Principal® Global Investors

RESEARCH • RESOURCES • RESULTS

Principal U.S. Property Account

2009 ANNUAL REPORT

Principal U.S. Property Account

Quarry Oaks
Austin, TX

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On the cover:
One DTC
Denver, CO

Background, Philosophy, Objectives

Background

Since 1982, the Principal U.S. Property Separate Account (the U.S. Property Account or the Account)[1] has been offered to clients as an open-end, commingled real estate account sponsored by Principal Life Insurance Company and managed by Principal Real Estate Investors. 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:
   a) the open-end fund component of the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index at the property level, and
   b) the NCREIF Fund Index Open-end Diversified Core Equity (NFI-ODCE) Equal Weight at the portfolio level.

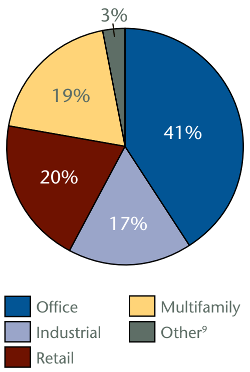
Right:
Quarters West Phase II
Austin, TX

[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.

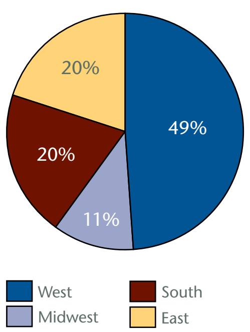
Portfolio Highlights

Account share of total debt (both property and portfolio) divided by Account Share of total gross assets.

SECTOR WEIGHTINGS[8]

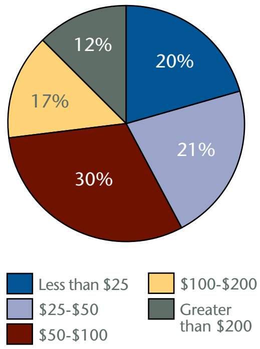


GEOGRAPHIC WEIGHTINGS[8]



PROPERTY SIZE[8]

(in Millions)



KEY STATISTICS | *December 31, 2009*			
Inception Date	January, 1982	Institutional Investors > $5M	79
Gross Asset Value	$4.6 billion	2009 Client Contributions	$222 million
Net Asset Value	$3.4 billion	2009 Client Distributions	$126 million
Number of Investments/Markets	128/41	Leverage Ratio[1]	22.8%
Size	35.0 million sf	Portfolio Occupancy[2]	92%
Cash to Gross Assets	2.0%	Redemption Queue Balance	$1,173.0 million

SECTOR	CURRENT ALLOCATION	NCREIF ALLOCATION	TARGET ALLOCATION
Office	41%	36%	30% - 45%
Multifamily	19%	24%	15% - 25%
Retail	20%	23%	10% - 20%
Industrial	17%	15%	15% - 25%
Hotel and Land	3%	2%	0% - 3%

PERFORMANCE	GROSS PORTFOLIO[3]	PORTFOLIO BENCHMARK[4]	NET PORTFOLIO[5]	PROPERTY[6]	PROPERTY BENCHMARK[7]
1 Year	-30.79%	-30.65%	-31.59%	-21.70%	-18.34%
3 Year	-11.34%	-10.31%	-12.35%	-6.55%	-4.74%
5 Year	-0.53%	0.14%	-1.66%	2.55%	3.46%
10 Year	4.50%	4.57%	3.33%	6.19%	6.33%
Since Inception	6.47%	6.11%	5.33%	7.36%	6.60%

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

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

[5]Net portfolio returns are shown after deduction for portfolio expenses including the 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.

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

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

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

[9]Comprised of hotel and land investments.

RETURNS

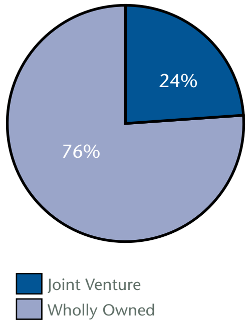
	4Q2009	1 YEAR	3 YEAR	5 YEAR	10 YEAR
PORTFOLIO RETURNS[1]					
Income	1.69%	6.08%	5.17%	5.23%	6.40%
Appreciation	-6.14%	-35.19%	-15.91%	-5.55%	-1.82%
TOTAL RETURN	**-4.45%**	**-30.79%**	**-11.34%**	**-0.53%**	**4.50%**
PROPERTY RETURNS[2]					
Income	1.58%	5.86%	5.23%	5.35%	6.55%
Appreciation	-4.44%	-26.36%	-11.34%	-2.69%	-0.34%
TOTAL RETURN	**-2.86%**	**-21.70%**	**-6.55%**	**2.55%**	**6.19%**

ONE YEAR PERFORMANCE

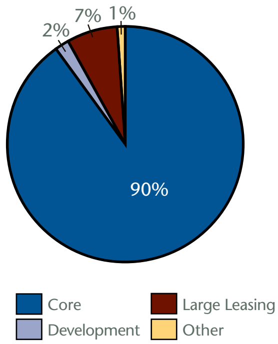
	OFFICE	INDUSTRIAL	RETAIL	MULTIFAMILY
PROPERTY SECTOR[2,3]				
Income	6.61%	5.24%	6.38%	5.45%
Appreciation	-28.06%	-27.66%	-19.04%	-26.36%
TOTAL RETURN	**-22.89%**	**-23.56%**	**-13.60%**	**-22.02%**

	EAST	MIDWEST	SOUTH	WEST
GEOGRAPHIC REGION[2]				
Income	4.89%	7.87%	4.88%	6.22%
Appreciation	-28.27%	-27.19%	-24.53%	-25.99%
TOTAL RETURN	**-24.46%**	**-20.98%**	**-20.58%**	**-21.02%**

STRUCTURE



LIFE CYCLE



TEN LARGEST INVESTMENTS

INVESTMENT NAME	METROPOLITAN AREA	SECTOR	% OF GROSS REAL ESTATE ASSETS
333 Market Street	San Francisco, CA	Office	7.29%
1370 Avenue of the Americas	New York, NY	Office	4.72%
112th at 12th Street	Seattle, WA	Office	3.97%
Burbank Empire Center	Los Angeles, CA	Retail	3.24%
Watermark	Cambridge, MA	Multifamily/Retail	2.41%
Portales Corporate Center	Phoenix, AZ	Office	2.35%
J.W. Marriott San Antonio	San Antonio, TX	Hotel	2.34%
Shorewood Heights	Seattle, WA	Multifamily	2.26%
Hazard Center	San Diego, CA	Office/Retail	2.09%
Charles Park	Cambridge, MA	Office	1.99%

[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: -0.02% Income, -22.05% Appreciation and -22.07% Total.

Portfolio Manager Commentary

The Principal U.S. Property Account experienced an extremely challenging year in 2009, facing headwinds from a global financial crisis, a severe U.S. recession that resulted in over 7 million job losses and volatile capital markets that sharply reduced debt and equity transaction volume across the real estate asset class. The total gross return for the Account was -30.8% in 2009, reflecting the harsh economic and real estate market conditions and slightly underperforming the Account's benchmark return of -30.7%. However, we head into 2010 having accomplished key objectives of deleveraging the Account, increasing the occupancy of the portfolio, and repositioning the portfolio for improved performance going forward in anticipation of an economic and employment recovery.

The total return performance for all four commercial real estate quadrants in the U.S. was negative through most of the first quarter of 2009. Property values and REIT share prices fell sharply, while spreads on commercial property loans and commercial mortgage backed securities (CMBS) widened significantly as a result of limited availability and higher cost of capital. The transaction market largely ground to a halt with lenders on the sidelines and the bid/ask spread between buyers and sellers remaining broad. However, since the beginning of second quarter 2009, two primary trends have emerged. First, conditions in the public real estate quadrants (REITs and CMBS) and spreads on conservative commercial property loans on core properties have improved significantly. Second, property values have generally continued to decline, creating a divergence in total return performance between private real estate equity and the other three real estate quadrants. However, with year end 2009 property values down by approximately 30% to 35% from previous peak levels, and the pace of writedowns beginning to ease, it is becoming increasingly possible that property values may be at or near a cyclical low (absent a double dip recession or other negative economic event).

Real estate space market fundamentals continued to deteriorate throughout 2009 and vacancy rates for all property types are, despite reasonably well controlled new supply, expected to reach record levels in the upcoming quarters. Space market challenges are largely a function of the economy experiencing one of the most significant demand contractions in the post war era. As the decade ended, continued job losses contributed to the 2000s being the weakest decade since the 1930s in terms of total growth in payroll employment. This has resulted in a sharp increase in the unemployment rate, weak consumer spending, and a severe reduction in global trade. All of these factors combined with a rise in business bankruptcies contributed to anemic tenant demand for space.

Costco Way
Edison, NJ

Despite these challenges, the Account gained 1.4 million square feet of net absorption during the year, increasing portfolio occupancy from 90% to 92% during 2009 (85% including value-added properties). Our asset management resources remain dedicated to the renewal of existing tenant leases, the leasing of vacant space and the effective management of property expenses – with the clear goal of maximizing property and portfolio level income. In a market that has become characterized by limited tenant expansion, a key element of our strategy entails gaining market share in the leasing market.

> "The Account gained 1.4 million square feet of net absorption during the year."

Partially due to government intervention initiatives, the real estate capital markets continued to gradually improve during the second half of 2009, although recovery is far from complete. Despite relatively steady improvement in the third and fourth quarters, the 2009 U.S. transaction volume total of $52 billion is down over 90% from peak levels of 2007. Apartments were the most liquid property type in 2009, primarily due to the availability and affordability of government agency (Fannie Mae and Freddie Mac) financing for apartment acquisitions. Investor risk appetite remains relatively low, with buyers preferring transactions characterized by high occupancy and low short-term tenant rollover, particularly given a still uncertain outlook for the trajectory of job recovery. Notwithstanding the difficult transaction environment, the Account completed 29 sales totaling $844 million in gross proceeds in 2009. These dispositions were strategically important to the Account, accomplishing portfolio risk management, repositioning, deleveraging, and diversification objectives.

As the market encountered an unprecedented major shift in appetite for core real estate in 2008, Principal Life implemented a client withdrawal limitation (the Queue) for the Account on September 26, 2008 for the benefit and protection of all investors. At December 31, 2009, the outstanding amount in the Queue was $1.17 billion.

Portfolio Manager Commentary *(continued)*

Since the implementation of the Queue, cash flow not needed for other property or portfolio obligations has been utilized to deleverage the Account in order to meet debt maturities, debt covenants and to maximize performance consistent with Account objectives. Through the considerable effort to successfully complete strategic property sales and using cash from other sources such as property income, we have reduced the Account's debt obligations by $997 million since the Queue was implemented. The Account ended the year with a loan-to-value ratio of 22.8%, significantly below the benchmark index average and representing a commitment to effective liability management.

This focus on debt reduction has enabled the Account to commence partial distributions to investors in the Queue during the first quarter of 2010 (the Queue amount was $1.02 billion as of February 16, 2010, subsequent to the first distribution). We believe that a continued disciplined approach to liability management and Queue reduction will enable the Account to begin buying properties that enhance the portfolio and offer good risk-adjusted returns while compelling acquisition opportunities are still available in the market.

We expect 2010 to be characterized by continued improvement in the economy, job market and capital markets, but that the pace of recovery will likely be gradual and thus space market fundamentals are expected to remain weak for at least the next few years. An improvement in the job market is critical to real estate recovery, and will be a function of both the magnitude of economic as well as labor productivity growth. Absent a double dip recession, we also expect property value declines to subside, as values appear to be at or near a cyclical trough. Finally, we anticipate investor demand for core real estate will increase in 2010 as real estate's relative underperformance versus other asset classes may result in an under-allocation to real estate in investor portfolios and investor perceptions that real estate values may have reached a trough. Both could result in rescissions of redemption requests by investors in core open-end funds (which the Account has already experienced) and new capital investment in these funds by both existing and new investors. The resources of Principal Real Estate Investors are fully committed to navigating through the challenging circumstances outlined above as we transition into the new decade with a continued dual focus on return generation and risk management.

Thank you for your continued support and consideration of the Principal U.S. Property Account during these challenging times. We look forward to working with you in the future.

John T. Berg

John T. Berg
Portfolio Manager

Right:
North Avenue Collection
Chicago, IL

Repricing, Rebalancing and Recovery: A New Era for Real Estate

The global economy, global trade volume and job markets have each suffered their largest post-war contraction in the wake of the credit crisis. Reinforced by nearly unprecedented levels of coordinated government intervention and stimulus, the global economy is emerging from its most severe downtown in the post-war era. The threat of a systemic market collapse has largely receded, replaced by cautious optimism that 2010 will bring continued restoration in the credit markets and sustained economic expansion.

