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Property Performance Monitor

Third Quarter 2016

Marketing Material

Quarterly highlights

— Total returns to private equity real estate decelerated in the third quarter 2016, slipping to 9.2% (trailing four quarters) from 10.6% in the second quarter and 11.8% in the first quarter. As expected, real estate returns reverted toward their long-term average amid a volatile capital-markets environment.

— The industrial (12.5%) and retail (11.0%) sectors led the NCREIF Property Index (NPI) while apartments (8.5%) and offices (7.5%) lagged behind.

— From a regional perspective, the West produced strong, double-digit returns despite relatively tight income yields. The East and Midwest, and to a lesser extent the South, lagged behind the national index.

Private real estate property returns

— Volatile financial markets appeared to temper real estate returns in the first three quarters of the year.

— While strong fundamentals supported NOI growth of 4.8% (year-over-year), capital appreciation slowed from 5.6% in the second quarter 2016 to 4.3% in the third quarter 2016 as cap rates stabilized.

— Despite the slowdown, total returns of 9.2% (trailing four quarters) were well above their 10-year average (7.2%). Returns to real estate fell between those of bonds (5.9%) and stocks (15.4%).

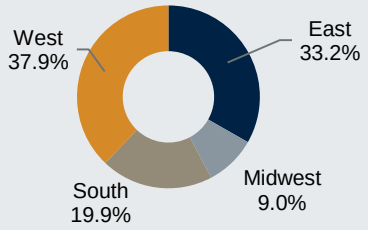
— Industrial (12.5%) was the leading sector, propelled by robust NOI growth (6.2% year-over-year). Retail (11%) was in second place, but has maintained an edge over five, 10, and 20 years.

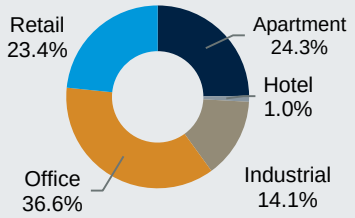
— Portland, Oakland, Riverside, and San Jose topped the index over the past year, followed by Phoenix and Charlotte. The West has outperformed all other regions over the past one, three, five, 10, and 20 years.

NPI market capitalization

Index market value: $516.4 billion

Property count: 7371





Recent performance trends

	Quarter	12 months trailing	
	3Q 2016	3Q 2016	2Q 2016
Private Real Estate (NPI)	1.8%	9.2%	10.6%
Broad Equities (large cap)	3.9%	15.4%	4.0%
Bonds	0.4%	5.9%	6.7%
Listed Real estate	-1.2%	20.9%	23.6%
10-Year Treasury[1]	1.6%	1.9%	2.0%
12-Month LIBOR[1]	1.5%	1.2%	1.0%
CPI (NSA)	0.4%	1.2%	1.1%

Sources: NCREIF, Standard and Poor's, Barclay's and Federal Reserve. As of Sept 30, 2016. Past performance is no guarantee of future results. For definitions of indices, see the last page of this report.

[1]These figures represent annual yields.

NCREIF Property Index (NPI) performance by sector and region

- The industrial (12.5%) and retail (11.0%) sectors led total returns in the third quarter 2016 on a trailing four-quarter basis, followed by the apartment (8.5%) and office (7.5%) sectors.
- Warehouses were the strongest subsector in the NPI. R&D and Flex have also gathered momentum, overtaking the overall NPI.
- Within the retail sector, super regional malls continued to dominate but regional malls and neighborhood and community centers also performed well. Power centers trailed the NPI despite elevated income returns.
- CBD offices appreciated more than suburban ones, but fell short on a total return basis due to lower income returns.
- High-rise apartments were the weakest subsector in the NPI over the past year, likely due to an influx of new supply. Conversely, garden apartments were among the better performing subsectors.
- The West was home to the top four markets (Portland, Oakland, Riverside, and San Jose). Prices fell in Houston and stagnated in Washington D.C., which account for about a quarter of the South and East, respectively.

Detailed property type NPI performance

	No. of props.	Market value (Mil)	Trailing four quarters		
			Total return	Income	Apprec.
Apartment					
Garden	707	$40,845	11.1%	5.3%	5.5%
High Rise	773	$75,767	7.0%	4.3%	2.6%
Low Rise	175	$11,517	9.1%	4.7%	4.2%
Industrial					
R&D	43	$1,188	11.6%	4.6%	6.7%
Flex	240	$3,500	10.5%	5.9%	4.4%
Warehouse	2,711	$66,911	12.7%	5.3%	7.1%
Office					
CBD	403	$110,293	7.2%	4.1%	3.0%
Suburban	998	$78,741	7.9%	5.2%	2.6%
Retail					
Community	231	$13,744	10.0%	5.4%	4.4%
Neighborhood	450	$16,778	11.9%	5.4%	6.2%
Power	170	$14,002	8.3%	5.7%	2.5%
Regional	58	$16,050	10.6%	4.8%	5.6%
Super Regional	75	$44,732	12.6%	4.6%	7.8%

Source: NCREIF Property Index as of Sept 30, 2016.
Past performance is no guarantee of future results.

