



CORNERSTONE

**Outlook for Real Estate
Investing in an Evolving Market
Environment**

Presented to:

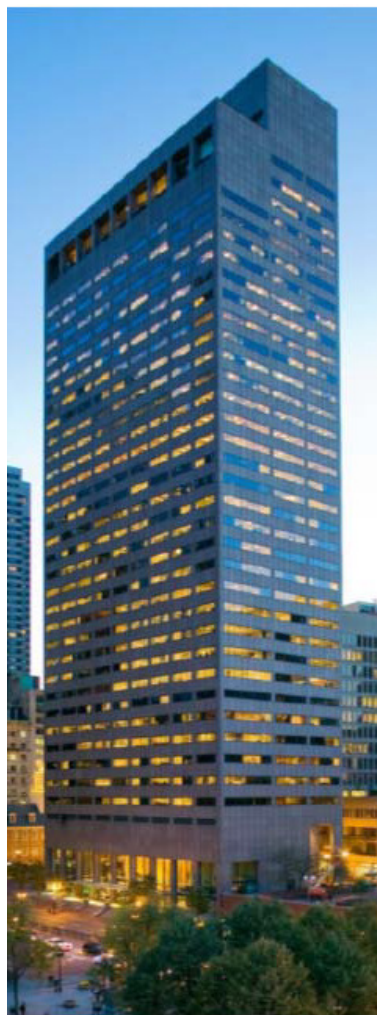
**5th Annual Pacific Region
Investment Conference**

December 3, 2015

Michael Gately, Head of Research



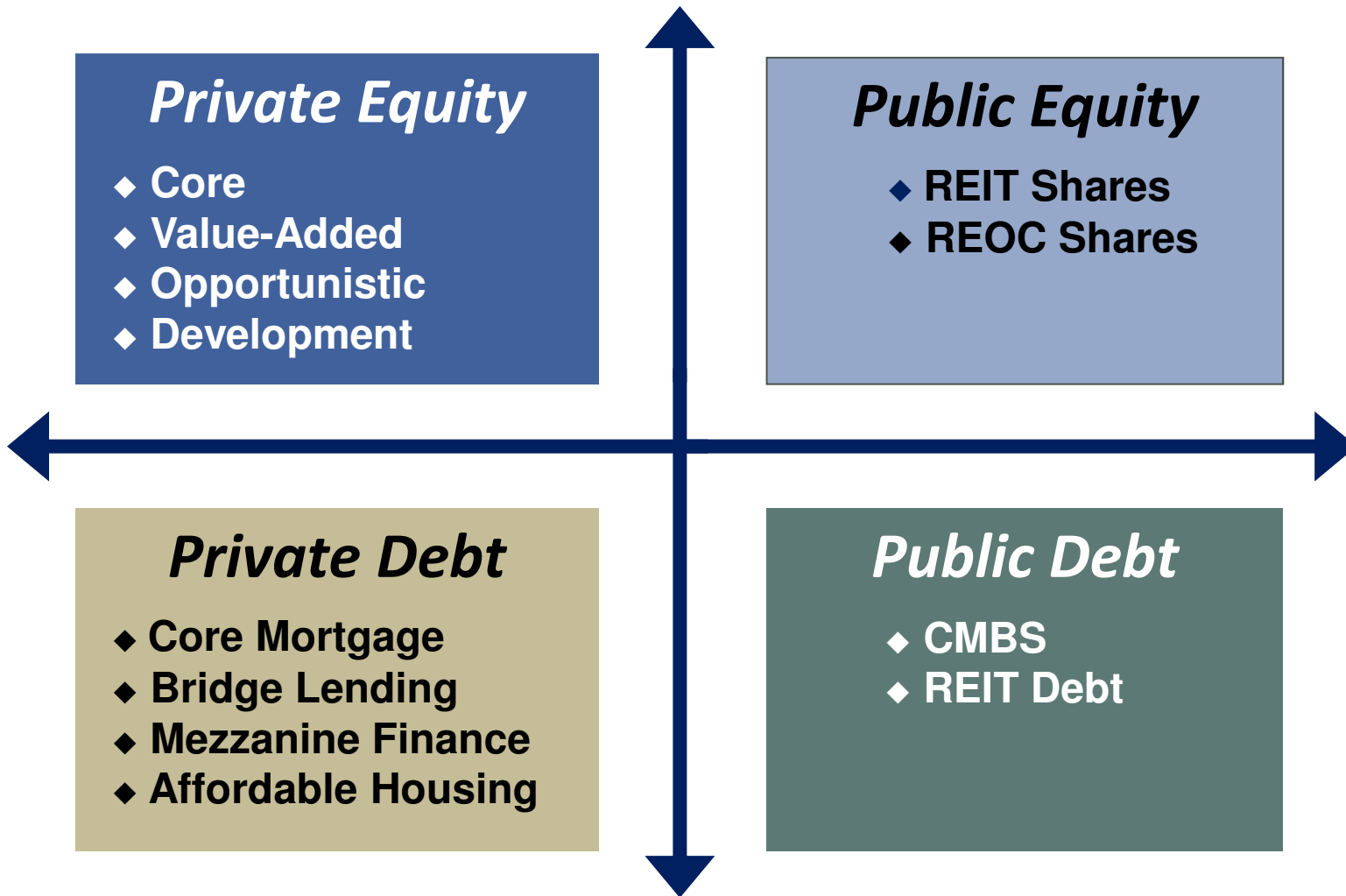
What is Institutional Real Estate?



+ emerging, “niche” sectors = *self-storage, medical office, student housing, parking ...*

What is Real Estate Investment?

