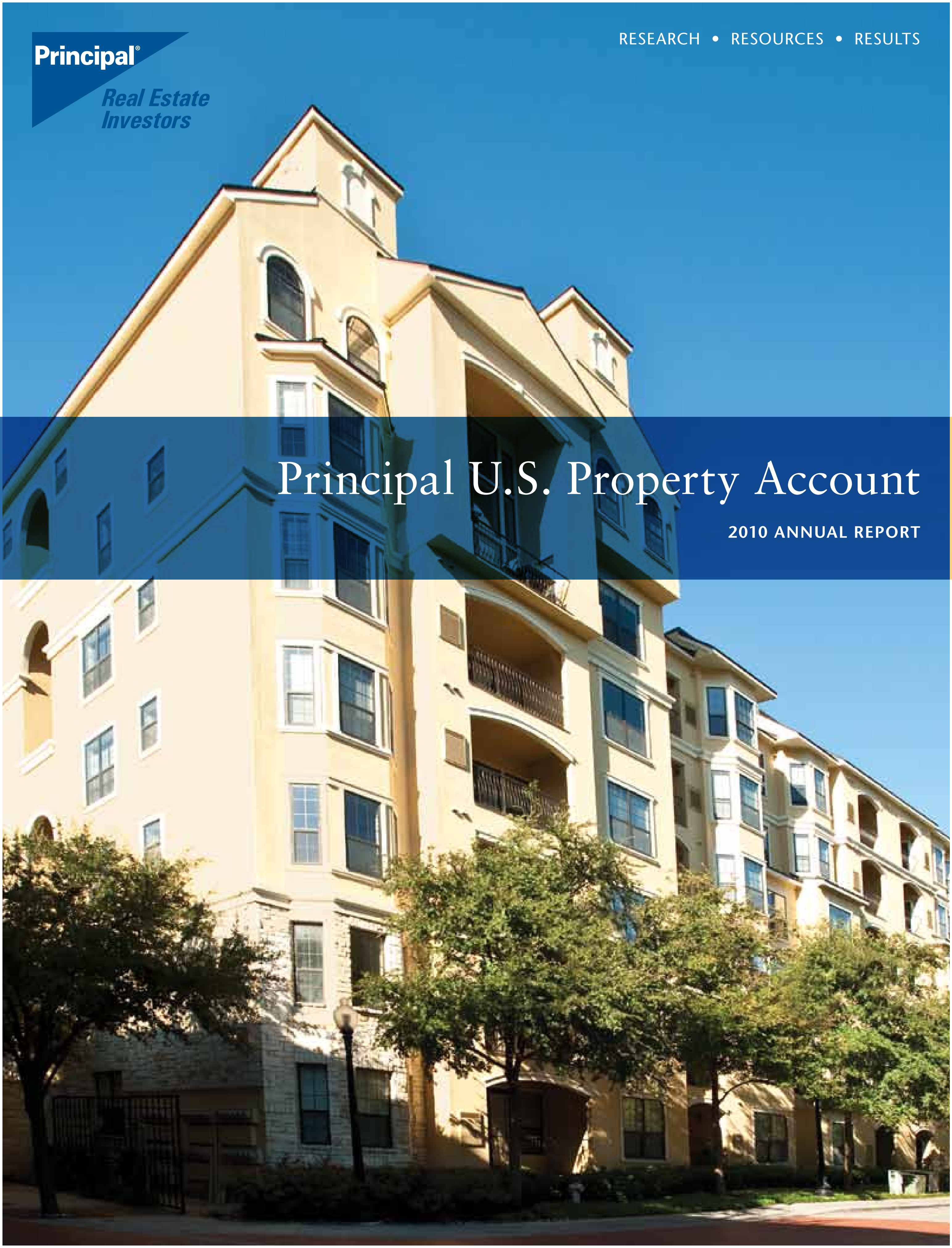
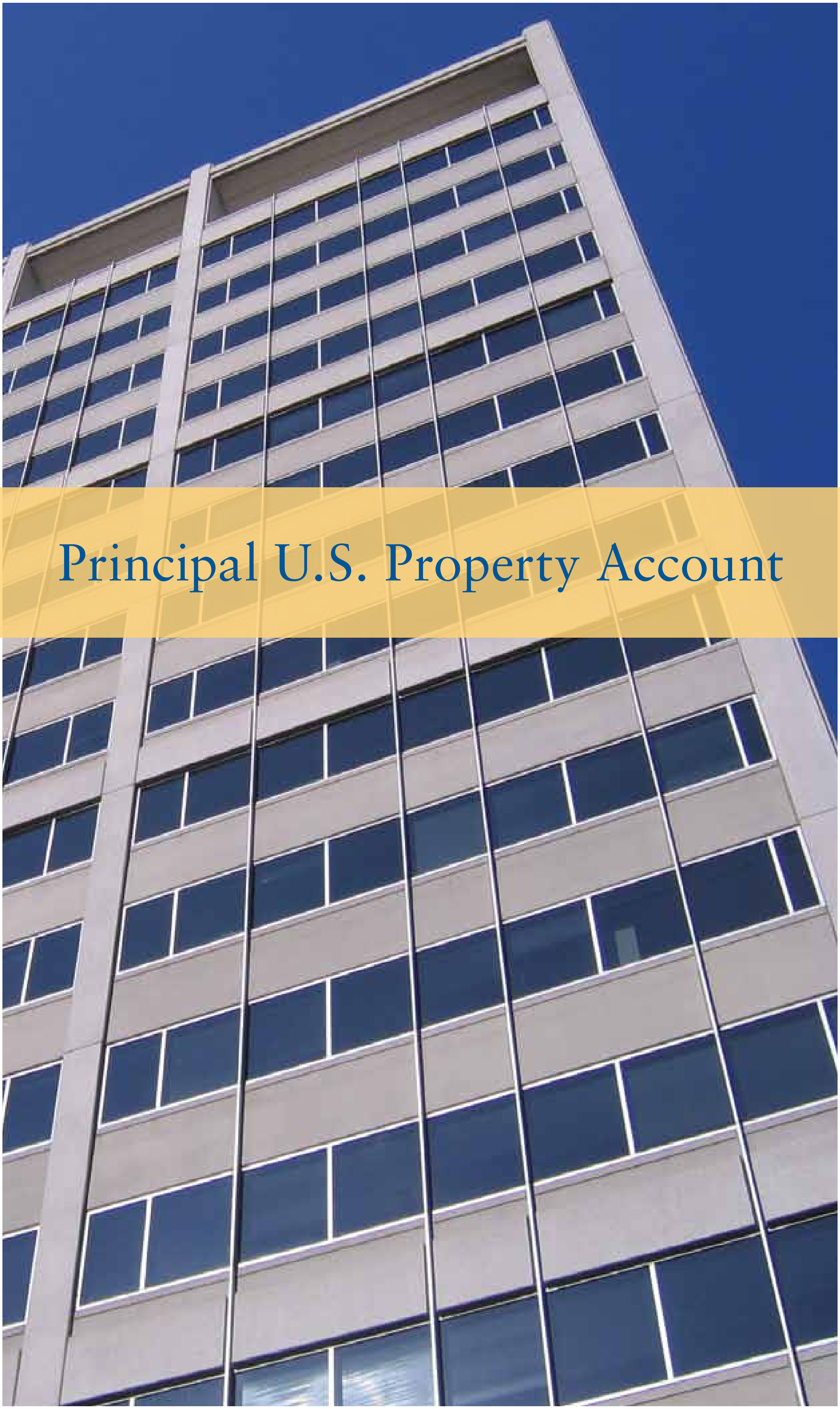
RESEARCH • RESOURCES • RESULTS



Principal U.S. Property Account

2010 ANNUAL REPORT

Principal U.S. Property Account



On the cover:
The Ravello
Dallas, TX

Left:
Union Tower
Chicago, IL

CONTENTS

PROFILE

Background

Since 1982, the Principal U.S. Property Separate Account (the U.S. Property Account or the Account)[1] has been made available to clients as an open-end, commingled real estate account sponsored by Principal Life Insurance Company. The Account is a diversified real estate equity account consisting primarily of high quality, well-leased real estate properties in the multifamily, industrial, office, retail and hotel sectors. The Account is available to qualified retirement plans. The Account is an insurance company separate account sponsored by Principal Life Insurance Company and managed by Principal Real Estate Investors.

Philosophy

The Account is a core real estate account designed to have a low to moderate risk profile compared to other open-end real estate funds. This risk profile has two components: 1) a low to moderate real estate property risk profile; and 2) a low to moderate risk portfolio level operating profile. Low to moderate real estate property risk is accomplished by investing primarily in well-leased properties on an unleveraged basis. Low to moderate portfolio level risk is accomplished by operating with limited portfolio level obligations and a well diversified portfolio.

Objectives

The Account has two primary objectives:

1) to invest in a well-diversified real estate portfolio that reflects the overall performance of the U.S. commercial real estate market, and

2) to provide clients with private real estate returns that, over a market cycle, meet or exceed:

- the open-end fund component of the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index at the property level, and
- the NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE) Equal Weight at the portfolio level.

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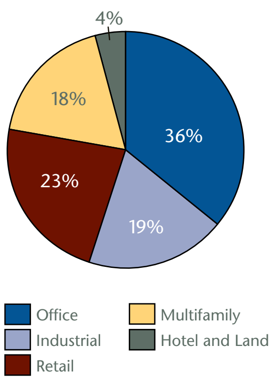
[1] The Principal U.S. Property Separate Account is an open-end, commingled real estate account available to retirement plans meeting the requirements for qualification under Section 401(a) of the Internal Revenue Code of 1986 ("Code"), as amended, and governmental plans meeting the requirements of Section 457 of the Code, as amended, since 1982.

The Phoenix
Dallas, TX

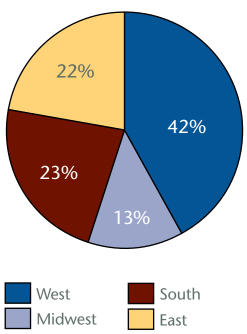

5555
LIVE FABULOUS
LIVE
PHOENIX

PORTFOLIO HIGHLIGHTS

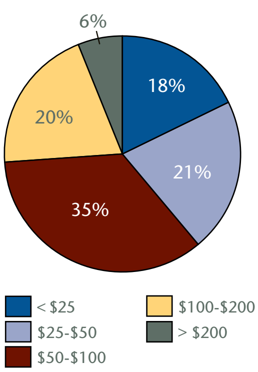
SECTOR WEIGHTINGS[9]



GEOGRAPHIC WEIGHTINGS[9]



PROPERTY SIZE
(in Millions)



KEY STATISTICS | *December 31, 2010*			
Inception Date	January, 1982	Institutional Investors > $5M	68
Gross Asset Value	$4,212 million	2010 Client Contributions	$304.9 million
Net Asset Value	$3,014 million	2010 Client Distributions	$1,162.4 million
Number of Investments/Markets	117/39	Leverage Ratio[1]	24.4%
Size	30.6 million sf	Portfolio Occupancy[2]	90.2%
Cash to Gross Assets	0.9%	Redemption Queue Balance[3]	$0

SECTOR	CURRENT ALLOCATION	NFI-ODCE ALLOCATION	TARGET ALLOCATION
Office	36%	34%	30% - 40%
Multifamily	18%	24%	15% - 25%
Retail	23%	20%	15% - 25%
Industrial	19%	18%	15% - 25%
Hotel, Land and Other	4%	4%	0% - 4%

PERFORMANCE	GROSS PORTFOLIO[4]	PORTFOLIO BENCHMARK[5]	NET PORTFOLIO[6]	PROPERTY[7]	PROPERTY BENCHMARK[8]
1 Year	17.27%	16.14%	15.93%	13.06%	14.52%
3 Year	-10.69%	-10.29%	-11.71%	-6.93%	-4.93%
5 Year	-0.98%	-0.54%	-2.11%	1.38%	2.68%
10 Year	4.87%	4.82%	3.68%	6.24%	6.61%
Since Inception	6.82%	6.44%	5.68%	7.55%	6.86%

[1]Account share of total debt (both property and portfolio) divided by 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 85%.

[3]While the Withdrawal Limitation remains in effect, on December 31, 2010, the amount subject to the Withdrawal Limitation was $0.

[4]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 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.

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

[6]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.

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

[8]Property performance is benchmarked against the Open-end Fund component of the NCREIF Property Index (NPI).

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

RETURNS

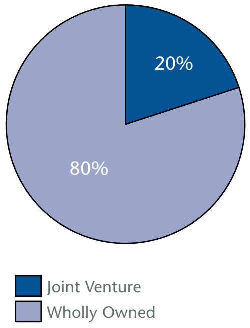
	4Q2010	1 YEAR	3 YEAR	5 YEAR	10 YEAR
PORTFOLIO RETURNS[1]					
Income	1.59%	6.87%	5.81%	5.47%	6.20%
Appreciation	3.39%	9.90%	-15.79%	-6.21%	-1.27%
TOTAL RETURN	**4.98%**	**17.27%**	**-10.69%**	**-0.98%**	**4.87%**
PROPERTY RETURNS[2]					
Income	1.51%	6.53%	5.71%	5.49%	6.30%
Appreciation	2.29%	6.22%	-12.10%	-3.95%	-0.06%
TOTAL RETURN	**3.80%**	**13.06%**	**-6.93%**	**1.38%**	**6.24%**

ONE YEAR PERFORMANCE

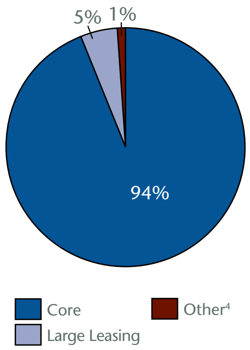
	OFFICE	INDUSTRIAL	RETAIL	MULTIFAMILY
PROPERTY SECTOR[2,3]				
Income	7.32%	6.28%	7.08%	6.09%
Appreciation	3.87%	5.16%	5.62%	18.07%
TOTAL RETURN	**11.41%**	**11.67%**	**13.00%**	**24.97%**

	EAST	MIDWEST	SOUTH	WEST
GEOGRAPHIC REGION[2]				
Income	5.24%	7.85%	5.69%	7.18%
Appreciation	10.88%	2.84%	7.13%	4.49%
TOTAL RETURN	**16.54%**	**10.86%**	**13.12%**	**11.90%**

STRUCTURE



LIFE CYCLE



TEN LARGEST INVESTMENTS

INVESTMENT NAME	METROPOLITAN AREA	SECTOR	OCCUPANCY	% OF GROSS REAL ESTATE ASSETS
1370 Avenue of the Americas	New York	Office	92.3%	6.0%
112th at 12th Street	Seattle	Office	90.0%	4.5%
Burbank Empire Center	Los Angeles	Retail	99.7%	3.9%
Watermark	Cambridge	Multifamily/Retail	93.5%	3.0%
J.W. Marriott San Antonio	San Antonio	Hotel	33.7%	2.9%
Portales Corporate Center	Phoenix	Office	87.9%	2.6%
Hazard Center	San Diego	Office/Retail	86.7%	2.5%
Charles Park	Cambridge	Office	60.5%	2.3%
420 West 42nd Street	New York	Multifamily	99.7%	2.1%
Papago Buttes	Phoenix	Office	98.4%	2.1%

[1]Gross portfolio returns are levered and pre-fee.

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

[3]Hotel performance was as follows: 0.97% Income, 0.92% Appreciation and 1.90% Total.

[4]Includes land and individual condominium units for sale.

PORTFOLIO MANAGER COMMENTARY

The U.S. Property Account enjoyed a positive year on many fronts in 2010. Strengthening capital markets, stabilizing space markets and asset reflation engineered by the U.S. Federal Reserve's accommodative monetary policies led to a partial reversal of the value declines that characterized 2008 and 2009. Early signs of renewed tenant demand amidst improved business sentiment and early stage recovery in the job market combined with well positioned properties and strong ownership resulted in positive net leasing in the portfolio. A combination of improved property level returns and a moderate level of attractively priced leverage contributed to a 17.3% total return for the Account in 2010, exceeding the benchmark return of 16.1%. The Account's income return of 6.9% also surpassed that of its benchmark, contributing to the relative outperformance. With space market fundamentals stabilizing and increasing capital flows to both core properties and core open-end funds, investors are increasingly optimistic about core real estate performance in 2011.

