ULI/EY Real Estate Consensus Forecast

A Survey of Leading Real Estate Economists/Analysts

October 2013

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ULI/EY Real Estate Consensus Forecast

- Three-year forecast for 27 economic and real estate indicators
- A consensus forecast based on the median of the forecasts from economists/analysts at 38 leading real estate organizations
- Respondents represent major real estate investment, advisory, and research firms and organizations
- Survey undertaken from August 27 to September 23, 2013
- A semiannual survey; next release planned for April 2014
- Forecasts for:
  - Broad economic indicators
  - Real estate capital markets
  - Property investment returns for four property types
  - Vacancy rates and rents for five property types
  - Housing starts and prices

Overview

The *ULI/EY Real Estate Consensus Forecast* for October 2013 projects continued improvement over the next three years for the U.S. economy; considerable strength in the real estate capital markets; continued improvement of commercial real estate fundamentals; and significant growth and improvement in the housing sector.

Compared to the previous forecast in April 2013, this forecast is just slightly less optimistic regarding commercial property transaction volume, total annual returns in the first two years and single-family starts; this forecast is slightly more positive about commercial mortgage-backed securities issuance, existing single-family housing prices, and fundamentals in the industrial sector.

Key Findings

- Commercial property transaction volume jumped to $299 billion in 2012 and is expected to increase further to $350 billion by 2015.
- CMBS issuance is expected to increase by 56% in 2013 and more than double by 2015.
- Institutional real estate assets are expected to provide total returns ranging from 4% to 8.8% annually over the next 3 years.
- Vacancy rates are expected to decrease modestly for office and retail properties, more substantially for industrial properties and remain at low levels for apartments; hotel occupancy rates are expected to improve.
- Commercial property rents are expected to increase for the four major property types in 2013, ranging from 0.2% for retail up to 3.3% for industrial. Rent increases in 2015 will range from 2% to 4%.
- Single-family housing starts are projected to increase from 535,300 units in 2012 to 900,000 units by 2015.

Economy

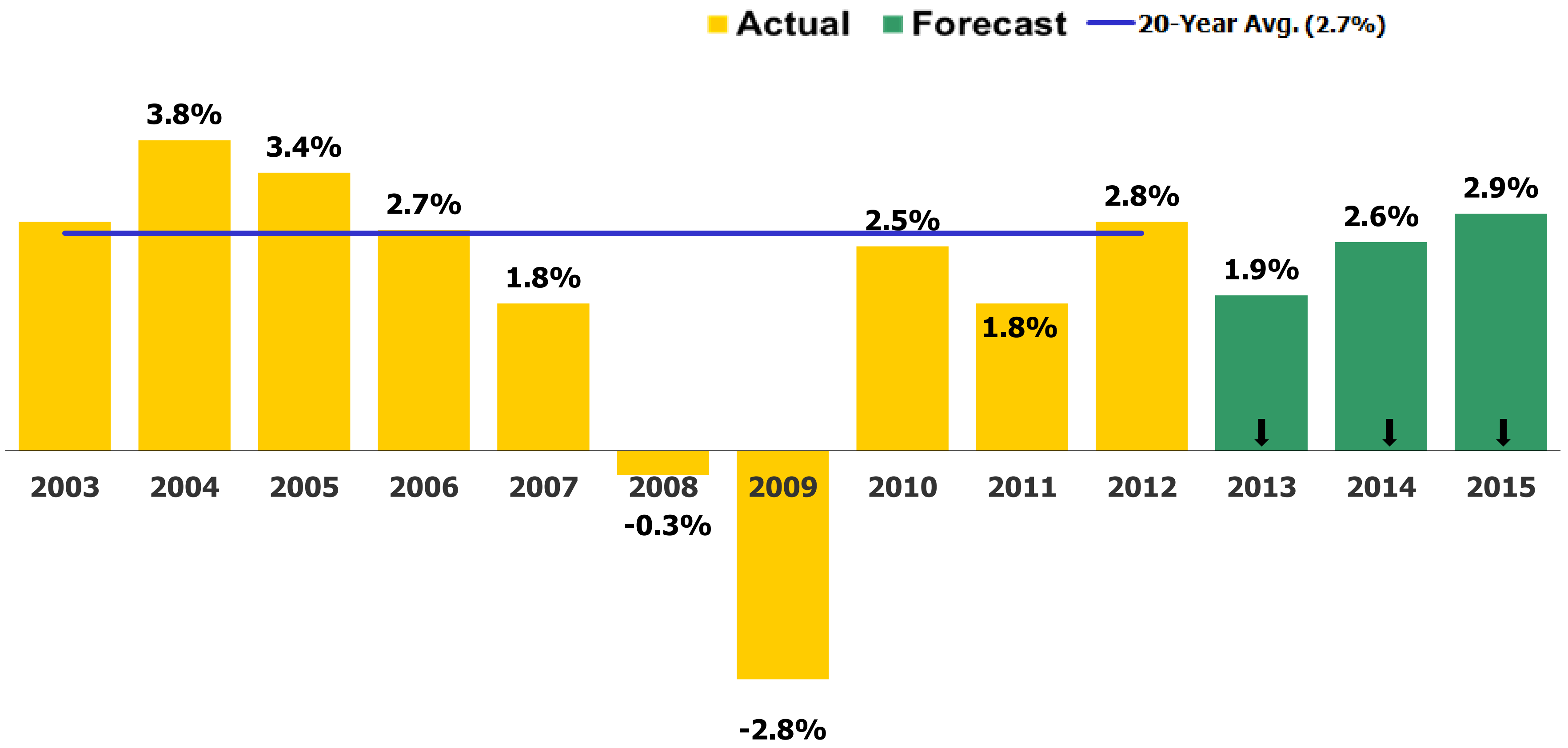
In general the economists/analysts expect the economy to accelerate at a moderate rate over the next three years.

GDP is expected to grow by 1.9% in 2013, 2.6% in 2014, and 2.9% in 2015.

The unemployment rate is expected to fall to 7.2% by the end of 2013, 6.8% by the end of 2014, and 6.3% by the end of 2015.

Employment is expected to increase steadily, by 2.2 million jobs in 2013, 2.4 million in 2014, and 2.6 million in 2015.

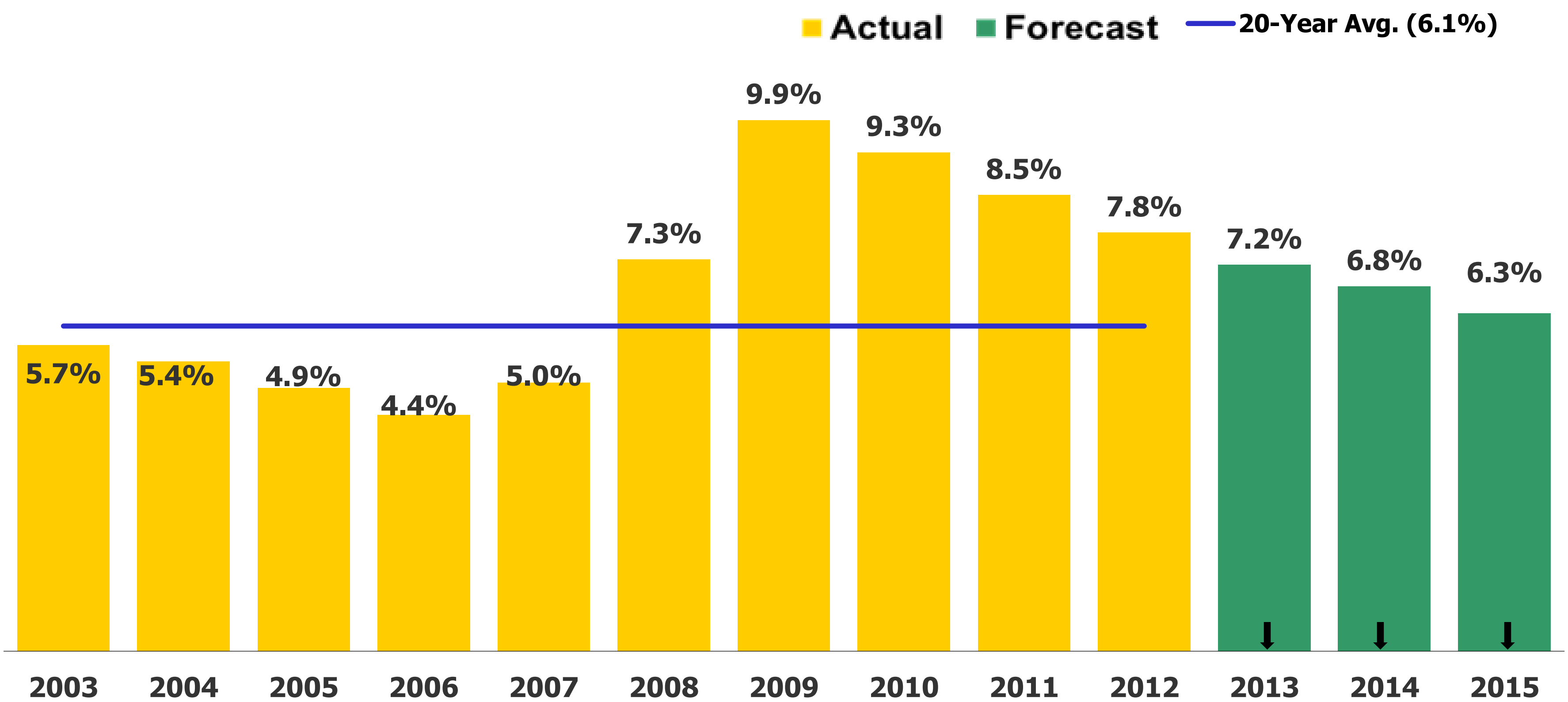
Real GDP Growth



Sources: 1992-2012, Bureau of Economic Analysis; 2013-2015, ULI/EY Consensus Forecast.

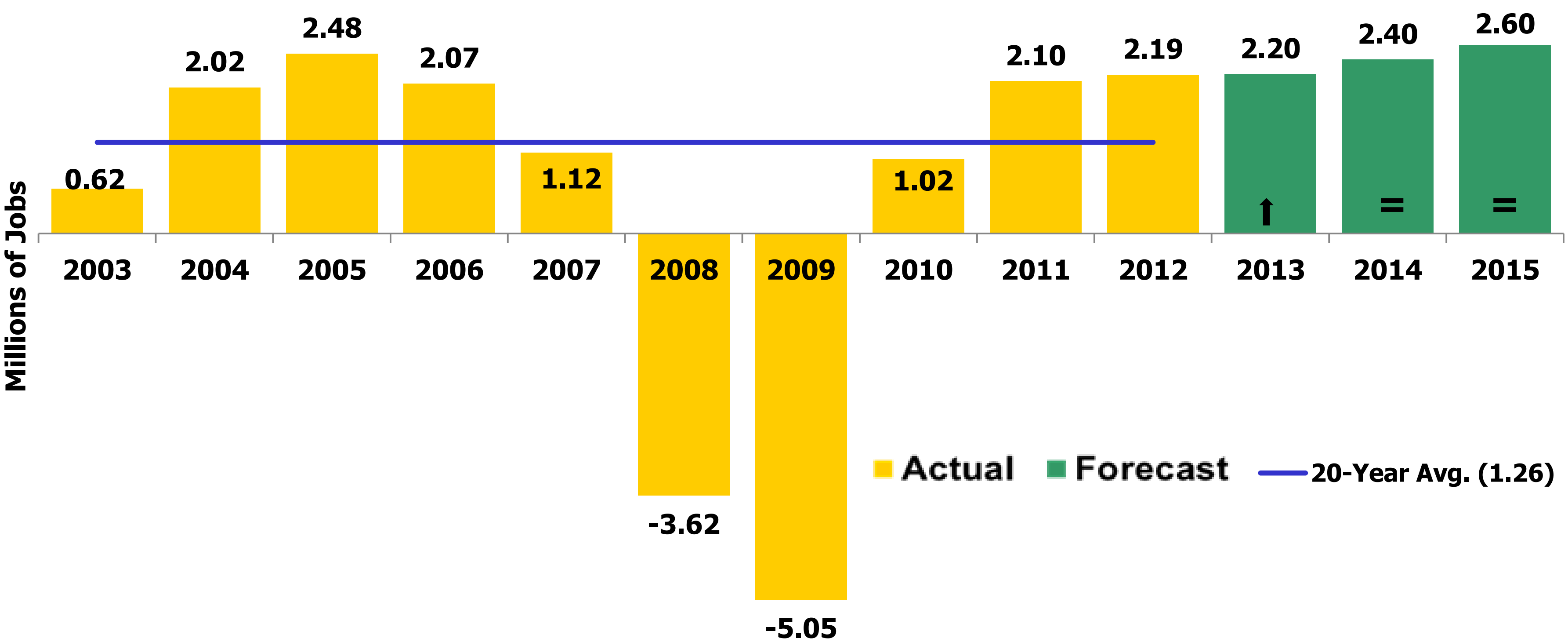
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 2.0%. 3.0%. 3.1%, respectively, for 2013-2015.

Unemployment Rate



Sources: 1992-2012 (December), Bureau of Labor Statistics; 2013-2015 (year-end), ULI/EY Consensus Forecast.
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 7.5%. 7.0%. 6.5%, respectively, for 2013-2015.

Employment Growth



Sources: 1992-2012, Bureau of Labor Statistics; 2013-2015, ULI/EY Consensus Forecast.
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 2.0. 2.4. 2.6, respectively, for 2013-2015.

