

Q3 2006

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 155 quality income producing properties, diversified by type and location, with a gross value of \$2.5 billion. The Fund's objective is to provide investors with stable income returns and the opportunity for long-term capital appreciation.



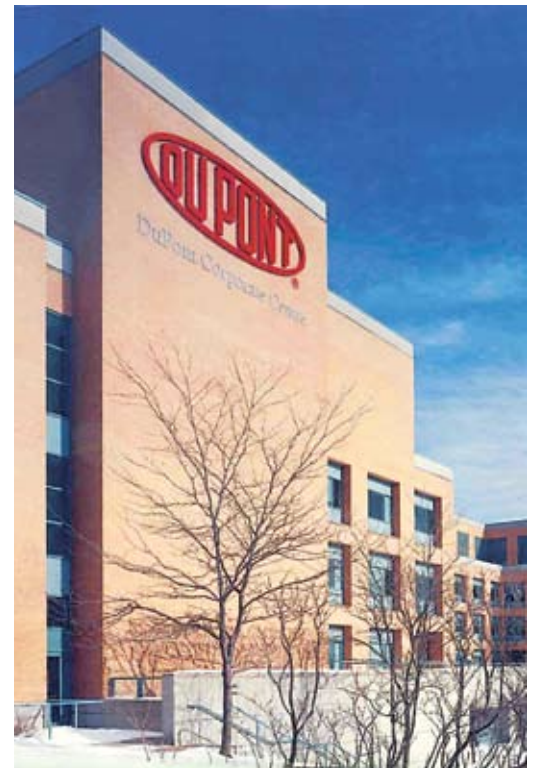
Parke at Fish Creek, Calgary, Alberta

ACTIVITY

In the third quarter of 2006, two strategic acquisitions and one disposition helped to balance the diversification of the Fund's portfolio. The key acquisition this quarter was a 70% interest in Plaza Vaudreuil – a new format power centre located in the city of Vaudreuil, a western suburb in the greater Montreal region – for \$19.6 million. This 131,000 sf plaza is anchored by Home Depot, which makes up approximately 75% of the net rentable area. Situated in the heart of the city's major retail node, this asset is well located at the intersection of the two main arterial roads and has great visibility from Highway 40. Plaza Vaudreuil has helped the Fund move closer to its goal of achieving a heavier weighting in retail. With a strong anchor tenant in Home Depot, and an average expiry term of 13 years, the Fund can expect a strong cash flow from this property.

The Fund also acquired a 50% interest in a 16-acre parcel of land in Mississauga, Ontario, for \$4.4 million. The site is adjacent to an office asset currently owned by the Fund. The development plan calls for 400,000 sf of Class 'A' suburban campus-style office buildings with a small retail component. Vacancy rates for office assets in the area are 3.4% and dropping; rental rates continue to rise due to the increasing demand for large contiguous blocks of space in the Greater Toronto Area. Based on these factors, the timing of this type of development project could prove to be very profitable.

In July, the Fund disposed of a 50% interest in 9.0 acres of its Derrydale lands in Mississauga for \$2.5 million, realizing a 20% return over the one-year holding period. The land was sold to Kingsway Financial Corporation, which plans to build its 180,000 sf head office on the site. This project will initiate additional leasing activity that will lead to development opportunities for the Fund.



Dupont Corporate Centre, Mississauga, Ontario



ADDING VALUE

There are fundamental differences between the GWL Real Estate Fund and a Real Estate Investment Trust (REIT). The first important difference is that a REIT is a publicly-traded equity, which means its pricing has more volatility. A REIT's unit price may be impacted by such things as headline news, interest rate changes, statistical announcements, etc. The value of the Fund is determined by the cash flow derived from underlying long-term leases to strong tenants and by external appraisals conducted annually on each property. There is no correlation between investments in direct real estate and equities – a reason why adding real estate to a portfolio provides enhanced diversification. Of course, a central distinction is the capital protection guarantee that benefits investors in a segregated fund. No equity investment can invoke such a guarantee.

Other key variances between the two investment vehicles are size, quality and diversification by type and location. There are several quality REITs that are similar in size to the Fund, but many are smaller. The large ones tend to focus on one or two asset types, and their focus may be concentrated in one or two regions. For example, two of the larger REITs only invest in shopping centres and two of the mid-sized REITs invest only in Quebec. The smaller REITs not only restrict their diversification by type but often invest in smaller markets where tenant covenant and asset liquidity are uncertain. The Fund focuses on Canada's major cities that have strong employment and healthy GDP growth. Fund properties have stronger rent rolls with tenants that include major financial institutions and professional firms, government departments, leading service and technology providers, and the country's primary retailers.

A material strategic difference is that most REITs have a loan-to-value ratio of about 60%, whereas the Fund's ratio is in the 20% range. This makes a REIT much more interest rate sensitive. As noted, changes in interest rates can have an immediate impact on unit values, thus increasing volatility. In addition, high debt levels may have long-term risk repercussions depending on the availability of debt financing at the time of mortgage renewal.

A REIT is dependent on the capital markets to raise funds. Depending on the state of the markets and what industries are in or out of favour, it is not a given that capital may be raised when required. The Fund generates substantial cash internally through the sales force, and has a consistent history of new deposits annually.

One of the most attractive attributes of a REIT is its monthly or quarterly distributions. However, this focus by REIT management to maintain these distributions may lead to a shortfall in cash reserves for capital reinvestment, and may also limit acquisition opportunities. Alternatively, Fund management's long-term view incorporates capital reinvestment to maintain both the physical integrity and the market position of the properties.

