1st Quarter 2017

Economic & Real Estate Report

Contents

Introduction

Reflecting a continuing pattern of sluggish first quarter economic growth, which has been evident the past several years, the advance estimate of 1Q17 GDP registered its lowest level in three years, as consumers pulled back sharply on spending. Softness in automobile sales and cheaper gasoline prices has negatively impacted retail sales since the end of 2016. Despite the slowdown, March's continued rise in consumer confidence may signal an uptick in spending in the upcoming months. Other economic indicators were indicative of more cautious optimism. The ISM manufacturing and non-manufacturing headline indices declined slightly in March, but both signaled an expanding economy. Although factory and durable goods orders increased in March, both readings fell short of economist expectations. Robust job gains in January and February were followed by a sizeable decline in March, despite which, the employment rate fell to its lowest level in nearly 10 years.

At its March Federal Open Market Committee (FOMC) meeting, the Federal Reserve (Fed) raised its benchmark interest rate by 25 basis points (BPS) to a range between 0.75% and 1.0%. This marked the second 25 basis point (BP) increase in three months, as the Fed voiced confidence that U.S. economic growth was progressing "nicely". The Fed left its plan for further interest rate increases mostly unchanged from its prior meeting and expects a total of three rate hikes during 2017. Fed officials also projected economic growth of 2.1% and a slight uptick in inflation to 1.9% for 2017, which is just under the Fed's 2.0% target.

Despite healthy commercial real estate (CRE) market fundamentals, a more cautious investment climate resulted in a YoY decline in sales activity. Data from leading real estate indices were also indicative of variances in CRE pricing trends. NCREIF and the Green Street Commercial Property Price Index both reflected moderation in pricing during 1Q17 and slowing growth over the past year. Conversely, the CoStar Commercial Repeat-Sale Indices National Composite Price Index reported a bifurcation in values, as larger property asset sales in core markets declined (2.8%) in comparison to gains (+4.8%) for lower-priced property sales in secondary markets. The headline Moody's/Real Capital Analytics (RCA) Commercial Price Index reported an increase in pricing during 1Q17 following a loss during the same period last year.

Real estate debt market conditions were generally mixed during 1Q17. CMBS issuances lagged behind the pace set during the same period last year while CMBS delinquency rates increased modestly for the fourth consecutive month in March, but continued to hover near historically low levels. Commercial and multi-family loan originations increased YoY, but declined from the prior quarter, and domestic banks reported that lending standards for CRE loans of all types tightened during 1Q17.

Driven by increased investor demand, capital raising by REITs reflected a sizeable YoY increase.

Summary of Key Economic Indicators

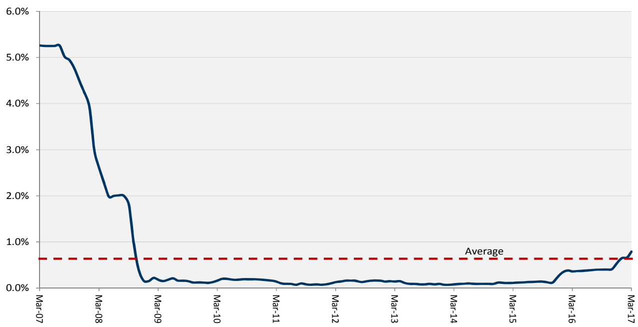
- **GDP Growth Weakens.** The advance estimate showed that 1Q17 U.S. GDP increased at a 0.7% seasonally adjusted annualized rate, down from 2.1% during the prior quarter.
- **Unemployment Rate Falls.** The March unemployment rate declined to 4.5%, the lowest figure since May 2007.
- **A Slight Uptick in Job Openings.** Employers posted 5.7 million job openings in March, as the number of job postings for each unemployed person fell to its lowest level in more than 16 years. The number of quits increased 2.6% in March, which is viewed as a sign of increasing confidence among workers.
- **Employment Cost Index (ECI) Surges**. Total employment costs, including wages and salaries, increased 0.8% during 1Q17, the highest quarterly gain since 2007. During the past year, wage growth increased 2.5% as the labor market continues to tighten.
- **Small Business Optimism Falls.** According to the National Federation of Independent Business Index of Small Business Optimism, small business confidence declined slightly in March, but still remains at a historically elevated level. A moderate decline in the sales expectations component more than offset modest gains within the actual earnings, capital expenditure plans and job creation components.
- **Consumer Confidence Increases.** Leading indices showed that U.S. consumer confidence increased in March, driven by more favorable views regarding economic conditions, the labor market and personal income expectations.
- **Dodge Momentum Index (DMI) Rises**. The DMI increased for the sixth consecutive month in March. The institutional component has driven the recent gains and is 23.0% higher than at the end of 2016. In contrast, commercial planning is off 2.9% from December 2016. Despite short-term setbacks, the overall DMI is well above level of a year ago and signals increased construction activity.
- **The Leading Economic Index (LEI) Rises**. The LEI increased for the seventh consecutive month, rising 0.4% in March. The gain was primarily driven by positive contributions from the interest rate spread, ISM new orders index and housing permit components. This upward trend suggests moderate economic growth during 2017.
- **Retail Sales Decline.** In March, retail sales fell 0.2% following a downwardly revised 0.3% decrease during the prior month. This marked the weakest two-month period since the beginning of 2015. After seven consecutive years of increasing sales, a downturn in automobile sales weighed on spending. Despite recent weakness, retail spending has increased 5.2% during the past 12 months. Non-store retailers' sales increased 0.6% in March and have risen 11.4% during the past year as more people continue to shop online and away from brick and mortar stores.
- **Consumer Inflation Decelerates.** Headline CPI fell 0.3% in March, the first decline in more than a year. The decrease was primarily due to a drop in gasoline prices and to a lesser extent, a decrease in electricity and utility gas services. YoY, the CPI reflected that headline inflation increased 2.4%, which is still considerably higher than the 0.9% rise recorded at this time last year.
- **Industrial Production Increases.** In March, U.S. industrial output rose 0.5%, largely due to an 8.6% surge in utilities output. Of concern, manufacturing production declined by 0.4% following six consecutive monthly gains. The fall in manufacturing output was primarily fueled by a pullback in motor vehicle and parts output.
- **Factory Orders Increase Slightly.** Despite rising 0.2% in March, the latest gain, the smallest since November 2015, fell short of economist expectations and signals the factory sector has lost momentum. Nondurable goods orders declined 0.5% during the month, but orders and shipments for core capital goods increased.
- **Durable Goods Orders Increase.** Although U.S. durable goods orders jumped 0.7% in March, the gain was below market expectations of 1.3% growth. Excluding transportation, new orders decreased 0.2%. New orders for motor vehicles and parts fell 0.8%, the second consecutive monthly decline. On the positive, nondefense shipments, considered a key indicator of equipment spending, increased 1.3% during March.
- **Productivity Falls.** Reflective of a 1.0% increase in output versus a 1.6% rise in hours worked, productivity declined at a 1.6% annual rate during 1Q17. This represented the first contraction in a year. A tightening labor market and a slower pace of productivity growth have lifted unit labor costs, which increased at a 3.0% annual rate during 1Q17.

10-Year Graphical Snapshots of Selected Economic Indicators

The following charts depict historical trends for a number of economic indicators.

Effective Federal Funds Rate

Historic and Current Figures



Source: St. Louis Federal Reserve Board

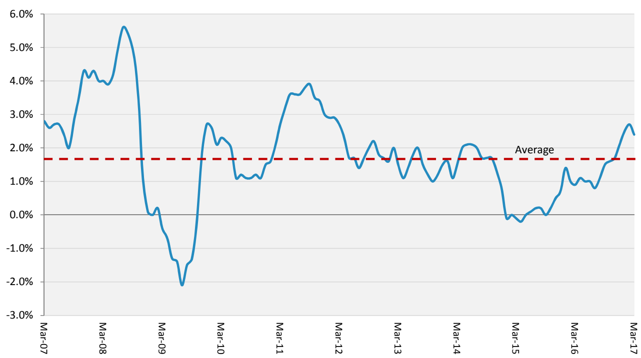
Trade Weighted U.S. Dollar Index (DTWEXB)

US Dollar Value Against Major U.S. Trading Partners

Source: St. Louis Federal Reserve Board

Inflation - All Urban Consumers – (CPI-U)

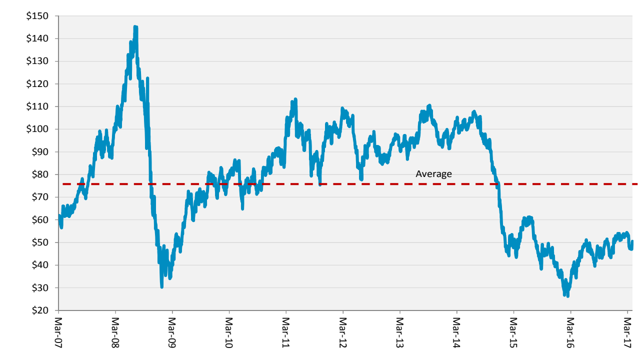
Historic and Current Figures (Year-over-Year)



Source: St. Louis Federal Reserve Board

West Texas Intermediate (WTI) Crude Oil Prices

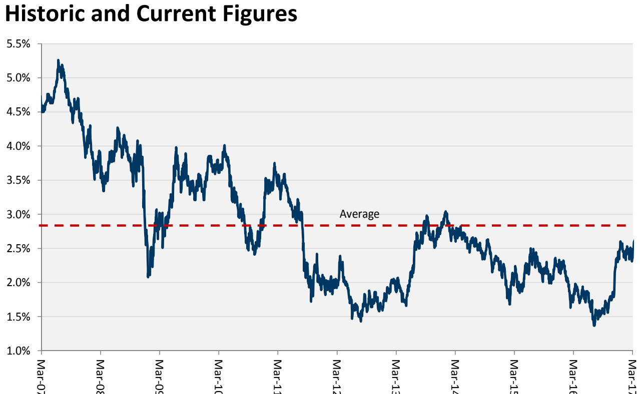
Price Per Barrel



Source: St. Louis Federal Reserve Board

10-Yr Treasury Rates

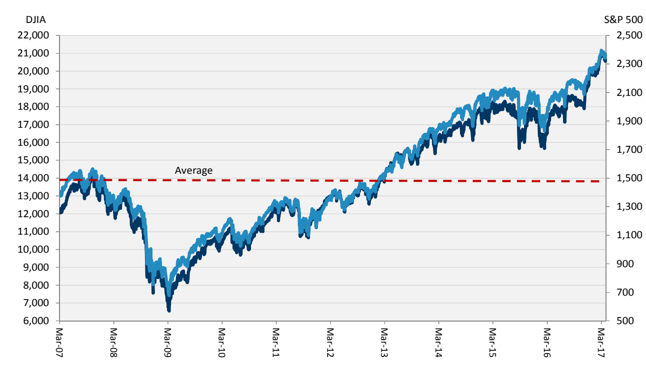
Historic and Current Figures



Source: St. Louis Federal Reserve Board

Dow Jones and S&P 500 Averages

Historic and Current Figures (Closing Average for Day)



Source: Yahoo Finance

Labor Market

In March, the pace of hiring slowed, as non-farm payrolls increased by 98,000, well off the revised gains of 216,000 and 219,000, respectively, during the first two months of 2017 and below economist's expected job growth of about 180,000. It was speculated that the lower number likely resulted from March's harsher weather conditions after an unseasonably warm start to the year. During 1Q17, the U.S. economy added an average of 178,000 jobs per month, down from the 1Q16 monthly average of 196,000. In 2016, 2.24 million jobs or about 187,000 per month were created. Of note, March marked the 78th consecutive month of job growth.

