UNITED STATES Perspective 2019

Global economic expansion continues, but risks growing

Space markets are generally strong with rising rents

Investment returns holding steady, led by industrial

Bentall Kennedy

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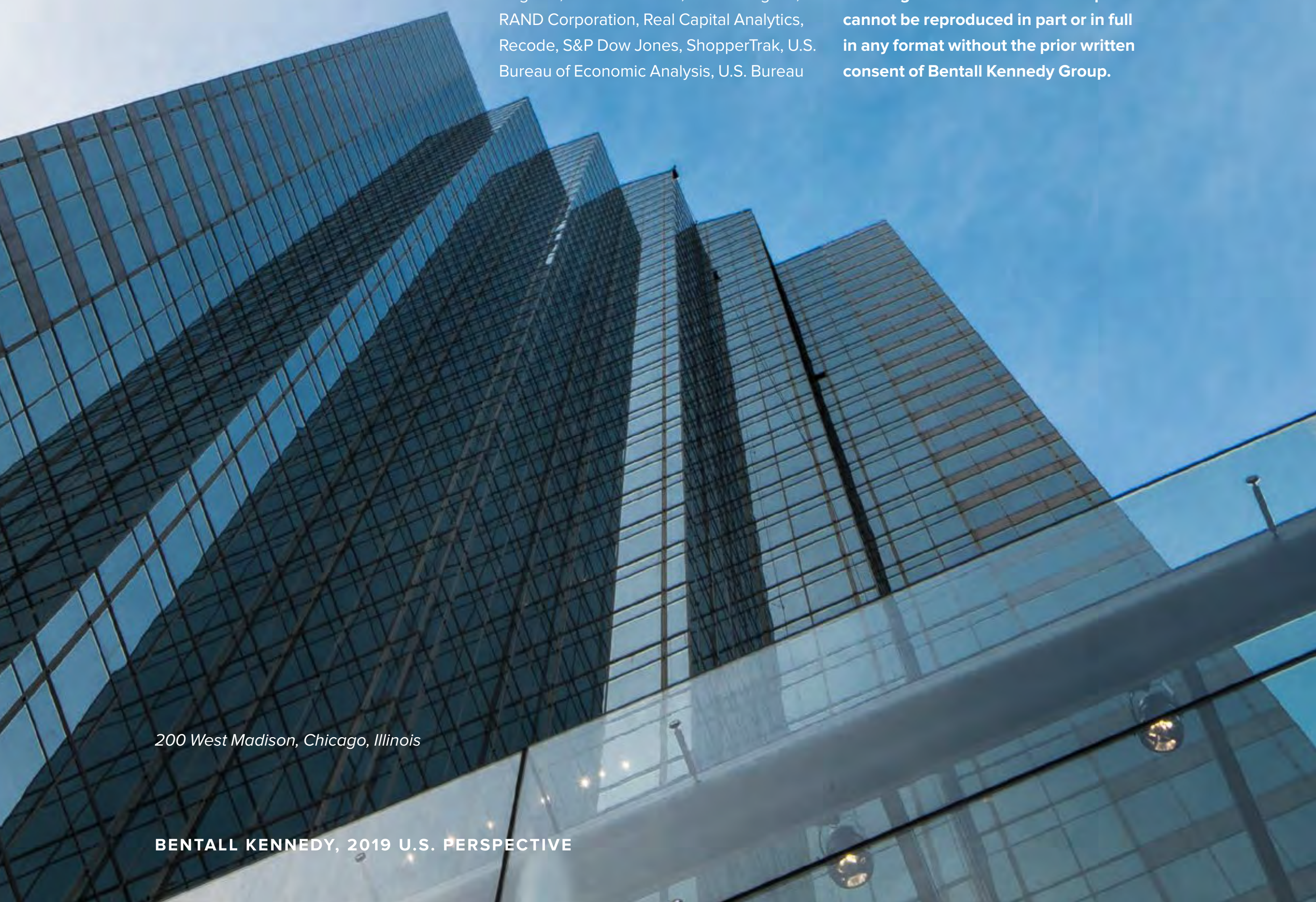

200 West Madison, Chicago, Illinois

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Executive overview

Solid fundamentals, but rising risks as cycle matures

1900 16th Street, Denver, Colorado

As we head into 2019, news headlines seem dour and global stock markets are declining, but economic fundamentals are sound. This is not the first time in this cycle that we have seen periods of uncertainty and turmoil. There are echoes of late 2015/early 2016 in the recent data. Falling stock and commodity prices and panicked headlines clouded the outlook then as well.

But at that time we urged a long term view based on fundamentals, noting that underlying data signaled to us that the economy was healthy. This view proved accurate and, once again, we see good cause for optimism, while acknowledging the existence of headwinds and risks.

Global growth has peaked, but remains solid

Growth has slowed in the euro area and uncertainty around Brexit is weighing on sentiment. China is feeling the effects of its trade war with the U.S. and other structural issues, but it is still growing at a much faster rate than other major economies. The global expansion will get an assist from the sturdy U.S. economy.

In its October, 2018 projections, the International Monetary Fund (IMF) called for growth of 3.7% in 2018 and 2019, continuing the healthy pace that began in 2017. Our expectation is that recent economic activity warrants a softening of this outlook, but mid-3.0% global GDP growth is still likely.

A strong foundation supports further U.S. expansion

The U.S. created over 2.4 million jobs during the year ending November, 2018, outpacing growth from a year earlier. Unemployment is low, wages are rising, and households are spending on retail goods. The housing market is showing signs of cooling, but remains strong. Home prices are at record highs.

Softer growth abroad, the trade war with China, and recent sharp losses in the stock market dampen the outlook somewhat. Consumers could tighten their spending if sentiment is soured by these headlines. Growth in 2019 should remain modestly above trend versus the past five years.

Stable real estate returns despite volatile financial markets
Major REIT and stock indices were volatile and declining as 2018 wound to a close. The 10-Year Treasury rate was still modestly higher than its year-end 2017 level, but down from highs earlier in the year. Fed rate hikes continued, signaling the Fed's belief that the economy remains strong, but also increasing the possibility of an inversion in the yield curve.

Investment activity in commercial real estate was solid, aided by attractive fundamentals and rising rents. Total returns through the third quarter of 2018, led by industrial, looked to exceed expectations.

Apartment demand supporting healthy rent growth
Economic and demographic trends are driving apartment demand and vacancy remains very low. New supply is showing signs of peaking, with many markets seeing fewer completions than a year ago. Rents increased by nearly 3.0% Y/Y as of the third quarter of 2018. Rising wages should support additional gains.

Newport Tower, New York, New York

Office vacancy has fallen to a cyclical low
Job creation in office-using sectors is generating new demand for space. Technology firms continue to factor prominently in leasing activity and rent growth was resurgent in a number of technology focused markets. Construction levels have picked up in urban locations.

Demographic and patient care trends benefit medical office
Fundamentals in the medical office market are stable and healthy. Patient care delivery is shifting away from traditional campuses. Aging population remains a tailwind for demand. Divided government is good news for the Affordable Care Act.

Retail fundamentals slowly improving as the sector evolves
Consumer spending remains a positive driver, but an increasing amount of this activity is taking place online. New supply remains limited as retailers expand selectively. Investors should be cognizant of the financial health of existing and prospective tenants.

Industrial fundamentals and performance shine
Positive trends are benefiting the vast majority of markets regardless of size. Availability is extremely low, but supply and demand are coming into balance and available space has risen in some markets. Ecommerce will continue to fuel demand. Trade disputes create some downside risk for 2019.

KEY TAKEAWAYS FOR 2019

1. Global growth steady, but more fragile
2. U.S. growth remains solid
3. Healthy job gains persist
4. Trade war remains a risk
5. Strong fundamentals support returns
6. Apartment rents rise with wages
7. Office demand holds firm
8. Coworking further disrupts office leasing
9. Medical office opportunities expand
10. Retail continues to evolve
11. Debt separates retail winners and losers
12. Industrial continues to shine

Global economy

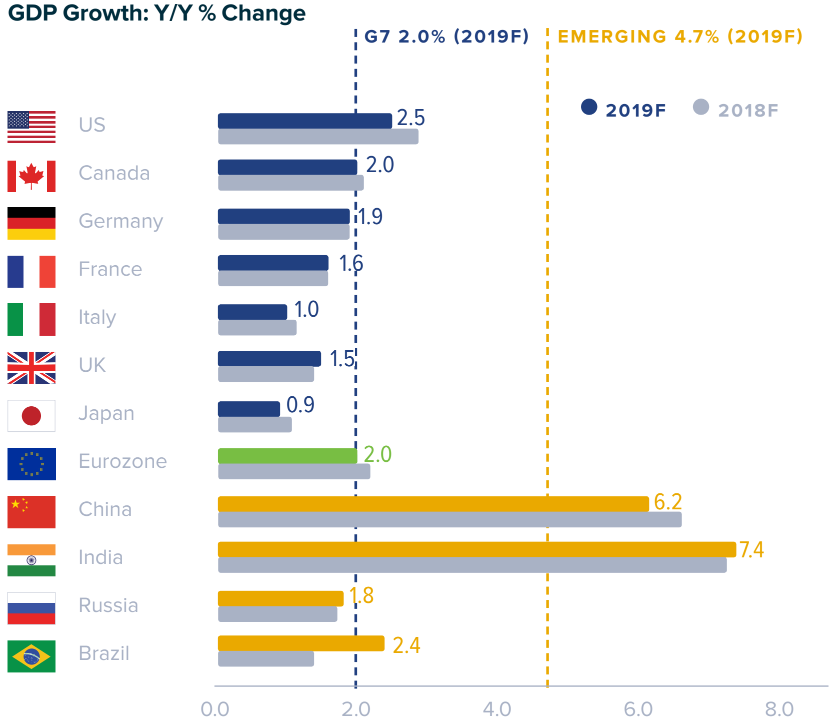
Expansion continues, but growth has peaked

There are undoubtedly signs of decelerating growth in the global economy. Faltering leading indicators from the Organization for Economic Co-operation and Development (OECD) and modest downward revisions to global growth projections for 2018-19 by the IMF both signal a more challenging economic environment. The United Kingdom and the euro area are key sources of weakening conditions. Uncertainty around Brexit is a major headwind.

Projected global GDP growth

3.7% 2019F

GDP Growth: Y/Y % Change



Source: IMF, Deutsche Bank Research

Trade tensions between the U.S. and China could dampen growth

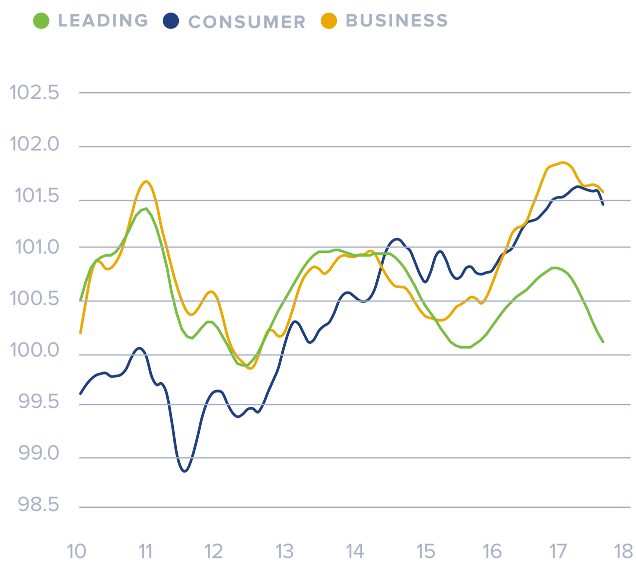
The outlook for global growth is far from dour. In its October, 2018, forecast, the IMF projected average annual global GDP growth to run near 3.7% through 2020. Growth over the preceding five years was 3.5%. In China, economic reports are mixed, but growth is projected to hold above 6.0% annually. Meanwhile, in North America, leading indicators of near-term growth are solid in both Canada and the U.S.

There are lingering headwinds and risks that could lead global growth lower in 2019 and beyond. China's focus on deleveraging financial risks and managing other economic, political, and environmental reforms could result in missteps that undermine growth. Further escalation in the trade war between the U.S. and China would undoubtedly have spillover effects on the global economy. But at the time of this writing, the two sides agreed to a temporary and partial truce in hopes that a long-term deal can be reached.

In the U.S., household wealth has been bolstered by the home price and stock market gains of the past several years. Tight labor market conditions are supporting wage growth well above the pace of inflation. These conditions are encouraging consumption. More recently, rising interest rates, volatility and losses in the stock market, rising government deficits, and a cooling for-sale housing market are generating some concerns about growth.

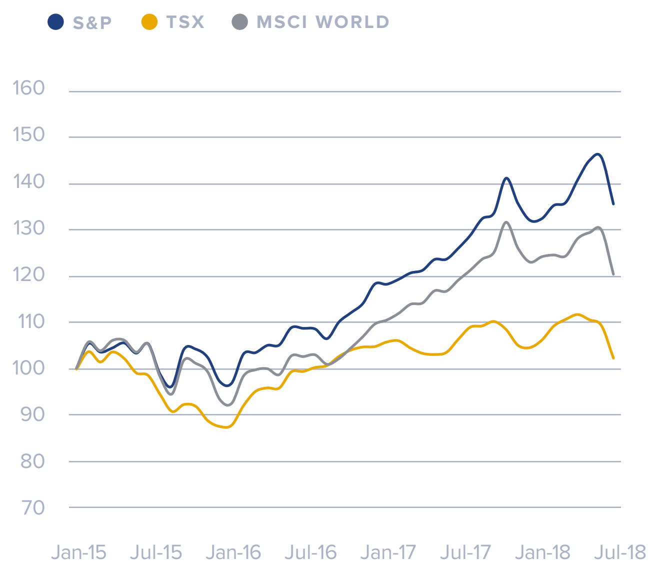
At its December, 2018 meeting, the Federal Reserve saw fit to move ahead with the year's fourth rate hike as expected. The central bank noted that underlying economic fundamentals are strong in the U.S. even if there are signs of softer growth compared to earlier in 2018. Comments from Federal Reserve Chairman Jerome Powell indicated a slightly more dovish stance on rate hikes in 2019.

