ULI/E&Y Real Estate Consensus Forecast

A Survey of Leading Real Estate Economists/Analysts

April 2013

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ULI/E&Y 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 March 4 to March 25, 2013
- A semiannual survey; next release planned for October 2013
- 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/E&Y Real Estate Consensus Forecast* for April 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 from September 2012, this forecast is considerably more optimistic regarding commercial property transaction volume, commercial mortgage-backed securities issuance, and the single-family housing sector.

Key Findings

- Commercial property transaction volume jumped to $290 billion in 2012 and is expected to increase further to $360 billion by 2015.
- CMBS issuance is expected to increase by 46% in 2013 and more than double by 2015.
- Institutional real estate assets and REITs are expected to provide total returns ranging from 8% to 12% annually over the next 3 years.
- Vacancy rates are expected to moderately decrease for office, retail, and industrial properties and remain stable 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 1.0% for retail up to 3.8% for apartments. Rent increases in 2015 will range from 2% to 4%.
- Single-family housing starts are projected to increase from 535,000 units in 2012 to over one million units by 2015.

Economy

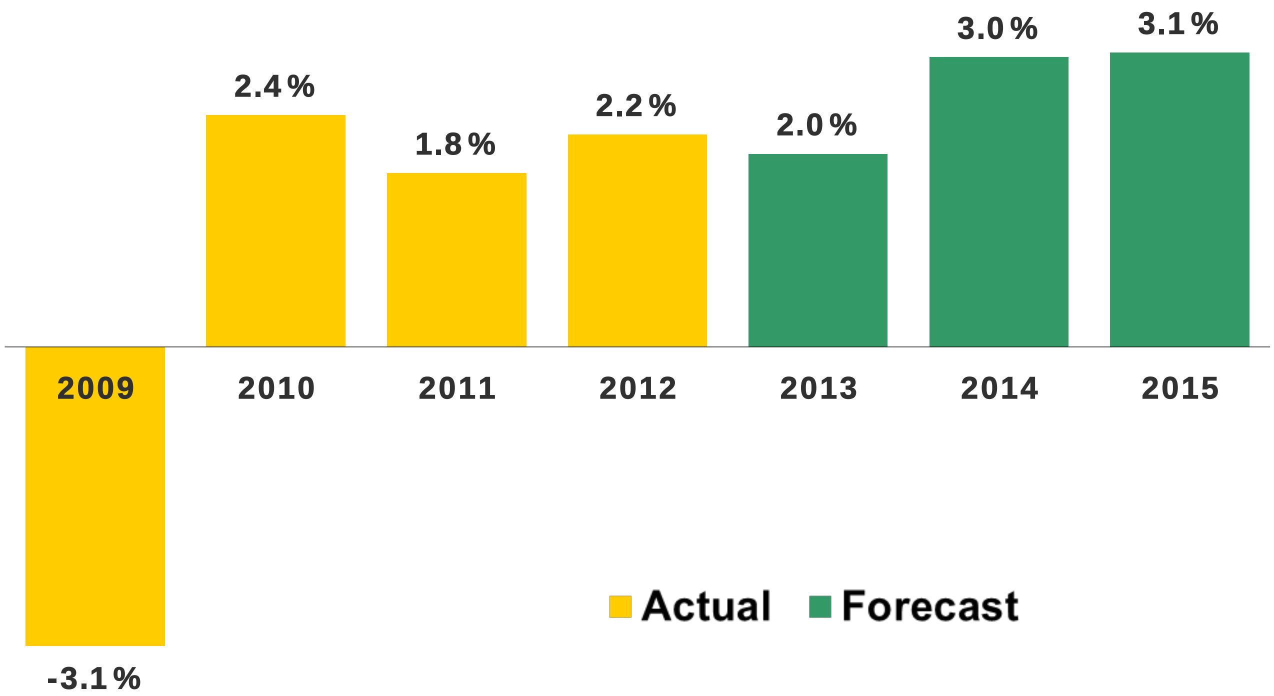
Regarding the economy, in general the economists/analysts expect the economy to accelerate at a modest rate over the next three years.

GDP is expected to grow by 2.0% in 2013, 3.0% in 2014, and 3.1% in 2015.

The unemployment rate is expected to fall to 7.5% by the end of 2013, 7.0% by the end of 2014, and 6.5% by the end of 2015.

Employment is expected to increase steadily, by 2.1 million jobs in 2013, 2.4 million in 2014, and 2.6 million in 2015.

Real GDP Growth



Sources: Bureau of Economic Analysis data, 2009-2012; ULI/E&Y Consensus Forecast data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 2.0%. 2.9%.

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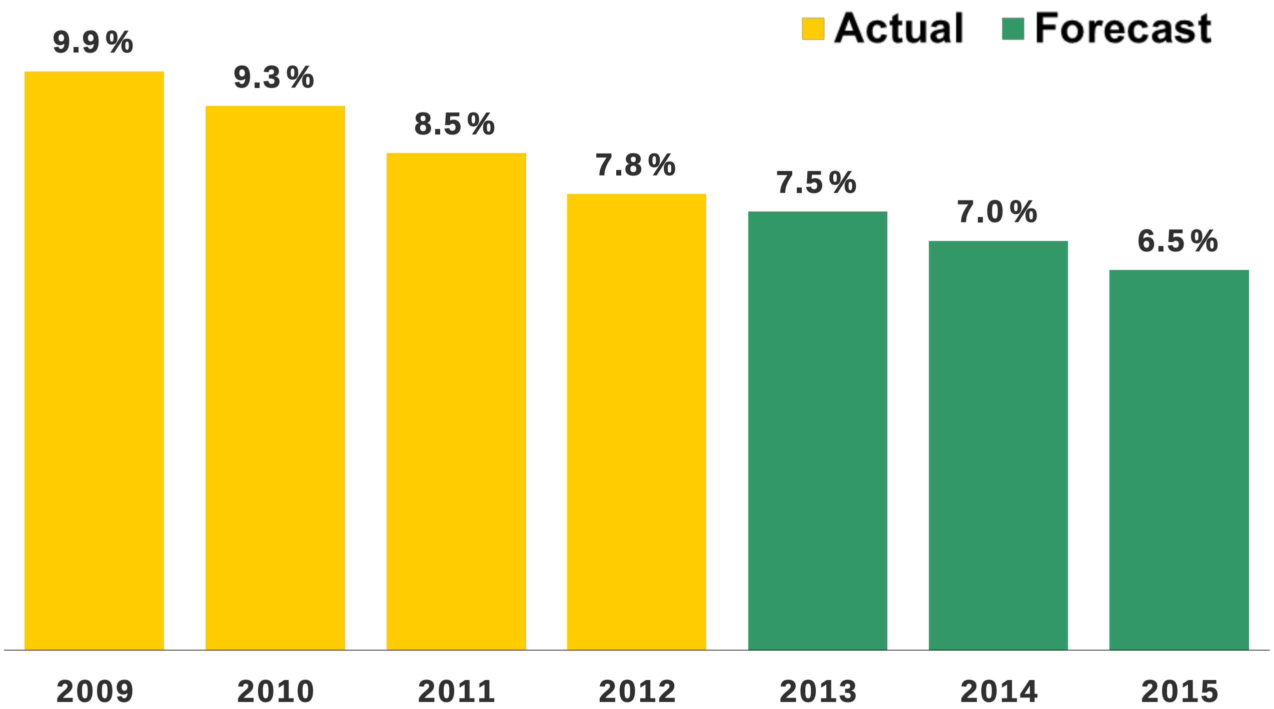
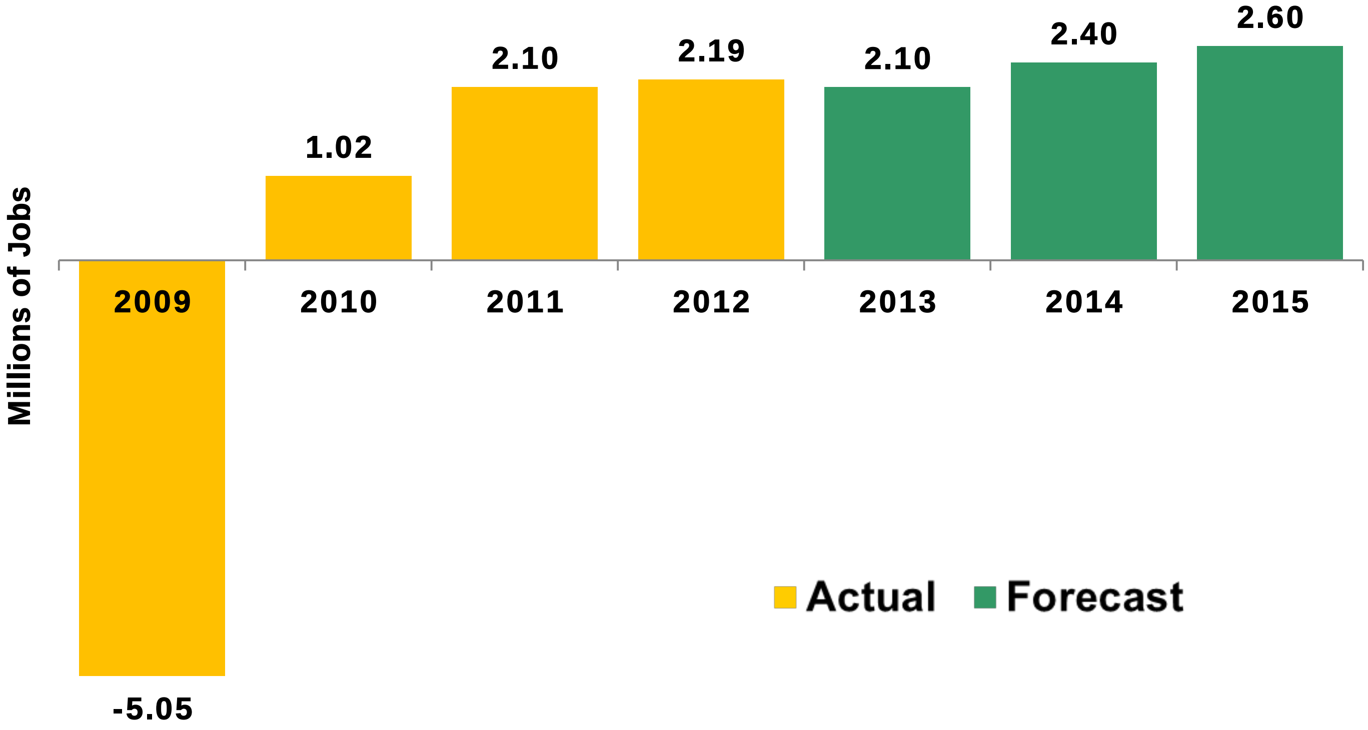
Unemployment Rate



Sources: Bureau of Labor Statistics, year-end data 2009-2012; ULI/E&Y Consensus Forecast, year-end data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 7.8%. 7.0%.

Employment Growth



Sources: Bureau of Labor Statistics, year-end data, 2009-2012; ULI/E&Y Consensus Forecast, year-end data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 2.0. 2.4.

