Marcus & Millichap

Special Capital Market Report

Fourth Quarter 2015

Economic Trends Still Positive as Cautious Fed Edges Toward Action; Same Trends Lift Commercial Real Estate Performance

Expanding payrolls, solid consumption growth and housing market momentum support economic landscape. Against this backdrop, the Federal Reserve anticipates lifting its benchmark rate for the first time in more than nine years during 2015, though a move may not occur until next year. The imminent increase in the Fed Funds rate has raised questions among commercial real estate owners and investors regarding its potential effect on borrowing costs, spreads and asset valuations. However, the relationship between rising interest rates, a strong economy and continued vitality in commercial real estate seems quite compatible.

Rate adjustments will be incremental and tied to data trends. Although Fed Chair Janet Yellen recently stated her intention to raise the Fed Funds rate this year, the central bank will also continue to monitor U.S. economic trends and global volatility to guide its decisions. Steady job growth and advances in consumer spending support an increase in the benchmark rate, although some headwinds in the U.S. economy will factor into the timing of an initial rate hike, potentially delaying it until 2016.

Factors restraining Fed action include soft manufacturing and exports related to the strong U.S. dollar, and anemic inflation that is principally tied to low gas prices. Core inflation, which excludes volatile food and energy, continues to hover below the Fed's target threshold of 2.0 percent annual growth. Nonetheless, the Fed believes that inflationary pressure will build as the labor market tightens, which may prompt an initial rate hike sooner rather than later.

Amid all of the factors that will affect the Federal Reserve's course, the extent of tightening and timing of its decisions are crucial. The central bankers will deliberately raise the benchmark rate slowly and in small measured increments to ensure that their actions will not disrupt domestic economic growth and further rattle wobbly global equity markets.

The low-yield climate elevates appeal of commercial real estate. Persistently low interest rates have suppressed returns for fixed-income investors and prompted a wide-ranging search for investments offering higher risk-adjusted returns, including commercial real estate. Due to their positive correlation with economic trends that also raise inflation pressure, commercial real estate assets could outperform as the U.S. economy expands. Economic growth has been steady in the 2.2 percent range over the past five years and growth could drift upward modestly, to the 2.5 percent range.

All commercial property sectors will benefit from an expanding economy and additional job growth. Higher employment in office-using industries will underpin strong office space absorption. Multifamily housing demand will also accelerate, while growing income will encourage shopping. Rising retail sales will also translate into greater needs for industrial space.

2015 Property Sector Outlook

down 20 bps
year over year

Apartments:
Net absorption of 268,000 units, the highest level in five years, will lower U.S. vacancy 20 basis points this year to 4.3 percent and lead to rent growth in the mid-5 percent range.

down 60 bps
year over year

Industrial:
Momentum continues to build in the industrial sector. In 2015, net absorption of nearly 217 million square feet will trim the nationwide vacancy rate 60 basis points to 6.5 percent.

down 40 bps
year over year

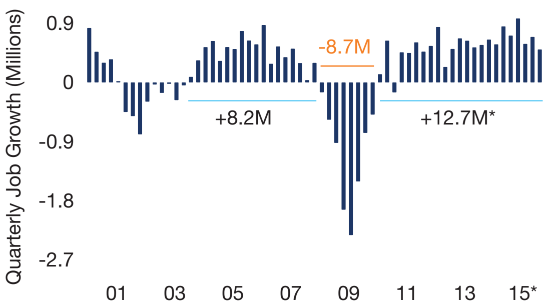
Office:
Restrained completions and strengthening space demand will reduce U.S. vacancy 40 basis points to 14.9 percent this year, the lowest year-end level in seven years.

down 40 bps
year over year

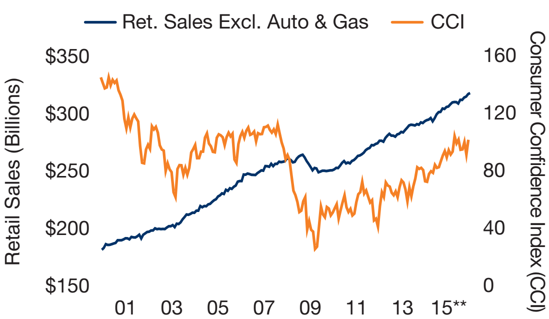
Retail:
New store openings will push down the national vacancy rate 40 basis points in 2015 to 6.1 percent and lift the average rent 2.3 percent.

