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Principal U.S. Property Separate Account

Third Quarter 2012 Performance Report

COVER: EpiCenter Apartements in Seattle, WA

OPPOSITE: Watermark II in Cambridge, MA

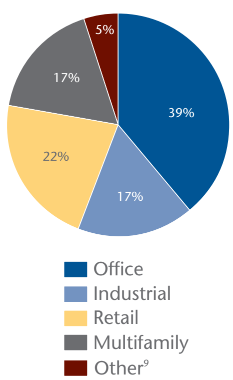
PORTFOLIO HIGHLIGHTS

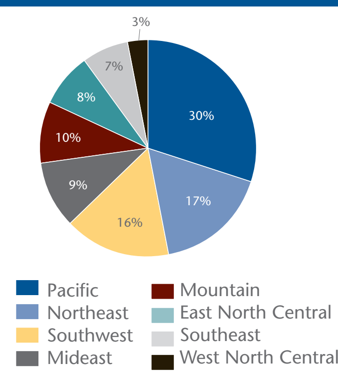
KEY STATISTICS (as of September 30, 2012)			
Inception Date	Jan, 1982	Cash to Gross Assets	3.7%
Gross Asset Value	$5,311 million	Institutional Investors > $5m	92
Net Asset Value	$3,993 million	Quarterly Client Contributions	$117.4 million
Number of Investments	117	Quarterly Client Distributions	$132.7 million
Number of Markets	40	Leverage Ratio[1]	21.2%
Size	30.0 million sf	Portfolio Occupancy[2]	91.9%

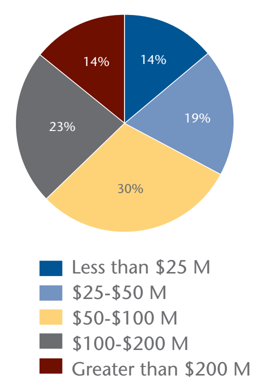
SECTOR	CURRENT ALLOCATION	NCREIF ALLOCATION	TARGET ALLOCATION
Office	39%	37%	35 - 45%
Multifamily	17%	25%	15 - 25%
Retail	22%	17%	15 - 25%
Industrial	17%	17%	15 - 25%
Hotel and Land	5%	3%	0 - 5%

PERFORMANCE	GROSS PORTFOLIO[3]	PORTFOLIO BENCHMARK[4]	NET PORTFOLIO[5]	PROPERTY[6]	PROPERTY BENCHMARK[7]
3Q 2012	3.40%	2.79%	3.11%	3.16%	2.61%
1 Year	13.05%	11.77%	11.75%	11.99%	10.98%
3 Year	12.99%	11.88%	11.70%	11.37%	11.81%
5 Year	-1.41%	-1.48%	-2.53%	0.61%	1.78%
10 Year	6.33%	6.26%	5.11%	7.42%	7.83%
Since Inception	7.30%	6.84%	6.15%	7.91%	7.21%

PORTFOLIO DIVERSIFICATION[8]







The Principal U.S. Property Separate Account (the Principal U.S. Property Account or the Separate Account) is an open-end, commingled real estate account available to retirement plans meeting the requirements for qualification under Section 401(a) of the Internal Revenue Code of 1986 ("Code"), as amended, and governmental plans meeting the requirements of Section 457 of the Code, as amended, since 1982. The Separate Account is an insurance company separate account sponsored by Principal Life Insurance Company and managed by Principal Real Estate Investors.

[1]Separate Account's share of total debt (both property and portfolio) divided by Separate Account's share of total gross assets

[2]Occupancy excludes value-added assets which are acquired at less than 85% occupancy, are under development or are condominium units available for sale. Occupancy for the total portfolio is 89%. Occupancy shown is percentage leased and calculated based on square footage.

[3]Gross portfolio returns include leverage. Actual client returns will be reduced by investment management fees and other expenses that may be incurred in the management of the portfolio. The highest standard institutional investment management fee (annualized) for the Principal U.S. Property Separate Account is 1.15% on account values. Actual investment management fees incurred by clients may vary and are collected daily which produces a compounding effect on the total rate of return net of management fees and other expenses. Investment management fees are subject to change.

[4]Gross portfolio performance is benchmarked against the the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index - Open-end Diversified Core Equity (NFI-ODCE) Equal Weight.

[5]Net portfolio returns are shown after deduction for portfolio expenses including an investment management fee, which is 1.15% annually from July 1, 2002 through the present. Net portfolio returns prior to July 1, 2002 are calculated to reflect deduction of blended annualized investment management fees of 1.15% and 1.05% in the periods in which those amounts were charged. Investment management fees range from 80 - 115 basis points.

