ULI Real Estate Consensus Forecast

A Survey of Leading Real Estate Economists/Analysts

April 2015

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ULI Real Estate Consensus Forecast

- Three-year forecast ('15-'17) for 27 economic and real estate indicators
- A consensus forecast based on the median of the forecasts from 46 economists/analysts at 33 leading real estate organizations
- Respondents represent major real estate investment, advisory, and research firms and organizations
- Survey undertaken from February 27- March 23 2015
- A semiannual survey; next release planned for October 2015
- Forecasts for:
  - Broad economic indicators
  - Real estate capital markets
  - Property investment returns for four property types
  - Vacancy rates and rents for five property types
  - Housing starts and prices

Overview

- The *ULI Real Estate Consensus Forecast* for April 2015 projects continued economic expansion at healthy and steady levels over the next three years; continued strength from real estate capital markets; above-average rent growth in all commercial real estate sectors and improvement in vacancy/occupancy rates (except for apartments); continued price appreciation at above-average, but moderating, rates for existing single family housing and below-average growth in starts for single family housing.

- All economic and real estate indicators are forecasted to be better than their long-term average, with the exception of equity REIT returns, NCREIF retail and apartment total returns, retail vacancy rates and single-family housing starts.

- Compared to the previous forecast in October 2014, this forecast is more optimistic for years 2015 and 2016 for all real estate indicators with the exception of single family starts.

Key Findings

- Commercial property transaction volume is expected to increase for another two years and then level off at a robust $500 billion by 2017.

- CMBS issuance continues its strong comeback with steady growth over the next three years, increasing another 60% by 2017.

- Institutional real estate assets are expected to provide total returns ~~across all sectors~~ of 11.0% in 2015, moderating to 10% in 2016 and 9.0% in 2017. By property type, returns are expected to be strongest for industrial and office, followed by retail and apartments, in all three years.

- Vacancy rates are expected to decrease modestly for office and retail over all three forecast years. Industrial availability rates and hotel occupancy rate are forecasted to improve modestly in 2015 and 2016 and plateau in 2017. Apartment vacancy rates are expected to rise slightly.

- Commercial property rents are expected to increase for the four major property types in 2015, ranging from 2.0% for retail up to 4.0% for both office and industrial. Rent increases in 2017 in these four types will range from 2.7% to 3.5%. Hotel RevPAR is expected to increase by 7.0% in 2015 and 4.0% in 2017.

- Single-family housing starts are projected to increase from 647,400 units in 2014 to 900,000 units in 2017, remaining below the 20-year annual average. This is the only indicator for which analysts lowered their forecasts for ‘15 and ’16, compared to 6 months ago.

Economy

- The economists/analysts expect continued economic expansion at healthy and fairly steady levels in the next three years.

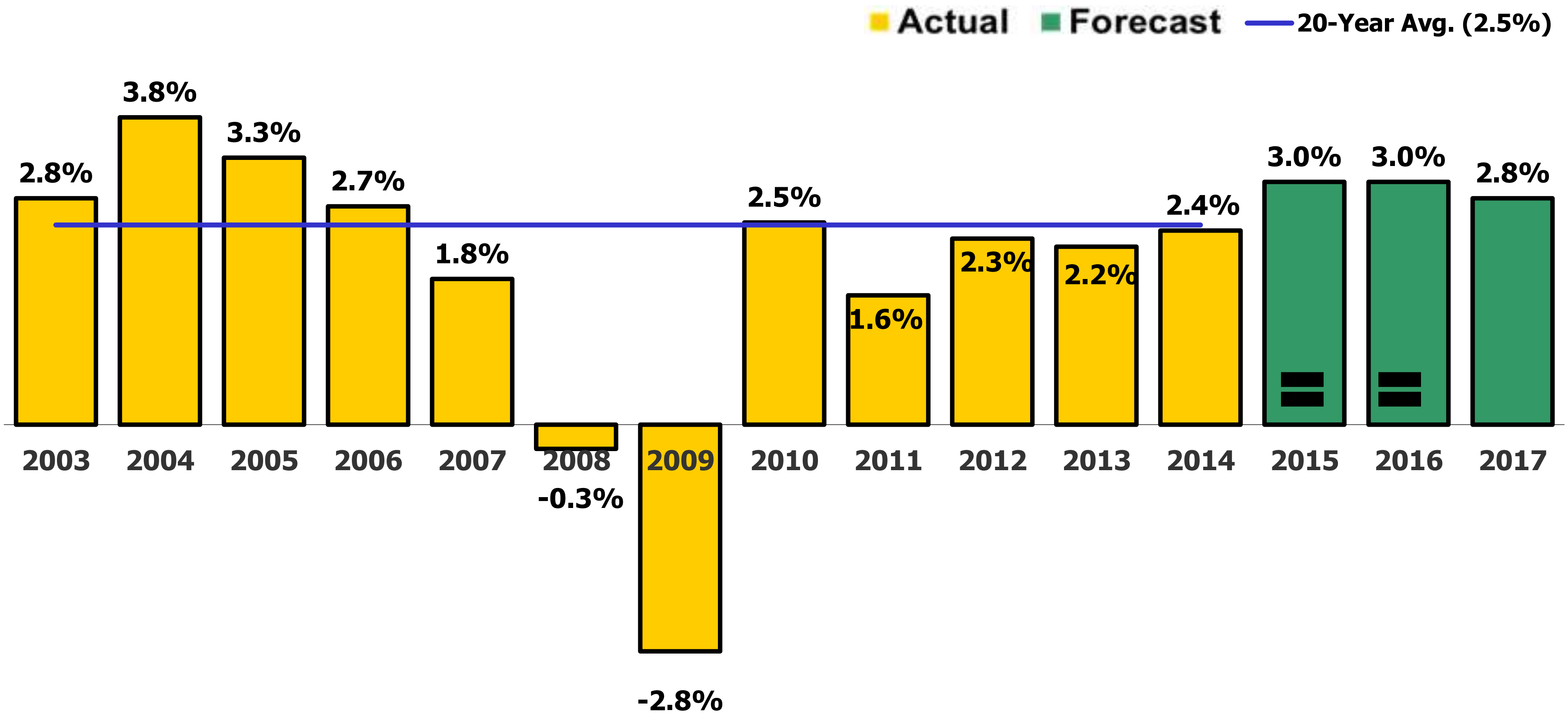
- GDP growth is expected to be healthy at a steady rate of 3.0% in both 2015 and 2016, with just a slightly lower rate of 2.8% 2017; these are all the highest annual growth rates in nine years.

- The unemployment rate is expected to decline a bit further to 5.3% by the end of 2015, 5.0% by the end of 2016, and remain at 5% at the end of 2017.

- Employment growth in 2015 and 2016 is expected to continue at about the same level as in 2014 with 3.12 million jobs in 2015 and 3.00 million in 2016. Employment growth is expected to continue at a somewhat slower but still strong pace of 2.50 million in 2017.

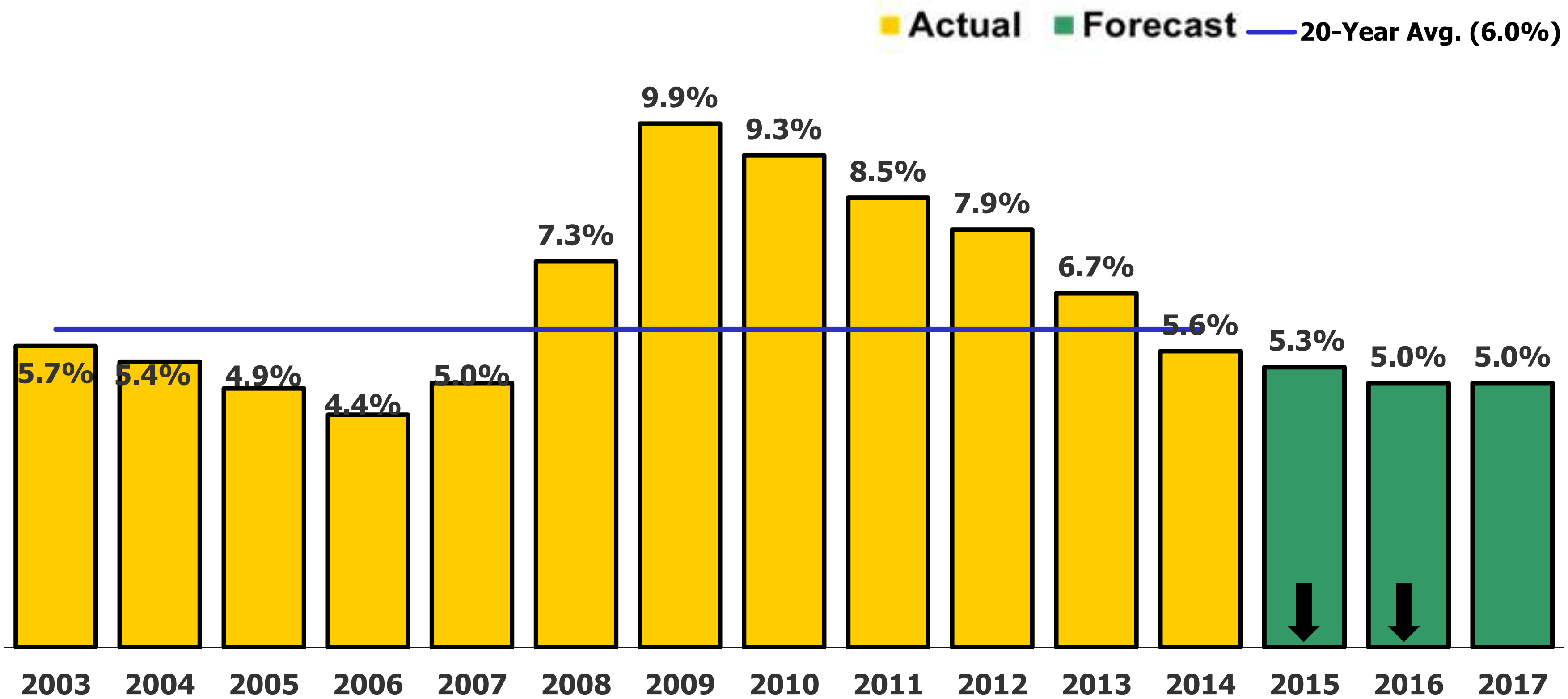
- Compared to forecasts of 6 month's ago, employment forecasts for '15 and '16 are somewhat more optimistic and GDP forecasts have remained the same.

Real GDP Growth



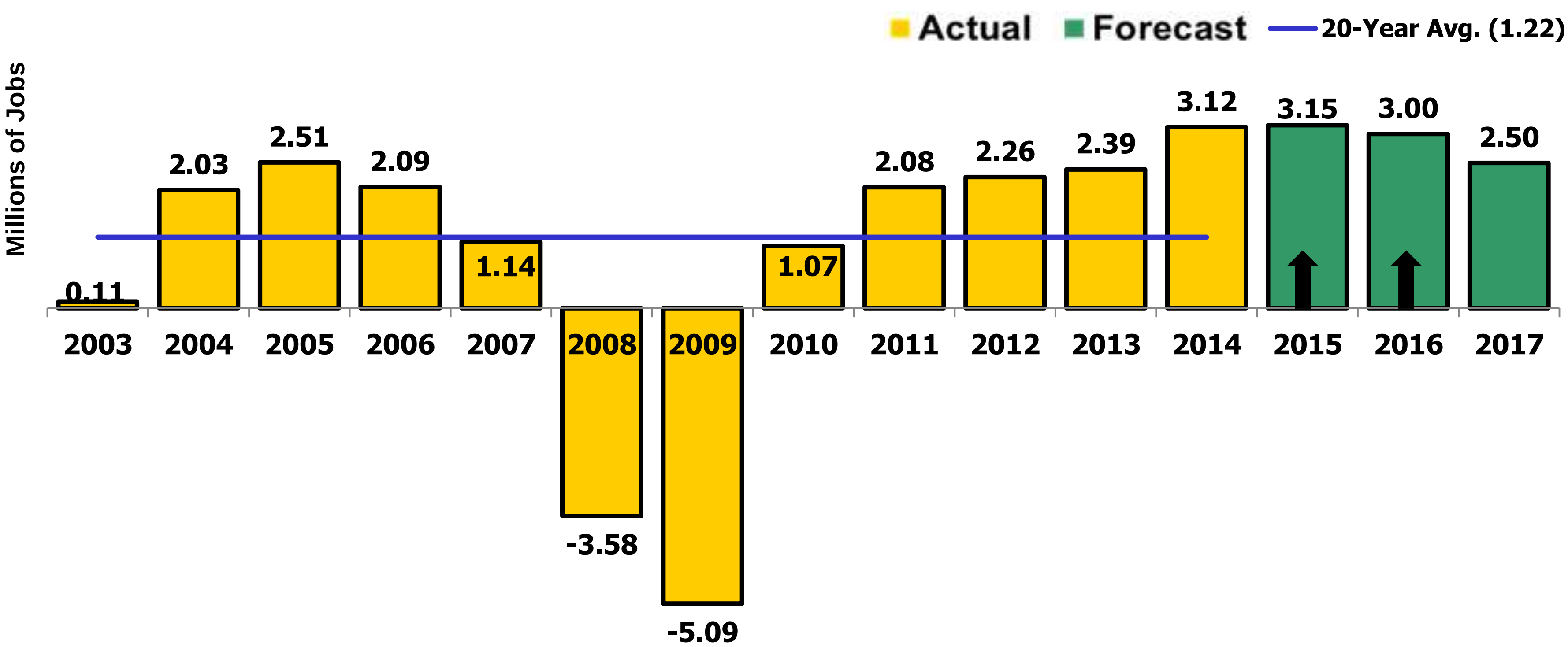
Sources: 1995-2014, Bureau of Economic Analysis; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 3.0% and 3.0%, respectively, for 2015 and 2016.

Unemployment Rate



Sources: 1995-2014, (seasonally adjusted, as of December), Bureau of Labor Statistics; 2015-2017 (YE), ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 6.0% and 6.0, respectively, for 2015 and 2016.

Employment Growth



Sources: 1995-2014, (12-month net change, as of December), Bureau of Labor Statistics; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 3.00 and 2.63, respectively, for 2015 and 2016.

