Number 80
March 2011

2011 U.S. Real Estate Investment Outlook and Market Perspective

Overview

What a difference a year makes! After two years of negative returns, the NCREIF Property Index (NPI) produced a total return of 13.1 percent in 2010, primarily based on strong income yields and rising values in the third and fourth quarters. Appreciation totaled 6.1 percent during the year, recovering one-fifth of the losses experienced during the Great Recession. Renewed capital flows to real estate in the form of both equity and debt, aided in particular by foreign investors and public REITs, helped stabilize markets and eventually increase property values.

Investors in core properties had access to public market cash and cheap debt thanks in part to Federal Reserve accommodative policy and lending by government-sponsored enterprises (GSEs). Inexpensive debt propped up leveraged returns in prime apartment and office markets, driving down going-in capitalization rates from their 2009 highs. Spot market activity in retail, suburban office and industrial properties also netted compression, but movements were less dramatic than in the apartment and office CBD sectors. This value support helped mitigate some looming distress and maturing debt issues.

Just as the investment market responded quickly to downside pressures on real estate in 2008, investors are now hurrying to capture early upside with the prospect of sustained economic recovery. Real estate became a more widely accepted and understood investment asset class during the last cycle, so capital flows are more nimble compared to previous recoveries. Investors should actively seek out opportunities in 2011, but remain selective. Economic and property market recovery will be gradual and uneven among metro areas and property sectors. As always, asset and submarket selection will be key to outperformance and risk management.

Economic recovery will fuel significant occupancy gains in 2011, although, with the exception of the apartment sector, several years will be required before national vacancy trends reach healthy levels. Market rents will remain below the peak reached in 2007-2008 for most product types in many markets during the next couple of years. Given the long-term nature of leases, many properties will continue to roll rents to lower levels for an extended period of time. Even with occupancy gains, NOI growth is expected to be anemic. Thus, selectivity is essential in choosing market-leading assets in prime locations.

Transaction volume will increase substantially during the next year. Total sales in 2010 remained well below peak, equivalent to activity recorded in 2002, but the trend over the past four quarters clearly reflects increasing volume going forward. Current aggressive pricing should encourage owners to bring more properties to market this year, and improving real estate market fundamentals should entice investors to dive into the market. The result will be robust investment activity in 2011. In addition, investors who have thus far focused on core properties in primary markets are likely to branch out into Class B and core-plus assets, while also venturing into second tier metros and submarkets. Maintaining discipline in this environment will be essential to long-term success. Inflation and interest rates are expected to be tame in the medium term, which should also facilitate investment into commercial real estate.

The coming year will bring excellent opportunities for new investment and portfolio upgrades since historically investments at this point of the cycle have outperformed. The following document gives RREEF's 2011 investment outlook.

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1. Executive Summary

- **Economy:** Expectations of above-trend economic growth, excess capacity, easy monetary and fiscal policies, and moderate inflation should combine for a modest increase in long-term bond yields during the next few years. Still grappling with the debt and housing over-hang, consumers will only gradually begin spending again. Fiscal constraints at the national, state and local levels will also provide drags on economic growth, with significant budget cuts and layoffs anticipated. With healthy corporate profits, increasing demand, and rising exports, we will look to business spending as the primary engine of recovery. Due to excess capacity, wages should remain restrained over the next few years, increasing thecompetitiveness of U.S workers compared to the rest of the world.

- **Property Markets:** We expect subdued rent growth along with minimally improving occupancy in the near term, but above-trend rent and occupancy growth over the five-year forecast. For the most part, new supply will be limited during this period. The exception is in the apartment sector, where stronger near-term performance is forecast, leading to pressure to produce new supply in the outer years.

- **Apartments:** Short lease terms, high levels of rent growth and strong demand are allowing apartments to garner the highest NOI growth of all sectors over the next few years. Acquiring premium assets in primary metros remains challenging as investor demand is strong and capitalization rates are low. Pricing appears to be capturing future anticipated income growth already. RREEF has identified preferred submarkets within 24 target metros for apartment investment. Capital is not accessing all of these submarkets equally, so attractive opportunities may emerge in this expanded list of promising infill target markets, including Class A minus or B properties with modest restoration required. In addition, for some investors, new apartment construction could provide compelling opportunities in markets where lease-up risk is low.

- **Industrial:** The ongoing business-led recovery should especially benefit core industrial market fundamentals. In late 2010, a majority of markets achieved occupancy gains and positive demand, and this momentum should continue in 2011. Capitalization rates, which were slow to react to increased capital flows in 2010, are likely to decline more broadly in 2011. As continued occupancy gains and definitive evidence of rent growth helps shore up investor confidence, relatively high income yields (and capitalization rates) will continue to make investment in this sector attractive. Recovery prospects between regions and markets remain uneven, with Coastal and Gateway markets leading, and Midwestern and 'housing bubble' markets lagging. RREEF has identified prime submarkets in 23 metro markets for investment. Even with anticipated increased capital pursuing the sector, this expanded list of target markets should produce attractive opportunities. Class A warehouse product in high barrier markets is the strongest rebound sector to date. Multi-tenant warehouse, flex and R&D product should follow suit as hiring picks up in late 2011, and the international trade and high-tech sectors continue to expand. Broad speculative supply-side threats are still a few years away, but selected build-to-suit activity could pose a threat to big-box warehouses in low barrier locations.

- **Office:** Rents are expected to remain flat in 2011, with solid growth beginning in 2013, followed by a strong acceleration in 2014 and 2015. In general, CBDs and inner employment centers should substantially outperform commodity business park product in suburban submarkets. The latter should be avoided for core investing. Although office employment is likely to increase at a greater rate than most job categories, excess underutilized shadow vacancy will impede job demand from translating directly into net absorption of space. Of the four property sectors, office fell the furthest and will be the last to recover, but rents should regain the previous peak levels by 2015/2016. Caution is advised for investment in this sector. RREEF has identified a very limited number of submarkets within 16 metros for potential core investing. For the most part, only the highest quality assets with little near-term vacancy prospects are preferred. Pricing for such properties appears to be fully capturing their long-term growth potential, however, making this an especially difficult sector for investment. In some of the strongest near-term recovery markets such as New York, Washington D.C., Boston and San Francisco, Class B assets and properties with some near-term lease roll exposure, might be considered for core-plus investment strategies.

- **Retail:** Stable and improving household income is making the retail sector look increasingly attractive. While consumer spending is expected to be slower than during prior recoveries, many centers will experience decline and obsolescence. With improving national retailer balance sheets, the strong surviving retail centers will perform well as these well-positioned retailers look to expand in the best locations. More than for any other sector, high-quality asset selection is imperative, where only a few properties in any given target submarket should be considered for investment. Capital has only recently been targeting this sector, and yields are rapidly being bid down. Nevertheless, compelling opportunities should be available in 2011 as more properties come to market. RREEF has identified submarkets in 19 metros to target for investment, allowing for a range of opportunities. In addition, a few, highly selective group of centers could be targeted in several second tier metros. A core-plus investment strategy could include older centers with high sales volumes in top locations where anchor leases are nearing expiration, or where development or redevelopment opportunities exist.

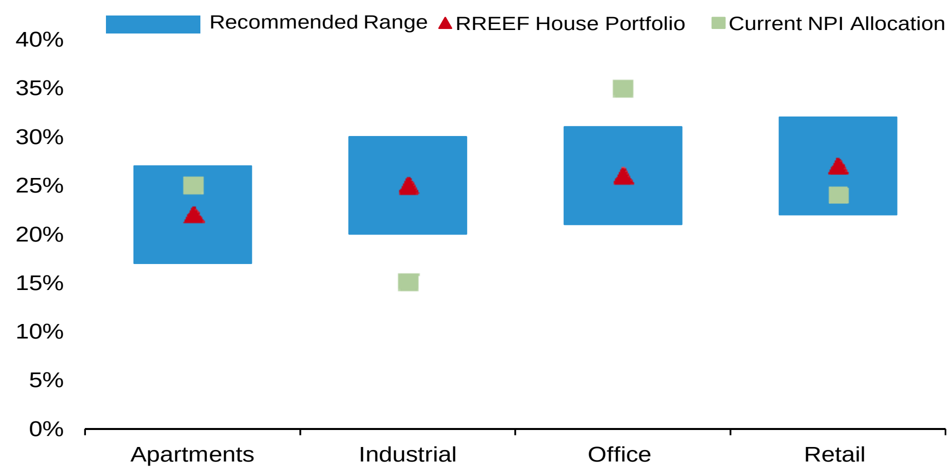
- **Publicly traded REITs:** Public real estate outperformed the private markets in both 2009 and 2010, moving share prices from discount to premium to net asset value (NAV). Mid single-digit growth coupled with a 3.5 to 4.0 percent dividend yield is forecast to result in total return expectations of 8 to 10 percent for public REITs for 2011.

- **Performance Outlook:** Given the relatively high volume of capital pursuing investments in top core office and apartments, pricing has already captured the bulk of these properties' anticipated growth. Thus far, less capital has pursued industrial and retail properties, so pricing in these sectors covers less of their projected growth, making them currently more attractive from a pricing and yield perspective. As a result, RREEF recommends an overweight to industrial and retail properties, with an underweight to the apartment and office sectors. That said, favorable opportunities should emerge in all four sectors in 2011. With the economic recovery more firmly in place, investment capital should more comfortably pursue a broader range of markets in the 2011.

- **RREEF House Portfolio:** RREEF's House Portfolio recommends active overweights to industrial (+11pp) and retail (+2pp), and active underweights to apartment (-3pp) and office (-8pp). (See exhibit on the following page.) Regional analysis results in a moderate overweighting to the East and West while underweighting the South and Midwest. If RREEF's forecast for above-trend economic and real estate rent growth in conjunction with favorable capital market conditions does not materialize, our analysis suggests the House Portfolio recommendation will still outperform or perform in line with the NPI under four scenarios that we believe are markedly different from our baseline forecast and relative to one historical scenario that is similar to our current expectation of a market recovery.

Property Sector Allocation

RREEF House Portfolio vs. NPI



Sources: NCREIF and RREEF. *As of March 2011.*

2. The Economy

The U.S. economy is firmly in recovery and on the verge of expansion, but the pace of economic and job growth continues to be slower than desirable. The economy grew 2.8 percent in 2010, producing less than 1.0 million new jobs, a small fraction of the 8.6 million lost during the previous two years. Recoveries following recessions that are coupled with financial crises tend to experience slower rates of growth, and the current recovery is true to form. Consumers are prioritizing debt service over spending, while lenders are just now in a position to originate new loans.

Forecast Highlights: U.S. Economy 2010-202

(annual percent change, unless noted)

	2010	2011	2012		2010	2011	2012
Real GDP	2.9	3.2	2.9	Consumer Price Index	1.6	1.9	1.7
Consumption	1.8	3.2	2.6	Payroll Employment Growth	-0.7	1.3	2.0
Business Fixed Investment	5.5	9.6	7.3	Unemployment Rate (%)	9.6	9.0	8.5
Equipment & Software	15.1	14.1	10.1	Federal Funds (%)	0.2	0.2	1.3
Exports	11.7	8.6	8.7	Ten-Year Treasury (%)	3.2	3.4	3.6
Imports	12.6	7.1	5.6	30-Year Fixed Mortgage (%)	4.7	4.8	5.0

Sources: IHS Global Insight and RREEF. *As of March 2011.*

Near-term Outlook: With the new, lean workforce of 2010, businesses booked large profit margins and GDP returned to its previous peak. However, labor has been pushed to its limits in terms of productivity, and businesses will be compelled to expand their work force in 2011. A little job growth can go a long way, and consumer spending, which improved in the fourth quarter, should continue to expand in anticipation of jobs. Additionally, consumers and businesses that have held out on capital spending (vehicles, computers, appliances, etc.) during the first half of 2010 will expand spending for these goods in 2011 as they did in the second half of last year. However, the expansion of credit availability will be sluggish as the financial sector is only now beginning to recover. This slower credit expansion on both the consumer and business sides will cause near-term employment growth to be slower than what normally would occur after a deep recession.

Looking a bit further out, increased spending and lending in 2011 will lead to more employment gains in 2012, producing 2.5 million jobs. Although the tailwinds will strengthen, two factors will drag on the economy in 2012: fiscal stimulus will dwindle, reducing demand from the government, and the debt from the stimulus will require higher taxes and spending cuts. However, this may all be pushed out into 2013, depending on how Congress and the Administration act under the scrutiny of the November election. Treasury rates could potentially rise as investor pressure mounts.

Longer-term Outlook: More robust growth is forecast between 2013 and 2015, when GDP growth should average between 3.0 and 3.5 percent annually. Employment growth should average between 2.5 and 3.0 million new jobs annually, pushing the unemployment rate down to between 6.0 and 7.0 percent by late 2015. RREEF also expects roughly 2.5 percent average annual inflation (Core PCE) between 2011 and 2015, and 2.25 percent average annual inflation between 2016 and 2020. Given highly favorable trends, the economy is more likely to outperform than underperform these forecasts, however, an inflation pressures would be stronger under this optimistic scenario.

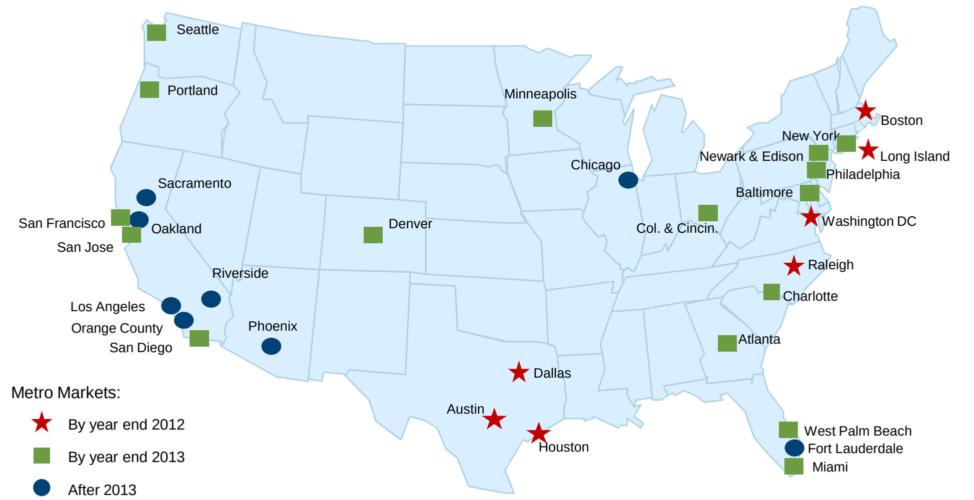
Metro and Regional Outlook

The recovery is taking hold across the nation, and only the hardest-hit metros remain in recession, while a few are moving past recovery into outright expansion.