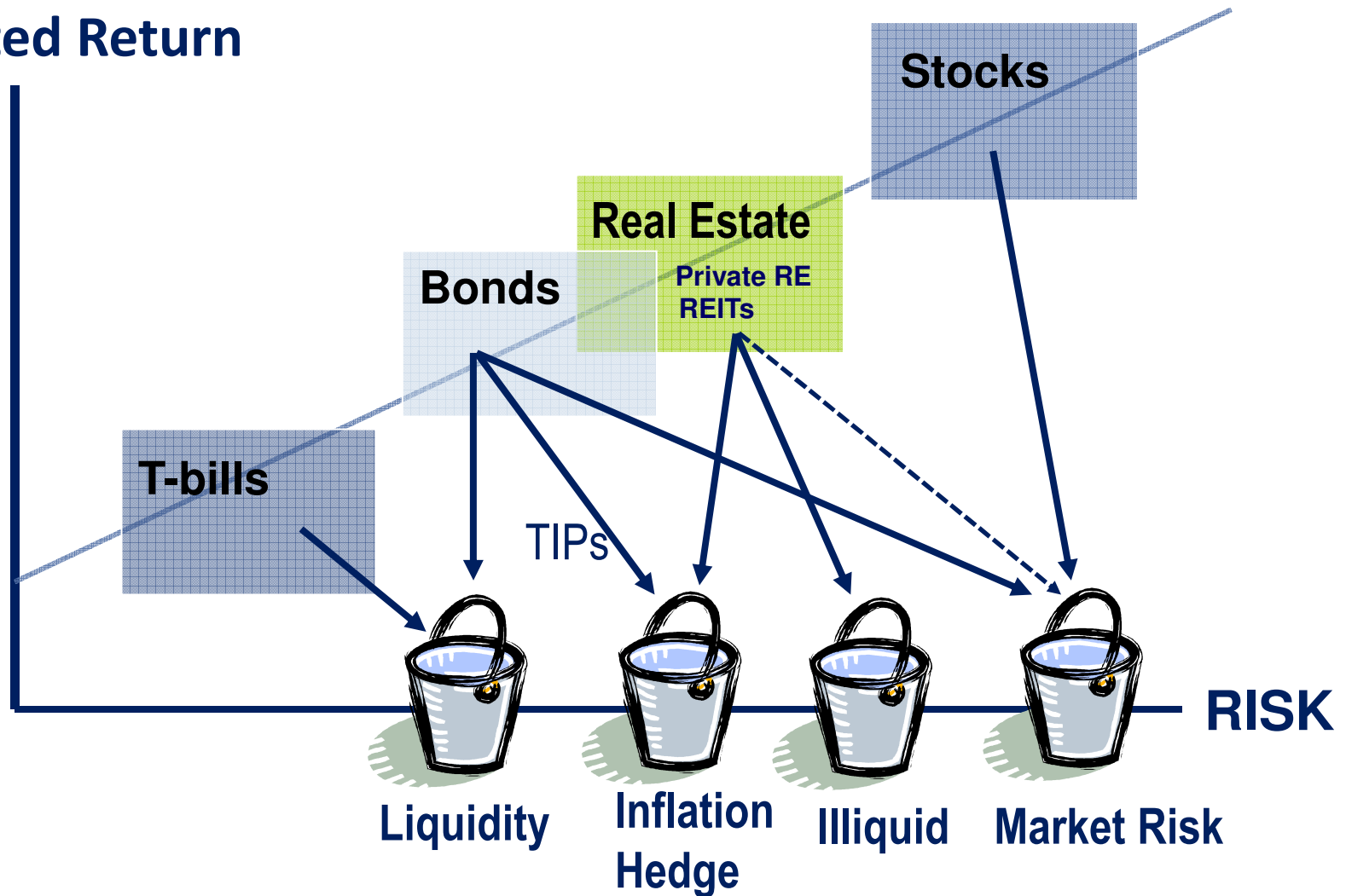
4 Quadrants of RE Investment



Real Estate in a Mixed Asset Portfolio

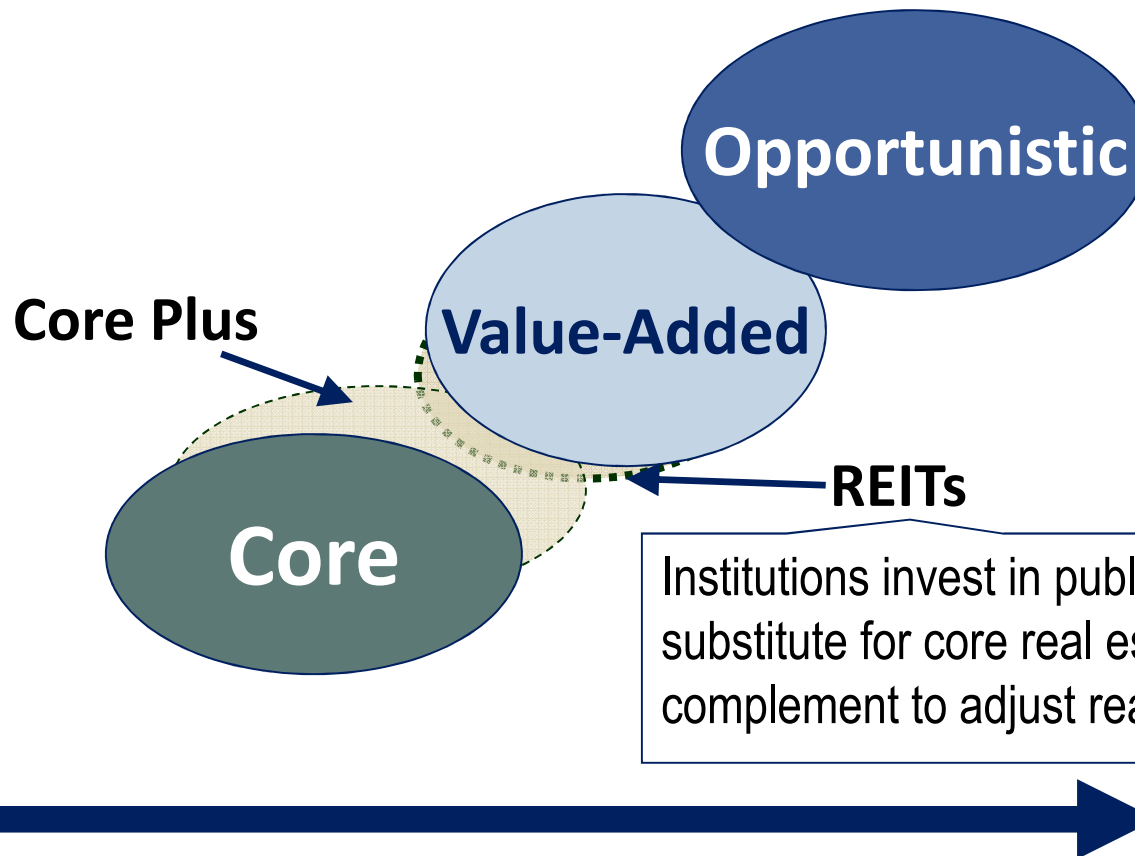
Asset Class and “Risk Buckets”

Expected Return



Real Estate Investment “Styles”

Expected Return



Core Plus

Value-Added

Opportunistic

Core

REITs

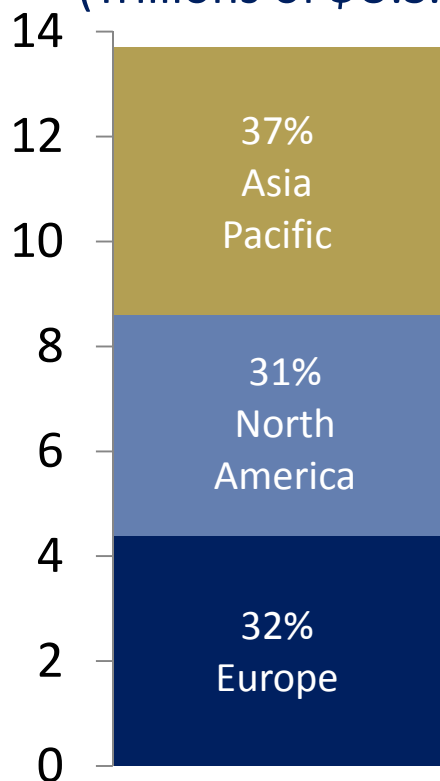
Institutions invest in public REITs as both a substitute for core real estate and a liquid complement to adjust real estate holdings.

