Q4 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 157 high-quality income-producing properties, diversified by type and location, with a gross value of $2.6 billion. The Fund's objective is to provide investors with stable income returns and the opportunity for long-term capital appreciation.

1141 Kennedy Road, Toronto, Ontario

GWL REALTY ADVISORS

ACTIVITY

The GWL Real Estate Fund acquired a 70% interest in two strong retail sites this quarter for $14.5 million. Both are anchored by Future Shops and located in the GTA. The site in Mississauga is a multi-tenant asset with close to 60,000 sf of NRA. Constructed in 2004, this asset is situated along an arterial road and boasts mainly national tenancies with an average lease expiry of 11.2 years. The other retail acquisition is a standalone Future Shop site with over 34,000 sf of NRA in the east end of the city. This property along Kennedy Road, a major artery in the area, was built in 2002. With the combination of a strong anchor tenant and good locations along high-traffic arterial roads, the Fund can expect a steady cash flow from these properties.

The final quarter of the year was also characterized by strong leasing activity. 5140 Yonge Street, a desirable location in the heart of the North York office corridor, has seen major activity with tenants such as Aim Trimark, Capital One and Deloitte & Touche. With 270,000 sf of renewals and 70,000 sf of new leases, this asset's vacancy rate has plunged from 14.1% to 1.2% in 2006. The office building at 200 University Avenue, in the core of the city, has seen a great turnaround in leasing. Acquired in 2000 as a single-tenant, 14-floor building, this asset has undergone extensive renovations to the tenant floors and lobby – and has been repositioned as a desirable multi-tenant office property. Throughout 2006, the leasing and asset management teams have made tremendous strides in leasing this quality building. Seven floors have been leased to eight tenants, reducing vacancy from 81.3% to 30.1%. A strong downtown office market and continued leasing efforts should maintain downward pressure on the vacancy rate of this asset.

Looking back on the year, the overall performance of the Fund has been stellar. The Fund achieved its highest total return to date recording an astonishing 18.1%, with the gross Fund value growing by over $620 million to end the year close to $2.9 billion. These results were achieved through strong leasing activity, exemplary management, superior customer service, and key acquisitions and dispositions. The Fund has acquired 27 properties across Canada and has achieved its diversification targets with acquisitions in the retail sector and in Western Canada.

5140 Yonge Street, Toronto, Ontario

ADDING VALUE

Customer service is an integral part of successful property management in today's competitive multi-family environment. In an effort to better serve its customers – the residents – GWL Realty Advisors undertook the unique initiative of engaging JD Power and Associates to design and implement an annual Resident Satisfaction Survey. The survey has provided insight into residents' priorities, enabling the Fund Manager to develop targeted customer service strategies across the portfolio. Exceeding residents' expectations will assist in achieving higher rental rates while reducing vacancy, turnover and associated costs, thus improving the return to investors.

In order to focus on its customers, the Fund Manager required a method for evaluating property management performance and customer satisfaction based on established benchmarks. The Resident Satisfaction Survey identified what the residents value and where their needs were not being met. The major factors contributing to overall resident satisfaction are: suite quality (36%), building quality (20%) and property management staff (20%) – all of which are controllable. Surprisingly, rental price contributed only 7% to overall resident satisfaction, and proved not to be a determining factor for lease renewal and/or building referral.

The survey proved to be very useful for prioritizing capital improvements according to customer needs. For instance, survey results for one of the properties illustrated that the top priority was the need to improve the elevators. At the time of the survey, elevator modernization was scheduled for completion in 2010 in the five-year capital plan. Based on the survey results, elevator modernization was pushed forward and will now be completed in 2007.

After completion of the annual survey, findings were communicated to every resident through a building-specific letter, indicating where the Fund Manager had met their needs or exceeded expectations and highlighting areas where future improvements were planned. In the survey, residents expressed the importance of improving communications – one element that residents desired was more follow-up, particularly after the completion of work orders. To meet that need, GWL Realty Advisors worked with its property management companies to design work order comment cards, follow-up survey letters and quarterly newsletters.

The survey also confirmed that residents share the Fund Manager's values with regard to environmental initiatives. The percentage of all capital allocated to environmental and energy initiatives has steadily increased, from 5% in 2003 to 30% in 2006, or $3.5 million. GWL Realty Advisors has conducted extensive energy audits across the portfolio, resulting in multiple energy-saving initiatives – lighting retrofits, window and door replacements, heating and domestic hot water plant upgrades, and the installation of building automation systems, to name a few.

Other management companies are also beginning to see the value in this customer service initiative and some have opted to participate in the annual Resident Satisfaction Survey. This will improve industry benchmarking and allow for better measurement of the Fund's results against peers. By exceeding residents' expectations, GWL Realty Advisors will continue to maximize the returns for investors.

