BIG THEMES FOR 2013/2014

- Ample liquidity for all asset classes. Real estate offers the best risk adjusted return profile of the top four major asset classes.

- Capital will continue to re-allocate from financial assets to hard assets, with the CRE being the largest beneficiary.

- “Flight Capital” from Foreign Investors to U.S. will continue and will likely eclipse previous records.

- The above factors will result in plentiful capital for CRE in 2013/2014 across both the debt and equity markets. We are expecting allocations to increase approximately 20% over 2012 levels.
BIG THEMES FOR 2013/2014

- There will be no scarcity of product coming to the market. We expect transactional volume to approximate the 2005 level of $350 Billion for 2013. While seemingly a stretch, our expectation is 2013/2014 will witness many more larger portfolio or merger transactions than did 2012. The one exception being core product in Gateway markets.

- The domestic banks have worked through 90% of the “troubled assets” and therefore sales of loans/REO from these institutions will greatly diminish. However, sales of assets/loans from foreign banks will continue to increase. Unlike the domestic banks, expect the foreign banks to sell in portfolios versus a one-off strategy.

- HFF continues to emphasize the risk of rising interest rates relative to a “hold/sell” strategy decision. We believe cap rates and interest rates are correlated, and our regression analysis concludes NOIs must increase 10-15% to offset a 100 basis point move in interest rate/cap rates.
Once again, 2013/2014, like 2012, will be a nearly “perfect” capital markets environment given the abundance and low cost of available capital.

HFF Recommendation: Consume capital and integrate a smart Asset Liability Management (ALM) strategy.
Capital Markets Overview

CRE CAPITAL STACK – $4.69 TRILLION
2008 U.S. Institutional Commercial Real Estate Universe – $4.76 Trillion

<table>
<thead>
<tr>
<th>Capital Source</th>
<th>Public</th>
<th>Private</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>$1.55</td>
<td>$1.02</td>
<td>$2.57</td>
</tr>
<tr>
<td>Debt</td>
<td>$3.14</td>
<td>$2.19</td>
<td>$5.33</td>
</tr>
</tbody>
</table>

Source: NAREIT, Federal Reserve, HFF Research, as of 3Q 2013
Capital Markets Overview

CRE Debt Outstanding
$3.14 Trillion Total
Lender Composition

- **Banks & Thrifts**: 49%
- **CMBS, CDO & ABS**: 18%
- **Agency/GSE Portfolios & MBS**: 12%
- **Life Insurance Companies**: 11%
- **State, Local, Federal Gov't**: 6%
- **Others***: 4%

Source: Federal Reserve, HFF Research

*includes groups such as real estate investment trusts, pension funds, non-financial corporate business, non-farm non-corporate businesses and finance companies.
Capital Markets Overview

CRE Equity Outstanding ($B)
$1.55 Trillion Total
Investor Composition

- 11% Wealth Managers
- 14% Life Insurance Cos
- 3% Foreign Investors
- 3% Private Financial Institutions (REO)
- 3% Endowments & Foundations
- 3% Pension Funds
- 34% REITs

Source: HFF Research, NAREIT, Towers Watson
Capital Markets Overview

U.S. Transaction Volume by Property Type
Property Sales ($B)

Source: Real Capital Analytics
*November 2013
Rise In Mortgage Rates Not Impacting Volumes
3Q13 Volume Up 20% YoY, In Spite of 60-70 bps Increase In Mortgage Rates

Source: Real Capital Analytics
U.S. Real Estate Investment Activity
Property Sales ($B)

10Y T by Decade | Avg. | Median
--- | --- | ---
1961-1969 | 4.73% | 4.28%
1970-1979 | 7.50% | 7.49%
1980-1989 | 10.59% | 10.86%
1990-1999 | 6.67% | 6.51%
2000-2009 | 4.46% | 4.45%
2010-2013 ytd | 2.59% | 2.67%

Source: Real Capital Analytics
Major & Non-Major Markets Now Converging

YoY Change (%)

Source: Moody’s Analytics/Real Capital Analytics

Major Markets include Boston, Chicago, Los Angeles, New York, San Francisco and Washington, D.C.

