FTI INSIGHTS

Report

3rd Quarter 2014

Economic & Real Estate Report

Contents

Introduction

Momentum continued throughout the summer months as the second estimate of GDP showed that the U.S. economy grew at an upwardly adjusted 3.9% annualized rate, marking the strongest six month period of growth in more than a decade. GDP growth during 3Q14 was primarily broad-based across most economic segments, including business investment, trade, consumer spending, housing and government. This brisk economic growth pace could raise expectations that the Federal Reserve will start raising its short-term interest rate, which has been at record lows near zero for six years, sometime in mid-2015.

Other economic indicators point to continued economic strength. The labor market added nearly 224,000 jobs per month during 3Q14 and the unemployment rate declined to its lowest level since 2008. Resulting from an improving labor market, U.S. consumer sentiment reached its highest reading in September since July 2013 as per the Thomson Reuters/University of Michigan Consumer Sentiment Index. Additionally, manufacturing output remained solid and the Leading Economic Index grew stronger.

Still, numerous potential headwinds loom on the horizon for sustained economic growth. The Conference Board's consumer-confidence reading fell sharply in September from a post-recession peak the prior month and the global economy has darkened since midsummer as unstable financial markets, the spread of the Ebola virus and deepening conflict in the Middle East are now weighing increasingly on consumers, businesses and investors. Additionally, there have been economic slowdowns in both Europe and China.

Sustained demand for U.S. commercial real estate assets continued during 3Q14. Several leading commercial real estate information providers reported improving market fundamentals, illustrated by increased absorption, declining vacancies, rental rate growth and more development activity. The NCREIF Property Index reported its nineteenth consecutive quarter of positive growth in 3Q14 and the simple average overall capitalization rate (comprising the office, retail, apartment and industrial sectors), declined for the tenth consecutive quarter as per the 3Q14 PwC Real Estate Investor Survey. Increasing competition amongst investors to find the highest yields within primary and secondary markets drove commercial real estate activity during 3Q14 amidst the extensive availability of financing through domestic and international sources.

Real estate debt markets strengthened during 3Q14. CMBS issuance was at its highest quarterly level since 2007 and bettered output recorded during this same time period by 14%. Reversing a two-month increase, the U.S. delinquent unpaid balance for CMBS decreased to its lowest level since 4Q09. The lending environment is growing more favorable for commercial real estate as 3Q14 commercial and multi-family mortgage loan originations increased considerably from the prior quarter and year. The October 2014 Senior Loan Officer Opinion Survey on Banking Lending Practices pointed to further easing of credit standards and continued improvement on the demand side for commercial real estate, construction and land development loans. REITs remained active in capital issuance during 3Q14, albeit at a slower pace than the prior quarter.

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

- **GDP Increases.** The second advance estimate showed 3Q14 U.S. GDP increased at a 3.9% seasonally adjusted annualized rate, higher than the initial estimate of 3.5%. This exceeded consensus estimates for a slight downward adjustment to 3.3%.
- **Unemployment Rate Falls.** The unemployment rate decreased to 5.9% in September, the lowest level since the summer of 2008; still, the unemployment rate has dropped partly due to people dropping out of the labor force.
- **Small Business Optimism Falls.** In September, small business confidence decreased slightly according to the National Federation of Independent Business (NFIB) Small Business Optimism Index. Currently, the NFIB Index is five points below the pre-recession average (1973 -2007).
- **Consumer Confidence Mixed.** U.S. consumer confidence decreased in September after four consecutive monthly increases as per The Consumer Board Consumer Confidence Index. In contrast, U.S. consumer sentiment reached its highest reading in more than a year as per the Thomson Reuters/ University of Michigan Consumer Sentiment Index.
- **The Leading Economic Index (LEI) Increases.** The LEI escalated 0.8% in September following no change in August and a 1.1% rise in July. During the past six months, strength among the components within the index has been broad based, suggesting moderate expansion in the United States economy for 4Q14.
- **Retail Sales Fall.** For the first time since January 2014, reflecting a possible indication of consumer caution before the holiday shopping season, retail sales declined in September. The 0.3% fall coincided with weakening consumer confidence. Just a month earlier, retail sales increased 0.6%. The decline was driven by the continued drop in gasoline prices, broad-based weakness at non-store retailers (online shopping) and weakening motor vehicle sales.
- **Trade Deficit Widens.** Reflecting a global slowdown, exports decreased and imports increased during September. Declines in exports occurred from capital/consumer goods and industrial supplies and materials.
- **Employment Cost Index (ECI) Rises.** The ECI increased 0.7% during 3Q14, exceeding consensus estimates. The index reflected growing wages, salaries and benefit costs. The year-over-year (YoY) increase of total employment costs, 2.2%, was the fastest rate of such growth since 2Q11.
- **Factory Orders Decrease.** In September, a 0.6% decline was recorded for factory orders, following a 10.0% fall the prior month. The fall was primarily driven by declines in durable goods orders and transportation equipment
- **Durable Goods Orders Fall:** Despite expectations for a modest increase, durable goods orders declined 1.3% in September. Weakness was broad-based, including a 3.7% decline in the transportation sector, which economists believe can be attributed to slowdowns in the Eurozone and China.

Employment

U.S. labor market hiring accelerated during September as payrolls increased by 248,000, following an upwardly revised figure in August. During 3Q14, an average of 224,000 non-farm jobs were created monthly, topping the 172,000 monthly jobs created in 3Q13. Roughly 227,000 jobs have been created monthly so far in 2014, besting the 194,000 monthly gains last year. The private sector has added 10.3 million jobs during 55 consecutive months of job growth. The September employment report shows that the economy appears to be on track for a stronger recovery. The September ADP National Employment Report showed gains of 213,000 in nonfarm private employment that was broad-based, including increases within the trade, transportation & utilities (+38,000), manufacturing (+35,000), professional & business (+29,000) and construction (+20,000) sectors.

Resulting from the jump in hiring activity, the unemployment rate fell to a six-year low of 5.9%. Still, average hourly earnings are up only 2.0% in the past year and the labor participation rate still remains at historically low levels. Non-farm employment totals about 139.4 million, which is up 1.5% from 2013. Other September labor data shows the labor force the average workweek inched up to 34.6 hours and the U6 unemployment rate (unemployed, under employed and too discouraged to look for a job) fell to 11.8%, the lowest such rate since 2008.

During 3Q14, the private sector continued to be the driver of job growth. Job gains were broad-based and concentrated within the professional and business services (+194,000), education and health services (+111,000), trade, transportation & utilities (+97,000), leisure & hospitality (+63,000) and construction (+62,000) sectors. The government sector added 21,000 jobs during 3Q14.

US Non-Farm Employment by Industry

Historic and Current Figures (thousands)

United States Nom-Farm Employment by Industry

Historic & Current Figures (thousands)

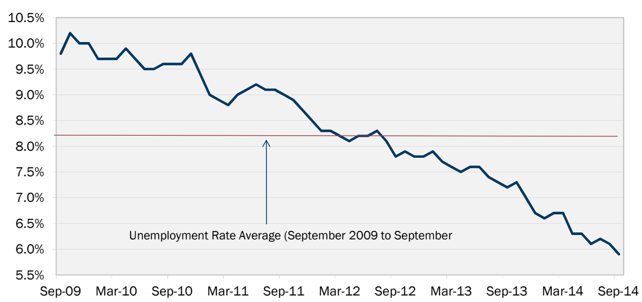
Industry	2014 Employment	Total Percent	2013 Employment	Total Percent	2012 Employment	Total Percent	% Change 2013- 2014
Mining and Logging	928	0.7%	882	0.6%	851	0.6%	5.2%
Construction	6,079	4.4%	5,876	4.3%	5,720	4.2%	3.5%
Manufacturing	12,154	8.7%	12,053	8.8%	11,965	8.9%	0.8%
Trade, Trans & Utilities	26,488	19.0%	26,156	19.0%	25,638	19.0%	1.3%
Information	2,692	1.9%	2,674	1.9%	2,674	2.0%	0.7%
Financial Activities	7,985	5.7%	7,901	5.8%	7,827	5.8%	1.1%
Prof & Bus. Services	19,413	13.9%	18,842	13.7%	18,165	13.4%	3.0%
Educ. & Health Services	21,580	15.5%	21,242	15.5%	20,904	15.5%	1.6%
Leisure & Hospitality	14,687	10.5%	14,435	10.5%	13,981	10.4%	1.7%
Other Services	5,518	4.0%	5,480	4.0%	5,451	4.0%	0.7%
Government	21,911	15.7%	21,854	15.9%	21,888	16.2%	0.3%
Total Nonfarm	**139,435**	**100.0%**	**137,395**	**100.0%**	**135,064**	**100.0%**	**1.5%**

Source: Bureau of Labor Statistics

September marked the tenth consecutive month that the unemployment rate registered below 7.0%. Prior to November 2013, the unemployment rate had exceeded 7.0% for 59 consecutive months.