[6]Property returns are unlevered, before fees and calculated in accordance with NCREIF property return methodology.

[7]Property performance is benchmarked against the Open-end Fund component of the NCREIF Property Index.

[8]Diversification is based upon the Separate Account's gross market value of real estate assets.

[9]Comprised of hotel (3%) and land (2%) investments.

PORTFOLIO HIGHLIGHTS *CONTINUED*

RETURNS

PORTFOLIO RETURNS[1]	3Q2012	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Income	1.41%	5.78%	6.33%	5.81%	5.80%
Appreciation	1.99%	6.95%	6.34%	-6.91%	0.50%
TOTAL RETURN	3.40%	13.05%	12.99%	-1.41%	6.33%

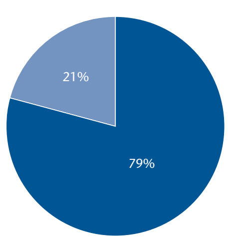
PROPERTY RETURNS[2]	3Q2012	1 YEAR	3 YEAR	5 YEAR	10 YEAR
Income	1.39%	5.80%	6.17%	5.74%	5.90%
Appreciation	1.77%	5.94%	4.97%	-4.92%	1.45%
TOTAL RETURN	3.16%	11.99%	11.37%	0.61%	7.42%

THIRD QUARTER PERFORMANCE

PROPERTY SECTOR[2,3]	OFFICE	INDUSTRIAL	RETAIL	MULTIFAMILY
Income	1.43%	1.26%	1.57%	1.35%
Appreciation	2.04%	0.86%	0.33%	4.42%
TOTAL RETURN	3.47%	2.12%	1.90%	5.78%

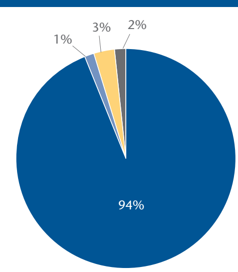
GEOGRAPHIC REGION[2]	EAST	MIDWEST	SOUTH	WEST
Income	1.12%	1.87%	1.34%	1.45%
Appreciation	3.44%	-0.06%	1.25%	1.55%
TOTAL RETURN	4.56%	1.81%	2.59%	3.00%

STRUCTURE



Wholly Owned
Joint Venture

LIFE CYCLE



Core
Development
Large Leasing
Other

[1]Gross portfolio returns are levered and pre-fee.
[2]Property returns are unlevered, before fees and calculated in accordance with NCREIF return methodology.
[3]Hotel performance was as follows: 1.33% Income, 0.86% Appreciation and 2.18% Total.

PORTFOLIO PERFORMANCE & COMMENTARY

The third quarter of 2012 registered notable improvement over second quarter in U.S. markets and economic fundamentals. Despite considerable ongoing risks related to the political landscape of the country and the policy implications thereof, equities markets rebounded strongly, treasury yields dipped lower and many leading economic indicators reported measureable improvement. GDP growth increased from the disappointing second quarter; though remains dampened for this stage of an economic recovery. The biggest improvement may have been in the job market, evidenced by payroll employment increases that topped 500,000 and separately by the unemployment rate which declined sharply at the end of September. Purchasing manager indices also posted improvement, despite slowing global growth and continued uncertainty surrounding the European debt crisis. The commercial real estate market also delivered a strong quarter, with rallies in both the public and private debt markets and continued improvement in space market fundamentals throughout the country.

Strong performance of the Principal U.S. Property Separate Account ("the Separate Account") reflected the ongoing recovery in the real estate market, with a total gross portfolio level return of 3.40%, comprised of income totaling 1.41% and appreciation totaling 1.99%. Quarterly performance again exceeded that of the Separate Account's portfolio level benchmark, the NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE) Equal Weight, which returned 2.79% during the quarter. As of September 30, 2012, performance of the Separate Account also exceeds that of the NFI-ODCE Equal Weight Index over the year-to-date, one, three, five and ten year time periods. A critical component of the Separate Account's outperformance is the above-benchmark income return, nearly 8.5% ahead of the benchmark return in the third quarter. The Separate Account's income return was generated through and is sustained by continued strong operational performance of the assets within the Separate Account.

> As of September 30, 2012, gross portfolio performance of the Separate Account exceeds that of the NFI-ODCE Equal Weight Index over the year-to-date, one, three, five and ten year time periods.

