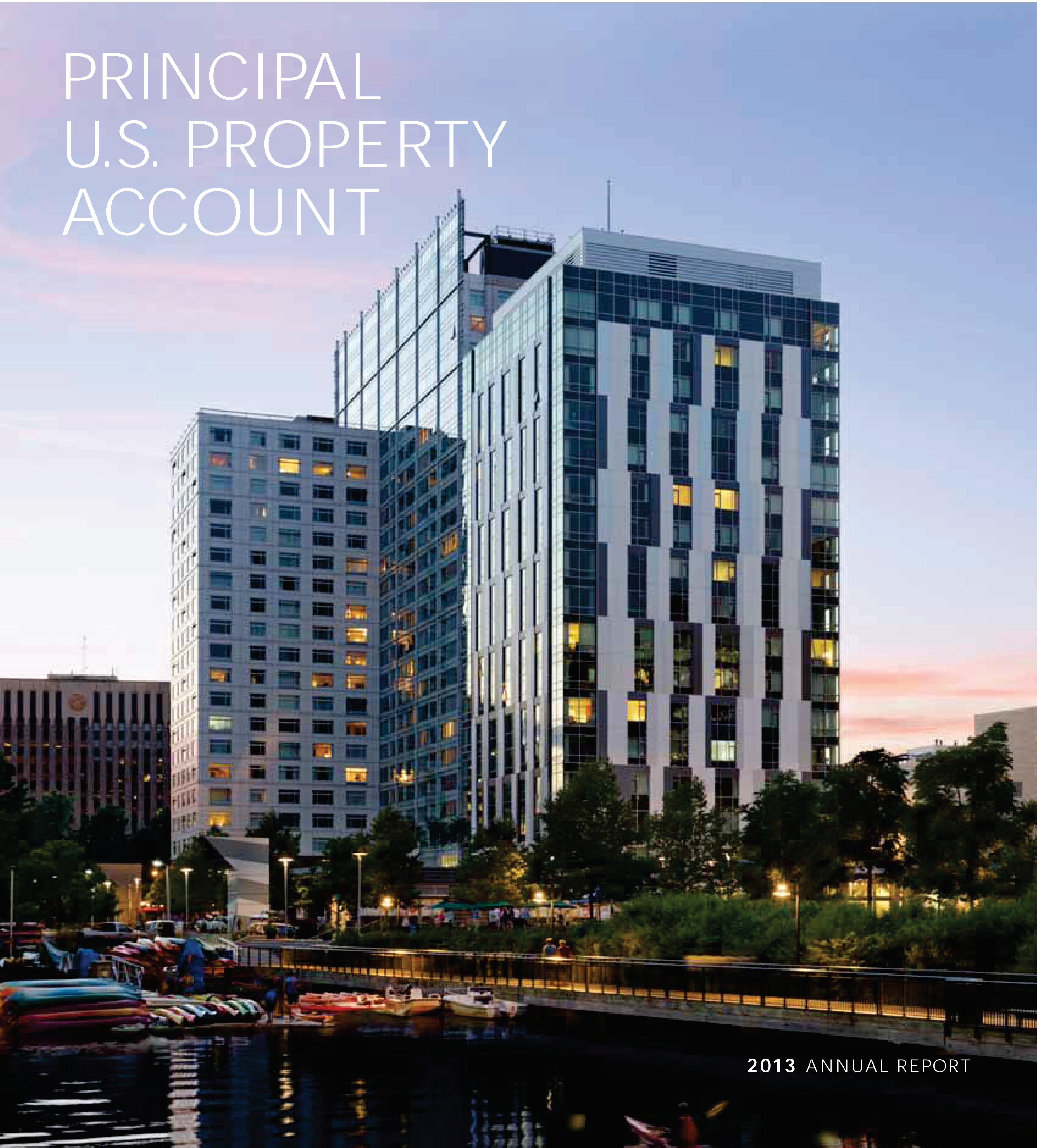
Principal® Real Estate Investors

RESEARCH • RESOURCES • RESULTS



PRINCIPAL U.S. PROPERTY ACCOUNT

2013 ANNUAL REPORT

INVESTMENT PROFILE

BACKGROUND

Since 1982, the Principal U.S. Property Separate Account (the Account)[1] has been made available to clients as an open-end, commingled real estate account established by Principal Life Insurance Company. The Account is a diversified real estate equity account consisting primarily of high quality, well-leased real estate properties in the multifamily, industrial, office, retail, and hotel sectors. The Account is available only to qualified retirement plans. The Account is an insurance company separate account sponsored by Principal Life Insurance Company and managed by Principal Real Estate Investors.

PHILOSOPHY

The Account is a core real estate account designed to have a low to moderate risk profile compared to other funds comprising the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-End Diversified Core Equity (NFI-ODCE). This risk profile has two components: 1) a low to moderate real estate property risk profile; and 2) a low to moderate risk portfolio level operating profile. Low-to-moderate real estate property risk is accomplished by investing primarily in well-leased properties on an unleveraged basis. Low to moderate portfolio level risk is accomplished by operating with limited portfolio level obligations and a well-diversified portfolio.

OBJECTIVES

The Account has two primary objectives:

1) to invest in a well-diversified real estate portfolio that reflects the overall performance of the U.S. commercial real estate market, and

2) to provide clients with private real estate returns that, over a market cycle, meet or exceed the NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE) Equal Weight at the portfolio level.

[1]The Principal U.S. Property Separate Account ("Principal U.S. Property Account" or the "Account") is an open-end commingled real estate separate account managed by Principal Real Estate Investors, LLC, and sponsored by Principal Life Insurance Company. It is available, through group annuity contracts issued by Principal Life Insurance Company, to plans meeting the requirements for qualification under Section 401(a) of the Internal Revenue Code of 1986 ("Code"), as amended, and governmental plans meeting the requirements of Section 457 of the Code, as amended.

On the cover –
Watermark Kendall East and West
Cambridge, Massachusetts

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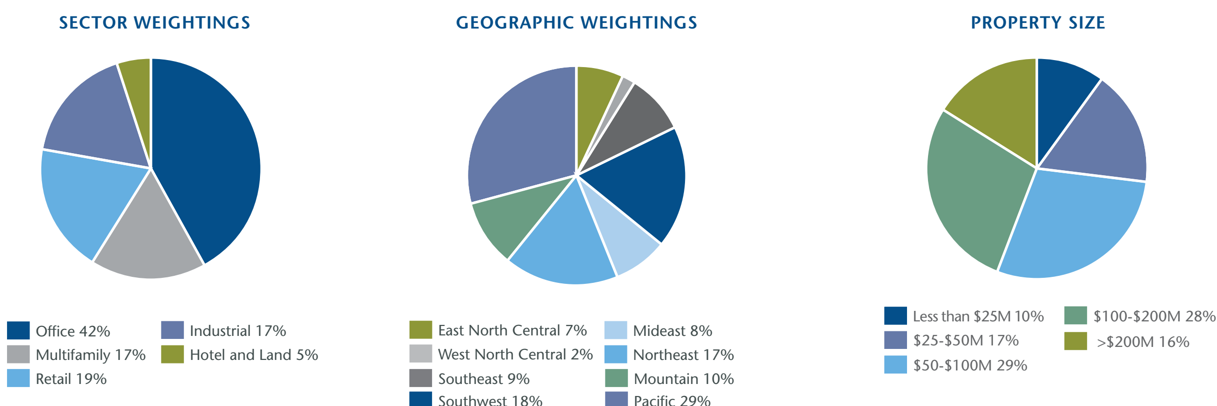
PORTFOLIO HIGHLIGHTS

PORTFOLIO DIVERSIFICATION[1]



KEY STATISTICS

Inception Date	Jan, 1982	Cash to Gross Assets	2.6%
Gross Asset Value	$6,045 million	Leverage Ratio[2]	17.0%
Net Asset Value	$4,795 million	Portfolio Occupancy[3]	94.5%
Number of Investments	116	Institutional Investors > $5m	126
Number of Markets	39	2013 Client Contributions	$680.7 million
Size	31.1 million sf	2013 Client Distributions	$511.9 million

SECTOR	CURRENT ALLOCATION	NFI-ODCE ALLOCATION	TARGET ALLOCATION
Office	42%	37%	35 - 45%
Multifamily	17%	27%	15 - 25%
Retail	19%	19%	15 - 25%
Industrial	17%	13%	15 - 25%
Hotel and Land	5%	2%	0 - 5%

PERFORMANCE	GROSS PORTFOLIO[4]	PORTFOLIO BENCHMARK[5]	NET PORTFOLIO[6]
1 Year	14.63%	13.34%	13.32%
3 Year	14.68%	13.42%	13.36%
5 Year	4.12%	3.28%	2.93%
10 Year	6.96%	6.75%	5.74%
Since Inception[7]	7.54%	7.08%	6.38%

[1] Diversification is based upon the Account's gross market value of real estate assets.

[2] Account's share of total debt (both property and portfolio) divided by Account's share of total gross assets.

[3] Occupancy excludes value-added assets which are acquired at less than 85% occupancy, are under development or redevelopment. Occupancy for the total portfolio is 92%. Occupancy shown is percentage leased and is based on square footage.

[4] Gross portfolio returns include leverage. Actual client returns will be reduced by investment management fees and other expenses that may be incurred in the management of the portfolio. The highest standard institutional investment management fee (annualized) for the Account is 1.15% on account values. Actual investment management fees incurred by clients may vary and are collected daily which produces a compounding effect on the total rate of return net of management fees and other expenses. Investment management fees are subject to change.

[5] Gross portfolio performance is benchmarked against the the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index - Open-end Diversified Core Equity (NFI-ODCE) Equal Weight.

[6] Net portfolio returns are shown after deduction of an investment management fee, which is 1.15% annually from July 1, 2002, through the present. Net portfolio returns prior to July 1, 2002, are calculated to reflect deduction of blended annualized investment management fees of 1.15% and 1.05% in the periods in which those amounts were charged. Investment management fees range from 80-115 basis points.

[7] Account inception date: January 30, 1982.

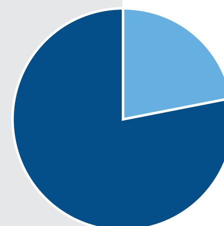
TEN LARGEST INVESTMENTS

	Metropolitan Area	Sector	12/31/13 Occupancy	% of Gross Real Estate Assets
1370 Avenue of the Americas	New York, NY	Office	88.0%	4.9%
Watermark Kendall East & West	Cambridge, MA	Multifamily/Retail	89.3%	4.2%
112th @ 12th	Seattle, WA	Office	77.0%	3.5%
Burbank Empire Center	Los Angeles, CA	Retail	100.0%	3.4%
Energy Center III, IV, V	Houston, TX	Office/Land	N/A	3.1%
Charles Park	Cambridge, MA	Office	93.5%	3.1%
West Campus	Austin, TX	Multifamily/Retail	96.7%	2.8%
J.W. Marriott Resort and Spa[1]	San Antonio, TX	Hotel	69.6%	2.8%
Capitol Plaza	Washington, D.C.	Office	99.0%	2.8%
420 West 42nd Street	New York, NY	Multifamily	95.5%	2.4%

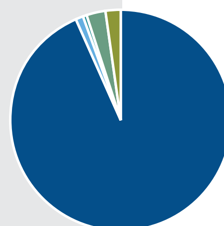
RETURNS

	1 Year	3 Year	5 Year	10 Year
Portfolio Returns[2]				
Income	5.70%	5.81%	6.08%	5.66%
Appreciation	8.57%	8.49%	-1.88%	1.25%
Total	**14.63%**	**14.68%**	**4.12%**	**6.96%**
Property Returns[3]				
Income	5.62%	5.77%	5.94%	5.71%
Appreciation	7.13%	7.19%	-0.81%	1.96%
Total	**13.05%**	**13.26%**	**5.10%**	**7.76%**

STRUCTURE



LIFECYCLE



ONE YEAR PERFORMANCE

	Office	Industrial	Retail	Multifamily
Property Sector [3,4]				
Income	5.40%	6.06%	6.23%	5.15%
Appreciation	8.43%	9.13%	3.94%	5.97%
Total	**14.17%**	**15.60%**	**10.35%**	**11.35%**
	East	**Midwest**	**South**	**West**
Geographic Region[3]				
Income	4.70%	6.64%	5.98%	5.72%
Appreciation	8.86%	1.56%	10.92%	4.98%
Total	**13.87%**	**8.28%**	**17.38%**	**10.91%**

[1] Occupancy shown is annual average.

[2] Gross portfolio returns are levered and pre-fee.

[3] Property returns are unlevered, before fees and calculated in accordance with NCREIF property return methodology.

[4] Hotel performance was as follows: 8.24% income, 12.06% appreciation and 21.02% total.

DELIVERING RESULTS

PORTFOLIO MANAGER COMMENTARY

The benefits of accommodative monetary policy engineered by the Federal Reserve and other central banks permeated most risk assets in 2013, including private commercial real estate. Improving space market fundamentals augmented the weight of capital looking to place money in commercial property to act as dual propellants for a fourth consecutive year of above-historical average performance in the private equity quadrant of the commercial real estate asset class. The monetary policy turning point has been signaled with the initial taper of the Federal Reserve (Fed) bond buying program announced in December, reinforcing the importance of property performance and income growth for commercial real estate, particularly core open-end funds.

The Account recorded its fourth consecutive year of outperforming the benchmark in 2013, reaching cumulative outperformance over the NFI-ODCE (Equal Weight) of 4.87% since the end of 2009. The Account generated an annual total return in 2013 of 14.6%, comprised of 5.7% income and 8.6% appreciation, exceeding both the income return of the Account's benchmark of 5.3% and the total return of 13.3%. In addition to relative outperformance in 2013, the Account's return also exceeds that of its benchmark over the three, five, ten-year, and since inception time periods.

The risk tolerance pendulum swung further toward risk taking in 2013 for investors globally. Perceptions of macroeconomic risks, including the probability of a double-dip recession in the U.S., receded and the continued search for yield diverted capital to areas such as below-investment grade bonds. Within the private domestic commercial real estate market, quality and safety remained in the center of the bulls-eye of investor demand, with the deepest pockets of investor debt and equity capital pursuing high-quality, well-leased properties in the primary markets. While incrementally more capital was available for value-added and development properties during 2013 than 2012, the supply-demand symmetry for those non-core investment activities is arguably more balanced than for the highest quality buildings in the most coveted gateway markets where demand materially exceeds supply.

Investor activity strengthened throughout the capital stack in 2013, with investors seeking both debt and equity investment opportunities in commercial real estate. Transaction volume, as reported by Real Capital Analytics, totaled $343 billion in 2013, an increase of 15% over 2012. In addition, spreads on commercial mortgages tightened during the year with new loan issuance seemingly limited more by the supply of new financing opportunities than the supply of debt capital. In addition to a robust appetite for whole loans from life insurance companies and banks during the year, CMBS originations and securitizations continued their acceleration in 2013. While these sources staged competition up to 60-65% loan-to-value on core properties, the availability of capital from alternative sources increased considerably throughout 2013 for both mezzanine positions above first mortgages on core properties and for value-added and opportunistic properties, including development. With further economic recovery forecast in 2014 and the likelihood of incremental improvement in space market fundamentals, the availability of debt and equity capital for commercial real estate should persist, and will likely expand in willingness to assume risk.

THE ACCOUNT RECORDED ITS FOURTH CONSECUTIVE YEAR OF OUTPERFORMING THE BENCHMARK IN 2013, REACHING CUMULATIVE OUTPERFORMANCE OVER THE NFI-ODCE (EQUAL WEIGHT) OF 4.87% SINCE THE END OF 2009.

GDP growth of 1.9% in 2013, accompanied by 2.2 million jobs created in the U.S., contributed to further improvement in commercial real estate space market fundamentals. Demand resulting from economic improvement led to increasing rents and decreasing vacancy rates across the property sectors. Developers remain generally disciplined, creating little supply in all sectors, save multifamily, where the amount of new supply is already weighing on the ability to raise rents in certain markets. With the importance of income growth at the property level moving to the forefront for future real estate returns, continued monitoring of the supply pipeline on a market-by-market basis is of increasing consequence.

The monetary policy turning point signals the beginning of a carefully engineered exit from accommodative monetary policy. The Federal Reserve has been engaged in both traditional and non-traditional forms of accommodative monetary policy in recent years. The market expects that the traditional form of zero interest rate policy (ZIRP) will continue with the Fed targeting low short-term rates for an extended period of time. Non-traditional accommodative monetary policy has been in the form of the Fed's bond-buying program, the wind-down, or taper, of which was announced in December. As tapering continues, the market consensus signals an increase in "risk-free" rates and, at some point, this could place upward pressure on capitalization rates for commercial real estate. The primary countermeasure against this potential for increasing capitalization rates is growing net operating income (NOI) at the property level, which has been – and will continue to be – of paramount importance for Account operations.

