FTI INSIGHTS

Report

1st Quarter 2016

Economic & Real Estate Report

Contents

Introduction

Similar to the past several years, U.S. economic growth was sluggish to begin 2016. During January and early February, fears of an economic slowdown increased, as leading U.S. stock indices fell considerably, due largely to continued economic weakness in China, the strengthening dollar and falling oil and commodity prices, which triggered more cutbacks in the U.S. energy sector. These concerns eased somewhat during the latter part of the quarter, as the dollar's value began to decline, the price of crude oil rebounded and China undertook additional steps to steady its economy, which provided support for the rally of the stock market.

The advance estimate of 1Q16 GDP showed that the U.S. economy grew at its slowest pace in two years, primarily weakened by sluggish consumer spending and tepid business investment. As consumers continued to boost saving rates, retail sales declined in March and small business optimism and industrial production also fell during the month.

Despite these headwinds, numerous economic indicators were encouraging. Labor market conditions remained favorable, as 628,000 jobs were created during 1Q16 and the unemployment rate remained low. Per The Conference Board, consumer confidence rebounded in March. Housing market fundamentals were mostly positive, as builder sentiment remained strong and price appreciation continued. Total construction spending increased in March to near its pre-recession peak set in late 2007. There was modest improvement in factory sector activity, as growth in new orders escalated, production expanded and the ISM headline figure indicated growth for the first time in six months.

At its April Federal Open Market Committee meeting, the Federal Reserve ("Fed") decided for the third consecutive meeting to leave its federal funds rate unchanged at 0.25%, citing concerns regarding low inflation and a moderation in spending, as well as continued soft spots in business investment and trade. Despite no change being made, the Fed has hinted at the likelihood of interest rate hikes to come at some point in 2016.

Market fundamentals within the major property sectors were generally healthy during 1Q16 despite global/domestic headwinds and the challenges unique to each asset class. Following robust investment activity during 2015, sales cooled during 1Q16 primarily due to early stock market volatility and, to a lesser extent, a scarcity of prime assets on the market and buyer caution over pricing levels. After several years of appreciation, the latest data from leading real estate indices such as NCREIF, Moody's/RCA and Green Street have recently showed a general slowdown and/or decline in commercial real estate asset pricing. The softness varies among markets and property types, as asset values for core product in primary markets have generally held steady in contrast to lower grade product in secondary markets. As per The PwC Real Estate Investor Survey, the simple average cap rate (comprising the office, retail, apartment and industrial sectors) was flat in 1Q16 after declining for 15 consecutive quarters.

Conditions within the real estate debt markets were mixed during 1Q16. The Mortgage Bankers Association reported that commercial and multi-family loan originations were flat year-over-year (YoY), but declined 38.0% since 4Q15. CMBS delinquency rates and unpaid balances continued to trend downward, but CMBS issuances fell 30.0% YoY primarily due to the spike in bond spreads, which started to ease towards the end of the quarter. Capital raising by REITs also slowed during 1Q16, as management teams took a more disciplined approach to raising new equity.

The following summarizes current, key economic indicators:

- **GDP Growth Falls.** The advance estimate showed that 1Q16 U.S. GDP increased at a 0.5% seasonally adjusted annualized rate. Much of the weakness was attributed to the slowdown in business fixed investment and cautious consumers.
- **Slight Uptick in Unemployment.** The unemployment rate increased slightly to 5.0% in March, but is down 50 basis points (BPS) from a year ago. It was reported that the labor participation rate increased, which led to the rise in the unemployment rate.
- **Employment Cost Index (ECI) Rises.** The ECI indicated that employment costs, including wages and salaries, increased 0.6% during 1Q16. YoY total compensation is up 1.9%, but gains still remain modest compared to the pace of increases during the previous expansion between 2002 and 2007. Of concern, there is little indication of substantial upward wage pressures.
- **Small Business Optimism Declines.** According to the National Federation of Independent Business Small Business Optimism Index, small business confidence fell in March. Business owners expressed concern regarding increased regulations, rising costs and weak sales. After peaking at the end of 2014, optimism has trended downward across most categories, with the largest decline recorded within the outlook for general business conditions.
- **Consumer Confidence Increases.** According to the Conference Board, U.S. consumer confidence increased in March resulting primarily from a positive view of economic conditions during the upcoming six-month period.
- **The Leading Economic Index (LEI) Rises.** Following three monthly declines, the LEI increased 0.2% in March, suggesting growth has increased after a slow start to the year. Strength within the stock price and factory sector components was offset by weakness in the building permits component.
- **Retail Sales Fall.** U.S. retail sales declined 0.3% in March after recording flat growth during the prior month. Despite nine of thirteen major categories recording monthly increases, a decline in auto, clothing and restaurant sales hurt overall sales. Auto sales declined 2.1%, the largest fall since February 2015. Excluding autos, March purchases increased 0.2%. Gasoline station sales increased 0.9% due to the pickup in gas prices and building material/garden equipment and health/personal care stores both recorded monthly increases of at least 1.0%.
- **CPI Rises modestly.** The headline CPI increased 0.1% in March, its first gain since November. The increase was mainly due to a rebound in energy and gasoline prices. In contrast, food prices fell 0.5% in March. Despite the latest gain, the overall price environment remains soft.
- **Industrial Production Falls.** Production fell 0.6% in March, as all major industries reported lower activity. Mining production fell for the seventh straight month and the 2.9% drop in March represented the largest decline since 2008.
- **Durable Goods Orders Rise.** U.S. durable goods orders rebounded in March, posting a 0.8% increase after falling 3.1% in February. The pickup in demand was driven by defense orders. Excluding the defense sector, underlying demand for big-ticket items by consumers and businesses generally weakened.
- **Business Inventories Increase.** After a slight decline in February, inventories at U.S. businesses increased 0.4% in March, the largest monthly rise since June 2015. The larger than expected increase in inventories was primarily driven by a 1.0% jump in inventories at retailers.
- **ISM Non-Manufacturing Index Rebounds.** Activity outside the manufacturing sector increased during March after three consecutive months of slower paced expansion. Respondents noted higher demand for services and new products. The business activity component increased to its highest level in five months.
- **Dodge Momentum Index (DMI) Declines.** In March, the DMI, an early indicator of private non-residential construction spending, decreased 7.1%. Institutional building planning was the largest drag on the index, while commercial plans steadily slowed.

Employment

In March, employers continued to add jobs at a healthy pace as non-farm payrolls increased by 215,000, evidence that the U.S. economy has remained relatively robust against the backdrop of slowing global economic growth. It was also reported that January and February job totals were revised downward by 1,000 positions. During 1Q16, the U.S. economy added an average of 209,000 jobs per month, down from the 2015 monthly average of 229,000, but higher than the 1Q15 monthly average of 190,000. In 2015, 2.74 million jobs were created, representing the second highest total since 1999. Non-farm employment totaled 143.8 million in March, about 2.0% higher than at this time last year.

The breadth of employment gains were broad-based during 1Q16, as the trade, transportation and utilities (+173,000), education and health services (+161,000), leisure and hospitality (+119,000) and construction (+75,000) sectors added the largest numbers of jobs; however, the mining and manufacturing sectors, still vulnerable to low oil prices and a strong dollar, shed a combined 70,000 jobs.

The March ADP National Employment Report showed a gain of 200,000 non-farm private sector employment jobs, consistent with consensus expectations. During 1Q16, it was reported that 598,000 non-farm private sector employment jobs were created. Industries with the largest employment gains during the quarter were within the trade, transportation and utilities and business services sectors. Small businesses (1 – 49 employees) added more positions than either medium (50 - 499 employees) or large-scale (500+ employees) businesses.

The unemployment rate increased 10 BPS to 5.0% in March and has trended between 4.9% and 5.1%, an eight-year low, for the past eight months. After falling to nearly a 40-year low in September 2015, the March labor force participation rate increased to 63.0%, the highest level since February 2014. Wage growth increased 0.3% in March and is up 2.3% YoY. Despite little change in the U-6 unemployment rate (unemployed, "under employed" and too discouraged to even look for a job) during 1Q16, the March reading of 9.8% is 110 BPS lower than at this time last year.

US Non-Farm Employment by Industry

Historic and Current Figures (thousands)

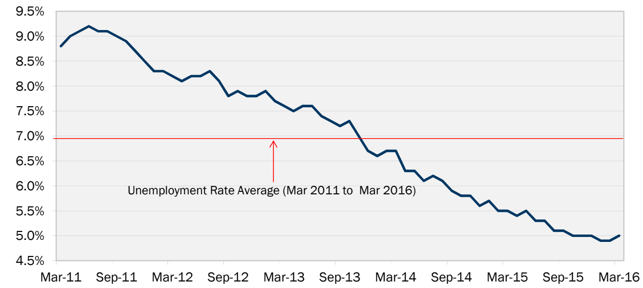
Industry Sector	2016 Employ.	Total Percent	2015 Employ.	Total Percent	2014 Employ.	Total Percent	% Change 2015-16
Mining and Logging	720	0.5%	761	0.5%	897	0.6%	-5.4%
Construction	6,672	4.6%	6,597	4.6%	6,301	4.4%	1.1%
Manufacturing	12,291	8.5%	12,320	8.6%	12,294	8.6%	-0.2%
Trade, Trans & Utilities	27,287	19.0%	27,114	18.9%	26,656	18.6%	0.6%
Information	2,774	1.9%	2,763	1.9%	2,733	1.9%	0.4%
Financial Activities	8,227	5.7%	8,190	5.7%	8,041	5.6%	0.5%
Prof & Bus. Services	20,042	13.9%	19,981	13.9%	19,360	13.5%	0.3%
Educ. & Health Services	22,539	15.7%	22,378	15.6%	21,677	15.1%	0.7%
Leisure & Hospitality	15,461	10.8%	15,342	10.7%	14,901	10.4%	0.8%
Other Services	5,679	3.9%	5,660	3.9%	5,595	3.9%	0.3%
Government	22,082	15.4%	22,040	15.3%	21,947	15.3%	0.2%
Total Nonfarm	143,774	100.0%	143,146	100.0%	140,402	100.0%	0.4%

Source: Bureau of Labor Statistics

As shown below, March marked the 19th consecutive month that the unemployment rate registered below 6.0%. The current unemployment rate is 200 basis points below the 7.0% average recorded between March 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.

