FTI INSIGHTS

Report

2nd Quarter 2015

Economic & Real Estate Report

Contents

Introduction

In a familiar pattern, economic growth was sluggish at the onset of the year and then accelerated during the spring months. Recent growth was driven by increased consumer and government spending and sustained residential investment. Still, the further fall in oil and commodity prices along with a strong dollar are reasons for concerns regarding future U.S. economic growth.

On the positive, it appears that the U.S. economy has moved beyond headwinds experienced earlier in the year such as inclement weather and port delays. As consumer confidence continued to rise, household formation has increased. During 2Q15, annualized household formations averaged 2.2 million, up considerably from the 449,000 annualized pace set at this time last year. This occurrence has helped housing market fundamentals, which improved during the spring months, characterized by rising home sales, prices and starts.

New jobs continued to be added to the U.S. economy during 2Q15. In total, 664,000 jobs were generated during this period, up 13.0% from the prior quarter, and the unemployment rate fell to its lowest level since April 2008. Of concern, the labor force shrank during June, the labor force participation rate remained at historically low levels and wage growth was still considered sluggish by most economists.

Information from the latest Federal Reserve Open Market Committee indicated that the U.S. economy is making progress, noting continued improvement in the housing sector and moderate household spending growth. Recent reports speculate that the Fed could raise (short term) interest rates as early as September, which would mark the first such increase since 2006.

Fundamentals have continued to improve within the major commercial real estate property sectors since 2014 as the latest market data and commentary from leading real estate brokerage firms and data providers report falling vacancy rates, growing absorption, steady rental rate appreciation and more investment activity. The simple average overall capitalization rate (comprising the office, retail, apartment and industrial sectors), declined for the 13th consecutive quarter according to the 2Q15 PwC Real Estate Investor Survey. Commercial real estate indices produced by NCREIF, Moody's/RCA and Green Street continue to show healthy price appreciation for commercial real estate assets. Driven by high yields, availability of capital and willingness for risk, investor sales volume bettered totals recorded at this time last year by 38.0%.

Conditions within the real estate debt markets continued to remain positive during 2Q15. CMBS issuances registered $27.5 billion during 2Q15 and totals during the first half of 2015 represented a 34.0% increase Year-over-Year (YoY). The U.S. CMBS delinquency rate decreased for the eleventh consecutive month and the U.S. delinquent unpaid balance for CMBS fell to its lowest level since 3Q09. Driven by large increases in originations for multi-family assets, commercial and multi-family mortgage loan originations increased 29.0% from the same period last year. Investor desire continued for REITs as nearly $40 billion of capital was raised since 2014, an increase of 13.0% from this same time period last year.

The following summarizes key indicators related to the current economic conditions:

- **GDP Increases.** The advance estimate showed that 2Q15 U.S. GDP increased at a 2.3% seasonally adjusted annualized rate, led by gains in consumer spending, residential investment and durable/nondurable goods.
- **Unemployment Rate Falls.** The unemployment rate fell to 5.3% in June despite flat wages and a declining labor force. From June 2014 to June 2015, the unemployment rate dropped 80 basis points (BPS).
- **Employment Cost Index (ECI) Slows Sharply.** The ECI indicated that employment costs, including wages and salaries, increased 0.2% during 2Q15, down from a rise of 0.7% during the prior quarter. Over the past 12 months, the index is up 2.0%. Economists have speculated as to whether this report will impact the timing of the proposed Federal Reserve interest hikes.
- **Small Business Optimism Falls.** In June, small business confidence declined 4.2 points to its lowest level of the year according to the National Federation of Independent Business (NFIB) Small Business Optimism Index. Since hitting a cycle peak in late 2014, small business owners have expressed concerns regarding earnings and inventories.
- **Consumer Confidence Increases.** According to the Consumer Conference Board and Thomson Reuters/University of Michigan, U.S. consumer confidence increased in June mainly due to an improved outlook regarding economic conditions. This points to stronger consumer spending.
- **The Leading Economic Index (LEI) Increases.** The LEI increased 0.6% in June following an upwardly revised 0.8% rise in May. The latest increase was primarily driven by a strong gain in building permits, which increased 7.4%. The consumer expectations also lifted the index.
- **Retail Sales Decrease.** After rising 1.0% in May, retail sales fell 0.3% in June as consumers pulled back on spending. Excluding autos, retail sales fell 0.1%. Of note, car sales declined 1.1%, home and furniture store sales fell 1.6%, clothing store sales dropped 1.5% and restaurant sales inched down 0.2%. Gasoline sales increased 0.8% during June after recording a 3.7% increase in May; still gasoline sales are down 17.1% on a YoY basis.
- **CPI Increases.** After no change in April and May, the headline CPI increased 0.3% in June. Outside of food and energy, core prices rose 0.2% during the month. Due to the avian flu outbreak, prices for chicken and eggs surged during June. Energy prices increased 1.7% in June and other gains were seen within airfares, recreation, new vehicles and personal care.
- **Industrial Production Increases.** Driven by a rise in utilities and mining, industrial production jumped 0.3% in June from the prior month; however, after three-straight monthly gains in output for motor vehicles and parts, auto production dropped 3.7%.
- **Factory Orders Rebound in June.** After declining 1.1% in May, factory orders increased 1.8% in June. The increase matched economist expectations and was driven by strong demand for transportation equipment.
- **Durable Goods Orders Increase.** Primarily driven by demand for commercial aircraft, U.S. durable goods orders jumped 3.4% in June from the prior month. Despite the increase, economists have concerns regarding the data, since the increase was mostly due to a rise in transportation orders and reflected weakness in business equipment investment.
- **Personal Income Increases.** Personal income increased 0.4% in June for the third consecutive month. Personal spending rose 0.2% in June. With income rising more than spending, personal saving as a percentage of disposable personal income climbed to 4.8% in June from 4.6% in May.
- **International Trade.** The U.S. trade deficit widened in June as exports of goods and services decreased by $136 million while imports increased by $2.8 billion.

Employment

The labor market sustained momentum in June as 223,000 jobs were added to the economy, marking the 57th consecutive month of job creation; however, job growth for April and May was revised downward by a combined 60,000 positions. Since 2014, approximately 1.25 million jobs have been added to the economy, equating to a monthly average of 208,000. During 2Q15, an average of 221,000 monthly jobs was created, bettering the 195,000 monthly average during 1Q15. Job creation has lagged the pace set during the first half of 2014 when an average of 238,000 jobs was generated monthly.

Non-farm employment totaled nearly 142 million in June, which is up 0.9% from 2014. Employment gains were broad-based during the first half of 2015, as the professional and business services (312,000), education & health services (305,000), trade, transportation & utilities (232,000), leisure & hospitality (175,000) and construction (105,000) sectors added the largest numbers of jobs. In contrast, the natural resources and mining sector has lost 70,000 jobs since 2014.

After rising slightly in May, the unemployment rate fell to 5.3% in June, its lowest level since April 2008; however, this fall was primarily caused by a 432,000 reduction in the June labor force and the labor force participation rate falling to 62.6%, the lowest figure since 1977. Additionally, June wage growth was flat and pay is up about 2.0% from a year ago, slightly ahead of inflation which is running at 1.5%.

US Non-Farm Employment by Industry

Historic and Current Figures (thousands)

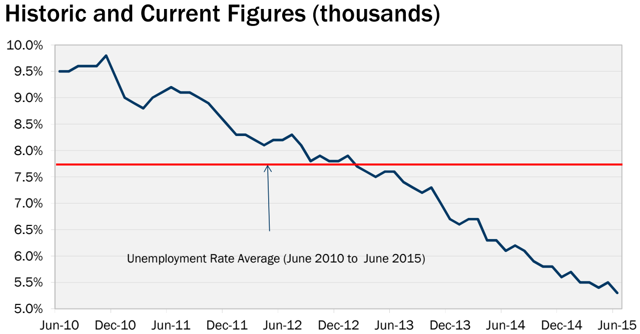
Industry	2015 Employ.	Total Percent	2014 Employ.	Total Percent	2013 Employ.	Total Percent	% Change 2014-15
Mining and Logging	843	0.6%	913	0.6%	871	0.6%	-7.7%
Construction	6,380	4.5%	6,275	4.5%	5,937	4.3%	1.7%
Manufacturing	12,338	8.7%	12,301	8.7%	12,086	8.8%	0.3%
Trade, Trans & Utilities	26,901	19.0%	26,669	19.0%	26,159	19.0%	0.9%
Information	2,794	2.0%	2,767	2.0%	2,724	2.0%	1.0%
Financial Activities	8,127	5.7%	8,049	5.7%	7,914	5.8%	1.0%
Prof & Bus. Services	19,751	13.9%	19,439	13.8%	18,735	13.6%	1.6%
Educ. & Health Services	22,023	15.5%	21,718	15.4%	21,230	15.4%	1.4%
Leisure & Hospitality	15,123	10.7%	14,948	10.6%	14,466	10.5%	1.2%
Other Services	5,652	4.0%	5,611	4.0%	5,526	4.0%	0.7%
Government	21,910	15.4%	21,902	15.6%	21,828	15.9%	0.0%
Total Nonfarm	**141,842**	**100.0%**	**140,592**	**100.0%**	**137,476**	**100.0%**	**0.9%**

Source: Bureau of Labor Statistics

June marked the tenth consecutive month that the unemployment rate registered below 6.0% as seen in the graph below.

US Non-Farm Employment by Industry

Historic and Current Figures (thousands)



Source: Bureau of Labor Statistics

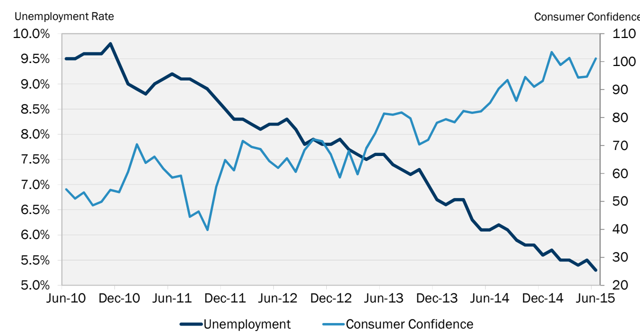
The Conference Board Consumer Confidence Index is closely correlated with the U.S. unemployment rate and is considered a key indicator of economic conditions. In June, consumer confidence increased 6.8 points, equaling a multi-year high set in March 2015. Consumer views on both current and future economic conditions improved.

The Thomson Reuters/University of Michigan Index reported that consumer confidence jumped 5.4 percentage points in June and stated that consumers voiced the largest and most sustained increase in economic optimism since 2004 during the first half of 2015.

Below is a graph depicting unemployment rates and consumer confidence since June 2010.

U.S. Unemployment Rate vs. Consumer Confidence

Historic and Current Figures (thousands)



Source: Bureau of Labor Statistics; Conference Board

Gross Domestic Product (GDP)

The GDP growth rate is considered the most important indicator of economic health. When the GDP is growing, the expectation is that businesses, jobs and personal income will also grow. On the contrary, if GDP is contracting, expectations are that businesses will hold off investing in new purchases and hiring new employees as they wait to see if the economy will improve.

