2Q 2022

ValTrends Data Report

RERC®
A SitusAMC Company

Contents

01 RERC Overall ValTrends

RCA Transaction Volume[1] Change
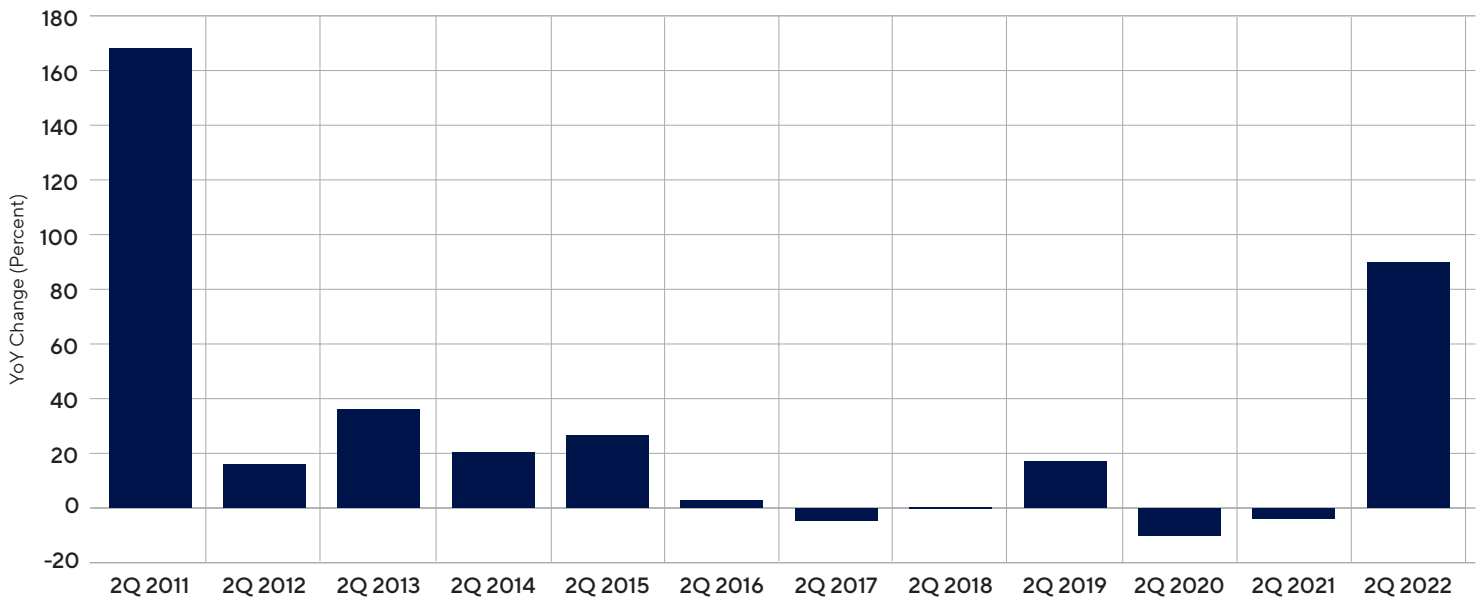
[1]Indicates year–over–year trailing 12 months data provided by RCA.
Source RCA, 2Q 2022.

RCA CPPI – U.S. By Property Type
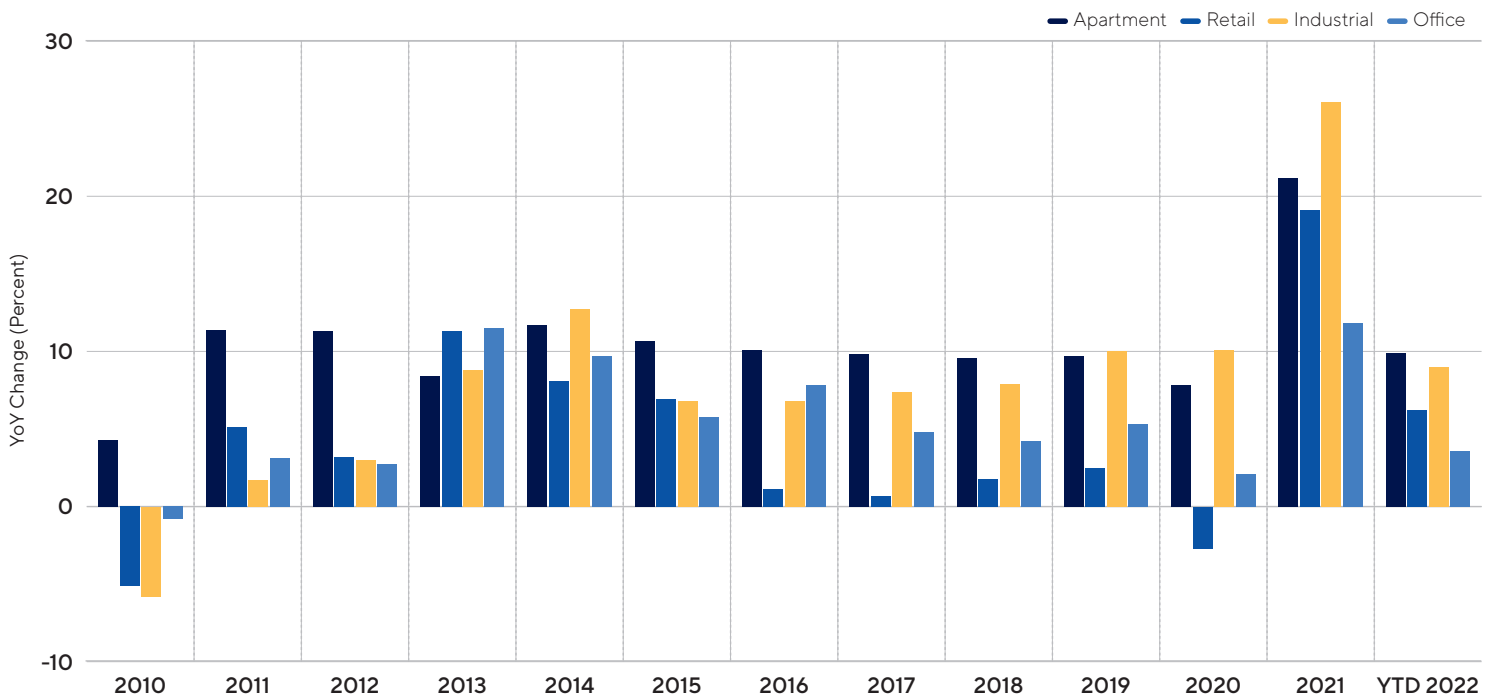
The Real Capital Analytics Commercial Property Price Index (CPPI) is based on repeat-sales (RS) transactions that occurred at any time through the month of the current report.
Source RCA, 2Q 2022.

RERC 10-YEAR TREASURY FORECAST

Legend: 10-Year Treasury — Higher Case — Base Case — Lower Case
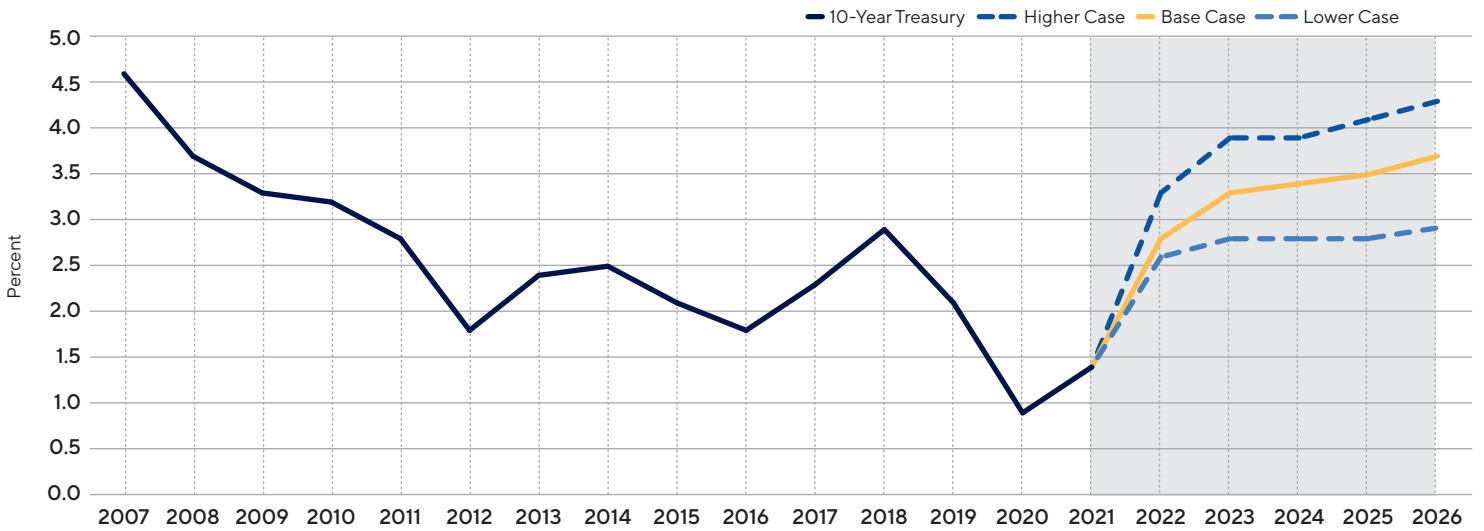
Data based on annual averages. Shaded area indicates forecast.

Sources RERC, Federal Reserve, 2Q 2022.

RERC RISK-ADJUSTED RETURN ANALYSIS (RAR)

Capital Return Performance

	Current Quarter Capital Return	Frequency of Outperformance[1]	1-Year Trailing Capital Return	Frequency of Outperformance[1]
All Property Types	2.3%	88%	16.9%	98%
Apartment	2.9%	93%	20.0%	100%
Hotel	0.2%	63%	5.2%	93%
Industrial - R&D	2.6%	80%	23.0%	95%
Industrial - Flex	5.7%	90%	38.0%	98%
Industrial - Warehouse	5.1%	90%	43.3%	98%
Office - CBD	–1.1%	5%	–1.1%	15%
Office - Suburban	0.2%	18%	4.8%	75%
Retail - Neigh/Comm	0.9%	67%	5.6%	79%
Retail - Power Center	1.1%	80%	4.7%	85%
Retail - Regional Mall	0.1%	43%	–1.5%	40%

[1] Frequency of Outperformance compares the current quarter (i.e., quarterly or 1-year trailing) to 10 years of historical NPI returns and indicates the percentage of periods that the current (or 1-year trailing) return has outperformed historical returns.
Sources RERC, NCREIF, 2Q 2022.

1-Year Trailing Return

	1-YR Trailing NCREIF Returns	10-YR NCREIF Standard Deviation	RAR[1] Metric	1-YR Trailing RERC Avg Expected Returns	NCREIF Returns Less RERC Returns
Industrial - R&D	28.2%	5.7%	4.95	10.0%	18.2%
Office - Suburban	9.6%	2.1%	4.50	7.5%	2.1%
Industrial - Warehouse	47.9%	10.8%	4.46	5.8%	42.2%
All Property Types	21.5%	4.9%	4.41	7.4%	14.0%
Apartment	24.4%	5.7%	4.29	6.0%	18.5%
Industrial - Flex	43.8%	10.8%	4.07	7.3%	36.5%
Retail - Neigh/Comm	11.1%	4.7%	2.38	7.1%	4.0%
Retail - Power Center	11.0%	4.8%	2.27	8.0%	3.0%
Hotel	10.4%	9.3%	1.12	10.0%	0.4%
Office - CBD	3.0%	4.0%	0.76	6.9%	-3.9%
Retail - Regional Mall	3.0%	8.1%	0.37	8.0%	-5.0%

[1]RAR = Risk-Adjusted Return. Property types are listed in order of their RAR metric.
Sources RERC, NCREIF, 2Q 2022.

10-Year Trailing Return

	10-YR Trailing NCREIF Returns	10-YR NCREIF Standard Deviation	RAR[1] Metric	10-YR Trailing RERC Avg Expected Returns	NCREIF Returns Less RERC Returns
Office - Suburban	8.2%	2.1%	3.85	8.2%	0.1%
Industrial - R&D	14.2%	5.7%	2.50	9.8%	4.4%
All Property Types	9.7%	4.9%	1.99	7.9%	1.8%
Office - CBD	6.7%	4.0%	1.71	7.3%	-0.6%
Retail - Neigh/Comm	7.8%	4.7%	1.68	7.4%	0.4%
Apartment	9.4%	5.7%	1.64	6.8%	2.5%
Industrial - Warehouse	17.1%	10.8%	1.59	7.0%	10.1%
Retail - Power Center	6.6%	4.8%	1.36	8.1%	-1.6%
Industrial - Flex	14.6%	10.8%	1.36	8.3%	6.3%
Retail - Regional Mall	5.0%	8.1%	0.62	7.8%	-2.8%
Hotel	3.5%	9.3%	0.37	9.8%	-6.4%

[1]RAR = Risk-Adjusted Return. Property types are listed in order of their RAR metric.
Sources RERC, NCREIF, 2Q 2022.

NPI Annualized Total Returns by Market (All Property Types)

Metro	1-Year Trailing	3-Year Trailing	5-Year Trailing	10-Year Trailing
Atlanta	26.9%	13.5%	11.2%	11.3%
Boston	10.5%	6.6%	6.7%	7.9%
Chicago	11.8%	5.0%	4.7%	7.4%
Dallas	24.1%	11.3%	9.4%	10.3%
Houston	13.9%	4.8%	4.8%	7.4%
Los Angeles	27.6%	12.9%	11.3%	11.3%
Minneapolis	11.0%	4.3%	3.9%	5.8%
New York	12.1%	5.3%	4.9%	7.3%
San Francisco	6.9%	4.7%	6.4%	10.1%
Seattle	19.1%	10.8%	10.5%	10.6%
Washington, D.C.	8.3%	4.2%	4.3%	5.4%
National	21.5%	10.2%	8.9%	9.7%

Source NCREIF, compiled by RERC, 2Q 2022.

NAREIT Investment Performance Index[1] (By Property Type)

Property Sector/ Sub-sector	Total Return		Number of REITs	Dividend Yield[2]
	YTD	2021		
All Equity REIT Index	-19.2	41.3	153	3.4
Industrial	-26.6	62.0	13	2.7
Office	-27.5	22.0	20	4.7
Retail	-20.5	51.9	32	5.1
Shopping Centers	-18.8	65.1	17	4.2
Regional Malls	-39.7	92.1	3	7.0
Free Standing	-8.2	19.7	12	4.9
Residential	-20.4	58.3	21	2.9
Apartments	-20.1	63.6	16	3.2
Manufactured Homes	-21.9	42.0	3	2.3
Single-Family Homes	-19.8	52.8	2	2.3
Diversified	-10.6	29.2	13	5.0
Lodging/Resorts	-16.1	18.2	14	1.0
Health Care	-10.2	16.3	16	4.6
Self Storage	-20.1	79.4	5	3.1
Timber	-15.0	28.8	4	2.5
Infrastructure	-14.9	34.4	4	2.5
Data Centers	-22.0	25.5	2	2.6
Specialty	-8.4	41.7	9	5.3

[1] All figures represent percent change except where noted.
[2] Dividend yield is quoted in percent and is for month ending June 30.
**Sources** FTSE™, Nareit, 2Q 2022.

Annualized NPI Returns

	YTD	2021	2020	2019	2018	2017
Office	2.2%	6.1%	1.6%	6.6%	6.8%	6.0%
Industrial	17.5%	43.3%	11.8%	13.4%	14.3%	13.1%
Retail	4.0%	4.2%	-7.5%	1.9%	2.2%	5.7%
Apartment	9.3%	19.9%	1.8%	5.5%	6.1%	6.2%
Hotel	3.6%	5.5%	-25.6%	3.5%	7.6%	4.9%
East	6.0%	13.4%	1.4%	4.9%	5.0%	5.1%
West	10.6%	21.1%	2.5%	8.3%	8.8%	8.9%
Midwest	5.5%	12.2%	-1.3%	3.1%	4.3%	5.6%
South	10.1%	19.8%	1.3%	6.7%	6.7%	6.9%
National	8.7%	17.7%	1.6%	6.4%	6.7%	7.0%

Source NCREIF, compiled by RERC, 2Q 2022.

Total Return Forecast (Base Case Scenario)
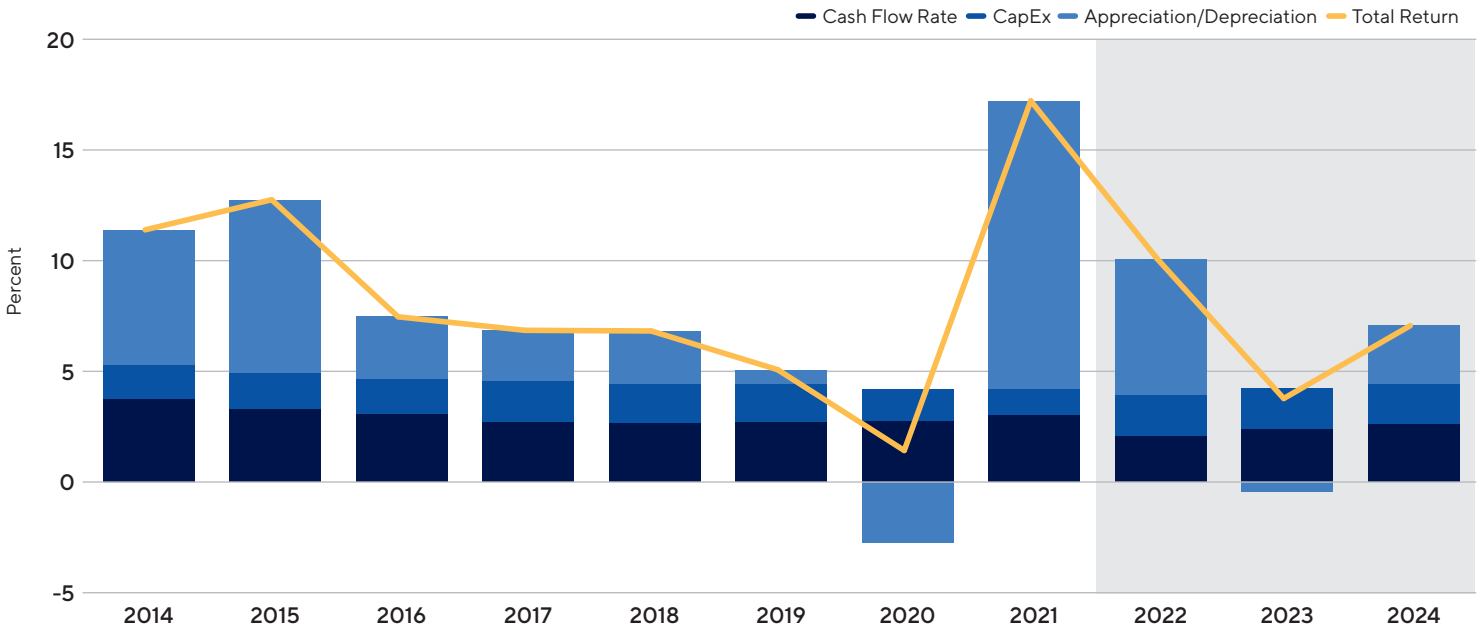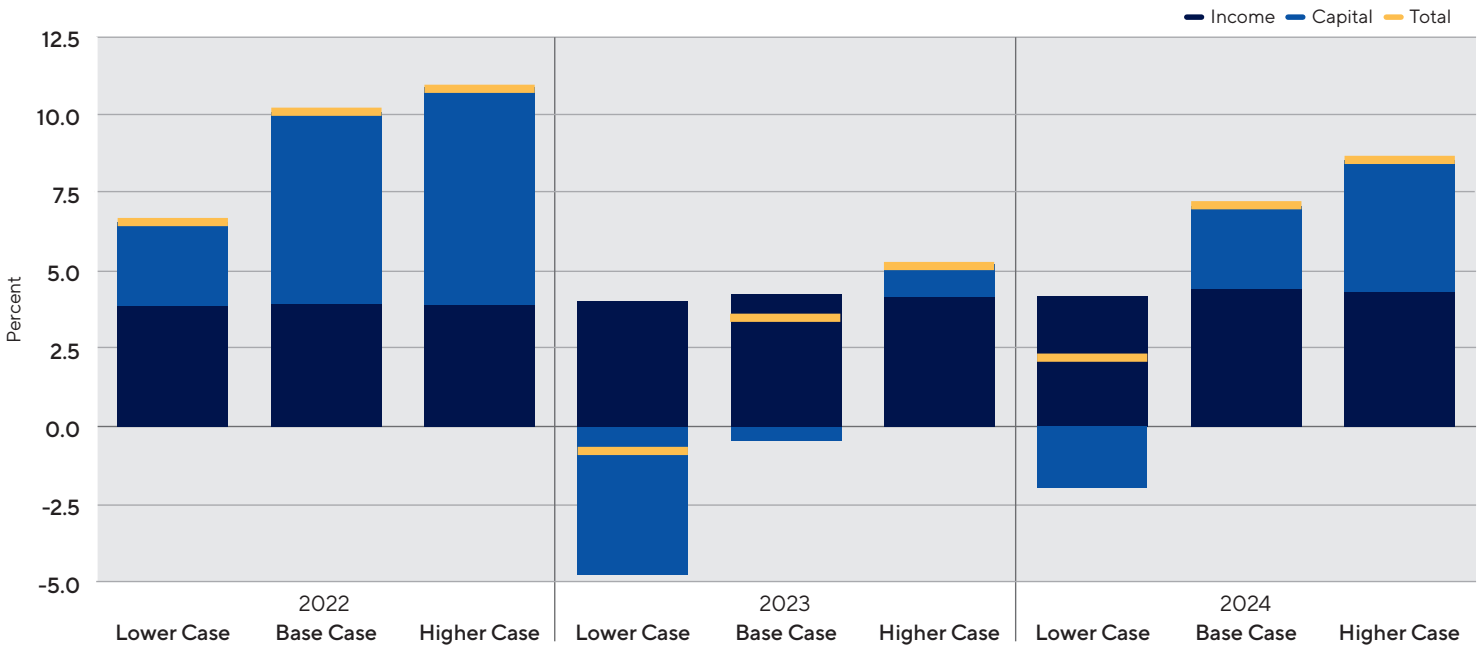