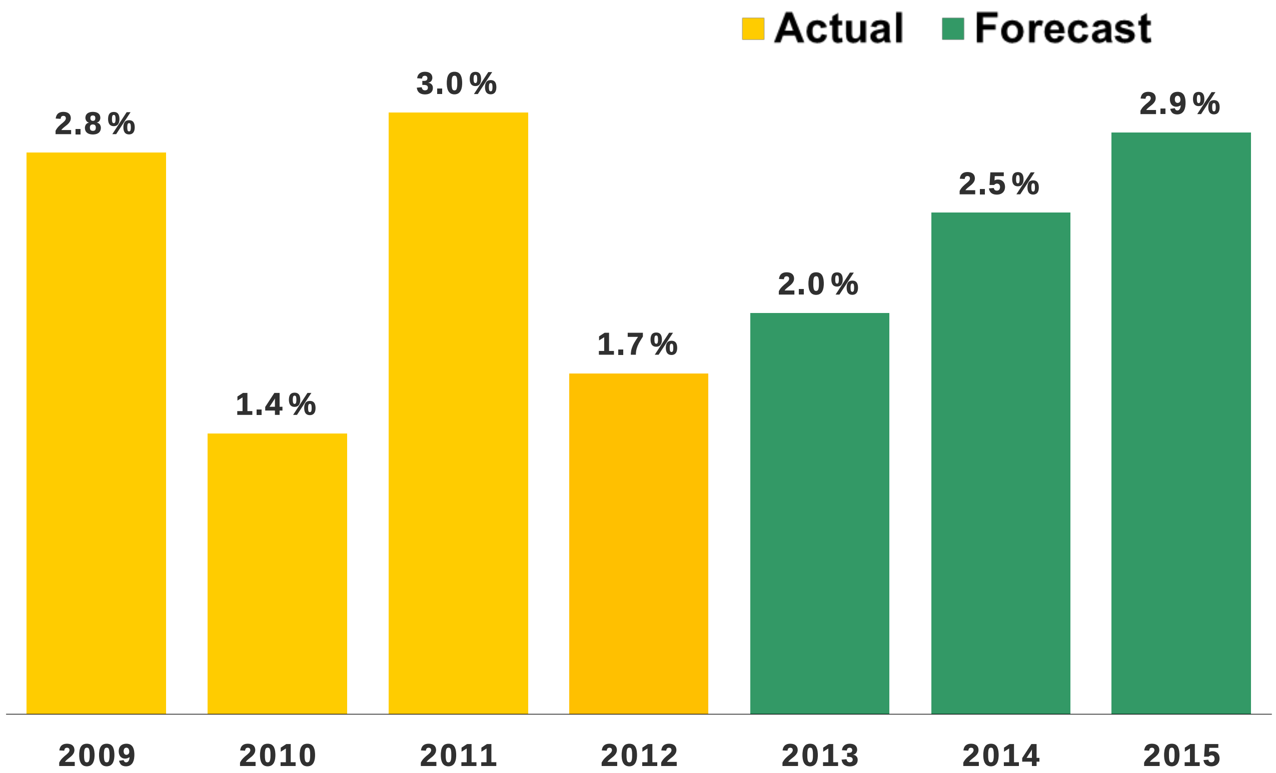
Inflation, Interest Rates, and Cap Rates

Inflation is expected to increase to 2.0% in 2013, then rise to 2.5% in 2014 and 2.9% in 2015.

Ten-year treasury rates are also projected to increase by the end of 2013 to 2.3%, rising further to 3.0% by the end of 2014, and 3.5% by the end of 2015.

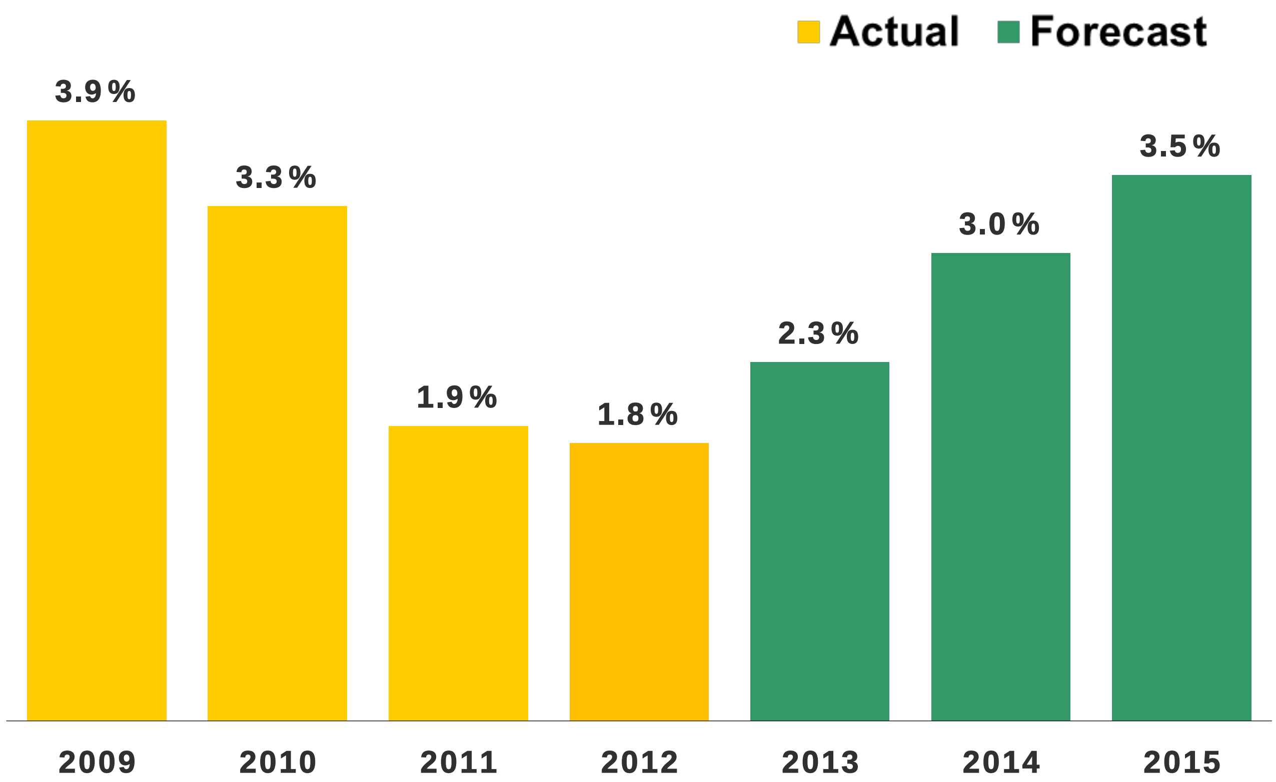
While these rising rates will increase borrowing costs for real estate investors, the survey respondents do not expect substantial increases in real estate capitalization rates for institutional-quality investments (NCREIF cap rates), which are expected to decrease slightly to 5.8% in 2013 and then rise to 6.0% in 2014 and 6.2% in 2015. These cap rate projections are slightly lower than those made six months ago.

Consumer Price Index Inflation Rate



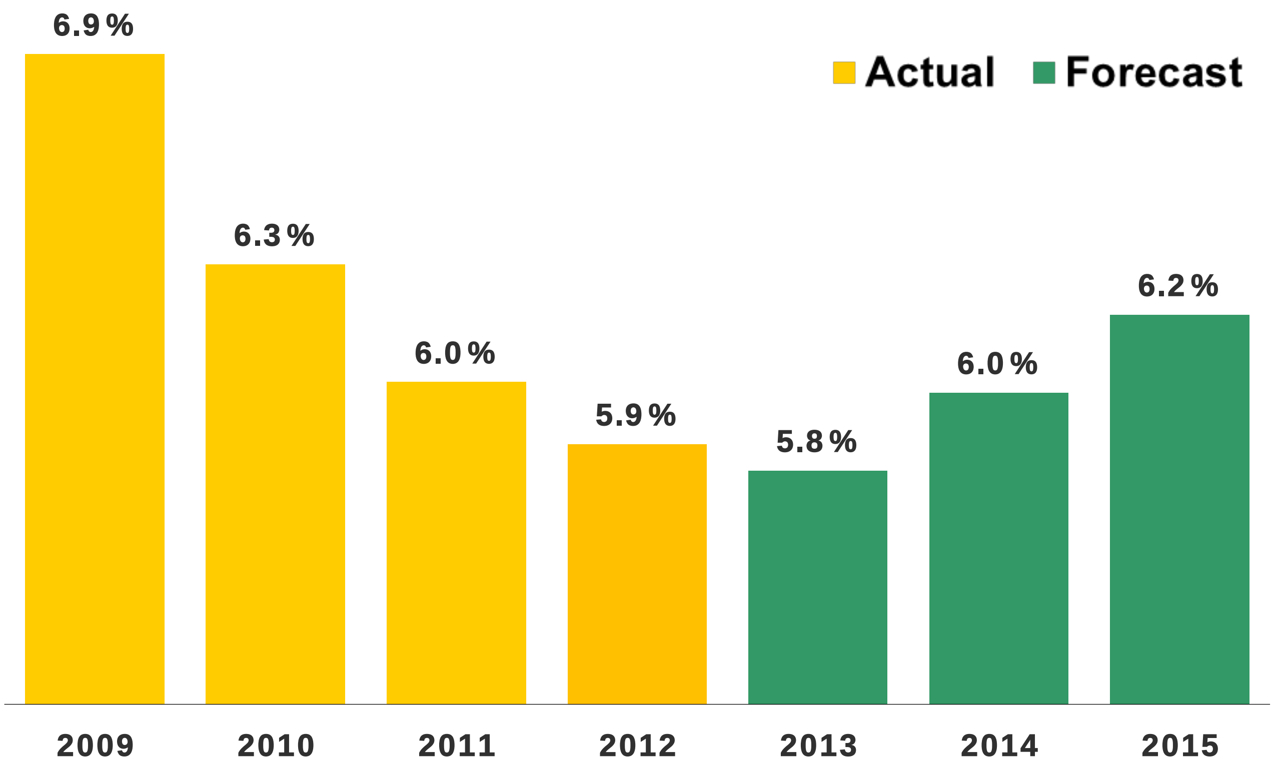
Sources: Bureau of Labor Statistics, year-end data, 2009-2012; ULI/E&Y Consensus Forecast, year-end data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 2.0%. 2.5%.

Ten-Year Treasury Rate



Sources: U.S. Federal Reserve, year-end data, 2009-2012; ULI/E&Y Consensus Forecast, year-end data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 2.3%. 3.0%.

NCREIF Capitalization Rate



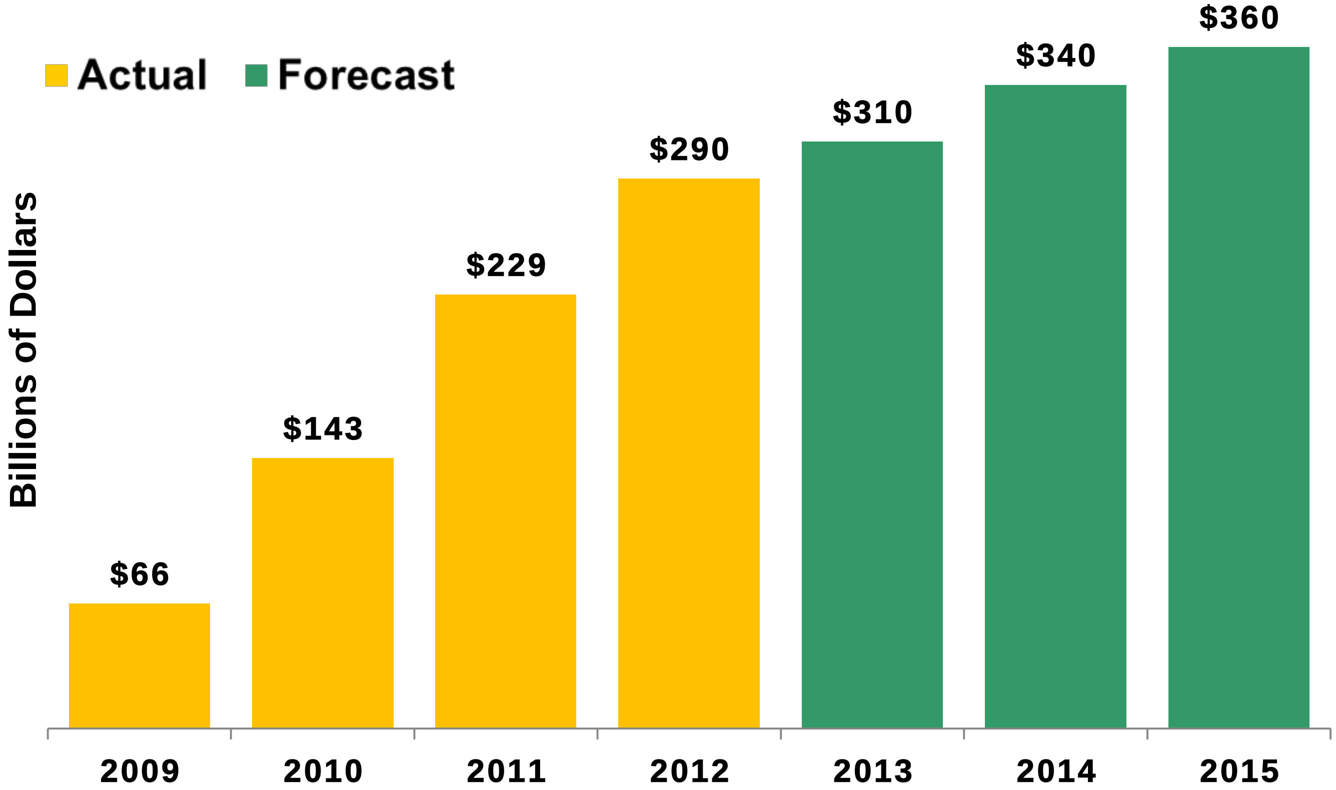
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), year-end data, 2009-2012; ULI/E&Y Consensus Forecast, year-end data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 6.2%. 6.3%.