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Inflation, Interest Rates, and Cap Rates

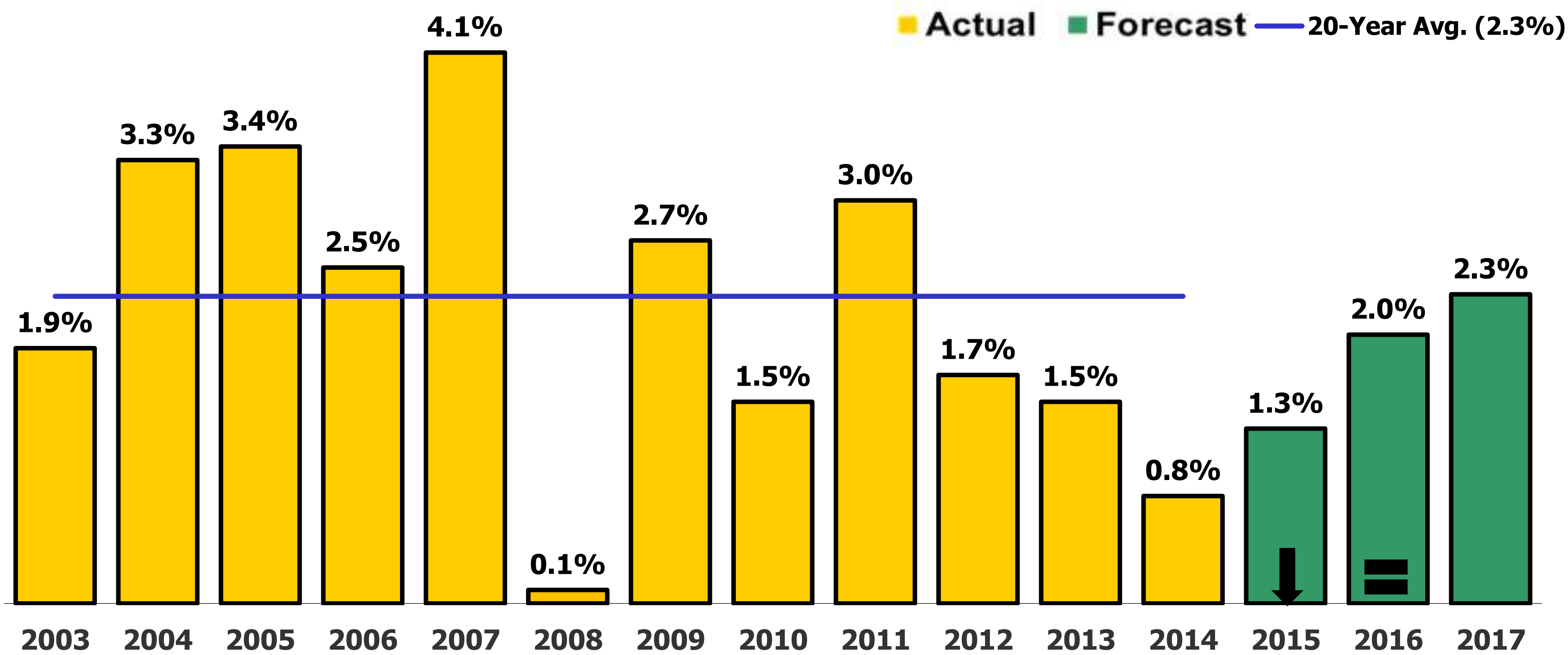
- Inflation is expected to steadily increase, remaining low in 2015 at 1.3%, rising to 2.0% in 2016 and then inching up to the 20-year average of 2.3% in 2017.

- Ten-year treasury rates are projected to increase by the end of 2015 to 2.6%, rising to 3.0% by the end of 2016, and 3.5% by the end of 2017, still below the 20-year average of 4.1%.

- Rising treasury rates will increase borrowing costs for real estate investors. However, survey respondents do not expect it to substantially impact real estate capitalization rates for institutional-quality investments (NCREIF cap rates), which are expected to even decline slightly to 5.3% in 2015 and then rise to 5.6% in 2016 and 5.9% in 2017.

- Compared to 6 months ago, forecasts for 10-year treasury rates and cap rates are lower for '15' and '16. The forecast for inflation in 2015 is lower than forecasted 6 months ago while the forecast for 2016 remains the same.

Consumer Price Index Inflation Rate



Sources: 1995-2014, (12-month change, as of December), Bureau of Labor Statistics; 2015-2017 (YE), ULI Consensus Forecast.

Note: The previous ULI Consensus Forecast (released in October, 2014) projected 2.0% and 2.0%, respectively, for 2015 and 2016.

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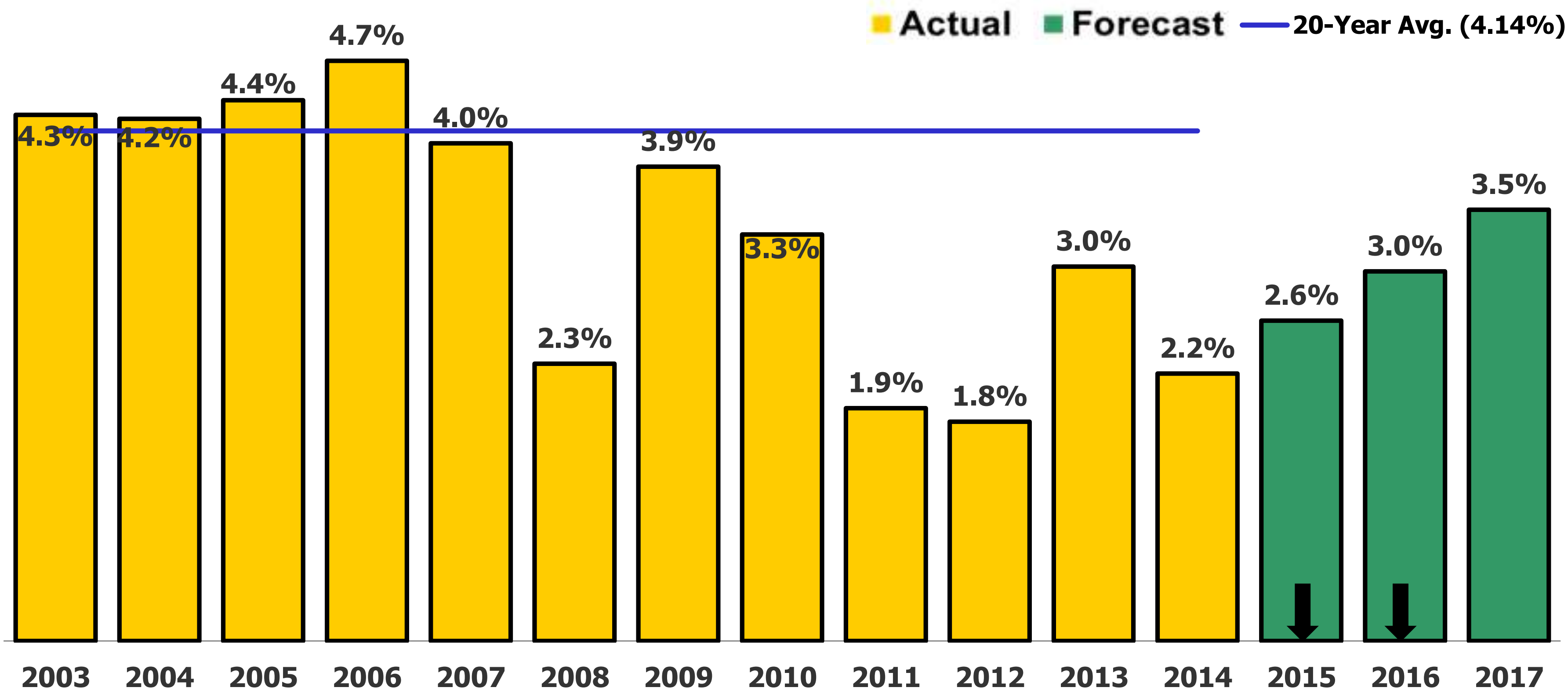
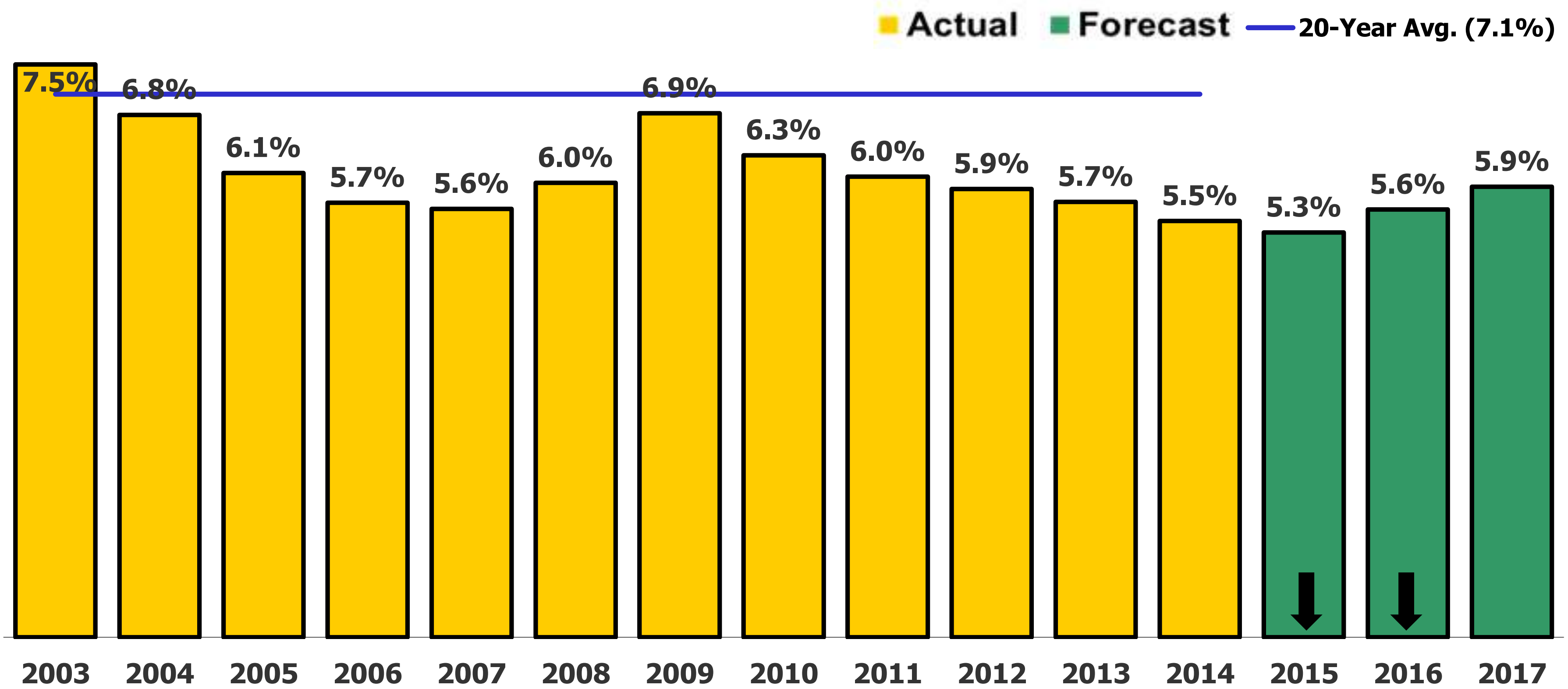
Ten-Year Treasury Rate



Sources: 1995-2014, (year-end), U.S. Federal Reserve; 2015-2017 (YE), ULI Consensus Forecast.

Note: The previous ULI Consensus Forecast (released in October, 2014) projected 3.0% and 4.0%, respectively, for 2015 and 2016.

NCREIF Capitalization Rate



Sources: 1995-2014, (Q4), National Council of Real Estate Investment Fiduciaries (NCREIF); 2015-2017 (YE), ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 6.0% and 6.0%, respectively, for 2015 and 2016.

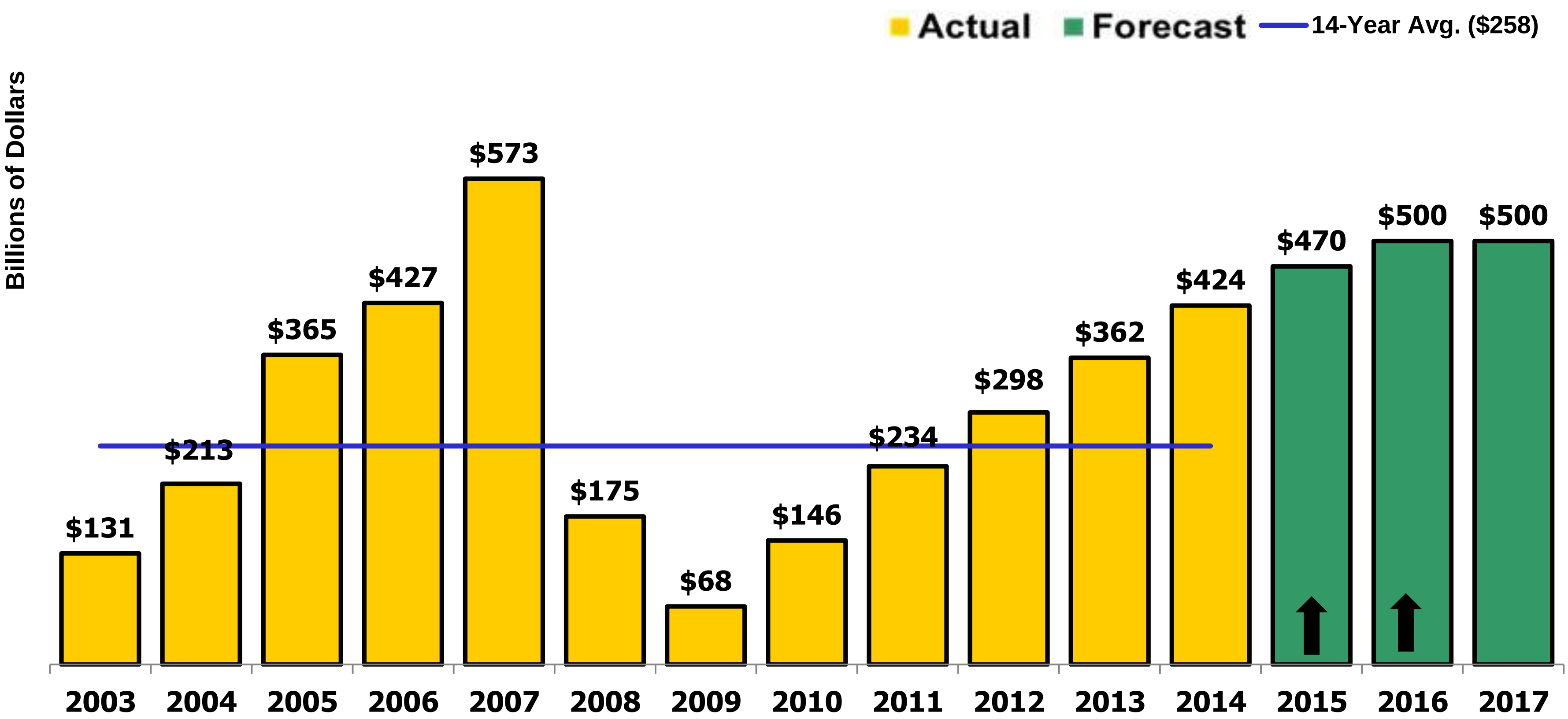
Real Estate Capital Markets

- Commercial real estate transaction has consistently increased for 5 years and should continue to be robust while leveling off in 2017 at a level only surpassed by that in 2007. Volume is expected to increase to $470 billion in 2015, $500 billion in 2016, and remain at $500 billion in 2017.

