ULI Real Estate Consensus Forecast

A Survey of Leading Real Estate Economists/Analysts

September 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 39 leading real estate economists/analysts
- Respondents represent major real estate investment, advisory, and research firms and organizations
- Survey undertaken from August 21 to September 14, 2012
- A semiannual survey; next release planned for March 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 Real Estate Consensus Forecast* for September 2012 projects continued improvements for the U.S. economy, real estate capital markets, commercial real estate fundamentals, and housing over the next three years. However, the predictions diverge from the previous *Forecast* from March in that they are generally less optimistic regarding the economy and the performance of commercial real estate, and more optimistic regarding the single-family housing sector.

Key Findings

- Commercial property transaction volume is expected to increase by 21%; the projection in the spring was for a 50% increase.
- CMBS issuance is expected to nearly double.
- Institutional real estate assets and REITs are expected to provide returns ranging from 8.5% to 15% annually over the next 3 years.
- Vacancy rates are expected to moderately decline for office, retail, and industrial properties and remain stable at low levels for apartments; hotel occupancy rates are expected to improve.
- Rents are expected to increase for the four major property types in 2013, ranging from 1.2% for retail up to 4.8% for apartments.
- Single-family housing starts are projected to increase by 100,000 units in 2012 and 145,000 units in 2013, and home prices are expected to rise 3.2% in 2012 and 3.9% in 2013.

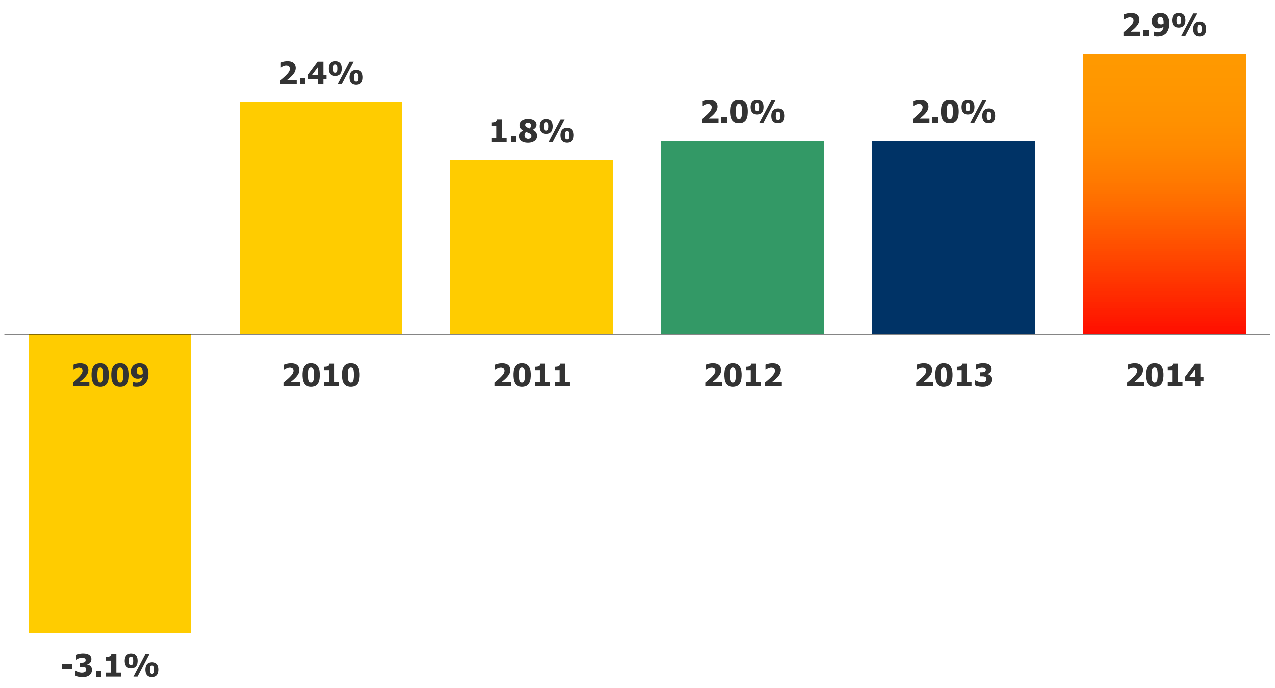
Economy

The survey of economists/analysts finds that real GDP is expected to grow by 2.0% in 2012, 2.0% in 2013, and 2.9% by 2014, with the unemployment rate falling to 8.1% by the end of 2012, 7.8% by the end of 2013, and 7.0% by the end of 2014. These forecasts are down considerably from the spring 2012 forecast, which forecast the GDP would grow by 3.0% in 2013.

Employment is expected to increase by 1.8 million jobs in 2012, 2.0 million in 2013, and 2.4 million in 2014. These numbers are also down from the last forecast, which projected 2.5 million new jobs in 2013.

ULI Real Estate Consensus Forecast

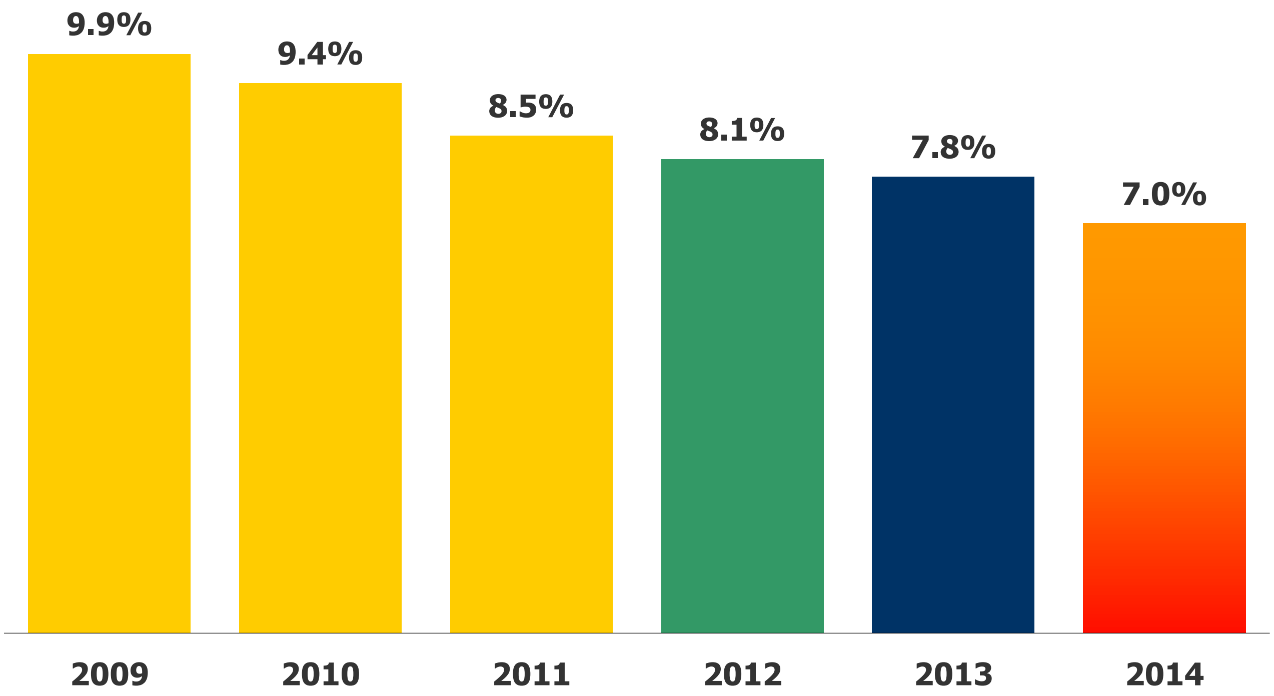
Real GDP Growth



Sources: Bureau of Economic Analysis data, 2009-2011; ULI Consensus Forecast data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 2.5%. 3.0%. 3.2%.

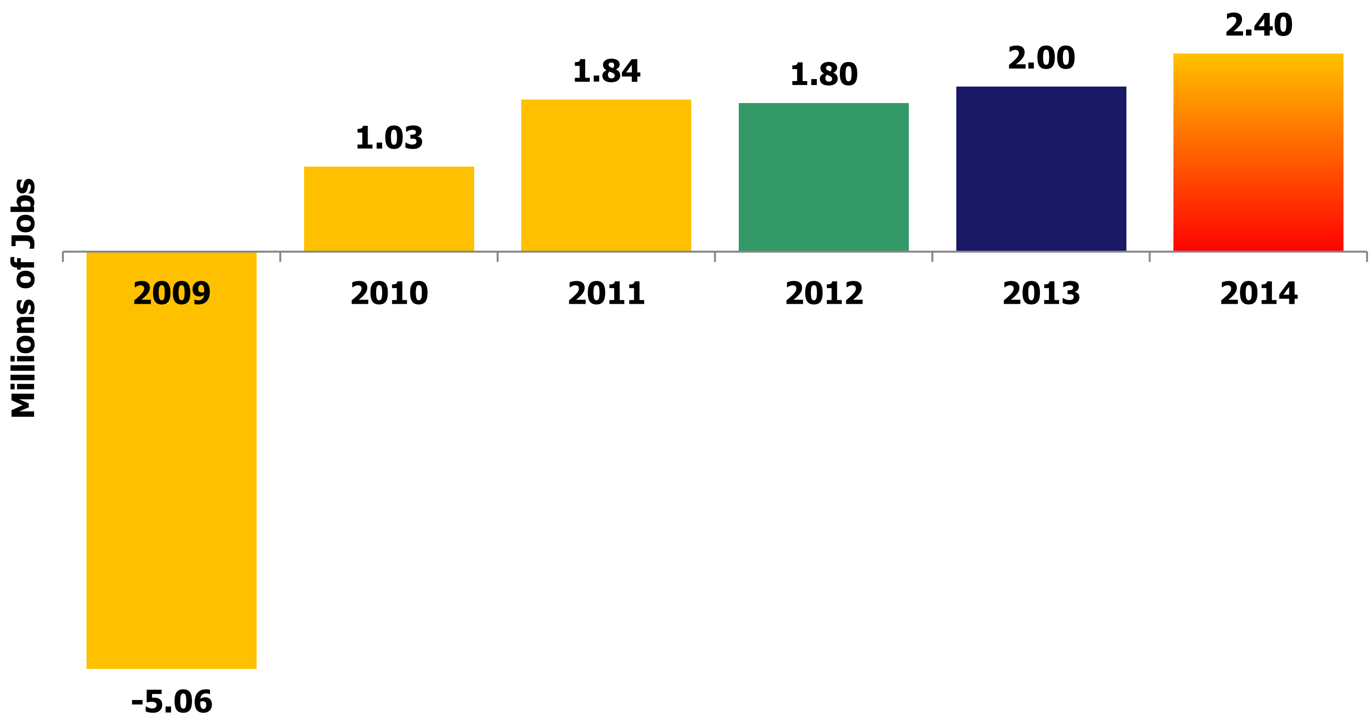
ULI Real Estate Consensus Forecast

Unemployment Rate



Sources: Bureau of Labor Statistics, year-end data 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014. ULI Consensus Forecast data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 8.0%. 7.5%. 6.9%.

Employment Growth



Sources: Bureau of Labor Statistics, year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 2.0. 2.5. 2.75.

