



2016 Global Outlook

Tony Charles
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Executive Summary

MACRO

- Slower, below-trend global economic growth, held back by weakness in emerging markets
- Heightened market volatility may lead to tighter financial conditions
- Consumer and housing sectors to lead the next wave of global economic activity

CAPITAL MARKETS

- Real estate remains attractive long-term, relative to alternatives
- Transaction activity remains robust (\$1.3 Tn for the TTM through 1Q 2016(1))
- Cap rates likely to stabilize or marginally increase, lowering expected future returns

FUNDAMENTALS

- Limited supply in most markets and asset types
- Strong forecasted rent growth
- Consumer and housing linked sectors likely to outperform (retail, logistics and residential)

1. Real Capital Analytics, data as of Q1'2016.

2. The opinions expressed herein are those of the MSREI team as of the date of the presentation and are subject to change at any time due to changes in market or economic conditions.

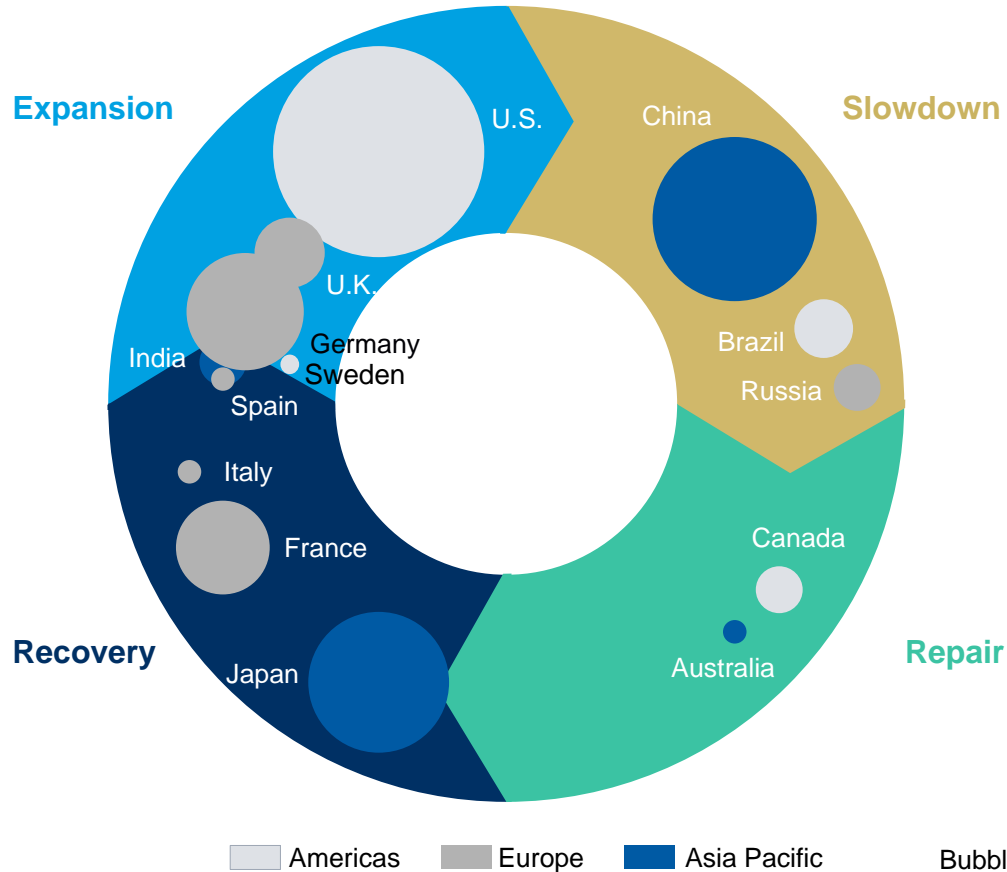
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INVESTMENT MANAGEMENT

SECTION 1

Global Macro Backdrop

Major Economies at Various Stages in the Cycle

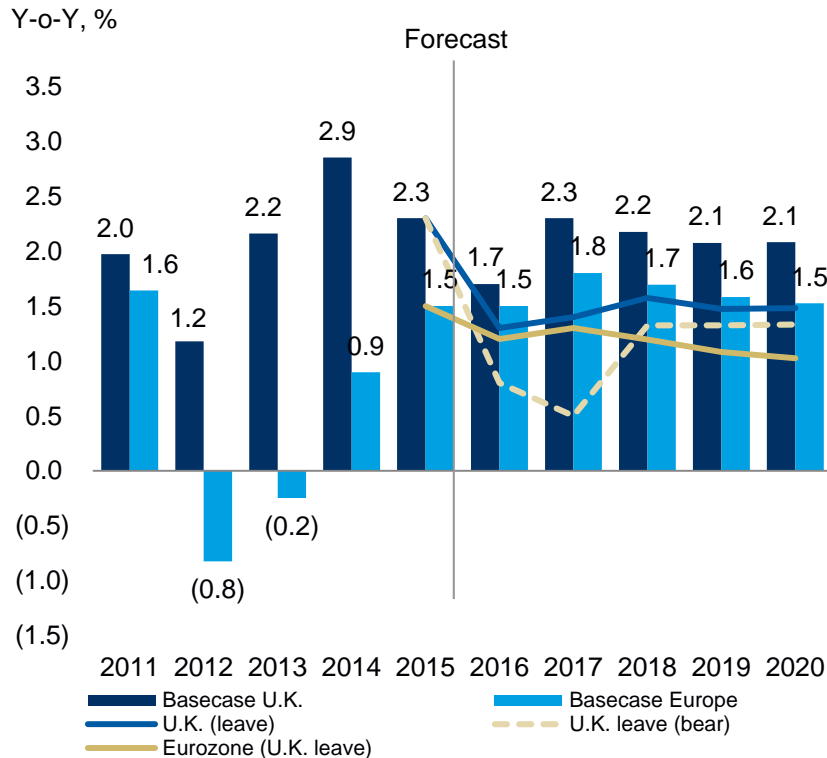


1. Morgan Stanley Research.
2. The opinions expressed herein are those of the MSREI team as of the date of the presentation and are subject to change at any time due to changes in market or economic conditions.
3. The market cycle positioning framework is the outcome of the use of an internal tool being developed by MSREI based on a consistent set of real estate metrics available on a country-by country basis. It is aimed to help identify drivers of market performance, market positioning relative to prior cyclical peaks and troughs, turning points and implications for investing strategies. It is updated on a quarterly basis in line with the release of macroeconomic and commercial real estate data. The tool uses a mix of real estate fundamentals and capital markets metrics that are generally available in applicable countries (including rent, occupancy, cap rates and spreads and liquidity and values metrics). The majority of the metrics are based on "actuals", versus relying on forecast data. Note that other outcomes could result if different inputs or assumptions are made. The market cycle positioning constitutes a "forward looking statement." Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking statement.

