

Aegon Asset Management Fixed Income & Real Estate Insights

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Macroeconomic outlook

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Gross domestic product (GDP)

- Average annual increase +50 basis points over the next two years
- End-of-cycle slowdown pushed out towards end of the decade
- Net positive skew to growth

AJIM economic forecasts

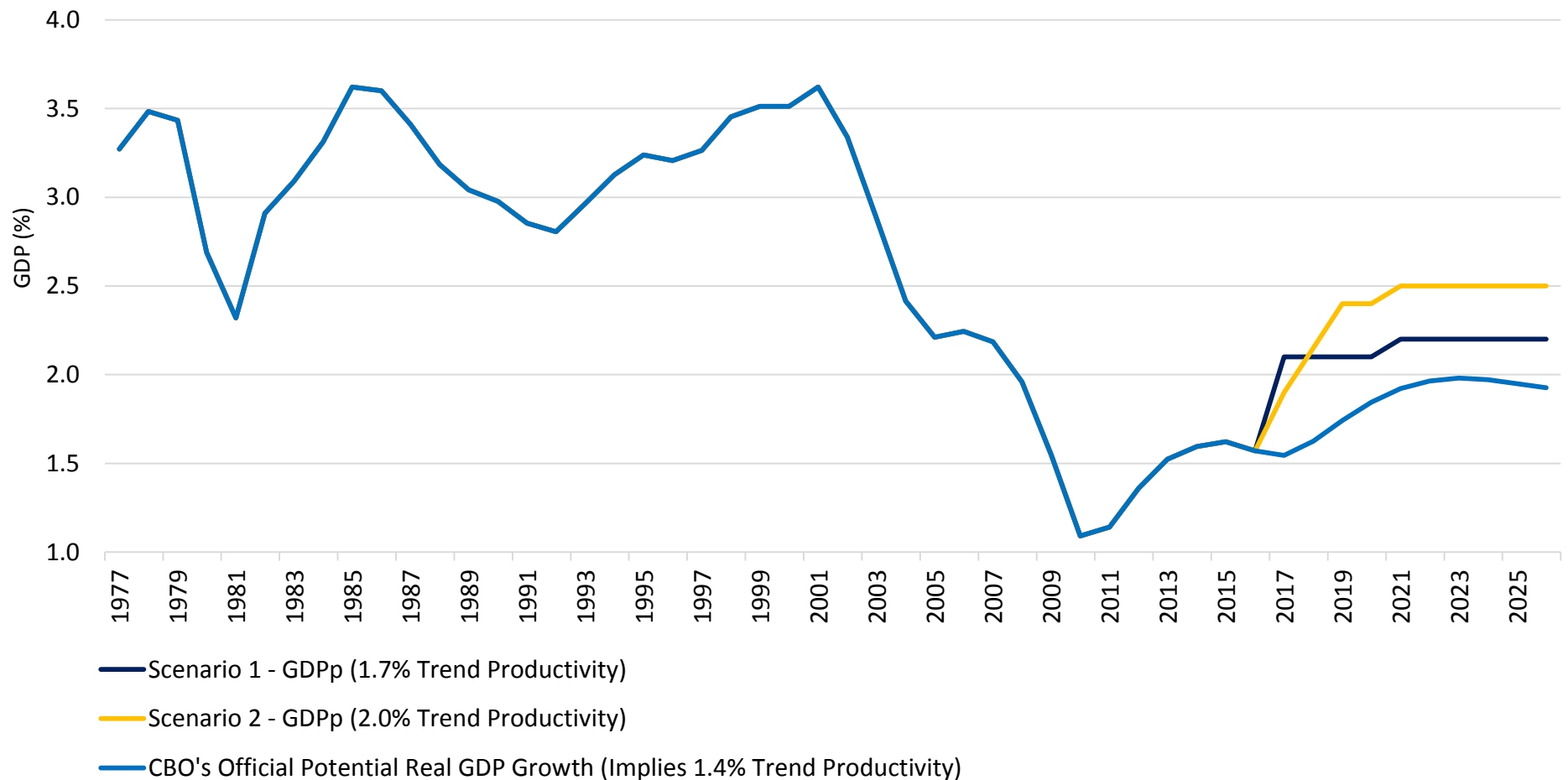
	2014	2015	1Q16	2Q16	3Q16	4Q16	2016	2017	2018	2019	2020	2021
GDP (Real %, YoY)	2.40	2.60	1.60	1.30	1.70	2.00	1.60	2.25	2.50	1.80	1.00	2.50
GDP (Real, QoQ, AR %)	-	-	0.80	1.40	3.50	2.10	-	-	-	-	-	-

As of: 1/3/17

Trump's potential impact on long-term growth

Can “Trumponomics” boost long-term productivity?

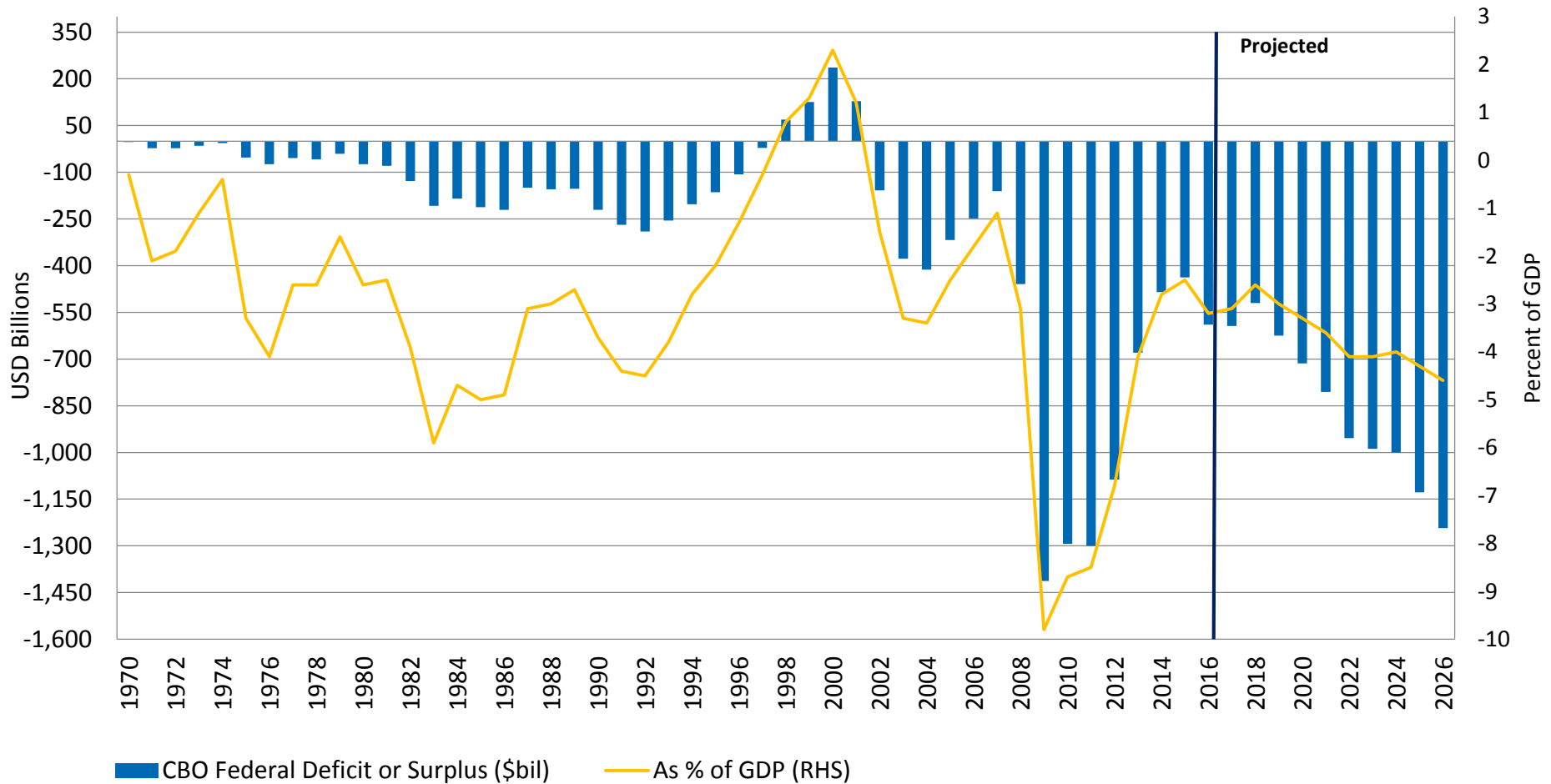
If so, real trend growth can accelerate, but upside is limited.