US Non-Farm Employment by Industry

Historic and Current Figures (thousands)

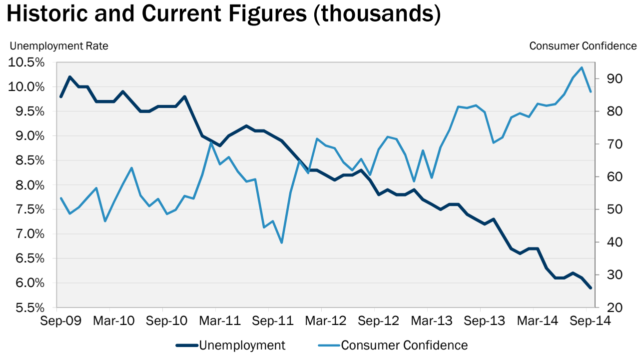


Source: Bureau of Labor Statistics

Below is a graph depicting unemployment rates and consumer confidence since September 2009.

U.S. Unemployment Rate vs. Consumer Confidence

Historic and Current Figures (thousands)



Source: Bureau of Labor Statistics; Conference Board

The Conference Board Consumer Confidence Index is closely correlated with the U.S. unemployment rate and is considered a key indicator of economic conditions. Consumer confidence decreased 7.4 points in September after four consecutive monthly increases. It was reported that consumers' expectations regarding the short-term outlook for the economy were less favorable than the prior month and they were less confident regarding the current job market.

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, then 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 second estimate of 3Q14 GDP showed that the U.S. economy grew at a seasonally adjusted annual rate of 3.9%. Despite falling from the 4.6% gain recorded during 2Q14, this back-to-back quarterly growth was the highest since the second half of 2003. The economy has now grown at a 3.5% pace or better in four of the past five quarters.

This latest increase, representing an upward revision from a 3.5% initial advance estimate, was driven by a faster pace of consumer spending from a 2.2% annual growth rate as compared to a 1.8% rate previously and a growth in business investment from 5.5% to 7.1%. There was also a reduced slowdown in inventory investment from $22 billion to $6 billion, which lessened the drag on GDP growth.

Other highlights of 3Q14 include:

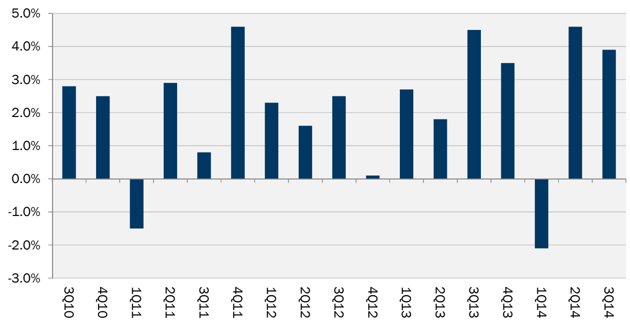
- A lessening trade gap between exports and imports added to economic growth during 3Q14 as exports increased 4.9% and imports decreased 0.7%.
- Government spending grew at a 4.2% rate, the strongest performance since 3Q09. This gain was fueled by a 16.0% increase in military spending. State and local government consumption and gross investment increased 0.8%.
- After slowing late in 2013, spending on residential building and improvements increased 2.7%. Real nonresidential fixed investment jumped 7.1%.
- Durable goods increased at an 8.7% rate, outpacing the 2.2% rate of increase for nondurable goods.

Looking ahead, recent reports show that economists and analysts expect a pace closer to 2.0% in the final quarter as several sources of growth, such as defense spending, are expected to slow during 4Q14.

The following chart summarizes U.S. GDP growth since 3Q10.

Gross Domestic Product

Quarter-to-Quarter Growth in Real GDP



Source: Bureau of Economic Analysis

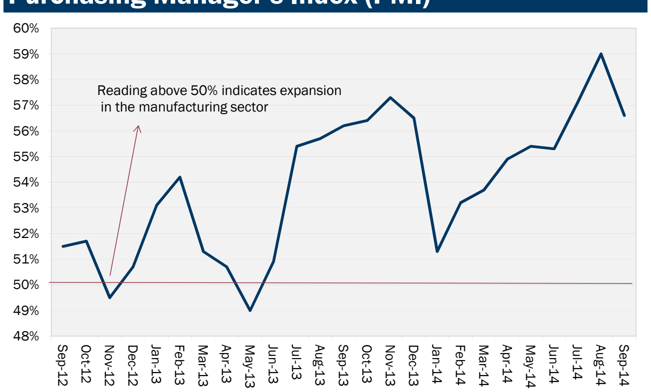
Institute for Supply Management (ISM) Manufacturing Index

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%).

Although the headline Purchasing Manager's Index (PMI) fell from 59.0% to 56.6% in September, the U.S. manufacturing sector still remains robust. This latest reading is still strongly in expansion territory and despite the latest volatility, survey respondents are generally seeing increased orders and shipments and feel confident regarding future economic conditions. Economic activity in the manufacturing sector has now expanded for sixteen consecutive months. Fifteen industries reported growth, while only three industries reported contraction during September. The data indicates the continued recovery among American manufacturers following a slowdown during the early part of 2014.

The graph below shows fluctuations within the PMI since September 2012. Since January, conditions have improved considerably.

Purchasing Manager's Index (PMI)



Source: Institute for Supply Management

- **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 dropped in September and has averaged 55.6% during the past 12 months.
- **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 reflected growth for the sixteenth consecutive month, but fell 6.7 percentage points in September to 60.0%; twelve industries reported growth.
- **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 slightly by 1.0 percentage point in September after jumping 3.3 percentage points in August.
- **Employment Index**. An Employment Index above 50.1%, over time, is generally consistent with an increase in manufacturing employment. Although the index declined by 3.5 percentage points in September, growth in employment has now been recorded for fifteen consecutive months; this is indicative of a long-term strengthening of the labor market.
- **Supplier Deliveries Index.** A reading above 50% indicates slower deliveries. The delivery performance of suppliers to manufacturing organizations slowed in September at a slower rate, relative to August, as the Supplier Deliveries index registered 52.2%.
- **Inventories Index.** An Inventories Index greater than 42.7%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' (BEA) figures on overall manufacturing inventories. Manufacturers' inventories declined 0.5 percentage point in September from the prior month, indicating that raw materials inventories grew for the second consecutive month.

Construction Spending

The U.S. Census Bureau of the Department of Commerce reported that U.S. construction spending unexpectedly fell 0.4% in September with downward revisions to the prior two months. Total construction activity, estimated at a seasonally adjusted rate of $950.9 billion in September, was 2.9% above the September 2013 estimate of $924.2 million. During the first three quarters of 2014, the value of construction totaled $710.1 billion, representing a 6.1% increase from the same period last year.

Construction weakness was felt within the non-residential sector, which declined 1.0% during September. Despite the latest fall, activity within the lodging (+4.7%), office (+2.4%) and commercial (+1.3%) sectors all increased during the month. Since September 2013, construction outlays have increased 4.2% within the non-residential sector, led by increases ranging from approximately 12% to 16% within commercial, lodging and office sectors.

After four consecutive monthly declines, construction activity within the residential sector increased 0.4%. The increase resulted from a 1.1% September gain in private single-family construction. In contrast, private multi-family construction fell 1.0%; however, private residential construction outlays have increased 25.7% for multi-family versus 9.8% for single-family projects from levels posted one year ago.

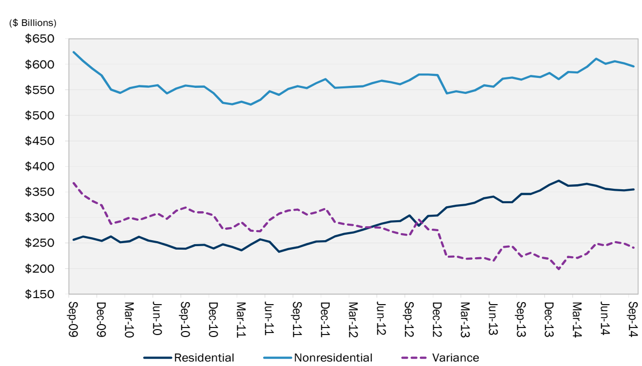
Public construction outlays fell 1.3% in September, driven by a 1.4% decline in nonresidential spending; however, during the past 12 months, public non-residential spending has increased 1.7%, fueled by increases in recreation (+9.4%), educational (+8.4%) and office building (+6.0%) spending.

Of total construction spending, private construction comprised 71.5% of total expenditures and public construction accounted for 28.5%. Non-residential spending accounted for 63.0% of total expenditures compared to 37.0% for residential.