Real Estate Capital Markets

Commercial real estate transaction volume has recovered nicely from 2009 levels, with volume increasing substantially in 2012, and volume appears set for consistent growth going forward. Volume is expected to steadily increase–from $290 billion in 2012 to $310 billion in 2013, $340 billion in 2014, and $360 billion in 2015.

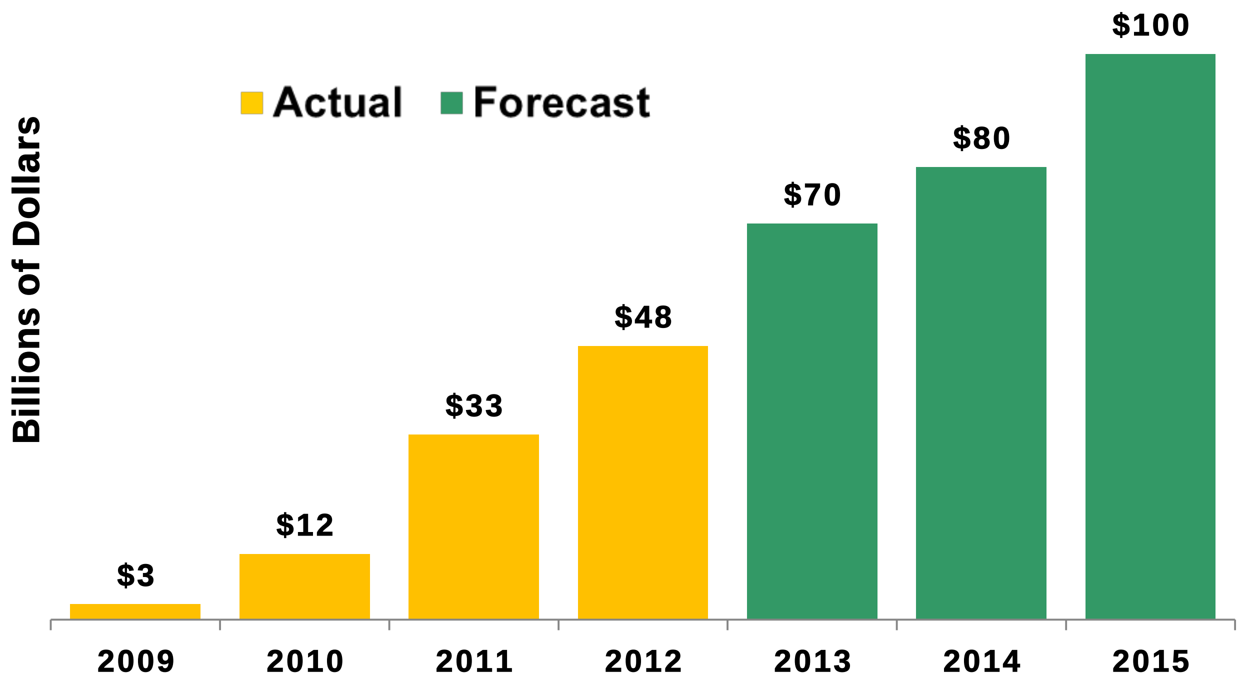
Issuance of commercial mortgage-backed securities (CMBS), a key source of financing for commercial real estate, also increased substantially in 2012 and is projected to grow further over the next three years. Issuance is expected to increase from $48 billion in 2012 to $70 billion in 2013, $80 billion in 2014, and $100 billion in 2015, more than a 100% increase over three years.

Commercial Real Estate Transaction Volume



Sources: Real Capital Analytics, annual data, 2009-2012; ULI/E&Y Consensus Forecast, annual data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: $250. $275.

Commercial Mortgage-Backed Securities (CMBS) Issuance



Sources: Commercial Mortgage Alert, 2009-2012; ULI/E&Y Consensus Forecast data, year-end 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: $45. $60.

Real Estate Returns and Prices

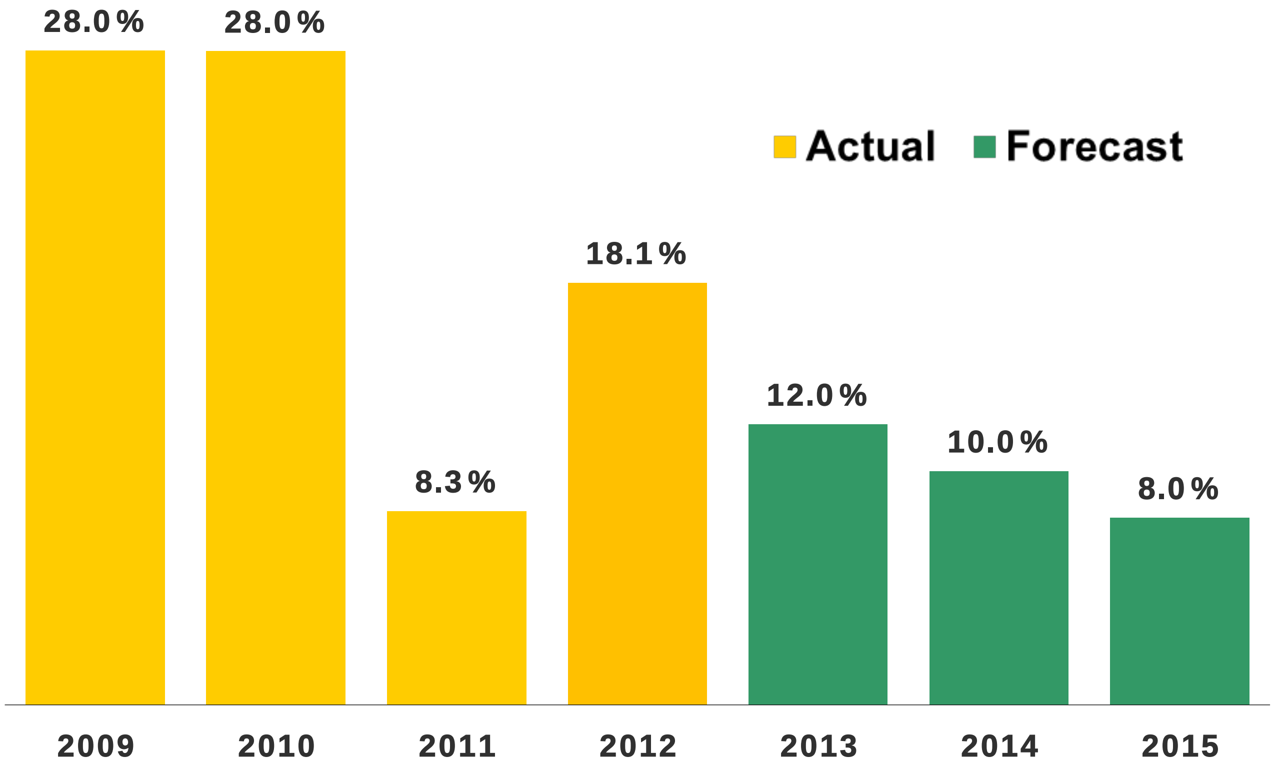
Prices and total returns for commercial real estate investments are expected to remain healthy within historic norms, with some deceleration expected.

Equity REIT total returns, according to NAREIT, stood at 18.1% in 2012, and future returns, according to the *ULI/E&Y Consensus Forecast,* are expected to slow to 12.0% in 2013, 10.0% in 2014, and 8.0% in 2015.

The Moody's/RCA Commercial Property Price Index, which increased 7.7% in 2012, is also expected to increase over the next three years, but at a slower pace, rising 7.1% in 2013, 5.0% in 2014, and 4.1% in 2015.

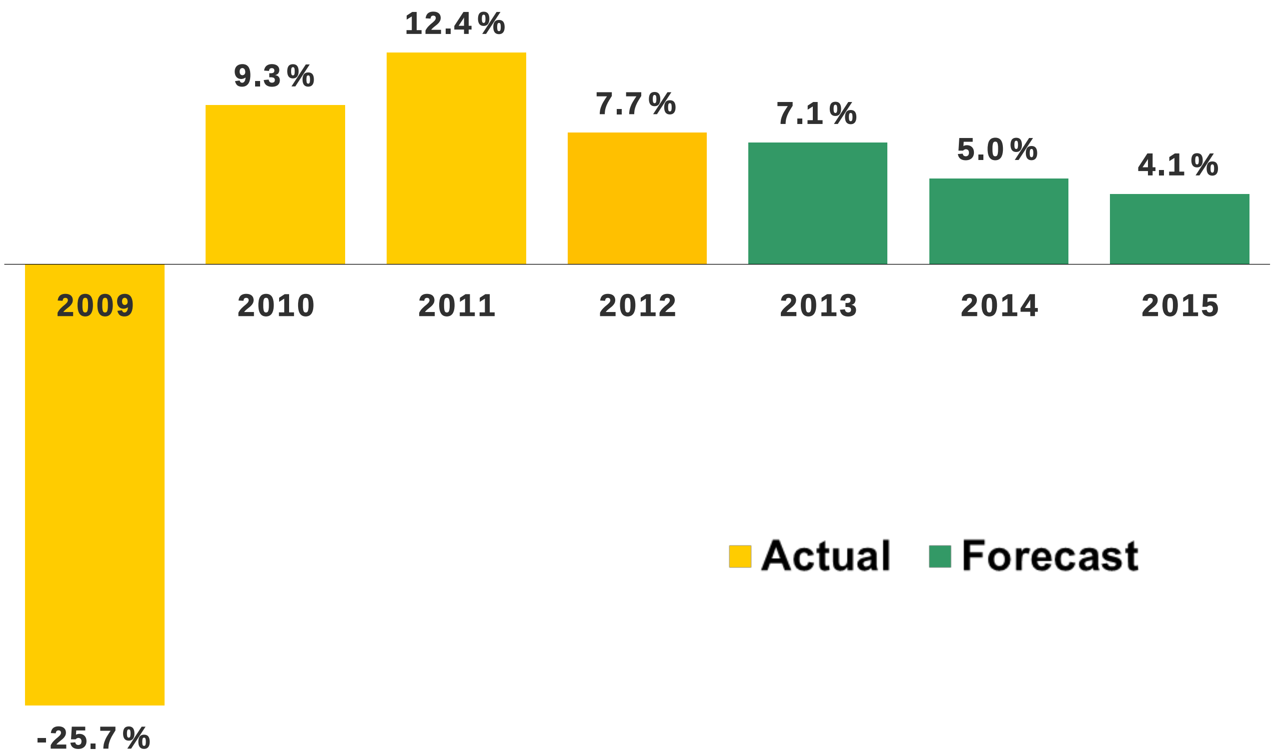
Total returns for institutional-quality direct real estate investments, as measured by the NCREIF Property Index, stood at 10.5% in 2012, and these returns are expected to remain strong but trend lower, with returns of 9.5% in 2013, 9.0% in 2014, and 8.0% in 2015.