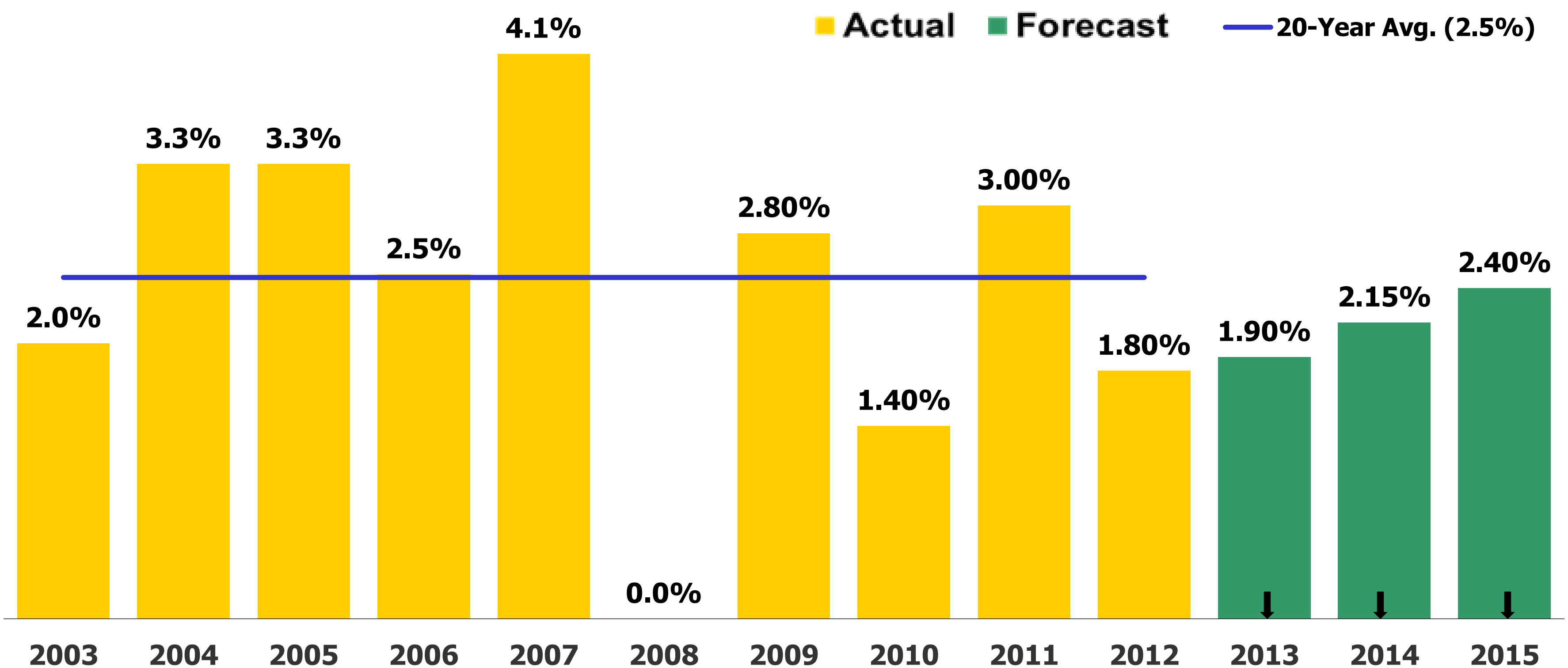
Inflation, Interest Rates, and Cap Rates

Inflation is expected to inch up to 1.9% in 2013, then rise to 2.15% in 2014 and 2.4% in 2015.

Ten-year treasury rates are projected to increase by the end of 2013 to 3.0%, rising to 3.4% by the end of 2014, and 4.0% by the end of 2015, the same rate as in 2007.

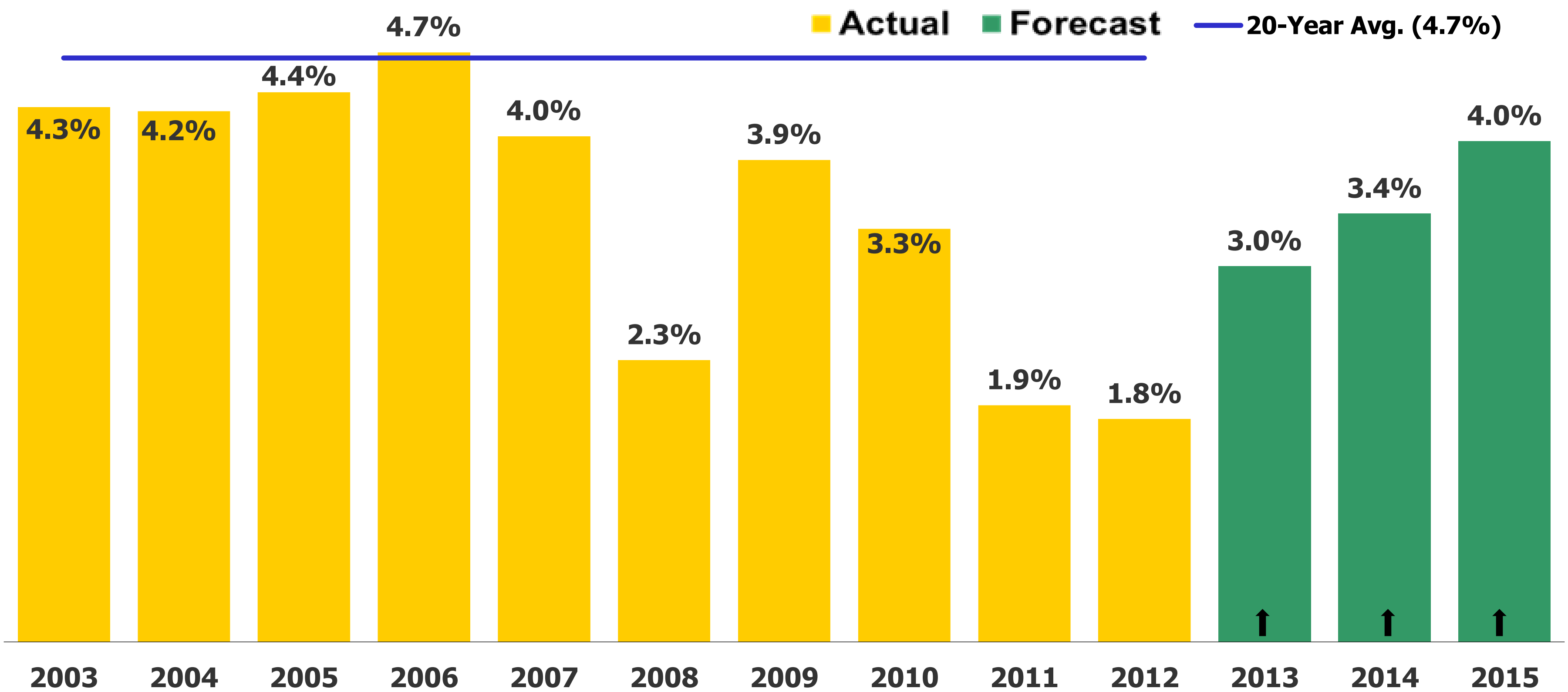
While these rising rates will increase borrowing costs for real estate investors, the survey respondents do not expect substantial increases in real estate capitalization rates for institutional-quality investments (NCREIF cap rates), which are expected to be almost steady at 5.8% in 2013 and then rise to 6.0% in 2014 and 6.3% in 2015. The cap rate projections for 2013 and 2014 are the same as those made six months ago, while the projection for 2015 is just 0.1 percentage point higher.

Consumer Price Index Inflation Rate



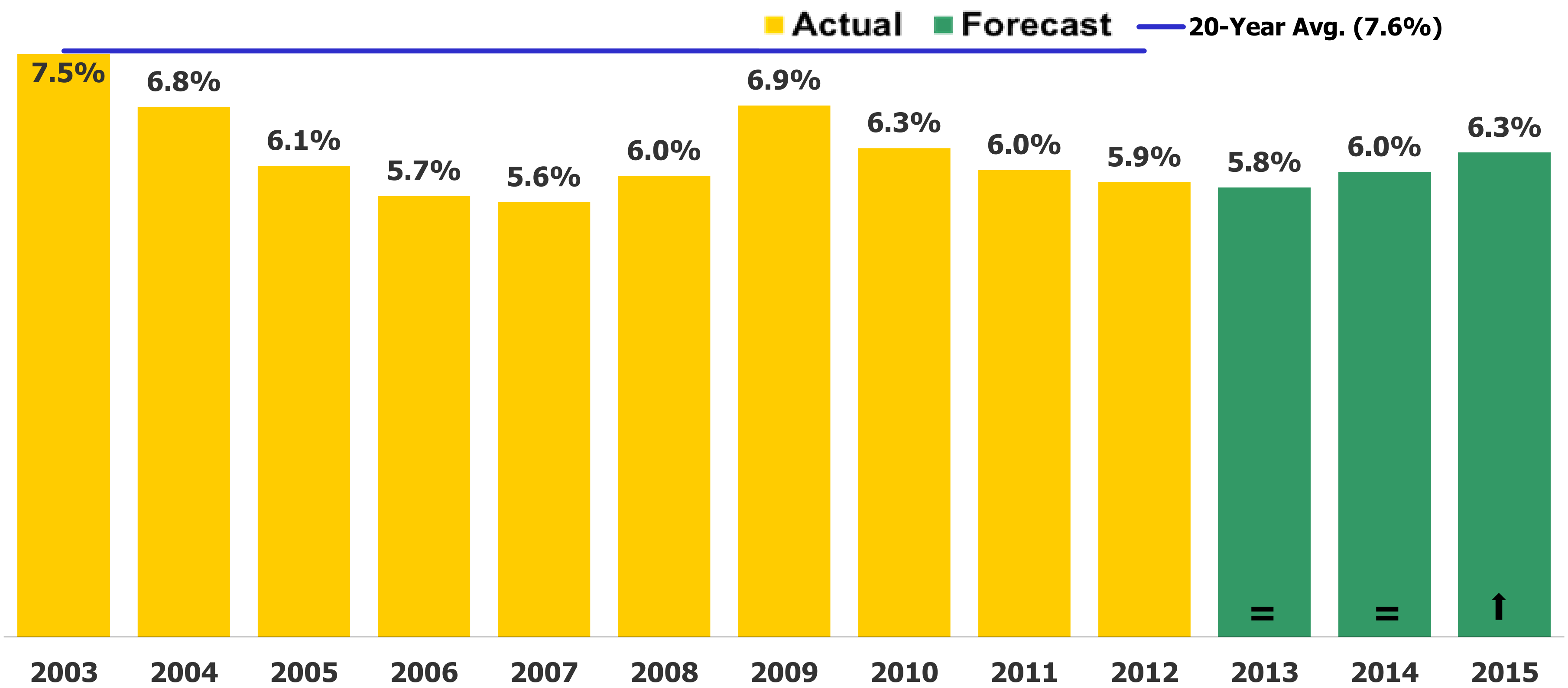
Sources: 1992-2012 (December), Bureau of Labor Statistics; 2013-2015 (year-end), ULI/EY Consensus Forecast.
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 2.0%. 2.5%. 2.90%, respectively, for 2013-2015.

Ten-Year Treasury Rate



Sources: 1992-2012 (year-end), U.S. Federal Reserve; 2013-2015 (year-end), ULI/EY Consensus Forecast.
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 2.3%. 3.0%. 3.5%, respectively, for 2013-2015.

NCREIF Capitalization Rate



Sources: 1992-2012 (fourth quarter), National Council of Real Estate Investment Fiduciaries (NCREIF); 2013-2015 (year-end), ULI/EY Consensus Forecast,.

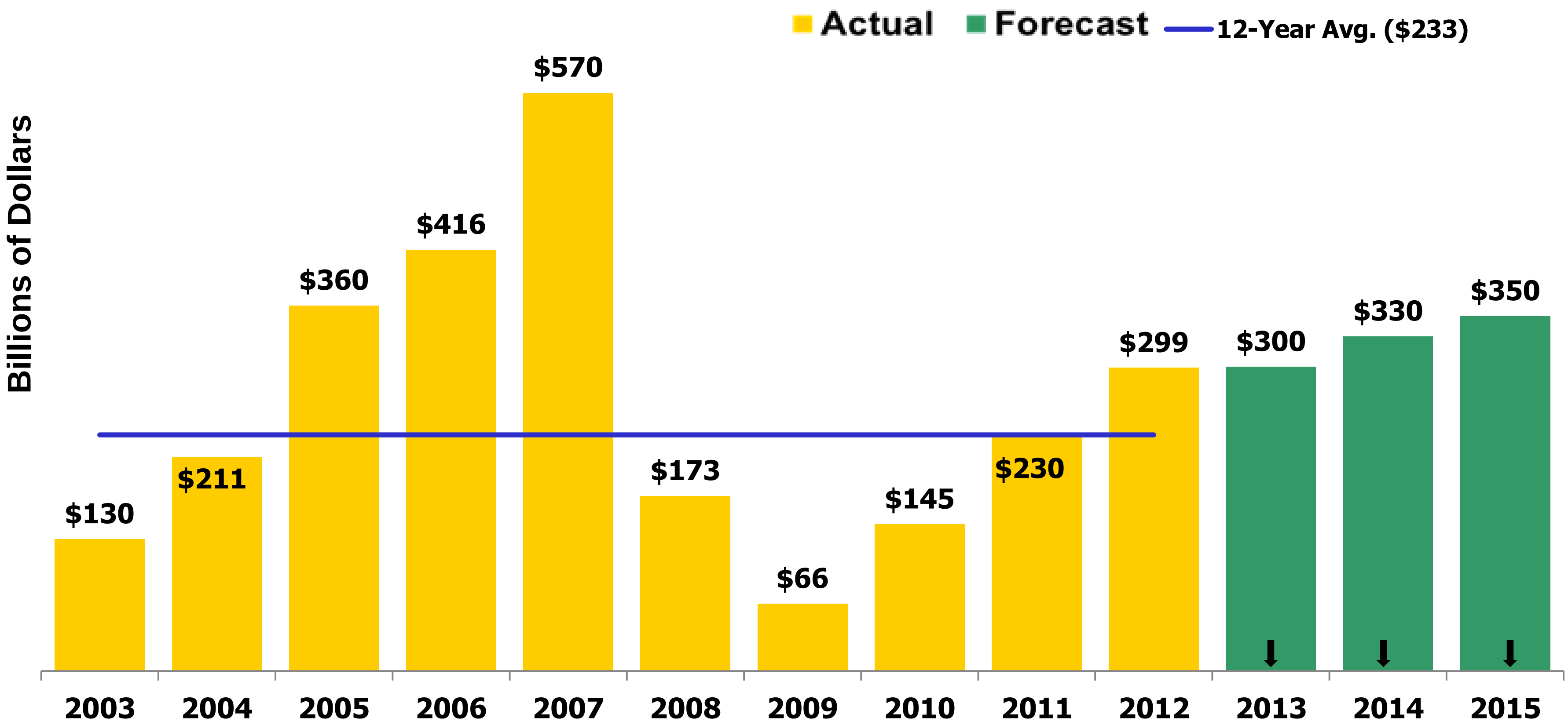
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 5.8%. 6.0%. 6.2%, respectively, for 2013-2015.

