

WELLS CAPITAL MANAGEMENT



**THE ECONOMIC & FINANCIAL MARKET
OUTLOOK THROUGH 2006:**

***What Kind Of Transition Year For
A Middle-Aged Expansion?***

A Presentation To The Counselors Of Real Estate

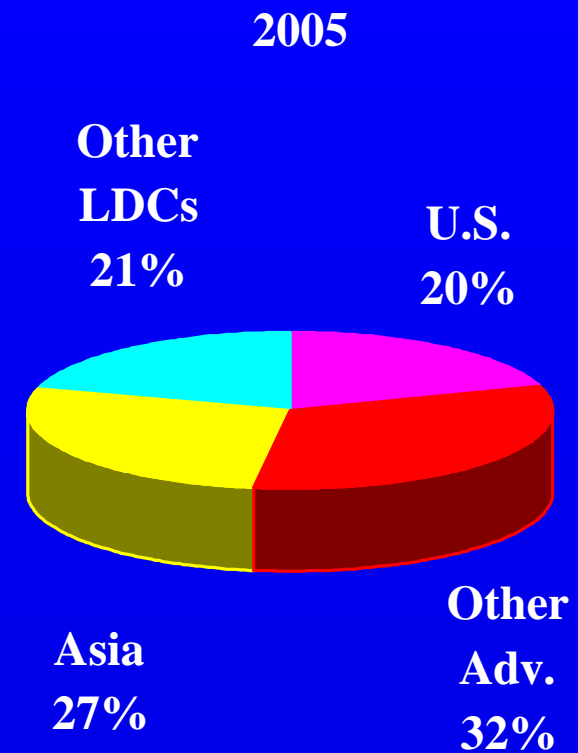
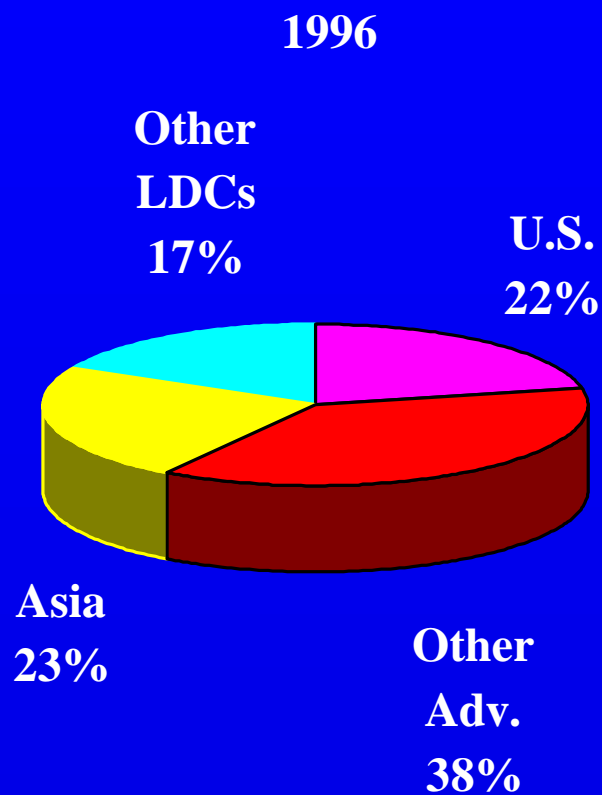
Annual Convention

Maui, Hawaii

October 24, 2006

DEVELOPING COUNTRIES' GROWING SHARE OF WORLD GDP

Percent Of Total



Source: IMF, World Economic Outlook

"GLOBALIZATION'S" IMPACT ON U.S. IMPORT PRICES, "PRICING POWER"

Year-Ago Percent Change



Source: U.S. Dep't Of Labor

GLOBAL ECONOMIC GROWTH REMAINS STRONG THROUGH 2007

Real GDP Growth, Percent Change

	Avg. Annual, 1996-2000	2001	Avg. Annual, 2002-2005	2006 Fcst	2007 Fcst
World	3.9	2.6	4.3	5.1	4.9
U.S.	4.1	0.8	2.8	3.4	2.9
Other "Advanced"	2.8	1.4	2.0	2.9	2.6
Developing Areas	5.0	4.4	6.7	7.3	7.2
Asia	6.4	6.1	8.3	8.7	8.6
China	8.3	8.3	9.8	10.0	10.0
India	6.1	4.1	7.0	8.3	7.3
Latin America	3.1	0.5	3.1	4.8	4.2
Russia	1.6	5.1	6.4	6.5	6.5
Eastern Europe	3.2	-0.2	4.8	4.9	4.6

Sources: IMF, World Economic Outlook, April 2004, Sept. 2006

FORECAST HIGHLIGHTS

*** Moderate Economic Growth Into 2007**

--How Deep A Slump In Housing?