Implications of Brexit

GDP Forecasts – Basecase and U.K. Leave Scenarios

2011 – 2020E

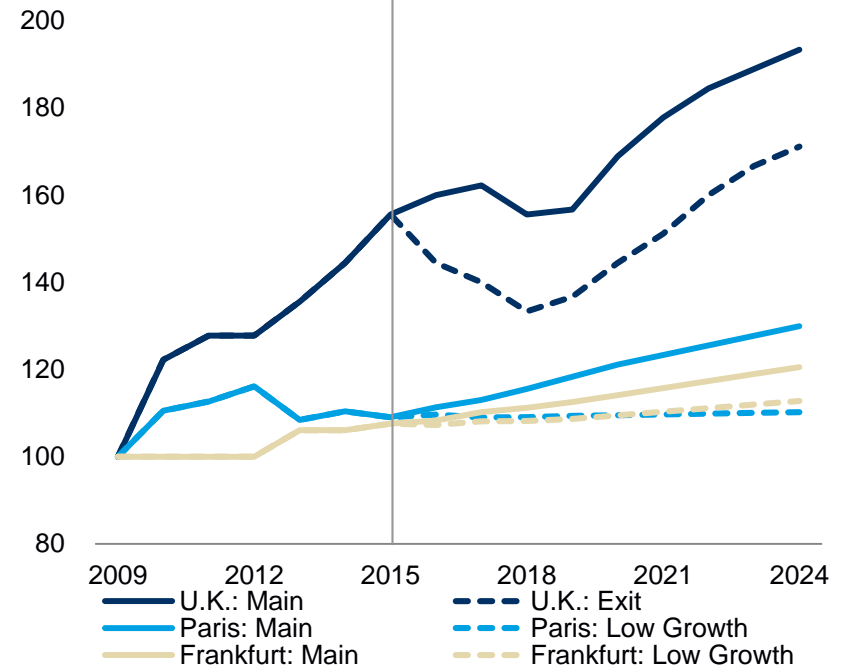


Source: U.K. ONS, Moody's Analytics, Morgan Stanley Research, forecasts as of April 27, 2016

Prime City Office Rents – Remain vs Leave / Low Growth Scenarios ⁽¹⁾

2009 – 2020E

Index, = 100 at 2009



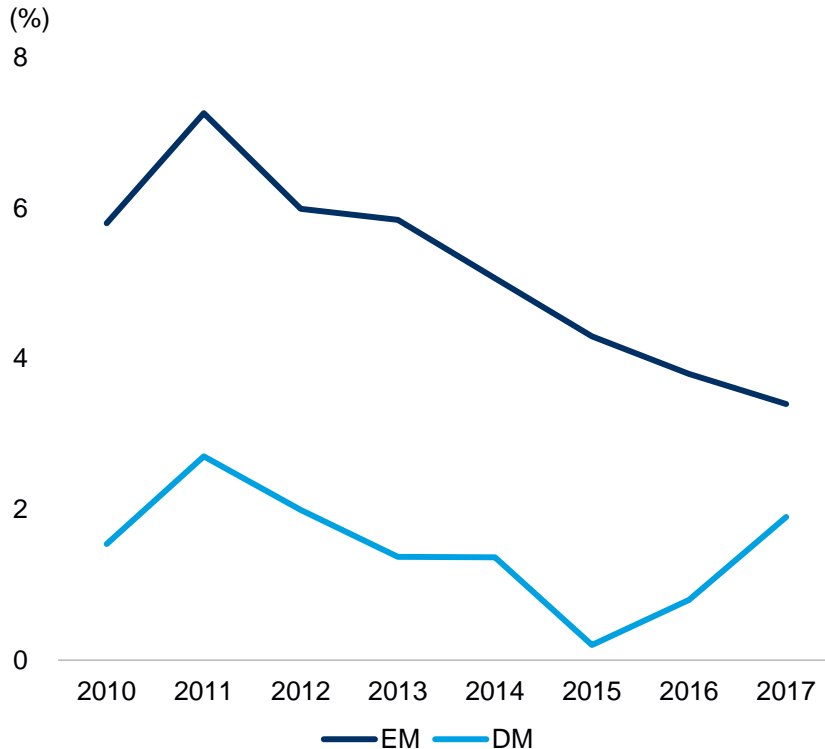
Source: PMA, as of March 2016

1. In this scenario, central bank measures struggle to achieve traction and nominal government bond yields, economic growth, and inflation remain at exceptionally low levels in a mutually reinforcing weak-growth outlook
2. All forecasts are subject to change at any time and may not come to pass due to changes in market or economic conditions

Central Banks Remain Accommodative

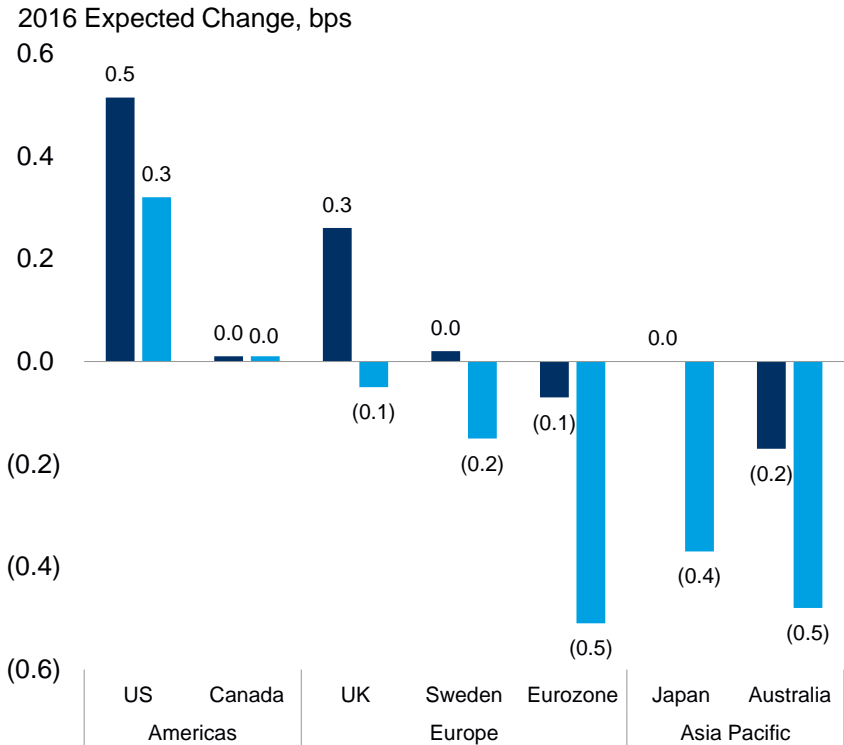
Inflation

Emerging & Developed Markets



Market-Implied Change in Policy Rate over 2016

December 2015 expectations vs May 2016



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Audience Question

WHICH OF THESE FOLLOWING OUTCOMES HAS NEGATIVE INTEREST RATES ACHIEVED IN EUROPE?

