FTI INSIGHTS

Report

1st Quarter 2014

Economic & Real Estate Report

Contents

Introduction

During the first three months of 2014, the U.S. economy underperformed as the second estimate of GDP showed a 1.0% decline in growth, down from a 2.6% increase during 4Q13. Economists attributed this poor output to the bad weather that gripped much of the nation during the quarter. Looking past the GDP weakness, the Federal Reserve continued a reduction to its quantitative easing program by tapering its monthly bond purchases. Housing market weakness remained during 1Q14, largely due to lack of inventory, adverse weather, rising prices, and homebuilder concerns related to the shortage of buildable lots and skilled workers. Despite an early sell-off, mainly resulting from emerging market concerns, quantitative easing and a subpar December employment report, U.S. stock markets recovered throughout 1Q14, resulting in minor changes within the leading indices since 2013.

On the positive, several economic indicators rebounded in March, which is expected to provide momentum and optimism in the upcoming months. The labor market strengthened towards the end of 1Q14, as 192,000 jobs were added to the economy in March, and it was announced that job gains were revised upwards during the prior two months. Throughout March, retail sales recorded their largest monthly gain in two years, U.S. consumer confidence increased, the Leading Economic Index grew stronger, manufacturing output strengthened and durable goods orders increased.

Sustained demand for U.S. commercial real estate assets resulted in continued market recovery during the first three months of 2014. According to several leading brokerage and commercial real estate information providers, improving property fundamentals within the commercial real estate market during 1Q14 were illustrated by falling vacancy rates, rental rate growth, positive investor sentiment and more tenant activity. The NCREIF Property Index reported its seventeenth consecutive quarter of positive growth in 1Q14 and the simple average overall capitalization rate (comprising the office, retail, apartment and industrial sectors), declined for the eighth consecutive quarter as per the 1Q14 PwC Real Estate Investor Survey. After a flood of activity to end 2013, driven by higher risk tolerance from investors and the attraction of higher yields and discounted prices in secondary markets that were previously overlooked, investors once again had a strong appetite to acquire product during 1Q14.

Despite a slowdown in several metrics, real estate debt markets remained generally healthy to start 2014. After reaching the highest level since 2007 last year, CMBS issuances were slightly off the pace set in 1Q13. The U.S. CMBS delinquency rate continued to decline and the delinquent unpaid balance for CMBS dropped to its lowest level since late 2009. During 1Q14, commercial and multifamily mortgage borrowing declined slightly from this same time period in 2013 and the most recent Senior Loan Officer Opinion Survey on Banking Lending Practices indicated that U.S. banks increased bank lending during 1Q14 and eased policies for commercial and industrial real estate loans, while reporting stronger demand for both types of loans. After raising a record amount of capital last year, REIT capital raising slowed during 1Q14, likely due to the low interest rate environment and the increased number of senior debt issuances.

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

- **GDP Declines.** The second 1Q14 estimate showed U.S. GDP decreased at a 1.0% seasonally adjusted annualized rate, largely due to adverse weather conditions in most of the country. This decline marked the economy's first contraction since 1Q11.
- **No Change in the Unemployment Rate.** The unemployment rate remained at 6.7% in March despite the addition of nearly 200,000 jobs to the economy. This represented the fourth consecutive month that the unemployment rate was below 7.0%.
- **Small Business Optimism Rises Slightly.** In March, small business confidence increased according to the National Federation of Independent Business (NFIB) Small Business Optimism Index. Positive takeaways included improving wages and more respondents planning to add to inventories and believing it's a good time to expand.
- **Consumer Confidence Increases.** U.S. consumer confidence grew in March, as expectations related to the economy improved. The index reached its highest level since early 2008 despite consumers still expressing concerns about future purchases.
- **The Leading Economic Index (LEI) Rose.** The LEI increased 0.8% in March, suggesting a rebounding economy and hinting at accelerated growth for the spring and summer months. Strengthening labor market improvements and financial conditions drove the gain. The LEI is up 6.1% from 12 months ago.
- **Retail Sales Surge in March.** After an upwardly revised gain in February from 0.3% to 0.7%, retail sales recorded the largest monthly gain since September 2012 in March. The 1.1% increase was stronger than consensus estimates as ten of the thirteen retail categories reported growth. The rise was driven by a 3.1% increase at automobile and parts dealers and a 1.8% gain at building materials and garden equipment stores.
- **CPI Increases.** The headline Consumer Price Index increased 0.2% in March, driven by gains in food and housing costs. The official food index measure increased 0.4%, driven by record high beef prices.
- **Personal Income Increases.** Following a revised 0.4% gain in February, personal income increased 0.5% in March. The latest reading exceeded expectations and was primarily due to improvement in private wages and salaries.
- **ISM Non-Manufacturing Index Increases.** The service sector gained some momentum in March, primarily driven by a sizeable increase within the employment component. The majority of respondents believe that business conditions are improving and project increased activity as weather conditions improve.
- **Industrial Production Rebounds.** Industrial production gained 0.7% in March, exceeding consensus estimates. In February, the figure was revised upwards to 1.2%. Production gains were generally widespread. The latest report indicates that manufacturing is growing moderately.
- **Durable Goods Orders Rise:** In March, durable goods orders increased 2.6%, following a 2.1% rise in February. Broad-based gains were recorded, led by a 4.0% increase in demand for transportation goods.

Employment

In March, 192,000 jobs were added to the U.S, economy, slightly below economist expectations of 200,000. During 1Q14, an average of 178,000 non-farm jobs were created monthly, a sign that economic recovery remains on track despite a slowdown during the early winter months. The U.S. Department of Labor also reported it revised January and February job gains up by a combined 44,000; however, the pace of recovery is still slower than many economists have expected. Fed Chair Janet Yellen recently stated, "While there has been steady progress, there is also no doubt that the economy and the job market are not back to normal health."

Despite the addition of a half million people to the workforce, the unemployment rate remained at 6.7% for the second consecutive month. The number of unemployed people was nearly unchanged at 10.5 million. The labor participation rate, at 63.2%, moved little, but another metric, the number of people employed as a share of the working-age population, increased to its highest level since August 2009. Currently, non-farm employment totals about 137.9 million, which is up

0.4% from 2013. Other labor data from March shows hourly earnings were changed little at $24.30 and the average workweek edged up to 34.5 hours.

During 1Q14, the private sector continued to be the driver of job growth. Job gains were primarily concentrated within the professional and business services (+187,000), construction (+88,000), leisure & hospitality (+83,000) and education and health services (+81,000) sectors, offsetting declines within the government and information services sectors.

US Non-Farm Employment by Industry

Historic and Current Figures (thousands)

Historic & Current Figures (thousands)

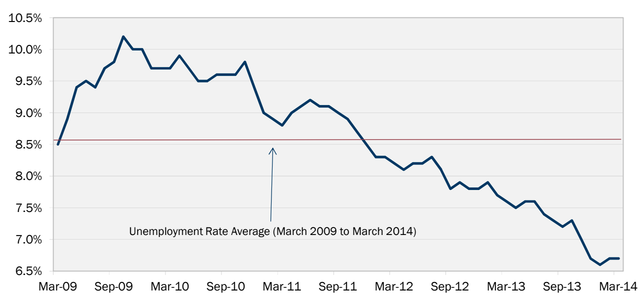
Industry	2014 Employment	Total Percent	2013 Employment	Total Percent	2012 Employment	Total Percent	% Change 2013- 2014
Mining and Logging	898	0.7%	882	0.6%	851	0.6%	1.8%
Construction	5,964	4.3%	5,876	4.3%	5,720	4.2%	1.5%
Manufacturing	12,079	8.8%	12,053	8.8%	11,965	8.9%	0.2%
Trade, Trans & Utilities	26,212	19.0%	26,156	19.0%	25,638	19.0%	0.2%
Information	2,665	1.9%	2,674	1.9%	2,674	2.0%	-0.3%
Financial Activities	7,910	5.7%	7,901	5.8%	7,827	5.8%	0.1%
Prof & Bus. Services	19,029	13.8%	18,842	13.7%	18,165	13.4%	1.0%
Educ. & Health Services	21,323	15.5%	21,242	15.5%	20,904	15.5%	0.4%
Leisure & Hospitality	14,518	10.5%	14,435	10.5%	13,981	10.4%	0.6%
Other Services	5,489	4.0%	5,480	4.0%	5,451	4.0%	0.2%
Government	21,841	15.8%	21,854	15.9%	21,888	16.2%	-0.1%
Total Nonfarm	**137,928**	**100.0%**	**137,395**	**100.0%**	**135,064**	**100.0%**	**0.4%**

Source: Bureau of Labor Statistics

March was the nineteenth consecutive month that the unemployment rate registered below 8.0%. Prior to September 2012, the unemployment rate had exceeded 8.0% for 43 consecutive months.

