

Q3 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 132 quality income producing properties diversified by type and location, with a gross value of over \$1.8 billion. The Fund's objective is to provide investors with stable income returns and the opportunity for long-term capital appreciation.



First Canadian Centre, Calgary, Alberta

ACTIVITY

At September 30, 2005, the Fund has recorded a year-to-date total return of 10.0%. This strong return continues to track ahead of plan and is composed of a 5.2% income return and a 4.8% capital return. The income return remains in line with management's expectations but the capital return has been the driving force behind the exceeded expectations, due to increasing asset values which have continued throughout the year.

The Fund's development of a 368,000 sf Class 'A' office building for the federal government in downtown Ottawa is now completed. This has been an extremely successful development for the Fund, which was completed on time and below budget. Developments like this, as well as ongoing development activities such as the Fund's industrial development in Brampton, Ontario, for the Bombay Company, provide strong risk-adjusted returns for the Fund going forward.

The Fund had another busy quarter with acquisitions, as high-quality properties with strong return characteristics continue to be added to the portfolio. The most significant acquisition in the third quarter was the \$70.5 million purchase of a 37.5% interest in First Canadian Centre in downtown Calgary. This 498,000 sf Class 'A' office building occupies 1.9 acres of land and includes an existing substructure to accommodate a second office tower. This office building is over 98.0% occupied by a number of high-profile tenants, including BMO Bank of Montreal, as well as legal and professional services and resource sector tenants. This quality acquisition will form a core part of the Fund's office portfolio and represents what will likely be one of the largest individual office transactions in Canada in 2005.

The second acquisition was the \$15.0 million purchase of a 50% interest in Wanless Centre, a newly constructed, 103,000 sf retail strip centre in Brampton, Ontario. Wanless Centre is fully occupied and is anchored by A&P Food Basics. Other strong national tenants include TD Canada Trust, Blockbuster Video and Swiss Chalet. The centre is located in a newer and rapidly growing neighbourhood, which will help to ensure full occupancy going forward, thus generating strong returns for the Fund in future years. With the Wanless Centre acquisition the Fund continues its strategy of building a strong, stable retail portfolio nationwide.

The only disposition during the quarter was the sale of a 16.7% interest in the Purdy's Wharf office complex in Halifax for \$21.0 million. As a result of this sale the Fund has raised capital for further quality acquisitions while maintaining a one-third ownership interest in this Class 'A' two-tower office complex, which is the premier office property in Halifax. Fund management chose to take the gains from a partial sale based on very strong investment market conditions in Canada.

ADDING VALUE

In the Ontario multi-residential market, the provincial government regulates the annual rental rate increases that property owners may apply to existing residents through the Tenant Protection Act (TPA). This Guideline Increase (GI) is based on a three-year moving average of the operating costs across the province. However, buildings will vary from the average and the TPA allows for the application of an Above Guideline Increase (AGI) where the building experiences extraordinary operating expense increases in property taxes and / or utilities and / or extraordinary capital expenditures.

AGI applications for entire properties were especially common shortly after the TPA replaced the Landlord and Tenant Act in June of 1998. Prior legislation had kept rental rates artificially low through years of rent control. Relaxing of rent control legislation encouraged property owners to invest capital and improve their properties so that they could maximize the market rental rates charged to new residents. Property owners could also apply for AGI increases for the capital improvements invested, which moved existing residents' rents closer to market.

Most property owners discontinued AGI applications in recent years as the average resident's rent was "at market." Those property owners were concerned that an AGI application on their buildings would result in higher than average resident turnover.

Fund management revisited the viability of AGI applications by determining if individual resident rents were "at market." This diverged from the conventional view of Toronto area owners and managers. Fund management discovered that, although the majority of resident rents were "at market," there was a core group of residents who were still substantially below market. In particular, residents from the rent control era who had occupied apartments prior to June 1998 were still not paying market rents. Many owners and managers in Toronto were not aware that targeted resident AGI applications were possible.

In 2005, Fund management initiated a review of the resident rent rolls in our portfolio to target those residents substantially below market for their proportionate share of an AGI. Those residents who were "at or over market" were not included in the application and were not disturbed. AGI applications were submitted on five Fund properties at a total cost of \$17,500. This resulted in the Ontario Rental Housing Tribunal ordering a favourable increase above the guideline, averaging 2.6%. The resulting annual incremental income was \$187,300, creating value of \$2,992,000. Opportunities for AGI applications will continue to exist until all residents are paying a fair market rent.