Third quarter operations within the Separate Account reflect the continued focus on leasing and net operating income

ONE YEAR PERFORMANCE

PROPERTY SECTOR[1,2]	OFFICE	INDUSTRIAL	RETAIL	MULTIFAMILY
Income	5.81%	5.47%	6.56%	5.58%
Appreciation	4.84%	6.10%	3.16%	11.85%
TOTAL RETURN	10.86%	11.81%	9.87%	17.92%
GEOGRAPHIC REGION[1]	EAST	MIDWEST	SOUTH	WEST
Income	4.74%	7.13%	5.78%	6.08%
Appreciation	8.08%	2.30%	6.29%	5.52%
TOTAL RETURN	13.10%	9.55%	12.34%	11.85%

[1]Property returns are unlevered, before fees and calculated in accordance with NCREIF return methodology.
[2]Hotel performance was as follows: 6.08% Income, 4.81% Appreciation and 11.10% Total.

PORTFOLIO PERFORMANCE & COMMENTARY *CONTINUED*

(NOI) growth. In total, more than 550,000 square feet of positive net absorption was recorded during the quarter, bringing the one year total net absorption to more than one million square feet. When coupled with strong tenant retention and marginal levels of rollover, this level of leasing activity has driven marked increases in NOI across the portfolio. NOI increased from the third quarter of 2011 to the third quarter of 2012, with same-property NOI increasing nearly 7.0% year-over-year for the period ending September 30, 2012.

In addition to leasing and NOI growth, the income return of the Separate Account has been bolstered by the low cost of debt capital. During the quarter the Separate Account's cost of debt declined further through the retirement of a $65 million note at 6.09% interest and the issuance of a new ten-year $52 million note at 3.58%. At September 30, 2012, the Separate Account's cost of debt totaled 4.0%, among the lowest cost of debt of the 18 data contributing members to the NFI-ODCE.

SAME-PROPERTY NET OPERATING INCOME (IN $ MILLIONS)	
Year ending 09/30/2011	$253.9
Year ending 09/30/2012	$271.7
Growth	7.0%

Transaction activity during the quarter included the acquisition of an additional parcel of land at an existing asset in San Francisco, CA, the sale of an industrial building in Washington, D.C. and two partial sales. Further, development commenced at Oakmead Tower, an office asset located in the Sunnyvale submarket of San Jose. Development continued during the quarter at Watermark II and Grand Lakes Marketplace, with more updates provided in the Transaction Activity section of this report.

The Separate Account remains open to new investment at this time, and as such, provides immediate exposure to a diversified portfolio of high-quality real estate assets.

TEN LARGEST INVESTMENTS

INVESTMENT NAME	METROPOLITAN AREA	SECTOR	OCCUPANCY	% OF GROSS REAL ESTATE ASSETS
1370 Avenue of the Americas	New York	Office	82.3%	5.5%
112 @ 12th	Seattle	Office	95.3%	4.2%
Burbank Empire Center	Los Angeles	Retail	100.0%	3.9%
Watermark I	Cambridge	Multifamily/Retail	98.6%	3.3%
Capitol Plaza	Washington, D.C.	Office	97.6%	3.2%
Charles Park	Cambridge	Office	83.2%	2.6%
J.W. Marriott Resort and Spa	San Antonio	Hotel	80.9%	2.6%
420 West 42nd Street	New York	Multifamily	99.4%	2.5%
150 Spear Street	San Francisco	Office	83.6%	2.3%
Portales Corporate Center	Phoenix	Office	92.8%	2.3%
			TOTAL	32.4%

MARKET COMMENTARY

U.S. Economy

Investor optimism returned in the third quarter, thanks in large part to the Fed's announcement of the continuation of accommodative monetary policy through additional quantitative easing. The rally received additional support from the European Central Bank through its assurances that it would do "whatever it takes" to stabilize borrowing rates for maligned Eurozone countries like Spain and Italy. Despite improvement in the market, considerable political and policy uncertainty remains as the European debt crisis has yet to be resolved, slower global growth impacts export activity in growth-driving markets such as China, and political uncertainty in the United States related to the presidential election and looming fiscal cliff create additional volatility for businesses and taxpayers alike. Despite these ongoing risks, the market reacted favorably to the Fed's policy announcement, which resulted in the S&P rising 5.8% for the quarter, while 10-year U.S. Treasury yields fell slightly from 1.66% to 1.65%.

According to The Bureau of Economic Analysis, the advance estimate of third quarter GDP growth was 2.0%. While the 2.0% rate is again disappointing at this stage in the economic recovery, it is an improvement over second quarter's revised 1.3% growth rate. The improved growth rate was led by government spending, which was up 3.7%. Consumer spending, the largest component of GDP, was up 2.0%, an increase from the second quarter's 1.5% increase. Housing, represented by investment in residential structures, continues to be a bright spot in the economic growth picture rising 14.4%. Detracting from growth were decreases in investment in non-residential structures, a decline in exports, and reduced investment in inventory.
Job creation also recovered slightly in the third quarter with the addition of 521,000 jobs. This level was a considerable improvement over the 200,000 jobs created in the second quarter, but well below the 677,000 jobs added in the first quarter. Year to date, the economy has added nearly 1.4 million jobs. The public sector reported job gains, though the majority of new jobs continue to be added by the private sector. Job growth within the service sector is driving the jobs recovery, while the goods producing sector shed an additional 12,000 positions during the quarter. In a separate survey, the unemployment rate fell dramatically in September from 8.1% to 7.8%.

