Situs RERC®

Unmasking the Uncertainty

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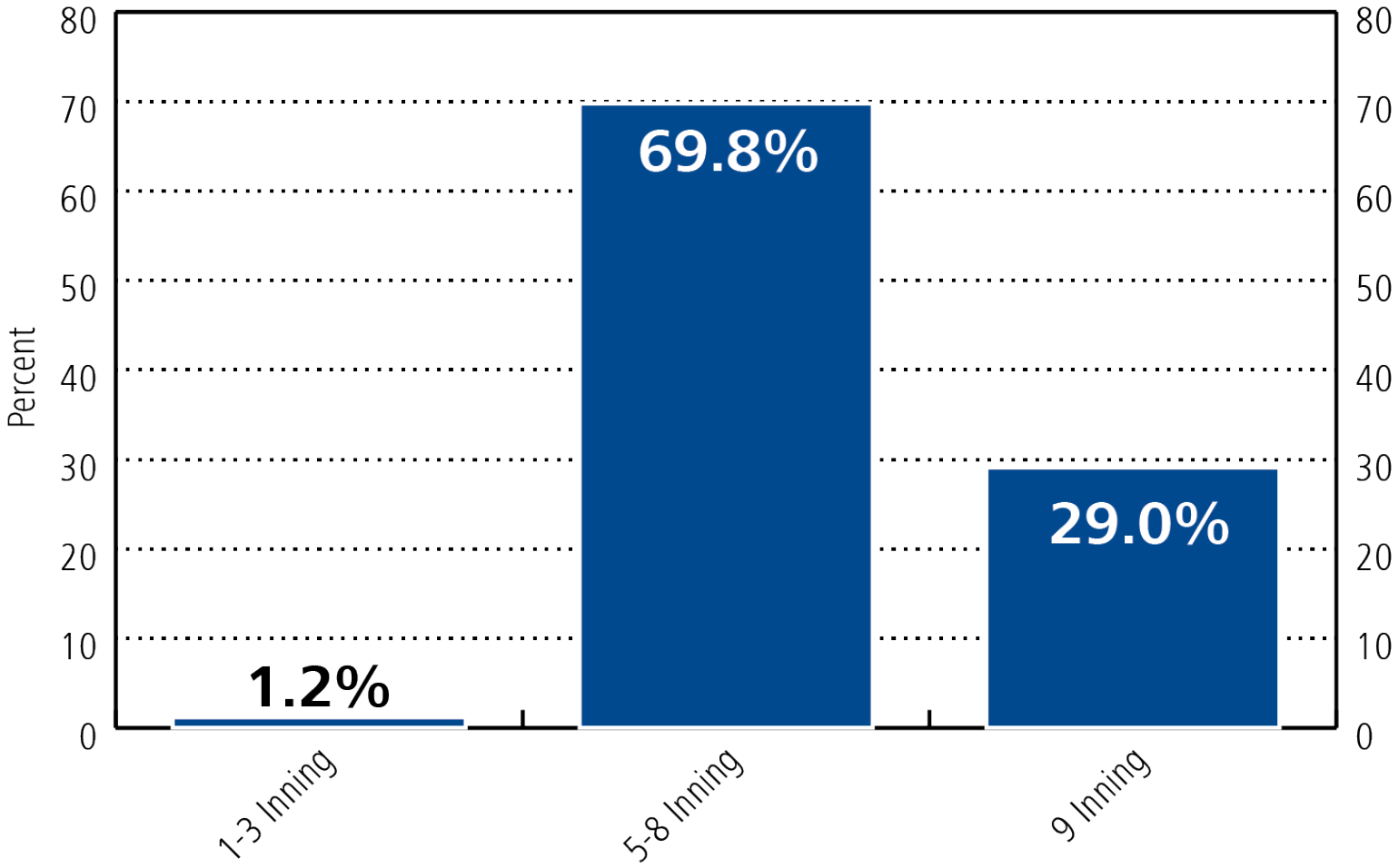
Situs RERC

Client portfolios in aggregate exceed $150 billion

CalPERS
CALSTRS
TIAA
JLL
PERS Oregon Public Employees Retirement System
National Real Estate Advisors
SBA Florida State Board of Administration
PGIM
Apollo
Deutsche Bank
Alcatel·Lucent
RBC
Crowe Horwath
Societe Generale
Global Atlantic Financial Group

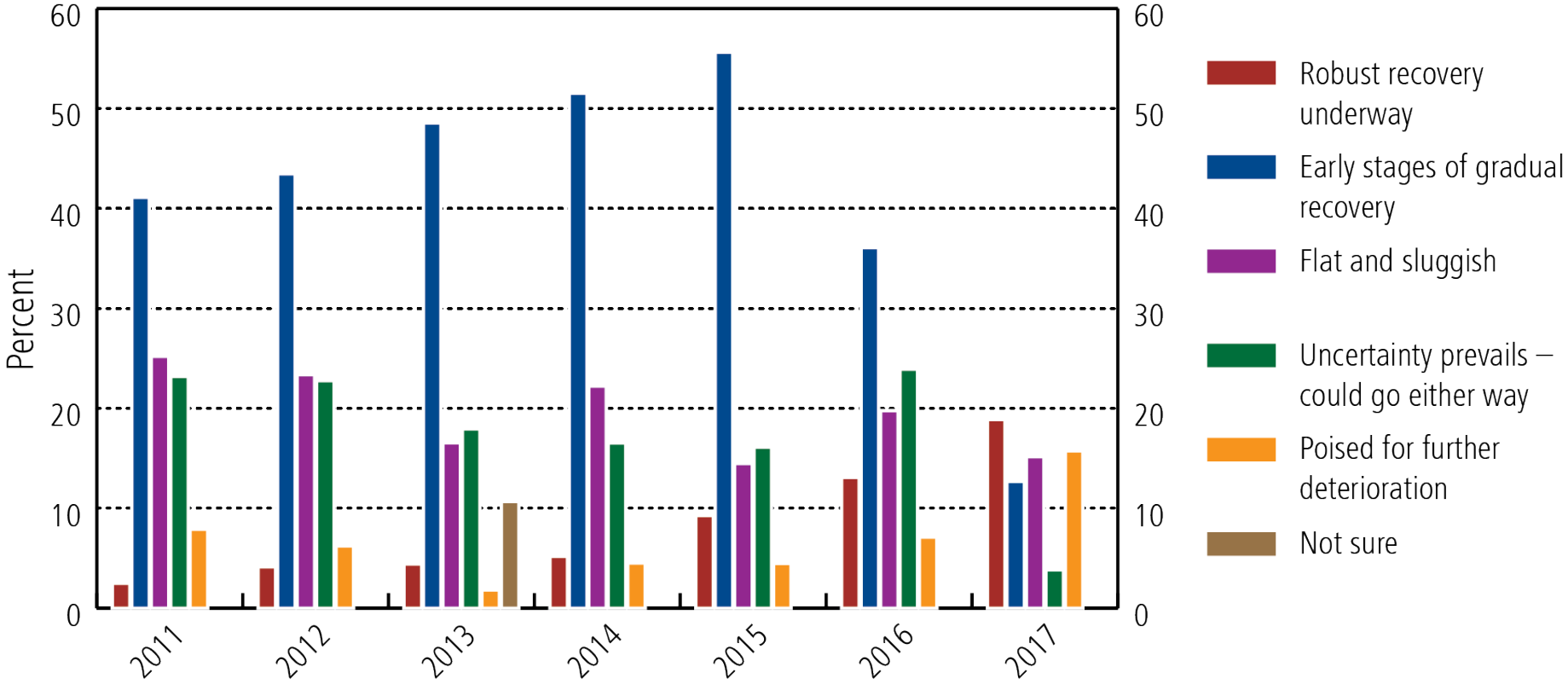
- WHERE ARE WE IN THE CYCLE?
- FOUNDATIONS OF THE OUTLOOK
- UNMASKING THE UNCERTAINTY - OUTLOOK

WHERE ARE WE IN THE CRE CYCLE?



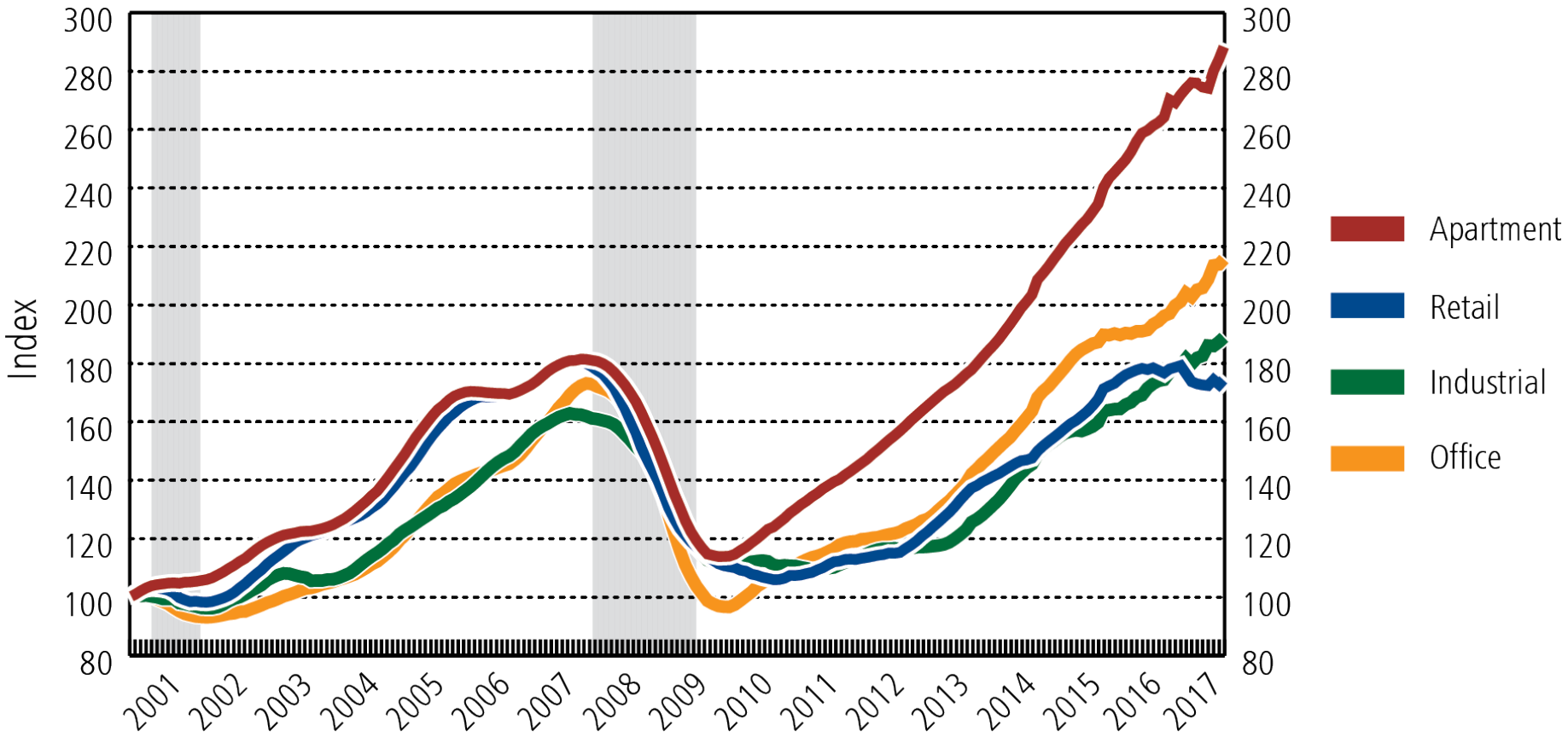
Source: Chicago Booth CRE Conference Instant Poll, 10/6/16, 86 responses.

