Viewpoint 2014

Integra Realty Resources
Real Estate Value Trends

Local Expertise. National Coverage. Unbiased Excellence.

Integra Realty Resources, Inc. (IRR) is the largest independent commercial real estate valuation and consulting firm in North America, with over 200 MAI-designated members of the Appraisal Institute among over 900 professionals based in our 66 offices throughout the United States and the Caribbean. Founded in 1999, the firm specializes in real estate appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. Our valuation and counseling services span all commercial property types and locations, from individual properties to large portfolio assignments. IRR is a trusted consultant for many of the world's top financial institutions, developers, corporations, law firms, and government agencies, who rely on IRR's deep expertise, unbiased perspectives, and superior local coverage.

For more information, please visit **www.irr.com** or **http://blog.irr.com**.

The Ritz Carlton, Grand Cayman represents a recent assignment of IRR's Caribbean office, located on Grand Cayman Island and led by James V. Andrews, MAI, FRICS. It is an example of IRR's deep experience and expertise with "benchmark" resort and lodging properties across the U.S. and the Caribbean region.

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Chairman’s Letter

Dear Friends and Colleagues:

It is with great pride that I can report that Integra Realty Resources (IRR) continues to expand and improve as the largest independent commercial real estate valuation and counseling firm in the U.S.

As I write this introduction to the 24th annual edition of our signature publication, we have 66 offices nationwide, including our latest addition in Jackson, Mississippi – our first office in that state, and the first for any national-level firm in our industry. Further, among our 900+ personnel we now number over 200 MAI-designated members of the Appraisal Institute, strong evidence of our ongoing commitment to provide our clients with the highest level of local expertise and professional service. I am especially pleased to note that on March 23rd, 2014, IRR will celebrate its 15th year in business, to be commemorated at a number of events during the year.

IRR’s professionals are always working to “tell it like it is,” and our clients appreciate that our counsel is not subject to conflicts of interest. Simply put, IRR now stands at the forefront of national valuation and consulting firms and, given that we are independent, we are the first choice for participants in commercial real estate markets who are seeking unbiased excellence in CRE research and valuation services.

I am also happy to note that in this edition of *Viewpoint*, we’re expanding on our past efforts to provide forecasting and forward-looking commentary on national and local markets. The approximately 40,000 assignments that IRR completes each year for our broad national and international client base, combined with our MAI-level expertise, allow us to provide not only industry-leading historical analysis, but also valuable insight into future trends.

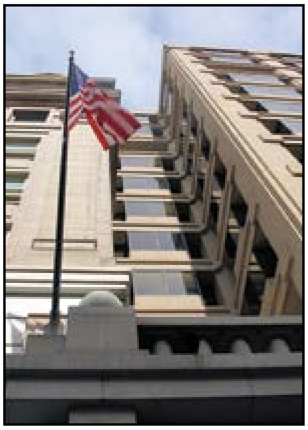
IRR has prospered through the worst of the recessionary markets of the last five years, and as our national economy continues its recovery, we’ll be ready to meet our clients’ needs with the most advanced technology and training, backed by a culture of quality and service. The whole IRR team is committed to providing you with the very best of ***Local Expertise…Nationally***.

Sincerely,

Raymond 7. Cirz

Raymond Cirz, MAI, CRE, FRICS
Chairman of the Board
Integra Realty Resources, Inc.

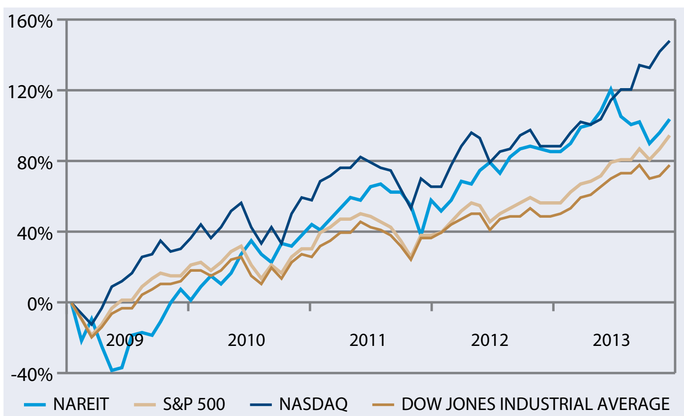
National Real Estate



As investors continued to search for yield in 2013's low interest rate environment, real estate investments remained in vogue and continued to provide attractive returns. Capital markets activity – both from an equity and debt perspective – has been robust and shown clear signs that investors and lenders have faith that the economic recovery, at least in the real estate sector, is sustainable. Property fundamentals improved across all asset classes throughout 2013, and capitalization rates continued to compress nationally, approaching or exceeding lows previously seen in 2006-07.

The NAREIT index is widely considered a strong proxy for the overall health of the national real estate industry. In reviewing the NAREIT index's five-year performance, it is clear that the real estate industry has both been more volatile and outperformed most other public investments, with the notable exception of the NASDAQ's outstanding performance over this same period. While the five-year investment performance of the NAREIT index has been extremely strong (up over 100% in the period), it has lagged other equity indexes in 2013, indicating that the industry is likely settling into a period of more sustainable long-term returns after outsized gains were realized on the heels of investments made during the challenges of the 2007-08 recession. IRR's view of the national real estate investment market mirrors this assessment from the real estate equity markets, as property fundamentals are expected to remain strong but have less room for improvement than five years ago, while real estate yield rates also aren't anticipated to have much more momentum to compress further beyond current historic low ranges.

Real Estate Performance Versus the Market (5-Year) (Fig.1)



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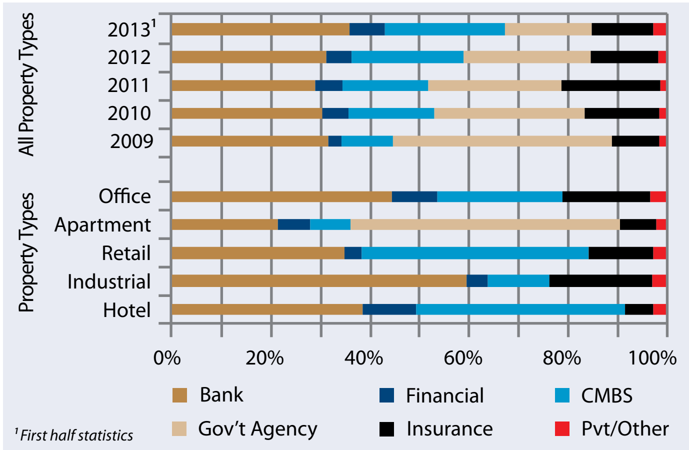
Taking advantage of the positive returns in the real estate equity space and the investor appetite for investments offering yield, the equity issuance markets were extremely active in 2013 as well. Through October, 18 initial public offerings (IPOs) totaling over $5.5 billion in proceeds were raised, which is on pace to double any single offering year since 2005. In addition to the strong initial offerings market, secondary real estate equity issuances are also on pace to surpass previous annual highs, with activity through October essentially matching full year 2012 secondary issuances and a busy issuance pipeline announced and not yet recorded for 2013's final two months.

Blackstone was extremely active in the equity capital markets in 2013, spinning off Brixmor Property Group in an $825 million IPO and filing paperwork to take hotel chains Extended Stay America and Hilton Worldwide Holdings public. In December 2013, Blackstone announced it planned to launch an IPO for Hilton, attempting to sell 11.5% of it while valuing the company at up to $32.5 billion. This would make Hilton the largest-ever hotel REIT IPO, and the second-largest overall company IPO of 2013. The valuation would also imply that Blackstone has doubled the value of Hilton since taking the company private in 2007.

In addition to Blackstone's more typical capital markets activity, they and several other institutional players continued to add momentum to the trend of buying distressed single family home portfolios with the intent to renovate and rent the assets. This strategy, virtually unheard of on an institutional basis only five years ago, has spawned sizeable public entities in the form of Silver Bay Realty, American Residential Properties, and American Homes for Rent, and attracted such players as Apollo and (again) Blackstone to the space. While the investment strategy and returns haven't been without their challenges, institutional players appear to be having success in finding tenants, with most reporting occupancy rates of 90%+ on homes held in their portfolios for more than 90 days. This emerging asset class thus has the potential to create headwinds for new single-family development activity, as renters have new expanded options when they look to convert from apartment renters to single-family home lifestyles.

Real Estate Capital Source Comparisons (Fig. 3)

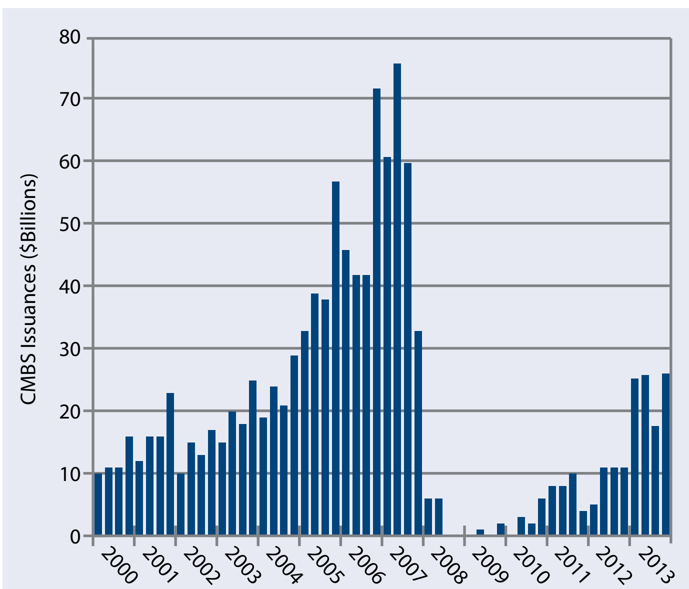


Source: Real Capital Analytics, compiled by IRR *© 2013 Integra Realty Resources, Inc.*

Debt Capital Markets

In addition to the extremely active public equity investment markets in 2013, debt capital markets also experienced an extremely active year with real estate companies looking to capitalize on the low interest rate environment and lock in debt capital commitments. With disclosure that the Federal Reserve's program of quantitative easing through massive bond buying investments is likely to be tapered in the not-too-distant future, real estate owners scrambled to lock in massive quantities of cheap real estate debt, both secured and unsecured. Unsecured debt issuances were well on pace to far exceed 2012's already record levels, while the secured debt market, with the Commercial Mortgage Backed Securities (CMBS) market acting as proxy, also experienced a robust increase in volume activity in 2013.

CMBS Issuances (Fig. 2)



Source: Compendium of Statistics, CRE Finance Council
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While the CMBS market in 2013 will see issuances more than double from 2012, this pace still represents a robust drop-off in volume from the market's peak in the 2006-07 timeframe.

In terms of the secured debt market, it is also interesting to review the diversity of sources of such debt capital and how it has changed over time. As debt liquidity dried up during the recession, the government agencies became more important to the debt capital markets. In 2009, government agency-related debt accounted for 44% of all financing activity; however, as the debt capital markets have recovered and liquidity has returned, this amount had dwindled to 18% of the overall marketplace through the first half of 2013. Much of this drop-off in agency debt is seen to have been absorbed by traditional private sources, with insurance lenders and the CMBS market having substantially recovered pre-recession financing market shares, while banks have also increased their sizeable lending books to regain financing share as well. While more private capital is available overall, government agencies still account for over half of the financing markets for the multifamily space. As potential changes related to Fannie Mae and Freddie Mac evolve, this could have a drastic impact on financing and valuations within the apartment sector. While apartment financing remains concentrated with public agency support, the retail and hotel sectors are more heavily reliant on the CMBS market for debt, while banks remain the "go to" source for industrial and office asset financing opportunities, where insurers are also apt to be more active than in other asset classes.

Property Fundamentals

IRR's annual survey of local conditions across 63 markets in the U.S. is presented once again in *IRR Viewpoint-2014*. Further information regarding data points and changes in market conditions are detailed by property type in this publication. However, general national trends across all property types and markets continued to be positive in 2013. Overall, IRR observed general vacancy rates to be dropping across most markets and property types, while forecasted increased absorption rates have shortened our experts' estimations of the length of time necessary to bring most markets into a balanced supply and demand state.

Market Cycle Phases

One of the most commented-upon data sets within the *IRR-Viewpoint* publication remains our survey of market cycle phases by property type. The four phases of the real estate market cycle – Recovery, Expansion, Hypersupply, and Recession – are defined by their underlying characteristics related to each market's demographic, economic, and real-estate-specific metrics.

Through the process of valuing more assets annually than any other firm in the nation, IRR maintains a proprietary database which measures market changes in key factors such as population, employment, vacancy rates, new supply deliveries, expected new construction, and historical and expected future space absorption, and thus develops keen insight into future market cycle phases by property type. This intelligence allows us to help our clients more clearly ascertain potential risks and identify potential opportunities with respect to real estate markets across the country, as shifts in a market's real estate cycle phase are strongly correlated with the directionality and magnitude of real estate valuation changes in such markets.

Investment Criteria

The increase in both equity and debt capital available for real estate investment activity has helped propel the industry's continued momentum, as capitalization rates continued to fall in 2013. For the 24th consecutive year, IRR utilized its data and expertise garnered through the completion of over 40,000 valuation assignments nationally to compile a comprehensive analysis of the landscape for commercial real estate yields. In response to strong client demand for yield information beyond just the Class A asset strata, **IRR is pleased to initiate further coverage and analysis of Class B yields in 2013 as well.**

Capitalization Rates

Capitalization rates for all Class A property types compressed on a national average basis in 2013 from 2012. Similarly to 2012, the apartment sector demonstrated the tightest going-in cap rates. Even Class B multifamily product traded tighter than regional malls and all other real estate asset types. However, capitalization rates for urban multifamily assets compressed the least of any product class in 2013, perhaps indicating that multifamily rates may be beginning to converge more with yields on other real estate product types.

Capitalization rates compressed the most in the West region over the course of 2013, furthering the difference between the West's already low rates and the rest of the country. Capitalization rates generally remain the widest in the Central region of the country, though rates continued to compress slightly there in 2013, while the South was the only region to experience a slight softening in overall average cap rates in 2013.

2012-2013 Class A Cap Rate Changes (Fig. 4)

	AVERAGE GOING-IN CAP RATE 2013	2012	2012-13 Δ
Urban Multifamily	5.76%	5.91%	-0.15%
Suburban Multifamily	5.87%	6.08%	-0.21%
Regional Mall	7.01%	7.28%	-0.27%
Community Retail	7.26%	7.60%	-0.34%
CBD Office	7.37%	7.65%	-0.28%
Neighborhood Retail	7.41%	7.66%	-0.25%
Industrial	7.50%	7.75%	-0.25%
Suburban Office	7.68%	7.91%	-0.23%
Flex Industrial	8.01%	8.30%	-0.29%

2013 Cap Rate Ranks (Fig. 5)

	RANGE			MEDIAN	AVERAGE
Urban Multifamily - Class A	4.00	-	8.50	5.75	5.76
Suburban Multifamily - Class A	4.00	-	7.75	6.00	5.87
Urban Multifamily - Class B	4.50	-	8.50	6.25	6.39
Suburban Multifamily - Class B	4.30	-	8.65	6.50	6.53
Regional Mall Retail	5.00	-	10.00	7.00	7.01
Community Retail Center - Class A	5.25	-	8.60	7.38	7.26
CBD Office - Class A	4.75	-	10.50	7.50	7.37
Neighborhood Retail - Class A	5.50	-	9.50	7.50	7.41
Industrial - Class A	5.25	-	9.65	7.50	7.50
Suburban Office - Class A	5.75	-	9.00	8.00	7.68
Community Retail Center - Class B	5.75	-	9.25	8.00	7.72
Neighborhood Retail - Class B	6.00	-	10.00	8.00	7.93
CBD Office - Class B	5.50	-	11.00	8.00	8.01
Flex Industrial - Class A	5.30	-	9.50	8.00	8.01
Industrial - Class B	6.00	-	10.00	8.13	8.09
Suburban Office - Class B	6.25	-	10.00	8.25	8.23
Lodging - Full Service	5.50	-	10.30	8.50	8.31
Flex Industrial - Class B	5.40	-	10.00	8.50	8.53
Lodging - Limited Service	6.25	-	11.30	9.00	8.96

2013 Discount Rate Ranks (Fig. 6)

	RANGE			MEDIAN	AVERAGE
Urban Multifamily - Class A	5.50	-	10.00	7.50	7.41
Suburban Multifamily - Class A	6.00	-	10.00	7.50	7.56
Urban Multifamily - Class B	5.00	-	10.50	7.88	7.95
Suburban Multifamily - Class B	6.50	-	10.00	8.25	8.17
Regional Mall Retail	6.25	-	11.00	8.50	8.42
Community Retail Center - Class A	6.75	-	10.50	8.50	8.50
CBD Office - Class A	6.00	-	12.00	8.75	8.59
Neighborhood Retail - Class A	6.75	-	10.50	8.50	8.61
Industrial - Class A	6.75	-	10.50	8.50	8.62
Suburban Office - Class A	7.00	-	10.00	9.00	8.88
Community Retail Center - Class B	7.00	-	10.50	9.00	8.92
Neighborhood Retail - Class B	7.25	-	11.00	9.00	9.11
Flex Industrial - Class A	7.50	-	11.00	9.25	9.19
Industrial - Class B	7.50	-	11.50	9.00	9.23
CBD Office - Class B	7.50	-	12.50	9.25	9.24
Suburban Office - Class B	8.00	-	12.00	9.50	9.41
Flex Industrial - Class B	8.00	-	11.00	9.75	9.71
Lodging - Full Service	7.50	-	12.00	10.25	10.06
Lodging - Limited Service	7.75	-	13.80	10.50	10.55

Discount Rates

In addition to acting as a barometer for inflation and property income growth expectations, discount rates, or yields, can act as a reliable leading indicator of potential future cap rate and valuation movements in a property class, sector, or market. As the spread between going-in capitalization rates and discount yields rises, it becomes more likely that capitalization rates for that asset will rise in the future. As such, there could be upward pressure nationally on Class A urban multifamily, Class B suburban multifamily, and Class B flex industrial assets, which all demonstrated spreads of 175 basis points between going-in capitalization rates and discount yield, the widest of any property types.

Conversely, community and neighborhood retail assets (both Class A & B), Class A suburban office assets, and Class A industrial assets – both flex and general – exhibited the lowest average spread between these key rates and are therefore deemed less likely to face immediate upward pressure in terms of capitalization rate movements. We may even be at the point of seeing these classes' going-in capitalization rates drop in the near future. By region, the divergence between going-in capitalization rates and discount yields continued to rise in the West region, indicating that a capitalization rate trough is likely in the not-too-distant future.

Important Notice

Comparing capitalization rates across product types, classes, and markets allows market participants to better judge relative risk and opportunity patterns within the commercial real estate sector. While the capitalization rate information presented in IRR-Viewpoint 2014 *– including ranges, medians, and averages – are intended to be indicative of general overall conditions and differences between the surveyed variables, they are presented for informational purposes only and do not constitute an appraisal on any specific asset, property type, property class, or market area. Specific property valuations, market analyses and capitalization rates are influenced by many factors, including but not limited to the quality of the income stream from the asset or assets in question, as well as the supply and demand fundamentals in the local market and immediate submarket. For property specific analysis of capitalization rates and other key valuation metrics, please contact your local IRR professional for assistance.*