*** “Core” Inflation’s Bumpy Ride Back To 2%**

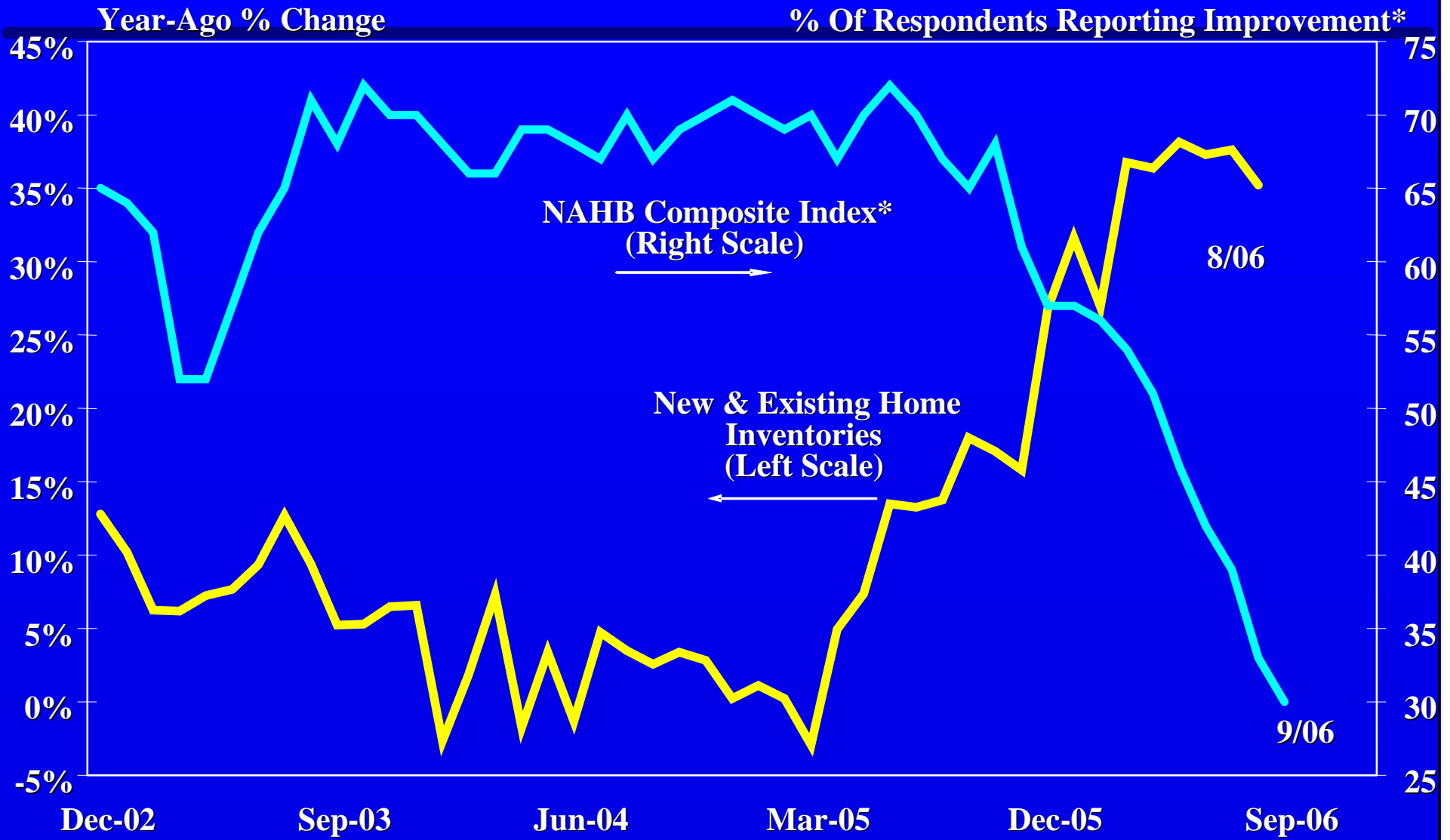
*** An Extended Fed “Pause,”...Then?**

*** Long-Term Rates “Anchor” The “Yield Curve”**

*** A Diminished “Tail Wind” For Commercial Real**

Estate

BRACING FOR A MAJOR INVENTORY CORRECTION IN U.S. HOUSING

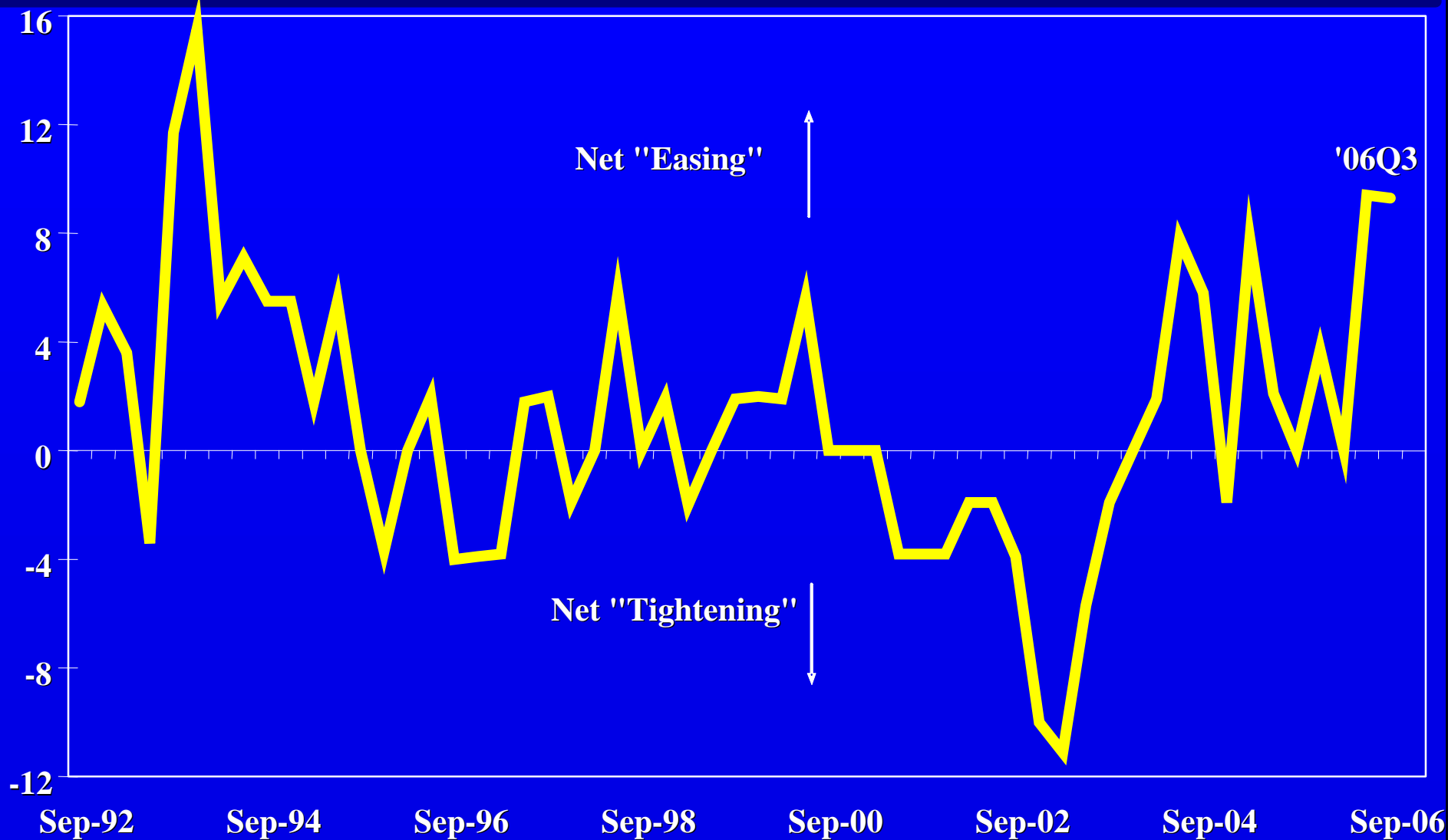


* Percent reporting improvement in sales, traffic and sales expectations.

Source: Nat'l Assn. Of Realtors; National Association Of Home Builders

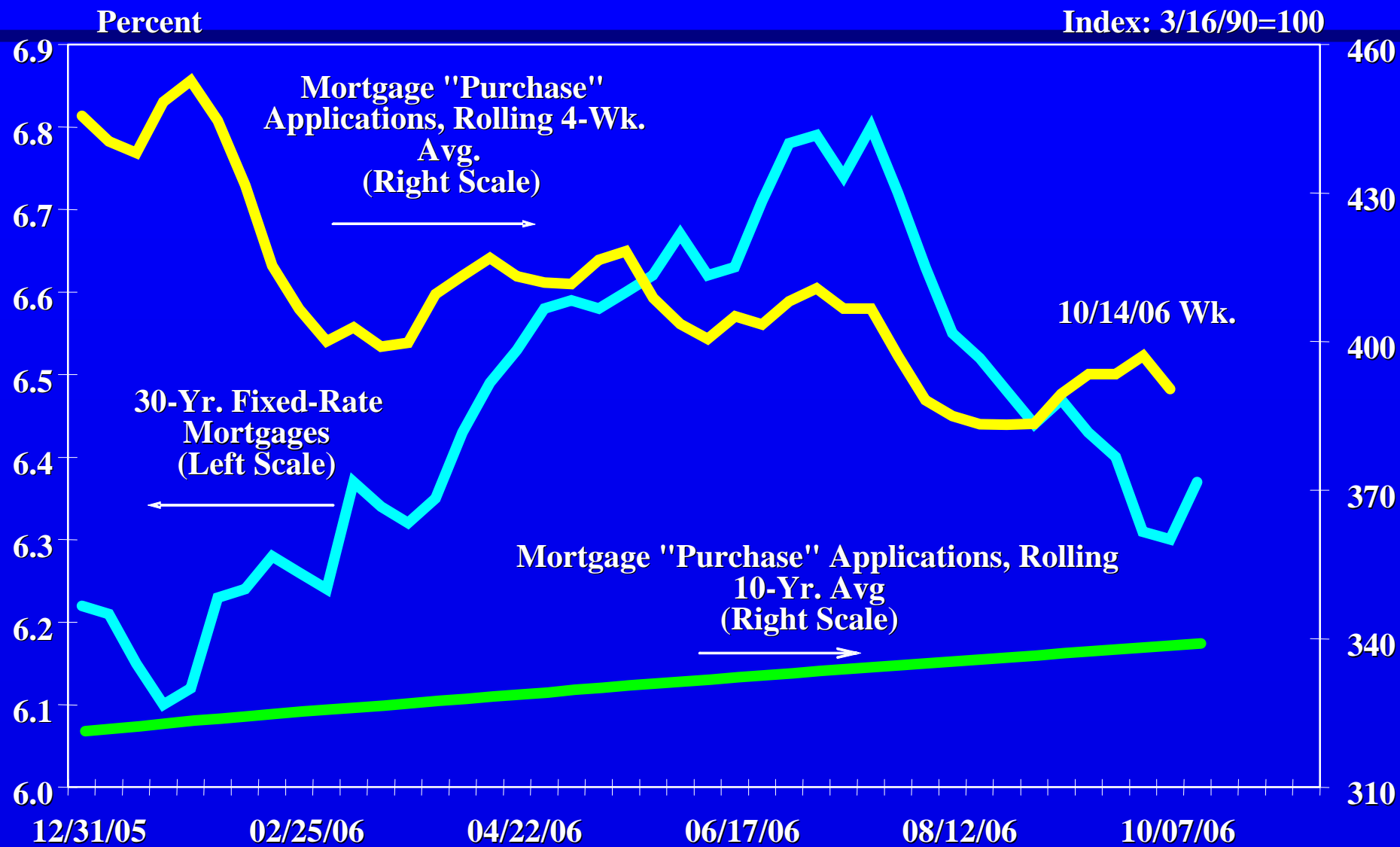
BANKS' BROAD-BASED "EASING" OF CREDIT TERMS STILL EXTENDS TO MORTGAGE LOANS

Net % Of Large Commercial Banks Reporting Tighter Lending Standards



Source: Federal Reserve Board

A "SOFT LANDING" FOR HOME SALES?