THE CURRENT STATE OF CRE



Source: Deloitte Dbrief "Intersection of Global Change" poll, compiled by Situs RERC March 2, 2017.

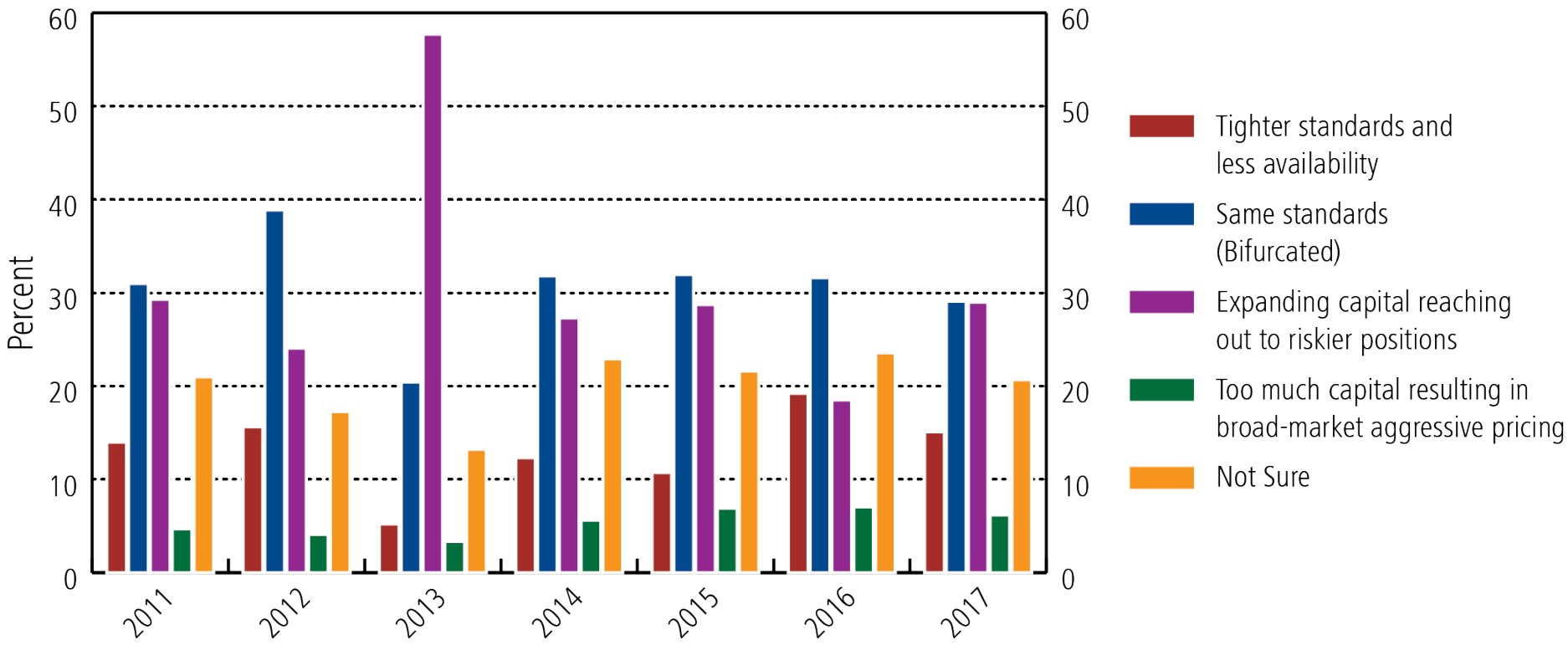
MOODY'S/RCA COMMERCIAL PROPERTY PRICE INDEX



Source: Moody's/Real Capital Analytics CPPI, September 2017.

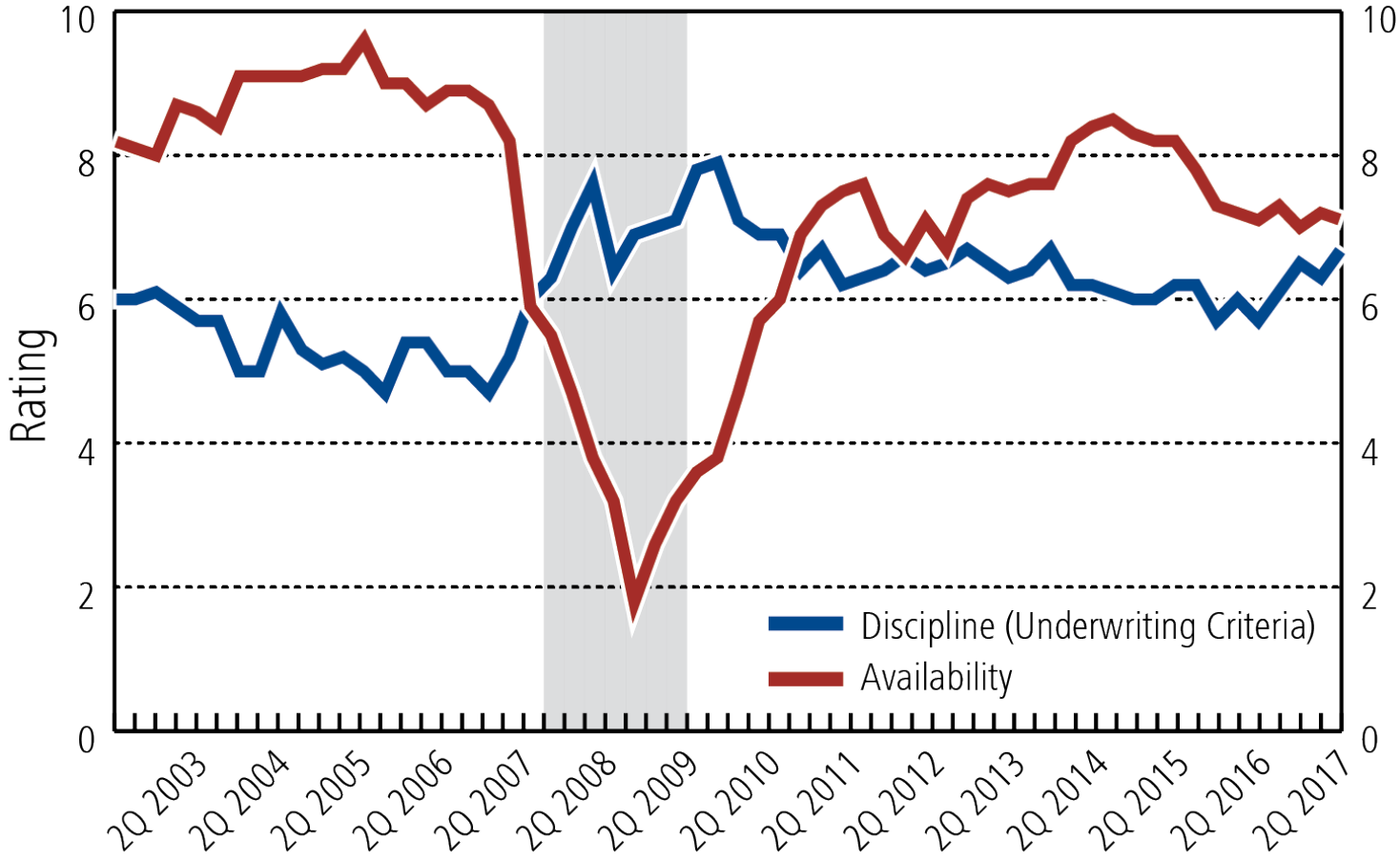
FOUNDATIONS OF THE OUTLOOK

OUTLOOK FOR CAPITAL AVAILABILITY IN 2017 VS. 2016



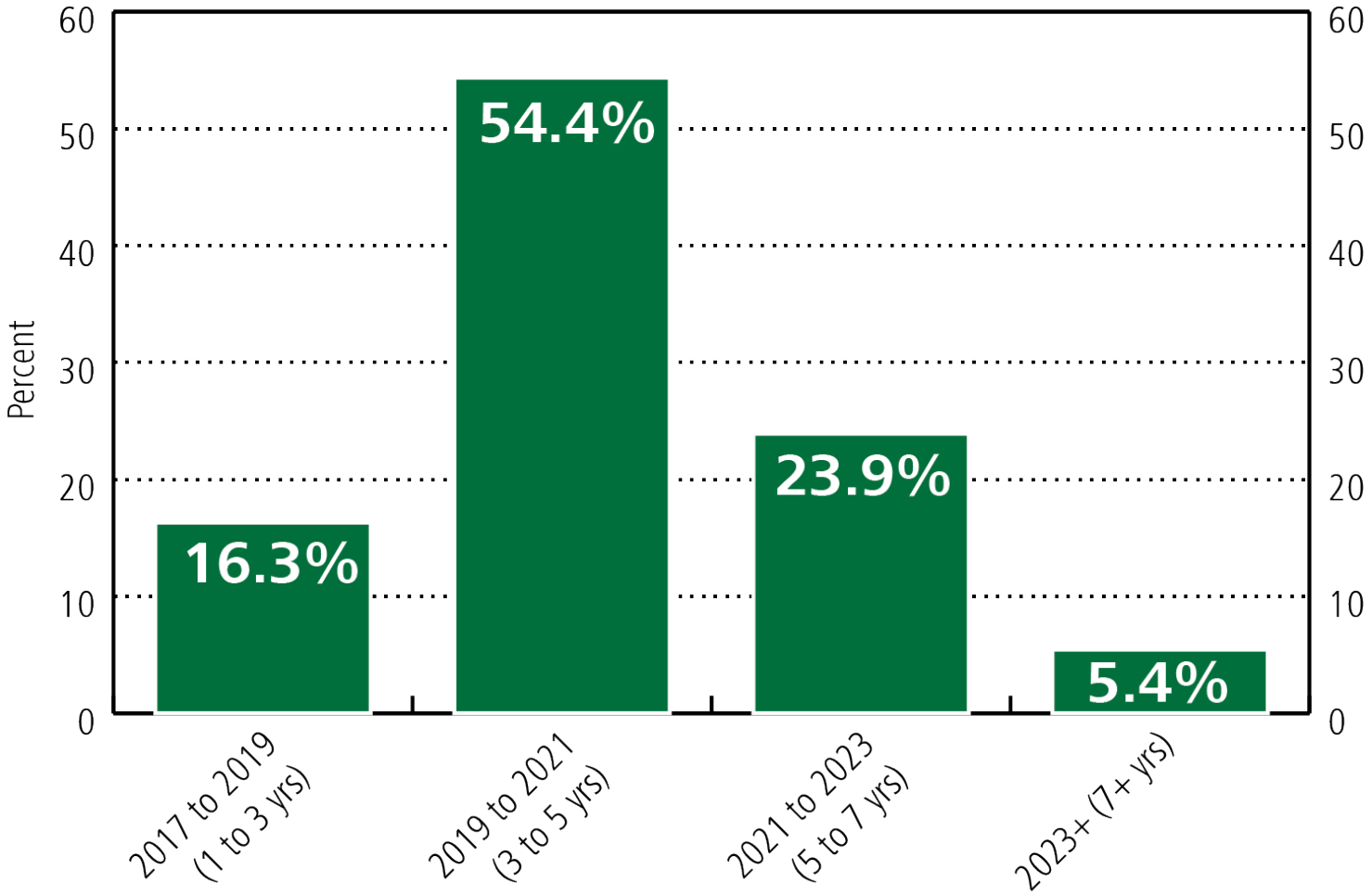
Source: Deloitte Dbrief "Intersection of Global Change" poll, compiled by Situs RERC March 2, 2017.

