Invesco Real Estate House View

North American Market Outlook

Autumn 2011

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Executive Summary

Invesco believes that capital and income preservation are chief priorities in the face of an uncertain economy, thereby driving our focus on high quality assets.

The seasons have turned rapidly for the U.S. economy and the institutional real estate market. Following the official end of the recession in June 2009, the spring of 2010 brought rising employment levels, giving investors enough confidence to extend their exposures beyond the safe havens of government bonds and precious metals. Institutional real estate has been a key benefactor with values rising by more than 11% from 1Q 2010 to 2Q 2011. All the while, the European sovereign debt crisis and rising U.S. government debt levels have lingered like two uninvited guests at a party, threatening to derail the recovery as we have noted repeatedly in recent editions of our House View. The two unwanted guests have certainly made this economic recovery more plodding and less robust than past recoveries, and this summer's debt ceiling debate in the U.S. and escalated fears of a Euro debt default intensified concerns, but investors, consumers and businesses in large part cautiously stayed the course.

But that changed in August. The debt rating downgrade of the U.S. Government by Standard & Poor's struck a psychological blow to the world's largest economy, and subsequent fears just days later that France might lose its AAA credit rating redefined the potential magnitude of European contagion beyond the ongoing angst over Greece. While the jury is out on how consumers, businesses and investors may respond to these issues in the coming months, the initial reaction has been sharp risk aversion as investors ironically bolted for U.S. Treasury bonds and have pushed the yield on the 10-year bond to a historic low below 2%.

As a result, our outlook for economic growth, though already low relative to past recoveries, has been reduced further, and the risk of a double dip recession has increased. But whether the economy sees slow growth or another recession, we believe that the effects of either scenario upon institutional real estate performance would vary chiefly by magnitude and the strategies we would implement in response are similar.

- We believe that rising economic uncertainty and historically low Treasury yields translate into reduced near-term investment return expectations across most asset classes, including real estate.
- Hence, the central theme of Invesco's Autumn 2011 North American House View is that preservation of capital and security of income are primary considerations. Incremental returns and yields should be secondary considerations.

The following summarizes the various factors underlying this central theme and our targeted investment strategies:

Economy

- **Lack of confidence borne of uncertainty slows the growth outlook.** Real gross domestic product (GDP) growth in 2012 is expected at below-trend levels. Improvement starting in 2013 is expected at +/- 2.5%.
- **Sovereign debt risks threaten sustainability of economic recovery.** Negative events in either Europe or the U.S. could trigger another recession.
- **Slow growth means low Treasury yields.** The U.S. Federal Reserve is likely to keep government bond yields low for some time.

Pricing and Relative Value

- **Investment performance expectations diminish across most asset classes, including institutional real estate.** Average total returns of +/- 6.5% are expected for institutional real estate, which is likely to be marginally lower than stocks and higher than bonds.
- **Getting pricing right is challenging with record low Treasury yields.** Policy and macro risks have arguably made Treasury yields artificially low, creating challenges for assets like real estate priced off a "risk-free" rate.
- **But other comparison metrics provide assurance on current pricing.** Favorable cap rate spreads to commercial real estate mortgage rates and Baa Corporate bond yields in addition to Treasuries support pricing. Absolute cap rate levels today remain above pre-recession lows.
- **Above-average cap rate spreads currently provide further assurance.** Cap rate spreads today remain above long-term average spreads, leaving room for spreads to compress once economic uncertainty diminishes and long-term bond yields rise.
- **It's all about quality; pricing bifurcation persists.** A stable income strategy means an asset selection bias for strong locations, low lease expiration exposures in the near term, and durable tenant credit.

Sector Allocation

- **The old allocation rules may not work this time.** Historically, retail has been the go-to sector during economic slowdowns. But structural shifts should lead to sharply bifurcated asset-level performance.
- **Apartments offer best near-term opportunity for revenue growth.** Apartment pricing is tightest of all sectors, but record occupancy projections mean apartment income growth should dominate other sectors in the next two years and provide stability in the event of an economic shock. Sector is targeted at 33%, overweight to the NCREIF Property Index (NPI) (27%).
- **Office offers best mid-term opportunity for revenue growth.** Office is expected to see uneven performance across markets, yet as a sector is anticipated to outperform in three to five years when below-market rents on expiring leases roll-up to market rates. We continue to move our office allocation upward to 30% in anticipation of this expectation while maintaining an underweight position relative to the NPI (36%).
- **Retail and Industrial: close to neutral allocation.** Expected bifurcated performance leads us to slightly underweight retail at 22% relative to the NPI (23%). Near-term economic headwinds and long-term shifts in demographics, use of consumer credit, and online retailing are expected to challenge the sector, causing us to focus on stellar locations.

  Industrial is expected to see weak near-term income trends as leasing pauses, but should improve as economic uncertainty diminishes. Online shopping should draw some tenant demand away from retail. Industrial is targeted at 15%, just above the weight in the NPI (14%).
- **It's a "stock picker's game" over the next two years.** All sectors are challenged when job growth slows. Thus, asset selection may trump the importance of sector allocation in the near term, particularly among the commercial sectors, as best locations and low near-term exposure to lease expirations are likely to produce better relative performance.

Economic Conditions

Risk has increased in the fledgling U.S. economic recovery. Previously temperate growth expectations near-term are now lower and uncertainty is higher.

A recovery story interrupted. We've been watching the U.S. economic recovery gradually unfold over the past two years, but this recovery plot has been interrupted by two unwanted actors. After averaging 3.0% real GDP growth from the recession's end in mid-2009 through the end of 2010, the temperate pace of the U.S. economic recovery became downright anemic in the first half of 2011. And the magnitude of the downshift was masked by initial growth estimates that later faced significant downward revisions.[1]

By now you know that the unwanted actors taking over the recovery story are the same ones we have noted in prior editions of our House View:

- The ongoing travails of the European sovereign debt crisis;
- The S&P rating downgrade of the U.S. government as an issuer of debt and continued political gridlock over the resolution of long-term fiscal conditions.

Other events also slowed growth in the first half of 2011 including the Japan tsunami and high energy prices. Yet, U.S. fiscal conditions and the European sovereign debt crisis have taken center stage in an economic drama in search of a hero.

Recovery started. In the shadow of these two ominous risks is a plot line that appears to be lost in recent days – i.e., improvement in the U.S. economy since the dark days of 2008 and early 2009:

- **Consumers are spending again, albeit moderately.** Retail sales have increased moderately (even after adjusted for higher oil prices) over the past year with the support of historically low interest rates, which have brought household debt burdens as a percent of disposable income down to levels not seen since the early 1990s.
- **Businesses are investing at a healthy pace.** Private sector investment in equipment and software has grown in recent quarters at rates not seen since the late 1990's tech boom. Growth drivers include high corporate profits, rising capacity utilization and increased innovation-driven demand.
- **Pre-conditions for job growth have been coming together.** Early in the recovery, employers reduced payrolls to boost productivity. As the recovery progressed, employers initially increased worker hours instead of ramping up hiring to further manage labor costs. But, to-date in 2011, output per worker has flattened and worker hours are now at peak levels. Combine these trends with improving levels of capacity utilization and cash-rich corporate balance sheets, and the pre-conditions for meaningful job growth are in place – that is, as long as business and consumer demand remains intact.

1 The U.S. Bureau of Economic Analysis released preliminary 2011 estimates of 1Q and 2Q real GDP growth at 1.9% and 1.3%, respectively, which were later revised to 0.4% and 1.0%, respectively.

Figure 1 — Although Weak, U.S. Economy Showed Recent Signs of Improvement and Pre-Conditions for Job Growth

Deleveraging Supports Spending

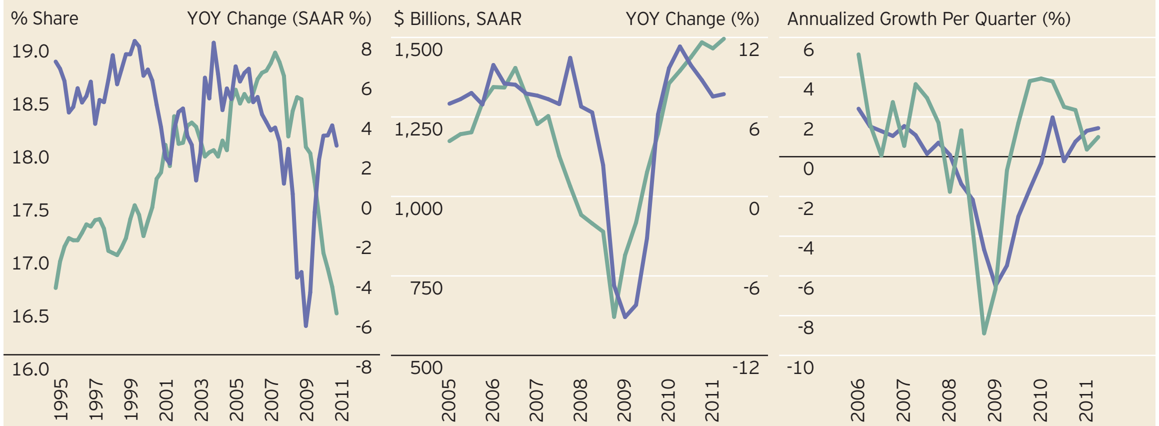
- Household Debt as % Disposable Income (L)
- GAFO Sales (R)

Profits Support Investment

- Corporate Profits (L)
- Equipment and Software Investment Growth (R)

Output and Jobs Improve

- Gross Domestic Product
- Total Employment

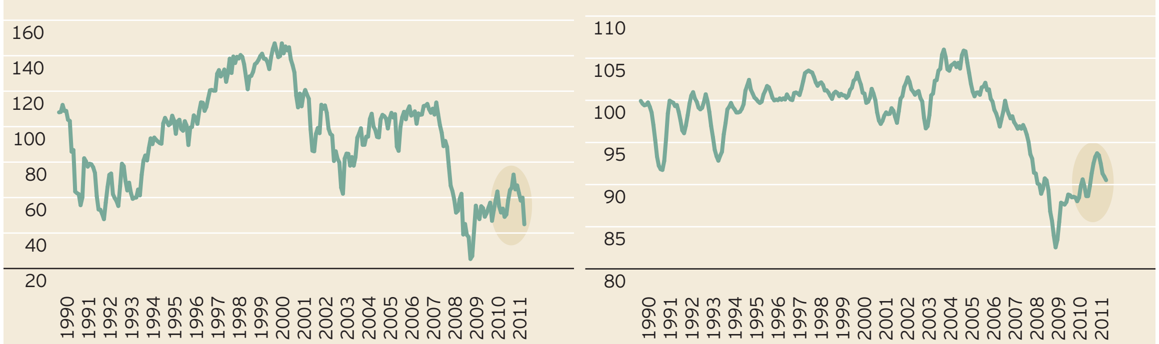


Source: Invesco Real Estate, as of August 2011, using underlying data provided by Moody's Analytics.
Note: GAFO includes the following store types: furniture and home furnishings; electronic and appliances; clothing and accessories; sporting goods, hobby, book and music; general merchandise (department stores, warehouse clubs and superstores; office supplies and gift stores).

Recovery sustainable? Yet, business and consumer confidence have diminished in the face of the European debt crisis and U.S. fiscal weakness, as reflected by increased stock market volatility and a flight to U.S. Treasury bonds beginning in August. The declining trend in the ISM Index, a slowdown in new orders, and rising unemployment claims may be early indicators of the private sector pausing further expansion in light of increased uncertainty. Additional early signals could include the August flattening of retail sales and the decline of the semiconductor book-to-bill ratio, equipment orders and shipments.

Figure 2 — But, Confidence and Sentiment Remains Low and Vulnerable Across All Sectors, Restraining Growth

- Consumer Confidence Index (1985 = 100, SA)
- Small Business Optimism Index (1986 = 100, SA)



Sources: Moody's Analytics; Invesco Real Estate, as of September 2011

Regardless of how these macro risks unfold, other factors at work are expected to restrain the pace of U.S. economic growth near-term, namely:

- A weak domestic housing sector and further household deleveraging.
- China's attempts to slow its rate of growth due to inflation concerns.

Upside scenarios for stronger than expected near-term growth are challenging to find. Two particular initiatives are potentially in play, both bearing their own challenges.