Leading indicators signal softening outlook
OECD Confidence Indices



Source: OECD

Synchronized retreat in global equity markets
Index: January 2012 = 100



Source: Bloomberg

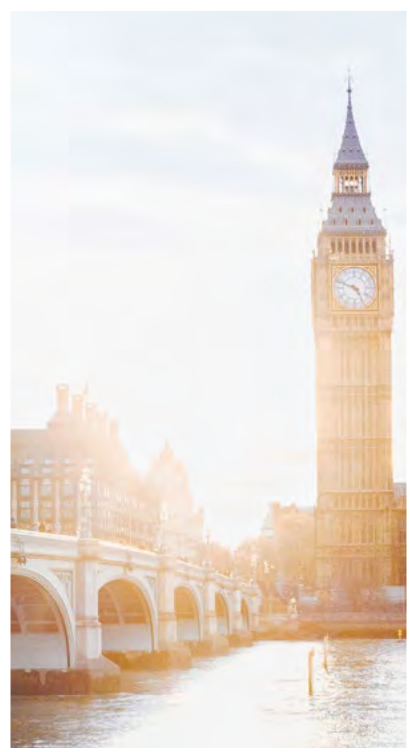
Monetary policies diverge

Risks in Europe have accelerated. Trade protectionism, weaker global demand for European exports and looming uncertainty around Brexit translated into slower than anticipated growth in 2018. The outlook for 2019 is even more muted.

Monetary policy is diverging as The Fed and Bank of Canada are raising interest rates. Meanwhile, the European Central Bank is looking out to the latter half of 2019 to move and the Bank of England is currently on pause until Brexit is resolved. The net result is a rising dollar and increased borrowing costs, which are causing stress on developing countries, making it harder to repay dollar-denominated debt.

Despite numerous headwinds and risks, underlying fundamentals point to further expansion in the global economy. Financial conditions are still broadly accommodative. The recent plunge in world oil prices is negative for oil-exporting countries but will have a stimulative effect on the global economy as consumers have more money to spend. Consumer spending in the U.S. may continue to rise, despite some more negative factors.

The path of global growth will be largely predicated on the trajectory of the U.S. economy where conditions are far better than recent stock market losses would suggest. All told, the global economy is on solid footing. Downside risks have increased for 2019 and beyond but, barring an unforeseen shock, the current expansion will continue.



U.S. economy

U.S. expansion battling its own success

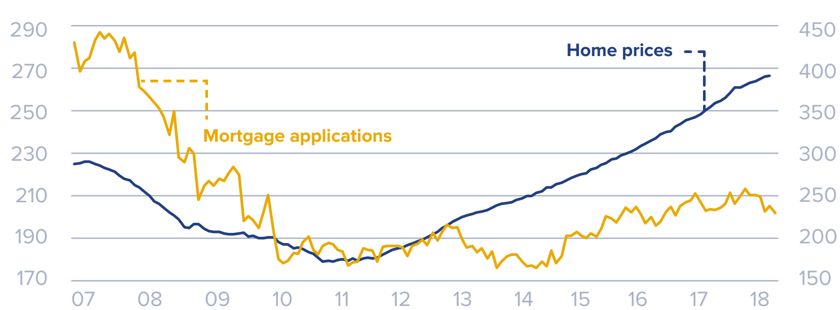
The U.S. economy is strong and expanding. In 2018, the labor market produced jobs at a healthy rate and workers saw their wages rise, encouraging spending on retail goods. Businesses invested at a modestly higher rate than they did in 2017 and are optimistic about the future. Our expectation that the economy would grow around 3.0% in 2018 appeared on track heading into the final weeks of the year.

We are also seeing an economy that, while benefiting from stellar fundamental health, is seeing headwinds build up as a result of its own success. The Federal Reserve steadily moved rates higher during the past year. Falling unemployment and higher inflation supported these changes, but higher borrowing costs may already be impacting the economy as mortgage rates are up and home sales are down.

Concerns about borrowing costs are also clouding the outlook for many businesses.

Home price growth has bolstered household wealth, but signs of a slowdown emerging

Home Price Index *Mortgage Applications Index (Monthly Average)*



Note: Based on home purchase data only.
Sources: FHFA, Mortgage Bankers Association

These trends, along with concern about the potential of an escalating trade war with China, caused some consternation on the part of investors and the long-running bull market for stocks finally relented as major stock indices fell sharply. A weaker and more volatile stock market and slowing trends in the housing market pose a threat to the exuberant consumer confidence that has given this economic expansion legs.

Downside risks were certainly more elevated in the waning days of 2018 than they were earlier in the year. Tense trade negotiations, uncertainty around Brexit, slower growth abroad, stock market losses, and a flattening yield curve all must be vigilantly monitored. But economic fundamentals suggest growth will continue in 2019.

757 Third Avenue, New York, New York

The U.S. economy created 2.4 million jobs during the 12-month period ending November, 2018. This 1.7% increase was measurably better than the 1.5% gain during the same period a year earlier. At 3.7%, unemployment is approaching its 50-year low of 3.4% reached in 1969. It would have returned to this low level if not for an increase of more than 2.2 million people in the labor force during the past year.

Labor force participation has ticked up slightly as employers raise wages in an effort to attract workers. To be sure, labor constraints are tempering economic growth. We've seen job openings hover above the number of unemployed workers for the past several months. This dislocation in the labor market should continue as initial unemployment claims remain extremely low.

Employers will need to continue to seek out locations that give them access to large, talented labor pools. As we observed in Perspective 2018, population mobility is at historic lows, with U.S. Census Bureau data released in November, 2018 showing the share of population that moved during the past year at a new record low of 10.1%.

Availability of labor was a key factor in Amazon's HQ2 decision-making. This point is emphasized by the fact that the company selected two locations instead of one and that those two areas — New York and Washington, D.C. — lead the nation in the number of professional and business services jobs. This sector includes workers in technology fields as well as those in management and traditional business services roles. These metropolitan areas are also large enough that their housing markets and transit systems will not be completely overwhelmed by 25,000 new jobs.

JOB CREATION

2.4M

Jobs created Y/Y as of November 2018

3.7% approaching historic low

Unemployment rate, approaching 50-year low of 3.4%

POPULATION MOBILITY

10.1% record low

Population that moved during the past year, a new record low

Sources: U.S. Bureau of Labor Statistics, U.S. Census Bureau

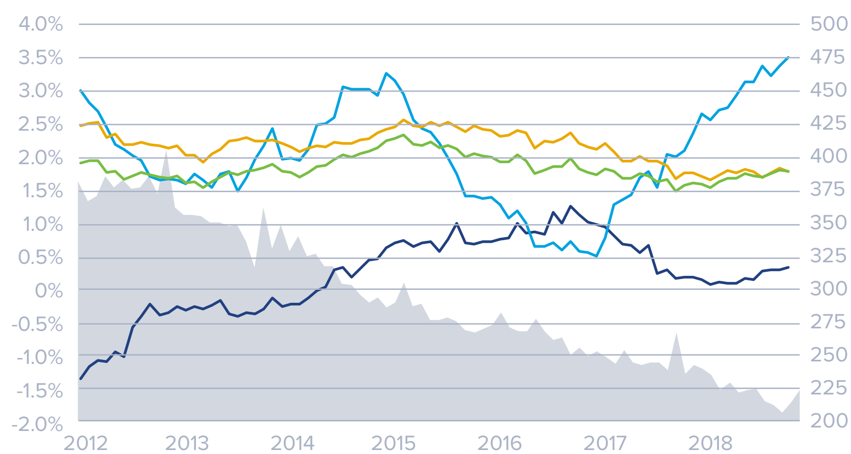
Despite labor shortages, we continue to see solid job-growth momentum in highly skilled employment sectors

Professional and business services and healthcare sector employment grew by more than 2.0% year-over-year, outpacing their growth rates from a year ago. Unemployment will continue to tighten in these fields. Goods-producing sectors such as manufacturing (2.3% year-over-year growth), construction (4.0%), and natural resources and mining (7.6%) have experienced some of the fastest rates of growth. Transportation and utilities employment, which includes warehouse and trucking jobs, grew by more than 3.0% over the past year. Momentum in these sectors has propelled overall job gains as softness has emerged in hiring in some other sectors, including leisure and hospitality, and financial activities.

Job growth continues despite tight labor market

Y/Y Job Growth *Avg. Weekly Initial Unemployment Claims, Thousands*

UNEMPLOYMENT CLAIMS · PRIVATE SECTOR GOODS · PRIVATE SECTOR SERVICES · GOVERNMENT · TOTAL EMPLOYMENT



Source: Bureau of Labor Statistics

Hiring bodes well for real estate demand, but labor availability is limited

Our greatest concern is scarcity of labor, which will become even more acute should immigration policy become more restrictive — or if political rhetoric serves to further discourage immigration. It is noteworthy that Toronto was among the Amazon HQ2 finalists as major Canadian cities are increasingly showing an ability to compete with U.S. cities for knowledge-driven jobs.

The pace of GDP growth is likely to moderate into the mid-2.0% range in 2019 due to headwinds commonly seen as the business cycle matures. Trade policy risks, particularly negotiations with China, will remain a key topic as will other geopolitical issues. We will be watching for signs that these risks and recent stock market losses are eroding business and consumer sentiment. But the U.S. economy is on a sound foundation that should perpetuate the expansion.

KEY RISKS IN 2019

- **Labor availability**
- **Global growth**
- **Trade policy**

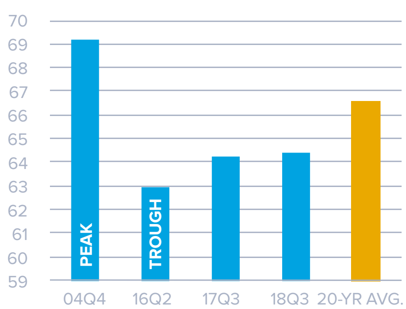
Demographic quick takes

Homeownership

Homeownership recovery muted

- Propensity to rent remains elevated vs. history
- Headwinds to ownership increasing due to low affordability

U.S. Homeownership Rate (%)



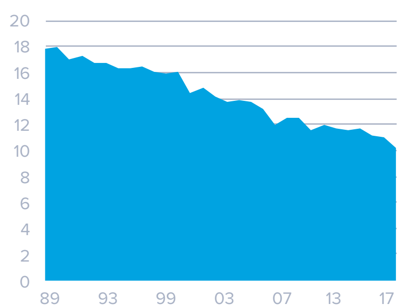
Source: U.S. Census Bureau

Mobility

Population mobility is at a record low

- Structural shift to less mobile population continues
- Firms must seek out labor in populous talent centers

Population Mobility by Year (%)



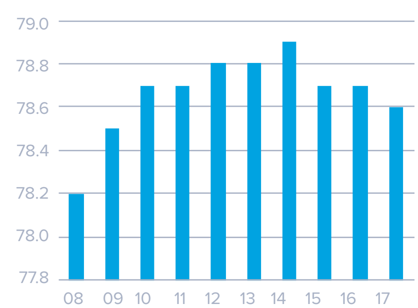
Sources: U.S. Census Bureau, Moody's Analytics

Life expectancy

U.S. experiencing drop in life expectancy

- Rising death rates among 15-34 year-olds weighing on data
- Population 65+ living longer; rising healthcare needs

Life Expectancy at Birth (Years)



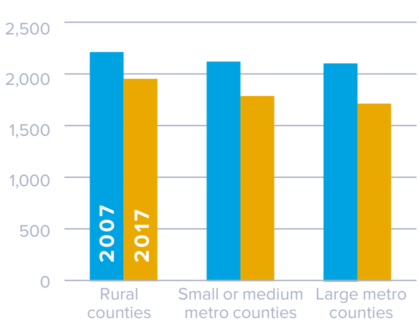
Source: NCHS, National Vital Statistics System

Fertility

Fertility has fallen from recent peak

- Marriage and childbearing both being delayed
- Trends add further support to size of urban renter pool

Fertility Rate (Lifetime Births per 1,000 Women)



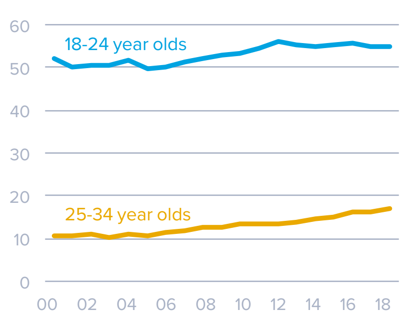
Source: NCHS, National Vital Statistics System

Young adults living at home

Young adults slow to form households

- Despite improved economy, young adults slow to leave the nest
- Potential upside for household formation as this group ages

Young Adults Living at Home (%)



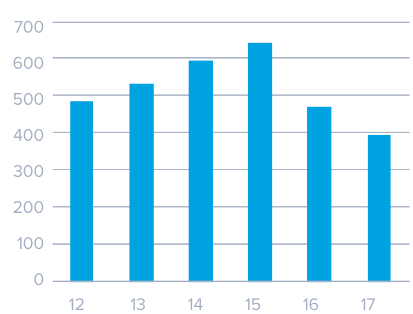
Source: U.S. Census Bureau

Student visas

Foreign student levels declining

- Rhetoric and closer scrutiny of visa applications having recent impact
- Change in Chinese visa term from 1 to 5 yrs exaggerates trend

Visa Issuance – Academic Study, F-1 (Thousands)



Source: U.S. Department of State

Capital markets

Real estate performance stands firm as volatility ratchets up

Volatility in the public markets ratcheted up in 2018, with major stock and REIT indices seeing significant swings. The S&P 500 and NAREIT All Equity REIT Index suffered losses in September and October and, after stabilizing in November, fell again during the first few weeks of December.