Bayview Village, Toronto, Ontario

MARKET OVERVIEW

The Canadian real estate investment market, represented by the 13 largest metropolitan markets in the nation, continues its strong pace of trading activity from last year. Year-to-date investment sales for the first six months of 2005 total \$9.0 billion, compared to \$8.1 billion for the same period in 2004. Both the number of sales and the total dollar volume in 2005 are on pace to exceed 2004's results, ensuring what will likely be a record year. This continued strong level of sales activity has kept capitalization rates low and values at high levels.

The national office vacancy rate has posted a further decline to 8.9% overall, compared to 9.5% in the second quarter. With oil currently priced at over \$60 per barrel it is no surprise that Calgary is the tightest office market in Canada with a vacancy rate of 5.3% overall. Calgary's downtown vacancy rate is 4.2%, which is why there have been several announcements in recent months regarding new office construction. There are three office buildings currently under construction in downtown Calgary totalling nearly 1.0 million sf. Plans or announcements have been released for several more, which will bring the potential total to almost 9.3 million sf of new office supply in downtown Calgary over the next five years.

The industrial market has maintained an even keel despite increases in the Canadian dollar, which have made exports to the United States more expensive. Strong domestic demand, a growing distribution and warehousing sector, and disciplined levels of new supply have helped to keep industrial availability in Canada at a 5.1% level. Industrial availability has been hovering around the 5.0% mark for the last several quarters.

The multi-residential apartment market has seen improved conditions in the last 12 months as the private housing market has started to show some signs of moderating. As an example, according to Altus Helyar Group, the Greater Toronto Area's apartment vacancy rate fell to 2.7% in April 2005, from 4.8% one year earlier. Furthermore, according to CMHC, 13.0% fewer renters intend to buy a home today than in 2004.

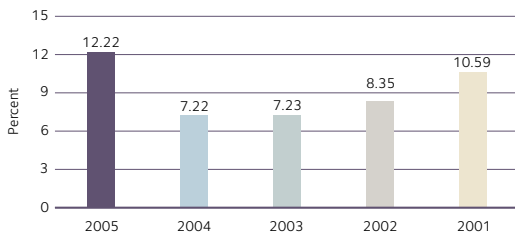


Alberta Stock Exchange Tower, Calgary, Alberta

FUND FACTS

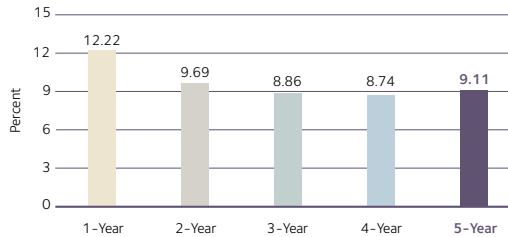
Gross Annual Rates of Return

at September 30



Gross Annualized Rates of Return

at September 30, 2005



Gross Return (before fees)

Year	2000	2001	2002	2003	2004	2005 Q3
Income	8.0%	8.6%	7.8%	7.3%	7.1%	5.2%
Capital	2.6%	2.1%	-0.1%	-0.3%	1.0%	4.8%
Total	10.6%	10.7%	7.7%	7.0%	8.1%	10.0%

Fund Growth (\$ millions)

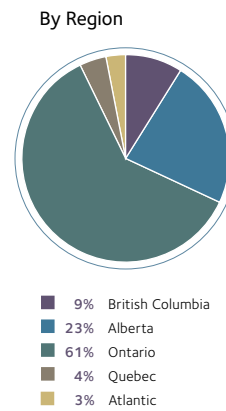
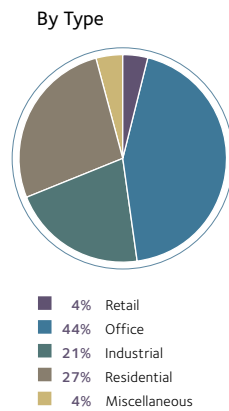
Year	2000	2001	2002	2003	2004	2005 Q3
Real Estate	\$ 1,210	\$ 1,335	\$ 1,523	\$ 1,626	\$ 1,670	\$ 1,881
Cash & Other	\$ 56	\$ 75	\$ 152	\$ 167	\$ 204	\$ 265
Gross Fund Value	\$ 1,266	\$ 1,410	\$ 1,675	\$ 1,793	\$ 1,874	\$ 2,146
Net Fund Value	\$ 982	\$ 1,020	\$ 1,214	\$ 1,289	\$ 1,380	\$ 1,651
Debt / Gross Fund Value	22.4%	27.7%	27.5%	28.1%	26.3%	23.1%

Vacancy

By Type	
Retail	17.82%
Office	9.78%
Industrial	4.61%
Residential	1.63%
Total by Type	5.97%

By Region	
British Columbia	4.35%
Alberta	4.44%
Ontario	5.56%
Quebec	8.28%
Atlantic	22.50%
Total by Region	5.97%

Diversification



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