- **Fiscal stimulus could support short-term growth, but contrary to long-term goals.** The Obama Administration has proposed new stimulus measures to Congress in the American Jobs Act, including cutting the payroll tax in half for employees and businesses and extending the 100% depreciation expense from last year's tax package through 2012. These measures could provide support for consumer spending and business investment, offsetting our expectations for slower growth in the short term. Yet some elements of the package, such as unemployment insurance reform and an infrastructure bank, may prove politically difficult to pass. Also, the need to bring the debt-to-GDP ratio down over the long term may prevent passage in Congress given the bill's $447 billion price tag.
- **Monetary "twist" could stimulate mortgage market, but at cost.** The September decision by the Federal Reserve (the Fed) to shift $400 billion from short-term Treasuries to long-term bonds is intended to reduce long-term yields as well as assets impacted by Treasuries, including mortgages. The Fed also announced direct stimulus for the mortgage market via plans to reinvest principal payments from its holdings of agency debt and agency mortgage-backed securities into agency mortgage-backed securities. Yet, with mortgage rates already at record lows, the concerns over a strategy to reduce long-term interest rates are that the positive impact on refinancings could be minimal and the potential for short-term rates to rise could inhibit lending to businesses and impair bank profits.

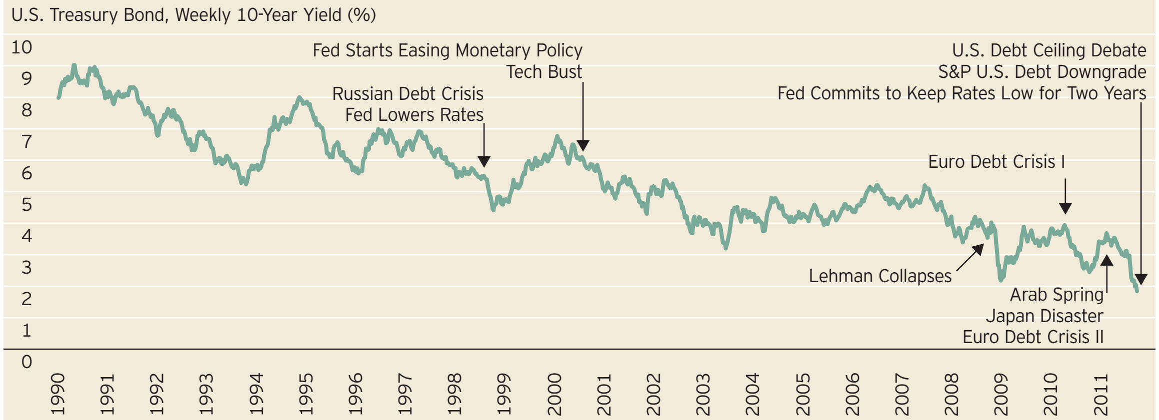
Economic outlook. Our baseline view for growth takes into consideration today's macro risks while also acknowledging that most aspects of our economy today are healthier than during the September 2008 height of the financial crisis.

- **Uncertainty slows economic outlook.** We believe that uncertainty spurred by substantial risks both global and domestic has diminished the confidence of investors and consumers, which in turn has stalled growth in a U.S. economy that otherwise is positioned for temperate levels of expansion.
  - Our baseline view is that near-term U.S. GDP growth will be slow, at best (1% to 1.5% for calendar year 2011; below long-term trend levels in 2012 given the potential for continued gridlock in an election year; +/- 2.5% starting in 2013).
  - Job growth is expected to ratchet down from a recent pace of 125,000 to 150,000 per month in the first half of 2011 to 50,000 to 100,000 per month through 2012. Since roughly 200,000 jobs per month are needed to push the unemployment rate downward, unemployment is expected to remain elevated.
- **Another downgrade or debt contagion could mean double-dip.** Downside risks to our baseline view include potential contagion related to the European sovereign debt crisis and additional rating downgrades of the U.S. Government as an issuer of debt. Either of these events could send the U.S. economy into another recession. Moreover, an intensified pullback of consumer spending and business investment in light of events from August could have the same effect. Probability of a downside scenario is estimated at 40%.
- **Credible resolution provides upside, but at a low probability.** Upside risks to our baseline view include a swifter than expected resolution to the European debt crisis and delivery of a credible plan to improve U.S. fiscal conditions. Probability of this upside scenario is estimated at 10%. Also, either federal initiative noted above could also lead to better-than-expected growth if done in concert with stabilized macro risks.

Slow growth, low inflation. A slow growth economy should translate into slow money velocity, which should result in low inflation over the next two years or longer. The Federal Reserve Bank of Cleveland forecasts inflation to average 2% or "a bit less" in 2012 and 2013.[1]

Low Treasury yields for next two years or longer. U.S. Treasury yields descended sharply in the days following the S&P rating downgrade, and the Fed's August 9 announcement that they will keep the federal funds rate at "exceptionally low levels" through at least mid-2013 would suggest that Treasury yields could remain at artificially low levels for at least the next two years. As such, the eventual rise in yields that would normally accompany the progression of economic growth will likely be stretched further into the future.

Figure 3 — Yield Environment Expected to Remain Exceptionally Low



Sources: Invesco Real Estate, as of September 2011, using underlying data provided by Moody's Analytics.

Thus, we have reduced our forward five-year yield expectation on the 10-year Treasury bond from 4.5% in the Spring 2011 House View to 4.0%. We arrived at this expectation via two key considerations:

- The first is the futures market, which in September was pricing the 10-year Treasury bond at yields ranging from 3.0% to 3.5% at the end of 2016. This estimate seems low, given that the futures market had been pricing Treasuries at yields above 5% only a few months ago.
- The second consideration reflects the long-term spread between 10-year Treasury bond yields and inflation (as measured by the CPI), which averages roughly 250 basis points. Assuming that inflation averages between 1.6% and 2.0% over the next five years, an implied range for Treasury yields would be 4.1% to 4.5%.

Thus, an assumption of 4.0% bridges these two considerations.

1 August 19, 2011, "The Evolving Financial Services Industry and the Outlook for U.S. Economic Growth," speech transcript by Sandra Pianalto, President and CEO, Federal Reserve Bank of Cleveland, http://www.clevelandfed.org/For_the_Public/News_and_Media/Speeches/2011/Pianalto_20110819.cfm

Real Estate Capital Markets and Pricing

Total return expectations have been reset amidst lower growth expectations and higher risk aversion, yet we do not expect a repeat of 2008 and 2009.

Uncertain economy, changing return expectations. Remember the spring of 2010? That was the time when U.S. employment and occupancy rates bottomed and when real estate values began to grow again. After declining nearly 32% over two years from early 2008 to early 2010, values of the NCREIF Property Index have since increased 11.6% from 1Q 2010 through 2Q 2011. Yet, the ability to sustain appreciation of this magnitude has been diminished given the recent intensification of uncertainty in the macro economy.

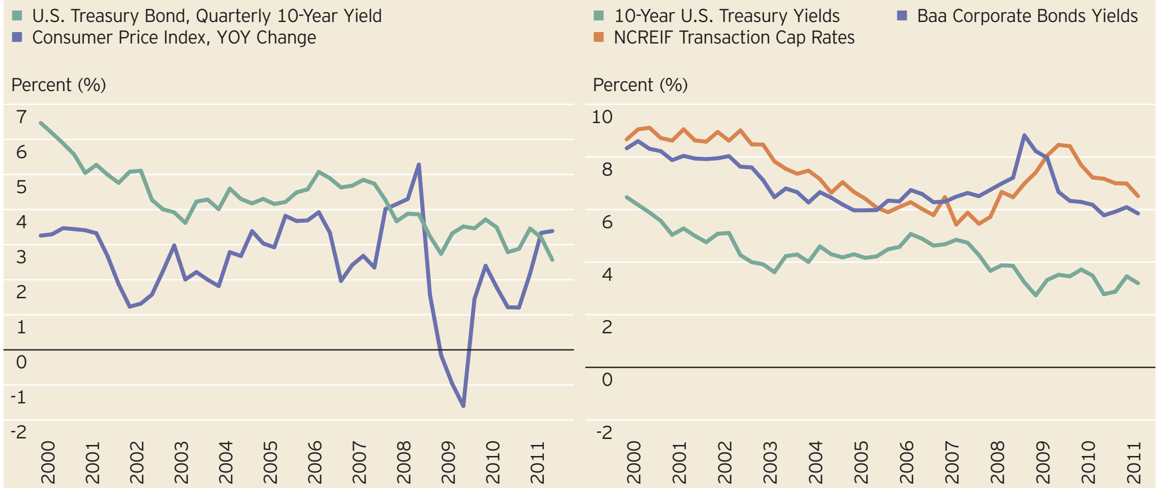
We believe that rising economic uncertainty and historically low Treasury yields translate into reduced near-term investment return expectations across most asset classes, including real estate. That said, currently wide spreads between capitalization rates versus Treasury yields, Corporate bond yields and lending rates suggest to us that, even in the midst of slow economic growth, institutional real estate returns should not undergo the declines experienced in 2008 and 2009. Below are six key points that summarize the assumptions supporting our view, followed by further elaboration of each point.

- Today's historically low Treasury yields could imply artificially wide spreads to real estate cap rates.
- Yet, above-average cap rate spreads to Corporate bonds and mortgage rates suggest that institutional real estate today is priced appropriately.
- This notion is reinforced by the value recovery of institutional real estate to-date. In general, values have rebounded but remain well below pre-recession peaks, and current cap rates remain above pre-recession lows.
- Today's above-average cap rate spreads could compress in the mid term as the economy and fundamentals improve.
- The near-term effect on prime asset values between reduced income growth expectations versus flight to quality could mitigate each other.
- Flight to quality should sustain pricing bifurcation over the near term, supporting lower cap rates on prime assets. Riskier assets should continue to be priced at considerably higher cap rates.

Historically low "risk-free" rate could imply artificially wide spreads. The spread of cap rates to Treasury yields widened in August and September as Treasury yields dropped to historically low rates. Wide cap rate spreads historically have signaled a buying opportunity and have marked favorable vintage year periods for future returns from a capital markets perspective.

Yet, 10-year Treasury yields at the time of this writing in mid-September are inverted to the current rate of inflation, implying that Treasury yields are artificially low and that cap rate spreads may be artificially wide. Under these circumstances, real estate cap rates need to be viewed within a more robust framework than Treasury yields alone.

Figure 4 — "Risk-Free" Rate Low Relative to Inflation; Cap Rate Spreads Appropriate Versus Corporate Yields



Sources: Invesco Real Estate, using data from U.S. Treasury Department; U.S. Bureau of Labor Statistics and Moody's Analytics, as of September 2011 (left graph) and second quarter 2011 (right side).

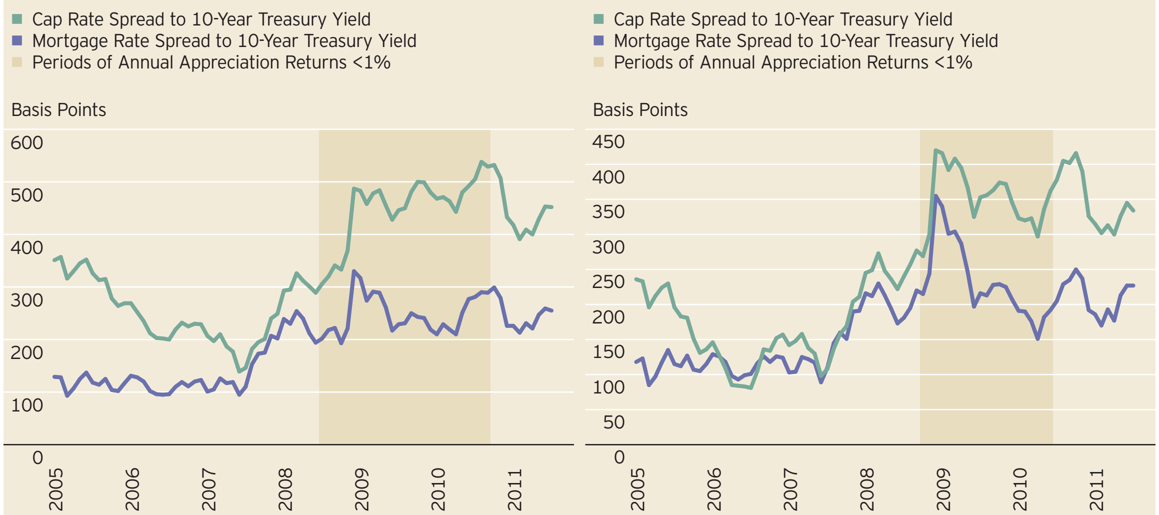
Spreads to corporate bonds and mortgage rates seem reassuring. Thus, a comparison of cap rates to other metrics is in order. We believe that above-average spreads between cap rates versus Corporate Baa bond yields and commercial real estate mortgage rates provide some assurance that cap rates are well positioned today relative to other metrics.