> The third quarter was positive for all sectors of the commercial real estate market, with strong rallies throughout July and August in both public and private real estate debt and positive performance reported by both public and private equity indices.

The residential housing market began showing stronger signs of recovery in the third quarter. Existing home sales averaged 4.86 million annual units during the quarter, and the inventory available for purchase fell below six months for the first time since 2006. Fewer distressed sales also allowed the median price to rise to 11.3% on a year over year basis. Shrinking inventory led to a boost in the number of new units under construction. For the quarter, new home starts averaged 786,000 units, the highest level of new construction since 2008. Increased new construction seems likely to continue as the number of new permits issued rose by 11.6% in September and home builder confidence continues to improve .

U.S. ECONOMY AT A GLANCE (3Q2012)[1]								
GDP Growth	2.0%	↑	Personal Consumption	2.0%	↑	Fed Funds Rate	0.1%	←→
Job Growth	0.4%	↑	CPI	2.0%	↑	30 Day LIBOR	0.2%	↓
Unemployment Rate	7.8%	↓	CPI Core	2.0%	↓	10 Year Treasury	1.7%	↓

[1]Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Bank, Daily Press
Arrows indicate trend from the previous quarter. CPI monthly year/year change for quarter.

MARKET COMMENTARY *CONTINUED*

Following the July 31-August 1 meeting of the Federal Open Market Committee (FOMC), the consensus estimates forecasted that an additional round of monetary stimulus was imminent. The market proved correct and in a statement following the FOMC meeting on September 12-13, Federal Reserve Chairman Ben Bernanke announced another round of quantitative easing. The third round of asset purchases, aptly named QE3, is a plan to purchase $40 billion in mortgage backed securities per month, for an unlimited number of months. Factors driving the Fed's decisions were the continued high rate of unemployment, a housing sector that is improving but remains distressed, and slow growth in capital investments by businesses. Consensus by the FOMC is to leave the Fed Funds rate at low levels until at least mid-year 2015. The continued accommodative monetary policy and mid-term forecast for low rates is likely to have a neutral, if not positive impact on commercial real estate. First, low borrowing rates are likely to remain prevalent and second, the risk of cap rate expansion to maintain the spread between rising risk free rates and real estate yields remains mitigated.

U.S. Real Estate Capital Markets

The third quarter was positive for all sectors of the commercial real estate market, with strong rallies throughout July and August in both public and private real estate debt and positive performance reported by both public and private equity indices. CMBS activity increased markedly throughout the quarter, with spreads tightening and multiple new issuances reported. This in turn spurred additional competition for deals among various institutional lenders, pushing life company spreads in considerably at the end of the quarter. REIT performance was strong throughout July, increasing again slightly in August, but giving back a portion of prior gains through September. The private equity real estate market continues to improve, buoyed by strong investor interest and the widespread availability of debt capital at historically low rates. The NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE) Equal Weight posted a third quarter return of 2.79%, bringing one year performance to 11.77% gross of fees. While performance continues to be positive, the pace of appreciation has slowed dramatically since the beginning of the recovery in late 2010 and throughout 2011. Performance at the property level was positive, though also continued to moderate towards more normalized levels. The Open-end Fund Component of the NCREIF Property Index (NPI) returned 2.61%, for one year performance of 10.98%. Values within the broader NPI have increased more than 19% from trough, though remain approximately 19% below peak in aggregate.

Real Capital Analytics reported a considerable drop in nationwide sales transaction volume from second to third quarter 2012. In total, $44 billion in transactions closed during the third quarter, a drop of nearly 40% from second quarter 2012 and a drop of approximately 20% from year ago levels. Total transaction activity through the first three quarters of 2012 is up 2.2% over the same period in 2011, although the pace of closings dropped significantly as the year progressed. While some of the decline in activity is likely attributable to investors awaiting the results of the election and impending fiscal cliff, much of the decline is likely the result of a lack of supply. This may reverse somewhat in the fourth quarter as a considerable amount of new supply was brought to market at the end of the third quarter, especially in highly sought after barrier markets. Second quarter 2012

MARKET COMMENTARY *CONTINUED*

commercial and multifamily mortgage loan originations were 25% higher than the same period in 2011 and 39% higher than the first quarter 2012. The increase is primarily attributed to low interest rates, continued improvement in commercial real estate markets and strong investor demand for the asset class. As a result, according to the Mortgage Bankers Association, every major investor group increased its lending during the second quarter.