2013 Capitalization Rates, Discount Rates, and Reversion Rates (Table 7)

	Property Type	Atlanta, GA	Austin, TX	Baltimore, MD	Birmingham, AL	Boise, ID	Boston, MA	Broward County, FL	Charleston, SC	Charlotte, NC	Chicago, IL	Cincinnati, OH	Cleveland, OH	Columbia, SC	Columbus, OH	Dallas, TX	Dayton, OH	Denver, CO	Detroit, MI	Fort Worth, TX	Greensboro, NC	Greenville, SC	Averages
CLASS A GOING-IN CAP RATES (%)	CBD Office	7.25	6.25	7.00	8.25	7.25	5.00	6.50	7.50	6.75	6.75	8.25	8.75	8.00	8.50	6.75	10.50	5.75	9.50	7.00	8.00	7.50	7.37
	Suburban Office	8.00	6.75	7.00	8.50	8.00	6.75	7.25	8.25	8.00	8.00	8.50	8.50	8.25	8.25	7.00	8.75	6.50	9.00	7.25	9.00	8.00	7.68
	Industrial	7.00	7.50	6.00	8.50	8.00	7.50	7.50	8.50	7.50	6.25	9.00	8.50	8.00	8.25	7.00	9.00	7.00	9.25	7.00	9.00	8.00	7.50
	Flex Industrial	7.75	8.00	7.25	9.00	8.00	7.50	7.75	8.50	8.00	7.75	8.50	9.00	8.00	8.75	8.00	9.25	7.50	9.00	8.00	8.50	8.00	8.01
	Urban Multifamily	5.25	5.75	5.50	6.25	6.00	4.25	6.50	6.00	5.00	5.75	6.75	7.25	6.25	6.25	5.00	7.75	4.75	8.50	5.25	6.50		5.76
	Suburban Multifam	6.00	6.25	5.50	6.00	6.25	5.00	6.50	6.75	5.75	6.00	7.00	7.25	6.00	6.00	5.75	6.75	5.00	7.75	5.75	6.00	5.75	5.87
	Regional Mall Retail	7.50	7.25	6.50	7.25	7.25	6.00	5.25	7.00	7.25	6.50	8.50	8.00	7.25	8.00	6.75	8.25	6.00		6.75	8.00	7.00	7.01
	Community Retail	7.50	7.00	5.75	7.00	7.50	7.00	6.75	7.75	7.50	7.25	8.25	8.00	8.00	8.00	6.75	8.50	7.25		6.75	8.00	8.00	7.26
	Neighborhood Retail	7.75	7.00	6.00	7.00	7.75	6.75	7.50	7.25	7.00	7.75	8.75	8.25	7.00	7.50	7.00	8.75	7.00		6.75	8.00	7.00	7.41
	Lodging - Full Service	8.00	8.00	8.25	8.50	9.50	7.00	7.25	8.75	9.25	7.50	9.25	9.00	8.75	8.50	8.25	9.50	8.00		8.25	9.75	8.75	8.31
	Lodging - Limited	9.00	8.00	9.00	9.25	8.50	8.00	8.25	9.50	10.00	9.00	9.25	8.50	9.75	9.00	9.25	10.00	9.00		8.75	10.50	9.75	8.96
CLASS B GOING-IN CAP RATES (%)	CBD Office	7.75	7.00	8.50	9.00	7.50	5.50	7.25	8.50	7.75	7.50	9.25	9.00	7.75	9.00	7.25	11.00	6.50		7.75	10.00	7.75	8.01
	Suburban Office	8.25	7.50	8.00	9.25	8.50	7.50	7.75	9.00	8.50	8.50	9.50	8.75	8.00	8.75	7.50	9.25	7.50		7.75	10.00	8.00	8.23
	Industrial	7.50	7.75	7.00	8.75	8.50	8.50	8.00	9.50	8.75	6.75	9.50	8.75		9.00	7.50	9.25	7.75		7.50	10.00		8.09
	Flex Industrial	8.50	8.50	8.25	9.00	8.50	8.00	8.25	9.50	9.25	8.50	9.00	9.25		9.50	8.50	9.50	8.00		8.50	9.50		8.53
	Urban Multifamily	6.00	6.50	5.75	7.75	7.00	5.25	6.75	7.00	6.00	6.50	7.50	8.00		7.25	6.25	8.00	5.25		6.25			6.39
	Suburban Multifam	7.00	6.50	6.00	7.50	7.25	6.00	6.75	7.75	6.50	7.00	7.50	8.00		7.00	6.75	7.50	5.50		6.75	7.00		6.53
	Community Retail		7.25	7.25	8.00	8.00	8.00	7.00	8.75		8.00	8.50	9.00		9.00	7.25	9.00	7.75		7.25	8.00		7.72
	Neighborhood Retail		7.25	7.50	8.00	8.25	7.75	7.75	8.25		8.25	9.00	9.00		8.50	7.50	9.25	7.50		7.25	8.00		7.93
CLASS A DISCOUNT RATES (%)	CBD Office	8.75	8.00	8.25	9.25	9.25	6.25	7.75	8.75	7.75	7.50	9.50	9.50	9.25	9.50	8.00	12.00	7.50	10.25	8.00	9.50	9.00	8.59
	Suburban Office	9.25	8.50	8.25	9.50	10.00	8.25	8.50	9.50	9.00	9.00	9.75	9.50	9.50	9.25	8.25	9.75	8.00	10.00	8.25	10.00	9.25	8.88
	Industrial	8.00	8.50	7.00	9.50	10.00	8.75	8.75	8.25	8.50	7.50	10.50	9.50	9.25	9.00	7.75	9.75	7.75	10.25	8.25	9.50	9.25	8.62
	Flex Industrial	9.00	9.00	8.50	10.00	10.00	9.00	9.00	9.75	9.00	8.50	9.75	9.75	9.25	9.50	8.75	10.00	8.50	10.00	8.75	10.00	9.25	9.19
	Urban Multifamily	6.50	8.25	6.50	7.50	9.00	5.50	7.75	7.25	6.50	7.00	8.00	8.50	8.00	8.00	7.25	9.00	7.50	9.25	7.50	8.00		7.41
	Suburban Multifamily	7.50	8.00	6.50	7.25	9.00	6.25	7.75	8.00	7.50	7.00	8.25	8.50	8.25	8.00	7.75	7.75	7.75	8.75	7.75	7.50	8.00	7.56
	Regional Mall Retail	9.50	8.75	8.00	8.75	9.25	7.00	6.75	8.25	9.75	7.50	10.00	9.00	9.25	9.00	8.75	10.00	7.50		9.00	10.00	9.00	8.42
	Community Retail	9.00	8.50	6.75	8.50	9.50	8.00	8.00	9.00	8.50	8.25	9.75	9.00	9.25	9.00	8.00	9.75	8.50		8.00	9.30	9.25	8.50
	Neighborhood Retail	9.25	8.50	7.00	8.50	9.75	7.75	8.75	8.50	8.25	8.50	10.00	9.00	8.50	8.50	8.25	10.00	8.25		8.00	9.00	8.50	8.61
	Lodging - Full Service	10.00	10.25	9.75	10.50	11.50	8.50	8.75	10.50	11.00	8.50	10.75	10.25	11.50	10.00	10.75	11.00	10.00		10.50	11.50	11.50	10.06
	Lodging - Limited	10.75	10.50	10.50	11.25	10.50	9.50	9.25	10.75	11.25	9.50	10.75	9.75	12.50	10.50	10.50	11.50	11.00		10.50	11.75	12.50	10.55
CLASS B DISCOUNT RATES (%)	CBD Office	9.00	8.50	9.75	10.00	9.50	7.50	8.25	9.25	8.75	8.25	10.50	10.00	9.25	10.00	8.75	12.50	8.00		8.50	12.00	9.25	9.24
	Suburban Office	9.50	9.00	9.25	10.25	10.50	9.00	9.00	9.75	9.50	9.25	10.75	9.75	9.25	9.75	8.75	10.00	8.25		8.50	12.00	9.25	9.41
	Industrial	8.50	8.75	8.25	9.75	10.50	9.75	9.00	10.25	9.75	8.00	11.00	9.75		10.00	8.25	10.00	8.50		8.75	10.50		9.23
	Flex Industrial	9.75	9.25	9.50	10.00	10.50	9.50	9.25	10.25	10.25	9.00	10.25	10.00		10.25	9.25	10.25	9.00		9.50	11.00		9.71
	Urban Multifamily	7.50	8.50	6.75	9.00	10.00	6.50	8.00	7.75	7.50	7.25	8.75	9.50		8.50	8.25	9.25	8.00		8.25			7.95
	Suburban Multifam	8.50	8.50	7.00	8.75	10.00	7.25	8.00	8.50	8.25	7.75	8.75	9.50		8.50	8.75	8.50	8.25		8.75	8.50		8.17
	Community Retail		8.75	8.50	9.00	10.00	9.00	8.25	10.00		9.00	10.00	10.00		10.00	8.50	10.00	9.00		8.50	10.00		8.92
	Neighborhood Retail		8.75	8.75	9.00	10.25	8.75	9.00	9.50		8.75	10.25	10.00		9.50	8.75	10.25	8.75		8.50	10.00		9.11
CLASS A REVERSION RATES (%)	CBD Office	7.75	7.00	7.50	8.75	7.50	5.50	6.75	8.00	7.00	7.75	9.00	9.25	8.50	8.75	7.00	11.00	6.25	10.00	7.50	9.00	8.25	7.87
	Suburban Office	8.50	7.75	7.50	9.00	8.25	7.25	7.50	8.75	8.25	9.00	9.25	9.00	8.75	8.50	7.50	9.00	7.00	9.50	7.50	9.50	8.50	8.19
	Industrial	7.25	8.25	6.50	9.00	8.25	8.00	7.50	7.50	8.00	7.50	9.50	9.00	8.50	8.50	7.25	9.50	7.50	10.00	7.25	9.00	8.50	7.97
	Flex Industrial	8.25	8.25	7.75	9.50	8.25	8.00	8.00	9.00	8.50	8.50	9.25	9.50	8.50	9.00	8.25	9.75	8.00	9.25	8.25	9.00	8.50	8.50
	Urban Multifamily	5.50	7.00	6.00	6.75	9.00	4.75	6.75	6.50	5.25	7.50	7.25	8.00	6.75	7.00	5.50	8.25	5.25	9.00	6.00	7.50		6.31
	Suburban Multifamily	6.50	6.50	6.00	6.50	6.50	5.50	6.75	7.25	6.00	6.50	7.25	8.25	6.75	6.75	6.00	7.25	5.50	8.25	6.25	6.50	6.75	6.38
	Regional Mall Retail	8.00	8.00	7.00	7.75	7.50	6.50	5.50	7.50	7.50	7.25	9.00	8.50	8.00	8.50	7.00	8.75	6.50		7.25	8.20	7.75	7.48
	Community Retail	8.00	7.50	6.25	7.50	7.75	7.50	7.00	8.25	7.75	8.00	9.00	8.75	8.50	8.50	7.25	9.00	7.75		7.25	8.30	8.50	7.77
	Neighborhood Retail	8.00	7.50	6.50	7.50	8.00	7.25	7.50	7.75	7.25	8.50	9.50	8.75		8.00	7.50	9.25	7.50		7.25	8.00	7.75	7.91
	Lodging - Full Service	8.50	9.00	9.00	9.00	9.75	7.50	7.50	9.25	9.75	8.25	10.00	9.50	9.25	9.00	8.75	10.00	8.75		9.00	10.25	9.25	8.86
	Lodging - Limited	9.50	9.00	9.75	9.75	8.75	8.50	8.50	9.75	10.25	9.75	10.00	9.00	10.50	9.50	9.50	10.50	9.75		9.25	10.75	10.50	9.48
CLASS B REVERSION RATES (%)	CBD Office	8.25	7.50	9.00	9.50	7.75	6.25	8.00	9.00	8.50	8.50	10.00	9.50	8.25	9.25	7.50	11.50	7.00		8.25	11.00	8.50	8.50
	Suburban Office	8.75	8.25	8.50	9.75	8.75	8.00	8.40	9.50	9.75	9.25	10.25	9.25	8.50	9.00	8.00	9.75	8.00		8.00	11.00	8.50	8.76
	Industrial	7.75	8.50	7.50	9.25	8.75	9.00	8.20	10.00	9.25	7.75	10.00	9.25		9.25	7.75	9.75	8.25		7.75	10.00		8.54
	Flex Industrial	9.00	8.50	8.75	9.50	8.75	8.50	8.50	10.00	9.75	9.25	9.75	9.75		9.75	8.75	10.00	8.50		8.75	10.00		9.02
	Urban Multifamily	6.50	7.50	6.25	8.25	7.25	5.75	7.00	7.50	6.25	7.75	7.25	8.50		7.75	6.75	8.50	5.75		6.50			6.88
	Suburban Multifamily	7.50	6.75	6.50	8.00	7.50	6.50	7.00	8.25	6.75	7.50	7.75	8.50		8.00	7.00	8.00	6.00		7.00	8.00		6.98
	Community Retail		7.75	7.75	8.50	8.25	8.50	7.40	9.25		8.50	9.25	9.50		9.50	7.75	9.50	8.25		7.50	9.00		8.24
	Neighborhood Retail		7.75	8.00	8.50	8.50	8.25	7.70	8.75		9.00	9.75	9.50		9.00	8.00	9.75	8.00		7.50	9.00		8.43

2013 Capitalization Rates, Discount Rates, and Reversion Rates (Table 7 continued)

Rate Type	Property Type	Hartford, CT	Houston, TX	Indianapolis, IN	Jackson, MS	Jacksonville, FL	Kansas City, MO/KS	Las Vegas, NV	Long Island, NY	Los Angeles, CA	Louisville, KY	Memphis, TN	Miami, FL	Minneapolis, MN	Naples, FL	Nashville, TN	New Jersey, Coastal	New Jersey, Northern	New York, NY	Oakland, CA	Orange County, CA	Orlando, FL	Averages
CLASS A GOING-IN CAP RATES (%)	CBD Office	8.50	8.00	8.50	9.00	7.75	8.00	7.50		5.50	8.00	8.50	7.10	7.00		7.00		7.50	5.00	6.25	6.10	7.75	7.37
	Suburban Office	8.50	8.75	8.25	8.50	8.25	7.75	8.25	7.00	6.50	7.00	8.00	7.60	8.00	8.25	7.50	7.75	7.50	7.00	6.50	6.10	8.00	7.68
	Industrial	8.50	8.25	7.25	9.50	7.50	7.25	8.00	5.50	6.50	8.00	7.50	7.75	8.25	9.00	7.25	7.75	5.50	6.00	5.50	6.40	8.50	7.50
	Flex Industrial	8.50	8.00	8.75	8.50	8.50	9.50	8.00		6.50	8.00	8.50	8.50	8.00	9.00		8.00	6.25		6.25	5.30	8.50	8.01
	Urban Multifamily	5.75	5.50	6.00	6.50	6.00	5.50	5.25	5.00	4.25	7.00	6.00	6.25	6.00	7.25	6.00	6.00	5.00	4.00	4.25		5.50	5.76
	Suburban Multifam	6.00	6.00	6.00	6.50	6.25	5.75	6.00	5.00	4.50	6.50	6.25	6.40	6.25	7.25	6.50	5.80	5.00		4.50	4.20	5.50	5.87
	Regional Mall Retail	7.75	8.00	7.50	10.00	7.50	7.00	7.00	5.00	6.75		8.00	6.50	6.50	8.00	8.00	6.50	5.25	5.50	6.00	6.80		7.01
	Community Retail	8.50	8.00	8.00	8.50	8.25	7.50	7.00	6.00	7.00	7.50	7.50	7.25	7.25	8.00	8.00	6.70	5.75	5.50	5.50	6.20	7.00	7.26
	Neighborhood Retail	8.50	8.50	8.50	9.50	8.00	7.50	7.50	6.50	7.25	7.50	8.50	7.75	8.00	8.00	8.50	7.50	6.00	5.75	6.00	5.90	7.00	7.41
	Lodging - Full Service	8.50	8.25	9.00		8.50	9.50	9.25	7.75	7.00	10.00		7.80	9.00	8.50	8.75	8.75	7.50	6.00	6.50	9.60	8.00	8.31
	Lodging - Limited	9.50	9.25	10.00	11.00	9.50	9.00	9.00	8.00	8.50	8.50		8.10	10.00	8.50	9.25	9.00	7.75	6.25	7.50	9.00	9.00	8.96
CLASS B GOING-IN CAP RATES (%)	CBD Office	9.50	8.00	9.00	10.00	9.00	8.50	7.75		6.00	9.00	9.00	7.90	8.00		8.50		8.00	6.00	6.75	6.25	8.25	8.01
	Suburban Office	9.50	8.75	8.75	9.50	9.50	8.50	8.50	8.00	7.00	7.50	8.50	7.90	8.25		8.50	8.00	7.75	8.00	7.00	6.25	8.50	8.23
	Industrial	9.50	8.25	9.00	10.00	8.50	8.00		6.50	7.00	8.50	8.50	8.00	8.75		9.00		6.00	7.00	6.00	6.50	9.00	8.09
	Flex Industrial	9.50	8.00	10.00	9.00	9.50	9.50			7.00	9.00	9.50	9.00	8.50		7.00	8.25	7.00		6.75	5.40	9.00	8.53
	Urban Multifamily	8.50	5.50	7.75		6.50	6.50	6.00	6.00	5.50	8.00	7.00	6.50	6.50		6.50	6.20	6.00	5.00	4.75		6.00	6.39
	Suburban Multifam	6.50	6.00	8.00	7.00	6.75	6.50	6.50	6.00	5.50	7.00	7.50	6.80	6.75		7.00	6.00	5.75		5.00	4.30	6.00	6.53
	Community Retail	8.50	8.00	9.00	9.00	9.00	8.00	8.00	6.75	7.00	8.00	7.50	7.60	7.25	8.00	9.25	7.00	6.00	6.50	6.00	6.50	7.50	7.72
	Neighborhood Retail	8.50	8.50	10.00	10.00	9.00	8.50	8.50	7.00	7.25	8.00	8.50	8.00	8.00	8.25	9.50	8.00	7.00	6.75	6.50	6.20	7.50	7.93
CLASS A DISCOUNT RATES (%)	CBD Office	9.00	9.00	9.75	10.00	8.75	9.00	9.00		7.00	9.00	9.00	8.25	8.25		8.00		8.00	6.00	8.00	8.00	9.25	8.59
	Suburban Office	9.00	9.75	9.50	9.50	9.25	9.00	9.25	7.50	8.00	9.00	9.00	8.75	8.75	9.25	8.50	9.75	8.00	7.50	8.25	8.10	9.50	8.88
	Industrial	10.00	9.25	8.25	10.50	8.50	8.25	9.50	6.75	8.00	9.00	8.00	8.75	9.25	10.00	8.25	9.75	7.00	7.00	7.00	8.00	10.00	8.62
	Flex Industrial	10.00	9.00	9.75	9.50	9.50	11.00	9.50		8.00	9.00	9.50	9.25	9.00	10.00		10.00	7.50		8.00	8.00	10.00	9.19
	Urban Multifamily	7.50	6.50	6.75	8.00	7.25	6.50	7.75	6.50	6.25	8.50	8.50	7.25	7.50	8.25	7.00	8.00	6.25	6.50	6.75		7.00	7.41
	Suburban Multifamily	8.00	7.00	6.75	7.50	7.25	6.75	8.50	6.50	6.50	9.00	8.75	6.00	8.00	8.25	7.50	7.80	6.25		7.00	7.00	7.00	7.56
	Regional Mall Retail	8.75	9.00	8.50	11.00	9.00	8.00	9.00	6.50	8.75		8.50	6.75	8.00	9.00	9.25	8.50	6.50	6.50	7.75	7.75		8.42
	Community Retail	9.25	9.00	9.00	9.50	9.25	8.50	8.75	7.00	8.50	8.75	8.00	8.10	8.25	9.00	8.75	8.70	6.75	6.75	7.25	8.50	9.00	8.50
	Neighborhood Retail	9.25	9.50	9.50	10.50	9.00	8.50	9.50	7.00	8.75	8.50	9.50	8.50	9.00	9.00	9.00	9.50	7.00	6.75	7.75	8.00	8.50	8.61
	Lodging - Full Service	9.50	9.25	10.50		11.00	11.50	10.75	8.25	9.00	12.00		8.90	10.50	9.50	9.75	10.75	8.00	7.50	8.50	11.25	9.50	10.06
	Lodging - Limited	10.50	10.25	11.00	12.00	11.00	11.00	10.50	8.50	10.50	10.50		9.20	11.50	9.50	10.25	11.00	8.50	7.75	9.50	10.75	10.50	10.55
CLASS B DISCOUNT RATES (%)	CBD Office	10.00	9.00	10.25	11.00	10.00	9.50	9.25		7.50	10.00	9.00	8.75	8.50		9.50		9.00	7.50	8.50	8.25	9.75	9.24
	Suburban Office	10.00	9.75	10.00	10.50	10.50	9.50	9.50	8.50	8.50	9.00	9.50	8.50	9.00		9.50	10.00	8.50	8.25	8.75	8.25	10.00	9.41
	Industrial	11.00	9.25	10.00	11.00	9.50	9.00		7.75	8.50	9.00	9.00	9.00	9.75		10.00		7.50	8.00	7.50	8.20	11.50	9.23
	Flex Industrial	11.00	9.00	11.00	10.00	10.50	11.00			8.00	9.00	10.00	9.75	9.50		8.50	10.25	8.00		8.50	8.25	11.00	9.71
	Urban Multifamily	9.00	6.50	8.50		7.50	7.50	8.50	7.75	7.50	9.50	8.50	7.40	8.00		7.50	8.20	7.00	5.00	7.25		7.50	7.95
	Suburban Multifam	9.00	7.00	8.75	8.00	7.75	7.50	9.00	7.75	7.50	9.50	9.00	6.80	8.50		8.00	8.00	6.50		7.50	7.25	7.50	8.17
	Community Retail	9.25	9.00	10.00	10.00	10.00	9.00	9.75	7.50	8.50	8.50	8.00	8.60	8.25	9.00	9.75	9.00	7.00	7.00	7.75	8.65	9.00	8.92
	Neighborhood Retail	9.25	9.50	11.00	11.00	10.00	9.50	10.50	7.25	8.75	8.50	9.50	8.75	9.00	9.25	10.00	10.00	8.00	7.25	8.25	8.25	9.00	9.11
CLASS A REVERSION RATES (%)	CBD Office	8.75	8.50	9.00	9.50	8.25	8.50	7.75		6.00	8.50	9.00	7.20	7.50		7.50		7.75	5.50	7.00	6.50	8.25	7.87
	Suburban Office	8.75	9.25	8.75	9.00	8.75	8.25	8.50	7.50	7.00	7.50	8.50	8.20	8.50	8.75	8.00	8.75	7.75	7.50	7.25	6.50	8.50	8.19
	Industrial	9.00	8.75	7.75	10.00	8.00	7.75	8.50	6.00	7.00	8.50	8.00	8.00	8.75	9.50	7.75	8.75	6.00	6.50	6.00	7.50	9.00	7.97
	Flex Industrial	8.50	8.50	9.25	9.00	9.00	10.00	8.50		7.00	8.00	9.00	8.75	8.50	9.50		9.00	6.50		6.75	7.25	9.00	8.50
	Urban Multifamily	6.00	6.00	6.25	7.00	6.50	6.00	5.75	5.50	4.75	7.50	6.50	6.50	6.50	7.75	6.50	7.00	5.25	4.75	5.00		6.00	6.31
	Suburban Multifamily	6.50	6.50	6.25	7.00	6.75	6.25	6.25	5.50	5.00	7.00	6.75	7.30	6.75	7.75	7.00	6.80	5.25		5.25	5.50	6.00	6.38
	Regional Mall Retail	8.00	8.50	8.00	10.50	8.00	7.50	7.50	5.50	7.25		8.50	5.75	7.00	8.50	8.25	7.25	5.50	6.00	6.75	6.50		7.48
	Community Retail	9.00	8.50	8.50	9.00	8.75	8.00	7.50	6.25	7.50	7.75	8.00	7.50	7.75	8.50	8.50	7.70	6.00	5.75	6.25	7.50	7.50	7.77
	Neighborhood Retail	9.00	9.00	9.00	10.00	8.50	8.00	8.00	6.75	7.75	7.75	9.00	8.00	8.50	8.50	9.25	8.50	6.25	6.00	6.75	6.75	7.50	7.91
	Lodging - Full Service	9.00	8.75	9.50		9.25	10.00	9.25	8.00	7.50	10.50		8.25	9.50	9.00	9.25	9.75	7.75	6.50	7.00	10.25	8.50	8.86
	Lodging - Limited	10.00	9.75	10.25	11.50	9.75	9.75	9.00	8.25	9.00	9.00		8.60	10.50	9.00	9.75	10.00	8.00	7.00	8.00	9.75	9.50	9.48
CLASS B REVERSION RATES (%)	CBD Office	9.25	8.50	9.50	10.50	9.50	9.00	8.00		6.50	9.50	9.50	8.20	8.50		9.00		8.50	6.50	7.50	6.75	8.75	8.50
	Suburban Office	9.25	9.25	9.25	10.00	10.00	8.50	8.75	8.25	7.50	8.50	9.00	8.70	8.75		9.00	9.00	8.00	8.50	7.75	6.90	9.00	8.76
	Industrial	9.50	8.75	9.50	10.50	9.00	8.50		7.00	7.50	8.50	9.00	8.25	9.25		9.50		6.50	7.50	6.50	7.75	9.50	8.54
	Flex Industrial	9.00	8.50	10.50	9.50	10.00	10.00			7.50	9.00	10.00	9.25	9.00		7.75	9.25	7.50		7.25	7.65	9.50	9.02
	Urban Multifamily	9.00	6.00	8.25		7.00	7.00	6.50	6.50	6.00	8.50	7.50	6.75	7.00		7.00	7.20	6.50	5.25	5.50		6.50	6.88
	Suburban Multifamily	7.00	6.50	8.50	7.50	7.25	7.00	6.75	6.50	6.00	7.50	8.00	7.40	7.25		7.50	7.00	6.00		5.75	5.75	6.50	6.98
	Community Retail	9.00	8.50	9.50	9.50	9.50	8.50	8.50	7.00	7.50	8.25	8.00	7.90	7.75	8.50	10.00	8.00	6.25	6.75	6.75	7.75	8.00	8.24
	Neighborhood Retail	9.00	9.00	10.50	10.50	9.50	9.00	8.50	7.50	7.75	8.25	9.00	8.10	8.50	8.75	10.25	9.00	7.25	7.00	7.25	7.00	8.00	8.43

