

Economic & Real Estate Report

Contents

Labor Market.....	3
Gross Domestic Product (GDP).....	4
Institute for Supply Management (ISM) Manufacturing Index.....	4
Construction Spending.....	5
The Architecture Billings Index (ABI)	6
State of the Housing Market.....	6
Housing Sales and Inventory	7
PwC Real Estate Investor Survey.....	8
2Q16 Survey Highlights	8
PwC Real Estate Barometer	9
Moody's/RCA Commercial Property Price Index (CPPI)	9
Green Street Commercial Property Price Index	10
Commercial Property Sales Analysis	10
NCREIF Property Index	12
NPI Annualized Returns by United States Region	12
NPI Annualized Returns by Property Type.....	13
Equity REIT Analysis	13
FTSE National Association of REITS U.S. Real Estate Index....	13
New Upcoming Real Estate GICS Sector.....	14
Equity REIT vs. Leading Stock Market Indices	14
Capital Raising	15
Commercial Lending	15
Commercial Mortgage Backed Securities (CMBS) Market.....	15
CMBS Issuances	15
CMBS Delinquency.....	16
Property Sector Overviews	16
Office	16
Industrial.....	17
Retail.....	18
Apartment.....	18
Hotel	18
Forecast.....	19

Introduction

As the U.S. enters its seventh year of recovery since the Great Recession, economic growth during the first half of 2016 was slower than expected. The advance estimate of 2Q16 GDP showed that the economy failed to generate any discernable momentum from the prior quarter, as growth recorded during the first two quarters was the lowest in five years. The recent slowdown was primarily driven by a decline in inventories, sluggish business spending, a retreat in homebuilding and falling government outlays, offsetting a surge in consumer spending, which grew at the strongest pace since 4Q14 and has supported the majority of recent economic growth.

The latest weak GDP reading is in contrast to numerous other positive economic indicators released in June, which show the U.S. economy has remained resilient in the face of global uncertainty. Job growth rebounded considerably from the prior month, consumer confidence and small business optimism increased, retail sales exceeded expectations, wage growth trended upwards, industrial production improved and housing market fundamentals remained robust, marked by pricing growth, positive builder sentiment, increasing sales activity and more healthy starts.

After an early year market correction, triggered by global volatility (specifically China), a strengthening U.S. dollar and falling oil and commodity prices, U.S. equity markets have recovered prior losses, supported by a weakening dollar, which has lost roughly 5.0% against major currencies since 2015, steady consumer spending and recovery within the manufacturing sector. Although the June vote for the United Kingdom to leave the European Union, commonly referred to as Brexit, initially sent U.S. equity markets lower, losses were largely recovered by the end of the second quarter.

At its July Federal Open Market Committee meeting, the Federal Reserve ("Fed") decided against a July interest rate increase, but signaled that greater labor market utilization and improving economic conditions may lead to an interest rate hike later in 2016.

Market fundamentals within the major property sectors were mostly positive during 2Q16 despite ongoing domestic and global challenges unique to each asset class. Although commercial property sales volume decreased during the first half of 2016 in comparison to this time last year, activity

accelerated in May and June. Data and analysis from leading real estate indices, including Green Street, CoStar and Moody's/RCA, were indicative of a rebound in commercial real estate pricing from the prior quarter, although performance varied by sector; however, NCREIF continued to report a deceleration of capital appreciation for real estate assets. The PwC Real Estate Investor Survey reported that the simple average cap rate (comprising the office, retail, apartment and industrial sectors) declined after remaining flat during the prior quarter.

Real estate debt market conditions have been cause for some concern. CMBS delinquency rates and unpaid balances further declined, but CMBS issuances recorded during the first half of 2016 decreased 45.0% year-over-year (YoY) due to fears regarding potential regulatory burdens and bond market setbacks. Commercial and multi-family loan originations were flat YoY and domestic banks reported that their lending standards for commercial real estate loans of all types tightened during 2Q16. Capital raising by REITs escalated during 2Q16, but totals recorded during the first half of 2016 have lagged activity recorded at this time last year.

The following summarizes current, key economic indicators:

- **GDP Grows Slowly.** The advance estimate showed that 2Q16 U.S. GDP increased at a 1.2% seasonally adjusted annualized rate, about half of consensus estimates. Business fixed investment remained weak and residential investment fell, offsetting steady consumer spending.
- **Unemployment Rate Rises.** The June unemployment rate increased slightly to 4.9%, but is down 40 basis points (BPS) from a year ago. It was reported that the size of the labor force increased during, resulting in the rise in the unemployment rate.
- **Employment Cost Index (ECI) Increases.** The ECI indicated that employment costs, including wages and salaries, grew 0.6% during 2Q16. YoY total compensation is up 2.3%, the strongest since March 2015. As the labor market continues to tighten, upward pressure on wage and salary growth is expected.
- **Small Business Optimism Rises.** According to the National Federation of Independent Business Small Business Optimism Index, small business confidence increased in June for the third consecutive month. Business owners were optimistic regarding future economic conditions, which drove the gain. Despite plans to hire more workers, owners reported difficulty filling open positions.
- **Consumer Confidence Increases.** The Conference Board reported that U.S. consumer confidence increased in June, resulting primarily from a positive view of future economic conditions during the upcoming six-month period.
- **The Leading Economic Index (LEI) Increases.** Following a decline, the LEI increased 0.3% in June, suggesting moderating economic growth through the end of 2016. Improvements in initial claims for unemployment insurance and building permits were the primary drivers of growth.
- **Retail Sales Rise.** U.S. retail sales increased 0.6% in June, exceeding analyst expectations, after recording downwardly revised growth of 0.2% during the prior month. Even more encouraging, YoY total sales increased 2.7% in June and total sales escalated 1.4% during 2Q16. The majority of retail categories posted monthly increases, led by a 3.9% gain at building supply stores. Gasoline station sales increased 1.2% due to the pickup in gas prices, but are still down 9.6% YoY. Online shopping accelerated as sales at non-store retailers jumped 10.6% in the first half of 2016 compared to this same time period last year.
- **Consumer Inflation Accelerates.** The headline CPI increased 0.2% in June, marking the fourth consecutive monthly rise. During 2Q16, the CPI increased at a 2.5% annualized pace, the fastest quarterly pace since 2Q15. The increase was mainly due to a rebound in June of energy and gasoline prices, which increased 1.3% and 3.3%, respectively. In contrast, food prices declined for the second consecutive month.
- **Industrial Production Increases.** Production escalated 0.6% in June, the second strongest pace since June 2015. The gain was primarily driven by increases in automobile, mining and utility production. Utility production jumped 2.4% during June primarily due to the month's hotter weather.
- **Durable Goods Orders Disappoint.** U.S. durable goods orders declined 4.0% in June primarily due to a 60.0% decline for non-defense aircraft orders. In June, core capital goods orders remained soft and non-capital goods shipments fell. Motor vehicle and parts orders rebounded from May's decline and posted a 2.6% increase.
- **Factory Orders Decrease.** Driven by declines in aircraft and defense, June factory orders declined 1.5%. Excluding these sectors, capital orders increased 0.4%.
- **ISM Non-Manufacturing Index Increases.** Activity outside the manufacturing sector increased to a seven-month high in June. Growth was driven by faster growth in new orders and business and a rebound in employment in the service sector.
- **Dodge Momentum Index (DMI) Rises.** In June, the DMI, an early indicator of private non-residential construction spending, increased 11.2% to its highest level since early 2009 and is up 18.0% YoY. Institutional building and commercial planning were primary drivers of growth.

Labor Market

Helping to reduce fears regarding a potential economic downturn, brought about by an anemic job gain of just 11,000 jobs in May, June payroll growth exceeded consensus estimates and grew by 287,000, the highest monthly total since October 2015. Recent payroll growth was lifted by the return of 35,100 striking workers at Verizon Communications Inc. Despite the recent uptick, the U.S. economy added an average of 171,500 jobs per month during the first half of 2016, down from the 220,000 monthly averages during this same period last year and the 2015 monthly average of 229,000.

Employment gains were broad-based during the first half of 2016, as the education & health services (+307,000), trade, transportation & utilities (209,000), professional and business services (+177,000) and leisure & hospitality (+160,000) sectors added the largest numbers of jobs. Additionally, growth within the financial services (+90,000) and government (+79,000) sectors are on pace to exceed 2015 totals. In contrast, the mining and manufacturing sectors lost a combined 93,000 jobs since 2015, driven by low energy prices and a strong dollar. Since peaking in September 2014, the mining sector has shed 212,000 jobs or 23.0% of its workforce.

The June ADP National Employment Report showed a gain of 172,000 non-farm private sector employment jobs. During the first half of 2016, it was reported that 1,090,000 non-farm private sector employment jobs were created, off 16.0% from the growth recorded at this time last year. Industries with the largest employment gains since 2015 were within the professional and business services (+256,000) and trade, transportation and utilities (+203,000) sectors.

The unemployment rate increased 20 BPS to 4.9% in June, mainly due to an increase in the labor force, and has trended between 4.7% and 5.1%, an eight year low, for the past 11 months. The June labor force participation rate edged up slightly to 62.7%, but still remains at a 40 year low. Although wages were basically unchanged in June (+0.1% gain), the 2.6% YoY wage growth matched the fastest annual growth rate since the summer of 2009. Despite little change in the U-6 unemployment rate during 2Q16, the June reading of 9.6% is 90 BPS lower than at this time last year.

US Non-Farm Employment by Industry

Historic and Current Figures (thousands)

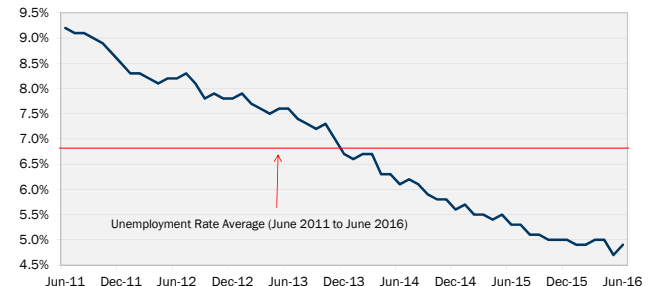
Industry Sector	2016 Employ.	Total Percent	2015 Employ.	Total Percent	2014 Employ.	Total Percent	% Change 2015-16
Mining and Logging	692	0.5%	761	0.5%	897	0.6%	-9.1%
Construction	6,643	4.6%	6,597	4.6%	6,301	4.4%	0.7%
Manufacturing	12,296	8.5%	12,320	8.5%	12,294	8.6%	-0.2%
Trade, Trans & Utilities	27,323	19.0%	27,114	18.8%	26,656	18.6%	0.8%
Information	2,787	1.9%	2,763	1.9%	2,733	1.9%	0.9%
Financial Activities	8,280	5.7%	8,190	5.7%	8,041	5.6%	1.1%
Prof & Bus. Services	20,158	14.0%	19,981	13.9%	19,360	13.5%	0.9%
Educ. & Health Services	22,685	15.7%	22,378	15.5%	21,677	15.1%	1.4%
Leisure & Hospitality	15,502	10.8%	15,342	10.6%	14,901	10.4%	1.0%
Other Services	5,690	3.9%	5,660	3.9%	5,595	3.9%	0.5%
Government	22,119	15.3%	22,040	15.3%	21,947	15.3%	0.4%
Total Nonfarm	144,175	100.0%	143,146	100.0%	140,402	100.0%	0.7%

Source: Bureau of Labor Statistics

As shown below, June marked the 15th consecutive month that the unemployment rate registered below 5.5%. The current unemployment rate is 190 basis points below the 6.8% average recorded between June 2011 and 2016.

