



PENSION REAL ESTATE ASSOCIATION CONSENSUS FORECAST SURVEY

OF THE NCREIF PROPERTY INDEX

Q4 2011 – SUMMARY RESULTS

The Pension Real Estate Association (PREA) is pleased to present the latest results of its Consensus Forecast survey. The Consensus Forecast is part of PREA's ongoing efforts to increase the flow of information and the level of transparency in the U.S. commercial real estate markets.

PREA surveyed a subset of their member firms about their forecasts of the U.S. commercial real estate markets. The survey was conducted in November 2011 and asked about the firms' latest forecasts of real estate returns as represented by the NCREIF Property Index (NPI).

Twenty-two firms participated in the survey this quarter, with the firms representing some of the most widely respected investment managers, advisors and researchers in the U.S. property markets. This report provides the average forecasts from the sample firms; individual responses remain confidential. As not all firms provided forecasts in all categories the number of respondents varies by category. To protect the confidentiality of individual forecasts submitted to PREA, no data is released for categories where fewer than four responses were received.

The figures presented in the Consensus Forecast report are based on aggregate responses from firms surveyed and do not represent an opinion of PREA on the future of the markets. Because the responses are aggregated, the results reported do not represent the opinion of any individual participating organization. The information contained herein is intended only for informational purposes. This information is not intended to provide, and should not be relied upon for, investment advice or recommendations. No reliance may be placed for any purpose on the opinions, forecasts or information contained in this document or their accuracy or completeness. This information has been prepared solely for the persons to whom it is delivered by PREA. The information contained herein is strictly confidential and, accordingly, may not be reproduced, distributed or published by any recipient for any purpose without the prior written consent of PREA.

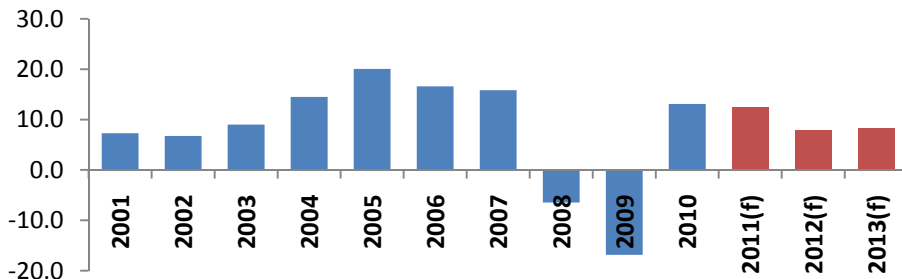
MAIN RESULTS AT A GLANCE...

Average of respondents' forecasts of the NCREIF Property Index (NPI) and sub-indices by property type.

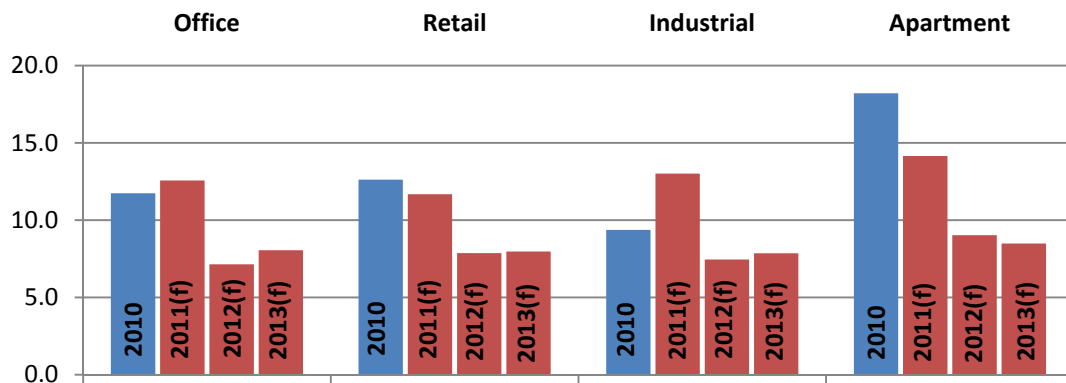
	Total return (incl. income) 2011	Total return (incl. income) 2012	Total return (incl. income) 2013	Total return (incl. income) 2011 to 2015 (per year)
National, All Property Types (NPI)	12.4	7.9	8.2	9.1
Office	12.6	7.1	8.1	9.2
Retail	11.7	7.9	8.0	8.9
Industrial	13.0	7.5	7.9	9.2
Apartment	14.1	9.0	8.5	9.7

n/a indicates fewer than four responses received.