SITUS RERC AVAILABILITY & DISCIPLINE OF CAPITAL



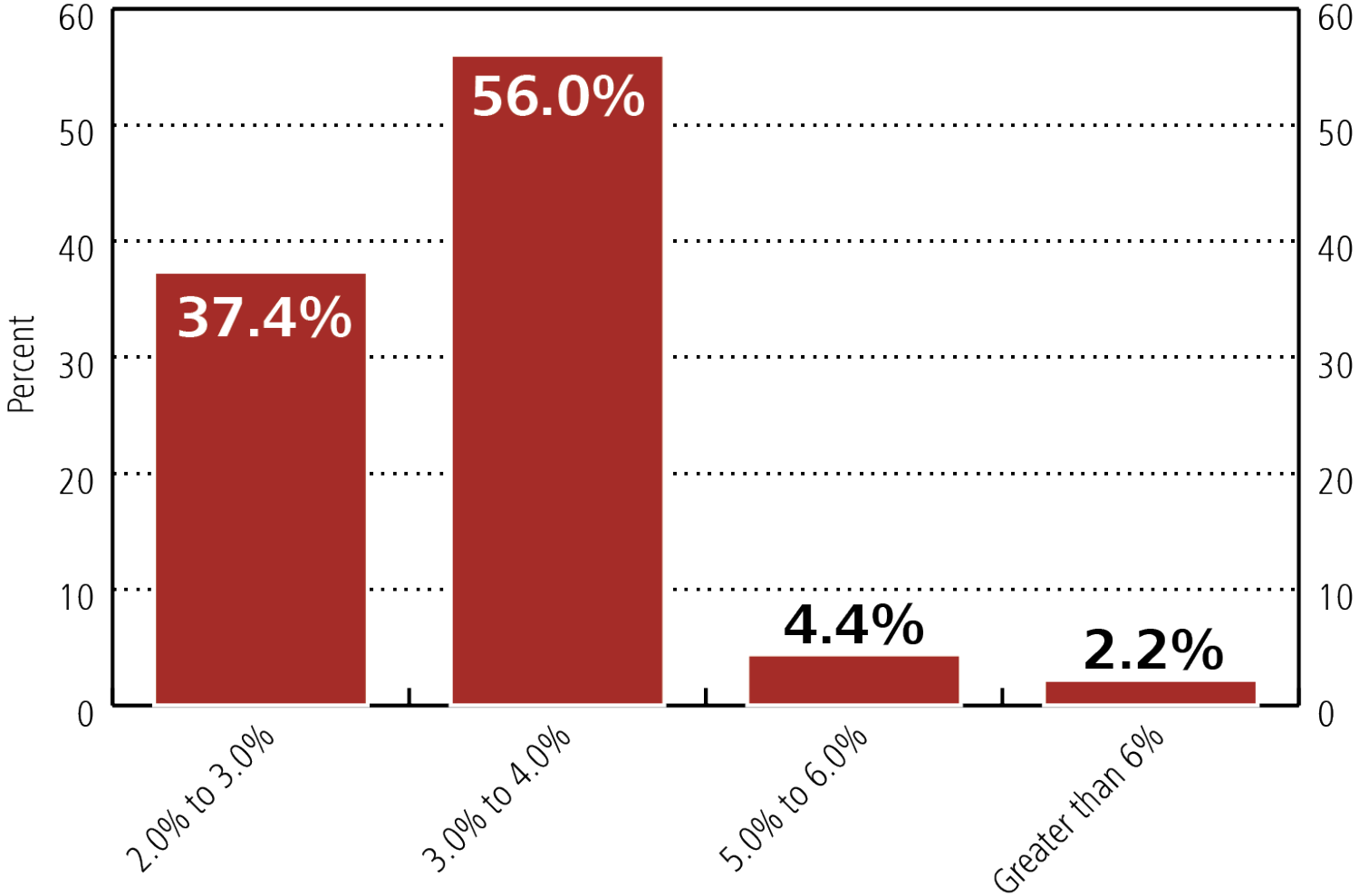
Source: SITUS RERC, 3Q 2017.

WHEN WILL U.S. 10-YEAR TREASURYS NORMALIZE?



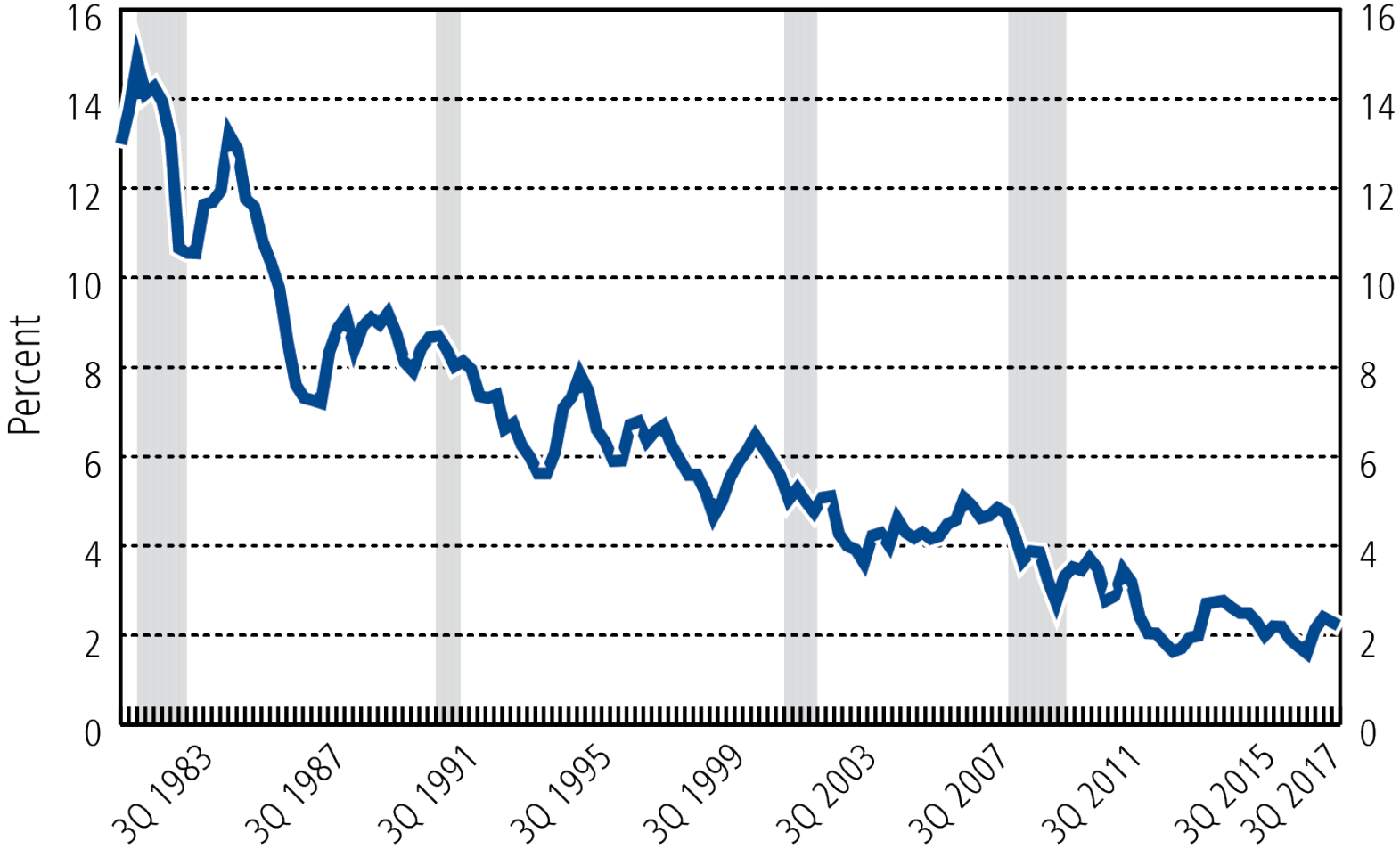
Source: Chicago Booth CRE Conference Instant Poll, 10/6/16, 92 responses.

AT WHAT LEVEL WILL U.S. 10-YEAR TREASURYS NORMALIZE?