- Issuance of commercial mortgage-backed securities (CMBS), a key source of financing for commercial real estate which has rebounded nicely since 2009, is expected to continue to grow steadily through 2017. Issuance is projected to increase to $115 billion in 2015 and grow steadily over the next two years to $133 billion in 2016 and $150 billion in 2017.

- Compared to 6 months ago, the current forecasts for ‘15 and ‘16 for both transactions and CMBS issuance are more optimistic.

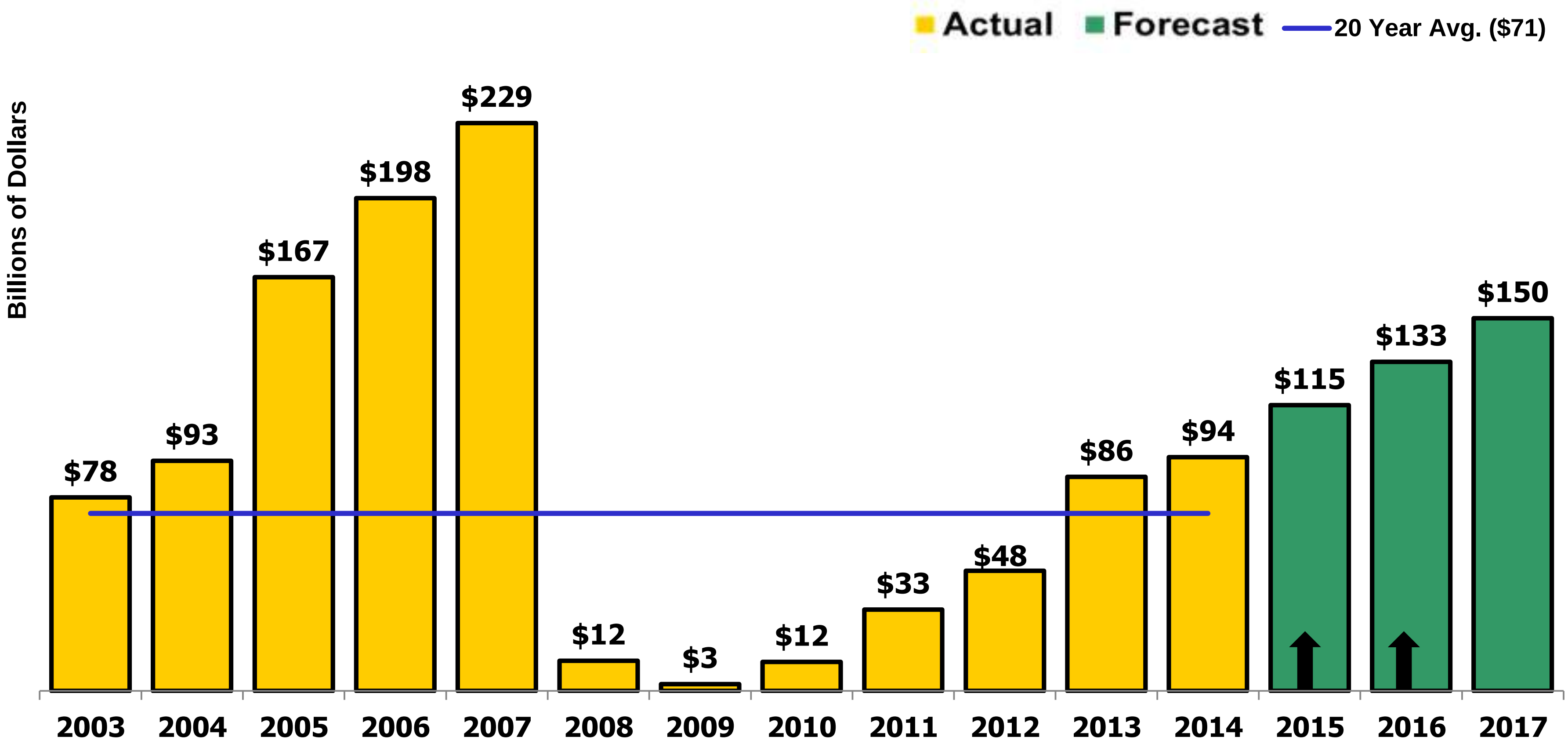
Commercial Real Estate Transaction Volume



Sources: 2001-2014, Real Capital Analytics; 2015-2017, ULI Consensus Forecast.

Note: The previous ULI Consensus Forecast (released in October, 2014) projected $425 and $445, respectively, for 2015 and 2016.

Commercial Mortgage-Backed Securities (CMBS) Issuance



Sources: 1995-2014, Commercial Mortgage Alert; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected $110 and $123, respectively, for 2015 and 2016.

Real Estate Returns and Prices

- Prices and total returns for commercial real estate investments are expected to continue to increase but at more subdued rates than the past 1-3 years.

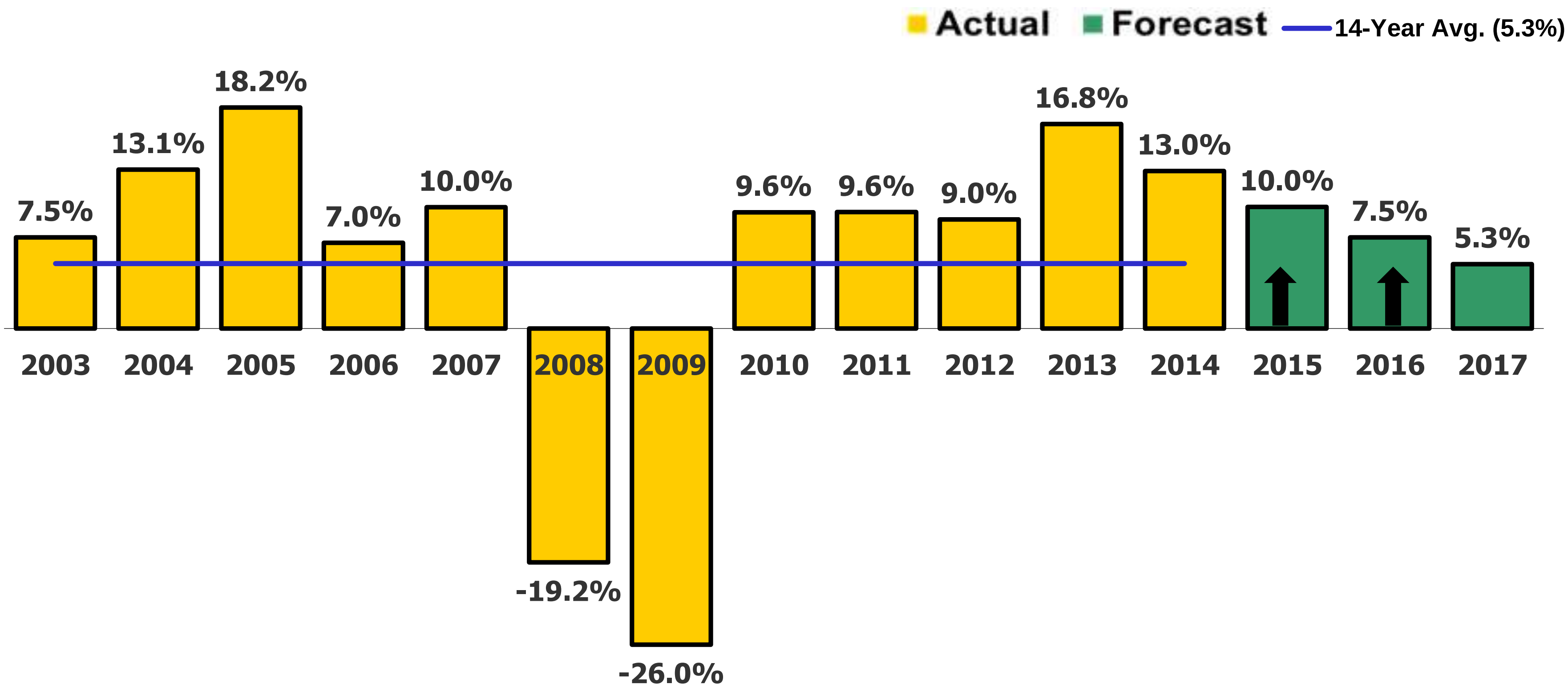
- The Moody's/RCA Commercial Property Price Index, which has had some recent very high growth years and surpassed the pre-recession index value high in 2014, is expected to continue at above long-term average growth rates in 2015 and 2016, but at a slowing pace, with a 10.0% and 7.5% increases, respectively. A 5.3% increase is forecasted for 2017.

- Equity REIT total returns, according to NAREIT, experienced over 30% growth in 2014. Future returns are expected to be more modest at 8.5% in 2015, 10.0% in 2016 and 9.0% in 2017.

- Total returns for institutional-quality direct real estate investments, as measured by the NCREIF Property Index, have remained fairly steady the last three years between 10.5% and 11.8%. Returns are forecasted to stay in this range in 2015, at 11.0% These returns are then expected to trend lower, with returns of 9.7% in 2016, 9.0% in 2017.

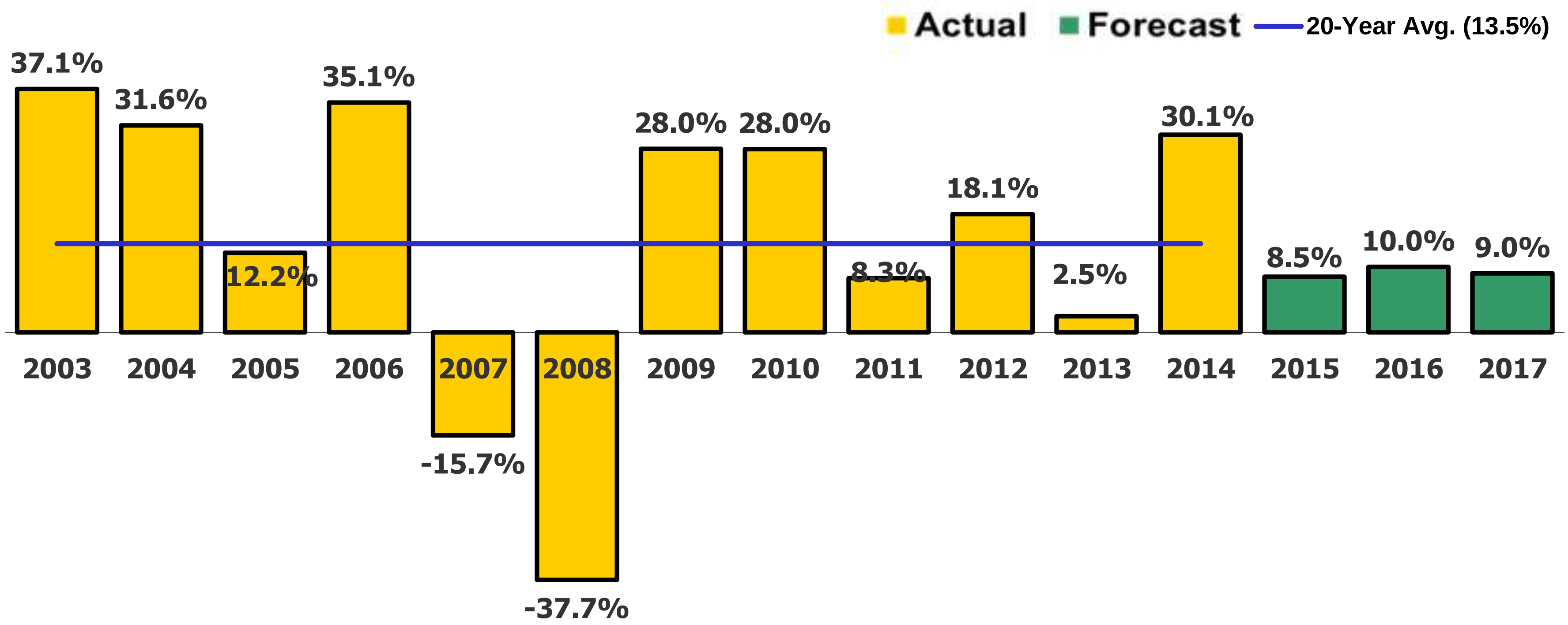
- Compared to 6 months ago, forecasts for prices and the NCREIF property index are more optimistic for '15 and '16.