Source: Haver Analytics, CBO, AUIM

If not addressed, structural deficit is projected to worsen

CBO actual and projected budget deficit or surplus

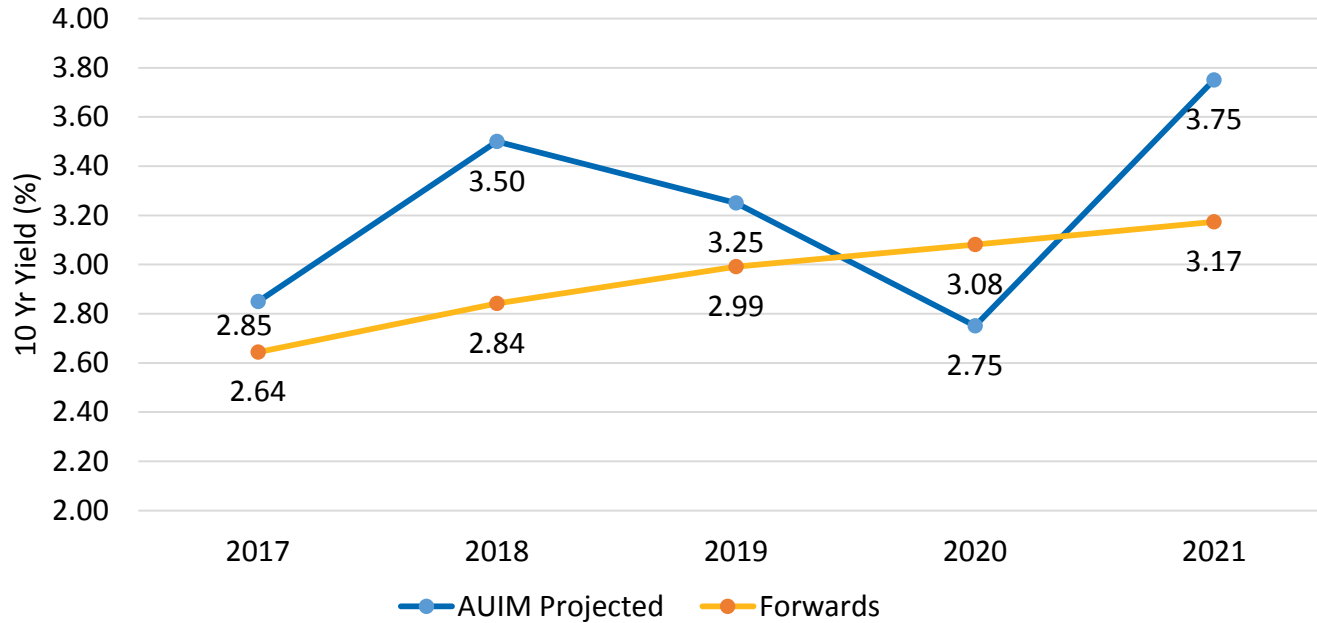


Source: Congressional Budget Office, AUIM Investment Strategy Team, Haver Analytics

Interest rate outlook

Faster growth + small output gaps = higher rates

AUIM projected 10-year U.S. Treasury yield vs. forwards



AUIM economic forecasts

	2014	2015	1Q16	2Q16	3Q16	4Q16	2016	2017	2018	2019	2020	2021
Federal Funds Rate (%)	0.25	0.50	0.50	0.50	0.50	0.75	0.75	1.25	2.00	2.50	2.00	2.75
10-year U.S. Treasury (%)	2.17	2.27	1.77	1.47	1.60	2.45	2.45	2.85	3.50	3.25	2.75	3.75

As of: 1/3/17

Unemployment outlook

- Near cyclical lows
- Expect modest headline rate improvements
- Likely further absorb labor slack
- Anticipate a bottom around 2018