The rebound in private market real estate equity values lagged that of publicly traded real estate, not dissimilar to the lag that also occurred when real estate values began to decline during the global financial crisis. The public real estate quadrants (Real Estate Investment Trusts (REITs) and Commercial Mortgage Backed Securities (CMBS)) were the first to experience value declines in 2007 and 2008. Likewise, these quadrants have led the emergence from the value nadir, with REIT values increasing 160% from the trough and CMBS spreads narrowing dramatically as the market made favorable adjustments to loss expectations. The recovery in both REITs and CMBS commenced in 2009 during a period in which private equity commercial real estate values continued their decline, ultimately recording a 32% peak-to-trough drop according to the NCREIF Property Index (NPI). However, since then, the value component of the NPI has increased for three consecutive quarters and has risen by nearly 7% from the trough. Similarly, property values for the Account increased 6.2% in 2010, yet remained 28% below peak values at year-end.

Real estate capital markets strengthened throughout 2010 with lenders and buyers growing increasingly confident in the economic, job market and real estate market recoveries. Space market fundamentals stabilized or improved modestly for most property types and metropolitan areas, providing more support to improved cash flow projections for commercial real estate. Spreads required by portfolio lenders decreased throughout the year, including during fourth quarter as Treasury rates rose, partially due to commercial mortgages offering better spreads than corporate bonds. The shadow banking market began to show signs of life, with CMBS new issuance reaching $12 billion in 2010 after a notable absence in 2009. A dramatic improvement in both the availability and cost of debt capital for core properties provided momentum to the transaction market, resulting in a doubling of commercial real estate transactions in 2010 relative to the prior year and exceeding $100 billion. The Account sold into the strength of the capital markets with 15 dispositions totaling $796 million in 2010. Over half of the total dollar volume was comprised of office properties, which aided the Account in meeting a strategic objective to reduce its overweight exposure to the office sector.

Four core buyer segments were particularly active in 2010 – public REITs, foreign investors, unlisted REITs and core open-end funds – and all of these participants enter 2011 with full coffers of acquisition capital.

Papago Buttes
Phoenix, AZ

Effective liability management remains a hallmark of the U.S. Property Account. The Account's debt management activities in recent years afforded the opportunity to secure attractively priced financing in 2010.

In addition, a fifth capital source is likely to join the buyer group in 2011 as many domestic pension funds, no longer burdened by the denominator effect as a result of a very strong stock market rally, find themselves below their target allocation to commercial real estate. As a result, market liquidity has improved significantly, particularly for well-leased properties.

Vacancy rates appear to have peaked in 2010, with improvement most evident in the multifamily sector which has benefited from both high foreclosure rates and an improvement in the job market. Despite the addition of 1.35 million private sector jobs in 2010 and GDP above previous peak levels, payroll employment in the U.S. remains roughly seven million jobs below peak and the unemployment rate remains stubbornly above 9%. Despite these economic and employment challenges, the Account gained 428,000 square feet of positive net absorption in 2010. Further, a tenant retention rate of 60% for the year was a significant achievement in a challenging leasing environment. Opportunity exists in 2011 to make further progress on portfolio occupancy levels and same-property NOI growth, which increased in 2010 by 0.5%. Each of these areas will be a high priority for our asset management group in 2011.

Effective liability management remains a hallmark of the U.S. Property Account. The Account's debt management activities in recent years afforded the opportunity to secure attractively priced financing in 2010, while maintaining a conservative 24% leverage

PORTFOLIO MANAGER COMMENTARY *CONTINUED*

ratio for the portfolio. Four new property level loans and two private placements totaling $311 million were secured in 2010 with a weighted average interest rate of 4.36%. Those activities served to reduce the weighted average cost of debt capital for the entire Account to 4.55% as of year end 2010. This low borrowing cost was achieved by avoiding incremental borrowing when interest rates were much higher in 2008 and 2009, instead positioning the Account with the flexibility to borrow at much lower rates in 2010.

Private real estate equity performance is situated at the intersection of space market and capital market forces. In 2006 and 2007, both space markets and capital markets were synchronized in their strength, resulting in record performance for core real estate. In 2008, capital markets seized at the onset of the global financial crisis and while the space markets initially maintained stability, record job losses eventually took their toll, leading to sharply negative performance for private real estate for the first time since the early 1990s. Driven by a dramatic decline in GDP and a peak-to-trough employment decline of 8.5 million jobs, 2009 produced the worst annual property level performance in the history of NCREIF. However, with liquidity returning to the capital markets and the effects on space markets of the U.S. economic expansion and job growth, private real estate again generated positive returns in 2010.

We expect the private real estate equity market to continue its rebound in 2011, but the pace of the recovery remains highly reliant on further progress on economic growth and job recovery. If consensus projections of approximately 3% GDP growth and the net creation of roughly two million jobs are realized, a material improvement in space market fundamentals is likely, leading to declining vacancy rates and firming rent levels. We also expect a continued increase in capital availability in both the real estate debt and equity markets, further increasing market liquidity.

One of the primary issues confronting commercial real estate markets over the near to intermediate term is the pace of space market recovery relative to the pace of Treasury yields returning to more normalized

Fife Commerce Center
Tacoma, WA

> We expect the private real estate equity market to continue its rebound in 2011, but the pace of the recovery remains highly reliant on further progress on economic growth and job recovery.

levels and potentially putting upward pressure on the cost of real estate debt and equity capital. The ultimate reversal of accommodative monetary policy and quantitative easing could produce an upward impact on Treasury rates that would, all else held equal, be generally unfavorable for cap rates, discount rates, and borrowing rates. Whether and how quickly that might happen remains unknown. As a result, a critical element of investment outperformance is to drive building net operating income higher over the near term as a countermeasure against the possibility of Treasury rates reverting to historical norms, and the resultant upward pressure on investor return requirements. As such, 2011 Account strategy includes a continued emphasis on increasing occupancies, maximizing rents and effective management of building operating expenses.

The U.S. Property Account is currently well positioned against this backdrop with an income return exceeding its benchmark in 2010 despite an occupancy level slightly below other core open-end funds, allowing for greater income growth potential in the near future. Our strong asset management and leasing capabilities are expected to provide a competitive advantage, particularly given challenges confronting competing properties that may be struggling to procure capital to retain tenants. Over the last three years, Account exposure to value-added strategies was reduced by stabilizing properties in the development and lease-up phases and avoiding incremental value-added initiatives. Given recent leasing success at those assets and subsequent reduction in property level risk, there is currently additional room to selectively expand Account exposure to value-added, income creating opportunities, a strategy that could generate attractive risk-adjusted returns given the improving prospects for U.S. economic expansion and job growth.

The resources of Principal Real Estate Investors are fully committed to embracing the opportunities ahead for investors in the U.S. Property Account with a dual focus on return generation and risk management. Thank you for your continued support and consideration of the Account. We look forward to working with you in the future.

John T. Berg
Portfolio Manager

2011 ECONOMIC OUTLOOK

As 2010 came to a close, a dramatic change, including an ongoing global economic recovery characterized by underlying decoupling dynamics and an environment in which government policy continues to have a major influence, was well underway. The overall outlook for the U.S. economy is perhaps more favorable today than at any time since the recession began in 2008. Just as the U.S. economy appears ready to enter a stronger expansion period in 2011, the job market will likely improve as well. The more favorable outlook for 2011 is due both to subsiding levels of labor productivity to more normalized levels and to improved small business sentiment. In addition, the flow of capital into the markets should begin to expand in earnest as monetary expansion begins to turn into a more sustainable credit expansion (or velocity of credit), in particular helping small business as the banking failure rate begins to move past its peak.

Despite policy uncertainty, a soft patch in the U.S. economy, and continued peril in the broader investment environment characterized by intermittent bouts of risk taking and risk aversion, there are several reasons for optimism in 2011 and beyond. While unlikely to be accompanied by powerful economic tailwinds, the following factors should collectively help provide further leeway for continued steady economic growth that gradually reduces unemployment rates and avoids a double-dip recession.

- Political rebalancing following the 2010 U.S. elections may result in reduced risk of unwelcome legislative initiatives and reduced corporate perceptions of an anti-business political climate.
- Stabilizing commercial real estate values are likely to help unclog bank balance sheets through improved resolution of problem loans, freeing up lending capacity and improved credit formation for small businesses.
- Continued progress with household deleveraging and higher personal savings rates should lead to a more stable consumer base that is less likely to reverse course to a retrenchment mode.
- Corporate earnings in 2010 are likely to continue their favorable tack in 2011.
- Asset reflation-friendly actions by the U.S. Federal Reserve (Fed) which, while clearly generating longer term risks of inflationary pressures, will likely buoy asset values over the near-to-intermediate term and help the wealth effect.

The overall outlook for the U.S. economy is perhaps more favorable today than at any time since the recession began in 2008.

The commentary on pages 10-15 and 20-22 includes excerpts from the Principal Real Estate Investors research publication: *Inside Real Estate.* The forward-looking statements contained herein do not constitute projections of what will happen and should not be viewed as such. See the inside back cover for a more complete description of forward-looking statements and their limitations. The full report is available on the Account's website.

Jurupa Business Park
Riverside, CA

• Markets should continue to see progress in a relatively orderly deleveraging of the commercial real estate market.

By and large, the cumulative impact of the above dynamics should prove helpful to not only the economy, but to both real estate space and capital markets in 2011 and 2012.

U.S. Economic Outlook

It has taken nearly three years for the U.S. economy to regain its previous peak real GDP level, though a self-sustaining expansion now appears imminent. Initial estimates reported fourth quarter GDP growth of 3.2%, resulting in annual 2010 GDP growth of 2.9%. Further, December's leading economic indicators posted their highest gain since March amidst broad-based gains across the index components. As a result of these and other factors, speculation and concern about a double-dip recession have largely receded, driven by a strengthening outlook for business spending, improving household balance sheets, and reduced policy uncertainty as a result of the extension and expansion of the Bush tax cuts.

Multiple other factors are likely to aid in expansion during 2011 given current levels and anticipated growth. Consensus corporate profit growth is close to 35% for 2010, and economy-wide profits reached an all-time record in the third quarter. Cash holdings on corporate balance sheets are at record levels, despite a surge in real capital spending on equipment and technology over the last year. Further, business underinvestment for a good portion of the past decade has resulted in pent-up demand that should drive stronger capital spending growth over the next two years. Net exports may also contribute to improved U.S. GDP growth in 2011, helped along by a weak dollar despite the uptick in Treasury rates.

Additionally, improving consumer balance sheets aided by deleveraging and a higher savings rate, should help avert a consumer spending retrenchment in 2011. Consumer spending will also be facilitated by a strong recovery in the wealth effect, which has rebounded to an estimated 92% of its pre-credit crisis peak. Spending growth is likely to improve over the next few years as pent up demand for durable goods manifests itself in increased spending. Household deleveraging has had a significant involuntary component as a result of a high level of home foreclosures but still likely has some way to go, with household liabilities as a percent of GDP still well above historical averages.

While U.S. GDP has regained its previous peak, payroll employment has not, remaining about 7.2 million jobs below previous peak at the end of 2010. However, while payroll employment growth is unlikely to return to prior peak levels until 2014 or beyond, the job market outlook is improving.

2011 ECONOMIC OUTLOOK *CONTINUED*

The private sector created 1.35 million net new jobs in 2010. While that has not yet made a major dent in the 8.5 million peak-to-trough loss, there was an increase in consistency as the private sector recorded positive job growth in every month of 2010.

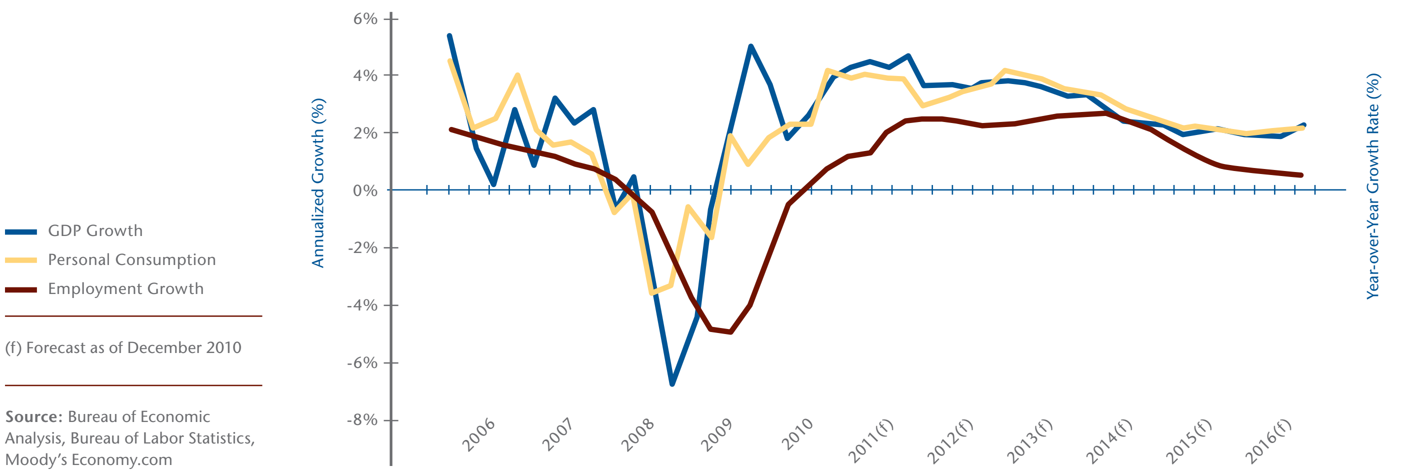
Despite the more favorable outlook, the economy faces certain pockets of headwinds including high unemployment rates, a fragile housing market burdened by increasing mortgage rates, rising energy prices, and continued challenges confronting small businesses. Although the job market has improved, it has been unable to gain sufficient traction to reduce the unemployment rate. Unemployment has remained at or above 9.4% for 20 consecutive months, partially due to limited net hiring by small businesses. The housing market continues to experience high levels of delinquency rates and falling home prices, providing negligible support to the household wealth effect. Commodity prices have climbed higher, which while not posing an inflationary threat, could disaffect consumer spending, especially if oil prices reach and stay above $100 per barrel. In addition, there remain several unsettled areas of policy that could continue to incrementally contribute to more tentative business and consumer decision making than is ideal. These include trade policy, health care and financial regulatory reform implementation, and from a longer-term perspective, the budget deficit.

Still, the outlook is favorable for 2011. Principal Global Investors estimates that payroll employment growth in 2011 will be close to 2 million and U.S. GDP growth could reach or exceed 3% in both 2011 and 2012.