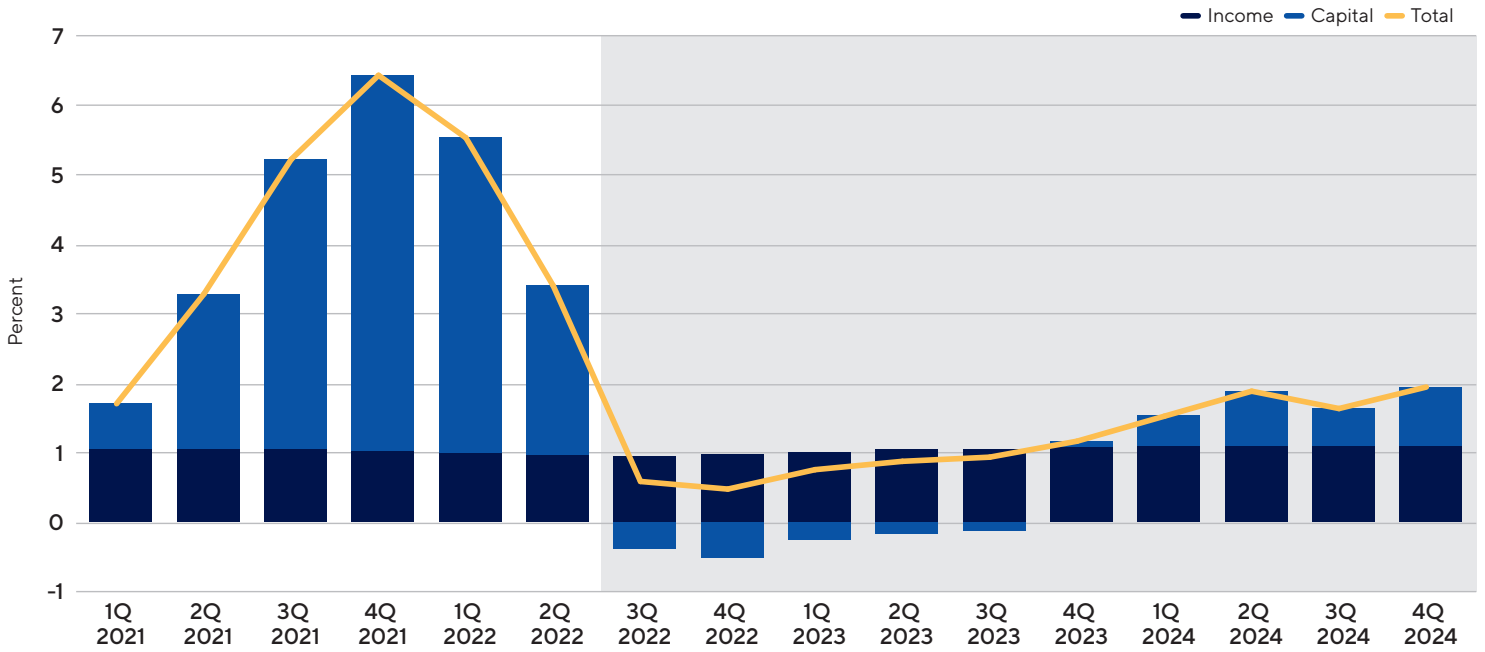Legend: ■ Cash Flow Rate ■ CapEx ■ Appreciation/Depreciation — Total Return

The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shaded area reflects RERC's outlook for the base case scenario for 2022, 2023 and 2024.
Sources RERC, NCREIF, 2Q 2022.

Total Return Forecast (Lower Case, Base Case and Higher Case Scenarios)

Legend: ■ Income ■ Capital — Total

The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shaded area reflects RERC's outlook for the base case scenario for 2022, 2023 and 2024.
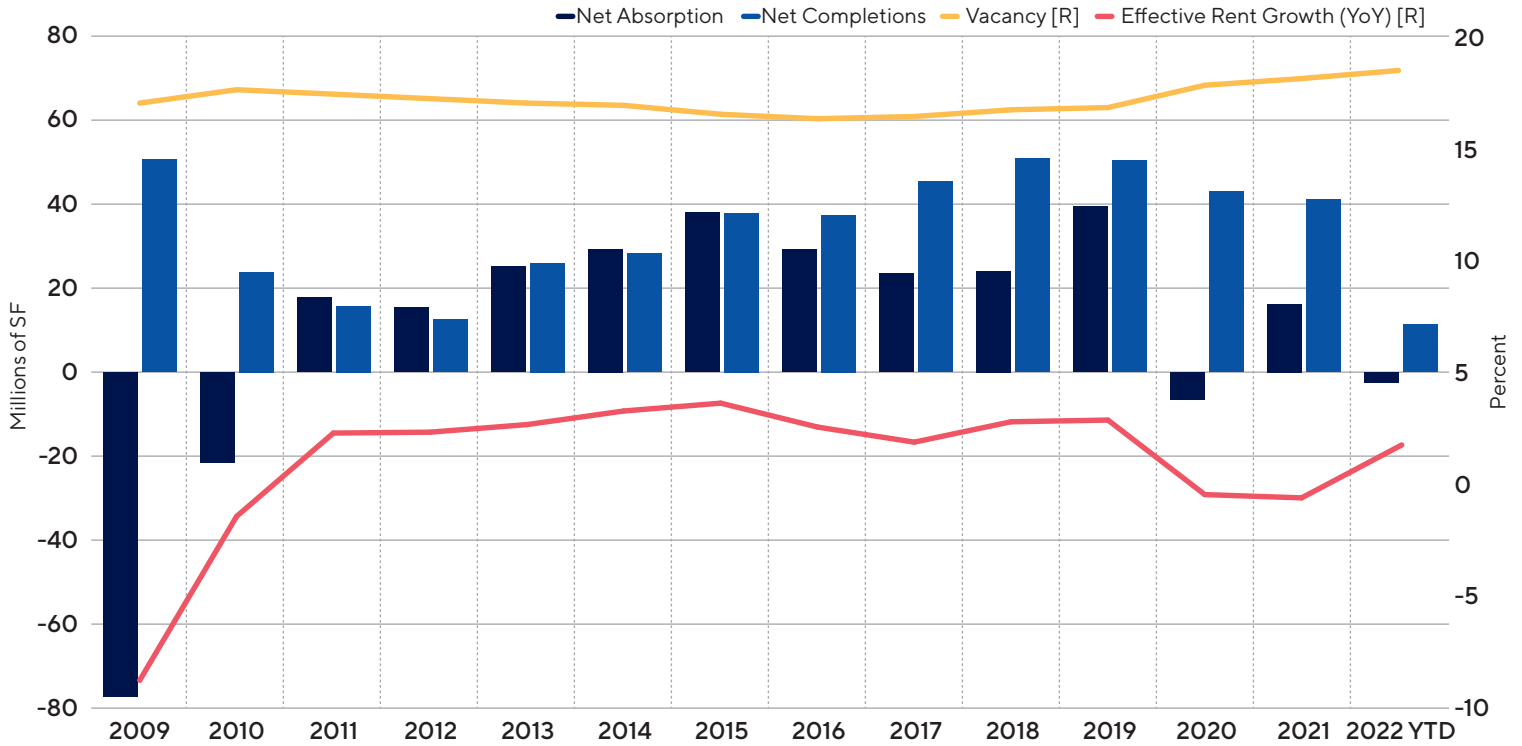**Sources** RERC, NCREIF, 2Q 2022.

Total Return Forecast (Base Case Scenario) — Quarterly

The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Shaded area reflects RERC's outlook for the base case scenario for 2022, 2023 and 2024.
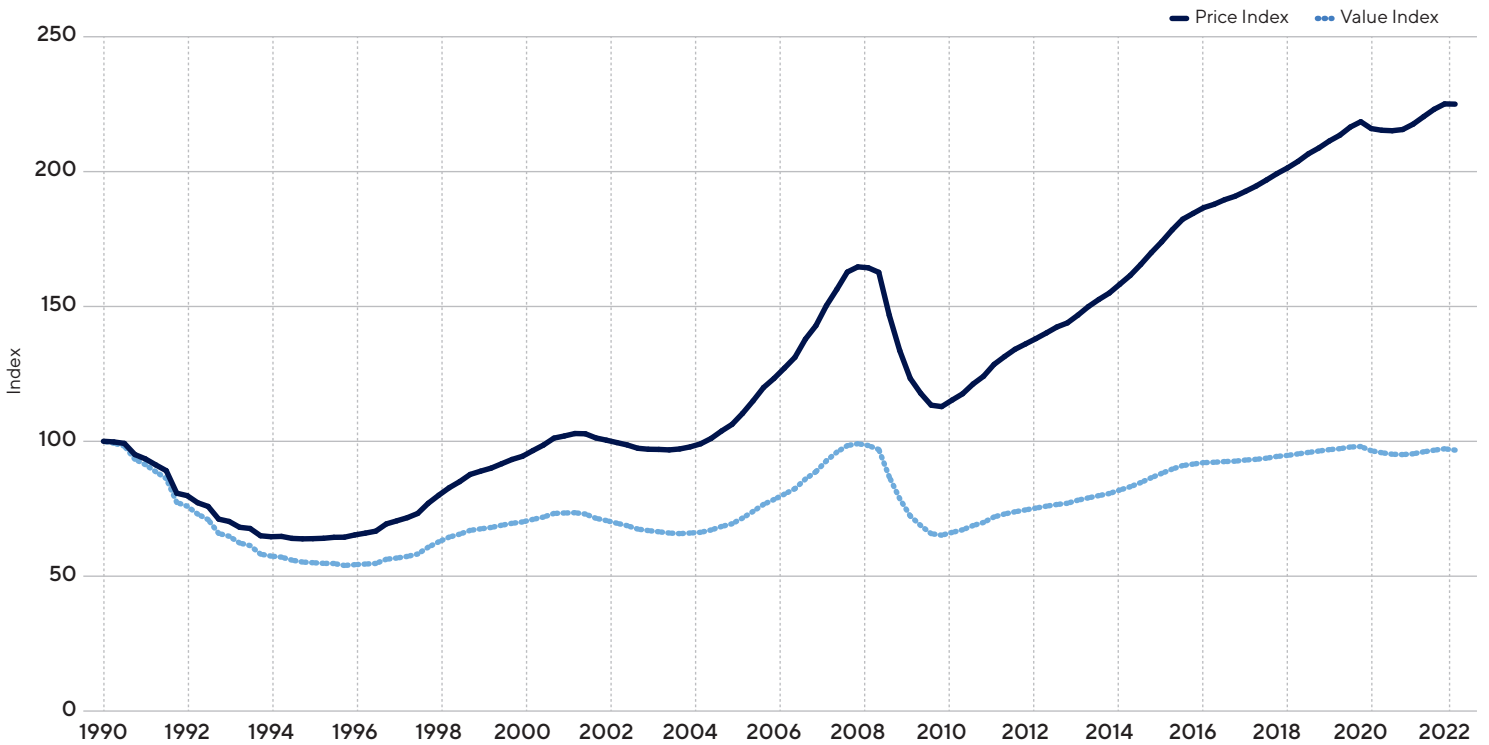**Sources** RERC, NCREIF, 2Q 2022.

Office Fundamentals
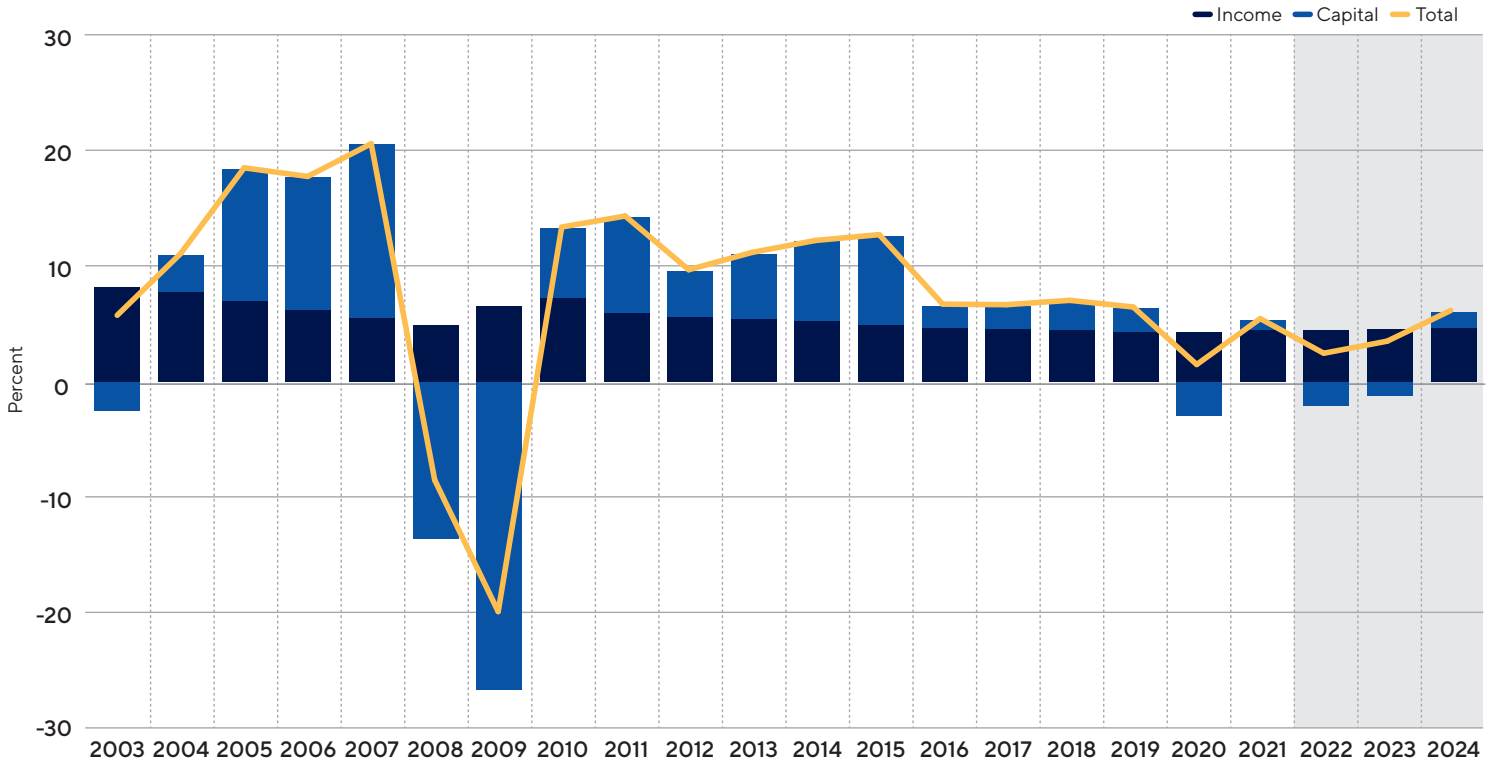

Source Reis, 2Q 2022.

Office Price and Value Indexes

Price index combines capital expenditures and capital returns. Value index represents capital returns only.
Sources RERC, NCREIF, 2Q 2022.

Total Return Forecast — Office (Base Case Scenario)

■ Income ■ Capital ━ Total

The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Shaded area reflects RERC's outlook for the base case scenario for 2022, 2023 and 2024.
Sources RERC, NCREIF, 2Q 2022.

RCA Transaction Volume[1] and Price[2] — Office

■ Volume ━ Price [R]

[1]Indicates year–over–year trailing 12 months data provided by RCA.
[2]Indicates average trailing 12 months data provided by RCA.
Source RCA, 2Q 2022.

Industrial Fundamentals

— Net Absorption — Net Completions — Vacancy [R] — Effective Rent Growth (YoY) [R]

Source Reis, 2Q 2022.

Industrial Price and Value Indexes

— Price Index ···· Value Index

Price index combines capital expenditures and capital returns. Value index represents capital returns only.
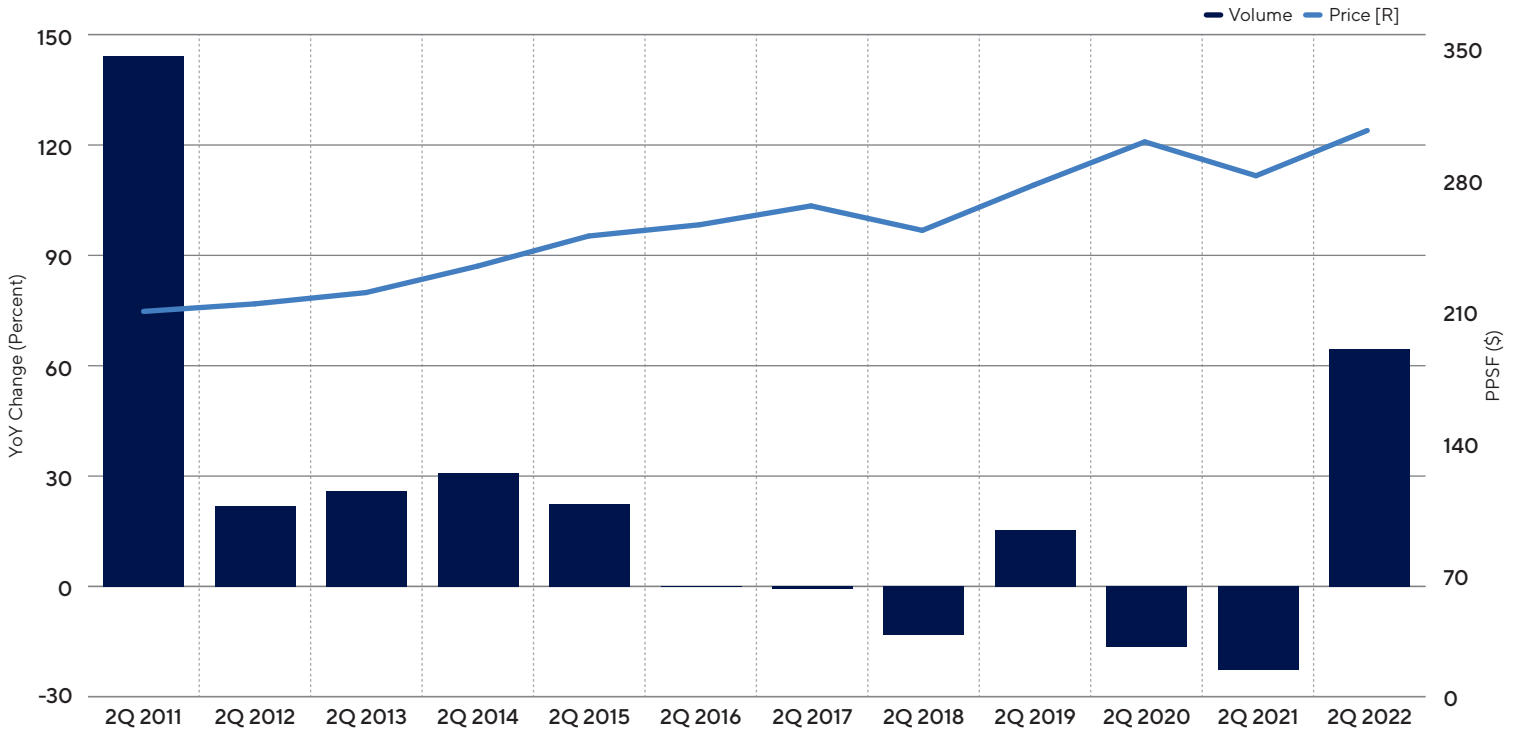**Sources** RERC, NCREIF, 2Q 2022.