Real Estate Capital Markets

Commercial real estate transaction volume increased substantially each of the last three years and appears set for consistent but slower growth going forward. Volume is expected to just barely increase from $299 billion in 2012 to $300 billion in 2013 before growing to $330 billion in 2014, and $350 billion in 2015.

Issuance of commercial mortgage-backed securities (CMBS), a key source of financing for commercial real estate, continues its rebound from the bottom in 2009. Issuance is projected to jump from $48 billion in 2012 to $75 billion in 2013 and grow steadily over the next two years to $88 billion in 2014 and $100 billion in 2015. This is more than a 100% increase over three years.

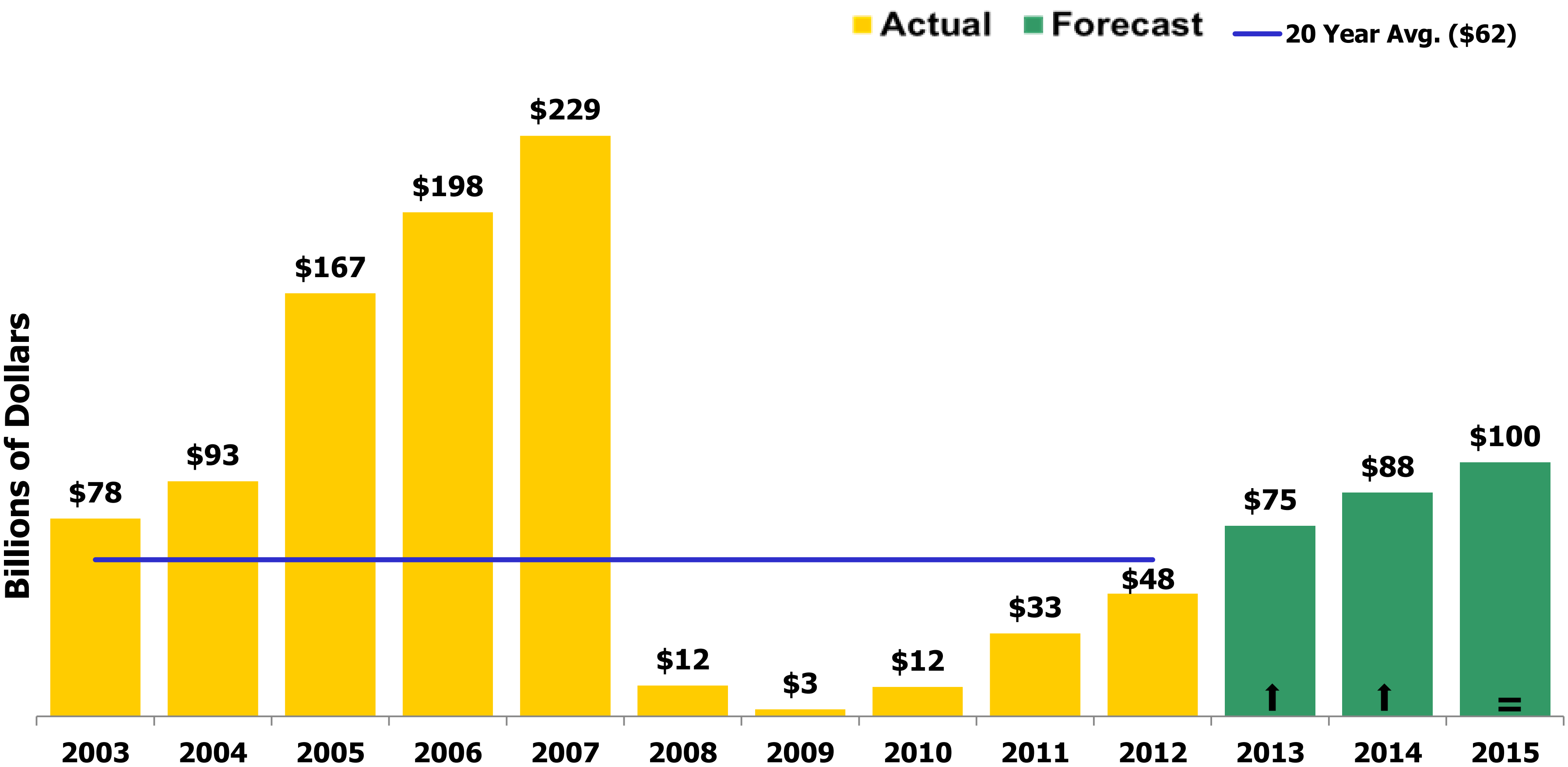
Commercial Real Estate Transaction Volume



Sources: 2001-2012, Real Capital Analytics; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected $310. $340. $360, respectively, for 2013-2015.

Commercial Mortgage-Backed Securities (CMBS) Issuance



Sources: 1992-2012, Commercial Mortgage Alert; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected $70. $80. $100, respectively, for 2013-2015.

Real Estate Returns and Prices

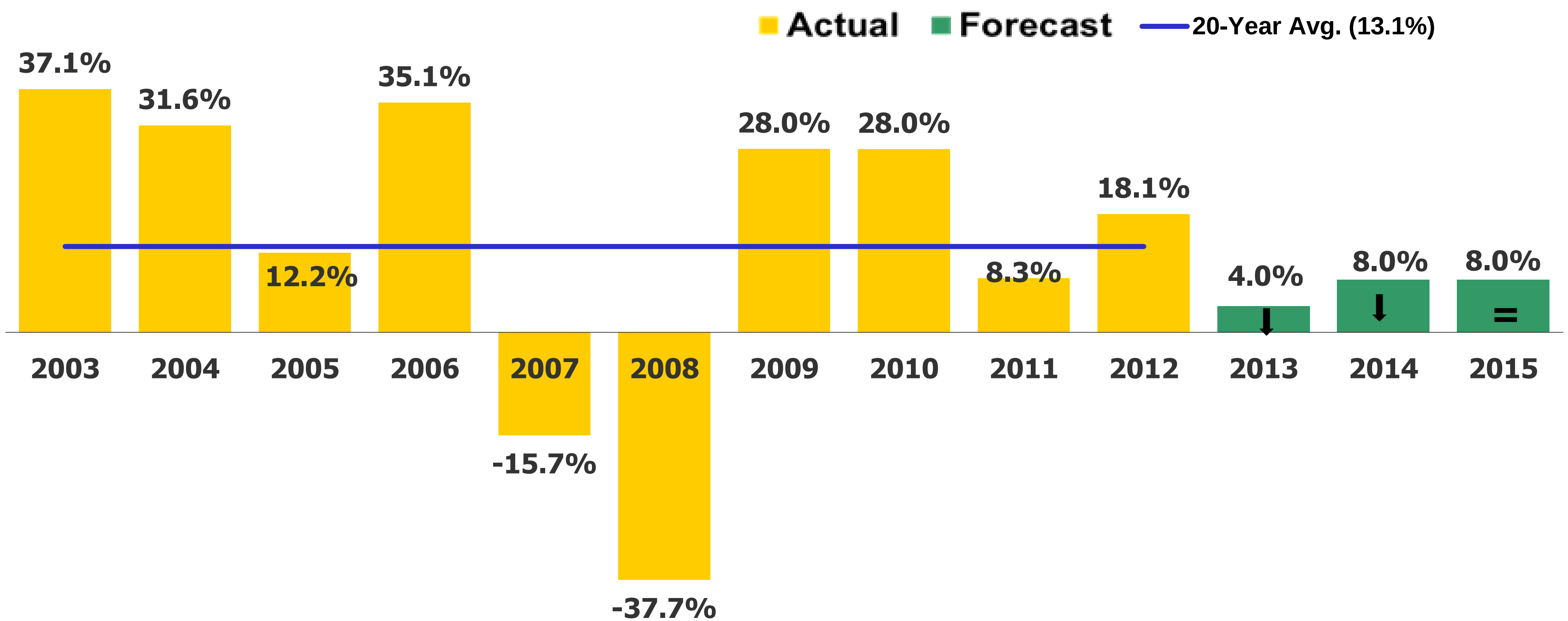
Prices and total returns for commercial real estate investments are expected to be fairly steady at moderate levels, with some initial dip expected.

Equity REIT total returns, according to NAREIT, stood at a strong 18.1% in 2012. Future returns, according to the *ULI/EY Consensus Forecast,* are expected to drop dramatically to 4.0% in 2013 and then recover to a more modest 8.0% in both 2014 and 2015.

The Moody's/RCA Commercial Property Price Index, which increased 7.9% in 2012, is expected to increase over the next three years, but at a slowing pace, rising 6.5% in 2013, 5.5% in 2014, and 5.0% in 2015.

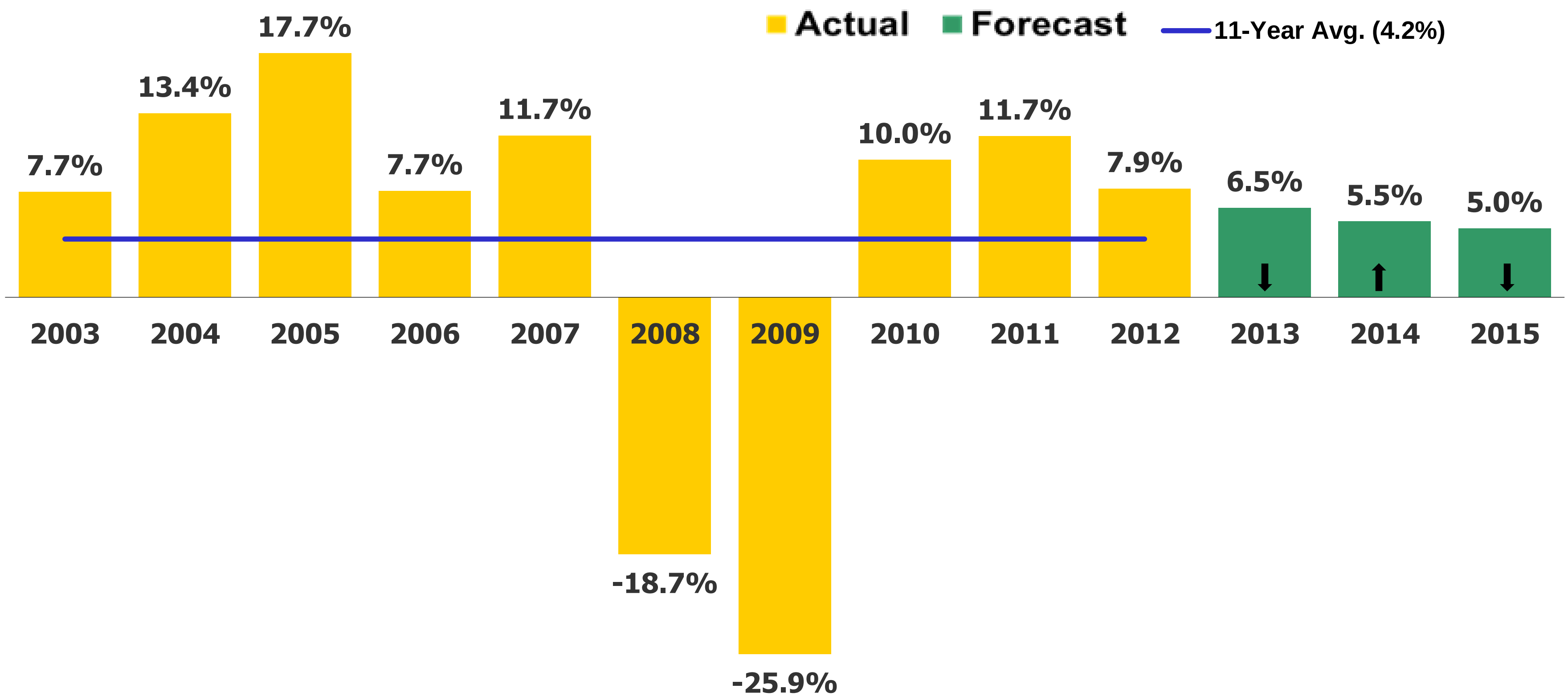
Total returns for institutional-quality direct real estate investments, as measured by the NCREIF Property Index, stood at 10.5% in 2012. These returns are expected to trend lower, with returns of 8.5% in 2013, 8.8% in 2014, and 8.6% in 2015.

Equity REIT Total Annual Returns



Sources: 1992-2012, National Association of Real Estate Investment Trusts; 2013-2015, ULI/EY Consensus Forecast.
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 12.0%. 10.0%. 8.0%, respectively, for 2013-2015.