The advance 2Q15 GDP estimate showed that the U.S. economy accelerated modestly from the prior quarter, expanding at a seasonally adjusted annual rate of 2.3%. The gain was driven by stronger consumer consumption, steady residential investment, higher local and state government spending and an uptick in exports. 1Q15 GDP was revised upwards from a 0.2% contraction to a 0.6% expansion. In addition, newly revised data showed that GDP increased at a slightly slower average annual rate (2.0% vs. 2.3%) between 2012 and 2014. During the first half of 2015, GDP grew at an average annual rate of 1.5%, less than the 1.9% growth rate recorded during the same period last year.

It appears the U.S. economy has moved beyond difficulties experienced during 1Q15. Consumer spending, accounting for more than two-thirds of economic output, grew at a 2.9% annualized rate during 2Q15, up from 1.8% during 1Q15. Contributing to strong spending growth, Ward's Automotive

Group reported that 2Q15 sales of cars and light trucks was the strongest since 2005.

Additionally, the saving rate fell from 5.2% to 4.8% during 2Q15, a sign that consumers are feeling less cautious about spending money.

2Q15 GDP Key Statistics

Negative Metrics

- Business spending remained soft falling at a 0.6% annualized rate compared to a 1.6% growth rate during the prior quarter. It was reported that business spending dragged down the overall GDP number for the first time since 3Q12.
- Non-residential fixed investment (business spending), consisting of spending on equipment, software, research and structures, decelerated to a 0.6% growth rate during 2Q15 from a 1.6% increase during 1Q15.
- Investment in equipment fell at a 4.1% annual rate in contrast to an increase of 2.3% during the prior quarter.

Positive Metrics

- Despite a strong U.S. dollar which has resulted in cheaper foreign products in the U.S. and higher costs for domestic products overseas, U.S. exports increased 5.3% after falling 6.0% during the prior quarter. Imports rose 3.5% in comparison to increasing 7.1% during 1Q15.
- Although down from the prior quarter, residential fixed investment increased at a 6.6% rate.
- State and local government outlays increased at a 2.0% rate, in contrast to a decrease of 0.8% during the prior quarter.
- Durable goods increased at a 7.3% rate, up from a 2.0% rate during the prior quarter and nondurable goods growth increased from 0.7% to 3.6% during the same time period.

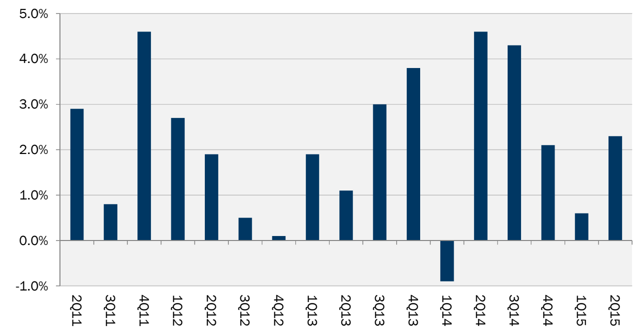
A Brief Look Ahead

Cooling global markets, a strong dollar and sluggish wage gains may continue to hamper growth in the near future. The International Monetary Fund predicts that the U.S. economy will grow 2.5% for 2015, an estimate that has been trimmed slightly over the past few months.

The following chart summarizes U.S. GDP growth since 2Q11.

Gross Domestic Product

Quarter-to-Quarter Growth in Real GDP



Source: Bureau of Economic Analysis

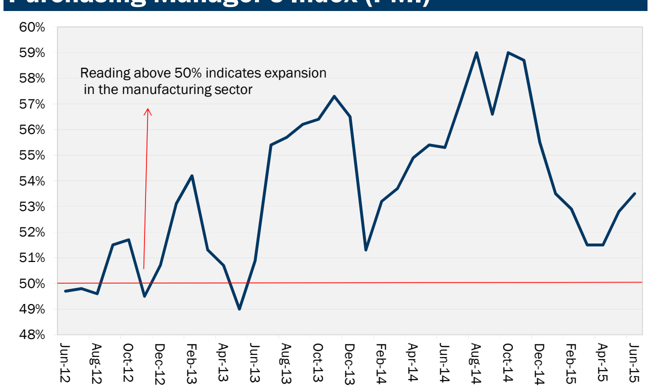
Institute for Supply Management (ISM) Manufacturing Index

The ISM index, a national survey of purchasing managers, is calculated based on a weighted average of the following five sub-indexes: new orders (30%), production (25%), employment (20%), deliveries (15%) and inventories (10%).

According to the June 2015 report, the manufacturing sector expanded at its fastest pace in five months as headwinds continue to diminish. Steady domestic demand offset concerns regarding foreign growth and the effect of lower oil prices continues to lessen. The employment and new orders components of the index increased to their highest readings for 2015. Despite the positive data, several analysts do not expect a robust rebound in the manufacturing sector during the next several months. Purchasing managers generally indicated mostly stable to improving business conditions except related to the oil and gas markets.

The graph below shows fluctuations within the PMI since June 2012.

Purchasing Manager's Index (PMI)



Source: Institute for Supply Management

The following summarizes key components of the ISM Index.

- **Purchasing Managers' Index (PMI).** A reading above 50.0% indicates that the manufacturing economy is generally expanding; below 50.0% indicates that it is generally contracting. Manufacturing expanded in June for the third consecutive month and has averaged 54.7% during the past 12 months, ranging from 51.5% to 58.1%.
- **New Orders Index.** A New Orders Index above 52.1%, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders. The New Orders Index increased 0.2% in June to 56.0%, indicating growth for the 31st straight month.
- **Production Index.** An index above 51.0%, over time, is generally consistent with an increase in the Federal Reserve Board's industrial production figures. The index decreased 0.5% in June to 54.0%, but growth remained for the 34th consecutive month.
- **Employment Index**. An Employment Index above 50.6%, over time, is generally consistent with an increase in manufacturing employment. A 3.8% increase was recorded in June, sending the index to 55.5%, a positive indicator for the labor market.
- **Supplier Deliveries Index.** A reading above 50% indicates slower deliveries. The delivery performance of suppliers to manufacturing organizations was faster in June than the prior month.
- **Inventories Index.** An Inventories Index greater than 42.9%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' (BEA) figures on overall manufacturing inventories. A 1.5% increase to 53.0% was recorded in June, indicating that raw material inventories are growing for the second consecutive month.

Construction Spending

The U.S. Census Bureau of the Department of Commerce reported that U.S. construction spending increased slightly in June as a large drop in nonresidential activity offset a third consecutive monthly increase in home building. Total construction activity, estimated at a seasonally adjusted rate of $1,064.6 billion, was 0.1% above the revised May estimate. On the positive, the June 2015 figure is 12.0% above the June 2014 estimate.

Private Construction

- Comprising 72.0% of total construction expenditures, private construction spending decreased 0.5% during June from the prior month, as residential construction increased 0.4% and non-residential spending decreased 1.3%.
- Despite the latest decline, non-residential spending is up nearly 15.0% from a year earlier.
- On the positive, total private construction expenditures increased 13.7% YoY as gains within the non-residential sector (+14.6%) outpaced those within the residential (+12.8%) sector.
- During the past 12 months, notable spending activity increases occurred within the following non-residential sectors: manufacturing (+62.0%), lodging (+41.9%), office (+27.5%), and commercial (+7.4%). Additionally, new single- and multi-family expenditures increased 12.8% and 23.7%, respectively.

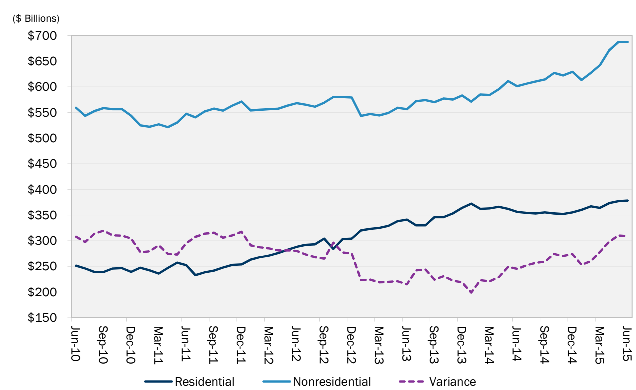
Public Construction

- Comprising 28.0% of total construction expenditures, public construction outlays increased 1.6% during June from the prior month.
- During the past 12 months, public construction expenditures increased by 8.0%. Leading public sectors, such as highway and street (+14.2%), transportation (+7.0%) and education (+3.6%), all increased YoY.

The following chart highlights annualized residential and non-residential construction (seasonally adjusted) since June 2010. The graph indicates that the pace of construction activity has increased during the past several quarters. Although the economic downturn initially affected the residential construction industry more significantly, spending rebounded within the sector at a faster pace than for non-residential properties. As a result, the variance in spending between the sectors fell to $199 billion in early 2014; however, the pace of non-residential construction has since increased at a faster pace, increasing the variance to $309 billion as of June 2015.

U.S. Construction Spending

Value of Construction Put in Place - Seasonally Adjusted Annual Rate



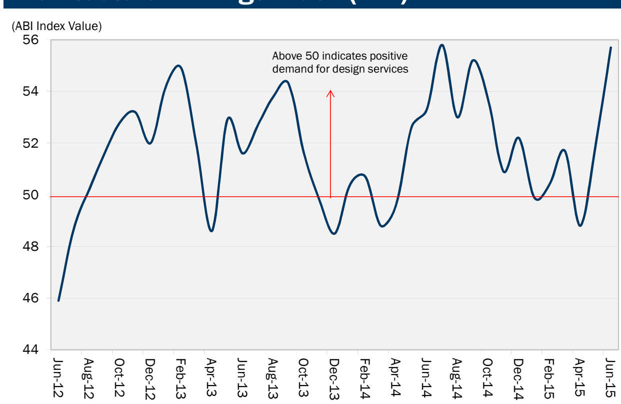
Source: U.S. Census Bureau

The Architecture Billings Index (ABI)

The Architecture Billings Index (ABI) is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the American Institute of Architects (AIA) Economics & Market Research Group. The ABI is a leading economic indicator of non-residential construction activity, reflecting an approximate nine to twelve month lag time between architecture billings and construction spending. Any measure below 50 indicates contraction in demand for architects' services.

- The ABI increased in June to its highest level in eight years, increasing to 55.7 from 51.9 during the prior month. The index score for new design contracts increased to 52.5, suggesting that the pipeline of project activity continues to positively benefit architectural firms.
- According to survey participants, key takeaways from the construction industry include: a) construction costs remain at all-time high levels, b) business conditions are gaining momentum for larger firms and c) building sustainability concerns are a high priority for the majority of architecture firm’s clients.
- All regions of the country reported positive billings, including the Midwest (57.2), South (54.9), West (50.7) and Northeast (50.4). Previously, the Northeast had reported declining billings for nine consecutive months.
- Billings growth at institutional firms (59.1) was at the highest pace of the past decade. The residential sector (47.0) is still experiencing weakness and billings growth at commercial/industrial firms (51.6) remains steady.
- AIA Chief Economist Kermit Baker stated, "The June numbers are likely showing some catch-up from slow growth earlier this year. This is the first month in 2015 that all regions are reporting positive business condition.”