US Non-Farm Employment by Industry

Historic and Current Figures (thousands)



Source: Bureau of Labor Statistics

Consumer confidence indices are considered key indicators of economic conditions.

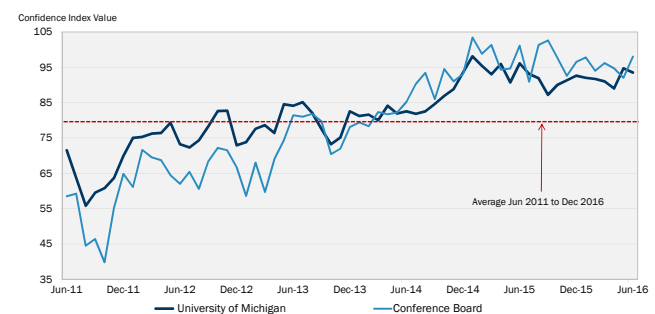
The Conference Board. Consumer confidence increased considerably in June. The measure of present conditions increased to its second-highest reading since September 2007 and the consumer expectations gauge for the next six months jumped to a five-month high. Lynn Franco, Director of Economic Indicators at The Conference Board, commented, "Expectations regarding business and labor market conditions, as well as personal income prospects, improved moderately. Overall, consumers remain cautiously optimistic about economic growth in the short-term."

University of Michigan Index. June consumer sentiment fell slightly below May's reading. Despite the decrease, consumer's overall assessment of current economic conditions still ended the month at its highest level since January 2007, as consumers believe income growth will outpace inflation. As debt service burdens continue to fall and household finances improve, the June Buying Conditions Index for big-ticket items increased, which should support economic growth during the second half of the year.

Below are consumer confidence trends since June 2011.

Consumer Confidence Overview

Historic and Current Figures (thousands)



Source: Conference Board, University of Michigan

Gross Domestic Product (GDP)

The advance estimate of 2Q16 GDP showed that the U.S. economy grew at an average annualized rate of 1.2%, below consensus estimates. This represented the third consecutive quarter that the economy advanced at less than a 2.0% annual rate, the weakest stretch since 2012. Coupled with 1Q16's revised downward growth rate of 0.8%, the 1.0% pace of growth recorded during the first half of 2016 is the worst to start to a year since 2011. GDP growth was primarily dragged down by lackluster business spending, a fall in inventories, a tumble in housing construction and weaker government outlays. The release also included annual revisions to GDP, where growth was revised slightly higher from 2012 to 2015.

Consumer spending, the main driver of economic growth, remained strong and increased at a 4.2% rate during 2Q16, its best advance since 4Q14. Spending on durable goods accelerated to an 8.4% annual rate from negative 0.6% during the prior quarter, as consumers began to open their wallets for big-ticket items. Expenditures on non-durable goods jumped from 2.1% to 6.0% during this same time period.

Despite the slowdown, economists expect growth to accelerate during the second half of 2016, as businesses are projected to increase inventories, homebuilding is anticipated to rebound and steady consumer spending, driven by wage growth and continued low gas prices, is expected to persist. These latest figures are likely to weigh on the Fed's decision on future interest rate hikes in the upcoming months.

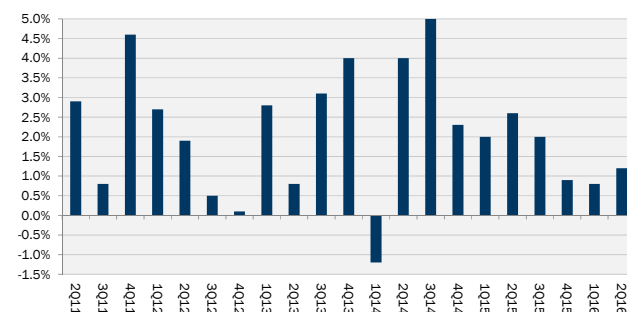
2Q16 GDP Key Trends

- U.S. firms continued to reduce inventories, which was the largest drag on economic growth during the quarter. This action subtracted 1.2 percentage points off growth.
- Business fixed investment decreased for the third consecutive quarter, falling at a 3.2% annualized rate. Companies spent less on equipment and buildings, as non-residential fixed investment declined at a 2.2% pace. Outlays for structures, which include oil and gas well drilling rigs, fell at a 7.9% rate.
- Residential investment decreased at a 6.1% rate, following a 7.8% increase during the prior quarter. Despite the decrease, upwardly revised, double-digit, quarterly gains have been recorded for five consecutive quarters, starting in 2015.
- The trade balance began to improve. After three successive quarterly decreases, exports increased at a 1.4% rate. Following a 0.6% decline during 1Q16, imports fell at a 0.4% rate.
- Overall government spending decreased 0.9%, driven by a 1.3% fall in state and local government consumption. Federal spending recorded a 0.2% decline.
- The personal savings rate registered 5.5% during 2Q16, 60 BPS lower than in 1Q16.

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-indices: new orders (30%), production (25%), employment (20%), deliveries (15%) and inventories (10%).

Recovery continued within the U.S. manufacturing sector during the second quarter, as expansion occurred for the fourth consecutive month and the headline Purchaser's Manufacturing Index (PMI) increased to 53.2% in June, its highest level since February 2015. Thirteen of the eighteen industries tracked by the ISM Index reported growth in June.

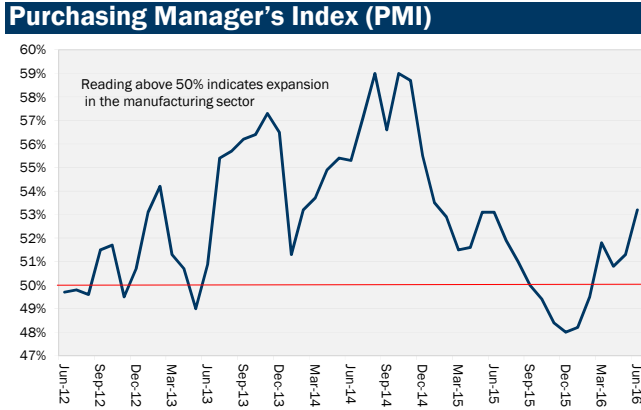
Yet, economists are cautious regarding future growth, given similar worldwide indices indicated little evidence of strong global demand, a strong dollar (despite moderating) and the aftermath of the Brexit vote. From the end of 2014 through early 2016, U.S. industrial output weakened, as low oil and commodity prices weighed on demand for mining/drilling equipment, reducing domestic energy production. Export demand was negatively affected due to weak growth overseas and the strong dollar, which made U.S. goods more expensive for foreign customers.

Still, the latest report was indicative that some of the factors weighing on manufacturers may have lessened since 2015. Oil prices have increased, the dollar has generally weakened and there are fewer concerns regarding economic growth in emerging markets, specifically China (although Brexit has renewed some uncertainty). Additionally, the indices for both new orders and production both have been expanding since 2015 and the exports index hit its highest level since November 2014.

Purchasing managers were generally mixed regarding manufacturing conditions. Positive comments reflected strong demand and steady business conditions. Concerns from respondents primarily reflected slowing business conditions and orders. A supplement to the survey, overseen by ISM following the June 23 U.K. referendum, indicated that the

majority of manufacturer's viewed the impact on the dollar from Brexit as the biggest concern. Still, most respondents polled believe Brexit will have only a slight impact on their near-term capital spending plans.

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



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 for the fourth consecutive month. The PMI has averaged 50.3% during the past 12 months, ranging from 48.0% to 53.2%.
- **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 index increased 1.3 percentage points to 57.0% in June, indicating growth for the sixth consecutive month. Twelve industries reported growth in June.
- **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 increased 2.1 percentage points in June to 54.7%. Twelve industries reported growth in June.
- **Employment Index.** An Employment Index above 50.6%, over time, is generally consistent with an increase in manufacturing employment. An increase of 1.2 percentage points to 50.4% was recorded in June, indicating contraction. Seven industries reported growth in June.
- **Inventories Index.** An Inventories Index greater than 42.8%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' (BEA) figures on overall manufacturing inventories. An increase of 3.5 percentage points to 48.5% was recorded in June.

Construction Spending

U.S. construction activity weakened during 2Q16, following a strong winter. Spending declined for the third consecutive month, falling 0.6% in June, after economists had predicted an increase. Despite the decrease, June construction spending was 0.3% higher YoY and outlays during the first half of 2016 were 6.2% greater than during the same period last year.

The latest monthly decline was driven by spending decreases for non-residential projects, which fell by the largest amount in six months. Analysts believe that many construction firms moved up the start dates of projects due to the warmer than usual winter weather and expect construction activity to rebound during the next several months.

Private Construction

- Comprising 74.0% of total construction expenditures, spending decreased 0.6% in June, as non-residential outlays fell 1.3% and residential spending recorded no change.
- Despite the latest decline, total spending is up 2.5% YoY. Within the residential sector, spending on new multi-family projects increased 16.4% YoY, as compared to a 4.8% increase for new single-family homes.
- During the past 12 months, the office (+19.6%) and lodging (+17.4%) sectors recorded the largest YoY increases. During this period, spending on commercial projects increased 7.7%, but spending on manufacturing projects declined 10.4%.

Public Construction

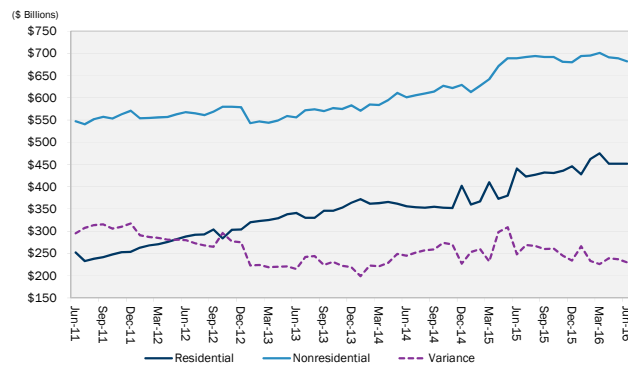
- Comprising 26.0% of total construction expenditures, public construction outlays fell 0.6% in June.
- Spending on government projects reflected a 2.3% decline in spending at the federal level and a 0.5% decline in spending by state and local governments.
- During the past 12 months, non-residential expenditures decreased 5.9%. Of note, spending on public office projects fell 4.2% and public commercial projects increased 4.6%.