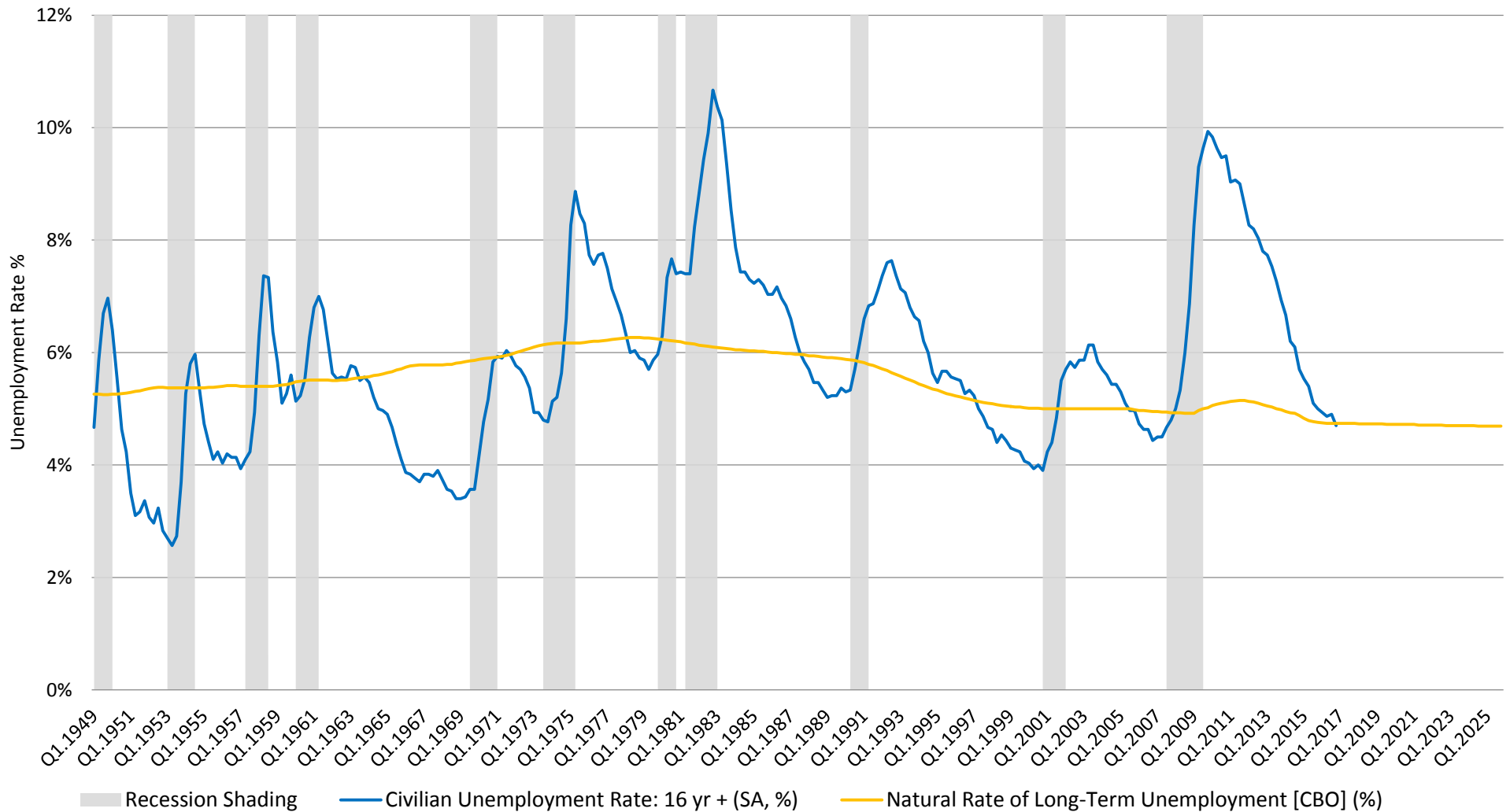
AJIM economic forecasts

	2014	2015	1Q16	2Q16	3Q16	4Q16	2016	2017	2018	2019	2020	2021
Unemployment (%)	5.6	5.0	4.9	4.9	4.9	4.8	4.8	4.6	4.4	4.8	5.2	5.2

As of: 1/3/17

Unemployment vs. the natural rate

Long-term natural rate of unemployment vs. actual unemployment

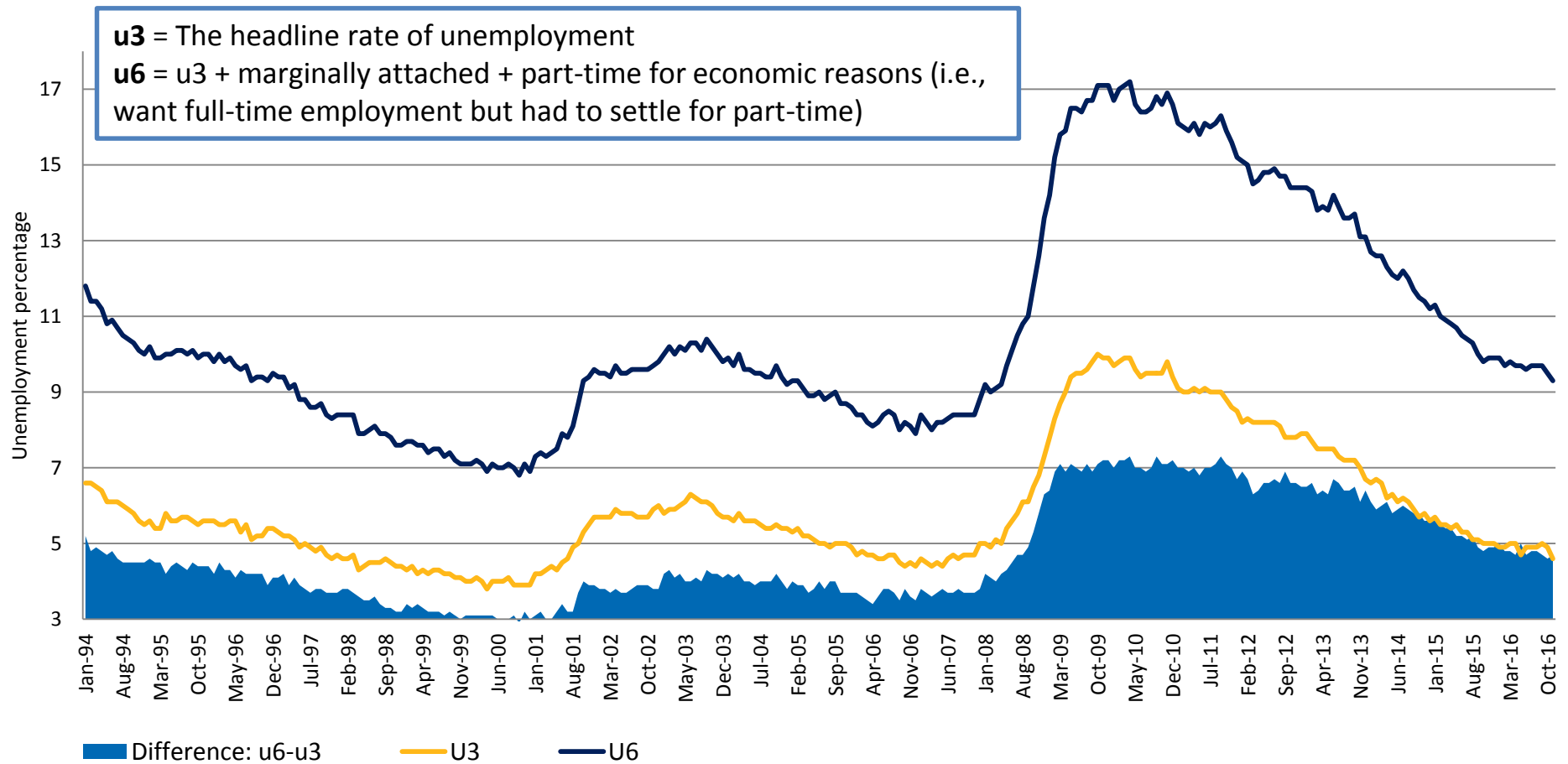


Source: Haver Analytics, CBO

As of Q4.2016

Persistent labor underutilization

Quantifying the 'real' labor slack: U-3 vs. U-6 (in percentage points)