2013 Capitalization Rates, Discount Rates, and Reversion Rates (Table 7 continued)

	Property Type	Philadelphia, PA	Phoenix, AZ	Pittsburgh, PA	Portland, OR	Providence, RI	Raleigh, NC	Richmond, VA	Sacramento, CA	Salt Lake City, UT	San Antonio, TX	San Diego, CA	San Francisco, CA	San Jose, CA	Sarasota, FL	Seattle, WA	St. Louis, MO	Syracuse, NY	Tampa, FL	Tulsa, OK	Washington, DC	Wilmington, DE	Averages
CLASS A GOING-IN CAP RATES (%)	CBD Office	7.25	6.50	7.25	6.75	8.50	7.75	7.50	7.25	7.50	9.00	7.00	4.75	7.00		5.50	8.50	8.25	6.50	8.50	5.25	8.25	7.37
	Suburban Office	7.50	7.25	7.25	7.75	8.75	8.00	8.00	8.00	7.75	8.50	6.50	5.75	6.00	8.00	6.00	7.50	8.00	7.50	8.50	7.25	7.75	7.68
	Industrial	6.25	7.00	8.25	6.75	9.65	7.00	7.50	7.00	7.25	8.00	7.50	5.50	5.50	9.00	5.25	7.50	8.00	7.00	9.00	6.50	7.25	7.50
	Flex Industrial	7.75	8.00	8.25	7.75	8.50	8.50	8.25	8.50	7.50	8.00	7.50	6.25	6.25	9.00	7.25	8.50	8.00		8.50	7.50	8.25	8.01
	Urban Multifamily	5.25	5.60	6.00	4.75	6.00	5.25	6.25	5.00	5.50	5.25	5.00	4.00	4.25	7.25	4.50	6.00	7.00	5.25	8.00	4.50	7.00	5.76
	Suburban Multifam		5.90	6.25	5.25	6.25	5.75	6.25	5.25	5.75	5.50	5.25	4.25	4.00	7.25	5.00	5.50	6.75	5.50	6.25	5.50	5.75	5.87
	Regional Mall Retail	6.50	6.50	7.00		7.80	7.50		6.75	7.00	8.00	7.50	6.00	6.00	8.00	5.25	7.00	7.00			6.00	7.00	7.01
	Community Retail	6.75	8.00	7.25	7.25	8.60	8.00	7.75	6.75	7.50	8.00	6.50	5.25	5.25	8.00	6.00	7.25	8.00	7.00	8.50	5.75	7.50	7.26
	Neighborhood Retail	6.75	8.50	7.00	7.00	8.65	7.50	7.75	6.50	8.00	8.00	6.50	5.50	5.50	8.00	6.25	7.50	9.00	7.50	9.00	5.75	7.25	7.41
	Lodging - Full Service	7.00	8.02	8.00	7.25	8.50	9.25	8.50	8.00	8.50	10.30	8.00	5.50	6.00	8.50	7.00	8.00	8.00	9.50	10.00	7.50	9.00	8.31
	Lodging - Limited	8.00	9.70	9.00	8.25	9.50	10.00	9.50	9.00	9.25	11.30	8.50	6.50	7.00	8.50	8.00	9.00	8.00	10.50	10.00	8.50	9.50	8.96
CLASS B GOING-IN CAP RATES (%)	CBD Office	8.00	7.00	8.50	7.25	8.75	8.00	8.00	8.00	7.75	9.25	7.00	5.50	7.50		6.50	9.50	9.00	7.00	9.50	6.25	9.25	8.01
	Suburban Office	8.25	8.00	8.50	8.25	9.60	8.25	8.50	8.50	8.00	8.75	6.50	6.25	6.50	8.00	7.50	8.50	8.50	8.00	9.00	8.50	8.25	8.23
	Industrial	7.00	8.00	9.25	7.25	9.95		8.25	7.75	7.75		7.50	6.00	6.00			8.50	9.00	8.50		7.50	8.00	8.09
	Flex Industrial	8.50	8.50	9.25	8.00	9.25		9.00	9.00			7.50	6.75	6.75			9.50	9.00			8.25	9.00	8.53
	Urban Multifamily	6.50	6.10	7.25	5.50	8.50	5.75	7.25	5.25	6.00	5.50	5.00	4.50	4.75		5.00	7.00	7.00	5.50	8.50	5.25	7.50	6.39
	Suburban Multifam		6.50	7.50	6.00	8.65	6.00	7.25	5.50	6.25	6.00	5.50	4.75	4.50		5.50	6.50	8.00	6.25	7.25	6.50	6.25	6.53
	Community Retail			8.00	7.50	8.60		8.75	7.25			7.00	5.75	5.75	8.00	6.50	8.25			8.50	7.50	8.00	7.72
	Neighborhood Retail			7.75	7.25	8.65	8.00	8.75	7.00			7.00	6.00	6.00	8.25	6.75	8.50			9.00	7.50	7.75	7.93
CLASS A DISCOUNT RATES (%)	CBD Office	8.25	7.50	8.00	8.00	9.00	9.00	8.50	8.50	9.00	10.50	9.00	6.75	8.75		6.75	9.50	9.25	7.50	10.00	6.50	9.75	8.59
	Suburban Office	8.50	8.25	8.00	8.75	9.10	9.25	9.00	9.25	9.50	10.00	9.00	7.50	7.50	9.00	7.00	8.50	9.00	8.50	10.00	8.50	9.00	8.88
	Industrial	7.75	8.00	9.00	8.00	10.00	8.50	8.50	8.00	8.25	9.00	8.25	7.00	7.00	10.00	6.75	8.50	9.00	8.00	10.50	8.00	8.25	8.62
	Flex Industrial	8.75	9.00	9.00	9.00	10.00	10.00	9.25	9.50	8.00	9.00	8.50	8.00	8.00	10.00	7.75	9.50	9.00		10.00	9.00	9.50	9.19
	Urban Multifamily	7.00	7.25	8.00	6.25	7.60	6.75	7.50	7.00	7.25	8.50	8.00	6.50	6.75		6.50	7.50		7.50	10.00	6.00	8.00	7.41
	Suburban Multifamily		7.50	8.00	6.75	8.00	7.00	7.50	7.25	7.25	8.50	8.00	6.75	6.50		7.50	7.00		7.75	10.00	7.25	7.50	7.56
	Regional Mall Retail	8.50	7.50	8.25		8.75	9.00		8.50	8.00	9.25	8.50	7.75	7.75	9.00	6.25	8.00	8.50			8.00	8.25	8.42
	Community Retail	8.25	8.50	8.75	8.75	9.25	9.50	8.75	8.25	8.50	9.25	8.00	7.00	7.00	9.00	6.75	8.25	9.00	8.00	10.50	7.00	8.50	8.50
	Neighborhood Retail	8.25	9.00	8.50	8.25	9.25	9.00	8.75	8.00	9.00	9.25	8.00	7.25	7.25	9.00	7.00	8.50	10.00	8.50	10.50	7.00	8.25	8.61
	Lodging - Full Service	9.00	11.00	11.00	9.25	9.60	11.50	10.50	10.50	8.75	11.80	10.50	7.50	8.00	9.50	9.00	9.00		11.50	12.00	10.00	10.50	10.06
	Lodging - Limited	10.00	10.81	12.00	10.25	10.25	11.25	11.50	10.50	9.50	13.80	10.50	8.50	9.00	9.50	10.00	10.00		12.50	12.00	11.00	11.00	10.55
CLASS B DISCOUNT RATES (%)	CBD Office	9.00	8.00	9.25	8.50	10.00	9.25	9.00	9.25	9.50	10.75	9.00	7.50	9.25		7.75	10.50	10.00	8.00	10.00	7.50	11.00	9.24
	Suburban Office	9.25	9.00	9.25	9.50	10.15	9.50	9.50	10.00	10.00	10.25	9.00	8.25	8.00	9.00	9.00	9.50	9.50	9.00	10.00	9.75	9.25	9.41
	Industrial	8.50	9.00	10.25	8.50	11.00		9.25	8.75	9.00		8.25	7.50	7.50			9.50	10.00	9.50		9.00	9.50	9.23
	Flex Industrial	9.50	9.50	10.25	9.25	11.00		10.00	10.00			8.50	8.50	8.50			10.50	10.00			9.75	10.50	9.71
	Urban Multifamily	8.25	7.75	9.25	7.00	9.10	7.00	8.50	7.25	7.50	8.75	8.00	7.00	7.25		7.00	8.50		7.75	10.50	6.75	8.50	7.95
	Suburban Multifam		8.50	9.25	7.50	9.00	7.25	8.50	7.50	7.50	8.75	8.00	7.25	7.00		7.75	8.00		8.50	10.00	8.25	8.00	8.17
	Community Retail			9.50	9.00	9.25		9.75	8.75			8.00	7.50	7.50	9.00	7.25	9.25			10.50	8.75	9.00	8.92
	Neighborhood Retail			9.25	8.50	9.35	9.50	9.75	8.50			8.00	7.75	7.75	9.00	7.50	9.50			10.50	8.75	8.75	9.11
CLASS A REVERSION RATES (%)	CBD Office	7.75	6.75	7.75	7.25	8.75	8.25	8.00	7.75	8.00	10.00	7.50	5.75	7.75		6.50	9.00		7.00	9.00	5.75	8.75	7.87
	Suburban Office	8.00	7.50	7.75	8.25	8.80	8.50	8.50	8.50	8.25	9.50	7.00	6.50	6.75	8.50	7.00	8.00		8.00	9.00	7.75	8.25	8.19
	Industrial	6.75	8.00	8.75	7.25	9.10	7.50	8.00	7.50	7.75	8.75	8.00	6.00	6.00	9.50	6.00	8.00	8.50	7.50	9.50	7.00	7.50	7.97
	Flex Industrial	8.50	8.50	8.75	8.50	8.60	9.00	8.75	9.00	8.00	9.00	8.00	6.75	6.75	9.50	7.75	9.00	8.50		9.00	7.75	8.50	8.50
	Urban Multifamily	5.75	6.10	6.50	5.25	6.00	5.75	6.75	5.25	6.00	5.75	5.50	4.75	5.00	7.75	5.00	6.50		5.75	8.50	5.00	7.50	6.31
	Suburban Multifamily		6.40	6.75	5.75	6.50	6.25	6.75	5.50	6.00	6.00	5.75	5.00	4.75	7.75	6.00	6.00		6.00	6.75	6.25	6.00	6.38
	Regional Mall Retail	7.00	7.50	7.50		8.00	8.00		7.00	7.50	8.75	8.00	6.75	6.75	8.50	5.75	7.50	7.50			6.75	7.50	7.48
	Community Retail	7.25	8.25	7.75	7.75	9.00	8.50	8.25	7.00	8.00	9.00	7.00	6.00	6.00	8.50	6.50	7.75	8.50	7.50	9.00	6.25	8.00	7.77
	Neighborhood Retail	7.25	9.25	7.50	7.50	9.00	8.00	8.25	6.75	8.50	9.00	7.00	6.25	6.25	8.50	6.75	8.00	9.50	8.00	9.50	6.25	7.75	7.91
	Lodging - Full Service	7.50	8.71	8.50	7.50	9.10	10.25	9.50	8.25	9.00	11.30	8.50	6.00	6.50	9.00	8.00	8.50		10.00	10.50	8.00	9.50	8.86
	Lodging - Limited	8.50	9.65	9.50	8.50	10.00	10.25	10.50	8.75	10.00	12.30	9.00	7.00	7.50	9.00	9.00	9.50		11.00	10.50	9.00	10.00	9.48
CLASS B REVERSION RATES (%)	CBD Office	8.50	7.50	9.00	7.75	9.15	8.50	7.50	8.50	8.25	10.25	7.50	6.25	8.25		7.50	10.00		7.50	9.50	7.00	9.75	8.50
	Suburban Office	8.75	8.50	9.00	8.75	9.35	8.75	9.00	9.00	8.50	9.75	7.00	7.00	7.25	8.50	8.50	9.00		8.50	9.50	9.00	8.75	8.76
	Industrial	7.75	8.50	9.75	7.75	9.60		8.75	8.25	8.25		8.00	6.50	6.50			9.00	9.50	9.00		8.00	8.50	8.54
	Flex Industrial	9.25	9.00	9.75	8.75	9.10		9.50	9.50			8.00	7.25	7.25			10.00	9.50			8.75	9.50	9.02
	Urban Multifamily	7.00	6.60	7.75	6.00	9.00	6.25	7.75	5.50	6.50	6.00	5.50	5.25	5.50		5.75	7.50		6.00	9.00	5.75	8.00	6.88
	Suburban Multifamily		7.00	8.00	6.50	7.00	6.50	7.75	5.75	6.50	6.50	6.00	5.50	5.25		6.50	7.00		6.75	7.75	7.25	6.50	6.98
	Community Retail			8.50	7.75	9.00		9.25	7.50			7.50	6.50	6.50	8.50	7.00	8.75			9.00	8.25	8.50	8.24
	Neighborhood Retail			8.25	7.50	9.00	8.50	9.25	7.25			7.50	6.75	6.75	8.75	7.25	9.00			9.50	8.25	8.25	8.43

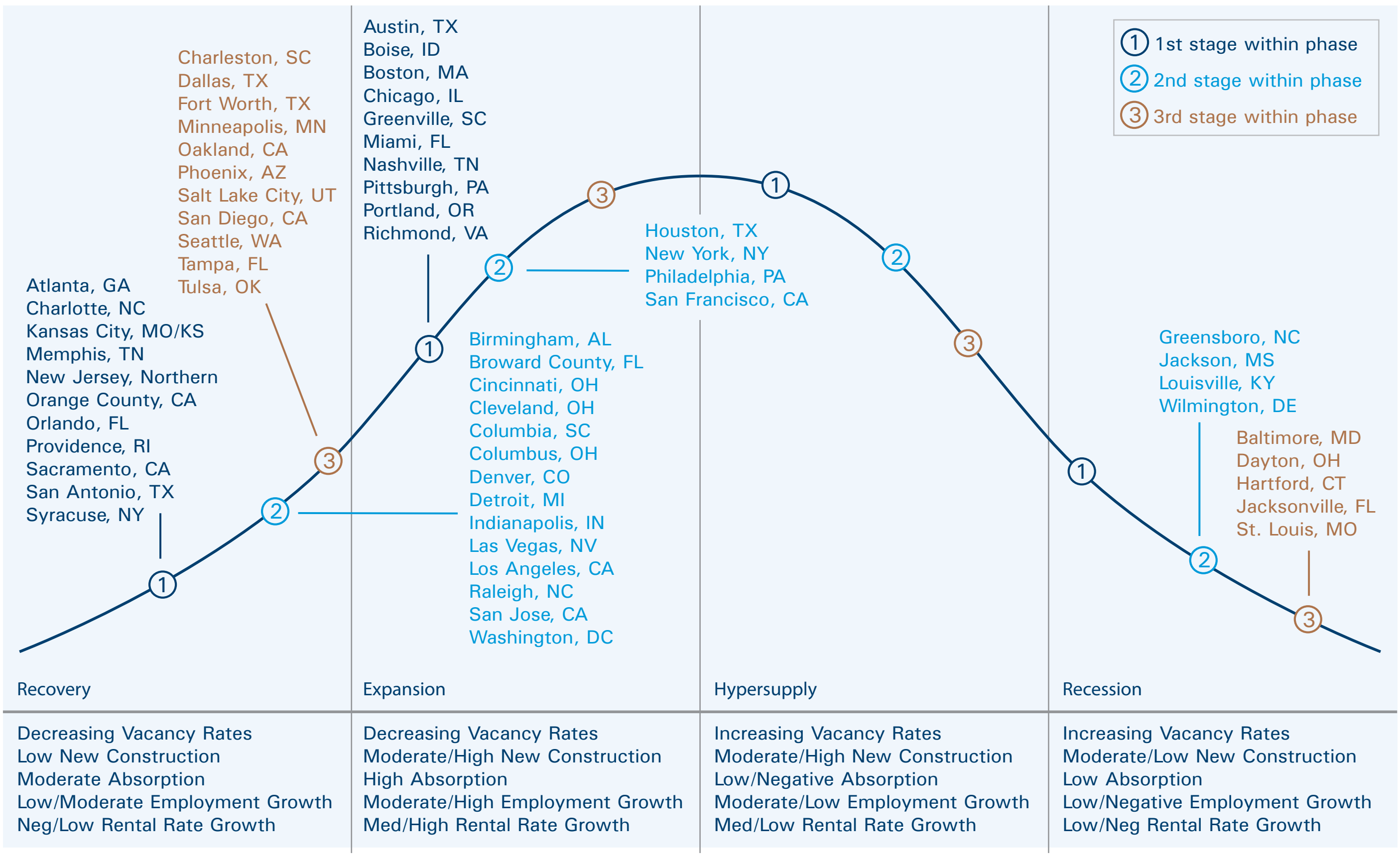
Office

Office markets across the country continued to recover from the recession in 2013. While overall occupancy levels were not reported to have improved materially, average rents have stabilized enough to create investor confidence in the asset class. As a result, average Class A cap rates for office product compressed further in 2013.

The office sector is exhibiting the most divergent performance between markets of any of the major property classes. Several market areas remained mired in the recessionary phase of the office market cycle, while an increasing number of markets are exhibiting strong enough growth to demand new product and are in the expansion phase of the cycle again. Such market divergence in the cycle is less apparent in the other property classes, suggesting that office product demand may be more localized, while supply may not be able to react as quickly to changing market conditions.

Office market transaction volumes were relatively steady compared to 10-year historical averages in 2013. Bright spots included **New York City, Los Angeles, Houston,** and **Seattle,** while major markets such as **Boston, Chicago,** and especially **Washington, DC** lagged historic transaction volume performance. Average office transaction prices were materially higher in 2013 in **Austin, Charlotte,**

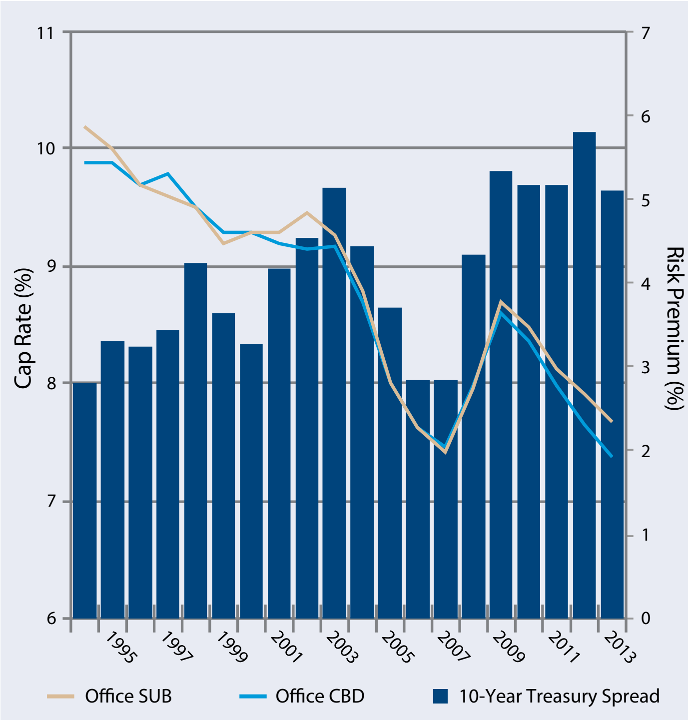
CBD Office Market Cycle (Fig. 8)



2014 Office Market Conditions and Forecasts: Central Business District (Table 9)

MARKET AREA	CLASS A INVENTORY (SF)	CLASS A VACANCY RATE (%)	CLASS B INVENTORY (SF)	CLASS B VACANCY RATE (%)	CLASS A & B TOTAL INVENTORY (SF)	CLASS A & B WEIGHTED VACANCY RATE (%)	CLASS A & B AVG ANNUAL NET ABSORP. 2010-2013 (SF)	CLASS A & B FORECAST AVG ANNUAL NET ABSORP. 2014-2016	CLASS A & B ESTIMATED YEARS TO BALANCE (A/B)
Atlanta, GA	11,049,000	20.40%	5,164,000	36.30%	16,213,000	25.46%	-577,000	900,000	2 / 2
Austin, TX	6,584,096	8.00%	3,545,282	15.00%	10,129,378	10.45%	55,950	293,040	2 / 2
Baltimore, MD	9,202,000	14.40%	11,905,000	12.50%	21,107,000	13.33%	10,000	-40,000	3 / 5
Birmingham, AL	2,833,000	6.00%	2,524,000	10.00%	5,357,000	7.88%	65,000	20,000	1 / 3
Boise, ID	3,191,769	6.77%	1,667,270	12.58%	4,859,039	8.76%	0	0	2 / 4
Boston, MA	37,000,000	13.50%	25,000,000	11.50%	62,000,000	12.69%	0	0	1 / 2
Broward County, FL	12,450,000	16.75%	37,300,000	19.50%	49,750,000	18.81%	453,262	852,132	2 / 3
Charleston, SC	957,994	8.30%	1,174,475	10.12%	2,132,469	9.30%	25,000	15,000	N/A
Charlotte, NC	13,368,099	11.40%	3,435,800	10.80%	16,803,899	11.28%	-123,333	0	2 / 4
Chicago, IL	54,000,000	13.00%	44,000,000	16.00%	98,000,000	14.35%	412,145	-142,472	2 / 4
Cincinnati, OH	7,000,000	15.00%	8,500,000	17.00%	15,500,000	16.10%	275,000	250,000	2 / 3
Cleveland, OH	8,900,000	18.00%	15,200,000	25.50%	24,100,000	22.73%	-359,500	30,000	3 / 4
Columbia, SC	2,860,000	11.00%	5,694,000	6.60%	8,554,000	8.07%	0	0	1 / 1
Columbus, OH	9,480,000	11.00%	11,660,000	8.50%	21,140,000	9.62%	100,000	75,000	2 / 3
Dallas, TX	22,636,841	25.90%	8,258,889	31.40%	30,895,730	27.37%	-124,000	285,667	6 / 6
Dayton, OH	1,900,000	26.00%	7,700,000	28.00%	9,600,000	27.60%	0	60,000	10 / 11+
Denver, CO	20,631,032	13.70%	10,797,882	12.30%	31,428,914	13.22%	120,000	190,000	1 / 2
Detroit, MI	14,500,000	19.00%					575,000	600,000	2 / 2
Fort Worth, TX	5,723,651	13.80%	4,401,002	11.10%	10,124,653	12.63%	-10,250	88,667	2 / 2
Greensboro, NC	5,190,098	6.90%	847,919	12.10%	6,038,017	7.63%	0	0	3 / 8
Greenville, SC	2,355,000	19.00%	2,235,000	6.10%	4,590,000	12.72%	85,000	100,000	2 / 1
Hartford, CT	6,571,000	23.10%	1,575,000	24.00%	8,146,000	23.27%	-20	0	5 / 5
Houston, TX	32,840,000	10.00%	19,890,000	11.50%	52,730,000	10.57%	-10,000	310,000	1 / 1
Indianapolis, IN	6,306,000	18.00%	3,756,000	18.30%	10,062,000	18.11%	-85,594	80,000	3 / 3
Jackson, MS	2,500,000	35.00%	4,000,000	40.00%	6,500,000	38.08%	0	0	5 / 8
Jacksonville, FL	6,850,000	13.40%	6,500,000	14.00%	13,350,000	13.69%	145,000	150,000	3 / 10
Kansas City, MO/KS	5,460,000	17.00%	8,540,000	19.00%	14,000,000	18.22%	155,000	50,000	4 / 5
Las Vegas, NV	4,007,915	6.10%	946,341	17.90%	4,954,256	8.35%	145,859	220,000	2 / 4
Los Angeles, CA	37,927,687	15.25%	19,243,831	13.00%	57,171,518	14.49%	-150,000	100,000	5 / 10
Louisville, KY	3,804,689	14.66%	1,025,998	15.75%	4,830,687	14.89%	-50,000	150,000	3 / 1
Memphis, TN	2,009,825	27.80%	4,684,354	6.50%	6,694,179	12.89%	25,000	25,000	5 / 11+
Miami, FL	9,250,000	17.50%	9,600,000	20.50%	18,850,000	19.03%	171,738	322,868	2 / 3
Minneapolis, MN	16,279,000	14.30%	10,898,000	15.30%	27,177,000	14.70%	280,000	300,000	1 / 2
Nashville, TN	3,200,000	8.00%	3,600,000	25.00%	6,800,000	17.00%	250,000	300,000	3 / 3
New Jersey, Northern	9,000,000	18.00%	3,000,000	22.00%	12,000,000	19.00%	100,000	125,000	3 / 3
New York, NY	155,000,000	9.60%	190,000,000	9.10%	345,000,000	9.32%	10,000,000	5,000,000	3 / 2
Oakland, CA	8,590,071	10.50%	9,085,189	11.44%	17,675,260	10.98%	-12,573	712	2 / 2
Orange County, CA	41,780,000	18.30%	40,366,000	16.20%	82,146,000	17.27%	-56,623	107,000	5 / 2
Orlando, FL	4,294,000	18.20%	2,293,000	20.00%	6,587,000	18.83%	-18,250	205,000	3 / 3
Philadelphia, PA	36,900,000	12.80%	17,785,000	7.00%	54,685,000	10.91%	0	0	1 / 1
Phoenix, AZ	9,636,011	22.00%	10,100,043	20.00%	19,736,054	20.98%	115,000	200,000	3 / 4
Pittsburgh, PA	17,038,432	8.00%	11,349,077	14.90%	28,387,509	10.76%	7,629	200,000	N/A / 5
Portland, OR	11,870,377	9.60%	14,333,731	8.90%	26,204,108	9.22%	137,131	160,000	4 / 3
Providence, RI	1,890,000	12.00%	1,235,000	14.00%	3,125,000	12.79%	71,000	88,000	3 / 3
Raleigh, NC	3,500,591	7.75%	1,771,038	7.50%	5,271,629	7.67%	335,667	0	1 / 1
Richmond, VA	5,200,000	8.20%	9,500,000	12.10%	14,700,000	10.72%	10,000	150,000	1 / 2
Sacramento, CA	9,064,484	10.20%	10,100,987	12.70%	19,165,471	11.52%	-77,392	49,284	3 / 3
Salt Lake City, UT	4,401,563	14.60%	6,602,344	24.60%	11,003,907	20.60%	-50,000	150,000	2 / 3
San Antonio, TX	2,326,000	31.70%	2,659,000	25.30%	4,985,000	28.29%	-47,666	72,000	10 / 10
San Diego, CA	5,881,631	13.60%	5,102,377	20.70%	10,984,008	16.90%	-20,000	150,000	1 / 1
San Francisco, CA	41,250,046	8.20%	14,786,619	12.60%	56,036,665	9.36%	506,101	214,980	1 / 1
San Jose, CA	4,649,634	17.34%	9,645,187	12.96%	14,294,821	14.39%	52,267	11,484	3 / 3
Seattle, WA	34,144,000	13.00%	30,417,000	9.30%	64,561,000	11.26%	775,000	875,000	2 / 2
St. Louis, MO	5,400,000	18.00%	6,200,000	26.00%	11,600,000	22.28%	10,000	0	10 / 10
Syracuse, NY	1,946,000	12.30%	4,289,000	24.20%	6,235,000	20.49%	-50,000	50,000	1 / 5
Tampa, FL	4,124,000	13.40%	2,909,000	25.00%	7,033,000	18.20%	6,500	35,000	2 / 2
Tulsa, OK	3,881,216	5.80%	2,119,062	31.40%	6,000,278	14.84%	200,000	150,000	1 / 11+
Washington, DC	81,411,000	12.00%	49,118,000	10.30%	130,529,000	11.36%	1,160,000	1,380,000	3 / 5
Wilmington, DE	7,200,000	14.00%	5,300,000	18.00%	12,500,000	15.70%	95,000	90,000	8 / 11+
Totals / Simple Average	899,197,752	14.53%	765,336,697	16.72%	1,650,034,449	15.29%	256,069	255,057	3.3 / 4.8
Weighted Average		13.16%		13.72%		13.37%			