Below is a graph highlighting annualized residential and non-residential construction (seasonally adjusted) since September 2009. The graph shows that the pace of construction activity has moderated in recent months for both the residential and non-residential sectors. Although the economic downturn initially affected the residential construction industry more significantly as evidenced by a $367 billion variance recorded in September 2009, spending has rebounded within the sector at a faster pace than for non-residential properties. In early 2014, the variance in spending between non-residential and residential projects fell to $199 billion, the smallest figure since 3Q07. Most recently, the pace of non-residential construction has increased at a faster pace, increasing the variance to $241 billion.

U.S. Construction Spending

Value of Construction Put in Place - Seasonally Adjusted Annual Rate



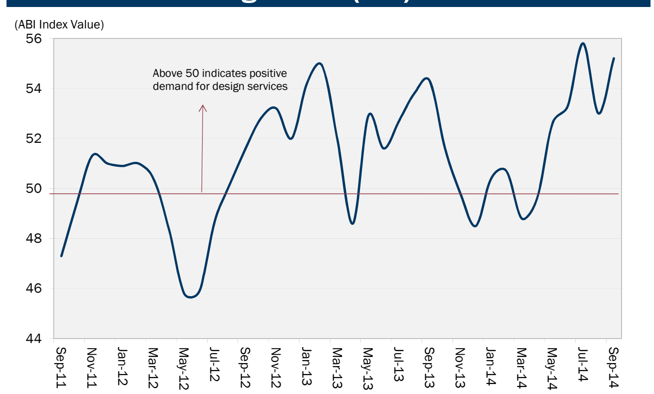
Source: U.S. Census Bureau

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. Survey participants are asked whether their billings increased, decreased or stayed the same in the month that just ended. According to the proportion of respondents choosing each option, a score is generated, which represents an index value. 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.

- September marked the second consecutive month of growth for the design and construction industry as the ABI increased from 53.0 to 55.2.
- Additionally, the value of new signed design contracts increased, representative of a healthy supply of work in the pipeline at firms.
- Architecture firm billings increased in all parts of the country during September, led by the South (55.3), Midwest (55.1), West (54.2) and Northeast (48.7). Positive growth was reported in all tracked sectors, led by the multi-family residential (55.3), institutional (54.9) and commercial/industrial (50.8) sectors.

Architectural Billings Index (ABI)



Source: The American Institute of Architects

State of the Housing Market

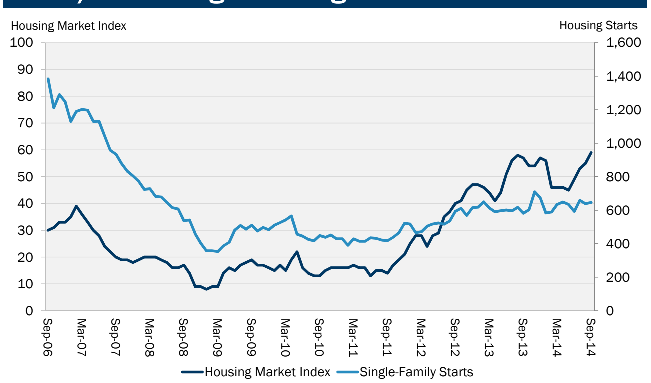
After a difficult start to the year, the U.S. housing market continued to slowly improve toward the end of 3Q14 as spring demand has carried into the fall. The National Association of Realtors reported existing home sales jumped to the highest annual pace of 2014 in September, spurred by interest rates (4.16%) that were 33 basis points lower than the September 2013 reading. Still, existing home sales are 1.7% lower from levels posted one year earlier.

The following page highlights key points regarding the state of the housing market.

- The Commerce Department reported that new home sales increased 0.2% in September and that residential construction spending grew 0.4% during the month, reversing four consecutive monthly declines.
- U.S. housing starts increased 6.3% in September to an annualized rate of 1.02 million, exceeding economist expectations. Building permits, an indicator of future demand, increased 1.5% during the month; however, the rise in permits occurred within the multi-family sector as the single-family sector fell slightly.
- In September, the national median existing-home price for all housing types was $209,700, up 5.6% from 12 months ago. This represented the 28th consecutive month of YoY price gains.
- Since September 2013, all U.S. regions experienced housing price appreciation. The South led all regions with 5.1% growth, followed by 4.9% growth in the Midwest, 4.8% growth in the Northeast and 4.0% growth in the West.
- Distressed transactions (foreclosures and short sales sold at deep discounts) increased slightly from the prior month, but fell 14% from 12 months ago.
- Lawrence Yun, NAR Chief Economist, remarked, "Low interest rates and price gains holding steady led to September's healthy increase, even with investor activity remaining on par with last month's marked decline. Traditional buyers are entering a less competitive market with fewer investors searching for available homes, but may also face a slight decline in choices due to the fact that inventory generally falls heading into the winter."

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 September builder confidence in the market for newly-built, single-family homes increased for the fourth consecutive month. The four point increase brought the NAHB/ Wells Fargo Housing Market Index to its highest level since November 2005. All three index components (current sales conditions, sales expectation during the next six months and traffic of prospective buyers) posted gains during September. NAHB Chief Economist, David Crowe, commented, "While a firming job market is helping to unleash pent-up demand for new homes and contributing to a gradual, upward trend in builder confidence, we are still not seeing much activity from first-time home buyers, Other factors impeding the pace of the housing recovery include persistently tight credit conditions for consumers and rising costs for materials, lots and labor."

Regionally, the three-month moving averages for homebuilder confidence increased in each region, with the Midwest and South posting the largest gains during September.

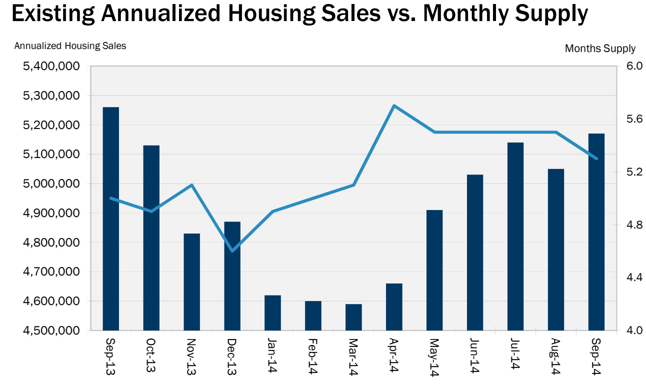
Housing Sales and Inventory

Sales of existing homes increased 2.4% in September to a seasonally adjusted annual rate of 5.17 million, the highest pace so far in 2014; however, sales are 1.7% below the 5.26 million-unit pace of September 2013. YoY sales activity increased 1.4% in the South, but decreased in the Midwest (4.9%), West (4.0%) and Northeast (1.4%) regions. The median time on the market for an existing home was 56 days in September, up from 50 days recorded at this time last year. It was estimated that 35% of all homes sold in September were on the market for less than one month and short sales were on the market for a median of 116 days. First-time buyers accounted for 29% of the September purchases, a figure that has remained unchanged now for three consecutive months. All cash sales comprised 24% of transactions in September, down from 33% a year earlier. Total housing inventory at the end of September registered 2.30 million existing homes available for sale, representing a 5.3-month supply. Unsold inventory is 6.0% above the level of a year ago.

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

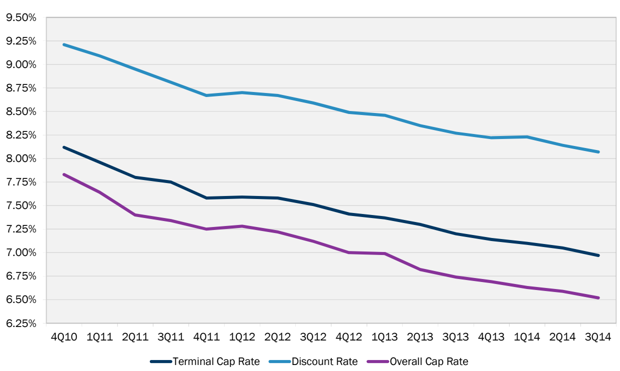
PwC Real Estate Investor Survey

- Institutional and private investors surveyed for the 3Q14 PwC Real Estate Investor Survey reported that overall cap rates (OARs) declined in twenty-two, increased in two and held steady in ten of the survey's 34 tracked markets. OAR's decreased 7 basis points (BPS) across nearly all major property types during this time period. Overall, the largest capitalization rate declines occurred within the flex/R&D and CBD-office sectors. Minimal changes were reported for retail sector and a slight decrease in rates occurred within the apartment sector.
- Terminal cap rates decreased to 6.97% during 3Q14, marking the tenth consecutive monthly decline. The average decline was 8 BPS across nearly all major property types since 2Q14. This compares to a 23 BPS decrease for terminal cap rates between 3Q13 and 3Q14.
- Discount rates (IRR) decreased 7 BPS across nearly all major property types during 3Q14 to 8.07%. This compares to a 20 BPS decline for discount rates between 3Q13 and 3Q14.