The three primary strategic themes for the Account are continuing to own a portfolio of high-quality buildings in urban, infill locations, driving NOI performance at the property level and utilizing the Account's value-added allocation for acquisitions and developments that offer attractive risk-adjusted returns. In addition to acquiring core properties totaling $230 million in 2013, value-added acquisitions equaled $72 million and development commenced on projects with a combined total cost of $342 million. At year-end 2013, more than half of the Account's maximum 15% of gross asset value remained available for value-added opportunities and with prices at or near historical highs for many core investments in gateway markets, better relative value may exist further up the risk spectrum in certain property sectors and markets. From an economic perspective, 2014 looks to be an attractive time to assume leasing risk for multiple reasons including the expectation of further improvement in supply and demand fundamentals, just 7% of the Account's non-multifamily leases expire in 2014 and the demonstrated success of leasing space by the asset management teams of Principal Real Estate Investors. Thus, we expect to pursue additional "manufactured core" opportunities in 2014, including lease-to-core transactions, build-to-core developments and redevelopments.

With NOI growth solidly at the forefront of Account strategy, the portfolio is positioned accordingly. We expect office and warehouse NOI growth to lead the market in coming years, thus have positioned the portfolio such that it is overweight to both the office and industrial sectors relative to the benchmark. Given a wave of new supply and increased likelihood of a decline in landlord pricing power,

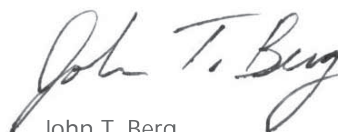
the Account will maintain its near-term underweighting to the multifamily sector, targeting portfolio additions to the sector primarily through build-to-core development in markets and submarkets where the supply and demand balance remains attractive. The Account weighting to retail approximates the benchmark and will likely hover in that range given the prospects for rising consumer spending in the coming year.

The Account ended the year with a total leverage ratio of 17% and a weighted average cost of debt capital of 4.01%. The leverage strategy for the Account includes a continuing commitment to asset-liability matching and a target leverage ratio of 20%-25%, consistent with the benchmark. In addition, with borrowing rates expected to remain near historic lows, a preference for long-term, fixed-rate borrowing will continue when consistent with the business plan objectives for a property. Debt maturities in 2014 total $214 million; all have loan-to-value ratios below 60% and offer the opportunity to further lower the overall weighted average cost of debt capital for the Account.

In response to continuing investor interest in the Account, a deposit queue was instituted in May. As of December 31, 2013, the deposit queue for new large investments in the Account totaled $321.5 million. Commitments in the deposit queue will be called subject to the Account's capacity for accepting additional capital. The investment production and portfolio management teams remain diligent in identifying transactions that meet the Account's criteria for acquisitions with strong relative value and appropriate risk-adjusted returns.

The management philosophy for the U.S. Property Account places dual emphasis on return generation and risk management. The relative success of the Account in 2014 will ultimately be driven by adhering to the aforementioned themes of owning high-quality real estate, driving NOI growth at the property level and navigating the marketplace to find acquisition opportunities offering good risk-adjusted returns, with diligent focus on value-added opportunities. On the liability side, seizing the opportunity to lock-in long-term, fixed-rate borrowing at low nominal rates is expected to benefit Account investors over short and long time horizons. We will not waver from our investment philosophy and we expect opportunities in 2014 that enable us to execute Account strategy, enhance the portfolio and generate solid risk-adjusted returns.

Thank you for your continued support and consideration of the Account. The resources of Principal Real Estate Investors are fully committed to capitalizing on the opportunities ahead for investors. We look forward to working with you in the future.



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CONTINUED GROWTH

ECONOMIC OUTLOOK: AN INFLECTION POINT FOR GLOBAL INVESTORS?

Investors may view 2013 as a watershed year headlined by forward, though jagged, progress towards the global economic recovery. Additionally, the Fed announced it would begin to taper its bond purchasing program in a measured manner, with considerable emphasis on policy differentiation between tapering and tightening. Further, despite heightened policy instability for much of the year, Congress was able to approve a budget, albeit temporarily.

In an important role reversal, after years of underperforming emerging markets, some developed economies began to show signs of economic upshift. Aided by historically easy monetary policies that held down interest rates, the U.S., UK, and Japan showed improvement in aggregate demand indicators. In emerging markets such as Brazil and India, domestic demand softened and exports sagged as rates were boosted to stem inflation. As the year unfolded, the Eurozone limped out of recession. In Japan and the U.S., consumers repaired their personal balance sheets and resumed spending, although businesses remained wary of making measurable commitments to new workers or investment.

The U.S. economy gained momentum in 2013 as the drag from changes in government spending and taxation faded. Although cuts in government spending are expected to slightly diminish 2014's growth forecast, they are likely to be a far less powerful brake than the payroll-tax increase, earlier spending cuts, and fiscal brinkmanship that affected businesses and consumers in 2013. The two-year budget agreement reached by Congress at year's end defused some economic uncertainty as well.

Progress has been made in the labor market with the U.S. unemployment rate at 6.6%, well below its recession peak of 10% in October 2009, but above the 4.7% level recorded prior to the Global Financial Crisis (Exhibit 1).

While this has been one of the slowest labor market recoveries in modern history, more jobs, along with rising stock markets and home prices are bolstering household net worth to a record level.

Against this generally improved backdrop, the Fed judged the U.S. economy healthy enough to receive less monetary policy support and decided at its December meeting to reduce its bond-buying program purchases by a modest $10 billion in January. Fed policy makers are expected to lower monthly purchases in $10 billion increments at subsequent meetings if the economy continues to improve as they expect.

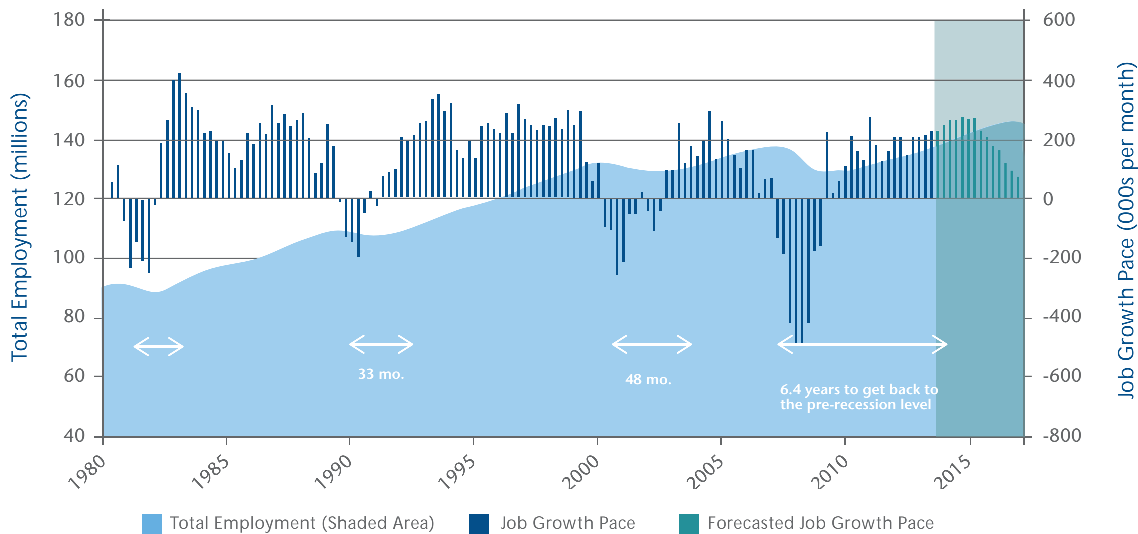
Despite palpable momentum in the latter part of 2013, economic data and investor reaction thereto has been uneven throughout much of January 2014. As of late January, the rate on 10-year Treasurys was lower than was recorded prior to the announcement of tapering. That was largely a function of a shift in investor sentiment and a subsequent increase in risk aversion amidst weaker than expected economic data and another round of emerging markets worries. Surprisingly weak December job growth in the U.S., unfavorable manufacturing output data in China and concerns about its shadow banking system, and emerging market currency turmoil have robbed the stock markets of their 2013 momentum. Nevertheless, the outlook for the U.S. remains positive and January's events need to be put into perspective. In all, fundamentals are improving across much of the world as economies distance themselves from the Global Financial Crisis.

While there are certainly some trouble spots and optimism can be fleeting, sources of improved sentiment about U.S. fundamentals include: deleveraged households which have regained and now exceed prior peak net worth (Exhibit 2); a financially strong private business sector despite pockets of earnings disappointment; improved state and local

PROGRESS HAS BEEN MADE IN THE LABOR MARKET WITH THE U.S. UNEMPLOYMENT RATE AT 6.6%, WELL BELOW ITS RECESSION PEAK OF 10% IN OCTOBER 2009, BUT ABOVE THE 4.7% LEVEL RECORDED PRIOR TO THE GLOBAL FINANCIAL CRISIS.

EXHIBIT 1

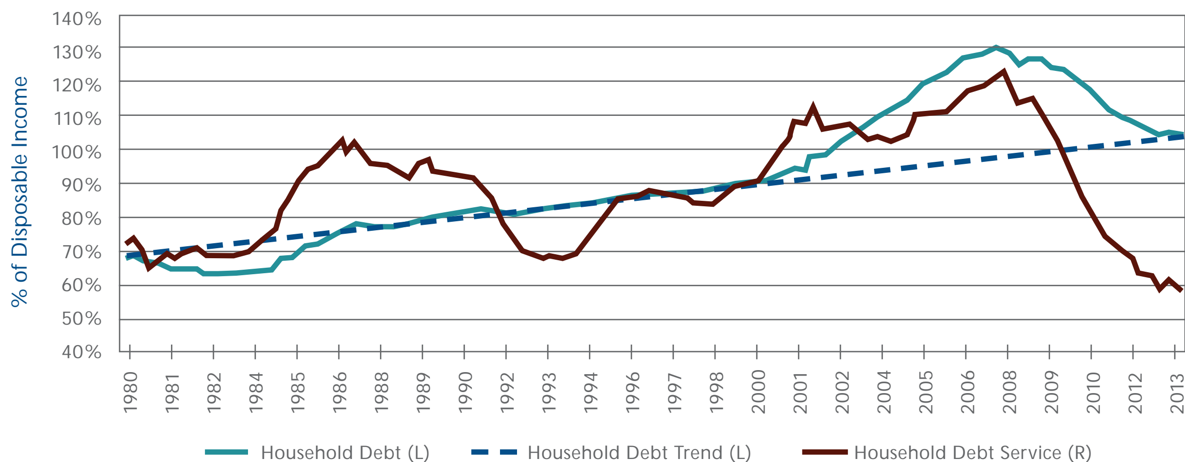
TOTAL NON-FARM EMPLOYMENT



Source: BLS, Moody's Analytics, PrinREI Research, January 2014

EXHIBIT 2

HOUSEHOLD DEBT TRENDS



Source: Federal Reserve, Moody's Analytics, PrinREI Research, January 2014

government balance sheets; a fully recovered banking system; continued low interest rates from a historical perspective; less policy uncertainty stemming from Washington, D.C.; and a continued move towards U.S. energy independence, which has resulted in lower energy prices for the manufacturing sector.

As for 2014's outlook, if the federal government can avoid creating volatility through additional episodes of policy uncertainty, and if job growth rebounds to a range at or near 200,000 per month, 2014 may be a reasonably strong year for consumer spending. Consumer spending would likely also get an assist if unemployment benefits are extended. Separately, sustained low home mortgage rates may provide further support to the housing market, and should also boost retail sales through the follow-on effect of sales of appliances, electronics, and home furnishings. A resultant strong boost in consumer spending could prove to be a primary driver of the potential for 3% U.S. real GDP growth in 2014.

Improved growth and optimism is not exclusive to the U.S. Despite the Eurozone still largely in a very weak recovery mode, the outlook for global economic growth is reasonably strong. The International Monetary Fund (IMF) recently revised its projection of global GDP growth upwards to 3.7% in 2014 (with accompanying global trade growth of 4.5%) and 3.9% in 2015. While not spectacular, the 2014 growth estimate would be the strongest global GDP growth since 2011 and not far below what the IMF sees as the potential global growth rate of 4%.

Still, there are various downside risks, including an uptick in volatility in stock markets driven by pockets of weaker than expected economic data and sharp declines in emerging market currencies amidst fears that tapering will drive additional capital out of emerging markets. If emerging markets do not stabilize, it could certainly challenge the IMF projection of developing nation real GDP growth of 5.1% in 2014.

Some key themes for the U.S. economy in 2014 and beyond include:

- The evolving nature of monetary policy and the credibility of the Fed's forward guidance. If the Fed is able to establish an anchor around long-term interest rates without significant market disruption, it should be on pace to reduce its bond-purchasing program at the current pace of $10 billion per month and wind down quantitative easing (QE3) completely in 2014. Concurrently, the Fed will need to assure that its zero interest rate policy (ZIRP) will remain intact well after the unemployment rate declines to 6.5% to anchor the short-end of the yield curve.
- Despite a temporary agreement in Washington, D.C. for a two-year budget deal, both short-term and long-term political uncertainty have the potential to erode confidence and inject volatility into the markets. Disagreements over spending, entitlements, and revenue gaps will likely continue to create policy uncertainty longer-term.
- Consumer spending remains vitally important to economic growth and in order to accelerate, 2014 will likely need the labor market to continue adding approximately 200,000 jobs per month. Low mortgage rates and continued gains in the 'wealth effect' from rising home values and stock prices would also be beneficial.
- If the Fed is successful in its guidance and yields rise in a measured manner, real estate investors are likely to accept a narrowing of the risk premium (i.e. lower spread between Treasury and cap rates) in anticipation of higher rent growth from a strengthening economy. However, the era of double-digit unlevered returns for core real estate led by capitalization rate compression is likely over; looking ahead, the bulk of appreciation will likely be driven by improvements in same-property income growth.

- Principal Global Investors expects U.S. real economic growth of 2.9% in 2014, a pace of growth that more closely approximates that of historical recoveries. The acceleration is likely to be driven by pent up demand from consumers for autos and houses, reduced fiscal drag, and continued labor market gains.

SPACE MARKET OUTLOOK

Space market fundamentals continue to improve with 2013 recording positive absorption and rent growth across all major property sectors. Save for multifamily, new supply is still relatively contained and the outlook for stronger rent growth in 2014 remains intact. The improved outlook for the labor market is an encouraging sign for demand across all property sectors, especially for office, which has lagged in the recovery cycle to date.

According to data from CBRE Econometric Advisors, over the last three quarters, net absorption in the U.S. office market has totaled more than 22 million square feet, contributing to a decline in the U.S. office vacancy rate of 15.4% as of year-end 2012, to 14.9% as of fourth quarter 2013. This is the lowest vacancy rate recorded in the office market since early 2009, and is 190 basis points lower than its zenith of 16.8% in mid-2010. With absorption expected to improve, the forecast for the office space market is at its most robust point to date in this cycle.