Most industries added jobs during 1Q17, highlighted by 151,000 new positions within the professional and business services sector, followed by gains of 99,000 within both the education & health services and construction sectors. After trimming positions during 2016, hiring returned to the natural resources/ mining and manufacturing sectors. Following the increase of 331,000 jobs in 2016, employment fell by 15,000 within transportation & utilities sector while similar losses have been recorded in the information sector since 2016.

The March ADP National Employment Report reported that non-farm private sector employment increased by 263,000. During 1Q17, an average 259,000 jobs were per month, well ahead of the 174,000 monthly jobs additions recorded during 2016. Mid-sized businesses (50 – 499 employees) added more positions than either small (1 -49 employees) or large-scale (500+ employees) businesses.

Despite the pullback in hiring, the March unemployment rate decreased 20 BPS to 4.5%, as the number of employed workers grew faster than the labor force. The U-6 rate, a more broad measure of unemployment that includes Americans in part-time jobs or not looking for work, declined 90 BPS YoY to 8.9%, the lowest level since December 2007. Of concern, the labor force participation rate remained at 63.0% and still lingers near the 40-year. March wage growth increased 2.7% YoY, as employers raised compensation in order to attract workers.

U.S. Non-Farm Employment by Industry

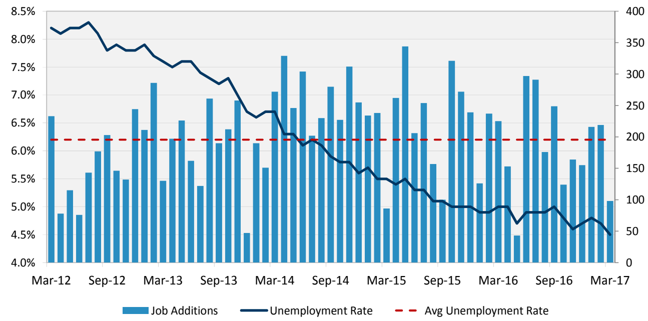
Historic and Current Figures (thousands)

Industry Sector	March 2017 Employment	March 2012 Employment	Total Change	Percent Change
Trade, Trans & Utilities	27,359	25,260	2,099	8.3%
Educ. & Health Services	22,970	20,414	2,556	12.5%
Government	22,318	22,049	269	1.2%
Prof & Bus. Services	20,567	17,596	2,971	16.9%
Leisure & Hospitality	15,795	13,511	2,284	16.9%
Manufacturing	12,392	11,936	456	3.8%
Financial Activities	8,409	7,771	638	8.2%
Construction	6,882	5,661	1,221	21.6%
Other Services	5,724	5,415	309	5.7%
Information	2,747	2,673	74	2.8%
Mining and Logging	695	852	(157)	-18.4%
Total Nonfarm	**145,858**	**133,138**	**12,720**	9.6%

Source: Bureau of Labor Statistics

As shown below, March marked the 18th consecutive month that the unemployment rate registered at or below 5.0%. The current unemployment rate is 170 BPS below the 6.2% average recorded between March 2012 and 2017.

U.S. Unemployment Rate Trends



Source: Bureau of Labor Statistics

Consumer confidence indices are considered key indicators of economic conditions.

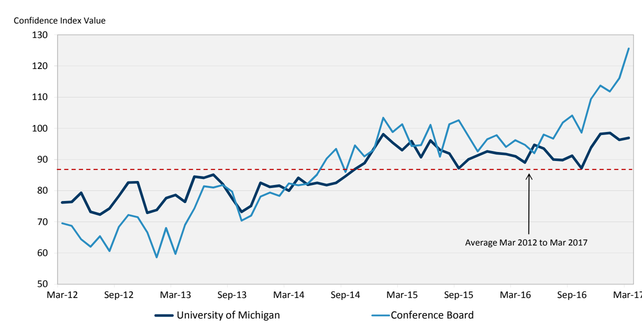
The Conference Board. Consumer confidence increased sharply in March to its highest level since December 2000 and has risen nearly 25 points since the Presidential election. This heightened optimism also coincided with recent small business, homebuilder, corporate CFOs and manufacturer surveys. The latest increase resulted from greater optimism regarding current labor market and business conditions and heightened positivity regarding the short- and long-term outlooks for personal income prospects and jobs. Per the latest survey, consumers' improved expectations for their income prospects were illustrated by increased purchasing plans for automobiles and major appliances.

University of Michigan Index. Consumer sentiment increased modestly in March, driven by consumers' brightening perception of their personal finances, increased optimism regarding job prospects and low inflation expectations. Only 5.0% of consumers indicated that rising prices negatively impacted their standard of living, which is the lowest share since 2000.

Below are consumer confidence trends since March 2012.

Consumer Confidence Overview

Historic and Current Figures (thousands)



Source: Conference Board, University of Michigan

Gross Domestic Product (GDP)

The U.S. economy expanded its slowest pace in three years as consumers significantly reduced their spending. The advance estimate of 1Q17 GDP showed that growth increased at seasonally adjusted annualized rate of 0.7% after advancing 2.1% during the prior quarter. Still, the slowdown was not unexpected, as economist forecasts called for growth of about 1.0%.

Consumer spending, which accounts for 70.0% of economic growth, advanced just 0.3% after growing 3.5% during 4Q16. The latest reading, representing the weakest performance since 2009, was speculated to be caused by 1) warmer weather, which resulted in lower heating bills, 2) a decline in automobile sales and 3) a delay by the government in sending out tax rebate checks. Durable goods orders declined at a 2.5% rate, reversing the 11.4% gain of the prior quarter. Spending on non-durable goods increased 1.5%, following a 3.3% advance.

Other headwinds limiting 1Q17 growth included a sizeable inventory drag and a decline in government spending. The slowdown in inventory rebuilding sliced nearly a full percentage point from GDP growth, as companies lessened their stockpiles instead of placing orders for new goods. Government spending fell at a 1.7% annual rate, as a 4.0% decline in national defense spending cut federal outlays by 1.9%, while state and local government expenditures fell by 1.6%.

On the positive, business investment increased at a 9.4% rate during the first three months of 2017, the fastest pace since 4Q13, and contributed 1.1% to 1Q17 economic growth. Within this fixed nonresidential category, spending on business equipment increased at a 9.1% rate while spending rebounded within the energy industry, as outlays rose 22.1% for mining-related structures.

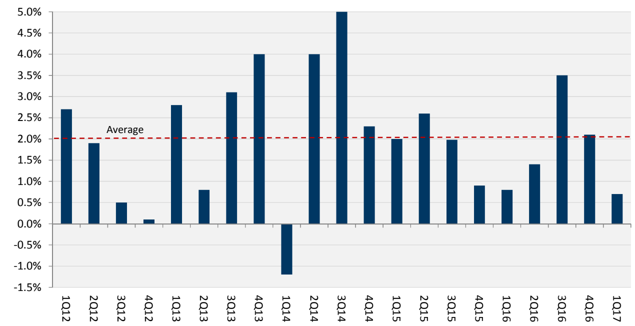
Other 1Q17 GDP Key Trends

- Residential fixed investment increased 13.7% following a 9.6% gain during the prior quarter as home building escalated during the quarter.
- Exports increased at a 5.8% rate, reversing the 4.5% decline of the prior quarter. Following a 9.0% gain, the largest in two years, imports increased 4.1%. Overall, trade had a minimal impact on GDP growth during the quarter.
- Largely resulting from inflationary pressures, real disposable income increased at a 1.0% pace, the slowest since 4Q13.
- As consumers became more cautious with spending, the personal savings rate posted a quarterly increase from 5.5% to 5.7%.

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

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%).

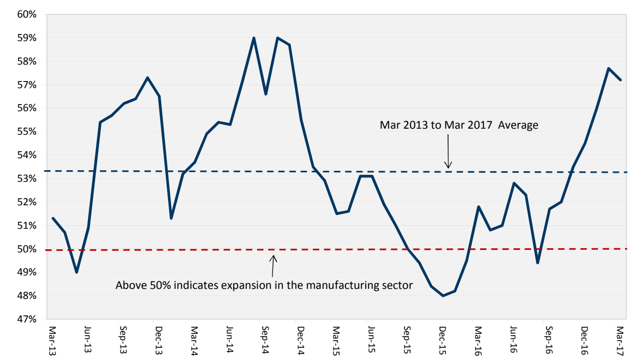
The headline Purchaser's Manufacturing Index (PMI) indicated that American factories expanded for the seventh consecutive month in March, but at a slower pace than during the previous month. In February, the PMI reached a 30-month high. Of the 18 manufacturing industries tracked, 17 reported growth in March. In addition, all 18 industries reported increases in new orders.

Overall, most indicators pointed to a strengthening manufacturing sector. The largest drag on growth was a retreat in the production index, which fell more than 5 percentage points to fall slightly below its six-month average. Despite the decline, the pipeline for activity is steady, as the new orders index continues to trend near a three-year high. New orders were supported by a 4.0% increase in export orders in March, the fastest pace of export growth since the latter part of 2013. Most encouraging was the improvement in the employment component. In March, manufacturers reported increased hiring for the sixth consecutive, which was driven by the need to keep up with a series of new orders, the employment index rose to its highest level since June 2011. Of concern are rising prices, which have increased for 13 consecutive months, sending the prices paid index to its highest level since May 2011.

Purchasing managers were mostly positive regarding manufacturing business conditions. Encouraging comments reflected improving business conditions, positive business outlooks, increased orders and an uptick in hiring to meet greater demand for goods. Similar to the end of 2016, concerns from respondents reflected qualified labor and inflationary pressure to raise prices.

The graph below shows fluctuations within the PMI since March 2013.

Purchasing Manager's Index (PMI)



Source: Institute for Supply Management

The following summarizes key components of the ISM Index.

- **Purchasing Managers' Index (PMI).** A reading above 50.0% indicates that the manufacturing economy is generally expanding; below 50.0% indicates that it is generally contracting. Manufacturing expanded in eleven of the past twelve months. The PMI has averaged 53.2% over the past 12 months, ranging from 49.7% to 57.7%. The latest reading was 57.2% in March.
- **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. Although the index decreased 0.6 percentage point to 64.5 % in March, growth was recorded for the seventh consecutive month.
- **Production Index.** An index above 51.0%, over time, is generally consistent with an increase in the Fed's industrial production figures. Although the index decreased 5.3 percentage points in March to 57.6%, growth was recorded for the seventh consecutive month.
- **Employment Index.** An Employment Index above 50.6%, over time, is generally consistent with an increase in manufacturing employment. In December, an increase of 4.7 percentage points sent the March reading to 58.9%, indicating growth for the sixth consecutive month.
- **Prices index.** A Prices Index above 52.4%, over time, is generally consistent with an increase in the BLS Producer Price Index for Intermediate Materials. In March, an increase of 2.5 percentage points to 68.0% was recorded, indicating an increase in raw materials prices for the 13th consecutive month.
- **Inventories Index.** An Inventories Index greater than 42.8%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' (BEA) figures on overall manufacturing inventories. A decrease of 2.5 percentage points to 49.0% was recorded in March.

Construction Spending

After reaching its highest level on record in February, U.S. construction spending eased in March and decreased 0.2%. Economists had predicted a 0.5% increase. The latest decrease was due to a drop in public construction spending, which reflected tighter state and local budgets. During 1Q17, spending was still 4.9% higher than in the same period in 2016.

Private Construction

- Comprising 77.0% of total construction expenditures, little change in spending occurred in March. The 1.2% increase in residential outlays was offset by a 1.3% decline in non-residential outlays.
- Total spending is up 7.0% YoY. Within the residential sector, spending on new multi-family projects increased 7.4% YoY, as compared to a 4.7% YoY rise for new single-family homes.
- YoY, non-residential construction spending increased 6.4%. Of note, spending on office (+17.7%), commercial (+12.7%), and lodging (+8.6%) projects increased YoY, while spending on manufacturing projects fell 9.8%.

