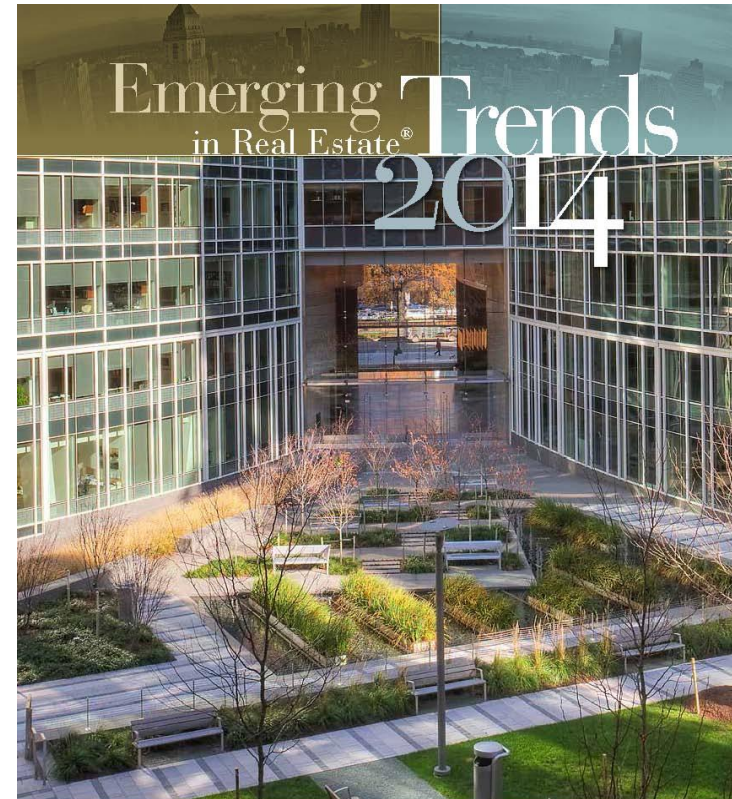


Emerging Trends in Real Estate® 2014



Emerging Trends in Real Estate 2014

- Emerging Trends is the industry's most predictive forecast
- 35th annual outlook
- Based on over 1,000 interviews and surveys of industry leaders
- Sponsored by PwC and the Urban Land Institute



Gaining Momentum

Fundamentals continue to improve...slowly... across all property groups and property markets

2014 expected to continue trends in employment (modest growth) and increasing demand for space

2014 likely to be last year industry benefits from 6 years of little increase in supply

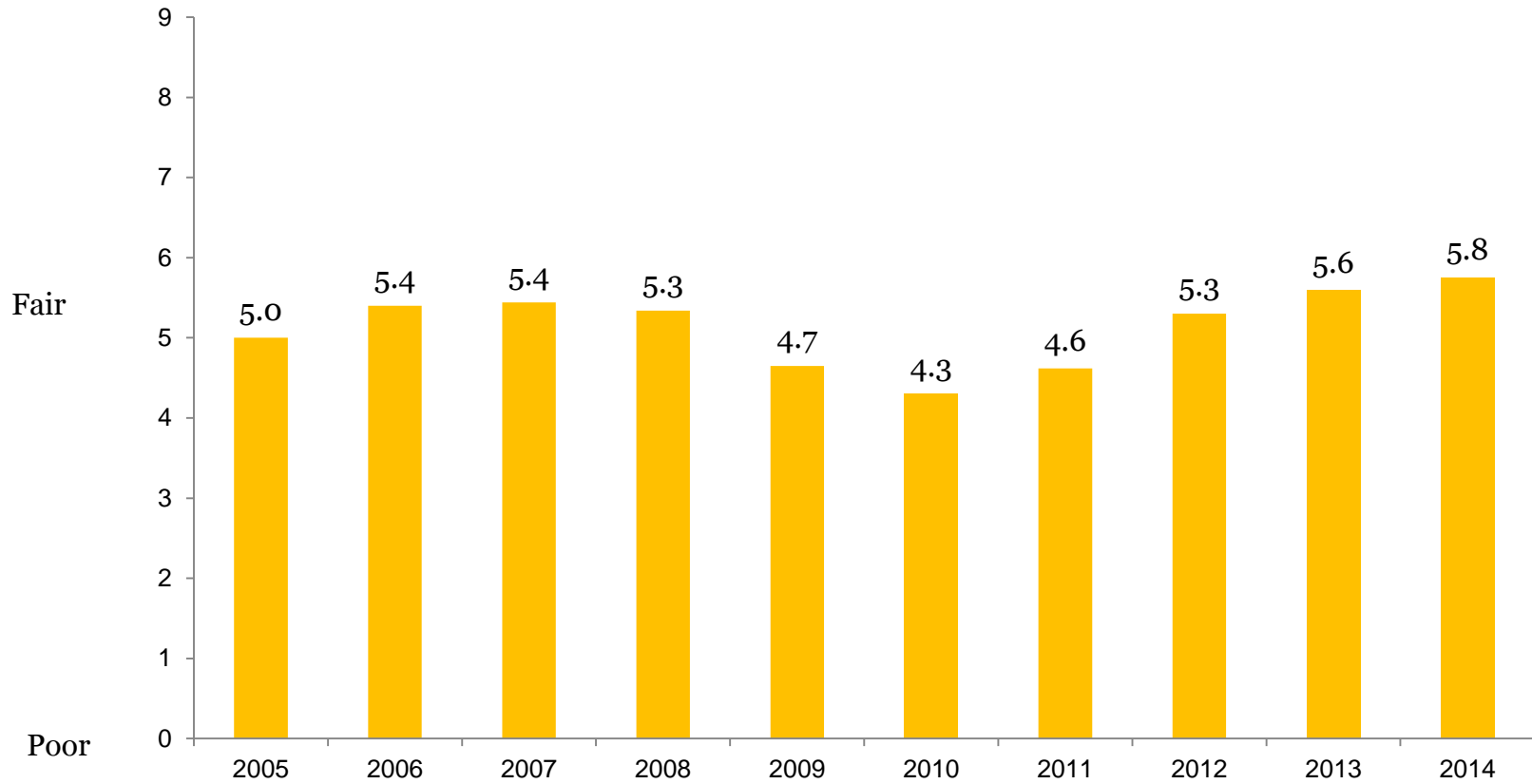
Interviewees see industry reaching an inflection point where “valuations will no longer be driven by capital markets,” leverage, and financial engineering

Interest rates universally anticipated to increase; it's the magnitude of the increase that is uncertain