Class A Office Cap Rates (Fig. 10)



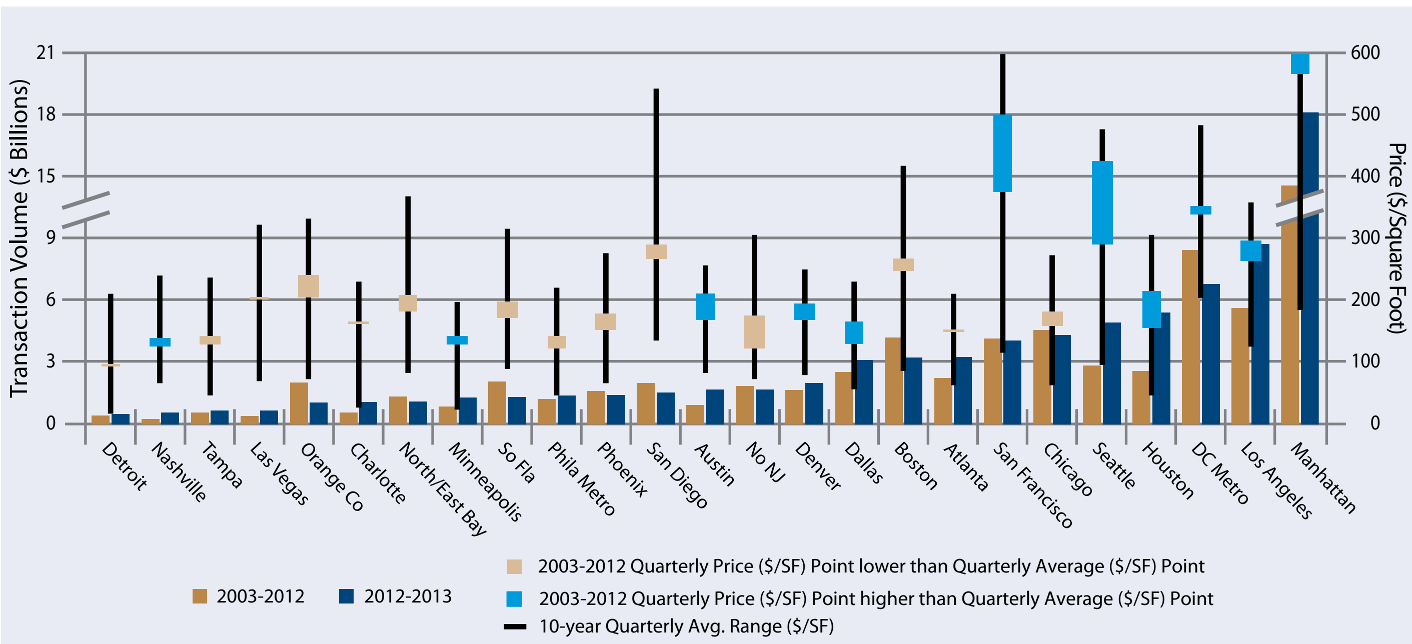
Houston, and Nashville, while average transaction prices slumped notably in **Boston, Miami-Palm Beach, Orange County, and San Diego.**

Capitalization rates for office properties continued a fourth year of compression. After tracking very closely for several years, it is becoming more evident that a bifurcation has occurred between CBD and Suburban office capitalization rates. While Suburban rates have continued to compress and produce quality investment returns, they have not done so to the same extent as CBD rates, with the latter asset class beginning to exhibit a clear real estate investment community preference.

Capitalization Rates

In IRR's comparison of average going-in capitalization rates across regions, rates remain lowest in the West followed by the East, and then the South. Capitalization rates in the Central region lag all other regions by a material margin, exhibiting the largest regional differential of any of the major asset classes. This regional variation with respect to the Central region was exacerbated in 2013 when average rates in the region

Top 25 Markets by Office Transaction Rate (Fig. 11)



Source: Real Capital Analytics, compiled by IRR

Class A Office - Regional Rates Comparison (Fig. 12)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ	2013 Δ Cap Rate
South Region					
CBD	7.57%	8.77%	8.08%	+ 120 bps	- 27 bps
Suburban	7.98%	9.15%	8.50%	+ 117 bps	- 21 bps
East Region					
CBD	7.07%	8.02%	7.38%	+ 95 bps	- 39 bps
Suburban	7.54%	8.49%	7.96%	+ 95 bps	- 13 bps
Central Region					
CBD	8.39%	9.43%	8.93%	+ 105 bps	No Δ
Suburban	8.14%	9.27%	8.66%	+ 114 bps	- 14 bps
West Region					
CBD	6.47%	8.07%	7.02%	+ 160 bps	- 34 bps
Suburban	6.92%	8.45%	7.45%	+ 154 bps	- 42 bps
National Averages [1] / Spreads					
CBD Office	**7.37%**	**8.59%**	**7.86%**	**+ 122 bps**	**- 29 bps**
Suburban Office	**7.68%**	**8.88%**	**8.19%**	**+ 120 bps**	**- 23 bps**

[1] Non-weighted regional/national average figures

were reported to have remained steady for CBD product and to have fallen only 14 basis points for Suburban assets, while average rates in the other three regions dropped more markedly (ranging from 21 basis points to 42 basis points tighter).

Regional Comparisons

When comparing Class A and Class B capitalization rates, similar regional variations remain fairly consistent. One trend of note with respect to Class B capitalization rates is that the differential between Class A and Class B rates appears to be materially tighter for Suburban product compared to CBD product. Additionally, Class B capitalization rates demonstrate less variance from their respective expected reversion rates, indicating that the asset class may be less likely to experience value volatility over the long term.

Property Fundamentals

Office property fundamentals in CBD areas were relatively stagnant in 2013. Non-inventory weighted average vacancy actually rose slightly from 15.01% to 15.29%, while inventory-weighted vacancy rose by a similar amount nationally, from 13.16% to 13.37%.

Class A office product was seen to be improving faster than Class B assets, with the estimated years to balance for Class A product decreasing slightly to 3.3 years while the average years to stabilization for Class B product rose slightly to 4.8 years. Absorption across all office property classes is expected to increase in the next three years. This may occur at a pace somewhat faster than the only mildly positive pace experienced over the past three years.

Class B Office - Regional Rates Comparison (Fig. 13)

	Cap Rates [1]	Discount Rates [1]	Reversion Rates [1]	Cap - Discount Rates Δ
South Region				
CBD	8.26%	9.37%	8.76%	+ 110 bps
Suburban	8.47%	9.59%	9.06%	+ 113 bps
East Region				
CBD	7.93%	9.14%	8.29%	+ 120 bps
Suburban	8.33%	9.28%	8.70%	+ 95 bps
Central Region				
CBD	8.98%	10.00%	9.53%	+ 103 bps
Suburban	8.63%	9.65%	9.15%	+ 103 bps
West Region				
CBD	6.95%	8.55%	7.50%	+ 161 bps
Suburban	7.45%	9.04%	8.01%	+ 159 bps
National Averages [1] / Spreads				
CBD Office	**8.01%**	**9.24%**	**8.50%**	**+ 123 bps**
Suburban Office	**8.23%**	**9.41%**	**8.76%**	**+ 118 bps**

[1] Non-weighted regional/national average figures

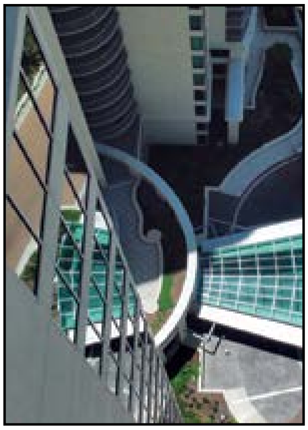
Suburban office market fundamentals improved in 2013. Non-inventory weighted vacancy rates of Suburban Class B office product dropped from 15.65% to 14.48%. On an inventory-weighted basis, the drop was less pronounced, declining from 15.17% to 14.99%, indicating that smaller suburban office markets outperformed their larger peers in 2013.

This is a reversal of a previous trend in which major suburban markets led the recovery in the sector. Similar to its CBD peer, Class A Suburban office markets are expected to reach stabilization faster than Class B product. Overall, both Class A & B Suburban office product types are expected to reach a supply and demand balance more quickly than was expected one year prior. These improved expectations are largely driven by the anticipation of vastly improved space absorption in the suburban marketplaces.

2014 Office Market Conditions and Forecasts: Suburban Market Area (Table 14)

MARKET AREA	CLASS A INVENTORY (SF)	CLASS A VACANCY RATE (%)	CLASS B INVENTORY (SF)	CLASS B VACANCY RATE (%)	CLASS A & B TOTAL INVENTORY (SF)	CLASS A & B WEIGHTED VACANCY RATE (%)	CLASS A & B AVG ANNUAL NET ABSORP. 2010-2013 (SF)	CLASS A & B FORECAST AVG ANNUAL NET ABSORP. 2014-2016	CLASS A & B ESTIMATED YEARS TO BALANCE (A/B)
Atlanta, GA	73,007,000	17.70%	53,450,000	24.10%	126,457,000	20.41%	-1,486,000	3,120,000	2 / 2
Austin, TX	16,199,228	12.00%	24,298,841	14.50%	40,498,069	13.50%	692,383	577,829	2 / 2
Baltimore, MD	42,382,000	14.70%	74,743,000	12.20%	117,125,000	13.10%	2,035,000	250,000	4 / 6
Birmingham, AL	5,082,000	11.90%	7,873,000	18.60%	12,955,000	15.97%	-110,000	150,000	3 / 5
Boise, ID	6,707,725	9.96%	7,546,978	15.22%	14,254,703	12.74%	0	0	4 / 6
Boston, MA	57,000,000	19.00%	45,000,000	24.00%	102,000,000	21.21%	0	0	3 / 4
Broward-Palm Beach, FL	18,350,000	13.50%	55,100,000	16.00%	73,450,000	15.38%	321,210	368,797	2 / 3
Charleston, SC	3,500,470	8.10%	3,324,993	12.71%	6,825,463	10.35%	75,000	65,000	N/A / 3
Charlotte, NC	24,842,085	12.70%	7,879,442	20.10%	32,721,527	14.48%	0	594,660	3 / 4
Chicago, IL	84,570,799	25.50%	134,193,776	18.20%	218,764,575	21.02%	1,411,070	291,896	5 / 10
Cincinnati, OH	10,900,000	20.00%	11,600,000	20.00%	22,500,000	20.00%	150,000	425,000	4 / 5
Cleveland, OH	12,200,000	10.50%	41,000,000	12.70%	53,200,000	12.20%	620,000	520,000	2 / 4
Columbia, SC	1,075,000	16.60%	16,100,000	10.20%	17,175,000	10.60%	0	0	4 / 1
Columbus, OH	17,910,000	12.00%	27,800,000	10.00%	45,710,000	10.78%	260,000	100,000	2 / 3
Dallas, TX	87,008,035	14.30%	115,699,114	15.10%	202,707,149	14.76%	537,000	962,967	6 / 6
Dayton, OH	3,500,000	12.00%	27,200,000	11.50%	30,700,000	11.56%	80,000	500,000	4 / 4
Denver, CO	35,072,847	11.90%	69,365,316	14.10%	104,438,163	13.36%	2,000,000	2,200,000	2 / 3
Detroit, MI	129,500,000	18.50%					-2,650,000	1,200,000	11+ / 11+
Fort Worth, TX	9,510,824	17.50%	37,023,916	9.90%	46,534,740	11.45%	7,750	142,333	2 / 2
Greensboro, NC	847,919	16.35%	7,316,594	18.80%	8,164,513	18.55%	-51,250	295,000	5 / N/A
Greenville, SC	4,435,000	5.00%	17,575,000	8.00%	22,010,000	7.40%	325,000	350,000	2 / 2
Hartford, CT	4,275,000	14.50%	13,525,000	16.00%	17,800,000	15.64%	-20	10	4 / 4
Houston, TX	77,520,000	10.00%	100,550,000	14.25%	178,070,000	12.40%	800,000	250,000	1 / 5
Indianapolis, IN	10,252,000	18.10%	8,453,000	22.30%	18,705,000	20.00%	383,000	385,000	4 / 3
Jackson, MS	4,000,000	15.00%	9,000,000	20.00%	13,000,000	18.46%	0	0	2 / 3
Jacksonville, FL	9,200,000	8.00%	24,000,000	13.90%	33,200,000	12.27%	435,000	450,000	3 / 5
Kansas City, MO/KS	11,136,000	15.00%	23,664,000	17.00%	34,800,000	16.36%	150,000	260,000	2 / 3
Las Vegas, NV	8,686,671	29.20%	31,060,110	26.56%	39,746,781	27.14%	-954,749	300,000	8 / 11+
Long Island, NY	22,000,000	15.50%	29,000,000	16.00%	51,000,000	15.78%	500,000	600,000	4 / 5
Los Angeles, CA	141,156,106	16.00%	121,060,874	15.00%	262,216,980	15.54%	-100,000	450,000	4 / 4
Louisville, KY	5,181,073	14.92%	929,070	14.41%	6,110,143	14.84%	150,000	200,000	1 / 1
Memphis, TN	9,401,943	8.20%	21,802,917	15.30%	31,204,860	13.16%	75,000	75,000	2 / 5
Miami, FL	24,650,000	14.50%	56,250,000	11.00%	80,900,000	12.07%	353,790	406,203	2 / 3
Minneapolis, MN	15,031,000	14.40%	35,012,000	15.20%	50,043,000	14.96%	70,000	150,000	1 / 3
Naples, FL	3,512,954	19.70%	24,165,797	12.50%	27,678,751	13.41%	275,500	275,100	3 / 3
Nashville, TN	10,000,000	6.00%	11,250,000	13.00%	21,250,000	9.71%	515,000	500,000	1 / 1
New Jersey, Coastal	5,360,000	15.00%	21,440,000	15.00%	26,800,000	15.00%	85,000	145,000	4 / 4
New Jersey, Northern	87,000,000	19.00%	58,000,000	16.00%	145,000,000	17.80%	2,000,000	4,000,000	5 / 5
New York, NY	19,000,000	19.00%	16,000,000	21.00%	35,000,000	19.91%	-200,000	2,300,000	4 / 5
Oakland, CA	18,239,488	8.60%	77,052,154	11.00%	95,291,642	10.54%	494,034	66,944	2 / 2
Orange County, CA	44,121,384	14.20%	85,641,297	11.50%	129,762,681	12.42%	644,043	534,314	5 / 2
Orlando, FL	11,858,000	16.70%	14,216,000	19.70%	26,074,000	18.34%	-113,000	358,700	4 / 9
Philadelphia, PA	59,400,000	12.10%	86,900,000	13.80%	146,300,000	13.11%	0	0	3 / 3
Phoenix, AZ	31,309,491	18.50%	85,453,029	19.50%	116,762,520	19.23%	1,630,000	1,750,000	3 / 3
Pittsburgh, PA	9,641,506	5.90%	26,420,923	7.80%	36,062,429	7.29%	-10,000	40,000	N/A / 5
Portland, OR	15,432,056	10.70%	22,869,198	8.20%	38,301,254	9.21%	540,155	550,000	4 / 5
Providence, RI	3,625,000	17.00%	2,985,000	15.30%	6,610,000	16.23%	60,000	70,000	3 / 3
Raleigh, NC	28,375,889	15.20%	7,315,129	15.95%	35,691,018	15.35%	0	652,333	3 / 5
Richmond, VA	13,800,000	10.50%	20,900,000	10.50%	34,700,000	10.50%	100,000	200,000	1 / 1
Sacramento, CA	17,202,125	14.70%	61,816,130	16.10%	79,018,255	15.80%	792,329	469,012	5 / 5
Salt Lake City, UT	7,120,935	11.00%	14,457,656	14.40%	21,578,591	13.28%	500,000	400,000	1 / 1
San Antonio, TX	9,905,000	13.20%	14,011,000	17.20%	23,916,000	15.54%	-126,084	320,667	1 / 1
San Diego, CA	26,066,317	10.30%	50,600,761	13.50%	76,667,078	12.41%	1,475,000	1,150,000	1 / 1
San Francisco, CA	33,025,634	13.10%	71,499,164	8.10%	104,524,798	9.68%	1,084,583	190,416	1 / 1
San Jose, CA	17,494,134	12.17%	75,652,940	9.70%	93,147,074	10.16%	1,974,311	1,181,220	1 / 1
Sarasota, FL	2,290,430	9.90%	22,928,585	11.70%	25,219,015	11.54%	43,000	90,000	3 / 3
Seattle, WA	22,559,374	9.61%	66,609,294	11.02%	89,168,668	10.66%	225,000	250,000	2 / 2
St. Louis, MO	16,200,000	10.50%	17,600,000	16.50%	33,800,000	13.62%	0	700,000	3 / 5
Syracuse, NY	2,137,000	10.20%	6,913,000	6.63%	9,050,000	7.47%	-45,000	0	3 / 3
Tampa, FL	20,174,000	21.20%	20,521,000	23.30%	40,695,000	22.26%	-54,000	35,000	1 / 1
Tulsa, OK	3,192,582	5.75%	8,434,407	22.76%	11,626,989	18.09%	25,000	100,000	1 / 11+
Washington, DC	143,761,000	18.40%	136,739,000	16.50%	280,500,000	17.47%	1,055,000	4,258,333	5 / 5
Wilmington, DE	7,100,000	15.00%	11,700,000	13.50%	18,800,000	14.07%	-95,000	140,000	5 / 8
Totals/Simple Average	1,674,995,024	13.91%	2,398,488,405	15.07%	3,943,983,429	14.48%	300,858	577,250	3.08 / 4.18
Weighted Average		15.65%		14.72%		14.99%			