Space Markets

While much of the 2010 improvement in real estate fundamentals related to capital markets events, real estate space markets also progressed, though at a pace considerably slower than that of the capital markets. The vacancy rate for all property types appears to have peaked during the year and fell in the fourth quarter

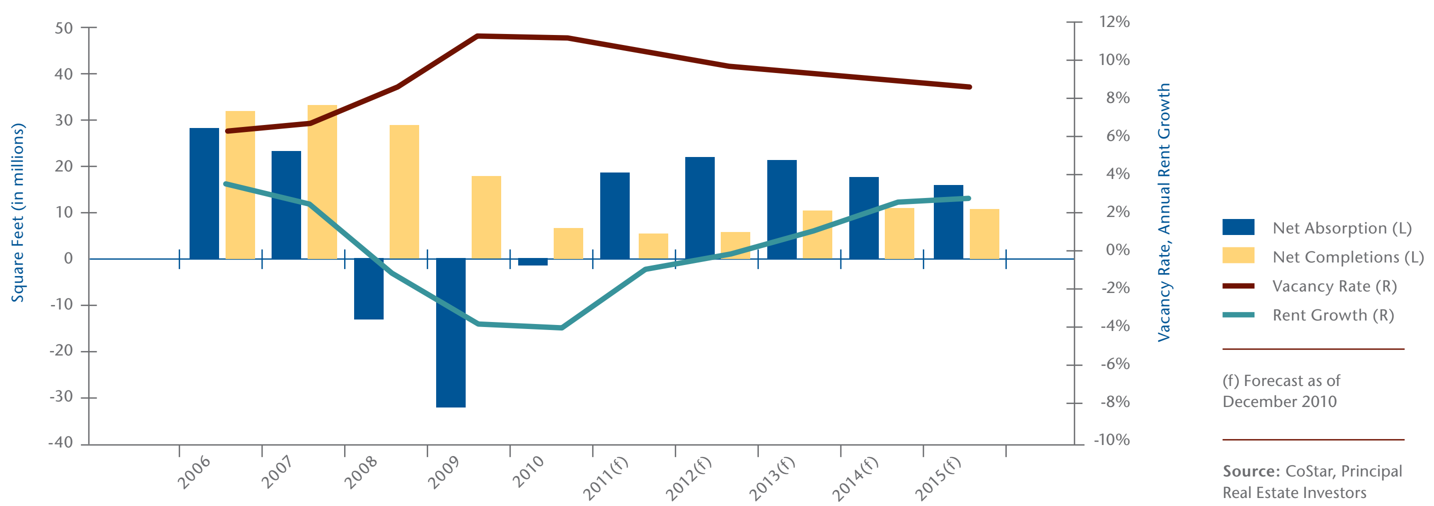
U.S. ECONOMIC ACTIVITY



(f) Forecast as of December 2010

Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Moody's Economy.com

U.S. RETAIL MARKET



(f) Forecast as of December 2010

Source: CoStar, Principal Real Estate Investors

in all sectors but retail on the basis of stronger positive demand and a continued decline in deliveries of new supply. Rent levels likely bottomed in the third quarter of 2010, though with the exception of the multifamily sector, vacancy rates remain sufficiently high that landlord pricing power remains well in the distance. Net leasing activity is starting to recover, but is well below normalized levels, partially due to continued sluggish job growth.

Vacancy rates within the **retail** sector continue to be at a fairly high level, though with the U.S. consumer beginning to spend again and many retailers once again looking at expansion plans, the vacancy rate is unlikely to trend significantly higher. Unfortunately, the amount of excess inventory as evidenced by the 17.6% availability rate (including space available for sublease) may slow the overall property sector recovery. Net demand was positive during both the third and fourth quarters of 2010, although it was -1.4 million square feet for the full year. Demand is expected to be stronger in 2011 and the slowdown in new supply being delivered to the market should lead to the beginning of the decline in vacancy rates. Rental rates continued to fall within the sector throughout 2010.

It appears as though the vacancy and availability rates for the **industrial** sector have peaked for this cycle and that a combination of improving demand and falling supply will lead to a decline in vacancy rates. If the availability rates have truly peaked, then this cycle will have witnessed rates rising from 9.7% to 18.1% in 30 months. Net demand for industrial space did increase in 2010, albeit at a slower pace than previously forecasted. While improvement in demand was not enough to turn industrial rent growth positive, it did drastically slow the rate of decline in rental rates. Rent growth is expected to return to positive territory in 2011 and growth could surprise on the upside if demand accelerates as expected and the negative influence of sublease space continues to decline. Further, net demand is projected to surge in 2011 due to increased demand for goods by U.S. consumers and growing import/export activity resulting from improved economic growth around the world.

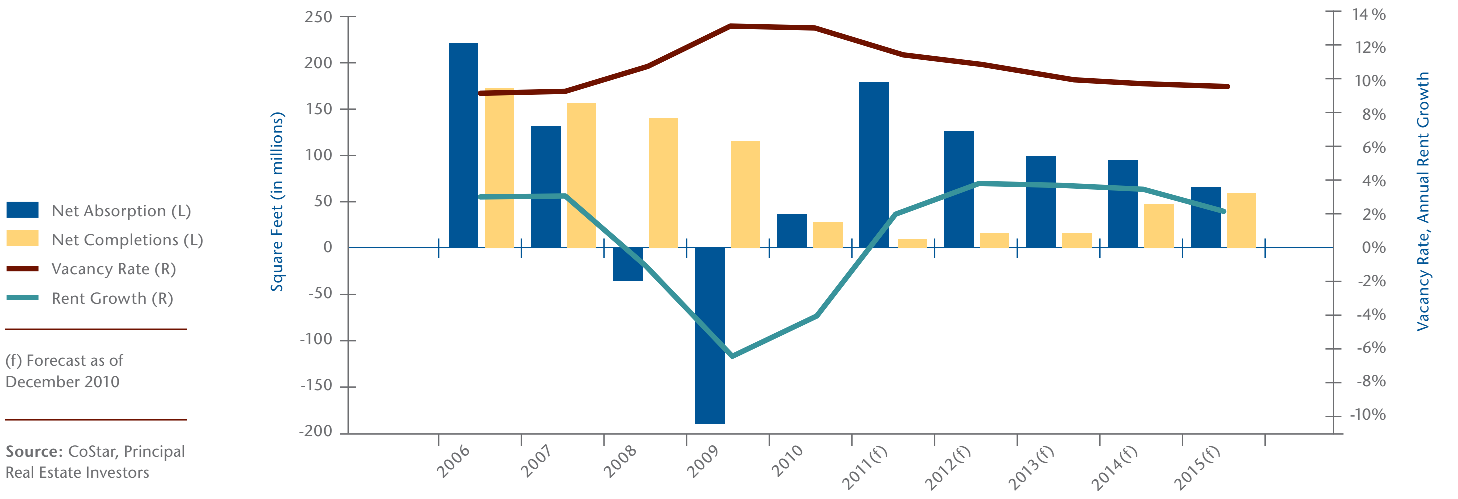
2011 ECONOMIC OUTLOOK *CONTINUED*

The **multifamily** sector undoubtedly led total performance within the real estate space markets during 2010. The sector reached its turning point early in 2010, fueled by a release of pent up demand and an improving labor market. Net demand for all of 2010 is now at 227,000 units, well above the annual historical average of 84,000 units. Demand over the forecast period should remain strong as the labor market continues to improve, but will likely return to more sustainable levels. The rapid decline in vacancy rates can also be attributed to the continued decline in the number of units being delivered. This trend is likely to continue for most of 2011, due to the fact that both starts and permits have been at historically low levels in 2010. With the market rapidly approaching equilibrium and rental rates expected to begin growing at above average rates, new starts are anticipated to rise in 2011 leading to increased deliveries in 2012 and beyond.

A continued upward trajectory in private sector payroll employment buoyed performance in the **office** sector during 2010. Despite positive net demand for space, an overhang of sublease space, improved efficiency of space usage by firms, and no sense of urgency to lease excess space stifled net absorption. Stronger demand did lead to some improvement in rent growth later in the year and while the pace of rent growth is minimal, the movement into positive territory may indicate that declines have bottomed. Rent growth could return to positive territory in 2011, but will still face downward pressure from high vacancy rates and a large amount of shadow inventory competition. Both the vacancy and availability rates should continue to decline through 2011 as stronger economic growth generates a higher rate of office job creation.

In the wake of significant erosion in **hotel** fundamentals during 2008 and 2009, the sector

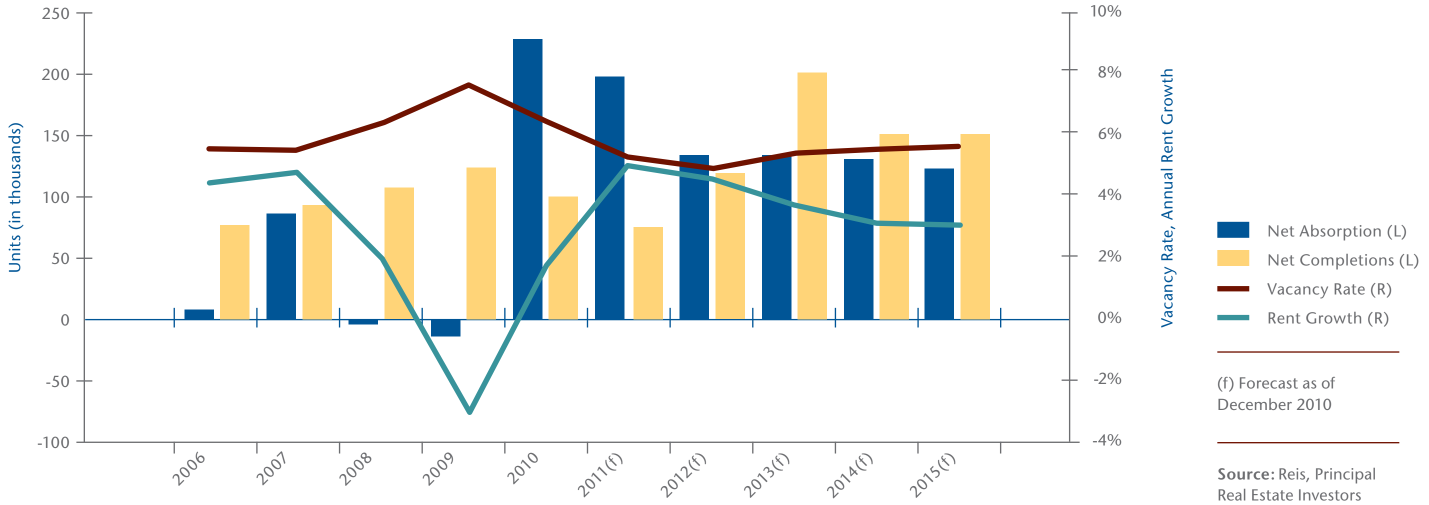
U.S. INDUSTRIAL MARKET



(f) Forecast as of December 2010

Source: CoStar, Principal Real Estate Investors

U.S. MULTIFAMILY MARKET

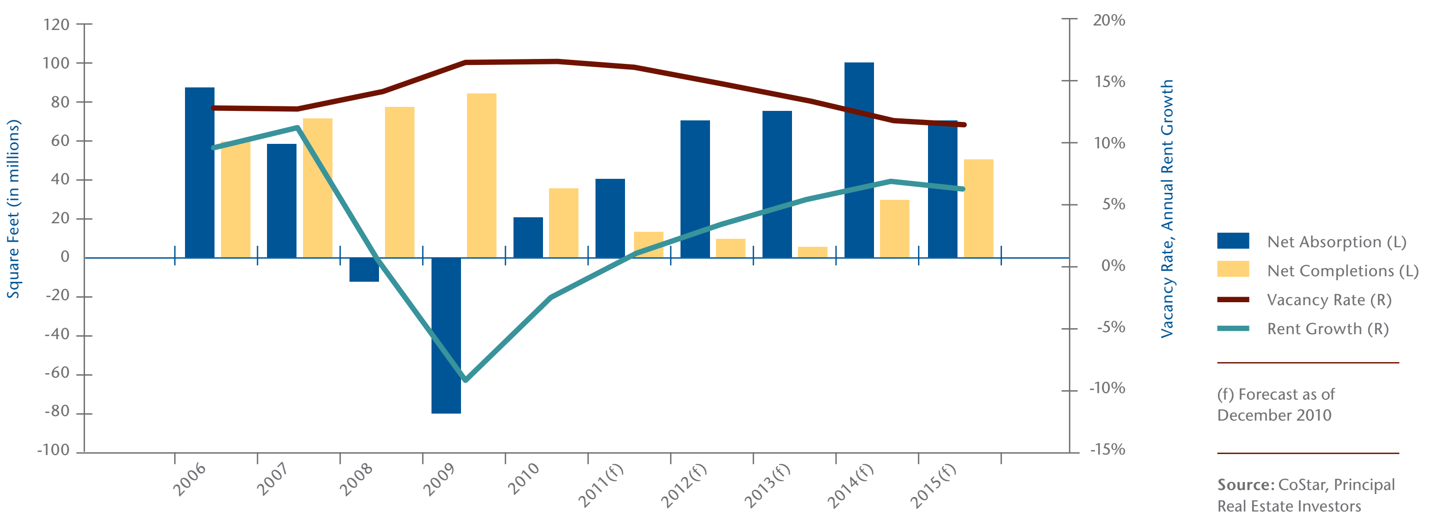


(f) Forecast as of December 2010

Source: Reis, Principal Real Estate Investors

recorded considerable recovery in both rental rates and revenue per available room (RevPar) during 2010. During each quarter of 2010, the rate of improvement in RevPar increased, driven by a combination of increased corporate, leisure, and slowly improving group business. Growth in group business is a positive signal for continued improvement within the sector, given it is more profitable than transient demand as groups consume more food, beverage and ancillary services. Recovery was strongest in larger markets and particularly amidst the luxury and upper-scale sectors, a sharp contrast to performance in 2009. The rate of improvement in 2011 is likely to continue to increase, in addition to investor demand for the sector.

U.S. OFFICE MARKET



(f) Forecast as of December 2010

Source: CoStar, Principal Real Estate Investors

ACCOUNT PERFORMANCE

The U.S. economy made considerable progress towards recovery and expansion during 2010, as did the private equity quadrant of commercial real estate. Investor yield requirements decreased substantially as more investors entered the market, primarily a response to the low pricing and increased availability of debt capital coupled with historically low risk free rates. Commensurate with the progress made in the broader market, the U.S. Property Account recorded strong performance in 2010. The Account ended the year with four consecutive quarters of positive total performance and a total portfolio return of 17.27%, comprised of income of 6.87% and appreciation of 9.90%. The total return was driven by income from the properties, asset value appreciation and the impact of leverage. The leverage strategy of the Account was advanced throughout the year, maintaining a primary focus on asset-liability matching. Additionally, despite a challenging space market environment, operations within the Account were strong, including positive leasing activity, maintenance of current net operating income and continued implementation of green property strategies.

Performance of the Account is measured relative to both portfolio level and property level benchmarks. During 2010, the Account outperformed its portfolio level benchmark, the NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE) Equal Weight, by more than 100 basis points. Approximately 30 basis points of outperformance over one year is attributable to the Account's income return, a portion of which is a result of a key focus for 2010 – active management of asset-level operations to drive occupancy and net operating income. Account performance over three and five years trails the benchmark marginally, while performance over ten years is roughly equal to the benchmark returns. Underperformance over the three and five year time periods is due to write downs in 2008 and 2009 that exceeded those of the benchmark, in addition to a historically lower level of leverage in the years immediately preceding the downturn. Property level performance trails that of the Open-end Fund Component of the NPI over all time periods due to the aforementioned writedowns.

During 2010, the Account outperformed its portfolio level benchmark by more than 100 basis points.

The reversal of property value declines throughout 2010 resulted in a narrowing of the delta between peak and current property values within the Account. In December 2009, peak to current value declines totaled nearly -35% for the aggregate portfolio. While space markets have yet to show substantial improvement save for the multifamily sector, improvement in capital markets partially reversed value declines across all primary property sectors. The multifamily sector benefited not only from improvement in capital markets, but from improvement in space markets as well, responding to increased tenant demand fueled by improvement in private sector employment. Today, peak to current property values are approximately 28% below their pre-recession highs, though continue to vary greatly by sector. Account assets in the multifamily and retail sectors are approximately 20% below peak in aggregate, while assets in the office and industrial sectors have yet to gain additional traction from space markets and remain roughly 30% below peak levels.

J.W. Marriott Resort and Spa
San Antonio, TX

Mixed-use assets, which generally include two or three of the primary property sectors, remain 36% off peak pricing, while land assets within the Account were 53% below peak as of December 31, 2010.

The chart below details the valuation assumptions for each sector within the Account and clearly evidences the improvements noted in capital markets assumptions during 2010. Both capitalization and discount rates required by investors fell throughout the year, aided by increasingly accommodative lending and enhanced competition among investors for core properties. Of the four primary property sectors within the Account, multifamily assets recorded the highest appreciation and total returns over one year. As the sector is characterized by short term leases generally lasting one year, multifamily was and is poised to benefit quickly from improvements in tenant demand, as rents can be increased and concessions reduced in real time. While all of the Account's assets within the sector generated double digit total returns over the year, a well-leased property located in an infill Seattle neighborhood produced the highest total return in the sector. Performance of the Seattle asset was followed by a Houston property that benefited from improving

OPERATIONAL METRICS

PROPERTY SECTOR	OCCUPANCY	OCCUPANCY EXCLUDING VALUE-ADDED PROPERTIES[1]	NET ABSORPTION[2]	YEAR 1 CAP RATE[3]	DISCOUNT RATE (IRR)[3]
Office	86%	86%	(123,642)	5.8%	8.5%
Retail	94%	94%	34,251	6.8%	8.5%
Industrial	79%	90%	363,434	6.7%	8.5%
Multifamily	95%	95%	154,269	5.5%	7.8%
TOTAL	**85%**	**90%**	**428,312**	**6.2%**	**8.4%**

[1]Value-added assets include those that are acquired at less than 85% occupancy, are under development or are individual condominium units for sale.