The following chart highlights annualized residential and non-residential construction outlays (seasonally adjusted) since June 2011. Although the economic downturn initially affected the residential construction industry more significantly, spending rebounded within this 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. The pace of non-residential construction then increased at a faster pace, increasing the variance to \$309 billion by spring 2015. Spending has fluctuated since, but has stabilized within the residential sector and has declined within the non-residential sector during 2Q16.

U.S. Construction Spending

Value of Construction Put in Place

Seasonally Adjusted Annual Rate



Source: U.S. Census Bureau

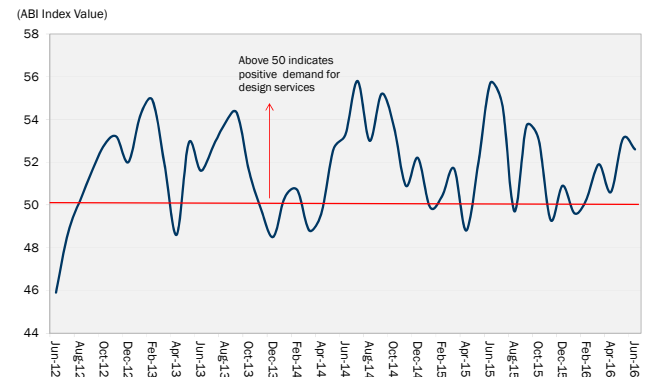
The Architecture Billings Index (ABI)

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 the demand for architects' services.

- June marked the fifth consecutive month of increasing demand for design activity at architectural firms, although the ABI decreased slightly to 52.6.
- Three regions reported positive billings, including the South (55.5), West (54.1) and Northeast (51.8). Weakness was present in the Midwest (48.2).
- Billings growth during June was the strongest within the multi-family residential sector (57.9) followed by the institutional (52.7), mixed-practice (51.0) and commercial/industrial (50.3) sectors.
- Residential billings increased rising 4.2 points to the highest reading since August 2014 and indicated increased growth in the multi-family housing sector.
- Of concern, the design contracts index fell for the first time since 4Q14.
- AIA Chief Economist Kermit Baker remarked, "Demand for residential projects has surged this year, greatly exceeding the pace set in 2015. This suggests strong future growth for housing in the coming year. While we expect to see momentum continue for the overall design and construction industry in the months ahead, the fact that the value of design contracts dipped into negative territory in June for the first time in more than two years is something of a concern."

The following graph shows fluctuations within the ABI since June 2016.

Architectural Billings Index (ABI)



Source: The American Institute of Architects

State of the Housing Market

Conditions within the U.S. housing market ended the first half of 2016 on a strong note. In June, the National Association of Realtors reported that annualized existing home sales increased 1.1% to a seasonally adjusted annual rate of 5.57 million, the fourth consecutive monthly increase. The housing market has benefitted from favorable lending standards and low mortgage interest rates, which have likely contributed to the share of first-time home buyers increasing to its highest level in nearly four years. Additionally, it was reported that condominium sales jumped to the highest level since May 2007. YoY, existing home sales have increased 3.0% and are at the strongest pace since February 2007. Median existing home prices are up 4.8% YoY and June marked the 52nd consecutive month of YoY price gains.

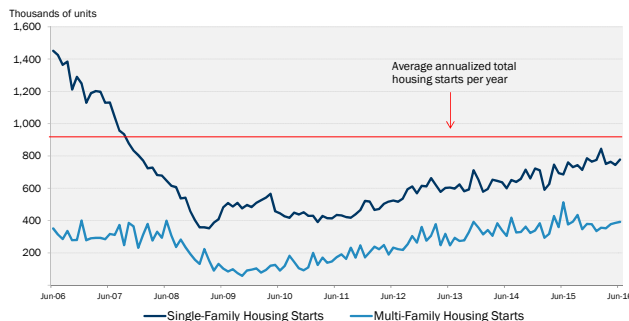
Below are several key points pertaining to the housing market.

- In June, new U.S. home sales increased 3.5% to a seasonally adjusted annualized rate of 592,000 units, the highest level since February 2008. In the first two quarters of 2016, new home sales have increased 10.1% YoY, driven by a 65.0% increase in new home sales in the Northeast region.
- According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage decreased for the fourth consecutive month to 3.57% in June, the lowest rate since May 2013. The average commitment rate for all of 2015 was 3.85%.
- As per RealtyTrac, June foreclosure filings decreased 11.0% YoY to the lowest quarterly total since July 2006. Nationwide foreclosure activity is still 21.0% above pre-recession levels, but foreclosure activity in 15 states is below pre-recession levels.

- The S&P/Case-Shiller U.S. National Home Price Index recorded a 0.2% annual gain in May and is up 5.0% over the past year. Steady price appreciation was concentrated in western cities such as Portland, Seattle and Denver. Overall, price appreciation began to decelerate within the 10- and 20-City Composite indices.
- The CoreLogic Home Price Index (HPI) showed that U.S. home prices increased 5.7% YoY in June. Home price growth is projected to increase 5.3% YoY from June 2016 to June 2017. According to the HPI, the U.S. has experienced 53 consecutive months of YoY increases and 23 states and the District of Columbia reached new pricing highs in June. States with the strongest price appreciation were Oregon, Washington, Colorado, Utah and Nevada.
- Lawrence Yun, NAR Chief Economist, remarked, "The impressive four month streak of sales gains through June caps off a solid first half of 2016 for the housing market. Existing sales rose again last month as more traditional buyers and fewer investors were able to close on a home despite many competitive areas with unrelenting supply and demand imbalances. Sustained job growth as well as this year's descent in mortgage rates is undoubtedly driving the appetite for home purchases."

Below is a breakdown of single- vs. multi-family housing starts since June 2006.

Housing Starts

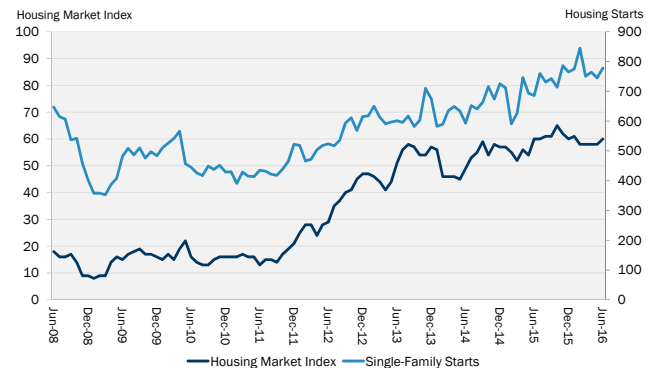


Source: U.S. Census Bureau

- Residential housing starts increased 4.8% in June to an adjusted annual pace of 1.19 million units. Single-family starts improved 4.4% to a 778,000-unit pace and multi-family starts improved 5.4% to a 411,000-unit pace. Total residential housing starts throughout the first half of 2016 are 13.2% ahead of the pace set at this time last year.
- In June, building permit activity, an indicator of future construction activity, increased 1.5% to a 1.15 million annualized rate from the prior month.

The following 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 two points after four consecutive months of no change. All three HMI components, current sales conditions component, the sales expectations component and the buyer traffic component, increased during June. Of note, the sales expectations component increased five points, marking an eight month high. Regionally, the South reported the largest gain, followed closely by the West and Northeast. The Midwest index posted a decline.

NAHB Chief Economist, Robert Dietz commented, "Rising home sales, an improving economy and the fact that the HMI gauge measuring future sales expectations is running at an eight-month high are all positive factors indicating that the housing market should continue to move forward in the second half of 2016."

Housing Sales and Inventory

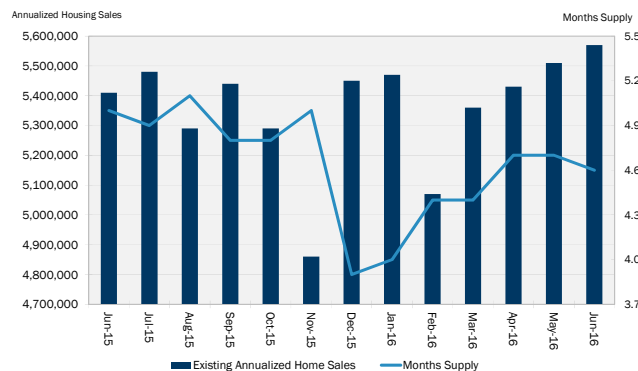
Below are key housing market statistics as of June 2016.

- Regionally, YoY existing home sales increased 5.6% in the Northeast, 4.7% in the Midwest and 3.2% in the South region. A 0.8% decline was recorded in the West.
- The median price of an existing home was highest in the West (\$350,800), followed by the Northeast (\$284,800), South (\$217,400) and the Midwest (\$199,900). YoY price appreciation ranged from 1.4% in the Northeast to 7.2% in the West.
- The median time on the market for an existing home was 34 days, which is unchanged from a year ago.
- It was estimated that 48.0% of the homes sold were on the market for less than one month.
- The total inventory of existing homes available for sale decreased 5.8% YoY to 2.12 million units, representing a 4.6-month supply.

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 2Q16 PwC Real Estate Investor Survey reported that overall cap rates (OARs) declined in seventeen, held steady in ten and increased in seven of the survey's 34 tracked markets. Collectively, OAR's declined 4 BPS across the major property types since 1Q16. Overall cap rates declined 24 BPS from 2Q15 to 2Q16.
- Terminal cap rates decreased to 6.57% in 2Q16, marking the 17th consecutive quarterly decline. The average decline was 1 BPS across nearly all major property types since 1Q16. Terminal cap rates declined 21 BPS from 2Q15 to 2Q16.
- Discount rates (IRR) increased 2 BPS since 1Q16 to 7.52% in 2Q16, ending eight consecutive monthly declines. Discount rates declined 15 BPS from 2Q15 to 2Q16.

2Q16 Survey Highlights

- OARs decreased in four of the major property sectors during 2Q16 from the prior quarter, with the strip center (15 BPS) and warehouse (14 BPS) sectors recording the largest decreases. The suburban office and power center sectors recorded slight increases. The regional mall and flex/R&D sectors recorded no change.
- As of 2Q16, flex/R&D properties had the highest average OARs at 7.15%, followed by the suburban office (6.43%) and power center (6.35%) sectors. The lowest average OARs were recorded in the apartment (5.29%), warehouse (5.38%) and CBD-office (5.55%) sectors. The simple average OAR across all sectors was 6.05%.
- Terminal capitalization rates decreased in two of the major commercial property sectors during 2Q16 from the

prior quarter. The largest decreases were recorded within the apartment (10 BPS) and strip center (9 BPS) sectors. The suburban office and power center sectors recorded slight increases and the other sectors recorded no change.

