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Viewpoint

2015 Integra Realty Resources
Real Estate Value Trends

Local Expertise
National Coverage
Unbiased Excellence

On the Cover: The Helmsley Building, 230 Park Avenue, New York, NY, subject of a recent assignment by IRR-New York, was completed in 1929 as the New York Central Building. It was designed in the Beaux Arts style by Warren & Wetmore as the tallest structure in the Terminal City complex constructed around the same firm's best-known creation, Grand Central Terminal.

On this Page: One Woodward Avenue, Detroit, MI, built in 1962 as the headquarters of the Michigan Consolidated Gas Company, was the subject of a recent assignment by IRR-Detroit. It was conceived in the New Formalist style by Minoru Yamasaki, who used elements of its design a decade later as architect of the World Trade Center in New York City.

Both of these assignments are examples of IRR's deep experience and expertise with landmark Office properties across the U.S. and the Caribbean region.

Founded in 1999, Integra Realty Resources (IRR) specializes in real estate appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. Our market research, valuation, and counseling services span all commercial property types and locations, from individual properties to large portfolio assignments. IRR is a trusted consultant for many of the world's top financial institutions, developers, corporations, law firms, and government agencies, who rely on IRR's extraordinary expertise, unbiased perspectives, and superior local coverage.

For more information, please visit www.irr.com or blog.irr.com.

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Chairman’s Letter

Dear Friends and Colleagues:

As I write this introduction to the 25th annual edition of IRR Viewpoint, I am reflecting on a year of continued recovery and growth in a number of CRE sectors, and I am pleased to report that for Integra Realty Resources (IRR), it has similarly been a year of building upon the solid foundation we laid 15 years ago.

Our clients tell us that they value IRR for three things above all: our expertise, our quality, and our independence. That’s why in 2014 we focused on building and maintaining:

- **Technology:** Expertise comes from human experience, but to capitalize upon it requires IT infrastructure. Following the largest technology investment that IRR has ever made, we deployed version 2.0 of our proprietary DataPoint® database. We believe it represents the industry standard, and gives our team advanced capabilities that help them benefit our clients.

- **Quality:** 94% of our clients tell us they are satisfied; and nine out of ten say they are “very” or “extremely” satisfied. IRR gets a stellar 57 “net promoter” score from our clients, meaning the great majority have recommended us to others. But via in-depth client survey, Lean Six Sigma-based initiatives, and an ongoing commitment to professional education, we’re engineering even more quality into our work.

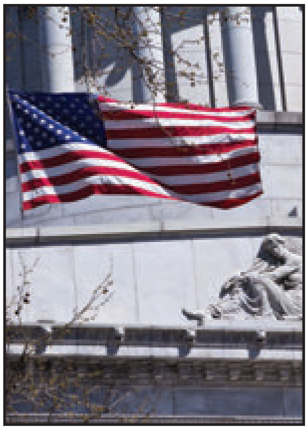
- **Independence:** As we’ve become the largest CRE market research, valuation, and counseling firm in the U.S., our clients who are seeking unbiased excellence have told us that IRR’s independent position is key to our being their trusted partner. Our commitment to “tell it like it is” is a promise from which we’ll never waver.

I know that our team of 900+ professionals in 66 offices – including more MAI-designated experts than ANY other firm – shares the confidence I have in our initiatives and the excitement I feel about what’s ahead. Just as Viewpoint continues to evolve and provide deeper insights into the CRE marketplace, it also reflects our progress toward satisfying our clients’ needs with the most advanced technology and training, backed by a culture of quality and service. As ever, the whole IRR team is committed to providing you with the very best ***Local Expertise…Nationally***.

Sincerely,

Raymond T. Cirz, MAI, CRE, FRICS
Chairman of the Board
Integra Realty Resources, Inc.

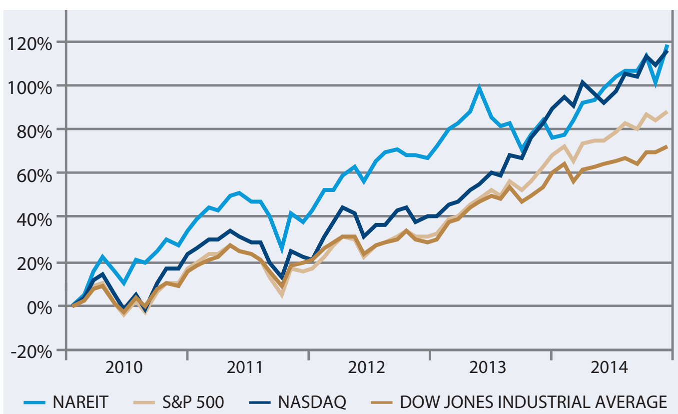
National Real Estate



Commercial real estate remained an *en vogue* asset class in 2014, as property fundamentals continued to improve nationally across all property types and classes, and more investment flowed into the space. The increased investment into the sector in turn continued to place downward pressure on capitalization rates which set all-time lows in many sectors and approached lows in virtually all others.

Investment returns for the NAREIT index officially outpaced all other major equity indices over a five-year holding period as of the end of 2014. After demonstrating extreme volatility in 2013, mostly as a result of rising interest rate concerns that never came to fruition, the NAREIT index was far steadier in 2014 and significantly outpaced the returns on the NASDAQ index, which was the real estate index's closest major competitor in terms of five-year investment performance. This marks something of a reversal from 2013, when the performance of the real estate index and its underlying components appeared to demonstrate concerns that the industry was reaching a zenith. Some market participants have noted that despite the fact that they aren't sure how much more capitalization rate compression is possible, ever-improving property fundamentals continue to drive positive yields in an otherwise low-yield interest environment, attracting more capital to the sector and encouraging those already invested in the sector to hold their assets for lack of a better alternative risk-adjusted return elsewhere.

Real Estate Performance Versus the Market (5-Year) (Fig.1)



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Of note in terms of equity market activity, the Paramount Group set a REIT public offering capital raise record with its November IPO, raising $2.3 billion. Blackstone's disposition strategy was also notable versus 2013. After tapping the public markets to monetize Brixmor Property Group and setting a hotel public offering record in launching Hilton Hotels last year, Blackstone has elected to privately sell its IndCor industrial portfolio to GIC, the sovereign wealth fund for Singapore, for in excess of $8 billion. This strategy is certainly interesting given Blackstone's public offering successes in the last year and the fact that it preliminarily explored going the same route with the IndCor disposition.

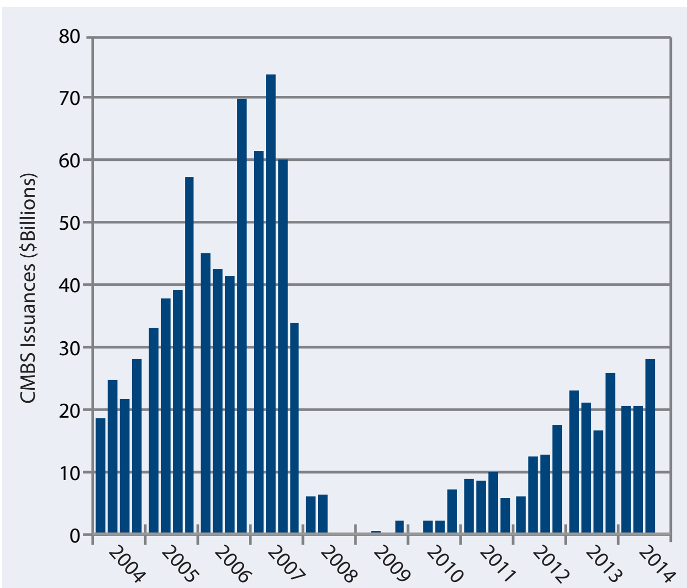
In terms of the debt capital markets, relatively little changed in 2014 from the previous year. Predictions for the commercial mortgage backed securities (CMBS) industry's robust return proved relatively flat through the first three quarters of the fiscal year. This trend surprised many given that CMBS bond spreads tightened significantly in the summer of 2014, making the industry's cost of capital the lowest that it has been since the public real estate debt markets began to "seize up" in 2007. The fourth quarter appears on pace to set quarterly CMBS issuance records since the downturn, and most conduits are projecting significantly increased loan volumes in 2015 as they ramp up production in anticipation of a likely three-year run of strong refinancing opportunities; many of the 10-year notes issued in 2006 and 2007 at the apex of the industry's influence will come due during this period. Despite modest year-over-year issuance growth in the CMBS market, the industry still has a long growth path to approach the issuance levels seen in those peak years of 2006 and 2007. The public debt markets in 2014 did mark the return of some sizeable real-estate-backed

Collateralized Debt Obligation (CDO) issuances, which had been virtually absent in the previous five years. Also, the CMBS market welcomed increasing activity with respect to the securitization of large pools of single-family homes for rent by institutional investors. While this trend began in 2013, many more institutional investors took advantage of the opportunity to monetize some of their investment into these single-family portfolios, and in some cases have plowed the capital back into the space, helping to stabilize the single family home market and many of the country's most distressed metropolitan areas.

While CMBS issuances are up in 2014, the industry did not materially increase its market share of the overall commercial real estate financing space. Commercial banks and private financial institutions actually increased their financing market share more than the CMBS industry, while insurance companies lost direct market share and the governmental agencies intentionally cut back their involvement in the relatively healthy debt markets that no longer required their heavy involvement to provide liquidity.

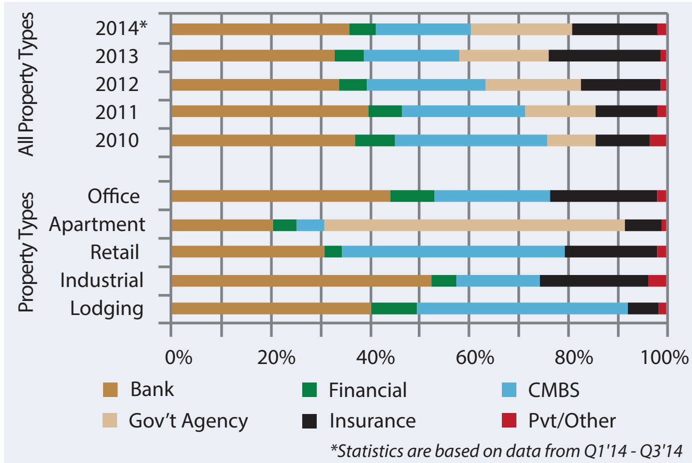
Despite the governmental agencies' relative loss of market share, they still dominated in financing the multifamily sector in 2014. Meanwhile, CMBS remained the preferred source of debt capital within the retail and lodging sectors, which has helped to continue to drive returns that were sorely lacking from 2008-2010 in these areas. Commercial banks continued to control the industrial financing market, and banks also lead the most relatively diverse debt capital pool in supporting the office sector. As the coming year is expected to bring rising interest rates, IRR predicts that insurance

CMBS Issuances (Fig. 2)



Source: Compendium of Statistics, CRE Finance Council

Real Estate Capital Source Comparisons (Fig. 3)



Source: Real Capital Analytics, compiled by IRR

companies and especially commercial banks will struggle to maintain financing market share in the face of stiff competition from the CMBS market and continued pressure from governmental agencies in the multifamily space.

Market Cycle Phases

IRR-Viewpoint has been publishing market cycle phases since its inception, and the concept remains one of the most popular features of our data set annually.

The multifamily market sector, not surprisingly, continues to lead the recovery, with almost 60% of IRR markets experiencing material expansionary activity in this space. Many IRR market commentaries indicated that while the multifamily markets remain strong and new supply can and will be competitively absorbed, the risk of sliding into hypersupply is greatest within the multifamily sector in the next 1-2 year period. The industrial market lags slightly behind the multifamily market in the product life cycle, slightly leading retail in the process. The office sector continues to lag the other four major property groups, and suburban office markets continue to lag the CBD sector and the overall industry by the greatest degree in the recovery process as viewed through the product life cycle prism.

Capitalization Rates

Going-in capitalization rates compressed nationally across all product types and classes in 2014. This national trend was strongest with respect to Class A Industrial product (-39 basis points) as well as Class A CBD Office assets (-32 basis points). As these assets classes' capitalization rates contracted in 2014, they passed Community and Neighborhood Retail as investors' sixth and seventh most preferred asset classes, continuing to trail the four multifamily sectors as well as Regional Malls in terms of the strength of their capitalization rates.

2014 Capitalization Rates, Discount Rates, and Reversion Rates (Table 4)

	Property Type	Atlanta, GA	Austin, TX	Baltimore, MD	Birmingham, AL	Boise, ID	Boston, MA	Broward-Palm Beach, FL	Charleston, SC	Charlotte, NC	Chicago, IL	Cincinnati, OH	Cleveland, OH	Columbia, SC	Columbus, OH	Dallas, TX	Dayton, OH	Denver, CO	Detroit, MI	Fort Worth, TX	Greensboro, NC	Greenville, SC	Hartford, CT	Houston, TX	Indianapolis, IN	Jackson, MS	Jacksonville, FL	Kansas City, MO/KS	Las Vegas, NV	Long Island, NY	Los Angeles, CA	Louisville, KY
CLASS A GOING-IN CAP RATES (%)	CBD Office	6.75	6.25	6.75	8.00	7.00	4.75	6.30	7.00	6.00	5.75	8.25	8.25	7.75	8.50	6.25	10.50	5.75	8.75	6.50	8.00	7.75	8.25	7.50	8.50	8.00	8.00	8.00	7.50	6.50	5.50	7.50
	Suburban Office	7.50	6.50	7.00	8.25	7.75	6.25	7.10	8.25	7.75	7.50	8.50	8.25	8.25	8.25	6.50	8.50	6.50	8.50	7.00	9.00	7.75	8.50	8.00	8.00	7.50	8.00	7.75	8.00	6.50	6.50	7.25
	Industrial	6.25	6.00	5.25	8.25	7.50	6.25	7.10	8.25	7.25	6.50	8.50	8.50	7.00	8.00	6.00	9.00	6.75	8.75	6.25	9.00	7.25	8.75	7.50	6.75	9.50	7.50	7.25	8.00	5.50	6.00	7.50
	Flex Industrial	7.75	7.75	7.00	8.75	7.75	8.00	7.60	8.50	8.50	7.50	8.50	9.00	7.75	8.50	7.50	9.00	7.25	8.50	7.50	8.50	8.00	8.75	7.75	8.25	9.00	8.50	9.00	8.00	6.25	6.50	8.00
	Urban Multifamily	5.00	5.50	5.50	6.00	5.75	4.00	5.10	5.80	5.00	5.25	6.50	6.50	6.25	6.00	5.00	8.00	5.00	7.00	5.25	6.50	6.00	5.75	5.50	5.75	6.50	5.65	5.50	5.50	5.00	4.00	7.00
	Suburban Multifam	5.50	5.75	5.50	6.00	6.00	5.00	5.60	6.50	5.50	6.00	7.00	6.50	6.00	6.00	5.75	6.75	5.25	6.50	5.75	6.00	6.00	6.00	6.00	6.00	6.50	6.00	5.50	5.50	5.00	4.25	6.50
	Regional Mall Retail	6.75	7.00		7.25	7.25	6.00	5.50	7.00	7.25	5.75	8.50	8.00	7.00	7.50	6.50	8.25	6.00	7.00	6.50	8.00	7.00	7.50	8.00	7.00	9.50	7.50	6.50	5.75	5.00	6.50	6.50
	Community Retail	7.00	6.75	5.75	7.00	7.50	6.50	6.80	7.75	7.25	7.00	8.25	8.50	7.50	8.00	6.75	8.50	6.50	8.00	6.75	8.00	7.50	8.50	7.50	8.00	8.50	8.25	7.25	7.00	6.00	6.75	7.50
	Neighborhood Retail	7.25	7.00	6.00	7.00	7.75	6.25	7.40	7.25	7.00	7.75	8.75	9.00	7.00	8.00	7.00	8.75	6.25	8.75	7.00	8.00	7.00	8.50	7.50	8.50	9.00	7.75	7.50	7.50	6.50	7.00	7.50
	Lodging - Full Service	7.75	7.50	8.00		9.25	6.75		8.00	8.75	7.50	8.50	9.00	8.25	8.50	8.00	8.50	7.50	7.50	8.00	9.25	8.25	8.50	8.00	8.50	10.00	8.25	9.50	9.25	7.50	7.50	10.00
	Lodging - Limited	8.75	8.25	8.75		8.25	7.75		8.50	9.25	8.75	9.00	9.00	9.00	9.00	9.00	9.00	8.00	8.00	9.00	9.75	9.25	9.50	9.00	9.50	11.00	9.25	9.00	9.00	8.00	8.25	8.50
CLASS B GOING-IN CAP RATES (%)	CBD Office	7.75	7.00	8.50	8.75	7.25	5.50	7.70	8.50	7.50	6.25	9.25	9.00	7.75	9.00	7.00	11.25	6.50	9.00	7.50	10.00	7.75	9.25	7.50	9.00	10.25	9.00	8.50	7.75	7.50	6.00	8.00
	Suburban Office	8.50	7.50	8.00	9.00	8.25	7.25	7.40	9.25	8.25	8.50	9.50	8.75	8.00	8.75	7.50	9.25	7.00	8.75	7.50	10.00	8.00	9.00	8.00	8.50	9.00	9.25	8.50	8.50	7.50	7.00	8.00
	Urban Multifamily	6.00	6.25	6.00	7.25	6.75	5.00	6.10	7.00	6.00	6.00	7.50	7.25	6.75	7.00	6.25	8.50	5.50	7.50	6.25	8.00	6.50	8.75	5.50	7.00	7.00	6.15	6.50	6.50	6.00	5.25	8.00
	Suburban Multifam	6.50	6.25	6.25	7.50	7.00	6.00	6.35	6.23	6.75	6.75	7.50	7.25	6.75	7.00	6.75	7.50	6.00	7.25	6.75	8.00	6.75	6.75	6.00	7.50	7.00	6.75	6.75	6.50	6.00	5.25	7.00
CLASS A DISCOUNT RATES (%)	CBD Office	7.75	7.75	8.00	9.00	9.00	6.25	8.80	8.25	7.00	7.25	9.50	9.50	9.00	9.50	7.75	12.00	7.50	10.00	7.75	9.50	9.00	8.75	8.50	9.75	9.00	8.75	8.75	9.25	7.25	7.00	9.00
	Suburban Office	8.50	8.00	8.25	9.25	9.75	7.75	8.30	9.50	8.25	8.75	9.75	9.50	9.75	9.25	8.00	9.75	8.00	10.00	8.00	10.00	9.25	9.00	9.00	9.25	8.50	9.25	8.50	9.25	7.25	8.00	9.00
	Industrial	7.50	7.25	6.25	9.25	9.50	7.25	8.00	8.50	8.50	7.75	9.75	9.50	8.50	8.75	7.50	9.75	7.50	10.00	7.75	9.50	9.00	10.00	8.50	7.75	10.50	8.50	8.25	9.25	6.75	7.50	9.00
	Flex Industrial	9.00	9.00	8.25	9.75	9.75	8.75	8.25	9.50	8.75	8.50	9.75	9.75	9.00	9.25	8.75	10.00	8.25	9.75	8.75	10.00	9.25	10.00	8.75	9.25	10.00	9.50	10.00	9.50	7.25	8.00	9.00
	Urban Multifamily	6.25	7.50	6.50	7.25	8.75	5.25	6.25	7.30	6.50	6.00	8.00	8.25	8.00	7.75	7.25	9.00	7.50	8.25	7.50	8.00	8.25	7.50	6.50	6.75	8.00	6.75	6.50	8.00	6.50	6.00	8.50
	Suburban Multifamily	6.75	8.00	6.50	7.00	9.00	6.25	7.10	8.00	5.75	7.00	8.50	8.25	8.00	7.75	7.75	7.75	7.75	8.00	7.75	8.00	8.25	8.00	7.00	7.25	7.50	7.50	6.75	8.00	6.50	6.25	9.00
	Regional Mall Retail	8.50	8.75		8.75	9.25	8.00	6.50	8.25	10.00	7.25	9.75	9.00	9.00	8.50	8.75	8.50	7.00	8.00	8.75	10.00	8.75	8.50	9.00	8.00	10.50	9.00	7.50	8.00	6.50	8.50	8.50
	Community Retail	8.75	8.25	6.75	8.50	9.50	7.75	7.80	9.00	8.50	8.25	9.50	9.50	9.25	9.00	8.00	9.00	7.75	8.75	8.00	9.50	9.00	9.50	8.50	9.00	9.50	9.25	8.00	8.50	7.00	8.25	8.75
	Neighborhood Retail	9.25	8.25	7.00	8.50	9.75	7.50	8.40	8.50	8.00	8.50	10.00	10.00	8.50	9.00	8.25	9.25	7.50	9.50	8.00	9.00	8.50	9.50	8.50	9.50	10.00	8.75	8.50	8.75	7.00	8.50	8.50
	Lodging - Full Service	9.75	10.00	9.50		11.25	8.25		9.75	10.50	8.25	10.00	10.50	10.75	10.00	10.50	10.00	9.75	9.75	10.50	11.00	11.00	9.50	9.00	10.75	11.00	10.75	11.50	11.00	8.00	8.25	12.00
	Lodging - Limited	10.25	10.25	10.25		10.25	9.25		10.00	10.75	9.25	10.50	10.50	10.75	10.50	10.50	10.50	10.75	10.75	10.50	11.25	11.75	10.50	10.00	10.75	12.00	10.75	11.00	10.75	8.50	9.50	10.50
CLASS B DISCOUNT RATES (%)	CBD Office	8.75	8.50	9.75	9.75	9.75	7.50	9.10	9.25	8.50	8.25	10.50	10.00	9.00	10.00	8.50	12.75	8.00	10.25	8.50	12.00	9.00	9.75	8.50	10.25	11.25	10.00	9.25	9.50	8.25	7.50	9.75
	Suburban Office	9.50	8.75	9.25	10.00	10.25	8.75	8.60	10.25	9.75	9.00	10.75	9.75	9.25	9.75	8.50	10.25	8.25	10.25	8.50	12.00	9.25	9.50	9.00	9.75	10.00	10.25	9.00	9.75	8.25	8.50	9.75
	Urban Multifamily	7.25	8.50	7.00	8.75	9.75	6.25	7.35	7.80	7.50	6.75	9.00	9.00	8.25	8.50	8.25	9.50	8.00	8.75	8.25	8.50	8.25	9.25	6.50	7.75	8.00	7.25	7.50	9.00	7.50	7.25	9.50
	Suburban Multifamily	8.25	8.50	7.25	8.50	10.00	7.25	7.60	8.50	6.75	7.00	9.00	9.00	8.25	8.50	8.75	8.75	8.25	8.25	8.75	8.50	8.75	9.00	7.00	8.50	8.00	8.00	7.50	9.00	7.50	7.25	9.50
CLASS A REVERSION RATES (%)	CBD Office	7.25	6.75	7.25	8.50	7.25	5.25	6.50	8.00	7.00	6.75	8.75	9.00	8.25	8.75	6.50	11.00	6.50	9.25	7.00	9.00	8.75	8.75	8.00	9.00	8.50	8.50	8.50	8.00	7.00	6.00	7.75
	Suburban Office	8.00	7.25	7.50	8.75	8.00	6.75	7.20	9.00	8.25	8.50	9.00	9.00	8.75	8.50	7.25	9.00	7.25	9.25	7.25	9.50	8.75	8.75	8.50	8.50	8.00	8.50	8.25	8.50	7.00	7.00	7.50
	Industrial	6.75	7.50	5.75	8.75	7.75	7.25	7.50	8.00	8.00	7.25	9.00	8.75	7.50	8.25	6.75	9.50	7.00	9.50	6.75	9.00	8.00	9.25	8.00	7.25	10.00	8.00	7.75	8.50	6.00	6.50	8.00
	Flex Industrial	8.25	8.00	7.50	9.25	8.00	8.00	8.00	9.25	8.50	8.50	9.00	9.50	8.25	8.75	7.75	9.75	7.50	8.75	7.75	9.00	8.50	8.75	8.25	8.75	9.50	9.00	9.50	8.50	6.50	7.00	8.50
	Urban Multifamily	5.50	6.00	6.00	6.50	6.25	4.50	5.80	6.25	5.00	6.00	7.00	7.75	7.00	6.75	5.75	8.50	5.50	8.25	6.00	7.50	6.75	6.25	6.00	6.00	7.00	6.15	6.00	6.00	5.50	4.50	7.50
	Suburban Multifam	6.00	6.25	6.00	6.25	6.50	5.50	6.40	7.00	5.75	6.50	7.50	7.75	7.00	7.75	6.00	7.25	5.75	7.00	6.25	7.00	6.75	6.75	6.50	6.75	7.00	6.75	6.25	6.00	5.50	4.75	7.00
	Regional Mall Retail	7.25	7.50		7.75	7.50	6.50	6.00	7.50	7.75	7.25	9.00	8.50	8.00	8.00	7.00	8.75	6.50	8.00	7.25	8.20	7.75	7.75	8.50	7.50	10.00	8.00	7.00	6.25	5.50	7.00	7.25
	Community Retail	7.50	7.25	6.25	7.50	7.75	7.25	7.25	7.75	8.00	7.75	8.75	9.00	8.50	8.50	7.25	9.00	7.00	9.00	7.25	8.50	8.25	9.00	8.00	8.50	9.00	8.75	7.75	7.50	6.25	7.25	7.75
	Neighborhood Retail	7.75	7.25	6.50	7.50	8.00	7.00	7.80	8.25	7.50	8.50	9.25	9.00	8.25	8.50	7.50	9.25	6.75	9.00	7.25	8.00	7.75	9.00	8.00	9.00	9.50	8.50	8.00	8.00	6.75	7.50	7.75
	Lodging - Full Service	8.25	8.50	8.75		9.75	7.25		8.50	9.25	8.00	9.00	9.50	9.25	9.00	8.25	9.00	8.50	8.50	8.50	9.75	9.00	9.00	8.50	9.00	10.50	8.75	10.00	9.25	8.00	7.25	10.50
	Lodging - Limited	9.25	8.75	9.50		8.75	8.25		8.75	9.75	9.75	9.50	9.50	10.00	9.50	9.25	9.50	9.00	9.00	9.25	10.25	10.25	10.00	9.50	10.00	11.50	9.75	9.75	9.00	8.25	8.25	9.00
CLASS B REVERSION RATES (%)	CBD Office	8.25	7.25	9.00	9.25	7.50	6.00	7.75	9.00	8.50	7.00	9.75	9.50	8.25	9.25	7.00	11.75	7.25	9.50	8.00	11.00	8.75	9.25	8.00	9.50	10.75	9.50	9.00	8.25	8.00	6.50	8.75
	Suburban Office	9.00	8.00	8.50	9.50	8.50	7.72	8.20	9.50	9.75	9.00	10.00	9.25	8.25	9.00	7.75	9.75	8.00	9.50	7.75	11.00	9.00	9.00	8.50	9.00	9.50	9.75	8.75	9.00	8.00	7.50	8.50
	Urban Multifamily	6.50	6.50	6.50	8.00	7.25	5.50	6.65	7.50	6.00	6.50	8.00	8.50	7.50	6.75	6.50	9.00	6.00	8.75	6.50		7.00	9.25	6.00	7.25	7.50	6.50	7.00	7.00	6.50	5.75	8.50
	Suburban Multifamily	7.00	6.50	6.75	7.75	7.50	6.50	6.70	7.00	6.75	7.25	8.00	8.50	7.50	7.75	6.50	8.00	6.50	8.00	6.75	7.50	7.50	7.25	6.50	8.00	7.50	7.25	7.00	7.00	6.50	5.75	7.50