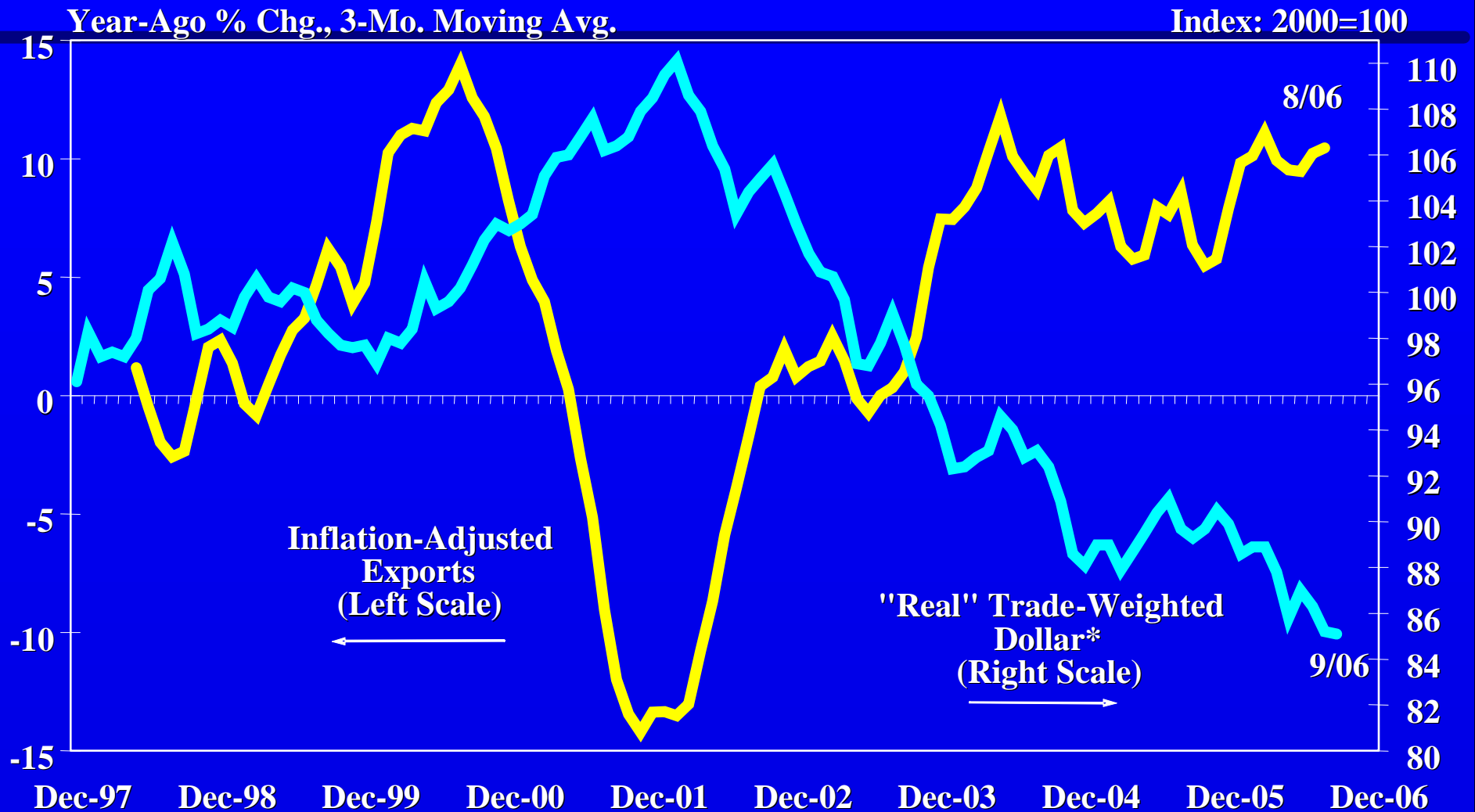
Source: Mortgage Bankers Association; Freddie Mac

HOUSING MARKETS STILL GENERALLY TRACKING ECONOMIC ACTIVITY IN THE SECOND QUARTER

	Rank By Q2 Home Price Inc	Rank By Q2 Job Growth		Rank By Q2 Home Price Inc	Rank By Q2 Job Growth
Top 10 Housing Markets			Bottom 10 Housing Markets		
NM	1	8	WI	41	38
OR	2	9	NV	42	1
UT	3	3	MN	43	11
WA	4	7	IN	44	43
ND	5	23	OH	45	45
ID	6	4	ME	46	48
WY	7	5	NH	47	33
MT	8	10	MA	48	42
MS	9	46	WV	49	36
AZ	10	2	MI	50	49
U.S.	32	n.a.			

Source: OFHEO, U.S. Dep't Of Labor

COMPETITIVENESS STILL STRONG ENOUGH TO SUPPORT HEALTHY U.S. EXPORT GROWTH



Against 44 other currencies, adjusted for inflation differences between the U.S. and its trading partners.
 Source: J.P. Morgan Chase, Inc.

A TYPICAL LATE-CYCLE ROTATION (AND THEN SOME) FROM RESIDENTIAL TO NON-RESIDENTIAL CONSTRUCTION

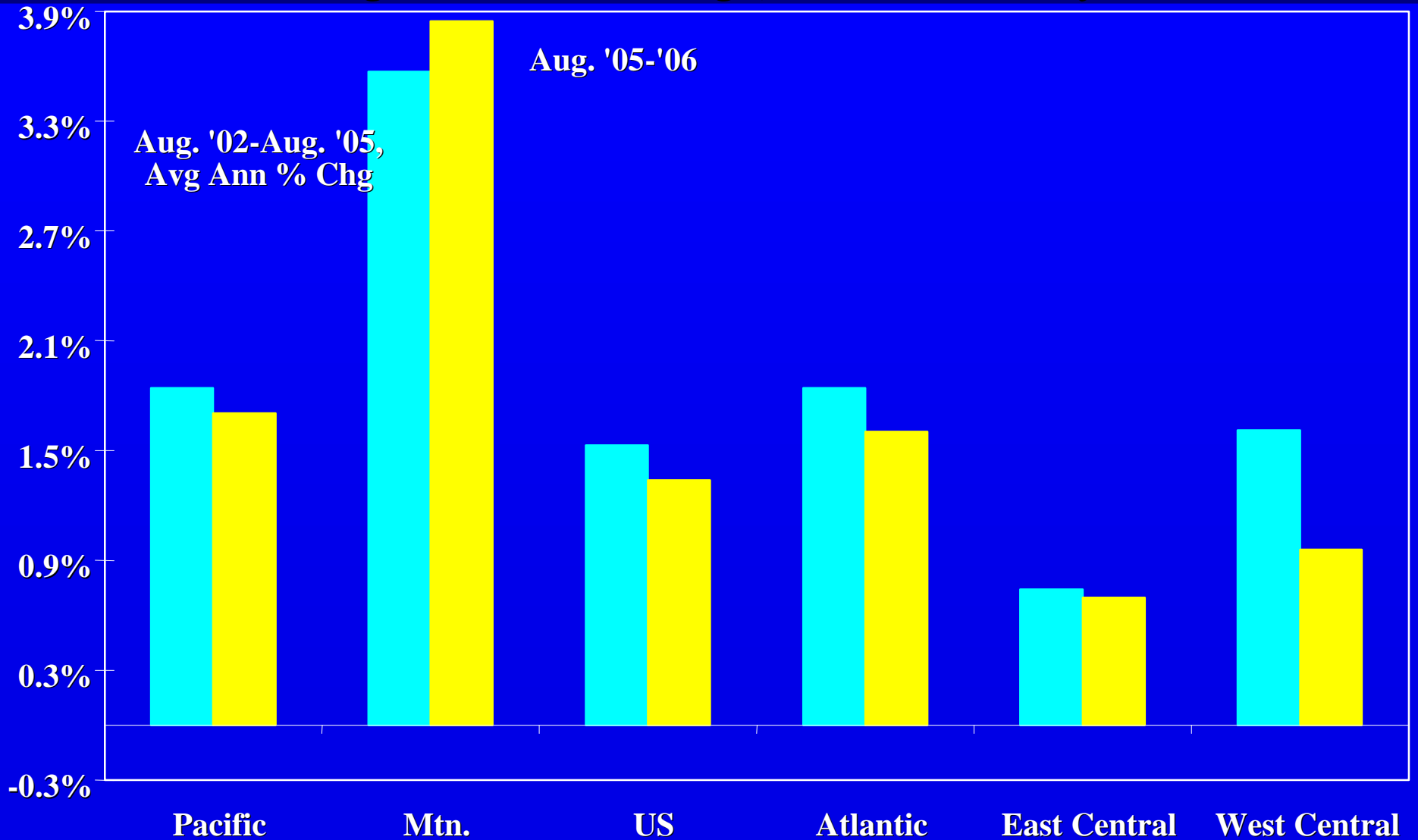
Current-Dollar Construction Spending; Year-Ago % Change