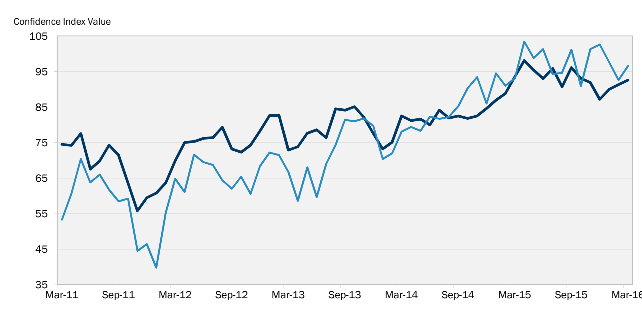
The Conference Board. Consumer confidence increased in March following an upward revision in February. The expectations series, which measures how consumers feel about business conditions, employment prospects and income growth during the next six months, was primarily responsible for the latest increase. Lynn Franco, Director of Economic Indicators at The Conference Board, commented, "Consumers assessment of current conditions posted a moderate decline, while expectations regarding the short-term turned more favorable as last month's turmoil in the financial markets appears to have abated. On balance, consumers do not foresee the economy gaining any significant momentum in the near-term, nor do they see it worsening."

University of Michigan Index. March consumer sentiment fell slightly below February's reading. On the positive, it was reported that consumers were more optimistic about their inflation-adjusted income expectations than at any time since 2007. Of note, consumers believed that further declines in the unemployment rate would be unlikely due to the slower pace of economic growth.

Below are consumer confidence trends since March 2011.

Consumer Confidence Overview

Historic and Current Figures (thousands)



Source: Conference Board, University of Michigan

Gross Domestic Product (GDP)

The advance estimate of 1Q16 GDP showed that the U.S. economy grew at an average annualized rate of 0.5%, its slowest growth rate in two years and down from the 1.4% pace of growth recorded during the prior quarter. The slowdown was consistent with the sluggish starts of the past several years. Between 2010 and 2015, the average first quarter growth rate registered 0.8% in comparison to growth rates of 3.1%, 2.2% and 2.4% for the second, third and fourth quarters, respectively.

The majority of sectors weakened during 1Q16, as tepid consumer spending and global headwinds led to a decline in U.S. exports and sluggish business investment. On the positive, underlying strength within the housing market helped boost growth, as residential investment spending increased 14.8%, its strongest rate of growth since 4Q12.

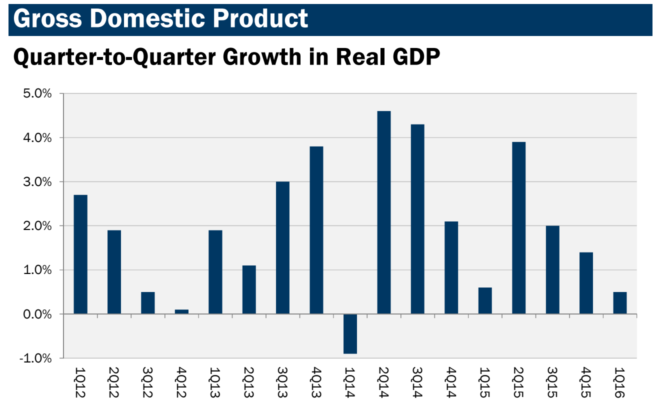
Consumer spending, the main driver of economic growth, increased 1.9%, down from the 2.4% growth recorded last quarter. Consumers continued to reduce debt and exercised caution with big-ticket purchases. Spending on services increased 2.7% versus a 0.1% rise for goods.

The slowdown in economic growth and strengthening of the labor market will both be considered by the Fed when it considers whether to raise its benchmark federal funds rate in the upcoming months. Despite the initial economic weakness, economists generally expect growth to accelerate next quarter.

1Q16 GDP Key Trends

- A widening trade gap continued to subtract from economic growth due to the strong U.S. dollar, which has made U.S. exports comparatively more expensive. Exports declined by 2.6% and imports increased by 0.2%.
- Business investment decreased at a 5.9% annualized rate, its largest quarterly fall since 2Q09. Investment in non-residential structures dropped 10.7%, led by a record 86.0% decrease in oil and gas well drilling rigs.
- Overall government spending increased 1.2%, primarily due to a 2.9% rise in state and local government consumption and a 1.5% rise in non-defense spending.
- Durable goods spending decreased 1.6% in contrast to the 1.0% rise in non-durable goods.
- Businesses continued to place fewer orders for goods and increased efforts to reduce inventories, which subtracted from GDP growth.
- The personal savings rate registered 5.2% during 1Q16, 20 BPS higher than in 4Q15.

The following chart summarizes U.S. GDP growth since 1Q12.



Source: Bureau of Economic Analysis

Institute for Supply Management (ISM) Manufacturing Index

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

According to the March 2016 report, economic activity at U.S. manufacturing firms expanded for the first time in six months, a potential sign that that the sector is stabilizing after a period of weakness primarily caused by the strong dollar, falling commodity prices and weakening global growth. These headwinds have weighed on U.S. manufacturers by increasing the price of U.S. exports compared with goods priced overseas, depressing sales, and by driving leading energy companies to reduce spending on factory goods such as drilling equipment.

After falling to its lowest level since mid- 2009 to end 2015, the headline Purchaser's Manufacturing Index (PMI) increased from 49.5% in February to 51.8% in March. Twelve of the eighteen industries tracked by the ISM Index reported growth in March.

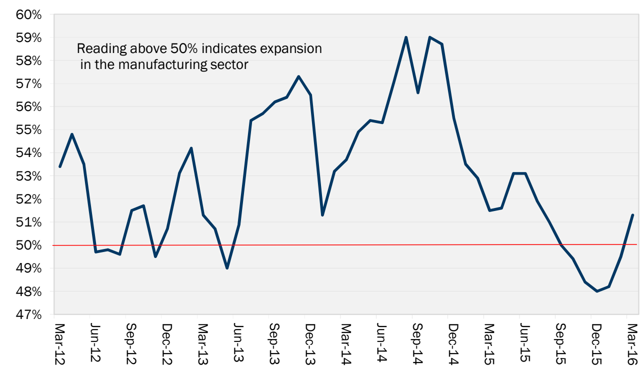
Bradley Holcomb, who oversees the ISM survey, remarked, "It seems like we've reached bottom in this business of oil prices and all other related prices as well. And while inflation remains historically low, it has helped many factories that serve non-energy customers by lowering their bills to operate."

In March, the New Orders Index recorded its strongest reading since November 2014 and backlogs of orders expanded for the first time since May 2015. In particular, export orders jumped to their highest level since December 2014 as the dollar slowly began to weaken during the latter part of 1Q16. Of concern, the March employment sub-index fell due to falling payrolls within the manufacturing sector.

Purchasing managers were generally positive regarding manufacturing conditions. Respondents indicated that, "Incoming sales are improving", "Requests for proposals for new equipment are very strong", "Capital equipment sales are steady" and "Business conditions are stable." Of concern, one respondent indicated that it is hard to find workers given the low unemployment rates.

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

Purchasing Manager's Index (PMI)



Source: Institute for Supply Management

The following summarizes key components of the ISM Index.

- **Purchasing Managers' Index (PMI).** A reading above 50.0% indicates that the manufacturing economy is generally expanding; below 50.0% indicates that it is generally contracting. Manufacturing expanded for first time since September 2015. The PMI has averaged 50.5% during the past 12 months, ranging from 48.0% to 53.1%.
- **New Orders Index.** A New Orders Index above 52.1%, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders. The New Orders Index surged 6.8% to 58.3% in March, indicating expansion for the third consecutive month. Thirteen industries reported growth in March.
- **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 2.5% in March to 55.3%. Twelve industries reported growth in March.
- **Employment Index**. An Employment Index above 50.6%, over time, is generally consistent with an increase in manufacturing employment. A decline of 0.4% was recorded in March, indicating contraction. Six industries reported growth in March.
- **Inventories Index.** An Inventories Index greater than 42.9%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' (BEA) figures on overall manufacturing inventories. An increase of 2.0% to 47.0% was recorded in March.

Construction Spending

After an upwardly revised total in February, the Commerce Department reported that U.S. construction spending increased 0.3% in March to its highest level since October 2007. The latest monthly gain was driven by spending increases for private residential construction projects, which offset spending losses for non-residential and public construction projects. Total construction spending has increased 8.0% YoY, led by an 8.3% increase in non-residential outlays. The largest annual increases were recorded within the lodging (+27.7%) and office (+19.5%) sectors.

Private Construction

- Comprising 74.0% of total construction expenditures, private construction spending increased 1.1% in March from the prior month as residential construction outlays jumped 1.5%, offsetting a 0.4% loss in non-residential spending.
- Despite the latest decline, non-residential spending is up 8.3% YoY.
- Total construction expenditures increased 8.5% YoY. Within the residential sector, spending on new multi-family projects increased 34.6% YoY, as compared to a 13.4% increase for new single-family homes.
- During the past 12 months, all non-residential sectors recorded spending increases except manufacturing. Outlays for amusement and recreation, lodging and office projects recorded the largest annual percentage increases.

Public Construction

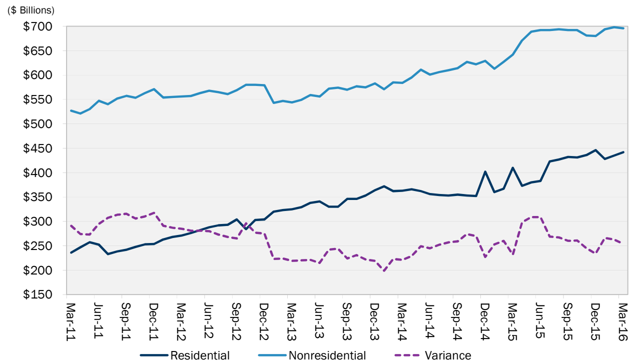
- Comprising 26.0% of total construction expenditures, public construction outlays fell 1.9% in March.
- Spending on state and local building projects fell 1.4% in March, while federal project spending declined 7.4%.
- During the past 12 months, public construction expenditures increased by 6.7%. Commercial (+51.1%) and highway and street (+18.8%) increased by the largest percentages YoY.

The following chart highlights annualized residential and non-residential construction outlays (seasonally adjusted) since March 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 during the spring 2015. Spending has fluctuated since, but rose at a faster rate within the residential sector than the non-residential sector during 1Q16.