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

PwC Real Estate Investor Survey Historical Results

Investment Rate Analysis



3Q14 Survey Highlights

- OARs remained steady in one and declined in seven major commercial property types during 3Q14; the flex/R&D (17 BPS), CBD-office (14 BPS) and apartment (8 BPS) sectors recorded in the largest declines. No change was recorded in power center sector and little movement occurred within the suburban-office, warehouse, regional mall and strip center sectors.
- As of 3Q14, flex/R&D properties had the highest average OARs at 7.58%, followed by the strip center (7.05%) and suburban office (6.72%) sectors. The lowest average OARs were recorded within the apartment (5.51%), warehouse (5.93%) and CBD-office (6.16%) sectors. The simple average OAR across all sectors was 6.52%.
- Terminal cap rates decreased in six sectors and held steady in two sectors during 3Q14. The largest decreases were recorded within the suburban-office (21 BPS), CBD-office (15 BPS), flex/R&D (10 BPS) and strip center (10 BPS) sectors.
- As of 3Q14, flex/R&D properties had the highest terminal capitalization rate at 7.90%, followed by the suburban-office (7.34%) sector. The lowest terminal capitalization rates were recorded within the apartment (5.97%), warehouse (6.60%) and CBD-office (6.64%) sectors. The simple average terminal capitalization rate across all sectors was 6.97%.
- IRRs decreased for five major property types, increased in one major property type and held steady in two property types during 3Q14. The largest decrease was recorded within the CBD-office sector (35 BPS). No change was recorded within the flex/R&D and power center sectors.
- As of 3Q14, flex/R&D properties had the highest IRR at 8.83%, followed by the regional mall (8.63%) sector. The lowest IRR was recorded within the warehouse (7.31%) sector. The simple average IRR across all sectors was 8.07%.
- The 3Q14 PwC Real Estate Investor Survey indicated that the majority of surveyed investors are gaining more confidence in the office sector, driven by increased leasing activity, growing occupancy levels and better control of buyer/tenant negotiations.
- The survey also found that investors believe retail will continue its slow recovery as demand continues to outpace new supply and that industrial sector will continue to slowly improve as occupancy levels grow.
- Investors expressed optimism that positive trends will continue for the remainder of 2014, specifically within the office and warehouse sectors, despite anticipated rising interest rates.
- Mitch Roschelle, PwC real estate advisory practice partner, noted that the medical office building sector is enjoying strong fundamentals due to an aging population and an increase in medical specialization and doctor visits.

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 CPPI is widely followed by economists and researchers and is used to understand the movement of U.S. commercial real estate prices. 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 0.9% rise, the National All-Property Composite Index increased 0.5% in September to top the pre-crisis November 2007 peak price by 0.2%. The core commercial component increased 0.9%, and the apartment component gained 0.5% during the month. During 3Q14, apartment prices outgained core commercial prices (2.4% vs. 2.1%).

- It was reported that the CPPI has risen by 68.6% from its January 2010 trough to recover the more than 40% of the loss that occurred between the November 2007 pre-crisis peak and January 2010. Primary drivers of the price recovery were the increased availability and decreased cost of debt and equity capital, strengthening market fundamentals, cap rate tightening and less distressed transactions.

- During 3Q14, CBD office prices increased 6.7%, the best performing property type during this period. Apartment and industrial prices grew 2.4% and 2.1%, respectively. The retail sector lost 1.2% during the quarter.

- During the past 12-month period, CBD office prices have increased 17.8%, exceeding the return of 13.5% within the National All-Property Composite Index. The retail sector (+5.3%) lagged the Index during this time period.

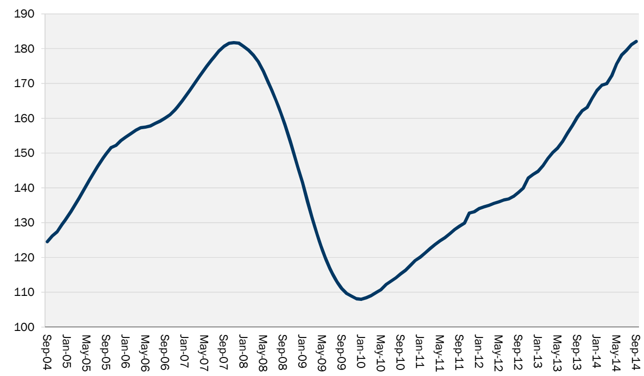
- Pricing is increasing faster within major markets. During 3Q14, prices have increased 2.9% for major markets versus 1.6% for non-major markets. During the past 12 month period, major markets gained 14.6% in comparison to 12.6% for major markets.

- The National All-Property Composite Index has recovered 100.5% of its post-crisis loss. Apartment (+146.0%) and CBD-office (+136.0%) assets lead all commercial sectors in price recovery since bottoming during late 2009/early 2010. Price recovery within the industrial (+71.0%), retail (+60.0%) and suburban office (+58.0%) sectors continues albeit at a slower pace than the national average.

Below is a chart detailing changes within the CPPI since September 2004.

Moody's/REAL Commercial Property Price Index

National Index – All Properties



Commercial Property Sales Analysis

Sales of commercial properties gained momentum during the summer months due to the continued strong availability of capital, the attractiveness of property yields in comparison to other assets and the increase of investors exploring deals in secondary and tertiary markets. It was estimated that roughly $97.5 billion of commercial sales activity (excluding land) occurred during the third quarter of 2014, an increase of 11% YoY. Sales activity through the first three quarters of 2014 has registered nearly $274 billion, bettering output at this time last year by 19%. Annualized, 2014 sales activity is projected to surpass 2013 output by 6.2%. Sales of individual property transactions escalated 33% YoY in aggregate, more than offsetting the decline in portfolio transactions during 3Q14. Along with positive investor sentiment, Real Capital Analytics reported continued cap rate compression, with the apartment and CBD-office sectors witnessing the largest decreases

Below we take a look at 3Q14 sales activity by product type.

- **Apartment:** Approximately $27.5 billion in volume occurred during 3Q14 within the apartment sector, a YoY increase of 28%, which was the second highest among property types. Since 2013, volume totaled $73.1 billion or 2.7% higher than at this time last year. Garden apartment transactions accounted for 63% of total volume. Annualized, sales would register almost $98 billion in 2014, off about 5% from output recorded last year.

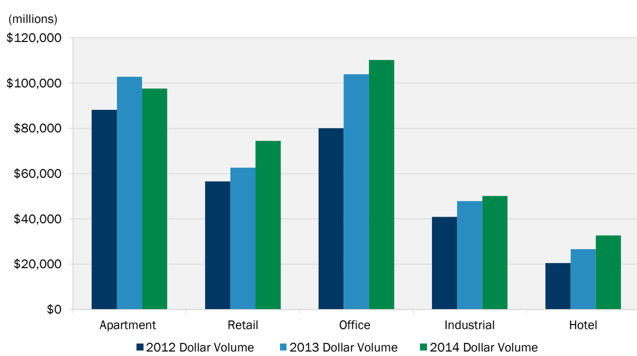
- **Retail:** 3Q14 volume of $18.4 billion was 21% higher than the prior quarter. Approximately $55.9 billion in volume was transacted during the first nine months of 2014, exceeding output recorded at this time last year by 29%. Although the retail subsectors recorded similar sales increases since 2013, the mall/other retail sector accounted for nearly 56% of total sales volume during this period. Annualized, sales would register almost $75 billion in 2014, up nearly 19% from totals recorded last year.

- **Office:** $82.6 billion of office sales occurred during the first three quarters of 2014, including $30.6 billion during 3Q14, the highest output of all the major commercial sectors. Office volume is up 28% from this time last year, driven by a 38% rise in CBD office sales and 18% gain in suburban office sales. Annualized, sales would register about $110 billion in 2014, up 6% from output recorded last year.
- **Industrial:** Investor sentiment has remained positive for industrial assets despite a YoY decline, mainly due to less portfolio transactions. During the first three quarters of 2014, nearly $37.6 billion of industrial sales were executed, representing a 15% YoY increase in volume. Warehouse assets accounted for roughly 68% of total industrial activity. Annualized, sales would register $50 billion in 2014, up about 4.5% from totals recorded last year.
- **Hotel:** Continuing momentum from the prior quarter, when the highest quarterly sales volume was executed since 2007, hotel sales volume registered more than $8.5 billion during 3Q14. Through the first three quarters of 2014, sales volume exceeded output recorded at this time last year by 30%, driven primarily by interest in full service properties, which accounted for roughly two-thirds of activity. Annualized, sales would register almost $33 billion in 2014, up 23% from totals recorded last year.

Sales transaction activity by property type is summarized in the below table for 2012 to 2014.