- A. Boosted inflation
- B. Encouraged bank lending to the private sector
- C. Weakened foreign inflows, depreciated the euro and stimulated exports
- D. Increased investor appetite for higher yielding investments
- E. None of the above

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INVESTMENT MANAGEMENT

SECTION 2

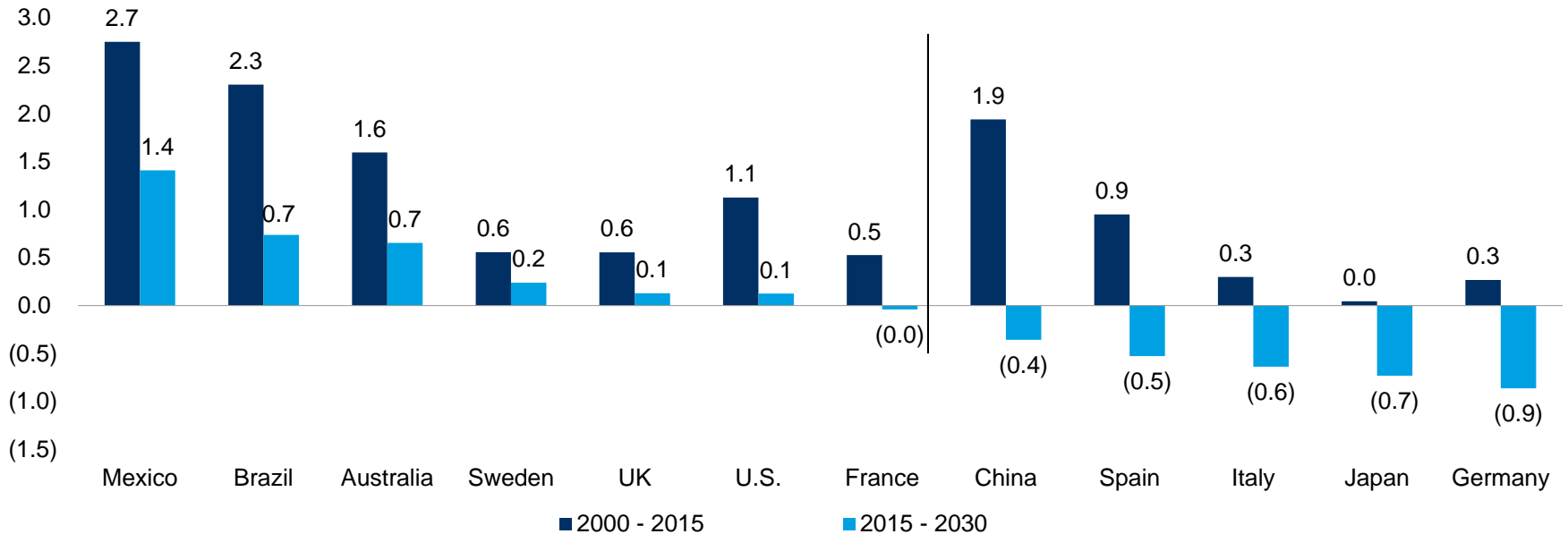
Structural Trends

Demographic Trends

Aging Population

Working Age Population Growth

Annualized working age population (20 – 64) growth
%



Source: UN Population Division, MSREI Strategy, data as of July 2015

Notes

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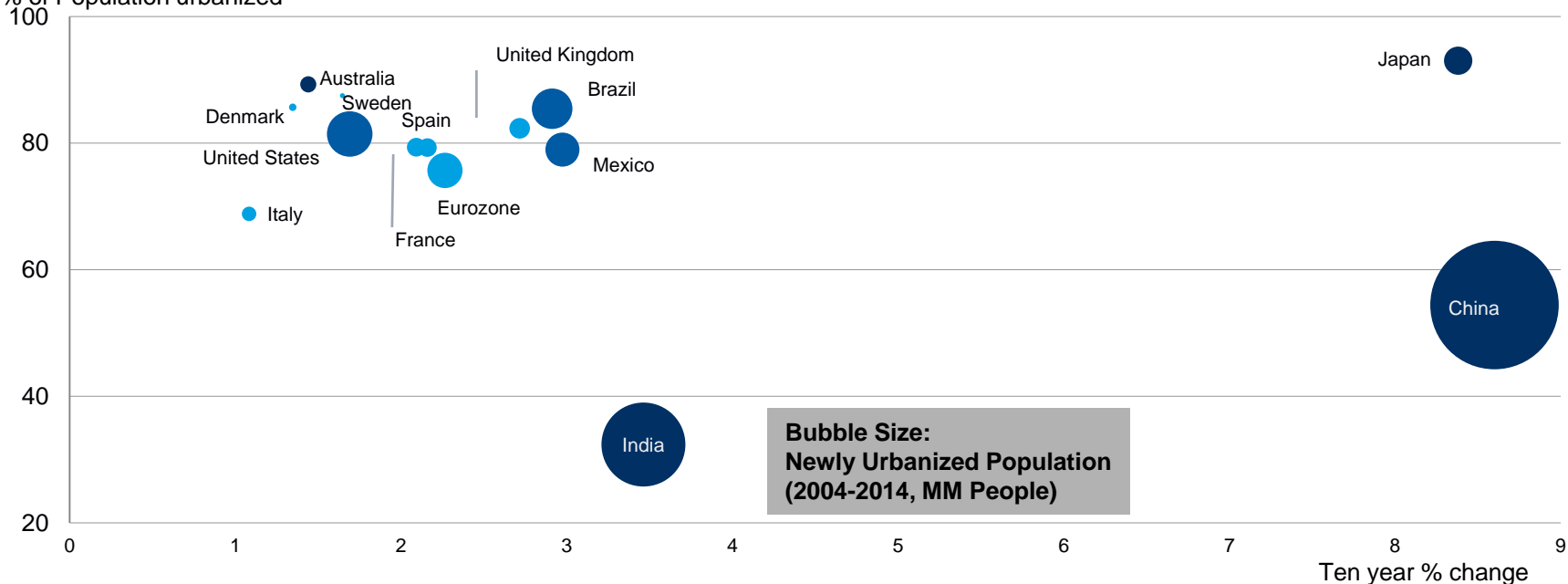
Demographic Trends