U.S. Construction Spending

Value of Construction Put in Place

Seasonally Adjusted Annual Rate



Source: U.S. Census Bureau

The Architecture Billings Index (ABI)

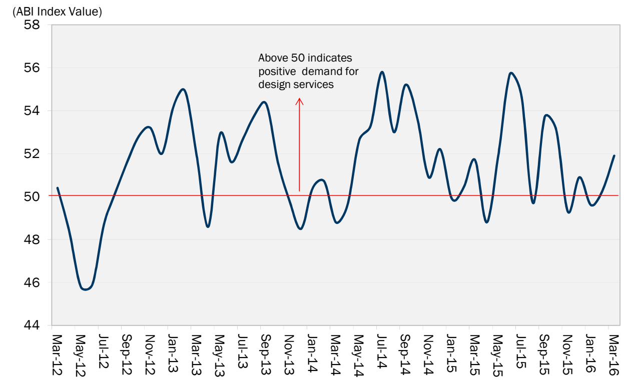
The Architecture Billings Index (ABI) is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the American Institute of Architects (AIA) Economics & Market Research Group. The ABI is a leading economic indicator of non-residential construction activity, reflecting an approximate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

- March marked the second consecutive month of increasing demand for design activity at architectural firms, as the ABI increased 1.6 points to 51.9 from the prior month.
- Two regions reported positive billings, including the West (53.7) and South (53.3). Weakness was present in the Northeast (46.7) and Midwest (46.1).
- Billings growth was the strongest within the multi-family residential (55.7) and commercial/industrial (51.8) sectors.
- Following four straight months of contracting demand, mixed billings rebounded in March, rising 2.3 points to 50.0.
- After an increase in design activity during 2015, demand for institutional (48.0) projects has cooled somewhat.

AIA Chief Economist Kermit Baker commented, "The first quarter was somewhat disappointing in terms of the growth of design activity, but fortunately expanded a bit entering the traditionally busy spring season. The Midwest is lagging behind the other regions, but otherwise business conditions are generally healthy across the country."

The following graph shows fluctuations within the ABI since March 2012.

Architectural Billings Index (ABI)



Source: The American Institute of Architects

State of the Housing Market

Despite some headwinds, conditions within the U.S. housing market were generally encouraging during the beginning of 2016. In March, the National Association of Realtors reported that annualized existing home sales increased 5.1%, driven primarily by strong gains in activity in the Midwest and Northeast regions and YoY existing home sales have increased 1.5%. Still, 2016 home sales have been volatile, as low inventories continue to negatively impact home sales. Median existing home prices are up 5.7% YoY and March marked the 49th consecutive month of YoY price gains.

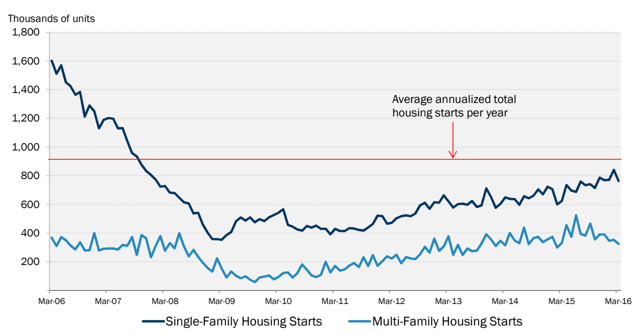
Below are additional key points pertaining to the housing market.

- In March, new U.S. home sales fell for the third consecutive month, posting a 1.5% decline to a seasonally adjusted annualized rate of 511,000 units. Sales decreased 23.6% in the West region, offsetting gains of 18.5% and 5.0% in the Midwest and South regions, respectively. Sales were flat in the Northeast region.
- According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage increased slightly in March to 3.69%. The average commitment rate for all of 2015 was 3.85%.
- As per RealtyTrac, foreclosure filings declined 4.0% from the prior quarter and 8.0% YoY to the lowest quarterly total since 4Q06. It was estimated that 38.0% of metropolitan areas with a population of at least 200,000 posted foreclosure activity below average pre-recession levels during 1Q16. States with the highest foreclosure rates were Maryland, New Jersey and Nevada.

- The S&P/Case-Shiller U.S. National Home Price Index recorded a 5.3% annual gain in February, reflecting no change from the prior month. The largest price appreciation was concentrated in western cities such as Portland, Seattle and Denver. Despite healthy annual gains, price appreciation began to slow within the 10- and 20-City Composite indices.
- The CoreLogic Home Price Index showed that U.S. home prices increased 6.7% YoY in March. Home price growth is projected to increase 5.3% YoY from March 2016 to March 2017. States (in order) with the largest YoY percent growth (ranging between 8.2% and 13.0% were 1) Washington, 2) Oregon, 3) Colorado, 4) Florida and 5) New York. States (in order) with the smallest YoY percent growth, ranging from 0.7% to 1.7%, were 1) Maryland, 2) Connecticut, 3) Wyoming, 4) New Jersey and 5) Vermont.
- Lawrence Yun, NAR Chief Economist, stated, "The choppiness in sales activity so far this year is directly related to the unevenness in the rate of new listings coming onto the market to replace what is, for the most part, being sold rather quickly. Additionally, a segment of would-be buyers at the upper end of the market appear to have been spooked by January's stock market correction."

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

Housing Starts

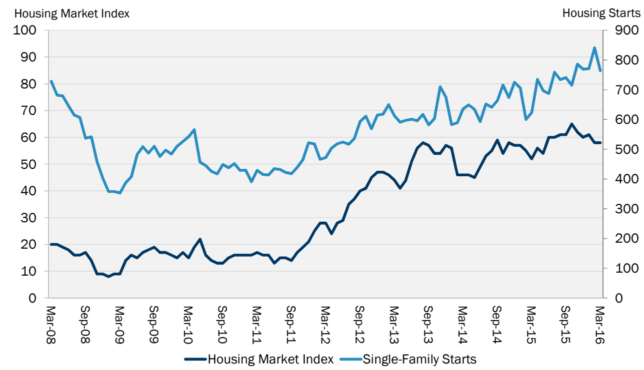


Source: U.S. Census Bureau

- After rising 6.9% in February, housing starts declined 8.8% in March to an adjusted annual pace of 1.09 million units. This is the lowest level since October 2015 and suggests a potential cooldown within the housing market. Single-family starts fell 9.2% and multi-family were off 7.9% from the prior month. Despite the pullback, total housing starts are 14.5% ahead of the pace set last year at this time.
- In March, building permit activity, an indicator of future construction activity, showed similar weakness and fell 7.7% from the prior month.
- Economists are predicting that housing starts will increase during the spring and summer months.

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 March, builder confidence in the market for newly-built, single-family homes was unchanged, but still lingers near 10-year highs. The current sales conditions component held steady, the sales expectations component increased, and the buyer traffic component decreased during March. Looking at the three-month moving averages for regional HMI scores, the West increased three points to 76, the South declined one point to 64, the Midwest fell two points to 58 and the Northeast increased one point to 50.

NAHB Chief Economist, David Crowe, commented, "While builder sentiment has been relatively flat for the last few months, the March HMI reading correlates with NAHB's forecast of a steady firming of the single-family sector in 2016. Solid job growth, low mortgage rates and improving mortgage availability will help keep the housing market on a gradual upward trajectory in the coming months."

Housing Sales and Inventory

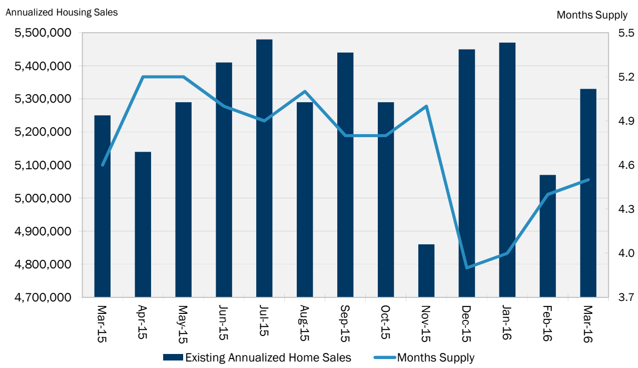
Below are key housing market statistics.

- Regionally, YoY existing home sales increased 7.7% in the Northeast, 2.3% in the South and 0.8% in the Midwest, but declined 2.7% in the West.
- The median price of an existing home was highest in the West ($320,900), followed by the Northeast ($254,100), South ($194,400) and the Midwest ($174,800). YoY price appreciation ranged from 4.6% to 7.0%.
- The median time on the market for an existing home was 47 days in March, the lowest figure since August 2015.
- It was estimated that 43.0% of the homes sold in March were on the market for less than one month.
- First-time buyers accounted for 30.0% of March's purchases, which was unchanged from the prior year.
- The total inventory of existing homes available for sale increased 5.9% to 1.98 million units at the end of March, representing a 4.5-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 1Q16 PwC Real Estate Investor Survey reported that overall cap rates (OARs) declined in twelve, held steady in ten and increased in twelve of the survey's 34 tracked markets. Collectively, OAR's held steady across the major property types since 4Q15. Overall cap rates declined 32 BPS from 1Q15 to 1Q16.
- Terminal cap rates decreased to 6.58% during 1Q16, marking the 16th consecutive monthly decline. The average decline was 3 BPS across nearly all major property types since 4Q15. Terminal cap rates declined 32 BPS from 1Q15 to 1Q16.
- Discount rates (IRR) decreased to 7.50% during 1Q16, marking the 8th consecutive monthly decline. The average decline was 8 BPS across nearly all major property types since 4Q15. Discount rates declined 32 BPS from 1Q15 to 1Q16.

1Q16 Survey Highlights

- OARs increased slightly for four of the major property sectors during 1Q16 from the prior quarter, with the warehouse (4 BPS) sector recording the largest increase. The CBD sector recorded the largest decline (10 BPS). The apartment and flex/R&D sectors recorded no change.
- As of 1Q16, flex/R&D properties had the highest average OARs at 7.15%, followed by the strip center (6.41%) and suburban office (6.38%) sectors. The lowest average OARs were recorded within the apartment (5.35%), warehouse (5.52%) and CBD-office (5.58%) sectors. The simple average OAR across all sectors was 6.09%.
- Terminal capitalization rates decreased in four of the major commercial property sectors during 1Q16 from the prior quarter. The largest decrease was recorded within the strip center (11 BPS) sector. Other sector declines ranged from 3 to 9 BPS. The suburban office and apartment sectors recorded slight increases.
- As of 1Q16, flex/R&D properties had the highest terminal capitalization rate at 7.40%, followed by the suburban-office (7.23%) sector. The lowest terminal capitalization rates were recorded within the apartment (5.86%) and CBD-office (6.02%) sectors. The simple average terminal capitalization rate across all sectors was 6.58%.
- IRRs decreased from the prior quarter in six of the major commercial property sectors during 1Q16. The largest decreases were recorded within the regional mall (32 BPS) and strip center (12 BPS) sectors. Other sector declines ranged from 2 to 9 BPS. The flex/R&D sector recorded no change and the apartment sector recorded a 2 BPS increase.
- As of 1Q16, flex/R&D properties had the highest IRR at 8.33%, followed by the power center (7.75%) sector. The lowest IRR was recorded within the CBD-office (6.88%) and warehouse (6.94%) sectors and the simple average across all sectors was 7.50%.