Investment Sales Activity

Dollar Value of Sales Transactions by Property Type



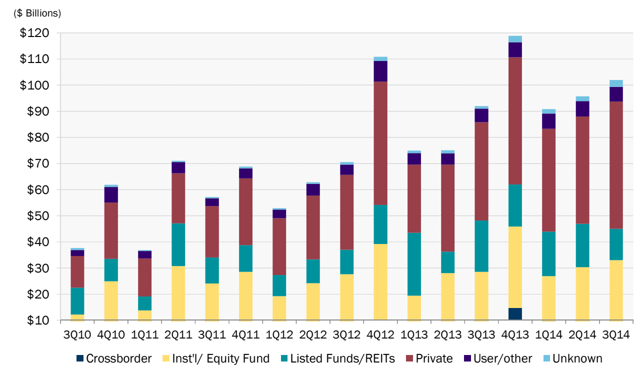
Source: Real Capital Analytics; 2014 volume annualized based on 3Q14 data

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, accounting for nearly half of transaction volume during 3Q14.
- Since 2013, market share for institutional/equity buyers declined slightly from 24.0% to 22.0%.
- Listed Funds/REITs accounted for nearly 16.0% of market volume through the first three quarters of 2014, down slightly from 19.0% recorded in 2013.
- Cross border investors have increased volume slightly during the first three quarters of 2014 and currently account for 9.5% of market share.

Investment Sales Activity

Summary of Transactions by Buyer



Source: Real Capital Analytics

Distressed Sales

- The percentage of commercial sales associated with distress, approximately 3.6%, fell for the fourth consecutive quarter during 3Q14. This represents the lowest percentage since mid-2008.
- Historically, RCA reported that the percentage of sales associated with distress peaked at nearly 21.0% towards the end of 2010.
- During 3Q14, about 6.5% of hotel sales involved a distressed property, the highest among the major property types; however, this is lower than the prior four-quarter moving average of 11.0%.
- Distress associated with office sales fell from 6.8% to 3.2% since 2Q14. This represents the lowest percentage since early 2008.
- Only 2.7% of industrial sale transactions during 3Q14 were associated with distress, the lowest percentage among major property types.
- Distress associated with apartment sales fell slightly to 3.6%, the lowest quarterly percentage since 2Q08.
- Distress associated with retail sales fell from 5.6% to 3.9% since 3Q14.

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**
3Q11	$58.13	$8.04	12.2%	-0.8%
4Q11	$61.07	$9.53	13.5%	1.3%
1Q12	$47.55	$6.30	11.7%	-1.8%
2Q12	$55.85	$8.22	12.8%	1.1%
3Q12	$64.93	$8.15	11.1%	-1.7%
4Q12	$109.74	$6.99	6.0%	-5.2%
1Q13	$71.79	$6.28	8.0%	2.1%
2Q13	$70.59	$6.08	7.9%	-0.1%
3Q13	$87.18	$8.20	8.6%	0.5%
4Q13	$113.29	$9.81	8.0%	0.0%
1Q14	$86.95	$5.82	6.3%	-2.3%
2Q14	$93.64	$5.06	5.1%	-2.8%
3Q14	$105.49	$3.94	3.6%	-2.7%

Source: RCA (Excludes Casinos)

Significant 3Q 2014 Sales Transactions

Below, noteworthy sales executed during 3Q14 are summarized for the major commercial real estate property types.

Office Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer(s)
300 North LaSalle Street	Chicago, IL	1,302,901	$850.0	The Irvine Company
65 East 55th Street[1]	New York, NY	619,631	$750.0	The Blackstone Group LP
1 Market Street (2)	San Francisco, CA	1,481,921	$600.0	The Blackstone Group LP
1 Wall Street	New York, NY	1,100,000	$585.0	Macklowe Properties
1 Beacon Street	Boston, MA	1,017,168	$561.5	MetLife Real Estate Investments Norges Bank- The Central Bank of Norway
112 West 34th Street	New York, NY	743,224	$423.6	Empire State Realty Trust
50 Beale Street	San Francisco, CA	662,060	$395.0	Paramount Group, Inc.

Source: CoStar [1] Represents 95% partial interest transfer sale

Industrial/Flex Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer
Tasman Technology Park (14)	Milpitas, CA	609,228	$116.0	Orchard Partners, LLC Lionstone Investments
Mountain View Technology Park (8)	Mountain View, CA	198,410	$92.1	Google
Cherry Logistics Center	Newark, CA	574,647	$87.3	Metlife Insurance Company of Connecticut
I-210 Logistics Center I	Rialto, CA	718,025	$67.5	TIAA-CREF Investment Management
300-330 Fairfield Road	Fairfield, NJ	417,744	$51.6	Stoltz Real Estate Partners
1501 & 1601 Remington Boulevard	Bolingbrook, IL	957,562	$50.1	TA Associates Realty
Belk Distribution Facility	Jonesville, SC	515,279	$45.0	W.P. Carey & Co. LLC

Source: CoStar

Retail Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer
Lincoln Road Mall Retail (6)	Miami Beach, FL	113,372	$342.0	Morgan Stanley Real Estate Investing Terranova Affiliates
Pacific Place (1)	Seattle, WA	322,824	$271.0	Madison Marquette
Beverly Connection Shopping Center (2)	Los Angeles, CA	335,845	$260.0	Ashkenazy Acquistion Corporation
The Loop (4)	Kissimmee, FL	434,909	$116.9	MetLife, Inc.
Bridgewater Falls (14)	Hamilton, OH	503,502	$85.5	Ramco-Gershenson Properties Trust
The Mall 205 & Plaza 205 (8)	Portland, OR	478,239	$76.5	Gerrity Atlantic Retail Partners LLC
Tysons West Retail (1)	Vienna, VA	129,571	$69.0	LaSalle Investment Management

Source: CoStar

Multi-Family Sale Transactions

Name	City, State	Units	Sale Price ($ mil)	Buyer(s)
The Vermont	Los Angeles, CA	464	$283.0	Capri Capital Partners, LLC TruAmerica Multifamily
Watermarke Tower	Los Angeles, CA	214	$160.5	ASB Capital Management, LLC
The Village at Lake Park	Smyrna, GA	1,738	$150.5	Cortland Partners
Apex	Milpitas, CA	366	$150.0	Essex Property Trust, Inc.
Rachel Garden Apartments	Pine Brook, NJ	764	$136.0	Cammeby's International, Inc.
75 Tresser	Stamford, CT	344	$120.5	Waterton Associates LLC
Wheelhouse of Fair Oaks	Fairfax, VA	491	$108.2	Grosvenor Americas, Inc.

Source: CoStar

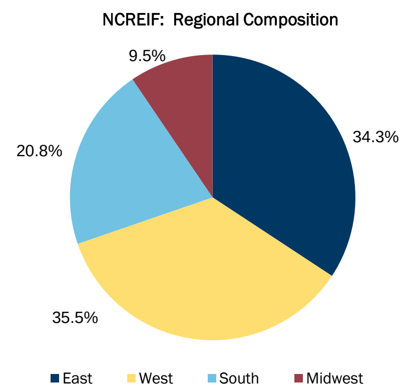
Hospitality Sale Transactions

Name	City, State	Rooms	Sale Price ($ mil)	Buyer
Wailea Beach Marriot Resort & Spa	Kihea, HI	541	$325.7	Sunstone Hotel Partnership, LLC
Holiday Inn Manhattan-Downtown/Soho	New York, NY	227	$105.5	RFR Holding LLC
Loews Chicago O'Hare Hotel	Chicago, IL	556	$102.6	Loews Corporation
Warner Center Marriot	Woodland Hills, CA	474	$89.8	Laurus Corporation
Springhill Suites New York Midtown	New York, NY	173	$82.0	Keck Seng Investments
Hotel Viking	Newport, RI	208	$77.0	Lone Star Funds
Doubletree Nashville	Nashville, TN	337	$69.3	Walton Street Capital, L.L.C.

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.



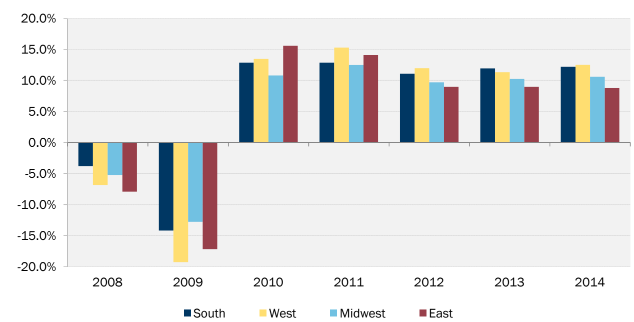
NPI Annualized Returns by United States Region

- NCREIF reported the nineteenth consecutive quarter of positive growth during 3Q14. The NPI total return was 2.63%, comprised of a 1.31% income return and a 1.32% capital appreciation return.
- Total one-year returns have registered 11.3%, with appreciation returns slightly exceeding income returns.
- Spreads between the regions continue to tighten, registering 71 basis points (2.24% vs.2.95%) during 3Q14. This compares to a 105 basis point spread (2.30% vs. 3.35%) last quarter and 136 basis point spread during 1Q14.
- 3Q14 returns declined within all four regions in comparison to the prior quarter.
- Price appreciation in the East again lagged the other regions, returning 2.24% during 3Q14. The smallest property gains also occurred here during the past two years. The current return was comprised of a 1.27% income and a 0.97% appreciation return.