Average Market Score

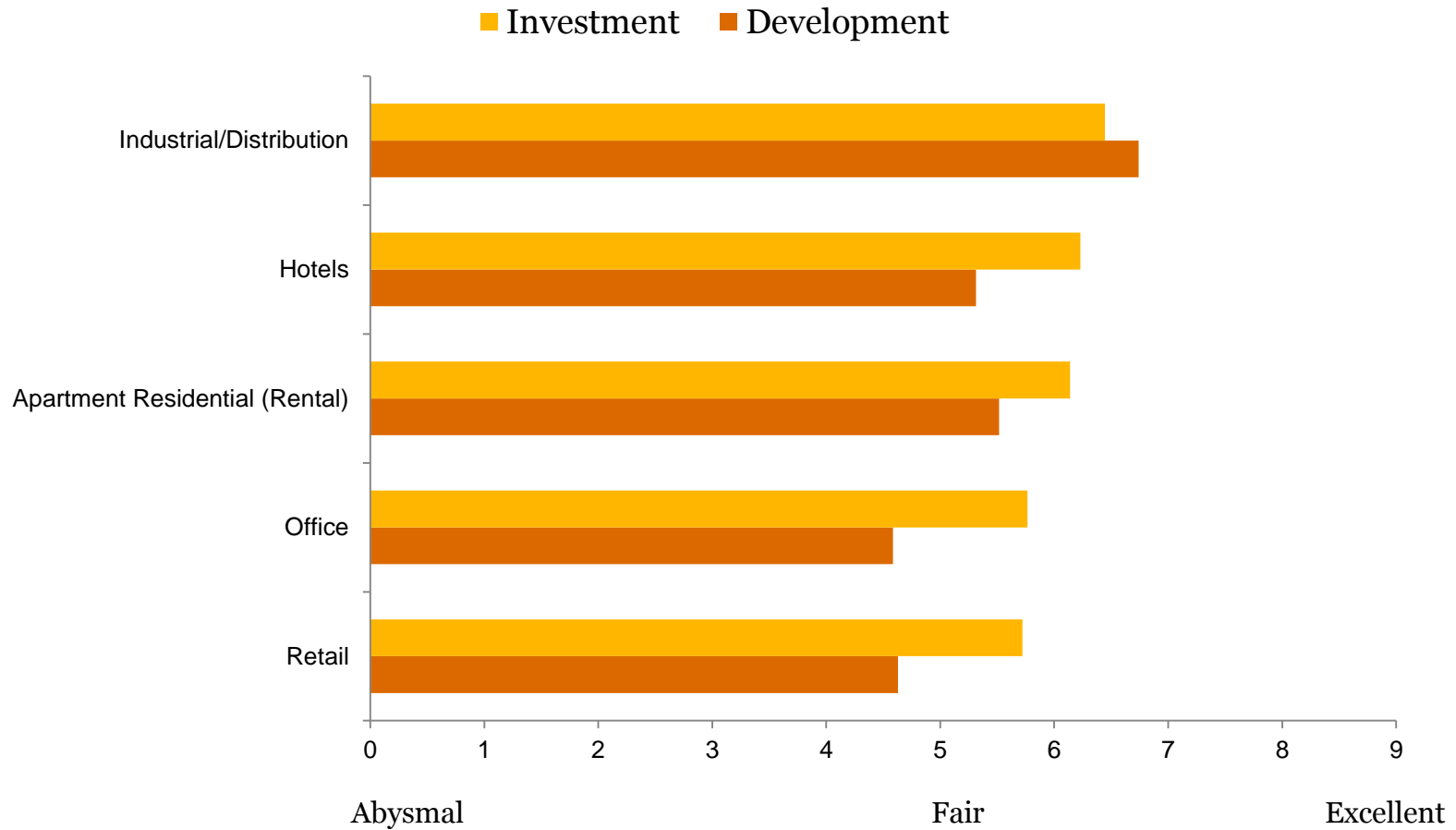
Investment Prospects

Excellent



Source: Emerging Trends in Real Estate surveys

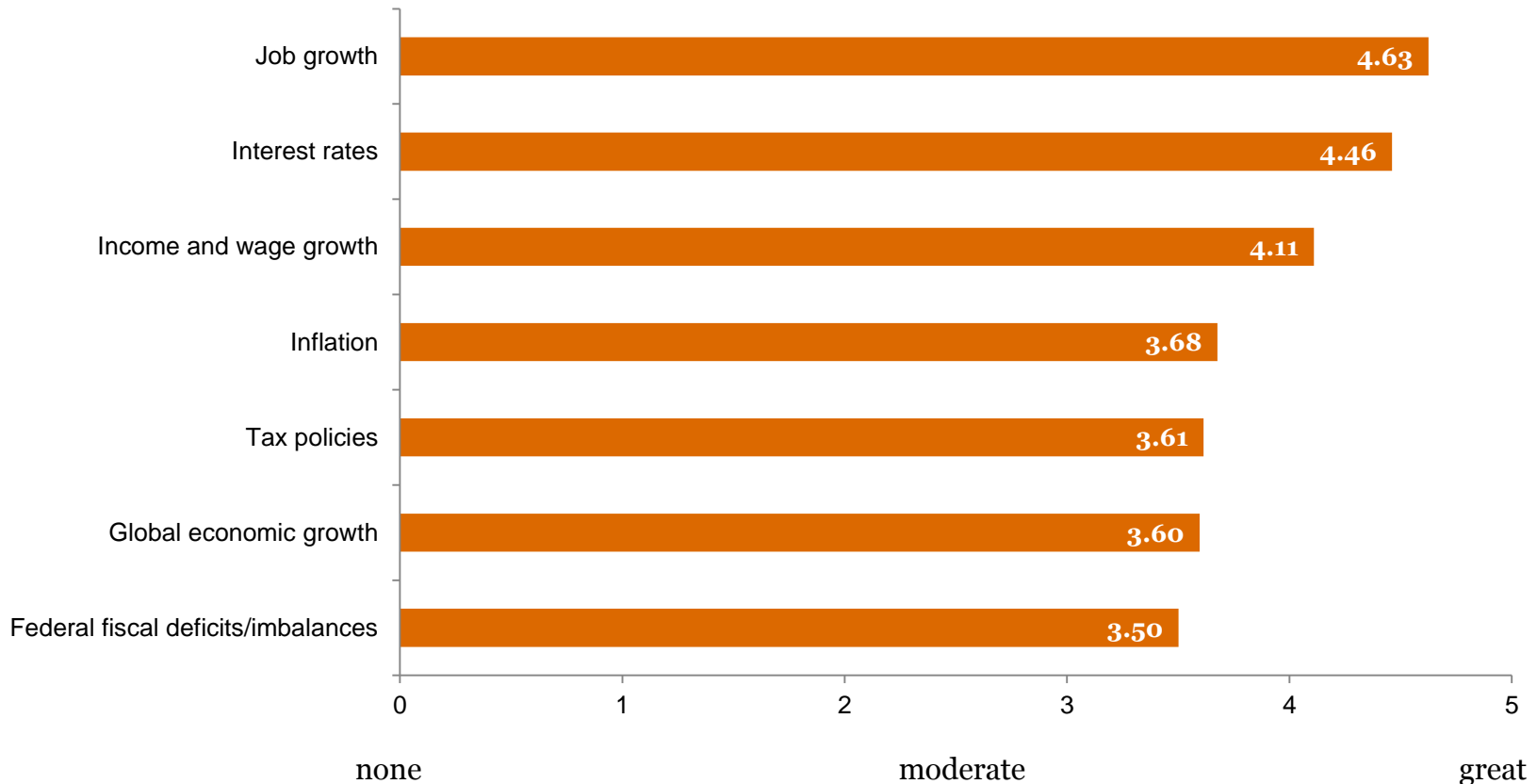
Average Property Score



Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

Issues of importance for real estate

Economic/Financial Issues



Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

“With the economy in a position where the tailwinds are now stronger than the prevailing headwinds, 2014 should be a year when we see real estate fundamentals improve in sectors beyond the very healthy rental growth multifamily sector—and in a number of markets—to a point where we could see above-inflation-rate rental growth”

Headwinds Facing the Real Estate Industry

A “stubbornly high’ unemployment rate

Uncertainty over government regulation and fiscal policy

Likely increase in the cost of both equity and debt capital

Economic uncertainty in the Euro-zone

China’s moderating economic growth

Tailwinds Benefiting the Real Estate Industry

“Good if not great” job growth in industries with high real estate utilization including: energy, technology, health care, and medical research

Even education and financial services sectors are projected to support increased space needs in 2014

Increasing corporate profits

Continuing recovery in the single-family housing industry

Emerging Trends: Key Drivers for 2014

Industry profitability expected to continue to improve

Interest rates anticipated to increase

Dependence on cap rate compression to drive increase in value to be replaced by emphasis on asset management

Markets are expected to be “well supplied” with both equity and debt capital

Emerging Trends: Key Drivers for 2014

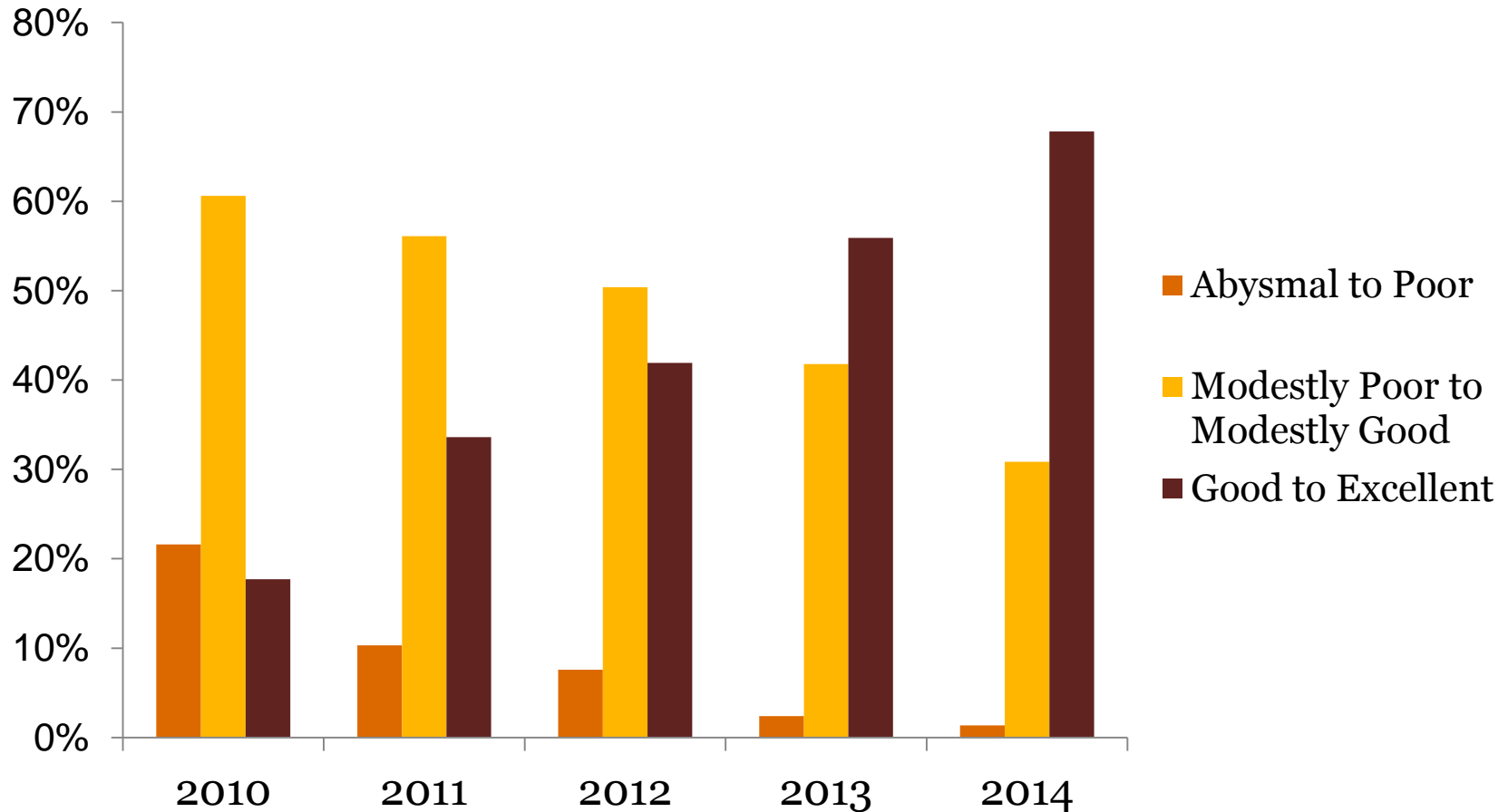
Opportunities to develop property finally appear in sectors other than multifamily

Industry begins to notice and understand needs of both Gen Y and the baby boomers

Needs of end users of commercial space continue to evolve

The single family housing market continues to make a positive contribution to the overall economy

Prospects for profitability by percentage of respondents



Source: Emerging Trends in Real Estate surveys
Note: Based on US respondents only

2014 Condensed

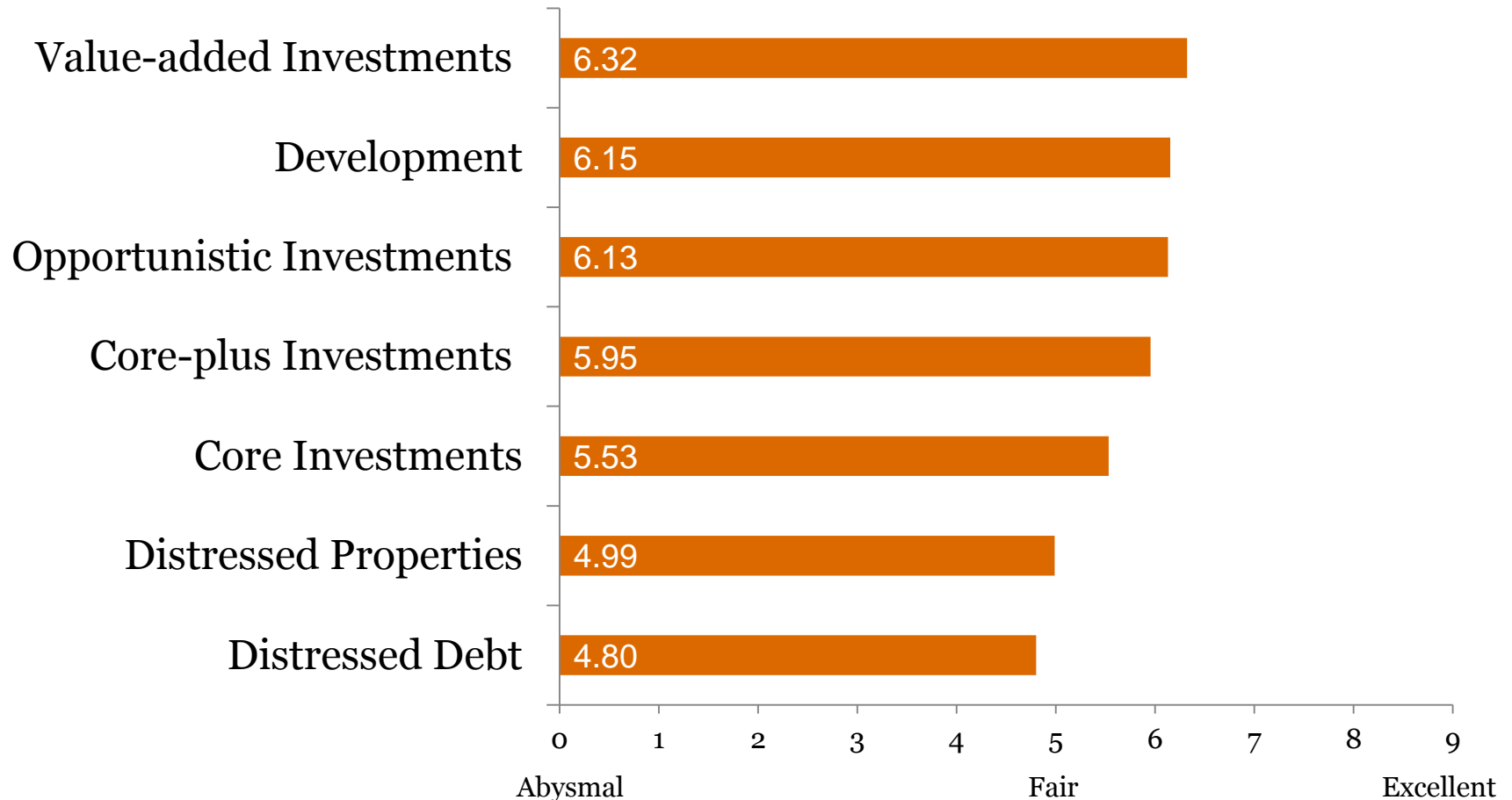
The beginning of the “middle innings” of the “recovery from the recovery”

Use of financial structuring and leverage as means to create value will be replaced by property operating skills

Focus will continue to shift from “solely core in gateway 24-hour” markets to overlooked markets and property sectors as well as value-added strategies including repositioning, re-leasing, re-tenanting, renovation, and the like