In the bond market, Treasury yields rose for much of 2018 due to expectations of future rate hikes and an increased supply of bonds as the Federal Reserve reduces its balance sheet and the Treasury continues to issue new bonds to fund rising federal government deficits. But a good portion of this increase was given back as concerns about an economic downturn drove a flight-to-quality.

U.S. stock prices see a correction

S&P 500 Price Index

Source: S&P Dow Jones Data through 12/19/18

In November, the 10-Year Treasury rate hit its highest level since 2011 (3.24%). But the yield had fallen closer to 2.8% at the time of this writing in December. Concerns about an inverting yield curve, historically a leading indicator of recession, rose as the 10-Year yield was only narrowly higher than the 2-Year yield.

Coupled with healthy economic growth, conditions have favored direct investment in commercial real estate. While total returns as measured by the NCREIF Property Index (NPI) remain well below those of recent peak years, they improved slightly compared to 2017. The index was up 7.2% for the 12-month period ending in September, 2018, versus 6.9% in the comparable period a year earlier. Three of the four major property types saw improved returns. Retail was the only sector to deteriorate. Returns were bolstered by a modest decline in cap rates.

The decline in cap rates, while far from dramatic, signaled that investors continue to see opportunity in the asset class. Net operating income continues to rise along with the economy, and yields are relatively attractive, even if the spread versus the 10-Year Treasury fell to its lowest level in 10 years.

Investment activity reflects investor appetite for commercial real estate. Transaction volume, as tracked by Real Capital Analytics, Inc. rose nearly 6.0% in the four major property sectors in the 12-month period ending in the third quarter of 2018 versus the same period a year earlier. This is the first time in two years that rolling four-quarter sales volume in the four major sectors topped $450 billion.

Three of the four major property sectors experienced rising sales transaction activity, with only the office sector seeing a year-over-year decline (-6.2%). Comparing trends in the six major markets (Boston, New York, Washington, D.C., Chicago, San Francisco, and Los Angeles) to the rest of the market, we see more momentum in non-major markets, but total activity is up in both major and non-major markets.

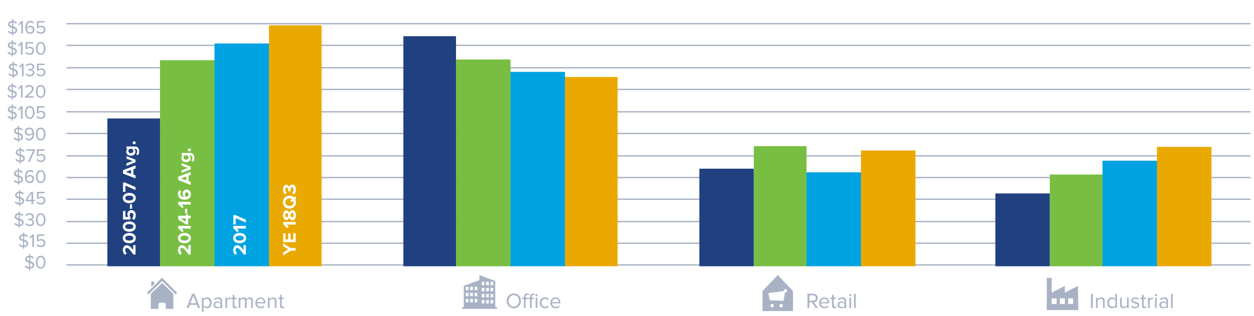
Portfolio and entity transactions keep volume high

There is a material divergence between sales volume trends in major and non-major markets in the industrial and retail sectors. In industrial, there has been a clear acceleration in non-major markets where activity topped $50 billion — an all-time high. Major market industrial volume was strong relative to history, but up less than 1.0% versus a year ago. In the retail sector, investors seemed to emphasize major markets above non-major ones, perhaps an indication of a flight-to-quality.

Other trends that are evident in the sales data during the past year are a significant uptick in portfolio and entity-level transactions; and a jump in foreign investment into the U.S. Portfolio activity is certainly one reason for the jump in retail property sales driven by primary markets, as Brookfield purchased GGP. The Brookfield/GGP deal put Canada far and away in the top spot for foreign investment, followed by France, Singapore, China and Germany.

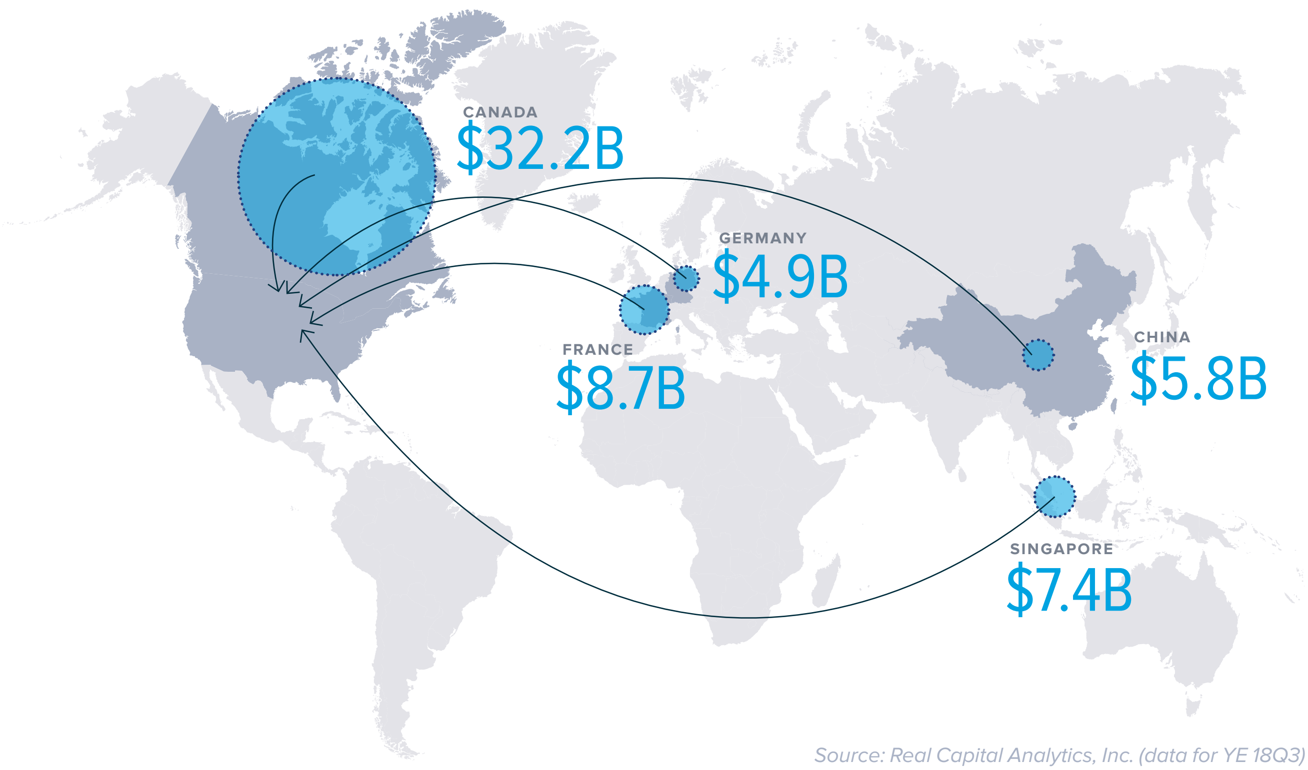
Annual transaction volume

Billions



Source: Real Capital Analytics, Inc.

Top five foreign buyers



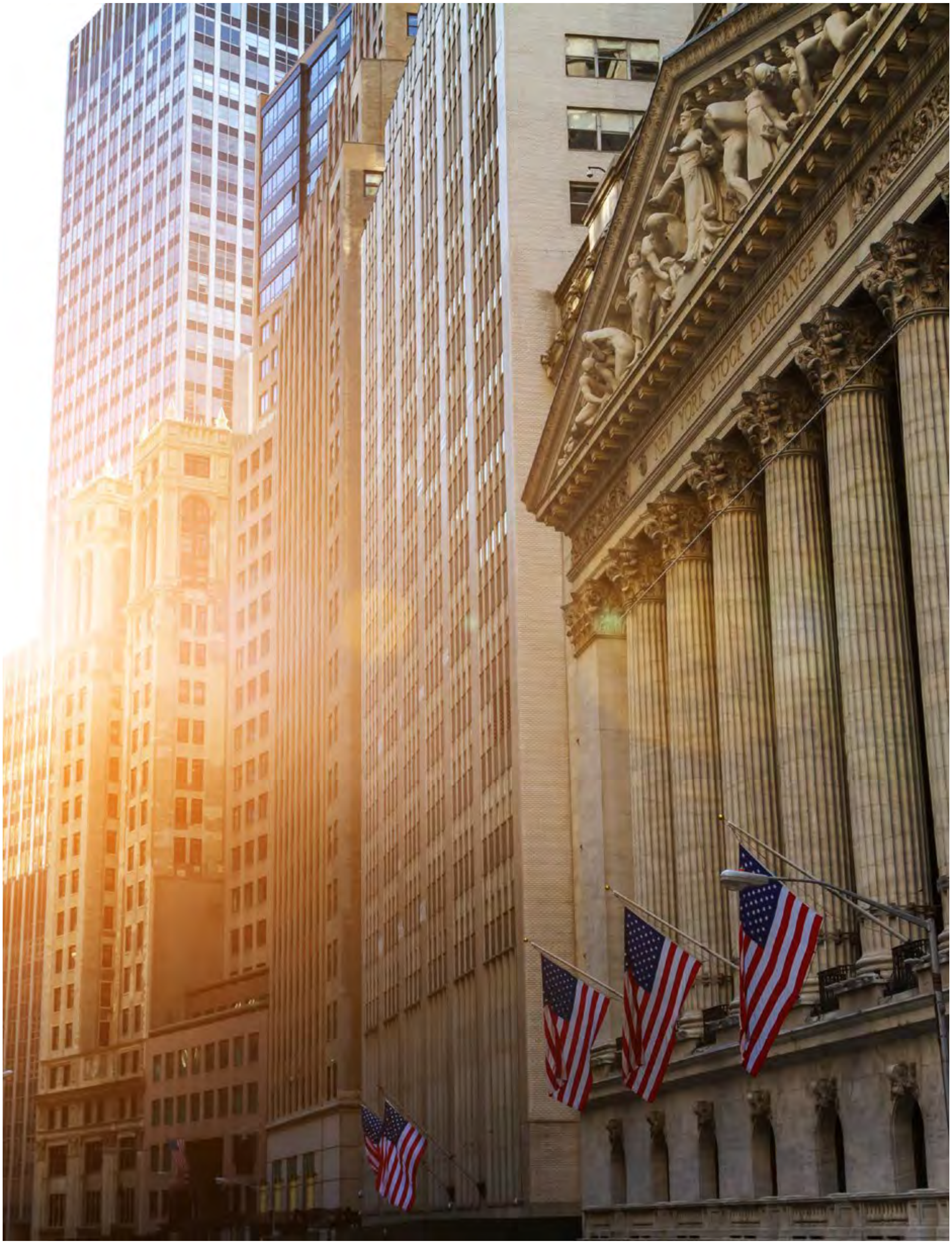
Source: Real Capital Analytics, Inc. (data for YE 18Q3)

The lending environment remains strong with steady activity and signs that the higher interest rates versus a year ago were at least partially absorbed through narrower spreads. Traditional financing sources are active and banks responding to the Federal Reserve's October, 2018 Senior Loan Officer Survey indicated a very slight loosening of lending standards.

Data from the Commercial Bankers Association show originations in 2018 H1 little changed from the same period a year ago, while commitments tracked by the American Council of Life Insurers through the third quarter of 2018 have risen compared with a year ago. Non-traditional financing sources are gaining market share as regulatory constraints temper risk-taking by traditional sources.

Direct investment in commercial real estate is on pace to generate returns in 2018 that exceed the consensus expectations leading into the year. With interest rates expected to rise again in 2019 and cap rate spreads over Treasuries already below average, it seems likely that returns will back off somewhat. Property net operating incomes should continue to rise. However, appreciation — already limited in most property sectors in 2018 — will be increasingly constrained.

Direct investment in commercial real estate was on pace to generate returns in 2018 that exceed the consensus expectations leading into the year.


NEW YORK STOCK EXCHANGE

Apartment

Economic, demographic and space market conditions continue to drive apartment performance

Vacancy

4.2% Vacancy as of 18Q3

10-Year Avg. Vacancy **5.6%**

QUARTERLY VACANCY TREND

- Vacancy declined by 50 basis points over the past year, reaching a new cyclical low.
- This is the tightest vacancy level since 2001.
- Houston's vacancy remains elevated, but it has experienced a significant improvement along with several Sunbelt markets, such as Phoenix.

Rent

2.9% Y/Y Growth as of 18Q3

10-Year Avg. Ann. Rent Growth **2.6%**

QUARTERLY Y/Y RENT GROWTH

- Low vacancy and rising wages, particularly among younger age cohorts, have supported steady rent growth.
- Garden-style suburban apartments have experienced outsized rent growth.
- Affordability constraints will likely temper future rent gains.

