REAL ESTATE OUTLOOK

March 2014

SEATTLE | 206.622.3700
LOS ANGELES | 310.297.1777
www.wurts.com

TABLE OF CONTENTS

Executive Summary	*Page 3*
Real Estate Capital Markets Overview	*Page 5*
Investment Strategies	
▪ Core Real Estate	*Page 12*
▪ REITS	*Page 17*
▪ Value Add & Opportunistic	*Page 21*
▪ Real Estate Debt	*Page 25*
▪ Global Real Estate	*Page 28*
Summary Tables	*Page 30*
Appendix	
▪ Real Estate 101	*Page 35*

EXECUTIVE SUMMARY

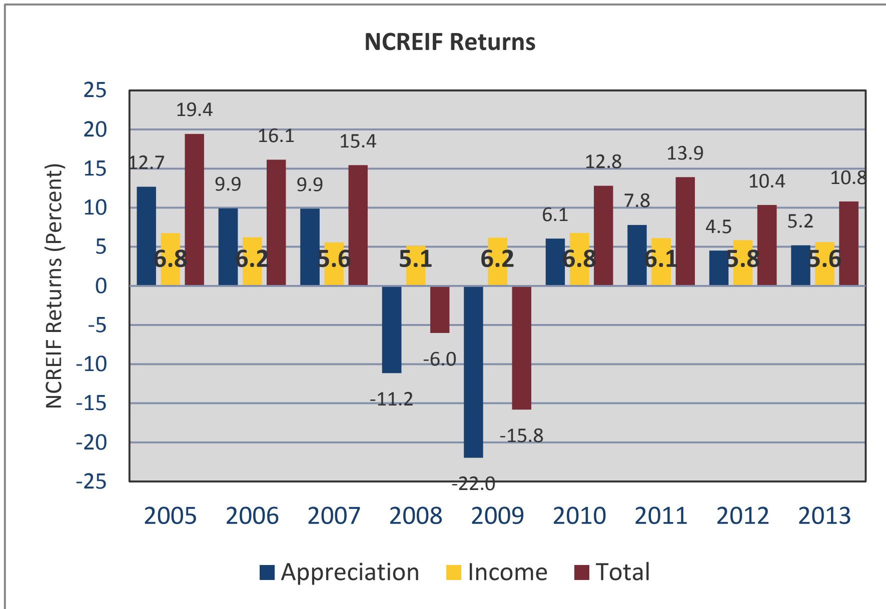
- Real estate represents a strategic, illiquid asset in a portfolio, and allocations to it should be made accordingly.
- Income growth and capital flows into real estate should drive real estate returns. If interest rates were to rise substantially over the next year, returns and cap rates would come under pressure; however, this outcome is less likely.
  - **Core real estate** is fairly-to-attractively valued compared to public equities and bonds. Expected returns will likely be lower than over the last four years as price appreciation slows, but will remain attractive, relative to other asset classes on a risk adjusted basis.
  - **REITS** are attractively priced relative to their own history, following the 2013 sell-off, and when compared to bonds and credit.
  - **Value add investment** remains attractive, relative to core real estate. The rise in prices of prime properties in faster growing primary markets has created opportunities for redevelopment and repositioning strategies to generate value.
  - **Real estate debt strategies** remain attractive in an environment that reflects economic strength, but investors must be cognizant that the current US real estate cycle is nearly five years old and that current default rates are low relative to history.
- Real estate exposure remains an attractive part of a total portfolio. However, investors need to be comfortable with the economic views they are expressing if they decide to tilt their investment in real estate towards the sectors that currently appear to be most attractive.

	Primary Markets	Secondary Markets
High Quality Properties	**Neutral** ▪ Cap rates low ▪ Multi-family property prices high with rent growth slowing and inventory rising ▪ Office, Retail and Industrial inventory at above average prices and rent growth slow. ▪ Attractive-to-fairly valued relative to bonds and equities	**Unattractive near-term** **Attractive long-term** ▪ Cap rates higher than in high quality, primary markets but muted economic growth is limiting price and rent growth in secondary markets ▪ More attractive cap rates appear to be attracting capital, encouraged by signs of growth expanding beyond primary markets
Low Quality Properties	**Attractive** ▪ Higher cap rates than high quality, class A properties ▪ Limited supply of class A properties in primary markets creates opportunities for value add strategies to convert class B property to class A, generating higher occupancy and rents	**Unattractive** ▪ Inexpensive, but the markets' preference for class A properties and weaker growth limits the demand for lower quality class B properties

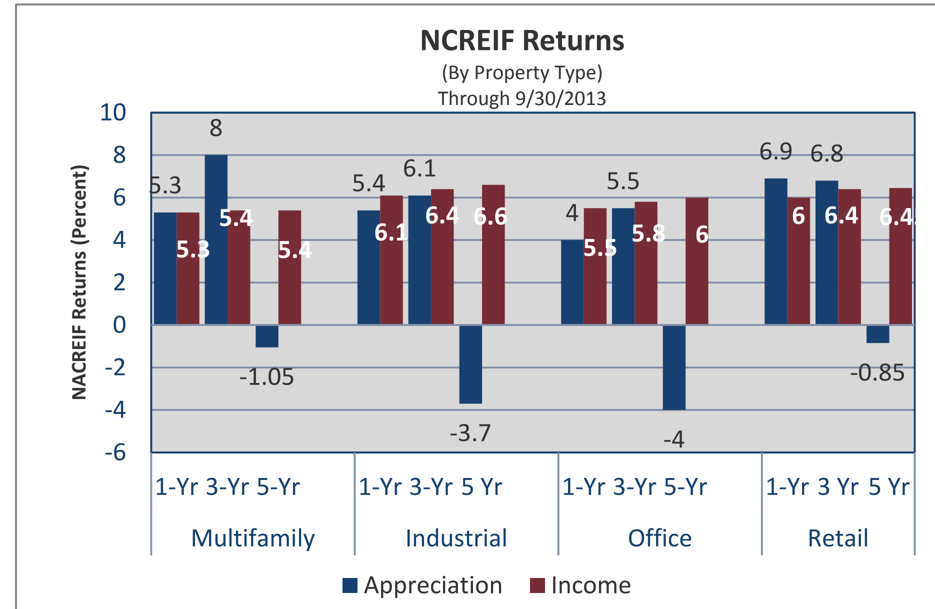
REAL ESTATE CAPITAL MARKETS OVERVIEW

HISTORICAL REAL ESTATE RETURNS

- Commercial real estate has enjoyed four straight years of double digit returns.
- Although historically around 70% of core real estate returns have come from income, investors have sought out stable, income producing properties, driving prices higher. This has led to nearly 50% of total returns coming from appreciation, over the last three years.
- Multi-family housing has enjoyed the strongest returns over the last three years, driven by both income growth and above average appreciation.
- Retail and industrial properties outperformed multi-family during 2013. Appreciation of multi-family properties slowed, while income growth for retail and industrial properties accelerated.
- Office continues to underperform the other core asset classes, reflecting fundamentals characterized by high unemployment, slow job growth and secular changes to the demand for office space.



Source: NCREIF



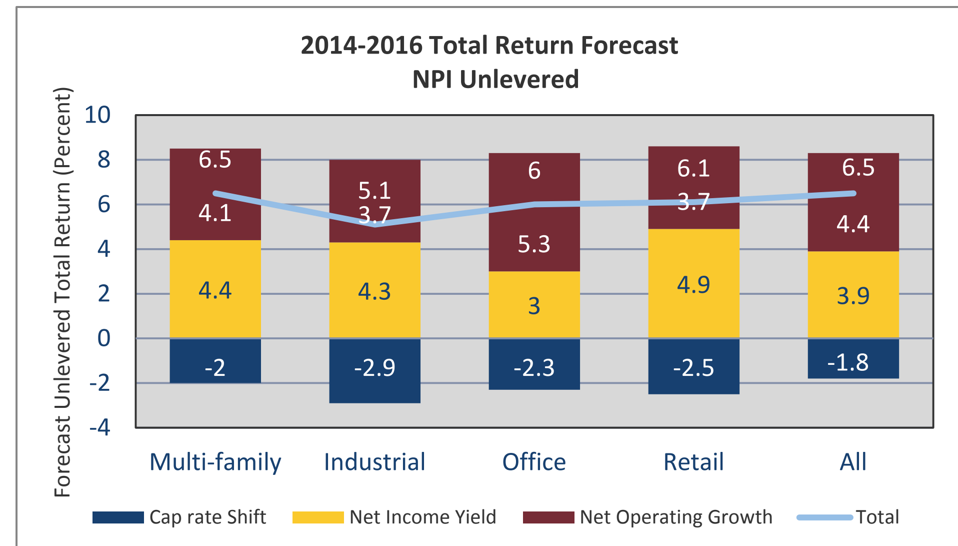
Source: NCREIF

Fundamentals suggest expected returns to core real estate in the next three years will be close to historical averages

- There are two key ways to estimate likely returns for real estate. They appear to roughly agree, as to the likely outcomes.
  - Capital market based approaches to forecasting real estate returns, including that employed by Wurts & Associates, suggests unlevered returns of approximately 6% to 8% over the next seven to ten years for each of the core property sectors.
  - The alternative approach involves calculating the sum of net income yield, income growth and changes to cap rates. One forecast (Deutsche Bank/RREEF) that is representative of this approach suggests core real estate returns of approximately 6.5 percent. Expected returns of approximately 8% from income and growth are offset in part by an expected rise in cap rates, driven by the belief that interest rates will rise.
- Returns will depend on the interaction of interest rates, economic growth, how real estate prices and operation income respond, and the impact on cap rates.

Wurts' & Associates Capital Markets Forecast: Core Real Estate	Private Real Estate 10-Year Forecast
Current Cap Rate	+6.1%
Capex assumption	-2.0%
Income Growth (Inflation)	+2.4%
Nominal Return	**6.5%**
Inflation	-2.4%
Real Return	4.1%

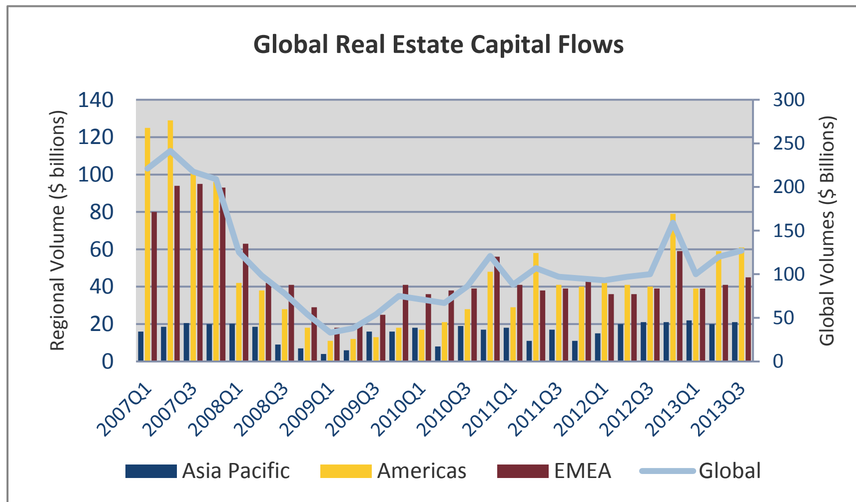
Source: Wurts



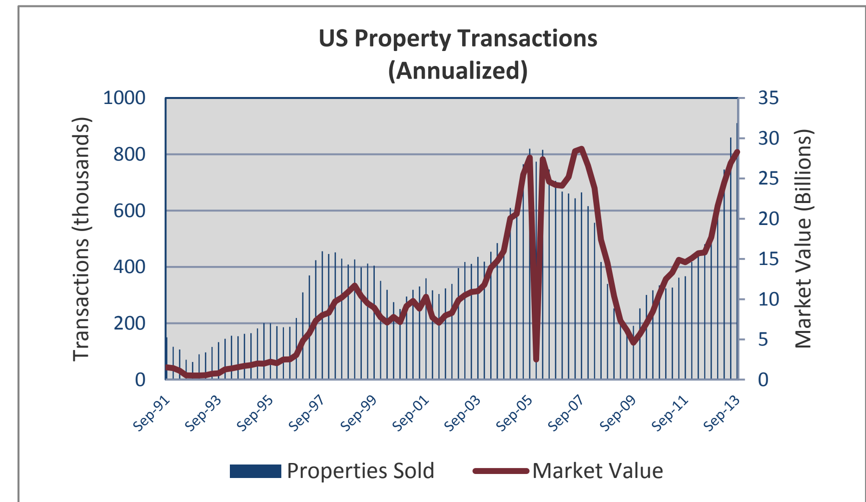
Source: Deutsche Bank/RREEF

Real estate capital flows have caused price appreciation to be a greater contributor to recent returns than is likely in the years ahead

- Global capital flows into real estate are still recovering from 2009 lows but US flows have recovered to peak levels. Investors continue to allocate assets to real estate based on improving expectations of growth. These flows have a number of implications:
  - First, US investors have disproportionately favored class A properties in faster growing primary markets. Faster growing markets have seen greater price appreciation than secondary markets.
  - Second, cap rates have been pushed down below long term averages, suggesting a greater proportion of future primary market returns are likely to come from income growth, rather than price appreciation.
  - Third, capital is waiting for confirmation of improving fundamentals in secondary markets to justify allocating capital beyond the primary markets, and their high property prices and low cap rates.
  - Fourth, growing capital flows will continue to put downward pressure on cap rates, offsetting in part upward pressure from the possibility of rising interest rates.