- As of 2Q16, flex/R&D properties had the highest terminal capitalization rate at 7.40%, followed by the suburban-office (7.28%) sector. The lowest terminal capitalization rates were recorded within the apartment (5.76%) and CBD-office (6.02%) sectors. The simple average terminal capitalization rate across all sectors was 6.57%.
- IRRs increased from the prior quarter in four of the major commercial property sectors during 2Q16. The largest increase was recorded in the CBD-office (28 BPS) sector. Other sector increases ranged from 2 to 7 BPS. The flex/R&D sector recorded a 10 BPS decline and the apartment sector recorded no change.
- As of 2Q16, flex/R&D properties had the highest IRR at 8.23%, followed by the power center (7.79%) sector. The lowest IRR's were recorded within the warehouse (6.90%) and CBD-office (7.16%) sectors, and the simple average across all sectors was 7.52%.

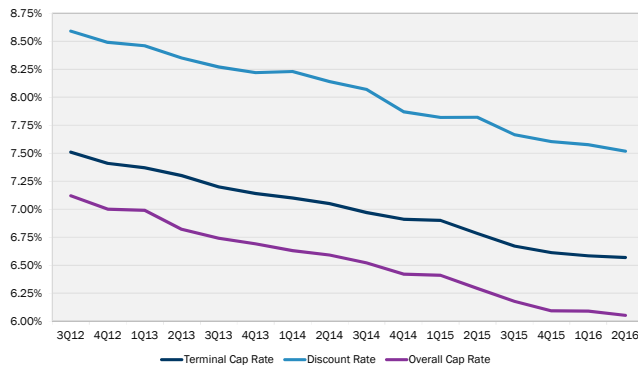
Additional 2Q16 Report Insights/Findings

- Despite remaining positive regarding commercial real estate (CRE) market fundamentals through 2017, many surveyed investors believe the CRE industry may be nearing the end of the current expansion phase of the cycle.
- Although domestic and international investors remain aggressive in their acquisition of prime assets, several survey respondents have noticed properties remaining on the market for somewhat longer than in the past.
- Overall, investor sentiment remains positive despite the belief that CRE appears to have entered a "stabilizing pricing environment".
- According to survey participants, the availability of debt and interest rate trends are top concerns and will be closely monitored during the next several quarters.
- Manhattan, Washington D.C., San Francisco, Los Angeles, Seattle, Pacific Northwest and Boston, had the lowest overall office capitalization rates. Seattle recorded the largest quarterly decline at 29 BPS.
- Philadelphia, Chicago, Suburban Maryland, SE Florida, Houston and Atlanta had the highest overall office capitalization rates. On the positive, Atlanta recorded a 23 BPS decline during the quarter, the second largest decrease among the major areas tracked.

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



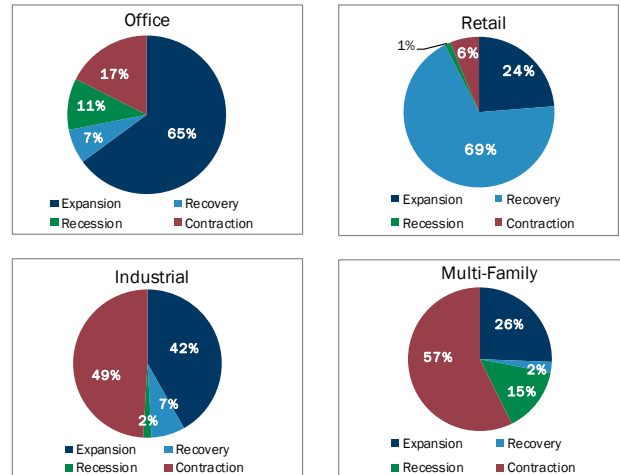
PwC Real Estate Barometer

- The PwC Real Estate Barometer was introduced as a system for analyzing historical/forecasted commercial real estate data within the four major property sectors.
- The barometer indicates where a major property type is positioned within the real estate cycle. 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.
- Approximately 72.0% of the tracked U.S. office markets are in the expansion and recovery phases, similar to last quarter. Through 2017, fundamentals within the office sector are forecasted to stay positive, driven by employment growth and limited new additions to inventory.
- About 93.0% of the tracked U.S. retail markets are in the recovery and expansion phases, down slightly from the prior quarter. The PwC Barometer is bullish on the retail through 2017, as rising income levels and an improved single-family housing sector are expected to benefit the sector.
- Nearly half of the tracked U.S. industrial markets are in the recovery or expansion phase, similar to last quarter. PwC reports that significant new supply has begun to

slow rental rate growth, increase vacancy rates and raise cap rates, which is expected to move more metro areas into the contraction phase during the next several quarters.

- The majority of U.S. multi-family markets (57.0%) are in the contraction phase due to softening market conditions resulting from new supply entering the sector and rising vacancy rates. Still, market demand for apartment units remains strong in the majority of these areas.

Below is a snapshot of each major property type as of 2Q16.



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.

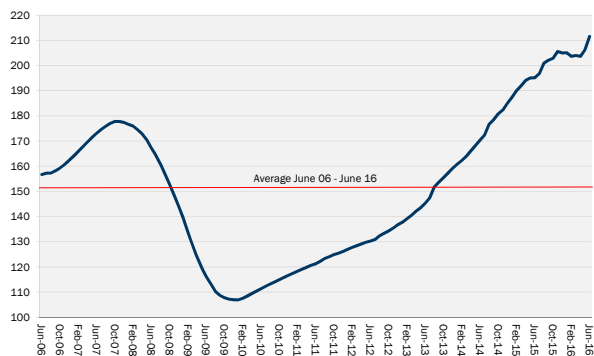
- Following little movement for several months, the National All-Property Composite Index ("the Index") increased 3.8% in May and June. This marked the highest consecutive monthly price gains since July to August 2014.
- During 2Q16, the Index increased 3.7%, driven by a 5.4% gain in the apartment sector.
- Within the core commercial sectors, the industrial sector witnessed the strongest price gain (+4.9%) during 2Q16, followed by the CBD office (+3.6%) sector. The retail (+1.6%) and suburban office (2.4%) sectors underperformed during the latest quarter.

- Reversing a recent trend, price appreciation was stronger in major markets (+4.7%) versus non-major markets (+2.8%) during 2Q16.
- Since 2015, apartment (+7.2%) was the best performing sector, more than doubling the Index return of 3.2%. Steady returns occurred within the industrial (+5.0%) sector, while performance within the retail (+3.0%), suburban (+0.4%) and CBD (-1.3%) office sectors lagged behind the Index average.
- Pricing increased faster within non-major markets (+4.1%) versus the major markets (+2.2%) since 2015.
- Hotel assets, although not part of the Index, recorded a 9.2% price gain during the past 12 month period, trailing only the 14.3% gain of the apartment sector.
- Apartment and CBD office prices have exceeded pre-crisis peaks by 46.7% and 36.4%, respectively, the highest among the property types. In contrast, retail prices have recorded no change and suburban office assets are 8.4% below pre-crisis peak levels.

Below is a graph detailing changes within the CPPI since June 2006.

Moody's/RCA Commercial Property Price Index

National Index – All Properties



The following chart illustrates cumulative price returns for the primary sectors in the CPPI from three months to five years.

Moody's/RCA CPPI					
Cumulative Returns by Sector/Type					
	3 Month	6 Month	12 Month	3 Year	5 Year
Industrial	4.9%	5.0%	8.2%	45.2%	60.4%
Office	3.0%	-0.5%	3.8%	43.6%	69.7%
CBD	3.6%	-1.3%	3.3%	45.7%	85.4%
Suburban	2.4%	0.4%	4.4%	41.1%	54.8%
Retail	1.6%	3.0%	8.8%	37.5%	64.9%
Apartment	5.4%	7.2%	14.3%	53.8%	95.4%
Major Markets	4.7%	2.2%	8.0%	48.6%	79.5%
Non-Major Markets	2.8%	4.1%	8.7%	43.0%	70.2%
National All-Property	3.7%	3.2%	8.4%	45.6%	74.5%

* Represents data as of June 30, 2016

Green Street Commercial Property Price Index

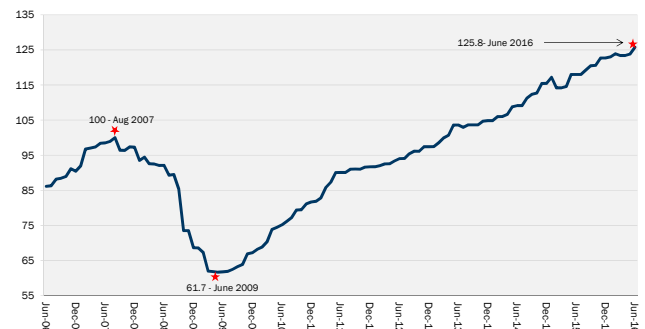
Green Street's Commercial Property Price Index is a time series of unleveraged U.S. commercial property values that captures the prices at which commercial real estate transactions are currently being negotiated and contracted. Features that differentiate this index are its timeliness, emphasis on institutional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

The Green Street Commercial Property Price Index increased slightly in June. After a 10.0% increase in 2015, property value appreciation has moderated. During the past 12 months, property values have increased 7.0%, ranging from a low of 4.0% within strip retail sector to a high of 9.0% within the apartment sector. Peter Rothmund, senior analyst with Green Street Advisors, commented, "Cap rates are basically where they were at the start of this year for most major property sectors. They have come down a bit recently for industrial properties and some of the niche sectors including manufactured home communities and self-storage properties, where investors have been bidding up prices."

Below is a graph detailing changes since June 2006.

Green Street Commercial Property Price Index

National Index – All Properties



Commercial Property Sales Analysis

Commercial property sales volume decreased during the first half of 2016 in comparison to this time last year. Real Capital Analytics (RCA) reported that sales activity registered \$210.5 billion (excluding commercial land) during the first six months of 2016, representing a 20.0% YoY decrease. RCA attributed much of lower activity to a pullback in portfolio and entity-level transactions (defined as megadeals by RCA), which decreased 39.0% YoY, as investors were generally more risk averse. Single asset sales recorded only a 4.0% decline YoY. On the positive, RCA reported that during 2Q16, volume trends improved after being negatively impacted by financial turmoil in January and February, cap rates flattened relative to the

prior quarter and pricing rebounded after declining during 1Q16. Investment sales volume is projected to reach nearly \$420 billion in 2016, which would represent an 18.6% decrease from 2015, but a 2.5% increase from 2014.

Despite the recent slowdown, overall investment activity is still at elevated levels compared to trends recorded during the past 10 years, as steady competition exists for trophy assets in primary markets. There is also growing evidence that global instability and the aftermath of Brexit is making U.S. property more appealing to foreign buyers and investors interested in pursuing defensive strategies by seeking the security and economic stability of U.S. commercial property markets.

Below we take a look at sales activity, as per RCA, by product type during the first half of 2016.