This index measures prices changes in US commercial real estate, based on the completed sales of the same commercial properties over time, known as the “repeat-sales methodology.”
Major Markets Have Nearly Recovered Peak Pricing

Major Markets 1.7% Off Peak – Non-Major Markets 18.7% Off Peak – National 11.0% Off Peak

Source: Moody’s Analytics/Real Capital Analytics

Major Markets include Boston, Chicago, Los Angeles, New York, San Francisco and Washington, D.C.

This index measures prices changes in US commercial real estate, based on the completed sales of the same commercial properties over time, known as the “repeat-sales methodology.”
Capital Markets Overview

Top 25 Market Participants
LTM Transaction Volume ($B)

Source: Real Capital Analytics
Listed REIT Market Capitalization
By Property Type

- Retail: 29.5%
- Apartments: 13.9%
- Health Care: 12.6%
- Office: 11.3%
- Diversified: 9.9%
- Lodging/Resorts: 7.4%
- Self Storage: 6.6%
- Industrial: 5.1%
- Manufactured Homes: 0.9%
- Flex: 2.7%
- Manufactured Homes: 0.9%

Source: NAREIT
*as of November 30, 2013
2013 Listed REIT Capital Offerings Eclipse Previous Peak

Debt Issuance & Equity Offerings ($B)

Source: NAREIT
*as of November 30, 2013
## Capital Markets Overview

### Top Managing Broker Dealers

Total Sales ($M) Up Significantly From 2012

<table>
<thead>
<tr>
<th>Managing Broker Dealer</th>
<th>2013</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>YTD Sales</td>
<td>YTD Sales</td>
<td>Sales</td>
</tr>
<tr>
<td>American Realty Capital</td>
<td>$6,547.3</td>
<td>$2,195.7</td>
<td>198.2%</td>
</tr>
<tr>
<td>Cole Real Estate Investments</td>
<td>$2,462.8</td>
<td>$1,089.3</td>
<td>126.1%</td>
</tr>
<tr>
<td>Franklin Square Capital Partners</td>
<td>$2,234.9</td>
<td>$1,483.0</td>
<td>50.7%</td>
</tr>
<tr>
<td>Griffin Capital Corporation</td>
<td>$1,900.3</td>
<td>$431.0</td>
<td>340.9%</td>
</tr>
<tr>
<td>CNL Financial Group</td>
<td>$1,017.9</td>
<td>$579.7</td>
<td>75.6%</td>
</tr>
<tr>
<td>Dividend Capital</td>
<td>$765.3</td>
<td>$563.0</td>
<td>35.9%</td>
</tr>
<tr>
<td>NorthStar Realty Finance Corp.</td>
<td>$534.1</td>
<td>$288.5</td>
<td>85.1%</td>
</tr>
<tr>
<td>Hines Interest Limited Partnership</td>
<td>$487.0</td>
<td>$339.5</td>
<td>43.4%</td>
</tr>
<tr>
<td>WP Carey Inc.</td>
<td>$438.9</td>
<td>$600.1</td>
<td>-26.9%</td>
</tr>
<tr>
<td>Carter/Validus Advisors</td>
<td>$333.9</td>
<td>$106.7</td>
<td>212.9%</td>
</tr>
</tbody>
</table>

Source: Robert A. Stanger & Co., Inc.
# Real Estate Allocations Giving Ground To Equities/Private Equity