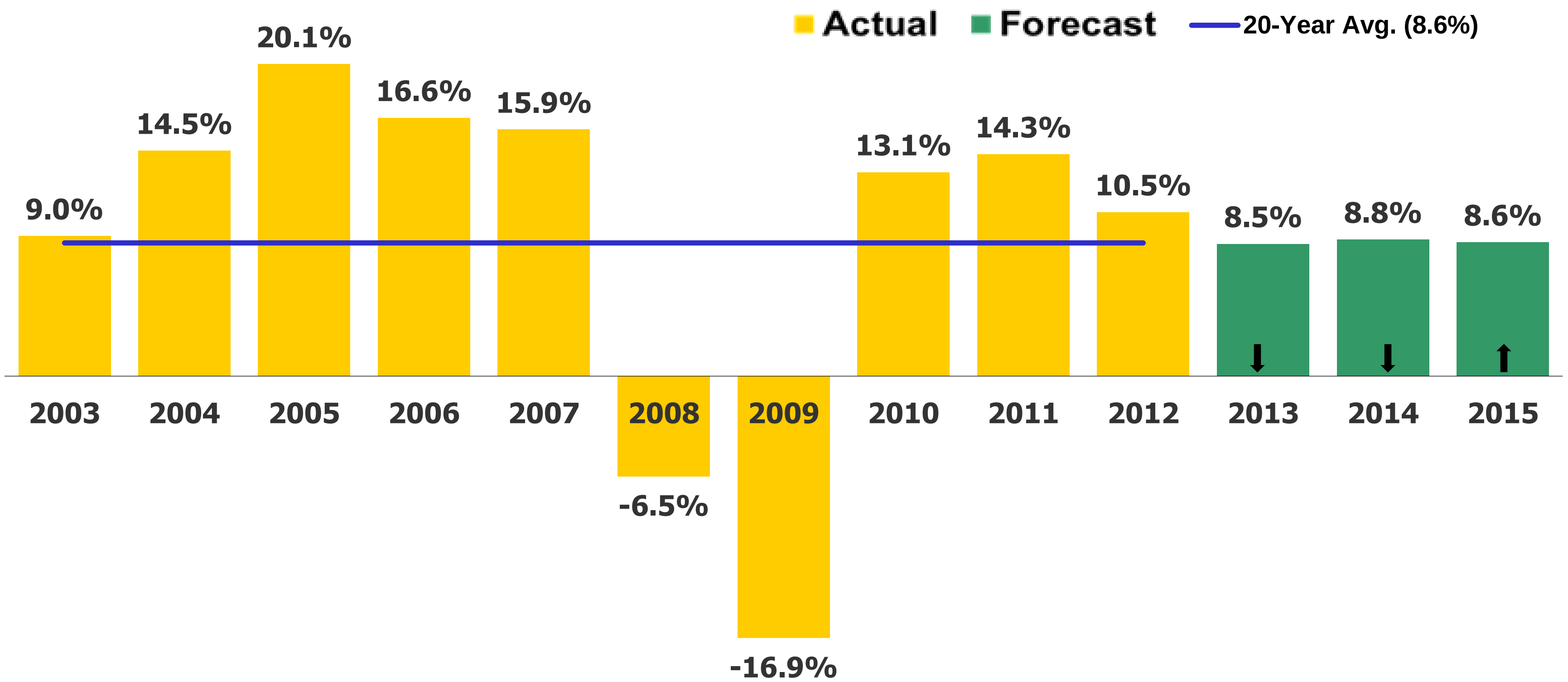
Moody's/RCA Commercial Property Price Index



Sources: 2003-2012, Moody's and Real Capital Analytics; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 7.1%. 5.0%. 4.1%, respectively, for 2013-2015.

NCREIF Total Annual Returns



Sources: 1992-2012 National Council of Real Estate Investment Fiduciaries (NCREIF); 2013-2015, ULI/EY Consensus Forecast.

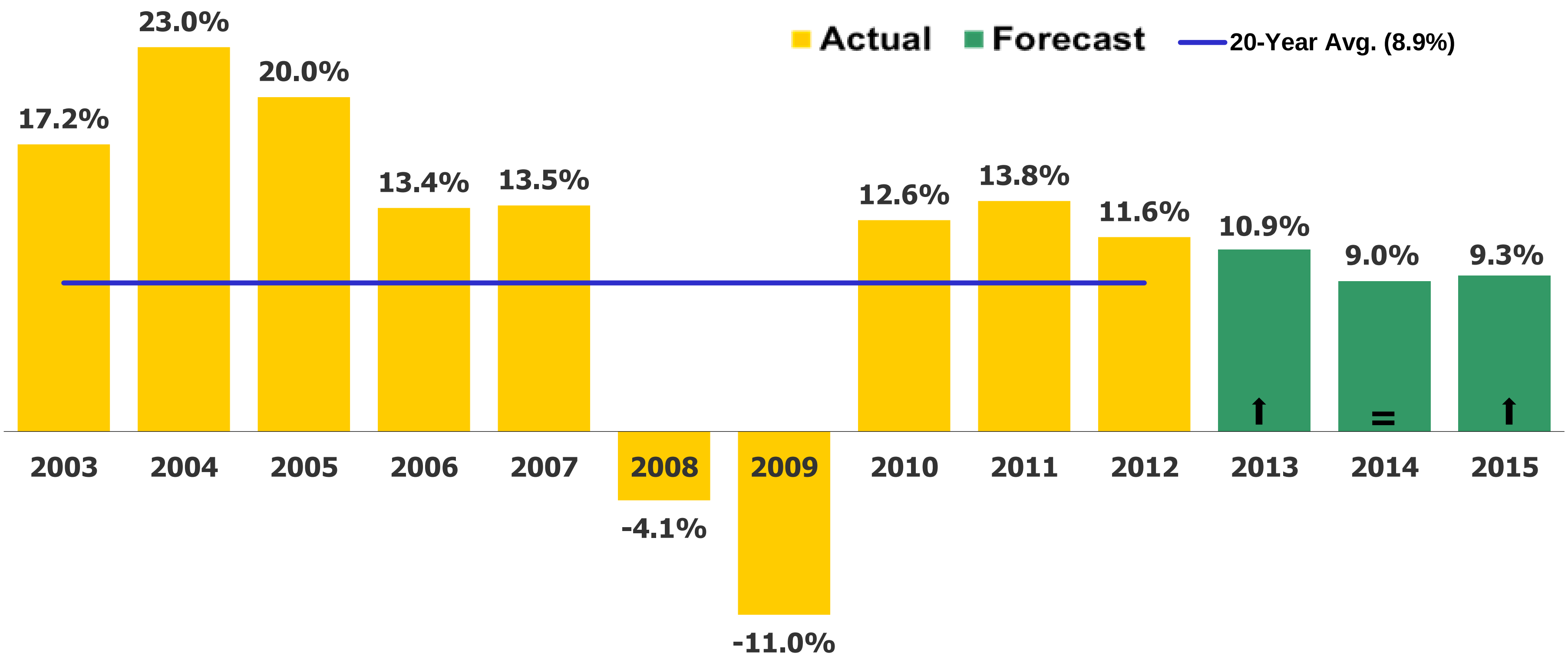
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 9.5%. 9.0%. 8.0%, respectively, for 2013-2015.

NCREIF Returns by Property Type

By property type, NCREIF total returns in 2013 are expected to be strongest for retail (10.9%), followed by industrial (10.2%), apartments (9.7%), and office (9.3%) showing considerable consistency across property types.

By 2015, however, returns are expected to have moderated slightly with retail still strongest (9.3%), followed by office (9.0%), industrial (8.8%), and apartments (8.0%).

NCREIF Retail Total Annual Returns



Sources: 1992-2012, National Council of Real Estate Investment Fiduciaries (NCREIF); 2013-2015, ULI/EY Consensus Forecast.
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 9.0%. 9.0%. 8.0%, respectively, for 2013-2015.
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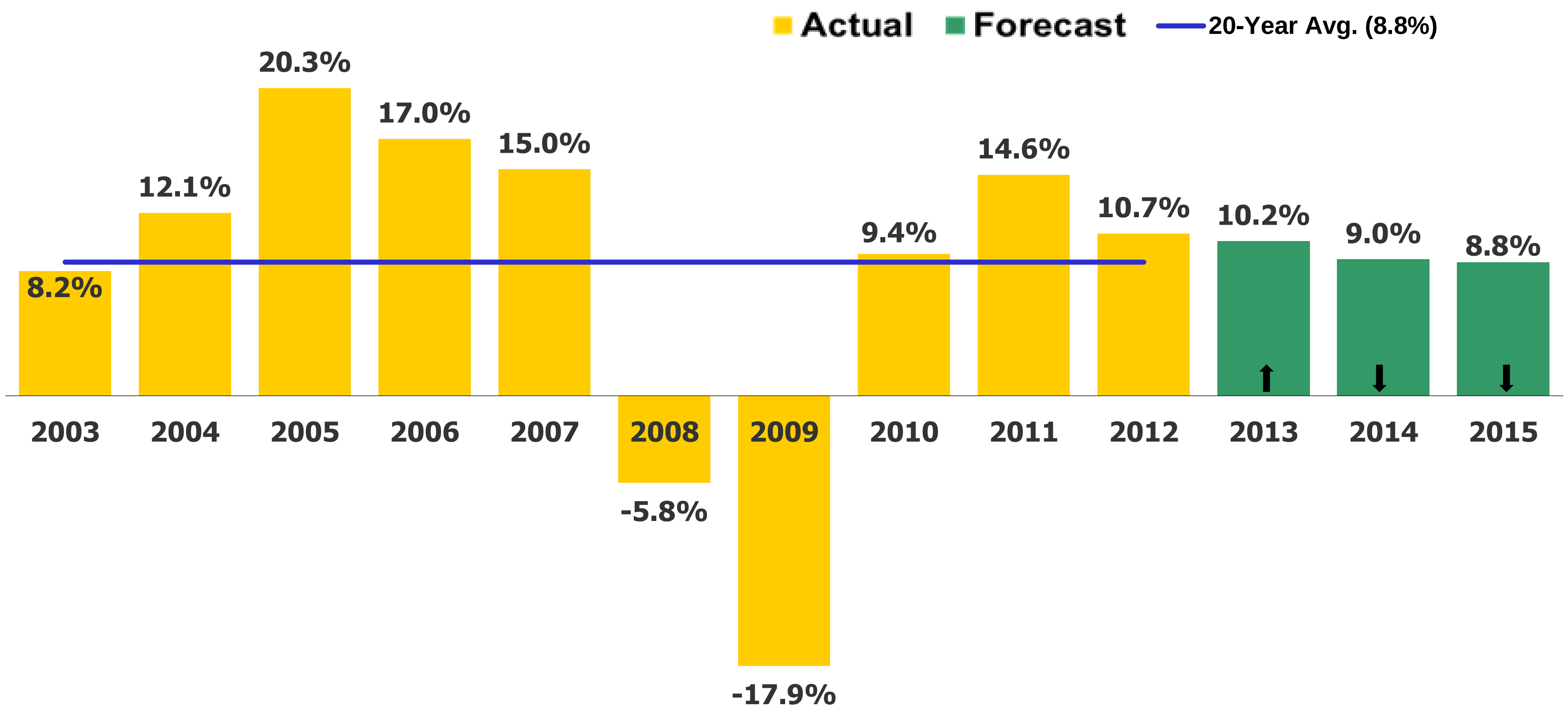
NCREIF Industrial Total Annual Returns



Sources: 1992-2012, National Council of Real Estate Investment Fiduciaries (NCREIF); 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 9.9%. 9.5%. 8.9%, respectively, for 2013-2015.