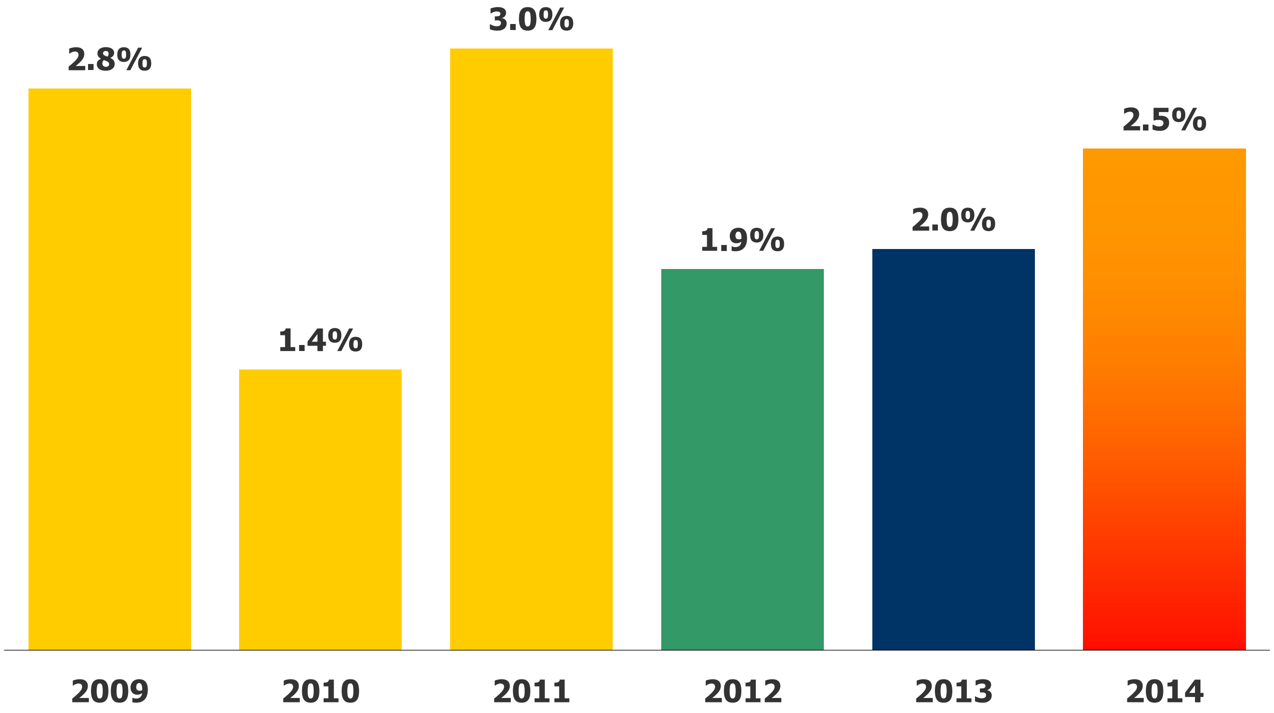
Inflation, Interest Rates, and Cap Rates

Inflation and interest rates are expected to remain low, and projections are down from six months ago, due largely to slow economic growth and recent Fed actions and policy guidance. Inflation is expected to drop to 1.9% in 2012, then rise slightly to 2% in 2013 and 2.5% in 2014. Ten-year treasury rates are also projected to decline slightly by the end of 2012, before rising to 2.3% by the end of 2013, and 3.0% by the end of 2014.

While these rising rates will modestly 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 5.9% in 2012 and then rise to 6.2% in 2013 and 6.3% in 2014. These cap rate projections are similar to those of six months ago, and this bodes well for commercial real estate values.

ULI Real Estate Consensus Forecast

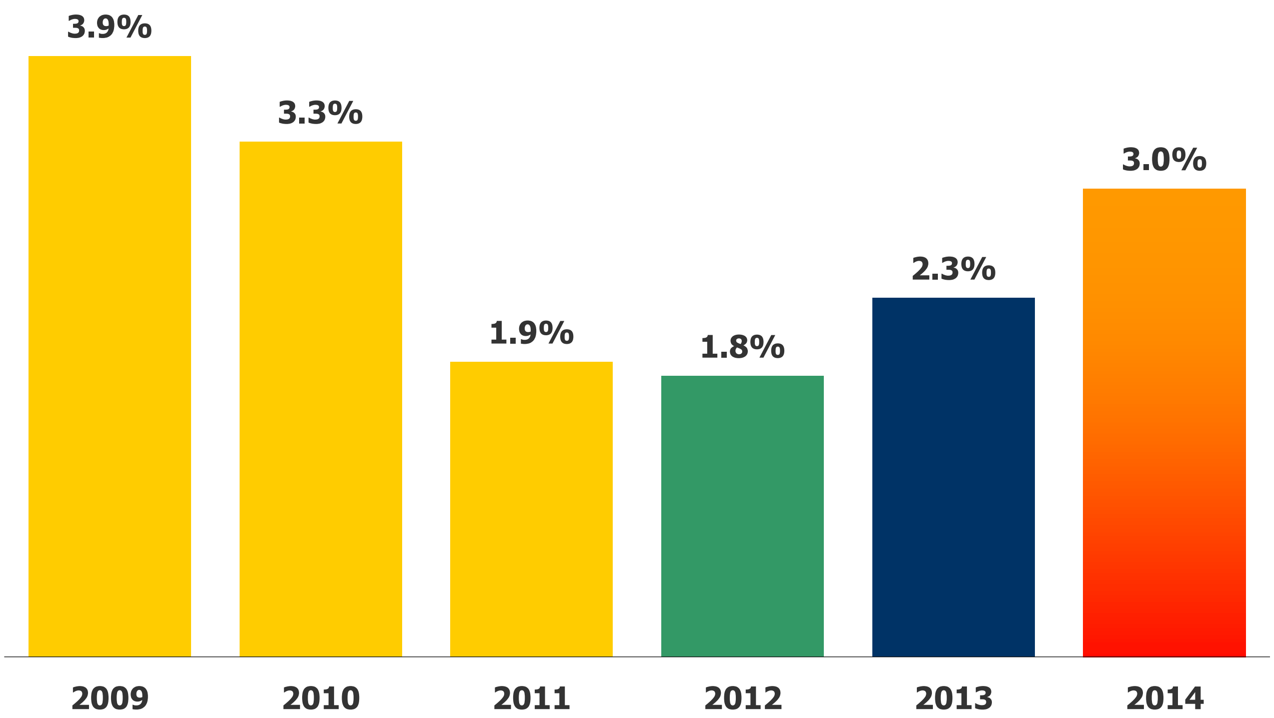
Consumer Price Index Inflation Rate



Sources: Bureau of Labor Statistics, year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 2.4%. 2.8%. 3.0%.

ULI Real Estate Consensus Forecast

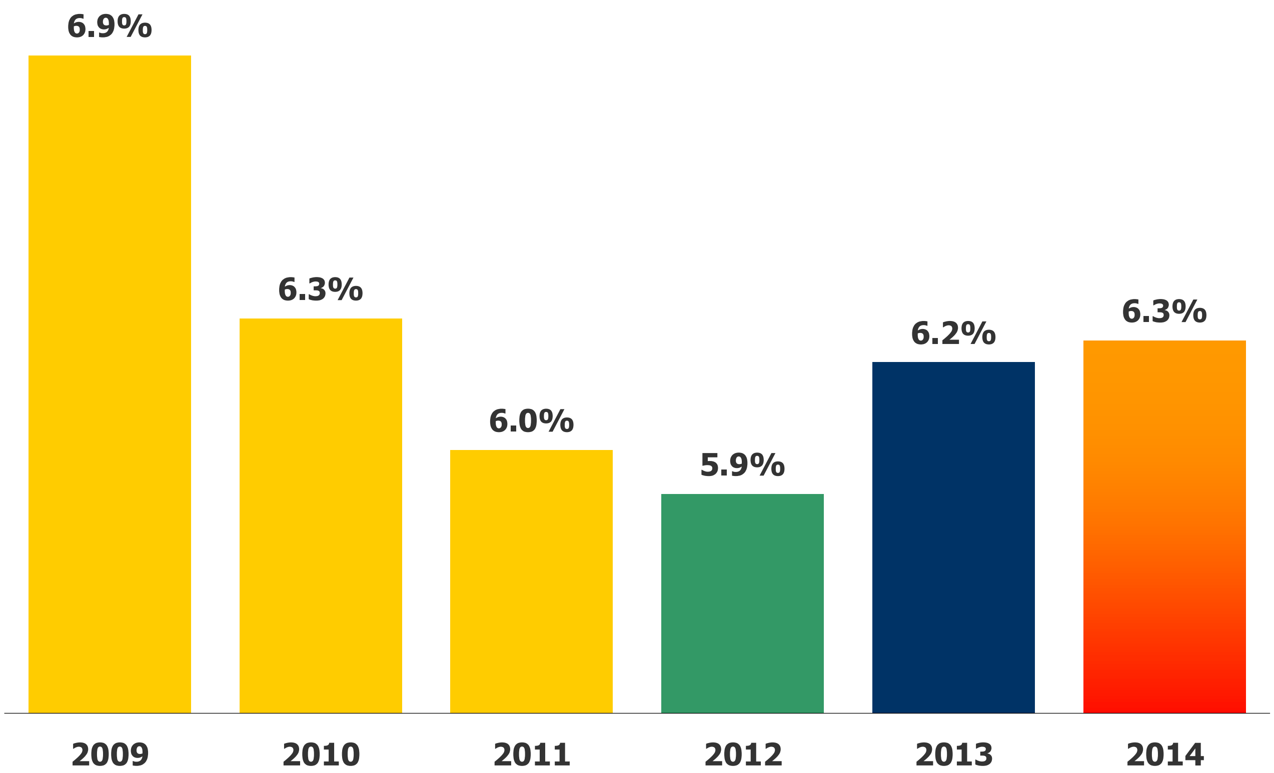
Ten-Year Treasury Rate



Sources: U.S. Federal Reserve, year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 2.4%. 3.1%. 3.8%.

ULI Real Estate Consensus Forecast

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. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 6.0%. 6.0%. 6.2%.

