VIEWPOINT

2017 COMMERCIAL REAL ESTATE TRENDS REPORT

An Integra Realty Resources Publication

Comprehensive Commercial Real Estate Market Research, Valuation and Advisory Services

About IRR

Over the past 17 years, Integra Realty Resources, Inc. (IRR) has grown to become North America's largest independent CRE market research, valuation, and counseling firm. Our clients tell us that our 600+ professionals in 49 offices deliver extraordinary insight, unbiased advice, and excellent service. In 2016, IRR valued over $400 billion in real estate assets across more than 60 metro markets comprising over 34,000 assignments.

Every IRR office is supervised by one of our more than 191 MAI-designated professionals, industry leaders who have over 25 years, on average, of experience in their local markets. Having more MAI-designated experts than any other firm is just one testament to the high levels of training and experience which we put at our clients' disposal: as of December 2016, IRR's senior management team also includes: 38 FRICS; 27 MRICS; 20 CREs; 22 SRAs; 13 CCIMs; 8 ASAs.

These designations from the most prestigious real estate organizations in the world mean that from a culture of quality and ongoing professional development, we can offer unparalleled expertise in appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. IRR stands ready to serve you with unmatched Local Expertise…Nationally.

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Bank of America
Paul Hastings

CHAIRMAN’S LETTER

Times, they are a changing.

As we head into 2017, the level of change being wrought throughout our economy is manifesting itself at the company level here at Integra Realty Resources. At the end of this year, we said goodbye to three of our major IRR partners in Chicago, Houston, and DFW as they left the fold of mother Integra to join Jones Lang LaSalle (JLL).

As we work to identify new partners in those markets, the value proposition of our company to deliver best-in-class real estate information everywhere in the U.S., and hopefully soon throughout North America, has never been stronger.

IRR has invested heavily, in the past few years, in advanced technologies to assist in our development of credible opinions that are integrated and supported by larger-scale datasets. The industry is moving faster, and our people are working harder to meet the demands of corporate, institutional, and government clients nationwide. We are meeting that challenge through our continued leverage of information technologies in every segment of our business, coupled with our long-term commitment to training and deploying the best analysts in the industry by empowering them with fundamental tools for better understanding of real estate trends.

Despite our near-term temporary coverage gaps in these markets, and the possibility that other national firms will be on a talent hunt for our best and brightest in 2017, IRR remains one of the largest and strongest privately-held advisory firms in the U.S. To this, we owe our deepest gratitude to our loyal clients and employees who work together to create a knowledge base of real estate information that we deploy to the benefit of industry and government in 49 key U.S. markets.

This Viewpoint publication is a continued culmination of leadership in data and design. With over 20 years of real estate data metrics throughout the U.S., our clients should expect the launch of subscription-based access to Viewpoint data shortly. This will enable the integration of IRR’s historic real estate data metrics against other industry data sources to provide forecasting capabilities against longer-term real estate property trends.

IRR is committed to our clients, and committed to adapting to meet our clients’ needs. We are also steadfast in our mission to enhance industry understanding of the use and value of real estate for years to come.

This will be an exciting year as we integrate new offices and people into our platform, and continue to invest in the future of our people and process to exceed our mandate of leadership in valuation and counseling, locally and nationally.

We hope you enjoy this year’s edition of Viewpoint, with its exceptional commentary and data at the forefront of the forecast. We look forward to serving you in 2017 and beyond.

Respectfully,
Anthony M. Graziano, MAI, CRE
Integra Realty Resources (IRR)
Chairman of the Board

CRE TRENDS

Viewpoint kicks-off its 2017 national overview and outlook with an examination of the U.S. economy. IRR has partnered with renowned economist, Hugh F. Kelly, PhD, CRE to explore the major political and fiscal policies that are poised to affect the economy, business sentiment, and a few of the key challenges and opportunities that face the CRE marketplace.

ECONOMY 2017

After Brexit, the election of Donald Trump, and a World Series victory for the Chicago Cubs, prognostication has never seemed more iffy. We are reminded of the economist John Kenneth Galbraith's advice, "If you must forecast, forecast frequently." Or the even more sage observation of Yogi Berra, "Predicting is hard, especially when it is about the future." And yet, we must plan, and so we must anticipate. Here goes.

The election results were a call for change. And the new President has been clear about his intent to foment change, to shake things up in Washington, to tackle the economy in ways that differ from the outgoing Administration. With Congress in solid Republican control, Mr. Trump can expect a true "honeymoon period" for his first one hundred days' agenda. Once key decisions are made between January and May, implementation is path-dependent. What is the path that seems most likely as 2017 begins?

Fiscal policy is rotating to the fore, for the first time since 2010 when Washington gridlock clogged the economic – political intersection. Three major pillars of the Trump agenda are fiscally stimulative: military spending, infrastructure programming, and tax cutting. These will bolster growth in an economy with a remarkably solid foundation. Over the Obama administration, some fifteen million jobs were added. In 2016, monthly net job gains have averaged about 185,000, and the headline unemployment rate is down to 4.6%. Labor market shortages characterize several key industries and

The moderate growth in the U.S. economy should, overall, get a boost in 2017, perhaps pushing GDP closer to 3%, rather than the 2% norm of the past few years

occupations, from intense competition for coders in high technology to a scramble to find construction workers in the homebuilding industry.

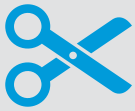
We have been reminded that the rising tide did not lift all boats, that middle-aged and formerly middle-class workers in U.S. basic manufacturing feel left behind and demand that attention be paid. They are being joined by others, as the U.S. energy industry comes off its pricing high of a couple of years ago and adjusts to what is likely a long period where oil fluctuates in the $40 to $60 per barrel range. So a case for targeted fiscal stimulus clearly makes some sense. Stimulative policy is a prescription, but an effective prescription depends upon an insightful diagnosis.

The equities markets, immediately after the election, strongly anticipated that corporate profits would rise under the three fiscal pillars, enhanced by a shift toward lesser government regulation under a Trump administration. The bond market interpreted the same expectations as leading to higher inflation and an increased cost of debt capital. The Federal Reserve has already begun its tightening program and could ratchet up the Fed Funds rate several times by the end of 2017. That would affect the cost of mortgage capital for homes and for income-producing real estate assets.

The moderate growth in the U.S. economy should, overall, get a boost in 2017, perhaps pushing GDP closer to 3%, rather than the 2% norm of the past few years. The key question to consider is whether that acceleration also pushes forward the potential for recession, as wage and price growth become more of an issue for the Fed. A secondary question revolves around the willingness of conservative congressional leaders to countenance deficit spending and an increase in the national debt. The honeymoon period will only last so long. And then, there is the as-yet unknown reaction of Mr. Trump's populist supporters as his campaign promises to confront the constraints in law and in governance that every leader must face.

All in all, 2017 shapes up as a turning point. Get set to be twitterpated.

3 Likely Policies That Will Stimulate the Economy

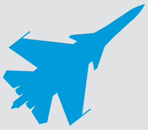


Tax Cuts

Cuts to capital gains and income taxes will spur growth, but could also further economic inequality

Infrastructure Spending

Increases in infrastructure spending could significantly boost economic activity and employment



Military Spending

Larger budgets for weapons systems and related software projects will fuel employment in the defense sector

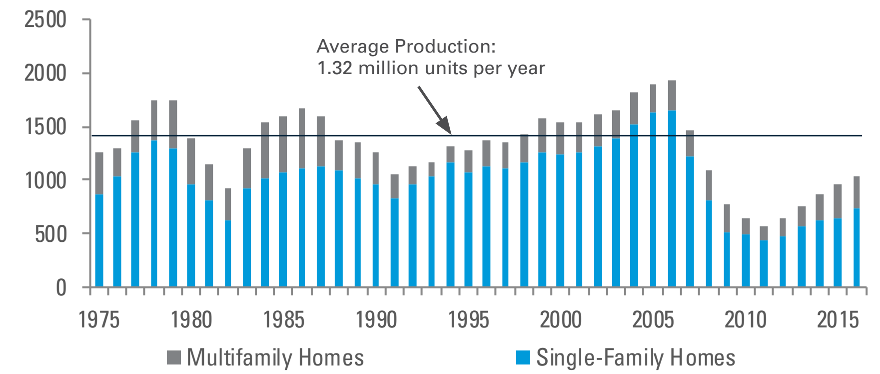
HOUSING

There is some temptation to label the 63.5% homeownership rate as a "new normal," compared with the average rate prior to the housing collapse. But, we need to bear in mind that the peak volumes in the housing bubble were not normal. "Abnormal" is an economic synonym for "bubble," after all. Homeownership is now about what it was in the early 1990s, and a rate in the low 60 percent range is not necessarily a "bad number."

This perspective is important for many housing statistics. For instance, the Case-Shiller Index was recently reported to have regained its peak pricing level nationally. Be careful when interpreting such reports. While home prices may have made up their post-2007 losses in some areas (Boston, Charlotte, Dallas, Denver, Portland, and Seattle), they are still down more than 20% in others (Las Vegas,

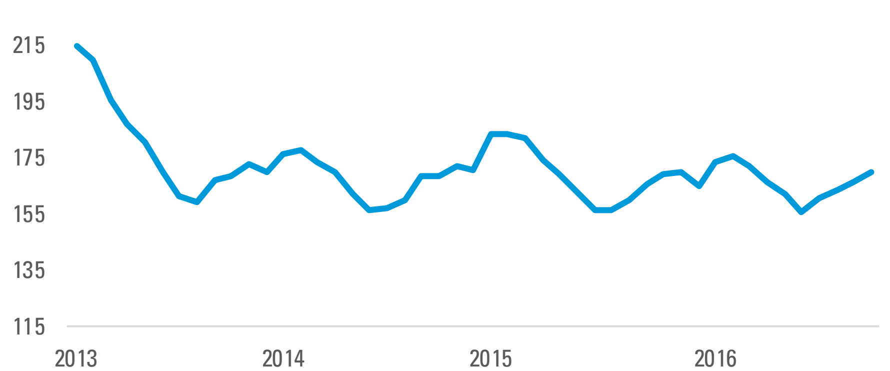
Affordability has been buoyed by low interest rates even as home prices have recovered

HOUSING CONSTRUCTION CYCLE



Note: 2016 estimate is Jan-Oct monthly completions at Seasonally Adjusted Annual Rate

HOUSING AFFORDABILITY INDEX



Index: 100 = Monthly Mortgage Payment on Median Priced Home covered by Typical Housing Expense of Median Income Household

Phoenix, and Tampa). The volatility in housing prices of the past two decades shapes our view of what normal patterns might be. But, prior to that time, home prices were, on the whole, remarkably stable.

Two factors are setting the direction of the housing market in the year ahead. One is the continued slow pace of residential construction. The U.S. is seeing just above one million units completed annually, about three-quarters in the single-family sector. This is up from the recessionary trough, surely, but still much lower than the production expected in a mature economic recovery. Slow growth in this area is the most probable forecast for 2017. The second factor is the impact of mortgage rates, which have already begun to rise. This will impact new homebuyers negatively. First-time homebuyers are often saddled with student loan debt that makes saving for a down-payment difficult, and such indebtedness can keep their FICO scores below the key 660 threshold for creditworthiness. As homebuilders are prone to prefer higher-margin product to the more affordable “starter home” market, even the solid jobs recovery has not shifted effective demand from rental to ownership housing. It is unlikely this will change in the year ahead.

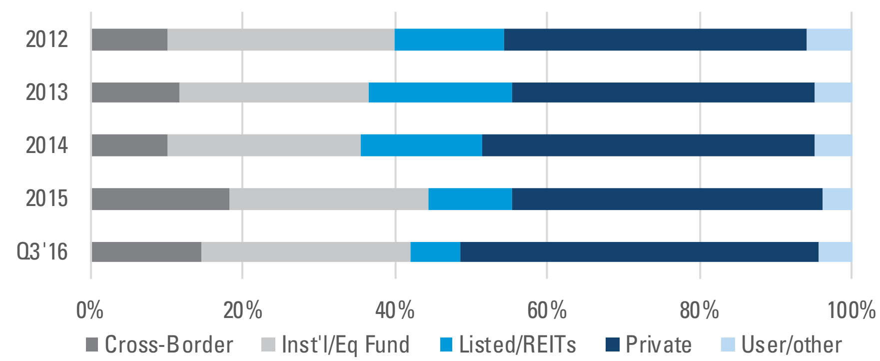
CAPITAL MARKETS

There is good news and bad news. Investment volume in real estate ratcheted back in 2016, compared to its strong growth in each of the previous six years. Many might think that’s bad news, but it is good news as well. Just as fears that a tsunami of capital washing across the industry would wipe away discipline and elevate the risk of a renewed bubble were gathering force, capital sources took a breather. Investment health is not just a quantitative question, it is qualitative, too. We think this means the markets have learned an important lesson from the dizzying swings of the last cycle.

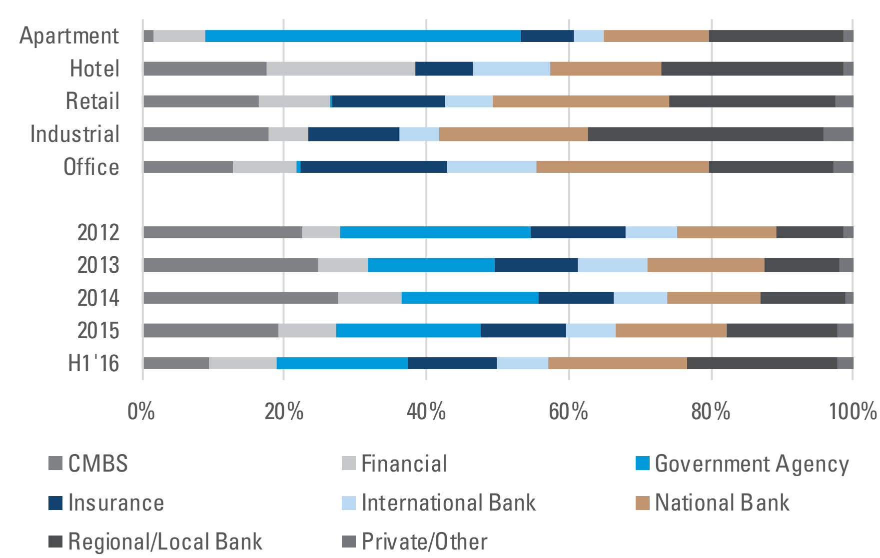
There is a hoary maxim that "nobody ever went broke by taking profits." Investors who put capital to work in the first half of this decade enjoyed plenty of appreciation, and many took the opportunity to harvest their profits in 2016. This is especially true for REITs, who were net sellers in the first three quarters of 2016 in all the major property types. While domestic institutions, international investors, and private equity committed more capital than they withdrew by dispositions, all had significant sell-side activity. Almost universally, their stated strategies were to reconfigure their asset portfolios by selling opportunistically and upgrading with higher-quality properties.

Institutional investors, such as pension funds and the life companies, will likely have stronger buying appetites in 2017, due to the so-called denominator effect: if the equity markets continue to rise as they have since the presidential election, real estate allocations in mixed-asset portfolios can be expected to increase to keep overall holdings in balance. REITs, however, face a challenge in a rising stock market. As dividend-driven investment vehicles, REIT shares suffer as greater emphasis is placed on "alpha" factors dominated by appreciation as a component of total yield. Cross-border capital faces a huge conundrum: after Brexit, the U.S. safe-harbor virtues seemed unassailable; but America will face greater-than-expected levels of volatility in interest rates and inflation in the post-election environment. From a risk-reward

REAL ESTATE EQUITY INVESTOR COMPOSITION



REAL ESTATE DEBT CAPITAL COMPARISON



perspective, international investors are left with perplexing choices.

On the debt side, commercial mortgage lending has been proceeding with an abundance of caution, an understandable reaction to the shake-out of the financial crisis. Bank lending is likely to remain conservative, even if regulatory relief appears to be on the horizon. Regional and community banks will be far more the source of development lending than the large SIFI lenders. Private debt funds and other non-bank lenders should have great growth opportunities, as they will be more nimble as deregulation proceeds. CMBS would also find a smoother road ahead if an easing of risk-retention rules were implemented, and this securitized debt capital volume would offset (somewhat) the drag of higher interest rates.

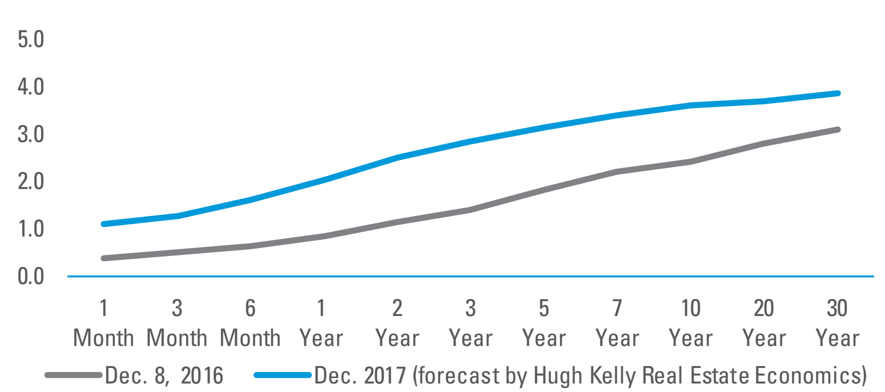
One other policy-sensitive area is the outlook for the GSEs (Fannie Mae and Freddie Mac). They have really carried the burden of keeping liquidity in the housing area robust, bolstering recovery in the single family and multifamily areas. There is political pressure to alter their activities (at minimum) or unwind them (at maximum). They are such a major player, though, that slow change rather than radical change is the most likely scenario. But, in the present environment, who is inclined to predict with any pretense of certainty?

