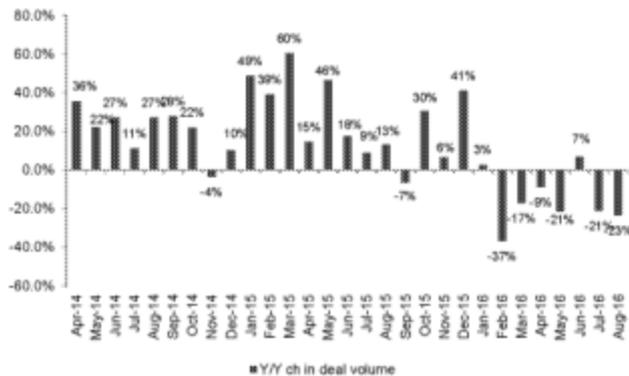




Pricing in the private markets proving resilient

Private market pricing as measured via cap rate or price indices has remained resilient, despite volatile Treasury rates, CMBS market concerns, macroeconomic uncertainty, recently moderating fundamental trends, and still weak investment volumes. The recent widening of CMBS spreads, continued declines in investment volumes, and tightening lending standards for CRE overall bear watching. Given the lagging nature of real estate and anecdotal data suggesting still wide bid/ask spreads, we don't want to be complacent about the potential for falling asset values. That said, we note the financing environment remains healthy overall, cap rate spreads to the 10-year remain wide by historical standards, and DB's house view calls for a muted economic outlook that should keep the 10-year relatively contained. We also think that global uncertainties will keep interest in U.S. CRE elevated given what we believe is a still attractive risk/reward opportunity versus global alternatives.

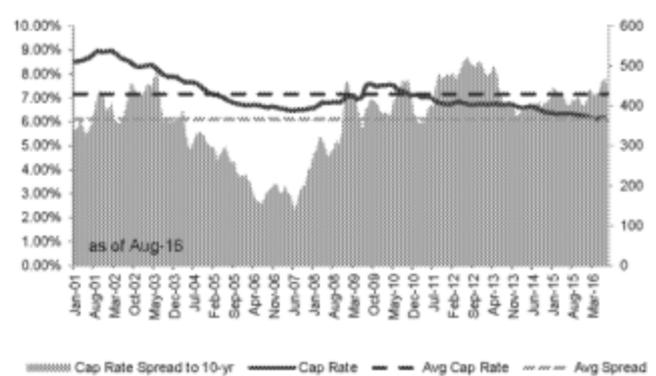
Figure 11: National investment volume growth y/y



- Investment volumes remain weak, down 23% in August and 15% YTD, though record volumes in 2015 are making comparisons difficult
- Retail (-35%), Office (-20%), and Industrial (-17%) volumes fell the most in August, Apartment volumes fell 11%
- YTD, Industrial (-28%), Retail (-17%), and Office (-12%) have experienced the biggest y/y volume declines while Apartments (+5%) delivered a y/y volume gain, mostly via Garden style deals

Source: Deutsche Bank, Real Capital Analytics www.rcanalytics.com

Figure 12: National cap rate trends



- Weak volumes have had little impact on cap rates, which were down 10bps m/m and 23bps y/y in August at 6.09%
- Cap rates fell m/m for all the major property types in August: Industrial (-2bps) experienced the smallest decline, while Office cap rates fell the most (-33bps)
- The cap rate spread to the 10-year is about 70bps wide of long run averages

Source: Deutsche Bank, Real Capital Analytics www.rcanalytics.com