

NAI RUHL & RUHL COMMERCIAL

Quad Cities Commercial Real Estate Market Report 2007



INTRODUCTION



To our valued clients and friends:

Welcome to our 2007 commercial real estate market report for the Quad Cities region. Our report will provide insight to the past years activities in the office, retail, industrial and investment sectors. We appreciate all our clients, owners and managers, commercial brokers and appraisers who contributed information for this report. NAI Ruhl & Ruhl Commercial Company is the region's leader in full service commercial real estate and therefore has been able to rely on the region's most extensive database of past sales, available inventory and general trends that influence the supply and demand factors of the market.

Not unlike other tertiary markets, national and international activities have become more of an influence to our market than ever before. Geopolitical issues, terrorism, energy costs and international agricultural markets all influence our major employers including Deere and Company, the Rock Island Arsenal, Nestle and numerous others. Regional healthcare providers are also major employers in our market and their industry continues to manage the changes they are faced within national health care policy and service delivery.

In our report you will learn about our improving office absorption as our job growth is prompting demand for new and existing office space. Retail has been our most active sector, yet we are closely watching how the sluggish housing market will negatively impact the demand for retail space. The industrial market has been interesting to watch, with demand for manufacturing facilities being almost non-existent while impressive increases in demand for distribution/material handling space are taking place. With almost \$307 billion in transaction volume, investment in commercial real estate reached record levels in the United States. The Quad Cities region also saw record levels of investment transactions, and with more non-local private and institutional investors than the market has seen before.

We wish you a healthy and prosperous 2007, and encourage you to refer to our website at www.ruhlcommercial.com for more information about our company and 68 professionals who are proud to serve our clients needs in the region and beyond.

Sincerely,

Charles A. Ruhl, Jr.
President and CEO
NAI Ruhl & Ruhl Commercial Company

OVERVIEW



GENERAL OVERVIEW:

NAI Ruhl & Ruhl Commercial Company is proud to present our 2007 market report on the Quad City area real estate market. In order to provide insight on our market and other real estate issues, we conducted a survey of local commercial brokers and appraisers about what they are seeing in the marketplace. We believe that this innovative approach will give you a better understanding of current market conditions and future outlook. Our brokers are among the first to spot trends because they have daily exposure with tenants, landlords, developers, lenders and investors. Our firm hopes that you find the information in our market report informative and useful to you in making decisions regarding your real estate requirements. More detailed data can be obtained from our brokers on specific markets and property types. We look forward to providing you the best in commercial real estate services.

Thom Hart, President of the Quad City Development Group, stated, "Overall, the Quad City economy remains healthy due to a strong level of activity. The local labor force experienced gains in all sectors in the past year. Looking at labor force data in the past year, the industrial and financial services/information technology sectors have seen the most activity. New construction, relocation and expansion of existing companies fueled significant job growth and record employment. The recently announced Triumph Foods and Cingular Wireless projects alone are projected to have an impact of roughly 3,000 new jobs. Generally speaking, activity levels are near all time highs; roughly three times the level seen three years ago."

Classification	Low Rental Rates	High Rental Rates	Average Rental Rates	Vacancy Rates
Downtown Office				
Class A (Prime)	\$12.00	\$17.00	\$14.50	15%
Class B (Secondary)	\$ 6.00	\$10.00	\$ 8.00	20%
Suburban				
Class A (Prime)	\$13.50	\$18.50	\$15.00	12%
Class B (Secondary)	\$10.00	\$12.00	\$11.00	15%
Industrial				
Bulk Warehouse	\$ 1.50	\$ 6.00	\$ 3.75	20%
Manufacturing	\$ 1.50	\$ 4.50	\$ 3.00	20%
High Tech / R & D	\$ 6.00	\$10.00	\$ 8.00	
Retail				
Downtown	\$ 8.00	\$12.00	\$10.00	10%
Neighborhood Service Centers	\$12.00	\$25.00	\$18.50	7%
Power Centers (Big Box)	\$ 4.00	\$ 6.00	\$ 5.00	15%
Regional Malls	\$20.00	\$26.00	\$23.00	10%