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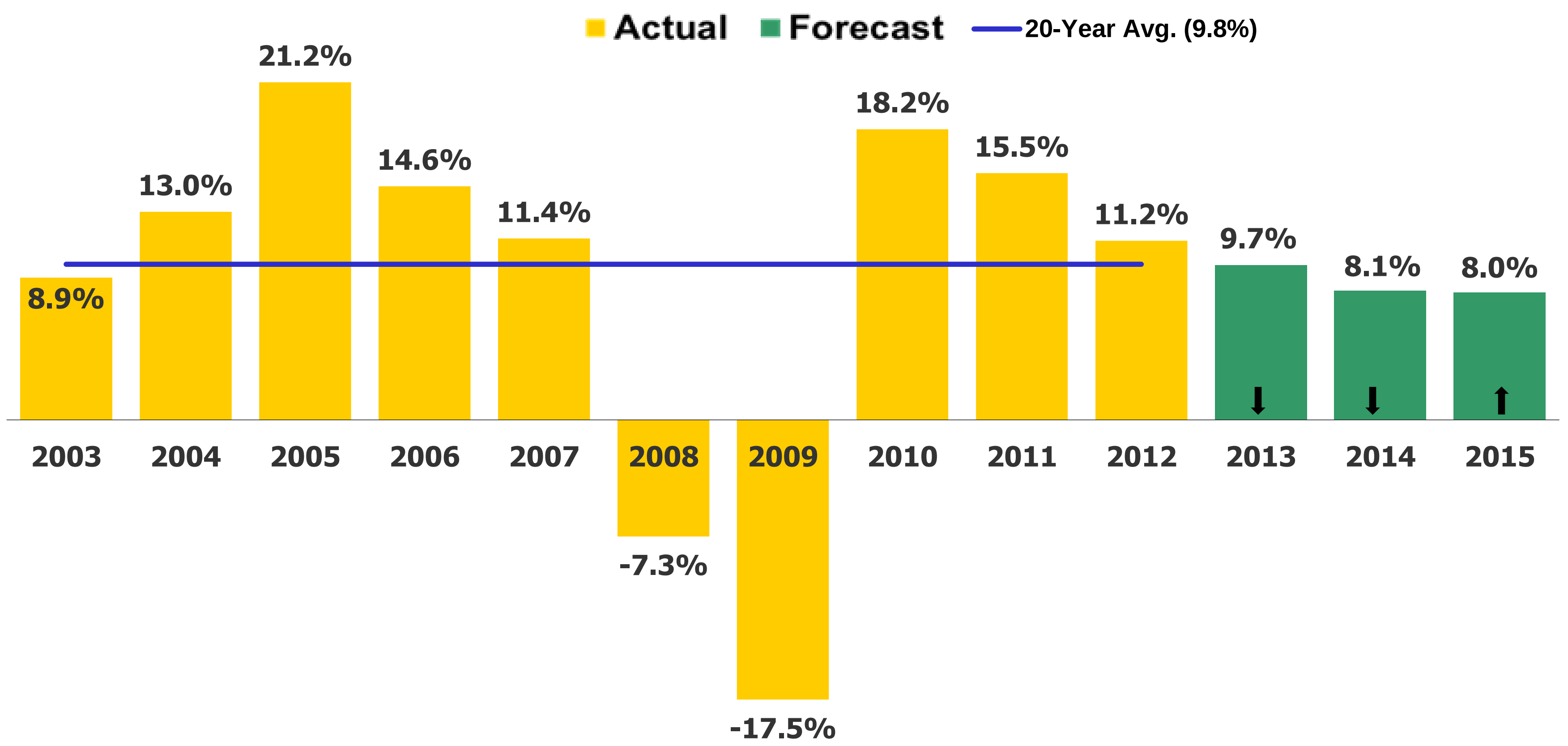
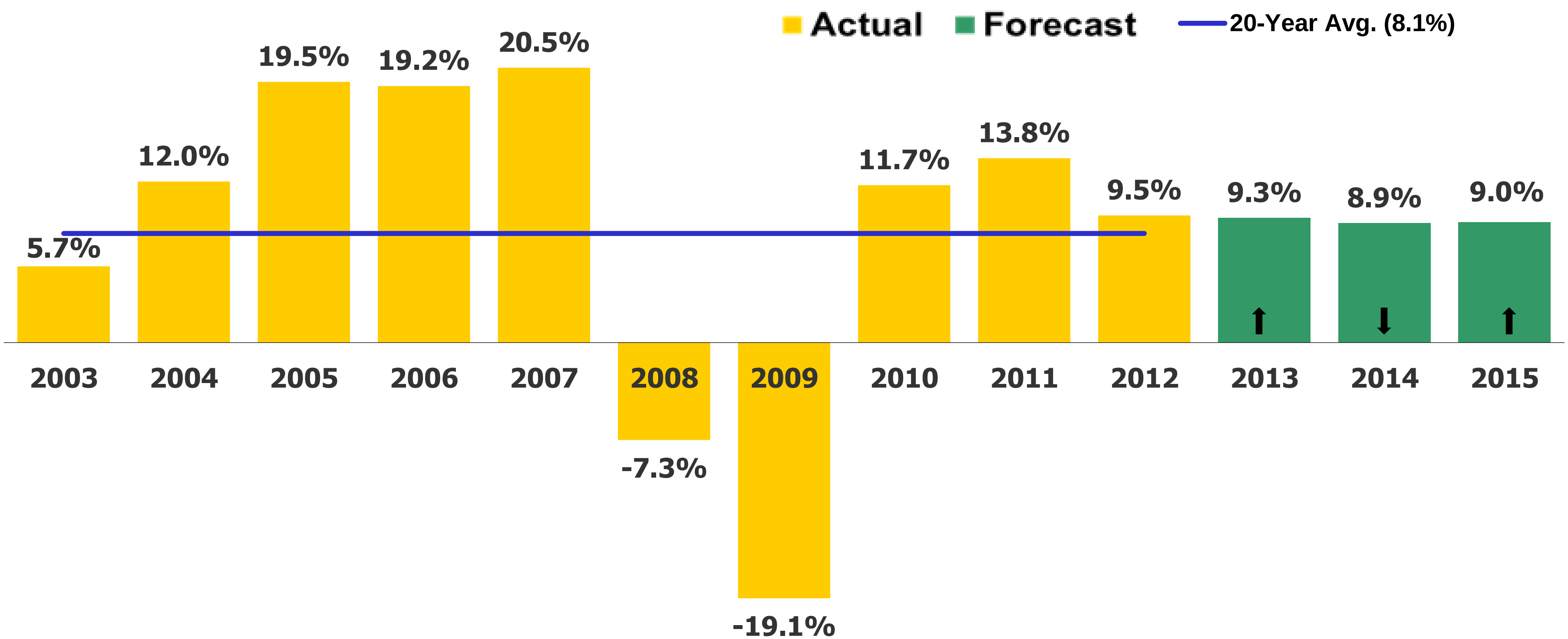
NCREIF Apartment Total Annual Returns



Sources: 1992-2012, National Council of Real Estate Investment Fiduciaries (NCREIF); 2013-2015, ULI/EY Consensus Forecast.
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 10.0%. 8.8%. 7.5%, respectively, for 2013-2015.

NCREIF Office Total Annual Returns



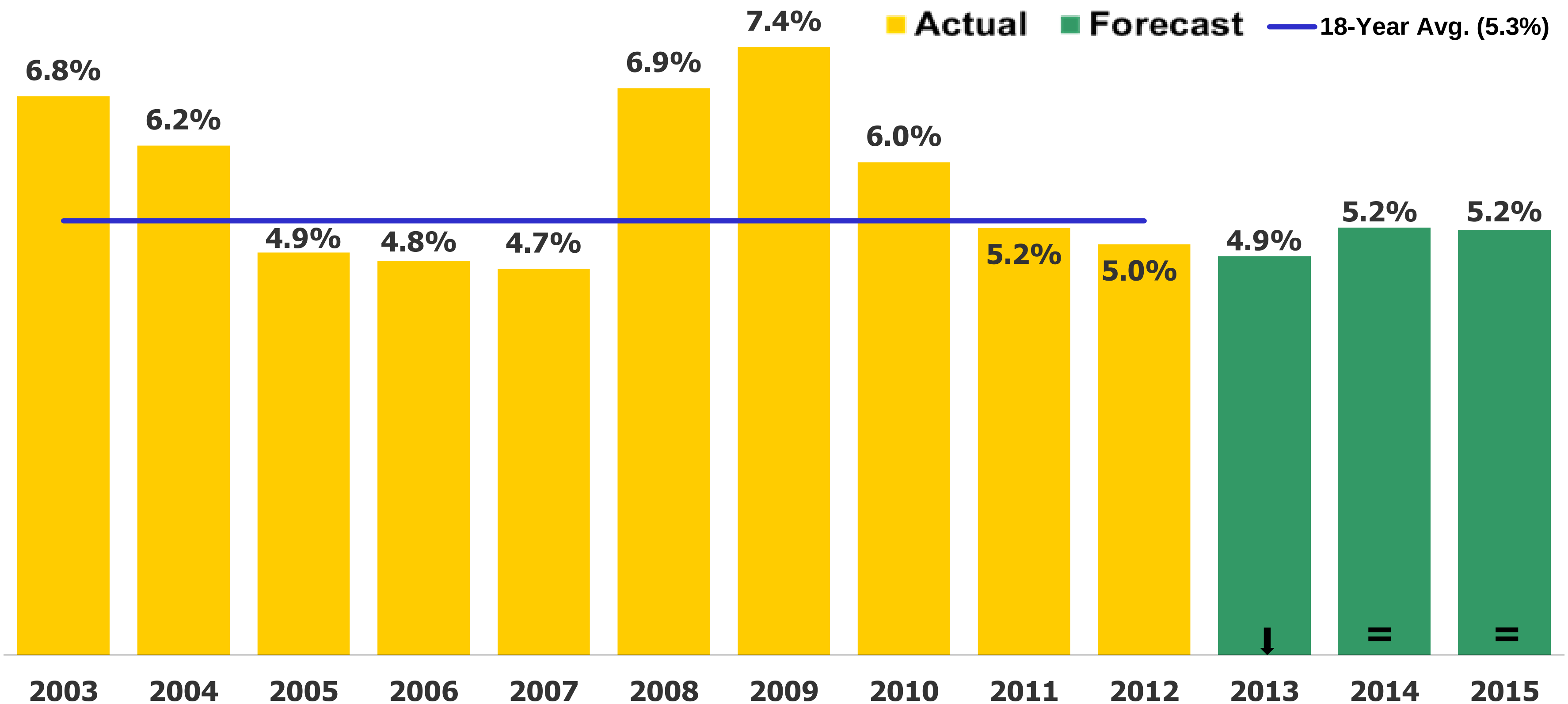
Sources: 1992-2012, National Council of Real Estate Investment Fiduciaries (NCREIF); 2013-2015, ULI/EY Consensus Forecast.
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 9.0%. 9.0%. 8.7%, respectively, for 2013-2015.

Apartment Sector Fundamentals

The apartment sector has performed very well over the past two years, and vacancy rates have come down substantially from 7.4% in 2009 to 5.0% in 2012, according to CBRE. Year-end vacancy rates, according to the *ULI/EY Forecast*, are expected to decrease to 4.9% in 2013 and rise slightly to 5.2% by 2015.

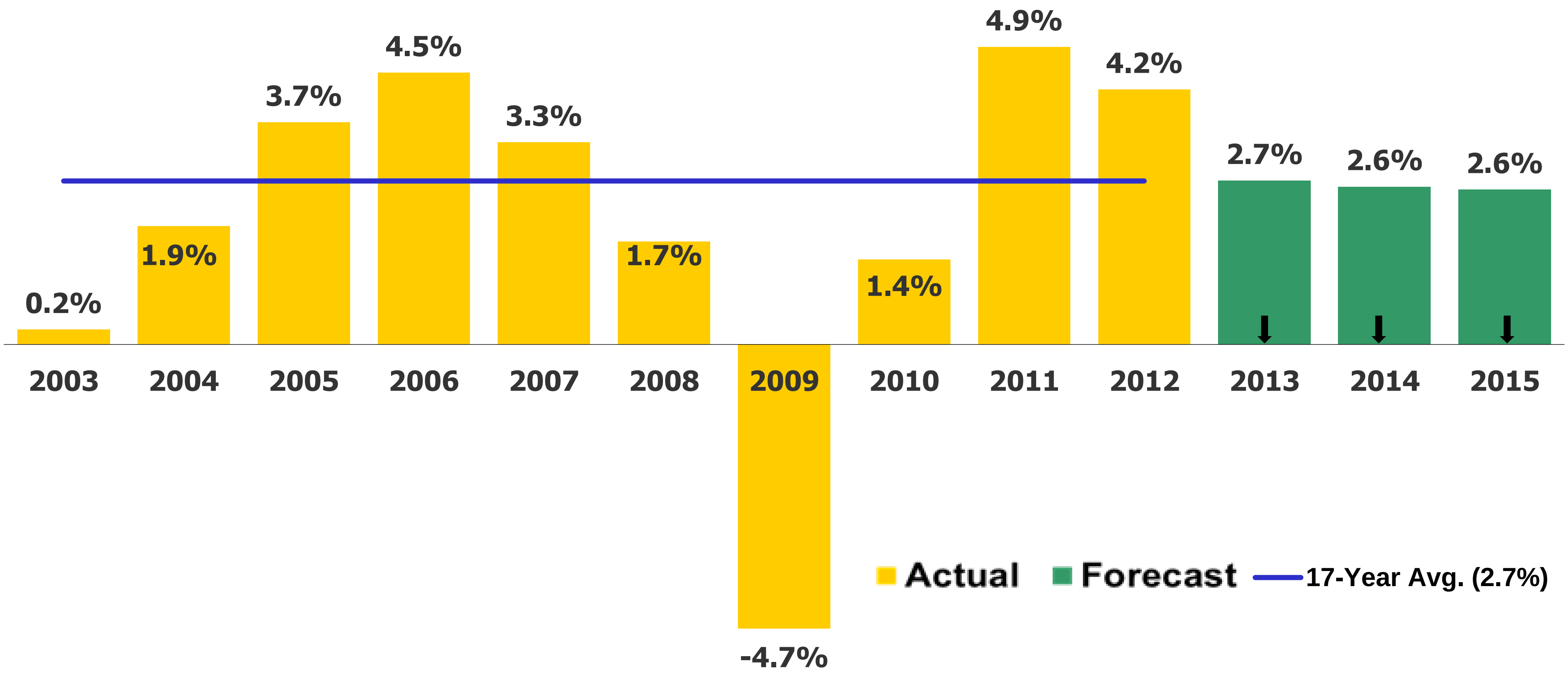
Apartments are also expected to show consistent rental rate growth, but at decelerated levels from the last two years' jump. Rents are expected to rise 2.7% in 2013, then moderating to 2.6% in both 2014 and 2015 as new supply comes on line. These rental rate growth forecasts are lower than *Consensus Forecast* projections in April.

Apartment Vacancy Rates



Sources: 1994-2012 (fourth quarter), CBRE; 2013-2015 (fourth quarter), ULI/EY Consensus Forecast.
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 5.0%, 5.2%. 5.2%, respectively, for 2013-2015.

Apartment Rental Rate Change



Sources: 1995-2012, CBRE; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 3.8%, 3.0%. 2.8%, respectively, for 2013-2015.

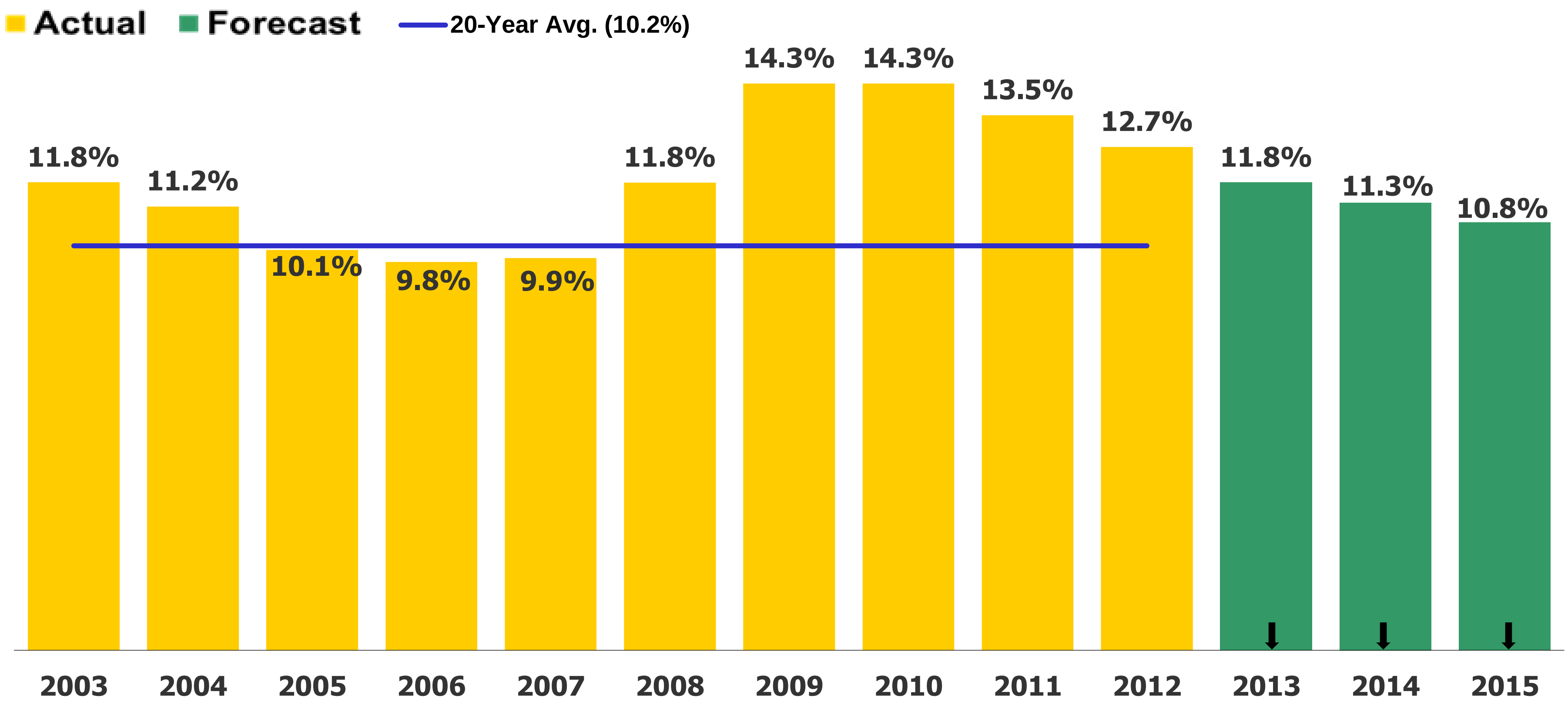
Industrial/Warehouse Sector Fundamentals

The industrial/warehouse sector is expected to see continued decreases in vacancy rates, from 12.7% at the end of 2012 to 11.8% in 2013, 11.3% in 2014, and 10.8% by the end of 2015. This forecast is somewhat more optimistic than the *Consensus Forecast* of six months ago.