Architectural Billings Index (ABI)



Source: The American Institute of Architects

State of the Housing Market

After two years of generally sluggish growth, several indicators painted a healthier picture regarding the U.S. housing market during 2Q15. The National Association of Realtors reported that annualized existing home sales (5.49 million) increased 9.6% from levels recorded a year ago and are now at their highest pace since early 2007. Existing multi-family home sales increased 8.3% from June 2014 levels and are selling at the fastest pace since May 2007. Median existing home prices continue to rise, up 6.5% YoY, and have surpassed the peak median sales price set in July 2006. Other positive indicators included: a) fewer investors accounted for home sales, b) more first-time homebuyers entered the market, c) less distressed homes were available for sale, and d) overall housing starts and permits increased in June.

Below are additional key points pertaining to the housing market.

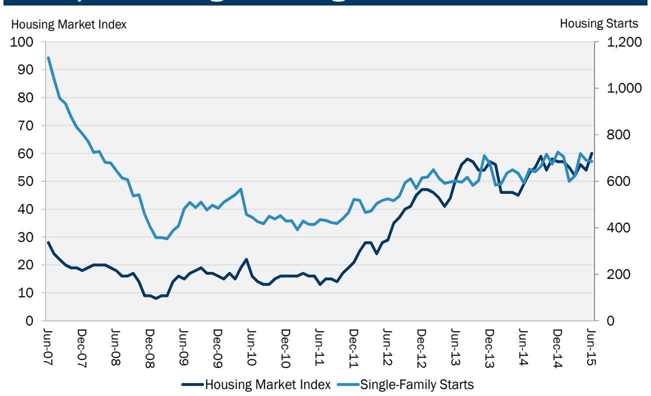
- Unlike the increase in existing home sales, new home sales fell 6.8% during June. Although new home sales were slightly lower in 2Q15 than a quarter earlier, it is speculated that supply issues may have restrained sales.
- According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage increased 14 BPs in June to 3.98%, but remained below 4.0% for the seventh straight month.
- Driven by a 29.4% rise in the construction of multi-family housing units, housing starts increased 9.8% to an adjusted annual pace of 1,170,000 units in June. Still, the second quarter witnessed volatility in the multi-family sector as starts increased 37.5% in April, but fell 10.2% in May. The 441,000-unit multi-family average annual pace during 2Q15 is the highest level in the past decade.
- In contrast, single-family unit starts, representing nearly two-thirds of the housing market, fell 0.9% in June, following a 6.0% decline in May and an 18.0% increase in April. Still, single-family housing starts averaged a 704,000-unit annual pace during 2Q15, which is 9.4% ahead of the 1Q15 pace.
- In June, building permits (an indicator of future construction activity) increased 7.4% to 1.34 million from the prior month.
- According to RealtyTrac, foreclosure filings (default notices, scheduled auctions and bank repossessions) across the United States declined to a ten-year low. Overall, filings declined 13.0% from the second half of 2014 and 3.0% from the same period last year. Still, the firm reported that bank repossessions in June were up 20.0% from a year

ago and 37.0% above the level in the first half of 2006 before the housing bubble burst.

- The S&P/Case-Shiller U.S. National Home Price Index reported a 4.4% annual gain in May. Metro areas reporting the largest annual gains included Denver and Dallas. The widely quoted 20-city home price index fell in May, but remains up 4.9% YoY.
- Distressed transactions (foreclosures and short sales sold at deep discounts) declined from 11% to 8% during the past 12 months.
- Lawrence Yun, NAR Chief Economist, remarked, "Backed by June's solid gain in closings, this year's spring buying season has been the strongest since the downturn. Buyers have come back in force, leading to the strongest past two months in sales since early 2007. This wave of demand is being fueled by a year-plus of steady job growth and an improving economy that's giving more households the financial wherewithal and incentive to buy."

Below is a historical chart comparing the NAHB/Wells Fargo Housing Market Index and single-family starts.

NAHB/Wells Fargo Housing Market Index



Source: NAHB/Wells Fargo; U.S. Census Bureau

In June, builder confidence in the market for newly-built, single-family homes increased five points to its highest reading since September 2014. All three index components (buyer traffic, current sales conditions and sales expectations) posted gains in June. Looking at the three-month moving averages for regional HMI scores, the Northeast, South and West posted gains and the Midwest decreased slightly.

NAHB Chief Economist, David Crowe, stated, "The HMI indices measuring current and future sales expectations are at their highest levels since the last quarter of 2005, indicating a growing optimism among builders that housing will continue to strengthen in the months ahead. At the same time, builders remain sensitive to consumers' ability to buy a new home."

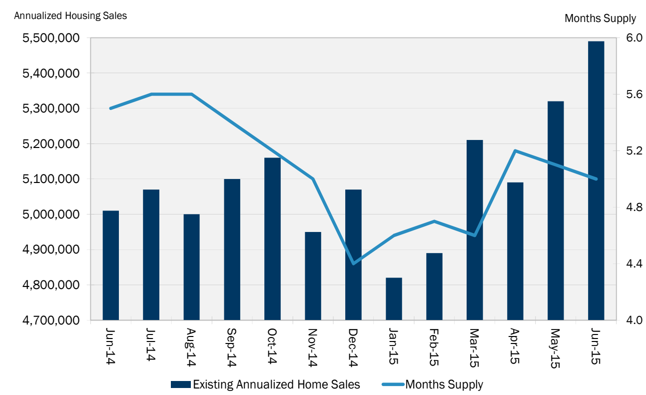
Housing Sales and Inventory

Sales of existing homes have increased YoY for nine consecutive months. YoY sales activity increased 12.7% in the Midwest, 12.5% in the Northeast, 8.8% in the West and 7.3% in the South regions. The median time on the market for an existing home was 34 days in June, down from 40 days recorded in May and the shortest time since NAR began tracking this stat in May 2011. It was estimated that 47.0% of all homes sold in June were on the market for less than one month. First-time buyers accounted for 30.0% of the June purchases, up slightly from the figure posted last year. All cash sales represented 22.0% of the June transactions, the lowest share since December 2009 and down from 32.0% a year earlier. The total inventory of existing homes available for sale rose slightly to 2.3 million at the end of June.

Below is a breakdown of existing annualized housing sales vs. supply during the past year.

Housing Sales

Existing Annualized Housing Sales vs. Monthly Supply



Source: National Association of Realtors

PwC Real Estate Investor Survey

- Institutional and private investors surveyed for the 2Q15 PwC Real Estate Investor Survey reported that overall cap rates (OARs) declined in twenty-six, held steady in four and increased in four of the survey's 34 tracked markets. OAR's decreased 12 BPS across nearly all major property types since 1Q15. Overall cap rates declined 30 BPS from 2Q14 to 2Q15.
- Terminal cap rates decreased to 6.78% during 2Q15, marking the 13th consecutive monthly decline. The average decline was 12 BPS across nearly all major property types since 1Q14. Terminal cap rates declined 27 BPS from 2Q14 to 2Q15.
- Discount rates (IRR) decreased to 7.67% during 2Q15, marking the 5th consecutive monthly decline. The average decline was 15 BPS across nearly all major property types since 1Q15. Discount rates declined 47 BPS from 2Q14 to 2Q15.

2Q15 Survey Highlights

- OARs declined in all eight major commercial property types during 2Q15; the regional mall (25 BPS), flex/R&D (22 BPS), suburban office (14 BPS) and warehouse (12 BPS) sectors recorded the largest declines.
- As of 2Q15, flex/R&D properties had the highest average OARs at 7.23%, followed by the strip center (6.91%) and power center (6.54%) sectors. The lowest average OARs were recorded within the apartment (5.30%), warehouse (5.65%) and CBD-office (6.07%) sectors. The simple average OAR across all sectors was 6.29%.
- Terminal cap rates decreased in all eight major commercial property sectors during 2Q15. The largest decreases were recorded within the regional mall (31 BPS), flex/R&D (25 BPS) and CBD-office (11 BPS) sectors.
- As of 2Q15, flex/R&D properties had the highest terminal capitalization rate at 7.50%, followed by the suburban-office (7.28%) sector. The lowest terminal capitalization rates were recorded within the apartment (5.93%), warehouse (6.33%) and CBD-office (6.48%) sectors. The simple average terminal capitalization rate across all sectors was 6.78%.
- IRRs decreased in all eight major commercial property sectors during 2Q15. The largest decreases were recorded within the regional mall (36 BPS), flex/R&D (25 BPS) and strip center (23 BPS) sectors.
- As of 2Q15, flex/R&D properties had the highest IRR at 8.38%, followed by the strip center (7.86%) sector. The lowest IRR was recorded within the warehouse (7.08%) sector and the simple average across all sectors was 7.67%.

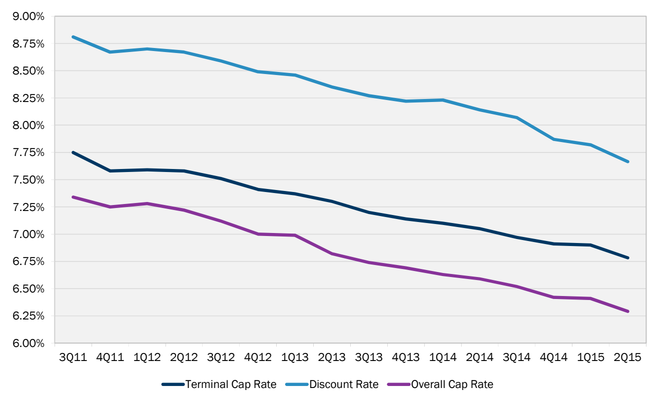
Additional 2Q15 Report Insights/Findings

- Investors have expressed concern that improving economic conditions will increase commercial real estate construction starts, which may lead to an imbalance between supply and demand.
- Investors specifically expressed concern regarding the increase in office construction activity, much of it of it as speculative development.
- Anticipated increasing apartment completions for 2015 has led some investors to readjust their investment strategies and underwriting practice.
- The national student housing market continues to draw increasing attention from a diverse pool of investors. Although this sector showed resiliency during the economic downturn, recent concerns regarding the sector include rising tuition costs and declining enrollments at many universities.
- Manhattan (5.15%), Washington D.C. (5.50%), San Francisco (5.77%), Los Angeles (5.79%), Seattle (6.18%), Pacific Northwest (6.20%), Boston (6.40%), Denver (6.57%) and Houston (6.89%) had the lowest overall office cap rates.
- Philadelphia (7.71%), Atlanta (7.56%), Chicago (7.43%), Suburban Maryland (7.23%), SE Florida (7.23%), Charlotte (7.21%), Dallas (7.09%), Phoenix (7.08%), Northern VA (6.93%) and San Diego (6.89%) had the highest overall office cap rates.

Simple averages of overall capitalization, terminal capitalization and discount rates are presented in the following table. The averages reflect the following property types: industrial (flex/R&D, warehouse), office (central business district (CBD) office, suburban office), apartment and retail (strip center, regional malls and power centers).