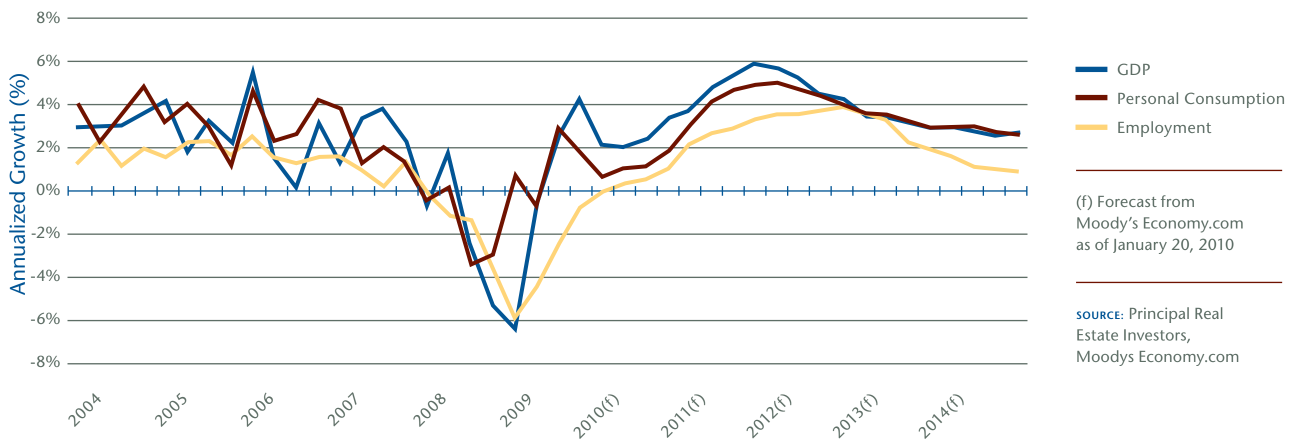
Shocks of the extreme severity that marked the recent down-cycle potentially contain the seeds of secular change, with both short-term and long-term implications for the global and U.S. recovery. Government intervention initiatives will likely have a lasting influence on markets, with government debt as a percent of GDP expected to grow significantly. Other potential secular changes influencing U.S. recovery dynamics include the possibility of higher personal savings rates, a gradual displacement of U.S. consumers as the incremental driver of global GDP growth, higher structural unemployment rates and new wealth redistribution and tax initiatives.

The new decade will provide the global economy and capital markets an opportunity to remedy past imbalances. Similarly, the next several years will also create an opportunity for investors to rebalance and reposition commercial real estate portfolios. The opportunity set is large and increasingly compelling, but many challenges remain. For investors seeking to take advantage of a market now priced for extended imperfection, increased strategic and tactical readiness will be important. As the new decade begins, the road to recovery is coming into view, but continued investor caution and selectivity will be critical. That is especially true of an economy whose recovery is likely to be characterized not only by conventional cyclical recovery dynamics, but also by significant secular changes that will almost certainly lead to unexpected twists and turns along the way.

The commentary on pages 10-17 and 22-23 includes excerpts from *Repricing, Rebalancing and Recovery: A New Era for Real Estate* published by Principal Real Estate Investors. The full report is available to investors on the Account's website or upon request.

Cresent V
Denver, CO

U.S. ECONOMIC ACTIVITY



(f) Forecast from Moody's Economy.com as of January 20, 2010

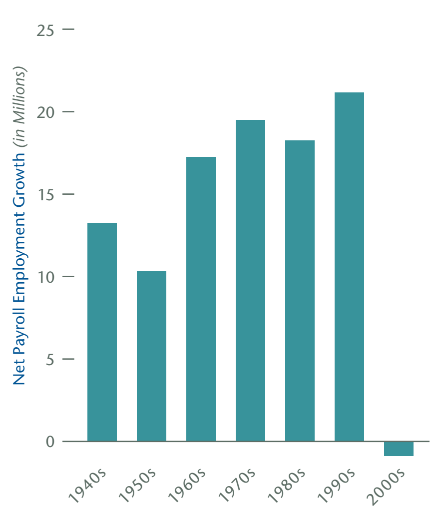
SOURCE: Principal Real Estate Investors, Moodys Economy.com

U.S. Economic Outlook

The U.S. economy is participating in the global recovery, beginning with positive third quarter 2009 GDP growth that ended a streak of four consecutive negative quarters. Initial estimates of fourth quarter GDP growth at a seasonally adjusted annual rate of 5.7%, driven by inventories and consumer spending, provide further evidence of a turning point in the economy. Renewed optimism is reflected in a dramatic improvement in the index of leading economic indicators. But what lies ahead may be a period of slow growth in a U.S. economy saddled with the burden of huge government budget deficits, a still overleveraged household sector and fragile housing market, and a heightened regulatory environment.

In addition, there are sectors of the U.S. economy that have yet to show meaningful improvement, especially employment. The sharp contraction in payroll employment that has resulted in over 7 million net job losses appears to be coming to an end, but a robust rebound in job growth is unlikely. Net payroll employment growth averaged about 15 million per decade from 1940 to 2000. By contrast, this has been the lost decade of job growth, with -985,000 in cumulative net job growth since the beginning of 2000. While continued productivity advances are likely to keep job creation somewhat constrained over the next few years, the year 2010 is likely to bring a resumption of positive payroll employment growth. Despite growth, there is a likelihood that payroll employment will not return to previous peak levels until 2013 or later.

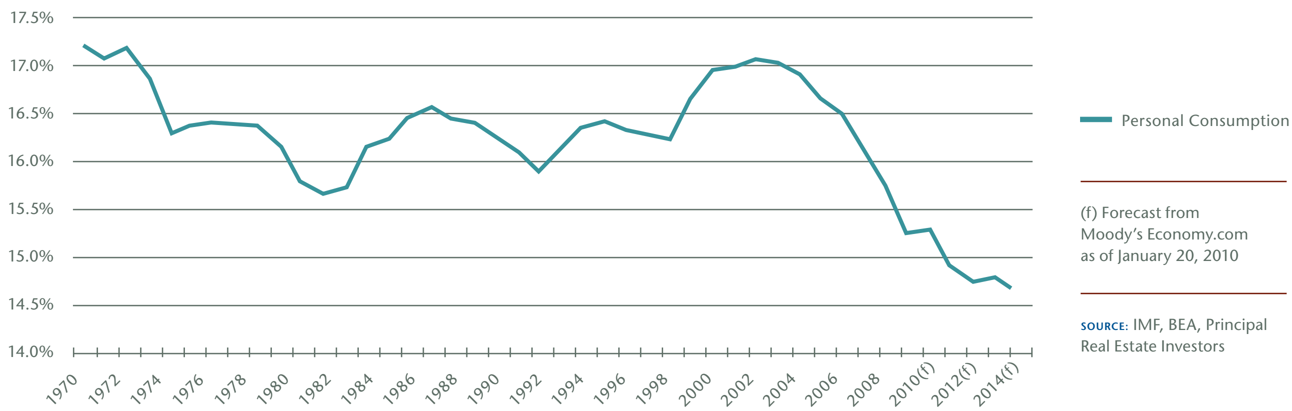
TOTAL EMPLOYMENT GROWTH BY DECADE



SOURCE: BLS, Moody's Economy.com

The resumption of job growth does not necessitate marked improvement in consumer spending or behavior due, in part, to potential secular changes. The current downcycle and subsequent recovery may represent an inflection point for the U.S. consumer, consisting of a partial displacement of this sector as the incremental engine of global growth. As the consumer continues to deleverage, there is the potential for structurally higher personal savings rates and an impact on spending patterns. Despite weakness in consumer spending, there are areas within the economy of potential strength, especially exports. A relatively weak dollar and a strong rebound in global economic and trade volume growth should set the stage for dramatically improved export activity.

U.S. PERSONAL CONSUMPTION AS A SHARE OF GLOBAL GDP



(f) Forecast from Moody's Economy.com as of January 20, 2010

SOURCE: IMF, BEA, Principal Real Estate Investors

Shocks of the extreme severity encountered in 2008–2009 have the potential to contain the seeds of secular change, in turn suggesting that the emerging recovery could be quite dissimilar to past upturns. Unlike traditional recovery dynamics in which accommodative monetary policy is implemented within a healthy and functioning financial system, thus expediting an orderly return to business as usual, the upcoming recovery is likely to play out differently. Massive government intervention alone will change the landscape of America for the next decade or more, with government debt as a percent of GDP expected to grow dramatically. With the increase in the budget deficit comes the prospect of longer term inflationary or at least asset reflationary pressures, as well as a weak U.S. dollar. Other potential secular changes include an increased role for the government in the finance, automotive, energy and health care industries; possibility of higher structural unemployment rates and increasing protectionist sentiment; and the likelihood of increased wealth redistribution mechanisms in the form of new taxes, higher marginal tax rates and expansion of social programs.

"U.S. economic growth during 2010 is anticipated to reach only 2.9%, partially attributable to a weak rebound in personal consumption."

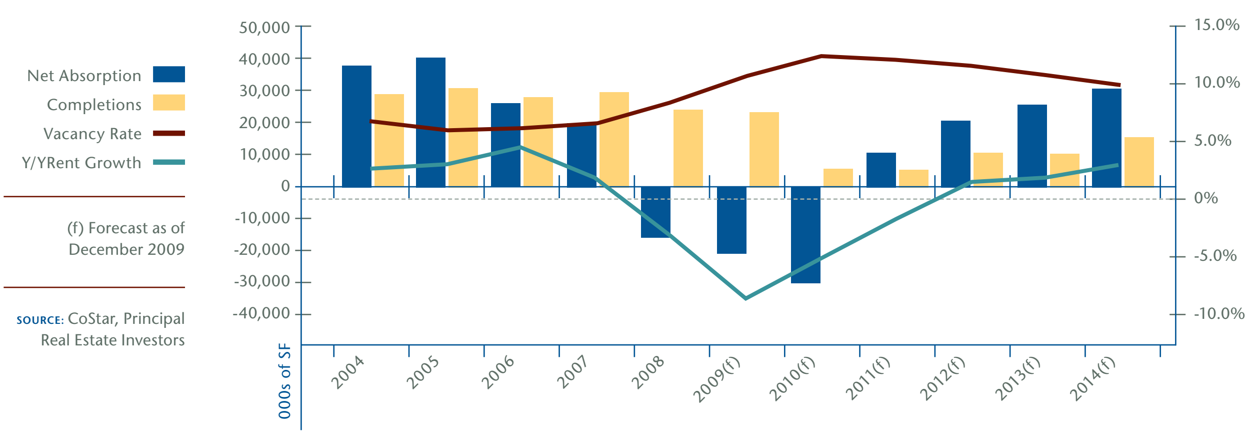
The cumulative impact is likely a drag on the recovery trajectory of a still fragile U.S. economy that could face challenges to revert to sustained trendline growth once the near-term boost from government stimulus and inventory rebuild is exhausted. As a result, U.S. economic growth during 2010 is anticipated to reach only 2.9%, per estimates from Principal Global Investors, partially attributable to a weak rebound in personal consumption. Combined with expectations of continued strength in labor productivity, less than robust economic growth implies a slow job recovery, which in turn tends to reinforce reduced consumer spending.

Space Market Fundamentals

With some exceptions, U.S. space markets have been characterized by reasonably disciplined levels of new supply. But the favorable impact of restrained new supply has been more than offset by a massive contraction in user demand. Vacancy rates across virtually all property types are either already at or likely headed for or above 1990s peak levels. Declines in payroll employment have reached post-war peaks. Business bankruptcies continue to increase and consumer spending is under pressure due to high unemployment rates, a still weak housing market and the negative wealth effect.

Despite consumer spending headwinds, **retail** total returns during the downturn have thus far outperformed the other property types. However, while the outlook for retailer credit has improved, the sector continues to be under financial stress as evidenced by negative net absorption in 2009 which will likely continue throughout 2010. In addition, there could be another round of retailer bankruptcies in early 2010 given initial reports of unexpectedly weak holidays sales as indicated by a 0.3% drop in U.S. retail sales during December. Retail is at a pivotal point, potentially facing a major secular shift driven by heightened personal savings, declining personal income in the face of elevated unemployment rates and deleveraging of household balance sheets. Given the distinct possibility of continued weakness in consumer spending, there is a need for a sustained period of very limited new supply until the dynamics of net population growth can close the gap and reduce retail vacancy rates.

RETAIL SPACE MARKET FUNDAMENTALS

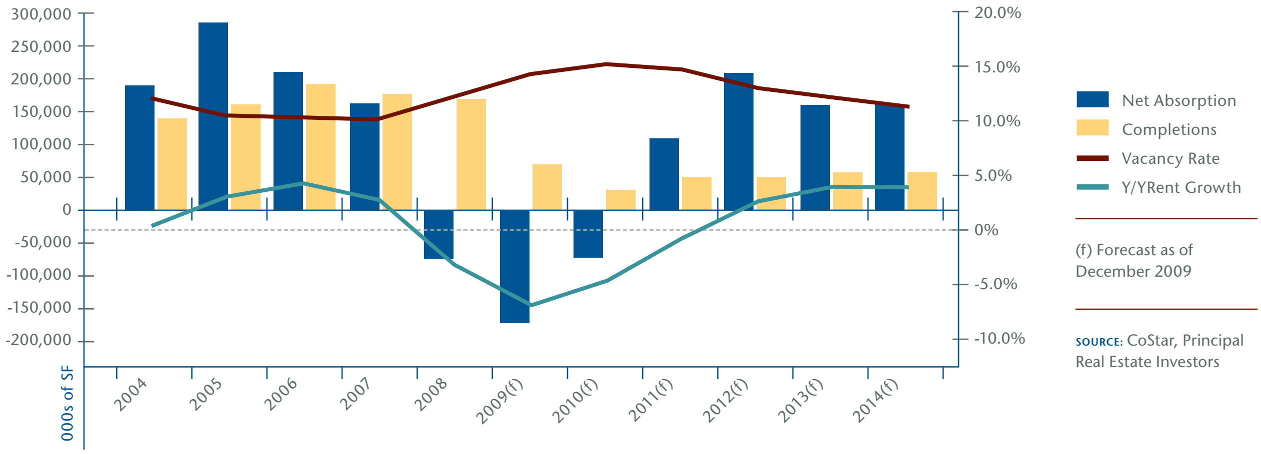


(f) Forecast as of December 2009

SOURCE: CoStar, Principal Real Estate Investors

The largest decline in global trade volume in the post-war era along with weak consumer spending have driven **industrial** vacancy rates above the peaks reached in the 1990s. Demand will likely regain momentum in 2010, with global trade expected to resume positive growth following a precipitous decline in 2009. However, the recovery in consumer spending is likely to be more muted. The prospects for industrial recovery rest heavily on keeping net new supply even more constrained than in the past, allowing the dynamics of net U.S. population and export growth to chip away at high vacancy rates.