**Base rentals rates do not include CAM or taxes.*

OFFICE



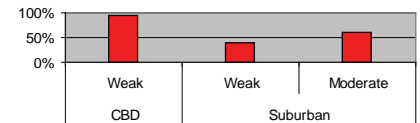
OVERVIEW:

The office sector is recovering and yet remains relatively soft. The recovery has been slow, but the office sector is showing legitimate signs of improvement as it is continuing to rebound from an oversupply of product in the marketplace. Excellent opportunities are available for those seeking a downtown presence. "Downtown Davenport is like many Midwestern markets. Lots of transition is taking place converting older office buildings to residential uses. As these residential developments are added, the demand for more retail and entertainment will help fill the store fronts," explains our office specialist, Marge Stratton, SIOR.

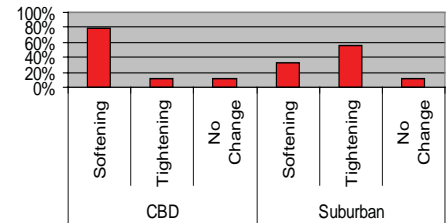
The office sector is seeing an increased demand from new businesses wanting to grow in the market. New office development is generally occurring outside of the market's central business districts (CBD). These areas are following residential rooftop growth. Office development and growth opportunities are primarily occurring in the northeastern quadrant of Davenport and Bettendorf, along the 53rd Street corridor. The Illinois Quad Cities has seen office activity the Bass Street Landing mixed-use development and Rock Island continues to add space for commercial areas.

Charts below show results from commercial brokers surveyed.

Current Market Conditions



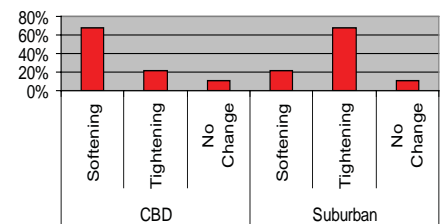
Leasing Outlook



MEDICAL NICHE:

The Iowa Quad Cities has seen impressive expansion of medical office space. Despite the slower demand for general office space, the medical industry expansion is bringing positive activity and new job opportunities. Most of the demand is the result of local medical clinics expanding and new medical suppliers entering our market looking for the first time and anticipating future growth. Medical office is expanding along Utica Ridge Road and 53rd Street in the Iowa Quad Cities and John Deere Road in the Illinois Quad Cities. Demand for this space has been strong and a significant amount of space has recently been built. Seven (7) separate professional health care developments have been completed within the last five (5) years representing approximately 260,000 square feet of new medical office space. Each of these developments was simulated by the interest of health care providers to deliver services in closer proximity to the patients that they serve. The medical office sector will continue to benefit from the growing medical industry and aging population.

Sales Outlook



DEVELOPMENT:

A significant office development in the Quad Cities market was announced in December 2006. Cingular Wireless presented their plan to construct a 74,250 square foot inbound call center in Northeast Davenport. This new \$19.3 million center will bring more than 500 new jobs to the area and have a construction impact on the community estimated to be \$28.4 million. Construction on the project was scheduled to begin in January and be completed in July 2007.

OFFICE



A new type of office development in Coventry Place, the region's largest mixed-use business park, is Carriage House at Coventry Place on Utica Ridge in Davenport. The first phase of this live and work concept has four suites on the first and second floor. The first floor is designed for the owner to have his or her office and reside in the luxurious condominiums above. This development is responding to the small business owner that desires to own their own office.

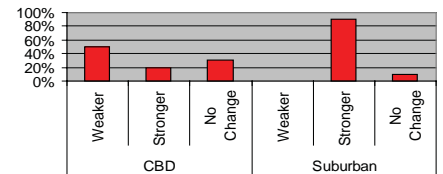
In the Illinois Quad Cities, we have seen the majority of development in Downtown Moline. The transformation began with the new development and renovation of buildings along River Drive over the past several years. Due to Moline's careful planning and design integrity, NAI Ruhl & Ruhl Commercial brokers believe Moline will continue to attract and retain desirable office users. Other areas of development are along the John Deere Road corridor. Office development is limited due to the lack of available land zoned for offices.