Demand for industrial space, which tends to be strongly correlated with the broader economy, is also improving. Preliminary data shows that net industrial demand was 70.8 million square feet in the fourth quarter of 2013, bringing 2013's total to nearly 233 million square feet. This compares to 134 million square feet of demand in 2012. Growing household formation and a generally more positive outlook continued to support multifamily absorption, even as the supply picture became less supportive. Nevertheless, national vacancy ended 2013 at 4.1%, a decrease of 10 basis points from the third quarter of 2013 and 390 basis points

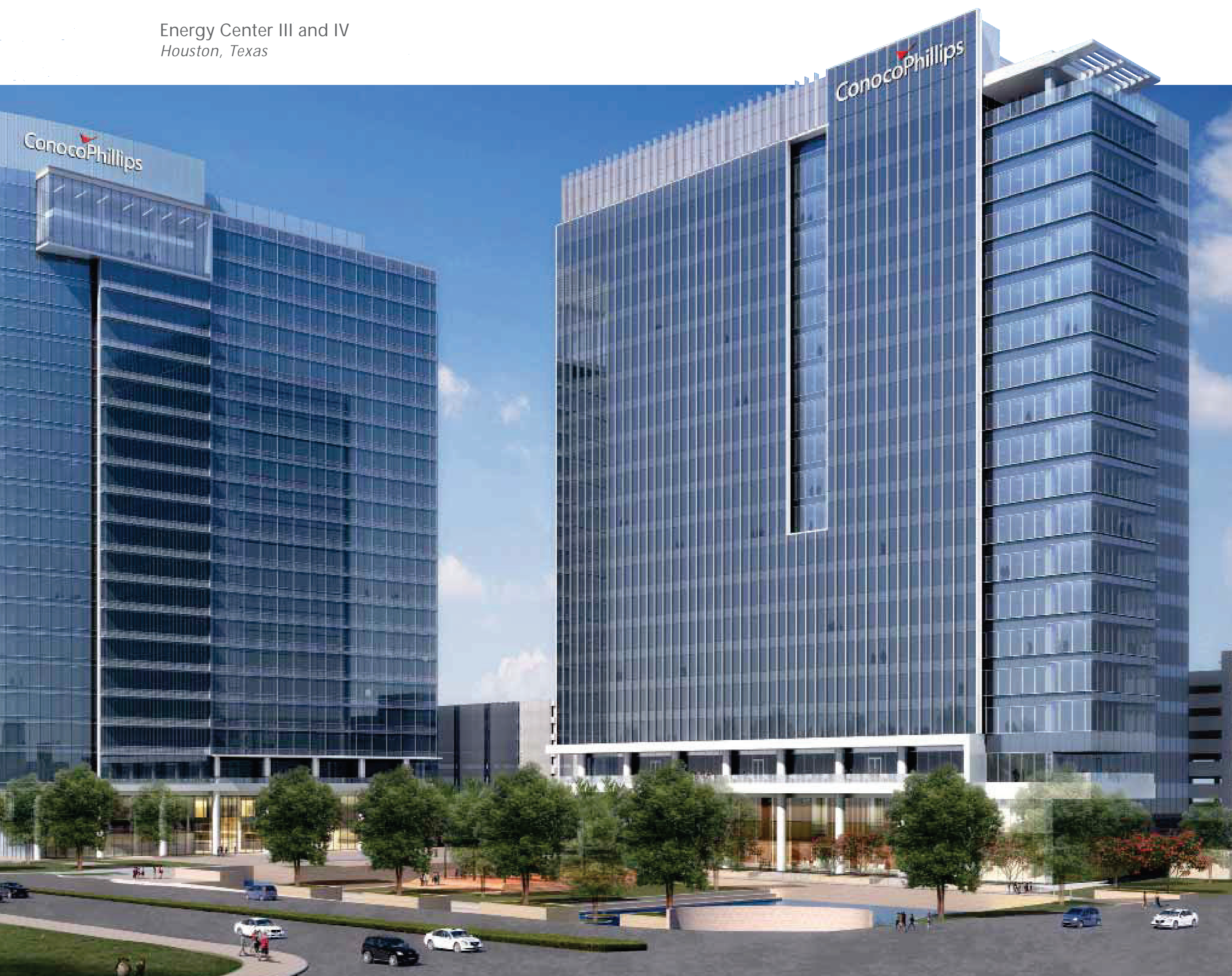
530 Lincoln Road
Miami, Florida

since its recession peak. Retail remains most impacted by this prolonged economic recovery, with absorption levels flat in 2013. According to REIS, total absorption for community and neighborhood retail was 2.7 million square feet in the fourth quarter, a slight increase from the 2.4 million square feet absorbed in the third quarter of 2013.

Vacancy rate declines have been helped in no small part by a disciplined supply pipeline. Excluding multifamily, the outlook for new supply in the major property sectors remains well-balanced. In the case of the multifamily sector, current forecasts project enough demand to absorb the pipeline of construction for the next 12-18 months. Thereafter, the level of equilibrium in this sector will need to be monitored carefully, as an excess of supply may have an outsized negative impact on this property sector with its shorter duration leases.

Overall, 2014 should be a stronger year for demand across the major property sectors as the economy shifts into a higher trajectory of growth. With the exception of a flat forecast in the multifamily sector, vacancy rates are forecast to decline across all property sectors, but particularly in the office sector. Investors will increasingly look for improving space market fundamentals to generate appreciation going forward and to offset the potential headwinds from a higher interest rate environment.

Energy Center III and IV
Houston, Texas



CAPITAL MARKETS

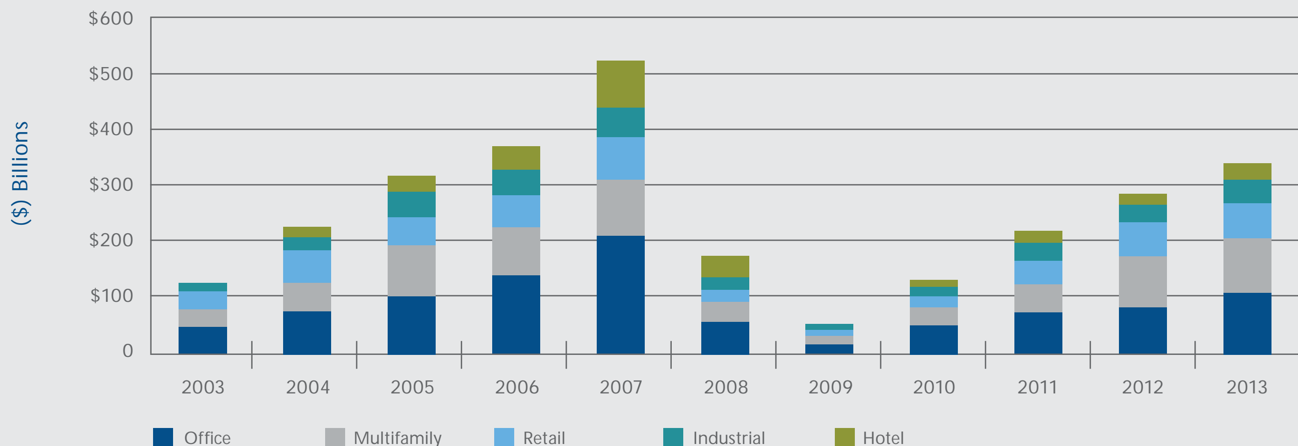
The outlook for capital markets will evolve in 2014 and likely be somewhat volatile as investors adjust to the push and pull of a higher interest rate environment driven by improving economic conditions and the Fed's guidance. Turmoil in the emerging markets in January has already showcased the sensitivity of the global financial system to policy actions by the Fed. If interest rates do move significantly higher, it will impact all asset classes, including commercial real estate, causing investors to reassess risk tolerance and focus more sharply on expectations for rent growth. The potential for higher, secular interest rates has already taken a toll on the listed real estate sector with U.S. Real Estate Investment Trusts (REITs) falling sharply following the Fed's public speculation on ending QE 3 in mid-May. In December, when the Fed officially announced it would taper its bond purchases, investors focused on the potential for higher interest rates as a headwind for the sector without notable consideration of the positive development for the economy and underlying real estate fundamentals. As a result, REITs underperformed broad equities and saw a negative year of price appreciation in 2013.

Similarly, after a very strong year in 2012, commercial mortgage-backed securities (CMBS) total returns moderated in 2013 as higher interest rates offset tighter spreads. Tighter spreads shifted investors into more junior bonds such as legacy AJ, credit and certain new issue BBB-/BB rated bonds. These bonds, on a select basis, continued to offer attractive credit risk premiums and also benefitted from improving real estate space market fundamentals in secondary markets during the year. CMBS still offers very attractive spreads relative to corporate bonds, and expectations are for new issue volume to potentially exceed $100 billion in 2014, compared to $87 billion in 2013 and $48 billion in 2012. The increasing availability of debt and equity capital could be a strong tailwind going into 2014, and may help dampen the impact of higher Treasury rates on capitalization rates.

Unlike the public real estate quadrants which suffered from investor anxiety over higher interest rates, the private real estate equity quadrant delivered four quarters of positive appreciation and total returns. Subsequently, the one-year pre-fee NFI-ODCE Equal Weight total return was 13.34%. However, with the prospect of higher interest rates, investors have lowered their expectations for future returns with the latest Pension Real Estate Association (PREA) investor survey forecasting unleveraged total returns of 7.9% for 2014 and 7.8% for 2015.

EXHIBIT 3

REAL CAPITAL ANALYTICS PROPERTY SECTOR SALES VOLUME



Source: Real Capital Analytics, January 2014

EXHIBIT 4

MARKET EXPECTATIONS OF FUTURE TREASURY RATES

Source: Bloomberg, January 2014

Utilizing transaction data as a barometer of investor sentiment within private equity real estate markets, real estate investors have remained relatively unperturbed by the upward shift in the yield curve thus far. According to Real Captial Analytics, national sales volume reached approximately $343 billion as of year-end 2013, outpacing 2012 transaction volume by 15%. As shown in Exhibit 3, by property sector, multifamily and office assets generated the highest absolute sales volumes, while multifamily was only about 8% ahead of last year's transaction pace. Office transactions, on the other hand, were up more than 29% compared to 2012. Industrial property sales were also up 19%. Hotel sales in 2013 jumped by nearly 50%, albeit off a fairly low 2012 base. The only property sector to experience a percentage decline in sales transactions was retail, which was about 6% lower than in 2012. However, 2012's retail sales figures were skewed upwards by a large portfolio purchase by a public REIT, thus the 2013 results are not necessarily indicative of reduced investor interest in retail.

Looking to 2014, in what may be a rising interest rate environment, investors are likely to re-evaluate their strategies and re-examine the risk premium required for property investment. However, the implied forward Treasury market is still signaling an expectation of low rates over the near to mid-term. As shown in Exhibit 4, the implied forward market for the 10-year Treasury three years hence is for rates to range between 3.50% and 3.75%.

Moreover, a stronger growth outlook may induce investors to accept a lower risk premium for real estate, a phenomenon that has occured in past cycles. The prospect of appreciable increases in earnings growth in 2014 and 2015 may allow investors to accept compression in the spread relationship between capitalization rates and 10-year Treasury yields. Alternatively, if investors are unable to underwrite a satisfactory outlook on earnings growth, they may demand a higher risk premium and higher capitalization rates. Not all property sectors and regions are likely to be impacted equally with the re-pricing of risk and spreads. Property sectors within those regions that have a limited growth outlook are likely to see the greatest upward pressure in capitalization rates.

SOLID PERFORMANCE

ACCOUNT PERFORMANCE

2013 was a year of continued progress reflective of the operational success that is a hallmark of the Account. Performance, both nominal and relative, was positive and as a result, 2013 marks the Account's sixth highest calendar-year return since its inception in 1982. The results of the year are a reflection of Account strategy rooted in a commitment to research and executed with a disciplined consideration for both return generation and risk management.

As the economy continues its path to recovery, so too has the commercial real estate market. Now in its fourth year of recovery, aggregate real estate values continue progress toward prior peaks, with some markets and property sectors now surpassing the pricing levels recorded in 2007 and early 2008. The Account has outperformed its benchmark, the NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE) Equal Weight, for four consecutive years, generating a 15.31% four-year annualized total return before fees. This compares favorably with the benchmark return over that same period of 14.10%. In total, gross portfolio level returns of the Account exceed that of the benchmark since inception and over the one, three, five, and 10-year time periods. A critical distinction and important component of the Account's success is the income return of the Account which totaled 5.70% over the one-year time period and exceeded that of the benchmark by 42 basis points. The Account's above-benchmark income return continues to be driven by marked success in leasing activity, reflected in the core portfolio occupancy at December 31, 2013 of 94.5%. In total, occupancy for the core portfolio increased 171 basis points during the year, a result of more than 560,000 square feet of positive net absorption in the total portfolio. 2013 marks the fifth consecutive year of positive net absorption in the Account, and during those five years, net absorption has averaged more than 850,000 square feet annually. Continued success in leasing generated significant nominal and relative NOI growth, with same-property NOI increasing by 8.2% on a year-over-year basis compared to same-property NOI growth of 4.6% for NFI-ODCE contributing funds in aggregate. The Account's one-year property level return of 13.05% significantly outpaced that of the Open-end Component of the NCREIF Property Index (NPI), which recorded an annual return of 11.64%. Annual outperformance is primarily attributable to individual property selection, though MSA selection also contributed significantly to relative performance.

The Account's single hotel investment generated the highest property level returns of the five primary property sectors, with an annual property level return of 21.02%. On a relative basis, this compares favorably with the 8.26% one-year property return of hotels within the Open-end Component of the NPI. Outperformance at the asset resulted from an increase in average annual occupancy of 3.3% and growth in revenue per available room (RevPar) of 10.5%. In total, the hotel recorded more than 256,000 occupied room nights, driving annual NOI growth of 36.3%.

The industrial sector generated the second highest property-level returns within the Account, posting annual performance of 15.60%. The sector significantly outperformed the Open-end NPI industrial property level return of 12.91%, a result of higher asset-value appreciation. Net absorption in the sector slowed considerably from the 2012 pace of more than 700,000

A SIGNIFICANT PORTION OF THE ACCOUNT'S VALUE-ADDED CAPACITY HAS BEEN ALLOCATED TO ASSETS WITHIN THE OFFICE SECTOR AND THOSE ASSETS CONTRIBUTED MATERIALLY TO PERFORMANCE IN 2013.

square feet, though at nearly 193,000 square feet, contributed significantly to portfolio net absorption during the year. In total, core assets within the industrial portfolio were 97.5% leased with the total industrial sector, including value-added assets, 93.2% leased. Same-property NOI results for the sector were a direct reflection of the leasing generated over the last 24 months, with year-over-year NOI growth totaling 23.3%. The largest contributors to NOI growth occurred at two assets in Northern New Jersey, though most assets in the sector recorded year-over-year increases. Rollover in 2014 totals only 6% of available space, enabling the Account to utilize its value-added capacity to target build-to-core or lease-to-core opportunities within the sector.

A significant portion of the Account's value-added capacity has been allocated to assets within the office sector and those assets contributed materially to performance in 2013. In total, the office sector recorded a 14.17% property level return, outpacing that of the office component of the Open-end NPI by 271 basis points. Leasing within the sector increased 235 basis points to 88.6% while the core-office portfolio was 90.2% leased at December 31, 2013. The sector recorded the highest level of net absorption in the Account during the year, totaling nearly 259,000 square feet. These numbers do not reflect 1.15 million square feet of leases that were signed in 2013 at two office buildings in the Energy Corridor of Houston, TX. The buildings are currently under development and scheduled for completion in 2015 and 2016, respectively, at which time their occupancy and absorption will be included in reporting statistics. Other value-added activity contributing to outperformance in the sector included the stabilization of a lease-to-core asset located in the Charlotte central business district (CBD) and delivery of a newly constructed 99,317 square foot office building in San Jose. Same-property year-over-year NOI growth totaled 4.4% with a Cambridge office asset contributing nearly $3.3 million to annual growth. The asset, 83% leased at December 31, 2012 after a large tenant rollover, is now 93.5% leased and further benefiting from the conclusion of a free rent period for the building's largest tenant. Multiple other assets within the Account's office portfolio contributed positively to NOI growth, and performance in the aggregate sector is indicative of strengthening tenant demand fundamentals and minimal new construction in the pipeline nationwide. The portfolio's office lease rollover in 2014 totals just 9% and when coupled with the recent stabilization of value-added assets in the office portfolio, the Account is likely to employ additional value-added strategies within the sector over the near-term.

Fundamentals within the multifamily sector continued to strengthen during the year, with rental rates increasing at Account assets in many markets throughout the country. Moreover, appreciation of assets in the sector was driven by heightened competition for available product and a further reduction in required returns for many investors looking to participate in the coveted property sector. Account assets in the multifamily sector outperformed the Open-end Component of the NPI by 169 basis points, posting a one-year total property level return of 11.35%. Occupancy within the multifamily portfolio decreased slightly during the year, from 95.5% at December 31, 2012 to 94.5% at December 31, 2013. The majority of the decline is attributable to the delivery of a newly constructed Cambridge multifamily property in May of 2013. As of year-end, the asset was 83.9% leased, on pace with initial underwriting for stabilization. In total, annual net absorption in the

sector exceeded 60,000 square feet. Increased rental rates and the delivery of the new Cambridge property drove NOI growth within the sector, posting an 8.7% increase over calendar year 2012. The pace of NOI growth in the sector is expected to slow over the near-term, given a wave of new supply forecasted to deliver in late 2014 and throughout much of 2015.

Retail was the only sector within the Account that underperformed its respective property sector component of the Open-end NPI, recording a 10.35% one-year property return that was 326 basis points lower than the Index. Underperformance is primarily attributable to the Account's underweighting to regional and super-regional malls, which returned 15.59% and 15.57% annual total property returns, respectively. The Account does not maintain exposure to either sub-sector given investment concentration, diversification, liquidity, and volatility considerations, and maintains retail holdings dominated primarily by neighborhood and community centers. These subsectors have been the cornerstone of the Account's retail holdings given cashflows that are typically characterized by necessity-based, credit tenancy such as grocery stores. The Account's holdings are complemented by a select few power centers driven by demographic indicators, in addition to a focus on aggregating "high street" retail investments in select locations throughout the country known for strong barriers to entry and a global focus on branding.
The retail portfolio was 93.0% leased at December 31, 2013, and recorded nearly 47,000 square feet of net

Bethel Business Center
Dallas, Texas

OPERATIONAL METRICS

PROPERTY SECTOR	OCCUPANCY[1]	OCCUPANCY EXCLUDING VALUE-ADDED PROPERTIES[1]	NET ABSORPTION[2]	YEAR 1 CAP RATE[3]	DISCOUNT RATE (IRR)[3]
Office	89%	90%	258,637	5.1%	7.8%
Retail	93%	93%	46,613	6.4%	7.8%
Industrial	93%	97%	192,792	5.9%	7.4%
Multifamily	94%	95%	63,907	5.0%	6.7%
TOTAL	**92%**	**94%**	**561,949**	**5.6%**	**7.6%**

[1] Occupancy shown is percentage leased and is calculated based on square footage. Value-added assets include those that are acquired at less than 85% occupancy, are under development or redevelopment.