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

[3]Excludes value-added assets.

ACCOUNT PERFORMANCE *CONTINUED*

tenant demand and reduced market concessions. The retail sector generated the second highest one year return within the Account, led by performance of two assets in Chicago and Houston. Both are grocery anchored centers catering primarily to necessity-based spending and maintained occupancy of 100% throughout 2010. Aggregate industrial and office sector returns followed those of the retail sector and though total return performance was less than half of that generated by the multifamily sector, most assets recorded moderate levels of appreciation. Assets in major distribution centers such as the Inland Empire and Chicago posted the highest returns within the industrial sector while a well-leased office asset in Orange County posted the highest return within the office sector. Performance of the Orange County asset was followed by returns of a class-A property located in Austin and those of the Account's single largest holding as of December 31, an office property located in Midtown Manhattan.

In addition to performance at the property level, a substantial focus throughout 2010 was the liability strategy of the Account. In 2009, leverage negatively impacted returns as interest rates on existing debt exceeded the rate of return generated by the properties. As such, the Account reduced its debt obligations, paying down higher cost debt throughout much of the year. In 2010, leverage began to positively impact returns and three major leverage events occurred during the year. First, the Account's existing line of credit expired and was replaced with a new three year, $300 million revolving facility. The facility was well received within the banking community given the Account's core focus, low leverage relative to peers and strong track record of performance. In addition to the line of credit, the leverage strategy of the Account also included closing two private placements totaling $200 million. In adhering to the Account's focus on asset-liability matching, the private placements were

LEVERAGE INFORMATION	INTEREST RATE	% OF TOTAL DEBT
Fixed Interest Rate Obligations	5.37%	77%
Floating Interest Rate Obligations	1.83%	23%
TOTAL OBLIGATIONS	**4.55%**	**100%**
Secured Obligations	4.73%	77%
Unsecured Obligations	3.96%	23%
TOTAL OBLIGATIONS	**4.55%**	**100%**

IMPACT OF MARKING DEBT TO MARKET	
1 YEAR	-0.5%
3 YEARS	0.1%
5 YEARS	0.1%
10 YEARS	-0.1%

DEBT MATURITY SCHEDULE[1]

YEAR	DOLLAR AMOUNT ($M)	% OF DEBT MATURING
2011	$69.3	6.7%
2012	$338.9	32.6%
2013	$102.3	9.8%
2014	$154.8	14.9%
2015	$137.3	13.2%
2016	$10.7	1.0%
2017+	$226.1	21.8%

[1]Debt maturity schedule is calculated using the principal balance of all outstanding notes, includes the Account's share of non-consolidated joint venture debt and excludes the line of credit. The line of credit had an outstanding balance of $50 million at 12/31/2010.

LEASE EXPIRATION SCHEDULE (FOR THE YEARS ENDING)	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Office	10%	9%	14%	12%	15%
Industrial	8%	11%	9%	13%	12%
Retail	6%	13%	8%	5%	9%
Total	**8%**	**11%**	**11%**	**10%**	**12%**

SAME-PROPERTY NET OPERATING INCOME (IN $M)	
Actual ending 12/31/2009	$246.2
Actual ending 12/31/2010	$247.4
GROWTH	**0.5%**

structured to expire in 2013 and 2015, years in which the Account has minimal debt maturity exposure. Finally, three property loans closed in the fourth quarter, generating $87.6 million in loan proceeds. The loans, backed by three assets, were originated at five and ten year maturities and at a weighted average interest rate of 4.1%. As shown on the opposite page, the Account has very little debt expiring throughout 2011.

Other operational elements of the Account recorded substantial progress throughout 2010 as well. While occupancy was relatively steady at 90% for the core portfolio on a year over year basis, there were several expirations and known move-outs that occurred over the last twelve months. Significant rollover of large tenants in the office sector was a primary concern, though through the aggressive efforts of asset managers at Principal Real Estate Investors, a majority of these tenants were retained, at least partially, in renewal efforts. Though the space markets have yet to register significant improvement in availability rates, the Account registered positive net absorption of 430,000 square feet across the four primary property sectors in 2010. Occupancy will remain a primary focus throughout 2011, though rollover exposure is modest. The weighted average total of leases expiring during the year is 8% across the commercial property sectors and is detailed above.

Through tenant retention and positive leasing velocity, same property net operating income (NOI) maintained positive year-over-year growth during 2010. For those assets held in the Account at December 31, 2009 and December 31, 2010, NOI increased, in aggregate, by 0.5%. This level of growth slightly exceeds that reported for the total NPI at December 31, 2010. The Account's single hotel asset, the J.W. Marriott San Antonio, posted the largest growth in NOI on a year-over-year basis. NOI growth at the asset was the result of construction completion in early 2010 and stabilization of the asset throughout the first half of the year. Assets in the industrial sector also posted strong growth, driven by leasing that occurred late in 2009, but for which rent did not begin until 2010. In response to increased tenant demand, NOI growth in the multifamily sector also increased on a year-over-year basis, buoyed by substantial fourth quarter growth that exceeded fourth quarter 2009 NOI by 15%. Net operating income in the retail sector declined on a year-over-year basis, as did that of the office sector.

Sustainable investment strategies were also a primary focus in 2010, and the results of these efforts were demonstrated through both expense savings at multiple properties and enhanced leasing given tenant commitment to and new mandates from tenants for environmentally sustainable spaces. Today there are seven assets in the Account that are LEED EB or LEED certified and 13 assets registered for and proceeding towards LEED or Energy Star certification. As has been the standard and will continue to be in coming years, this commitment to sustainable investing will be pursued only when economically feasible and consistent with our fiduciary responsibility to investors.

CAPITAL MARKETS

Increasing in Depth and Breadth

As has been the case for virtually all of the economic recovery period, the four real estate quadrants have reacted in a non-synchronized manner. As a result, current relative value differs dramatically across, and at times within, the quadrants. Despite a sudden and unexpected rise in Treasury rates during fourth quarter 2010, the U.S. still finds itself in a relatively low interest rate environment. Long Treasury rates at year end were lower than at the start of the year. During the year, all quadrants of commercial real estate attracted strong investor flows. This is partially because the likely reason for the rise in Treasury rates is an economy that is growing faster than previously anticipated, which is favorable for space market improvement. Importantly, the capital flows also continue to broaden, with more investors emboldened to move beyond core transactions as they become increasingly confident that the pace of economic expansion is increasing, and with it a stronger pace of job growth and net absorption.

Despite a continuing upward march in loan delinquencies and losses, CMBS rallied strongly across the risk spectrum in 2010. Although seemingly counterintuitive, the rally is a function of just how severe a decline in commercial real estate valuations had previously been impounded into CMBS prices, and the degree to which that expected severity has been favorably reevaluated as the year progressed. New issuance CMBS is gradually returning to the real estate markets with 2010 full year issuance reaching approximately $12 billion. This has been particularly helpful for financing needs in secondary markets where life companies have been less active. Although projections for 2011 CMBS issuance fall into the $30 - $50 billion range, financial regulatory reform still poses some threats to the velocity of the recovery of CMBS going forward, particularly depending upon the final risk retention provisions and other regulatory measures as regulations are finalized.

The private real estate equity quadrant lagged the recovery of the other real estate quadrants, but it has indeed turned the corner.

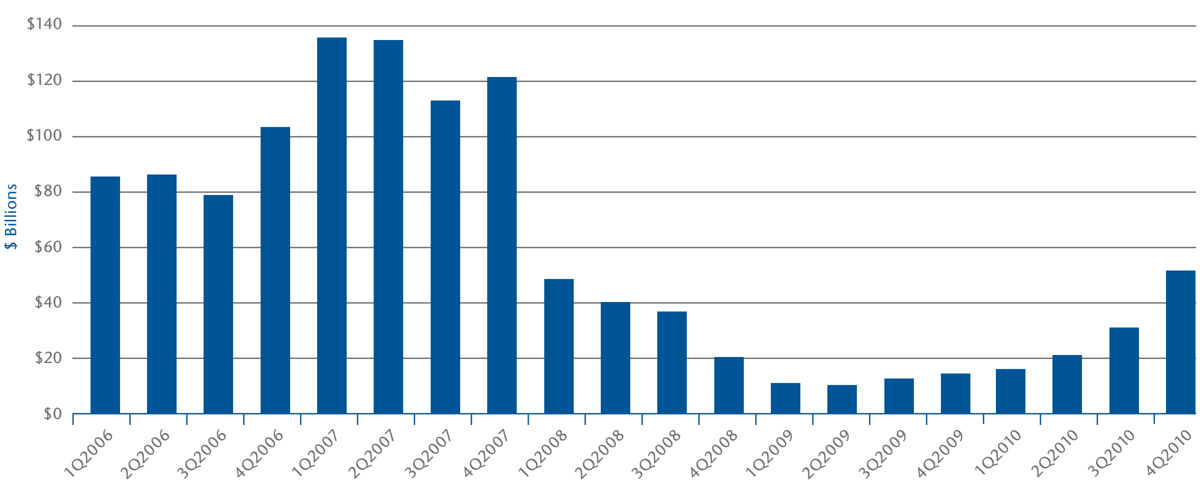
A sharp increase in lender appetite for commercial real estate mortgages has led to significant competition, especially among life companies and better-capitalized banks, to originate conservative loans on well-leased, high quality properties. While core mortgages remain attractive relative to corporate bonds, from a total-return outlook, conservative mortgage loans perhaps offer the least relative value of any quadrant at this time. Very low yields on senior mortgages have driven many institutional investors in the private debt quadrant to invest selectively in higher risk strategies in search of yields that are more competitive with CMBS or core unleveraged equity.

REITs were able to take advantage of very favorable credit markets in 2010 to access debt capital through unsecured corporate bonds issuance and, in select situations, through the CMBS issuance market. Several REITs have also used secondary equity issuance to deleverage. As a result, the upcoming 2011 and 2012 loan maturities that confront the broader real estate market do not look all that threatening to U.S. REITs. A confluence of low cost-of-debt capital, stabilizing credit ratings, the likelihood that acquisitions will be accretive to debt-capital costs, and the relationship of dividend yields to risk-free rates are additional positive drivers of REIT performance. However, a lackluster economic recovery does bring into question whether REIT investors may be overly optimistic about the strength of rent recovery. Indeed, from a number of perspectives, REITs appear to be close to fully valued. Consequently, it is reasonable to expect REIT prices to remain somewhat range-bound pending additional clarity regarding the longer-term economic outlook.

The private real estate equity quadrant lagged the recovery of the other real estate quadrants, but it appears to have turned the corner, recording three consecutive quarters of price appreciation to end 2010 per data from NCREIF. Momentum is building for further appreciation in 2011 as the outlook for the economy and job growth strengthens. Despite a longer and more severe recession in 2008 than was the case in the 1990s, core property value declines have not exceeded the severity of the 1990s. Transaction activity also increased dramatically through 2010, ending the year with $120 billion in volume, an increase of 119% over 2009. Transaction volume in 2011 is projected to increase further.

Most investors are focused on core properties, especially high-quality assets in primary markets. However, despite reduced debt and equity capital availability, higher-quality, value-add properties in primary markets may also offer attractive relative value opportunities in the near term. This is more true for well-capitalized investors that can buy properties on an all cash basis, have strong leasing capabilities and plenty of capital readiness for tenant procurement costs. In addition, green or sustainable buildings, particularly in the office sector, will be increasingly important in order to maximize tenant bandwidth. The ability to acquire quality value-add assets at relatively steep discounts to reproduction costs can make select value-added opportunities appealing, particularly in sub-markets with a multitude of undercapitalized competitors from which to potentially lure away tenants.

QUARTERLY TRANSACTION VOLUME



Includes closed transactions $5 million and larger, for all 5 property types.

Source: Real Capital Analytics

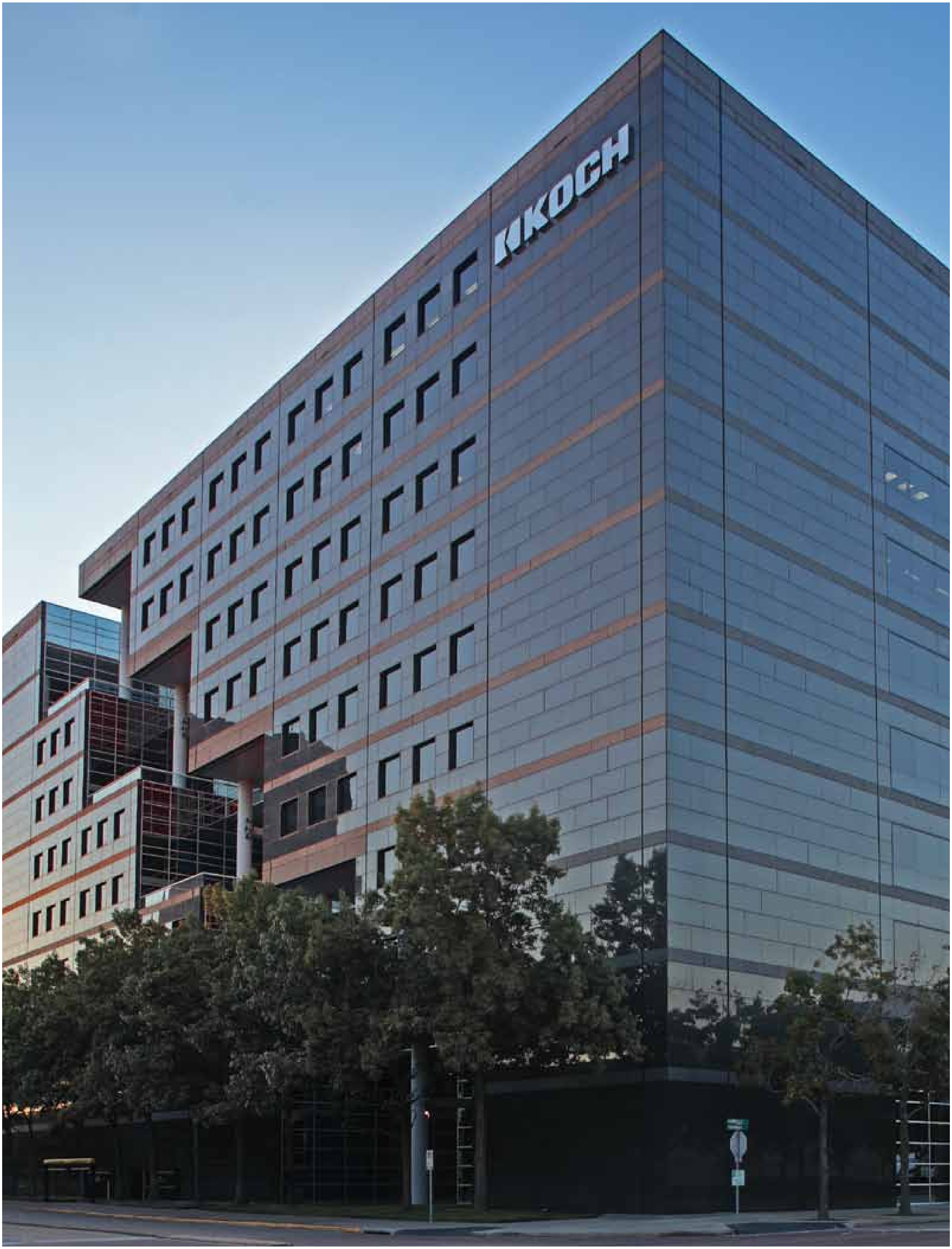
CAPITAL MARKETS *CONTINUED*

Sustained improvement in price recovery in the private equity quadrant appears to be on the horizon and provides investors an opportunity for dollar-cost averaging by returning to the market at or near the bottom.