RISK

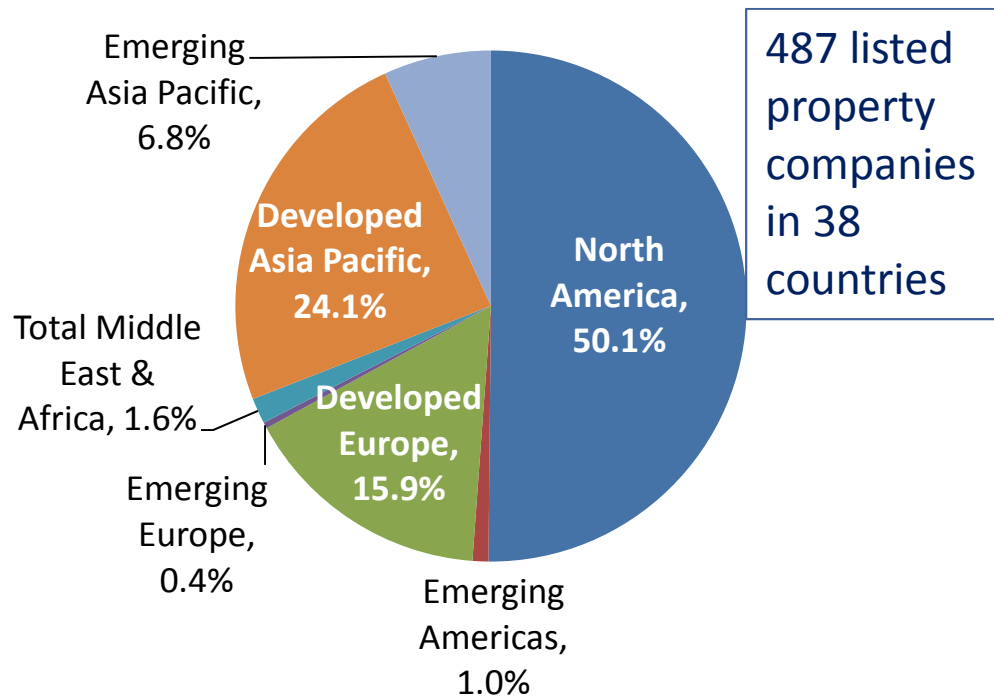


Global Real Estate Markets

Estimated Global Real Estate Invested Stock* (Trillions of \$U.S.)



FTSE EPRA/NAREIT Global Real Estate Securities Index Regional Breakdown of \$1.38 Trillion Market Cap (\$U.S.)

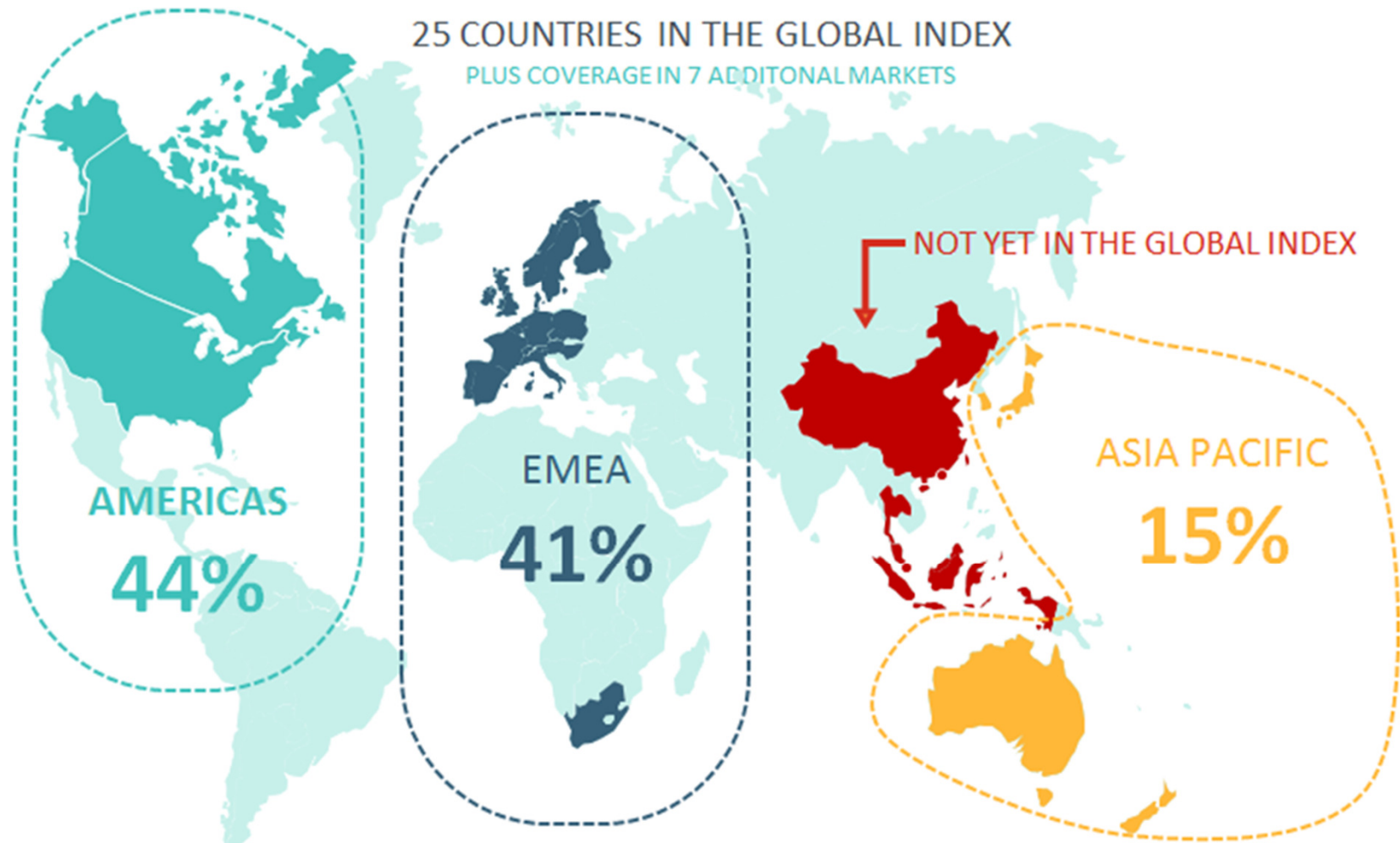


* Estimated value of investment grade property (June 2015)
Source: DTZ, *Money into Property 2015*.