The vacancy rate decline between the recession high (2010) to the 2015 projection is 3.5 percentage points; this is more than the projected declines in the retail and office sectors.

Warehouse rental rates, which declined substantially in 2009 and 2010 and slightly in 2011 before increasing by 1.2% in 2012, according to CBRE, are expected to strengthen to 3.3% growth in 2013 to 3.5% in 2014, and 3.2% in 2015, according to the *ULI/EY Consensus Forecast*.

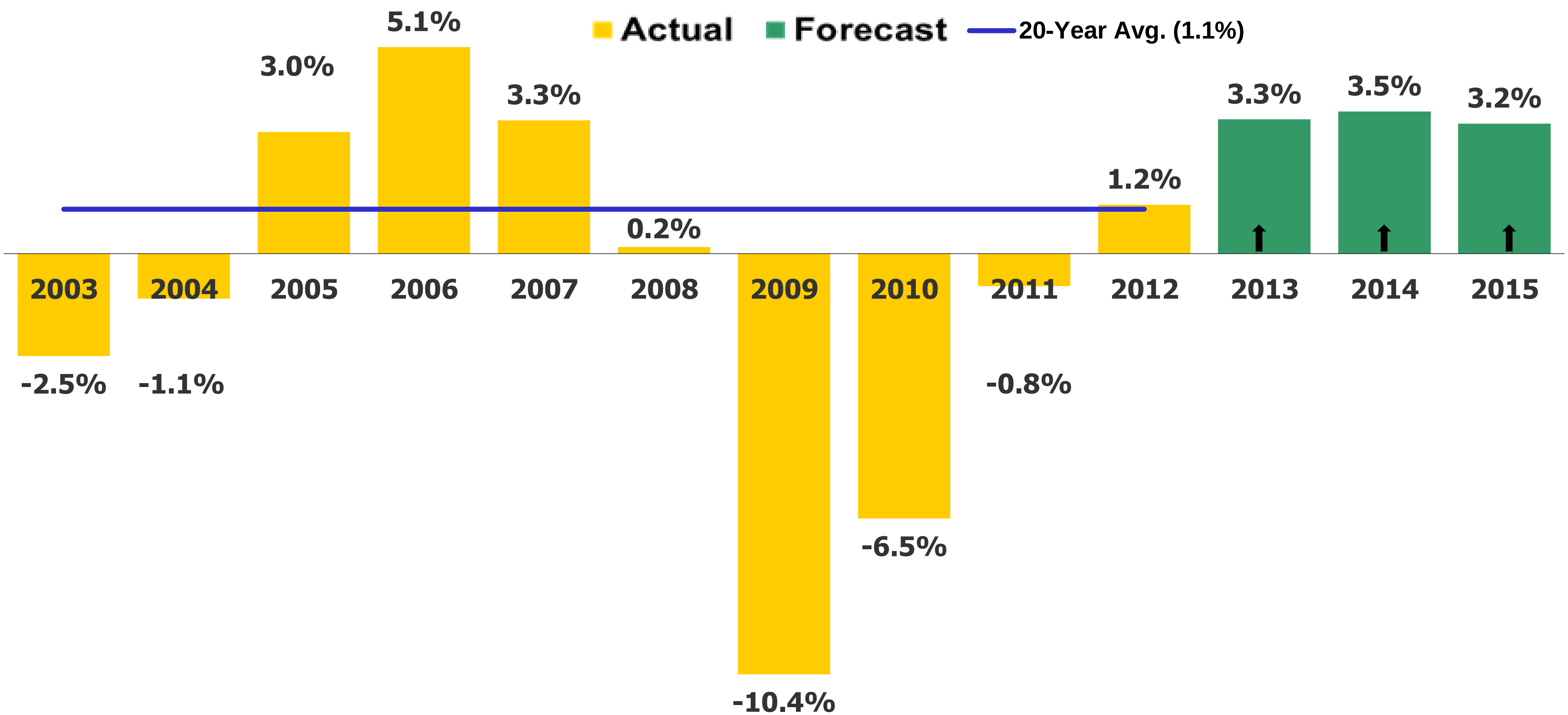
Industrial/Warehouse Availability Rates



Sources: 1992-2012, CBRE; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 12.2%, 11.7%. 11.4%, respectively, for 2013-2015.

Warehouse Rental Rate Change



Sources: 1992-2012, CBRE; 2013-2015, ULI/EY Consensus Forecast.

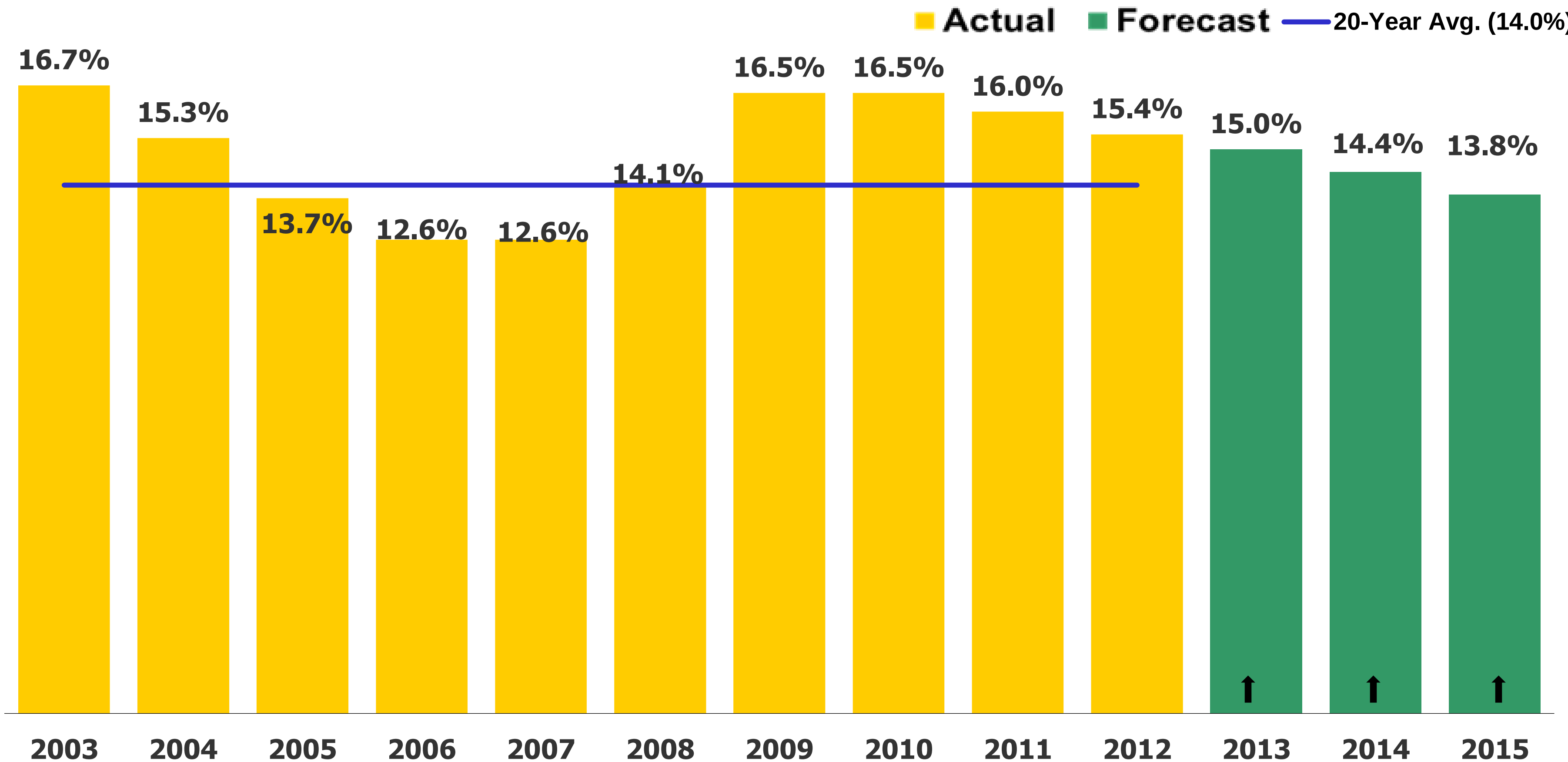
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 2.0%, 3.0%. 3.0%, respectively, for 2013-2015.

Office Sector Fundamentals

Office vacancy rates, stuck on the same high note in 2009 and 2010, started to decline in 2011 and 2012. These declines are expected to continue over the next three years to 15.0% in 2013, 14.4% in 2014, and 13.8% by the end of 2015.

Office rental rates, which decreased substantially in 2009 and 2010 before rising by 3.1% in 2011 and 3.8% 2012, according to CBRE, are expected to continue to strengthen, with an increase of 2.0% in 2013, 3.1% in 2014, and 4.0% in 2015.

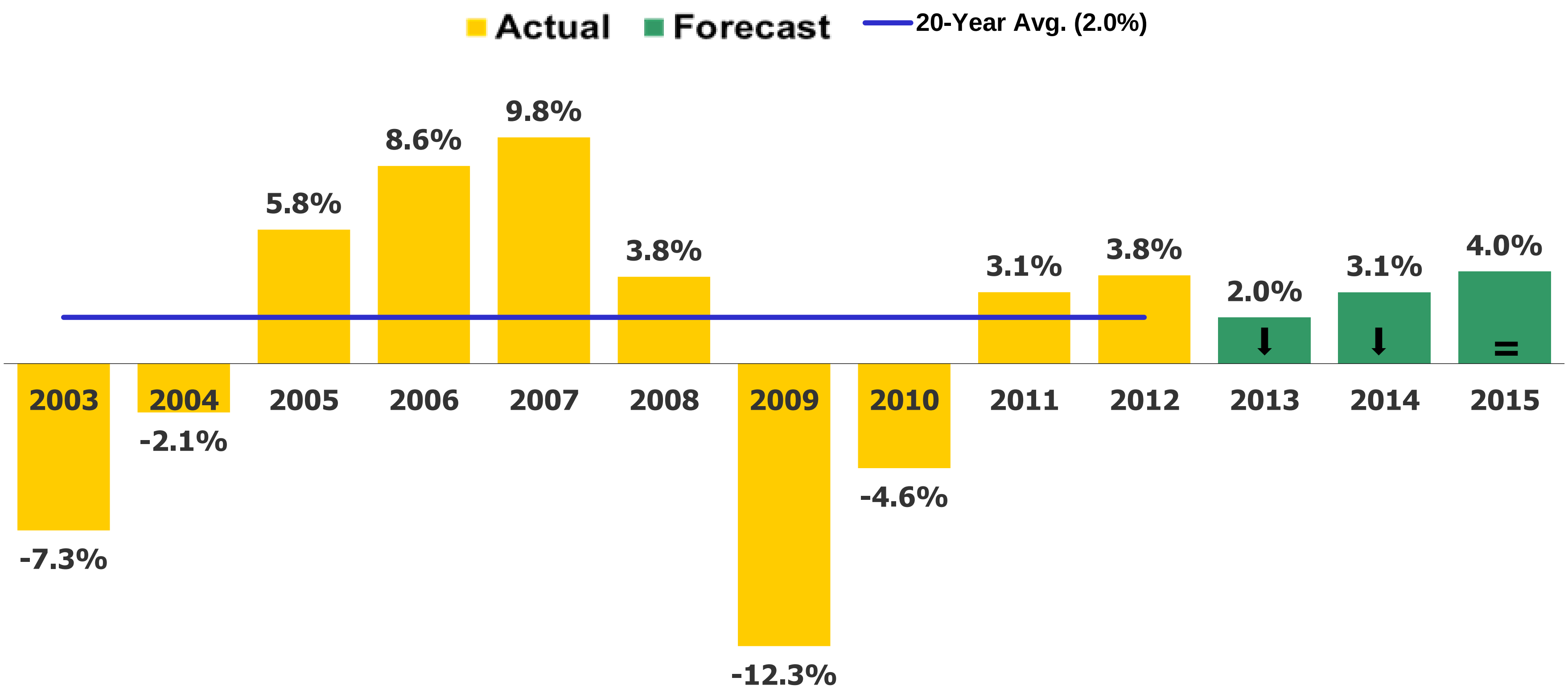
Office Vacancy Rates



Sources: 1992-2012, CBRE; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 14.8%, 14.1%. 13.6% respectively, for 2013-2015.