INTEREST RATES

Ever since the Federal Reserve drove interest rates down toward the zero bound, forecasters have joined in the chorus, "Rates have nowhere to go but up." Yet, up until December's most recent rate hike, rates controlled by the Fed have stayed down, and interest rates with wider market influences have also remained low. The reasons are many: low global inflation in both labor and commodity costs, slack levels of final demand in a slow-growth U.S. economy and a fragile Europe, a recurrent flight to safety when world events prompt capital shifts. Why would 2017 be different? Why is this the year when interest rates make their move higher?

Yield curve should trend upward in 2017 with greatest move in intermediate maturities

TREASURY YIELD TO MATURITY, IN PERCENT



The era of Cap Rate compression has ended, yet it is unlikely that Cap Rates will spike sharply enough to dampen prices in 2017

Some, but not all, of the factors just mentioned are changing. The most obvious is that the Fed's inclination to move short-term rates up has strengthened, thanks to the duration of the economic recovery, the tightening of labor markets, indication of wage growth, and a perceived need to create space between the Fed Funds rate and the zero-rate limit to preserve some policy leverage in the event of an eventual recession. That means that the so-called "risk-free" rate from which spreads are calculated will be moving up.

But market interest rates don't move in lockstep with Fed movement. There is elasticity in the "risk premium" that separates market rates from the risk-free rate. That elasticity will be re-shaping the yield curve as it trends upward. Some are anticipating a steepening of the yield curve (that is, a wider spread between short-term and long-term Treasury rates). We think that expectation is wrong. Long-term rates such as the 10-year T-note and longer Treasury bonds will continue to reflect global labor and commodity inflation expectations, as well as the U.S. most-favored-nation status as a safe harbor for capital. Long-term rates have already drifted up, and should continue to do so, but more slowly than mid-range duration instruments, say from one to five years in maturity.

Again, why? It is the mid-term rates that will price the expected fiscal stimulus and its potential inflation risk. Moreover, it is bonds maturing between 2018 and 2022 that need to reflect business cycle risk at this point. It is also that time frame where the uncertainty of changing regulatory policies, trade deals, and other shifts in Administration approaches to economic and geopolitical conditions need to price event risk. So, the steepening in rates is most likely in the middle of the yield curve, not in the longest maturities.

What does this mean for real estate? Those who locked in low-cost debt in the last couple of years turn out to be winners. Those opting for variable rate loans are facing pressure. Since construction lending is typically adjustable, there will be pressure on developers that only would be slightly eased if the Dodd-Frank regulations on so-called "high-volatility" loans (land and construction) are relaxed in the coming year.

Since mortgage rates play into the structure of cap rates, that should lead to an increase in initial capitalization rates. That rise is mitigated by two elements, though. First, the lower loan-to-value rates now prevailing temper the impact of the price of debt on overall cap rates. Second, equity risk premiums for most property types have been generous enough to keep transaction levels high (even if volume has eased in 2016). So, the era of continued cap rate compression has likely ended; it is unlikely that a spike in cap rates severe enough to spark a downward price spiral is in the cards for 2017.

EMPLOYMENT

National employment statistics dominate the headlines. For real estate, it is varied local conditions and local employment numbers that matter. While recent changes in the labor markets may or may not presage a similar outlook for 2017, the detailed data for 2016 does give a valid reading of comparative strength, direction of trend, and momentum as the new year begins.

The Bureau of Labor Statistics counts jobs in 387 metro areas, and jobs are up in the past year in 311 of them, down in 68, and unchanged in eight. Thus, the national jobs gains of roughly 2.4 million are very well distributed. Unemployment figures tell a similar story, on balance, but give a clue to some of the worker dissatisfaction expressed in the recent campaign season. Some 231 metro areas saw their jobless rate declining, but a significant 127 metros found unemployment rising over the year, with the jobless rate holding steady in the remaining 29 localities.

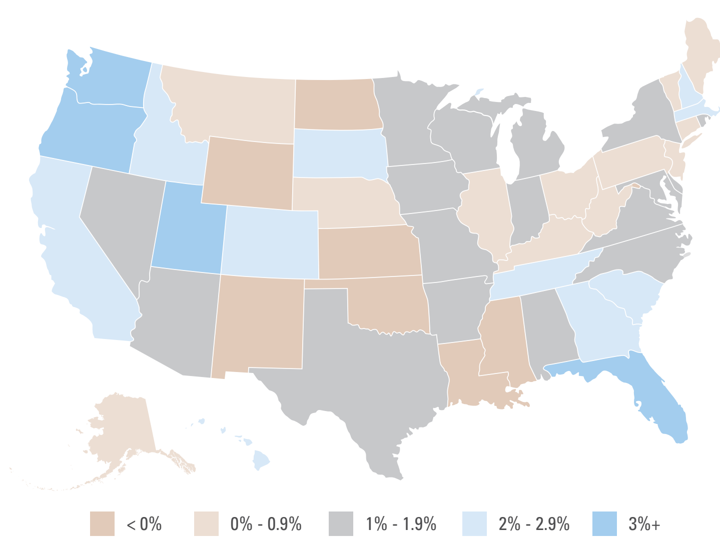
A glance at the state-by-state map of job change convincingly shows the stress brought on by declining energy prices. States such as Louisiana, Oklahoma, North Dakota, and Wyoming, that had enjoyed the fruits of the energy boom found themselves with net job losses in 2016. And there were a dozen states, many energy-producing, agricultural, or manufacturing in their economic base, that had less than one percent job growth – effectively stagnant economies. Thirteen states grew at rates above the national average. The common denominators were a technology specialty, strong tourism, and high international trade volumes. Any significant changes in employment outlook will depend on the key industries in each location.

Because the effects of fiscal stimulus will differ from place to place, only the broadest hints of which states and metros will benefit can be seen right now. Financial deregulation, for instance, might be positive for banking centers such as New York and Charlotte. Defense spending could bolster Northern Virginia, certainly, but the top five defense contractors have facilities all over the country: New England to California, Washington State to Florida. Watch for which weapons systems, hardware, and software projects are to receive early funding, and job growth will follow.

Unfortunately for those cities and states lagging in the past year or so, a turnaround in jobs will not be easily accomplished. No amount of jawboning will return a significant number of manufacturing jobs, and if energy prices stay below $60 - $65 per barrel, the Oil Patch will continue to struggle. A trade or tariff war will hurt the agricultural states most of all, since farming is one of our few trade surplus sectors.

The caution "the devil is in the details" is as true as ever. Policy has the capacity to alter trends, but this takes time and also takes discipline. While a positive national jobs outlook is still warranted, the key beneficiaries of policy change are still to be revealed.

JOB GROWTH BY STATE (12 MONTHS ENDING OCTOBER 2016)



COMMERCIAL PROPERTY SECTOR EXPECTATIONS

In 2017, we may see an acceleration of jobs, incomes, corporate profits, and after-tax wealth

Thankfully, real estate investment is different from high frequency trading, the art of picking up nickels on shifts of news or rumor. The fundamentals of cash flow, asset management, and market selection may not be as sexy as speculative plays in the stock and bond markets. In a period of substantial uncertainty, though, real estate can be an anchor for an economy in flux. The economic consensus foresees an acceleration of jobs, incomes, corporate profits, and after-tax wealth in 2017. Under those conditions, commercial real estate should prosper. Astute investors and owners, knowing that multiyear leases can lock high-point conditions in place, will have a chance to secure future income streams as a hedge against a rising risk of a cyclical downturn later in the decade.

Key Property Highlights

Office

As the office sector expansion matures, pricing differentials are making selected suburban markets increasingly attractive. Cap rates are poised to rise, however, with only one market in every six expecting further rate compression.

Retail

Rent and value gains outstripping the growth in GDP and CPI are ahead for many retail markets, with nearly 70% identified as being in the expansion phase of the cycle. The stores sector is rotating into greater favor, after lagging other property types in this cycle.

Multifamily

Earliest in recovery, rental apartments are now facing the earliest risk of hypersupply, threatening supply-demand balance. Overbuilding has been most intense in luxury units in coastal markets. But, there is opportunity in moderate rentals, both in urban high-rise and suburban garden apartment locations.

Industrial

Solid performance is anticipated, with more than half of U.S. markets expecting value increases of two percent or more in 2017. The outlook is especially optimistic for major ports and for distribution centers where e-commerce demand is booming.

Hospitality

Domestic travel demand looks excellent, as low gas prices are coupled with strong employment figures. Major gateway markets may struggle somewhat if the trend of dollar strengthening inhibits international travel. Hotel chains are aggressively seeking to respond to challenge of boutique hostelries and to the expanding "home-share" supply of rooms.

PROPERTY REPORTS

Five core property types form the backbone of the commercial real estate industry – office, multifamily, retail, industrial, and hospitality. Each sector is unique and different, requiring both global trend interpretations, as well as a local perspective.

IRR closely tracks these primary sectors in order to provide independent analysis and help shape your outlook. We examine transaction volume, market cycles and cap rate insights, so that you can make informed decisions in 2017.

OFFICE

For more than 20 years, futurists have trumpeted the decline and fall of the office sector. Technology was presumed to compromise the value of location, leading to "the death of distance." Costs were seen as inevitably driving space utilization down to sweatshop-like densities. Globalization, in the eyes of the seers, was going to dilute U.S. advantage in finance, professional services, and other spheres of "knowledge work," leading to an exodus of white-collar work, akin to the offshoring of production jobs in the manufacturing economy.

Yet, since the dawn of the 21st century, U.S. office markets have seen 472 million square feet of net absorption, even considering the cataclysmic losses of jobs during the global financial crisis. Investors have committed vast amounts of capital to the office sector. And there are more than 90 million square feet of new space under development. It doesn't take much courage to forecast another solid year for offices in 2017.

Transaction Volume

One of the risks of the Federal Reserve's aggressive monetary policy following 2008 was supposedly the inflation of an asset bubble, as too much capital chased too few valuable assets. Indeed, the steady upward procession of office property transaction volume, recorded by Real Capital Analytics from 2010 to 2015, indicated purchase activity and cap rate compression bearing an uncomfortable resemblance to the pre-financial crisis bubble years. In the 12 months ending September 30, 2016, though, the market looked like it had recalled, in good time, the consequences of chasing assets willy-nilly.

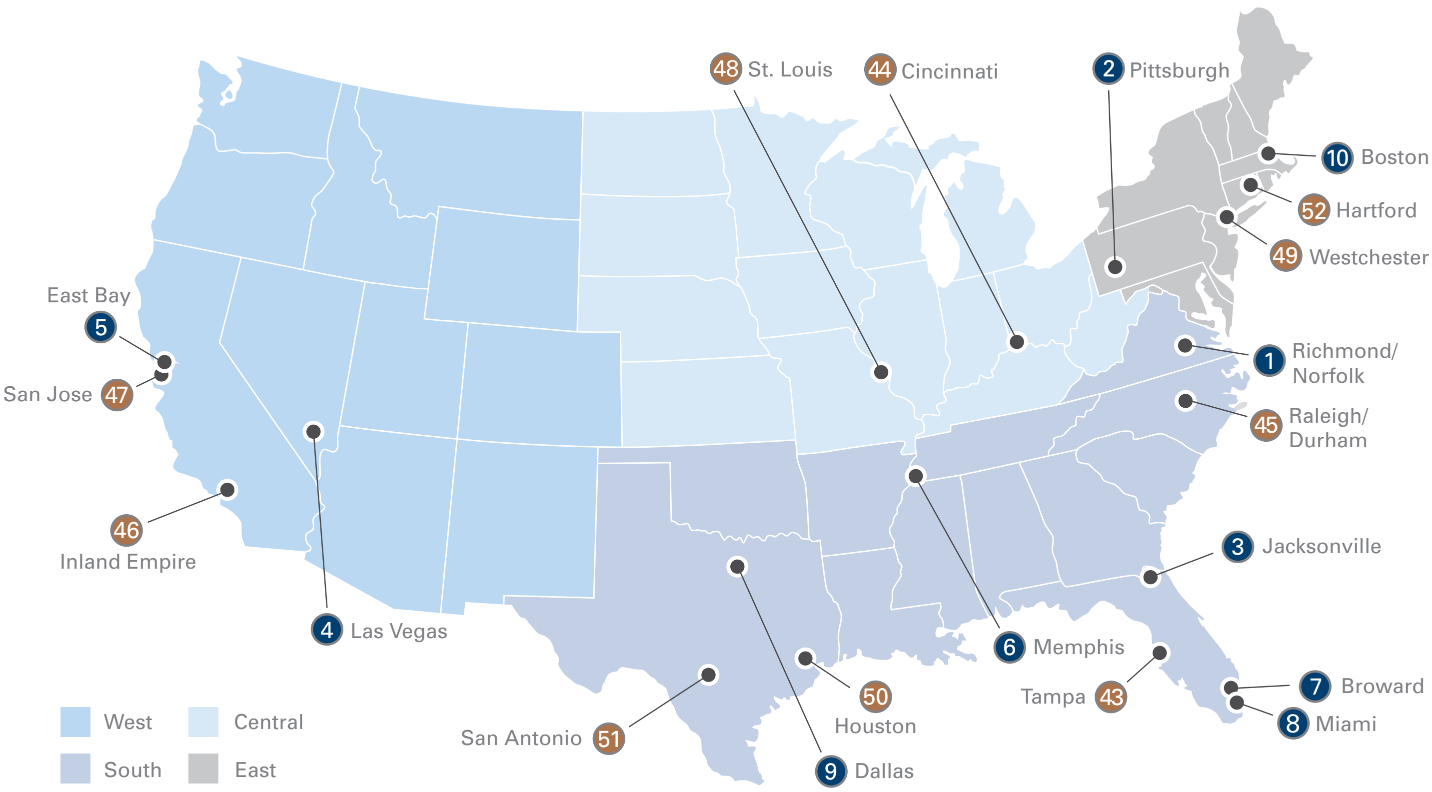
Annual transaction volume pulled back 3.2%, to a still robust $142.1 billion. In the prior year, office acquisitions had risen 16.2%. Of the four major regions of the country, only the East saw an increase in volume, at a modest 5.3%. The Central region experienced a sharp decline of 13.3%, while the West and South slowed by 7.7% and 4.0%, respectively.

IRR's research finds that 47% of markets expect values to increase greater than 2% in the next 12 months. Markets calling for growth greater than 4% in the CBD include Dallas, Los Angeles, Miami, New York City, Philadelphia, Raleigh, and Las Vegas. In a note of caution, though, Baltimore, Houston, and Dayton are calling for CBD valuation decreases over the next 12 months.

Business and consumer confidence has been rising toward year-end 2016, and this could bolster investment volume for the office sector in 2017.