Moody's/RCA Commercial Property Price Index (annual change)



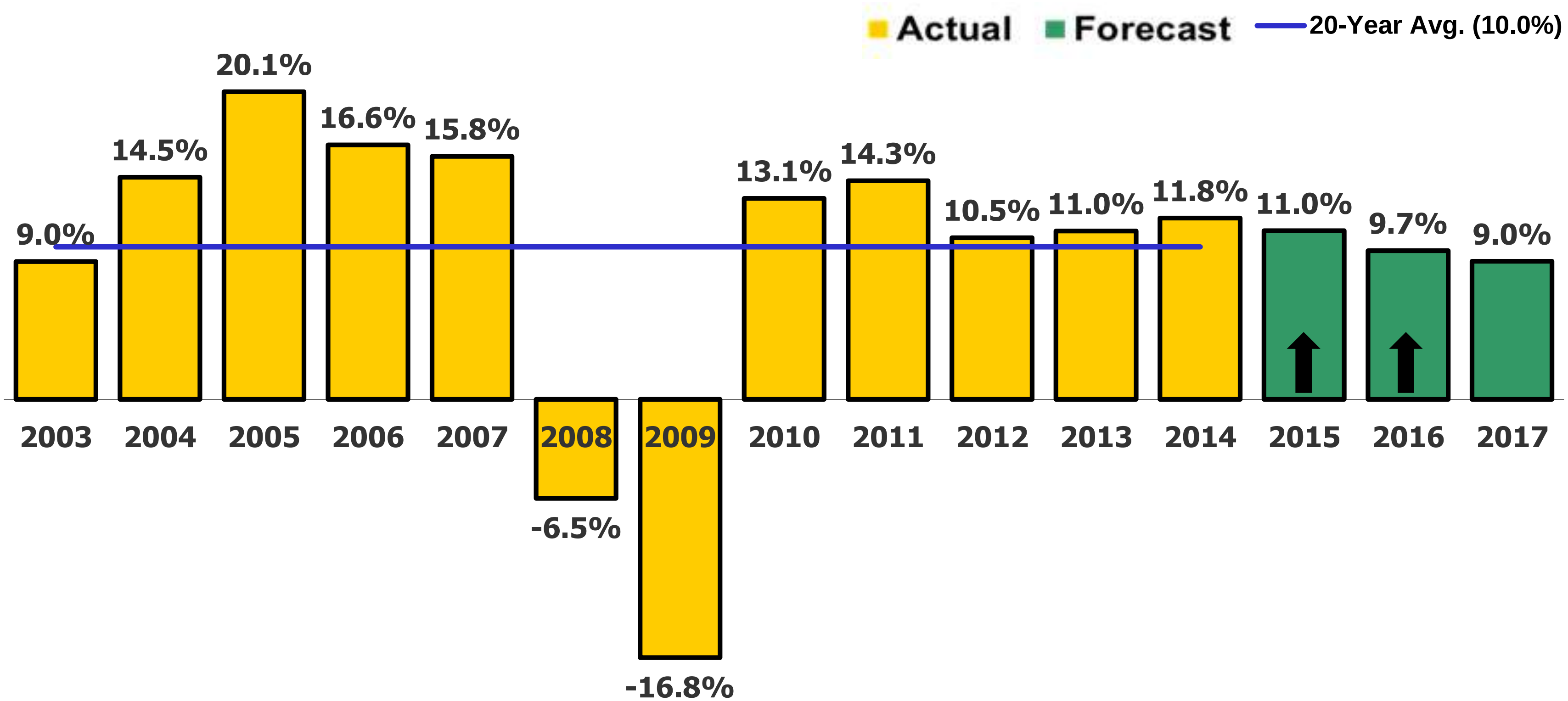
Sources: 2003-2014, Moody's and Real Capital Analytics; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 6.0% and 5.0%, respectively, for 2015 and 2016.

Equity REIT Total Annual Returns



Sources: 1995-2014, National Association of Real Estate Investment Trusts; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) did not include REIT returns forecast.

NCREIF Total Annual Returns



Sources: 1995-2014 National Council of Real Estate Investment Fiduciaries (NCREIF); 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 9.0% and 8.5%, respectively, for 2015 and 2016.

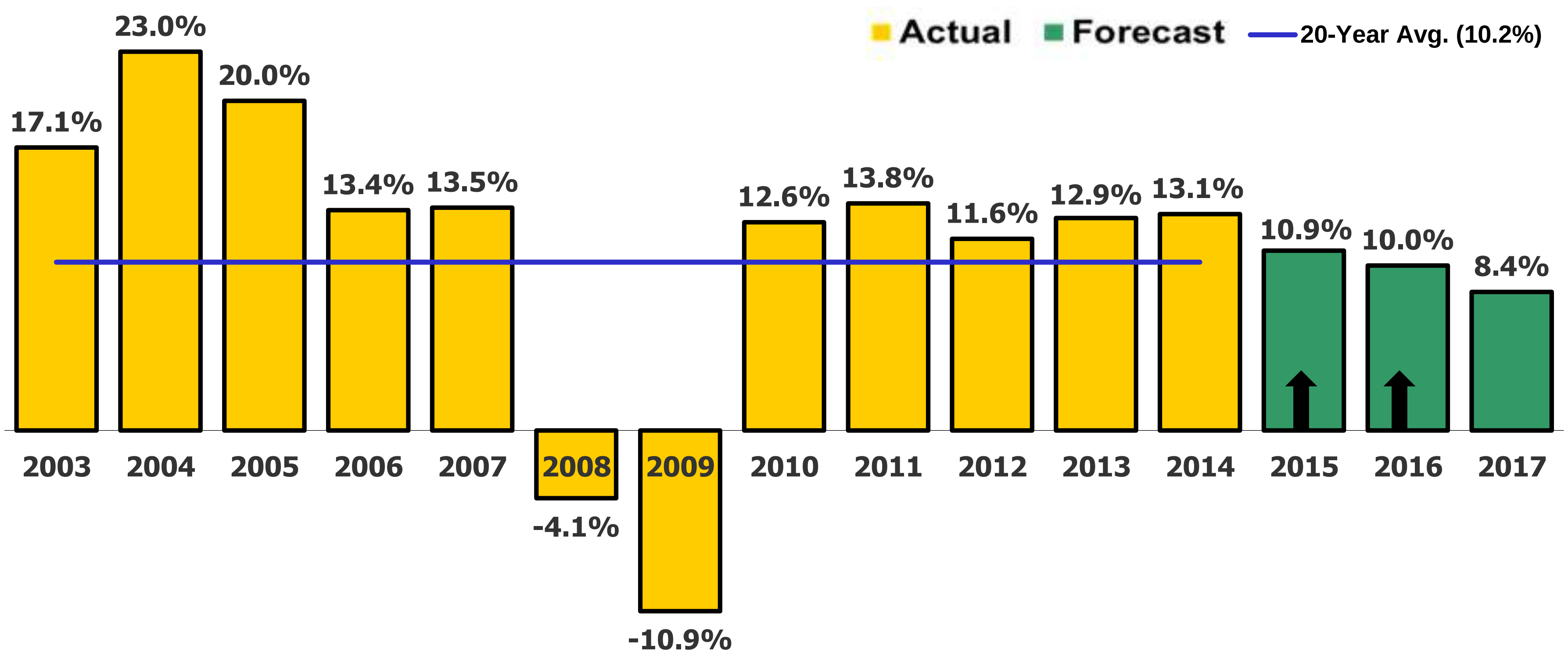
NCREIF Returns by Property Type

- By property type, NCREIF total returns in 2015 are expected to be strongest for industrial and office, at 12.0% and 11.8% respectively, followed by retail at 10.9% and apartments at 9%.

- By 2017, total industrial returns are expected to remain the strongest, albeit at a lower return of 9.5%, following by office returns of 9.0%, retails returns at 8.4%, and apartment returns at 8.0%.

- Compared to 6 months ago, forecasts are more optimistic for all sectors in ’15 and ‘16.

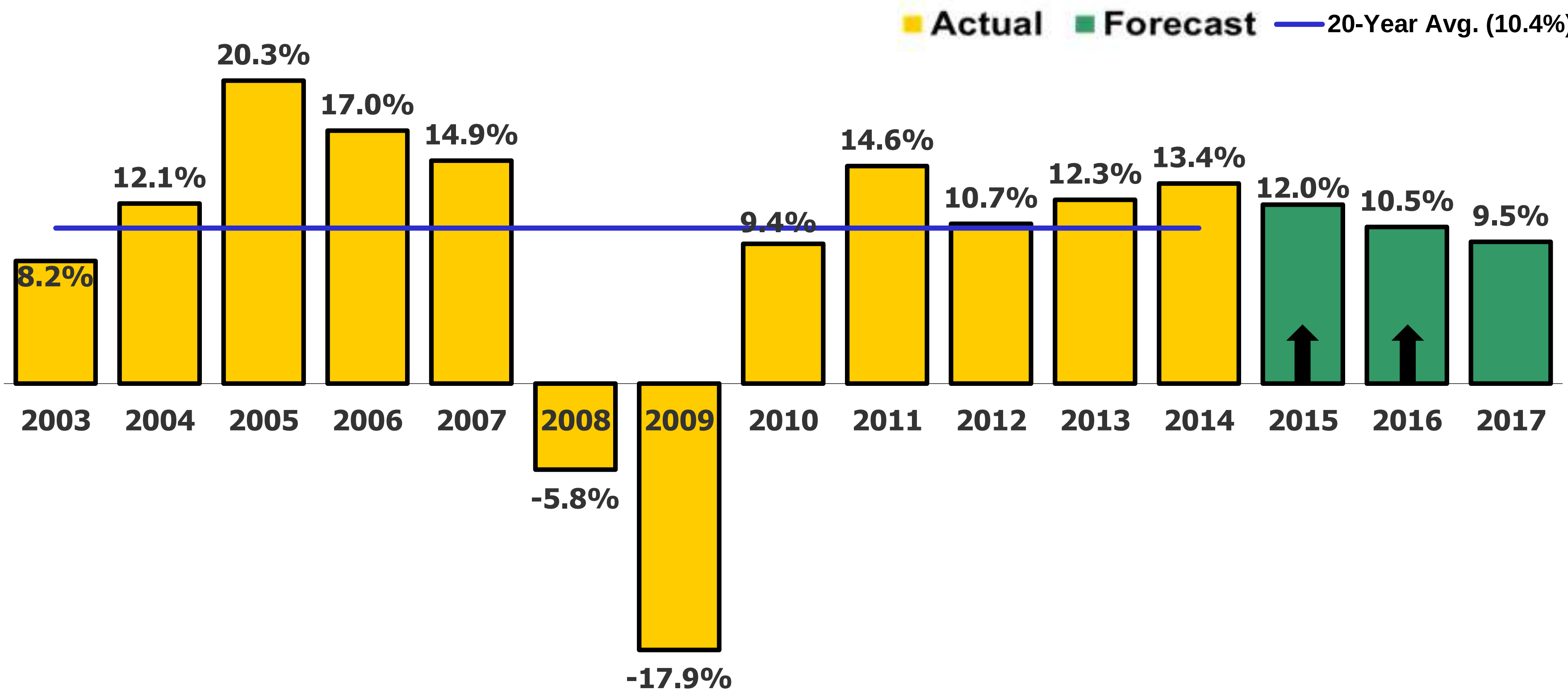
NCREIF Retail Total Annual Returns



Sources: 1995-2014, National Council of Real Estate Investment Fiduciaries (NCREIF); 2015-2017, ULI Consensus Forecast.

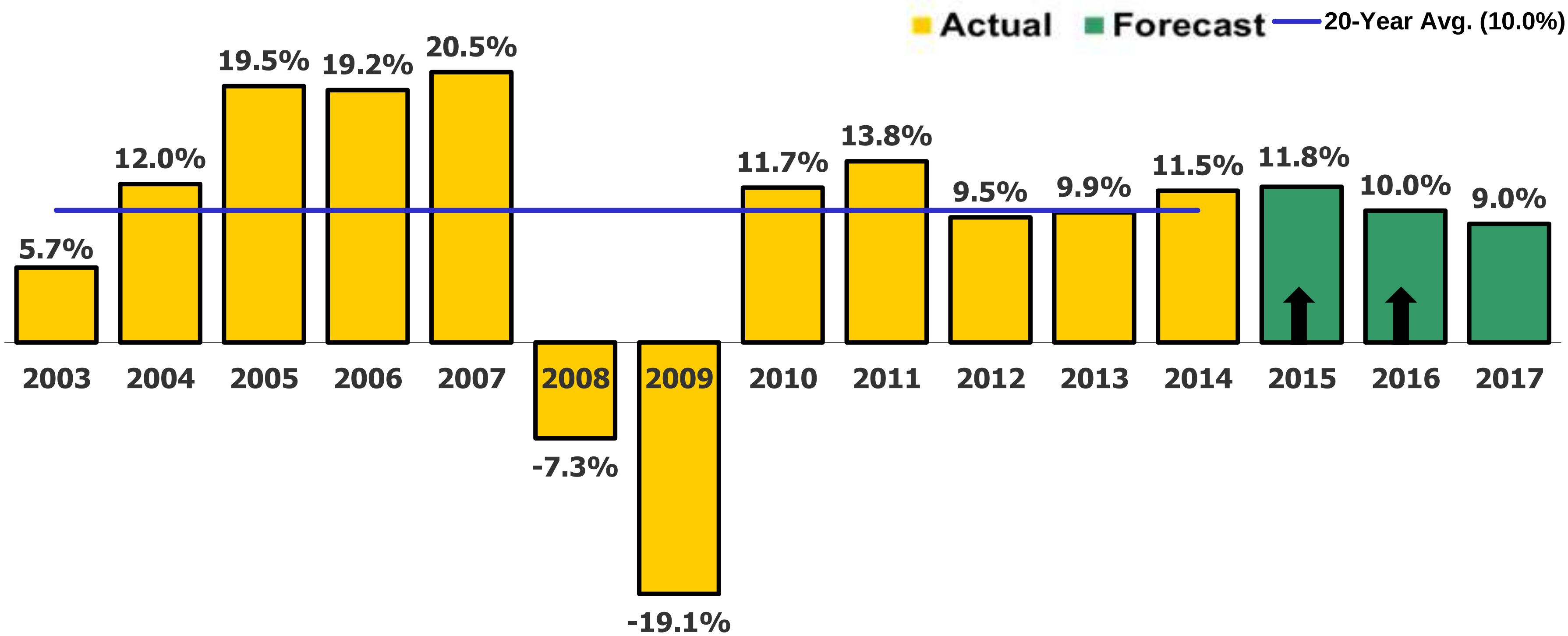
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 10.0% and 9.0%, respectively, for 2015 and 2016.