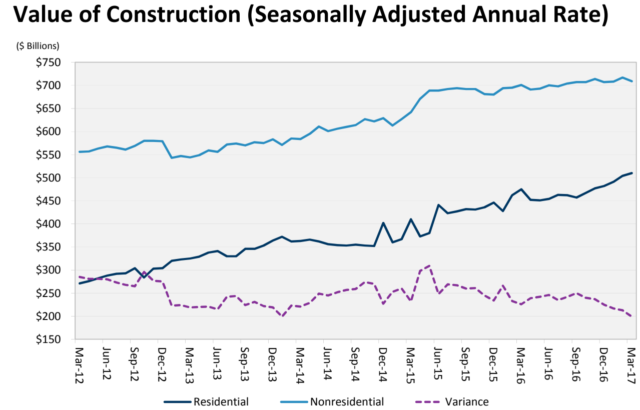
Public Construction

- Comprising 23.0% of total construction expenditures, public construction outlays fell 0.9% in March. During the past 12 months, government construction spending has fallen 6.5%.
- Spending on residential projects declined 1.3% in March. YoY, spending on residential projects dropped 7.6%.
- During the past 12 months, non-residential expenditures decreased 6.5%. Of note, spending on public office projects fell 6.5% and increased 1.3% for commercial projects.

The following chart highlights annualized residential and non-residential construction outlays since March 2012. Since September 2016, residential outlays have trended higher.

U.S. Construction Spending

Value of Construction (Seasonally Adjusted Annual Rate)



Source: U.S. Census Bureau

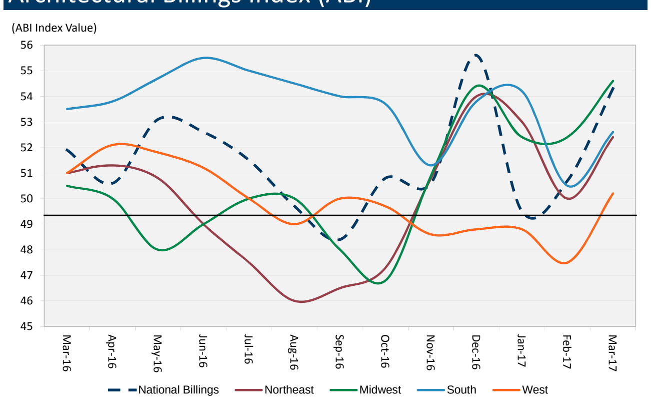
The Architecture Billings Index (ABI)

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 a decline in firm billings from the prior month and a score above 50 indicates an increase in firm billings from the prior month.

- Billings for design services at architectural firms increased 3.6 points in March to 54.3. The ABI averaged 51.5 during 1Q17, down from the 4Q16 average of 52.4.
- New design contracts and project inquiries reflected positive readings in March, suggesting that design activity will continue to expand for the foreseeable future.
- In March, firms in the Midwest (54.6) region reported the strongest monthly growth, while firms in the South (52.6) and Northeast (52.4) regions continued to report steady billings. Firms in the West (50.2) region saw little change in billings from the prior month.
- March billings were strongest within the residential sector (54.6), followed by the institutional (52.9) sector. A slight contraction was reported in the commercial and industrial (49.8) sector.
- Work backlogs at firms averaged 6 months in March, the highest reading since this indicator was tracked in 2010.
- Several survey participants reported an increase in workloads in March and believe more staff is going to be needed at their respective firms to handle increased demands.

The following graph shows fluctuations within the ABI on a national level and by U.S. region since March 2016.

Architectural Billings Index (ABI)



Source: The American Institute of Architects

State of the Housing Market

Strength in U.S. housing market fundamentals generally continued throughout 1Q17. In March, the National Association of Realtors reported that existing home sales increased 4.4%, driven by strong gains in the Northeast and Midwest regions. YoY, existing home sales are 5.9% higher and sales volume in March was the strongest for a single month since February 2007. Median existing home prices were up 6.8% YoY, marking the 61st consecutive month of YoY price gains.

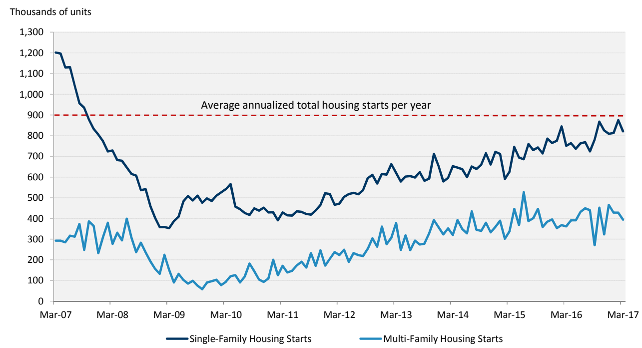
Lawrence Yun, NAR Chief Economist, commented, "Bolstered by strong consumer confidence and underlying demand, home sales are up convincingly from a year ago nationally and in all four major regions despite the fact that buying a home has gotten more expensive over the past year." He did caution that last month's price gains resulted from the lack of new homes getting built and the inadequate supply of existing homes on the market.

Below are several key points pertaining to the housing market.

- According to Freddie Mac, the average commitment rate for a 30-year, conventional, fixed-rate mortgage increased to 4.2% in March, the fifth consecutive monthly rise. The average commitment rate for all of 2016 was 3.65%.
- According to ATTOM Data Solutions, foreclosure filings (default notices, scheduled auctions and bank repossessions) declined 11.0% from the previous quarter and dropped 19.0% YoY to the lowest level since 3Q16. The report showed 47.0% of metropolitan statistical areas now have foreclosure activity below pre-recession levels.
- In March, new home sales jumped to an eight-month high, rising 5.8% to a seasonally adjusted annualized rate of 621,000 units. YoY, new home sales increased 15.6%. The inventory of new homes on the market increased 1.1% to the highest level since July 2009.
- Driven by steady sales and tight supply, the February 2017 S&P/CoreLogic Case-Shiller U.S. National Home Price Index reported a 0.4% increase during the month and a 5.8% annual gain. Similar to last quarter, Seattle, Portland and Dallas reported the highest YoY price gains among the top tracked 20 cities.
- In March, the CoreLogic Home Price Index showed that U.S. home prices increased 1.6% on a monthly basis and rose 7.1% YoY. Housing price growth is projected to increase 4.9% YoY from March 2017 to March 2018. Including distressed sales, it was reported that the U.S. has experienced 62 consecutive months of YoY increases.

Below is a breakdown of single- vs. multi-family housing starts since March 2007.

Housing Starts



Source: U.S. Census Bureau

Housing Starts

- In March, housing starts decreased 6.8% from the prior month to a seasonally adjusted annual rate of 1.22 million units. This pullback comes after a strong February. Despite the recent decline, housing starts are 9.2% higher YoY.
- Single-family housing starts fell 6.2% in March after reaching a post-recession high in February. YoY, starts are still up 9.3%, but analysts believe that more construction is needed to satisfy demand. Multi-family housing starts fell 7.9% from the prior month.

Building Permits

- In March, building permit activity increased 3.6% from February. Permits were 17.0% higher YoY, suggesting a stronger pace of starts in the months ahead and underlying strength in the market.
- Single-family permits decreased 1.1% from the prior month, but activity is up 13.5% YoY, which is expected to result in elevated future construction. Multi-family permits rose by nearly 14.0% during March and are up 24.1% YoY.

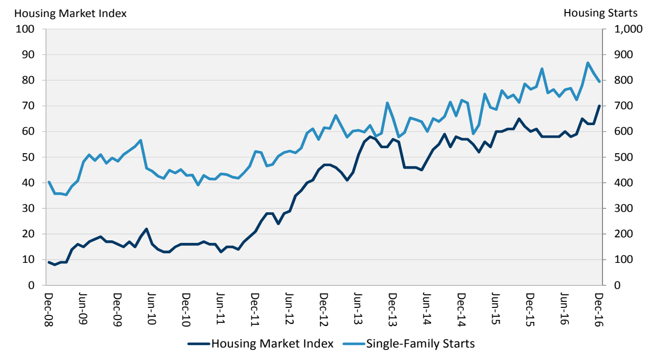
Builder Confidence

In March, builder confidence in the market for newly-built, single-family homes increased six points to its highest level since June 2005. Builders are more optimistic that President Trump's actions on regulatory reform will help the industry by trimming regulations negatively impacting housing affordability.

All three index components (sales expectations, buyer traffic and current sales conditions) posted healthy results in March. Looking at the three-month moving averages for regional HMI scores, developers remained most confident in the West followed by the South, Midwest and Northeast regions.

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

NAHB Chief Economist, Robert Dietz stated, "While builders are clearly confident, we expect some moderation in the index moving forward." "Builders continue to face a number of challenges, including rising material prices, higher mortgage rates, and shortages of lots and labor."

Housing Sales and Inventory

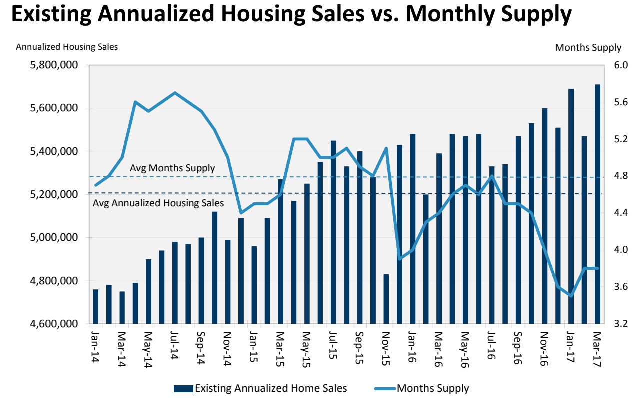
Below are key housing market statistics as of March 2017.

- YoY existing home sales increased in all U.S. regions, led by an 8.5% rise in the South and followed by gains of 5.2% in the West, 4.1% in the Northeast and 3.1% in the Midwest.
- YoY, the median price of an existing home increased by 8.6% in the South, followed by gains of 8.0% in the West, 6.2% in the Midwest and 2.8% in the Northeast.
- Total inventory of existing homes increased 5.8% YoY. March inventory of 1.83 million existing units represents a 3.8-month supply.

Below is a breakdown of existing annualized housing sales vs. supply from 2014.

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 1Q17 PwC Real Estate Investor Survey reported that overall cap rates (OARs) increased in fifteen, declined in twelve and held steady in eight of the survey's 35 tracked markets. Collectively, OAR's increased 4 BPS across the major property types since 4Q16.
- Terminal cap rates declined 2 BPS to 6.60% in 1Q17 after increasing for the first time in 18 quarters in 4Q16.
- Discount rates (IRRs) declined 3 BPS to 7.48% in 1Q17. Discount rates declined 2 BPS YoY.