Of the four major regions of the country, only the East saw an increase in transaction volume, at a modest 5.3%

TOP MARKETS BY OFFICE TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

YOY Rank	City	YOY Change	Total 4Q15-3Q16	Vol. Rank*
1	Richmond/Norfolk	154.1%	$964.1 M	27
2	Pittsburgh	84.7%	$657.4 M	35
3	Jacksonville	66.8%	$493.1 M	42
4	Las Vegas	66.7%	$494.1 M	41
5	East Bay	60.9%	$2,501.4 M	15
6	Memphis	59.9%	$175.7 M	51
7	Broward	45.3%	$1,253.4 M	23
8	Miami	42.5%	$2,223.4 M	17
9	Dallas	39.9%	$5,369.0 M	7
10	Boston	35.6%	$9,537.3 M	3

Bears (Bottom 10)

YOY Rank	City	YOY Change	Total 4Q15-3Q16	Vol. Rank*
43	Tampa	-34.2%	$995.3 M	26
44	Cincinnati	-34.5%	$356.7 M	46
45	Raleigh/Durham	-35.4%	$891.2 M	29
46	Inland Empire	-37.6%	$359.1 M	45
47	San Jose	-40.9%	$4,086.4 M	10
48	St Louis	-42.4%	$549.5 M	37
49	Westchester	-47.7%	$289.2 M	48
50	Houston	-52.3%	$1,397.4 M	21
51	San Antonio	-52.3%	$396.1 M	44
52	Hartford	-75.7%	$74.4 M	52

* Volume Ranking is based on the overall transaction volume among 52 markets nationally

50%

of CBD markets and 44% of Suburban markets are in the Expansionary market cycle phase

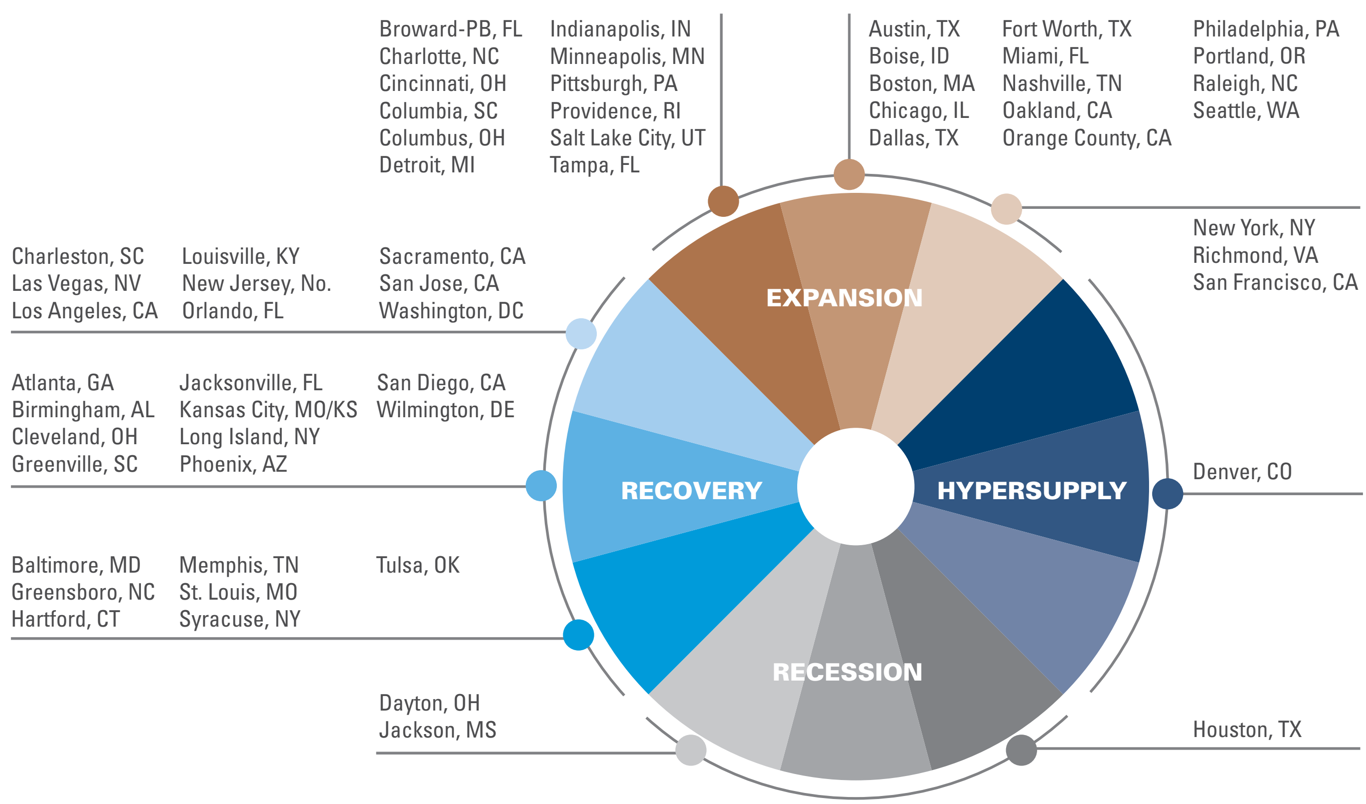
Market Cycle

IRR is finding 29% of Class A CBD and Suburban office markets in balance, compared with 27% of Class B CBD and Suburban office markets. Full recovery will take additional time. Close to 32% of Class A office markets nationally are more than two years from equilibrium, a slightly lower rate than the 42% of Class B office markets considered in that condition.

Regionally, here are how things stack up:

- In the East, 42% of CBD office markets are in expansion, and 58% are in recovery. The Baltimore and Washington DC downtowns are also in recovery, as is the Northern NJ CBD office market. Among secondary urban markets, Syracuse, Long Island, Wilmington, and Hartford are still in the recovery phase. Suburban offices are lagging in the cycle: 70% of markets in the East are in recovery, with just 23% of markets in expansion. Washington DC's suburbs are mired in recession.

CBD OFFICE MARKET CYCLE



EXPANSION

Decreasing Vacancy Rates
Moderate/High New Construction
High Absorption
Moderate/High Employment Growth
Med/High Rental Rate Growth

HYPERSUPPLY

Increasing Vacancy Rates
Moderate/High New Construction
Low/Negative Absorption
Moderate/Low Employment Growth
Med/Low Rental Rate Growth

RECESSION

Increasing Vacancy Rates
Moderate/Low New Construction
Low Absorption
Low/Negative Employment Growth
Low/Neg Rental Rate Growth

RECOVERY

Decreasing Vacancy Rates
Low New Construction
Moderate Absorption
Low/Moderate Employment Growth
Neg/Low Rental Rate Growth

- For the Central: 55% of downtown markets are in expansion, with 37% (including Cleveland, Kansas City, and St. Louis) in recovery. Dayton's CBD office remains in recession. For Central Region suburbs, 45.5% of markets are in recovery/expansion. Chicago's suburbs are in recession.

REGIONAL RATES COMPARISON - OFFICE

	Cap Rate	Discount Rate	Market Rent ($/SF)	Vacancy Rate	4Q15 - 4Q16 Cap Rate
South Region					
CBD Class A	6.69%	7.94%	$27.47	12.27%	-8 bps
CBD Class B	7.61%	8.88%	$20.64	15.45%	-9 bps
Suburban Class A	7.18%	8.39%	$24.64	11.46%	-14 bps
Suburban Class B	7.93%	9.05%	$18.77	14.62%	-10 bps
East Region					
CBD Class A	6.56%	7.57%	$37.67	11.53%	-13 bps
CBD Class B	7.64%	8.65%	$26.90	14.85%	4 bps
Suburban Class A	7.07%	8.07%	$26.67	15.26%	-12 bps
Suburban Class B	8.05%	9.03%	$21.02	14.38%	5 bps
Central Region					
CBD Class A	8.05%	9.20%	$22.87	17.73%	-7 bps
CBD Class B	8.68%	9.70%	$17.17	16.31%	-7 bps
Suburban Class A	7.77%	8.86%	$22.88	16.05%	-9 bps
Suburban Class B	8.50%	9.55%	$17.36	18.63%	-7 bps
West Region					
CBD Class A	5.89%	7.64%	$37.14	11.72%	-13 bps
CBD Class B	6.56%	8.14%	$29.00	10.94%	-6 bps
Suburban Class A	6.35%	7.93%	$33.07	13.14%	-6 bps
Suburban Class B	6.86%	8.54%	$26.49	12.80%	-11 bps
National Averages/Spreads					
CBD Class A	6.73%	8.03%	$30.98	13.01%	-10 bps
CBD Class B	7.57%	8.81%	$23.25	14.42%	-5 bps
Suburban Class A	7.07%	8.30%	$26.65	13.45%	-11 bps
Suburban Class B	7.81%	9.02%	$20.74	14.87%	-7 bps

Supply/Demand ranked as the most significant factor influencing market conditions in 2017

- Greater CBD/suburb office balance can be seen in the South. Both downtowns and suburbs count 50% of the region's markets in expansion. Two downtown markets are in recession (Houston and Jackson), as well as two suburban areas (Houston and Greensboro). The remaining markets are in the recovery phase of this cycle.
- The West counts 50% of its CBD markets in expansion, with 43% of the region's downtowns in recovery. Denver is experiencing hypersupply market conditions in its core market area. Suburban market improvement is broadening with 50% of the Western suburbs rated in recovery or expansion.

Cap Rates

The curve of cap rate compression noticeably flattened in 2016, a likely result of the diminished transaction volume in most regions, and expectations of higher future interest rates. After several years where capital markedly favored CBD offices in the so-called Gateway Cities, investors again broadened their scope in 2016. This led to increased cap rate compression in suburban markets in the South (Memphis, Sarasota, and Tampa), in the Central (including suburban Detroit), and on the West Coast (Portland, San Diego, Los Angeles, and Oakland).

The curve of Cap Rate compression noticeably flattened in 2016, a likely result of the diminished transaction volume in most regions

IRR research reveals an expectation that office cap rates will tick up modestly in 2017. Most markets are expected to remain close to their current cap rate range, but Phoenix is perceived to have a risk of a significant rate rise both in its CBD and suburbs.

Conclusion

An expected continuation of job growth, coupled with relatively low levels of construction, will keep market fundamentals strengthening in most areas. Investors like offices as a sector, but are carefully evaluating individual assets and markets as the office cycle matures further.

MULTIFAMILY

The rental apartment sector led the queue of property types in recovery, and continues to stand out as the leading choice for investors. What many see simply as a cyclical boom, however, is composed of some disparate forces. Over and above a typical demand cycle energized by employment growth, there is a change of state in housing patterns as ownership has dipped from 69% to just 63.5% of households. That diversion of demand significantly shapes at least a semi-permanent condition where 35% to 40% of all new households will be renters.

Many question the durability of Millennials as a demand segment. With 83 million in the generation, some will remain urban-oriented; others will find the suburbs attractive. Some will be life-long renters; others will move into ownership. Debating—or rather, guessing—what Millennials will do is fun, but not really enlightening.

The issue is more this: how will the overall population trends drive housing demand? Here's the shorthand answer. The age cohort 18 – 44 years will expand from roughly 116 million to about 128 million by 2040. Virtually every one of those additional 12 million residents will, at one point or another, be a renter.

In 2017, though, the market faces some tensions. There is strong motivation for builders to overweight development toward upper-income units, reflecting both higher profit margins and the increasing cost of construction. But, new jobs have been largely in low - and moderate - income occupations, and the "diverted demand" of former homeowners comes with budgetary and credit constraints. The challenge for multifamily will be to broaden its range of offerings to match the full spectrum of demand.

Transaction Volume

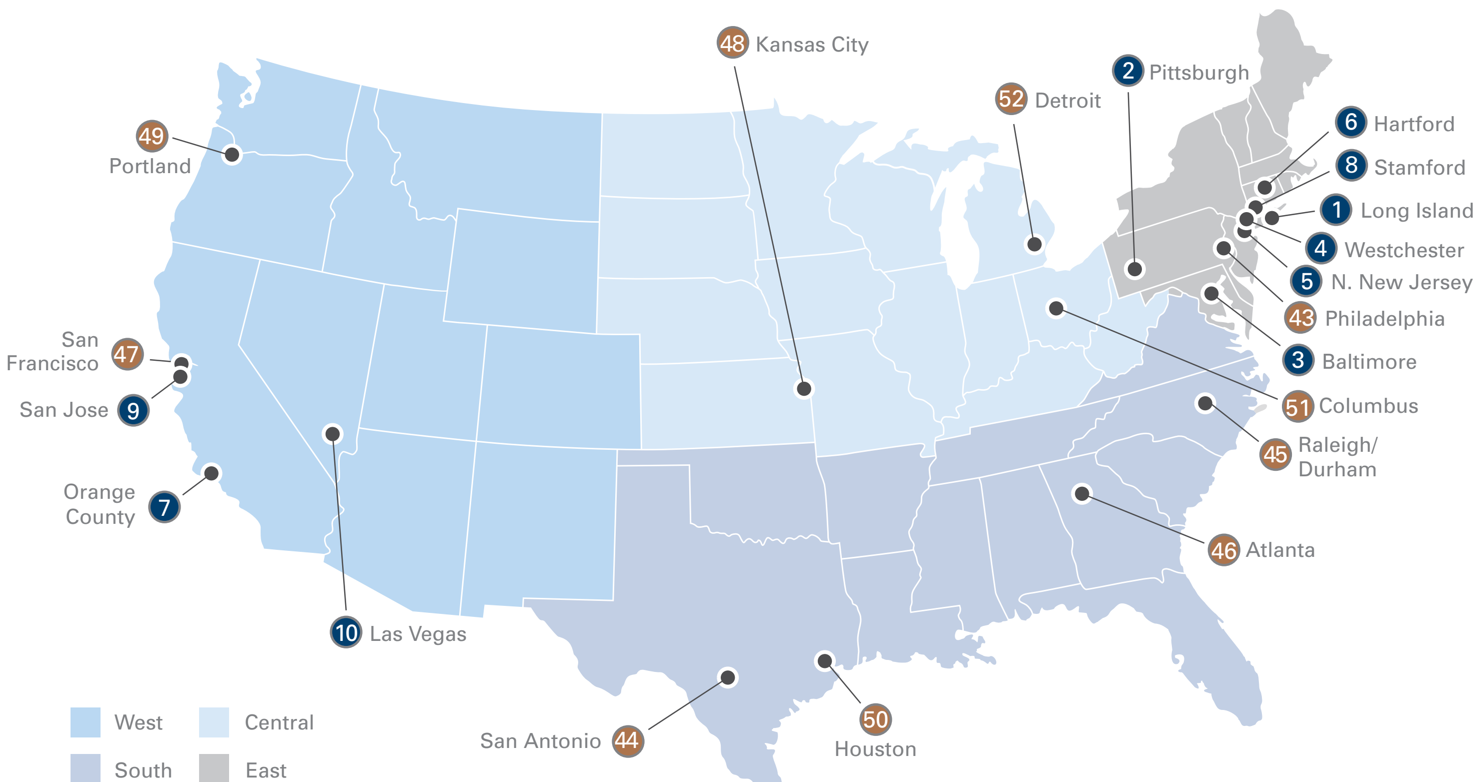
As other property types saw their overall transaction volume pull back, the multifamily sector saw its investment surge push forward. By the end of 3Q 2016, overall apartment investment was up 22.4% from the prior year, to a historic high level of $163.7 billion. The East saw a breathtaking 47.7% growth in volume, followed by a 29% increase in the West. The South and the Central states had more modest gains of 8.2% and 1.7%, respectively.

The flood of capital is naturally elevating valuations. In some cases, prices appear to have gotten ahead of the market. If investors tire of scouring the market for scarce high-rise urban Class A assets, and shift toward garden apartments, the resulting lower average price per unit could temper transaction volume.

Approximately 10% of all markets are expected to post 4% or higher value increases in 2017, with Class B properties having slightly stronger prospects. An additional 45% of markets anticipate valuation gains in the 2% - 4% range, asset appreciation modestly higher than inflation. Such prospects should keep the capital flow high.

Transaction volume has reached a historic high, but a potential shift in investor appetite could temper transaction volume in 2017

TOP MARKETS BY MULTIFAMILY TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2016 Rank	City	YOY Change	Total 4Q15-3Q16	Vol. Rank*
1	Long Island	772.3%	$1,429.9 M	35
2	Pittsburgh	202.1%	$187.7 M	51
3	Baltimore	179.4%	$3,551.4 M	14
4	Westchester	163.9%	$698.4 M	40
5	N. New Jersey	152.3%	$3,717.8 M	12
6	Hartford	129.6%	$405.3 M	47
7	Orange County	109.5%	$2,277.3 M	24
8	Stamford	92.8%	$323.5 M	50
9	San Jose	92.8%	$1,804.8 M	27
10	Las Vegas	90.7%	$2,064.1 M	25

Bears (Bottom 10)

2016 Rank	City	YOY Change	Total 4Q15-3Q16	Vol. Rank*
43	Philadelphia	-3.0%	$1,720.6 M	29
44	San Antonio	-6.5%	$1,647.3 M	33
45	Raleigh/Durham	-6.8%	$2,551.9 M	22
46	Atlanta	-7.4%	$7,697.5 M	4
47	San Francisco	-9.4%	$2,832.5 M	19
48	Kansas City	-12.4%	$909.0 M	39
49	Portland	-16.0%	$2,130.4 M	28
50	Houston	-17.4%	$5,427.7 M	10
51	Columbus	-30.6%	$640.5 M	46
52	Detroit	-49.8%	$751.4 M	48

* Volume Ranking is based on the overall transaction volume among 52 markets nationally