## Historical Target Allocations

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S. Stocks</th>
<th>Fixed Income</th>
<th>Foreign Equities</th>
<th>Real Estate</th>
<th>VC/Private Equity</th>
<th>Hedge Funds</th>
<th>Other</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>35.0%</td>
<td>31.3%</td>
<td>25.6%</td>
<td>18.1%</td>
<td>17.1%</td>
<td>8.7%</td>
<td>9.7%</td>
<td>0%</td>
</tr>
<tr>
<td>2009</td>
<td>31.3%</td>
<td>29.8%</td>
<td>22.3%</td>
<td>17.1%</td>
<td>17.5%</td>
<td>9.5%</td>
<td>9.2%</td>
<td>0%</td>
</tr>
<tr>
<td>2010</td>
<td>31.8%</td>
<td>26.7%</td>
<td>27.7%</td>
<td>17.5%</td>
<td>17.5%</td>
<td>10.2%</td>
<td>10.3%</td>
<td>0%</td>
</tr>
<tr>
<td>2011</td>
<td>28.0%</td>
<td>26.7%</td>
<td>27.7%</td>
<td>17.8%</td>
<td>18.1%</td>
<td>10.2%</td>
<td>10.3%</td>
<td>0%</td>
</tr>
<tr>
<td>2012</td>
<td>27.0%</td>
<td>26.6%</td>
<td>19.3%</td>
<td>20.3%</td>
<td>19.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>0%</td>
</tr>
<tr>
<td>2013</td>
<td>26.6%</td>
<td>25.6%</td>
<td>19.3%</td>
<td>19.3%</td>
<td>20.3%</td>
<td>10.3%</td>
<td>10.3%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: IREI, Kingsley Associates

*Tax-Exempt Real Estate Investment 2013*
Total Dry Powder Re-Approaching $90 Billion
Capital Available ($B) For Deployment

Source: Preqin
Capital Markets Overview

Sovereign Wealth Funds
Assets Under Management ($B)

- Government Pension Fund - Global (Norway) $818
- SAMA Foreign Holdings (Saudi Arabia) $676
- Abu Dhabi Investment Authority $627
- China Investment Corporation $575
- SAFE investment Company (China) $568
- Kuwait Investment Authority $386
- Hong Kong Monetary Authority Investment Portfolio $327
- Government of Singapore Investment Corporation $285
- Temasek Holdings (Singapore) $173
- Qatar Investment Authority $170

Source: SWF Institute, HFF Research
Capital Markets Overview

Composition of Foreign Investment
Investment In US CRE by Country of Origin

2007 - $44.6 Billion
2012 - $25.3 Billion
1H 2013 - $12.95 Billion

Source: Real Capital Analytics
US Destinations for Foreign Investments
2013 Cross-Border Flows

Source: Real Capital Analytics
Capital Markets Overview

Debt Originations Highly Correlated To Transaction Volumes
Quarterly Volumes ($B)

Source: Mortgage Bankers Association, Real Capital Analytics
Precedent Of Higher Volume In Higher Interest Rate Environment

Total Debt Origination Volume ($B) vs. 10yr UST (%)

2003 – 2007 10Y T averaged 4.40%

Source: Mortgage Bankers Association, Bloomberg
BANKS
HFF CAPITAL MARKETS OVERVIEW
### Pre-Tax Operating Income