Economy Maintains Growth Trajectory; Global Uncertainty Still a Modest Risk

Steady Hiring Underpins Strong Commercial Real Estate Performance



Consumer Confidence And Retail Sales Trends



U.S. GDP Growth and Unemployment Rate Trends

* Through 3Q
** Through August
❖ Through 2Q

Job growth, tighter labor market conditions leading the charge toward a rate increase. The Federal Reserve's decision to raise its benchmark lending rate will rest upon a foundation of solid economic trends that will also underpin increased space demand and propel rents in all types of commercial space. Most prominently, the addition of nearly 200,000 jobs per month this year through September has reduced the labor force slack that lingered since the beginning of the recovery. The accompanying declines in the unemployment and under-employment rates to post-downturn lows remain primary justifications cited by the central bank for a rate hike. Forward-looking employment indicators, including a record level of job openings and high CEO confidence, point to further gains in staffing in the near term and intensifying inflationary pressure as wages rise. Currently, payrolls exceed the prior high by roughly 4 million workers, and job growth has broadened to encompass most of the country. The number of full-time workers is also hovering near its pre-downturn high. Cuts in employment in oil-and-gas sectors this year are the only blemish on the otherwise solid state of the labor market repeatedly referred to by the central bank as an impetus to tighten.

The stage is set for higher consumer spending. In the near term, lingering uncertainty overseas and a strong U.S. dollar will weigh on the U.S. economy, but lower gas prices, positive labor market trends and accelerated wage growth will drive consumption. Consumer spending accounts for about two-thirds of the economy, and a healthy gain in spending in August further illustrated the willingness of consumers to spend. Notably, consumer purchases of big-ticket, long-lasting, and typically discretionary items continue to rise at a healthy clip, indicating greater confidence in current conditions and near-term economic prospects. Several factors will support further growth in consumer spending, including savings from persistently low gas prices and a low rate of inflation that fortifies purchasing power. A more robust pace of wage growth in conjunction with additional tightening in the labor market will also help, as will the ongoing restoration of household balance sheets to sound health. The savings rate of U.S. households sits near a post-recession high, while credit card balances have yet to retrace to the high levels registered before the downturn. In effect, spending is less reliant on credit card use to make purchases, a positive trend for sustaining growth in consumption.

Economic momentum positive, but strong dollar a headwind. A more vigorous pace of wage increases, the missing ingredient thus far in the economic recovery, looms on the horizon. While the average hourly wage has consistently posted year-over-year gains in the 2 percent range throughout 2015, additional hiring will drive down the unemployment rate, pushing wage growth toward 3 percent next year. Led by positive consumption trends, economic growth in 2016 should mirror the pace of expansion this year. Weaker global demand and the persistent strength of the U.S. dollar represent potential headwinds, especially for companies that export products. Widely watched gauges of manufacturing activity weakened during the third quarter, perhaps signaling that manufacturing will not contribute as greatly to economic expansion in the near term. As conditions in goods-producing sectors change, ongoing growth in the service sector and further gains in consumer spending fueled by payroll growth in the neighborhood of 2.5 million jobs provide a solid foundation for higher GDP. The further integration of millennials into the labor force will also provide a longer-term boost to consumer spending, household formation and economic expansion.

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Economic Growth Driving Fundamentals, Supporting Capital Flows into All Properties

Commercial real estate investors prepare for an interest rate increase. An important distinction for commercial real estate investors is that the Federal Funds rate is a short-term lending benchmark with limited application in commercial real estate. Typically, the Fed Funds rate is set to suppress inflationary pressure that accompanies an expanding economy. Commercial real estate lending and valuations, however, are principally based on longer-term rates, most commonly the 10-year U.S. Treasury, that do not move in unison with short-term rates. Many factors, including equity market volatility and investors' demand for risk-free investments, affect the level and direction of the 10-year Treasury yield. The Treasury rate, rangebound below 2.5 percent for most of 2015, remains well beneath the long-term average.

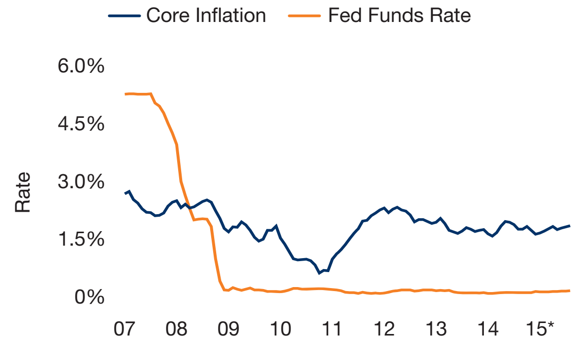
Economic momentum spreading. During the early stages of the economic recovery, job growth occurred primarily in major metros, where investors focused on quality assets including Class A apartments and retail assets with large national tenants. As a result, cap rate compression initially occurred in the largest metros and at the top of the property quality scale. Over the past year, however, both job growth and space demand have filtered into secondary and tertiary markets, which still have room for cap rate compression. In recent months, the spreads between Class A and Class B/C cap rates have begun to narrow among all property types and more markets have tightened. Markets including Orlando, San Antonio, St. Louis, Raleigh-Durham and Palm Beach County have recorded substantial increases in deal volume over the past year. Growing investor interest in a wider spectrum of assets will increase transactions and intensify competition, resulting in further cap rate compression.