The 2010 course correction in real estate pricing has been partially attributable to the macro forces of monetary policy. The asset reflation dynamics resulting from market anticipation of further Fed easing have contributed to the current round of cap rate compression in commercial real estate. While that has been positive for borrowing costs and real estate prices, Fed policy now potentially represents a form of future event risk that could halt or reverse cap rate compression as the economy improves. The Fed's future actions imply that, while there will likely be material improvement in space markets before monetary policy is reversed, the subsequent trajectory of incremental property appreciation could be interrupted by rising Treasury rates. And the anticipatory nature of the public bond markets means those eventual forces could well blow ashore before improving space markets allow for a complete restoration of landlord pricing power. Indeed, because the recovery in space markets has thus far trailed the recovery in capital markets (especially for core real estate), it will be critical that space markets gain traction in 2011 and 2012 to catch up with the capital market recovery.

This is not to put a damper on a well-justified improvement in investor sentiment toward the U.S. real estate asset class. The two public quadrants have already provided investors with tremendous returns in just the few quarters since the recession ended. Sustained improvement in price recovery in the private equity quadrant appears to be on the horizon and provides investors an opportunity for dollar-cost averaging by returning to the market at or near the bottom. A weak U.S. dollar will provide a further boost in real estate buying power for foreign buyers. This results in attractive investment opportunities that include not only highly sought after core strategies, but also selective value-add and opportunistic strategies. The latter two strategies entail less competitive bidding and in addition could perform well even in just a moderate economic recovery scenario if investors are sufficiently well capitalized and have strong leasing capabilities, providing a competitive advantage that facilitates taking tenant market share away from weaker, overleveraged competitors. Indeed, in some ways, while 2010 has seen the majority of capital pursuing core strategies in primary markets, it is likely that 2011 will increasingly see capital set its sights on selective non-core strategies and secondary markets.

20 Greenway
Houston, TX


KOCH

2010 TRANSACTION ACTIVITY

National commercial real estate transaction activity remained muted during 2010 relative to the levels recorded between 2005 and 2007, but showed marked improvement when compared to the dearth of activity that characterized 2009. While activity increased in the first and second quarters, the latter half of 2010, particularly the fourth quarter, proved to be most active. Fueled by increased competition within the debt markets, historically low interest rates, improving economic sentiment, and indices signaling the bottom of and reversal of property value declines, a multitude of investors began to compete aggressively for core transactions. In certain instances, this fervent competition led to pricing at or very near the previous peak within the most highly sought after markets and property sectors.

Disposition activity within the Account was robust during the year, presenting the opportunity to sell non-strategic assets into the strengthening and highly competitive transaction market. The disposition strategy executed through the year resulted in a portfolio of primarily in-fill assets, well diversified by property sector and located in markets with strong long-term supply and demand fundamentals. During 2011, the disposition strategy of the Account will focus on selling assets with completed business plans or for which future relative value does not warrant holding. Additionally, the strategy will look to enhance the quality of the portfolio by targeting the sale of lower-quality assets and continuing to focus on ownership of primarily infill assets.

Two assets were acquired in 2010, both related to the Account's forward commitment program. The Account was contractually committed to purchase the assets, and did so at the maturity of outstanding loans on the properties. As of December 31, 2010, there were three completed assets and four land holdings remaining within the forward commitment program, all of which are representative of the Account's current strategy and long term goals as relates to property sectors and market exposure. Of the total $516 million in outstanding loan commitments, $309 million is related to an office property located in the central business district of Houston. The asset, 100% pre-leased to a credit tenant for 15 years, was accretive to the Account's total return during 2010.

Crescent VI
Denver, CO

FORWARD COMMITMENTS				
PROJECT	METROPOLITAN AREA	SECTOR	% LEASED	LOAN AMOUNT($M)
Hess Tower	Houston, TX	Office	100%	$309.3
Legacy Circle	Dallas, TX	Office	90%	$41.9
Shoppes at Woolbright	West Palm Beach, FL	Retail	80%	$53.3
TOTAL VERTICAL PROJECTS				**$404.5**
Land and Predevelopment				$111.4
TOTAL				**$515.9**

Additional forward commitment exposure includes complete and well leased assets in Dallas and West Palm Beach, in addition to land holdings in highly desirable locations across the west coast.

The transaction strategy for the Account is based upon the following overarching sector-specific themes:

Office: White collar job losses continued to weigh on the office sector. The return of landlord pricing power is anticipated to take multiple years as demand catches up with both the high vacancy rate and overhang of underutilized space within the sector. As such, the strategy for the sector will focus on maintaining the Account's current neutral weighting relative to the NFI-ODCE and owning assets in urban locations within major markets.

Retail: As the economic expansion gains further traction and consumer spending trends upward, the transaction strategy for the retail sector will include targeting a continued overweighting to necessity-based retail formats. These formats, such as grocery anchored neighborhood and community centers, are particularly attractive for investment given potential headwinds for the consumer including increasing commodity prices that may reduce disposable income.

Multifamily: As the first sector to gain traction in both capital markets and space markets, multifamily properties led returns within the Account during 2010. While improvement in 2010 was driven by a release of pent up demand for units, future demand prospects remain attractive given the forecast for an improving labor market in coming years. As such, the transaction strategy for the Account entails owning non-commodity properties in major markets. Further, new acquisitions may be accessed through future development or participation in value-added strategies, though these would be executed within a core context and undertaken on a selective basis.

Industrial: The Account's transaction strategy within the industrial sector includes maintaining its current overweight position relative to the NFI-ODCE. Given economic forecasts signaling continued and perhaps increased export activity driven by a weak dollar, the strategy will focus on the warehouse sub-sector and overweighting exposure within major transportation hubs.

2010 TRANSACTION ACTIVITY *CONTINUED*

2010 Acquisitions

During the year, the Account closed two acquisitions through its forward commitment program for total volume of $25.1 million. Additional details regarding each transaction are included below:

- **Watermark II**, a land parcel located in Cambridge, MA, is adjacent to an existing Account property, and was acquired during the third quarter.
- **Melrose Park**, an industrial asset located in Chicago, IL, was acquired in April.

2010 Dispositions

Disposition activity included the sale of 13 assets and two partial sales for total volume of nearly $796 million. Additional details regarding each transaction are included below:

Industrial

- **Southpoint Distribution Center**, an industrial asset located in Memphis, TN, was sold during the third quarter to limit Account exposure to a secondary submarket challenged by significant over supply.
- **Rocky Mountain Business Center,** an industrial asset located in Denver, CO, was sold in the third quarter to execute the original business plan of leasing and selling the asset.
- Ownership of **Lyons Technology Center VI**, an industrial building located in Ft. Lauderdale, FL, was transferred to the lender in September as the cash flow from the asset did not cover the interest payments due to the lender and the market value of the asset was substantially lower than the debt balance.
- **Airport Distribution Center III**, an industrial asset located in Atlanta, GA, was sold during the first quarter to limit exposure to a submarket challenged with increasing vacancy and to mitigate a near-term full building lease expiration.
- In December, the **Dupont Industrial Building**, an industrial asset located in Riverside, CA, was sold to an owner/user to reduce the Account's exposure to significant vacancy in a market challenged by high levels of availability while capitalizing on attractive financing available to the buyer that led to above-market pricing.

Land

- The fourth quarter partial sale of land at **West Manor Way**, an industrial asset located in Trenton, NJ, occurred due to partial condemnation exercised to allow for a pipeline. The sale did not compromise the existing warehouse or remaining land at the property.

Multifamily

- **Creekside Meadows** and **Shorewood Heights**, multifamily assets located in Santa Ana, CA and Seattle, WA respectively, were sold in the third quarter to capitalize on strong investor demand for multifamily assets while reducing Account exposure to capital intensive Class B properties in the West region.
- In May, **Riverside Station**, a multifamily asset located 25 miles southwest of Washington, D.C. was sold to limit exposure to suburban assets in a location challenged by oversupply.
- **Towne Lake Village**, a multifamily asset located in Dallas, TX, was sold in the second quarter to reduce Account exposure to suburban assets and limit exposure to a submarket with reduced tenant demand and deteriorating tenant credit quality.

- **Charter Place**, a multifamily asset located in St. Louis, MO, was sold in March to execute the disposition strategy of exiting suburban commodity product in secondary markets.

Office

- The third quarter sale of **104 West 40th Street**, an office asset located in New York, NY, mitigated Account exposure to a value-added property with significant leasing challenges.
- **333 Market Street**, which was the Account's single largest property holding, was sold during the second quarter. The sale of the San Francisco office asset was executed to reduce the Account's overweighting to the office sector and West region while capitalizing on increased investor demand and pricing premium associated with core holdings in gateway markets.
- **17901 Von Karman**, an office asset located in Santa Ana, CA, was sold in the first quarter to eliminate the Account's exposure to a building with significant vacancy in a submarket challenged by marked over supply.

Retail

- In December, the Account's ownership interest in **London Square**, a retail property located in Miami, FL, was sold. The asset, in which the Account retained a 10% ownership share, was sold to conclude a programmatic joint venture relationship.

TRANSACTIONS

ACQUISITIONS

PROPERTY	SECTOR	METROPOLITAN AREA	SIZE	PRICE ($M)
Melrose Park	Industrial	Chicago, IL	139,331 sf	$9.2
Watermark II	Land	Cambridge, MA	1.1 acres	$15.9
				$25.1

DISPOSITIONS

PROPERTY	SECTOR	METROPOLITAN AREA	SIZE	PRICE ($M)
West Manor Way[1]	Land	Trenton, NJ	4.0 acres	$0.8
Airport Distribution Center III	Industrial	Atlanta, GA	406,989 sf	$11.5
Southpoint Distribution Center	Industrial	Memphis, TN	816,400 sf	$20.3
Rocky Mountain Business Center	Industrial	Denver, CO	136,828 sf	$7.6
Lyons Technology Center VI[1]	Industrial	Ft. Lauderdale, FL	36,481 sf	$3.3
Dupont Industrial Building	Industrial	Riverside, CA	175,000 sf	$10.1
Charter Place Apartments	Multifamily	St. Louis, MO	284 units	$21.8
Towne Lake Apartments	Multifamily	Dallas, TX	320 units	$8.7
Riverside Station	Multifamily	Washington, D.C.	304 units	$53.9
Creekside Meadows	Multifamily	Santa Ana, CA	628 units	$97.9
Shorewood Heights	Multifamily	Seattle, WA	645 units	$107.8
17901 Von Karman	Office	Santa Ana, CA	272,887 sf	$54.0
333 Market Street	Office	San Francisco, CA	657,117 sf	$327.2
104 West 40th Street	Office	New York, NY	204,546 sf	$62.2
London Square	Retail	Miami, FL	290,339 sf	$8.4
				$795.7

[1]Partial Sale

SCHEDULE OF INVESTMENTS

PROPERTY	SECTOR	SF/UNITS/ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/10)
Stonelake 1-5	Office	123,761	Wholly Owned	Austin, TX	07/10/98	$13,580,000
Quarry Oaks	Office	292,417	Wholly Owned	Austin, TX	07/03/03	$63,800,000
Charles Park	Office	365,899	Wholly Owned	Cambridge, MA	02/16/05	$95,500,000
North Avenue Collection	Office/ Retail	199,683	Wholly Owned	Chicago, IL	12/29/04	$61,800,000
Union Tower	Office	332,608	Wholly Owned	Chicago, IL	11/22/02	$53,200,000
Cascades	Office	168,006	Wholly Owned	Columbus, OH	10/30/97	$6,400,000
Honeywell Building	Office	40,429	Wholly Owned	Columbus, OH	06/30/98	$1,900,000
Freeport Parkway	Office	151,200	Wholly Owned	Dallas, TX	12/29/99	$14,400,000
Crescent V	Office	89,895	Wholly Owned	Denver, CO	07/26/07	$12,000,000
Crescent VI	Office	134,940	Wholly Owned	Denver, CO	07/26/07	$19,400,000
One DTC	Office	236,796	Wholly Owned	Denver, CO	07/26/07	$39,000,000
20 Greenway Plaza	Office	432,022	Wholly Owned	Houston, TX	09/19/05	$53,500,000
Campbell Mithun Tower	Office	729,638	Wholly Owned	Minneapolis, MN	09/14/05	$77,800,000
1370 Avenue of the Americas	Office	338,656	Wholly Owned	New York, NY	03/23/06	$247,200,000
The Signature Center	Office	256,360	Wholly Owned	Oakland, CA	08/24/95	$31,600,000
90 Mountainview	Office	183,644	Wholly Owned	Phoenix, AZ	06/07/06	$33,300,000
Fountainhead	Office	476,172	Wholly Owned	Phoenix, AZ	06/29/05	$55,800,000
Papago Buttes	Office	511,081	Wholly Owned	Phoenix, AZ	11/18/04	$86,300,000
Portales Corporate Center	Office	453,384	Wholly Owned	Phoenix, AZ	03/06/08	$107,700,000
Hazard Center	Office/ Retail	405,573	Wholly Owned	San Diego, CA	09/04/03	$100,800,000
150 Spear Street	Office	261,990	Wholly Owned	San Francisco, CA	12/11/07	$75,600,000
Metroplex	Office	104,903	Wholly Owned	Santa Ana, CA	06/02/05	$17,300,000
112th at 12th Street	Office	480,267	Wholly Owned	Seattle, WA	06/29/04	$183,300,000
Lincoln Plaza	Office	148,503	Wholly Owned	Seattle, WA	06/24/05	$35,900,000
Spring Mall	Office	114,008	Joint Venture	Washington, D.C.	11/16/07	$19,800,000
Old Town Square	Retail	87,123	Wholly Owned	Chicago, IL	11/15/01	$28,000,000
Stony Island	Retail	159,785	Wholly Owned	Chicago, IL	12/17/04	$28,000,000
Cherry Hills	Retail	202,195	Wholly Owned	Denver, CO	06/17/04	$34,300,000
Bell Tower Shops	Retail	325,412	Joint Venture	Fort Myers, FL	08/17/04	$64,500,000

PROPERTY	SECTOR	SF/UNITS/ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/10)
Southport	Retail	145,483	Wholly Owned	Ft. Lauderdale, FL	01/22/03	$34,900,000
Lake Worth Marketplace	Retail	197,332	Wholly Owned	Ft. Worth, TX	10/11/07	$24,900,000
Meadows Marketplace	Retail	251,944	Joint Venture	Houston, TX	08/29/06	$46,700,000
Grand Hunt Center	Retail	133,360	Wholly Owned	Lake County, IL	12/15/94	$16,700,000
The Marketplace at Vernon Hills	Retail	191,418	Wholly Owned	Lake County, IL	09/13/05	$26,000,000
Burbank Empire Center	Retail	618,562	Wholly Owned	Los Angeles, CA	12/22/05	$161,800,000
Peninsula Center	Retail	296,027	Wholly Owned	Los Angeles, CA	06/30/00	$78,500,000
Fischer Market Place	Retail	233,308	Wholly Owned	Minneapolis, MN	09/29/03	$31,900,000
Fischer Market Place	Retail	20,388	Wholly Owned	Minneapolis, MN	10/16/07	$4,700,000
Southdale Square	Retail	115,547	Wholly Owned	Minneapolis, MN	12/19/00	$25,200,000
Plaza Paseo	Retail	147,856	Joint Venture	San Diego, CA	12/30/03	$58,900,000
Backlick Center	Retail	47,977	Joint Venture	Washington, D.C.	11/16/07	$16,700,000
Sacramento	Retail	84,466	Joint Venture	Washington, D.C.	11/16/07	$15,400,000
Sterling Plaza	Retail	153,276	Joint Venture	Washington, D.C.	11/16/07	$30,000,000
Sterling Plaza II	Retail	22,480	Joint Venture	Washington, D.C.	11/16/07	$4,400,000
West Springfield	Retail	83,726	Joint Venture	Washington, D.C.	11/16/07	$27,200,000
Lantana Square	Retail	113,565	Wholly Owned	West Palm Beach, FL	03/17/06	$23,000,000
Pinewood Square	Retail	182,140	Wholly Owned	West Palm Beach, FL	06/16/05	$41,600,000
Airport Distribution Center	Industrial	406,989	Wholly Owned	Atlanta, GA	01/05/01	$19,000,000
Stonelake 6	Industrial	108,000	Wholly Owned	Austin, TX	05/22/98	$10,580,000
Chelmsford	Industrial	98,048	Wholly Owned	Cambridge, MA	01/15/97	$9,600,000
Bedford Park	Industrial	341,144	Wholly Owned	Chicago, IL	10/09/07	$11,500,000
Bensenville Warehouse	Industrial	202,880	Wholly Owned	Chicago, IL	11/07/88	$9,100,000
Cicero	Industrial	113,948	Wholly Owned	Chicago, IL	10/28/09	$7,600,000
Melrose Park	Industrial	139,331	Wholly Owned	Chicago, IL	04/02/10	$5,800,000
O’Hare Business Center	Industrial	127,642	Joint Venture	Chicago, IL	11/21/03	$5,950,000
University Crossing	Industrial	455,870	Wholly Owned	Chicago, IL	01/16/07	$16,800,000
Vapor Industrial	Industrial	414,561	Wholly Owned	Chicago, IL	11/22/05	$28,300,000
Woodridge Centre	Industrial	100,972	Wholly Owned	Chicago, IL	08/19/98	$7,200,000