INDUSTRIAL SPACE MARKET FUNDAMENTALS

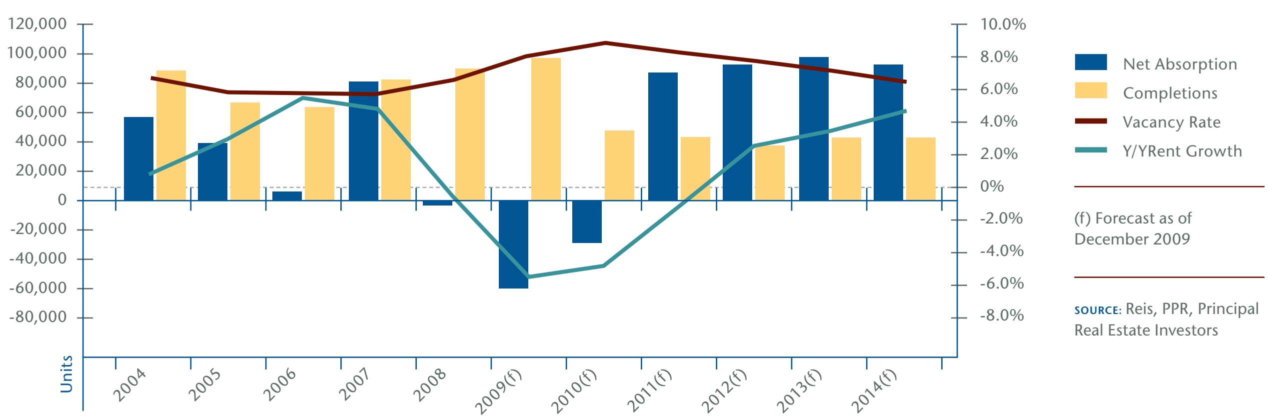


(f) Forecast as of December 2009

SOURCE: CoStar, Principal Real Estate Investors

Despite record home foreclosures that might have otherwise led to increased demand for apartments, weak household formation levels and high unemployment rates have combined to weaken multifamily fundamentals throughout 2009. **Multifamily** vacancy rates have climbed to an all-time high of nearly 8%. Declines in multifamily transaction volume would have likely been worse if not for availability of financing from the government sponsored enterprises (GSEs). However, should financial reform lead to a reduction in multifamily lending by the GSEs, there could be additional upward pressure on multifamily cap rates.

MULTIFAMILY SPACE MARKET FUNDAMENTALS



(f) Forecast as of December 2009

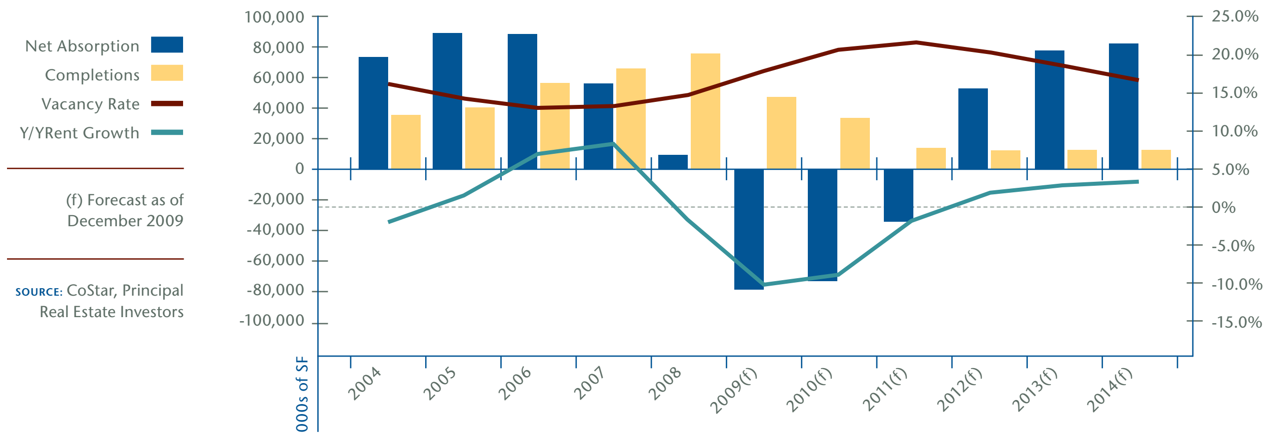
SOURCE: Reis, PPR, Principal Real Estate Investors

Premier Lofts
Denver, CO

Space Market Fundamentals *(continued)*

White collar job losses have been disproportionately large compared to overall job losses, driving up **office** vacancy rates. Although new construction will continue to fall sharply, negative absorption is projected to push office vacancy rates beyond the previous peak reached in 1991. Recovery in the office markets will be largely a function of white collar job recovery, which is likely to proceed fairly slowly. Even when businesses resume hiring, it will not immediately translate into net absorption, given a significant amount of leased but vacant space. Further, office job creation is closely linked to small-to-medium businesses whose access to credit remains quite challenged, given the uncertain financial health of community banks.

OFFICE SPACE MARKET FUNDAMENTALS



(f) Forecast as of December 2009

SOURCE: CoStar, Principal Real Estate Investors

Boynton Commerce Center
West Palm Beach, FL

Hotel fundamentals have significantly eroded over the past two years. Large price corrections have been driven by the immediacy of declines in operating income, high operating leverage and dramatic increases in required risk premiums for owning and lending on hotel properties. While 2010 will likely be another very challenging year, the hotel industry will hopefully make material progress toward recovery in 2011 once economic expansion becomes more sustained and business spending regains momentum.

The real estate market has come full circle, moving beyond the financial engineering-driven era and getting back to basics. One of the primary basics is improved property operations, including leasing effectiveness and ensuring a high level of tenant satisfaction and retention. Operational excellence also entails the ability to generate material net absorption and occupancy gains in a portfolio within the confines of a broader real estate system in which overall net absorption is flat to negative. Survival of the fittest is an inherent part of the dynamics of creative destruction that have enveloped commercial real estate in the wake of a global credit crisis and recession that has ushered out what has proven to be a highly volatile first decade of the new millennium.

The space market road to recovery is likely to be a long one, given an economy that could grow more slowly than in past recoveries. As a result, there is a critical need to keep net new supply of commercial real estate well in check for most of the next decade to work through space market overcapacity. The weakened and more risk-averse banking sector will do its part by dramatically reducing the availability of construction loans, but once space market fundamentals begin to improve, continued investor supply discipline will be critical. That discipline will hopefully be reinforced by not only remembering but also effectively applying the lessons learned from the current downturn, as the market works through its second major real estate correction over the past 25 years.

Principal U.S. Property Account Performance

The last 12 months were defined by considerable obstacles and uncertainty, within both the broader economy and the commercial real estate markets. While some leading indicators suggest recovery and cautious optimism toward normalization, the impact and severity of the recession is still evidenced throughout commercial real estate. Meaningful improvement in the economy will be vital to recovery, especially in the private equity sector of the asset class, though a rebound will lag that of the broader market. Performance within the Account reflected the challenging landscape and 2009 marked the second consecutive calendar year of a negative total return for the Principal U.S. Property Account. These two years follow 16 consecutive years of a positive total return. The total portfolio level return for 2009 was -30.79%, comprised of income of 6.08% and depreciation of -35.19%. Nearly three-quarters of the depreciation is related to property value declines throughout the portfolio, though leverage also significantly detracted from returns. Despite a difficult year in terms of performance, the Principal U.S. Property Account achieved measurable progress in deleveraging, increasing occupancy and managing expenses.

During 2009, a portfolio level benchmark was formally adopted in addition to the property level benchmark, the Open-end Fund Component of the NCREIF Property Index (NPI). The portfolio level benchmark of the Account is the NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE) Equal Weight. This index provides an appropriate relative comparison for total performance as it includes the impacts of cash, leverage and other balance sheet items in addition to property level performance. As of December 31, the Account trails its portfolio level benchmark over all time periods, although underperformance over the one and ten-year time periods is marginal. Short-term underperformance is attributable to Account write downs exceeding those of the Index while longer-term underperformance is due to a historically lower leverage level than the benchmark and the reduced benefit from leverage when property returns exceeded borrowing rates. Property level performance trails that of the Open-end Fund Component of the NPI over all time periods.

While changing capital markets and increased investor yield requirements drove much of the depreciation in asset values during 2008, deteriorating fundamentals at the property level characterized by reduced rental rates, increasing market vacancies and latent tenant demand were the primary drivers of continued depreciation in 2009. Today, peak-to-current write-downs in the Account are nearly 35%, with relatively wide disparity in peak-to-current write-downs among the assets dependent upon property sector, market, leasing status and quality.

> "Despite a difficult year, the U.S. Property Account achieved measurable progress in deleveraging, increasing occupancy and managing expenses."

Below is a chart that details the valuation assumptions of the aggregate portfolio in terms of capitalization and discount rates, in addition to the change in rates over the course of 2009.

Asset value depreciation continued through 2009, although the pace of write-downs slowed materially throughout the year. Office assets recorded the largest depreciation in value, though due to a stronger income return, did not produce the lowest total property level returns during the year. An office asset in New York, a market challenged by oversupply and lack of demand, had the lowest return in 2009, though many office assets facing scheduled tenant move-outs also showed significant value declines due to an increased lease-up time frame and the likelihood of substantially lower market rental rates. Industrial asset depreciation followed that of the office sector, although the industrial sector posted the lowest one-year return due to significant vacancy resulting in a lower relative income return. Assets in both Riverside, CA and Northern New Jersey produced the lowest total returns driven by a steep decline in demand and rapid downward pressure on rental rates in Riverside and large amounts of vacancy coupled with minimal tenant demand in Northern New Jersey. Performance within the multifamily sector was slightly better than that of industrial and office, though depreciation in asset values during the year topped 26%. Finally, the retail sector continued to outperform within the Account, posting the highest income return and the lowest amount of depreciation. Account assets in the sector have performed relatively well due to the longer lease terms and stable nature of the credit tenancy associated with many grocery-anchored centers which insulates much of the income stream from short-term downward pressure on market rental rates.

VALUATION METRICS[1]

YEAR-OVER-YEAR	YEAR 1 CAP RATE	4Q2008-4Q2009 CHANGE	DISCOUNT RATE (IRR)	4Q2008-4Q2009 CHANGE
Office	6.7%	107 bps	8.5%	44 bps
Retail	7.4%	88 bps	9.0%	58 bps
Industrial	7.0%	120 bps	9.0%	98 bps
Multifamily	6.0%	56 bps	8.6%	61 bps
WEIGHTED AVERAGE	**6.8%**	**97 bps**	**8.7%**	**61 bps**

[1]Excludes value-added properties

Principal U.S. Property Account Performance *(continued)*

Throughout the year, the Account maintained focus on its strategic theme of liability management. As a result of this initiative, the Account eliminated over $801 million in outstanding obligations comprised of both property level and portfolio level obligations. In addition to decreasing the leverage ratio of the Account from 26.1% at the end of 2008 to 22.8% as of December 31, 2009, this reduction in leverage created additional flexibility for the Account, mitigated the impact of negative leverage on portfolio performance and enabled the Account to maintain a low cost of debt capital. Further, the Account successfully managed all 2009 debt maturities and has only $224 million of maturing debt during 2010. Of this total, $200 million is related to a property level loan for which the Account has three, one-year options to extend. Maturities beyond those in 2010 also remain at a manageable level.

LEVERAGE INFORMATION	INTEREST RATE	% OF TOTAL DEBT
Fixed Interest Rate Obligations	5.5%	82.1%
Floating Interest Rate Obligations	1.8%	17.9%
TOTAL OBLIGATIONS	**4.9%**	**100.0%**
Secured Obligations	4.9%	100.0%
Unsecured Obligations	N/A	N/A
TOTAL OBLIGATIONS	**4.9%**	**100.0%**

IMPACT OF MARKING DEBT TO MARKET	
1 YEAR	-0.1%
3 YEARS	0.3%
5 YEARS	0.2%

DEBT MATURITY SCHEDULE[1]

YEAR	DOLLAR AMOUNT ($M)	% OF DEBT MATURING
2010	$223.8	19.6%
2011	$143.5	12.5%
2012	$328.0	28.7%
2013	$56.4	4.9%
2014	$154.9	13.5%
2015 and later	$238.2	20.8%

[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 $0 at 12/31/2009.

Nationwide, all property sectors reported widespread increases in vacancy rates and negative net absorption; however, during 2009 the Principal U.S. Property Account delivered consistent and quantifiable improvement in its occupancy and substantial net absorption in three of the four main property sectors. Core portfolio occupancy increased from 90% to 92% from December 31, 2008 to December 31, 2009. Further, positive net absorption during the year topped 1.4 million square feet.

Much of the positive leasing velocity occurred throughout the industrial sector and within key markets recognized as major transportation hubs such as Northern New Jersey and Atlanta. Through a tenant recognition of strong landlord sponsorship and enhanced asset management tactics, the Account gained important occupancy and income certainty and will continue these initiatives throughout 2010. Further, over the next 12 months, only 10% of the leased space within the portfolio has lease expirations, some of which has extension or renewal options that have already been negotiated with the existing tenant. Occupancy within the office sector will be a main focus during 2010, as the Account has several assets in which a known tenant move-out is expected to occur.