East: The primary metros of the East are well into recovery. Washington D.C. rode through the recession well, being the first major city to gain jobs, but consequently, future growth will likely be milder than in other major metros as risks loom for the defense industry, which could face budget cuts in 2013. New York City, the epicenter of the financial implosion, received massive fiscal stimulus during the depths of the downturn, propping up the economy. The financial, professional, and business services and information sectors are all gaining jobs. Boston, on the other hand, is recovering organically through higher demand for tech-related products from consumers, businesses and abroad. The Boston housing market was one of the first to falter and is now one of the first to recover.

Midwest: The Midwest received massive fiscal stimulus from the bailout of the auto industry, which increased manufacturing demand throughout the region during the first half of 2010. Job growth coincided with increased demand during the first half, which paused later in the year. However, while the Midwest is performing well cyclically, it still suffers from underlying structural issues. Manufacturing is moving elsewhere and becoming more automated, necessitating the need to develop replacement industries. Chicago will suffer in the near-term due to its housing over-supply, as well as major budget problems. Local and regional banks in the metro will continue to be a risk to growth in the near term. Minneapolis, which has among the most diverse economies in the region, will outperform the rest of the Midwest in terms of job growth.

Forecast Return to Peak Employment



Note: Includes clients with over 500,000 jobs in 2010. *As of March 2011.*
Sources: Economy.com and RREEF.

South: The outlook for the South is bifurcated between the plains and the coast. The plains, specifically Texas, suffered comparatively little during the recession, and entered recovery on relatively solid footing. Rising commodity prices add to the positive outlook for the area. Additionally, a softer contraction in personal income is supporting state and local tax revenue. On the coast, home prices are still overvalued and further declines are likely during the coming year. The financial sectors in Virginia and the Carolinas are still at risk. Florida continues to reel from the housing downturn, although some areas are stabilizing while global linkages, especially with the South American economy, are helping South Florida to recover faster than it otherwise would.

West: The West, which lagged throughout the downturn and the beginning of the national recovery, is now starting to pick up steam. Improvements in international trade and tech-oriented markets are supporting a rapid recovery, which should continue throughout the year. Denver, San Francisco, San Jose and Seattle will recover first, followed by coastal Southern California, with inland metros following soon after. The cyclical problems with the region are concentrated in the Southwestern housing markets, but home sales are finally increasing and prices are beginning to stabilize.

3. Megatrends

While economic cycles are driven by changes in production and employment, structural economic growth is also shaped by longer-term shifts in macro trends, resulting in significant implications for real estate. The following section highlights a few trends that we believe will affect real estate over the next decade.

- **Echo Boomers replace Baby Boomers in workforce:** Echo Boomers comprise a disproprortionately large demographic wave of teens and young adults aged 17 to 30, who will continue to move into the labor force over the next decade, replacing "Baby Boomers" who will begin retiring in increasing numbers, while the smaller Generation X group reaches peak earning years. Employers and retailers will be forced to shift their attention from the needs of middle-aged to younger workers and consumers.
- **Increasing cultural diversity:** The U.S. population is increasingly diverse, with residents of many nationalities and cultures growing, having implications for all economic sectors.

- **Fall in propensity to own homes:** Since the mid-1990s, the homeownership rate rose steadily, but the housing bust reversed this trend. Renting has become more acceptable across a wide spectrum of ages and household types. Also, the smaller Generation X cohort will only partially fill the houses vacated by the Baby Boomers, fueling more apartment demand at the expense of homeownership.

- **Demand shifts for housing location:** Demand for infill areas will increase at the expense of suburbs, widening price differentials between these areas. Echo Boomers will drive demand for housing in convenient, amenity-rich locations, favoring location over size. Baby Boomers, at or near retirement, will tend to move to denser locations convenient to culture and amenities. Generation X, entering peak earning years, will be too small to drive suburban housing demand. However, immigrants may take advantage of price differentials in suburban areas, providing some demand support.

- **Retail spending is changing:** More retail sales will shift to online sources over the next decade. Aging Baby Boomers will spend less on discretionary items, while Generation X, despite being in their peak earnings years, will create a drag on retail sales due to their relatively small numbers. As a result, retail sales overall, and especially those captured in stores, will grow at a slower rate, stunting retail store demand growth. Nevertheless, online sales are still capturing a small share of the total.

- **Solid demand for entertainment, services and showrooms*:*** While bricks-and-morter retailers continue losing market share to online retailers, some entertainment and services will be difficult to deliver online. Further, consumers are demanding an increasing range of services as they age and grow more affluent. In addition, many shops are likely to evolve into showroom-type space, designed to complement their online sales, although this space will be smaller in size than traditional stores. These shopping, entertainment and personal service environments will favor urban and inner suburban locations.

- **Changes in logistics alter industrial demand:** Technology allowing for inventory-stocking efficiency and speedier delivery will limit future warehouse demand growth, leading to obsolescence in some existing warehouses. Changes in shipping patterns from port expansions and development, such as the Panama Canal widening and rail line improvements, will shift demand for warehouse space around the country.

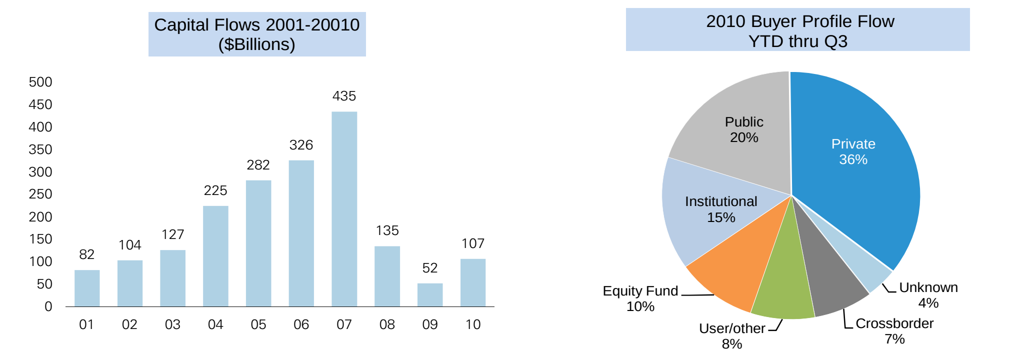
- **Office demand becomes more limited and selective:** Less office space per employee will be required as technology and culture increase worker mobility and paperless offices reduce file storage needs, dampening office demand growth. At the same time, employers are placing more emphasis on amenity-rich locations near public transport, with bicycle access also a plus. As a result, demand and rent levels will continue to diverge between highly-desirable locations and commodity office-park environments.

The megatrends listed above are slow moving but powerful, and properties positioned to capitalize on these forces will outperform over the long term.

4. Capital Markets

Commercial real estate capital markets are recovering. Total volume doubled from 2009 to 2010, albeit off a low base, reaching $107 billion. This level is comparable to that achieved in 2002, when the real estate market was last in recovery. Unlike during the early stage of recovery, when the majority of equity came from private buyers, capital markets are now dominated by foreign, institutional investors and REITs, using debt from a number of different sources.

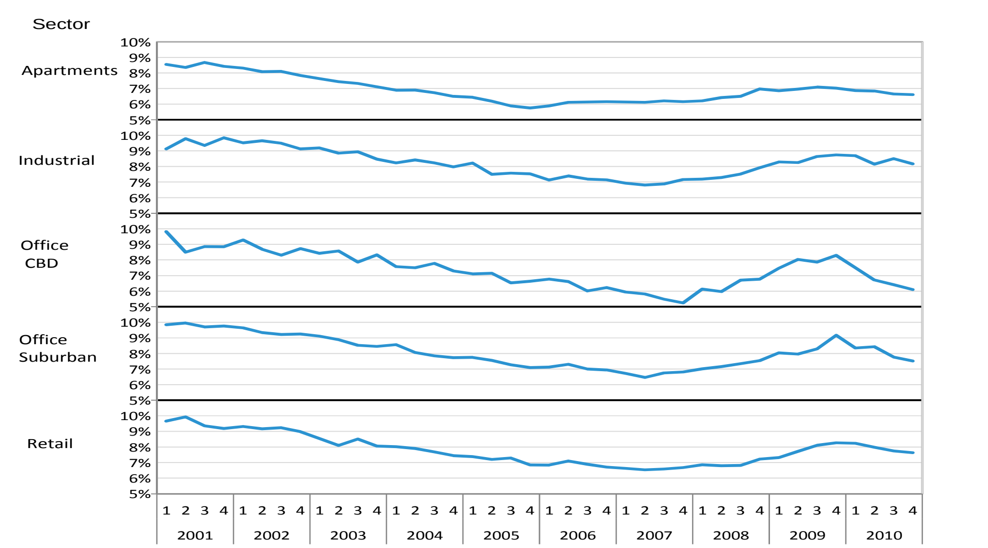
Real Estate Transaction Volumes



Sources: Real Capital Analytics and RREEF. *As of March 2011.*

Prices for core assets in prime markets jumped in 2010, with greater transparency provided by increased activity. Demand for investments early in the year begot further demand, but supply for higher quality core product remained stable, causing capitalization rates to decline. Demand appeared first for apartments, which were supported by the GSEs as well as burgeoning income growth in the sector, and core CBD office properties soon followed. Retail, suburban office and industrial properties began to feel the effects of recovery as the year progressed.

Capitalization Rate Trends, 2001-2010



Source: Real Capital Analytics. *As of March 2011.*

The market remains bifurcated, however, and lower quality properties and investments in second tier markets are transacting with larger risk premiums. Debt for properties that lack solid cash flow tends to be much less favorable, reducing prices for these assets, but an increasing amount of equity is pursuing non-core investments.

Transaction volumes should continue to increase in 2011, and although capitalization rates may not compress further, the spread to 10-year Treasuries will at least narrow. Where 4.5 percent capitalization rates seemed exorbitant in early 2010, they are now the norm in the top markets for apartments, and income growth is supporting this pricing for at least the near-term. Although interest rates are off their lows, all lenders are back in the market with even the most conservative looking to place money again. Investors entering the market will need to be cognizant of interest rate risk, as short-term Treasuries are historically low. Although RREEF is currently forecasting Treasuries to move up moderately over the next decade, any underwriting should consider the risk of larger increases.

Capitalization rates for well-leased high-quality properties are falling below 7.0 percent for industrial, office and retail properties, and below 6.0 percent for apartments (and most recently below 5.0 percent for high-quality assets in gateway metros). Quality continues to rule, and the highest caliber assets are transacting at rates that equal or approach those achieved during the peak of the market. Capitalization rates for industrial properties, which have remained high, are beginning to drop for prime assets. Rates are also beginning to compress in second-tier metros, but a spread between these and primary markets still exists. Yields also remain justifiably elevated for value-added and core-plus properties, although we expect declines as the market improves during the year.

Overall, we expect to continue to see properties trade more frequently and at smaller spreads to the risk-free rate. Spreads for apartments are dropping to levels where construction is attractive and we are already seeing a pick up in multifamily starts. Sectors that were out of favor, such as industrial and second-tier retail, will see a drop in capitalization rates during the coming year as well, and transactions for all property types will continue to expand.

Looking ahead, based on RREEF's view of the 10-Year Treasury yields and historical spreads between Treasuries and property capitalization rates, we anticipate the following target capitalization rates in 2015:

Capitalization Rate Forecasts for 2015

	Apartment	Industrial	Office	Retail
10-Year Treasury	4.0%	4.0%	4.0%	4.0%
Average Spreads	1.6%	2.5%	2.4%	2.2%
Forecasted Average Cap Rates	5.6%	6.5%	6.4%	6.2%
Range [+/- 1 Std. Dev]	[4.6% - 6.6%]	[5.6% - 7.4%]	[5.4% - 7.3%]	[5.1% - 7.2%]

Source: RREEF. *As of March 2011.*

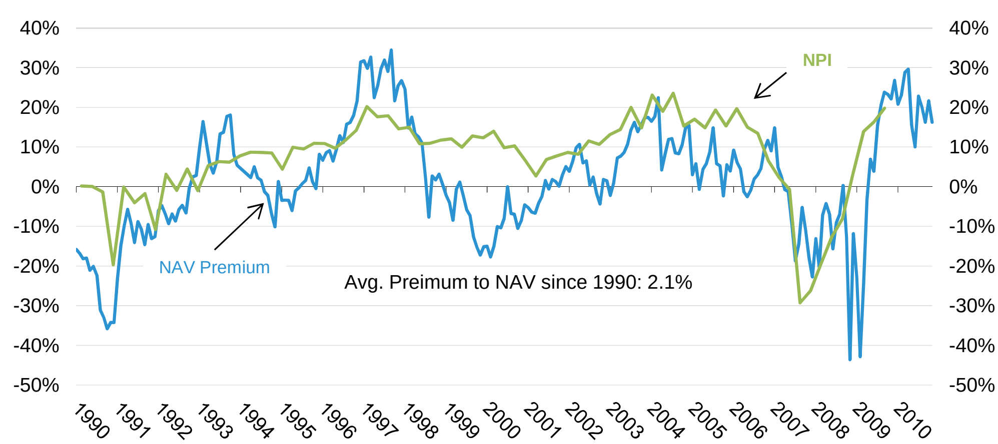
In 2015, we expect 10-Year Treasury yields to reach 4.0 percent which puts target capitalization rates for office, industrial and retail at 6.4 percent, 6.5 percent and 6.2 percent, respectively. Apartments should have the lowest target rate at 5.6 percent keeping in line with current market trends.