US Non-Farm Employment by Industry

Historic and Current Figures (thousands)

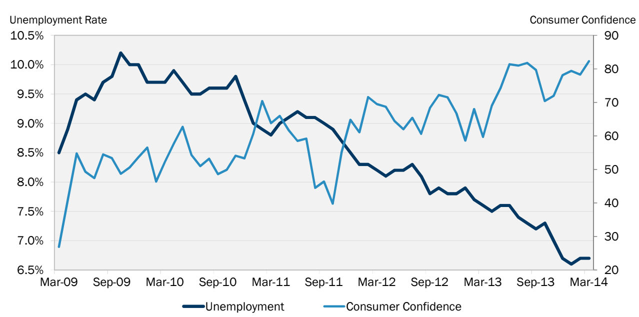


Source: Bureau of Labor Statistics

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

U.S. Unemployment Rate vs. Consumer Confidence

Historic and Current Figures (thousands)



Source: Bureau of Labor Statistics; Conference Board

The Conference Board Consumer Confidence Index is closely correlated with the U.S. unemployment rate and is considered a key indicator of economic conditions. Consumer confidence rebounded in March from February, when difficult weather conditions in many parts of the country left consumers feeling less optimistic about the U.S. economy. The March reading reached its highest level since January 2008, as consumers were moderately more upbeat about future job prospects and business conditions; still, consumers remain fairly cautious with respect to their income expectations, which resulted in decreased home buying and automobile plans in March.

Gross Domestic Product (GDP)

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

The second estimate of 1Q14 GDP showed that the U.S. economy decreased at an annual rate of 1.0%, down from 2.6% and 4.1% increases, respectively, during the prior two quarters. Initial estimates showed a slight 0.1% increase. Higher-than-expected imports and slower-than-expected inventory growth pulled the economy into negative territory during 1Q14. The 1Q14 reading represented the first quarterly decline in three years, as adverse weather conditions were thought to be the primary cause of the slowdown. Contributing to the negative GDP reading was a large pullback in exports, adding to a widening trade deficit, a fall in business investment and a decline in residential construction outlays. Consumer spending grew at a 3.1% pace during the quarter, largely the result of service outlays resulting from accelerated health care spending due to implementation of the Affordable Care Act. It is estimated that without the rise in healthcare outlays, consumer spending would have risen at only a 2.1% pace. This is the first time since 2005 that real personal spending exceeded 3.0% for two consecutive quarters. On the positive, spending on durable goods increased at a 1.4% rate, nearly twice the initial estimate, and non-durable goods spending rose at 0.4% pace, exceeding initial estimates.

Other highlights of 1Q14 include:

- The trade deficit widened as exports decreased 6.0% after rising 9.5% in 4Q13. It was speculated that weakness in Europe and Asia subdued demand. Imports increased 0.7%, compared to a 1.5% gain in the prior quarter.
- Hurting GDP growth was a decline in inventory investment. It was estimated that businesses accumulated $49.0 billion worth of inventories, considerably less than the initial $87.4 billion estimate. This was the smallest amount in a year.

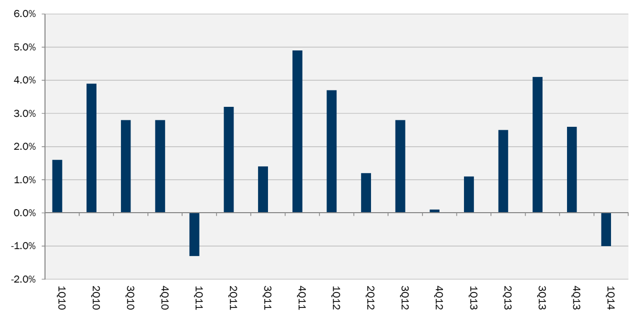
- A 0.7% gain in federal government spending was overshadowed by a 1.3% fall in state and local government spending. On the federal level, non-defense spending increased while defense spending declined.
- Real residential fixed investment fell 5.0% after declining 7.9% in 4Q13. This represented the first two quarter consecutive decline since the first half of 2009.

Looking ahead, economists believe this slowdown is likely to be temporary, as growth rebounds in the warmer months, fueled by pent-up demand caused by the winter slowdown.

The following chart summarizes U.S. GDP growth since 1Q10.

Gross Domestic Product

Quarter-to-Quarter Growth in Real GDP



Source: Bureau of Economic Analysis

Institute for Supply Management (ISM) Manufacturing Index

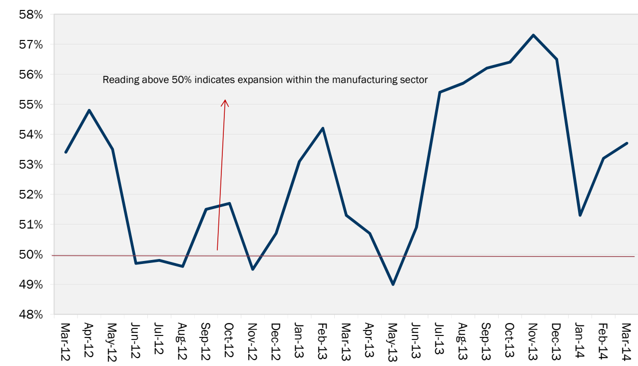
The ISM index, a national survey of purchasing managers, is calculated based on a weighted average of the following five sub-indexes: new orders (30%), production (25%), employment (20%), deliveries (15%), and inventories (10%).

Driven by gains in orders and production, U.S. manufacturing expansion accelerated in March. This marked the tenth consecutive month of growth within the manufacturing sector, as the headline Purchasing Manager's Index (PMI) reading increased 0.5 percentage point to 53.7%; this reading was slightly below consensus estimates. Fourteen industries reported growth, while only four industries reported contraction during March. The data indicates that the economy is building momentum into the second quarter and supports prospects for better economic growth in 2014.

Positive takeaways from the latest report included the Production Index rising 7.7 percentage points, the largest monthly gain since June 2009, customer inventories shrinking at the fastest pace since May 2011, and the ISM's gauge of orders waiting to be filled jumping to the highest level since April 2011. Comments from purchasing managers were generally upbeat regarding demand and business conditions, with some lasting concerns regarding the year's early poor weather conditions.

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

Purchasing Manager's Index (PMI)



Source: Institute for Supply Management

- **Purchasing Managers' Index (PMI).** A reading above 50.0% indicates that the manufacturing economy is generally expanding; below 50.0% indicates that it is generally contracting. Manufacturing increased slightly in March and has averaged 54.0% during the past 12 months.
- **New Orders Index.** A New Orders Index above 52.1%, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders. The New Orders Index reflected growth for the tenth consecutive month and increased 0.6% in March to 55.1%; eleven industries reported growth.
- **Production Index.** An index above 51.0%, over time, is generally consistent with an increase in the Federal Reserve Board's industrial production figures. The index surged 7.7 percentage points in March after briefly contracting in February; eleven industries reported growth in March.
- **Employment Index**. An Employment Index above 50.1%, over time, is generally consistent with an increase in manufacturing employment. Although the index decreased 1.2 percentage points in March, growth in employment has now been recorded for nine consecutive months; this is indicative of a long-term strengthening of the labor market.
- **Supplier Deliveries Index.** A reading above 50% indicates slower deliveries. The delivery performance of suppliers to manufacturing organizations slowed in March at a slower rate, relative to February, as the Supplier Deliveries index registered 54%.

- **Inventories Index.** An Inventories Index greater than 42.7%, over time, is generally consistent with expansion in the Bureau of Economic Analysis' (BEA) figures on overall manufacturing inventories. Manufacturers' inventories recorded the same reading as in February, indicating that inventories grew for the second consecutive month in March following two months of contraction.

Construction Spending

The U.S. Census Bureau of the Department of Commerce reported that U.S. construction spending increased by 0.2% in March after falling 0.2% the prior month. Total construction activity increased to a seasonally adjusted rate of $942.5 billion, which is 4.8% above the March 2013 estimate, but less than consensus estimates. During the first three months of 2014, the value of construction totaled $196.6 billion, representing an 8.3% increase from the same period last year.

The March gain primarily resulted from a 0.5% increase on private construction projects, which hit its strongest annual pace since December 2008. Private residential spending increased 0.8% in March with increases in single-family, multi-family and home improvements. The largest gain was realized for apartment construction, which increased 4.3% during March in comparison to a 0.2% rise in single-family construction. In March, it was reported that builders began work on a seasonally adjusted 946,000 homes, representing a 2.8% increase from the prior month; however, applications for permits, a predictor of future activity, declined 2.4%.

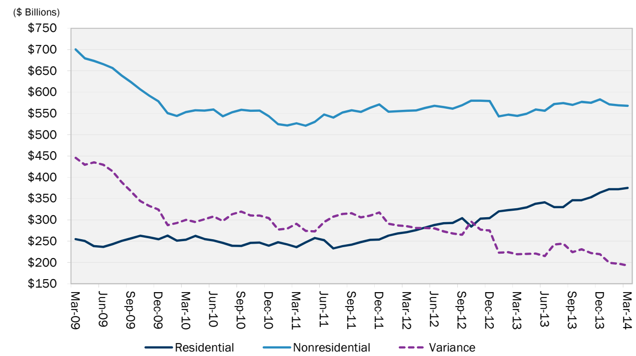
In contrast, public construction outlays continue to fall. In March, public construction spending declined by 0.6% and fell to its lowest level since November 2006. Spending by the federal government decreased 2.4% and state and local government spending dropped 0.4%.