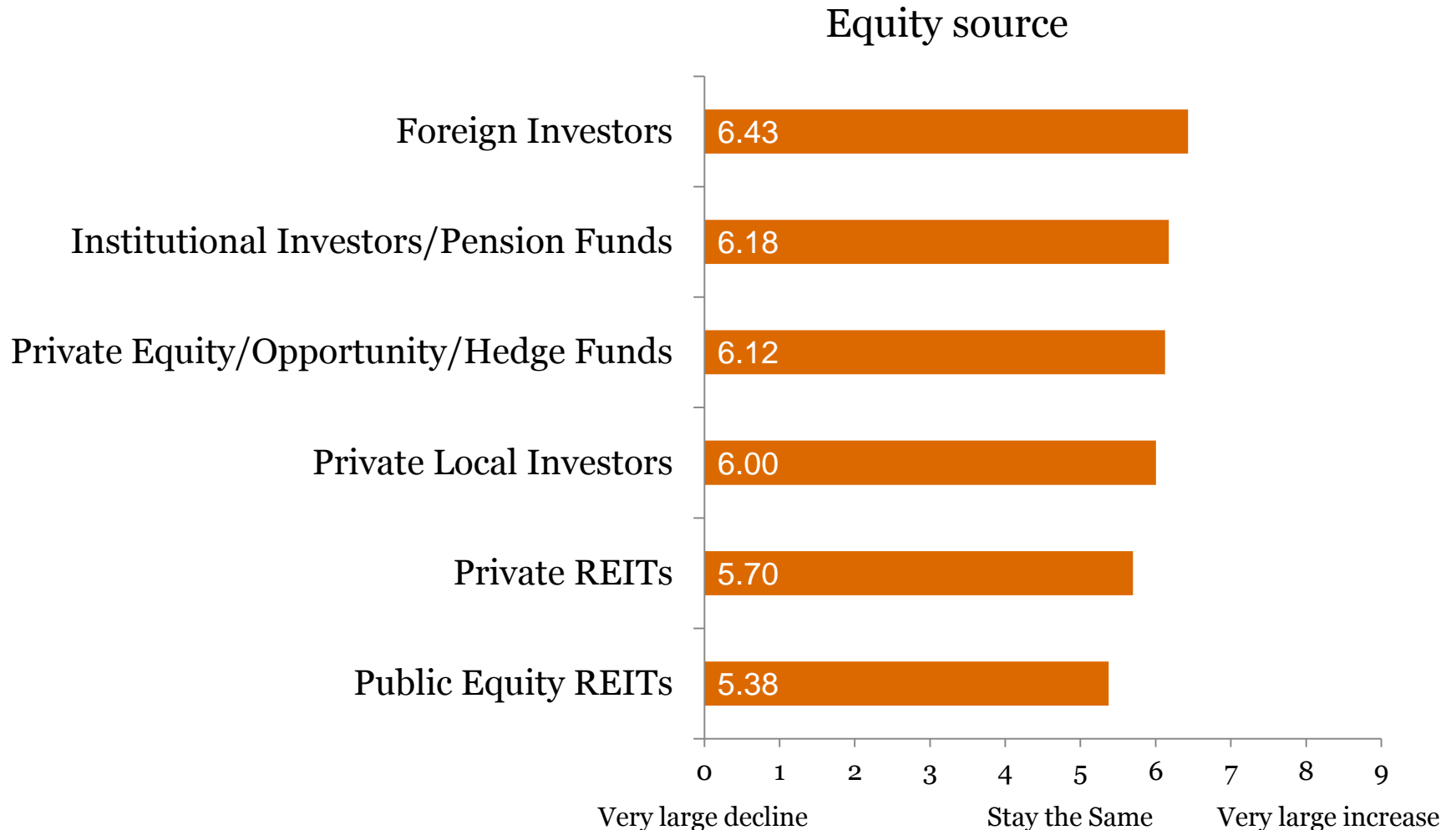
Capital markets

Prospects by Investment Category/Strategy



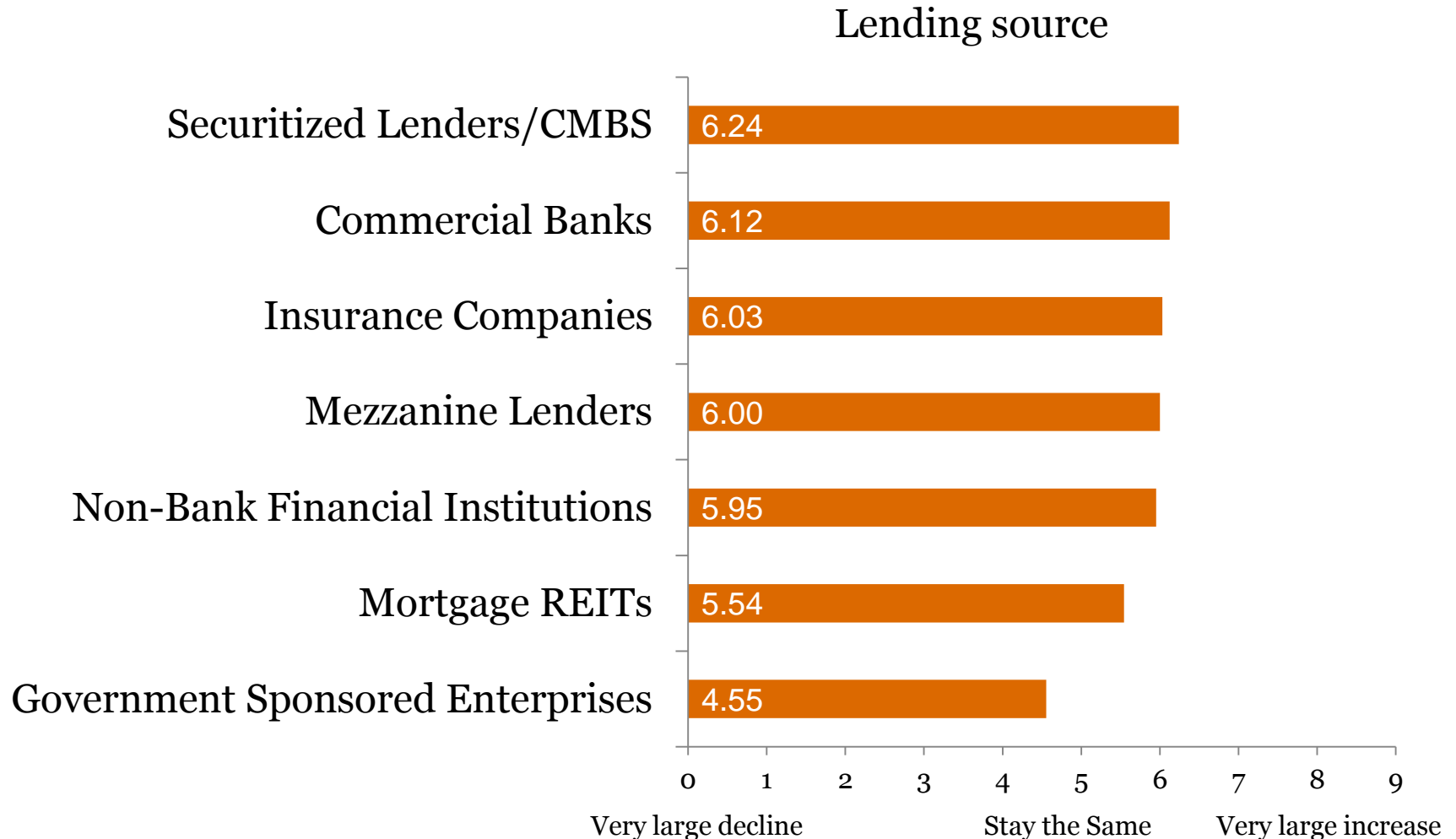
Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

Change in Availability of Capital for Real Estate in 2014



Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

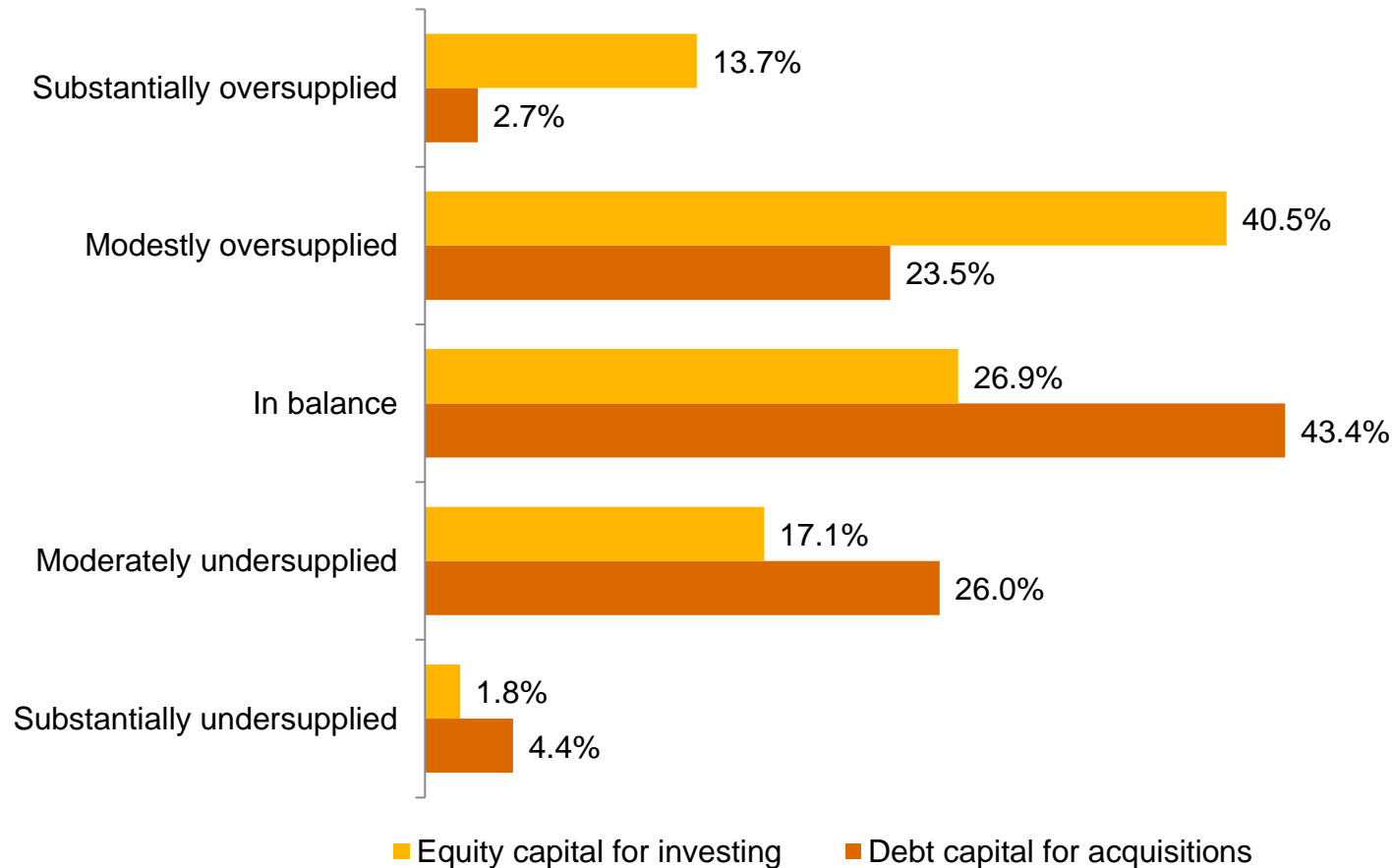
Change in Availability of Capital for Real Estate in 2014