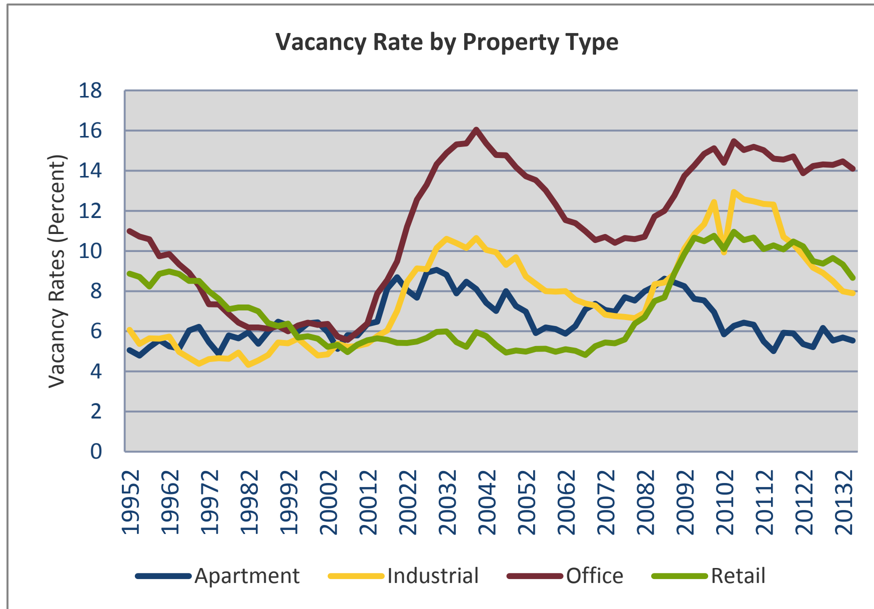
Source: NCREIF



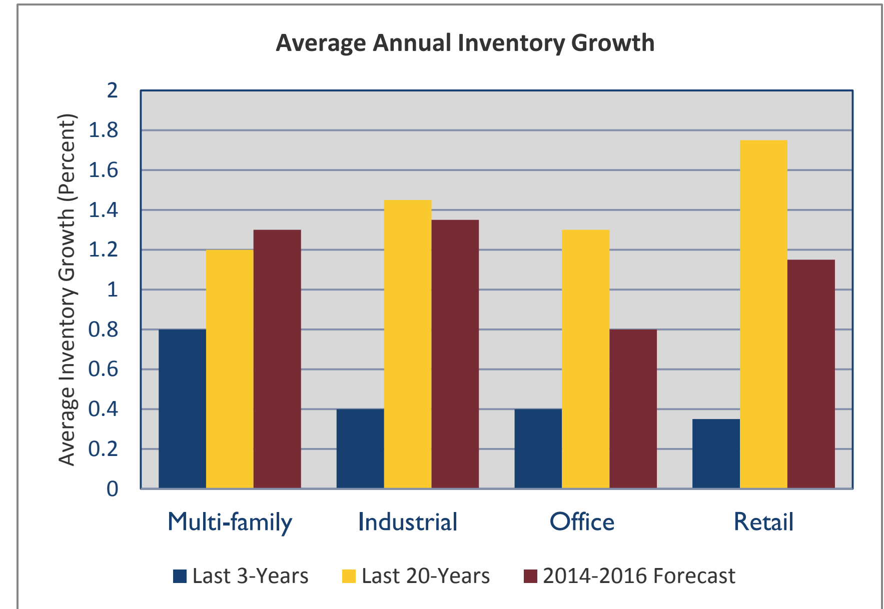
Source: CBRE, RCA

Real estate fundamentals (vacancy rates and inventory growth) are responding to economic growth

- Vacancy rates are steadily decreasing across property types (multi-family, retail, office, industrial) but, with the exception of multi-family, remain above long-term averages.
- The decrease in vacancy rates varies not only by property type, but also by location and quality. Vacancy rates have come down more in primary markets and for class A properties. Vacancy rates have fallen more for office space in core business districts of primary markets than for suburban office space, and more for lifestyle retail centers in primary markets than for suburban retail centers.
- Inventory growth has been below long-term averages over the last three years for all property types other than multi-family, where increased returns have attracted new investment. Multi-family completions in 2013 were just over 200,000 units, 50% greater than their long term average.



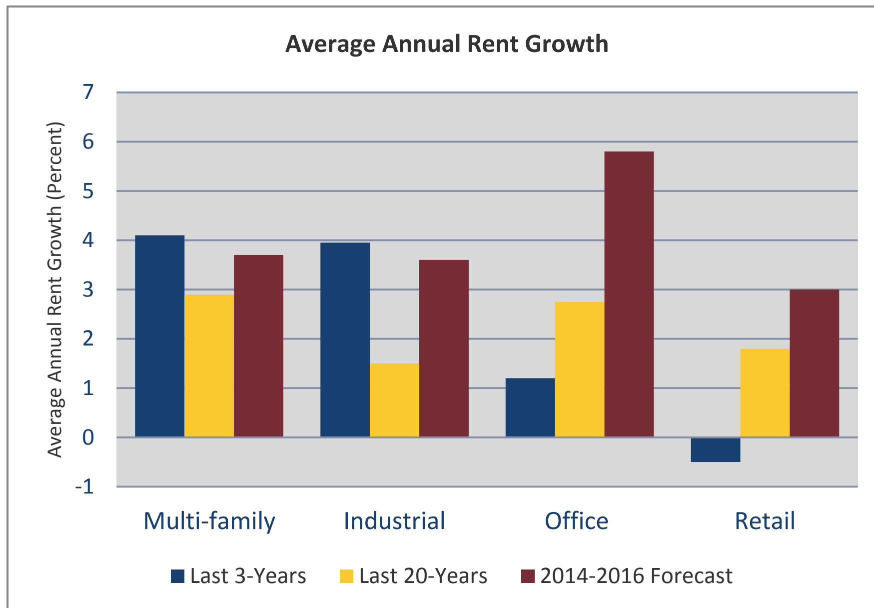
Source: NCREIF



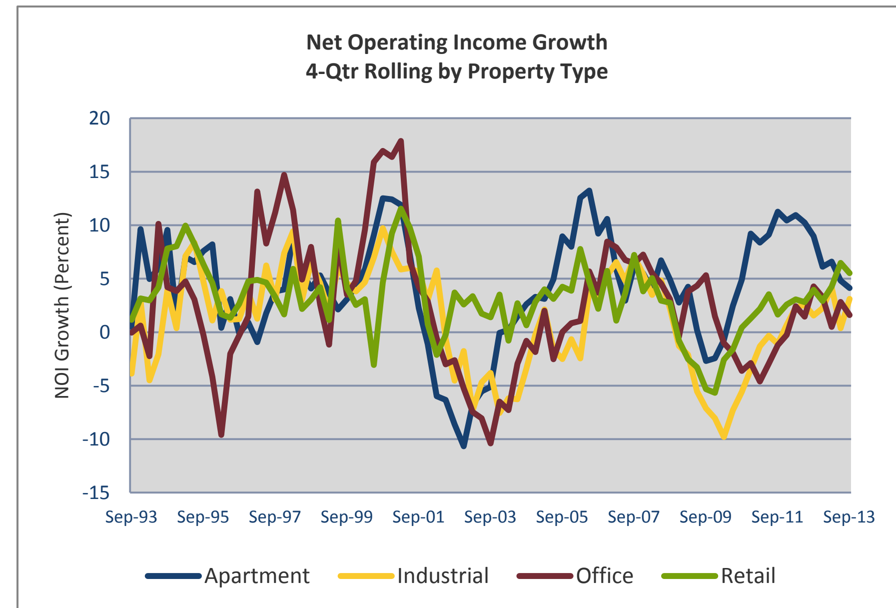
Source: NCREIF

Growth in rents and income has depended on the strength of improving fundamentals

- Over the last three years, rent growth in multi-family and industrial properties have exceeded long-term averages while office and retail rent growth remain below.
- Poor rent growth for office and retail reflect cyclical issues: weak job and personal income growth.
- Net operating income (NOI) growth rates have recovered from post crisis lows, but NOI itself has only returned to pre-crisis levels for multi-family housing.
- Uniformly, forecasts of rent growth suggest it will remain above long-term averages over the next three years, reflecting assumptions of economic growth driving demand above new inventory. Should economic growth slow, realized rent growth may not match forecasts.



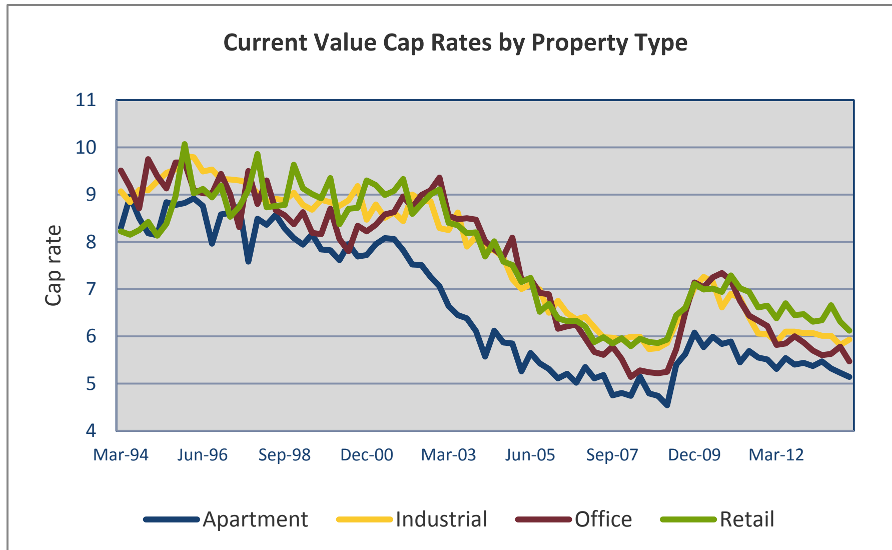
Source: Invesco, CBRE Econometrics



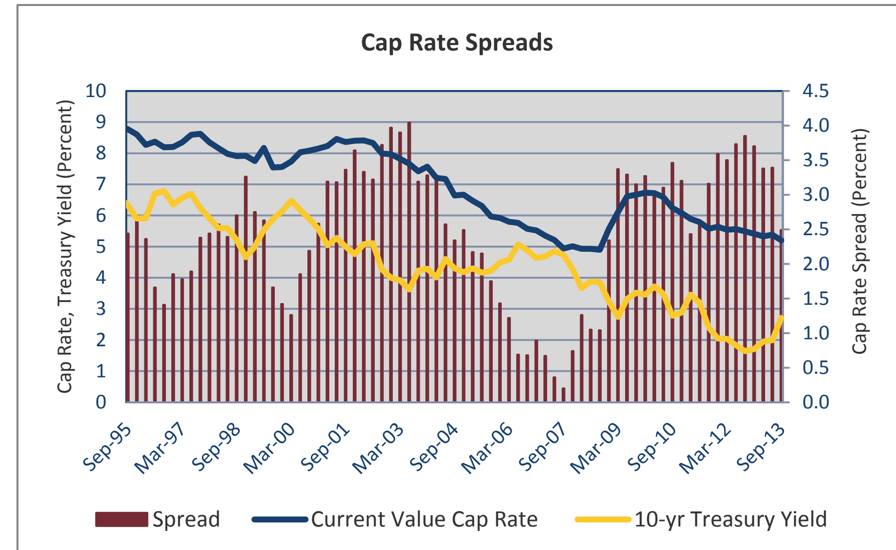
Source: NACREIF

Cap-rates have fallen to low levels, suggesting returns over the next several years will not be as good as the last four years

- With the end of QE (quantitative easing) expected in the next year, many are forecasting rising interest rates, which one might expect to reduce the value of real estate; pushing cap rates up and hurting returns.
- Historically, interest rates and cap rates have not moved in tandem. In periods where rising interest rates reflect faster economic growth, their impact on cap rates is offset in part by rising property values. This is reflected in the spread between cap rates and interest rates narrowing.
- Core real estate cap rates have fallen since the recovery began, driven down in part by an influx of assets from risk averse investors seeking stable income, which has driven up asset prices relative to income growth.
- Cap rates have stabilized in the last quarter. High core property prices in primary markets has led investors to seek out less expensive properties.