Equity REIT Total Annual Returns



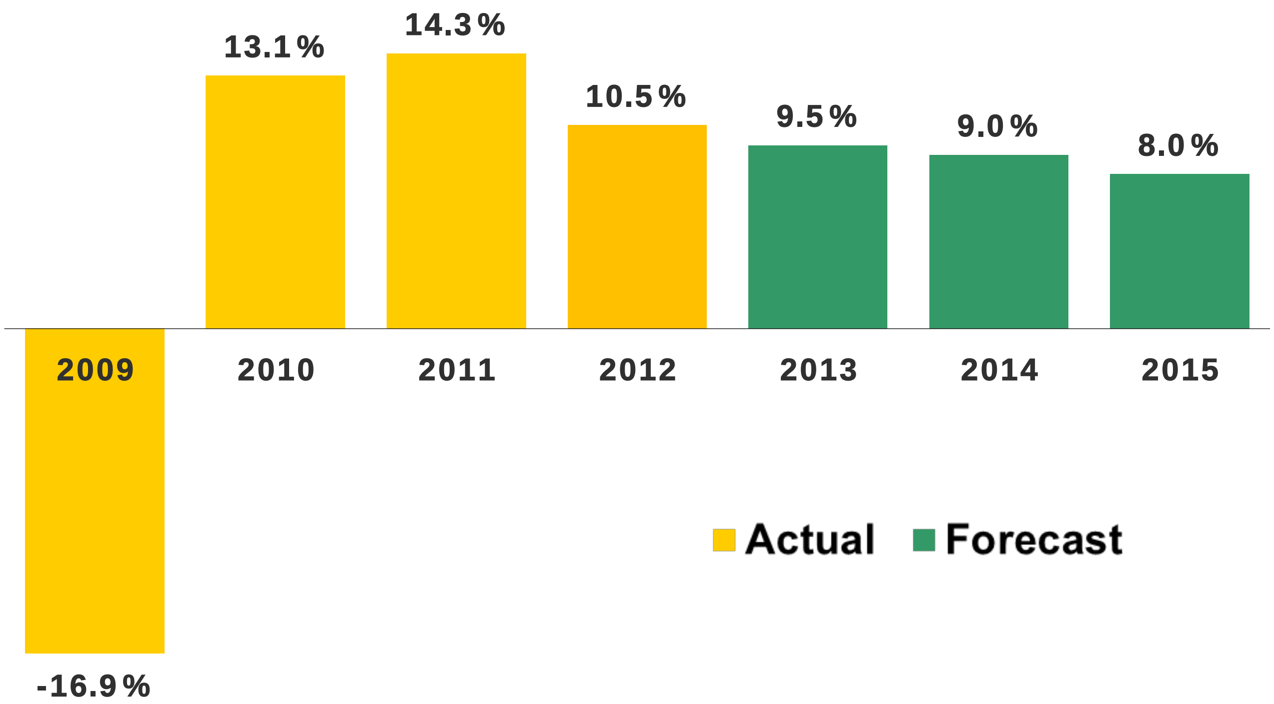
Sources: National Association of Real Estate Investment Trusts, annual data, 2009-2012; ULI/E&Y Consensus Forecast, annual data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 10.0%. 10.0%.

Moody's/RCA Commercial Property Price Index



Sources: Moody's and Real Capital Analytics, annual data, 2009-2012; ULI/E&Y Consensus Forecast, annual data, 2013-2015. Note: This is the first forecast that this indicator was projected.

NCREIF Total Annual Returns



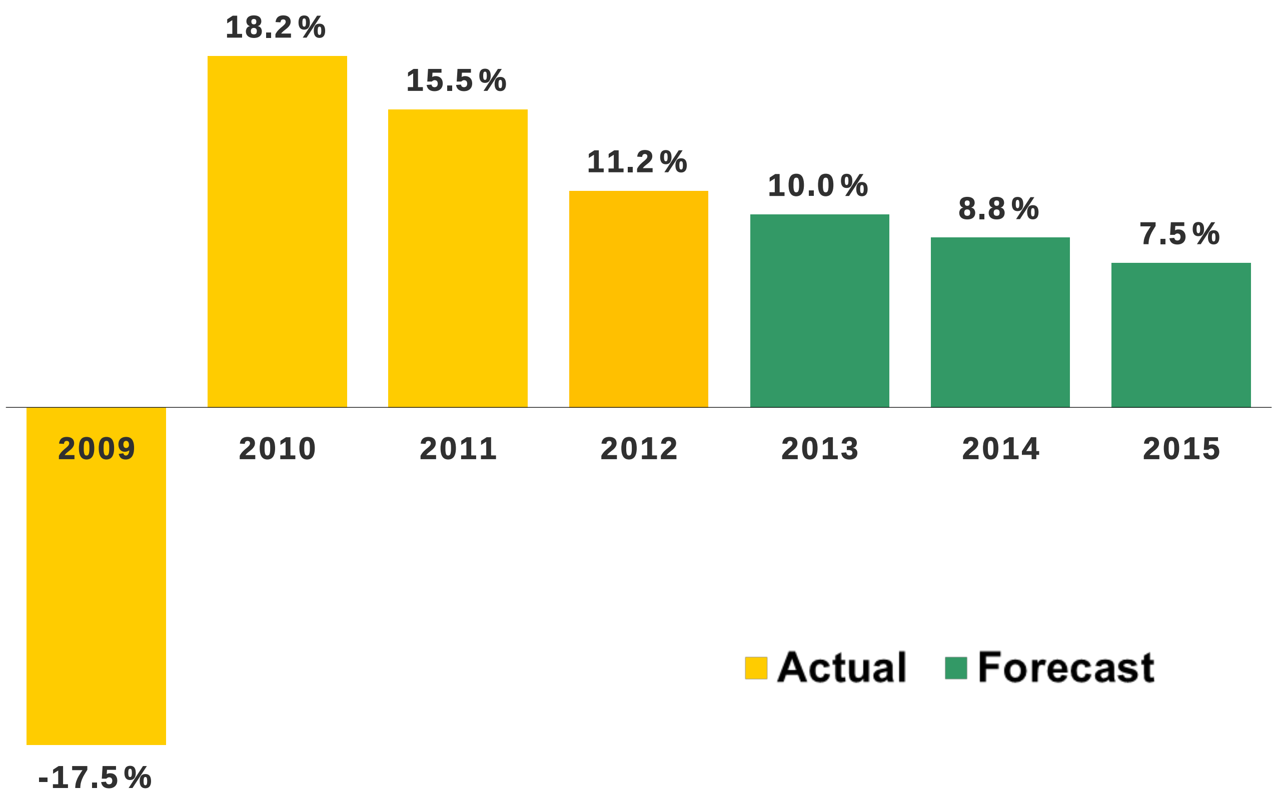
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2012; ULI/E&Y Consensus Forecast, annual data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 8.5%. 8.5%.

NCREIF Returns by Property Type

By property type, NCREIF total returns in 2013 are expected to be strongest for apartments (10.0%), followed by industrial (9.9%), office (9.0%), and retail (9.0%), showing considerable consistency across property types.

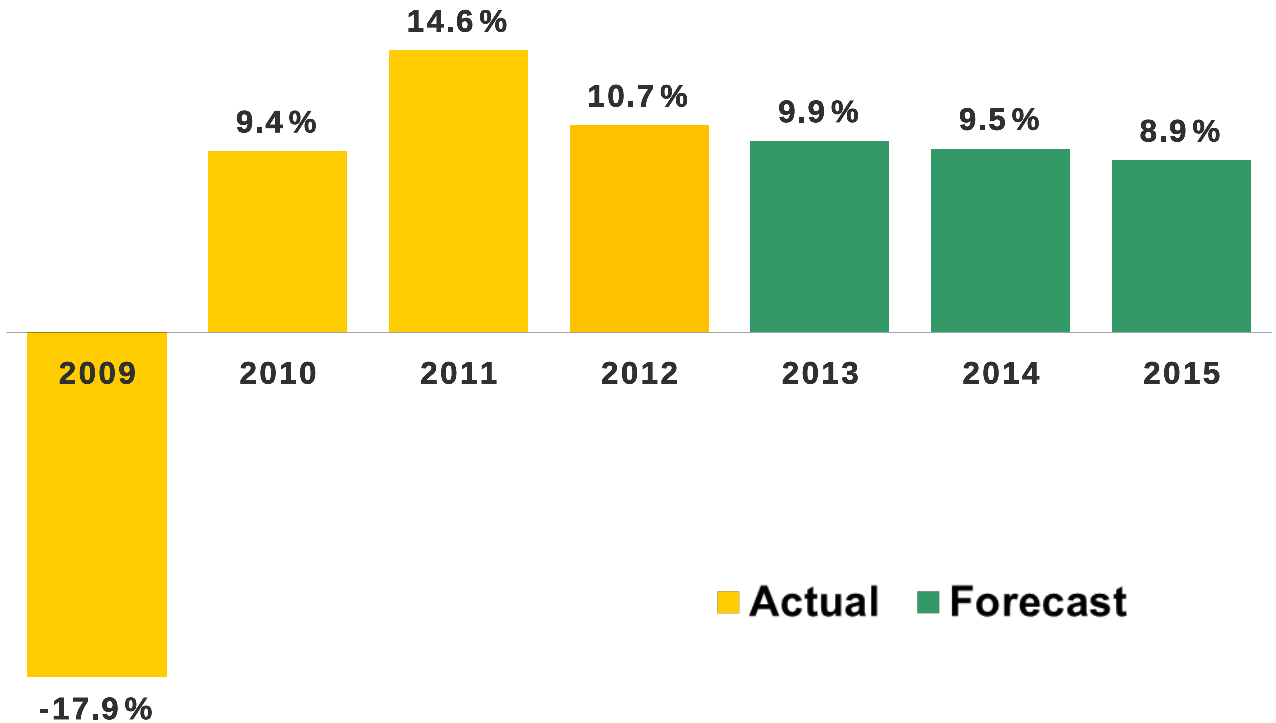
By 2015, however, returns are expected to be down slightly and strongest for industrial (8.9%), followed by office (8.7%), retail (8.0%), and apartments (7.5%).

NCREIF Apartment Total Annual Returns



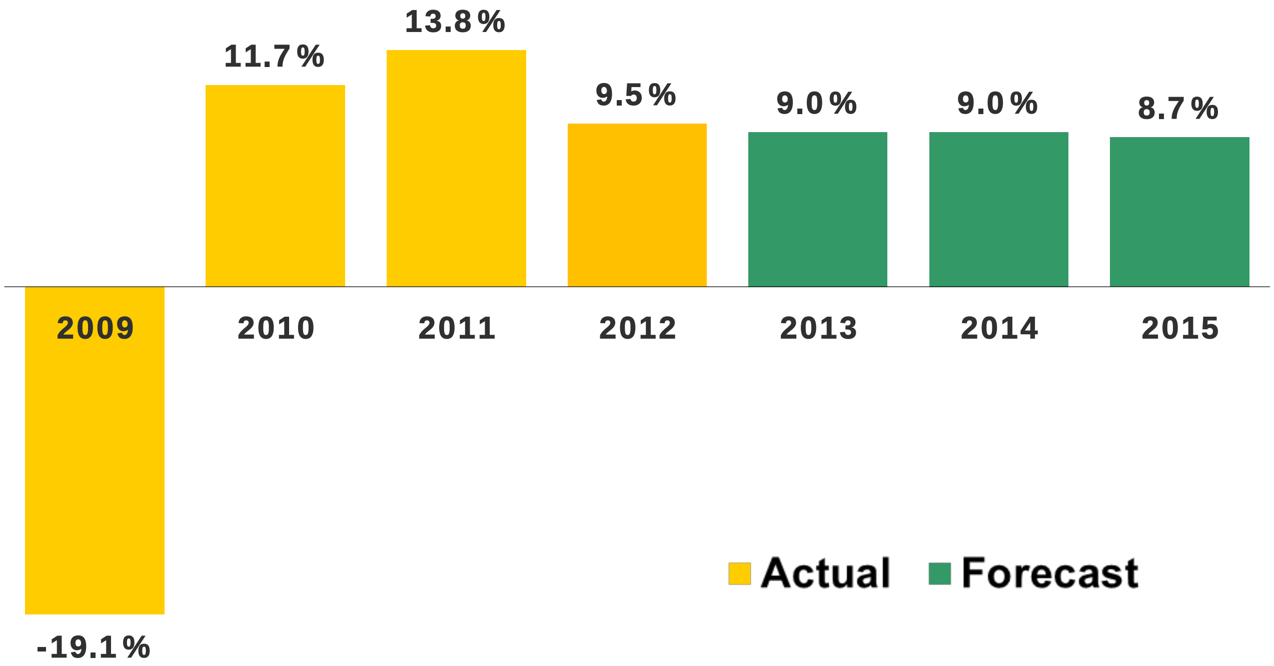
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2012; ULI/E&Y Consensus Forecast, annual data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 8.8%. 7.8%