[2] Net absorption reflects change in occupied square feet since the end of the previous year.

[3] Excludes value-added assets.

LEASE EXPIRATION SCHEDULE (for the years ending)

	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Office	9%	10%	17%	9%	10%
Industrial	6%	15%	12%	15%	15%
Retail	5%	12%	10%	14%	13%
TOTAL	**7%**	**13%**	**13%**	**13%**	**13%**

SAME-PROPERTY NET OPERATING INCOME (in $M)

Actual ending 12/31/2012	$261.6
Actual ending 12/31/2013	$283.0
GROWTH	**8.2%**

absorption in the year. Despite positive leasing velocity, the NOI growth in the sector declined by 0.5%, with the largest decline stemming from the termination of a large tenant at a center in Denver. The space has already been released to a well-known national grocer and leasing activity at the center has increased dramatically given recent publicity. Rollover within the sector totals only 5% in 2014.

Leverage strategy, management, and a commitment to diligence in asset-liability matching are paramount to the ongoing success of the Account. Two loans matured in 2013, in addition to the Account's line of credit. Of the two loans that matured, one was a $100 million portfolio-level private placement that was retired in the second quarter. The other, a loan on the Account's hotel property, was refinanced for five years at an attractive spread over LIBOR. The Account's line of credit matured in October and was refinanced resulting in an additional $100 million in available capacity at a spread 100 basis points lower than the prior facility. Additional activity included the retirement of two property level loans upon sale, the assumption of property level debt in conjunction with the acquisition of a Dallas industrial portfolio, and new borrowings on a construction loan for the aforementioned Houston office development. As a result of these activities, the Account maintains a weighted average cost of debt capital of 4.01%, among the lowest in its peer group of the 21 funds that comprise the NFI-ODCE. At December 31, 2013, the leverage ratio of the Account was 17.0%, below the near-term target of 20-25%. Maturities in 2014 total $213.6 million, the largest of which is a $150 million loan on a New York office building, currently at approximately 52% loan to value. The loan bears a 5.53% interest rate and is likely to be refinanced at a significantly lower annual interest rate. The portfolio team works diligently with Principal Real Estate Investors in-house project finance team to continuously assess the best relative value within the debt markets. A low cost of debt capital and below-benchmark leverage ratio enable maximum flexibility in the Account's leverage strategy. Throughout 2014, the Account will target an increase in the leverage ratio to move total leverage within the targeted range of 20-25% over the near-term.

Finally, in a continuation of its commitment to sustainable investment practices, the Account now has 14 assets that meet the requirements for Leadership in Energy and Environmental Design (LEED) or LEED Existing Building (EB) certification, including one Platinum certified office building in Washington, D.C. An additional seven assets are registered for and proceeding toward certification. The Account will continue to pursue sustainable investment practices where those efforts are economically feasible and consistent with our fiduciary obligation to investors. When economically appropriate, new development within the Account, including the office towers under development in Houston, TX, will be designed to meet LEED standards. Watermark Kendall East in Cambridge, MA was certified LEED Silver in 2013 and Oakmead Tower in San Jose, CA is currently pre-certifed LEED Gold. The firm continues to dedicate resources to sustainable investment practices, including implementation of significant benchmarking and reporting and ongoing participation as a signatory of the United Nations Principles for Responsible Investment (UNPRI).

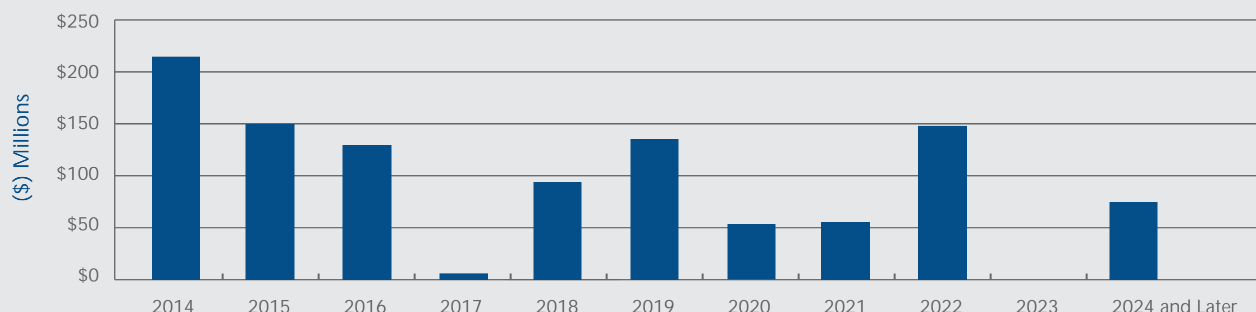
LEVERAGE INFORMATION

	Interest Rate	% of Total Debt
Fixed Interest Rate Obligations	4.48%	74%
Floating Interest Rate Obligations	2.70%	26%
Total Obligations	**4.01%**	**100%**
Secured Obligations	3.94%	90%
Unsecured Obligations	4.65%	10%
Total Obligations	**4.01%**	**100%**

IMPACT OF MARKING DEBT TO MARKET

1 Year	0.6%
3 Years	-0.2%
5 Years	-0.3%
10 Years	0.0%

DEBT MATURITY SCHEDULE[1]



[1] Debt maturity schedule is calculated using the principal balance of all outstanding notes, includes the Account's share of non-consolidated joint venture debt and excludes the line of credit. The line of credit had no outstanding balance as of 12/31/2013.

2013 TRANSACTION ACTIVITY

2013 ACQUISITION SUMMARY

Acquisition volume in 2013 totaled $302 million and was representative of the Account's transaction strategy of owning high-quality, well-leased core properties and complementing core exposure through disciplined utilization of the Account's value-added allocation. Acquisitions spanned multiple property sectors and included both core and value-added transactions, but focused acutely on markets with strong demographic and space market fundamental forecasts. Moreover, execution of the Account's acquisition strategy was deliberate, maintaining the highest standards for building quality, location, tenancy, and pricing. 2013 acquisitions included:

- The **Dallas Core Distribution Portfolio** is a 1.1 million square foot industrial portfolio comprised of three infill Dallas properties. The portfolio was 100% leased at acquisition and represents the Account's only Dallas industrial exposure. The transaction illustrates a direct execution of the Account's industrial strategy to own warehouse assets in major distribution markets. The following details each property within the portfolio:
  - Grand Lakes Distribution Center is a LEED Silver certified 636,248 square foot cross-dock facility constructed in 2009. It is centrally located within the South Stemmons submarket and is well-positioned to serve both the Dallas and Fort Worth metro areas.
  - Bethel Business Center consists of two rear-load buildings totaling 162,810 square feet constructed in 2008. It is located two miles from the northern entrance to DFW International Airport.
  - Trinity Overlook Distribution Center is a 305,000 square foot cross-dock facility constructed in 2009 and located three miles from the southern entrance to DFW International Airport.
- **225 West Santa Clara** is a 16-story, 349,932 square foot office tower constructed in 2001 and located in the San Jose, CA, Central Business District (CBD). The tower was 91% leased at acquisition and is adjacent to San Pedro Square, a notable restaurant destination within San Jose that provides an unparalleled amenity base for building tenants. The building was acquired significantly below replacement cost and provides exposure to the Silicon Valley office market through a primarily credit-tenant rent roll. The acquisition of 225 West Santa Clara is representative of the Account's acquisition strategy to own high-quality, well-leased assets in markets with strong demographic and employment trends.
- **Pompano Marketplace** is a 239,200 square foot community shopping center located on U.S. Highway 1 in a densely populated area of Fort Lauderdale, FL. The center is one half-mile west of the Intracoastal Waterway and is anchored by a well-known national grocer. It was acquired with a current joint venture partner, a local operator with extensive knowledge of the trade area and retail marketplace. Despite its profile as a well-leased, core acquisition, multiple opportunities for return enhancement exist through business plan execution.
- **530 Lincoln Road** in Miami, FL, is the first "high street" retail property within the Account. The "high street" subsector is characterized by highly coveted and well-established retail corridors within the U.S. known for high-end shopping, dining, art, and entertainment venues. Such locations serve as the confluence of retailer strategies focused on global branding while generating sales in certain concentrated destination shopping areas. 530 Lincoln Road is located within the famed Lincoln Road shopping district in Miami Beach. The 11,000 square foot property will be redeveloped

in a joint venture partnership with an operating partner dedicated to "high street" retail development, redevelopment, and leasing. The redevelopment of the site allows the Account to access this segment of the retail market within its value-added allocation.

- **North First Street,** a 57-acre land parcel in San Jose, CA, was purchased for $16.2 million through a programmatic joint venture with a national developer and is zoned for industrial use. This land acquisition is commensurate with the current strategy of utilizing the Account's value-added allocation to access class-A properties in strategic industrial locations.
- **Washington Square** is a 1.5 acre office site located in the core of the Bellevue CBD, a prominent submarket of Seattle, WA. The site was acquired in a joint venture with an existing programmatic partner. The Bellevue CBD is one of the strongest locations within the greater Seattle market and has minimal large blocks of available, Class-A office space. This transaction enables the Account to further utilize its value-added allocation to access class-A properties in markets with strong demographic, employment, and space market fundamentals.

2013 DEVELOPMENT SUMMARY

The year was an active one in terms of development within the Account. Construction was completed at Watermark Kendall East, a high-rise multifamily property in Cambridge adjacent to an existing multifamily property within the Account. Additionally, Grand Lakes Marketplace, a retail center in Houston was completed and subsequently sold during the year. Additional details regarding the sale are included in the following disposition summary. Construction was also completed at O'Brien Drive, an industrial building in San Francisco and Oakmead Tower, an office building in San Jose, CA. In total, construction was completed on nearly 380,000 square feet of space.

In addition to the completion of the aforementioned development projects, development continued at Energy Center III in Houston and development of Energy Center IV commenced. Based upon a more comprehensive definition of core properties communicated in the Third Quarter Performance Report, Energy Center III is now classified as a core property for reporting purposes, though a development update is included below given the change in the building's status during 2013:

- Construction of **Energy Center III,** a 550,000 square foot office tower located at the intersection of I-10 and Eldridge Parkway in the Energy Corridor of Houston, commenced in January 2013. In April, Conoco Phillips signed a lease for the entire building, with anticipated rent commencement in spring 2015. Construction is expected to be substantially complete in 2014.
- Construction commenced at **Energy Center IV,** a 600,000 square foot office building directly south of the Energy Center III site, during the fourth quarter of 2013. Also in the fourth quarter, Conoco Phillips signed a lease amendment to lease all of Energy Center IV in addition to its Energy Center III building. The final and southernmost development phase available at the site, Energy Center V, is currently in the review and planning stages.

In January 2014, the acquisition of **Routh Street Flats,** a multifamily development site located in Uptown Dallas, closed and construction commenced on the 208-unit development. Additional information about the acquisition and development will be included in the First Quarter 2014 Performance Report.

FORWARD COMMITMENTS

PROJECT	MSA	PROPERTY TYPE	MAXIMUM LOAN AMOUNT ($M)	OUTSTANDING LOAN BALANCE ($M)
15th and Island	San Diego, CA	Land	$17.1	$16.0
Guasti	Riverside, CA	Land	$49.5	$46.0
Total Forward Commitments			**$66.6**	**$62.0**

FORWARD COMMITMENTS

As of December 31, 2013, two land holdings remain within the Account's forward commitment program, with details provided in the chart above.

2013 DISPOSITION SUMMARY

The 2013 disposition strategy of the Account included reducing exposure to properties in secondary markets and suburban locations with commodity or lower-quality characteristics. In total, six assets were sold in addition to two parcels of land for net proceeds before debt repayment of $190.5 million. Additional details are included below:

- **Bensenville Warehouse,** an 81,895 square foot warehouse building located in Chicago, IL, was sold for $3.9 million. The asset was sold to reduce the Account's exposure to lower-quality, less-functional industrial space.
- **Secaucus Seaview,** a 146,426 square foot vacant industrial asset located in Secaucus, NJ, was sold for $17.3 million to an owner-user. The sale was executed at attractive pricing relative to market and enabled the Account to mitigate exposure to a vacant, aging building in need of significant capital improvements.
- **Peninsula Center,** a 296,027 square foot retail center acquired in 2000 and located on the Palos Verdes Peninsula in Los Angeles, CA, was sold for $86.5 million. The asset was sold to eliminate exposure to significant capital investment and redevelopment risk at a property with limited growth prospects within its immediate trade area.
- **Grand Lakes Marketplace,** a Whole Foods anchored retail center in Houston, TX, was sold to reduce Account exposure to the trade area as the Account owns another high-quality, well-leased grocery anchored center at the same intersection. The asset, recently constructed in a joint venture partnership between the Account and a local developer, was sold significantly above reproduction cost and generated considerable interest from a multitude of investor groups.
- **Sterling Plaza I and II,** adjacent retail centers in suburban Washington, D.C., totaling 175,791 square feet, were sold to reduce Account exposure to lower quality, suburban properties.
- In addition to the dispositions listed above, land parcels in Portland, OR, and Phoenix, AZ, were also sold during the year.

Charles Park
Cambridge, Massachusetts

TRANSACTION STRATEGY

The transaction strategy for the Account is developed with primary consideration for its core investment mandate, focused on both return generation and risk management. The full resources of the firm are dedicated to evaluation of both macro and microeconomic trends in addition to space and capital market fundamentals. The results, both strategic and tactical in nature, are described below for each property sector:

- **Office:** The office sector is poised to benefit from dual drivers of an improving macroeconomic environment and favorable space market fundamentals. Payroll employment and GDP growth are likely to bolster the sector through the creation of additional office-using employment. Space market fundamentals within the sector are likely to further augment performance with vacancy rates decreasing nationwide and minimal new supply in the pipeline. As such, the Account will maintain its current overweighting to the sector, and given the Account's history of success in developing and leasing space, will seek further utilization of the Account's value-added allocation within the sector.
- **Retail:** Continuation of the macroeconomic recovery is also likely to benefit the retail sector, already bolstered by payroll employment gains and growth in consumer spending throughout 2013. Additional household formation and perpetuation of the wealth effect will drive retail sales in 2014, though the impact and subsequent tenant demand for space is likely to be dampened by online retailing. The Account's strategy within the sector remains primarily focused on owning necessity-based formats within infill, urban locations. Additionally, the Account will look to add further exposure to "high street" retail locations, a cornerstone of the strategy for many national retailers to generate sales, but more importantly, further brand awareness and global marketing.
- **Multifamily:** The multifamily sector sustained high levels of investor demand throughout the year despite a proliferation of supply within the sector. As such, pricing for core, stabilized product continues to set new record highs, reflecting marginal yield premiums over the 10-year Treasury. Household formation and improvement in the job market continue to boost demand within the sector, though landlord pricing power has peaked in many markets given a wave of supply deliveries and tenant fatigue in response to rising rental rates. Near-term performance may be dampened and as such, the Account will maintain its underweighting to the sector; however, long-term, the Account will look to increase its strategic allocation to multifamily properties. Current strategic initiatives contemplate accessing additional product through build-to-core transactions in select markets, particularly those driven by attractive supply and demand fundamentals.
- **Industrial:** The industrial sector continues to strengthen in response to rising GDP growth, improvement in the job market, increased consumer spending, and a burgeoning housing recovery. Tenant demand for industrial space rose dramatically in 2013, with net absorption increasing by more than 70% from 2012 levels. Today, the supply pipeline remains fairly muted, but with a relatively compressed lead time for new development, continuation of the sector's strong performance will be contingent upon further supply-side discipline. On a relative basis, the Account was overweight to the industrial sector throughout 2013 and will look to maintain its strategic overweight position focused primarily on owning warehouse sub-sector assets in major distribution locations. On the margin, additional exposure may be added in small-bay product poised to benefit from the housing market recovery.