Source: U.S. Commerce Department

JOB GROWTH STRONGEST IN THE MOUNTAIN STATES

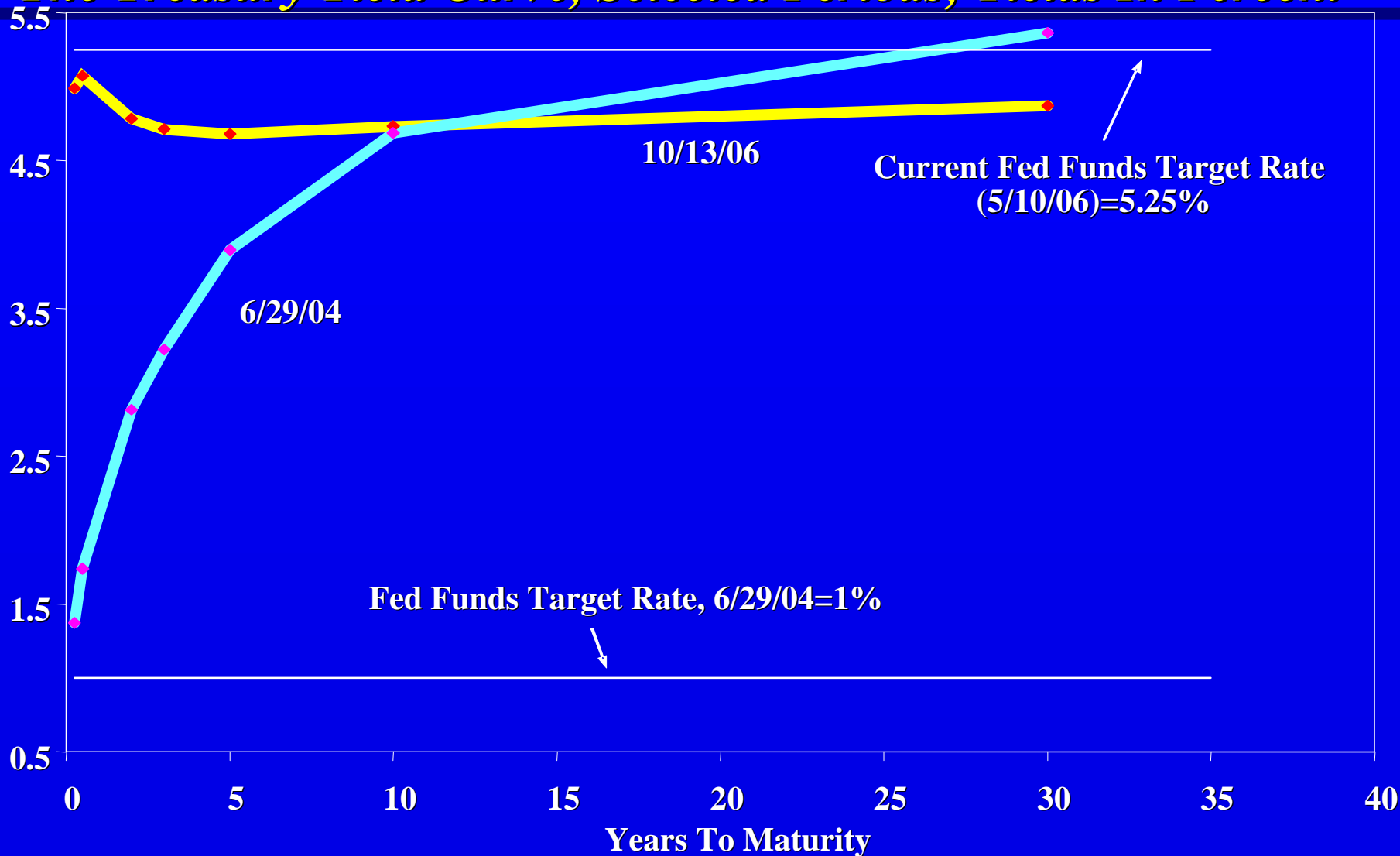
Year-Ago Percent Change, Non-Farm Payrolls



Source: U.S. Dept Of Labor

INVESTORS POSITIONED FOR INTEREST-RATE CUTS BY THE FEDERAL RESERVE

The Treasury Yield Curve, Selected Periods; Yields In Percent



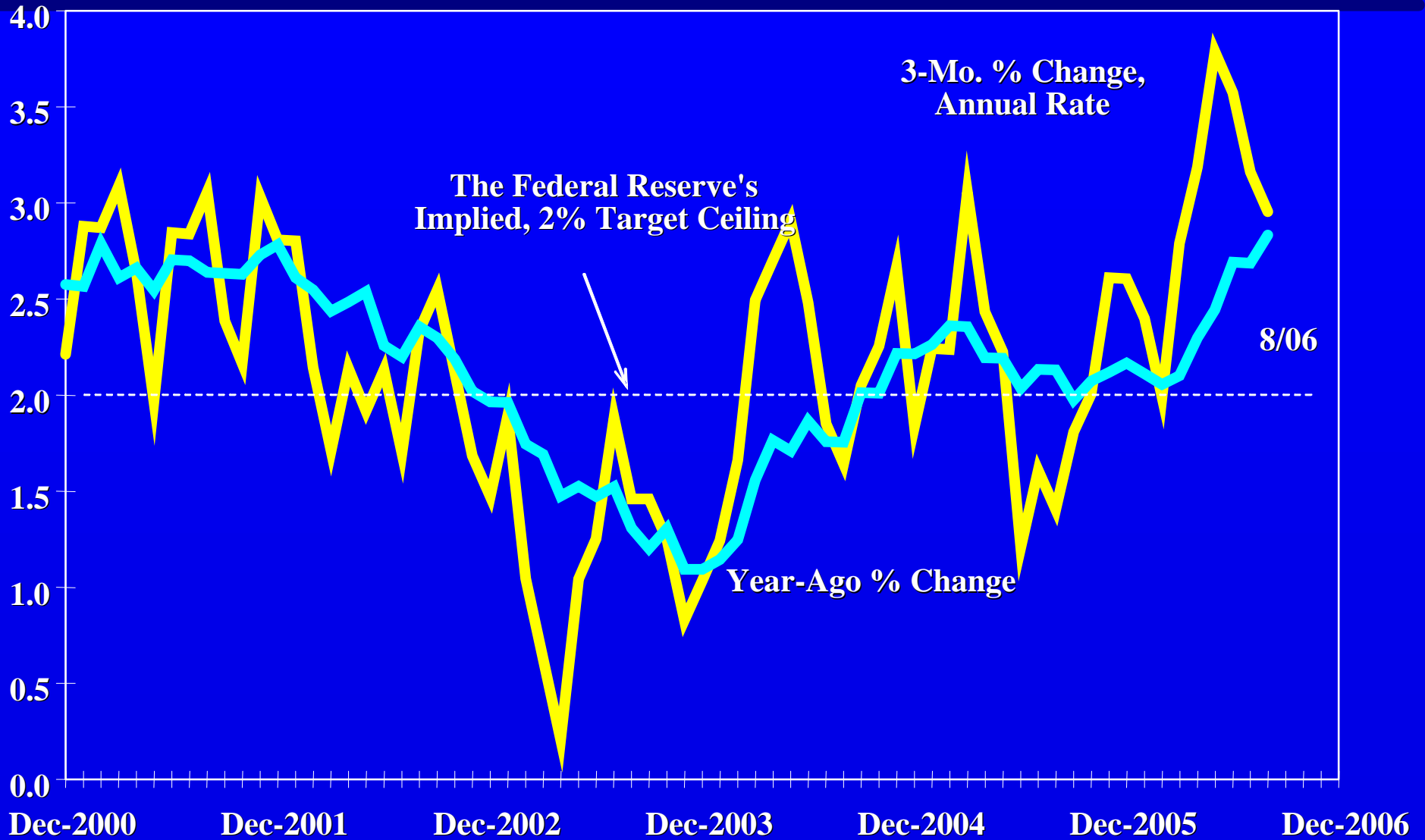
Source: Bloomberg Financial News, Inc.

