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Q1 2024 Property Market Outlook

January 2024

FTSE ERPA/NAREIT Index Returns through 12/31/23 (USD)						
	MTD		1 Year			
	1/10/2024	4QTR23	2023	2022	3 Year	5 Year
Region Total Return						
Global	-1.2%	14.8%	9.8%	-24.0%	1.1%	3.0%
Europe	-3.2%	26.3%	21.2%	-40.0%	-7.2%	0.0%
North America	-0.2%	15.8%	13.0%	-25.0%	6.6%	6.4%
Asia	-2.5%	8.7%	-0.6%	-11.0%	-2.6%	-0.3%
US						
Industrial	0.0%	17.1%	19.1%	-29.0%	10.8%	18.2%
Retail	0.7%	21.5%	10.5%	-14.0%	13.3%	3.7%
Residential	-0.2%	9.4%	7.7%	-32.0%	5.2%	6.3%
Office	2.0%	24.2%	6.4%	-35.0%	-5.0%	-0.7%
Lodgings/resorts	1.1%	23.3%	25.2%	-15.0%	7.5%	2.0%
Europe						
Industrial	-2.5%	28.4%	24.7%	-49.0%	-2.1%	10.8%
Retail	-1.3%	23.8%	25.8%	-15.0%	2.6%	-7.6%
Residential	-3.8%	27.6%	29.3%	-52.0%	-16.8%	-3.2%
Office	-4.4%	21.9%	17.1%	-31.0%	-5.4%	1.5%
Lodgings/resorts	-4.7%	39.4%	36.1%	-31.0%	-4.9%	-1.1%
Asia						
Industrial	-2.9%	8.5%	-5.1%	-28.0%	-8.8%	4.0%
Retail	-2.4%	18.7%	2.9%	-8.0%	-0.3%	-0.8%
Residential	-2.9%	1.6%	-4.6%	-19.0%	-4.9%	1.1%
Office	-2.4%	6.1%	-5.6%	-19.0%	-5.5%	-2.9%
Lodgings/resorts	-4.2%	2.3%	-3.4%	15.0%	3.0%	-3.5%

Source: Bloomberg

REITS Pricing Indication

- **Over 2023 most sectors recovered from 2022 declines**
  - Most occurred in 4QTR23
  - In the US the 3- & 5-year returns are positive unlike Europe and Asia
  - 2024 off to a weak start
- **REITS are viewed as financials**
  - Lower rate expectations a strong driver of returns
  - Returns supported by generally health fundamentals in most sectors and NOI growth supporting values
- **Challenges remain**
  - Significant refinancing issues exist
  - De-leveraging economy impact the real estate tenants

Private Market Returns

- One-year returns show US had greatest declines but still significantly outperformed EU and AP in 3 and 5 year
- Non-core declines were consistent across regions, most likely due to value declines from increased rates and extended holding periods
- We believe non-core assets containing value-add and niche sectors have better chances to grow NOI, which is the key driver of value
- There seems to be concerns in market that private market valuations are still not accurately marked, and cap rates could increase an additional 100-150 bps

GREFI Returns as of 3Q23												
	US				Europe				Asia Pacific			
	Total	Core	Non-Core	Open End	Total	Core	Non-Core	Open End	Total	Core	Non-Core	Open End
3 months	-2.02%	-2.10%	-1.82%	-2.02%	-0.72%	-0.66%	-1.79%	-0.73%	-0.97%	-1.03%	-0.58%	-1.13%
6 months	-4.67%	-4.93%	-4.02%	-4.67%	-1.38%	-1.25%	-3.37%	-1.30%	-3.37%	-3.70%	-1.46%	-3.83%
1 year	-12.02%	-12.88%	-9.77%	-12.02%	-8.37%	-8.36%	-8.59%	-8.34%	-1.41%	-2.00%	2.15%	-2.14%
3 year	7.74%	6.19%	12.37%	7.74%	2.90%	2.92%	2.55%	3.02%	5.59%	5.79%	4.30%	5.69%
5 year	6.03%	4.72%	10.26%	6.03%	3.38%	3.50%	1.91%	3.88%	5.10%	4.78%	6.18%	4.71%

Source: INREV Global Real Estate Fund Index (GREFI) Quarterly. **Past performance is not indicative of future results**