SCHEDULE OF INVESTMENTS *CONTINUED*

PROPERTY	SECTOR	SF/UNITS/ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/10)
Denver Business Center	Industrial	152,841	Wholly Owned	Denver, CO	06/21/99	$7,200,000
Technology Park	Industrial	224,110	Joint Venture	Detroit, MI	01/29/07	$6,500,000
1980 U.S. Highway 1	Industrial	247,830	Joint Venture	Edison, NJ	10/01/07	$12,200,000
26 Englehard Drive	Industrial	324,540	Wholly Owned	Edison, NJ	12/13/02	$13,300,000
Alovats	Industrial	1,223,320	Wholly Owned	Edison, NJ	06/27/07	$24,800,000
Rahway	Industrial	326,741	Joint Venture	Edison, NJ	12/20/07	$25,800,000
Lyons Technology Center	Industrial	274,014	Wholly Owned	Ft. Lauderdale, FL	04/23/08	$24,700,000
Pointe West Commerce Center	Industrial	169,033	Wholly Owned	Ft. Lauderdale, FL	12/18/01	$17,500,000
Port 95 Business Plaza	Industrial	99,753	Wholly Owned	Ft. Lauderdale, FL	12/18/01	$10,300,000
Midway IDC Building	Industrial	127,257	Wholly Owned	Houston, TX	09/02/97	$5,850,000
Midway Properties	Industrial	60,040	Wholly Owned	Houston, TX	09/02/97	$3,150,000
NW Distribution Center	Industrial	389,966	Wholly Owned	Houston, TX	07/15/99	$17,000,000
Smithway Commerce Center	Industrial	329,267	Wholly Owned	Los Angeles, CA	10/19/04	$25,400,000
Airspace I, II, III	Industrial	779,426	Wholly Owned	Louisville, KY	12/13/07	$28,000,000
Lousiville Distribution Center	Industrial	317,900	Wholly Owned	Louisville, KY	09/30/99	$11,400,000
Riverport Distribution Center	Industrial	216,000	Wholly Owned	Louisville, KY	12/31/98	$7,100,000
Medley Logistics Center	Industrial	300,000	Wholly Owned	Miami, FL	11/20/03	$21,800,000
Secaucus	Industrial	68,439	Wholly Owned	New York, NY	05/02/00	$5,600,000
Secaucus Seaview	Industrial	146,426	Wholly Owned	New York, NY	04/02/97	$12,300,000
Elmhurst Business Park	Industrial	294,954	Wholly Owned	Oakland, CA	12/29/94	$18,700,000
Hacienda Business Park	Ind/Office/Retail	380,372	Joint Venture	Oakland, CA	06/27/07	$49,300,000
West Winton Industrial Center	Industrial	220,213	Wholly Owned	Oakland, CA	12/06/02	$12,600,000
Carver Business Center	Industrial	272,460	Wholly Owned	Phoenix, AZ	08/26/97	$16,300,000
AmberGlen	Ind/Office/Land	581,286	Wholly Owned	Portland, OR	11/15/04	$60,290,000
3351 Philadelphia	Industrial	203,408	Wholly Owned	Riverside, CA	02/10/99	$10,200,000
Enterprise Distribution Center	Industrial	370,335	Wholly Owned	Riverside, CA	12/28/05	$16,300,000
Jurupa Business Park	Industrial	1,077,990	Wholly Owned	Riverside, CA	12/01/02	$59,500,000
Ontario Distribution Center	Industrial	317,070	Wholly Owned	Riverside, CA	03/04/97	$17,700,000
O'Brien Drive	Industrial	69,131	Joint Venture	San Francisco, CA	01/10/07	$12,000,000

PROPERTY	SECTOR	SF/UNITS/ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/10)
Fullerton Business Center	Industrial	180,918	Wholly Owned	Santa Ana, CA	02/24/05	$13,600,000
Valley Centre Corporate Park	Industrial	1,084,409	Wholly Owned	Seattle, WA	01/31/02	$63,900,000
Fife Commerce Center	Industrial	798,950	Joint Venture	Tacoma, WA	07/27/04	$46,800,000
West Manor Way	Industrial	905,000	Wholly Owned	Trenton, NJ	10/23/07	$27,900,000
Chantilly Distribution Center	Industrial	159,655	Wholly Owned	Washington, D.C.	03/31/99	$13,700,000
Boynton Commerce Center	Industrial	295,576	Wholly Owned	West Palm Beach, FL	10/25/07	$19,400,000
Hardin House	Multifamily	228	Joint Venture	Austin, TX	01/17/07	$20,300,000
West Campus Phase I	Multifamily	482	Joint Venture	Austin, TX	08/21/07	$52,300,000
West Campus Phase II	Multifamily	970	Wholly Owned	Austin, TX	09/15/09	$84,700,000
Camden Courts	Multifamily	221	Joint Venture	Baltimore, MD	02/15/06	$32,400,000
Watermark I	Multifamily	321	Joint Venture	Cambridge, MA	11/06/03	$123,900,000
Tanglewood	Multifamily	838	Wholly Owned	Chicago, IL	09/25/03	$58,600,000
Ravello Apartments	Multifamily	290	Wholly Owned	Dallas, TX	03/29/06	$53,500,000
The Phoenix	Multifamily	449	Wholly Owned	Dallas, TX	07/17/01	$50,400,000
Premier Lofts	Multifamily	250	Wholly Owned	Denver, CO	01/03/02	$47,900,000
The Trestles	Multifamily	188	Wholly Owned	Houston, TX	03/30/01	$17,900,000
Channel Point	Multifamily	212	Wholly Owned	Los Angeles, CA	11/28/01	$50,300,000
420 West 42nd Street	Multifamily	264	Wholly Owned	New York, NY	11/12/03	$87,800,000
San Portella	Multifamily	308	Joint Venture	Phoenix, AZ	06/21/06	$39,000,000
170 King Street	Multifamily	1	Joint Venture	San Francisco, CA	07/08/03	$640,000
EpiCenter	Multifamily /Retail	134,681	Wholly Owned	Seattle, WA	11/24/03	$30,400,000
Quarry Oaks	Land	10.007 acres	Wholly Owned	Austin, TX	06/27/03	$490,000
Watermark II	Land	1.104 acres	Wholly Owned	Cambridge, MA	09/03/10	$6,000,000
100 East Las Olas	Land	0.89 acres	Joint Venture	Ft. Lauderdale, FL	10/04/07	$5,000,000
Lindenhurst Village Green	Land	55 acres	Wholly Owned	Lake County, IL	10/16/09	$6,900,000
Henderson Lofts	Land	16.25 acres	Wholly Owned	Las Vegas, NV	12/03/08	$2,800,000
Oak Grove Shoppes	Land	1.0 acres	Joint Venture	Orlando, FL	05/26/06	$200,000
Santa Trinita	Land	4.56 acres	Wholly Owned	San Jose, CA	10/15/09	$6,600,000
Riverside Station	Land	11 acres	Joint Venture	Washington, D.C.	07/30/07	$6,380,000
J.W. Marriott Resort and Spa	Hotel	1,002	Joint Venture	San Antonio, TX	07/31/07	$117,862,663

INDEPENDENT AUDITORS' REPORT

TO THE CONTRACTHOLDERS OF PRINCIPAL LIFE INSURANCE COMPANY U.S. PROPERTY SEPARATE ACCOUNT

We have audited the accompanying consolidated statements of assets and liabilities of Principal Life Insurance Company U.S. Property Separate Account (the "Account"), including the consolidated schedules of investments, as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Account's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Account's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Account as of December 31, 2010 and 2009, the results of its operations, changes in its net assets, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the financial statements consist substantially of assets and liabilities whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on independent appraisals or internally prepared valuations.

Deloitte & Touche LLP

Des Moines, Iowa
February 18, 2011

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 2010 AND 2009

ASSETS	2010	2009
INVESTMENTS AT FAIR VALUE:		
Real estate		
(cost: 2010 — $4,550,391,976; 2009 — $5,486,988,207)	$3,984,110,000	$4,413,709,000
Real estate joint ventures		
(cost: 2010 — $51,700,315; 2009 — $55,741,812)	27,496,341	34,817,723
Short-term investments		
(cost: 2010 — $17,666,114 ; 2009 — $0)	17,666,114	-
Total investments		
(cost: 2010 — $4,619,758,405; 2009 — $5,542,730,019)	4,029,272,455	4,448,526,723
CASH	18,266,500	91,940,629
ACCRUED INVESTMENT INCOME AND OTHER ASSETS	107,691,729	97,618,732
UNREALIZED GAIN ON INVESTMENT COMMITMENTS	56,820,353	-
TOTAL ASSETS	4,212,051,037	4,638,086,084
LIABILITIES		
Line of credit	50,000,000	-
Debt	921,062,040	1,018,678,937
Accounts payable and accrued expenses	83,394,213	65,493,990
Accrued property taxes	21,572,614	25,017,797
Security deposits	13,389,294	14,207,478
Unrealized loss on investment commitments	64,351,596	64,763,581
TOTAL LIABILITIES	1,153,769,757	1,188,161,783
NET ASSETS:		
U.S. Property Separate Account	3,014,371,214	3,416,624,550
Noncontrolling interests	43,910,066	33,299,751
NET ASSETS	$3,058,281,280	$3,449,924,301

See notes to consolidated financial statements.

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED SCHEDULE OF INVESTMENTS
DECEMBER 31, 2010

	FAIR VALUE
REAL ESTATE - 98.9%	
United States:	
Total office - 36.6% (cost $1,856,574,012)	
One Twelfth at Twelfth, Bellevue, WA	$183,300,000
1370 Avenue of the Americas, New York, NY	247,200,000
Other office	1,042,880,000
	1,473,380,000
Total retail - 23.3% (cost $991,159,754)	
Burbank Empire Center, Burbank, CA	161,800,000
Other retail	778,400,000
	940,200,000
Total industrial - 19.7% (cost $893,932,792)	794,630,000
Total multifamily - 17.9% (cost $704,223,363)	720,940,000
Total land - 1.4 % (cost $104,502,055)	54,960,000
Total real estate (cost $4,550,391,976)	3,984,110,000
REAL ESTATE JOINT VENTURES - 0.7%	
United States:	
Total hotel - 0.6% (cost $50,000,000)	24,996,341
Total retail - 0.1% (cost $1,700,315)	2,500,000
Total real estate joint ventures (cost $51,700,315)	27,496,341
SHORT-TERM INVESTMENTS — 0.4%	
Principal Life Insurance Company Money Market	
Separate Account - 0.3% (cost $12,496,114)*	12,496,114
Short-Term Investment Trust Government &	
Agency Portfolio - 0.1% (cost $5,170,000)	5,170,000
Total short-term investments (cost $17,666,114)	17,666,114
TOTAL INVESTMENTS (COST $4,619,758,405)	$4,029,272,455

* Principal Life Insurance Company is an affiliate of the Account.
See notes to consolidated financial statements.

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED SCHEDULE OF INVESTMENTS
DECEMBER 31, 2009

	FAIR VALUE
REAL ESTATE - 99.2%	
United States:	
Total office - 41.1% (cost $2,408,462,896)	
One Twelfth at Twelfth, Bellevue, WA	$180,200,000
1370 Avenue of the Americas, New York, NY	213,800,000
333 Market Street, San Francisco, CA	330,700,000
Other office	1,105,100,000
	1,829,800,000
Total retail - 19.7% (cost $970,743,252)	876,900,000
Total industrial - 17.5% (cost $917,329,092)	777,200,000
Total multifamily - 19.6% (cost $1,098,678,228)	873,569,000
Total land - 1.3% (cost $91,774,739)	56,240,000
Total real estate (cost $5,486,988,207)	4,413,709,000
REAL ESTATE JOINT VENTURES - 0.8%	
United States:	
Total hotel - 0.6% (cost $50,000,000)	28,461,559
Total retail - 0.2% (cost $5,741,812)	6,356,164
Total real estate joint ventures (cost $55,741,812)	34,817,723
TOTAL INVESTMENTS (COST $5,542,730,019)	$4,448,526,723

See notes to consolidated financial statements.

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
INVESTMENT INCOME:		
Revenue from real estate	$461,569,981	$570,885,533
Equity in loss of real estate joint ventures	(1,156,821)	(866,901)
Interest income on short-term investments	156,874	543,264
Total investment income	460,570,034	570,561,896
EXPENSES:		
Real estate expenses and taxes	190,801,299	236,796,408
Interest expense	51,023,676	75,998,502
Investment management fees	34,404,250	44,684,411
Professional and other fees	6,563,138	8,786,915
Total expenses	282,792,363	366,266,236
NET INVESTMENT INCOME	177,777,671	204,295,660
REALIZED AND UNREALIZED GAIN (LOSS):		
Realized loss from sales	(276,715,456)	(195,093,669)
Less: Previously recorded unrealized loss (gain) on sales	312,189,824	(9,395,659)
Net gain (loss) recognized from sales	35,474,368	(204,489,328)
Unrealized gain (loss) on investments, debt, and investments commitments	257,052,996	(1,613,752,252)
Net realized and unrealized gain (loss)	292,527,364	(1,818,241,580)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	470,305,035	(1,613,945,920)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	14,990,504	(57,258,301)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT	$455,314,531	$(1,556,687,619)
AMOUNTS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT:		
Net investment income	$174,841,349	$200,885,377
Net realized and unrealized gain (loss)	280,473,182	(1,757,572,996)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT	$455,314,531	$(1,556,687,619)

See notes to consolidated financial statements.

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	U.S. Property Separate Account	Noncontrolling Interests	Total
NET ASSETS - January 1, 2009	$4,877,678,537	$119,677,058	$4,997,355,595
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:			
Net investment income	200,885,377	3,410,283	204,295,660
Net realized and unrealized loss	(1,757,572,996)	(60,668,584)	(1,818,241,580)
Net decrease in net assets resulting from operations	(1,556,687,619)	(57,258,301)	(1,613,945,920)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM CAPITAL TRANSACTIONS:			
Contributions	222,107,177	2,290,065	224,397,242
Distributions	(126,473,545)	(31,409,071)	(157,882,616)
Net increase (decrease) in net assets resulting from capital transactions	95,633,632	(29,119,006)	66,514,626
NET DECREASE IN NET ASSETS	(1,461,053,987)	(86,377,307)	(1,547,431,294)
NET ASSETS - December 31, 2009	3,416,624,550	33,299,751	3,449,924,301
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:			
Net investment income	174,841,349	2,936,322	177,777,671
Net realized and unrealized gain	280,473,182	12,054,182	292,527,364
Net increase in net assets resulting from operations	455,314,531	14,990,504	470,305,035
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM CAPITAL TRANSACTIONS:			
Contributions	304,872,426	1,373,411	306,245,837
Distributions	(1,162,440,293)	(5,753,600)	(1,168,193,893)
Net decrease in net assets resulting from capital transactions	(857,567,867)	(4,380,189)	(861,948,056)
NET INCREASE (DECREASE) IN NET ASSETS	(402,253,336)	10,610,315	(391,643,021)
NET ASSETS - December 31, 2010	$3,014,371,214	$43,910,066	$3,058,281,280

See notes to consolidated financial statements.