THE CASE FOR AN EXTENDED “PAUSE” BY THE FED

- * Moderate Economic Growth**
- * “Cyclical,” Structural” Pressures Slow The
Decline Of “Core” Inflation**
- * Financial-Market “Liquidity” Still Ample**
- * “Effective” Interest Rates Still Fairly Low**

“CORE” INFLATION ROLLING OVER, BUT STILL FAIRLY HIGH

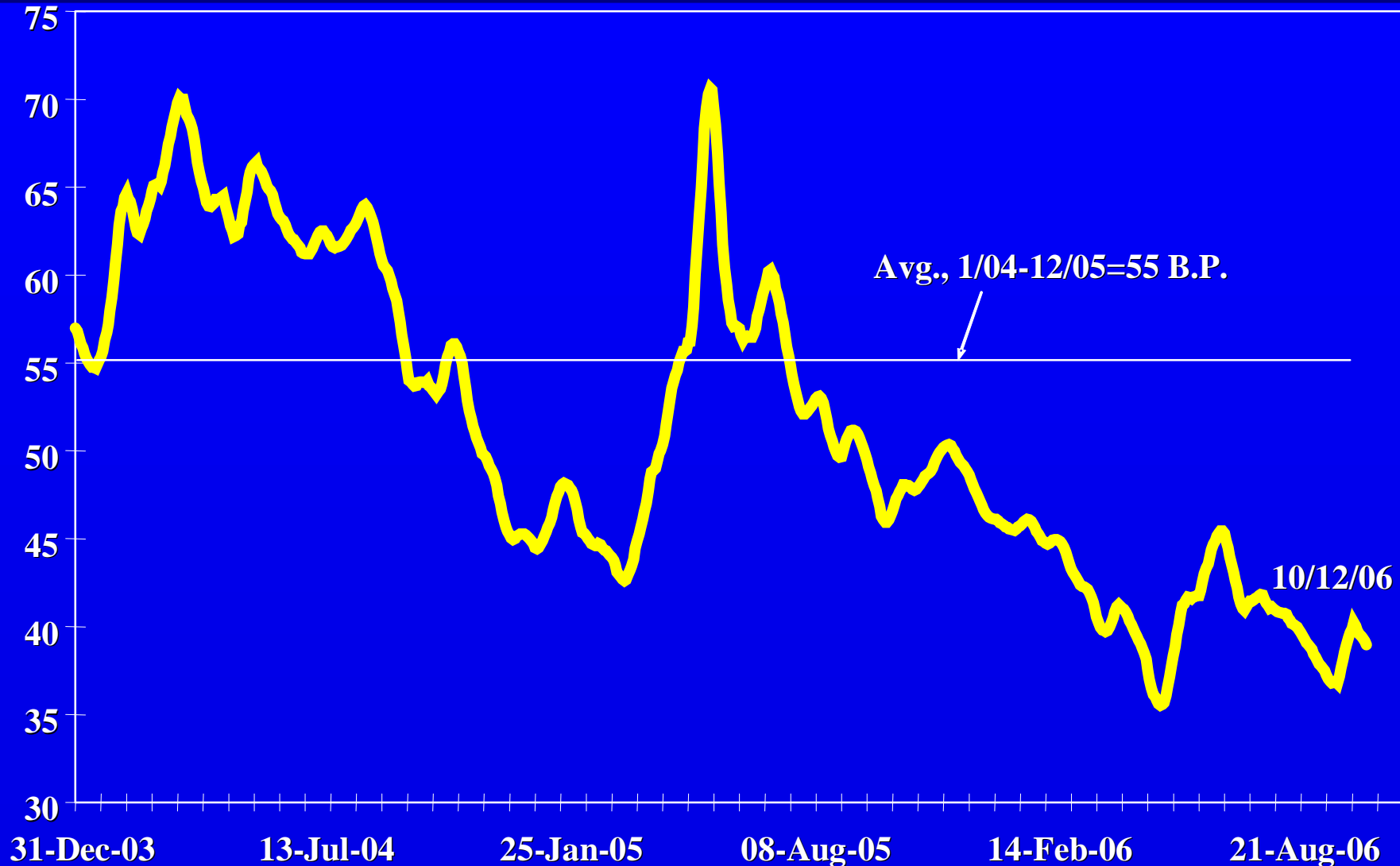
Percent Change In The CPI, Excluding Food & Energy



Source: U.S. Dep't Of Labor

CREDIT-DEFAULT INSURANCE STILL "CHEAP"

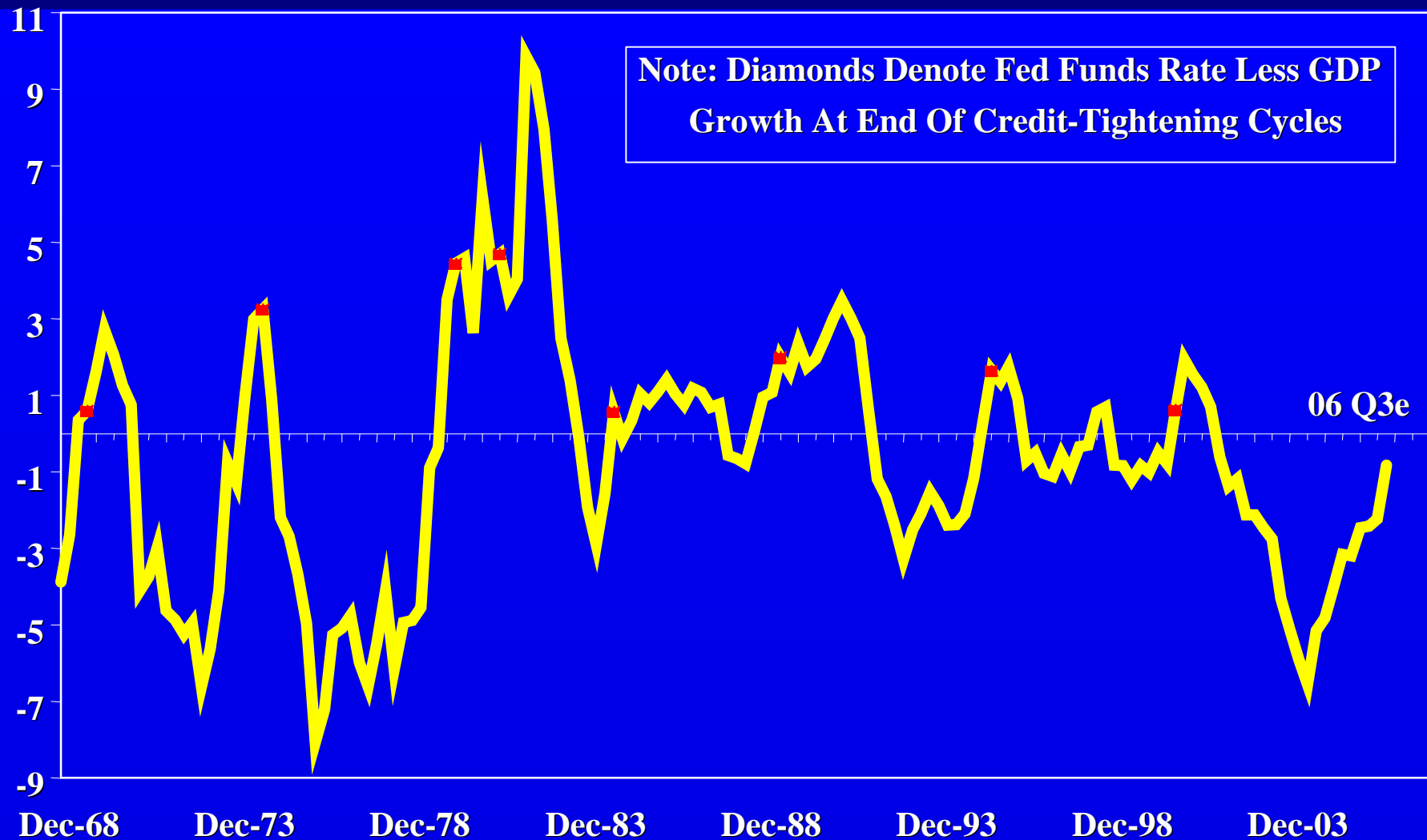
Dollar Cost Of Insuring \$10,000 In Debt Through Credit-Default Swaps; 10-Day Averages



Sources: JP Morgan Chase, Inc., Bloomberg Financial News, Inc.