- Non-residential cap rates for prime assets in 2Q 2011 are attractive at roughly 60 to 75 basis points above Baa corporate bond yields, versus a long-term average of about 40 to 60 basis points. Apartment cap rate spreads also look attractive at roughly 50 basis points inside of Baa yields, compared to a long-term average of -65 basis points. To-date in 3Q 2011, cap rates have remained stable or increased slightly and Baa Corporate bond yields have declined, widening the spread further.
- The difference between cap rate spreads to U.S. Treasury yields versus mortgage spreads to Treasuries this summer averaged roughly 200 basis points for non-residential sectors, and just above 100 basis points for apartments. This is in sharp contrast to 2007 and 2008 when differences between spreads collapsed, setting up a period of deep value declines in 2008 and 2009.

Based on these metrics as shown in Figure 5, we believe that cap rate spreads today are much better positioned than during the pre-recession period.

Figure 5 – Cap Rate and Lending Spreads Today Reflect Better Relative Pricing Compared to Pre-Recession Periods

Commercial Property Sectors | **Apartment Sector**



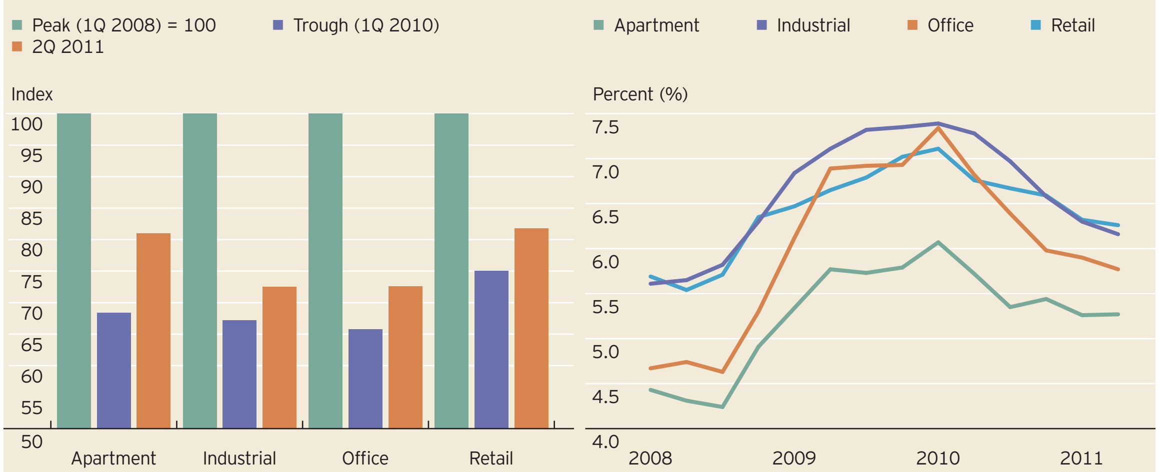
Sources: Invesco Real Estate, using data from Real Capital Analytics (rates and spreads) and NCREIF (appreciation return periods). Commercial sectors represent the combination of industrial, office and retail.
Data through July 2011.

Values to-date have not over recovered. This notion is reinforced by the mere partial extent of value recovery of institutional real estate to-date. Institutional asset values have rebounded, but as of 2Q 2011 values by property sector ranged from 72% to 82% of pre-recession peaks.

Also, while cap rates for institutional real estate have declined in recent quarters, property sector cap rates in 2Q 2011 ranged from 50 to 100 basis points above their pre-recession lows.

Figure 6 – Value Recovery Remains Below Prior Peak; Cap Rates Have Fallen, but Above Recession Lows

NPI Valuations | **NPI Current Value Capitalization Rates**



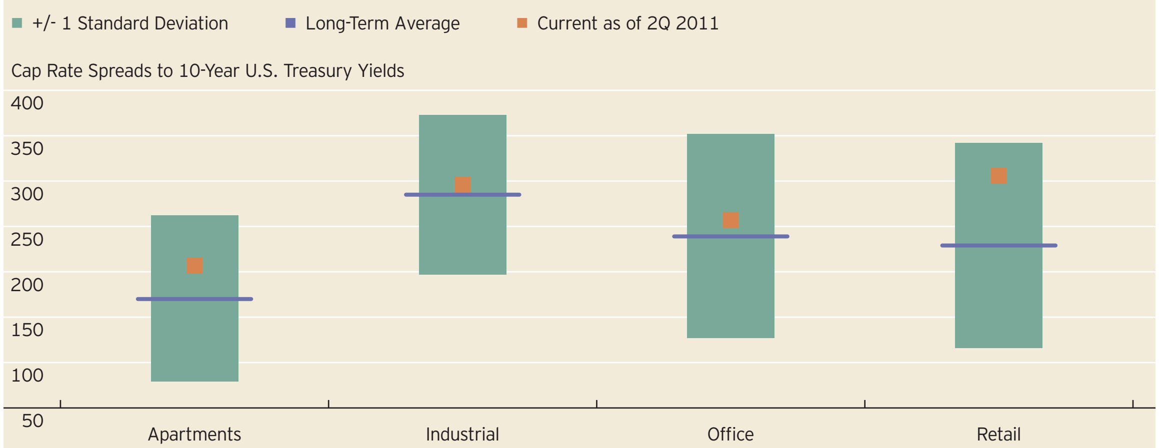
Source: Invesco Real Estate, using data from NCREIF. Current value capitalization rates are calculated by annualizing current quarter net operating income and dividing by current quarter market value (with value adjusted for capital expenditures and intra-quarter asset sales).
Data through second quarter 2011

Cap rate spreads could compress in mid term assuming macro risks diminish. As of 2Q 2011, spreads between going-in cap rates for institutional-quality assets and U.S. Treasury yields moderately exceeded long-term average spreads for office and apartments (20 to 40 basis points, respectively), significantly for retail (75 basis points), and modestly for industrial (10 basis points). We expect that 3Q 2011 results will show that sector cap rate spreads have widened further, given the sharp decline in Treasury yields compared to stable to small increases in cap rates.

We believe that mid-term improvement in economic conditions and fundamentals should motivate investment activity, which should push cap rate spreads lower over the mid-term while Treasury yields rise, with the net effect being relatively stable average cap rates throughout the five-year outlook horizon.

Taken together with our expectations of economic growth, the analysis on spreads and the partial recovery of values to-date, we believe that institutional real estate values will likely see less appreciation on average over the mid term, but are much more durable today than during 2008 and 2009.

Figure 7 — High Cap Rate Spreads Expected to Fall Moderately Over Mid Term as Conditions Improve

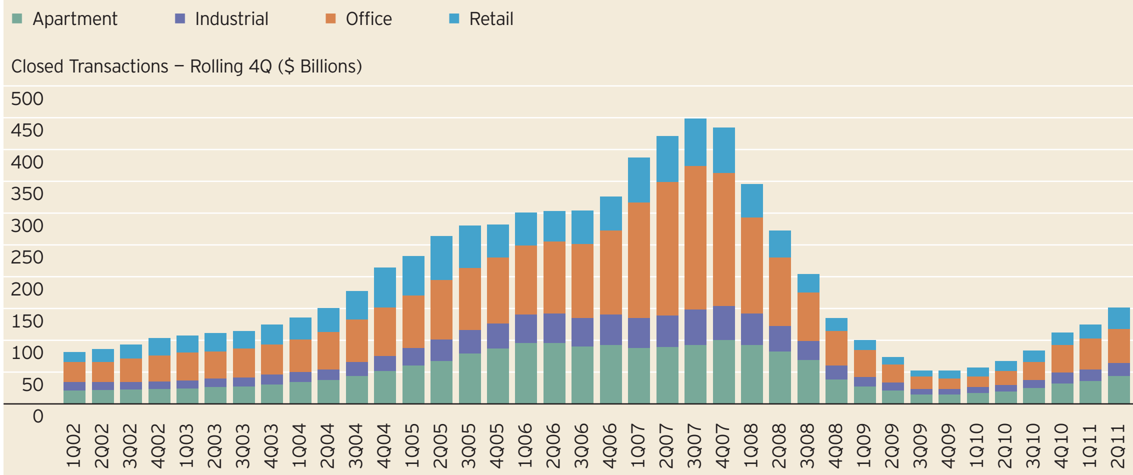


Source: Invesco Real Estate, using data from NCREIF. Long-term average reflects period of 1Q 1994 through 2Q 2011. Cap rate spreads as of 2Q 2011 assume an average 10-year U.S. Treasury yield of 3.20%.

Effects of reduced income growth, flight to quality on prime asset values could mitigate each other in near term. Over the next two years, two factors are expected to exert competing effects on values for high-quality real estate.

- The first is our expectation for income growth, which has diminished of late due to reduced expectations for economic growth. Moderated expectations for income growth impact potential returns in at least two ways. One way is direct as slower growth diminishes the contribution to value appreciation. Another way is indirect as capital flows and transaction activity could potentially pull back in response to a slower growth expectation.

Figure 8 – Rebounding Capital Flows Could Slow if Recovery Stalls; Flight to Quality Supports Prime Assets



Source: Real Capital Analytics, reflecting transaction sizes of $5 million and greater; Invesco Real Estate.
Data through 2Q 2011

- The second factor is an expected reinforcement of the flight-to-quality trend witnessed over recent quarters, which could sustain currently strong capital flows to high-quality assets, thereby supporting values in this segment of the market.
  - Public REITs raised $47.5 billion in equity, debt and initial public offering (IPO) capital in 2010, a near-record year, and capital raising year-to-date through July 2011 at $40.3 billion was on pace to exceed 2010 levels.[1]
  - Private equity institutional real estate managers raised $46.8 billion in 2010 and $20.9 billion in the first half of 2011.[2] While only one-quarter the pace experienced prior to the recession, the year-to-date pace in 2011 matches the pace from 2010.
  - Private debt capital for institutional quality real estate re-emerged in 2010 with life company loan volume for the four major property types totaling $27.3 billion, in line with long-term average volumes. Activity in the first half of 2011 totaling $21.3 billion was on pace to significantly exceed 2010 levels.[3]

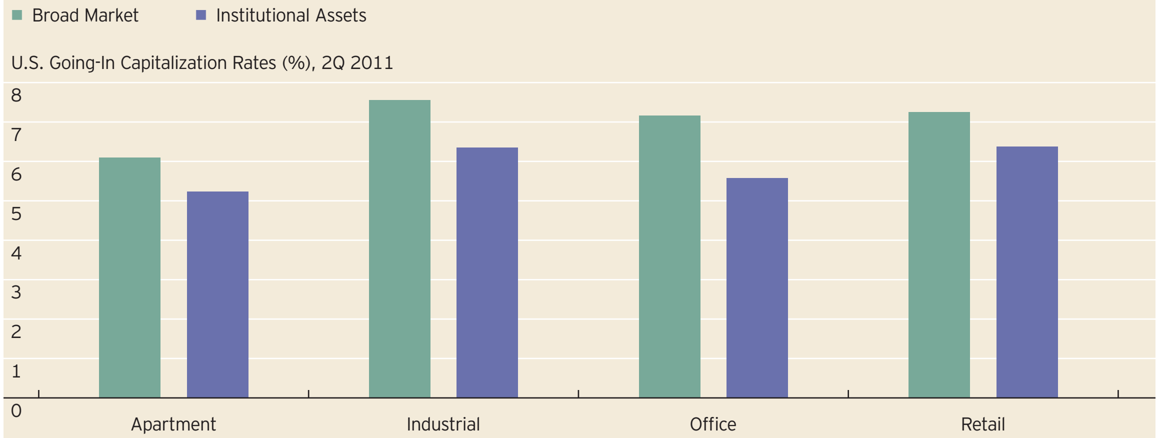
While the pace of overall capital flows could moderate, we believe that a re-energized flight to quality should continue to support cap rates on prime assets. Hence, we believe that these two factors will mitigate each other, netting out the impact on values for high-quality assets in the near term.

Flight to quality should sustain pricing bifurcation. Given the tentativeness of the economic recovery, investor preference has strongly leaned toward well-located, high-quality assets in the most liquid markets. This preference is reflected in cap rates for institutional-quality assets versus the broad market.

