NAI Ruhl & Ruhl Commercial Company
Commercial Real Estate Services, Worldwide.

Market Report
2005

Commercial Real Estate Trends

- Industrial
- Multi-Family
- Office
- Retail

Historical Redstone Building

Newly Renovated Duck Creek Plaza

5111 Utica Ridge Rd
Davenport, IA 52807
Tel 563.355.4000
Fax 563.355.4445

4949 Westown Parkway
Suite 195
West Des Moines, IA 50266
Tel 515.309.4002
Fax 515.309.4040

Ruhl American
2115 John F. Kennedy Road
Dubuque, IA 52002
Tel 563.583.7483
Fax 563.585.8201

Executive Summary

Chuck Ruhl, Jr., SIOR, President **cruhl@ruhlcommercial.com**

Over the past six months, the economic signs and trends in absorption throughout all sectors of the market have improved in the Quad Cities. While "cautiously optimistic" was the buzz word in 2004, the consensus in our office this year is that the market is solidly recovering. Fueled by strong job growth and continued low interest rates (by historical standards), recession has faded further into the distant past. The commercial-industrial real estate market has had continuous distraction since 2001, with 9/11, the stock market adjustment, corporate distrust, and the national elections. But now we are finally seeing real signs of corporate expansion and capital expenditure in the Quad Cities. Eastern Iowa Community College District, with the cooperation of area economic development groups, recently completed a comprehensive survey to determine the training and employment needs for area businesses through the year 2006. This survey projects the new employment need is 27,000 employees including new and replacement jobs. This employment activity will drive more demand for commercial-industrial real estate in the region.

Our company's office, retail, industrial, and investment specialists all report improvement in 2005 for their sectors. Industrial and office lease rates will remain relatively flat, while an oversupply of space continues to be absorbed. Retail rates are expected to continue to increase over the year and investment real estate should continue to be hot at least through the end of the year or until increasing interest rates soften the investor appetite.

In this report, you will find more specific details about the various sectors of the commercial-industrial market. In addition to the typical supply and demand factors that influence the real estate market, our office is carefully observing the impact created by more regional clustering of our market area. The public and private sectors, local chambers and business groups are committed more than ever to think like a region for the benefit of workforce attraction, better airport and infrastructure, and more efficient use of resources. We believe that this smart thinking will greatly influence the overall viability of our market for years to come.

Classification	Low Rental Rates	High Rental Rates	Effective Average Rental Rates	Vacancy Rate
Downtown Office - Full Service Rates				
Class A (Prime)	$18.50	$22.50	$20.50	14%
Class B (Secondary)	$9.50	$12.00	$11.00	25%
Suburban Office - Full Service Rates				
Class A (Prime)	$18.00	$24.00	$21.50	15%
Class B (Secondary)	$14.00	$18.00	$16.00	16%
Industrial Space - Net (Triple Net) Rates				
Bulk Warehouse	$1.50	$3.50	$2.50	25%
Manufacturing	$2.75	$5.00	$3.88	20%
High Tech/R & D	$7.00	$11.00	$9.00	15%
Retail Space - Full Service Rates				
Downtown	$8.00	$12.00	$10.00	22%
Neighborhood Centers	$14.00	$30.00	$18.50	16%
PowerCenters (Big Box)	$4.00	$9.00	$6.50	20%
Regional Malls	$20.00	$30.00	$25.00	20%

Roy R. Fisher, Inc. worked in conjunction with NAI Ruhl & Ruhl Commercial Company to compile this market survey. Roy R. Fisher is a long standing Quad City appraisal firm, having been in business since 1922. Our thanks to the owners, managers, and brokers from each firm who contributed to this project.

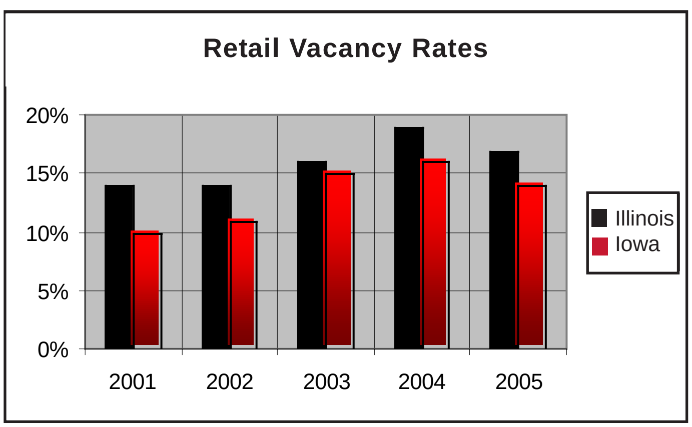
Retail Trends

David Gellerman dgellerman@ruhlcommercial.com
Rick Weinstein rweinstein@ruhlcommercial.com