5. Public REITs

Equity real estate securities outperformed the private market for the second year in a row, producing a total return of 28.0 percent[1]. This is nearly equal to the return achieved in 2009. As REITs have outperformed the private market for the past two years, their values have moved from discounts to Net Asset Values (NAV) to premiums to NAV. It is likely that REITs will continue to trade above their NAVs during the coming year as they maintain a favorable cost of capital in comparison to other real estate investors (particularly their ability to issue equity at premium to NAV), and opportunities for REITs to aggressively acquire assets will fuel growth in 2011. Additionally, REITs will begin to once again use third-party capital from institutional investors. The IPO wave which started in 2010 will continue in 2011 and large privatizations, like those that occurred at the peak of the cycle, will return to the public markets. Unlevered IRRs will likely range from 8.5 to 9.5 percent, with near 4.0 percent in dividend yield. Total return expectations will be in line with private real estate for the year.

Positive momentum in the public markets bodes well for the private markets. Real estate securities tend to lead private real estate by three or four quarters, and property values are likely to rise during the next year to meet the anticipated levels predicted by the stock market. The exhibit below shows the lag for private real estate returns versus the public market share premium. More interestingly, the addition of new public companies means more capital coming to the sector during the year, which will mean further price level increases. While not likely to fuel another bubble, at least in the near-term, it should support higher capital appreciation in 2011.

Share Price Premium to NAV vs. Annualized NPI (Lagged 4Q)



Source: Real Capital Analytics. *As of March 2011.*

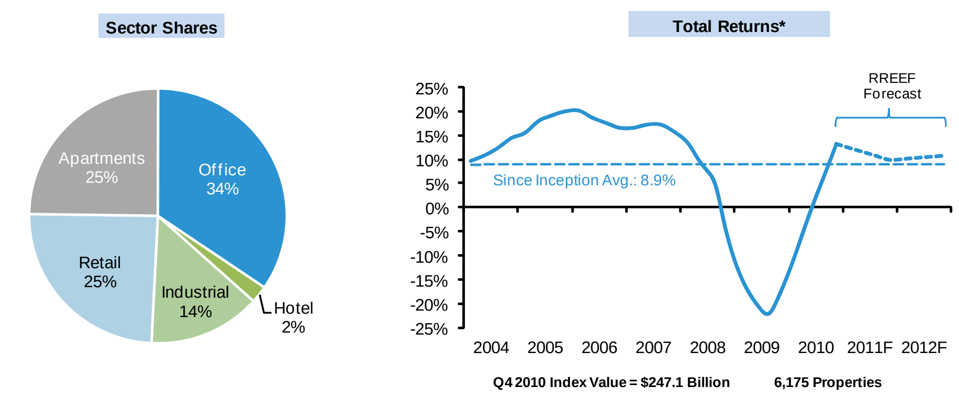
[1] Total 2010 return gross of fees as measured by the NAREIT, All Equity Index.

6. Real Estate Performance Outlook

Private real estate returns as recorded by the NCREIF property index (NPI) are now more volatile than ever. Increased computing power, better appraisal techniques, faster communication, and more frequent and cheaper appraisals, are all contributing to the volatility. Uncertain capital markets and volatile property market fundamentals are also factors. This is demonstrated in the recent capital value declines, which were as deep as the drops following the S&L crisis in 1990s, but occurred in about one-third the amount of time. Capital appreciation on the way back up is also likely to be stronger than what occurred after the S&L crisis.

NCREIF Property Index

As of Fourth Quarter 2010



**Unleveraged rolling four-quarter returns.* *As of March 2011.*
Sources: NCREIF & RREEF.

While return volatility increased during the past decade, construction became less volatile during the current cycle. Lower levels of new supply during the recent boom compared to the 1990s. and the almost total absence of completions during the bust. is hastening the recovery. This is amplifying the uptick in investment returns during the recovery, as burgeoning demand is not being met with empty new buildings owned by distressed landlords. NPI recorded a positive 7.0 percent appreciation return since the bottom of the market at the end of first quarter 2010 and produced a total return of 13.1 percent for the year. This is likely to continue as demand returns to the market and vacancy becomes tighter across property types. We anticipate appreciation to continue in 2011, albeit at a milder pace, but with income yields still at healthy levels we expect total return for the year to be around 10 percent.

Based on these expectations for economic and capital market conditions, and real estate fundamentals, RREEF forecasts that the NPI will generate a 9.5 percent unleveraged annual return between 2011 and 2015. This forecast is only 70 basis points higher than the 8.8 percent average annual total return since inception[2], which we believe is realistic given the losses experienced during the downturn. Also of note, this return forecast is below that of the 10.8 percent annualized NPI total return experienced during the five-year period between the first quarter of 1994 and the fourth quarter of 1998, which was also a period of recovery following the S&L crisis and an economic recession (and two years of NPI total return declines). Arguably, the current real estate environment is better in terms of supply and demand characteristics relative to the 1994-98 property market recovery. Should higher inflation, as a result of faster economic growth relative to estimates, lead to a higher Treasury rate than what is in our forecast, a likely result would be a tighter spread between the risk-free rate and capitalization rates in addition to overall lower risk premiums. This initial spread

[2] Index inception is 4Q1977.

tightening will likely be followed by higher rent and NOI growth, should this upside economic scenario occur. While, undoubtedly, as a nation we have "borrowed from the future" to spur economic growth since the financial crisis began, the better supply/demand picture may result in an extended period of above-average property market returns beyond 2015, particularly if favorable capital market conditions continue.

RREEF NCREIF Forecast by Year

		2011	2012	2013	2014	2015	Annual 5-Year Forecast
Apartment	Income Return	5.4%	5.5%	5.6%	5.7%	5.7%	
	Capital Return	6.4%	7.0%	0.3%	-0.4%	2.4%	
	Total Return	**11.7%**	**12.6%**	**5.9%**	**5.3%**	**8.1%**	**8.7%**
Industrial	Income Return	7.3%	7.0%	6.9%	6.7%	6.7%	
	Capital Return	3.9%	2.5%	3.3%	3.0%	2.0%	
	Total Return	**11.2%**	**9.5%**	**10.2%**	**9.7%**	**8.7%**	**9.9%**
Office	Income Return	6.9%	6.8%	6.8%	6.7%	6.6%	
	Capital Return	0.2%	2.7%	4.0%	4.1%	3.3%	
	Total Return	**7.2%**	**9.5%**	**10.8%**	**10.8%**	**9.9%**	**9.6%**
Retail	Income Return	7.2%	6.8%	6.7%	6.6%	6.5%	
	Capital Return	3.2%	2.6%	3.1%	3.5%	3.8%	
	Total Return	**10.4%**	**9.4%**	**9.8%**	**10.1%**	**10.3%**	**9.8%**
NPI	Income Return	6.6%	6.5%	6.5%	6.4%	6.4%	
	Capital Return	2.9%	3.7%	2.8%	2.6%	3.0%	
	Total Return	**9.4%**	**10.3%**	**9.2%**	**9.1%**	**9.3%**	**9.5%**

Source: RREEF. *As of March 2011.*

7. Property Markets

Commercial property fundamentals are improving in every sector in line or even ahead of the economy. The previous cycle exhibited low levels of commercial real estate construction, so the clearing of the market should occur faster than during the aftermath of the S&L crisis. Vacancy is firming in every property type and rents are stabilizing on average. Apartment NOI is growing as short lease terms allow landlords to raise rents to market rates annually, but other property types will lag in income growth as tenants roll out of leases made during the cyclical peak. However, many industrial, office and retail property owners agreed to blend-and-extend leases during the downturn, causing NOI to decline earlier than it would otherwise.

The upside to renewing leases at unfavorable terms during the downturn is the benefit of having occupied buildings during the recovery. Occupancy losses in industrial and office properties were much larger than in retail, and resulted in steep rent declines during the downturn. As such, traction in new leasing will result in positive NOI growth and flat or increasing rent growth rates as new tenants fill buildings.

U.S Vacancy Rate Trends

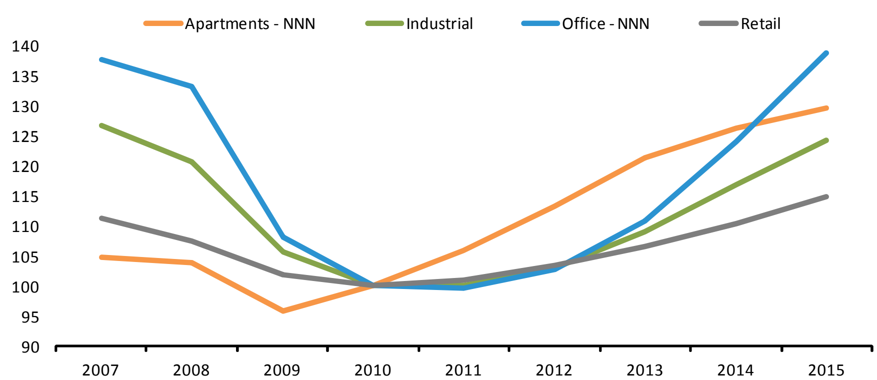
	Actual				Projected				
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Apartment	5.8%	6.8%	8.2%	6.7%	5.9%	4.8%	4.1%	4.5%	5.5%
Industrial	9.7%	11.4%	13.9%	14.0%	13.4%	12.2%	10.9%	10.3%	10.2%
Office	12.6%	14.0%	16.3%	16.7%	16.1%	14.8%	13.4%	12.3%	12.2%
Retail	7.2%	8.7%	10.3%	10.8%	10.8%	10.4%	10.0%	9.5%	8.9%

Sources: REIS, CBRE-EA (History) and RREEF (Forecast). *As of March 2011.*

New supply should not be a risk for several years for industrial, office and retail properties, and only those buildings planned before the downturn will come into the base during the next year. The apartment sector has a slightly different story. Multifamily permits ticked up during the winter months and announcements of new projects under construction are spreading. However, construction that begins today will not be ready for another 18 months for occupancy, so even this product type will have some time to recover before a risk of new supply hits the market.

RREEF Indexed Rent Forecast

2010=100



	2010	2011	2012	2013	2014	2015
Apartments - Gross	3.9%	4.3%	5.4%	4.2%	3.3%	2.1%
Industrial	-5.3%	0.0%	2.9%	5.9%	7.3%	6.3%
Office - Gross	-4.9%	-0.2%	1.9%	5.1%	7.7%	8.0%
Retail	-1.8%	1.0%	2.5%	3.0%	3.5%	4.0%
Apartments - NNN	6.3%	6.7%	8.3%	6.3%	4.9%	3.0%
Office - NNN	-7.6%	-0.3%	3.1%	8.0%	11.8%	11.8%

Note: Industrial & Retail rents are NNN. *As of March 2011.*
Sources: REIS, CBRE-EA (History); RREEF (Forecast).

Rent increases will come early for apartments, but later and stronger for the other sectors. Occupancy gains and nascent job growth are pumping up rents for multifamily properties, but rent growth will cool as net absorption slows later in the forecast. On the other hand, retail will have only slow rent growth until retailers begin expansion in 2012, leading to stronger rent growth in 2013. Office and industrial, which will have slower growth early on as vacancy is much higher for these sectors, will outperform in the later years when job growth accelerates. The five-year average rent growth will be highest for office and industrial properties, while retail and apartments, on average, will have slower rent growth. Note, however, that our property market operating outlook is somewhat different from our real estate return outlook, which reflects strong capital returns for industrial and retail in the early years. In the following sections we will highlight our outlook for each sector.

Apartment Sector Outlook - Recovery Strengthens as Investor Optimism Swells

The U.S. apartment sector's impressive recovery over the past 12 to 18 months exceeded investor expectations. The sector is historically an early recovery candidate following economic downturns, and this proved true again this cycle. The magnitude of the current recovery, however, is what really surprised industry professionals. Vacancy rates declined an unprecedented 140 basis points in 2010 amid record absorption and moderating new supply. Effective rents posted sizable gains as landlords significantly reduced market-bottom concession packages. Investor exuberance for the sector continues as capitalization rates for premium apartment communities recompressed to pre-recession levels. However, debate over the future of the GSEs will continue to make headlines in 2011, and final legislative reform is unlikely until after the 2012 elections, creating additional risk. This asset class is expected to remain the preferred sector for institutional investors in 2011, given the widely held belief that a recovering economy and favorable demographic trends will continue to drive occupancy gains and strong near-term rent growth. Supply risks are emerging, however, with multifamily permitting on the rise again as re-energized developers are getting back in the game. Fortunately, the quantity of new deliveries is unlikely to curb strong rent growth before 2014.

Apartment Recovery Snapshot

Year-End Effective Rents as Percent of Peak

Recovery Leaders		Recovery Laggards	
Baltimore (104%)	Long Island (103%)	Atlanta (91%)	Orlando (89%)
Boston (100%)	Northern NJ (100%)	Houston (93%)	Phoenix (86%)
Chicago (100%)	Philadelphia (101%)	Los Angeles (91%)	Riverside (92%)
Denver (100%)	Wash. D.C. (106%)	Orange Co. (91%)	Seattle (91%)

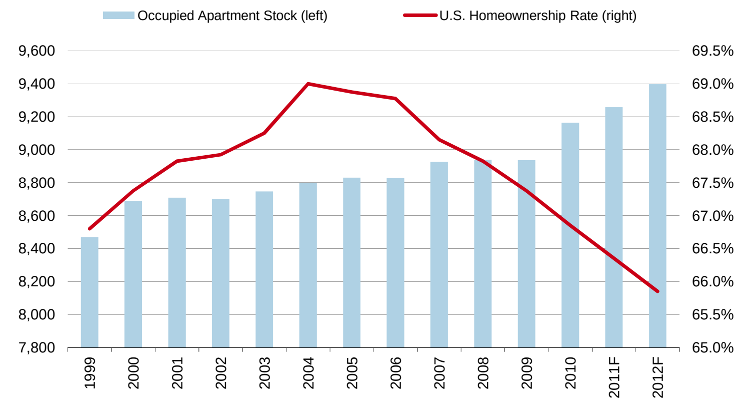
Note: U.S. Average = 97% of Previous Peak (2007-08). *As of March 2011.*
Sources: Axiometrics and RREEF. .