NCREIF Industrial Total Annual Returns



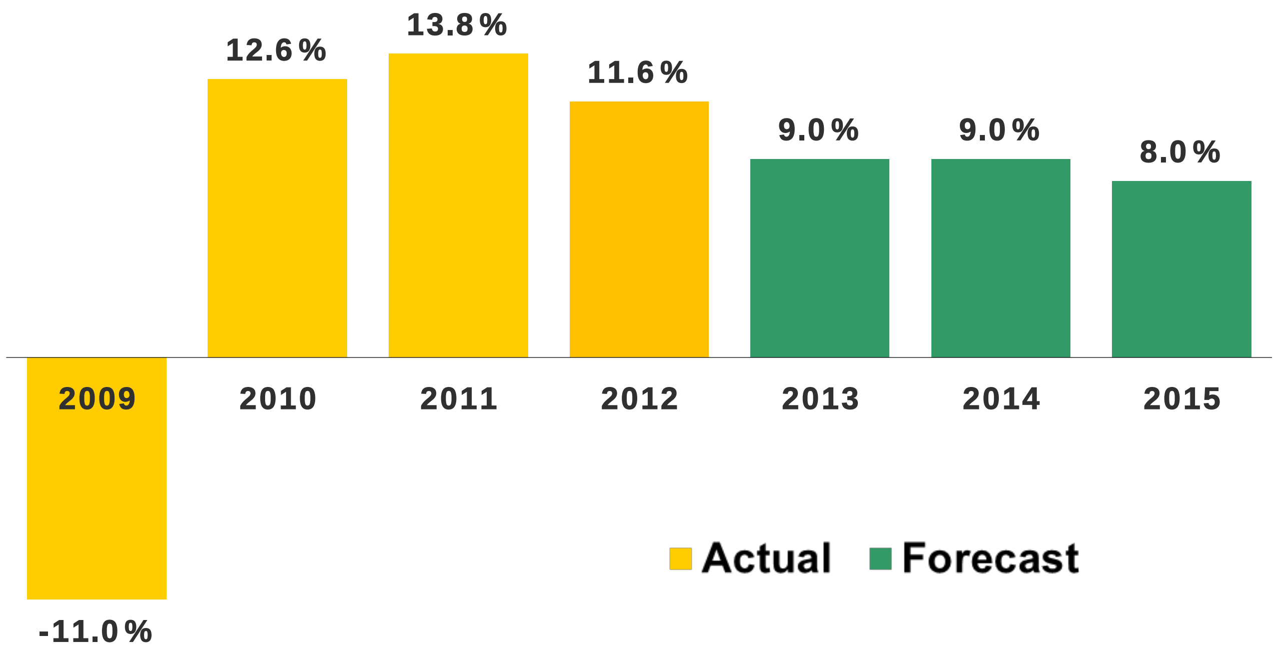
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2012; ULI/E&Y Consensus Forecast, annual data, 2013-2015.
Note: The previous (September 2012) ULI Forecast for 2013-14 was: 9.1%. 8.9%.

NCREIF Office Total Annual Returns



Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2012; ULI/E&Y Consensus Forecast, annual data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 8.6%. 8.7%.

NCREIF Retail Total Annual Returns



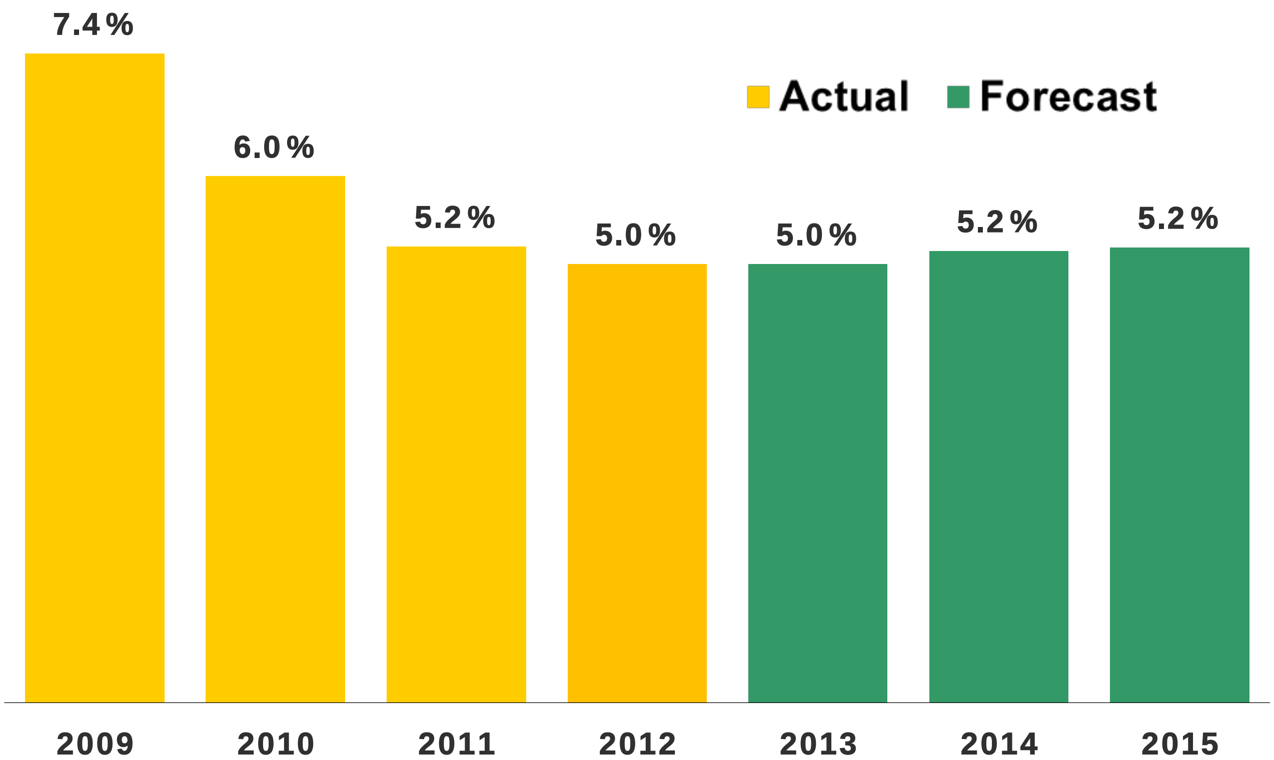
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2012; ULI/E&Y Consensus Forecast, annual data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 8.5%. 8.0%.

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 a very low 5.0% in 2012, according to CBRE. Year-end vacancy rates, according to the *ULI/E&Y Forecast*, are expected to hold steady in 2013 and rise slightly to 5.2% by 2015.

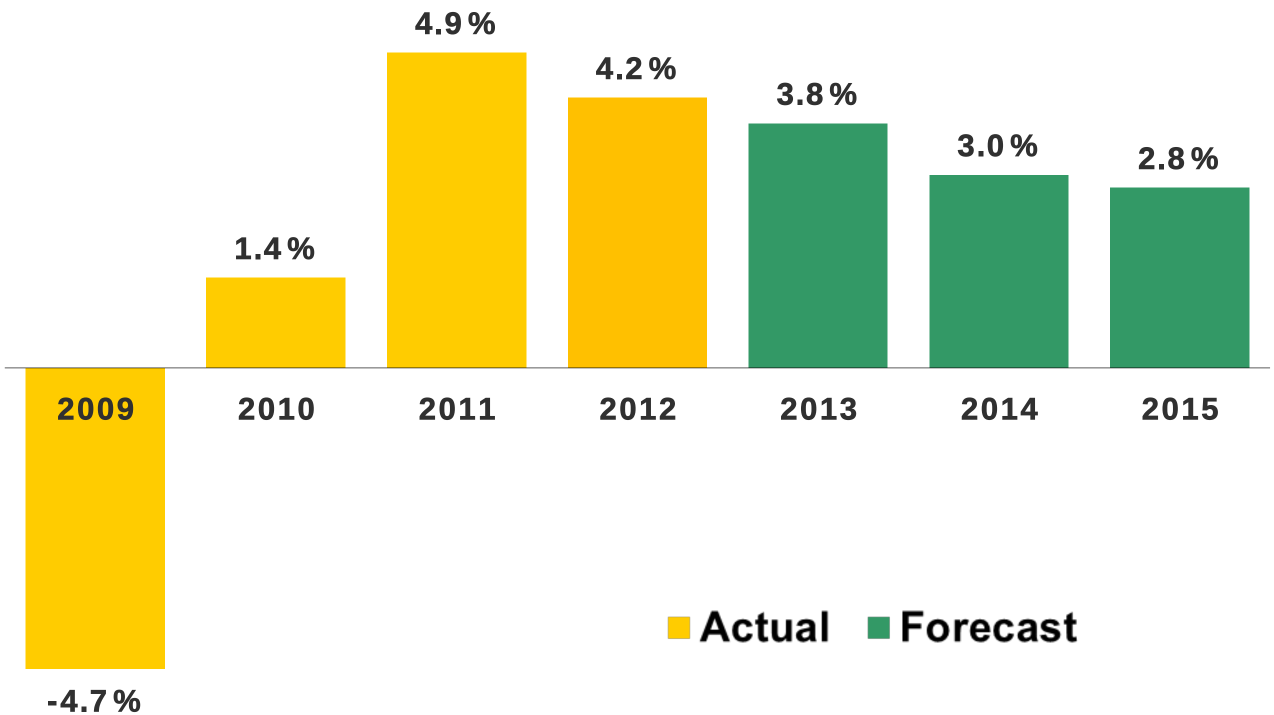
Apartments are also expected to show strong rental rate growth, but with some deceleration, with rents expected to rise 3.8% in 2013, then moderating to 3.0% in 2014 and 2.8% in 2015 as new supply comes on line. These rental rate forecasts are below the projections from September.

Apartment Vacancy Rates



Sources: CBRE, year-end data, 2009-2012; ULI/E&Y Consensus Forecast, year-end data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 4.7%, 4.9%.

Apartment Rental Rate Change



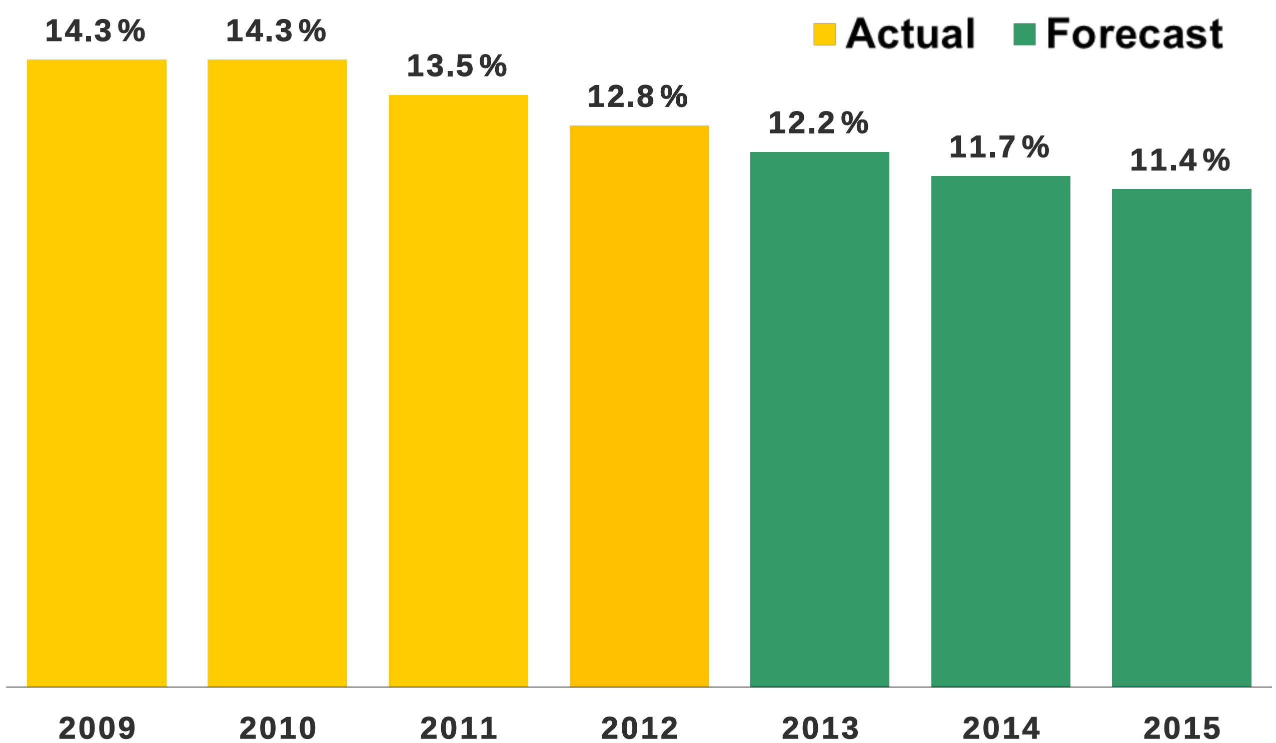
Sources: CBRE year-end data, 2009-2012; ULI/E&Y Consensus Forecast data, year-end 2013-2015. Note: The previous (September 2012) ULI Forecast for 2012-14 was: 3.5%, 3.0%.