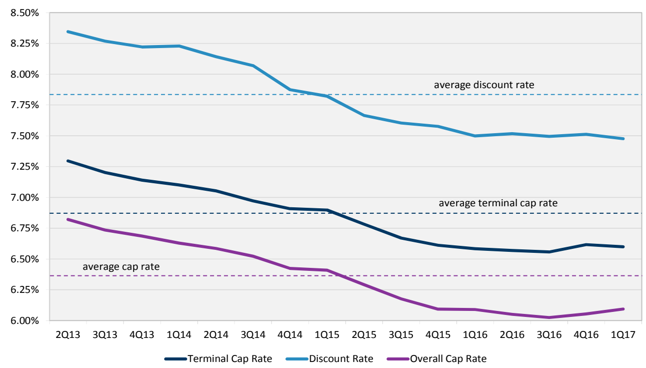
1Q17 Survey Highlights

- OARs increased within five of the major property sectors since the prior quarter, led by gains within the strip center (14 BPS) and warehouse (10 BPS) sectors. The suburban office and CBD office sectors recorded 2 BP declines and no change was reported within the flex/R&D properties.
- As of 1Q17, flex/R&D properties had the highest average OARs at 7.05%, followed by the suburban office (6.61%) and power center (6.39%) sectors. The lowest average OARs were recorded in the apartment (5.33%) and warehouse (5.37%) sectors. The simple average OAR across all sectors was 6.09%.
- Terminal capitalization rates decreased within five of the major commercial property sectors, highlighted by a 20 BPS decline in the suburban office sector. Declines between two and five BPS were recorded in the flex/R&D, warehouse, CBD-office and power center sectors. A 9 BPS increase was recorded within the strip center sector.
- As of 1Q17, suburban office properties had the highest terminal capitalization rate at 7.39%, followed by the flex/R&D (7.33%) sector. The lowest terminal capitalization rates were recorded within the apartment (5.71%) and warehouse (6.03%) sectors. The simple average terminal capitalization rate across all sectors was 6.60%.
- IRRs decreased from the prior quarter in five of the major commercial property sectors during 1Q17. The largest decreases were recorded in the warehouse (10 BPS) and CBD-office (7 BPS) sectors. Minimal increases were recorded in the suburban office and power center sectors.
- As of 1Q17, flex/R&D properties had the highest IRRs at 8.08%, followed by the suburban office (7.88%) sector. The lowest IRR's were recorded within the warehouse (6.74%) and CBD-office (7.09%) sectors and the simple average across all sectors was 7.48%.

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



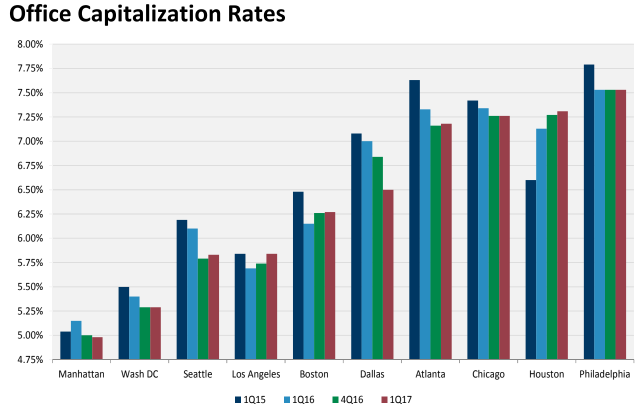
Additional 1Q17 Report Insights/Findings

- Survey participants noted that the recent interest rate increases and rising cost of debt are slowly beginning to negatively impact deal flow.
- Uncertainty regarding monetary and government policy has increased the "bid-ask" gap between buyers and sellers. More surveyed investors reported seeing fewer properties for sale in several office markets across the country.

The following graph shows office capitalization rates for the ten largest markets between 1Q15 and 1Q17. During this period, the Dallas (58 BPS), Atlanta (45 BPS) and Seattle (36 BPS) markets recorded the largest declines. In contrast, a 71 BPS increase was realized in Houston. Little change was recorded within the Manhattan and Los Angeles markets.

PwC Real Estate Investor Survey Historical Results

Office Capitalization Rates

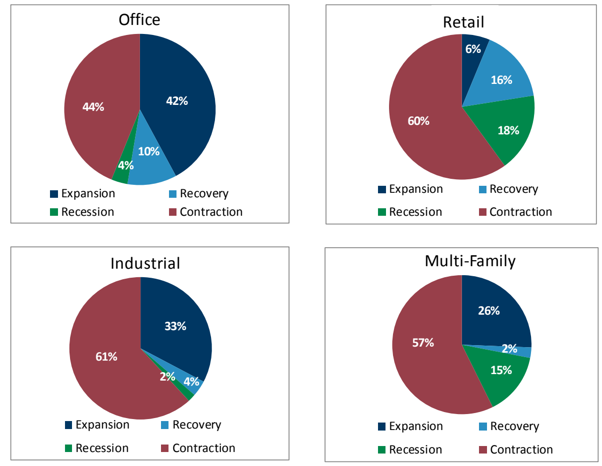


PwC Real Estate Barometer

The PwC Real Estate Barometer was introduced as a system for analyzing historical/forecasted CRE 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, recession, recovery and expansion.
  - 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.
- More than half of the tracked U.S. office markets are in the expansion (42.0%) and recovery (11.0%) phases of the real estate cycle, down from 75.0% from the prior quarter. An increased number of markets moved into the contraction phase during 1Q17 and more U.S. markets are projected to move into the contraction phase in 2018 due to an increase in supply and a rental rate slowdown.
- Nearly 60.0% of the tracked U.S. retail markets are in the recession phase of the real estate cycle, more than double the total recorded a year earlier. The softer outlook was driven by an increasing number of retailers planning store closings and reducing future brick and mortar footprints as costs continue to rise. Currently, only about 2.0% of surveyed markets are in the expansion phase, the lowest among the property types.
- More than 60.0% of the tracked U.S. industrial markets are in the contraction phase, the highest among the major property types. Despite healthy market fundamentals and robust demand, more U.S. industrial markets are projected to be negatively impacted by significant new supply being added to the market, which is predicted to place downward pressure on rental rates.
- The majority of U.S. multi-family markets (57.0%) are in the contraction phase due to softening market conditions resulting from growing new supply and moderating rental rate growth. Still, according to numerous data providers and brokerage firms, market demand for apartment units remains robust. By the end of 2018, it is predicted that the majority of the U.S. multi-family sector will move back in the expansion phase

Below is a snapshot of each major property type as of 1Q17.



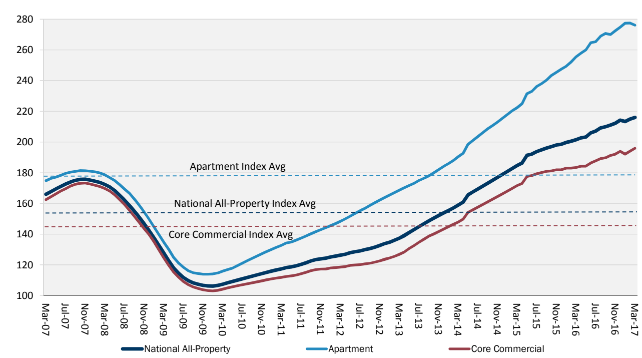
Moody's/RCA Commercial Property Price Index (CPPI)

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.

Below is a graph detailing changes within the major Moody's/RCA commercial property indices since March 2007.

Moody's/RCA Commercial Property Price Index

National All Property vs. Apartment vs. Core Commercial Index



- The National All-Property Composite Index (the "Index") increased 0.8% during 1Q17, including 0.5% gain in March. Growth was stronger within the core commercial sector, which gained 1.0% during the quarter versus a 0.5% increase within the apartment sector.

- Within the core commercial sectors, the CBD office sector gained 2.6% during 1Q17 followed by a 1.6% gain for suburban office pricing. Pricing within the industrial and retail sectors fell 0.4% and 0.1%, respectively.
- Price appreciation was stronger in major markets (+1.6%) versus non-major markets (+0.2%) during 1Q17.
- During the past 12 months, the office CBD sector was easily the top performing sector, as pricing increased 12.5%. This represented a 570 BPS increase over the Index gain and a 440 BPS increase over appreciation in the apartment sector.
- Pricing performance within the retail sector (+0.2%) greatly lagged behind the other sectors due to store closures and downsizing, pressure from new formats and the growing presence of online retailers.
- Pricing increased faster within major markets (+8.3%) versus non-major markets (+6.2%) during the past 12 months.
- The hotel sector, not part of the Index, recorded a 1.0% price decline during the past 12 months, its first YoY fall since 2010. It was reported that increased inventory in select markets has begun to negatively impact room rates.
- The Index has gained 103.5% since January 2010, more than doubling its financial crisis trough.

  Prices are approximately 23.0% higher than in November November 2007, the pre-crisis peak. Apartment prices are up 52.0%, outperforming core commercial sectors (+13.0%).
- CBD office prices have exceeded pre-crisis peaks by 49.0%, the highest among the core commercial sectors. In contrast, both suburban office and retail prices are lower than pre-crisis peaks.

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

Moody's/RCA CPPI					
Cumulative Returns by Sector/Type					
Index	**3 Month**	**6 Month**	**12 Month**	**3 Year**	**5 Year**
Apartment	0.5%	2.0%	8.1%	45.0%	86.0%
Core Commercial	1.0%	3.2%	6.8%	32.4%	65.2%
Industrial	-0.4%	2.4%	7.6%	33.3%	56.1%
Office	2.1%	5.5%	10.1%	36.5%	73.7%
CBD	2.6%	5.7%	12.5%	39.6%	89.8%
Suburban	1.6%	5.3%	7.7%	33.3%	58.5%
Retail	-0.1%	-0.5%	0.2%	23.9%	55.4%
By Geography					
Major Markets	1.6%	3.3%	8.3%	38.1%	76.0%
Non-Major Markets	0.2%	2.5%	6.2%	34.1%	66.8%
National All-Property	**0.8%**	**2.9%**	**7.2%**	**36.0%**	**71.0%**

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 CRE 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 reflected slowing price appreciation during 1Q17. Following no change during the first two months, prices dropped by 0.5% in March. In 2016, a 3.0% gain was posted after growth of 10.0% was realized during the prior year.

During 1Q17, the office and industrial sectors each realized pricing gains of 2.0%, the highest among the sectors. In contrast, declines between 1.0% and 3.0% were recorded within the apartment, mall and strip retail sectors. No change was recorded within the lodging sector.

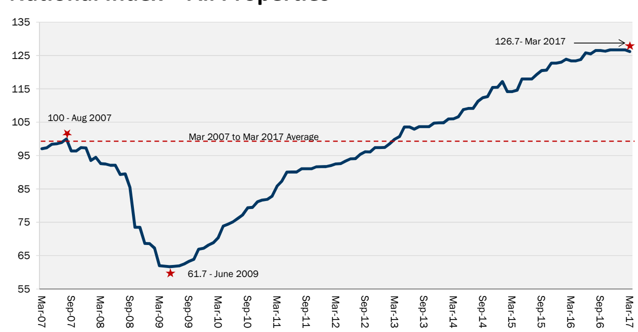
During the past 12 month period, pricing in the industrial sector increased 9.0%, followed by a 5.0% gain in the office sector. No change was recorded in the mall, strip retail and lodging sectors while prices fell 4.0% in the apartment sector.

Peter Rothemund, Senior Analyst at Green Street Advisors, remarked, "Property values have been going sideways recently, as a creep in cap rates is offsetting healthy top-line growth."

Below is a graph detailing changes since March 2007.

Green Street Commercial Property Price Index

National Index – All Properties



Commercial Property Sales Analysis

Real Capital Analytics (RCA) reported that commercial property sales volume registered $91.0 billion (excluding land) during 1Q17, a decrease of 19.0% YoY. As investors were generally more risk adverse, all the major property sectors recorded YoY volume declines during 1Q17, except for the industrial sector. The pullback in volume reflected a 38.0% YoY decline in portfolio and entity-level transactions (defined as megadeals by RCA) and a 10.0% YoY decrease in single asset sales.

Despite the slowdown, overall investment activity is still at elevated levels compared to trends recorded during the past 10 years, as plentiful capital exists for investors to use and strong competition exists for high-end assets in primary markets. Similar to last year's trends, investors increasingly acquired properties in secondary and tertiary markets versus major metropolitan areas in the search for greater yields.