PwC Real Estate Investor Survey Historical Results

Investment Rate Analysis

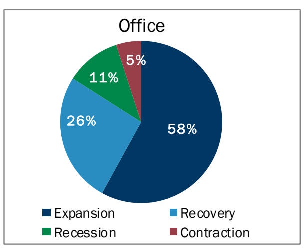


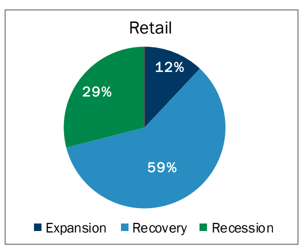
PwC Real Estate Barometer

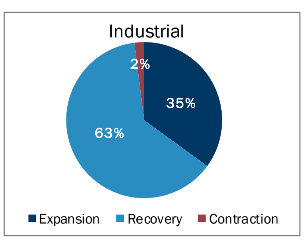
- The PwC Real Estate Barometer was introduced as a system for analyzing historical/forecasted commercial real estate data within the four major property types.
- The barometer indicates where a major property type is positioned within the real estate cycle in a major U.S. metropolitan area. The real estate cycle consists of the following four phases:
  - Contraction: softening market conditions following the market peak
  - Recession: following contraction, a period of very low demand, high vacancies and negative rental growth
  - Recovery: tightening market conditions following the market bottom
  - Expansion: following recovery, a period of strong demand, low vacancies and robust rental growth

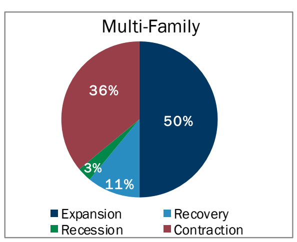
- During 2Q15, approximately 84.0% of the tracked U.S. office markets are in the expansion and recovery phases of the real estate cycle. Improving market fundamentals, driven by employment growth, are predicted to push the majority of office markets into the expansion phase during the next several quarters. Suburban areas in prime locations continue to attract more investor attention.
- About 59.0% of the tracked U.S. retail markets are in the recovery phase of the real estate cycle as of 2Q15. Grocery-anchored centers continue as desirable assets, while big-box retailers and regional malls continue to face increased competition from the e-commerce industry.
- Nearly all of tracked U.S. industrial markets are in the recovery or expansion phases of the real estate cycle. Demand is expected to remain robust during the next several quarters, keeping the majority of the tracked industrial assets in a growth state.
- Following the recession, recovery and expansion occurred initially within the multi-family sector. As a result, this asset class shows the highest level of bifurcation. Approximately half of all areas are still expanding, but 36.0% of the areas are beginning to contract. Still, market fundamentals within the multi-family sector are strong, characterized by low vacancy rates, pent-up demand and rental rate growth.

Below is a snapshot of each major property type as of 2Q15.









Moody's/RCA Commercial Property Price Index (CPPI)

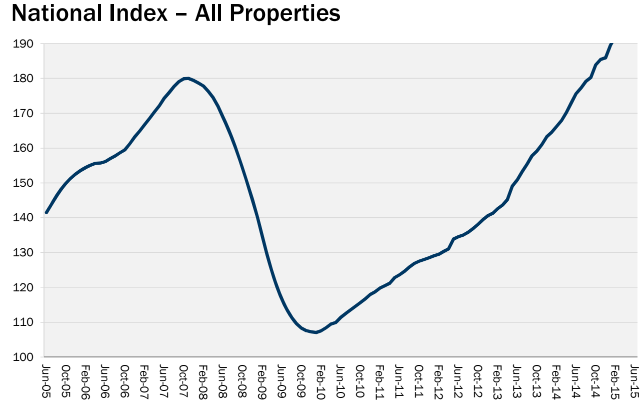
The Moody's/RCA Commercial Property Price Index (CPPI) is a periodic same-property investment price change index of the U.S. commercial investment market based on Real Capital Analytics (RCA) data. RCA collects price information for every commercial property transaction in the U.S. that is over $2,500,000. The index tracks same-property realized round-trip price changes based purely on the documented prices in completed, contemporary property transactions. The methodology is an extension of market-accepted regression-based, repeat-sales indices and uses no appraisal valuations.

- Following a 1.1% rise in May, the National All-Property Composite Index ("the Index") increased nearly 1.0% in June. The Index is now 12.3% above the pre-crisis peak set in late 2007.
- During 2Q15, CBD-office (+5.6%) witnessed the strongest price gain. Price increases within the suburban office sector matched the Index gain for 2Q15 while returns lagged within the retail (+2.0%) and industrial (0.0%) sectors.
- During the past 12 months, CBD-office properties were the best performing asset type, returning 24.1%. Returns within the suburban office (+16.8%), apartment (+14.5%), industrial (+12.8%) and retail (+11.3%) sectors underperformed the Index return of 15.7% during this time period.
- During the past three months, pricing increased faster within major markets (+4.1%) than in non-major markets (+3.3%), a trend similar to the prior 12-month period.
- Major market prices exceeded the 2007 pre-crisis peak level by roughly 29.0% in comparison to non-major market prices, which are still about 1.0% below pre-crisis peak levels.
- The Index has recovered 130.0% of its post-crisis loss. Apartment (+180.5%) and CBD-office (+177.0%) assets lead all commercial sectors in price recovery since bottoming in late 2009/early 2010. Price recovery within the industrial (+104.0%), retail (+82.0%) and suburban office (+78.0%) sectors continues, albeit at a slower pace than the national average.

Below is a graph detailing changes within the CPPI since June 2005.

Moody's/RCA Commercial Property Price Index

National Index – All Properties



Below is a chart illustrating annual price returns for the primary sectors within the CPPI since 2013.

Moody's/RCA CPPI Annual Returns 2013 to 1Q15 by Sector/Type	2013	2014	2Q15*
Industrial	9.7%	15.4%	12.8%
Office	17.9%	13.9%	20.0%
CBD	19.7%	13.2%	24.1%
Suburban	15.9%	14.7%	15.3%
Retail	22.2%	6.5%	11.3%
Apartment	13.5%	14.8%	14.5%
Major Markets	16.6%	13.8%	17.7%
Non-Major Markets	16.0%	12.2%	13.8%
National All-Property	9.0%	16.3%	15.7%

* Represents 12-month period ending June 2015

Green Street Commercial Property Price Index

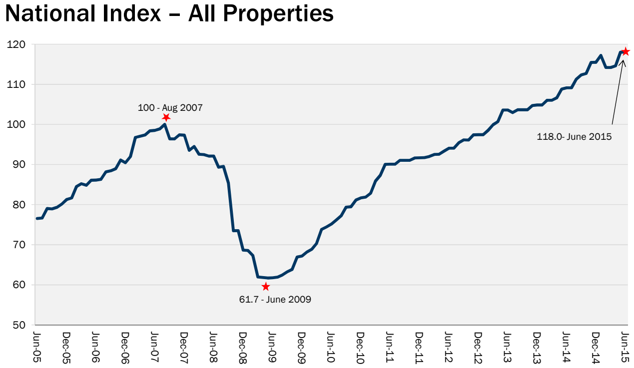
Green Street's Commercial Property Price Index is a time series of unleveraged U.S. commercial property values that captures the prices at which commercial real estate transactions are currently being negotiated and contracted. Features that differentiate this index are its timeliness, emphasis on institutional quality properties, and ability to capture changes in the aggregate value of the commercial property sector.

The Green Street Commercial Property Price Index was unchanged in June. Still, property values have increased 5.0% during the first half of 2015 and prices of institutional-quality commercial real estate are estimated to be approximately 18.0% above the prior peak levels reached in 2007. Peter Rothemund, an analyst with Green Street Advisors, noted, "Property prices have had quite a run over the past few years, but going forward, we're likely to see smaller gains."

Below is a graph detailing changes since June 2005.

Green Street Commercial Property Price Index

National Index – All Properties



Commercial Property Sales Analysis

Despite a slowdown during 2Q15, investment sales activity remained robust during the first half of 2015 as investors continued to add commercial real estate assets to their portfolios in search of higher yields in relation to other investment vehicles. There is still intense competition for primary assets, which is forcing buyers to be very competitive in submitting bids; this has been driving prices up and returns down and should, in the short-term, help maintain values. Real Capital Analytics reported that sale volume registered $244.1 billion (excluding commercial land) during the first six months of 2015, representing a 38.0% increase YoY. Annualized, investment sales volume is projected to reach about $488 billion in 2015, which would represent nearly a 20.0% increase from last year

Below we take a look at sales activity by product type.

- **Apartment:** About $63 billion of apartment sales activity was recorded during the first half of 2015, an increase of 38.0% from this time last year; however, the velocity of activity slowed during 2Q15 from the prior quarter. The mid/high-rise sector accounted for the slowdown during the latest quarter as sales fell 26.0% since 1Q15. Annualized, sales volume is projected to reach $126 billion in 2015, a 12.0% increase from 2014.
- **Retail:** Sales of retail assets totaled nearly $46 billion during the first two quarters of 2015, a 12.0% YoY increase. Sales volume increased 22.0% YoY during the latest quarter. The mall/other retail sector witnessed a sales increase of 14.0% during this period, besting the 8.0% increase in sales volume for strip center assets. Annualized, sales are projected to increase nearly 9.0% from 2014 to $91 billion.
- **Office:** Roughly $71 billion of office sales occurred during the first half of 2015, which is 36.0% ahead of the last year's pace and is the highest output among the commercial sectors. Investors were more active in the suburbs, where investments increased 50.0% YoY, as opposed to the 20.0% YoY increase within CBD markets. Annualized, sales are projected to reach nearly $143 billion in 2015, representing a 19.0% increase from 2014 output and the highest total since 2007.
- **Industrial**: During the first half of 2015, about $37 billion of industrial sales were closed, representing an increase of 70.0% YoY. This is the largest percentage increase among the commercial property types. Numerous high-profile portfolio sales drove activity, including multi-billion dollar transactions from Prologis and Indcor. During the first half of

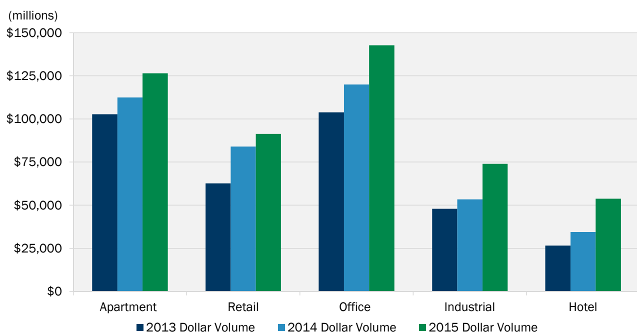
2015, warehouse sales volume increased 84.0% YoY, besting the flex sales volume increase of 31.0%. Annualized, industrial sales volume is projected to reach $74 billion in 2015, a 39.0% increase from 2014 levels.

- **Hotel**: Investors were bullish on hotel assets during the first half of 2015, as investment volume recorded a 68.0% YoY increase to reach nearly $27 billion. Full-service hotels accounted for 70.0% of hotel sale volume since 2014 as sales activity increased 72.0% YoY. Annualized, hotel sales volume is projected to reach almost $54 billion, a 55.0% increase from 2014 activity and the highest annual volume since 2007.