Industrial/Warehouse Sector Fundamentals

The industrial/warehouse sector is expected to see continued decreases in vacancy rates, from 12.8% at the end of 2012 to 12.2% in 2013, 11.7% in 2014, and 11.4% by the end of 2015. This forecast is more optimistic than six months ago.

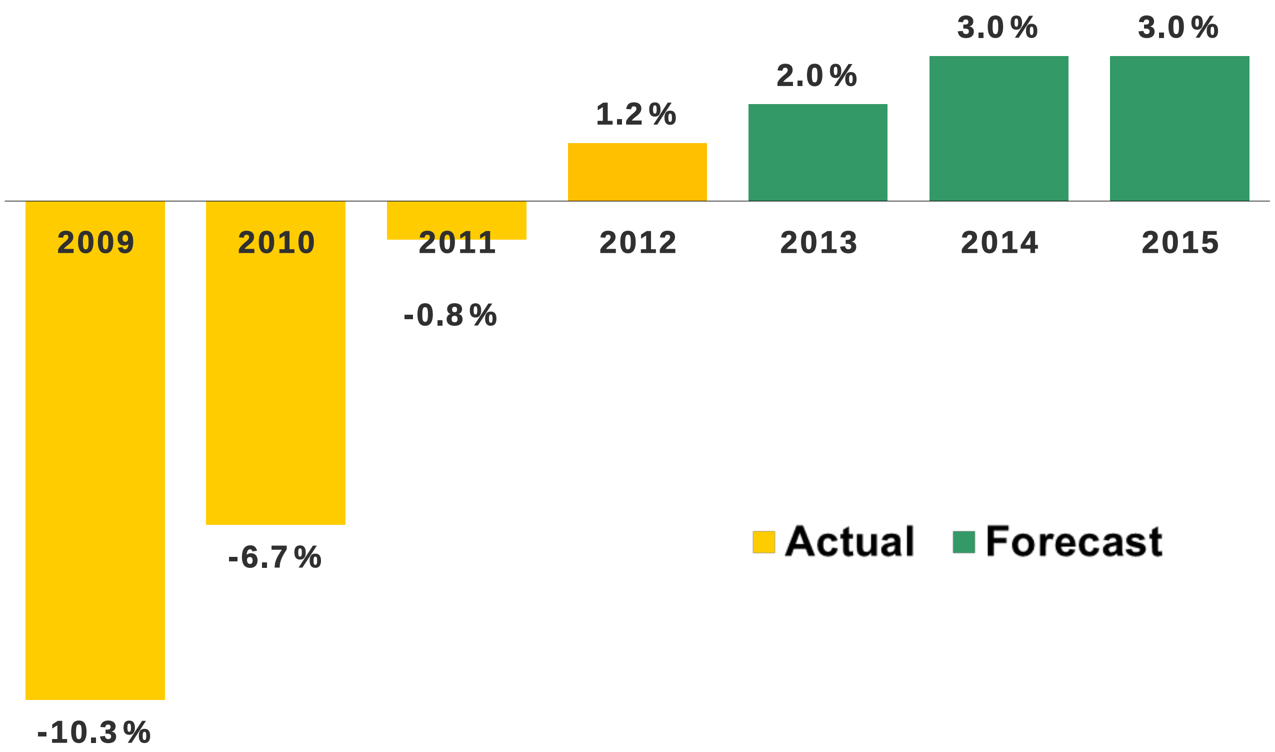
Warehouse rental rates, which declined slightly in 2011 before increasing by 1.2% in 2012, according to CBRE, are expected to show growing strength of 2.0% growth in 2013, and 3.0% in both 2014 and 2015, according to the *ULI/E&Y Consensus Forecast*.

Industrial/Warehouse Availability Rates



Sources: CBRE year-end data, 2009-2012; ULI/E&Y Consensus Forecast, year-end data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 12.4%, 11.9%.

Warehouse Rental Rate Change



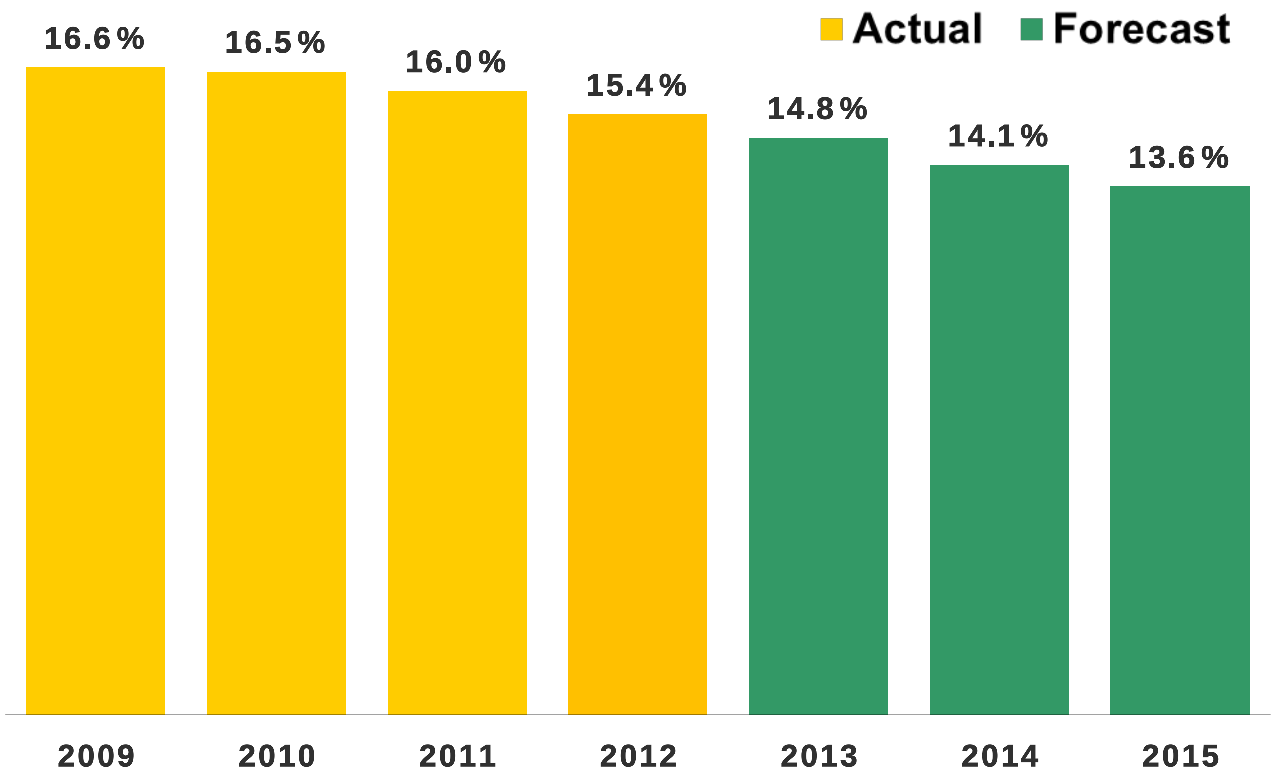
Sources: CBRE year-end data, 2009-2012; ULI/E&Y Consensus Forecast data, year-end 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 2.5%, 3.1%.

Office Sector Fundamentals

Office vacancy rates have been decreasing gradually in recent years and are expected to decrease further over the next three years, from 15.4% at the end of 2012 to 14.8% in 2013, 14.1% in 2014, and 13.6% by the end of 2015.

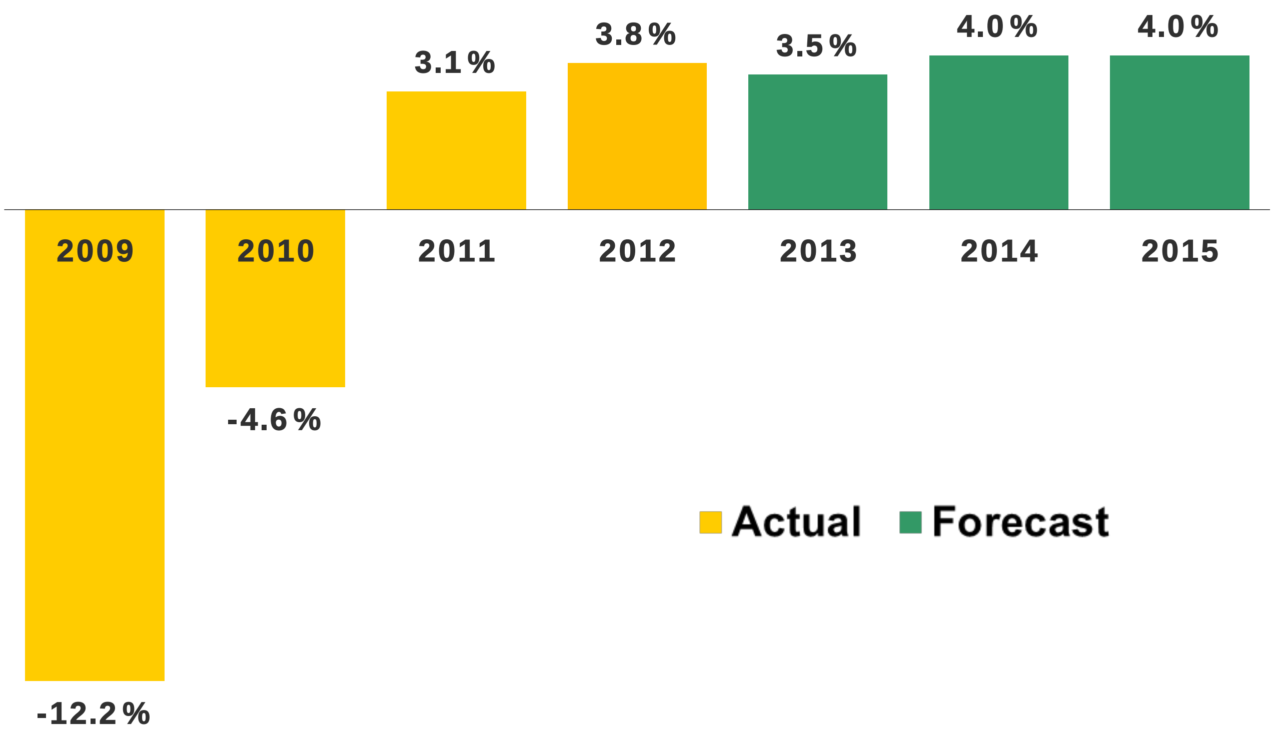
Office rental rates, which decreased substantially in 2010 and then rose by 3.1% in 2011 and 3.8% 2012, according to CBRE, are expected to continue to strengthen, with an increase of 3.5% in 2013 and 4.0% in both 2014 and 2015.

Office Vacancy Rates



Sources: CBRE year-end data, 2009-2012; ULI/E&Y Consensus Forecast data, year-end 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 14.8%, 14.0%.