Total Return Forecast — Industrial (Base Case Scenario)

■ Income ■ Capital ■ Total

The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Shaded area reflects RERC's outlook for the base case scenario for 2022, 2023 and 2024.
Sources RERC, NCREIF, 2Q 2022.

RCA Transaction Volume[1] and Price[2] — Industrial
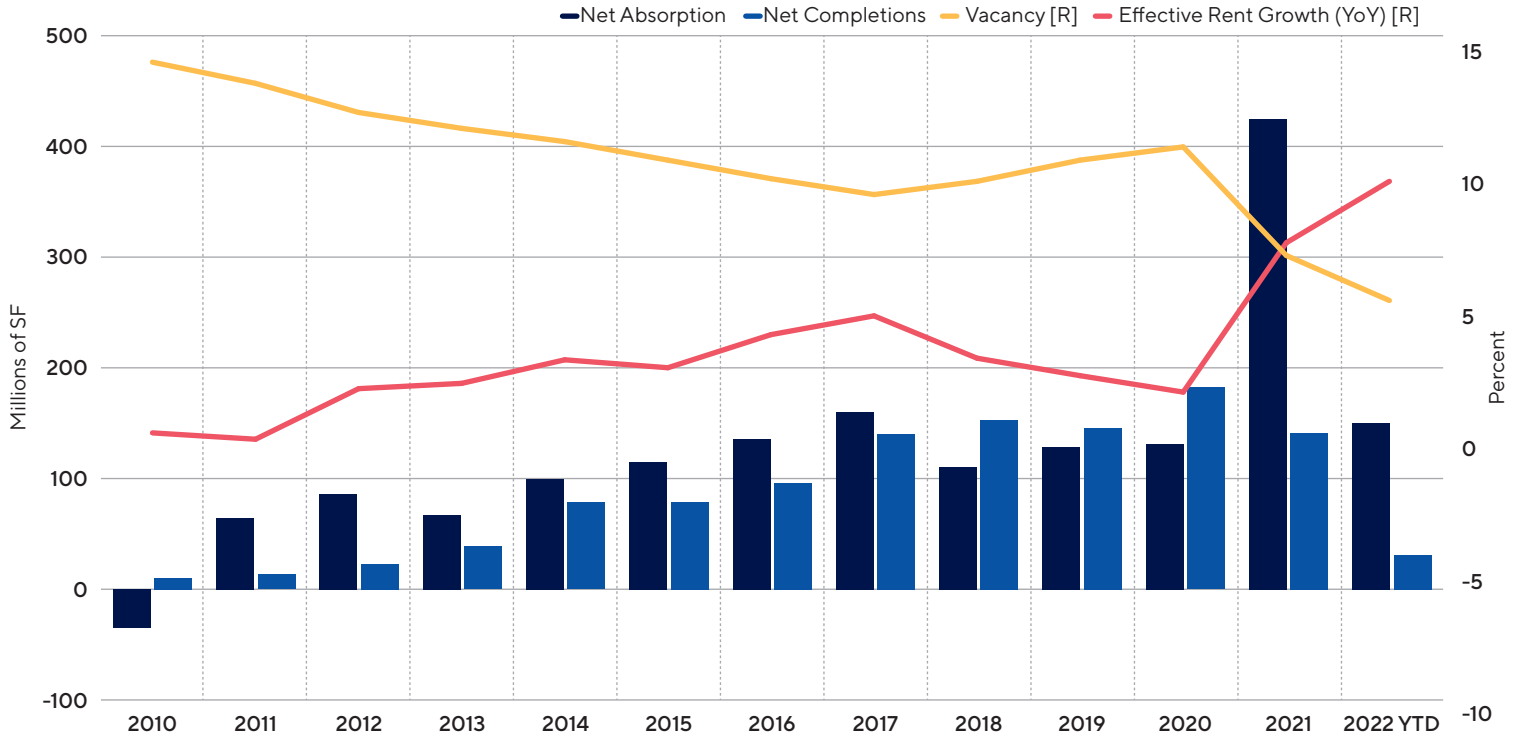
■ Volume ■ Price [R]

[1]Indicates year–over–year trailing 12 months data provided by RCA.
[2]Indicates average trailing 12 months data provided by RCA.
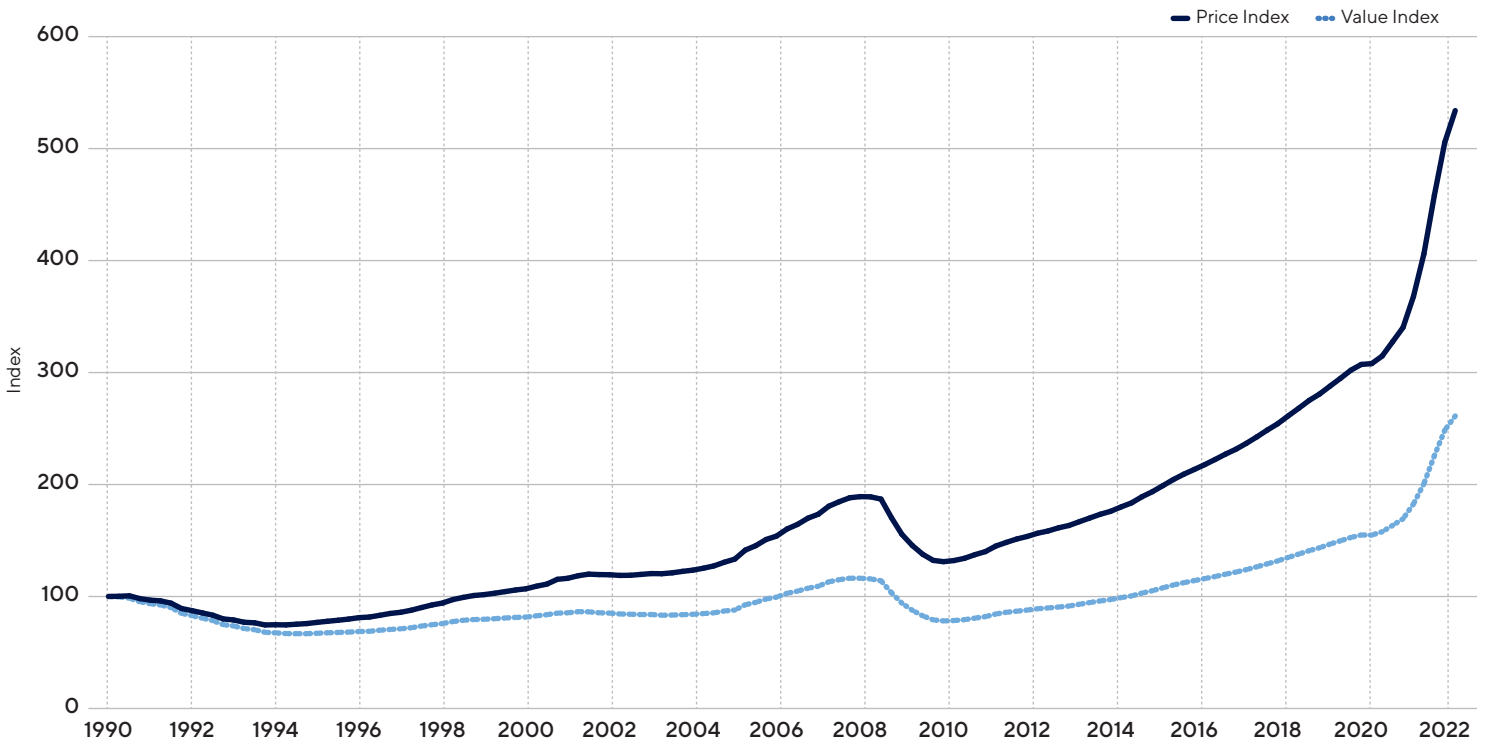**Source** RCA, 2Q 2022.

Retail Fundamentals

Source Reis, 2Q 2022.
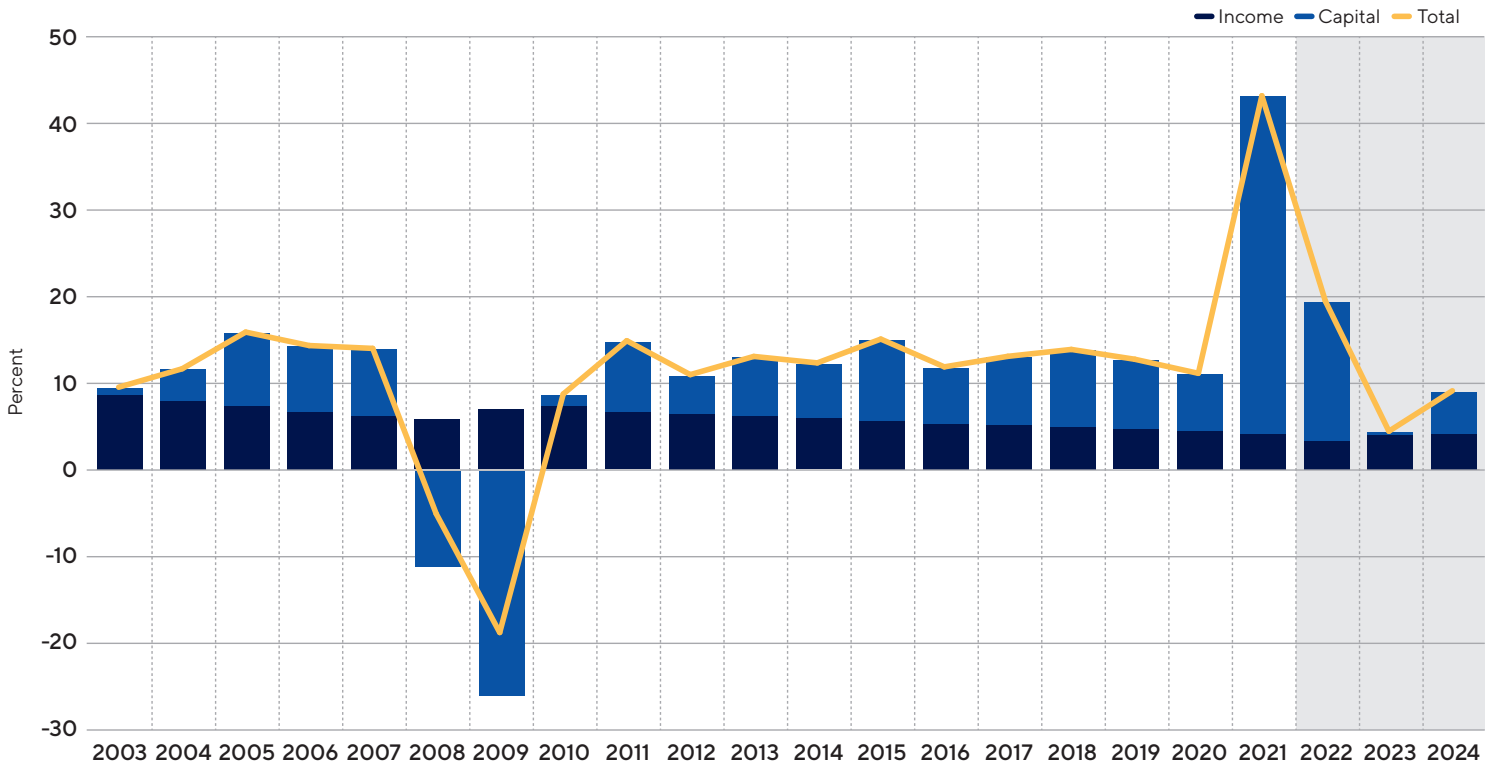
Retail Price and Value Indexes

Price index combines capital expenditures and capital returns. Value index represents capital returns only.
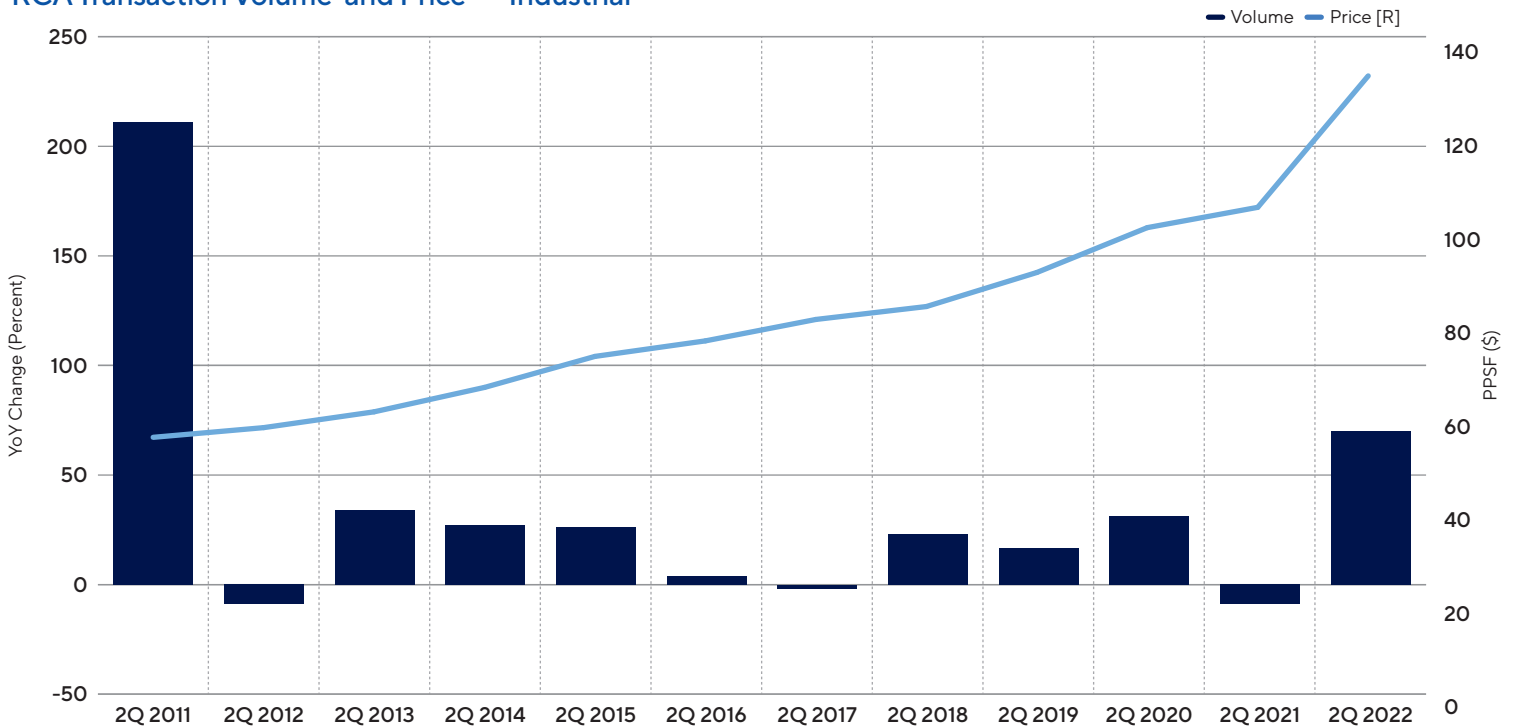**Sources** RERC, NCREIF, 2Q 2022.

Total Return Forecast — Retail (Base Case Scenario)

The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Shaded area reflects RERC's outlook for the base case scenario for 2022, 2023 and 2024.
Sources RERC, NCREIF, 2Q 2022.

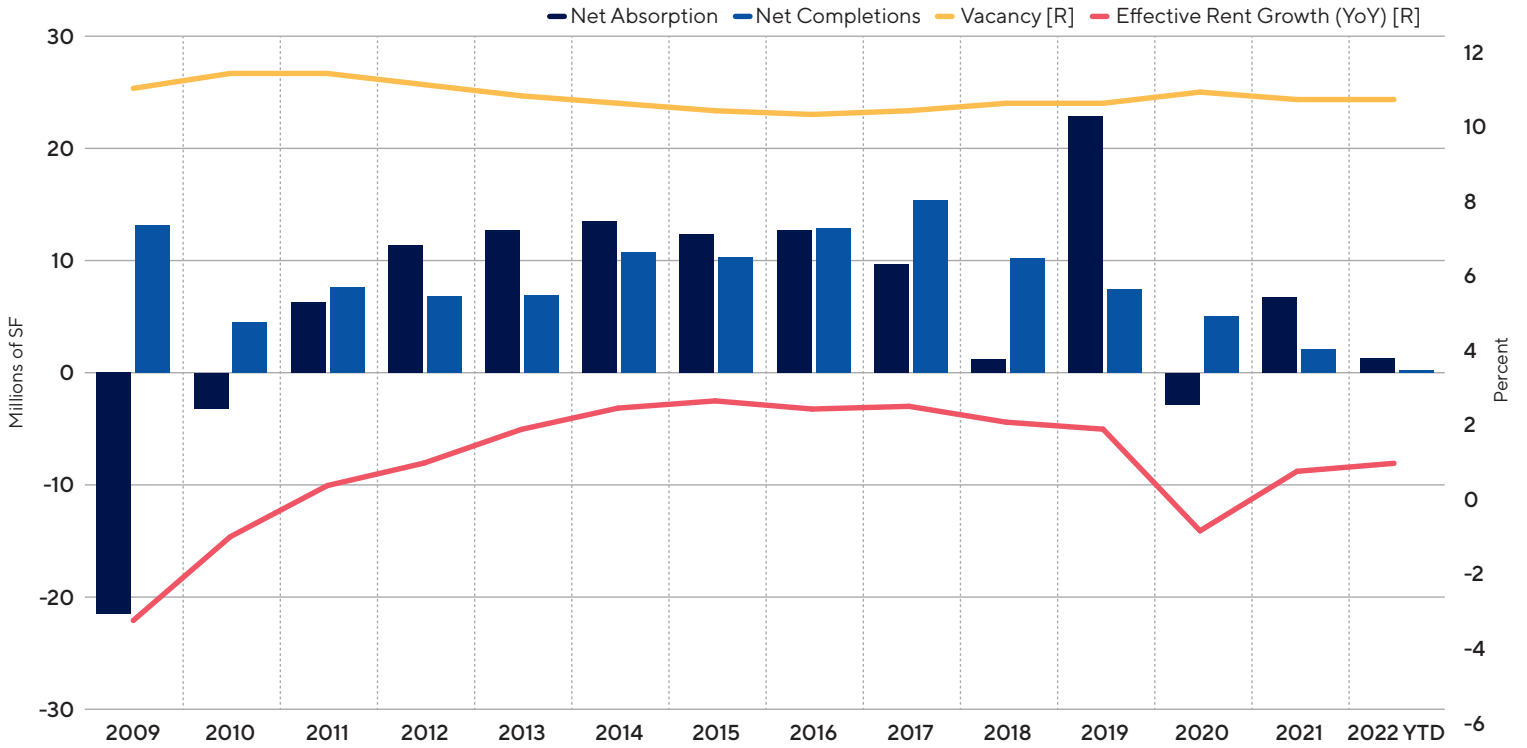## RCA Transaction Volume[1] and Price[2] — Retail
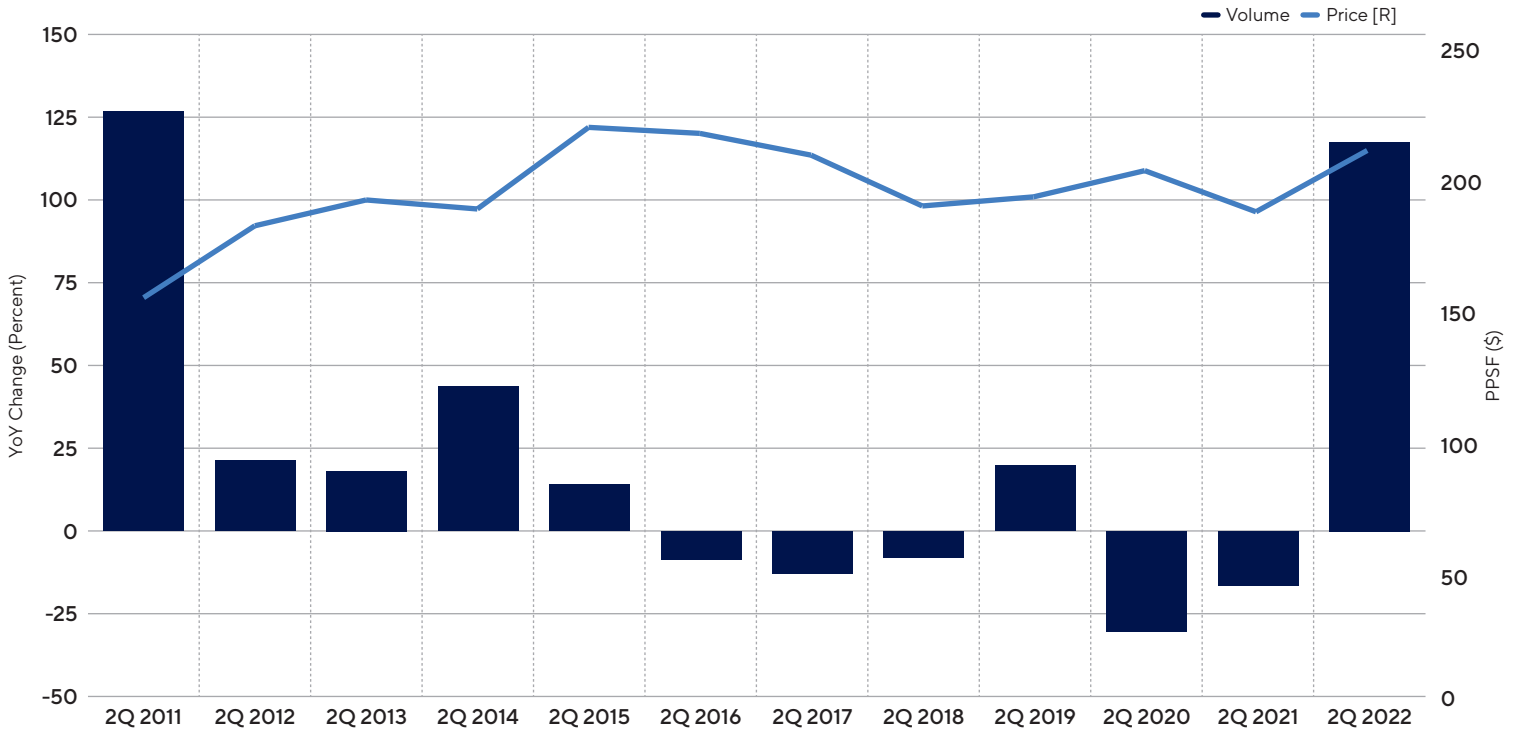
[1]Indicates year–over–year trailing 12 months data provided by RCA.
[2]Indicates average trailing 12 months data provided by RCA.
Source RCA, 2Q 2022.