FORECAST:

With solid leasing activity after a relatively slow 12 months the market continues to be oversupplied. Rental rates have remained steady, however, landlords are offering more rental concessions to retain and attract office tenants. Much of the demand is expected to be for smaller size suites. Despite the strong current interest, a large percentage (80%) of the brokers surveyed expect downtown leasing activity over the next 12 months will remain relatively slow. Net rental rates for Class "B" CBD office space ranges from \$6 to \$10 per square foot. Similar properties in the suburban areas of the market range between \$13.50 and \$18.50 per square foot. Demand for space in our region will continue to improve with little change expected in our lease rates while excess space is being absorbed throughout 2007.

Charts below show results from commercial brokers surveyed.

Absorption Rates



Notable Office Transactions

Owner/Tenant:	City, State:	Size (SF):	Type:
U.S. Fish & Wildlife	Moline, IL	9,600 SF	Lease
New York Life	Davenport, IA	5,336 SF	Lease
Town News	Moline, IL	9,216 SF	Lease
Teleconnect Long Distance Services	Davenport, IA	32,462 SF	Lease
IBSN	Davenport, IA	7,914 SF	Sale

RETAIL



OVERVIEW:

The Quad City retail market slowed slightly over the last year. However, retail activity remains the strong point of the market today. Small strip center locations are enjoying good leasing activity in Iowa and Illinois and rents are steadily increasing. The redeveloped Duck Creek Mall area in Bettendorf, 53rd Street/Elmore Avenue/I-74 retail corridor in Davenport, and John Deere Road in Moline are the focal points for most national and local retailers.

The majority of the growth in the Quad Cities has been in North Davenport and Bettendorf due to demographics of the population and availability of land and infrastructure. It is expected that retail activity will remain steady in these areas due to the continued interest from local and national businesses.

REDEVELOPMENT:

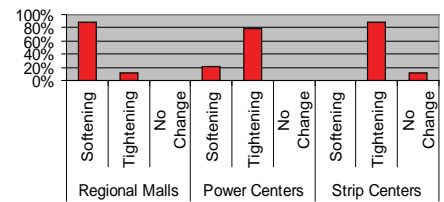
The Duck Creek Plaza redevelopment project in Bettendorf has been a huge success. This project began roughly three years ago with the commitments of Home Depot and Walgreens in 2003. Duck Creek added Schnuck's Market in 2005 and has experienced a relatively quick lease up period, currently standing nearly 100 percent occupied. Bettendorf city officials influenced by the success of the project now look forward to developing the area around Duck Creek Plaza.

Another redevelopment nearing completion in Bettendorf is The Glen shopping center along Devil's Glen and Middle Road. The \$18 million project gives a new façade to the center and a new 87,000 square foot Hy-Vee store that will be one of the largest in their grocery chain. The existing store will be demolished to provide additional parking for Hy-Vee and the other retail center's tenants.

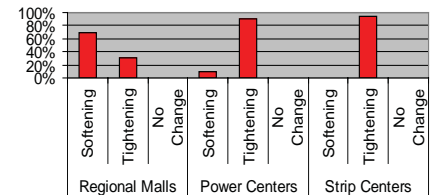
The market has seen a significant amount of big box retail space come available with the vacancy of the Eagle's Food Stores and other box store closings and expansions. A trend occurring in these areas is the conversion of large and medium box retail. This area has seen good activity with deals happening for creative re-use of space and second generation retailers seeking comparably affordable rents. A few examples are the former 51,000 square foot Ultimate Electronics space in Davenport which was purchased by Harvest Bible Chapel and converted into a church. A former Eagle's Food Store at Davenport's Village Shopping Center was recently occupied by Steve and Barry's University Sportswear. The closed Milan Hy-Vee has been remodeled and CVS Pharmacy was the first to locate there in 2006 with new plans in 2007 to have Hungry Hobo and B & B Hardware join the facility.

Charts below show results from commercial brokers surveyed.

