

ULI/EY Real Estate Consensus Forecast

A Survey of Leading Real Estate Economists/Analysts

October 2014

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**Urban Land
Institute**

ULI Center for Capital Markets
and Real Estate



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ULI/EY Real Estate Consensus Forecast

- Three-year forecast ('14-'16) for 26 economic and real estate indicators
- A consensus forecast based on the median of the forecasts from 43 economists/analysts at 32 leading real estate organizations
- Respondents represent major real estate investment, advisory, and research firms and organizations
- Survey undertaken from September 8 through 26, 2014
- A semiannual survey; next release planned for April 2015
- Forecasts for:
 - Broad economic indicators
 - Real estate capital markets
 - Property investment returns for four property types
 - Vacancy rates and rents for five property types
 - Housing starts and prices

Overview

The *ULI/EY Real Estate Consensus Forecast* for October 2014 projects solid growth over the next three years for the U.S. economy; continued strengthening in real estate capital markets; and continued improvement in commercial real estate fundamentals and the housing sector.

Compared to the previous forecast in April 2014, this forecast is slightly more optimistic regarding commercial property transaction volume and prices, fundamentals in the multifamily sector and annual returns for institutional retail, industrial, and office properties.

The forecast has changed little from the previous forecast for industrial/warehouse, retail and office sector fundamentals and annual returns for institutional apartment properties. Forecasts are slightly lower for CMBS issuance, housing starts and growth in housing prices.

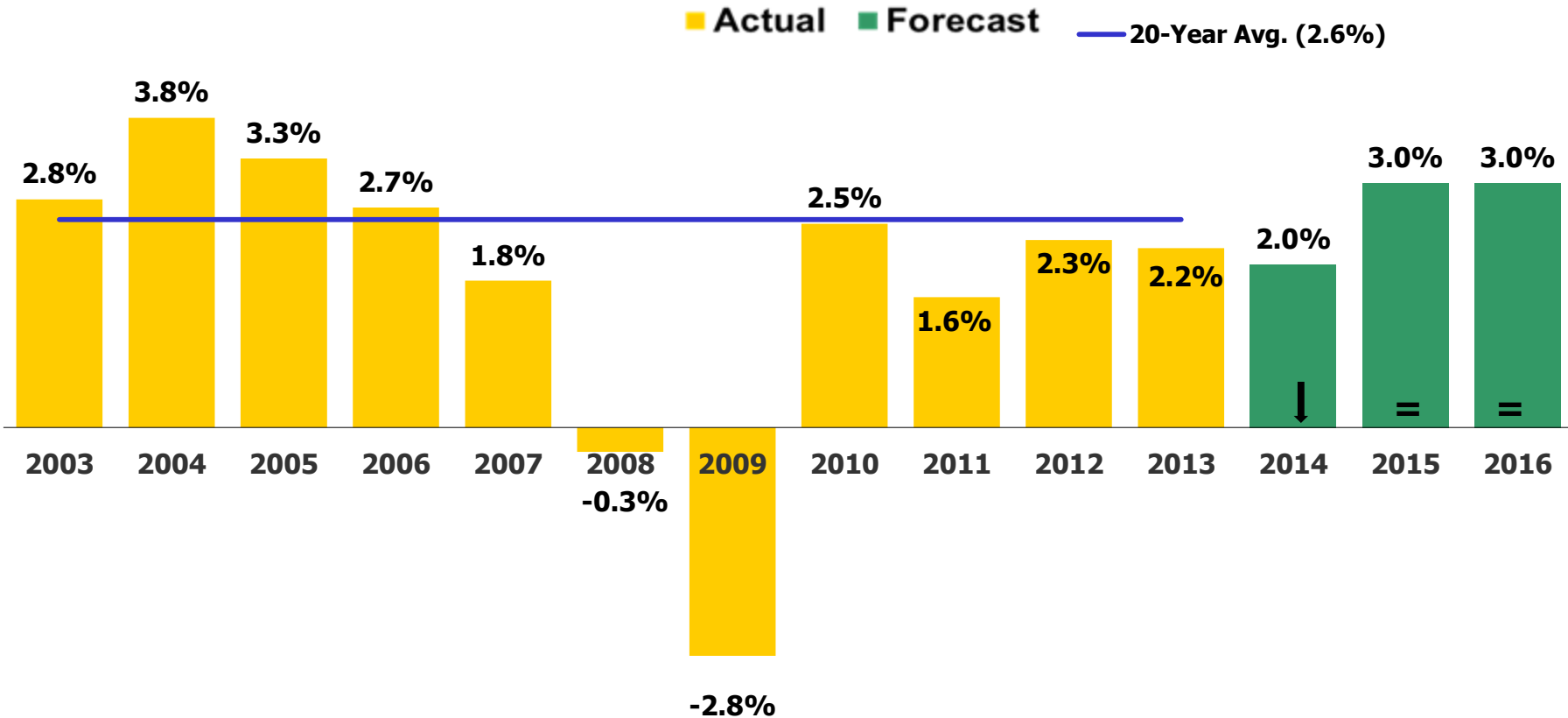
Key Findings

- Commercial property transaction volume is expected to grow, although at a declining rate, and exceed 2006 volume (the second highest pre-recession annual volume) by 2016. Volume in 2016 is forecast at \$445 billion.
- CMBS issuance jumped almost 80 percent in just 2013. Growth is expected to continue at a more moderate annual pace, increasing another 43% by 2016.
- Commercial property prices are expected to increase by 10% in 2014 and then more moderately in 2015 and 2016, with 6.0% and 5.0% increases, respectively.
- Institutional real estate assets are expected to provide total returns of 11% in 2014, moderating to 8.5% annually by 2016.
- Vacancy rates are expected to decrease modestly for office, retail and industrial properties and rise slightly for apartments; hotel occupancy rates are expected to continue to improve.
- Commercial property rents are expected to increase for the four major property types in 2014, ranging from a growth rate of 2.0% for retail up to 4.0% for industrial. Rent increases in 2016 are projected at 3.0% for all types except for office, which is projected to increase by 4%.
- Single-family housing starts are projected to increase to 912,500 units per year by 2016, remaining below the long-term annual average.

Economy

- According to the *ULI/EY Real Estate Consensus Forecast*, the economic growth rate for 2014 will be lower than for 2013, most likely due to the weather-related decline in the first quarter. Annual GDP growth is expected to strengthen and exceed the 20-year average in 2015 and 2016, with growth rates in both years at 3.0%.
- The unemployment rate is expected to fall to 6.0% by the end of 2014 and remain there in 2015 and 2016.
- Employment is expected to grow by over 8.23 million jobs over the next three years. Employment will increase fairly steadily, by 2.63 million jobs in 2014, 3.00 million in 2015, and 2.63 million in 2016.

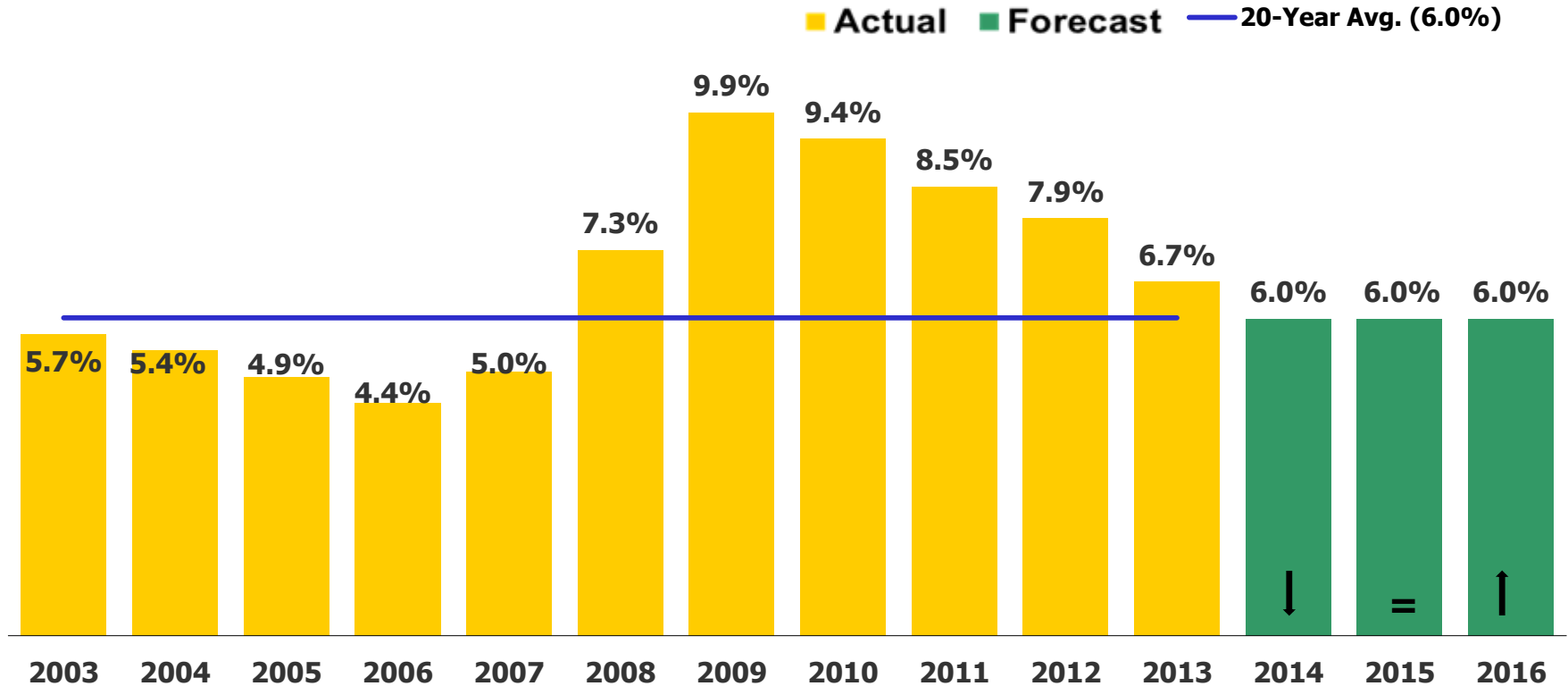
Real GDP Growth



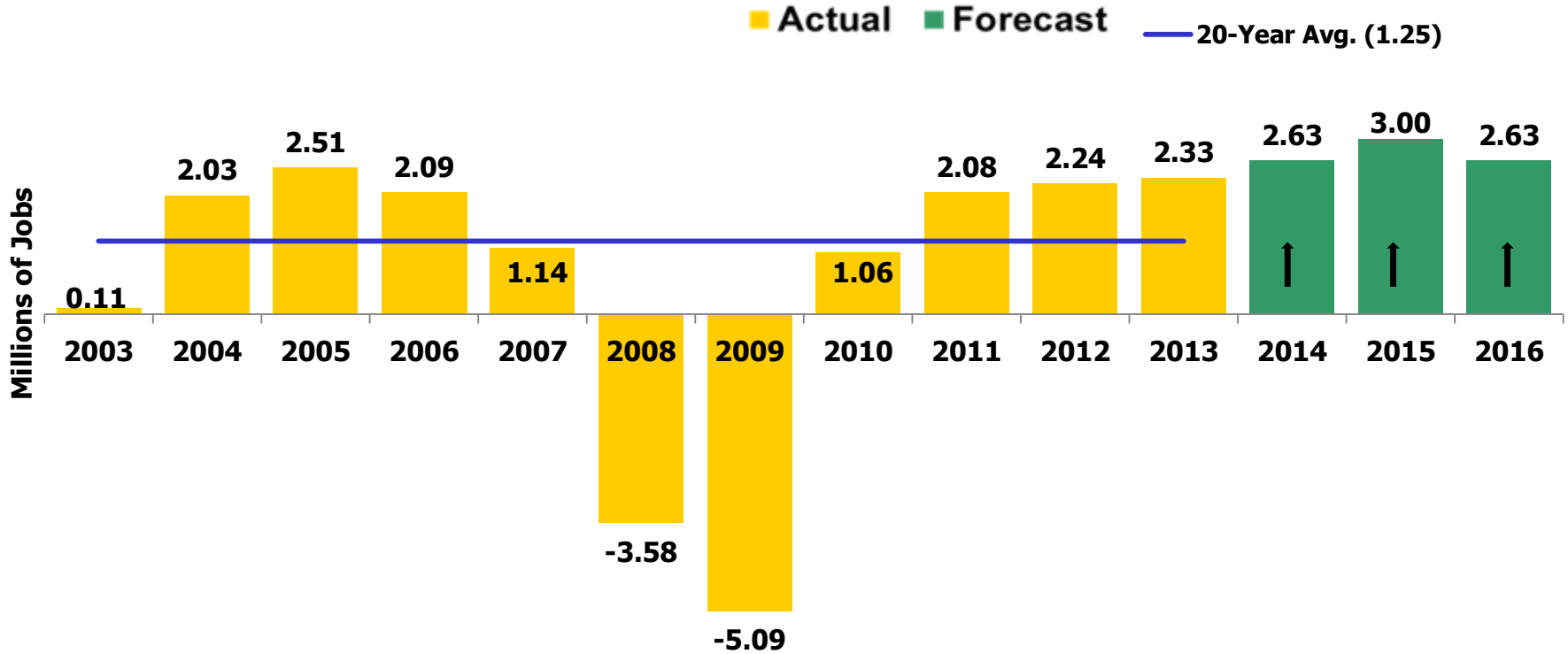
Sources: 1993-2013, Bureau of Economic Analysis; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 2.8%, 3.0% and 3.0%, respectively, for 2014-2016.