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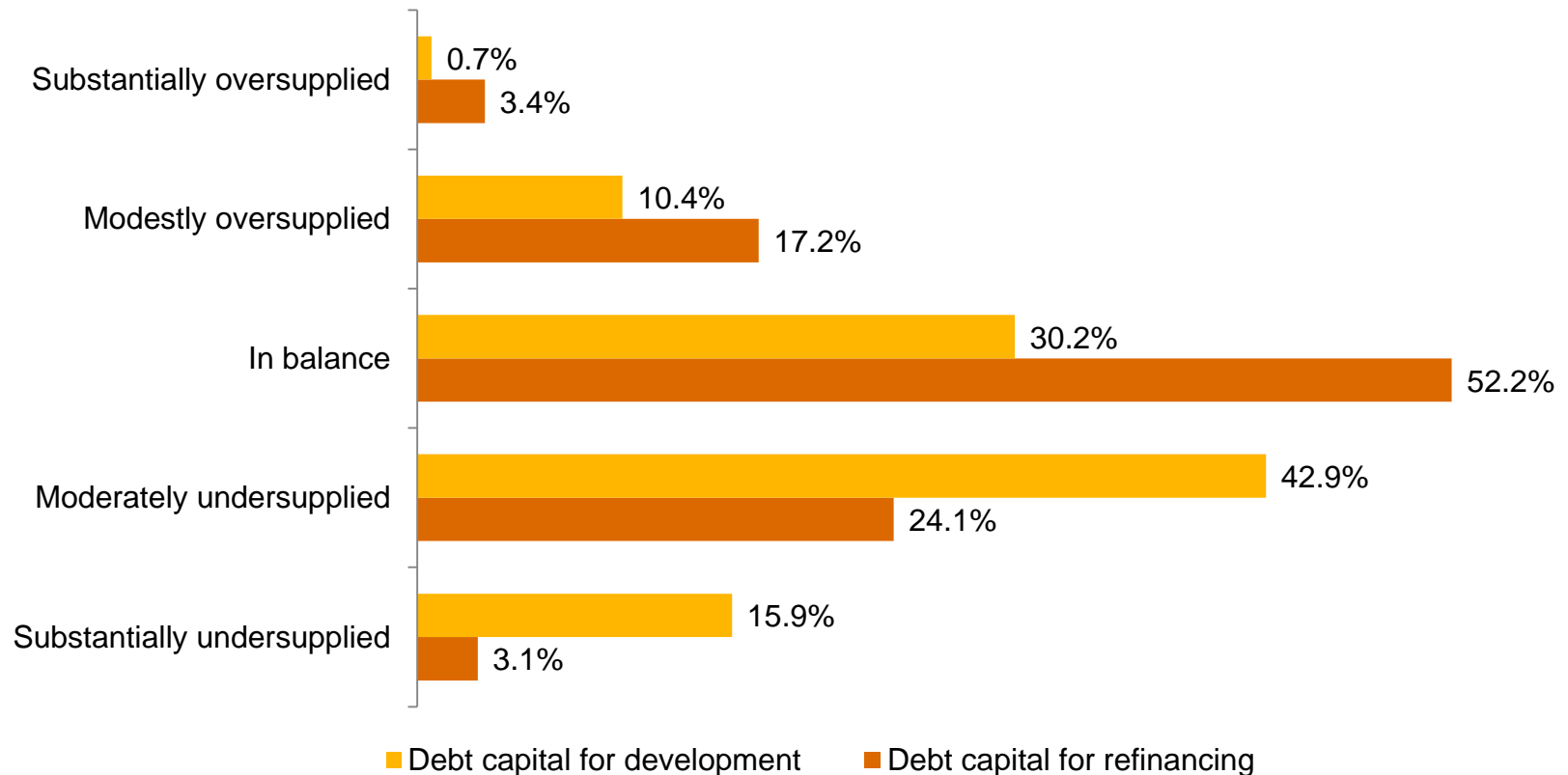
Capital flows outlook

Real estate capital market balance forecast for 2014



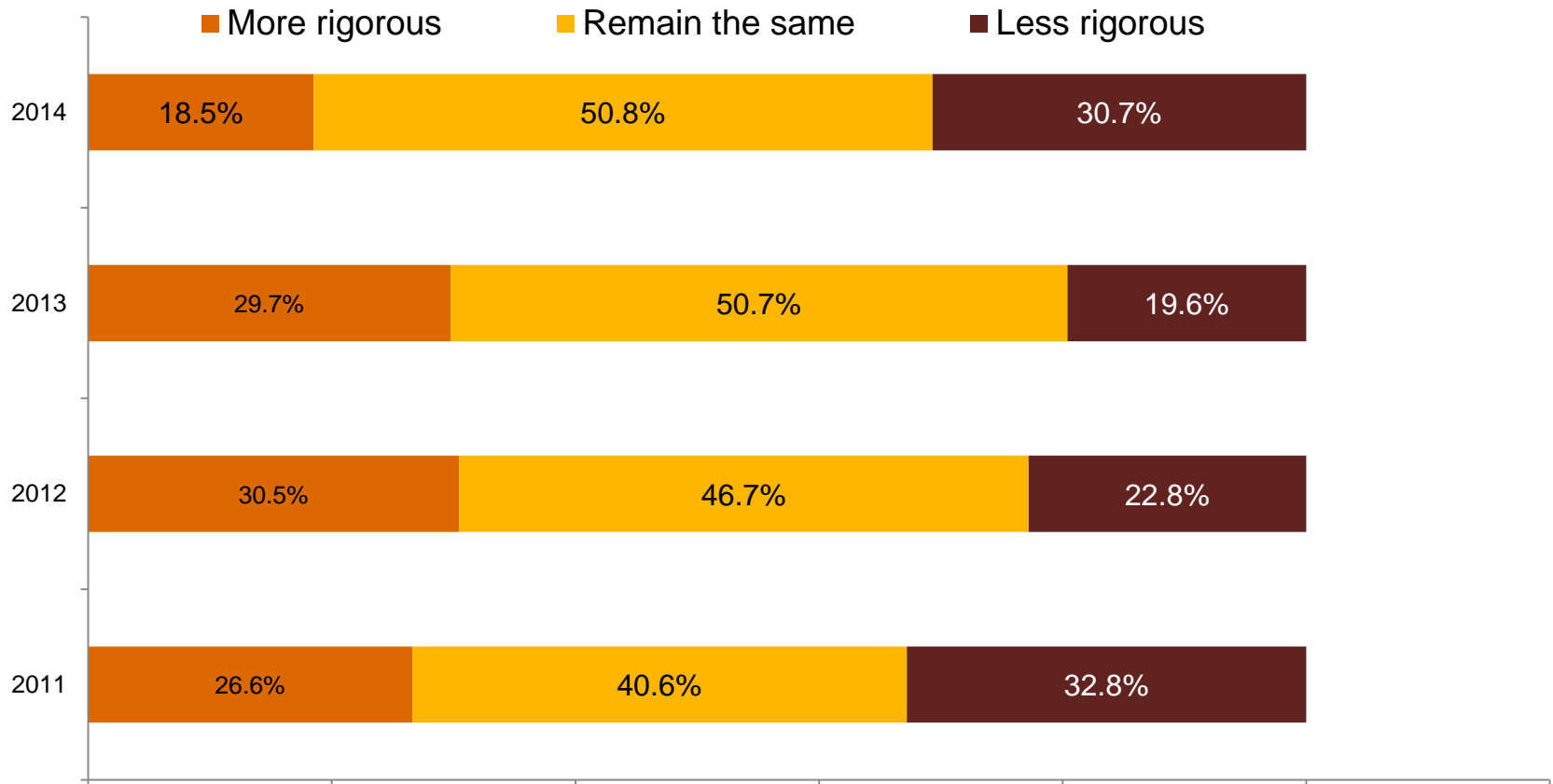
Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

Debt capital for specific uses



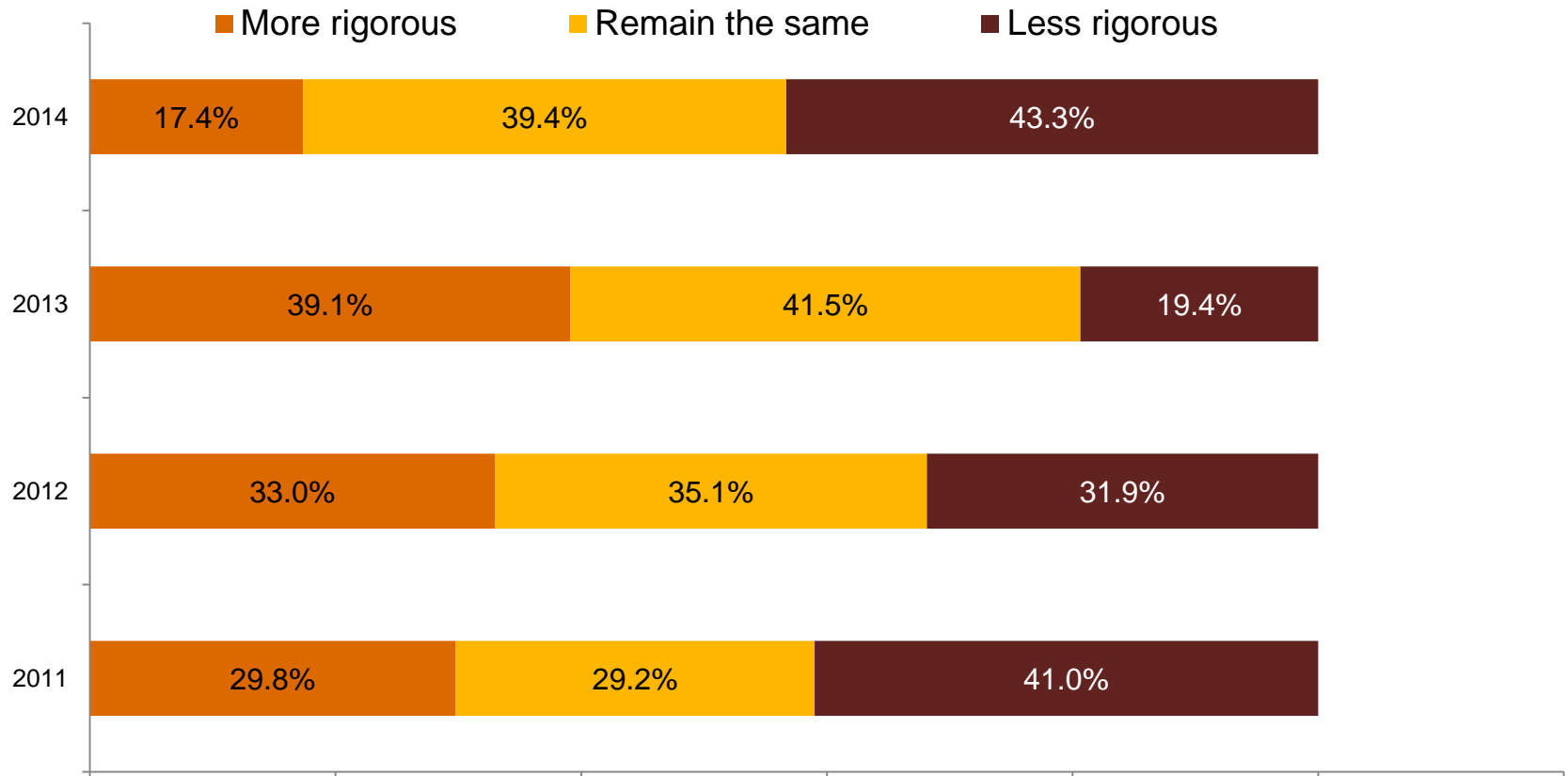
Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

Equity Underwriting Standards Forecast



Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

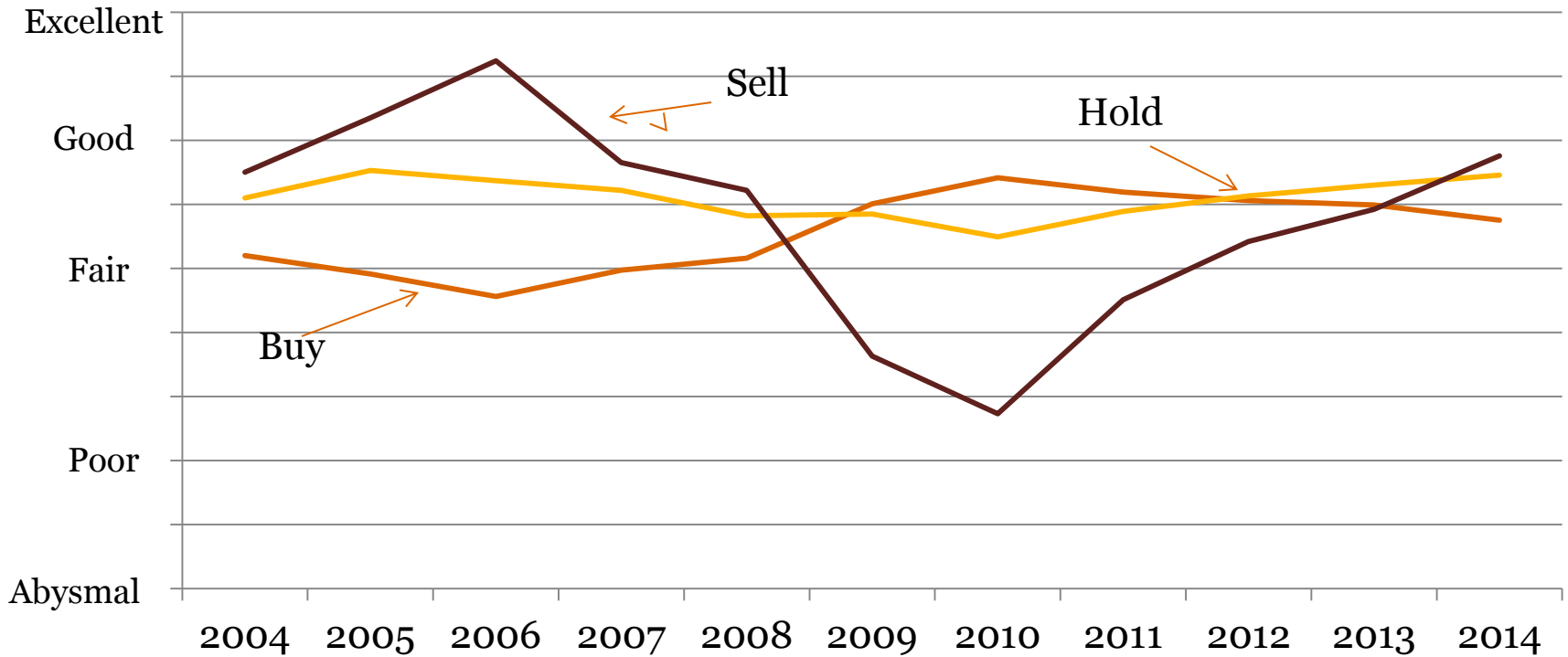
Debt Underwriting Standards Forecast



Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

Top Real Estate Capital Markets Trends

Emerging trends barometer 2014



Source: Emerging Trends in Real Estate surveys
Note: Based on US respondents only