Source: NCREIF

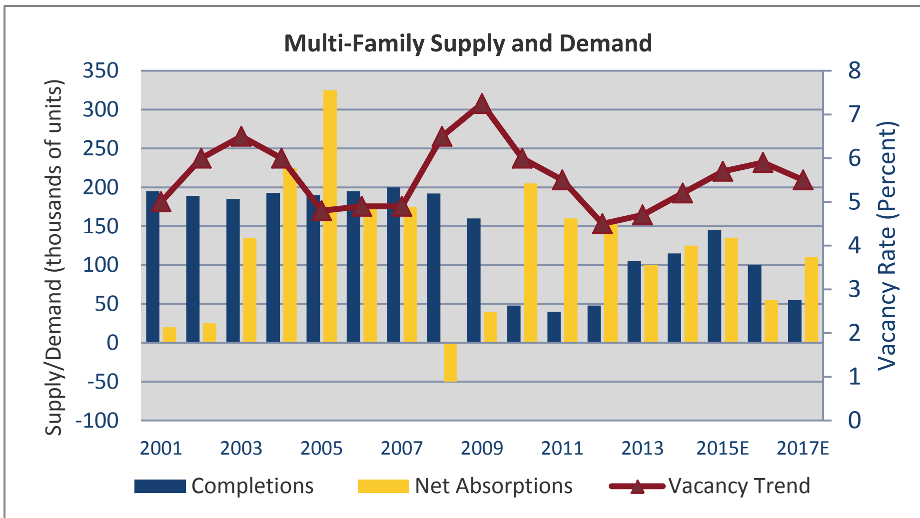


Source: NCREIF

CORE REAL ESTATE

Multi-family housing has delivered strong income growth and price appreciation over the last several years

- Nationally, new inventory of 194,000 units exceeded demand in 2013; over the next 12 months another 252,000 units will be constructed.
- For new inventory to be built (leading to slower rent growth), rents must be high enough to generate expected returns that exceed the expected costs of development.
- A review of returns at current rents compared to rents necessary to profitably support new development, reveals that the attractiveness of multi-family for new investment is market specific.
- In primary markets such as Boston and Seattle, current rents exceed required rents by double digits, making new development likely. In cities such as San Francisco, required rents are not high enough to warrant new construction, suggesting rent growth can continue. The impact on rents from new inventory will depend on the growth in demand, relative to new supply.



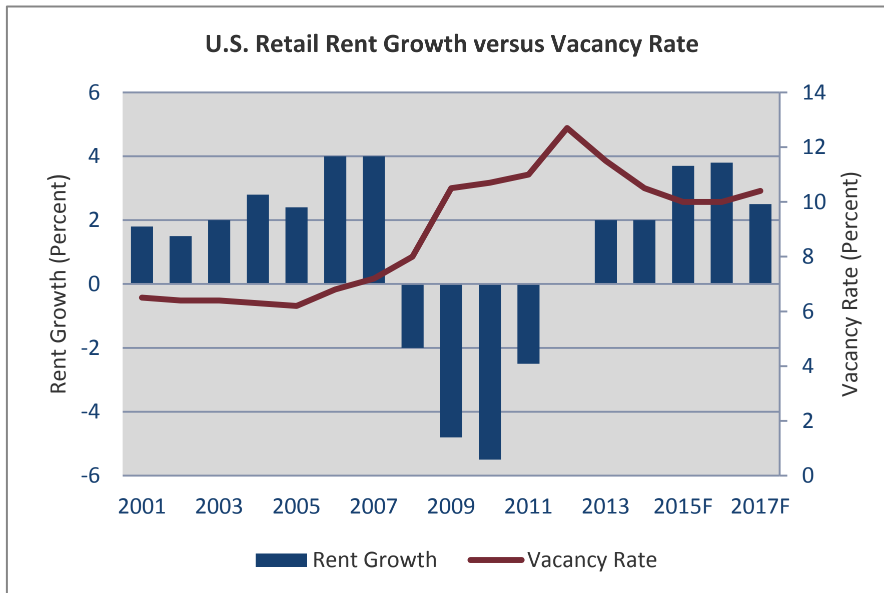
Source: Deutsche Bank/REEF

Difference Between Prime Rents and Required Rents for Development			
	Garden	Mid-Rise	High Rise
Boston	22%	25%	21%
Washington D.C.	19%	22%	19%
SE Florida	18%	14%	4%
Seattle	13%	1%	14%
Dallas	9%	9%	5%
Los Angeles	5%	8%	5%
Houston	5%	9%	1%
Austin	4%	5%	1%
Atlanta	3%	5%	4%
Denver	-2%	-4%	-5%
San Francisco	-2%	4%	3%
Chicago	-5%	-2%	1%

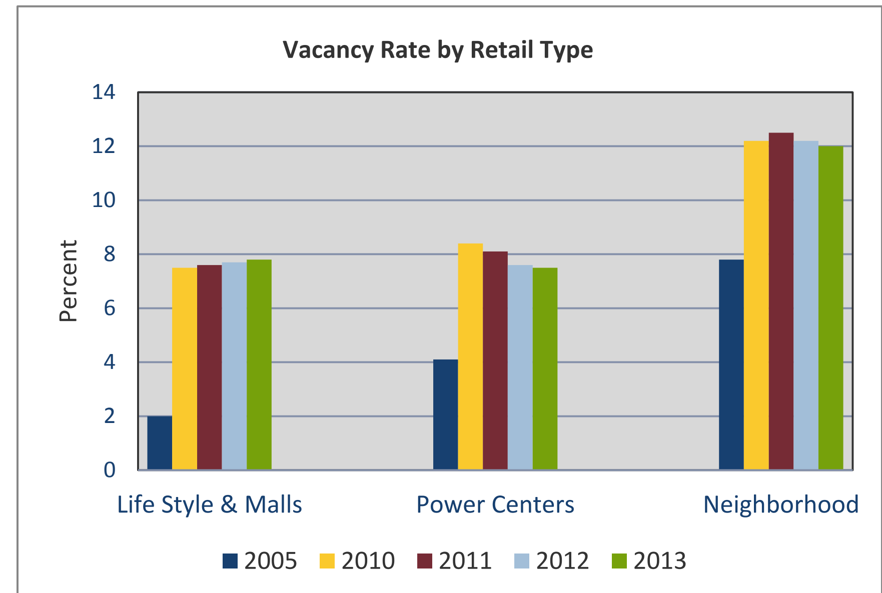
Source: CBRE

The prospects for retail properties in the next several years are improving but depend on the specific properties

- Following several years of above average vacancy rates and weak rent growth in retail was the best performing core real estate sector last year.
- Rent growth remains weak but income grew over 6% due to declining vacancy rates. Total returns benefited from over 6% price appreciation, as investors rotated into retail on expectations of continued economic and personal income growth.
- Recovery in the retail sector is highly bifurcated. High-end retailers (lifestyle & malls) in faster growing primary markets with above average income growth, as well as discounters are likely to outperform while neighborhood retailers are being hurt by slow job and income growth.



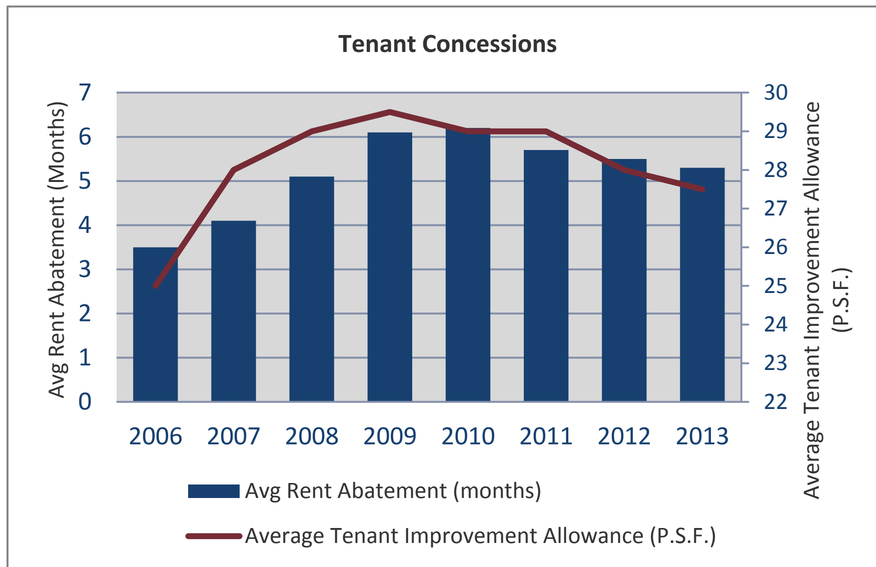
Source: Deutsche Bank/REEF



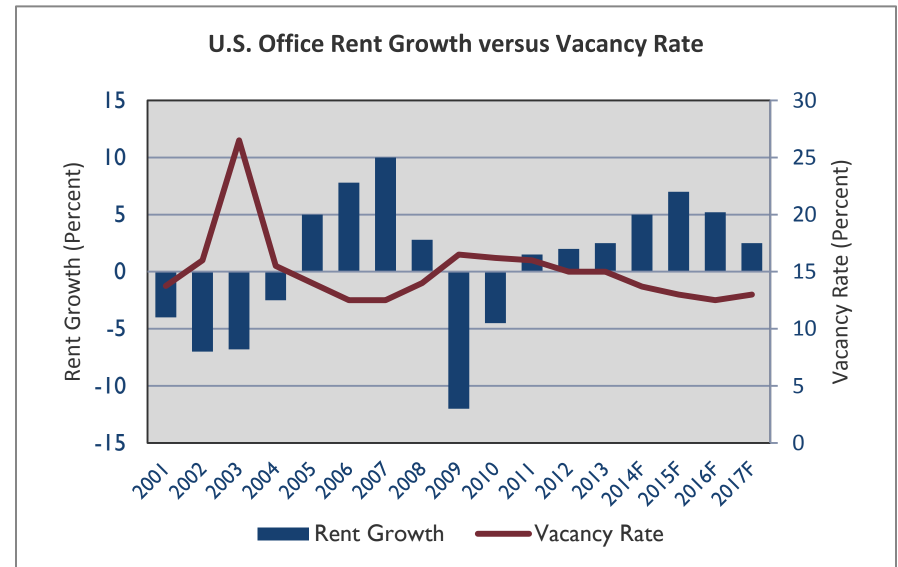
Source: CBRE

The prospects for office properties in the next several years are mixed

- Office has underperformed other core property types, driven by structural issues, cyclical weakness and secular changes to the demand for office space.
- High unemployment in the face of long leases left large amounts of leased office space under-used. Because of this, as employment recovered, vacancy rates came down more slowly than in previous recoveries.
- Long-leases signed prior to the crisis have resulted in significant excess capacity and much leased office space being rented at less than market rents. As leases renew at market rates, rent growth is expected to accelerate, benefitting income growth. Tenant concessions have peaked and are decreasing.
- A long-term head-wind to returns is an apparent decrease in the amount of office space per employee; it peaked at over 175 square feet (sf) in 2010 and has fallen to under 160 sf today.