Absorption

322K Units four quarters ending 18Q3

10-Year Avg. Ann. Demand Growth **211,500 units**

QUARTERLY DEMAND TREND

- Demand growth accelerated, buoyed by healthy labor market trends.
- Household formation remains steady and is being driven by people in higher-income brackets.
- High home prices and changing lifestyle preferences are supporting apartment demand.

New supply

299K Units four quarters ending 18Q3

10-Year Avg. Ann. Supply Growth **207,200 units**

QUARTERLY SUPPLY TREND

- Apartment construction remains high, but activity moderated considerably from a year ago.
- Supply growth decelerated in a slight majority of apartment submarkets nationally.
- Multifamily permitting trends suggest supply growth has peaked this cycle.

Source: Axiometrics

Spoke, Chicago, Illinois

Strengthening labor market among millennials generating demand

Apartment net absorption picked up in 2018, supported by a strengthening labor market. Hiring gained momentum, particularly among 25-34 year-olds, which boasted one of the strongest annual job growth rates among major age cohorts as of October, 2018, according to the Bureau of Labor Statistics. Near-term demand growth prospects remain solid.

Population growth is expected to moderate among the prime renting cohort (ages 20-34) but there appears to still be pent-up demand within this group as household formation has been slow since the Great Recession. The share of 25-34 year-olds living with their parents reached its highest level on record in 2018, according to the U.S. Census Bureau. Continued job growth in this age cohort likely will encourage more of them to move out on their own and into apartments.

RECORD HIGH IN 2018

16.8%

25-34 year-olds living with their parents

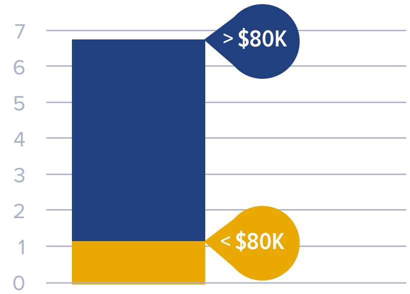
Source: U.S. Census Bureau

Growth in high-income households promoting demand for institutional product

Growth has and will likely continue to be driven by those in the higher-income categories, bolstering demand for institutional properties with high-end amenities. This trend is partly driven by the fact that the older, higher-income segment of millennials is delaying homeownership. At the same time, larger shares of older cohorts are entering the renter pool, compared to historic levels. Annual growth in renter households with incomes of $80,000 or greater averaged 10.5% during 2010-17, compared with just 0.4% annual growth in households with incomes of less than $80,000.

Annual change in renter households

Millions



Sources: Moody's Analytics, U.S. Census Bureau

NATIONAL HOMEOWNERSHIP RATE

64.4%

220 bps below 20-yr. average

Source: U.S. Census Bureau (data as of 2018Q3)

FACTORS LIKELY TO KEEP HOMEOWNERSHIP LOW

- Limited for-sale inventory
- Record high median home price
- Demand for urban lifestyle
- Rising mortgage rates
- Reduced tax incentive to own

Homeownership is on the rise, but key indicators suggest that this trend will slow or stabilize — supporting apartment net absorption. The national homeownership rate increased by 50 basis points year-over-year as of the third quarter of 2018 to 64.4% — 1.4 percentage points above its mid-2016 low. However, the level remains more than two percentage points below its 20-year historical average. In addition, sales of existing single-family homes fell modestly over the past year, while single-family housing starts declined in recent quarters, according to data from the National Association of Realtors and the U.S. Census Bureau. Falling affordability likely will continue to restrain housing sales. Tight inventory levels supported a continued rise in the national median home price, which is now 15% higher than its prerecession peak. In addition, the 30-year fixed mortgage rate is near its highest level since mid-2011 per Freddie Mac.

Effective rent growth was relatively stable over the past year. Wages are rising steadily. According to the most recent U.S. Census Bureau data, the 25-34 year-old cohort was one of the leaders in average household income growth in 2017.

In addition, apartment supply growth decelerated considerably over the past year, which further buoyed rent growth. The concession level as a share of asking rents has remained steady year-over-year and is low compared with its 15-year historical average. However, concession levels are elevated in certain metropolitan areas with higher vacancy rates, including Houston and Nashville — restraining effective rent growth.

Moderating supply trends will be a positive for fundamentals, but strained affordability will temper effective rent growth. The annual effective rent-to-median-income ratio is more than two percentage points above its 15-year historical average, according to data from Axiometrics and Moody's Analytics.

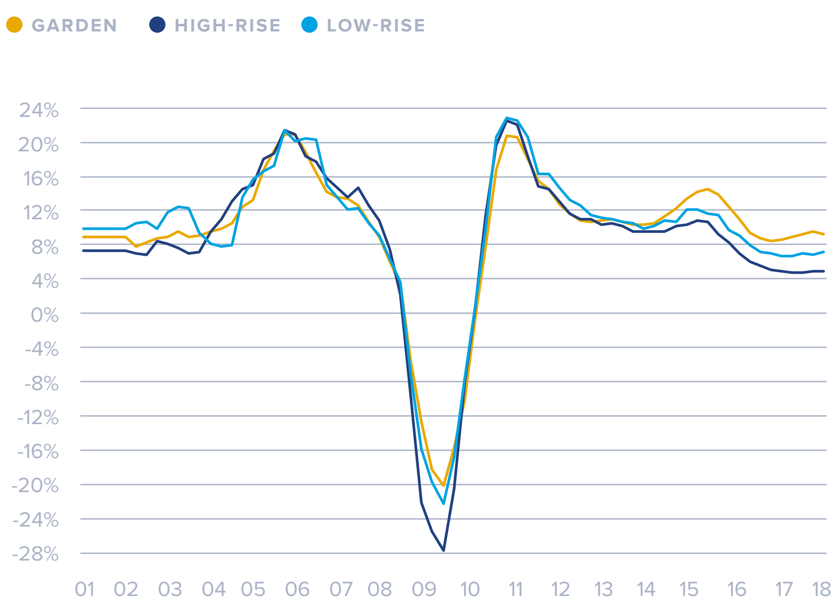
Windward, Portland, Oregon

Urban development focus and low homeownership boosting garden apartments

Developers have been largely focused on highly amenitized mid- and high-rise apartments during this expansion period. In the years following the recession, high-rise apartments made up about two-thirds of net completions. This was in sharp contrast to the last expansion when construction was dominated by garden-style units.

While demand for urban-focused mid- and high-rise apartments remains robust, hefty net completions have restrained rent growth. Tighter vacancy rates among garden apartments have resulted in outsized rent growth and total returns in recent years. In addition, strong employment growth in Sunbelt markets dominated by suburban garden inventory propelled hefty rent gains in these areas, including Orlando and Phoenix.

Annual apartment total returns



Source: NCREIF

Special Topic: using demographics and other locational data to select suburban apartment assets

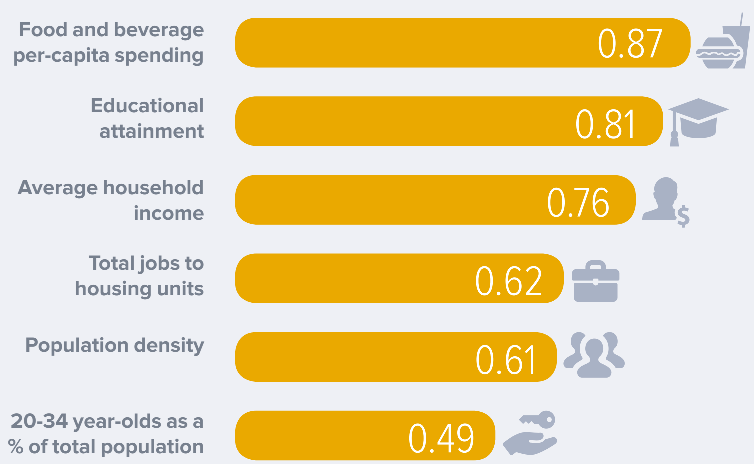
Bentall Kennedy expects demand for apartments in top urban core locations to endure over the long term, but we have selectively invested outside of these locations where we see conditions that will attract renters. As discussed in our Perspective 2018, suburban nodes offer relatively high yields and — as noted in the previous section — garden-style apartment rent growth has been outperforming in recent years due to more restrained supply growth.

Expensive for-sale housing, aging millennials, and a rising penchant to rent among some older households should continue to generate suburban apartment investment opportunities. However, it is important for investors to focus on key attributes that make submarkets and micro-locations ideal for suburban renters.

Various demographic and economic variables in markets where we have been active, such as Atlanta and Raleigh, have a strong correlation with rents as shown below.

Effective rent level correlations to demographic variables

Atlanta & Raleigh Suburban Submarkets (2018)



Sources: Esri, U.S. Census Bureau, Bentall Kennedy

As shown, each of these variables has a moderate to strong correlation with effective rent levels — an indicator of submarket desirability and potential performance. A combination of these variables has been used to develop a robust model to predict where submarket rent levels are highest.

Recent suburban asset acquisitions involved locations that ranked well in these various metrics. The Marlowe Lake Boone in Raleigh is located in a well-educated, high-income, densely populated area with above-average spending and jobs-to-housing unit levels. The ARIUM Brookhaven in the Atlanta market also benefits from relatively favorable demographic trends.

Although these stand out as key characteristics for determining desirability across a broader stretch of submarkets, this approach can also be useful in assessing micro-locations in conjunction with a variety of other qualitative variables. Bentall Kennedy analyzes a number of other variables whose importance varies across micro-locations. For instance, school quality is an important consideration in certain nodes. In addition, asset selection is crucial in determining the ideal match between unit mix/amenities and the surrounding demographics.

Urban apartments still benefit from a variety of tailwinds, but opportunities exist outside of these locations. Utilizing data analytics to build up an investment thesis for a location is critical for investors to execute successfully on the right assets and avoid selecting those with insurmountable location deficiencies.

Spoke, Chicago, Illinois

Demographic characteristics of recent investments

Demographic/Economic Variable	ARIUM Brookhaven - Atlanta (2 Mile Radius)	Atlanta MSA	The Marlowe Lake Boone - Raleigh (2 Mile Radius)	Raleigh MSA
Educational attainment	66.4%	38.1%	67.6%	46.5%
Food & beverage spending per capita	$6,334	$3,610	$4,934	$3,850
Average household income	$127,253	$89,351	$116,336	$92,910
Total jobs to housing units	1.44	1.12	2.10	1.04
20-34 year-olds as a % of total population	29.2%	21.4%	28.7%	20.9%
Population density (per sq. mi.)	5,541	678	2,695	641

Sources: Esri, U.S. Census Bureau, Bentall Kennedy

Office

Tight market conditions supporting modest rent growth, but labor constraints may temper future demand

Vacancy

12.8% Vacancy as of 18Q3

10-Year Avg. Vacancy **14.6%**

QUARTERLY VACANCY TREND

- Vacancy declined by 10 basis points over the past year to a cyclical low.
- The current rate is nearly two percentage points below the historical average.
- Class A vacancy was unchanged due to supply; vacancy tightened among Class B properties.

Rent

2.2% Y/Y Growth as of 18Q3

10-Year Avg. Ann. Rent Growth **0.7%**

QUARTERLY Y/Y RENT GROWTH

- Rents are rising but at a slower pace than the other major property sectors as vacancy levels out.
- Tech-focused markets, including Seattle and the Bay Area, once again lead the nation in growth.
- Landlords are offering generous tenant improvement packages to remain competitive.

Absorption

49M Square feet four quarters ending 18Q3

10-Year Avg. Ann. Demand Growth **28.2 MSF**

QUARTERLY DEMAND TREND

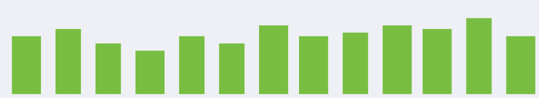
- Net absorption accelerated year-over-year in line with office-using job growth.
- Office leasing was dominated by tech-related firms along with biotech/medical and coworking tenants.
- Demand will be constrained by the tight labor market.

New supply

51M Square feet four quarters ending 18Q3

10-Year Avg. Ann. Supply Growth **32.4 MSF**

QUARTERLY SUPPLY TREND



- National supply growth picked up slightly over the past year.
- Downtown locations drove this uptick, while construction was steady in suburban nodes.
- Office completions will begin to slow or level out as construction starts have moderated.

Source: CBRE-EA

200 West Madison, Chicago, Illinois

Resilient hiring boosts fundamentals

Office-using employment growth gained momentum over the past year, led by the professional, scientific, and technical services sector. This acceleration led to a strengthening in office net absorption. Many office demand indicators remain positive, suggesting solid near-term absorption prospects.

Growth in business investment in equipment and intellectual property is well above its 15-year historical average and the job-openings rate for office-using sectors is nearing its cyclical peak. Corporate profits have risen at a healthy pace, supported by massive corporate tax cuts that took effect in 2018. However, labor shortages will remain a headwind.

The three-month moving average unemployment rate for office-using sectors is at its lowest level since these figures were first reported back in 2000 and office-using job openings have surpassed the number of unemployed workers in office-using occupations. Plus, growth in the prime-age workforce is set to slow over the next two years.

Office supply growth picked up slightly over the past year. Most of this acceleration was due to increased activity in downtown locations. Suburban submarkets are seeing faster growth, but this pace has been consistent over the past several quarters.

Key primary markets that have been among the leaders in rent growth this cycle, including San Francisco and Seattle, experienced the strongest downtown supply growth over the past year. High-profile deliveries included the 1.4 million sf Salesforce Tower in San Francisco's South Financial District and the 764,000 sf multi-tenant Madison Center in downtown Seattle. Supply gains were also substantial in other high-performing tech hubs, such as San Jose and Denver, where construction was dominated by suburban activity. New projects are generally delivering with high levels of preleasing, confirming the strength of demand for quality space in many metros, but supply is having an impact on rent growth.