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase (decrease) in net assets resulting from operations	$470,305,035	$(1,613,945,920)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by operating activities:		
Net realized and unrealized loss (gain)	(292,527,364)	1,818,241,580
Equity in loss of real estate joint ventures	1,156,821	866,901
Changes in:		
Accrued investment income and other assets	5,415,608	7,521,890
Accounts payable and accrued expenses	(22,664,952)	15,151,683
Accrued property taxes	(3,445,183)	(3,707,896)
Security deposits	(818,184)	(2,266,564)
Total adjustments	(312,883,254)	1,835,807,594
Net cash provided by operating activities	157,421,781	221,861,674
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from real estate investment sales	677,773,826	492,830,011
Purchases of real estate investments and improvements	(92,087,413)	(230,497,460)
Investment in real estate joint ventures	-	(33,674,548)
Distributions from real estate joint ventures	5,942,276	-
Net change in short-term investments	(17,666,114)	39,722,779
Net change in escrows and other restricted assets	(161,713)	28,390,924
Deposits on investment commitments	(13,504,194)	(59,706,743)
Net cash provided by investing activities	560,296,668	237,064,963

(continued)

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of financing costs	(4,730,847)	(375,000)
Borrowings on line of credit	722,000,000	240,000,000
Repayments on line of credit	(672,000,000)	(610,625,000)
Proceeds from borrowings and issuance of debt	311,065,000	6,296,830
Repayments of debt	(308,644,139)	(101,929,350)
Contractholder contributions	304,872,426	222,107,177
Contractholder distributions	(1,139,574,829)	(126,473,545)
Noncontrolling interests contributions	1,373,411	1,866,653
Noncontrolling interests distributions	(5,753,600)	(31,409,071)
Net cash used in financing activities	(791,392,578)	(400,541,306)
NET INCREASE (DECREASE) IN CASH	(73,674,129)	58,385,331
CASH AT BEGINNING OF YEAR	91,940,629	33,555,298
CASH AT END OF YEAR	$18,266,500	$91,940,629
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST	$51,937,858	$77,985,800

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

The Account had noncash purchases of real estate investments and improvements of $40,336,820 and $22,637,109 as of December 31, 2010 and 2009, respectively.

In connection with real estate investment sales or similar transactions (i.e. foreclosures, deed in lieu) in 2010 and 2009, the buyers or other parties to the transaction assumed $112,298,000 and $165,087,634, respectively, of debt from the Account.

The Account processed distribution requests from contractholders of $22,865,464 on December 31, 2010. These amounts were accrued in accounts payable and accrued expenses in the Consolidated Statements of Assets and Liabilities.

During 2009, the Account and a joint venture partner completed a transaction whereas the Account reduced or eliminated its ownership interest in certain partnerships in exchange for the elimination of the partner's noncontrolling interest in other partnerships. As a result of this transaction, the Account's real estate investments and debt were reduced by $170,137,577 and $154,539,107, respectively. This transaction also resulted in an additional investment in a real estate joint venture in the amount of $5,741,312.

During 2009, the Account foreclosed on a real estate property which collateralized the mortgage note receivable valued at $11,658,331 at December 31, 2008. As a result of the foreclosure, the real estate property was recorded as a component of real estate investments at December 31, 2009.

During 2009, the Account extinguished debt with a carrying value of $20,000,000 through a payment of $5,000,000 which was made on the Account's behalf by the noncontrolling partner which thereafter purchased the Account's interest in the partnership. Total gain realized on the debt was $19,625,000.

(concluded)

See notes to consolidated financial statements.

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY U.S. PROPERTY SEPARATE ACCOUNT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. ORGANIZATION

Principal Life Insurance Company U.S. Property Separate Account (the “Account”) is an open-end, commingled real estate account and a separate account of Principal Life Insurance Company (“Principal Life”) established in 1982 in accordance with the provisions of the State of Iowa insurance laws. Pursuant to such laws, the net assets of the Account are not chargeable with liabilities arising out of any business of Principal Life. Participation in the Account is available through the purchase of certain group contracts and policies issued by Principal Life. The investment advisor is Principal Real Estate Investors, LLC (“Principal Real Estate”), a wholly-owned subsidiary of Principal Life. The Account is a diversified real estate equity account consisting primarily of high quality, well-leased real estate properties in the multifamily, industrial, office, retail and hotel sectors.

Principal Life applied a contractual limitation which delays the payment of withdrawal requests and provides for payment of such requests on a pro rata basis (a “Withdrawal Limitation”) as cash becomes available for distribution, as determined by Principal Life. As of December 31, 2010, payments to completely satisfy all outstanding requests were made available to investors subject to the Withdrawal Limitation. While the Withdrawal Limitation remains in effect, on December 31, 2010, the amount subject to the Withdrawal Limitation was $0. The amount subject to the Withdrawal Limitation was approximately $1,173,000,000 as of December 31, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying consolidated financial statements of the Account have been presented in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements of the Account include the accounts of its wholly-owned and controlled real estate investments. All intercompany transactions are eliminated in the consolidation.

The Account follows the provisions contained in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 946, *Financial Services — Investment Companies.* With the adoption of the fair value option allowed under ASC 825, *Financial Instruments,* and at the election of Account management, debt is carried at fair value.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The real estate and capital markets are cyclical in nature. Real estate investment and debt values are affected by, among other things, the availability of capital, occupancy rates, rental rates, interest rates, and inflation rates. As a result, determining such values involves many assumptions. Amounts ultimately realized may vary significantly from the fair values presented.

Risks and Uncertainties – The Account invests in commercial real estate properties located throughout the United States. The markets for commercial real estate in the United States experienced significant challenges in 2008 and 2009. Those challenges resulted in market conditions that had a negative impact on the estimated fair value of the Account's investments, which are reflected as unrealized losses. During 2010, improvement in the broader economy and within the commercial real estate markets resulted, in some cases, in a partial reversal of the previously recorded unrealized losses. During 2008 and 2009, severe restrictions on the availability of real estate financing, as well as the economic uncertainties in the environment, resulted in a low volume of purchase and sale transactions, limiting the amount of observable inputs available to Account management in making their estimates of fair value. While transaction volume during 2010 increased significantly, it has not rebounded to the levels recorded prior to 2008. As discussed above, the Account's estimates of fair value are based on the best information available to management as of the date of the valuation. Should market conditions or management's assumptions change, the Account may record additional realized and unrealized losses in future periods.

Concentration of Credit Risk – The Account invests its cash primarily in deposits and short-term investments, including money market funds, with financial institutions. At times, cash balances at financial institutions may exceed the federally insured amounts. The Account believes it mitigates credit risk by depositing cash in or investing through major financial institutions. In addition, in the normal course of business, the Account extends credit to its tenants, which consist of local, regional and national-based tenants. The Account does not believe this represents a material risk of loss with respect to its financial position.

Real Estate – Real estate investments are carried at fair value. Properties owned are initially recorded at the purchase price plus closing costs. Development costs and major renovations are capitalized as a component of cost, and routine maintenance and repairs are charged to expense as incurred. Real estate costs include the cost of acquired property, including all tangible and intangible assets. Tangible assets include the value of all land, building and tenant improvements at the time of acquisition. Intangible assets include the value of any above and below market leases, in-place leases, and tenant relationships at the time of acquisition. Real estate costs also include leasing costs paid to third parties to obtain tenants. The cost of real estate investments presented in the accompanying Consolidated Statements of Assets and Liabilities includes approximately $98,000,000 and $80,600,000 of leasing costs as of December 31, 2010 and 2009, respectively. The Account does not record depreciation or amortization on real estate as fair value estimates take into consideration the effect of physical depreciation.

Real Estate Joint Ventures – Investment in real estate joint ventures is comprised of joint ventures which the Account does not have majority control, but over which it has significant influence. The investments are included in the Consolidated Statements of Assets and Liabilities at the Account's ratable share of the fair value of the underlying net assets of the joint ventures, adjusted for the terms of the joint venture agreements. Equity in loss of real estate joint ventures represents the Account's share of the current year's joint venture loss as provided for under the terms of the joint venture agreements. The Account's ratable share of the change in the fair value of the joint ventures is reported in net realized and unrealized gain (loss) in the accompanying Consolidated Statements of Operations. Distributions from the joint ventures are recorded when received by the Account.

Short-Term Investments – Short-term investments are comprised of money market funds and are recorded at fair value.

Cash – Cash includes cash on hand and demand deposit accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Debt – The fair value of debt is based on the present value of estimated cash flows using interest rates and anticipated returns a market participant would incur with similar risk and terms.

Noncontrolling Interests – The Account has entered into joint development relationships with other investors to acquire and develop real estate properties. The Account is the majority owner in such projects and has control over decision-making. Accordingly, the underlying assets and liabilities of the projects are consolidated into the Account's financial statements, with the external investors' net share of net assets reflected as noncontrolling interests. Certain external investors earn additional equity if the estimated rate of return of the real estate property that they are invested in exceeds a contractually determined rate. This additional equity allocation is accrued or reversed at the same time that the underlying real estate property appreciates or depreciates, respectively.

Other Assets and Liabilities – Accrued investment income and other assets, accounts payable and accrued expenses, accrued property taxes, and security deposits are recorded at cost, which approximates fair value.

Revenue Recognition – Rental income is recognized as income when earned in accordance with the terms of the respective leases. Reimbursements from tenants for common area costs are recognized monthly based on an estimate of annual costs, subject to periodic adjustments to reflect actual costs.

Income Taxes – According to current provisions of the Internal Revenue Code pertaining to tax qualified separate accounts, no income taxes are attributable to the activities of the Account. As a result, income taxes are not reflected in the accompanying consolidated financial statements.

Consolidated Statements of Changes in Net Assets – The 2009 presentation of the Consolidated Statements of Changes in Net Assets has been recast to conform with the 2010 presentation. The net assets, and the changes therein, attributable to the Account, to the noncontrolling interests, and in total have been presented in separate columns. In 2009, the net assets attributable to the Account and changes therein, including those attributable to the noncontrolling interests, were presented combined in a single column. The change in presentation had no impact on net assets, and changes therein, attributable to the Account, to the noncontrolling interests, or in total.

Consolidated Statements of Cash Flows – The 2009 presentation of net contractholder contributions (distributions) amount was reclassified to conform with the 2010 presentation in the Consolidated Statements of Cash Flows to present the gross activity of contractholder contributions and distributions. The change in classification had no impact on net cash used in financing activities.

Recent Accounting Pronouncements – In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-06, *Improving Disclosures about Fair Value Measurements,* which, among other things, amends ASC 820, *Fair Value Measurements and Disclosures,* to require entities to separately present purchases, sales, issuances, and settlements in their reconciliation of Level 3 fair value measurements (i.e. to present such items on a gross basis rather than on a net basis), and clarifies existing disclosure requirements provided by ASC 820 regarding the level of disaggregation and the inputs and valuation techniques used to measure fair value for measurements that fall within either Level 2 or Level 3 of the fair value hierarchy. ASU 2010-06 is effective for annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements (which are effective for annual periods beginning after December 15, 2010). The adoption of ASU 2010-06 impacted 2010 disclosures only.

3. FAIR VALUE MEASUREMENTS

In determining fair value, the Account uses various valuation approaches. ASC 820, *Fair Value Measurements and Disclosures,* establishes a fair value measurement framework, provides a single definition of fair value, and requires expanded disclosure summarizing fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Account. Unobservable inputs are inputs that reflect the Account's judgments about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is measured in three levels based on the reliability of inputs:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Account has the ability to access.

- Level 2 – Valuations based on quoted prices in less active, dealer or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities.

- Level 3 – Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a description of the valuation techniques used for investments measured at fair value:

Real Estate – Real estate values are based upon independent appraisals or internally prepared valuations. An independent consultant (the "Valuation Consultant") selected by Principal Real Estate oversees and administers the appraisal process for the Account. Real estate investments are stated at fair value as determined by the Valuation Consultant and approved by Account management. Appraisals are performed for each investment annually by independent third party MAI certified appraisers with all appraisals being performed in accordance with the Uniform Standard of Professional Appraisal Practice. Thereafter, values are updated daily by the Valuation Consultant based on changes in factors such as occupancy levels, lease rates, overall market conditions and capital improvements. Determination of estimated fair value involves subjective judgment because the actual fair value of real estate can be determined only by negotiation between the parties in a sales transaction.

The values of real estate investments have been prepared giving consideration to the income, cost and sales comparison approaches of estimating property value. The income approach estimates an income stream for a

3. FAIR VALUE MEASUREMENTS (continued)

property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. Significant inputs to the income approach include discount rates, terminal capitalization rates, and rent information, including current and projected rental growth rates, all of which are derived from underlying lease contracts and market transactions, as well as other industry and market data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally, this approach provides a check on the value derived using the income approach. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities which typically provide a range of value. Generally, the income approach carries the most weight in the value reconciliation.

The values of real estate investments undergoing development have been prepared giving consideration to costs incurred to date and key development risk factors, including entitlement risk, construction risk, leasing/sales risk, operation expense risk, credit risk, capital market risk, pricing risk, event risk and valuation risk. The fair value of properties undergoing development includes the timely recognition of estimated entrepreneurial profit after consideration of the items identified above.

The values of real estate investments do not reflect transaction sale costs, which may be incurred upon disposition of the real estate investments.

The Account's real estate investments are generally classified within Level 3 of the valuation hierarchy.

Real Estate Joint Ventures – Real estate joint ventures are stated at the fair value of the Account's ownership interests of the underlying entity. The Account's ownership interests are valued based on the fair value of the underlying assets and liabilities including the underlying real estate and any related debt, which are both valued consistently with the Account's wholly-owned real estate investments and debt, and other factors, such as ownership percentage, ownership rights and distribution provisions. Upon the disposition of all real estate investments by an investee entity, the Account will continue to state its equity in the remaining net assets of the investee entity during the wind down period, if any, that occurs prior to the dissolution of the investee entity. The Account's real estate joint ventures are generally classified within Level 3 of the valuation hierarchy.

Short-Term Investments – Short-term investments are comprised of money market funds and are valued at amortized cost, which approximates fair value. The fair value is based on significant observable inputs obtained from transactions in the same securities. Short-term investments are generally classified within Level 2 of the valuation hierarchy.

Unrealized Gain/Loss on Investment Commitments – The fair value of commitments to purchase real estate investments is recognized when the value of payments the Account is contractually obligated to make is above or below the value at which a market participant would assume the commitment and is determined based on the fair value of the underlying real estate. The Account's commitments to purchase real estate investments are generally classified within Level 3 of the valuation hierarchy.

Line of Credit and Debt – The fair value of the line of credit and debt instruments are determined by discounting the future contractual cash flows to the present value using market interest rates. The market interest rate used to discount the future contractual cash flows is determined by giving consideration to one or more of the following criteria as appropriate: (i) interest rates for loans of comparable quality and maturity, (ii) the anticipated equity return a market participant would accept with similar risk and terms and (iii) the value of the underlying collateral. Significant inputs to debt valuation include the market interest rate, anticipated equity returns, and future contractual cash flows. The Account's line of credit and debt are generally classified within Level 3 of the valuation hierarchy.