- Despite declining from 3.35% to 2.95%, property returns were strongest for the second consecutive quarter in the West. One year returns have registered 12.7%, the second highest among the four major property types. The current return was comprised of a 1.26% income and a 1.69% appreciation return.
- Price gains were off 45 BPS from 2Q14 returns in the South; still, a 2.75% return was achieved during 3Q14 and one-year returns have outpaced the other regions. The current return was comprised of a 1.40% income and a 1.35% appreciation return.
- Property returns in the Midwest fell 17 basis points from 2Q14 to 2.62%. Total one year returns registered 10.4%, trailing the national average of 11.3%. The current return was comprised of a 1.45% income return and a 1.17% appreciation return.

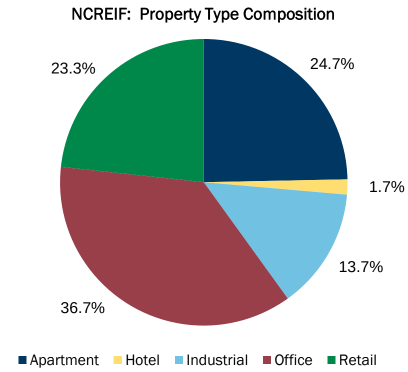
Below is a graph illustrating total returns by region since 2008. (2014 returns are annualized based on 3Q14 data)

NCREIF: Regional Total Returns



NPI Annualized Returns by Property Type

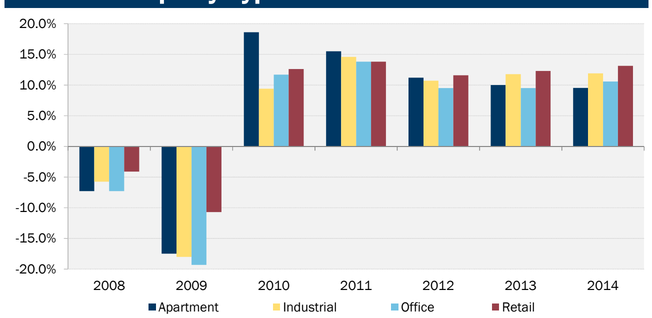
- For the first time since 1Q11, the hotel sector outperformed the other leading property types. The sector returned 2.93%, split between a 2.13% income and 0.80% appreciation return; however, one-year returns of 8.9% are still the smallest among the major property types. Annualized returns of 8.5% projected this year would be the highest since 2011.
- Industrial, the top performer in four of the past five prior quarters, returned 2.92% during 3Q14. This represented a 34 BPS decrease from 2Q14. One year returns of 12.4% represented the second highest amount among property types and an annualized return of 11.9% is forecasted.
- Retail was the worst performing sector during 3Q14, returning 2.33%. Returns fell 89 BPS during the quarter. On the positive, one-year returns of 13.1% still lead all other sectors and the annualized projected return of 13.1% would be the strongest for the retail sector since 2011.



- Despite continued strong market fundamentals, apartment was the second worst performing sector during 3Q14 despite returns increasing from 2.41% to 2.53%. NCREIF reported that apartment was the only sector to witness a decline in occupancy. 2014 annualized returns of 9.5% would be the lowest since 2009.
- Slightly exceeding the broader index, the office sector registered a 2.78% return during 3Q14; still, this latest reading represented a 15 BPS decline from the prior quarter. Annualized, the office market is projected to return 10.6%, higher than the prior year return of 9.5%.

Below is a graph illustrating total returns by property type since 2008. (2014 returns are annualized based on 3Q14 data)

NCREIF: Property Type Total Returns



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

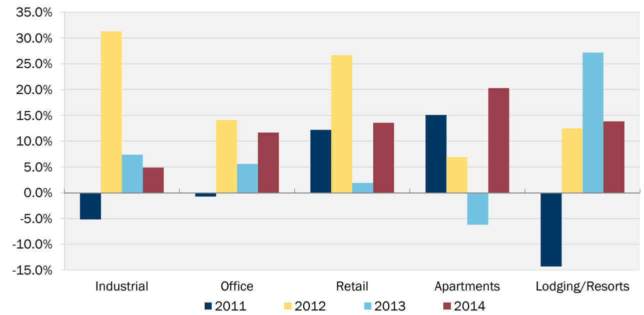
Comprised of 151 REITS, The Financial Times of London and the London Stock Exchange (FTSE) NAREIT All Equity REITs Index declined 2.5% during 3Q14 following an increase 16.3% during the first half of 2014. The 3Q14 decline was primarily driven by concerns regarding higher interest rates. On the positive, year-to-date returns of 13.4% for U.S. REITS have bettered the S&P 500, Dow Jones and NAQDAQ stock indices, fueled by a favorable supply and demand balance in commercial real estate markets nationwide. NAREIT President and CEO Steven A. Wechsler commented, "Positive economic trends have increased demand for commercial real estate this year while the supply of new properties remains tight by historical standards. These market conditions have provided support to REIT fundamentals such as occupancy rates, rental income, cash flow and dividend growth, while total returns for the first three quarters of 2014 underscore the performance, income and portfolio diversification benefits of REITs for investors with longer-term investment horizons."

Below is a brief overview of selected sector performance since 2013.

- Despite declining during 3Q14, apartment REITs were the top performing sector during the first three quarters of 2014, returning 20.3%. This represents a considerable rebound from the negative 6.2% return recorded in 2013. Investors are still finding strong market fundamentals within the sector as increasing job growth drives household formation and keeps demand strong for apartment units in many parts of the country.
- After first half of 2014 returns of 17.3%, returns within the lodging/resorts sector fell during 3Q14. Since 2013, returns of 13.9% have reflected continued strength in pricing and demand as well as limited supply growth within the sector. Last year, a 27.2% return was recorded within the sector, easily outpacing returns for the other major property sectors during this time period.
- Due to increased concerns regarding oversupply and rental growth in several markets, the industrial REIT sector was the worst performing during 3Q14. Year-to-date returns of 4.9% are lower than the 7.4% gain recorded during 2013. Despite the sluggish performance, it is reported that warehouse fundamentals continue to improve.
- After returning nearly 17.8% during the first half of 2014, negative office REIT returns occurred during 3Q14. Despite the recent quarterly decline, returns of 11.7% have occurred since 2013, more than doubling the 2013 return of 5.6%. Continued employment growth is expected to further drive office REIT returns for investors.
- Retail REITs have rebounded from 1.9% return realized in 2013. Despite declining during 3Q14, year-to-date returns of 13.6% have occurred. Returns were strongest within the regional mall (+15.9%) and shopping center (+12.7%) sectors as compared to the free standing (+8.5%) sector. It was reported that the best performing property sector during 3Q14 was regional malls.

Below is a graph illustrating total returns by property sector since 2011.

FTSE NAREIT REIT Performance by Subsector



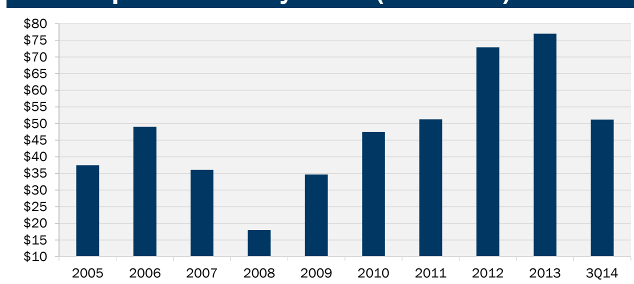
Looking ahead, analysts and market observers are generally positive about REIT performance in 2014, resulting from a strengthening economy and a positive credit environment.

REIT Capital Raising Falls

Although REITs continued to take advantage of the availability and low cost of capital during 3Q14, the pace of capital raising fell from $24.0 billion to approximately $16.0 billion from the prior quarter, according to SNL Financial and NAREIT. REIT capital raising is 15% off the pace from the same period last year. During the past several years, capital raising in the public markets by REITs has given them strong balance sheets with the flexibility to increase acquisitions.

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

Total Capital Raised by REITs (in billions)



Source: NAREIT/ SNL Financial (3Q14 represents amount raised through 3 quarters)

Equity REIT Returns Versus Leading Indices

Investor sentiment has returned for equity REITS after underperforming the three major U.S. stock indices last year. Equity REITs returned 13.4% during the first three quarters of 2014, outperforming the S&P 500, NASDAQ and the Dow Jones Industrial Average (DJIA) during this time period; however, the leading stock indices posted returns ranging from 1% to 2% during 3Q14, bettering the negative 2.5% return for the Equity REIT index. The 3Q14 volatility and performance was linked to concerns regarding higher interest rates and escalating crises in the Middle East and Ukraine.