Source: BLS, Haver Analytics, AUIM Investment Strategy

As of November 1, 2016

Inflation outlook

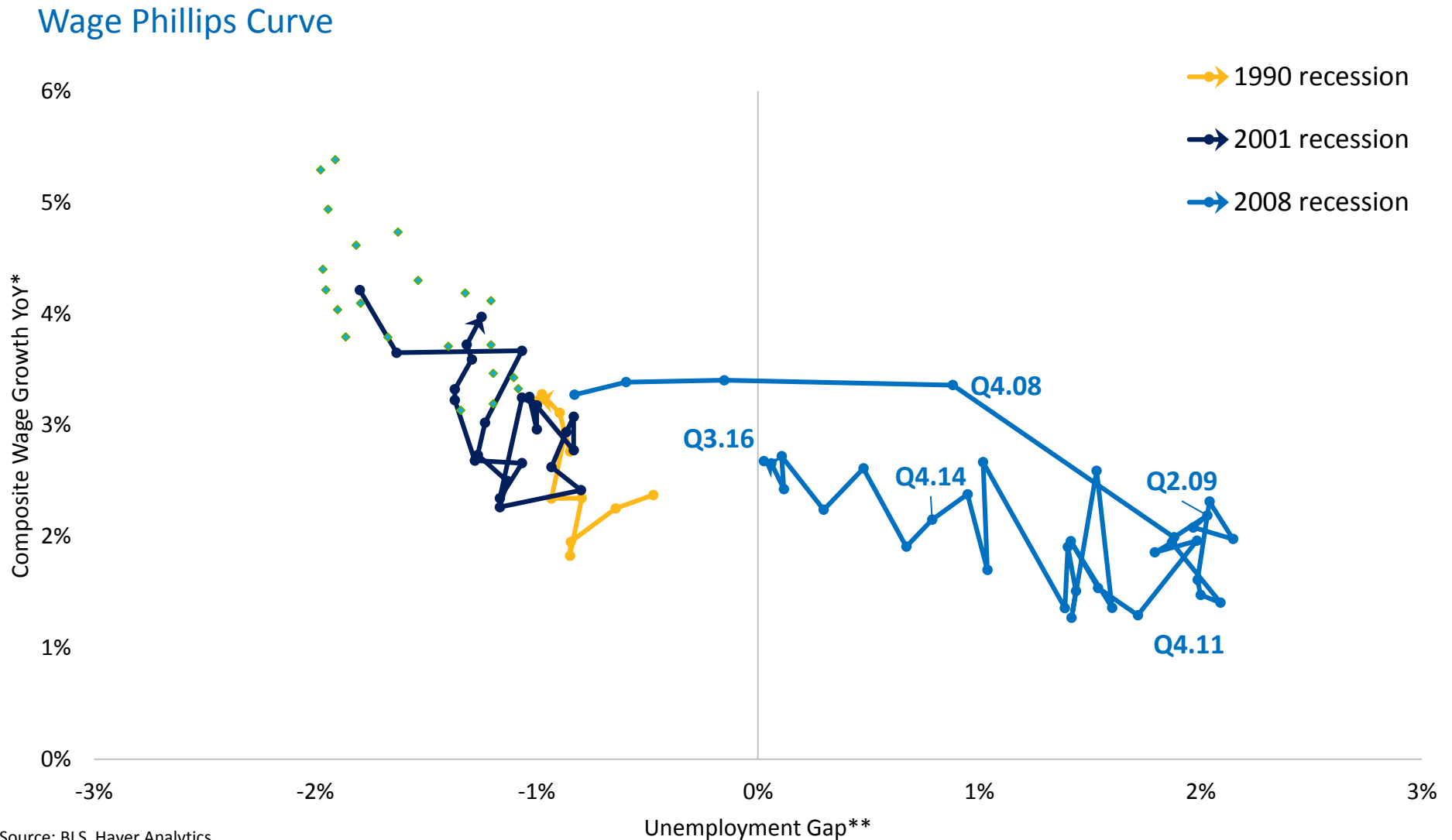
- Shift to reflationary policy puts a net tailwind behind inflation forecasts
- Phillips curve has flattened in recent years
- Expect core inflation to gradually rise, peaking a touch ahead of 2% in 2018
- Continued strong dollar would offset some inflationary pressures

AUIM economic forecasts

	2014	2015	1Q16	2Q16	3Q16	4Q16	2016	2017	2018	2019	2020	2021
Core Personal Consumption Expenditures (PCE)	1.4	1.3	1.6	1.6	1.7	1.8	1.7	2.0	2.2	2.0	1.7	1.7

As of: 1/3/17

Will the Phillips curve finally start to steepen?



Source: BLS, Haver Analytics

*Composite Wage includes Compensation per hour, Employment Cost Index, Median usual Weekly Earnings and Average Hourly Earnings

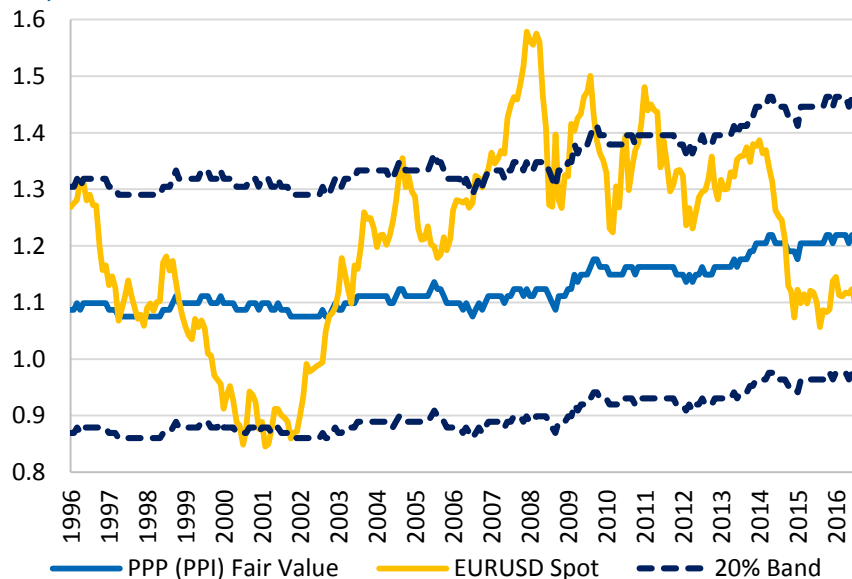
**Unemployment Gap is difference between the spread of U-6 & U-3 unemployment rate and NAIUR

Q3-2016

U.S. dollar valuations already extended

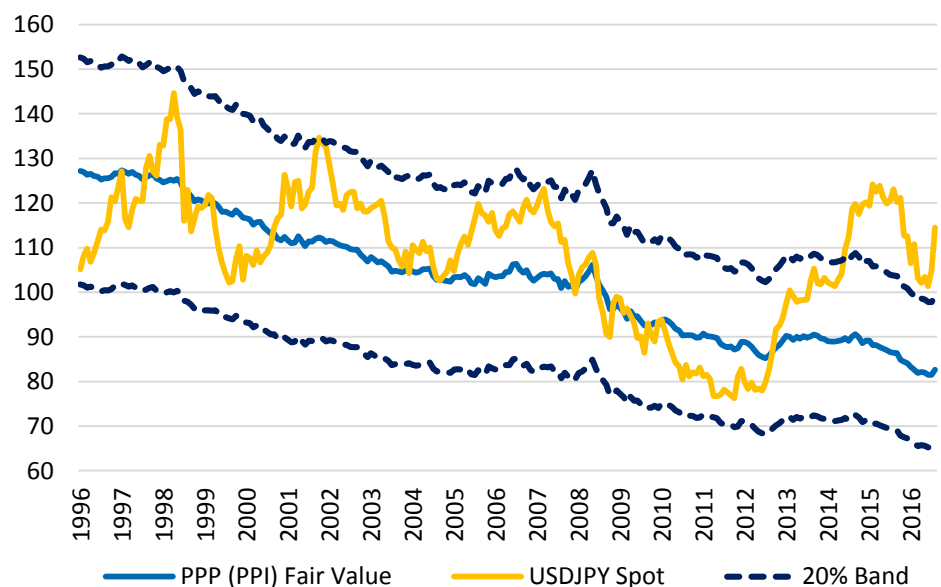
- Potential speed governor for economic growth
- Continued strength would weigh on trade deficit
- Short term: factors in place for a stable / modestly stronger dollar
- Medium / long term: lower likelihood of pronounced strength given fundamentals and valuation