The following are the classes of assets and liabilities measured at fair value on a recurring basis during the years ended December 31, 2010 and 2009, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	2010			
Description	**Level 1: Quoted Prices in Active Markets for Identical Assets**	**Level 2: Significant Other Observable Inputs**	**Level 3: Significant Unobservable Inputs**	**Total at December 31, 2010**
Real estate	$ -	$ -	$3,984,110,000	$3,984,110,000
Real estate joint ventures	-	-	27,496,341	27,496,341
Short-term investments	-	17,666,114	-	17,666,114
Unrealized gain on investment commitments	-	-	56,820,353	56,820,353
Total assets	$ -	$17,666,114	$4,068,426,694	$4,086,092,808
Line of credit - variable rate	$ -	$ -	$50,000,000	$50,000,000
Debt:				
Mortgage notes payable - fixed rate	-	-	638,106,830	638,106,830
Construction notes payable - variable rate	-	-	27,835,330	27,835,330
Assessment bonds - variable rate	-	-	54,819,619	54,819,619
Unsecured notes payable - fixed rate	-	-	200,300,261	200,300,261
Total debt	-	-	921,062,040	921,062,040
Total line of credit and debt	-	-	971,062,040	971,062,040
Unrealized loss on investment commitments	-	-	64,351,596	64,351,596
Total liabilities	$ -	$ -	$1,035,413,636	$1,035,413,636

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3. FAIR VALUE MEASUREMENTS (continued)

2009				
Description	**Level 1: Quoted Prices in Active Markets for Identical Assets**	**Level 2: Significant Other Observable Inputs**	**Level 3: Significant Unobservable Inputs**	**Total at December 31, 2009**
Real estate	$ -	$ -	$4,413,709,000	$4,413,709,000
Real estate joint ventures	-	-	34,817,723	34,817,723
Total assets	$ -	$ -	$4,448,526,723	$4,448,526,723
Debt	$ -	$ -	$1,018,678,937	$1,018,678,937
Unrealized loss on investment commitments	-	-	64,763,581	64,763,581
Total liabilities	$ -	$ -	$1,083,442,518	$1,083,442,518

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2010 and 2009:

2010				
	Real Estate	**Real Estate Joint Ventures**	**Unrealized Gain on Investment Committments**	**Total Level 3 Assets**
Beginning balance - January 1, 2010	$4,413,709,000	$34,817,723	$ -	$4,448,526,723
Total realized and unrealized gains (losses) included in changes in net assets	259,932,248	(222,285)	56,820,353	316,530,316
Purchases, issuances, and settlements and sales	(689,531,248)	(7,099,097)	-	(696,630,345)
Ending balance - December 31, 2010	$3,984,110,000	$27,496,341	$56,820,353	$4,068,426,694

	Line of Credit and Debt	**Unrealized Loss on Investment Committments**	**Total Level 3 Liabilities**
Beginning balance - January 1, 2010	$(1,018,678,937)	$(64,763,581)	$(1,083,442,518)
Total realized and unrealized gains (losses) included in changes in net assets	(12,260,241)	(11,742,711)	(24,002,952)
Purchases, issuances, and settlements and sales	59,877,138	12,154,696	72,031,834
Ending balance - December 31, 2010	$(971,062,040)	$(64,351,596)	$(1,035,413,636)

2009				
	Real Estate	**Real Estate Joint Ventures**	**Mortgage Loan Receivable**	**Total Level 3 Assets**
Beginning balance - January 1, 2009	$6,758,425,000	$15,733,715	$11,658,331	$6,785,817,046
Total realized and unrealized gains (losses) included in changes in net assets	(1,720,433,637)	(20,331,852)	-	(1,740,765,489)
Purchases, issuances, and settlements and sales	(624,282,363)	39,415,860	(11,658,331)	(596,524,834)
Ending balance - December 31, 2009	$4,413,709,000	$34,817,723	$ -	$4,448,526,723

	Line of Credit and Debt	**Unrealized Loss on Investment Committments**	**Total Level 3 Liabilities**
Beginning balance - January 1, 2009	$(1,811,850,688)	$ -	$(1,811,850,688)
Total realized and unrealized gains (losses) included in changes in net assets	(12,712,510)	(64,763,581)	(77,476,091)
Purchases, issuances, and settlements and sales	805,884,261	-	805,884,261
Ending balance - December 31, 2009	$(1,018,678,937)	$(64,763,581)	$(1,083,442,518)

4. INVESTMENT MANAGEMENT FEES

Principal Life charges the Account an annual investment management fee (based upon its net assets), with such fees computed and deducted daily. These fees totaled $34,404,250 and $44,684,411 in 2010 and 2009, respectively. The Account owed Principal Life investment management fees of $756,506 and $23,657,778 as of December 31, 2010 and 2009, respectively. The fees owed are included in accounts payable and accrued expenses in the Consolidated Statements of Assets and Liabilities.

5. INVESTMENT COMMITMENTS

As of December 31, 2010, the Account had outstanding commitments to purchase seven properties for approximately $515,860,000. Certain properties are or will be under construction with the Account agreeing to purchase the completed development subject to attaining certain development and leasing thresholds. The Account has made deposits of approximately $70,300,000 on these projects as of December 31, 2010. These deposits are included in accrued investment income and other assets in the Consolidated Statements of Assets and Liabilities. It is anticipated that the Account will acquire these properties between 2011 and 2012.

As of December 31, 2010, the Account had an outstanding commitment to sell one property for approximately $10,000,000. The Account sold this property in January 2011.

6. LINE OF CREDIT

The Account maintains an unsecured line of credit. Maximum availability under the line of credit was $300,000,000 as of December 31, 2010 and 2009 (reduced to $296,375,000 and $296,000,000, respectively, by the letters of credit described below). There were borrowings outstanding on the line of credit of $50,000,000 and $0 at December 31, 2010 and 2009, respectively. Interest on outstanding borrowings accrues at LIBOR plus the applicable margin, which is based on the aggregate debt limitation ratio, as defined, and can range from 2.00% to 2.25% (.55% to .65% at December 31, 2009) (all-in interest rate of 2.27% at December 31, 2010 and .89% at December 31, 2009). Interest is payable on a monthly basis. Additionally, the Account pays a quarterly commitment fee ranging from .30% to .40% per year, based on the aggregate debt limitation ratio, as defined. The line of credit matures on October 4, 2013.

The line of credit includes a $100,000,000 letter of credit sub facility at December 31, 2010 and 2009. At December 31, 2010 and 2009, there were letters of credit issued of $3,625,000 and $4,000,000, respectively, of which $0 was outstanding. Interest on outstanding borrowings accrues at LIBOR plus the applicable margin, as defined above (all-in interest rate of 2.27% and .89% at December 31, 2010 and 2009, respectively). Additionally, the Account pays a commitment fee of .125% plus the applicable margin, as defined above, based on the unused amount of the letters of credit issued. The letters of credit expire in October 2011.

The line of credit agreement contains financial and non-financial covenants, including requirements regarding net assets, leverage ratio, debt service coverage ratio and unencumbered assets. The Account was in compliance with all covenants as of December 31, 2010.

7. DEBT

Mortgage Notes Payable – Contractual obligations on mortgage notes payable totaled $638,274,149 and $940,044,389 as of December 31, 2010 and 2009, respectively. These notes mature between 2011 and 2034 with fixed interest rates ranging from to 2.00% to 7.97% at December 31, 2010 and 2009. The mortgage notes are collateralized by the underlying properties which have an estimated fair value of $1,059,400,000.

Construction Notes Payable – Contractual obligations on construction notes payable totaled $27,943,886 and $35,198,113 as of December 31, 2010 and 2009, respectively. These notes mature in 2011. Variable interest payments are due monthly at 1.54% at December 31, 2010 and ranging from 1.50% to 1.51% at December 31, 2009. The construction notes are collateralized by the underlying properties which have an estimated fair value of $39,000,000.

Assessment Bonds – Assessment bonds consist of amounts owed to the City of Pleasanton, California, and the City of New York, New York. Contractual obligations on these assessments totaled $71,917,005 and $72,769,678 as of December 31, 2010 and 2009, respectively. These assessments mature in 2017 and 2032 with variable interest rates ranging from 0% to .30% at December 31, 2010 and .20% to .48% as of December 31, 2009. The assessment bonds are recorded as liens on the underlying properties which have an estimated fair value of $119,400,000.

Unsecured Notes Payable – During 2010, the Account issued two $100,000,000 unsecured notes payable with a financial institution. Contractual obligations on unsecured notes payable totaled $200,000,000 and $0 as of

December 31, 2010 and 2009, respectively. The notes mature in 2013 and 2015. Interest accrues at fixed interest rates ranging from 4.13% to 4.65% and is payable on a semi-annual basis. The note agreements contain financial and non-financial covenants, including requirements regarding net assets, leverage ratio, debt service coverage ratio and unencumbered assets. The Account was in compliance with all covenants as of December 31, 2010.

As of December 31, 2010, aggregate contractual maturities of debt were as follows:

YEARS ENDING DECEMBER 31,	
2011	$73,948,983
2012	239,934,051
2013	106,601,970
2014	159,241,924
2015	138,598,253
Thereafter	219,809,859
	938,135,040
Debt fair value adjustment	(17,073,000)
	$921,062,040

8. TENANT LEASES

The Account leases space to tenants under operating lease agreements. These agreements include renewal options and expire at various dates. At December 31, 2010, future minimum base rentals under non-cancelable leases having an original term of more than one year are as follows:

YEARS ENDING DECEMBER 31,	
2011	$272,912,010
2012	266,645,541
2013	233,953,788
2014	196,849,100
2015	161,922,304
Thereafter	696,506,038
	$1,828,788,781

The above future minimum base rental payments exclude multifamily lease agreements that accounted for approximately 17.3% of the Account's annual rental income for the year ended December 31, 2010. Revenue from real estate for the years ended December 31, 2010 and 2009, included approximately $73,595,000 and $86,941,000, respectively, for expenses recovered from tenants for common area and other reimbursable costs.

AUDITED FINANCIAL STATEMENTS

9. REAL ESTATE JOINT VENTURES

The Account is invested in two real estate joint ventures, a hotel and conference center and a retail property, in which it does not have control, but over which it has significant influence. The Account has a 33% and 10% ownership interest in the hotel and conference center and retail property joint ventures, respectively. The retail property joint venture sold the underlying real estate asset in December 2010.

The following is a summary of the financial position and operating results of the Account's joint venture investments as of December 31, 2010 and 2009 and for the years then ended. The joint ventures record their assets and liabilities at fair value.

	2010	2009
STATEMENTS OF ASSETS AND LIABILITIES:		
Real estate	$405,100,000	$467,300,000
Other assets	32,279,746	7,642,402
Debt	(281,413,097)	(310,377,821)
Other liabilities	(48,474,595)	(64,476,533)
Net assets	$107,492,054	$100,088,048
Account's share of net assets	$27,496,341	$34,817,723
STATEMENTS OF OPERATIONS:		
Revenue from real estate	$94,031,093	$222,185
Expenses	(96,716,827)	(3,194,731)
Net loss recognized from real estate investment sale	(2,940,791)	-
Unrealized loss on investments and debt	(447,920)	(60,575,639)
Net loss	$(6,074,445)	$(63,548,185)
Account's share of net loss	$(1,379,106)	$(20,331,852)

10. SUBSEQUENT EVENTS

The Account evaluated subsequent events through February 18, 2011, the date the accompanying consolidated financial statements were available to be issued.

The Account paid the investment management fees owed to Principal Life of $756,506 on January 3, 2011.

The distribution requests processed and recorded in accounts payable and accrual expenses of $22,865,464 as of December 31, 2010, were distributed to contractholders on January 3, 2011.

The amount subject to the Withdrawal Limitation was $975,079 as of February 18, 2011.

11. FINANCIAL HIGHLIGHTS

	R6		PGI>$25 MILLION		PROVIDER		SIP <$25 MIL, NO COMM.	
	2010	2009	2010	2009	2010	2009	2010	2009
PER SHARE OPERATING PERFORMANCE								
Net asset value, beginning of year	$428.87	$626.87	$19.76	$28.83	$214.71	$318.10	$19.26	$28.19
Income from investment operations:								
Net investment income	24.58	25.56	1.18	1.22	9.14	9.65	1.07	1.12
Net realized and unrealized gain (loss)	43.75	(223.56)	2.01	(10.29)	21.73	(113.04)	1.96	(10.05)
Total from investment operations	68.33	(198.00)	3.19	(9.07)	30.87	(103.39)	3.03	(8.93)
Net asset value, end of year	$497.20	$428.87	$22.95	$19.76	$245.58	$214.71	$22.29	$19.26
Total Return	15.93 %	(31.59)%	16.17 %	(31.45)%	14.38 %	(32.50)%	15.76 %	(31.69)%

	CLASSIC		R2		RETIREMENT ACCUM. CONTRACT		SIGNATURE	
	2010	2009	2010	2009	2010	2009	2010	2009
PER SHARE OPERATING PERFORMANCE								
Net asset value, beginning of year	$441.56	$643.49	$366.31	$538.60	$19.20	$28.11	$394.49	$578.35
Income from investment operations:								
Net investment income	26.76	27.76	18.62	19.48	1.07	1.12	21.31	22.23
Net realized and unrealized gain (loss)	45.14	(229.69)	37.25	(191.77)	1.96	(10.03)	40.18	(206.09)
Total from investment operations	71.90	(201.93)	55.87	(172.29)	3.03	(8.91)	61.49	(183.86)
Net asset value, end of year	$513.46	$441.56	$422.18	$366.31	$22.23	$19.20	$455.98	$394.49
Total Return	16.28 %	(31.38)%	15.25 %	(31.99)%	15.76 %	(31.69)%	15.59 %	(31.79)%

(continued)

11. FINANCIAL HIGHLIGHTS (continued)

	R4		R5		R1		R3	
	2010	2009	2010	2009	2010	2009	2010	2009
PER SHARE OPERATING PERFORMANCE								
Net asset value, beginning of year	$409.66	$600.12	$417.09	$610.26	$351.04	$516.82	$379.45	$556.92
Income from investment operations:								
Net investment income	22.49	23.45	23.44	24.42	17.34	18.18	20.04	20.93
Net realized and unrealized gain (loss)	41.75	(213.91)	42.53	(217.59)	35.67	(183.96)	38.62	(198.40)
Total from investment operations	64.24	(190.46)	65.97	(193.17)	53.01	(165.78)	58.66	(177.47)
Net asset value, end of year	$473.90	$409.66	$483.06	$417.09	$404.05	$351.04	$438.11	$379.45
Total Return	15.68 %	(31.74)%	15.82 %	(31.65)%	15.10 %	(32.08)%	15.46 %	(31.87)%

	PGI>$10<=$25 MILLION		PGI<=$10 MILLION		RATE LEVEL 52		I3	
	2010	2009	2010	2009	2010	2009	2010	2009
PER SHARE OPERATING PERFORMANCE								
Net asset value, beginning of year	$19.69	$28.73	$19.54	$28.55	$19.66	$28.70	$440.97	$643.92
Income from investment operations:								
Net investment income	1.16	1.21	1.13	1.17	1.16	1.19	25.76	26.76
Net realized and unrealized gain (loss)	2.01	(10.25)	1.99	(10.18)	2.01	(10.23)	45.02	(229.71)
Total from investment operations	3.17	(9.04)	3.12	(9.01)	3.17	(9.04)	70.78	(202.95)
Net asset value, end of year	$22.86	$19.69	$22.66	$19.54	$22.83	$19.66	$511.75	$440.97
Total Return	16.11 %	(31.48)%	15.99 %	(31.55)%	16.11 %	(31.48)%	16.05 %	(31.52)%

(continued)

	I4		I5		RIS INVESTMENT ONLY 1	
	2010	2009	2010	2009	2010	2009
PER SHARE OPERATING PERFORMANCE						
Net asset value, beginning of year	$448.35	$654.36	$468.71	$683.06	$5.91	$8.64
Income from investment operations:						
Net investment income	26.44	27.46	28.42	29.46	0.35	0.35
Net realized and unrealized gain (loss)	45.78	(233.47)	47.90	(243.81)	0.60	(3.08)
Total from investment operations	72.22	(206.01)	76.32	(214.35)	0.95	(2.73)
Net asset value, end of year	$520.57	$448.35	$545.03	$468.71	$6.86	$5.91
Total Return	16.11 %	(31.48)%	16.28 %	(31.38)%	15.99 %	(31.55)%

(concluded)

FUND LEVEL SUPPLEMENTAL DATA	2010	2009
Net assets attributable to U.S. Property Separate Account, end of year	$3,014,371,214	$3,416,624,550
RATIO TO AVERAGE NET ASSETS:		
Fund level expenses	1.40 %	0.90 %
Net investment income	5.61 %	4.81 %

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Forward-looking Statements: 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.

NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE): 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.

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