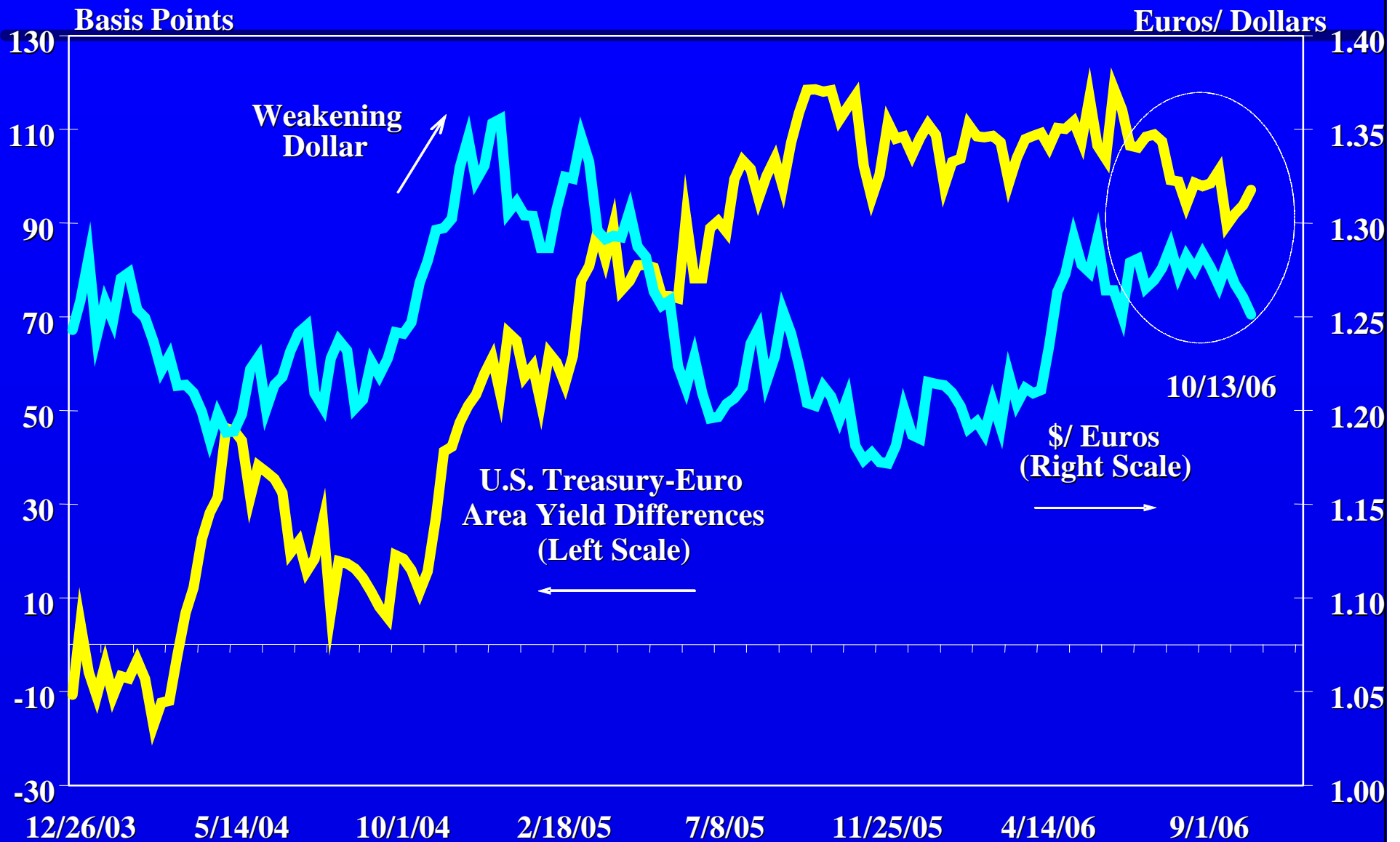
STILL NOT MUCH "BITE" TO MONETARY POLICY

Federal Funds Rate Less Yr-To-Yr Nominal GDP Growth; Percentage Points



Source: U.S. Commerce Dep't; Federal Reserve Board

THE DOLLAR STILL SUPPORTED BY ATTRACTIVE INTEREST RATES



Source: Bloomberg Financial News, Inc.

“RISKS” IN THE OUTLOOK

*** A HOUSING “BUST” THAT RIVALS THE “BOOM”**

*** GLOBAL THREATS**

--Energy-Prices, Terrorism/ Geo-Political Strains, The Dollar

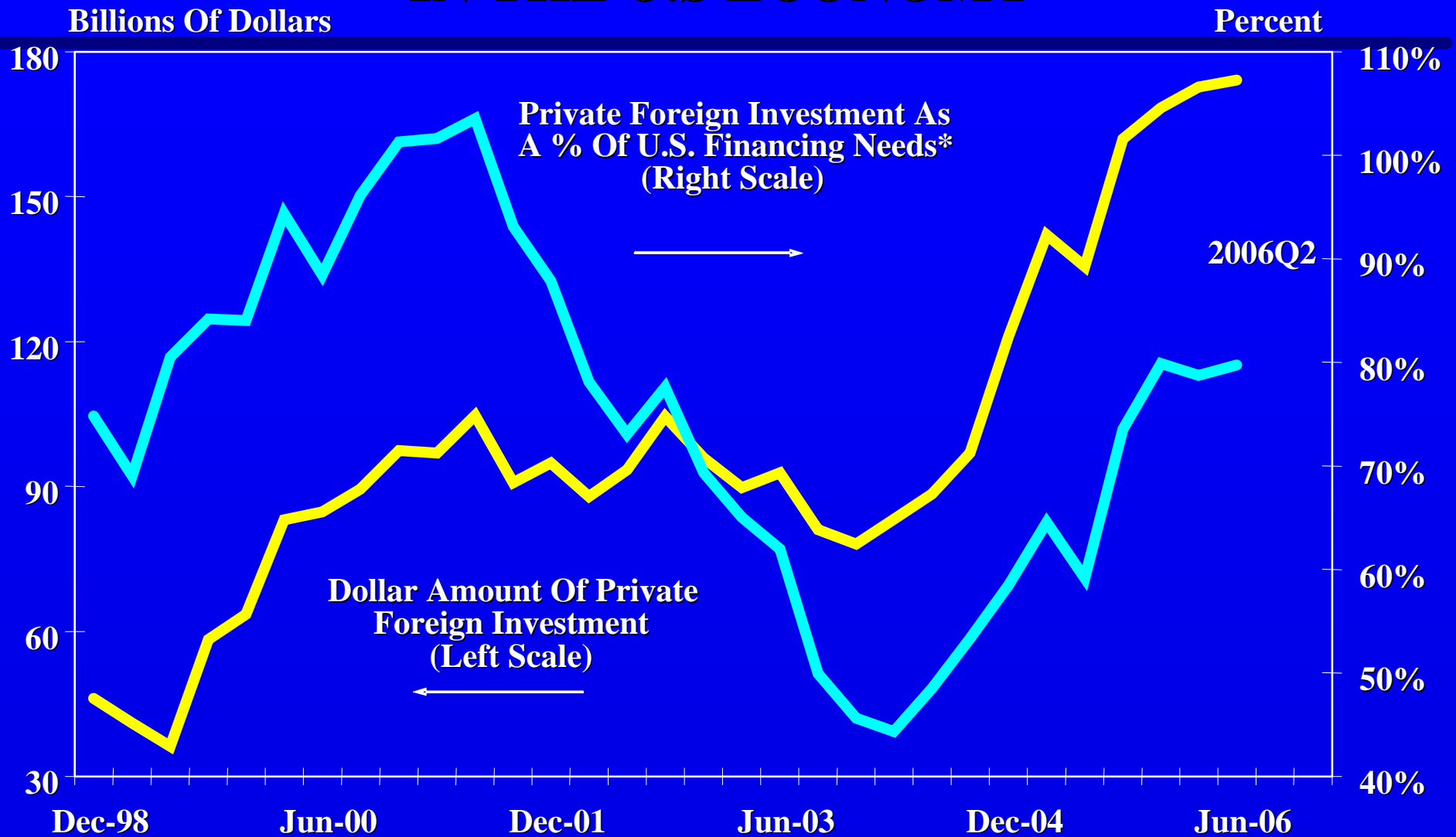
*** “TWIN DEFICITS,” BURDENSOME HOUSEHOLD DEBT**

--”Kindling,” Not Catalysts

*** CHANGES IN WASHINGTON’S POWER BALANCE**

*** FINANCIAL-MARKET TURBULENCE**

FOREIGN INVESTORS KEEP THEIR FAITH IN THE U.S. ECONOMY



* Current account deficit plus U.S. purchases of foreign securities & direct investment abroad; 4-qr moving. average data.

