What Drives Commercial Real Estate and Where Are We Now?
1. REIT Primer
2. Key drivers of real estate
3. Benefits of allocating to listed commercial real estate
4. Addressing misperceptions about real estate in a rising rate environment
REIT Primer
To Qualify as a REIT

- Invest 75% of total assets in real estate
- Derive 75% of gross rental income from real property, interest or sale of real estate
- Pay 90% of taxable income to shareholders in form of dividends
- REITs own more than $1.7 trillion in commercial real estate assets

- There are 224 REITs in the FTSE NAREIT All REIT Index

- 196 REITs trade on the NYSE

- Average daily trading volume: 2015 - $6.7b, 2009 - $3.7b
Property Sector Breakdown
U.S Real Estate Securities Market

As of 30 June 2015
Source: FTSE EPRA Global Real Estate Index

REIT Assets Characterized As:
- High quality
- Located in CBD’s / gateway cities
- Class A, trophy properties
- High-credit tenants
- LEED Certified

Office 9.61%
Regional Malls 11.26%
Multifamily 11.70%
Diversified 12.41%
Lodging 6.29%
Timber 3.21%
Self Storage 5.26%
Healthcare 9.79%
Infrastructure 7.97%
Industrial 3.33%
Mortgage REITs 6.56%
Mfg. Housing 0.90%
Single Tenant Retail 2.56%

• High quality
• Located in CBD’s / gateway cities
• Class A, trophy properties
• High-credit tenants
• LEED Certified
# Real Estate Sector Differentiation

Each sector has different demand drivers, credit exposure, and lease structure.

<table>
<thead>
<tr>
<th>Real Estate Sector</th>
<th>Market Cap</th>
<th>% of U.S. Listed Market</th>
<th>Economic Drivers</th>
<th>Key Tenants</th>
<th>Lease Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>85,468</td>
<td>9.6%</td>
<td>Corporate profits, business segment growth, GDP</td>
<td>Corporations, Professional Service Industries</td>
<td>5-10 yrs</td>
</tr>
<tr>
<td>Industrial</td>
<td>29,618</td>
<td>3.3%</td>
<td>Consumer spending, Retail sales</td>
<td>Logistics, Manufacturing, Retailers</td>
<td>3-5 yrs</td>
</tr>
<tr>
<td>Regional Malls</td>
<td>100,187</td>
<td>11.3%</td>
<td>Disposable income, Consumer sentiment</td>
<td>Soft good retailers, Jewlery, department stores</td>
<td>7-10 yrs (in-line)</td>
</tr>
<tr>
<td>Shopping Centers</td>
<td>62,239</td>
<td>7.0%</td>
<td>Consumer spending, CPI, Population</td>
<td>Grocery and Drug, Local necessity retail</td>
<td>3-5 yrs (in-line)</td>
</tr>
<tr>
<td>Single Tenant Retail</td>
<td>22,815</td>
<td>2.6%</td>
<td>Consumer spending, CPI, Population</td>
<td>Restaurants, Banks, Gas/Convenience</td>
<td>10-15 yrs</td>
</tr>
<tr>
<td>Multifamily</td>
<td>104,058</td>
<td>12.6%</td>
<td>Age cohort growth, interest rates,</td>
<td>21-35 yr and 65+ age cohorts</td>
<td>9-12 months</td>
</tr>
<tr>
<td>Mfg. Housing</td>
<td>7,967</td>
<td>1.0%</td>
<td>Interest rates, Population, Age cohort growth</td>
<td>55+ age cohort, lower middle class families</td>
<td>various</td>
</tr>
<tr>
<td>Diversified</td>
<td>110,368</td>
<td>12.4%</td>
<td>various</td>
<td>various</td>
<td>various</td>
</tr>
<tr>
<td>Lodging</td>
<td>59,980</td>
<td>6.3%</td>
<td>Business spending, Disposable income, Consumer sentiment</td>
<td>business and leisure travel</td>
<td>daily (consumer); 10-15 yrs (mgmt contract)</td>
</tr>
<tr>
<td>Healthcare</td>
<td>87,107</td>
<td>9.8%</td>
<td>Aging population, Government</td>
<td>65+ age cohort</td>
<td>9-12 months (resident); 10-15 yrs (mgmt contract)</td>
</tr>
<tr>
<td>Self Storage</td>
<td>46,811</td>
<td>5.3%</td>
<td>Population</td>
<td>Adults</td>
<td>Monthly</td>
</tr>
<tr>
<td>Timber</td>
<td>28,599</td>
<td>3.2%</td>
<td>Construction, New home sales</td>
<td>Construction industry</td>
<td>various</td>
</tr>
<tr>
<td>Mortgage REITs</td>
<td>58,332</td>
<td>6.6%</td>
<td>Interest rates, Financial system health</td>
<td>Real estate owners</td>
<td>3-10 yrs ²</td>
</tr>
</tbody>
</table>

