ULI Real Estate Consensus Forecast

A Survey of Leading Real Estate Economists/Analysts

March 2012

Dean Schwanke
Executive Director
ULI Center for Capital Markets and Real Estate
Urban Land Institute

ULI Real Estate Consensus Forecast

- Three-year forecast for 26 economic and real estate indicators
- Responses from 38 leading real estate economists/analysts
- Respondents represent major real estate investment, advisory, and research firms and organizations
- Survey undertaken from February 23 to March 12, 2012
- A semiannual survey; next release planned for September 2012
- Forecasts for:
  - GDP, employment, inflation, and interest rate indicators
  - Property transaction volumes, CMBS issuance, and cap rates
  - Property investment returns for four property types
  - Vacancy rates and rents for five property types
  - Housing starts and prices

Overview

The *ULI Real Estate Consensus Forecast* for March 2012 projects broad improvements for the U.S. economy, real estate capital markets, real estate fundamentals, and housing over the next three years. While there are certainly geopolitical, economic, and other events that could upset this forecast going forward, the respondents to this survey of leading real estate economists and analysts believe that most facets of the U.S. real estate economy will strengthen considerably or remain healthy through 2014.

Reasons for Optimism. Over the Next Three Years:

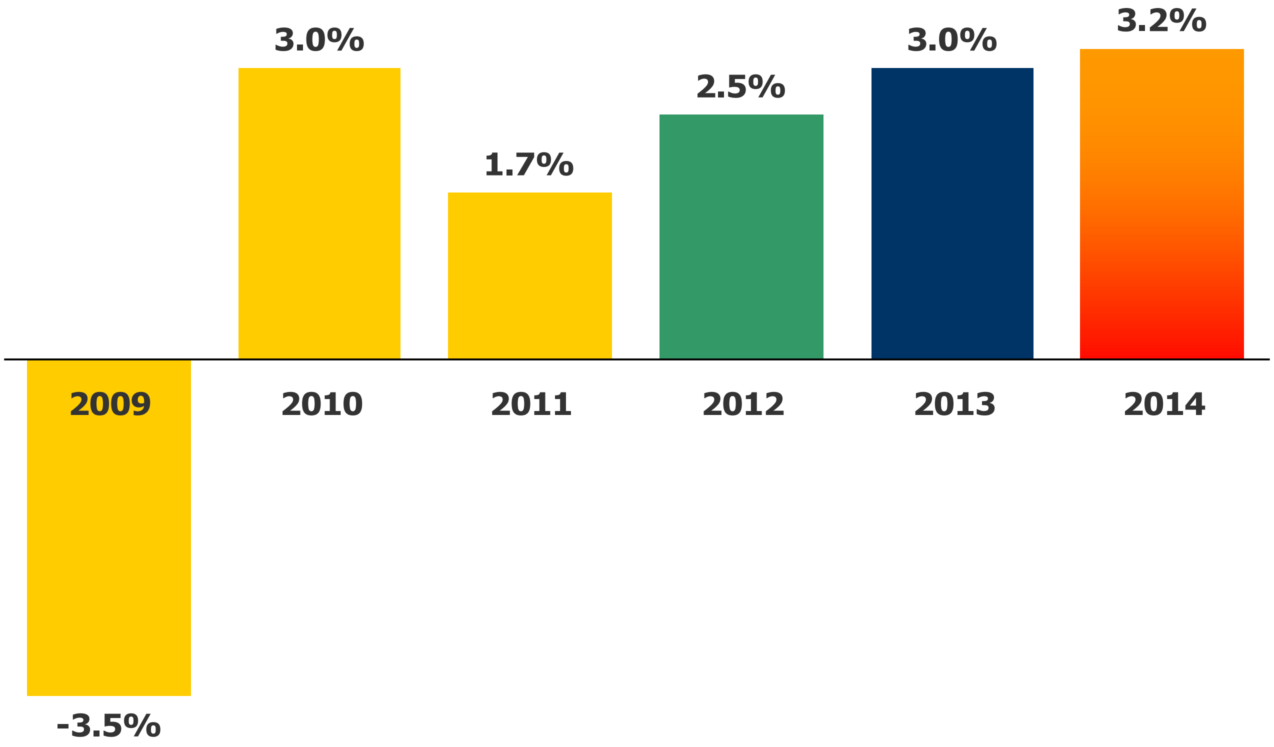
- Commercial property transaction volume is expected to increase by nearly 50%.
- CMBS issuance is expected to more than double.
- Institutional real estate assets and REITs are expected to provide returns ranging from 8.5% to 11% annually.
- Vacancy rates are expected to drop between 1.2 and 3.7 percentage points for office, retail, and industrial properties and remain stable at low levels for apartments; hotel occupancy rates are expected to rise.
- Rents are expected to increase for all property types, with 2012 increases ranging from 0.8 percent for retail up to 5.0 percent for apartments; RevPAR growth for hotels should reach 6.6% in 2012.
- Housing starts should nearly double by 2014, and home prices should begin to rise in 2013, with prices increasing by 3.5% in 2014.

Economy

The survey of economists/analysts finds that real GDP is expected to grow by 2.5% in 2012, 3.0% in 2013, and 3.2% in 2014, with the unemployment rate falling to 8% by the end of 2012, 7.5% by the end of 2013, and 6.9% by the end of 2014.

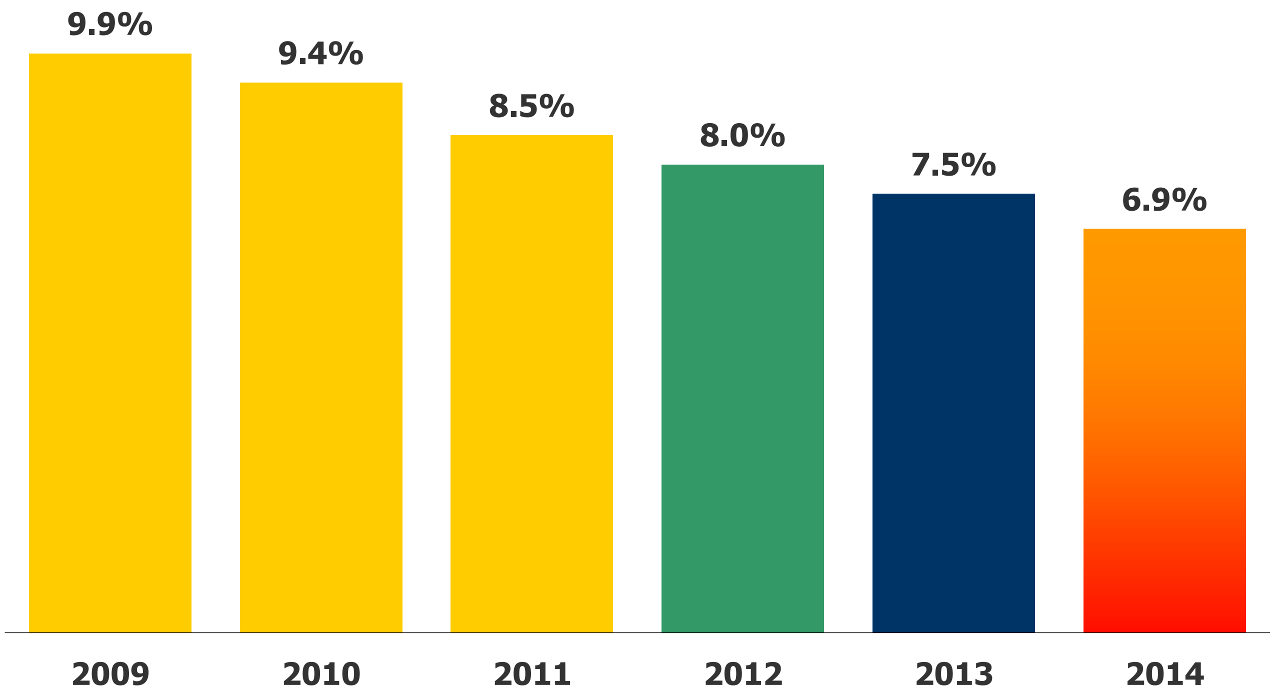
Employment is expected to increase by 2 million jobs in 2012, 2.5 million in 2013, and 2.75 million in 2014.

Real GDP Growth



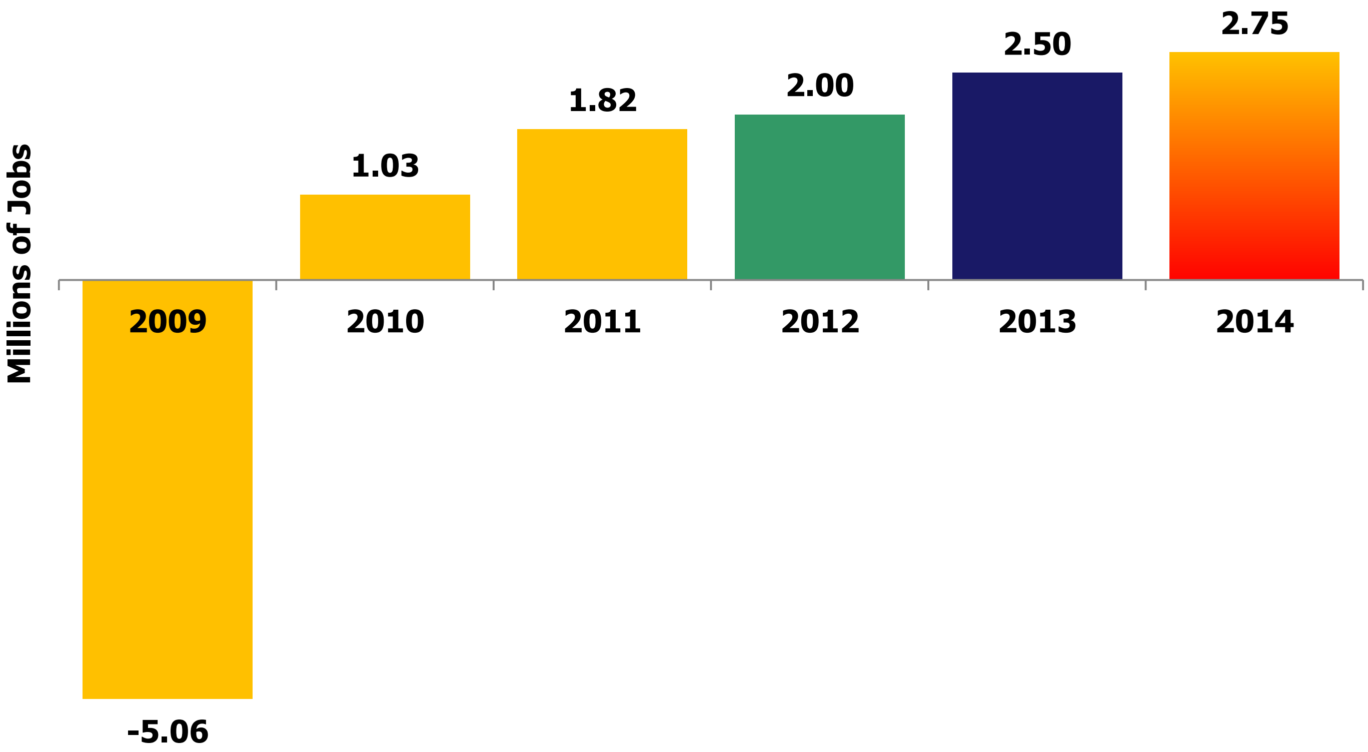
Sources: Bureau of Economic Analysis data, 2009-2011; ULI Consensus Forecast data, 2012-2014.

Unemployment Rate



Sources: Bureau of Labor Statistics, year-end data 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014.

Employment Growth



Sources: Bureau of Labor Statistics, year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014.