EUR / USD



Source: AUIM Investment Strategy, Bloomberg

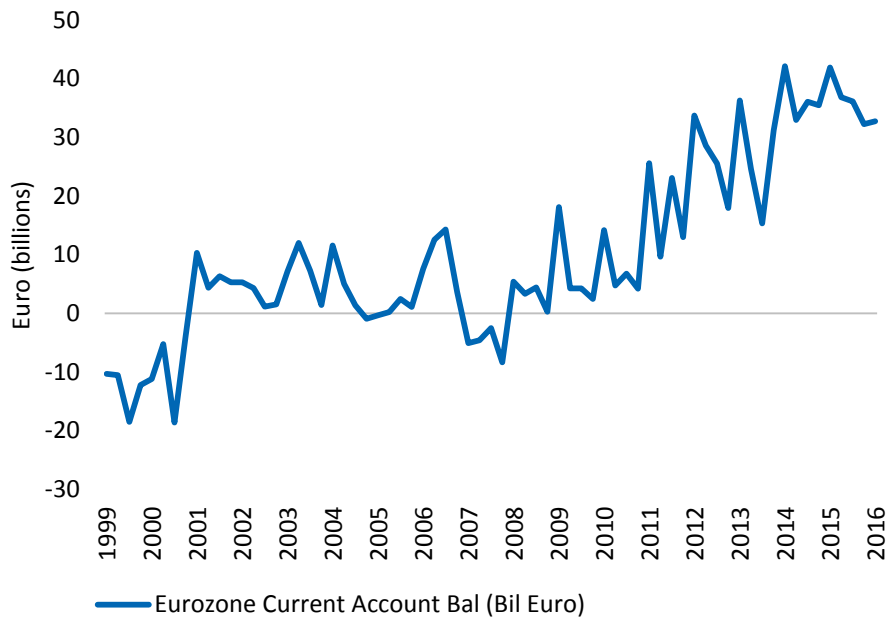
USD / JPY



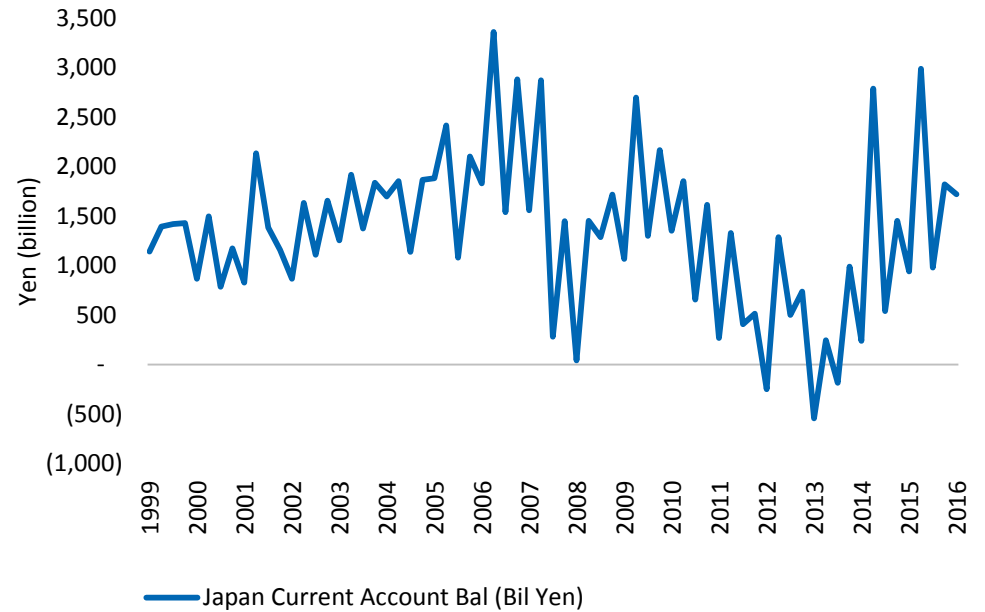
Source: AUIM Investment Strategy, Bloomberg

U.S. dollar - shift in current accounts creates headwinds

Eurozone current account balance



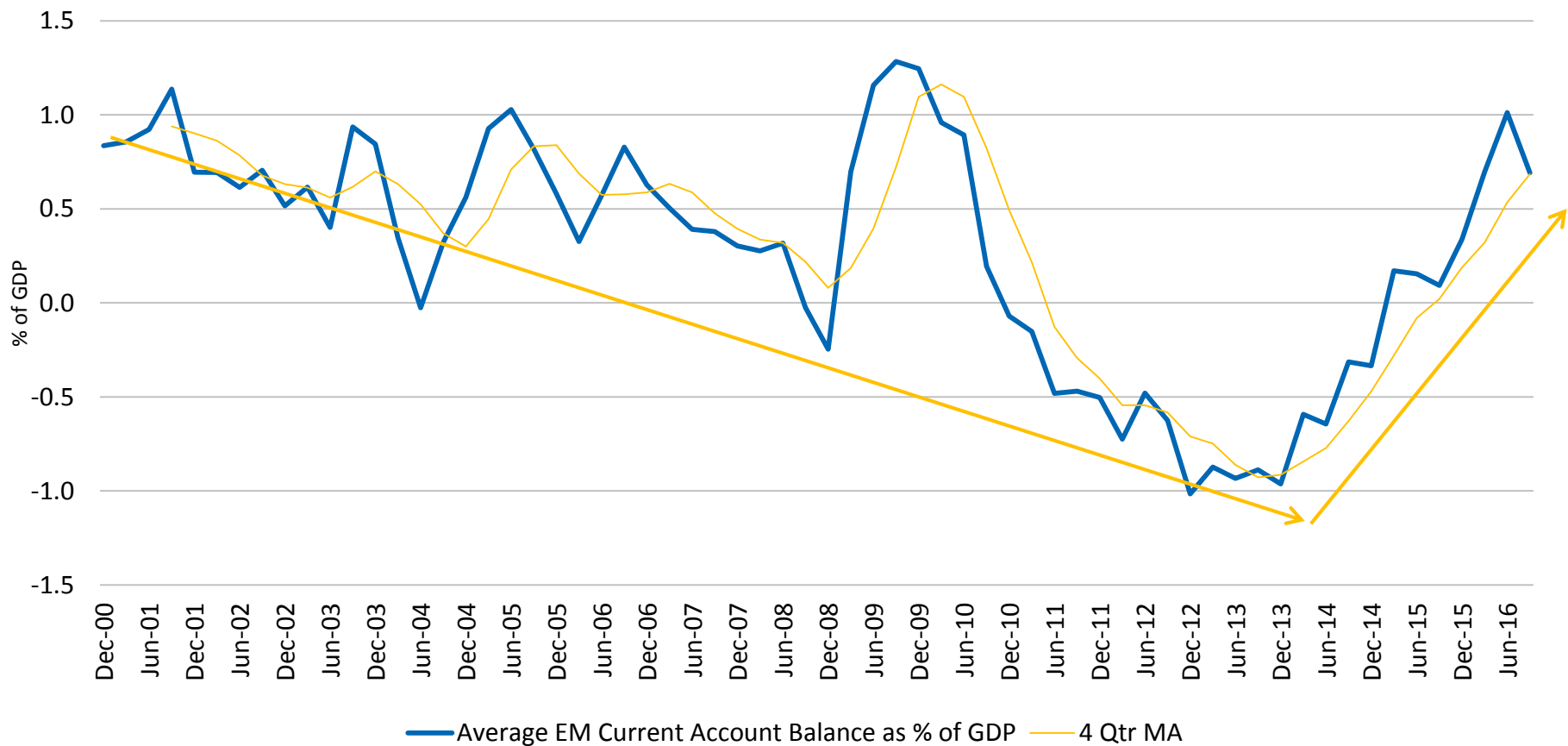
Japan current account balance



Source: AUM Investment Strategy, Bloomberg

U.S. dollar - shift in current accounts creates headwinds

Average emerging market current account balance as a % of GDP



Source: AUIM Investment Strategy, Bloomberg

Summary

- **GDP** - Average annual increase +50 basis points over the next two years
- **Unemployment** – Modest improvements in headline rate
- **Inflation** – Core inflation to gradually rise, peaking a little above 2% in 2018
- **USD** – Strength in the short term, less likely in medium/ long term