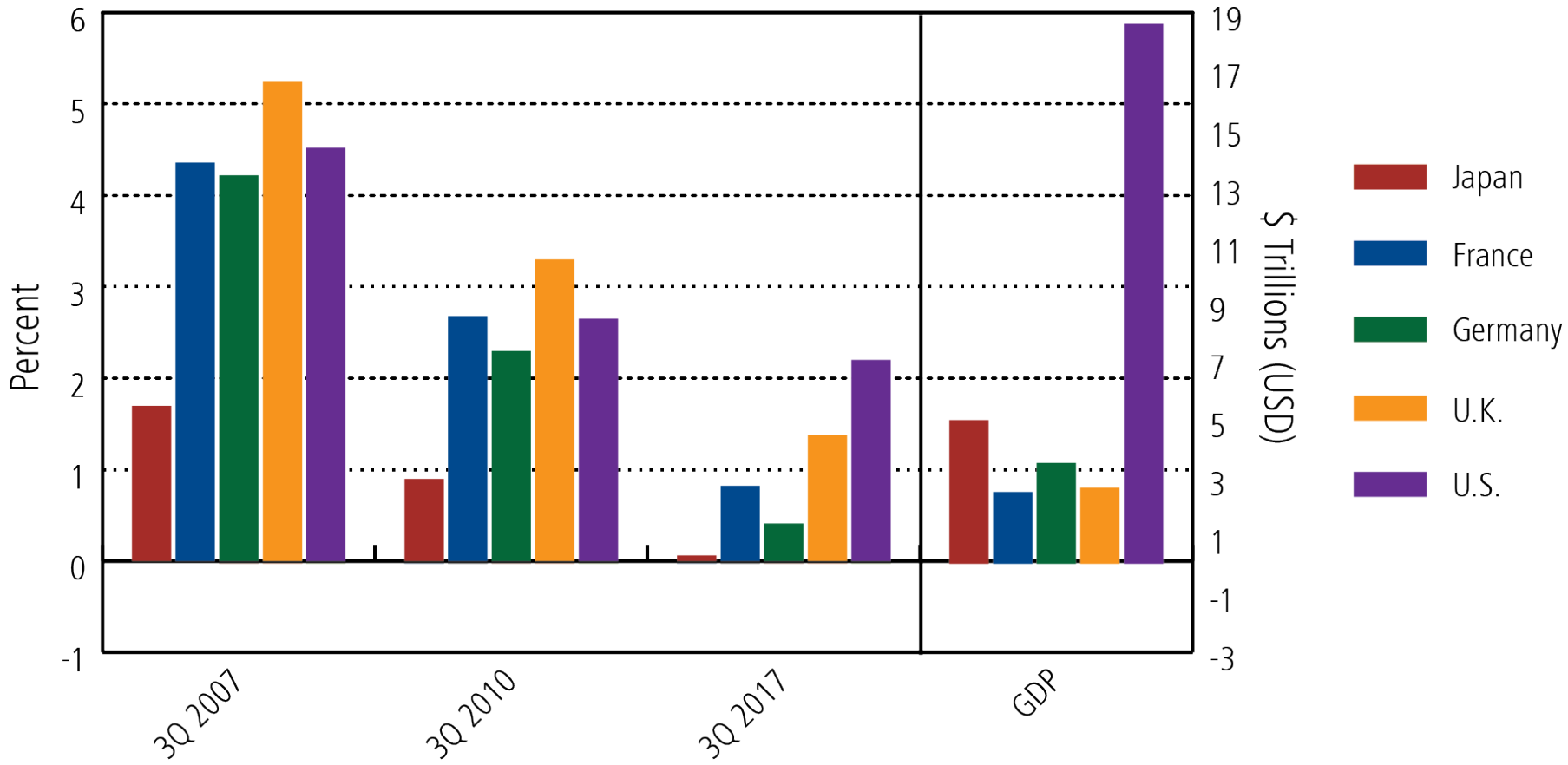
Source: Chicago Booth CRE Conference Instant Poll, 10/6/16, 91 responses.

10-YEAR TREASURYS



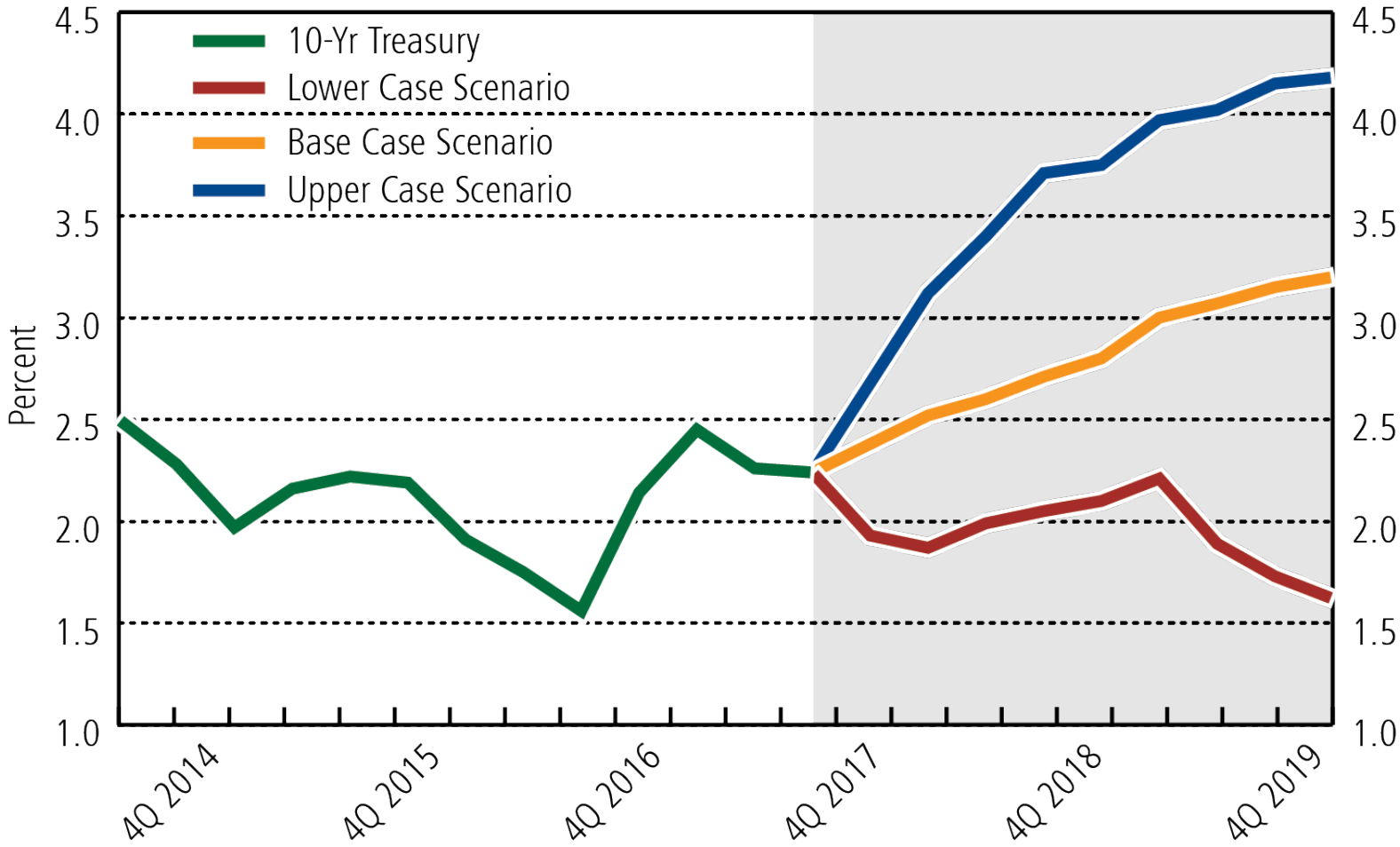
Source: Federal Reserve, 3Q 2017.

GLOBAL TREASURY RATES & GDP



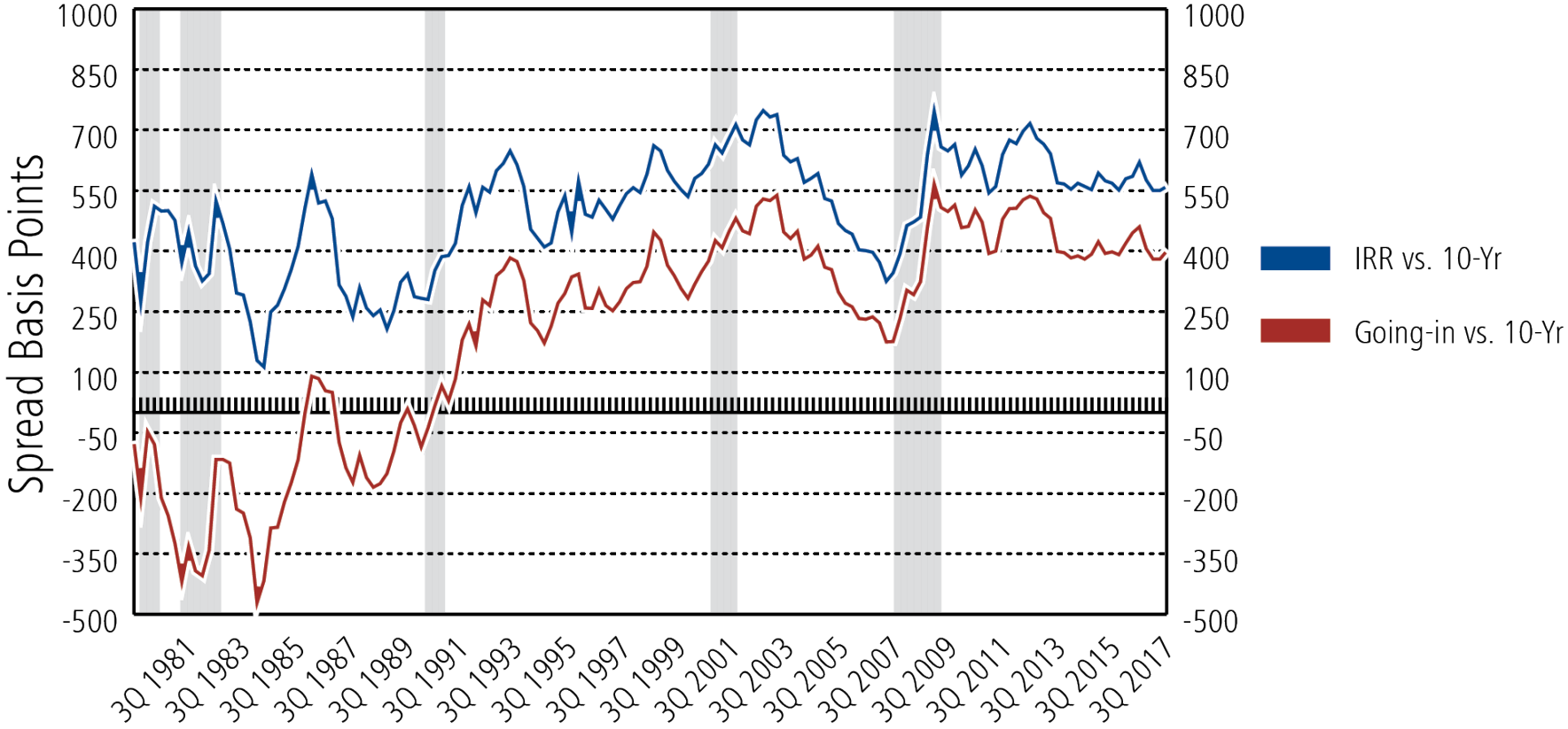
Sources: Federal Reserve Bank of St. Louis, Deutsche Bundsebank, Agence France Tresor, World Bank, October 2017.