Unemployment Rate



Sources: 1993-2013 (December), Bureau of Labor Statistics; 2014-2016 (year-end), ULI/EY Consensus Forecast.
 Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected: 6.3%, 6.0% and 5.8, respectively, for 2014-2016.



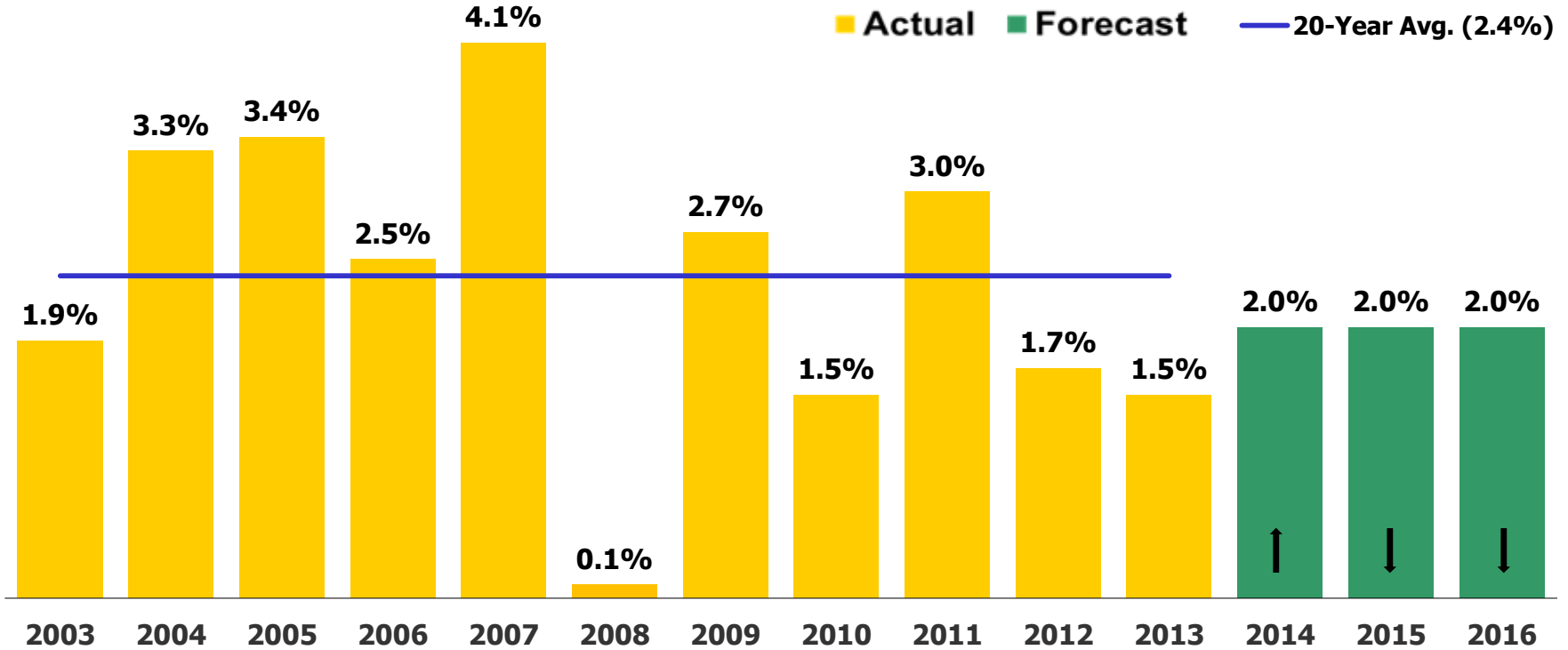
Sources: 1993-2013, Bureau of Labor Statistics; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 2.46, 2.56 and 2.53, respectively, for 2014-2016

Inflation, Interest Rates, and Cap Rates

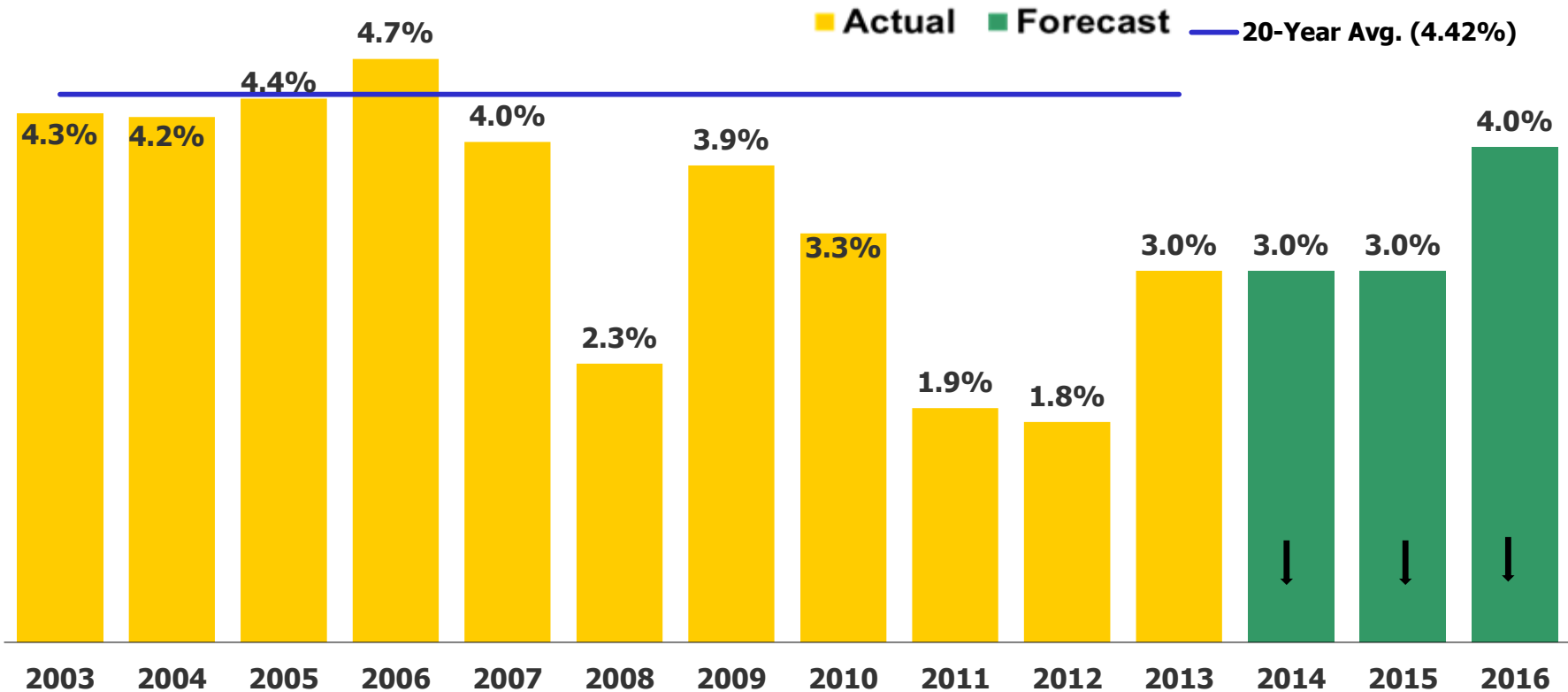
- Inflation is expected to remain consistent at 2.0% in 2014, 2015, and 2016.
- Ten-year treasury rates are projected to remain at 3% in 2014 and 2015 and rise to 4.0% by the end of 2016.
- The *Consensus Forecast* does not expect much change in real estate capitalization rates for institutional-quality investments (NCREIF cap rates), which are expected to rise from 5.7% in 2013 to 6.0% in 2014 and then remain at that level in 2015 and 2016.

Consumer Price Index Inflation Rate

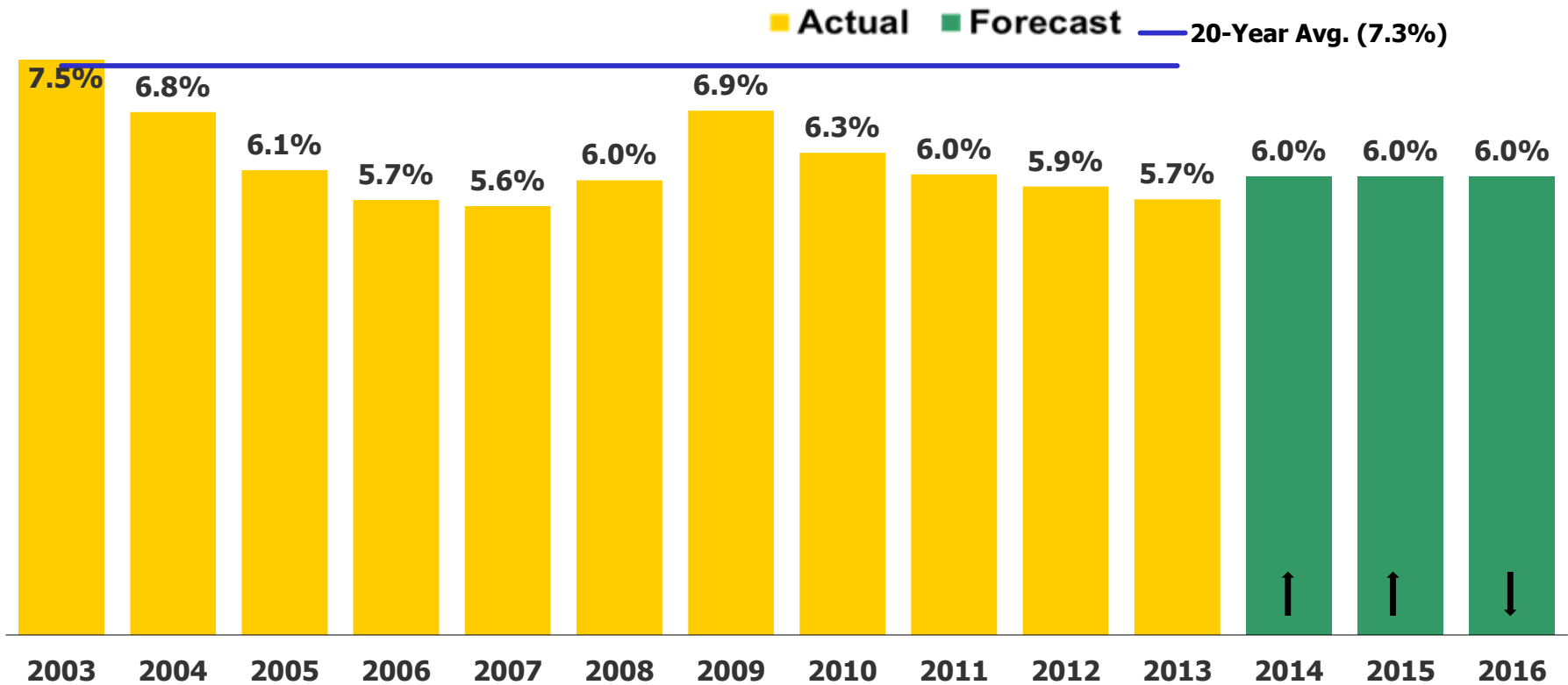


Sources: 1993-2013, Bureau of Labor Statistics; 2014-2016 (year-end), ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 1.9%, 2.2% and 2.5%, respectively, for 2014-2016.



Sources: 1993-2013, U.S. Federal Reserve; 2014-2016, ULI/EY Consensus Forecast.
Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 3.4%. 4.0%, 4.4% respectively, for 2014-2016.