Of total construction spending, private construction comprised 72.0% of total expenditures and public construction accounted for 28.0%. Non-residential spending accounted for 60.0% of total expenditures compared to 40.0% for residential. Within the non-residential sector, the communication (+32.0%) and lodging (+20.0%) sectors recorded the largest increases in construction outlays since March 2013. Other sectors of note include office, with an 11.0% increase, commercial, with a 7.50% increase, and healthcare, with a 5.0% decrease.

Following is a graph highlighting annualized residential and non-residential construction (seasonally adjusted) since March 2009. The graph shows that residential construction activity continues to rebound faster than non-residential construction activity. Although the economic downturn initially affected the residential construction industry more significantly, spending has increased from an annualized rate of $325 to $375 billion from March 2013 to March 2014, while the pace of non-residential activity has risen from an annualized rate of $544 to $568 billion. The variance in spending between non-residential and residential outlays is the lowest since 2007, as homebuilders continue to increase construction to fulfill growing housing demand. In March, the variance was $193 billion compared to $219 billion 12 months ago.

U.S. Construction Spending

Value of Construction Put in Place - Seasonally Adjusted Annual Rate



Source: U.S. Census Bureau

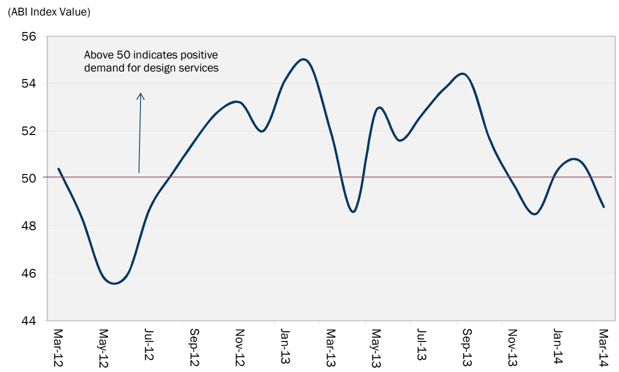
The Architecture Billings Index (ABI)

The Architecture Billings Index (ABI) is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the American Institute of Architects (AIA) Economics & Market Research Group. Survey participants are asked whether their billings increased, decreased or stayed the same in the month that just ended. According to the proportion of respondents choosing each option, a score is generated, which represents an index value. The ABI is a leading economic indicator of non-residential construction activity, reflecting an approximate nine to twelve month lag time between architecture billings and construction spending. Any measure below 50 indicates contraction in demand for architects' services.

- Following slight growth for design services for the first two months of 2014, the ABI declined in March from 50.7 to 48.8. It is speculated that the fall in March billings resulted from the severe weather that affected the majority of the United States.
- Despite the March weakness, inquiries for new projects increased a little during the month, indicating potential optimism in the upcoming months.
- Firms in the South (52.8) and West (50.7) reported healthy market conditions, while weakness was recorded in the Northeast (46.8) and Midwest (46.6). By sector, positive growth was reported in the multi-family residential (52.1) sector, while the commercial/industrial (49.6), institutional (49.0) and mixed practice sectors reported contraction.
- AIA Chief Economist, Kermit Baker, PhD, Hon. AIA commented, "This protracted softening in demand for design services is a bit of a surprise given the

overall strength of the market the last year and a half. Hopefully, some of this can be attributed to severe weather conditions over this past winter. We will have a better sense if there is a reason for more serious concern over the next couple of months."

Architectural Billings Index (ABI)



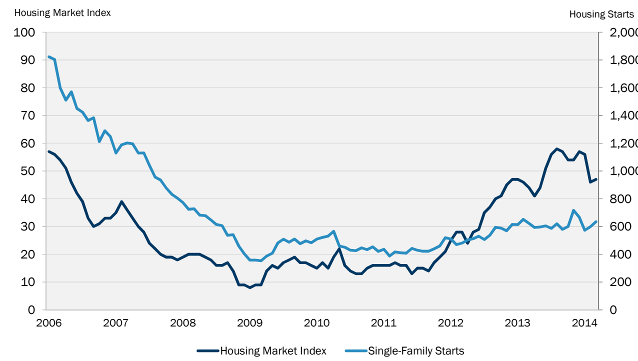
Source: The American Institute of Architects

State of the Housing Market

- According to the National Association of Realtors, housing market softness continued into March, as existing home sales fell for the third consecutive month, largely due to a lack of inventory, adverse weather and rising prices. Home sales have now fallen in seven of the past eight months.
- Interest rates continued to increase off historic low levels, negatively affecting housing affordability. According to Freddie Mac, the national average commitment rate for a 30-year, conventional, fixed-rate mortgage was 4.34% in March, up 4 basis points from the prior month and 77 basis points from March 2013.
- Lawrence Yun, NAR Chief Economist, commented, "Current sales activity is underperforming by historical standards. There really should be stronger levels of home sales given our population growth. In contrast, price growth is rising faster than historical norms because of inventory shortages."
- As housing inventories continue to fall, upward pressure is being placed on housing prices. In March, the national median existing-home price for all housing types was $198,500, up 7.9% from 12 months prior.
- Housing price appreciation continued to be strongest in the West, where prices have increased 12.6% during the past 12 months. Price gains in the South (+6.7%), Midwest (+5.9%) and Northeast (+3.2%) lagged the national average of 7.9%.
- Distressed transactions (foreclosures and short sales sold at deep discounts) declined from the prior month and accounted for only 14.0% of all closings. Distressed transactions comprised 21.0% of transactions in March 2013.

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

NAHB/Wells Fargo Housing Market Index



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

In March, builder confidence in the market for newly-built, single-family homes increased one point despite the overhang of poor weather conditions. Two of the three index components (current sales conditions and traffic of prospective buyers) rose during the month while the component gauging sales expectations during the next six months fell. NAHB Chief Economist, David Crowe, commented, "A number of factors are raising builder concerns over meeting demand for the spring buying season. These include a shortage of buildable lots and skilled workers, rising materials prices and an extremely low inventory of new homes for sale."

Regionally, the three-month moving averages for homebuilder confidence decreased in all regions.

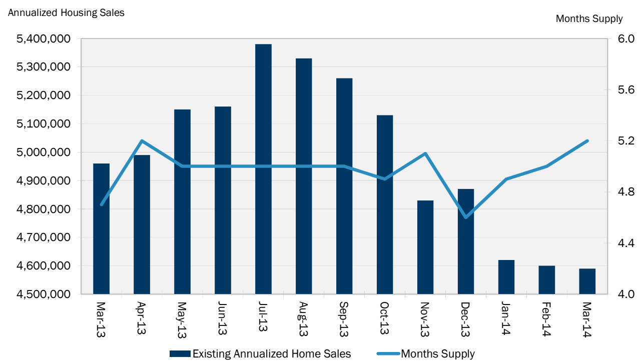
Housing Sales and Inventory

Sales of existing homes decreased 0.2% in March to a seasonally adjusted annual rate of 4.59 million, the lowest level since July 2012. Sales are 7.5% below the 4.96 million-unit pace of March 2013. During the past year, sales activity declined across all regions, including a 13.4% fall in the West, followed by decreases in the Midwest (10.3%), Northeast (4.8%) and South (3.0%) regions. The median time on the market for an existing home was 55 days in March, down from 62 days, recorded in March 2013. It was estimated that 37% of all homes sold in March were on the market for less than one month and short sales were on the market for a median of 112 days. First-time buyers accounted for 30% of the March purchases, similar to levels posted 12 months ago. All cash sales comprised 33% of transactions in March, up from 30% a year earlier. Total housing inventory at the end of March registered 1.99 million existing homes available for sale, representing a 5.2-month supply. Unsold inventory is 3.1% above the level of a year ago, when there was a 4.7-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

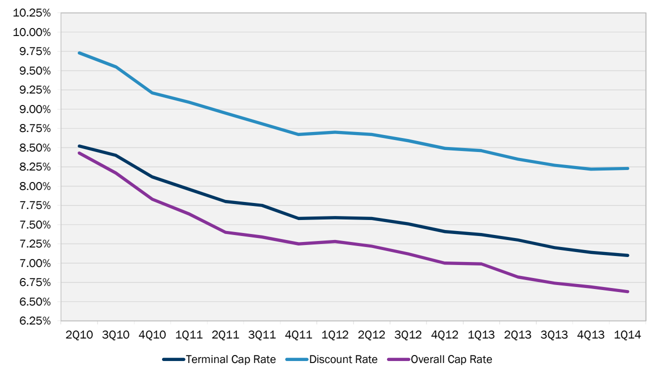
PwC Real Estate Investor Survey

- Institutional and private investors surveyed for the 1Q14 PwC Real Estate Investor Survey reported that overall cap rates (OARs) declined in nineteen, held steady in nine and increased in six of the survey's 34 tracked markets during 1Q14. OAR's decreased 6 basis points (BPS) across nearly all major property types during this time period. Overall, the largest capitalization rate declines occurred within the suburban and CBD office sectors while minimal changes were reported for the retail, industrial and apartment sectors.
- Terminal cap rates decreased to 7.10% during 1Q14, after declining 6 BPS during the prior quarter. The average decline was 4 BPS across nearly all major property types since 4Q13. This compares to a 20 BPS decrease for terminal cap rates between 1Q13 and 1Q14.
- Discount rates (IRR) increased slightly to 8.23% during 1Q14. The average rise was 1 BP across nearly all major property types since 4Q13. This compares to a 23 BPS decline for discount rates between 1Q13 and 1Q14.