UNEMPLOYMENT RATE

3.3%

for office-using occupations

Three-month moving average as of October 2018

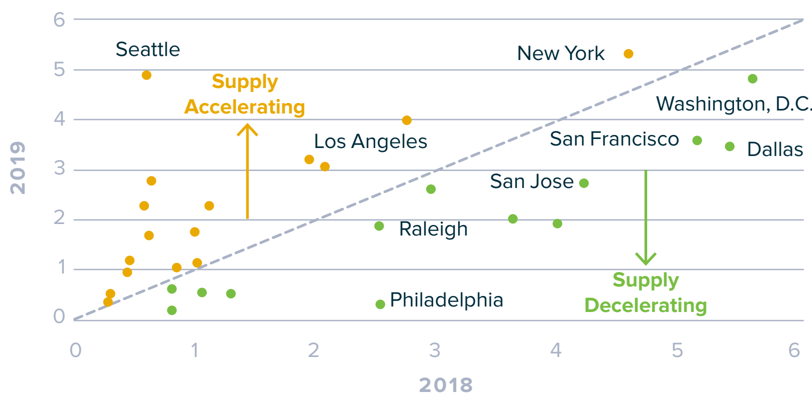
There are signs that supply growth is approaching a cyclical peak

While net completions rose over the past year, the amount of office space underway has declined. CBRE Econometric Advisors projects that net completions of both single- and multi-tenant buildings will moderate in 2019. Net completions are expected to fall across a number of major markets, including Boston, Dallas, San Francisco, San Jose, and Washington, D.C.

Rising construction costs, labor constraints, and slowing rent growth likely will keep developers at bay. However, it should be noted a handful of major markets, including New York, Seattle, and Los Angeles, along with a number of smaller Sunbelt metros, have seen a sizeable increase in development activity. In New York, massive amounts of development are underway in and around Hudson Yards with expected completion dates over the course of the next five years. The largest of these includes the 2.8-million sf Spiral and the 2.6-million sf 30 Hudson Yards, which will be New York City's second-tallest office building.

Construction completions have likely peaked

Projected Net Completions (SF, Millions)



Source: CBRE-EA

Healthy NOI growth, but leasing costs are rising

Net operating income (NOI) as reported by NCREIF expanded at a solid annual growth rate of about 5.5% over the past two years. Tightening market conditions and recession-era leases rolling to higher market rates supported this rising trend in cash flows. But rent growth as reported by CBRE-EA told a more subdued story. CBRE-EA's rent index, which takes into account free rent periods and certain up-front incentives, grew by just 2.4% annually over the same timeframe.

Landlords are offering generous tenant improvement packages to remain competitive and adapt to changing tenant needs and preferences. Competition has only increased as new and renovated spaces with modern layouts, shared spaces, and amenities have entered the market. Rising construction costs are further inflating these expenses.

We have observed that higher than expected face rents can be achieved, but this is often offset by higher upfront costs for the landlord.

NCREIF data reflect these surging tenant improvement costs, which have clearly curtailed office property investment performance.

OFFICE NOI

5.5%

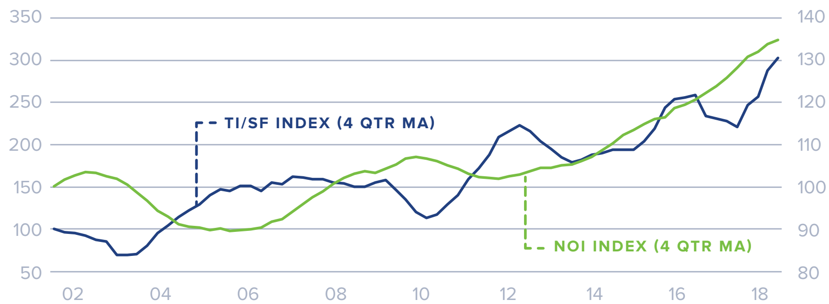
Annual growth rate over the past two years

Source: NCREIF

475 Sansome Street,
San Francisco, California

Office tenant improvement costs have skyrocketed

TI/SF Index (2001Q1=100) *NOI Index (2001Q1=100)*



Sources: NCREIF, Bentall Kennedy

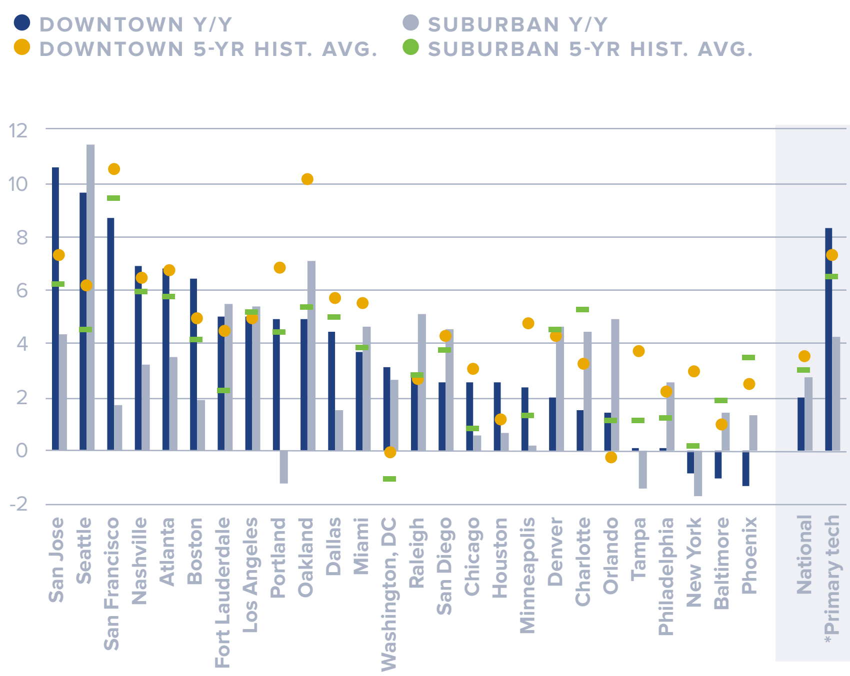
Rent growth has varied widely across markets and submarkets

After decelerating in 2017, rent growth in primary tech markets is once again outperforming. San Jose, Seattle, and San Francisco raced to the top in terms of rent growth over the past year. Each of these markets benefited from above-average demand growth during this period.

Suburban rent growth surpassed downtown increases nationally, with the strongest momentum in Seattle and Oakland. However, downtown submarkets continued to outperform in most primary tech markets. Downtown rent growth notably outpaced suburban nodes in San Francisco and Boston. New York is seeing rents decline across the market due to slowing office-using job growth and an influx of new supply.

Primary tech markets surge ahead once again

Annual Office Rent Growth (%)



*Source: CBRE-EA; *Includes: Boston, San Francisco, San Jose, Seattle*

Special topic: coworking

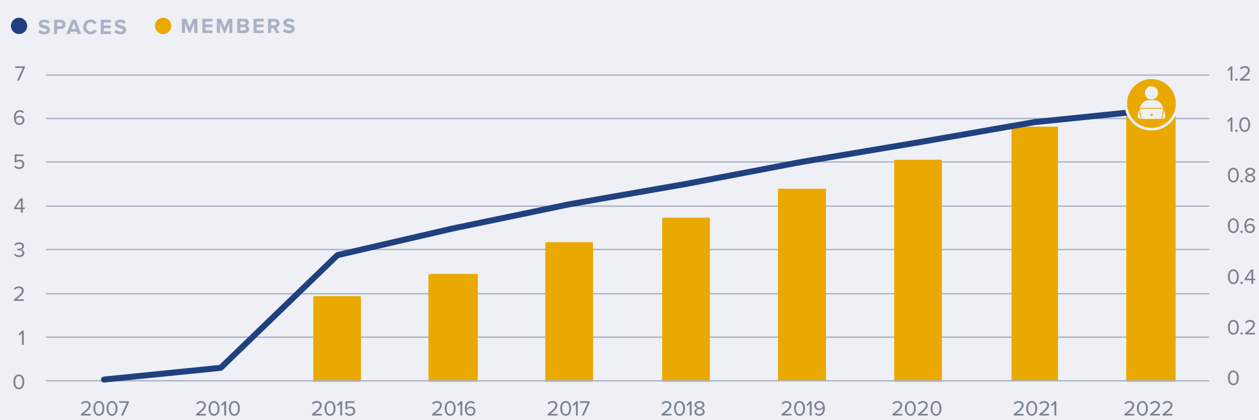
The rise of coworking, or flexible office space, is a prominent trend within the office sector during this cycle. Coworking tenants expanded at a fervent pace in recent years, as the number of occupied spaces swelled by 60% and membership nearly doubled since 2015, according to Emergent Research and the Global Coworking Unconference Conference (GCUC).

Coworking has exploded on the office scene for a number of reasons. Key among them are flexibility and cost-reduction. Users of flexible office space enter into a service contract rather than a traditional lease agreement. These service contracts can be structured on a weekly, monthly or yearly basis, compared with a traditional lease agreement, which is typically a minimum of three to five years.

Traditional leases are also more complex, are treated as a balance sheet liability, and often come with time-consuming upfront costs to fit out the space. Coworking spaces are often already outfitted with modern layouts and may offer the use of workstations, meeting rooms, as well as access to other services and activities.

Coworking spaces and members rising at a rapid pace

Total U.S. Coworking Spaces (Thousands) *U.S. Coworking Members (Millions)*



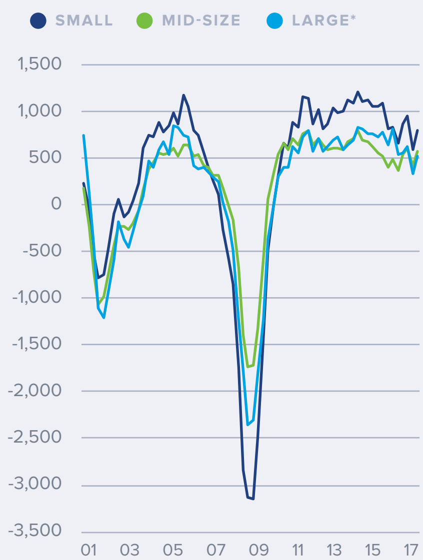
Source: Global Coworking Unconference Conference, Emergent Research

While larger companies are quickly realizing the advantages of coworking, independent workers and small firms have been the primary users of this space. Many of these entities prefer to avoid the risk of a long-term lease commitment. Coworking fills a void for certain independent workers and small firms, which play a major role in the labor market.

Small companies — defined as those with fewer than 100 employees — have historically led strongly in job creation during economic expansion periods. In addition, independent workers — defined as consultants, freelancers, contractors and temporary workers — make up about a quarter of the U.S. labor force.[1]

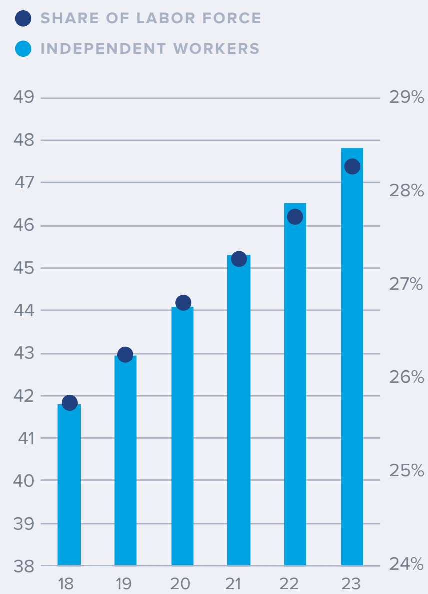
Annual job gains

Thousands



Number of independent workers**

Millions



*Sources: State of Independence in America (MBO Partners), Moody's Analytics, U.S. Bureau of Labor Statistics * Small = <100, midsize = 100-999, large = 1,000+ **Includes: consultants, freelancers, contractors, temporary or on-call workers*

Tenants point to other benefits of coworking services. According to CBRE's Americas Occupier Survey Report 2018, flexible office space provides a means to enter a new market, promote innovation, and attract and retain talent. Coworking services also offer a sense of community with planned social and networking activities, and wellness options.

Coworking is gaining appeal among a wider swath of companies and markets. Analysis of occupied space by major coworking tenants reveals that they remain highly concentrated in gateway markets and tech-centric Seattle, but also have a significant presence in a variety of other major metro areas such as Atlanta, Dallas, and Denver.

These trends present significant opportunities and risks for institutional office investors. Coworking furnishes landlords with access to smaller, burgeoning tech tenants without leasing to them directly. In addition, flexible office space is increasingly seen as a building amenity for other tenants in the same property that may have short-term space needs.

However, the credit quality of coworking firms is a concern. For instance, major credit-ratings agencies have placed the largest coworking player, WeWork, below investment grade. The credit-worthiness of some of these firms may be improving, as larger, more established companies are steadily incorporating flexible office space into their broader strategic space needs. According to data from Emergent Research, published by Recode, the coworking workforce has gone from being dominated by independent workers to those employed by small and large companies.

The share of coworkers employed by companies with more than 100 workers grew to 12% in 2017. WeWork reported in its June, 2018 financial disclosure that enterprise clients accounted for 24% of its membership, up from 14% in the first quarter of 2017. It now boasts participation by a variety of big names including Microsoft, Facebook, BlackRock, Adidas, Citi and Salesforce. Growth in the enterprise space should add to the stability of flexible office space and enhance its viability among investors.