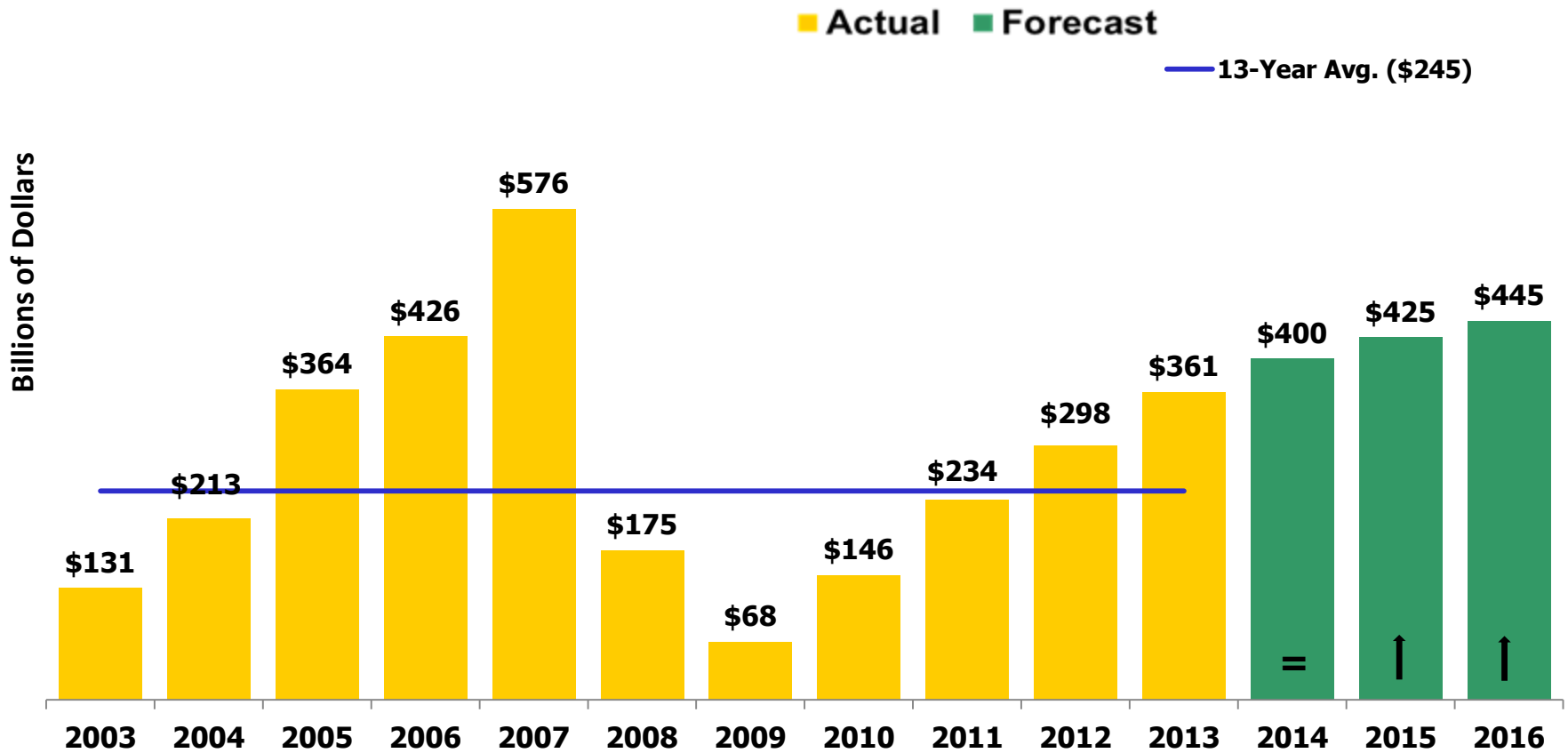
Sources: 1993-2013 (fourth quarter), National Council of Real Estate Investment Fiduciaries (NCREIF); 2014-2016 (year-end), ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 5.7%, 5.9% and 6.2%, respectively, for 2014-2016.

Real Estate Capital Markets

- Commercial real estate transaction volume is expected to increase to \$400 billion in 2014, \$425 billion in 2015, and \$445 billion in 2016, with volume in 2016 exceeding the second highest pre-crash annual level.
- Issuance of commercial mortgage-backed securities (CMBS), a key source of financing for commercial real estate, is expected to continue its rebound through 2016. Issuance is projected to increase to \$92 billion in 2014 and grow over the next two years to \$110 billion in 2015 and \$123 billion in 2016.

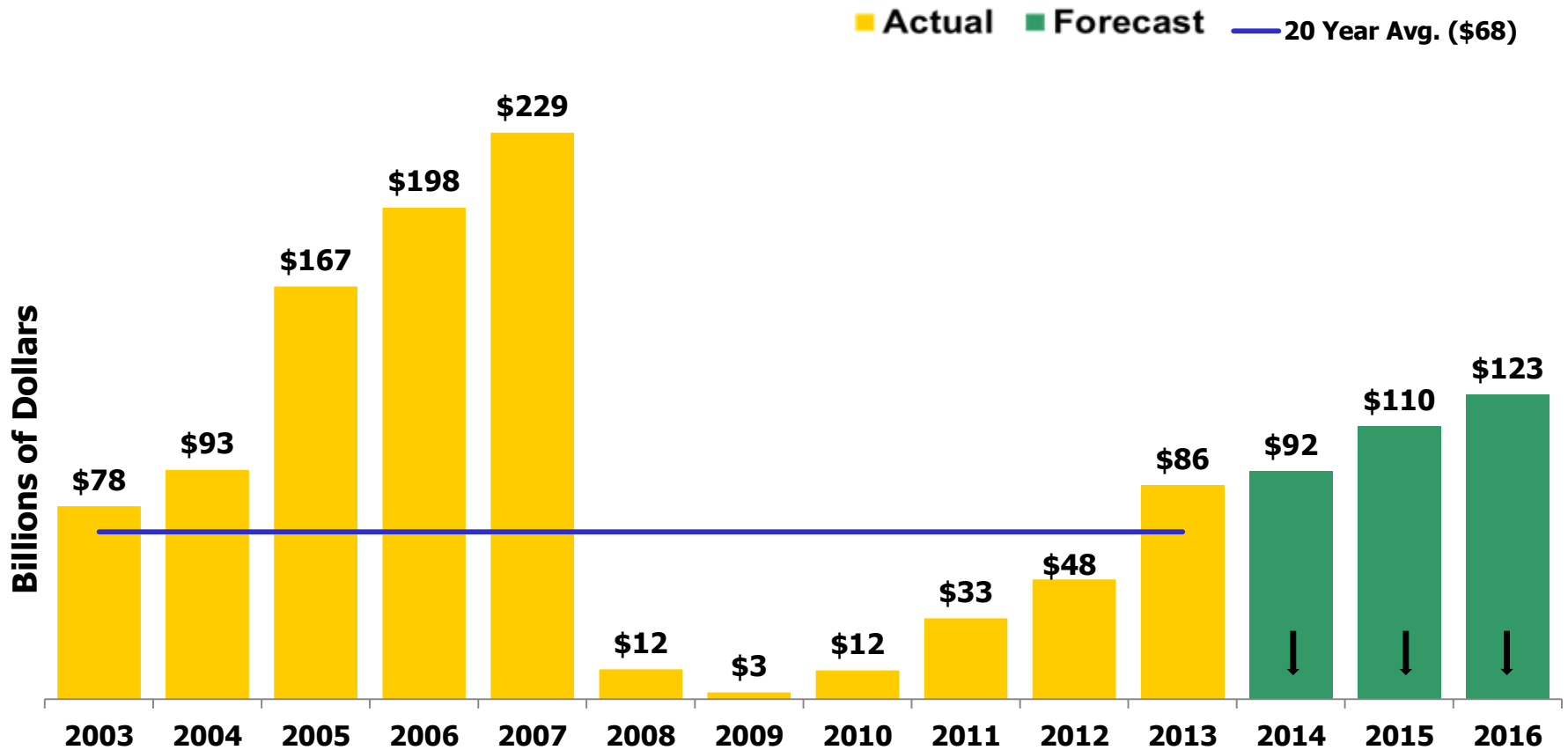
Commercial Real Estate Transaction Volume



Sources: 2001-2013, Real Capital Analytics; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected \$400, \$420 and \$430, respectively, for 2014-2016.

Commercial Mortgage-Backed Securities (CMBS) Issuance



Sources: 1993-2013, Commercial Mortgage Alert; 2014-2016, ULI/EY Consensus Forecast.

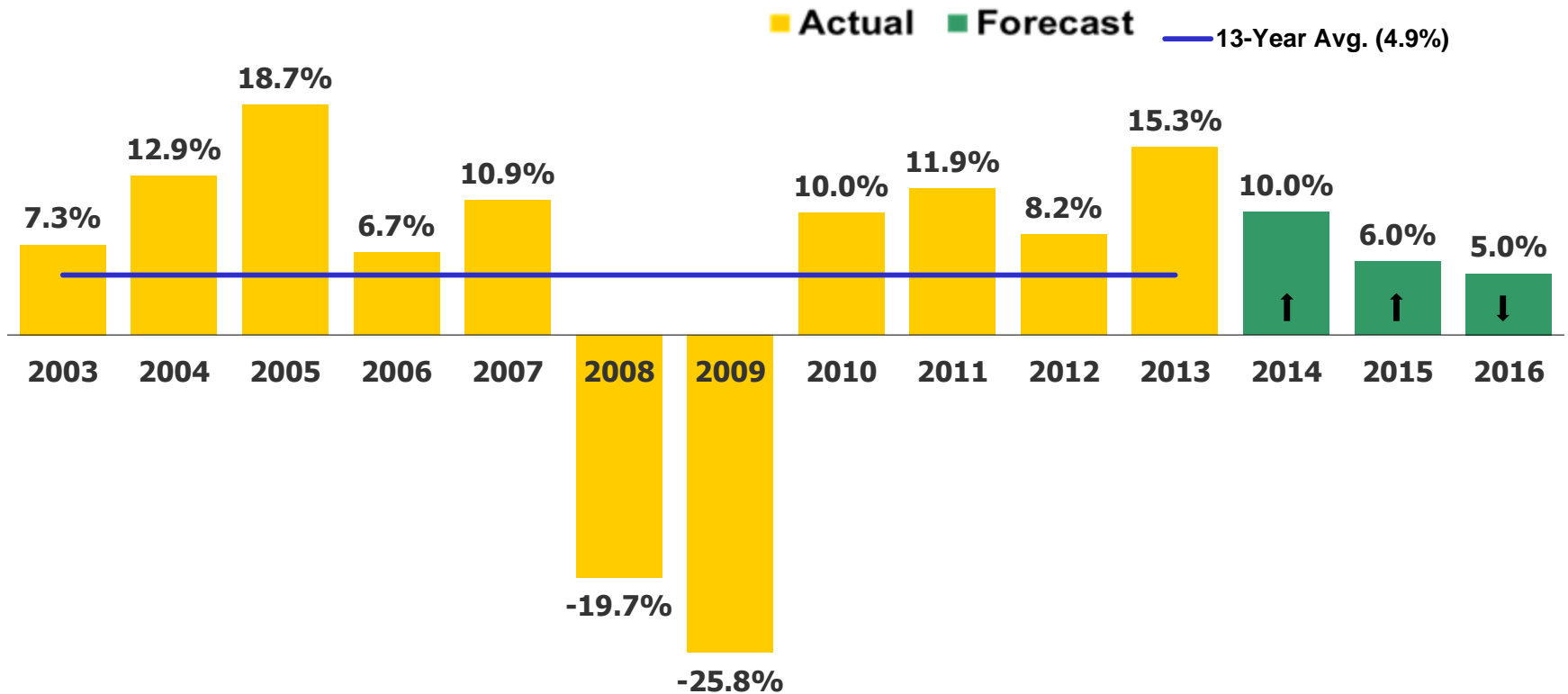
Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected \$100, \$120, \$140, respectively, for 2014-2016.

Real Estate Returns and Prices

Prices and total returns for commercial real estate investments are expected to increase at moderate rates:

- The Moody's/RCA Commercial Property Price Index, which increased 15.3% in 2013, is expected to increase at a substantial but somewhat slower pace in 2014, at 10.0%, and then moderate even more in 2015 and 2016, at 6.0% and 5.0%, respectively.
- Total returns for institutional-quality direct real estate investments, as measured by the NCREIF Property Index, stood at 11.0% in 2013. Annual returns are expected to come in at 11.0% in 2014, as well, and then trend lower with returns of 9.0% in 2015 and 8.5% in 2016.

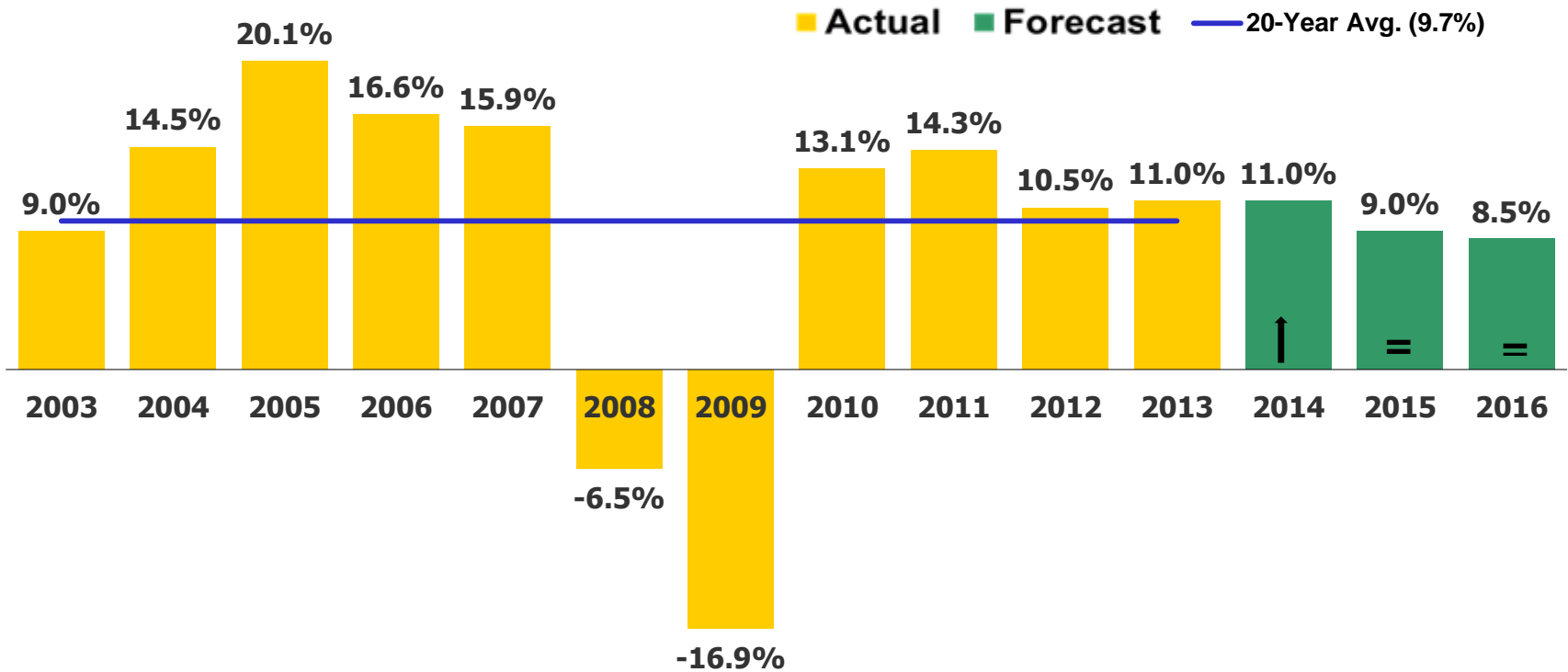
Moody's/RCA Commercial Property Price Index (annual change)



Sources: 2003-2013, Moody's and Real Capital Analytics; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 7.0%, 5.7%, and 5.7%, respectively, for 2014-2016.