Asset selection today is all about quality, and flight to quality should support cap rates on prime assets over the near term, while riskier assets should continue to be priced at considerably higher cap rates.

1 Source: National Association of Real Estate Investment Trusts (NAREIT)
2 Source: Fund Tracker, Institutional Real Estate: Second Quarter 2011 edition, page 1
3 Source: American Council of Life Insurers

Figure 9 — Pricing Bifurcation Persists Across Asset Quality



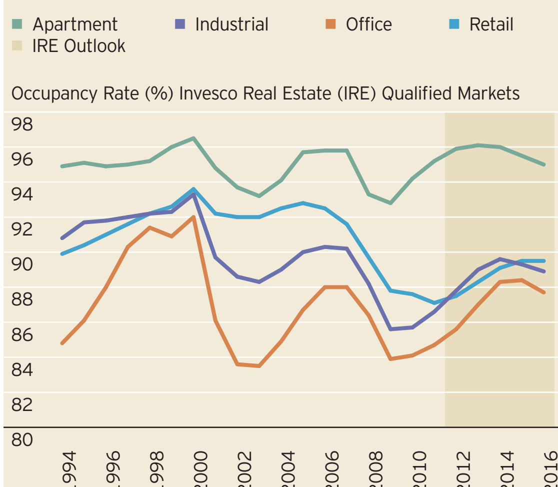
Sources: Broad market cap rates from Real Capital Analytics; Institutional cap rates from the Altus Group.
Data as of 2Q 2011

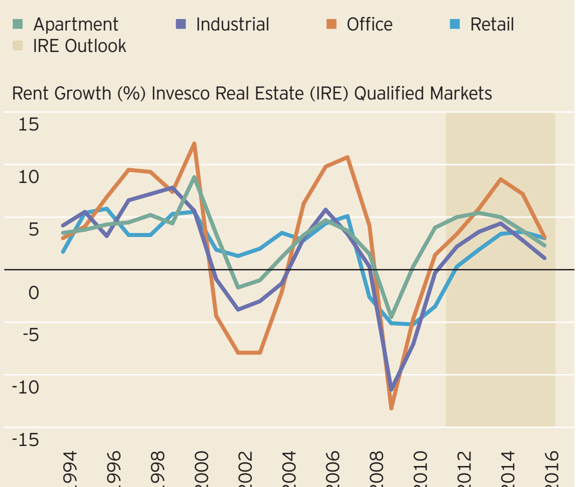
Fundamentals expected to drive property sector performance, led by apartments and office. Given our view that cap rates should remain relatively stable over the outlook horizon, on average, fundamentals are largely expected to differentiate performance across property sectors.

Our view of fundamentals is clearly connected to the uncertain economic outlook. Our baseline view of slow growth of GDP and employment is contingent on the U.S. and global economies side-stepping a material negative event related to the European sovereign debt crisis and U.S. fiscal conditions.

Slow job growth is anticipated to cause tenant demand to decelerate across all property sectors over the near term until economic conditions improve. That said, tenant demand drivers appear stronger on a relative basis for apartments due to the continuing decline of homeownership. Retail faces strong near-term headwinds, driven by high prolonged unemployment and continued household deleveraging.

Figure 10 — Apartments Expected to Lead Rent Growth in Near-Term; Office Expected to Lead Later





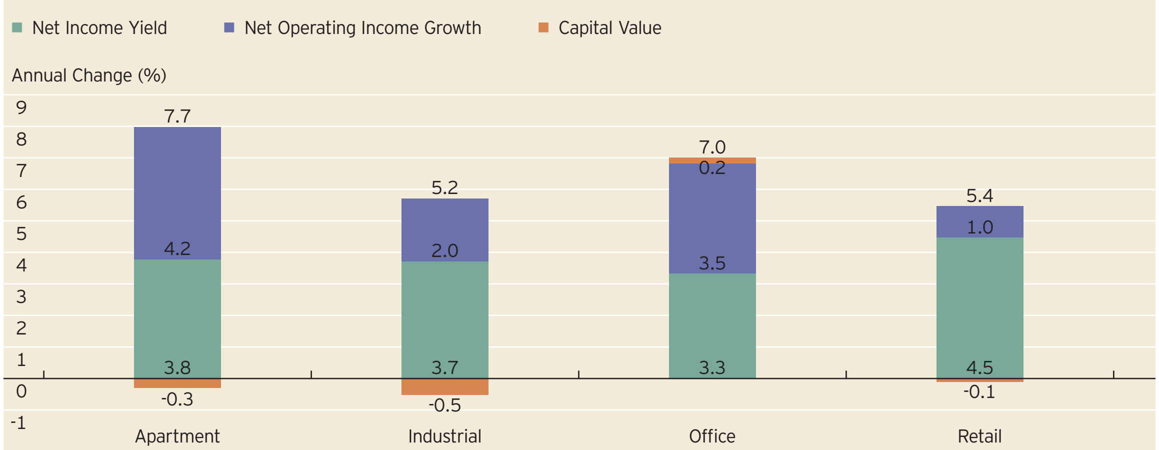
Source: Invesco Real Estate using underlying data provided by CBRE Econometric Advisors and Moody's Analytics, 2Q 2011; 2011 to 2016 outlook by Invesco Real Estate as of 2Q 2011.

- Apartments as a sector are as tight as ever today and should remain tight for at least the next two years when the delivery of new supply is expected to increase. Invesco forecasts 2012 to 2016 revenue growth to average 4.2% per year, with the strongest years on the front end of the outlook horizon prior to the emergence of new supply.
- Office tenant demand has turned positive since mid-2010, but concerns over macro risks will likely cause companies to pull back temporarily on leasing before resuming again as economic conditions improve. Yet, this improvement is expected to be uneven across markets. Invesco forecasts average revenue growth for 2012 to 2016 at 3.5% per year as annual rent growth and expiring leases lead to rents rolling higher in a material manner by 2013.
- The retail sector faces short-term economic headwinds and long-term structural risks as internet retailing reduces the demand for certain bricks-and-mortar formats. We expect retail occupancy to remain bifurcated between the best positioned centers and commodity locations. Invesco forecasts revenue growth in 2012 to 2016 to average 1.0% per year.
- Backtracking consumer confidence and slower global growth amidst today's macro risks mean that industrial tenant demand is also anticipated to decelerate near term. Thus, rents are expected to flatten or soften until macro risks subside. Invesco forecasts revenue growth in 2012 to 2016 to average 2.0% per year.

Apartments expected to deliver best relative performance in near term, with Office emerging in mid term. Based on our view of capital markets and the shape of market fundamentals, we believe that:

- Aggregated total returns are expected to average +/- 6.5% from 2012 to 2016, based on our outlook for exit cap rates relative to going-in cap rates, expected income growth, capital expenditures and initial yields.

Figure 11 – Total Return Components Show Best Relative Value in Apartments, Followed by Office
Five-Year Outlook, 2012 to 2016

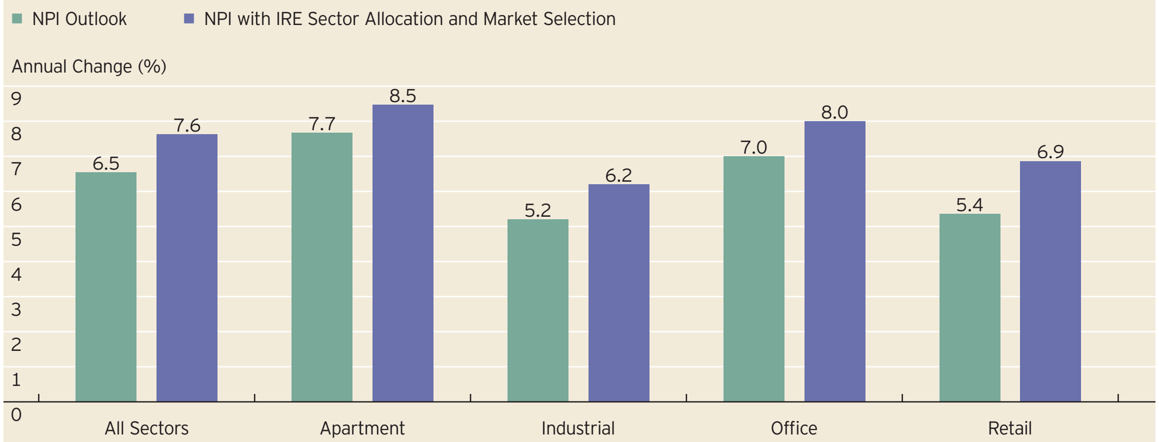


Source: Invesco Real Estate, forecast as of August 2011, based on current market conditions, subject to change.
Note: Net income yield equals the estimated current income yield minus long-term average capital expenditures as a percent of market value. Capital value forecasts are based on anticipated shifts in exit yields in five years relative to going-in cap rates today.
Assumptions used are outlined in more detail in the surrounding narrative.

- The apartment sector offers the best opportunity for investment performance over the next two to three years, followed by the office sector.
- Beyond the two- to three-year horizon, we expect that office returns will overtake the other sectors to deliver best relative performance.
- Performance of individual assets can vary widely due to location, quality, rents in-place relative to market rents, expected capital expenditures, etc.
- Moreover, Invesco believes that +/- 100 basis points of excess performance can be realized through the combination of superior sector allocation (see next section) and market selection focused on the top projected two-thirds of Invesco's qualified markets over the next three to five years.

Figure 12 – Invesco Believes that Targeted Sector Allocation and Market Selection Can Lead to Outperformance

Five-Year Total Return Outlook, 2012 to 2016



Source: Invesco Real Estate, forecast as of August 2011, based on current market conditions, subject to change.
IRE target weights relative to the NPI include allocations to apartments (33% vs. 27%, respectively), industrial (15% vs. 14%), office (30% vs. 36%) and retail (22% vs. 23%). NPI projections as driven by IRE market selection reflect the NOI growth outlook for the top 67% of markets within IRE's qualified market universe.

- Additional excess performance may be realized through further narrowing of market selection and by superior asset selection (i.e., market segments, submarkets, asset characteristics and lease structures most aligned with generating better relative income growth).

The quantitative assumptions underpinning our national outlook for total returns are provided in the Appendix.

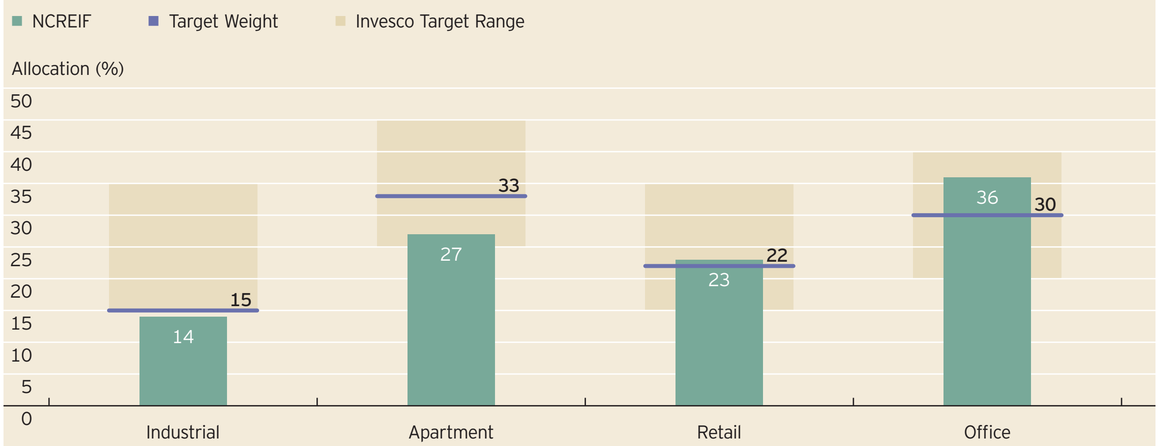
Property Sector Allocation

Invesco is maintaining an overweight to the apartment sector while positioning our office weight for improving performance over the next five years.

The old allocation rules may not apply this time. Our view of economic growth and risk compels our investment thesis that preservation of capital and security of income are primary considerations, while incremental returns and yields should be secondary considerations. The way this position is translated into real estate sector allocation would seem to be straightforward: the weight of investment performance history suggests that the sector to overweight would be retail due to the sector's longer lease terms, a retailer-driven construction cycle (rather than a developer-driven cycle), and a less volatile history of consumer spending compared to business investment or trade. But the patterns of historical sector performance may not hold up as firmly going forward.