Source: Cornerstone based on data from the European Public Real Estate Association, September 2015.

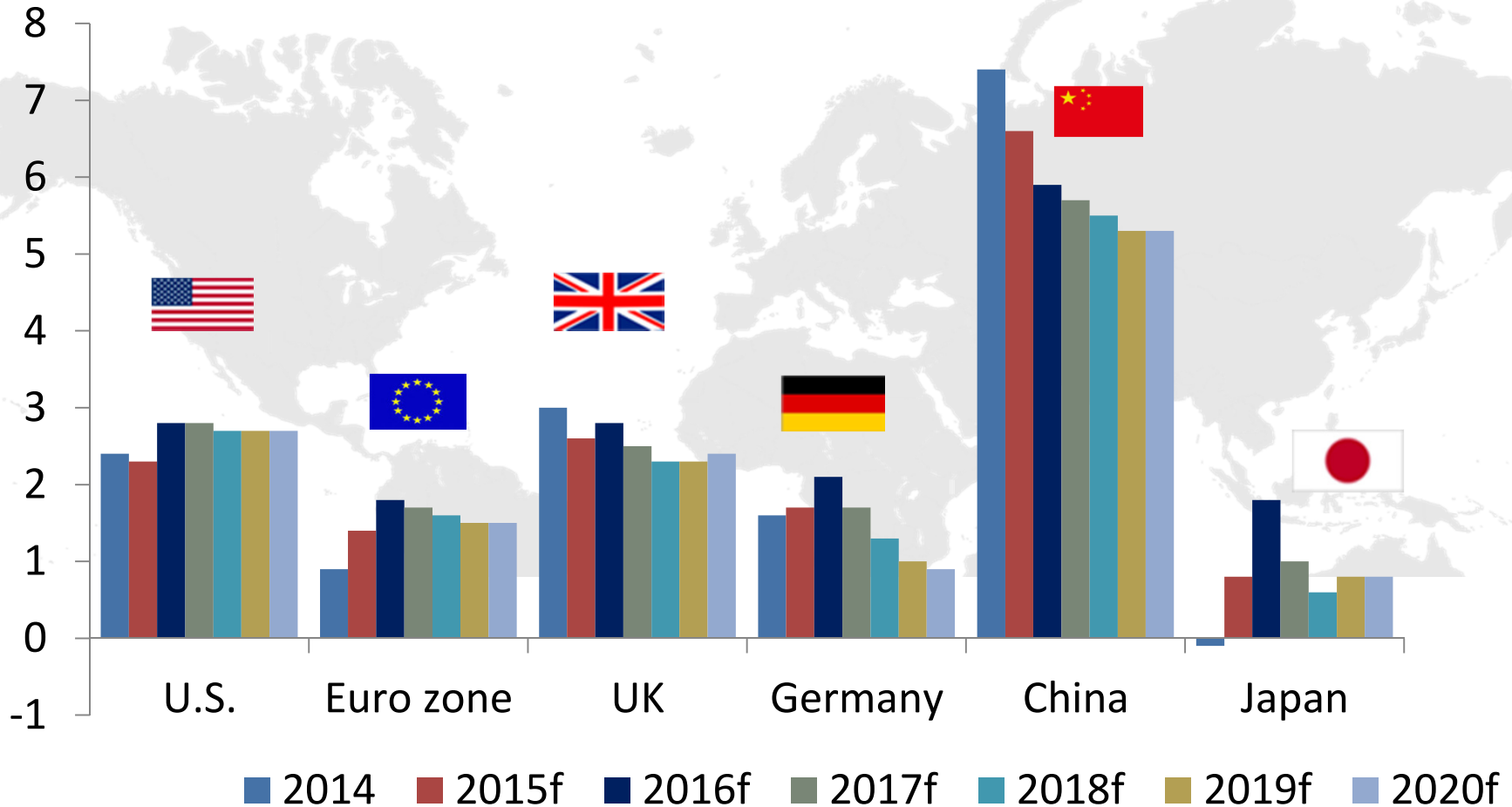
Direct (Equity) Investment – Global Markets

MSCI/IPD Coverage of “Private/Unlisted” Real Estate



The Global Economy – What Lies Ahead?

Real GDP Growth and Projections (%)



The Inevitable (?) Rise in Rates

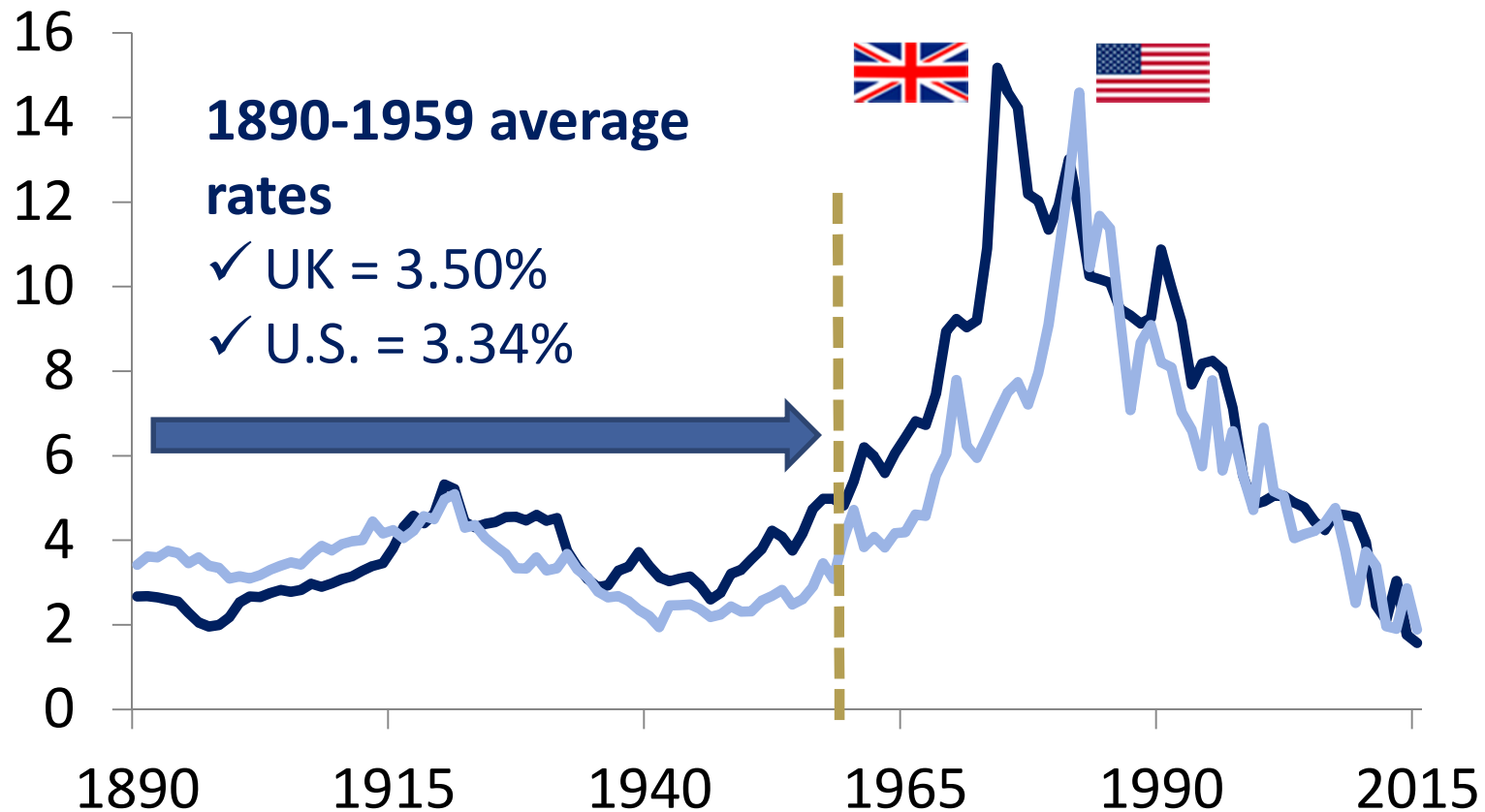
Headwinds for property prices? ... REITs?