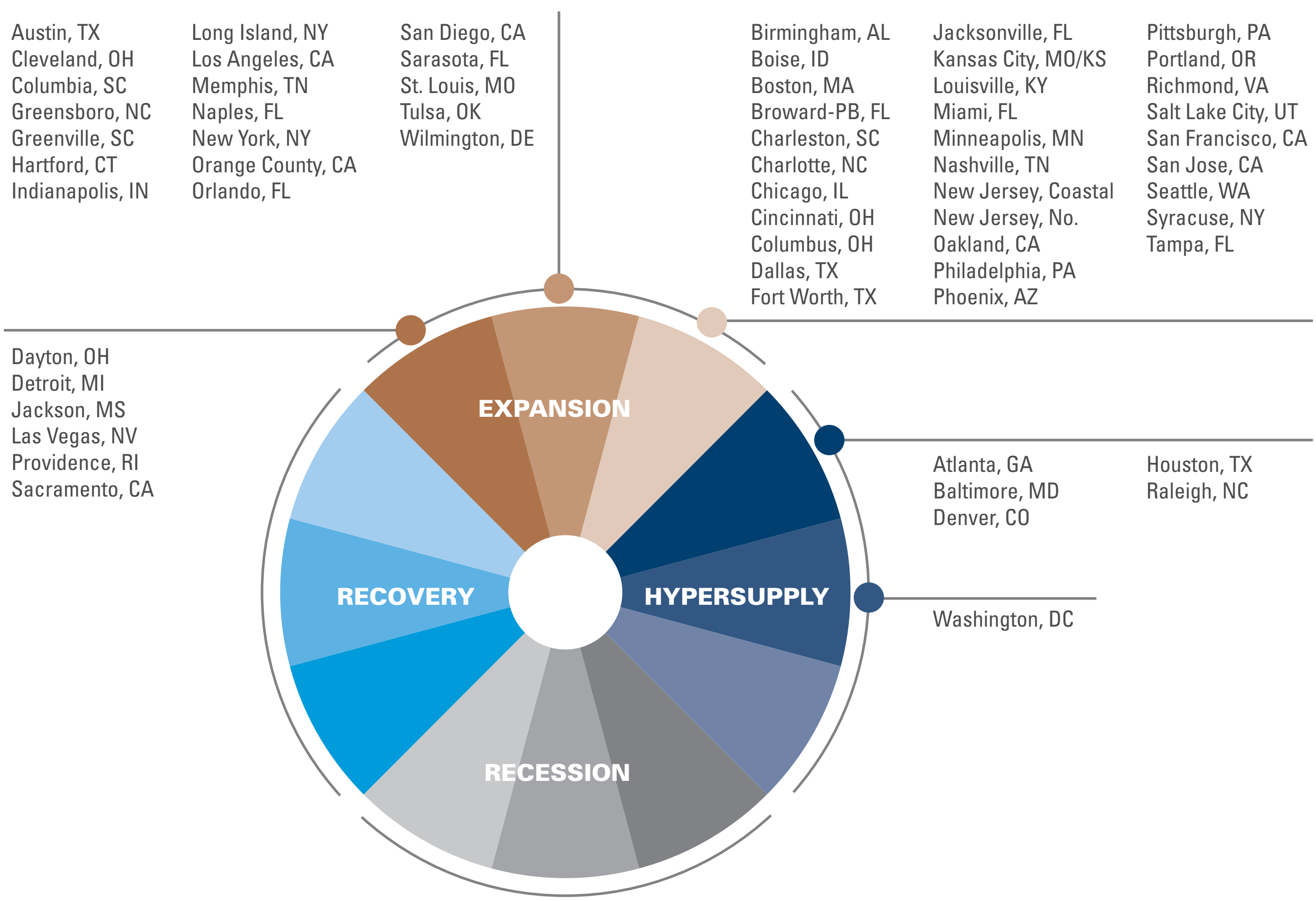
The challenge for Multifamily will be to broaden its range of offerings to match the full spectrum of demand

Market Cycle

All signs point to a cyclical peak in the next year or two, as most apartment markets are in expansion. Ten percent of U.S. markets are already in hypersupply, where new construction is getting ahead of sustainable demand. Downtown Class A vacancies are in the double-digits in markets like Baltimore, Hartford, Charlotte, Nashville, Oakland, and Portland. Supply/demand balance is superior in the suburbs, and for Class B markets in urban areas.

The pace of construction is accelerating, ramping up to a 2.7% expansion of inventory nationally. In individual markets, the numbers do suggest over-enthusiasm. Charleston and Charlotte in the Carolinas, Orlando and Naples in

MULTIFAMILY MARKET CYCLE



EXPANSION	HYPERSUPPLY	RECESSION	RECOVERY
Decreasing Vacancy Rates	Increasing Vacancy Rates	Increasing Vacancy Rates	Decreasing Vacancy Rates
Moderate/High New Construction	Moderate/High New Construction	Moderate/Low New Construction	Low New Construction
High Absorption	Low/Negative Absorption	Low Absorption	Moderate Absorption
Moderate/High Employment Growth	Moderate/Low Employment Growth	Low/Negative Employment Growth	Low/Moderate Employment Growth
Med/High Rental Rate Growth	Med/Low Rental Rate Growth	Low/Neg Rental Rate Growth	Neg/Low Rental Rate Growth

Florida, Dallas and Austin in Texas, and Denver and Seattle in the West stand out as examples. Houston, Atlanta, and Raleigh are in hypersupply, joined by Baltimore and Washington DC in the East.

On a more positive note, some markets that were slow to join the expansion are now enjoying stronger conditions, notably Coastal New Jersey, Wilmington, and Hartford.

Cap Rates

IRR research measures Urban Class A cap rates at 5.3%, while Urban Class B cap rates stand at 6.1%. Suburban Class A cap rates are 5.5%, and Suburban Class B cap rates average 6.3%. In 2016, Class B assets found cap rates dropping 6 basis points (bps), relatively minor compared to prior years.

After a multi-year trend of significant Cap Rate compression, rates seem to have bottomed out

We are finding an uptick in the number of markets, about 21% of total, forecasting higher cap rates. The typical forecast is a slight increase of no more than 50 bps, specifically among Class B properties. Only 6% of markets anticipate further rate compression, principally suburban markets such as Syracuse, St. Louis, Charlotte, and Greensboro. The vast majority of markets, 73%, expect cap rates to stay fairly steady.

REGIONAL RATES COMPARISON - MULTIFAMILY

	Cap Rate	Discount Rate	Market Rent ($/Unit)	Vacancy Rate	4Q15 - 4Q16 Cap Rate
South Region					
Urban Class A	5.47%	7.13%	$1,567	8.32%	0 bps
Urban Class B	6.22%	7.69%	$977	4.94%	0 bps
Suburban Class A	5.66%	7.41%	$1,161	5.89%	3 bps
Suburban Class B	6.54%	8.01%	$839	4.86%	0 bps
East Region					
Urban Class A	5.19%	6.66%	$2,115	6.95%	-4 bps
Urban Class B	6.27%	7.59%	$1,376	3.75%	-8 bps
Suburban Class A	5.42%	7.01%	$1,609	5.50%	-7 bps
Suburban Class B	6.58%	7.83%	$1,167	3.09%	-7 bps
Central Region					
Urban Class A	5.97%	7.31%	$1,403	7.62%	-7 bps
Urban Class B	6.92%	8.10%	$809	4.61%	-10 bps
Suburban Class A	5.92%	7.38%	$1,065	4.33%	-11 bps
Suburban Class B	6.85%	8.04%	$739	2.89%	-14 bps
West Region					
Urban Class A	4.56%	6.69%	$2,002	7.61%	-6 bps
Urban Class B	5.17%	7.33%	$1,345	3.34%	-10 bps
Suburban Class A	4.73%	6.88%	$1,704	4.64%	-7 bps
Suburban Class B	5.34%	7.45%	$1,264	2.81%	-11 bps
National Averages/Spreads					
Urban Class A	5.30%	6.97%	$1,756	7.73%	-3 bps
Urban Class B	6.13%	7.66%	$1,117	4.26%	-6 bps
Suburban Class A	5.45%	7.20%	$1,356	5.25%	-4 bps
Suburban Class B	6.32%	7.85%	$988	3.64%	-6 bps

The multifamily sector provides an excellent reminder that no one has repealed the law of cycles. The market seeks equilibrium, but its momentum inevitably pushes beyond the point of balance, requiring correction. A few high-end markets have gotten over their skis. However, there are still opportunities to succeed in market niches that have been somewhat neglected - lower and middle-income households whose need for affordable apartments seem like afterthoughts during boom times.

RETAIL

IRR research leans against the prevailing wisdom about retail as a commercial property type buffeted by a destructive economic maelstrom and quite possibly facing obsolescence in the face of a rising e-commerce threat.

Detailed analysis shows the stores sector to be highly segmented, with some formats far out of favor, while others are not only holding their own, but also finding access to capital. Well-capitalized REITs control much of the regional mall market. Institutional investors, private equity sources, and cross-border investors have been net purchasers of retail property assets in the past year.

In a nation in which 70% of GDP represents consumer spending, it is a mistake to underestimate the potential of the places where America shops.

Transaction Volume

Retail property sales volume was down 12% year-over-year, in the 12 months ending September 2016, according to Real Capital Analytics. The major difference from 2015 was a dearth of "megadeals," portfolio and entity-level transactions which were down 33%. Single-asset purchases, the bread-and-butter of the real estate market, were also reduced, but by only 8%. Among the major regions, only the West saw increasing transaction volume compared with a year ago.

The lack of "megadeals" impacted the East region the most; the region faced a 28% reduction in transaction volume YOY

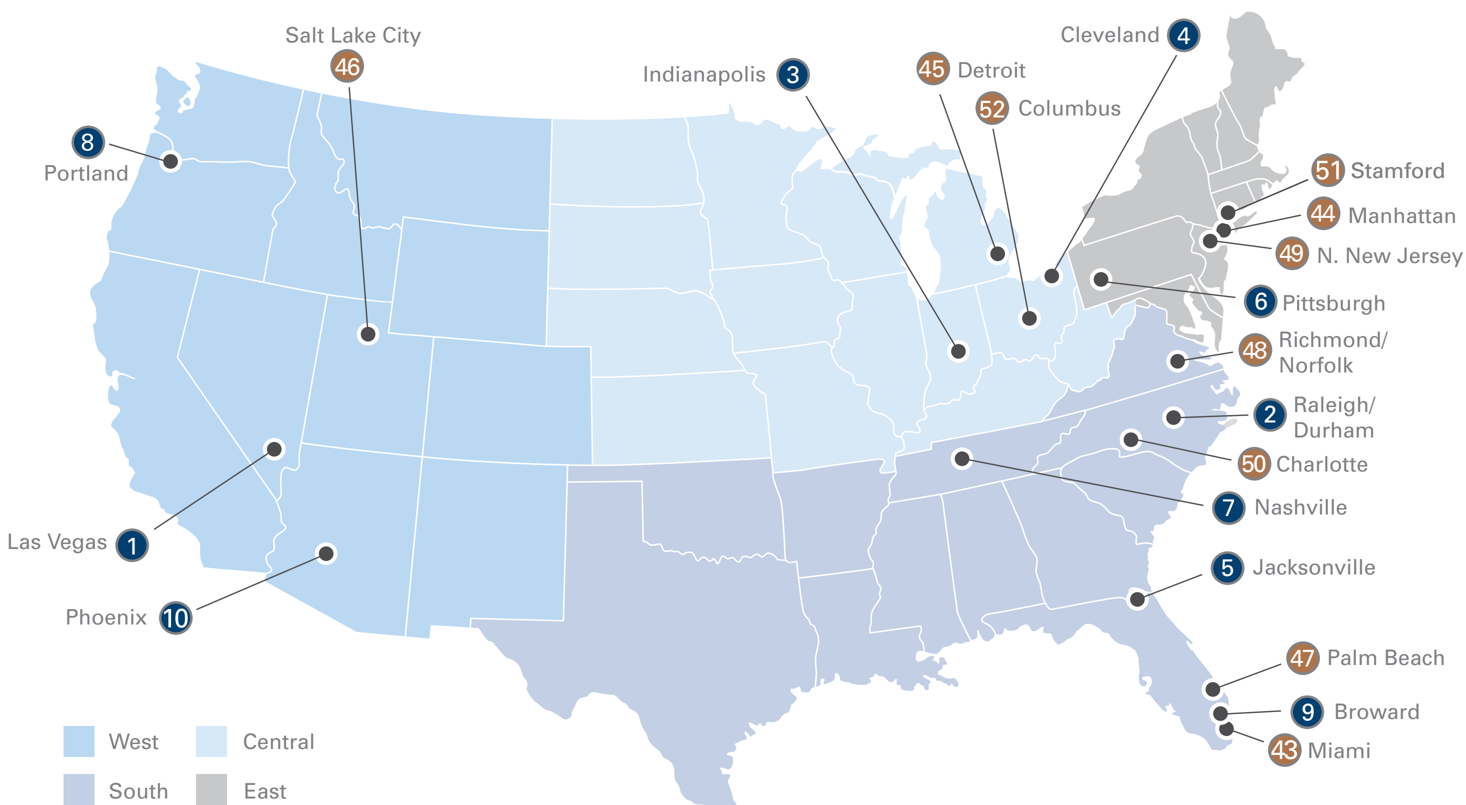
The regional mall sector shows signs of stabilization, as the process of weeding out inferior product is now well advanced. National market rents for regional malls are $28.50 per square foot (psf), reflecting a 6.1% vacancy rate. Regional mall vacancy has decreased 45 bps over the past 12 months, while market rents have increased $0.75 psf (2.7%) nationally. Market rents are highest in the East Region ($37.10 psf) and lowest in the South Region ($24.40 psf). Miami is registering the highest mall rents nationally, with the New York metro region (including Long Island and Northern New Jersey) also performing exceptionally strong. IRR finds no fewer than 14 mall markets with vacancy of 3% or less.

Smaller neighborhood and community shopping centers offer diverse investment profiles. For many, a grocery anchor attracts not

$80.5 Billion

Overall transaction volume, down 11.6% YOY

TOP MARKETS BY RETAIL TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2016 Rank	City	YOY Change	Total 4Q15-3Q16	Vol. Rank*
1	Las Vegas	162.4%	$3,320.3 M	4
2	Raleigh/Durham	147.1%	$821.4 M	27
3	Indianapolis	92.1%	$407.3 M	41
4	Cleveland	75.0%	$345.9 M	44
5	Jacksonville	57.7%	$332.0 M	45
6	Pittsburgh	54.2%	$365.0 M	42
7	Nashville	53.4%	$620.4 M	32
8	Portland	43.5%	$895.2 M	25
9	Broward	42.7%	$1,129.4 M	17
10	Phoenix	34.3%	$2,448.8 M	5

Bears (Bottom 10)

2016 Rank	City	YOY Change	Total 4Q15-3Q16	Vol. Rank*
43	Miami	-37.6%	$1,437.0 M	12
44	Manhattan	-41.2%	$4,628.2 M	2
45	Detroit	-41.5%	$546.9 M	34
46	Salt Lake City	-42.8%	$318.0 M	46
47	Palm Beach	-48.4%	$799.3 M	28
48	Richmond/Norfolk	-48.5%	$466.0 M	38
49	N. New Jersey	-54.9%	$930.3 M	23
50	Charlotte	-55.4%	$362.4 M	43
51	Stamford	-56.3%	$175.0 M	50
52	Columbus	-70.3%	$267.9 M	48

* Volume Ranking is based on the overall transaction volume among 52 markets nationally

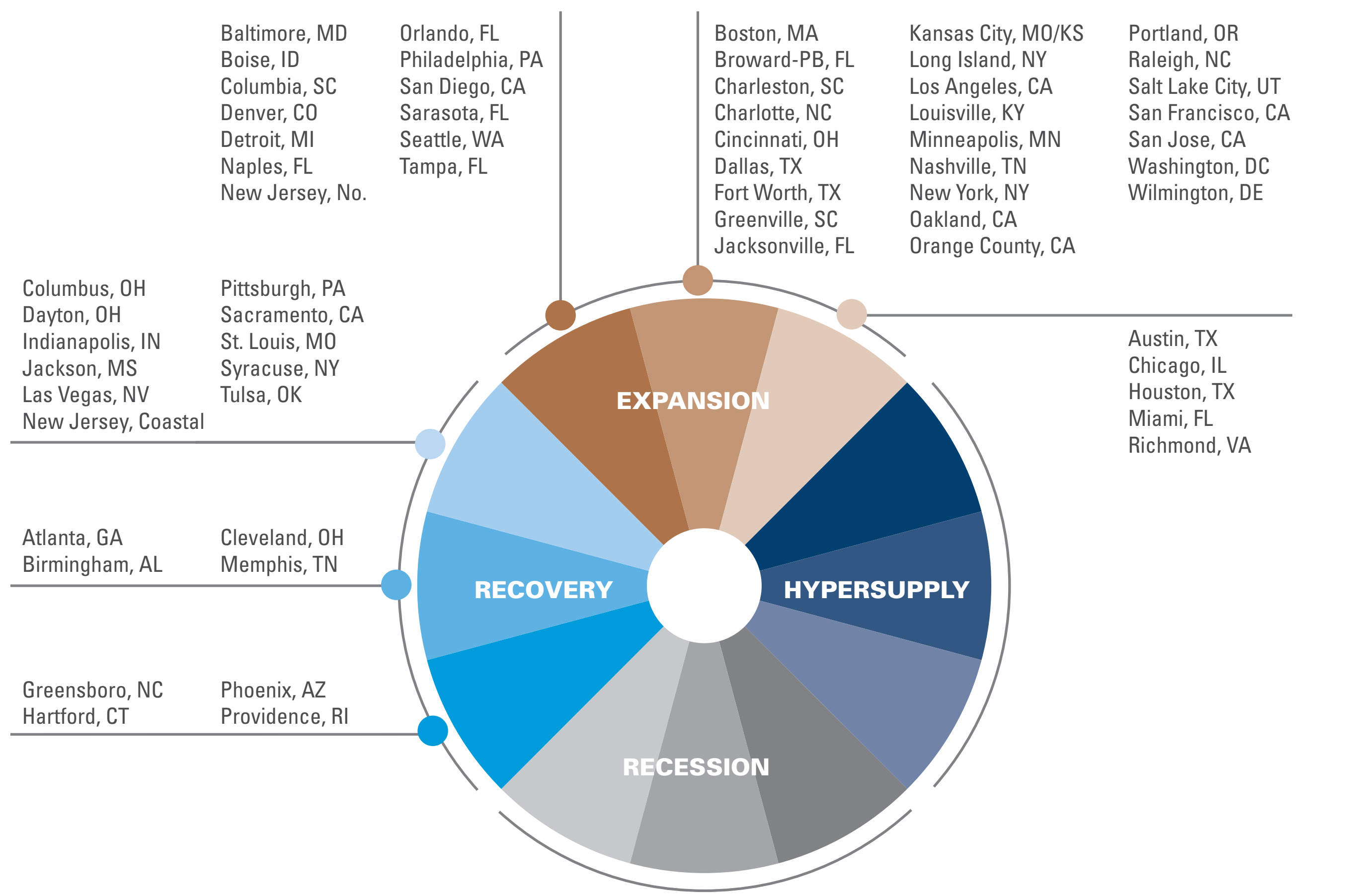
69%

of all markets are in the Expansionary market cycle phase, while the remaining Retail markets are in Recovery

only shoppers but also real estate investors looking for assets that play to the "experience" of food as well as the "locavore" phenomenon. Population growth is fueling grocery expansion in places like Memphis, Charleston, and Orlando. The Portland market in Oregon is also benefiting from food-based retailing.

