

Q4 2005

GWL REAL ESTATE FUND BULLETIN



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Established in 1981, the Great-West Life Real Estate Fund is Canada's largest segregated real estate fund. The Fund invests in a portfolio of 134 quality income producing properties diversified by type and location, with a gross value of over \$1.96 billion. The Fund's objective is to provide investors with stable income returns and the opportunity for long-term capital appreciation.



Production Court, Burnaby, BC

ACTIVITY

In 2005 the Fund recorded a total return of 14.2%. This stellar return was comprised of 7.0% income return and 7.2% capital return. Continued appraisal gains during the year boosted the capital return component in 2005. Both on an annual and annualized basis the Fund exceeded the four year moving average CPI by more than 4.0%, a key investment objective of the Fund. These returns are excellent evidence of real estate providing strong, low volatility returns. The Fund's gross real estate value increased by \$293.6 million in 2005, rising from \$1,669.9 million in 2004 to \$1,963.5 million in 2005. The Fund's capital return of 7.2% is the highest since 1997 when it was 8.2%. The main drivers of this appreciation were the Fund's downtown Calgary office assets, the industrial properties in Toronto and Calgary, two downtown Ottawa office buildings, and the Fund's Ontario multi-family assets.

In the fourth quarter, the Fund acquired a 50% interest for \$29.5 million in Production Court, an attractive modern Class 'A' suburban office complex located in Burnaby, BC. The property is comprised of 3 office towers, totaling 295,263 sf. All 3 office buildings are well constructed and finished, with a glass curtain wall providing tenants with panoramic views of Lake City Business Park in Burnaby. The asset is currently 93% leased with the lead tenant, PMC Sierra, occupying 54% of the project. The purchase of this property helps to achieve the Fund's objective to acquire top quality Class 'A' office properties in the Vancouver real estate market. In addition, the complex is close to other assets owned by the Fund, providing for synergistic benefits in the management and leasing of these properties.

The Fund also acquired a 50% interest in Derrydale Lands, a 32-acre land parcel, for \$5.8 million. Located at the high-profile corner of Derry Road and Hurontario Street (Highway 10), the site offers excellent access to the 400 Series highways, just north of the much sought-after Mississauga City Centre business corridor. Upon completion of servicing, the lands represent the best available mix of prestigious retail, and office development opportunity, with up to 510,000 sf of density. The acquisition of the lands provides the Fund with the opportunity to develop a variety of commercial uses that will provide a steady stream of income with solid returns. The acquisition of both Production Court and the Derrydale Lands site will help with the Fund's overall objectives, to generate stable returns and the opportunity for long-term capital appreciation.

ADDING VALUE

Purdy's Wharf is a 694,980 sf AAA complex in Halifax, considered to be the premier business address in Atlantic Canada. The GWLRA leasing team recently completed the largest private sector lease in Atlantic Canada for 95,000 sf with McInnes Cooper, the second largest law firm in Western Canada. Through a complex process of tenant relocations and lease extensions, we were able to accommodate a new 95,000 sf tenancy and bring the building occupancy to 95% – resulting in a significant increase in building value.



Purdy's Wharf, Halifax, Nova Scotia

MARKET OVERVIEW

The office markets across Canada have witnessed a significant increase in the demand for space in 2005. The national office vacancy rate continued to fall to 9.2%, compared to 12.3% last year. Large blocks of space are in short supply forcing users to examine suburban office alternatives. The bulk of activity has transferred to Class 'B' and 'C' buildings as a result of depleted inventories in the higher class buildings. Calgary's prominent oil and gas sector was the major driver of demand encouraging new construction and redevelopment activity in that market. Calgary's vacancy rate hit an all-time low of 3.8% this year. Calgary currently has just less than 3.0 million sf of office space under construction and another 2.0 million sf in the pipeline for 2007 in the attempt to meet demand. As the office market tightens moving into 2006, we can expect moderate rental rate growth, coupled with increased leasing activity.

The national industrial market witnessed a marginal decline in availability rates this year, falling to 4.9%. Some industrial markets experienced a shortage of developable land in the first half of 2005, causing sale prices of existing product to increase. New projects in the pipeline for 2006 should help to alleviate demand, with over 6.5 million sf under construction at the end of 2005. Vancouver's industrial market continues to have the lowest availability level at 1.6%, as growing container traffic increases the need for warehouse-distribution space to accommodate the expanding logistics-based companies. New speculative construction activity from both local and US developers should lead to a slight increase in availability rates in 2006, coupled with continued rental rate growth.