Finally, a major difference between the two investment vehicles is that a REIT can be acquired and dissolved. In fact, in the third quarter of this year, two REITs were acquired and investors had their units redeemed. This resulted in both tax consequences and redeployment decisions for investors. The Fund, which has been operating since 1981, cannot be acquired and is well positioned to continue to provide unitholders with outstanding returns for the long term.



MARKET OVERVIEW

The Canadian office market is looking healthy this quarter, with a slight easing of the pace set in the first half of 2006. Demand is strong in most regions but, with little supply coming on-line this quarter, there is a shortage of space. Toronto has the potential to see up to 3.1 million sf of new office space come on the market. However, projects like the Telus Tower, Cadillac Fairview's RBC Centre and Brookfield's Bay-Adelaide Centre, with scheduled completion dates of mid to late 2009, will not alleviate the immediate shortage of office space. Calgary is in a similar position, with most of its 2.9 million sf of new construction only scheduled for occupancy in late 2007 to early 2008. It is important to note that in both Toronto and Calgary, pre-leasing has played a major role in construction, and this activity is evidence of a disciplined market. Calgary's vacancy rate has now become the lowest in the world at 0.6%, absorption rates have slowed, and rental rates continue to climb, growing 37% since the beginning of the year.

The industrial real estate market in Canada has continued to profit from the economic prosperity of the western regions. Most areas are seeing developers building on spec to capture the upside in the market. Vancouver is a great example of this phenomenon, where the one million sf of recent construction did nothing to rein in the 1.2 million sf of absorption that transpired in the market, dropping the vacancy rate to 1.7%. Montreal has seen strong absorption rates neutralize the effects of its 1.3 million sf of new construction. Toronto is also looking solid with its fair share of development as values continue to increase and rental rates rise. The pace of the industrial sector has left owners of older, outdated industrial assets facing the option of either accepting lower rental rates for their space or redeveloping and modernizing their existing properties.

The multi-family market this quarter shows indications of being at the top of a cycle. While operating costs, such as natural gas, have gone up, rental rates have remained steady, increasing 7% since 2003. These increased costs combined with the cap rate compression that has occurred over the last couple of years has made it difficult for buyers in the market to commit to tying up capital in these investments. Looking at the largest markets, notably Toronto,

Calgary and Vancouver, we continue to see values rising as quality product becomes scarce. As costs increase, investors find most properties are priced beyond their acceptable risk-return levels. That being said, well-maintained assets located in desirable areas will continue to see stable returns with consistently low vacancy rates.

Overall, retail property has performed very well this quarter, keeping up the pace set during the first half of the year. Strong GDP growth and high employment figures are having a positive impact on retail properties across the nation. Vacancy rates in Calgary are down at 1.7%, with only 68,000 sf of retail space available out of a total of over 4.0 million sf in the market. Construction costs in the West continue to rise as labour and building materials remain in short supply, slowing down the growth of most industries; nevertheless, 2.8 million sf of retail space came on the market this quarter. Toronto is starting to see the effects of the *Greenbelt Conservation Act* as limited development land remains within the confines of the Greenbelt. This situation will have a tendency to increase values for both existing retail assets and developable land. In general, the growth we are seeing in the Canadian economy should translate into strong returns in all categories.

FUND FACTS

Annual Return

Year	at December 31					YTD
	2001	2002	2003	2004	2005	Sep-06
Income	8.6%	7.8%	7.3%	7.1%	7.0%	4.9%
Capital	2.1%	-0.1%	-0.3%	1.0%	7.2%	8.1%
Total	10.7%	7.7%	7.0%	8.1%	14.2%	13.0%
Total Return to Individuals (net of fees)*	7.5%	4.7%	4.0%	5.2%	11.1%	10.7%

* Fees may vary by client

Fund Growth (\$ millions)

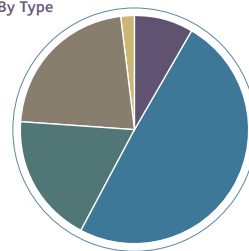
Year	at December 31					YTD
	2001	2002	2003	2004	2005	Sep-06
Real Estate	\$ 1,335	\$ 1,523	\$ 1,626	\$ 1,670	\$ 1,963	\$ 2,463
Cash & Other	\$ 75	\$ 152	\$ 167	\$ 204	\$ 299	\$ 259
Gross Fund Value	\$ 1,410	\$ 1,675	\$ 1,793	\$ 1,874	\$ 2,263	\$ 2,722
Net Fund Value	\$ 1,020	\$ 1,214	\$ 1,289	\$ 1,380	\$ 1,777	\$ 2,208
Debt/Gross Fund Value	27.7%	27.5%	28.1%	26.3%	21.5%	18.9%

Vacancy

By Type	
Retail	3.3%
Office	9.8%
Industrial	6.7%
Residential	0.6%
Total by Type	6.2%

Diversification (Gross)

By Type



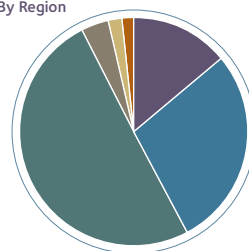
9%	Retail
49%	Office
18%	Industrial
22%	Residential
2%	Miscellaneous

Vacancy

By Region	
British Columbia	2.8%
Alberta	2.8%
Ontario	8.4%
Quebec	3.7%
Atlantic	17.6%
U.S.	11.2%
Total by Region	6.2%

Diversification (Gross)

By Region



14%	British Columbia
28%	Alberta
50%	Ontario
4%	Quebec
2%	Atlantic
2%	U.S.

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