NCREIF Industrial Total Annual Returns



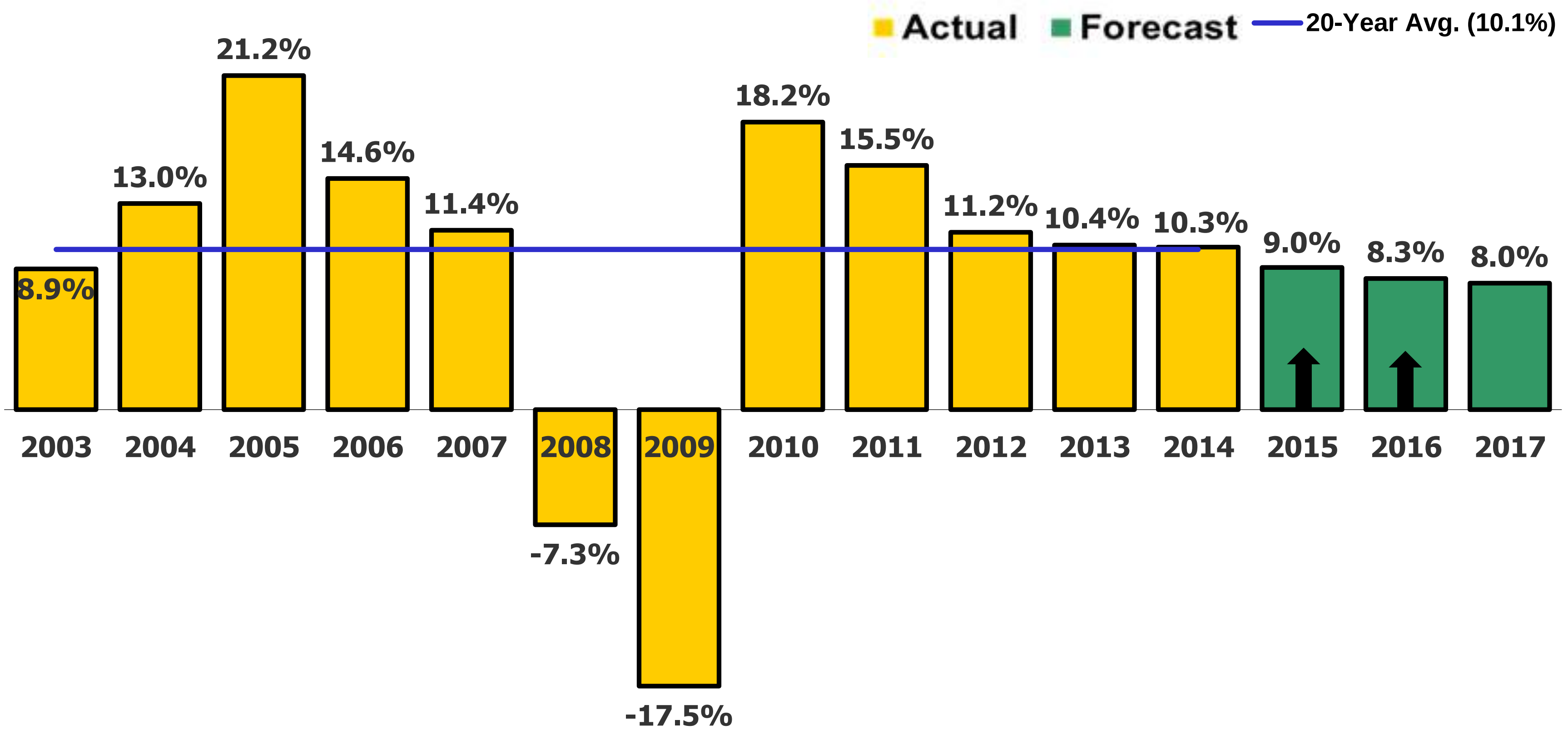
Sources: 1995-2014, National Council of Real Estate Investment Fiduciaries (NCREIF); 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 10.0% and 9.0%, respectively, for 2015 and 2016.

NCREIF Office Total Annual Returns



Sources: 1995-2014, National Council of Real Estate Investment Fiduciaries (NCREIF); 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 10.0% and 9.0%, respectively, for 2015 and 2016.

NCREIF Apartment Total Annual Returns



Sources: 1995-2014, National Council of Real Estate Investment Fiduciaries (NCREIF); 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 8.5% and 8.0%, respectively, for 2015 and 2016.

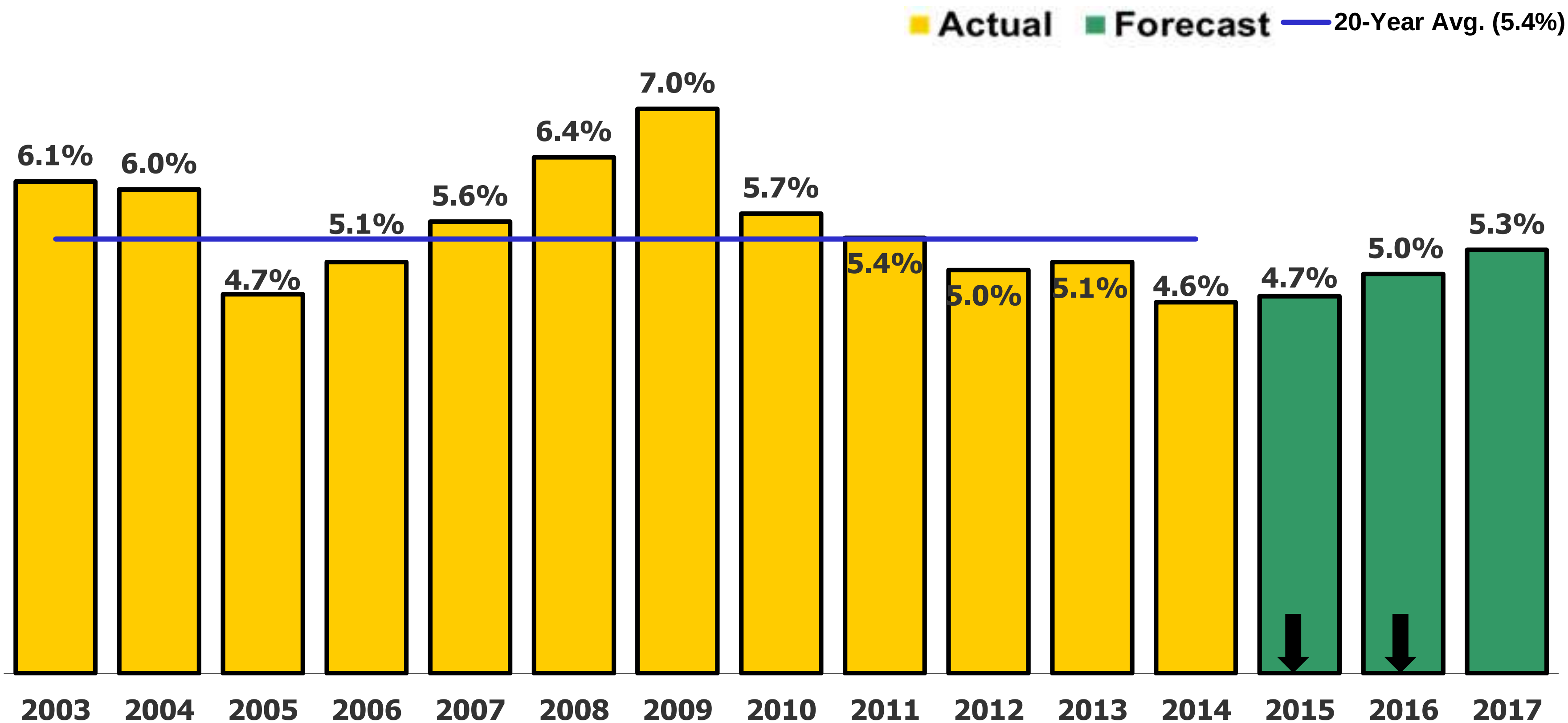
Apartment Sector Fundamentals

- The apartment sector has performed very well the past several years. According to CBRE, vacancy rates have decreased from 7.0% in 2009 to 4.6% in 2014, even as construction activity has been strong. According to the *ULI Consensus Forecast*, end of year vacancy rates are expected to begin rising slightly to 4.7% in 2015, 5.0% in 2016 and 5.3% in 2017. Still, the 2017 forecast remains just below the 20-year average vacancy rate.

- Apartments are also expected to show consistent rental rate growth above the 20-year average of 2.6%. Rents are expected to rise by 3.5% in 2015, then moderate to 3.0% in 2016 and 2.7% in 2017.

- Compared to 6 months ago, the forecasted vacancy rates for ‘15 and’16 are lower, and the forecasted rental rate change for 2015 is higher. The forecasted rental rate change for ‘16 is unchanged.

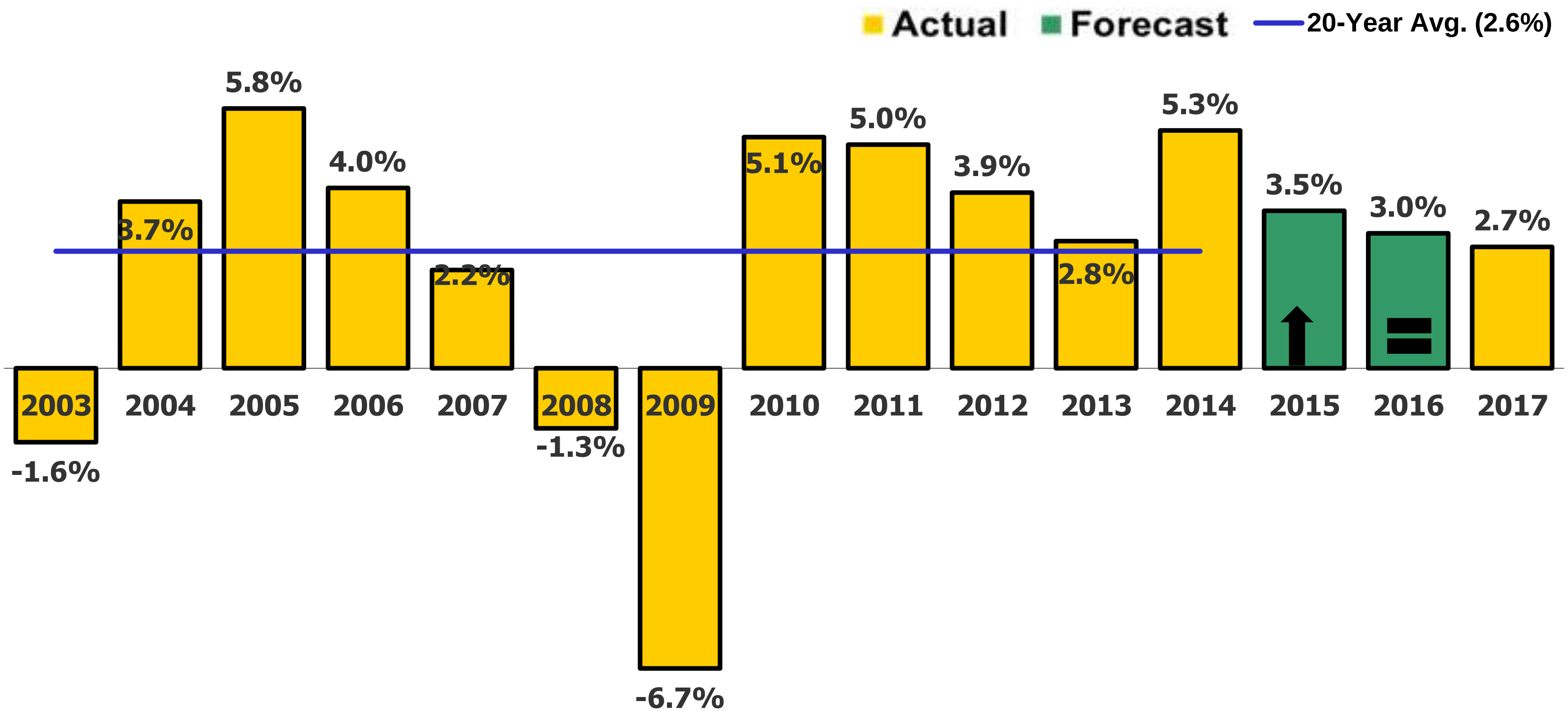
Apartment Vacancy Rates



Sources: 1995-2014 (Q4), CBRE; 2015-2017 (Q4), ULI Consensus Forecast.

Note: The previous ULI Consensus Forecast (released in October, 2014) projected 5.0% and 5.1%, respectively, for 2015 and 2016.

Apartment Rental Rate Change



Sources: 1995-2014, CBRE; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 3.0% and 3.0%, respectively, for 2015 and 2016.

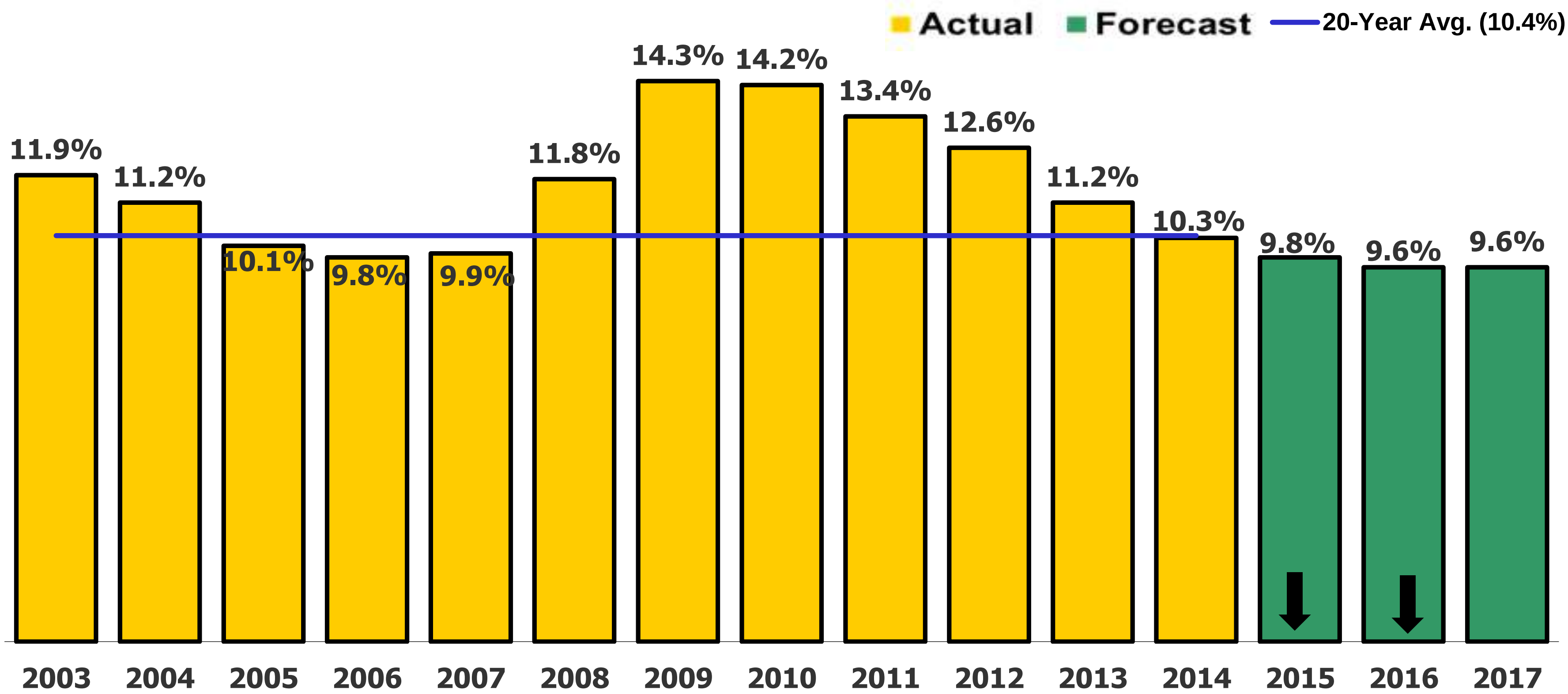
Industrial/Warehouse Sector Fundamentals

- The availability rate for the industrial/warehouse sector declined to 10.3% at the end of 2014, according to CBRE, coming in just below the 20-year average for the first time since 2007. According to the *ULI Consensus Forecast,* availability rates will continue to decline in 2015 and 2016, with year-end vacancy rates at 9.8% and 9.6%, respectively, and remain steady in 2017 at 9.6%.