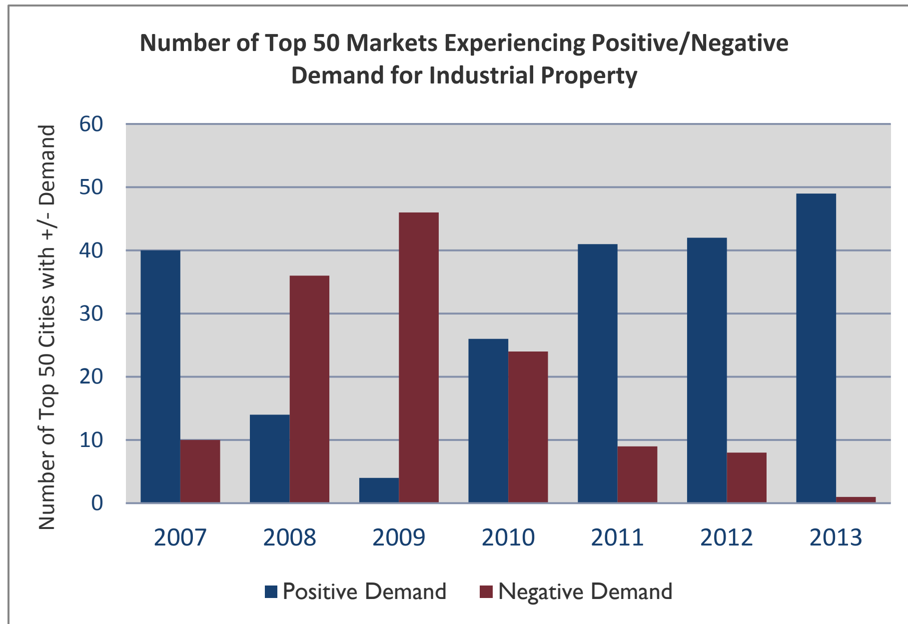
Source: Deutsche Bank/REEF



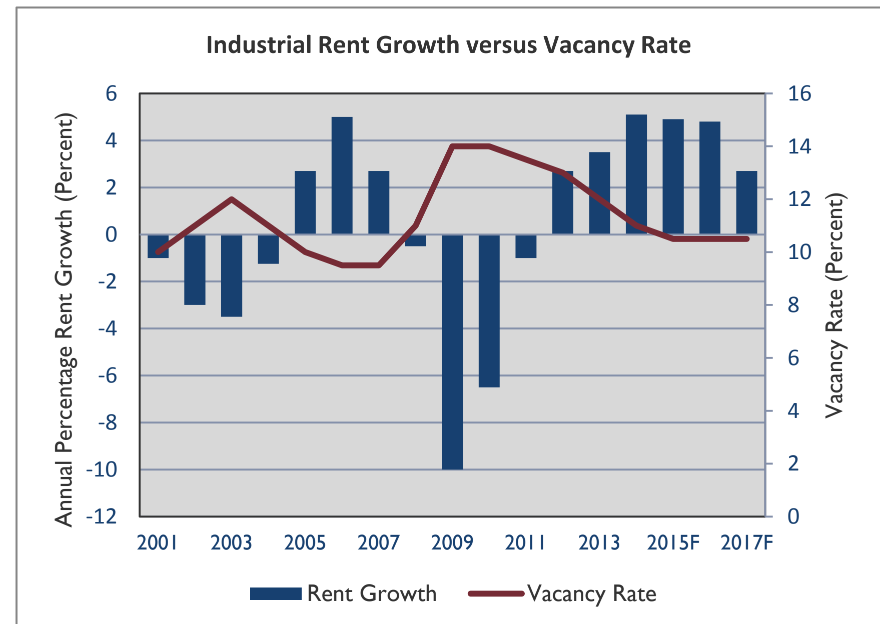
Source: Deutsche Bank/REEF

The prospects for industrial properties in the next several years is favorable

- The sector's recovery appears to be strengthening. Demand is broadening to more markets, and rent growth is showing signs of accelerating as vacancy rates approach long-term averages, due in part to modest new construction.
- Industrial properties enjoyed 12% returns over the last year, from both income growth and appreciation as investors recognized improving fundamentals, driving cap rates and total return expectations lower.
- The recovery is concentrated in warehouses located in primary markets, due in part to the growth of e-commerce. Manufacturing and flex-space has not yet recovered to pre-recession levels.



Source: Deutsche Bank/REEF

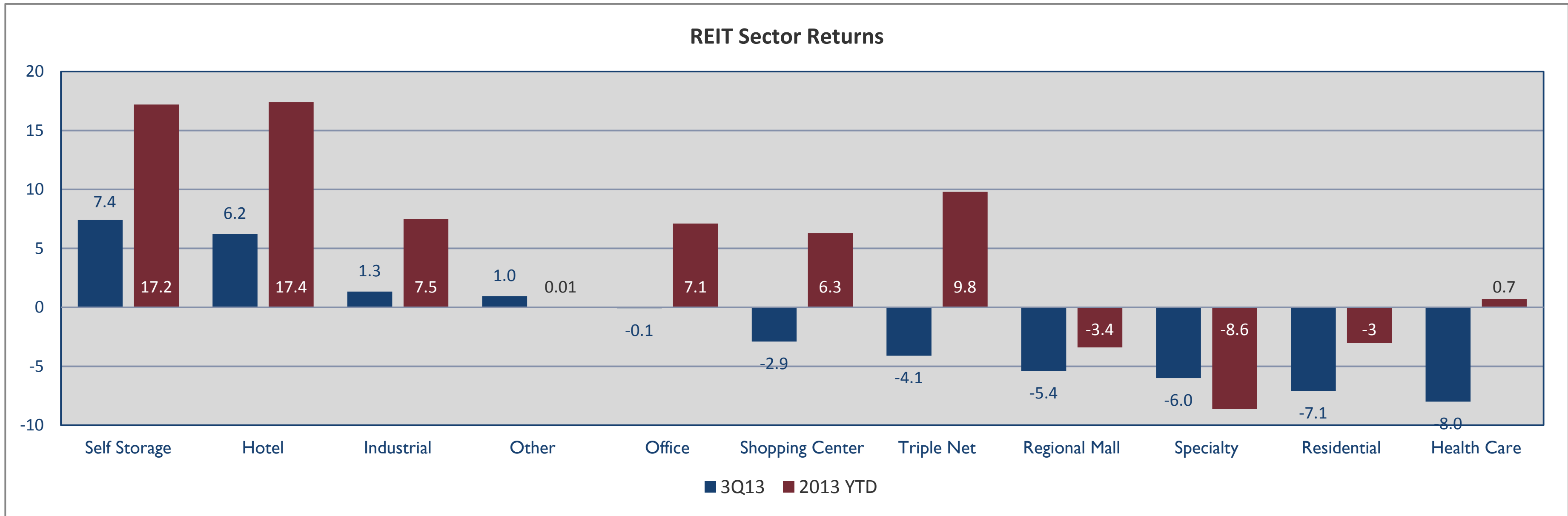


Source: Deutsche Bank/REEF

REITS

REITS underperformed in 2013

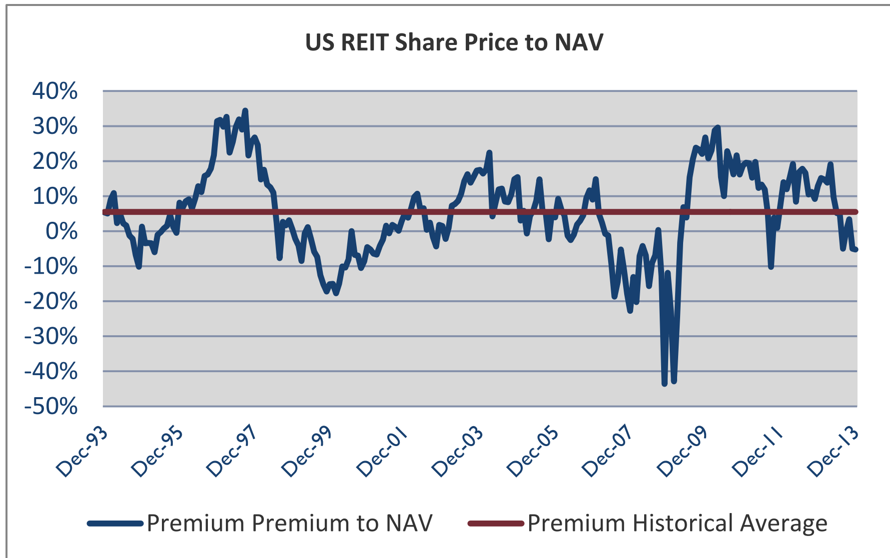
- Prior to 2013, REITS enjoyed several years of strong absolute and relative performance compared to equities, aided by easy access to equity and debt capital, as well as high acquisition activity.
- In 2013 REITs finished the year up 2%, however gains were only seen in the first part of the year. The period from May to the end of the year saw losses of 14%, due to concerns about the possibility of reduced quantitative easing, which would lead to rising interest rates.
- REITS have typically delivered positive performance during periods when rising interest rates are associated with economic growth.
- Dispersion in REIT returns was wide, with some sectors delivering double digit returns and others losing value, explained in part by their sensitivity to rising rates.



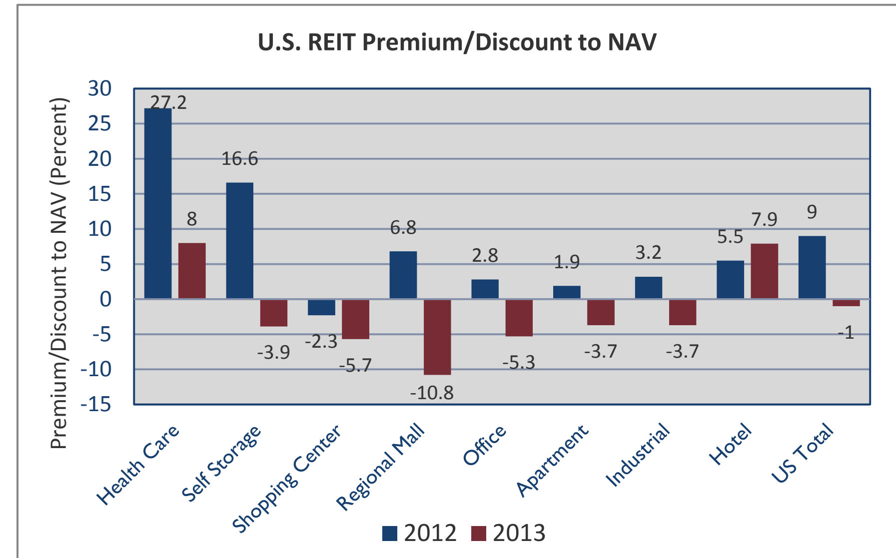
Source: Bloomberg, NAREIT, CenterSquare

REITS appear to be attractively priced

- Historically, REITS trade at a premium to their net asset value (5.5%). This is thought to be a reflection of their expected income growth.
- At the end of 2013 REITS, as a group, were trading at a discount to their net asset value (NAV) of 5%.
- This appears to suggest that relative to their NAV, REITs are inexpensive and have been less expensive only about 18% of the time.
- Across REIT sectors, dispersion in the discount to NAV is wide. The size of the discount appears to reflect volatility in rent and occupancy. Multi-family, where leases and rents reset every year, trade at smaller discount than retail where tenants enter longer leases.
- Current pricing creates an opportunity for REIT managers to create value by purchasing assets at a discount to NAV.



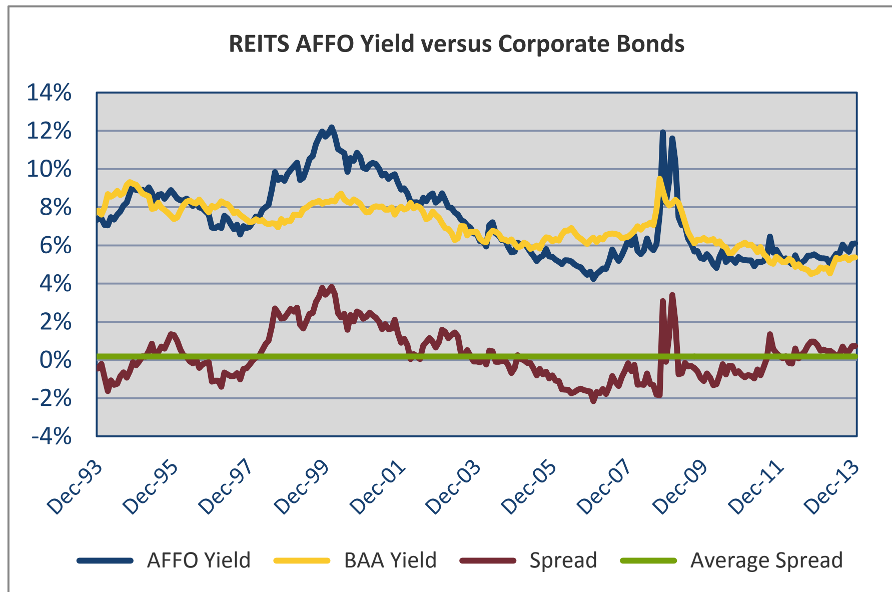
Source: Greenstreet



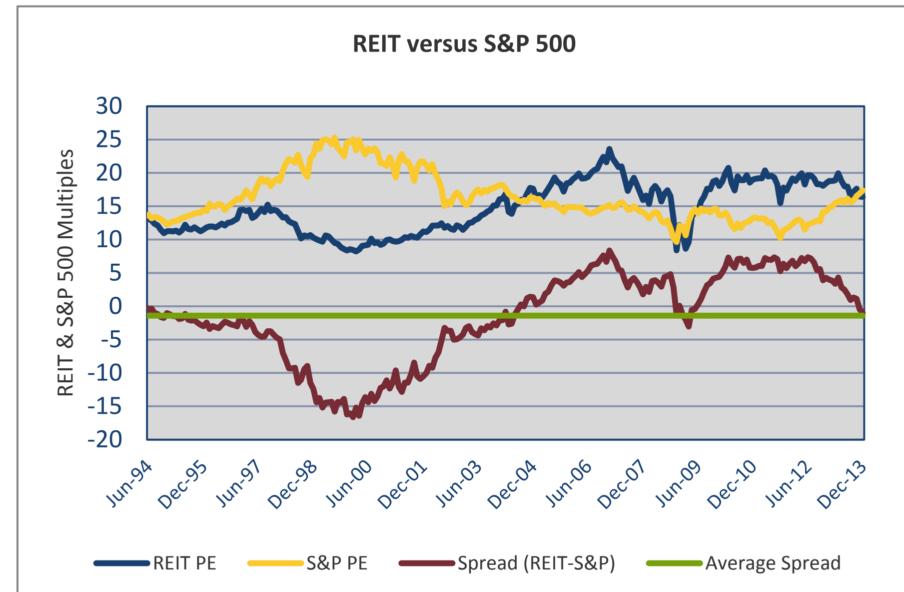
Source: Greenstreet

REITS offer attractive returns relative to other assets

- The current spread of REITs over BAA-rated corporate bonds is about 75 bp, well above its historical average, meaning that REITs are cheap relative to corporate bonds.
- REITS historically have traded at a P/E multiple that is a premium to equities. With the 2013 run-up in equity multiples and the sell-off of REITS, they now trade at a discount to equities.
- In part, the sell-off in REITS can be attributed to concerns about rising interest rates, and that rising rates will have a negative effect on property values.
- Historically however, REIT returns have been positive during periods of rising rates, reflecting the impact of economic growth on income.