Real Estate Capital Flows

Survey participants anticipate an increase in both equity and debt capital

- Equity investors will continue to expand search for yield, turning focus from solely core in 24-hour markets to a wider geography and range of asset classes
- Lender's return to corporate profitability "allows them to get back in the game"
- For both investors and lenders, real estate provides an increasingly attractive investment alternative

Increase in Availability of Debt Capital

Respondents expect an increase in availability of debt capital from five sources

CMBS (securitized) market

Commercial banks

Life insurance companies

Mezzanine lenders

Non-bank financial institutions

CMBS Revival Continues

Survey participants ranked CMBS first in terms of change in availability of capital for real estate in 2014

2013 transaction volume expected to exceed \$80 billion; 2014 originations anticipated to exceed \$100 billion

CMBS lenders continue to fill the gaps left by conventional lenders in terms of deal size (under \$25 million) and property location (secondary versus solely primary locations)

Commercial Banks

Expected increases in interest rates (and profitability) will make real estate lending increasingly attractive

Regional and local banks are expected to become increasingly active as real estate lending returns to become a major part of their business model

National banks, searching for opportunities, will increasingly compete on a regional and local basis

Development and construction loans will become increasingly available for borrowers with strong credentials and track records, and properties with substantial pre-leasing

Mezzanine Financing

Interviewees and survey participants seem of two minds regarding the roll of mezzanine financing in 2014

“The biggest question on mezzanine is where the returns are going to be. If mezzanine rates don’t increase enough and we don’t feel we’re getting paid enough, we’ll stop. At a 200 [basis point] difference, we don’t think we’re getting paid for the risk.”

Other interviewees predict an “increase in B-piece, mezzanine, and debt funds to fill gaps in transaction structure” and “an increase in the use of mezzanine financing combined with higher-cost senior debt.”

Shadow Banking

Shadow banking is commercial lending outside of the regulated universe of insured depository institutions and life insurance companies

While not the “lender of last resort”, borrowers in the shadow banking market will find themselves dealing with a “hodge-podge “ of well capitalized private funds, wealthy individuals, family offices, refugees from other lending markets and the like who are in this market solely because the spreads are attractive

Equity Sources

Foreign investors

Private equity funds

Pension funds

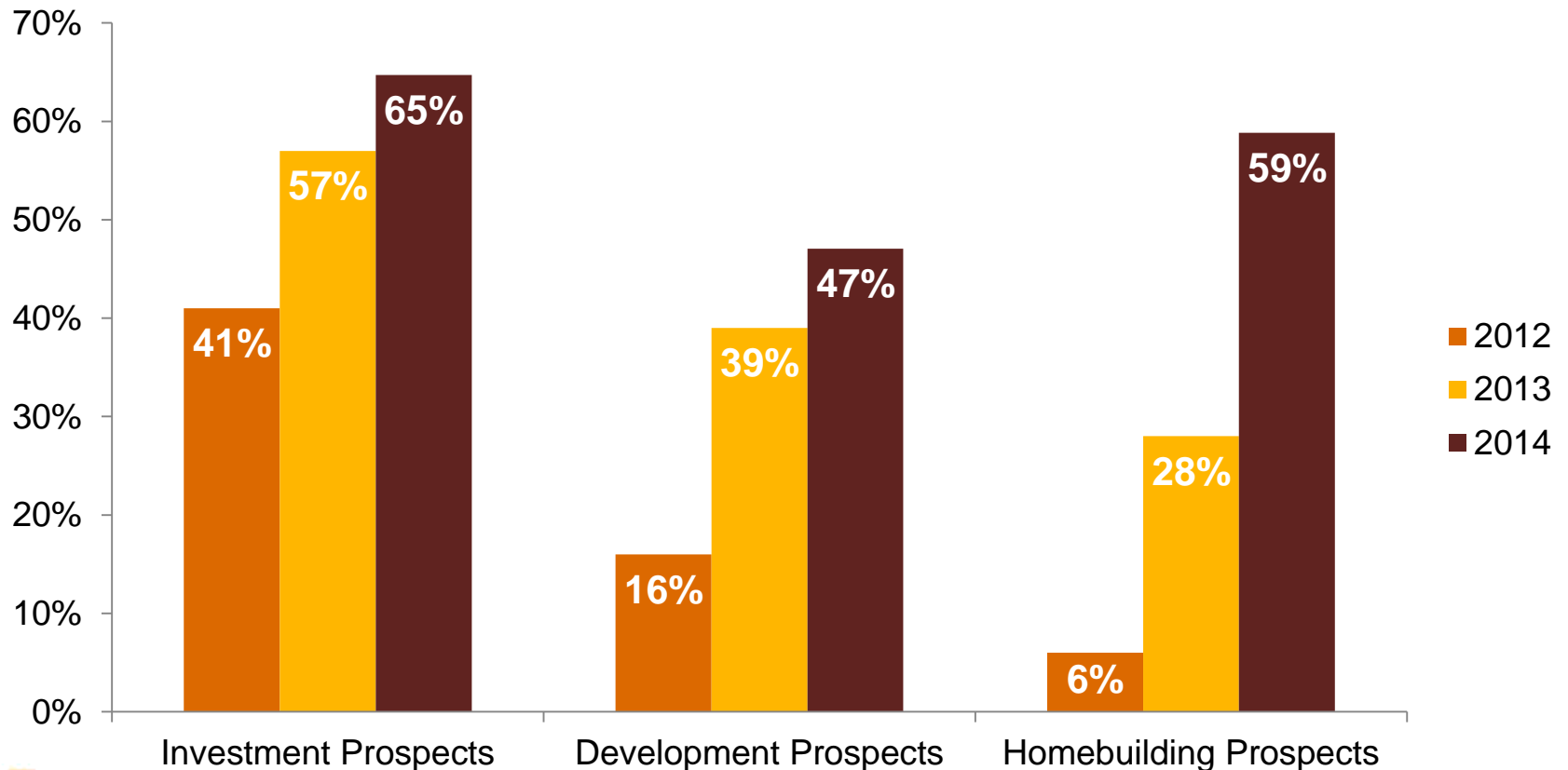
Equity REITs

Markets to watch

More markets begin to look attractive

The lack of new supply has allowed the steady nature of the economic recovery to drive improvement in real estate

Percent of markets ranked moderately good or better



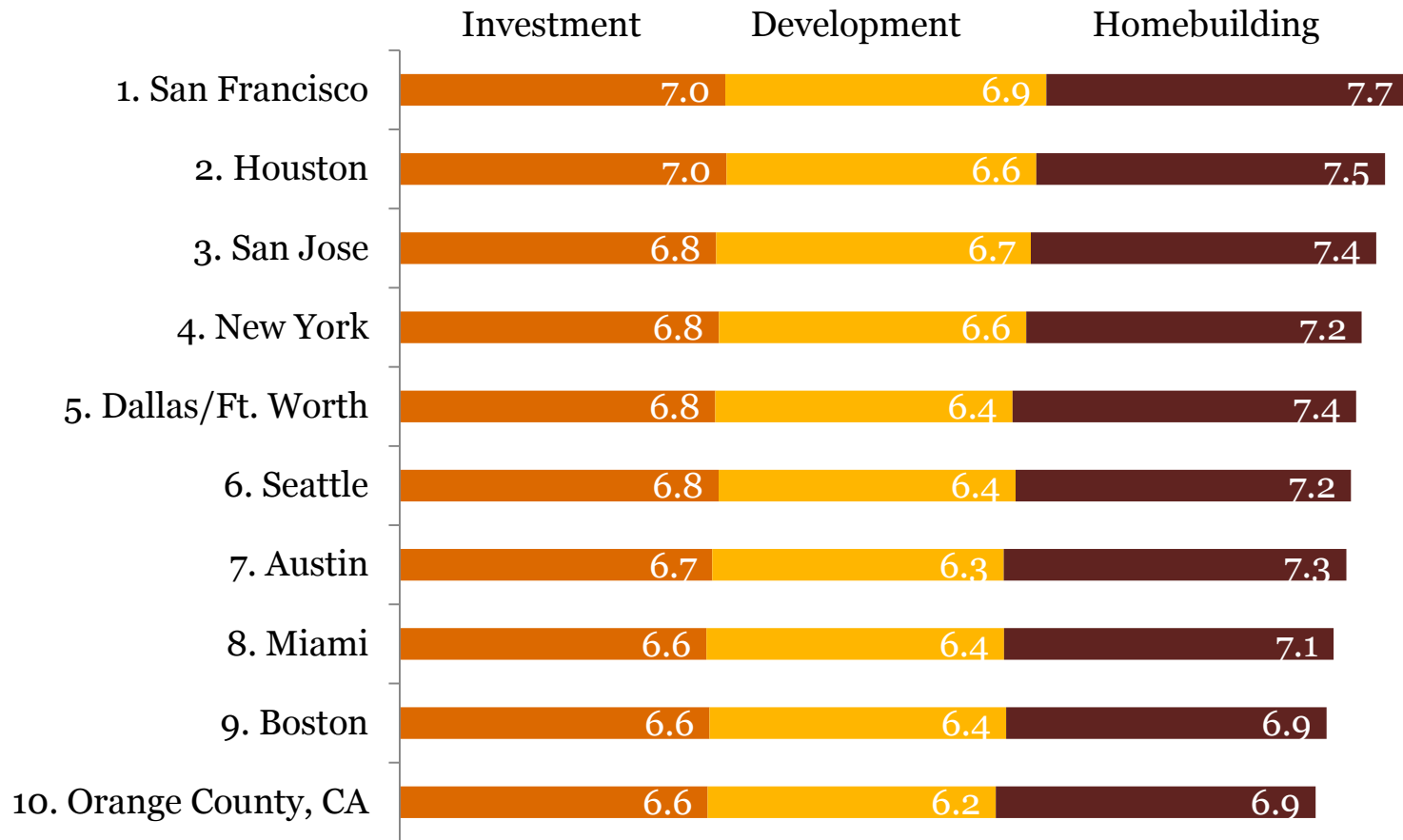
Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

Outlook improves for more markets

Markets with Investment Prospects of Good or Better

2011	2012	2013	2014
New York City	Austin	Austin	Austin
Washington D.C.	Boston	Boston	Boston
	New York City	Houston	Dallas/Ft. Worth
	San Francisco	New York City	Houston
	San Jose	San Francisco	Miami
	Seattle	San Jose	New York City
	Washington D.C.	Seattle	Orange County
			Portland
			San Francisco
			San Jose
			Seattle