Apartment Fundamentals

Net Absorption ■ Net Completions ■ Vacancy [R] ── Effective Rent Growth (YoY) [R]
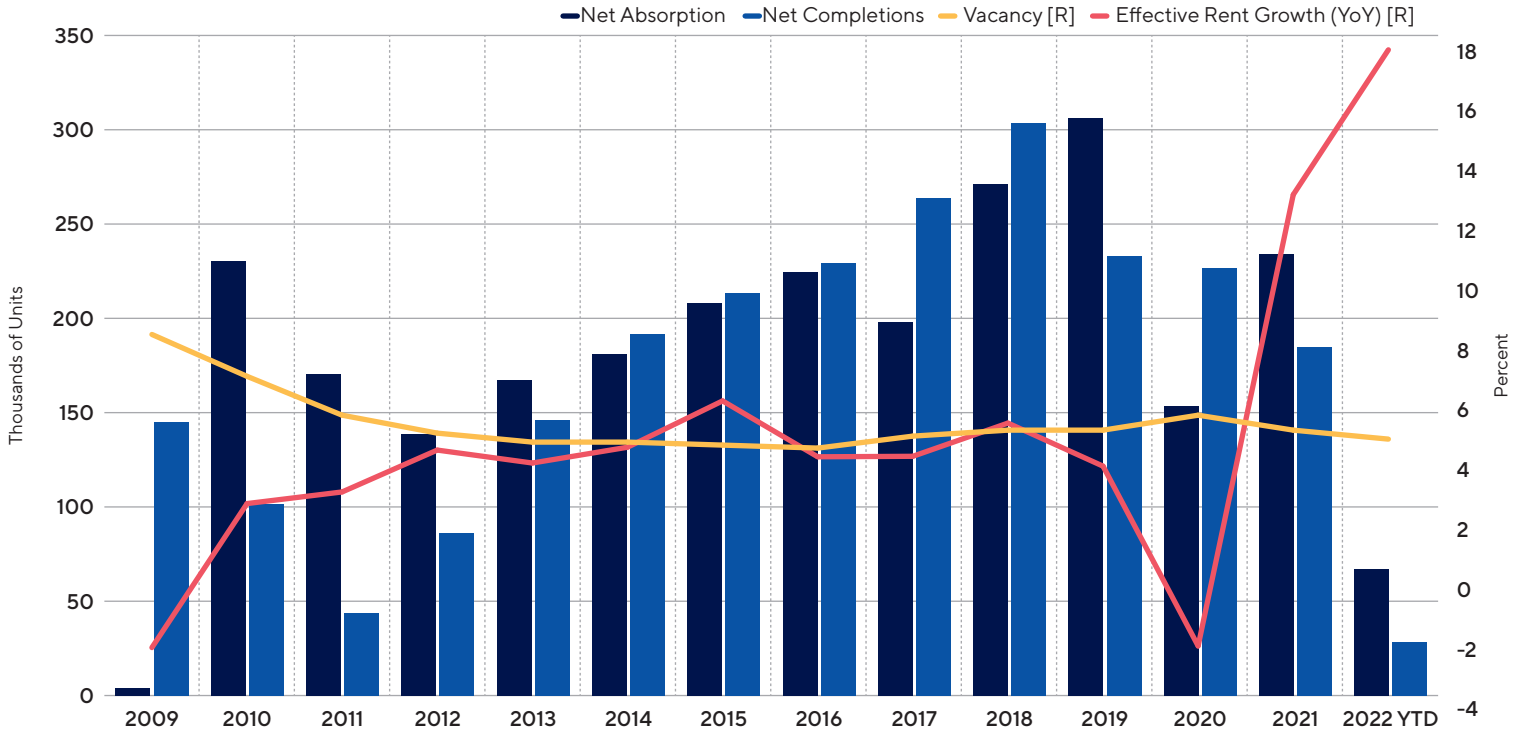
Source Reis, 2Q 2022.

Apartment Price and Value Indexes
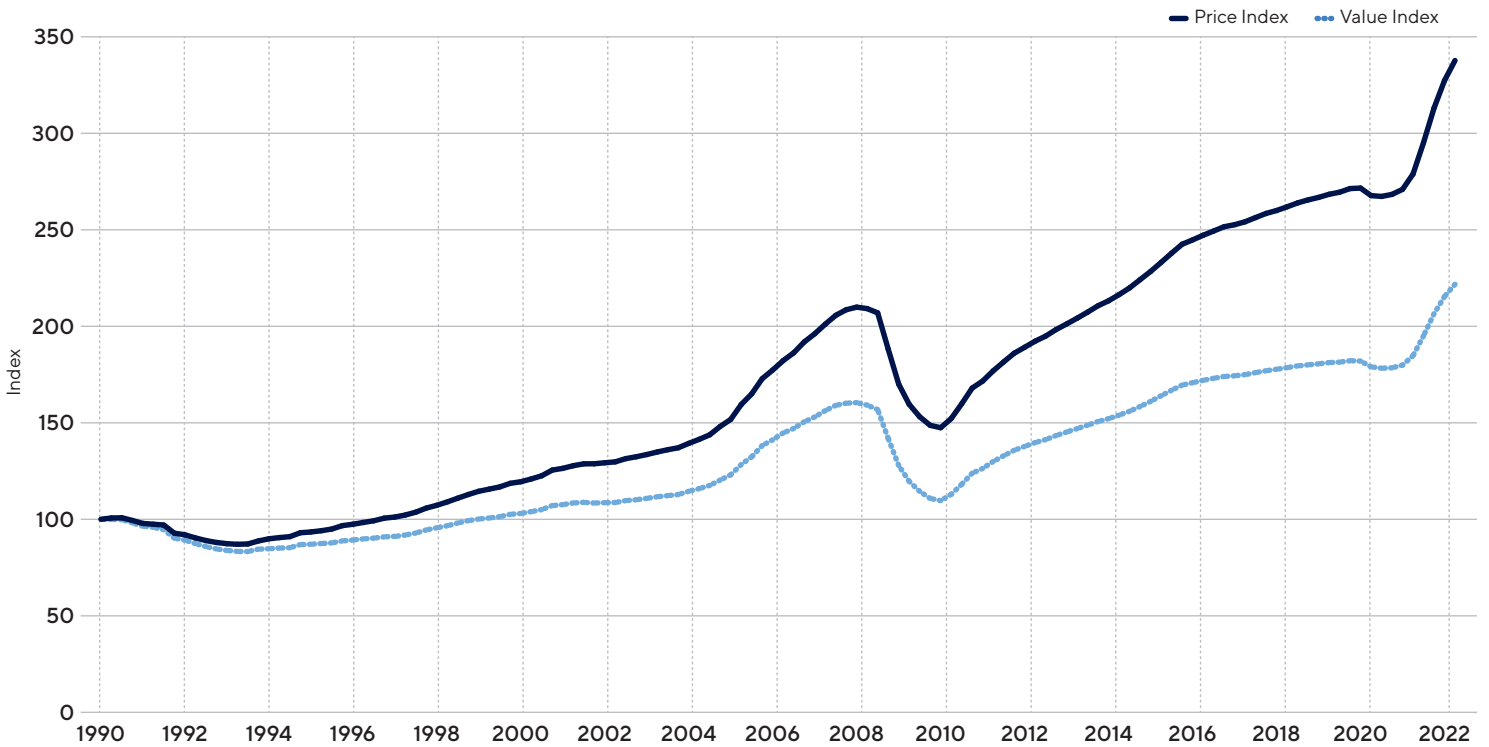
Price Index ···· Value Index

Price index combines capital expenditures and capital returns. Value index represents capital returns only.
Sources RERC, NCREIF, 2Q 2022.

Total Return Forecast — Apartment (Base Case Scenario)
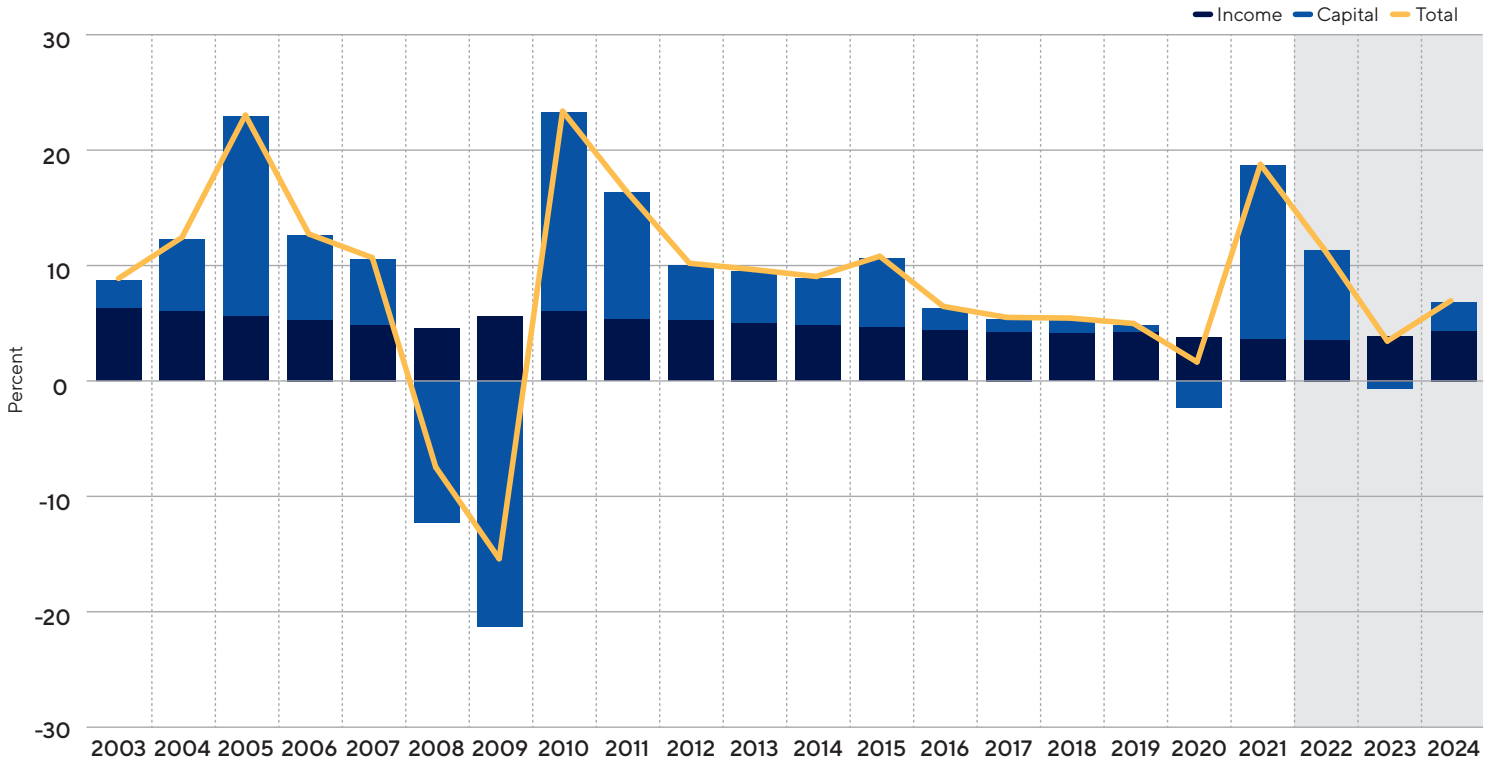
The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE and is for unleveraged, institutional-grade properties. Shaded area reflects RERC's outlook for the base case scenario for 2022, 2023 and 2024.
Sources RERC, NCREIF, 2Q 2022.