PORTFOLIO OCCUPANCY

PROPERTY TYPE	OCCUPANCY	OCCUPANCY EXCLUDING VALUE-ADDED PROPERTIES[1]	NET ABSORPTION[2]
Office	88%	91%	242,919 sf
Retail	92%	93%	319,618 sf
Industrial	79%	92%	655,520 sf
Multifamily	92%	92%	204,629 sf
Total	**85%**	**92%**	**1,422,686 sf**

[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.

LEASE EXPIRATION SCHEDULE (FOR THE YEARS ENDING)

	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Office	11%	12%	8%	12%	8%
Retail	6%	10%	15%	7%	6%
Industrial	12%	13%	13%	8%	11%
Total	**10%**	**12%**	**11%**	**10%**	**8%**

Account operations also progressed in terms of same-property net operating income (NOI) growth. For those assets held in the Account at December 31, 2008 and December 31, 2009, NOI grew by 1.2%, buoyed by an increase in revenues that outpaced expense increases. NOI growth was strongest in the retail sector, primarily due to the lease-up and stabilization of a retail asset that was under development for much of 2008. Growth in the office sector was nearly equal to that of the retail sector and was attributable to the lease-up of a development asset located in Austin, TX in addition to substantial increases at a Bellevue asset and a Phoenix asset which recently renewed its largest tenant. Both the multifamily and industrial sectors experienced negative NOI growth during the year.

SAME-PROPERTY NET OPERATING INCOME (IN $M)

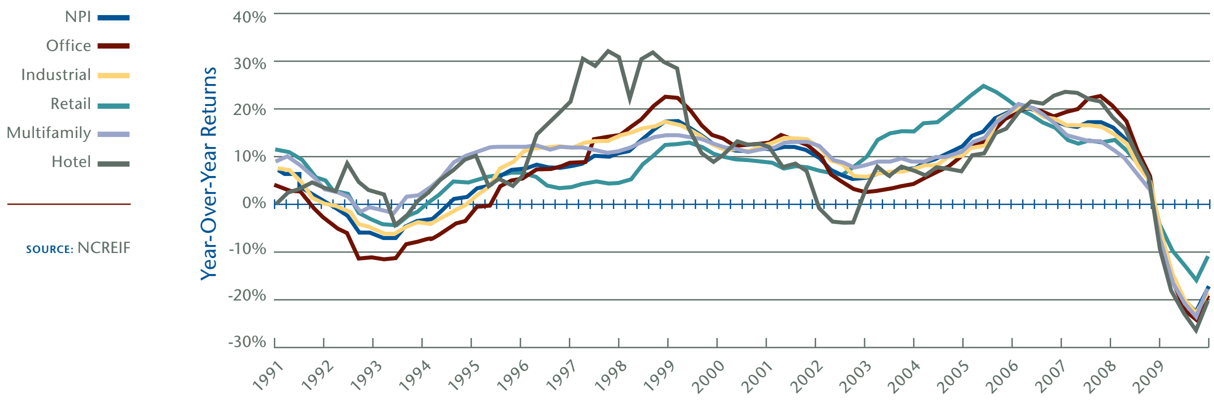
Actual ending 12/31/2008	$285.4
Actual ending 12/31/2009	$288.8
GROWTH	**1.2%**

Finally, the Principal U.S. Property Account is committed to sustainable investing when economically feasible and consistent with our fiduciary responsibility to our investors. Multiple assets have been identified as candidates for Energy Star and LEED EB certification, resulting in near and long-term expense savings at the property in addition to enhanced marketing to many tenants with specifically "green" mandates in terms of space that is leased. To date, the Account includes 15 assets registered for and proceeding toward LEED EB certification and four assets that have achieved LEED EB Gold certification.

Capital Markets

Given the systemic nature of the global downturn, very few sectors were able to avoid the forces of downward corrections. Economic recovery will contain certain elements of relative synchronization, given the intertwined forces of globalization, yet increasingly idiosyncratic factors suggest that not all investment sectors will see recovery at the same pace. As a result, there will likely be significant differences across nations, regions and property types in terms of the magnitude of real estate pricing corrections and recovery dynamics.

NCREIF TOTAL RETURNS BY PROPERTY TYPE



SOURCE: NCREIF

During the last major real estate price correction in the early 1990s, a shortage of commercial real estate debt capital opened the door for the shadow banking sector to fill the gap. In contrast, the absence of the securitization market for much of 2008 and 2009 has been a contributor to the financing gap. However, the commercial real estate debt market has seen significant improvement throughout the course of 2009, despite still facing a long road to complete recovery.

CMBS spreads have managed to narrow throughout most of 2009 despite a continued deterioration in space market fundamentals and a significant increase in delinquent and special servicing loans. Government intervention initiatives, including both the Term Asset Backed Loan Facility (TALF) and the Public Private Investment Program (PPIP) have increased liquidity and eased the severe technical pressure that has weighed on the CMBS markets.

Other sectors of commercial real estate financing are gradually showing signs of life. Multifamily debt remains very accessible due to an active government-sponsored enterprises (GSE) lending market. Further, both the supply and pricing of debt capital for moderate loan-to-value core properties has improved dramatically in 2009, with life companies and better-capitalized banks competing actively for these transactions.

However, a significant portion of the community banking sector remains in credit retrenchment mode with limited willingness or ability to take on incremental commercial real estate exposure.

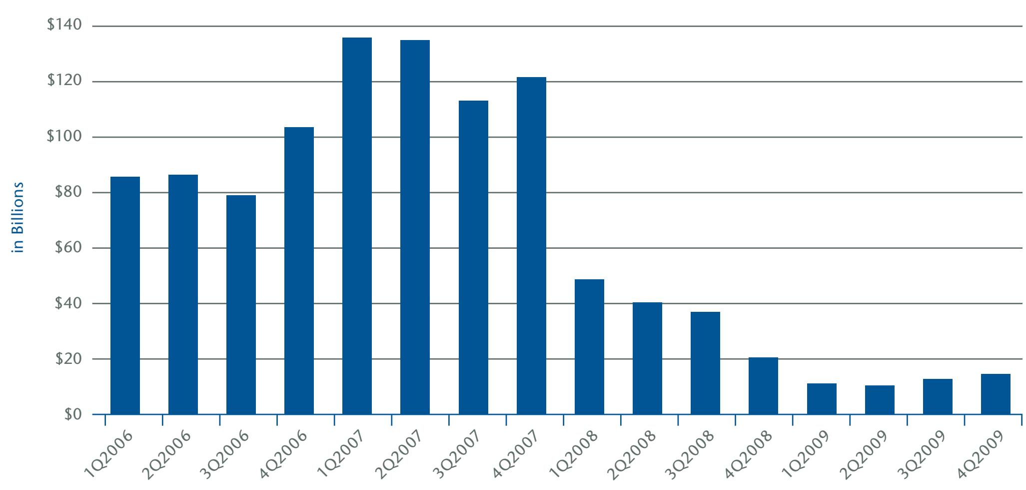
Even though less overall debt will be needed in a market that is deleveraging, the demand for debt capital will still likely be too large to be met solely by portfolio lenders and government lending initiatives. Given the still fragile banking system, some form of restoration in the securitization markets will likely be vital to an earlier recovery in real estate credit markets. The completion of three new issuance CMBS transactions in the fourth quarter 2009 provides hope that the CMBS conduit market could return in 2010 to partially fill the financing gap.

Publicly-traded REIT prices have rebounded strongly during 2009, albeit off a depressed base. Improved access to secondary equity offerings and REITs' ability to by-pass commercial banks by issuing unsecured corporate debt have allowed them to de-risk balance sheets, and in some cases, amass capital for new acquisitions.

In contrast, private real estate equity price corrections have lagged other real estate sectors, but appear to be easing and approaching a cyclical bottom. Capitalization rate expansion is likely nearing its end, with additional downside risk primarily attributable to possible net operating income declines beyond what is currently impounded into values. Investor interest in private real estate equity is growing amidst improved relative value and anticipation of the ability to acquire assets at a substantial discount to both replacement costs and previous peak valuation levels.

Despite growing investor interest, private real estate equity transaction volumes remain quite low. That trend is attributable both to reduced debt capital availability for new purchases and predominance of loan extensions as the resolution mechanism of choice for troubled loans, resulting in fairly limited actionable distress from the perspective of potential buyers. However, given the significant deleveraging needed in the system, it is likely that both overall and distressed transaction volumes will increase in late 2010 and beyond.

QUARTERLY TRANSACTION VOLUME



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

SOURCE: Real Capital Analytics

2009 Transaction Activity

The Principal U.S. Property Account acquired only four assets during 2009, all of which were related to the Account's forward commitment program. The four acquisitions purchased were contractually committed to prior to the implementation of the Withdrawal Limitation and were acquired in 2009, commensurate with the maturity of the construction loans on the properties or the completed execution of the initial business plans to build and lease the assets. It is likely that acquisition activity during 2010 will also be driven by forward commitment obligations, all of which are representative of Account strategy and long term initiatives.

FORWARD COMMITMENTS[1]	
YEAR	AGGREGATE DOLLAR AMOUNT
2010	$48.9
2011	$362.6
Land and Predevelopment	$141.8

[1] Based on projected acquisition date, current approved dollar amounts and projected financing.

Transaction volume for the aggregate market fell dramatically during 2009 and despite a difficult environment characterized by deteriorating property fundamentals, the Account was able to close nearly $844 million in dispositions. In total, the Account's disposition activity represents approximately 1.6% of national transaction volume as reported by Real Capital Analytics. The closings were aided, in part, by an improving transaction market during the later half of 2009 as bid-ask spreads narrowed, the availability of debt capital grew marginally and investor demand increased modestly. The disposition strategy of the Account focused on strategically reducing exposure to specific property sectors and markets challenged with over-supply and limited near-term demand, enhancing the quality of the portfolio by targeting the sale of lower-quality assets and continuing to transition the portfolio to one of primarily infill assets.

During 2010, the disposition strategy for the Account will again focus on themes of reducing exposure to targeted property sectors and specific markets, enhancing portfolio quality and owning infill assets. Mid to longer-term property sector-specific strategies are centered on the following themes:

Office: As a sector particularly challenged by payroll employment losses and latent tenant demand, the strategy for the Account will target an underweighting relative to the NCREIF Index. Further, the objective of the disposition strategy will be to achieve a portfolio of high quality assets in major markets and infill locations.

Retail: Threatened by a second wave of retailer bankruptcies and what is likely to be a secular shift in consumer spending, the primary focus of the disposition strategy is increasing the current underweighting to the sector. As is the case today, strategic positioning will focus on owning primarily necessity based retail formats (i.e. grocery anchored centers).

Hazard Center
San Diego, CA

Multifamily: Vacancies within the multifamily sector surpassed previous peak levels and may be further challenged by additional competition from improved affordability of single family homes, shadow supply created by vacant condominium units and a growing trend of doubling up in units or moving home. As such, the disposition strategy includes maintaining the current underweighting to the sector and monitoring the housing market closely. Additional long-term initiatives include owning non-commodity properties.

Industrial: The sector depends primarily on import/export activity and consumer spending to drive tenant demand for space. Despite continued challenges in consumer spending, the sector may benefit, albeit gradually, from forecasted increases in export activity driven by global demand for U.S. goods and a weak dollar. Accordingly, the Account is overweighted to industrial assets relative to the NCREIF Index and owns primarily in the warehouse sub-sector in major transportation hubs.

Bell Tower Shops
Fort Myers, FL

2009 Acquisitions

During the year, the Account closed on the acquisition of four assets through its forward commitment program for total volume of $143.7 million. Additional details regarding each transaction are included below:

Cicero is a 113,948 square foot recently redeveloped industrial asset located five miles west of downtown Chicago, IL. The Account closed on the transaction in October. As of December 31, 2009, the building is 100% leased.

Santa Trinita and **Lindenhurst Village Green** are land parcels acquired by the Account in October at their respective loan maturity dates. Santa Trinita is a 4.6 acre parcel located in the Sunnyvale submarket of San Jose, CA. Lindenhurst Village Green is a 55.0 acre parcel located in Lake County just north of Chicago, IL.

Quarters West Phase II is a 348 unit multifamily property located in Austin, TX near the campus of the University of Texas at Austin. The acquisition of the asset, which is primarily used as student housing, was closed in September 2009. This acquisition represents the third and final transaction in a portfolio comprised of three multifamily projects located in the West Campus area including Quarters West Phase I and Hardin House.

2009 Dispositions

Activity included the disposition of 25 assets and four partial sales for total volume of more than $843 million. Additional details regarding each transaction are included below:

Industrial

- The fourth quarter sale of **Sugarland West**, an industrial asset located in suburban Washington, D.C., was executed to limit Account exposure to the flex property sub-type, a submarket challenged with increasing vacancy and a tenant base with a deteriorating credit profile.
- During the fourth quarter, the Account exited its ownership position in **West Technology Park**, a collection of nine flex buildings located in Detroit, MI.
- Partial sale activity within the sector included the sale of two buildings located at **Enterprise Distribution Center** in Riverside, CA. Both buildings were sold to users and the sale eliminated near-term vacancy in a challenging submarket.

Land

- Partial sale activity within the sector included the third quarter sale of a land parcel located at **Fountainhead Corporate Park**, an office asset in Phoenix, AZ. The sale reduced exposure to Phoenix and non-income producing assets.