2014 Capitalization Rates, Discount Rates, and Reversion Rates (Table 4 continued)

Memphis, TN	Miami, FL	Minneapolis, MN	Naples, FL	Nashville, TN	New Jersey, Coastal	New Jersey, Northern	New York, NY	Oakland, CA	Orange County, CA	Orlando, FL	Philadelphia, PA	Phoenix, AZ	Pittsburgh, PA	Portland, OR	Providence, RI	Raleigh, NC	Richmond, VA	Sacramento, CA	Salt Lake City, UT	San Antonio, TX	San Diego, CA	San Francisco, CA	San Jose, CA	Sarasota, FL	Seattle, WA	St. Louis, MO	Syracuse, NY	Tampa, FL	Tulsa, OK	Washington, DC	Wilmington, DE	Averages
8.50	5.10	6.75		6.25		6.25	4.75	6.00	5.30	7.50	7.00	6.25	7.25	6.65	8.35	7.00	7.25	7.00	6.75	9.00	7.00	4.50	6.75		5.25	9.00	8.25	6.25	7.50	5.25	8.25	7.05
7.50	6.30	7.75	7.50	6.75	7.40	6.75	7.00	6.25	5.30	8.00	7.50	6.75	7.25	7.65	8.65	7.75	7.75	7.75	7.00	8.50	7.00	5.75	6.00	7.75	6.00	7.25	8.00	7.25	8.00	7.25	7.75	7.43
7.00	6.60	7.50	8.60	7.25	7.40	5.50	5.50	5.00	5.49	7.10	5.75	6.25	8.25	6.75	9.50	7.25	7.00	7.00	7.00	8.00	7.00	5.25	5.00	8.25	5.00	7.00	8.00	6.75	9.00	6.50	6.75	7.11
8.50	7.10	7.50	8.60	10.00	7.65	6.25	6.25	6.25	4.55	7.10	7.25	8.00	8.25	7.75	8.30	8.25	8.25	8.25	7.50	8.00	7.00	6.25	6.25	8.00	7.25	8.00	8.00	7.75	8.25	7.50	8.00	7.79
6.00	5.00	5.50	6.50	5.75	6.00	4.75	4.00	4.25		5.00	5.25	5.00	6.00	4.50	5.95	5.25	6.00	4.75	5.75	5.25	4.75	4.00	4.25		4.50	6.00	6.75	5.25	6.75	4.50	6.75	5.52
6.25	5.25	5.75	6.50	5.75	5.75	5.00		4.50	4.00	5.00	5.50	5.00	6.25	5.25	6.20	5.75	6.00	5.00	5.75	5.50	5.00	4.25	4.00	6.75	5.00	5.50	6.50	5.50	6.25	5.25	5.75	5.67
8.00	5.50	6.50	7.50	8.25	6.75	5.00	5.00	6.00	6.14		6.25	6.00	7.00		7.75	7.75		6.75	7.00	7.75	6.50	6.00	6.00	7.50	5.00	6.75	7.00				7.00	6.83
7.50	6.60	7.25	7.50	7.50	6.75	6.00	5.50	5.50	6.07	7.00	6.50	7.50	7.25	7.25	8.55	8.25	7.50	6.75	7.50	7.75	6.50	5.25	5.25	7.50	6.00	7.25	8.00	7.00	8.50	6.25	7.25	7.17
8.50	7.30	7.75	7.75	7.50	7.25	6.25	5.75	5.75	5.65	7.00	6.75	8.00	7.00	7.00	8.60	7.75	7.50	6.75	8.00	7.75	6.50	5.50	5.50	7.75	6.25	7.50	9.00	7.50	9.00	5.75	6.75	7.33
	6.70	8.25			8.40	7.25	6.00		9.10	7.00	7.50	8.00	8.00		8.25	8.75	8.00	8.00	8.50	10.00	7.50	5.00			7.00	8.00	8.00	8.75	9.25	7.25	9.00	8.13
	7.10	9.25			9.00	7.50	6.25		8.50	8.50	8.50	8.75	8.75		9.40	9.25	9.50	9.00	9.00	11.00	7.50	6.50			8.25	9.00	9.00	9.75	10.00	8.00	9.50	8.78
9.00	6.25	7.75		6.75		7.25	5.75	6.75	6.10	8.00	8.00	6.75	8.50	7.25	8.55	7.75	8.25	7.50	7.50	9.25	7.00	5.50	7.25		6.00	10.00	9.00	6.75	9.00	6.25	9.50	7.84
8.25	6.80	8.25	8.00	7.25	7.65	7.50	8.00	7.00	6.10	8.25	8.25	7.25	8.50	8.25	9.25	8.25	8.50	8.00	7.50	8.75	7.00	6.25	6.50	7.75	7.00	8.25	8.50	7.75	9.00	8.00	8.25	8.06
7.00	6.25	6.25		6.25	6.25	5.50	5.00	5.75		5.50	6.25	6.00	7.25	5.50	8.30	6.00	7.25	5.25	6.25	5.75	4.75	4.50	4.75		4.75	7.00	7.75	5.50	8.00	5.25	7.25	6.38
7.50	6.50	6.50		6.75	6.00	6.00		5.00	5.10	5.50	6.25	6.00	7.50	6.00	8.50	6.50	7.25	5.75	6.25	6.50	5.25	4.75	4.50		5.50	7.00	7.75	6.00	7.25	6.00	6.25	6.50
9.00	7.00	8.00		7.25		7.25	6.00	7.75	7.00	9.00	8.00	8.25	8.00	8.00	8.95	8.50	8.25	8.25	8.50	10.25	8.50	6.50	8.25		6.50	10.00	9.00	7.25	9.00	6.50	9.75	8.34
8.50	7.75	8.50	8.50	7.75	9.40	7.50	7.25	8.00	7.00	9.50	8.50	9.00	8.00	9.00	9.00	9.00	9.00	9.00	8.75	10.00	8.50	7.50	7.50	8.75	6.75	8.25	9.00	8.25	9.50	8.50	9.00	8.65
8.00	7.70	8.50	9.75	8.25	9.40	6.75	6.75	6.75	7.25	8.60	6.75	7.50	9.00	8.00	10.00	8.75	8.00	8.25	7.75	8.00	8.25	6.75	6.50	9.25	6.25	8.00	9.00	8.00	9.75	7.50	7.75	8.25
8.50	7.90	8.50	9.75	11.00	9.65	7.25	7.25	8.00	7.25	8.60	8.50	7.50	9.00	9.00	10.25	9.50	9.25	9.50	8.00	8.00	8.25	8.00	8.00	9.25	8.00	9.00	9.00	9.50	10.00	8.50	9.25	8.92
7.50	5.25	7.50	7.75	7.00	8.15	6.25	6.00	6.75		6.50	6.75	7.00	8.00	6.00	7.50	7.50	7.00	6.50	7.25	8.50	7.50	6.25	6.75		6.50	7.50	7.75	7.25	9.25	6.00	7.75	7.20
7.75	6.25	8.00	7.75	7.25	8.00	6.50		7.00	6.50	6.50	7.00	7.00	8.00	6.75	7.95	8.00	7.25	6.75	7.25	8.50	7.50	6.50	6.50	8.00	7.50	7.00	7.50	7.50	9.25	7.25	7.50	7.43
8.50	6.50	7.50	8.50	9.00	8.50	6.50	6.25	7.75	6.75		8.25	8.50	8.25		8.70	9.50		8.00	8.00	9.00	8.00	7.75	7.75	8.50	6.00	8.00	8.50				8.25	8.25
8.00	7.25	8.00	8.50	8.25	8.75	7.00	6.75	5.50	7.50	8.75	8.00	10.00	8.75	8.50	9.20	9.50	8.50	8.00	8.50	9.00	8.00	7.00	7.00	8.50	6.75	8.25	9.00	8.00	10.00	7.75	8.25	8.37
9.50	8.50	8.50	8.75	8.25	9.15	7.25	6.75	7.50	7.00	8.50	8.00	10.50	8.50	8.00	9.15	9.50	8.50	8.00	9.00	9.00	8.00	7.25	7.25	8.75	7.00	8.50	10.00	8.50	10.00	7.00	7.75	8.52
	8.20	10.00			10.50	8.00	7.25		10.50	9.00	10.00	11.00	11.00		9.50	10.50	10.50	10.50	8.75	11.50	10.25	7.00			9.50	9.00	9.00	11.00	10.75	9.75	10.50	9.93
	8.75	11.00			11.00	8.50	7.50		10.00	10.00	10.50	10.50	10.75		10.10	10.75	11.00	11.50	9.25	13.50	10.25	8.50			10.00	10.00	10.00	12.00	10.75	10.50	11.00	10.38
9.50	8.25	8.50		7.75		8.00	7.00	8.50	7.75	9.50	9.00	9.00	9.25	8.50	9.95	9.00	9.25	8.75	9.00	10.50	8.50	7.50	8.75		7.00	11.00	9.50	7.75	10.00	7.50	11.25	9.12
9.00	8.50	9.00	8.75	8.25	9.65	8.25	8.00	8.75	7.50	9.75	9.25	9.25	9.25	9.75	10.00	9.50	9.75	9.25	9.25	10.25	8.50	8.25	8.00	8.75	8.00	9.25	9.50	8.75	10.00	9.75	9.25	9.26
8.00	6.75	8.00		7.50	8.50	6.75	6.75	7.25		7.00	7.50	7.50	9.25	7.00	9.00	8.00	8.25	7.00	7.75	8.75	7.50	7.00	7.25		7.00	8.50	8.75	7.50	9.50	6.75	8.25	7.92
8.50	6.90	8.50		7.75	8.25	6.75		7.50	6.75	7.00	8.25	7.50	9.25	7.50	8.00	8.50	8.50	7.50	7.75	9.00	7.50	7.25	7.00		7.75	8.00	8.75	8.00	9.50	7.75	8.00	8.08
8.50	6.50	7.25		6.75		6.75	5.25	6.75	5.75	8.00	7.50	7.00	7.75	7.25	8.70	7.50	7.75	7.50	7.25	9.75	7.25	5.50	7.50		6.25	9.50	8.75	6.75	8.50	5.75	8.75	7.62
8.00	7.30	8.25	8.00	7.25	8.40	7.25	7.25	7.00	6.00	8.50	8.00	7.50	7.75	8.25	8.70	8.00	8.25	8.25	7.50	9.25	7.25	6.50	6.75	8.25	6.50	7.75	9.50	8.25	8.50	7.75	8.25	7.99
7.50	7.00	8.00	9.00	7.75	8.50	6.00	6.00	5.75	6.75	7.60	6.25	7.00	8.75	7.25	9.00	7.75	7.50	7.50	7.50	8.00	7.50	5.75	5.50	8.75	5.50	7.50	8.50	7.25	9.50	7.00	7.25	7.62
9.00	7.50	8.00	9.00	10.50	8.75	6.50	6.50	6.75	6.50	7.60	7.75	8.25	8.75	8.25	8.50	8.75	8.75	8.75	8.00	8.00	7.50	6.75	6.75	8.50	7.50	8.50	8.50	8.25	9.00	8.00	8.50	8.26
6.25	6.00	6.00	7.00	6.50	7.00	5.25	4.50	5.00		5.50	5.50	5.50	6.50	5.00	5.95	5.75	6.50	5.25	6.25	5.75	5.25	4.75	5.00		5.00	6.50	7.25	5.75	7.75	5.00	7.25	6.10
6.75	6.25	6.25	7.00	6.75	6.75	5.25		5.25	5.00	5.50	6.10	5.50	6.75	5.75	6.50	6.25	6.50	5.50	6.25	6.00	5.50	5.00	4.75	7.25	5.50	6.00	7.00	6.00	6.50	6.25	6.00	6.27
8.50	6.00	7.00	8.00	9.00	7.25	5.50	5.50	6.75	6.09		6.75	6.50	7.50		7.95	8.25		7.25	7.50	8.50	7.00	6.75	6.75	8.00	5.00	7.25	7.50				7.50	7.36
8.00	7.20	7.75	8.00	8.25	7.75	6.50	5.75	6.25	6.34	7.25	7.00	8.25	7.75	7.75	8.95	8.75	8.00	7.25	8.00	8.50	7.00	6.00	6.00	8.00	6.75	7.75	8.50	7.50	9.00	6.75	7.75	7.70
9.25	7.60	8.25	8.25	8.25	8.50	6.75	6.00	6.50	5.75	7.25	7.25	8.75	7.50	7.50	8.95	8.25	8.00	7.25	8.50	8.50	7.00	6.25	6.25	8.25	6.50	8.00	9.50	8.00	9.50	6.25	7.25	7.84
	7.50	8.75			8.75	7.50	7.00		9.50	7.50	8.00	8.50	8.50		9.00	9.25	8.50	8.25	9.00	11.00	8.00	5.50			7.75	8.50	8.50	9.75	9.75	7.75	9.50	8.68
	7.90	9.50			9.75	7.75	8.00		9.00	9.00	9.00	9.00	9.25		9.90	9.75	10.00	9.25	9.75	12.00	8.00	7.00			7.75	9.50	9.50	10.75	10.25	8.50	10.00	9.31
9.50	7.00	8.25		7.25		7.75	7.25	7.50	6.25	8.50	8.50	8.00	9.00	7.75	9.50	8.00	8.75	8.00	8.00	10.00	7.25	6.25	8.00		6.75	10.50	9.50	7.75	9.50	6.75	10.00	8.40
9.00	7.80	8.75	8.50	7.75	8.65	8.00	8.25	7.75	6.15	8.75	8.75	8.00	9.00	8.75	9.10	8.50	9.00	8.50	8.00	9.50	7.25	7.00	7.50	8.25	7.50	8.75	10.00	8.75	9.50	8.50	8.75	8.61
7.25	6.75	6.75		7.00	7.25	6.00	5.50	5.50		6.00	6.50	6.50	7.75	6.50	8.95	6.50	7.75	5.75	6.75	6.25	5.25	5.25	5.50		5.25	7.50	8.25	6.00	8.50	5.75	7.75	6.86
7.75	7.25	7.00		7.25	7.00	6.25		5.75	5.50	6.00	7.25	6.50	8.00	6.50	6.95	7.00	7.75	6.25	6.75	7.00	5.75	5.50	5.25		6.00	7.50	8.25	6.50	7.50	7.00	6.50	6.97

In 2013, IRR launched coverage of Class B investment yield tracking, and can now report on not only Class A investment criteria trends, but also Class B trends within the national and local marketplaces. While technically still slightly positive in 2014, capitalization rate compression was materially stagnant for Class B Urban and Suburban Multifamily (0 and -3 basis point(s), respectively), while only slightly more positive for Neighborhood Retail (-7 basis points). Given supply activity in the multifamily sector, the stagnation of capitalization rates for Class B assets in the space could represent an inflection point with respect to capitalization rates nationally, and this will be closely monitored by IRR in 2015.

Discount Rates

Real estate investors' required rate of return, or discount rates, incorporate expectations about both property income growth characteristics and inflationary pressures on real investment returns. As the spread between going-in capitalization rates and discount rates rises, it logically becomes more likely that capitalization rates will rise to bring initial prices paid more in line with investors' required longer term investment return rates. Thus, IRR investigates the differential between these two key rates and the trends in these differentials to seek to determine if and when capitalization rate inflection points may be near.

As such, the capitalization rate-discount rate differential is highest for the lodging and multifamily property sectors. Due to the robust growth of revenue per available room (RevPAR) and apartment rental rates, the high differential for these sectors aren't necessarily a cause for immediate concern; however, if macroeconomic shocks stymie travel and new supply deliveries over the next two years put downward pressure on multifamily rental growth rates, there is likely to be upward pressure on capitalization rates for lodging and multifamily assets unless investors' real return expectations are lowered within these sectors over this period. Conversely, the capitalization rate to discount rate differential nationally is lowest within the office sector, indicating that this sector is less likely to face near-term upward pressures with respect to capitalization rate movements. When investigating this key differential regionally, the West region continues to see the highest differential and some of the country's lowest going-in capitalization rates, indicating that over the more moderate term, this region is likely to face upward capitalization rate pressures.

2013-2014 Capitalization Rate Changes (Fig. 5)

	AVERAGE GOING-IN CAP RATE 2014	2013	2013-14 Δ
Urban Multifamily - Class A	5.52%	5.76%	-0.23%
Suburban Multifamily - Class A	5.67%	5.87%	-0.20%
Urban Multifamily - Class B	6.38%	6.38%	0.00%
Suburban Multifamily - Class B	6.50%	6.53%	-0.03%
Regional Mall Retail	6.83%	7.01%	-0.18%
CBD Office - Class A	7.05%	7.37%	-0.32%
Industrial - Class A	7.11%	7.50%	-0.39%
Community Retail Center	7.17%	7.26%	-0.10%
Neighborhood Retail Center	7.33%	7.41%	-0.07%
Suburban Office - Class A	7.43%	7.68%	-0.25%
Flex Industrial	7.79%	8.01%	-0.22%
CBD Office - Class B	7.84%	8.00%	-0.16%
Suburban Office - Class B	8.06%	8.23%	-0.17%
Lodging - Full Service	8.13%	8.31%	-0.17%
Lodging - Lodging Service	8.78%	8.96%	-0.18%

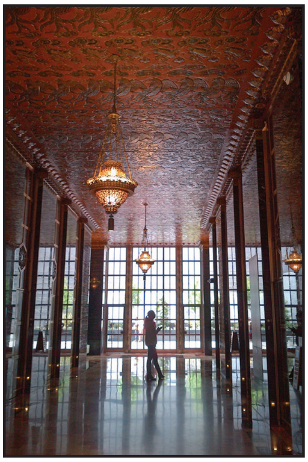
2014 Capitalization Rate Ranks (Fig. 6)

	RANGE	MEDIAN	AVERAGE
Urban Multifamily - Class A	4.00 - 8.00	5.50	5.52
Suburban Multifamily - Class A	4.00 - 7.00	5.75	5.67
Urban Multifamily - Class B	4.50 - 8.75	6.25	6.38
Suburban Multifamily - Class B	4.50 - 8.50	6.50	6.50
Regional Mall Retail	5.00 - 9.50	7.00	6.83
CBD Office - Class A	4.50 - 10.50	7.00	7.05
Industrial - Class A	5.00 - 9.50	7.00	7.11
Community Retail Center	5.25 - 8.55	7.25	7.17
Neighborhood Retail Center	5.50 - 9.00	7.40	7.33
Suburban Office - Class A	5.30 - 9.00	7.50	7.43
Flex Industrial	4.55 - 10.00	8.00	7.79
CBD Office - Class B	5.50 - 11.25	7.75	7.84
Suburban Office - Class B	6.10 - 10.00	8.25	8.06
Lodging - Full Service	5.00 - 10.00	8.00	8.13
Lodging - Limited Service	6.25 - 11.00	9.00	8.78

2014 Discount Rate Ranks (Fig. 7)

	RANGE	MEDIAN	AVERAGE
Urban Multifamily - Class A	5.25 - 9.25	7.25	7.20
Suburban Multifamily - Class A	5.75 - 9.25	7.50	7.43
Urban Multifamily - Class B	6.25 - 9.75	7.90	7.92
Suburban Multifamily - Class B	6.75 - 10.00	8.13	8.08
Regional Mall Retail	6.00 - 10.50	8.50	8.25
Industrial - Class A	6.25 - 10.50	8.25	8.25
CBD Office - Class A	6.00 - 12.00	8.38	8.34
Community Retail Center	5.50 - 10.00	8.50	8.37
Neighborhood Retail Center	6.75 - 10.50	8.50	8.52
Suburban Office - Class A	6.75 - 10.00	8.75	8.65
Flex Industrial	7.25 - 11.00	9.00	8.92
CBD Office - Class B	7.00 - 12.75	9.00	9.12
Suburban Office - Class B	7.50 - 12.00	9.25	9.26
Lodging - Full Service	7.00 - 12.00	10.00	9.93
Lodging - Limited Service	7.50 - 13.50	10.50	10.38

Office

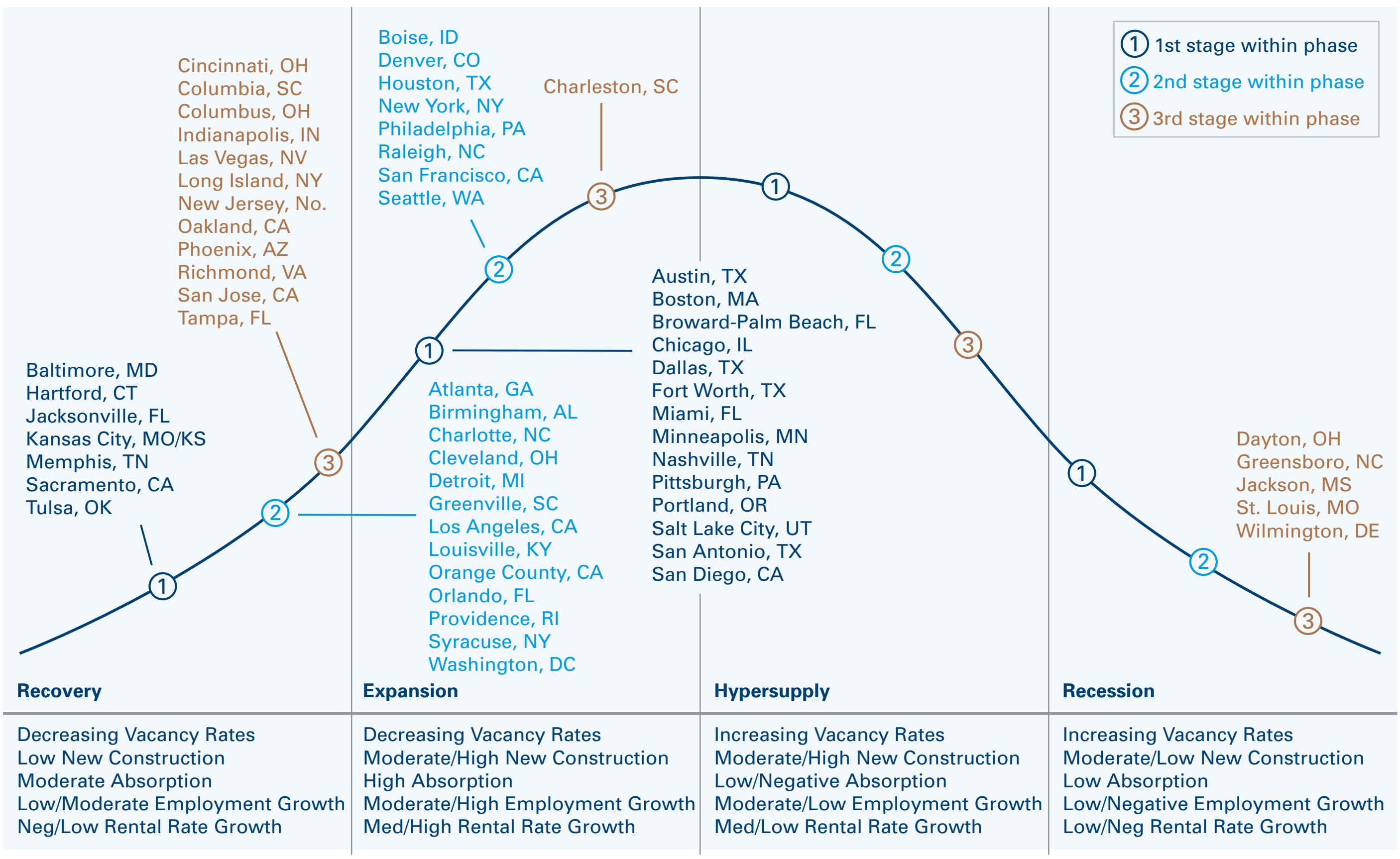


Above: Designed in 1925 in the Art Deco style by architect Timothy Pflueger as the Pacific Telephone and Telegraph Building, 140 New Montgomery Street, San Francisco, CA has been the subject of several IRR-San Francisco assignments.

The office property sector continued its relatively steady recovery in 2014, though the sector continues to lag behind other property sectors in the latest national recovery cycle. IRR's market cycle charts depict more local office markets – both Central Business District (CBD) and Suburban – mired in the recessionary phase and many more still just beginning a recovery. While some office markets have begun expanding, participants in others are being more cautious despite the fact that occupancy rates continue to rise nationally across all office classes (A and B) and locales (CBD and Suburban).