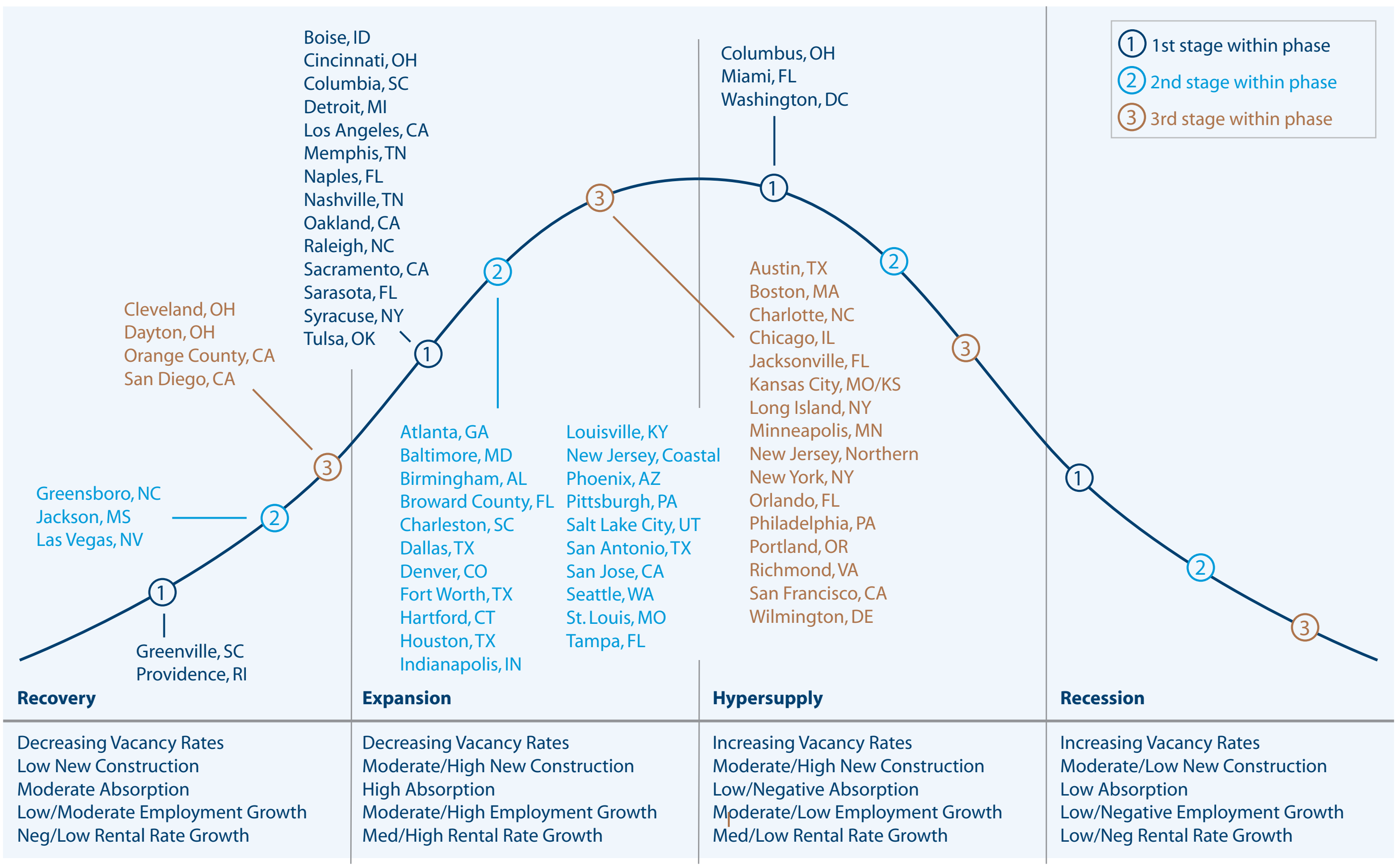
Apartments



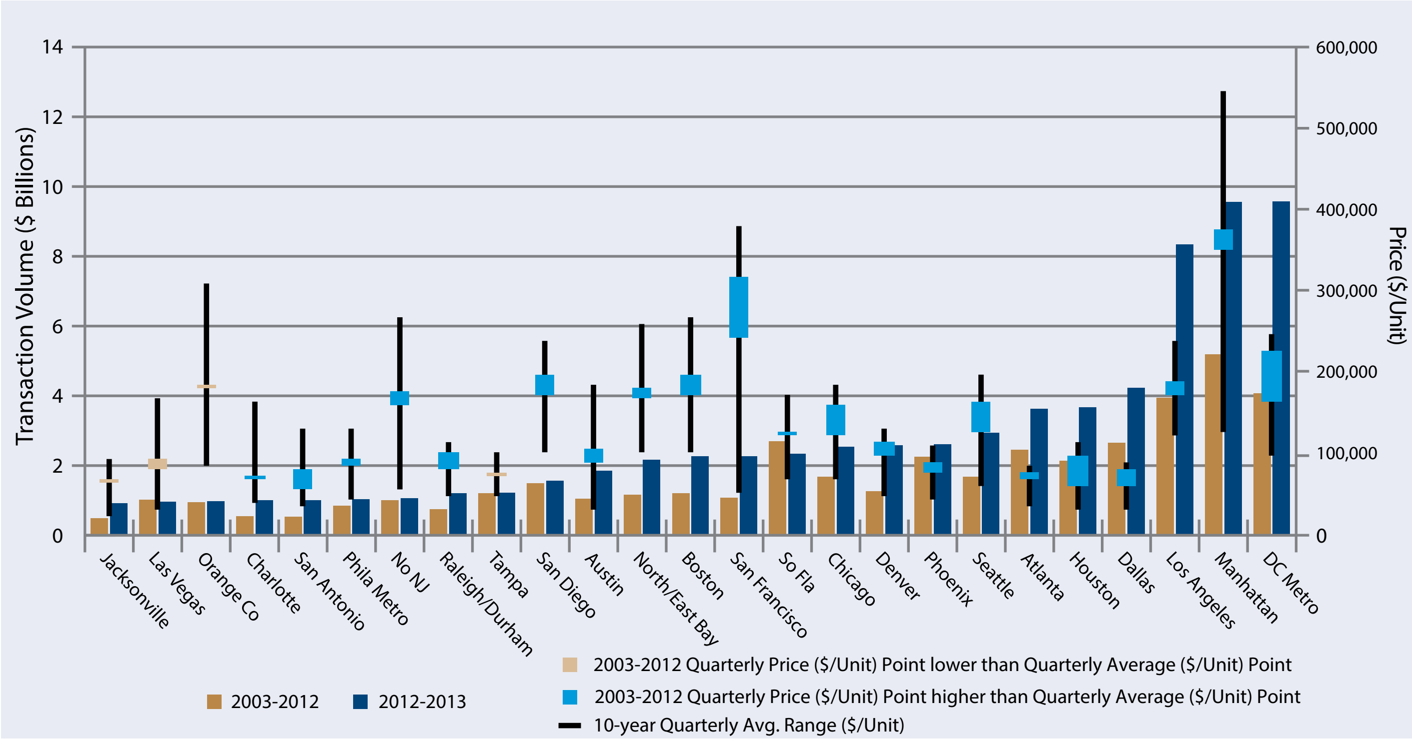
The apartment sector continued to lead the commercial real estate recovery in 2013. Property fundamentals continued to improve nationally, while capitalization rates continued to compress across most of the country. While national apartment cap rates are exhibiting historical lows, there are signs that cap rates may be reaching a floor and beginning to reverse course, as IRR actually observed a slight softening of cap rates in the South Region in 2013. Overall, the apartment market's performance has continued to lead the national real estate recovery, and the vast majority of IRR markets report moderate to heavy development activity in the sector as a result.

In addition to development activity, apartment transaction volumes were exceptionally high in 2013, and there was a notable uptick in the average sales price per unit over 2012 and the 10-year historical average price. These trends were especially true in **Los Angeles**, **New York City**, and **Washington, DC**, where three of the nation's largest apartment markets were also some of its most active in 2013, with each of these markets nearly doubling their respective average 10-year sale volumes. Of the 25 most active apartment markets, only **South Florida** and **Las Vegas** trailed their 10-year average volumes.

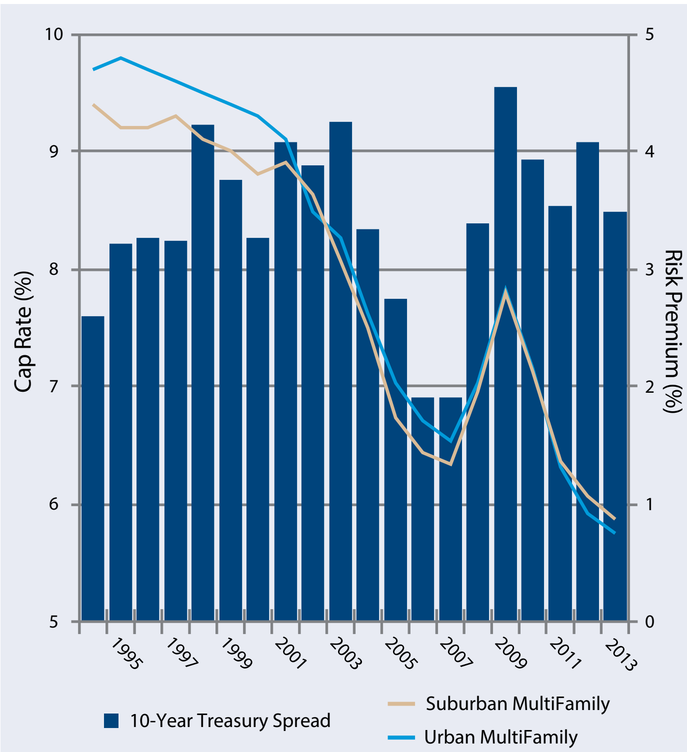
Apartment Cycle Chart (Fig.15)



Top 25 Markets by Apartment Transaction Volume (Fig. 16)



Class A Apartment Capitalization Rate Trends (Fig. 17)



One interesting trend to note is that Class B occupancy rates are actually slightly higher than Class A peers. Another interesting trend is that the difference between the average Urban and Suburban cap rates compressed slightly in 2013, perhaps exhibiting a tendency to trade in a tighter range as they did for several years before a wider differential began developing approximately two years ago.

In terms of regional trends, IRR observed definite shifts in regional views of the apartment sector. The West Region continued to see moderately strong cap rate compression in 2013 from already historic average lows in 2012. Meanwhile, the South Region may have reached a cap rate trough and exhibited some softening, with reported Urban and Suburban Class A cap rates rising 17 and 18 basis points, respectively, in 2013. The Central Region remains the only geographic region where Class A Suburban assets are trading at a cap rate premium to Urban assets, though this trend reverts to the norm for Class B assets.

Strong property fundamentals as well as the relatively strong availability of financing for multifamily assets has driven continued development in the sector in recent years, and some markets are beginning to enter or approach a hypersupply market cycle. This stage will likely be marked

Class A Apartments - Regional Rates Comparison (Fig. 18)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ	2013 Δ Cap Rate
South Region					
Urban	6.00%	7.59%	6.52%	+ 159 bps	+17 bps
Suburban	6.15%	7.72%	6.65%	+ 157 bps	+18 bps
East Region					
Urban	5.48%	6.95%	5.83%	+ 147 bps	-29 bps
Suburban	5.71%	7.21%	6.11%	+ 150 bps	-19 bps
Central Region					
Urban	6.61%	7.86%	7.25%	+ 125 bps	- 5 bps
Suburban	6.43%	7.80%	6.95%	+ 136 bps	-36 bps
West Region					
Urban	4.85%	7.13%	5.58%	+ 228 bps	-29 bps
Suburban	5.08%	7.38%	5.65%	+ 230 bps	-33 bps
National Averages [1] / Spreads					
Urban	**5.76%**	**7.41%**	**6.31%**	**+ 165 bps**	**- 5 bps**
Suburban	**5.87%**	**7.56%**	**6.38%**	**+ 169 bps**	**-10 bps**

[1] Non-weighted regional/national average figures

by softening or even a stagnation of recent rental rate growth and potentially an uptick in vacancy rates, as newer product comes online and competes for tenants.

Additionally, the apartment sector faces some uncertainty in the capital markets, as private investors have reportedly begun to acquire material preferred equity stakes in Fannie Mae and Freddie Mac, the fuel cells of the sector's debt capital engine. While it is too early to determine the likely outcome of these investment activities into Fannie and Freddie or how the Federal government and regulators might react to such moves, it is hard to imagine that financing liquidity and terms could become much more attractive for the sector than they have been in recent years. Thus, a rise in interest rates or a contraction in debt capital available to multifamily owners could place significant upward pressure on historically low cap rates in the apartment sector in coming years.

Class B Apartments - Regional Rates Comparison (Fig. 19)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ
South Region				
Urban	6.47%	8.01%	6.95%	+ 153 bps
Suburban	6.78%	8.26%	7.25%	+ 149 bps
East Region				
Urban	6.52%	7.67%	7.00%	+ 116 bps
Suburban	6.65%	8.00%	6.83%	+ 135 bps
Central Region				
Urban	7.30%	8.53%	7.80%	+ 123 bps
Suburban	7.18%	8.53%	7.70%	+ 135 bps
West Region				
Urban	5.43%	7.69%	5.97%	+ 226 bps
Suburban	5.61%	7.89%	6.20%	+ 228 bps
National Averages [1] / Spreads				
Urban	**6.39%**	**7.95%**	**6.88%**	**+ 157 bps**
Suburban	**6.53%**	**8.17%**	**6.98%**	**+ 164 bps**

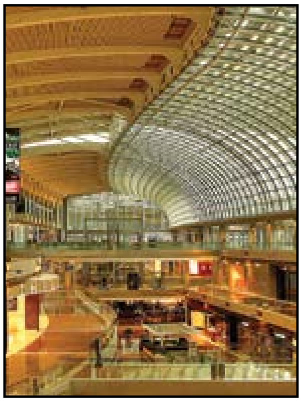
[1] Non-weighted regional/national average figures

2014 Apartment Market Conditions and Forecasts (Table 20)

MARKET AREA	CLASS A INVENTORY (UNITS)	CLASS A VACANCY RATE (%)	CLASS B INVENTORY (UNITS)	CLASS B VACANCY RATE (%)	CLASS A&B TOTAL INVENTORY (UNITS)[1]	CLASS A&B WEIGHTED VACANCY RATE (%)	CLASS A&B AVG ANNUAL NET ABSORP. 2010-2013 (UNITS)	CLASS A&B FORECAST AVG ANNUAL NET ABSORP (UNITS)	CLASS A&B ESTIMATED YEARS TO BALANCE
Atlanta, GA	35,651	3.86%	330,526	6.33%	366,177	6.09%	8,917	7,067	N/A / N/A
Austin, TX	94,023	4.00%	74,077	9.00%	168,100	6.20%	3,305	6,226	1 / 1
Baltimore, MD	62,100	4.59%	85,100	3.37%	147,200	3.88%	2,420	2,000	3 / 1
Birmingham, AL	16,741	5.25%	26,938	5.80%	43,679	5.59%	690	330	2 / 1
Boise, ID	5,536	2.42%	8,352	3.77%	13,888	3.23%	0	0	N/A / N/A
Boston, MA	87,000	4.29%	120,000	3.29%	207,000	3.71%	0	0	N/A / N/A
Broward-Palm Beach, FL	60,975	6.00%	90,164	5.88%	151,139	5.92%	836	1,009	1 / N/A
Charleston, SC	20,426	4.66%	16,714	4.17%	37,140	4.44%	2,000	1,000	3 / 3
Charlotte, NC	56,898	4.55%	46,299	5.51%	103,197	4.98%	2,566	2,464	2 / 2
Chicago, IL	137,500	4.64%	280,800	3.33%	418,300	3.76%	4,874	0	N/A / N/A
Cincinnati, OH	38,100	4.32%	70,900	4.33%	109,000	4.33%	2,250	4,125	N/A / N/A
Cleveland, OH	30,851	2.71%	75,630	2.92%	106,481	2.86%	500	800	1 / 1
Columbia, SC	33,143	7.50%					0	0	1 / 2
Columbus, OH	50,141	3.94%	80,647	4.54%	130,788	4.31%	2,675	2,800	2 / 1
Dallas, TX	214,821	4.99%	212,461	5.20%	427,282	5.09%	8,345	6,876	1 / 1
Dayton, OH	11,100	4.08%	22,400	5.36%	33,500	4.94%	1,450	1,250	N/A / N/A
Denver, CO	43,306	4.28%	86,445	4.09%	129,751	4.15%	0	0	1 / 1
Detroit, MI	238,000	5.61%					0	0	1 / 1
Fort Worth, TX	81,619	5.46%	80,750	5.50%	162,369	5.48%	3,234	1,647	1 / 1
Greensboro, NC	32,379	7.36%	36,517	5.60%	68,896	6.42%	4,445	2,451	1 / N/A
Greenville, SC	33,150	7.30%					450	450	1 / 1
Hartford, CT	23,625	2.70%	40,410	3.66%	64,035	3.30%	40	0	1 / 1
Houston, TX	280,300	5.83%	316,100	6.91%	596,400	6.40%	6,000	8,000	2 / 2
Indianapolis, IN	55,393	4.68%	80,102	5.91%	135,495	5.41%	1,750	975	4 / 3
Jackson, MS	3,300	5.00%	16,000	8.00%	19,300	7.49%	0	0	1 / 2
Jacksonville, FL	17,622	7.68%	53,424	8.23%	71,046	8.10%	1,960	2,105	N/A / 2
Kansas City, MO/KS	50,228	4.49%	68,779	4.37%	119,007	4.42%	1,590	950	1 / 1
Las Vegas, NV	64,348	5.34%	71,773	5.62%	136,121	5.49%	4,052	2,593	1 / 1
Long Island, NY		3.50%					1,500	1,700	N/A / N/A
Los Angeles, CA	251,593	4.97%	540,275	3.03%	791,868	3.65%	5,650	4,700	N/A / N/A
Louisville, KY	31,297	3.48%	10,393	3.46%	41,690	3.47%	140	450	1 / 1
Memphis, TN	12,101	5.35%	26,059	6.69%	38,160	6.27%	1,600	2,250	1 / 2
Miami, FL	35,300	3.27%	75,650	5.15%	110,950	4.55%	1,251	1,510	1 / N/A
Minneapolis, MN	72,108	3.24%	86,828	2.59%	158,936	2.89%	1,100	1,400	1 / 2
Naples, FL			18,094	4.67%			313	250	1 / 1
Nashville, TN	47,670	5.24%	52,635	3.62%	100,305	4.39%	364	400	2 / 1
New Jersey, Coastal	18,300	2.25%	28,200	2.00%	46,500	2.10%	860	630	1 / 1
New Jersey, Northern	302,000	3.48%	684,000	3.71%	986,000	3.64%	2,200	2,400	N/A / N/A
New York, NY	170,000	1.80%	179,000	1.90%	349,000	1.85%	2,000	2,600	1 / 1
Oakland, CA	45,065	3.34%	100,398	2.50%	145,463	2.76%	1,423	1,207	1 / 1
Orange County, CA	81,066	4.00%	129,075	2.50%	210,141	3.08%	1,285	3,359	1 / 1
Orlando, FL	59,419	5.32%	64,852	4.68%	124,271	4.99%	2,512	1,803	N/A / N/A
Philadelphia, PA	203,354	3.70%					0	0	1 / N/A
Phoenix, AZ	88,597	5.55%	177,171	6.08%	265,768	5.90%	6,480	7,250	1 / 1
Pittsburgh, PA	26,672	4.51%	58,379	2.27%	85,051	2.97%	535	550	N/A / N/A
Portland, OR	51,603	3.40%	54,510	2.51%	106,113	2.94%	1,784	2,150	1 / 1
Providence, RI	26,520	6.80%	22,380	6.78%	48,900	6.79%	550	665	3 / 3
Raleigh, NC	59,623	4.71%	47,455	2.89%	107,078	3.90%	2,198	2,304	2 / 2
Richmond, VA	16,000	6.36%	50,000	5.06%	66,000	5.37%	800	800	1 / 1
Sacramento, CA	41,503	3.08%	58,207	3.77%	99,710	3.48%	0	0	N/A / N/A
Salt Lake City, UT	117,995	4.01%					2,900	3,500	2 / 3
San Antonio, TX	75,021	5.57%	79,094	5.74%	154,115	5.65%	3,862	5,951	1 / 1
San Diego, CA	32,863	4.56%	92,749	3.38%	125,612	3.69%	795	730	N/A / N/A
San Francisco, CA	63,246	4.92%	74,283	1.86%	137,529	3.26%	944	970	1 / 1
San Jose, CA	60,362	3.73%	51,837	2.15%	112,199	3.00%	1,191	2,010	1 / 1
Sarasota, FL			15,931	4.20%			223	200	1 / 1
Seattle, WA	58,600	4.33%	116,300	3.97%	174,900	4.09%	3,933	4,700	N/A / N/A
St. Louis, MO	39,650	4.78%	79,780	5.05%	119,430	4.96%	2,000	4,000	1 / 1
Syracuse, NY	7,900	2.39%	9,700	2.73%	17,600	2.58%	200	180	1 / 1
Tampa, FL	74,499	4.51%	89,759	4.40%	164,258	4.45%	3,737	2,150	1 / 1
Tulsa, OK	5,750	4.74%	35,200	7.00%	40,950	6.68%	2,100	1,600	1 / 1
Washington, DC	172,000	4.76%	219,800	3.20%	391,800	3.88%	11,900	10,950	4 / 3
Wilmington, DE	10,400	3.93%	30,600	4.86%	41,000	4.62%	90	45	N/A / N/A
Totals / Simple Averages:	4,236,353	4.54%	5,749,902	4.47%	9,326,588	4.51%	2,107	2,071	1.05 / 0.98
Weighted Averages:		4.55%		4.30%		4.38%			

[1] Excludes markets where both Class A & B inventory metrics were not reported

Retail

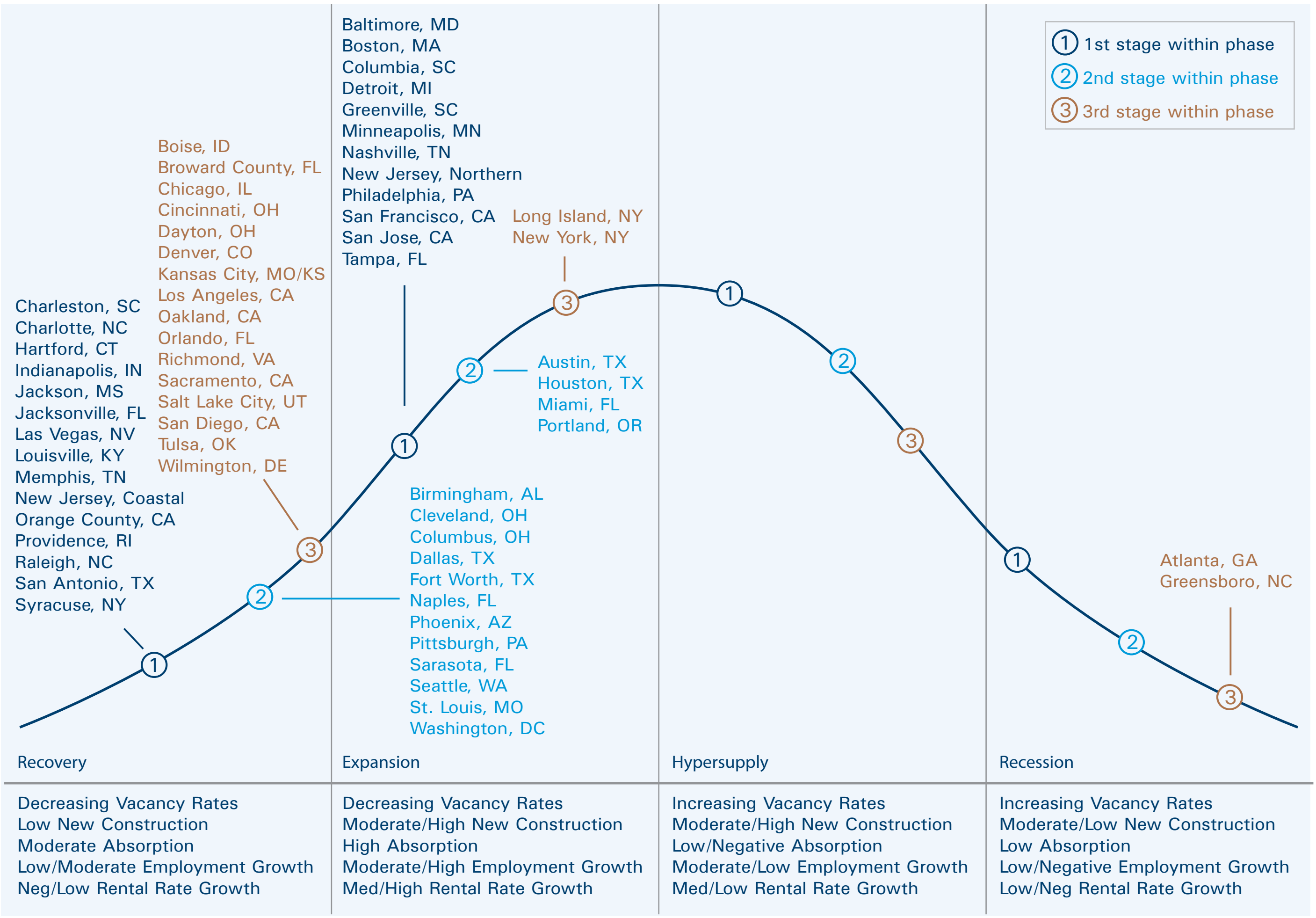


The retail property sector continued its recovery in 2013, with many markets reporting that development activity has resumed. This comes as vacancy rates continued to decline throughout the year, while capitalization rates continued to compress and approach 2007's historic lows. Retail transaction volumes weren't as impressive as some other property sectors in 2013, but still exceeded 10-year average norms.