- **Apartment.** After recording record levels of activity in 2015, investors were again bullish on apartment assets. Sales activity increased 10.0% YoY to \$72.0 billion, representing the only sector to post a YoY increase. Growth was driven by a 15.0% YoY rise in sales of garden apartments, which accounted for nearly 70.0% of total volume since 2015. In contrast, little YoY change was reported for sales of mid/high-rise buildings. It was reported that portfolio and entity-level transactions represented 37.0% of activity, including several large acquisitions by Starwood Capital Group. Annualized, sales volume is projected to reach \$144 billion in 2016, a 5.0% decrease from 2015.
- **Retail.** Sales of retail assets totaled nearly \$37 billion, a 20.0% YoY decrease. Portfolio and entity-level transaction volume declined 42.0% YoY in comparison despite a multi-billion dollar acquisition by Blackstone of 49 retail properties owned by RioCan REIT. Single asset sales declined 7.0% YoY. The sale of strip centers increased 5.0% YoY in contrast to a 36.0% decline for malls and other retail properties. On the positive, it was reported that sales increased 5.0% YoY in secondary markets. Annualized, sales volume is projected to reach \$73.0 billion, a 16.5% decrease from 2015.
- **Office.** Approximately \$63 billion of office sales activity was recorded, which is down 12.0% YoY. Suburban office sale activity fell 21.0% YoY to \$31.8 billion, but CBD office sales declined only 1.0% YoY to \$31.6 billion. It was reported that sales of single assets increased 2.0% in secondary markets in contrast to a 45.0% decline in portfolio and entity-level transactions. Deals in major primary markets accounted for the majority of activity. Annualized, sales volume is projected to reach nearly \$127 billion, a 15.0% decrease from 2015.
- **Industrial.** The pace of industrial sales volume decreased 31.0% YoY to nearly \$26.0 billion. YoY, portfolio and entity-level deal volume was down 61.0% while sales of single assets increased 6.0%. In contrast to the 42.0% YoY fall in the sale of warehouse assets, the flex sector

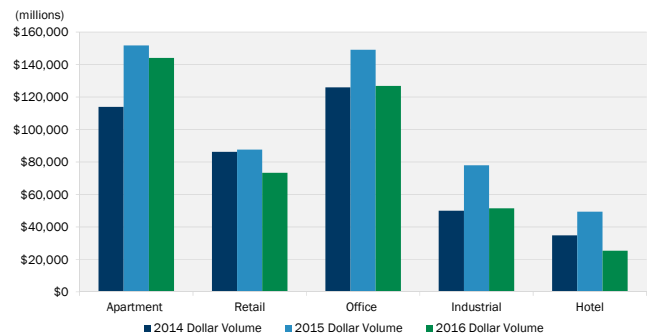
saw a 14.0% increase in deal volume, which was primarily driven by the sale of several flex properties in Blackstone's buyout of Biomed Realty Trust. Annualized, sales volume is projected to reach \$51.5 billion, a 34.0% decrease from 2015.

- **Hotel.** After recording the highest annual volume in eight years in 2015, investment activity has lagged. Transaction activity declined 55.0% YoY to nearly \$13 billion. Portfolio and entity-level sales volume was down 86.0% YoY and single-asset deal volume was off by 33.0% YoY. Full-service hotels accounted for 66.0% of the volume, but experienced a greater pullback in activity than limited service hotels. Annualized, sales volume is projected to reach \$25 billion, a 49.0% decrease from 2015.

2014 to 2016 sales activity by property type is summarized below.

Investment Sales Activity

Dollar Value of Sales Transactions by Property Type



Source: Real Capital Analytics: 2016 volume annualized based on 2Q16 data

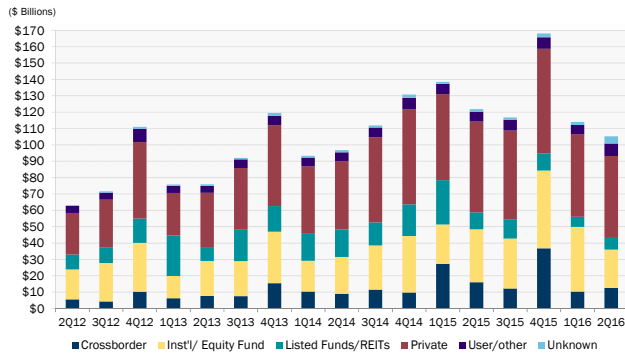
In addition to the preceding data, we have also analyzed RCA historical sales activity by buyer type.

- Private buyers continued as the most active buyers of real estate since 2015, acquiring \$101 billion of commercial real estate assets. This represented 46.0% of total transaction volume.
- Acquisition volume totaled \$63 billion from institutional/equity buyers during the first half of 2016, representing 29.0% of total sales activity and an 11.0% increase YoY.
- After averaging nearly \$15 billion in quarterly acquisitions last year, volume slowed to around \$6.7 billion per quarter for listed funds/REITs during the first half of 2016. As a result, their market share declined from 11.0% in 2015 to 6.0%.
- International investment for U.S. commercial real estate assets increased during 2Q16 as nearly \$13 billion of transaction volume occurred. Last year, foreign investment totaled a record \$91 billion, driven by investors in Canada, Singapore and China.

2Q12 to 2Q16 sales activity by property type is summarized below.

Investment Sales Activity

Summary of Transactions by Buyer



Source: Real Capital Analytics

Significant 2Q16 Sales Transactions

The following tables summarize noteworthy sales executed during 2Q16 in the major commercial real estate sectors.

Office Sale Transactions				
Address/Name	City, State	Size (SF)	Sale Price (\$ mil)	Buyer(s)
1285 Avenue of the Americas	New York, NY	1,800,000	\$1,650.0	RXR Realty
550 Madison Avenue	New York, NY	852,830	\$1,400.0	Olayan America
101 Seaport Boulevard	Boston, MA	439,058	\$452.0	Union Investment Real Estate GmbH
400 South Hope Street	Los Angeles, CA	701,535	\$313.6	The PNC Financial Services Group, Inc.
11601 Wilshire Boulevard	Los Angeles, CA	500,475	\$311.0	Hudson Pacific Properties
140 New Montgomery Street	San Francisco, CA	295,177	\$284.0	Pembroke Real Estate
133 South State Street	Chicago, IL	942,330	\$267.0	Madison Capital

Source: CoStar

Industrial/Flex/Data Center Sale Transactions				
Address/Name	City, State	Size (SF)	Sale Price (\$ mil)	Buyer(s)
101 Possuntown Street	Piscataway, NJ	360,000	\$125.0	QTS Realty Trust Inc.
200 Old Iron Ore Road - Amazon Dist. Ctr	Windsor, CT	1,017,517	\$105.5	Deka Immobilien GmbH
3350 Laurel Ridge Avenue	Ruskin, FL	1,017,693	\$103.6	Cole Office & Industrial REIT (COIT II)
3625-3635 Peterson Way	Santa Clara, CA	218,366	\$78.0	Boston Properties, Inc.
5301 Patrick Henry Drive	Santa Clara, CA	129,199	\$60.5	Crown Realty & Development, Inc.
7601 Trade Port Drive	Louisville, KY	470,000	\$52.3	Black Creek Group
3900 Indian Ave-SRG Peris Logistics Ctr	Perris, CA	579,708	\$50.4	Clarion Partners

Source: CoStar

Retail Sale Transactions				
Address/Name	City, State	Size (SF)	Sale Price (\$ mil)	Buyer(s)
Shops at Crystals - Crystals at City Center	Las Vegas, NV	324,000	\$1,100.0	Simon Property Group, Inc.
North Ranch Shopping Center (3)	Westlake Village, CA	146,625	\$122.8	Retail opportunity Investments, Corp.
Deerfield Mall (5)	Deerfield Beach, FL	394,248	\$92.8	Wingarten Realty Investors
Southern Palm Crossing Shopping Center	West Palm Beach, FL	340,000	\$78.5	The Blackstone Group LP
11287-11533 South Dixie Highway	Miami, FL	82,128	\$66.5	Dividend Capital Diversified Property Fund
1221 Honoapiilani Highway	Lahaina, HI	130,599	\$64.8	U.S. Realty Group Inc.
The Shoppes at Union Hill	Denville, NJ	91,730	\$63.0	Retail Properties of America, Inc.

Source: CoStar

Multi-Family Sale Transactions				
Name	City, State	Units	Sale Price (\$ mil)	Buyer(s)
Riverside Apartments	Alexandria, VA	1,222	\$244.8	Washington Real Estate Investment Trust
North Harbor Tower	Chicago, IL	616	\$237.2	Crescent Heights
Windsor at Cambridge Park	Cambridge, MA	398	\$215.0	The General Investment & Development Co.
Flats 8300	Bethesda, MD	361	\$207.0	Invesco Real Estate
The Eastland	New York, NY	209	\$173.0	The Dermot Company
Devonshire Hills	Hauppauge, NY	656	\$171.0	The Bainbridge Companies
Terracina Apartment Homes	Ontario, CA	736	\$142.1	Bridge investment Group Partners, LLC

Source: CoStar

Hospitality Sale Transactions				
Name	City, State	Rooms	Sale Price (\$ mil)	Buyer(s)
Washington Hilton	Washington D.C.	1,070	\$305.0	Cleanview Hospitality Capital LLC
The Vintage Inn and The Villagio Inn & Spa	Yountville, CA	192	\$197.0	Thayer Lodging Group, Inc.
Holiday Inn - 440 West 57th Street	New York, NY	596	\$148.8	Woodridge Capital Partners LLC
Nylo Hotel - 2170 Broadway	New York, NY	285	\$140.0	Ashkenazy Acquisition Corp.
Radisson Hotel & Suites	Austin, TX	413	\$130.0	The Sydell Group
Hilton Tampa Downtown	Tampa, FL	520	\$101.0	CrossHarbor Capital Partners LLC
Seattle Marriott SeaTac Airport	Seattle, WA	459	\$91.1	AWH Partners, LLC

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 60.0% 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.

NCREIF Composition by Market Value			
Property Type	Region		
Office	36.9%	West	37.4%
Apartment	24.5%	East	33.4%
Retail	23.2%	South	20.2%
Industrial	14.2%	Midwest	9.0%
Hotel	1.1%		

NPI General Recap

- Total returns continued to moderate despite NCREIF reporting the 26th consecutive quarter of positive growth during 2Q16. The NPI total return was 2.0%, comprised of a 1.2% income return and a 0.8% capital appreciation return. 2Q15 total returns registered 3.1%.
- With appreciation slowing, the income return has accounted for a higher percentage of total returns (60.0% during 2Q16 vs. 40.0% during 2Q15). Total one-year returns have registered 10.6%, approximately 240 BPS lower than at this time last year.
- Occupancy rates increased to 93.2% within the five major sectors, a new 15-year high. Trailing year NOI growth of 3.6% was recorded during 2Q16, which declined from the 5.5% trailing year NOI growth recorded at 2Q15.