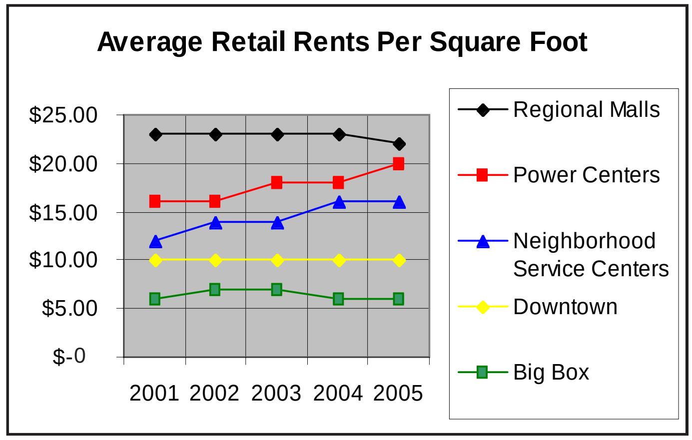
The Quad City retail market has maintained a significant velocity over the last year. Reasons include an influx of national retailers needing to expand into new markets. National and regional retailers continue to expand from primary and secondary markets into tertiary markets like the Quad Cities currently ranked the 103rd largest metro area in the United States. Wall Street continues to push these retailers to deliver strong sales growth which fuels their need to find new markets in which to expand. This region offers expanded residential growth, attractive available space, and prime land to build new facilities.

The majority of the growth has been on the Iowa side of the Quad Cities. We have seen particular strength along Davenport's Elmore Avenue and 53rd Street to the north, crossing to Utica Ridge Road on the Davenport-Bettendorf city border. The addition of Trinity at Terrace Park campus on Utica Ridge Road has helped anchor growth in this area and continues to provide additional opportunities for more retail and office. Additionally, the redevelopment of Duck Creek Plaza, from one of Iowa's oldest malls to a lifestyle center has brought national retailers new to the Quad Cities.

In the Illinois Quad Cities, we have seen a considerable amount of retail development on the John Deere Road corridor in Moline, Illinois. Recently, a local developer along with a partner from Chicago have announced plans for the construction of a $100 million mixed use development to include a five-story hotel, residential units, and a significant amount of high-end retail. This development is planned for John Deere Road between 60th and 70th Streets. Another developer is planning for a retail development in Rock Island, further west on John Deere Road near Blackhawk State Park.



A trend occurring in these areas is the clustering of restaurants taking advantage of the draw of big box stores and new residential developments. Neighborhood strip malls are also growing as consumers demand more convenience and operators avail themselves of the economical benefits of not having to operate a stand-alone store.



The market is starting to see more positive absorption of vacant space among the oversupplied big box retail stores. Buyers, sellers, real estate brokers and developers are creating unique uses to fill these vacancies by looking to alternatives other than traditional retail uses. Many of the big box buildings are being sub-divided bringing more diversity to the tenant mix and making the suite sizes adapt to the needs of more tenants. Recent examples of businesses absorbing the big box vacancies include: education/day care, back room offices, call centers, retail strip centers, mini-storage and recreational uses.

Average sales per square foot are increasing significantly in many new centers which justifies considerably more rent for the landlord/developer. Average rents on new centers are $18.00 to $20.00 per square foot as opposed to average rents five years ago from $10.00 - $14.00. As a result, more national tenants are replacing locally owned tenants. Big box space averages $4.00 to $9.00 per square foot.

Overall, the retail real estate climate in the Quad Cities appears to be healthy and growing. We remain optimistic for the future of retail expansion in the Quad Cities.