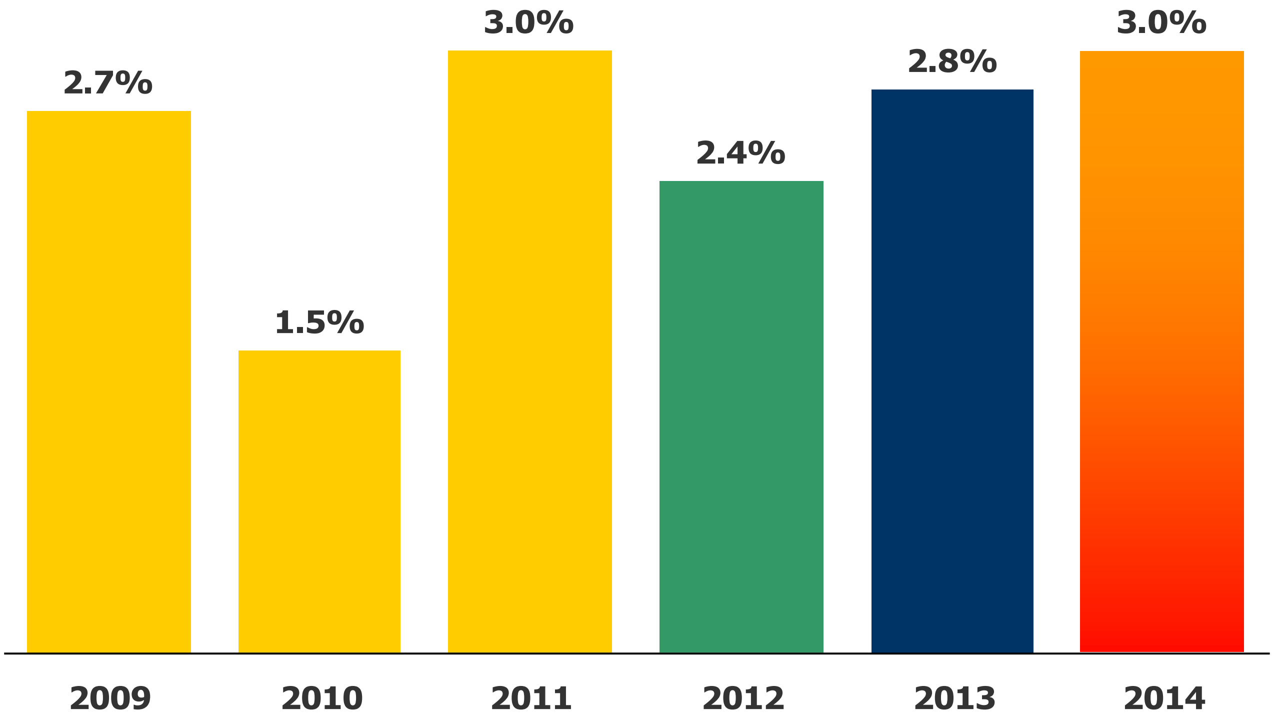
Inflation, Interest Rates, and Cap Rates

The improving economy, however, will likely lead to inflation and higher interest rates, with mixed results for real estate. Inflation is expected to drop in 2012, then rise in 2013 and 2014. Ten-year treasury rates are projected to rise steadily over the next three years, reaching 2.4% by the end of 2012, 3.1% by the end of 2013, and 3.8% by the end of 2014.

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 remain steady at 6.0% in 2012 and 2013 and then rise slightly to 6.2% in 2014. This bodes well for commercial real estate values.

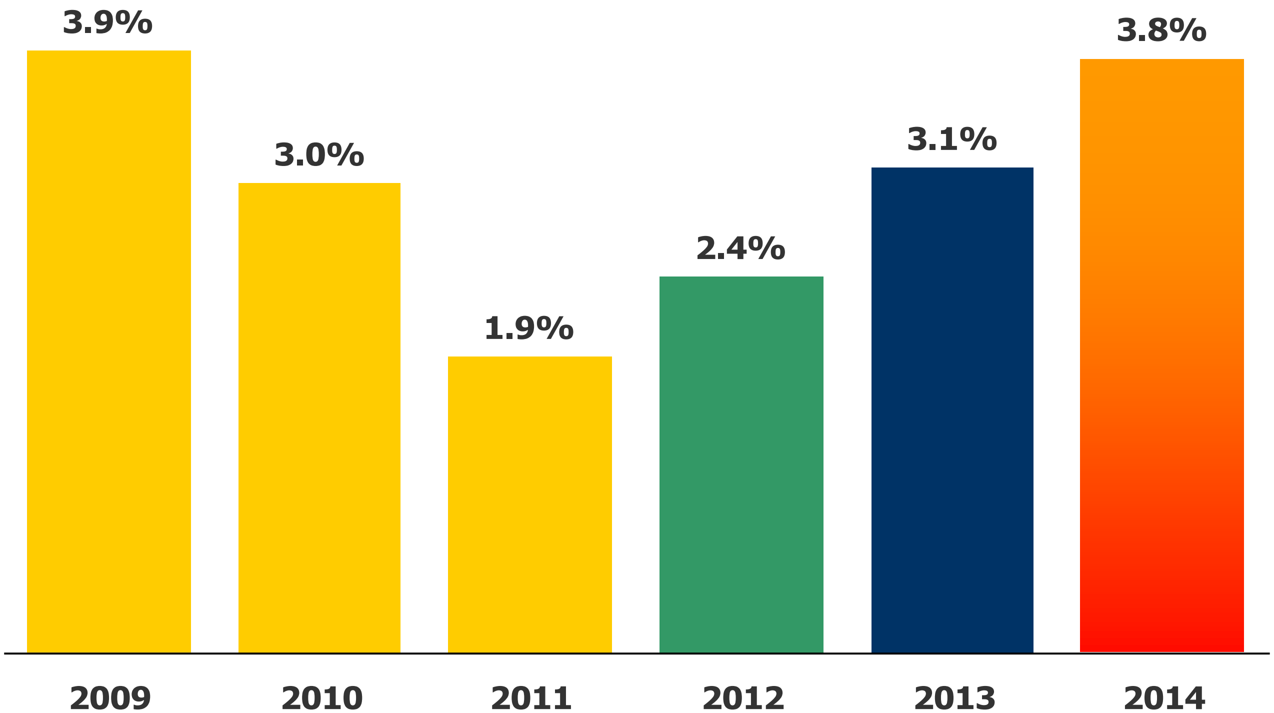
ULI Real Estate Consensus Forecast

Consumer Price Index Inflation Rate



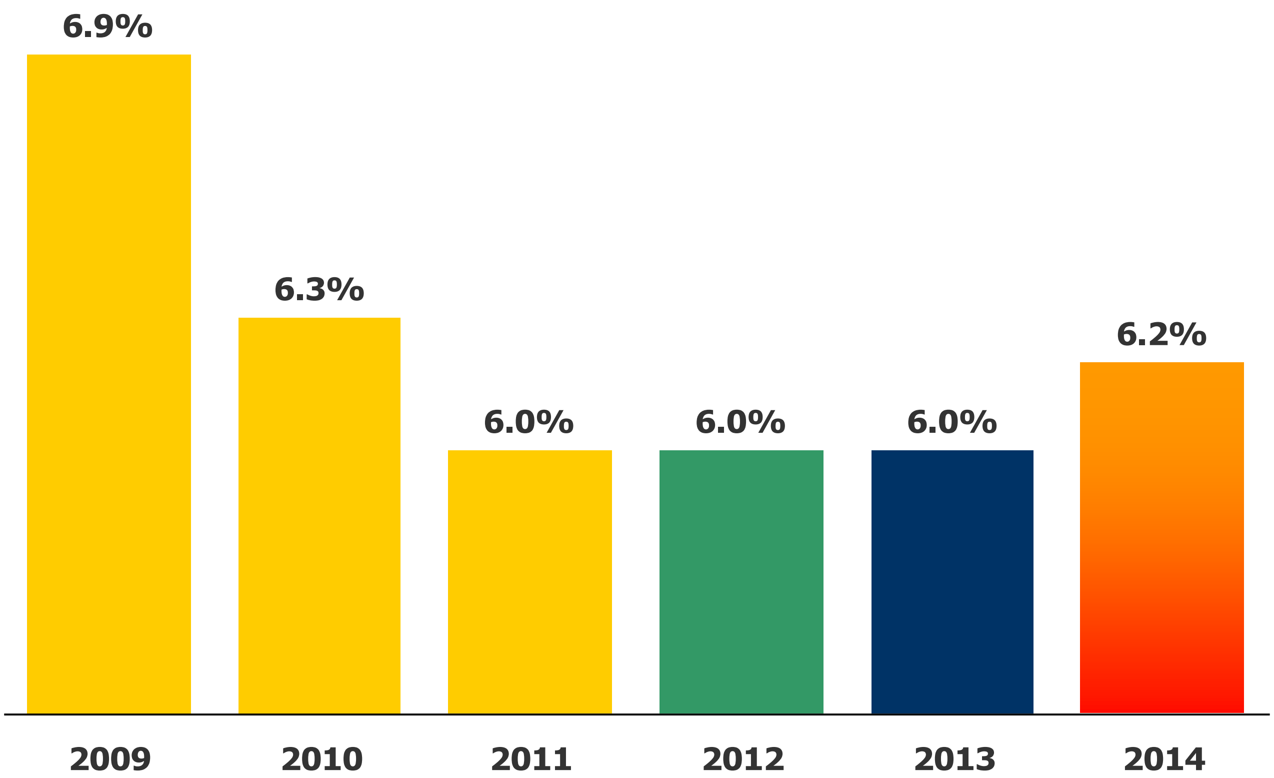
Sources: Bureau of Labor Statistics, year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014.

Ten-Year Treasury Rate



Sources: U.S. Federal Reserve, year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014.

NCREIF Capitalization Rate



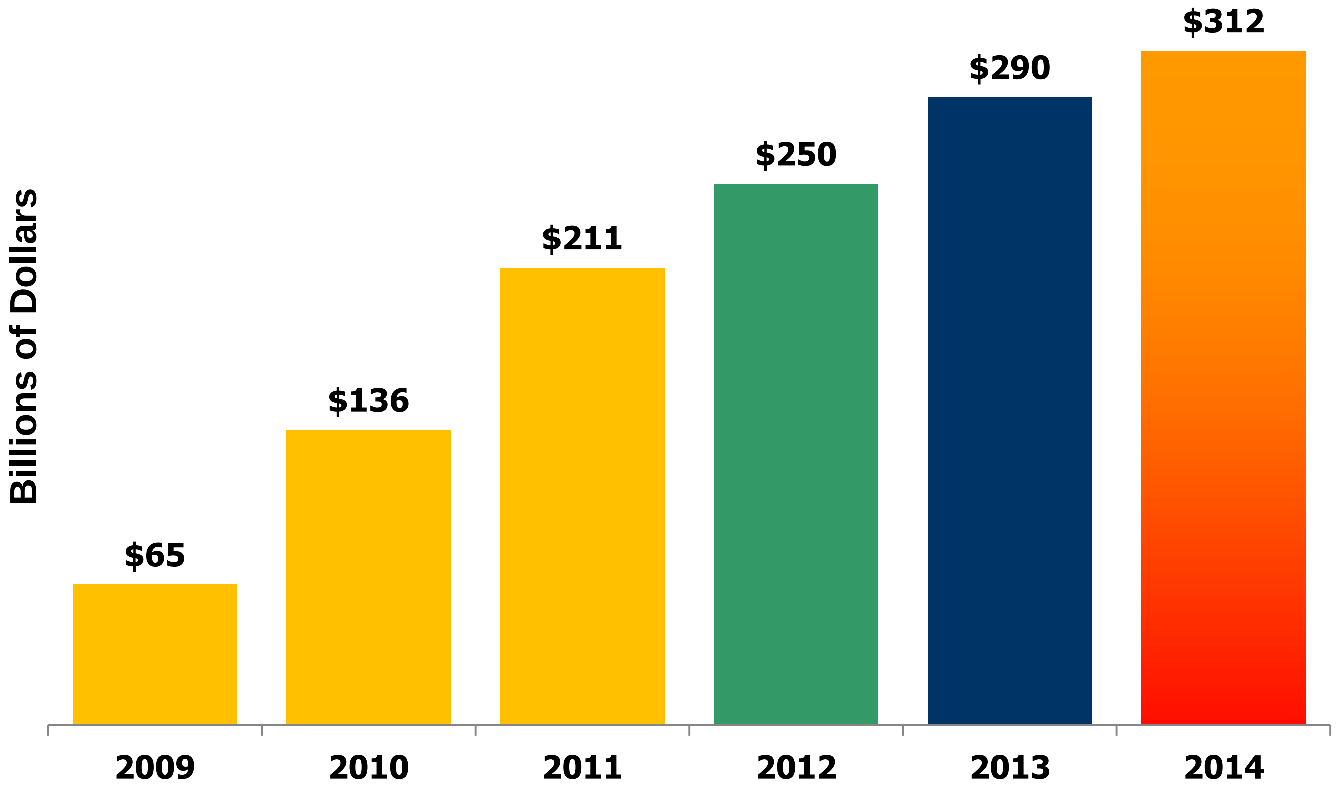
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014.