SITUS RERC TREASURY FORECAST



Sources: Federal Reserve, Situs RERC, September 2017.

SITUS RERC RATES VS. 10-YEAR TREASURYS



Sources: Federal Reserve, Situs RERC, 3Q 2017.

MARKET RATE ANALYSIS

National Rate Analysis - Weighted Average Method									
	Class A+			Class A			Class B & C		
Going-in Capitalization Rates									
West	3.66	-	5.24	4.18	-	5.76	5.14	-	6.74
Midwest	4.85	-	6.18	5.61	-	6.84	6.36	-	7.68
South	4.43	-	6.00	4.84	-	6.59	5.86	-	7.41
East	3.89	-	5.65	4.54	-	6.36	5.31	-	6.78
Discount Rates									
West	5.13	-	7.00	5.66	-	7.52	6.61	-	8.48
Midwest	6.30	-	7.91	7.06	-	8.57	7.81	-	9.40
South	5.96	-	7.78	6.34	-	8.34	7.38	-	9.19
East	5.36	-	7.37	5.98	-	8.08	6.76	-	8.51

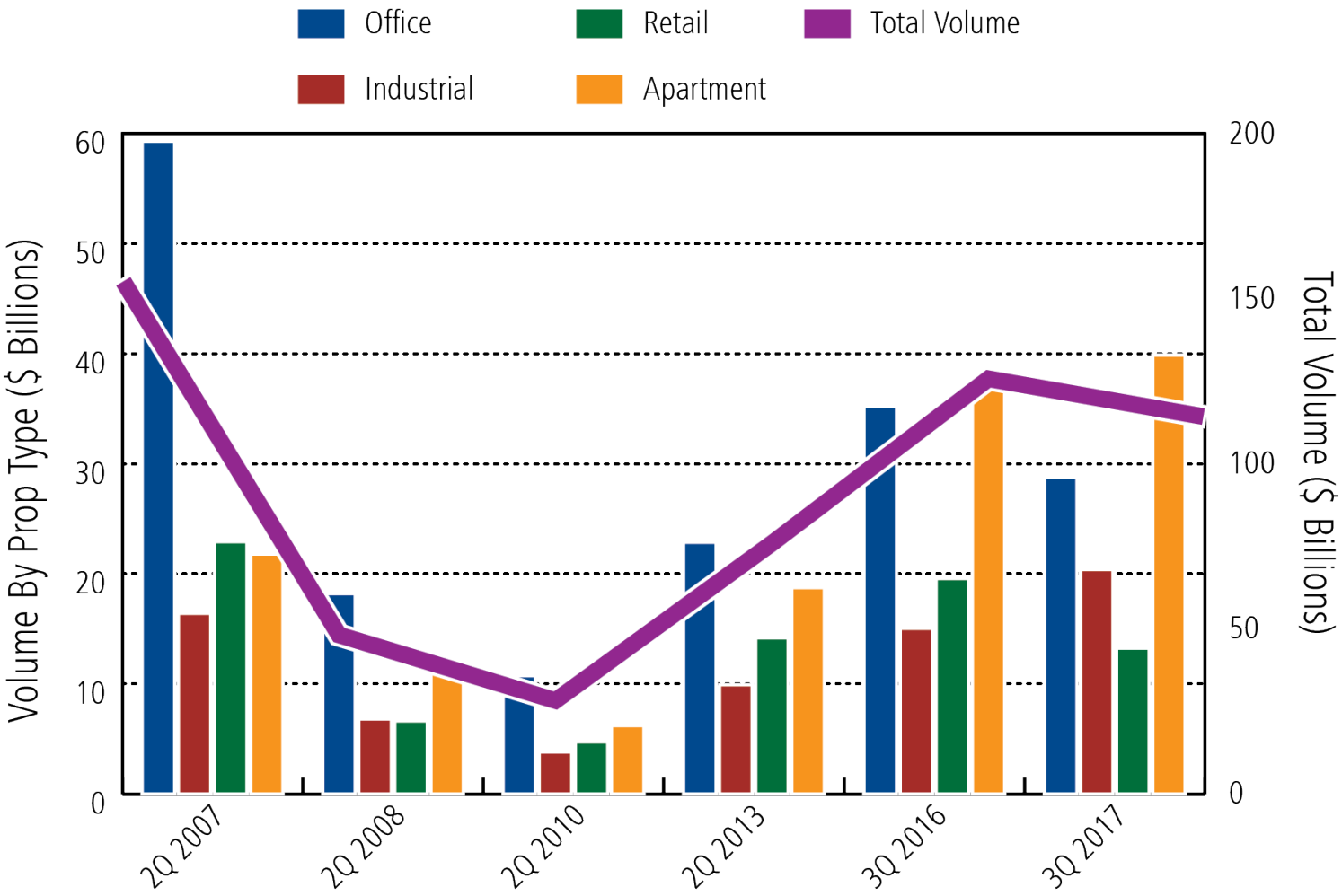
Source: Situs RERC.

NCREIF 1-YEAR RETURNS

1-Year Trailing Returns — 2Q 2017		
Property Type	NCREIF Returns	NCREIF Returns Less Situs RERC Returns
Industrial - Whse	12.51%	4.71%
Industrial - R&D	11.36%	2.81%
Neigh/Comm	7.40%	-0.35%
All Property Types	6.97%	-1.13%
Apartment	6.28%	-1.22%
Regional Mall	6.12%	-2.08%
Power Center	6.03%	-2.32%
Office - Suburban	5.96%	-2.84%
Office - CBD	5.30%	-2.55%
Hotel	3.65%	-6.40%

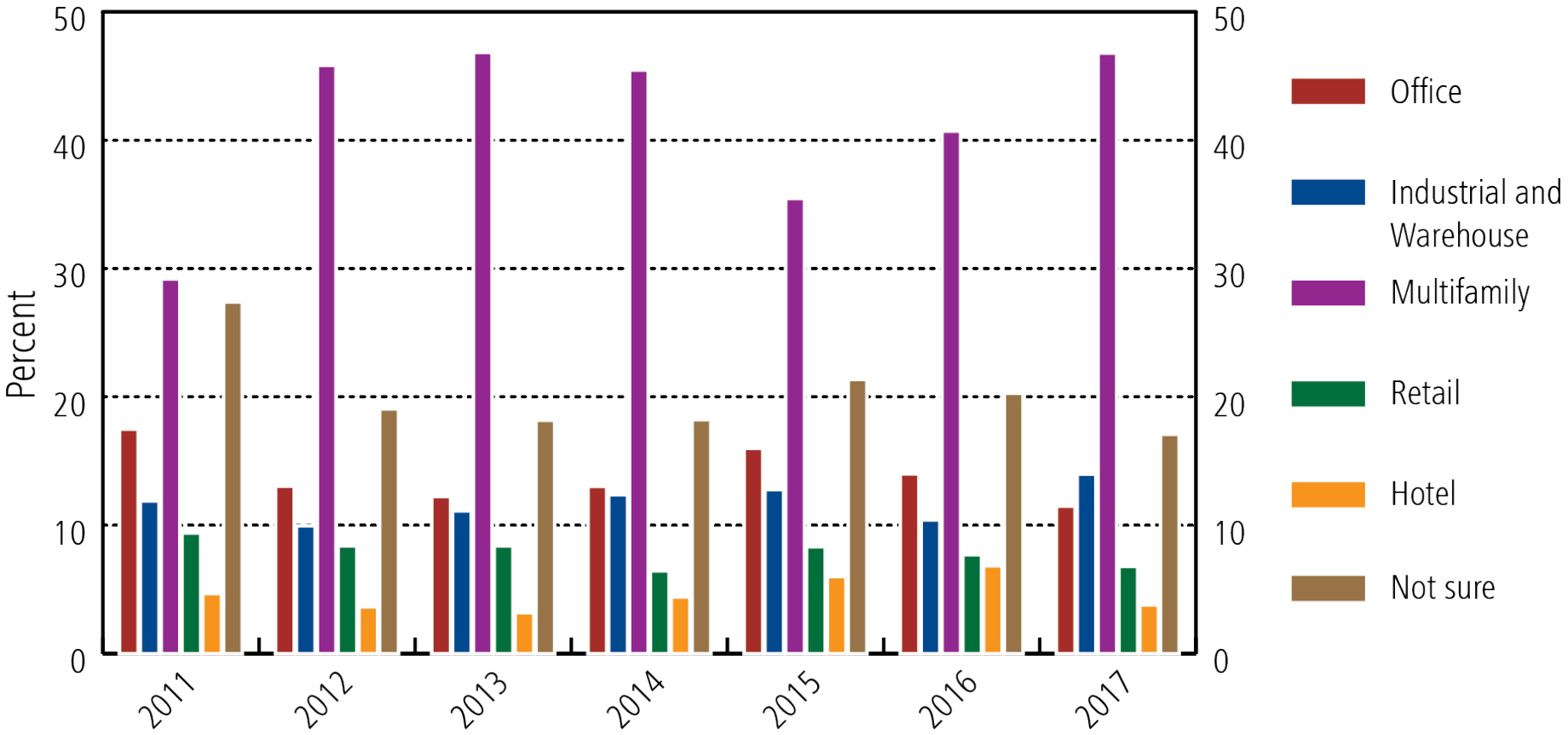
[1]RAR = Risk Adjusted Return.
Sources: Situs RERC, NCREIF, 2Q 2017.

TRANSACTION VOLUME



Source: Real Capital Analytics, 3Q 2017.