Multi - Family Trends

Rick Schaefer rschaefer@ruhlcommercial.com

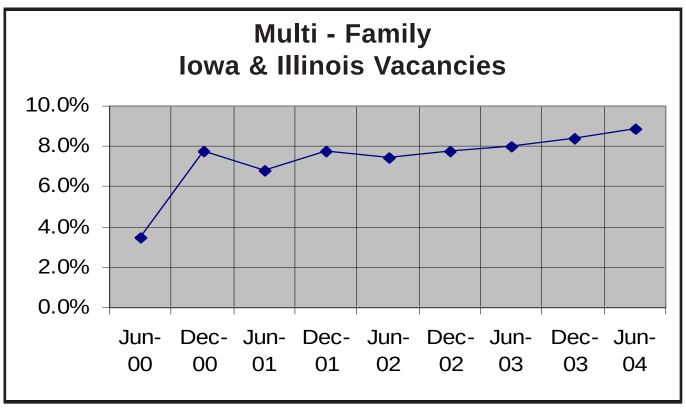
Many multi-family buyers are in the market today actively seeking alternatives to the volatility and weak performance of the stock market and to take advantage of low interest rates. Many owners of apartment units do not want to sell as finding acceptable investment alternatives can be a challenge. This has created an undersupply of good apartment properties on the market. Many existing owners have taken advantage of low interest rates, refinanced and are enjoying improved returns. If property owners have an acceptable investment alternative, it's a great time to sell because the buyers are there and accepting lower returns which yields higher sales prices. A well-maintained property with historically stable income stream will bring top dollar in the market today.

Multi - Family Trends Continued

Low interest rates are affording would be tenants the ability to buy housing. These low interest rates have caused multi-family vacancy rates to increase and putting downward pressure on rents and increasing concessions. For the near future, multi-family housing will continue to be a renter's market, as landlords continue to attract tenants for leasing vacant units.

Average vacancy rates for apartment buildings in 2004 were 8.5%, an increase of approximately 5% over the past 5 years. The average sale price per unit of apartment buildings in the Quad Cities in 2004 ranges from $28,536 to $30,411 with approximately 358 units trading. This was an increase of approximately 18% to 20% over the past five years.

In 2004, the Iowa Quad Cities attracted two major "market rent" apartment developments: Perry Pointe (192 units) and Ashford Apartments (140 units). In addition, the Iowa Finance Authority funded three separate housing projects totaling 92 units. In 2003, the Iowa Finance Authority funded four separate projects totaling 168 units.

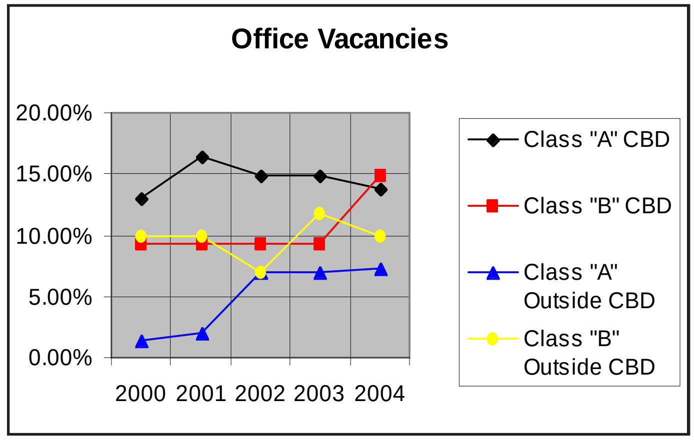


Office Trends

Marge Stratton, SIOR **mstratton@ruhlcommercial.com**

While the office market in the Quad City area continues to be oversupplied, rental rates have been remained steady. Landlords have however, made more concessions in order to retain or attract office tenants by providing unprecedented opportunities to upgrade with higher improvement allowances. The office market has not seen much recent demand from new businesses to the Quad Cities. Most of the demand is the result of local expansion by existing companies.

In Downtown Davenport, a new 90,000 square foot Class "A" office building was developed by Ryan Companies and is anchored by Lee Enterprises & McGladrey & Pullen. These two tenants relocated from Class "B" space for larger floor plates and greater efficiencies creating additional supply of available Class "B" space in the downtown area. This space will ultimately draw new businesses into the downtown area but for the short term it has added to the oversupply of Class "B" space.



Downtown Davenport is not unlike many downtown areas throughout the country with an overabundance of vacant space. This is creating a new trend for developers interested in creating downtown residential lofts in these vacant buildings. This residential demand will continue to attract more retail and entertainment to the downtown vacant store fronts.