Real Estate Capital Markets

Real estate capital markets should see considerable improvement over the next three years, with commercial real estate transaction volume expected to rise from $211 billion in 2011 to $250 billion in 2012, $290 billion in 2013, and $312 billion in 2014.

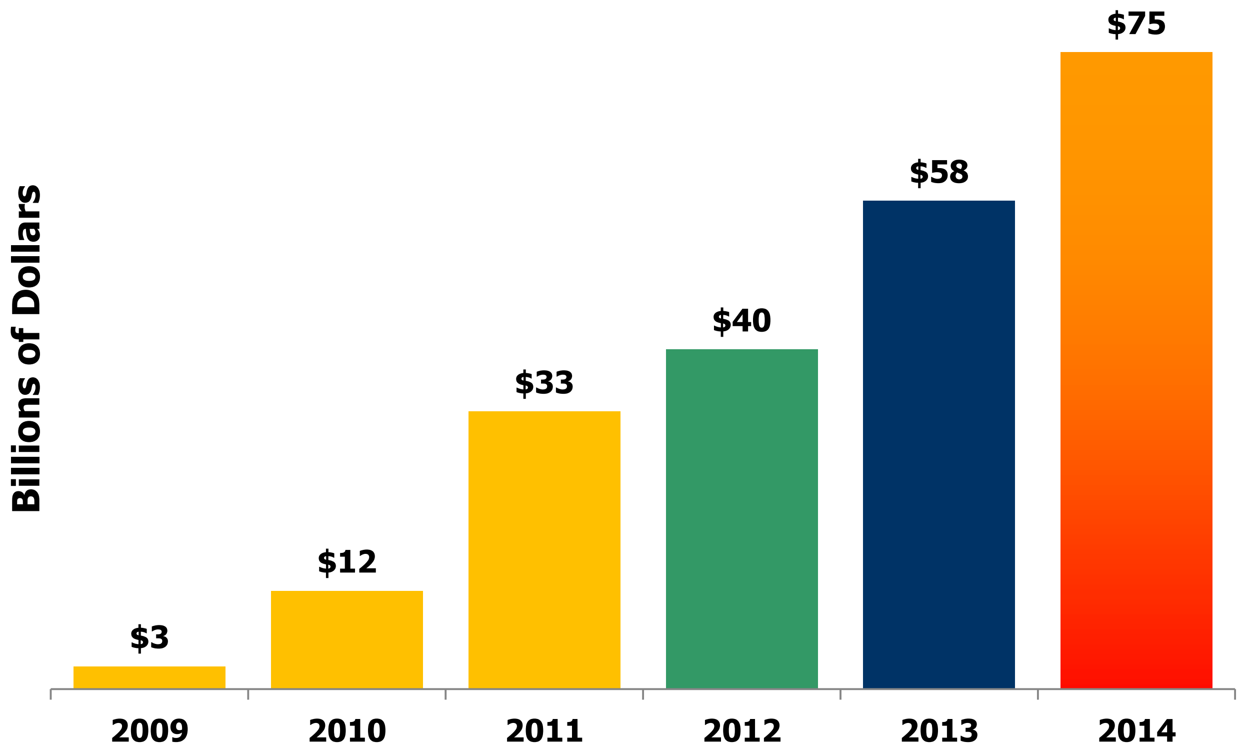
Issuance of commercial mortgage-backed securities (CMBS), a key source of financing for commercial real estate, is also expected to increase briskly, from $33 billion in 2011 to $40 billion in 2012, $58 billion in 2013, and $75 billion in 2014.

Commercial Real Estate Transaction Volume



Sources: Real Capital Analytics, annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014.

Commercial Mortgage-Backed Securities (CMBS) Issuance



Sources: Commercial Mortgage Alert, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014.

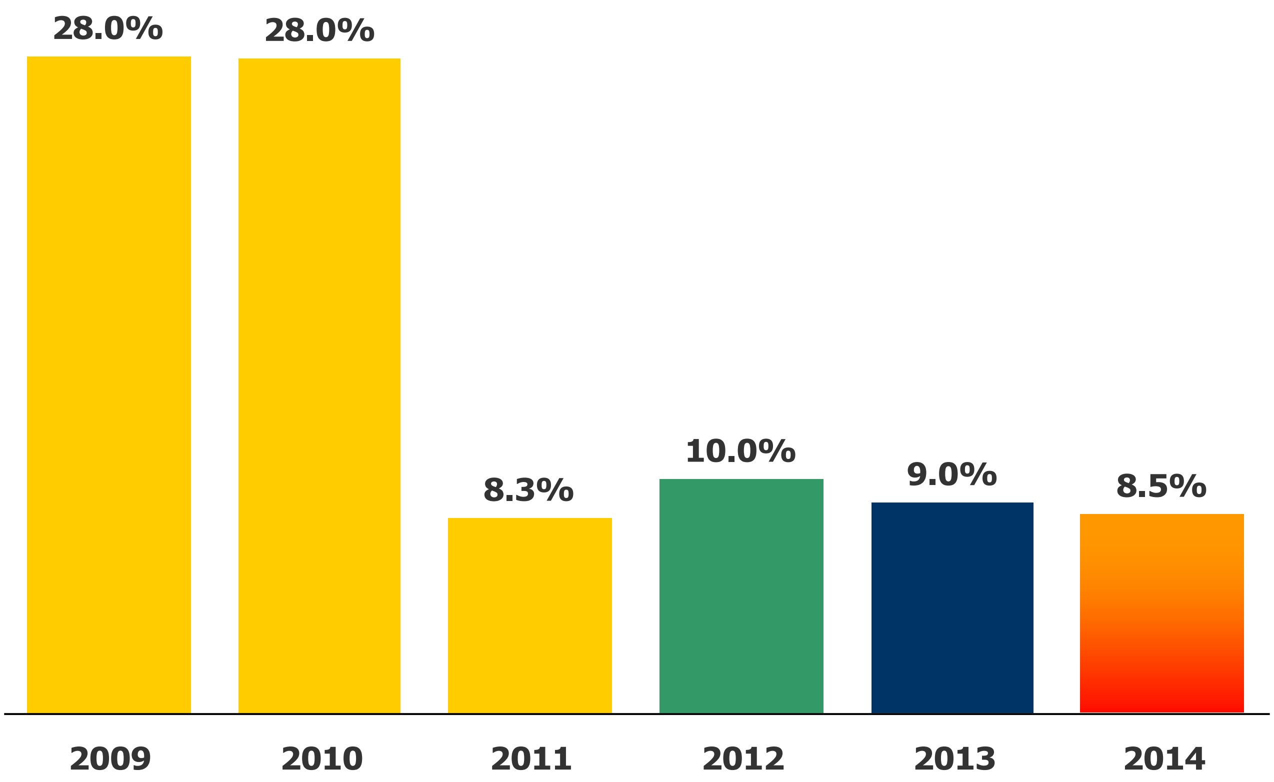
Real Estate Returns

Total returns for quality real estate investments are expected to remain solid but will generally fall below strong returns in recent years.

Equity REIT total returns, according to NAREIT, were very strong at 28% in both 2009 and 2010, then moderated to 8.3% in 2011. Future returns, according to the *ULI Consensus Forecast,* are expected to rise to 10.0% in 2012, then slow to 9.0% in 2013 and 8.5% in 2014.

Returns for institutional-quality direct real estate investments, as measured by the NCREIF Property Index, have also been strong over the past two years, with returns of 13.1% in 2010 and 14.3% in 2011. These returns are expected to remain strong but trend lower, with returns of 11% in 2012, 9.5% in 2013, and 8.5% in 2014.

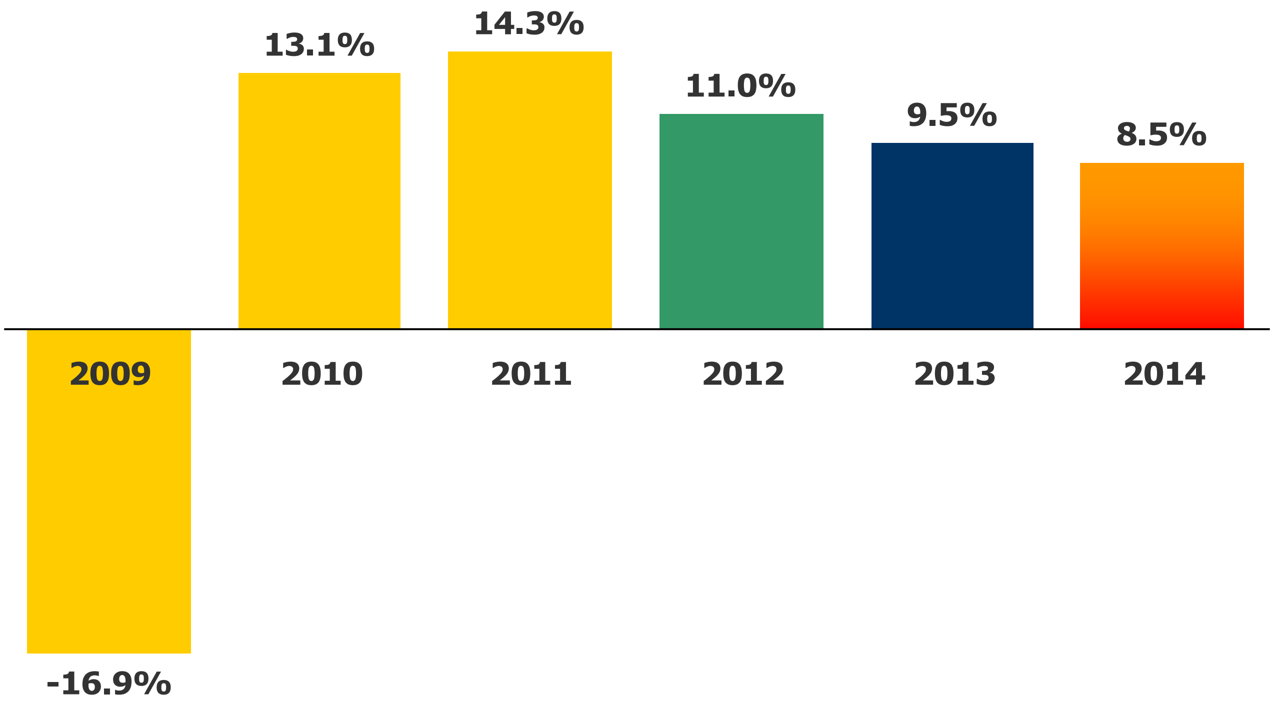
Equity REIT Total Annual Returns



Sources: National Association of Real Estate Investment Trusts, annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014.