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

PwC Real Estate Investor Survey Historical Results

Investment Rate Analysis



1Q14 Survey Highlights

- OARs either declined or held steady for the major commercial property types during 1Q14; the suburban-office (20 BPS), CBD-office (18 BPS) and warehouse (6 BPS) sectors recorded declines. Little and/or no change was recorded with the flex/R&D, apartment, strip center, regional mall and power center sectors.
- As of 1Q14, flex/R&D properties had the highest average OARs at 7.83%, followed by the strip center (6.98%) and suburban office (6.78%) sectors. The lowest average OARs were recorded within the apartment (5.79%), warehouse (6.16%) and CBD-office (6.27%) sectors. The simple average OAR across all sectors was 6.63%.
- Terminal cap rates decreased in six sectors, increased in one sector and held steady in one sector during 1Q14. The largest decreases were recorded within the warehouse (11 BPS), apartment (6 BPS), strip center (6 BPS) and regional mall (6 BPS) sectors. The power center sector (4 BPS) recorded an increase and no change occurred within the flex/R&D sector.
- As of 1Q14, flex/R&D properties had the highest terminal capitalization rate at 7.95%, followed by the suburban-office (7.64%) sector. The lowest terminal capitalization rates were recorded within the apartment (6.23%), warehouse (6.65%) and CBD-office (6.82%) sectors. The simple average terminal capitalization rate across all sectors was 7.10%.
- IRRs decreased for two major property types, increased in three sectors and held steady in three sectors during 1Q14. The largest decrease was recorded within the suburban-office (21 BPS) sector. The warehouse (16 BPS) and regional mall (11 BPS) sectors recorded the largest increases and no change was recorded within the apartment, power center and flex/R&D sectors.

- As of 1Q14, flex/R&D properties had the highest IRR at 8.95%, followed by the regional mall (8.92%) sector. The lowest IRR was recorded within the warehouse (7.50%) sector. The simple average IRR across all sectors was 8.23%.
- The 1Q14 PwC Real Estate Investor Survey indicated a lack of desirable commercial property assets on the market in contrast to the number of well capitalized investors seeking new acquisitions.
- Despite the expectation of higher interest rates, investors are optimistic that positive trends will persist throughout 2014 within the commercial real estate industry.
- The survey indicated that competition among buyers is expected to remain strong for prime assets as both international and domestic capital seek investment opportunities. As a result, asking prices for trophy assets are expected to remain elevated throughout the year.

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

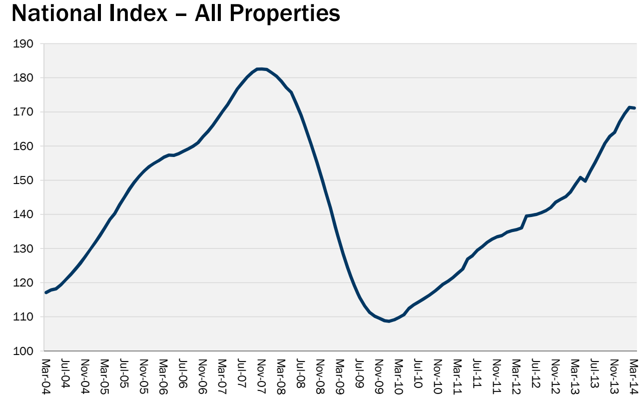
The Moody's/RCA Commercial Property Price Index (CPPI) is a periodic same-property investment price change index of the U.S. commercial investment market based on Real Capital Analytics (RCA) data. RCA collects price information for every commercial property transaction in the U.S. that is over $2,500,000.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

- Following a 1.1% rise in February, The National All-Property Composite Index decreased 0.1% in March. The core commercial component fell 0.3%, while the apartment component recorded a 0.3% increase. Last year, the National All-Property Composite Index gained nearly 15.0%.
- During the past 12-month period, core commercial prices have gained 16.3%, besting the 11.6% increase in apartment prices. It is estimated that core commercial property prices are still 11.1% below their peak in contrast to apartment prices exceeding their pre-financial crisis peak by 7.8%.
- During the past three-month period, the industrial sector was the top performer, returning 5.0%. CBD office prices jumped 4.6% and apartment prices increased 2.1%. Retail and apartment prices lagged the broader index with returns of less than 1.0%.
- During the past 12-month period, CBD office prices have increased 24.3%, exceeding the return of 15.0% within the National All-Property Composite Index. Sectors lagging the Index during this time period included apartment (+11.6%) and suburban office (+8.9%).
- Pricing within major markets gained 16.7% during the past 12-month period, exceeding the 13.5% increase within non-major markets. During the past three months, prices have increased 2.8% for major markets and 2.1% for non-major markets.
- The Index has recovered 85.0% of its post-crisis loss. CBD-office (+123.0%) and apartment (+120.0%) assets continue to lead all commercial sectors in price recovery since bottoming. Despite continued improvement, pricing for suburban office and industrial assets have lagged other sectors, recovering 41.0% and 55.0% of their losses, respectively. Retail (+59.0%) and hotel (+66.0%) recovery continue to also lag the national average.

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

Moody's/REAL Commercial Property Price Index

National Index – All Properties



Commercial Property Sales Analysis

After a flood of activity to end 2013, driven by higher risk tolerance from investors, the attraction of higher yields, and discounted prices in secondary markets that were previously overlooked, investors once again had a strong appetite to acquire product during 1Q14. Real Capital Analytics (RCA) estimated approximately $82 billion of commercial sales activity occurred during the first three months of 2014, an increase of 15% year-over-year (YoY). Annualized, 2014 sales activity is projected to total $331 billion, off 3.5% from 2013 output, but 15.5% higher than 2012 totals. According to RCA, a stable interest rate environment and an increasingly competitive financing market contributed to the positive trends during 1Q14. It was reported that sales of individual properties increased 39% YoY, but portfolio transaction activity trended lower as compared to 1Q13. Still, current trends suggest a healthy investment environment reflecting positive investor sentiment and positive pricing trends.

Below we take a look at 1Q14 sales activity by product type.

- Apartment: Sales activity totaled $18.7 billion during the first three months of 2014, a decrease of 42.0% from 1Q13, when the sale of two Archstone portfolios to Equity Residential and AvalonBay, respectively, skewed totals upwards. Sales of garden apartments accounted for roughly 65.0% of total activity, similar to the prior quarter.

- Office: Nearly $22.7 billion of sales activity was executed during 1Q14, besting 1Q13 output by almost 27.0%. The YoY increase was driven by a 60% rise in CBD office sales. Annualized, sales would register $90.6 billion in 2014, off 11.4% from output recorded last year. RCA reported that volume gains were driven by a 45% increase in individual property sales, offsetting a 5.0% decrease in portfolio transactions.

- Industrial: Investor sentiment remained positive for industrial assets after a flurry of activity during the second half of 2013. In 1Q14, roughly $11.3 billion of industrial sales were executed, up 50% YOY. Warehouse properties, accounting for nearly 65.0% of activity, increased 42% YOY. Flex property acquisitions jumped 64% during the time period.

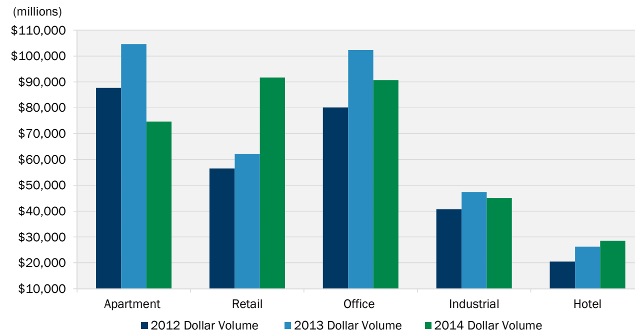
- Retail: Sales activity registered $22.9 billion in 1Q14, the highest output of all the major commercial sectors during the quarter and the top quarterly volume since 2Q07. Retail volume exceeded 1Q13 totals by nearly 150%, largely resulting in the surge of sales within the mall and other subcategories. Annualized, sales would register $91.7 billion in 2014, up 48% from totals recorded last year.