NPI total return incl. income



Average Forecast Total Returns, by Property Type



RETURNS BY SOURCE:

AVERAGE INCOME RETURN FORECAST

Average of respondents' forecasts of income returns for the NCREIF Property Index (NPI) and sub-indices by property type.

	Income return 2011	Income return 2012	Income return 2013	Income return 2011 to 2015 (per year)
National, All Property Types (NPI)	6.1	6.0	6.1	6.2
Office	6.1	6.0	6.1	6.2
Retail	6.6	6.4	6.5	6.6
Industrial	6.6	6.4	6.4	6.5
Apartment	5.6	5.5	5.6	5.7

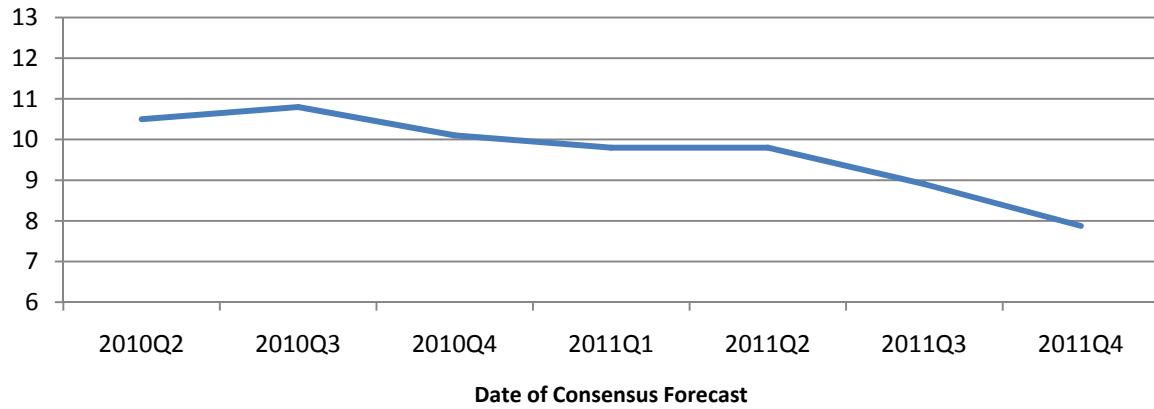
AVERAGE APPRECIATION RETURN FORECAST

Average of respondents' forecasts of appreciation returns for the NCREIF Property Index (NPI) and sub-indices by property type.

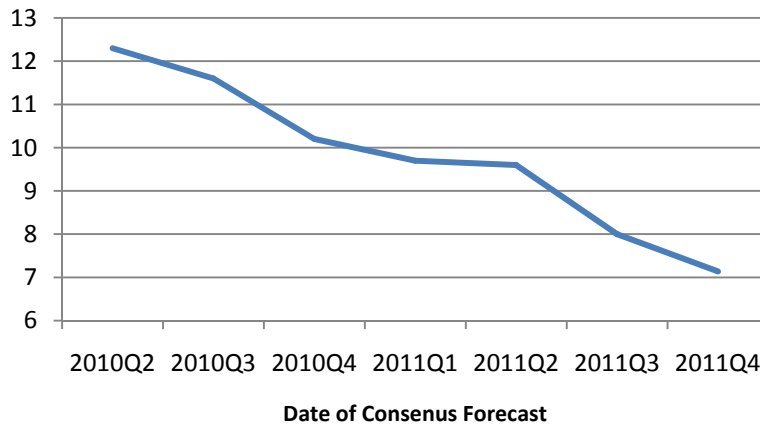
	Appreciation return 2011	Appreciation return 2012	Appreciation return 2013	Appreciation return 2011 to 2015 (per year)
National, All Property Types (NPI)	6.1	1.8	2.2	2.9
Office	6.3	1.0	1.9	2.8
Retail	5.0	1.4	1.4	2.2
Industrial	6.3	1.0	1.4	2.7
Apartment	8.5	3.5	2.8	3.9