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

Index	2009	2010	2011	2012	2013	2014*	2009-2013 avg
Equity REIT	28.0%	28.0%	8.3%	19.7%	2.9%	13.4%	**16.7%**
NASDAQ	27.2%	26.9%	-4.2%	14.6%	12.1%	7.6%	14.0%
S&P 500	43.9%	16.9%	-1.8%	15.9%	38.3%	6.7%	20.0%
DJIA	26.5%	15.1%	2.1%	13.4%	29.6%	2.8%	14.9%

Source: NAREIT/ Yahoo Finance, Marketwatch *data as of September 30, 2014

Commercial Lending Increases

The Mortgage Bankers Association's (MBA) Quarterly Survey of Commercial/Multi-Family Mortgage Bankers Originations reported that 3Q14 commercial and multi-family mortgage loan originations increased 18% from the previous quarter and jumped 16% compared to 2Q13. All major property types, except health care, recorded increases during 3Q14 from the previous quarter. Jamie Woodwell, MBA's Vice President of Commercial Real Estate Research, remarked, "Commercial real estate borrowing and lending continued at a strong clip in the third quarter. Low rates coupled with growth in property incomes, property values and sales transactions have pushed year-to-date commercial and multifamily mortgage originations five percent above last year's pace."

Lending Activity 3Q 2014

Property Type	% Change since 3Q 2013	% Change since 2Q 2014
Overall	**16.0%**	**18.0%**
Industrial	22.0%	19.0%
Multi-Family	41.0%	31.0%
Office	11.0%	43.0%
Retail	11.0%	7.0%
Hotel	4.0%	-11.0%
Health Care	-43.0%	-24.0%

Source: Mortgage Bankers Association

Source: Mortgage Bankers Association

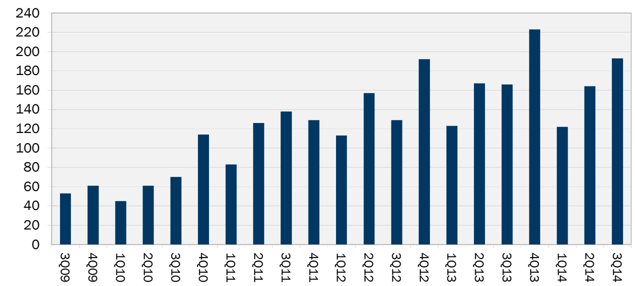
Lending activity also increased in comparison to the same period last year, primarily resulting from strong volume increases within the office and multi-family sectors. Among investor types, loans originated for Government Sponsored Enterprises (GSE's) increased 118%, bettering the 47% increase for CMBS loans and a 1% increase for life insurance companies.

The October 2014 Senior Loan Officer Opinion Survey on Banking Lending Practices showed that a modest percentage of domestic banks continue to ease lending standards, increase credit lines, tighten interest rate spreads and extend maturities on commercial and industrial loans. Banks also reported having eased standards for construction and land development loans during the quarter while standards for loans secured by nonfarm nonresidential structures and multifamily residential properties remained about unchanged.

Below is a graph depicting the frequency of commercial/multi-family loan originations since 3Q09.

Commercial/Multifamily 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

After totaling approximately $40.6 billion during the first half of 2014, CMBS issuances totaled $28 billion during 3Q14, the highest quarterly total since 2007 and bettering output recorded during this same time period last year by 14% as per Commercial Mortgage Alert (CMA). Additionally. it was reported that issuance in September reached $12.6 billion, the largest monthly total since the economic downturn. It was reported that 95 U.S. transactions were recorded during the first three quarters of 2014.

Top U.S. CMBS Underwriters

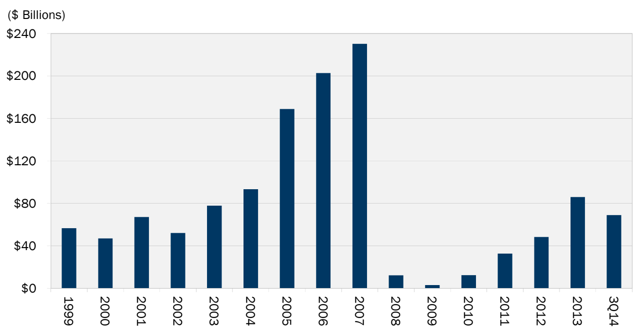
Firm	Issuance ($Mil)	Market Share
Deutsche Bank	$19,790	28.7%
Wells Fargo	$9,891	14.4%
J.P. Morgan	$8,946	13.0%
Goldman Sachs	$5,905	8.6%
Morgan Stanley	$4,837	7.0%
Citigroup	$4,830	7.0%
Bank of America	$4,617	6.7%
Barclays	$3,510	5.1%
Credit Suisse	$2,309	3.4%
UBS	$2,057	3.0%
RBS	$1,914	2.8%
Cantor Fitzgerald	$191	0.3%

Source: Commercial Mortgage Alert

Similar to the previous three years, Deutsche Bank served as the top book runner, underwriting approximately $19.5 billion of transactions since 2013. Other firms underwriting more than $5 billion during this period included Wells Fargo, J.P. Morgan, and Goldman Sachs.

Based on the latest figures, the annualized pace of issuances is expected to reach $92 billion in 2014, an increase of 7% from 2013 totals. Initial forecasts predicted average volume to reach upwards of $105 billion in 2014. On the positive, 2014 totals are likely to be higher as CMA reported that $21 billion of transactions were already in the queue for 4Q14.

U.S. CMBS Issuance



Source: Commercial Mortgage Alert (3Q14 represents data through 3 quarters of 2014)

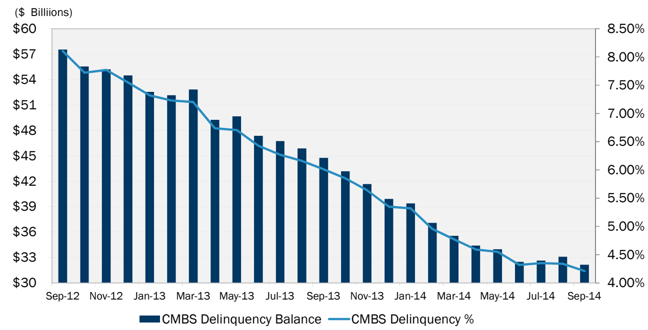
CMBS Delinquency

After recording the first increase in nineteen months in July, Morningstar reported that the U.S. CMBS delinquency rate decreased for the second consecutive month in September, falling from 4.34% to 4.21%. During the prior 12-month period, delinquency rates have averaged 5.00%.

- The delinquent unpaid balance for CMBS fell to $32.1 billion in September, the tenth consecutive month the overall delinquent balance has been reported below $40.0 billion. Just 12 months earlier, the unpaid balance for CMBS stood at $44.8 billion.
- By type, industrial properties have the highest delinquency rates (6.9%), followed by office (6.0%), retail (5.3%), hotel (4.4%) and multi-family (2.5%).
- Office loans have been the greatest contributor to CMBS delinquencies during the past 12 months at 31.0%; however, by dollar amount, office loan delinquency is down $5.4 billion from one year ago.
- Retail loan delinquencies comprise 29.4% of total CMBS delinquencies, but have fallen by $1.8 billion since September 2013. Multi-family loans represent 20.0% of CMBS delinquency, but delinquencies have declined by about $1.2 billion from 12 months ago.
- The total delinquency rate for CMBS hotel loans continues to decline. After registering 7.3% in July 2013, delinquencies have fallen to 4.4%.
- Larger loan vintages between 2005 and 2007 continue to default and cause delinquencies resulting from aggressive pro-forma underwriting and market conditions at the time. Nearly 85.0% of the delinquent unpaid balance through September 2014 resulted from such loans.

Below is a chart depicting monthly CMBS delinquencies since September 2012.

CMBS Delinquency Balance vs. Percentage



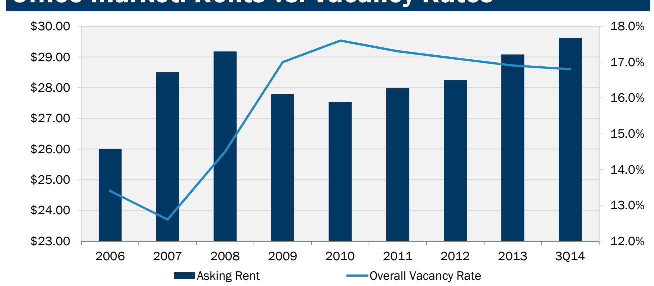
Source: Morningstar

Property Sector Overviews

Office

- The national office vacancy rate remained unchanged at 16.8% for the third consecutive quarter, according to Reis Inc. Since peaking at 17.6% in late 2010, national office vacancies have fallen just 80 BPS; however, performance varies noticeably as New York City (9.9%) and Washington DC (9.4%) have the lowest vacancies and Las Vegas (25.8%) and Phoenix (25.5%) have the highest vacancies among major markets.
- Despite little movement in vacancy rates, net absorption increased to 8.0 million square feet during 3Q14 and has totaled approximately 21.7 million square feet since 2013.
- Asking and effective rental rates increased 0.4% and 0.5%, respectively, during 3Q14, and have increased each quarter since 2010. In 2013, asking and effective rents grew by 2.1% and 2.2%, respectively.