NCREIF Total Annual Returns

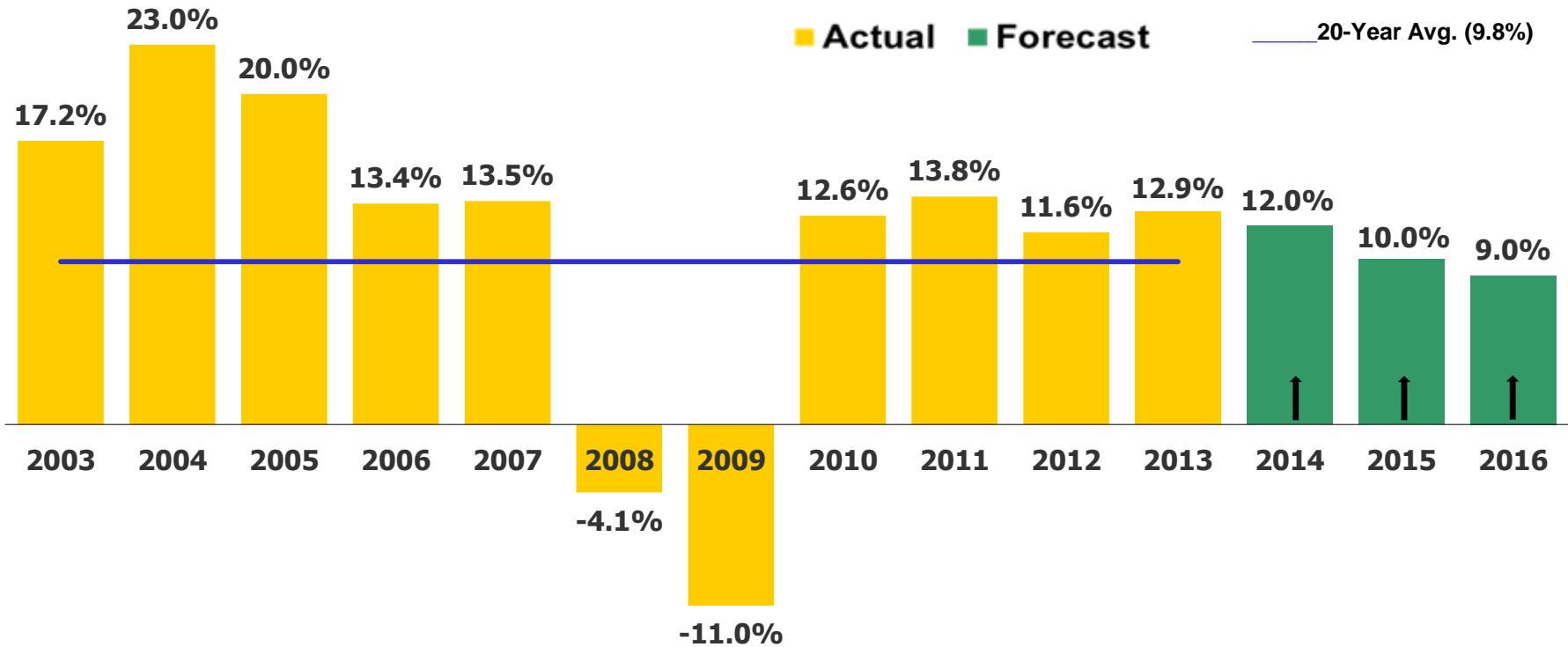


Sources: 1993-2013 National Council of Real Estate Investment Fiduciaries (NCREIF); 2014-2016, ULI/EY Consensus Forecast.
 Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 9.4%, 9.0% and 8.5%, respectively, for 2014-2016.

NCREIF Returns by Property Type

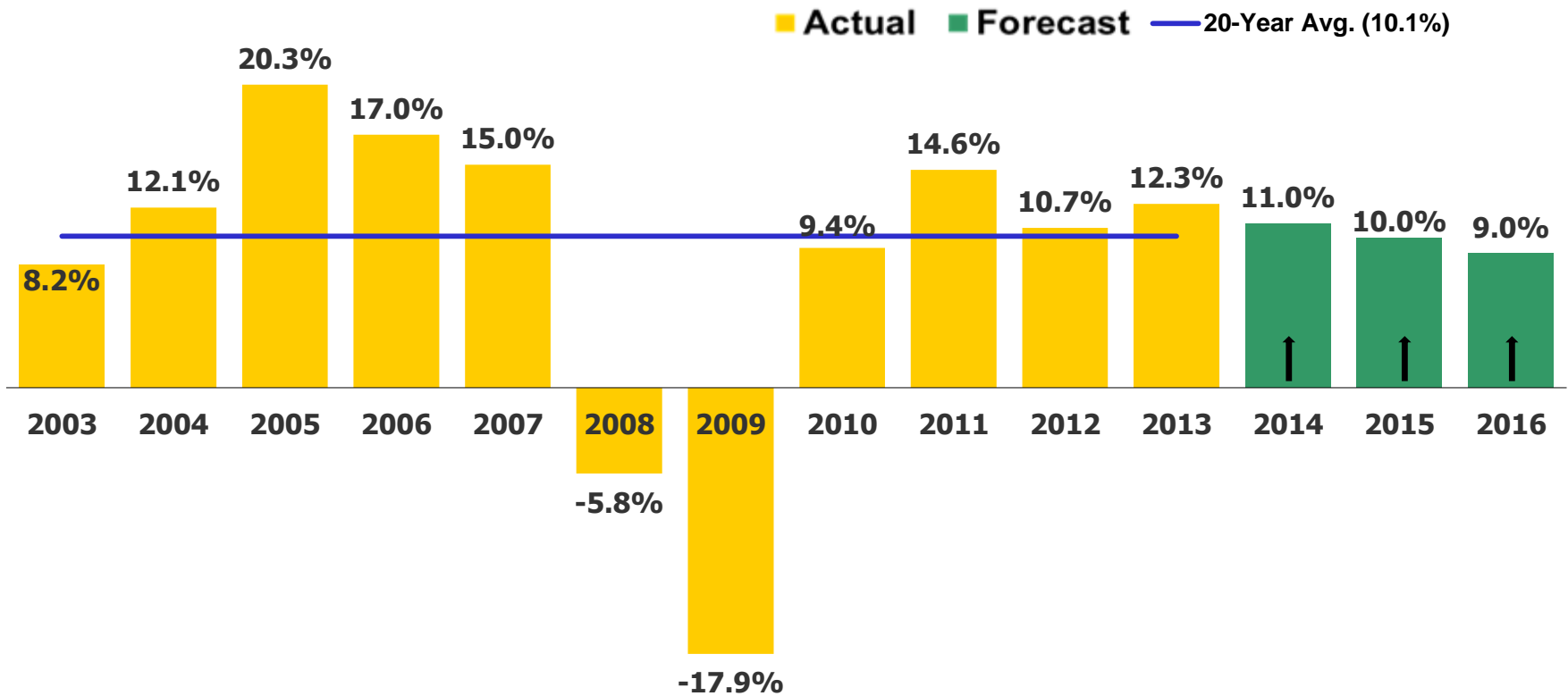
- By property type, NCREIF total returns in 2014 are expected to range from retail at 12% to apartments at 9%. Industrial and office returns are projected at 11% and 10%, respectively.
- By 2016, total returns are expected to be more uniform, with retail, industrial and office returns at 9%, and apartments moderating down to 8%.

NCREIF Retail Total Annual Returns



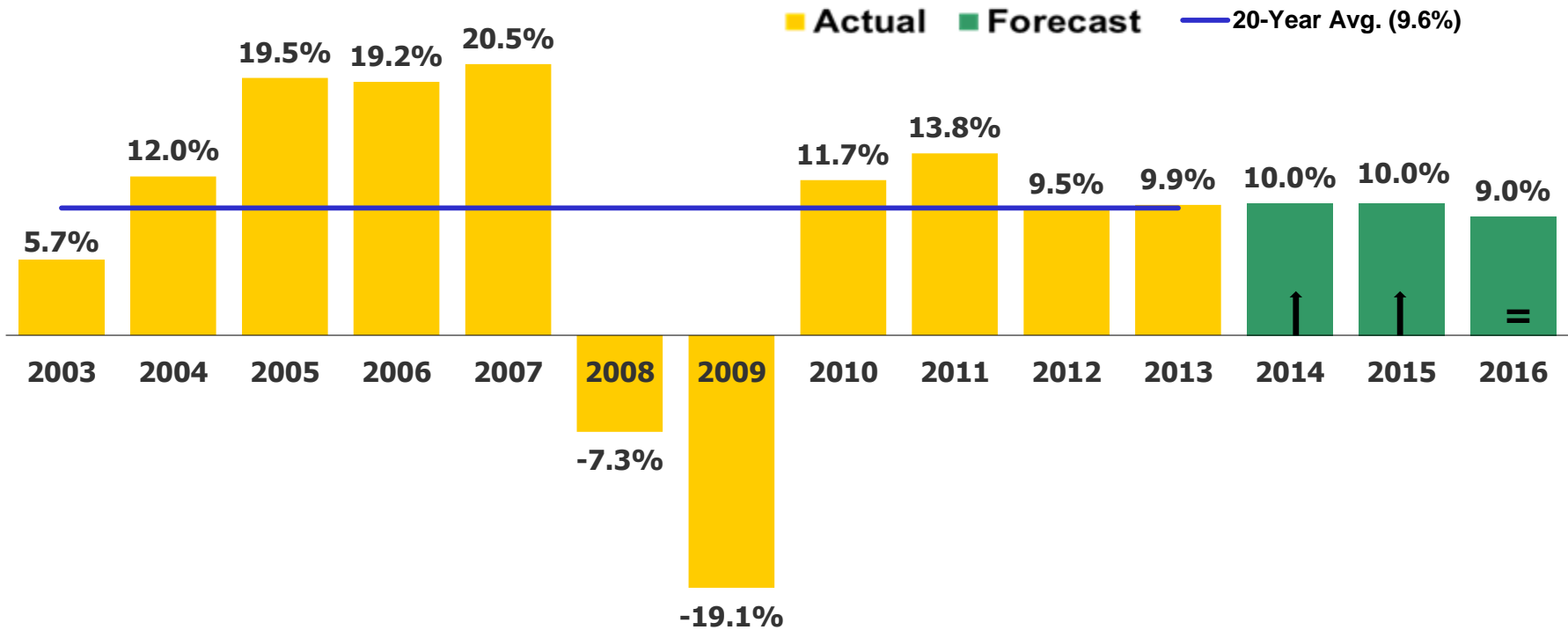
Sources: 1993-2013, National Council of Real Estate Investment Fiduciaries (NCREIF); 2014-2016, ULI/EY Consensus Forecast.
 Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 10.0%, 9.4% and 8.0%, respectively, for 2014-2016