Operating Market Highlights: The U.S. apartment market registered more than 225,000 units of positive net absorption during 2010, with momentum gaining speed during the second half of the year despite uneven job growth. The 2010 net absorption figure represents the strongest annual demand total since the late 1980s. Vacancy ended the year at 6.6 percent, its lowest level since third quarter 2008. The decline in vacancy was broad-based across markets and product types, though Class A product generally outperformed Class B product.

The continued decline in homeownership remains the predominant macro trend driving market fundamentals in the sector. Homeownership rates decreased from a peak of 69.2 percent at year-end 2004 to 66.5 percent at year-end 2010, equating to nearly 4.7 million newly formed renter households. The apartment market was unable to capitalize on this shift in demographic trends until consumer confidence recovered during late 2009, as doubling-up was prevalent. Improved confidence, coupled with stability in the job market, enabled prospective tenants to "unbundle" and "de-couch"[3], unlocking thousands of units of pent-up demand.

[3] De-couching refers to doubled-up households freeing themselves of newly employed roommates.

U.S. Homeownership Rate vs. Occupied Rental Inventory 1999-2012



Sources: REIS, U.S. Census, RREEF. *As of March 2011.*

Outlook: The positive behavioral and demographic trends that are expected to bolster apartment demand in the coming decade remain in place. Homeownership rates are expected to continue to decline over the next few years, as tightened mortgage lending policies and a lingering lack of confidence in the housing market dissuade would-be owners from buying homes. Class A, highly amenitized communities in prime coastal markets are likely to benefit the most from this structural shift in consumer behavior. In addition, the Echo Boom generation is currently entering the work force and will be forming thousands of new households over the next 5 years to 10 years. Since most newly formed households in the 20-34 year-old age cohort typically choose to rent apartments rather than own homes, the multifamily sector is poised for strong growth as America converts to a "nation of renters." Coupled with declining homeownership rates, this is expected to push occupancy to over 95 percent in 2012.

Near-term supply fundamentals are also favorable. Forecasted completions in 2011 and 2012 are expected to reach record-low levels. The 30-year historical annual average for completions in the U.S. is 153,000 units, with an annual record high of 357,500 units added in 1986 and an annual low of 52,600 units delivered in 1993. The nation is forecast to add only 28,000 units in 2011 and 36,000 units in 2012.

This confluence of record-low new supply and enhanced demand is setting up conditions for a potential "perfect storm" in sector performance. The national apartment vacancy rate is forecast to continue to plummet, falling below historical averages and into the low 4.0 percent range in 2013. As a result, national effective rent growth is forecast to increase 4.0 to 6.0 percent annually over the next three years, before decelerating in the outer years to an annual average of 2.0 to 4.0 percent. Prime, globally linked metros with knowledge-based economies are expected to outperform with some top submarkets achieving annual rent growth in the high single-digits. These metros include the Northeast markets of Boston, New York, and the Baltimore-Washington D.C. Corridor, along with the major South Florida markets. The San Francisco Bay Area is expected to be the top performing West Coast market with the Northwest metros of Seattle and Portland are forecast to produce strong results as well. Coastal Southern California is expected to continue to lag in the short-term before returning to strong growth during the middle of the forecast period. Strong demographic trends are projected to boost performance for the desirable quality-of-life metros of Austin and Denver – especially for the Echo Boom generation.

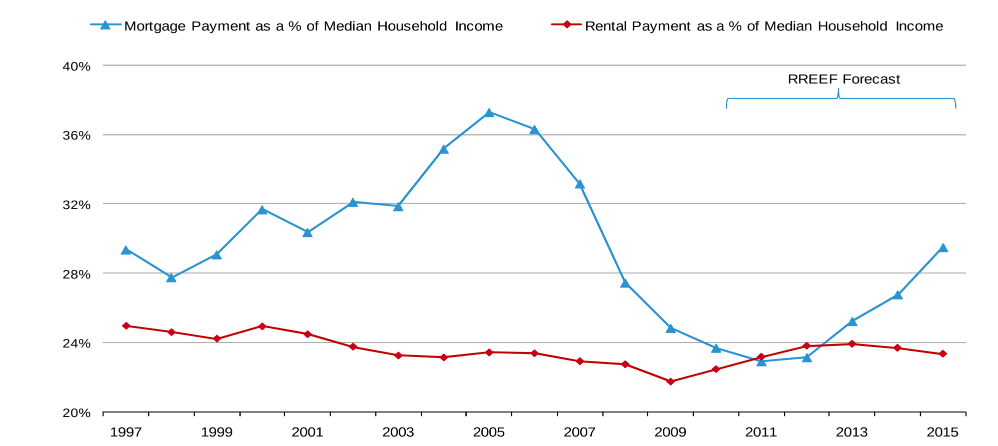
Although the current recovery cycle is benefiting almost every major U.S. market, some metros are expected to underperform the national average during the near. These include Atlanta, Dallas, Houston, Jacksonville, Minneapolis, St. Louis, Philadelphia, Phoenix, Sacramento and San Bernardino-Riverside. Market characteristics for these metros include a current over-supply, for-sale housing affordability, lingering housing market distress, and few supply constraints in the longer term.

Risks: The bias to our forecast is to the upside during the near-term due to strong demand and tightening vacancy. However, long-term market risks now appear to be emerging, particularly as it relates to new supply and rising interest rates. Investor appetite for the sector along with rapidly improving fundamentals are likely to spur new development projects in the coming quarters, with public REITs the likely candidates to lead the way due to available capital through recent equity raises and existing lines of credit. Construction financing for the private sector should become available beginning in the second half of 2011. Markets such as Washington D.C., Austin, Dallas, Seattle and Raleigh-Durham are among the first expected to add new product.

The apartment sector has benefited from the availability of low borrowing costs through the GSEs – an advantage the other property sectors do not enjoy. This support has allowed apartment investors the ability to accept low yields and still receive a great leveraged equity return. The uncertainty of the pending resolution to Fannie Mae and Freddie Mac now working its way through Washington D.C. puts this benefit at risk – particularly for the luxury apartment segment. Dissolution or full privatization of the mortgage giants would likely result in higher borrowing costs. Although any proposal would likely take five to seven years to fully implement, capitalization rates could inflate over the forecast period if government support is phased out.

U.S Housing Costs as a Percentage of Household Income

Comparing Mortgage to Rental Payments

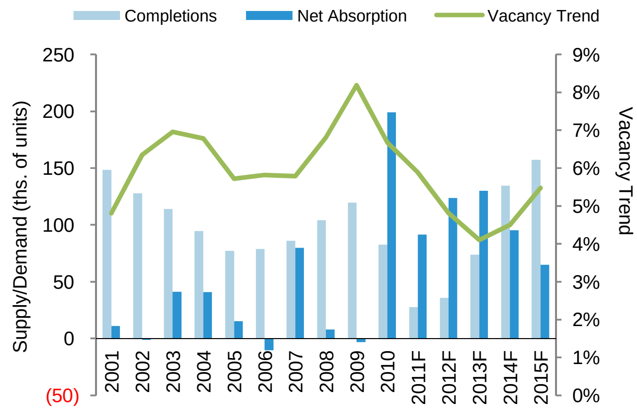


Sources: U.S. Census, RREEF. *As of March 2011.*

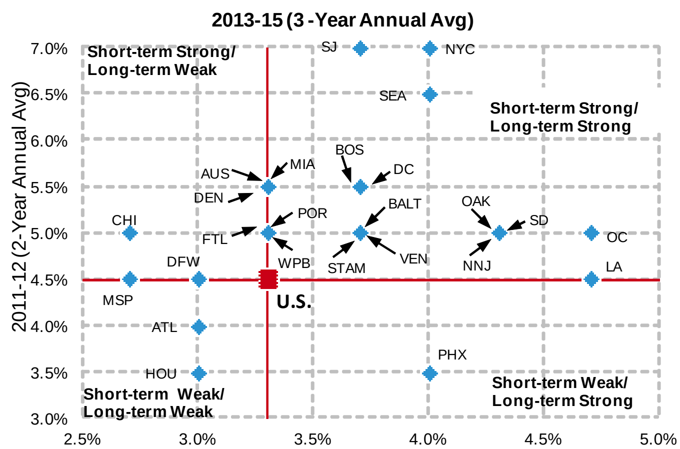
Housing affordability, which is at its highest level in more than two decades, could also become a risk to apartment fundamentals long term. The cost spread between owning a home and renting an apartment are historically narrow and this could curb effective rent growth going forward upon sustained recovery in the nation's job market. Lastly, few economists are forecasting significant household income growth over the next few years, due to excess capacity within the job market. This could curb effective rental growth in the mid-term of the forecast period, when effective rents are expected to reach all-time highs.

Apartment Market Forecasts – National Fundamentals & Rent Projections

U.S. Supply/Demand & Vacancy



Metro Rent Growth Projections: 2011-2015



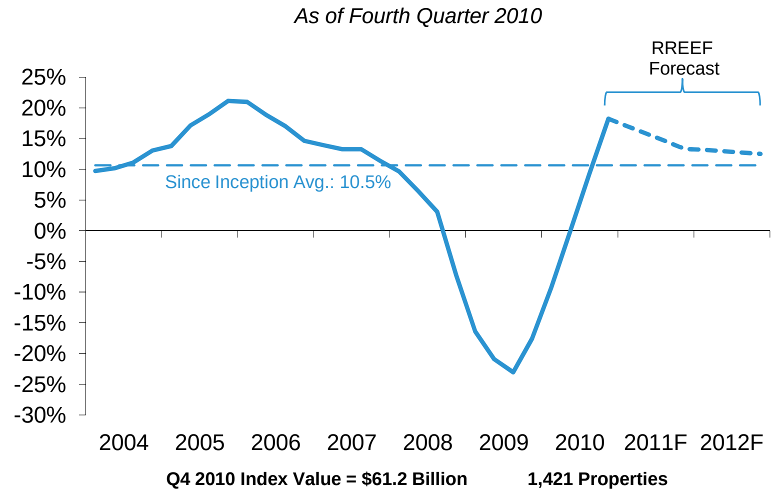
Sources: CBRE-EA and RREEF. *As of March 2011.*

Transaction Market: Investors continue to covet the apartment sector and sales jumped to $33.7 billion in 2010, up by 96 percent from a year earlier. Transaction volume is now comparable to levels sustained prior to the condo conversion and REIT privatization frenzy of 2005-07. The same holds true for capitalization rate levels, as the decline in apartment yields over the course of 2010 put rates on par with the average level from 2001 to 2009. However, during the past year, the compression trend for the sector was bifurcated with Class A apartment communities located in the prime markets experiencing the majority of the compression and capitalization rates of lesser assets remaining relatively elevated.

Reflecting the zealous competition for premium assets, average capitalization rates in this segment are firmly in the 4.5 to 5.0 percent range. Further compression in capitalization rates for premium properties is unlikely as concerns over rising interest rates and the government's role in supporting the mortgage market begin to weigh on investor yield expectations.

Equity funds were the most active net apartment investors in 2010, followed by public REITs, although the better operating outlook created a positive climate for most capital groups. Institutional investors were the largest net sellers, joined by private investors. The government agencies continued to dominate lending for apartments, but lost some market share as competition from private lenders increased. Local and regional banks were the second largest lenders to apartment owners in 2010. Added competition from national banks and CMBS conduits is anticipated in 2011.

NCREIF Apartment Index*



**Unleveraged Rolling Fourth Quarter Returns.* *As of March 2011.*
Sources: NCREIF & RREEF.

Performance: Apartments are expected to generate the highest overall income growth over the next five years relative to the other sectors. Expectations of strong performance has resulted in aggressive pricing as investors have bid down capitalization rates, particularly for premium assets that now trade in the mid 4.0 percent range. New investment into the sector needs to be carefully underwritten, and investors should be cognizant of likely rising interest rates and a potential new supply cycle starting in 2013. However, due to sustained strong demand from beneficial demographic trends, tactical investment in the sector is expected to generate solid returns on an attractive risk/return basis.

Industrial Sector Outlook – The Rising Tide of Recovery in 2011

Economic growth provided some lift to the industrial sector during 2010 as several primary demand drivers gained momentum over the past year. Renewed growth spurred imports while vigorous economic expansion among developing countries stimulated U.S. manufacturers and export volumes. Durable goods purchases bounced back strongly, led by technology products. U.S. auto manufacturers are turning the corner and expect to rebound strongly in 2011. Near-term recovery prospects, however, are at risk due to tentative hiring trends and persistently weak housing market conditions. Mixed regional market conditions will continue to temper broad recovery prospects.

Macro Drivers of Industrial Demand

	2002-2007	2008-2010	2011-2015
GDP	2.6%	0.0%	3.0%
Consumption	2.9%	0.1%	2.3%
Non-Residential Investment	3.2%	-4.3%	7.1%
Imports	5.6%	-1.8%	4.9%
Industrial Production	2.0%	-2.6%	3.7%
Inventory Change	37.5%	-47.5%	47.5%
Total Employment	0.7%	1.8%	1.8%
Manufacturing	-2.8%	-5.7%	2.0%

Sources: IHS Global Insight and RREEF. *As of March 2011.*

The vast majority of industrial markets remain oversupplied, but recovery momentum appears to be heading in the right direction. Advances in U.S. trade, technology and manufacturing sectors as well as better than expected retail spending and renewed demand for real estate indicate that there is near-term upside in the jobs market, which bodes well for further improvement in U.S. property markets. Leading metro markets are beginning to differentiate themselves to the upside.

Operating Market Highlights: After two years of distress, U.S. industrial market fundamentals stabilized in the second half of 2010. The national vacancy rate peaked at 14.6 percent in the second quarter, nearly five percentage points higher than the low watermark level from the past cycle. Positive net absorption of 40.1 million square feet in the third and fourth quarters, and only modest new development, helped push vacancy down to 14.3 percent at yearend. Oversupply conditions persisted in most markets but leasing activity picked up, especially in Los Angeles, the Inland Empire and New York/New Jersey. Generally landlords were able to hold rents, but gains were reported in Southern California for larger Class A product in select locations.