Returns by property type and region

	Annual returns								Standard deviation	
	1 Year			3 years	5 years	10 years	20 years	Since inception[2]	20 years	Since inception[2]
Property Type	Total	Income	Apprec.							
Apartment	8.5%	4.6%	3.7%	10.1%	10.6%	6.8%	9.7%	10.6%	8.4%	7.8%
Industrial	12.5%	5.3%	6.9%	13.5%	12.6%	7.4%	10.2%	9.7%	8.4%	7.7%
Office	7.5%	4.6%	2.8%	10.4%	10.1%	6.7%	9.7%	8.5%	9.5%	9.8%
Retail	11.0%	4.9%	5.8%	12.8%	12.7%	8.5%	10.6%	9.9%	7.5%	6.6%
Total Index	**9.2%**	**4.8%**	**4.3%**	**11.3%**	**11.2%**	**7.2%**	**9.8%**	**9.3%**	**8.3%**	**7.7%**
Region	Total	Income	Apprec.							
East	7.4%	4.5%	2.7%	9.3%	9.4%	6.5%	9.9%	10.2%	8.7%	9.2%
Midwest	8.2%	5.2%	2.8%	10.5%	10.5%	6.7%	8.3%	8.2%	6.6%	6.0%
South	8.8%	5.3%	3.3%	11.9%	11.9%	7.5%	9.2%	8.4%	7.4%	6.9%
West	11.5%	4.7%	6.6%	13.1%	12.6%	8.0%	10.9%	9.8%	9.2%	8.6%
Total Index	**9.2%**	**4.8%**	**4.3%**	**11.3%**	**11.2%**	**7.2%**	**9.8%**	**9.3%**	**8.3%**	**7.7%**

Source: NCREIF Property Index. As of Sept 30, 2016.

[2]Index returns start in 1978, equivalent to a 39 year calculation.

Market Analysis – Benchmark insights and portfolio implications

The NCREIF Property Index is a value-weighted index of property returns and as such, a large portion of the index is located in just 20 markets. Local economic growth will affect properties located in the same market similarly, so we can estimate the effect of property geographical location on the overall index. Large metros, by value, will likely have the largest impact on the index, although small metro with particularly strong or weak performance may boost or weigh on returns from time to time. The following tables lists out which markets had the strongest positive and negative effect on returns during the past four quarters.

Impact of top 20 markets on sector performance

Apartment			Industrial			Office			Retail		
Metro	Metro returns[3]	Impact on sector returns	Metro	Metro returns[3]	Impact on sector returns	Metro	Metro returns[3]	Impact on sector returns	Metro	Metro returns[3]	Impact on sector returns
Denver	13.9%	28	Los Angeles	15.5%	31	San Francisco	11.4%	36	Orlando	16.7%	16
Portland	16.9%	15	Seattle	15.4%	21	Los Angeles	10.2%	24	Phoenix	15.0%	16
Seattle	11.1%	13	Oakland	18.3%	18	Boston	9.8%	23	Dallas	13.3%	12
San Diego	11.3%	7	Portland	18.9%	11	San Jose	13.6%	19	Washington DC	12.2%	10
Los Angeles	9.3%	6	Santa Ana	14.8%	9	Dallas	11.8%	9	Miami	12.5%	6
Phoenix	11.4%	5	San Diego	16.3%	8	Oakland	13.3%	8	Houston	11.9%	5
Santa Ana	10.6%	4	San Jose	14.4%	6	Santa Ana	10.7%	6	Atlanta	12.8%	5
Fort Lauderdale	9.9%	3	Riverside	12.9%	6	Austin	11.7%	5	Denver	12.8%	4
Atlanta	9.2%	3	Fort Lauderdale	12.9%	1	Portland	13.3%	4	San Jose	12.3%	3
Boston	9.0%	3	Atlanta	11.6%	-3	Atlanta	9.5%	4	Seattle	12.0%	2
Austin	7.7%	-2	Memphis	9.9%	-3	Miami	6.7%	-1	San Diego	11.4%	1
Minneapolis	6.8%	-3	Harrisburg	8.8%	-5	Chicago	7.2%	-1	San Francisco	11.3%	1
Philadelphia	7.2%	-3	Dallas	11.9%	-5	Phoenix	5.8%	-2	Riverside	11.3%	1
San Francisco	6.8%	-3	Phoenix	8.9%	-5	Seattle	7.0%	-3	Oakland	11.1%	0
Dallas	7.5%	-5	New York	10.0%	-11	Minneapolis	4.3%	-3	Santa Ana	10.2%	-2
Baltimore	4.2%	-7	Washington DC	6.3%	-11	Denver	5.6%	-4	Chicago	10.7%	-2
New York	7.1%	-16	Chicago	11.1%	-13	San Diego	5.3%	-4	Baltimore	9.9%	-2
Chicago	6.4%	-17	Baltimore	7.1%	-15	New York	6.3%	-23	Los Angeles	9.7%	-8
Washington DC	5.1%	-28	Miami	7.5%	-16	Houston	-3.2%	-43	Boston	8.0%	-12
Houston	-2.3%	-50	Houston	6.7%	-17	Washington DC	4.2%	-46	New York	7.1%	-25