As of 30 June 2015. 1 – Implied $ Million, 2 – Maturity duration
Source: Lazard, NAREIT
Real Estate Sector Differentiation

Compounded Earnings Growth
(2011-2015) (%)

As of 31 January 2015
Past performance is not a reliable indicator of future results
Source: Lazard
## Sector Returns
### Importance of sector rotation

Forecasted or estimated data is not a guarantee of actual results and is subject to change. Table as of 31 December 2014

Source: Bloomberg
Vornado – Office/Retail

- Over 100 million square feet, primarily located in the New York and Washington, DC areas
- 19.8 million square feet of Manhattan office space in 31 properties and four residential properties containing 1,655 units
- 2.4 million square feet of Manhattan street retail space in 55 properties
- The 3.6 million square foot Merchandise Mart in Chicago, whose largest tenant is Motorola Mobility owned by Google, which leases 608,000 square feet
Digital Realty Trust – Data Center

- 131 data centers in North America, 17 in Europe, four in Asia
- High quality tenant base – approximately 2,000 leases with 600+ tenants, including leading global companies across various industries
- 24.5 million rentable square feet, includes 1.3 million square feet of active development and 1.2 million square feet held for future development
- Average original lease term of 12 years, average remaining lease term of 6.3 years
Alexandria Real Estate Equities – Life Sciences

- Largest REIT focused on collaborative science and technology campuses in urban innovation clusters
- Asset base of 31.4 million RSF
- Dominant market presence in AAA locations including Greater Boston, San Francisco Bay Area, San Diego, New York City, Maryland, Seattle, and Research Triangle Park
- High-quality and diverse client tenant base, with approximately 52% of total base rent resulting from investment-grade client tenants
ProLogis – Industrial

• 585 million square feet owned, managed or under development
• 2,872 industrial properties across the Americas, Europe and Asia
• 4,700 customers
• High-quality and diverse client tenant base, with approximately 52% of total base rent resulting from investment-grade client tenants
General Growth Properties – Regional Malls

- 127 properties NYC, Chicago, Miami, Boston, DC, SF, LA, HI
- Class A regional malls and flagship urban retail properties
- 96.8% occupied
- $2.3 billion in developments
Shares in the Five REITs Would Result in Exposure to:

- 44 States
- 1,198 properties
- Six property sectors
- Predominantly Class A, trophy properties, Leed-certified, high-quality tenants
The global listed market has grown to more than $2.3 trillion in equity market cap fueled by increasing global adoption of the REIT structure and is expected to grow to $2.8 trillion by the end of 2015.

Growth is accelerating due to improving living standards and a growing consumer class within emerging markets, especially in Asia and Latin America.

Institutions generally allocate between 7% - 10% of their portfolios to commercial real estate.

By Region

- North America 44%
- Asia-Pacific 38%
- Europe 13%
- Latin America 3%
- Africa/Middle East 2%

By Sector

- Retail 22%
- Office 10%
- Diver/Oprtng 17%
- Healthcare 7%
- Industrial 4%
- Residential 11%
- Other 1%
- Speciality 11%

As of 31 October 2014
Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change.
Source: FTSE EPRA Global Real Estate Index
Source: Lazard
Drivers of Real Estate: Demand, Supply, Credit

Picture courtesy of BeloUSA
Commercial Property Outlook: **Demand**

- **GDP** - 2% is the new 3%.
- **Employment** – Job growth has improved but still lumpy
- **Consumer** – Wage growth elusive but inching upward. Disparity between higher and lower income households
- **Retail Sales** – More jobs, cheap gas = improvement in sales
Commercial Property Outlook: Demand – GDP/Employment

Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change.
Source: Bureau of Economic Analysis, Cassidy Turley, Green Street Advisors. As of 5/26/2015
Commercial Property Outlook: **Demand – Office Absorption**

For illustrated purposes only. As of 30 November 2014. Source: BLS, Bloomberg
Commercial Property Outlook: **Demand - Consumer**

*Index of Consumer Sentiment by Income Tier*

Source: University of Michigan Survey of Consumers, 5/2015
Commercial Property Outlook: Demand – High End vs. Low End

Source: Federal Reserve Flow of Funds, 5/2015
Steady improvement…

12.4% above prior peak

Source: US Commerce Department, June 2015
Commercial Property Outlook: **Demand – Renters vs. Owners**

Source: US Census Bureau, Green Street, 5/29/2015
Commercial Property Outlook: Business Foundation

US Corporate Profits (Current)

Cap Goods Orders Non-Defense (ex. Aircraft)

Operating Margin (Russell 2000)

As of 31 January 2015.
Source: Bureau of Economic Analysis, Bloomberg
Commercial Property Outlook: **Supply**

- **Low supply growth** - has been a significant contributor to the real estate recovery until recently

- **Recent Additions** – have been at multi-generational low but starting to heat up

- **Sector outlook…new supply**
  - Apartments: strong but being absorbed
  - Office: high in hot markets, low elsewhere
  - Retail: very limited, mainly expansion
  - Lodging: big ramp up in NY, little elsewhere
  - Industrial: growing but so is demand

- **Summary**– good news on supply is helping drive further rent/occupancy gains
Commercial Property Outlook: **Supply: Major Property Sector Average**

Construction at a Multi-Generational Low….

**New Completions as a % of Existing Stock**

- Avg since '85: 1.9%

Source: Green Street, 5/2015
Commercial Property Outlook: **Supply - Major Property Sector Average**

**Valves Starting to Open…**

**Annual Completions as a % of Existing Stock**

- Historical data for lodging is for the period '01-'09, senior housing '06-'09

Source: Green Street, 5/2015
Commercial Property Outlook: **Fundamentals**

- **Occupancy / Rent Growth** - proceeding at steady pace
- **Market Fundamentals** – outpacing inflation and should continue for next few years
- **NOI Growth** – well above prior peak in most sectors…depending on quality
- **Sector Commentary**
  - Apartments: growth was decelerating but boosted by improved job growth
  - Malls: slowing growth
  - Industrial: growth flattening out
  - Storage/Hotel: slowing but still impressive
Commercial Property Outlook: **Fundamentals – Occupancy, Rents, RevPAF**

Continued growth ahead

Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change. Source: Green Street, 5/2015
Commercial Property Outlook: **Fundamentals – NOI Growth**

**Solid and Improving**

**Same-Property NOI Growth: Major Sector Average**

Source: Green Street, 5/2015
Outlooks converging

Indexed NOI: '07=100

Lease terms and margins have a large impact on volatility of NOI

Source: Green Street, 5/2015
Commercial Property Outlook: *Capital Markets/Credit*

- **Balance sheets** – significantly repaired post crisis
  - Debt-to-Equity ratios: 65% in 2007 to 33% today
  - Coverage ratios: 1.9x in 2007 to 4.1x today

- **Debt maturity** – average loan now in excess of six years

- **Lending** – back after prolonged absence

<table>
<thead>
<tr>
<th>($) Millions</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity</td>
<td>24,234</td>
<td>25,604</td>
<td>33,382</td>
<td>36,965</td>
<td>41,463</td>
<td>21,844</td>
<td>183,492</td>
</tr>
<tr>
<td>Preferred Equity</td>
<td>-</td>
<td>2,617</td>
<td>4,108</td>
<td>10,631</td>
<td>4,755</td>
<td>4,378</td>
<td>26,489</td>
</tr>
<tr>
<td>Corporate Debt</td>
<td>10,422</td>
<td>19,230</td>
<td>13,790</td>
<td>25,730</td>
<td>30,739</td>
<td>28,809</td>
<td>128,720</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>34,656</td>
<td>47,451</td>
<td>51,280</td>
<td>73,326</td>
<td>76,958</td>
<td>55,030</td>
<td>338,701</td>
</tr>
</tbody>
</table>