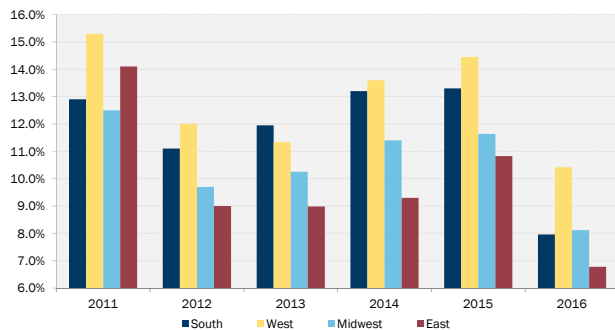
NPI Annualized Returns by United States Region

- Spreads between the best and worst performing regions narrowed during 2Q16, registering 73 BPS (2.46% vs. 1.73%). The spread was 109 BPS (2.75% vs. 1.66%) last quarter.
- Compared to last quarter, 2Q16 returns decreased in all regions except the East.

- Despite the recent uptick, price appreciation in the East trailed the other regions, returning 1.73% during 2Q16. One-year returns registered 8.6%.
- Property returns were strongest in the West, registering 2.46% during the quarter. Still, returns fell 29 BPS from the prior quarter. One year returns registered 13.0%, the highest among the regions.
- After a return of 2.21% return during 1Q16, price appreciation declined 44 BPS to 1.77% in the South. One year returns registered 11.8%, slight less than the NPI total return.
- Property returns in the Midwest decreased 8 BPS points from last quarter to 1.99%. One year returns registered 9.7%, 280 BPS lower than the one-year return recorded at this time last year.

Below is a graph illustrating total returns by region since 2011. The 2016 returns are annualized based on 2Q16 data.

NCREIF: Regional Total Returns



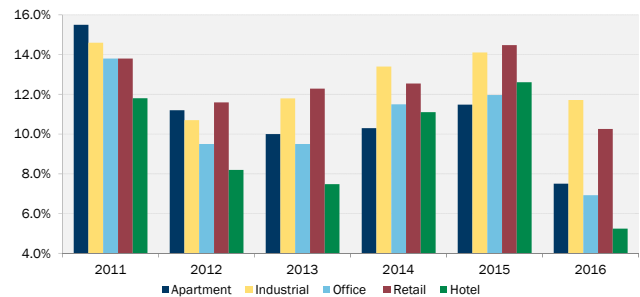
NPI Annualized Returns by Property Type

- Spreads between the best and worst performing asset types narrowed during 2Q16, registering 144 BPS (2.90% vs. 1.46%). The spread was 180 BPS (2.96% vs. 1.16%) last quarter.
- The industrial sector recorded the strongest price appreciation (+2.9%) during 2Q16. A one-year return of 13.3% was the strongest among all property types.
- Since the prior quarter, total returns within the retail sector declined by nearly 80 BPS, the largest decline among the sectors. Still, the 12.2% one-year return is the second highest among the sectors.
- Within the apartment sector, the 1.9% total 2Q16 return was consistent with the prior quarter, but the one-year return of 9.7% has lagged the broader index by 90 BPS.
- Similar to 1Q16, the office sector posted a 1.7% return. The one-year return of 9.3% is the weakest among all the sectors and is considerably lower than the 12.9% return posted at this time last year.

- Despite recording nearly a 30 BPS increase in price appreciation during 2Q16, the largest among the sectors, total quarterly returns registered 1.5% for hotel assets.

Below is a graph illustrating total returns by property type since 2011. The 2016 returns are annualized based on 2Q16 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 London Stock Exchange (FTSE) NAREIT All Equity REITs Index ("The Index") posted a 13.7% return during the first half of 2016, reversing the negative 5.4% return recorded during this same period last year. Following losses during the first two months of the year, driven by market volatility, the Index has since rebounded considerably, including a 6.9% gain in June. In 2015, the Index posted a 2.8% gain, as the pending interest rate hike weighed on the sector throughout the year. Experts believe positive market fundamentals, a flight to yield and increased interest from generalist investors ahead of the elevation of real estate to a new GICS sector beginning September 1 will continue to benefit the sector.

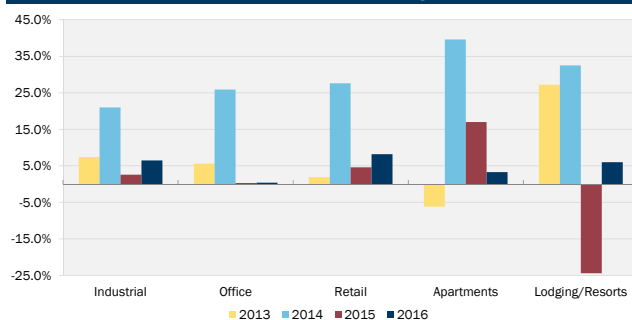
Below is a brief overview of selected commercial real estate sector performance.

- Apartment REITs gained 2.4% during the first half of 2016, representing the lowest return among the property types. Last year, the sector provided a 16.5% return to investors, the highest among the major sectors. Analysts are still generally bullish, due to steady demand for rentals and favorable demographics, but concerns regarding increased supply and rental growth have weighed on investors.
- After returning 4.6% in 2015, investor interest in retail REITs was evident by the 16.1% increase during the first half of 2016. Freestanding retail REITs posted a 34.5% return, the highest among all major property types, besting the gains of 17.2% for shopping centers and 10.6% for regional malls.

- Investor sentiment grew for office REITs during 2Q16. After returning 0.4% during the first three months of the year, total returns of 9.0% were achieved during the first half of 2016. Last year, the 0.3% return within the sector was the lowest among the major property types. Analyst expectations are still positive due to underlying growth within the labor market and corporate expansions.
- Following a negative return of 24.4% during 2015, lodging/resorts sector REITS gained 3.1% during the first half of 2016. Despite the recent gain, analysts attribute the sector's sluggish performance to weakness in business travel and spending, which is estimated to account for 75.0% of demand for lodging REITS. Analysts have also started to monitor the (sharing) economy and Airbnb more closely for future impacts to the hotel industry.
- Industrial REITs posted a 22.9% return during the first half of 2016, the highest among the property sectors. Last year, a 2.6% return was achieved. Analysts remain bullish on the sector due to strong demand for state-of-the-art big box distribution warehouse space and facilities resulting from the explosive growth of online retailing.
 - Often tied to industrial market performance, data center REITS returned nearly 38.0% during the first half of 2016, the highest among property subsectors tracked.

Below is a graph illustrating total returns by property sector since 2013.

FTSE NAREIT REIT Performance by Sector



New Upcoming Real Estate GICS Sector

There is growing optimism among REIT investors as equity REITs and other listed real estate companies will be reclassified into a new Global Industry Classification Standard (GICS) sector. Slated for August 31, 2016, real estate will be elevated to an 11th headline sector of the GICS, meaning that real estate will be a new sector within the S&P 500, as opposed to being grouped with a broad group of financial firms. This move is anticipated to generate more interest among investors and is reflective of the greater role the real estate industry is expected to assume within the stock market.

The addition of the real estate sector is the first since the creation of the GICS structure in 1999 and will provide the newest sector with greater visibility within investment indices. The newly minted sector will include real estate investment trusts, real estate management companies and development companies. Mortgage REITs, which facilitate the financing of commercial and residential real estate, will remain in the financial sector. There will be a total of approximately 2,600 companies in the Real Estate GICS Sector, comprised of 700 companies in Equity REITs and nearly 1,900 companies in the real estate management and development category. By market cap, each category will comprise about half of the newly formed real estate sector.

Real Estate - The 11th GICS Sector		
Equity REITs	Real Estate Management & Development	
Diversified REITs	Health Care REITs	Diversified Real Estate Activities
Industrial REITs	Residential REITs	Real Estate Operating Companies
Hotel & Resort REITs	Retail REITs	Real Estate Development
Office REITs	Specialized REITs	Real Estate Services

Equity REIT vs. Leading Stock Market Indices

REITs have outperformed the Dow Jones industrial average, NASDAQ and the S&P 500 indices during the first half of 2016. After an early year market correction, triggered by global volatility (specifically China), a strengthening U.S. dollar and falling oil prices, the market began to gain positive momentum, driven by the Fed's decision not to raise interest rates, the stabilization and rise of oil prices, weakening of the U.S. dollar, additional stimulus measures passed from the European Central Bank, and an easing of economic worries from China.

Many analysts believe that U.S. REITs potentially stand to benefit from the Brexit fallout, as investors increasingly look to the safety and stability of the U.S. for commercial real estate. Brad Case, NAREIT's senior vice president for research and industry information, stated, "Although Brexit certainly has damaged investors in the U.K., especially in U.K. real estate markets, and it seems to have damaged investors in the rest of Europe in both stock and real estate markets, it had no negative effect and maybe even a positive effect for investors in the U.S. Especially investors in U.S. REITs."

Additionally, investors have been pushing into the safety of U.S. treasury's, which have driven interest rates lower, which is beneficial for REITs, who rely on low rates to keep capital costs low to generate larger returns on property acquisitions.

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

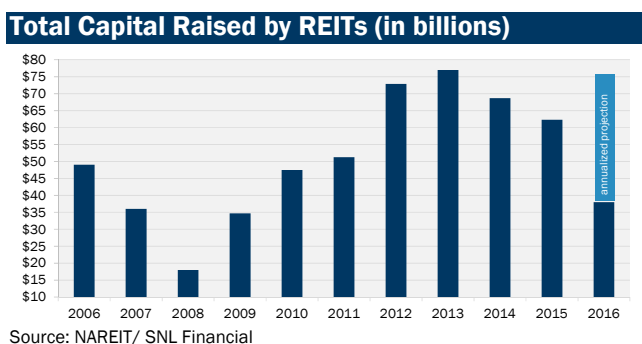
Index	2010	2011	2012	2013	2014	2015	2016*	2010-2015 avg
Equity REIT	28.0%	8.3%	19.7%	2.9%	28.0%	2.8%	17.3%	14.9%
NASDAQ	26.9%	-4.2%	14.6%	12.1%	13.4%	5.7%	-3.3%	11.4%
S&P 500	16.9%	-1.8%	15.9%	38.3%	11.4%	-0.7%	2.7%	13.3%
DJIA	15.1%	2.1%	13.4%	29.6%	7.5%	-2.2%	2.9%	10.9%

Source: Yahoo Finance: 2016 data as of June 30, 2016

Capital Raising

REITs raised approximately \$38.0 billion during the first half of 2016, lagging output recorded during this time period last year by 6.0%. On the positive, activity increased to nearly \$23 billion during 2Q16, up 50.0% from the prior quarter. Last year, approximately \$62 billion was raised. SNL Financial reported that the majority of capital raised during the first half of 2016 occurred via senior debt. Specialty REITs raised the largest amount of capital since 2015, followed by retail, health care, self-storage, office and residential REITs.

Below is a graph showing the total capital raised by REITs since 2006.



Commercial Lending

The Mortgage Bankers Association's (MBA) Quarterly Survey of Commercial/Multi-Family Mortgage Bankers Originations reported that 2Q16 commercial and multi-family mortgage loan originations changed little from the same period last year, but increased 17.0% from the prior quarter. The recent uptick was driven by continued low interest rates and strong property fundamentals, which have supported lending. Since the prior quarter, loans for hotel properties were strong, rising 26.0%. The multi-family and retail sectors recorded 18.0% and 14.0% increases, respectively, from the prior quarter.