RCA Transaction Volume[1] and Price[2] — Apartment
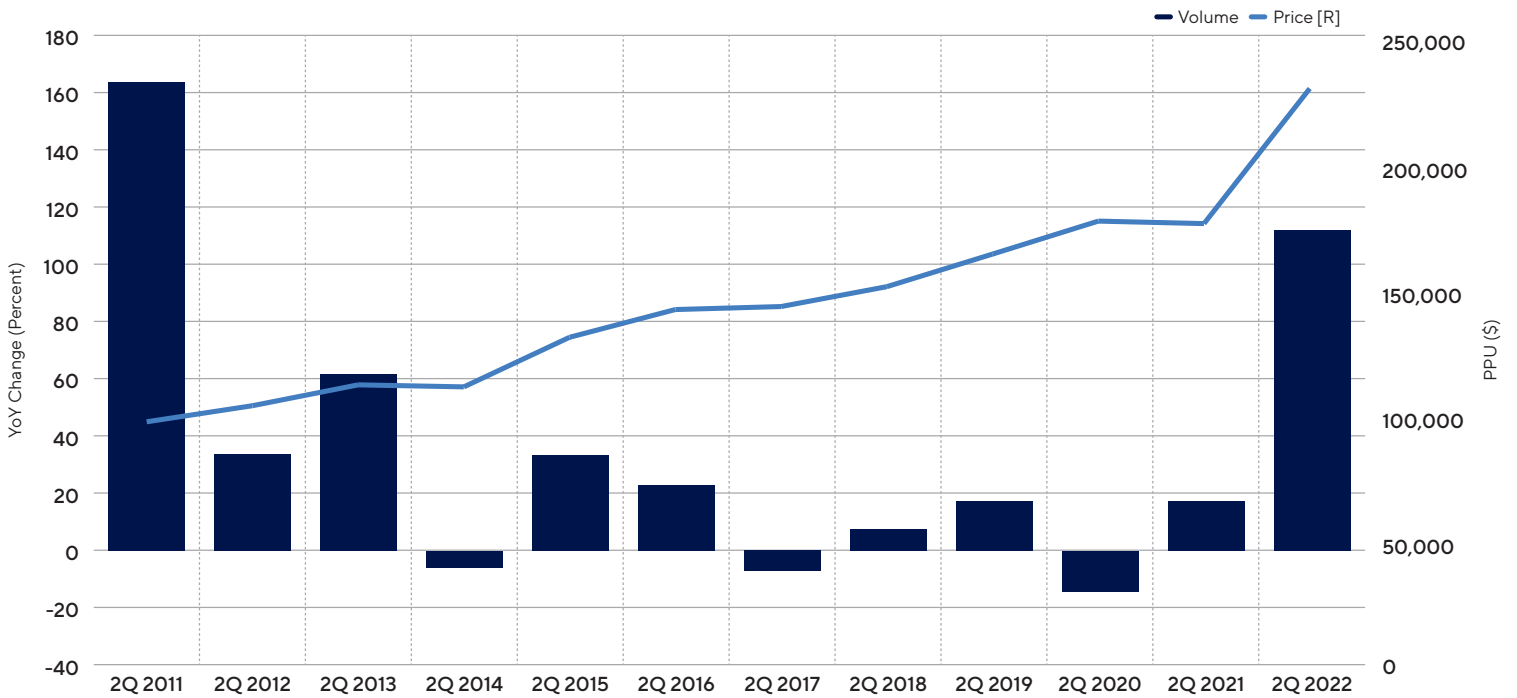
[1]Indicates year–over–year trailing 12 months data provided by RCA.
[2]Indicates average trailing 12 months data provided by RCA.
Source RCA, 2Q 2022.
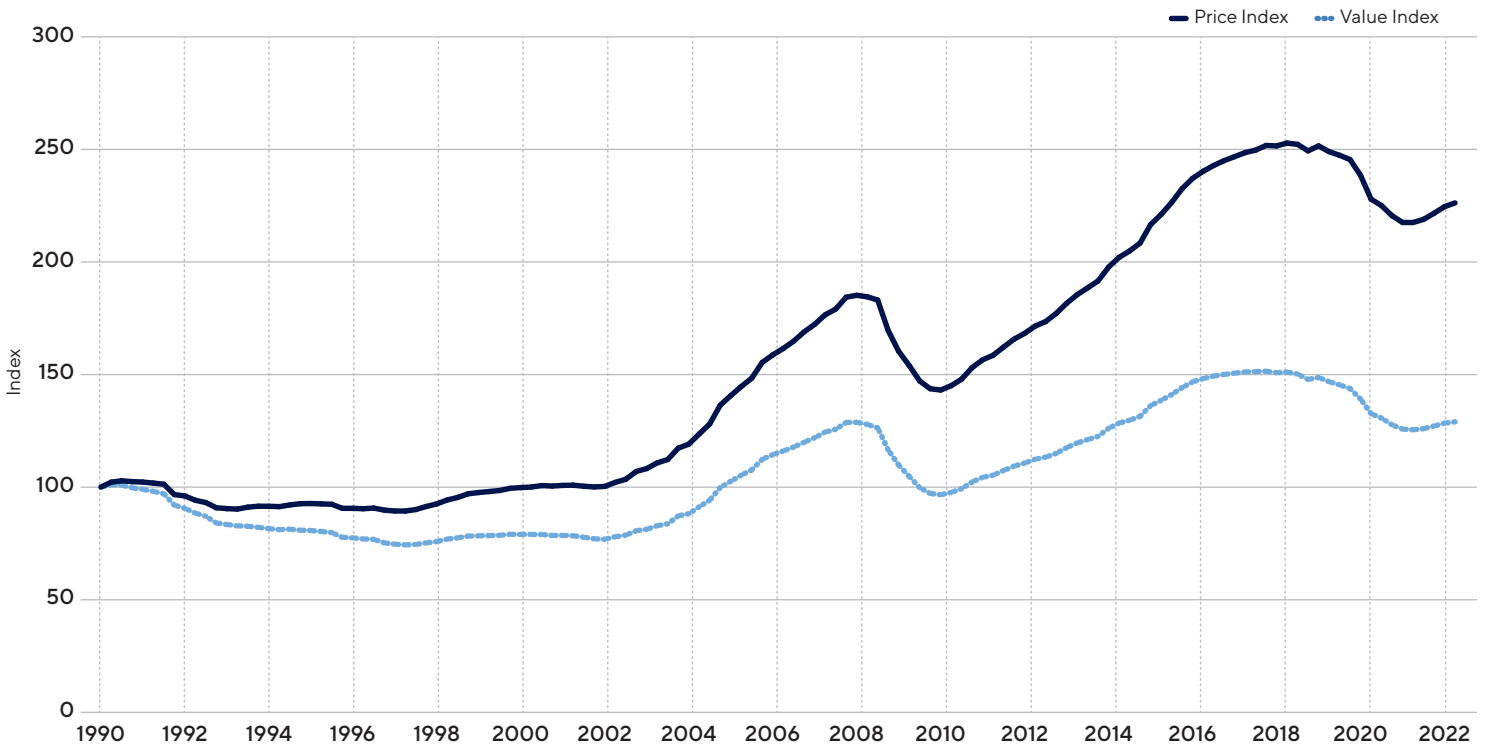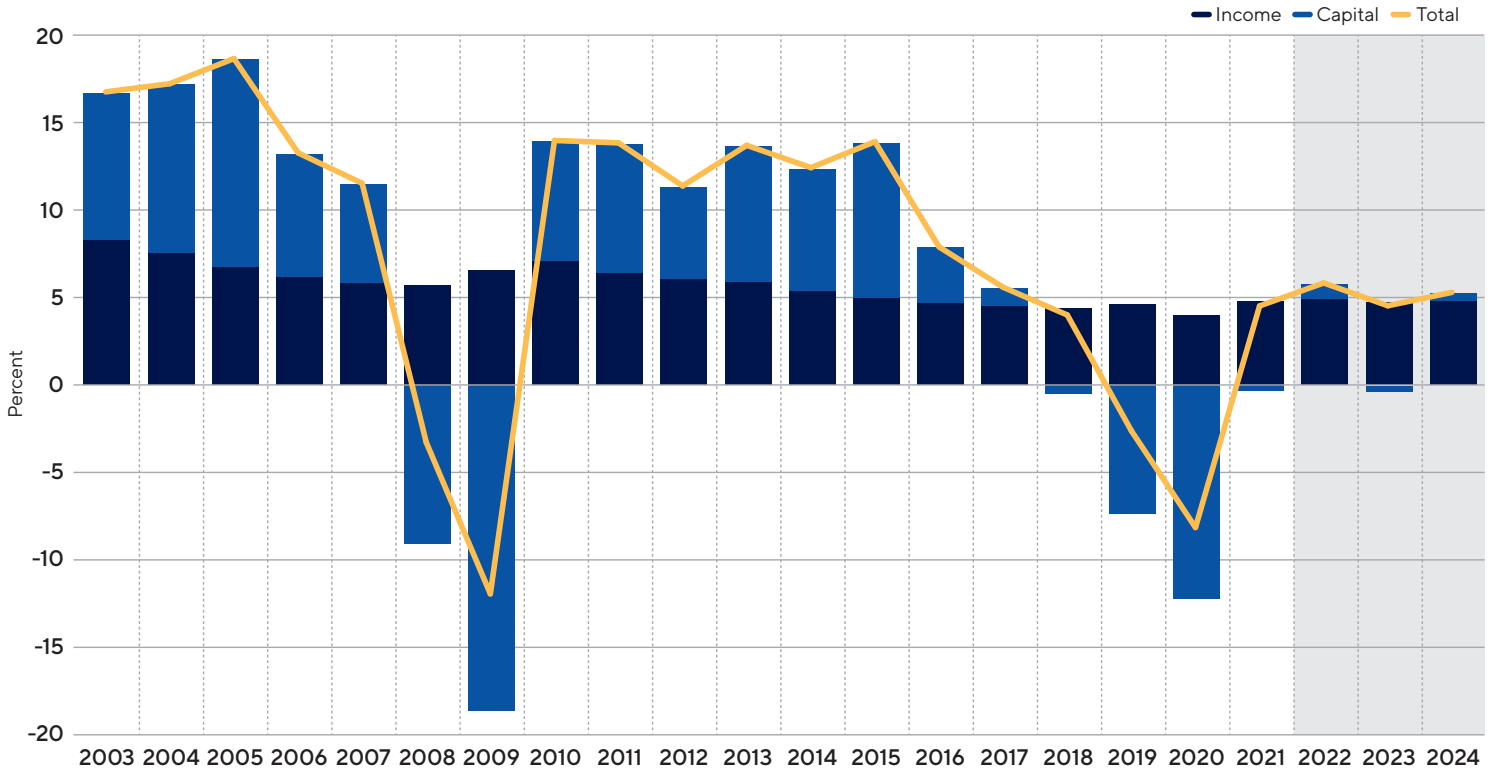
RCA Transaction Volume¹ and Price² — Hotel
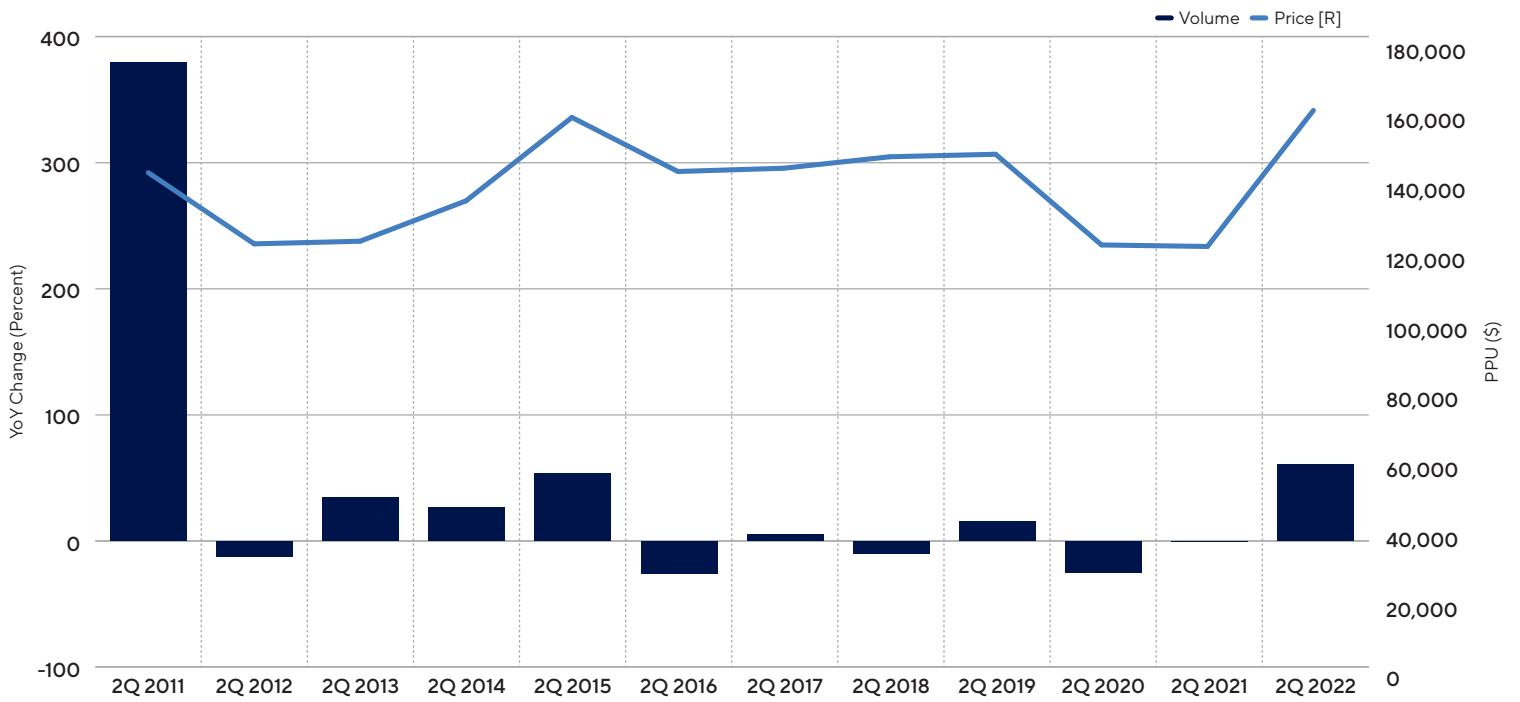
¹Indicates year-over-year trailing 12 months data provided by RCA.
²Indicates average trailing 12 months data provided by RCA.
Source RCA, 2Q 2022.

02 ValTrends by Region

RERC REGIONAL INVESTMENT MONITOR

WEST REGION

Investment Recommendations

BUY
16%

SELL
11%

HOLD
74%

RERC Investment Criteria – First-Tier Properties

	Pre-Tax Yield (%)	Going-In Cap Rate (%)	Terminal Cap Rate (%)
CBD	8.6	6.8	7.5
Suburban	8.8	7.1	7.7
Warehouse	7.6	5.9	6.9
R&D	8.2	6.7	7.4
Flex	8.2	6.6	7.3
Regional Mall	9.5	7.8	8.4
Power Center	8.4	7.3	8.1
Neigh/Comm	8.4	7.1	7.7
Apartment	7.0	5.1	6.0
Hotel	9.7	7.7	8.6
Average	8.4	6.8	7.6
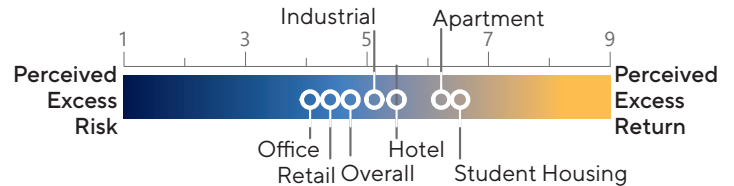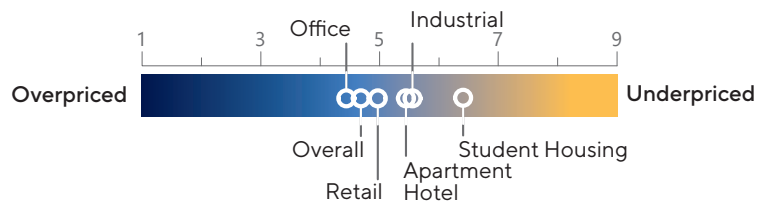
Source RERC, 2Q 2022.

Availability & Discipline of Equity Capital

1 3 5 7 9

Poor

Good

Availability
Discipline
(Underwriting Standards)

Perceived Relative Risk

1 3 5 7 9

Industrial   Apartment

Perceived
Excess
Risk

Perceived
Excess
Return

Office   Hotel
Retail   Overall   Student Housing

Relative Value Sentiment

1 3 5 7 9

Office   Industrial

Overpriced

Underpriced

Overall   Student Housing
Retail   Apartment
Hotel

Investment recommendations represent the percentage of total respondents reccomending buy, sell or hold. Availability & discipline of equity capital are rated on a scale of 1 to 10, with 10 being excellent. Perceived relative risk is rated on a scale of 1 to 10, with 10 indicating return far exceeds risk. Relative value sentiment is rated on a scale of 1 to 10, with 10 indicating that value far exceeds price. **Source** RERC, 2Q 2022.

NPI Return and Risk

Risk (10-Year Std Dev)

HOTEL
WHSE
FLEX
IND
RGNL MALL
RETAIL
PWR CNTR
NEIGH/COMM
CBD
APT
OVERALL
OFFICE
SUB

1-Year NPI Return

Source NCREIF, compiled by RERC, 2Q 2022.

RERC REGIONAL INVESTMENT MONITOR

MIDWEST REGION

Investment Recommendations
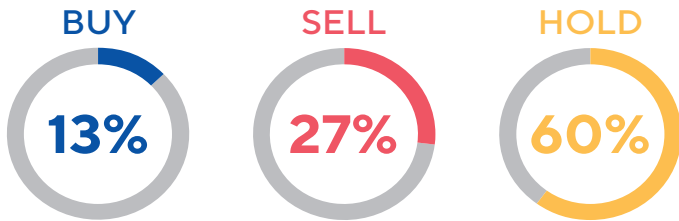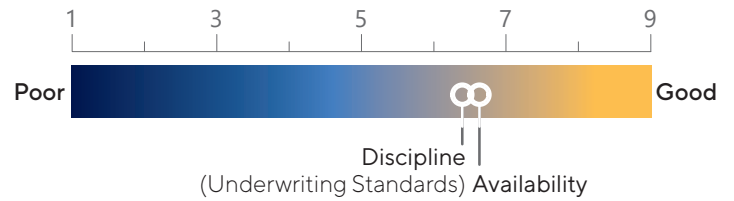
BUY
13%

SELL
27%

HOLD
60%

RERC Investment Criteria – First-Tier Properties

	Pre-Tax Yield (%)	Going-In Cap Rate (%)	Terminal Cap Rate (%)
CBD	8.7	7.5	8.0
Suburban	8.9	7.7	8.1
Warehouse	7.8	6.4	6.8
R&D	8.3	7.0	7.7
Flex	8.6	7.1	7.7
Regional Mall	9.7	8.5	9.1
Power Center	8.8	8.2	8.7
Neigh/Comm	8.8	7.6	8.2
Apartment	7.1	5.6	6.3
Hotel	10.2	8.5	9.2
Average	8.7	7.4	8.0

Source RERC, 2Q 2022.

Availability & Discipline of Equity Capital

Poor — Good

Discipline
(Underwriting Standards) Availability

Perceived Relative Risk

Overall   Industrial

Perceived Excess Risk — Perceived Excess Return

Retail   Office   Hotel   Student Housing   Apartment

Relative Value Sentiment

Office   Apartment   Hotel

Overpriced — Underpriced

Retail   Industrial   Overall   Student Housing

Investment recommendations represent the percentage of total respondents reccomending buy, sell or hold. Availability & discipline of equity capital are rated on a scale of 1 to 10, with 10 being excellent. Perceived relative risk is rated on a scale of 1 to 10, with 10 indicating return far exceeds risk. Relative value sentiment is rated on a scale of 1 to 10, with 10 indicating that value far exceeds price. **Source** RERC, 2Q 2022.

NPI Return and Risk

Risk (10-Year Std Dev) vs 1-Year NPI Return

RGNL MALL, FLEX, RETAIL, PWR CNTR, NEIGH/COMM, OVERALL, APT, CBD, OFFICE, SUB, WHSE, IND

Source NCREIF, compiled by RERC, 2Q 2022.

RERC REGIONAL INVESTMENT MONITOR

SOUTH REGION

Investment Recommendations
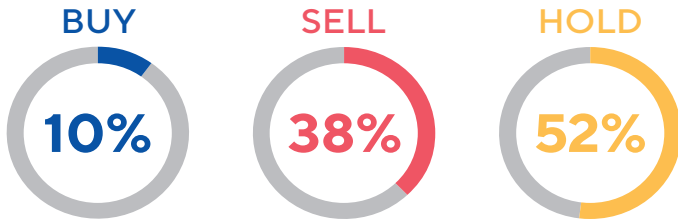
BUY 10%

SELL 38%

HOLD 52%

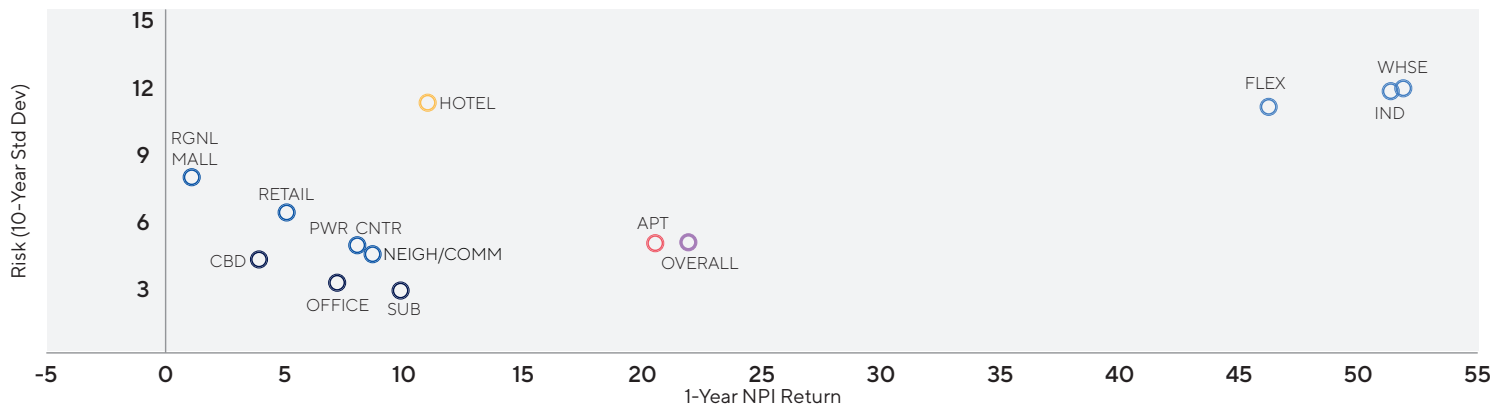### RERC Investment Criteria – First-Tier Properties

	Pre-Tax Yield (%)	Going-In Cap Rate (%)	Terminal Cap Rate (%)
CBD	8.8	7.0	7.7
Suburban	8.9	7.2	7.8
Warehouse	7.9	6.2	6.8
R&D	8.3	7.1	7.5
Flex	8.5	6.9	7.5
Regional Mall	9.4	8.2	8.5
Power Center	8.7	7.5	7.9
Neigh/Comm	8.5	7.2	7.6
Apartment	6.9	5.4	5.7
Hotel	10.1	8.4	8.9
Average	8.6	7.1	7.6
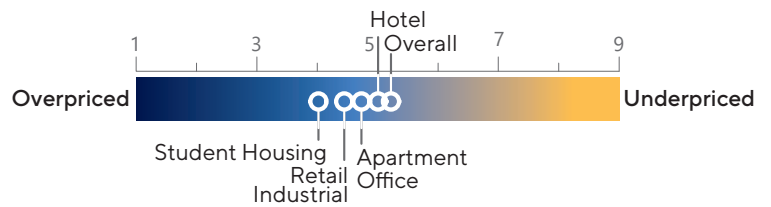
Source RERC, 2Q 2022.

Availability & Discipline of Equity Capital

Poor — Good

Discipline (Underwriting Standards) | Availability

Perceived Relative Risk

Perceived Excess Risk — Perceived Excess Return

Hotel Overall

Retail / Office / Industrial / Student Housing / Apartment

Relative Value Sentiment

Overpriced — Underpriced

Hotel Overall

Student Housing / Retail / Industrial / Apartment / Office

Investment recommendations represent the percentage of total respondents reccomending buy, sell or hold. Availability & discipline of equity capital are rated on a scale of 1 to 10, with 10 being excellent. Perceived relative risk is rated on a scale of 1 to 10, with 10 indicating return far exceeds risk. Relative value sentiment is rated on a scale of 1 to 10, with 10 indicating that value far exceeds price. **Source** RERC, 2Q 2022.

NPI Return and Risk
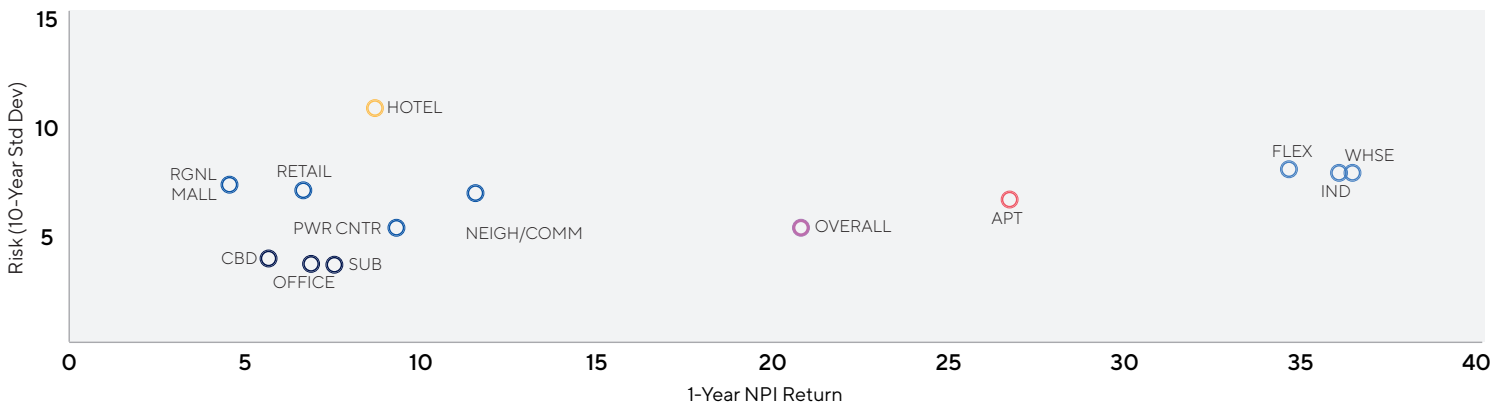
**Source** NCREIF, compiled by RERC, 2Q 2022.