- ✓ When?
- ✓ How fast?
- ✓ How high?
- ✓ Impact?

Interest Rates in a Historical Context

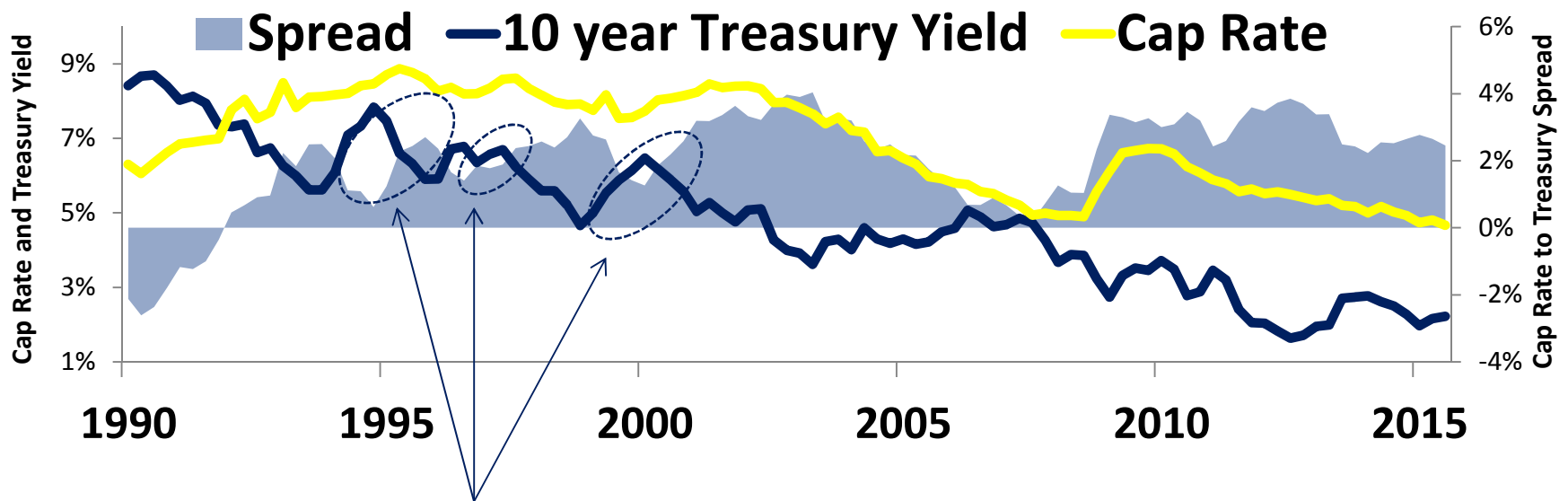
The long cycle in long-term government bond yields %



Source: Bank of England, Robert Shiller, Federal Reserve Board. (November 2015)

Core Property Cap Rates vs. Interest Rates

Not a 1/1 Relationship



✓ Historically, rising 10 year Treasury Yield should not caused similar magnitude changes in NCREIF Cap Rates.

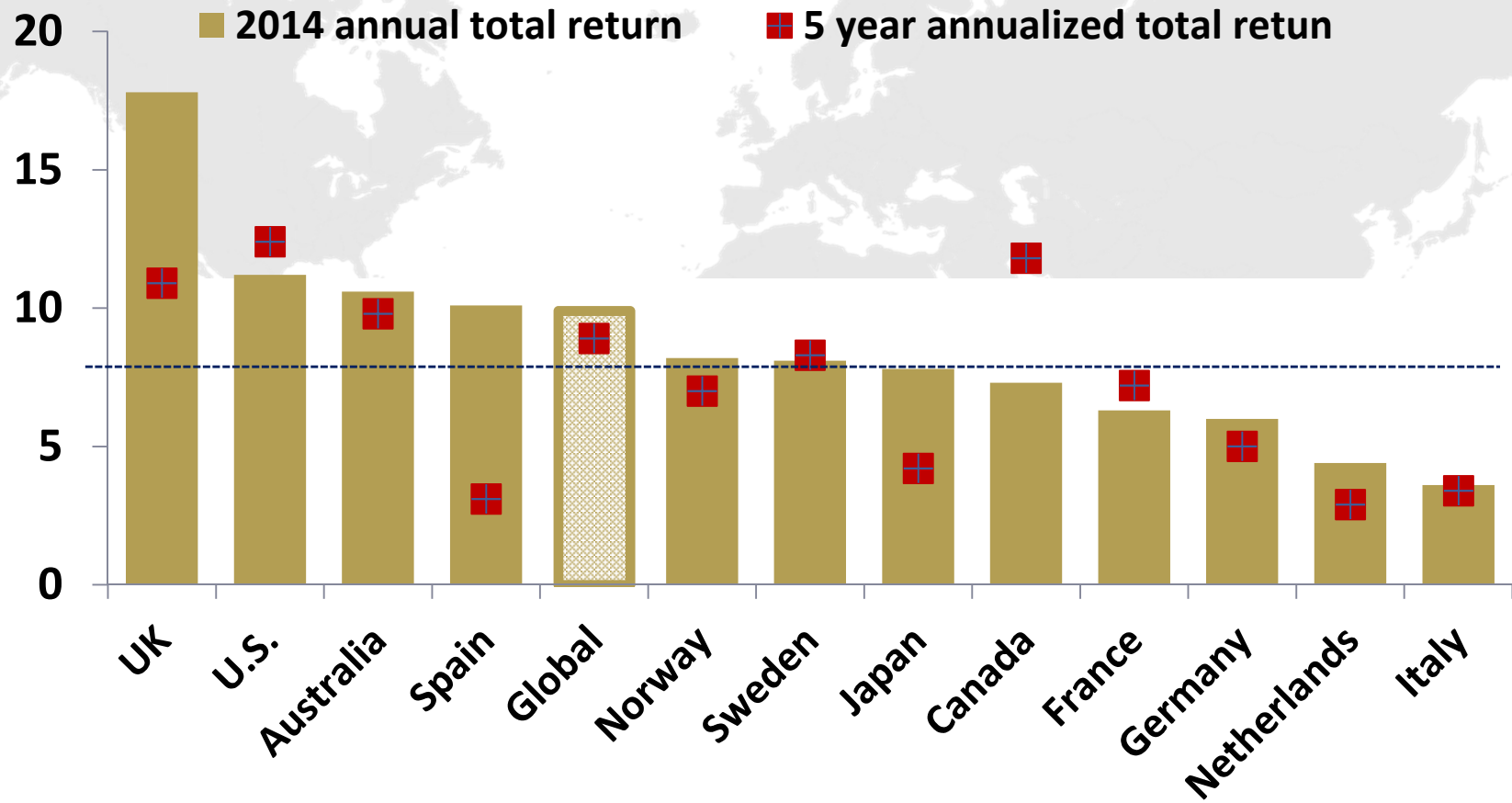
The relatively large cap rate to Treasury spread today provides measure of cushion