ULI Real Estate Consensus Forecast

NCREIF Total Annual Returns



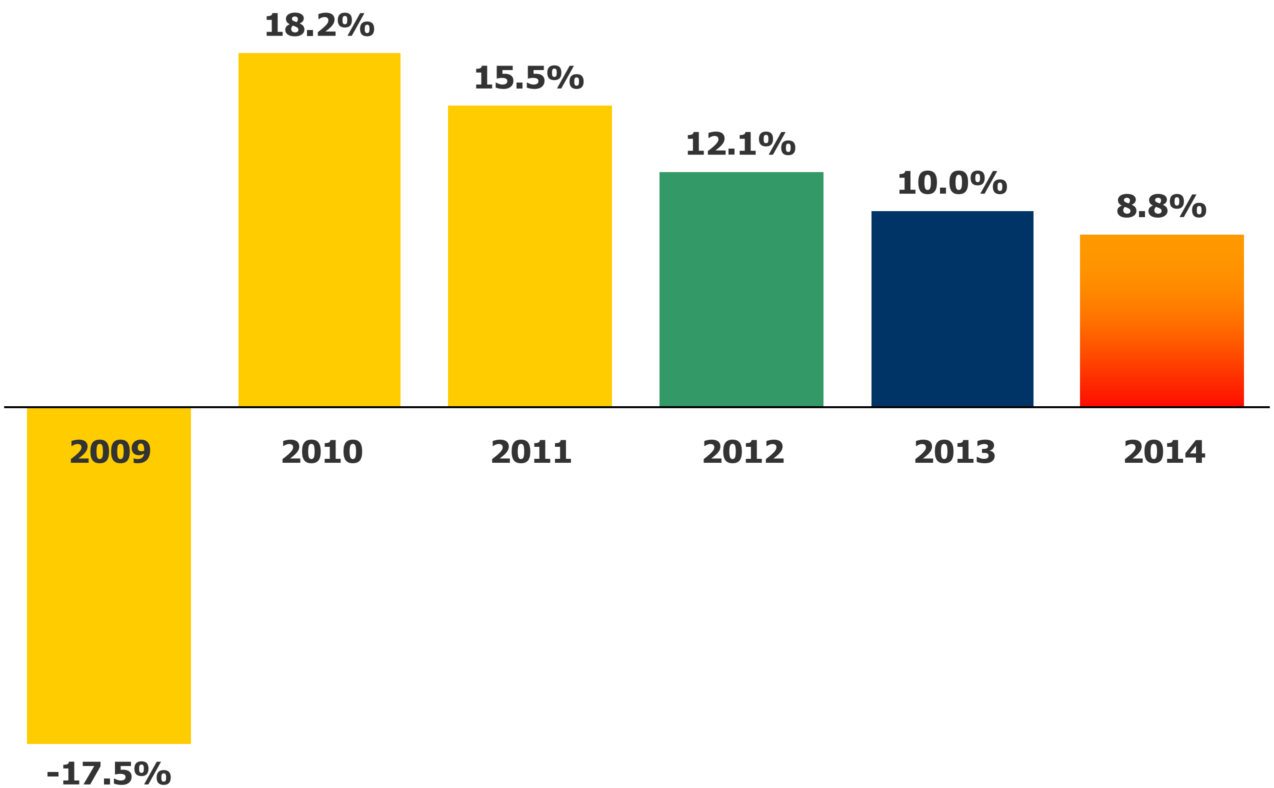
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014.

NCREIF Returns by Property Type

By property type, NCREIF total returns in 2012 are expected to be strongest for apartments (12.1%), followed by industrial (11.5%), office (10.8%), and retail (10.0%). By 2014, however, returns are expected to be strongest for office (10%) and industrial (10%), followed by apartments (8.8%) and retail (8.5%).

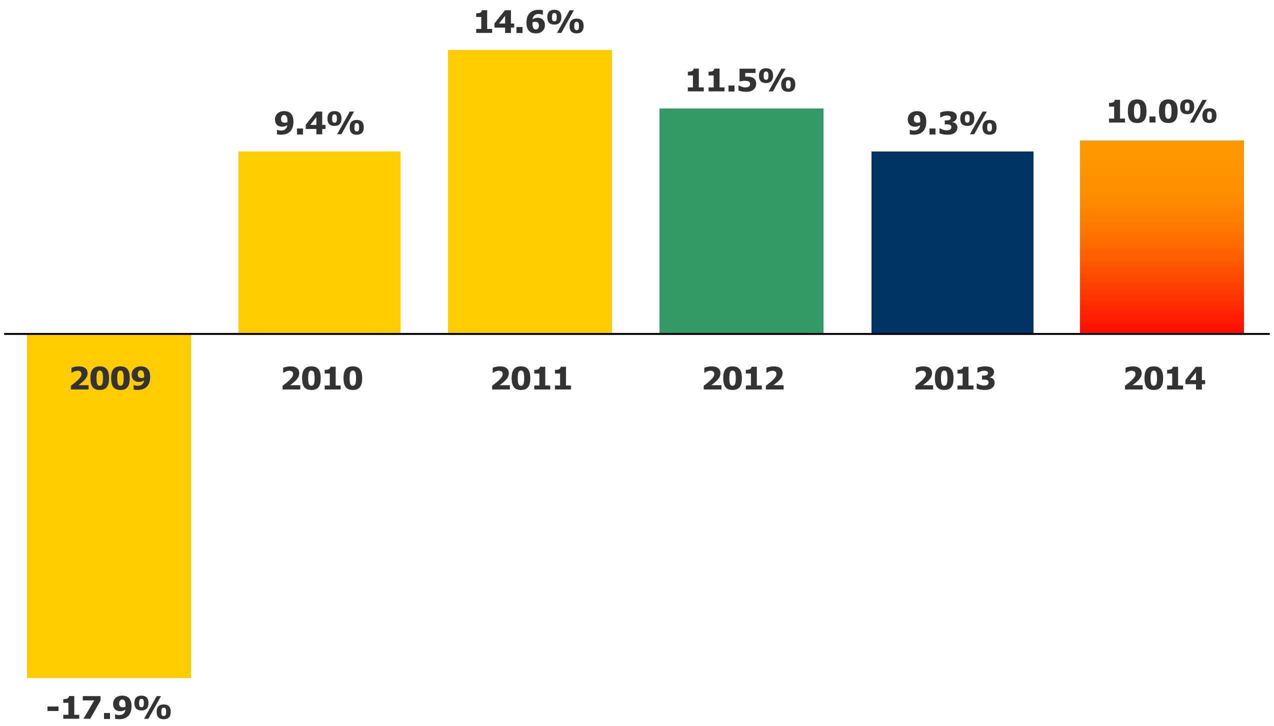
ULI Real Estate Consensus Forecast

NCREIF Apartment Total Annual Returns



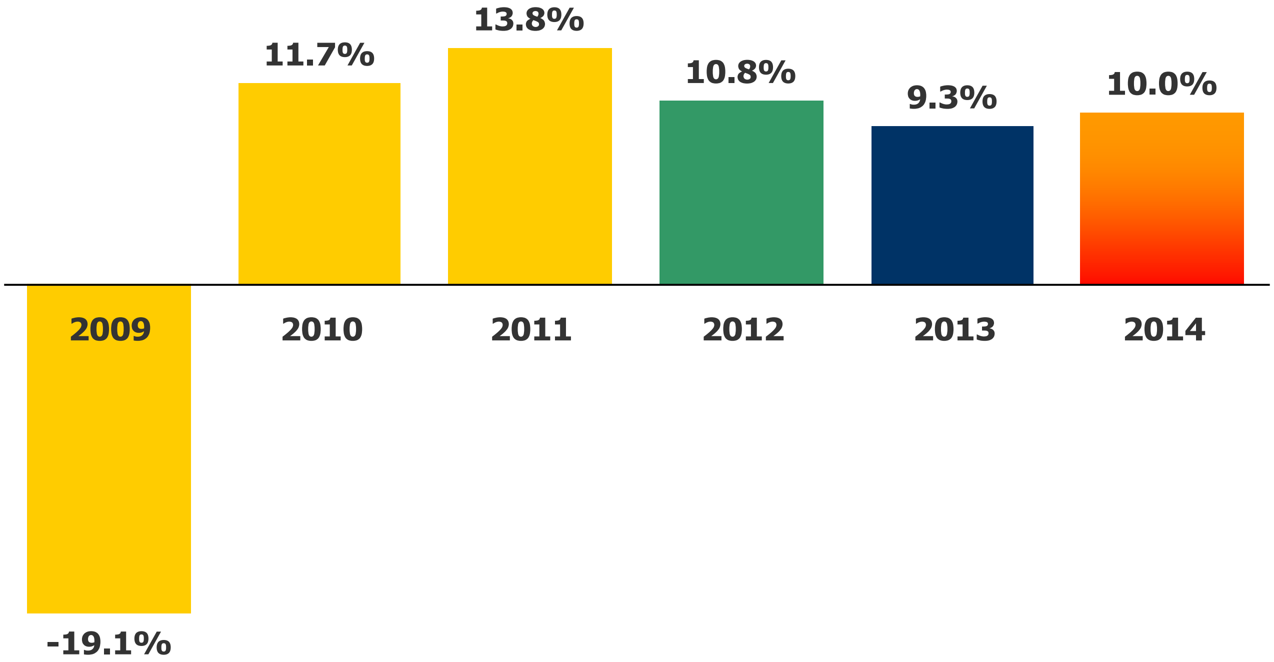
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014.

NCREIF Industrial Total Annual Returns



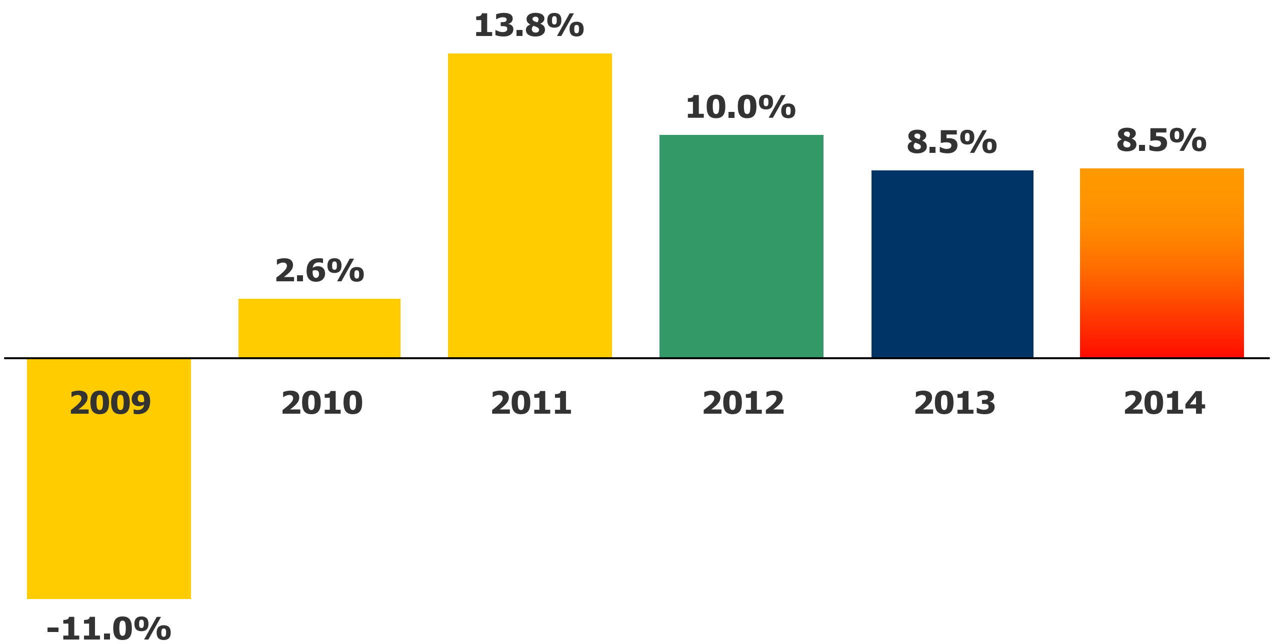
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014.