1370 Avenue of the Americas
New York, NY

2009 Dispositions *(continued)*

Multifamily

- **Block Lofts**, located in Atlanta, GA, and **Sage Stone**, located in Phoenix, AZ, are two multifamily assets that were sold during the second quarter due to limited income growth potential at the assets and to reduce exposure to markets challenged with over-supply and limited near-term demand.

- **Ashford Court**, a multifamily asset located in Houston, TX, was sold in the second quarter to execute the Account's strategy of upgrading portfolio quality.

- **The Pointe at Chapel Hill** and **The Gardens of Hillsboro Village**, multifamily assets located in Durham, NC and Nashville, TN, respectively, were sold during the second quarter to execute the Account's strategy of exiting secondary multifamily markets.

- The third quarter sale of **Parkers Lake**, a multifamily asset located in Minneapolis, MN, eliminated the Account's exposure to multifamily in the MSA and was sold to execute the Account's strategy of upgrading portfolio quality and reducing suburban multifamily exposure.

- The **Verandah at Grandview Hills** a multifamily asset located in Austin, TX was sold in the third quarter to execute the Account's strategies of exiting suburban commodity product in favor of infill locations and upgrading portfolio quality.

- **Hollywood Place** and **Springhouse**, multifamily assets located in Los Angeles, CA and Pleasanton, CA, were sold during the third and fourth quarters, respectively, due to deteriorating supply and demand fundamentals in their submarkets and to reduce the Account's exposure to assets in the west region.

- Multifamily sales activity also included the fourth quarter sale of a four-asset multifamily portfolio. Three of the assets in the sale were located in Richmond, VA and included **Sundance Station**, **Oaks at Gayton** and **Culpeper Farms**. The fourth asset, located in Chicago, IL, was **Waterford Place**. The portfolio was sold to execute the Account strategy of decreasing exposure to suburban, commodity properties. In addition, the sales accomplished an exit from the Richmond market.

- Partial sale activity included the ongoing sale of individual condominium units at **170 Off Third** in San Francisco, CA. The asset was developed by the Account and is located at 170 King Street, directly across from the baseball stadium, AT&T Ballpark.

Right:
333 Market Street
San Francisco, CA

2009 Dispositions

Office

- **Eagle Rock**, an office asset located in Newark, NJ, was sold in the first quarter, consistent with the Account's strategy of reducing its office weighting and upgrading the quality of the overall portfolio.
- **Westshore 500**, located in Tampa, FL, was sold during the first quarter due to the capital intensive nature of the asset, significant near-term lease expirations and the execution of Account strategy to reduce its overweighting to the office sector and exit a non-strategic office market.
- **Parklane**, an office asset located in Nashville, TN, was sold in the second quarter to eliminate the Account's office exposure in Nashville, reduce the Account's overweighting to the office sector and to upgrade portfolio quality.
- The third quarter sale of **1412 Broadway**, an office asset located in New York, NY, reduced the Account's overweighting to the office sector and limited exposure to lower quality assets with significant leasing risk.
- **Seaview Corporate Center** is an office asset located in the Sorrento Mesa submarket of San Diego, CA. The asset was sold in the fourth quarter to eliminate significant near-term tenant rollover risk in a market challenged by supply-demand imbalances and to reduce Account exposure to suburban office assets.

Retail

- The **Collection at Vanderbilt**, a retail asset located in Naples, FL, was sold during the second quarter to exit a non-strategic retail market.
- **Plymouth Town Center** is a retail asset in Minneapolis, MN that was sold during the second quarter to reduce the Account's overweighting to Minneapolis and to reduce Account exposure to unanchored retail centers.
- **Westgate Shopping Center**, a retail asset located in Washington, D.C., was sold due to significant risk to cash flows resulting from a weakening trade area, increased anchor sales competition and a supply-demand imbalance within the submarket.
- The fourth quarter sale of the three-asset **South Florida Retail Portfolio** concluded a programmatic joint venture relationship. Of the six assets within the partnership, the Account retained three and the partner retained three, Miramar Square, Sunshine Square and London Square. As a result of the transaction, the Account eliminated $147 million in near-term debt maturities and retained a 10% interest in the London Square asset.

TRANSACTIONS

ACQUISITIONS

PROPERTY	SECTOR	METROPOLITAN AREA	SIZE	PRICE ($M)
Cicero	Industrial	Chicago, IL	113,948 sf	$7.8
Santa Trinita	Land	San Jose, CA	4.6 acres	$11.9
Lindenhurst Village Green	Land	Lake County, IL	55.0 acres	$22.7
Quarters West Phase II	Multifamily	Austin, TX	348 units/970 beds	$101.3
				$143.7

DISPOSITIONS

PROPERTY	SECTOR	METROPOLITAN AREA	SIZE	PRICE ($M)
Sugarland West	Industrial	Washington, D.C.	68,629 sf	$8.4
West Technology Center	Industrial	Detroit, MI	278,688 sf	$12.0
Enterprise Distribution Center	Industrial[1]	Riverside, CA	384,070 sf	$14.1
Fountainhead	Land[1]	Phoenix, AZ	11.33 acres	$7.0
Block Lofts	Multifamily	Atlanta, GA	244 units	$25.6
Ashford Court	Multifamily	Houston, TX	442 units	$11.0
Pointe at Chapel Hill	Multifamily	Durham, NC	240 units	$21.5
Sage Stone	Multifamily	Phoenix, AZ	308 units	$22.9
The Gardens of Hillsboro Village	Multifamily	Nashville, TN	180 units	$26.6
Parkers Lake	Multifamily	Minneapolis, MN	248 units	$18.8
The Verandah at Grandview Hills	Multifamily	Austin, TX	536 units	$40.6
Hollywood Place	Multifamily	Los Angeles, CA	112 units	$21.0
Springhouse	Multifamily	Pleasanton, CA	354 units	$50.6
Sundance Station	Multifamily	Richmond, VA	300 units	$19.1
Oaks at Gayton	Multifamily	Richmond, VA	220 units	$16.5
Culpepper	Multifamily	Richmond, VA	228 units	$16.5
Waterford Place	Multifamily	Chicago, IL	280 units	$21.7
170 Off Third	Multifamily[1]	San Francisco, CA	14 units	$9.0
Eagle Rock	Office	Newark, NJ	127,907 sf	$17.0
Westshore 500	Office	Tampa, FL	129,728 sf	$18.3
Parklane	Office	Nashville, TN	110,347 sf	$10.5
1412 Broadway	Office	New York, NY	404,915 sf	$109.4
Seaview Corporate Center	Office	San Diego, CA	350,504 sf	$74.5
Collection at Vanderbilt	Retail	Naples, FL	226,497 sf	$51.1
Plymouth Town Center	Retail	Minneapolis, MN	26,330 sf	$5.5
Westgate Shopping Center	Retail	Washington, D.C.	163,697 sf	$24.4
Miramar Square	Retail[2]	Ft. Lauderdale, FL	128,234 sf	$52.5
Sunshine Square	Retail[2]	West Palm Beach, FL	148,665 sf	$26.6
London Square	Retail[1,2]	Miami, FL	290,109 sf	$90.9
				$843.6

[1] Partial Sale

[2] The properties were sold in conjuction with the conclusion of a programmatic joint venture relationship. Of the six assets under consideration, the USPA retained three and the partner retained three. As a result of the transaction, the Account eliminated $147 million in near-term debt maturities and retained a 10% interest in the London Square asset.

Schedule of Investments

PROPERTY	SECTOR	SF/UNITS/ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/09)
J.W. Marriot Resort and Spa[1]	Hotel	1,002	Joint Venture	San Antonio, TX	07/31/07	$106,099,103
Chelmsford	Industrial	98,048	Wholly Owned	Cambridge, MA	01/15/97	$8,500,000
Secaucus	Industrial	146,426	Wholly Owned	New York, NY	04/02/97	$10,800,000
Riverport Dist. Center	Industrial	216,000	Wholly Owned	Louisville, KY	12/31/98	$6,600,000
Chantilly Dist. Cntr II	Industrial	159,655	Wholly Owned	Washington, DC	03/31/99	$12,100,000
Lousiville Distr Ctr #2	Industrial	317,900	Wholly Owned	Louisville, KY	09/30/99	$9,300,000
Secaucus	Industrial	68,439	Wholly Owned	New York, NY	05/02/00	$4,100,000
26 Englehard Drive	Industrial	324,540	Wholly Owned	Edison, NJ	12/13/02	$13,600,000
Alovats	Industrial	1,223,320	Wholly Owned	Edison, NJ	06/27/07	$21,400,000
West Manor Way	Industrial	905,000	Wholly Owned	Trenton, NJ	10/23/07	$27,000,000
1500 Rahway	Industrial	324,445	Joint Venture	Edison, NJ	12/20/07	$20,800,000
1980 U.S. Highway 1	Industrial	249,122	Joint Venture	Edison, NJ	10/01/07	$12,200,000
Airspace I, II, III	Industrial	779,426	Wholly Owned	Louisville, KY	12/13/07	$24,800,000
Rogers Corporate Park	Industrial	127,642	Joint Venture	Chicago, IL	11/21/03	$5,300,000
Tech Park	Industrial	224,110	Joint Venture	Detroit, MI	01/29/07	$8,500,000
Bensenville Warehouse	Industrial	202,880	Wholly Owned	Chicago, IL	11/07/88	$8,400,000
Woodridge Centre	Industrial	100,972	Wholly Owned	Chicago, IL	08/19/98	$6,200,000
Vapor Industrial	Industrial	414,561	Wholly Owned	Chicago, IL	11/22/05	$26,600,000
University Crossing	Industrial	455,870	Wholly Owned	Chicago, IL	01/16/07	$14,800,000
Bedford Park	Industrial	341,144	Wholly Owned	Chicago, IL	10/09/07	$11,400,000
Cicero	Industrial	113,948	Wholly Owned	Chicago, IL	10/28/09	$7,250,000
Stone Lake 6	Industrial	108,000	Wholly Owned	Austin, TX	05/22/98	$10,000,000
Midway Properties	Industrial	60,040	Wholly Owned	Houston, TX	09/02/97	$3,000,000
Midway IDC Building	Industrial	127,257	Wholly Owned	Houston, TX	09/02/97	$5,500,000
NW Distribution Center	Industrial	389,966	Wholly Owned	Houston, TX	07/15/99	$15,100,000
Airport Distribution Ctr	Industrial	406,989	Wholly Owned	Atlanta, GA	01/05/01	$16,100,000
Southpoint Distrib. Park	Industrial	816,400	Wholly Owned	Memphis, TN	06/01/00	$18,100,000
Pointe West Commerce Center	Industrial	169,033	Wholly Owned	Fort Lauderdale, FL	12/18/01	$15,700,000

PROPERTY	SECTOR	SF/UNITS/ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/09)
Port 95 Business Plaza	Industrial	99,753	Wholly Owned	Fort Lauderdale, FL	12/18/01	$9,700,000
Airport Dist Center III	Industrial	406,989	Wholly Owned	Atlanta, GA	01/09/03	$11,750,000
Medley Logistics Center	Industrial	300,000	Wholly Owned	Miami, FL	11/20/03	$17,900,000
Boynton Commerce Center	Industrial	295,576	Wholly Owned	West Palm Beach, FL	10/25/07	$19,900,000
Lyons Technology Center	Industrial	310,495	Wholly Owned	Fort Lauderdale, FL	04/23/08	$28,400,000
O'Brien Drive	Industrial	69,755	Joint Venture	San Francisco, CA	01/10/07	$9,000,000
Elmhurst Business Park	Industrial	294,954	Wholly Owned	Oakland, CA	12/29/94	$18,300,000
Ontario Distribution Ctr.	Industrial	317,070	Wholly Owned	Riverside, CA	03/04/97	$15,600,000
Carver and Kyrene	Industrial	272,460	Wholly Owned	Phoenix, AZ	08/26/97	$17,100,000
10 Dupont Industrial Bldg.	Industrial	175,000	Wholly Owned	Riverside, CA	09/18/98	$6,700,000
3351 Philadelphia	Industrial	203,408	Wholly Owned	Riverside, CA	02/10/99	$8,300,000
Denver Business Center	Industrial	152,841	Wholly Owned	Denver, CO	06/21/99	$6,500,000
Fullerton Business Center	Industrial	180,918	Wholly Owned	Santa Ana, CA	02/24/05	$13,600,000
Jurupa Business Park	Industrial	1,077,990	Wholly Owned	Riverside, CA	12/01/02	$51,200,000
Valley Centre Corporate Park	Industrial	1,084,409	Wholly Owned	Seattle, WA	01/31/02	$58,800,000
West Winton Industrial Ctr	Industrial	220,213	Wholly Owned	Oakland, CA	12/06/02	$12,200,000
Fife Commerce Center	Industrial	798,950	Joint Venture	Tacoma, WA	07/27/04	$43,800,000
Smithway Commerce Center	Industrial	329,267	Wholly Owned	Los Angeles, CA	10/19/04	$23,800,000
Opus Logistics Center	Industrial	754,405	Wholly Owned	Riverside, CA	12/28/05	$12,900,000
Rocky Mountain Business Center	Industrial	136,828	Wholly Owned	Denver, CO	08/04/06	$7,600,000
Amber Glen	Industrial/ Office/Land	579,065	Wholly Owned	Portland, OR	11/15/04	$69,910,000
Hacienda Business Park	Industrial/ Office/Retail	380,372	Joint Venture	Oakland, CA	06/27/07	$48,800,000
Riverside Station	Land	11	Joint Venture	Washington, DC	07/30/07	$4,400,000
Lindenhurst Village Green	Land	55	Wholly Owned	Lake County, IL	10/16/09	$7,400,000
Oak Grove Shoppes	Land	1	Joint Venture	Orlando, FL	05/26/06	$200,000
100 East Las Olas	Land	1	Joint Venture	Fort Lauderdale, FL	10/04/07	$5,000,000
Henderson Lofts	Land	16	Wholly Owned	Las Vegas, NV	12/03/08	$3,480,000
Santa Trinita	Land	5	Wholly Owned	San Jose, CA	10/15/09	$5,670,000
Kendall Square	Multifamily	321	Joint Venture	Cambridge, MA	11/06/03	$109,100,000
420 West 42nd Street	Multifamily	264	Wholly Owned	New York, NY	11/12/03	$84,300,000
Market Center West	Multifamily	221	Joint Venture	Baltimore, MD	02/15/06	$26,800,000
Riverside Station	Multifamily	304	Wholly Owned	Washington, DC	07/30/07	$46,400,000
Tanglewood Apartments	Multifamily	838	Wholly Owned	Chicago, IL	09/25/03	$45,800,000
Charter Oak Apartments	Multifamily	284	Wholly Owned	Saint Louis, MO	03/29/05	$22,500,000