ACQUISITIONS

Property	Sector	Metropolitan Area	Size	Price ($M)
Grand Lakes Distribution Center	Industrial	Dallas, TX	636,248 sf	$31.1
Bethel Business Center	Industrial	Dallas, TX	162,810 sf	$15.4
Trinity Overlook Distribution Center	Industrial	Dallas, TX	305,000 sf	$15.8
Washington Square	Land	Seattle, WA	1.5 acres	$24.1
North First Street	Land	San Jose, CA	57 acres	$16.2
225 West Santa Clara	Office	San Jose, CA	349,932 sf	$138.1
530 Lincoln Road	Retail	Miami, FL	11,000 sf	$31.2
Pompano Marketplace	Retail	Fort Lauderdale, FL	239,200 sf	$29.9
				$301.8

DISPOSITIONS

Property	Sector	Metropolitan Area	Size	Price ($M)
Secaucus Seaview	Industrial	Jersey City, NJ	146,426 sf	$17.3
Bensenville Warehouse	Industrial	Chicago, IL	81,895 sf	$3.9
Fountainhead Land[1]	Land	Phoenix, AZ	.94 acres	$0.5
Amber Glen Land[1]	Land	Portland, OR	15.58 acres	$9.0
Sterling Plaza I	Retail	Washington, D.C.	153,311 sf	$20.6
Sterling Plaza II	Retail	Washington, D.C.	22,480 sf	$5.4
Peninsula Center	Retail	Los Angeles, CA	296,027 sf	$86.5
Grand Lakes Marketplace	Retail	Houston, TX	131,195 sf	$47.3
				$190.5

[1] Partial Disposition

FORWARD COMMITMENT DISPOSITIONS

Property	Sector	Metropolitan Area	Size	Price ($M)
Main Street Cupertino	Land	San Jose, CA	17.4 acres	$61.8
Everett Riverfront	Land	Seattle, WA	129.9 acres	$18.2
				$80.0

SCHEDULE OF INVESTMENTS

PROPERTY	SECTOR	SF/UNITS ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/13)
J.W. Marriott Resort and Spa	Hotel	1,002 rooms	Joint Venture	San Antonio, TX	07/31/07	$164,358,120
Airport Distribution Center	Industrial	406,989	Wholly Owned	Atlanta, GA	01/05/01	$22,600,000
Stone Lake 6	Industrial	108,000	Wholly Owned	Austin, TX	05/22/98	$14,500,000
Woodridge Centre	Industrial	100,972	Wholly Owned	Chicago, IL	08/19/98	$7,950,000
O'Hare Business Center	Industrial	127,642	Joint Venture	Chicago, IL	11/21/03	$6,400,000
Vapor Industrial	Industrial	414,747	Wholly Owned	Chicago, IL	11/22/05	$33,700,000
University Crossing	Industrial	455,870	Wholly Owned	Chicago, IL	01/16/07	$19,600,000
Bedford Park	Industrial	341,245	Wholly Owned	Chicago, IL	10/09/07	$17,500,000
Melrose Park	Industrial	139,331	Wholly Owned	Chicago, IL	04/02/10	$8,100,000
Cicero	Industrial	113,948	Wholly Owned	Chicago, IL	10/28/09	$9,150,000
Grand Lakes Distribution Center	Industrial	636,248	Wholly Owned	Dallas, TX	12/11/13	$31,100,000
Bethel Business Center	Industrial	162,810	Wholly Owned	Dallas, TX	12/11/13	$15,400,000
Trinity Overlook Distribution Center	Industrial	305,000	Wholly Owned	Dallas, TX	12/11/13	$15,870,000
Denver Business Center	Industrial	152,841	Wholly Owned	Denver, CO	06/21/99	$9,650,000
26 Englehard Drive	Industrial	324,540	Wholly Owned	Edison, NJ	12/13/02	$20,400,000
Costco Way	Industrial	1,223,320	Wholly Owned	Edison, NJ	06/27/07	$27,200,000
1500 Rahway	Industrial	326,741	Joint Venture	Edison, NJ	12/20/07	$30,100,000
1980 U.S. Highway 1	Industrial	247,634	Joint Venture	Edison, NJ	10/01/07	$9,300,000
Pointe West Commerce Center	Industrial	169,033	Wholly Owned	Fort Lauderdale, FL	12/18/01	$19,900,000
Port 95 Business Plaza	Industrial	99,753	Wholly Owned	Fort Lauderdale, FL	12/18/01	$13,500,000
Lyons Technology Center	Industrial	232,887	Wholly Owned	Fort Lauderdale, FL	04/23/08	$23,100,000
Intercontinental Distribution Center	Industrial	127,257	Wholly Owned	Houston, TX	09/02/97	$8,500,000
NW Distribution Center	Industrial	389,966	Wholly Owned	Houston, TX	07/15/99	$23,860,000
Smithway Commerce Center	Industrial	329,267	Wholly Owned	Los Angeles, CA	10/19/04	$37,600,000
Airspace I, II, III	Industrial	779,426	Wholly Owned	Louisville, KY	12/13/07	$35,100,000
Medley Logistics Center	Industrial	300,000	Wholly Owned	Miami, FL	11/20/03	$27,400,000
Secaucus	Industrial	68,439	Wholly Owned	New York, NY	05/02/00	$7,000,000
Elmhurst Business Park	Industrial	294,954	Wholly Owned	Oakland, CA	12/29/94	$26,600,000
West Winton Industrial Center	Industrial	220,213	Wholly Owned	Oakland, CA	12/06/02	$17,700,000
Carver Business Center	Industrial	272,460	Wholly Owned	Phoenix, AZ	08/26/97	$20,100,000

PROPERTY	SECTOR	SF/UNITS ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/13)
Ontario Distribution Center	Industrial	317,070	Wholly Owned	Riverside, CA	03/04/97	$22,900,000
3351 Philadelphia	Industrial	203,408	Wholly Owned	Riverside, CA	02/10/99	$14,500,000
Jurupa Business Park	Industrial	1,077,990	Wholly Owned	Riverside, CA	12/01/02	$84,700,000
O'Brien Drive	Industrial	106,125	Joint Venture	San Francisco, CA	01/10/07	$28,800,000
Fullerton Business Center	Industrial	180,918	Wholly Owned	Santa Ana, CA	02/24/05	$17,400,000
Valley Centre Corporate Park	Industrial	1,084,409	Wholly Owned	Seattle, WA	01/31/02	$90,800,000
Fife Commerce Center	Industrial	798,950	Joint Venture	Tacoma, WA	07/27/04	$63,700,000
West Manor Way	Industrial	905,000	Wholly Owned	Trenton, NJ	10/23/07	$60,100,000
Boynton Commerce Center	Industrial	295,576	Wholly Owned	West Palm Beach, FL	10/25/07	$24,200,000
Amber Glen	Industrial/ Office/Land	580,549	Wholly Owned	Portland, OR	11/15/04	$75,250,000
Hacienda Business Park	Industrial/ Office/Retail	379,590	Joint Venture	Oakland, CA	06/27/07	$65,900,000
Quarry Oaks	Land	10 acres	Wholly Owned	Austin, TX	06/27/03	$1,220,000
100 East Las Olas	Land	0.89 acres	Joint Venture	Fort Lauderdale, FL	10/04/07	$7,300,000
Discovery Tower II	Land	0.45 acres	Joint Venture	Houston, TX	12/22/11	$3,900,000
Lindenhurst Village Green	Land	55 acres	Wholly Owned	Lake County, IL	10/16/09	$800,000
Henderson Lofts	Land	16 acres	Wholly Owned	Las Vegas, NV	12/03/08	$2,650,000
Oak Grove Shoppes	Land	1 acre	Joint Venture	Orlando, FL	05/26/06	$200,000
North First Street	Land	57 acres	Joint Venture	San Jose, CA	04/16/13	$17,700,000
Washington Square	Land	1.54 acres	Joint Venture	Seattle, WA	10/10/13	$28,025,000
Riverside Station	Land	11 acres	Joint Venture	Washington, D.C.	07/30/07	$8,100,000
Hardin House	Multifamily	228 units	Joint Venture	Austin, TX	01/17/07	$26,100,000
Camden Courts	Multifamily	221 units	Joint Venture	Baltimore, MD	02/15/06	$41,100,000
Tanglewood Apartments	Multifamily	838 units	Wholly Owned	Chicago, IL	09/25/03	$74,900,000
The Phoenix Apartments	Multifamily	449 units	Wholly Owned	Dallas, TX	07/17/01	$62,700,000
The Ravello Apartments	Multifamily	290 units	Wholly Owned	Dallas, TX	03/29/06	$67,750,000
Premier Lofts	Multifamily	250 units	Wholly Owned	Denver, CO	01/03/02	$63,200,000
Aqua Isles	Multifamily	127 units	Wholly Owned	Fort Lauderdale, FL	12/28/12	$30,900,000
The Trestles Apartments	Multifamily	188 units	Wholly Owned	Houston, TX	03/30/01	$20,900,000
Channel Point Apartments	Multifamily	212 units	Wholly Owned	Los Angeles, CA	11/28/01	$63,500,000
420 West 42nd Street	Multifamily	264 units	Wholly Owned	New York, NY	11/12/03	$144,000,000

SCHEDULE OF INVESTMENTS *continued*

PROPERTY	SECTOR	SF/UNITS ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/13)
West Campus Phase I	Multifamily/ Retail	480 units / 9,284 sf	Wholly Owned	Austin, TX	08/21/07	$61,100,000
West Campus Phase II	Multifamily/ Retail	970 units / 48,276 sf	Wholly Owned	Austin, TX	09/15/09	$103,700,000
Watermark Kendall West	Multifamily/ Retail	321 units / 25,029 sf	Joint Venture	Cambridge, MA	11/06/03	$183,200,000
Watermark Kendall East	Multifamily/ Retail	144 units / 9,790 sf	Wholly Owned	Cambridge, MA	09/03/10	$65,500,000
EpiCenter	Multifamily/ Retail	129 units / 32,458 sf	Wholly Owned	Seattle, WA	11/24/03	$46,700,000
Stonelake 1-5	Office	123,761	Wholly Owned	Austin, TX	07/10/98	$17,200,000
Quarry Oaks	Office	288,634	Wholly Owned	Austin, TX	07/03/03	$76,200,000
Charles Park	Office	370,972	Wholly Owned	Cambridge, MA	02/16/05	$182,300,000
Ally Center	Office	368,092	Joint Venture	Charlotte, NC	10/03/11	$78,500,000
Union Tower	Office	332,608	Wholly Owned	Chicago, IL	11/22/02	$71,500,000
Cascades	Office	168,006	Wholly Owned	Columbus, OH	10/30/97	$7,800,000
Honeywell	Office	40,429	Wholly Owned	Columbus, OH	06/30/98	$2,900,000
Freeport Parkway	Office	151,656	Wholly Owned	Dallas, TX	12/29/99	$18,450,000
One DTC	Office	239,800	Wholly Owned	Denver, CO	07/26/07	$47,900,000
Crescent V	Office	89,895	Wholly Owned	Denver, CO	07/26/07	$14,700,000
Crescent VI	Office	135,381	Wholly Owned	Denver, CO	07/26/07	$23,900,000
20 Greenway Plaza	Office	432,633	Wholly Owned	Houston, TX	09/19/05	$64,600,000
Campbell Mithun Tower	Office	727,170	Wholly Owned	Minneapolis, MN	09/14/05	$93,000,000
1370 Avenue of the Americas	Office	343,261	Wholly Owned	New York, NY	03/23/06	$288,600,000
The Signature Center	Office	257,571	Wholly Owned	Oakland, CA	08/24/95	$52,100,000
Fountainhead	Office	476,172	Wholly Owned	Phoenix, AZ	06/29/05	$69,100,000
Papago Buttes	Office	511,524	Wholly Owned	Phoenix, AZ	11/18/04	$100,700,000
90 Mountainview	Office	183,644	Wholly Owned	Phoenix, AZ	06/07/06	$34,000,000
Portales Corporate Center	Office	454,142	Wholly Owned	Phoenix, AZ	03/06/08	$127,000,000
150 Spear Street	Office	264,754	Wholly Owned	San Francisco, CA	12/11/07	$138,800,000
Oakmead Tower	Office	99,317	Wholly Owned	San Jose, CA	10/15/09	$33,600,000
225 West Santa Clara	Office	347,646	Wholly Owned	San Jose, CA	12/20/13	$138,100,000
Lincoln Plaza	Office	148,799	Wholly Owned	Seattle, WA	06/24/05	$46,700,000
112th at 12th Street	Office	480,267	Wholly Owned	Seattle, WA	06/29/04	$203,900,000
Spring Mall Office Building	Office	113,913	Joint Venture	Washington, D.C.	11/16/07	$15,500,000

PROPERTY	SECTOR	SF/UNITS ACRES	STRUCTURE	METROPOLITAN AREA	ACQUISITION DATE	GAV (12/31/13)
Capitol Plaza	Office	291,838	Wholly Owned	Washington, D.C.	07/08/11	$164,000,000
Summit at Washingtonian	Office/Land	193,199	Joint Venture	Bethesda, MD	07/12/12	$55,500,000
Energy Center III, IV, V	Office/Land	N/A	Joint Venture	Houston, TX	03/27/12	$183,600,000
North Avenue Collection	Office/Retail	199,683	Wholly Owned	Chicago, IL	12/29/04	$67,800,000
Hazard Center	Office/Retail	405,573	Wholly Owned	San Diego, CA	09/04/03	$119,800,000
Bell Tower Shops	Retail	325,697	Joint Venture	Cape Coral, FL	08/17/04	$75,500,000
Old Town Square	Retail	87,123	Wholly Owned	Chicago, IL	11/15/01	$31,800,000
Stony Island	Retail	159,785	Wholly Owned	Chicago, IL	12/17/04	$22,900,000
Cherry Hills	Retail	202,195	Wholly Owned	Denver, CO	06/17/04	$40,900,000
Southport Shopping Center	Retail	146,833	Wholly Owned	Fort Lauderdale, FL	11/13/06	$49,700,000
Pompano Marketplace	Retail	239,200	Joint Venture	Fort Lauderdale, FL	03/08/13	$31,700,000
Lake Worth Marketplace	Retail	197,332	Wholly Owned	Fort Worth, TX	10/11/07	$31,200,000
Meadows Marketplace	Retail	251,944	Joint Venture	Houston, TX	08/29/06	$50,850,000
Grand Hunt Center	Retail	133,360	Wholly Owned	Lake County, IL	12/15/94	$17,100,000
The Marketplace at Vernon Hills	Retail	191,418	Wholly Owned	Lake County, IL	09/13/05	$26,600,000
Burbank Empire Center	Retail	618,562	Wholly Owned	Los Angeles, CA	12/22/05	$201,000,000
South Dade Marketplace	Retail	208,582	Wholly Owned	Miami, FL	12/21/12	$43,700,000
530 Lincoln Road	Retail	11,000	Joint Venture	Miami, FL	12/13/13	$31,200,000
Fischer Market Place	Retail	233,308	Wholly Owned	Minneapolis, MN	09/29/03	$39,000,000
Fischer Market Place Outlot	Retail	20,388	Wholly Owned	Minneapolis, MN	10/16/07	$5,200,000
Plaza Paseo	Retail	147,848	Joint Venture	San Diego, CA	12/30/03	$74,900,000
Sacramento Shopping Center	Retail	84,466	Joint Venture	Washington, D.C.	11/16/07	$10,500,000
West Springfield Shopping Center	Retail	83,733	Joint Venture	Washington, D.C.	11/16/07	$29,100,000
Shoppes at Woolbright	Retail	133,771	Wholly Owned	West Palm Beach, FL	12/27/11	$57,800,000
Pinewood Square Shopping Center	Retail	182,140	Wholly Owned	West Palm Beach, FL	06/16/05	$53,100,000
Lantana Square	Retail	113,373	Wholly Owned	West Palm Beach, FL	03/17/06	$29,700,000

INDEPENDENT AUDITORS' REPORT

TO THE CONTRACTHOLDERS OF
PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
DES MOINES, IOWA

We have audited the accompanying consolidated financial statements of Principal Life Insurance Company U.S. Property Separate Account and its subsidiaries (the "Account"), which comprise the consolidated statements of assets and liabilities, including the condensed consolidated schedules of investments, as of December 31, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Account's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Account's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Principal Life Insurance Company U.S. Property Separate Account and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations, changes in their net assets, and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Des Moines, Iowa
February 24, 2014

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
AS OF DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS:		
Investments — at fair value:		
Real estate		
(cost: 2013 — $5,342,426,549; 2012 — $4,974,236,959)	$ 5,723,475,000	$ 5,049,530,000
Unconsolidated real estate joint venture		
(cost: 2013 — $73,577,988; 2012 — $55,869,427)	71,132,660	40,651,332
Short-term investments		
(cost: 2013 — $123,927,969; 2012 — $155,869,467)	123,927,969	155,869,467
Total investments		
(cost: 2013 — $5,539,932,506; 2012 — $5,185,975,853)	5,918,535,629	5,246,050,799
Cash	31,399,207	12,417,526
Accrued investment income and other assets	61,852,528	46,402,650
Deposits on investment commitments	32,864,862	68,052,740
Total assets	6,044,652,226	5,372,923,715
LIABILITIES:		
Debt — at fair value		
(cost: 2013 — $954,814,625; 2012 — $1,031,472,733)	950,049,958	1,049,196,166
Accounts payable and accrued expenses	90,271,128	80,155,953
Accrued property taxes	17,198,610	18,871,273
Security deposits	16,466,745	15,279,391
Unrealized loss on investment commitments	59,677,079	75,830,950
Total liabilities	1,133,663,520	1,239,333,733
NET ASSETS:		
U.S. Property Separate Account	4,795,458,280	4,066,402,830
Noncontrolling interests	115,530,426	67,187,152
Net assets	$ 4,910,988,706	$ 4,133,589,982

See notes to consolidated financial statements.