[1] State of Independence in America (MBO Partners) and U.S. Bureau of Labor Statistics

Medical office

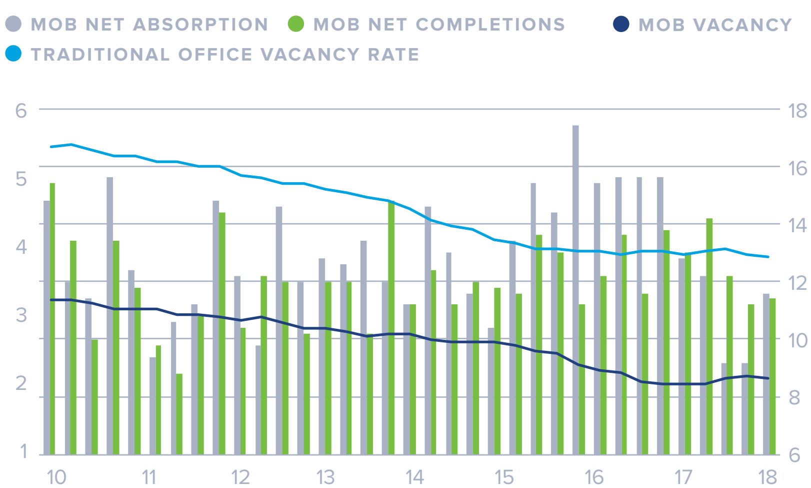
Steady rent gains amid balanced fundamentals

Medical office vacancy rose slightly over the past year but remains tight relative to history. According to data from CBRE, net absorption moderated as healthcare job growth slowed over the past year. The current vacancy rate is 140 basis points below the historical average and remains significantly lower than the traditional office market.

Supply growth has moderated slightly from 2017 levels and was dominated by build-to-suit activity. These trends have supported steady rent growth.

Fundamentals remain healthy

Net Absorption and Completions (SF, Millions) *Vacancy Rate (%)*



Sources: CBRE Research, CBRE Econometric Advisors

The expansion of nontraditional outpatient centers

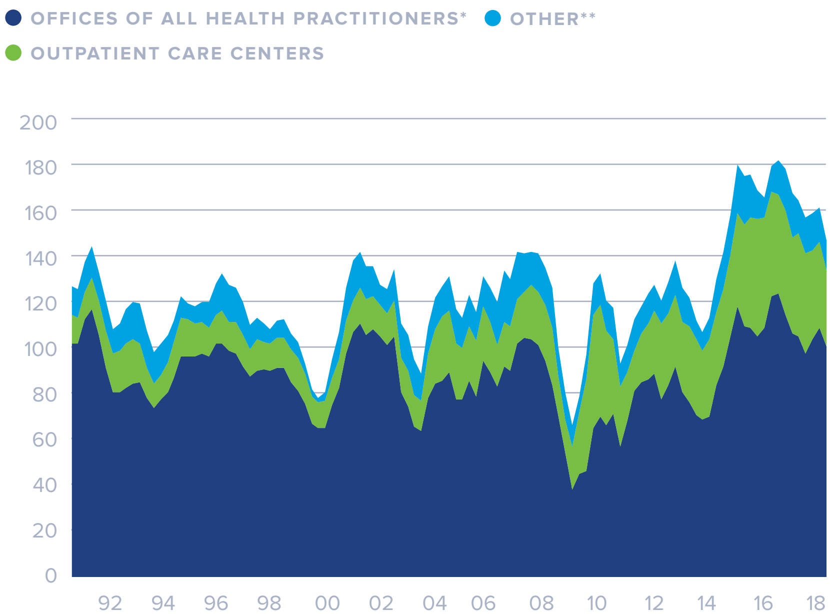
Growth in outpatient care centers has gained considerable momentum in recent years and job creation has reflected that. The Urgent Care Association estimates that the number of urgent care centers expanded by 6.1% annually during 2014-17 and that they now account for nearly 10% of outpatient visits.

Retail clinics are also increasing in popularity. A 2016 study by the RAND Corporation estimated that the number of retail clinics would more than double from 2010 to 2017. While these nontraditional medical providers still make up a small portion of outpatient services, growth prospects are strong as the medical industry pushes to offer customers better access, efficiency, and cost-effectiveness.

This is clear with the planned CVS Health/Aetna merger and Walgreens/LabCorp. partnership. These trends will create new and expanding opportunities for real estate investors.

Job gains of ambulatory healthcare services subsectors

Jobs, Thousands



Sources: Moody's Analytics, U.S. Bureau of Labor Statistics
**Includes: Offices of physicians, dentists, and other health practitioners*
***Includes: Medical and diagnostic laboratories, other ambulatory healthcare services; Excludes: Home healthcare services*

Divided government is good news for the Affordable Care Act

The mid-term elections increased the probability that the Affordable Care Act (ACA) will remain little-changed for the foreseeable future. This is key to keeping the uninsured rate down among those under 65 years old. According to the U.S. Census Bureau, the uninsured rate rose marginally in 2017 but remained 7.5 percentage points below the 2010 high when the ACA was signed into law.

There are a growing number of states adopting Medicaid expansion — a key component of the healthcare legislation — which should keep the uninsured rate below pre-2010 levels. However, there are downside risks associated with the tax legislation passed at the end of last year that removed the individual mandate. A federal judge recently ruled the ACA is unconstitutional without the mandate. The decision will be appealed.

The impact of the tax legislation's provision is still unclear, as it won't take effect until 2019, but the Congressional Budget Office projects that the uninsured rate will rise by three percentage points by the end of 2028. This could weigh on healthcare space demand and the impact should be monitored carefully by insurers and medical office property investors alike.

Retail

Fundamentals are improving incrementally as the sector evolves toward a more omni-channel existence. Consumer spending is growing steadily.

Availability

9.1% Availability as of 18Q3

10-Year Avg. Availability **11.2%**

QUARTERLY AVAILABILITY TREND

- Availability compressed over the past year, but the current rate is above 2016 lows.
- Despite headwinds in the sector, retail availability is below its historical average.
- Availability will be volatile as the sector continues to transform.

Rent

2.6% Y/Y Growth as of 18Q3

10-Year Avg. Ann. Rent Growth **-0.5%**

QUARTERLY Y/Y RENT GROWTH

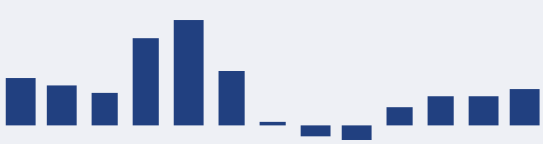
- Rents continue to rise, albeit incrementally.
- Urban and dense, walkable suburban locations should outperform.
- Gateway and Sunbelt markets have seen the strongest growth over the past year.

Absorption

21M Square feet four quarters ending 18Q3

10-Year Avg. Ann. Demand Growth **17.7 MSF**

QUARTERLY DEMAND TREND



- Absorption is positive despite notable retailer bankruptcies and store closures.
- Four-quarter absorption exceeded the 10-yr. average, but trailed the five-yr. average.
- Small-format retailers have expanded more aggressively than large ones recently.

New supply

13M Square feet four quarters ending 18Q3

10-Year Avg. Ann. Supply Growth **20.2 MSF**

QUARTERLY SUPPLY TREND

- Supply growth has slowed, allowing fundamentals to improve.
- Retailers will be selective with expansions, likely favoring large-scale, mixed-use projects.
- Strategic redevelopments will trim obsolete retail supply.

Source: CBRE-EA

Kedron Village, Atlanta, Georgia

The U.S. retail market is experiencing strong crosswinds. On the one hand, confident consumers are spending and most retailers saw their sales revenue increase year-over-year. On the other hand, persistent ecommerce sales growth is grabbing away market share from brick-and-mortar. Many retailers are trapped in the transition between driving online sales and finding uses for existing storefronts. Owners and retail tenants must work together to find new ways to drive foot traffic.

Low unemployment is producing wage growth. According to the Bureau of Labor Statistics, average hourly earnings increased by 3.1% in October, 2018, versus their year-ago level. This is among the strongest annual growth rates in a decade. The long economic expansion has allowed consumer balance sheets extra time to improve following the Great Recession. There are signs that consumers are spending down some of the savings they have built up.

Certainly, the potential exists for these metrics to cool or deteriorate. The U.S. economy is growing quickly, but recent volatility and losses in the financial markets and slowing in the housing market could erode consumer confidence. Even if the economy grows as expected in 2019, consumer spending may slow to a more normal rate of around 3%.

Even with the U.S. consumer on solid footing, brick-and-mortar retail demand growth has been sluggish. Black Friday 2018 sales showed a substantial increase from the prior year (approximately 23%), but foot traffic remained flat to slightly down year-over-year.

Historically, periods of strong retail sales growth corresponded with very strong brick-and-mortar retail space demand but that relationship has eroded. During 1990-2007, retail space demand grew at a compound annual rate of 2.4%. During 2010-2017, that rate dropped to 0.9%.

LOW UNEMPLOYMENT IS PRODUCING WAGE GROWTH

3.1%

Increase in average hourly earnings

October 2018

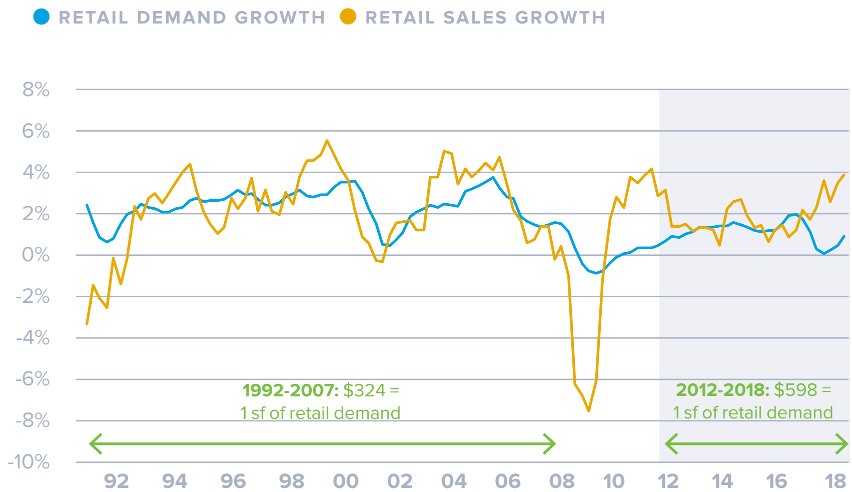
Source: Bureau of Labor Statistics

Consumer spending and retail demand diverging

With ecommerce sales still expanding rapidly (14.5% year-over-year as of September, 2018) it takes a lot more retail sales volume to generate one square foot of retail space demand. The adjacent chart displays historical correlation between retail sales and retail demand growth.

According to CBRE-EA's history of the U.S. retail market, the amount of retail sales it takes to generate one square foot of retail demand has increased by a factor of 1.8x over the past six years (2012-2018). CBRE-EA's retail inventory includes only neighborhood and community centers. The sales-to-square footage factor likely varies across retail formats. However, we can observe the historical relationship between these two indicators and see that the relationship appears to be breaking down.

Retail space demand and sales growth



Sources: CBRE-EA; Moody's Analytics; U.S. Census Bureau
Note: Real retail sales growth in 2008 dollars

Retail sales growth has been uneven across retail segments, however, and several are outperforming. Bars and restaurants remain some of the strongest brick-and-mortar performers as do health and personal care sectors (CVS, Ulta Beauty) and grocery stores. These formats have been performing well for much of the current expansion and we have highlighted each of these segments in greater detail in previous editions of *Perspective*.

Clothing is one of the areas that has lagged over the past several years, but year-over-year as of September, 2018, the segment experienced a healthy uptick in sales. Strong clothing sales growth is an indication that some of the stores that have struggled, including JC Penney, J. Crew, Ascena Stores (Ann Taylor, Loft), and Gap, may be finding their footing.

Outlet formats of luxury retailers, in-store pickup of online purchases and other methods of driving customer engagement may be paying off for these retailers, and macro-level demographic shifts may be supporting sales as well. Millennials are entering their prime spending years and that may mean more, and higher quality, purchases.

Conversely, the sporting goods, hobbies, books and music segment continues to see in-store sales shrink. Sales in the segment contracted by 5.8%, year-over-year. This makes it the only retail segment to see shrinking sales during the period. Toys 'R' Us, one of the largest names in the segment, became its most recent casualty as the retailer filed for bankruptcy protection in September, 2017.

In the subsequent year, the company has liquidated most of its holdings and shuttered all 735 of its U.S. stores. As the last toy-focused national retailer, the company's sales will likely shift to mass merchandisers, including Target and Walmart, which are already key players in this category.

Despite the loss of Toys 'R' Us and other bankruptcies that took place in 2018, retail sales growth is supporting the industry as a whole. Sales growth, when many retailers are being forced to invest in ecommerce infrastructure, may help stave off bankruptcy long enough to allow for restructuring efforts to pay off. That should mean that fewer storefronts go dark, allowing retail real estate fundamentals to continue improving.