Interest Coverage Ratio (1) | 2.0x | 2.4x | 2.6x | 3.1x | 3.5x | 3.5x |

Leverage (1) | 49% | 41% | 42% | 35% | 36% | 33% |

As of December 31, 2014. Past performance is not a reliable indicator of future results. Source: SNL, NAREIT
Drivers of Real Estate: Demographics
Key Drivers of Real Estate: **Demographics**

**Impact of Boomers**

Sheer size, age and wealth driving demands

- 75+ cohort growing 6x faster than rest of population
- 55+ age group controls more than 75% of America’s wealth
- Baby boomers spend at **twice** the rate of younger generations
- **79 million** boomers Medicare eligible from 2011 on fuels MOB (increase demand by 60mm sq. ft.)
- Outpatient care expected to increase **23%**, by 2023
- **18 million** seniors over 75, 551,000 total senior housing units in Q1 2014 with 23,000 under construction

Lifestyle changes

- Between 2000 – 2010, population of boomers 40 – 80 miles outside city centers declined by 1 million
- Children are out of the house
- Retired and want access to amenities
- 9.6% of households 55 and older in cities lived in condos in 2011, up from 7.3% in 2005
- Toll Brother’s city condo projects (NY, PA), boomers 35% - 75% of buyers

Key Drivers of Real Estate: **Demographics**

**Millennial Profile**

- Currently **24%** of the population, 34%+ by 2020, 75% of workforce by 2025
- Highly **diverse** (40% non-white) but highly **uniform** in beliefs
- Strong preference for **city-living**
  - 63% prefer to rent vs. own
  - Preference for **communities** but living alone
  - **Public transportation** vs. personal car
- **Delaying** marriage and having children
- Desire better **work/life balance** than boomers
- Value corporate **social responsibility**

Source: Green Street Advisors, “Millennial Momentum: How a New Generation is Remaking America, REIT Magazine, Camden Property Trust
Key Drivers of Real Estate: **Demographics**

Milennial’s Propensity to Rent...

*The growth of the 25-34 year-old age cohort is expected to outpace total population growth through '20, with those aged 23 and 24 years currently the two largest age groups in the country.*

Source: US Census Bureau, 2014
Key Drivers of Real Estate: **Demographics**

No rush to settle down and change diapers…

Source: US Census Bureau, 2014
Key Drivers of Real Estate: **Demographics**

**Millennial Impact**

**Housing**
- Strong apartment demand driving development in downtown markets
- High-density projects with smaller, more affordable units
- Well-appointed indoor/outdoor common areas (coffee bars, communal grills, demonstration kitchens, theaters)
- Acquire/develop near transportation, shops, restaurants and entertainment venues

**Office**
- Increased demand for space in CBD’s in order to attract younger workers
- Environmentally-friendly properties near housing, transportation and amenities
- Modern, architecturally interesting space which is more welcoming
- Flexible, high-density space as space-per-employee decreases
- Open seating and natural light
- Attributes mainly of tech and media clients now sought out by mainstream tenants

Source: Green Street Advisors, “Millennial Momentum: How a New Generation is Remaking America, REIT Magazine, Camden Property Trust, Kilroy Realty Trust
Key Drivers of Real Estate: **Demographics**

Millennials shopping preference: Brick-and-mortar versus on-line

% Preferring In-store vs. On-line

- **Drugstores**: 90%
- **Consumer Electronics**: 80%
- **Apparel**: 80%
- **Department Stores**: 80%
- **Discount**: 60%

Source: Accenture, *Who are the Millennial Shoppers? 2013*
Key Drivers of Real Estate: Demographics

Impact on other real estate sectors

• Millennials not only cohort embracing on-line shopping: 72% of Boomers have made on-line purchase
• 41% of Apple users and 35% of tablet users are Boomers
• 2011-2014 biggest growth segment for Facebook was 55+ which grew by 13mm…over 80%

Sectors which stand to benefit:

• Industrial warehouse (ProLogis, Duke)
• Data Centers (DLR, CoreSite)
• Cell tower (AMT, Crown Castle)