Office Market: Rents vs. Vacancy Rates



Source: REIS, Inc.

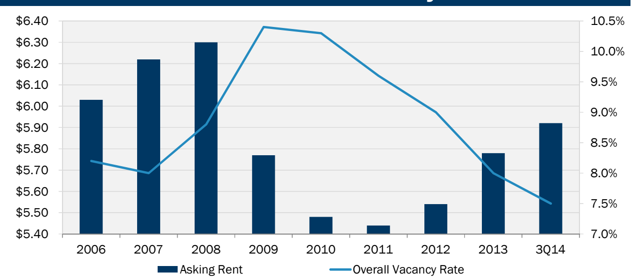
- Sustained office employment growth is a critical factor to sector recovery. Nearly 260,000 jobs were created within the information services, financial activities and professional and business services sectors during 3Q14.

- During 3Q14, 5.8 million square feet of office completions occurred, up from 5.0 million square feet from the prior quarter. The current pace of new construction activity is approximately 13% ahead of the pace set last year at this time.

Industrial

- Demand drivers in the industrial market were mixed in September. The ISM Index remained in growth mode, but factory orders and durable goods orders fell. Additionally, the trade deficit widened.
- Market fundamentals continued to slowly improve during 3Q14, as rental rates continued to increase and vacancy rates declined. According to CoStar, overall vacancy rates have declined 50 basis points since 2013 to 7.5%.
- Increased demand has placed upward pressure on asking rental rates, which have increased roughly 2.0% since 2013 to $5.92 per square foot.

Industrial Market: Rents vs. Vacancy Rates

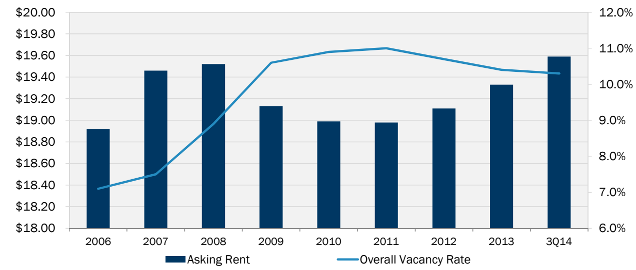


Source: Costar (reflects select markets)

Retail

- Market fundamentals have changed little despite mixed consumer confidence levels, sluggish retail sales and minimal wage growth in September. Weak demand and increased competition from ecommerce continue to slow recovery.
- Concerns for the sector include continued store closures and retailers downsizings/mergers. Notable retailers closing stories include Sears, Christopher & Banks, Abercrombie & Fitch and J.C. Penney. In addition, Dollar General's recent acquisition of Family Dollar potentially may lead to closures.
- At neighborhood and community centers, vacancy rates remained at 10.3% for the second consecutive quarter in 3Q14, but are 80 BPS lower from the high of 11.1% recorded in 3Q11. Asking and effective rental rates increased 0.4% and 0.5%, respectively.
- It was reported that construction completions fell slightly to 1.4 million square feet for community and neighborhood centers during 3Q14. So far, 4.0 million square feet has been completed in 2014.

Retail Market: Rents vs. Vacancy Rates



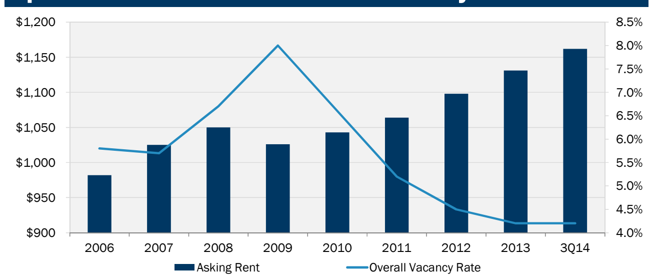
Source: REIS, Inc. Reflects neighborhood and community centers

- Similar to the past two quarters, regional mall vacancy rates remained unchanged at 7.9%. Asking rents grew by 0.5% during the past quarter and are up 1.8% from 12 months ago.

Apartment

- The national apartment vacancy rate increased 10 BPS to 4.2% in 3Q14, but is still at historically low levels. This represented the first quarterly increase since 2009
- The average monthly rent for an apartment increased to about $1,164 per month during 3Q14, up 1.1% from the prior quarter. This marked the 19th consecutive quarter of rental increases. Effective rental rates increased to $1,117. Asking and effective rents have increased 3.7% and 3.9%, respectively, on a YoY basis.

Apartment Market: Rents vs. Vacancy Rates



Source: REIS, Inc.

- Construction completions escalated during 3Q14 as approximately 47,300 units were delivered. This represented the third highest quarterly figure since 1999 as developers build more rentals to satisfy demand by the millennial generation and more people moving out on the own. Since 2013, completions have totaled nearly 114,300 units, 34% higher than the pace set last year at this time.
- Steady demand for apartment units continued, as evidenced by approximately 37,700 units being absorbed during 3Q14. Since 2013, approximately 116,150 units have been absorbed, exceeding the total absorption recorded at this time last year by 4.0%.

Property Forecast

- Steady performance within the U.S. commercial real estate market is expected to continue into 2015 as market fundamentals will continue to strengthen as both domestic and foreign investors seek to expand and diversify their real estate holdings and portfolios.
- Low levels of new construction will allow for the continued absorption of product and stabilization of vacancy rates across most sectors. Within the apartment sector, increased development activity will continue to help alleviate inventory shortages.
- Although the "Flight to Quality" is still the dominant theme among investors, increased interest in secondary markets will continue to be a byproduct of aggressive bidding in primary markets as investors seek greater value and yields.
- REITs will remain active in terms of issuing capital and will continue to deploy this capital to reposition assets and seek out new opportunities to generate yield.
- Debt markets are expected to stay healthy, which will provide sufficient capital to support increased transaction activity and pricing growth.
- Capitalization rate movement is expected to be minimal throughout the next several quarters, although stronger investor demand and higher appetite for risk are predicted to compress cap rates within varied secondary markets.
- Foreign investment for core U.S. assets is expected to remain steady, as investors seek stability amidst economic uncertainty abroad.
- An October 2014 report issued by the Urban Land Institute and EY sees broad improvement within the commercial real estate market during the next three years. Key takeaways from the study include commercial property prices increasing by 10% in 2014 and then leveling to 5% in 2015, CMBS issuance growing and commercial property rents increasing roughly 3% to 4% in 2015 for the major commercial property types.

Below is a property forecast for the major property types from 4Q 2014 to 1Q 2016.

	Forecast					
OFFICE	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016
Vacancy Rate	15.70%	15.70%	15.80%	15.70%	15.70%	15.70%
Net Absorption ('000 sf)	10,995	12,163	12,669	14,190	11,656	13,315
Completions ('000 sf)	6,352	10,010	11,978	9,774	10,037	10,625
Rent Growth	0.60%	0.70%	0.80%	0.80%	0.90%	0.80%

	Forecast					
INDUSTRIAL	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016
Vacancy Rate	8.80%	8.70%	8.50%	8.50%	8.40%	8.30%
Net Absorption ('000 sf)	24,744	18,891	26,237	31,484	28,336	18,908
Completions ('000 sf)	16,133	14,439	21,314	19,939	13,063	12,961
Rent Growth	0.70%	0.60%	0.70%	0.70%	0.80%	0.70%

	Forecast					
RETAIL	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016
Vacancy Rate	9.70%	9.80%	9.70%	9.60%	9.60%	9.60%
Net Absorption ('000 sf)	3,918	5,215	4,442	3,567	6,089	6,565
Completions ('000 sf)	2,035	2,036	2,039	2,042	2,046	2,050
Rent Growth	0.60%	0.50%	0.60%	0.60%	0.70%	0.60%

	Forecast					
MULTI-FAMILY	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016
Vacancy Rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.10%
Net Absorption (Units)	63,595	43,399	39,969	38,106	48,590	35,778
Completions (Units)	47,123	29,143	38,899	37,843	40,576	26,257
Rent Growth	1.00%	1.00%	1.00%	1.00%	0.90%	1.10%

Source: National Association of Realtors/REIS, Inc.

Real Estate and Infrastructure Solutions

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The views expressed herein are held by the authors and are not necessarily representative of FTI Consulting, Inc.

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