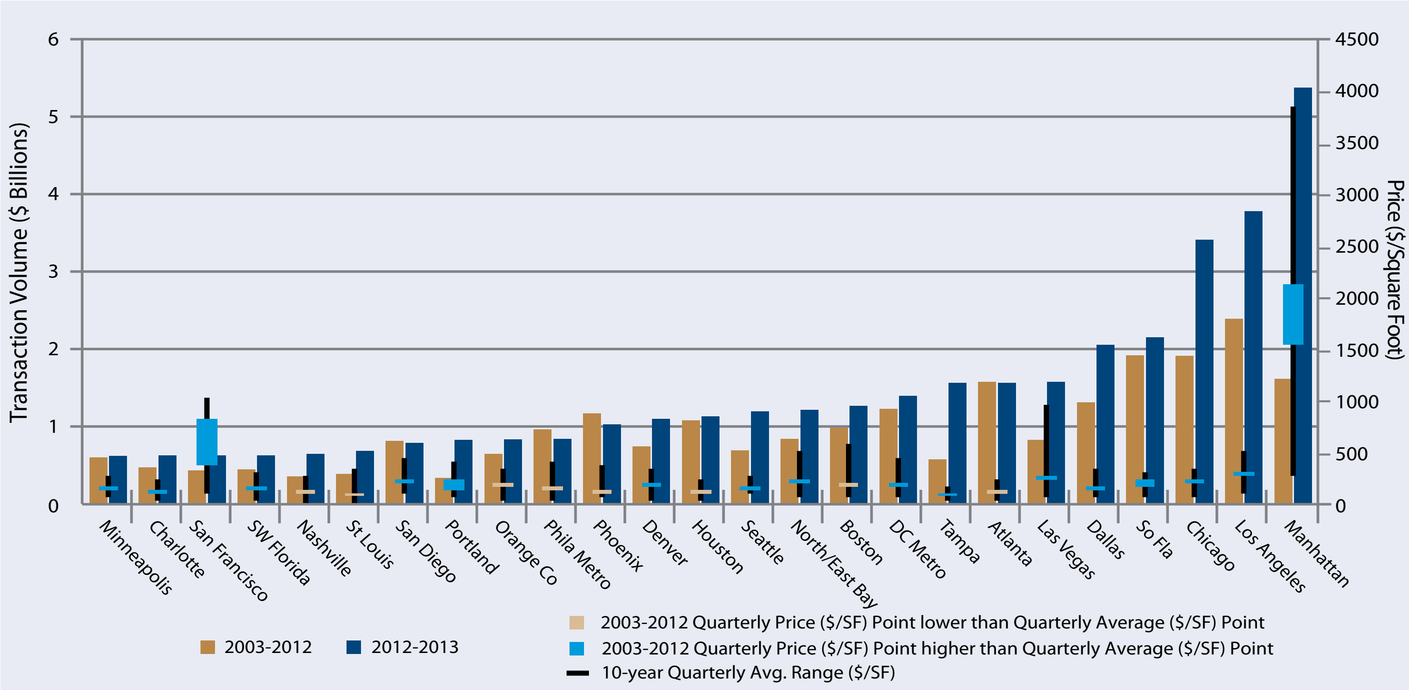
Out of IRR's 63 reporting markets, only **Atlanta** and **Greensboro** observed that the local retail markets remained mired in a recession. Meanwhile, 18 markets representing a wide geographic and population density spectrum reported that development activity has increased materially and the retail sector has again entered the expansion phase of the market cycle.

Retail transaction volumes, especially for "one off" or small portfolios of assets, weren't as robust in the retail sector as experienced in the industrial or – most particularly – apartment sectors in 2013. Several large-scale ownership level transactions did occur in 2013, however, pushing up volume metrics in 2013, especially in the nation's three

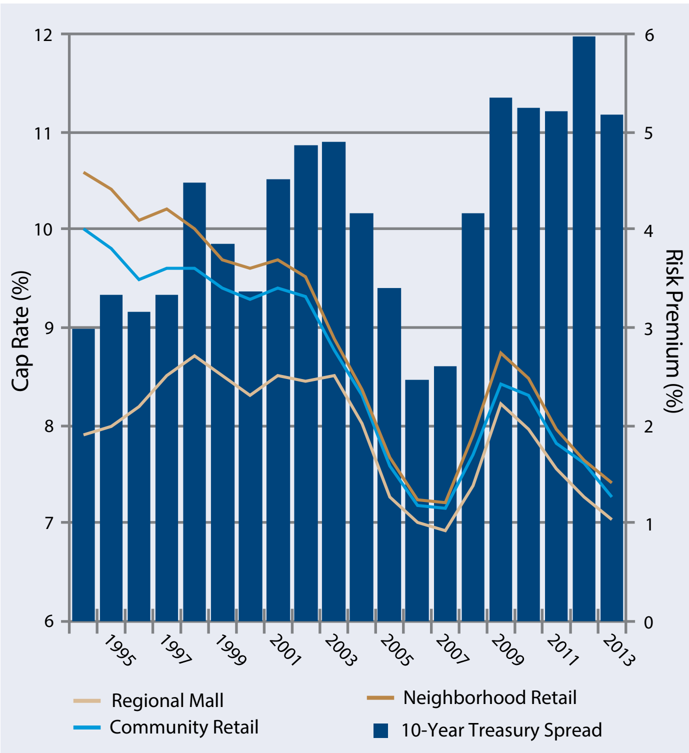
Retail Market Cycle (Fig. 21)



Top 25 Markets by Retail Transaction Volume (Fig. 22)



Class A Retail Capitalization Rate Trends (Fig. 23)



largest markets (**New York City, Los Angeles,** and **Chicago**) which were most affected by these entity-level transactions.

High-end sales such as the Apple Store and One Union Square in **San Francisco** helped drive up the average retail sales prices in 2013 by over 100% from their historical averages. Other markets exhibiting major price increases over historical norms included **Portland** (48.1%), **New York City** (36.8%), **South Florida** (35.5%), and **Denver** (29.1%). Meanwhile, average transaction prices in 2013 slumped most noticeably in **Phoenix** (-21.9%) and **Philadelphia** (-20.5%).

Going-in capitalization rates for Class A retail assets continued to contract in 2013; however, rates remain slightly above the historic lows of 2006-07. A reduction in retail cap rates, combined with slightly higher average 10-year Treasury rates in 2013, reduced the risk premium from its 2012 high to levels more in line with premiums experienced in the 2009-11 timeframe, similar to other asset classes.

The South region experienced a major bifurcation from the national retail market sector with respect to cap rates in 2013. While Class A retail cap rates in the East, Central, and West regions all contracted moderately in 2013, cap rates softened slightly in the South, where Community

Class A Retail - Regional Rates Comparison (Fig. 24)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ	2013 Δ Cap Rate
South Region					
Community	7.63%	8.84%	8.11%	+ 121 bps	+ 15 bps
Neighborhood	7.71%	8.90%	8.21%	+ 119 bps	+ 25 bps
East Region					
Community	6.85%	8.00%	7.32%	+ 115 bps	- 55 bps
Neighborhood	7.03%	8.12%	7.50%	+ 108 bps	- 32 bps
Central Region					
Community	7.75%	8.85%	8.30%	+ 110 bps	- 30 bps
Neighborhood	8.00%	9.00%	8.53%	+ 100 bps	- 32 bps
West Region					
Community	6.64%	8.13%	7.20%	+ 149 bps	- 41 bps
Neighborhood	6.80%	8.27%	7.36%	+ 147 bps	- 40 bps
National Averages [1]/ Spreads					
Community	**7.26%**	**8.50%**	**7.77%**	**+ 124 bps**	**- 21 bps**
Neighborhood	**7.41%**	**8.61%**	**7.91%**	**+ 120 bps**	**- 12 bps**

[1] Non-weighted regional/national average figures

Retail cap rates were reported to have increased 15 basis points and Neighborhood Retail cap rates were reported to have increased 25 basis points. IRR also observed that the spread between going-in capitalization rates and reversion capitalization rates widened in 2013, possibly indicating that going-in rates are unlikely to contract much further in the future before reverting to higher long-term norms.

Retail property fundamentals continued to improve throughout 2013. Average (non-inventory weighted) reported market vacancy rates for retail assets decreased from 9.04% in 2012 to 8.42% in 2013. The reduction in year-over-year vacancy rates appears to be even stronger in the country's largest retail markets, as the weighted average vacancy rate dropped even further from 8.06% to 7.65%. Looking forward, increased projected absorption activity is expected to drive further gains in occupancy and rental rates for the retail property sector over the next three years.

In addition to property fundamentals improving for local retail assets, regional mall assets also saw a material improvement in occupancy rates and investor demand in 2013. Nationally, the average regional mall vacancy rate reportedly dropped from 7.62% in 2012 to 6.93% in 2013. Several large mergers and acquisitions of retail REITs also contributed to strong demand for this asset type which helped drive down average cap rates in the regional mall sector in 2013 to levels not experienced since 2006. A continued downward trend in regional mall cap rates in 2014 could even eclipse record lows set in 2013.

Class B Retail - Regional Rates Comparison (Fig. 25)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ
South Region				
Community	8.04%	9.20%	8.54%	+ 116 bps
Neighborhood	8.27%	9.43%	8.75%	+ 116 bps
East Region				
Community	7.46%	8.52%	7.95%	+ 106 bps
Neighborhood	7.65%	8.67%	8.16%	+ 102 bps
Central Region				
Community	8.40%	9.40%	8.90%	+ 100 bps
Neighborhood	8.70%	9.63%	9.23%	+ 93 bps
West Region				
Community	6.92%	8.47%	7.48%	+ 155 bps
Neighborhood	7.02%	8.56%	7.50%	+ 155 bps
National Averages [1]/ Spreads				
Community	**7.72%**	**8.92%**	**8.24%**	**+ 120 bps**
Neighborhood	**7.93%**	**9.11%**	**8.43%**	**+ 117 bps**

[1] Non-weighted regional/national average figures

On the heels of the most recent recession, retailers were cautious to add storefronts and expand offerings nationally. As the slow national economic recovery has continued to gain traction, retail real estate demand has continued to gain momentum. IRR expects that in the retail sector, such momentum will continue in 2014 and beyond.

2014 Retail Market Conditions and Forecasts (Table 26)

MARKET AREA	INVENTORY (SF)	VACANCY RATE (%)	AVG ASKING RENT ($/SF)	REGIONAL MALL VACANCY RATE (%)	AVG ANNUAL NET ABSORP. 2010-2013 (SF)	FORECAST AVG ANNUAL NET ABSORP. 2014-2016 (SF)	EST. YEARS TO BALANCE (Mall/Comm/NH)
Atlanta, GA	81,602,000	13.80%	$17.38	6.30%	535,000	2,800,000	2 / 1 / 1
Austin, TX	49,970,793	5.00%	$23.00	5.00%	105,000	160,333	1 / 1 / 1
Baltimore, MD	119,424,000	5.44%	$19.54	6.00%	75,000	31,000	N/A / 4 / 1
Birmingham, AL	30,508,702	10.49%	$12.39	15.00%	12,000	20,000	4 / 3 / 3
Boise, ID	20,364,401	8.93%	$14.81	7.53%	0	0	N/A / 3 / 2
Boston, MA	180,000,000	7.50%	$25.50	7.50%	0	0	N/A / 1 / 2
Broward-Palm Beach, FL	189,220,000	6.67%	$25.08	4.00%	410,522	581,573	N/A / N/A / 1
Charleston, SC	20,266,824	7.60%	$12.84	15.00%	20,000	20,000	5 / 2 / 2
Charlotte, NC	33,292,717	8.50%	$21.00	1.80%	48,000	391,666	2 / 2 / 2
Chicago, IL	311,675,000	8.70%	$16.10	2.00%	728,052	475,000	1 / 2 / 3
Cincinnati, OH	110,600,000	8.75%	$9.46	8.75%	500,000	700,000	N/A / N/A / N/A
Cleveland, OH	25,032,000	15.20%	$12.77	16.50%	114,500	75,000	4 / 4 / 4
Columbia, SC	50,860,000	7.50%	$11.25	14.25%	0	0	1 / 2 / 1
Columbus, OH	20,360,000	7.30%	$13.54	11.00%	30,000	5,000	2 / 2 / 2
Dallas, TX	230,012,499	7.10%	$14.52	5.90%	183,250	553,333	3 / 3 / 3
Dayton, OH	16,700,000	14.60%	$10.20	13.00%	40,000	60,000	N/A / 3 / 3
Denver, CO	142,951,978	6.50%	$20.75	6.40%	215,000	215,000	1 / 1 / 1
Detroit, MI	184,000,000	11.00%	$11.95		1,150,000	1,200,000	2 / 5 / 5
Fort Worth, TX	144,530,685	6.80%	$12.33	3.80%	71,000	187,000	3 / 3 / 3
Greensboro, NC	26,250,745	11.38%	$11.69	6.10%	11,300	200,000	N/A / 3 / 3
Greenville, SC	82,430,000	6.7%	$9.25	1.50%	120,000	125,000	1 / 2 / 2
Hartford, CT	15,542,000	10.78%	$18.89	8.50%	-20	0	3 / 3 / 3
Houston, TX	175,500,000	15.00%	$20.35	5.50%	625,000	945,000	1 / 6 / 6
Indianapolis, IN	122,000,000	7.00%	$12.64	7.60%	175,000	60,000	1 / 3 / 3
Jackson, MS	34,600,000	13.50%	$15.80	10.00%	0	0	2 / 2 / 2
Jacksonville, FL	50,300,000	10.81%	$11.49	4.70%	-5,000	205,000	N/A / 5 / 3
Kansas City, MO/KS	44,900,000	10.68%	$13.10	10.90%	190,000	250,000	1 / 1 / 1
Las Vegas, NV	51,962,534	9.60%	$17.76	12.50%	-85,000	700,000	3 / 4 / 4
Long Island, NY	31,000,000	4.77%	$30.13	6.00%	300,000	300,000	N/A / 2 / 2
Los Angeles, CA	396,432,489	5.25%	$26.00	3.25%	0	0	1 / 1 / 3
Louisville, KY	3,387,467	11.11%	$17.69	5.80%	0	0	1 / 1 / 1
Memphis, TN	81,629,553	9.70%	$9.70	15.70%	100,000	100,000	N/A / 2 / 2
Miami, FL	87,335,000	8.00%	$28.30	5.25%	189,478	268,427	N/A / N/A / 1
Minneapolis, MN	33,635,000	10.89%	$17.88	5.20%	20,000	30,000	1 / 1 / 1
Naples, FL	67,242,063	7.50%	$13.70		137,250	97,500	2 / 1 / 1
Nashville, TN	32,000,000	6.59%	$16.64	10.00%	450,000	300,000	2 / 2 / 1
New Jersey, Coastal	45,000,000	8.10%	$16.50	5.00%	200,000	160,000	2 / 2 / 3
New Jersey, Northern	62,000,000	6.89%	$29.87	6.00%	800,000	800,000	N/A / 2 / 2
New York, NY	51,000,000	3.84%	$285.59	4.00%	700,000	800,000	N/A / 1 / 2
Oakland, CA	128,778,249	4.80%	$20.98	5.40%	275,858	116,664	1 / 1 / 1
Orange County, CA	60,980,000	6.01%	$30.41	4.70%	-45,459	490,808	4 / 3 / 4
Orlando, FL	33,681,000	12.69%	$17.65		-46,250	1,000,806	N/A / 6 / 3
Philadelphia, PA	283,900,000	6.80%	$14.74		0	0	N/A / N/A / N/A
Phoenix, AZ	206,222,481	8.09%	$17.80	7.80%	500,000	500,000	1 / 2 / 2
Pittsburgh, PA	86,138,823	5.64%	$16.14	3.70%	600,000	200,000	N/A / N/A / N/A
Portland, OR	43,622,346	8.36%	$18.03	8.90%	164,851	180,000	3 / 2 / 3
Providence, RI	19,500,000	10.60%	$11.40	8.60%	110,000	120,000	3 / 3 / 3
Raleigh, NC	45,932,383	7.20%	$15.50	5.00%	163,667	504,000	1 / 3 / 2
Richmond, VA	80,000,000	7.50%	$18.50		-15,000	150,000	1 / 1 / 1
Sacramento, CA	77,041,868	12.62%	$15.24	10.00%	113,335	5,008	N/A / N/A / N/A
Salt Lake City, UT	38,850,000	7.00%	$19.00	7.00%	400,000	500,000	2 / 3 / 3
San Antonio, TX	46,489,788	8.62%	$19.97	5.90%	206,104	120,113	1 / 1 / 1
San Diego, CA	25,145,980	4.71%	$21.39	1.65%	230,000	150,000	N/A / N/A / N/A
San Francisco, CA	83,508,979	3.40%	$31.66	0.42%	9,020	29,832	1 / 1 / 1
San Jose, CA	77,575,403	4.32%	$27.22	4.70%	275,858	116,664	1 / 1 / 1
Sarasota, FL	46,036,786	7.70%	$14.23		31,000	70,000	1 / 4 / 1
Seattle, WA	69,150,000	4.60%	$28.00	3.00%	60,000	150,000	N/A / N/A / N/A
St. Louis, MO	155,000,000	8.03%	$15.10	8.00%	525,000	1,000,000	3 / 3 / 3
Syracuse, NY	9,809,811	12.13%	$16.57	8.10%	797,217	150,000	3 / 4 / 5
Tampa, FL	20,308,000	9.90%	$14.98		-54,500	20,000	1 / 2 / 3
Tulsa, OK	12,391,055	10.11%	$16.16		75,000	125,000	N/A / 3 / 3
Washington, DC	191,656,000	4.81%	$22.58	2.10%	560,000	600,000	2 / 2 / 2
Wilmington, DE	29,500,000	7.71%	$17.67	3.00%	11,500	111,500	N/A / 1 / 1
Totals / Averages:	5,162,787,004	8.42%	$22.02	6.93%	208,135	305,178	1.93 / 2.38 / 2.26
Weighted Averages:		7.65%	$21.19				

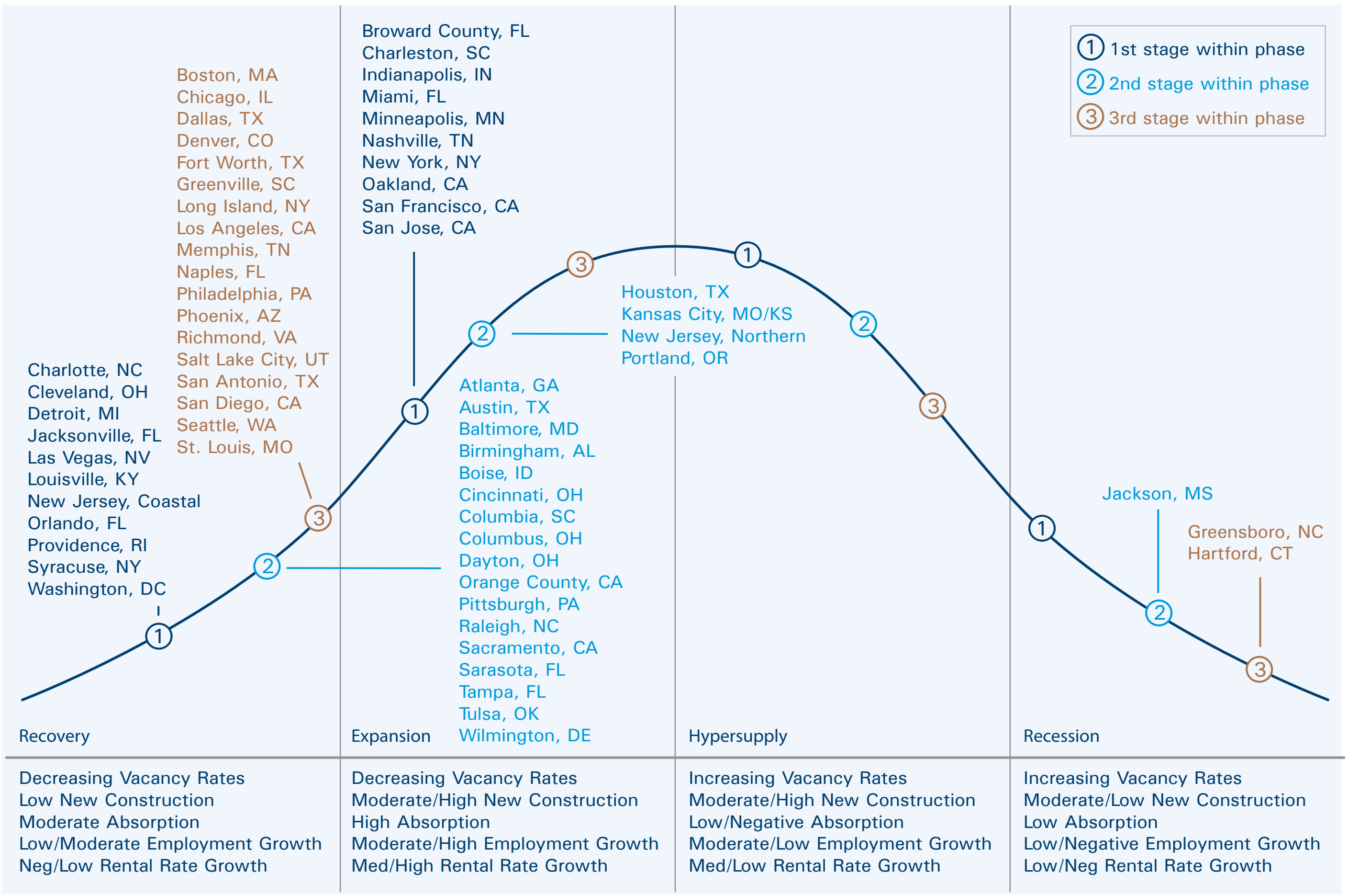
Industrial

The industrial property sector continued to build momentum throughout 2013. Capitalization rates in the sector continued to compress, while property fundamentals continued to improve. These trends have driven developers to re-enter the industrial sector, as 14 markets were observed to be in the expansion phase of the market cycle, compared with only two in 2012.

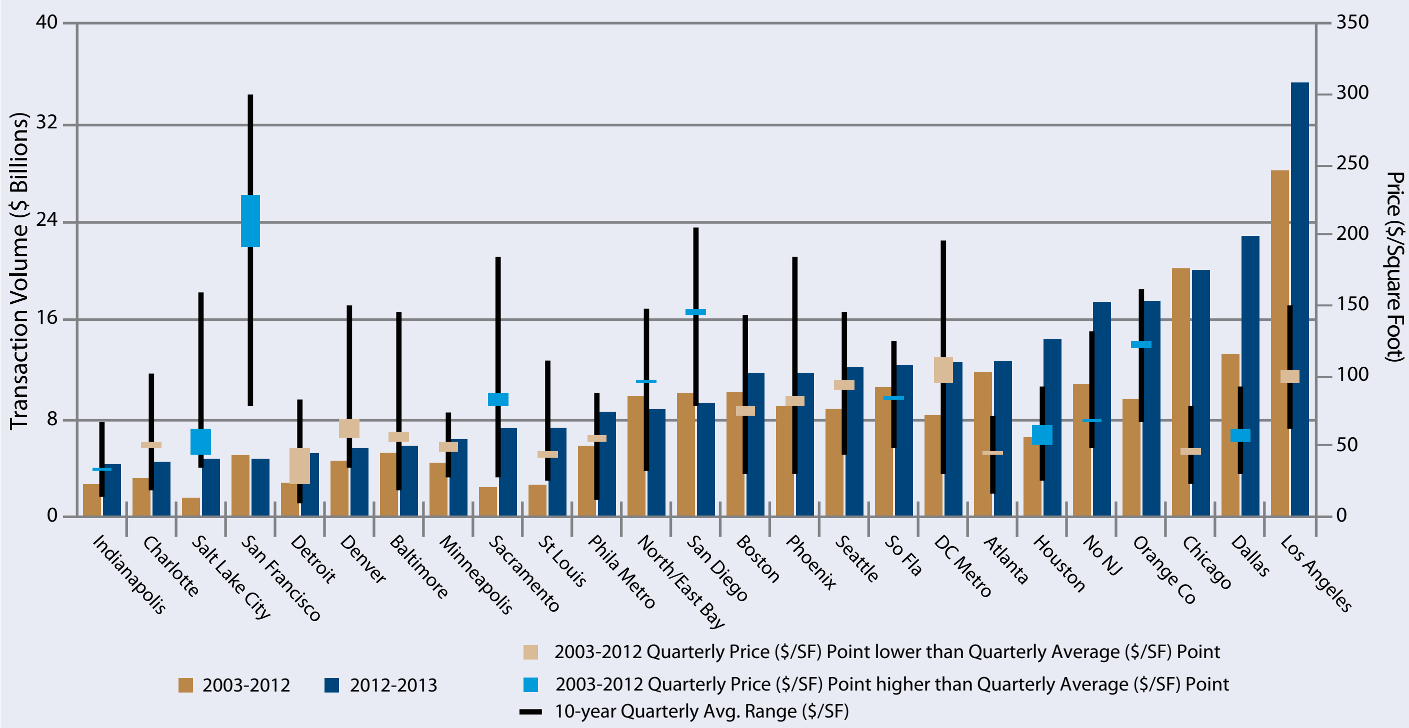
Almost as encouraging as the fact that industrial development gained traction in many more markets in 2012 is the news that the vast majority of markets have now reported that they are exhibiting signs of recovery. In fact, the average estimated years to reach stabilized levels of market occupancy decreased from four years to two years from the 2012 to the 2013 observation period, indicating that the industrial sector is recovering even faster than previously anticipated.