Source: Greenstreet

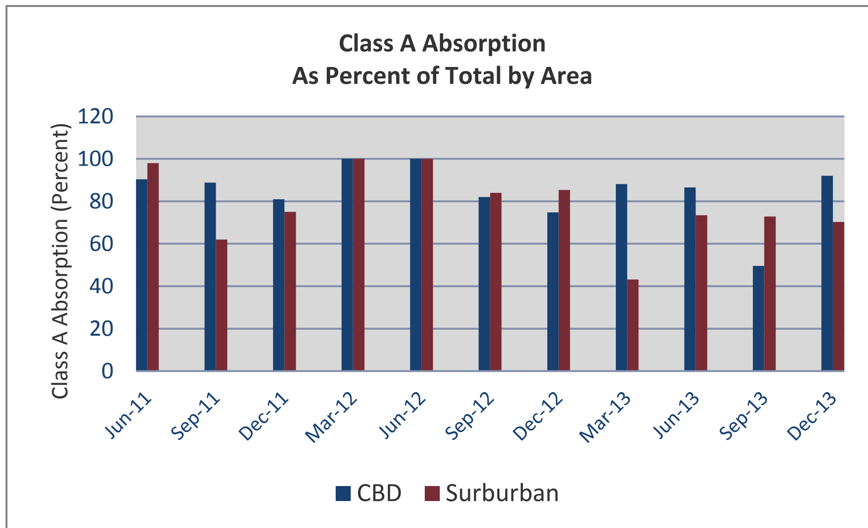


Source: Greenstreet

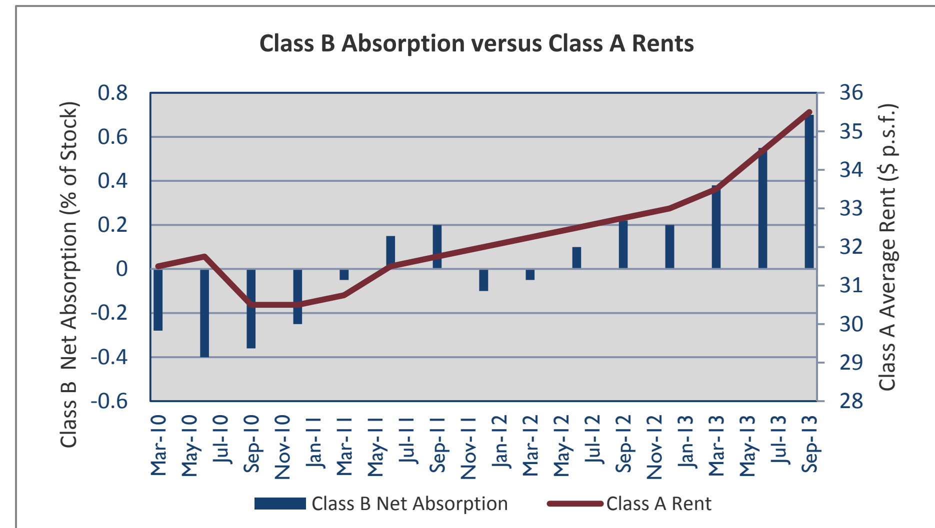
VALUE ADD AND OPPORTUNISTIC

Value add strategies attractive in the current market environment

- Compared to core properties, traditional value add assets can be acquired at more attractive prices and cap rates because they are perceived to carry greater risks (lease up risk, volatility in income, greater leverage).
- These risks can be mitigated by acquiring value add assets at the right stage of the real estate cycle, specifically, where improving fundamentals raise the prospects for leasing properties at higher rents. We believe the current state of the economic and real estate cycle provide such an environment.
- Investors' desire for stabilized, class A core assets in primary markets has resulted in high asset prices and low cap rates, leading to reduced expected returns.
- The current recovery in real estate has favored class A properties in primary markets, as evident from the high share class A properties make up of total absorption of available inventory.
- The rise in class A property prices and rents is creating opportunities for value add managers to create class A properties by acquiring and repositioning class B properties.



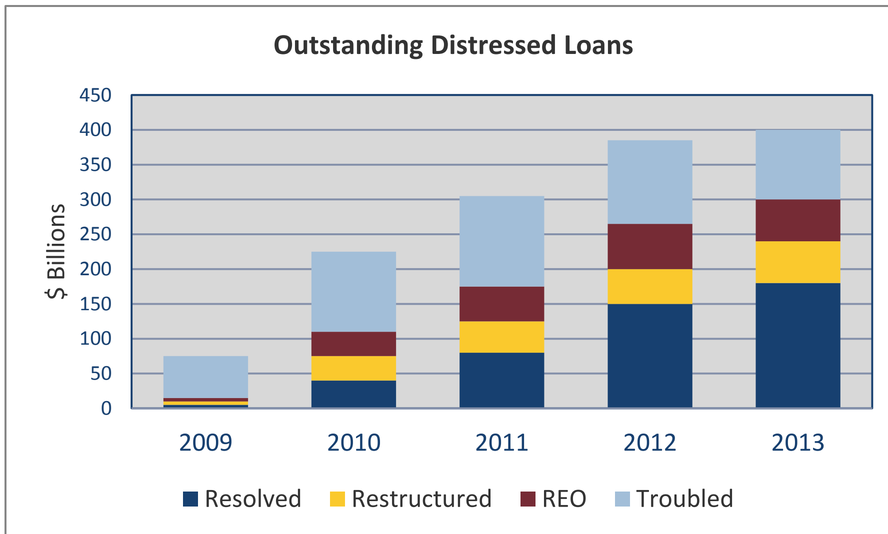
Source: Jones Lang LaSalle



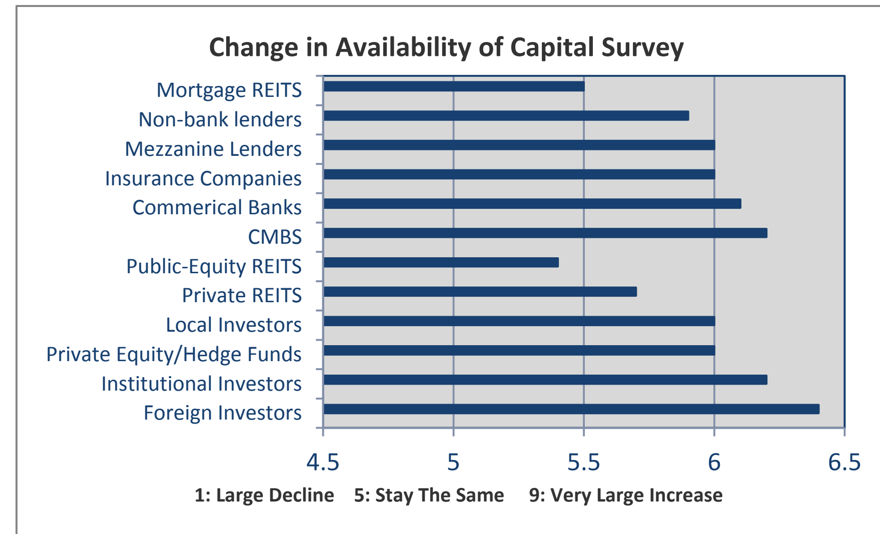
Source: Jones Lang LaSalle

Market conditions are favorable for allocations to opportunistic real estate

- Opportunistic strategies are generally thought to include investments characterized by significant risks; examples include distressed, turn-around and development assets that require large amounts of leverage and face significant lease-up risk.
- Opportunistic investments are inherently idiosyncratic and their returns reflect manager skill (alpha) in identifying and seeing a deal through its restructuring. Market conditions (beta) influence the ability of managers to mitigate risks and produce returns. In today's market, a number of market conditions point to a more favorable environment for opportunistic investments.
- First, a significant amount of distressed assets still require restructuring. Second, economic recovery appears to be broadening beyond primary markets. And third, willingness to lend for deals outside of primary markets is improving as perceived risks from doing so decrease.
- These factors along with low asset prices and cap rates raise the expected returns and reduce the risks to acquiring distressed and under utilized assets in secondary markets. These opportunities would become riskier and less interesting were economic growth to slow in the near future.



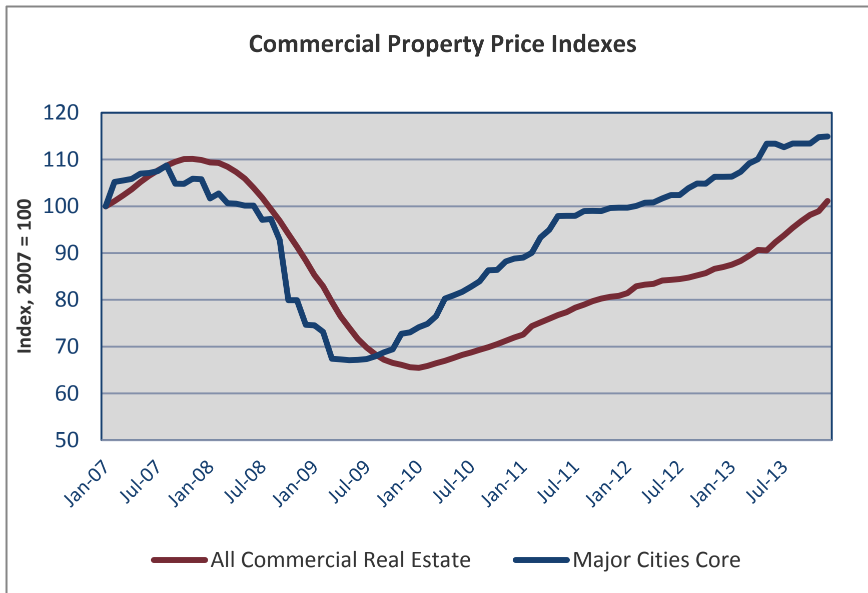
Source: Real Capital Analytics, PCCP



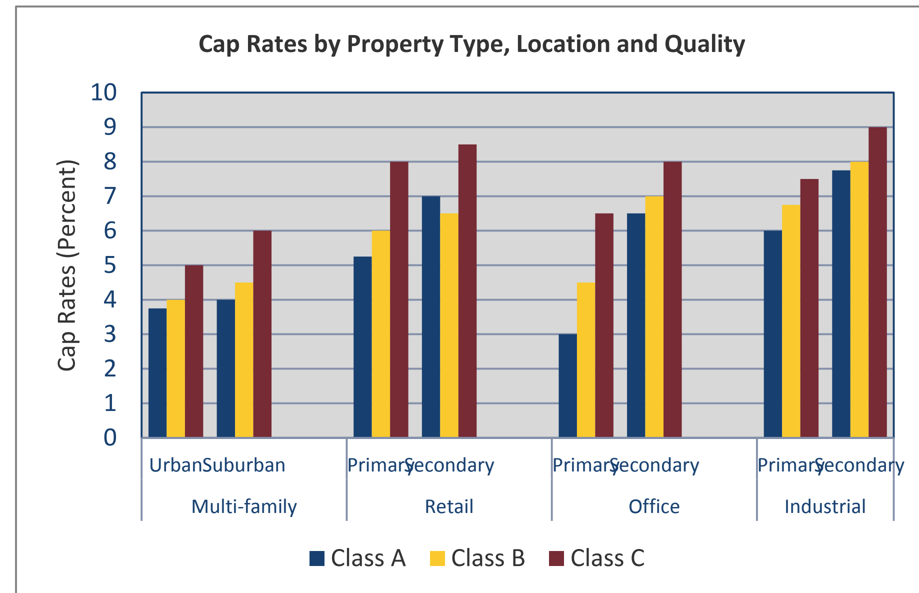
Source: Urban Land Institute, Emerging Trends in Real Estate 2014

Value add & Opportunistic strategies are still attractive at this point in the real estate cycle

- Investors might legitimately question allocating new assets to value add and opportunistic strategies five years into the current business and real estate cycle.
- The slow recovery in prices for non-class A properties has led to wide differences in cap rates. This not only creates opportunities for new investment, but also reduces the risk of owning non-core assets even in periods of slow economic growth.
- Managers with capital can acquire properties from stressed sellers at significant discounts to replacement cost. Low purchase prices allows managers to offer below market rents to increase occupancy and raise income, even in the absence of economic growth and rising rents. In fact, in a slowing growth environment, renters might choose to rotate to lower rent properties.
- Returns increase with the use of leverage, but so does risk. While non-core strategies generally employ more leverage, at current property prices and cap rates, strategies that employ low or leverage can generate attractive returns.