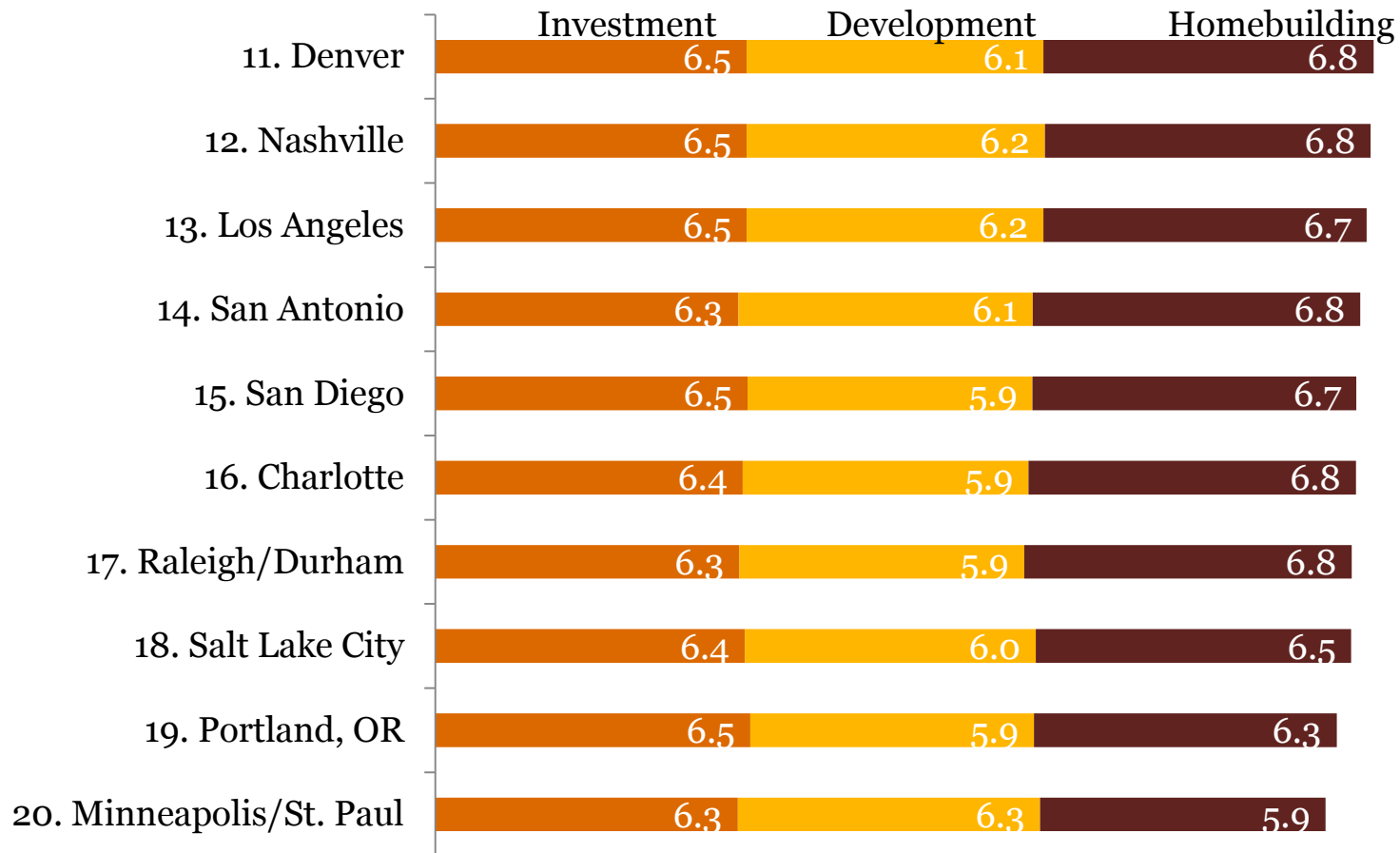
Top 10 total rank 2014



Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

Next 10 markets

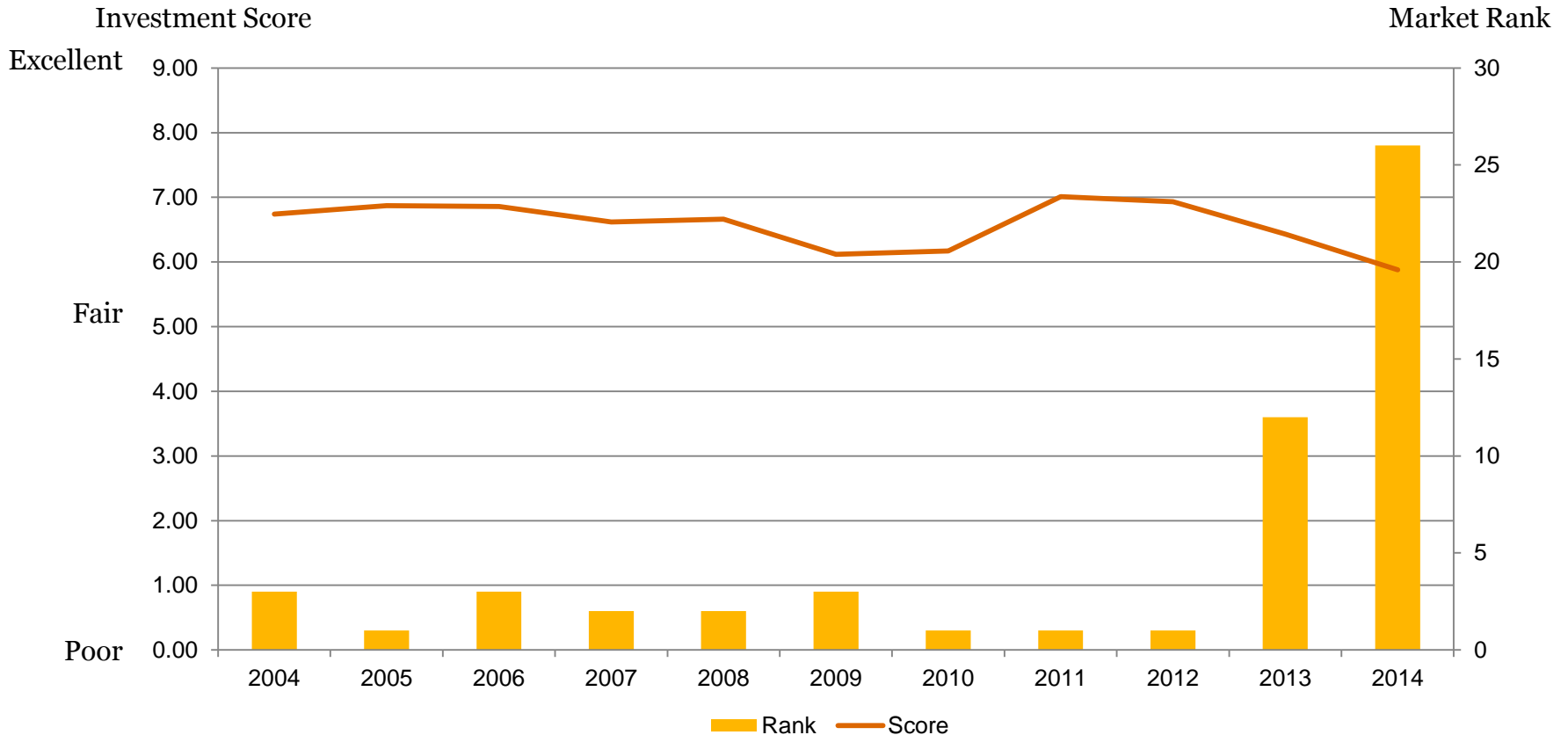
2014



Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

The impact of uncertainty

Impact on the outlook for Washington, DC



The outlook for Washington, DC succumbs to fed fatigue

Source: Emerging Trends in Real Estate surveys
Note: Based on US respondents only

Top 10 investment markets

	2014	2013	Rank Change
1. Houston	7.00	6.84	+4
2. San Francisco	6.98	7.21	-1
3. New York	6.84	7.14	-1
4. Seattle	6.83	6.72	+2
5. San Jose	6.78	6.89	-2
6. Dallas/ Fort Worth	6.76	6.47	+4
7. Austin	6.69	6.71	-
8. Boston	6.64	6.85	-4
9. Orange County, CA	6.60	6.48	-
10. Miami	6.57	6.47	+1

Top 10 development markets

	2014	2013	Rank Change
1. San Francisco	6.88	6.87	-
2. San Jose	6.75	6.58	+1
3. Houston	6.64	6.36	+2
4. New York	6.58	6.76	-2
5. Miami	6.38	5.89	+6
6. Dallas/Fort Worth	6.37	6.20	+1
7. Seattle	6.36	6.13	-1
8. Boston	6.35	6.31	-2
9. Minneapolis/St. Paul	6.27	5.06	+16
10. Austin	6.25	6.40	-6

Source: Emerging Trends in Real Estate 2014 survey

Note: Based on US respondents only

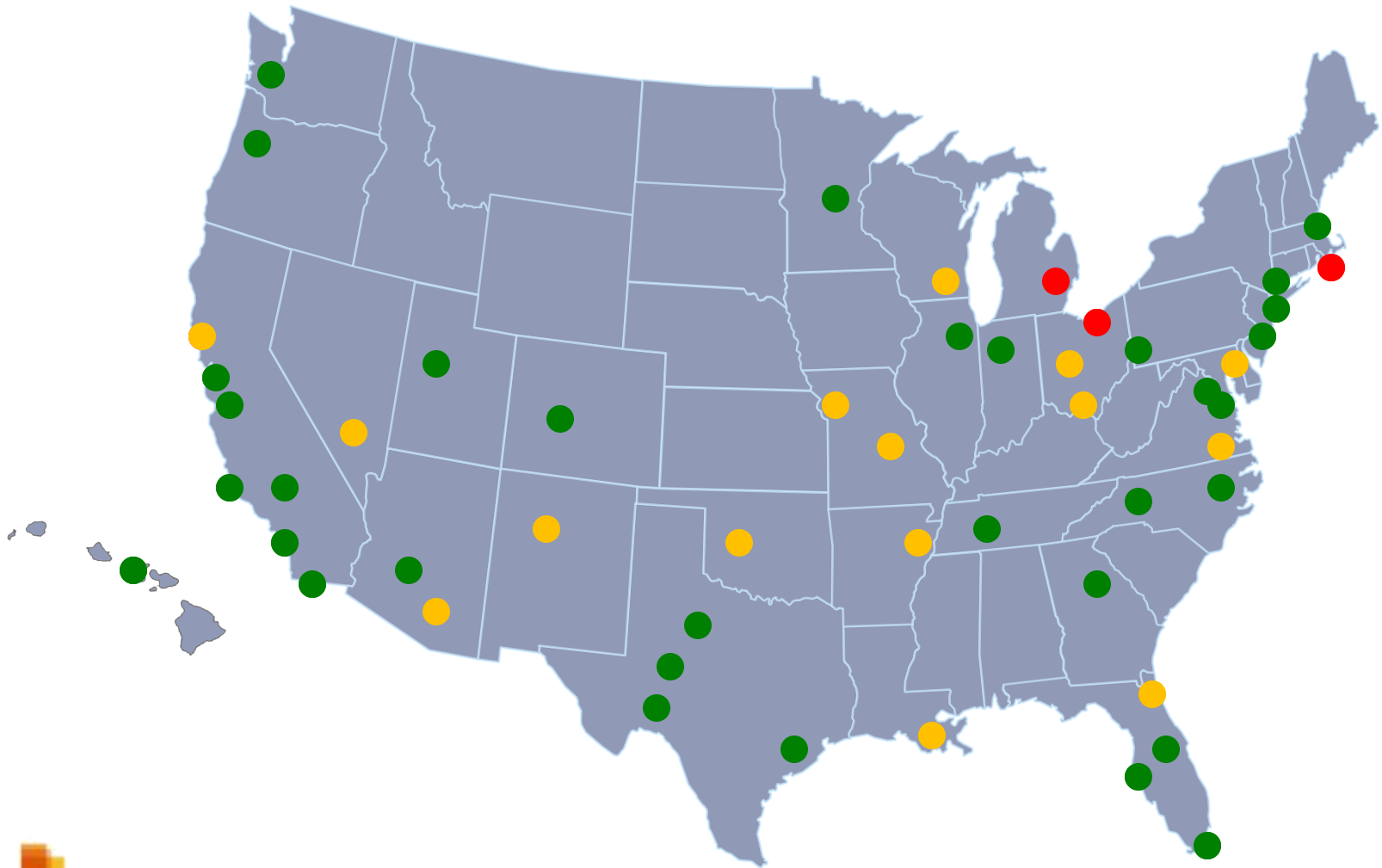
Top 10 homebuilding markets

	2014	2013	Rank Change
1. San Francisco	7.74	6.80	-
2. Houston	7.48	6.15	+4
3. San Jose	7.40	6.58	-1
4. Dallas/Fort Worth	7.36	5.86	+6
5. Austin	7.34	6.26	-
6. New York	7.19	6.42	-3
7. Seattle	7.19	6.14	-
8. Miami	7.06	5.44	+8
9. Boston	6.87	6.05	-1
10. Orange County, CA	6.85	5.91	-1