NCREIF Office Total Annual Returns



Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014.

NCREIF Retail Total Annual Returns



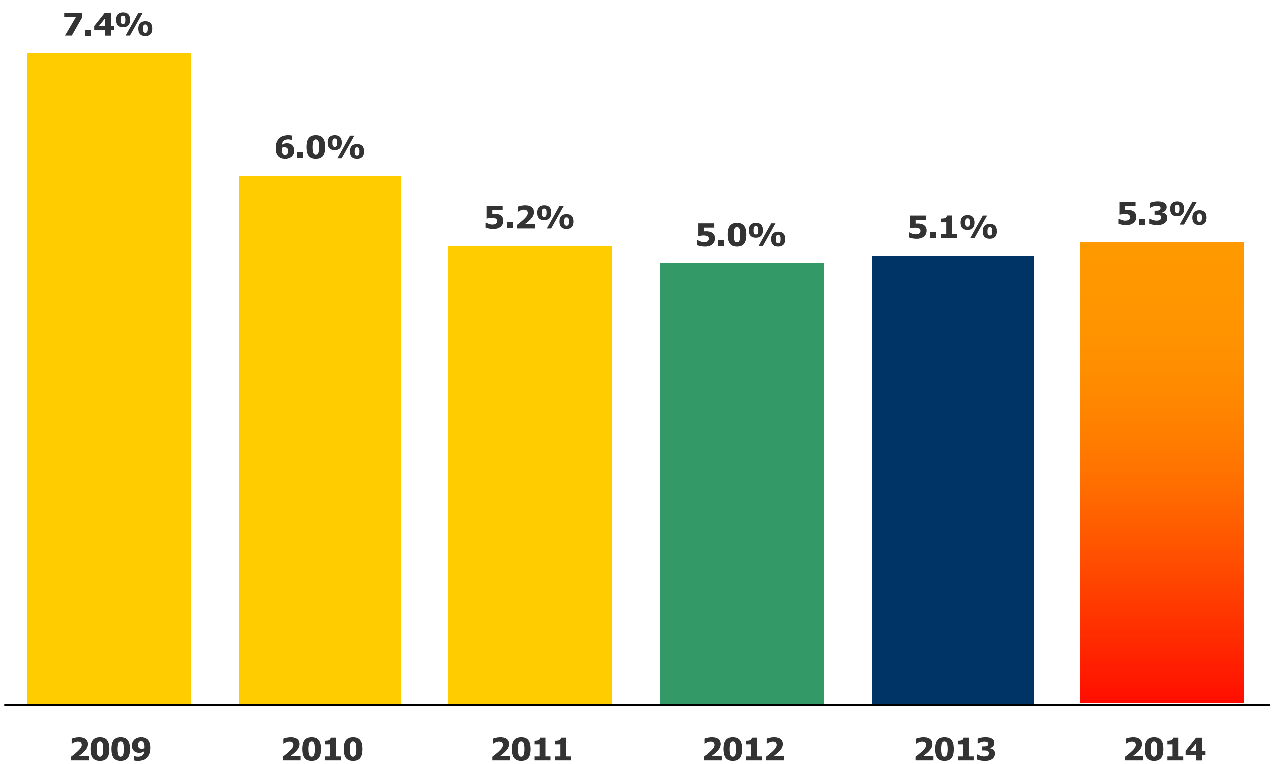
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014.

Apartment Sector Fundamentals

The apartment sector has been a darling for investors over the past two years, and vacancy rates have come down substantially from 7.4% in 2009 to a very low 5.2% in 2011, according to CBRE. Year-end vacancy rates, according to the *ULI Forecast*, are expected to decline further in 2012 to 5.0%, then rise slightly to 5.1% in 2013 and to 5.3% in 2014.

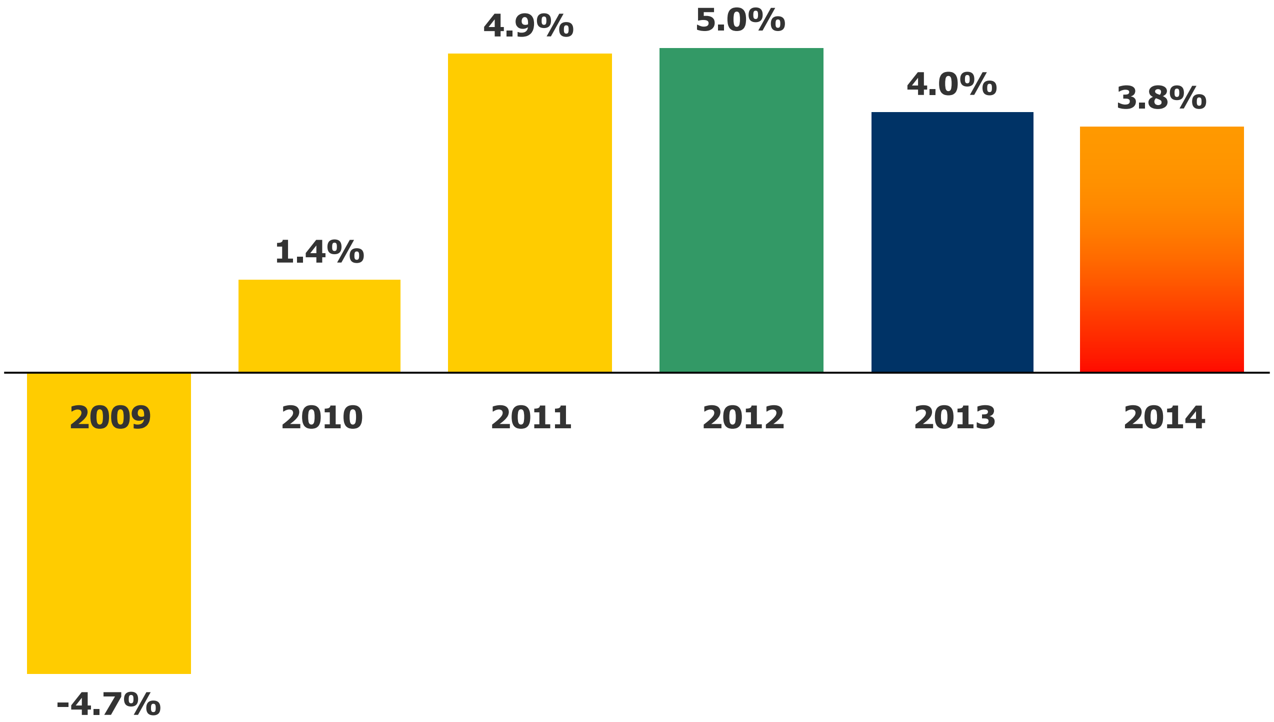
Apartments are also expected to show strong rental rate growth, rising 5.0% in 2012, then moderating to 4.0% in 2013 and 3.8% in 2014 as new supply comes on line.

Apartment Vacancy Rates



Sources: CBRE, year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014.

Apartment Rental Rate Change



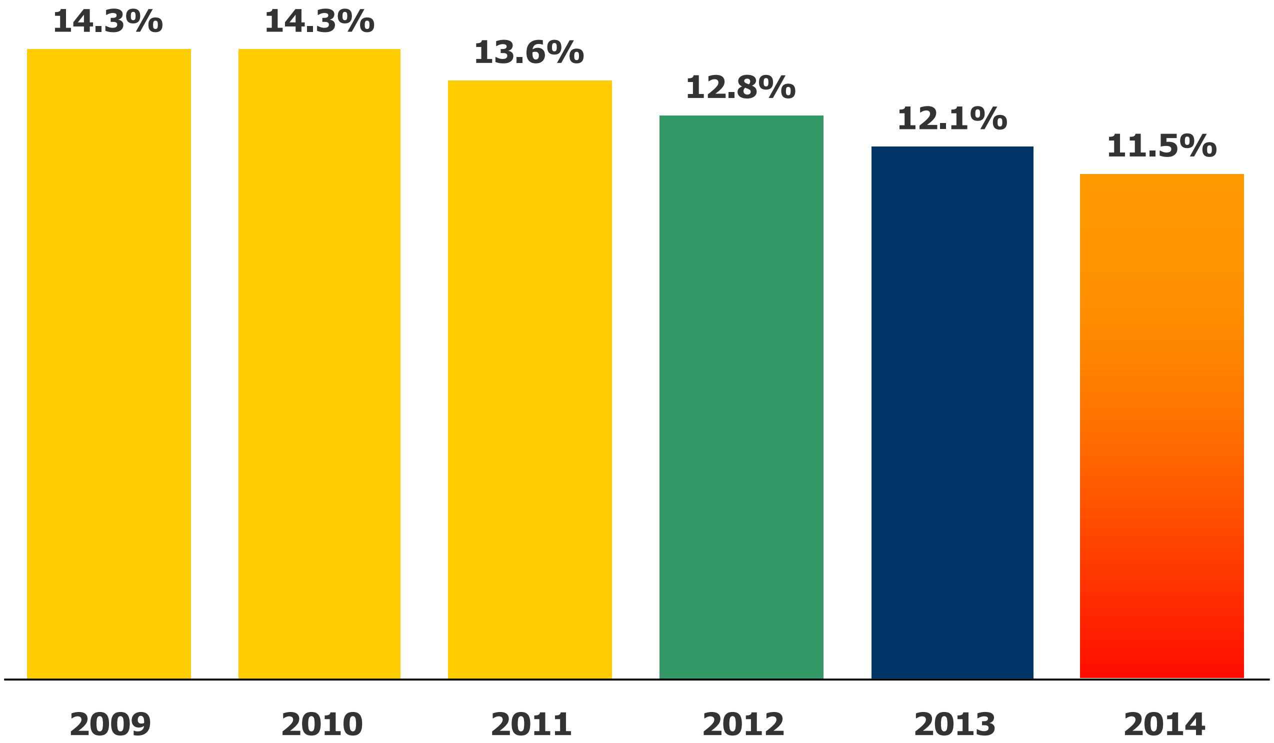
Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014.

Industrial/Warehouse Sector Fundamentals

The industrial/warehouse sector, by contrast, has been less robust in recent years, with vacancy rates remaining high at 14.3% at the end of 2009 and 2010, then falling to 13.6% in 2011, according to CBRE. However, vacancy rates are expected to decline steadily over the next three years, to 12.8% by the end of 2012, 12.1% in 2013, and 11.5% by the end of 2014.

Warehouse rental rates, which declined substantially in 2009 and 2010 and slightly in 2011, according to CBRE, are expected to show growing strength, with an increase of 1.9% in 2012, 3.0% in 2013, and 3.6% in 2014, according to the *ULI Consensus Forecast*.