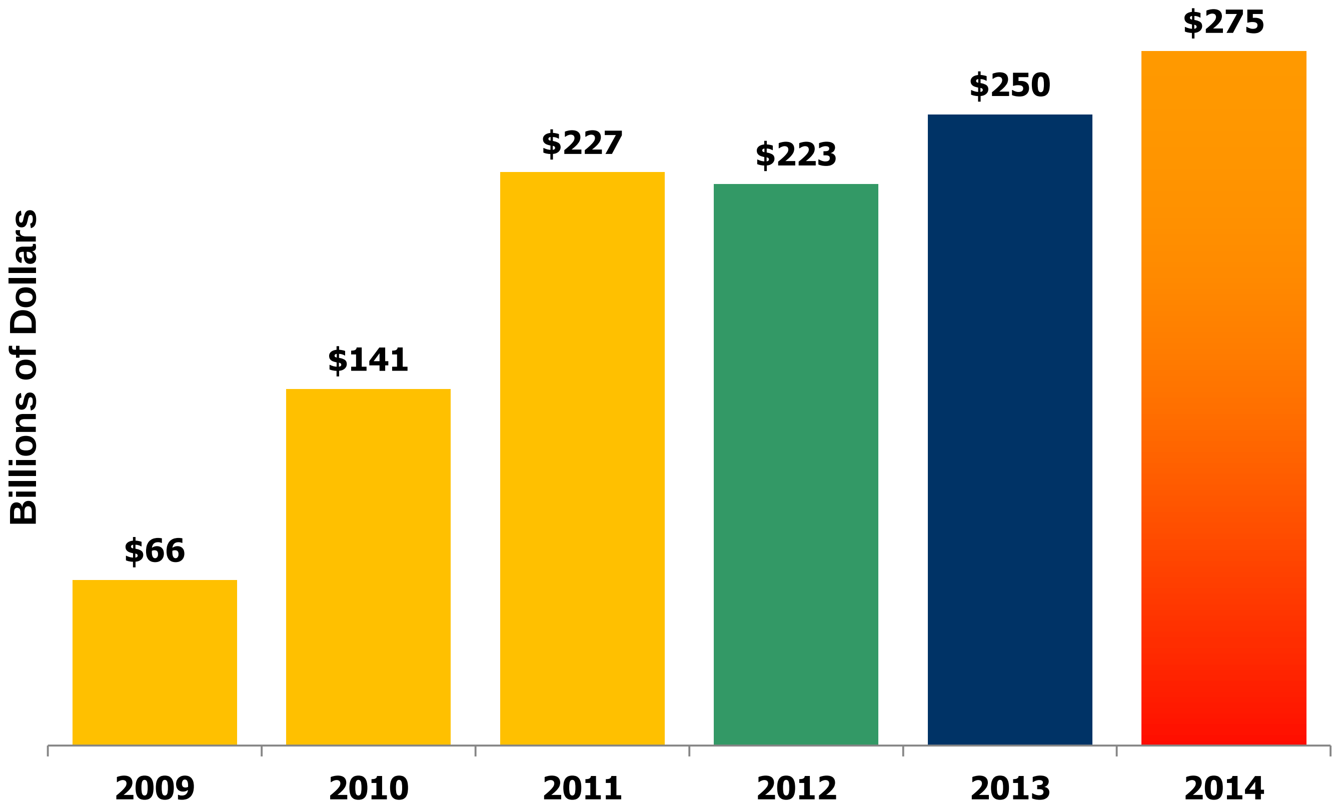
Real Estate Capital Markets

Commercial real estate transaction volume has recovered nicely from 2009 levels and is stabilizing. Volume is expected to decline slightly--from $227 billion in 2011 to $223 billion in 2012--before increasing to $250 billion in 2013 and $275 billion in 2014.

Issuance of commercial mortgage-backed securities (CMBS), a key source of financing for commercial real estate, is expected to increase marginally, from $33 billion in 2011 to $35 billion in 2012, before rising to $45 billion in 2013, and $60 billion in 2014.

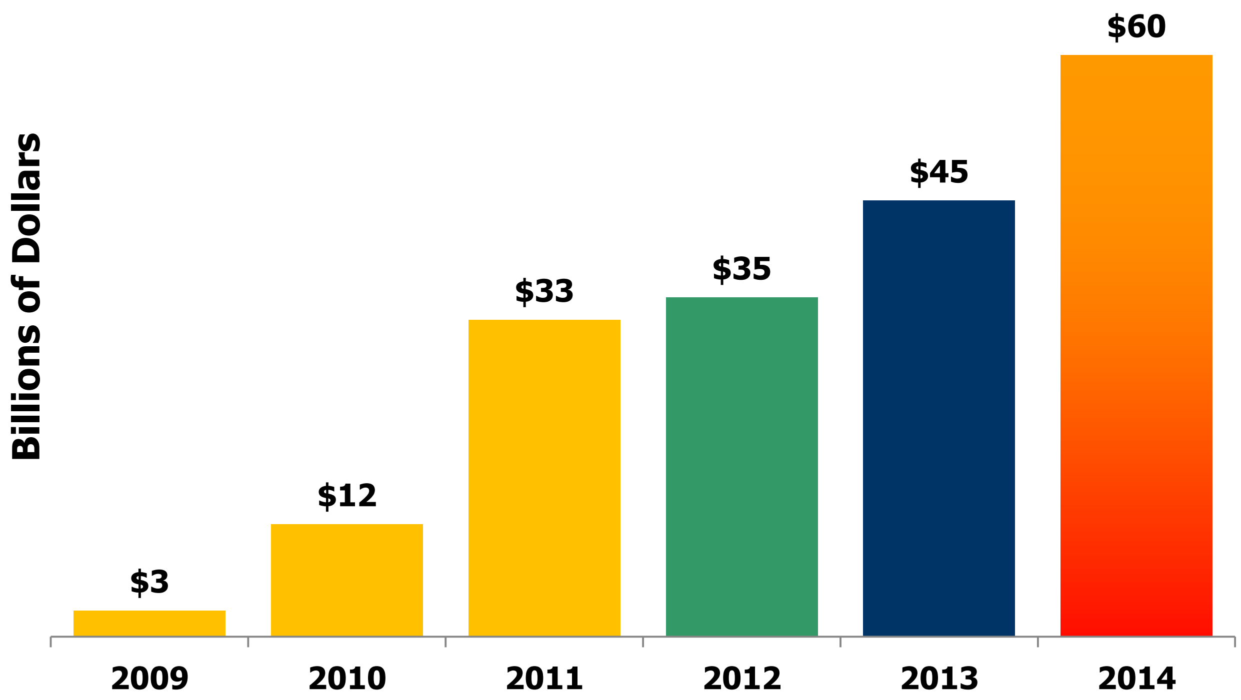
All of these projections are down 10-20% from six months ago.

Commercial Real Estate Transaction Volume



Sources: Real Capital Analytics, annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: $250. $290. $312.

Commercial Mortgage-Backed Securities (CMBS) Issuance



Sources: Commercial Mortgage Alert, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: $40. $58. $75.

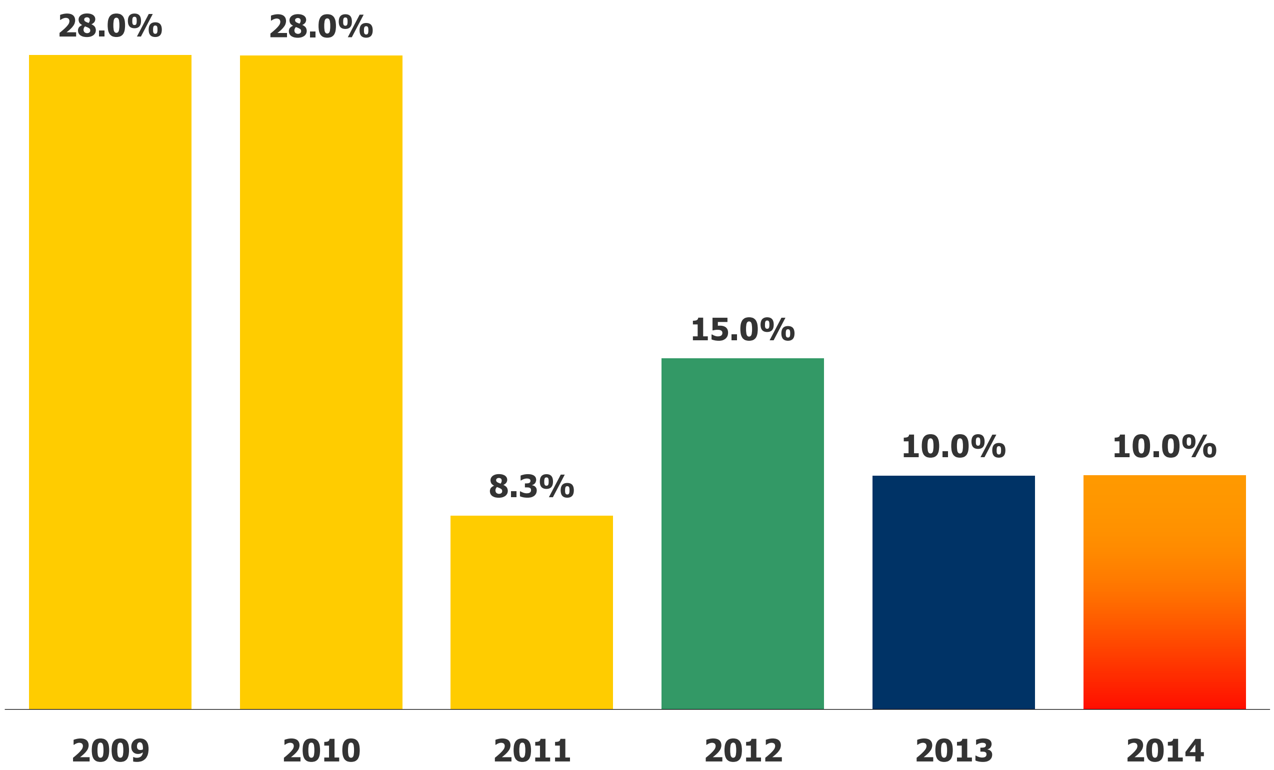
Real Estate Returns

Total returns for institutional-quality real estate investments are expected to remain solid, close to historic norms but generally below very 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 15.0% in 2012, then slow to 10.0% in 2013 and 2014.

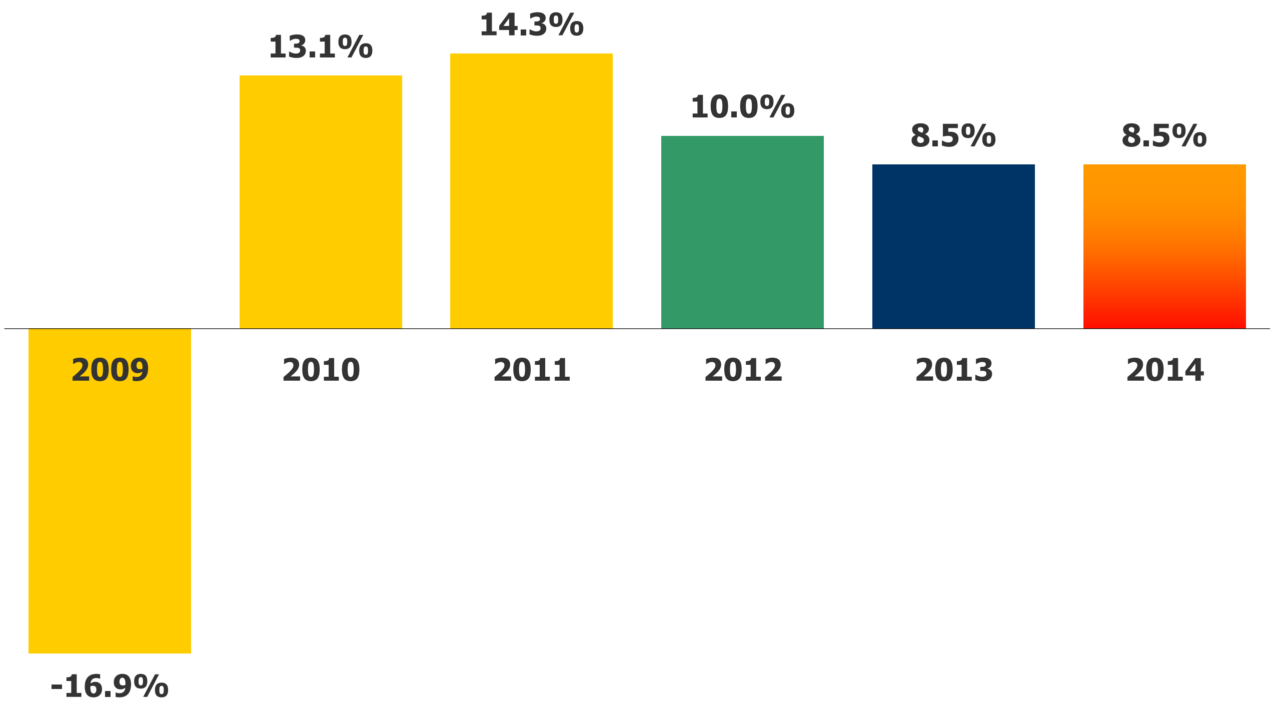
Returns for institutional-quality direct real estate investments, as measured by the NCREIF Property Index, have also been strong over the past two years, with returns of 13.1% in 2010 and 14.3% in 2011. These returns are expected to remain strong but trend lower, with returns of 10% in 2012, and 8.5% in 2013 and 2014. These forecasts are down slightly from the March forecasts.