NCREIF Industrial Total Annual Returns



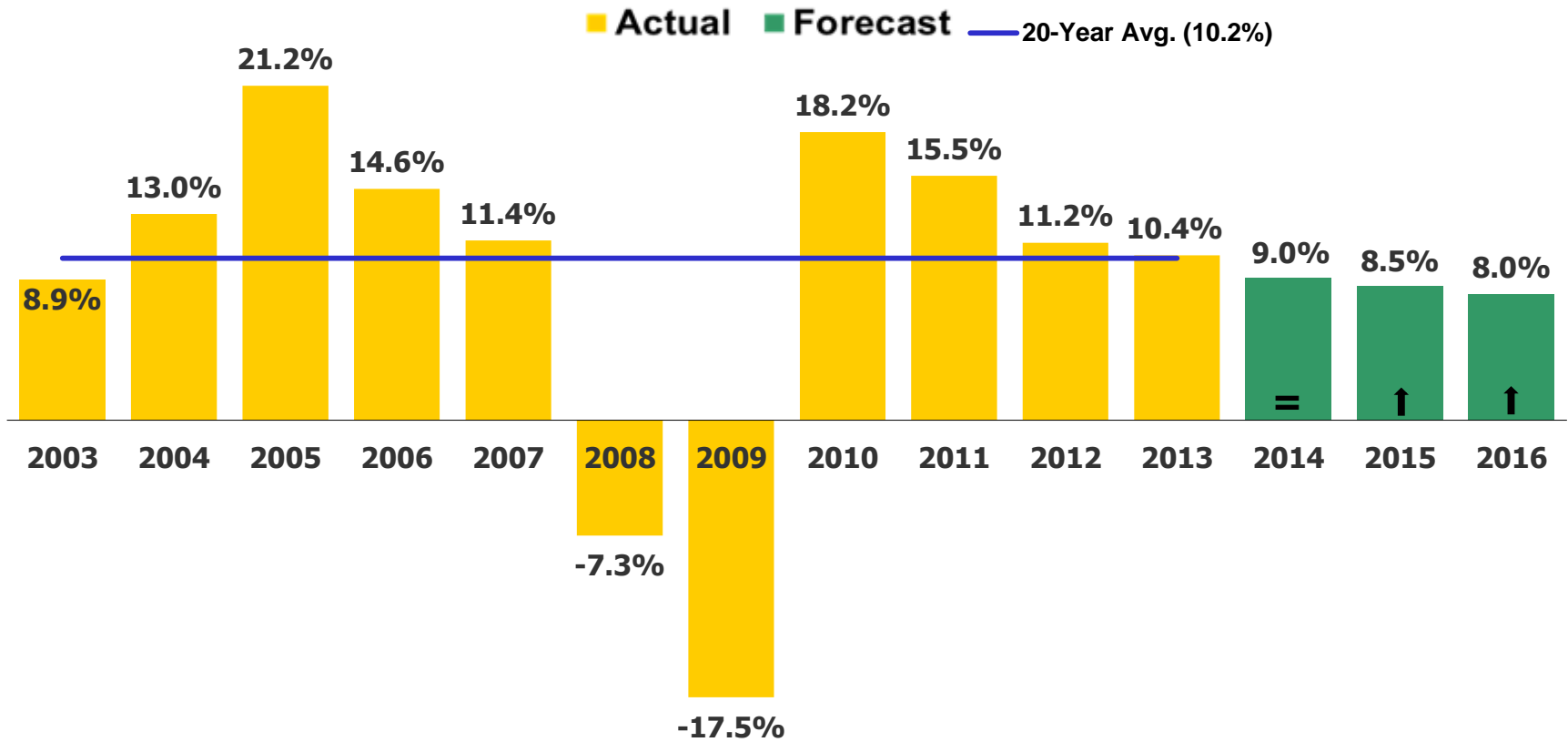
Sources: 1993-2013, National Council of Real Estate Investment Fiduciaries (NCREIF); 2014-2016, ULI/EY Consensus Forecast.
 Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 10.0%, 9.3% and 8.3%, respectively, for 2014-2016.

NCREIF Office Total Annual Returns



Sources: 1993-2013, National Council of Real Estate Investment Fiduciaries (NCREIF); 2014-2016, ULI/EY Consensus Forecast.
 Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 9.0%, 9.2% and 9.0%, respectively, for 2014-2016.

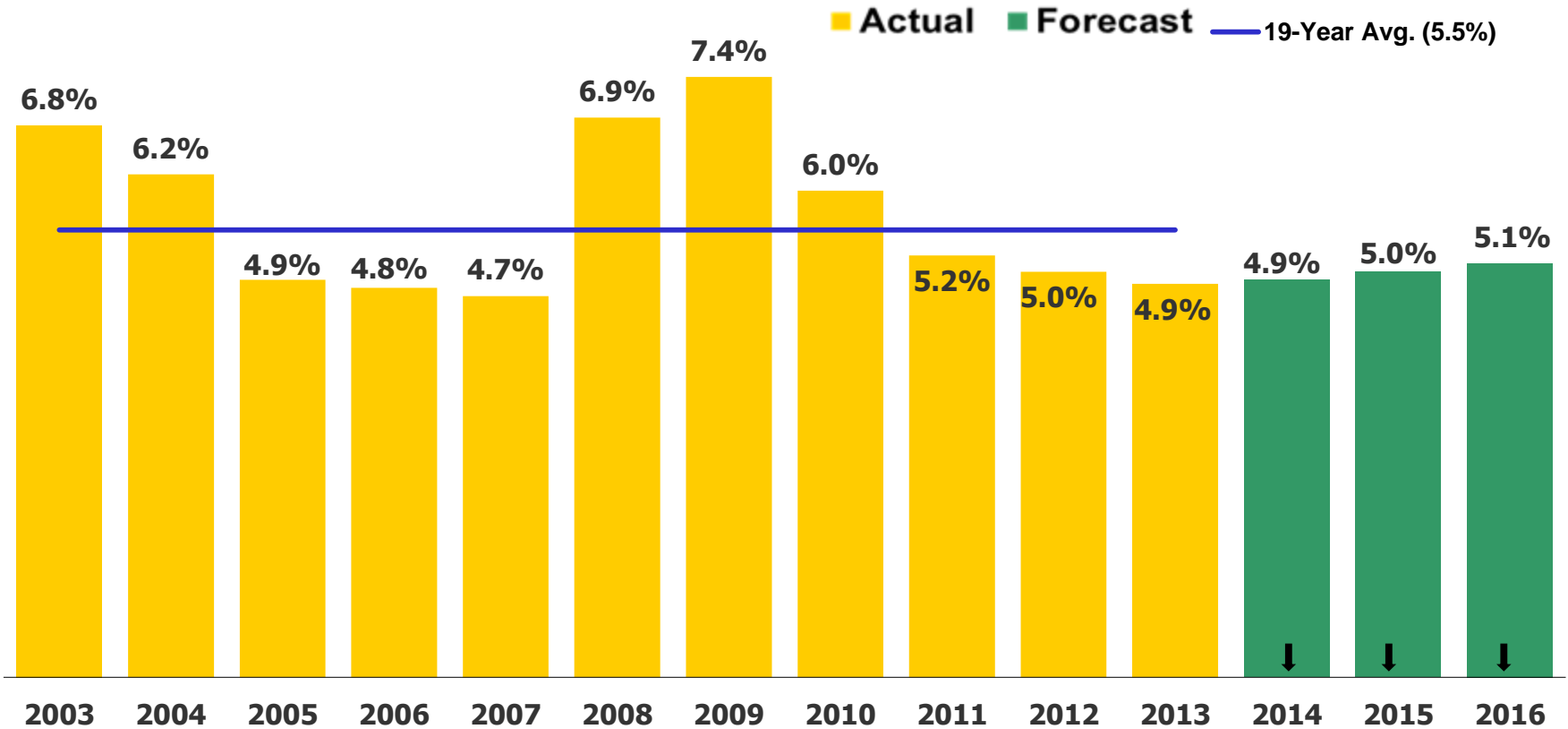
NCREIF Apartment Total Annual Returns



Sources: 1993-2013, National Council of Real Estate Investment Fiduciaries (NCREIF); 2014-2016, ULI/EY Consensus Forecast.
 Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 9.0%, 8.1% and 7.9%, respectively, for 2014-2016

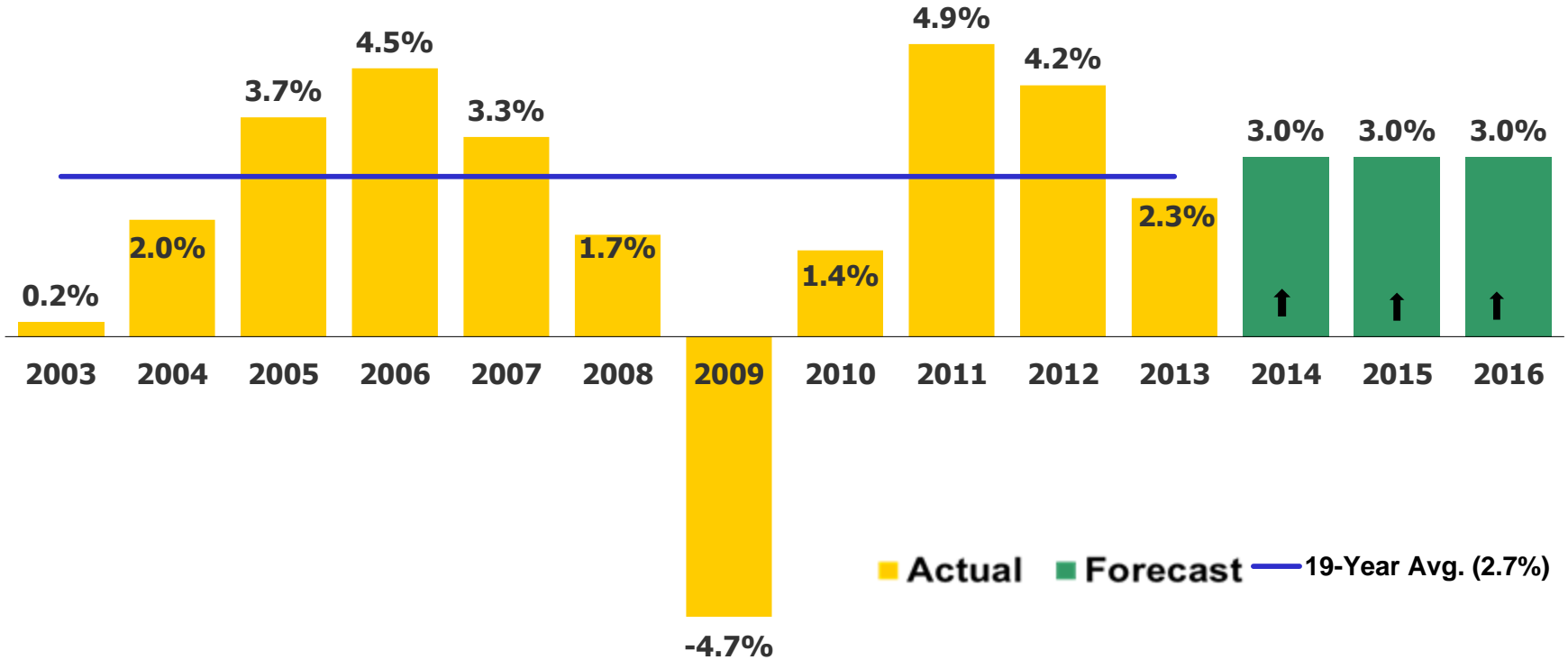
Apartment Sector Fundamentals

- The apartment sector has performed very well over the past several years with vacancy rates decreasing from 7.4% in 2009 to 4.9% in 2013, according to CBRE. According to the *ULI/EY Consensus Forecast*, end of year vacancy rates are expected to remain low at 4.9% in 2014, rising only slightly in 2015 to 5.0% and to 5.1% in 2016.
- Apartment rental rate growth, which slowed to 2.3% in 2013 after two years of significant growth, is expected to increase in 2014 to 3.0% and continue at that growth rate in 2015 and 2016.



Sources: 1994-2013 (fourth quarter), CBRE; 2014-2016 (fourth quarter), ULI/EY Consensus Forecast.
Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 5.0%, 5.2% and 5.3%, respectively, for 2014-2016.

Apartment Rental Rate Change



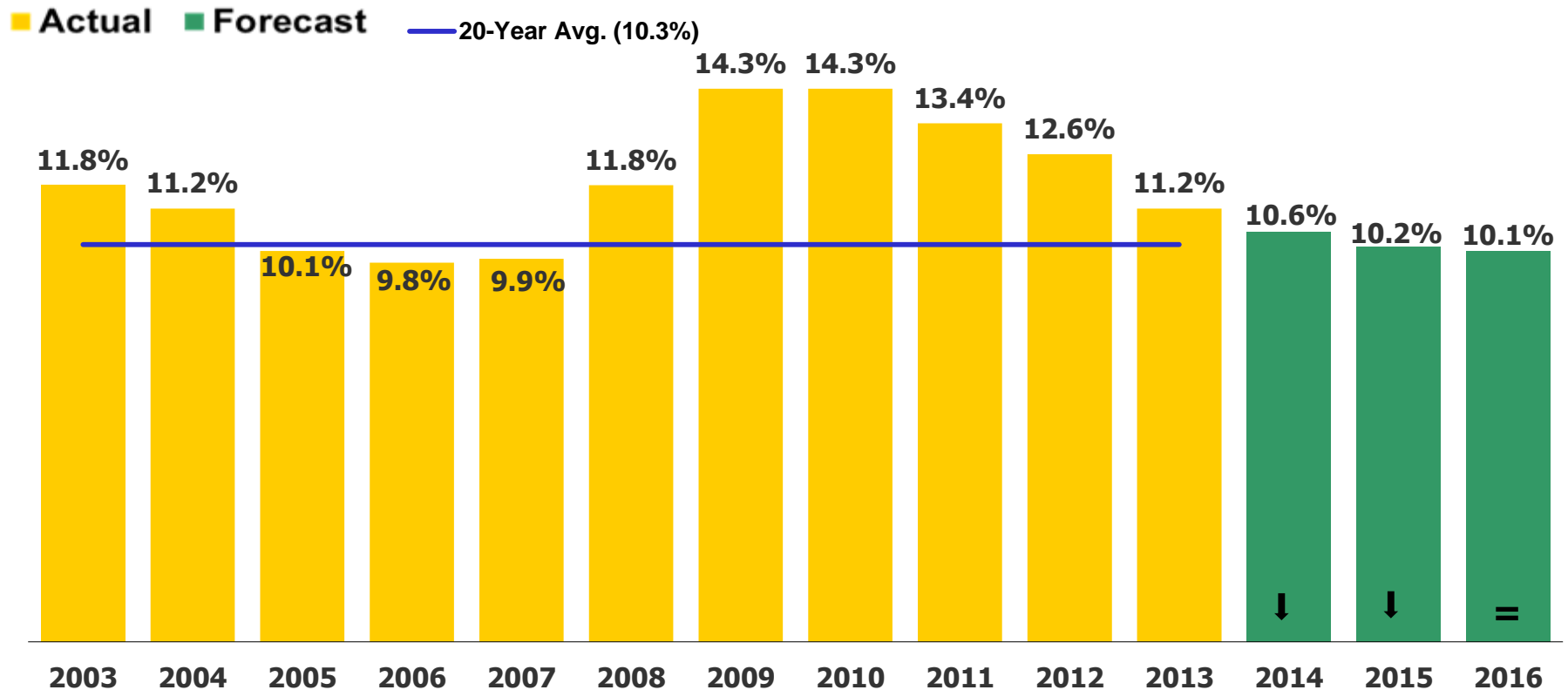
Sources: 1995-2013, CBRE; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 2.7%, 2.3% and 2.2%, respectively, for 2014-2016.