Source: NCREIF Property Index as of Sept 30, 2016. Past performance is no guarantee of future results.

Apartments – Denver and several west coast cities (Portland, Seattle, San Diego, and Los Angeles) led the index, although San Francisco pulled back sharply. Sun Belt markets like Atlanta, Phoenix, and Fort Lauderdale outperformed. On the east coast, Boston fared well but New York and Washington D.C. were soft. Capital values fell in Baltimore and Houston.

Industrial – The top eight industrial markets were along the west coast, running from Portland to San Diego. Fort Lauderdale was the only other significant market that outperformed the national industrial index. Major distribution markets (e.g., Chicago, Atlanta, and Dallas) generally underperformed, although their absolute returns were still impressive. Houston's industrial market held up better than its apartment and office markets.

Office – Several tech markets fared well, including San Jose, Oakland, Portland, and Austin. Among the major coastal markets, San Francisco, Los Angeles and Boston were top performers. Returns were weaker in New York and Washington D.C., where fundamentals have slackened. In Texas, Dallas and Austin prospered while Houston suffered values losses, as local energy companies retrenched.

Retail – Several popular tourist destinations, including Orlando, Phoenix, and Miami, delivered strong returns. Otherwise, the performance ranks differed from those of other sectors. While real estate generally languished in Houston and Washington D.C., the retail sector in these cities outperformed. Conversely, retail property underperformed in Los Angeles and Boston despite solid returns in other sectors. New York's retail market was relatively weak, although values increased modestly.

[3] Four-quarter cumulative returns ending third quarter 2016.

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Broad Equities (S&P 500 Index): The S&P 500 Index tracks the performance of 500 leading U.S. stocks and is widely considered representative of the U.S. equity market.

Private Real Estate (NCREIF Property Index, NPI): The NPI represents data collected from the Data Contributing Members of the National Council of Real Estate Investment Fiduciaries (NCREIF). NCREIF's Universe of Properties include all properties that have been acquired on behalf of tax-exempt institutions and held in a fiduciary environment.

Listed Real Estate (FTSE NAREIT All Equity REITs Index): The FTSE NAREIT US Real Estate Index is a free float adjusted market capitalization weighted index that includes all tax-qualified REITs listed on the NYSE, AMEX and NASDAQ National Market.
LIBOR: LIBOR, or the London Interbank Offered Rate, is a widely used benchmark for short-term taxable interest rates.

(Bonds) Barclays U.S. Government//Credit Index: The Barclays Capital U.S. Government/Credit Index tracks the performance of U.S. Treasuries and credit level corporate debt.

Sources: BBA, NAREIT, NCREIF, Russell, S&P, Bloomberg and Wikipedia.

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Investment in real estate may be or become nonperforming after acquisition for a wide variety of reasons. Nonperforming real estate investment may require substantial workout negotiations and/ or restructuring. Environmental liabilities may pose a risk such that the owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under, or in its property. Additionally, to the extent real estate investments are made in foreign countries, such countries may prove to be politically or economically unstable. Finally, exposure to fluctuations in currency exchange rates may affect the value of a real estate investment.

Key Risks of Real Estate Investments

Investments in Real Estate are subject to various risks, including but not limited to the following: Adverse changes in economic conditions including changes in the financial conditions of tenants, buyer and sellers, changes in the availability of debt financing, changes in interest rates, real estate tax rates and other operating expenses; Adverse changes in law and regulation including environmental laws and regulations, zoning laws and other governmental rules and fiscal policies; Environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established; Changes in the relative popularity of property types and locations; Risks and operating problems arising out of the presence of certain construction materials; and Currency / exchange rate risks where the investments are denominated in a currency other than the investor's home currency.