Property – Factors Driving Outlook Summary

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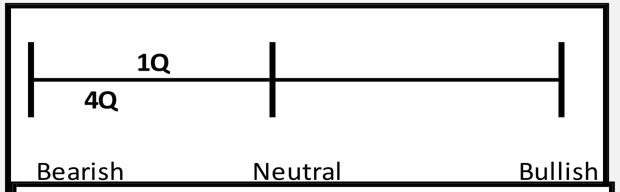
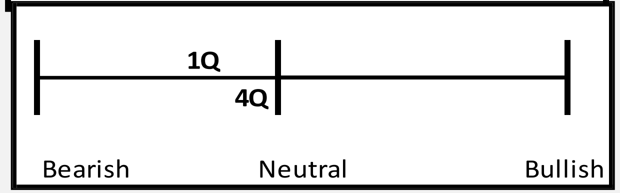
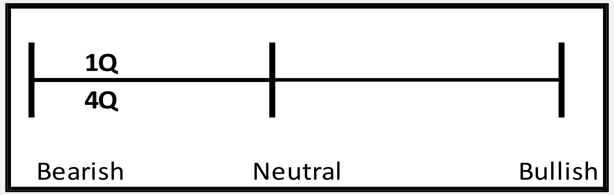
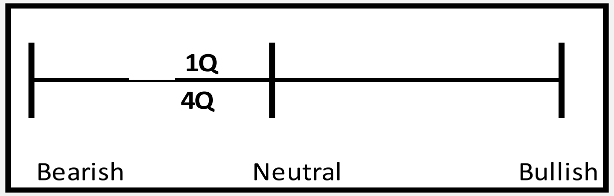
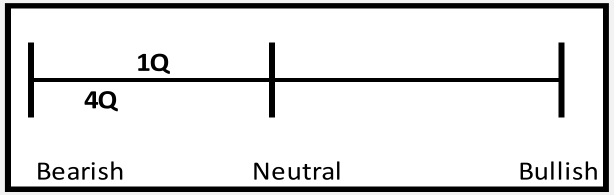
Factors	Comments	Historical Range
Valuations	Still not great, stability of rates and transactions should show where the bottom is NOI growth partially offset effect of increase in cap rates on value	
Fundamentals	Funamental still positive some areas of weakness The impact of rate increases on the underlying tenant base should start to be known in 2024	
Technical	Dry power may not provide floor on pricing Low volumes making price discovery difficult Capital raising very difficul	
Macro Impact	NOI growth slowing from peak levels in some sector but still healthy Concern of impact of rising interest rates on tenants	
	9-12 month view	

2024 Outlook

Summary – 2024

Settle in for higher for longer

- 2024 outlook driven by expectation of rate cut but still higher for longer
  - Stability should facilitate more transactions
  - Rates will be lower but low enough?
- Debt maturities the most significant issue
  - Do not expect large scale bank disposals - no pressure to act
  - 2023 Extensions add to the building wall of maturities
- Impact of higher rates on tenants
  - Continued layoff, less robust growth?
  - "Vibecession" turn into a recession
  - All in all [Real Estate] is just another brick in the wall [of maturities]
- Offices still be most troubled sector but starting to settle
  - New developments dominate absorption as WFH reversing(?)
  - Office debt maturities will dominate the headlines
- Housing affordability remains a major concern
  - Will a stabilizing of interest rates unlock housing stock?
- Continued growth in alternatives
  - Data centers, senior living, student housing, cold storage
- Sustainability continues to impact sector
  - European energy standards will force owners to invest in their assets
- Manager's health – Retaining Talent
  - Rising rates have wiped out carried interest, most hurdles are 6-8%
  - Capital raising difficult will talent leave to take advantage of market

