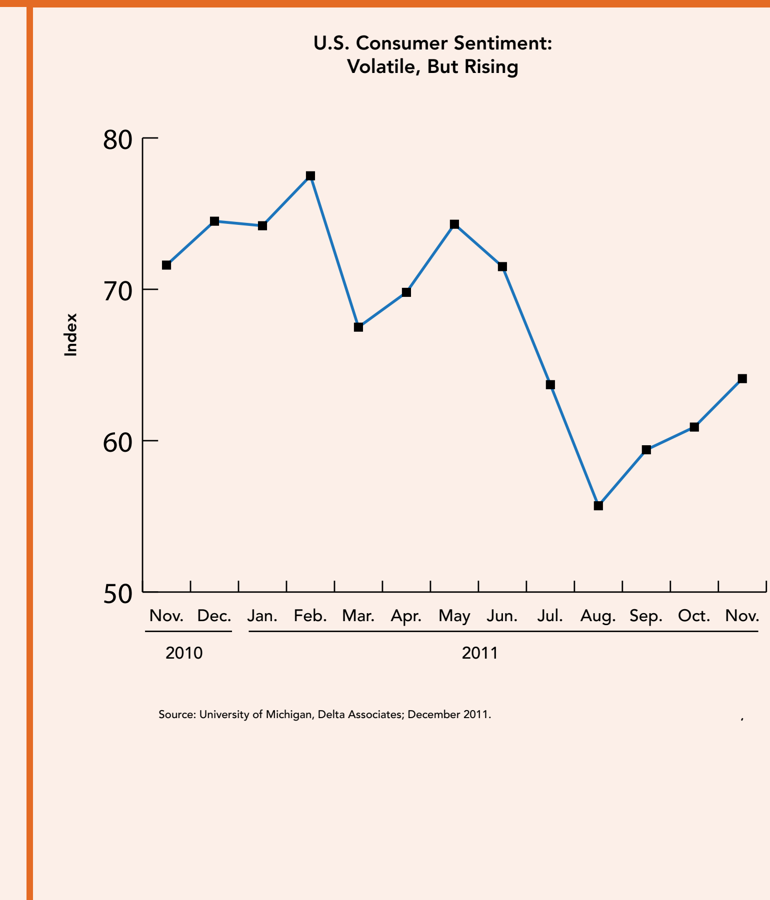

Overall, this is a challenging time to be in the commercial real estate business – or virtually any business. But for all of the struggles we have endured domestically, the U.S. is among the best-positioned of the major world economies for the period ahead. While modest growth feels weak compared to robust expansion periods (or even recoveries) of the recent past, it is much better than a double-dip recession. There is reason to believe that even as troubles persist in other parts of the world, the U.S. economy can sustain its nascent recovery.

For the U.S. commercial real estate markets, even modest economic growth should allow for rising asset values, improving cash flow, and a slowly rising demand for space. We think the euro zone debt crisis will have limited impact on U.S. commercial real estate. From a tenant standpoint, assessing future space needs now and locking in lower rents is a sound strategy, as rates are likely to rise with growing consumer confidence and more robust economic activity.

Information in this piece was drawn in part from Bloomberg, Fidelity Investments, and the Washington Post.

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From the Field: Government Real Estate

Adopting corporate standards.

By Vineet Sahgal
Executive Vice President
Tenant Advisory Services

While the fiscal situation continues to decline for many local and municipal governments, real estate footprints are receiving more and more consideration for the potential they provide. Local and municipal governments are turning their attention increasingly to their real estate portfolios as an opportunity to manage costs and even as a potential source of revenue. For example, the City of Chicago and Cook County issued RFPs for consulting projects related to administration of their real estate footprints within a month of each other earlier this year. This is a trend worth preparing for, or even advocating for, as these changes may provide opportunity for service providers, subject matter experts and real estate investors alike.

Reduce Cost
The growth of local and municipal government real estate footprints has occurred over decades prior to the more recent focus on centralized planning. Indeed, the application of corporate benchmarking standards to local and municipal government operations is still a relatively new phenomenon and full real estate portfolio information may still not be available to even sizable government entities. This may not be a surprise as local and municipal government footprints have changed to reflect leadership, initiatives, programs, funding levels and service levels over time. These portfolios are now being identified as prime opportunities for cost rationalization. The opportunity to bring corporate standard occupancy metrics to government organizations and dispose of excess facilities and otherwise align real estate with government's current mission has gained new momentum. The operation of these portfolios is also being evaluated. Best practices applied to corporate portfolios, including outsourcing of key functions and property management, will be examined even in the face of obvious obstacles such as organized labor.

Raise Revenue
As cash strapped cities and counties struggle with lower revenues and higher service demands related to healthcare, justice and administration functions reflecting the state of the economy, governments are looking at monetizing real estate assets as an alternative to other revenue raising opportunities. Third-party leasing of government buildings has been specifically requested for investigation. Perhaps the most studied opportunities include sale-leasebacks of government buildings. The credit and taxing authority of cities and counties provides sufficient comfort for many types of investors who may choose to invest in everything from traditional office assets to parking garages to medical clinics owned by the city or county governments. There are concerns about the long-term cost of the leasebacks (which may range from 15 to 20 years) versus the value of the asset. One current thought is that such leases will be more affordable as revenues recover in the future. In some cases, there may be a need to develop an exit strategy from such assets given the changing roles and priorities of city and county governments.

City and County administrations will no doubt continue to examine cost cutting and apply corporate standards to help match real estate portfolios to current needs. Those anticipating this trend may be positioned to benefit from it.

+ Want to learn more about the changes coming to government-owned real estate?

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