Although "shops" and "high street retail" are not strictly synonymous, the revitalization of downtowns has spurred transaction volume in stand-alone retail, which Real Capital Analytics measures as a 31% share of all retail sector investment. In addition to fashionable boutiques, this sector includes many chain stores on triple-net leases that are highly desired in the 1031 Exchange marketplace.

RETAIL MARKET CYCLE



EXPANSION

Decreasing Vacancy Rates
Moderate/High New Construction
High Absorption
Moderate/High Employment Growth
Med/High Rental Rate Growth

HYPERSUPPLY

Increasing Vacancy Rates
Moderate/High New Construction
Low/Negative Absorption
Moderate/Low Employment Growth
Med/Low Rental Rate Growth

RECESSION

Increasing Vacancy Rates
Moderate/Low New Construction
Low Absorption
Low/Negative Employment Growth
Low/Neg Rental Rate Growth

RECOVERY

Decreasing Vacancy Rates
Low New Construction
Moderate Absorption
Low/Moderate Employment Growth
Neg/Low Rental Rate Growth

61% of retail markets are In Balance. Another 29% are within 2 years of becoming In Balance

Shifts in value will influence transaction volume in 2017. Denver, Oakland, San Francisco, and Tampa are expecting valuations to increase by 4% or more in the year ahead. And 40% of the markets expect values to increase greater than 2%. On the other hand, Baltimore and Philadelphia are calling for valuation correction over the next 12 months.

Cyclical Conditions

Notwithstanding a perception that the stores sector is in trouble, IRR research finds 61% of retail markets in balance nationally. Another 29% are within two years of becoming in balance. That's hardly bad news.

Conditions do vary regionally. The East is well aligned with national statistics, as 62% of Eastern markets are in expansion. Markets in recovery include: Syracuse, Coastal NJ, Pittsburgh, Providence, and Hartford. The Central region is slightly subpar, but still has 55% of its retail markets in the expansion phase, including large markets like Chicago, Cincinnati, and Minneapolis. The South (75% of market in expansion) and the West (79% in expansion) are leading the upward cycle. Significantly, IRR's analysis does not place a single retail market in the recession phase of the property cycle.

Looking forward, neighborhood centers are rated with the greatest opportunity for 2017 rent increases, with 20 markets forecast to push rents up 3% or more. Sixteen regional mall markets are viewed as having similarly strong rent growth prospects, compared with just seven community shopping center markets.

REGIONAL RATES COMPARISON - RETAIL

	Cap Rate	Discount Rate	Market Rent ($/SF)	Vacancy Rate	4Q15 - 4Q16 Cap Rate
South Region					
Community Retail	6.99%	8.26%	$17.62	8.19%	-11 bps
Neighborhood Retail	7.07%	8.29%	$15.71	9.43%	-17 bps
Regional Mall	6.89%	8.32%	$24.40	6.45%	-11 bps
East Region					
Community Retail	6.59%	7.62%	$23.63	7.22%	-12 bps
Neighborhood Retail	6.73%	7.72%	$22.12	7.35%	-12 bps
Regional Mall	6.31%	7.56%	$37.09	5.80%	4 bps
Central Region					
Community Retail	7.36%	8.36%	$16.72	10.48%	-16 bps
Neighborhood Retail	7.73%	8.59%	$15.77	11.26%	-14 bps
Regional Mall	6.82%	7.86%	$24.75	6.74%	-9 bps
West Region					
Community Retail	6.11%	7.52%	$24.81	6.30%	-15 bps
Neighborhood Retail	6.29%	7.73%	$23.28	7.74%	-19 bps
Regional Mall	5.98%	7.44%	$31.93	4.96%	-14 bps
National Averages/Spreads					
Community Retail	6.77%	7.98%	$20.34	7.97%	-13 bps
Neighborhood Retail	6.94%	8.10%	$18.77	8.94%	-16 bps
Regional Mall	6.57%	7.89%	$28.50	6.06%	-7 bps

Cap Rate Trends

IRR's 2017 outlook predicts a higher percentage of markets will experience cap rate increases in 2017 than in prior years.

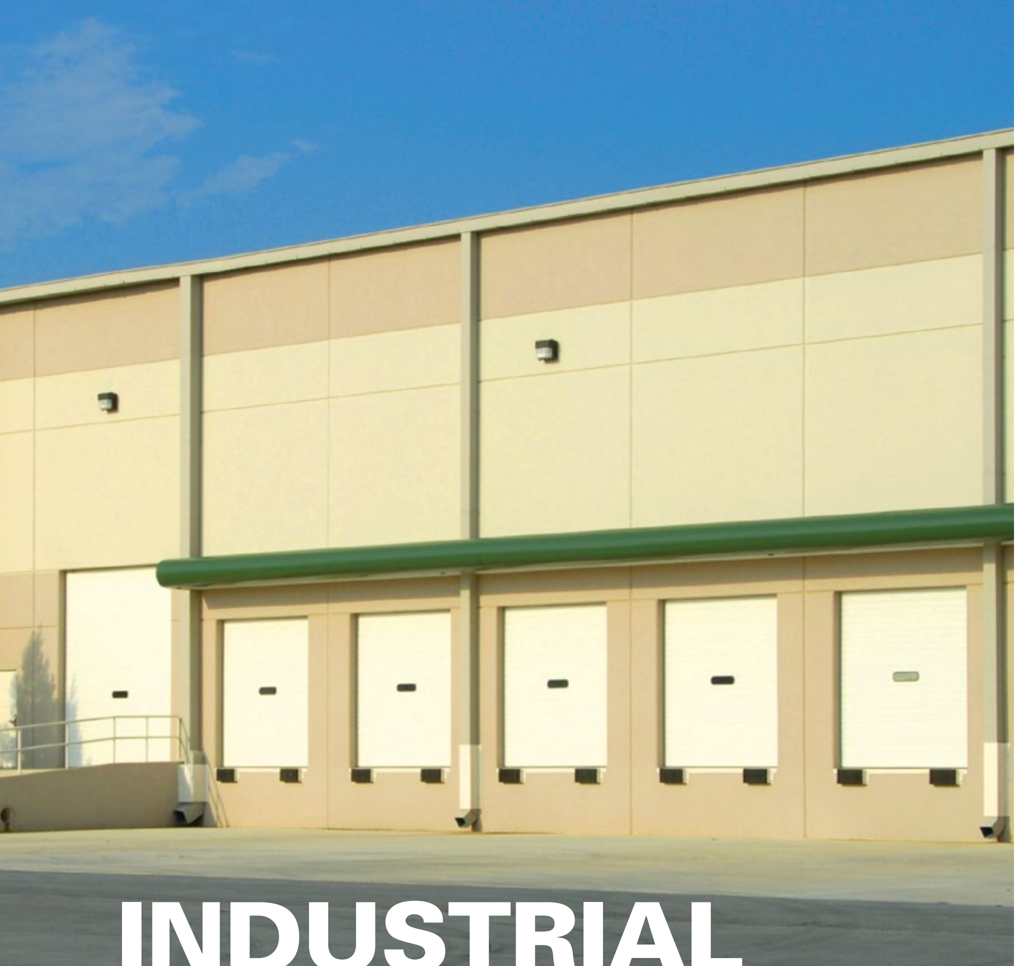
Cap Rate compression in 2016 was strongest among Neighborhood Retail assets

These include eight community retail markets, seven neighborhood center markets, and five regional mall markets. The locations are a mix of older cities such as Baltimore and Philadelphia, major Sunbelt markets including Atlanta and Miami, and the high-tech market in San Jose. Generally speaking, though, more markets are anticipating steady cap rates, and only 14% of markets overall foresee cap rates compressing further in 2017.

Cap rate trends will be responding most sensitively to variables like supply/demand conditions, the local economy, and the impact of interest rate changes. With more positives than negatives on the horizon, the outlook for the retail asset sector calls for solid performance in the year ahead.

Conclusion

With rent and value gains in many markets outpacing growth in GDP and CPI ahead for many retail markets, along with consumer confidence reaching a 15-year high in December 2016, the retail sector has become a more attractive investment after previously lagging other property types.



INDUSTRIAL

Goods production and transportation, fueled by U.S. consumption growth, has steadily improved economic fundamentals for industrial properties, two-thirds of which are basic warehouse/ distribution facilities. This bread-and-butter segment posted a 50 basis point improvement in vacancy rate, to 7.6%, while the flex/R&D sector tightened vacancy by a full percentage point, on average, to 9.1%.

From 18-wheelers, to panel trucks, to local delivery vans, America's thoroughfares testify to the volume of goods coming to market. E-commerce growth is undoubtedly playing a large part, but even what is sold online does not ship directly from the factory. As stores themselves morph more and more into showrooms, the inventory chain is becoming even more critical and time-sensitive. Ironically, as we have putatively become a "knowledge economy," our yen for stuff has never been greater. Go figure.

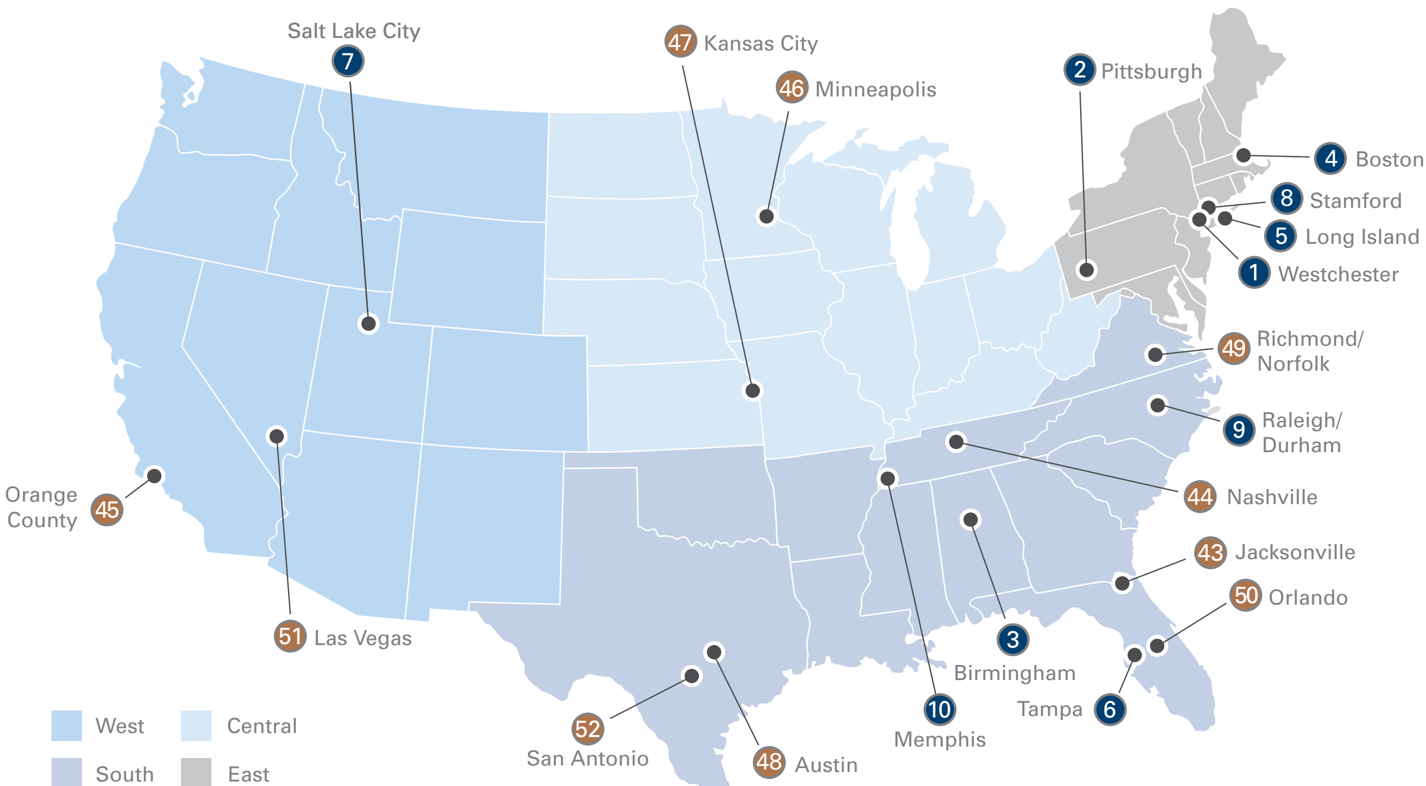
Transaction Volume

We need to look carefully at the industrial sector's numbers. For the 12 months ending September 30, 2016, transaction volume was up 2.7% from the prior year, at $67.9 billion. But the final quarter of 2015 was huge – nearly $27 billion – owing to a cluster of portfolio and entity transactions. Absent that quarter, we find industrial investment slowing significantly in 2016.

The patterns are even more complex than that, since single-asset deals are up modestly, somewhat compensating for a pullback in megadeals. The flex sector was actually up 13% in the first three quarters of 2016, even as warehouse purchases fell 30% in dollar volume. And specifically, R&D/Tech/Telecom buildings jumped an eye-popping 74%, albeit on just $3 billion in aggregate price. Thus, markets like San Jose, Boston, suburban Maryland (health sciences) and suburban Virginia (defense-related IT) saw transaction volumes edging up, as data from Real Capital Analytics show.

YOY transaction volume was up 2.7%, but absent 4Q 2015, the Industrial investment slowed significantly in 2016

TOP MARKETS BY INDUSTRIAL TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2016 Rank	City	YOY Change	Total 4Q15-3Q16	Vol. Rank*
1	Westchester	274.1%	$536.9 M	31
2	Pittsburgh	155.8%	$114.2 M	51
3	Birmingham	153.6%	$68.4 M	52
4	Boston	111.3%	$2,414.4 M	7
5	Long Island	99.8%	$380.4 M	41
6	Tampa	84.3%	$539.7 M	30
7	Salt Lake City	62.3%	$424.8 M	37
8	Stamford	48.2%	$338.8 M	43
9	Raleigh/Durham	42.7%	$441.1 M	35
10	Memphis	39.1%	$823.7 M	23

Bears (Bottom 10)

2016 Rank	City	YOY Change	Total 4Q15-3Q16	Vol. Rank*
43	Jacksonville	-20.1%	$310.3 M	45
44	Nashville	-20.5%	$594.9 M	29
45	Orange County	-21.4%	$1,552.7 M	14
46	Minneapolis	-29.5%	$681.6 M	26
47	Kansas City	-33.4%	$179.8 M	50
48	Austin	-35.2%	$475.5 M	33
49	Richmond/Norfolk	-43.5%	$381.2 M	40
50	Orlando	-44.0%	$424.7 M	38
51	Las Vegas	-47.2%	$329.7 M	44
52	San Antonio	-54.0%	$232.4 M	47

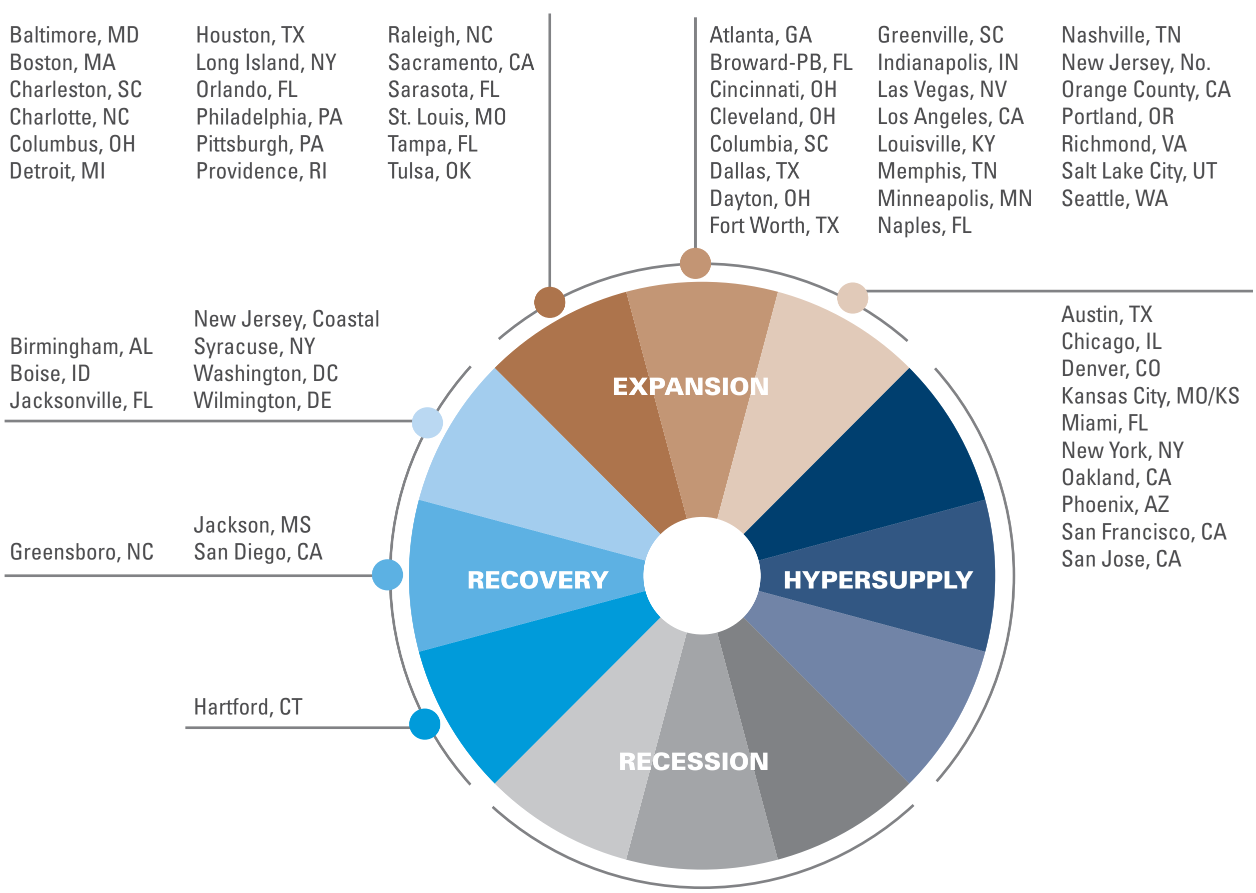
* Volume Ranking is based on the overall transaction volume among 52 markets nationally

Heading into 2017, only 17% of Industrial markets are in the Recovery market cycle phase

Warehouses fit a sweet spot in investors' portfolio needs, as these properties are low-volatility income generators whose triple-net lease structure affords long-term inflation protection. Cap rates tend to be higher, as appreciation is a lesser component of total yield. And so, distribution facilities account for $27.5 billion of the total $41 billion in industrial transactions over the first three quarters of 2016.