RERC REGIONAL INVESTMENT MONITOR
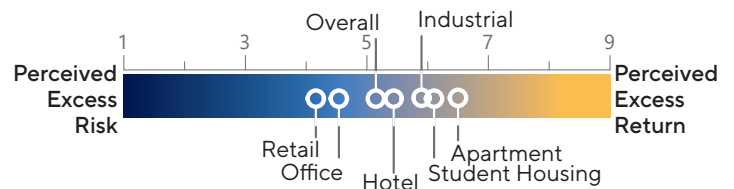
EAST REGION

Investment Recommendations
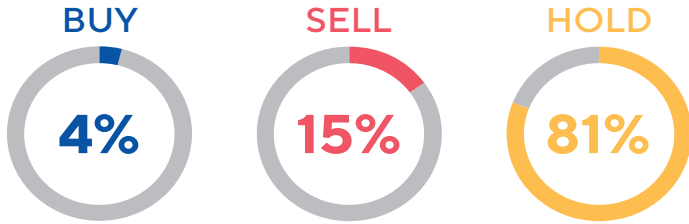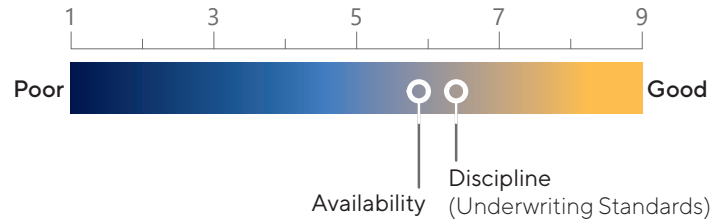
BUY
4%

SELL
15%

HOLD
81%

RERC Investment Criteria – First-Tier Properties

	Pre-Tax Yield (%)	Going-In Cap Rate (%)	Terminal Cap Rate (%)
CBD	8.8	7.3	7.8
Suburban	9.0	7.4	7.9
Warehouse	7.3	5.9	6.7
R&D	8.2	7.0	7.6
Flex	8.4	7.1	7.6
Regional Mall	9.8	8.5	9.1
Power Center	9.0	7.5	8.2
Neigh/Comm	8.8	7.4	7.9
Apartment	6.8	5.2	5.9
Hotel	9.8	8.3	8.9
Average	8.6	7.2	7.8

Source RERC, 2Q 2022.

Availability & Discipline of Equity Capital

Poor — Good

Availability

Discipline (Underwriting Standards)

Perceived Relative Risk

Perceived Excess Risk — Perceived Excess Return

Retail   Hotel

Office
Overall
Student Housing
Apartment
Industrial

Relative Value Sentiment

Overpriced — Underpriced

Apartment
Industrial
Retail
Overall

Office
Student Housing   Hotel
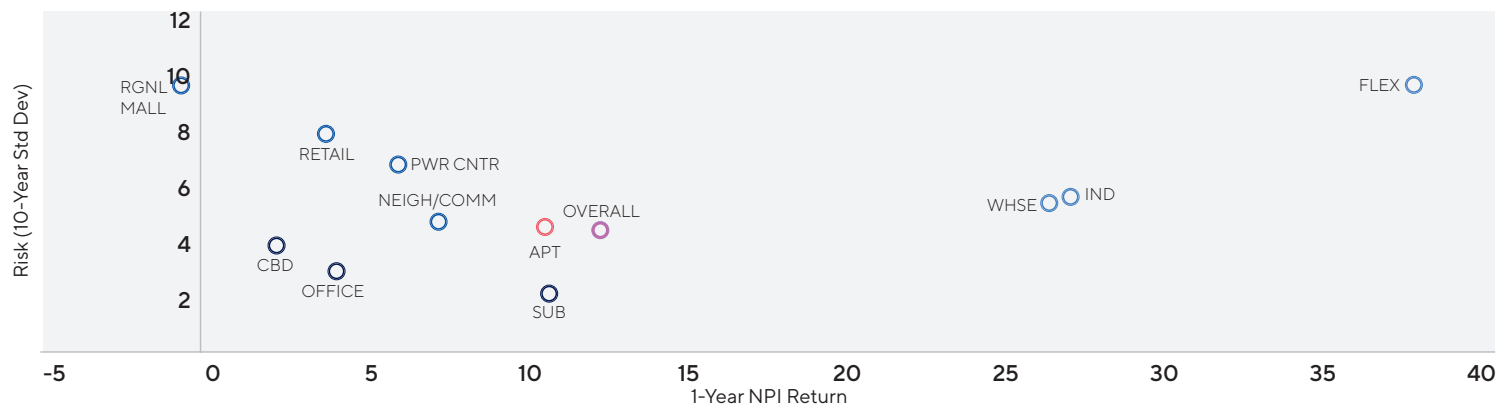
Investment recommendations represent the percentage of total respondents reccomending buy, sell or hold. Availability & discipline of equity capital are rated on a scale of 1 to 10, with 10 being excellent. Perceived relative risk is rated on a scale of 1 to 10, with 10 indicating return far exceeds risk. Relative value sentiment is rated on a scale of 1 to 10, with 10 indicating that value far exceeds price. **Source** RERC, 2Q 2022.
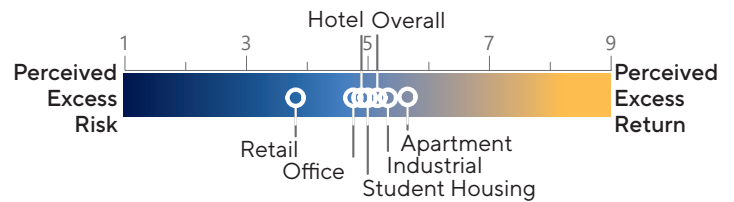
NPI Return and Risk

FLEX
IND
WHSE
RGNL MALL
HOTEL
RETAIL
NEIGH/COMM
CBD
OFFICE
PWR CNTR
OVERALL
APT
SUB

Risk (10-Year Std Dev)

1-Year NPI Return
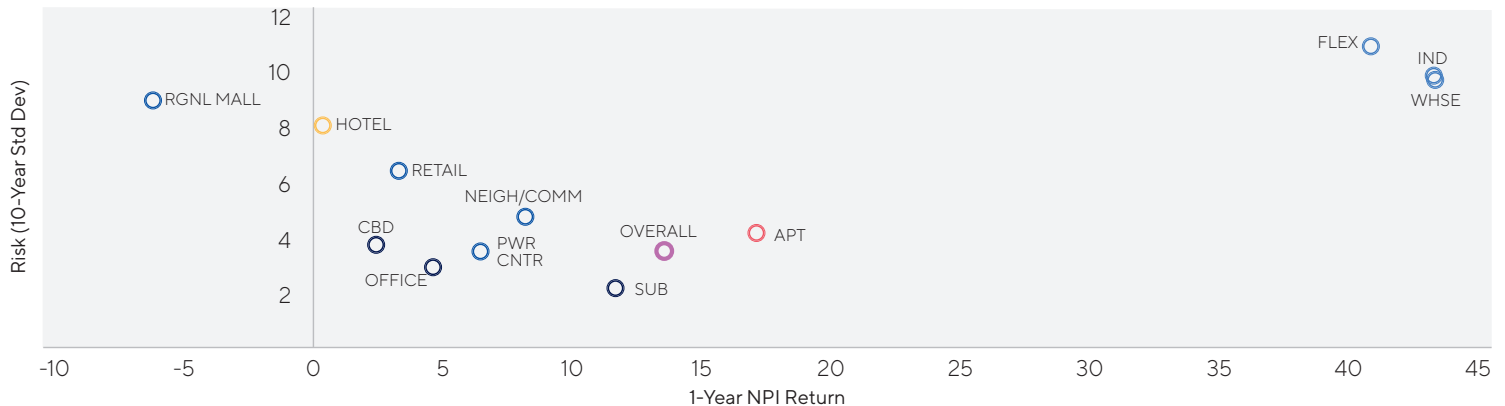
Source NCREIF, compiled by RERC, 2Q 2022.

METRO INVESTMENT OUTLOOK

| 1	2	3	4	5	6
<<Strongest Outlook		>>Moderate Outlook<<		Weakeast Outlook>>	

|	Apartment		Industrial		Office		Retail	
	2Q 2022	1Q 2022	2Q 2022	1Q 2022	2Q 2022	1Q 2022	2Q 2022	1Q 2022
Atlanta	1	1	1	1	5	5	5	5
Austin	1	1	2	1	6	4	5	4
Baltimore	2	2	1	1	5	5	5	5
Boston	1	1	1	1	5	5	5	5
Central NJ	1	2	1	1	4	5	5	5
Charlotte	1	1	1	1	4	3	5	5
Chicago	2	2	1	1	5	5	5	5
Cincinnati	2	1	1	1	6	6	5	5
Cleveland	1	2	1	1	5	5	5	5
Columbus	1	1	1	1	6	5	5	5
Dallas	1	1	1	1	4	4	5	4
Denver	2	1	1	1	5	5	5	5
Detroit	3	3	1	1	6	6	5	5
Fort Lauderdale	1	1	1	1	5	4	5	5
Fort Worth	1	1	1	1	5	4	5	5
Houston	1	1	1	1	6	5	5	5
Indianapolis	1	1	1	1	4	5	5	5
Jacksonville	3	1	1	1	5	5	5	5
Kansas City	1	1	1	1	5	5	5	6
Las Vegas	2	1			6	5	5	5
Long Island	2	3	1	1	5	5	5	5
Los Angeles	1	1	1	1	5	5	5	5
Memphis	3	1	1	1	5	5	5	5
Miami	1	1	1	1	5	5	5	5
Milwaukee	2	1			6	6	5	5
Minneapolis	4	2	1	1	5	4	5	5
Nashville	3	1	1	1	5	5	5	5
New York City	1	1			6	6		
Northern NJ	3	3	1	1	5	5	5	5
Northern Virginia	2	2	1	1	6	6	5	5
Oakland-East Bay	3	3	1	1	5	5	5	4
Orange County	1	1	1	1	5	4	5	4
Orlando	1	1	1	1	6	5	5	4
Palm Beach	1	1	1	1	4	4	5	5
Philadelphia	2	1	1	1	6	5	5	5
Phoenix	1	1	2	1	6	5	5	5
Pittsburgh	2	1	1	1	6	6	5	5
Portland	1	1	1	1	6	5	5	4
Raleigh-Durham	1	1	1	1	6	4	5	4
Riverside-San Bernardino	1	1	1	1	4	3	5	5
Sacramento	1	1	1	1	6	5	5	5
Salt Lake City	2	2			6	6	5	5
San Antonio	2	2	2	1	5	5	5	5
San Diego	1	1	1	1	6	5	5	4
San Francisco	1	1	2	2	6	6	5	4
San Jose	1	1	1	1	6	5	5	4
Seattle	1	1	1	1	6	5	5	4
St. Louis	1	1	1	1	6	4	5	5
Suburban Maryland	2	2	1	1	6	5	5	5
Tampa	1	1	1	1	6	5	5	5
Washington, D.C.	2	1			5	5		

Source RERC, SitusAMC Insights, 2Q 2022.
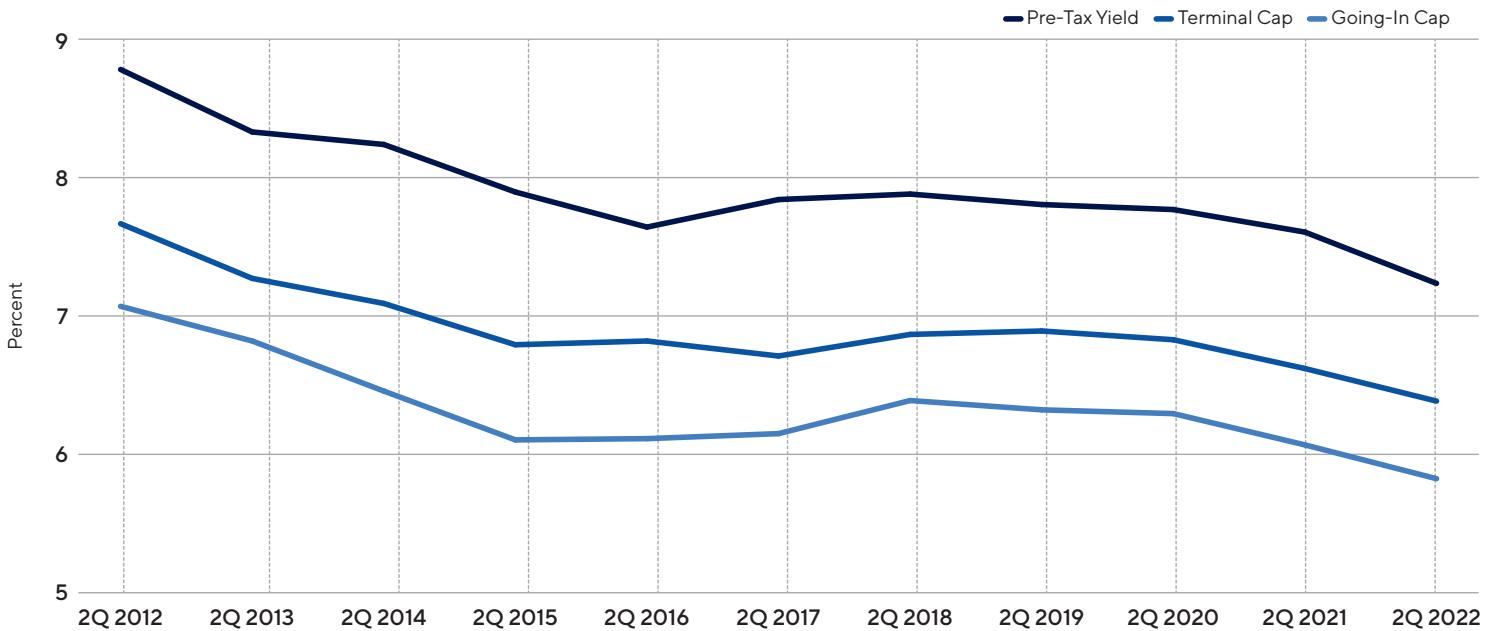
03 RERC Expected Returns

INSTITUTIONAL INVESTMENT CRITERIA

Historical Spreads Over 10-Year Treasurys
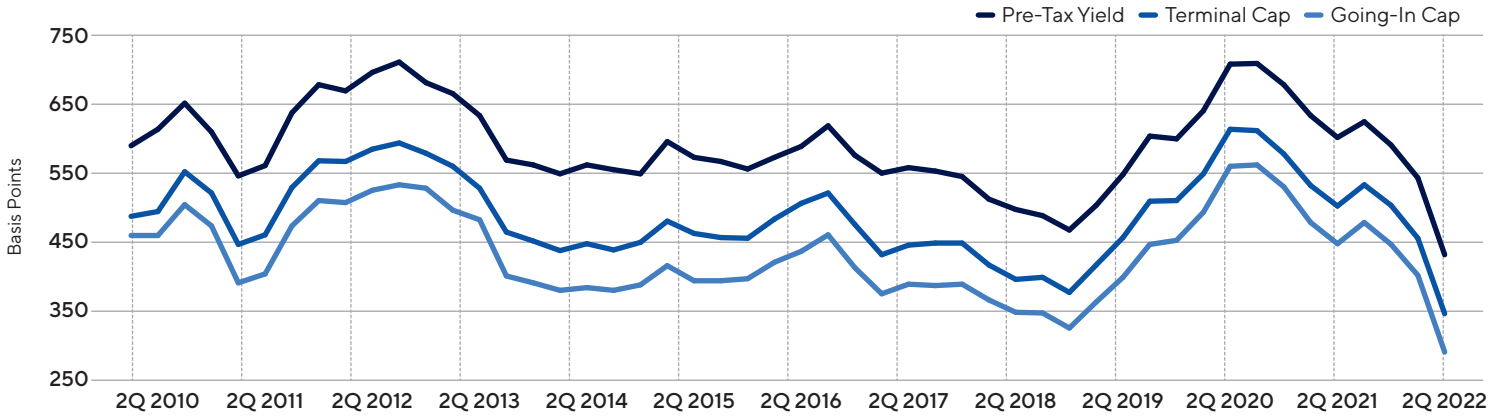
Source RERC, 2Q 2022.

Historical Required Pre-Tax Yield Rates (IRR), Going-In Cap Rates and Terminal Cap Rates

Note Rates reflect the all-property-types average.
Source RERC, 2Q 2022.

RERC Required Return Expectations by Property Type[1]

	Office		Industrial			Retail			Apt	Student Housing	Hotel	Average All Types	RERC Port Index
	CBD	SUB	WHSE	R&D	FLEX	RGNL MALL	PWR CNTR	NEIGH/ COMM					
Pre-Tax Yield Rate (IRR) (%)													
Range[2]	6.0 - 7.5	6.3 - 8.5	4.4 - 6.3	6.0 - 8.7	6.0 - 8.9	6.6 - 9.5	6.5 - 9.3	6.0 - 8.5	5.3 - 7.0	7.3 - 8.1	8.0 - 10.5	4.5 - 10.5	4.4 - 10.5
Average	6.8	7.4	5.6	7.0	7.1	7.7	7.8	6.9	5.9	7.7	9.7	7.2	6.3
Weighted Average[3]	7.1		5.6			7.4							
BPS Change[4]	-10	0	-10	-20	-20	-20	-10	-20	-10	0	-30	-20	-10
	-10		-10			-20							
Going-In Cap Rate (%)													
Range[2]	4.0 - 7.3	5.5 - 7.5	3.5 - 4.5	5.0 - 8.0	4.6 - 8.0	5.1 - 7.8	5.8 - 8.0	5.0 - 7.0	3.4 - 5.5	5.1 - 6.5	5.8 - 8.5	3.4 - 8.5	3.4 - 8.5
Average	5.5	6.4	4.0	6.0	6.0	6.3	6.8	5.6	4.1	5.8	7.6	5.8	4.9
Weighted Average[3]	5.9		4.1			6.1							
BPS Change[4]	-10	10	-10	-10	-20	-10	-10	-20	-10	0	-40	-10	-10
	0		-10			-10							
Terminal Cap Rate (%)													
Range[2]	4.7 - 7.3	5.8 - 8.3	3.8 - 6.3	5.8 - 8.5	5.8 - 8.5	5.3 - 8.6	6.3 - 8.3	5.5 - 7.6	4.1 - 5.8	5.9 - 7.1	6.4 - 9.0	3.8 - 9.0	3.8 - 9.0
Average	6.0	6.9	4.7	6.6	6.6	6.9	7.2	6.1	4.7	6.4	8.1	6.4	5.4
Weighted Average[3]	6.4		4.8			6.7							
BPS Change[4]	-10	10	0	0	-20	0	-20	-30	0	-10	-40	-10	0
	0		0			-10							
Rental Growth (%)													
Range[2]	0.0 - 3.0	0.0 - 3.0	3.0 - 8.0	0.0 - 5.0	1.0 - 3.8	0.0 - 3.0	0.0 - 3.3	1.0 - 3.5	3.0 - 5.0	0.0 - 3.2	0.0 - 6.0	0.0 - 8.0	0.0 - 8.0
Average	2.4	2.4	4.1	3.0	2.9	1.7	1.9	2.5	3.5	2.2	3.3	2.7	3.2
BPS Change[4]	50	10	10	40	20	20	30	10	10	60	90	30	20
Expense Growth (%)													
Range[2]	2.5 - 4.0	2.5 - 4.0	2.0 - 4.0	2.5 - 4.0	2.5 - 4.0	2.5 - 6.0	2.5 - 4.0	2.5 - 4.0	2.5 - 4.0	3.0 - 3.0	3.0 - 4.5	2.0 - 6.0	2.0 - 6.0
Average	3.1	3.1	3.0	3.1	3.1	3.2	3.0	3.0	3.0	3.0	3.9	3.1	3.0
BPS Change[4]	0	0	-10	0	0	0	-10	-10	-10	-20	30	-10	-10

[1] This survey was conducted from April through June 2022 and reflects expected returns for investments over the next 12 months.
[2] Ranges and other data reflect the central tendencies of respondents; unusually high and low responses have been eliminated.
[3] Weighting based upon 2Q 2022 NCREIF Portfolio market values.
[4] Change (+/-) in basis points (BPS) from quarter immediately preceding current rate.
Source RERC, 2Q 2022.