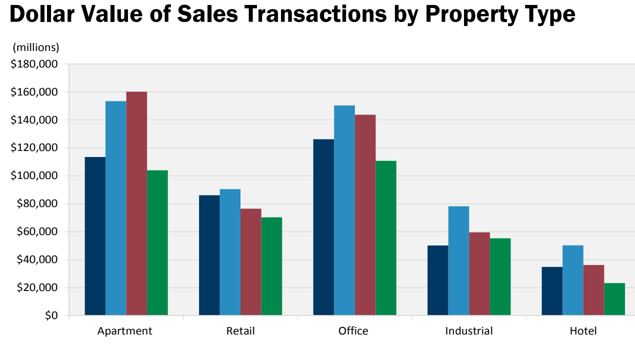
Below we take a look at sales activity, per RCA, by product type for 1Q17.

- **Apartment.** After recording record levels of activity in 2016, investment activity cooled during 1Q17. Nearly $26.0 billion of sales were transacted, a decline of 35.0% YoY. This represented the largest YoY decline among the property sectors. Growth was negatively impacted by a 71.0% decline in portfolio and entity-level transactions. Single asset transactions fell 15.0% YoY. The garden apartment sector, comprising 72.0% of transaction volume during 1Q17, fell 34.0% YoY. Sales of mid/high-rise buildings declined 40.0% YoY. On the positive, 1Q17 volume is still higher than the $17.0 billion first quarter average between 2001 and 2016. Annualized sales volume is projected to reach $104 billion in 2016, a 35.0% increase from 2016.
- **Retail.** Sales totaled $17.6 billion during 1Q17, a 10.0% YoY decrease. This total still exceeds the $12.4 billion first quarter sales average recorded between 2001 and 2016. YoY, single asset transaction volume declined 18.0%. Portfolio and entity-level transaction volume increased 12.0% YoY, driven by the $4.6-billion dollar acquisition of Equity One Inc., owner of 429 retail properties, by Regency Centers Corp. Sales of centers (defined as properties with multiple tenants and 30,000 square feet (sf) or more) accounted for nearly 70.0% of total activity during 1Q17. Among the retail subtypes, the sale of grocery-anchored centers jumped 46.0% YoY, in contrast to declines of 57.0% for regional mall assets and 16.0% for urban/storefront assets. Annualized, sales volume is projected to reach $70 billion, an 8.0% decrease from 2016.
- **Office.** Nearly $28.0 billion of sales activity closed during 1Q17, which is down 12.0% YoY. Historically, according to RCA, the volume still made it the fourth highest first quarter total since 2000. Sales volume was negatively impacted by a 33.0% YoY decline in portfolio and entity-level transactions. Single asset transaction volume fell 5.0% YoY despite the $1.0 billion acquisition of the Deutsche Bank headquarters at 60 Wall Street in Manhattan by Singaporean sovereign wealth fund GIC. Suburban sales, accounting for nearly 60.0% of total volume, declined 8.0% YoY in comparison to an 18.0% YoY decrease for CBD assets. Annualized, sales volume is projected to reach $111 billion, a 23.0% decrease from 2016.
- **Industrial.** Sales totaled nearly $14.0 billion during the quarter, a 3.0% YoY increase. Driving this rise in activity was a 14.0% YoY increase in warehouse sales volume, which accounted for 62.0% of total sales activity. Warehouse sales have been boosted by the acquisition of large fulfillment centers throughout the U.S. by online retailers, predominantly Amazon, for their growing operations. In contrast, the sale of flex/R&D assets fell 11.0% YoY despite the $720 million sale of The Landmark at Eastview Corporate campus in Tarrytown, NY. Sales of single assets increased 15.0% YoY, offsetting a 16.0% decrease in portfolio and entity-level deal volume. Annualized, sales volume is projected to reach $55 billion, a 7.0% decrease from 2016.
- **Hotel.** Approximately $5.8 billion of investment sales were executed during 1Q17, a 6.0% YoY decline. Portfolio and entity-level sales volume increased 3.0% YoY, in contrast to an 8.0% YoY decline for single assets. Investors continued to find full-service hotels more desirable as this subtype accounted for 67.0% of activity and recorded a slight increase in sales volume YoY. Limited-service hotel activity fell 18.0% YoY. More investors looked to tertiary markets for hotel assets, where sales increased 39.0% as opposed to a decline in major metros and secondary markets. Annualized, sales volume is projected to reach $23 billion, a 36.0% decrease from 2016.

2014 to 1Q17 sales activity by property type is summarized below.

Investment Sales Activity

Dollar Value of Sales Transactions by Property Type



Source: Real Capital Analytics (2017 activity is annualized based on 1Q17 data)

Below are the top metro areas where CRE investment volume was the greatest during 1Q17 per RCA.

Top Metro Areas		
1Q17 Investment Volume (Total $)		
Office	**Industrial/Flex/R&D**	**Retail**
Boston	Westchester County, NY	San Francisco
Manhattan	Dallas	Los Angeles
Los Angeles	San Jose	Chicago
San Francisco	Los Angeles	Broward County, FL
Washington DC	Houston	Miami
Charlotte	Northern NJ	Manhattan
San Jose	Atlanta	Las Vegas
Apartment	**Hotel**	**Overall**
Dallas	Los Angeles	Los Angeles
Los Angeles	Seattle	Manhattan
Atlanta	San Francisco	Dallas
Denver	Tampa	Boston
Seattle	Inland Empire	San Francisco
NYC Boroughs	Charlotte	Chicago
Northern New Jersey	Chicago	Northern NJ

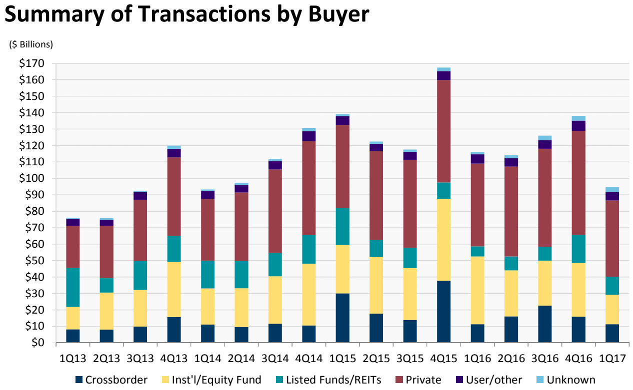
In addition to the preceding data, we have also analyzed RCA historical sales activity by buyer type.

- Private buyers continued as the most active buyers of real estate during 1Q17, acquiring $46 billion of CRE assets. This represented 49.0% of total transaction volume. In 2016, average quarterly volume was $57 billion.
- After averaging $32 billion per quarter during 2016, acquisition volume by institutional/equity buyers totaled nearly $18 billion during 1Q17. Market share declined from 26.0% in 2016 to 19.0% during 1Q17.
- International investment in U.S. CRE totaled about $11 billion during 1Q17, accounting for 12.0% of total sales volume among investment groups.
- After averaging about $10 billion in quarterly acquisitions during 2016, volume increased to $11 billion during 1Q17 for listed funds/REITs. Market share increased from about 8.0% in 2016 to 12.0% during 1Q17.

1Q13 to 1Q17 sales activity by buyer type is summarized below.

Investment Sales Activity

Summary of Transactions by Buyer



Source: Real Capital Analytics

Significant 1Q17 Sales Transactions

The following tables summarize noteworthy sales executed during 1Q17 in the major CRE sectors per CoStar.

Office Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer(s)
60 Wall Street	New York, NY	1,625,000	$1,040.0	GIC Real Estate
10 St. James Avenue & 75 Arlington Street (2)	Boston, MA	824,772	$673.0	Mori Trust Co., Ltd.
100 Northern Avenue	Boston, MA	514,738	$447.0	PFA Pension
181 West Madison Street	Chicago, IL	952,559	$359.0	HNA Property Holding Group of China
211 Main Street	San Francisco, CA	417,266	$292.9	The Blackstone Group LP
410, 420 & 430 North Mary Avenue (3)	Sunnyvale, CA	349,758	$290.7	Tristar Capital
100 Pine Street	San Francisco, CA	402,534	$287.5	Rockpoint Group LLC

Industrial/Flex/Data Center Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer(s)
Underwood Districution Center (5)	La Porte, TX	2,165,000	$155.0	Hines
350-370 W Trimble Rd - Bldg 91	San Jose, CA	560,000	$130.0	LBA Realty
350 Starke Road	Carlstadt, NJ	353,349	$73.0	Bentall Kennedy
1425-1625 Rockwell Avenue	Cleveland, OH	333,215	$60.7	H5 Capital
838 Lincoln County Parkway	Lincolnton, NC	1,000,000	$55.7	Stoneridge Realty & Investments, Inc.
2305 W Marshall Drive - Logistics Crossing I	Grand Prairie, TX	667,635	$52.0	AFL-CIO Building Investment Trust
15501 SW 29th Street	Miramar, FL	304,428	$50.0	Apotex Corp.

Retail Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer(s)
Providence Marketplace Shopping Center (20)	Mount Joliet, TN	709,710	$114.7	Ramco-Gershenson Properties Trust
Oaks at Lakeway (10)	Lakeway, TX	236,233	$114.0	TA Realty
The Shoppes at Gateway (14)	Springfield, OR	707,951	$107.5	Balboa Retail Partners
Riverpoint Center (4)	Chicago, IL	211,000	$107.0	Federal Realty Investment Trust
Arborland Center (6)	Ann Arbor, MI	403,536	$102.0	Brixmor Property Group
Campus Marketplace (7)	San Marcos, CA	144,287	$73.4	InvenTrust Properties
Plaza 23	Pompton Plains, NJ	161,035	$51.1	Phillips Edison Grocery Center REIT II,

Multi-Family Sale Transactions

Name	City, State	Units	Sale Price ($ mil)	Buyer(s)
Atlantic Point Apartments	Bellport, NY	795	$208.0	Investcorp Group
The Seasons	Laurel, MD	1,088	$187.3	GoldOller Real Estate Investments
Radius Apartments	Seattle, WA	282	$141.0	Kennedy-Wilson Properties, Ltd.
Nob Hill Apartments	Roseland, NJ	360	$130.0	Novel Property Ventures
Skye 2905 Urban Flats	Denver, CO	400	$126.0	Griffis Residential
Paradise Island Rental Communities	Jacksonville, FL	1,112	$120.0	DRA Advisors LLC
Seneca Village	Gaithersburg, MD	684	$117.0	The Orlo Fund

Hospitality Sale Transactions

Name	City, State	Rooms	Sale Price ($ mil)	Buyer(s)
W Hollywood	Los Angeles, CA	305	$219.0	Host Hotels & Resorts, L.P.
Don CeSar Beach Resort	St. Pete Beach	277	$214.0	Host Hotels & Resorts, L.P.
JW Marriott Desert Springs Resort & Spa	Palm Desert, CA	884	$172.0	Kam Sang Company, Inc.
Park Hyatt Beaver Creek Resort & Spa	Beaver Creek, OR	190	$145.5	Ashford Hospitality Prime, Inc.
Club Quarters Hotel	New York, NY	289	$95.0	McSam Hotel Group
Hilton Garden Inn Seattle	Seattle, WA	222	$88.0	Union Investment Real Estate GmbH
Kimpton Hotel Allegro	Chicago, IL	483	$86.0	Hospitality Properties Trust

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 CRE 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 CRE 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.