Hence, our allocation shifts since the Spring 2011 House View are driven largely by our beliefs of which sectors are best positioned to deliver near-term income growth (apartments) and mid-term income growth (office), while remaining close to neutral on the other property sectors.

Figure 13 — Allocation Ranges and Target Weights, Autumn 2011



Source: Invesco Real Estate using underlying data provided by NCREIF through 2Q 2011.
The target figures in this chart reflect Invesco's high-level allocation strategy in the real estate market. They are based on current market conditions and other factors, and are not the actual allocations of a specific Invesco product. Actual allocation of Invesco products will depend on the individual objectives, where relevant, and specific strategy characteristics. Please note the figures may be changed without prior notice.

Apartments

- Invesco is maintaining an overweight position to apartments relative to the NPI (33% versus 27%, respectively) because apartment revenue growth is anticipated to accelerate sharply over the next two years.
- We expect to reduce the apartment target weight in the future because pricing has become aggressive across several market segments and robust fundamentals should eventually attract strong levels of new development.
- Yet, we are currently maintaining our target weight given our near-term expectations of slower economic growth which could dampen revenue growth in the other property sectors over the next one to two years.

Office

- We have increased our target weight to office from 27% to 30% while maintaining a significant underweight position relative to the NPI (36%).
- The office target weight was increased because we expect better relative growth in office during the middle and back end of our five-year forecast horizon.
- Yet, we are maintaining an underweight position because rents on expiring leases signed at the peak of the market are likely to dampen average revenue growth over the next one to two years and our belief that a mid-term office recovery will be uneven across markets.

Retail

- Invesco has reduced our target weight to retail from 25% to 22%, representing a slightly negative position relative to the NPI (23%) in light of near-term headwinds on consumer spending and long-term headwinds from shifting consumer trends.
- We believe that these headwinds will lead to sharply bifurcated performance at the asset level, thus, Invesco holds a favorable view on best located assets.

Industrial

- We are maintaining our industrial target weight at 15%, which is slightly higher than the NPI weight (14%).
- Our target accounts for the competing trends of weak near-term revenue trends due to the turnover of lease expirations and the long-term structural shift of consumer-driven tenant demand from retail to industrial.

Our allocation target weights are supported by our views of current pricing relative to stabilized fair value, as well as our views on net income growth as described in the previous section.

It's a "stock picker's game" over the next two years. All sectors are challenged when job growth slows. Thus, asset selection may trump the importance of sector allocation over the near term, particularly in the office, industrial and retail sectors where leases signed at the peak of the cycle roll down to lower rent levels. Given an uncertain economic environment over the next one to two years, we believe that high-quality assets with the best location characteristics and low near-term exposure to lease expirations are likely to produce better relative performance. From the perspective of currently held assets, managing lease expirations is crucial to strengthening the durability of income for the next one to two years.

Our sector target weights and expected returns represent our broad views across the national commercial real estate sectors, yet a number of factors are expected to produce divergent investment performance across markets, product segments and assets. The following property sector sections provide additional support for our allocation target weights, expectations of market and segment differentiation, and strategies.

Apartment

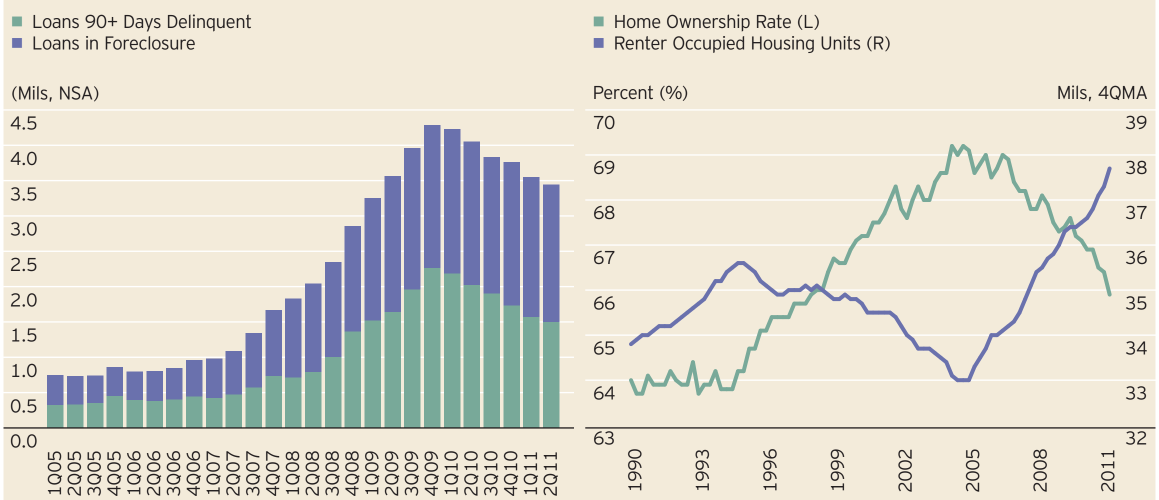
Tenant demand for apartment units remains elevated, although it is expected to slow on the margin as the pace of job growth slows. But the declining rate of homeownership, driven by continued foreclosures, evictions and stricter loan criteria for home purchases, should remain a powerful demand driver over the next two years. With current levels of apartment completions close to historic lows, new supply is not an immediate impediment to strengthening fundamentals. Yet, with occupancy rates rising and rent growth now gaining pace, construction activity is ramping up quickly across many markets. For this reason we expect sector fundamentals to moderate starting in 2014.

Conditions and implications

Strong near-term revenue growth. We continue to believe that elevated levels of tenant demand and an immediate lack of new supply should support strong revenue growth over the next two years.

- **Foreclosures and declining homeownership.** Pending foreclosures and late-stage delinquencies remain significant (although slowed by procedural and regulatory issues) and are likely to boost rental housing demand through at least 2013.
  - With 3.4 million households currently in the foreclosure process or seriously delinquent (90+ days), the homeownership rate could slip from 65.9% in 2Q 2011 to well below 65% for the first time since the early 1990s.
  - Every 1% decline in the national homeownership rate represents 1 million households transferring to rentership, and a potential +2% impact on the apartment occupancy rate.[1]

Figure 14 – Foreclosures and Late Stage Delinquencies Remain Elevated; Expected to Drive Rental Demand Through 2013

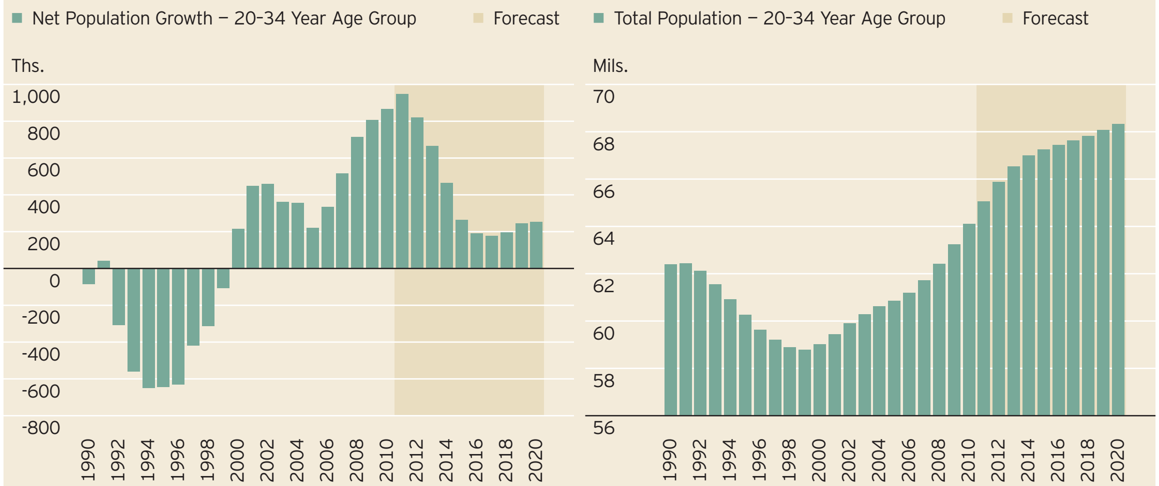


Sources: Moody's Analytics; Invesco Real Estate
Data through 2Q 2011

1 According to the Census Bureau's American Community Survey, from 2006 to 2010, rental structures with 5+ units captured 33% of net new rental demand. This would imply that for every 1 million households transferring from ownership to rentership, apartments would capture about 330,000 households. The current inventory of rental structures with 5+ units is approximately 17 million units. Therefore, all else being equal, a shift of 330,000 households to apartments could potentially impact the occupancy rate by 2%.

- **Prime apartment renters.** Job growth, albeit at a more moderate pace, continues to support new household formation and the unbundling of households, particularly among the rapidly expanding key renter demographic (20 to 34 year olds).
  - If the economy backtracks, this trend could reverse as younger renters revert to doubling-up or moving back into the family home.
  - Yet, weaker economic conditions could further accelerate the shift from homeownership, providing more stable income in apartments relative to the commercial sectors.

Figure 15 – Growth in Prime Renter-Age Group Benefits Apartment Demand



Sources: Invesco Real Estate, as of September 2011, using underlying data provided by Moody's Analytics.

- **Home buying not drawing away tenants.** Tenant retention rates remain higher today than prior to the recession, largely because move-outs due to homebuying are much lower today. Single-family home sales remain anemic, despite historically low mortgage rates and record affordability levels. Stricter loan criteria make access to mortgage capital more challenging. This is not expected to change materially over the short term.
- **Construction not a concern in near term.** New apartment deliveries remain historically subdued and are expected to remain so for another 18 to 24 months.

Together, these drivers may continue to support strong fundamentals across most apartment markets in 2012. As occupancy approaches all time highs in the best markets, landlords may trade rent for occupancy in order to maximize revenue growth.

Emerging risks over mid term. Beyond the strong revenue growth we anticipate from the apartment sector in the near term, we see risks over the mid term that later could lead us toward a more neutral stance on apartments.

- **Absolute pricing is competitive.** Although wide cap rate spreads to Treasury yields and mortgage rates implies attractive pricing for apartments, absolute cap rates have decreased in recent quarters with the best assets in the best markets now trading at or below 4%. Unit pricing is also rising, and in select cases, surpassing pre-recession peaks. An unexpected upward shift in cap rates could adversely affect apartment values.

- **Construction a concern in mid term.** While still sparse today, rising construction activity remains a growing mid-term concern. Permit issuance is starting to accelerate across many markets, setting the stage for an escalation of apartment deliveries starting in 2013 and gaining pace in 2014.
- **Lack of household income growth could limit rent growth in some markets.** With a slow growth economy burdened by high unemployment, limited gains in household income could constrain a second wave of rent growth in some markets.
- **Single-family rentals could encroach upon apartment demand.** The emergence of a more organized single-family rental market could adversely impact demand for institutional apartments.
  - Private investors are aggregating single-family homes into rental portfolios using local property management teams. Rental yields for this product generally range from 8% to 12%.[1]
  - The government is looking at ways to turn Fannie Mae's, Freddie Mac's and the Federal Housing Authority's inventory of some 250,000 foreclosed homes into rental properties that could be managed by private enterprises or sold in bulk. Timing remains uncertain, but material movement in this direction could add to the mid-term supply of rental housing.
  - This risk appears geographically focused on the formerly robust housing markets of California, Arizona, Florida and Nevada, as well as some Midwestern states.