Broad-based gains support income growth. Generally, cap rates have come down significantly in the past few years. However, NOI growth will accelerate as positive economic trends push down vacancy and rents continue to climb. Currently, the spread of commercial real estate cap rates to the 10-year Treasury ranges from 200 to 400 basis points depending on property type, or roughly two times the level observed during the peak 2005 to 2007 span. With additional room for values to rise and cap rates to compress, more sales will occur. Also, the continued resolution of distress situations should raise pricing power and support fundamentals-based price appreciation. Cumulative distress has dropped 25 percent from its 2012 peak.

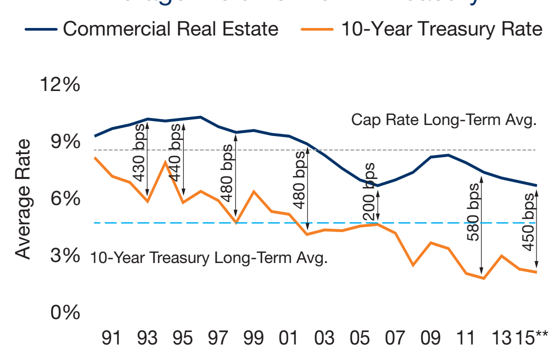
Investor interest remains healthy; lenders competitive. Investor sentiment, a leading indicator of property sales, remains elevated based on the favorable risk-adjusted returns offered by commercial real estate relative to other investment classes. Total commercial property transactions are on track to exceed their pre-recession peak for the second consecutive year in 2015, as space demand trends remain promising thanks to steady economic expansion.

Investors also continue to benefit from the current health of a wide variety of lenders and competition among debt providers. Non-current balances at FDIC-insured banks are approaching pre-recession lows, liberating capital for new lending. The health of the apartment sector has increased allocations from both Fannie Mae and Freddie Mac, and CMBS issuance is picking up. Generally, commercial real estate lenders continue to exercise discipline, enforcing loan-to-value ratios that are higher than during the peak pricing era, which should help to mitigate risk of default and maintain debt flows to borrowers.

Core Inflation vs. Fed Funds Rate

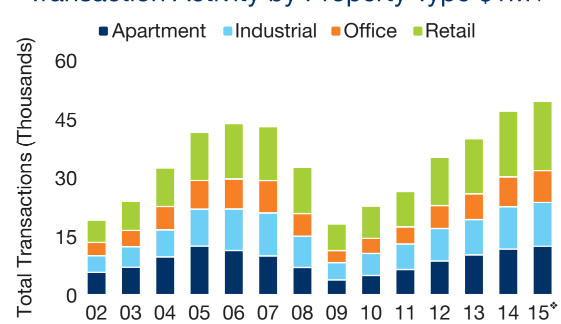


Average Yield vs. 10-Yr. Treasury



Note: Includes all apartment, office, retail and industrial sales $1 million and greater

Real Estate Investment Trends
Transaction Activity by Property Type $1M+

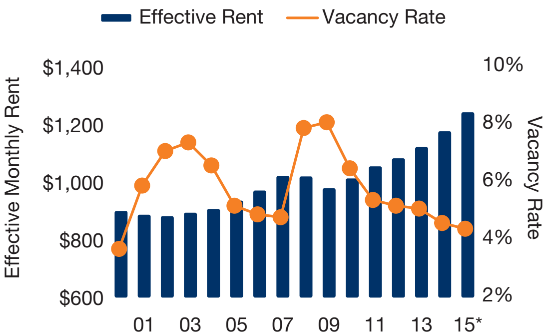


Note: Includes sales $1 million and greater

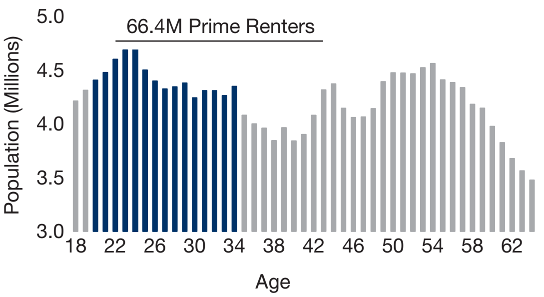
* Through August
** Through October 6
❖ Trailing 12 months through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

Apartments Maintain Solid Performance Pace, Attracting Additional Capital to Sector