Real Estate Valuations

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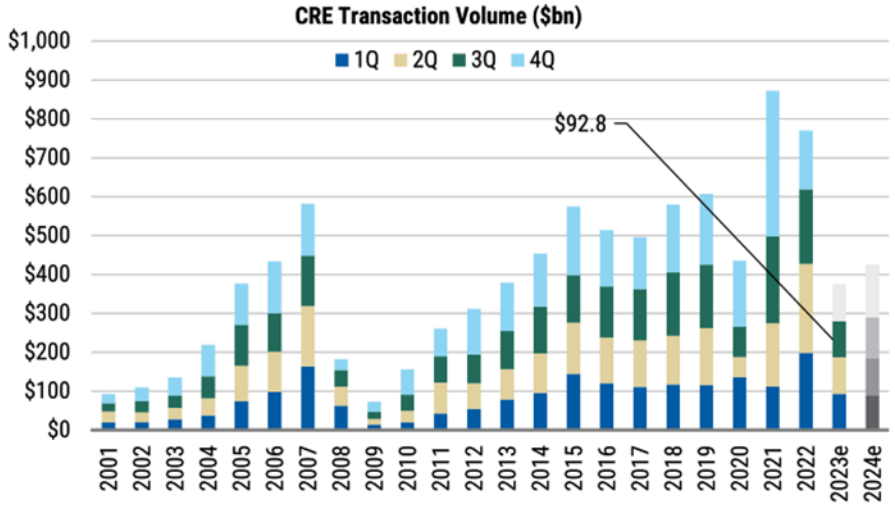
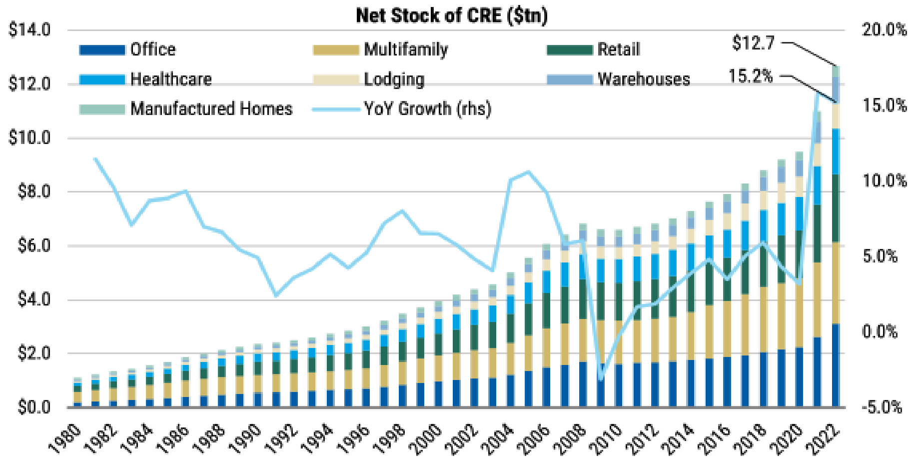
- Morgan Stanley projects CRE will be down 20% from peak to trough revised upward from -27% prior year
  - Office -30% up from -40%
  - Multifamily -21% down from -15%
  - Retail -12% up from -25%
  - Industrial -10% up from -25%
- As of October 2023, CRE peak to trough were -10%
  - Projections are down due to lower rates and lower distressed sales in a soft landing
- Price discovery requires transactions
  - Transaction down 54% Y/Y and projected to remain low
  - Lenders not forcing owners not forced to act
  - Lenders extending – do not want the assets
- 2021-22 Vintage will be an issue
  - CRE value grew from ~9.1T in 2020 to $10.6T in 2021 to $12.7T in 2022, 38% increase
  - Increase is 60% from 2019 $7.9T
  - Since 2019 Office increased 50%, MF 28%, Retail 47% and industrials 84%





Growth is declining (still positive) but will place downward pressure on values

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	2021	2022	2023 Starting Estimate	2023 Current Estimate	2024E
Industrial	6.4%	8.8%	5.3%	9.5%	8.2%
Residential	-0.4%	14.4%	6.7%	5.8%	1.5%
Office	1.7%	1.2%	1.3%	-0.5%	-1.5%
Health Care	-4.6%	6.8%	7.8%	9.1%	7.5%
Regional Malls / Outlets	11.6%	5.9%	1.1%	3.2%	2.3%
Strip Centers	10.4%	4.8%	1.3%	2.9%	2.0%
Self-Storage	17.1%	18.6%	6.2%	3.5%	0.6%
Net Lease	1.6%	2.6%	3.0%	2.9%	1.5%
REIT Group Same Store Cash NOI Growth (Weighted)	**3.9%**	**7.9%**	**4.5%**	**5.0%**	**3.1%**

Source: Company filings, J.P. Morgan estimates; SS NOI estimates are reflective of our coverage but excludes MPW.
Note: Figures above are on cash basis.