In Spite of Growing Assets, ROAA Has Suffered On Increased Regulation Costs

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Avg Earn Assets</th>
<th>Pre-Tax NOI</th>
<th>ROAA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 Q1</td>
<td>$11,658,137,874,500</td>
<td>($1,047,356,000)</td>
<td>-0.04</td>
</tr>
<tr>
<td>2009 Q2</td>
<td>$11,455,873,767,000</td>
<td>($8,461,163,000)</td>
<td>-0.3</td>
</tr>
<tr>
<td>2009 Q3</td>
<td>$11,387,789,634,000</td>
<td>$2,523,440,000</td>
<td>0.09</td>
</tr>
<tr>
<td>2009 Q4</td>
<td>$11,300,677,258,500</td>
<td>($595,090,000)</td>
<td>-0.02</td>
</tr>
<tr>
<td>2010 Q1</td>
<td>$11,401,142,637,500</td>
<td>$24,977,736,000</td>
<td>0.88</td>
</tr>
<tr>
<td>2010 Q2</td>
<td>$11,448,216,983,000</td>
<td>$31,324,369,000</td>
<td>1.09</td>
</tr>
<tr>
<td>2010 Q3</td>
<td>$13,284,448,949,500</td>
<td>$21,749,173,670</td>
<td>0.65</td>
</tr>
<tr>
<td>2010 Q4</td>
<td>$13,339,663,447,000</td>
<td>$19,610,071,370</td>
<td>0.59</td>
</tr>
<tr>
<td>2011 Q1</td>
<td>$13,360,136,796,500</td>
<td>$28,973,912,610</td>
<td>0.87</td>
</tr>
<tr>
<td>2011 Q2</td>
<td>$13,492,055,384,500</td>
<td>$28,421,143,690</td>
<td>0.84</td>
</tr>
<tr>
<td>2011 Q3</td>
<td>$13,671,233,299,000</td>
<td>$32,653,246,620</td>
<td>0.96</td>
</tr>
<tr>
<td>2011 Q4</td>
<td>$13,843,087,598,500</td>
<td>$24,075,807,640</td>
<td>0.7</td>
</tr>
<tr>
<td>2012 Q1</td>
<td>$13,881,929,804,000</td>
<td>$32,650,091,370</td>
<td>0.94</td>
</tr>
<tr>
<td>2012 Q2</td>
<td>$13,970,782,607,000</td>
<td>$32,908,839,500</td>
<td>0.94</td>
</tr>
<tr>
<td>2012 Q3</td>
<td>$14,118,613,264,500</td>
<td>$35,568,255,960</td>
<td>1.01</td>
</tr>
<tr>
<td>2012 Q4</td>
<td>$14,268,695,788,500</td>
<td>$33,631,025,920</td>
<td>0.94</td>
</tr>
<tr>
<td>2013 Q1</td>
<td>$14,430,592,698,500</td>
<td>$39,015,432,030</td>
<td>1.08</td>
</tr>
<tr>
<td>2013 Q2</td>
<td>$14,382,552,194,000</td>
<td>$37,568,030,600</td>
<td>1.04</td>
</tr>
<tr>
<td>2013 Q3</td>
<td>$14,489,789,711,000</td>
<td>$35,534,066,140</td>
<td>0.98</td>
</tr>
</tbody>
</table>

Source: BankRegData
### FDIC Balance Sheet ($T)
CRE Loan Balances Growing Once Again

<table>
<thead>
<tr>
<th>Category</th>
<th>3Q 2013</th>
<th>3Q 2012</th>
<th>YoY D</th>
<th>YoY %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>$206,145</td>
<td>$210,435</td>
<td>-$4,289</td>
<td>-2.04%</td>
</tr>
<tr>
<td>Multi-Housing</td>
<td>$252,342</td>
<td>$227,769</td>
<td>$24,573</td>
<td>10.79%</td>
</tr>
<tr>
<td>Commercial</td>
<td>$1,092,487</td>
<td>$1,058,001</td>
<td>$34,486</td>
<td>3.26%</td>
</tr>
<tr>
<td>Total</td>
<td>$1,550,975</td>
<td>$1,496,205</td>
<td>$54,770</td>
<td>3.66%</td>
</tr>
</tbody>
</table>

Source: FDIC
Capital Markets Overview

Life Insurers Are Lending More Than Ever

Life Company Commitments ($B)

<table>
<thead>
<tr>
<th>10Y T by Decade</th>
<th>Avg.</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-1969</td>
<td>4.73%</td>
<td>4.28%</td>
</tr>
<tr>
<td>1970-1979</td>
<td>7.50%</td>
<td>7.49%</td>
</tr>
<tr>
<td>1980-1989</td>
<td>10.59%</td>
<td>10.86%</td>
</tr>
<tr>
<td>1990-1999</td>
<td>6.67%</td>
<td>6.51%</td>
</tr>
<tr>
<td>2000-2009</td>
<td>4.46%</td>
<td>4.45%</td>
</tr>
<tr>
<td>2010-2013 ytd</td>
<td>2.59%</td>
<td>2.67%</td>
</tr>
</tbody>
</table>