The majority of the 52 metro markets tracked in the national base posted positive demand for the year. With a few exceptions, the primary East and West coast markets as well as those in Texas were the demand leaders. Notably, all Southern California markets posted positive net absorption in 2010. Negative demand persisted in many of the Midwestern markets, including Chicago, Cincinnati, Kansas City and St. Louis. Additionally, Atlanta, Memphis and Nashville ended the year with negative absorption. Surprisingly, Seattle and Portland also disappointed in the fourth quarter despitemore promising prospects. Year-end totals indicate that 27 of 52 markets achieved positive demand for the year and 38 of 52 markets during the fourth quarter.

Outlook: The economic and property market landscape is growing more favorable. Anecdotal evidence suggests that initial positive momentum achieved in 2010 is carrying over into 2011. Warehouse space in global gateway markets and warehouse and flex space in technology centers are early beneficiaries. Further positive leasing pressure should kick-start a flight to quality across core U.S. industrial metro markets. We expect positive trends to gain momentum in primary East and West coast markets as well as in Texas and the large inland hub markets. Current supply imbalances in Chicago, Atlanta, and Dallas/Ft. Worth will cause these metros to tighten in 2011, lagging the coasts by a year or more, but select prime corridors in these markets have potential to outperform.

The composition of economic growth forecasted for the next cycle is decidedly different than was experienced in the last. This forecast calls for slower consumption growth and a lagging housing market recovery, but the pace of hiring will be stronger than in the early 2000s, supported by recovery in the manufacturing and high-tech sectors. Trade rebounded strongly in 2010, supporting big box warehouse demand in global gateways. After this initial bounce, import growth is forecast to moderate somewhat in 2013. Export growth is forecast to remain strong during the entire forecast period. A comparatively broad economic expansion should lead to stronger demand for a smaller multi-tenant warehouse, flex, R&D and business park space over the next few years.

The warehouse sector, particularly large-bay product in global gateway markets garnered demand in late 2010 and this segment should benefit in 2011 as well. Newer vintage, 600,000-square-foot plus facilities tend to be scarce in the coastal markets, so new demand can reduce the number of choices quickly. That dynamic does not hold true for markets in the Midwest or South, where development is more vigorous, vacancy is higher, and demand has been slower to return. We expect these markets to remain weak in 2011.

Multi-tenant warehouse, flex and business park segments did not respond as quickly in 2010, but another year of recovery should enable better balance between landlords and tenants in preferred market locations. Higher finish R&D and office/service facilities should see healthy demand in 2011, especially in the technology hubs in California and Seattle.

It will take several years before the broad U.S. industrial market enjoys a full recovery. Even though we expect strong demand will begin in 2012, the current oversupply is large so it will likely take several years before a majority of metro markets achieve equilibrium availability rates. High barrier markets and submarkets are expected to recover ahead of U.S. averages. The projected lengthy recovery of low barrier markets will contribute to a modest speculative supply pipeline in 2011 and for the next few years.

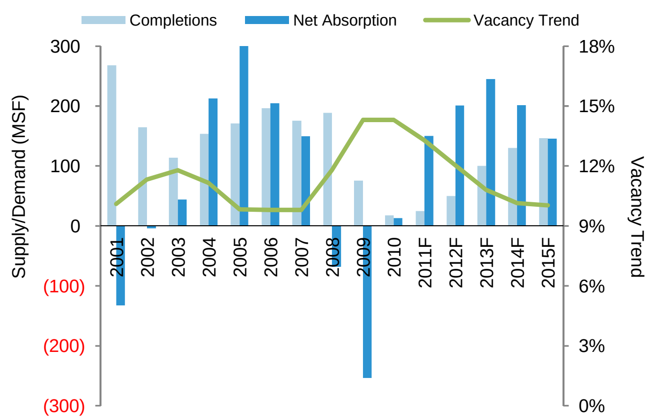
Risks: Our near-term industrial market recovery forecast is dependent on broadening U.S. economic expansion. While trade flows and businesses bounced off the bottom in 2010, housing and employment levels remained weak. Improvements in these two key facets of the U.S. economy are needed to fulfill our medium-term forecast.

Regional banks are a life-blood provider of funds to small and mid-sized businesses. Without improved credit availability, prospects for these businesses will be limited. There are initiatives underway to improve credit flows to smaller businesses, but success has been limited thus far. Continued tight credit could hurt small industrial users and, consequently, multi-tenant industrial and business park demand. Credit conditions have improved recently, but sustained growth is essential for the growth of small- to mid-sized businesses.

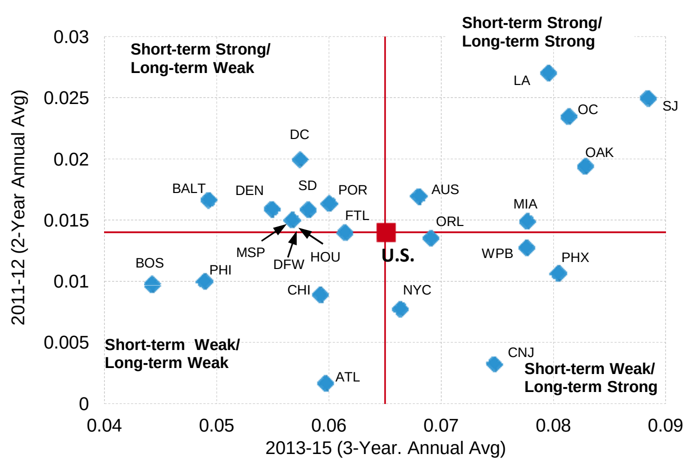
Speculative development is not a major concern in the near term. However, build-to-suit activity could enter the market faster than we expect if demand for big box warehouse space is stronger than forecasted. This could potentially threaten the leasing prospects for second generation space.

Industrial Market Forecasts – National Fundamental & Recent Projections

U.S. Supply/Demand & Vacancy



Metro Rent Growth Projections: 2011-2015



Sources: CBRE and RREEF. *As of March 2011.*

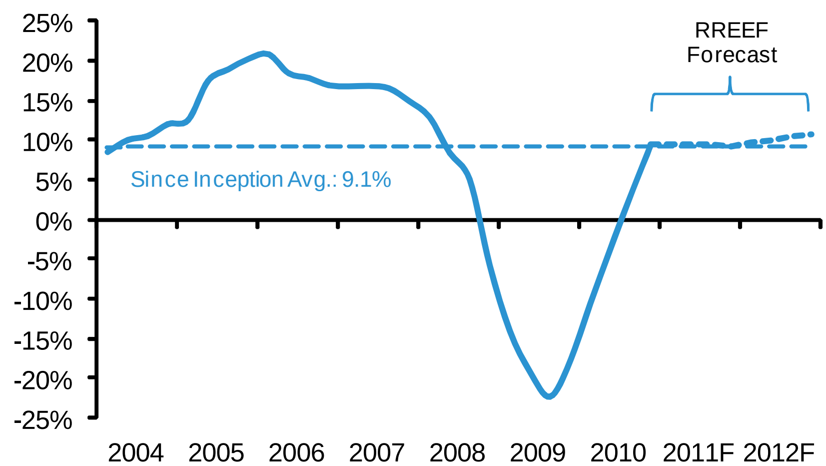
Transactions Market: Investment activity in the industrial sector picked up considerably in 2010, reflective of increased debt availability and greater confidence in the potential for a recovery in fundamentals. Total transaction volume measured approximately $18.7 billion during the year, 77 percent higher than in 2009. Investors gravitated to stable properties in large core markets, but the number of transactions and total volume improved in nearly all metro markets.

On a regional basis investors largely preferred the West, which commanded about 37 percent of the total transaction volume. The Northeast and Mid-Atlantic regions combined for an 18 percent share, while the Midwest, Southeast and Southwest each commanded about 15 percent of total activity. Three markets topped the $1.0 billion activity mark in 2010 and seventeen bested the $300 million level for the year.

Return requirements as measured by going-in capitalization rates have compressed from peak levels, but compared to other sectors the movement has been modest. Median capitalization rates as reported by Real Capital Analytics declined 100 basis points to 8.0 percent between the fourth quarter of 2009 and the fourth quarter of 2010. Figures for the top quartile of transactions indicate a movement from 8.0 percent to 7.3 percent during the same time period. Individual transaction activity and anecdotal information suggests that investors are willing to accept 'at-market' going-in capitalization rates in prime global gateway markets in the low to mid 6 percent level.

NCREIF Industrial Index*

As of Fourth Quarter 2010



Q4 2010 Index Value = $35.8 Billion **2,189 Properties**

**Unleveraged Rolling Four Quarter Returns.* *As of March 2011.*
Sources: NCREIF & RREEF.

Performance: Industrial incomes sank especially quickly during the downturn as vacancy spiked and tenants negotiated lower rents. Pricing did not benefit as much from the current capitalization rate compression in 2010 as was experienced by other sectors, so yields for the sector remain attractive. However, fully leased properties in prime locations are seeing capitalization rate compression in early 2011, so these opportunities are unlikely to remain as attractive as in 2010. Higher NOI growth due to increasing occupancy and rent growth will come as companies need larger inventories and international trade recovers and expands further. Anecdotal evidence from transactions in the first quarter of 2011 suggests that industrial returns for the year will likely outperform the NPI.

Office Sector Outlook – Wheels Spinning, but Slippery Road Ahead

The office market is the sector most directly tied to changes in employment, and office employment typically falls faster than overall employment during downturns, with the past recession being no exception. Although construction was relatively tame during this cycle, collapsing demand led to plummeting rents. As office employment exceeds total employment growth, rents should stabilize this year. However, demand risk remains from large pools of underutilized space that are expected to dampen the magnitude of absorption even as rehiring of office workers picks up steam. Of the four property sectors, office is forecast to recover last.

Operating Market Highlights: Net absorption turned positive in 2010 as the office sector finished with 17 million square feet in occupancy gains for the year, a surprising reversal of momentum from the negative demand carried into the beginning of the year. Tenants took advantage of rock bottom rents, companies stepped off the sidelines to sign deals, and large users flexed their muscles to negotiate favorable blend and extend terms well in advance of impending expirations. Class A properties benefitted most in occupancy gains as tenants capitalized on low rates in that market segment. Other positive demand news came from tech firms committing to space ahead of job growth, the cushioned blow to Wall Street from the bailout program, and growth in the federal government, energy and education sectors.

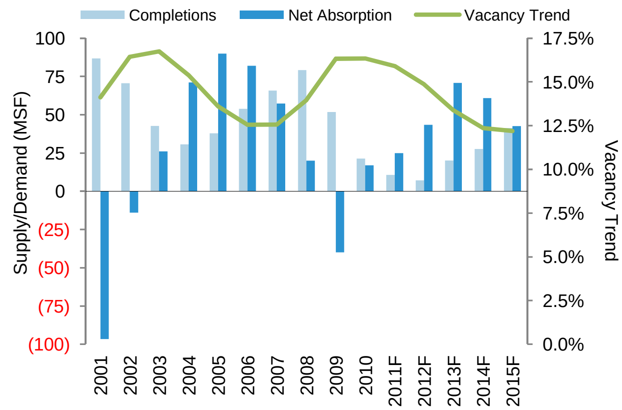
Limited new deliveries kept supply only a small step ahead of demand, and vacancy ticked up only 10 basis points to 16.4 percent during the year. While vacancy increased slightly, sublease space declined during the year, but has not been as significant a problem as during the dot-com bust. Despite the increased leasing activity, underlying fundamentals are still struggling as the market scrapes bottom. Effective office rents declined 5 percent during the year, and rent increases took hold in only a few select pockets, including San Francisco's South of Market Area, Silicon Valley's North Valley, Midtown Manhattan, and Washington D.C.'s East End/CBD and Rosslyn-Ballston corridor.

Outlook: Deliveries in 2011 will recede further on their way to an historical low in 2012. With 60 percent of new supply this year concentrated in just four metros – Boston, Houston, Miami, and Washington D.C. – most markets will see a virtual shut-down of construction. Demand is likely to pause at the beginning of the year as the market takes a breather from overly optimistic growth during late 2010. Nonetheless, U.S. absorption in 2011 is expected to surpass 2010, but remain lukewarm at 20 to 30 million square feet for the year, shaving about 50 basis points off the vacancy rate by yearend.

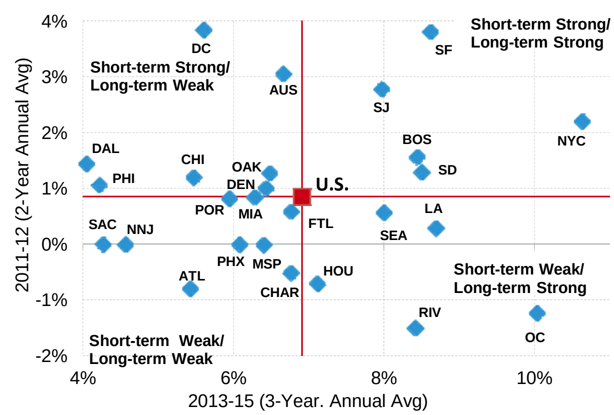
After having eroded some 25 percent since 2008, look for rents to level out in 2011 as job recovery strengthens. Submarkets with strong tech drivers – especially social networking, cloud computing, gaming and mobile technology – are poised to lead demand recovery. The energy sector is also expected to fare well, benefitting markets in Colorado and Texas. The overall office sector will require until 2013 before significant recovery patterns kick in nationally, with most of the rent growth delayed to 2014-2015. Nonetheless, definitive upward movement should start taking hold this year in the strongest metros. The best prospects for near-term rent growth are in the Northeast and Northern California, while other strong candidates include tech centric areas in Texas and Southern California.