Equity REIT Total Annual Returns



Sources: National Association of Real Estate Investment Trusts, annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 10.0%. 9.0%. 8.5%.

NCREIF Total Annual Returns



Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 11.0%, 9.5%. 8.5%.

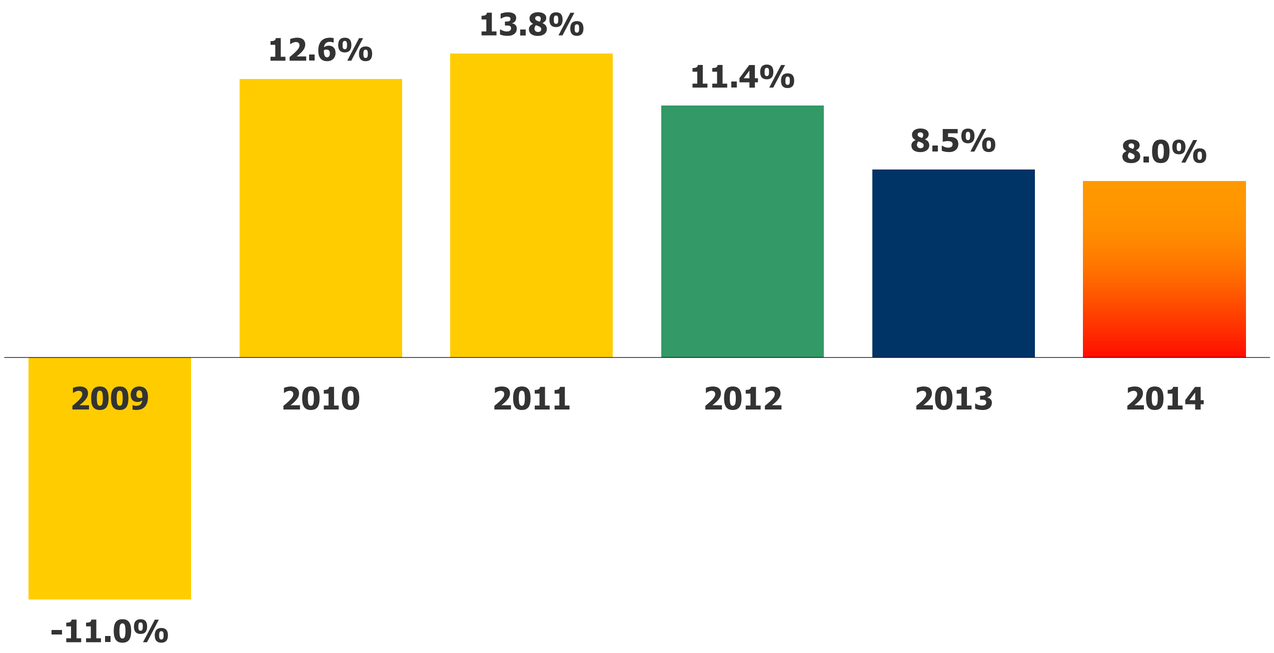
NCREIF Returns by Property Type

By property type, NCREIF total returns in 2012 are expected to be strongest for retail (11.4%), followed by apartments (11.1%), industrial (10.4%), and office (9.4%).

By 2014, however, returns are expected to be strongest for industrial (8.9%), followed by office (8.7%), retail (8.0%), and apartments (7.8%).

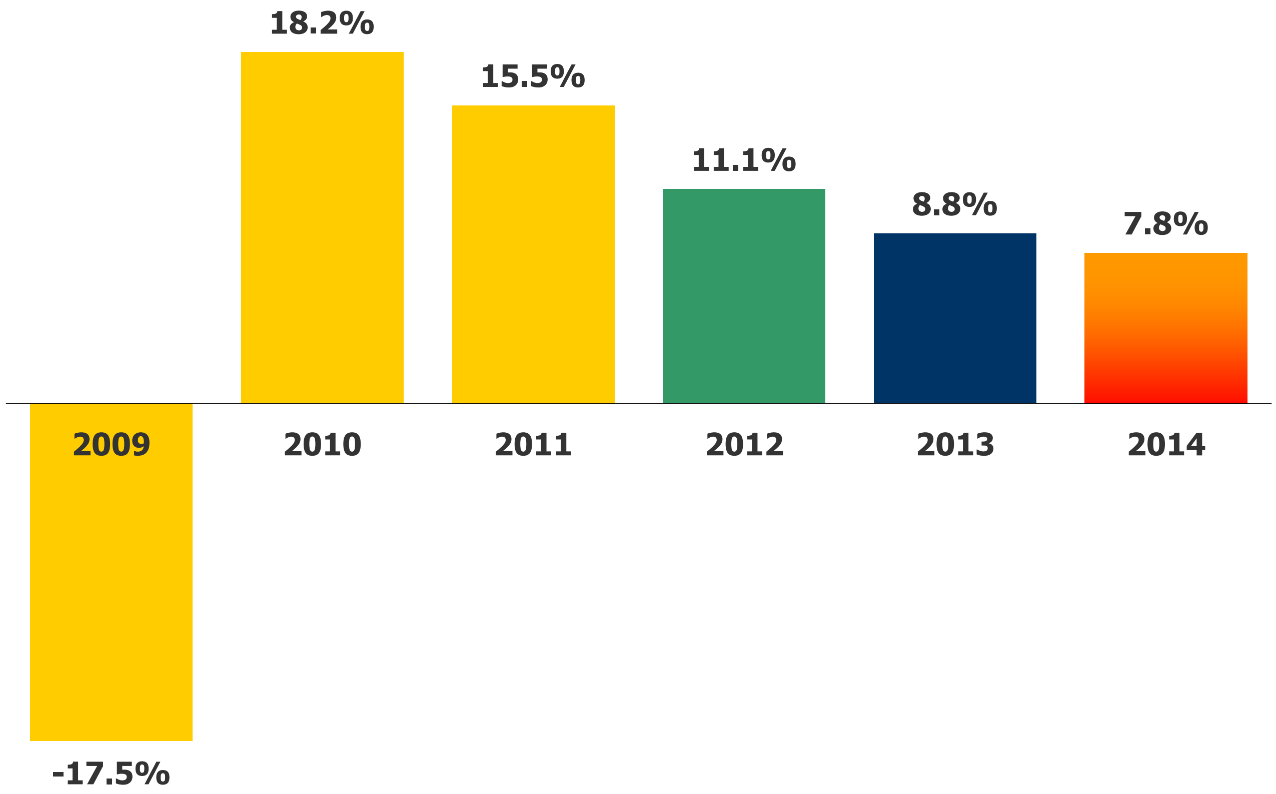
ULI Real Estate Consensus Forecast

NCREIF Retail Total Annual Returns



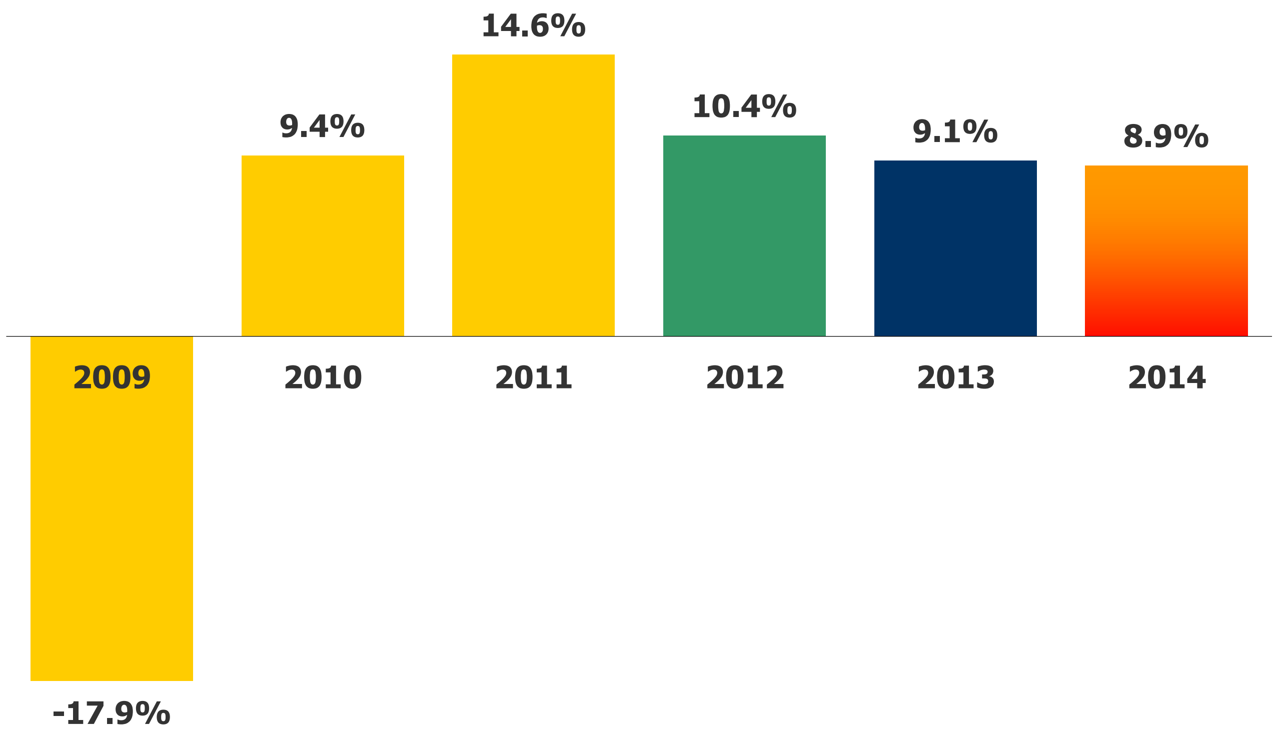
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 10.0%, 8.5%. 8.5%.

NCREIF Apartment Total Annual Returns



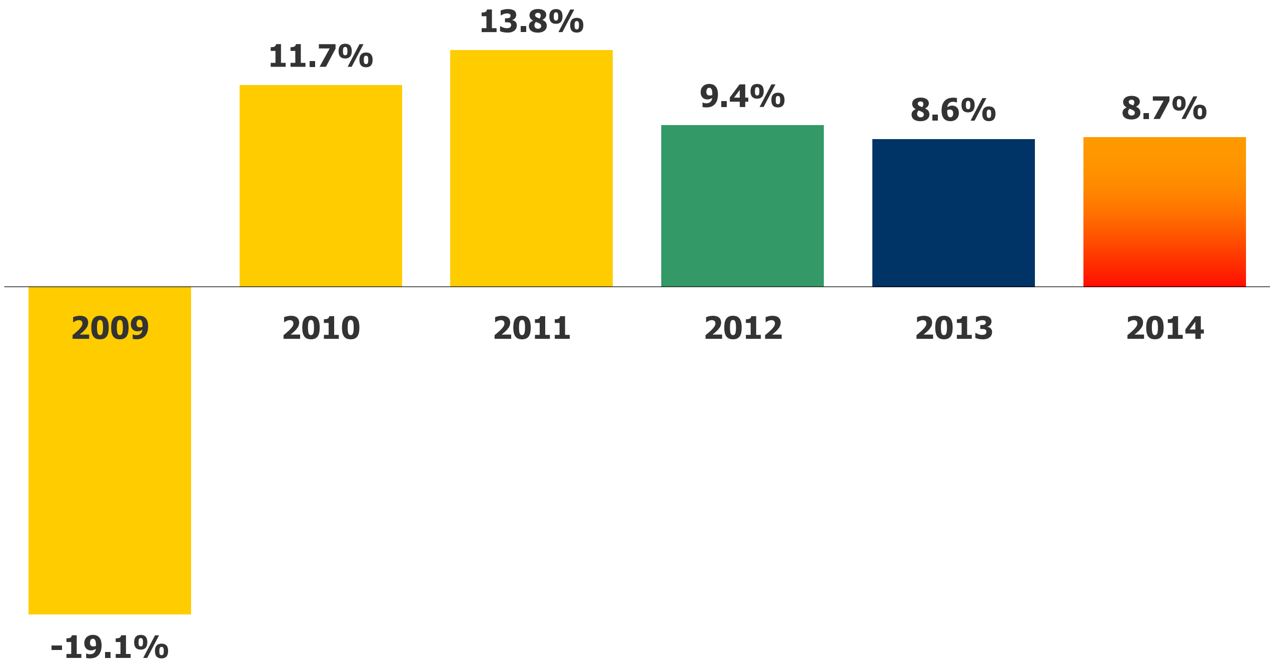
Sources: National Council of Real Estate Investment Fiduciaries (NCREIF), annual data, 2009-2011; ULI Consensus Forecast, annual data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 12.1%, 10.0%. 8.8%.