Mention of these securities should not be considered a recommendation or solicitation to purchase or sell the securities. It should not be assumed that any investment in these securities was, or will prove to be, profitable, or that the investment decisions we make in the future will be profitable or equal to the investment performance of securities referenced herein. There is no assurance that any securities referenced herein are currently held in the portfolio or that securities sold have not been repurchased. The securities mentioned may not represent the entire portfolio.
Source: Accenture, Who are the Millennial Shoppers? 2013
Key Drivers of Real Estate: **Demographics**

Kilroy Realty: Responding to the “modern” workforce
Key Drivers of Real Estate: Demographics

Bringing the City Experience to the Suburbs: Macerich Tyson’s Corner Center, VA
Key Drivers of Real Estate: **Demographics**

Federal Realty’s Assembly Row – Somerville, MA
Key Drivers of Real Estate: **Demographics**

Federal Realty’s Assembly Row – Somerville, VA
Key Drivers of Real Estate: **Demographics**

% of World Population, Urban

![Graph showing urban population growth from 1950 to 2050](image)

Source: UN: World Urbanization Prospects, 2014
Demographics Takeaway

• Millennials (and to lesser extent Boomers) having major impact on consumption of commercial real estate

• Urbanization – investible real estate to expand by 55%+ between 2012-2020

• High quality, well located assets in demand

• REITs benefiting due to:
  - Operate in markets where demand is strongest
  - Superior asset quality
  - Operational intelligence
  - Geographic diversification of properties attractive to multi-location tenants
Benefits of Incorporating Commercial Real Estate
Benefits of Incorporating Commercial Real Estate

1. Attractive Long-term Returns

- Outperformed S&P 500 over every long-term time period (except 30) since REIT benchmark came out over 40 years ago (5, 10, 15, 20, 25, 35, 40)
- Outperformed stocks 7 of last 10 years, and “pushed” and eighth
- Outperformed corporate/high yield for every time period

<table>
<thead>
<tr>
<th></th>
<th>US REITs</th>
<th>S&amp;P 500</th>
<th>BofA/ML Corp</th>
<th>BofA/ML High Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Years</td>
<td>16.9</td>
<td>15.4</td>
<td>4.8</td>
<td>9.0</td>
</tr>
<tr>
<td>10 Years</td>
<td>8.3</td>
<td>7.7</td>
<td>4.7</td>
<td>7.7</td>
</tr>
<tr>
<td>15 Years</td>
<td>12.7</td>
<td>4.2</td>
<td>5.8</td>
<td>7.5</td>
</tr>
</tbody>
</table>

As of December 31, 2014

Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change. Source: Green Street, 12/31/2014
Benefits of Incorporating Commercial Real Estate

2. Strong Absolute and Relative Income

• Due to contractual nature of leases and REIT law stipulating 90% pass-through of NOI, REITs have historically generated attractive income

• The stable income has significantly contributed to total returns…almost 60% derived from dividends

• Current average yields for REITs is about 4.0%, Preferreds 6.0%, 10YT 2.1%, S&P 500 2.1%

Source: NAREIT, Bloomberg. As of 12/31/2014
3. Enhanced Diversification

- Real estate investments have historically had a lower correlation to other major asset classes, due in large part to the differentiated source of returns.
- While correlations can spike in the short term, over longer periods REIT returns are driven by real estate fundamentals.

Source: FactSet, March 31, 2014
4. Inflation Hedge

• While inflation can be a negative for yield investors, upward pricing pressure is usually a positive for landlords due to increased demand.

• US REIT dividends have historically grown at a higher pace than inflation.

• REIT dividend growth has exceeded CPI in twenty of the last twenty-two years.

Source: NAREIT, SNL Financial. As of December 31, 2013
Misperceptions of Real Estate in a Rising Rate Environment
Misperception #1: A Rise in Rates Undermines Commercial Real Estate Pricing

- Commercial real estate assets are typically traded on their investment yield, better known as cap rates.
- Many investors are of the opinion that a rise in rates must be met with a corresponding drop in valuations.
- Not only is there no discernable link between cap rates and interest rates, there have been multiple periods when cap rates decreased as rates rose.