Apartment Rent and Vacancy Trends

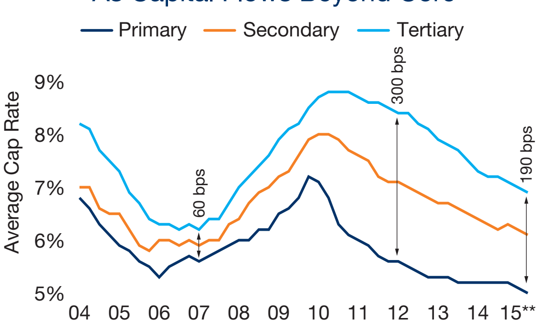


Millennials Underpin Apartment Demand; U.S. 2014 Population by Age



Note: Millennial Propensity to Rent is 68%; 2013 American Community Survey Total Baby Boomer Population 75 million. Total Millennial Population 80 million.

Apartment Cap Rates Compress As Capital Flows Beyond Core



* Forecast
** Through 2Q; includes sales $1 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

- **Apartment demand outlook favorable**. Nationwide, apartment vacancy remains tight and will support robust rent gains. Construction has increased substantially over the past few years and will remain elevated in the near term, though continued growth in employment will create new rental households and drive demand. Demographic trends also remain highly favorable for the apartment sector, with a substantial lift coming from millennials entering the workforce and forming households, and older adults and empty nesters downsizing from owner-occupied housing. The employment-to-population ratio for the prime renter cohort of 25- to 34-year-olds is at an all-time high, and increasing job growth translates to greater mobility, boosting apartment demand nationwide. Higher downpayment requirements, limited construction of “starter homes,” and stringent mortgage underwriting also continue to suppress single-family home purchases by first-time buyers and delay the transition from rentals to single-family homes.

- **Investors broaden horizons.** Apartment transaction volume has surpassed the prior peak for properties selling for less than $20 million, and assets priced at more than $20 million will exceed the previous high this year. Average cap rates are within 30 basis points of past peaks across all property classes. Capital is moving to secondary and tertiary markets in search of higher yields as primary markets become fully priced. The share of sales in secondary and tertiary markets has escalated considerably in the past several years from a low of 38 percent in 2011 to nearly half of all deals at midyear 2015.

- **Yields compress but opportunities remain.** The cap rate spread between primary, secondary and tertiary market cap rates is narrowing and should continue to tighten as competition intensifies among investors searching for higher yields. Class A complexes remain primary targets for many investors, though elevated construction in some metros will place pressure on existing property operations and NOIs. Opportunities continue to emerge in the Class B/C segment, a portion of the market where construction has been restrained and demand drivers are improving. Class B/C assets in sound physical condition could potentially command higher rents as new luxury complexes are completed, and as payrolls grow and wage growth accelerates, raising NOIs.

Fed rate increase benefits apartments. Regardless of the magnitude of the increase, hikes in the Federal Funds rate offer an unequivocal sign of a growing economy, which will translate to additional household creation and an expansion of the tenant pool, both positive trends for apartments. Construction will affect the direction of vacancy in several metros, but demand drivers will remain strong as payrolls climb. The Fed’s benchmark rate most directly affects consumer borrowing for items that include residential mortgages. Accordingly, mortgage rates will increase as the short-term rate rises, and the tightening of monetary policy will likely suppress home purchases and maintain the homeownership rate near a multiyear low. For multifamily investors, the perception of risk in the sector, and not movements in a short-term benchmark rate, will influence the level and direction of cap rates. Primary risk factors include a unexpected jolt to rental demand and potential overbuilding in select submarkets.

SECTOR OUTLOOK: U.S. vacancy will slip 20 basis points in 2015 to 4.3 percent despite the projected completion of 250,000 units this year, a post-recession high. Supply and demand trends will remain closely aligned in 2016.

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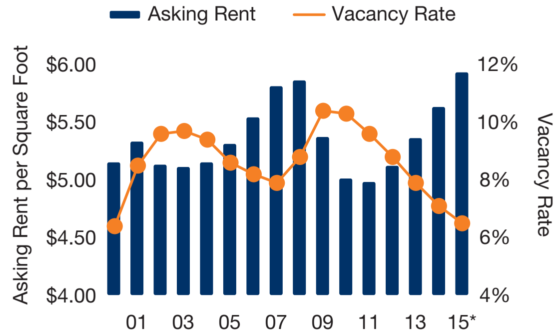
Industrial Assets Benefit from New Demand Sources, Driving Additional Investment in Sector