NPI General Recap

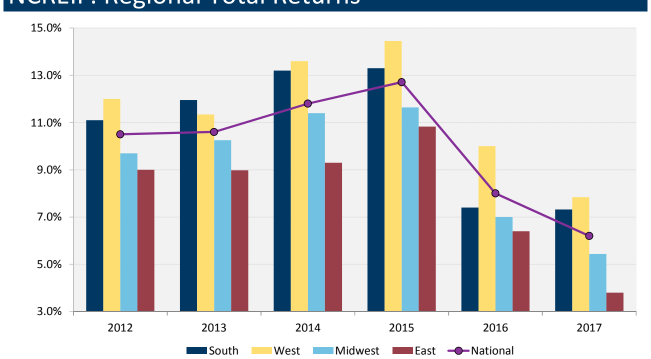
- Similar to prior quarters, total returns continued to moderate during 1Q17. The NPI total return was 1.55%, comprised of a 1.15% income return and a 0.40% capital appreciation return. For comparison, total returns registered 2.21% (1.17% income return and a 1.04% capital appreciation return) during 1Q16.
- As the real estate cycle has matured, income continues to comprise an increasing percentage of total returns (74.0% in 1Q17 vs. 53.0% in 1Q16). Total one-year returns registered 7.3%, 450 BPS lower than at this time last year.
- Despite moderating growth, it was reported that overall market fundamentals remained strong during 1Q17.
    - Occupancy rates (93.0%) continued to linger at a 15-year high within the five major sectors. Industrial assets had the highest occupancy (95.8%) while office assets reported the largest gain in occupancy (70 BPS) during the past year.
    - Trailing year NOI growth of 5.8% was recorded during 1Q17, ranging from gains of 6.8% for industrial assets to 5.2% for retail assets.

NPI Annualized Returns by Region

- The West and South regions had the greatest returns (2.0% and 1.8%, respectively) during 1Q17. One-year returns have been strongest in the West at 9.1%, more than 210 BPS higher than the South.
- Property gains continue to lag in the East. The region's one-year returns of 5.6% trail the broader index by 170 BPS. Returns of nearly 1.0% were realized during 1Q17.
- Gains in the Midwest slowed to 7.0% last year and are on pace to register 5.4% in 2017.

Below is a graph illustrating total returns by region since 2012. Returns for 2017 are annualized based on 1Q17 data.

NCREIF: Regional Total Returns



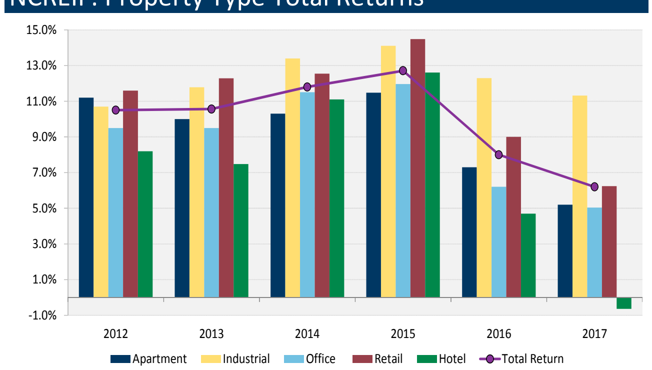
NCREIF Composition by Market Value			
Property Type		**Region**	
Office	36.6%	West	38.4%
Apartment	24.5%	East	33.3%
Retail	23.9%	South	19.7%
Industrial	14.0%	Midwest	8.7%
Hotel	1.0%		

NPI Annualized Returns by Property Type

- Spreads between the best and worst performing asset types registered about 300 BPS (2.83% vs. - 0.16%), similar to 4Q16.
- Similar to the prior quarter and year, the industrial sector recorded the strongest price appreciation with a 2.8% return during 1Q17. The one-year return of 12.2% outpaced all other property types by at least 460 BPS.
- Besides the industrial sector, retail was the only sector to outperform one-year returns of the NPI. A 7.6% return was achieved during the past 12 months, including a 1.6% return during 1Q17.
- Within the apartment sector, a 1.3% return was recorded during 1Q17, off nearly 40 BPS from the prior quarter. The one-year return of 6.7% is 420 BPS lower than the return recorded at this time last year.
- Returns within the office sector totaled 1.3% during 1Q17, and the one-year return of 5.7% is considerably less than the 10.8% return recorded at this time last year.
- 1Q17 returns were slightly negative within the hotel sector. The one-year return of 3.3% lagged the total index average by 400 BPS.

Below is a graph showing total returns by property type since 2012. Returns for 2017 are annualized based on 1Q17 data.

NCREIF: Property Type Total Returns



Equity REIT Analysis

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

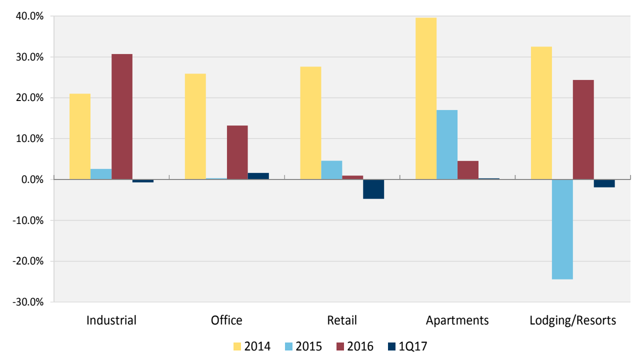
Comprised of 167 REITs, the Financial Times of London and London Stock Exchange (FTSE) NAREIT All Equity REITs Index ("The Index") fell 1.4% in March, but posted a total return of 2.6% during 1Q17. The 1Q17 return underperformed the 5.9% return recorded during this same period last year. Last year, the Index posted an 8.6% gain, in part due to greater investor interest in undervalued assets.

Below is a brief overview of selected CRE sector performance.

- After returning nearly 2.9% in 2016, the second lowest among the major property sectors, apartment REITs gained 0.3% during 1Q17. This lagged the 3.5% return recorded during 1Q16. Analysts are still generally bullish on the sector due to steady rental demand and favorable demographics, but added supply and moderating rental rate growth continue to weigh on investors.
- After posting a 31.0% return in 2016, industrial REITs posted a negative 0.7% return during 1Q17. During this same period last year, a 6.5% return was achieved. Despite the sluggish start, analysts remain upbeat on upcoming sector performance due to sustained demand for modern, state-of-the-art, big box distribution warehouse space.
    - Often tied to industrial market performance, data center REITs returned nearly 11.4% while self-storage REITs posted a 1.4% return during 1Q17.
- The office REIT sector gained 1.6% during 1Q17, following a 13.1% return during 2016. On the positive, the latest quarterly return exceeded the 0.4% gain during 1Q16. Analysts are still cautiously optimistic on the sector due to underlying growth within the labor market.
- Retail REITs were the worst performing sector during 1Q17, posting a negative 4.8% return despite stronger consumer confidence. Last year, the sector gained 1.0%, the lowest among the major property sectors. Freestanding retail REITs posted a 1.7% return during 1Q17, in comparison to declines of 7.9% and 4.8%, respectively, within the shopping center and regional mall subsectors.
- Lodging/resorts REITs lost 1.9% during 1Q17 after providing a 24.0% return to investors in 2016. At this time last year, a 6.1% return was recorded. Despite the bearish start, many analysts still feel many lodging REITs are cheaply valued, as it is believed that increased business and leisure travel will support rising occupancy and higher RevPAR.

Below is a graph illustrating total returns by property sector from 2014.

FTSE NAREIT REIT Performance by Sector



Stock Market Recap

Driven by the potential for a business-friendly administration, regulatory reform, an overhaul of the tax code, and a larger infrastructure budget, in addition to a solid 4Q16 corporate earnings season, there was heightened investor optimism to begin 2017. With many investors focused on fiscal measures, monetary policy appeared to generally have a minor influence on stock movements during the quarter. Accordingly, leading U.S. stock indexes provided healthy returns for investors and escalated to record high levels during 1Q17. The NASDAQ increased 9.8%, the Standard and Poor's (S&P) 500 delivered a 5.5% return and the Dow Jones industrial average (DJIA) gained 4.6%. In late January, the DJIA reached the 20,000 mark for the first time and eclipsed the 21,000 threshold in early March. The S&P 500 briefly touched the 2,400 mark in mid-March.

The following chart highlights the annual returns of Equity REITs in comparison to several of the leading stock indices.

Index	2012	2013	2014	2015	2016	1Q17	2012-2016 avg
Equity REIT	19.7%	2.9%	28.0%	2.8%	8.6%	2.6%	12.4%
NASDAQ	14.6%	12.1%	13.4%	5.7%	8.9%	9.8%	10.9%
S&P 500	15.9%	38.3%	11.4%	-0.7%	12.0%	5.5%	15.4%
DJIA	13.4%	29.6%	7.5%	-2.2%	16.5%	4.6%	13.0%

Source: Yahoo Finance: 2017 data as of March 31, 2017

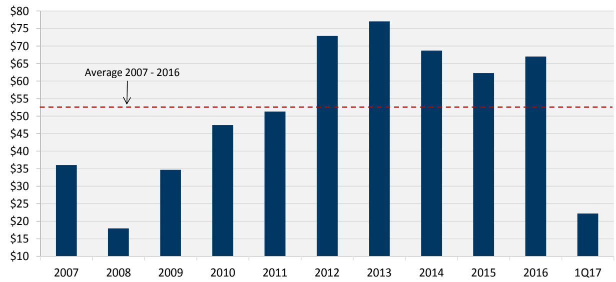
Capital Raising

At a time of low interest rates, REITs continued to benefit from investor demand for their high dividends by raising money in financial markets. This wave of issuance has been well-received by investors, despite the record-high stock prices and additional interest rate hikes, which could lower the appeal of the dividends paid by REITs by making bonds more attractive.

Publicly traded U.S. equity REITs raised $22.2 billion through capital offerings during 1Q17, a 54.0% increase YoY. Last year, approximately $67 billion was raised. During the quarter, the specialty sector (comprising data center, student housing and communications REITs) raised nearly $6.0 billion. Residential REITs raised $4.6 billion, followed by retail REITs ($3.1 billion), healthcare REITs ($2.9 billion) and office REITs (2.5 billion).

Below is a graph showing the capital raised by REITs since 2007.

Total Capital Raised by REITs (in billions)



Source: NAREIT/ SNL Financial

Commercial Lending

The Mortgage Bankers Association's (MBA) Quarterly Survey of Commercial/Multi-Family Mortgage Bankers Originations reported that 1Q17 commercial and multi-family mortgage loan originations increased 9.0% from the same period last year, but decreased 27.0% from the prior quarter. Among property types, the largest decreases were within the hotel and retail sectors. Loans originated for CMBS/conduits fell by the largest percentage among investors.

Jamie Woodwell, MBA's VP of CRE Research, stated, "Commercial real estate borrowing and lending started 2017 on much the same footing it ended 2016. Multifamily properties remain the key force behind overall originations trends, and the GSEs continue to drive multifamily originations. Matching broader investment themes, financing backed by industrial properties also picked up, while retail declined."

YoY, loans originated for industrial assets recorded the largest increase among the property types, while loans originated for hotel and retail care assets recorded the only declines. Loans originated for government sponsored enterprises (GSEs – Fannie Mae and Freddie Mac) increased 33.0% YoY in contrast to declines or no change for the other investor types.

In 2016, the MBA reported that lenders closed approximately $491 billion of mortgage loans backed by U.S. property. Although this represented a 3.0% decline from 2015, which is attributable to a slowdown in property sales, the 2016 lending output was the third highest behind 2007 and 2015. According to the Wall Street Journal, banks and insurers are getting more aggressive over deals, despite the fall property sales volume, and new lenders, such as investment funds formed by private-equity firms focused on real-estate debt, have begun to emerge.

According to the April 2017 Senior Loan Officer Opinion Survey on Bank Lending Practices, lending standards for CRE loans of all types tightened during 1Q17, in particular for construction and land development loans and loans secured by multi-family properties. The majority of banks cited a more uncertain outlook for CRE property prices, vacancy rates and capitalization in addition to a reduced tolerance for risk and increased concerns about the effects of regulatory changes as primary reasons for tightening CRE credit policies.