Exhibit 1
Cap Rates Are Not Historically Tied to Interest Rates

For the period January 31, 1986 through September 2013
Source: Lazard, Green Street Advisors
Misperception #2: Rising Rates Decrease REITs Profitability

- Acquiring or developing real estate is capital intensive and entails large scale borrowing
- Investors tend to overstate the expected impact on NOI by magnitude, timing or both
- In reality, near-term impact of rising rates on borrowing costs is muted
  - Extended maturities
  - Fixed vs. floating debt
  - Reduction of overall debt and debt costs

Exhibit 2
Private Real Estate Values Typically Remain above Inflation

As of December 31, 2013
Source: Bloomberg
Misperception #2: Rising Rates Decrease REITs Profitability: DDR Balance Sheet Improvements

<table>
<thead>
<tr>
<th></th>
<th>June 2009</th>
<th>June 2011</th>
<th>September 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt / Market Cap</td>
<td>87%</td>
<td>51%</td>
<td>45%</td>
</tr>
<tr>
<td>Debt / EBITDA</td>
<td>10.2x</td>
<td>8.1x</td>
<td>7.5x</td>
</tr>
<tr>
<td>Debt Duration</td>
<td>2.7 years</td>
<td>3.9 years</td>
<td>4.5 years</td>
</tr>
</tbody>
</table>

**BALANCED MATURITY PROFILE MITIGATES RISK**

As of September 1, 2014
Source: DDR NAREIT Presentation
Misperception #2: Rising Rates Decrease REITs Profitability: GGP Limited Exposure

GGP: Hypothetical scenario assuming 100bsp increase in rates

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturing Debt Balance (in millions)</td>
<td>$220</td>
<td>$241</td>
<td>$557</td>
</tr>
<tr>
<td>Expiring Interest Rate</td>
<td>5.83%</td>
<td>4.40%</td>
<td>4.94%</td>
</tr>
<tr>
<td>Current Market Rate</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Incremental Interest Expense if 100bps increase</td>
<td>($1.8)</td>
<td>$1.4</td>
<td>$0.3</td>
</tr>
<tr>
<td>Impact to FFO per share</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

- 4.11% weighted average interest rate
- 85% of debt is fixed interest rate
- ~7 year weighted average remaining term to maturity

As of March 31, 2015
Source: GGP Q1 Investor Presentation
Misperception #3: REITs Behave Like Bonds During Period of Rising Rates

- REITs are linked to bonds during a rising-rate environment because they:
  - Pay out relatively high dividends
  - Are priced partially on their yields
  - Have generated about two-thirds of their total return via dividends

- Unlike bonds, REIT dividends are not fixed

- REIT dividends outperformed CPI every year except one since 2001

- In addition to growing dividends, REIT management can take accretive action

Real Estate Income Growth Has Outpaced Inflation and US Treasury Returns

As of December 31, 2013
Source: NAREIT, Barclays Capital
Misperception #3: REITs Behave Like Bonds During Period of Rising Rates

Correlation of Listed Real Estate to Other US Bonds (2009-2014)

<table>
<thead>
<tr>
<th>Bond Type</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Yield Bonds</td>
<td>68%</td>
<td>26%</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>29%</td>
<td>10%</td>
</tr>
<tr>
<td>Treasury Bonds</td>
<td>0%</td>
<td>-1%</td>
</tr>
</tbody>
</table>

As of 9.30.2014

Source: Bloomberg, 9/30/2014
## REITs and Rising Interest Rates: Historical Performance