Office Market Forecasts – National Fundamentals & Rent Projections

U.S. Supply/Demand & Vacancy



Metro Rent Growth Projections: 2011-2015

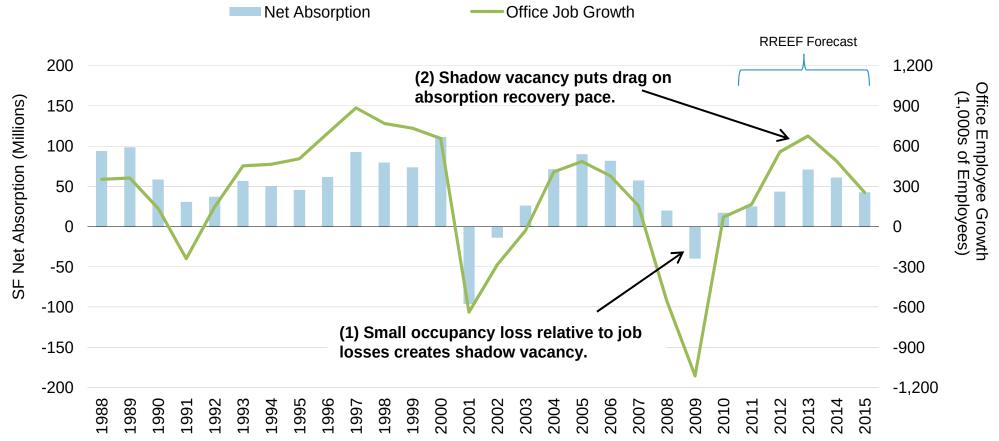


Sources: CBRE-EA and RREEF. *As of March 2011.*

By the end of the five-year forecast, the average rent for the U.S. office market is expected to return to its last peak in 2008. Leading metros are expected to recover to levels beyond their last peak, while markets affected most by the housing bust and/or overbuilding are expected to require until after 2015 to return to peak rents.

Although employment growth will pick up in 2011, caution is still advised in assessing demand strength within particular markets. Underutilized shadow vacancies left in the wake of job losses could siphon off more than half of the demand growth arising from job recovery during the next five years as companies backfill this space before expanding their footprints. Another trend gnawing at office demand is a corporate movement toward densification – designing space to accommodate a greater number of employees in a given area – driven by economic, technological and social forces.

Office Job Growth, Absorption & Shadow Space



Sources: CRBRE-EA, BLS, Moody's Analytics & RREEF. *As of March 2011.*

Risks: The low amount of give-backs relative to job losses leaves tenants with excess space as job growth strengthens, and the largest risk to the sector is the degree to which shadow vacancies impede absorption during the recovery cycle. Alternatively, cheap rents may make tenants comfortable leasing more space than they would otherwise need, offsetting some of this drag.

Construction risk remains low, with cost feasible rents out of reach in most metros. But this risk is expected to accelerate first in markets that either weathered the recession well or whose prospects for rent growth during the next five years are among the strongest, including the Northeast, Northern California and Texas. Timing of rent recovery is disproportionately skewed toward outer years, adding to risk of market calls for weaker metros. On the other hand, rents have begun firming sooner than expected in the strongest markets, and effective rents could recover more quickly than expected in outperforming submarkets with strong demand drivers, resulting in upside risk potential to the forecast.

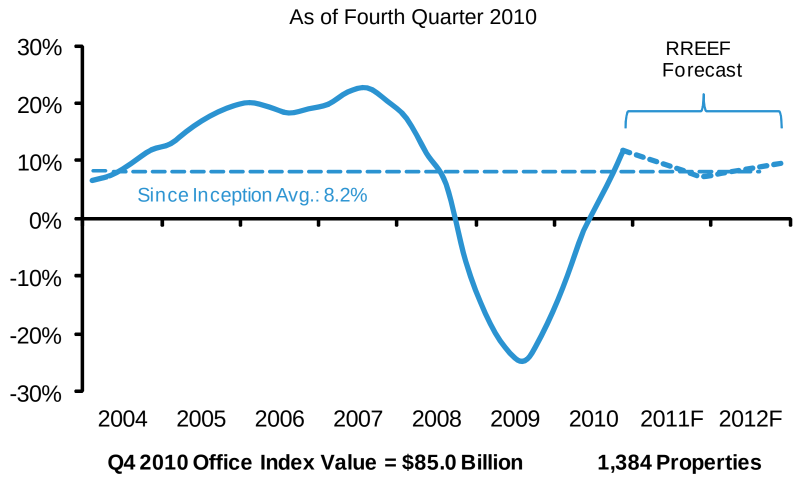
Transaction Market*:* Investment activity in 2010 was particularly strong for the highest quality assets in core markets offering solid rent rolls with limited exposure to tenant rollover risk. Due to the intense focus on core, nearly half of office transaction volume above $10 million in 2010 occurred in just three metro areas: New York, Washington D.C. and the San Francisco Bay Area. As capital demand keeps rates of return thin for the best opportunities, and as other markets move another year closer to recovery, look for an expansion of investor interests into the next tiers of asset quality and locations.

Private and REIT buyers were the strongest sources of capital for office in 2010, followed by institutional buyers. Foreign buyers were also a major force, particularly in the New York, Washington D.C. and San Francisco markets.

The following themes are expected in the transaction market during 2011. We expect all buyer types to increase their participation, with REITs continuing to have good access to capital and institutional players continuing to increase their mandates. Core assets with near-term rollover protection will remain highly favored, and capitalization rates for top tier properties will continue to be sought after and have thin yields. We expect that buyers will broaden their investment universe to include more submarkets than last year and consider properties with weaker rent rolls. Finally, interest in second tier markets will bid up pricing for these properties, exerting downward pressure on capitalization rates, but not to the levels seen for prime investments.

A key to successful investment choices in 2011 will be applying a disciplined selectivity in widening asset selection criteria beyond the highly stabilized properties in the top markets.

NCREIF Office Index*



Unleveraged Rolling Four Quarter Returns. *As of March 2011.*
Sources: NCREIF & RREEF.

Performance: Strong CBD office properties experienced a compression in capitalization rates in 2010, increasing their overall returns. Fundamentals have yet to perform for the sector, however, with NOI growth likely to be several years out. Thus, investors need be particularly selective when looking at the sector relative to pricing. Exceptional investments are still attractive, and investors should pay closer attention to location, amenities and public transportation. Suburban properties are just now finding some capitalization rate compression and will likely lag the CBD investments in rent and NOI growth. Overall, office properties will likely underperform the index in the coming year as the sector performed so well in 2010, substantially ahead of the market fundamentals. Returns will grow later in the five year forecast period as fundamentals firm.

Retail Sector Outlook – Survival of the Fittest

The nation's retail property markets overall are well on their way toward stabilization, with the best centers and metros edging into recovery, while weaker centers and markets continue to be rocked by restrained consumer spending as well as reduced store demand by retailers. More than any other property sector, retail is seeing a split in fortunes between better-positioned assets in top markets on the one hand and lesser-quality centers and second tier metros on the other. Still, the overall direction is clear and positive: both retail sales and retail tenants are trending back up, while new supply remains extremely constrained. All of these trends bode well for the sector's improvement.

Retail sales volumes, particularly those captured in stores, are down substantially and are unlikely to rebound dramatically. Nominal retail sales are just getting back to pre-recession levels, but real retail sales (adjusted for inflation) remain at levels first reached in late 2006, and real per-capita sales (adjusting for population growth) are back at early 2005 levels. Nonetheless, the sector appears to have hit bottom, with sales beginning to rise, albeit modestly. Holiday chain-store same-store sales were up 3.8 percent in 2010 over a year earlier, while all shopping center-inclined sales were up 4.2 percent in the second half of 2010 (again over a year earlier), though these gains were measured relative to highly depressed figures.

Still, the gains have been spotty, with sales growth varying month to month and among retail categories. Luxury goods are finally starting to regain their former strength, joining wholesale clubs and discounters in the recovery, while mid-priced offerings continue to lag. Moreover, some of this activity represented deferred sales, as evidenced by the significant share of

"Black Friday" sales going to necessities and personal shopping. Healthier growth should resume in the outer years of our forecast, awaiting more robust income and job growth, but not at levels anywhere near those achieved from 2000 to 2007.

The better news is that retailers hit bottom earlier than consumers and are benefiting strongly from this modest recovery. Retailers took the opportunity to improve their balance sheets during the downturn by closing underperforming stores, negotiating lower occupancy costs, downsizing existing stores, and cutting back expansion. In addition, many weaker competitors have been driven out of business. And perhaps the best news of all for current owners is the dramatic decline in new supply, with the shopping center industry recording the lowest construction volumes in 2010 in at least 40 years. A historically small pipeline of future projects will keep supply in check for at least several years.

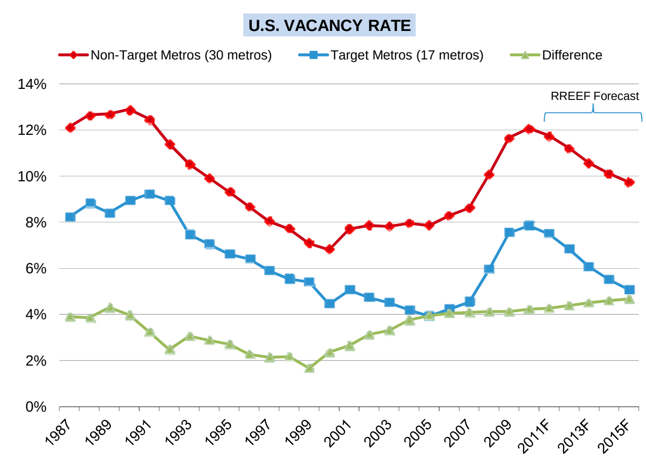
Operating Market Highlights: Vacancy rates began to stabilize in mid-2010, with better markets and centers seeing the start of recovery. High-quality centers, such as those owned by RREEF, have seen improved occupancy in recent quarters, but more importantly have experienced dramatic improvement in bad debt expense. At the same time, the downturn has pushed many retail centers nationally into failure, with tenants vacating weaker centers, often to the benefit of stronger centers.

As a result, retail centers in top locations with strong tenancy will improve their performance in the coming years, while weaker centers will continue to struggle. This can be seen at the metro level in the split between RREEF's top target 17 markets versus the remaining 30 metros we track regularly. While the target markets have historically maintained lower vacancies and high rents than the other markets, these spreads have risen in recent years and we anticipate this split to continue. However, even in the better metros and centers, rent and NOI growth will be moderate, if stable, a hallmark of retail performance over the long haul.

After reaching a cyclical low of 6.5 percent in 2005, vacancy rates gradually increased over the following two years until jumping in 2008 and again in 2009, and then leveling off last year.[4] The sector ended 2010 with a vacancy rate of 10.9 percent, a jump of two thirds and the highest vacancy rate since the early 1990s, the end of the last retail building boom when vacancies peaked at just over 11 percent.

Retail Market Fundamentals

1987-2015

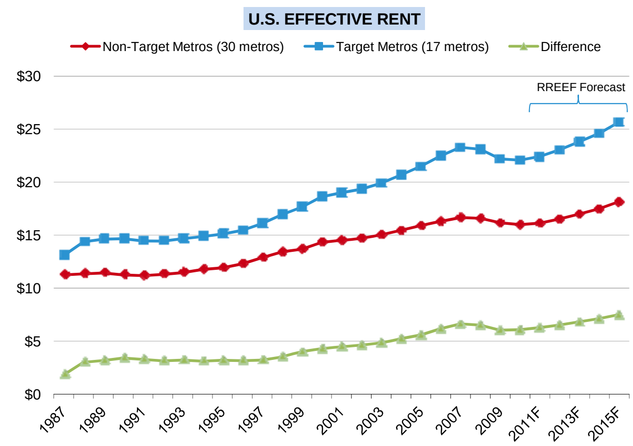


Sources: REIS and RREEF. *As of March 2011.*

[4] This vacancy rate is for neighborhood and community centers only.

Retail Market Fundamentals

1987-2015



Sources: REIS and RREEF. *As of March 2011.*

Outlook: The worst is behind us. We believe vacancy rates have already peaked and are starting to trend down, as much due to the dramatic cut-off in new supply as to the nascent demand recovery; rent growth should soon follow. For the first time since the onset of the recession, actual and announced store openings exceed store closings, a trend we see accelerating beginning in 2012. At the same time, construction is likely to remain moderate for at least the near term, setting the foundation for occupancy gains, particularly in the outer years of our forecast period. In sum, we see 2011 as a year of stabilization, with vacancies beginning to fall in earnest starting in 2012. Our forecast calls for the vacancy rate to fall below 9.0 percent by the end of 2015, about 200 basis points below the current rate but still almost 100 basis points above the 20-year average. We expect rent growth to be correspondingly moderate as well, averaging 3.0 percent, although most of the growth is back loaded into years four and five.

There is little change in selection of our target markets from 2010. The best performing geographic markets have been the relatively affluent, prosperous metros with the greatest constraints to supply, with most of these metros situated on the coasts. Conversely, many of the metros with the highest initial vacancy rates and lowest rents at the peak of the cycle – typically located in the nation's faster growing regions in the South and Southwest – have gone on to experience the greatest vacancy spikes and rent declines. We do not foresee any shift to this typology in the near term.

In terms of retail product segments, malls are emerging as the first into recovery after being the first into recession with their heavy reliance on apparel, electronics, and near-luxury goods. Grocery-anchored neighborhood and community centers have been the most stable in terms of both vacancy and rent loss, and are now ready to resume growth. Faring less well have been unanchored centers and poorly located lifestyle centers, as well as secondary malls. Worst of all has been the performance of the once-mighty power centers that house many of the nation's big-box retailers, which experienced some of the greatest turmoil. However, those well-located power centers that have retained or attracted the dominant surviving discount retailers are extremely well positioned for the future. In these centers, when vacancies occur, there will likely be competing bids from retailers who have found themselves in failing locations.