Urbanization

Increasing Urbanization Rates

2014

% of Population urbanized



Source: UN Population Division, MSREI Strategy, data as of July 2015

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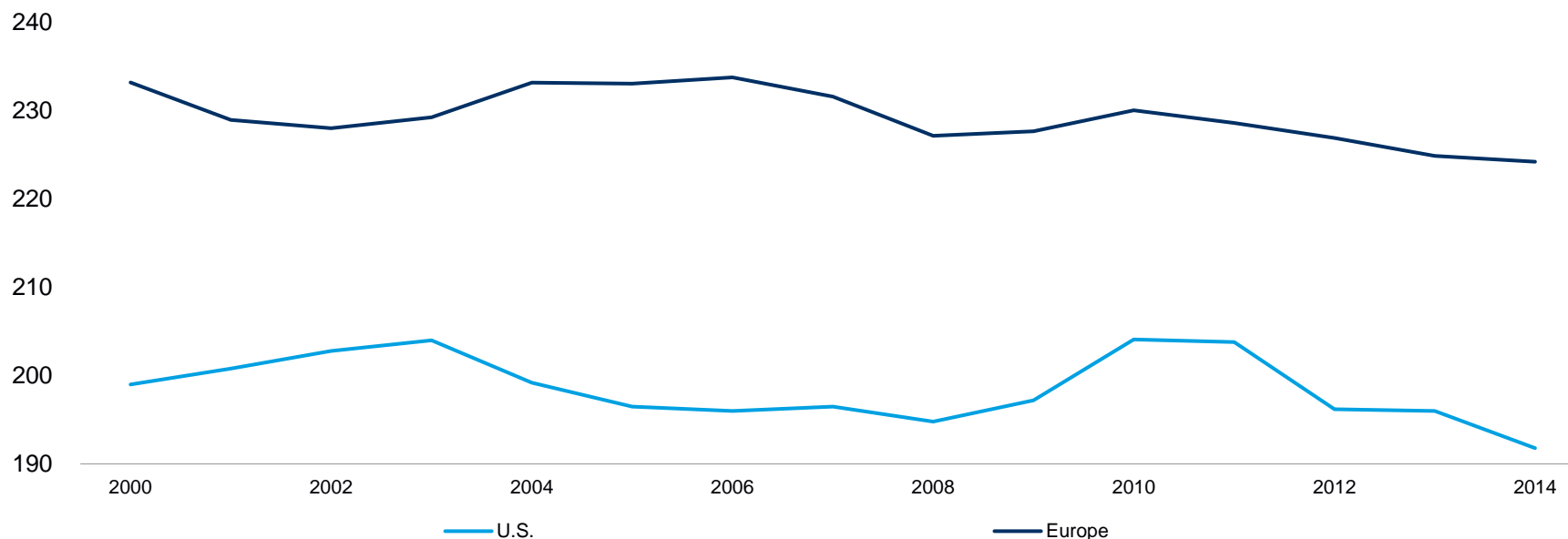
Technology Trends

Mobility and the Sharing Economy

Office Space Usage

U.S. & Europe

Square Feet per Employee



Source: NAIOP, Costar, BLS, Moody's Analytics, as of April 2016

Notes

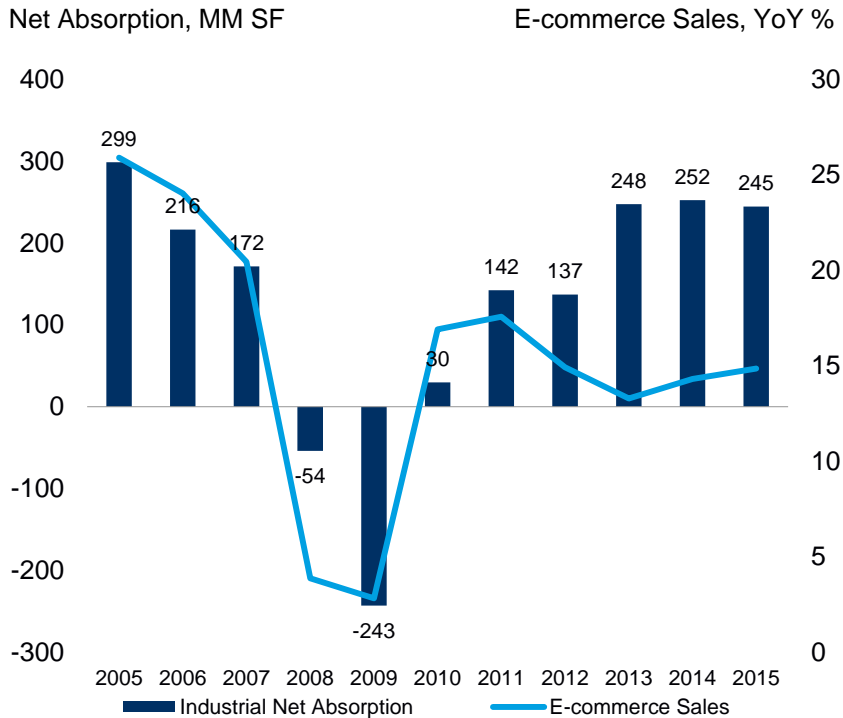
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Technology Trends

E-commerce impacts

Industrial Demand & E-commerce

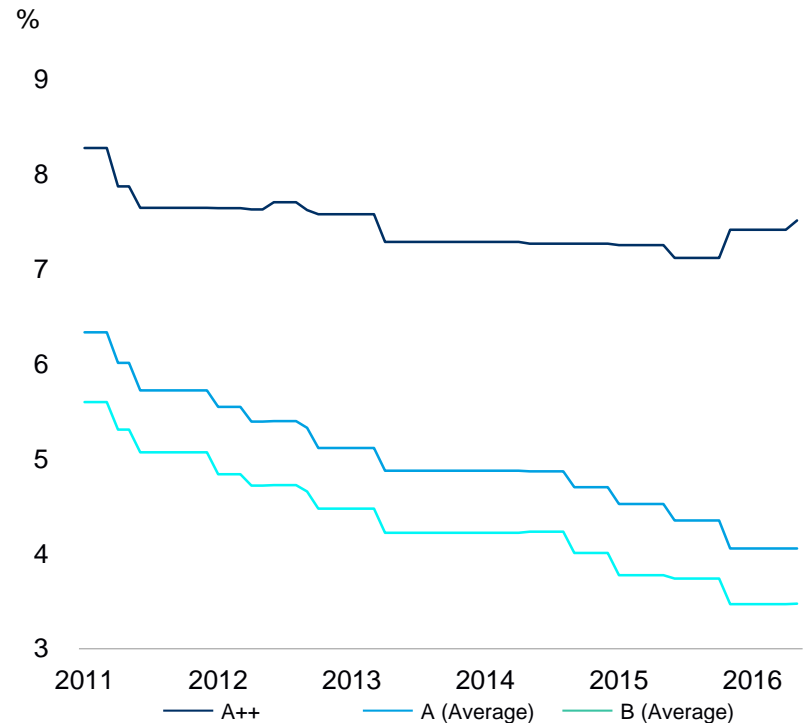
Net Absorption & YoY E-commerce Sales Growth