<table>
<thead>
<tr>
<th>Period</th>
<th>Beginning Yield</th>
<th>End Yield</th>
<th>Change (in bps)</th>
<th>During Period</th>
<th>12 Months After Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct 1993 – Nov 1994</td>
<td>5.19%</td>
<td>8.05%</td>
<td>286</td>
<td>-17.70</td>
<td>7.30</td>
</tr>
<tr>
<td>Jan 1996 – July 1996</td>
<td>5.53%</td>
<td>7.06%</td>
<td>153</td>
<td>2.70</td>
<td>22.80</td>
</tr>
<tr>
<td>Nov 2001 – Apr 2002</td>
<td>4.22%</td>
<td>5.44%</td>
<td>122</td>
<td>12.10</td>
<td>-8.10</td>
</tr>
<tr>
<td>Mar 2004 – Jun 2004</td>
<td>3.70%</td>
<td>4.89%</td>
<td>119</td>
<td>-8.30</td>
<td>32.30</td>
</tr>
<tr>
<td>Jun 2005 – Jun 2006</td>
<td>3.90%</td>
<td>5.25%</td>
<td>135</td>
<td>11.70</td>
<td>12.10</td>
</tr>
<tr>
<td>Dec 2008 – Aug 2009</td>
<td>2.08%</td>
<td>3.89%</td>
<td>181</td>
<td>16.90</td>
<td>28.10</td>
</tr>
<tr>
<td>Oct 2010 – Feb 2011</td>
<td>2.41%</td>
<td>3.75%</td>
<td>134</td>
<td>7.60</td>
<td>8.90</td>
</tr>
<tr>
<td>May 2013 – Dec 2013</td>
<td>1.66%</td>
<td>3.04%</td>
<td>138</td>
<td>-13.50</td>
<td>18.30</td>
</tr>
</tbody>
</table>

As of September 22, 2014  
Source: US Treasury, NAREIT
Conclusion

1. Interest rates can influence REIT performance, especially in the shorter-term, but are less influential than other factors over the mid to long-term

2. Economic growth, limited supply and demographics driving the bus

3. Diverse and growing sectors/market provide unique opportunity set

4. Real estate has historically delivered distinct characteristics and benefits

Source: NAREIT, SNL Financial. As of June 30, 2015
Appendix: Valuations
Commercial Property Outlook: **Valuations**

- **Cap Rates** – Near all-time lows
- **Spreads Remain Attractive** – Prices attractive relative to corp./high yield bonds
- **Property Prices / Share Prices** – property values have fully recovered, shares have not
- **Sector Commentary** – Malls, apartments and storage look cheapest
Commercial Property Outlook: **Valuation – Cap Rates**

At or near all time lows but…

**Nominal Cap Rates**

Source: Green Street, 5/2015
Commercial Property Outlook: **Valuation – Spreads**

…so are bond yields

**Implied Nominal Cap Rate for REITs**

Source: Green Street, 8/19/2014
Real estate attractive relative to bonds…

Real estate currently priced to deliver LT returns that exceed the yield on investment-grade corporate debt by: 95 bps

Long-term average for return premium is: 149 bps

Assuming spread reverts to long-term average, cap rates would need to decline by: 54 bps

This would equate to a change in the average value of real estate of about -9%

Real estate currently priced to deliver LT returns that exceed the yield on high-yield debt by: -55 bps

Long-term average for return premium is: -64 bps

Assuming spread reverts to long-term average, cap rates would need to decline by: 8 bps

Due to volatility of high-yield market, adjust cap rates by a smaller number: -4 bps

This would equate to a change in the average value of real estate of about +2%

Forecasted or estimated results do not represent a promise or guarantee of future results and are subject to change. Source: Green Street, 7/2015
Warranted Adjustment in Public-Market Real Estate Prices:

- Observed Premium to Unleveraged Asset Value (major property sectors)*: -8%
- Warranted change in unleveraged private-market values (average of the investment-grade and high-yield signals from prior pages): -4%
- Combining the change that should occur with the change that is "baked into" public-market values, the change to implied de-levered public-market values that should occur is...: +5%
- Considering that the average ratio of equity market-cap to asset value is...: 56%
- The expected change in REIT share prices is...: +8%

Based on pricing benchmarks from the fixed-income market, the fair value for the RMZ is...
As of July 24, REIT Share Prices 12.4% below February 7, 2007 peak

Source: Bloomberg, Green Street, 3/6/2014
Commercial Property Outlook: Valuation – Historical Premium/Discount to NAV

As of 30 November 2014. Based on an equal weighted index of publically traded U.S. REITS. Source: Lazard, SNL Financial
Commercial Property Outlook: Valuation – Price to FFO

As of 30 November 2014.
This information is being provided for illustrated and comparative purposes only.
Source: SNL Financial
Commercial Property Outlook: Valuation – Sectors

Source: ISI 7/03/2015