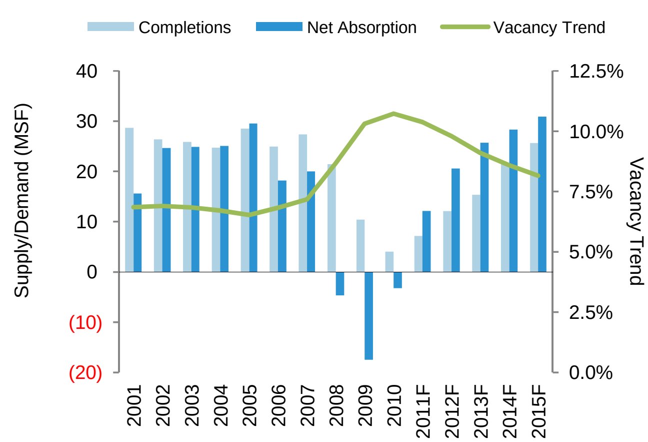
Risks: With consumers accounting for more than two-thirds of the economy, clearly the major downside risk for this sector would be delayed or reduced consumer recovery, particularly for middle income households. Other downside risks would be faster-than-anticipated shifts from bricks-and-mortar stores to online retailing, and a continuing trend where retailers are moving to smaller format stores. A greater-than-expected spike in interest rates could compromise retailers' capacity to fund inventories and tenant improvements. Retailers are also disadvantaged by rising costs of goods, due to higher overseas production costs, the weak dollar and high transport costs. Since they have had limited success in passing these higher costs through to the buyer, a continuing trend would eat into corporate margins.

Given what we know about market fundamentals, the consumer does not show much promise of surprising significantly to the upside. Too many factors must all cut in the right direction to make an appreciable positive move – at least for the industry as a whole. However, the best centers are certainly poised to outperform, and their relative success might well accelerate with continued weakness in the sector, with a disproportionate share of the distress borne by the obsolete and poorly located centers. Thus, institutional owners of better centers could see greater than forecast performance.

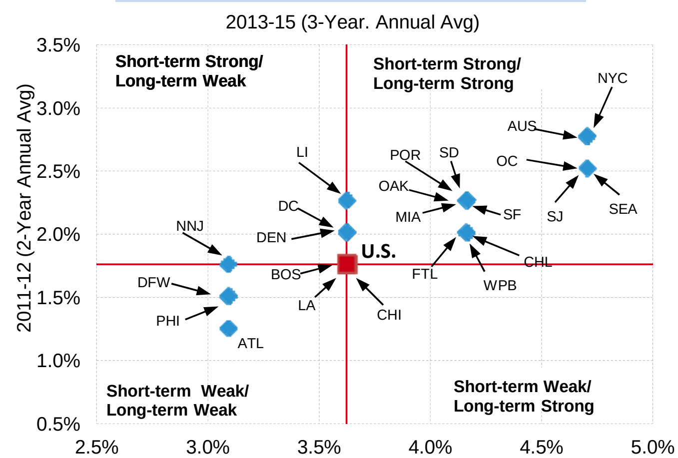
The historically severe retailing downturn of the Great Recession has left the U.S. littered with failed and failing retail centers. It is unlikely that consumer demand will improve sufficiently to allow such centers to be repositioned into successful properties. Many of these centers will continue to decline and offer investors few options other than alternative uses or redevelopment.

Retail Market Forecasts – National Fundamental & Rent Projections

U.S. Supply/Demand & Vacancy



Metro Rent Growth Projections: 2011-2015

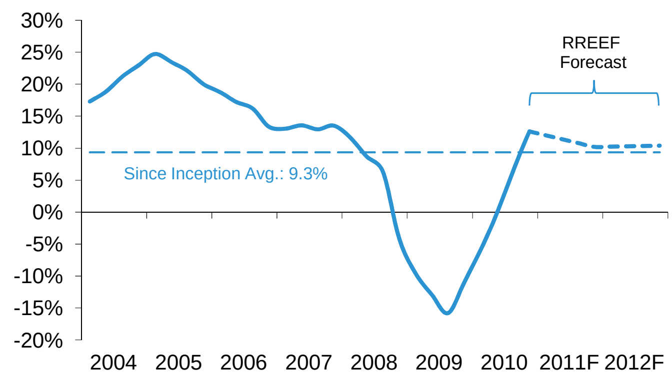


Sources: CBRE-EA and RREEF. *As of March 2011.*

Transactions: As an out-of-favor sector, retail did not see the surge in transactions volumes in 2010 experienced by the apartment and office sectors. While sales did rise a respectable 51 percent for the year, this increase pales in comparison to the 124 percent jump for all other sectors combined. In fact, retail had the lowest gain of any sector for the year. Similarly, retail has arguably seen the smallest degree of capitalization rate reduction and value gains of any sector since property values bottomed in late 2009, but the relatively small volume of transactions renders this conclusion tentative. Clearly, investors have reacted to the unprecedented decline in retail market fundamentals by passively sitting on the sidelines until a more decisive recovery takes hold. Nonetheless, quarterly figures are trending upward, showing that investors are slowly warming to the sector. With greater volumes likely this year, we should see more firming of pricing and lower capitalization rate spreads over treasuries, at least in the near term.

NCREIF Retail Index*

As of Fourth Quarter 2010



Q4 2010 Index Value = $60.4 Billion **1,056 Properties**

**Unleveraged Rolling Fourth Quarter Returns.* *As of March 2011.*
Sources: NCREIF & RREEF.

Performance: The retail sector provided the most stable returns of the four sectors throughout the downturn. Even with tenants negotiating lower leases, the best properties outperformed, and these properties tend to dominate the NCREIF Index. Retail spending is near to recovering to its previous peak, but traditional bricks-and-mortar retailers continue to experience declining share as online and service-oriented retailing grows. Better retail properties are likely to continue to be steady performers, but the gap between the top and moderate performers will become more noticeable. An overweight to the sector should be considered, as recommended by our House Portfolio, but asset selectivity is crucially important. The forecast for the sector in 2011 is to outperform the NPI due to both falling capitalization rates and steady income growth. However, retail is expected to underperform the apartment and industrial sectors in 2011.

8. Investment Opportunities by Sector and Risk

In this strategic outlook, RREEF has indicated enthusiasm for all four property sectors and has identified a substantial number of metros that it considers target markets for core investing. We expect that attractive opportunities will be found within this broad array of sectors and metros that will nonetheless be high quality core assets.

Apartment: Core investors should continue to prune portfolios, selling assets that the capital markets may overprice, especially where there is potential for substantial new supply that will suppress longer-term growth. Strong near-term performance and beneficial demographic trends are compelling attributes for investment. However, selectivity remains essential for new acquisitions. Infill markets with strong transportation links and access to employment and amenities are preferred, where renters will be willing to pay premium pricing. Nevertheless, prime properties in those locations will likely be challenging to acquire due to low capitalization rates. Targeted rehabs in well-located older properties in these markets could be a viable strategy to achieve yield. In addition, ground-up development could also be a strategy to access high quality properties in top locations at an acceptable yield, given minimal leasing risks in this rapidly improving market.

Industrial: There will be opportunities to garner relatively favorable investment returns in the industrial sector based on modest capitalization rate compression and rising rents and occupancy over the next few years. Investors will prize the global gateway markets in the near-term, but will begin to expand their geographic targets in search of high-quality stabilized assets as they get priced out of the prime markets. Capital will be scarce for new speculative development, but there will be occasional build-to-suit opportunities. As indicated in this report, we have identified a substantial number of metros and target infill submarkets that we believe will produce strong performance. However, we recommend against investment in large tenant buildings in peripheral urban or exurban locations or in non-target metro markets.

Office: Prices have been bid up for the best fully leased properties in the prime submarkets, generally the CBDs of a small number of global gateway markets. RREEF has identified a number of metros and target infill submarkets that we believe will also provide near-term recovery opportunities. As capital demand keeps rates of return thin for the best opportunities, and as other markets move another year closer to recovery, high selectivity should be exercised in evaluating opportunities outside these target locations. Focus should be on product in the nation's strongest CBDs and inner suburban employment centers, with particular attention to properties close to transit and amenities. Tenants are increasingly demanding "Green" product, so investors should give attention to this property characteristic. Markets driven by tech will continue to be near-term outperformers. Metros already benefitting from the recovery include New York, San Francisco, San Jose and Washington D.C.. Boston is expected to follow suit, and other strong candidates include Austin and San Diego. In general, these markets carry greater upside than downside risk regarding the timing of rent recovery. Nonetheless, only a limited number of submarkets within these metros should be considered for near-term core investments.

Retail Given the distress the retail industry experienced during the recession, capital has been slower to return to this sector than others, but this is rapidly changing. Following a number of bankruptcies and liquidations along with aggressive store closings, the surviving national retailers generally are in much stronger financial health. With consumers modestly increasing their spending, the strongest retail centers in top infill locations with quality tenant mixes are once again able to attract desirable retailers, sometimes even at desirable rents. As a result, investors are returning to the sector, but are focusing only on these premier properties. Accordingly, yields are compressing for this sector as well. Top-quality properties, with an emphasis on location, should be preferred for investment. However, older properties in exceptional locations might be considered where low-rent anchor tenants may be nearing the end of their lease renewal options. RREEF has also determined that top investable properties can be found in a broad array of metros. However, in smaller and high-growth metros, extreme selectivity is required.

Core: The center of the bull's eye remains the target for most institutional investors. Capital allocation for core real estate was strong over the past 12 to 18 months and is expected to remain strong in the near term. Investors have focused on inner-ring submarkets in prime coastal metros. In spite of the higher pricing for high-quality assets since the beginning of the recovery in 2010, core assets are still trading at discounts to replacement cost or at historically wide cap rates spreads to treasuries. Thus, core acquisitions remain a viable strategy for investors seeking a long-term hold, over which period such properties have proven to outperform.

Investors are beginning to cast a wider net in terms of market selection during the first half of 2011 as recovery takes hold and the search for yield intensifies. Risk averse investors are also likely to become more comfortable with near-term tenant expirations in top-tier assets in early recovery markets as core-plus strategies. Class B properties in top locations might also be considered. Asset selection and a disciplined approach toward expanding interest rates are warranted.

Value-Added: During 2011, investors will begin to venture further out on the risk spectrum and dust off value-added strategies. Opportunities exist for investors to "buy vacancy", though dislocation is most prevalent in secondary and tertiary markets and submarkets. The office sector is likely to provide the most opportunities in terms of deal flow, given high vacancy rates and weak near-term growth prospects. Isolated repositioning opportunities should exist within the retail and industrial sectors as well. Power centers in weak locations that lost anchor tenants remain out of favor with core investors and should be available at deep discounts to replacement cost; however, their futures are probably not as retail centers. Within the apartment sector, “build to core” strategies are being considered, as the spread between stabilized capitalization rates and development yields remains wide. From a market perspective, distressed metros that offer strong long-term growth prospects are favored. These metros include Orlando, Charlotte, Atlanta, Phoenix, Riverside-San Bernardino and Orange County, among others.

Opportunistic: Investor interest remains somewhat modest for the opportunistic sector, though fundraising and fund launches have both accelerated in recent quarters. Opportunities currently exist for high yield investors targeting distressed notes with an eye towards the underlying real estate. Additionally, overleveraged assets in need of capital are abundant and preferred equity structures and "white knight" capital infusion programs are becoming commonplace. Failed or stalled development projects, particularly in the condo, hotel and mixed-use sectors, should continue to be viable alternatives as well. Land purchase programs for commercial properties with realistic underwriting are likely to be scarce, as most of the highest quality sites are already being repositioned. The patient money may begin to look toward the residential lots sector, which could provide upside as the merchant home builders begin to restock their land portfolios in the next few years.

9. RREEF U.S. House Portfolio

RREEF recommends a portfolio that is relatively balanced among the property sectors. This recommendation results in overweights to the industrial and retail sectors, and underweights to the apartment and office sectors compared to the NCREIF Property Index. Investors should focus on areas forecasted to have stronger than average economic growth, while diversifying for risk. The result is a stronger weighting to the West and East regions, with a slight underweight to the South and lower weighting to the Midwest.

RREEF believes that portfolio strategies that specify allocations to property types by metros or regions should allow for some flexibility. Therefore, RREEF's House Portfolio recommendation, while seeking high risk-adjusted returns, provides recommended ranges that allow for the flexibility to deal with asset specific risk and return factors such as illiquidity, “cornerstone” characteristics and tenant diversification, among others.

Housing Portfolio Property Sector Weighting						
Sector	NPI Weights	Research Forecasts	Qualitative Inputs[5]	House Portfolio	House Active Weights against NPI	Recommended House Portfolio Ranges
Apartment	25%	Early recovery, Strong near term rent growth	Largely Fully Priced	22%	(3%)	17% - 27%
Industrial	14%	Fundamentals improving	Attractive relative valuation, poised to outperform	25%	11%	20% - 30%
Office	34%	Waiting for job growth	Too early/Late recovery	26%	(8%)	21% - 31%
Retail	25%	Consumption improving, retailers crisis over	Attractive relative valuation, stable cash flow	27%	2%	22% - 32%
Hotel	2%	NA	NA	0%	(2%)	0%

The House Portfolio has a balanced sector weighting, which results in an overweight to the retail and industrial sectors versus NPI and an underweight to the apartment and office sectors.

- **Apartments** are expected to produce stellar NOI growth in the near-term; however, the sector is now fully priced with most premium apartment transactions trading with little to no discount to replacement cost. A tactical acquisition strategy is necessary in order to compensate for the current low capitalization rate environment.
- **Industrial** assets will likely garner stronger NOI growth going forward given the strong recent performance of leading indicators for the sector. The capital markets have begun to acknowledge this trend, yet we continue to expect attractive yields at least in the near term for the sector.
- High selectivity should be used in considering **office** assets. Office properties in the best core CBDs should be targeted, particularly assets containing solid rent rolls that provide for income protection during the next few years as the threat of shadow vacancy to absorption also exposes the sector to demand risk over the next several years.
- Relatively stable income, cheap relative valuation and forecasted high total returns of **retail** promote an overweight to this sector. However, asset selection is at a premium because of various threats to the sector, including the aging Baby Boomer cohort, e-commerce market share gains relative to physical stores, and expected consumption growth below long-term averages for several years.

[5] Qualitative Inputs include inputs from Transactions, Asset Management and Portfolio Management teams.