Valuations are generally expected to rise in 2017, according to IRR's research, which finds 54% of all markets expecting increases of greater than 2% this year. Las Vegas (flex), Los Angeles, Seattle, Portland, and Northern New Jersey (warehouses), and Miami (all industrial) anticipate value increases of 4% or more. Baltimore, on the other hand, could see industrial values pull back in the year ahead.

INDUSTRIAL MARKET CYCLE



EXPANSION

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RECOVERY

Decreasing Vacancy Rates
Low New Construction
Moderate Absorption
Low/Moderate Employment Growth
Neg/Low Rental Rate Growth

Market Cycle

IRR sees 83% of all markets in the expansion phase; last year close to 25% of markets were in recovery, and heading into 2017, only 17% of markets are in recovery. Markets such as Providence, Cleveland, Phoenix, and Sacramento have moved along the cycle to the expansion phase. No markets are in the hypersupply phase, and no markets are rated as being in recession.

Over 33% of markets are more than two years away from being In Balance. The cycle still has some time before peaking.

Measured against supply/demand equilibrium, 58% of industrial markets are in balance compared with 40% of flex industrial markets. Over 33% of markets are more than two years away from being in balance. The cycle still has some time before peaking.

There are a handful of warehouse markets with particularly strong rental increases expected: Cleveland, Hartford, Miami, Orange County, and Seattle are all projected at 4% growth or more. For Hartford and Seattle, this outlook does not extend to flex (but it does for the others). Broward/Palm Beach flex space joins the club in anticipated 4% or higher gains in market rents.

Cap Rates

While rates moved marginally lower in 2016, the shifts were just 10 bps for flex space (to 7.5%) and only 8 basis points for warehouses (to 6.75%). Such moves are as likely to be statistical noise as they are real adjustments. Pricing in the industrial space can best be termed "steady" this past year – which is not bad given the softening in transaction volume.

REGIONAL RATES COMPARISON - INDUSTRIAL

	Cap Rate	Discount Rate	Market Rent ($/SF)	Vacancy Rate	4Q15 - 4Q16 Cap Rate
South Region					
Flex Industrial	7.78%	8.84%	$8.38	8.51%	-8 bps
Industrial	7.05%	8.21%	$4.97	7.19%	-6 bps
East Region					
Flex Industrial	7.37%	8.51%	$10.29	8.91%	-3 bps
Industrial	6.58%	7.70%	$6.42	8.92%	-7 bps
Central Region					
Flex Industrial	8.01%	9.05%	$7.48	10.57%	-11 bps
Industrial	7.33%	8.40%	$4.16	9.22%	-14 bps
West Region					
Flex Industrial	6.61%	7.96%	$13.92	9.30%	-20 bps
Industrial	5.93%	7.23%	$8.09	5.82%	-7 bps
National Averages/Spreads					
Flex Industrial	7.47%	8.61%	$9.87	9.14%	-10 bps
Industrial	6.75%	7.91%	$5.83	7.60%	-8 bps

75% of markets expect Cap Rates to remain stable in 2017

National averages, of course, mask considerable variation from market to market. Warehouse cap rates range from a low of 5% in New York, Seattle, Orange County, and Oakland to highs in Greensboro and Providence of 9.25%. Another sign of steadiness in this sector is the expectation of stable cap rates in 2017 in about 75% of the markets. On the flex side, the spread is somewhat narrower with a low of 6% (New York and San Jose) and a high of 8.75% in the Deep South markets of Birmingham and Jackson. Cap rate stability is anticipated to continue for about three-quarters of the flex markets as well.

Conclusion

The uncertainty surrounding the U.S. elections, and the fairly widespread volatility worldwide during 2016, may have played a part in reducing capital inflows into industrial real estate. If nothing else, the financial markets seem to express an emerging consensus of greater short-run economic growth and stronger corporate profits in 2017. If so, that augers well for both supply/demand fundamentals and transaction volumes for the industrial property market in the coming year.

HOSPITALITY

Hotel markets brace for change in 2017

After several surging years during an eight- year bull cycle, the hotel market appears to be losing momentum. Despite this deceleration in growth, near-record occupancy rates are projected to continue through 2017, while Average Daily Rates (ADRs) are expected to continue to level off. Online booking sites, significant decline in corporate demand, softening of inbound international visitors and the shadow-glut of supply by Airbnb are causing negative pressure on room pricing. According to STR, the U.S. hotel industry is expected to post a mere 0.2% increase in occupancy to 66.1%, along with a 4.3% rise in ADR to $130.63 and a 4.5% increase in RevPar to $86.28. Demand growth is currently reported at 1.6% for 2016 and slowing, while supply growth was measured at 1.7%, a new high for the cycle. Demand has outpaced supply growth every year since 2010, and despite the 2016 flattening, this is expected to continue in 2017, with demand growth forecasted at 2.1% and supply growth of 1.9%.

Transaction Volume

Transaction volumes, as measured by Real Capital Analytics (RCA), peaked in 2015 at $44.8 billion annually through 3Q 2015. During the first half of 2016, investors and buyers bought and sold $12.7 billion in hotel properties, down 55% from the year before. Overall transaction volume for the period of 4Q 2015 to 3Q 2016 slipped to $35.4 billion, down 21% over the prior year. The largest transaction decrease was observed in the South Region, at 49.1%. The East Region experienced a 12.4% drop in YOY volume, whereas the Central Region led all markets with a 10.5% gain. The West Region's shifts were negligible during this timeframe.

2016

The year that marks the start of consolidation of the entire industry

Market Cycle

IRR's research shows that 83% of all U.S. hotel marketplaces are in expansion. The South trails all other regions, with the highest number of markets in recovery. The Miami, New York City and Pittsburgh markets are currently in a hypersupply stage.

Cap Rates

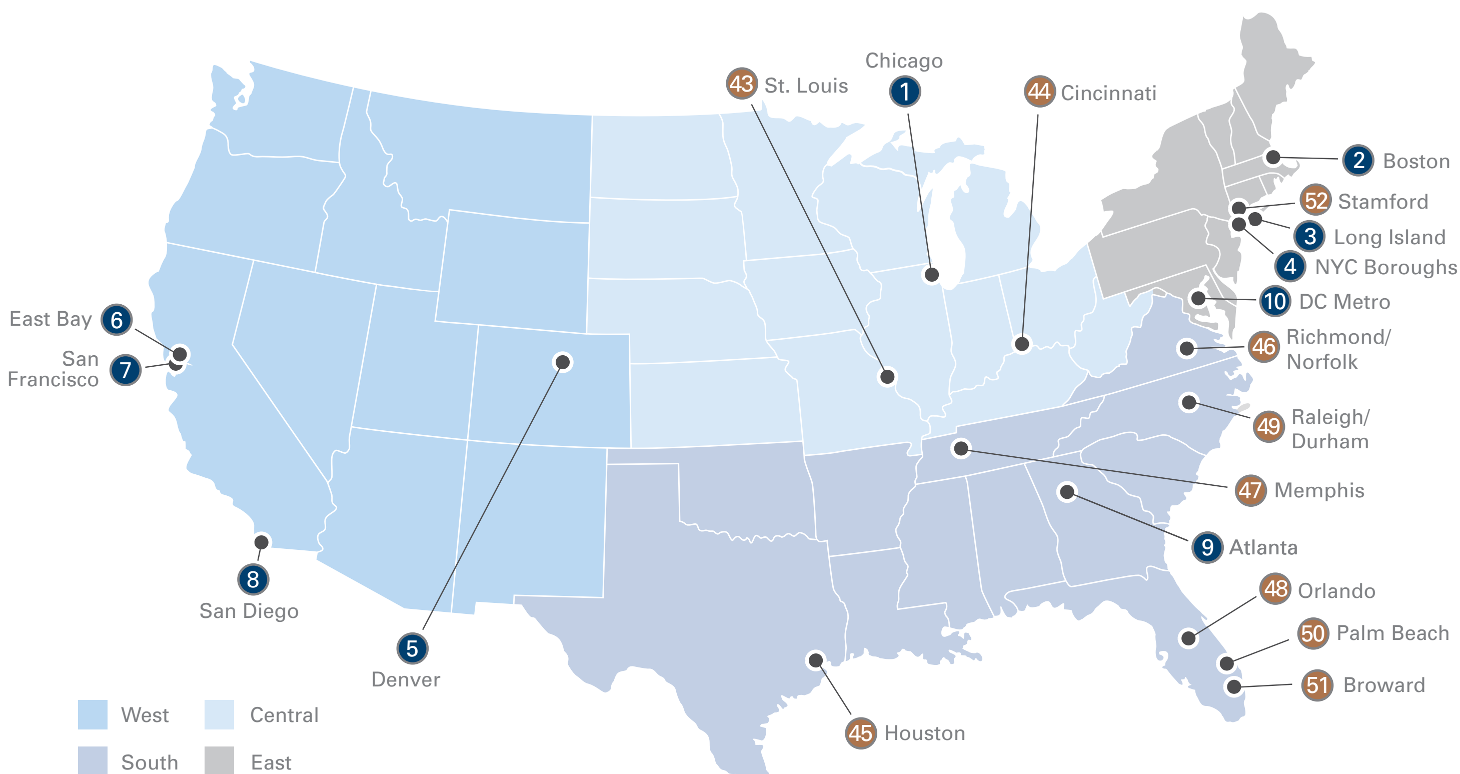
National Full Service cap rates stood at 7.86%, while national Limited Service cap rates are reported at 8.52%. IRR's survey of capitalization rates reveals that cap rate compression has leveled off during 2016. The survey revealed that 71%

of markets expect to see hospitality cap rates remain steady through 2017, while only 15% of markets are forecasting a further decrease. Coastal New Jersey is forecasting an increase of 50 bps in cap rates; Atlanta, Charleston, Jacksonville, Miami, Indianapolis and Chicago are expecting gradual increases in 2017. Supply and demand ranked as the number one factor likely to impact institutional cap rates, followed by job growth/unemployment and national economic conditions as important factors.

2017 Trend

Expansion and use of mobile applications for hotel guests

TOP MARKETS BY HOSPITALITY TRANSACTION VOLUME BASED ON YOY PERCENTAGE CHANGE



Bulls (Top 10)

2016 Rank	City	YOY Change	Total 4Q15-3Q16	Vol. Rank*
1	Chicago	174.3%	$2,074.2 M	3
2	Boston	109.5%	$1,835.1 M	4
3	Long Island	77.3%	$235.8 M	27
4	NYC Boroughs	62.9%	$94.9 M	39
5	Denver	58.2%	$660.9 M	13
6	East Bay	54.0%	$277.2 M	22
7	San Francisco	44.5%	$2,426.3 M	2
8	San Diego	36.7%	$1,180.7 M	8
9	Atlanta	32.7%	$1,046.1 M	10
10	DC Metro Area	25.7%	$1,472.3 M	5

Bears (Bottom 10)

2016 Rank	City	YOY Change	Total 4Q15-3Q16	Vol. Rank*
43	St. Louis	-69.8%	$81.3 M	43
44	Cincinnati	-70.5%	$79.3 M	45
45	Houston	-71.9%	$249.6 M	24
46	Richmond/Norfolk	-73.1%	$74.7 M	46
47	Memphis	-75.5%	$35.4 M	51
48	Orlando	-76.8%	$542.0 M	16
49	Raleigh/Durham	-79.7%	$86.2 M	42
50	Palm Beach	-81.2%	$39.3 M	50
51	Broward	-87.1%	$97.6 M	37
52	Stamford	-100.0%	$0.0 M	52

* Volume Ranking is based on the overall transaction volume among 52 markets nationally

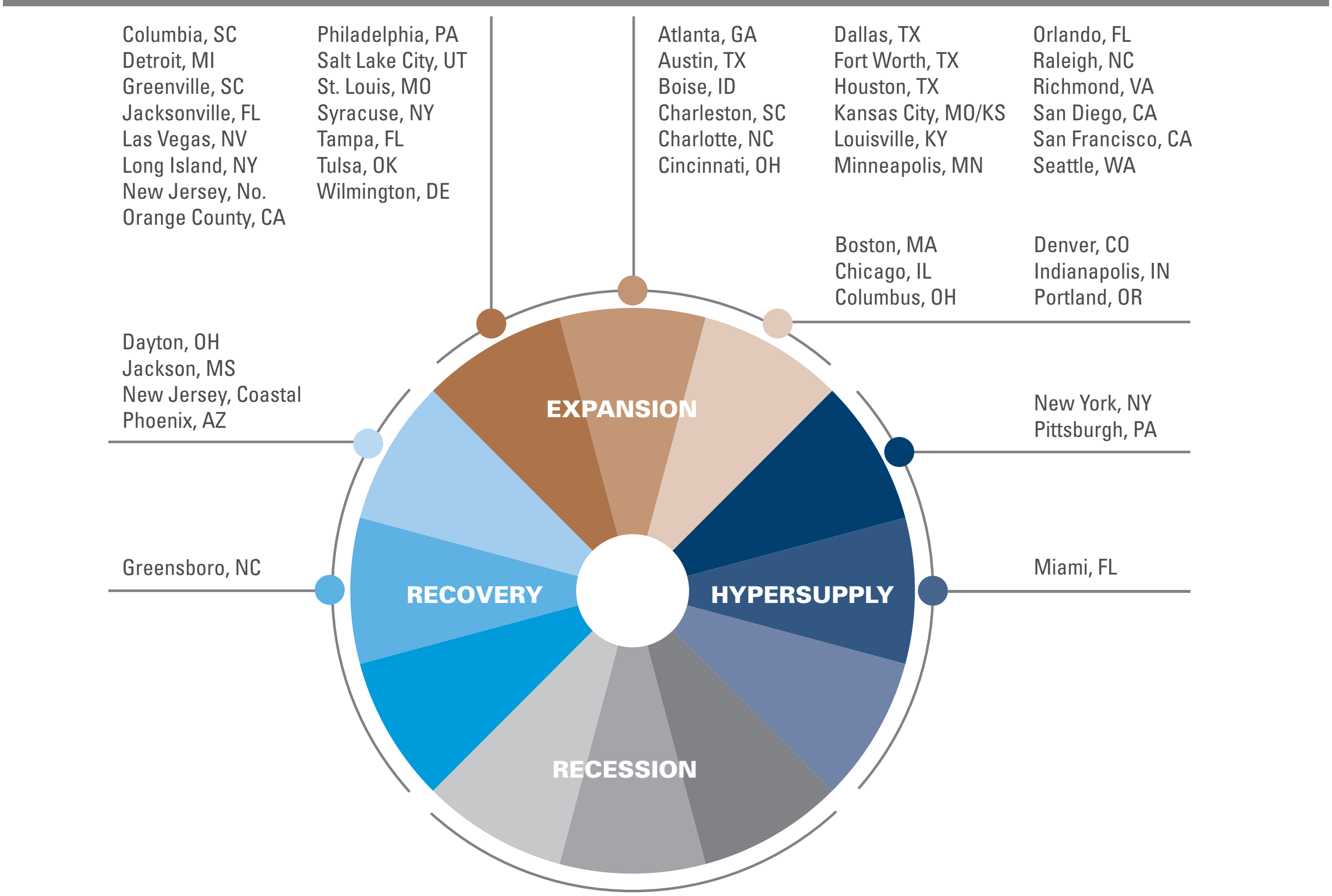
U.S. Market Profits, Values Continue Rising Trends

The U.S. lodging industry is in the midst of a seven-year period of bottom-line gains. Pressure to sustain these gains will come from flattening occupancy rates, falling corporate demand and increasing operating expenses, largely due to increasing in labor costs.