2013 to 2015 sales transaction activity by property type is summarized in the below table.

Investment Sales Activity

Dollar Value of Sales Transactions by Property Type



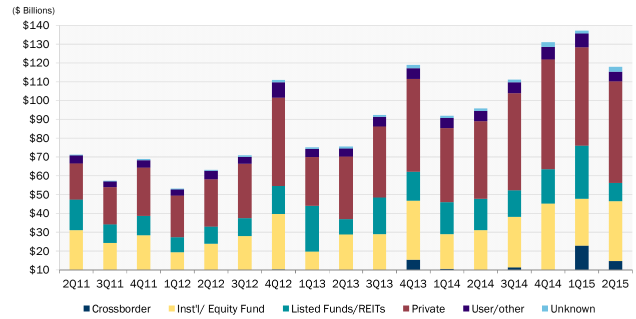
Source: Real Capital Analytics: 2015 volume annualized based on 2Q15 data

In addition to the preceding data, we have also analyzed RCA historical sales activity by buyer type.

- Although cross border investment fell during 2Q15, this investor group has executed nearly $38 billion in sales since 2014. This nearly equals total sales volume recorded during 2014 and represents the highest back-to-back quarterly total since RCA began tracking investment sales in 2001.
- Private buyers continued as the most active buyers of real estate as their share of total real estate investment activity accounted for 46.0% of transaction volume during 2Q15. Since 2014, private buyers have acquired $106 billion of commercial real estate assets.
- Acquisition volume from institutional/equity buyers increased during 2Q15 to nearly $32 billion. This represented 27.0% of total sales activity. Average sales volume of $27.5 billion was recorded during the prior four quarters.
- Acquisition volume decreased to $9.7 billion for listed funds/REITs during 2Q15, considerably less than the $28 billion recorded during the prior quarter. During 2014, a quarterly average of $16.5 billion was recorded.

Investment Sales Activity

Summary of Transactions by Buyer



Source: Real Capital Analytics

Distressed Sales

- The percentage of commercial sales associated with distress, approximately 2.3%, recorded a slight increase since 1Q15 after six consecutive quarterly declines. Current distress levels are still at their lowest level since 2008.
- Historically, RCA reported that the percentage of sales associated with distress peaked at nearly 21.0% towards the end of 2010.
- During 2Q15, about 3.8% of hotel sales involved distressed properties, the highest among the major property types; however, this is lower than the prior four-quarter moving average of 5.6%.
- Distress associated with office sales increased 200 BPS to 3.7% since last quarter. At this time last year, 6.2% of all office sales were associated with distress.
- Only 1.4% of the 2Q15 industrial sale transactions were associated with distress, the lowest quarterly percentage among the property types. During 2Q15, 2.2% of industrial sales transactions were associated with distress.
- Distress associated with apartment sales increased 30 BPS to 1.7% from the prior quarter. Still, the current level is lower than the 4.1% registered in 2Q14.
- Distress associated with retail sales fell 50 BPS since 1Q15 to 1.6%, representing the lowest level of distress since the end of 2008

Below is a chart detailing the percentage of sales associated with distress during the past three years.

% of Sales Associated with Distress (Sales in Billions)				
	Non-Distress	Distress	% of Total	% Change
2Q12	$56.07	$8.27	12.9%	1.1%
3Q12	$65.24	$8.27	11.2%	-1.6%
4Q12	$109.92	$6.96	6.0%	-5.3%
1Q13	$71.42	$6.38	8.2%	2.2%
2Q13	$71.03	$6.14	8.0%	-0.2%
3Q13	$87.45	$8.23	8.6%	0.6%
4Q13	$112.99	$9.84	8.0%	-0.6%
1Q14	$87.99	$6.05	6.4%	-1.6%
2Q14	$94.23	$4.61	4.7%	-1.8%
3Q14	$114.33	$4.32	3.6%	-1.0%
4Q14	$131.10	$3.85	2.8%	-0.8%
1Q15	$138.50	$2.55	1.8%	-1.0%
2Q15	$122.54	$2.85	2.3%	0.5%

Source: RCA (Excludes Casinos)

Significant 2Q15 Sales Transactions

The following tables summarize noteworthy sales executed during 2Q15 in the major commercial real estate sectors.

Office Sale Transactions				
Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer(s)
233 S Wacker Drive - Willis Tower	Chicago, IL	3,859,845	$1,300.0	The Blackstone Group LP
230 Park Avenue - The Helmsley Bldg	New York, NY	1,406,044	$1,207.0	RXR Realty
7 Bryant Park	New York, NY	473,672	$596.9	Bank of China
350 North Orleans Street	Chicago, IL	1,307,496	$378.0	The Blackstone Group LP
757 Third Avenue	New York, NY	504,953	$362.0	Bentall Kennedy
1 South Wacker Drive	Chicago, IL	1,195,170	$344.0	John Hancock Real Estate
1375 Broadway	New York, NY	513,401	$310.0	Westbrook Partners

Source: CoStar

Industrial/Flex Sale Transactions				
Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer
Sunnyvale Crossing (6)	Sunnyvale, CA	263,911	$117.0	CBRE Global Investors Ltd
The Campus (4)	San Jose, CA	252,675	$95.9	MetLife
Seattle Logistics Center (2)	Seattle, WA	36,058	$63.3	Prologis
Plymouth Corporate Center	Plymouth, MI	628,437	$62.5	STAG industrial Management, LLC
Port Commerce Center (4)	Tacoma, WA	1,027,356	$57.2	Principal Global Investors LLC
Goodman Logistics Center	Oakland, CA	374,725	$52.5	Bentall Kennedy (U.S.) Limited Partnership
FedEx Warehouse	Carteret, NJ	232,000	$49.5	TIAA-CREF

Source: CoStar

Retail Sale Transactions				
Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer
Palm Beach Outlets	West Palm Beach, FL	460,000	$278.4	Clarion Partners and New England Development
The Promenade	Los Angeles, CA	248,841	$111.0	Laurus Corporation
White City Shopping Center (9)	Shrewsbury, MA	256,398	$96.8	Inland Real Estate Income Trust, Inc.
Arboretum of South Barrington (15)	South Barrington, IL	410,760	$94.0	Starwood Retail Partners
Willowbrook Plaza (10)	Houston, TX	384,144	$74.0	DDR Corp.
Torrance Crossroads (5)	Torrance, CA	149,161	$65.4	Cornerstone Real Estate Advisers, LLC
Settlers Market (13)	Williamsburg, VA	243,463	$61.2	AEW Capital Management

Source: CoStar

Multi-Family Sale Transactions				
Name	City, State	Units	Sale Price ($ mil)	Buyer(s)
Bell Flatirons	Superior, CO	1,206	$254.5	Bell Partners, Inc.
Peters Field Apartments	New York, NY	199	$167.5	Akelius Real Estate Management Ltd.
CasaLago Eastlake	Chula Vista, CA	427	$142.5	John Hancock Life Insurance Company (U.S.A)
Icon at Dulles Station	Herndon, VA	457	$134.8	Dweck Properties
315 On A	Boston, MA	202	$130.3	Equity Residential
Avana at Forbes Creek	Kirkland, WA	496	$128.0	Greystar Real Estate Partners
Burnham Pointe at Printers Row	Chicago, IL	298	$126.0	Crescent Heights

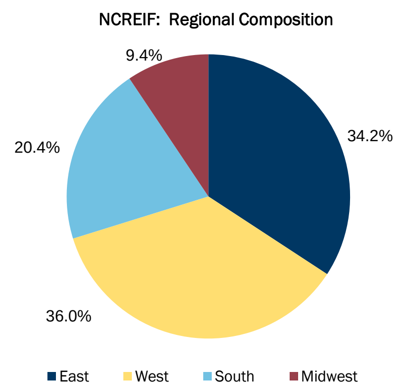
Source: CoStar

Hospitality Sale Transactions				
Name	City, State	Rooms	Sale Price ($ mil)	Buyer
The Phoenician	Scottsdale, AZ	643	$400.0	Host Hotels & Resorts, L.P.
New York Marriot East Side	New York, NY	655	$270.0	Deka Immobilien and Ashkenazy Acquisition Corp.
Fairmont Orchid Hotel	Kamuela, HI	538	$200.3	Mirae Asset Global Investments (USA) LLC
Four Seasons Hotel	Austin, TX	291	$197.0	Strategic Hotels & Resorts, Inc.
La Playa Beach Resort & Beach Club	Naples, FL	189	$185.5	Pebblebrook Hotel Trust
Mandarin Oriental San Francisco	San Francisco, CA	158	$141.3	Loews Corporation
SLS South Beach Hotel	Miami, FL	140	$125.0	The Amiri Group & GoldenPeaks Capital Holdings

Source: CoStar

NCREIF Property Index

The NCREIF (National Council of Real Estate Investment Fiduciaries) Property Index (NPI) is a quarterly time series composite total rate of return measure of investment performance of individual commercial real estate properties acquired in the private market for investment purposes only. Properties in the NPI are accounted for using market value accounting standards. NCREIF requires that properties included in the NPI be valued at least quarterly using standard commercial real estate appraisal methodology. Each property must be independently appraised a minimum of once every three years. The capital value component of return is predominately the product of property appraisals. When entering the NPI, properties must be 60% occupied; investment returns are reported on a non-leveraged basis and properties must be owned/controlled by a qualified tax-exempt institutional investor or its designated agent.



NPI General Recap

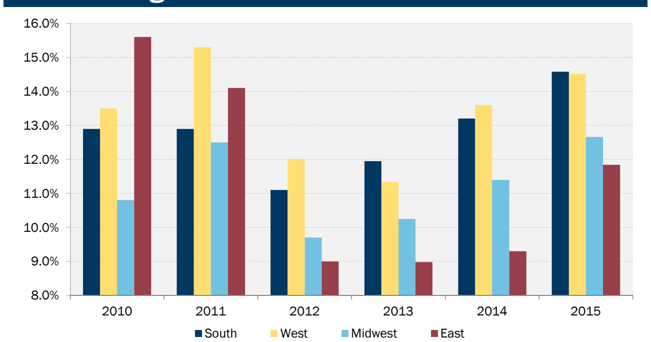
- NCREIF reported the 22nd consecutive quarter of positive growth during 2Q15. The NPI total return was 3.14%, comprised of a 1.26% income return and a 1.88% capital appreciation return.
- Total one-year returns registered 13.0%, about 30 BPS higher than the average annualized return during the past five years.
- Catherine Polleys, member of NCREIF's Board of Directors and Partner at Aon Hewitt remarked, "Real estate returns continue to linger at well above the sector's long run average, especially for this stage in the maturation of the U.S. property cycle. Real estate's strong relative asset class performance is largely being driven by strong global capital flow, extremely low interest rates, and still rising net operating income."