After decades of suburban corporate campus building, a key national trend is the return to new CBD construction. IRR's markets across the U.S. report CBD markets are further along in the recovery process or even expanding again when compared to their Suburban counterparts. In many market areas, the return to favor of the CBD office markets has been attributed to the services industries becoming more technology-focused. The more tech-savvy work force tends to be younger and seems to prefer a more populous work environment and the many social/cultural amenities that are typically developed to cater to this environment – as opposed to the often more sterile environments found in many suburban locales. Transaction volumes in 2014 continued to be robust, with most cities experiencing strong volume increases over five-year historical averages. Activity was notably strong in **Cincinnati** (319%), **Boston** (257%), **Jacksonville** (244%), **San Francisco** (233%), and **Philadelphia** (up 223%). Transaction volumes were down in only a handful of cities, including **Pittsburgh** (-49%), **Seattle** (-36%), **Cleveland** (-15%),

CBD Office Market Cycle (Fig. 8)



2014 Office Market Conditions and 2015 Forecasts: Central Business District (Table 9)

MARKET AREA	CLASS A INVENTORY (SF)	CLASS A VACANCY RATE (%)	CLASS B INVENTORY (SF)	CLASS B VACANCY RATE (%)	CLASS A & B TOTAL INVENTORY (SF)	CLASS A & B WEIGHTED VACANCY RATE (%)	AVG ANNUAL NET ABSORP. 2011-2014 (SF)	FORECAST AVG ANNUAL NET ABSORP. 2015-2018 (SF)	EST CONST. (SF)	EST CLASS A TI ($/SF)	CLASS A & B MARKET RENT ($/SF)	EST MARKET RENT CHANGE (%)	EST EXPENSE GROWTH (%)	CLASS A & B YEARS TO BALANCE*	
Atlanta, GA	11,049,000	19.10%	5,164,000	36.70%	16,213,000	24.71%	-	-	60,000	35.00	21.43	2.00%	2.50%	4	5
Austin, TX	6,415,000	8.00%	2,503,000	11.50%	8,918,000	8.98%	66,750	147,833	601,150	33.00	36.82	3.00%	3.00%	2	3
Baltimore, MD	15,434,000	13.60%	15,642,000	10.50%	31,076,000	12.04%	399,700	342,100	-	40.00	24.59	1.00%	2.50%	3	5
Birmingham, AL	2,833,000	4.90%	2,524,000	11.00%	5,357,000	7.77%	39,000	8,500	-	31.00	19.53	2.00%	3.00%	IB	3
Boise, ID	3,332,955	7.34%	1,686,494	12.91%	5,019,449	9.21%	105,000	112,000	-	45.00	20.49	2.50%	2.50%	IB	1
Boston, MA	37,000,000	10.00%	25,000,000	9.00%	62,000,000	9.60%	1,300,000	1,300,000	500,000	65.00	48.34	4.00%	3.00%	IB	IB
Broward-Palm Bch, FL	12,450,000	14.25%	37,300,000	14.00%	49,750,000	14.06%	400,000	600,000	125,000	30.00	29.50	2.38%	2.50%	1	1
Charleston, SC	1,009,994	6.28%	886,570	7.94%	1,896,564	7.06%	25,000	35,000	180,000	35.00	30.95	2.00%	2.00%	IB	IB
Charlotte, NC	13,368,099	11.40%	3,416,190	15.60%	16,784,289	12.25%	210,000	500,000	800,000	40.00	27.38	3.00%	2.00%	2	4
Chicago, IL	71,000,000	13.80%	46,000,000	17.60%	117,000,000	15.29%	183,333	500,000	2,500,000	50.00	35.43	3.25%	3.50%	2	4
Cincinnati, OH	7,200,000	18.00%	5,000,000	20.00%	12,200,000	18.82%	-	-	680,000	30.00	18.75	2.00%	2.50%	5	8
Cleveland, OH	10,500,000	17.30%	13,700,000	22.80%	24,200,000	20.41%	200,000	250,000	200,000	70.00	19.24	2.00%	2.00%	3	3
Columbia, SC	1,890,000	10.50%	7,460,000	7.50%	9,350,000	8.11%	85,000	125,000	-	30.00	16.61	2.00%	3.00%	1	IB
Columbus, OH	9,500,000	11.00%	11,800,000	8.00%	21,300,000	9.34%	60,000	70,000	300,000	30.00	18.89	2.00%	2.00%	IB	IB
Dallas, TX	22,640,759	25.80%	8,516,346	29.00%	31,157,105	26.67%	60,750	150,000	450,000	38.00	21.42	3.00%	3.00%	5	5
Dayton, OH	1,950,000	20.00%	7,700,000	35.00%	9,650,000	31.97%	-	-	-	-	8.80	0.00%	3.00%	10	10
Denver, CO	20,911,166	13.40%	10,622,747	8.70%	31,533,913	11.82%	375,580	400,000	300,000	30.00	33.99	5.00%	3.00%	1	IB
Detroit, MI	10,500,000	16.00%	16,500,000	19.00%	27,000,000	17.83%	385,000	600,000	-	20.00	21.39	1.00%	2.00%	IB	2
Fort Worth, TX	5,855,897	17.50%	4,407,591	9.20%	10,263,488	13.94%	82,000	44,333	32,000	30.00	25.37	3.00%	3.00%	2	2
Greensboro, NC	5,664,098	16.00%	1,683,149	14.00%	7,347,247	15.54%	150,000	75,000	135,000	20.00	17.91	2.00%	2.00%	3	3
Greenville, SC	2,200,000	14.00%	4,440,000	8.00%	6,640,000	9.99%	200,000	200,000	25,000	30.00	16.49	2.00%	3.00%	3	IB
Hartford, CT	6,550,000	23.00%	1,550,000	23.00%	8,100,000	23.00%	-	-	-	40.00	21.45	0.00%	2.00%	4	4
Houston, TX	31,444,591	10.00%	15,216,208	8.00%	46,660,799	9.35%	638,542	150,000	1,464,268	52.00	33.76	0.00%	1.50%	2	1
Indianapolis, IN	6,305,754	18.70%	3,755,626	17.40%	10,061,380	18.21%	21,000	-	-	25.00	18.90	0.50%	2.00%	4	4
Jackson, MS	2,500,000	15.00%	4,000,000	35.00%	6,500,000	27.31%	50,000	20,000	-	35.00	19.38	0.00%	0.00%	4	7
Jacksonville, FL	7,500,000	17.10%	6,600,000	12.90%	14,100,000	15.13%	150,000	125,000	-	30.00	19.13	1.00%	2.50%	5	6
Kansas City, MO/KS	5,460,000	19.00%	8,540,000	17.00%	14,000,000	17.78%	175,000	50,000	-	25.00	16.66	1.00%	3.00%	3	4
Las Vegas, NV	2,353,502	5.20%	946,341	23.70%	3,299,843	10.51%	216,426	200,000	319,599	55.00	2.41	1.25%	2.00%	IB	5
Long Island, NY	3,423,004	11.70%	4,011,248	12.20%	7,434,252	11.97%	-	-	52,767	30.00	31.26	1.00%	2.50%	3	5
Los Angeles, CA	38,400,000	15.00%	18,940,000	12.25%	57,340,000	14.09%	25,000	75,000	385,000	40.00	33.20	2.50%	2.50%	2	2
Louisville, KY	3,278,484	18.00%	5,040,658	27.00%	8,319,142	23.45%	38,500	50,000	-	30.00	16.39	2.00%	3.00%	2	IB
Memphis, TN	2,000,000	22.00%	4,600,000	10.00%	6,600,000	13.64%	-	-	-	30.00	14.91	1.50%	2.50%	5	11+
Miami, FL	9,250,000	15.10%	6,680,000	19.10%	15,930,000	16.78%	375,000	198,125	175,000	40.00	34.40	3.50%	3.00%	IB	1
Minneapolis, MN	21,200,000	9.30%	12,200,000	14.10%	33,400,000	11.05%	340,000	605,000	-	40.80	23.17	1.00%	2.50%	IB	2
Nashville, TN	3,500,000	4.00%	3,600,000	15.00%	7,100,000	9.58%	100,000	225,000	300,000	30.00	24.46	2.50%	2.50%	IB	2
New Jersey, No.	20,100,000	13.10%	3,800,000	13.20%	23,900,000	13.12%	118,237	300,000	507,481	35.00	31.85	2.50%	3.00%	3	3
New York, NY	204,000,000	10.30%	156,000,000	9.60%	360,000,000	10.00%	3,100,000	2,825,000	2,756,000	60.00	56.73	5.00%	3.00%	3	2
Oakland, CA	8,597,723	10.50%	9,123,383	12.40%	17,721,106	11.48%	8,533	(6,864)	218,051	30.00	28.92	5.00%	3.00%	1	2
Orange County, CA	34,492,855	14.90%	52,875,061	11.00%	87,367,916	12.54%	2,753,463	355,866	119,551	25.00	23.70	0.70%	3.00%	3	1
Orlando, FL	5,551,943	14.70%	2,576,427	19.40%	8,128,370	16.19%	38,750	181,249	348,000	10.00	22.47	2.00%	2.50%	6	6
Philadelphia, PA	37,498,515	11.50%	17,553,076	7.40%	55,051,591	10.19%	-	-	2,396,794	35.00	26.82	6.00%	2.50%	1	2
Phoenix, AZ	9,642,646	14.50%	10,022,554	13.00%	19,665,200	13.74%	1,150,000	700,000	-	30.00	21.21	2.00%	3.00%	1	1
Pittsburgh, PA	22,093,873	6.50%	24,544,509	9.30%	46,638,382	7.97%	200,000	300,000	1,200,000	35.00	20.74	2.75%	2.50%	IB	IB
Portland, OR	11,999,316	9.90%	14,023,037	7.40%	26,022,353	8.55%	143,552	150,000	300,000	50.00	24.44	4.50%	3.00%	IB	IB
Providence, RI	2,225,000	12.25%	2,800,000	16.25%	5,025,000	14.48%	99,000	42,000	205,000	14.00	20.66	2.00%	2.00%	3	3
Raleigh, NC	5,200,000	6.00%	2,100,000	9.00%	7,300,000	6.86%	100,000	250,000	350,000	45.00	23.99	3.00%	3.00%	IB	IB
Richmond, VA	6,400,000	9.10%	10,600,000	14.20%	17,000,000	12.28%	60,000	75,000	350,000	50.00	17.98	1.00%	2.50%	IB	3
Sacramento, CA	9,178,000	10.90%	5,606,000	12.70%	14,784,000	11.58%	5,000	100,000	-	40.00	26.81	0.00%	2.50%	2	4
Salt Lake City, UT	3,900,000	12.50%	2,300,000	16.50%	6,200,000	13.98%	100,000	125,000	800,000	40.00	28.66	3.00%	3.00%	2	3
San Antonio, TX	1,994,170	8.20%	2,759,870	36.90%	4,754,040	24.86%	38,982	82,005	-	30.00	21.39	3.00%	3.00%	IB	5
San Diego, CA	6,168,645	12.10%	4,577,306	21.30%	10,745,951	16.02%	195,480	150,000	300,000	20.00	27.34	3.00%	3.00%	IB	1
San Francisco, CA	41,419,713	8.60%	12,776,789	6.80%	54,196,502	8.18%	812,423	522,892	5,298,000	40.00	51.39	5.00%	3.00%	IB	IB
San Jose, CA	4,652,865	15.00%	9,793,329	12.70%	14,446,194	13.44%	126,198	88,776	-	30.00	28.27	5.00%	3.00%	2	2
Seattle, WA	34,470,934	11.10%	30,550,983	11.60%	65,021,917	11.33%	650,000	635,000	3,512,534	100.00	32.23	5.50%	3.00%	2	1
St. Louis, MO	5,400,000	17.00%	7,400,000	23.50%	12,800,000	20.76%	30,000	30,000	-	25.00	17.11	1.00%	3.00%	8	8
Syracuse, NY	1,946,000	9.40%	4,289,000	16.60%	6,235,000	14.35%	16,000	4,800	-	30.47	15.88	1.50%	2.00%	1	2
Tampa, FL	4,790,657	11.90%	3,234,461	10.90%	8,025,118	11.50%	335,000	600,000	-	20.00	22.15	2.50%	2.50%	1	1
Tulsa, OK	6,207,000	10.80%	3,982,000	23.50%	10,189,000	15.76%	157,500	123,300	-	38.00	14.34	1.25%	2.50%	1	11+
Washington, DC	90,971,200	11.20%	49,773,500	11.90%	140,744,700	11.45%	1,346,400	1,815,300	2,435,100	75.00	48.80	2.50%	2.50%	3	5
Wilmington, DE	7,200,000	13.00%	5,300,000	20.00%	12,500,000	15.97%	20,000	20,000	-	45.00	20.90	0.00%	3.00%	7	11+
Totals/Simple Avgs:	1,001,970,358	12.94%	775,993,453	15.69%	1,777,963,811	14.23%	18,061,099	16,627,215	30,681,295	34.72	24.96	2.17%	2.47%	2.2	3.2
Weighted Averages:		12.23%		13.03%		12.58%					23.74				

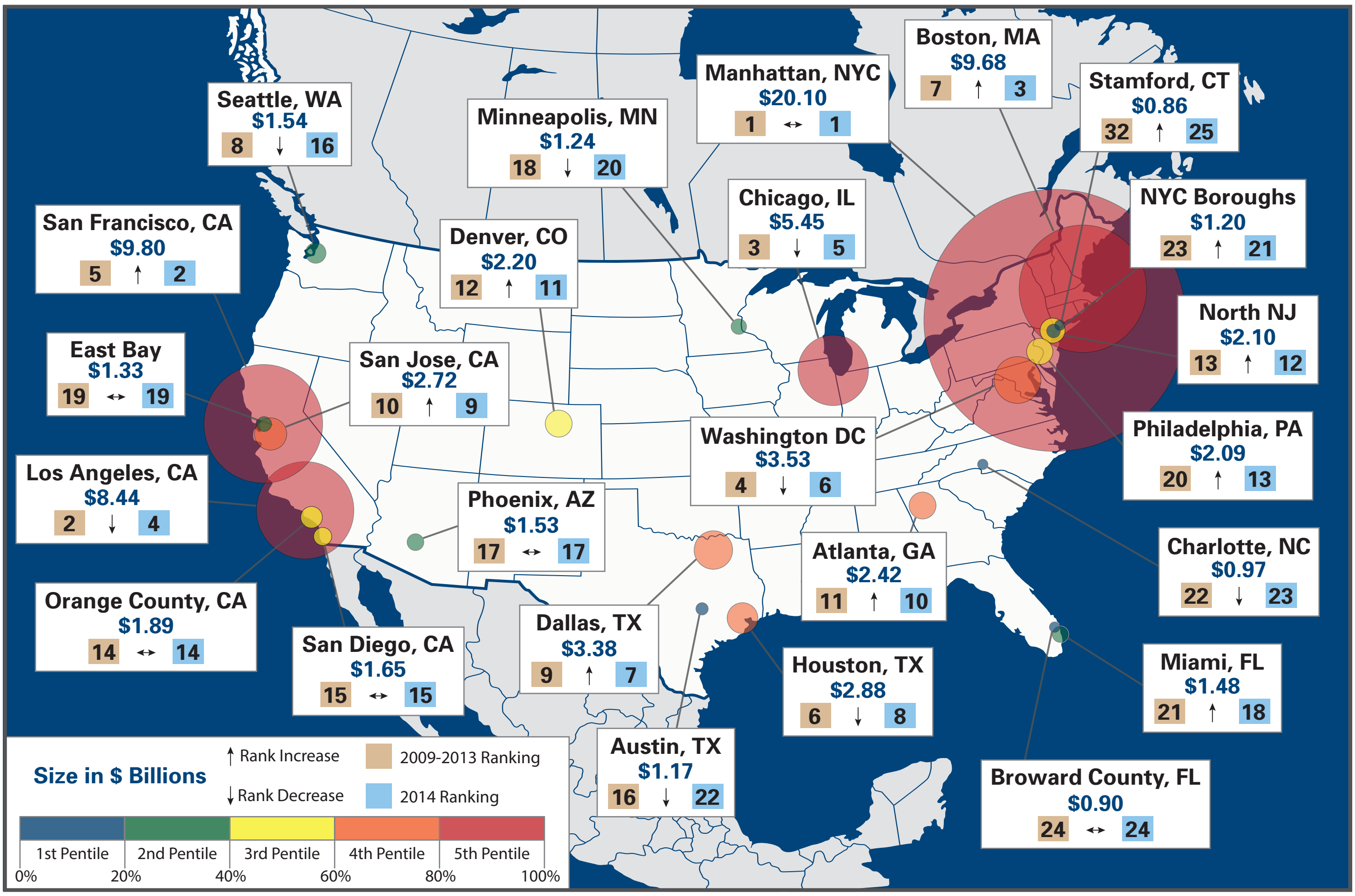
"IB" signifies markets in balance.

Hartford (-6%), and **Richmond** (-5%). In terms of relative market activity sizes, **Philadelphia** jumped upward (seven places, from 20 to 13), while **Boston's** shift (four places, from seven up to three) and **San Francisco's** (three places, five up to two) were more muted but equally impressive given the higher starting basis. In fact, **San Francisco** leapfrogged **Los Angeles** to become the second most active office market in 2014, while **Boston** surpassed **Chicago** and **Houston** to become the third most active for the year.

Pricing trend indicators were somewhat varied and often dependent on some product class differentials within the sample sets, especially for the CBD sector. That being said, material price increases were notable in the Suburban sector in **St. Louis** (59%), the **Inland Empire** (58%), **Jacksonville** (50%), **Palm Beach** (49%), **Austin** (43%), **San Jose** (43%), and **Columbus** (31%).

While developers and investors seemingly prefer the CBD office property sector, property fundamentals for the Suburban office sector strengthened just as much as those in the CBD sector nationally in 2014. CBD office space saw its vacancy rate for Class A product dip from 13.16% (weighted) in 2013 to 12.23% in 2014, while Class B gains were similar – dropping from 13.72% to 13.03%. Weighted Suburban Class A vacancy rates reduced from 15.65% to 14.62% and Class B vacancy fell from 14.72% to 14.25%. These occupancy improvements are deemed by IRR to have brought CBD product within 2.2 years and 3.2 years, respectively, of stabilizing at the current pace for Class A and Class B product types. Suburban product is now expected to stabilize sooner as well, with Class A and Class B product expected to reach equilibrium in 2.1 and 2.9 years. As such, Suburban product is deemed to have progressed toward stabilization at a slightly faster pace than predicted by IRR in 2013, while the pace dropped off slightly from the previous year's expectations for the CBD sector. Notably, these changes in stabilization expectations reversed the trend from the previous few years and indicated that the Suburban office sector nationally is more

Top 25 Markets by Office Transaction Rate (Fig. 10)



© 2014 Integra Realty Resources, Inc. *U.S. Tertiary Markets are excluded* *2014 Transaction Volume is annualized as of 3Q 2014* *Source: Real Capital Analytics, compiled by IRR*

Regional Rates Comparison - Class A Office (Fig. 11)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ	2014 Cap Rate Δ
South Region					
CBD	7.15%	8.40%	7.76%	+ 126 bps	- 42 bps
Suburban	7.62%	8.80%	8.18%	+ 119 bps	- 37 bps
East Region					
CBD	6.80%	7.81%	7.29%	+101 bps	- 27 bps
Suburban	7.37%	8.34%	7.91%	+ 97 bps	- 17 bps
Central Region					
CBD	8.16%	9.39%	8.68%	+ 123 bps	- 23 bps
Suburban	7.95%	9.14%	8.50%	+ 118 bps	- 18 bps
West Region					
CBD	6.23%	7.88%	6.84%	+ 165 bps	- 24 bps
Suburban	6.73%	8.29%	7.30%	+ 156 bps	- 19 bps
National Averages [1]/Spreads					
CBD Office	**7.05%**	**8.34%**	**7.62%**	**+ 129 bps**	**- 32 bps**
Suburban Office	**7.43%**	**8.65%**	**7.99%**	**+ 122 bps**	**- 25 bps**

[1] Non-weighted regional/national average figures

Regional Rates Comparison - Class B Office (Fig. 12)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ	2014 Cap Rate Δ
South Region					
CBD	8.04%	9.22%	8.59%	+ 118 bps	- 22 bps
Suburban	8.23%	9.39%	8.83%	+ 117 bps	- 24 bps
East Region					
CBD	7.80%	8.89%	8.38%	+110 bps	- 14 bps
Suburban	8.13%	9.13%	8.63%	+100 bps	- 21 bps
Central Region					
CBD	8.82%	10.05%	9.34%	+ 123 bps	- 16 bps
Suburban	8.64%	9.68%	9.11%	+ 105 bps	+ 1 bps
West Region					
CBD	6.79%	8.43%	7.38%	+ 164 bps	- 15 bps
Suburban	7.26%	8.80%	7.81%	+ 155 bps	- 19 bps
National Averages [1]/Spreads					
CBD Office	**7.84%**	**9.12%**	**8.40%**	**+ 128 bps**	**- 16 bps**
Suburban Office	**8.06%**	**9.26%**	**8.61%**	**+ 120 bps**	**- 17 bps**

[1] Non-weighted regional/national average figures

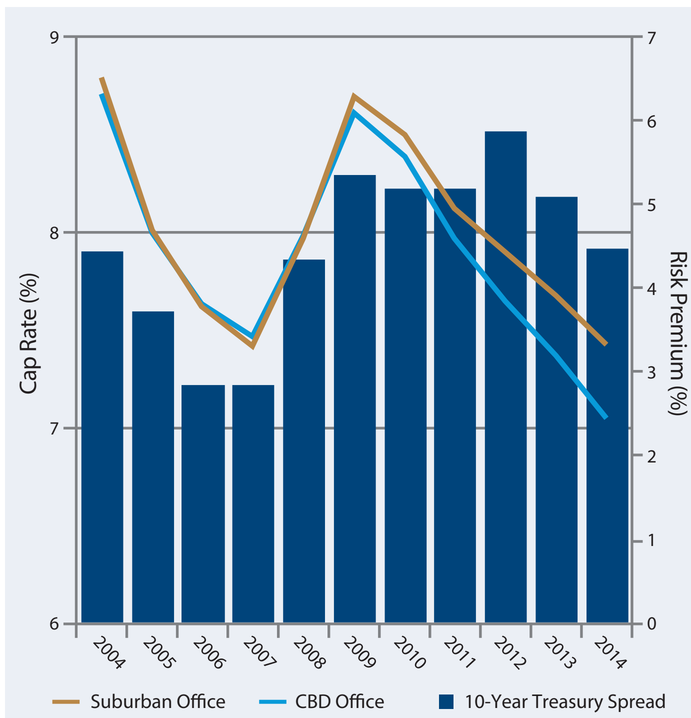
likely to stabilize before the CBD sector, albeit at materially lower rental rates and marginally lower occupancy rates.

In terms of capitalization rates, the office sector's five-year contractionary trend continued in 2014, with CBD capitalization rates dropping at a faster pace than Suburban rates for the third consecutive year. Nationally, CBD cap rates contracted 32 and 16 basis points, respectively, for Class A and Class B product types in 2014. As noted, Suburban rate contraction was more muted at 25 and 17 basis points, respectively, for Class A and Class B assets. These movements brought Class A CBD capitalization rates to an all-time low, while Suburban Class A capitalization rates are approaching their 2007 all-time low. The real estate risk premium for office assets also decreased for the third consecutive year, but still has a long way to go before approaching the lows of 2006-07.

While capitalization rates contracted nationally across product types and region, this trend was not quite universal in either its pace or directionality. Class A capitalization rates contracted at a materially stronger pace in the South than they did in the rest of the country's regions, where the contractionary trend was more muted and similar in nature. For Class B product, the trend was more muted across all regions for CBD product and the Central region even reported the slightest reversal of the contractionary trend with Class B Suburban capitalization rates rising by one basis point. IRR will be closely monitoring this trend in 2015 to see if it is a leading indicator of a shift in market direction or simply an aberration in a moderately sized transaction sample set.

Overall, the office sector continued its recovery at a measured pace. Expectations for the sector remain strong in 2015, though the potential for rising interest rates may put pressures on the sector as companies pare back investment activity. Some of the markets more reliant upon energy employment may also experience a dip in 2015 if energy prices continue to fall, but overall fundamentals and investor demand will remain strong, especially in the CBD sector.