Current Quarter Investment Conditions & Capitalization Techniques

	Investment Conditions[1]				Income Approach[2]	Cap Rate[3]	
	2Q 2022	1Q 2022	2Q 2021	2Q 2020		Before Reserves	After Reserves
Office - CBD	3.2	4.2	4.1	3.8	DCF Model	87%	13%
Office - Suburban	3.6	4.3	4.5	4.2	DCF Model	87%	13%
Industrial - Warehouse	6.7	6.9	7.3	7.4	DCF Model	87%	13%
Industrial - R&D	5.3	5.4	6.1	5.2	DCF Model	87%	13%
Industrial - Flex	5.1	5.1	5.4	4.9	DCF Model	87%	13%
Retail - Regional Mall	3.5	3.4	2.8	2.2	DCF Model	86%	14%
Retail - Power Center	4.7	4.5	4.1	2.7	DCF Model	81%	19%
Retail - Neigh/Comm	5.5	5.4	5.2	4.5	DCF Model	77%	23%
Apartment	6.2	6.2	6.5	6.2	DCF Model	6%	94%
Hotel	5.3	5.7	3.6	2.2	DCF Model	25%	75%
Student Housing	5.3	5.7	4.7	3.4	DCF Model	33%	67%

[1]Investment Conditions rated on a scale of 1 = poor to 10 = excellent.
[2]Income Approach reflects the most relative method (DCF or Direct Cap), as chosen by survey respondents.
[3]Percentage of respondents who apply the cap rate before or after reserves. See *RERC Scope and Methodology* for more information.
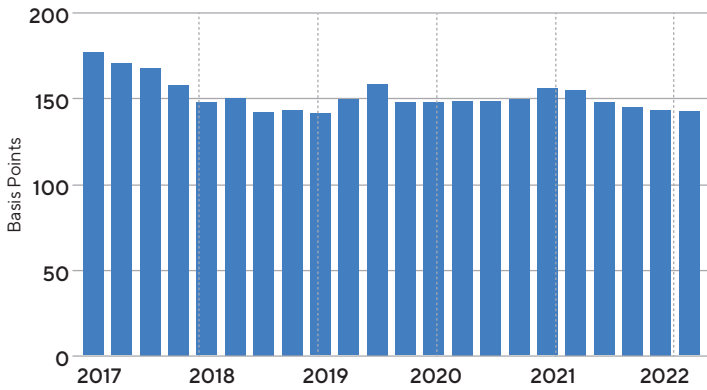**Source** RERC, 2Q 2022.

Expected Leasing Assumptions, Marketing & Holding

	Renewal Probability (%)	Time to Release (months)	Vacancy Loss[1] (%)	Marketing Time (months)	Holding Period (years)
Office - CBD	65	9.5	7.2	8.8	9.8
Office - Suburban	64	9.3	7.6	7.9	9.5
Industrial - Warehouse	74	6.7	3.1	4.3	9.4
Industrial - R&D	69	8.4	5.9	7.0	9.7
Industrial - Flex	68	8.2	6.1	6.7	9.8
Retail - Regional Mall	59	10.5	8.8	10.6	10.5
Retail - Power Center	64	9.8	8.0	8.9	9.8
Retail - Neigh/Comm	68	8.9	6.8	7.4	9.8
Apartment	79	1.8	4.6	4.3	8.9
Student Housing	50	4.0	7.0	6.0	9.3
Hotel	N/A	N/A	N/A	5.5	9.3
All Types	66	7.7	6.5	7.0	9.6

[1]Vacancy loss reflects a typical holding period, not the current level.
Source RERC, 2Q 2022.

Historical Spread Between Pre-Tax Yield Rates (IRR) & Going-In Cap Rates

Basis Points

2017 2018 2019 2020 2021 2022

Source RERC, 2Q 2022.

Historical Spread Between Pre-Tax Yield Rates (IRR) & 10-Year Treasurys

Basis Points

2017 2018 2019 2020 2021 2022
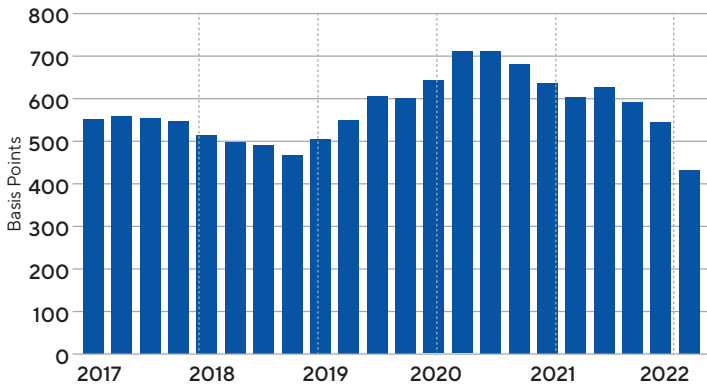
Source RERC, 2Q 2022.

Historical Spread Between Going-In Cap Rates & 10-Year Treasurys

Basis Points

2017 2018 2019 2020 2021 2022
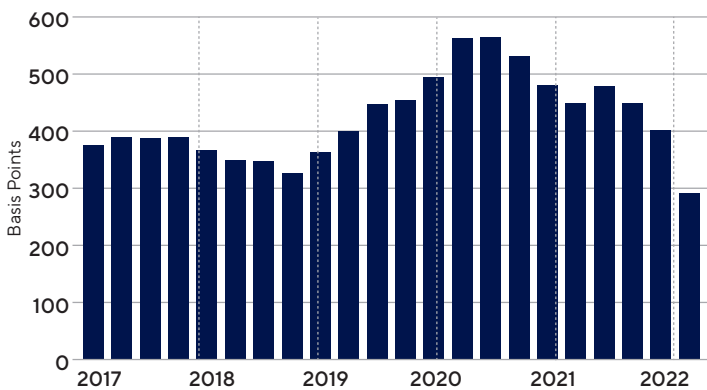
Source RERC, 2Q 2022.
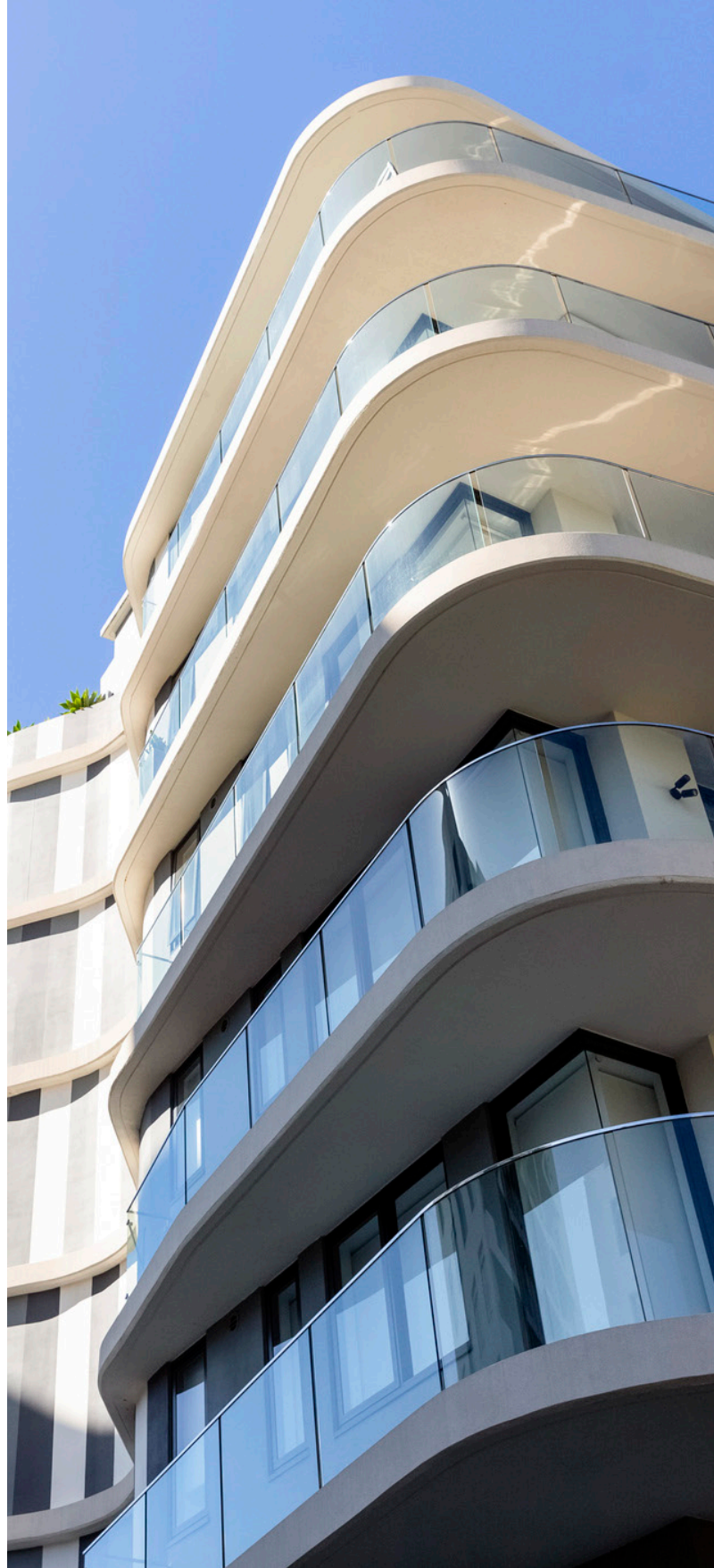
Required Real Estate Yields Vis-À-Vis Capital Market Returns

	2Q 2022	1Q 2022	2Q 2021	2Q 2020	2Q 2019	2Q 2018
Real Estate Yield (%)	7.2	7.4	7.6	7.8	7.8	7.9
Moody's Baa Corporate (%)	5.0	3.9	3.6	3.9	4.6	4.8
Moody's Aaa Corporate (%)	4.0	3.2	2.9	2.5	3.6	3.9
10-Year Treasurys (%)	2.9	1.9	1.6	0.7	2.3	2.9
Yield Spread (Percentage Points)						
Moody's Baa Corporate (%)	2.2	3.5	4.0	3.9	3.2	3.1
Moody's Aaa Corporate (%)	3.2	4.2	4.7	5.3	4.2	4.0
10-Year Treasurys (%)	4.3	5.5	6.0	7.1	5.5	5.0

Sources RERC, Federal Reserve, Moody's, 2Q 2022.

Institutional Pre-Tax Yield (IRR) Analysis

	Office		Industrial			Retail			Apt	Student Housing	Hotel
	CBD	SUB	WHSE	R&D	FLEX	RGNL MALL	PWR CNTR	NEIGH/ COMM			
Institutional Investors											
Range	6.0 - 7.5	6.3 - 8.5	4.4 - 6.3	6.0 - 8.7	6.0 - 8.9	6.6 - 9.5	6.5 - 9.3	6.0 - 8.5	5.3 - 7.0	7.3 - 8.1	8.0 - 10.5
Average	6.8	7.4	5.6	7.0	7.1	7.7	7.8	6.9	5.9	7.7	9.7
National Results from Regional Survey (First-Tier)											
Range	6.5 - 11.0	7.0 - 12.0	5.0 - 10.0	6.5 - 9.5	6.5 - 11.0	7.0 - 12.0	6.0 - 10.5	6.5 - 10.5	5.0 - 9.0	5.5 - 8.8	8.0 - 13.0
Average	8.7	8.9	7.7	8.3	8.4	9.6	8.7	8.6	7.0	7.3	10.0
Realized Total Returns - Ten-Year Averages (NCREIF)[1]											
Range	3.2 - 12.9		10.3 - 47.7				-5.6 - 13.6		3.0 - 24.4		-18.1 - 14.0
Average	7.4		17.3				6.6		9.5		3.9
Alternative Investments											

The table Required Real Estate vis-a-vis Capital Market Returns shows historical spreads between the average targeted yield for real estate and actual yields for alternative investments. The current capital market returns range from 2.9% to 5%. The current spread range is from 430 basis points on 10-year Treasurys to 220 basis points on Moody's Baa Corporate. The normative spread ranges from 391 to 616 basis points. The gap only serves to underline the relative attractiveness of current returns on real estate as compared to other asset classes. Adding in the normative spread for real estate of 391 basis points for Moody's Baa Corporate indicates a discount rate of 8.9% and using 616 basis points from 10-year Treasurys, for example, the alternative market analysis indicates a discount rate of 9.1%.

Pre-Tax Yield (IRR) Conclusion

The criteria outlined in this section serve as the basis for selecting an appropriate discount rate for commercial properties. The pre-tax yield/IRR/discount rate is to be applied to the cash flow of the property and must reflect the quality and durability of the income projections as well as the likelihood of real long-term gain in asset value. The yield to the investor must be at a level commensurate with alternative investment vehicles. The most comparable rates for commercial properties, as previously discussed, are listed to the right:

Institutional Investors: 5.6 - 9.7
Regional Investors: 7.0 - 10.0
Real Estate Indices: 3.9 - 17.3

[1]The NCREIF Property Index Return Survey presents the total returns for all the properties surveyed. Total returns, also called overall returns, include appreciation (or depreciation), realized capital gain (or loss) and income. It is computed by adding the income and capital appreciation return on a quarterly basis.
Sources RERC, NCREIF, Federal Reserve, 2Q 2022.

Institutional Going-In Capitalization Rate Analysis

	Office		Industrial			Retail			Apt	Student Housing	Hotel
	CBD	SUB	WHSE	R&D	FLEX	RGNL MALL	PWR CNTR	NEIGH/ COMM			
Institutional Investors											
Range	4.0 - 7.3	5.5 - 7.5	3.5 - 4.5	5.0 - 8.0	4.6 - 8.0	5.1 - 7.8	5.8 - 8.0	5.0 - 7.0	3.4 - 5.5	5.1 - 6.5	5.8 - 8.5
Average	5.5	6.4	4.0	6.0	6.0	6.3	6.8	5.6	4.1	5.8	7.6
National Results from Regional Survey (First-Tier)											
Range	5.0 - 9.3	5.0 - 9.3	4.0 - 8.8	5.0 - 9.0	5.5 - 9.0	5.5 - 10.0	5.0 - 9.0	5.5 - 10.0	3.8 - 8.3	4.0 - 8.5	6.0 - 9.5
Average	7.2	7.4	6.1	7.0	6.9	8.3	7.6	7.3	5.3	6.0	8.2
Realized Income Returns - Ten-Year Averages (NCREIF)1											
Range	4.4 - 5.5		3.6 - 6.1			4.3 - 6.1			3.7 - 5.3		-3.6 - 8.5
Average	4.7		5.1			5.0			4.5		6.3

Alternative Investments

The table Required Real Estate vis-a-vis Capital Market Returns shows historic spreads between the average targeted cap rates for real estate and actual yields for alternative investments. The current capital market returns range from 2.9% to 5%. The current spread range is from 290 basis points on 10-year Treasurys to 80 basis points on Moody's Baa Corporate. The normative spread ranges from 242 to 467 basis points. The gap only serves to underline the relative attractiveness of current returns on real estate as compared to other asset classes. Adding in the normative spread for real estate of 242 basis points for Moody's Baa Corporate indicates a going-in cap rate of 7.4% and using 467 basis points from 10-year Treasurys, for example, the alternative market analysis indicates a going-in cap rate of 7.6%.

Going-In Capitalization Rate Conclusion

The criteria outlined in this section serve as the basis for selecting an appropriate going-in cap rate for commercial properties. The cap rate is to be applied to the first year or stabilized cash flow of the property for the determination of value for the direct capitalization approach and must reflect the quality and durability of the income projections, as well as the likelihood of real long-term gain in asset value. The rate to the investor must be at a level commensurate with alternative investment vehicles. The most comparable rates for commercial properties, as previously discussed, are listed to the right:

Institutional Investors: 4.0 - 7.6
Regional Investors: 5.3 - 8.3
Real Estate Indices: 4.5 - 6.3

1The NCREIF Property Index Return Survey presents the income returns for all the properties surveyed. Income returns include only the income of the property and do not take into account the appreciation and/or depreciation of the property.
Sources RERC, NCREIF, Federal Reserve, 2Q 2022.

Institutional Terminal Capitalization Rate Analysis

	Office		Industrial			Retail			Apt	Student Housing	Hotel
	CBD	SUB	WHSE	R&D	FLEX	RGNL MALL	PWR CNTR	NEIGH/ COMM			
Institutional Investors											
Range	4.7 - 7.3	5.8 - 8.3	3.8 - 6.3	5.8 - 8.5	5.8 - 8.5	5.3 - 8.6	6.3 - 8.3	5.5 - 7.6	4.1 - 5.8	5.9 - 7.1	6.4 - 9.0
Average	6.0	6.9	4.7	6.6	6.6	6.9	7.2	6.1	4.7	6.4	8.1
Spread Basis Points Average	50	50	70	60	60	60	40	50	60	60	50
National Results from Regional Survey (First-Tier)											
Range	5.0 - 9.5	5.0 - 10.0	4.5 - 11.0	5.5 - 9.0	5.5 - 9.5	5.8 - 11.0	6.0 - 10.0	6.5 - 10.3	4.3 - 8.3	4.5 - 8.5	6.5 - 10.0
Average	7.8	7.9	6.8	7.6	7.5	8.8	8.2	7.9	6.0	6.6	8.9
Spread Basis Points Average	60	50	70	60	60	50	60	60	70	60	70

Terminal Capitalization Rate Conclusion

The terminal (reversion) cap rate is calculated by adjusting a typical stabilized overall cap rate for the loss in the competitive market standing realized by properties over the holding period due to the nominal aging of the property. Typically, this has ranged between 40 and 100 basis points, with the average around 60 basis points. After adjusting the data for the time horizon and relative earning rates for different properties, the indicated terminal ranges have been deemed appropriate for the different property types.

Institutional Investors: 4.7 - 8.1
Regional Investors: 6.0 - 8.9
Institutional Average Going-In/Terminal Spread: 40 - 70
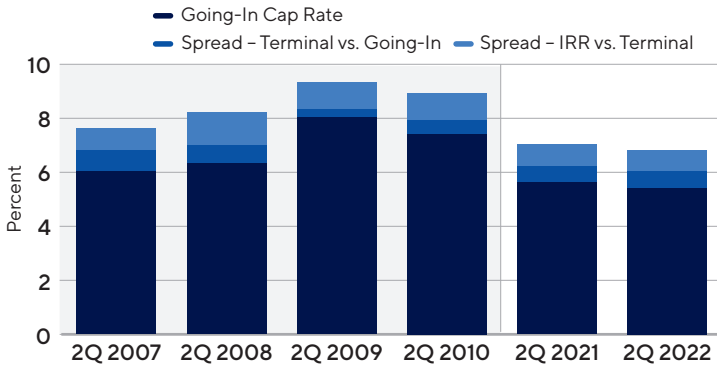Regional Average Going-In/Terminal Spread: 50 - 70

Note The spread averages in this chart refer to going-in/terminal spreads.
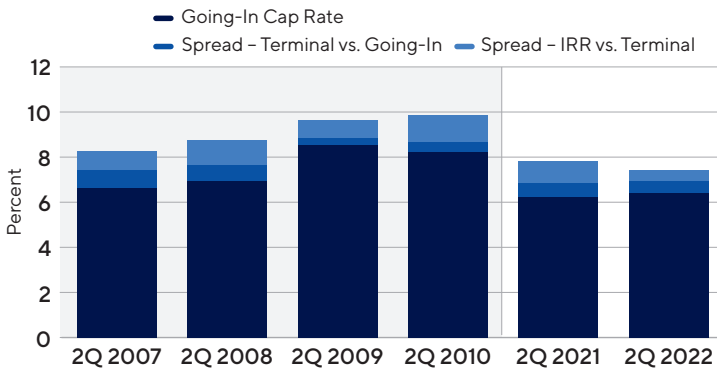**Sources** RERC, Federal Reserve, 2Q 2022.