Special topic: assessing risks in retailer credit

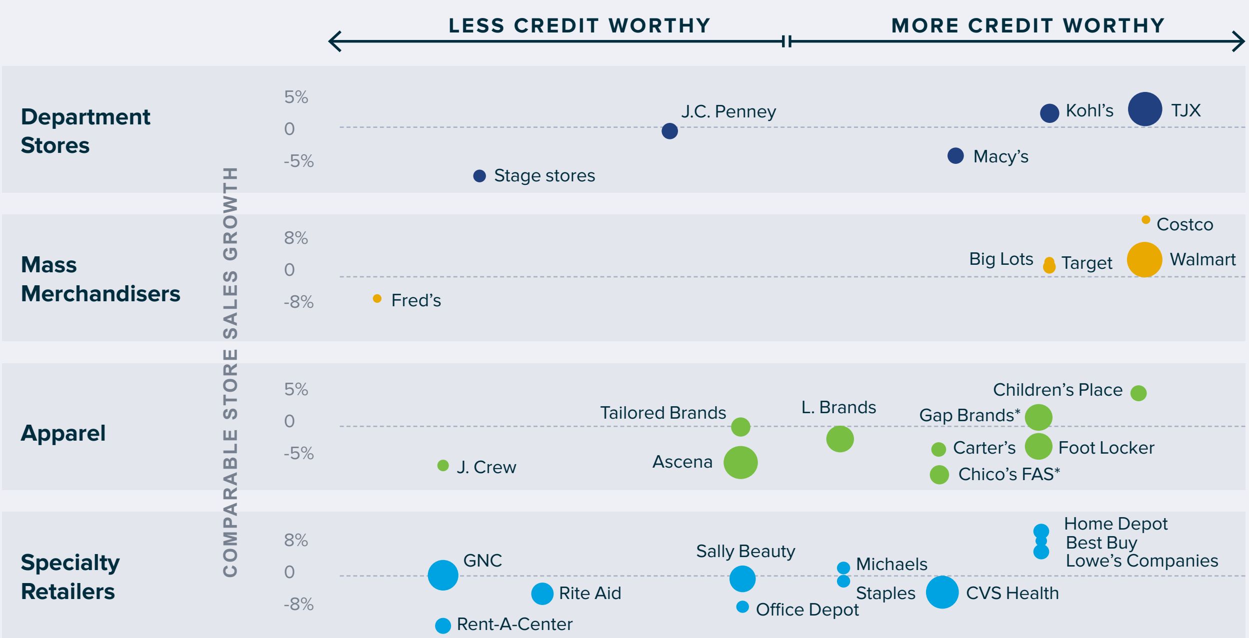
While many existing retailers have valid formats and substantial customer bases, some have financial situations that will leave them unable to complete the transition to omni-channel sales. Toys ‘R’ Us is a prime example. Before it became the third-largest retail bankruptcy filing in history, the company generated $11.5 billion in annual sales. However, the retailer’s debt load, which was more than $5 billion at the time of filing, meant that the company was forced to file for bankruptcy protection while still generating substantial sales revenue.

High debt levels have become a major factor in the fate of the U.S. retail industry. Prior aggressive store expansions and the costs of omni-channel restructuring have left many retailers with little financial margin to maneuver as major debt payments come due. Additionally, as the industry struggles, lenders have tightened standards and raised borrowing rates, making it more difficult to favorably restructure debt.

Retailers with lighter debt loads have had more success exiting bankruptcy, but most are forced to close a substantial number of their stores in the process. Mattress Firm, which operated 3,500 stores at the beginning of 2018, exited bankruptcy in November, 2018, with $525 million in new financing after closing 660 underperforming stores. Others, like Toys ‘R’ Us and Sears, have shuttered many, if not all, of their locations after being unable to find a buyer or lender to support future operations.

High debt levels burden many U.S. retailers

The chart below displays the credit ratings and comparable store sales of a cross section of the nation’s largest retailers in four of the larger retail segments. Retail property owners can proactively manage risk by understanding their exposure to companies with slow or negative comparable store sales (bottom left of the charts) and poor credit quality; while actively recruiting those with strong sales and credit.



**Gap Brands and Chico’s Brands comparable store sales estimated based on store counts;*
Note: Bubble sizes correspond to store count within each retail subset
Source: Creditntell.com; F&D Reports; AggData

Industrial

Industrial continues to outperform the other major property sectors as a confluence of factors drives demand growth

Availability

7.1% Availability as of 18Q3

10-Year Avg. Availability **10.9%**

QUARTERLY AVAILABILITY TREND

- Availability is as low as it has been in nearly two decades.
- New supply is slowing the rate of tightening.
- In some markets availability is creeping higher.

Rent

3.7% Y/Y Growth as of 18Q3

10-Year Avg. Ann. Rent Growth **0.7%**

QUARTERLY Y/Y RENT GROWTH

- Industrial rent growth is the strongest of the four major property sectors.
- But the pace of growth has been steadily slowing.
- Locally driven markets are seeing strong rent gains.

Absorption

238M Square feet four quarters ending 18Q3

10-Year Avg. Ann. Demand Growth **149.9 MSF**

QUARTERLY DEMAND TREND

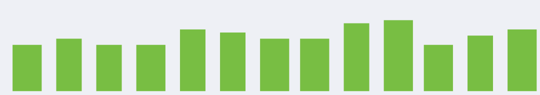
- Absorption has slowed from peak levels as low availability constrains demand.
- Tenant demand is broad-based, but Amazon continues to lead the sector.
- Some secondary hubs, such as Lehigh Valley and Indianapolis are posting demand growth of 3.0%+ Y/Y.

New supply

209M Square feet four quarters ending 18Q3

10-Year Avg. Ann. Supply Growth **113.9 MSF**

QUARTERLY SUPPLY TREND



- Construction has returned to its prerecession peak.
- Barring a shock to demand, current activity should be absorbed.
- The scarcity and cost of land and labor are tempering supply.

Source: CBRE-EA

Mission Trails Industrial Center, San Diego, California

Fundamentals within the industrial sector continue to improve, long after many industry watchers predicted rising availability and slowing rent growth. Traditional industrial demand drivers showed substantial momentum as GDP growth accelerated in 2018. This alone would be enough to paint a strong outlook for the sector in 2019. However, in addition to strength in underlying economic indicators, ecommerce continues to push industrial net absorption into overdrive, keeping demand ahead of new supply.

Consumption 5.2%

Personal Consumption Expenditures

Consumer confidence has reached levels last seen nearly two decades ago and retail sales are rising at an impressive rate.

Manufacturing 5.0%

Industrial Production

Goods-producing sectors have been growing faster than services for the past 15 months and manufacturing output is on the upswing.

Trade 11.0%

U.S. Imports - Goods

The Cass Freight Index shows U.S. shipments increased by double-digits through the first six months of 2018. Activity is strong at major U.S. ports, at least in part due to expectations of future tariffs. Shipments have cooled more recently but remain on pace to be the strongest since 2007.

Ecommerce 14.5%

Retail Ecommerce Sales

Retailers and their partners are retooling their distribution networks for omni-channel sales. FedEx, UPS, and USPS, which together handle 95% of all ecommerce deliveries, have made massive investments in their capabilities. In fiscal year 2019, UPS has budgeted approximately $12 billion for supply chain improvements. Meanwhile, Amazon is opening both million-square-foot fulfillment centers and smaller delivery stations that handle direct-to-consumer flow.

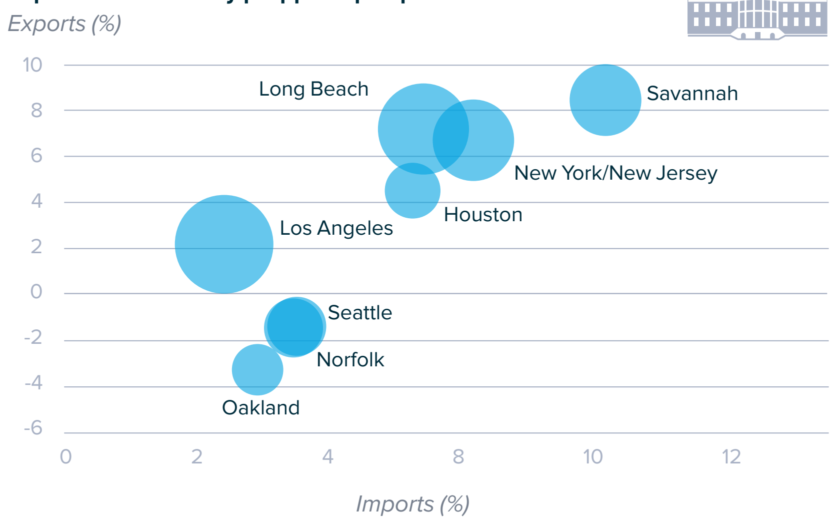
Note: Growth rates Y/Y as of 18Q3

Sources: Bureau of Economic Analysis, Federal Reserve Board of Governors, U.S. Census Bureau

The demand picture remains strong for 2019 and the industrial sector should outperform the other property types

For the fourth consecutive year, the industrial/distribution sector has been the top-rated asset type among those surveyed for ULI's Emerging Trends in Real Estate report. Consensus total return estimates, as reported in PREA's 2018 Q3 survey, continue to show industrial as the top performer both in the near term and over the next five years. While we believe this outcome is likely, there are a number of risks that could derail momentum.

Expected tariffs likely propped up import levels



Note: TEU volume data YTD as of June 2018 versus the same period in 2017.

Sources: Port Authorities of: Los Angeles, Long Beach, NY/NJ, Savannah, Seattle, Norfolk, Houston and Oakland

The chart above shows port traffic at the eight largest U.S. ports. Imports, which are better correlated with industrial demand than exports, have grown across the board. While healthy economic growth is likely supportive of trading volume, tariffs imposed by the Trump administration appear to have warped U.S. trade flows in 2018.

Anecdotal evidence suggests that producers and retailers have pulled forward their orders in anticipation of additional taxes. Interestingly, while U.S. imports have yet to shrink, several of the U.S. ports that see the largest share of exports have reported contractions in loaded exports, suggesting trade disputes, along with a strong dollar and weaker global growth, may be having a more pronounced effect on exports thus far.

Should the current U.S.-China trade war escalate, it has the potential to have far-reaching effects. U.S. financial markets have already shown significant sensitivity to this topic.

Fears of an escalation in the trade war have been only slightly assuaged by the temporary and partial truce that has been announced. A full-blown trade war with one or more of our major trading partners would curtail domestic demand for industrial space.

Industrial's strength is evident in the vast majority of markets

All of the nation's largest industrial markets are exhibiting availability rates below their long-term averages, with many at or near their historical lows. Outsized demand has created a dearth of space that supply growth has yet to fully satisfy. Availability continues to edge lower, but there are some exceptions.

According to CBRE-EA, Southern California industrial markets saw availability rise or remain constant year-over-year. The same goes for Seattle and Oakland, which each recorded modest increases in availability. Each of these markets already has very low availability and rising rents may be forcing some users out.

Supply does pose a risk to fundamentals in some markets. Dallas is one of several U.S. markets seeing substantial supply growth. Accelerating completions in Dallas pose downside risk to fundamentals in 2019.

Many other markets are being threatened by new supply. Generally, we see this activity being absorbed, but new construction can suddenly become a more pronounced risk if the trajectory of the economy suddenly shifts.

All in all, historically tight market conditions should set the stage for another strong year in the industrial sector.

Special topic: examining trends in the geographic distribution of demand

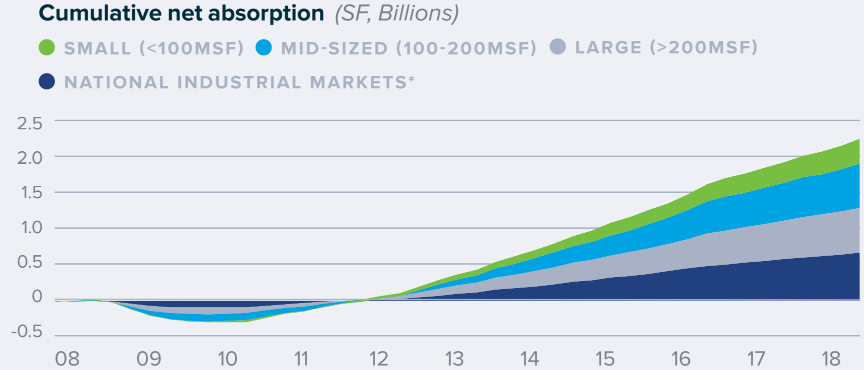
With industrial demand outperforming, it seems safe to assert that the property sector has undergone a paradigm shift driven by ecommerce. The establishment of an equilibrium between brick-and-mortar and ecommerce sales remains well off into the future as ecommerce continues to grow at double-digit rates.

This secular shift in retail spending will necessitate the continued expansion and substantial retooling of supply chains. The aforementioned investments made by UPS, FedEx, USPS and Amazon include new distribution locations across a broad spectrum of geographies and market types to expedite customer deliveries. Retailers are following suit as accelerated delivery times have become a differentiator.

Given these trends we have been examining demand growth in different tiers of markets based on inventory size in order to see if historical demand shares are holding up. The graph below shows cumulative demand growth since 2007 for all 130 markets covered by CBRE-EA, broken out by market size.

The largest five market areas (LA/Riverside, Chicago, New York/NNJ, Dallas-Fort Worth, and Atlanta) have 28% of all occupied industrial stock within this market set. The next three tranches represent 30%, 29% and 13% of industrial demand, respectively.