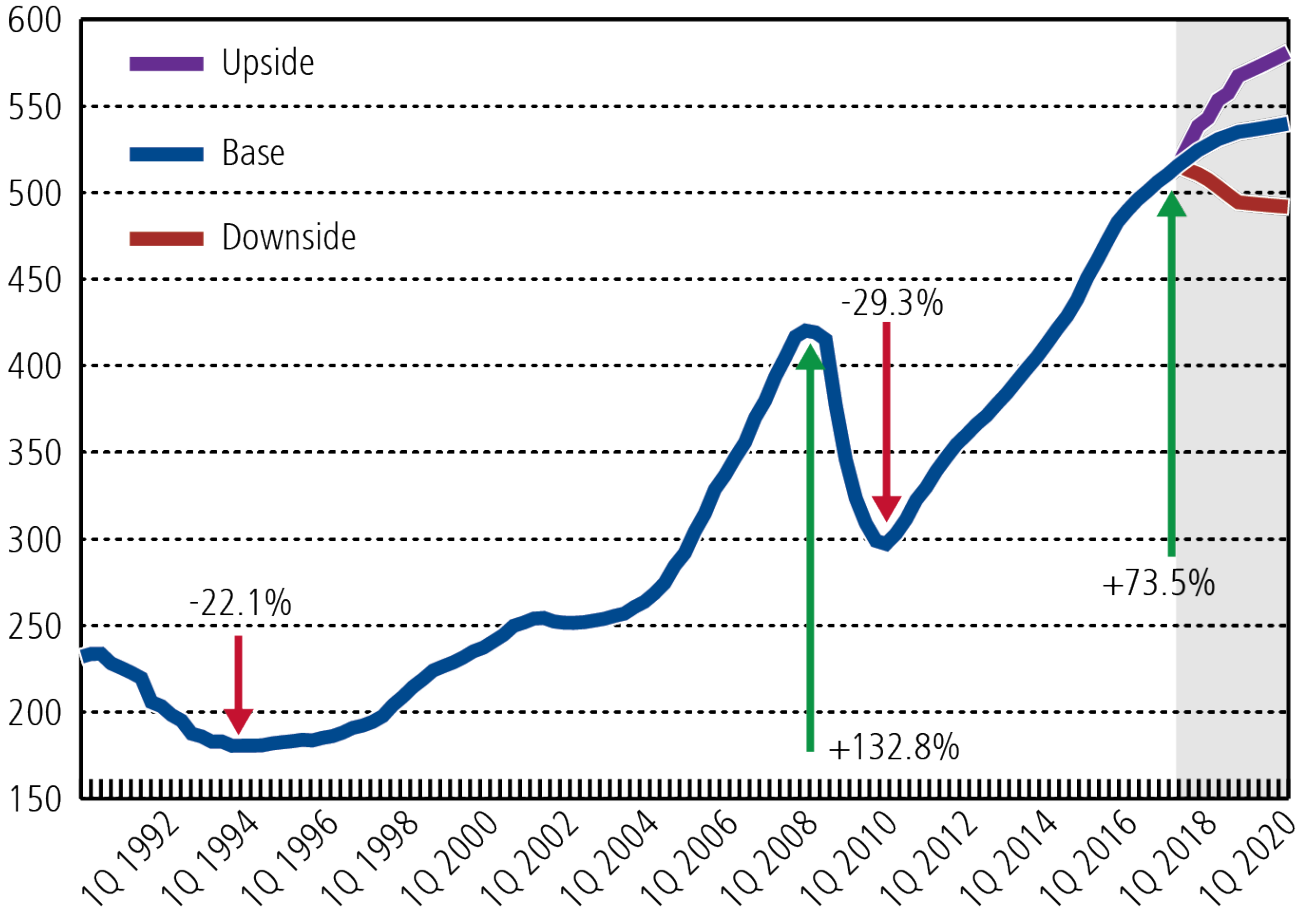
MOST FAVORABLE PROPERTY TYPE



Source: Deloitte Dbrief "Intersection of Global Change" poll, compiled by Situs RERC March 2, 2017.

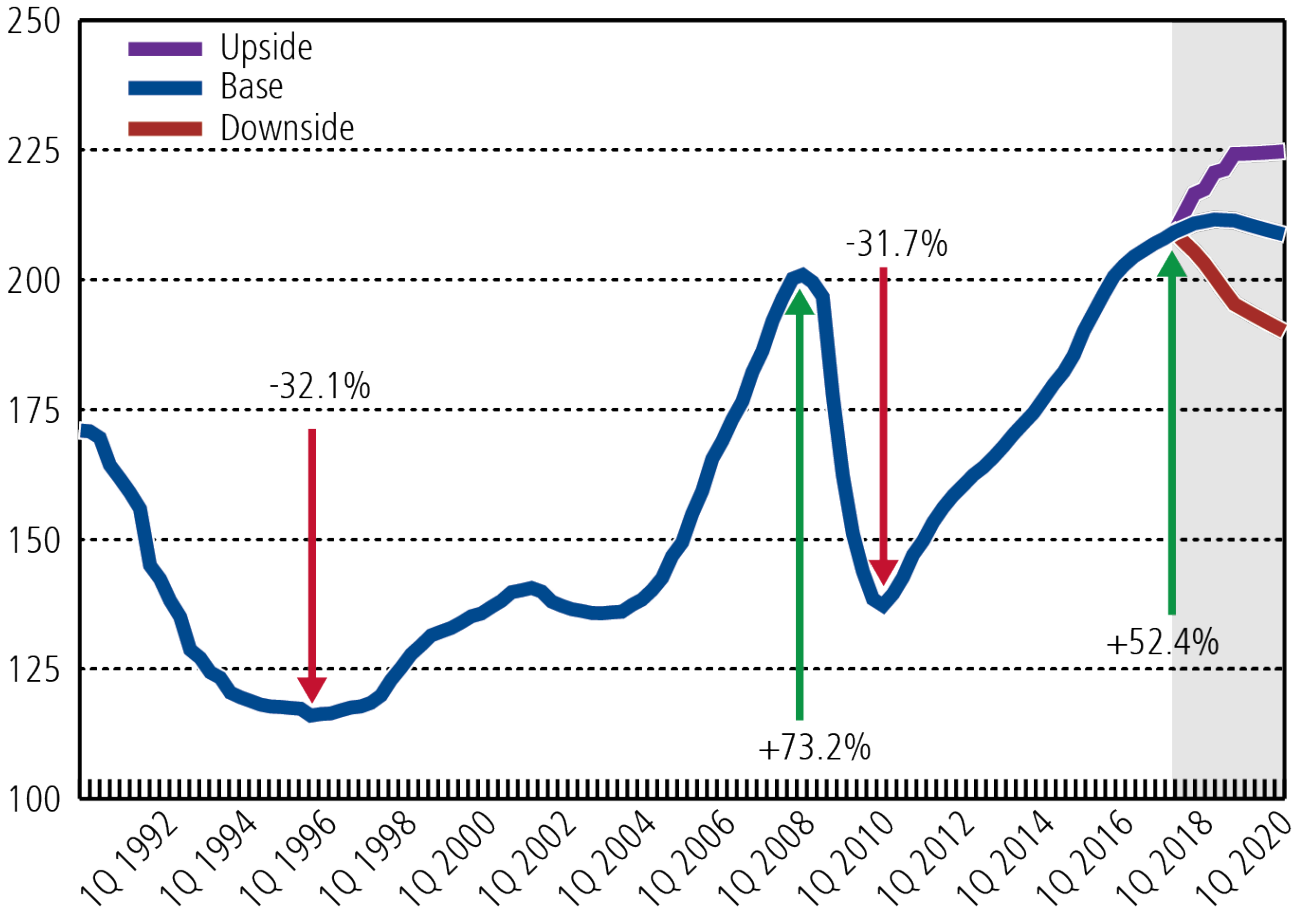
UNMASKING THE UNCERTAINTY: OUTLOOK

CRE PRICE INDEX[1]



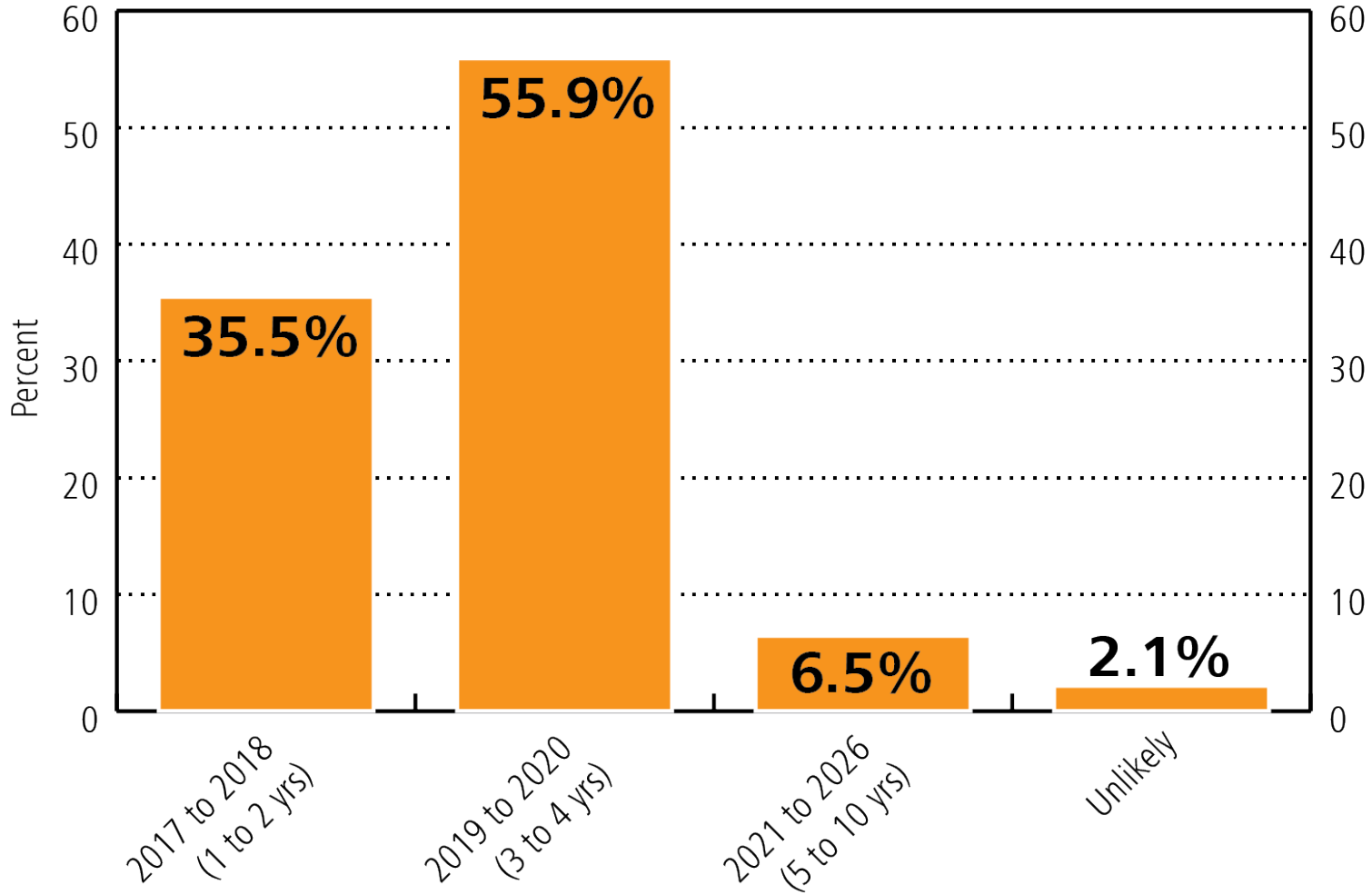
[1] Price index combines capital expenditures and capital returns.
Note: Shaded area reflects Situs RERC's outlook for Base, Upside, and Downside Scenarios, from 3Q 2017 to 1Q 2020.
Sources: NCREIF, Situs RERC, 2Q 2017.