Real estate outlook

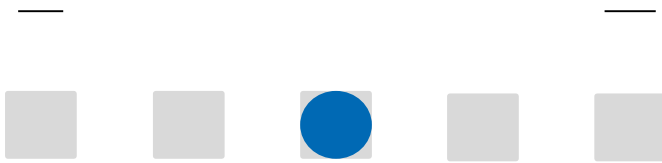
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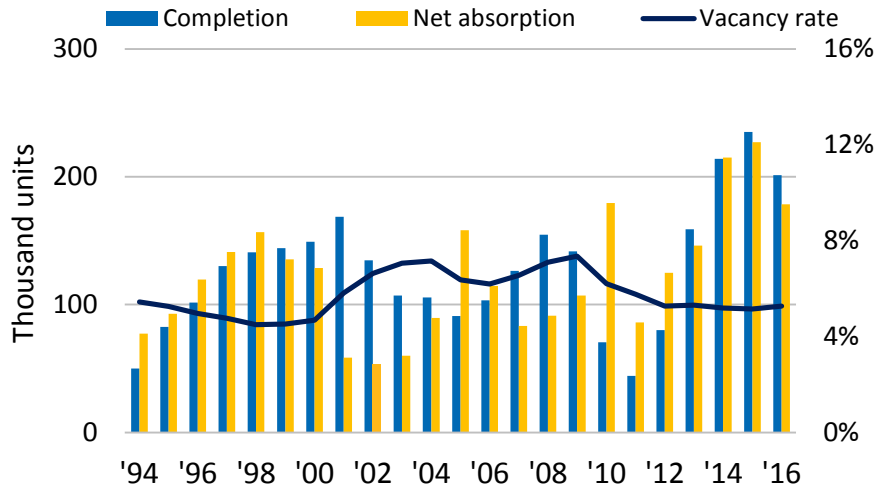
Apartment fundamentals

Property type outlook



AURA's view is derived by the Applied Research Group and is based on both forward and backward looking measures.

Apartment market



Source: Annual Data, CoStar Portfolio Strategy, Q3 2016

Leaders*

	Vacancy			Rent (\$/Unit)		
	15Q3	16Q3	Change	15Q3	16Q3	Change
Sacramento	4.1%	3.7%	-0.4%	\$1,086	\$1,192	9.8%
Seattle	5.3%	4.7%	-0.6%	\$1,405	\$1,510	7.5%
Salt Lake City	6.0%	4.8%	-1.2%	\$962	\$1,023	6.4%
Phoenix	6.1%	5.9%	-0.2%	\$862	\$916	6.3%
Tampa	5.4%	5.1%	-0.3%	\$988	\$1,043	5.5%

Laggards**

	Vacancy			Rent (\$/Unit)		
	15Q3	16Q3	Change	15Q3	16Q3	Change
San Francisco	3.7%	4.3%	0.7%	\$3,075	\$3,020	-1.8%
Oklahoma City	8.9%	10.4%	1.5%	\$704	\$699	-0.7%
Houston	7.1%	8.7%	1.6%	\$1,022	\$1,013	-0.9%

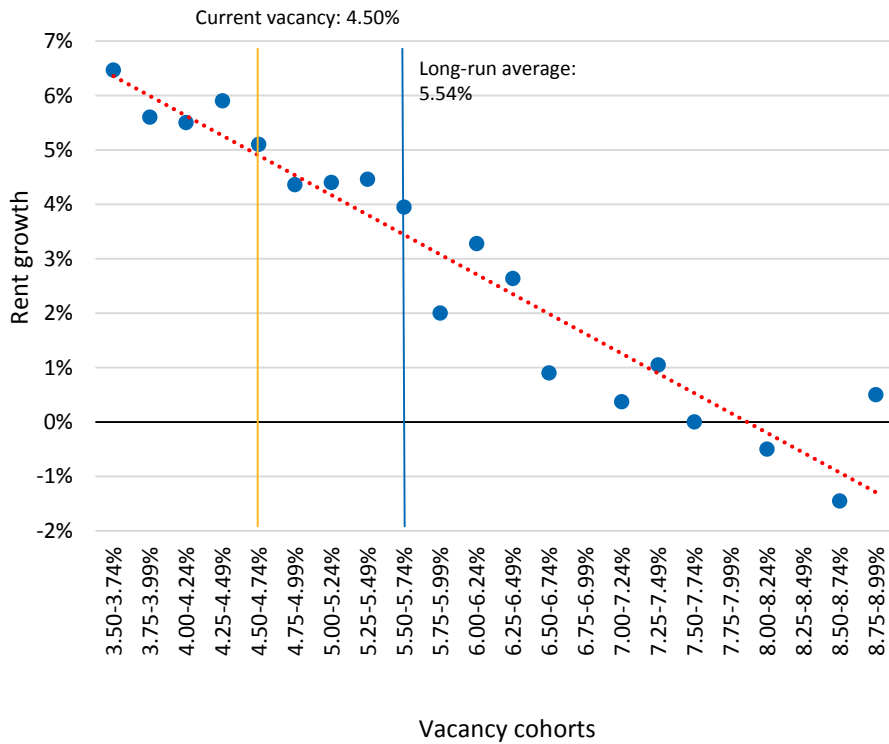
CoStar Portfolio Strategy, 2016 Q3. MSA - Top 54 Metropolitan Statistical Area in the United States.

*Leaders have a favorable vacancy trend and rent growth of 3% or higher.

**Laggards have an unfavorable vacancy trend and rent growth of 0% or lower.

Apartment class A

Average annual rent growth (since 2000)



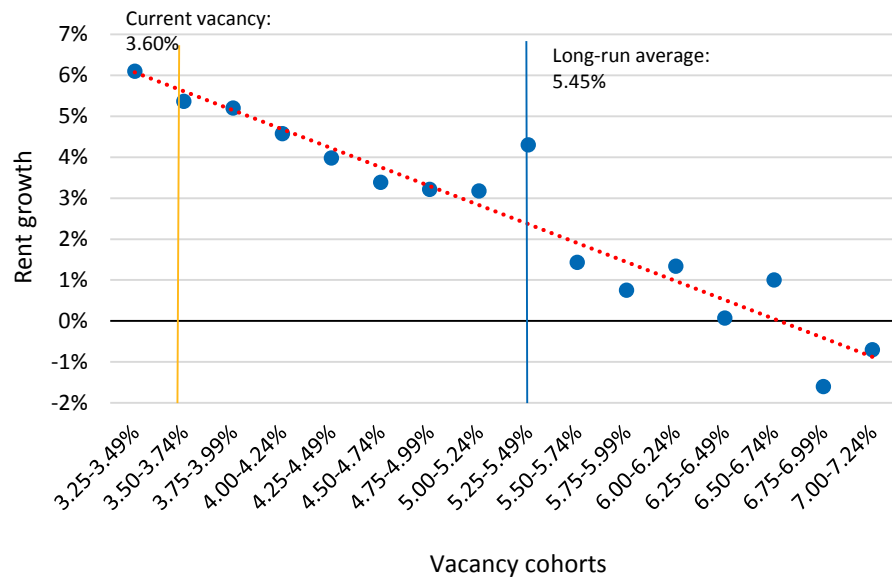
Rent growth (since 2000)