L to R: Bayview Village, Toronto, Ontario | Laurier House, Vancouver, British Columbia | 88 Redpath, Toronto, Ontario

MARKET OVERVIEW

The Canadian office market is finishing the year on a strong note with shrinking vacancies, increasing rental rates and growing investment activity. In the GTA alone, 5.3 million sf of office space is currently under construction, 3.3 million in the financial core. This is a sign that, while suburban office development is attractive, the central business districts across the nation still hold the prestige that large companies desire and for which they are willing to pay premiums. This principle is most apparent in the Western office markets in Calgary and Vancouver, where rental rates have increased over 40% and 27%, respectively, since this time last year; similar trends exist in Edmonton and smaller cities in Alberta and British Columbia. This pattern in Western rental rates is attributable to an all-time-low vacancy combined with strong pre-leasing activity on new developments, setting the stage for a disciplined office market heading into the new year.

Looking ahead to 2007, demand for industrial product is strong across the nation. In the GTA, industrial property values are still on the rise; average sale prices have also increased substantially and are now over $82 psf from $77 psf last quarter – Richmond Hill, Ontario, recorded the highest average asking sales prices at just over $132 psf. The Canadian industrial real estate sector has been strong this year and should continue to offer good returns in 2007. Industrial lease rates in Toronto have increased for a fifth consecutive quarter as we cap off 2006 and now average over $5.25 psf. Other industrial markets in Eastern Canada, such as Montreal and Ottawa, are stable, with little volatility in rental rates and absorption levels since the previous quarter.

Industrial assets in Western Canada are also performing favourably this quarter. In Edmonton, net rental rates have increased over 48.0% since the fourth quarter of 2005. With vacancy levels in Vancouver and Calgary at 1.7% and 0.8%, respectively, landlords continue to increase rental rates. Even with the high cost of materials and labour, the demand for industrial assets in both cities has been strong enough to spur millions of square feet of construction despite the shortage of available land.

The market continues to show strong interest in the multi-family sector. Investment yields for these assets have been the lowest of all property types and have tended to shift downward. Increased demand, coupled with a limited supply of product on the market, should keep yields low in the future; the fourth quarter of 2006 saw a national 6% average yield. In Toronto, the multi-family market has been strong. Short-term demand has been moderated by condominium completions and affordable home ownership, but with over 100,000 immigrants moving to Toronto every year, the sector should see stable growth and capital returns in the long term. Vancouver is experiencing a similar supply shortage as it ends 2006 with the lowest investment yields in the country at approximately 5%. Calgary has experienced major transaction activity over the year as 35 properties totalling over 2,700 units and $350 million changed hands. In 2007, expect to see stable returns and capital growth in most urban centres for this asset class.

The retail real estate market has been ramping up across the nation. In Toronto, still a preferred market for investors, Wal-Mart is developing super centres, with grocery sections similar to traditional grocery stores. This will likely have an effect on the future value of traditional food-anchored retail plazas. Montreal is showing signs of growth, with a newly completed 400,000 sf power centre open for business. Some property owners in popular shopping areas like Ste. Catherine Street and St. Laurent Boulevard are receiving multiple offers for soon-to-be vacant space – truly a landlord's market. In Calgary, the boom continues with retail sales up 18% over last year heading into the lucrative holiday period. With a disciplined market and strong economic fundamentals, Calgary continues its pace, underscored by the 2.5 million sf of retail space currently under development. Overall, the national retail real estate sector should see similar strength across most markets heading into 2007.

FUND FACTS

Annual Return

Year	2001	2002	at December 31 2003	2004	2005	2006
Income	8.6%	7.8%	7.3%	7.1%	7.0%	6.5%
Capital	2.1%	-0.1%	-0.3%	1.0%	7.2%	11.6%
Total	10.7%	7.7%	7.0%	8.1%	14.2%	18.1%
Total Return to Individuals (net of fees)*	7.5%	4.7%	4.0%	5.2%	11.1%	14.9%

* Fees may vary by client

Fund Growth ($ millions)

Year	2001	2002	at December 31 2003	2004	2005	2006
Real Estate	$ 1,335	$ 1,523	$ 1,626	$ 1,670	$ 1,963	$ 2,576
Cash & Other	$ 75	$ 152	$ 167	$ 204	$ 299	$ 289
Gross Fund Value	$ 1,410	$ 1,675	$ 1,793	$ 1,874	$ 2,263	$ 2,865
Net Fund Value	$ 1,020	$ 1,214	$ 1,289	$ 1,380	$ 1,777	$ 2,383
Debt/Gross Fund Value	27.7%	27.5%	28.1%	26.3%	21.5%	16.8%

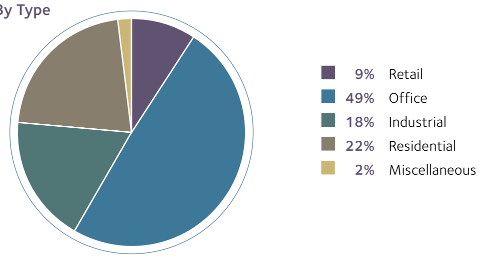
Vacancy

By Type

Retail	2.8%
Office	9.4%
Industrial	6.6%
Residential	1.8%
Total by Type	**6.2%**

Diversification (Gross)

By Type



Vacancy

By Region

British Columbia	4.2%
Alberta	3.3%
Ontario	7.9%
Quebec	4.0%
Atlantic	17.0%
U.S.	11.2%
Total by Region	**6.2%**

Diversification (Gross)

By Region