Nationally, industrial transaction volumes were heavy in 2013. In fact, of the six most active markets in 2013, five of the markets (**Dallas, Houston, Los Angeles, Northern New Jersey**, and **Orange County**) exhibited substantially more transaction volume than over their respective 10-year historical average volume rates. The only major market bucking this trend was **Chicago,** where transaction volumes were almost exactly in line with historical levels. Smaller

Industrial Cycle Chart (Fig. 27)

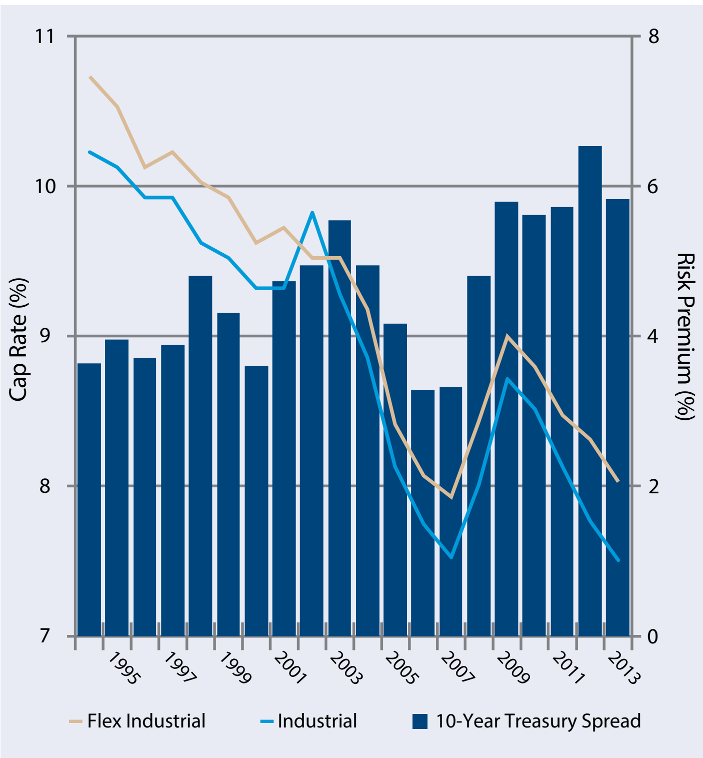


Top 25 Markets by Industrial Transaction Volume (Fig. 28)



 Source: Real Capital Analytics, compiled by IRR

Class A Industrial Cap Rates (Fig.29)



markets exhibiting transaction volumes substantially in excess of annualized historical averages also included **Sacramento, Salt Lake City**, and **St. Louis**.

Despite increased transaction volumes, average prices remained relatively unchanged in most markets from 2012-13. The only two major exceptions to this trend appear to be the notable Texas markets of **Dallas** and **Houston,** where material year-over-year average upward price shifts were observed. On the flip side, average prices appear to have materially shifted downward in **Detroit, Denver**, and especially **Washington, DC** from the year prior.

National average going-in capitalization rates for the industrial sector continued to contract in 2013. Capitalization rates on general Class A industrial property reached all-time lows, while cap rates for flex industrial assets are quickly approaching their previous low from 2007. This reduction in cap rates combined with slightly higher average 10-year Treasury rates in 2013 reduced the risk premium from its 2012 high to levels more in line with premiums experienced in the 2009-11 timeframe.

Class A Industrial - Regional Rates Comparison (Fig. 30)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ	2013 Δ Cap Rate
South Region					
Industrial	7.93%	8.93%	8.31%	+ 100 bps	+ 23 bps
Flex Industrial	8.32%	9.42%	8.78%	+ 110 bps	+ 10 bps
East Region					
Industrial	7.13%	8.33%	7.57%	+ 120 bps	- 30 bps
Flex Industrial	7.80%	9.11%	8.21%	+ 132 bps	- 20 bps
Central Region					
Industrial	8.05%	9.07%	8.61%	+ 102 bps	- 30 bps
Flex Industrial	8.64%	9.61%	9.09%	+ 98 bps	+ 2 bps
West Region					
Industrial	6.65%	7.96%	7.23%	+ 131 bps	- 45 bps
Flex Industrial	7.18%	8.55%	7.79%	+ 137 bps	- 66 bps
National Averages [1]/ Spreads					
Industrial	**7.50%**	**8.62%**	**7.97%**	**+ 111 bps**	**- 12 bps**
Flex Industrial	**8.01%**	**9.19%**	**8.50%**	**+ 118 bps**	**- 15 bps**

[1] Non-weighted regional/national average figures

Class B Industrial - Regional Rates Comparison (Fig. 31)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ
South Region				
Industrial	8.51%	9.53%	8.93%	+ 101 bps
Flex Industrial	8.80%	9.84%	9.22%	+ 104 bps
East Region				
Industrial	7.93%	9.21%	8.34%	+ 128 bps
Flex Industrial	8.57%	9.93%	8.99%	+ 136 bps
Central Region				
Industrial	8.60%	9.60%	9.08%	+ 100 bps
Flex Industrial	9.23%	10.08%	9.70%	+ 85 bps
West Region				
Industrial	7.17%	8.48%	7.71%	+ 131 bps
Flex Industrial	7.47%	8.95%	8.13%	+ 149 bps
National Averages [1]/ Spreads				
Industrial	**8.09%**	**9.23%**	**8.54%**	**+ 114 bps**
Flex Industrial	**8.53%**	**9.71%**	**9.02%**	**+ 117 bps**

[1] Non-weighted regional/national average figures

While non-weighted average cap rates fell nationally, regional disparities in reported cap rate trends certainly exist. Class A cap rates contracted strongly in the West region, with average cap rates dropping 45 and 66 basis points for general industrial and flex industrial assets, respectively. Much of this compression reported in the West region was the result of strong performances in the **Seattle** and the Bay Area (**Oakland, San Francisco, San Jose**) industrial markets.

Class B capitalization rates are similar to Class A rates in terms of regional strengths and weaknesses, though disparities between the regions are even more pronounced for Class B product. Class B rates are tightest in the West, followed by the East and South, respectively, leaving average rates the highest in the Central region. The difference between average reported flex industrial cap rates in the West and Central regions (176 basis points) is one of the widest regional disparities in our 2013 survey data set.

In contrast to the industrial sector's strength in the West region, the South region reported cap rates softening slightly in 2013. The non-weighted average cap rate for Class A product in the South region increased by 23 and 10 basis points for general industrial and flex industrial assets, respectively. The other two regions – East and Central – reported identical contractions of 30 basis points for Class A industrial product; however, flex industrial cap rates remained essentially flat in the Central region while falling nearly 20 basis points in the East.

In terms of underlying property fundamentals, the industrial sector demonstrated continued recovery and strength in 2013. Average (non-inventory weighted) reported market vacancy rates for industrial product decreased from 10.59% in 2012 to 10.24% in 2013. The reduction in year-over-year vacancy rates appears to be even stronger in the country's largest industrial markets, as the weighted average vacancy rate dropped even further from 9.44% to 8.94%.

While 2013 was a great year for the industrial sector and more good times are likely ahead in 2014, IRR's market experts do caution that expected average annual absorption is expected to fall off in the coming years as new product comes online and the national economy struggles to create manufacturing and other jobs at levels that would increase demand for industrial product.

2014 Industrial Market Conditions and Forecasts (Table 32)

MARKET AREA	CLASS A INVENTORY (SF)	CLASS A VACANCY RATE (%)	CLASS B INVENTORY (SF)	CLASS B VACANCY RATE (%)	CLASS A & B TOTAL INVENTORY (SF)	CLASS A & B WEIGHTED VACANCY RATE (%)	CLASS A & B AVG ANNUAL NET ASORP. 2010-2013 (SF)	CLASS A & B FORECAST AVG ANNUAL NET ASORP. 2014-2016 (SF)	CLASS A & B EST. YEARS TO BALANCE
Atlanta, GA	653,561,534	11.62%			653,561,534	11.62%	17,596,000	3,500,000	1
Austin, TX	18,538,096	9.40%	18,537,996	13.70%	37,076,092	11.55%	707,000	876,667	2
Baltimore, MD	47,243,000	10.45%	186,927,000	9.36%	234,170,000	9.58%	290,000	235,000	5
Birmingham, AL	3,032,999	30.80%	106,789,607	8.19%	109,822,606	8.82%	400,000	30,000	2
Boise, ID	8,763,267	6.60%	16,564,916	10.98%	25,328,183	9.46%	0	0	1
Boston, MA	130,000,000	18.46%			130,000,000	18.46%	0	0	4
Broward-Palm Beach, FL	53,400,000	6.14%	128,800,000	7.97%	182,200,000	7.43%	786,388	979,960	2
Charleston, SC	14,853,342	6.99%	35,604,645	8.30%	50,457,987	7.91%	300,000	150,000	3
Charlotte, NC	16,726,947	10.14%	27,742,270	15.41%	44,469,217	13.43%	1,036,867	0	2
Chicago, IL	90,100,000	10.79%	928,351,907	8.83%	1,018,451,907	9.01%	5,823,005	5,432,284	4
Cincinnati, OH	83,240,000	8.19%	212,460,000	8.65%	295,700,000	8.52%	4,650,000	3,225,000	3
Cleveland, OH	5,090,113	15.11%	288,914,108	11.23%	294,004,221	11.30%	1,713,744	1,700,000	2
Columbia, SC	62,700,000	10.12%			62,700,000	10.12%	0	0	2
Columbus, OH	28,190,000	16.00%	221,160,000	7.39%	249,350,000	8.37%	1,030,000	1,000,000	3
Dallas, TX	529,055,067	8.68%			529,055,067	8.68%	38,855,000	5,704,667	3
Dayton, OH	9,700,000	9.11%	91,300,000	11.18%	101,000,000	10.98%	2,300,000	2,400,000	2
Denver, CO	11,064,421	5.30%	205,651,336	5.44%	216,715,757	5.43%	3,000,000	3,750,000	1
Detroit, MI	360,500,000	9.78%			360,500,000	9.78%	-1,600,000	2,000,000	7
Fort Worth, TX	284,962,266	7.37%			284,962,266	7.37%	1,477,750	3,268,667	3
Greensboro, NC	14,348,248	12.46%	29,582,412	19.66%	43,930,660	17.31%	745,000	0	3
Greenville, SC	196,305,000	9.18%			196,305,000	9.18%	825,000	850,000	2
Hartford, CT	32,975,000	9.28%	71,815,000	13.56%	104,790,000	12.21%	-20	0	3
Houston, TX	973,000,000	7.31%			973,000,000	7.31%	3,950,000	4,000,000	N/A
Indianapolis, IN	53,460,000	4.02%	253,090,000	8.48%	306,550,000	7.70%	388,370	3,025,000	3
Jackson, MS	8,800,000	14.55%	13,200,000	19.55%	22,000,000	17.55%	0	0	1
Jacksonville, FL	27,700,000	7.27%	94,950,000	10.10%	122,650,000	9.46%	1,465,000	1,600,000	5
Kansas City, MO/KS	30,350,000	3.31%	275,150,000	6.40%	305,500,000	6.09%	2,300,000	700,000	4
Las Vegas, NV	120,999,497	15.36%			120,999,497	15.36%	209,372	300,000	3
Long Island, NY	11,000,000	7.00%	31,000,000	8.00%	42,000,000	7.74%	1,000,000	1,000,000	5
Los Angeles, CA	29,266,165	4.50%	860,643,970	4.50%	889,910,135	4.50%	1,200,000	950,000	2
Louisville, KY	10,139,674	23.68%	1,654,994	20.34%	11,794,668	23.21%	2,000,000	2,000,000	1
Memphis, TN	72,688,826	11.00%	194,741,978	12.40%	267,430,804	12.02%	2,525,000	2,525,000	5
Miami, FL	65,650,000	6.79%	128,650,000	8.19%	194,300,000	7.72%	838,612	1,045,040	2
Minneapolis, MN	40,261,000	9.37%	60,394,000	14.66%	100,655,000	12.54%	300,000	300,000	1
Naples, FL	43,041,233	7.78%			43,041,233	7.78%	210,000	295,000	1
Nashville, TN	18,465,000	12.00%	102,450,000	8.57%	120,915,000	9.10%	1,800,000	400,000	3
New Jersey, Coastal	38,400,000	9.64%			38,400,000	9.64%	150,000	180,000	3
New Jersey, Northern	459,000,000	7.40%	304,000,000	7.85%	763,000,000	7.58%	3,000,000	4,000,000	6
New York, NY	27,000,000	6.00%	60,000,000	7.00%	87,000,000	6.69%	800,000	120,000	5
Oakland, CA	2,239,133	11.30%	279,052,227	8.35%	281,291,360	8.37%	794,726	421,512	2
Orange County, CA	18,620,080	4.47%	284,462,599	4.88%	303,082,679	4.86%	597,390	2,841,576	2
Orlando, FL	71,493,088	8.34%	60,220,140	11.29%	131,713,228	9.69%	416,667	550,000	10
Philadelphia, PA	457,000,000	9.50%			457,000,000	9.50%	0	0	2
Phoenix, AZ	34,899,188	18.00%	271,153,880	11.34%	306,053,068	12.10%	2,625,000	3,200,000	4
Pittsburgh, PA	36,176,443	2.95%	97,374,159	7.24%	133,550,602	6.08%	120,000	90,000	N/A
Portland, OR	8,565,389	10.50%	150,929,016	7.04%	159,494,405	7.22%	477,291	550,000	3
Providence, RI	13,500,000	10.06%	21,000,000	11.11%	34,500,000	10.70%	105,000	130,000	3
Raleigh, NC	40,272,944	15.43%			40,272,944	15.43%	388,700	0	4
Richmond, VA	71,500,000	10.91%	52,300,000	10.87%	123,800,000	10.89%	250,000	350,000	3
Sacramento, CA	11,025,550	26.30%	143,867,856	12.28%	154,893,406	13.27%	205,870	172,496	4
Salt Lake City, UT	122,111,116	5.26%			122,111,116	5.26%	300,000	350,000	2
San Antonio, TX	59,253,500	8.83%			59,253,500	8.83%	620,000	472,903	1
San Diego, CA	2,905,569	14.77%	185,831,739	8.62%	188,737,308	8.71%	520,000	550,000	N/A
San Francisco, CA			94,362,421	5.77%	94,362,421	5.77%	-79,576	-148,844	2
San Jose, CA			203,189,825	9.59%	203,189,825	9.59%	794,726	421,528	2
Sarasota, FL	403,278,622	7.96%			403,278,622	7.96%	35,000	35,000	2
Seattle, WA	234,400,000	6.11%			234,400,000	6.11%	475,000	850,000	1
St. Louis, MO	123,500,000	5.18%	140,500,000	10.12%	264,000,000	7.81%	275,000	650,000	4
Syracuse, NY	8,016,962	7.01%	64,194,690	14.01%	72,211,652	13.23%	525,000	840,000	2
Tampa, FL	111,381,000	7.90%			111,381,000	7.90%	330,000	400,000	1
Tulsa, OK	74,228,127	7.98%			74,228,127	7.98%	175,000	250,000	6
Washington, DC	19,496,000	14.03%	254,307,000	10.60%	273,803,000	10.84%	6,000,000	6,000,000	5
Wilmington, DE	6,300,000	13.39%	17,400,000	11.05%	23,700,000	11.68%	370,000	250,000	4
Totals / Simple Averages:	6,613,733,406	10.25%	7,270,271,691	10.23%	13,884,005,097	10.24%	1,843,876	1,218,547	2.00
Weighted Averages:		8.94%		8.51%		8.71%			

Lodging

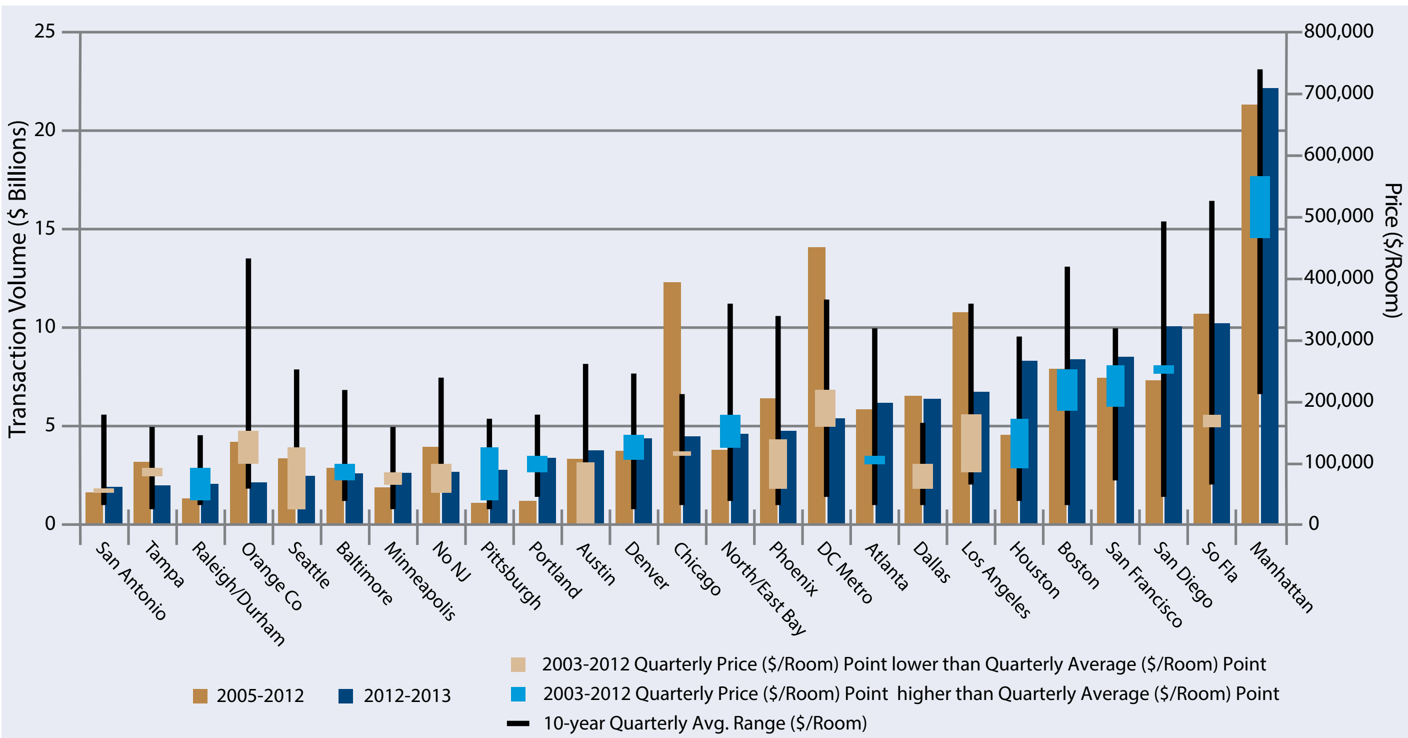
The lodging industry in the United States in 2013 benefited from continued demand growth following the recession. As a result of continued demand growth, national average occupancy rates are projected to close out 2013 up slightly from 2012. Also, Average Daily Rates (ADR) are projected to close out 2013 by exhibiting moderate year-over-year growth, resulting in overall moderate growth in Revenue Per Available Room (RevPAR).

Nationally, transaction volumes from 2012-13 were up slightly over the previous three-year period's average volumes; however, 2013 volumes slightly lagged a 10-year national sales volume average. Transaction volumes in 2013 were up significantly in **Houston, Pittsburgh,** and **Portland,** while transaction volumes were well below 10-year historic average volumes in three of the four largest lodging markets: **Chicago, Los Angeles,** and **Washington, DC.** Due to a lack of transaction volume in many markets in the 2009-11 timeframe, IRR was not able to reliably analyze and report longer-term pricing trends. In a notable 2013 transaction, Hyatt Hotel Corporation purchased the 1,641-room Peabody Orlando for a reported $717 million ($436,928 per door), representing the largest price ever paid for a single non-gaming hotel in U.S. real estate history.

Capitalization Rates

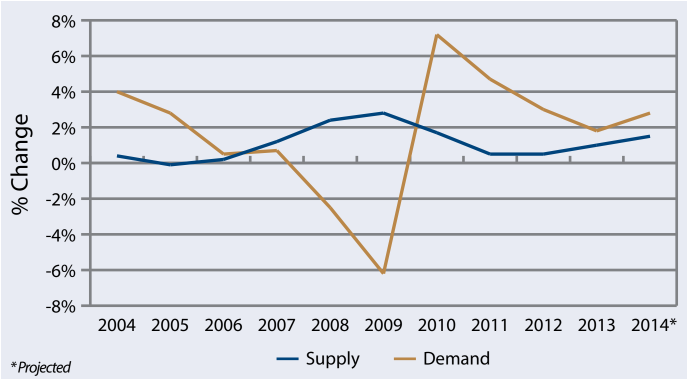
In terms of capitalization rates within the hospitality industry, nationally rates have been drifting down slightly on average; however, the contraction is more pronounced in certain markets. **New York City** and **San Francisco** have both exhibited enough hotel sales volume at extremely low going-in capitalization rates (5.50% to 6.50% based on trailing 12 months net operating income streams) to indicate

Top 25 Markets by Lodging Transaction Volume (Fig. 33)



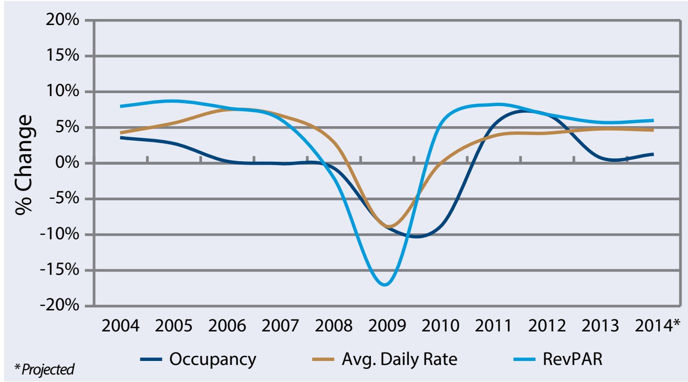
Source: Real Capital Analytics, compiled by IRR

U.S. Hotel Supply & Demand Growth (Fig. 34)



Source: Smith Travel Research

Key U.S. Hotel Market Operating Metrics (Fig. 35)



Source: Smith Travel Research

that the lower average yields realized on trades in these areas reflect market-specific bifurcations from the national norm rather than single transaction aberrations. Most markets reported a 50 to 100 basis point yield premium between cap rates for limited service assets, as compared with the more institutionally favored full service lodging properties.