Office Rental Rate Change



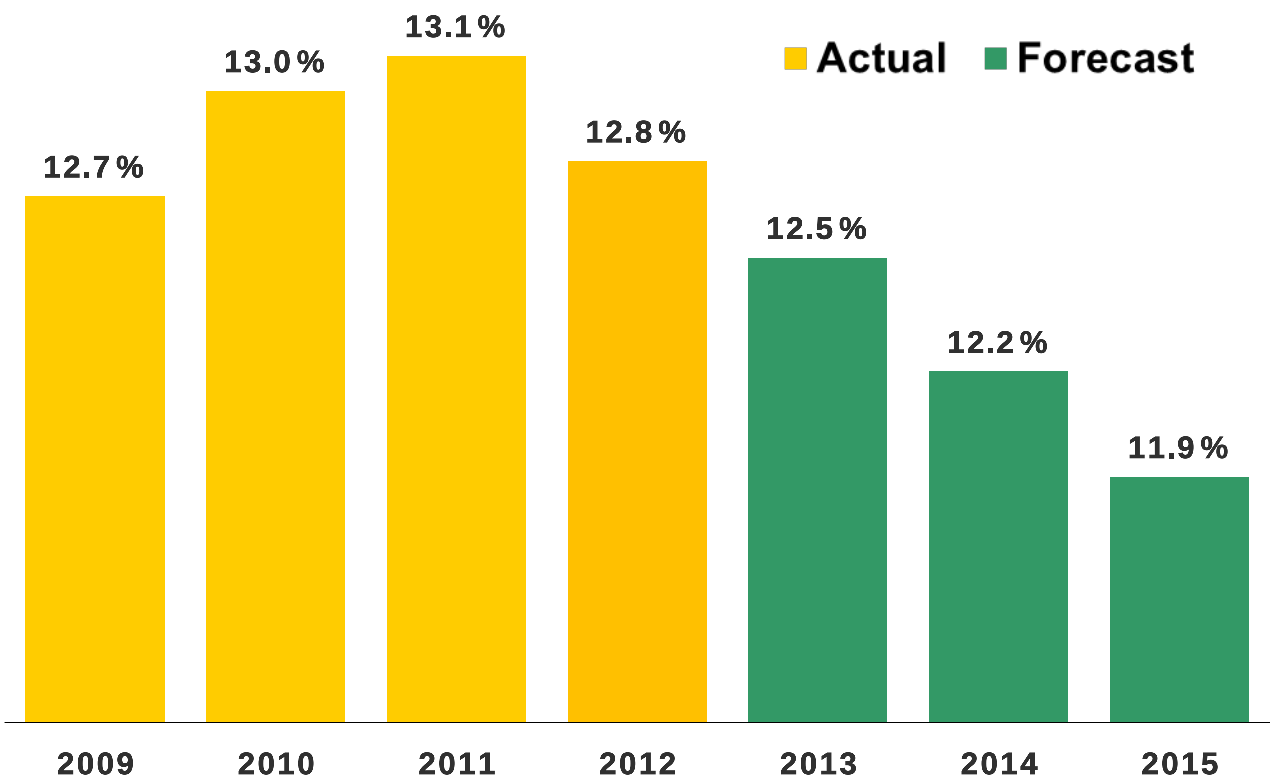
Sources: CBRE year-end data, 2009-2012; ULI/E&Y Consensus Forecast data, year-end 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 3.1%, 4.0%.

Retail Sector Fundamentals

Retail availability rates remain elevated, but should see some modest improvements over the next three years, with rates expected to decline to 12.5% by the end of 2013, 12.2% by 2014, and 11.9% by 2015.

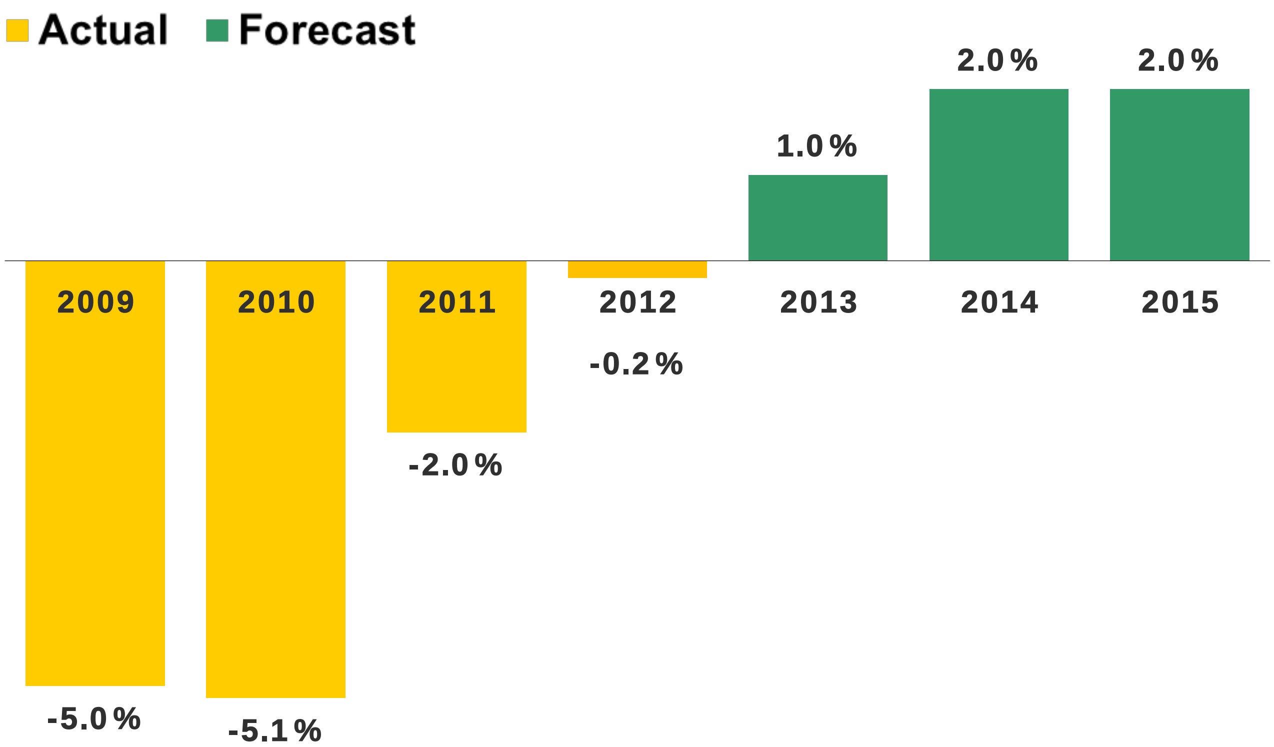
Retail rental rates, which decreased substantially from 2009-2011 and slightly in 2012, are projected to increase by 1.0% in 2013 and by 2.0% in both 2014 and 2015.

Retail Availability Rates



Sources: CBRE year-end data, 2009-2012; ULI/E&Y Consensus Forecast data, year-end 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 12.5%, 12.2%.

Retail Rental Rate Change



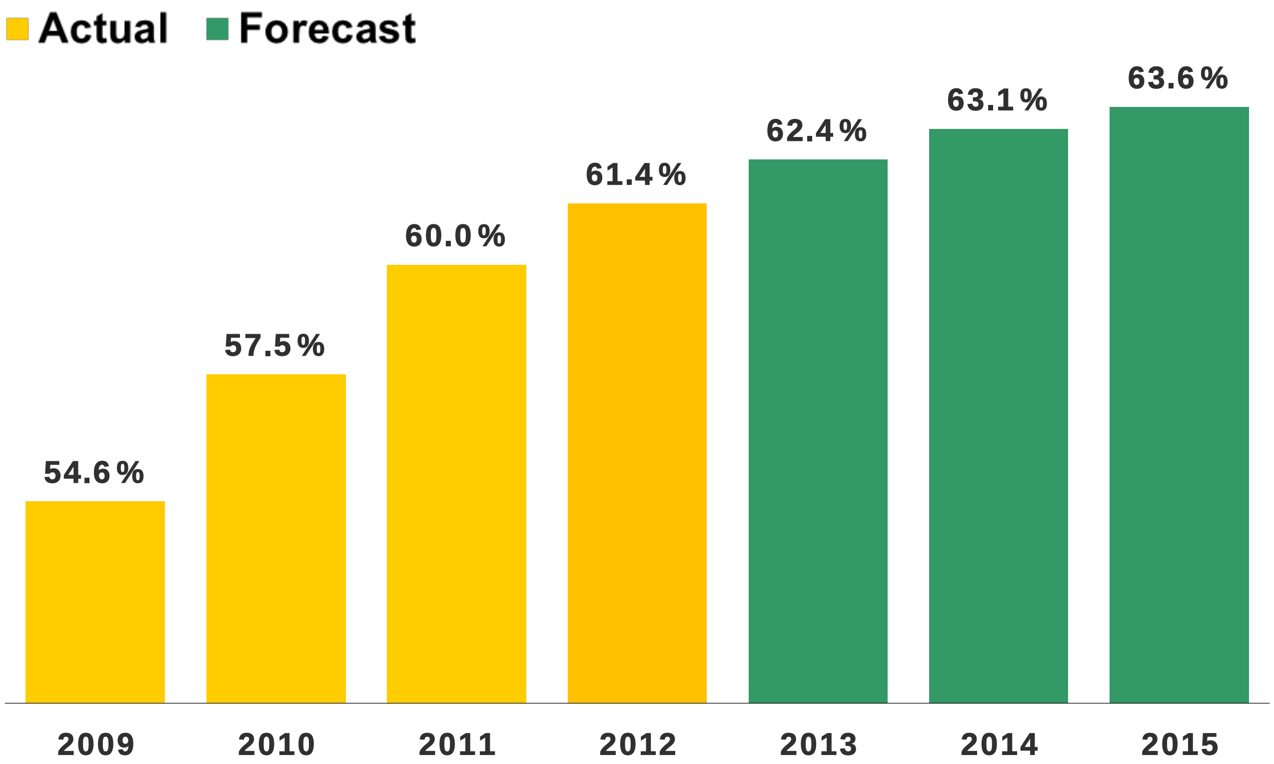
Sources: CBRE year-end data, 2009-2012; ULI/E&Y Consensus Forecast data, year-end 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 1.2%, 2.5%.

Hotel Sector Fundamentals

Hotel occupancy rates, according to Smith Travel Research, have improved from 54.6% in 2009 to 61.4% in 2012, and the *ULI/E&Y Consensus Forecast* projects that occupancy rates will increase to 62.4% in 2013, 63.1% by 2014, and 63.6% by 2015.

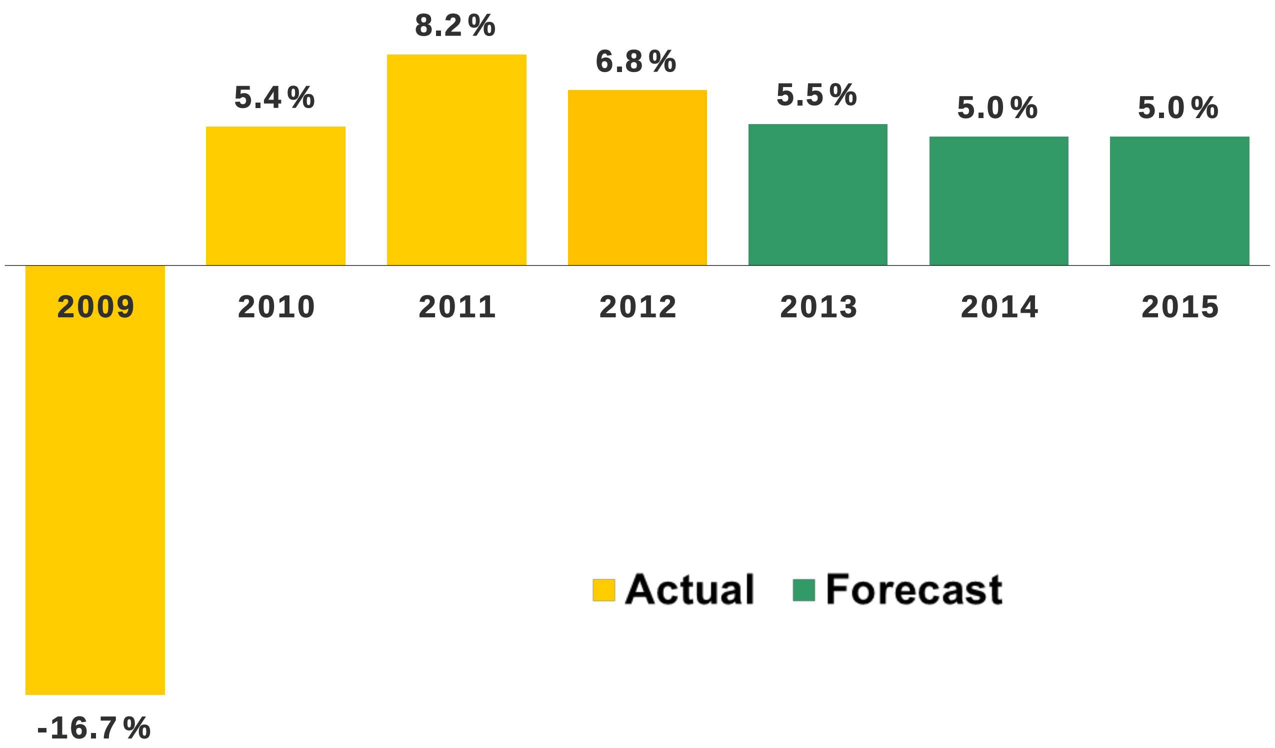
Hotel revenue per available room (RevPAR) has also grown substantially, with 8.2% growth in 2011 and 6.8% in 2012. RevPAR growth is expected to remain strong, but will increase at decelerating rate, with expected growth of 5.5% in 2013, 5.0% in 2014, and 5.0% in 2015.