- Hotel: Investor interest increased for hotel properties during 1Q14, as $7.1 billion of sales volume was recorded, an increase of 23% from totals recorded during the first three months of 2013. This represents the highest first quarter output since 2007. Gains in volume were recorded for full and limited-service hotels, as well as across individual property and portfolio transactions. Annualized, sales would register $28.6 billion in 2014, up 9% from totals recorded last year.

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

Investment Sales Activity

Dollar Value of Sales Transactions by Property Type



Source: Real Capital Analytics; 2014 volume annualized based on 1Q14 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, with a market share of approximately 42.0% during 1Q14, slightly exceeding last year's reading.

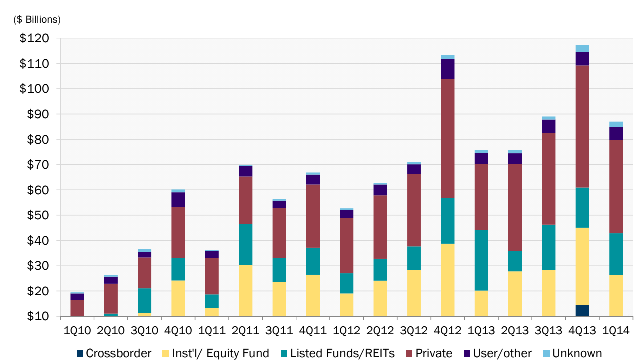
- Since 2013, market share for institutional/equity buyers declined from 24.0% to 19.0%.

- After rising nearly 50.0% during 2013, acquisitions from the public sector remained on pace with last year's output during 1Q14. As a result, market share remained within the 18.0% to 19.0% range.

- Market share from cross border investors increased slightly to 11.0%. Last year, crossborder acquisitions increased roughly 40.0%, as foreign investors found U.S. real estate assets desirable.

Investment Sales Activity

Summary of Transactions by Buyer



Source: Real Capital Analytics

Distressed Sales

- The percentage of commercial sales associated with distress, approximately 6.5%, trended downward during 1Q14. For all sales recorded in 2013, distress associated with a sale registered 7.9%.
- During 1Q14, about 13.0% of hotel sales involved a distressed property, the highest among the major property types; however, this is lower than the 18.0% recorded during the prior quarter.
- Distress associated with office sales increased slightly during 1Q14 to 9.5% and approximately 8.0% of industrial sales involved distress.
- Distress associated with apartment and retail sales registered 3.8% and 3.6%, respectively, the lowest among the major commercial property types.
- New instances of distress have been falling and totaled $2.4 billion in 1Q14, down from $4.2 billion the prior quarter and the lowest quarterly increase since 3Q07.

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

% of Sales Associated with Distress (Sales in Billions)

	Non-Distress	Distress	% of Total	% Change
1Q11	$34.75	$7.15	17.1%	-3.5%
2Q11	$71.14	$10.56	12.9%	-4.1%
3Q11	$57.98	$8.00	12.1%	-0.8%
4Q11	$61.02	$9.42	13.4%	1.3%
1Q12	$47.47	$6.13	11.4%	-1.9%
2Q12	$56.10	$7.90	12.3%	0.9%
3Q12	$65.75	$7.97	10.8%	-1.5%
4Q12	$112.29	$6.96	5.8%	-5.0%
1Q13	$72.74	$6.13	7.8%	1.9%
2Q13	$71.25	$6.10	7.9%	2.1%
3Q13	$86.14	$8.28	8.8%	1.0%
4Q13	$111.84	$9.59	7.9%	0.0%
1Q14	$82.94	$5.78	6.5%	-2.3%

Source: RCA (Excludes Casinos)

Significant 1Q 2014 Sales Transactions

Below, noteworthy sales executed during 1Q14 are summarized for the major commercial real estate property types.

Office Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer(s)
555 12th Street	Washington DC	887,642	$505.0	MetLife, Inc.
1 Kendall Square (9)	Cambridge, MA	669,842	$395.0	DivcoWest Properties
28 State Street	Boston, MA	572,153	$355.0	The Rockefeller Group and Mitsubishi Estate New York, Inc.
311 S Wacker Drive	Chicago, IL	1,281,000	$302.4	Zeller Realty Group and Cindat Capital Management
101 Second Street	San Francisco, CA	388,370	$297.0	Invesco, Ltd.
350 & 450 E Las Olas Boulevard	Fort Lauderdale, FL	468,815	$204.0	Deutsche Asset & Wealth Management
1001-1051 E Hillsdale Boulevard	Foster City, CA	399,422	$200.0	Heitman LLC

Source: CoStar

Industrial/Flex Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer
Menlo Business Park (12)	Menlo Park, CA	500,521	$118.4	Principal Real Estate Investors, LLC
Alamo Crossing Commerce (4)	Houston, TX	1,047,797	$86.0	Northwest Real Estate Services
701 Central Avenue	University Park, IL	1,552,475	$85.0	W.P. Carey & Co. LLC
4725 34th Street	Long Island City, NY	322,390	$60.0	Brickman
2200 Channahon Road	Joliet, IL	1,380,100	$57.0	Griffin Capital Essential Asset REIT, Inc.
870 Taylor Road - Pinnacle XV	Romeoville, IL	898,560	$51.0	LaSalle Investment Management
3290 Patterson Avenue SE	Grand Rapids, MI	369,000	$38.9	American Global Capital Global Trust, Inc.

Source: CoStar

Retail Sale Transactions

Address/Name	City, State	Size (SF)	Sale Price ($ mil)	Buyer
150 Worth Shopping Plaza (3)	Palm Beach, FL	189,851	$146.0	O'Connor Capital Partners
Meridian Center	Seattle, WA	158,335	$113.2	Clarion Partners
345-347 N. Rodeo Drive	Beverly Hills, CA	13,533	$108.0	Ponte Gadea Group
Broadway Mall (6)	Hicksville, NY	996,096	$94.0	KKR Financial Holdings LLC and Broadway Mall Pacific
Quartermaster Plaza	Philadelphia, PA	456,364	$92.3	Cedar Realty Trust, Inc.
Twinbrook Metro Center (6)	Rockville, MD	90,455	$62.5	B.F. Saul Real Estate Investment Trust
Best Plaza (11)	Cerritos, CA	357,240	$61.8	CenterCal Properties, LLC

Source: CoStar

Multi-Family Sale Transactions

Name	City, State	Units	Sale Price ($ mil)	Buyer
Pacific Place Apartments	Hawthorne, CA	430	$143.0	Equity Residential
101 Park Place at Harbor Point	Stamford, CT	336	$134.7	Capri Capital Partners, LLC
The St. Moritz	Edgewater, NJ	224	$120.3	Cornerstone Real Estate Advisors, Inc.
Edgewater Apartments	Philadelphia, PA	290	$113.0	Edgewater Apartments
Cider Mill Apartments	Gaithersburg, MD	864	$110.0	The Donaldson Group and Angelo, Gordon & Co.
The Point at Pentagon City	Arlington, VA	348	$101.1	Pantzer Properties
Loudoun Heights Apartments	Ashburn, VA	466	$89.5	Klingbeil Capital Management Inc.

Source: CoStar

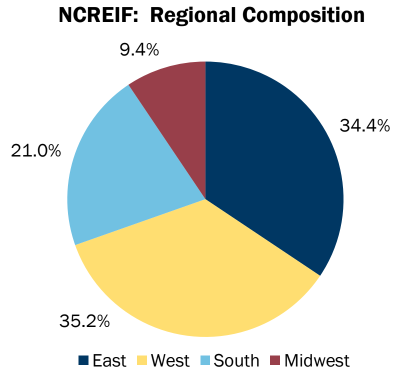
Hospitality Sale Transactions

Name	City,State	Rooms	Sale Price ($ mil)	Buyer
Philadelphia Marriot Downtown[1]	Philadelphia, PA	1,408	$270.0	Oaktree Capital Management, L.P. and Clearview Hospitality Capital, LLC
St. Regis Bal Harbour	Miami Beach, FL	207	$213.0	Al Rayyan Tourism Investment Company
Ashton Waikiki Beach Hotel	Honolulu, HI	645	$183.0	Inland American Real Estate Trust, Inc.
Sofitel Chicago Water Tower	Chicago, IL	415	$153.0	Ashford Hospitality Trust, Inc.
Montelucia Resort & Spa	Paradise Valley, AZ	293	$138.8	Omni Hotels & Resorts
Mark Hopkins InterContinental Hotel	San Francisco, CA	283	$120.0	Woodridge Capital Partners LLC and Oaktree Capital Management, L.P.
Pier House Resort and Caribbean Spa	Key West, FL	142	$92.7	Ashford Hospitality Prime, Inc.

