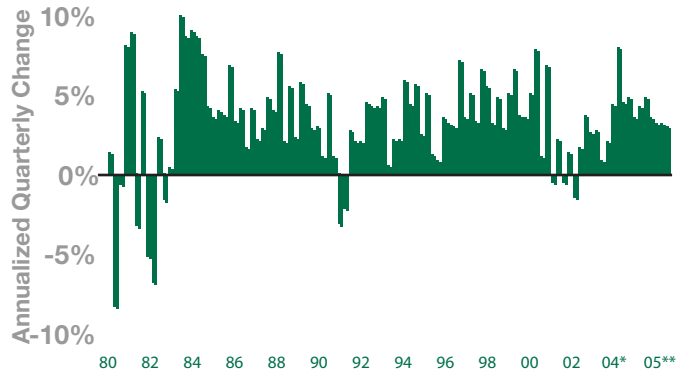


- ▲ **Expansion Continues.** GDP growth came in at an estimated 4.2 percent in 2004, led by gains in business spending, particularly on software and equipment, and consumer spending.
- ▲ **Employment Gains Disappoint.** While corporate profits are strong, they translated into barely average hiring activity. In 2004, payrolls increased by approximately 1.7 percent, or 2.2 million jobs, on par with the average since 1980.
- ▼ **Fed Raising Rates.** The Fed instituted four rate increases in 2004, pushing the Fed Funds Rate to 2.25 percent by year end. Fortunately for real estate investors, long-term rates remained low, with the 10-year Treasury hovering in the low- to mid-4 percent range through the better part of the year.
- ▼ **Cracks Appear in Housing Market.** While new and existing home sales remain relatively strong, signs of weakening are emerging. Nationwide, for-sale inventory is low by historical standards but is at the highest level recorded since early 2003.

## U.S. Gross Domestic Product

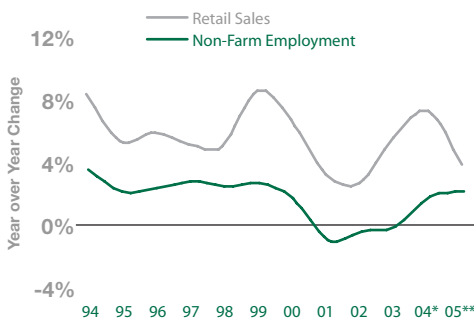


## National Economy: Will Consumers Keep Spending?

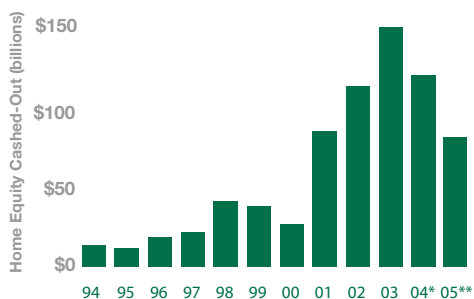
The economic expansion is progressing in the right direction. The most recent economic downturn was spurred by a sharp decrease in business spending, corporate consolidations and downsizings. Corporate profits are now very healthy, capital expenditures are back on track and productivity has been running at high levels that leave little room for growth without adding workers. While the falling dollar remains a concern for the economy, it will help to support manufacturers by making U.S. goods attractive to foreign buyers.

Consumers held up the economy in recent years – spending more but not necessarily earning much more, which has pushed the savings rate to its second-lowest level in history and led to aggressive borrowing. Last year, retail sales grew by more than 7 percent, while personal income increased by slightly less than 5 percent. In 2005, we expect retail sales growth to slow as the positive effects of fiscal stimuli and cash-out refi activity fades. Since 2001, consumers have pulled \$460 billion of equity out of their homes, of which 25 percent went toward discretionary spending and 45 percent toward home improvements. In addition to growing mortgage debt, credit card debt among those who carry a balance is now estimated at approximately \$13,000 per household. On a positive note, while rising interest rates will dampen refinancing activity, job growth is forecast to accelerate to 2 percent, inflation is expected to remain tame and oil prices, while somewhat volatile, should end the year well below the peak in late 2004. These factors will help counteract the effects that rising interest rates have on consumer spending power.

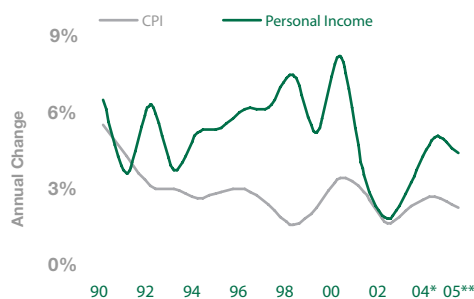
## U.S. Retail Sales and Employment



## Cashed-Out Equity



## Personal Income and Inflation Trends



\* Estimate \*\* Forecast

## Forecast

- ▲ **Growth to Continue.** Economic expansion will continue, but GDP growth will decline to the mid-3 percent range due to the budget and trade deficits, a slower housing market and more conservative consumer spending.
- ▲ **Services Sectors Lead.** Professional and business, and education and health care services are forecast to account for over half of the 2.6 million new jobs we expect in 2005. The creation of well-paid positions bodes well for the retail sector.
- ▲ **Retail Sales Rising, but at Slower Rate.** Cash-out refinancing activity is forecast to decline at least 30 percent in 2005 and interest rates will continue to rise. With less cash on hand, we expect retail sales growth to decelerate to 4 percent.