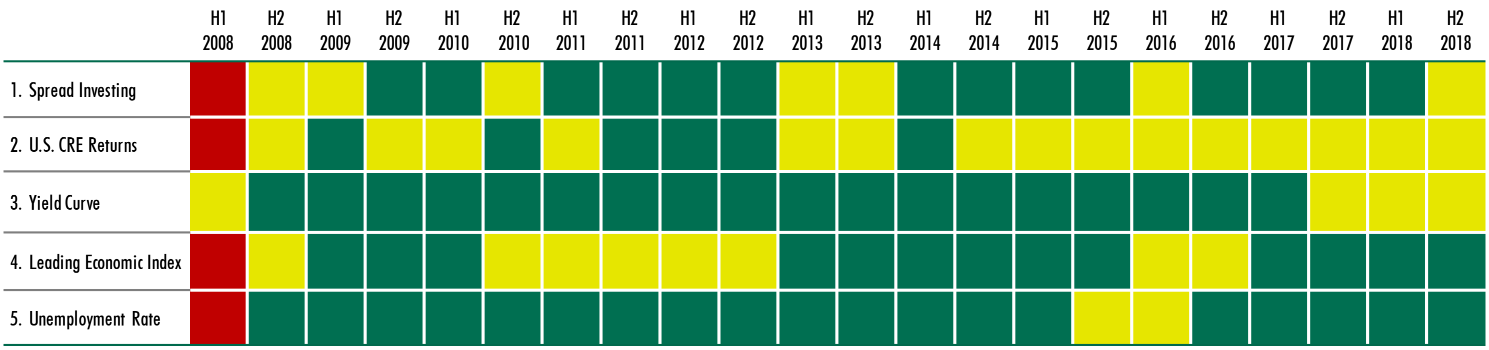
U.S. EARLY INDICATORS

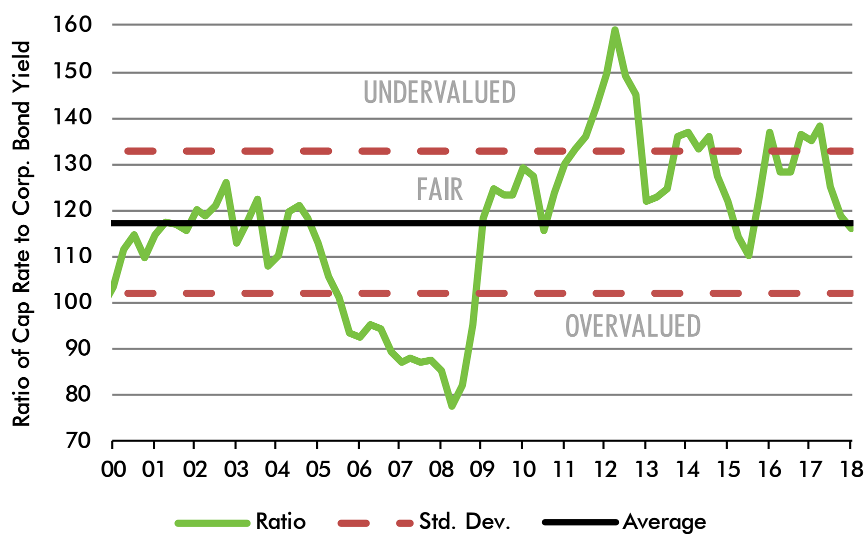
Q4 2018

RISING DOWNSIDE RISK



RELATIVE PRICING TIGHTENS

Real estate pricing remained in fair territory into the second half of 2018. However, rising corporate bond yields combined with a continued contraction in the average cap rate pushed the cap-rate-to-corporate-bond ratio to below its long-term historical average of 117.4. As of 3Q18, the cap-rate-to-corporate-bond ratio slipped to 116.0. Year-to-date, corporate bond yields rose by roughly 70 bps, while cap rates continued to contract. Despite rising interest rates, sustained investor demand, supported by strong property fundamentals, continues to place upward pressure on pricing.