OFFICE

CBD IRR & Cap Rate Composition

- Going-In Cap Rate
- Spread – Terminal vs. Going-In
- Spread – IRR vs. Terminal

The shaded area represents quarterly rates prior to, during and immediately after the Global Financial Crisis.
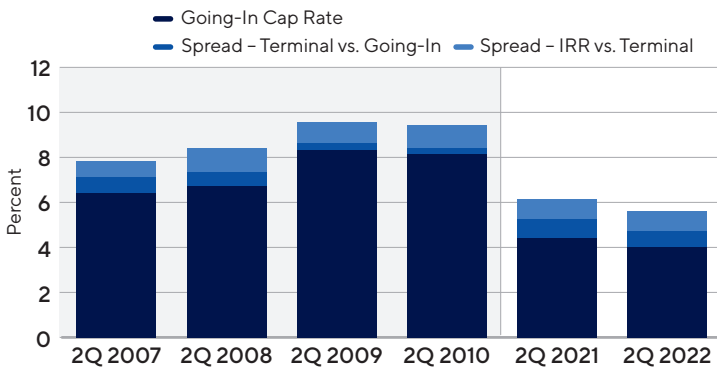**Source** RERC, 2Q 2022.

Suburban IRR & Cap Rate Composition

- Going-In Cap Rate
- Spread – Terminal vs. Going-In
- Spread – IRR vs. Terminal

The shaded area represents quarterly rates prior to, during and immediately after the Global Financial Crisis.
Source RERC, 2Q 2022.

INDUSTRIAL

Warehouse IRR & Cap Rate Composition

- Going-In Cap Rate
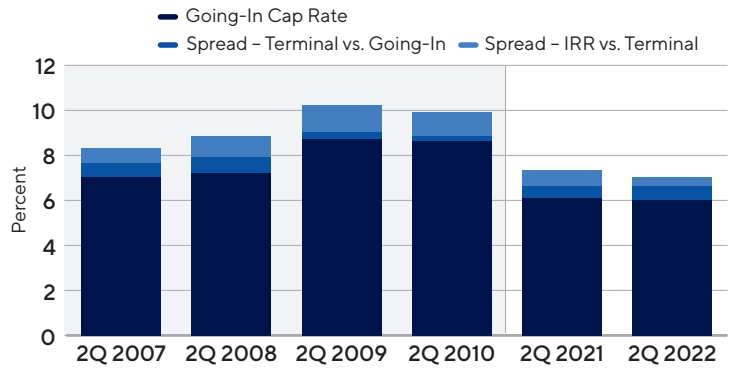- Spread – Terminal vs. Going-In
- Spread – IRR vs. Terminal

The shaded area represents quarterly rates prior to, during and immediately after the Global Financial Crisis.
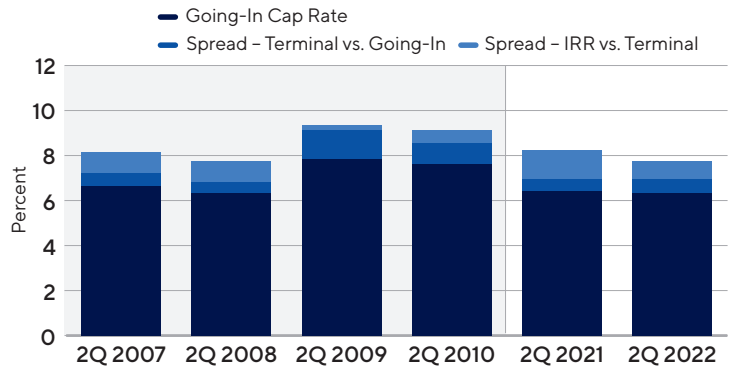**Source** RERC, 2Q 2022.

R&D IRR & Cap Rate Composition

- Going-In Cap Rate
- Spread – Terminal vs. Going-In
- Spread – IRR vs. Terminal

The shaded area represents quarterly rates prior to, during and immediately after the Global Financial Crisis.
Source RERC, 2Q 2022.

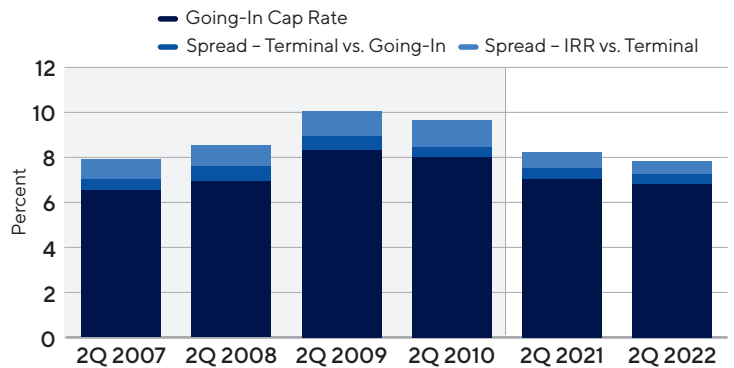### RETAIL

Regional Mall IRR & Cap Rate Composition

- Going-In Cap Rate
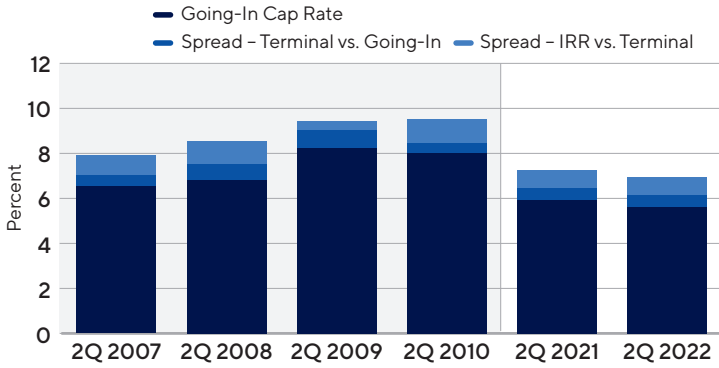- Spread – Terminal vs. Going-In
- Spread – IRR vs. Terminal

The shaded area represents quarterly rates prior to, during and immediately after the Global Financial Crisis.
Source RERC, 2Q 2022.

Power Center IRR & Cap Rate Composition

- Going-In Cap Rate
- Spread – Terminal vs. Going-In
- Spread – IRR vs. Terminal

The shaded area represents quarterly rates prior to, during and immediately after the Global Financial Crisis.
Source RERC, 2Q 2022.

Neigh/Comm IRR & Cap Rate Composition

- Going-In Cap Rate
- Spread – Terminal vs. Going-In
- Spread – IRR vs. Terminal

The shaded area represents quarterly rates prior to, during and immediately after the Global Financial Crisis.
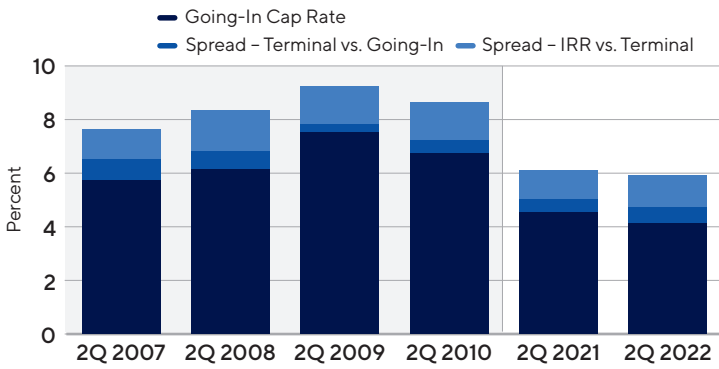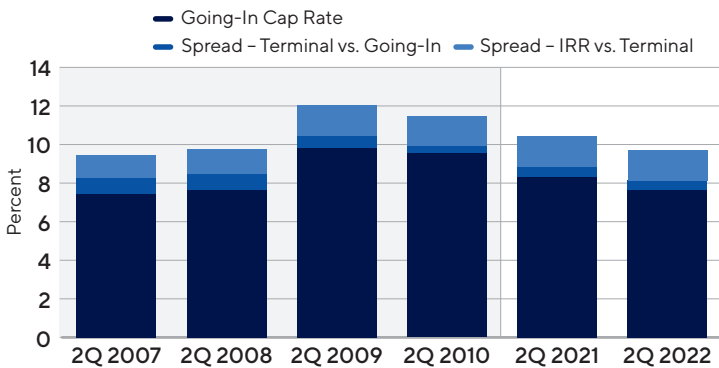**Source** RERC, 2Q 2022.

APARTMENT

Apartment IRR & Cap Rate Composition

- Going-In Cap Rate
- Spread – Terminal vs. Going-In
- Spread – IRR vs. Terminal

The shaded area represents quarterly rates prior to, during and immediately after the Global Financial Crisis.
Source RERC, 2Q 2022.

HOTEL

Hotel IRR & Cap Rate Composition

- Going-In Cap Rate
- Spread – Terminal vs. Going-In
- Spread – IRR vs. Terminal

The shaded area represents quarterly rates prior to, during and immediately after the Global Financial Crisis.
Source RERC, 2Q 2022.

INSTITUTIONAL SURVEY RESPONDENTS[1]

Boston Capital Real Estate Partners
CalPERS
Equus Capital Partners, Ltd.
J.P. Morgan Asset Management
Mays Business School at Texas A&M
MetLife
National Valuation Consultants, Inc.
New York Life Real Estate Investors
NPV Advisors
Principal Real Estate Investors
Real Property Dynamics
SitusAMC
State Teachers Retirement System of Ohio
US Realty Consultants

[1]This is a partial list of the companies that participated in our institutional survey. The firms listed agreed to be identified and do not represent our entire list of survey respondents.

REGIONAL INVESTMENT SURVEY RESPONDENTS[2]

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Scott J. Belke, MAI
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Bush Benton
Stegall, Benton, Melancon & Associates
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Bob Blincow
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[2]This is a partial list of the professionals who participated in our regional survey. The individuals listed agreed to be identified and do not represent our entire list of survey respondents.

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Joe Corlett
Valbridge Property Advisors
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Vathana Duong
Colliers International
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Franklin Flato
Flato Realty Advisors, LLC
San Antonio, TX

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Baltimore, MD

Linwood Gilbert, MAI
Urban Realty Solutions
St. Petersburg, FL

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Woodford & Associates
Knoxville, TN

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Real Estate Analysts, Ltd.
St. Louis, MO

Michael Hanley
Townebank
Norfolk, VA

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Paul Hendricks Appraisal
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Gerald Hendry, MAI, CCIM
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Tampa, FL

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Tom Horner
Ohio Real Estate Consultants, Inc.
Columbus, OH

Steve Jacquemin
S.J. Financial Group
St Louis, MO

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Metropolitan Commercial Valuations
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Bob Martinek
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Sloan Appraisal & Realty Services
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Hightstown, NJ

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Dallas-Fort Worth, TX

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John Trabold
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Michael L. VanBuskirk
Newmark Grubb Zimmer
Kansas City, MO

S. Steven Vitale, MAI
Valbridge Property Advisors
Milwaukee, WI

Martin Ward
Bristol Realty Counselors of Colorado, Inc.
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Michael J. Weinberg & Associates
New York, NY

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G. Michael Yovino-Young
Yovino-Young, Inc.
San Francisco, CA

RERC SCOPE AND METHODOLOGY

REPORT METHODOLOGY

The RERC Real Estate Investment Survey summarizes the required rates of return (ex-ante), property selection criteria and investment outlook of a representative sample of large institutional investors and regional respondents throughout the United States. We survey both regional and institutional investors across the nation quarterly, inquiring about investment criteria in their local marketplace and trends across the country. The results are collected, averaged and then included in our quarterly report.

Published quarterly, the data provide timely insight into yields, return criteria and risk adjustments that institutional investors rely on when making acquisitions. The survey data are used by investors, developers, appraisers and financial institutions to monitor changing market conditions and to estimate financial performance.

Findings reflect ex-ante required returns, or expectations, of investors contemplating acquisitions. Thus, the RERC survey acts as a barometer of current market perceptions and confidence among the nation's top professionals.

Readers should also recognize that underwriting assumptions and practices, as well as underlying definitions of key terms, will vary slightly among survey respondents. Therefore, the greatest benefit to an investor who is interpreting survey results over time is a recognition of the trends of various measuring devices and contemplation of the relationship of one measuring device to another. It is equally important to keep in mind that the investment survey reports required returns, not actual or historical performance. Performance data are available from other sources.

RERC DEFINITIONS

Basis Point (bp): A unit of measure describing the percentage point change in rates or values. The basis point spread is the difference between the yield (as defined) and an alternative investment with a comparable life (e.g., 10-Year Treasurys).

Down Time: The average number of months to re-lease a space.

Going-In (Overall) Capitalization Rate: The first-year net operating income (NOI) divided by price or value.

Note: Going-in (overall) capitalization rate is the first-year NOI divided by price or value. To clarify and allow the reader to use our cap rates properly relative to the direct cap method, please refer to the "RERC Investment Conditions and Current Quarter Capitalization Techniques" table that indicates the reserve treatment (NOI before or after reserves) for each property type. To use RERC's data correctly, the user of our information should: (1) view the RERC cap rates within the context reported for reserves; (2) determine if the cap rate will be applied on NOI before or after reserves; (3) evaluate and adjust the cap rate as needed to make it consistent with the extraction and application of the rate for the user's situation.

Holding Period: Average time that a property type is held for investment.

Institutional Real Estate: High-quality CRE (minimum value of $5 million per property) that is generally owned or financed at least in part by tax-exempt investors on behalf of beneficiaries in a fiduciary environment (e.g., public and corporate pension funds, endowments and foundations, life insurance companies, commercial banks, real estate investment trusts, sovereign wealth funds).

Marketing Time: The period between the offering of a property for sale and securing a bona fide buyer.

Metropolitan Investment Criteria: RERC metro rates are estimated and developed based on proprietary models that include, but are not exclusive to, commercial real estate fundamentals (e.g., population

growth, sales volume, market liquidity) and observed rates in the market for various property classes and regions on a national basis. RERC uses its valuation experience and knowledge to audit and examine the estimated rates developed from our models. Employing objective or quantitative models that are subject to expert knowledge provides well-supported rates for 47 metros and all property types.

Net Operating Income (NOI): The current income of a property, net of all operating expenses, but before any reserves, debt service, capital expenditures, tenant improvements and leasing commissions. The NOI is similar to the financial term EBITDA.

Pre-Tax Yield Rate (IRR, Discount Rate): The rate of interest that discounts the pre-income-tax cash flows received on an unleveraged investment back to a present value that is exactly equal to the amount of the original equity investment. It is in effect a time-weighted average return on equity and, as used here, is synonymous with the term "yield."

Renewal Probability: The expected probability (as a percentage) that an existing tenant will renew its lease after the expiration date.

Reserves: Amount allocated for periodic replacement of long-lived building components during a property's economic life.

RERC Estimate vs. Survey Rates: In addition to the survey responses (i.e., survey rates) that RERC receives and analyzes each quarter, RERC also developed a proprietary model that incorporates unemployment, vacancy rates and other financial and space market data. This modeled information, combined with the data received from the survey responses, is the RERC Estimate.

RERC Portfolio Index (RPI): RERC's required return utilizing a weighted average based on the NCREIF Property Index.

Sales Cost: The deduction, as a percentage of the reversion, that is made for the anticipated cost of selling a property at the end of the holding period.

Terminal (Residual) Capitalization Rate: The rate used to estimate resale or reversion value at the end of the holding period. Typically, it is the NOI in the year following the last year of the holding period that is capitalized. This rate is similar to the going-in capitalization rate, but is applied at the end of the holding investment period.

Vacancy Loss: Percentage of total revenue uncollected due to space that remains vacant over a typical holding period.

RERC DEFINED REGIONS AND PROPERTY CLASSIFICATIONS

West: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming.
Midwest: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin.

South: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Oklahoma, Tennessee, Texas.
East: Connecticut, Delaware, Kentucky, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, Washington, D.C., West Virginia.

Tier 1 Properties: New or newer quality construction in prime to good locations.
Tier 2 Properties: Aging, former first-tier properties, in good to average locations.
Tier 3 Properties: Older properties with functional inadequacies and/or in marginal locations.

Institutional Investment-grade Property: A property is considered to be institutional investment-grade if it attracts the attention of large institutional capital sources, such as pension plans, insurance companies, private equity firms or real estate investment trusts. These properties generally have top amenities, creditworthy tenants, higher rent, low vacancy rates and are well located in the market. Based on the risk and return tolerance level of an institution, Class A, and certain assets in Class B, could all be considered institutional investment-grade assets.

Regional Investment-grade Property: A property is considered to be regional investment-grade if it attracts the attention of national and regional capital sources seeking an income-producing property and could consist of large or small buyers. These properties generally have good amenities, creditworthy tenants, an income stream in place and have good locations for that market. Regional investment-grade properties are generally stable over time relative to their income.

Note of Caution: The institutional and regional rates obtained in this report are for investment-grade properties and are not directly applicable to non-investment-grade properties (i.e., a property that does not generate income and is highly speculative and risky in nature). Since the market for real estate changes constantly, the precise threshold for what constitutes an investment-grade or non-investment-grade property is not constant. There are no precise formulas for placing the property into a certain segment, and the criteria for investment-grade is influenced by many factors present in the real estate environment at the time of observation.

It is imperative to exercise caution when interpreting required rates of return. RERC's institutional and regional return data show a normal range of expected returns from many categories of investment-grade properties. Obviously, properties with greater investment risk will be in the high range of the scale.

We also note that investors generally strive to achieve a diversified portfolio; this motivation partially explains the variation in pre-tax yield requirements. Ranges and other data reflect the central tendencies of respondents; unusually high and low responses have been eliminated.

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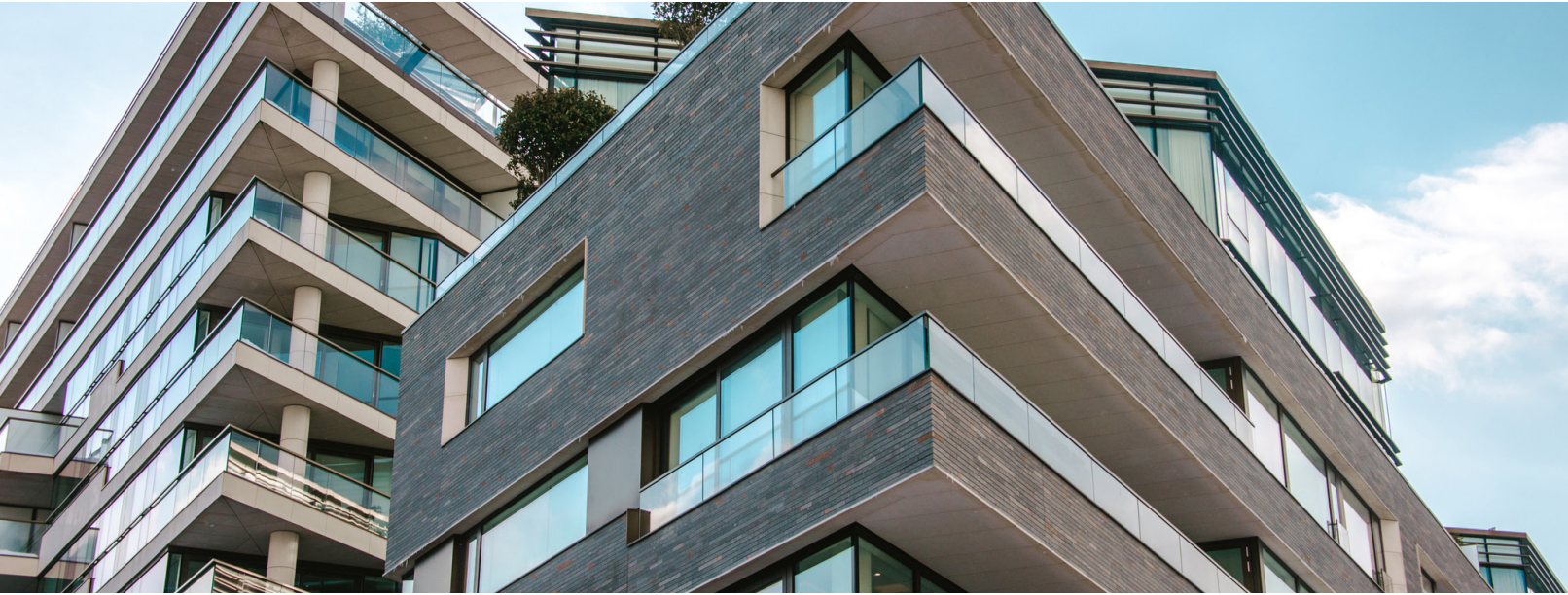
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