CRE VALUE INDEX[1]



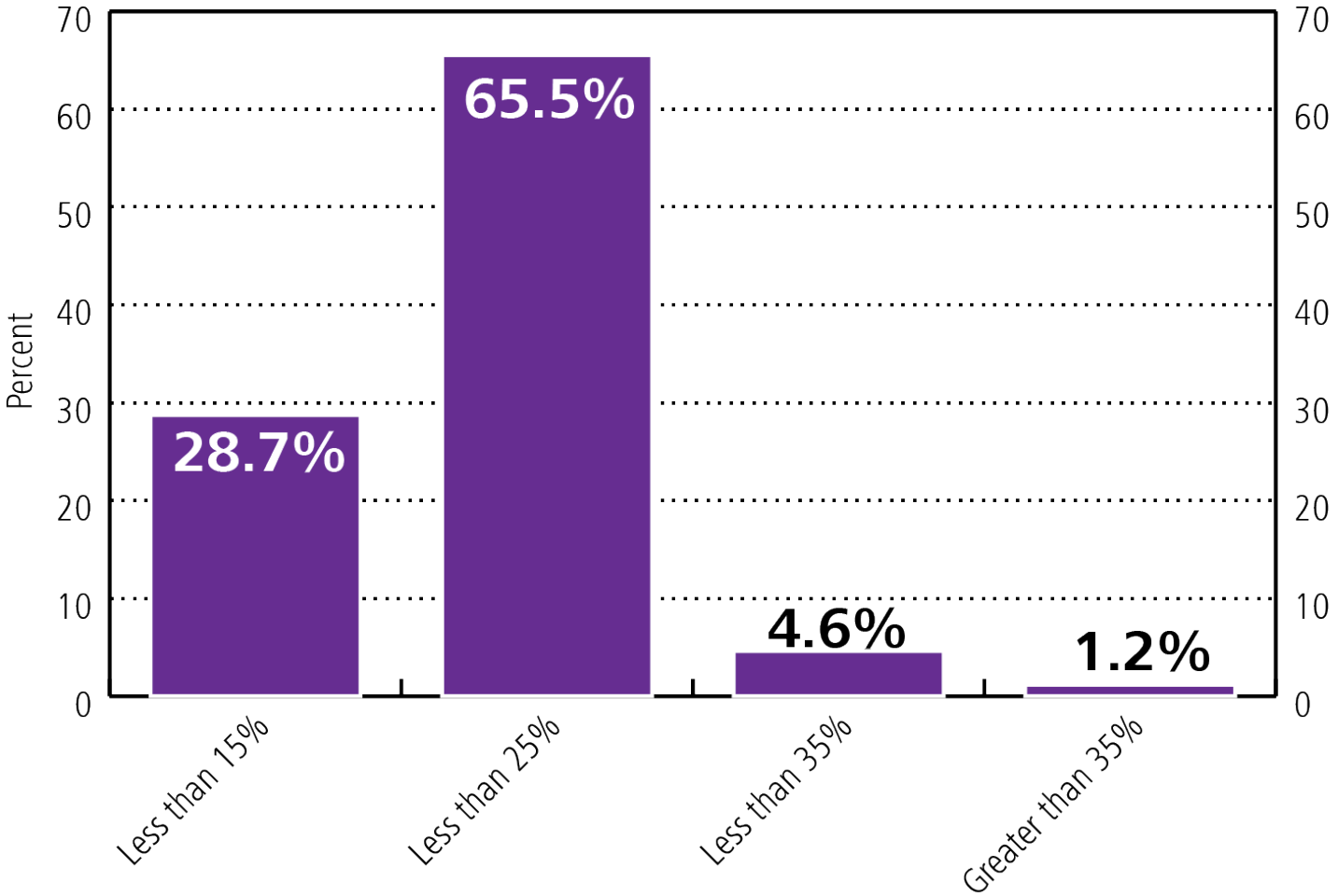
[1] Value index represents capital returns only.
Note: Shaded area reflects Situs RERC's outlook for Base, Upside, and Downside Scenarios, from 3Q 2017 to 1Q 2020.
Sources: NCREIF, Situs RERC, 2Q 2017.

WHEN WILL A CRE MARKET CORRECTION OCCUR?



Source: Chicago Booth CRE Conference Instant Poll, 10/6/16, 93 responses.

HOW LARGE WILL THE CRE CORRECTION BE?



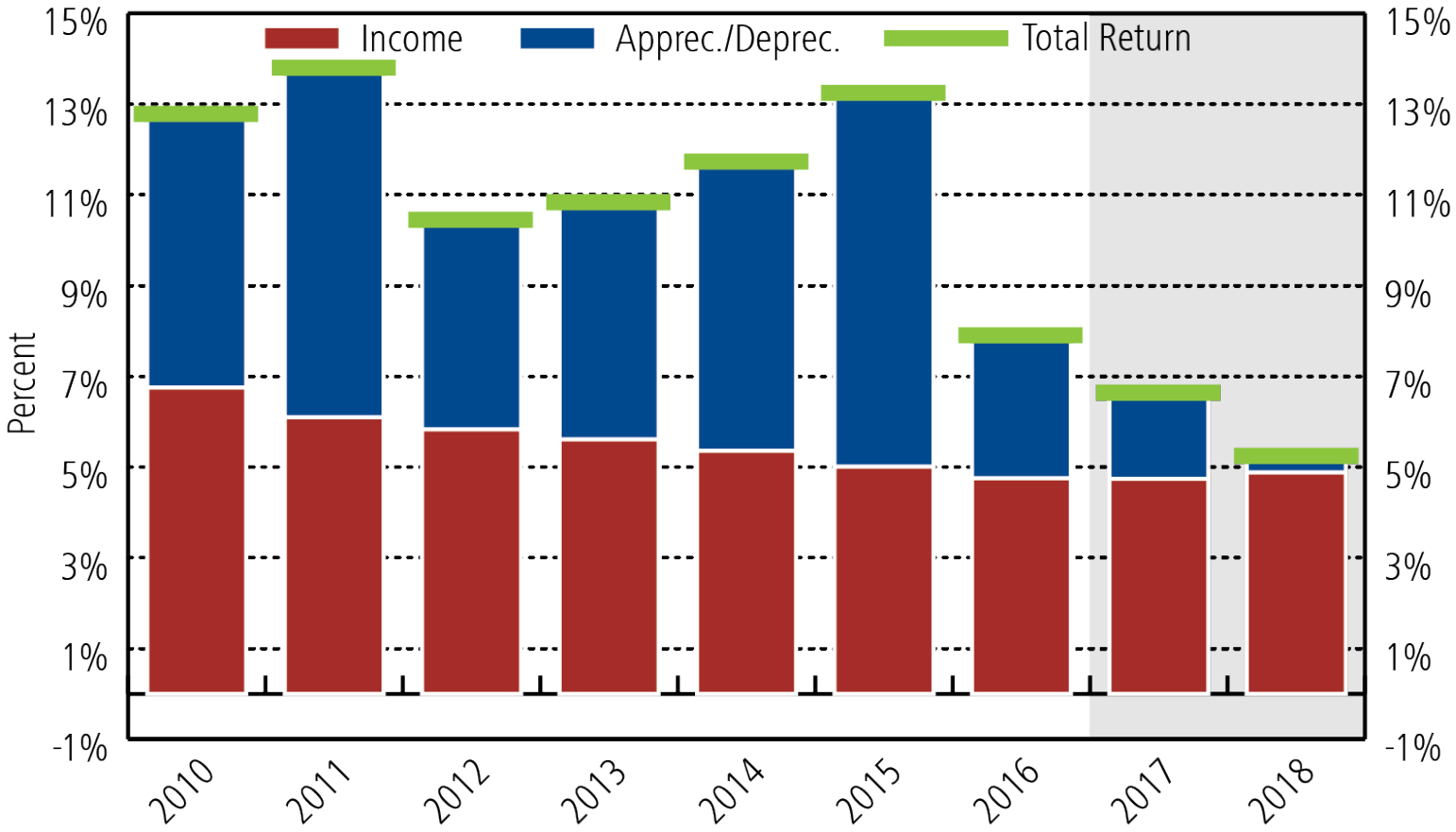
Source: Chicago Booth CRE Conference Instant Poll, 10/6/16, 87 responses.

CRE VALUE CHANGES OVER THE NEXT YEAR

To what extent do you expect commercial real estate values to change over the next 12 months?						
	2012	2013	2014	2015	2016	2017
More stress: -15% to -2%	4.7%	3.0%	3.6%	3.3%	7.5%	6.1%
Minimal change: -2% to +2%	36.8%	29.2%	32.9%	25.3%	40.9%	36.4%
Moderate improvement: +2% to +5%	46.4%	51.9%	45.7%	50.2%	32.2%	39.1%
Robust strengthening: +5% to +15%	2.1%	2.7%	3.1%	6.7%	2.4%	3.4%
Not sure	10.1%	13.2%	14.7%	14.5%	16.9%	14.9%