Leasing Outlook



Sales Outlook



RETAIL



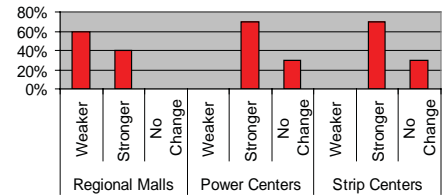
IOWA DEVELOPMENT:

One major big box development opening soon on the Iowa side is the relocation of The Great Escape to Elmore Avenue in Davenport. The new facility will be 45,000 square feet of indoor retail and 15,000 square feet of outdoor pool park area. Joining the big box retailers on Elmore Avenue, a new \$20 million senior housing complex for Angletus Management Services, Inc. will be constructed offering 200 housing units, including assisted living and independent living apartments and villas. The project will be built in three phases with the first phase opening in the spring of 2007.

Additional developments in the hospitality industry are also sprouting up along Utica Ridge Road. In the fall of 2006, Staybridge Suites opened to serve extended-stay visitors with its studio, and one and two-bedroom suites. Just down the road, the 61,415 square foot Hampton Inn and Suites will be opening in the spring of 2007 offering many amenities.

Charts below show results from commercial brokers surveyed.

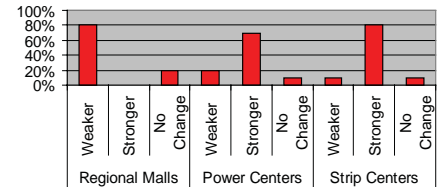
Current Market Conditions



ILLINOIS DEVELOPMENT:

The majority of development on the Illinois side is present along John Deere Road and Avenue of the Cities in Moline. Hiland Retail Center, located next to Farm & Fleet, at the intersection of 53rd Street and John Deere Road recently began construction. A new 25,000 square foot Hiland Toyota dealer, 105 unit Heritage Woods Assisted Living facility, and Marriott Residence Inn are all planned for construction. Kennedy Square Retail Center along Avenue of the Cities at Kennedy Drive is also undergoing redevelopment with the addition of the new 56,000 square foot Jewel Osco.

Absorption Rates



Along the Avenue of the Cities in Silvis is anticipated to be the next active retail corridor. The proposed 70-acre mixed-use development consisting of residential, retail and office space is situated along Avenue of the Cities and Hospital Road. Other recent developments include the new Wal-Mart Supercenter, Ace Hardware and Lighthouse Point. Lighthouse Point is a newly constructed \$35 million assisted living complex located across the street. The new 185,000 square foot Wal-Mart Supercenter is being built nearby at the intersection of John Deere Expressway and Crosstown Avenue.

RETAIL



FORECAST:

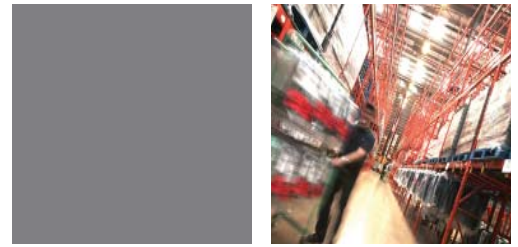
Net rental rates for new retail space ranges from \$16.50 to \$25 per square foot. The high-end rental rate has been specifically driven by the retail space located in Duck Creek Plaza. Other new developments such as Crow Ridge Plaza on 18th and 53rd Street in Bettendorf seek rates of \$18.50. Rents for second generation space in the market ranges between \$12 and \$14 per square foot. Older space in the market typically ranges between \$9 and \$12 per square foot. Big box rents range from \$4 to \$6 per square foot. Retail specialist, Rick Weinstein, explained, “In general, retail rents have been increasing during the past few years. While vacancy rates have remained around 10 percent, it continues to be a tight market overall. Rental rates and demand for space will continue to increase with new local and national retailers entering into our market throughout 2007.”

Overall the Quad City retail market appears to be healthy and growing. By product type, retail properties continued to experience high demand, resulting in both an increase in sales and dollar volume. We remain optimistic for the future of retail expansion in the Quad Cities. In 2007, we look forward to another year of significant activity and growth in the Quad City retail market.