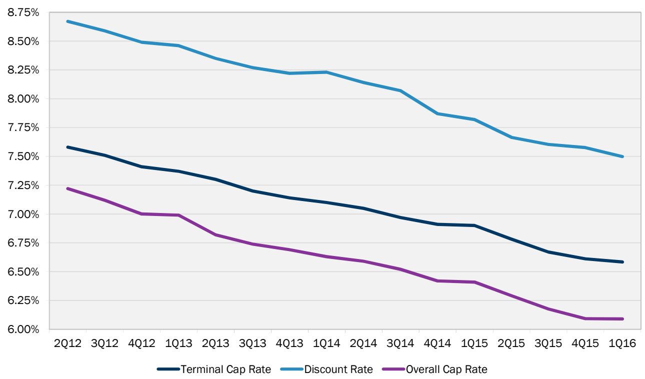
Additional 1Q16 Report Insights/Findings

- It was reported that some U.S. investors are becoming increasingly concerned regarding the aggressive pursuits by foreign investors to acquire U.S. assets and bid up prices in gateway markets.
- Also, the use of more conservative underwriting assumptions and less cap rate compression have led to cautious optimism among investors regarding the state of the commercial real estate industry for the remainder of 2016.
- Many surveyed investors commented on the potential risks of overpaying for assets, especially with respect to CBD office assets.
- A greater percentage of investors project cap rate increases over the next six months as compared to this time last year.
- Manhattan (5.15%), Washington D.C. (5.40%), Los Angeles (5.69%), San Francisco (5.70%), Seattle (6.10%), Pacific Northwest (6.11%), Boston (6.15%), Denver (6.49%) and San Diego (6.81%) had the lowest overall office capitalization rates.
- Philadelphia (7.53%), Chicago (7.34%), Atlanta (7.33%), Suburban Maryland (7.28%), SE Florida (7.18%), Charlotte (7.14%) and Houston (7.13%) had the highest overall office capitalization rates.

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

PwC Real Estate Investor Survey Historical Results

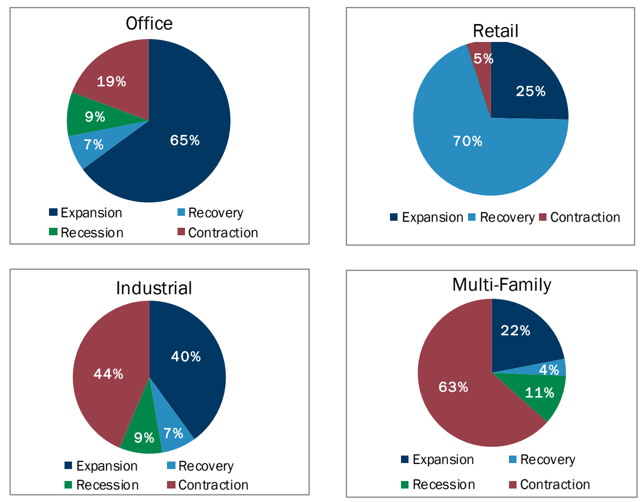
Investment Rate Analysis



PwC Real Estate Barometer

- The PwC Real Estate Barometer was introduced as a system for analyzing historical/forecasted commercial real estate data within the four major property 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, down from 79.0% last quarter. Still, underlying fundamentals, driven by employment growth and limited new additions to inventory, remain strong.
- About 95.0% of the tracked U.S. retail markets are in the recovery phase, up from 86.0% during the prior quarter. These trends are expected to continue during the next several quarters. Grocery-anchored centers and regional malls in prime locations continue to be favored by investors.
- Approximately 47.0% of the tracked U.S. industrial markets are in the recovery or expansion phase, down from 87.0% during the prior quarter. PWC reports that the addition of significant new supply has started to slow rental rate growth, increase vacancy rates and raise cap rates.
- The majority of U.S. multi-family markets are in the contraction phase due to softening market conditions resulting from new supply entering the sector. Still, market fundamentals remain strong in the majority of these areas, as many metro areas are still near peak conditions.

Below is a snapshot of each major property type as of 1Q16.



Source: PWC 1Q16 Real Estate Investor Survey

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.

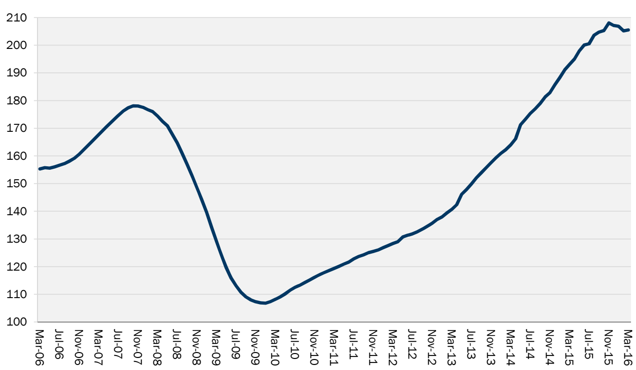
- After 24 consecutive quarterly price gains dating back to 2010, the National All-Property Composite Index ("the Index") decreased during 1Q16.
- Despite falling 0.8% during the quarter, the Index is still 15.4% above the pre-crisis peak set in late 2007.
- The retail and apartment sectors witnessed the strongest price gains (+1.6%) during 1Q16, followed by the industrial (+0.8%) sector. The office market has been a drag to the index since 2015, as pricing within the CBD and suburban office sectors declined 6.3% and 2.3%, respectively, during the first three months of 2016.

- Prices in non-major markets increased 1.6% during 1Q16 in contrast to recording a 3.4% decline in major markets.
- During the past 12-month period, the retail (+10.8%) and apartment (+10.7%) sectors were the best performing sectors. Returns within the industrial (+4.7%), suburban office (+2.4%) and CBD office sectors (+0.8%) lagged behind the Index average of 6.4%.
- Hotel assets, although not part of the index, recorded a 9.1% price gain during the past 12 month period.
- Pricing increased faster within non-major markets (+8.4%) versus the major markets (+4.3%) during the past 12 months.
- During the past three-years, the largest price appreciation was recorded within the CBD-office sector (+52.1%), followed by gains within the apartment (+50.0%), industrial (+42.0%), retail (+41.9%) and suburban office (+40.0%) sectors.
- Apartment and CBD office prices exceed pre-crisis peak levels by 39.4% and 34.4%, respectively, the highest among the property types.

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

Moody's/RCA Commercial Property Price Index

National Index – All Properties



The following chart illustrates annual price returns for the primary sectors within the CPPI from 2013 to 1Q16.

Moody's/RCA CPPI				
Annual Returns 2013 to 1Q16 by Sector/Type				
	2013	2014	2015	1Q16
Industrial	9.7%	15.4%	6.9%	0.8%
Office	17.9%	13.9%	14.9%	-4.4%
CBD	19.7%	13.2%	19.8%	-6.3%
Suburban	15.9%	14.7%	9.6%	-2.3%
Retail	22.2%	6.5%	12.6%	1.6%
Apartment	13.5%	14.8%	12.9%	1.6%
Major Markets	16.6%	13.8%	15.8%	-3.4%
Non-Major Markets	16.0%	12.2%	9.9%	1.6%
National All-Property	**16.3%**	**13.0%**	**12.7%**	**-0.8%**

Green Street Commercial Property Price Index

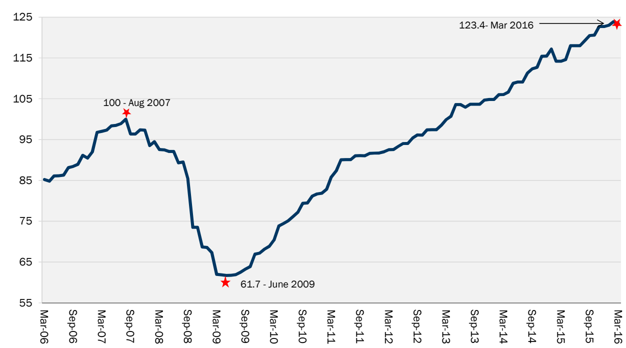
Green Street's Commercial Property Price Index is a time series of unleveraged U.S. commercial property values that captures the prices at which commercial real estate transactions are currently being negotiated and contracted. Features that differentiate this index are its timeliness, emphasis on institutional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

The Green Street Commercial Property Price Index fell slightly in March from the prior month. After a 10.0% increase in 2015, property value appreciation slowed during 1Q16, as Green Street reported the flattening of cap rates during this time period. Peter Rothemund, senior analyst with Green Street Advisors, commented, "Transaction activity has slowed as buyers and sellers feel each other out, but so far, property values appear to be holding their ground. Though that seemed an unlikely proposition a month or two ago, the rally in the financial markets and the return of some normalcy to the CMBS market have helped property pricing."

Below is a graph detailing changes since March 2006.

Green Street Commercial Property Price Index

National Index – All Properties



Commercial Property Sales Analysis

After a surge of activity to end 2015, driven by strong capital flows from international investors seeking safety for their investments amidst political and global uncertainty, commercial property sales volume cooled to begin 2016. Real Capital Analytics (RCA) reported that sales activity registered $106.4 billion (excluding commercial land) during 1Q16, representing a 20.0% decrease YoY. The pullback in volume reflected a 34.0% YoY decline in portfolio and entity-level transactions (defined as megadeals by RCA) and an 11.0% YoY decrease in single asset sales. Despite the slowdown, overall investment activity is still at elevated levels compared to trends recorded during the past 15 years, as steady competition exists for trophy assets in primary markets and ample capital exists for investors to deploy for targeting higher yields in relation to other investment vehicles. Additionally, RCA reported that pricing and cap rates generally held steady during 1Q16. Annualized investment sales volume is projected to reach nearly $426 billion in 2016, which would represent an 18.0% decrease from 2015, but a 3.5% increase from 2014.

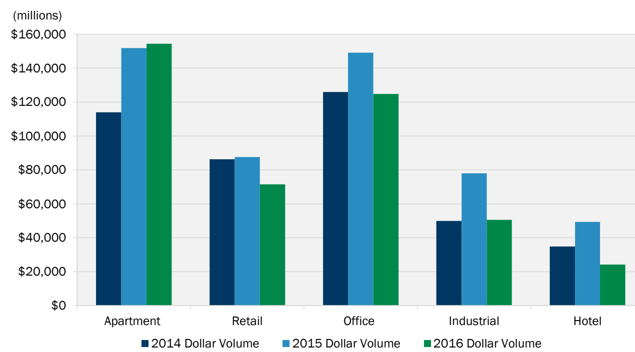
Below we take a look at sales activity, as per RCA, by product type.