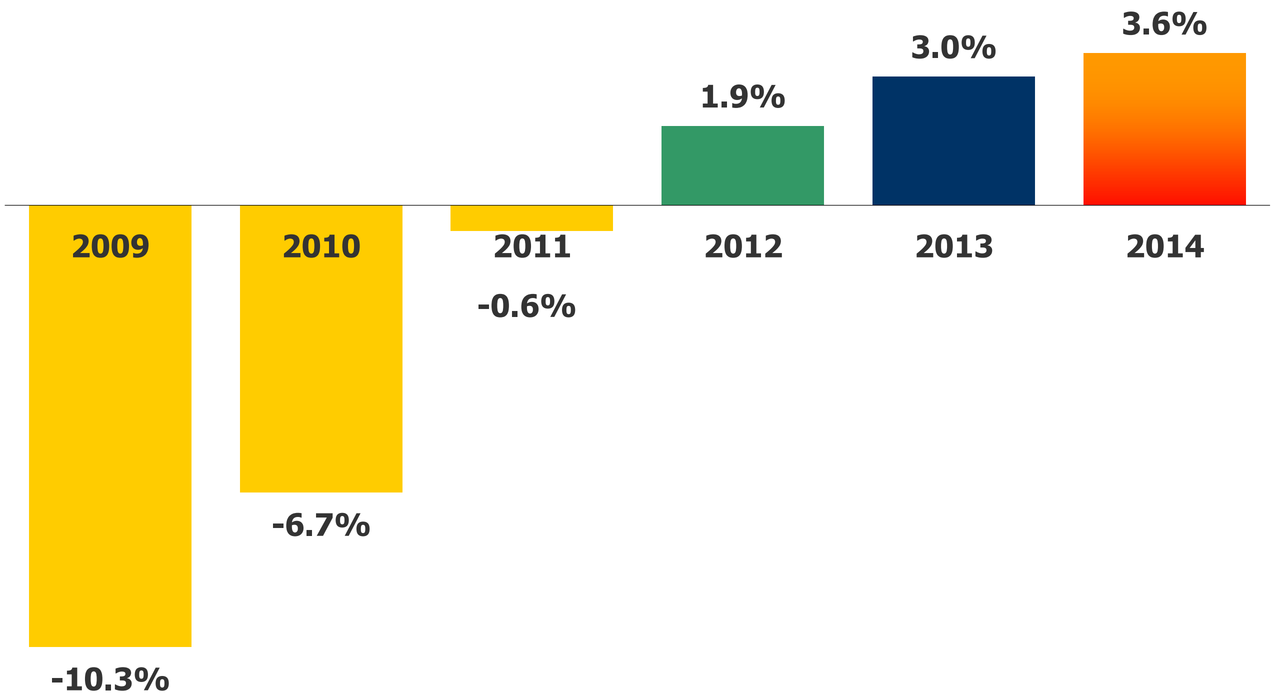
Industrial/Warehouse Availability Rates



Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014.

ULI Real Estate Consensus Forecast

Warehouse Rental Rate Change



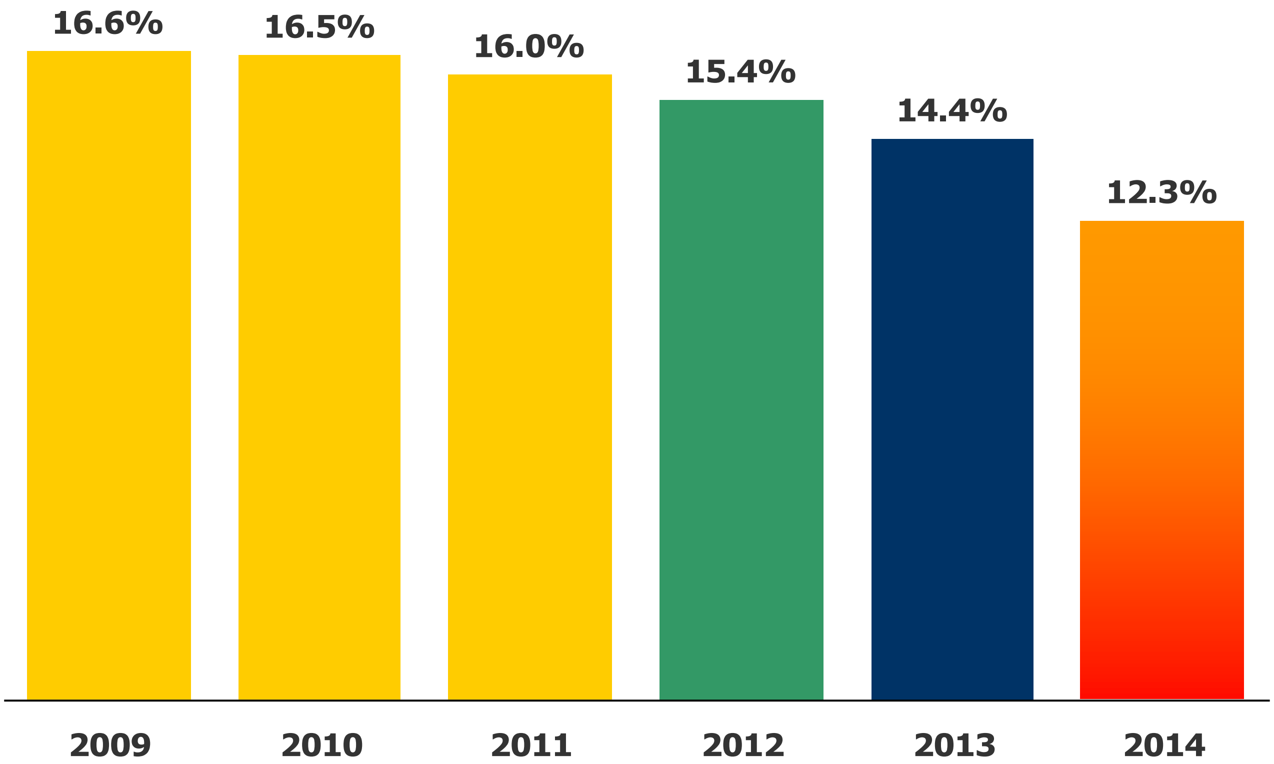
Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014.

Office Sector Fundamentals

The office sector is expected to show steady and substantial three-year improvements. Vacancy rates remain high and have declined only slightly in recent years, according to CBRE. However, vacancy rates are expected to decline from 16.0% at the end of 2011 to 15.4% in 2012, 14.4% in 2013, and 12.3% by the end of 2014.

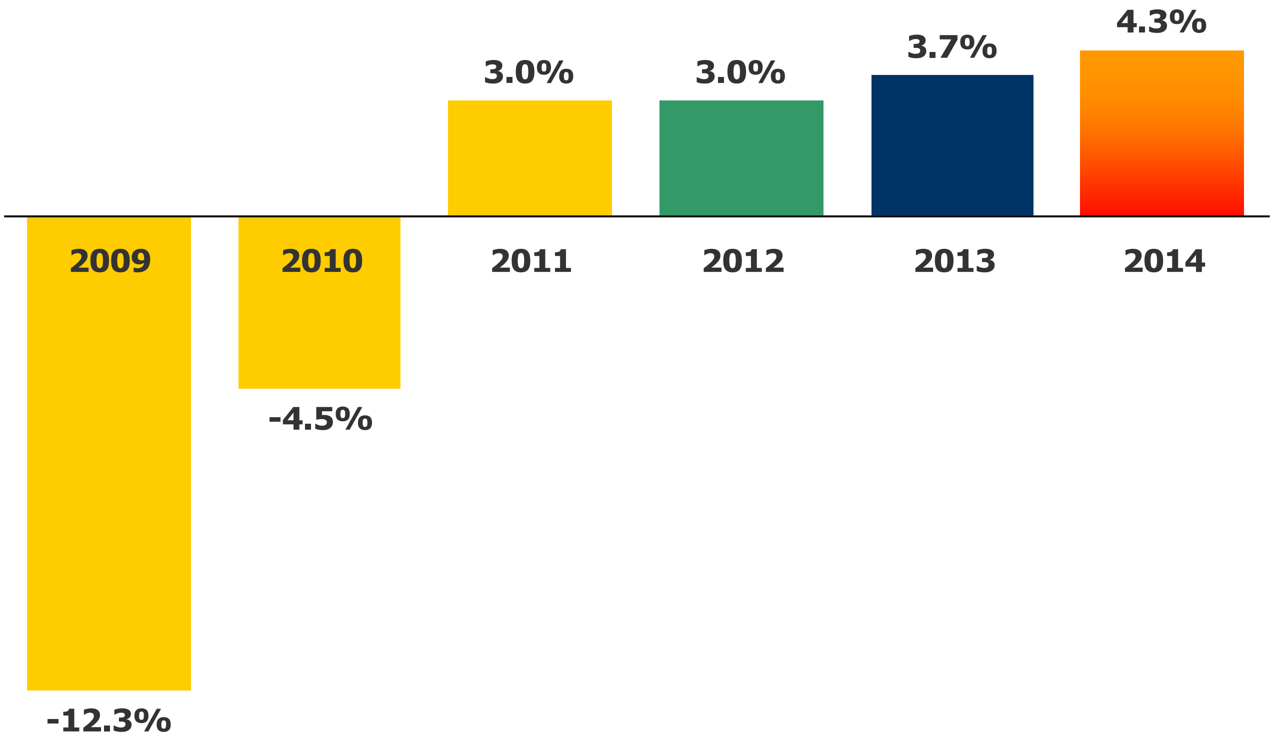
Office rental rates, which declined substantially in 2009 and 2010 and then rose by 3.0% in 2011, according to CBRE, are expected to show growing strength, with an increase of 3.0% in 2012, 3.7% in 2013, and 4.3% in 2014.

Office Vacancy Rates



Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014.

Office Rental Rate Change



Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014.

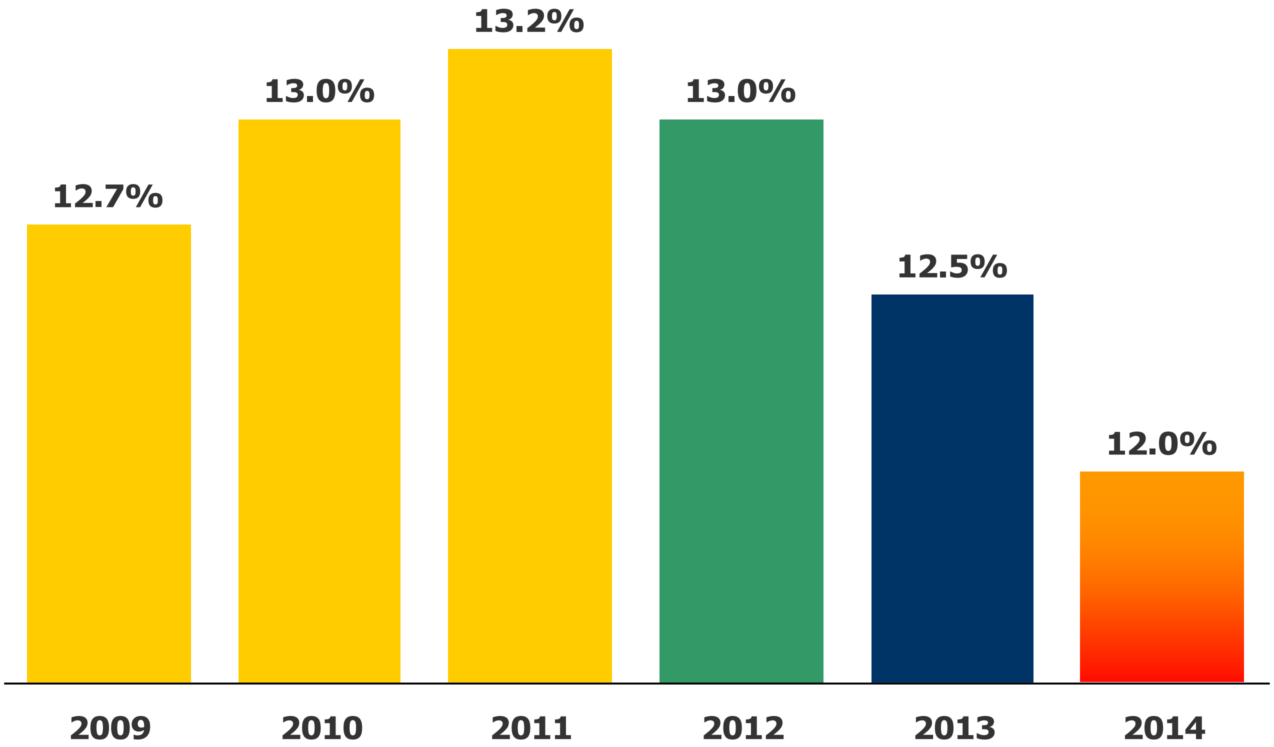
Retail Sector Fundamentals

The retail sector has seen vacancy rates increase from 12.7% in 2009 to 13.2% in 2011, but vacancy rates should begin to turn around this year, with rates expected to decline to 13.0% by the end of 2012, 12.5% by 2013, and 12.0% by 2014.