Occupancy Rates

National lodging metrics for 2013 are on pace to continue the industry's recovery from 2007-08 peak levels. Average occupancy nationally is projected to end 2013 at 61.9%, a slight increase of 0.8% higher than the 61.4% average occupancy rate in 2012. These revised projections include impairment from previously higher trending figures as a result of estimated lost hospitality demand from business and government travel (as well as, to a lesser extent, leisure travel to and around National Parks) during the October 2013 Federal Government shutdown.

IRR expects continued pressure on ADR and occupancy rates for the group sector. The Federal government's travel policies have taken a meaningful bite out of revenue for some operators. The luxury and upscale segment may be pushing ADR aggressively, considering revised economic forecasts and travel projections related to major foreign economies. Uneven growth in the U.S. economy, however, may cause troubles for some lodging portfolios and exacerbate geographic differences within the marketplace.

While average occupancy rates are expected to exhibit only slight growth in 2013, ADR's are projected to rise significantly (13.7%) through the end of 2013. The combination of slightly positive occupancy growth and moderately strong ADR growth is projected to result in strong overall RevPAR growth of 5.7% in 2013. Projecting out into 2014, operating metric gains are expected to maintain recent momentum but moderate slightly, with occupancy growth estimated at 1.29% and ADR growth estimated at 4.6%, resulting in overall RevPAR growth projected at 6.0% for 2014.

IRR sees an expanding and vibrant hospitality investment sector, as evidenced most loudly with recent activity by Blackstone and Apple REIT. Most notably, Blackstone is planning to spin off at least portions of its holdings in the Extended Stay and Hilton Worldwide portfolios, with the Hilton transaction likely to lead to the largest-ever hotel REIT initial public offering. The availability of construction financing will most certainly lag increased demand for hospitality investment, but this should give tangible comfort to those construction lenders who remain skittish about re-entering the sector. With continued improvements in property performance, investment activity, and development lending activity, IRR projects that the national lodging sector will remain strong in 2014. However, some areas that rely more heavily on lower-end group travel are likely to continue to lag the overall industry's strong recovery for the foreseeable future.

Self Storage

By: Steven J. Johnson
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Self storage has proved to be a recession-resilient (but not recession-proof) property type considering its performance over the past five years. The most recent recession marks the first time this sector realized a pronounced decrease in operating performance. Although the recession caused performance to stumble, it generated a new demand from homeowners downsizing or losing their homes during the foreclosure crisis. During 2013, the self storage industry has realized significant growth, which has captured the attention of the nation's investors.

A barometer of the self storage industry's performance is found in tracking the four self storage industry's publicly traded REITs – Public Storage, Extra Space, CubeSmart, and Sovran. The four REITs, which control approximately 10% of total U.S. storage inventory, all reported strong gains in property and REIT performance operating results in 2013. A very similar trend is occurring at most non-REIT storage facilities that IRR has appraised in 2013.

Major Self Storage REIT Performance (Fig. 36)

	Public Storage	Extra Space	Cube-Smart	Sovran
# of Properties	2,110	1,007	520	475
Occupancy [1]	94.4%	90.6%	90.5%	90.9%
Occupancy ∆ 2012-13	+140 bps	+170 bps	+500 bps	+250 bps
Revenue Growth [1]	+5.5%	+7.8%	+9.0%	+8.9%
NOI Growth [1]	+7.2%	+9.7%	+10.0%	+9.3%
Avg. Rent PSF [2]	$14.46	$14.06	$12.61	$11.07

[1] Same Store results as reported for the period ending 2013 Q3
[2] Per occupied square foot
 Source: Companies' public securities filings

Occupancy Rates
All four major REITs exhibited materially positive absorption over the course of the year. This absorption has allowed the industry to decrease the amount of promotional discounts and concessions, further enhancing revenue potential within the sector. Occupancy increases will likely become less pronounced in the coming year and are expected to stabilize somewhat as rental rates continue to be pushed by operators.

Revenue
Revenue growth far outpaced occupancy growth for the major storage REITs. The amount of revenue growth should be attributed not only to occupancy growth, but also to operators' success in increasing rental rates (for existing customers) and reducing discounts (to attract new customers). As the industry's track record of positive revenue growth extends, more capital has continued to flow into the asset class, making stabilized assets very attractive to investors.

Net Operating Income
Net operating incomes for the sector's four largest REITs grew at a faster rate than revenue, indicating that operators were successful in driving top-line revenue growth while cutting expenses. A large amount of expense cuts came in the form of exiting Yellow Page advertising and transitioning to online marketing. As of this year, Public Storage has exited this form of advertising, saving the REIT $14 million in 2013. It is likely that expenses have been reduced to a point of stabilization. Expenses may actually start to increase in the coming years due to increases in property taxes stemming from higher assessed values. However, revenue increases will outpace any expense increases.

2014 Outlook
Little for-sale inventory over the past two years has pressured capitalization rates downward, to near record-low levels. Coupled with income growth and lower overall rates, self-storage values are increasing, and there is little reason to expect that the self storage industry will reverse its recent positive momentum in 2014. New self-storage construction will increase in the coming year, as market conditions in many areas suggest this is feasible. Public Storage entered into a $700 million one-year loan with Wells Fargo Bank in December 2013 to fund acquisition and development activities. This indicates a large amount of enthusiasm in the market by the largest self-storage REIT. This enthusiasm sets the tone for the year ahead.

Seniors Housing

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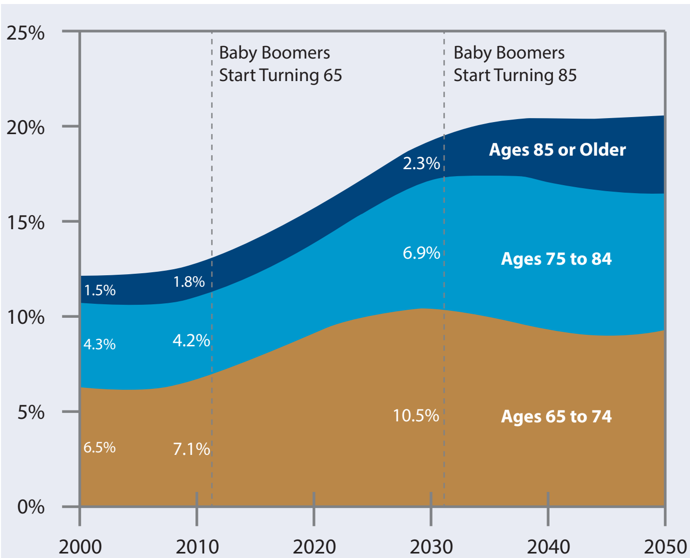
In 2013, the seniors housing market performed strongly, as the housing market and overall economy continued to recover. Occupancy levels increased, except in the nursing sector, and rental rates continued to climb. Investment activity was relatively robust, and capitalization rates for investment grade assets were pushed even lower by strong competition in the market.

Demographics

The first Baby Boomers turned 65 in 2011, and Baby Boomers are now turning 65 at a rate of more than 10,000 per day! As a result, the population aged 65+ is forecast to grow at an annual rate of 2.93% over the next five years. This so called "graying of America" will lead to significant growth in demand for seniors housing over the next two decades.

Elderly Adults As a Share of the U.S. Population, 2000 to 2050 (Fig.37)



Source: Congressional Budget Office tabulations based on population projections reported in The 2012 Long-Term Budget Outlook *(June 2012), www.cbo.gov/publication/43288.*

Note: Members of the baby-boom generation (people born between 1946 and 1964) started turning 65 in 2011 and will turn 85 beginning in 2031.

The demographics of our aging population are attracting new developers, investors, and service providers to the seniors housing market. Many new entrants fail to realize, however, that the percentage of seniors ages 65 to 74 who reside in seniors housing is relatively low. In most communities, the average age of residents is in the low-to-mid 80s, and has been creeping up over the past several years. The majority of seniors still choose to remain in their homes, or rent traditional rental properties. Still, there is stronger-than-average growth occurring in the 75+ and 85+ age cohorts, so it is certain that demand for seniors housing will be on the increase over the next few years, and this demand will only accelerate over time.

Occupancy Trends

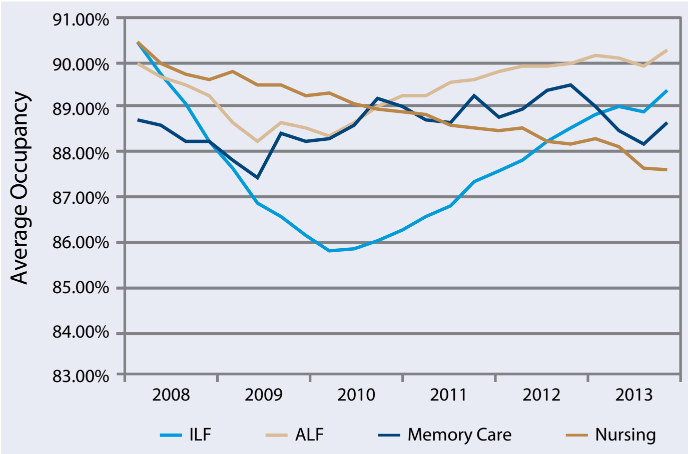
NIC MAP, the leading provider of seniors housing industry statistics, reports that average occupancy levels for independent and assisted living hit five-year highs in the third quarter of 2013 (for properties in the top 100 MSAs). The occupancy for independent living was 89.4%, with assisted living at 90.3%. The current average occupancy rate for independent living is now 360 basis points (bps) above the cyclical low in the first quarter of 2010, while occupancy in assisted living is 210 bps above the cyclical low which occurred in the 2nd quarter of 2009. Also, NIC MAP reports average memory care occupancy of 88.6%. In contrast to overall assisted living, memory care occupancy levels have been declining of late, and this decline can be attributed to a high volume of new construction in the memory care sector.

According to NIC MAP, the nursing care occupancy rate in the top 100 metro areas was 87.6% in the third quarter of 2013, down 220 bps from the same quarter in 2008. The nursing care sector continues to be negatively impacted by a number of factors including: 1) competition from assisted living for the private pay market; 2) increasing acceptance of waiver programs that allow states to funnel Medicaid funding to alternative forms of care; and 3) increased competition from inpatient rehabilitation facilities and long-term acute care hospitals for patients requiring rehabilitation.

New Construction

As occupancy levels have recovered to near 90% for seniors housing, new construction has been trending upwards, and there are concerns of over-building in the assisted living and memory care segments. The following table displays the number of units under construction as a percent of total

Occupancy Trends-Top 100 Markets (Fig.38)



supply in the top 100 metro markets according to NIC MAP, indicating relative risks of occupancy declines.

Rental Rates

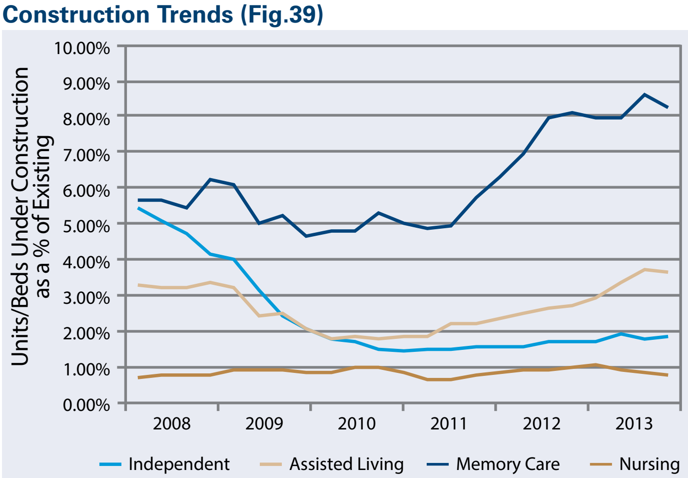
Independent and assisted living rental rates increased moderately through 2013. According to NIC MAP, the average third quarter 2013 independent rental rate in the top 100 metro markets was $2,754, up from $2,735 for the same quarter in 2012. The average assisted living rent was $4,148, up from $4,074 for the third quarter of 2012.

Medicare nursing rates fell 2% due to sequestration in March, but a 1.3% net increase was later implemented in October. In additional, many states have cut or frozen Medicaid nursing rates.

Financing

Financing continues to be readily available. HUD had a banner 2013 and Freddie Mac and Fannie Mae remained active. HUD Section 232 Program loan volume for the fiscal year which ended September 30, 2013 was $5.82 billion,

Construction Trends (Fig.39)



up 6% from the prior year. Freddie Mac's 2012 volume was $650 million, and Fannie Mae's volume was $1.2 billion. However, 2013 volumes for these GSE's are anticipated to be down due to the FHFA directive to reduce volume. While the potential decline in GSE lending is a concern, insurance companies and CMBS lenders are becoming increasingly active in the seniors housing space. Banks continue to be more active as well, providing construction loans, "bridge to agency" loans, and revolving credit lines for larger operators.

Acquisition Market

REITs continue to be the dominant player in the acquisition market. The Real Capital Analytics Seniors Housing & Care Quarterly Report for Q3 2013 indicates that the top three seniors housing buyers over the past 12 months were publicly traded REITs. Two private REITs are also in the Top 10. Rising interest rates, however, are impacting the cost of capital for REITs, and this may inhibit the ability of REITs to continue to win the lion's share of deals. At the same time, new institutional capital is entering the market and competition for quality deals is intense.

Average sales prices per unit/bed for seniors housing have been generally trending up, with 2013 seeing a handful of transactions occurring at more than $400,000 per unit. Based upon individual and small portfolio "going concern" sales analyzed by IRR, we believe capitalization rates for Class A and B assets are generally 6.0% to 8.0% for independent and assisted living.

In the nursing sector, capitalization rates have not really moved much, with most deals still trading in the 12% to 14% range (on a going concern basis).

Outlook

Aging trends will positively impact the industry over the foreseeable future and IRR anticipates the seniors housing acquisition market will remain hot, resulting in further capitalization rate compression relative to other property types. Overbuilding is a concern, mostly confined to the memory care sector, where the current inventory under construction is 8.22% of the existing inventory, and average occupancy levels have already started to fall. IRR anticipates tepid activity in the nursing sector for the foreseeable future, as the fear of additional reimbursement cuts limits investors' appetite for the space.

IRR Forecast

Cranes Above the Fog, San Francisco, CA – photo credit: Terry Schmitt

In the course of its past 23 annual and semi-annual editions, *IRR-Viewpoint* has been recognized as the signature publication of an industry leader, and become a respected source of information about past and current market conditions for institutional quality commercial real estate assets throughout the United States. With *IRR-Viewpoint 2014*, we have expanded upon this historical mission to include more information regarding Class B asset metrics, and we have also endeavored to create forward-looking metrics which will allow our clients to better plan for potential opportunities and risks within the commercial real estate sector. IRR looks forward to expanding such forward-looking analytics offerings in the near future, while continuing to serve as an industry-leading source for intelligence about current market conditions.

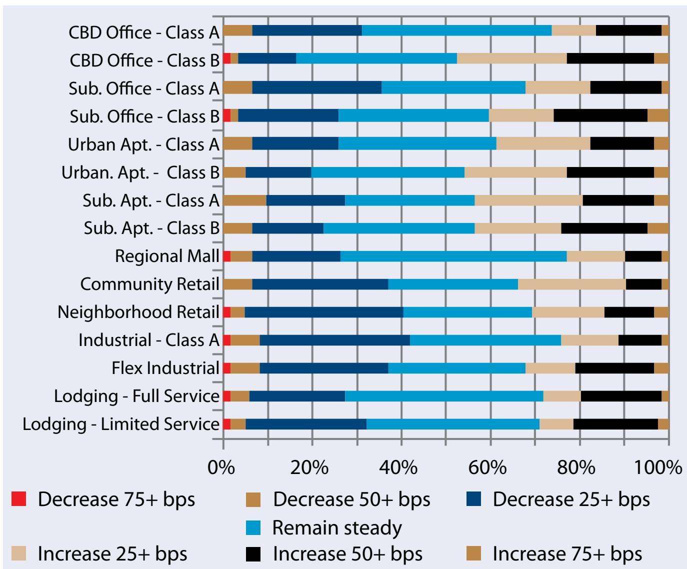
In reviewing IRR's market survey for opportunities and risks within the commercial real estate sector over the upcoming three-year holding period, it was apparent that underlying property fundamentals (average rental and occupancy rates) are expected to – at worst – remain stable and – at best – improve moderately across nearly every market in the country. There were few discernible trends in terms of opportunities for real estate value creation through improved property market fundamentals on a regional or even national basis, and thus IRR focused its analysis on the other key driver of real estate value volatility: capitalization rate movements.

IRR surveyed its offices and market participants in an effort to determine views on the directionality of cap rates by asset class over the coming three-year period. The overall results were quite mixed but did provide some important clues as to perceived potential opportunities and risks within the marketplace.

For all asset classes, market participants perceive that the risks and likelihood of capitalization rates increasing more than 50 basis points is far greater than the positive likelihood that capitalization rates will further compress in the next three years. Thus, following the commercial real estate market's recent post-recession cycle of cap rate compression, the industry seems to deem the likelihood that we are **nearing a cap rate trough** as far more likely than the potential to break through historical lows and maintain the current trend of continued rate compression.

The market perception that we are approaching a cap rate trough is greatest with respect to Class B CBD office product

Forecasted Going-In Capitalization Rate Movements 2014-2016 (Fig. 40)



as well as Class B Urban apartments, and both Class A and B suburban apartments aren't too far behind with respect to this perceived risk. On the more positive side of survey results, Class A industrial appears to be perceived as the most likely candidate for further cap rate compression in the near future, as it was the only asset class with 40%+ of survey respondents indicating such potential. Industrial assets – both flex and general – along with Class A suburban apartments are also perceived to have the greatest chance of experiencing cap rate compression of 50 basis points or more, indicating areas of strong potential investment opportunity.

In addition to asking survey respondents to indicate perceptions about the likely directionality of cap rates in the coming three-year period, IRR also asked what factors are most likely to impact and influence any potential cap rate movements. IRR postulated that such contributing factors may differ for Class A assets that are more institutional in nature and Class B assets which often represent more local investments and sometimes cater more readily to an owner-user investment community, and IRR's theory appears to be confirmed by the survey results.

Factors Most Likely to Impact Institutional Real Estate Cap Rates (Fig. 41)

Rank	Factor Considered	Avg. Rank
1	Property Income Growth	2.63
2	Supply/Demand	3.26
3	Interest Rates	3.35
4	Local Economy	4.00
5	Availability of Financing	4.40
6	National Economic Conditions	5.10
7	Real Estate Risk Premiums	5.26

With respect to Class A asset sectors, perceptions about the relative ability (or inability) of owners to drive future property income growth was clearly identified as the strongest influence for impacting cap rate movements within the sector. Also deemed of more than average importance were the local market's supply and demand dynamics, as well as interest rates. Economic factors – both local and national – as well the availability of financing were overall deemed to have a less than an average perceived importance in terms of influencing cap rate shifts. Interestingly, the difference between going-in capitalization rates and the 10-year U.S. Treasury yield, commonly referred to as the "real estate risk" or "yield premium," was deemed to have the least potential to impact future cap rate movements. This implies that **rising Treasury yields don't necessarily have an immediate and direct impact on real estate cap rates**, which, if held to be true, would break with common real estate market theory and historical experience.

As IRR suspected, the factors deemed most likely to influence capitalization rate movements in the Class B real estate sectors differed materially from those determined to be most likely to affect Class A peers. Interest rates and supply and demand dynamics were closely identified as the top two potential influences in terms of determining the directionality and likelihood of cap rate movements. The availability of financing and property income growth were also deemed to have a greater than average potential to influence cap rate movements, while local economic conditions were determined to have a slightly lower than average ability to influence Class B yields. National economic conditions were perceived to have the smallest potential impact in determining potential changes in real estate yields for Class B assets, which certainly implies and confirms that Class B real estate is more insulated and localized in terms of its performance influences.

Factors Most Likely to Impact Non-Institutional Real Estate Cap Rates (Fig. 42)

Rank	Factor Considered	Avg. Rank
1	Interest Rates	3.10
2	Supply/Demand	3.11
3	Availability of Financing	3.26
4	Property Income Growth	3.34
5	Local Economy	3.79
6	Real Estate Risk Premiums	5.21
7	National Economic Conditions	6.19

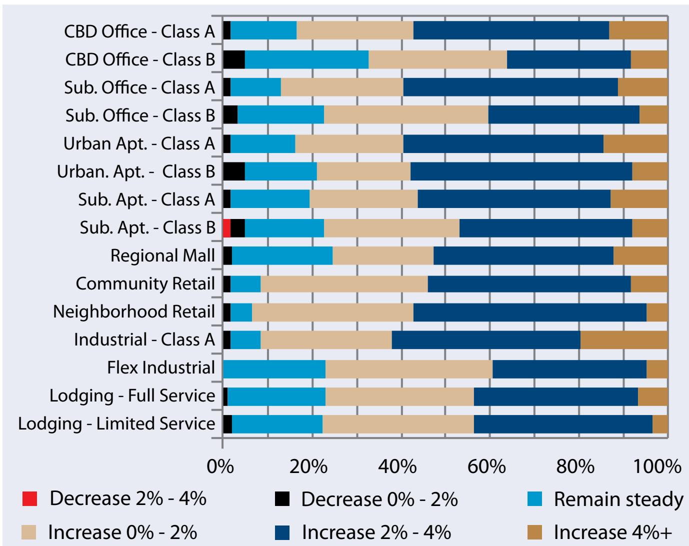
In addition to asking survey respondents to weigh in regarding likely changes in future property fundamentals and capitalization rates, IRR also asked respondents to make the logical extension and provide an opinion on the overall forecasted change in real estate values over the next three years.

On a positive note, very few market participants expect that real estate values will decline over the coming three-year period. Given that these same respondents indicated that it is more likely that the real estate markets will experience a softening in yields over this period rather than further capitalization compression, this overall positive view of value creation implies that **any negative impacts of cap rate increases are deemed likely to be more than offset by positive improvements in underlying property economics**. Highlighting this trend, several of the apartment sectors were identified as most likely to experience a softening in terms of going-in capitalization rates; however, they are also identified as having one of the greatest chances for increasing in value over the same three-year period. Researching this finding more deeply, it was clear that despite the fact that many survey respondents deemed it likely that apartment cap rates would rise 25 basis points over the coming three years, this setback would be more than offset by robust rental rate growth driving materially higher property net operating incomes over the same period.

Neighborhood retail, community retail, and Class A industrial assets were determined to have the greatest chances of experiencing value appreciation over the coming three-year period. Class A industrial product was also determined to have the greatest chance for a more than moderate value appreciation, as it was the only asset class in which 20%+ of respondents indicated that values in this sector are likely to rise 4%+ per annum over the next three years. Class B CBD office product was determined to have the greatest chance for value stagnation over a three-year holding period, while this sector, along with Class B apartments – both urban and suburban – was determined to have the greatest chance of experiencing value depreciation over this period, though the likelihood of value depreciation in all cases was deemed to be small.

Our market participant survey responses leads IRR to conclude that **real estate values are likely to rise over the coming three years, driven mostly by improved property fundamentals which are likely to offset any potential slight increases in cap rates** that may occur over this period. Major disruptions to the real estate capital markets and other economic factors could confound such projections. However, the real estate sector's strong recovery in terms of property fundamentals have established it as a safe harbor for investment dollars searching for yield in the current low interest rate environment, and such dynamics are likely to work favorably to support further value appreciation in the sector over the coming three years.

Forecasted Annual Value Change 2014-2016 (Fig. 43)



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