Source: CBRE-EA, Census Bureau, Moody's Analytics, data as of June 2016

Mall Cap Rates

Cap Rates by Quality



Source: Green Street Advisors, MSREI Strategy, data as of 1Q 2016

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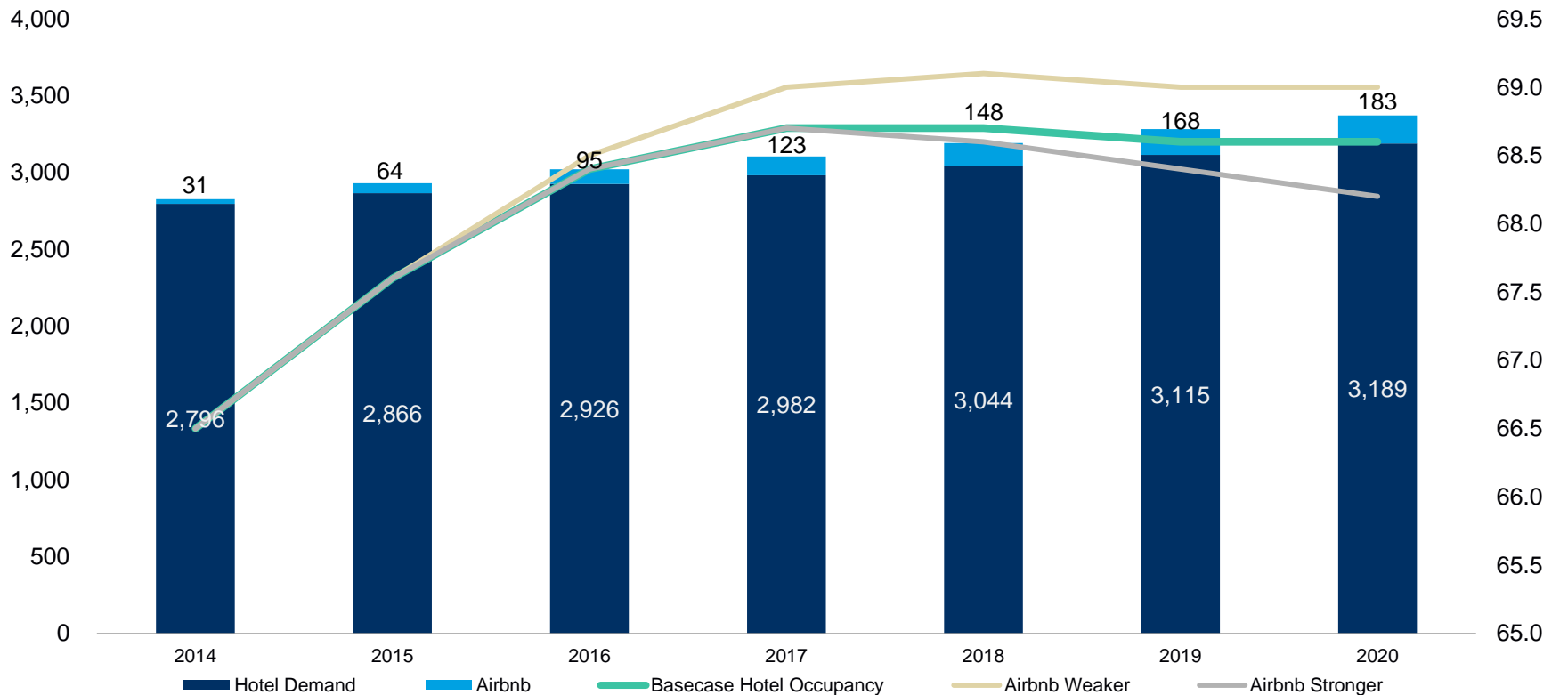
Sharing Economy

AirBnB

Airbnb's Potential Impact to Hotel Demand

US and Europe Room Nights

MM



Source: Morgan Stanley Research, as of November 2015

1. All forecasts are subject to change at any time and may not come to pass due to changes in market or economic conditions