NPI Annualized Returns by United States Region

- Spreads between the best and worst performing regions lessened during 2Q15, registering 52 BPS (3.44% vs. 2.92%). The spread was 123 BPS (4.22% vs. 2.99%) last quarter.
- 2Q15 returns decreased within all four regions of the U.S. since the prior quarter.
- Price appreciation in the East again trailed the other regions, returning 2.92% during 2Q15. The current return was comprised of 1.22% income and 1.70% appreciation. One-year returns have registered 11.0%.
- Property returns were strongest in the West, registering 3.44% during 2Q15. One year returns registered 14.5%, the highest among the regions. The current quarterly return was comprised of 1.20% income and 2.24% appreciation.
- The South realized gains of 3.07% during 2Q15, down 115 BPS from the prior quarter. The current return was comprised of 1.39% income and 2.83% appreciation. One year returns of 13.9% have occurred.
- Property returns in the Midwest decreased 37 BPS points from last quarter to 2.98%. The current return was comprised of 1.37% income and 1.61% appreciation. One year returns of 12.5% have been recorded.

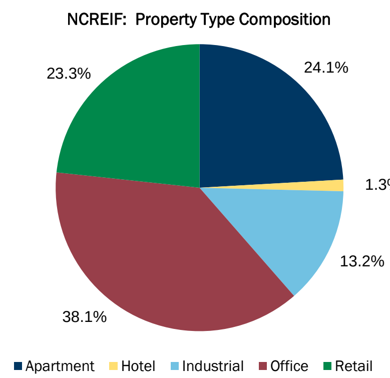
Below is a graph illustrating total returns by region since 2010. (2015 returns are annualized based on 2Q15 data)

NCREIF: Regional Total Returns



NPI Annualized Returns by Property Type

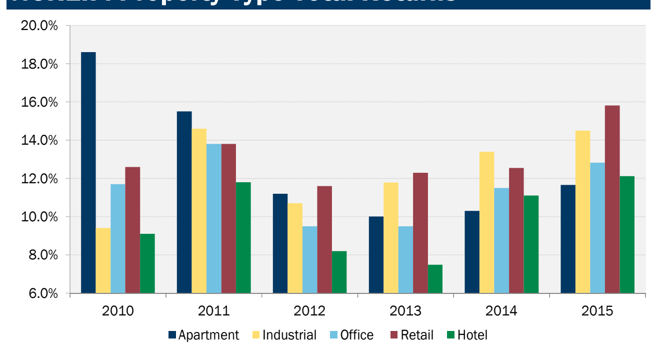
- After returning 4.93% during 1Q15, the highest of any property type, price appreciation within the retail sector slowed to 2.98% during 2Q15. Total one-year returns of 13.6% still exceeded the total index average by 60 BPS.
- Apartment returns increased 13 BPS from the prior quarter to 2.98%. Despite the rise, one-year returns registered 11.6%, the lowest among the property types. NCREIF reported that the apartment sector was the first major property sector to mature after the financial crisis and was the leading property type regarding performance for several years before the current slowdown in price appreciation.
- The office sector posted a 3.11% return during 2Q15; this latest reading represented a 19 BPS decrease from the prior quarter. One-year returns fell slightly below the total index return of 13.0%.
- The industrial sector returned 3.78% during 2Q15, the highest among the property sectors. This represented a 31 BPS increase from the prior quarter. One year returns of 14.8% led all property types.



- The hotel sector recorded the largest price appreciation during 2Q15 as returns increased 102 BPS from the prior quarter to 3.54%. One-year returns of 14.0% were second highest among the five major property sectors.

Below is a graph illustrating total returns by property type since 2010. (2015 returns are annualized based on 2Q15 data)

NCREIF: Property Type Total Returns



Equity REIT Analysis

FTSE National Association of REITS U.S. Real Estate Index

Comprised of 166 REITS, The Financial Times of London and the London Stock Exchange (FTSE) NAREIT All Equity REITs Index declined 5.4% during the first half 2015. This lagged the 16.3% return posted during this same period last year and underperformed the DJIA, S&P 500 and NASDAQ stock market indices. Last year, the NAREIT All Equity REITs Index returned 28.0%.

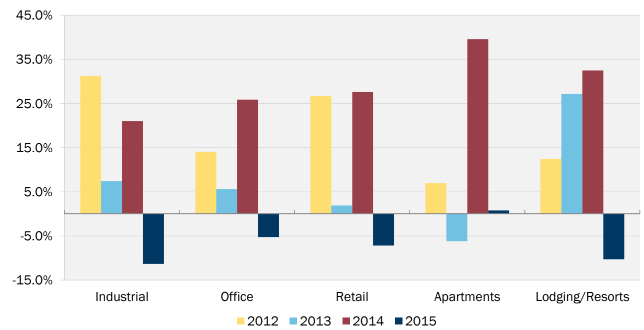
The poor performance of the REIT sector was largely attributed to concerns over potential interest rates hikes later in the year. Still, analysts, such as Todd Lukasik at Morningstar, believe the majority of REITs have improved their balance sheets since the economic downturn and appear to be more conservatively leveraged than during the prior real estate boom of the mid-2000's. He goes on saying that higher interest rates are likely to have a minimal impact on Morningstar's value estimates for U.S. REITs as upcoming maturities for many U.S. REITs still carry interest rates that exceed borrowing costs. Other analysts believe that REIT earnings and balance sheets remain attractive, but will not sustain momentum until the timing of interest rate increases are better known.

Below is a brief overview of selected commercial real estate sector performance during the first half of 2015.

- Apartments REITs were the only major property sector to post a positive return during the first half of 2015. Still, the sector recorded a 7.0% loss during 2Q15 after returning 7.8% return in 1Q15. During the first half of 2014, a 23.5% return was realized. Analysts are still generally upbeat regarding the sector, given steady demand for rentals, falling home ownership rates and favorable demographics.
- After returning 6.7% during 1Q15, office sector REITs lost 5.3% during the first half of 2015. Through the first six months of 2014, office REITs returned 17.8% and returned 26.0% for 2014. Despite the first half struggle, the economic recovery continues to improve fundamentals and analyst expectations within the sector.
- Industrial REITs fared the worst since 2014, as the sector lost 11.3% during the first half of 2015. During the first six months of 2014, a 13.1% return was realized within the sector. Despite the slow start, demand for big box distribution warehouse space in primary markets, driven by a growing e-commerce market, remains strong.
- Retail REITS recorded a negative 7.2% return during the first half of 2015 after posting returns of nearly 6.0% during 1Q15. Last year, a 27.6% return occurred within the sector. Returns were weakest within free standing and strongest within the regional mall subsector. Despite growing economic confidence and more disposable income, cautious optimism exists among consumers.
- After providing healthy returns to investors during 2014, when lodging/resorts REITs returned 33.0%, the momentum has disappeared. During the first half of 2015, a negative 10.4% return was generated despite improving economic conditions that led to increased occupancy levels and RevPAR for hotels/motels. A 17.3% return was realized this time last year, the highest among the commercial sectors.

Below is a graph illustrating total returns by property sector since 2012.

FTSE NAREIT REIT Performance by Subsector



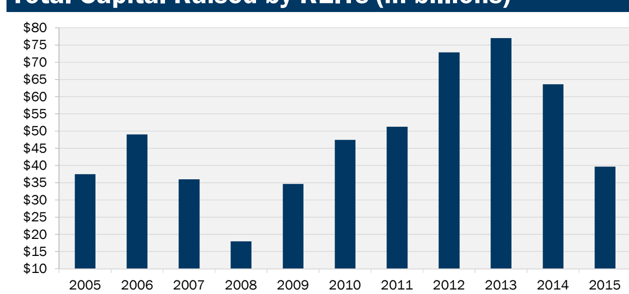
Capital Raising Falls During 2Q15

REITs continue to take advantage of investor demand for high returns and attractive dividends at a time of low interest rates. REITs raised approximately $39.7 billion during the first half of 2015, increasing output recorded during this time period last year by 13.0%. Still, capital raising fell to $17.6 billion during 2Q15 from $22.1 billion a quarter earlier. In 2014, REITs raised approximately $64 billion.

The majority of analysts and REIT investors continue to see strength in the operating environment for REITs given the attractive fundamentals within the commercial real estate industry.

Below is a graph showing the total capital raised by REITs since 2005.

Total Capital Raised by REITs (in billions)



Source: NAREIT/ SNL Financial

Initial Public Offerings

According to SNL Financial and NAREIT, four new REIT IPOs were priced during the first half of 2015. In January, InfraREIT Inc., owner of electric transmission and distribution assets in Texas, went public and raised a total of $529 million. In February, Easterly Government Properties, focusing on general services administration commercial properties in the U.S., raised $207 million. In April, National Storage Affiliates Trust, focusing on self storage facilities across the top U.S. metro areas, raised $299 billion. Community Healthcare Trust, Inc., interested primarily in the acquisition of smaller ancillary healthcare properties in non-urban markets, raised $137 million in May. Last year, five new equity REIT's launched IPO's, led by Paramount Group Inc. This office building landlord, with a portfolio in New York City, Washington DC and San Francisco, raised an initial $2.29 billion in its IPO in November, becoming the largest IPO by a U.S. REIT.

Below is a chart highlighting REIT IPO's executed since 2013. The total raised is inclusive of the Greenshoe option, a special provision in an IPO prospectus allowing underwriters to sell investors more shares than originally planned by the issuer.

Equity REIT Initial Public Offerings (IPO's)
(shares amd total in S/millions)

Name	Stock Symbol	Primary Industry	Comp. Date	Shares Priced	Total Raised
2015					
Community Healthcare Trust Inc.	CHCT	Infrastructure	May-15	19.0	$137
National Storage Affiliates Trust	NSA	Infrastructure	Apr-15	13.0	$299
Easterly Government Properties, Inc.	DEA	Infrastructure	Feb-15	15.0	$207
InfraREIT, Inc.	HIFR	Infrastructure	Jan-15	23.0	$529
2014					
Paramount Group, Inc.	PGRE	Office	Nov-14	150.7	$2,636
STORE Capital Corporation	STOR	Retail	Nov-14	31.6	$585
Farmland Partners Inc.	FPI	Farmland	Apr-14	4.4	$61
Bluerock Residential Growth REIT, Inc.	BRG	Apartments	Mar-14	4.0	$57
Outfront Media Inc.[1]	OUT	Billboards	Mar-14	23.0	$644
2013					
CatchMark Timber Trust, Inc.	CTT	Timber	Dec-13	12.1	$163
Brixmor Property Group Inc.	BRX	Shopping Center	Oct-13	47.4	$949
QTS Realty Trust, Inc.	QTS	Data Center	Oct-13	14.1	$296
Empire State Realty Trust, Inc.	ESRT	Office	Oct-13	82.2	$1,069
Independence Realty Trust, Inc	IRT	Apartments	Aug-13	4.6	$39
American Homes 4 Rent	AMH	Single-Family Res.	Jul-13	50.7	$812
Physicians Realty Trust	DOC	Office	Jul-13	18.4	$138
Rexford Industrial Realty, Inc.	REXR	Industrial	Jul-13	12.0	$258
American Residential Properties, Inc.	ARPI	Single-Family Res.	May-13	15.8	$331
Armada Hoffler Properties, Inc.	AHH	Diversified	May-13	19.0	$219
Aviv REIT, Inc.	AVIV	Health Care	Mar-13	15.2	$304
Gladstone Land Corporation	LAND	Farmland	Jan-13	3.8	$58
CyrusOne Inc.	CONE	Data Center	Jan-13	19.0	$361

[1] formerly CBS Outdoor Americas Inc.

