PROPERTY INCOME ADVISORS, INC.
Advisory Services for the Investor in U.S. Real Estate

July 2015

Property Income Advisors, Inc. is a boutique real estate advisory firm with professional expertise and a focused niche exclusively assisting Gulf-based clients in the investment and management of United States commercial real estate.

We provide a turnkey real estate investment management platform, including advisory services for acquisitions, financing and sales, as well as comprehensive asset management capabilities.

Our career experience includes the successful asset management of more than 13 million square feet of United States commercial real estate valued in excess of $2 billion. In addition, we have directed property acquisitions, dispositions, financings and lease transactions totaling more than $3 billion.

Property Income Advisors, Inc. has nationwide experience and maintains strong national relationships to insure success in all of the major markets in the United States. Our clients consist of Gulf-based ultra high net-worth investors, family offices, private banks and institutions.

State of the Market

Mid-Year Review of the U.S. Commercial Real Estate Investment Market – Office Sector

U.S. Economy Continues on a Positive Path

Year-to-date, the underlying strength of the U.S. economy remained intact despite a small contraction in GDP during the first quarter. With current global issues including the Greek debt crisis, China's economic slowdown, struggling emerging markets and conflicts in parts of the Middle East and Eastern Europe, the U.S. is seen as a safe haven for investment.

Positive performance across many U.S. economic sectors has created investor confidence and provided an atmosphere for further growth through the rest 2015 and well into 2016. GDP has grown by 2.9% year-over-year. The industrial and transportation sectors lead this growth along with research and development, software and information processing equipment. Job creation has returned to its 200,000+ monthly additions after a few months of instability. Annual job creation is now higher than it's been in the last 15 years. The current unemployment rate, at 5.3%, is 80 basis points less from this time last year.

The Federal Reserve continues to ponder its first interest rate hike. The consensus forecast calls for the first rate increase to occur in September, although it may occur later. This assumes that both the U.S. dollar and oil prices are stable. The Fed has been slow and measured in its actions and a small 25 basis point increase is the most likely initial outcome.

The U.S. economy has demonstrated resiliency against many obstacles throughout the current recovery, bouncing back with greater momentum each time. Halfway through 2015 and six years into the current economic expansion, there is really nothing to suggest that this growth will falter any time soon.

Office Market Fundamentals Strong

Demand for U.S. commercial real estate is strong and the fundamental drivers remain solid. Office leasing activity reached its highest level in two years, closing the second quarter above 64 million square feet. Cities with the highest year-to-date net absorption include Dallas, Silicon Valley, Atlanta, Boston and

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Raleigh-Durham. Houston has been negatively impacted by low oil and gas prices, where growth has substantially slowed and sublease availability is now at more than 5.5 million square feet.

After going unchanged in the first quarter, overall office vacancy in the U.S. fell from 15.6% to 15.3% due mainly to renewed hiring within the professional services sector. Urban markets continue to outperform the suburban markets. Salt Lake City, Portland, San Francisco and New York maintained single-digit vacancy rates while the highest vacancy rates were found in New Jersey (25%), Detroit (23.2%), Fairfield County, CT (23.7%) and Phoenix (22.3%). The overall U.S. office vacancy rate is expected to fall below 15% by year-end. By the end of 2016 the overall vacancy rate is expected to creep back upward as new construction, currently totaling 86 million square feet, is brought to market.

Reduced existing supply in many U.S. markets is fueling landlord confidence resulting in increased rents in the majority of markets. Since the start of the year, overall office rents have increased 2.5%, with some markets increasing 3% to 5%. Landlords in Chicago, Los Angeles, Oakland-East Bay and throughout Florida are all finally boosting rental rates. It is expected that office rental rates will continue to increase during the year to an overall 5% to 7% annual growth rate.

Office Investment on Track for Record Year

U.S. office investment sales reached $39.2 billion in the second quarter, representing year-over-year growth of 46%. A sixth consecutive year of growth is projected at a forecasted annualized rate of 20%. Growth will continue to be driven by investment in primary markets including New York, San Francisco, Boston, Los Angeles, Washington D.C. and Seattle where capital demand remains strongest. Interest in secondary markets has increased and will continue to do so. Cities such as Atlanta, Philadelphia, Charlotte, Raleigh-Durham, Austin, Miami, Denver, Phoenix and San Diego all show strong investor interest.

Foreign capital interest continues to be very strong. Non-U.S. investors now represent $2 of every $5 invested into the trophy and class A U.S. commercial office market. Cross-border investment into this property type is expected to top $50 billion in 2015. While still mainly focused on the primary markets, international buyers are also willing to acquire office investments in the main secondary cities. This is due to the intense competition for high-quality office properties located within the primary markets and also in the search for higher yields that investment into the secondary markets can provide.

Sources: JLL, DTZ, Stan Johnson Company and Axiometrics

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