U.S. REAL ESTATE CAPITAL MARKETS AT A GLANCE (3Q2012)					
Transaction Volume	$41.6B	↓	NAREIT Index	1.0%	↓
NFI-ODCE Equal-Weight	2.8%	↑	Life Company Spread	150 - 205 bps	↓
Open-end Fund Component of NPI	2.6%	↓	Delinquency Rate[1]	0.2%	↑

Source: Principal Global Investors, Real Capital Analytics, NCREIF, NAREIT, JP Morgan, ACLI.
Arrows indicate whether the number was higher or lower than the previous quarter.
[1]Second Quarter 2012 ACLI Commercial Mortgage Delinquency Rate Life Company Portfolios 60+ days delinquent (most recent available).

U.S. Real Estate Space Markets

Space market fundamentals continued to improve in the third quarter, resilient in the midst of broader concerns of slower economic growth. The pace of improvement remains modest with all four major property types posting only 10 – 20 basis point increases in occupancy. While the pace of the recovery remains slow, it continues to spread to a growing number of markets and property subsectors. The pace of the recovery has been consistent enough through 2012 to move rental growth into positive territory for all four of the primary property sectors.

The outlook for the remainder of 2012 is for space market fundamentals to continue their slow but steady improvement. While job growth showed improvement in the third quarter, weakened business sentiment and reduced earnings forecasts may place near term pressure on any new space requirements for office using employment. Further, continued slowing in global growth and reduced trade may dampen demand for the retail sector, though positive purchasing manager index readings from the third quarter could mitigate some of the impact from slowed growth. Retail demand will likely see a seasonal boost as retailers take temporary locations for the holidays and consumers are encouraged to spend in the wake of declining gas prices. The multifamily sector is likely to see continued steady demand for units, but the lack of available inventory, rising rent levels, and improvement in the owner occupied market could slow demand in the fourth quarter.

U.S. REAL ESTATE SPACE MARKETS AT A GLANCE (3Q2012)	MULTIFAMILY		INDUSTRIAL		RETAIL		OFFICE	
Vacancy	4.7%	↓	13.3%	↓	12.6%	↔	14.9%	↓
Rent Growth	0.9%	↑	1.4%	↑	1.0%	↑	1.2%	↑
Under Construction (% of inventory)	2.0%	↑	0.3%	↔	0.2%	↔	0.8%	↑

Source: Principal Real Estate Investors, REIS Inc., CoStar.
Arrows indicate whether the number was higher or lower than the previous quarter.

TRANSACTION ACTIVITY

One acquisition and three dispositions closed during the third quarter for total transaction activity of approximately $27 million.

Acquisitions

A 1.5 acre parcel of land was acquired for $3.7 million in an acquisition at O'Brien Drive, a current holding located in the Menlo Park submarket of San Francisco. The existing asset includes four buildings totaling 70,000 square feet and is 100% leased. The acquisition will accommodate a new 36,000 square foot state-of-the-art research and development facility. Vertical construction is anticipated to begin mid-November.

ACQUISITIONS				
PROJECT	SECTOR	METROPOLITAN AREA	SIZE	PRICE ($M)
O'Brien Drive*	Land	San Francisco	1.5 acres	$3.7
TOTAL 3Q2012 ACQUISITIONS				$3.7

*Partial transaction

Dispositions

Chantilly Distribution Center, a 160,000 sf warehouse facility located in Washington, D.C. was sold for $17.3 million. The asset was sold to eliminate exposure to an inferior submarket while capitalizing on pricing above reproduction cost. One of two buildings at Bensenville Warehouse was sold for $5.8 million to an owner-user during the quarter. The execution of the sale reduces the Separate Account's exposure to lower-quality, suburban properties. The final unit at 170 King, a for-sale condominium project located across from AT&T Ballpark in San Francisco, CA was sold for proceeds of $0.6 million.

DISPOSITIONS				
PROJECT	SECTOR	METROPOLITAN AREA	SIZE	PRICE ($M)
Bensenville Warehouse*	Industrial	Chicago	120,985 sf	$5.8
Chantilly Distribution Center	Industrial	Washington, D.C.	160,111 sf	$17.3
170 King*	Multifamily	San Francisco	1 unit	$0.6
TOTAL 3Q2012 DISPOSITIONS				$23.6

*Partial transaction

In addition to the aforementioned transaction activity, progress continued throughout the quarter at the Separate Account's three on-going development sites:

- The construction of Watermark II, a multifamily asset located in Cambridge, MA, continues to proceed both on time and on budget with major façade work nearly complete. The project will be the first to deliver within the market, targeting a completion date of late spring, 2013.
- Construction continued at Grand Lakes Marketplace, a retail development located in west Houston. The project is anchored by Whole Foods Marketplace, Cost Plus World Market and Stein Mart.
- Vertical construction commenced during the third quarter at Oakmead Tower, a 100,000 square foot office building located in the Sunnyvale submarket of San Jose, CA.