Cap rate is value weighted average of cap rates inferred from appraisals of properties held in the NPI. Treasury Yield is average of end of week values during each quarter. Treasury and cap rate data is through 3Q 2015.

Sources: Cornerstone Research, NCREIF, Federal Reserve.

Real Estate Performance Around the World

1 Year and 5 Year Annualized Country-Specific Real Estate Index Returns (%)

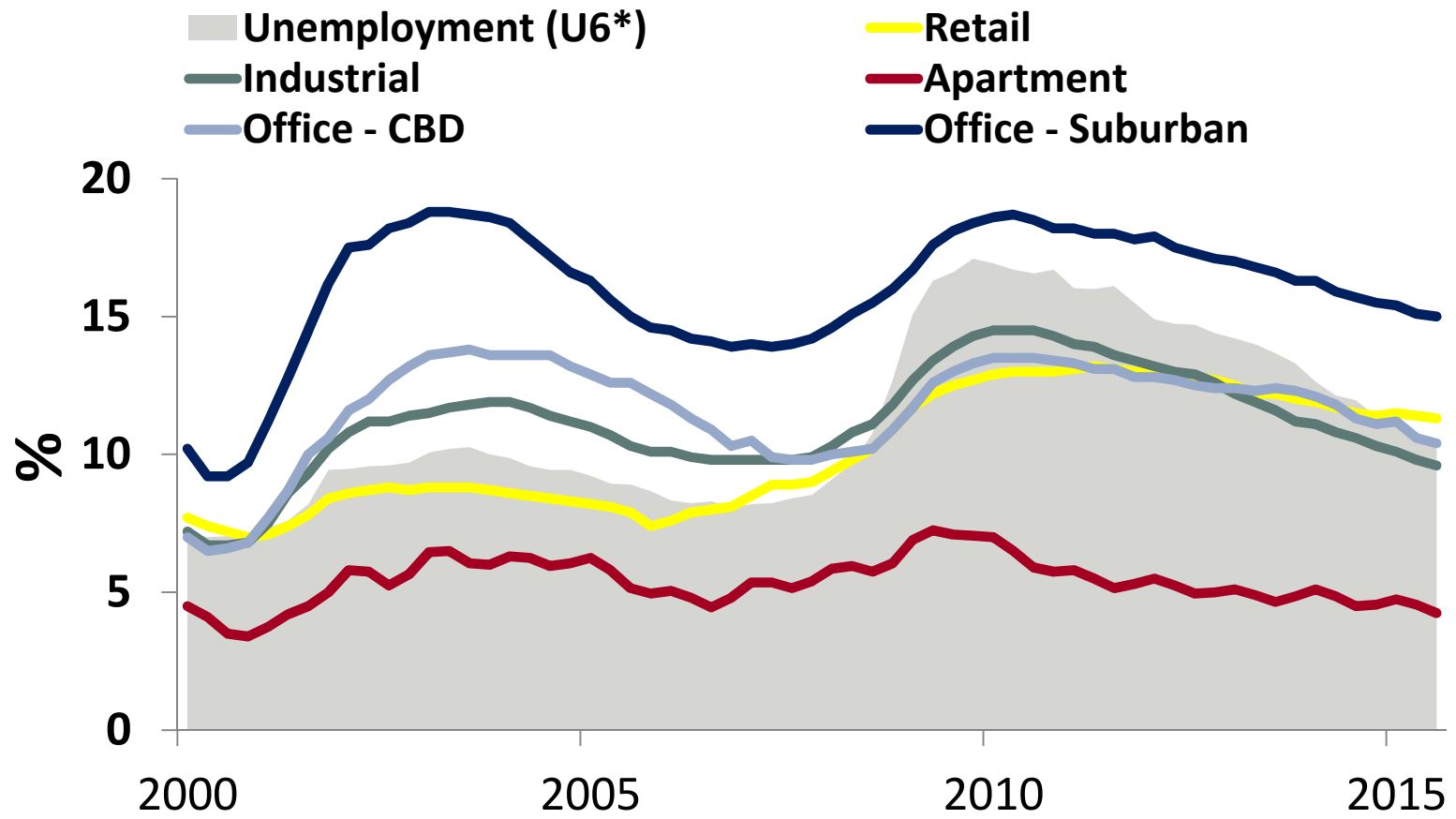


Source: Cornerstone, MSCI/IPD (April 2015).



U.S. Fundamentals Still Improving

Job growth improves vacancy rates across sectors and markets



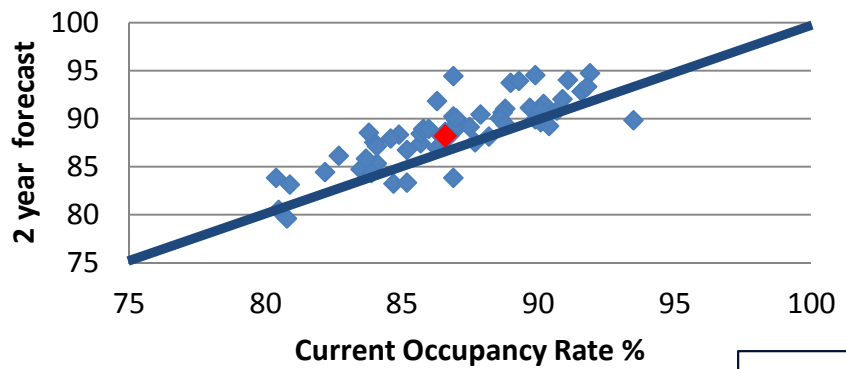
*U6 unemployment rate contains discouraged workers and those working part-time for economic reasons.