Schedule of Investments

PROPERTY	SECTOR	SF/UNITS/ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/09)
The Trestles Apartments	Multifamily	188	Wholly Owned	Houston, TX	03/30/01	$13,724,000
The Phoenix Apartments	Multifamily	449	Wholly Owned	Dallas, TX	07/17/01	$41,200,000
Towne Lake Village	Multifamily	320	Joint Venture	Dallas, TX	02/01/05	$9,000,000
Ravello Apartments	Multifamily	290	Wholly Owned	Dallas, TX	03/29/06	$41,900,000
Quarters West Phase I	Multifamily	482	Joint Venture	Austin, TX	08/21/07	$46,200,000
Quarters West Phase II	Multifamily	970	Wholly Owned	Austin, TX	09/15/09	$79,700,000
Hardin House	Multifamily	224	Joint Venture	Austin, TX	01/17/07	$17,000,000
Premier Lofts	Multifamily	250	Wholly Owned	Denver, CO	01/03/02	$42,000,000
170 King Street	Multifamily	2	Joint Venture	San Francisco, CA	07/08/03	$445,000
Shorewood Heights	Multifamily	645	Joint Venture	Seattle, WA	12/21/05	$102,500,000
Fountainhead Apartments	Multifamily	308	Joint Venture	Phoenix, AZ	06/21/06	$35,000,000
Creekside Meadows	Multifamily	628	Joint Venture	Santa Ana, CA	06/06/06	$85,200,000
Channel Point Apartments	Multifamily	212	Wholly Owned	Los Angeles, CA	10/01/07	$42,300,000
Epi Center	Multifamily/ Retail	134,681	Wholly Owned	Seattle, WA	04/01/06	$24,900,000
Charles Park	Office	365,875	Wholly Owned	Cambridge, MA	02/16/05	$90,200,000
1370 Avenue of the Americas	Office	332,406	Wholly Owned	New York, NY	03/23/06	$213,800,000
104 West 40th Street	Office	203,659	Joint Venture	New York, NY	07/11/07	$55,000,000
Spring Mall Office Building	Office	114,008	Joint Venture	Washington, DC	11/16/07	$20,000,000
Cascades	Office	168,006	Wholly Owned	Columbus, OH	10/30/97	$5,900,000
Honeywell Building	Office	40,429	Wholly Owned	Columbus, OH	06/30/98	$1,800,000
Union Tower	Office	332,608	Wholly Owned	Chicago, IL	11/22/02	$55,500,000
Campbell Mithun Tower	Office	724,907	Wholly Owned	Minneapolis, MN	09/14/05	$66,000,000
Stonelake 1-5	Office	123,761	Wholly Owned	Austin, TX	07/10/98	$14,100,000
Freeport Parkway	Office	151,200	Wholly Owned	Dallas, TX	12/29/99	$16,400,000
Quarry Oaks	Office	292,417	Wholly Owned	Austin, TX	07/03/03	$52,780,000
20 Greenway Plaza	Office	439,353	Wholly Owned	Houston, TX	09/19/05	$46,700,000
The Signature Center	Office	254,836	Wholly Owned	Oakland, CA	08/24/95	$32,600,000
Metroplex	Office	104,903	Wholly Owned	Santa Ana, CA	06/02/05	$14,100,000
Lincoln Plaza	Office	148,500	Wholly Owned	Seattle, WA	06/24/05	$37,600,000
112th at12th	Office	480,267	Wholly Owned	Seattle, WA	06/29/04	$180,200,000
Papago Buttes	Office	511,081	Wholly Owned	Phoenix, AZ	11/18/04	$80,600,000
17901 Von Karman	Office	272,887	Joint Venture	Santa Ana, CA	12/12/05	$54,000,000
90 Mountainview	Office	183,586	Wholly Owned	Phoenix, AZ	06/07/06	$32,000,000

PROPERTY	SECTOR	SF/UNITS/ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/09)
333 Market Street	Office	657,117	Wholly Owned	San Francisco, CA	10/17/06	$330,700,000
One DTC	Office	233,395	Wholly Owned	Denver, CO	07/26/07	$38,400,000
Crescent V	Office	89,895	Wholly Owned	Denver, CO	07/26/07	$12,100,000
Crescent VI	Office	134,966	Wholly Owned	Denver, CO	07/26/07	$18,800,000
150 Spear Street	Office	257,267	Wholly Owned	San Francisco, CA	12/11/07	$68,000,000
Portales Corporate Center	Office	452,601	Wholly Owned	Phoenix, AZ	03/06/08	$106,600,000
Fountain Head	Office/Land	484,137	Wholly Owned	Phoenix, AZ	06/29/05	$58,600,000
North Avenue Collection	Office/Retail	199,683	Wholly Owned	Chicago, IL	12/29/04	$61,400,000
Hazard Center	Office/Retail	403,546	Wholly Owned	San Diego, CA	09/04/03	$94,700,000
Backlick Center	Retail	53,377	Joint Venture	Washington, DC	11/16/07	$13,100,000
Sacramento Shopping Center	Retail	84,466	Joint Venture	Washington, DC	11/16/07	$13,900,000
Sterling Plaza Center	Retail	153,276	Joint Venture	Washington, DC	11/16/07	$27,700,000
Sterling Plaza II	Retail	22,480	Joint Venture	Washington, DC	11/16/07	$4,300,000
W. Springfield Shopping Center	Retail	83,630	Joint Venture	Washington, DC	11/16/07	$21,100,000
Grand Hunt Center	Retail	133,360	Wholly Owned	Lake County, IL	12/15/94	$14,800,000
Southdale Square	Retail	115,541	Wholly Owned	Minneapolis, MN	12/19/00	$23,300,000
Old Town Square	Retail	87,123	Wholly Owned	Chicago, IL	11/15/01	$22,900,000
Fischer Market Place	Retail	233,308	Wholly Owned	Minneapolis, MN	09/29/03	$33,300,000
Stony Island	Retail	159,785	Wholly Owned	Chicago, IL	12/17/04	$26,000,000
The Marketplace at Vernon Hills	Retail	191,418	Wholly Owned	Lake County, IL	09/13/05	$24,300,000
Fischer Market Place Outlot	Retail	20,388	Wholly Owned	Minneapolis, MN	10/16/07	$4,500,000
Bell Tower Shops	Retail	323,866	Joint Venture	Cape Coral, FL	08/17/04	$64,400,000
Pinewood Square Shopping Center	Retail	181,244	Wholly Owned	West Palm Beach, FL	06/16/05	$42,000,000
Meadows Marketplace	Retail	251,944	Joint Venture	Houston, TX	08/29/06	$38,700,000
Lantana Square	Retail	114,965	Wholly Owned	West Palm Beach, FL	03/17/06	$22,700,000
Southport Shopping Center	Retail	146,497	Wholly Owned	Fort Lauderdale, FL	11/13/06	$32,500,000
Lake Worth Marketplace	Retail	197,332	Wholly Owned	Fort Worth, TX	10/11/07	$23,000,000
London Square[1]	Retail	287,384	Joint Venture	Miami, FL	11/21/07	$13,867,418
Peninsula Center	Retail	296,027	Wholly Owned	Los Angeles, CA	06/30/00	$69,000,000
Plaza Paseo	Retail	147,832	Joint Venture	San Diego, CA	12/30/03	$54,100,000
Cherry Hills	Retail	202,315	Wholly Owned	Denver, CO	06/17/04	$35,500,000
Burbank Empire Center	Retail	618,366	Wholly Owned	Los Angeles, CA	12/22/05	$147,000,000
						$4,533,675,521

[1]The property is a non-consolidated joint venture and as such, gross asset value is shown at account share.

Independent Auditors' Report

TO THE ACCOUNT MANAGEMENT AND CONTRACTHOLDERS
PRINCIPAL LIFE INSURANCE COMPANY U.S. PROPERTY SEPARATE ACCOUNT
DES MOINES, IOWA

We have audited the accompanying consolidated statements of assets and liabilities of Principal Life Insurance Company U.S. Property Separate Account ("USPSA"), including the consolidated schedules of investments, as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, cash flows and the financial highlights (included in Note 10) for the years then ended. These financial statements and financial highlights are the responsibility of USPSA's management. Our responsibility is to express an opinion on these financial statements and financial highlights 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 and financial highlights 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 USPSA'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 and financial highlights referred to above present fairly, in all material respects, the financial position of USPSA as of December 31, 2009 and 2008, the results of its operations, changes in its net assets, its cash flows and financial highlights 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 cash flow projections.

Deloitte & Touche LLP

Des Moines, Iowa
February 24, 2010

Audited Financial Statements

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
DECEMBER 31, 2009 AND 2008

ASSETS	2009	2008
INVESTMENTS AT FAIR VALUE:		
Real estate (cost: 2009 - $5,486,988,207; 2008 - $6,313,675,968)	$4,413,709,000	$6,758,425,000
Real estate joint ventures (cost: 2009 - $55,741,812; 2008 - $16,325,952)	34,817,723	15,733,715
Mortgage loan receivable (cost: 2009 - $0; 2008 - $13,220,131)	-	11,658,331
Short-term investments (cost: 2009 - $0; 2008 - $39,722,779)	-	39,722,779
Total investments (cost: 2009 - $5,542,730,019; 2008 - $6,382,944,830)	4,448,526,723	6,825,539,825
CASH	91,940,629	33,555,298
ACCRUED INVESTMENT INCOME AND OTHER ASSETS	97,618,732	77,674,853
TOTAL ASSETS	4,638,086,084	6,936,769,976
LIABILITIES		
Lines of credit	-	370,625,000
Debt	1,018,678,937	1,441,225,688
Accounts payable and accrued expenses	65,493,990	80,129,663
Accrued property taxes	25,017,797	30,345,372
Security deposits	14,207,478	17,088,658
Adjustment to investment commitments	64,763,581	-
TOTAL LIABILITIES	1,188,161,783	1,939,414,381
NET ASSETS:		
U.S. Property Separate Account	3,416,624,550	4,877,678,537
Noncontrolling interests	33,299,751	119,677,058
NET ASSETS	$3,449,924,301	$4,997,355,595

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 land - 1.3% (cost $91,774,739)	56,240,000
Total retail - 19.7% (cost $970,743,252)	876,900,000
Total industrial - 17.5% (cost $917,329,092)	777,200,000
Total multi-family - 19.6% (cost $1,098,678,228)	873,569,000
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 SCHEDULE OF INVESTMENTS
DECEMBER 31, 2008

	FAIR VALUE
REAL ESTATE - 99.0%	
United States:	
Total office - 40.9% (cost $2,695,289,241)	
1370 Avenue of the Americas, New York, NY	$299,300,000
333 Market Street, San Francisco, CA	376,400,000
Other office	2,114,775,000
	2,790,475,000
Total land - 0.9% (cost $47,804,175)	59,690,000
Total retail - 19.6% (cost $1,223,578,938)	1,341,050,000
Total industrial - 16.2% (cost $966,213,487)	1,104,400,000
Total multi-family - 21.4% (cost $1,380,790,127)	1,462,810,000
Total real estate (cost $6,313,675,968)	6,758,425,000
REAL ESTATE JOINT VENTURE - 0.2%	
United States:	
Total hotel - 0.2% (cost $16,325,952)	15,733,715
MORTGAGE LOAN RECEIVABLE - 0.2%	
United States:	
Total land - 0.2% (cost $13,220,131)	11,658,331
SHORT-TERM INVESTMENTS - 0.6%	
United States:	
Merrill Lynch Government Fund - 0.4% (cost $25,650,000)	25,650,000
Money market separate account - 0.2% (cost $14,072,779)	14,072,779
Total short-term investments (cost $39,722,779)	39,722,779
TOTAL INVESTMENTS (cost $6,382,944,830)	$6,825,539,825