Hotel Occupancy Rates



Sources: Smith Travel Research, annual data, 2009-2012; ULI/E&Y Consensus Forecast data, year-end 2013-2015. The previous (September 2012) ULI Forecast for 2013-14 was: 62.6%, 63.6%.

Hotel Revenue per Available Room (RevPAR) Change



Sources: Smith Travel Research, annual data, 2009-2012; ULI/E&Y Consensus Forecast, year-end data, 2013-2015. The previous (September 2012) ULI Forecast for 2013-14 was: 6.3%, 5.3%.

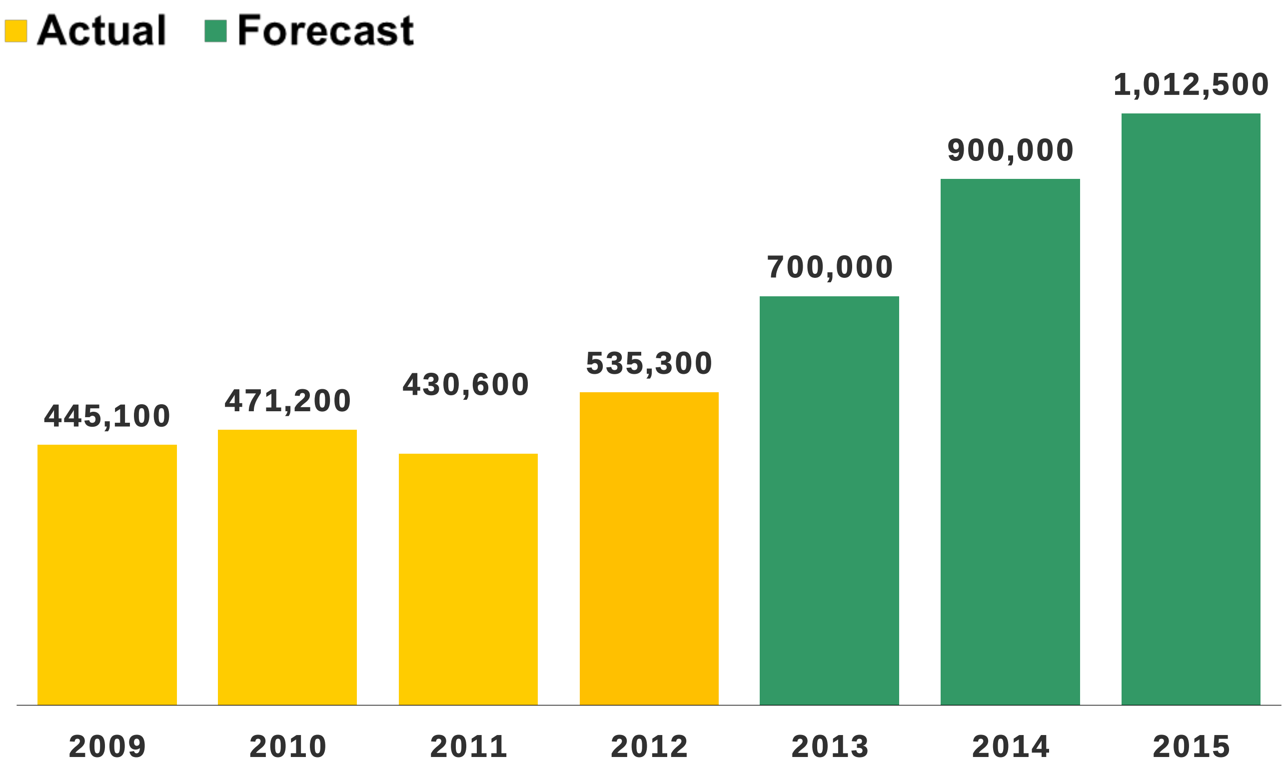
Housing Sector

Finally, the single-family housing sector experienced a turnaround in 2012 that is expected to continue, leading forecasters to be much more optimistic than they were last year.

Single-family housing starts, which were near record lows from 2009-2011, rose from 430,600 starts in 2011 to 535,300 in 2012, and are expected to rise to 700,000 in 2013, 900,000 in 2014, and 1,012,500 in 2015.

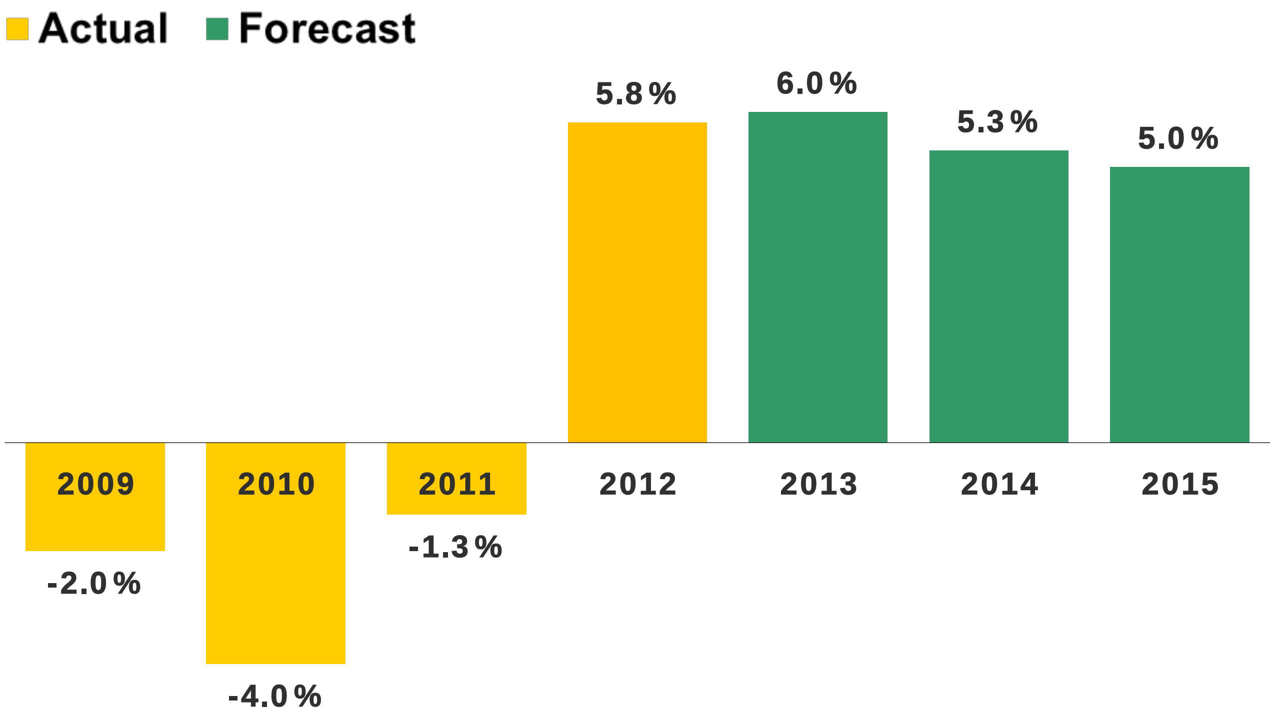
The average home price, which declined in a range between 1.3% and 4.0% in the years from 2009-2011, increased 5.8% in 2012 according to the FHFA. Price increases are expected to continue, rising by 6.0% in 2013, 5.3% in 2014, and 5.0% in 2015. These projections are well above the previous *ULI Forecast* from September.

Single-Family Housing Starts



Sources: U.S. Census, 2009-2012; ULI/E&Y Consensus Forecast data, year-end 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 675,000. 800,000.

Average Home Price Change



Sources: Federal Housing Finance Agency, December year-over-year data, 2009-2012; ULI/E&Y Consensus Forecast, December year-over-year data, 2013-2015. Note: The previous (September 2012) ULI Forecast for 2013-14 was: 3.9%, 5.0%.

Firms That Participated in the ULI/E&Y Real Estate Consensus Forecast

Organization	Economist/Analyst	Title	City/State
AEW Capital Management, L.P.	Michael Acton	Managing Director and Director of Research	Chicago, IL
Alvarez & Marsal	Steven Laposa	Principal, Global Real Estate Knowledge Center	Denver, CO
American Realty Advisors	Lee Menifee	Managing Director, Research and Strategy	Glendale, CA
Avalon Bay Communities	Craig Thomas	Vice President, Market Research	Washington, DC
Bentall Kennedy	Doug Poutasse	Executive Vice President	Boston, MA
BlackRock	Kevin Scherer	Managing Director	New York, NY
Cassidy Turley	Kevin Thorpe	Chief Economist	Washington, DC
	Elena Bondarenko	Economist	Washington, DC
CBRE	Asieh Mansour	Head of Research, Americas	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
	David Lynn	Executive Vice President, Chief Investment Strategist	Phoenix, AZ
Colliers	KC Conway	Executive Managing Director of Real Estate Analytics	Atlanta, GA
Dividend Capital	Glenn Mueller	Real Estate Investment Strategist	Denver, CO
Freddie Mac	Frank Nothaft	Vice President and Chief Economist	McLean, VA
Invesco Real Estate	Mike Sobolik	North American Director of Research	Dallas, TX
	Nicholas Buss	Director, Research	Dallas, TX
Jones Lang LaSalle	Benjamin Breslau	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 America Investment Strategy	Baltimore, MD
MetLife Real Estate Investments	Richie McLemore	Director of Research	Morristown, NJ
Moody's	Tad Philipp	Director, Commercial Real Estate Research	New York, NY

Firms That Participated in the ULI/E&Y Real Estate Consensus Forecast

Organization	Economist/Analyst	Title	City/State
Morgan Stanley Real Estate Investing	Paul Mouchakkaa	Global Head of Research and Strategy	Los Angeles, CA
	Margaret Harbaugh	Vice President	Los Angeles, CA
NAI	Peter Linneman	Global Chief Economist	Philadelphia, PA
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
PPR CoStar	Hans G. Nordby	Managing Director	Boston, MA
	Shaw Lupton	Senior Real Estate Economist	Boston, MA
	Suzanne E. Mulvee	Director of Research, Retail	Boston, MA
Principal Global Investors	Andy Warren	Managing Director, Research	Des Moines, IA
Prudential Real Estate Investors	Youguo Liang	Head of Global Research	Madison, NJ
RCLCO	Gadi Kaufmann	Managing Director/CEO	Washington, DC
	Paige Mueller	Director of Institutional RE Advisory Services	Los Angeles, CA
Real Capital Analytics	Robert M. White, Jr.	Founder & President	New York, NY
Real Estate Research Corporation (RERC)	Ken Riggs	President	Chicago, IL
	Aaron Riggs	Research Analyst	Chicago, IL
Regions Bank	Richard Moody	Senior Vice President and Chief Economist	Birmingham, AL
Reis, Inc.	Victor Calanog	Vice President of Research and Economics	New York, NY
Rosen Consulting Group	Kenneth T. Rosen	Chairman	Berkley, CA
	Randall Sakamoto	Executive Vice President, Director of Research	Berkley, CA
The Stratford Company	Mark Drumm	Chief Risk Officer	Dallas, TX
Trepp LLC	Matthew Anderson	Managing Director	New York, NY
	Susan Persin	Managing Director	New York, NY

Urban Land Institute and Ernst & Young

The *ULI/E&Y Real Estate Consensus Forecast* is a joint undertaking of the Urban Land Institute and Ernst & Young.

About the Urban Land Institute

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Patrick Phillips, Chief Executive Officer

Urban Land Institute

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A Survey of Leading Real Estate Economists/Analysts

April 2013

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