Notable Retail Transactions

Owner/Tenant:	City, State:	Size (SF):	Type:
Former Ultimate Electronics	Davenport, IA	51,945 SF	Sale
Great Escape	Davenport, IA	46,000 SF	Sale
Steve & Barry's University Sportwear	Davenport, IA	37,131 SF	Sale
Premier Home Furnishings	Davenport, IA	19,000 SF	Sale
Hy-Vee	Bettendorf, IA	87,000 SF	Lease

INDUSTRIAL



OVERVIEW:

Market fundamentals in the industrial sector continue their steady improvement. There continues to be many buyers for existing small, medium and large industrial facilities as locally based companies wishing to own their own properties continue to move from leased facilities. Industrial specialist, Charlie Armstrong, SIOR, reports, "Distribution remained the hot area within the industrial market in 2006. We also observed a healthy increase in demand for flex space over the past 12 months. However, demand for manufacturing space has been practically non-existent and there has been limited new industrial construction."

IOWA DEVELOPMENT:

There is an abundance of industrial development sites currently available in the Quad City area. NAI Ruhl & Ruhl commercial brokers have observed that industrial demand has been higher on the Iowa side. The Frye-Armstrong industrial park and the Eastern Iowa Industrial Center are areas to pay particular close attention too. It is expected the development of these industrial projects will play a major role in future industrial activity.

The Eastern Iowa Industrial Center in Davenport is 300 acres zoned and platted into 10 lots, each between 15 and 30 acres. Three businesses have announced a move to the industrial park since September, a sign the park is meeting its goal of bringing growth and jobs to the Quad Cities market and that industrial activity has improved.

PCT Engineered Systems, LLC officially broke ground on the construction of the company's new \$8.8 million facility. Ryan Companies, US, Inc. will build the 43,000 square foot facility. PCT Engineering plans to create 41 new jobs for the region within the next three years.

Evolution Power Tool, LLC has committed to building a 50,000 square foot corporate headquarters at the Eastern Iowa Industrial Center. Evolution Power Tool plans to create three dozen new management jobs and 30 new staff positions.

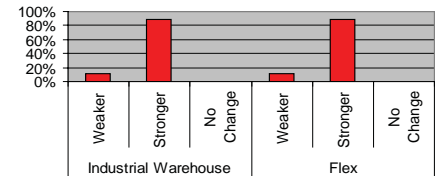
MMS Thermal Processing's new facility at the park was recently completed. The total investment for the 17,000 square foot facility is estimated to be \$5.5 million. MMS Thermal plans to create 17 jobs that average \$18 per hour over the next three years.

Charts below show results from commercial brokers surveyed.

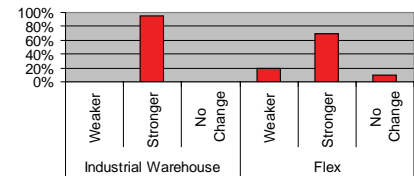
Current Market Conditions



Leasing Outlook



Sales Outlook



INDUSTRIAL



ILLINOIS DEVELOPMENT:

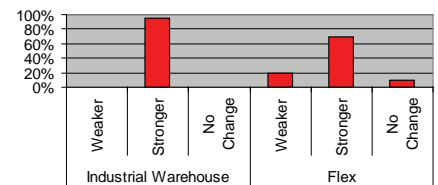
On the Illinois side, Triumph Foods purchased a 116 acre parcel of land in East Moline to construct a new \$135 million pork-processing facility. Triumph Foods is expected to employ 1,000 workers and pay them average hourly wages estimated at \$11.75. Operations at the East Moline site are expected to begin during the first half of 2009.

Charts below show results from commercial brokers surveyed.

FORECAST:

After a long period with relatively flat rent growth, industrial rental rates have increased to 20 to 40 percent primarily due to supply and demand and escalating construction costs. Net rental rates for industrial space range from \$1.50 to \$6.00 per square foot. The industrial sector has experienced solid leasing activity after a relatively slow 12 months. Vacancy rates spiked between 20 and 25 percent, with the addition of the former Eagle's Food distribution facility, but have declined to around 17 percent in the past year. We anticipate the Quad Cities and surrounding tertiary markets will continue to improve modestly driven by positive absorption in both manufacturing and distribution.