- **Rising consumption lifts demand.** Growing sales of consumer goods and higher import volume continue to boost the performance of the industrial property sector across the country. Amid strengthening demand for space, the national vacancy rate dipped to less than 7 percent in the first half of 2015, and the average rent continued to grow. Construction is ramping up but remains well below pre-recession totals. Significant pre-leasing in many large projects and unfulfilled tenant needs for modern space will not derail additional declines in vacancy in the near term.
- **E-commerce elevates local performance.** Traditional store retailers remain a principal source of space demand in warehouse and distribution centers nationwide, but the rapid emergence of e-commerce is a potential boon to the sector. Competition among online merchants to provide same-day delivery will spur additional absorption of industrial space in major metros in the near term. Most existing warehouses can house e-commerce tenants, though properties with high clear heights, larger truck courts and developed mezzanine space will be most attractive to tenants in the e-commerce sphere. Demand for flex space, meanwhile, will also intensify as the pace of new business starts gathers momentum. In addition, the proliferation of new outpatient care centers and medical testing facilities in conjunction with expanded healthcare coverage offers another potential source of space demand.
- **Investment pushes toward record level.** Through midyear, transaction volume remained firmly on track to establish a new post-recession high. The majority of transactions continue to occur in the under-$10 million tranche, while the volume of deals of more than $20 million remains less than the previous high level. Cap rates for the largest properties, however, are near the prior peak, illustrating intense buyer demand. A lack of construction until only recently may be limiting the amount of large assets listed for sale, but large, modern warehouse and distribution centers slated for delivery in the near term could alleviate some pent-up investor demand. On a national level, the average price continues to gradually climb as owners tap into keen investor demand to execute deals that monetize the value of recent declines in vacancy and higher rents. Activity is still centered in primary markets, but Class A properties in secondary and tertiary locations are gaining attention.

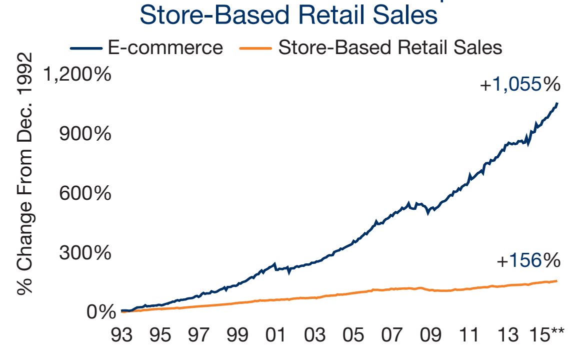
Rate increase a mixed prognosis for industrial. Investors' assessment of the risk and the potential upsides in owning industrial properties, which typically respond quickly to shifts in economic trends, will influence cap rates. On the property operations side, a more robust pace of economic growth related to higher consumption will support a hike in short-term rates but also stimulate additional space demand from retailers. As the vital conduit linking goods from factories or ports to retail outlets, however, prospective increases in credit card interest rates or greater incentives to save may alter consumption in a way that reduces space needs. While the balance of risks likely tips to upside scenarios related to rising consumption, an overheated economy could trigger more substantial and more frequent increases in the Fed Funds rate. If this were to occur, higher interest rates on business loans to finance inventories and investment in distribution buildings could temper tenants' space requirements.

SECTOR OUTLOOK: Healthy consumption trends and the emergence of e-commerce will push down industrial vacancy to 6.5 percent in 2015. Additional growth in consumption will support lower vacancy in 2016.

Industrial Rent and Vacancy Trends

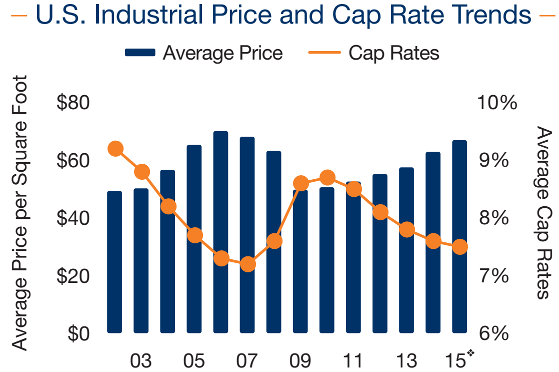


E-commerce Sales Growth Outpaces Store-Based Retail Sales



Note: Store-based core retail sales exclude gas stations, auto dealers, grocery stores and non-store retailers