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONDENSED CONSOLIDATED SCHEDULES OF INVESTMENTS
AS OF DECEMBER 31, 2013 AND 2012

	Fair Value 2013	Fair Value 2012
REAL ESTATE — 96.7% in 2013 and 96.2% in 2012:		
United States:		
Office — 42.1% in 2013 and 38.3% in 2012:		
1370 Avenue of the Americas, New York, NY	$ 288,600,000	$ 282,000,000
One Twelfth at Twelfth, Bellevue, WA	*	212,200,000
Other office	2,202,750,000	1,516,000,000
Total office (cost: 2013 — $2,499,599,803; 2012 — $2,200,929,701)	2,491,350,000	2,010,200,000
Retail — 18.5% in 2013 and 21.6% in 2012:		
Burbank Empire Center, Burbank, CA	*	200,000,000
Other retail	1,096,650,000	935,300,000
Total retail (cost: 2013 — $1,042,651,268; 2012 — $1,082,056,112)	1,096,650,000	1,135,300,000
Industrial — 17.2% in 2013 and 16.8% in 2012 (cost: 2013 — $891,561,675; 2012 — $829,633,306)	1,018,280,000	881,810,000
Multifamily — 17.1% in 2013 and 17.8% in 2012 (cost: 2013 — $775,675,717; 2012 — $750,425,286)	1,014,250,000	932,700,000
Land — 1.8% in 2013 and 1.7% in 2012 (cost: 2013 — $132,938,086; 2012 — $111,192,554)	102,945,000	89,520,000
Total real estate (cost: 2013 — $5,342,426,549; 2012 — $4,974,236,959)	5,723,475,000	5,049,530,000
UNCONSOLIDATED REAL ESTATE JOINT VENTURE — 1.2% in 2013 and 0.8% in 2012:		
United States:		
Hotel (cost: 2013 — $73,577,988; 2012 — $55,869,427)	71,132,660	40,651,332
SHORT-TERM INVESTMENTS — 2.1% in 2013 and 3.0% in 2012:		
Principal Life Insurance Company Money Market Separate Account — 2.0% in 2013 and 2.7% in 2012 (cost: 2013 — $115,325,137; 2012 — $140,266,710)**	115,325,137	140,266,710
Short-Term Investment Trust Government & Agency Portfolio — 0.1% in 2013 and 0.3% in 2012 (cost: 2013 — $8,170,000; 2012 — $15,170,000))	8,170,000	15,170,000
United States Treasury Bills — < 0.1% in 2013 and 2012 (cost: 2013 — $432,832; 2012 — $432,757)	432,832	432,757
Total short-term investments (cost: 2013 — $123,927,969; 2012 — $155,869,467)	123,927,969	155,869,467
TOTAL INVESTMENTS — 100% (cost: 2013 — $5,539,932,506; 2012 — $5,185,975,853)	$ 5,918,535,629	$ 5,246,050,799

* Fair value of real estate investment does not exceed 5% of net assets at December 31, 2013, and has been included in the other total for that real estate category.

** Principal Life Insurance Company is an affiliate of the Account.

See notes to consolidated financial statements.

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
INVESTMENT INCOME:		
Revenue from real estate	$ 481,918,490	$ 456,499,343
Equity in income of unconsolidated real estate joint venture	7,697,732	4,672,611
Interest income on short-term investments	552,682	831,307
Total investment income	490,168,904	462,003,261
EXPENSES:		
Real estate operating expenses and taxes	196,344,456	187,425,027
Interest expense	41,235,081	46,829,339
Investment management fees	44,774,080	39,820,727
Professional and other fees	6,270,699	5,352,550
Total expenses	288,624,316	279,427,643
NET INVESTMENT INCOME	201,544,588	182,575,618
REALIZED AND UNREALIZED GAIN (LOSS):		
Realized gain (loss) from sales of real estate	55,895,635	(5,533,857)
Realized loss from sales of investment commitments	(11,969,526)	-
Less previously recorded unrealized loss (gain) on real estate sold	(41,323,539)	7,379,671
Less previously recorded unrealized loss on investment commitments sold	18,169,531	-
Net gain recognized from sales	20,772,101	1,845,814
Unrealized gain on real estate	347,078,948	272,225,829
Unrealized gain on unconsolidated real estate joint venture	12,772,768	4,725,956
Unrealized loss on mortgage loan receivable	-	(7,035)
Unrealized gain (loss) on debt	26,013,100	(21,483,828)
Unrealized gain (loss) on investment commitments	(2,015,660)	4,059,208
Net unrealized gain	383,849,156	259,520,130
Net realized and unrealized gain	404,621,257	261,365,944
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	606,165,845	443,941,562
LESS PORTION ATTRIBUTABLE TO NONCONTROLLING INTERESTS	45,892,005	15,026,380
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT	$ 560,273,840	$ 428,915,182
AMOUNTS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT:		
Net investment income	$ 198,438,528	$ 179,869,174
Net realized and unrealized gain	361,835,312	249,046,008
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO U.S. PROPERTY SEPARATE ACCOUNT	$ 560,273,840	$ 428,915,182

See notes to consolidated financial statements.

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	U.S. Property Separate Account	Noncontrolling Interests	Total
NET ASSETS — January 1, 2012	$ 3,755,393,314	$ 67,436,124	$ 3,822,829,438
FROM OPERATIONS:			
Net investment income	179,869,174	2,706,444	182,575,618
Net realized and unrealized gain	249,046,008	12,319,936	261,365,944
Net increase in net assets resulting from operations	428,915,182	15,026,380	443,941,562
FROM CAPITAL TRANSACTIONS:			
Contributions	474,579,535	10,246,906	484,826,441
Distributions	(592,485,201)	(25,522,258)	(618,007,459)
Net decrease in net assets resulting from capital transactions	(117,905,666)	(15,275,352)	(133,181,018)
NET INCREASE (DECREASE) IN NET ASSETS	311,009,516	(248,972)	310,760,544
NET ASSETS — December 31, 2012	4,066,402,830	67,187,152	4,133,589,982
FROM OPERATIONS:			
Net investment income	198,438,528	3,106,060	201,544,588
Net realized and unrealized gain	361,835,312	42,785,945	404,621,257
Net increase in net assets resulting from operations	560,273,840	45,892,005	606,165,845
FROM CAPITAL TRANSACTIONS:			
Contributions	680,706,486	14,619,797	695,326,283
Distributions	(511,924,876)	(12,168,528)	(524,093,404)
Net increase in net assets resulting from capital transactions	168,781,610	2,451,269	171,232,879
NET INCREASE IN NET ASSETS	729,055,450	48,343,274	777,398,724
NET ASSETS — December 31, 2013	$ 4,795,458,280	$ 115,530,426	$ 4,910,988,706

See notes to consolidated financial statements.

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase in net assets resulting from operations	$ 606,165,845	$ 443,941,562
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Net realized and unrealized gain	(404,621,257)	(261,365,944)
Equity in income of unconsolidated real estate joint venture	(7,697,732)	(4,672,611)
Changes in:		
Accrued investment income and other assets	13,875,480	(5,094,755)
Accounts payable and accrued expenses	2,381,274	(197,405)
Accrued property taxes	(1,672,663)	(1,872,604)
Security deposits	1,187,354	1,027,763
Total adjustments	(396,547,544)	(272,175,556)
Net cash provided by operating activities	209,618,301	171,766,006
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from real estate investment sales	186,735,761	142,940,402
Purchases of real estate investments and improvements	(458,315,816)	(249,140,440)
Contributions to unconsolidated real estate joint venture	(10,010,828)	-
Purchase of mortgage loan receivable	-	(18,991,197)
Net change in short-term investments	31,941,498	106,390,111
Net change in escrows and other restricted assets	(4,795,580)	2,372,854
Proceeds from investment commitment sales	23,507,704	1,215,091
Net cash used in investing activities	(230,937,261)	(15,213,179)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of financing costs	(2,481,338)	(1,187,378)
Proceeds from borrowings and issuance of debt	21,802,699	208,361,090
Repayments of debt	(120,416,646)	(243,424,259)
Contractholder contributions	658,658,045	476,177,393
Contractholder distributions	(519,713,388)	(583,392,157)
Noncontrolling interests contributions	14,619,797	10,246,906
Noncontrolling interests distributions	(12,168,528)	(25,522,258)
Net cash provided by (used in) financing activities	40,300,641	(158,740,663)
NET INCREASE (DECREASE) IN CASH	18,981,681	(2,187,836)
CASH:		
Beginning of year	12,417,526	14,605,362
End of year	$ 31,399,207	$ 12,417,526
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST	$ 41,222,790	$ 47,114,745

(Continued)

AUDITED FINANCIAL STATEMENTS

PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

The Account had accrued but unpaid purchases of real estate improvements of $61,934,374 and $46,411,962 as of December 31, 2013 and 2012, respectively.

The Account assumed mortgage notes payable with a contractual obligation of $25,767,771 (fair value at $29,292,771) in 2013 in connection with the purchase of real estate investments.

In connection with real estate investment sales in 2013, the buyers assumed $3,811,932 of mortgage notes payable from the Account.

The Account assumed mortgage notes payable of $26,915,838 in 2012 in connection with the purchase of a mortgage loan receivable.

During 2012, the Account assumed title to real estate investments valued at $95,458,723, that had collateralized the mortgage loans receivable.

The Account processed contribution and distribution requests from contractholders of $24,478,001 and $6,285,668, respectively, on December 31, 2013. The Account processed contribution and distribution requests from contractholders of $2,429,560 and $14,074,180, respectively, on December 31, 2012. These contribution and distribution amounts are included in accrued investment income and other assets and accounts payable and accrued expenses in the consolidated statements of assets and liabilities, respectively.

See notes to consolidated financial statements. (Concluded)

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PRINCIPAL LIFE INSURANCE COMPANY
U.S. PROPERTY SEPARATE ACCOUNT
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1. ORGANIZATION

Principal Life Insurance Company U.S. Property Separate Account (the "Account") is an open-end, commingled real estate account and a separate account of Principal Life Insurance Company (Principal Life) established in 1982 in accordance with the provisions of the State of Iowa insurance laws. Pursuant to such laws, the net assets of the Account are not chargeable with liabilities arising out of any business of Principal Life. Participation in the Account is available through the purchase of certain group contracts and policies issued by Principal Life. The investment adviser is Principal Real Estate Investors, LLC (PrinREI), a wholly owned subsidiary of Principal Life. The Account is a diversified real estate equity account consisting primarily of high quality, well-leased real estate properties in the multifamily, industrial, office, retail and hotel sectors.

Principal Life has the ability to apply a contractual limitation which delays the payment of withdrawal requests (a "Withdrawal Limitation"). If the Withdrawal Limitation were applied, withdrawal requests included within the Withdrawal Limitation would be paid on a pro rata basis as cash becomes available for distribution, as determined by Principal Life. The Withdrawal Limitation was not applied as of and for the year ended December 31, 2013.

Principal Life also has the ability to institute a deposit queue for new large deposits. A deposit queue was instituted for the Account in 2013. Commitments in the deposit queue at December 31, 2013 totaled $321,500,000, and will be called subject to the Account's capacity for accepting additional capital.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying consolidated financial statements of the Account have been presented in conformity with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements of the Account include the accounts of its wholly owned and controlled real estate investment entities. All intercompany transactions are eliminated in the consolidation.

Use of Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The real estate and capital markets are cyclical in nature. Real estate investment and debt values are affected by, among other things, the availability of capital, occupancy rates, rental rates, interest rates, and inflation rates. As a result, determining such values involves many assumptions. Amounts ultimately realized may vary significantly from the fair values presented.

Risks and Uncertainties — The Account invests in commercial real estate properties located throughout the United States that are bought and sold in private market transactions. The Account's estimates of fair value are based on the best information available to management as of the date of the valuation. Certain market conditions that impact commercial real estate transaction markets may impact the availability of observable inputs. Should market conditions or management's assumptions change, the Account may record realized and unrealized losses and gains in future periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Concentration of Credit Risk — The Account invests its cash primarily in deposit accounts and short-term investments, including money market funds, with financial institutions. At times, cash balances at financial institutions may exceed the federally insured amounts. The Account believes it mitigates credit risk by depositing cash in or investing through major financial institutions. In addition, in the normal course of business, the Account extends credit to its tenants which consist of local, regional, and national-based tenants. The Account does not believe this represents a material risk of loss with respect to its financial position.

Real Estate — Real estate investments are carried at fair value. Properties owned are initially recorded at the purchase price plus closing costs. Development costs and major renovations are capitalized as a component of cost, and routine maintenance and repairs are charged to expense as incurred. Real estate costs include the cost of acquired property, including all tangible and intangible assets. Tangible assets include the value of all land, building, and tenant improvements at the time of acquisition. Intangible assets include the value of any above and below market leases, in-place leases, and tenant relationships at the time of acquisition. Real estate costs also include leasing or similar costs paid to third parties to obtain tenants. The Account does not record depreciation or amortization on real estate as fair value estimates take into consideration the effect of physical depreciation.

Unconsolidated Real Estate Joint Venture — Investment in unconsolidated real estate joint venture is comprised of a joint venture over which the Account does not have majority control, but over which it has significant influence. The investment is included in the accompanying consolidated statements of assets and liabilities at the Account's ratable share of the fair value of the underlying net assets of the joint venture, adjusted for the terms of the joint venture agreement. Equity in income of unconsolidated real estate joint venture represents the Account's share of the current year's joint venture income as provided for under the terms of the joint venture agreement and is included in net investment income in the accompanying consolidated statements of operations. The Account's ratable share of the change in the fair value of the joint venture is reported in realized and unrealized gain (loss) in the accompanying consolidated statements of operations. Contributions to and distributions from the joint venture are recorded when remitted and received by the Account, respectively. Cost of the joint venture includes the Account's contributions, distributions, and allocated share of equity in earnings from the joint venture.

Short-Term Investments — Short-term investments are comprised of money market funds and U.S. Treasury obligations and are recorded at fair value. The Account's short-term investments primarily includes investments in the Principal Life Insurance Company Money Market Separate Account which is managed by Principal Global Investors, LLC, an affiliate of the Account.

Cash — Cash includes cash on hand and demand deposit accounts.

Accrued Investment Income and Other Assets — Accrued investment income and other assets consists of the following: (i) escrows and other restricted assets including real estate tax, real estate improvement, and insurance escrows that are required as part of debt agreements, and security and utility deposits ($16,269,727 and $11,474,147 as of December 31, 2013 and 2012, respectively), (ii) tenant receivables, and (iii) prepaid expenses. These amounts are recorded at cost, which approximates fair value.

Debt — With the adoption of the fair value option, and at the election of Account management, debt is carried at fair value.

Other Liabilities — Accounts payable and accrued expenses, accrued property taxes, and security deposits are recorded at cost, which approximates fair value.

Noncontrolling Interests — The Account has entered into joint development relationships with other external investors to acquire and/or develop real estate properties. The Account is the majority owner in such projects and has control over decision making. Accordingly, the underlying assets and liabilities of the projects are consolidated into the Account's financial statements, with the external investors' net share of net assets reflected as noncontrolling interests. Net investment income and net realized and unrealized gain attributable to noncontrolling interests, as determined by partnership agreements, are reflected as adjustments to noncontrolling interests. Certain external investors earn additional equity if the estimated rate of return of the real estate property in which they are invested exceeds a contractually determined rate. This additional equity allocation is accrued or reversed at the same time that the underlying real estate property appreciates or depreciates, respectively.

Revenue Recognition — Rental income is recognized as income when earned in accordance with the terms of the respective leases. Reimbursements from tenants for common area costs are recognized monthly based on an estimate of annual costs, subject to periodic adjustments to reflect actual costs.

Income Taxes — According to current provisions of the Internal Revenue Code pertaining to tax qualified separate accounts, no income taxes are attributable to the activities of the Account. As a result, income taxes are not reflected in the accompanying consolidated financial statements.

Subsequent Events — The Account evaluated subsequent events through February 24, 2014, the date the accompanying consolidated financial statements were available to be issued. See Note 10.