Office Rental Rate Change



Sources: 1992-2012, CBRE; 2013-2015, ULI/EY Consensus Forecast.

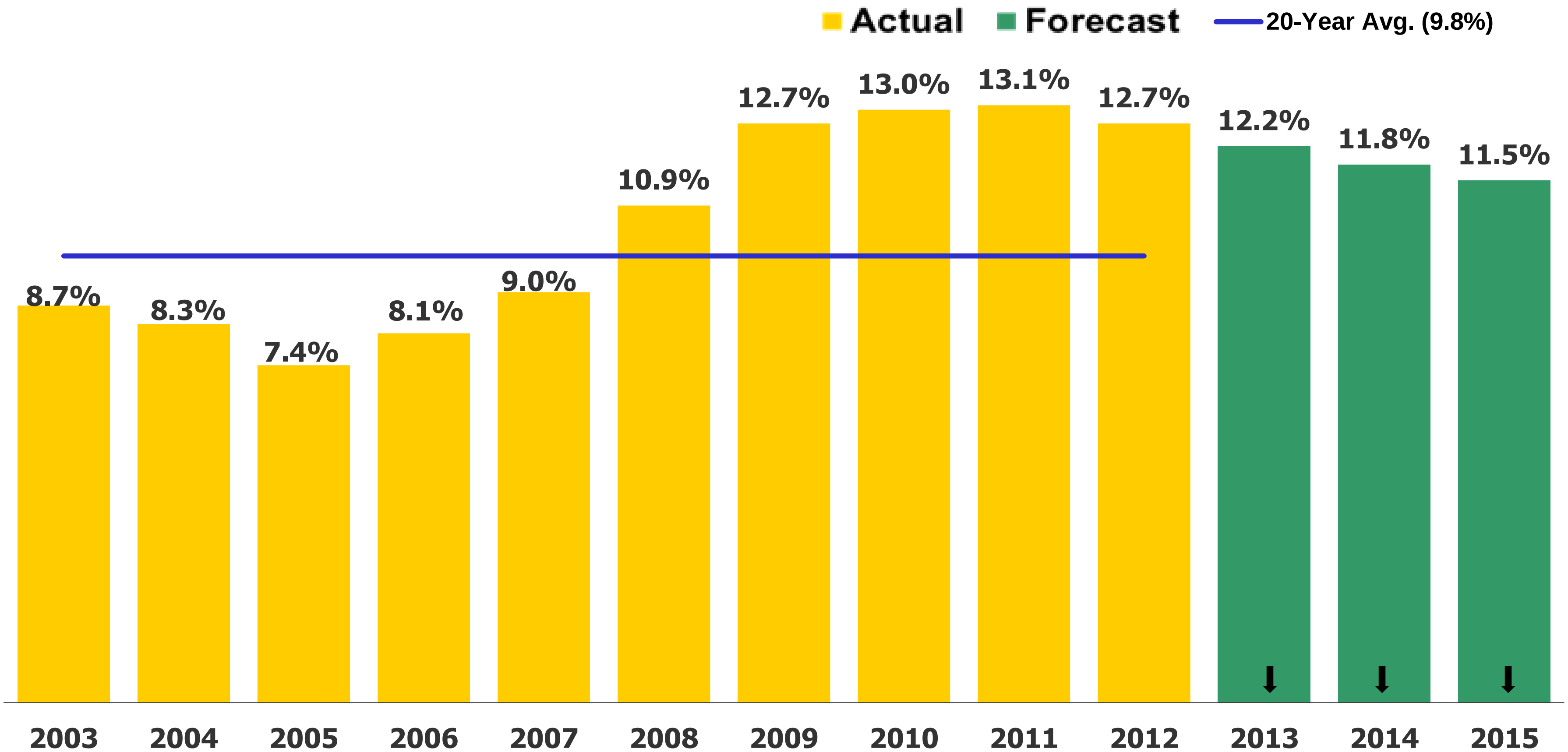
Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 3.1%. 4.0%. 4.0% respectively, for 2013-2015.

Retail Sector Fundamentals

After six years of increasing retail availability rates, rates started to decline in 2012. Projections show continued modest improvements over the next three years, with availability rates expected to decline to 12.2% by the end of 2013, 11.8% by 2014, and 11.5% by 2015. This forecast is modestly more optimistic than in the *Consensus Forecast* of six months ago.

After five years of declining retail rental rates, rates are projected to inch up by 0.2% in 2013 and by 2.0% in both 2014 and 2015.

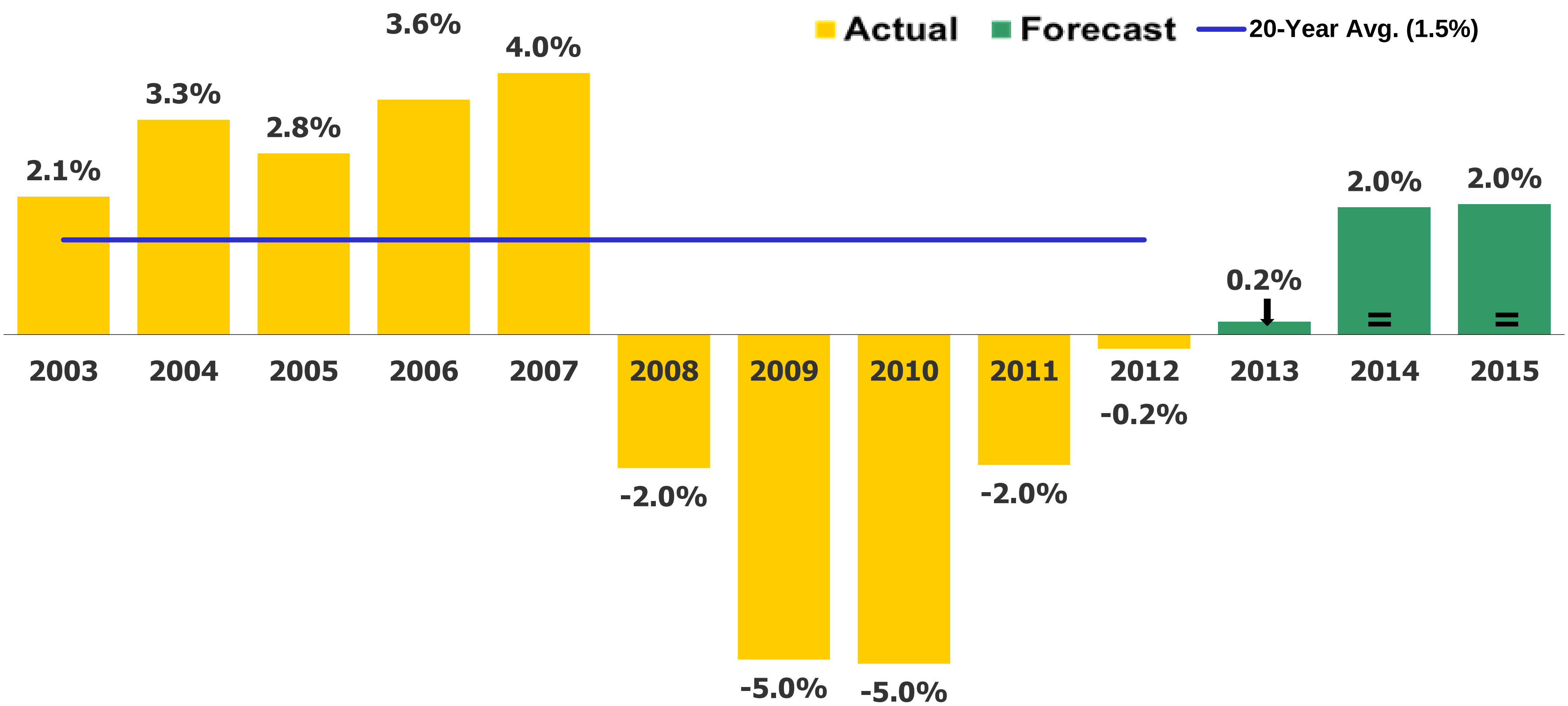
Retail Availability Rates



Sources: 1992-2012, CBRE; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 12.5%, 12.2%. 11.9%, respectively, for 2013-2015.

Retail Rental Rate Change



Sources: 1992-2012, CBRE; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 1.0%, 2.0%. 2.0%, respectively, for 2013-2015.

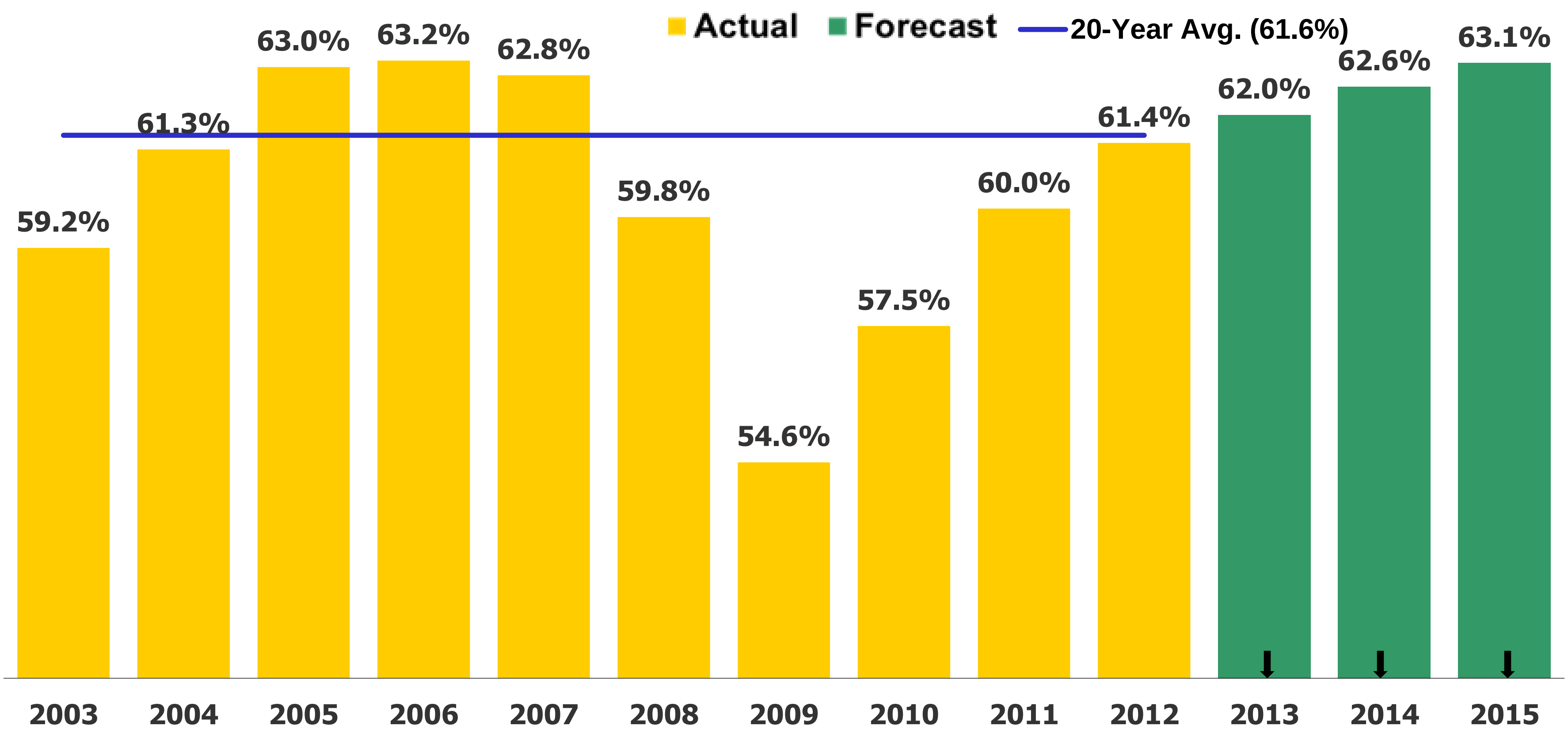
Hotel Sector Fundamentals

Hotel occupancy rates, according to Smith Travel Research, have been improving since 2010, reaching 61.4% in 2012, just shy of the 20-year average.

The *ULI/EY Consensus Forecast* projects that occupancy rates will continue to increase to 62.0% in 2013, surpassing the long-term average, 62.6% by 2014, and 63.1% by 2015. The 2015 projection is just shy of the pre-recession peak in 2006.

Hotel revenue per available room (RevPAR) has also grown substantially, with 8.2% growth in 2011 and 6.8% in 2012. RevPAR growth is expected to remain strong, but at a decelerating rate, with expected growth of 5.7% in 2013, 5.0% in 2014, and 4.8% in 2015.