Source: CoStar [1] Represents an 89% partial interest transfer sale

NCREIF Property Index

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

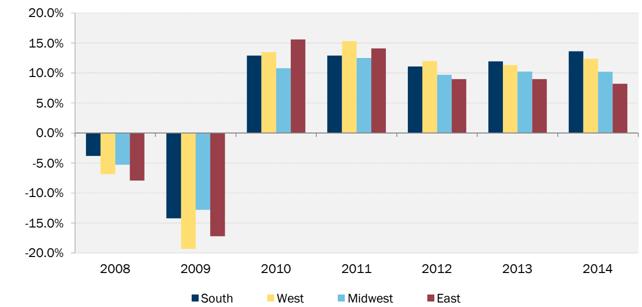


NPI Annualized Returns by United States Region

- NCREIF reported the seventeenth consecutive quarter of positive growth during 1Q14. During the first quarter, the NPI total return was 2.74%, comprised of a 1.31% income return and a 1.43% capital appreciation return.
- Total one-year returns have registered 11.2%, with income returns slightly exceeding appreciation returns.
- Spreads between the regions registered 136 basis points (2.05% vs. 3.41%), considerably higher than the 74 basis point spread (2.09% vs. 2.83%) recorded just one quarter earlier.
- After recording the smallest property gains in 2012 and 2013, real estate price appreciation was again smallest in the East. A return of 2.05% was recorded in 1Q14, lagging the 4Q13 return of 2.28% and below the pace 9.0% for 2013.
- Momentum continued within the South region. After recording the strongest property appreciation in 2013, price gains in the South exceeded all other regions during 1Q14. The 3.41% 1Q14 return bested the prior quarter's return by 58 basis points. One year returns of 12.9% were recorded in 2013.
- 1Q14 returns increased in the West from 2.71% to 3.09%. Last year, returns registered 11.3%, the second highest among the four major property types. The current return was comprised of a 1.32% income return and a 1.77% appreciation return.
- Property returns in the Midwest increased 46 basis points in 1Q14 to 2.55%. Total one year returns registered 10.7%, slightly lagging the national average of 11.2%.

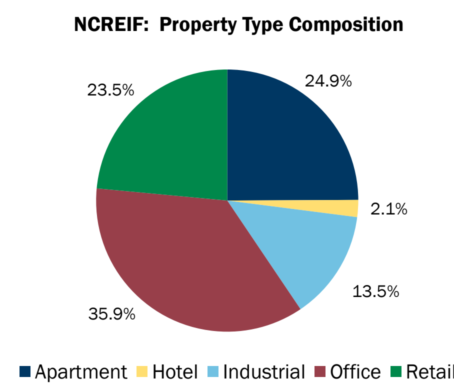
Below is a graph illustrating total returns by region since 2008. (2014 returns are annualized based on 1Q14 data)

NCREIF: Regional Total Returns



NPI Annualized Returns by Property Type

- Retail was the top performing sector during 1Q14, returning 4.30%. Returns were divided between appreciation (2.92%) and income (1.38%). This represents the highest quarterly return for this sector since 4Q10. Performance was driven by strong gains within regional and super regional mall subsectors. The 13.5% return on a rolling four quarter basis exceeded all other property types.
- The industrial sector returned 2.75% during 1Q14, a slight decrease from 2.93% recorded at 4Q13. One year returns totaled 12.6%, trailing only the retail sector during this period.

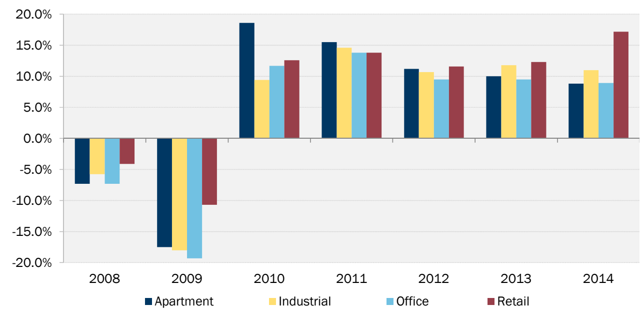


- Returns within the apartment sector slowed during 1Q14, as a 2.21% gain was realized. Steady quarterly returns of 2.5% in 2013 resulted in a 10.0% gain within the apartment sector last year. During 2012, a return of 11.2% was recorded.
- The office sector registered a 2.23% return during 1Q14, underperforming the broader index. Last year, the sector registered a 9.5% annual return, matching the 2012 gain.

- The hotel sector was the weakest performer during 1Q14. The 0.79% return was the sector's lowest since 1Q10, when returns were negative. Last year, a 7.5% return was achieved.

Below is a graph illustrating total returns by property type since 2008. (2014 returns are annualized based on 1Q14 data)

NCREIF: Property Type Total Returns



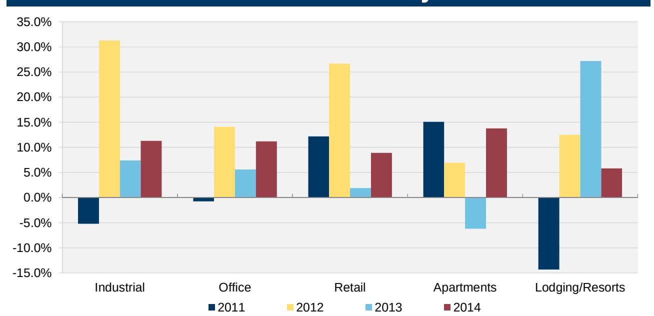
FTSE National Association of REITS U.S. Real Estate Index

Comprised of 146 REITS, The Financial Times of London and the London Stock Exchange (FTSE) NAREIT All Equity REITs Index returned 8.5% during 1Q14. Nearly all gains occurred in January and February as REIT returns softened in March to 0.35%. It is speculated that the recent slowdown in REIT returns during March was attributed to changing expectations for interest rates, particularly Fed Chair Janet Yellen indicating that the Fed may start raising short-term interest rates early in 2015. Still, 1Q14 performance bettered the 2.9% return that was recorded in 2013 and was par with 2012 returns. During 1Q14, gains ranging from 5.8% to 11.2% were recorded for the five primary commercial assets classes (office, industrial, retail, apartments and lodging/resorts). Investors often turn to REITs during difficult economic times because they typically pay higher dividends than other companies; however, when Wall Street turns bullish, REITs often underperform the broader market. In 2013, REIT underperformance was linked to quantitative easing or the Federal Reserve's decision to begin rolling back its program of buying tens of billions of dollars in bonds and other securities each month.

Below is a brief overview of selected sector performance during 1Q14.

- Representing the largest turnaround, optimism has returned to the apartment REIT sector. Following a negative 6.2% return in 2013, apartment REITs returned 13.8% during 1Q14. Analysts report the improved performance was tied to apartment housing demand outpacing supply.
- After delivering the largest return in 2013, the lodging/resorts sector underperformed all other major property sectors during 1Q14, returning roughly 5.8%; still, analysts see steady demand for hotel space resulting from increased business and leisure travel.
- Industrial REITs continued to perform well for investors, returning 11.3% during 1Q14, following gains of 7.4% last year. Investors and analysts still remain bullish on big box distribution warehouse space in primary markets.
- Investor sentiment increased for office REITs in 1Q14, as evidenced by an 11.2% return; this doubled the return of 5.6% recorded last year and was a positive change for a REIT class that lagged the broader REIT index during the prior three years. Despite the office sector's slow recovery from the recession, the continued economic recovery should bode well for the sector's future performance.
- Following a 1.9% return in 2013, retail REITs rebounded and returned 8.9% during 1Q14. Returns were strongest within the free-standing sector at 11.4%, as compared to the shopping center (+9.1%) and regional mall (+7.9%) sectors.

FTSE NAREIT REIT Performance by Subsector



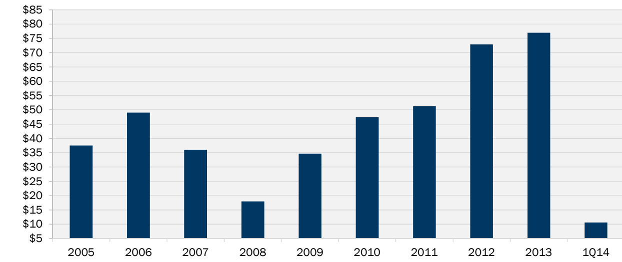
Looking ahead, analysts and market observers are generally positive about REIT performance in 2014, resulting from a strengthening economy and a positive credit environment.

A Slowdown in REIT Capital Raising

After U.S. REITs raised roughly $77.0 billion in capital during 2013, approximately $10.6 billion was raised by REITs during 1Q14 according to SNL Financial and NAREIT. This represented a 52% drop in activity from the same period last year. Among property types, retail REITs raised $4.0 billion, followed by health care ($1.4 billion), specialty ($1.1 billion), residential ($1.0 billion) and industrial ($1.0 billion) REITs. During the past several years, capital raising in the public markets by REITs has given them strong balance sheets with the flexibility to increase acquisitions.