- **Apartment.** After recording record levels of activity in 2015, investors continued to find apartment assets desirable. Sales activity increased 12.0% YoY to $38.6 billion, representing the only sector to post an increase YoY. Growth was driven by a 19.0% YoY rise in sales of garden apartments, which accounted for nearly 70.0% of total volume during 1Q16. In contrast, little change was reported for sales of mid/high-rise buildings YoY. It was reported that portfolio and entity-level transactions represented 38.0% of 1Q16 activity. Annualized sales volume is projected to reach $154 billion in 2016, a 2.0% increase from 2015.
- **Retail.** Sales of retail assets totaled nearly $18 billion during 1Q16, a 31.0% YoY decrease. This total still exceeds the $13.3 billion average first quarter sales output since 2005. YoY, portfolio and entity-level transaction volume declined 57.0% as opposed to a 10.0% fall for single asset sales. Among the retail subtypes, the sale of strip centers decreased 5.0% YoY, which was less than the 45.0% decline for malls and other retail properties. On the positive, it was reported that sales of single assets increased 9.0% YoY in secondary markets and 27.0% YoY in tertiary markets. Annualized, sales volume is projected to reach $71.5 billion, an 18.5% decrease from 2015.
- **Office.** Approximately $31 billion of office sales activity closed during 1Q16, which is down nearly 15.0% YoY. Historically, this volume is still the third highest first quarter total since 2000 according to RCA. Suburban office sale activity fell nearly 19.0% YoY to $16.6 billion and CBD office sales declined 10.0% YoY to $14.5 billion. It was reported that sales of single assets increased 12.0% in secondary markets as opposed to falling 16.0% in major metropolitan areas. Annualized, sales volume is projected to reach nearly $125 billion, a 16.3% decrease from 2015.
- **Industrial.** The pace of industrial sales volume decreased 38.0% YoY to $12.6 billion. On the positive, excluding last year when several megadeals were executed early, 1Q16 sales activity was at the highest level since 2007. YoY, portfolio and entity-level deal volume was down 60.0% while sales of single assets fell 7.0%. In contrast to the 56.0% YoY fall in the sale of warehouse assets, the flex sector witnessed a 31.0% 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 $50.6 billion, a 35.0% decrease from 2015.
- **Hotel.** After recording the highest annual volume in eight years in 2015, investment activity has declined. During 1Q16, transaction activity declined 61.0% YoY to $6 billion. Portfolio and entity-level sales volume was down 85.0% YoY and single-asset deal volume lagged 1Q15 output by 42.0%. Full-service hotels accounted for 64.0% of the 1Q16 volume, but experienced a greater pullback in activity than limited service hotels. Annualized, sales volume is projected to reach $24 billion, a 51.0% 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 1Q16 data

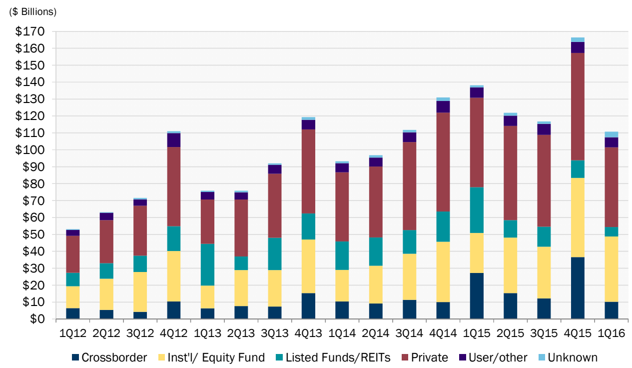
In addition to the preceding data, we have also analyzed RCA historical sales activity by buyer type.

- Private buyers continued as the most active buyers of real estate during 1Q16, acquiring $47 billion of commercial real estate assets, which represented 43.0% of the transaction volume.
- Acquisition volume totaled $38.5 billion from institutional/equity buyers during 1Q16, a 15.0% increase from the 2015 quarterly average. During the first three months of 2016, this investor group has accounted for 35.0% of total sales activity.
- After averaging nearly $15 billion in quarterly acquisitions during 2015, volume slowed to around $5.6 billion during 1Q16 for listed funds/REITs. As a result, their market share of total transactions declined from 11.0% in 2015 to 5.0% in 1Q16.
- International investment for U.S. commercial real estate assets slowed during 1Q16 as approximately $10 billion of transaction volume occurred. Last year, foreign investment totaled a record $91 billion. Canada, Singapore and China made the largest investments in U.S. commercial real estate in 2015.

1Q12 to 1Q16 sales activity by property type is summarized below.

Investment Sales Activity

Summary of Transactions by Buyer



Source: Real Capital Analytics

Significant 1Q16 Sales Transactions

The following tables summarize noteworthy sales executed during 1Q16 in the major commercial real estate sectors.

Office Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer(s)
787 Seventh Avenue	New York, NY	1,743,413	$1,932.9	CalPERS
2001 8th Avenue	Seattle, WA	516,985	$370.0	Deutsche Asset & Wealth Management
2970 Market Square- Cira Square	Philadelphia, PA	870,262	$354.0	Korea Investment Corporation
70 & 90 Hudson Street	Jersey City, NJ	857,940	$299.0	Spear Street Capital
1615 L Street NW	Washington DC	417,852	$229.0	Carr Properties
2 Rector Street	New York, NY	466,005	$225.0	Multi-Employer Property Trust & Cove Property Group
580 California Street	San Francisco, CA	316,068	$218.0	JP Morgan Chase

Source: CoStar

Industrial/Flex Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer(s)
101 Columbia Avenue	Riverside, CA	507,000	$105.0	GE Asset Management
5440 Patrick Henry Drive	Santa Clara, CA	189,181	$80.2	Deutsche Asset & Wealth Management
21-09 Borden Avenue	Long Island City, NY	163,987	$62.5	The Related Companies and GreenOak Real Estate
525 Northwest Avenue	Northlake, IL	588,233	$48.8	Prudential Investment Management, Inc.
9658 West Hills Court - Building D	Kutztown, PA	435,218	$43.3	Watson Land Company
47400 Kato Road - Tesla	Fremont, CA	302,564	$43.0	UBS Realty Investors, LLC
9651 Westover Hills Boulevard	San Antonio, TX	389,000	$40.0	TowerJazz

Source: CoStar

Retail Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer(s)
Eastridge Mall (12)	San Jose, CA	905,251	$225.0	Pacific Retail Captal Partners & Silverpeak RE Partners
Clayton Lane Retail Center (6)	Denver, CO	333,950	$169.6	Invesco
The Shops at Greenridge (12)	Greenville, SC	473,598	$137.1	Heitman LLC
Cortlandt Town Center (11)	Mohegan Lake, NY	629,708	$107.3	New York Life Real Estate Investors
Essex Green (6)	West Orange, NJ	351,430	$102.0	Clarion Partners
El Monte Shopping Center (7)	El Monte, CA	473,347	$84.5	Merlone Geier Management, Inc.
Sunmark Plaza	Henderson, NV	284,694	$59.8	Shin Yen Management

Source: CoStar

Multi-Family Sale Transactions

Name	City, State	Units	Sale Price ($ mil)	Buyer(s)
Woodland Park Apartments	East Palo Alto, CA	1,812	$412.5	Sand Hill Property Company
RiverTower Apartments	New York, NY	311	$390.0	Slate Property Group & GreenOak Real Estate
The Buchanan	New York, NY	288	$270.0	Madison Realty Capital USAA Real Estate Company
North Water Apartments	Chicago, IL	398	$240.3	Invesco
Oakwood Village	Flanders, NJ	1,224	$183.4	AION Partners
Halstead 800 Madison	Hoboken, NJ	217	$129.7	AvalonBay Communities, Inc.
Village at Baldwin Park	Orlando, FL	528	$110.8	Preferred Apartment Communities

Source: CoStar

Hospitality Sale Transactions

Name	City, State	Rooms	Sale Price ($ mil)	Buyer(s)
Hyatt Regency Clearwater Beach Resort	Clearwater Beach, FL	250	$120.5	Westmont Hospitality Group
Hotel Monaco Portland	Portland, OR	221	$108.3	Hospitality Properties Trust
Hilton Garden Inn	Washington D.C.	238	$106.5	Hersha Hospitality Trust
1000 1st Avenue - Hotel 1000	Seattle, WA	120	$82.3	Loews Hotels Inc.
San Diego Marriott Mission Valley	San Diego	350	$76.0	Wheelock Street Capital, LLC
3567 Main St. Route 7A - The Equinox	Manchester Village, VT	195	$75.2	Carey Watermark Investors, Inc.
710 Marquette Avenue - Marquette Hotel	Minneapolis, MN	281	$74.5	JMI Realty

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	37.1%	West	36.9%
Apartment	24.3%	East	33.5%
Retail	23.1%	South	20.3%
Industrial	14.4%	Midwest	9.3%
Hotel	1.1%		

NPI General Recap

- Although NCREIF reported a 25th consecutive quarter of positive growth during 1Q16, total returns continued to moderate. The NPI total return was 2.21%, comprised of a 1.17% income return and a 1.04% capital appreciation return. The 1Q16 quarterly total return was the lowest since 1Q10.
- Total one-year (annual) returns registered 11.8%, about 10 BPS lower than the average annualized return recorded during the past five years. The income return component has slowly trended downward during the past five years.
- Occupancy rates increased to 93.0% within the five major sectors, the highest level since 2001. Additionally, 6.6% trailing year NOI growth was recorded, led by gains of 9.5% and 8.2%within the apartment and industrial sectors, respectively.

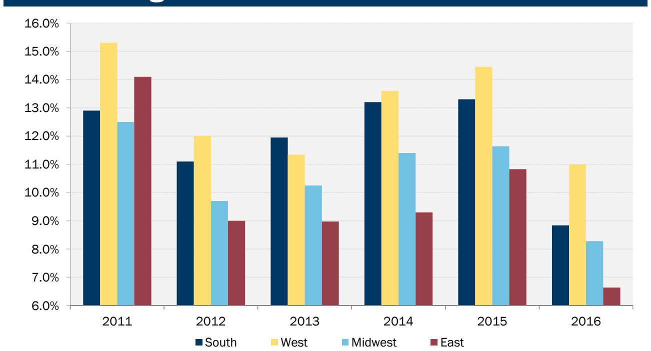
NPI Annualized Returns by United States Region

- Spreads between the best and worst performing regions narrowed during 1Q16, registering 109 BPS (2.75% vs. 1.66%). The spread was 132 BPS (3.60% vs. 2.28%) last quarter.
- Compared to last quarter, 1Q16 returns decreased in all regions.