CHANGING PERCEPTIONS OF NEXT YEAR: HOW FORECASTS OF 2012 HAVE EVOLVED

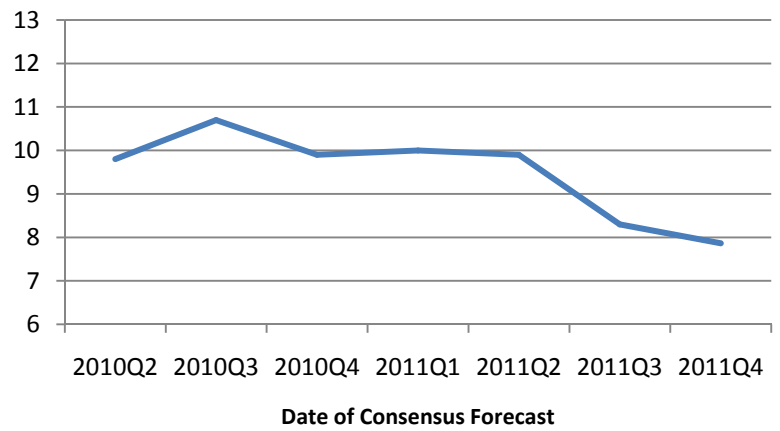
NPI- Forecasts of 2012 returns



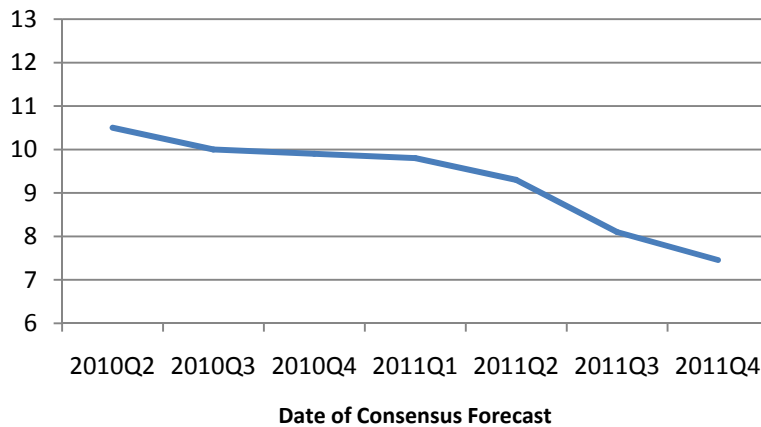
Office - Forecasts of 2012 returns



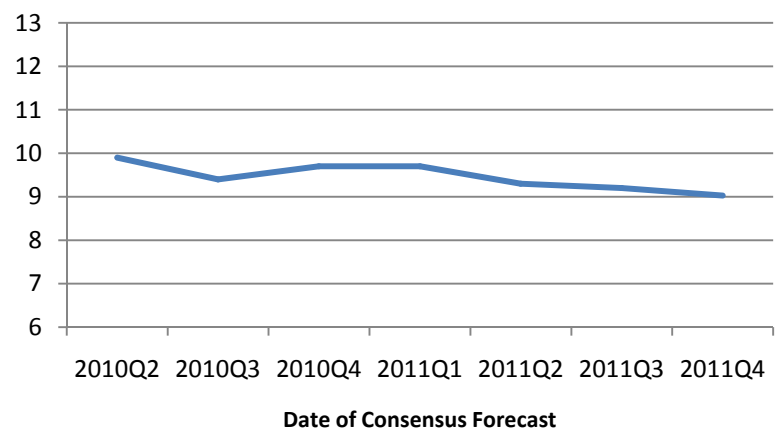
Retail - Forecasts of 2012 returns



Industrial - Forecasts of 2012 returns



Apartment - Forecasts of 2012 returns



The respondents, and the number of respondents, can vary from quarter to quarter. Average forecasts may change due in part to changes in the composition of respondents rather than changes in expectations of any individual respondents.