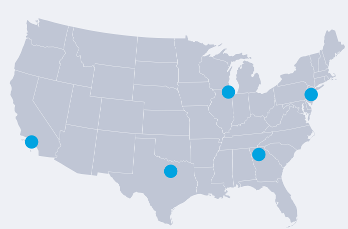
Cumulative net absorption *(SF, Billions)*



**LA, NY, CHI, DAL, ATL; Source: CBRE Econometric Advisors*

28% **of all occupied industrial stock located in...**

LA/Riverside, Chicago, New York/NNJ, Dallas-Fort Worth, and Atlanta

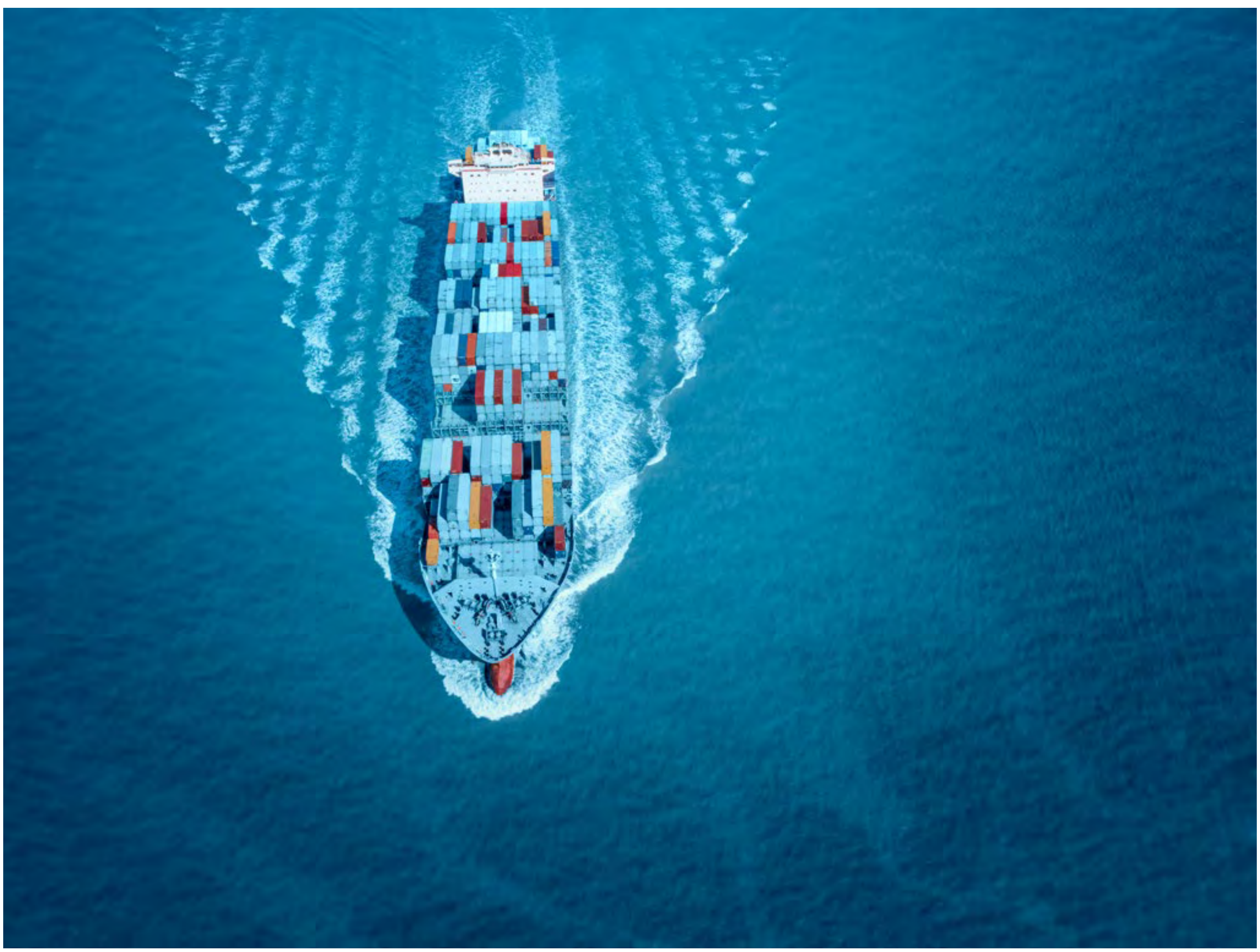


According to CBRE-EA, the geographic distribution of demand has not shifted substantially over the past 10 years. The national markets did gain a slightly larger share during the period (2007-2018), but not dramatically so. The smallest markets also gained slightly more market share during the period, but again, the change was minor.

All markets seem to be getting a lift from the need for new distribution infrastructure to support the shift to ecommerce. But on the margin, the large population centers of the national markets and the relatively limited existing distribution infrastructure of the smaller markets have resulted in slightly better demand growth.

Even while demand share has shifted incrementally, the magnitude of demand growth across markets and sizes is extraordinary. Based on the absolute growth (2.2 billion sf in total) it seems clear that the rising tide has created geographically diverse opportunities for investors. Because smaller markets tend to get substantially less attention from developers, they may see persistent rising space demand coupled with a dearth of modern industrial space. This imbalance may create opportunities in nontraditional industrial markets.

But undoubtedly there are risks as well, since small markets can be easily oversupplied if they do catch attention from developers. Higher yields in these locations are, at least in part, a testament to a shallower pool of tenants and investors — opportunities must be carefully scrutinized. Larger markets continue to offer appeal due to both depth of demand and relatively higher liquidity for investors.



Special topic: trade

The trade war with China continues to dominate headlines. China is the United States' largest individual trading partner, but North American trading partners Canada and Mexico represent the U.S.'s second-and third-largest individual partners, while trade with the EU as a whole eclipses the volume of trade with China. Trade relations with each of these areas are in flux. The Trump administration's tariffs on steel (25%) and aluminum (10%) remain in place and will be negotiated separately.

Mexico & Canada

- The provisions of the United States-Mexico-Canada Agreement (USMCA) are reminiscent of the North American Free Trade Agreement (NAFTA), but there are several key differences.
- This agreement removes some tariffs Canada and Mexico have placed on U.S. agricultural goods.
- It also puts in place protections that will support U.S. auto workers and U.S. intellectual property on media and pharmaceuticals.
- The USMCA was signed by the leaders of its member nations but still needs formal ratification.

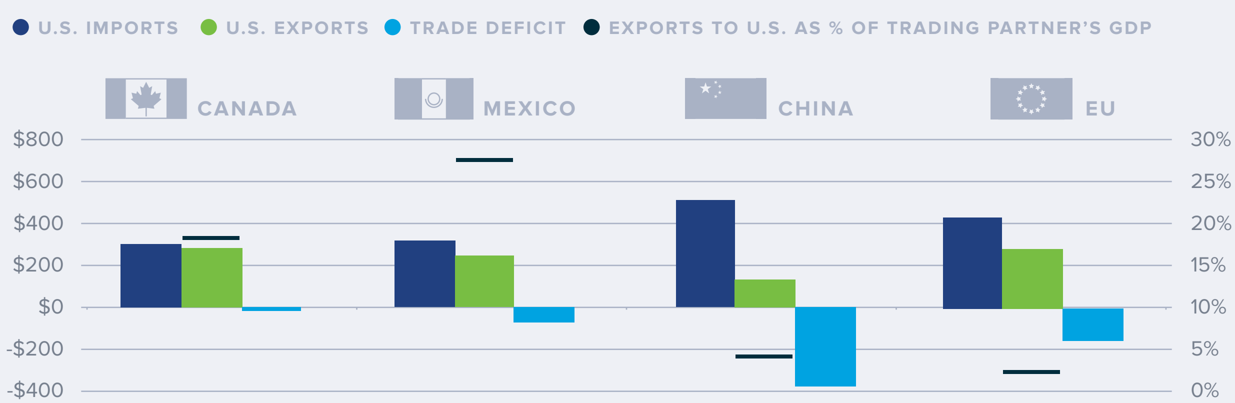
China

- The Trump administration began by placing a 10% tariff on $50 billion in Chinese goods in addition to blanket tariffs on steel and aluminum, both of which are a material component of U.S. imports from China.
- That total increased to $250 billion in September, 2018. In response, China has placed tariffs on $110 billion in U.S. goods.
- Tariffs were scheduled to increase to 25% in January, 2019 and an escalation to cover additional items was threatened, but a December 1st agreement placed a 90-day freeze on new tariffs as negotiations take place.

European Union

- The EU/U.S. Transatlantic Trade and Investment Partnership (TTIP) is being renegotiated as well.
- The U.S. may place tariffs on auto imports and the EU has prepared a list of retaliatory tariffs should the Trump administration decide to impose them.
- Autos and auto parts represent a major component of EU exports to the U.S. and tariffs on these would be particularly punitive for the EU.

U.S. running deficits with major trading partners
Trade Volume ($, Billions)



Sources: Office of the U.S. Trade Representative, World Bank

Strong trade relationships are important to the growth trajectory of the U.S. economy and the economies of its major trading partners. These negotiations are complex, and the frequent and varying statements from all sides make the final outcomes uncertain. Trade discussions have figured prominently in recent disruptions to U.S. financial markets and as real estate investors we remain vigilant as to both the results and interim impacts of trade talks.

475 Sansome Street, San Francisco, California

About the Bentall Kennedy Group

Bentall Kennedy, a Sun Life Investment Management company, is a leading global real estate investment advisor and one of North America's foremost providers of real estate services. Bentall Kennedy serves the interests of more than 545 institutional clients with expertise in office, retail, industrial and multi-residential assets throughout Canada and the U.S. Bentall Kennedy's Investment Management group has approximately $36 billion (USD) /$48 billion (CAD) of assets under management (as of September 30, 2018). Bentall Kennedy is one of the largest real estate services providers in Canada, managing more than 60 million square feet on behalf of third-party and investment management clients (as of September 30, 2018). Bentall Kennedy is a member of UN PRI and a recognized Responsible Property Investing leader ranked among the top firms around the globe in the Global Real Estate Sustainability Benchmark (GRESB) for the eighth consecutive year since GRESB was launched.

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Bentall Kennedy Research Team

Paul Briggs
Senior Vice President
Head of U.S. Research
(617) 790-0853
pbriggs@bentallkennedy.com

Frank Ramsden
Assistant Vice President
Research & Analytics
(617) 790-6333
framsden@bentallkennedy.com

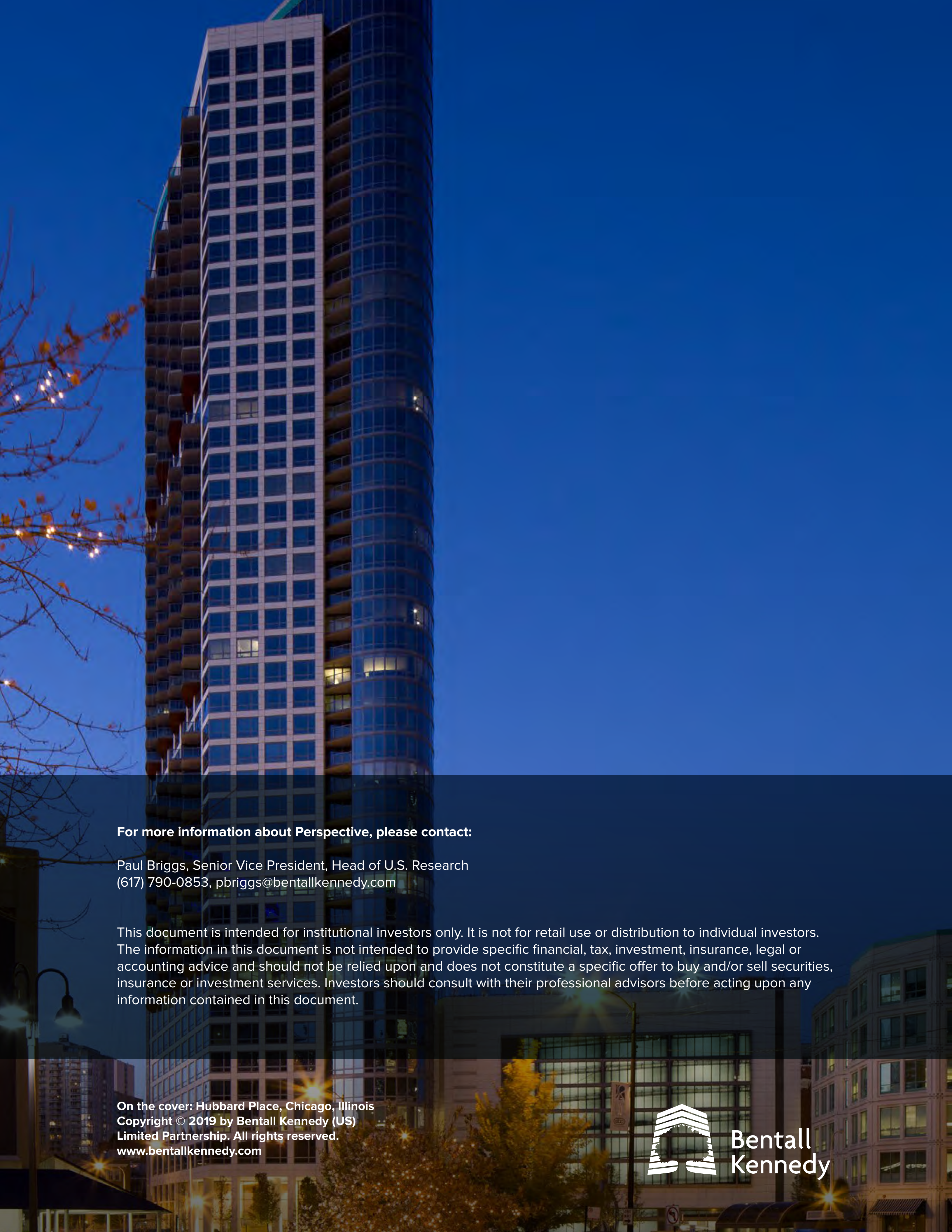
Carlos Ortea
Assistant Vice President
Research & Analytics
(617) 357-6402
cortea@bentallkennedy.com

Doug Poutasse
Executive Vice President
Head of Strategy & Research
(617) 790-0851
dpoutasse@bentallkennedy.com

Phil Stone
Vice President
Head of Canadian Research
(416) 681-7955
pfstone@bentallkennedy.com

Tom Vo
Manager
Research & Analytics
(416) 681-2728
tvo@bentallkennedy.com

David Levy
Senior Vice President
Head of Valuation
(781) 819-7022
david_levy@newtowertrust.com



For more information about Perspective, please contact:

Paul Briggs, Senior Vice President, Head of U.S. Research
(617) 790-0853, pbriggs@bentallkennedy.com

On the cover: Hubbard Place, Chicago, Illinois

www.bentallkennedy.com

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