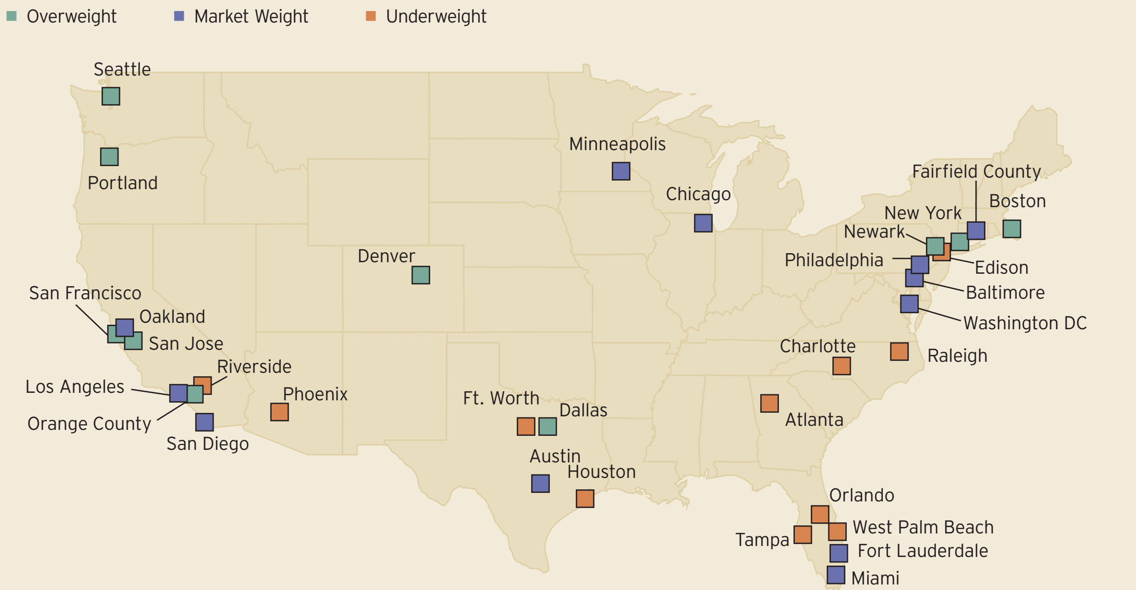
Strategies

- Invesco intends to target markets where occupancy is expected to approach historic peaks in the next two years, and where household incomes relative to rent do not constrain rent growth. These markets include San Francisco, San Jose, Seattle, Portland, Denver, New York City and Boston. Within these tightest target markets, Invesco will:
  - Focus on well-located Class A and B+ assets.
  - Selectively consider assuming more leasing risk.
  - Consider well-located Class B assets in the strongest locations to take advantage of high occupancy rates and the spread to Class A rents.
  - Selectively consider development and renovation value-added opportunities in the most durable supply constrained locations.
  - Seek to raise rents for both new leases and tenant renewals.
- Invesco also intends to selectively target assets in markets with better relative job growth and where occupancy is expected to surpass local long-term averages. These markets include Dallas, Austin, Orange County, Miami, and Minneapolis. In these target markets:
  - Invesco prefers Class A and B+ assets in prime locations which should see comparatively higher occupancy rates and lower capital expenditures.
  - While new construction over the next two years will likely be delivered at levels below local long-term averages, these markets could see construction ramp up in the next three to five years. Thus, we strongly prefer locations with comparatively lower exposure to oncoming mid-term construction.
- We will consider dispositions:
  - Of assets requiring higher levels of capital improvements in order to manage cash, particularly older assets in less-than-best locations.
  - Of non-strategic assets proximate to micro locations where new construction is expected to rise materially. Markets where mid-term construction could ramp up more quickly include Washington DC, Houston, Dallas, Austin, Orange County and Seattle.

1 Zelman & Associates, August 2011 Apartment Survey, August 10, 2011

- Invesco has underweighted markets with a greater potential for single-family rental inventory and comparatively lower housing costs (e.g., Tampa, West Palm Beach, Phoenix and Riverside).

Figure 16 – Qualified Apartment Markets



Source: Invesco Real Estate, as of September 2011

Office

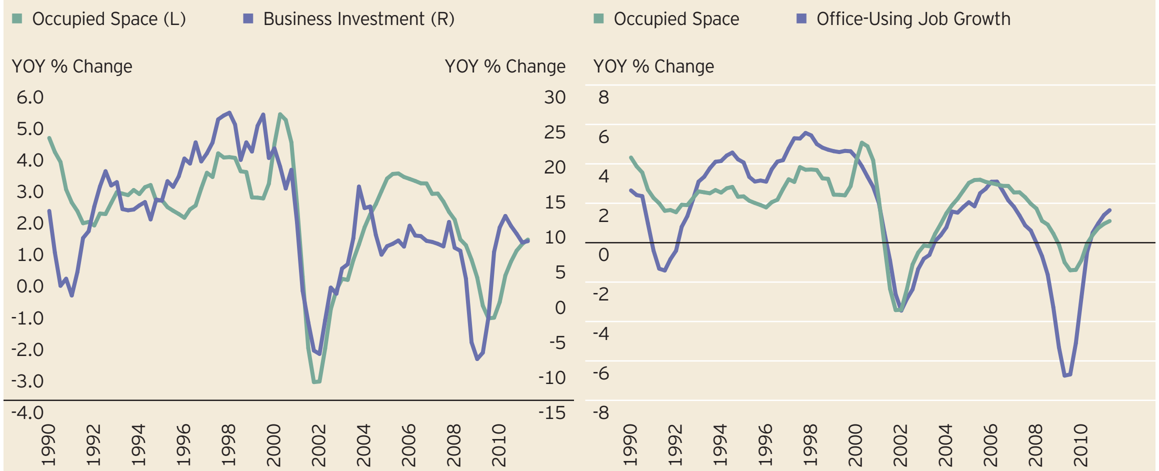
Tenant demand has turned positive since mid-2010, but concerns over macro risks could cause companies to pull back temporarily on expansion and leasing. Renewed layoffs in the bank sector, postponed IPOs, expected slowing of tech spending, and the impact of federal, state, and local government budget reduction plans all mean that leasing could slow broadly. Rent trends that had been rising in primary markets may flatten until macro risks subside. New construction is largely absent in most markets, with few indications that this will change materially over the near term.

Conditions and implications

Office fundamentals have improved, but at a relatively slow pace.

- National occupancy has improved just 60 basis points over the past year since bottoming at 83.2% as of mid-year 2010.
- Tenants continue to reduce space requirements upon lease expirations, shedding formerly leased but unoccupied space ("grey space") and/or moving to more efficient buildings.
- Business investment in equipment and software, historically a leading indicator for office tenant demand, continues to grow at an elevated pace. Yet, its rate of growth may decelerate materially if near-term economic growth pauses.

Figure 17 – Business Investment Generating Office Tenant Demand, but Excess Space Persists and Slowdown Expected



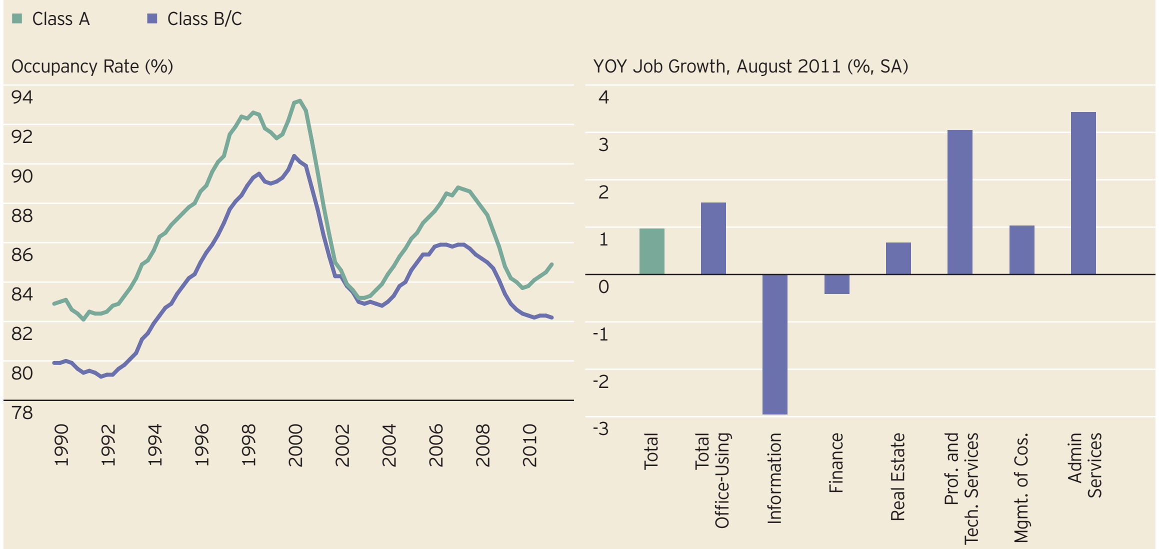
Source: Invesco Real Estate using underlying data provided by Moody's Analytics and CBRE-Econometric Advisors, as of August 2011.

- Corporate profits remain strong and businesses are reportedly sitting on record levels of cash, yet economic uncertainty continues to limit hiring, the primary driver of space demand. Also, corporate profits have recently been utilized for mergers and acquisitions which tend to contract employment on a near-term basis, subsequently affecting office tenant demand.
- Private sector office-using job growth has outpaced overall job growth through 1H-2011. However, office-using job growth has been driven mostly by temporary workers, which demonstrates the tentative nature of the recovery to-date. Finance and information sectors continue to show year-on-year job declines.
- Construction remains muted. Nationally, annual deliveries in both 2011 and 2012 may not exceed 10 million square feet, which would be two of the lowest years on record, with few indications this pace could increase in 2013.

Fundamentals improvement varies by market segment.

- Demand recovery has been uneven across markets, with large primary business centers and tech markets accounting for the majority of net absorption.
- Class A space has dominated demand as tenants have taken advantage of depressed rents to trade up in quality – Class A occupancy has improved 120 basis points, while Class B/C occupancy has continued to decline.

Figure 18 – Tenants Trading Up in Quality; Professional and Business Services Driving Office-Using Job Growth



Sources: CBRE-EA Econometric Advisors; Moody's Analytics; Invesco Real Estate
Data as of September 2011

- The occupancy gap between downtown and suburban markets remains wide at 500 basis points as companies continue to show a preference for urban locations in order to tap a broader talent pool of employees.
- Occupancy gains have supported rent growth in only a select set of markets (primary and tech) and segments (Class A, urban, tech). Rents generally remain well below prior peaks. Continued lease turnover will push down near-term NOI.

Current macro conditions could further delay recovery in the office sector.

- Fragile business confidence hurts all office demand segments and could result in a broad slowdown in leasing.
- If the economy falters, grey space could increase again, leading to a rise in sublease availability and the potential to put downward pressure on rents and absorb initial demand when recovery takes hold.
- Primary markets, while not immune to the impacts of a slowdown, are expected to retain better fundamentals. With the exception of Los Angeles, all of the primary office markets (New York, Washington, DC, San Francisco and Boston) have occupancy rates at least 300 basis points higher than the nation.
- Washington, DC may be the most vulnerable primary market in the near term, the only one that experienced negative net absorption in the first half of 2011. Moreover, the market added nearly one-half million square feet of new inventory in the same period. Depending on the composition and extent of pending Federal budget cuts, conditions in DC could see further erosion.

Yet, office demand could re-emerge quickly as confidence is restored.

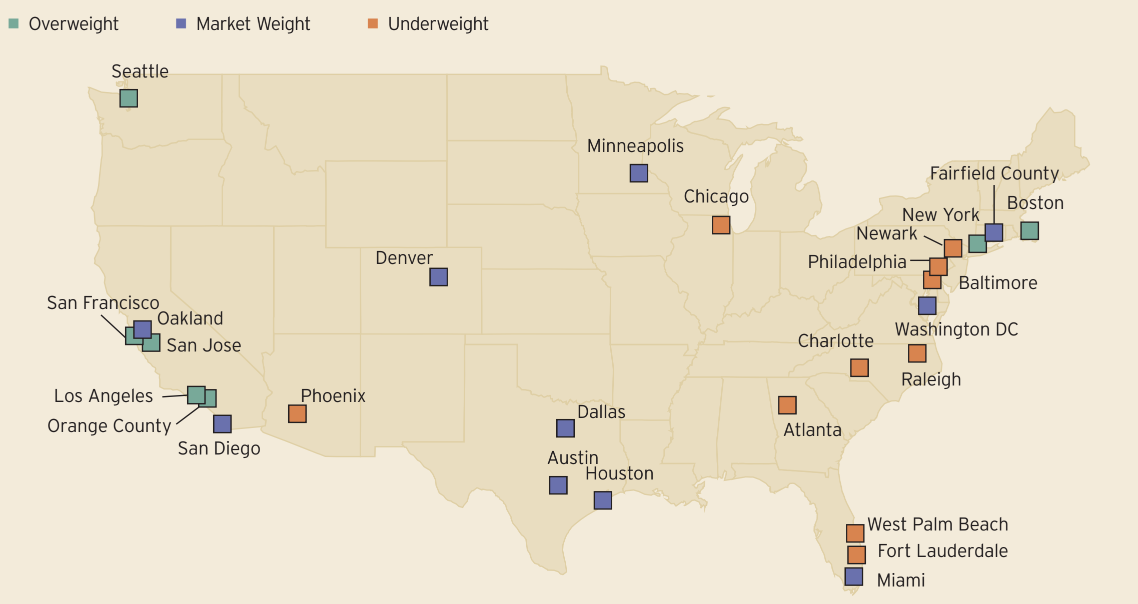
- Preconditions for improving tenant demand in the form of strong corporate balance sheets and investment growth in business technology are generally in place. While these drivers are expected to slow in the face of near-term economic challenges, their eventual recovery will provide early signals of an impending recovery in the office sector.
- Taken together, mildly positive rent growth is expected over the next year, driven principally by the primary and tech markets. National occupancy is anticipated to surpass the long-term average rate in 2013, unimpeded by new construction.