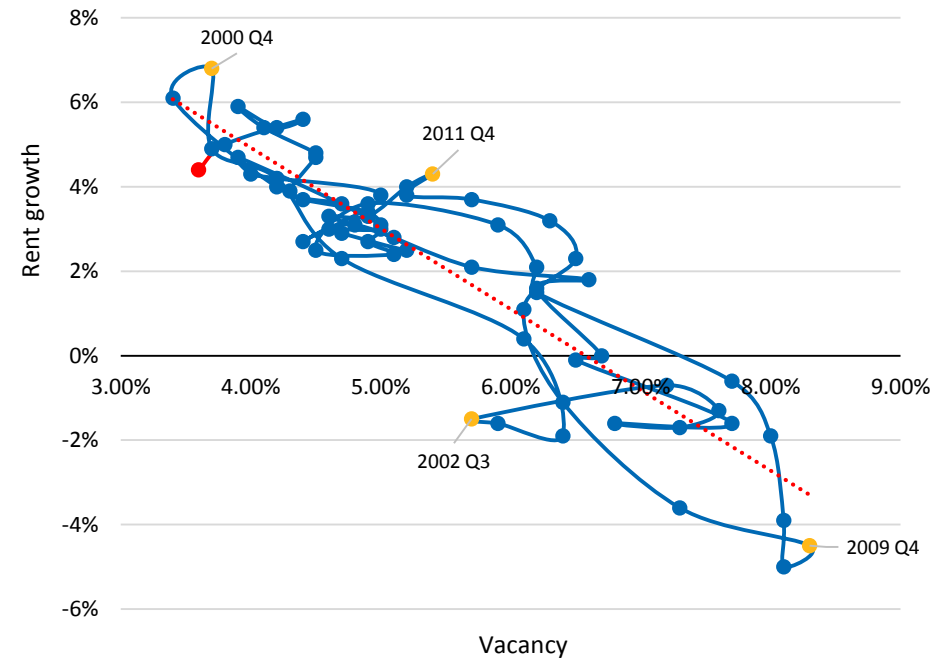
Source: MPF Research as of Q3 2016

Apartment class B

Average annual rent growth
(since 2000)



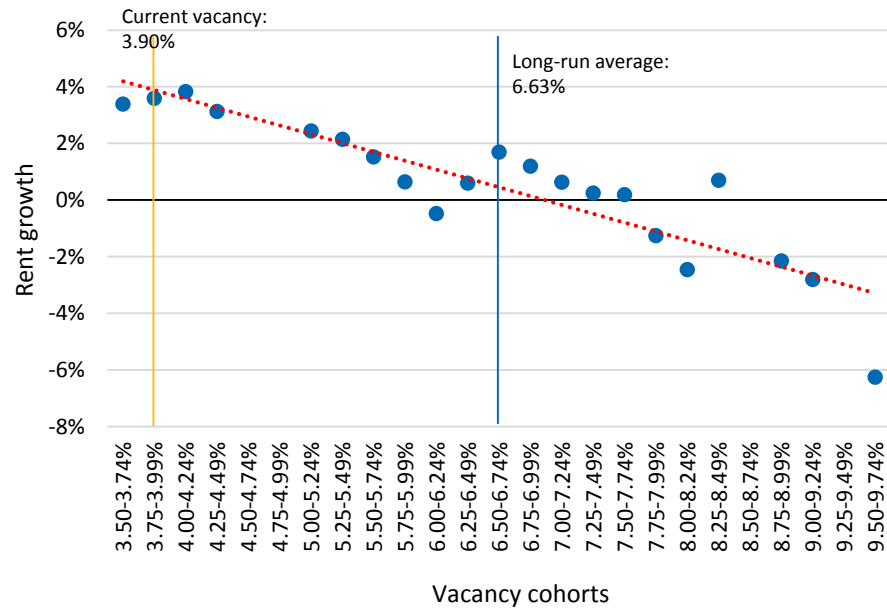
Rent growth
(since 2000)



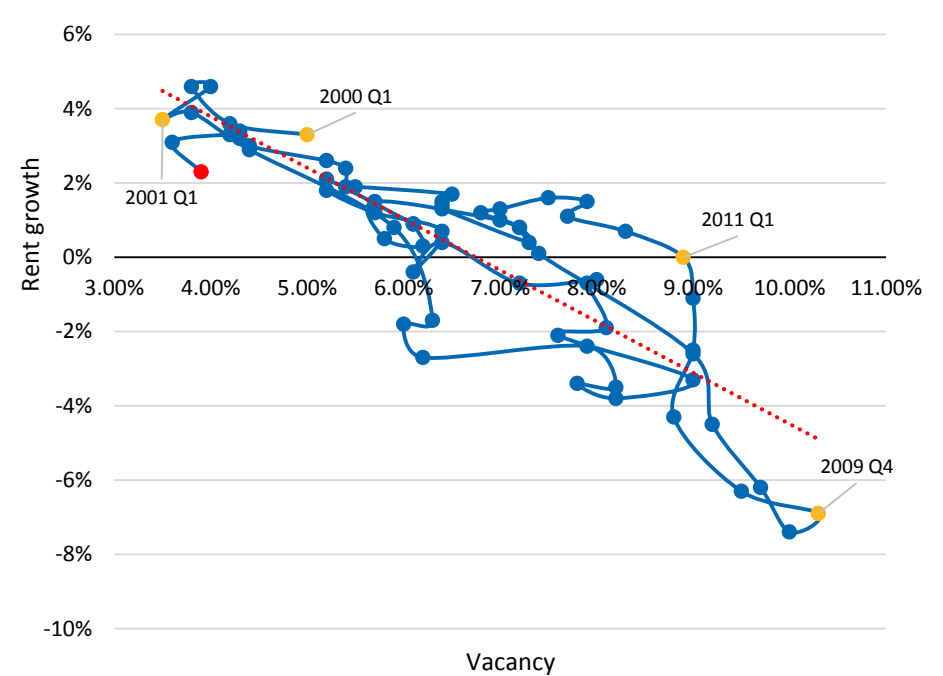
Source: MPF Research as of Q3 2016

Apartment class C

Average annual rent growth
(since 2000)



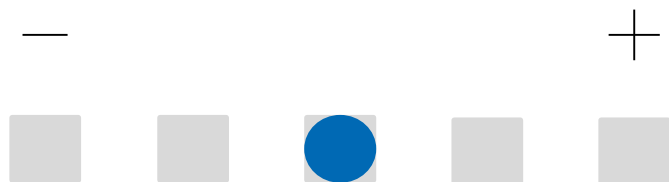
Rent growth
(since 2000)



Source: MPF Research as of Q3 2016

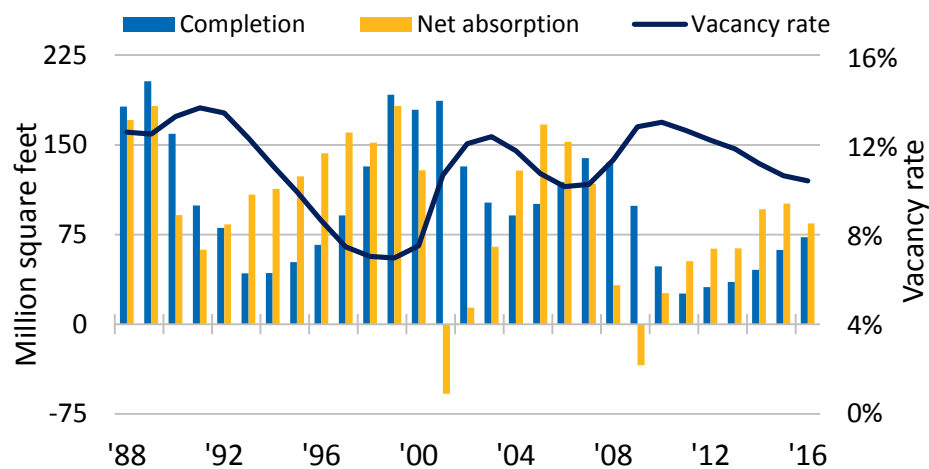
Office fundamentals

Property type outlook



AURA's view is derived by the Applied Research Group and is based on both forward and backward looking measures.