Davenport's Central Business District is anchoring more growth with the completion of the new Figge Arts Center (due to open July 2005), the River Music Experience, and the new 40,000 square foot New Ventures Center designed to attract new businesses to the region. These new developments add to the amenity base that attracts and retains businesses in the downtown.

The excitement continues in Downtown Moline with the new Bass Street Landing development underway. The transformation began with the development of the John Deere Commons, the renovation of the 45,000 square foot Caxton Block Building and the corporate offices of Heart of America. Bass Street Landing features the River Station offering 41,753 square feet of mixed use retail and office space, The Stoney Creek Hotel (140 rooms with a 126,000 square foot conference center for 450 people), a public plaza and park, and approximately 40 - 50 residential condominiums with the first phase starting in Spring 2005.

The Iowa Quad Cities has seen impressive expansion of office space. Much of this expansion has been for medical and financial uses. Examples of the new development include the 80,000 square foot Mississippi Valley Regional Blood Center, the Digestive Disease Center at Coventry Place, Russell Construction’s 23,000 square foot corporate headquarters in Birchwood Fields, and the new 36,000 square foot office building anchored by Merrill Lynch. The opening of the new Trinity Medical Center and it’s new 60,000 square foot medical office building has spurred additional medical office development in this corridor. Coventry Place will also be announcing a new live-work condominium development this spring.

While the I-74 corridor has experienced considerable activity, there is approximately 60,000 square feet of office vacancy in the suburban market that is relying on more job growth to fill. This is a trend that exists in almost every market in the country.

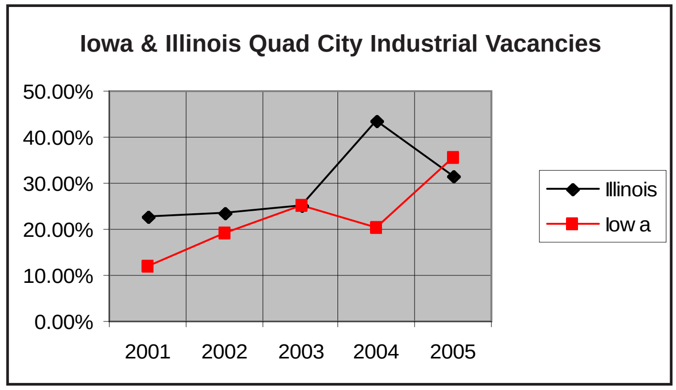
Industrial Trends

Charlie Armstrong carmstrong@ruhlcommercial.com
Roger Leese rleese@ruhlcommercial.com

During the first two quarters of 2004, industrial real estate activity remained soft. A slight increase in demand in the third and fourth quarters was experienced as the national economy improved. The improvement in the national economy contributed to the overall positive space absorption in the Quad Cities industrial market.

The industrial warehouse inventory in the Quad City metro area is approximately 7,914,873 square feet. This space is dominated by the three largest multi-tenant industrial centers; River Cites Business Park - 1,736,000 square feet, River Bend Industrial Center - 750,000 square feet and the former Eagle headquarters and distribution center - 935,332 square feet. Industrial warehouse vacancy remains high at approximately 33% with 2,448,880 square feet of warehouse space available at the end of 2004.

The demand for industrial space was primarily for warehouse/distribution space. Demand for manufacturing space has been practically nonexistent and there has been limited new industrial construction activity. Current rents for industrial space range from $1.50 per square foot to $5.00 per square foot depending upon size, location, age, and type of space and have trended lower as landlords attempt to attract tenants.



The trend for warehouse distribution space is for relocation from smaller facilities and consolidating into larger and more efficient facilities of 500,000 square feet to 1,000,000 square feet which offer higher ceilings, wider bays and more dock doors in locations that have immediate access to the interstates. Meanwhile, manufacturing has had a gradual migration of domestic jobs outside the U.S. These trends will continue to affect our local industrial real estate market.

We expect the Quad Cities industrial market will continue to improve modestly with positive absorption in both manufacturing and distribution. Our market will continue to offer attractive pricing below national averages as an oversupply of industrial space and continued high vacancy rates will remain throughout the year.

www.ruhlcommercial.com

NAI Ruhl & Ruhl Commercial Company
5111 Utica Ridge Rd.
Davenport, Iowa 52807