- According to CBRE, warehouse rental rates have shown positive growth for the past three years following a 3-year decline. The *ULI Consensus Forecast* expects healthy rental rate growth to continue by 4.0% in 2015, 3.8% in 2016, and 3.1% in 2017. These forecasts are all above the 20-year average growth rate.

- The forecasts for industrial/warehouse availability rates in ‘15 and ‘16 are more optimistic than the *Consensus Forecast* of six months ago. The forecast for rental rate growth in 2015 remains the same but is more optimistic for 2016.

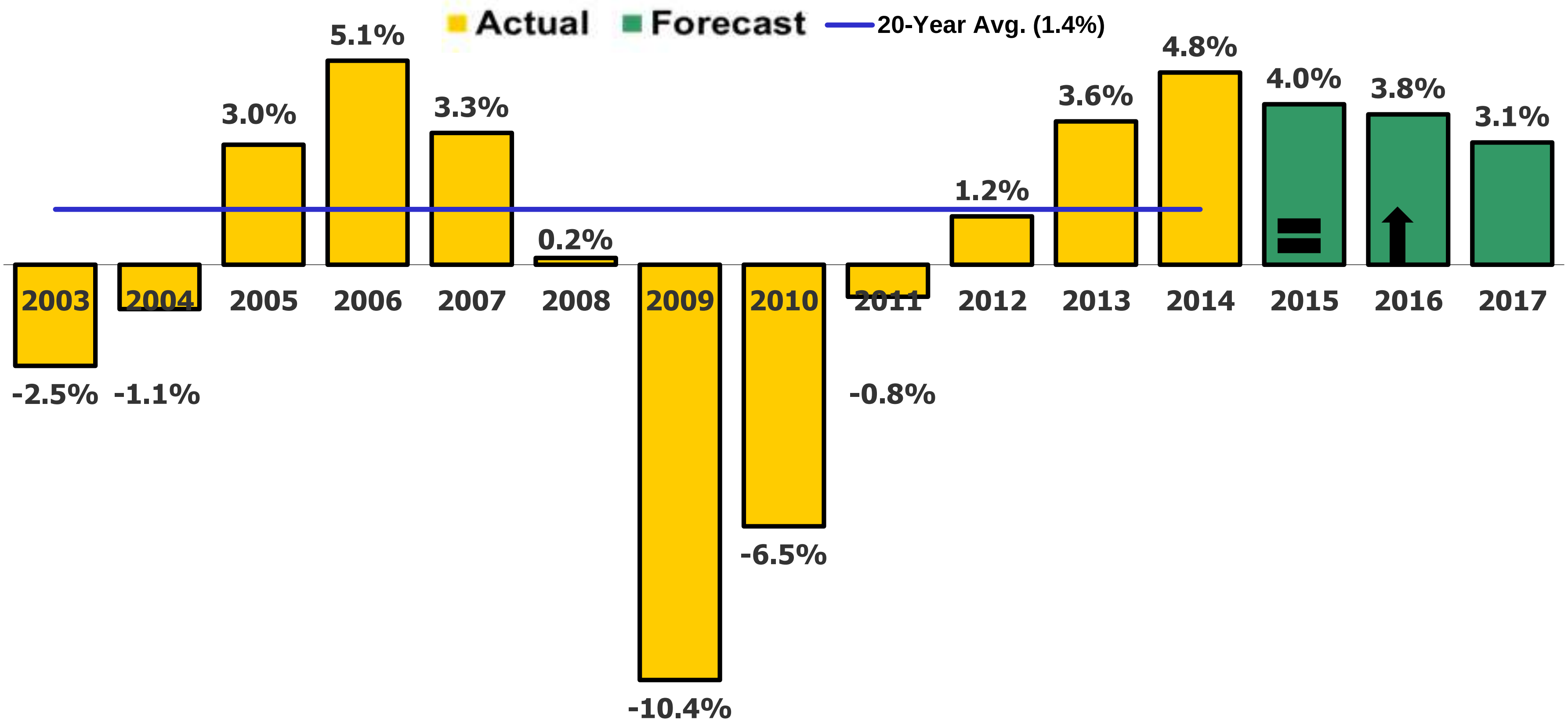
Industrial/Warehouse Availability Rates



Sources: 1995-2014 (Q4), CBRE; 2015-2017, ULI Consensus Forecast.

Note: The previous ULI Consensus Forecast (released in October, 2014) projected 10.2% and 10.1%, respectively, for 2015 and 2016.

Industrial/Warehouse Rental Rate Change



Sources: 1995-2014, CBRE; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 4.0% and 3.0%, respectively, for 2015 and 2016.

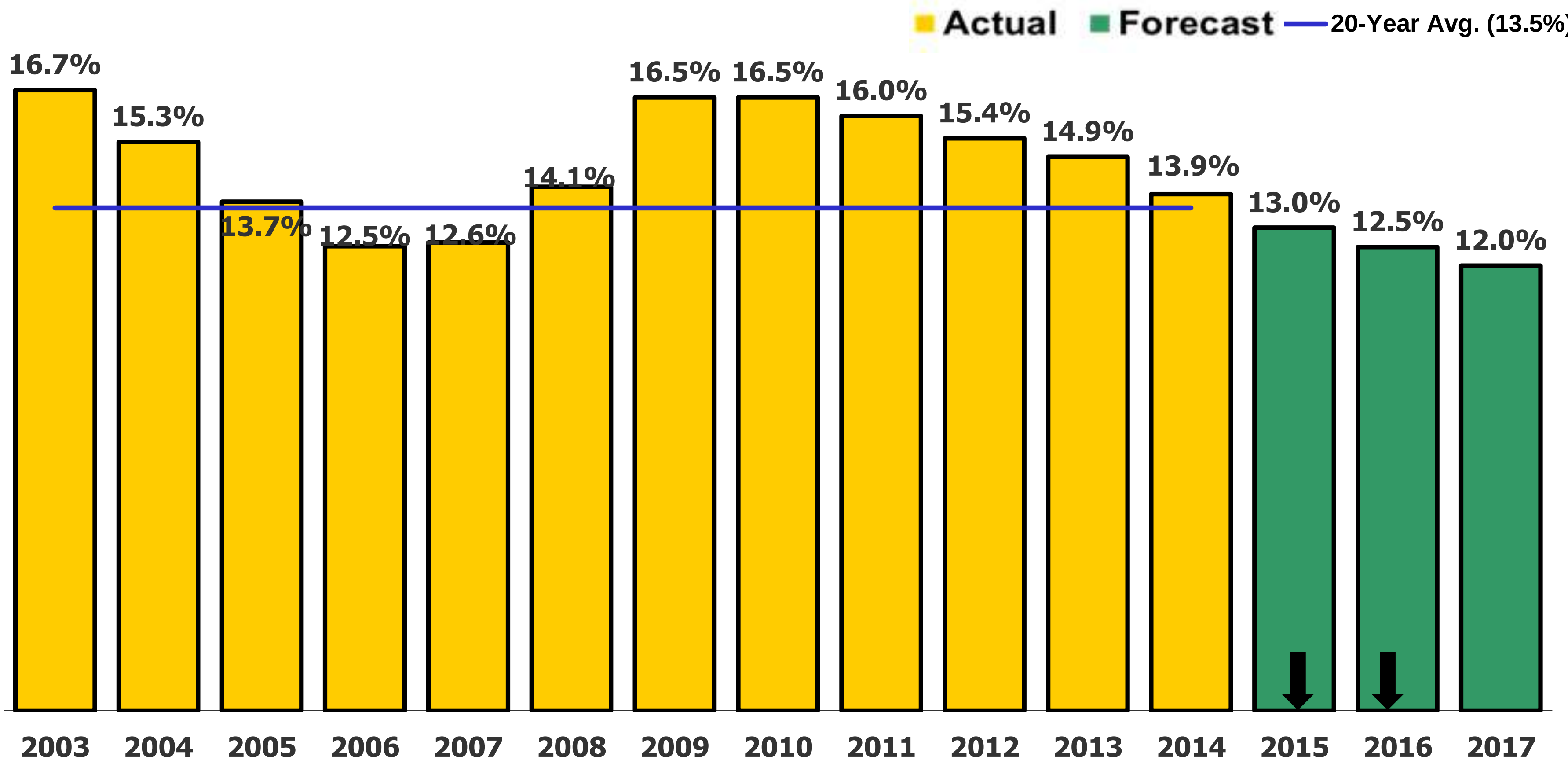
Office Sector Fundamentals

- Office vacancy rates declined for the fourth straight year to 13.9% in 2014. These declines are expected to continue decreasing, bringing the vacancy rate below the 20-year average, to 13.0% in 2015, 12.5% in 2016, and 12.0% by the end of 2017.

- Office rental rates, according to CBRE, increased 4.5% in 2014. According to the *Consensus Forecast,* rental rate growth will continue at a similar pace at 4.0% in 2015 and 4.1% in 2016. Rental rage growth is expected to moderate slightly to 3.5% in 2017. All forecasted rates are above the 20-year average.

- The forecasts for office vacancy rates in ‘15 and ‘16 are more optimistic than the *Consensus Forecast* of six months ago. The forecasts for rental rate growth in ‘15 and ‘16 remain about the same.

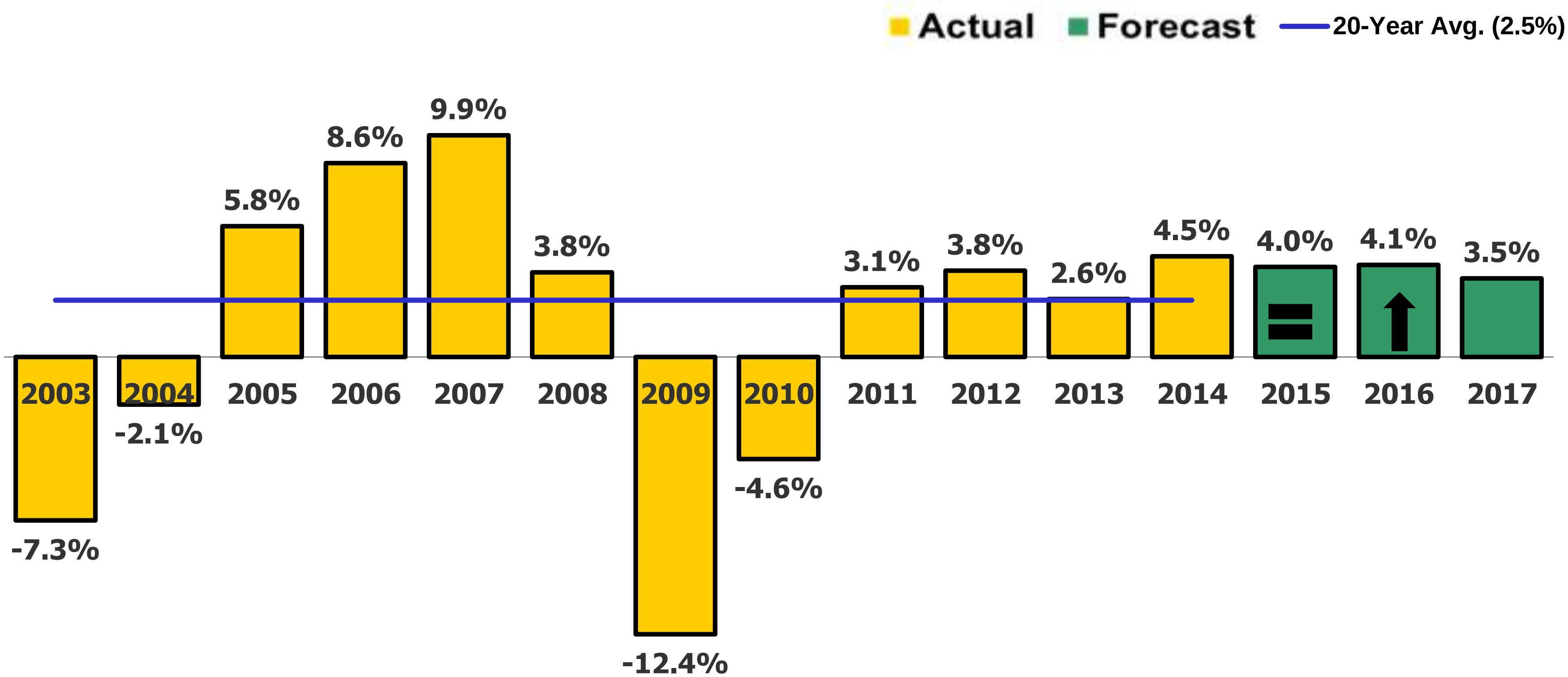
Office Vacancy Rates



Sources: 1995-2014 (Q4), CBRE; 2015-2017, ULI Consensus Forecast.

Note: The previous ULI Consensus Forecast (released in October, 2014) projected 13.9% and 13.4%, respectively, for 2015 and 2016.