Recent Accounting Pronouncements — In June 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-08 (ASU 2013-08), *Financial Services – Investment Companies.* ASU 2013-08 changes the approach to the investment company assessment in Accounting Standards Codification (ASC) 946, *Financial Services – Investment Companies* (ASC 946), clarifies the characteristics of an investment company, and provides comprehensive guidance for assessing whether an entity is an investment company. This update also requires investment companies to measure noncontrolling interests in other investment companies at fair value rather than using the equity method of accounting. Finally, this update requires the following additional disclosures: a) the fact that the entity is an investment company and is applying the guidance in ASC 946, b) information about changes, if any, in an entity's status as an investment company, and c) information about financial support provided or contractually required to be provided by an investment company to any of its investees. The amendments in this update are effective for fiscal years beginning after December 15, 2013. The Account is currently evaluating the impact of these amendments on its consolidated financial statements.

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3. FAIR VALUE MEASUREMENTS

In determining fair value, the Account uses various valuation approaches. ASC 820, *Fair Value Measurements and Disclosures,* establishes a fair value measurement framework and emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Account. Unobservable inputs are inputs that reflect the Account's judgments about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is measured in three levels based on the reliability of inputs:

Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Account has the ability to access.

Level 2 — Valuations based on quoted prices in less active dealer or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 — Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques, and not based on market, exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a description of the valuation techniques used for assets and liabilities measured at fair value:

Real Estate — Real estate values are based upon independent appraisals or internally prepared valuations. An independent consultant (the "Valuation Consultant") selected by PrinREI oversees and administers the appraisal process for the Account. Real estate investments are stated at fair value as determined by the Valuation Consultant and approved by Account management. Appraisals are performed for each investment annually by independent external appraisers with all appraisals being performed in accordance with the Uniform Standard of Professional Appraisal Practice. During the remaining three quarters of the year, the Valuation Consultant issues a limited scope external appraisal for each investment. Additionally, with the approval of Account management, values are updated daily by the Valuation Consultant based on changes in factors such as occupancy levels, lease rates, overall market conditions, and capital improvements. Determination of fair value involves subjective judgment because the actual fair value of real estate can be determined only by negotiation between the parties in a sales transaction.

The values of real estate investments have been estimated giving consideration to one or more of the following valuation approaches: (i) income, (ii) cost, and (iii) sales comparison. The income approach estimates an income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. Significant inputs to the income approach include discount rates, terminal capitalization rates, and market rental growth rates, all of which are derived from market transactions, where available, as well as other industry and market data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally, this approach provides a check on the value derived using the income approach. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities which typically provide a range of value. Generally, the income approach carries the most weight in the value reconciliation.

The values of real estate investments undergoing development have been prepared giving consideration to costs incurred to date and key development risk factors, including entitlement risk, construction risk, leasing/sales risk, operation expense risk, credit risk, capital market risk, pricing risk, event risk, and valuation risk. The fair value of investments undergoing development includes the timely recognition of estimated entrepreneurial profit after consideration of the items identified above.

The values of real estate investments do not reflect transaction sale costs, which may be incurred upon disposition of the real estate investments.

The Account's real estate investments are classified within Level 3 of the valuation hierarchy.

Unconsolidated Real Estate Joint Venture — Unconsolidated real estate joint venture is stated at the fair value of the Account's ownership interest of the underlying entity. The Account's ownership interest is valued based on the fair value of the underlying assets and liabilities including the underlying real estate and any related debt, which are both valued consistently with the Account's wholly owned and consolidated real estate investments and debt, and other factors, such as ownership percentage, ownership rights, and distribution provisions. Upon the disposition of all real estate investments by an investee entity, the Account will continue to state its equity in the remaining net assets of the investee entity during the wind down period, if any, that occurs prior to the dissolution of the investee entity. The Account's unconsolidated real estate joint venture is classified within Level 3 of the valuation hierarchy.

3. FAIR VALUE MEASUREMENTS *(continued)*

Short-Term Investments — Short-term investments are comprised of money market funds and U.S. Treasury obligations and are valued at fair value. The fair value is based on significant observable inputs obtained from transactions in the same securities. Short-term investments are classified within Level 2 of the valuation hierarchy.

The Principal Life Money Market Separate Account (MM Separate Account) is recorded at fair value, which represents the net asset value of shares held by the Account at year end. The primary investment objective of the MM Separate Account, which is managed by Principal Global Investors, LLC, an affiliate of the Account, is to obtain the maximum current income consistent with the preservation of capital and the maintenance of liquidity by investing in high-grade short-term debt securities. The MM Separate Account's investment portfolio primarily contains investment grade money market instruments such as U.S. government obligations, U.S. government agency obligations, commercial paper, bank certificates of deposit, bankers acceptances, and repurchase agreements with commercial banks or investment bankers secured by obligations of the U.S. Treasury, U.S. government agency obligations, commercial paper, and bank certificates of deposit. The MM Separate Account may also invest in an underlying mutual fund or other type of investment that maintains the investments previously described. The Principal Money Market Separate Account is not guaranteed by the Federal Deposit Insurance Corporation (FDIC), or any other government agency. Although the Principal Money Market Separate Account seeks to preserve the value of an investment, it is possible to lose money by investing in this portfolio.

The Account does not have any commitments to fund the MM Separate Account. In general, contributions, payments, and transfers to or from the MM Separate Account may occur on any business day. Principal Life has reserved the right to temporarily or permanently terminate the ability of all contractholders to make contributions or transfers to this MM Separate Account. Payments and withdrawals are normally processed within seven days after Principal Life receives the request; however, Principal Life reserves the right to defer payment or transfers from the MM Separate Account with a maximum delay of 180 days, unless a longer delay is approved by the New York Insurance Department. If the total amount of withdrawal requests exceeds the limits specified in the contract, Principal Life reserves the right to make these payments in installments, using the procedure specified in the contract. This procedure spreads out the payments over a period of months which should limit the harm caused by such withdrawals to the other contractholders with an interest in the MM Separate Account. Payments or transfers which are deferred or paid in installments will be made using the applicable unit value for the valuation date immediately preceding the date payment or transfer of each installment is to be made.

Unrealized Loss on Investment Commitments — The fair value of commitments to purchase real estate investments is recognized when the value of payments the Account is contractually obligated to make is above or below the value at which a market participant would assume the commitment and is determined based on the fair value of the underlying real estate, estimated using similar valuation approaches for real estate as described above. The Account's commitments to purchase real estate investments are classified within Level 3 of the valuation hierarchy.

Line of Credit and Debt — The fair values of the line of credit and debt instruments are determined by discounting the future contractual cash flows to the present value using market interest rates. The market interest rate used to discount the future contractual cash flows is determined by giving consideration to one or more of the following criteria as appropriate: (i) interest rates for loans of comparable quality and maturity, (ii) the anticipated equity return a market participant would accept with similar risk and terms, and (iii) the value of the underlying collateral. Significant inputs to debt valuation include the loan to value ratios and market interest rates. The Account's line of credit and debt are classified within Level 3 of the valuation hierarchy.

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The following tables set forth by level within the fair value hierarchy a summary of the Account's assets and liabilities measured at fair value on a recurring basis at December 31, 2013 and 2012.

	2013			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investments:				
Real estate	$ -	$ -	$ 5,723,475,000	$ 5,723,475,000
Unconsolidated real estate joint venture	-	-	71,132,660	71,132,660
Short-term investments	-	123,927,969	-	123,927,969
Total assets	$ -	$ 123,927,969	$ 5,794,607,660	$ 5,918,535,629
Liabilities:				
Debt:				
Mortgage notes payable — fixed rate	$ -	$ -	$ 668,700,322	$ 668,700,322
Mortgage notes payable — variable rate	-	-	100,321,818	100,321,818
Construction note payable — variable rate	-	-	13,907,608	13,907,608
Assessment bonds — variable rate	-	-	65,049,572	65,049,572
Unsecured note payable — fixed rate	-	-	102,070,638	102,070,638
Total debt	-	-	950,049,958	950,049,958
Unrealized loss on investment commitments	-	-	59,677,079	59,677,079
Total liabilities	$ -	$ -	$ 1,009,727,037	$ 1,009,727,037

	2012			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investments:				
Real estate	$ -	$ -	$ 5,049,530,000	$ 5,049,530,000
Unconsolidated real estate joint venture	-	-	40,651,332	40,651,332
Short-term investments	-	155,869,467	-	155,869,467
Total assets	$ -	$ 155,869,467	$ 5,090,181,332	$ 5,246,050,799
Liabilities:				
Debt:				
Mortgage notes payable — fixed rate	$ -	$ -	$ 672,361,564	$ 672,361,564
Mortgage notes payable — variable rate	-	-	96,544,579	96,544,579
Construction note payable — variable rate	-	-	12,177,713	12,177,713
Assessment bonds — variable rate	-	-	63,265,669	63,265,669
Unsecured notes payable — fixed rate	-	-	204,846,641	204,846,641
Total debt	-	-	1,049,196,166	1,049,196,166
Unrealized loss on investment commitments	-	-	75,830,950	75,830,950
Total liabilities	$ -	$ -	$ 1,125,027,116	$ 1,125,027,116

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3. FAIR VALUE MEASUREMENTS *(continued)*

For the years ended December 31, 2013 and 2012, there were no significant transfers in or out of Levels 1, 2, or 3.

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2013 and 2012.

	Real Estate	Unconsolidated Real Estate Joint Venture
Beginning balance — January 1, 2013	$ 5,049,530,000	$ 40,651,332
Realized and unrealized gain	361,361,694	12,772,768
Real estate acquisitions and debt assumed	301,742,621	-
Real estate improvements	201,388,378	-
Real estate dispositions and debt assumed by buyer	(190,547,693)	-
Equity in income of joint venture	-	7,697,732
Joint venture contributions	-	10,010,828
Proceeds from borrowings and issuance of debt	-	-
Repayments of debt	-	-
Ending balance — December 31, 2013	$ 5,723,475,000	$ 71,132,660
Amount of unrealized gain (loss) reported in the consolidated statement of operations attributable to assets and liabilities held at end of year	$ 347,078,948	$ 12,772,768

	Real Estate	Unconsolidated Real Estate Joint Venture
Beginning balance — January 1, 2012	$ 4,575,980,000	$ 31,252,765
Realized and unrealized gain (loss)	271,895,133	4,725,956
Real estate acquisitions	102,895,485	-
Real estate improvements	146,241,061	-
Real estate dispositions	(142,940,402)	-
Equity in income of joint venture	-	4,672,611
Mortgage loan acquisition and debt assumption	-	-
Proceeds from borrowings and issuance of debt	-	-
Repayments of debt	-	-
Real estate and mortgage loan receivables foreclosed	95,458,723	-
Ending balance — December 31, 2012	$ 5,049,530,000	$ 40,651,332
Amount of unrealized gain (loss) reported in the consolidated statement of operations attributable to assets and liabilities held at end of year	$ 272,225,829	$ 4,725,956

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2013

Debt	Unrealized Loss on Investment Commitments
$ (1,049,196,166)	$ (75,830,950)
26,013,100	16,153,871
(29,292,771)	-
-	-
3,811,932	-
-	-
-	-
(21,802,699)	-
120,416,646	-
$ (950,049,958)	$ (59,677,079)
$ 25,105,081	$ (2,015,660)

2012

Mortgage Loan Receivable	Debt	Unrealized Loss on Investment Commitments
$ 49,558,723	$ (1,036,821,087)	$ (79,890,158)
(7,035)	(20,522,410)	4,059,208
-	-	-
-	-	-
-	-	-
-	-	-
45,907,035	(26,915,838)	-
-	(208,361,090)	-
-	243,424,259	-
(95,458,723)	-	-
$ -	$ (1,049,196,166)	$ (75,830,950)
$ -	$ (22,619,484)	$ 4,059,208

3. FAIR VALUE MEASUREMENTS *(continued)*

The following table shows quantitative information about significant unobservable inputs related to the Level 3 fair value measurements used at December 31, 2013 and 2012.

	2013				
	Fair Value	Primary Valuation Technique	Significant Unobservable Inputs	Input/Range of Inputs	Weighted-Average
Assets:					
Real estate:					
Office	$ 2,491,350,000	Discounted cash flows	Discount rate	6.5% - 11.5%	7.9%
			Terminal capitalization rate	5.5% - 9.0%	6.8%
			Average market rent growth rate	2.4% - 4.7%	3.5%
Retail	1,096,650,000	Discounted cash flows	Discount rate	6.6% - 23.8%	8.2%
			Terminal capitalization rate	5.3% - 9.0%	6.8%
			Average market rent growth rate	2.5% - 4.7%	3.0%
Industrial	1,018,280,000	Discounted cash flows	Discount rate	7.0% - 9.3%	7.4%
			Terminal capitalization rate	6.0% - 9.0%	6.6%
			Average market rent growth rate	2.4% - 4.7%	3.3%
Multifamily	1,014,250,000	Discounted cash flows	Discount rate	6.0% - 8.0%	6.7%
			Terminal capitalization rate	4.5% - 6.8%	5.7%
			Average market rent growth rate	2.5% - 4.5%	3.1%
Land	102,945,000	Discounted cash flows	Discount rate	6.8% - 16.0%	9.7%
			Terminal capitalization rate	6.5% - 8.0%	7.4%
			Average market rent growth rate	2.7% - 5.0%	3.4%
Unconsolidated real estate joint venture — hotel	71,132,660	Discounted cash flows	Discount rate	9.0%	9.0%
			Terminal capitalization rate	7.5%	7.5%
			Average market rent growth rate	3.4%	3.4%
			Loan to value ratio	55.9%	55.9%
			Market interest rate	3.9%	3.9%
Liabilities:					
Mortgage notes payable — fixed rate	668,700,322	Discounted cash flows	Loan to value ratio	11.7% - 69.7%	50.0%
			Market interest rate	3.2% - 5.1%	4.4%
Mortgage notes payable — variable rate	100,321,818	Discounted cash flows	Loan to value ratio	48.6% - 54.2%	51.0%
			Market interest rate	2.7% - 3.7%	3.4%
Construction note payable — variable rate	13,907,608	Discounted cash flows	Loan to value ratio	11.0%	11.0%
			Market interest rate	2.4%	2.4%
Assessment bonds — variable rate	65,049,572	Discounted cash flows	Loan to value ratio	47.9%	47.9%
			Market interest rate	4.5%	4.5%
Unsecured notes payable — fixed rate	102,070,638	Discounted cash flows	Loan to value ratio	17.2%	17.2%
			Market interest rate	3.3%	3.3%
Unrealized loss on investment commitments	59,677,079	Discounted cash flows	Discount rate	14.0% - 19.4%	17.0%

	2012				
	Fair Value	Primary Valuation Technique	Significant Unobservable Inputs	Input/Range of Inputs	Weighted Average
Assets:					
Real estate:					
Office	$ 2,010,200,000	Discounted cash flows	Discount rate	6.8% - 15.0%	7.9%
			Terminal capitalization rate	5.5% - 8.8%	7.0%
			Average market rent growth rate	2.7% - 5.0%	3.9%
Retail	1,135,300,000	Discounted cash flows	Discount rate	7.0% - 9.3%	7.9%
			Terminal capitalization rate	6.0% - 9.0%	7.0%
			Average market rent growth rate	2.4% - 4.7%	3.0%
Industrial	881,810,000	Discounted cash flows	Discount rate	7.3% - 9.5%	7.9%
			Terminal capitalization rate	6.3% - 9.0%	7.0%
			Average market rent growth rate	2.3% - 5.5%	3.6%
Multifamily	932,700,000	Discounted cash flows	Discount rate	6.5% - 8.0%	7.1%
			Terminal capitalization rate	4.8% - 7.0%	5.8%
			Average market rent growth rate	2.5% - 4.2%	3.3%
Land	89,520,000	Discounted cash flows	Discount rate	6.8% - 16.0%	12.4%
			Terminal capitalization rate	6.5% - 8.5%	7.9%
			Average market rent growth rate	2.8% - 5.0%	3.3%
Unconsolidated real estate joint venture — hotel	40,651,332	Discounted cash flows	Discount rate	10.5%	10.5%
			Terminal capitalization rate	8.0%	8.0%
			Average market rent growth rate	3.6%	3.6%
			Loan to value ratio	63.5%	63.5%
			Market interest rate	5.5%	5.5%
Liabilities:					
Mortgage notes payable — fixed rate	672,361,564	Discounted cash flows	Loan to value ratio	17.1% - 86.3%	52.3%
			Market interest rate	2.5% - 5.0%	3.7%
Mortgage notes payable — variable rate	96,544,579	Discounted cash flows	Loan to value ratio	53.0% - 55.3%	53.8%
			Market interest rate	2.7% - 3.5%	3.2%
Construction note payable — variable rate	12,177,713	Discounted cash flows	Loan to value ratio	32.6%	32.6%
			Market interest rate	2.5%	2.5%
Assessment bonds — variable rate	63,265,669	Discounted cash flows	Loan to value ratio	55.5%	55.5%
			Market interest rate	4.8%	4.8%
Unsecured notes payable — fixed rate	204,846,641	Discounted cash flows	Loan to value ratio	20.7%	20.7%
			Market interest rate	2.5% - 3.0%	2.8%
Unrealized loss on investment commitments	75,830,950	Discounted cash flows	Discount rate	15.0% - 20.0%	16.2%

4. INVESTMENT MANAGEMENT FEES

Principal Life charges the Account an investment management fee (based upon its net assets), which includes the investment adviser fees paid to PrinREI, with such fees computed and deducted daily. These fees totaled $44,774,080 and $39,820,727 in 2013 and 2012, respectively. The Account owed Principal Life investment management fees of $131,698 and $113,371 as of December 31, 2013 and 2012, respectively. The fees owed are included in accounts payable and accrued expenses in the accompanying consolidated statements of assets and liabilities.