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

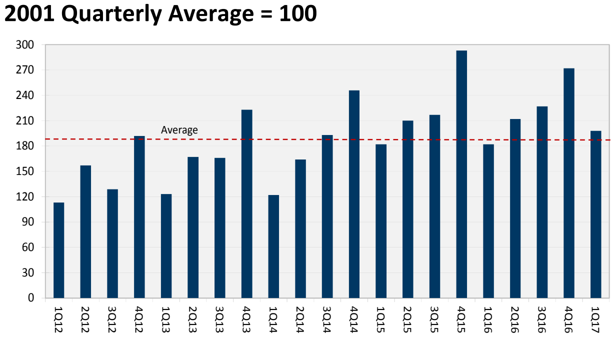
Lending Activity 1Q 2017		
Type	% Change since 1Q 2016	% Change since 4Q 2016
Property Type		
Industrial	40.0%	-37.0%
Multi-Family	14.0%	-29.0%
Office	2.0%	-26.0%
Retail	-23.0%	-48.0%
Hotel	-40.0%	-58.0%
Health Care	22.0%	-39.0%
Investor Type		
CMBS/Conduits	-17.0%	-40.0%
Commercial Banks	0.0%	-19.0%
Life Insurance Co.	-6.0%	-28.0%
GSE's (FNMA/FHLMC)	33.0%	-29.0%
Overall	**9.0%**	**-27.0%**

Source: Mortgage Bankers Association

Below is a graph depicting the frequency of commercial/multi-family loan originations since 1Q12.

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 $15.2 billion during 1Q17, down 21.0% from the $19.3 billion priced during the same period last year. In 2016, $76 billion of CMBS issuances were priced. It was reported that 29 U.S. transactions occurred during 1Q17.

Top U.S. CMBS Underwriters - 1Q17

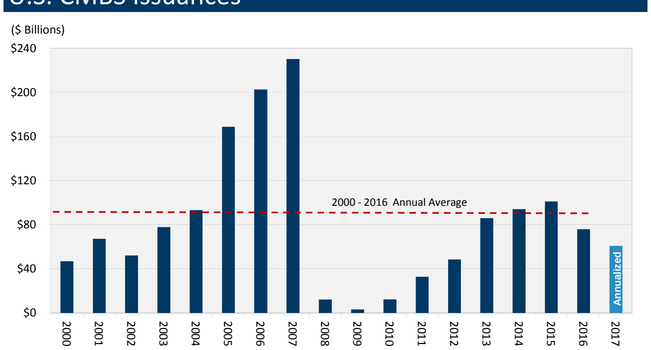
Firm	Issuance ($Mil)	Market Share
Goldman Sachs	$2,413	15.8%
Citigroup	$2,286	15.0%
Barclays	$1,811	11.9%
Wells Fargo	$1,755	11.5%
J.P. Morgan	$1,692	11.1%
Deutsche Bank	$1,568	10.3%

Source: Commercial Mortgage Alert

Market professionals surveyed by CMA reported the slowdown in volume primarily resulted from 1) a decline in suitable refinancing opportunities and 2) a scarcity of loans available for securitization during 1Q17 as shops emptied their loan warehouses during 4Q16 due to uncertainty regarding the impact of how the newly enacted risk-retention regulations would impact bond pricing. Additionally, analysts believe that structuring deals in the post-risk retention environment is more difficult.

Looking ahead, ratings firm Fitch projects about $75 billion in new CMBS issuance in 2017 and HFF forecasts between $65 and $75 billion. On the positive, CMA reported that nearly $17 billion of conduit and single-borrower deals are scheduled to price in April and May and several professionals believe headwinds have begun to ease.

U.S. CMBS Issuances



Source: Commercial Mortgage Alert

CMBS Delinquency

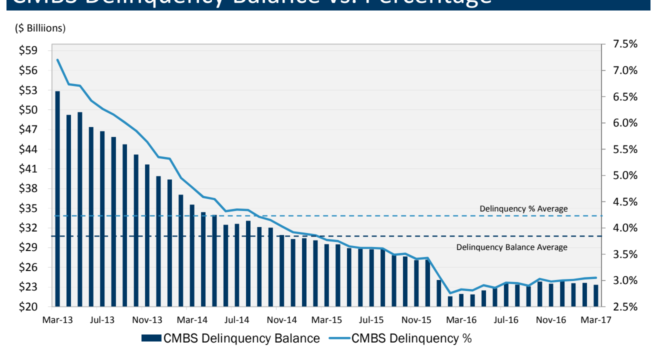
According to Morningstar, CMBS delinquency rates increased modestly for the fourth consecutive month in March while the delinquent unpaid balance generally trended downward during 1Q17. Still, both indicators continue to linger near historically low levels, which is beneficial for the CRE debt markets.

The March 2017 U.S. CMBS delinquency rate registered 3.05%, which is 22 BPS lower on a YoY basis. Other notable information from the March report is summarized below.

- The delinquent unpaid balance for CMBS totaled $23.35 billion in March 2017, which was about $1.4 billion lower than at this time last year.
- By property type, office properties had the highest delinquency rates at 6.6%, followed by retail (5.7%), industrial (5.6%) and hotel (3.5%) assets. The multi-family sector (0.4%) had minimal delinquencies.
- Office loan delinquencies, at 35.1% of the total, have been the greatest contributor to CMBS delinquencies during the past 12 months and increased another $943 million or 13.0% YoY to $8.2 billion.
- Retail loan delinquencies accounted for 34.2% of the total, but declined $71 million or 0.9% YoY to $8.0 billion.
- Multi-family loan delinquencies, accounting for 6.5% of total CMBS delinquencies, dropped $408 or 21.0% YoY to $1.5 billion.
- Industrial loan delinquencies, representing 5.2% of total CMBS delinquencies, increased $99 million or 9.0% YoY to $1.2 billion.
- Hotel loan delinquencies, representing 10.5% of total CMBS delinquencies, increased nearly 16.4% YoY to $2.2 billion due to the Hammons Hotel Portfolio loan.

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

CMBS Delinquency Balance vs. Percentage



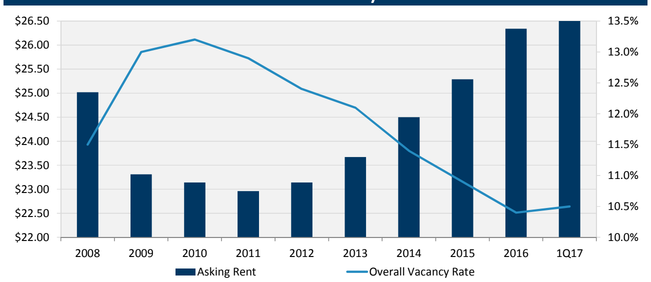
Source: Morningstar

Property Sector Overviews

Office

- CoStar reported that the 1Q17 vacancy rate increased 10 BPS from the prior quarter to 10.5%, as new supply outpaced absorption during the quarter. Despite the increase, vacancies are 30 BPS lower on a YoY basis.
- Asking rental rates increased 4.5% during the past 12 past months, continuing consistent rental growth that began in 2012; however, the pace of growth has moderated during the past several quarters.
- Sustained office employment growth is a key factor to sector health. Approximately 181,000 jobs were created within the information services, financial activities and professional and business services sectors during 1Q17, up 27.0% from the prior year.

Office Market: Rents vs. Vacancy Rates



Source: CoStar (reflects select markets)

- According to CoStar, more than 154 million sf was under construction as of 1Q17, an increase of 9.5% from this time last year. The majority of the largest projects under construction are located in Manhattan, where development continues on six buildings greater than 1.5 million sf (3 World Trade Center, 30 Hudson Yards, 55 Hudson Yards, 300 West 33rd Street, 3 Hudson Boulevard and One Vanderbilt Avenue).
- According to CoStar, more than 21 million sf of office space was delivered during 1Q17, a 14.0% YoY increase. Highlighting activity, Apple's new 2.8-million sf headquarters campus in Cupertino, CA, known as Apple Park, was completed and will reportedly house 12,000 employees.
- CoStar reported a decline in net occupancy during 1Q17, as absorption softened quarter over quarter from 15.0 to 10.8 million sf. In suburban markets, positive absorption of 12 million sf was recorded in contrast to a decline of 1.3 million sf in central business districts. More absorption was recorded for Class B assets (5.9 million sf) than Class A assets (5.1 million sf).

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

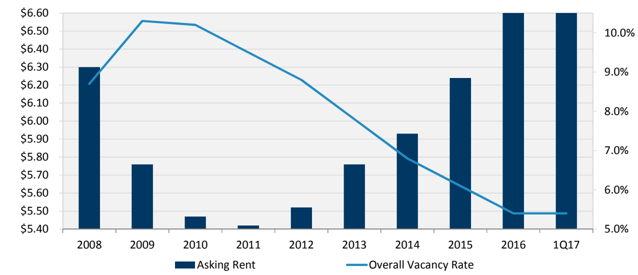
1Q17 Top 20 Office Markets Comparison					
YTD Net Absorption		Vacancy Rate		YTD Construction Deliveries	
Million SF		Best Performing Markets		Million SF	
Washington DC	2.75	San Francisco	7.1%	Dallas/Ft Worth	2.38
Chicago	2.50	Long Island	7.1%	Houston	1.92
Dallas/Ft Worth	1.53	Minneapolis	7.2%	Chicago	1.82
Boston	1.11	Tampa/St. Pete	7.6%	Los Angeles	1.27
Phoenix	0.60	Seattle	7.7%	Phoenix	1.25
Detroit	0.44	Boston	8.0%	Boston	1.18
Minneapolis	0.43	New York City	8.4%	Denver	0.88
Northern NJ	0.41	Philadelphia	8.7%	Washington DC	0.69
Tampa/St. Pete	0.34	Orange County CA	9.1%	Northern NJ	0.60
Philadelphia	0.17	Denver	10.1%	Detroit	0.33

Source: CoStar

Industrial

- A strengthening manufacturing sector and sustained demand for modern distribution space has continued to benefit the sector. According to CoStar, vacancy rates moved little during 1Q17, but have declined 50 BPS YoY to 5.4%. Nearly 58 million sf was absorbed since 2016.
- Steady demand from logistics/big-box users and third-party logistics services (3PLs) continued to place upward pressure on rental rates, which increased nearly 5.5% during the past 12 months and now exceed pre-recession peak levels.
- In response to escalating demand, developers delivered approximately 63 million sf of space to the market during 1Q17. Highlighting activity was the completion of a 1.4 million sf warehouse for Mars/Wrigley in the Chicago market, and the delivery of a 1.2 million sf manufacturing facility for SolarCity in Buffalo, New York.
- Per CoStar, about 268 million sf is under construction as of 1Q17, nearly a 30.0% YoY increase. Significant projects continue for automakers, including facilities for Tesla (3.8 million sf) in the Reno/Sparks, NV market, Volvo Cars (2.4 million sf) in the Charleston, SC market and Mercedes-Benz (1.3 million sf) in the Birmingham, AL market.
- According to CoStar, Under Armour, UPS, Spectrum Brands, Target, Sephora, Mars, Diversey, Inc., Lasko Products, Inc., KidKraft, Pro-Pak and Amazon all executed leasing transactions in excess of 400,000 sf during 1Q17.
- As e-commerce continues to grow and account for a larger share of consumer expenditures,3PLs(third-party logistics), retailers, importers and exporters have continued gravitating towards warehouse and distribution centers proximate to major inland hubs, seaports and secondary locations with good transportation infrastructure to shorten the supply chain and deliver goods faster.

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.