Class A Office Capitalization Rates (Fig. 13)



2014 Office Market Conditions and 2015 Forecasts: Suburban Market Area (Table 14)

MARKET AREA	CLASS A INVENTORY (SF)	CLASS A VACANCY RATE (%)	CLASS B INVENTORY (SF)	CLASS B VACANCY RATE (%)	CLASS A & B TOTAL INVENTORY (SF)	CLASS A & B WEIGHTED VACANCY RATE (%)	AVG ANNUAL NET ABSORP. 2011-2014 (SF)	FORECAST AVG ANNUAL NET ABSORP. 2015-2018 (SF)	EST CONST. (SF)	EST CLASS A TI ($/SF)	CLASS A & B MARKET RENT ($/SF)	EST MARKET RENT CHANGE (%)	EST EXPENSE GROWTH (%)	CLASS A & B YEARS TO BALANCE*	
Atlanta, GA	72,732,000	16.80%	53,450,000	24.00%	126,182,000	19.85%	792,000	2,000,000	1,000,000	25.00	21.76	2.00%	2.50%	4	4
Austin, TX	17,000,000	10.00%	14,134,000	15.00%	31,134,000	12.27%	401,250	894,667	1,878,539	33.00	24.13	3.00%	3.00%	2	3
Baltimore, MD	27,251,000	13.10%	36,111,400	13.70%	63,362,400	13.44%	773,200	860,800	430,000	30.00	23.18	1.00%	2.50%	4	6
Birmingham, AL	5,082,000	12.90%	7,493,000	18.60%	12,575,000	16.30%	-	-	300,000	25.75	18.94	2.00%	3.00%	3	5
Boise, ID	6,491,862	12.20%	8,021,620	13.40%	14,513,482	12.86%	375,000	400,000	250,000	40.00	16.57	2.50%	2.50%	2	2
Boston, MA	57,000,000	16.50%	45,000,000	18.00%	102,000,000	17.16%	2,250,000	3,000,000	1,000,000	25.00	24.47	4.00%	3.00%	2	4
Broward-Palm Bch, FL	18,480,000	15.25%	55,100,000	17.75%	73,580,000	17.12%	104,000	575,000	375,000	25.00	24.38	2.93%	2.50%	2	IB
Charleston, SC	3,689,350	7.43%	4,190,337	12.76%	7,879,687	10.26%	320,000	315,000	346,060	25.00	21.79	0.00%	2.00%	IB	1
Charlotte, NC	24,531,747	12.00%	7,990,606	15.00%	32,522,353	12.74%	300,000	400,000	5,500,000	30.00	19.26	2.00%	2.00%	3	4
Chicago, IL	64,000,000	22.00%	49,800,000	22.80%	113,800,000	22.35%	-	-	500,000	35.00	24.16	2.25%	3.00%	8	10
Cincinnati, OH	10,900,000	19.00%	11,600,000	20.00%	22,500,000	19.52%	80,000	800,000	-	25.00	15.95	2.00%	2.50%	6	10
Cleveland, OH	11,700,000	11.10%	40,900,000	12.70%	52,600,000	12.34%	1,020,000	600,000	200,000	70.00	17.22	2.00%	2.00%	1	3
Columbia, SC	1,050,000	14.00%	23,200,000	8.00%	24,250,000	8.26%	50,000	50,000	85,000	25.00	12.96	1.00%	3.00%	3	IB
Columbus, OH	17,900,000	11.00%	28,000,000	9.00%	45,900,000	9.78%	200,000	250,000	600,000	20.00	17.78	2.00%	2.00%	IB	IB
Dallas, TX	91,168,428	13.16%	112,398,426	14.73%	203,566,854	14.03%	54,031	3,834,750	4,498,403	38.00	22.70	5.00%	3.00%	4	4
Dayton, OH	3,500,000	20.00%	27,200,000	15.00%	30,700,000	15.57%	80,000	90,000	100,000	-	10.96	0.00%	3.00%	4	4
Denver, CO	40,667,461	11.10%	92,016,770	11.30%	132,684,231	11.24%	1,302,491	1,300,000	1,500,000	30.00	21.53	5.00%	3.00%	IB	2
Detroit, MI	60,000,000	17.00%	109,000,000	19.00%	169,000,000	18.29%	1,950,000	1,250,000	150,000	18.00	18.42	1.50%	2.00%	IB	2
Fort Worth, TX	11,301,519	6.45%	36,311,214	12.73%	47,612,733	11.24%	34,938	200,000	1,272,358	30.00	21.02	3.00%	3.00%	2	3
Greensboro, NC	9,574,344	14.00%	9,576,653	20.00%	19,150,997	17.00%	200,000	215,000	40,000	20.00	16.75	2.00%	2.00%	1	1
Greenville, SC	3,970,000	7.50%	25,300,000	7.50%	29,270,000	7.50%	250,000	275,000	75,000	25.00	12.27	2.00%	3.00%	IB	IB
Hartford, CT	4,280,000	14.50%	13,625,000	16.00%	17,905,000	15.64%	-	-	100,000	25.00	16.20	0.00%	2.00%	3	3
Houston, TX	85,785,006	10.00%	105,823,140	14.00%	191,608,146	12.21%	2,068,766	1,450,000	16,145,965	27.00	26.82	1.00%	1.50%	IB	1
Indianapolis, IN	10,318,947	17.60%	8,230,714	19.80%	18,549,661	18.58%	311,000	240,000	235,847	25.00	17.98	1.50%	2.00%	3	4
Jackson, MS	4,000,000	10.00%	9,000,000	15.00%	13,000,000	13.46%	250,000	100,000	75,000	35.00	21.46	0.00%	0.00%	IB	1
Jacksonville, FL	9,200,000	6.50%	23,950,000	13.10%	33,150,000	11.27%	550,000	575,000	500,000	20.00	17.83	2.00%	2.50%	1	3
Kansas City, MO/KS	11,781,000	11.00%	23,809,120	11.60%	35,590,120	11.40%	310,000	325,000	375,000	25.00	18.51	3.00%	3.00%	1	2
Las Vegas, NV	8,677,385	26.28%	31,032,943	25.66%	39,710,328	25.80%	209,838	200,000	851,896	47.50	1.98	2.75%	2.00%	6	6
Long Island, NY	15,599,309	12.31%	18,229,253	15.70%	33,828,562	14.14%	65,247	-	35,178	30.00	29.61	1.00%	2.50%	3	5
Los Angeles, CA	176,700,000	15.00%	135,700,000	14.50%	312,400,000	14.78%	1,743,000	1,610,000	750,000	30.00	30.96	2.00%	2.50%	2	2
Louisville, KY	5,228,936	13.00%	8,769,859	18.00%	13,998,795	16.13%	95,000	42,000	50,000	30.00	15.99	3.00%	3.00%	IB	IB
Memphis, TN	9,600,000	8.00%	22,100,000	12.00%	31,700,000	10.79%	775,000	250,000	500,000	35.00	17.67	2.25%	2.50%	1	5
Miami, FL	17,250,000	17.80%	56,200,000	12.50%	73,450,000	13.74%	550,000	621,875	300,000	25.00	25.44	3.00%	3.00%	1	IB
Minneapolis, MN	16,650,000	10.90%	53,400,000	15.10%	70,050,000	14.10%	500,000	700,000	240,000	35.70	18.28	0.50%	2.50%	1	2
Naples, FL	2,597,750	16.70%	24,502,802	11.80%	27,100,552	12.27%	260,000	350,000	300,000	15.00	15.05	1.00%	3.00%	2	2
Nashville, TN	10,500,000	7.00%	11,500,000	13.00%	22,000,000	10.14%	150,000	225,000	500,000	23.00	21.39	2.50%	2.50%	IB	2
New Jersey, Coastal	5,695,000	14.00%	21,532,000	13.75%	27,227,000	13.80%	90,000	150,000	275,000	30.00	18.38	1.50%	2.75%	3	3
New Jersey, No.	137,700,000	18.10%	197,500,000	13.90%	335,200,000	15.63%	809,294	600,000	692,519	30.00	23.14	2.50%	3.00%	5	7
New York, NY	10,296,538	21.40%	12,584,658	19.40%	22,881,196	20.30%	-	-	385,000	30.00	33.11	0.00%	2.00%	5	7
Oakland, CA	18,085,514	12.10%	77,155,251	13.30%	95,240,765	13.07%	504,571	255,884	157,842	20.00	23.71	5.00%	3.00%	2	2
Orange County, CA	10,477,325	14.10%	33,015,209	10.90%	43,492,534	11.67%	1,376,731	711,734	44,811	25.00	25.03	1.30%	3.00%	3	1
Orlando, FL	19,732,343	16.00%	45,721,257	11.70%	65,453,600	13.00%	48,000	376,763	150,000	5.00	18.76	2.00%	2.50%	7	7
Philadelphia, PA	92,369,385	13.40%	156,626,820	11.60%	248,996,205	12.27%	1,042,557	1,250,000	1,109,503	30.00	21.31	3.00%	2.50%	2	3
Phoenix, AZ	32,054,007	19.00%	86,032,592	19.50%	118,086,599	19.36%	8,750,000	10,000,000	2,500,000	20.00	21.33	2.00%	3.00%	3	2
Pittsburgh, PA	13,247,181	9.10%	36,099,049	8.60%	49,346,230	8.73%	625,000	600,000	700,000	25.00	17.34	2.50%	2.50%	IB	IB
Portland, OR	15,667,313	10.10%	22,136,953	7.00%	37,804,266	8.28%	667,091	575,000	600,000	40.00	20.32	3.00%	3.00%	IB	IB
Providence, RI	1,950,000	14.95%	4,600,000	16.95%	6,550,000	16.35%	129,000	72,000	155,000	10.00	16.60	2.00%	2.00%	3	3
Raleigh, NC	25,000,000	10.00%	15,600,000	20.00%	40,600,000	13.84%	200,000	400,000	1,100,000	40.00	21.46	3.00%	3.00%	1	5
Richmond, VA	13,800,000	11.30%	25,300,000	10.50%	39,100,000	10.78%	320,000	225,000	600,000	40.00	14.82	2.50%	2.50%	2	1
Sacramento, CA	17,273,000	13.00%	39,718,000	16.00%	56,991,000	15.09%	925,000	700,000	200,000	30.00	19.93	0.00%	2.50%	4	5
Salt Lake City, UT	7,550,000	7.10%	9,500,000	11.15%	17,050,000	9.36%	2,100,000	900,000	2,500,000	35.00	25.43	3.00%	3.00%	IB	1
San Antonio, TX	7,933,533	9.10%	12,442,971	17.90%	20,376,504	14.47%	168,917	355,355	1,250,000	30.00	22.32	10.00%	3.00%	IB	5
San Diego, CA	27,005,377	10.50%	50,672,751	13.70%	77,678,128	12.59%	1,125,162	700,000	700,000	20.00	29.35	3.50%	3.00%	IB	1
San Francisco, CA	32,459,845	9.00%	73,285,429	7.40%	105,745,274	7.89%	1,243,619	1,258,496	2,570,031	30.00	40.22	5.00%	3.00%	IB	IB
San Jose, CA	18,446,576	8.50%	75,358,783	9.10%	93,805,359	8.98%	2,126,143	1,821,100	3,035,750	30.00	33.85	3.00%	3.00%	IB	IB
Sarasota, FL	2,246,060	9.80%	22,792,879	10.60%	25,038,939	10.53%	118,800	225,000	20,000	20.00	18.19	2.00%	3.00%	1	1
Seattle, WA	23,185,152	10.00%	65,999,510	9.50%	89,184,662	9.63%	930,000	445,000	642,000	50.00	29.85	4.50%	3.00%	IB	IB
St. Louis, MO	16,200,000	9.50%	16,000,000	14.50%	32,200,000	11.98%	2,600	200,000	500,000	25.00	21.52	3.00%	3.00%	2	4
Syracuse, NY	1,810,545	11.80%	3,990,455	8.50%	5,801,000	9.53%	-	-	-	28.90	15.07	1.50%	2.00%	1	1
Tampa, FL	28,146,460	13.20%	62,253,309	14.50%	90,399,769	14.10%	465,000	500,000	400,000	10.00	20.48	2.50%	2.50%	1	1
Tulsa, OK	2,912,000	11.90%	7,283,000	20.26%	10,195,000	17.87%	14,400	42,305	200,000	33.00	14.93	1.25%	2.50%	1	2
Washington, DC	147,141,100	20.50%	109,550,500	18.30%	256,691,600	19.56%	283,310	522,400	3,468,300	50.00	29.16	2.00%	2.50%	5	5
Wilmington, DE	7,100,000	14.00%	11,700,000	11.00%	18,800,000	12.13%	150,000	20,000	100,000	25.00	20.61	1.50%	3.00%	4	7
Totals/Simple Avgs:	1,681,642,298	13.02%	2,637,118,233	14.42%	4,318,760,531	13.72%	42,589,956	46,905,129	65,115,002	28.33	20.91	2.31%	2.58%	2.1	2.9
Weighted Averages:		14.62%		14.25%		14.39%					21.03				

"IB" signifies markets in balance.

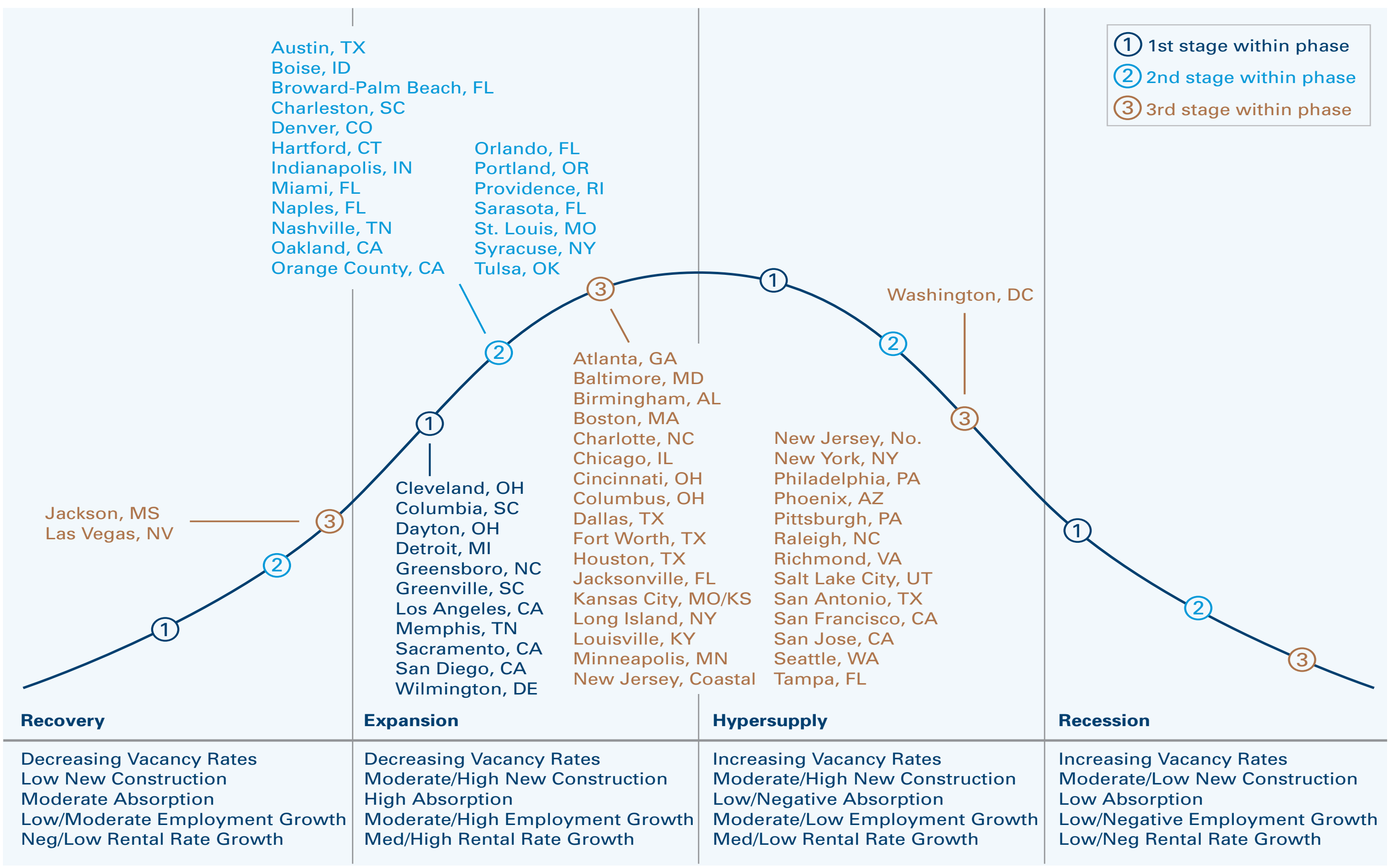
Multifamily

Above: Artist's rendering of MyBrickell, Miami, FL, featured in a major market study published by IRR-Miami/Palm Beach.

The multifamily market sector continues to lead the commercial real estate industry in many respects. First, the multifamily segment remains the most universally expansive major property sector, with 95% of all IRR markets reporting that they are locally experiencing the expansionary phase of the real estate market life cycle. Second, it appears that the multifamily sector may also be the first to show signs of reaching a trough with respect to capitalization rates in the most recent value appreciation cycle, as nationally, average Class B multifamily capitalization rates were virtually unchanged in 2014 from the year prior, which is a departure from the material capitalization rate compression experienced nationally in virtually all other property sectors and classes in 2014.

In terms of underlying operating performance, Class B continued to outpace Class A performance with respect to occupancy in 2014. In fact, this trend actually widened slightly from 2013 to 2014, with the national Class B weighted average vacancy rate remaining virtually unchanged at 4.29%, while the national weighted Class A vacancy rate rose slightly from 4.54% to 4.93% over the same period. It is likely that this slight increase in Class A vacancy rates is the beginning of a modest trend as a substantial amount of new Class A supply comes online.

Multifamily Cycle Chart (Fig. 15)



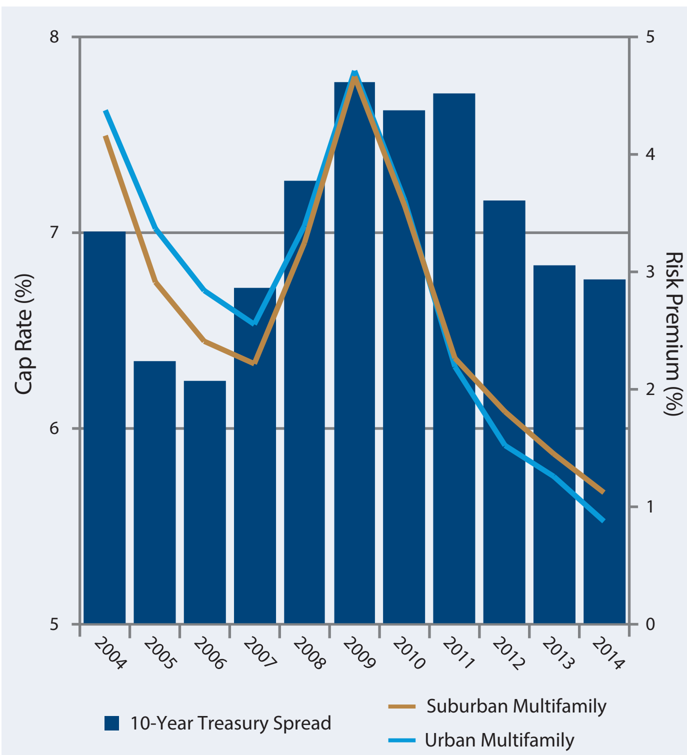
Regional Rates Comparison - Class A Multifamily (Fig. 16)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ	2014 Cap Rate Δ
South Region					
Urban	5.66%	7.28%	6.25%	+ 163 bps	- 34 bps
Suburban	5.89%	7.53%	6.47%	+ 164 bps	- 25 bps
East Region					
Urban	5.40%	6.92%	5.88%	+ 152 bps	- 8 bps
Suburban	5.64%	7.25%	6.20%	+ 160 bps	- 7 bps
Central Region					
Urban	6.27%	7.64%	6.93%	+ 136 bps	- 34 bps
Suburban	6.18%	7.75%	6.91%	+ 157 bps	- 25 bps
West Region					
Urban	4.77%	6.98%	5.33%	+ 221 bps	- 8 bps
Suburban	4.91%	7.16%	5.50%	+ 225 bps	- 17 bps
National Averages [1]/Spreads					
Urban	**5.52%**	**7.20%**	**6.10%**	**+ 168 bps**	**- 23 bps**
Suburban	**5.67%**	**7.43%**	**6.27%**	**+ 176 bps**	**- 20 bps**

[1] Non-weighted regional/national average figures

This will put downward pressure on occupancy and rental rates, and probably lead to greater concessions over the coming 12 to 36 months as these new units are absorbed. Class B units are expected to continue to outperform in terms of occupancy rates through this period; however, the supply challenges in the Class A sector will likely "leak" into the Class B sector as well, mostly in the form of lower rental rate growth expectations. These perceived challenges to continued rent increases in the Class B multifamily

Class A Multifamily Capitalization Rate Trends (Fig. 17)



Regional Rates Comparison - Class B Multifamily (Fig. 18)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ	2014 Cap Rate Δ
South Region					
Urban	6.46%	7.90%	6.85%	+ 144 bps	- 2 bps
Suburban	6.70%	8.16%	7.07%	+ 146 bps	- 8 bps
East Region					
Urban	6.50%	7.81%	7.03%	+ 130 bps	- 1 bps
Suburban	6.60%	8.00%	7.02%	+ 140 bps	- 5 bps
Central Region					
Urban	7.14%	8.43%	7.68%	+ 130 bps	- 16 bps
Suburban	7.09%	8.41%	7.68%	+ 132 bps	- 8 bps
West Region					
Urban	5.50%	7.63%	6.02%	+ 213 bps	+ 7 bps
Suburban	5.63%	7.75%	6.18%	+ 212 bps	+ 2 bps
National Averages [1]/Spreads					
Urban	**6.38%**	**7.92%**	**6.86%**	**+ 154 bps**	**0 bps**
Suburban	**6.50%**	**8.08%**	**6.97%**	**+ 158 bps**	**- 3 bps**

[1] Non-weighted regional/national average figures

sector likely contributed to the stagnation of capitalization rates in the category. Nationally, capitalization rates for Class B Urban product remained unchanged from 2013 to 2014, while Class B Suburban product only experienced a three basis point decrease. While considered as a single factor, capitalization rates remaining stagnant certainly isn't in itself indicative of material market weakness, it does stand in stark contrast to the Class A sector, wherein capitalization rates compressed 23 and 20 basis points, respectively, for Urban and Suburban product. The stagnation of capitalization rates in the Class B multifamily sector also stands in contrast to all other property classes and sectors, with the exception of Neighborhood Retail, which experienced at least a 10 basis point contraction in 2014. Thus, the investment community may be signaling that challenges are expected ahead in many markets with respect to investing in the Class B multifamily space, and therefore caution is warranted.

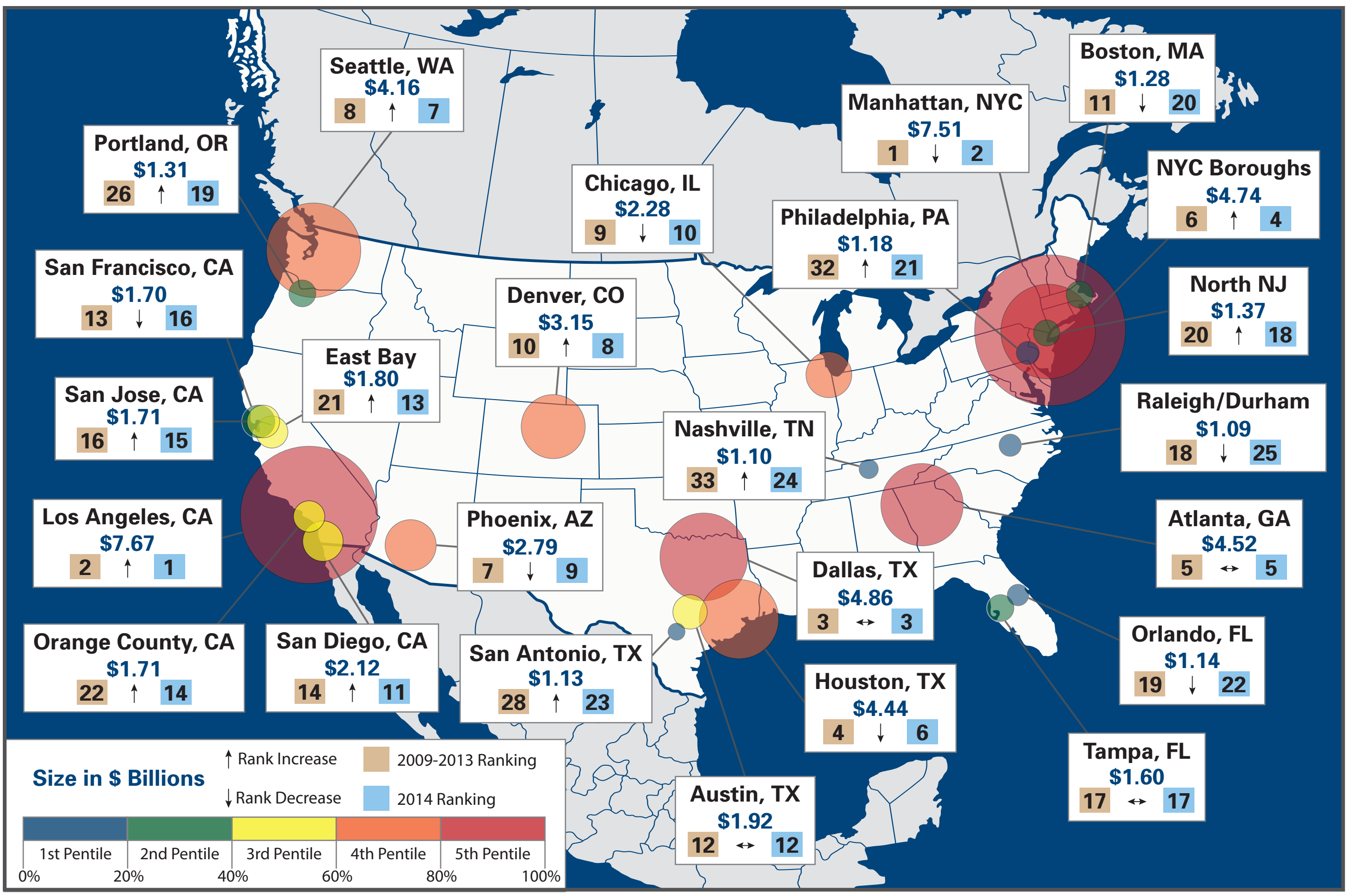
Multifamily capitalization rates remain the tightest in the West and widest in the Central region, though the disparity between these regions tightened slightly in 2014. The South and Central regions experienced the strongest Class A multifamily capitalization rate compression. Only the Central region experienced material capitalization rate compression with respect to Class B multifamily product, indicating that the Class B capitalization rate stagnation wasn't the result of regional differences, which can offset one another, but rather of a wider-ranging and more universal national trend. Meanwhile, the differential between Class A and Class B capitalization rates remained the widest in the East region, while the differential between capitalization rates and discount rates remained widest in the West region. These long-standing trends showed no signs of abating in 2014.

While Class B capitalization rate trends may be raising warning flags, investor appetite for deals in 2014 told a different story, as 2014 is on track to be a record-setting year. When compared to the five-year historical transaction volumes, major market transaction volumes are up the most in **Columbus** (234%), **Seattle** (157.9%), **Philadelphia** (154%), **Nashville** (138%), **Detroit** (125%), **Kansas City** (120%), **Denver** (113%), **Portland** (111%), **Sacramento** (109%), **Orange County** (106.5%), **East Bay** (106%), and **Atlanta** (105%). Many other major markets indicated transaction volume growth in the 40% to 100% range. Meanwhile, transaction volumes stagnated and even declined in the following major markets: **Palm Beach** (3.3%); **Washington, DC** (2.6%); **Boston** (-1.6%); **Broward** (-4.9%); **Charlotte** (-6.1%).

Pricing changes were more muted than transaction volume differences, yet there were some notable increases in the average price per unit paid in certain markets. While many of the pricing changes may be based on statistically insignificant sample sizes, two increases stand out for being indicative of changing market conditions. First, despite the stagnation in transaction volumes, **Washington, DC** saw its mid- and high-rise multifamily prices appreciate 23% based on a very large sample size, providing some reliability that market prices there really did continue to appreciate materially. This is strongly contrasted by prices in **Boston**, which were only up 2% year over year on a similarly large sample size. Second, prices also rose materially in the tech hubs of **Austin** (43%) and **San Jose** (29%), where strong job growth among relatively high-earning work forces has driven up the demand for limited rental inventory, portending potentially strong future rental rate growth in these markets.

While the multifamily sector continued to show many signs of strength, including continued expansionary market behavior, strong occupancy rates, and historically low capitalization rates, the early warning signs of a shift in market dynamics may have reared their heads in 2014. The increases in Class A occupancy rates and the stagnation of Class B capitalization rates are cause for multifamily sector investor concern.