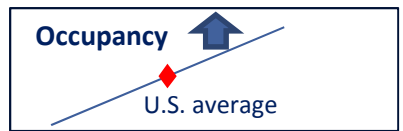
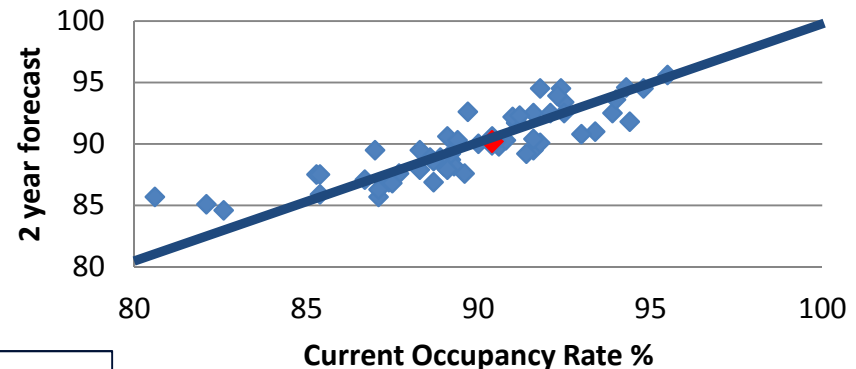
U.S. Metro Forecast: Rising Occupancies

Broadening recovery; watch apartments

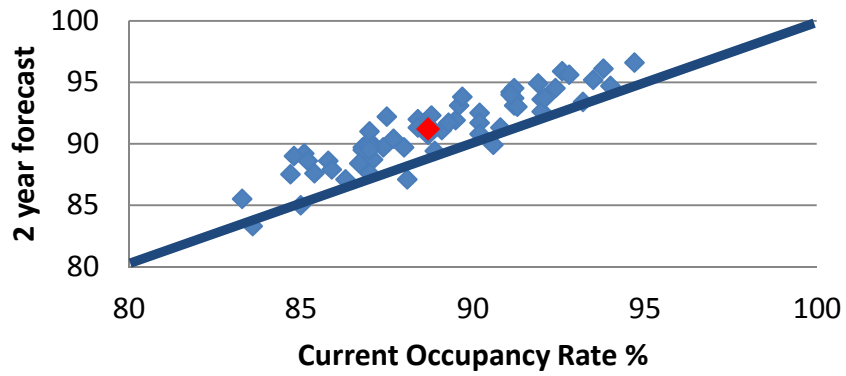
Office



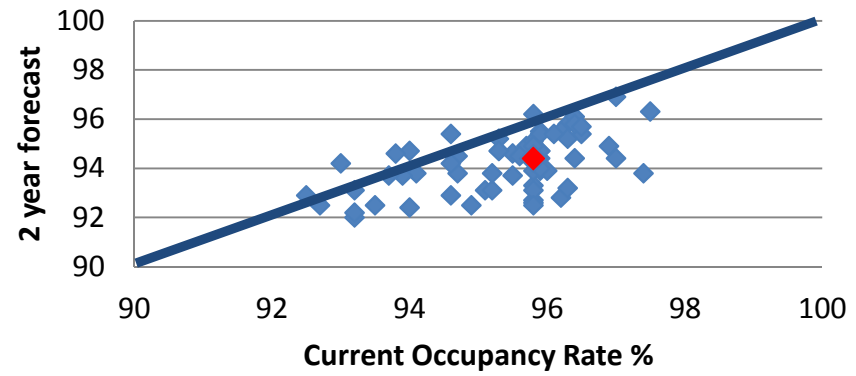
Industrial



Retail



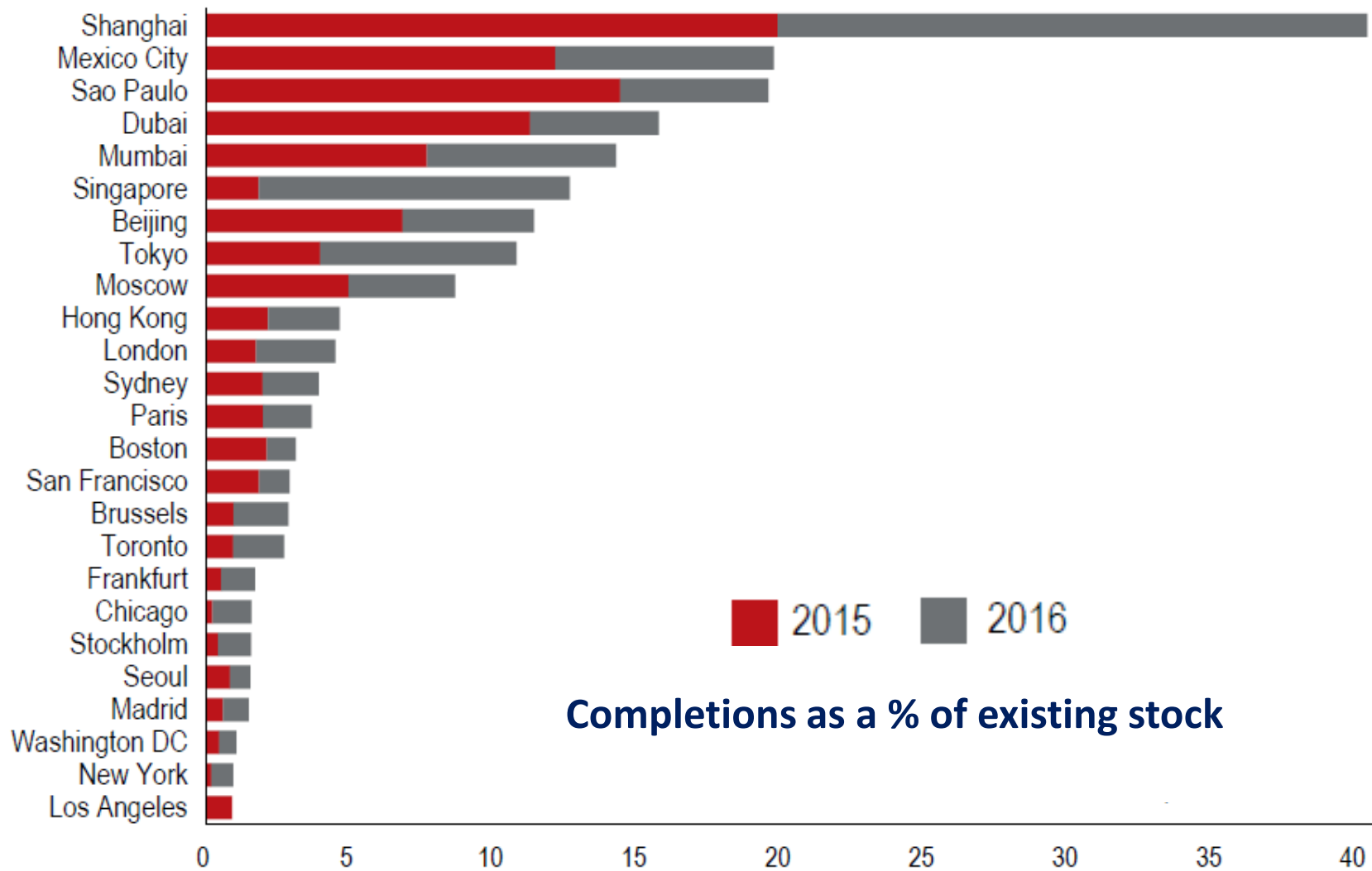
Apartments



Source: Cornerstone, CBRE-EA (3Q 2015)