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.
Note: The previous (March 2012) ULI Forecast for 2012-14 was: 11.5%, 9.3%. 10.0%.

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. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 10.8%, 9.3%. 10.0%.

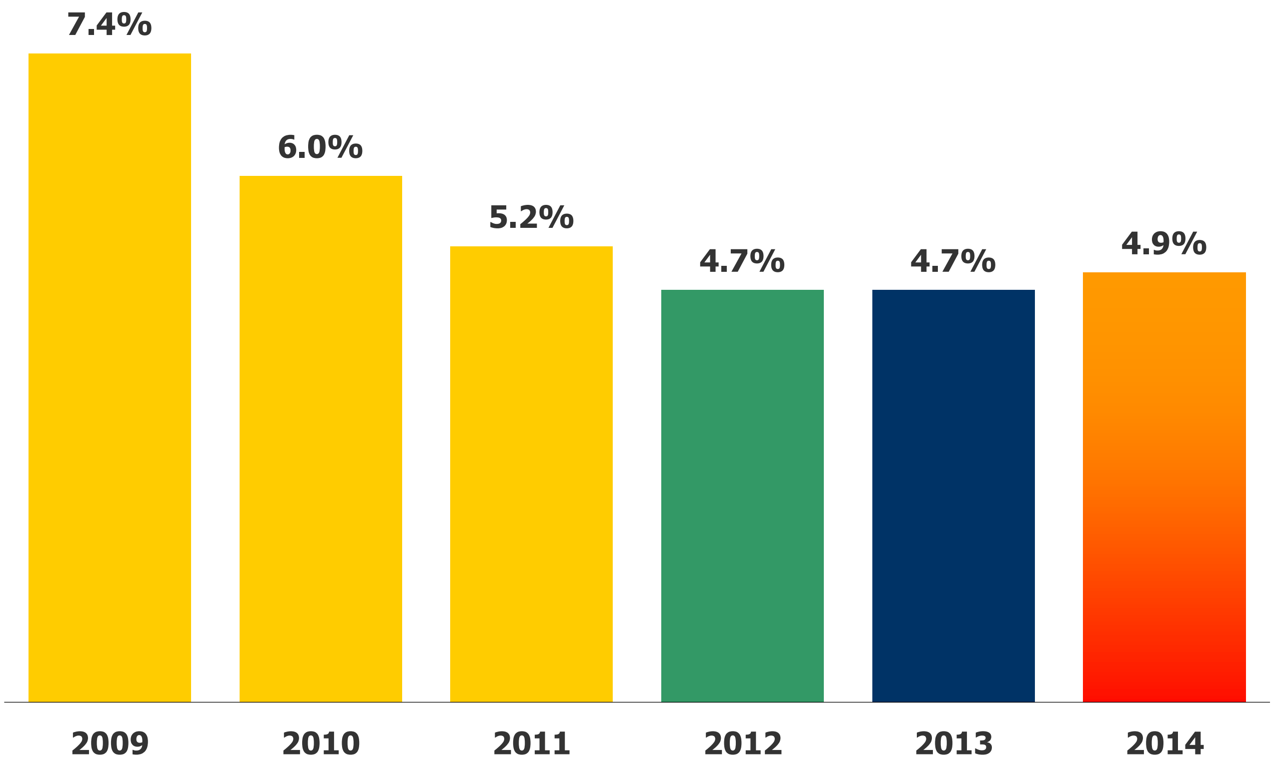
Apartment Sector Fundamentals

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 5.2% in 2011, according to CBRE. Year-end vacancy rates, according to the *ULI Forecast*, are expected to decline further in 2012 to 4.7%, hold steady in 2013, and rise slightly to 4.9% in 2014. These vacancy rate projections are even lower than they were six months ago.

Apartments are also expected to show strong rental rate growth, with rents expected to rise 4.8% in 2012, then moderating to 3.5% in 2013 and 3.0% in 2014 as new supply comes on line. These rental rate forecasts are below the projections from March.

ULI Real Estate Consensus Forecast

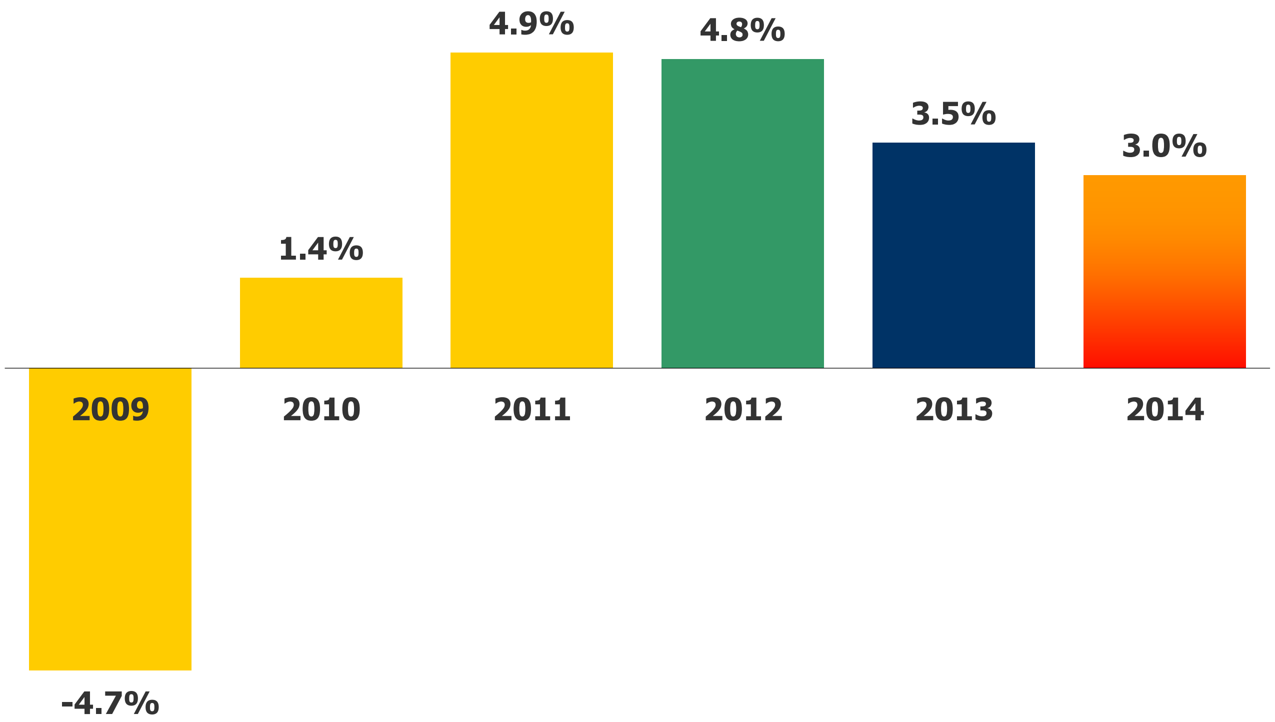
Apartment Vacancy Rates



Sources: CBRE, year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 5.0%, 5.1%. 5.3%.

ULI Real Estate Consensus Forecast

Apartment Rental Rate Change



Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 5.0%, 4.0%. 3.8%.

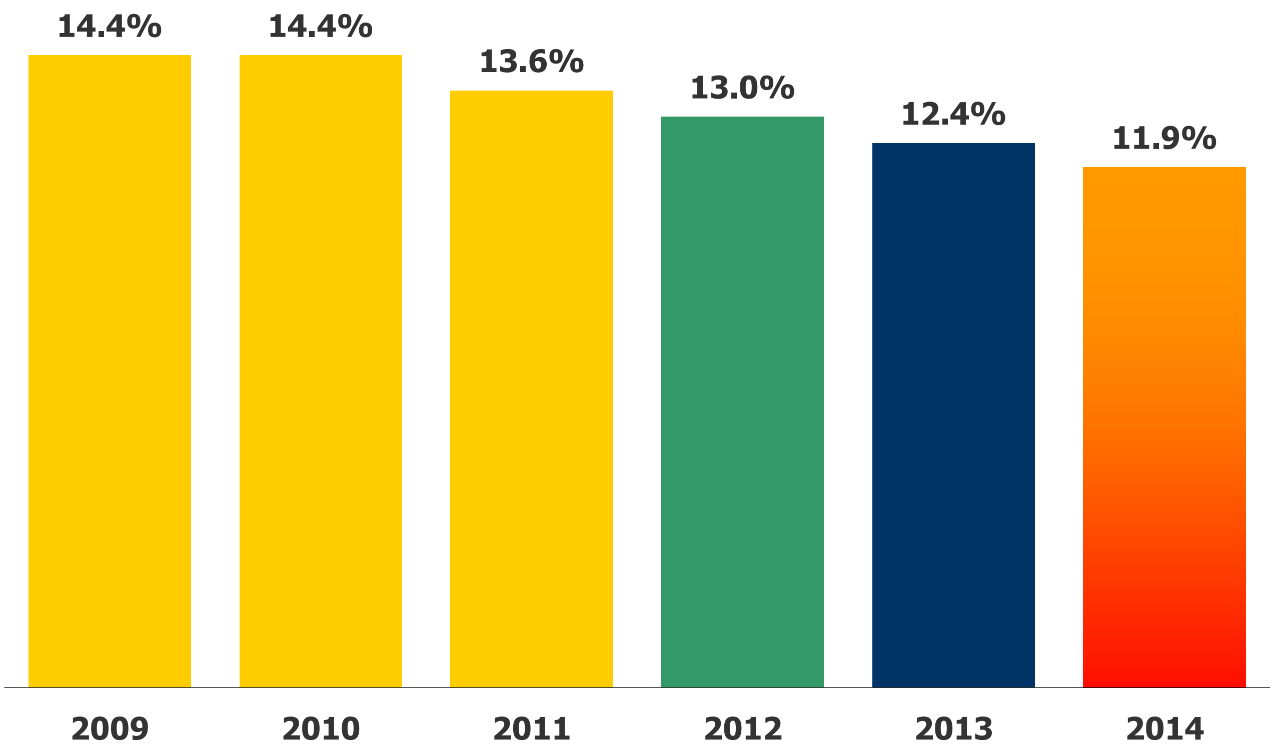
Industrial/Warehouse Sector Fundamentals

The industrial/warehouse sector is expected to see continued modest declines in vacancy from 13.6% in 2011 down to 13.0% by the end of 2012, 12.4% in 2013, and 11.9% by the end of 2014. This forecast is less optimistic than six months ago.