Source: NAREIT/ SNL Financial

Equity REIT Returns Versus Leading Indices

During the first half of 2015, REIT returns have lagged those of the leading stock indices. Last year, REIT performance topped the three leading stock indices and broader U.S. stock market after underperforming in 2013. Although concerns persist regarding future interest rate increases, many analysts are still bullish on future REIT performance and are predicting healthy deal activity for the second half of 2015, as supported by steady capital flows into U.S. real estate, strong corporate balance sheets, reasonable valuations and attractive dividend yields.

Below is a chart highlighting the annual returns of Equity REITs in comparison to several of the leading stock indices.

Index	2010	2011	2012	2013	2014	2015	2010-2014 avg
Equity REIT	28.0%	8.3%	19.7%	2.9%	28.0%	-5.4%	**17.4%**
NASDAQ	26.9%	-4.2%	14.6%	12.1%	13.4%	5.3%	12.6%
S&P 500	16.9%	-1.8%	15.9%	38.3%	11.4%	0.2%	16.1%
DJIA	15.1%	2.1%	13.4%	29.6%	7.5%	-1.1%	13.5%

Source: Yahoo finance; *Data as of June 30, 2015

Source: NAREIT/ Yahoo Finance, Marketwatch

Commercial Lending

The Mortgage Bankers Association's (MBA) Quarterly Survey of Commercial/Multi-Family Mortgage Bankers Originations reported that 2Q15 commercial and multi-family mortgage loan originations increased 16.0% from the prior quarter and 29.0% compared to the same period last year. All major property types, except industrial and health care, recorded increases during 2Q15 from the prior quarter. Loans for industrial properties were especially strong, rising 81.0% from the prior quarter. Hotel loans also recorded a sizeable increase, rising 46.0% from the prior quarter.

Jamie Woodwell, MBA's Vice President of Commercial Real Estate Research, stated, "Driven by increasing property values, improving property fundamentals and still low interest rates, commercial and multi-family lending and borrowing continued its strong pace in the second quarter. The rate of YoY growth slowed from the first quarter, but year-to-date lending is up for every major lender group. Mortgage bankers' originations for Fannie Mae and Freddie Mac are near record quarterly levels."

Below, lending activity by property and investor type is summarized.

Lending Activity 2Q 2015

Type	% Change since 2Q 2014	% Change since 1Q 2015
Property Type		
Industrial	32.0%	-60.0%
Multi-Family	58.0%	22.0%
Office	22.0%	14.0%
Retail	17.0%	81.0%
Hotel	16.0%	46.0%
Health Care	-50.0%	-11.0%
Investor Type		
CMBS/Conduits	-17.0%	-10.0%
Commercial Banks	64.0%	45.0%
Life Insurance Co.	14.0%	10.0%
GSE's (FNMA/FHLMC)	113.0%	4.0%
Overall	**29.0%**	**16.0%**

Source: Mortgage Bankers Association

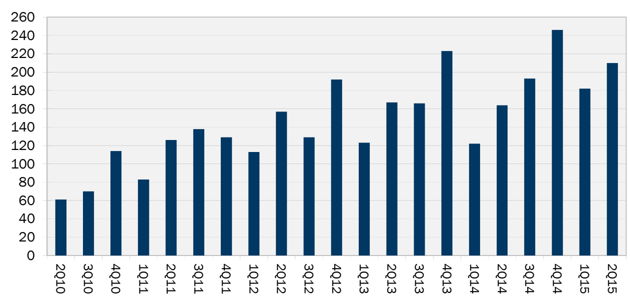
Among investor types, loans originated for Government Sponsored Enterprises (GSE's) increased 113.0% YoY, outpacing increases for commercial banks (+64.0%) and life insurance companies (+14.0%) during this period. Since the prior quarter, loans originated for commercial banks increased 45.0%, the highest among investor types. Loans originated for CMBS/conduits declined from both the previous year and quarter.

The July 2015 Senior Loan Officer Opinion Survey on Banking Lending Practices showed that demand for commercial real estate loans remained essentially unchanged from the previous quarter. It was reported that a smaller number of banks eased standards on construction and land development loans and that standards for loans secured by multi-family residential properties moved little during the past three months. A modest net fraction of banks reported easing lending standards on loans secured by nonfarm, nonresidential properties such as office buildings.

Below is a graph depicting the frequency of commercial/multi-family loan originations since 2Q10.

Commercial/Multi-Family Mortgage Bankers Origination Index

2001 Quarterly Average = 100



Source: Commercial Mortgage Bankers Association

Commercial Mortgage Backed Securities (CMBS) Market

The revitalization of the CMBS market continues as a vital action for the recovery of the commercial real-estate market, with owners and developers receiving the majority of their financing during the past decade through the securities market.

CMBS Issuances

According to data from Commercial Mortgage Alert (CMA), CMBS issuances registered $27.5 billion during 2Q15, following $27.0 billion during 1Q15. The first half of 2015 total of $54.5 billion represented a 33.0% increase from the $40.8 billion recorded during this same period last year. In 2014, $94 billion of CMBS issuances were priced, which was the highest annual total since 2007.

Hotels were the primary property type collateralizing loans securitzed during the first half of 2015, as hotel mortgages accounted for nearly 24.0% of U.S. collateral. Office mortgages accounted for 23.0% of collateral. Although single-borrower deals fell during 2Q15, the 36.0% first half share was up from 27.0% at this time last year.

Similar to the past several years, Deutsche Bank served as the top book runner, underwriting approximately $10.5 billion of transactions since 2014. Other firms underwriting more than $5 billion during this period included Wells Fargo, J.P. Morgan Stanley and Credit Suisse.

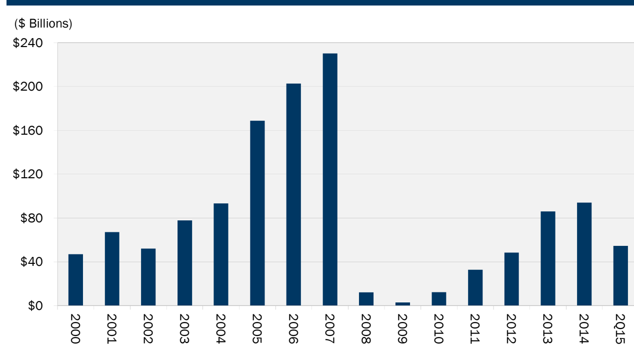
Top U.S. CMBS Underwriters

Firm	Issuance ($Mil)	Market Share
Deutsche Bank	$10,457	19.2%
Wells Fargo	$9,134	16.8%
J.P. Morgan	$6,107	11.2%
Morgan Stanley	$5,727	10.5%
Credit Suisse	$5,162	9.5%
Bank of America	$4,794	8.8%
Goldman Sachs	$4,661	8.6%
Citigroup	$4,477	8.2%
Barclays	$3,723	6.8%
Scotiabank	$125	0.2%
Jefferies	$68	0.1%

Source: Commercial Mortgage Alert

Looking ahead, CMA revealed that nearly $19 billion of transactions are in the queue for the third quarter. Lenders indicated continued momentum in CMBS issuance during the second half of the year, partly due to the increase in demand from borrowers needing to refinance loans in late 2005 and 2006.

U.S. CMBS Issuance



Source: Commercial Mortgage Alert

CMBS Delinquency

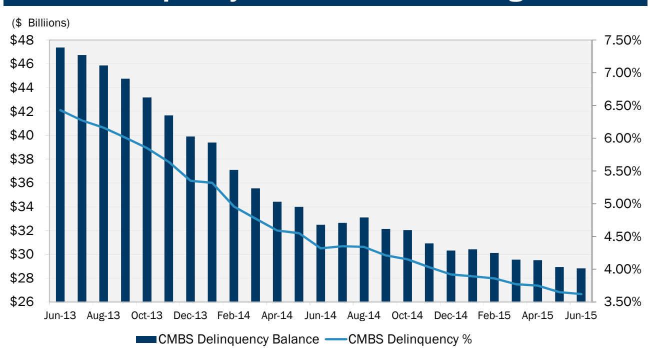
According to Morningstar, CMBS delinquency rates and unpaid balances continue to fall, both of which are positive signs for the commercial real estate debt markets. In June, the U.S. CMBS delinquency rate decreased for the eleventh consecutive month, falling to 3.62%. During the prior 12-month period, delinquency rates averaged 4.02%.

- The delinquent unpaid balance for CMBS fell to $28.8 billion in June, its lowest level in nearly six years. Just 12 months earlier, the unpaid balance for CMBS stood at $32.5 billion.

- By type, industrial properties have the highest delinquency rates (5.7%), followed by office (5.5%), retail (5.0%), hotel (3.2%) and multi-family (2.0%).
- Retail loan delinquencies have been the greatest contributor to CMBS delinquencies during the past 12 months at 30.3%; but have fallen by $211 million since June 2014.
- Office loans represent 30.2% of CMBS delinquencies, but are down $1.1 billion from a year ago.
- Multi-family loans represent 19.7% of CMBS delinquencies, but have declined by about $1.1 billion from a year ago.
- Both industrial and hotel loan delinquencies, accounting for 9.2% and 5.1% of total CMBS delinquencies, respectively, continue to decline.
- Larger loan vintages between 2005 and 2007 continue to default and cause delinquencies resulting from aggressive pro-forma underwriting and market conditions. Approximately 87.0% of the delinquent unpaid balance through June 2015 resulted from such loans.

Below is a chart depicting monthly CMBS delinquencies since June 2013.

CMBS Delinquency Balance vs. Percentage



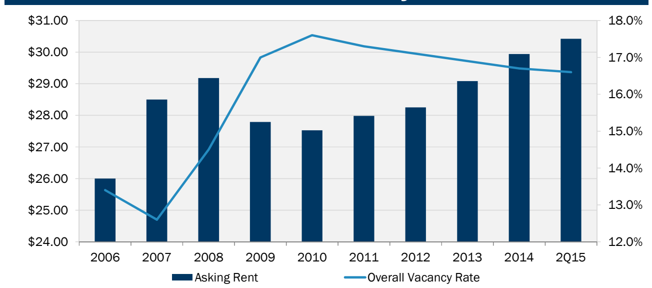
Source: Morningstar

Property Sector Overviews

Office

- According to Reis Inc., the national office vacancy rate remained at 16.6% during 2Q15. Vacancy rates have fallen 100 BPS since peaking at 17.6% after the recession in 2010.
- It is estimated that CBD vacancy rates (13.3%) are 500 BPS below suburban vacancy rates (18.3%); however, it was estimated that suburban vacancy rates compressed by a greater percentage during 2Q15.
- Despite little change in vacancy rates, Reis reported that overall net absorption totaled 8.4 million sf during 2Q15 and continued to gradually trend upwards despite efforts by tenants to improve space efficiency by moving into denser space.
- Asking and effective rental rates both increased 0.7% during 2Q15. YoY, rental rates have increased approximately 3.2%.