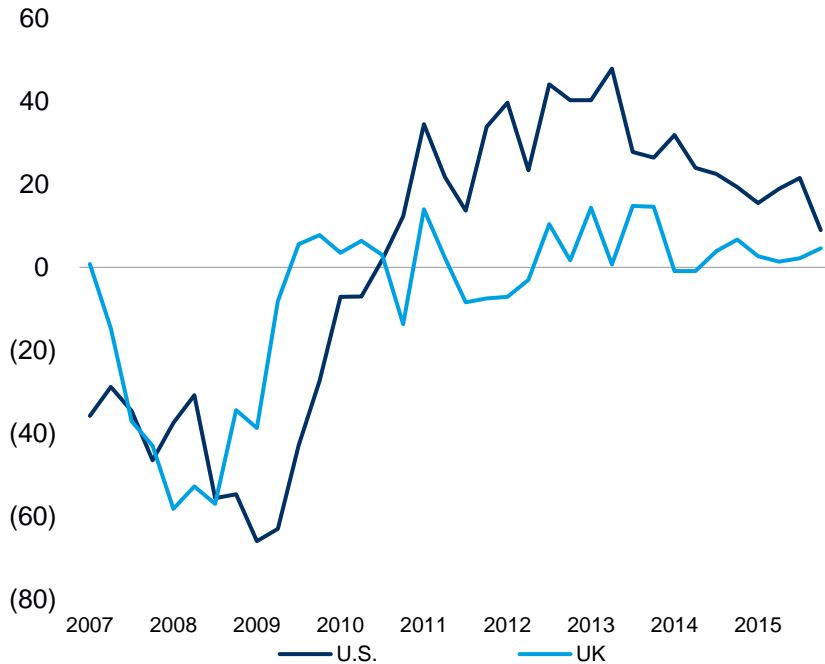
Regulatory Trends

Impact on Lending

Bank Lending Standards

For Commercial Real Estate Loans

Net % Easing Standards

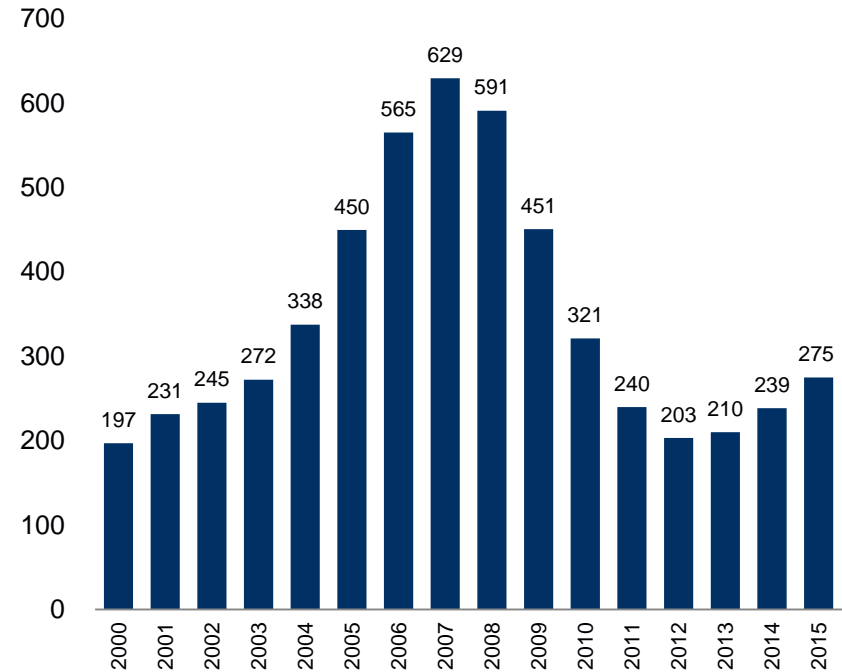


Source: Board of Governors of the Federal Reserve, Bank of England, data as of June 2016