Top 25 Markets by Multifamily Transaction Volume (Fig. 19)



© 2014 Integra Realty Resources, Inc. *U.S. Tertiary Markets are excluded* *2014 Transaction Volume is annualized as of 3Q 2014* *Source: Real Capital Analytics, compiled by IRR*

2014 Multifamily Market Conditions and 2015 Forecasts (Table 20)

MARKET AREA	CLASS A INVENTORY (UNITS)	CLASS A VACANCY RATE (%)	CLASS B INVENTORY (UNITS)	CLASS B VACANCY RATE (%)	CLASS A & B TOTAL INVENTORY (UNITS)	CLASS A & B WEIGHTED VACANCY RATE (%)	AVG ANNUAL NET ABSORP. 2011-2014 (UNITS)	FORECAST AVG ANNUAL NET ABSORP. 2015-2018 (UNITS)	ESTIMATED CONST. (UNITS)	EST MARKET RENT CHANGE (%)	EST EXPENSE GROWTH (%)	EST URBAN A & B YRS TO BALANCE*		EST SUBURBAN A & B YRS TO BALANCE*	
Atlanta, GA	196,150	4.34%	171,000	7.18%	367,150	5.66%	3,350	3,600	6,000	2.50%	2.88%	IB	IB	IB	IB
Austin, TX	99,938	6.66%	73,681	3.32%	173,619	5.24%	4,831	2,965	13,323	3.50%	3.00%	IB	IB	IB	IB
Baltimore, MD	23,870	6.64%	209,110	3.94%	232,980	4.22%	2,842	1,950	1,850	3.00%	2.50%	3	IB	2	IB
Birmingham, AL	17,638	5.29%	26,938	6.07%	44,576	5.76%	715	425	1,200	2.38%	3.00%	1	3	IB	IB
Boise, ID	5,512	4.74%	9,335	3.00%	14,847	3.65%	518	572	1,364	4.00%	3.00%	IB	IB	IB	IB
Boston, MA	87,000	4.29%	120,000	3.29%	207,000	3.71%	6,400	6,400	3,000	2.00%	3.00%	IB	IB	IB	IB
Broward-Palm Bch, FL	62,000	4.38%	93,000	4.15%	155,000	4.24%	11,750	7,136	5,600	2.25%	2.00%	IB	IB	IB	IB
Charleston, SC	-	-	-	-	-	-	2,489	2,485	3,497	3.00%	3.00%	1	IB	2	IB
Charlotte, NC	60,118	5.00%	46,047	4.00%	106,165	4.57%	11,439	16,000	9,031	3.00%	3.00%	3	IB	IB	IB
Chicago, IL	157,000	3.97%	301,500	4.25%	458,500	4.16%	16,300	7,500	7,600	2.63%	3.31%	2	IB	IB	IB
Cincinnati, OH	39,300	4.28%	70,900	4.33%	110,200	4.31%	1,450	2,100	2,000	2.50%	2.50%	IB	IB	IB	IB
Cleveland, OH	31,024	2.44%	80,168	2.56%	111,192	2.52%	665	3,500	3,500	2.00%	2.00%	IB	IB	IB	IB
Columbia, SC	9,100	6.50%	24,300	9.50%	33,400	8.68%	725	675	950	1.00%	2.50%	IB	2	IB	2
Columbus, OH	52,700	4.15%	80,950	3.46%	133,650	3.73%	2,800	2,850	2,750	0.75%	2.00%	1	IB	IB	IB
Dallas, TX	222,928	5.31%	211,637	4.30%	434,565	4.82%	6,595	3,814	9,145	3.50%	3.00%	IB	IB	IB	IB
Dayton, OH	11,100	3.08%	22,400	5.98%	33,500	5.02%	340	390	100	4.50%	3.00%	IB	IB	IB	IB
Denver, CO	27,500	5.00%	315,000	5.00%	342,500	5.00%	4,500	5,000	25,000	3.00%	3.00%	4	IB	2	IB
Detroit, MI	58,000	3.07%	169,500	4.04%	227,500	3.79%	1,200	1,650	3,000	2.25%	2.00%	IB	IB	IB	IB
Fort Worth, TX	82,704	5.30%	80,751	4.10%	163,455	4.71%	2,811	1,217	2,042	3.50%	3.00%	IB	IB	IB	IB
Greensboro, NC	13,877	7.00%	47,141	6.90%	61,018	6.92%	10,000	5,500	2,000	2.00%	2.00%	IB	IB	IB	IB
Greenville, SC	9,475	6.00%	25,200	8.25%	34,675	7.64%	1,450	1,450	700	2.50%	2.50%	IB	IB	IB	IB
Hartford, CT	23,700	2.17%	40,255	3.43%	63,955	2.97%	400	600	500	2.00%	2.00%	IB	IB	IB	IB
Houston, TX	286,830	5.72%	322,450	6.71%	609,280	6.24%	12,355	7,596	7,671	2.00%	2.00%	IB	1	IB	2
Indianapolis, IN	49,170	5.69%	58,300	6.52%	107,470	6.14%	1,200	1,550	1,500	1.25%	2.75%	IB	IB	IB	IB
Jackson, MS	3,300	5.00%	21,000	6.52%	24,300	6.32%	50	50	-	1.00%	0.75%	IB	IB	IB	IB
Jacksonville, FL	19,695	8.45%	52,925	7.79%	72,620	7.97%	1,700	1,600	1,183	1.50%	2.50%	IB	IB	1	IB
Kansas City, MO/KS	51,829	4.91%	68,968	3.42%	120,797	4.06%	2,502	4,100	4,934	3.50%	3.00%	5	IB	5	IB
Las Vegas, NV	66,253	5.68%	71,289	5.50%	137,542	5.59%	2,049	4,770	480	2.25%	2.00%	IB	IB	1	1
Long Island, NY	19,600	3.90%	78,000	2.00%	97,600	2.38%	800	-	600	3.00%	3.00%	IB	IB	IB	IB
Los Angeles, CA	256,250	4.73%	541,600	4.74%	797,850	4.74%	6,114	20,840	12,000	5.00%	2.50%	IB	IB	IB	IB
Louisville, KY	6,336	4.35%	46,219	4.18%	52,555	4.20%	500	500	850	4.00%	3.00%	1	1	1	1
Memphis, TN	25,500	6.65%	40,700	8.93%	66,200	8.05%	1,120	925	2,000	1.75%	2.50%	IB	IB	IB	IB
Miami, FL	36,250	4.19%	77,000	2.55%	113,250	3.07%	5,290	4,300	7,500	4.13%	2.75%	IB	IB	IB	IB
Minneapolis, MN	74,500	2.73%	87,000	2.20%	161,500	2.45%	6,870	2,500	3,500	2.00%	2.50%	IB	IB	IB	IB
Naples, FL	18,094	3.50%	-	-	18,094	3.50%	240	350	800	0.50%	0.75%	x	x	IB	x
Nashville, TN	46,155	5.71%	50,859	2.56%	97,014	4.06%	6,914	1,670	1,966	3.25%	3.00%	2	IB	IB	IB
New Jersey, Coastal	18,897	2.58%	28,550	2.47%	47,447	2.52%	835	350	550	2.50%	2.75%	IB	IB	IB	IB
New Jersey, Northern	44,036	5.29%	170,090	3.67%	214,126	4.00%	2,975	4,400	3,029	3.00%	3.00%	IB	IB	IB	IB
New York, NY	105,384	2.70%	74,775	2.70%	180,159	2.70%	9,200	2,800	3,915	2.00%	1.50%	IB	IB	x	x
Oakland, CA	46,213	3.65%	100,363	2.34%	146,576	2.75%	1,528	1,498	5,693	3.00%	3.00%	IB	IB	IB	IB
Orange County, CA	81,558	3.50%	129,075	1.90%	210,633	2.52%	2,911	1,900	4,238	1.20%	2.13%	x	x	IB	IB
Orlando, FL	61,557	5.70%	65,152	4.10%	126,709	4.88%	1,128	1,375	5,400	1.44%	1.50%	x	x	IB	IB
Philadelphia, PA	85,298	4.54%	74,444	2.31%	159,742	3.50%	2,082	1,985	1,520	3.75%	2.25%	1	IB	IB	IB
Phoenix, AZ	127,427	4.50%	137,622	4.74%	265,049	4.63%	6,400	-	16,747	4.50%	3.00%	IB	IB	IB	IB
Pittsburgh, PA	27,022	4.19%	58,379	2.53%	85,401	3.06%	3,004	1,643	7,400	2.88%	2.50%	IB	IB	IB	IB
Portland, OR	54,632	4.37%	54,511	1.76%	109,143	3.07%	1,685	-	4,500	3.25%	2.75%	IB	IB	IB	IB
Providence, RI	28,000	5.36%	20,000	5.00%	48,000	5.21%	810	950	500	3.00%	2.00%	2	2	2	2
Raleigh, NC	33,400	8.21%	79,700	5.81%	113,100	6.52%	2,550	4,000	9,000	2.00%	2.50%	3	IB	3	IB
Richmond, VA	12,000	9.51%	54,400	5.76%	66,400	6.44%	1,375	1,900	3,000	2.00%	2.50%	IB	IB	4	IB
Sacramento, CA	44,583	5.94%	59,571	4.02%	104,154	4.84%	1,140	1,210	730	3.00%	2.50%	IB	IB	IB	IB
Salt Lake City, UT	122,500	4.34%	-	-	122,500	4.34%	1,500	1,000	4,500	2.00%	2.00%	1	1	2	1
San Antonio, TX	79,710	8.09%	81,000	6.96%	160,710	7.52%	4,500	4,500	6,000	2.38%	3.00%	IB	IB	IB	IB
San Diego, CA	32,558	5.02%	275,871	2.71%	308,429	2.95%	3,351	2,830	4,500	3.25%	3.00%	IB	IB	IB	IB
San Francisco, CA	64,863	3.44%	74,283	1.24%	139,146	2.27%	1,148	370	3,137	4.00%	3.00%	IB	IB	IB	IB
San Jose, CA	63,676	3.65%	52,050	2.21%	115,726	3.00%	3,567	1,829	4,183	3.00%	3.00%	IB	IB	IB	IB
Sarasota, FL	15,931	3.10%	-	-	15,931	3.10%	1,500	1,500	1,500	0.50%	0.75%	x	x	IB	IB
Seattle, WA	65,800	4.31%	179,300	3.28%	245,100	3.55%	6,400	5,300	11,800	3.00%	3.00%	IB	IB	IB	IB
St. Louis, MO	40,840	5.37%	79,780	4.02%	120,620	4.48%	384	450	1500	3.00%	3.00%	2	1	IB	IB
Syracuse, NY	7,970	4.27%	9,750	2.19%	17,720	3.13%	160	180	300	2.00%	3.00%	IB	IB	IB	IB
Tampa, FL	65,872	4.94%	87,630	4.22%	153,502	4.53%	9,430	-	3,154	2.75%	3.00%	1	IB	1	IB
Tulsa, OK	19,982	6.75%	45,282	6.92%	65,264	6.87%	1,120	390	491	4.25%	2.50%	IB	1	IB	IB
Washington, DC	143,238	8.02%	297,409	4.35%	440,647	5.54%	10,228	10,300	10,000	0.63%	2.50%	2	IB	2	IB
Wilmington, DE	10,400	4.75%	30,600	5.43%	41,000	5.26%	75	85	150	3.00%	3.00%	IB	IB	IB	IB
Totals/Simple Avgs:	3,753,743	4.95%	6,054,710	4.36%	9,808,453	4.57%	222,261	181,275	266,573	2.61%	2.54%	.60	.45	.20	.15
Weighted Averages:		4.93%		4.29%		4.54%									

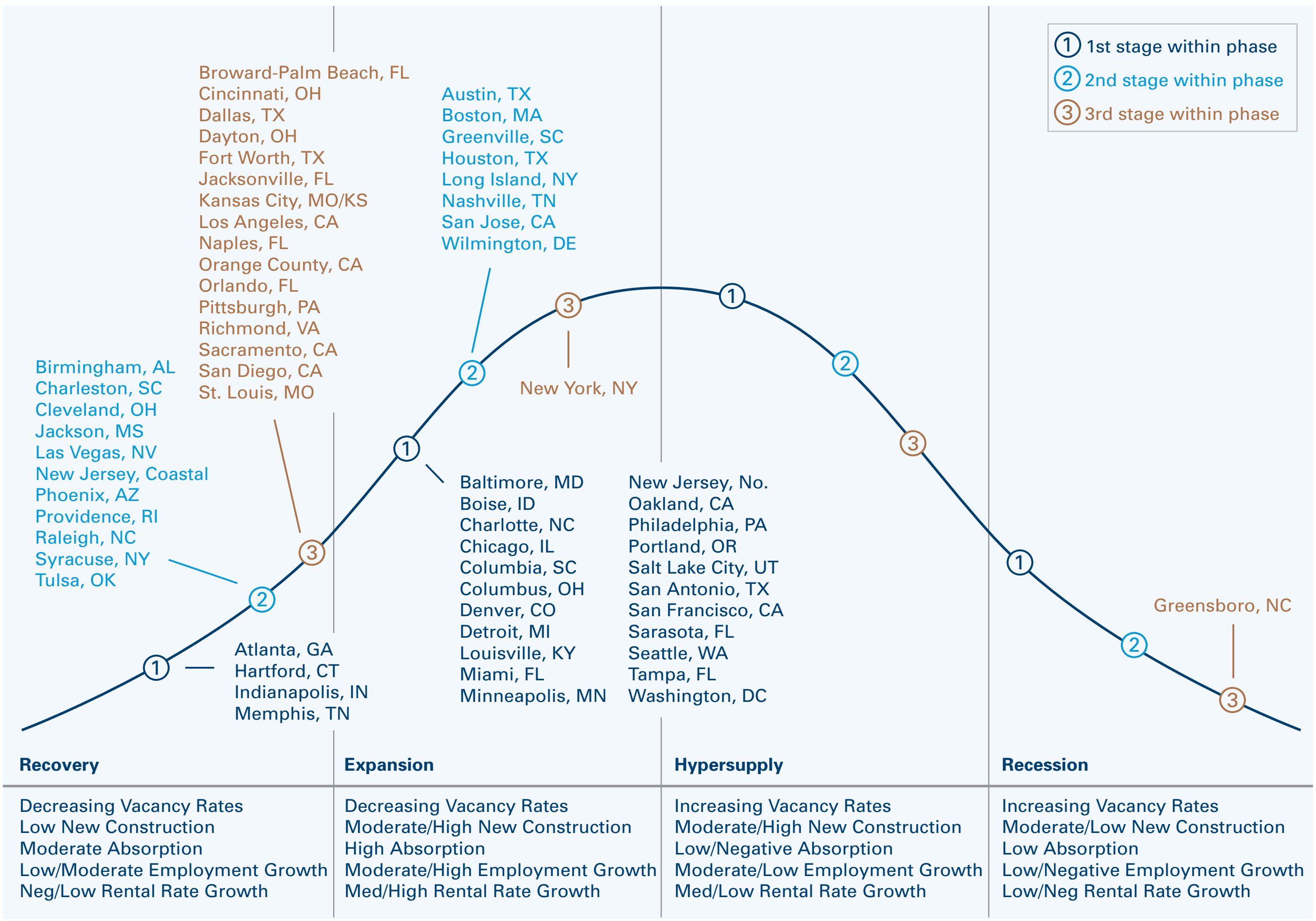
"IB" signifies markets in balance.

Retail

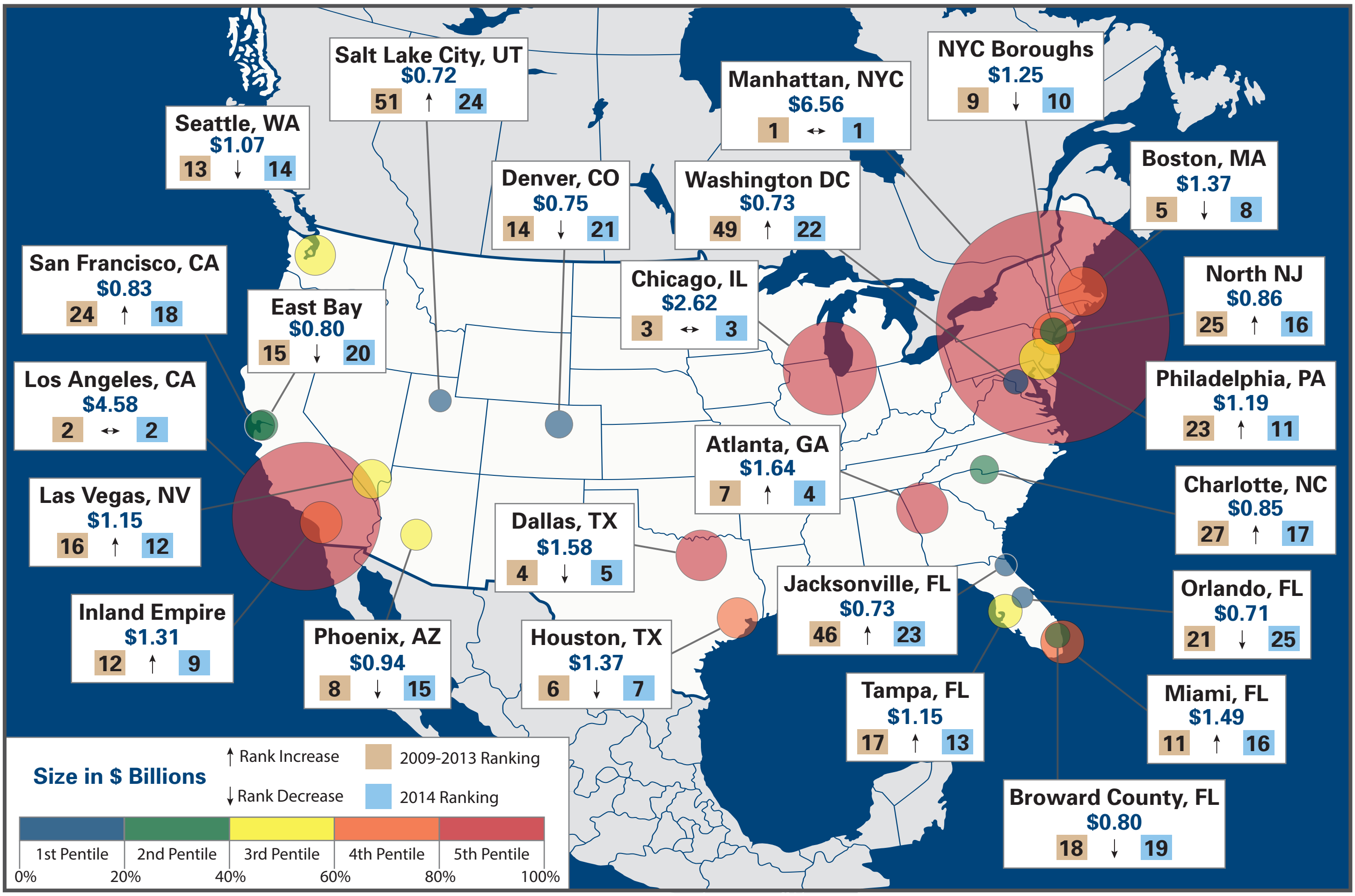
Retail property fundamentals improved modestly in 2014, helping lead more markets from the recovery to the expansion phase of the product life cycle. Capitalization rates continued their recent trend in contracting further nationally; however, there has been material regional variance in this trend, with some areas experiencing widening of rates such that the contractions in others are partially cancelled out when national results are tallied. The pace of capitalization rate contraction also fell off significantly for Neighborhood and Community retail product when compared to Regional Mall product.

In terms of the real estate life cycle, the retail sector lags the multifamily and industrial sectors and barely leads the office sector. As of the end of 2014, nearly half of all IRR markets nationally reported seeing a preponderance of expansionary activity in their local market, which is up by almost 10% from the previous year. Notably, **Atlanta** shifted from a recessionary to an early recovery phase, and several other markets shifted from recovery into the expansionary phases of the product life cycle. New supply appears to be fairly disciplined at this time, with no markets reporting that their local retail dynamics are entering hypersupply at this time.

Retail Market Cycle (Fig. 21)



Top 25 Markets by Retail Transaction Volume (Fig. 22)



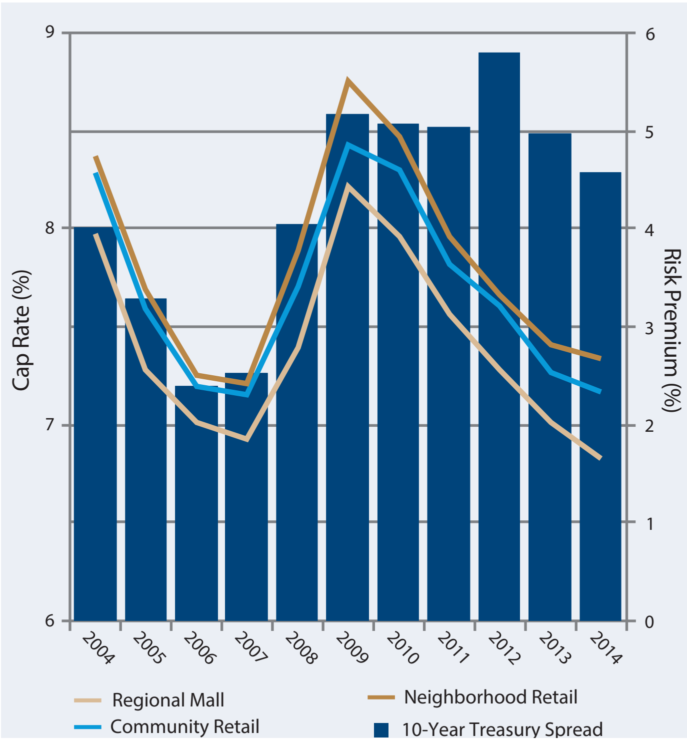
© 2014 Integra Realty Resources, Inc. U.S. Tertiary Markets are excluded 2014 Transaction Volume is annualized as of 3Q 2014 Source: Real Capital Analytics, compiled by IRR

Retail transaction volumes were up materially in 2014 compared to five-year historical averages in several markets such as **Salt Lake City** (621%), **Washington DC** (539%), and **Jacksonville** (375%). Conversely, retail sector transaction volumes were off materially in several markets nationally as well: **Nashville** (-39%); **San Jose** (-30%); **Kansas City** (-20%); **San Diego** (-19%); **Pittsburgh** (-19%); and **St. Louis** (-8%). It should be noted that the comparative paucity of regional mall transaction activity can have a significant impact on overall transaction volume trends with respect to retail, making this metric somewhat less reliable as a gauge of market strength for this property class, but volumes and pricing can still be indicative of important marketplace trends.

Retail transaction prices were up significantly in **Jacksonville** (434%), **Memphis** (172%), **Austin** (78%), and **Indianapolis** (78%). Most of these markets experienced a high-end mall sale in 2014, which skews these figures materially. In contrast, **Richmond** (-23%), **Northern New Jersey** (-20%), and **Philadelphia** (-16%) may be experiencing some headwinds with respect to their retail sectors as gauged by investors' appetite to pay high dollar prices in these markets.

In terms of relative market sizes as measured in 2014 transaction volume, some markets moved up the national rankings fairly precipitously, with **Salt Lake City** (up 27 places to #24), **Jacksonville** (up 23 places to #23), **Washington DC** (up 27 places to #22), **Charlotte** (up 10 places to #17), **Northern New Jersey** (up nine places to #16), and **Philadelphia** (up nine places to #11). Meanwhile, a few markets showed notable declines in their relative market size nationally, with **Phoenix** (falling from #8 to #15), **Miami** (#11 to #16), **East Bay** (#15 to #20), and **Denver** (#14 to #21) most notable for this decline in ranking.

Retail Capitalization Rate Trends (Fig. 23)



Regional Rates Comparison - Retail (Fig. 24)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate ∆	2014 Cap Rate ∆
South Region					
Regional Mall	7.29%	8.76%	7.84%	+ 148 bps	- 18 bps
Community	7.44%	8.64%	7.97%	+ 121 bps	- 19 bps
Neighborhood	7.54%	8.73%	8.08%	+ 119 bps	- 17 bps
East Region					
Regional Mall	6.39%	7.84%	6.84%	+ 145 bps	- 6 bps
Community	6.83%	8.03%	7.34%	+ 120 bps	- 2 bps
Neighborhood	6.95%	8.04%	7.48%	+ 109 bps	- 8 bps
Central Region					
Regional Mall	7.11%	8.23%	7.77%	+ 111 bps	- 36 bps
Community	7.77%	8.73%	8.32%	+ 95 bps	+ 2 bps
Neighborhood	8.16%	9.07%	8.59%	+ 91 bps	+ 16 bps
West Region					
Regional Mall	6.22%	7.79%	6.68%	+ 148 bps	- 30 bps
Community	6.52%	7.91%	7.08%	+ 121 bps	- 12 bps
Neighborhood	6.67%	8.14%	7.18%	+ 147 bps	- 13 bps
National Averages [1]/Spreads					
Regional Mall	**6.83%**	**8.25%**	**7.36%**	**+ 142 bps**	**- 18 bps**
Community	**7.17%**	**8.37%**	**7.70%**	**+ 120 bps**	**- 10 bps**
Neighborhood	**7.33%**	**8.52%**	**7.84%**	**+ 118 bps**	**- 7 bps**

[1] Non-weighted regional/national average figures

In terms of capitalization rates, some very significant trends are noted in the retail sector in 2014. First, while capitalization rates continued to contract across the Neighborhood, Community, and Regional Mall sectors, the pace of the national average cap rate contraction fell off considerably for Neighborhood and Community centers. Looking deeper into the data set, this trend was not universal, but rather a case in which the reversal in the contractionary trends in the Central region and a stagnation of the trends in the East region largely offset strong contractions in the South and West regions to produce a more muted national average rate of contraction. Regional Mall product appears to have been less affected, as most notably observable via the fact that capitalization rates for Regional Malls were seen to contract further by 36 basis points in the Central region but widen across the other two retail property sectors. Also of note, the South region experienced capitalization rate contraction again in 2014 after being the outlier and experiencing widening in 2013. Within the East region, capitalization rate variability also became more muted in 2014, perhaps indicating investors' willingness to explore a greater variety of secondary markets in the region.

Overall, the retail sector experienced another favorable year; however, the success wasn't as universal as in most of the other property sectors. Capitalization rate stagnation in the East and rate widening in the Central region will act as a counterweight to continued improved property fundamentals in these regions and leave values relatively unchanged, while values are expected to continue to appreciate in the West and South regions.