Source: Greenstreet, Moody's Real Capital Analytics

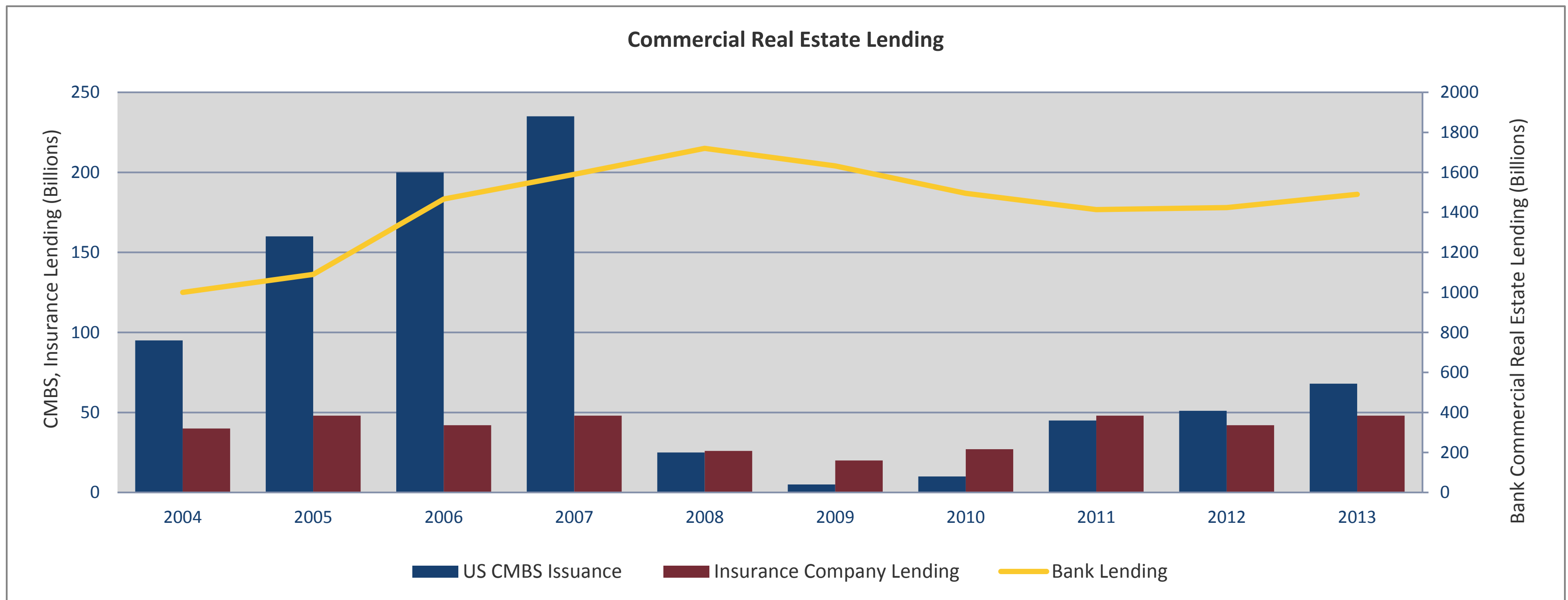


Source: CBRE

REAL ESTATE DEBT

The environment for real estate debt strategies is favorable

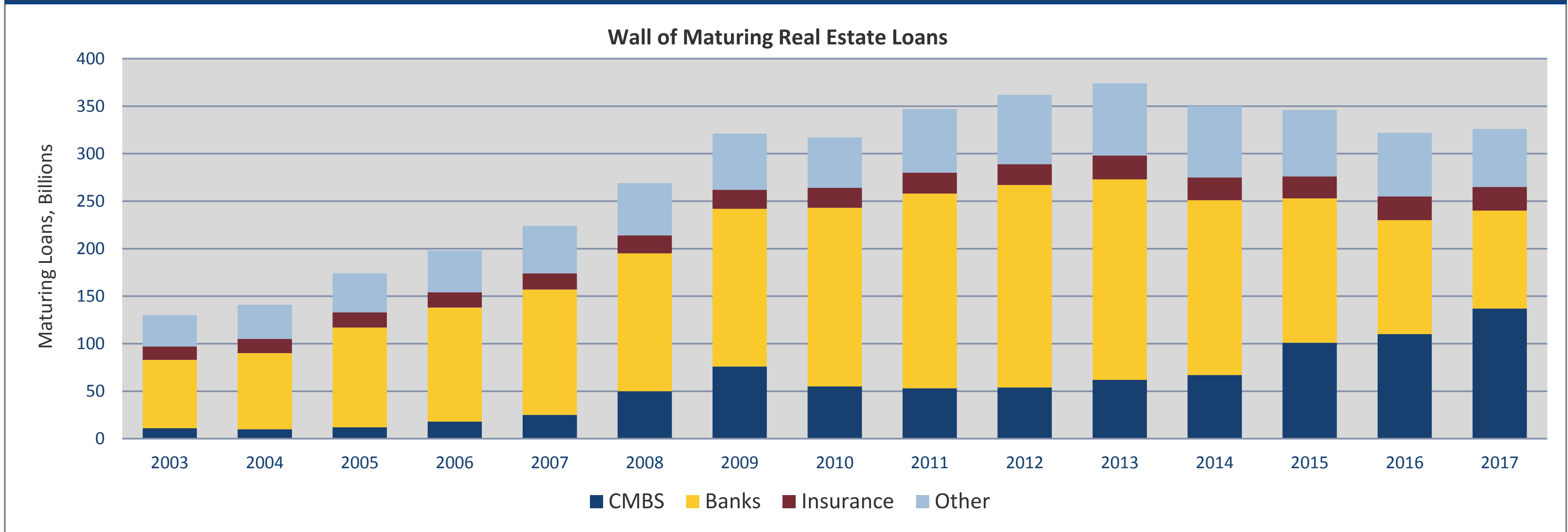
- The amount of capital available from traditional lenders (CMBS issuance, and bank and insurance company lending) for real estate is recovering from earlier lows, but at issuance levels it is insufficient to meet refinancing needs and appears to be focused on lower risk lending, creating opportunity for specialty lenders.
- For lending strategies higher in the capital structure, declining lending rates have led expected unlevered IRRs to decrease to core-like returns.
- Mezzanine lending strategies are being underwritten to mid-teen IRRs, but under assumptions of continued economic growth and "normal" default rates. Should economic growth slow, investors in debt strategies face the probability of rising default rates.



Real estate debt strategies are still attractive in a rising rate environment

- The behavior of real estate debt strategies depends on whether rising interest rates are associated with accelerating or slowing economic growth.
- Rising interest rates raise the cost of debt and lower property values, but by improving income growth, rising economic growth lowers the prospects for defaults.
- If rates rise in response to slowing growth (similar to the European sovereign/banking crisis), property prices and income would fall, raising the probability of default.
- Real estate is nearly five years into its current cycle; new investments into long-term real estate debt funds face the probability of rising default rates as the cycle matures.

Concerns about the amount of real estate debt in need of refinancing is mitigated in part by rising property prices, raising the percentage that can be refinanced.

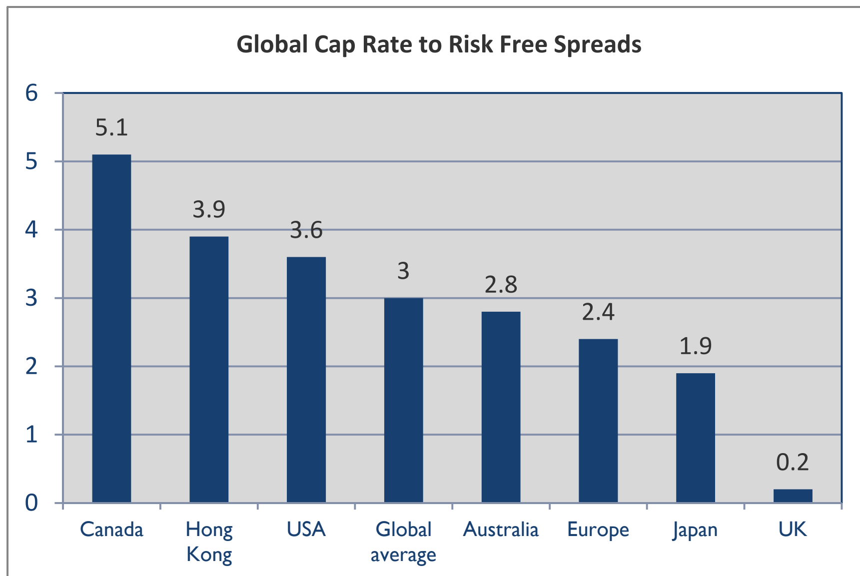


Source: Trepp

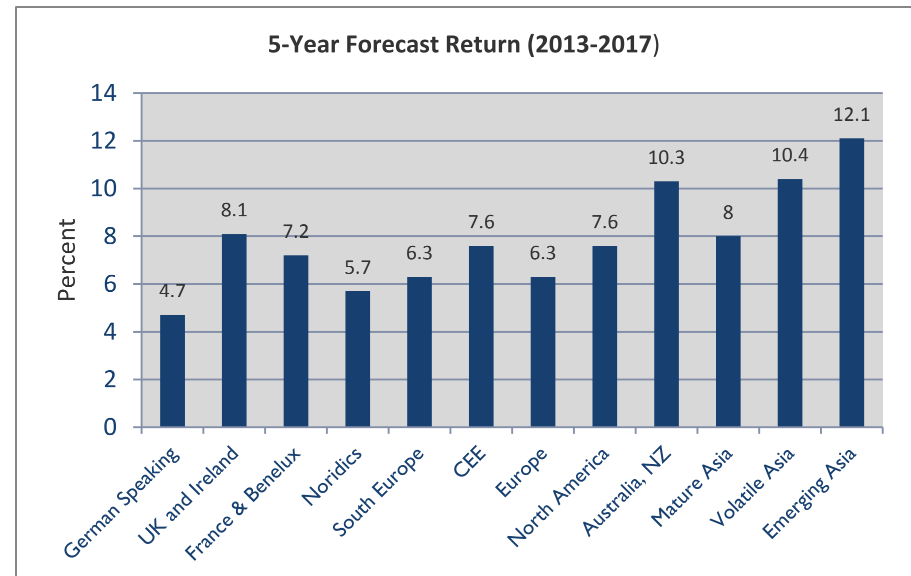
GLOBAL REAL ESTATE

Attractive opportunities exist to invest in global real estate

- With the exception of the emerging markets, it appears that global economic growth is slow but increasing. In addition, outside of the U.S., central banks will continue to provide liquidity until growth is believed to be self-sustaining, providing a favorable environment for real estate.
- Cap rates, their spreads to risk free rates, and fundamentals generate forecasted returns to core from less than 5% (German speaking countries) to over 12% (emerging Asia).
- Europe: Economic and real estate market conditions stabilized in 2013. Like in the U.S., gateway cities are expected to recover first and benefit from stronger demand and slow inventory growth.
- Asia-Pacific: Real estate conditions across Asia Pacific are diverse, reflecting different growth rates and stages in the real estate cycle. Office appears attractive in strongly growing gateway cities such as Bangkok, Beijing and Sydney. Funding gaps favor debt strategies for value add development in Australia and China.



Source: Invesco



Source: Invesco

SUMMARY TABLES

	Primary Markets	Secondary Markets
High Quality Properties	**Neutral** ▪ Cap rates low ▪ Multi-family property prices high with rent growth slowing and inventory rising ▪ Office, Retail and Industrial inventory at above average prices and rent growth slow ▪ Attractive-to-fairly valued relative to bonds and equities	**Unattractive near-term** **Attractive long-term** ▪ Cap rates higher than in high quality, primary markets but muted economic growth is limiting price and rent growth in secondary markets ▪ More attractive cap rates appears to be attracting capital, encouraged by signs of growth expanding beyond primary markets
Low Quality Properties	**Attractive** ▪ Higher cap rates than high quality, class A properties ▪ Limited supply of class A properties in primary markets creates opportunities for value add strategies to convert class B property to class A, generating higher occupancy and rents	**Unattractive** ▪ Inexpensive, but the markets' preference for class A properties and weaker growth limits the demand for lower quality class B properties

REAL ESTATE SCENARIO ANALYSIS

The behavior of the Real Estate market is highly dependent on economic activity.