Performance is likely to weaken later into 2017, as owners lose confidence in their ability to push ADRs up alongside of flattening occupancies. The IRR survey revealed that 60% of overall markets expect values to increase greater than 2% in the next 12 months. Markets calling for growth greater than 4% include Austin, Las Vegas, Coastal New Jersey, Orange County, Raleigh and San Francisco.

Hotel chains are introducing dynamic pricing for corporate clients – and withdrawing 'last room availability' from corporate rates

HOSPITALITY MARKET CYCLE



EXPANSION

Decreasing Vacancy Rates
Moderate/High New Construction
High Absorption
Moderate/High Employment Growth
Med/High Rental Rate Growth

HYPERSUPPLY

Increasing Vacancy Rates
Moderate/High New Construction
Low/Negative Absorption
Moderate/Low Employment Growth
Med/Low Rental Rate Growth

RECESSION

Increasing Vacancy Rates
Moderate/Low New Construction
Low Absorption
Low/Negative Employment Growth
Low/Neg Rental Rate Growth

RECOVERY

Decreasing Vacancy Rates
Low New Construction
Moderate Absorption
Low/Moderate Employment Growth
Neg/Low Rental Rate Growth

REGIONAL RATES COMPARISON - HOSPITALITY

	Cap Rate	Discount Rate	Avg Daily Rate ($/Rm)	Occupancy Rate	4Q15 - 4Q16 Cap Rate
South Region					
Full Service	7.94%	9.98%	$153.20	73.77%	-12 bps
Limited Service	8.78%	10.43%	$100.84	69.12%	-7 bps
East Region					
Full Service	7.61%	9.17%	$174.71	71.23%	1 bps
Limited Service	8.25%	9.69%	$119.68	70.44%	-5 bps
Central Region					
Full Service	8.28%	9.85%	$143.20	67.80%	-17 bps
Limited Service	8.70%	10.13%	$98.40	68.00%	-8 bps
West Region					
Full Service	7.52%	9.50%	$179.57	78.40%	-4 bps
Limited Service	8.10%	9.81%	$113.92	75.51%	3 bps
National Averages/Spreads					
Full Service	7.86%	9.69%	$160.80	73.00%	-6 bps
Limited Service	8.52%	10.09%	$106.55	70.49%	-2 bps

Major Transactions

China's aviation and shipping giant, HNA Group, the parent company of Hainan Airlines, with $100 billion in assets, announced in October 2016 that it intended to acquire a 25% stake in Hilton Worldwide Holdings from its biggest shareholder, Blackstone Group LP, for $6.5 billion. The transaction is anticipated to close in 3Q 2017. HNA bought Carlson Hotels, owner of Radisson Hotels in April 2016, and purchased a minority share in Red Lion Hotels Corp. in 2015. In April 2016, Chinese insurer, Anbang Insurance Group Co, owner of the Waldorf Astoria in New York, abandoned its pursuit of Starwood Hotels & Resorts, following a bidding war with Marriott International. Marriott proceeded to complete the $13 billion acquisition of Starwood in September 2016 to create the world's largest hotel chain with 5,700 hotels, 30 brands and 1.1 million hotel rooms in 30 countries.

Undaunted, Anbang completed an acquisition of 15 of the 16 assets of Strategic Hotels & Resorts, a former hotel REIT that had been converted into a private company by the Blackstone Group for $6.5 billion.

The acquisition of the world-famous Hotel Del Coronado appears to have been blocked by the Interagency Committee on Foreign Investments due to the proximity to U.S. military facilities. AccorHotels completed its acquisition of Fairmount Raffles Hotels International in July 2016 for $2.7 billion, bringing its total to 4,000 properties, including The Plaza in New York. In a smaller acquisition, Red Lion Hotels Corp acquired Vantage Hospitality Group and its eight brands in September 2016 for $29 million, adding 1,000 franchised hotel agreements and 59,000 rooms.

New supply is being artificially created by Airbnb; however, industry experts are uncertain how much collateral damage is being done to the industry, as Airbnb is not forced to reveal its operating results. Regardless, while Airbnb hasn't taken off with corporate travel managers, it has launched a business traveler program and announced its intention to seek group and convention business. In a major development, certain to have far-reaching effects, Airbnb has recently ceased its legal battle against the New York City ban on renting a whole apartment on Airbnb for fewer than 30 days, as long as the city fines the hosts, and not Airbnb. It is reported that hosts in New York generated $1 billion in revenue in 2015.

Conclusion

The hotel industry has enjoyed almost 85 months of positive growth, according to Marcus & Millichap's National Hospitality Group. The market has been buoyed by more than 75 straight months of steady employment gains. Healthy job growth has translated into continued demand for business, and more importantly, leisure travelers, leading to strong ADR and RevPar growth. Supply is finally catching up to demand, but, in the short term, increasing room rates are anticipated to drive slow but steady growth for the U.S. hotel industry into late 2017. Occupancy rates are flattening and owners will be under pressure to attempt to sustain ADR growth.

SPECIALTY REPORTS

IRR's depth and national footprint allow us to dig beyond the five core commercial real estate property sectors. In Viewpoint 2017, we offer overviews of four specialty property sectors including regional malls, self-storage, student housing and Caribbean hospitality. These outlooks provide independent analysis of trends that shape each sector and provide interpretations of where we see them heading in 2017.

REGIONAL MALLS

Which Way is the Market Heading?

With the rapidly changing dynamics of retail, regional mall values are being dramatically impacted. The question is, in which direction is your mall headed?

According to NCREIF, a regional center "provides a variety of goods comparable to those of a central business district in a small city, including general merchandise, apparel and home furnishings, as well as a variety of services and perhaps recreational facilities. A regional center has two or more full-line department stores and a total of 400,000 to 800,000 square feet."

A super regional center "provides an extensive variety of shopping goods comparable to those of the central business district of a major metropolitan area. The anchors are three or more full-line department stores, with total area in excess of 800,000 square feet."

Viewpoint 2017 pegs the average Class A mall cap rate at 6.57% nationally. This represents a slight decrease from last year, continuing a seven year trend. However, averages can be deceiving. The quality of Class A malls can vary greatly by market.

Average cap rates reported for the South are the highest at 6.89%, closely followed by the Central Region with 6.82%. The East Region is in the middle of the pack at 6.31% while the West comes in at 5.98%.

Green Street Advisors estimates that there are approximately 1,100 "viable" regional malls in the country and that many will become obsolete in the coming years. Seven REITS comprise the largest ownership component of regional malls. The second quarter 2016 filings report composite retail sales of $572 psf and occupancy of 95%. In comparison, our research in 2008 reported average retail sales of $431 psf and occupancy of 92.7%. Retail sales per square foot are up by a third. So if REIT performance levels are any indication of overall industry trends, regional malls are doing quite well.

However, a deeper look reveals some interesting facts. In 2008, these REITs reported ownership of 735 malls, comprising 551 million square feet of retail space. By mid-2016, the number of malls dropped to 484, representing a one third decrease. The total number of space owned dropped to 430 million square feet or a 22% decrease. These mall owners were astute in jettisoning smaller and less productive centers.

The NCREIF Index for the second quarter of 2016 demonstrates the strength of mall returns. The one year appreciation rate for regional malls was 6.84% and super regional

REGIONAL MALL REIT PERFORMANCE – 2008 VS. 2Q 2016

Company/REIT	# US Malls		Total US Mall SF (000)		Average Occupancy		Average Rent/ SF for Space <10k SF		Comparable Mall Shop Sales PSF		Tenant Occupancy Expense %	
	2008	2Q16	2008	2Q16	2008	2Q16	2008	2Q16	2008	2Q16	2008	2Q16
General Growth Properties	204	128	182,297	125,245	92.5%	96.0%	$49.9	$75.5	$438	$583	12.8%	13.9%
Simon Property Group	300	179	160,195	153,300	93.8%	95.9%	$39.5	$50.4	$470	$607	13.9%	12.7%
Macerich Company	72	50	75,908	49,108	92.3%	95.0%	$41.4	$54.0	$441	$626	13.7%	13.5%
CBL & Associates	98	82	80,040	58,814	93.0%	91.6%	$29.4	$31.8	$331	$377	13.2%	11.4%
Pennsylvania REIT	38	24	28,597	23,400	89.7%	93.8%	$31.1	$49.0	$342	$458	13.0%	12.1%
Taubman Centers	23	21	24,765	21,001	90.5%	92.5%	$44.2	$61.7	$533	$789	13.9%	14.4%
Total/Weighted Average	735	484	551,802	430,868	92.7%	95.0%	$41.5	$56.0	$431	$572	13.4%	13.0%

malls were even better at 8.41%. In comparison, the overall appreciation component of the index was 5.56%. So better quality malls have been performing well as an investment.

What Constitutes a Trophy Mall?

There are Class A, B and C malls and then there are "Trophies." There are many opinions as to what constitutes a trophy regional mall. Based on our experience and research, we have created a composite of requisites of such centers. It all starts with a desirable **trade area** that has a significant population (1 million or more), that has above average growth in both income and population. It must be the dominant center in the trade area with strong retail sales (typically a minimum of $400 million). Barriers to entry in more established markets are a major plus.

Physical attributes should include a modern design that encourages shopper traffic and visibility from major highways. The infrastructure should be well maintained. Expansion potential has become less of a factor as there are concerns in the industry as to the long term needs of merchants, but still it is better to have potential than not.

Merchandise mix is as important today as ever, and it starts with the anchors. Bloomingdales, Nordstrom and Neiman Marcus depict Class A and possible Trophy while JC Penney, Sears and Macy's (debatable) do not. But not only do you need the right department stores, they also have to be the leader regarding aggregate retail sales and sales per square foot in their market. This ensures owners and investors that there is resiliency in their performance. In-line tenants should have a fashion orientation and there should be a strong restaurant/food component. However, too much of a given category will lead to cannibalization of retail sales.

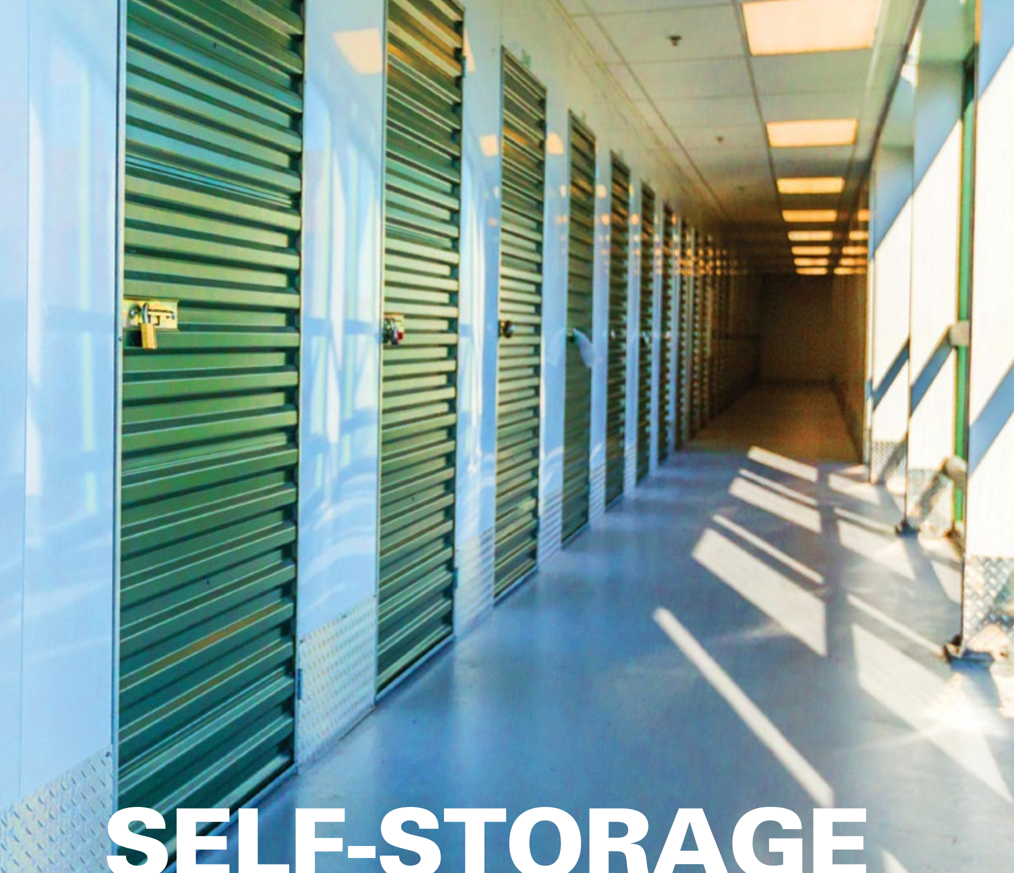
Performance, measured by **retail sales per square foot**, is the bottom line. If the prior mentioned attributes are favorable, then it will show not only in retail sales, but also in occupancy. Sales for tenants of 10,000 sf or less should be $700 or more. It should exclude extraordinary tenants like Apple and Tesla, which can skew the results. Occupancy should be in the 90%'s on a consistent basis.

Occupancy costs should be manageable at 17% or less. This is somewhat more than the industry norm of the low teens, as higher retail sales levels can support somewhat higher occupancy costs.

These trophy criteria vary to some degree by market as well as property, but put most of them together and you have an investment that will perform well into the future.

So what has happened to all the centers that have been jettisoned by the REITs and others?

Centers located in secondary and tertiary markets and anchored by department store chains that have shuttered locations, such as Macy's, Sears and JC Penney, have typically gone "downhill" rapidly. Morningstar recently identified 53 centers having unpaid loan balances of $3.4 billion, that they expect to default. They are Class B and C malls that lack the customer base to support ongoing operations. A case in point is Wausau Center, which is located in central Wisconsin. JC Penney, which was the largest tenant, left the center when its lease expired in 2014. Sears then closed its store in 2016. Occupancy is now reported at less than 60%. Prospects are not good.



SELF-STORAGE

Demand is Still Strong, But Occupancy is Stabilizing

2016 was marked by another 366 days of very strong performance for the self-storage industry. Two of the largest portfolio transactions ($1.3 billion and $1.4 billion) of the past decade occurred in 2016, at historically low capitalization rates. As predicted in our 2016 Self-Storage Viewpoint report, occupancy and revenue trended upward. In addition, the latest market data supports our hypothesis from last year that the market would begin to stabilize in the latter part of 2016. After several years of historic growth, rental rates and occupancy are showing signs of stabilization after gaining back all of the losses of the Great Recession. The data implies still very strong, but slightly slower revenue growth in the year ahead. Growth will be based on more "normalized" rent increases rather than a combination of rent increases and occupancy growth.

REIT Performance

The greatest occupancy growth occurred in 2012/13 and has been tapering off, ever so slightly each year since. It has not been until the third quarter 2016 that this occupancy growth slowed to the point of being nearly stagnant. Revenue growth has been sluggish, while expenses increased by just 1.6%. Combining all factors, though, allowed net operating income to advance by a healthy 7.0%. The self-storage market has officially reached a point of stabilization after a slow and very lucrative "lease up" of lost ground after the Great Recession. This does not mean that the party is over by any means. It does, however, appear to be a possible turning point. An anticipated increase in supply, together with rising interest rates, could result in a deceleration for the self-storage sector.

Now that occupancy appears to have plateaued, revenue is anticipated to follow a similar trend and become more "normalized." Most tenants receive rent increases of at least 3% to 6% annually. Normal rental rate increases will represent the only revenue growth, with no help from increasing occupancy. There was a notable rise in the construction of new projects in 2016. The development pace appears to be quickening as investors market-wide are recognizing the stability and growth of self-storage revenue in recent years. The self-storage industry appears to have reached a mature portion of its cycle, is growing, and appears to be showing signs of changing from red-hot to slightly less than red-hot.

REITs tend to lead market trends due to their efficiencies. But they only comprise 15% of the national self-storage inventory. Therefore we consult Reis, Inc. data, which provides a more comprehensive set of statistics.

Rental Rates

According to national rent data provided by REIS, rental rates have increased from 3Q'15-3Q'16. However, the rate of increase has decreased over the past year when compared to the rate of increase observed from 3Q'14-3Q'15. This provides further evidence that the market is becoming more "normalized".