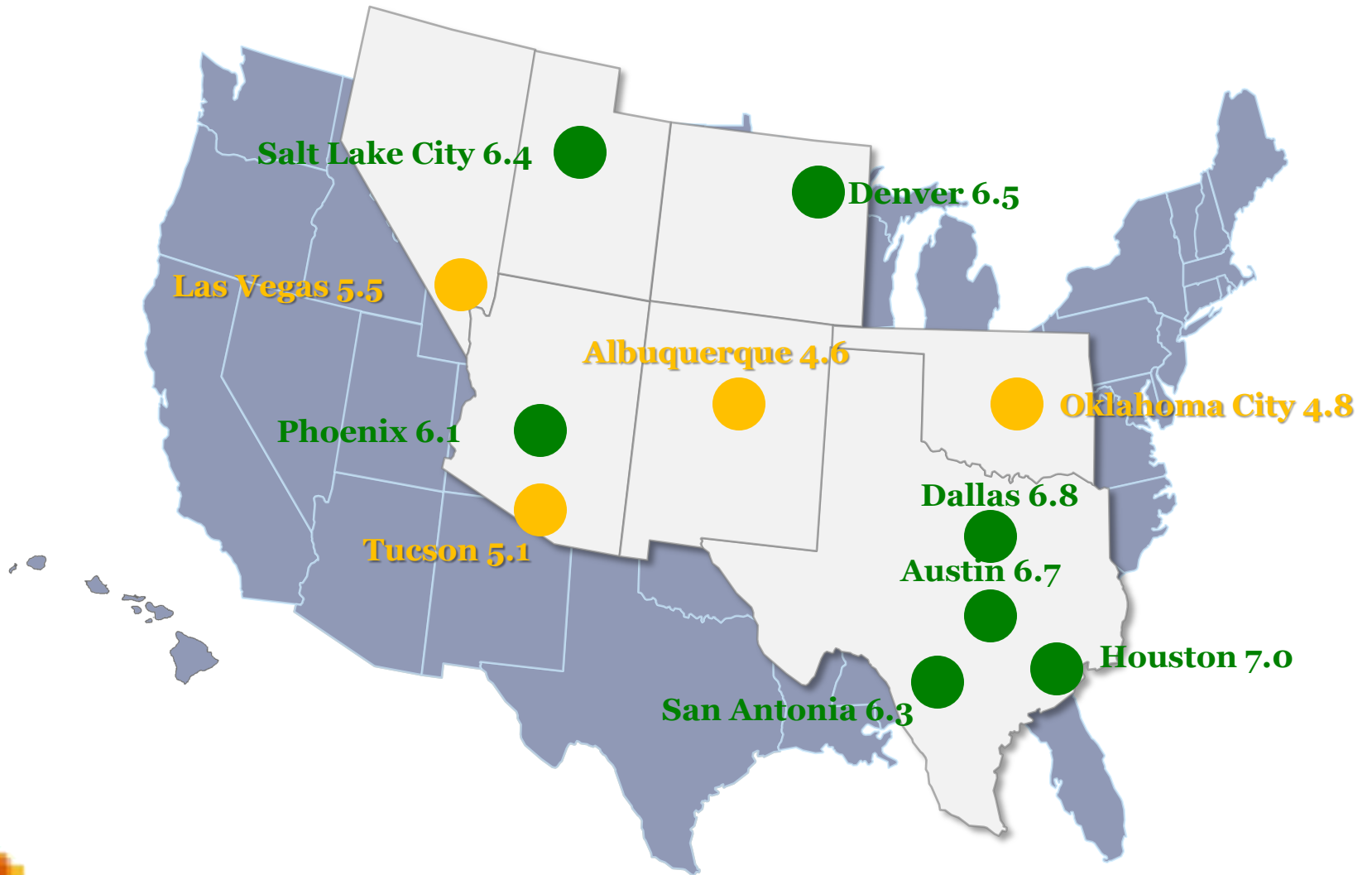
Source: Emerging Trends in Real Estate 2014 survey

Note: Based on US respondents only

Markets: 2014 emerging trends



Southwest

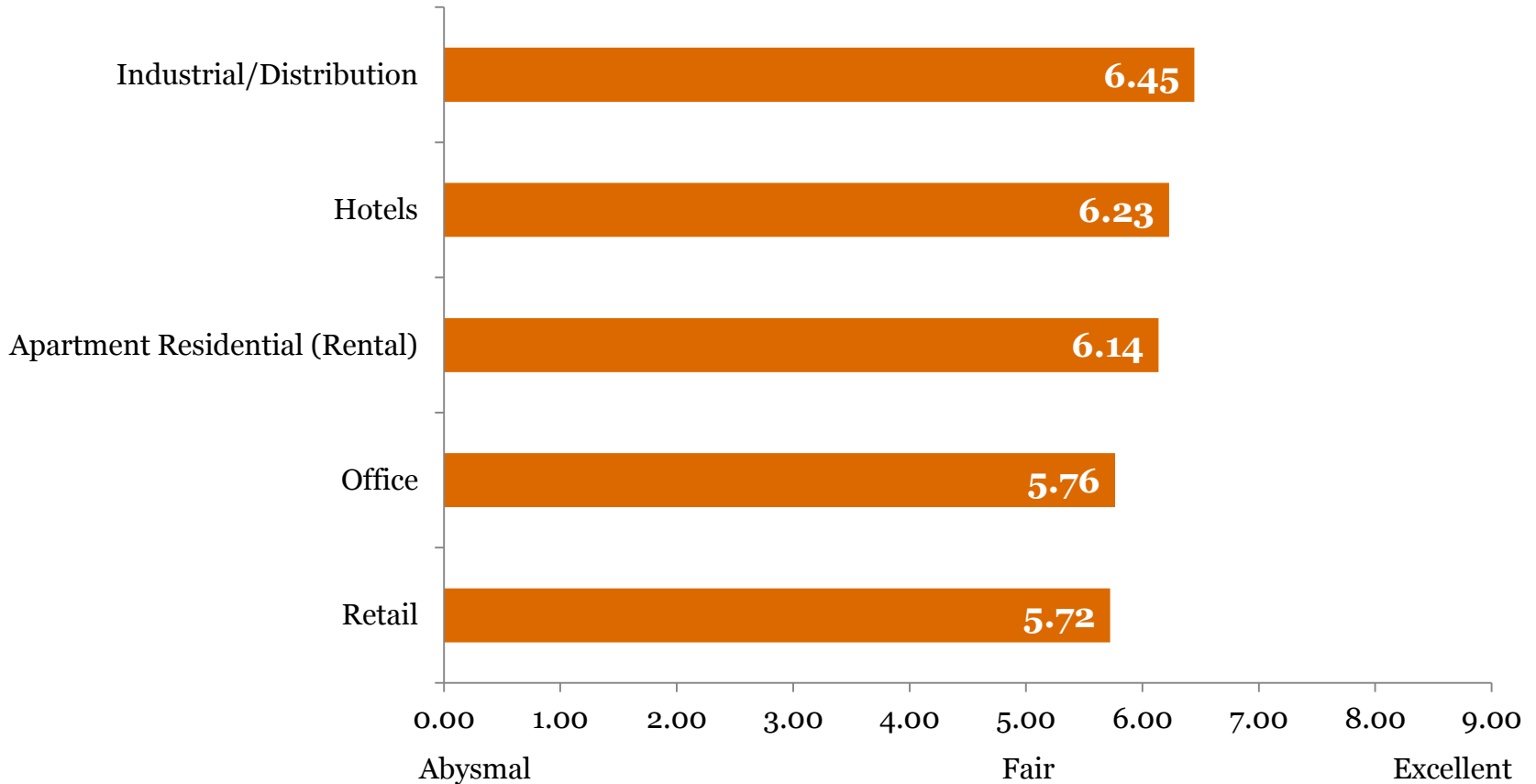


Property type outlook

Industrial leads the pack

Industrial takes the top spot

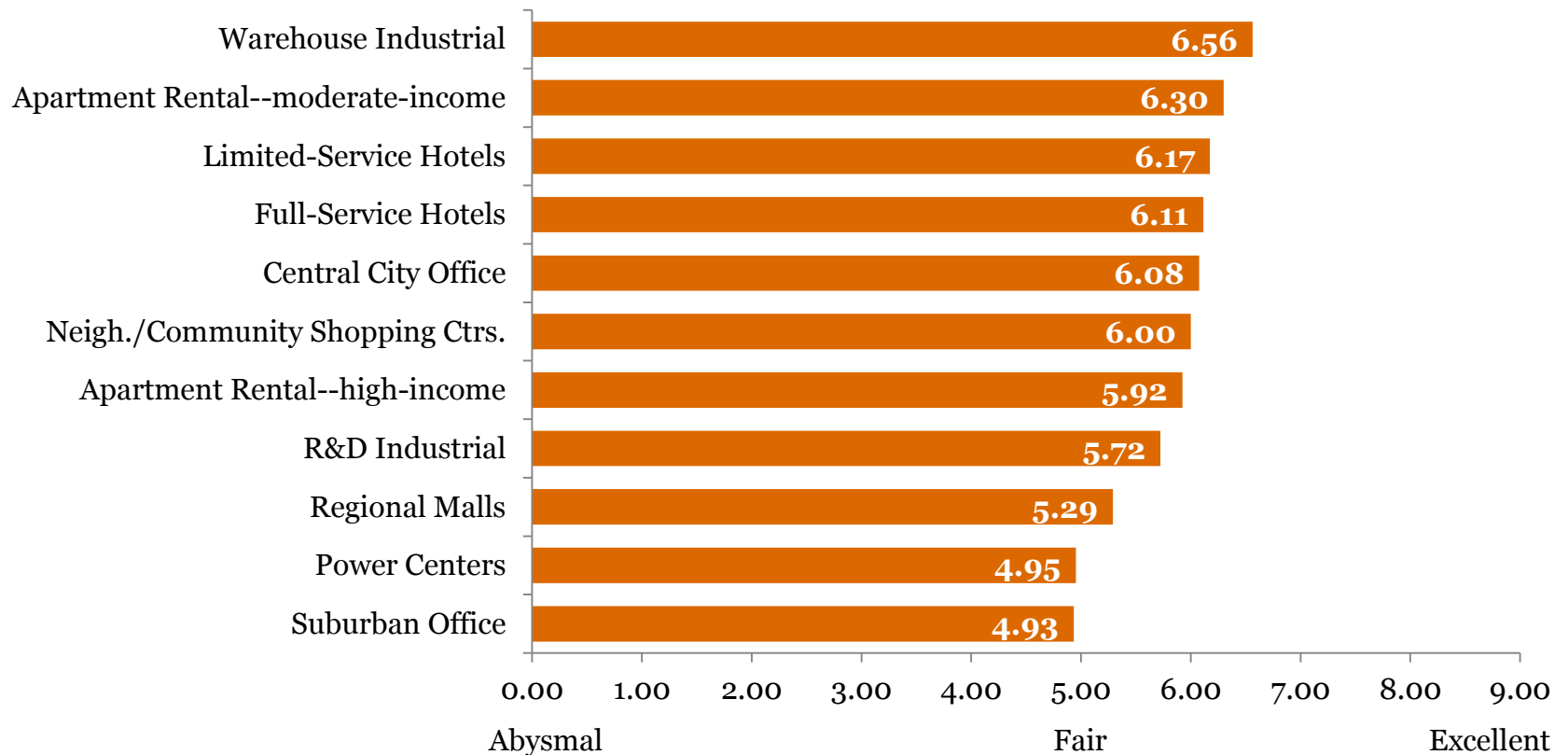
Prospects for major commercial property types in 2014



Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

Subsector outlook shows diversity of recovery

Prospects for commercial subsectors in 2014

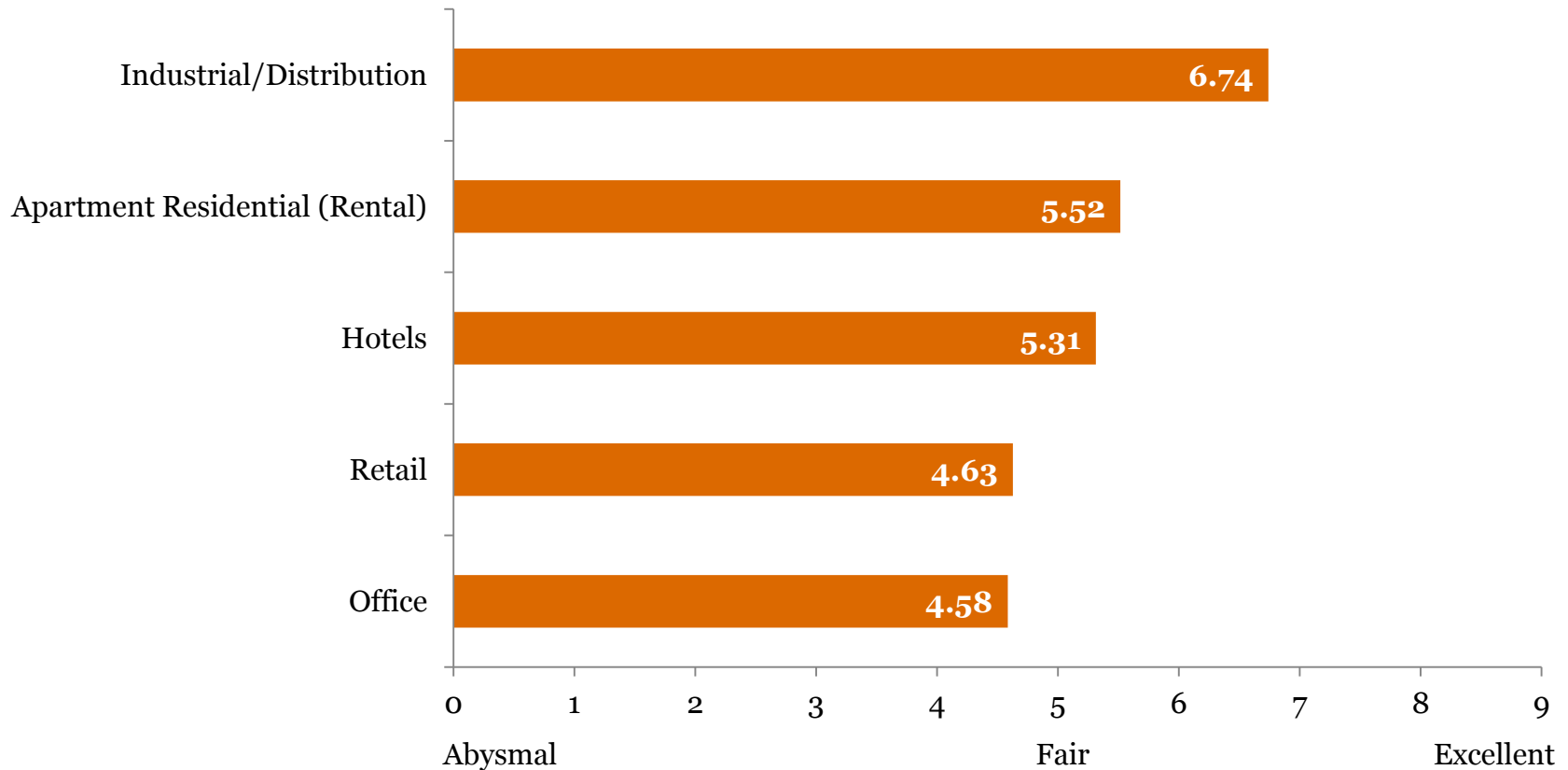


Source: Emerging Trends in Real Estate 2014 survey

Note: Based on US respondents only

Commercial development begins to look up

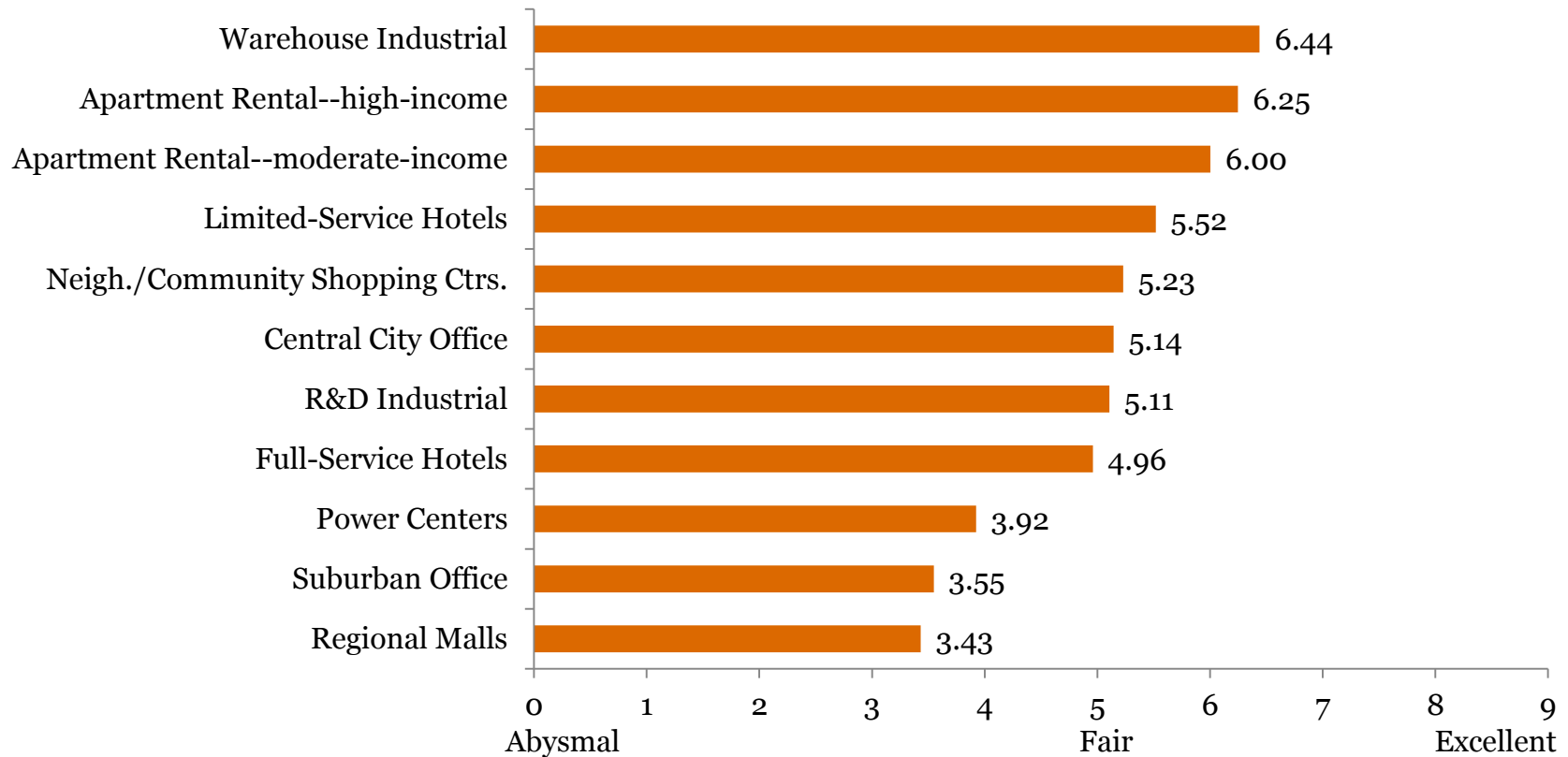
Prospects for major commercial property types in 2014



Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

Development prospects reflect where market is strongest

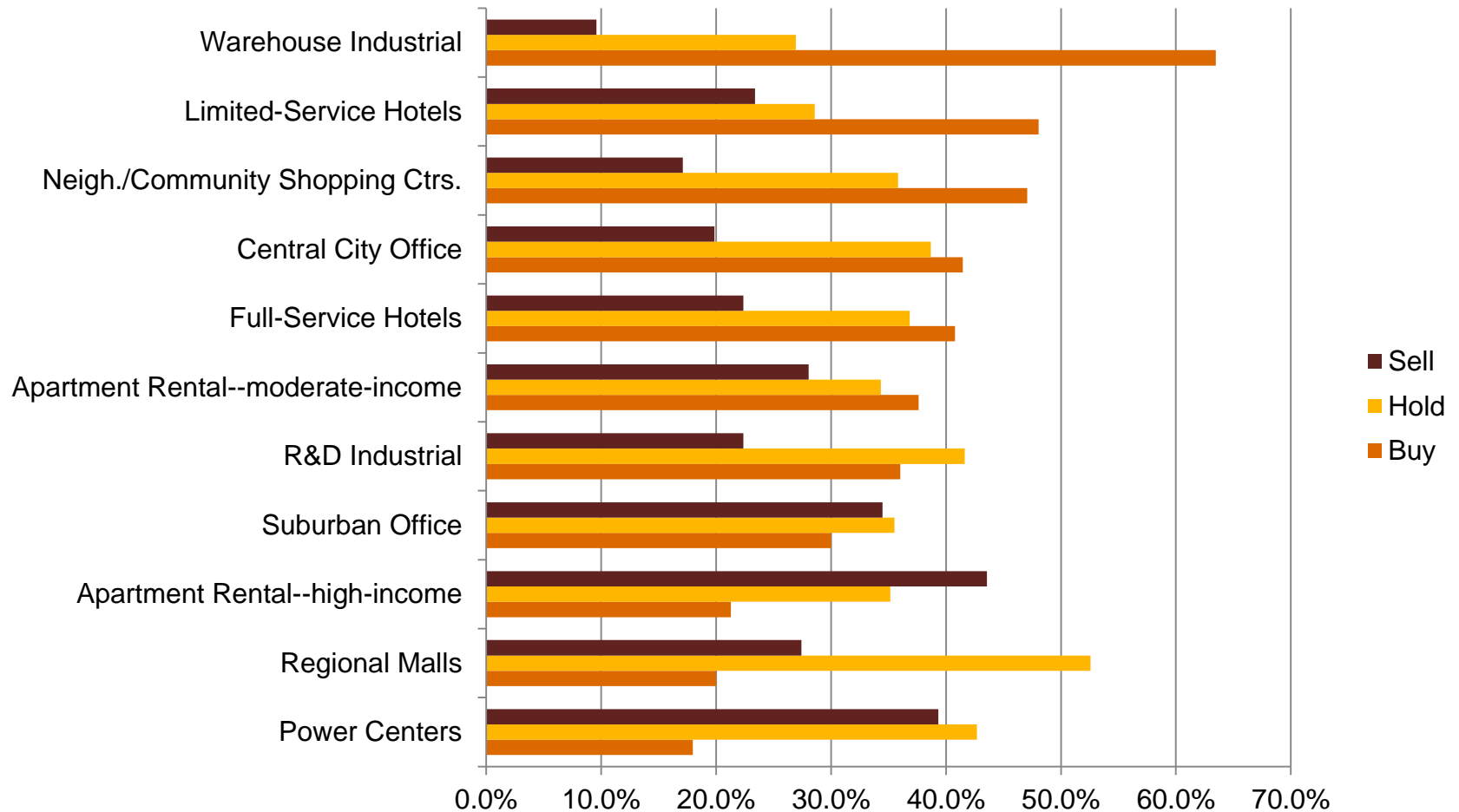
Prospects for commercial subsectors in 2014



Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

Some changes in what investors want to buy

Investment recommendation of survey respondents



Source: Emerging Trends in Real Estate 2014 survey
Note: Based on US respondents only

Emerging Trends in Real Estate® 2014