Industrial/Warehouse Sector Fundamentals

- Over the last several years, the industrial/warehouse sector has experienced strong annual declines in availability rates, according to CBRE, particularly in 2013 when it fell 140 bp. The *Consensus Forecast* anticipates continued decreases in vacancy rates but at a slowing pace, from 11.2% in 2013 to a projected 10.6% in 2014, 10.2% in 2015, and 10.1% by the end of 2016.
- Rental rate growth was strong in 2013 at 3.6%, according to CBRE, and the *Consensus Forecast* projects continued healthy growth of 4.0% in 2014, 4.0% in 2015, and moderating somewhat to 3.0% in 2016.

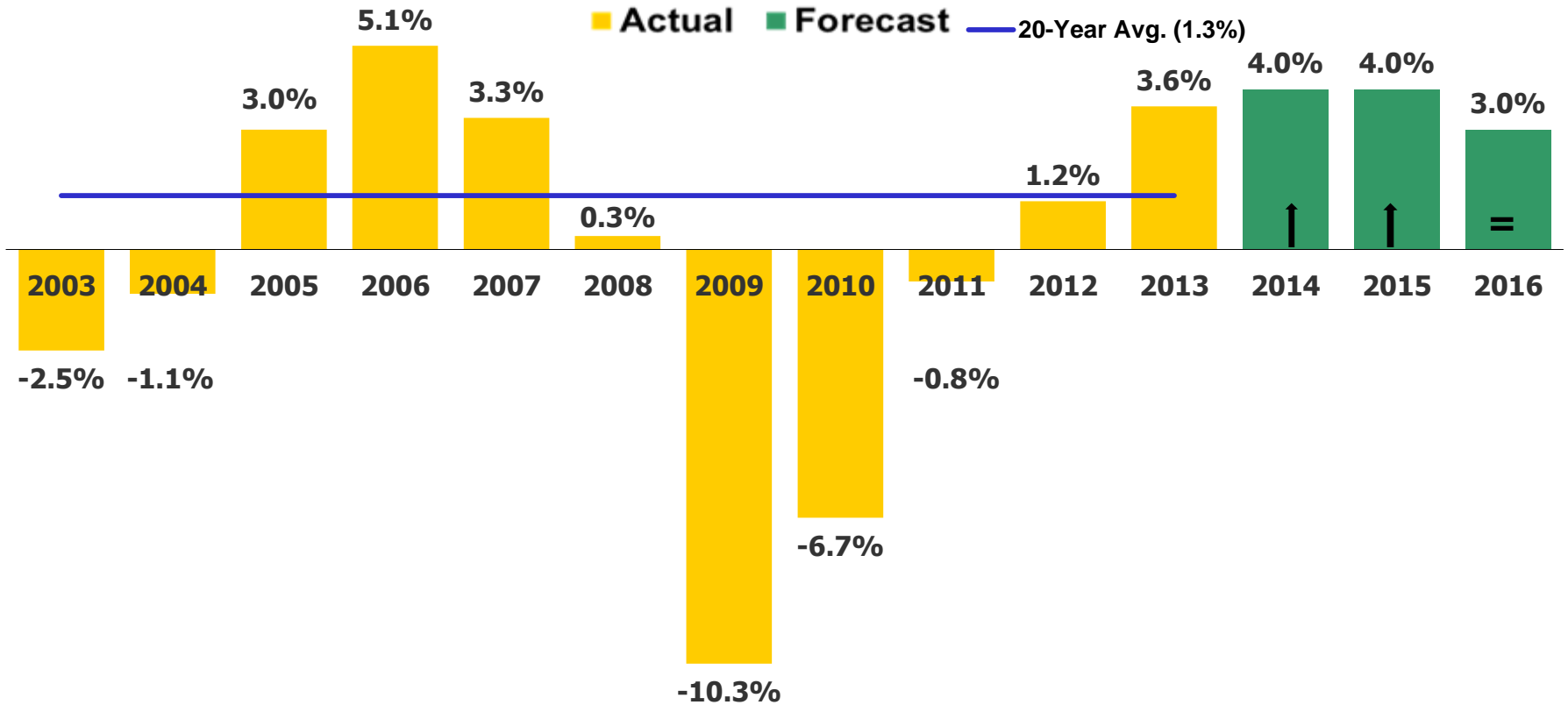
Industrial/Warehouse Availability Rates



Sources: 1993-2013 (fourth quarter), CBRE; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 10.7%, 10.3% and 10.1% for 2014-2016.

Industrial/Warehouse Rental Rate Change



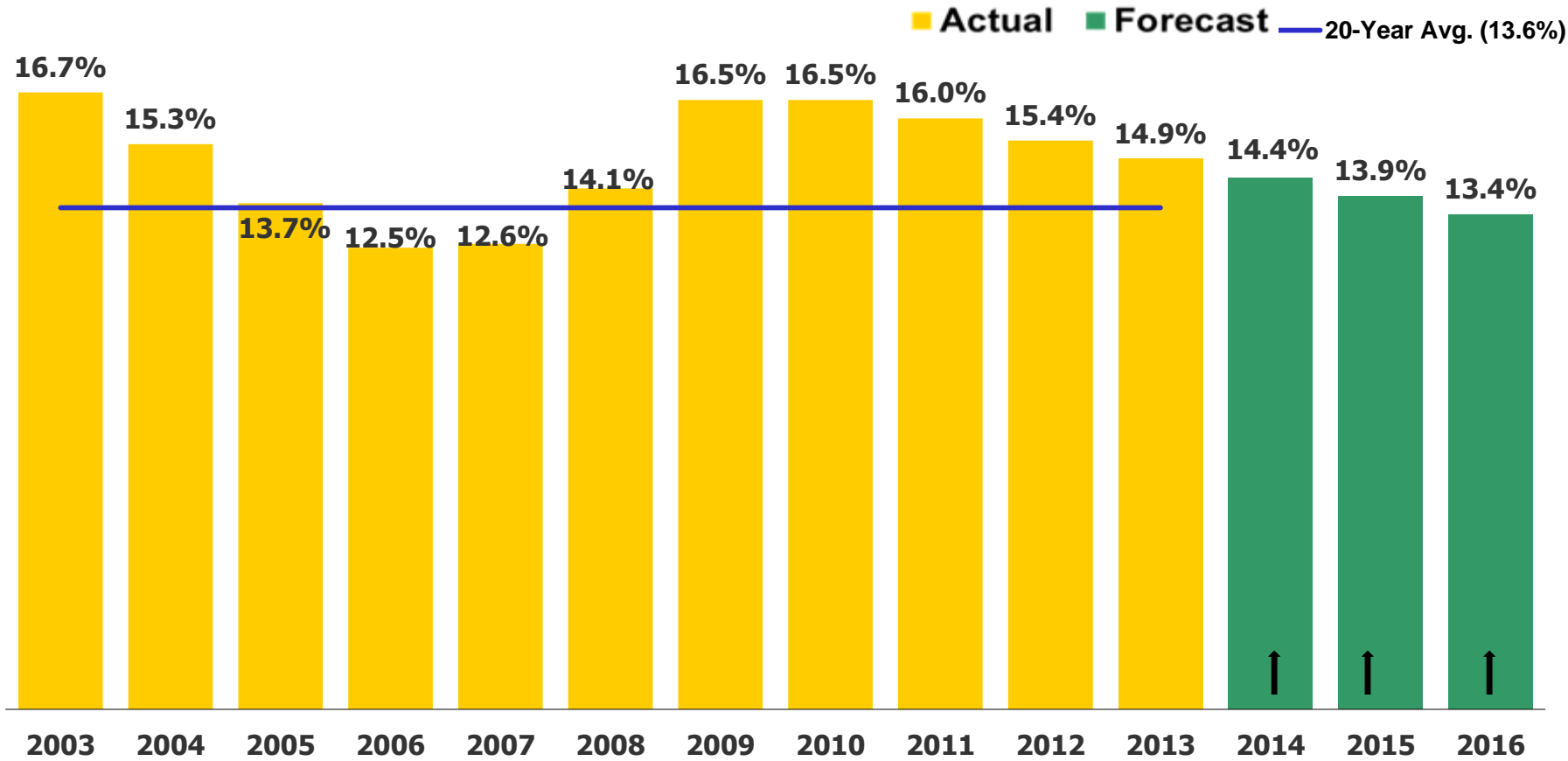
Sources: 1993-2013, CBRE; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 3.8%, 3.7%, 3.0% respectively, for 2014-2016.

Office Sector Fundamentals

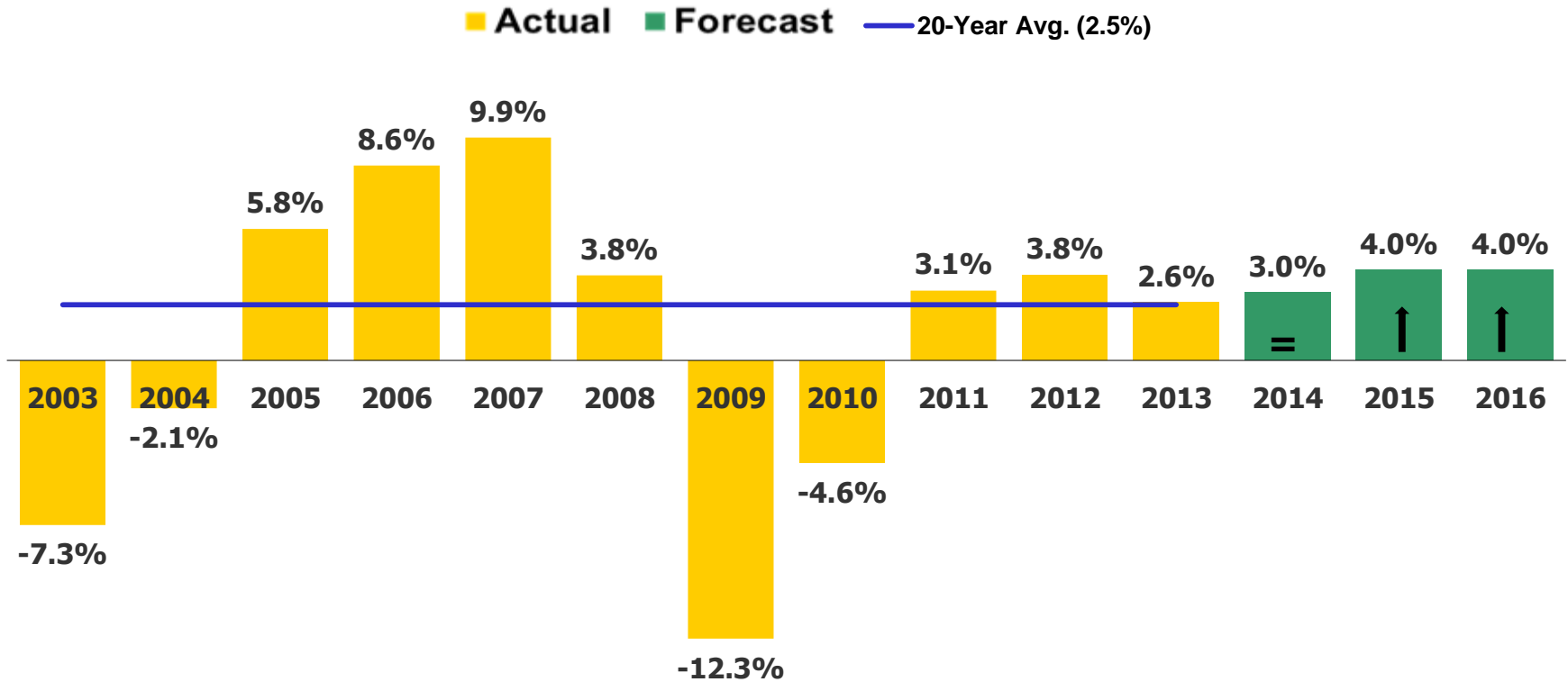
- According to CBRE, office vacancy rates declined for the third straight year to 14.9% in 2013 and the *Consensus Forecast* expects the decline to continue at about the same pace as in recent years, decreasing to 14.4% in 2014, 13.9% in 2015, and 13.4% by the end of 2016.
- Office rental rate growth, according to CBRE, was healthy at 2.6% in 2013. According to the *Consensus Forecast*, rental rates will continue to strengthen through 2016 increasing by 3.0% in 2014, and 4.0% in both 2015 and 2016.