- Price appreciation in the East trailed the other regions, returning 1.66% during 1Q16. This represented a decline of 62 BPS from 4Q15 and the lowest quarterly return since early 2010. One-year returns registered 9.8%.
- Property returns were strongest in the West, registering 2.75% during the quarter. Still, returns fell 85 BPS from the prior quarter. One year returns registered 14.1%, the highest among the regions.
- After a return of 2.96% was achieved during 4Q15, price appreciation declined 75 BPS to 2.21% in 1Q16. One year returns registered 11.8%, on par with the NPI total return.
- Property returns in the Midwest decreased 34 BPS points from last quarter to 2.07%, representing the smallest quarterly decline. One year returns registered 10.7%.

Below is a graph illustrating total returns by region since 2011. The 2016 returns are annualized based on 1Q16 data.

NCREIF: Regional Total Returns

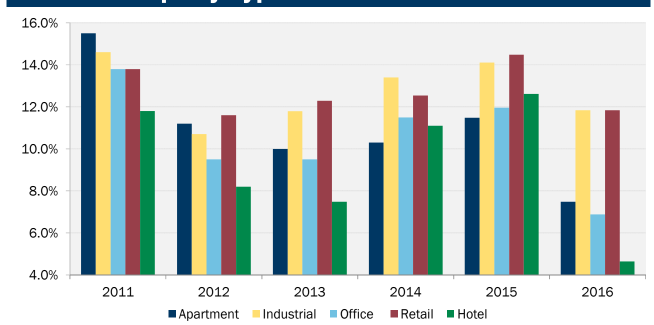


NPI Annualized Returns by Property Type

- Spreads between the best and worst performing asset types widened during 1Q16, registering 180 BPS (2.96% vs. 1.16%). The spread was 88 BPS (3.46% vs. 2.58%) last quarter.
- After recording the largest price appreciation during the second half of 2015, industrial returns were strong to begin 2016. The 2.96% return during 1Q16 was tied with the retail sector for the greatest appreciation during the quarter. The sector's one year return of 14.3% led all property types.
- Although retail returns declined 50 BPS from the prior quarter, its 1Q16 appreciation of 2.96% was tied with the industrial sector for the strongest performance. The one-year return of 13.1% was the second among the property types and exceeded the total NPI index average by 130 BPS.
- Apartment sector returns decreased 86 BPS from the prior quarter to 1.87%, representing the lowest quarterly return since early 2010. The sector's one-year return of 10.9% lagged the total NPI index by 90 BPS.
- The office sector posted a 1.72% return during 1Q16, an 86 BPS decline from the prior quarter and the first sub 2.0% quarterly return since 1Q13. The sector's one-year return of 10.8% is the lowest among property types and is 100 BPS below the total NPI index return.
- The hotel sector recorded nearly a 190 BPS decline in price appreciation during 1Q16, registering growth of just 1.2%. Still, the sector's 11.7% one-year return is on par with the total NPI index return.

Below is a graph illustrating total returns by property type since 2011. 2016 returns are annualized based on 1Q16 data.

NCREIF: Property Type Total Returns



Equity REIT Analysis

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

Comprised of 165 REITS, the Financial Times of London and London Stock Exchange (FTSE) NAREIT All Equity REITs Index ("The Index") increased nearly 5.9% during 1Q16. This bettered the 4.0% return recorded during this same period last year. Following losses of 3.5% and 0.3% in January and February, respectively, due to market volatility, The Index rebounded considerably and posted a 10.2% gain March as concerns about global macroeconomic issues eased during the month. Last year, The Index posted a just a 2.8% gain as analysts believed that the pending interest rate hike weighed on the sector throughout the year.

There is cautious optimism regarding the current state and outlook for REITs. Brad Case, NAREIT's senior vice president for research and industry information, believes that REITs have benefitted from rising confidence in the economic and capital market conditions which have led to falling vacancy rates, rental rate growth and higher income for REIT investors. According to REITCafe, strong real estate market fundamentals are boosting profitability even as rich asset pricing has made acquisitions more challenging. It was also reported that as REITs continue to trade at a discount to net asset value, several are using proceeds from sales to buy back shares or invest in other REITs.

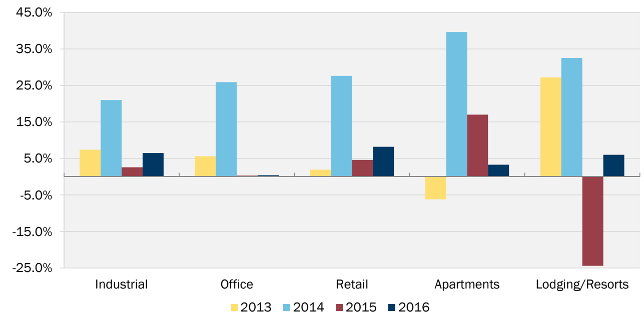
After ending 1Q16 with strong returns, equity REITs and other listed real estate companies will be reclassified later this year into a new Global Industry Classification Standard (GICS) sector. Slated for August 31, 2016, real estate will be elevated to an 11th headline sector of the GICS, meaning that 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 of the real estate industry is expected to assume within the stock market. There are approximately 25 companies in the S&P 500 that would comprise this new sector.

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

- After returning nearly 16.5% in 2015, the highest among the major sectors, apartment REITs gained 3.5% during 1Q16. This lagged the 7.8% return recorded during 1Q15. Analysts are still generally positive regarding the sector, due to continued strong demand for rentals and favorable demographics.
- Retail REITs were the best performing sector during 1Q16, returning 8.2% during the quarter. Last year, the sector gained 4.6%. Freestanding retail REITs posted an 18.7% return during 1Q16, besting the gains of 8.0% for shopping centers and 5.7% for regional malls.
- Office REITs provided the smallest return for investors during 1Q16, gaining 0.4% during the quarter. This latest return lagged the 6.7% gain recorded during this same period last year. This sector struggled last year, as returns of just 0.3% were realized compared to a 26.0% return during 2014. Analysts are still cautiously optimistic due to underlying growth within the labor market.
- After a negative return of 24.4% was recorded during 2015, investors were rewarded in 1Q16 with an increase of 6.1% in the lodging/resorts sector. Although steady business and leisure travel is expected to keep occupancy and RevPAR at healthy levels, lodging REIT executives and industry analysts have started to monitor the (sharing) economy and Airbnb more closely for future impacts to the hotel industry.
- Continuing momentum from the second half of 2015, industrial REITs posted a 6.5% return during 1Q16. During this same period last period year, a 1.5% return was achieved. Analysts remain bullish on the sector due to sustained demand for big box distribution warehouse space.
  - Often tied to industrial market performance, data center and self-storage REITS both performed well during 1Q16, posting returns of 14.3% and 10.9%, respectively. During the past year, compound annual total returns of nearly 43.0% were recorded within the self-storage sector, the highest among all property types.

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

FTSE NAREIT REIT Performance by Sector

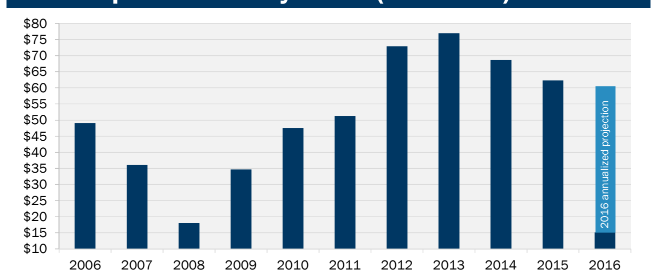


Capital Raising

REITS raised approximately $15.0 billion during 1Q16, lagging output recorded during this time period last year by 32.0%. Still, annualized 1Q16 output is generally in-line with totals posted in 2015 when approximately $62 billion was raised. SNL Financial reported that the majority of capital raised during 1Q16 occurred via senior debt. Specialty REITs raised the largest amount of capital during the quarter, followed by health care, retail and office REITs.

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

Total Capital Raised by REITs (in billions)



Source: NAREIT/ SNL Financial

Stock Market Recap

The beginning of 2016 was quite volatile for the U.S. stock market. During the first week of trading of 2016, the Dow Jones (DJIA) was down nearly 1,100 points or 6.2%, marking its worst ever start to a year. The bear market intensified during the next several weeks, as oil prices continued to fall, the U.S. dollar continued to climb, global markets turned increasingly volatile, Chinese stocks plunged, and the Bank of Japan pushed borrowing costs into negative territory for the first time. At the low point of the quarter on February 11th, the three major U.S. stock indices (DJIA, NASDAQ and S&P 500) were each down more than 10.0% for the year.

In a positive turn of events, the market then began to gain positive momentum in mid-February. Analysts point to the Fed's decision not to raise interest rates in late January and its comment that the pace of interest rate increases would be affected by international events as the beginning of the market rally. Additionally, the price of oil began to stabilize and rise, additional stimulus measures were passed from the European Central Bank, China undertook additional steps to steady its economy, and several U.S. economic indicators were positive, which was indicative of a healthy economy. During 1Q16, the DJIA recorded a 1.5% rise in value from the prior quarter.

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%	5.8%	**14.9%**
NASDAQ	26.9%	-4.2%	14.6%	12.1%	13.4%	5.7%	-2.7%	11.4%
S&P 500	16.9%	-1.8%	15.9%	38.3%	11.4%	-0.7%	0.8%	13.3%
DJIA	15.1%	2.1%	13.4%	29.6%	7.5%	-2.2%	1.5%	10.9%

Source: Yahoo Finance: 2016 data as of March 31, 2016

Commercial Lending

The Mortgage Bankers Association's (MBA) Quarterly Survey of Commercial/Multi-Family Mortgage Bankers Originations reported that 1Q16 commercial and multi-family mortgage loan originations decreased 38.0% from the prior quarter, but recorded no change YoY. All major property and investor types recorded fewer originations during 1Q16, with the largest losses concentrated in the health care, office and industrial sectors.

Jamie Woodwell, MBA's Vice President of Commercial Real Estate Research, stated, "In the aggregate, commercial real estate borrowing and lending started 2016 in a similarly strong fashion to 2015. Borrowing backed by retail, office, hotel and multifamily properties picked up, as did lending by banks. Disruptions in the broader capital markets pushed originations for commercial mortgage-backed securities down. Across property types and investor types, changes in regulation and broader market conditions could have an impact on originations during the remainder of the year."