Construction Loans

Construction and Development Loans Outstanding

USD, Bn



Source: FDIC Quarterly Banking Profile, data through December 31, 2015

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INVESTMENT MANAGEMENT

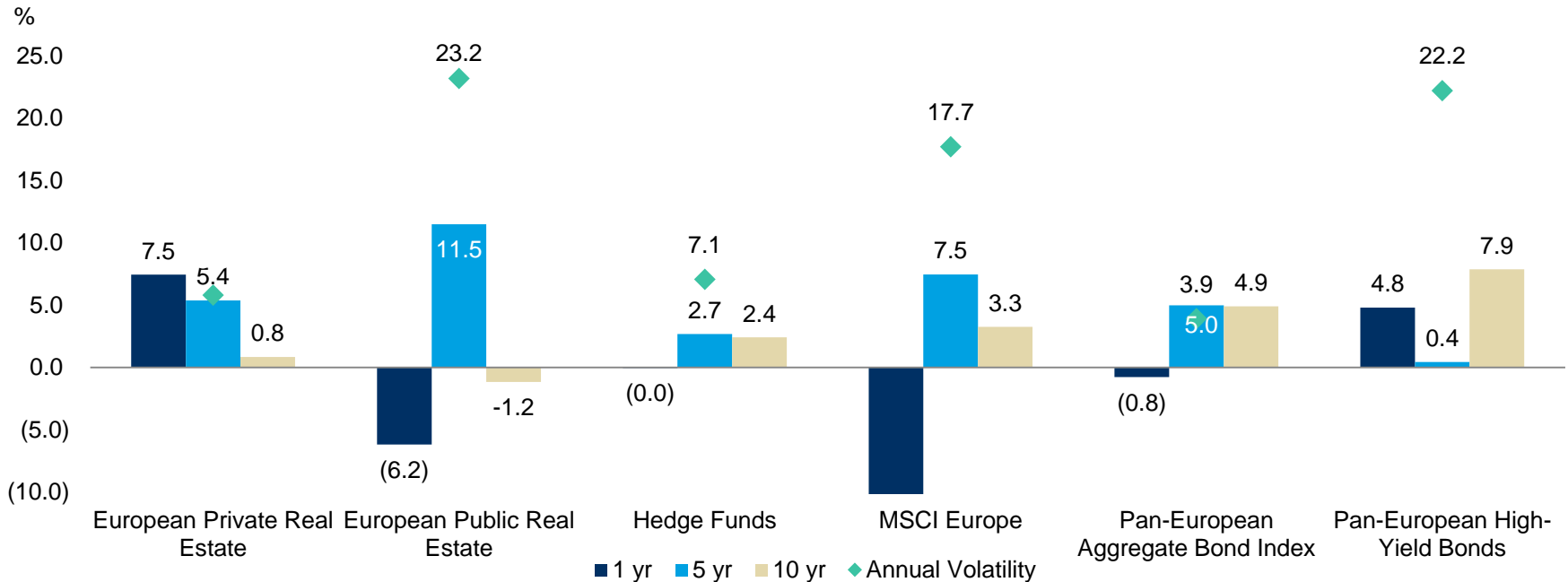
SECTION 3

Commercial Real Estate Implications

Real Estate Returns Remain Attractive

Annual Returns and Volatility

Return CAGR and Ten-Year Annual Volatility, to 1Q 2016

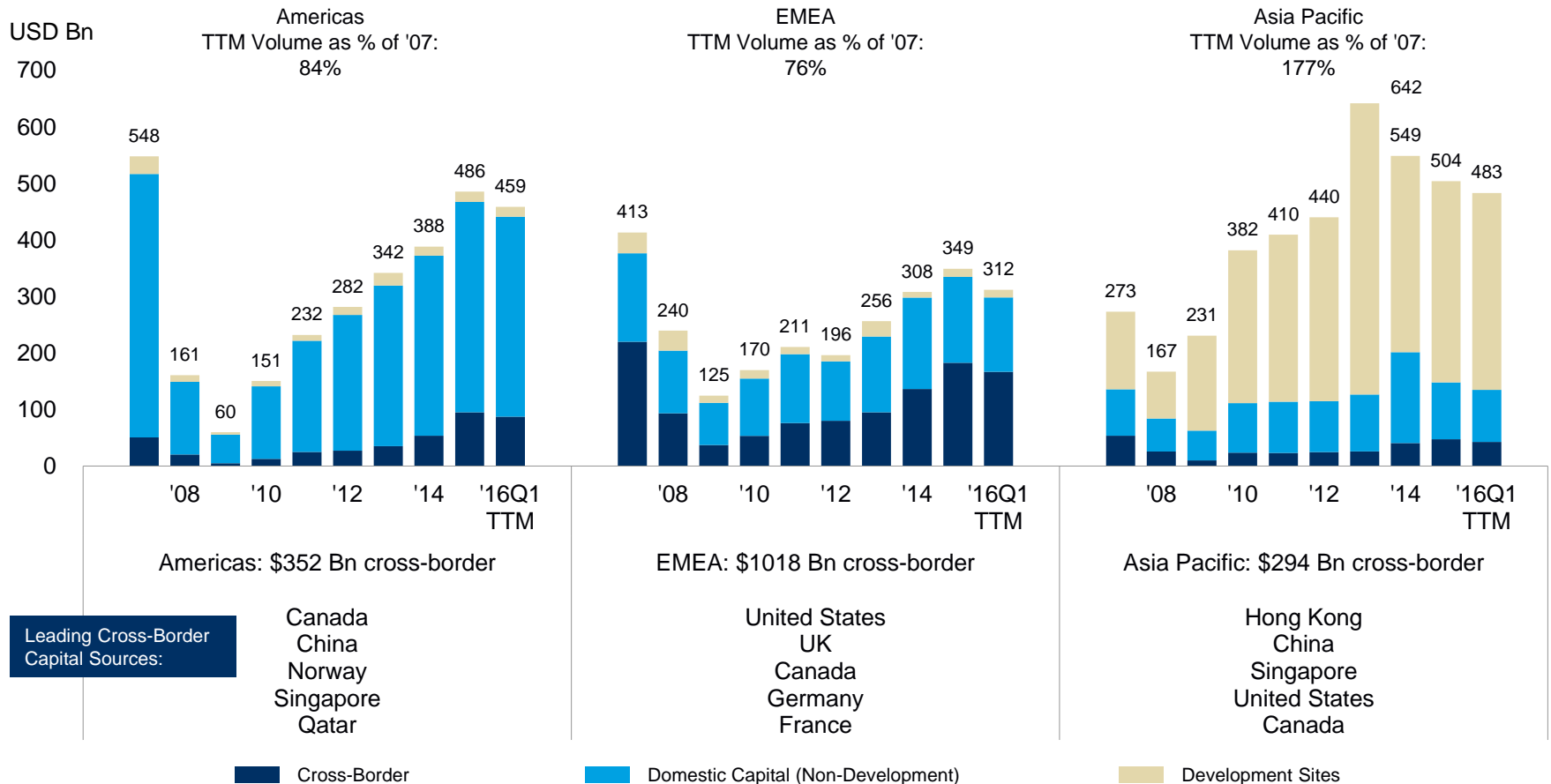


Source: IPD, FTSE/ERPA NAREIT, Hedge Fund Research, Inc. © HFR, Inc., MSCI, Barclays, MSREI, as of June 2016

- As of 1Q 2016 based upon total return on a quarterly basis. Private Real Estate is the IPD Pan-European Index, Public Real Estate is the FTSE/ERPA NAREIT Developed Europe REIT Index, Hedge Funds are the Fund-of-Funds index from Hedge Fund Research, Inc., Stocks are the MSCI Europe, Bonds are the Barclays Pan-European Aggregate Index, High Yield is Barclays Pan-European High Yield Bond Index. MSREI calculations
- Past performance is not necessarily indicative of future results

Encouraging Liquidity

Real Estate Transaction Volume (1)

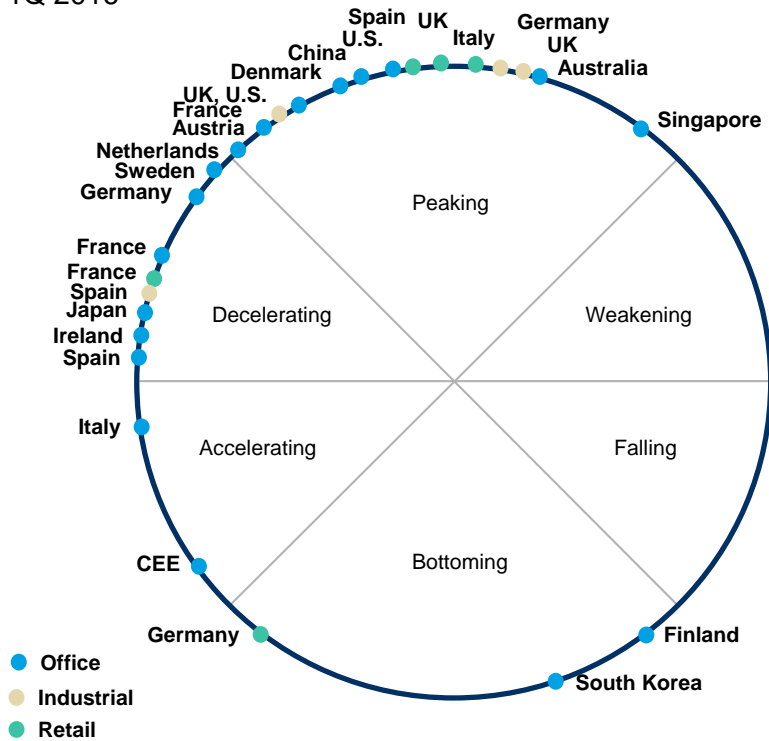


Source: Real Capital Analytics, data as of May 2016

Market Cycle Normalizing

Market Cycle (2)