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 2.0% in 2012, 2.5% in 2013, and 3.1% in 2014, according to the *ULI Consensus Forecast*. While the forecast for 2012 is up, the forecasts for the out years are down from the March *ULI Forecast*.

ULI Real Estate Consensus Forecast

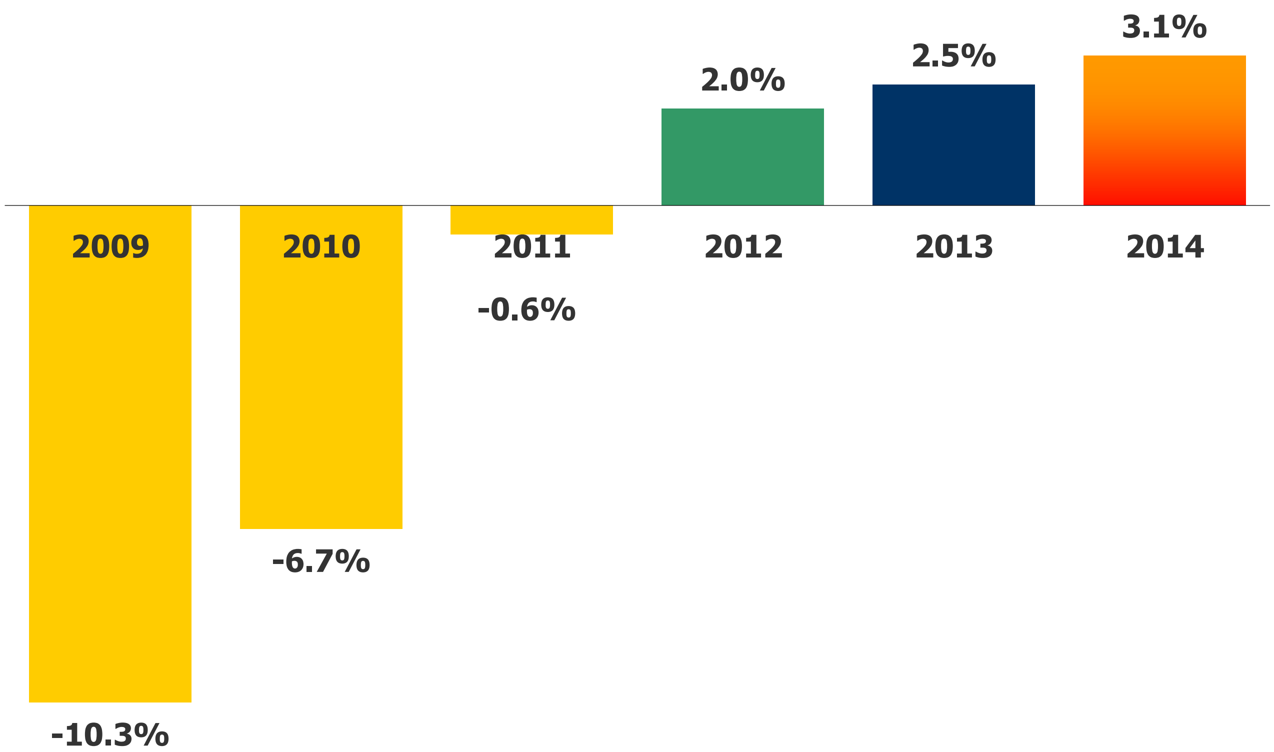
Industrial/Warehouse Availability Rates



Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast, year-end data, 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 12.8%, 12.1%. 11.5%.

ULI Real Estate Consensus Forecast

Warehouse Rental Rate Change



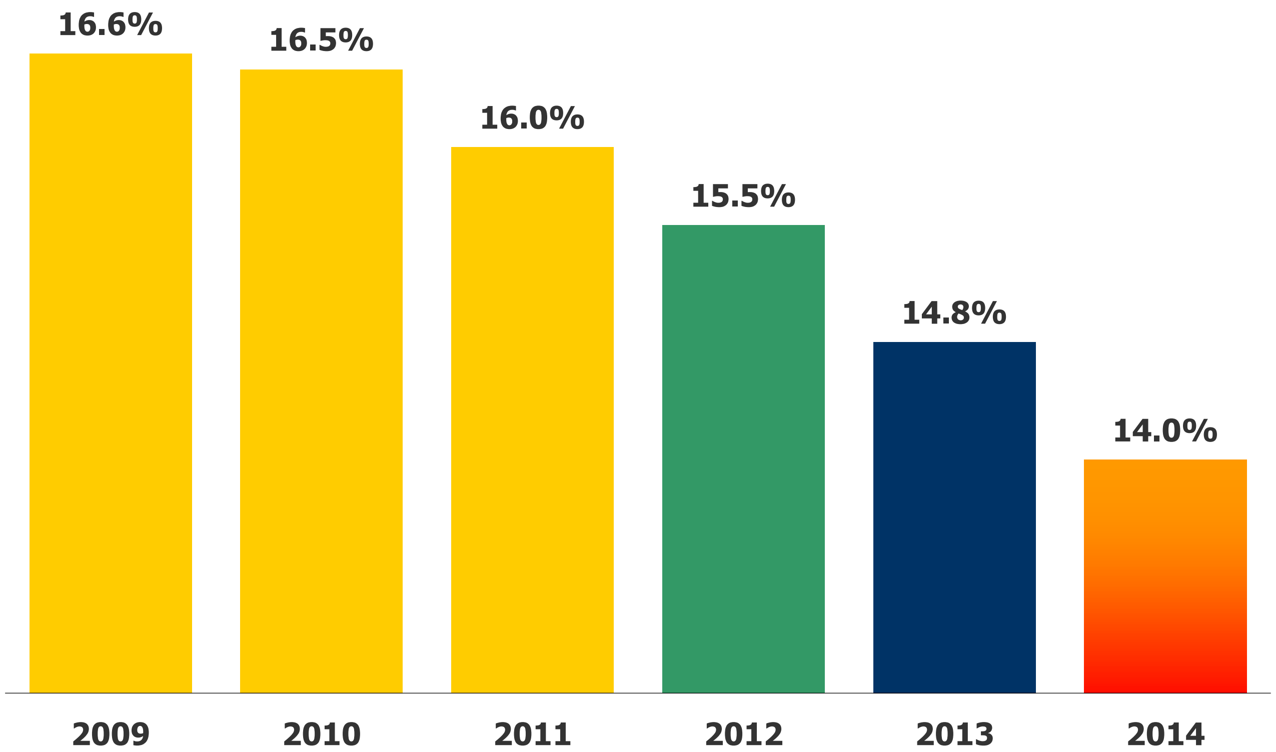
Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 1.9%, 3.0%. 3.6%.

Office Sector Fundamentals

Office vacancy rates, which remain high and have declined only slightly in recent years, are expected to decline from 16.0% at the end of 2011 to 15.5% in 2012, 14.8% in 2013, and 14.0% by the end of 2014. The earlier March forecast projected rates dropping to 12.3% by 2014, so optimism has diminished considerably for the out years in the latest forecast.

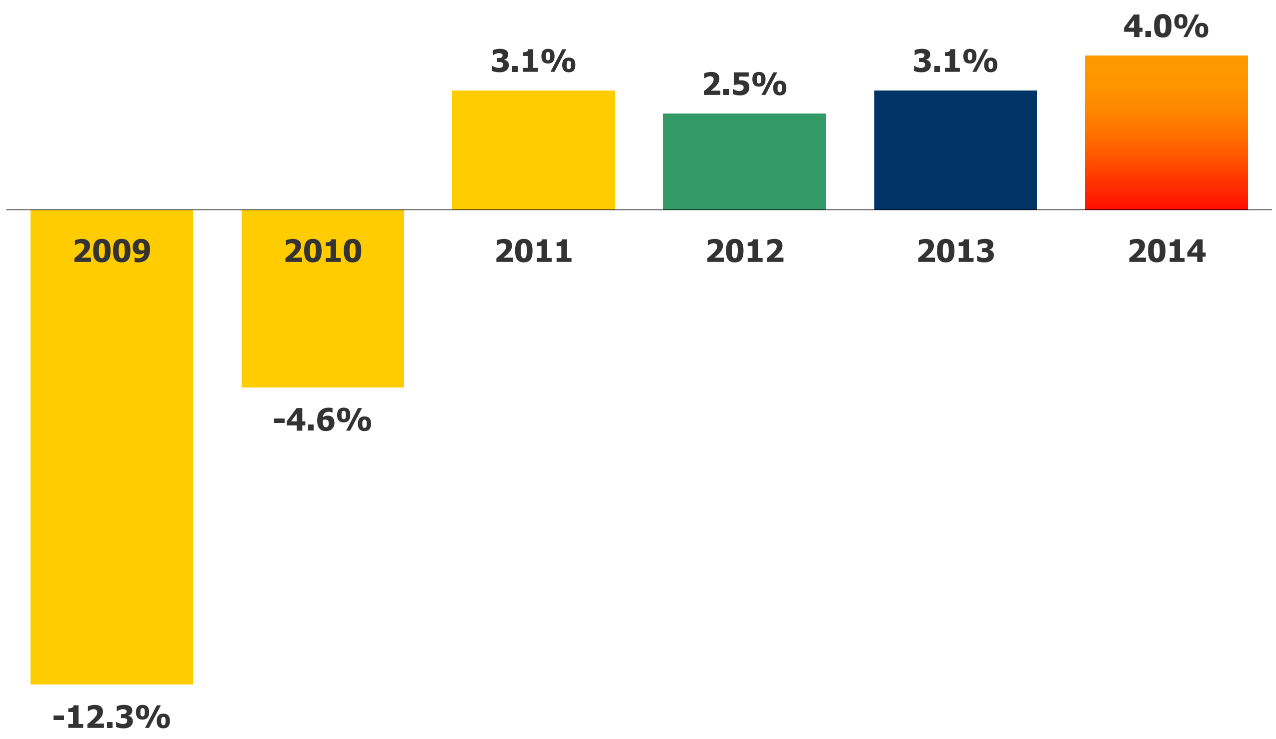
Office rental rates, which declined substantially in 2009 and 2010 and then rose by 3.1% in 2011, according to CBRE, are expected to continue to strengthen, with an increase of 2.5% in 2012, 3.1% in 2013, and 4.0% in 2014. However, the 2012 and 2013 forecasts are down substantially from the March forecast.

Office Vacancy Rates



Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 15.4%, 14.4%. 12.3%.