Base Case

- **Probability: 40%**
- **Assumptions: 2014 GDP Growth 2.5%, 10-Yr Treasuries = 2.75%**
- **Expected Return: Average**
- **Outcome**: With cap rates at cyclical low, real estate returns depend on the speed at which vacancies decline and rents increase as price appreciation will slow.

	Slower Growth	Faster growth
Falling Interest Rates	**Probability: 20%** **Expected Return: Below Average** - Improvement in vacancy rates and rent growth slows or reverses itself depending on level of economic weakness - Weakening property prices put upward pressure on cap rates - Below average expected returns to Core on weakening/falling property prices and income - Slower growth reduces opportunities for value add repositioning and opportunistic-strategies	**Probability: 5%** **Expected Return: Above Average** - Positive supply "shock" (e.g. falling energy costs) puts downward pressure on inflation and nominal interest rates, raising demand and growth - In short-term, rising demand leads to rising rents and increasing property prices, resulting in cap rate compression and above average returns - As vacancy rates approach historical averages, opportunities for repositioning value add and development strategies improves
Rising Interest Rates	**Probability: 15%** **Expected Return: Below Average** - As Fed winds down QE policy, interest rates rise and GDP growth slows. Declining vacancy rates and rent growth slows - Primary markets and property types (multi-family), where vacancy rates are approaching pre-crisis levels will be hurt less than markets & property types where vacancy rates remain above average - Cap rates rise on weakening property prices and slowing income growth	**Probability: 20%** **Expected Return: Above Average** - Strengthening economy signals decreasing vacancy rates and rising rents - Upward pressure on cap rates from rising interest rates offset by capital inflows putting upward pressure on property prices - Expected returns to Core above long-run average on rising income and broader recovery (secondary markets) of property prices

SUMMARY OF CONCLUSIONS

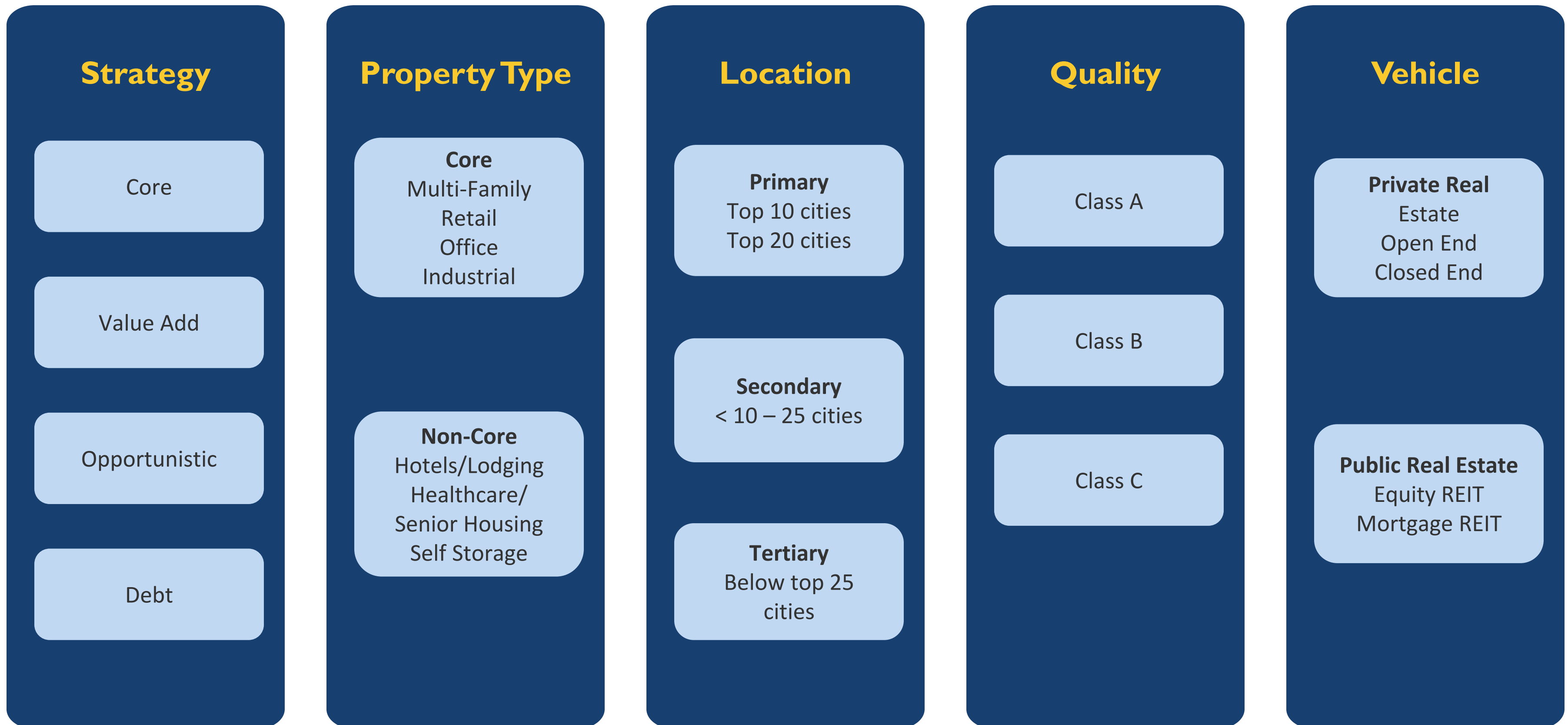
	Core Real Estate	REITS	Value Added/ Opportunistic	Credit Opportunities
Valuations	• Capital flows have driven cap rates lower from a year ago. • Expected returns are attractive relative to other asset classes on a risk adjusted basis.	• REITS are more attractively valued than in 2013. • The 2013 sell-off in response to concerns about rising interest rates has left REITS undervalued on a net asset value basis relative to their history. • REITS are inexpensive relative to corporate bonds on a spread basis and against equities on a multiple basis.	• Traditional value-add assets can be acquired at more attractive cost basis and cap rates, but they do carry greater risk. • Cost basis and cap rates for value-add properties are positively correlated with growth: prices are lower in slower growing regions, but face greater risks.	• Lending strategies are being underwritten to mid-teen IRRS, but under assumptions of continued economic growth and "normal" default rates.
Macro Considerations	• Expectations of rising interest rates will hurt property prices and push cap rates higher. • Upward pressure on cap rates will be mitigated by capital flows driving prices higher and improving income growth. • Increasing multi-family inventory and improved fundamentals for industrial properties should lead to a change in leadership within core.	• The sell-off in REITS was in response to concerns about the impact of higher interest rates. • During periods of rising economic growth, REIT income growth has offset negative impact to property prices of rising rates.	• Steady economic growth, reducing the risks to value-add properties must be weighed against the negative implications of rising interest rates. • Compared to last real estate cycle, use of leverage appears smaller, mitigating risks to ownership of owning value add properties.	• Lending for real estate is recovering from earlier lows, but is insufficient to meet refinancing needs and appears to be focused on lower risk lending, creating opportunity for specialty lenders. • Real Estate is nearly five years into its current cycle; new investments into long-term real estate debt funds face the probability of rising default rates as the cycle matures.
Alpha Opportunities	• Alpha generation in multi-family requires distinguishing between cities where rents exceed construction costs. • Secular headwinds to office and retail suggest asset allocation within core matters and sub-property types matters. High Street retail and infill distribution centers are attractive.	• Outperformance will depend on asset allocation decisions across REIT sectors. • Dispersion of returns across REIT sectors has been wide and appears to reflect volatility in rent and occupancy. Multi-family, where leases and rents reset every year trade at smaller discount than retail where tenants enter longer leases.	• Opportunities to generate alpha are greatest for assets in gateway cities where growth has reduced available supply of Class A multi-family or in secondary markets where value spreads exist. • Value creation can be achieved without cap rate compression through successful asset specific derisking.	• Avoiding defaults through strong covenants and loan sizing based on ability to meet debt service coverage ratios is critical to alpha generation.
Outlook	Neutral	Positive	Postive	Neutral

APPENDIX

REAL ESTATE 101

REAL ESTATE DIMENSIONS

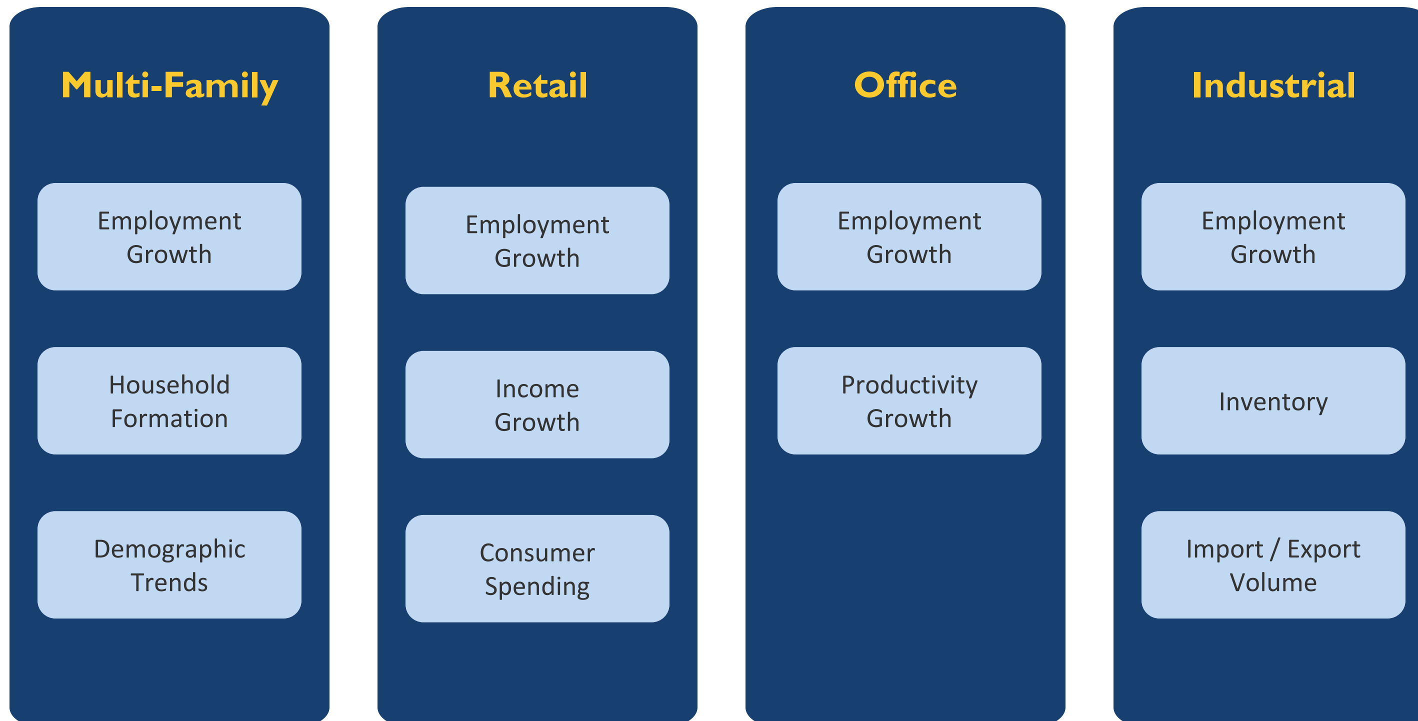
- Investors considering an investment in real estate are confronted with a range of decisions about the type of strategy, property type, location, quality of the property they wish to invest in, as well as whether they prefer a private investment or to access real estate through the public markets.