1Q 2016

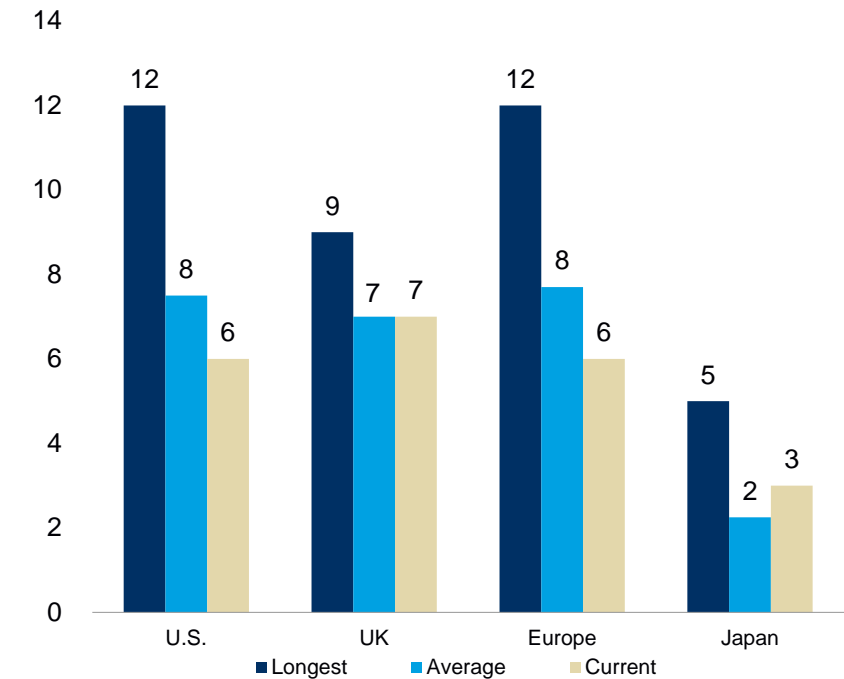


Source: Source CBRE-EA, PMA, NCREIF, RCA, Bloomberg, MSREI Strategy, data as of 1Q 2016

Real Estate Cycles

Cycle Duration

Years



Source: PMA, NCREIF, MSREI Strategy, data as 1Q 2016

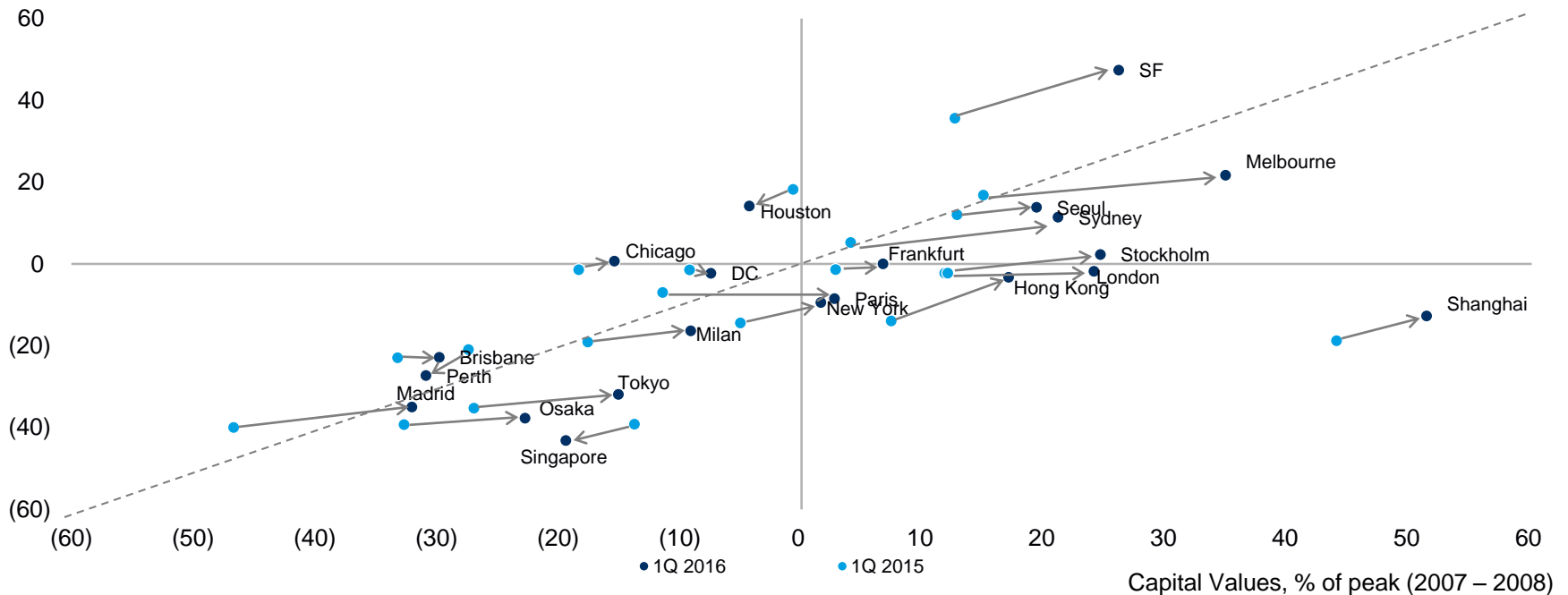
1. Cycle model: 1) Rent: YOY, vs peak, 3 year forecast; 2) Occupancy: YOY, 1 year forecast; 3) Cap rate and spreads to 10YT: vs peak, YOY change; 4) PPSF and liquidity: vs peak, YOY change. All countries positioned reflect office assets, except for the US, which includes office, retail, apartment and industrial sectors.

Market Cycle: Arbitrage opportunities

Office Markets vs. peak

By Market

Rent, % of peak (2007 – 2008)



Source: PMA, MSREI Strategy, data as of 1Q 2016

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Audience Question

WHICH SECTOR HAS THE BEST INVESTMENT PROSPECTS IN EUROPE OVER THE NEXT THREE YEARS?

- A. Residential
- B. Retail
- C. Office
- D. Logistics
- E. Hotels

Global Real Estate Environment & Opportunities

REGIONAL MARKET THEMES

UNITED STATES	EUROPE	ASIA
<ul style="list-style-type: none"> • Recovery softening, interest rates set to rise in line with inflation • Volatility = tighter financing conditions • Fundamentals holding as new supply remains muted • Capital flows robust, yields stabilizing • Pricing divergence between prime and non-prime 	<ul style="list-style-type: none"> • Improving and more broad-based macro recovery, but structural challenges remain • ECB QE program expanding, consumer spending accelerating • Yield spreads between core and non-core markets still exist • Geopolitical tensions heightened 	<ul style="list-style-type: none"> • Japan: Rent recovery accelerating despite slow growth economy • Australia: GDP growth slowing, property fundamentals moderating but yield compression continues • China: heightened volatility as economy transitions and slows. Long term fundamentals remain favorable

TARGETED INVESTMENT STRATEGIES BY REGION

UNITED STATES	EUROPE	ASIA
<ul style="list-style-type: none"> • Value-add / Repositionings • Select new developments • Recapitalizations 	<ul style="list-style-type: none"> • Defensive / cash flow investments • Core in non-core markets • Recapitalization / distressed opportunities 	<p>Developed markets</p> <ul style="list-style-type: none"> • Value-Add / Repositionings • Defensive / cash flow investments <p>Growth markets</p> <ul style="list-style-type: none"> • Development partnerships

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