Lending activity by property and investor type is summarized below.

Lending Activity 1Q 2016		
Type	**% Change since 1Q 2015**	**% Change since 4Q 2015**
Property Type		
Industrial	-56.0%	-57.0%
Multi-Family	2.0%	-39.0%
Office	18.0%	-23.0%
Retail	44.0%	-46.0%
Hotel	3.0%	-57.0%
Health Care	-57.0%	-62.0%
Investor Type		
CMBS/Conduits	-19.0%	-29.0%
Commercial Banks	44.0%	-39.0%
Life Insurance Co.	-1.0%	-32.0%
GSE's (FNMA/FHLMC)	-22.0%	-45.0%
Overall	**0.0%**	**-38.0%**

Source: Mortgage Bankers Association

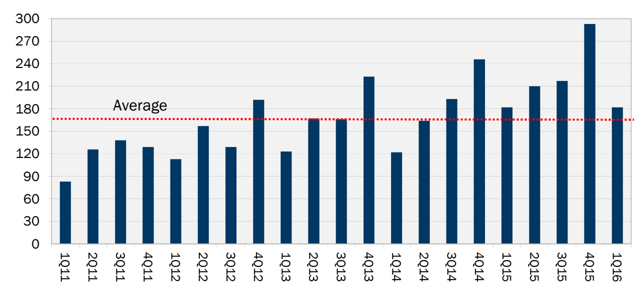
YoY, loans originated for retail and office assets recorded the highest increases, offsetting large drops in volume for health care and industrial assets. Among investor types, loans originated for commercial banks increased 44.0% YoY, offsetting decreases for loans originated CMBS/conduits and GSE's (FNMA/FHLMC). Lending activity for life insurance companies recorded little change YoY.

The April 2016 Senior Loan Officer Opinion Survey on Banking Lending Practices indicated that lending standards tightened for commercial real estate loans during 1Q16, especially for multi-family and construction and land development loans. Banks also indicated increased demand for multi-family loans, construction and land development loans, and loans secured by non-farm non-residential properties.

Below is a graph depicting the frequency of commercial/multi-family loan originations since 1Q11.

Commercial/Multi-Family Mortgage Bankers Origination Index

2001 Quarterly Average = 100



Source: Commercial Mortgage Bankers Association

Commercial Mortgage Backed Securities (CMBS) Market

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

CMBS Issuances

According to data from Commercial Mortgage Alert (CMA), CMBS issuances registered $19.1 billion during 1Q16, down 30.0% from the $27.0 billion priced during the same period last year. In 2015, $101 billion of CMBS issuances were priced, which was the first time the $100 billion level was exceeded since 2007. It was reported that 36 U.S. transactions occurred during 1Q16.

There are numerous concerns within the CMBS industry as per CMA. It was reported that the spike in bond spreads that had hurt CMBS lenders by driving down the value of warehoused loans had continued throughout much of 1Q16 from the end of 2015. This considerably slowed originations due to the volatility concerns and made CMBS shops less competitive with portfolio lenders. Additionally, there is 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.

On the positive, conditions started to ease during the last two weeks of March, as CMBS spreads tightened. CMA reported that numerous lenders believed the limited recent bond issuance helped create pent-up investor demand, which tightened spreads. Additionally, a large number of maturing loans, originated in 2006 and 2007, will need to be refinanced, which will cause originations to escalate.

Top U.S. CMBS Underwriters

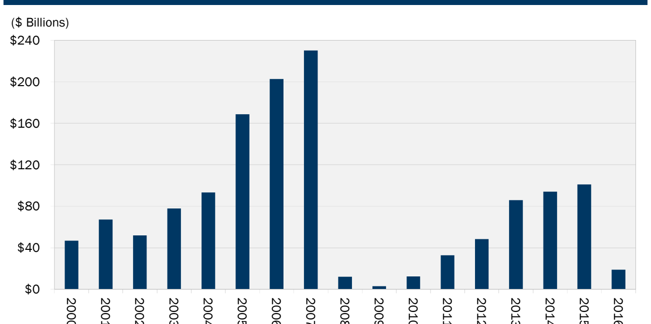
Firm	Issuance ($Mil)	Market Share
Deutsche Bank	$3,142	16.5%
Wells Fargo	$3,103	16.3%
Goldman Sachs	$2,844	15.0%
Citigroup	$2,254	11.8%
Credit Suisse	$1,525	8.0%
J.P. Morgan	$1,502	7.9%
Bank of America	$1,241	6.5%
Morgan Stanley	$1,121	5.9%
Cantor Fitzgerald	$816	4.3%
Barclays	$699	3.7%
UBS	$494	2.6%
Societe Generale	$279	1.5%

Source: Commercial Mortgage Alert

Similar to the past several years, Deutsche Bank served as the top book runner, underwriting approximately $3.1 billion of transactions during 1Q16. Other firms underwriting more than $2 billion during the quarter included Wells Fargo, Goldman Sachs and Citigroup.

Looking ahead, CMBS professionals, surveyed by CMA, have scaled back issuance projections from an initial estimate of $110 billion at the beginning of the year and foresee a potential considerable drop in total issuances for 2016.

U.S. CMBS Issuance



Source: Commercial Mortgage Alert

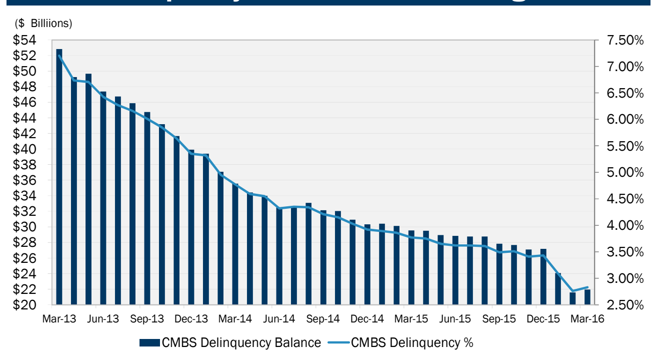
CMBS Delinquency

A positive occurrence for the U.S. commercial real estate debt market has been the downward trend in CMBS delinquency rates and unpaid balances. Despite a slight rise in March 2016, the U.S. CMBS delinquency rate registered 2.83%, which is 94 BPS lower YoY.

- The delinquent unpaid balance for CMBS totaled nearly $22.0 billion in March 2016, a slight rise from the prior month but considerably lower than the $29.6 billion recorded at this time last year.
- By property type, retail and office properties had the highest delinquency rates (5.0%), followed by industrial (4.5%), hotel (2.7%) and multi-family (0.6%).
- Retail loan delinquencies, at 36.7%, have been the greatest contributor to CMBS delinquencies during the past 12 months and have fallen $457 million from a year ago to $8.1 billion.
- Office loans represent 33.1% of CMBS delinquencies, but are down $1.9 billion from a year ago to $7.3 billion.
- Multi-family loan delinquencies, accounting for 8.8% of total CMBS delinquencies, declined by 4.0 billion or 67.5% from a year ago to $1.9 billion, the largest percentage decline among the property types.
- Hotel loan delinquencies, representing 9.6% of total CMBS delinquencies, declined by nearly $1.1 billion or 28.0% from a year ago to $2.1 billion.
- Larger loan vintages between 2005 and 2007 continue to default and cause delinquencies resulting from aggressive pro-forma underwriting and market conditions. Approximately 89.0% of CMBS delinquencies through March 2016 resulted from such loans.

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

CMBS Delinquency Balance vs. Percentage



Source: Morningstar

Property Sector Overviews

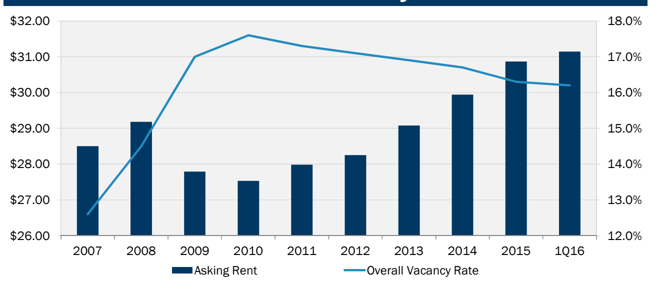
Office

- According to Reis Inc., market fundamentals have improved as the national office vacancy rate declined 20 BPS to 16.0% during 1Q16. The YoY decline of 60 BPS was the largest since 2007.
- Reis, Inc. reported that net absorption totaled 11.1 million square feet (msf) during 1Q16, a 52.0% increase from totals recorded during 1Q15. During the past 12-

month period, net absorption totaled 45.7 msf, the highest figure since 2007, as tenant movement accelerated.

- Asking and effective rental rates increased 0.9% and 1.0%, respectively, during 1Q16, marking the 22nd consecutive quarter of rent growth.

Office Market: Rents vs. Vacancy Rates



Source: Reis, Inc.

- Approximately 109,000 jobs were created within the information services, financial activities and professional and business services sectors during 1Q16, down about 8.5% YoY and considerably lagging the 800,000 office jobs created in 2015. On the positive, hiring activity escalated in February and March after the financial volatility noted in January.

- New development slowed during 1Q16, as quarterly completions totaled nearly 6.1 msf as per Reis, Inc. During 2015, a quarterly average of 9.2 msf was recorded.

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

1Q 16 Top 10 Office Markets Comparison		
Net Absorption	**Vacancy Rate**	**Under Construction**
High to Low	Low to High	High to Low
Houston	New York City	New York City
Los Angeles	Boston	Dallas/Ft Worth
Dallas/Ft Worth	Philadelphia	Washington DC
Boston	Los Angeles	Chicago
Atlanta	Atlanta	Houston
Philadelphia	Chicago	Boston
Northern NJ	Houston	Philadelphia
Chicago	Northern NJ	Los Angeles
Washington DC	Dallas/Ft Worth	Atlanta
New York City	Washington DC	Northern NJ

Source: CoStar

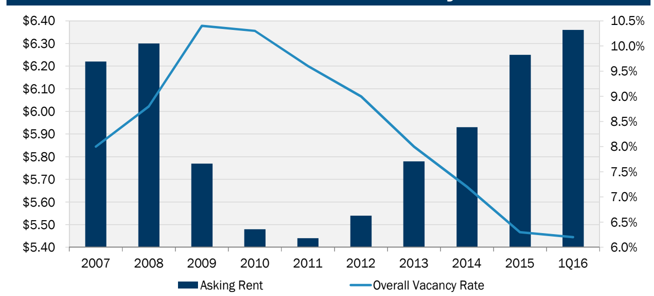
Industrial

- The manufacturing sector continued to slowly improve as the ISM headline reading returned to expansion territory and factory activity expanded for the first time since August 2015. Market fundamentals remain strong for industrial product, characterized by declining vacancy rates, rental rate growth and robust absorption.