House Portfolio Regional Weighting

Region	NPI Weights	Research Forecasts	Qualitative Inputs[5]	House Portfolio	House Active Weights against NPI	Recommended House Portfolio Ranges
East	33%	Large financial-center and globally linked metros outperform near and long-term	**Overweight**: Relatively modest peak-to-trough rent losses. Leading rent stability & growth. High supply-side barriers. High incomes and land values, favorable industries, moderate growth.	41%	8%	36% - 46%
Midwest	11%	Average and below average growth limit upside. Near term recovery lifts metros with favorable industries	**Underweight**: Mixed peak-to-trough rent losses, lagging rent and occupancy gains, low supply-side barriers, Mixed incomes, low land values, mixed industry base, slow growth.	5%	(6%)	0% - 10%
South	22%	Fast-growth and low cost characteristics stimulate demand and recovery, but uneven prospects	**Underweight:** Relatively modest peak-to-trough rent losses. Average rent forecast prospects. Low supply-side barriers, Some favorable industries, high growth.	15%	(7%)	10% - 20%
West	34%	Recovery from sharp contraction begins. Knowledge-based and globally linked metros lead and outperform	**Overweight**: Sharp peak-to-trough rent losses. Strong long-term rent recovery and occupancy gains. High supply-side barriers, mixed growth, favorable industries high incomes and land values, mixed growth.	39%	5%	34% - 44%

RREEF is suggesting an active regional overweighting to the East and West, while underweighting to the South and Midwest.

- The **East** is gaining from the support from Washington (going to New York), and export and tech driven growth in Boston. Washington itself will remain strong through the next election and then risks depend on where the government chooses to cut.

- The **Midwest** is recovering, and cyclically is in a better position than much of the rest of the country, but structural problems in manufacturing (e.g., globalization and automation) will continue, leaving the middle-class behind.

- The **South** is bifurcated between the plains and the coast. Florida is improving but still has underlying issues in the housing market, and the northern coast (Charlotte and Raleigh) still have overvalued housing markets. Texas on the other hand is performing well, but supply may become an issue when rents pass levels that can sustain development.

- The **West**, which has lagged throughout the downturn, is just now starting to recover. Housing is still an issue, but home sales are improving and prices are not expected to experience further decline. International trade is increasing and will sustain as the global economy recovers.

In terms of implementing these portfolio construction themes, following are the key considerations for acquisition and disposition strategies:

- **Tactical for Acquisitions:** For *new* or *existing portfolios* that are currently underweight to any sector versus the recommended portfolio, we recommend aggressively adding to industrial and retail properties in the near term, selectively adding to apartments during the first 18 months of our five-year outlook, and adding to office during months 6 through 24 of our five-year outlook (with the exception of extraordinary current office opportunities).

- **Tactical for Dispositions:** For *existing portfolios* that are currently overweight to any sector versus the recommended portfolio, we recommend only selectively selling industrial and retail properties in the near term, aggressively selling apartments, and only considering the sale of office properties at the end of our five-year outlook.

House Portfolio Construction Considerations and Risks

RREEF's expectations for real estate returns depend upon our forecasts of economic and capital market conditions. In this section, we will describe considerations to our assumptions and the risks to our Performance forecast.

- The risk to our GDP growth and inflation assumptions is to the upside. However, the risk to the five-year real estate performance outlook is balanced between the upside and downside as higher inflation as a result of strong economic growth may lead to lower equity risk premia and credit spreads, offsetting higher risk-free rates.

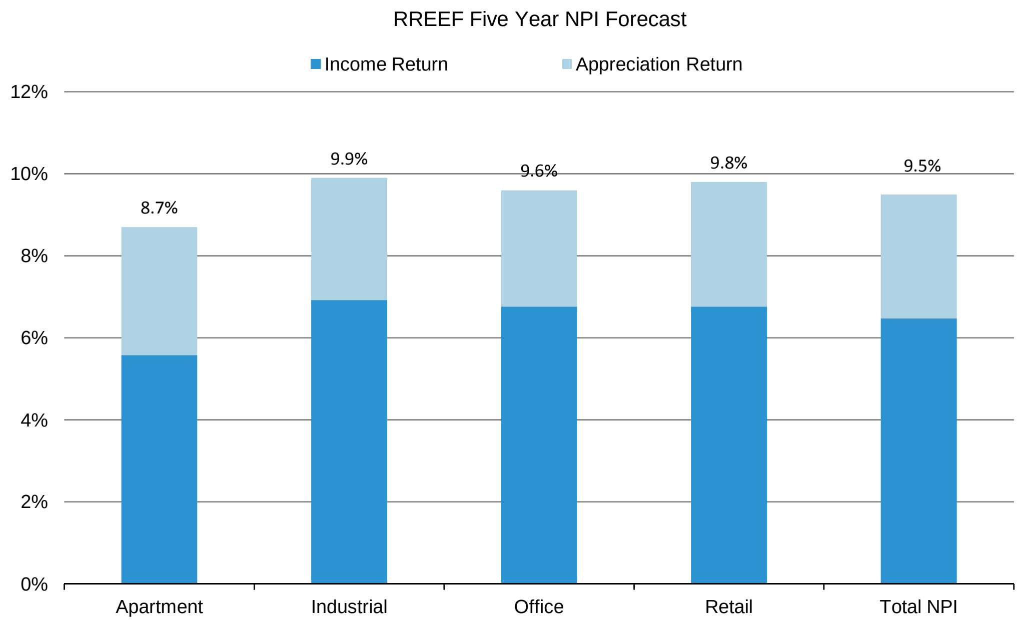
- Although **apartments** are expected to generate the highest NOI growth from 2011-2015 by a significant margin relative to the other sectors, we recommend underweighting the sector relative to NPI due to potential negative capital returns and uncertainty with respect to agency financing beyond 2012. However, due to the Echo Boomer trend and the higher NOI growth rate, a more significant underweight relative to NPI is not recommended and thus, an exposure of 22 percent to apartments is recommended.

- Due to both the forecasted high income yield and high capital return of the **industrial sector**, we recommend a significant overweight (25 percent exposure) to the sector, relative to the NPI. The forecast for the industrial sector benefits from an expected increase in inventories and trade over the RREEF forecasted period.

- With an expectation for a sustained "jobless recovery" (less than full employment) and a late recovery for the **office** sector over the 2011-2015 period, we recommend a significant underweight to the sector (26 percent) relative to NPI.

- Despite relatively stable income yields, cheap relative valuation and forecasted high total returns of the **retail** sector, we have tempered the overweight recommendation, at 27 percent to the sector relative to NPI, due to the aging Baby Boomer cohort, the threat of e-commerce gaining more market share relative to stores, and expected consumption growth below long-term averages for several years.

RREEF Five Year NPI Forecast



Source: RREEF. *As of March 2011.*

If our forecast for above-trend economic and real estate rent growth in conjunction with favorable capital market conditions is wrong, the Scenario Analysis below ***suggests*** (no guarantees) the House Portfolio recommendation will still result in performance in line with or surpassing the NPI under four scenarios that we believe are markedly different from our baseline forecast, and relative to one historical scenario that is arguably similar to our current expectation of a market recovery over the 2011-15 period. We assume that the current House Portfolio recommended weights by sector and geography remain constant throughout the periods below.

	Scenario I (1989Q1 - 1993Q4)		Scenario II (1994Q1 – 1998Q4)		Scenario III (2001Q1 - 2003Q4)		Scenario IV (2004Q1 - 2007Q2)		Scenario V (2007Q3 - 2010Q2)	
	NPI Returns	House Portfolio	NPI Returns	House Portfolio	NPI Returns	House Portfolio	NPI Returns	House Portfolio	NPI Returns	House Portfolio
Annualized Total Return	0.20%	0.95%	10.81%	11.12%	7.67%	8.61%	17.08%	17.07%	-4.71%	-4.49%
Volatility	3.58%	3.40%	2.02%	1.70%	1.08%	1.08%	1.66%	1.66%	8.25%	7.92%

- **Scenario I** was the period during the commercial real estate bust of the S&L crisis in which capitalization rates move up drastically. The bull market of the 1980s began to falter in 1989 and turned downward for the following 23 quarters. The House Portfolio outperforms by 75 basis points per annum with lower volatility during this Scenario. Office was the main proponent of negative returns and higher volatility during this time, so an underweight helps returns measurably.

- **Scenario II** represents a period when the market turned into recovery, and somewhat reflects our current expectation for the 2011-15 period. Returns bottomed at the end of 1995, and real estate entered a slow growth cycle as the Resolution Trust Corporation wound down. Properties acquired during this period outperformed generously, but selectivity with allocations resulted in a 31 basis point improvement in returns between the House Portfolio and NPI during this period with lower volatility.

- **Scenario III** was a mild downturn with peak to trough declines in capital values less than 5.0 percent. The decline in values was due to a sharp contraction in NOI, but the situation was aided by capitalization rates compressing during the same period. The result was the strongest bull real estate market in recent history. The House Portfolio outperforms by almost 100 basis points per annum with similar volatility during this period.

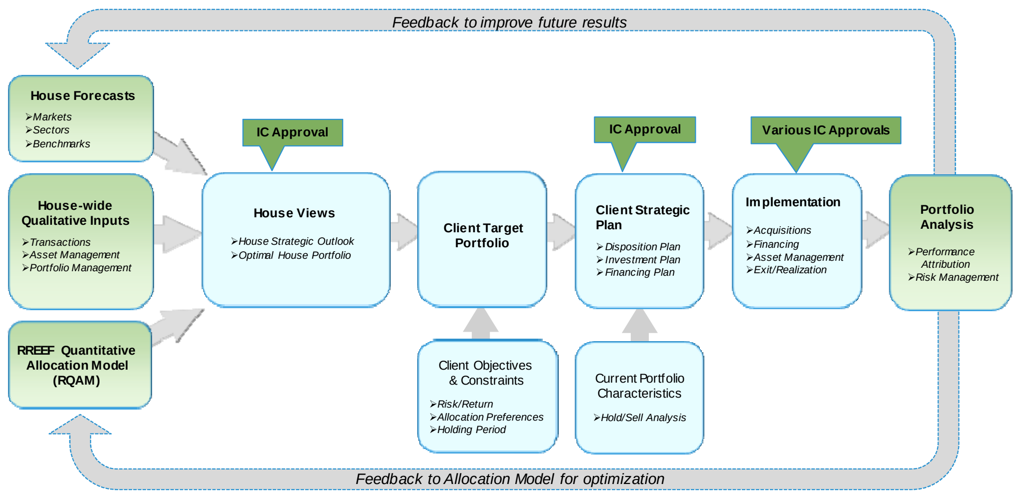
- **Scenario IV** was a period highlighted with strong capital inflows into real estate, and all property sectors performed well. Compressing capitalization rates resulted in the strongest bull real estate market in recent history. The House Portfolio performs in line with the NPI in terms of return and volatility.

- **Scenario V** was another downturn, as was Scenario I. However, the difference was that Apartment, Industrial and Office sectors all performed equally poorly. Retail led the market this time around with a peak to trough drop of 5 to 10 percent, better than the other sectors. The House Portfolio outperforms by 22 basis points per annum in this Scenario due to an overweight to retail and underweight to multifamily.

10. Appendices

House View Process

House Views, Strategic Planning and Portfolio Analysis Processes



Our House Views are a series of recommended investment strategies generated through the integration of our forecasting efforts (House Forecasts), our early identification by the broader RREEF platform of changing investment and capital market conditions (Qualitative Inputs) and analysis of historical and current trends (RREEF Quantitative Allocation Model) that address risk and opportunity for our clients and their portfolios across investment markets, property sectors and capital markets.

RREEF Research produces House Forecasts for all of the major real estate markets that pass a set of screening criteria used to define the most attractive target real estate investment markets. Research specialists for the office, industrial, retail and apartment sectors have designed appropriate models for assessing supply and demand in the major target submarkets for investment in these metros. Demand models are based on economic and employment forecasts provided by our economists.

Because third-party data and perspectives tend to be weak in respect to supply-side factors, RREEF Research's sector specialists spend considerable time identifying the supply pipeline by volume and timing and incorporating qualitative inputs from on-the-ground, real time insights of RREEF professionals in the Transactions, Asset Management, Debt Capital Markets and Portfolio Management teams, which the CIO systematically collects in order to identify emerging trends.

Each specialist's model and forecast is subject to extensive peer review by the entire RREEF Research team and the balance of the CIO Group. Our House Forecasts also incorporate forecasting of benchmark total returns for real estate by property sector. The entire CIO Group (including RREEF Research) engages in this effort through the use of RREEF's Quantitative Allocation Model, which provides a dual historical and current perspective on expected returns and portfolio construction, including correlations among sectors and regions/metros through the use of statistical modeling and regression analysis.

The purpose of forecasting market behavior is to determine which of RREEF's target markets (and property sectors therein) are likely to outperform over the forecasted period to formulate views on active tactical weighting of a portfolio.

These activities culminate in RREEF's House Portfolio - sector and geographical weights that we believe will provide long-term risk-adjusted outperformance of our portfolios versus the market as a whole and against the relevant benchmarks and indices given the current and expected economic and real estate conditions.

Metro Abbreviations

Scatter Plot Abbreviations			
Abbrv.	**Metro**	**Abbrv.**	**Metro**
ATL	Atlanta	NNJ	Northern New Jersey
AUS	Austin	NYC	New York City
BALT	Baltimore	OAK	Oakland
BOS	Boston	OC	Orange County
CHAR	Charlotte	ORL	Orlando
CHI	Chicago	PHI	Philadelphia
CHL	Cleveland	PHX	Phoenix
CNJ	Central New Jersey	POR	Portland
DAL	Dallas	RIV	Riverside
D.C.	Washington D.C.	SAC	Sacramento
DEN	Denver	SD	San Diego
DFW	Dallas-Fort Worth	SEA	Seattle
FTL	Ft. Lauderdale	SF	San Francisco
HOU	Houston	SJ	San Jose
LA	Los Angeles	STAM	Stamford
LI	Long Island	VEN	Ventura
MIA	Miami	WPB	West Palm Beach
MSP	Minneapolis-St. Paul	U.S.	U.S. Average of RREEF Metros

Important Notes

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The forecasts provided are based upon our opinion of the market as at this date and are subject to change, dependent on future changes in the market. Any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets is not necessarily indicative of the future or likely performance.

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