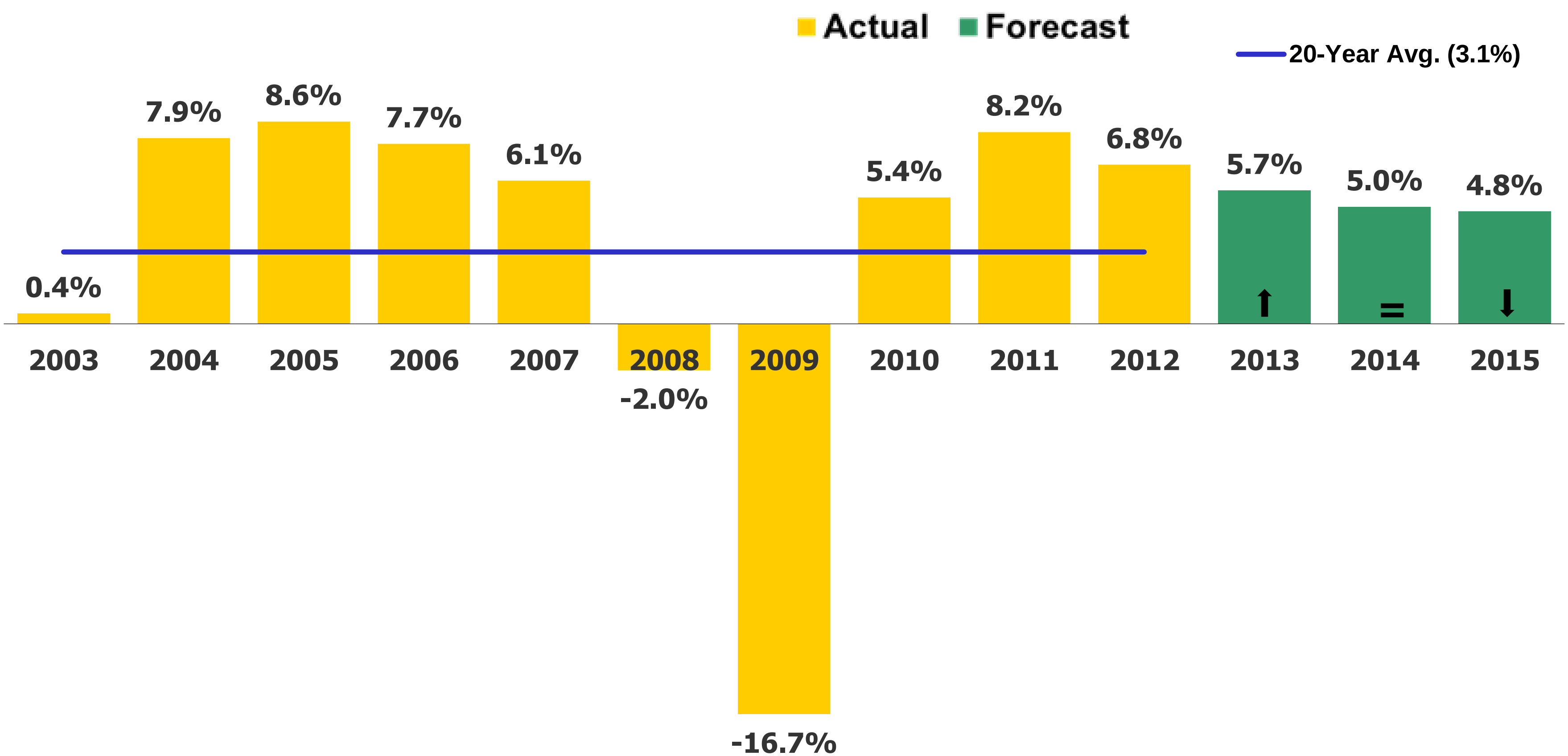
Hotel Occupancy Rates



Sources: 1992-2012, Smith Travel Research; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 62.4%, 63.1%. 63.6%, respectively, for 2013-2015.

Hotel Revenue per Available Room (RevPAR) Change



Sources: 1992-2012, Smith Travel Research; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 5.5%, 5.0%. 5.0%. respectively, for 2013-2015.

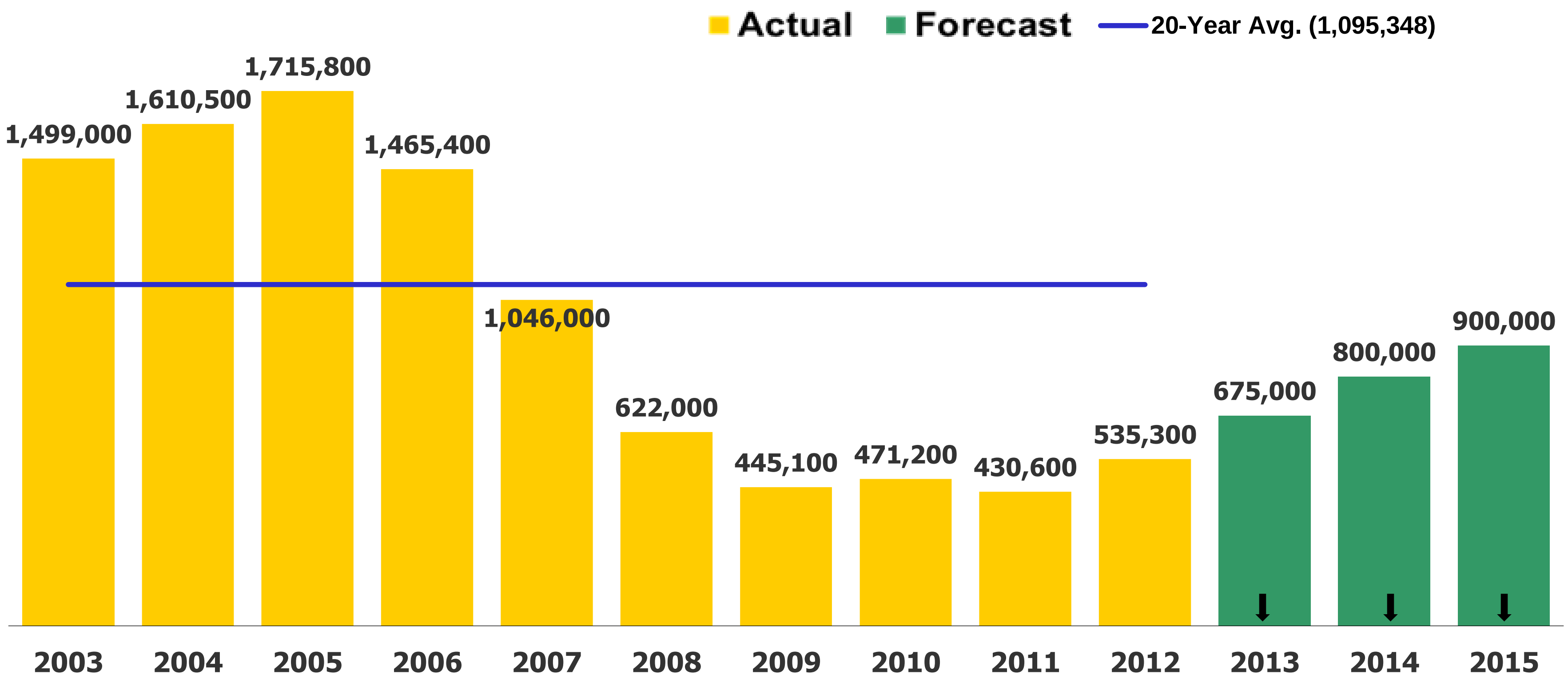
Housing Sector

Finally, the single-family housing sector experienced a strong start to 2013, and even the dips in the Spring stayed at relatively high levels, leading forecasters to project a strong ending to 2013 and continued growth in 2014 and 2015.

Single-family housing starts, which were at half-century lows from 2009-2011, rose from 430,600 starts in 2011 to 535,300 in 2012, and are expected to rise to 675,000 in 2013, 800,000 in 2014, and 900,000 in 2015.

The growth in average home prices was positive in 2012 for the first time in five years, according to the FHFA. Price increases are expected to continue, rising by 7.0% in 2013, 5.5% in 2014, and 5.0% in 2015.

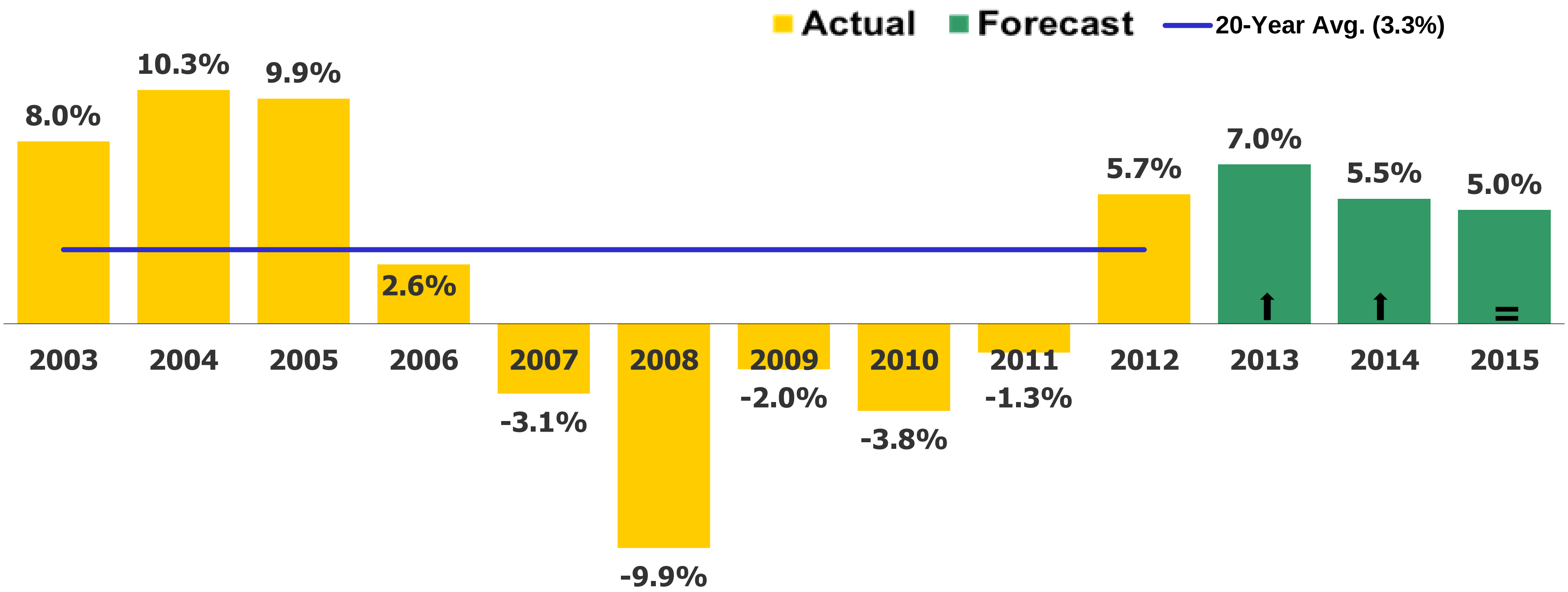
Single-Family Housing Starts



Sources: 1992-2012, U.S. Census; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 700,000. 900,000. 1,012,500, respectively, for 2013-2015.

Average Home Price Change



Sources: 1992-2012, Federal Housing Finance Agency; 2013-2015, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2013) projected 6.0%, 5.3%. 5.0%, respectively, for 2013-2015.

Firms That Participated in the ULI/EY Real Estate Consensus Forecast

Organization	Economist/Analyst	Title	City/State
American Realty Advisors	Lee Menifee	Managing Director, Research and Strategy	Glendale, CA
Avalon Bay Communities	Craig Thomas	Vice President, Market Research	Arlington, VA
Bentall Kennedy	Douglas Poutasse	Executive Vice President	Boston, MA
Cassidy Turley	Kevin Thorpe	Chief Economist	Washington, DC
	Elena Bondarenko	Economist	Washington, DC
CBRE	Brook Scott	Interim Head Research, Americas	San Francisco, CA
	John Vitou	Senior Research Analyst	San Francisco, CA
CBRE Econometric Advisors	Jon Southard	Principal, Director of Forecasting	Boston, MA
Chandan Economics	Sam Chandan	President and Chief Economist	New York, NY
Clarion Partners	Tim Wang	Director, Head of Investment Research	New York, NY
Cole Real Estate Investments	Kevin White	Senior Vice President of Investment Strategy and Research	Phoenix, AZ
Colliers	KC Conway	Chief Economist	Atlanta, GA
Cornerstone Real Estate Advisers	Jim Clayton	Vice President of Research	Hartford, CT
	Michael Gately	Managing Director, Research	Hartford, CT
Cushman & Wakefield, Inc.	Maria T. Sicola	Executive Managing Director-Research	San Francisco, CA
Dividend Capital	Glenn Mueller	Real Estate Investment Strategist	Denver, CO
Freddie Mac	Frank Nothaft	Vice President and Chief Economist	McLean, VA
Grosvenor	Richard Barkham	Group Research Director	London
Hines	Josh Scoville	Senior Vice President, Research	Boston, MA
International Council of Shopping Centers	Michael Niemira	Chief Economist & Director of Research	New York, NY
Jones Lang LaSalle	Benjamin Breslau	Managing Director, Americas Research	Boston, MA
	Josh Gelormini	Vice President, Americas Research	Chicago, IL
Key Bank	Elizabeth Ptacek	Senior Vice President	Cleveland, OH
LaSalle Investment Management	William Maher	Director, North American Investment Strategy	Baltimore, MD

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Firms That Participated in the ULI/EY Real Estate Consensus Forecast

Organization	Economist/Analyst	Title	City/State
Linneman Associates	Peter Linneman	CEO	Philadelphia, PA
MetLife Real Estate Investments	Richie McLemore	Director of Research	Morristown, NJ
Moody's	Tad Philipp	Director, Commercial Real Estate Research	New York, NY
Morgan Stanley Real Estate Investing	Paul Mouchakkaa	Global Head of Research and Strategy	Los Angeles, CA
	Margaret Harbaugh	Vice President	Los Angeles, CA
NAREIT	Calvin Schnure	Vice President, Research and Industry Information	Washington, DC
National Association of Realtors	Lawrence Yun	Chief Economist	Washington, DC
NCREIF	Jeffrey Havsy	Director of Research	Chicago, IL
Newmark Grubb Knight Frank	Robert Bach	National Director, Market Analytics	Chicago, IL
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PPR CoStar	Hans Nordby	Managing Director	Boston, MA
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Principal Real Estate Investors	Randall Mundt	Chief Investment Officer	Des Moines, Iowa
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Real Estate Research Corporation (RERC)	Ken Riggs	President	Chicago, IL
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Regions Financial Corporation	Richard Moody	Senior Vice President and Chief Economist	Birmingham, AL
Reis, Inc.	Victor Calanog	Vice President of Research & Economics	New York, NY
Rosen Consulting Group	Kenneth T. Rosen	Chairman	Berkley, CA
	Randall Sakamoto	Executive Vice President, Director of Research	Berkley, CA
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The Urban Land Institute is a nonprofit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in sustaining and creating thriving communities worldwide. Established in 1936, the Institute has nearly 30,000 members representing all aspects of land use and development disciplines. For more information, please visit www.uli.org.

Patrick Phillips, Chief Executive Officer

Urban Land Institute

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A Survey of Leading Real Estate Economists/Analysts

October 2013

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