2014 Retail Market Conditions and 2015 Forecasts (Table 25)

MARKET AREA	CR/NR INVENTORY (SF)	CR/NR VACANCY RATE (%)	REGIONAL MALL INVENTORY (SF)	REGIONAL MALL VACANCY RATE (%)	CR/NR AVG ANNUAL NET ABSORP. 2011-2014 (SF)	CR/NR FORECAST AVG ANNUAL NET ABSORP. 2015-2018 (SF)	EST CONST. (SF)	EST CR/NR TENNANT IMPROVEMENT ($/SF)	CR/NR MARKET RENT ($/SF)	EST MARKET RENT CHANGE (%)	EST EXPENSE GROWTH (%)	EST CR/NR YEARS TO BALANCE*	
Atlanta, GA	81,600,000	13.40%	25,900,000	7.00%	405,000	550,000	330,000	13.50	17.44	2.00%	2.50%	2	2
Austin, TX	20,852,000	6.57%	2,532,805	6.00%	193,250	317,250	2,108,816	14.50	20.98	3.00%	3.00%	IB	IB
Baltimore, MD	124,740,000	5.20%	-	-	782,920	821,870	500,000	10.00	17.56	0.00%	2.50%	3	3
Birmingham, AL	12,067,000	13.74%	7,882,938	11.10%	74,000	200,000	415,000	26.00	14.89	2.00%	3.00%	5	3
Boise, ID	8,080,902	7.19%	5,199,187	9.55%	230,000	245,000	150,000	17.50	18.65	2.50%	2.50%	IB	2
Boston, MA	37,350,000	7.54%	-	10.00%	300,000	300,000	420,000	2.00	27.28	3.00%	3.00%	IB	IB
Broward-Palm Bch, FL	169,461,600	9.46%	18,820,700	5.00%	1,125,000	1,310,000	3,400,000	-	21.04	3.20%	2.50%	1	1
Charleston, SC	-	-	-	-	200,000	250,000	100,000	15.00	14.25	3.00%	3.00%	IB	IB
Charlotte, NC	32,421,944	10.69%	8,248,706	2.50%	520,000	300,000	858,887	5.00	16.74	2.75%	3.00%	2	2
Chicago, IL	82,000,000	13.43%	20,400,000	3.50%	350,000	950,000	1,600,000	25.00	19.05	0.00%	2.25%	3	4
Cincinnati, OH	94,100,000	8.85%	16,500,000	8.75%	-	-	10,000	15.00	11.20	2.00%	2.50%	1	2
Cleveland, OH	25,162,400	11.89%	6,121,466	7.50%	118,000	190,000	100,000	-	12.52	1.75%	1.50%	2	2
Columbia, SC	45,005,000	13.93%	5,750,000	14.00%	150,000	150,000	450,000	15.00	10.89	2.00%	3.00%	IB	3
Columbus, OH	25,660,000	8.27%	4,990,000	8.50%	400,000	300,000	300,000	10.00	16.00	2.00%	2.50%	IB	1
Dallas, TX	119,777,561	9.18%	20,718,354	5.00%	583,000	628,750	2,401,046	16.50	16.15	2.50%	3.00%	3	3
Dayton, OH	60,000,000	8.33%	6,000,000	12.00%	50,000	60,000	300,000	7.50	9.00	5.00%	2.50%	2	IB
Denver, CO	94,500,000	7.53%	18,900,000	7.50%	3,552,000	4,500,000	800,000	12.50	16.08	3.00%	3.00%	IB	4
Detroit, MI	147,800,000	10.92%	11,500,000	7.00%	540,000	900,000	1,200,000	6.50	15.21	1.50%	1.75%	IB	2
Fort Worth, TX	61,576,806	9.81%	14,709,985	3.50%	240,750	242,750	299,361	14.50	13.39	2.00%	3.00%	3	4
Greensboro, NC	18,008,560	11.61%	6,887,989	14.00%	100,000	300,000	3,000,000	12.50	14.20	2.00%	2.00%	3	3
Greenville, SC	79,520,000	6.43%	3,685,000	1.00%	675,000	675,000	200,000	10.00	9.72	2.50%	3.00%	IB	IB
Hartford, CT	5,260,000	11.00%	5,100,000	8.50%	200,000	50,000	100,000	15.00	18.00	0.00%	2.00%	4	4
Houston, TX	179,053,253	8.55%	28,578,920	5.30%	683,719	400,000	1,582,491	21.00	15.15	1.50%	1.50%	1	1
Indianapolis, IN	23,800,000	10.67%	8,600,000	7.50%	200,000	200,000	275,000	25.00	23.66	1.75%	2.00%	3	3
Jackson, MS	34,600,000	17.10%	2,600,000	12.00%	33,000	50,000	50,000	22.50	13.50	0.00%	0.00%	2	2
Jacksonville, FL	44,000,000	11.29%	5,600,000	5.40%	207,000	240,000	150,000	4.00	12.39	2.00%	1.50%	2	5
Kansas City, MO/KS	26,415,000	9.77%	-	8.00%	23,000	150,000	800,000	-	13.78	1.50%	3.00%	1	2
Las Vegas, NV	33,573,424	10.50%	5,048,000	-	298,569	400,000	1,191,259	25.00	17.21	0.50%	2.25%	2	1
Long Island, NY	24,000,000	5.33%	8,400,000	7.00%	124,000	294,000	100,000	9.00	23.72	3.00%	3.00%	IB	IB
Los Angeles, CA	380,000,000	5.18%	45,000,000	4.30%	790,703	200,000	1,334,401	10.00	25.09	0.00%	3.00%	1	1
Louisville, KY	17,927,835	12.00%	4,000,000	5.00%	57,670	186,000	500,000	27.50	15.03	2.00%	3.00%	1	1
Memphis, TN	37,750,000	10.83%	4,850,000	17.00%	300,000	300,000	500,000	13.50	11.95	2.25%	2.50%	2	4
Miami, FL	124,795,000	5.14%	13,855,000	1.00%	810,000	995,000	1,750,000	-	25.66	3.00%	2.00%	IB	IB
Minneapolis, MN	18,500,000	4.50%	19,870,000	4.40%	250,000	200,000	40,000	17.85	24.00	1.50%	2.50%	IB	IB
Naples, FL	28,124,906	9.66%	7,209,342	3.30%	183,000	240,000	260,000	20.00	14.15	3.00%	3.00%	1	1
Nashville, TN	54,000,000	6.24%	3,000,000	15.00%	550,000	800,000	500,000	25.00	14.64	2.00%	1.00%	IB	IB
New Jersey, Coastal	36,600,000	7.39%	9,000,000	5.00%	250,000	210,000	825,000	6.50	18.20	2.75%	2.75%	1	2
New Jersey, Northern	295,644,665	6.35%	33,060,039	2.50%	612,927	200,000	259,970	6.50	19.82	3.00%	3.00%	3	IB
New York, NY	53,483,195	3.12%	9,000,000	4.50%	-	-	776,000	11.00	50.03	3.00%	3.00%	IB	IB
Oakland, CA	35,376,938	5.41%	1,640,816	11.50%	250,206	257,544	913,349	20.00	20.89	3.00%	3.00%	IB	IB
Orange County, CA	109,645,830	4.83%	29,590,871	4.45%	258,252	389,312	1,060,630	-	22.11	1.50%	1.50%	2	1
Orlando, FL	33,900,000	12.14%	-	-	285,000	425,000	535,000	5.00	15.51	2.88%	2.75%	1	3
Philadelphia, PA	76,923,029	9.20%	46,141,556	4.90%	363,602	200,000	1,197,460	-	14.15	2.00%	3.00%	1	1
Phoenix, AZ	124,000,000	13.81%	22,800,000	8.00%	1,800,000	4,600,000	1,300,000	10.00	13.23	2.50%	2.50%	IB	1
Pittsburgh, PA	50,400,000	4.60%	16,000,000	3.00%	100,000	100,000	250,000	10.00	19.86	1.00%	2.50%	IB	IB
Portland, OR	27,584,176	8.13%	5,856,243	5.30%	157,704	65,000	300,000	30.00	17.54	2.00%	2.50%	IB	IB
Providence, RI	10,445,000	11.52%	9,400,000	8.95%	133,000	37,000	105,000	5.00	11.92	3.25%	3.00%	3	3
Raleigh, NC	28,859,000	9.32%	6,865,477	2.50%	250,750	511,250	821,206	11.00	14.63	2.70%	3.00%	IB	IB
Richmond, VA	35,000,000	9.00%	8,000,000	3.00%	270,000	250,000	300,000	4.00	14.18	2.50%	2.50%	IB	IB
Sacramento, CA	64,950,000	10.93%	5,579,000	13.30%	680,000	750,000	550,000	10.00	27.61	3.00%	3.00%	IB	4
Salt Lake City, UT	9,000,000	8.33%	4,000,000	7.00%	850,000	900,000	1,000,000	27.50	15.83	2.00%	2.00%	1	3
San Antonio, TX	27,442,824	13.32%	7,436,845	3.90%	335,000	387,000	933,002	17.50	16.36	2.50%	2.50%	3	5
San Diego, CA	32,574,790	6.95%	13,507,570	0.50%	195,870	140,000	300,000	10.00	20.57	2.50%	2.75%	IB	IB
San Francisco, CA	7,451,967	4.12%	1,249,317	0.40%	41,810	18,804	437,746	20.00	33.70	4.00%	3.00%	IB	IB
San Jose, CA	25,703,208	5.25%	1,232,706	3.40%	330,808	281,732	433,053	20.00	27.50	3.00%	3.00%	IB	IB
Sarasota, FL	15,350,813	10.96%	2,778,165	6.50%	85,000	225,000	1,000,000	20.00	13.40	2.00%	3.00%	1	1
Seattle, WA	147,135,535	5.89%	16,669,842	2.30%	375,000	425,000	300,000	3.00	16.92	3.00%	3.00%	3	IB
St. Louis, MO	28,900,000	11.95%	18,000,000	8.00%	110,000	425,000	1,000,000	17.50	15.05	3.00%	3.00%	2	2
Syracuse, NY	5,894,000	14.17%	2,550,048	5.60%	65,000	40,000	400,000	12.50	12.61	2.00%	2.00%	3	1
Tampa, FL	40,095,000	11.02%	-	-	160,000	-	230,000	7.50	14.52	11.05%	2.50%	IB	IB
Tulsa, OK	12,072,000	16.49%	3,000,000	5.00%	-	-	935,000	13.00	11.29	2.50%	2.50%	3	5
Washington, DC	229,724,969	4.70%	-	-	1,381,796	375,000	2,313,444	-	23.80	3.00%	3.00%	IB	IB
Wilmington, DE	27,550,000	7.15%	1,950,000	3.00%	100,000	200,000	50,000	4.00	17.41	3.00%	3.00%	1	IB
Totals/Simple Avgs:	3,963,190,130	9.16%	641,766,887	6.48%	24,741,306	29,308,262	46,602,121	12.47	17.76	2.39%	2.55%	1.2	1.6
Weighted Averages:		8.13%							17.71				

"IB" signifies markets in balance.

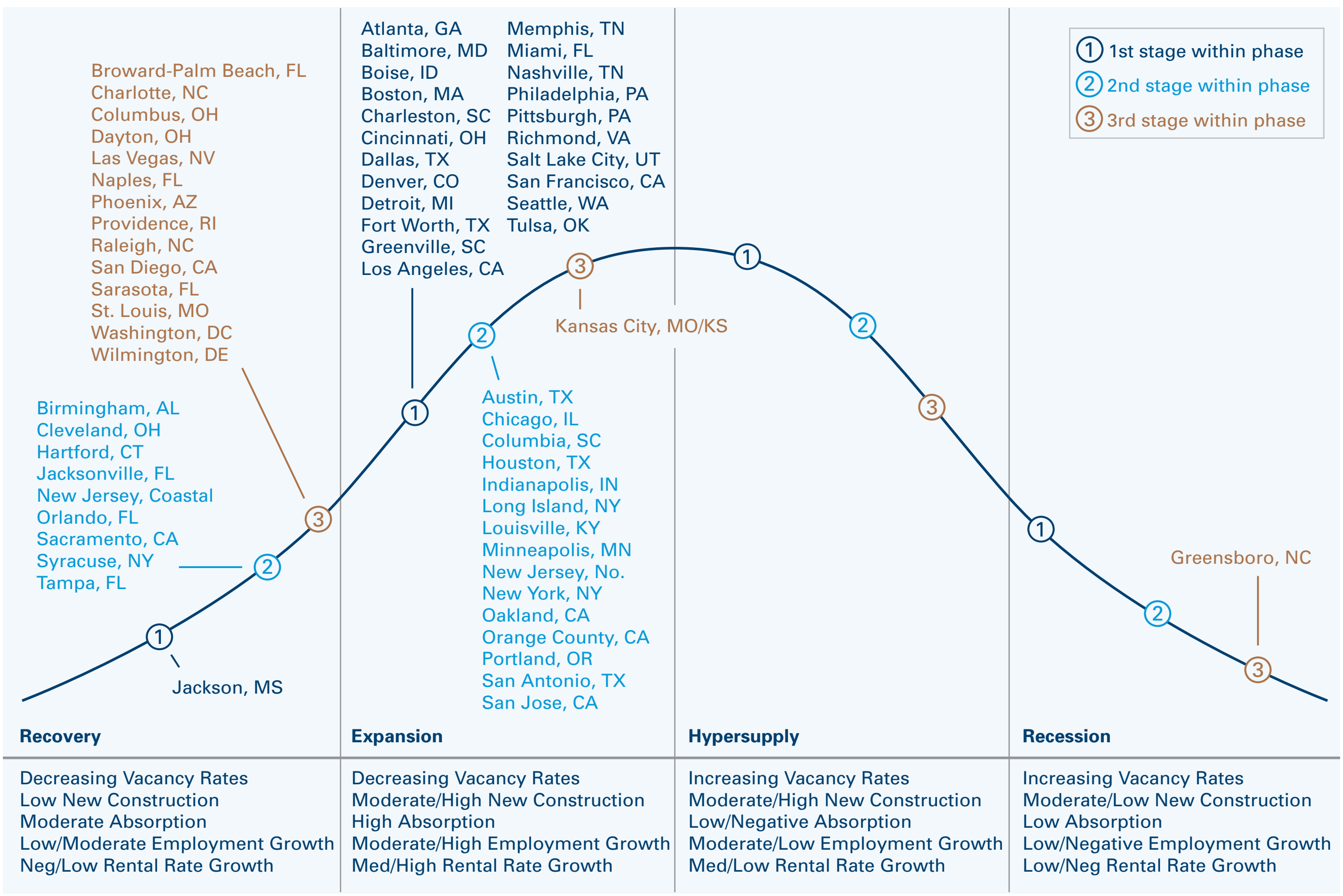
Industrial

The industrial property sector continued to improve along with the national economy in 2014. Industrial occupancy rates rose materially for both Class A traditional Industrial product as well as Flex Industrial product in almost every IRR-surveyed market. Capitalization rates compressed to all-time lows for Class A product and approached their 2007 lows for Flex Industrial, while transaction volumes remained strong nationally.

These positive market dynamics have led to a material increase in the number of markets entering the expansionary phase of the industrial product life cycle, with 60% of IRR-surveyed markets now in expansion phase and only **Greensboro (NC)** still reported to be in a recessionary phase. This is a marked improvement from the 2013 survey period in which only half of IRR's markets across the U.S. reported seeing general expansionary market fundamentals and activity.

Overall, industrial transaction volumes are on pace in 2014 for a significant increase over their five-year historical average volumes. Transaction volumes have been particularly strong in 2014 in the following markets when compared to their five-year averages: **Jacksonville** (409%);

Industrial Cycle Chart (Fig. 26)

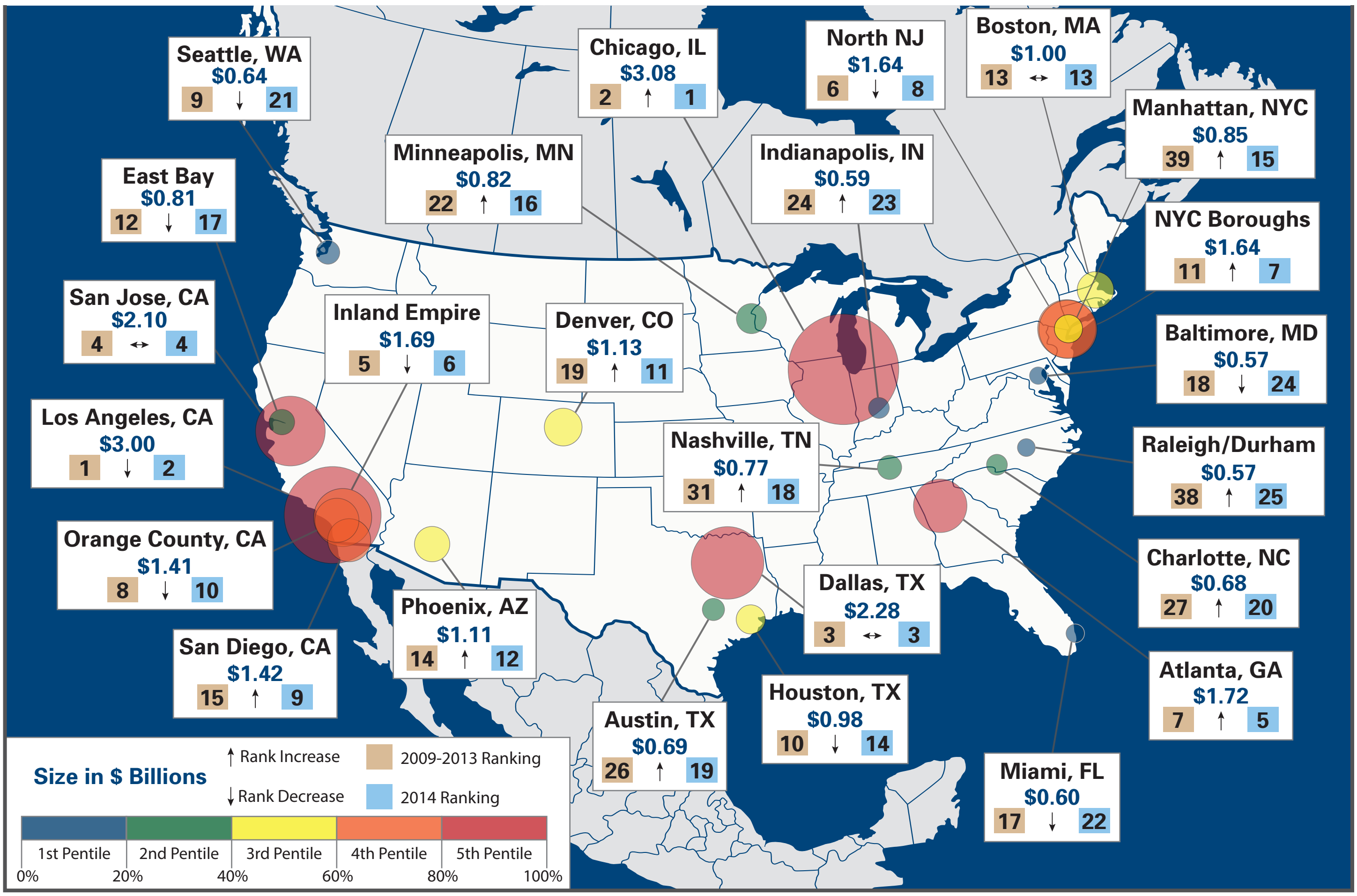


Manhattan (395%); **Richmond** (232%); **Nashville** (229%); **Raleigh** (223%); **Denver** (203%); **Austin** (158%); **Orlando** (151%); **Minneapolis** (143%); **San Diego** (139%); **Indianapolis** (111%); **Cleveland** (110%); **Long Island** (108%); **San Antonio** (101%). Meanwhile, transaction volumes actually decreased significantly over their five-year historical averages in several markets as well, with **St. Louis** (-52%), **Washington DC** (-36%), **Memphis** (-31%), **Broward** (-25%), **Sacramento** (-21%), **Seattle** (-12%), and **San Francisco** (-11%) all experiencing volume declines.

In terms of relative market size rankings, several markets moved up materially in 2014: **Raleigh** (up 13 places to #25); **Charlotte** (up seven to #20); **Nashville** (up 13 to #18); **Denver** (up eight to #11); and **San Diego** (up six to #9). **Manhattan**, not usually known for its industrial product, also moved up significantly from the 39th largest market to the 15th in 2014. Conversely, **Baltimore** (down six places to #24), **Miami** (down five to #22), **Seattle** (down 12 to #21), and the **East Bay** (down five to #17) saw their relative size stature diminish in 2014.

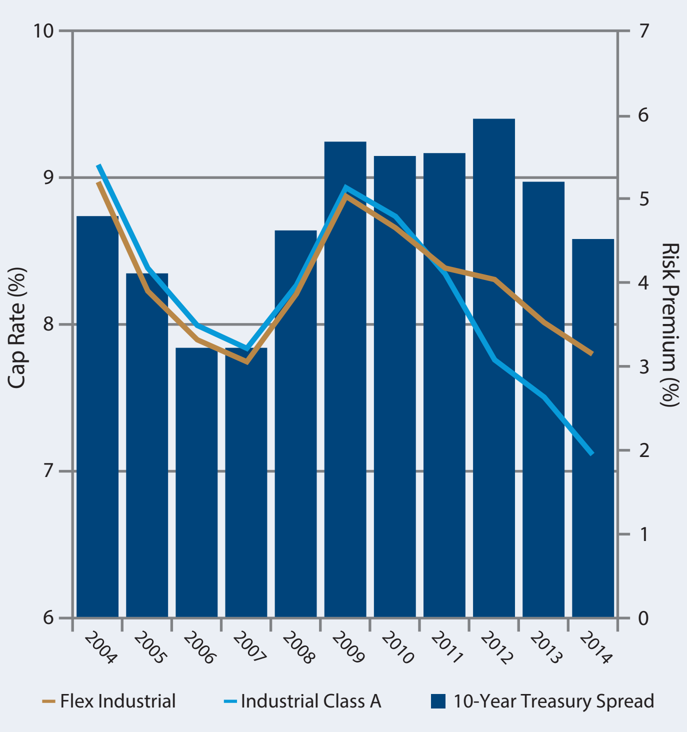
Pricing in the traditional industrial sector saw significant appreciation in many major markets, such as **Manhattan** (191%), **Washington, DC** (115%), **San Francisco** (91%), and **Miami** (63%), while **Cleveland** (78%) and **Detroit** (75%) also showed material signs of price appreciation. Interestingly, while prices were up in **Washington, DC**, **San Francisco**, and **Broward**, the transaction volumes were down in these markets, likely indicating that some investors feel that the 2014 transaction pricing wasn't supportable in the long run, placing downward pressure on the number of investors willing to transact. In contrast, standard industrial product pricing declined significantly in **Philadelphia** (-23%), **Palm Beach** (-21%), and **Hartford** (-21%) without the opposite effect on transaction volumes being noted, indicating that in these markets, pricing has not yet fallen to a level that would stimulate a significant increase in opportunistic buying.

Top 25 Markets by Industrial Transaction Volume (Fig. 27)



© 2014 Integra Realty Resources, Inc. *U.S. Tertiary Markets are excluded* *2014 Transaction Volume is annualized as of 3Q 2014* *Source: Real Capital Analytics, compiled by IRR*

Industrial Capitalization Rate Trends (Fig. 28)



In terms of capitalization rates, the difference between cap rates for traditional Industrial product and Flex Industrial product continued to diverge in 2014. Capitalization rates in the traditional Industrial space compressed much faster than capitalization rates for Flex Industrial product, marking the third consecutive year that such a trend has been noted after nearly a decade of relatively harmonious movements in capitalization rates between the two distinctly different product sectors. The compression in the national average capitalization rate for the traditional Industrial sector caused capitalization rates to reach a new all-time low. The national average Flex Industrial capitalization rates are approaching their all-time lows, which were previously set in 2007 before rates spiked in 2008-09 and recovered, albeit at a slower pace than more traditional industrial product.

Capitalization rate compression in both the Industrial and Flex Industrial sectors was widespread in 2014. All regions nationally reported at least 29 basis points of compression in traditional Class A Industrial capitalization rates, with the South region seeing the most contraction (49 basis points) and the West region not far behind (37 basis points). Capitalization rate compression in the Flex Industrial space was more muted, and ranged from 14 basis points of compression in the West to 30 basis points of compression in the East and Central regions.

Regional Rates Comparison - Industrial (Fig. 29)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ	2014 Cap Rate Δ
South Region					
Industrial	7.44%	8.51%	7.92%	+ 108 bps	- 49 bps
Flex Industrial	8.13%	9.18%	8.56%	+ 105 bps	- 19 bps
East Region					
Industrial	6.84%	7.93%	7.35%	+ 110 bps	- 29 bps
Flex Industrial	7.50%	8.68%	7.88%	+119 bps	- 30 bps
Central Region					
Industrial	7.75%	8.82%	8.25%	+ 107 bps	- 30 bps
Flex Industrial	8.34%	9.34%	8.86%	+ 100 bps	- 30 bps
West Region					
Industrial	6.29%	7.64%	6.84%	+ 136 bps	- 37 bps
Flex Industrial	7.04%	8.36%	7.57%	+ 132 bps	- 14 bps
National Averages [1]/Spreads					
Industrial	**7.11%**	**8.25%**	**7.62%**	**+ 114 bps**	**- 39 bps**
Flex Industrial	**7.79%**	**8.92%**	**8.26%**	**+ 113 bps**	**- 22 bps**

[1] Non-weighted regional/national average figures

Overall, the industrial property sector experienced the strongest improvement in property fundamentals of any property sector nationally. These improved operating fundamentals have helped drive material contraction of capitalization rates almost universally, and have also supported high transaction volumes in many markets. Looking ahead, IRR projects more “smooth sailing” for the industrial sector, with only limited pockets of concern as increased supply begins to affect occupancy rates and then valuations in only a handful of markets over the next 12 to 36 months.