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

Total Capital Raised by REITs (in billions)



Source: NAREIT/ SNL Financial

Equity REIT Returns Versus Leading Indices

After considerably underperforming the three major U.S. stock indices during 2013, investor sentiment returned for equity REITS during 1Q14. Equity REITs returned 8.5% in comparison to minimal returns for the NASDAQ and S&P 500 indices and a small decline for the Dow Jones Industrial Average (DJIA). The three major stock indices bottomed in early February and then slowly trended upwards, with undulations, throughout the rest of the quarter. In 2013, the DJIA and S&P 500 reached new highs and the NASDAQ hit a 13-year high.

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

Index	2009	2010	2011	2012	2013	2014*	2009-2013 avg
Equity REIT	28.0%	28.0%	8.3%	19.7%	2.9%	8.5%	15.9%
NASDAQ	27.2%	26.9%	-4.2%	14.6%	12.1%	0.5%	12.9%
S&P 500	43.9%	16.9%	-1.8%	15.9%	38.3%	1.3%	19.1%
DJIA	26.5%	15.1%	2.1%	13.4%	29.6%	-0.7%	14.3%

Source: NAREIT/ Yahoo finance *data as of March 31, 2014

Commercial Lending Decreases

The Mortgage Bankers Association's (MBA) Quarterly Survey of Commercial/Multi-Family Mortgage Bankers Originations reported that 1Q14 commercial and multi-family mortgage loan originations decreased 45% from the prior quarter and were 1% lower compared to 1Q13. All major property types recorded decreases during 1Q14 from the previous quarter. Jamie Woodwell, MBA's Vice President of Commercial Real Estate Research, commented, "Commercial and multifamily borrowing typically starts the year slowly, with less than one-fifth of the annual volume usually done in the first quarter. This year is looking to continue the trend. Lending by banks and life companies increased compared to last year's first quarter, but first quarter originations for Fannie Mae and Freddie Mac and for inclusion in commercial mortgage-backed securities were lower than during the same period last year. Taken together, commercial and multifamily mortgage originations started 2014 at the same pace they started 2013."

Lending Activity 1Q 2014

Property Type	% Change since 1Q 2013	% Change since 4Q 2013
Overall	**-1.0%**	**-45.0%**
Industrial	52.0%	-24.0%
Multi-Family	-17.0%	-44.0%
Office	15.0%	-50.0%
Retail	-19.0%	-53.0%
Hotel	44.0%	-51.0%
Health Care	10.0%	-65.0%

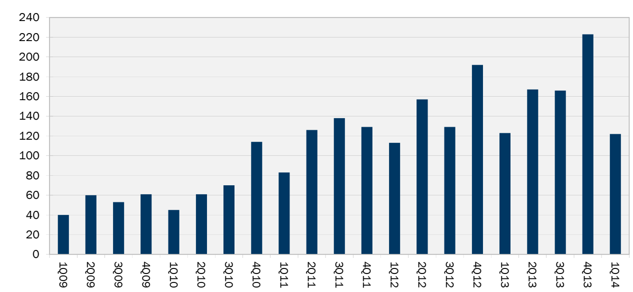
Source: Mortgage Bankers Association

Lending activity decreased slightly as compared to the same period last year, primarily resulting from lending volume declines within the multi-family and retail sectors. Among investor types, loans originated for commercial bank portfolios increased 55%, followed by an 18% increase for loans for life insurance companies; however, during the past 12 month period, lending volumes for Government Sponsored Enterprises (Fannie Mae and Freddie Mac) fell by 55% and lending volume for CMBS declined by 21%.

Below is a graph depicting the frequency of commercial/multi-family loan originations since 1Q09.

Commercial/Multifamily Mortgage Bankers Origination Index

2001 Quarterly Average = 100



Source: Commercial Mortgage Bankers Association

Commercial Mortgage Backed Securities (CMBS) Market

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

CMBS Issuances

After approximately $86.0 billion of CMBS issuances were priced last year, the highest yearly total since 2007, CMBS issuances registered roughly $20.4 billion during 1Q14, according to data from Commercial Mortgage Alert (CMA). This latest total was 11% below totals recorded during 1Q13. It was reported that 27 U.S. transactions were recorded during 1Q14, slighlty off the pace of 122 transactions recorded last year. Several market professionals noted that the 1Q14 decline in CMBS issuances primarily resulted from a decrease in single-borrower transactions, which dropped 62% from the same period last year. On the positive, CMA reported that conduit, large-loan and pooled floating-rate volume jumped 29% from 1Q13 totals.

Top U.S. CMBS Underwriters

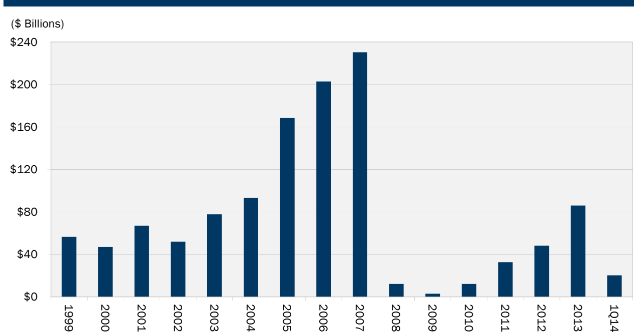
Firm	Issuance ($Mil)	Market Share
Deutsche Bank	$7,013	34.4%
Wells Fargo	$3,197	15.7%
Goldman Sachs	$2,284	11.2%
J.P. Morgan	$2,221	10.9%
Bank of America	$1,385	6.8%
Citigroup	$1,334	6.5%
Morgan Stanley	$1,279	6.3%
Barclays	$502	2.5%
RBS	$491	2.4%
UBS	$378	1.9%
Credit Suisse	$187	0.9%
Jefferies & Co.	$97	0.5%

Source: Commercial Mortgage Alert

Similar to the previous three years, Deutsche Bank served as the top book runner, underwriting approximately $7.0 billion of transactions during 1Q14. Other firms underwriting more than $2 billion during 1Q14 included Wells Fargo, Goldman Sachs and J.P. Morgan.

Based on the latest figures, the annualized pace of issuances is expected to reach $82 billion, off 5% from 2013 totals. Based on early forecasts, average volume is expected to jump upwards of $105 billion in 2014, as predictions generally vary between $85 and $125 billion.

U.S. CMBS Issuance



Source: Commercial Mortgage Alert

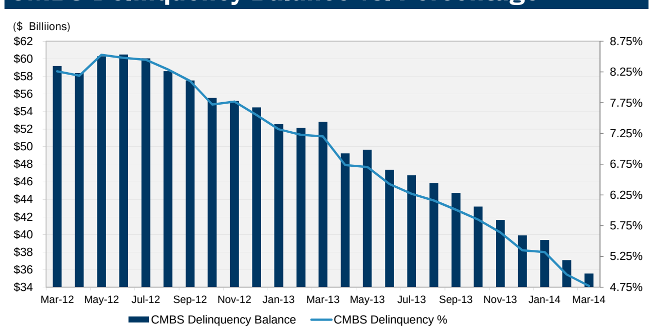
CMBS Delinquency

Morningstar reported that the U.S. CMBS delinquency rate decreased for the sixteenth consecutive month in March, falling from 4.96% to 4.77%. During the prior 12-month period, delinquency rates averaged 6.05%.

- The delinquent unpaid balance for CMBS fell to $35.5 billion in March, the fourth consecutive month the overall delinquent balance has been reported below $40.0 billion. Just 12 months earlier, the unpaid balance for CMBS stood at $52.9 billion.
- By property type, industrial properties have the highest delinquency rates (9.3%), followed by office (6.4%), hotel (5.4%), retail (5.3%) and multi-family (3.0%).
- Office loans have been the greatest contributor to CMBS delinquencies during the past 12 months at 29.0%; however, by dollar amount, office loan delinquency is down $7.3 billion from one year ago.
- Retail loan delinquencies comprise 26.9% of total CMBS delinquencies, but have fallen by $3.9 billion since March 2013. Multi-family loans represent 20.5% of CMBS delinquency, but delinquencies have declined by about $1.7 billion from 12 months ago.
- The total delinquency rate for CMBS hotel loans continues to trend downward. After peaking at 15.2% in 2011, delinquencies have fallen to 5.4%.
- The three largest states by delinquent unpaid balance reflect 30.0% of CMBS delinquencies; these states include New York, California and Florida.
- Larger loan vintages between 2005 and 2007 continue to default and cause delinquencies resulting from aggressive pro-forma underwriting and depressed market conditions. Roughly 86.0% of the delinquent unpaid balance through March 2014 came from such loans.

Below is a chart depicting the monthly CMBS delinquencies since March 2012.