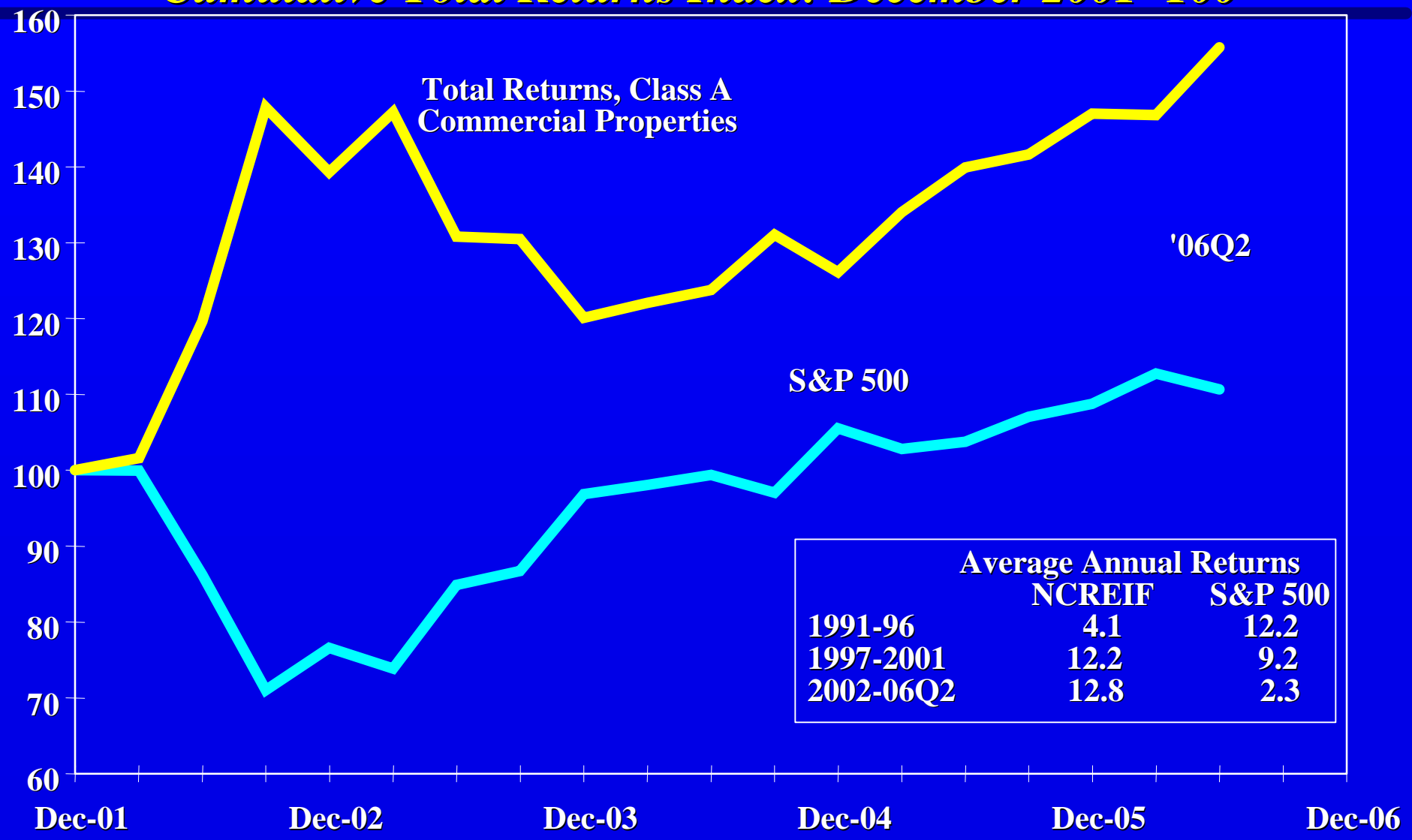
Source: U.S. Commerce Department

ONGOING THEMES SHAPING LONGER-TERM ECONOMIC PERFORMANCE

- * The “Financialization” Of Commodities**
- * An Aging Population’s Impact On Potential Growth, Spending & Investment Patterns**
- * Corporate Restructuring Via Mergers, Acquisitions & Spin Offs**
- * Political “Polarization” & Its Impact On Economic Policy**
- * “Muted” Economic Cycles, Efficient & Inherently Volatile Financial Markets**
- * Intense Competition Via Ongoing “Globalization”**

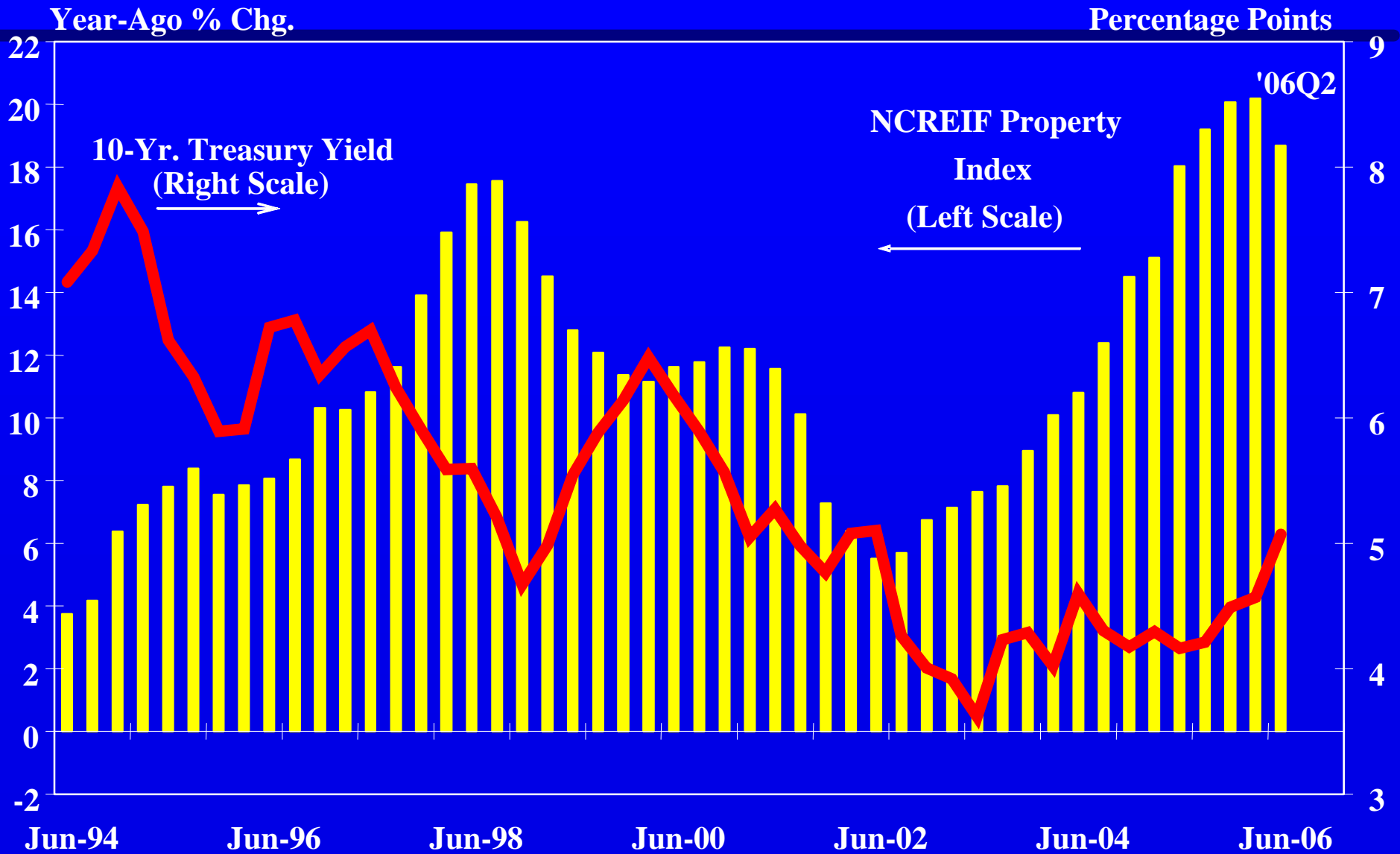
A NICE RUN FOR REAL ESTATE INVESTMENT DURING THE CURRENT CYCLE

Cumulative Total Returns Index: December 2001=100



Source: NCREIF; Standard & Poors, Inc.