Office Rental Rate Change



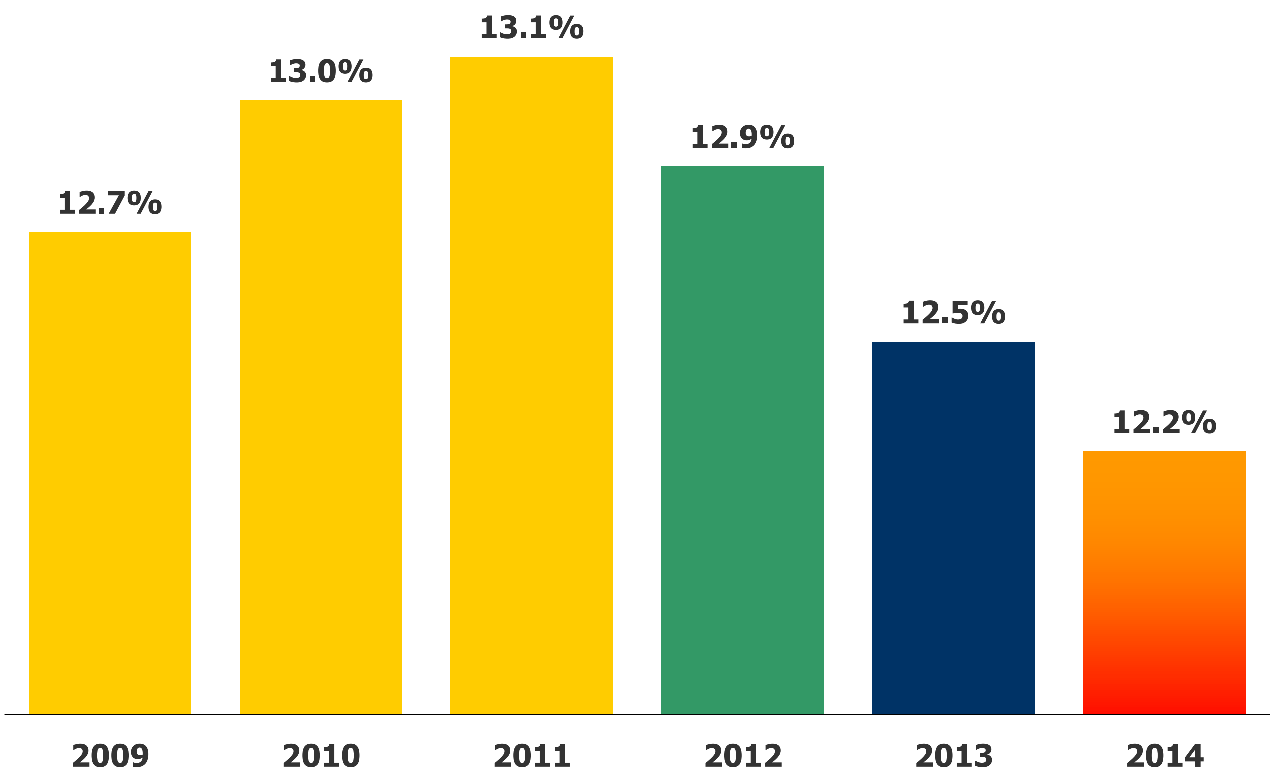
Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 3.0%, 3.7%. 4.3%.

Retail Sector Fundamentals

Retail vacancy rates remain high, but should see some modest improvements over the next three years, with rates expected to decline to 12.9% by the end of 2012, 12.5% by 2013, and 12.2% by 2014, similar to the numbers in the March forecast.

Retail rental rates, which have declined substantially over the past three years, are projected to stay flat in 2012, then increase in 2013 (1.2%) and 2014 (2.5%). These rental rate forecasts are down from the previous forecast in March, which projected a 2.0% increase for 2013.

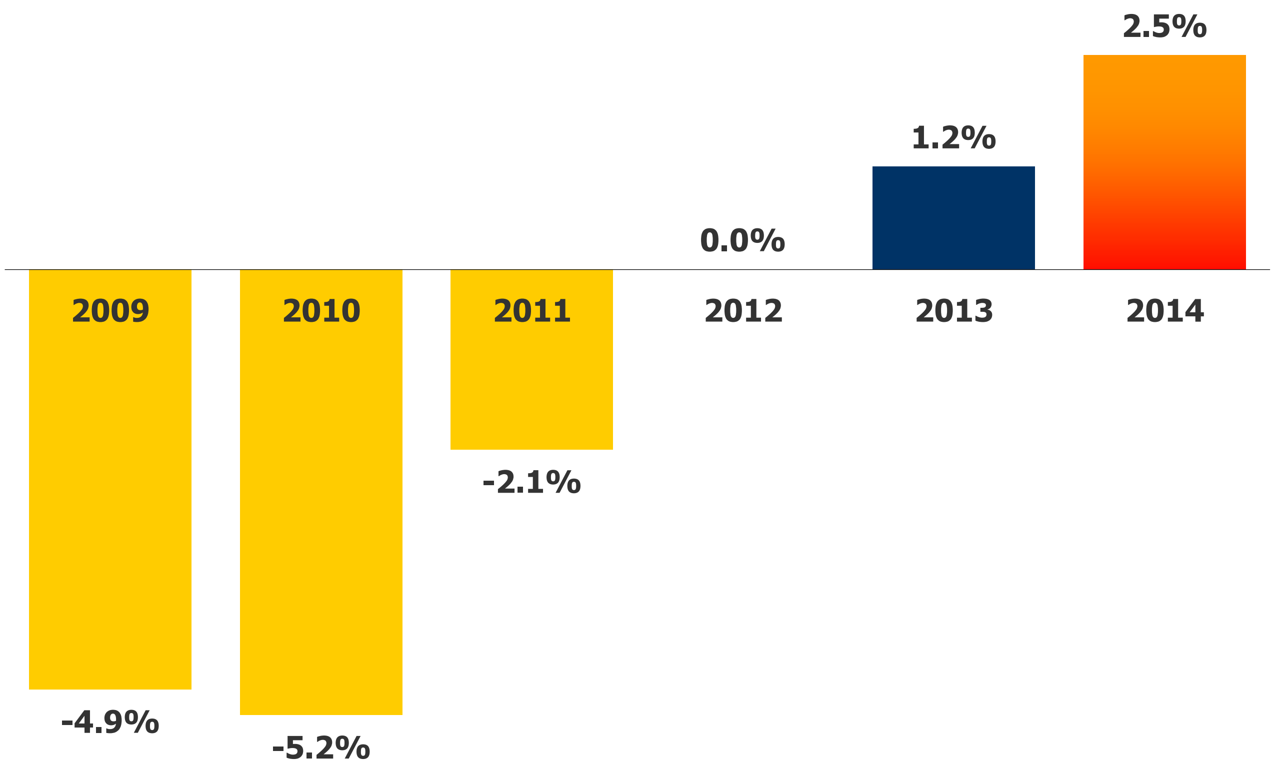
Retail Availability Rates



Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 13.0%, 12.5%. 12.0%.

ULI Real Estate Consensus Forecast

Retail Rental Rate Change



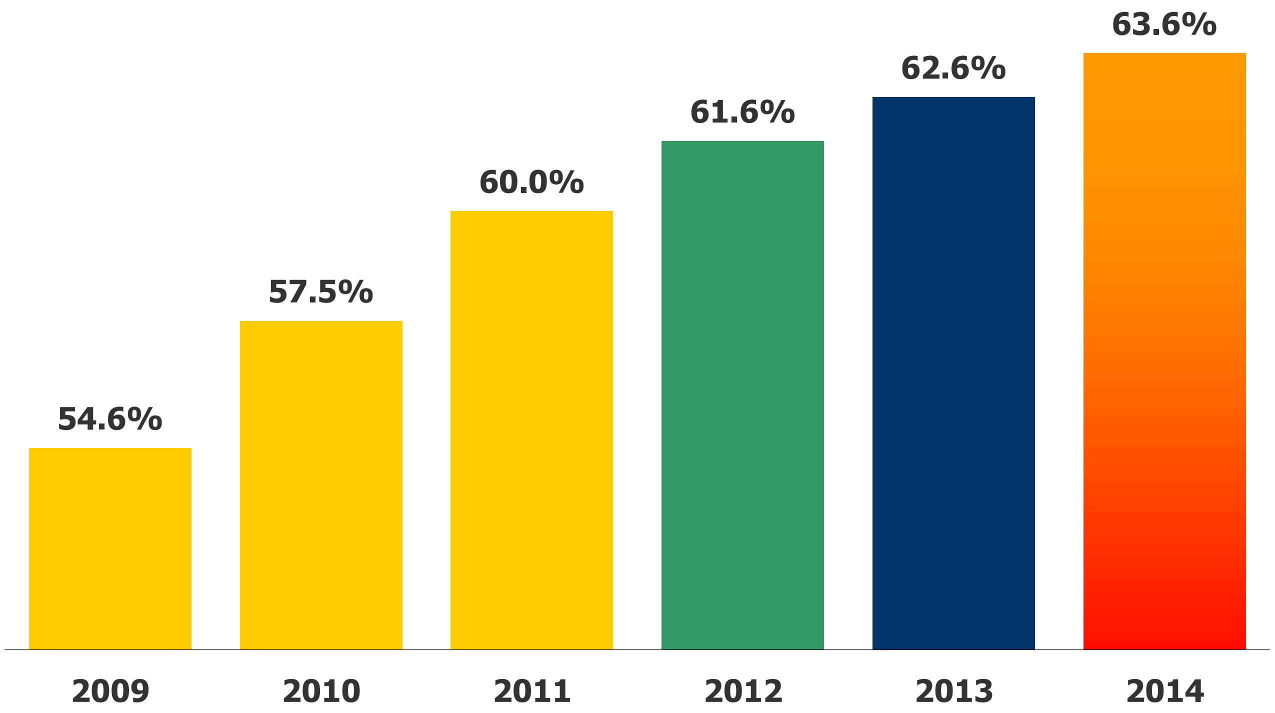
Sources: CBRE year-end data, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 0.8%, 2.0%. 2.8%.

Hotel Sector Fundamentals

Hotel occupancy rates, according to Smith Travel Research, have improved from 54.6% in 2009 to 60.0% in 2011, and the *ULI Forecast* projects that occupancy rates will increase to 61.6% by 2012, 62.6% by 2013, and 63.6% by 2014.

Hotel revenue per available room (RevPAR) has also grown substantially, with 8.2% growth in 2011, and growth is expected to remain strong, with expected RevPAR growth of 8.0% in 2012, 6.3% in 2013, and 5.3% in 2014.