$0 $5 $10 $15 $20 $25 $30 $35 $40 $45 $50 Billions


10Y T by Decade

Average Median
1961-1969 4.73% 4.28%
1970-1979 7.50% 7.49%
1980-1989 10.59% 10.86%
1990-1999 6.67% 6.51%
2000-2009 4.46% 4.45%
2010-2013 ytd 2.59% 2.67%

2003 – 2007 10Y T averaged 4.40%

1998 – 2012 10Y T averaged 4.22%

Life Co Commitments
10-Yr Treasury

Annual Averages

Source: ACLI
* YTD September 2013

4.29% 4.63% 2.78% 1.80%
4.27% 4.80%
Capital Markets Overview

Life Insurers Focusing On Large Loans
ACLI New Commitments By Loan Size (%)

- Source: ACLI
- YTD September 2013
Capital Markets Overview

Historical CMBS Issuance
Slow But Steady Recovery, Annual Volume ($B)

Source: Commercial Real Estate Direct, forecast based on commentary from various investment banks
Capital Markets Overview

Freddie/Fannie Origination Volume

Annual Origination Volume ($B)

Source: Fannie Mae, Freddie Mac
* HFF Research estimates for YE2013 production volume
Capital Markets Overview

CRE Maturities Due To Peak In 2013

CRE Debt Maturities By Lender Type ($B)

- CMBS
- Banks
- Life Cos
- Other

$377.4 Billion in 2017

CMBS Peak Maturities

Source: Trepp
CMBS Loan Performance
Cover $116 Billion Maturing In 2014 & 2015

Delinquency (%) by Loan Status

- 30 Days: 0.3%
- 60 Days: 0.2%
- 90+ Days: 1.9%
- Non-Performing Maturity: 1.9%
- Foreclosure: 1.9%
- REO: 3.7%

Delinquency (%) by Property Type

- Industrial: 11.7%
- Multi-Housing: 11.6%
- Office: 9.9%
- Lodging: 8.7%
- Retail: 7.0%

Source: Trepp
Capital Markets Overview

Cumulative CMBS Liquidations & Losses
Loss Factor Steady, But May Rise As Largest Loans Are Settled

Liquidations: $56.4 Billion
Losses: $24.3 Billion
Loss Factor: 43.1%

Source: Trepp

Billions

Source: Trepp
DEBUNKING MYTHS
HFF CAPITAL MARKETS OVERVIEW
Savers Getting Squeezed As Yields Remain Suppressed
Yields Available To Investors (& Retirees) In Short Duration Investments

Source: Bloomberg
Capital Markets Overview

Completions Remain Relatively Low
Completions As % Of Existing Inventory Rebounding But Lower Than Historical Peaks

Source: REIS
US Treasury Yields Remain Within Multi-Decade Downtrend

10yr UST Yield (%)

[Graph showing a trend line indicating a multi-decade downtrend in 10yr UST yields]
US Treasury Yields Are Well Below the 50yr Average
In Spite Of Recent Gains, Yields Still Very Attractive

Does Anyone Remember Prime at 21%?

Tax Reform Act – Syndication Blow-up

S&L Collapse

Long Term Credit Capital

9/11 and Corporate Credit Squeeze

2008 Capital Market Collapse

50 Year Average = 6.55%
(1961 – 2013 ytd)

One Year Ago 12/31/2012  1.76%

$300B Treas. Buyback 3/18/09 (announced)  2.51%

Current Rate 12/31/13  3.02%

Average 2013  2.34%

Source: United States Treasury
NOI Growth to Maintain Value
(100 bps Movement in Cap)

Source: HFF