Strategies

Given a near-term macro economic backdrop of slow, uneven growth, Invesco intends to:

- Acquire assets in dominant locations of primary business centers, with limited lease expirations over the next two years.
- Acquire assets selectively in tech markets (e.g. San Jose, San Francisco, Austin, Seattle, Boston and New York) to take advantage of structural shifts in technology (e.g. social media, cloud computing, green-tech, life-sciences) and be positioned for recovery.
- Sell non-strategic assets in primary business centers, particularly Washington, DC.
- Focus on higher quality, Class A assets in urban locations since occupancy recovery has progressed further in these segments and they are expected to continue to be favored by occupiers in recovery.
- Selectively consider Class B space in tech markets where supported by tenant demand.
- Position existing assets for stable income performance over the next two years. This may involve seeking early renewals for leases soon to expire.

Figure 19 – Qualified Office Markets



Source: Invesco Real Estate, as of September 2011

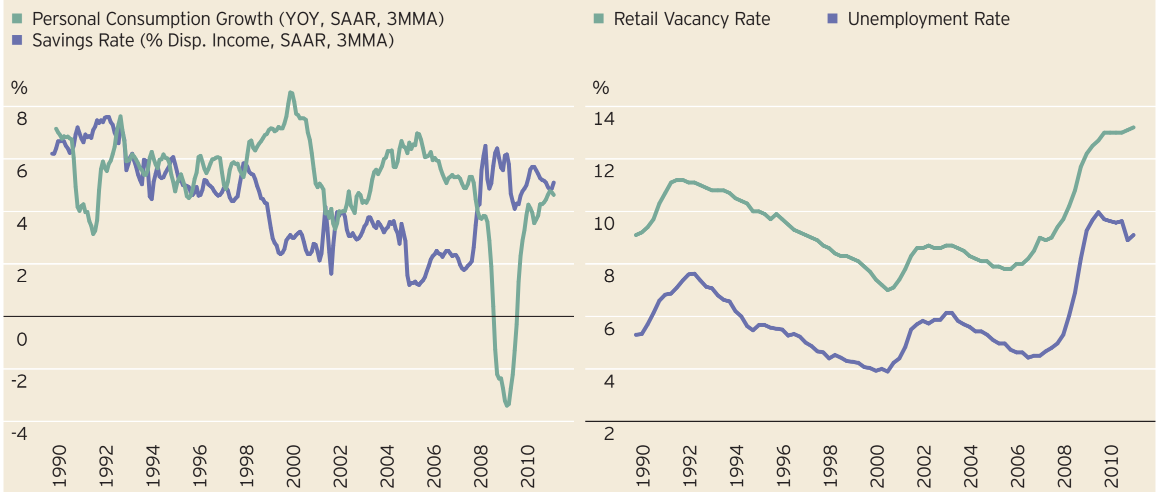
Retail

Retail occupancy is at record lows today and tenants face considerable short-term challenges in addition to long-term structural shifts in the way consumers shop. While retail has historically provided a measure of stability during economic downturns due to long-term leases on anchor space and the ability of most tenants to endure through the cycle, we believe the traditional benefits of retail will not be broad based in this economic slowdown. Thus, only the most competitive assets are likely to deliver the stable attributes normally expected from the sector.

Conditions and implications

- **Recent improvement in consumer activity.** Retail sales strengthened in the summer with 8.5% year-over-year growth in July, which represents a post-recession high. Improved consumer balance sheets and the payroll tax cut are clearly supporting spending amid multiple headwinds, although spending is very selective with prices playing a role and the strongest growth recorded by gasoline stations (24%) and non-store retailers (14%).
- **Short-term headwinds.** While consumers have made significant progress in deleveraging and increasing their savings, stock market volatility has struck a blow to wealth effects.

Figure 20 — Balance Sheet Repair Supports Spending, Yet Consumers Face Headwinds; Record Vacancy Requires Focused Strategy



Source: Invesco Real Estate, as of August 2011, using underlying data provided by Moody's Analytics and CBRE-Econometric Advisors.

- Deleveraging and low interest rates have brought the household financial obligations ratio down below 16.5% of income, which hasn't occurred since the early 1990s. Yet, by dollar value, debt burdens are nearly double that of a decade ago.
- To repair their balance sheets, consumers increased savings, pushing the savings rate over 5% in late 2008 for the first time in nearly a decade and have maintained the 5% to 5.5% range since then.

– Wealth rebuilding early in the recovery supported spending as households recovered $7.8 trillion of net worth through 3Q 2010, nearly half of the recessionary losses. However, renewed economic uncertainty, falling confidence among businesses and consumers, and persistent declines in home prices have dragged household net worth down 5.9% through 2Q 2011, which is the latest data available and does not account for 3Q stock market volatility.

– The most significant headwind for spending is still the labor market. Unemployment remains high, nearly half of those unemployed have been so for six months or longer and the labor force is shrinking, all of which should keep wage growth limited.

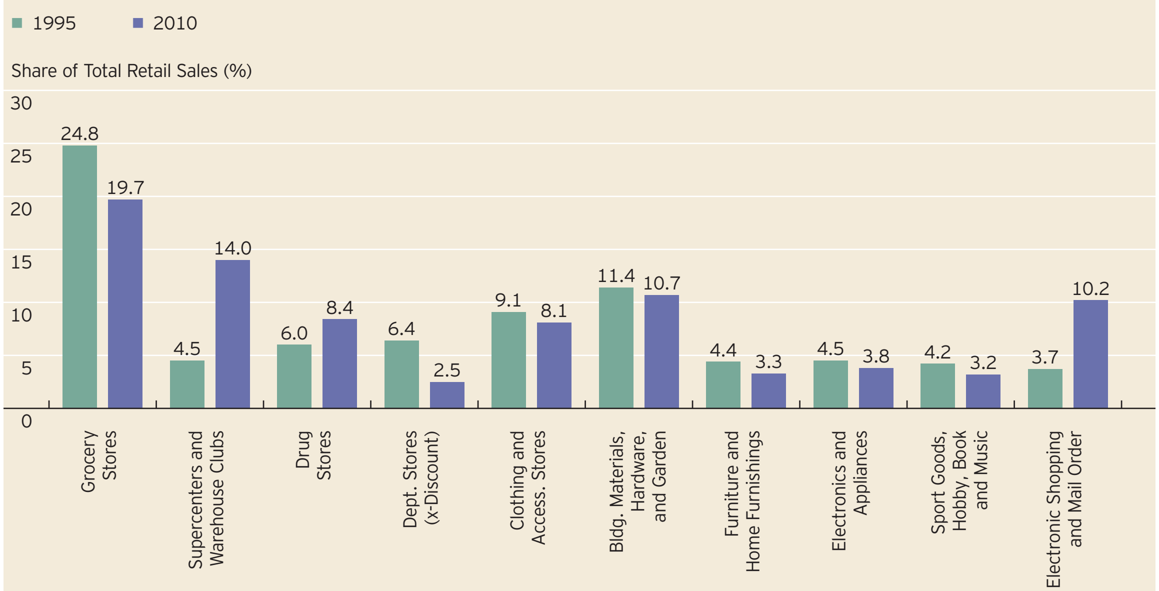
- **Long-term risks.** The three D's of demographics, debt and digital pose formidable challenges to retail tenant demand over the coming decade.

– Aging boomers, still the largest population segment, will likely slow their spending as they move into retirement. The cohort moving into their peak income-producing years (40 to 59 years old) through 2020 has 1 million less people than it did in the last decade.

– The use of credit will not likely fuel spending as it did in the credit boom. In addition to high existing debt burdens, home equity has lost its allure and credit access has become more difficult.

– Internet retailing and mobile devices are cutting deeply into brick-and-mortar space demand and changing the way people shop. Rapid growth in e-commerce has shifted spending away from most "soft goods" categories. Discretionary retailers are responding with smaller store formats and marketing strategies that utilize social media and mobile applications to drive traffic.

Figure 21 — Consumers Shifting Retail Dollars to Online Retailers and Supercenters

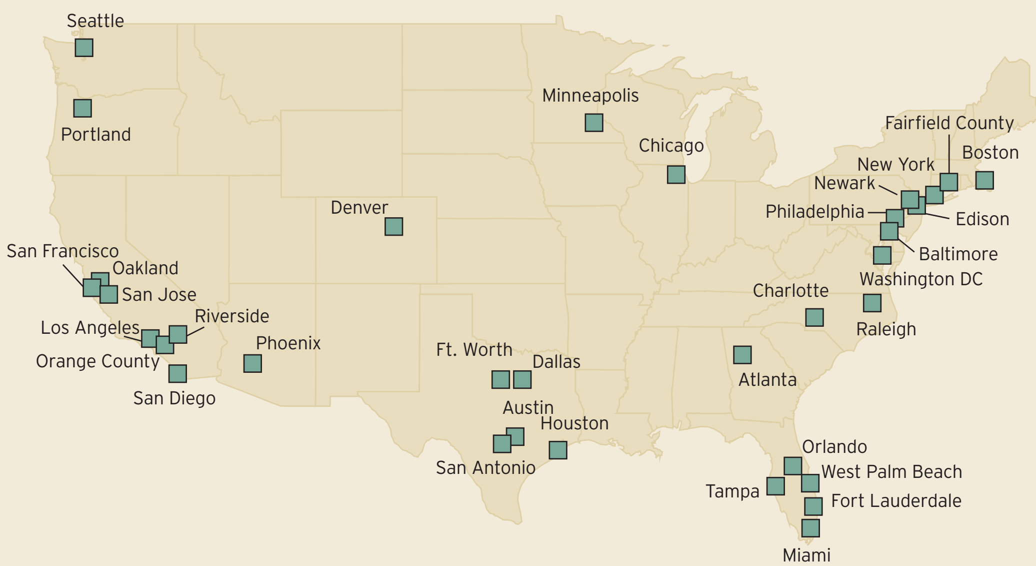


Source: Invesco Real Estate, as of August 2011, using data provided by Moody's Analytics.
Note: Total retail sales excludes motor vehicles and parts deals, food service, gasoline stations and fuel dealers.

Strategies

- Invesco will only seek to acquire assets in stellar locations. We believe anything less bears outsized risk.
- Infill grocery-anchored centers, fortress malls and high street retail are expected to compete best. Power centers and periphery grocery-anchored centers that compete more directly with warehouse clubs should be more challenged.
- Internet marketing, property access/egress and store layouts will take on heightened importance as shoppers use mobile devices to find merchandise and the best prices.
- Invesco prefers tenants who are savvy in utilizing the internet to generate in-store traffic.

Figure 22 – Qualified Retail Markets



Source: Invesco Real Estate, as of September 2011

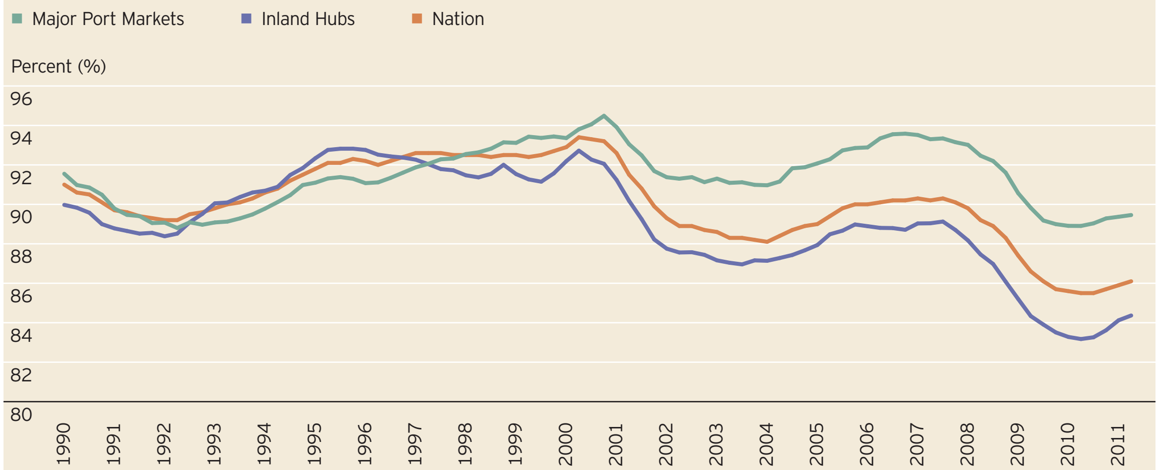
Industrial

Tenant demand re-emerged for industrial space with large warehouse users leading the way, moving occupancy higher, although it remains near its historic low. Growth in consumer spending, industrial production, and inventories fueled the initial improvement in fundamentals, but the outlook for sales and manufacturing has muddied since mid year. Thus, we expect occupancy gains to slow in the second half of 2011. The industrial sector, however, also faces favorable structural changes in how consumers spend that mitigate the impact on leasing from slower economic growth over the medium term. These conditions lead Invesco to prefer the most durable markets and assets positioned to take advantage of e-commerce driven logistics.