Absorption Rates

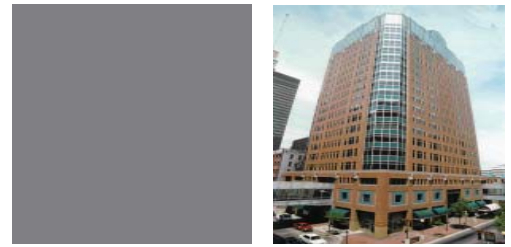


Industrial building sales over the past few years have remained flat between \$25 and \$35 per square foot due to oversupply. We have seen a slight run-up in pricing recently in all sizes of industrial facilities due to recent absorption and shrinking supply of available product. Smaller industrial facilities in particular have recently been selling between \$40 and \$50 per square foot. The majority (80%) of Ruhl & Ruhl brokers predict industrial pricing in the next 12 months to continue to increase due to healthy demand and upward pressure on industrial land prices.

Notable Industrial Transactions

Business:	City, State:	Size :	Transaction:
Schnieder & Ernst, LLC	Mount Pleasant, IA	102,100 SF	Sale
Triumph Foods	East Moline, IL	620,000 SF	Sale
Export Packaging	Rock Island, IL	120,000 SF	Lease
Murray Enterprise	Davenport, IA	114,717 SF	Sale
Summit Investment Group	Davenport, IA	48,000 SF	Sale
One-Three Properties	Milan, IL	118,500 SF	Sale

INVESTMENT



OVERVIEW:

Quality commercial real estate investment properties continue to be in strong demand and increasingly difficult to find. The commercial real estate investment market has become less territorial and more global, as investors throughout the world look for attractive opportunities. Nationally, institutional investors are pouring a record amount of money into commercial real estate including the Quad Cities. Locally, we have experienced an influx of market activity from all types of investors. Historically driven by local investors, most of the investment activity seen in our market lately has been driven by the private equity groups and institutional investors from outside the market. "Investment real estate is very attractive because of its stability and higher returns. Investors from around the country have discovered some great opportunities in our region," states Jim Tansey, CCIM.

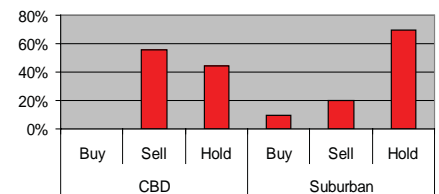
There will continue to be a strong demand for investment properties due to the availability of attractive financing and the low yields associated with other types of investments. Historic low interest rates continue to attract investors to get involved in real estate deals. Sustainable low interest rates will be essential to real estate performance for the region in the upcoming year. Buyers should proceed with caution and consider the risk and reward of each investment. Many investors are recognizing the Quad City market offers more stable and predictable returns, as our secondary market size does not have the dramatic highs and lows that most larger markets have.

The increased demand for investment real estate in the past year was driven largely in our market by 1031 exchange. Many investors struggling to find replacement property are taking a look at the Quad City region for product not available in their own market. Investors are attracted by the higher cap rates and accept greater market risk in place of higher value appreciation. Cap rates remained steady throughout 2006, with deals ranging between 7.5 to 10 percent.

As the owner-occupied residential market softens, apartment developers are preparing to take advantage of the opportunity. National apartment developers are actively involved in helping transform the downtown area by creating residential lofts in the vacant buildings in downtown Davenport, Moline and Rock Island. The Davenport Lofts project was recently completed and now accounts for an additional 126 residential units. The former Waterloo Mills building, Crescent Macaroni factory and the Mississippi Hotel are all currently under renovation.

Charts below show results from commercial brokers surveyed.

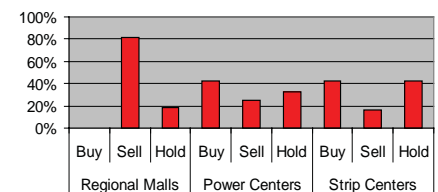
Office Investments



Industrial Investments



Retail Investments





Notable Investment Transactions

Owner:	City, State:	Price:	Market:
Hub Tower	Des Moines, IA	\$19,000,000	Office
Advance Auto	Des Moines, IA	\$1,700,000	Retail
Beale Group & Associates	Belvidere, IL	\$825,000	Retail
Hecker Creek Apartments	Davenport, IA	\$1,700,000	Multi-Family
Don Hummer Trucking	Eldridge, IA	\$527,000	Industrial