Jamie Woodwell, MBA's Vice President of Commercial Real Estate Research, remarked, "Borrowing and lending backed by commercial and multifamily properties remained strong during the second quarter."

YoY, loans originated for office and industrial assets recorded the highest increases, offsetting large drops in volume for health care assets. Among investor types, loans originated for commercial banks increased 33.0% YoY, offsetting a large decline for loans originated CMBS/conduits. Lending activity for life insurance companies recorded little YoY change.

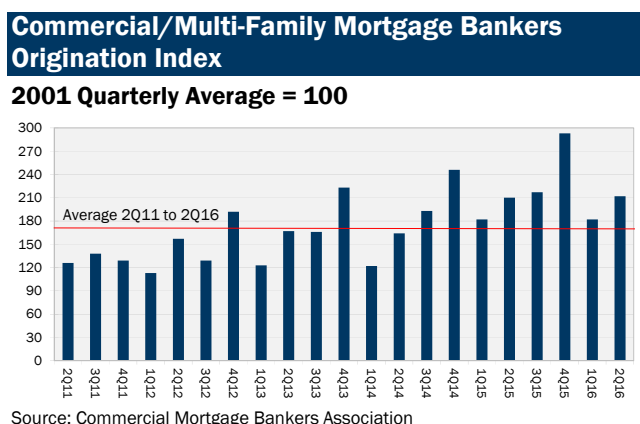
According to the July 2016 Senior Loan Officer Opinion Survey on Bank Lending Practices, domestic bank respondents told the Fed that their lending standards for commercial real estate loans of all types tightened during 2Q16, specifically construction and land development loans and loans secured by multi-family properties.

The following chart summarizes lending activity by property and investor type.

Lending Activity 2Q 2016		
Type	% Change since 2Q 2015	% Change since 1Q 2016
Property Type		
Industrial	9.0%	2.0%
Multi-Family	-1.0%	18.0%
Office	11.0%	7.0%
Retail	-9.0%	14.0%
Hotel	-11.0%	26.0%
Health Care	-64.0%	-25.0%
Investor Type		
CMBS/Conduits	-40.0%	-33.0%
Commercial Banks	33.0%	33.0%
Life Insurance Co.	15.0%	28.0%
GSE's (FNMA/FHLMC)	-3.0%	29.0%
Overall	1.0%	17.0%

Source: Mortgage Bankers Association

Below is a graph depicting the frequency of commercial/multi-family loan originations since 2Q11.



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 about \$31 billion during the first half of 2016, off nearly 45.0% from the total posted at this time last year. It was reported that conduit volume decreased 37.0% and single-borrower activity declined 65.0%. In 2015, CMBS issuance registered \$101 billion, the first time the \$100 billion level had been exceeded since 2007. It was reported that 71 U.S. transactions occurred during the first half of 2016.

According to CMA, there are numerous headwinds affecting the CMBS industry. Market professionals are concerned about uncertainty regarding the potential impact of new regulations, specifically a Dodd-Frank Act rule directed at making lenders write higher-quality loans by requiring them to retain exposure to future potential losses. Additionally, there is worry regarding possible bond market setbacks. Earlier in 2016, a spike in bond spreads hurt CMBS lenders by driving down the value of warehoused loans which considerably slowed originations due to volatility concerns and made CMBS shops less competitive with portfolio lenders.

Wells Fargo served as the top book runner, underwriting approximately \$4.6 billion of transactions since 2015. Other firms underwriting more than \$3 billion included Goldman Sachs, Citigroup, Deutsche Bank and J.P. Morgan.

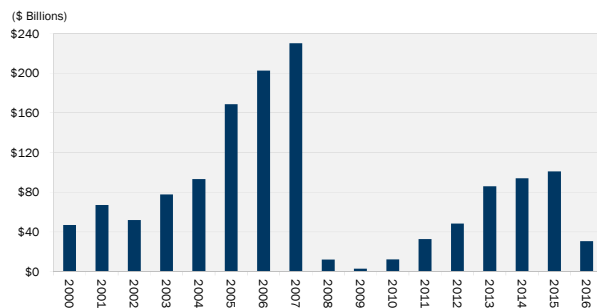
Looking ahead, CMA reported that the pipeline is generally

thin, with an estimated \$16 billion of issuances slated for the third quarter of 2016. CMBS professionals, surveyed by CMA, have scaled back issuance projections from an initial estimate of \$110 billion at the beginning of the year and now foresee upwards of \$65 billion in issuance for 2016.

Top U.S. CMBS Underwriters		
Firm	Issuance (\$Mil)	Market Share
Wells Fargo	\$4,605	15.0%
Goldman Sachs	\$3,896	12.7%
Citigroup	\$3,868	12.6%
Deutsche Bank	\$3,606	11.7%
J.P. Morgan	\$3,426	11.2%
Credit Suisse	\$2,560	8.3%
Bank of America	\$2,030	6.6%
Cantor Fitzgerald	\$1,842	6.0%
Morgan Stanley	\$1,827	5.9%
Barclays	\$1,452	4.7%
UBS	\$981	3.2%
Societe Generale	\$501	1.6%

Source: Commercial Mortgage Alert

U.S. CMBS Issuance



Source: Commercial Mortgage Alert

CMBS Delinquency

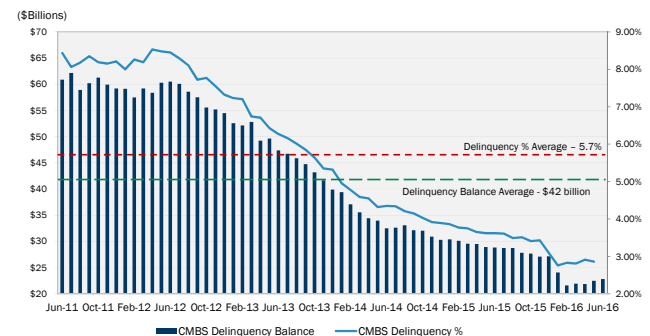
CMBS market delinquent balances and percentages continue to remain at low levels despite slight fluctuations during the past several months. The U.S. CMBS delinquency rate registered 2.83%, which is 76 BPS lower YoY.

- The delinquent unpaid balance for CMBS totaled \$22.8 billion in June 2016, the second consecutive monthly rise, but still lower than the \$28.8 billion recorded at this time last year.

- By property type, multi-family properties had the lowest delinquency rates (0.6%), followed by hotel (3.0%), industrial (4.4%), retail (5.1%) and office (5.4%).
- Multi-family loan delinquencies, accounting for 8.6% of total CMBS delinquencies, declined by 3.7 billion or 65.5% YoY to \$1.95 billion, the largest percentage decline among the property types.
- Industrial loan delinquencies, representing 5.3% of total CMBS delinquencies, declined by \$276 million or 18.7% YoY to \$1.2 billion.
- Retail loan delinquencies, at 35.2%, have been the greatest contributor to CMBS delinquencies during the past 12 months, but have declined \$699 million or 8.0% YoY to \$8.0 billion.
- Office loans, representing 33.9% of CMBS delinquencies, declined 11.4% or \$990 million YoY to \$7.7 billion.
- Hotel loan delinquencies, representing 10.0% of total CMBS delinquencies, declined by nearly \$379 million or 14.3% YoY to \$2.3 billion.
- Larger loan vintages between 2005 and 2007 continue to default and cause delinquencies resulting from aggressive pro-forma underwriting and market conditions. Approximately 86.5% of CMBS delinquencies through June 2016 resulted from such loans.

Below is a chart depicting monthly CMBS delinquencies since June 2011.

CMBS Delinquency Balance vs. Percentage



Source: Morningstar

Property Sector Overviews

Office

- Fundamentals within the office market continue to strengthen, supported by a steady job growth, broadening demand across more metropolitan areas, continued strong flows of investor capital into top-quality assets and increasing corporate and business expansions. Reis, Inc. reported that vacancy rates fell 20 BPS during the first half of 2016 after a 40 BPS drop the prior year.

- Reis, Inc. reported that net absorption slowed during 2Q16 from the prior quarter. Still, the 18.5 million square feet (msf) of absorption recorded during the first half of 2016 is 15.0% higher than recorded last year at this time.
- Asking and effective rental rates both increased about 1.5%, during the first half of 2016, marking the fifth consecutive year of rent growth. Spreads between asking and effective rents continue to slowly widen.

Office Market: Rents vs. Vacancy Rates



Source: Reis, Inc.

- Roughly 291,000 jobs were created in office-using employment sectors during the first half of 2016, down 26.0% YoY and lagging the 800,000 office jobs created in 2015. On the positive, hiring activity escalated during 2Q16 and job gains within the information services and financial activities sectors were greater YoY.
- The construction pipeline still remains generally light. As per Reis, Inc., new development has slowed since 2015, as construction deliveries averaged about 8.1 million sf per quarter during the first half of 2015, down from last year's quarterly average of 9.3 msf.
- Below is a brief ranking of key market indicators among the largest office market metropolitan areas.

2Q 16 Top 10 Office Markets Comparison		
YTD Net Absorption	Vacancy Rate	YTD Construction Deliveries
High to Low	Low to High	High to Low
Los Angeles	New York City	Houston
Dallas/Ft Worth	Boston	Dallas/Ft Worth
Houston	Philadelphia	New York City
Boston	Los Angeles	Boston
Philadelphia	Atlanta	Washington
Atlanta	Chicago	Chicago
New York City	Houston	Los Angeles
Washington	Northern NJ	Philadelphia
Chicago	Dallas/Ft Worth	Northern NJ
Northern NJ	Washington	Atlanta

Source: CoStar

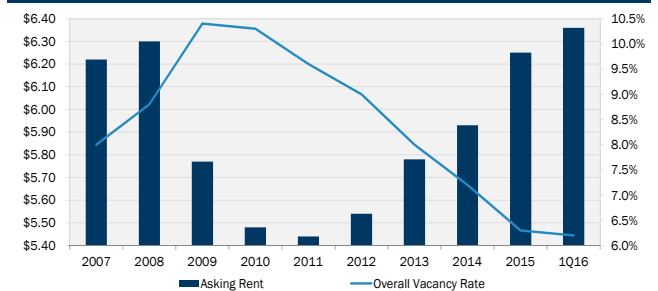
Industrial

- Market fundamentals remain strong for industrial product, driven by unrelenting demand for warehouse space by retailers to make greater efforts to shorten the supply chain and deliver goods to consumers faster. As e-commerce continues to gain popularity and account for

an increasing share of total shopping expenditures, companies are seeking to locate closer to population centers to fulfill increasing online orders.

- Additionally, the ISM index showed that factory activity expanded for a fourth consecutive month in June.
- According to CoStar, the national industrial vacancy rate, at historically low levels, decreased 10 BPS since last quarter to 5.9% as of 2Q16 and is down 90 BPS YoY. Vacancy rates were lower for warehouse properties (5.7%) than flex properties (7.8%).
- Strong demand from logistics users continued to place upward pressure on rental rates. CoStar estimated that asking rental rates now exceed peak levels set in 2008, with the strongest growth occurring in major distribution hubs and port cities.
- In response to increased demand, developers delivered 114 million sf of new product and the market absorbed nearly 143 million sf during the first half of 2016, according to CoStar. Build-to-suit and speculative development continued to increase.
- According to CoStar, Amazon continued to aggressively expand operations into distribution and fulfillment centers across the U.S. and signed six of the ten largest industrial leases during the first half of 2016.