Office Market: Rents vs. Vacancy Rates



Source: Reis, Inc.

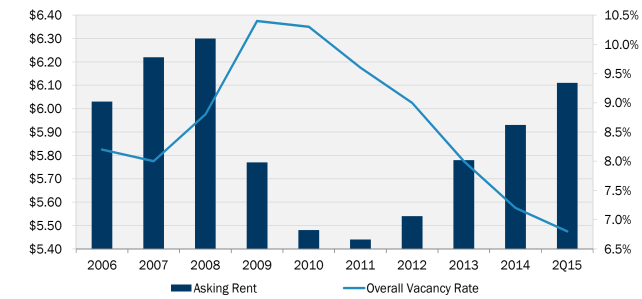
- Sustained office employment growth is a critical factor to sector recovery. During the first half of 2015, about 417,000 jobs were created within the information services, financial activities and professional and business services sectors, up 2.0% from this same period last year.
- During 2Q15, new construction completions registered 8.3 million sf, considerably higher than the 4.5 million sf recorded during the prior quarter. Last year, an average of nearly 7.0 million sf of office completions occurred per quarter.
- According to Reis, Washington DC (9.3%) and New York City (9.6%) remain the tightest major office markets. Detroit (25.3%), Phoenix (25.3%) and Las Vegas (24.8%) have the highest vacancies.

Industrial

- Demand drivers in the industrial market appear to be improving. After declining earlier in the year, the ISM manufacturing index began to stabilize in April and turned upwards in May and June. New orders have increased since bottoming in March, which is an indication that manufacturing growth will persist into the upcoming months. Additionally, the automobile sector, a key driver of space demand, remains robust, as sales during the first half of 2015 have eclipsed totals recorded at this point last year.
- Market fundamentals continued to improve, characterized by falling vacancy rates and increasing rental rates.

- According to CoStar, the national industrial vacancy rate declined to 6.8% and is at a historically low level. In response to increased demand, developers delivered 39 million sf of new product in 2Q15, helping the market absorb nearly 58 million sf during the quarter.

Industrial Market: Rents vs. Vacancy Rates



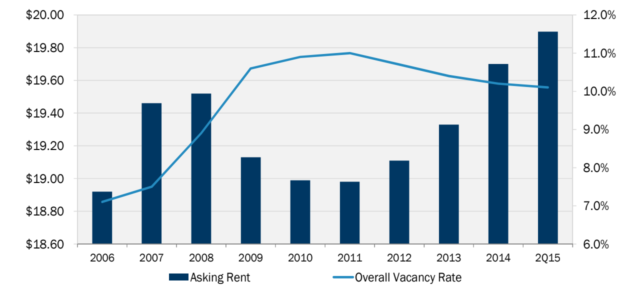
Source: Costar (reflects select markets)

- Robust demand for build-to-suit projects, primarily driven by the rapidly growing e-commerce industry and need for modern fulfillment centers and distribution centers, continues.
- The backlog of cargo resulting from the west coast port slowdown continues to ease as congestion has lessened in port locations such as Los Angeles, Long Beach and Seattle. This has increased the movement of goods from overseas to factories and retail centers in the U.S.

Retail

- Slow improvement in the retail sector continued during 2Q15. Although consumer confidence increased in June, retail spending fell during the month following a 1.0% increase in May.
- Neighborhood and community center vacancy rates held steady at 10.1% during 2Q15 and asking and effective rental rates grew by 0.5% and 0.6%, respectively. Overall vacancy rates for the regional mall sector remained unchanged at 7.9%.
- E-commerce continues to force brick and mortar retailers to reconfigure and reposition stores by reducing their physical presence and closing and/or scaling back operations. Major national retailers announcing significant store closures in 2015 (greater than 100 stores) included Radio Shack, Office Depot, Dots, Wet Seal, Family Dollar, Deb Shops, Anna's Linens, Children's Place, Walgreens, Abercrombie & Fitch, Aeropostale, American Eagle Outfitters, Gap, Chico's and Izod.
- Rather than building new product, savvy developers are opting to reposition many older/obsolete retail assets in secondary markets.

Retail Market: Rents vs. Vacancy Rates



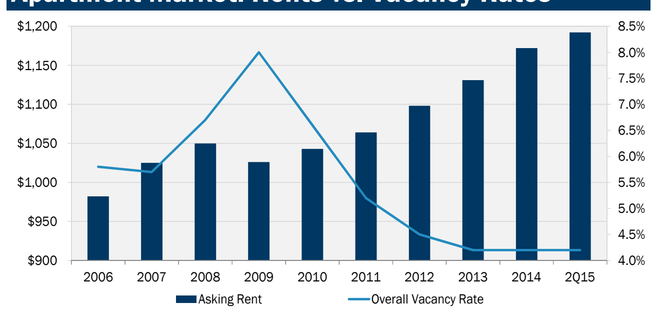
Source: Reis, Inc. (reflects neighborhood and community centers)

- Despite low levels of new construction (1.2 million sf of completions during 2Q15), Reis, Inc. reported that nearly 2.3 million sf of absorption occurred within the neighborhood and community center sector.

Apartment

- Market fundamentals within the multi-family sector remained resilient during 2Q15. Despite an influx of new completions, vacancy rates remain near cyclical low levels at 4.2% according to Reis, Inc.
- Rent growth strengthened as both asking and effective rental rates grew 1.1% during 2Q15, among the strongest quarters for such growth in three years. Landlords have increased rental rates for 22 consecutive quarters during a period when income growth has been generally stagnant.

Apartment Market: Rents vs. Vacancy Rates



Source: Reis, Inc.

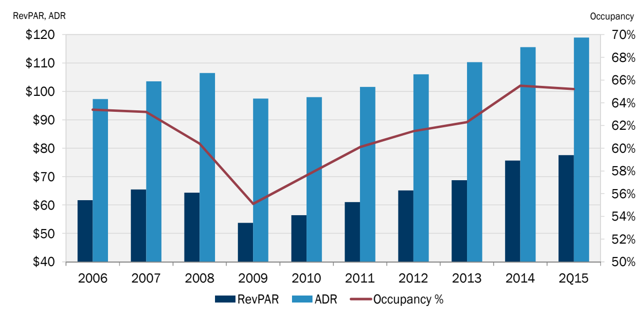
- As weather conditions improved, apartment deliveries escalated during 2Q15 as nearly 46,000 units were added to the inventory. This represented one of the highest quarterly totals since Reis, Inc. began publishing data in 1999.
- Steady investor interest and demand continues to allow landlords to maintain their focus away from increasing occupancy levels and instead on raising rental rates. Reis, Inc. reported that San Jose, New York, San Francisco, Oakland and Seattle reported the largest effective rent growth during 2Q15.
- There was also an increase in net absorption during 2Q15. Approximately 44,000 units were absorbed, an 18.0% increase from the prior quarter. Last year,

approximately 40,580 units were absorbed quarterly. This total is expected to increase during the next several quarters as previously stalled projects break ground, become available and get filled by renters.

Hotel

- Despite seasonal and monthly fluctuations, occupancy rates, RevPAR (revenue per available room) and ADR (average daily rate) continued to increase. Sustained lodging demand, driven by more leisure and corporate travel, has helped the sector.
- According to Smith Travel Research (STR), year-to-date (June 2015) U.S. lodging occupancy was up 2.3% to 65.2%, RevPAR increased about 7.0% to nearly $78 and ADR jumped 4.8% to $119 from this time last year. STR noted that RevPAR in the U.S has increased for 64 consecutive months.

Lodging Market: RevPAR, ADR & Occupancy



Source: Smith Travel Research, June 2015

- According to STR, the number of available U.S. hotel rooms topped five million for the first time ever. Additionally, it was reported that June demand of more than 109 million room nights sold was the highest for any June tracked by the company.

Property Forecast

- Commercial real estate momentum is expected to persist, characterized by sustained demand for space, gains in occupancy, growing absorption and continued rental rate growth; however, risks to the U.S. economy related to global uncertainty is a potential headwind.
- According to the latest reports, the Federal Reserve is expected to increase interest rates later in 2015, rumored to be in September. This action is not expected to impact real estate values in the short term.
- The pursuit of higher yields relative to other investments will continue to drive activity and interest in secondary markets and for second-tier quality properties in primary markets.
- Real estate allocations and the level of investment among institutional investors are expected to shift more to debt-side investment and away from equity-side investment until equity yields normalize to compensate for risk.
- Strong investment demand, especially from the foreign community, will continue to drive volume, intensify competition for trophy assets and keep pricing elevated as investors seek stability/value amid global uncertainty.
- CMBS issuances are forecasted to escalate upwards of $125 billion in 2015 as market participants prepare for a surge of maturing loans, a wave that will peak in 2016 and 2017.
- Capitalization rates are expected to remain generally stable during the next several quarters and yield positive value appreciation across all property sectors.
- Spreads between real estate cap rates and interest rates are expected to fall with the anticipated increase in interest rates.
- Readings from leading construction indices point to increased construction activity in the upcoming quarters.

Below is a property forecast for the major property types from 3Q15 to 3Q16.

	Forecast				
OFFICE	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016
Vacancy Rate	15.60%	15.50%	15.60%	15.50%	15.50%
Net Absorption ('000 sf)	13,050	14,220	15,565	12,850	15,133
Completions ('000 sf)	8,762	9,311	12,185	12,614	11,908
Rent Growth	0.90%	0.90%	0.90%	0.90%	0.90%

	Forecast				
INDUSTRIAL	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016
Vacancy Rate	8.30%	8.20%	8.30%	8.10%	8.00%
Net Absorption ('000 sf)	32,646	29,382	18,885	26,229	31,474
Completions ('000 sf)	25,350	16,609	15,397	22,728	21,262
Rent Growth	0.80%	0.90%	0.80%	0.70%	0.80%

	Forecast				
RETAIL	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016
Vacancy Rate	9.60%	9.50%	9.40%	9.20%	9.20%
Net Absorption ('000 sf)	2,841	5,028	5,693	45,858	3,803
Completions ('000 sf)	2,355	2,450	2,940	2,853	3,312
Rent Growth	0.70%	0.70%	0.60%	0.70%	0.90%

	Forecast				
MULTI-FAMILY	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016
Vacancy Rate	4.30%	4.40%	4.40%	4.40%	4.60%
Net Absorption (Units)	37,248	50,673	39,616	35,778	33,195
Completions (Units)	61,906	62,520	38,526	51,944	52,937
Rent Growth	0.90%	0.80%	0.90%	0.80%	0.80%

Source: National Association of Realtors/Reis, Inc.

Real Estate and Infrastructure Solutions

Every real estate client or stakeholder has unique objectives, constraints, operational circumstances and economic realities. The FTI Consulting Real Estate and Infrastructure Solutions Group has the deep bench of expertise and experience to help real estate owners, users, investors and lenders better navigate the market's complexities and manage the inherent risks in this climate. For more than three decades clients have relied on our creative and sound business solutions to turn these complexities into opportunities.

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- Interim Management Services
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- Bankruptcy Administration & Reporting
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