COMMENTARY ON SUMMARY RESULTS:

With realized returns to the NCREIF Property Index (NPI) of 11% for the year to Q3, 2011 has thus far been a good year for commercial real estate. The average forecast from this quarter's consensus forecast projects full year returns for the NPI of 12.4%. This implies a forecast of continued positive returns in Q4, but at lower rate than was seen in the first three quarters of the year. Not surprisingly, apartment is forecast to provide the highest 2011 returns amongst the property type sectors. Perhaps more surprising, at least from the perspective of the beginning of the year when industrial was the considered the laggard of the property types, the average forecast has industrial providing the second highest returns for 2011 at a healthy 13%.

As we approach the beginning of the new year, attention naturally turns to forecasts for 2012. For the NPI overall the average forecaster is calling for a drop-off in returns from the pace of 2011; total returns are forecast at 7.9% for 2012, somewhat below the long term average. A similar pattern is observed in all four property types, with forecast 2012 returns substantially lower than for 2011. The largest drops in returns are expected for office and industrial which both show decreases of 550 basis points (bp) from projected 2011 to projected 2012 returns. Retail shows the smallest decrease from 2011 to 2012, although still quite large at 380 bp. The smaller decrease in retail may reflect the fact that it is projected to provide the lowest total returns for this year.

The smaller returns expected in 2012 can be traced to projections of modest capital appreciation for next year. Appreciation returns of only 1% for office and industrial, and 1.4% for retail, would appear likely to lag inflation. Apartment is expected to show a reasonably healthy 3.5% appreciation return in 2012, albeit at a reduced rate from 2011.

Apartment is expected to again lead the pack in 2012, as well as 2013 and over a five year horizon. It would appear that the average respondent to the survey is a believer in the solid fundamentals of the multi-family sector and expects them to continue. The slowdown in the other sectors may be due to a reversion to the mean effect and the surprising strength shown in 2011. As has been pointed out in previous consensus forecast reports, the strength of the market through 2011 seemed to continue to surprise many forecasters. Strong appreciation through 2011 may have simply brought forward potential gains for 2012 into 2011.

The changing outlook for next year can also be seen by comparing average forecasts for 2012 from previous surveys. The charts on the previous page show the evolution of average forecasts for 2012 over the last seven quarters. Forecasts for the NPI and for all individual sectors show a distinct downward trend. This is especially true of office. While apartment has, like the other sectors, also shown a trend of downward revisions in 2012 forecasts, the effect is more muted. Again it seems that despite the strong performance over the last 2 years in that sector, belief in the potential of the apartment sector continues to hold up relatively well.

It should be made clear, however, that despite downward revisions in forecasts for 2012 and further out, this does not indicate an expectation of reversal in the market. With a long term average return on the NPI of 9%, forecasted returns for 2012 are somewhat below average but still reasonably healthy; returns over a five year horizon are right around average. With 10 year Treasury yields hovering around 2% and significant equity market volatility, the returns projected by the average forecaster for commercial real estate, an asset class traditionally exhibiting low volatility, may appear quite attractive to many investors.

Respondents

PREA wishes to thank the following organizations who took part in this quarter's Consensus Forecast survey:

Aberdeen Asset Management
AEW Capital Management
American Realty Advisors
Bentall Kennedy
BlackRock
CBRE Econometric Advisors
Cherokee Investment Partners
Clarion Partners
Cornerstone Real Estate Advisers
CS Capital Management, Inc.
Grosvenor
LaSalle Investment Management
Morgan Stanley Real Estate
NewTower Trust Company
PPR/CoStar
Principal Real Estate Investors
Prudential Real Estate Investors
RREEF Real Estate
Russell Investment Group
TIAA-CREF
The Townsend Group
Western National Group

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