Transaction activity through year end is expected to include a handful of additional strategic dispositions in addition to the commencement of vertical construction at O'Brien Drive. The production and portfolio management teams continue to be very selective in identifying acquisition opportunities, and are current evaluating multiple new transactions.

OPERATIONS

Separate Account operations strengthened further during the third quarter of 2012, with strong tenant retention, increasing occupancy and continued growth in net operating income. In total, net operating income remains well ahead of budget, with forecasted year-end results likely to be 8-10% ahead of initial expectations. Further, only 11% of total space in the portfolio expires through the end of 2013, presenting an opportunity for additional occupancy gains and net operating income growth throughout the portfolio.

Continued positive net absorption drove considerable occupancy gains during the third quarter. Occupancy within the core portfolio increased to 92% while occupancy for the total portfolio increased to more than 89%. In total, net absorption reached more than 550,000 square feet during the third quarter, driven primarily by activity within the industrial sector. The most notable lease transaction was that of a 325,000 square foot building located in Northern New Jersey, for which one tenant signed a full building lease. Net absorption within the office portfolio totaled nearly 156,000 square feet, driven by large leases signed at buildings in Dallas and Denver. The multifamily sector also posted positive net absorption, with quarterly gains totaling nearly 72,000 square feet. Activity in the retail sector was relatively flat, with negative net absorption of (4,000) square feet. In total, portfolio-wide net absorption during the last twelve months now totals more than 1,000,000 square feet.

Significant leasing gains, strong tenant retention and minimal rollover resulted in another strong quarter of net operating income (NOI) growth for the portfolio. In total, same-property NOI increased 9.8% when comparing the third quarter of 2011 to the third quarter of 2012. As a result, one year same-property NOI growth for the period ending September 30, 2012 now totals nearly 7.0%, driven by performance within the hotel, retail and multifamily sectors. While performance has been strong throughout 2012, one year forward looking projections are also robust with forecasted year-over-year NOI growth over the next twelve months totaling approximately 7.5%, bolstered by growth in the office and retail sectors.

FORWARD COMMITMENTS

PROJECT	SECTOR	METROPOLITAN AREA	MAXIMUM LOAN AMOUNT ($M)	SEPTEMBER 30, 2012 LOAN BALANCE ($M)
15th and Island	Land	San Diego, CA	$17.1	$15.4
Stevens Creek	Land	San Jose, CA	$40.3	$36.8
Everett Riverfront	Land	Seattle, WA	$17.3	$15.5
Guasti	Land	Riverside, CA	$49.5	$44.0
TOTAL FORWARD COMMITMENTS			$124.2	$111.7

LEASE EXPIRATION SCHEDULE (BY YEAR)[1]

	2012	2013	2014	2015	2016
Office	4%	9%	12%	10%	16%
Retail	4%	6%	5%	12%	10%
Industrial	3%	7%	15%	16%	10%
TOTAL	4%	8%	12%	14%	12%

[1]Lease expiration percentage is based on the total amount rentable square feet expiring within each property sector during the calendar year.

OPERATIONS

OPERATIONAL METRICS[1]

PROPERTY TYPE	OCCUPANCY	OCCUPANCY EXCLUDING VALUE-ADDED PROPERTIES[1]	NET ABSORPTION[2]	YEAR 1 CAP RATE[3]	DISCOUNT RATE (IRR)[3]
Office	85%	87%	155,689 sf	5.4%	7.9%
Retail	94%	94%	(4,157) sf	6.5%	8.0%
Industrial	89%	93%	327,543 sf	5.9%	8.0%
Multifamily	97%	97%	71,661 sf	5.3%	7.0%
TOTAL	89%	92%	550,736 sf	5.8%	7.9%

[1] Occupancy shown is percentage leased and is calculated based on square footage. Value-added assets include those that are acquired at less than 85% occupancy or are under development.

[2] Net absorption reflects change in occupied square feet since the end of the previous quarter.

[3] Excludes value-added assets.