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, 2009 AND 2008

	2009	2008
INVESTMENT INCOME:		
Revenue from real estate	$570,885,533	$614,571,219
Equity in loss of real estate joint ventures	(866,901)	(647,988)
Interest income on short-term investments	543,264	4,379,289
Total investment income	570,561,896	618,302,520
EXPENSES:		
Real estate expenses and taxes	236,796,408	253,421,455
Interest expense	75,998,502	91,325,932
Investment management fees	44,684,411	65,200,822
Professional and other fees	8,786,915	7,660,728
Total expenses	366,266,236	417,608,937
NET INVESTMENT INCOME	204,295,660	200,693,583
REALIZED AND UNREALIZED GAIN (LOSS):		
Realized gain (loss) from sales	(195,093,669)	20,726,895
Less: Previously recorded unrealized gain on sales	(9,395,659)	(44,831,098)
Net loss recognized from real estate investment sales	(204,489,328)	(24,104,203)
Unrealized loss on investments and debt	(1,613,752,252)	(946,168,470)
Net realized and unrealized loss	(1,818,241,580)	(970,272,673)
NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS	(1,613,945,920)	(769,579,090)
Less: Portion attributable to noncontrolling interests	57,258,301	29,792,091
DECREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT	$(1,556,687,619)	$(739,786,999)
AMOUNTS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT:		
Net investment income	$200,885,377	$198,196,853
Net realized and unrealized loss	(1,757,572,996)	(937,983,852)
DECREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT	$(1,556,687,619)	$(739,786,999)

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, 2009 AND 2008

	2009	2008
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS:		
Net investment income	$204,295,660	$200,693,583
Net loss recognized from real estate investment sales	(204,489,328)	(24,104,203)
Unrealized loss on investments and debt	(1,613,752,252)	(946,168,470)
Less: Portion attributable to noncontrolling interests	57,258,301	29,792,091
Net decrease in net assets resulting from operations	(1,556,687,619)	(739,786,999)
INCREASE (DECREASE) IN NET ASSETS RESULTING FROM CAPITAL TRANSACTIONS:		
Total contributions	224,397,243	1,288,341,437
Total distributions	(157,882,616)	(2,045,435,255)
Less: Portion attributable to noncontrolling interests	29,119,005	27,000,824
Net increase (decrease) in net assets resulting from capital transactions	95,633,632	(730,092,994)
DECREASE IN NET ASSETS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT	(1,461,053,987)	(1,469,879,993)
NET ASSETS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT:		
Beginning of year	4,877,678,537	6,347,558,530
End of year	$3,416,624,550	$4,877,678,537

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, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net decrease in net assets resulting from operations	$(1,613,945,920)	$(769,579,090)
ADJUSTMENTS TO RECONCILE NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net realized and unrealized loss	1,818,241,580	970,272,673
Equity in loss of real estate joint ventures	866,901	647,988
Changes in:		
Accrued investment income and other assets	7,521,890	11,794,729
Accounts payable and accrued expenses	15,151,683	(929,443)
Accrued property taxes	(3,707,896)	3,230,535
Security deposits	(2,266,564)	(1,130,947)
Total adjustments	1,835,807,594	983,885,535
Net cash provided by operating activities	221,861,674	214,306,445
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from real estate investment sales	492,830,011	391,296,252
Purchases of real estate investments and improvements	(230,497,460)	(414,643,444)
Investment in real estate joint ventures	(33,674,548)	(7,740,058)
Distribution from real estate joint ventures	-	567,461
Net change in short-term investments	39,722,779	55,247,254
Net change in escrows and other restricted assets	28,390,924	3,200,331
Deposits on commitments to purchase real estate investments	(59,706,743)	-
Cash advanced for mortgage receivable	-	(13,220,131)
Net cash provided by investing activities	237,064,963	14,707,665

(continued)

	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of financing costs	(375,000)	(3,662,509)
Borrowings on lines of credit	240,000,000	840,625,000
Repayments on lines of credit	(610,625,000)	(470,000,000)
Repayments of debt	(101,929,350)	(169,645,953)
Issuance of debt	6,296,830	333,161,173
Net contractholder contributions (distributions)	95,633,632	(730,092,994)
Contributions from noncontrolling interests	1,866,653	3,510,322
Distributions to noncontrolling interests	(31,409,071)	(30,511,146)
Net cash used in financing activities	(400,541,306)	(226,616,107)
NET CHANGE IN CASH	58,385,331	2,398,003
CASH AT:		
Beginning of year	33,555,298	31,157,295
End of year	$91,940,629	$33,555,298
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST	$77,985,800	$91,577,462

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

USPSA had noncash purchases of real estate investments and improvements of $22,637,109 and $45,905,456 in 2009 and 2008, respectively.

USPSA assumed mortgages payable of $0 and $24,613,064 in 2009 and 2008, respectively, in connection with the purchase of real estate investments.

In connection with real estate investment sales in 2009, the buyers assumed $165,087,634 of debt from USPSA.

During 2009, USPSA and a joint venture partner completed a transaction whereas USPSA 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, USPSA'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, USPSA 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 is recorded as a component of real estate investments at December 31, 2009.

USPSA extinguished debt with a carrying value of $20,000,000 through a payment of $5,000,000 which was made on USPSA's behalf by the noncontrolling partner which thereafter purchased USPSA'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, 2009 AND 2008

1. ORGANIZATION

Principal Life Insurance Company U.S. Property Separate Account ("USPSA") 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 USPSA are not chargeable with liabilities arising out of any business of Principal Life. Participation in USPSA 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.

On September 26, 2008, Principal Life applied a limitation which delays the payment of withdrawal requests and provides for payment of such requests on a pro rata basis ("Withdrawal Limitation") as cash becomes available for distribution, as determined by Principal Life. The outstanding balance subject to the Withdrawal Limitation was approximately $1,173,000,000 and $837,800,000 at December 31, 2009 and 2008, respectively. Subsequent to year end, $170,000,000 of outstanding requests subject to the Withdrawal Limitation was made available for payment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncements - In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (the "Codification"). This standard replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes only two levels of U.S. generally accepted accounting principles ("GAAP"), authoritative and nonauthoritative. The FASB Accounting Standards Codification ("Codification" or "ASC") became the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification became nonauthoritative. This standard is effective for financial statements with reporting periods ended after September 15, 2009. The adoption of the Codification changed USPSA's references to GAAP accounting standards but did not impact USPSA's results of operations, financial position or liquidity.

Effective January 1, 2009, USPSA adopted ASC 810-10-45 ("ASC 810-10-45") which required noncontrolling interests (previously referred to as minority interests) to be reported as a component of net assets, and changes the accounting for transactions with noncontrolling interest holders. ASC 810-10-45 is applied prospectively to all noncontrolling interests, except the presentation and disclosure requirements. The presentation and disclosure requirements were applied retrospectively for all periods presented, as follows: (i) the noncontrolling interests were reclassified to net assets, (ii) consolidated decrease in net assets resulting from operations was adjusted to include the decrease in net assets resulting from operations attributed to the noncontrolling interests, and (iii) increase (decrease) in net assets resulting from capital transactions was adjusted to include noncontrolling interest contributions and distributions which resulted in the presentation of gross contributions and distributions for both contractholders and noncontrolling interests on a combined basis.

In May 2009, the FASB issued new guidance for subsequent events. The new guidance, which is part of ASC 855, *Subsequent Events* (formerly SFAS No. 165, *Subsequent Events*) is intended to establish general standards of accounting for and disclosure of events that occur after the reporting date but before financial statements are issued or are available to be issued. Specifically, this guidance sets forth the period after the reporting date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the reporting date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the reporting date. The new guidance is effective for reporting periods ended after June 15, 2009. USPSA's adoption of the new guidance did not have a material effect on USPSA's consolidated financial statements. USPSA evaluated subsequent events through the date the accompanying financial statements were issued, which was February 24, 2010.

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

USPSA follows the provisions contained in ASC 946 (formerly the American Institute of Certified Public Accountants Audit and Accounting Guide *Investment Companies*). Effective January 1, 2008, with the adoption of the fair value option allowed under ASC 825, and at the election of USPSA 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. Property and investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates and interest and inflation rates. As a result, determining real estate and investment values involves many assumptions. Amounts ultimately realized from each investment may vary significantly from the fair values presented.

Risks and Uncertainties – USPSA 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 those challenges have continued throughout 2009. Market conditions have had a negative impact on the estimated fair value of USPSA's investments, which are reflected as unrealized losses in the 2008 and 2009 financial statements. Severe restrictions on the availability of real estate financing, as well as the economic uncertainties in the current environment, have resulted in a low volume of purchase and sale transactions, limiting the amount of observable inputs available to USPSA management in making their estimates of fair value. As discussed above, USPSA's estimates of fair value are based on the best information available to management as of the date of the valuation. Should market conditions continue to deteriorate, or should management's assumptions change, USPSA may record additional unrealized losses in future periods.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 $80,600,000 of such deferred costs as of December 31, 2009 and 2008. USPSA does not record depreciation or amortization on real estate costs.

Real estate values are based upon independent appraisals. The fair value of real estate investments does not reflect transaction sale costs, which may be incurred upon disposition of the real estate investments. These values may vary significantly from the prices at which the real estate investments would sell, since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. Although the estimated fair values represent subjective estimates, management believes these estimated fair values are reasonable approximations of market prices and the aggregate estimated value of investments in real estate is fairly presented at December 31, 2009 and 2008.

Real Estate Joint Ventures – Investment in real estate joint ventures is comprised of joint ventures which USPSA does not control, but over which it has significant influence. The investments are included in the consolidated statements of assets and liabilities at USPSA'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 income (loss) of real estate joint ventures represents USPSA's share of the current year's joint venture income (loss) as provided for under the terms of the joint venture agreements. Joint venture income (loss) is not reduced by depreciation or amortization expense. USPSA'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 on the ex-dividend date.

Mortgage Loan Receivable – Investment in mortgage loan receivable is carried at fair value, equivalent to the fair value contractual cash flows discounted using current interest rates at which similar advances would be made with similar terms with consideration given to the fair value of the underlying real estate asset collateral.

Short-Term Investments – Short-term investments are comprised of money market funds and are carried at fair value based on quoted market prices of the fund, which represent the net asset value of shares held by USPSA.

Cash – Cash includes cash on hand and demand deposit accounts. A certain deposit account requires a minimum funding requirement of $20,000,000. If the balance in this account drops below the minimum funding requirement, USPSA is assessed a penalty until the balance is sufficiently funded.

USPSA has restated the presentation of borrowings and repayments on its lines of credit for 2008. Related amounts had previously been presented on a net basis, rather than on a gross basis in accordance with ASC 230, *Statement of Cash Flows* (formerly SFAS No. 95, *Statement of Cash Flows*). The restatement had no effect on net cash used in financing activities.

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. The debt fair value adjustment was ($29,333,243) and ($42,045,753) as of December 31, 2009 and 2008, respectively.

Noncontrolling Interests – USPSA has entered into joint development relationships with other investors to acquire and develop real estate properties. USPSA 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 USPSA'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. The additional equity accrual included in noncontrolling interests in the consolidated statements of assets and liabilities was approximately $2,490,000 and $20,290,000 as of December 31, 2009 and 2008, respectively.

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 USPSA. As a result, income taxes are not reflected in the accompanying consolidated financial statements.

Reclassifications – Certain 2008 amounts are reclassified to conform with the 2009 presentation in the consolidated statements of operations. Specifically, "Real estate taxes" and "Other operating expenses" of $85,136,211 and $168,285,244, respectively, which had been included as deductions to "Total investment income" in the 2008 financial statements, have been aggregated and moved to "Total expenses" and labeled as "Real estate expenses and taxes". Additionally, "Proceeds from real estate investment sales" and "Cost of real estate investments sold" of $391,296,252 and ($370,569,357), respectively, have been aggregated as "Realized gain (loss) from sales".

3. FAIR VALUE MEASUREMENTS

In determining fair value, USPSA 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 USPSA. Unobservable inputs are inputs that reflect USPSA's assumptions 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 USPSA has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- 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.

3. FAIR VALUE MEASUREMENTS (continued)

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 – An independent consultant (the "Valuation Consultant") selected by Principal Real Estate oversees and administers the appraisal process for USPSA. Real estate investments are stated at fair value as determined by the Valuation Consultant and approved by USPSA 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 property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. Yield rates and growth assumptions utilized in this approach are derived from market transactions as well as other financial and industry 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.

Since appraisals take into consideration the estimated effect of physical depreciation, historical cost depreciation and amortization on real estate related assets have been excluded from net investment income.

The values of real estate properties undergoing development have been prepared giving consideration to costs incurred to date and to 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 such consideration of the items identified above.

USPSA'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 USPSA's ownership interests of the underlying entity. USPSA'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 USPSA's wholly-owned real estate investments, and other factors, such as ownership percentage, ownership rights and distribution provisions. Upon the disposition of all real estate investments by an investee entity, USPSA 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. USPSA's real estate joint ventures are generally classified within Level 3 of the valuation hierarchy.

Mortgage Loan Receivable – The fair value of the mortgage loan receivable held by USPSA was determined by one or more of the following criteria as appropriate: (i) on the basis of estimated market interest rates for loans of comparable quality and maturity, and (ii) giving consideration to the value of the underlying collateral. USPSA's mortgage receivable is classified within Level 3 of the valuation hierarchy.

Short-Term Investments – Short term investments are comprised of money market funds and are carried at fair value based on quoted market prices of the fund. Short term investments are generally classified within Level 2 of the valuation hierarchy.

Lines of Credit and Debt – The fair value of the lines of credit and debt instruments are determined by discounting the future contractual cash flows to the present value using interest rates and anticipated returns a market participant would incur with similar risk and terms. The market rate 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 to the market participant and (iii) the value of the underlying collateral. USPSA's lines of credit and debt are generally classified within Level 3 of the valuation hierarchy.

Adjustment to Investment Commitments – The fair value of commitments to purchase real estate investments is recognized when the value of payments USPSA 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. USPSA's commitments to purchase real estate investments are generally classified within Level 3 of the valuation hierarchy.