U.S. Industrial Price and Cap Rate Trends

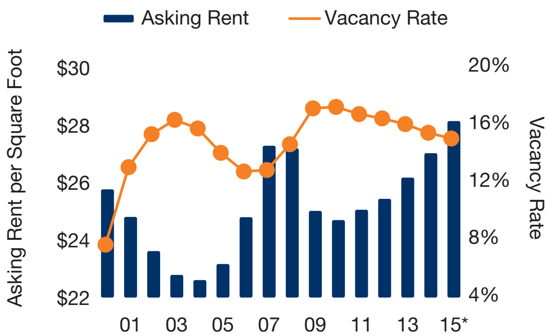


Note: Includes sales $1 million and greater

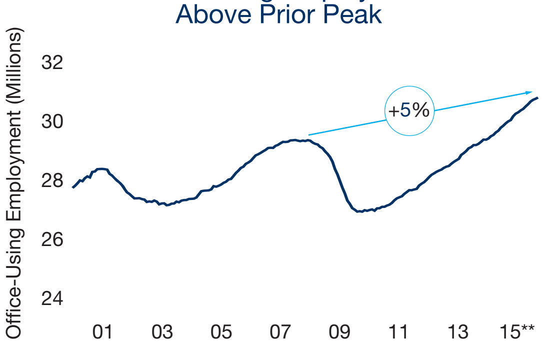
* Forecast
** Through July
❖ Through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

Office-Using Payroll Growth Drives Performance; Values Yet to Attain Previous Peak

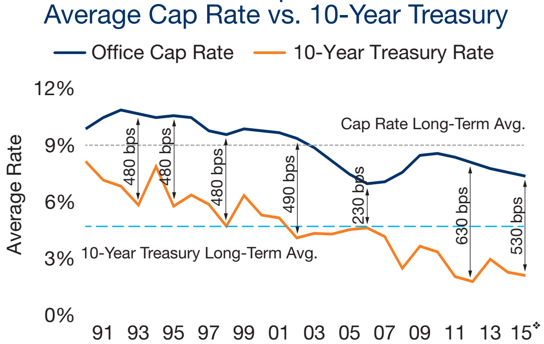
Office Rent and Vacancy Trends



Office-Using Employment Above Prior Peak



U.S. Office Cap Rate Trends
Average Cap Rate vs. 10-Year Treasury



* Forecast
** Through September
❖ Through October 6; includes sales $1M and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

- **Modest construction supports performance gains.** Growing payrolls in office-using employment sectors continue to backfill under-utilized space. Additional payroll growth will trigger the next phase of tenant expansions as existing layouts increasingly become too small. At midyear, the national vacancy rate sat at the post-recession low of 15.3 percent amid consistently growing demand and highly restrained development. This year, only 67 million square feet of space will come online, and deliveries are concentrated in a limited number of markets, including Houston and Washington, D.C. An average of 109 million square feet was completed annually in the three years leading up to the recession. Urban locations have potential performance upsides in raising rents and further reducing vacancy; in addition, many of these markets have barriers to development that will support additional drops in the marketwide vacancy rate.
- **Urbanization boosts core locations, but suburbs on upswing.** The construction of thousands of apartments in urban cores across the country provides office employers with a large, captive source of potential workers. As a result, favorable demographic trends and the growing appeal of live-work-play accommodations will continue to influence site selection and relocation decisions, potentially elevating the performance of urban office assets. Lower cost suburban locations, meanwhile, are strengthening around the country and will benefit from dwindling availability and higher rents in urban cores, as well as heightened space needs for administrative functions.
- **Private investors lead transaction activity.** From an investment perspective, the prospect of higher NOIs attained through vacancy reductions and rent growth is spurring investors' interest. Sales of properties priced at less than $10 million approached the pre-downturn peak last year and are on track to surpass the previous high level in 2015. Demand for larger properties, however, lags the prior peak. In terms of cap rates, first-year returns in all tranches are higher than the prior peak, with a 60-basis-point premium for properties priced from $10 million to $20 million. The average price is also below the previous high point. Primary markets elicit the greatest investor attention, but secondary and tertiary markets, which offer more opportunity for cap rate compression, are drawing greater scrutiny.

Fed hike could lift office demand in key segments. Many loans on troubled office properties purchased before the recession will come due during a period of rising interest rates, which could affect values and the ability to refinance. Additional investment opportunities may arise as a result of capital structures that require an infusion or repair. The Federal Reserve's likely course of incremental interest rate increases will not adversely affect office property performance and, instead, will provide time for property operations to strengthen as payrolls rise. Higher interest rates will potentially improve profitability at banks, financial institutions and brokerages. Any additional hiring that is necessitated by higher profits and climbs in activity in interest-rate-sensitive business units could spark a more substantial movement of tenants into larger layouts.

SECTOR OUTLOOK: The balance of factors associated with higher interest rates generally tilts in favor of further strengthening of office property performance as the economy accelerates and payrolls grow. An increase in space demand and nominal completions will trim the U.S. vacancy rate 40 basis points to 14.9 percent in 2015.