Conditions and implications

- Industrial occupancy has edged up steadily from its historical low last year, reaching 86.1% in 2Q 2011 with net absorption concentrated in key national and regional distribution centers.
- Occupancy remains highest in major port markets (Los Angeles/Orange County, Houston, Seattle, New York/Newark and Miami), while distribution hubs with large regional populations (Riverside and Dallas/Fort Worth) are experiencing better relative occupancy growth.

Figure 23 – Occupancy More Durable Among Major Port Markets, Although Inland Hubs Lead Occupancy Growth



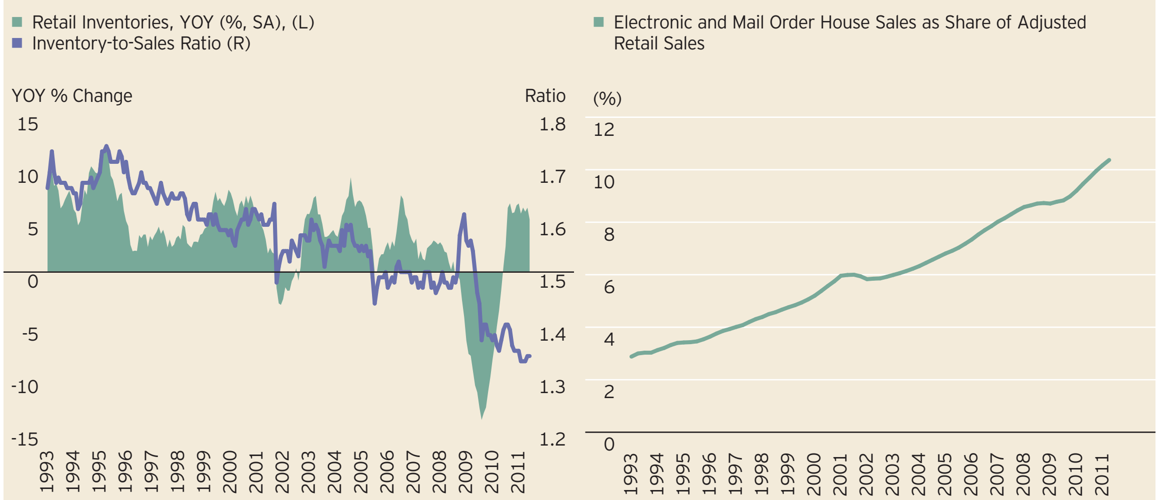
Sources: CBRE-Econometric Advisors; Invesco Real Estate
Data through 2Q 2011
Note: Major port markets include Los Angeles/Orange County, New York/Newark, Miami/Fort Lauderdale, Houston, Oakland and Seattle. Inland hubs include Atlanta, Chicago, Dallas/Fort Worth, Edison, Phoenix and Riverside.

- Yet, slower economic growth and fears of a double-dip recession are inhibiting business expansion and leading consumers to delay purchases, which slows production and reduces inventories.
  - The ISM Manufacturing Index has trended down for much of 2011 and approached its neutral threshold of 50 in August, reaching 50.6, which is the lowest level in two years. Also, for the first time since 2009, new orders have been below inventories since June, signaling a manufacturing contraction.
  - Strong industrial production growth this summer reflects the recovery in auto production, which is now back where it was before the supply disruptions related to the disaster in Japan. As a result, capacity utilization has recovered about 75% of its recessionary losses. However, production growth outside of the auto and utilities sectors has softened as weak sales have caused inventories to edge up.
  - Retail inventories remain historically lean with an inventory-to-sales ratio of 1.34 in 2Q 2011, well above the pre-recession range of 1.45 to 1.60. With consumer spending slowing, retailers will likely remain hesitant to bring on additional inventory.
- Trade was expected to benefit U.S. growth and, in turn, support industrial demand. Yet, the pause in U.S. growth coincides with a weaker outlook for Europe and China's actions to curb inflation, taking some wind out of the sails.
  - Global trade contracted in June for a flat 2Q,[1] even with the rapid recovery of flows in Japan. In fact, the Japanese recovery has been strong enough to keep global industrial production positive amid the Euro area contraction and slow growth in the U.S.
  - The U.S. trade balance widened sharply in the 2Q, per the Bureau of Economic Analysis. Early in the quarter, oil prices were driving the imbalance, but, as prices eased, the gap widened further on a sharp decline in exports that outpaced a modest decline in imports.
  - On net, trade patterns are expected to benefit West Coast markets most on a relative basis, while the Gulf Coast retail importer base has been broadening on the relative strength of the Texas economy and nearly complete Panama Canal expansion. East Coast locations closest to major ports should still hold up well, but periphery locations may underperform due to slower trade with Europe.

1 Source: CPB Netherlands Bureau for Economic Policy Analysis, World Trade Monitor, August 22, 2011

- Technology shifts may be a structural trend that transcends slower production and trade and tight retail inventories. The rising penetration rate of mobile devices and emergence of cloud computing are part of a structural shift in how consumers buy and how businesses transact and operate.
  - Online shopping growth has outpaced offline shopping by a factor of three since the mid-1990s, bringing this segment from 3% of retail sales in 1994 to over 10% today. Each 1% shift to online sales represents sales that would support about 75 million square feet of occupied retail space. Thus, consumer access to these goods will continue to shift from retail shelves to an internet fulfillment warehouse.
  - This shift is expected to continue with support from demographics (by 2020, 50% of the U.S. population will be comprised of persons born since 1980 – the "digital age") and continued growth in internet penetration[1] and mobile internet usage.[2]

Figure 24 – Retailers Maintaining Historically Low Inventories; E-Commerce Spending Shift Mitigates Impact on Warehouse Demand



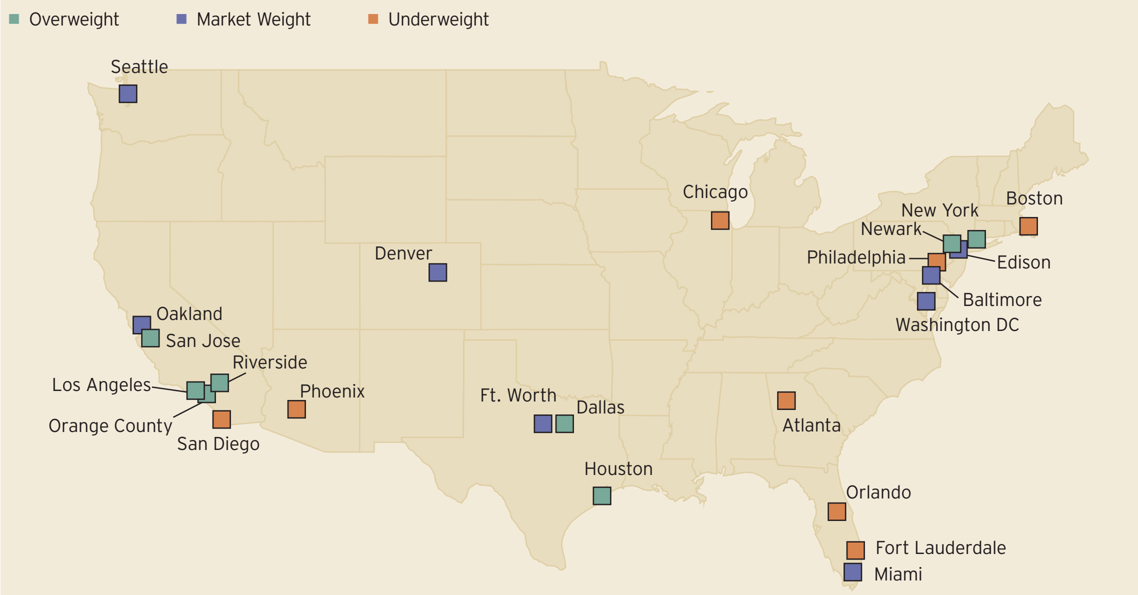
Source: Invesco Real Estate, as of August 2011, using underlying data provided by Moody's Analytics.
Note: Adjusted retail sales excludes motor vehicles and parts deals, food service, gasoline stations and fuel dealers.

1 According to Internet World Stats, using underlying data from Nielson Online and ITU, the penetration rate for internet usage by the U.S. population in 2010 is estimated at 75%.
2 According to Barclays Capital, mobile internet usage across the U.S. population in 2011 is estimated at 35%.

Strategies

- From an asset management perspective, Invesco intends to position assets for stable income performance over the next two years, including seeking early renewals for leases soon to expire.
- Given their durable demand characteristics, Invesco will seek to acquire assets in major port markets serving large populations, such as Los Angeles/Orange County, Riverside, Houston and New York/New Jersey.
- Invesco will also consider warehouse opportunities in tech-oriented markets, namely Oakland and San Jose, for assets with low to no near-term lease expirations.

Figure 25 – Qualified Industrial Markets



Source: Invesco Real Estate, as of September 2011

Appendix

Institutional Real Estate Total Return Forecast, 2012 to 2016

	Total	Apartment	Industrial	Office	Retail
Required Rate of Return					
NPI Sector Weights, 2Q 2011	100%	27%	14%	36%	23%
Expected Property Sector Betas	1.00	0.95	0.90	1.15	0.90
10-Year U.S. Treasury Yield, 5-Year Outlook	4.00%				
Long-Term Return Premia Per Sector	3.00%	2.85%	2.70%	3.45%	2.70%
Long-Term Required Rate of Return	7.00%	6.85%	6.70%	7.45%	6.70%
Long-Term Sustainable Exit Cap Rate					
Less: Long-Term NOI Growth	2.83%	3.00%	2.00%	3.25%	2.50%
Plus: Long-Term Cap Ex	2.05%	1.50%	2.45%	2.45%	1.80%
Long-Term Sustainable Cap Rate	6.22%	5.35%	7.15%	6.65%	6.00%
Exit Cap Rate, 5-Year Outlook					
Implied Spread of Sustainable Cap Rate to U.S. Treasury Yield in 5 Years	2.22%	1.35%	3.15%	2.65%	2.00%
Long-Term Average Spread (Since 1994)		1.70%	2.85%	2.39%	2.29%
Long-Term Average Spread Less 1 Standard Deviation		0.79%	1.97%	1.27%	1.16%
Expected Spreads in 5 Years		1.35%	2.32%	1.72%	2.29%
Exit Cap Rate, 5-Year Outlook	5.84%	5.35%	6.32%	5.72%	6.29%
Expected Total Returns					
Going-In Cap Rate	5.81%	5.27%	6.16%	5.77%	6.26%
Implied Capital Change from Cap Rate Shift	-0.55%	-1.43%	-2.54%	0.90%	-0.49%
Capital Change Amortized Over 5 Years	-0.11%	-0.29%	-0.51%	0.18%	-0.10%
Plus: NOI Growth 5-Year Outlook	2.89%	4.20%	2.00%	3.50%	1.00%
Less: Long-Term Cap Ex	2.05%	1.50%	2.45%	2.45%	1.80%
Expected Total Returns, Average Over Next 5 Years	6.54%	7.68%	5.20%	7.00%	5.36%

Sources: Invesco Real Estate using underlying data provided by NCREIF, CBRE Econometric Advisors and Real Capital Analytics through 2Q 2011. Five-year outlook by Invesco Real Estate (September 2011).
Chart above illustrates our assumptions related to broad market expectations and is not indicative of specific transactions.
Projections and five-year outlook represent years 2012 to 2016.
Long-term represents years 1994 to 2010.
Assumptions are identified in the "Capital Markets and Pricing" narrative and reflect current market conditions as of September 2011, subject to change.

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