Office Vacancy Rates



Sources: 1993-2013 (fourth quarter), CBRE; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 14.3%, 13.7%, and 13.1% for 2014-2016.

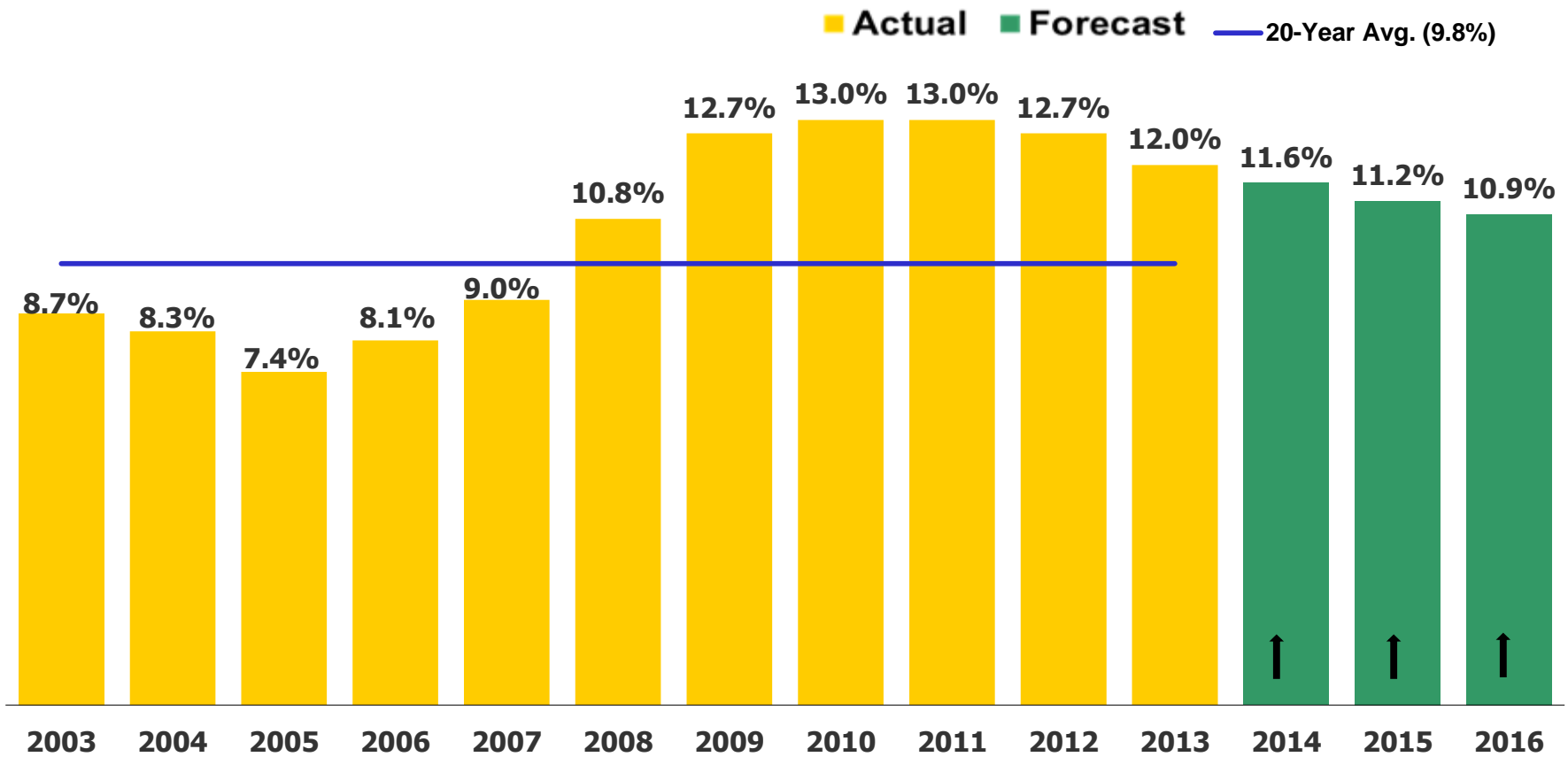


Sources: 1993-2013, CBRE; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 3.0%, 3.9%, 3.6% respectively, for 2014-2016.

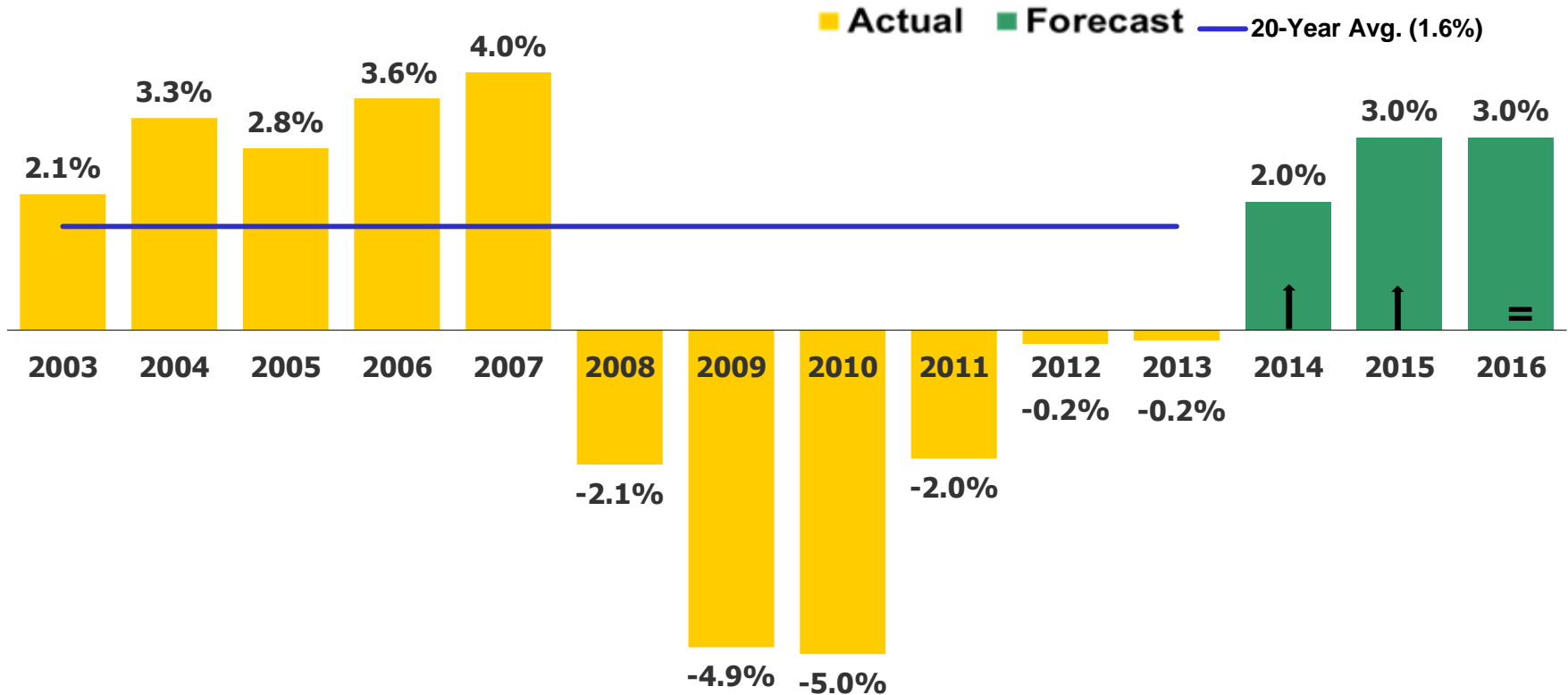
Retail Sector Fundamentals

- According to CBRE, retail availability rates decreased from 12.7% in 2012 to 12.0% in 2013. The *Consensus Forecast* anticipates more gradual improvements over the next three years, with availability rates expected to decline to 11.6% by 2014, 11.2% by 2015, and 10.9% by 2016.
- The *Consensus Forecast* expects a turn-around in 2014 from the previous declines of the last six years, with rental rates increasing by 2.0%, and then 3.0% in both 2015 and 2016.



Sources: 1993-2013 (fourth quarter), CBRE; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 11.5%, 11.1%, and 10.8% for 2014-2016.



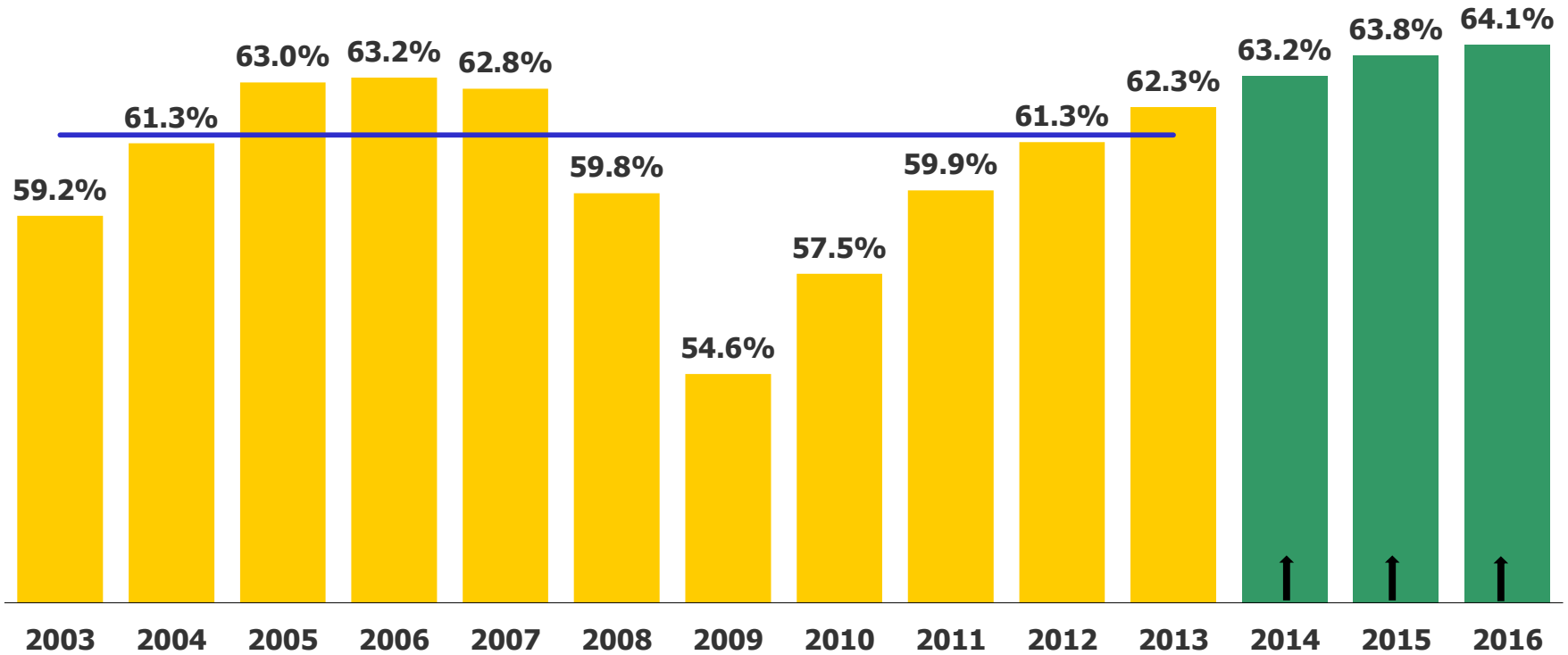
Sources: 1993-2013, CBRE; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 1.9%, 2.5%, 3.0% respectively, for 2014-2016.

Hotel Sector Fundamentals

- Hotel fundamentals, according to Smith Travel Research, have been steadily improving since reaching a recession low of in 2009.
- The *Consensus Forecast* expects hotel occupancy rates will continue to strengthen, rising to 63.2% in 2014, 63.8% in 2015, and 64.1% by 2016. The 2014 projection matches the pre-recession peak in 2006, while the 2015 and 2016 projections exceed it.
- The strong growth in hotel revenue per available room (RevPAR) of the last four years is expected to continue in 2014 and 2015, at 7% and 5.5%, respectively, and decelerate somewhat in 2016 to 4%. Still, growth in all three years remains above the long-term average annual growth rate.