- According to CoStar, the national industrial vacancy rate, at historically low levels, decreased 10 BPS since the last quarter to 6.2% as of 1Q16 and is down 70 BPS YoY. Vacancy rates were lower for warehouse properties (6.0%) than flex properties (8.4%).

- In response to increased demand, developers delivered 59.5 million sf of new product and the market absorbed nearly 63.5 million sf during 1Q16 according to CoStar. Build-to-suit and speculative development continued to increase, driven by a lack of functional modern space and steady demand from the booming e-commerce industry for facilities to handle automated individual and bulk-order processing in an efficient manner.

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.

1Q 16 Top 10 Industrial Markets Comparison		
Net Absorption	**Vacancy Rate**	**Under Construction**
High to Low	Low to High	High to Low
Dallas/Ft Worth	Los Angeles	Dallas/Ft Worth
Atlanta	Detroit	Inland Empire
Northern NJ	Inland Empire	Philadelphia
Chicago	Houston	Chicago
Philadelphia	Dallas/Ft Worth	Atlanta
Detroit	Northern NJ	Houston
Inland Empire	Chicago	Los Angeles
Houston	Philadelphia	Northern NJ
Boston	Atlanta	Boston
Los Angeles	Boston	Detroit

Source: CoStar

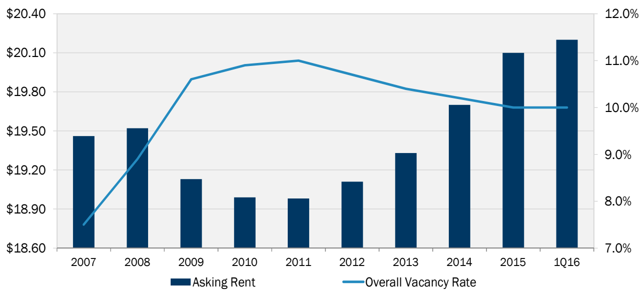
Retail

- In the face of financial market volatility and slowing rising wage gains, consumers have generally been cautious with spending. U.S. retail sales declined 0.3% in March, largely due to a fall in automobile sales.

- There was little change in market fundamentals during 1Q16. Neighborhood and community center vacancy rates remained at 10.0% and asking and effective rental rates grew by approximately 0.5%. Vacancy rates within the regional mall sector remained at 7.8%.

- Reis, Inc. reported continued low levels of new construction activity for neighborhood and community centers and regional malls.

Retail Market: Rents vs. Vacancy Rates



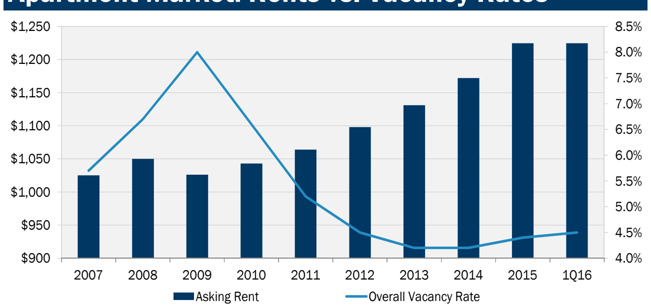
Source: Reis, Inc. (reflects neighborhood and community centers)

- New retail concepts are increasingly transforming the physical layout of stores in an attempt to lure more consumers and to provide unique shopping experiences.
- E-commerce continues to force brick and mortar retailers to reposition stores by reducing their physical presence and closing and/or scaling back operations. During 1Q16, Sports Authority filed for Chapter 11 bankruptcy and announced it would close or sell 140 stores. National retailers including Macy's, Sears, Kmart, Kohl's, Staples, and Men's Wearhouse also announced continued or new store closings.

Apartment

- Vacancy rates increased 10 BPS for the third consecutive quarter in 1Q16, the first such occurrence since 4Q09, as developers continued to add new supply to the market.
- As more units became available, a slowdown in rental growth began in 2016. Asking and effective rental rates grew by 0.4% and 0.5%, respectively, during 1Q16, the weakest rental growth since 4Q11 according to Reis, Inc. On the positive, rents have grown 4.6% during the past 12-month period.

Apartment Market: Rents vs. Vacancy Rates



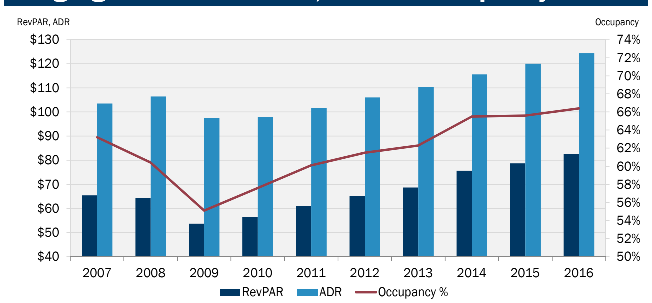
Source: Reis, Inc.

- Apartment deliveries totaled nearly 42,350 units during 1Q16, about 19.0% lower than the quarterly average recorded during the second half of 2015. During the past 12-month period, developers delivered approximately 200,720 units, the highest total for a 12-month period since 1999. Reis, Inc. anticipates 2016 deliveries to exceed last year's total.
- According to MPF Research, absorption within the 100 largest U.S. metro areas registered about 20,100 units in 1Q16, less than the typical 40,000 to 50,000 recorded during the first quarters of the past several years. It was reported that uncertainty regarding the near-term economic outlook appeared to be limiting new household formations during the quarter, lessening demand for multi-family units.
- According to MPF Research, annual rental rate growth for new leases was strongest in the Portland, Sacramento, Oakland and Seattle-Tacoma metropolitan areas as of 1Q16. It was also reported that the share of apartment renters deciding to renew at their current location continued to increase.

Hotel

- Hotel demand, which is driven by increased corporate and steady leisure travel, continued to remain strong.
- Compared with year-end 2015, Smith Travel Research (STR) reported, as of March 2016, that the U.S. hotel industry's occupancy grew 1.2% to 66.4%, its average daily rate (ADR) increased 3.6% to approximately $124, and its revenue per available room (RevPAR) jumped 5.30% to nearly $83.
- STR reported that RevPAR has grown YoY for 73 consecutive months and demand hit an all-time high in March with more than 1.2 million room nights sold.

Lodging Market: RevPAR, ADR & Occupancy



Source: Smith Travel Research; 2016 data as of March

- According to STR, there are nearly 4,100 projects totaling approximately 499,500 rooms under contract in the U.S. as of March 2016, representing nearly a 15.0% YoY increase. Under contract data includes projects in the planning, final planning and in construction stages. It was reported that approximately 1,200 lodging projects, totaling 153,345 rooms, are under construction, representing a 21.5% YoY increase.
- Markets with the largest number of hotel rooms under construction as of March 2016 were located in New York (15,145), Houston (5,296), Los Angeles/Long Beach (4,931), Dallas (4,428), Miami/Hialeah (4,297) and Las Vegas (3,905).

Forecast

- Economic growth is expected to escalate during the year, as continued job growth and increasing disposable income should lead to an increase in consumer spending. GDP is expected to register between 2.0% and 2.5% for 2016.
- Commercial real estate price appreciation is expected to grow at a decelerating rate as compared to the past few years. Market fundamentals are still expected to remain healthy, characterized by sustained demand for space, occupancy gains and modest rental rate growth.
- Despite a 1Q16 slowdown, caused by financial market volatility, sales volume is expected to escalate throughout the remainder of the year, driven by steady investment demand, a low-interest rate environment, the flight to safety for U.S. assets and growing levels of dry powder to fund investments.
- The pursuit of higher yields relative to other investments will continue to drive activity and interest in secondary and tertiary markets.
- Capitalization rate movement is expected to be minimal, but greater investor demand and appetite for risk are projected to compress rates with varied secondary and tertiary markets.
- Steady flows of international capital are forecasted to continue to flow into U.S. commercial real estate assets. Expected to significantly boost foreign investment activity, a legislative change to the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA) signed late in 2015 will reduce withholding tax levels for investors when acquiring U.S. real estate assets.
- Based on a survey conducted in March 2016 by the Urban Land Institute, nearly 50 leading economists and analysts foresee continued economic expansion during the next three years within the commercial real estate industry; however, compared to six months earlier, expectations are for slower growth and more subdued returns and rental rate growth.

Key findings/predictions include:

- Commercial real estate prices, as measured by the Moody's/RCA Index, are expected to grow an average of 3.6% per annum during the next three years, as compared to the long-term average increase of 5.8%.
- Total returns for core, unleveraged properties, as measured by NCREIF, are estimated to average near 7.5% per annum during the next three years, below the long-term trend of 10.0%.
- Commercial sales volume is expected to gradually ease over the next three years.

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	FORECAST		
	1996-2015	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	FORECAST		
	1996-2015	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	FORECAST		
	1996-2015	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	FORECAST		
	1996-2015	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	FORECAST		
	1996-2015	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.

As unbiased and independent advisors, we represent leading public and private real estate entities and stakeholders including REITs, financial institutions, investment banks, opportunity funds, insurance companies, hedge funds, pension advisors and owners/developers to align strategy with business goals.

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.

We offer a comprehensive integrated suite of services:

STRATEGIC ADVISORY, TRANSACTION DUE DILIGENCE & MANAGEMENT

- Valuations
- Transaction Strategy, Due Diligence and Management
- Debt/REO Acquisitions and Dispositions
- 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

- IPO and M&A Advisory
- Capital Structure Advisory-Debt, Equity, Portfolio Acquisition and Disposition
- Executive Compensation and Corporate Governance

RESTRUCTURING SERVICES

- Company-Owner Advisory
- 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

TAX ADVISORY

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

SPECIAL FOCUS AREAS

- Residential and Commercial Mortgage Backed Securities
- Hospitality, Gaming and Leisure

The views expressed herein are those of the authors and are not necessarily the views of FTI Consulting, Inc., its management, its subsidiaries, affiliates or other professionals.

Marc R. Shapiro
+1 973 852 8154
marc.shapiro@fticonsulting.com

Michael P. Hedden
+1 646 632 3842
michael.hedden@fticonsulting.com

Mark E. Field
+1 973 852 8157
mark.field@fticonsulting.com

CRITICAL THINKING
AT THE CRITICAL TIME™

About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

www.fticonsulting.com