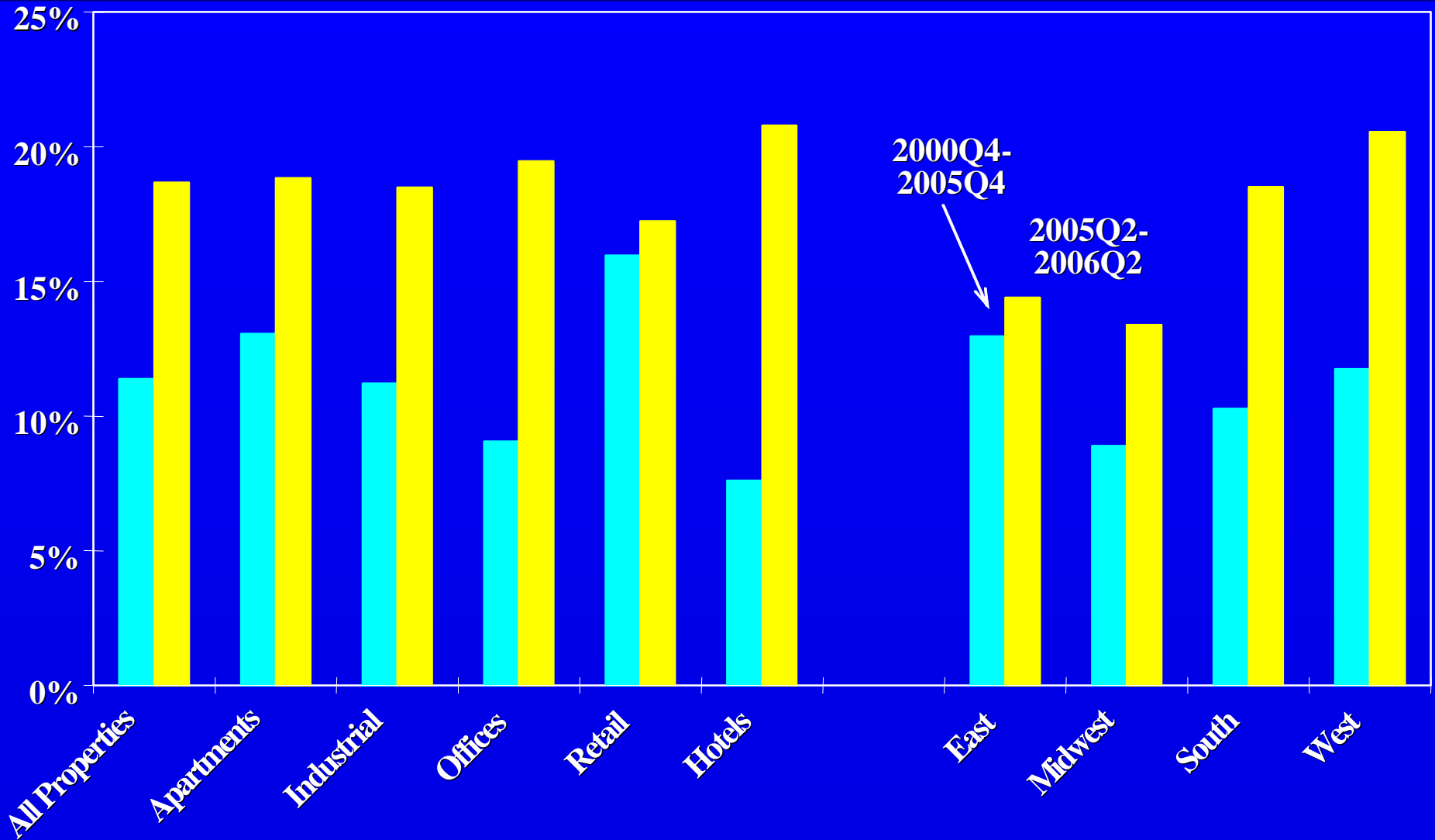
HEALTHY "FUNDAMENTALS," LOW INTEREST RATES POWER REAL ESTATE'S SOLID RETURNS



Sources: NCREIF; Federal Reserve Board

HOTEL PROPERTIES & THE WEST OUT IN FRONT

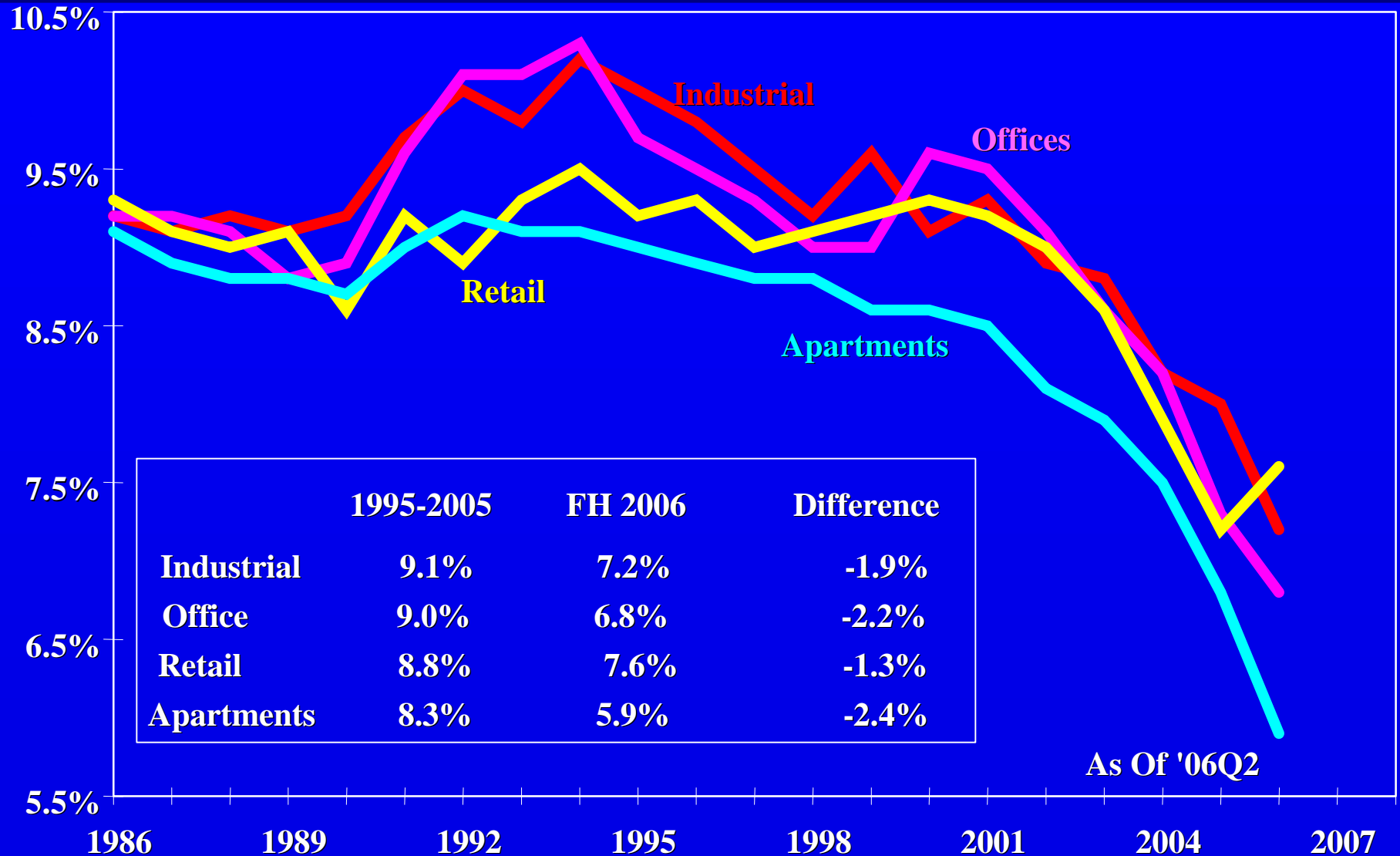
Average Annual Percent Changes



Source: NCREIF; Rosen Consulting Group

CAP RATES FOR MAJOR PROPERTY TYPES AT HISTORIC LOWS

Percent



Sources: ACLI; Rosen Consulting Group

WHERE ARE WE IN THE REAL ESTATE CYCLE?

Property Type/ Location Arranged By Cycle Phase

1: ABSORPTION

Suburban & Downtown Offices
Multi-Family Rental
Extended/ Ltd. Service Hotels

2: GROWTH

Full Service Hotels

3: EQUILIBRIUM

Industrial
Strip Malls
Regional Malls

4: OVERSHOOTING

So. California Condos

5: DECLINE

Single Family
So. Fla./ L.V. Condos

Source: Rosen Consulting Group, Inc.