The following are the major categories of assets and liabilities measured at fair value on a recurring basis during the years ended December 31, 2009 and 2008, using unadjusted quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	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
Lines of credit and debt	$-	$-	$1,018,678,937	$1,018,678,937
Adjustment to investment commitments	-	-	64,763,581	64,763,581
Total liabilities	$-	$-	$1,083,442,518	$1,083,442,518

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3. FAIR VALUE MEASUREMENTS (continued)

	2008			
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, 2008**
Real estate	$-	$-	$6,758,425,000	$6,758,425,000
Real estate joint venture	-	-	15,733,715	15,733,715
Mortgage loan receivable	-	-	11,658,331	11,658,331
Short-term investments	-	39,722,779	-	39,722,779
Total assets	$-	$39,722,779	$6,785,817,046	$6,825,539,825
Lines of credit and debt	$-	$-	$1,811,850,688	$1,811,850,688

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, 2009 and 2008:

	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, 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

	Lines of Credit and Debt	**Adjustment to Investment Commitments**	**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, 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)

	2008				
	Real Estate	Real Estate Joint Venture	Mortgage Loan Receivable	Total Level 3 Investments	Lines of Credit and Debt
Beginning balance - January 1, 2008	$7,709,754,500	$8,862,862	$-	$7,718,617,362	$(1,305,837,921)
Total realized and unrealized gains (losses) included in changes in net assets	(1,021,149,646)	(301,744)	(1,561,800)	(1,023,013,190)	52,740,517
Purchases, issuances, settlements, and sales	69,820,146	7,172,597	13,220,131	90,212,874	(558,753,284)
Ending balance - December 31, 2008	$6,758,425,000	$15,733,715	$11,658,331	$6,785,817,046	$(1,811,850,688)

4. INVESTMENT MANAGEMENT FEES

Principal Life charges USPSA annual management fees based upon its net assets, with such fees deducted daily. These fees totaled $44,684,411 and $65,200,822 in 2009 and 2008, respectively. USPSA owed Principal Life management fees of $23,657,778 and $6,209,576 as of December 31, 2009 and 2008, respectively.

5. INVESTMENT COMMITMENTS

As of December 31, 2009, USPSA had outstanding commitments to purchase nine properties for approximately $553,278,000. Certain properties are or will be under construction with USPSA agreeing to purchase the completed development subject to attaining certain development and leasing thresholds. It is anticipated that USPSA will acquire these properties between 2010 and 2013.

As of December 31, 2009, USPSA had outstanding commitments to sell two properties for approximately $28,247,000. It is anticipated that USPSA will sell these properties in 2010.

6. LINES OF CREDIT

USPSA maintains one unsecured line of credit at December 31, 2009. USPSA maintained two lines of credit at December 31, 2008. Maximum availability under the lines of credit was $300,000,000 and $660,000,000 as of December 31, 2009 and 2008, respectively (reduced to $296,000,000 and $655,625,000, respectively, by the letters of credit described below). There were borrowings outstanding on the lines of credit of $0 and $370,625,000 at December 31, 2009 and 2008, respectively. Interest on outstanding borrowings accrues at LIBOR plus the applicable margins, as defined (.89% at December 31, 2009 and 1.09% and 1.94% at December 31, 2008). Additionally, USPSA pays a quarterly commitment fee of .15% per year, based on the total amount of the line of credit. The line of credit matures on October 10, 2010.

The line of credit includes a $100,000,000 letter of credit sub facility at December 31, 2009 and 2008. At December 31, 2009 and 2008, there were letters of credit issued with a maximum availability of $4,000,000 and $4,375,000, respectively, of which $0 was outstanding. Interest on outstanding borrowings accrues at LIBOR plus the applicable

6. LINES OF CREDIT (continued)

margin, as defined (.89% and 1.09% at December 31, 2009 and 2008, respectively). Additionally, USPSA pays a commitment fee of .125% plus the applicable margin per year, as defined, based on the unused amount of the letters of credit issued. The letters of credit expire in October 2010.

The line of credit agreements contain financial and non-financial covenants, including requirements regarding net assets, leverage ratio, debt service coverage ratio and unencumbered assets. USPSA was in compliance with all covenants as of December 31, 2009.

7. DEBT

Mortgage Notes Payable – Mortgage notes payable totaled $940,044,389 and $1,201,349,089 as of December 31, 2009 and 2008, respectively. These notes mature between 2010 and 2034 with fixed and variable interest rates ranging from to 2.00% to 7.97% at December 31, 2009 and 2008. The notes are collateralized by mortgages on real property and all rents and profits of the underlying properties.

Construction Notes Payable – Construction notes payable totaled $35,198,113 and $208,369,812 as of December 31, 2009 and 2008, respectively. These notes mature between 2010 and 2011. Variable interest payments are due monthly ranging from 1.50% to 1.51% at December 31, 2009 and 2.54% to 4.26% at December 31, 2008. The notes are collateralized by the underlying properties.

Assessments – Assessments consist of amounts owed to the City of Pleasanton, California, and the City of New York, New York. The assessments totaled $72,769,678 and $73,552,540 as of December 31, 2009 and 2008, respectively. These assessments mature between 2017 and 2032 with variable interest rates ranging from .20% to .48% as of December 31, 2009 and .70% to 2.32% as of December 31, 2008. The assessments are recorded as liens on real property.

As of December 31, 2009, aggregate contractual maturities of debt were as follows:

YEAR ENDING DECEMBER 31,	
2010	$220,450,518
2011	148,960,328
2012	240,827,103
2013	61,572,595
2014	160,285,454
Thereafter	215,916,182
	1,048,012,180
Debt fair value adjustment	(29,333,243)
	$1,018,678,937

8. TENANT LEASES

USPSA leases space to tenants under operating lease agreements. These agreements include renewal options and expire at various dates. At December 31, 2009, future minimum base rentals under non-cancelable leases having an original term of more than one year are as follows:

YEAR ENDING DECEMBER 31,	
2010	$307,511,504
2011	269,046,619
2012	230,144,267
2013	189,037,990
2014	151,757,890
Thereafter	632,937,957
	$1,780,436,227

The above future minimum base rental payments exclude residential lease agreements that accounted for approximately 19.6% of USPSA's annual rental income for the year ended December 31, 2009. Rental income for the year ended December 31, 2009 and 2008 included approximately $86,941,000 and $91,295,000, respectively, for expenses recovered from tenants for common area and other reimbursable costs.

9. REAL ESTATE JOINT VENTURES

The following is a summary of the financial position and operating results of USPSA's joint venture investments as of December 31, 2009 and 2008 and for the years then ended. The joint ventures record their assets and liabilities at fair value.

	2009	2008
STATEMENTS OF ASSETS AND LIABILITIES:		
Real estate	$467,300,000	$246,800,000
Other assets	7,642,402	2,671,176
Debt	(310,377,821)	(131,267,433)
Other liabilities	(64,476,533)	(70,526,425)
Net assets	$100,088,048	$47,677,318
USPSA's share of net assets	$34,817,723	$15,733,715
STATEMENTS OF OPERATIONS:		
Revenues and other income	$222,185	$440,380
Expenses	(3,194,731)	(2,560,532)
Unrealized gain (loss) on investments and debt	(60,575,639)	1,423,705
Net loss	$(63,548,185)	$(696,447)
USPSA's share of net loss	$(20,331,853)	$(301,744)

10. FINANCIAL HIGHLIGHTS

	R6		PGI>$25 MILLION		PROVIDER		SIP <$25 MIL, NO COMM.	
	2009	2008	2009	2008	2009	2008	2009	2008
PER SHARE OPERATING PERFORMANCE								
Net asset value, beginning of year	$626.87	$722.49	$28.83	$33.16	$318.10	$371.60	$28.19	$32.54
Original issuance of shares in class	-	-	-	-	-	-	-	-
Income from investment operations:								
Net investment income	25.56	23.70	1.22	1.15	9.65	7.33	1.12	1.02
Net realized and unrealized gain (loss)	(223.56)	(119.32)	(10.29)	(5.48)	(113.04)	(60.83)	(10.05)	(5.37)
Total from investment operations	(198.00)	(95.62)	(9.07)	(4.33)	(103.39)	(53.50)	(8.93)	(4.35)
Net asset value, end of year	$428.87	$626.87	$19.76	$28.83	$214.71	$318.10	$19.26	$28.19
Total Return **	(31.59)%	(13.23)%	(31.45)%	(13.06)%	(32.50)%	(14.40)%	(31.69)%	(13.36)%

(continued)

	CLASSIC		R2		RETIREMENT ACCUM. CONTRACT		SIGNATURE	
	2009	2008	2009	2008	2009	2008	2009	2008
PER SHARE OPERATING PERFORMANCE								
Net asset value, beginning of year	$643.49	$739.42	$538.60	$624.42	$28.11	$32.44	$578.35	$668.57
Original issuance of shares in class	-	-	-	-	-	-	-	-
Income from investment operations:								
Net investment income	27.76	26.43	19.48	16.92	1.12	1.02	22.23	19.98
Net realized and unrealized gain (loss)	(229.69)	(122.36)	(191.77)	(102.74)	(10.03)	(5.35)	(206.09)	(110.20)
Total from investment operations	(201.93)	(95.93)	(172.29)	(85.82)	(8.91)	(4.33)	(183.86)	(90.22)
Net asset value, end of year	$441.56	$643.49	$366.31	$538.60	$19.20	$28.11	$394.49	$578.35
Total Return **	(31.38)%	(12.97)%	(31.99)%	(13.74)%	(31.69)%	(13.36)%	(31.79)%	(13.49)%

(continued)

	R4		R5		R1		R3	
	2009	2008	2009	2008	2009	2008	2009	2008
PER SHARE OPERATING PERFORMANCE								
Net asset value, beginning of year	$600.12	$693.18	$610.26	$704.05	$516.82	$599.95	$556.92	$644.50
Original issuance of shares in class	-	-	-	-	-	-	-	-
Income from investment operations:								
Net investment income	23.45	21.26	24.42	22.42	18.18	15.49	20.93	18.55
Net realized and unrealized gain (loss)	(213.91)	(114.32)	(217.59)	(116.21)	(183.96)	(98.62)	(198.40)	(106.13)
Total from investment operations	(190.46)	(93.06)	(193.17)	(93.79)	(165.78)	(83.13)	(177.47)	(87.58)
Net asset value, end of year	$409.66	$600.12	$417.09	$610.26	$351.04	$516.82	$379.45	$556.92
Total Return **	(31.74)%	(13.42)%	(31.65)%	(13.32)%	(32.08)%	(13.86)%	(31.87)%	(13.59)%

(continued)

	PGI>$10<=$25 MILLION		PGI<=$10 MILLION		PRE 2002 NONPRO		RATE LEVEL 52	
	2009	2008	2009	2008	2009	2008	2009	2008
PER SHARE OPERATING PERFORMANCE								
Net asset value, beginning of year	$28.73	$33.07	$28.55	$32.88	$633.68	$726.20	$28.70	$33.03
Original issuance of shares in class	-	-	-	-	-	-	-	-
Income from investment operations:								
Net investment income	1.21	1.13	1.17	1.10	31.56	27.65	1.19	1.13
Net realized and unrealized gain (loss)	(10.25)	(5.47)	(10.18)	(5.43)	(226.70)	(120.17)	(10.23)	(5.46)
Total from investment operations	(9.04)	(4.34)	(9.01)	(4.33)	(195.14)	(92.52)	(9.04)	(4.33)
Net asset value, end of year	$19.69	$28.73	$19.54	$28.55	$438.54	$633.68	$19.66	$28.70
Total Return **	(31.48)%	(13.10)%	(31.55)%	(13.19)%	(30.79)%	(12.74)%	(31.48)%	(13.10)%

(continued)

10. FINANCIAL HIGHLIGHTS (continued)

	I3		I4		I5		RIS INVESTMENT ONLY 1*	
	2009	2008	2009	2008	2009	2008	2009	2008
PER SHARE OPERATING PERFORMANCE								
Net asset value, beginning of year	$643.92	$741.39	$654.36	$753.04	$683.06	$784.88	$8.64	$-
Original issuance of shares in class	-	-	-	-	-	-	-	9.95
Income from investment operations:								
Net investment income	26.76	25.03	27.46	25.79	29.46	28.06	0.35	0.34
Net realized and unrealized gain (loss)	(229.71)	(122.50)	(233.47)	(124.47)	(243.81)	(129.88)	(3.08)	(1.65)
Total from investment operations	(202.95)	(97.47)	(206.01)	(98.68)	(214.35)	(101.82)	(2.73)	(1.31)
Net asset value, end of year	$440.97	$643.92	$448.35	$654.36	$468.71	$683.06	$5.91	$8.64
Total Return **	(31.52)%	(13.15)%	(31.48)%	(13.10)%	(31.38)%	(12.97)%	(31.55)%	(13.15)%

(concluded)

FUND LEVEL SUPPLEMENTAL DATA	2009	2008
Net assets, end of year	$3,416,624,550	$4,877,678,537
RATIO TO AVERAGE NET ASSETS:		
Fund level expenses	0.90 %	1.14 %
Net investment income	4.81 %	3.32 %

* Share class RIS Investment Only 1 had an inception date of January 3, 2008.

** Total return for newly issued share classes is from inception date.

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.

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

The NCREIF Property Index is a private real estate market proxy that is based on property level returns (after properly level expenses).

Open-End Fund Component of the NCREIF Property Index is a subcomponent of the NCREIF Property Index that employs all characteristics of the Index, however, only includes property level performance of open-end funds.

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

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The Account is a diversified real estate equity portfolio consisting primarily of high quality, well-leased real estate properties in the multifamily, industrial, office, retail and hotel sectors.

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