Retail rental rates, which have declined substantially over the past three years, are projected to rise by a slight 0.8% in 2012, then increase more substantially in 2013 (2.0%) and 2014 (2.8%).

ULI Real Estate Consensus Forecast

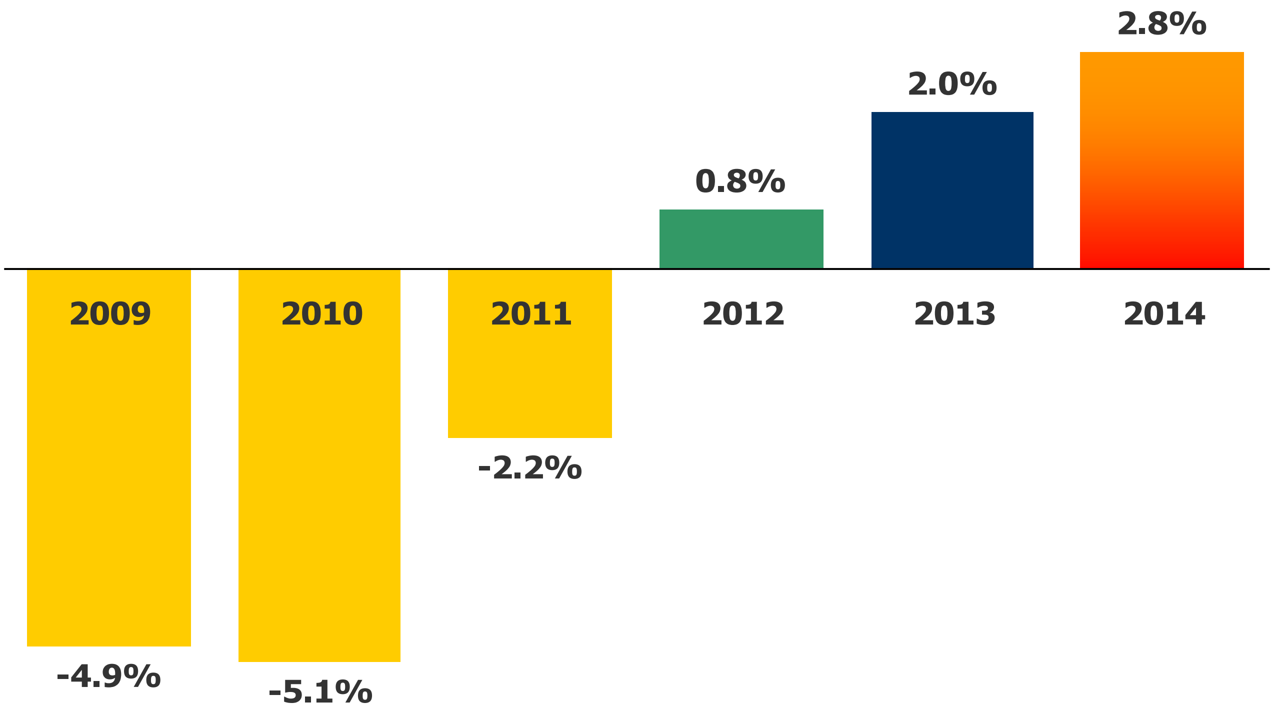
Retail Availability Rates



Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014.

ULI Real Estate Consensus Forecast

Retail Rental Rate Change



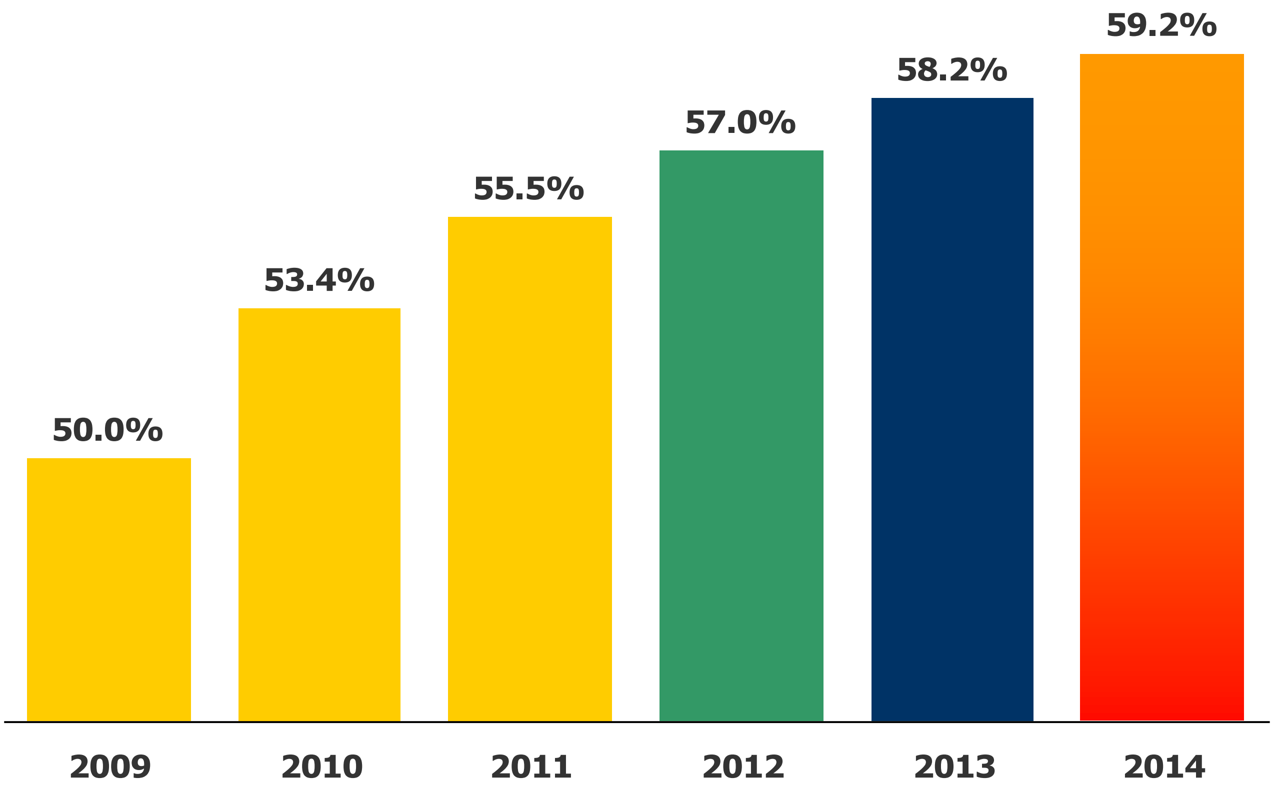
Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014.

Hotel Sector Fundamentals

The hotel sector will continue to show strong improvement, as it has over the past two years. Year-end hotel occupancy rates, according to Smith Travel Research, have improved from 50.0% in 2009 to 55.5% in 2011, and the *ULI Forecast* projects that occupancy rates will increase to 57.0% by 2012, 58.2% by 2013, and 59.2% by 2014.

Hotel revenue per available room (RevPAR) has also grown substantially, in the 8% range over the past two years, and rate growth is expected to slow but remain strong, with expected RevPAR growth of 6.6% in 2012, 6.0% in 2013, and 5.7% in 2014.

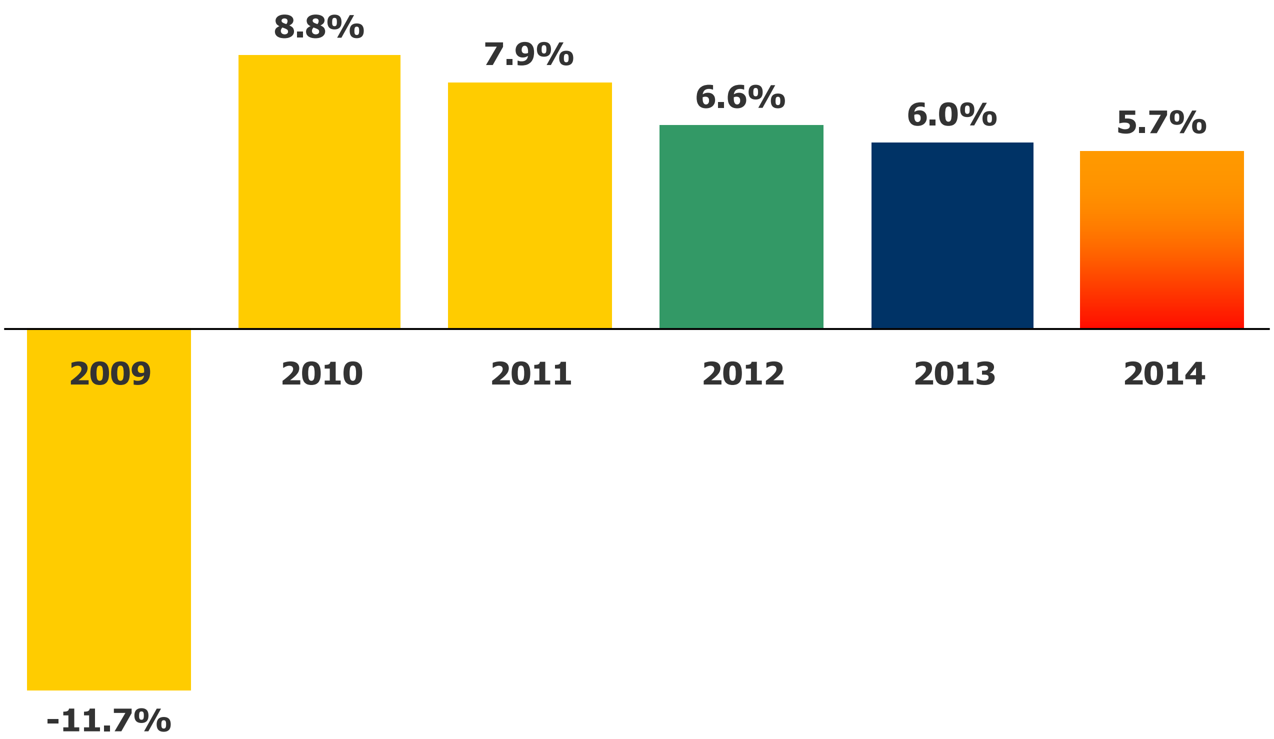
Hotel Occupancy Rates



Sources: Smith Travel Research year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014.

ULI Real Estate Consensus Forecast

Hotel Revenue per Available Room (RevPAR) Change



Sources: Smith Travel Research, year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014.