Non-climate controlled space has increased 12.9% since 1Q 2013 and 3.5% in the past twelve months. Climate controlled asking rents have increased 11.7% since 1Q 2013, 2% in the past year. The average pace of asking rate increase per quarter is 0.9% for both non-climate and climate controlled space. Climate controlled asking rents have increased 11.7% since 1Q 2013, 2% in the past year. The average pace of asking rate increase per quarter is 0.9% for both non-climate and climate controlled space.

Cap Rate Trends

Nationwide, the underlying fundamentals of self-storage remain very strong. Recent transactions imply self-storage capitalization rates, of all class types, average between 6.0% to 6.25% nationally, with Class A facilities being in the low 5% range. There have been some transactions below 5%, which has never been seen prior to 2016. Many of these transactions involved some of the best assets in the strongest markets, which are very rarely placed on the market. Some of the other transactions under 5.0% have great upside, indicating much higher rates on a going-forward basis.

Many in the industry agree that there is bifurcation in overall rates depending on the class of asset. In our conversations with owners/ operators, buyers, brokers, and mortgage brokers, all agreed an acceptable range of overall rate for self-storage properties nationwide was as follows:

The following is a comparison of the 2012 through 3Q 2016 performance of the four self-storage REITS: Public Storage, Extra Space Storage, Life Storage (Sovran), and Cube Smart.

AGGREGATE REIT PERFORMANCE - SAME STORE OPERATION*

Period	Facility Count	Occupancy Change	Revenue Change	Expense Change	NOI Change
3Q-2016	3,888	0.1%	5.5%	1/6%	6.9%
2015	3,245	1.1%	7.3%	2.4%	9.5%
2014	3,154	1.5%	6.9%	3.0%	8.7%
2013	2,949	2.6%	7.5%	2.8%	9.8%
2012	2,888	1.7%	6.0%	-1.4%	9.6%

*Public Storage, Extra Space, Sovran, & CubeSmart

Class A

4.75% - 5.75%

(Non Class A value-add deals have been seen under 5% in some areas)

Class B

5.75% -7.25%

(depending on location and amount of perceived upside potential by investors)

Class C

7.25% +

When asked about interest rate increases: Market participants interviewed by IRR do not think gradual increases in rates of 25 bps throughout 2017 will have a negative impact on the sector. Anticipated revenue growth is thought to out-pace any detrimental impact on value due to increasing overall rates due to interest rates.

2017 Projections

Capitalization rates are expected to remain low given that interest rates, when they rise, are expected to rise slowly. A stabilization of capitalization rates is anticipated in 2017, and already appears to be evident in the latter portions of 2016.

Performance will continue on an upward trend, though at a slower pace than the past year. Most facilities will see another very strong start in 2017 as they have operated throughout the previous year with low vacancy, thus allowing them to continue to push rental rates.

The amount of new product being delivered to market is increasing, and in 2017, will surpass that completed in 2016.

Investors will search for "value-add" deals, or facilities which are under-performing due to below average marketing /management. The industry continues to be driven by technology. Those facilities which are falling behind are becoming targets for value-add investors.

STUDENT HOUSING

The Class of Multifamily Investment

The fundamentals of student housing remained strong in 2016 and are projected to remain strong in the coming years. Student enrollment nationally has continued to trend upward, which has led to strong occupancy rates. Investors view this investment vehicle as almost recession-proof, which is reflected in the capitalization rates that continued to compress in 2016 and are on par with conventional apartments. 2016 was also a record year for sales volume driven by REITs and international investors, as nearly $8.9 billion in capital flowed to student housing.

Demographics Drivers

The demand driver for student housing is student enrollment. According to the National Center for Education Statistics (NECS), enrollment in degree-granting institutions increased 31% from 13.2 million in 2000 to 17.3 million in 2014 and is projected to grow to nearly 19.8 million by 2025.

The off-campus student housing market is becoming heavily influenced by international students. Enrollment has continued to rise over the past few decades with an increase of nearly 41% from 2009 through 2015, and reportedly reached over one million foreign students attending U.S. colleges in 2016. Foreign enrollment is projected to further increase demand for off-campus student housing. The growth is not expected to diminish in the near future as foreign students are a profit center for universities and have been a boon to off-campus housing demand.

Inventory and Occupancy

The inventory of off-campus student housing has continued to grow. According to Axiometrics – Apartments & Student Housing Market Research, developers delivered nearly 49,000 beds in 2016, which is 2.2% higher than 2015, but less than 2013 and 2014. The inventory is projected to continue to grow, as Axiometrics projects an additional 45,700+/-beds delivered in 2017. Moving forward, the number of beds delivered are expected to plateau given the dearth of prime development land in close proximity to universities and increased risk of placing beds further from campus. Further, many universities are attempting to compete with off-campus housing by replacing an aging housing stock with more modern facilities that will satisfy a portion of the increased demand.

The beds added in 2016 were quickly absorbed into the market and had no impact on the overall occupancy. According to Axiometrics, the Fall 2016 occupancy level of 95% was similar to 2015. Most market observers feel that despite the growth in beds delivered, the risk of oversupply is low given the growth in enrollment and student preference to off-campus living.

YEAR-OVER-YEAR STUDENT HOUSING DELIVERIES

Year	Beds Delivered
2013	59,774
2014	63,182
2015	47,822
2016	48,921
2017*	45,773
Total*	265,472

*Forecast, 2017, including approximately 10,000 additional planned beds.

Volume of Transactions and Pricing

As of August 2016, RCA reports investors purchased $8.9 billion in student housing properties versus $6.0 billion for the same period in 2015; a nearly 50% increase. The influence of international buyers, also referred to as cross-border investors, is never more evident than in 2016 wherein 23% of the sales volume were buyers from outside the United States. Institutional buyers continued to be a major player and increased their overall volume from prior years. Private buyers, often out-bid for projects, continue their downward influence on this market segment.

Overall Rates and Pricing

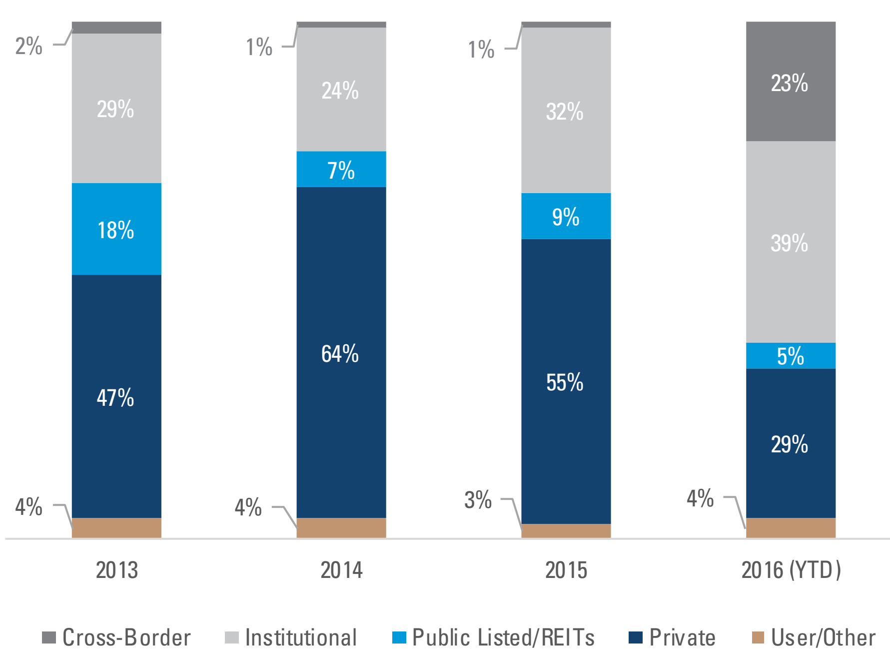
According to Real Capital Analytics (RCA), average capitalization rates have continued compressing with an average capitalization rate of 6.2% reported for 2016; a nearly 20-point decline since 2015. Capitalization rates have benefited from low interest rates and increased investor demand for this product. The influx of international buyers has had a tremendous impact. Most market observers expect rates to plateau in 2017 but remain strong.

Subsequently, pricing for student housing has trended upward since 2011, according to RCA. The average price/unit for 2016 was $171,000, which was a 3.5% decline from the previous quarter wherein an average price of $177,000 per unit was reported. The decline is due to the high sales volume of Class B and C sales that occurred. Overall, pricing by market class continues to trend upward. Since 2014, prices for student housing have increased by 20%. The price/unit is expected to continue to grow as rent growth continues in most markets. A market opportunity for investors is purpose-built projects constructed in the early 2000's that would benefit from a repositioning. These projects tend to be well placed in their respective market.

Outlook

2017 is projected to remain a strong year for student housing. Enrollment is expected to increase, allowing occupancy to remain tight. Rental rates are projected to increase. The fundamentals have created a heavy appetite by investors for student housing, and the volume of sales is expected to remain high. After several years of compressing, capitalization rates are expected to stabilize with pricing expected to continue to remain strong.

INVESTMENT VOLUME BY SOURCE



CARIBBEAN HOSPITALITY

Regional Tourism Continues Upward Trend

Most Caribbean markets continued to see increases in tourism through the third quarter of 2016, and total arrivals to the region for 2016 is projected to top 30 million. Of the top 16 markets, the average growth in stopover arrivals was 2.62% over the same respective periods from last year, although the rate of growth is gradually slowing.

The largest market continues to be the Dominican Republic, which should surpass 5.0 million stopover visitors in 2016 (7.5% growth), followed by Cuba, which should reach 3.0 million, and Jamaica with over 1.7 million.

The highest growth rate (19%) was reported by Turks and Caicos Islands, and Cuba is reporting 11.7% growth through August, partly due to the continuing relaxation of travel restrictions between America and Cuba.

Hotel Performance Subsiding from Peak Levels

Hotel performance statistics from STR for the first three quarters of 2016 indicate ADRs declined by 4.14% to $209.23, while occupancy was down 4.71% to 65.68%; leading to RevPar decline of 7.06% ($142.63).

This moderate decline in average rates and occupancy can be attributed to various factors such as the Zika virus, an increasing inventory of rooms and competition from other travel destinations. One explanation for declining hotel performance in the survey results is that Cuban hotels are not included, which implies that the increasing arrivals to Cuba may have a perceived negative impact on hotel performance for the other destinations that do report their hotel statistics.

For the twelve months through October 2016, the Cayman Islands is reporting the highest ADR in the region at $356.32, (down 0.3%) followed by the USVI ($331.74, up 3.5%) and Barbados ($283.51, up 0.8%).

Hotel Transaction Metrics

The average cap rate for completed sales of branded luxury and upper upscale resort hotels in the Caribbean (in the last two years) is 9.28%, based on data compiled by IRR; although this is based on few transactions occurring. Higher cap rates are evident for unbranded and smaller projects which are more difficult to finance. Our own survey of market participants generally reflect expected cap rates for Caribbean projects in the high single digits (8%-9%) for well performing branded assets and low double digits (11%-13%) for unbranded and/or lower profile resorts.

Cuba's Changing Dynamic

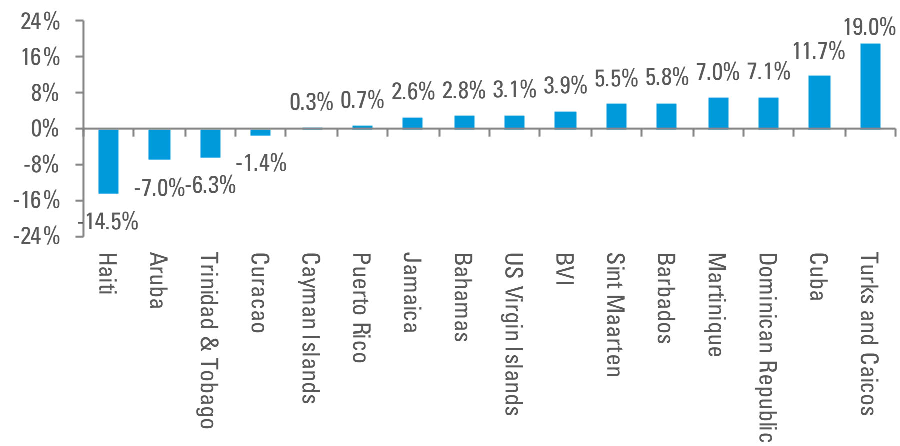
Although the results of the U.S. presidential election leaves some uncertainty with respect to relations with Cuba, 2016 saw a continuing increase in the amount of travel to the island, both from the U.S. and elsewhere; and a continuing race between U.S. companies to do business there. New investment in hotels by American firms, such as Marriott/Starwood is limited to management contracts, as equity investment would require a minority share in a joint venture with a Cuban government entity (as does most all enterprise); and there seems to be limited interest from American hoteliers to go this route.

Conclusions and Forecasts

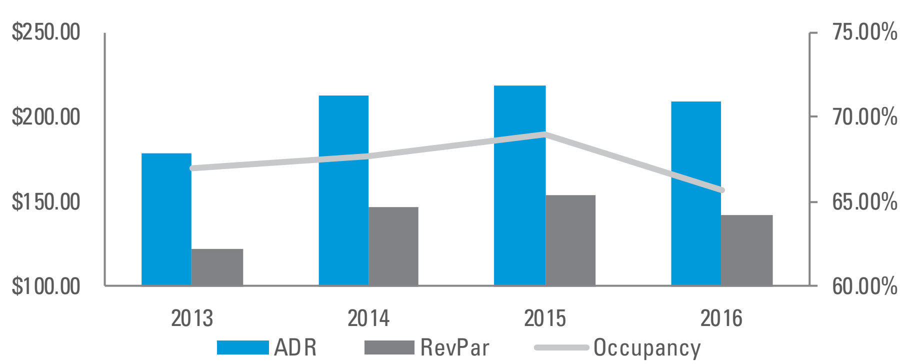
Indications are mixed, with growing arrivals to the region and moderately declining hotel performance. Growth in tourism in the region has been hampered by the news pertaining to the Zika virus, although some destinations have been more affected than others. Caribbean tourism is mostly affected by the U.S. economy, which continues to show improvement. Assuming Zika infections continue to decline and the issue becomes less newsworthy, we project modest improvement in the overall Caribbean hotel and tourism sector in 2017.

The only destinations reporting negative growth for 2016 are Haiti, Trinidad & Tobago, Aruba and Curacao

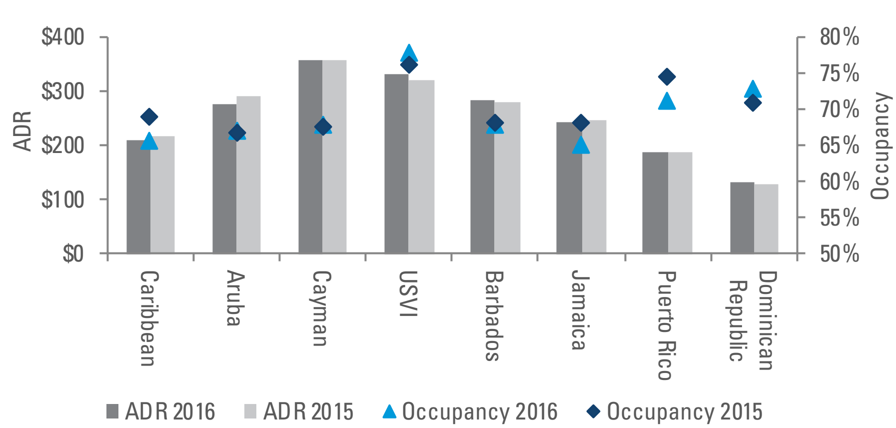
GROWTH IN ARRIVALS YTD 2016



CARIBBEAN HOTEL TRENDS - YTD THROUGH OCT, 2016



HOTEL PERFORMANCE 12-MONTHS THROUGH OCTOBER



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Investment Volume by Source
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Property Reports

Office

Top Markets by Office Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Market Cycle
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Multifamily

Top Markets by Multifamily Transaction Volume Based on YOY Percentage Change
Source: Real Capital Analytics

Market Cycle
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Retail

Top Markets by Retail Transaction Volume Based on YOY Percentage Change
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Top Markets by Industrial Transaction Volume Based on YOY Percentage Change
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PHOTOGRAPHY

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About Viewpoint

IRR's Viewpoint represents the compilation and presentation of Commercial Real Estate (CRE) rates, market conditions, and forecast data. The rates, market conditions, and forecast data is generated via IRR's Viewpoint Survey. IRR's Viewpoint Survey requests market experts consisting of Appraisers and Consultants, each of whom have deep CRE expertise, to provide insights on over 60 U.S. markets. Viewpoint data is collected across five asset classes including Multifamily, Office, Retail, Industrial, and Hospitality.

Viewpoint's rates data (Cap Rates, Discount Rates, Reversion Rates, Vacancy Rates, etc.) reflects an expert's opinion based on recent market activity experienced in the past 6 months. Viewpoint forecast data represents a 12-month outlook based on current market conditions. The data in Viewpoint reflects rates data and forecasts based on stabilized properties in the respective U.S. marketplace. Where referenced, all regional and national averages are based on simple average calculations and are not weighted.

IRR's Viewpoint Survey is conducted through a proprietary data survey tool, and all data is checked both manually and by a specially designed computer editing procedure. While we do not guarantee that the survey is statistically accurate, the Viewpoint data provides, what we believe, is the best, clear-sighted insights into the CRE marketplace.

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