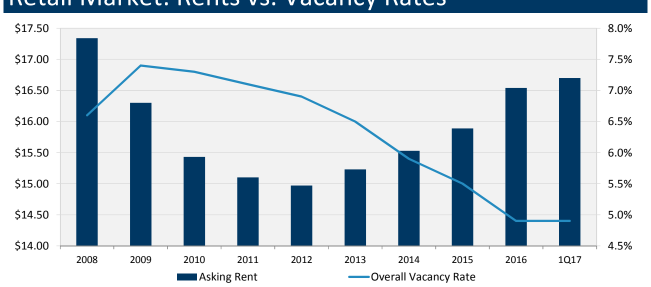
1Q17 Top 20 Industrial Markets Comparison					
YTD Net Absorption		Vacancy Rate		YTD Construction Deliveries	
Million SF		Best Performing Markets		Million SF	
Philadelphia	10.27	West Michigan	2.1%	Dallas/Ft Worth	7.64
Atlanta	6.72	Los Angeles	2.2%	Atlanta	5.30
Dallas/Ft Worth	4.74	Seattle	3.2%	Chicago	5.15
Boston	2.24	Detroit	3.6%	Houston	3.57
West Michigan	2.06	Long Island	4.1%	Inland Empire CA	3.49
Charlotte	1.99	Minneapolis	4.2%	Philadelphia	2.85
Phoenix	1.63	Cleveland	4.3%	Phoenix	2.24
Los Angeles	1.50	Charlotte	4.8%	Los Angeles	2.21
Seattle	1.43	Milwaukee	4.9%	Northern NJ	2.03
Chicago	1.32	Inland Empire CA	5.0%	Seattle	0.90

Source: CoStar

Retail

- Although U.S. consumers reported feeling more confident , total retail sales fell for the second consecutive month in March, driven by less spending on durable goods.
- Despite an increasing number of retail closings and bankruptcies, the overall retail vacancy rate moved little during 1Q17, but fell 50 BPS YoY to 4.9% as of 1Q17 according to CoStar.
    - The neighborhood shopping center sector, which comprises 70.0% of inventory, had higher vacancy rates than the mall and power center sectors.
- As space tightened, it was reported that asking rental rates increased about 4.5% during the past 12 months.

Retail Market: Rents vs. Vacancy Rates



Source: CoStar (reflects select markets)

- New development remains modest as developers wait for projects to be extensively pre-leased before breaking ground. Most retail product being delivered is in single-tenant formats in areas with strong demographic profiles.
    - Rather than building new product, savvy developers continue to reposition aging/obsolete product with alternate uses.
- As consumers continue to make more online purchases, shift spending habits to more travel and experience-related endeavors, and gravitate more towards discounted and off-price retailers, the number of retailers filing for Chapter 11 bankruptcy protection has escalated considerably. Increasingly, more retailers are ending up in liquidation.

Major Retail Chapter 11 Filings Since 2016	
Company	
Gordmans Stores	Marbles - The Brain Store
Gander Mountain	Wet Seal
General Wireless Operations	Limited Stores
hhGregg	Michigan Sporting Good Distributors
BCBG Max Azria	Payless ShoeSource (April)
Eastern Outfitters	Bebe (April)

Source: Costar (reflects select markets)

- As the supply of physical stores continues to outweigh shopper demand, retailer profits have been negatively impacted, which has resulted in a wave of consolidations and store closings. By the end of 2017, analysts predict that Amazon will surpass Macy's as the largest seller of apparel in the United States.

Announced Retail Store Closings in 2017	
Company	Number of Stores
General Wireless Operations	552
Payless ShoeSource	400
The Limited	250
hhgregg	220
Bebe Stores	180
Wet Seal	171
Crocs	160
Sears Holdings	150
J.C. Penney	138
BCBG	120
American Apparel	110
Staples	70
Macy's	68
Abercrombie & Fitch	60
Guess	60

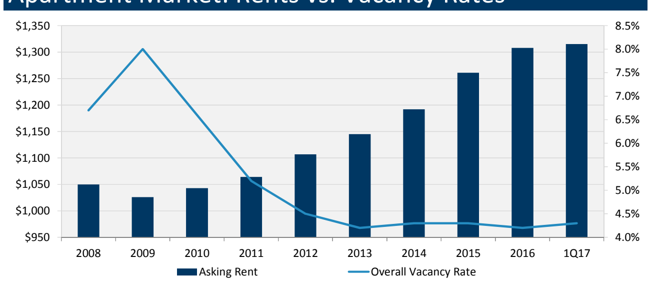
Source: Clark.com

- Brick and mortar retail growth is being driven by dollar store chains (such as Dollar General), value retailers (such as TJ Maxx, Ross, and Marshall's) and niche grocery users.

Apartment

- According to Reis, Inc., the national vacancy rate increased 10 BPS in 1Q17 to 4.3%, still the lowest among the major property sectors. Availabilities continue to trend at historical lows despite increased supply and a robust housing market.
- Average asking and effective rental rates grew by 0.3% and 0.2%, respectively, during 1Q17 according to Reis, Inc. During the past 12 months, average asking rents increased 3.3%, a large decline from the 5.7% rate of increase during the prior 12-month period. It was reported that the gap between asking and effective rents continues to increase as landlords offer more concessions to secure tenants.
- According to MPF Research, annual rental rate growth for new leases was strongest in the Sacramento, Seattle, Riverside-San Bernardino, Fort Worth and Atlanta metropolitan areas as of 1Q17. It was also reported that the share of apartment renters deciding to renew at their current location continued to increase.
- According to Reis, Inc., net absorption totaled 23,790 units during 1Q17, considerably less than the 51,775 quarterly averages during 2016.
- Despite slowing rental rate growth, apartment demand continues to be driven by new millennial household formation, downsizing baby boomers and existing renters who cannot qualify for a mortgage.

Apartment Market: Rents vs. Vacancy Rates



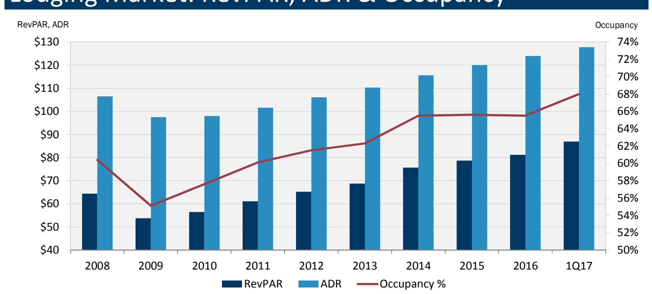
Source: Reis, Inc.

- Apartment deliveries totaled about 39,000 units during 1Q17 (Reis, Inc.), up from 56,200 in the prior quarter. Last year, approximately 210,500 units were completed to satisfy pent-up demand, similar to 2015.
  - According to CBRE, the New York, Washington D.C., Dallas/Fort Worth and San Francisco metropolitan areas recorded the most deliveries during 1Q17.
- As demand continues to be strong for apartments in walkable urbanized environments proximate to job centers, tenants are increasingly seeking smaller units in buildings with an abundance of amenities.

Hotel

- Compared to March 2016, Smith Travel Research (STR) reported that the U.S. hotel industry's occupancy increased 2.6% to 68.0%, its average daily rate increased 2.4% to $127, and RevPAR increased 5.1% to nearly $87. Of note, the absolute values in these three key performance metrics were each the highest for any March on record.
- STR also reported that it was also the strongest first quarter in terms of performance metrics, helped by the Presidential Inauguration.
- According to STR, there were about 4,720 U.S. projects totaling approximately 570,300 rooms under contract, which is defined as projects in the planning, final planning and construction stages, as of March 2017, representing a 14.4% YoY increase.
  - Among the top 25 markets, New York reported the most rooms under contract and in construction. Rounding out the top five markets, Dallas, Los Angeles/Long Beach, Seattle and Houston reported large numbers of rooms in construction.
- The continued rise of home sharing companies (with lower overhead costs and less regulations), the rising cost of labor (higher salaries, wages and benefits), and the increased staffing required to accommodate the elevated occupancy levels continue to challenge hotel managers.

Lodging Market: RevPAR, ADR & Occupancy



Source: Smith Travel Research

- Of the top 25 markets, STR reported that only the Washington D.C.-Maryland-Virginia market recorded double-digit growth in RevPAR and ADR during 1Q17. Other top RevPAR increases were reported in Detroit, Seattle and New Orleans. In contrast, the Miami/Hialeah market reported the biggest decreases in RevPAR and ADR during 1Q17 due to rising supply. Surprisingly, the Houston market reported the largest fall in occupancy despite hosting Super Bowl LI in early February.

Forecast

Economic

- After raising the federal funds rate for the second time in three months in December, the Fed is projected to raise short-term interest rates at least two more times during 2017.
- GDP growth is expected to recover during 2Q17 and throughout the remainder of the year, trending between 2.0% and 3.0% per quarter. A recovery in personal consumption expenditures should fuel the recovery and business spending is forecasted to remain steady.
    - However, political and policy uncertainty remains high, posing a risk to the outlook for modest acceleration in economic growth.
- Inflation is expected to trend near the Fed's benchmark 2.0% target, driven by wage increases and firming commodity prices.
- Affordability within the housing sector will continue to be challenged by rising mortgage rates, tight inventory levels and escalating housing prices.
- Job creation is projected to moderate as the labor market further tightens toward full employment and employers have a more difficult time filling positions.

General Property

- Spreads between interest and cap rates are projected to compress with further anticipated interest rate hikes throughout the remainder of 2017.
- Although investors have amassed a large amount of capital, a lack of product on the market and a gap between buyer valuations and seller expectations is expected to weigh on sales volume in 2017 in comparison to the prior year.
- Following 1Q17 momentum, REITs are expected to raise capital at a steady clip through the remainder of the year and to continue to attract the interest of investors, who are lured by strong dividend yields.
- After a weak first quarter, 2017 CMBS issuance is forecasted to trend upward during 2Q16 due to a busy pipeline of pending deals reported by CMA as headwinds from the impact of risk-retention regulations ease.

Property Sector

- **Retail:** Upward pressure on wage growth should boost consumer spending throughout the remainder of the year. As brick and mortar establishments announce more closings and consolidations, more available space will enter the market and continue to alter the retail landscape. As e-commerce captures a greater percentage of monthly sales, developers and owners will increasingly transform vacant/obsolete retail assets into new, consumer driven concepts.
- **Apartment:** Despite escalating demand for owner-occupied housing and a slowdown in rental growth, market fundamentals are still expected to remain favorable. The combination of steady new millennial household formations, more empty nester baby boomers seeking to downsize into amenity-filled rental housing and increased affordability challenges to home ownership is expected to keep demand elevated for multi-family rental units in the foreseeable future.
- **Office:** The office market is likely to be challenged for the remainder of the year, as a tighter labor market will likely slow office-using employment growth as employers find it increasingly more difficult to fill positions. Additionally, space needs per employee are projected to decline as firms look for ways to cut costs. As the amount of new supply continues to outpace absorption, rental growth is expected to slow.
- **Industrial:** Driven by the robust growth of e-commerce and requirements for advanced supply chains, strong tenant demand for modern distribution space/fulfillment centers is expected to place upward pressure on rental rates and push vacancy rates lower during the next several quarters. Facilities near seaports/inland hubs and population centers will continue to be most coveted by investors.
- **Hotel:** There is cautious optimism regarding lodging performance in the upcoming quarters. Despite projected steady business and leisure travel, increased supply growth and the continued rise of home sharing will continue to offer challenges to the leading hotel flags. RevPar growth is expected to moderate throughout the remainder of the year.

Real Estate and Infrastructure

Every real estate client or stakeholder has unique objectives, constraints, operational circumstances and economic realities. The FTI Consulting Real Estate and Infrastructure 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.

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- Construction Project Management

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

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- Cost Segregation
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- Outsourced Accounting and Financial Reporting
- Executive Compensation and Corporate Governance

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