Office Rental Rate Change



Sources: 1995-2014, CBRE; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 4.0% and 4.0%, respectively, for 2015 and 2016.

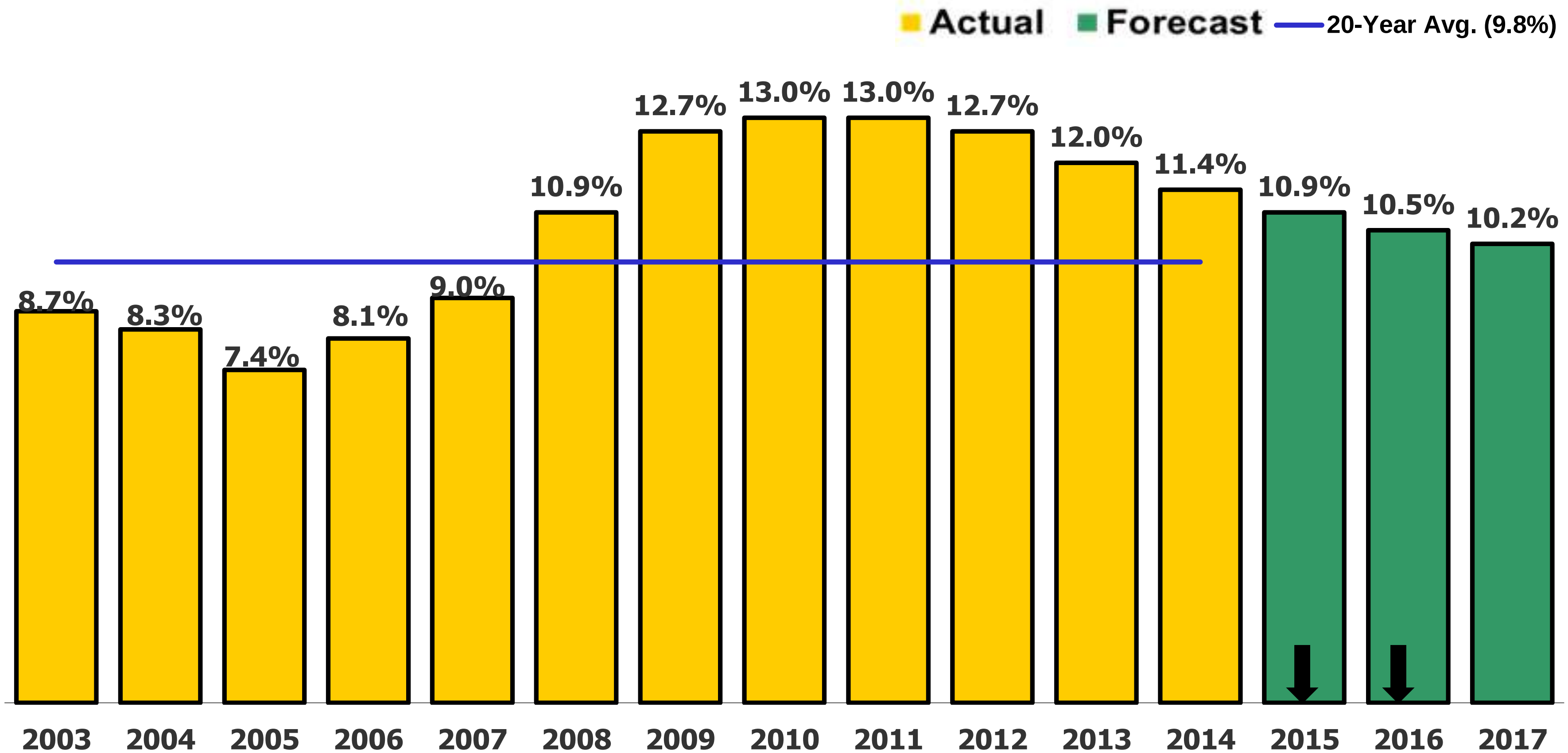
Retail Sector Fundamentals

- Retail availability rates have been on a steady decline from peak of 13.0% in 2011, to 11.4% in 2014. The *Consensus Forecast* anticipates on-going improvements over the next three years, with availability rates expected to decline to 10.9% by 2015, 10.5% by 2016, and 10.2% by 2017. Still, these rates remain above the 20-year average.

- According to CBRE retail rental rates increased for the first time in six years in 2014. The *Consensus Forecast* expects rental rates to sustain this growth, increasing by 2.0% in 2015, 3.0% in 2016, and 2.9% 2017.

- Compared to 6 months ago, the forecast of availability rates for ‘15 and ‘16 is modestly more optimistic, while forecast of rental rate growth for ’15 is less optimistic and remains the same for ‘16.

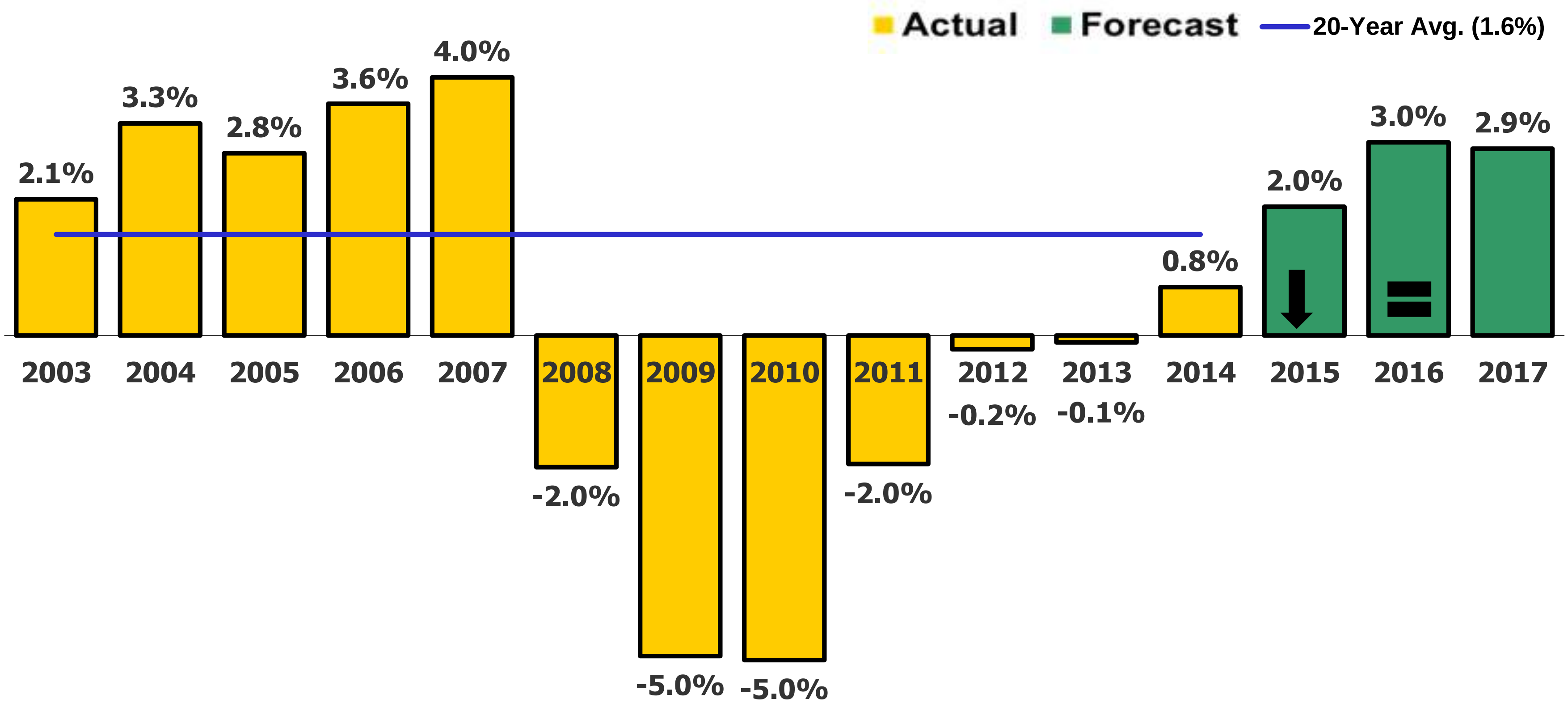
Retail Availability Rates



Sources: 1995-2014 (Q4), CBRE; 2015-2017, ULI Consensus Forecast.

Note: The previous ULI Consensus Forecast (released in October, 2014) projected 11.2% and 10.9%, respectively, for 2015 and 2016.

Retail Rental Rate Change



Sources: 1995-2014, CBRE; 2015-2017, ULI Consensus Forecast.

Note: The previous ULI Consensus Forecast (released in October, 2014) projected 3.0% and 3.0%, respectively, for 2015 and 2016.

Hotel Sector Fundamentals

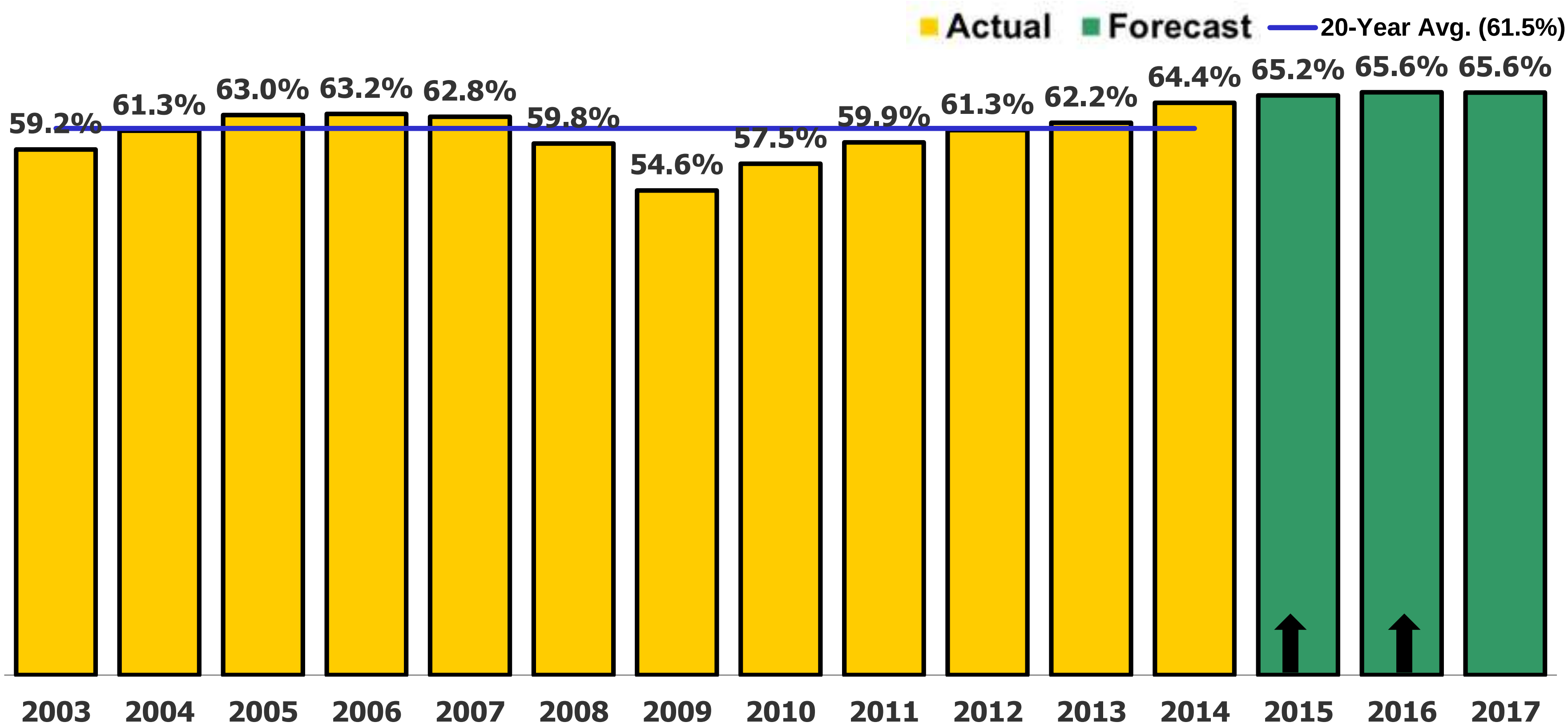
- Hotel occupancy rates, according to Smith Travel Research (STR), have been steadily improving since reaching a recession low of 54.6% in 2009. Occupancy rates surpassed the twenty-year average in 2014 at 64.4%.

- The *ULI Consensus Forecast* projects that occupancy rates will begin to plateau, just inching up to 65.2% in 2015, 65.6% in 2016 and remaining at 65.6% in 2017.

- In 2014, hotel revenue per available room (RevPAR) saw its biggest annual increase since 2005 at 8.3%. RevPAR growth is expected to remain strong, but at a decelerating rate, with expected growth of 7.0 in 2015, 3.3 in 2016, and 4.0% in 2017, all above the 20-year average.