CMBS Delinquency Balance vs. Percentage



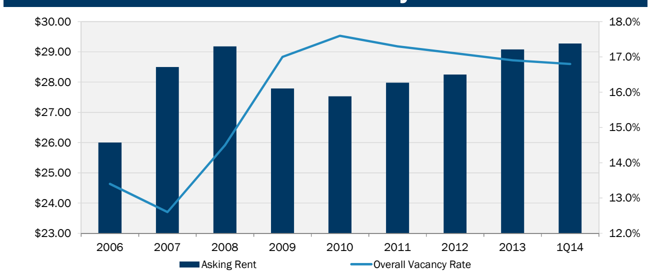
Source: Morningstar

Property Sector Overviews

Office

- Office market recovery gained momentum during 1Q14 according to REIS. Net absorption registered 9.8 million square feet during the first three months of the year, the highest quarterly increase since late 2007. Between 2011 and 2013, an average of 5.2 million square feet was absorbed per quarter.
- Vacancy rates declined by 10 BPS to 16.8% during 1Q14 and have dropped 90 BPS since peaking at 17.6% in late 2010/early 2011, but are still considerably higher than the 14.5% recorded to close 2008.
- Asking and effective rental rates increased 0.7% and 0.8%, respectively, during 1Q14, the fourteenth consecutive quarterly increase according to REIS. Last year, asking and effective rents grew by 2.1% and 2.2%, respectively.

Office Market: Rents vs. Vacancy Rates



Source: REIS, Inc.

- Despite little change in vacancy rates, REIS reported that developers continued to add new product to the landscape. During 1Q14, it was estimated that 6.3 million square feet was completed. Annualized, the 25 million new square feet would be nearly 4.0% off the pace set last year.
- Sustained office employment growth remains a key component to sustained improvement. During 1Q14, primary office producing sectors added about 187,000 jobs, primarily within the professional and business services sector.

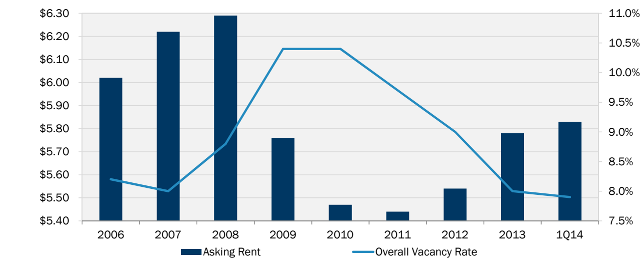
Industrial

- Demand drivers in the industrial market generally remained positive. In March, The ISM Index remained in growth mode, industrial production increased and durable goods orders exceeded expectations.

  Market fundamentals continued to slowly improve during 1Q14, as rental appreciation continued and vacancy rates declined. According to CoStar, overall vacancy rates have declined 10 basis points since 2013 to 7.9%.

- Increased demand has placed upward pressure on asking rental rates, which have increased roughly 5.0% since 2012 to $5.83 per square foot.

Industrial Market: Rents vs. Vacancy Rates



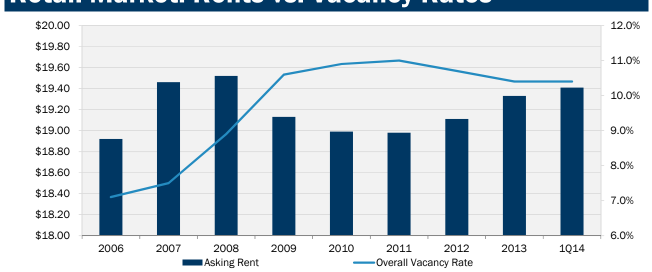
Source: Costar. Reflects select markets

- Demand is strong for state-of-the-art, build-to-suit projects in primary markets, which is partly driven by the growing e-commerce industry. These users prefer facilities with modern amenities, high ceiling heights, heavier floor loads and more dock doors.

Retail

- The retail market continued to gradually improve during 1Q14. Retail sales exceeded expectations and consumer confidence rebounded in March, resulting in increasing demand for store space amid economic recovery; however, sluggish income growth and the e-commerce industry remain of concern.
- Vacancy rates for neighborhood and community centers remained unchanged at 10.4% in 1Q14, but are still down from the high of 11.1% recorded in 3Q11. During the past 10-year period, vacancies bottomed at 6.7% in 2005.
- Asking rents at strip centers, $19.42 per square foot, increased to their highest level since the end of 2008; however, construction activity fell during 1Q14.

Retail Market: Rents vs. Vacancy Rates



Source: REIS, Inc. Reflects neighborhood and community centers

- According to REIS, regional mall performance continued to better that of neighborhood and community centers. 1Q14 regional mall vacancy remained unchanged at 7.9%, but is down 150 basis points from the historical highs reached in 3Q11.

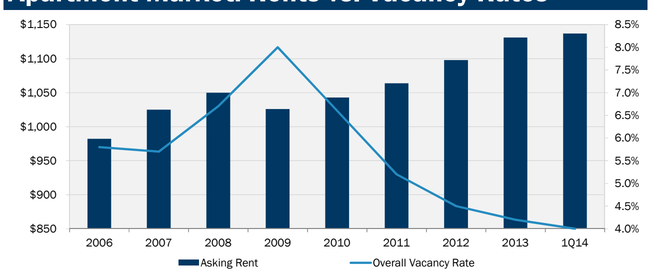
Asking rents grew by 0.5% during 1Q13 and 1.7% during 2013.

- Tenant closures will challenge mall landlords in the upcoming months. During 1Q14, RadioShack announced the closure of 1,000 stores and retailers such as J.C. Penney, Abercrombie & Fitch and Aeropastle all plan store closures during 2014.

Apartment

- The national apartment vacancy rate decreased 20 basis points to 4.0% during 1Q14, the lowest reading since 3Q01. After peaking at 8.0% in late 2009, steady demand has brought vacancy rates down by 400 basis points.
- Sustained demand for apartment units continued, as evidenced by nearly 42,000 units being absorbed during 1Q14. During this period, REIS estimated that 25,745 units were completed, off roughly 40% from the prior quarter. It is speculated that poor weather may have been responsible for the recent pullback in new construction.
- Despite the decline in construction activity during 1Q14, REIS predicts that nearly 180,000 units will be delivered in 2014. Last year, developers brought roughly 131,000 new units to market, an increase of 66% from the prior year and nearly triple the output of 2011.

Apartment Market: Rents vs. Vacancy Rates



Source: REIS, Inc.

- Although rent growth has slowed, asking and effective rents have increased 3.1% and 3.3%, respectively, on a YOY basis. Still, REIS estimates that multi-family rent levels are beyond 2008 highs for all of its submarkets tracked.
- With historically low vacancy rates, landlords continue to shift their mentality from increasing occupancy to raising rental rates.

Property Forecast

- The real estate recovery is forecasted to continue as national economic recovery is expected to result in improving market fundamentals, characterized by increased occupancy rates, stronger rental rate growth, positive investor sentiment and increased tenant movement.
- More buyers are expected to explore opportunities in non-core secondary and tertiary markets to capture anticipated rental spikes as recovery persists, although trophy assets in 24-hour primary markets will continue to witness the highest demand.
- Capitalization rates are expected to move little during the next several quarters, but greater investor demand and willingness for risk are predicted to compress cap rates within varied secondary markets.
- Although REIT capital raising got off to a slow start in 2014, REITs are expected to remain players on the acquisition front in 2014.
- Foreign investment for core U.S. assets is expected to remain steady, as investors seek stability amidst economic uncertainty abroad.
- Analysts are still hopeful that CMBS issuance will match or exceed 2013 issuances levels despite 1Q14 output lagging totals recorded at this time last year. Consensus estimates initially called for issuances ranging from between $85 and $125 billion.

Below is a property forecast for the major property types from 2Q 2014 to 2Q 2015.

	Forecast				
OFFICE	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015
Vacancy Rate	15.80%	15.70%	15.50%	15.60%	15.50%
Net Absorption ('000 sf)	10,787	11,745	11,144	11,400	12,727
Completions ('000 sf)	7,457	6,085	6,249	8,033	9,220
Rent Growth	0.60%	0.60%	0.60%	0.70%	0.80%

	Forecast				
INDUSTRIAL	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015
Vacancy Rate	9.00%	8.90%	8.90%	8.90%	8.70%
Net Absorption ('000 sf)	26,525	31,831	28,648	19,914	27,658
Completions ('000 sf)	21,943	20,527	13,449	14,383	21,233
Rent Growth	0.60%	0.60%	0.70%	0.60%	0.70%

	Forecast				
RETAIL	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015
Vacancy Rate	10.00%	10.00%	9.80%	9.90%	9.80%
Net Absorption ('000 sf)	3,417	2,590	4,591	5,776	4,880
Completions ('000 sf)	2,239	2,565	2,847	3,689	3,188
Rent Growth	0.50%	0.50%	0.60%	0.50%	0.50%

	Forecast				
MULTI-FAMILY	2Q 2014	3Q 2014	4Q 2014	1Q 2015	2Q 2015
Vacancy Rate	4.00%	4.00%	4.10%	4.10%	4.10%
Net Absorption (Units)	45,491	42,940	58,167	27,721	25,055
Completions (Units)	42,931	41,765	44,781	27,728	35,219
Rent Growth	1.20%	1.10%	1.00%	1.00%	0.90%

Source: National Association of Realtors/REIS, Inc.

Real Estate and Infrastructure Solutions

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

FTI CONSULTING™

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
Editor
mark.field@fticonsulting.com

CRITICAL THINKING
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