2014 Industrial Market Conditions and 2015 Forecasts (Table 30)

MARKET AREA	CLASS A INVENTORY (SF)	CLASS A VACANCY RATE (%)	FLEX INVENTORY (SF)	FLEX VACANCY RATE (%)	CLASS A AVG ANNUAL NET ABSORP. 2011-2014 (SF)	CLASS A FORECAST AVG ANNUAL NET ABSORP. 2015-2018 (SF)	FLEX AVG ANNUAL NET ABSORP. 2011-2014 (SF)	FLEX FORECAST AVG ANNUAL NET ABSORP. 2015-2018 (SF)	EST CONST. (SF)	EST CLASS A TI ($/SF)	CLASS A MARKET RENT ($/SF)	EST CLASS A MARKET RENT CHANGE (%)	EST CLASS A EXPENSE GROWTH (%)	EST Class A/Flex YEARS TO BALANCE*	
Atlanta, GA	337,000,000	13.80%	50,310,000	17.30%	5,325,000	4,600,000	450,000	530,000	2,500,000	0.50	3.63	2.75%	2.75%	2	IB
Austin, TX	24,703,739	11.20%	15,502,000	11.50%	440,500	645,500	773,000	231,750	622,000	4.00	6.65	2.50%	3.00%	2	2
Baltimore, MD	40,300,000	8.50%	49,670,000	9.70%	1,093,700	1,459,000	1,391,700	244,100	-	4.00	5.20	2.00%	2.50%	2	IB
Birmingham, AL	19,846,145	14.00%	10,120,994	14.00%	120,000	100,000	120,000	-	600,000	3.10	3.25	1.50%	3.00%	5	4
Boise, ID	5,005,457	4.78%	3,724,063	14.50%	465,000	495,000	550,000	90,000	315,000	5.00	6.00	2.50%	2.50%	1	IB
Boston, MA	130,500,000	10.20%	65,500,000	14.50%	2,000,000	800,000	4,100,000	800,000	350,000	0.00	7.25	3.00%	3.00%	4	2
Broward-Palm Bch, FL	54,400,000	7.60%	31,230,000	8.10%	1,420,000	1,850,000	1,770,000	475,000	1,350,000	6.00	4.70	4.00%	2.80%	IB	IB
Charleston, SC	14,853,342	2.80%	35,604,645	7.80%	345,000	200,000	530,000	150,000	2,209,738	5.00	5.50	2.00%	2.00%	IB	IB
Charlotte, NC	34,565,320	7.10%	10,710,656	17.60%	1,166,858	800,000	1,241,448	70,000	5,000,000	1.50	4.29	2.50%	2.50%	3	IB
Chicago, IL	125,000,000	9.00%	74,000,000	16.00%	8,400,000	10,000,000	8,450,000	75,000	7,500,000	2.25	4.40	0.75%	2.00%	3	1
Cincinnati, OH	82,500,000	7.00%	207,000,000	9.50%	2,000,000	2,000,000	2,800,000	900,000	2,600,000	0.00	3.50	2.00%	2.50%	IB	IB
Cleveland, OH	4,596,818	8.00%	24,847,556	9.50%	377,287	375,000	615,772	250,000	250,000	0.00	4.75	5.00%	2.00%	2	2
Columbia, SC	49,300,000	8.75%	6,425,000	7.50%	150,000	200,000	225,000	75,000	150,000	0.00	3.85	0.50%	2.50%	IB	IB
Columbus, OH	24,600,000	12.00%	3,800,000	12.00%	1,000,000	1,000,000	1,065,000	50,000	3,000,000	0.00	2.75	2.50%	2.00%	IB	IB
Dallas, TX	431,283,499	7.07%	105,254,212	9.82%	4,591,340	4,785,000	4,931,682	250,000	10,154,000	4.00	4.07	2.50%	3.00%	2	2
Dayton, OH	8,500,000	8.00%	1,200,000	15.00%	500,000	300,000	800,000	300,000	100,000	10.00	4.00	2.00%	3.00%	2	IB
Denver, CO	11,300,000	3.00%	28,300,000	9.00%	200,000	225,000	265,000	80,000	1,500,000	20.00	6.50	10.00%	3.00%	IB	IB
Detroit, MI	175,000,000	8.00%	110,000,000	11.00%	1,400,000	1,700,000	1,950,000	650,000	350,000	0.00	4.25	2.00%	1.50%	IB	IB
Fort Worth, TX	225,319,818	4.10%	31,231,231	11.77%	1,090,716	3,089,000	1,125,716	75,000	3,290,000	4.00	3.92	2.00%	3.00%	2	2
Greensboro, NC	52,515	13.40%	12,682,223	8.90%	785,000	1,000,000	1,165,000	400,000	918,000	4.00	3.55	3.00%	2.00%	3	3
Greenville, SC	178,300,000	7.50%	10,250,000	15.00%	1,500,000	1,750,000	1,650,000	175,000	500,000	15.00	3.75	2.50%	2.50%	3	IB
Hartford, CT	89,825,000	13.00%	15,250,000	11.00%	-	-	-	-	200,000	0.00	4.50	0.00%	2.00%	3	5
Houston, TX	483,710,713	5.00%	48,862,240	7.50%	5,500,000	7,000,000	6,340,000	1,500,000	7,000,000	5.50	9.00	1.75%	2.00%	2	1
Indianapolis, IN	70,000,000	6.00%	7,000,000	8.50%	2,000,000	3,500,000	2,150,000	150,000	7,500,000	1.75	3.50	2.00%	2.50%	2	2
Jackson, MS	20,240,369	10.00%	2,082,900	9.00%	-	-	2,550	100,000	30,000	2.00	7.00	1.00%	1.00%	IB	2
Jacksonville, FL	25,500,000	7.00%	2,700,000	9.00%	1,275,000	1,300,000	1,363,000	100,000	3,300,000	2.00	4.00	1.50%	2.50%	1	IB
Kansas City, MO/KS	291,000,000	5.00%	12,721,000	10.00%	2,300,000	1,000,000	2,300,000	-	3,400,000	0.00	4.65	1.50%	2.00%	4	2
Las Vegas, NV	108,191,799	10.90%	13,951,664	15.80%	3,777,166	3,500,000	4,273,965	450,000	1,634,910	2.50	6.60	4.25%	1.50%	3	1
Long Island, NY	60,800,000	12.10%	14,600,000	12.30%	200,000	200,000	344,750	174,000	-	1.00	5.67	3.00%	3.00%	3	3
Los Angeles, CA	924,000,000	4.00%	62,000,000	5.75%	6,750,000	9,100,000	6,934,000	540,000	2,500,000	5.00	7.75	2.75%	2.50%	1	IB
Louisville, KY	41,819,577	5.00%	18,322,096	10.00%	750,000	250,000	815,000	150,000	400,000	1.00	3.87	3.00%	3.00%	3	2
Memphis, TN	77,000,000	11.00%	9,400,000	19.00%	6,500,000	7,500,000	6,525,000	35,000	3,000,000	5.00	3.00	1.50%	2.50%	11+	1
Miami, FL	207,950,000	5.40%	17,050,000	7.60%	1,100,000	1,200,000	1,210,000	120,000	1,050,000	0.00	6.20	4.13%	3.25%	IB	1
Minneapolis, MN	113,000,000	6.20%	39,800,000	12.30%	75,000	125,000	190,000	175,000	300,000	1.02	6.15	1.00%	2.00%	2	IB
Naples, FL	37,365,387	5.90%	5,727,582	12.00%	650,000	800,000	875,000	275,000	50,000	0.00	5.25	3.00%	3.00%	2	1
Nashville, TN	36,854,711	13.00%	128,101,429	7.00%	1,050,000	450,000	1,750,000	450,000	-	1.50	3.80	3.00%	3.00%	IB	2
New Jersey, Coastal	31,840,000	8.25%	7,840,000	7.25%	125,000	140,000	155,000	40,000	412,500	3.00	6.35	2.25%	3.00%	2	2
New Jersey, Northern	749,946,051	7.90%	56,577,307	14.70%	2,744,568	3,000,000	2,744,568	-	3,595,578	1.00	5.56	3.00%	3.00%	3	3
New York, NY	191,006,005	4.80%	9,131,520	13.70%	-	-	-	-	268,000	1.00	14.33	3.00%	3.00%	3	3
Oakland, CA	75,469,600	6.90%	57,065,027	14.40%	1,766,488	825,744	2,765,604	592,200	2,170,155	2.00	7.05	4.00%	3.00%	2	IB
Orange County, CA	301,811,847	3.80%	68,689,945	5.20%	624,857	996,500	901,931	498,250	625,950	7.50	8.93	4.00%	4.00%	IB	IB
Orlando, FL	88,831,000	11.00%	23,461,000	10.80%	3,457,000	6,366,000	3,503,667	45,333	1,691,708	0.00	4.57	3.00%	2.50%	IB	5
Philadelphia, PA	941,758,605	8.00%	85,700,596	10.80%	5,835,790	6,000,000	6,229,544	400,000	7,700,000	1.00	5.00	3.00%	2.50%	3	IB
Phoenix, AZ	37,650,653	21.60%	33,491,928	17.80%	4,500,000	4,000,000	4,830,000	390,000	5,500,000	2.00	4.50	2.00%	2.50%	3	3
Pittsburgh, PA	25,950,000	4.00%	13,990,000	8.25%	40,000	50,000	60,000	20,000	1,100,000	1.00	5.75	2.00%	2.00%	IB	IB
Portland, OR	9,774,198	14.00%	17,947,087	12.20%	171,456	200,000	317,467	150,000	1,600,000	0.00	5.37	4.00%	3.00%	IB	IB
Providence, RI	13,400,000	10.00%	10,000,000	9.50%	1,000,000	100,000	1,200,000	150,000	800,000	0.00	4.25	0.00%	2.00%	3	3
Raleigh, NC	18,405,350	9.20%	11,414,944	14.10%	761,662	854,000	1,254,223	500,000	915,070	3.00	4.83	2.50%	2.50%	6	4
Richmond, VA	96,000,000	7.60%	9,800,000	14.30%	1,400,000	600,000	1,535,000	60,000	1,750,000	0.00	3.75	2.50%	2.50%	3	IB
Sacramento, CA	192,492,000	9.80%	22,957,000	17.50%	2,100,000	1,500,000	2,300,000	200,000	1,000,000	2.00	4.20	1.50%	2.50%	5	IB
Salt Lake City, UT	-	4.80%	-	6.25%	2,300,000	2,500,000	3,800,000	1,600,000	1,500,000	5.00	4.80	2.00%	1.00%	3	5
San Antonio, TX	59,263,000	7.30%	7,922,595	7.30%	164,215	110,000	199,748	20,000	377,106	5.00	4.29	2.40%	0.70%	IB	IB
San Diego, CA	1,341,347	3.20%	34,173,059	11.70%	72,310	100,000	561,472	40,000	100,000	5.00	8.25	3.00%	3.00%	IB	IB
San Francisco, CA	19,430,393	5.00%	23,913,222	5.80%	96,625	(9,372)	352,788	53,632	217,000	2.00	12.72	5.00%	3.00%	IB	IB
San Jose, CA	40,441,442	4.10%	108,751,953	11.30%	-	-	-	-	405,949	2.00	8.49	4.00%	3.00%	1	IB
Sarasota, FL	40,881,206	6.20%	3,274,167	10.60%	550,000	550,000	610,000	80,000	275,000	0.00	5.60	2.50%	3.00%	2	1
Seattle, WA	236,000,000	5.05%	27,000,000	10.50%	575,000	1,000,000	615,000	-	3,400,000	50.00	4.80	0.00%	3.00%	5	IB
St. Louis, MO	117,000,000	4.50%	15,500,000	8.50%	1,850,000	3,000,000	1,850,000	-	1,500,000	2.00	4.50	2.25%	2.00%	3	1
Syracuse, NY	6,425,368	4.00%	7,957,970	4.00%	-	-	20,000	25,000	30,000	1.00	4.00	2.00%	2.00%	1	2
Tampa, FL	108,180,000	6.20%	19,537,000	13.70%	808,250	1,195,000	1,005,250	531,000	2,452,038	5.00	4.76	2.50%	2.50%	1	1
Tulsa, OK	69,986,256	6.40%	3,013,337	10.30%	400,000	550,000	500,000	200,000	1,542,000	4.00	4.16	2.00%	2.50%	1	1
Washington, DC	16,503,046	6.50%	74,406,378	13.40%	800,000	400,000	1,300,000	300,000	2,653,494	0.00	7.00	2.00%	3.00%	4	3
Wilmington, DE	5,600,000	9.70%	7,000,000	8.50%	300,000	350,000	320,000	35,000	150,000	1.00	5.75	2.00%	3.00%	4	1
Totals/Simple Avgs:	8,059,571,576	7.86%	2,045,447,526	11.10%	98,740,787	107,676,372	109,973,845	16,020,265	117,355,196	3.53	5.40	2.53%	2.52%	2.1	1.3
Weighted Averages:		7.09%		10.88%											

"IB" signifies markets in balance.

Lodging

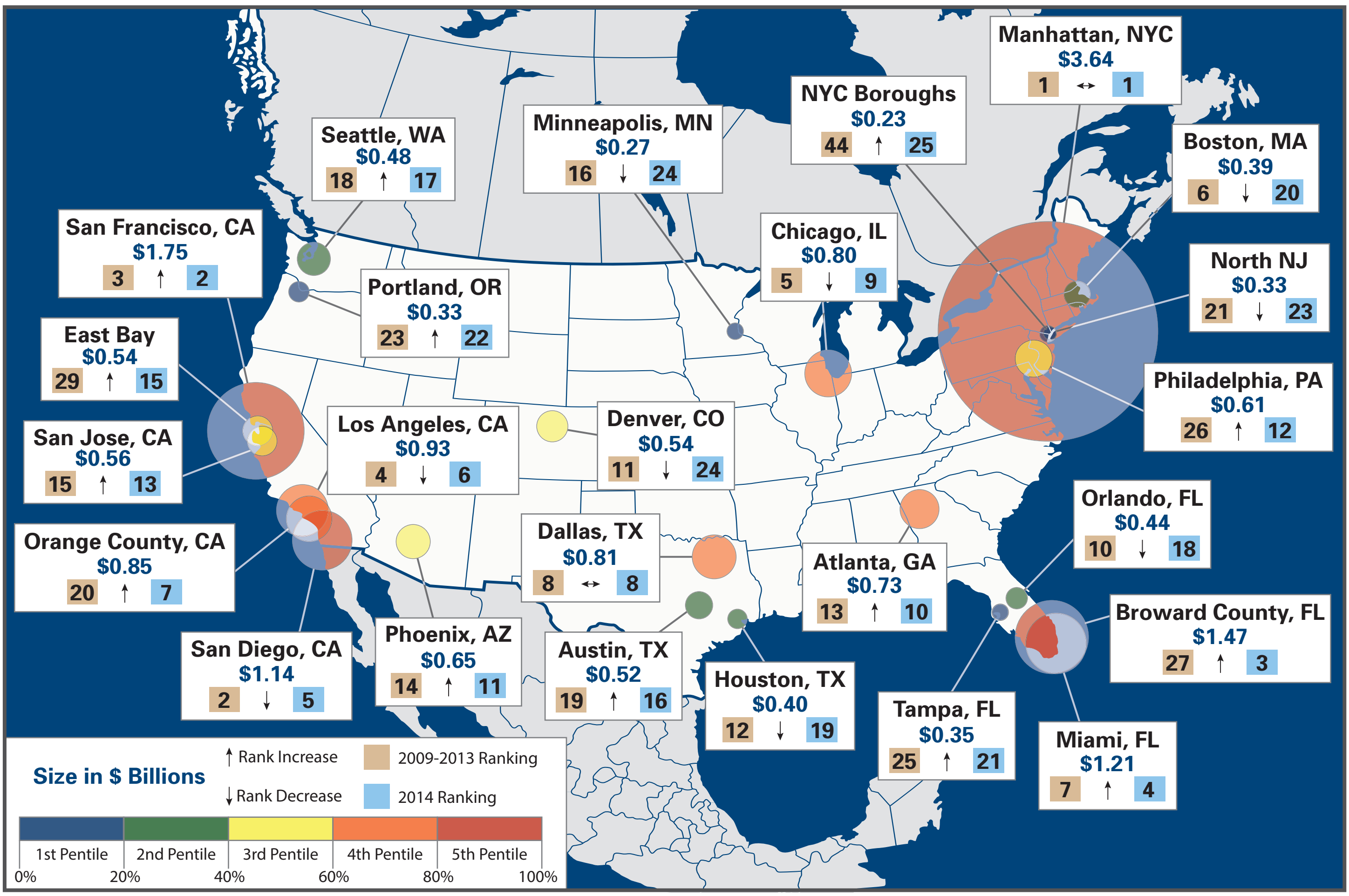
Jeff A. Greenwald, MAI, SRA, ASA, FRICS
Senior Managing Director, IRR-San Diego

Above: Beaches Turks and Caicos Resort, subject of a recent IRR-Caribbean assignment.

The hospitality market has returned to levels last seen prior to the recent recession and is approaching the sector's peak levels, attained in 2006, in almost all performance metrics. The travel and leisure market in the U.S. has grown to almost $500 billion, up $100 billion between 2009 and 2015. Hotels have been riding high on the rebound in both leisure and business travel during 2014. The returning demand has bolstered key fundamentals such as occupancies, average daily rates, and revenues per available room (RevPar). In fact, fueled primarily by substantial increases in Average Daily Rate (ADR), the hotel industry is expected to generate double-digit net operating income (NOI) growth in operations for the fifth consecutive year. The U.S. Hospitality Index posted an average 7.1% quarterly growth over the first three quarters of 2014. The Hospitality Index recovery has been robust, gaining 40.5% from its lowest point at the end of 2009, although it remains 24.2% below its previous peak.

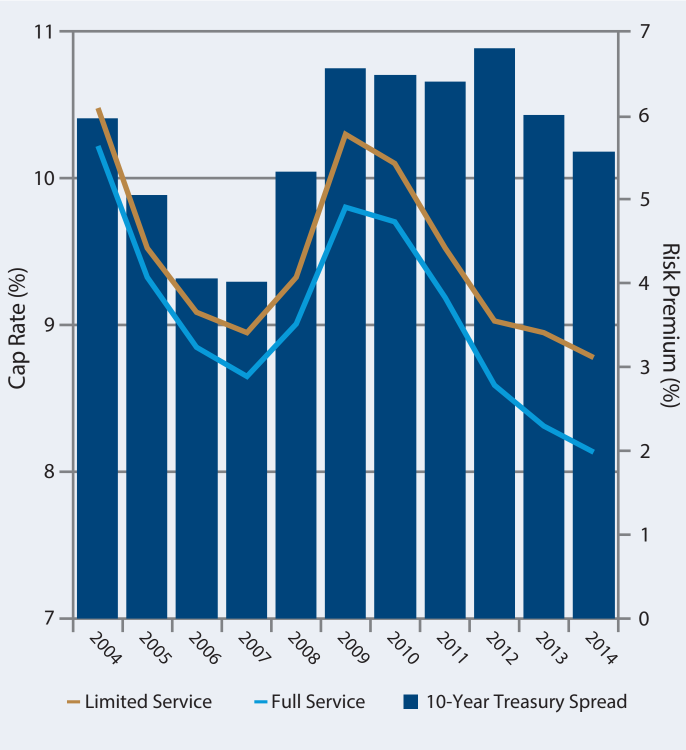
The strong bull market continues to draw capital to the sector as delinquency rates for CMBS loans on hospitality properties are amongst the lowest of all property types. The abundance of capital will likely lead to continued relaxation of lending requirements. Lending specialists expect leverage levels to rise to a 75% LTV and amortization

Top 25 Markets by Lodging Transaction Volume (Fig. 31)



© 2014 Integra Realty Resources, Inc. U.S. Tertiary Markets are excluded 2014 Transaction Volume is annualized as of 3Q 2014 Source: Real Capital Analytics, compiled by IRR

Lodging Capitalization Rate Trends (Fig. 32)



timeframes to extend to 30 years for well-located flagged hotel product. Interest rates for select product could fall to sub-5% to 5.5% levels. With attractive leverage ratios and increasing demand from travelers, urban infill construction can be anticipated.

Almost 66% of IRR markets are currently in supply/demand balance for Full Service hotels and 56% of markets are in balance with respect to Limited Service properties. A full 20% of the remaining markets are not in balance and will take more than two years to achieve equilibrium.

Transaction Volume

Favorable market conditions, including low interest rates, abundant debt and equity capital, lack of product in the development pipeline, and increasing ADR, occupancy, and RevPar continue to drive buyer demand. Transaction volume stood at $21.3 billion through August 2014, up 29% over the same period in 2013. Sales volume is strong across all property types, particularly the Limited Service and Select Service sectors. Clearly, this is a seller's market, as there is a lot more capital chasing deals than there are deals available. Brokers are reporting that quality assets are attracting multiple offers across all property types. IRR offices report that transaction volumes are up substantially in **Manhattan**, **San Francisco**, **Broward County/ Southwest FL**, and **San Diego**. Other markets showing substantial increases based on ranking comparison to their five-year historical average include **Philadelphia**, **East Bay/ Oakland**, **Brooklyn**, and **Orange County**. Markets showing decreases in volume include **Washington DC**, **Boston**, **Inland Empire** (**Riverside**), and **Pittsburgh**.

The most notable transaction in 2014 is Hilton Worldwide Holdings' agreement to sell the iconic Waldorf Astoria New York in midtown **Manhattan** for $1.95 billion to Chinese insurer Anbang Insurance Group. The sale of the 1,232 room hotel was at a staggering $1,582,792/room, the largest ever transaction for a U.S. hotel. The sale is expected to close in December 2014. The sale follows majority owner Blackstone's intention to maximize the value of its investment and to use the proceeds of the sale to acquire other properties. During 2014, **New York City** has experienced an unprecedented 15 hotel sales valued at over $1.97 billion, for an average price of $627,000/room, not including the Waldorf Astoria transaction. Another notable transaction includes NorthStar Realty Finance Corp's acquisition of a $1.1 billion hotel portfolio of extended stay and select service hotels from Inland American Real Estate Trust.

Capitalization and Discount Rates

Capitalization rates continued to exhibit a steady decline across most Full Service and Limited Service properties; they were down 17 basis points for Full Service lodging and 18 basis points for Limited Service lodging properties, year-over-year. The contraction is more pronounced in certain markets. **Miami**, **New York** (**City**), and **San Francisco** have exhibited extremely low going-in capitalization rates (5.00% to 6.70% for Full Service and 6.50% to 7.10% for Limited Service, based on trailing 12-month net operating income streams). Most markets reported a 40 to 88 basis point yield premium, with a national mean of 65 basis points, between cap rates for Limited Service assets when compared to the more institutionally favored Full Service lodging properties.

Capitalization rate forecasts vary across various U.S. markets. Approximately 21% of IRR's markets forecast an increase in capitalization rates in the next 12 months. Another 50% of IRR's offices anticipate that capitalization and discount rates will remain stable over the next 12 months. Finally, 29% of the local markets expect further capitalization rate compression over the next 12 months. The national average Discount Rate across all markets was 9.93% for Full Service properties and 10.38% for Limited Service properties. The mean or average spread between Discount Rates and Capitalization Rates was 180 basis points for Full Service product and 160 basis points for Limited Service product.

Supply, Demand, and Occupancy Rates

The market supply of new rooms has historically been restricted since 2007/2008 due to lack of available financing and diminished demand. While demand has increased by almost 26% since the recession in 2009, the supply has only increased by 5.6% during the same period. The supply of new rooms is accelerating. It increased 1.1% in 2014 and is expected to increase 2.3% in 2015. Demand has clearly turned the corner and is expected to end 2014 with an increase of 2.5%. Experts predict an increase in demand of another 2.6% in 2015. Leisure travel is anticipated to experience the largest gains in 2015, as Americans are expected to spend 8% more on travel accommodations in 2015 and 5% more per trip. Leisure spending by senior travelers is forecasted to rise by 33% in 2015, Millennials by 6%, and families by 5%. National lodging metrics for 2014 are on pace to continue the industry's recovery from the 2007-2008 peak levels.

Regional Rates Comparison - Lodging (Fig. 33)

	Cap Rate [1]	Discount Rate [1]	Reversion Rate [1]	Cap - Discount Rate Δ	2014 Cap Rate Δ
South Region					
Full Service	8.34%	10.31%	8.96%	+ 197 bps	- 33 bps
Limited Service	9.22%	10.82%	9.78%	+ 160 bps	- 22 bps
East Region					
Full Service	7.72%	9.29%	8.27%	+ 157 bps	- 10 bps
Limited Service	8.45%	9.87%	9.05%	+ 142 bps	- 1 bps
Central Region					
Full Service	8.52%	10.16%	9.07%	+ 164 bps	- 40 bps
Limited Service	8.91%	10.48%	9.50%	+ 157 bps	- 32 bps
West Region					
Full Service	7.87%	9.80%	8.30%	+ 192 bps	+ 15 bps
Limited Service	8.27%	10.11%	8.61%	+ 184 bps	- 13 bps
National Averages [1]/Spreads					
Full Service	**8.13%**	**9.93%**	**8.68%**	**+ 180 bps**	**- 17 bps**
Limited Service	**8.78%**	**10.38%**	**9.31%**	**+ 160 bps**	**- 18 bps**

[1] Non-weighted regional/national average figures

Average occupancy rates, nationally, are projected to end 2014 at 63.1%, and increase only slightly by 0.6% to 63.5% in 2015. Based on IRR's survey, occupancy rates for Full Service hotels are the highest in the East at 73% and lowest in the Central Region at 64.5%. Occupancy rates for Limited Service hotels are the highest in the East at 71% and lowest in the South and Central regions, both at 66%.

Average Daily Rate (ADR) and RevPar

The national ADR is expected to end calendar year 2014 with a posted increase of 4.3% to $119.93. RevPar is anticipated to end the year at $76.13, an increase of 4.9% over 2013. The national ADR is expected to post similar gains of 4.2% in 2015, to $125.00. RevPar is projected to increase by 5.7% in 2015, to end the year at $80.47. IRR expects continued upward pressure on ADR and occupancy rates due in part to the expansion of the leisure market. Average occupancy rates, nationally, are projected to end 2014 at 63.1%, and increase only slightly by 0.6% to 63.5% in 2015. The ADR for Full Service hotels is the highest in the East at $163 and lowest in the Central Region at $119. The ADR for Limited Service hotels is the highest in the East at $112 and lowest in the Central region at $88.

Investment Market

IRR sees an expanding and vibrant hospitality investment sector. Approximately 70% of IRR markets are in an expansionary market cycle phase. None of the IRR markets surveyed nationwide indicate a recessionary market condition. The Central and Southern markets are exhibiting the greatest rate of expansion, but these regions have room to grow as they exhibit the lowest ADR and occupancy rates across the country. IRR forecasts over 90% of its markets to see Full Service properties increase in value over the next 12 months. This bullish forecast is less pronounced for Limited Service properties, where 86% of the markets are predicted to experience an increase in hospitality asset values.

Emerging Trends

IRR's hospitality experts note several emerging trends in the sector. The lodging industry is constantly looking for ways to improve the guest experience and several emerging trends are underway. These trends may have immediate, if not long term, effects on the hospitality sector. For example, lodging business from **Medical Tourism** has been growing by more than 25% per year. Following the lead of India's boom in this sub-sector, hotel chains including Hilton, Hyatt, and IHG are now converting existing hotel product and building new product to capitalize on this demand, offering facilities and services including long elevator cabins for stretchers, rooms close to elevators, and customized food and beverage menus to meet dietary requirements of guests. Medical tourism is expected to grow consistently, as it is a year-round business, especially where facilities are located in close proximity to local hospitals.