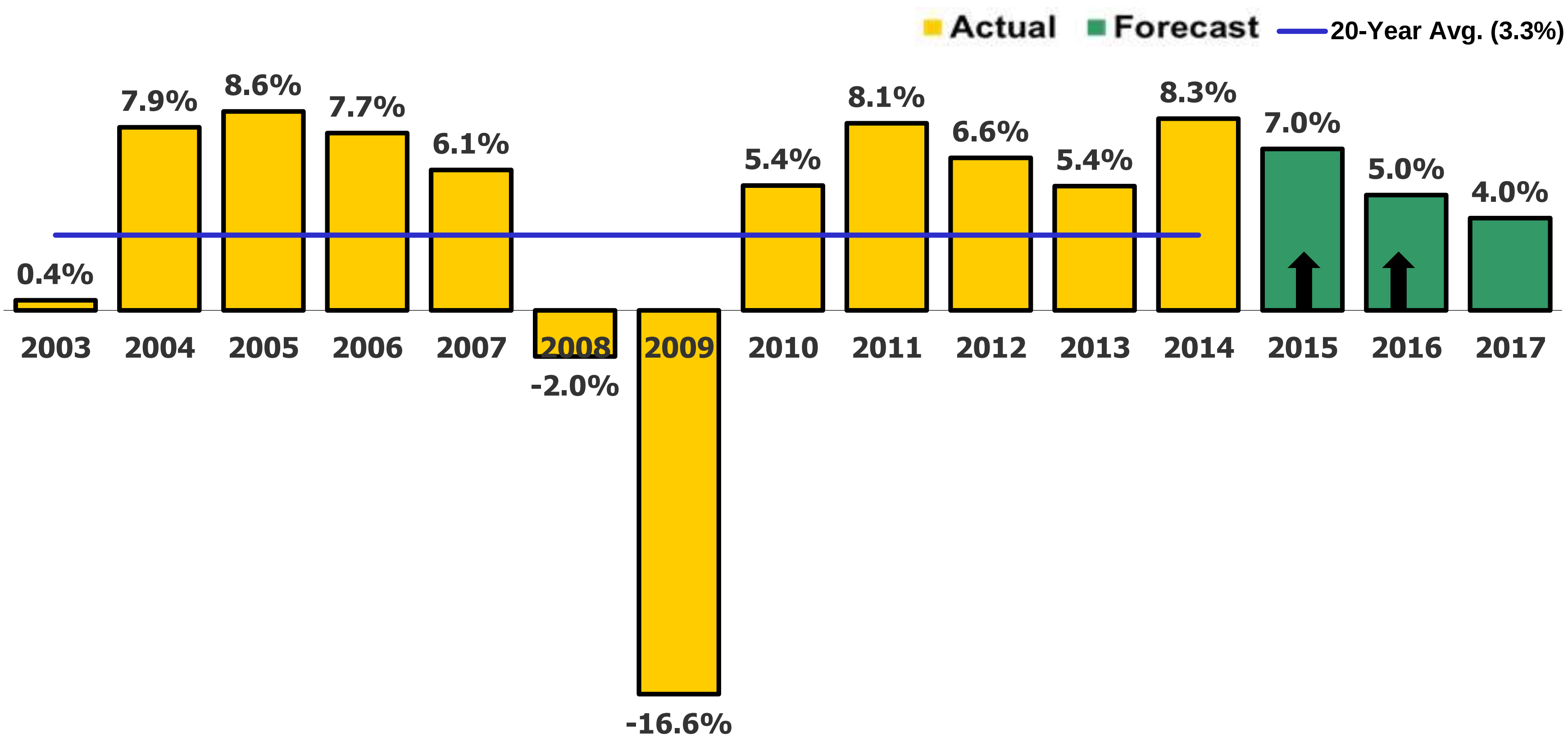
- Compared to the forecast of 6 months ago, the current forecasts for 2015 and 2016 are more optimistics.

Hotel Occupancy Rates



Sources: 1995-2014, (12-month rolling average), Smith Travel Research; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 63.8% and 64.1%, respectively, for 2015 and 2016.

Hotel Revenue per Available Room (RevPAR) Change



Sources: 1995-2014, (12-month rolling average), Smith Travel Research; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 5.5% and 4.0%, respectively, for 2015 and 2016.

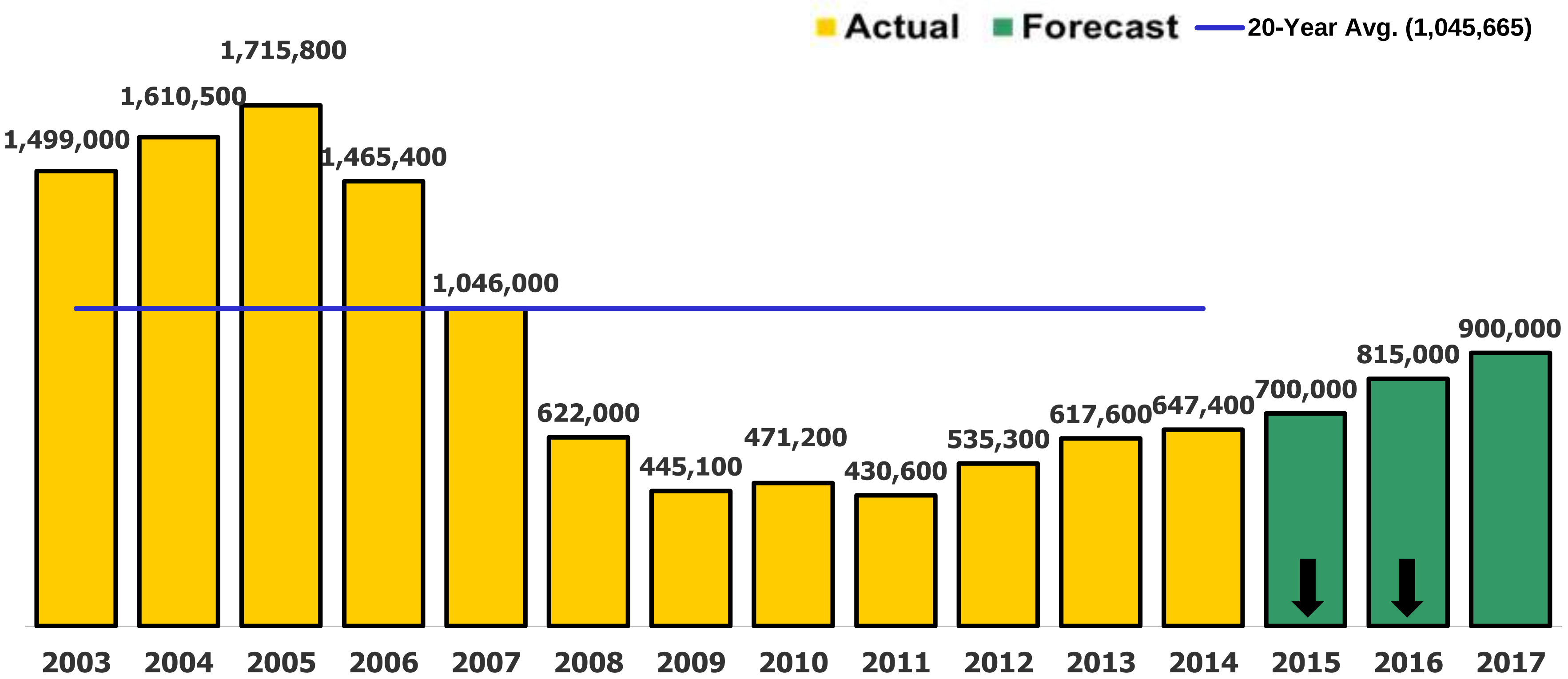
Housing Sector

- The single-family housing sector experienced positive growth in starts for the third straight year in 2014. Starts are projected to increase to 700,000 in 2015, 815,000 in 2016, and 900,000 in 2017, still below the 20-year average.

- According to the FHFA, growth in existing home prices increased on average by 5.4% in 2014. Price increases are expected to moderate to 5.0% in 2015, 4.0% in 2016, and 4.0% in 2017.

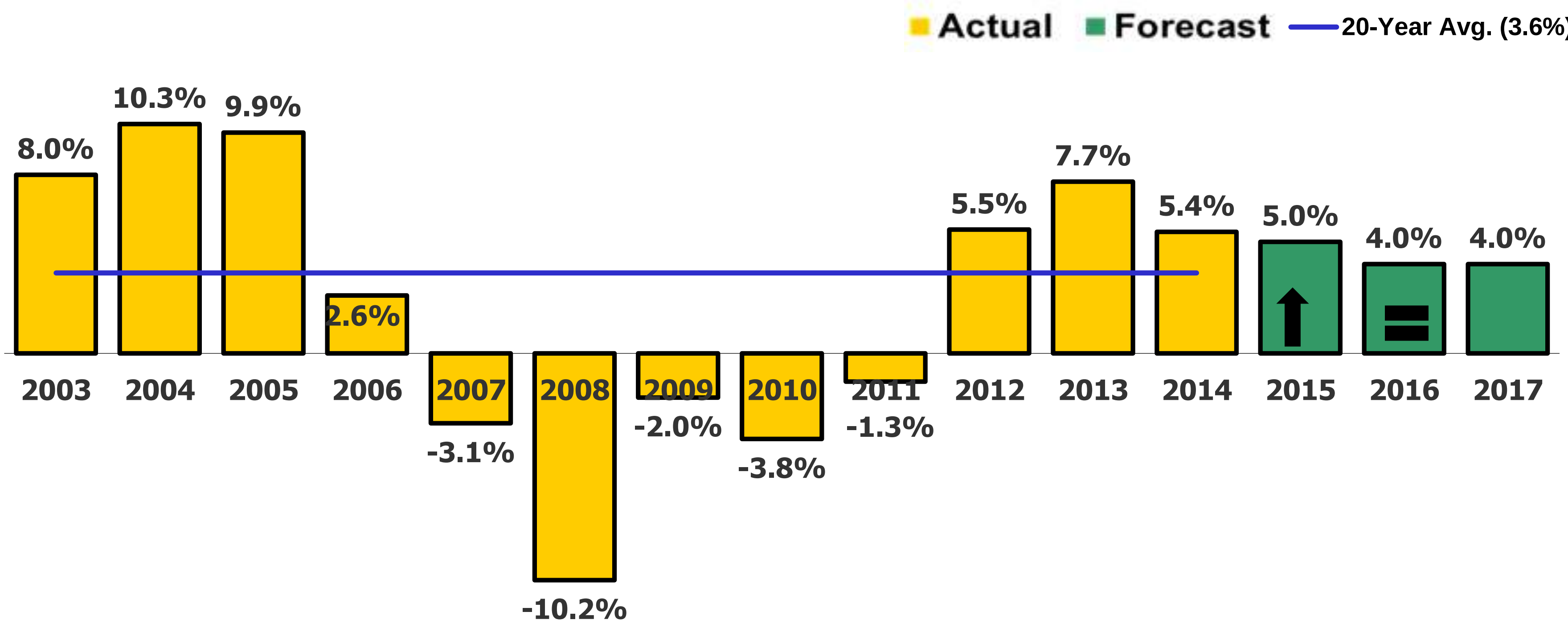
- Compared to six months ago, forecasts for housing starts in 2015 and 2016 are less optimistic; forecasts for existing housing prices increases in 2015 are more optimistic, while the forecast for 2016 remains the same.

Single-Family Housing Starts



Sources: 1995-2014, (Structures w/ 1 Unit, as of December), U.S. Census; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 800,000 and 912,500, respectively, for 2015 and 2016.

Average Home Price Change



Sources: 1995-2014, (Seasonally Adjusted, as of December), Federal Housing Finance Agency; 2015-2017, ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in October, 2014) projected 4.0% and 4.0%, respectively, for 2015 and 2016.

Firms That Participated in the ULI Real Estate Consensus Forecast

Organization	Lead Economist/Analyst	Title
AvalonBay Communities	**Craig Thomas**	***Vice President, Market Research***
Barclays	**Ross Smotrich**	***Managing Director***
Berkshire Group	**Gleb Nechayev**	***SVP, Head of Economic & Market Research***
CBRE	**Richard Barkham**	***Global Chief Economist***
	Jeanette Rice	***Americas, Head of Investment Research***
CBRE Econometric Advisors	**Jeffery Havsy**	***Americas, Chief Economist & Managing Director, Econometric Advisors***
Chandan Economics	**Sam Chandan**	***President and Chief Economist***
Clarion Partners	**Tim Wang**	***Director, Head of Investment Research***
Cole Capital	**Kevin White**	***Senior Vice President, Investment Strategy and Research***
CoreLogic	**Frank Nothaft**	***Senior Vice President and Chief Economist***
Cornerstone Real Estate Advisers	**Jim Clayton**	***Head of Investment Strategy and Analytics***
	Michael Gately	***Head of Research***
CoStar Portfolio Strategy	**Hans G. Nordby**	***Managing Director***
	Suzanne Mulvee	***Director of Research, Retail***
	Shaw Lupton	***Senior Real Estate Economist***
Dividend Capital	**Glenn Mueller**	***Real Estate Investment Strategist***
DTZ	**Kevin Thorpe**	***Chief Economist***
	Rebecca Rockey	***Economist***
Everest High Income Property	**David J. Lynn, Ph.D.**	***CEO***
Green Street Advisors	**Andy McCulloch**	***Managing Director, Real Estate Research & Analytics***
	Peter Rothemund	***Analyst***
Grosvenor	**Robert Hess**	***Director of Research***
	Eileen Marrinan	***Director of Research***

Firms That Participated in the ULI Real Estate Consensus Forecast

Organization	Lead Economist/Analyst	Title
Harrison Street Real Estate Capital	Thomas Errath	*Senior Vice President, Research & Strategy*
Hines	Josh A. Scoville	*Senior Vice President for Research*
Jefferies & Company	Lisa A. Pendergast	*Managing Director, Co-Head of CMBS Strategy & Risk*
	Tom Simons	*Money Market Economist/CMBS Analyst*
Jones Lang LaSalle	Benjamin Breslau	*Director, Americas Research*
	Josh Gelormini	*Vice President, Americas Research*
LaSalle Investment Management	William Maher	*Director, North America Reasearch & Strategy*
Maximus Advisors	Peter Muoio	*Senior Principal*
Moody's	Tad Philipp	*Director, Commercial Real Estate Research*
Morgan Stanley Real Estate Investing	Margaret Harbaugh	*Vice President*
	Stephen Siena	*Associate*
NAREIT	Calvin Schnure	*Vice President, Research and Economic Analysis*
National Association of Realtors	Lawrence Yun	*Chief Economist*
Newmark Grubb Knight Frank	Bob Bach	*Director of Research, Americas*
RCLCO	Paige Mueller	*Director or Institutional Real Estate Advisory Services*
Reis, Inc.	Victor Calanog, Ph. D.	*Vice President of Research and Economics*
Rosen Consulting Group	Kenneth T. Rosen	*Chairman*
	Randall Sakamoto	*Executive Vice President*
Situs - RERC	Ken Riggs	*President*
	Aaron Riggs	*Analyst*
Stockbridge Associates	George Casey, Jr	*President & CEO*
Trepp LLC	Matthew Anderson	*Managing Director*
	Susan Persin	*Senior Director of Research*

Urban Land Institute

About the Urban Land Institute
The Urban Land Institute is a nonprofit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in sustaining and creating thriving communities worldwide. Established in 1936, the Institute has nearly 30,000 members representing all aspects of land use and development disciplines. For more information, please visit www.uli.org.

Patrick Phillips, Chief Executive Officer

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A Survey of Leading Real Estate Economists/Analysts

April 2015

Anita Kramer
Senior Vice President
ULI Center for Capital Markets and Real Estate

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