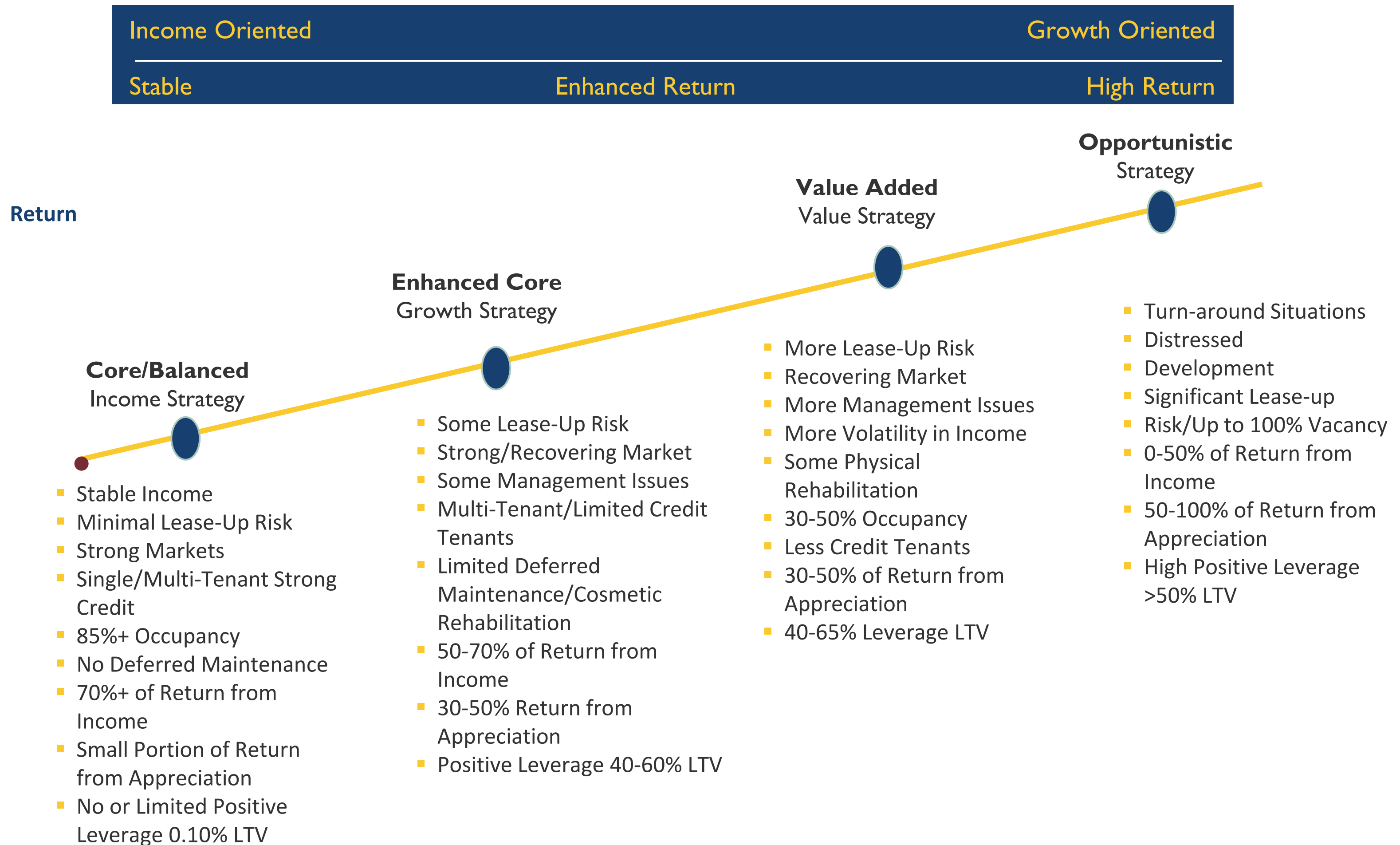
- All real estate investment decisions require the investor make selections from these categories.

Economic Drivers of Demand

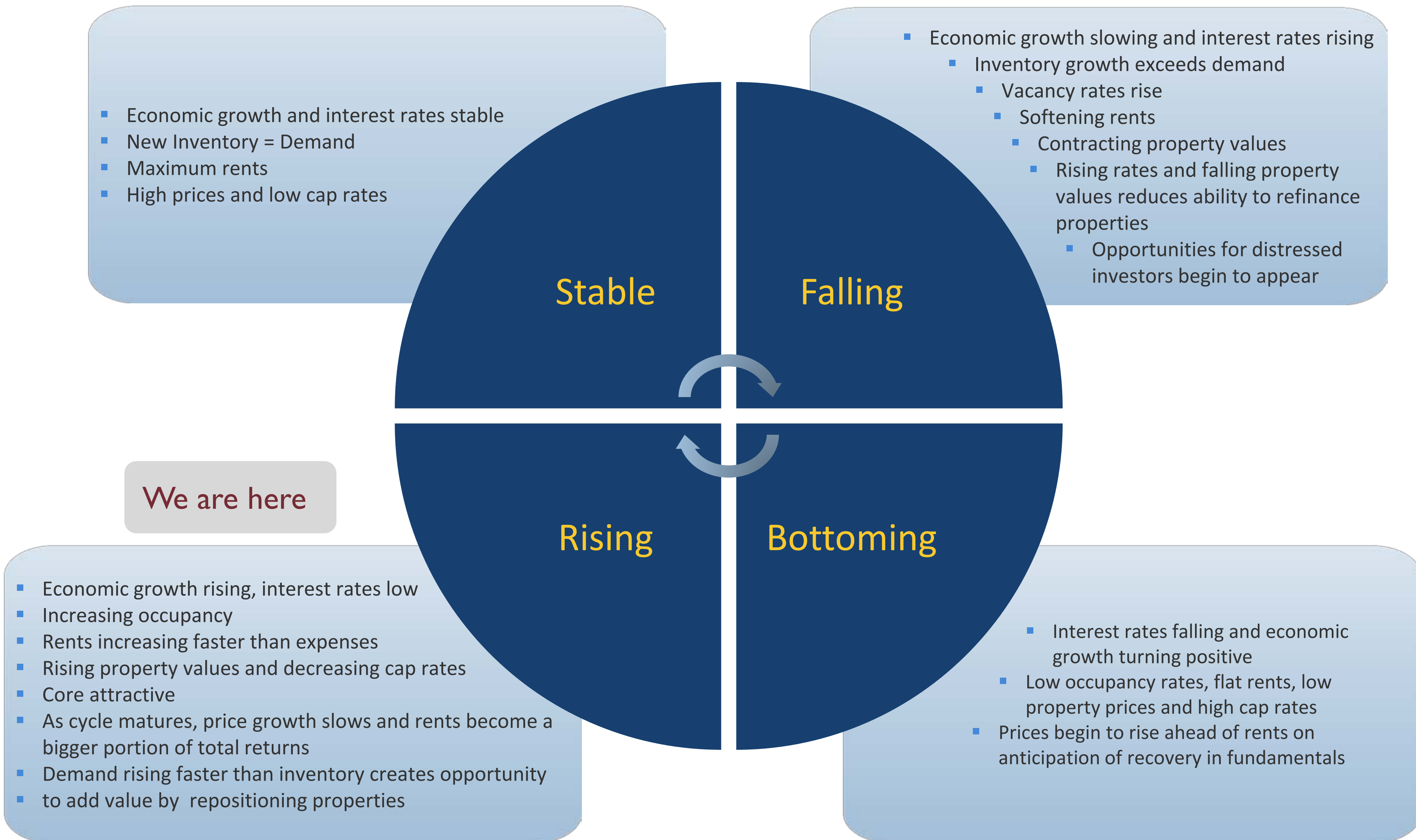
- The returns to real estate depend on the behavior of real estate fundamentals. Rents and net operating income depend on inventory growth and vacancy rates. Inventory growth and vacancy rates depend on the drivers of economic growth such as employment growth, income growth and a host of other drivers.



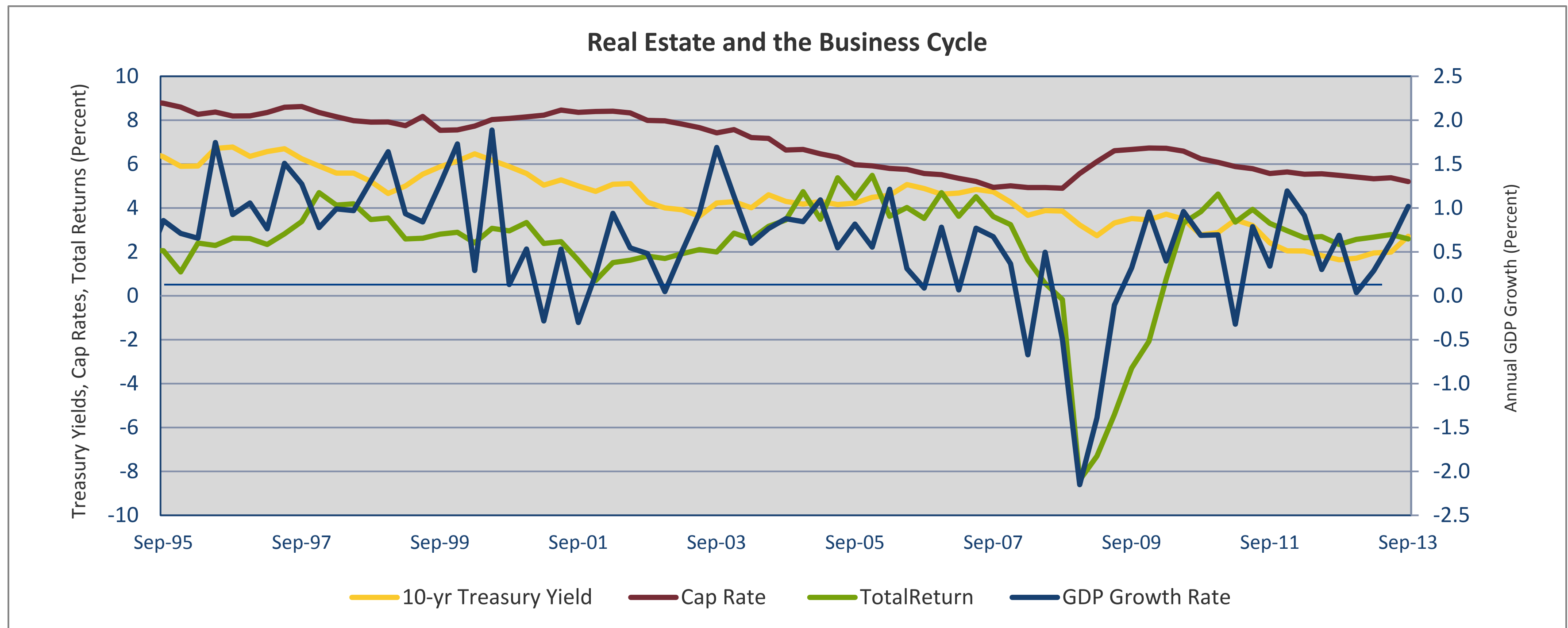
Core Real Estate focuses on high quality tenants and properties, while Value Added and Opportunistic strategies take more risk with under-leased properties or development opportunities, and use more leverage.



REAL ESTATE MARKET CYCLE



- Total returns to core real estate tends to track changes in GDP growth.
- Over longer periods, property prices, cap and total returns tend to move inversely with Treasury yields while cap rates move inversely.
  - Falling Treasury yields, by supporting faster economic growth support higher property prices, decreasing cap rates, and higher real estate returns.
  - Rising Treasury yields by reducing growth, reduce property values, drive cap rates higher and reduce total returns over the long-run.
  - Over shorter time horizons, rising Treasury yields can reflect faster economic growth which is supportive of rising property prices, cap rates, and real estate returns.



Capitalization Rate (Cap Rate): a rate of return on a real estate investment property based on the expected income that the property will generate. It is calculated by dividing the income the property will generate (after fixed costs and variable costs) by the total value of the property.

Commercial Mortgage-Backed Security (CMBS): a type of mortgage-backed security that is secured by the loan on a commercial property.

Core: real estate properties that include the major property types - offices, apartments, retail, and industrial that are most liquid, most developed, and least leveraged. The assets are held for a long period of time to take full advantage of the lease and rental cash flows they provide. The majority of the returns come from the cash flows vs. value appreciation.

Current Value Cap Rate: a rate of return on a real estate investment property based on the appraised value of the property. The property valuation could be done relatively infrequently, resulting in the appraised price that could be different from the actual transaction price.

NCREIF Property Index (NPI): an index compiled by the National Council of Real Estate Investment Fiduciaries based on voluntary reporting of its members that includes pension funds, real estate investment professionals, appraisers, academics, and consultants to track performance of direct real estate investments. The NPI provides the returns for an institutional-grade real estate portfolio held by large U.S. investors. The index includes quarterly reported appraised prices of offices, apartments, retail, industrial, and hotels.

Net Asset Value (NAV): a mutual fund per share value calculated by dividing the total value of all the securities in its portfolio, less any liabilities, by the number of funds shares outstanding.

Net Operating Income (NOI): NOI is equal to a property's yearly gross income less operating expenses. NOI is equal to net rental income + depreciation + amortization + interest expense – non-reoccurring income. NOI is used in the calculation of the Cap Rate (Cap Rate = NOI/Transaction Value).

Opportunistic: real estate properties that have high risk and return profile and often require extensive development or are turnaround opportunities, including development of new properties, redevelopment of property that is in disrepair, the purchase of property in the area that is undergoing significant urban renewal. The majority of the return from these properties comes from value appreciation over a three- to five-year period.

Real Estate Investment Trust (REIT): a security listed on major stock exchanges that represent an interest in an underlying pool of real estate properties. REITs invest in the equity and / or mortgages of different real estate assets and operate similar to mutual funds.

REIT AFFO Yield: a financial performance measure that is usually equal to the real estate trust's funds from operations (FFO) after adjustments made for recurring capital expenditures used to maintain the quality of the REIT's underlying assets.

Transaction Cap Rate: a rate of return on a real estate investment property based on the prices from actual real estate transaction.

Value Added: real estate properties that usually include hotels, resorts, assisted care living, low-income housing, outlet malls and similar assets. These properties may require repositioning, renovation, redevelopment, a new marketing campaign, etc. They produce less current income and rely more on capital appreciation to produce total return.