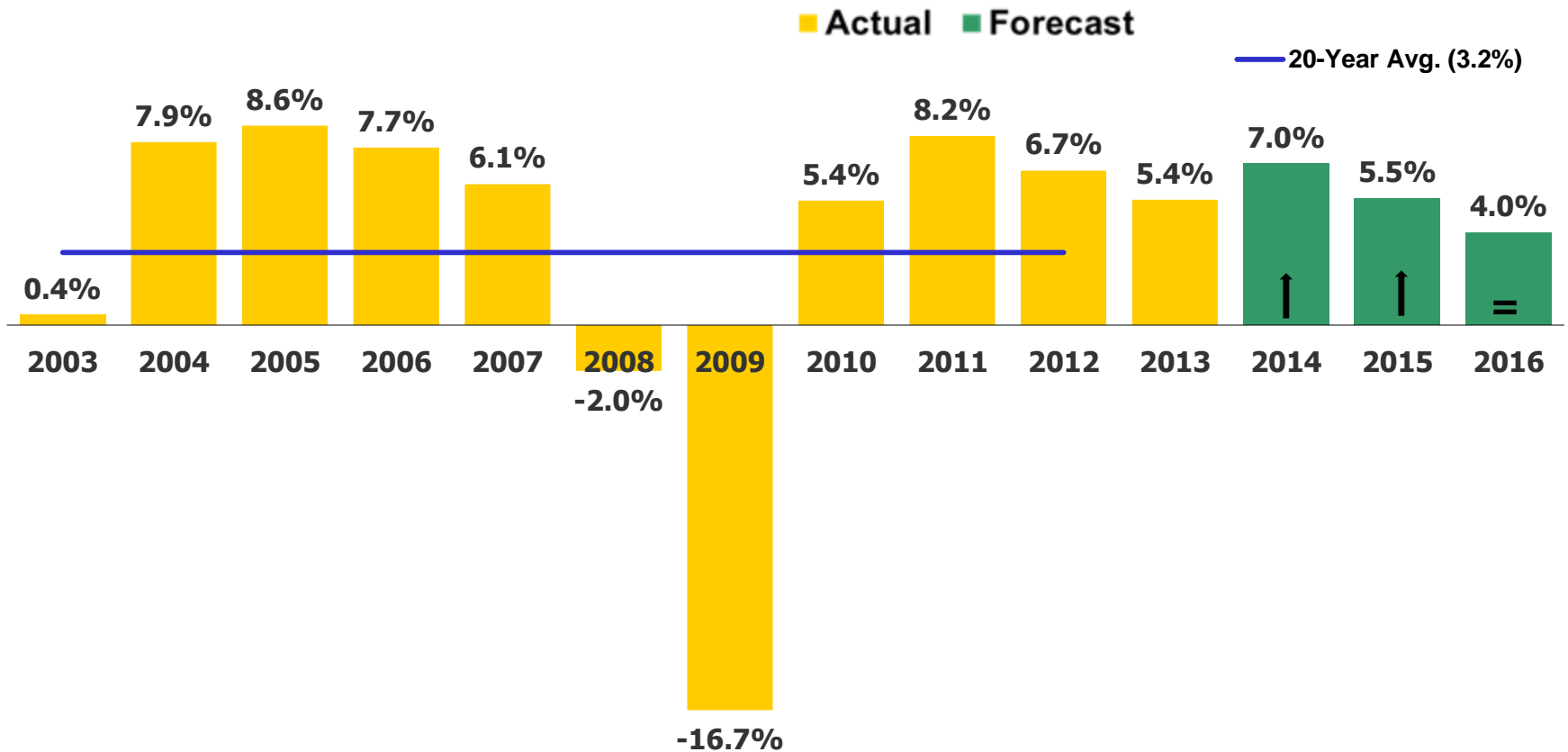
■ Actual ■ Forecast — 20-Year Avg. (61.5%)



Sources: 1993-2013, Smith Travel Research; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 63.1%, 63.6%, and 63.8% for 2014-2016.

Hotel Revenue per Available Room (RevPAR) Change

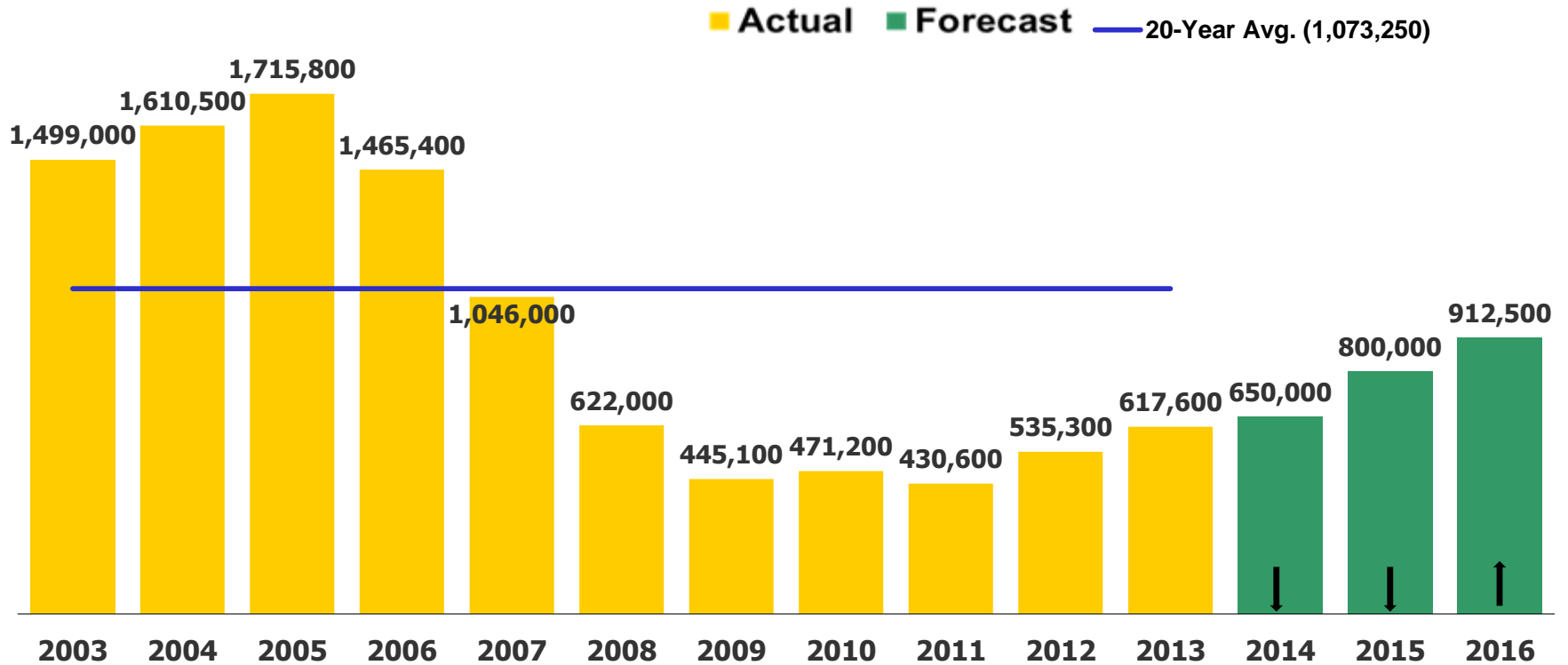


Sources: 1993-2013, Smith Travel Research; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 5.0%. 4.7%, 4.0% respectively, for 2014-2016.

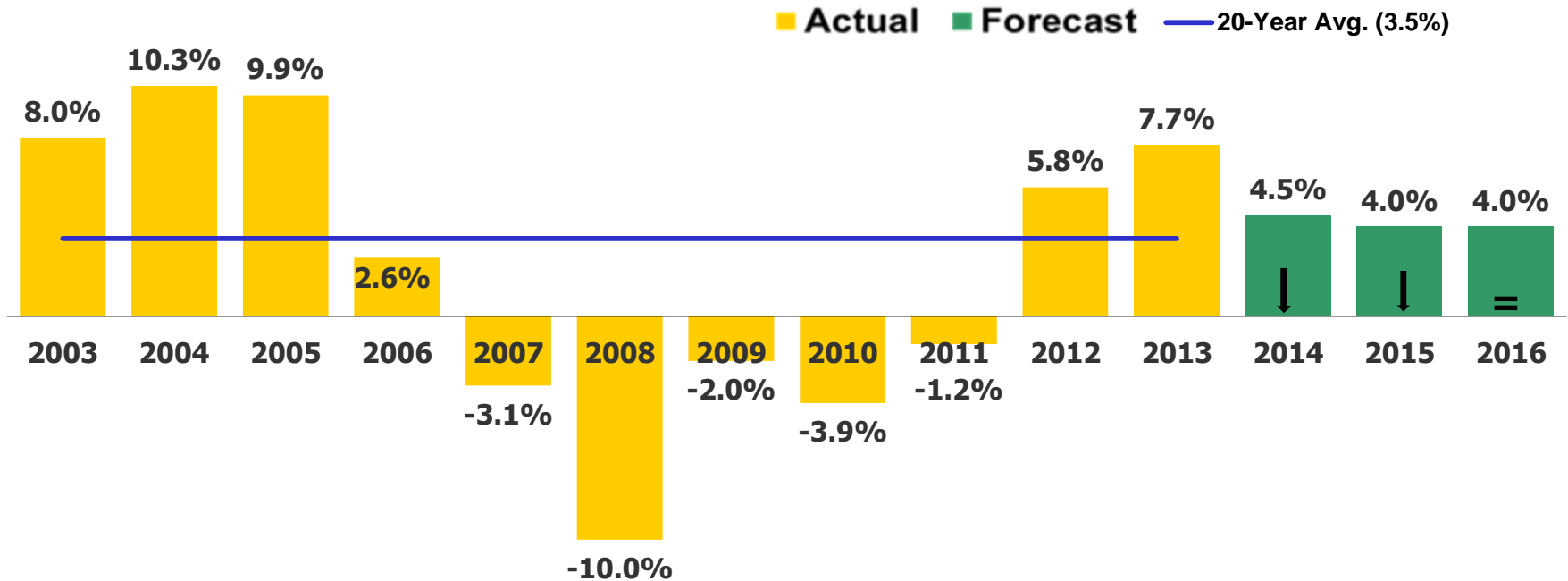
Housing Sector

- According to the *ULI/EY Consensus Forecast*, the single-family housing sector, which experienced positive growth for the second straight year in 2013, is expected to experience solid gains through 2016.
- Single-family housing starts were at a half-century low of 430,600 starts in 2011 before rising to 617,600 in 2013. Starts are projected to increase to 650,000 in 2014, 800,000 in 2015, and 912,500 in 2016. Even with this growth, the 2016 projection remains below the twenty year annual average.
- According to the FHFA, growth in average home prices increased by 7.7% in 2013. Price increases are expected to continue rising but at a more moderate and steady pace--4.5% in 2014, 4.0% in 2015, and 4.0% in 2016. These annual increases are just above the long-term average.



Sources: 1993-2013, U.S. Census; 2014-2016, ULI/EY Consensus Forecast.

Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 742,500, 850,000, 900,000, respectively, for 2014-2016.



Sources: 1993-2013, Federal Housing Finance Agency; 2014-2016, ULI/EY Consensus Forecast.
 Note: The previous ULI/EY Consensus Forecast (released in April, 2014) projected 6.0%. 4.4%, 4.0% respectively, for 2014-216.

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

Organization	Lead Economist/Analyst	Title
Alvarez & Marsal	Steven Laposa	Principal
American Realty Capital Properties	Kevin White	SVP, Investment Strategy & Research
Bentall Kennedy	Douglas Poutasse	EVP, Head of Strategy and Research
Cassidy Turley	Kevin Thorpe	Chief Economist
	Rebecca Rockey	Economist
CBRE Econometric Advisors	Jon Southard	Managing Director
CBRE	Mark Gallagher	Senior Strategist
Chandan Economics	Sam Chandan PhD	President
Clarion Partners	Tim Wang	Director and Head of Investment Research
Cornerstone Real Estate Advisers	Michael Gately	Managing Director, Research
	Jim Clayton	Vice President, Research
CoStar Portfolio Strategy	Hans Nordby	Managing Director
	Walter Page	Director of U.S. Research, Office
	Shaw Lupton	Senior Real Estate Economist
Cushman & Wakefield	Maria Sicola	Head of Americas Research
	Rob Miller	Research Director, Capital Markets and Forecasting
Dividend Capital	Glenn Mueller	RE Investment Strategist
Freddie Mac	Frank Nothaft	Vice President & Chief Economist
Grosvenor	Eileen E Marrinan	Director of Research
	Robert Hess	Director of Research -- Philadelphia office
Invesco Real Estate	Nicholas Buss	Director, Research

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

Organization	Lead Economist/Analyst	Title
JLL	Josh Gelormini	Vice President, Americas Research
	Benjamin Breslau	Director, Americas Research
LaSalle Investment Management	William Maher	Director, North America Research & Strategy
Linneman Associates	Peter Linneman	Principal
MetLife Real Estate Investors	Richard McLemore	Director, Research & Valuations
Moody's	Tad Philipp	Director - CRE Research
Morgan Stanley Real Estate Investing	Paul Mouchakkaa	Managing Director
	Stephen Siena	Associate
NAREIT	Calvin Schnure	Vice President, Research and Industry Information
National Association of Realtors	Lawrence Yun	Chief Economist
Prudential Real Estate Investors	Lee Meniffee	Managing Director
RCLCO	Paige Mueller	Managing Director
Real Estate Reseach Corporation (RERC)	Ken Riggs	President
	Aaron Riggs	Research Analyst
Regions Financial Corporation	Richard Moody	SVP, Chief Economist
Reis Inc.	Dr. Victor Calanog	Vice President of Research & Economics
Rosen Consulting Group	Kenneth T. Rosen	Chairman
	Randall Sakamoto	Executive Vice President
Stratford Land	Mark Drumm	Chief Risk Officer
TIAA-CREF	Martha Peyton	Managing Director
Trepp, LLC	Matthew Anderson	Managing Director
	Susan Persin	Senior Director of Research

Urban Land Institute and EY

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

About the Urban Land Institute

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

Patrick Phillips, Chief Executive Officer
Urban Land Institute

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Howard Roth, Global Real Estate Leader
EY

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