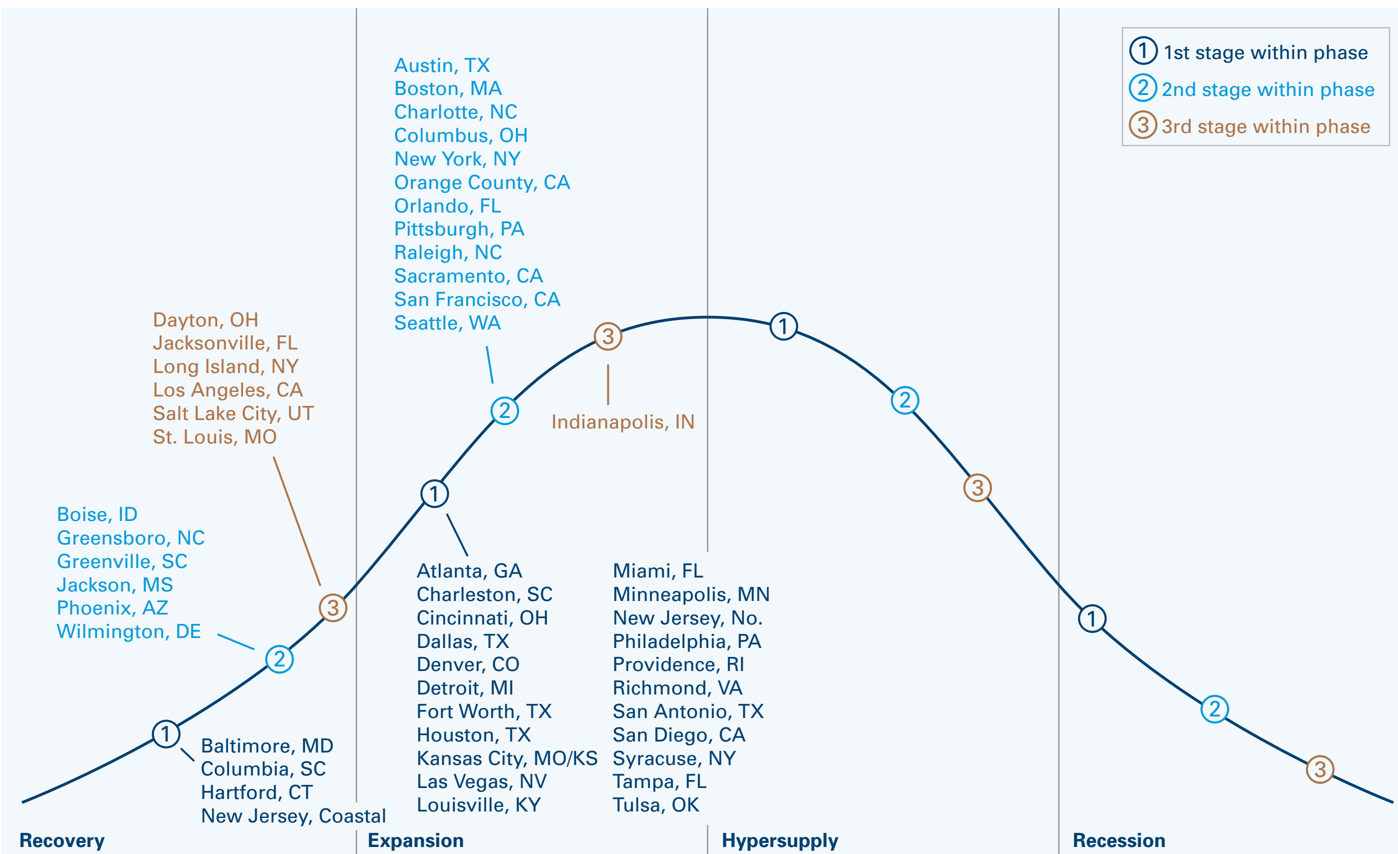
IRR-San Diego's hospitality division recently valued a former Ramada hotel in Tucson, AZ that is being converted to an **assisted living and adult day care facility**. The project is the first of nine planned conversions and was financed using community facilities bonds. This emerging trend is based on investors, developers, and operators seeing opportunities to improve returns on underperforming lodging properties by transitioning them into product for another outperforming sector, Seniors Housing.

Calendar year 2015 will see the launch by Starwood (Elements/Aloft), Hilton (Canopy), Best Western (Vib) and Loews (Original Experiences) into the **"lifestyle hotels"** sub-sector. The concept is to cater to today's Millennial/ Gen Y travelers who are seeking more than just a hotel room in properties that include boutique-like spaces and amenities. Keys to success will be local restaurant fare, craft brewery selections, and high-energy interior design with an emphasis on technology-driven communal spaces serving as active social hubs.

Hotel guests are demanding instant access to information and hotel chains are starting to listen. Starwood has launched a keyless mobile entry program at some of its U.S. hotels. Apps such as iConcierge allow guests to use their smart devices to order room service, extra pillows, or local show tickets. La Quinta allows guests to use televisions as plug-and-play monitors for laptops or iPads. Other trending improvements include hotel operators adding more outlets in the rooms and increased WiFi bandwidth.

Guests are becoming more conscious about the environment and they are showing a strong preference for supporting hotels and businesses that are promoting **sustainability**. People are willing to cooperate with programs to change sheets and towels less frequently and to participate in recycling programs. Hotel management is typically willing to cooperate, since these programs, along with energy-saving climate control and lighting, are capable of yielding large cost savings. We anticipate that the sustainability trend will continue to grow and incorporate additional elements, such as solar installations and better use of water resources.

Lodging Cycle Chart (Fig. 34)



Recovery	Expansion	Hypersupply	Recession
Decreasing Vacancy Rates Low New Construction Moderate Absorption Low/Moderate Employment Growth Neg/Low Rental Rate Growth	Decreasing Vacancy Rates Moderate/High New Construction High Absorption Moderate/High Employment Growth Med/High Rental Rate Growth	Increasing Vacancy Rates Moderate/High New Construction Low/Negative Absorption Moderate/Low Employment Growth Med/Low Rental Rate Growth	Increasing Vacancy Rates Moderate/Low New Construction Low Absorption Low/Negative Employment Growth Low/Neg Rental Rate Growth

Self Storage

By: Steven J. Johnson
Director
IRR – Metro LA

The past year marked new territory for many self-storage markets in terms of operating performance, and ultimately, overall property values. Most markets have gained back the occupancy lost during the recent recession. Therefore, income has reached or surpassed pre-recession levels. Such performance combined with historically low capitalization rates has resulted in record property values.

A barometer of the self-storage industry's performance is found in tracking the four self-storage industry's publicly traded REITs – Public Storage, Extra Space, CubeSmart, and Sovran.

Aggregate REIT Performance - Same Store Operation
Public Storage, Extra Space, Sovran, & CubeSmart (Fig. 35)

Period	Facility Count	Occupancy Change	Revenue Change	Expense Change	NOI Change
3rd Qtr 2013-3rd Qtr 2014	3,156	1.2%	6.9%	1.7%	9.2%
2013	2,888	2.6%	7.5%	2.8%	9.8%
2012	2,859	1.7%	6.0%	-1.4%	9.6%
2011	2,859	1.5%	5.4%	1.5%	7.4%

[1] *Source: Companies' public securities filings*

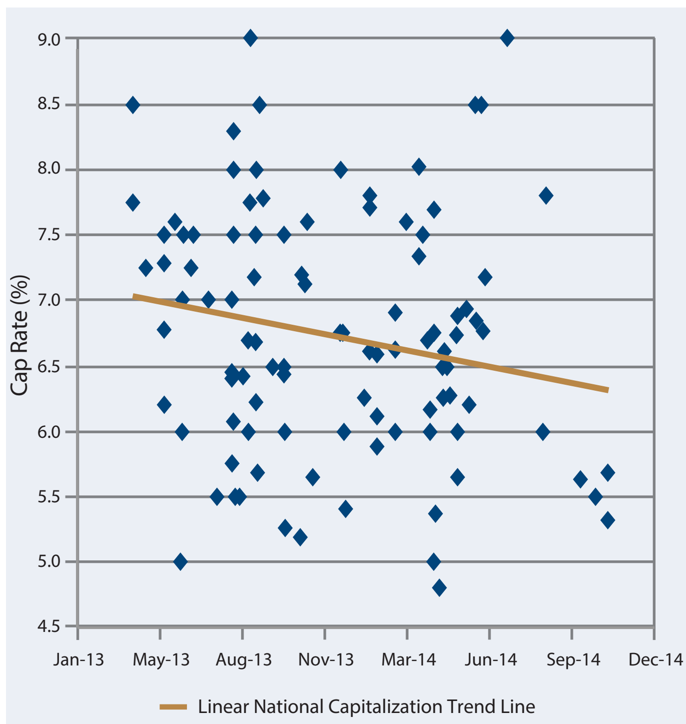
REIT Performance
Notable highlights for the nation's four largest self-storage REITS include consistent annual growth in occupancy and total revenue. All self-storage REITs combined experienced increased square foot occupancy from 86.8% in 2010 to 88.2% in 2011, 89.9% in 2012, 91.6% in 2013, and 93.5% in the third quarter of 2014. Overall revenue growth has been substantial, with escalations ranging from 5.4% to 7.5% annually from 2011 to 3Q 2014. Most notable is the rise in net income across the board. Over the past two years net operating income has risen between 7.9% and 14.7% among all four REITs, with combined annual increases of 9.8% in 2013 and 9.2% in 2014. This is a sign that rental rates are being pushed upward (either by fewer concessions or actual rent increases) due to increased performance.

In the third quarter of 2014, revenue showed continued growth over the prior year of 6.9%. This figure is slightly lower than the prior year's growth (6.9% for 3Q 2014 vs. 7.5% 2013). This is also true in terms of net operating income (9.2% for 3Q 2014 vs. 9.8% for 2013). Expenses appear to have increased slightly from year to year over the prior quarter (1.7%), while expense ratios have decreased 1.5%. The decrease in expense ratios is a factor for the growth in net operating income. A similar trend is occurring at most non-REIT storage facilities that IRR has appraised in 2014. Most that are not following this trend are underperforming and are prime targets for investors.

The industry is performing well at the start of winter, which is typically a period of lower occupancy and rental rates. Because of this, the industry is well-positioned for a strong start to 2015.

National Capitalization Rate Trend
Capitalization rates are at historic lows with many of the most recent transactions being in the 5.25% to 6.5% range.

Self-Storage National Capitalization Rate Trend (Fig. 36)



Seasoned operators are seeing opportunity in acquiring properties which may be older, have good locations, but are run by less sophisticated owners. The market has changed so quickly that many less sophisticated operators have not been able to keep up. Purchases of such facilities are generating overall rates that are similar to what would be anticipated for Class A properties. It is important to note that the overall rates generated from such transactions are not always indicative of a stabilized product, but rather of investors who see opportunities to increase revenue by raising rates, increasing occupancy, or both. In short, capitalization rates are historically low and will continue to be so until a notable increase in interest rates occurs.

2015 Outlook

The inventory of for-sale properties continues to remain low which will fuel continued aggressive pricing of facilities by investors into 2015. According to Trepp, of all self-storage CMBS loans coming due in the next ten years, 62.2% are due within the next 36 months. Coupled with the high prices and strong performance noted above, **this will likely cause the number of facilities offered for sale to increase in the coming three years.**

It is difficult to imagine overall rates being lower than they are currently. A survey of an owner of over 30 Class A self-storage facilities indicated that he is able to secure 10-year loans on sub-4% interest-only terms. Such rates are allowing him to remain aggressive and competitive when buying. The thought of higher interest rates and subsequent impacts on value does not impact his decisions to buy aggressively due to his confidence that his portfolio will enjoy rental rate growth for the coming few years. This seems to be the theme of most self-storage investors and brokers with whom IRR interacts. **Strong performance will entice developers to build new product**. Our sources indicate that about 150 storage facilities were delivered to the national market in 2014. We anticipate this number to be higher in 2015.

Unemployment continues to decrease and consumer confidence is increasing, despite wages that are slow to increase. Fewer homes purchased in today's market are being bought by first-time buyers due to rising home prices, impacts of college debt, and stricter lending requirements. Therefore, there is a trend among 25-to-35-year-olds to reside in apartments for longer periods prior to purchasing a home. This is a positive indicator for the self-storage market given that multifamily residential occupants significantly contribute to self-storage demand. Occupancy is at or near optimum levels in terms of owners' commonly practiced strategy of maximizing rental growth through raising rental rates and re-leasing units to new tenants.

It is for this reason we **predict occupancy growth to slow this year as rental rates are maximized**.

Overall self-storage property values are at or near historic highs, and in many metro areas have surpassed pre-recession highs. The year ahead will be strong for the self-storage industry. All up-cycles cause analysts to question when the top will be reached. For many, the current environment feels like that of the "heydays" prior to the recent recession. Why is this upward trend different? The answer is that lending institutions have tighter standards and more restrictions imposed on borrowers. It appears that it will take several years of physical expansion for the storage industry to show a material decrease in performance, given its current trend and very few facilities delivered in recent years. However, the caveat remains: occupancy has increased to a near-optimum level. Therefore, increased performance from this investment type can likely only come in the form of rental rate increases – rather than from what we have seen the past several years, i.e., occupancy and rental growth. Rental rates can only be pushed so far before the market pushes back, especially if nationwide household incomes are not keeping the same pace. We are in the upward trend of the cycle. With any upward trend, we will start to see higher rates of new construction. Near the peak of the upward trend, rental growth will slow. The big question is when the trend will slow and reverse. That time has not yet come and does not yet appear to be in the minds of most market participants.

IRR Forecast

Above: Artist's rendering of a proposed Major League Soccer stadium in Washington, DC, the subject of a recent research study commissioned by the DC Council and co-authored by IRR-Washington DC

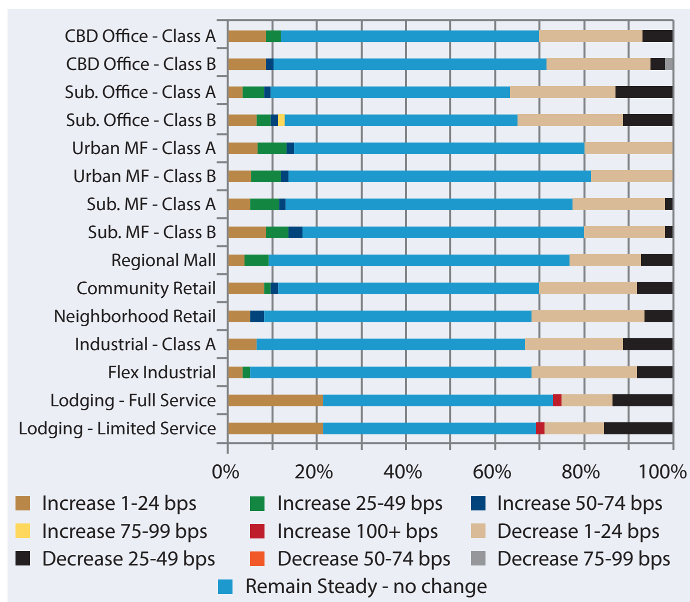
With *IRR-Viewpoint 2015*, we continue our efforts to not only report on past and current real estate metrics and trends but also look forward to forecast what we expect is likely to happen in the future in order to help our clients identify risks and opportunities in the overall commercial real estate marketplace. For the second consecutive year, these efforts have expanded from our traditional data set focused on Class A assets into more markets and assets with increased coverage and focus on Class B assets. This dual focus has allowed us to better compare and contrast opportunities and risks within different property classes and, we believe, has revealed some compelling possible inflection points in the commercial real estate valuation landscape.

IRR endeavors to predict possible future changes in commercial real estate valuation trends but also to adduce the underlying reasons driving those potential changes. By investigating the underlying real estate fundamentals and investor demand dynamics that combine to drive overall commercial real estate valuation shifts, IRR aims to help our clients identify such valuation shifts while they are happening – which our clients surely prefer to being forced to react to such changes after they occur and begin manifesting themselves in lagging indicators and completed transaction data sets. Therefore, our survey process looks forward by asking questions about both underlying real estate fundamentals – such as rental growth rates and supply inventory absorption rates – and investor yield metrics. Lastly, our survey process aims to identify some of the key drivers that could affect both underlying real estate fundamentals and investor demand dynamics so that our clients can appropriately gauge the likely impact of shifts in either macroeconomic forces or more localized events on commercial property valuations.

IRR surveyed its offices and market participants in an effort to determine views on the likely directionality and potential magnitude of capitalization rate changes by property sector and asset class over the coming year. Nationally, there were only a few major themes or trends; however, some disparities in the responses may in fact turn out to be leading indicators of key valuation trend inflections beginning to be experienced or expected to be experienced in the near future in certain markets.

In terms of capitalization rates, IRR's survey respondents felt that **capitalization rates will remain relatively steady in**

Forecasted Going-In Capitalization Rate Movements 2015-2016 (Fig. 37)



2015. This sentiment regarding stabilization reflects a shift from a more disparate local market view in 2014 in which many more markets predicted variability of capitalization rates movements – both positive and negative. The greatest disagreement regarding stability of capitalization rates occurred within the lodging sector, where over 23% of the participants felt that capitalization rates were likely to increase, and 25% and 29% of respondents felt that they would decrease for Full Service and Limited Service product types, respectively. Thus, while the lodging sector is deemed to have the greatest chance of any property sector for positive returns driven by increased investor demand and thus lower capitalization rates in 2015, the risk of widening cap rates nationally within the sector is perceived as even more likely. The disparity between positive expectations for continued capitalization rate contraction and the perceived risk of capitalization rate reversals was more pronounced in several other property sectors and asset classes. Flex Industrial assets were deemed to have the least chance of seeing material capitalization rate compression in 2015, while the flex sector was also deemed to be six times more likely to see capitalization rates increase in the coming year. Capitalization rate increases were deemed most likely with respect to Suburban Office, with both Class A and Class B product perceived to have an approximately 35% chance of seeing material capitalization rate increases in the year to come. Conversely, urban multifamily assets are deemed the least likely to face increases in the yields at which they trade in 2015.

In addition to reviewing capitalization rates, IRR also analyzed some of the key externalities that might most strongly affect valuation performance inputs. As expected, various external factors were determined to have a varied level of ability to affect shifts in commercial real estate valuations for institutional (Class A) asset classes – as opposed to Class B assets that may be institutionally held but are also more likely to be owned and operated by local property owners.

Factors Most Likely to Impact Institutional Real Estate Capitalization Rates (Fig. 38)

Rank	Factor Considered	Avg. Rank
1	Property Income Growth	2.77
2	Supply/Demand	2.94
3	Local Economy	3.34
4	Interest Rates	3.72
5	National Economic Conditions	4.74
6	Availability of Financing	4.76
7	Real Estate Risk Premiums	5.74

Similar to last year's survey responses, **property income growth potential was deemed the most important factor in determining potential changes in real estate capitalization rates**. While income growth was still the key factor, it wasn't identified as by far the most important factor, given that supply and demand dynamics were determined to be more important in the determination of potential capitalization rate movements than they were in our previous year's survey. This shift likely reflects fears of a potential supply glut in certain markets as expansionary activity, mostly in the multifamily and industrial property sectors, is beginning to deliver new inventory supply to many markets. Local economic conditions and interest rates were deemed to have an average potential effect on capitalization rate movements, while national economic conditions, the availability of financing, and real estate risk premiums were deemed to have a less-than-average potential impact on institutional real estate capitalization rates.

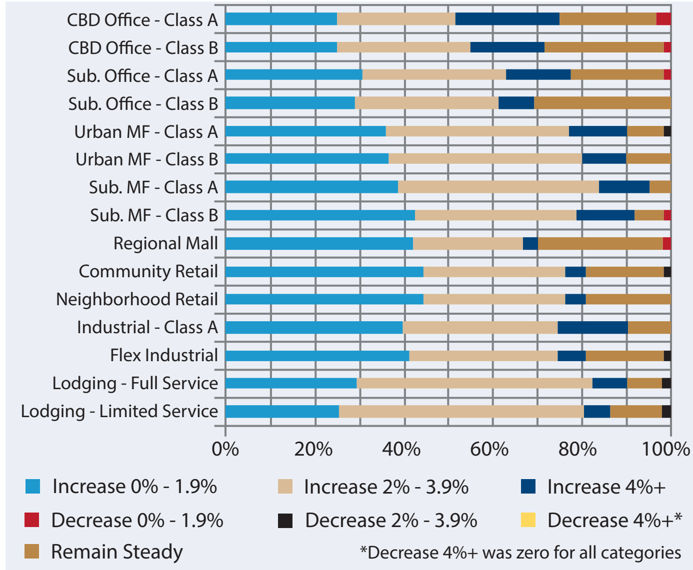
Factors Most Likely to Impact Non-Institutional Real Estate Capitalization Rates (Fig. 39)

Rank	Factor Considered	Avg. Rank
1	Availability of Financing	2.96
2	Interest Rates	3.13
3	Supply/Demand	3.29
4	Property Income Growth	3.35
5	Local Economy	3.53
6	National Economic Conditions	5.87
7	Real Estate Risk Premiums	5.89

Some of the external trends for the institutional property classes clashed significantly with the overall response trends with respect to the same factors' potential impact on non-institutional capitalization rates. The availability of financing is deemed to be the most important factor impacting non-institutional real estate capitalization rates. This clearly differs from the institutional perceptions, where financing availability was deemed to have a less-than-average impact potential. Interest rates were also deemed to be far more important for non-institutional real estate. These responses likely reflect continued challenges of the non-institutional real estate investment market to procure attractive rate financing for their real estate assets. This trend is especially interesting in that despite the fact that commercial real estate as an asset class continued to recover and perform well throughout 2014, the availability of financing became a greater concern in our current survey, while this factor ranked third and close to average in last year's survey. Also notable: there is more disparity in the survey results for non-institutional investments when compared to the institutional survey results, with national economic conditions and real estate risk premiums both being deemed overall less impactful on non-institutional capitalization rates than any factor for institutional rates.

In terms of forecasting overall valuation changes, **IRR predicts another positive year of value appreciation in 2015 across all property sectors nationally**. While all property sectors are expected to see growth, the expectations are strongest within the industrial, lodging, and multifamily sectors, while positive expectations are more muted for the retail and office sectors, especially the latter. The greatest risk of potential valuation declines is seen in the CBD office market; however, we stress that this risk is generally deemed to be minimal and simply serves as a potential red flag for a possible future valuation inflection point. IRR will continue to monitor data for such potential leading indicators and report further developments as valuation trends continue to evolve.

Forecasted Annual Value Change 2015-2016 (Fig. 40)



Important Notice

Comparing capitalization rates across product types, classes, and markets allows market participants to better judge relative risk and opportunity patterns within the commercial real estate sector. While the capitalization rate information presented in IRR-Viewpoint 2015 *– including ranges, medians, and averages – are intended to be indicative of general overall conditions and differences between the surveyed variables, they are presented for informational purposes only and do not constitute an appraisal on any specific asset, property type, property class, or market area. Specific property valuations, market analyses and capitalization rates are influenced by many factors, including but not limited to the quality of the income stream from the asset or assets in question, as well as the supply and demand fundamentals in the local market and immediate submarket. For property specific analysis of capitalization rates and other key valuation metrics, please contact your local IRR professional for assistance.*

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Every IRR office is supervised by one of our more than 200 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 2014, IRR's team also included: 56 FRICS; 40 MRICS; 26 CREs; 26 SRAs; 19 CCIMs; 10 ASAs.

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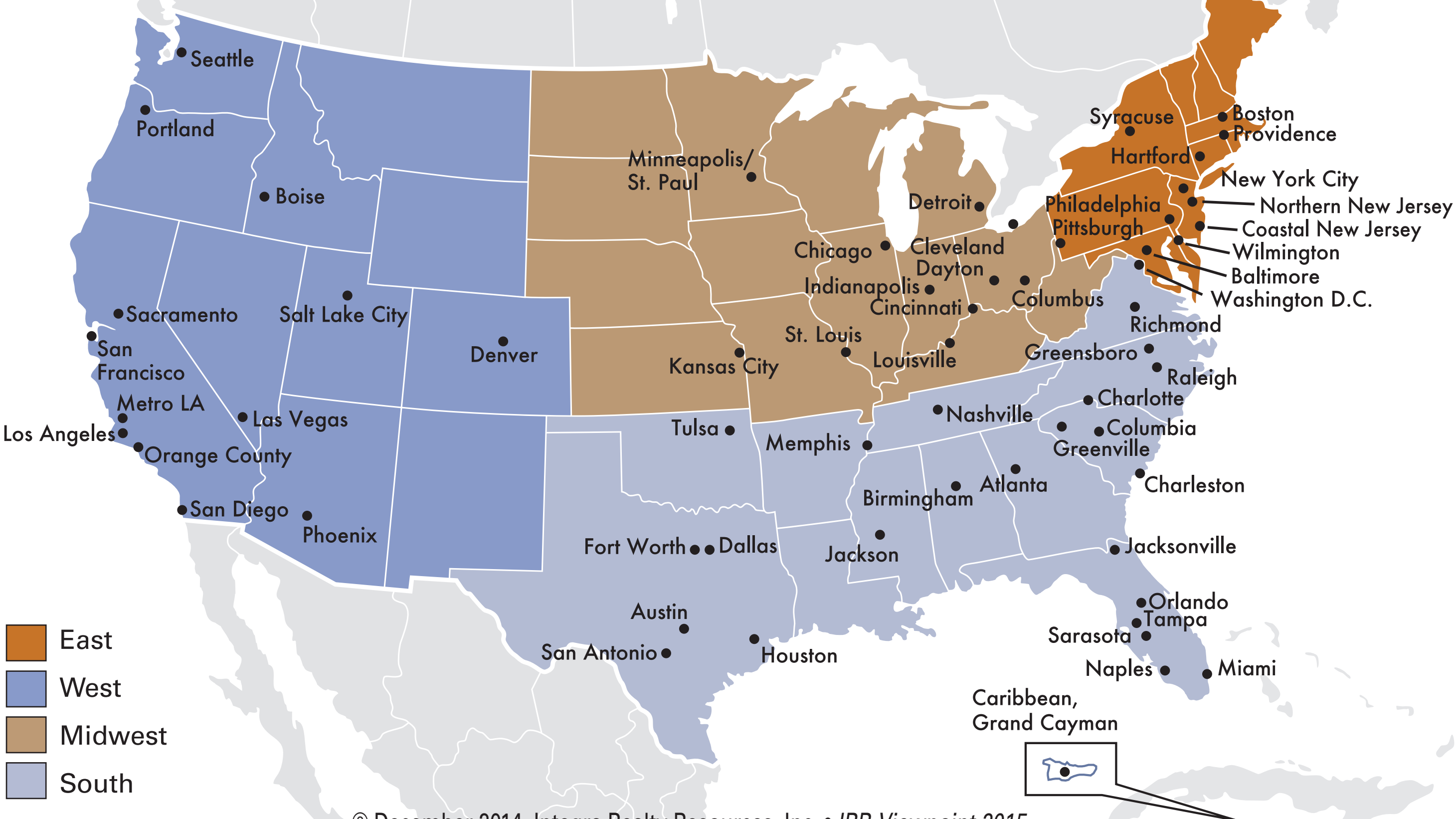

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