5. INVESTMENT COMMITMENTS

As of December 31, 2013, the Account had outstanding commitments to purchase two properties for approximately $66,600,000. In addition to the remaining outstanding commitments, the Account has made prior deposits of $32,864,862 on these commitments as of December 31, 2013. The Account expects to acquire these properties or sell its commitment in 2014 and 2015.

As of December 31, 2012, the Account had outstanding commitments to purchase four properties for approximately $126,400,000. The Account had made prior deposits of $68,052,740 on these commitments as of December 31, 2012. The Account sold two of these commitments in 2013 and recognized a realized loss of $11,969,526, of which $18,169,531 had been previously recorded as unrealized loss on investment commitments.

6. LINE OF CREDIT

The Account maintains an unsecured line of credit. The line of credit agreement was amended and restated in 2013. Maximum availability under the line of credit was $400,000,000 and $300,000,000 as of December 31, 2013 and 2012, respectively (reduced to $397,500,000 and $295,844,000, respectively, by the letters of credit described below). There were no borrowings outstanding on the line of credit at December 31, 2013 and 2012. Interest on outstanding borrowings accrues at LIBOR plus the applicable margin, which can range from 1.00% to 1.25% (2.00% to 2.25% at December 31, 2012), and is based on the aggregate debt ratio, as defined (all-in interest rate of 1.17% and 2.21% at December 31, 2013 and 2012, respectively). Interest is payable on a monthly basis. Additionally, the Account pays a quarterly commitment fee ranging from 0.20% to 0.30% per year (.30% to .40% at December 31, 2012), based on the aggregate debt limitation ratio, as defined. The line of credit matures on October 4, 2016. The Account has the option to extend the maturity date of the line of credit through October 4, 2017.

The line of credit includes a $100,000,000 letter of credit sub facility at December 31, 2013 and 2012. At December 31, 2013 and 2012, there were letters of credit issued of $2,500,000 and $4,156,000, respectively. There were no outstanding borrowings on the letters of credit at December 31, 2013 and 2012. Interest on outstanding borrowings accrues at LIBOR plus the applicable margin, as defined above (all-in interest rate of 1.17% and 2.21% at December 31, 2013 and 2012, respectively). Additionally, the Account pays a commitment fee of 0.125% plus the applicable margin, as defined above, based on the stated amount of the letters of credit issued. The letters of credit expire in October 2014.

The line of credit agreement contains financial and non-financial covenants, including requirements regarding net assets, leverage ratio, debt service coverage ratio and unencumbered assets. The Account was in compliance with all covenants as of December 31, 2013.

7. DEBT

Mortgage Notes Payable — Contractual obligations on mortgage notes payable totaled $772,097,442 as of December 31, 2013. These obligations consisted of $670,510,361 in fixed rate mortgage notes and $101,587,081 in variable rate mortgage notes with interest rates ranging from 2.00% to 7.97% and 2.42% to 2.67%, respectively, as of December 31, 2013. These mortgage notes mature between 2014 and 2034. Contractual obligations on mortgage notes payable totaled $749,406,167 as of December 31, 2012. These obligations consisted of $651,629,757 in fixed rate mortgage notes and $97,776,410 in variable rate mortgage notes with interest rates ranging from 2.00% to 7.97% and 2.46% to 2.71%, respectively, as of December 31, 2012. The mortgage notes are collateralized by the underlying real estate assets which have an estimated fair value of $1,581,470,000 as of December 31, 2013.

Construction Note Payable — Contractual obligations on the construction note payable totaled $13,798,563 as of December 31, 2013. This construction note has a variable interest rate (2.19% at December 31, 2013) and matures in 2015. The construction note is collateralized by the underlying real estate asset which has an estimated fair value of $125,800,000 as of December 31, 2013. Contractual obligations on the construction note payable totaled $12,177,713 as of December 31, 2012. This construction note had a variable interest rate (2.46% at December 31, 2012). This construction note was repaid in full in 2013.

Assessment Bonds — Assessment bonds consist of amounts owed to the City of New York, New York. Contractual obligations on these assessments totaled $68,918,620 and $69,888,853 as of December 31, 2013 and 2012, respectively. The assessment bonds remaining mature in 2032 and bear a variable interest rate (1.20% and 1.31% at December 31, 2013 and 2012, respectively). The assessment bonds are recorded as liens on the underlying real estate asset which has an estimated fair value of $144,000,000 as of December 31, 2013.

Unsecured Notes Payable — Contractual obligations on unsecured notes payable totaled $100,000,000 and $200,000,000 as of December 31, 2013, and 2012, respectively. There were two notes for $100,000,000, one of which was repaid in full in 2013, and the other matures in 2015. The outstanding note bears a fixed interest rate of 4.65% and interest is payable on a semi-annual basis. The repaid note carried a fixed interest rate at 4.13%. The note agreement contains financial and non-financial covenants, including requirements regarding net assets, leverage ratio, debt service coverage ratio and unencumbered assets. The Account was in compliance with all covenants as of December 31, 2013.

As of December 31, 2013, aggregate contractual maturities of debt were as follows:

Years Ending December 31,	
2014	$ 218,128,433
2015	153,614,338
2016	131,146,720
2017	10,074,917
2018	6,173,289
Thereafter	435,676,928
Contractual maturities of debt	954,814,625
Debt fair value adjustment	(4,764,667)
	$ 950,049,958

8. TENANT LEASES

The Account leases space to tenants under operating lease agreements. These agreements include renewal options and expire at various dates. At December 31, 2013, future minimum base rentals under non-cancelable leases having an original term of more than one year are as follows:

Years Ending December 31,	
2014	$ 320,474,876
2015	311,802,668
2016	284,158,762
2017	247,910,287
2018	206,904,399
Thereafter	719,002,247
	$ 2,090,253,239

The above future minimum base rental payments exclude multifamily lease agreements that accounted for approximately 16.3% and 15.7% of the Account's revenue from real estate for the years ended December 31, 2013 and 2012, respectively. Revenue from real estate included approximately $79,252,000 and $76,135,000 for expenses recovered from tenants for common area and other reimbursable costs for the years ended December 31, 2013 and 2012, respectively.

9. UNCONSOLIDATED REAL ESTATE JOINT VENTURE

The Account is invested in a hotel and conference center real estate joint venture in which it does not have control, but over which it has significant influence. The Account has a 33% ownership interest in the hotel and conference center joint venture. The Account's ratable share of the fair value of the underlying net assets of the joint venture is adjusted for the terms of the joint venture agreement. Specifically, the controlling partner in this joint venture may earn additional equity if the estimated rate of return of the real estate property exceeds a contractually determined rate. This additional equity allocation is accrued or reversed, thereby impacting the Account's ratable share of the fair value of the underlying net assets of the joint venture, at the same time that the underlying real estate property appreciates or depreciates, respectively.

AUDITED FINANCIAL STATEMENTS

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The following is a condensed summary of the financial position and operating results of the Account's joint venture investment as of December 31, 2013, and 2012, and for the years then ended. The joint venture records its assets and liabilities at fair value.

	2013	2012
Statements of assets and liabilities:		
Real estate	$ 505,200,000	$ 450,000,000
Other assets	44,694,719	31,244,662
Debt	(282,501,395)	(282,339,768)
Other liabilities	(43,021,677)	(41,816,889)
Net assets	$ 224,371,647	$ 157,088,005
Account's share of net assets	$ 71,132,660	$ 40,651,332
Statements of operations:		
Revenue from real estate	$ 132,118,228	$ 122,741,783
Expenses	(108,791,768)	(108,582,356)
Unrealized gain on real estate and debt	51,037,182	15,629,673
Net income	$ 74,363,642	$ 29,789,100
Account's share of net income	$ 20,470,500	$ 9,398,567

10. SUBSEQUENT EVENTS

The Account paid the investment management fees owed to Principal Life of $131,698 on January 2, 2014.

The contribution and distribution requests processed on December 31, 2013 of $24,478,001 and $6,285,668, respectively, were received by the Account and distributed to contractholders on January 2, 2014, respectively.

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11. FINANCIAL HIGHLIGHTS

Participation in the Account is available through the purchase of certain group contracts and policies issued by Principal Life resulting in various rate classes. The information below details the per share operating performance for the 2013 and 2012 rate classes of the Account and is based on the terms, including fees charged, of the specific underlying group annuity contract, the participating plan, and the services provided.

	Rate Class A		Rate Class B		Rate Class C		Rate Class E	
Per Share Operating Performance	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Net asset value — beginning of year	$ 639.24	$ 573.47	$ 29.63	$ 26.53	$ 307.32	$ 279.45	$ 664.11	$ 593.99
Income from investment operations:								
Net investment income	29.47	27.09	1.43	1.31	9.64	9.11	32.82	30.01
Net realized and unrealized gain	55.68	38.68	2.58	1.79	26.63	18.76	57.90	40.11
Total income from investment operations	85.15	65.77	4.01	3.10	36.27	27.87	90.72	70.12
Net asset value — end of year	$ 724.39	$ 639.24	$ 33.64	$ 29.63	$ 343.59	$ 307.32	$ 754.83	$ 664.11
Total return	13.32 %	11.47 %	13.55 %	11.69 %	11.80 %	9.97 %	13.66 %	11.80 %

	Rate Class F		Rate Class G		Rate Class H		Rate Class I	
Per Share Operating Performance	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Net asset value — beginning of year	$ 536.41	$ 484.07	$ 28.49	$ 25.60	$ 582.73	$ 524.34	$606.59	$ 545.38
Income from investment operations:								
Net investment income	21.26	19.75	1.27	1.16	24.94	23.07	26.50	24.46
Net realized and unrealized gain	46.62	32.59	2.48	1.73	50.70	35.32	52.79	36.75
Total income from investment operations	67.88	52.34	3.75	2.89	75.64	58.39	79.29	61.21
Net asset value — end of year	$ 604.29	$ 536.41	$ 32.24	$ 28.49	$ 658.37	$ 582.73	$685.88	$ 606.59
Total return	12.65 %	10.81 %	13.15 %	11.30 %	12.98 %	11.13 %	13.07 %	11.22 %

(Continued)

11. FINANCIAL HIGHLIGHTS *continued*

	Rate Class J		Rate Class K		Rate Class L		Rate Class M	
Per Share Operating Performance	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Net asset value — beginning of year	$ 619.82	$ 556.60	$ 512.05	$ 462.69	$ 558.66	$ 503.24	$ 29.48	$ 26.40
Income from investment operations:								
Net investment income	27.90	25.69	19.56	18.23	23.24	21.53	1.40	1.29
Net realized and unrealized gain	53.96	37.53	44.48	31.13	48.59	33.89	2.57	1.79
Total income from investment operations	81.86	63.22	64.04	49.36	71.83	55.42	3.97	3.08
Net asset value — end of year	$ 701.68	$ 619.82	$ 576.09	$ 512.05	$ 630.49	$ 558.66	$ 33.45	$ 29.48
Total return	13.21 %	11.36 %	12.51 %	10.67 %	12.86 %	11.01 %	13.49 %	11.64 %

	Rate Class N		Rate Class P		Rate Class Q	
Per Share Operating Performance	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Net asset value — beginning of year	$ 29.17	$ 26.15	$ 659.25	$ 590.83	$ 671.29	$ 601.32
Income from investment operations:						
Net investment income	1.36	1.25	31.13	28.54	32.05	29.38
Net realized and unrealized gain	2.54	1.77	57.44	39.88	58.51	40.59
Total income from investment operations	3.90	3.02	88.57	68.42	90.56	69.97
Net asset value — end of year	$ 33.07	$ 29.17	$ 747.82	$ 659.25	$ 761.85	$ 671.29
Total return	13.38 %	11.52 %	13.43 %	11.58 %	13.49 %	11.64 %

(Continued)

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11. FINANCIAL HIGHLIGHTS *continued*

	Rate Class R		Rate Class S		Rate Class T	
Per Share Operating Performance	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Net asset value — beginning of year	$704.94	$630.52	$ 8.83	$ 7.91	$ 29.53	$ 26.40
Income from investment operations:						
Net investment income	34.84	31.85	0.41	0.38	1.47	1.35
Net realized and unrealized gain	61.46	42.57	0.77	0.54	2.58	1.78
Total income from investment operations	96.30	74.42	1.18	0.92	4.05	3.13
Net asset value — end of year	$ 801.24	$ 704.94	$ 10.01	$ 8.83	$ 33.58	$ 29.53
Total return	13.66 %	11.80 %	13.38 %	11.52 %	13.72 %	11.86 %

The rate classes shown above were previously presented under different names and correspond as follows:

Rate Class A	R6	Rate Class K	R1
Rate Class B	PGI>$25 Million	Rate Class L	R3
Rate Class C	Provider	Rate Class M	PGI>$10<=$25 Million
Rate Class E	Classic	Rate Class N	PGI<=$10 Million
Rate Class F	R2	Rate Class P	I3
Rate Class G	Retirement Accum. Contract	Rate Class Q	I4
Rate Class H	Signature	Rate Class R	I5
Rate Class I	R4	Rate Class S	RIS Investment Only 1
Rate Class J	R5	Rate Class T	PGI>$100 Million

The change in rate class name presented had no impact on previously disclosed financial highlights by class or the underlying terms of each rate class based on the group annuity contract or participating plan.

FUND LEVEL SUPPLEMENTAL DATA	2013	2012
Net assets attributable to U.S. Property Separate Account, end of year	$ 4,795,458,280	$ 4,066,402,830
Ratio to average net assets:		
Fund level expenses	1.28 %	1.36 %
Net investment income	4.54	4.66

(Concluded)

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IMPORTANT INFORMATION

Certain information contained in this report constitutes "forward-looking statements" that can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "estimate," "intend," "continue," or "believe" or the negatives thereof or other variations thereon or comparable terminology. Furthermore, any projections or other estimates in this presentation are "forward-looking statements" and are based upon certain assumptions that may change. Due to various risks and uncertainties, actual events or results or the actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Moreover, actual events are difficult to project and often depend upon factors that are beyond the control of Principal Real Estate Investors and its affiliates. All expressions of opinion and predictions in this report are subject to change without notice.

Performance shown is time-weighted and returns for periods over one year are annualized. Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so that value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. This investment is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general local economic condition. Payment of principal and earnings may be delayed.

National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors – the great majority being pension funds. As such, all properties are held in a fiduciary environment. The universe includes wholly owned and joint venture investments; operating properties only – no development projects; and only investment-grade, non-agricultural, income-producing properties in the apartment, hotel, industrial, office, and retail sectors.

The NCREIF Property Index is a private real estate market proxy that is based on property level returns (after properly level expenses). Open-End Fund Component of the NCREIF Property Index is a subcomponent of the NCREIF Property Index that employs all characteristics of the Index, however, only includes property level performance of open-end funds. NFI-ODCE is a capitalization-weighted, gross of fee, time-weighted return index with an inception date of December 31, 1977. Supplemental data is also provided, such as equal-weight and net of fee returns, for informational purposes and additional analysis. Open-end Funds are generally defined as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests, thereby providing a degree of potential investment liquidity. The term Diversified Core Equity style typically reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in stable U.S. operating properties. The NFI-ODCE, like the NCREIF Property Index and other stock and bond indices, is a capitalization weighted index based on each fund's Net Invested Capital, which is defined as Beginning Market Value Net Assets (BMV), adjusted for Weighted Cash Flows (WCF) during the period. To the extent WCF are not available, which may be the case for older liquidated funds, BMV is used. Indices are typically capitalization-weighted, as they better represent the universe and the performance of the overall marketplace. Total Return of any capitalization-weighted Index is, therefore, more influenced by the larger funds (based on Net Invested Capital) included in the Index. Additional information, such as the equally-weighted NFI-ODCE, is also presented to show what the results would be if all funds were treated equally, regardless of size. This presentation is typically used for statistical purposes and peer-to-peer comparisons.

The Account's real estate investments are valued in accordance with the REIS property valuation standards. This report has been prepared and presented in compliance with Real Estate Information Standards.

The Account is an insurance company separate account sponsored by Principal Life Insurance Company and managed by Principal Real Estate Investors. The Account is a diversified real estate equity portfolio consisting primarily of high quality, well-leased real estate properties in the multifamily, industrial, office, retail and hotel sectors.

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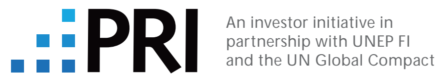

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