Housing Sector

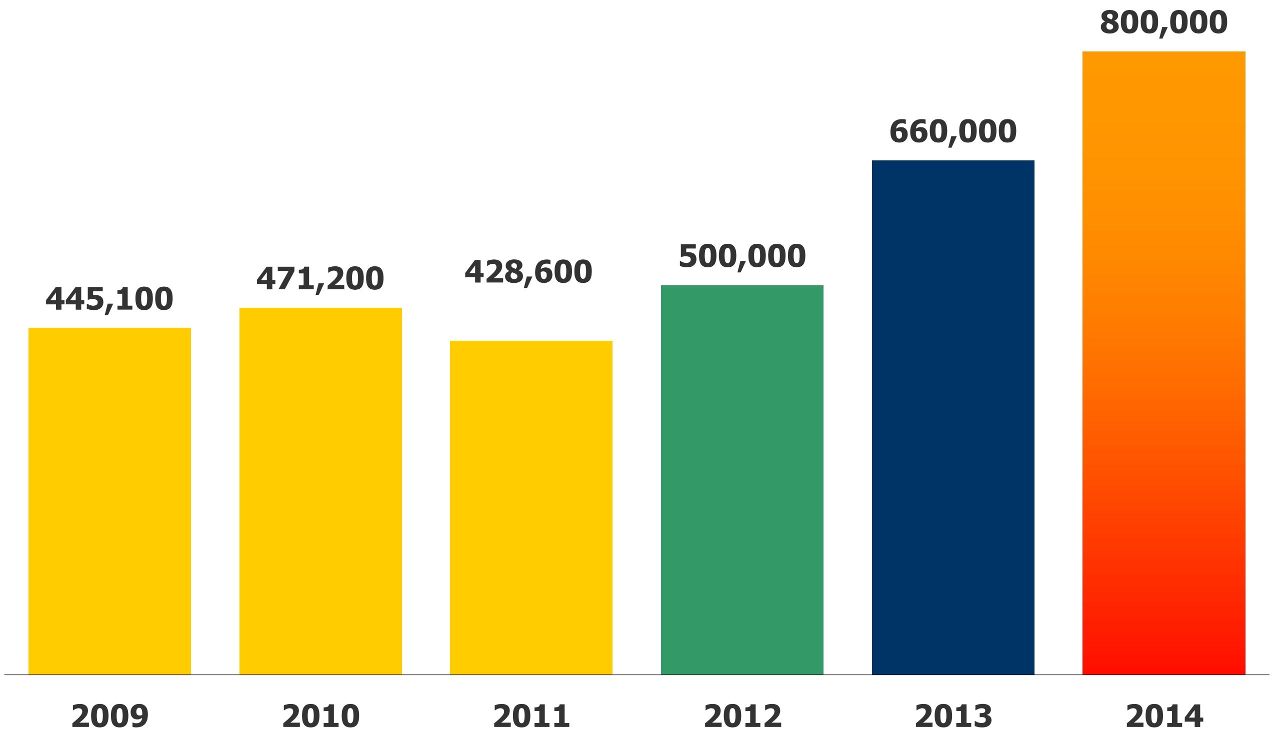
Finally, the beleaguered housing sector is expected to begin a turnaround in 2012, with signs of improvement already appearing in recent months.

Single-family housing starts, which have been near record lows over the past three years, are expected to rise from 428,600 starts in 2011 to 500,000 in 2012, 660,000 in 2013, and 800,000 in 2014.

The average home price, which has declined somewhere between 1.8% and 4.1% over each of the past three years, according to the FHFA, should stabilize, with no change in prices expected in 2012 followed by a 2.0% increase in 2013 and a 3.5% increase in 2014.

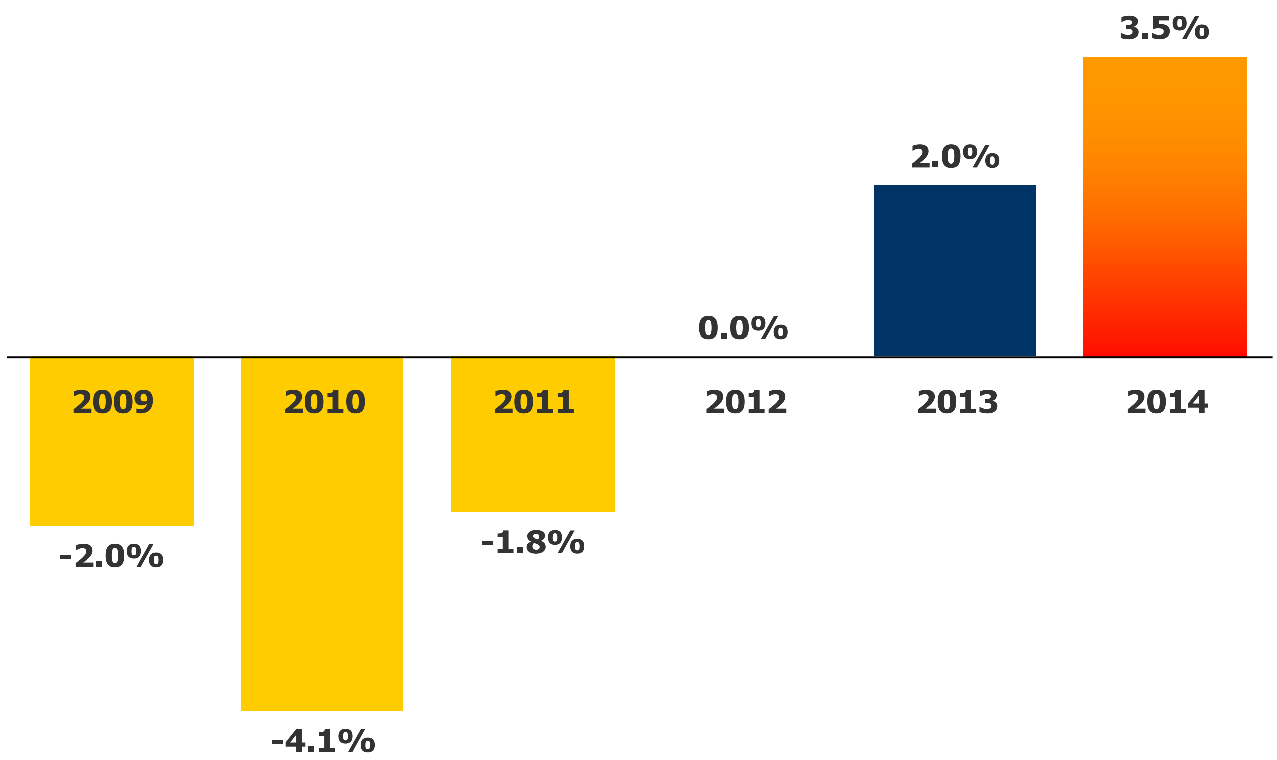
ULI Real Estate Consensus Forecast

Single-Family Housing Starts



Sources: U.S. Census, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014.

Average Home Price Change



Sources: Federal Housing Finance Agency, December year-over-year data, 2009-2011; ULI Consensus Forecast, December year-over-year data, 2012-2014.

Firms That Participated in the ULI Real Estate Consensus Forecast

Organization	Economist/Analyst	Title	City/State
AEW Capital Management	Richard Brace	Director, Research	Boston, MA
American Land Fund	Peter Linneman	CEO	Philadelphia, PA
AvalonBay Communities, Inc.	Craig Thomas	Vice President, Market Research	Arlington, VA
Bentall Kennedy	Douglas Poutasse	Executive Vice President, Head of Strategy and Research	Boston, MA
BlackRock	Kevin Scherer	Managing Director, CRE Risk Analytics	New York, NY
Cassidy Turley	Kevin Thorpe	Chief Economist	Washington, DC
CBRE	Asieh Mansour	Head of Americas Research	San Francisco, CA
CBRE Econometric Advisors	Jon Southard	Managing Director	Boston, MA
Chandan Economics	Sam Chandan	Chief Economist	New York, NY
Clarion Partners	David Lynn	Managing Director and Chief Economist	New York, NY
	Ian McKay	Research and Investment Strategist	New York, NY
Cornerstone Real Estate Advisers	Michael Gately	Manager Director, Research	Hartford, CT
	Jim Clayton	Vice President, Research	Hartford, CT
Cushman & Wakefield	Maria Sicola	Executive Managing Director Research	San Francisco, CA
	Jeff West	Senior Analyst	San Francisco, CA
Dividend Capital Research/Denver University	Glenn R. Mueller	Real Estate Investment Analyst/Professor	Denver, CO
Freddie Mac	Frank Nothaft	Chief Economist	McLean, VA
GIC Real Estate	Paige Mueller	Senior Vice President	San Francisco, CA
Grubb & Ellis	Robert Bach	Senior Vice President, Chief Economist	Chicago, IL
Heitman	Mary Ludgin	Director of Global Investment Research	Chicago, IL
Hines	Josh Scoville	Senior Managing Director	Boston, MA
International Council of Shopping Centers	Michael Niemira	Vice President for Research and Chief Economist	New York, NY
Invesco Real Estate	Nicholas Buss	Director, Research	Dallas, TX
KeyBank	Elizabeth Ptacek	Senior Vice President, Senior Real Estate Analyst	Cleveland, OH

Firms That Participated in the ULI Real Estate Consensus Forecast

Organization	Economist/Analyst	Title	City/State
LaSalle Investment Management	William Maher	Director, North America Strategy	Baltimore, MD
MetLife Real Estate Investments	Richard McLemore	Director, Research & Portfolio Risk	Morristown, NJ
Morgan Stanley Real Estate Investing	Paul Mouchakkaa	Global Head of Research & Strategy	New York, NY
National Association of Real Estate Investment Trusts	Calvin Schnure	Vice President, Research and Industry Information	Washington, DC
National Association of Realtors	Lawrence Yun	Chief Economist	Washington, DC
National Council of Real Estate Investment Fiduciaries	Jeffrey Havsy	Director of Research	Chicago, IL
PPR, A CoStar Company	Hans Nordby	Managing Director	Boston, MA
	Shaw Lupton	Senior Real Estate Economist	Boston, MA
Principal Real Estate Investors	Andrew Warren	Managing Director, Real Estate Research	Des Moines, IA
Prudential Real Estate Investors	Youguo Liang	Managing Director	Parsippany, NJ
RCLCO	Gadi Kaufmann	Managing Director & CEO	Washington, DC
Real Capital Analytics	Robert White	President	New York
Real Estate Research Corporation (RERC)	Ken Riggs	Chairman & President	Chicago, IL
Regions Financial Corporation	Richard Moody	Senior Vice President, Applied Market Research Manager	Birmingham, AL
Reis, Inc.	Victor Calanog	Head of Economics & Research	New York, NY
Rosen Consulting Group	Kenneth T. Rosen	Chairman	Berkeley, CA
	Randall Sakamoto	Executive Vice President	Berkeley, CA
RREEF Real Estate	Alan C. Billingsley	Head of Americas Research	San Francisco, CA
Stratford Land	Mark Drumm	Chief Risk Officer	Dallas, TX
Trepp, LLC	Matthew Anderson	Managing Director	New York, NY
	Susan Persin	Managing Director	New York, NY

ULI Real Estate Consensus Forecast

The *ULI Real Estate Consensus Forecast* is based on a survey of leading real estate economists/analysts representing 38 leading real estate investment, advisory, and research firms and organizations. The current survey was conducted from February 23 to March 12, 2012.

The semiannual survey provides forecasts for 26 economic and real estate indicators, including GDP, employment, inflation, interest rates, property transaction volumes, CMBS issuance, capitalization rates, REIT returns, property investment returns for four property types, vacancy/occupancy rates and rents for five property types, and housing starts and prices. The forecast for each indicator is the median forecast from the 38 survey respondents.

The next *ULI Forecast* is scheduled for release in September 2012.

About the Urban Land Institute

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

www.uli.org

About the ULI Center for Capital Markets and Real Estate

The ULI Center for Capital Markets and Real Estate is a ULI center that focuses on real estate finance, real estate industry and investment trends, and the relationship between the capital markets and real estate. The Center is engaged in a variety of projects including the annual *Emerging Trends in Real Estate*® reports, the monthly *ULI Real Estate Business Barometer*, the annual ULI Real Estate Capital Markets Conference, and numerous other programs.

www.uli.org/capitalmarkets

The views expressed in this document were obtained from survey respondents, are a consensus view of the future, and do not necessarily express the opinions of the Urban Land Institute. This document is for general information purposes only, and should not be used as a substitute for investor due diligence or in place of expert advice.

ULI Real Estate Consensus Forecast

A Survey of Leading Real Estate Economists/Analysts

March 2012

Dean Schwanke
Executive Director
ULI Center for Capital Markets and Real Estate
Urban Land Institute