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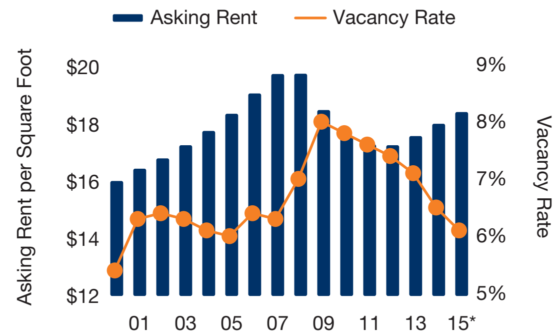
Retail Vacancy at Post-Recession Low; Investors Take Note, Seek Deals

- **Steady hiring, modest wage growth and lower gas prices have converged to support spending and drive retail space demand.** National retail vacancy slipped to 6.4 percent in the first half of 2015, and many national brands cite restrained construction for a lack of space available to meet expansion objectives. In fact, development remains subdued and principally weighted in single-tenant formats, while the lack of large-scale multi-tenant building needed for brand expansion partly reflects still-low single-family home construction. This year, only 47 million square feet of retail space will come online, representing roughly one-third of the typical annual completions during the years preceding the recession.
- **Millennials shaping evolution of retail.** Anchors remain the primary draw at many shopping centers, but bars and restaurants are becoming an increasingly vital driver of customer traffic. Sales at food and beverage establishments recently exceeded grocery store sales for the first time and their importance as traffic generators will continue to grow. Lower rates of single-family homeownership and the burgeoning clout of the millennial generation that eats out more frequently than other demographic cohorts will continue to bolster robust growth in food and beverage sales. Nationally, nearly one-half of millennials report eating out once weekly, compared with 43 percent of Generation Xers and more than one-third of baby boomers.
- **Net-lease assets at forefront of sales trends.** Investment trends continue to evolve as additional equity and debt flows into the sector. Single-tenant properties net-leased to highly rated national tenants still command considerable attention from a large pool of buyers seeking stable, long-term returns. Modest new home construction, though, has suppressed new store openings by coveted drugstore and fast-food chains. Competition for the newest single-tenant assets with the longest lease terms remains pitched. Overall, the average cap rate and price in the single-tenant sector are at their lowest levels in years. Cap rates and prices for multi-tenant properties have been slower to improve but have made notable progress toward pre-recession peaks this year. Cap rate compression is still strongest within the primary markets, but investors' appetite for properties in alternative areas is growing as an expanding U.S. economy lifts economic performance across a wider swath of markets.

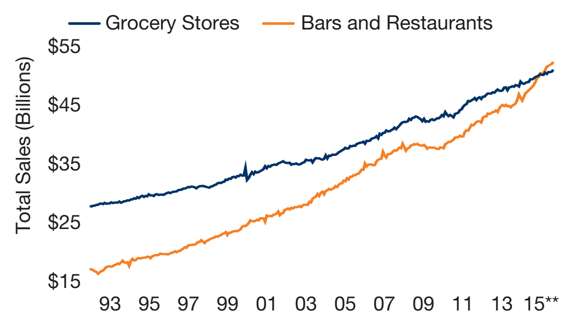
Steady retail gains a consideration for Fed. Projected increases in retail spending associated with a growing economy will prompt the Federal Reserve to tighten monetary policy but will also encourage retailers to boost new-store pipelines. An additional tightening in retail property vacancy and higher rents will also enable more projects to pencil out, supporting a needed increase in multi-tenant property construction. As viewed from this perspective, the prospect of action by the Federal Reserve will be a net positive for the retail sector, potentially accelerating the pace of performance improvement. Some downside risks related to higher interest rates exist but will only materialize if the economy overheats and the central bank is forced to pull on the reins more forcefully. Higher borrowing rates on credit cards, for example, could temper consumer spending and encourage saving.

SECTOR OUTLOOK: Retail properties remain on track to register a vacancy rate of 6.1 percent this year, 40 basis points less than year-end 2014. Downward pressure will persist in 2016, though a lack of multi-tenant construction will create pent-up demand.

Retail Rent and Vacancy Trends

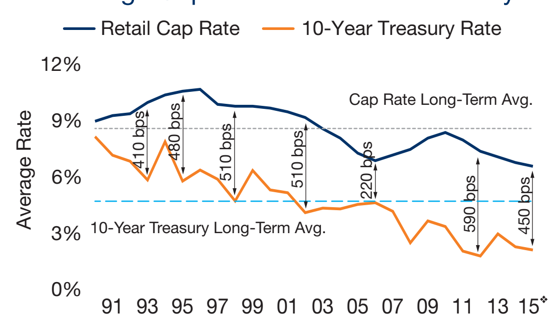


Consumers Spend More on Dining Out Than on Groceries for the First Time Ever



Eat Out at Least Once Per Week (2014)
Millennials 49% Gen X 43% Boomers 35%

U.S. Retail Cap Rate Trends
Average Cap Rate vs. 10-Year Treasury



* Forecast
** Through August
❖ Through October 6; includes sales $1M and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