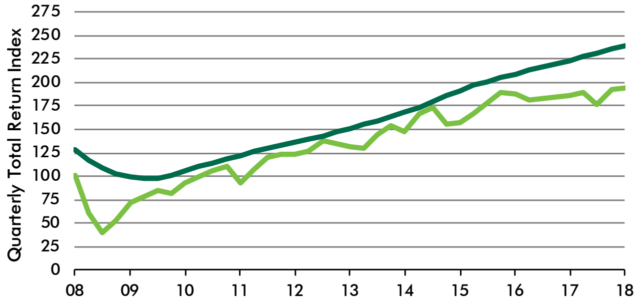


Sources: Oxford Economics, NCREIF, Green Street, Real Capital Analytics

CBRE GLOBAL INVESTORS

REIT PRICING SOFTENS

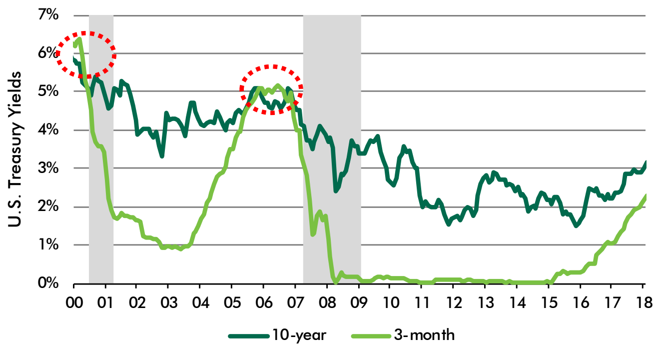
Driven by steady income returns and positive, though moderating, capital growth, the total return for private real estate was 1.7% during the third quarter. The solid return was led by the continued outperformance of the industrial sector. Although down sharply from the 9.0% return in 2Q18, REIT returns remained positive, achieving a 0.7% total return in the third quarter. Reflecting the recent volatility across the broader stock market, REIT prices have softened in recent months, maintaining a discount to NAV.



Sources: NCREIF; NAREIT. Both indices rebased to 100 on June 30, 2006

TERM SPREAD CONTINUES TO NARROW

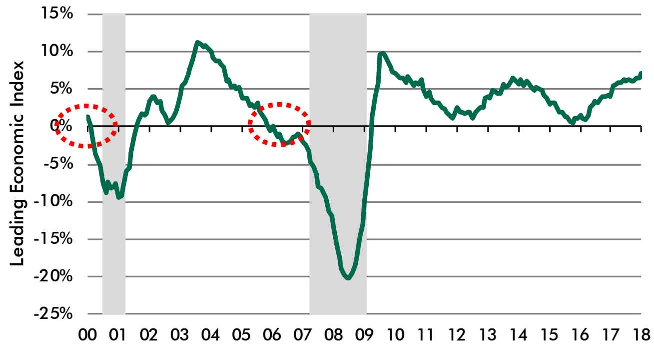
Rising short-term treasury yields led to further yield curve flattening, an indication of growing uncertainty and expectations for more modest economic growth going forward. Although the yield on the 10-year Treasury has increased by more than 70 bps year-to-date, short-term treasury yields have risen at more hurried pace – largely a result of the Fed's continued push to normalize interest rates. As of October 2018, the 3-month/10-year Treasury spread contracted to 86 bps – the narrowest spread in the past decade. Although a flatter yield curve does not signal an impending economic correction as much as an inversion would, this trend should be monitored.



Source: Federal Reserve

INDICATORS POINT TO NEAR-TERM GROWTH

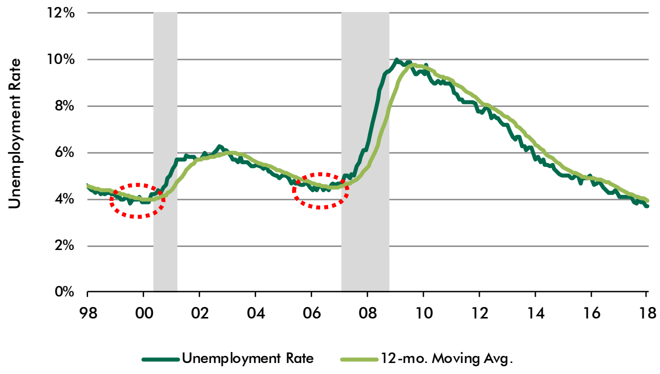
The U.S. Leading Economic Indicators Index (LEI) maintained a positive growth trajectory into the second half of 2018, rising by 7.0% year-over-year through September 2018. Positive signals across most index components, with the exception of manufacturing hours and building permits, contributed to the index's rise. The LEI's strong performance indicates continued near-term growth. However, recent stock market volatility, increasingly tight labor markets and rising interest rates indicate the pace of economic growth is more likely to ease than it is to accelerate through 2019.



Source: The Conference Board Index is comprised of ten economic indicators, including average production work week, initial unemployment claims, manufacturers new orders, vendor performance, supplier deliveries, building permits, stock prices, money supply, consumer expectations, and interest rate spreads.

UNEMPLOYMENT RATE REACHES MULTI-DECADE LOWS

The unemployment rate is often acknowledged as a lagging indicator. However, the trend, and more specifically a trough, in the unemployment rate, has shown to be a leading indicator for an economic correction. The unemployment rate continued to trend downward through the latter part of 2018, dropping to 3.7% in October 2018 and falling to its lowest level in the past 40 years.



Source: BEA

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