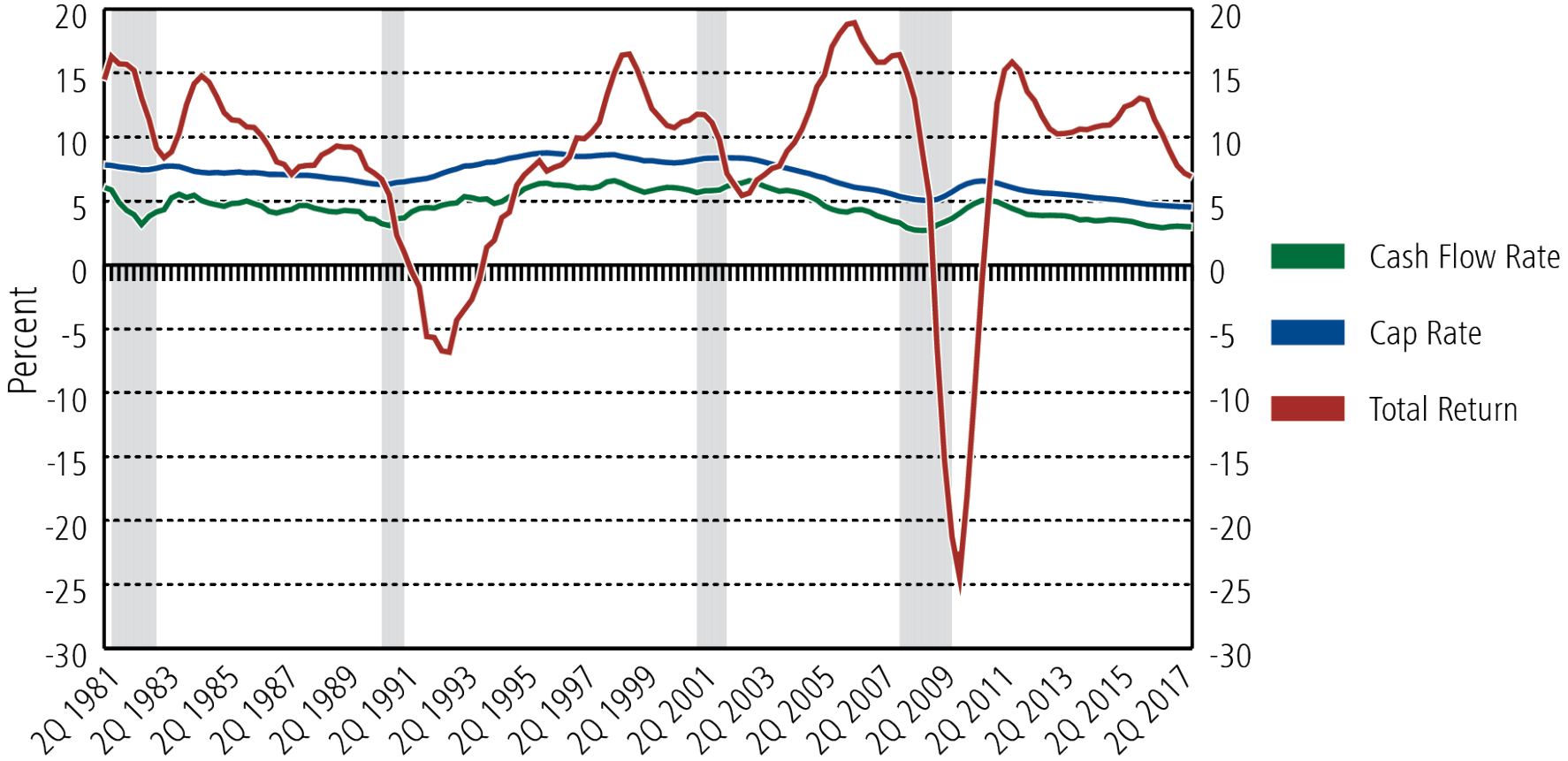
Source: Deloitte Dbrief "Intersection of Global Change" poll, compiled by Situs RERC March 2, 2017.

SITUS RERC TOTAL RETURN FORECAST



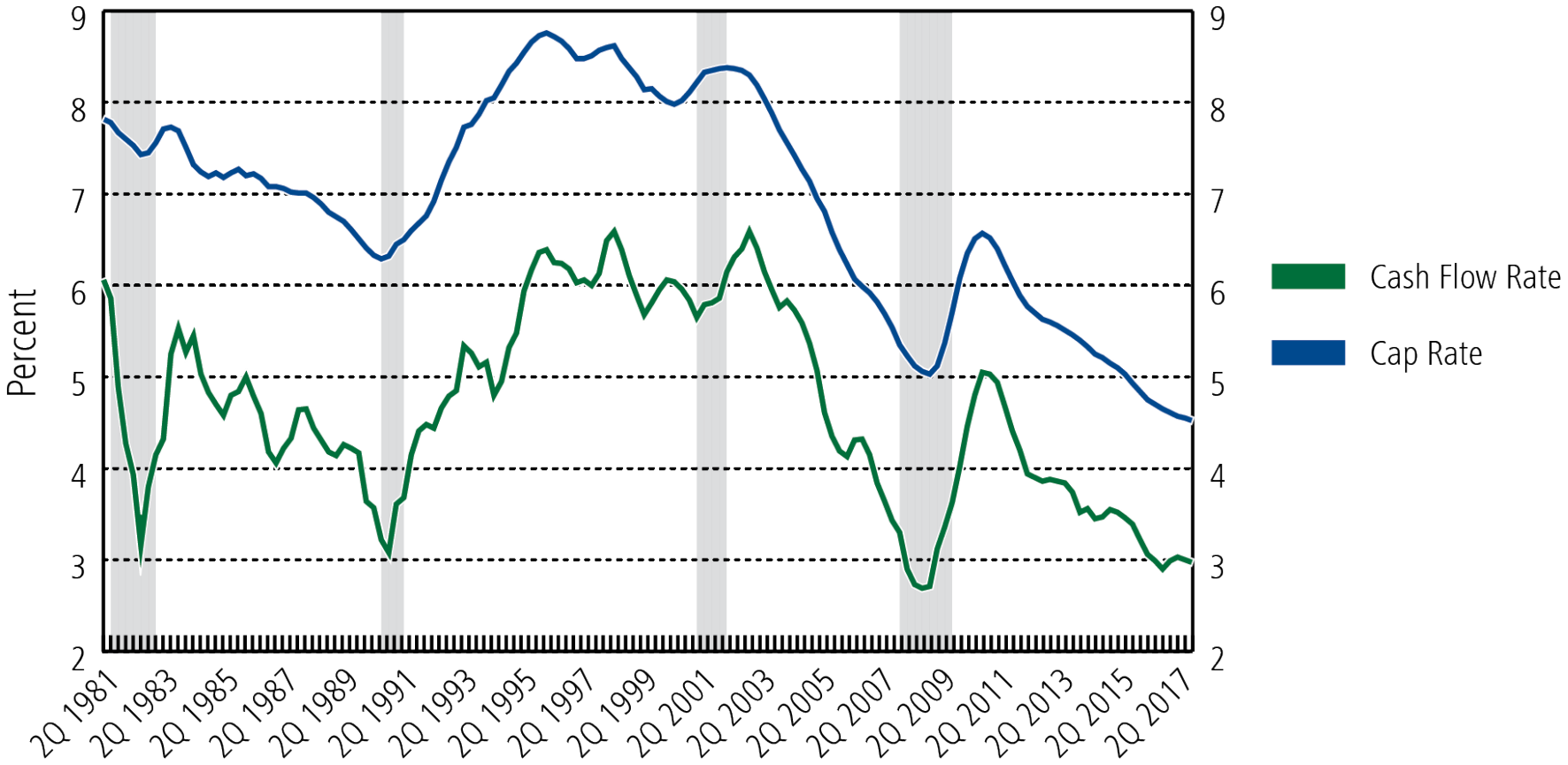
Note: The Total Return Forecast is Situs RERC's proprietary model based on Situs RERC data and data from the NCREIF Property Index (NPI) and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shaded area reflects Situs RERC's outlook for the base case scenario for 2017 and 2018.
Sources: Situs RERC, NCREIF, 2Q 2017.

4-QUARTER TRAILING NCREIF TOTAL RETURN, CAP RATE AND CASH FLOW RATE



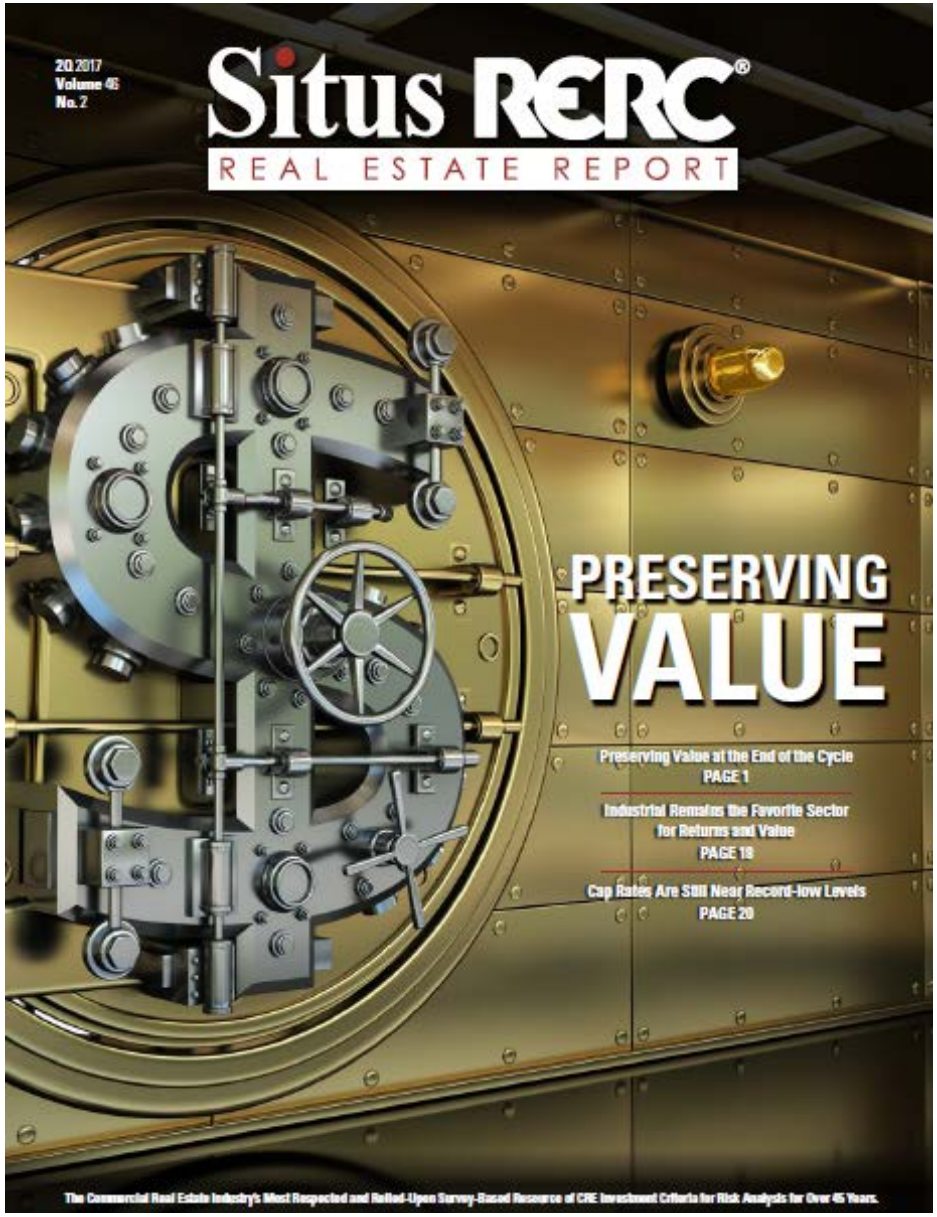
Source: NCREIF, SITUS RERC, 2Q 2017.

4-QUARTER TRAILING NCREIF CAP RATE AND CASH FLOW RATE



Source: NCREIF, SITUS RERC, 2Q 2017.

THANK YOU!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