LEVERAGE INFORMATION

	INTEREST RATE	% OF TOTAL DEBT
Fixed Interest Rate Obligations	4.4%	76.1%
Floating Interest Rate Obligations	2.7%	23.9%
TOTAL OBLIGATIONS	4.0%	100.0%
Secured Obligations	3.9%	82.4%
Unsecured Obligations	4.4%	17.6%
TOTAL OBLIGATIONS	4.0%	100.00%

IMPACT OF MARKING DEBT TO MARKET

3Q2012	-0.24%
1 Year	-0.35%
3 Year	-0.64%
5 Year	-0.13%

DEBT MATURITY SCHEDULE[1]

YEAR	DOLLAR AMOUNT ($M)	% OF DEBT MATURING
2012	$8.5	0.7%
2013	$197.8	17.4%
2014	$214.1	18.9%
2015	$144.7	12.8%
2016	$129.2	11.4%
2017+	$440.4	38.8%

[1] Debt maturity schedule is calculated using the principal balance of all outstanding notes, includes the Separate Account's share of non-consolidated joint venture debt and excludes the line of credit. The line of credit had an outstanding balance of $0 at 09/30/2012.

UNAUDITED FINANCIAL STATEMENTS

STATEMENT OF ASSETS AND LIABILITIES	SEPTEMBER 30, 2012	DECEMBER 31, 2011
ASSETS		
Real estate	$4,962,850,000	$4,575,980,000
Investments in real estate partnerships	38,914,109	31,252,765
Mortgage and other loans receivable	-	49,558,723
Short-term investments	178,028,876	262,259,578
Investments (at market)	5,179,792,985	4,919,051,066
Cash and cash equivalents	19,030,394	16,664,302
Accrued investment income and other assets	111,868,036	110,085,029
	130,898,430	126,749,331
TOTAL ASSETS	$5,310,691,415	$5,045,800,397
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Line of Credit	-	-
Mortgage notes payable	1,050,600,944	1,036,821,087
Accounts payable and accrued expenses	155,127,284	151,154,367
Accrued property taxes	30,164,246	20,743,877
Security deposits	14,993,092	14,251,628
TOTAL LIABILITIES	$1,250,885,566	$1,222,970,959
NET ASSETS:		
U.S. Property Separate Account net assets	3,992,629,959	3,755,393,314
Noncontrolling interests	67,175,890	67,436,124
NET ASSETS	$4,059,805,849	$3,822,829,438

UNAUDITED FINANCIAL STATEMENTS

STATEMENT OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30, 2012	NINE MONTHS ENDED SEPTEMBER 30, 2012
INVESTMENT INCOME:		
Revenue from real estate	$115,174,419	$342,059,397
Equity in income from real estate partnerships	669,234	4,428,909
Interest income on short term investments	132,905	701,847
Dividend income from joint venture investments	-	-
Total investment income	115,976,558	347,190,153
EXPENSES:		
Real estate expenses and taxes	46,858,146	136,693,534
Interest expense	11,927,161	35,928,355
Administrative expenses	1,625,545	5,784,128
Investment management fees	10,106,072	29,506,128
Total expenses	70,516,924	207,912,145
NET INVESTMENT INCOME	45,459,634	139,278,008
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Realized gain (loss) from sales	3,563,798	15,884,649
Less: previously recorded unrealized (gain) loss on sales	(1,037,952)	(12,131,377)
Net gain recognized from sales	2,525,846	3,753,272
Unrealized gain (loss) on investments held at end of period	74,955,905	218,462,482
Net realized and unrealized gain (loss)	77,481,751	222,215,754
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	122,941,385	361,493,762
Less: Portion attributable to noncontrolling interests	(826,207)	(9,810,517)
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT	$122,115,178	$351,683,245
AMOUNTS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT		
Net investment income	44,787,799	137,303,926
Net realized and unrealized gain (loss)	77,327,379	214,379,319
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT	$122,115,178	$351,683,245

UNAUDITED FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN NET ASSETS

	U.S. PROPERTY SEPARATE ACCOUNT	NONCONTROLLING INTERESTS	TOTAL
NET ASSETS - April 1, 2012	$3,885,835,347	$67,020,262	$3,952,855,609
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS:			
Net investment income	44,787,799	671,835	45,459,634
Net realized and unrealized gain	77,327,379	154,372	77,481,751
Net increase in net assets resulting from operations	122,115,178	826,207	122,941,385
NET (DECREASE) IN NET ASSETS RESULTING FROM CAPITAL TRANSACTIONS:			
Contributions	117,372,802	546,762	117,919,564
Distributions	(132,693,368)	(1,217,341)	(133,910,709)
Net (decrease) in net assets resulting from capital transactions	(15,320,566)	(670,579)	(15,991,145)
NET INCREASE (DECREASE) IN NET ASSETS:	106,794,612	155,628	106,950,240
NET ASSETS - September 30, 2012	$3,992,629,959	$67,175,890	$4,059,805,849