Office Supply Pipeline –Global Markets

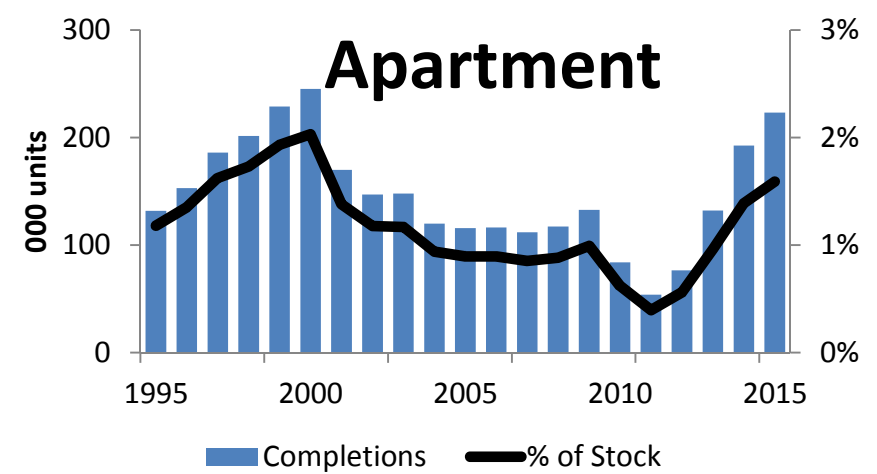
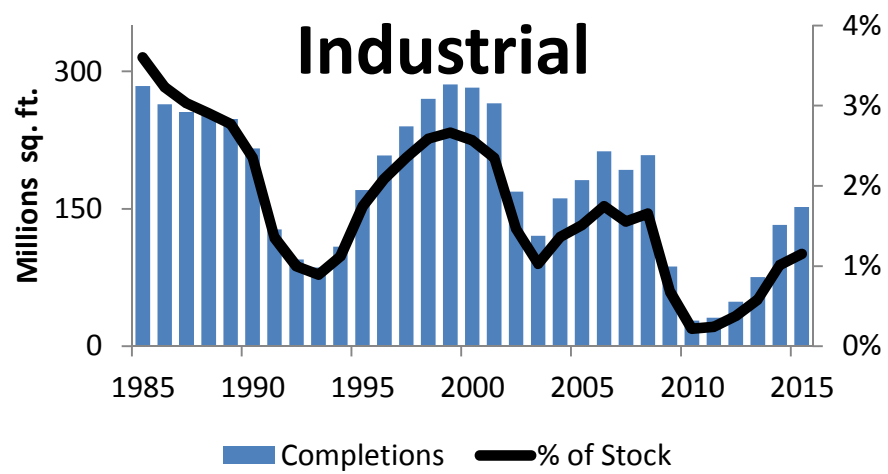
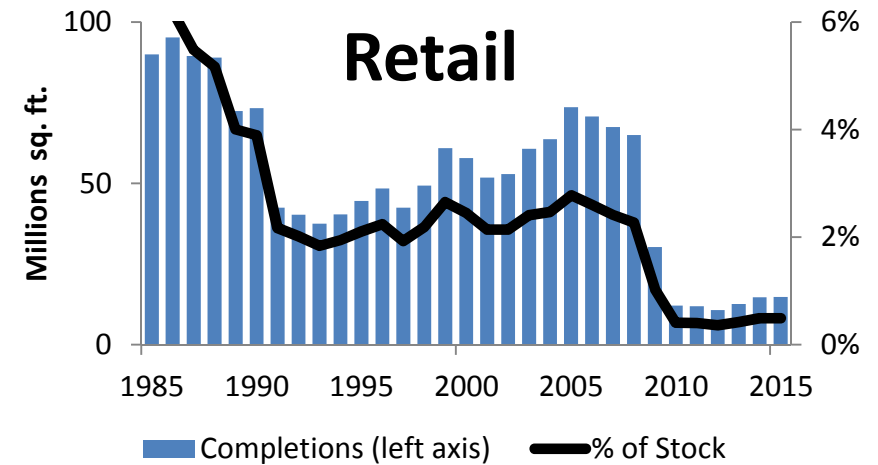
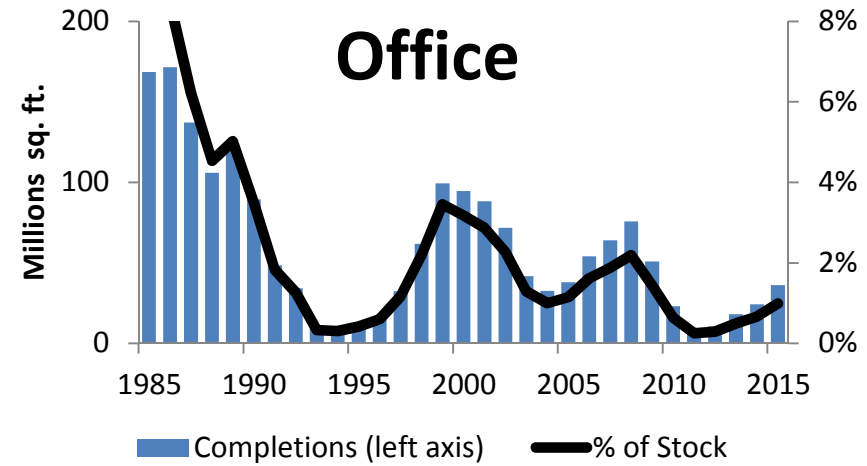


Covers all office sub-markets in each city. Tokyo – CBD - 5 kus
Source: JLL, April 2015.



U.S. Supply Growth Near Historic Lows

Completions as a % of stock (a.k.a. supply growth)



Source: Cornerstone, CBRE-EA (3Q 2015).



Disclosure Statement

- This information provided herein is believed to be obtained from sources deemed to be accurate, timely and reliable. However, no assurance is given in that respect. The reader should not rely on this information in making economic or other decisions.
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Thank you for your attention!

Questions?

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