Office market



Source: Annual Data, CoStar Portfolio Strategy, Q3 2016

Leaders*

	Vacancy			Rent (\$/SF)		
	15Q3	16Q3	Change	15Q3	16Q3	Change
East Bay	8.8%	8.0%	-0.8%	\$25.86	\$28.87	11.6%
Nashville	5.4%	4.1%	-1.3%	\$21.09	\$22.77	8.0%
Boston	8.8%	8.4%	-0.4%	\$27.84	\$29.79	7.0%
Orange County	9.5%	9.0%	-0.5%	\$24.68	\$26.24	6.3%
Atlanta	12.7%	12.1%	-0.6%	\$19.36	\$20.49	5.8%

Laggards**

- No metropolitan statistical areas (MSA) met the criteria

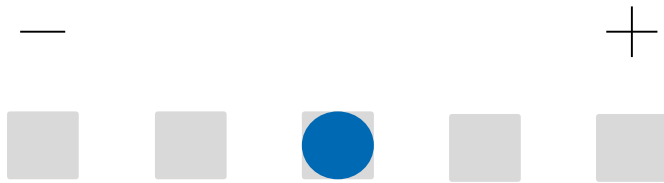
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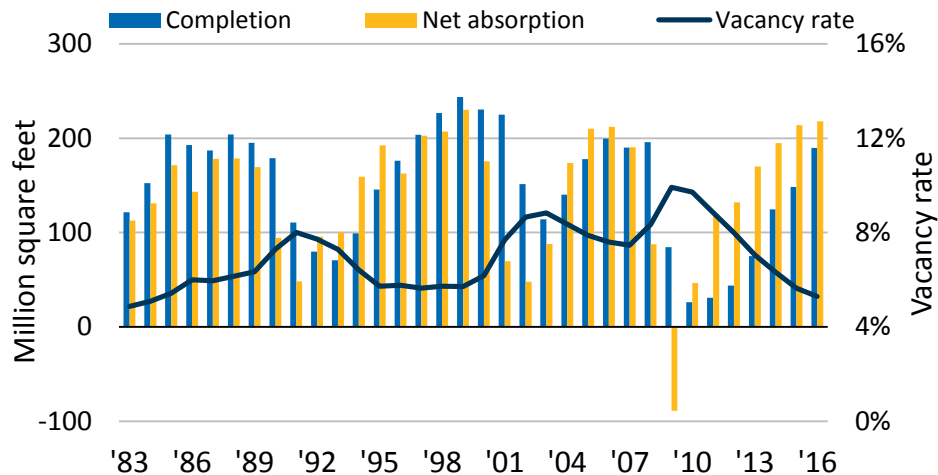
Industrial fundamentals

Property type outlook



AURA's view is derived by the Applied Research Group and is based on both forward and backward looking measures.

Industrial market



Source: Annual Data, CoStar Portfolio Strategy, Q3 2016

Leaders*

	Vacancy			Rent (\$/SF)		
	15Q3	16Q3	Change	15Q3	16Q3	Change
San Jose	4.8%	2.4%	-2.4%	\$10.45	\$12.18	16.6%
San Francisco	3.7%	2.4%	-1.3%	\$14.89	\$17.24	15.8%
East Bay	4.7%	4.1%	-0.6%	\$8.34	\$9.48	13.7%
Nashville	5.5%	3.5%	-2.1%	\$4.88	\$5.49	12.5%
San Antonio	5.7%	5.0%	-0.6%	\$5.71	\$6.37	11.6%

Laggards**

	Vacancy			Rent(\$/SF)		
	15Q3	16Q3	Change	15Q3	16Q3	Change
Hartford	6.5%	7.2%	0.7%	\$5.04	4.98%	-1.2%

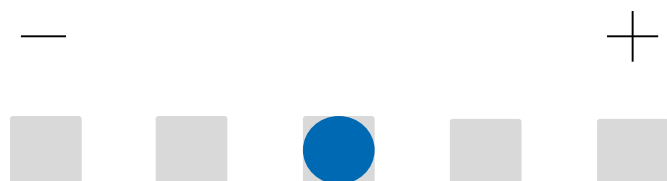
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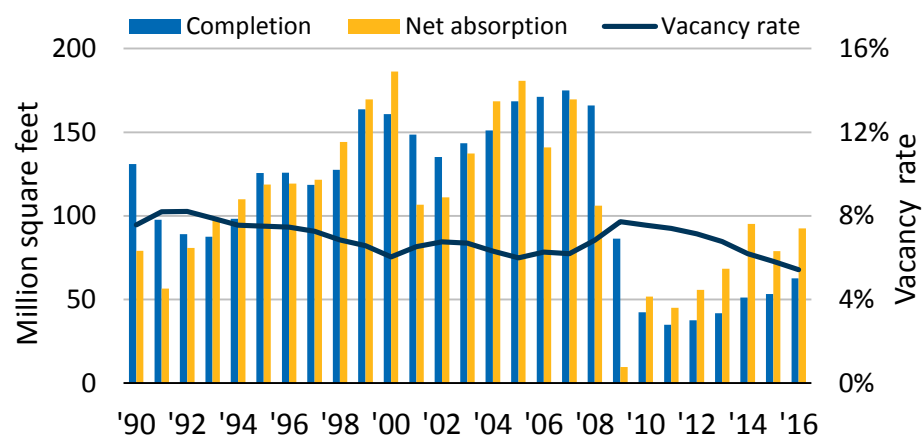
Retail fundamentals

Property type outlook



AURA's view is derived by the Applied Research Group and is based on both forward and backward looking measures.

Retail market



Source: Annual Data, CoStar Portfolio Strategy, Q3 2016

Leaders*

	Vacancy			Rent (\$/SF)		
	15Q3	16Q3	Change	15Q3	16Q3	Change
Austin	4.0%	3.7%	-0.3%	\$19	\$20.69	10.0%
Boston	3.3%	3.0%	-0.3%	\$19	\$21.35	9.7%
Nashville	5.4%	4.0%	-1.3%	\$16	\$16.82	8.4%
Las Vegas	9.9%	8.9%	-1.0%	\$16	\$16.73	7.2%
Los Angeles	4.6%	4.1%	-0.5%	\$2	\$29.41	6.6%

Laggards**

	Vacancy			Rent (\$/SF)		
	15Q3	16Q3	Change	15Q3	16Q3	Change
Honolulu	1.9%	2.9%	1.0%	\$41	\$39	-4.7%
No. New Jersey	5.4%	5.8%	0.4%	\$21	\$21	-2.2%

CoStar Portfolio Strategy, 2016 Q3. MSA - Top 54 Metropolitan Statistical Area in the United States.

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