UNAUDITED FINANCIAL STATEMENTS

STATEMENT OF CASH FLOW

	THREE MONTHS ENDED SEPTEMBER 30, 2012	NINE MONTHS ENDED SEPTEMBER 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase in net assets resulting from operations	$122,941,385	$361,493,762
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Net realized and unrealized gain	(77,481,751)	(222,215,754)
Equity in income of real estate joint ventures	(669,234)	(4,428,909)
CHANGES IN:		
Accrued investment income and other assets	(7,563,125)	(3,484,634)
Accounts payable and accrued expenses	1,386,638	91,992
Accrued property taxes	8,599,868	9,420,369
Security deposits	173,287	741,464
Total adjustments	(75,554,317)	(219,875,472)
Net cash provided by operating activities	47,387,068	141,618,290
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from real estate investment sales	23,619,817	69,627,522
Purchases of real estate investments and improvements	(44,145,883)	(128,469,271)
Purchase of mortgage loan receivable	-	(18,991,197)
Net change in short-term investments	(25,087,920)	84,230,702
Net cash provided by investing activitiess	(45,613,986)	6,397,756
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of financing costs	(430,981)	(1,368,184)
Proceeds from borrowings and issuance of debt	57,808,155	204,144,809
Repayments of debt	(66,071,790)	(233,861,803)
Contractholder contributions	118,326,726	353,376,256
Contractholder distributions	(121,756,423)	(456,840,305)
Noncontrolling interests contributions	546,762	8,936,712
Noncontrolling interests distributions	(1,217,341)	(20,037,439)
Net cash (used in) financing activities	(12,794,892)	(145,649,954)
NET INCREASE IN CASH	(11,021,810)	2,366,092
CASH		
Beginning of period	30,052,204	16,664,302
End of period	$19,030,394	$19,030,394
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST	$9,915,597	$34,042,107

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

The Separate Account had accrued but unpaid purchases of real estate improvements of $47,151,210 as of September 30, 2012

The Separate Account processed contribution and distribution requests from contractholders of $1,138,413 and $13,074,682, respectively, on September 30, 2012. These contributions and distribution amounts are included in accrued investment income and other assets and accounts payable and accrued expenses in the statement of assets and liabilities, respectively.

The Separate Account assumed mortgage notes payable of $26,915,838 in 2012, in connection with the purchase of mortgage notes receivable.

During the quarter ended March 31, 2012, the Separate Account assumed title to a real estate investment which collateralized the mortgage notes receivable valued at $49,558,723 at December 31, 2011.

During the quarter ended September 30, 2012, the Separate Account assumed title to a real estate investment which collateralized the mortgage notes receivable valued at $45,900,000 at June 30, 2012.

Certain information contained in this report constitutes "forward-looking statements" that can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "estimate," "intend," "continue," or "believe" or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections or other estimates in this presentation are "forward-looking statements" and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to project and often depend upon factors that are beyond the control of Principal Real Estate Investors and its affiliates. All expressions of opinion and predictions in this report are subject to change without notice.

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National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors – the great majority being pension funds. As such, all properties are held in a fiduciary environment. The universe includes wholly owned and joint venture investments; operating properties only – no development projects; and only investment-grade, non-agricultural, income-producing properties in the apartment, hotel, industrial, office, and retail sectors.

The NCREIF Property Index is a private real estate market proxy that is based on property level returns (after properly level expenses). Open-End Fund Component of the NCREIF Property Index is a subcomponent of the NCREIF Property Index that employs all characteristics of the Index, however, only includes property level performance of open-end funds.

NFI-ODCE is a capitalization-weighted, gross of fee, time-weighted return index with an inception date of December 31, 1977. Supplemental data is also provided, such as equal-weight and net of fee returns, for informational purposes and additional analysis. Open-end Funds are generally defined as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests, thereby providing a degree of potential investment liquidity. The term Diversified Core Equity style typically reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable U.S. operating properties. The NFI-ODCE, like the NCREIF Property Index and other stock and bond indices, is a capitalization-weighted index based on each fund's Net Invested Capital, which is defined as Beginning Market Value Net Assets (BMV), adjusted for Weighted Cash Flows (WCF) during the period. To the extent WCF are not available; which may be the case for older liquidated funds, BMV is used. Indices are typically capitalization-weighted, as they better represent the universe and the performance of the overall marketplace. Total Return of any capitalization-weighted Index is, therefore, more influenced by the larger funds (based on Net Invested Capital) included in the Index. Additional information, such as the equally-weighted NFI-ODCE, is also presented to show what the results would be if all funds were treated equally, regardless of size. This presentation is typically used for statistical purposes and peer-to-peer comparisons.

This report has been prepared and presented in compliance with Real Estate Information Standards.

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