The multi-residential apartment market benefited from a solid economy and robust labour market in 2005. The overall national average vacancy rate held steady at 2.8% this year, after 3 consecutive years of rising vacancy levels across Canada. High levels of condominium completions in 2005 created increased competition for the rental market, despite the slight increase to the average rental rate in almost all major Canadian rental markets. The rising cost of home ownership and increasing immigration were largely responsible for boosting rental demand this year. As the gap between the cost of home ownership and renting increases, rental demand should continue to stabilize, slightly increasing in 2006.

The national Canadian retail market witnessed significant growth over 2005, with new European and US retailers entering the market and existing retailers expanding into new submarkets. With the potential sale of HBC, Canada's first retailer, increasing expansion of Wal-Mart into all of Canada's retail facets, and changing retail themes, 2006 is expected to generate increased retail sales and an unprecedented level of retail development. Lifestyle Centres, a significant theme in US retail development, has started to filter into the Canadian marketplace with the first Lifestyle Centre now complete in West Vancouver and more planned in the GTA and Barrie (Park Place). Park Place will include upscale retail shops, restaurants, hotels, entertainment facilities, walking trails and a business park housing industrial and manufacturing buildings.

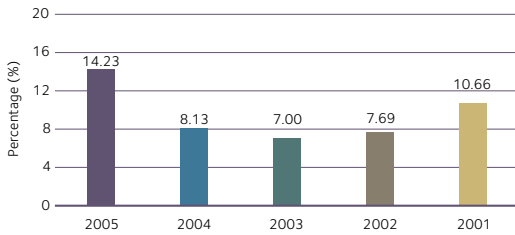


Wanless Centre, Brampton, Ontario

FUND FACTS

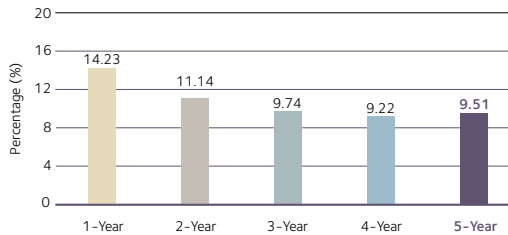
Gross Annual Rates of Return

at December 31



Gross Annualized Rates of Return

at December 31, 2005



Gross Return (before fees)

Year	2001	2002	2003	2004	2005
Income	8.6%	7.8%	7.3%	7.1%	7.0%
Capital	2.1%	-0.1%	-0.3%	1.0%	7.2%
Total	10.7%	7.7%	7.0%	8.1%	14.2%

Fund Growth (\$ millions)

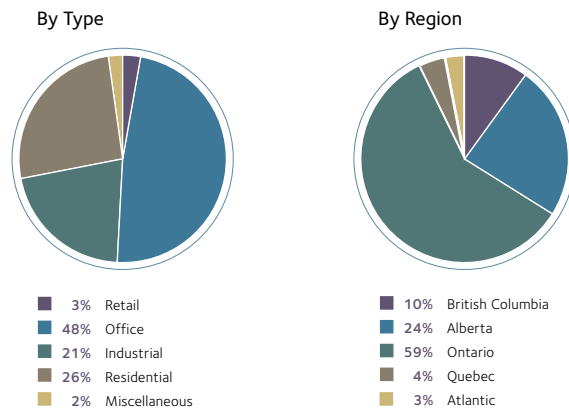
Year	2001	2002	2003	2004	2005
Real Estate	\$ 1,335	\$ 1,523	\$ 1,626	\$ 1,670	\$ 1,963
Cash & Other	\$ 75	\$ 152	\$ 167	\$ 204	\$ 299
Gross Fund Value	\$ 1,410	\$ 1,675	\$ 1,793	\$ 1,874	\$ 2,263
Net Fund Value	\$ 1,020	\$ 1,214	\$ 1,289	\$ 1,380	\$ 1,777
Debt / Gross Fund Value	27.7%	27.5%	28.1%	26.3%	23.5%

Vacancy

By Type	
Retail	23.4%
Office	10.7%
Industrial	5.7%
Residential	1.3%
Total by Type	6.8%

By Region	
British Columbia	4.3%
Alberta	2.9%
Ontario	7.5%
Quebec	8.1%
Atlantic	24.1%
Total by Region	6.8%

Diversification



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