Industrial Market: Rents vs. Vacancy Rates



Source: Costar (reflects select markets)

- Below is a brief ranking of key market indicators among the largest industrial market metropolitan areas.

2Q 16 Top 10 Industrial Markets Comparison		
YTD Net Absorption	Vacancy Rate	YTD Construction Deliveries
High to Low	Low to High	High to Low
Dallas/Ft Worth	Los Angeles	Atlanta
Atlanta	Detroit	Dallas/Ft Worth
Inland Empire	Inland Empire, CA	Inland Empire, CA
Chicago	Houston	Philadelphia
Northern NJ	Dallas/Ft Worth	Chicago
Philadelphia	Northern NJ	Houston
Detroit	Chicago	Northern NJ
Houston	Boston	Los Angeles
Boston	Atlanta	Detroit
Los Angeles	Philadelphia	Boston

Source: CoStar

Retail

- Total U.S. retail sales increased 2.7% YoY in June and total sales escalated 1.4% during 2Q16 from the prior quarter. Online shopping accelerated, as sales at non-store retailers improved 10.6% in the first half of 2016 compared to this same period last year.
- Despite the increasing number of closings, primarily from apparel and department stores, vacancy rates within neighborhood and community centers, which comprise about 70% of U.S. retail inventory, declined slightly during 2Q16 to 9.9%.
- Minimal new construction continues for retail assets, as developers remain selective in locating to areas with the strongest demographic profiles. The majority of retail product being delivered is in single-tenant formats.

Retail Market: Rents vs. Vacancy Rates



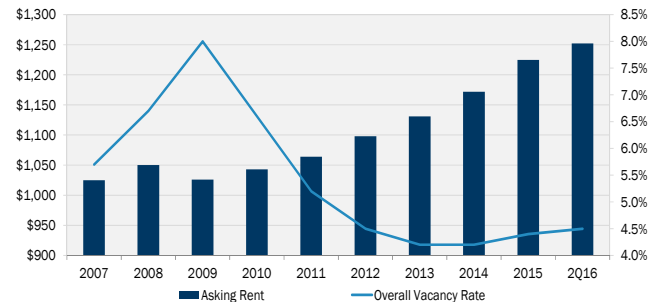
Source: Reis, Inc. (reflects neighborhood and community centers)

- As retailers respond to shifting residential trends and lifestyle habits, the retail landscape continues to evolve. Dollar stores, discounters, off-price apparel and food-related concepts are currently driving growth and expansion.
- E-commerce continues to be a major disruptive force to traditional brick and mortar retailers, who are increasingly repositioning stores by reducing their physical presence and closing and/or scaling back operations. During the first half of 2016, several major national retailers, including Sports Authority and Sports Chalet, announced the closing of their stores. In May, Aeropostale filed for bankruptcy and announced the closing of more than 100 stores. Other national retailers that have begun closing greater than 50 stores include Men's Warehouse, Sears, Walmart, Ralph Lauren, Office Depot Staples and Macy's.

Apartment

- Vacancy rates have moved little since 2015, as much needed new supply has helped to satisfy demand for additional rental units.
- Net absorption changed little from the prior quarter during 2Q16 and approximately 69,000 units were absorbed during the first half of 2016. In 2015, nearly 181,000 units were absorbed, representing a 6.5% increase from the prior year.

Apartment Market: Rents vs. Vacancy Rates



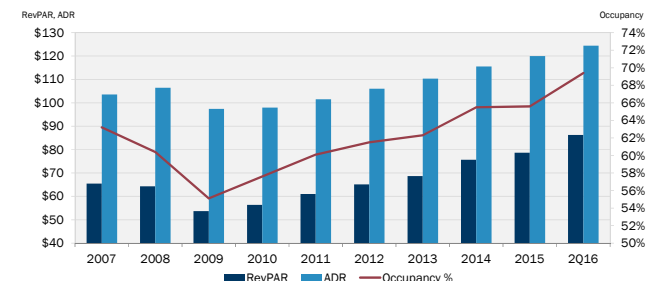
Source: Reis, Inc.

- Despite the slowdown in rental growth, asking and effective rental rates have grown by 1.4% since 2015 and 4.1% YoY according to Reis, Inc.
- Apartment deliveries totaled approximately 93,500 units during the first half of 2016, about 3.5% higher than the totals recorded at this time last year. During the past 12-month period, developers delivered nearly 200,700 units, the highest 12-month total since 1999. Analysts anticipate 2016 deliveries to exceed last year's total.
- The divide continues to widen between new, luxury apartment communities, where concessions are common to lure renters, and less-expensive, class-B apartment communities that are fully-occupied with long waiting lists. Many new households cannot afford the expensive new apartment properties now under construction, which will be a challenge faced by property managers.

Hotel

- Hotel demand, which is driven by increased corporate travel and steady leisure travel, has helped the U.S. hotel sector continue its recovery.
- Compared to 2Q15, Smith Travel Research (STR) reported that the U.S. hotel industry's occupancy increased slightly to 69.4%, the average daily rate increased 2.9% to \$124 and RevPAR improved 3.5% to \$86 during 2Q16.

Lodging Market: RevPAR, ADR & Occupancy



Source: Smith Travel Research; 2016 data as of June

- According to STR, there are nearly 1,255 lodging projects, totaling 166,400 rooms, under construction as of June 2016, representing a 29.0% YoY increase.

Forecast

Economic

- Despite steady consumer consumption and increasing disposable income, economic growth is likely to be restrained throughout the remainder of the year, as macroeconomic worries and pressures are expected to limit GDP growth to around 2.0%.
- According to the most economists, Brexit's impact on U.S. consumer spending and the overall economy is expected to be modest during the second half of the year, although global economic growth is likely to suffer.
- The upcoming election and a lack of defined economic policy regarding taxation and regulations is likely to create political uncertainty regarding economic growth and stability, which may impact the commercial real estate market in the near future.
- As labor markets near full employment, the pace of job creation is expected to slow in the upcoming quarters.

General Property

- Commercial real estate price appreciation is expected to grow at a decelerating rate as compared to the past few years.
- Capitalization rate movement is expected to be minimal, but sustained investor demand, the pursuit of higher yields and appetite for risk are projected to compress rates within varied secondary and tertiary markets.
- REITs are anticipated to generate more interest among investors and to achieve greater visibility within investment indices after being reclassified into a new GICS sector during 3Q16.
- Despite a first half slowdown, sales volume is projected to increase throughout the remainder of the 2016, driven by steady demand, low-interest rates and the flight to safety for U.S. assets.
- Increasing flows of international capital are forecasted to continue to move into U.S. commercial real estate assets as investors increasingly look for safety and stability to protect and invest their money amidst global volatility.

Property Sector

- Retail:** Upward pressure on wage growth and rising incomes is expected to support growth in retail spending and generate new demand for retail space in the upcoming months. E-commerce will continue to capture a greater percentage of sales each month, especially sales via mobile devices. The closings of "brick and mortar" stores from prominent will continue to flood the market with excess inventory.

- Apartment:** Although low mortgage rates and easing credit standards offer increasing appeal to renters seeking to make first-time home purchases, homeownership is currently at a 51-year low and demand for rentals is expected to remain strong in the foreseeable future. As millennials continue to delay marriage, this fundamental shift is expected to support steady rental demand.
- Office:** Market fundamentals are expected to remain positive throughout the remainder of the year, marked by falling vacancy rates and accelerating rental rate growth; however, as the economy nears full employment and job growth slows, office absorption is projected to weaken in numerous markets.
- Industrial:** Driven by the continued growth of e-commerce and need for advanced supply chains, steady tenant activity is projected to drive vacancy rates lower and fuel strong levels of absorption through the end of 2016 and into 2017. The opening of the \$5 billion Panama Canal expansion in late June is expected to increase industrial demand in U.S. port cities.
- Hotel:** There is cautious optimism regarding lodging performance throughout the remainder of the year. Lingering concerns regarding the Zika Virus, terrorism threats, global instability and the continued rise of home sharing companies like Airbnb will pose challenges to the leading hotel brands.

Below is a 20-year historical average and property forecast for the major property types through 2018, which has been published by the Urban Land Institute.

OFFICE	20-Yr Avg 1996-2015	FORECAST		
		2016	2017	2018
Vacancy Rate	13.50%	12.60%	12.30%	12.30%
Rental Rate Change	2.50%	4.00%	3.50%	3.00%
INDUSTRIAL	20-Yr Avg 1996-2015	FORECAST		
		2016	2017	2018
Vacancy Rate	10.50%	9.20%	9.30%	9.50%
Rental Rate Change	1.40%	4.50%	3.10%	2.70%
RETAIL	20-Yr Avg 1996-2015	FORECAST		
		2016	2017	2018
Vacancy Rate	9.90%	10.90%	10.70%	10.70%
Rental Rate Change	1.40%	2.00%	2.00%	1.70%
MULTI-FAMILY	20-Yr Avg 1996-2015	FORECAST		
		2016	2017	2018
Vacancy Rate	5.50%	4.90%	5.20%	5.40%
Rental Rate Change	2.80%	3.60%	3.00%	2.40%
HOTEL	20-Yr Avg 1996-2015	FORECAST		
		2016	2017	2018
Occupancy Rate	61.60%	65.80%	65.50%	65.20%
RevPAR Change	3.30%	4.60%	3.30%	3.00%

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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Our innovative and results-driven strategy and superior execution are supported by authoritative, state-of-the-art financial and tax analyses developed by some of the industry's foremost experts.

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- Operations Optimization
- Portfolio Optimization
- Development Advisory
- Lease Consulting
- Corporate Real Estate Strategy
- Lender Relationship Management
- Site Selection and Incentive Negotiation
- Construction Project Management
- Outsourced Accounting and Financial Reporting

CAPITAL MARKETS ADVISORY

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- Capital Structure Advisory-Debt, Equity, Portfolio Acquisition and Disposition
- Executive Compensation and Corporate Governance

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- Secured Lender and Special Servicer Advisory
- Unsecured Creditors/Committees Advisory
- Trustee-Receiver Services
- Interim Management Services
- §363 Asset Sales
- Bankruptcy Administration & Reporting
- Strategic Communications

LITIGATION SUPPORT

- Expert Testimony
- Investigations and Forensic Accounting
- Dispute Advisory Services

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- Tax Structuring and Compliance
- Tax Strategy and Planning Related to Bankruptcy and Financial Restructuring
- State and Local Tax Services
- Cost Segregation
- Private Client Advisory

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- Hospitality, Gaming and Leisure

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CRITICAL THINKING
AT THE CRITICAL TIME™

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