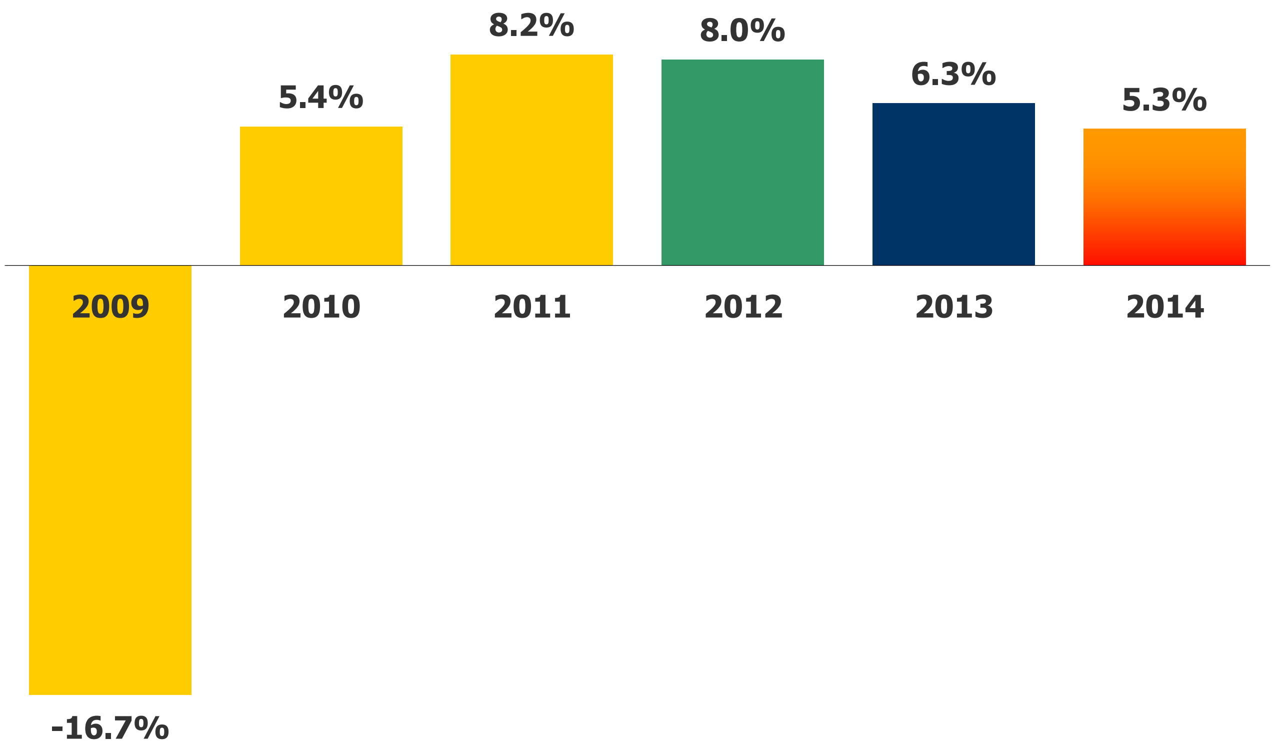
Hotel Occupancy Rates



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

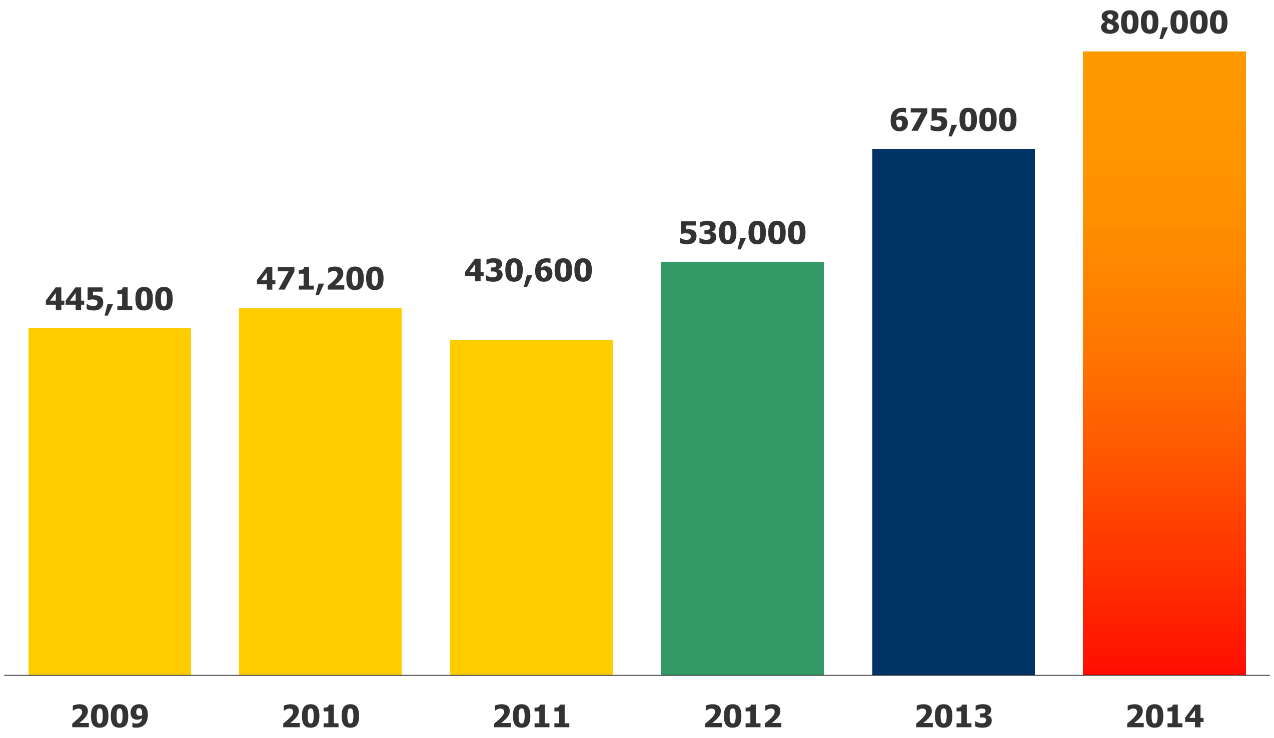
Housing Sector

Finally, the single-family housing sector is experiencing a turnaround in 2012 that is expected to continue. The ULI Consensus Forecast from March projected a stabilizing housing market in 2012, and the most recent numbers have been strong, leading forecasters to be even more optimistic going forward.

Single-family housing starts, which have been near record lows over the past three years, are expected to rise from 430,600 starts in 2011 to 530,000 in 2012, 675,000 in 2013, and 800,000 in 2014. The 2012 and 2013 forecasts are up from the March forecast, while the 2014 forecast remains the same.

The average home price, which has declined somewhere between 1.4% and 3.9% over each of the past three years, according to the FHFA, is expected to increase by 3.2% in 2012, 3.9% in 2013, and 5.0% in 2014; all of these are well above the previous *ULI Forecast* from March.

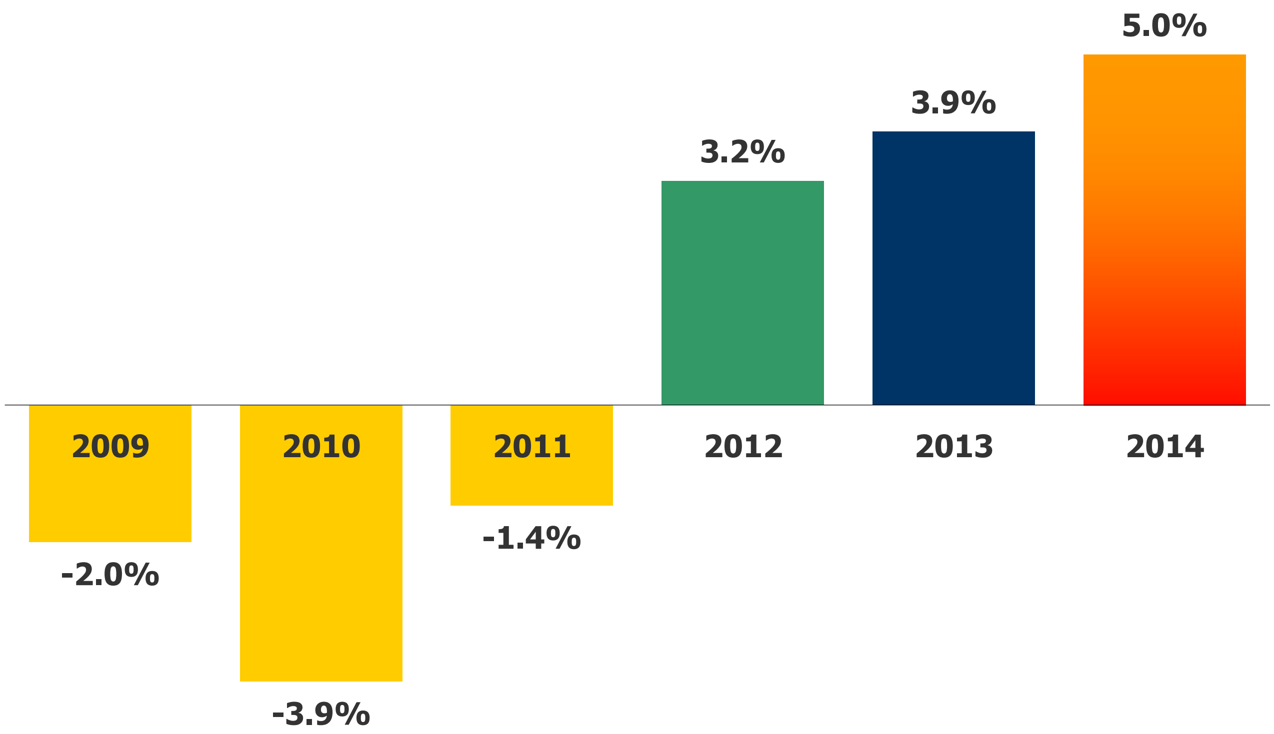
Single-Family Housing Starts



Sources: U.S. Census, 2009-2011; ULI Consensus Forecast data, year-end 2012-2014. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 500,000, 660,000. 800,000.

ULI Real Estate Consensus Forecast

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. Note: The previous (March 2012) ULI Forecast for 2012-14 was: 0.0%, 2.0%. 3.5%.

Firms That Participated in the ULI Real Estate Consensus Forecast

Organization	Economist/Analyst	Title	City/State
AEW Capital Management, L.P.	Richard G. Brace, Jr.	Director	Chicago, IL
Alvarez & Marsal	Steven Laposa	Principal, Global Real Estate Knowledge Center	Denver, CO
American Realty Advisors	Lee Menifee	Managing Director, Research and Strategy	Los Angeles, CA
	Chris Fruy	Senior Manager of Market Research	Los Angeles, CA
Avalon Bay Communities	Craig Thomas	Vice President, Market Research	Washington, DC
Bailard	Ronald Kaiser	Director, Real Estate Research	Foster City, CA
Bentall Kennedy	Doug Poutasse	Executive Vice President	Boston, MA
BlackRock	Kevin Scherer	Managing Director	New York, NY
	Steve Cornet	Director	New York, NY
Cassidy Turley	Kevin Thorpe	Chief Economist	Washington, DC
	Elena Bondarenko	Economist	Washington, DC
CBRE	Asieh Mansour	Head of Americas Research	San Francisco, CA
CBRE Econometric Advisors	Jon Southard	Managing Director	Boston, MA
Clarion Partners	Tim Wang	Senior Vice President, Head of Investment Research	New York, NY
Cole Real Estate Investments	Kevin White	Senior Vice President, Investment Strategy & Research	Phoenix, AZ
Colliers	KC Conway	Executive Managing Director of Real Estate Analytics	Atlanta, GA
Cornerstone Real Estate Advisers	Michael Gately	Managing Director - Research	Hartford, CT
	Jim Clayton	Vice President - Research	Hartford, CT
Dividend Capital	Glenn R. Mueller PhD	Real Estate Investment Strategist	Denver, CO
Freddie Mac	Frank Nothaft	Vice President and Chief Economist	McLean, VA
Hines	Josh Scoville	Senior Managing Director	Boston, MA
International Council of Shopping Centers	Michael P. Niemira	Chief Economist & Director of Research	New York, NY
Invesco Real Estate	Nicholas Buss	Director, Research	Dallas, TX
LaSalle Investment Management	William Maher	Director, North American Strategy	Baltimore, MD

Firms That Participated in the ULI Real Estate Consensus Forecast

Organization	Economist/Analyst	Title	City/State
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	New York, NY
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
PPR CoStar	Hans G. Nordby	Managing Director	Boston, MA
	Shaw Lupton	Senior Real Estate Economist	Boston, MA
Principal Global Investors	Andy Warren	Managing Director, Research	Des Moines, IA
Prudential Real Estate Investors	Youguo Liang	Managing Director, Investment Research	Madison, NJ
RCLCO	Gadi Kaufmann	Managing Director and CEO	Washington, DC
Real Capital Analytics	Robert White	President	New York, NY
Real Estate Research Corporation (RERC)	Ken Riggs	Chairman & President	Chicago, IL
Regions Financial Corporation	Richard Moody	Senior Vice President and Chief Economist	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 and Director of Research	Berkeley, CA
RREEF	Mark Roberts	Global Head of Research	New York, NY
Trepp LLC	Matthew Anderson	Managing Director	New York, NY
	Susan Persin	Managing Director	New York, NY
Wells Fargo Securities, LLC	Mark Vitner	Managing Director and Senior Economist	Charlotte, NC

ULI Real Estate Consensus Forecast

The *ULI Real Estate Consensus Forecast* is based on a survey of leading real estate economists/analysts representing 39 leading real estate investment, advisory, and research firms and organizations. The current survey was conducted from August 21 to September 14, 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 39 survey respondents.

The next *ULI Forecast* is scheduled for release in March 2013.

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

September 2012

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