Flows of Debt Capital Remain Strong; Lending Terms Vary by Property Type

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

Rangebound 10-year U.S. Treasury marginally affected by Fed rate. The 10-year U.S. Treasury ended the third quarter in the low-2 percent range, held down by rising demand for low-risk, fixed-income assets. As the markets prepare to digest a rate increase by the Federal Reserve, it is important to stress that long-term rates such as the 10-year U.S. Treasury are not directly tied to short-term rates, or the short end of the yield curve. While short-term benchmarks are used sparingly in financing acquisitions of commercial real estate, they have much greater application in consumer lending on items including credit cards.

Lending rates remain steady for apartments. The GSEs underwrite 10-year apartment loans at rates ranging from 4.3 to 4.7 percent, and leverage of up to a maximum 80 percent in select instances. Portfolio lenders are also active and offering similar LTVs with rates from 3.85 to 4.50 percent. Floating-rate bridge loans for stabilized properties are issued at LTVs of 70 percent and spread 250 to 400 basis points above Libor. For value-add deals, 80 percent LTV (60 to 65 percent of cost) and rates 350 to 500 basis points above are the norm.

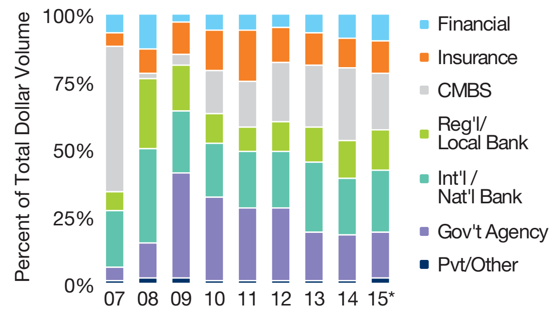
Lenders boost allocations to industrial. Competition among lenders continues to intensify as the performance of industrial properties improves and transactions increase. Loans issued by commercial banks are generally underwritten at LTVs of 70 percent and rates of 4 to 5 percent. CMBS is also active in deals involving modern warehouse and distribution properties in major metros or key distribution hubs. Deals are underwritten at 75 percent leverage and rates of 4.5 to 5.0 percent.

Office lending still location dependent. In the office sector, 10-year fixed-rate loans are pricing from 4.0 to 4.6 percent, depending on location, property age and tenant mix. Leverage varies from 55 to 75 percent. Floating bridge loans for stabilized buildings see LTVs starting at 65 percent and price up to 400 basis points over Libor, while spreads grow wider for assets purchased for repositioning.

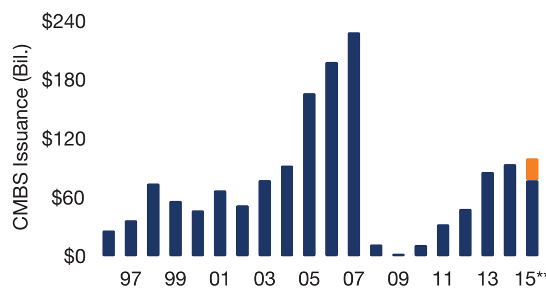
Wide range of lenders target retail. Commercial banks are active in the retail property sector, generally offering shorter-term loans with rates from 3.75 to 4.75 percent and 70 percent LTV. CMBS leverage is slightly higher at 75 percent, with 10-year terms and interest rates varying from 4.4 percent to 4.7 percent. Life-insurance companies are selectively active, focusing primarily on large assets in major metros. LTVs top out at approximately 65 percent, and 10-year financing sits in a narrow 4.0 to 4.25 percent range.

CMBS volume rising. Total CMBS issuance reached $77.6 billion year to date through the third quarter, marking a sizable gain from last year. Lenders remain on track to issue $100 billion in 2015. More than $600 billion in CMBS comes due during the next few years as loans issued prior to the financial crisis mature. As maturities approach, many borrowers may choose to list their assets instead of refinancing.

U.S. Commercial Real Estate Lender Composition



U.S. Commercial Mortgage Backed Securities (CMBS) Issuance



Note: Includes apartment, retail, office, industrial and hotel sales $2.5 million and greater

* Through 1H
** YTD through September and forecast
Source: Real Capital Analytics

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Sources: Marcus & Millichap Research Services; Morgan Stanley; Bureau of Labor Statistics; CoStar Group, Inc.; Economy.com; Federal Reserve; The Heartman Group; National Association of Realtors; Pew Research; Real Capital Analytics; MPF Research; Trepp; TWR/Dodge Pipeline; U.S. Census Bureau.