J.P.Morgan

Many MF loans need strong growth pay off loans

Positive but still down significantly from 2021-23

Fundamentals in Core Sectors – Generally Positive

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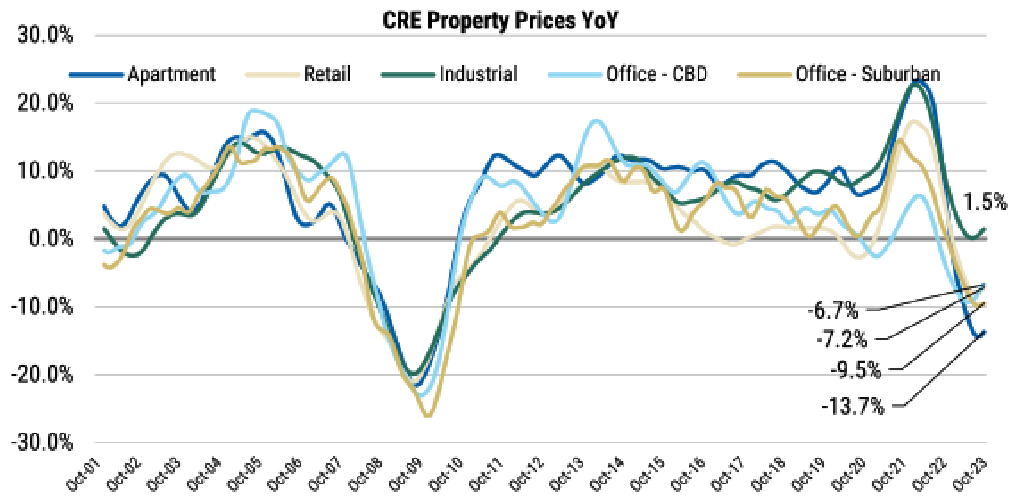
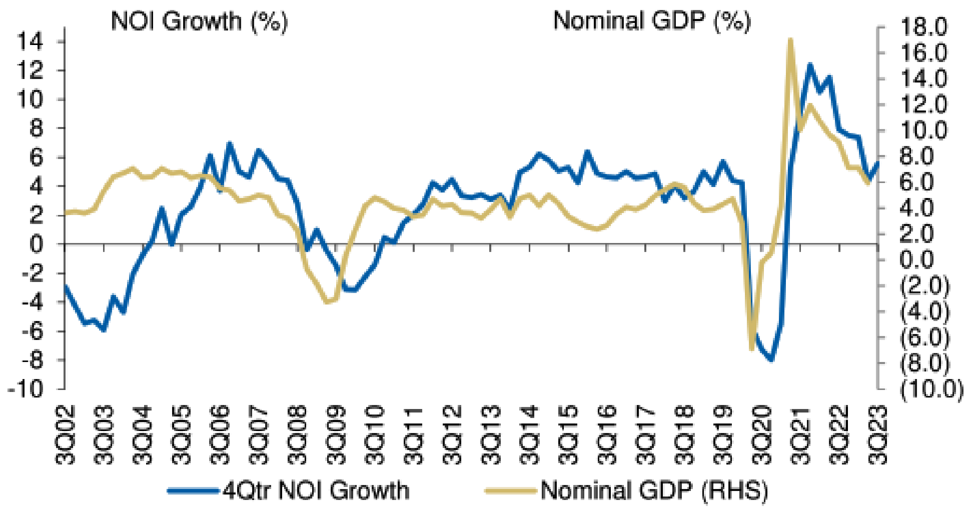
Office conditions remain challenging, but could be approaching a floor	Absorption is still negative and vacancy rising, but the momentum in both is fading fast. Still improving WFH trends and a disconnect between jobs and occupied space could lead to improving demand. However, there is still a long way to go in any recovery.
Retail fundamentals continue to improve	Healthy household balance sheets have Americans spending liberally, driving demand, while a muted pipeline keeps supply in check, creating a favorable environment for owners.
Warehouse fundamentals continue to soften, but the short-term headwinds may be fading	Another quarter of rising vacancy brings conditions closer to balance, but the reprieve may be a short one for tenants. New supply should start falling in the coming quarters, and more space likely needed as e-commerce sales grow.
Multifamily rent growth reaccelerates	Construction remains a headwind, but owners are gaining traction again. Sunbelt markets lost ground in the second half of 2023, but that may be coming to an end soon, as the markets work through their issues.

Source: JPMorgan, as of 12/31/2023. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated.

Prices are declining

- Prices are declining due to higher rates and increasing cap rates
- Significant upward pressure on cap rates as spread to Treasury at its lowest point
- Relatively positive property fundamentals and NOI growth is positive but down from strong post-covid levels
- Decline in NOI growth will impact the 2020-22 vintages as properties miss underwriting (still good) but not for the prices paid
- Currently declines are not as bad as GFC - do not expect a V-recovery if rates stay higher





Cap Rates Still Below GFC Peaks Globally

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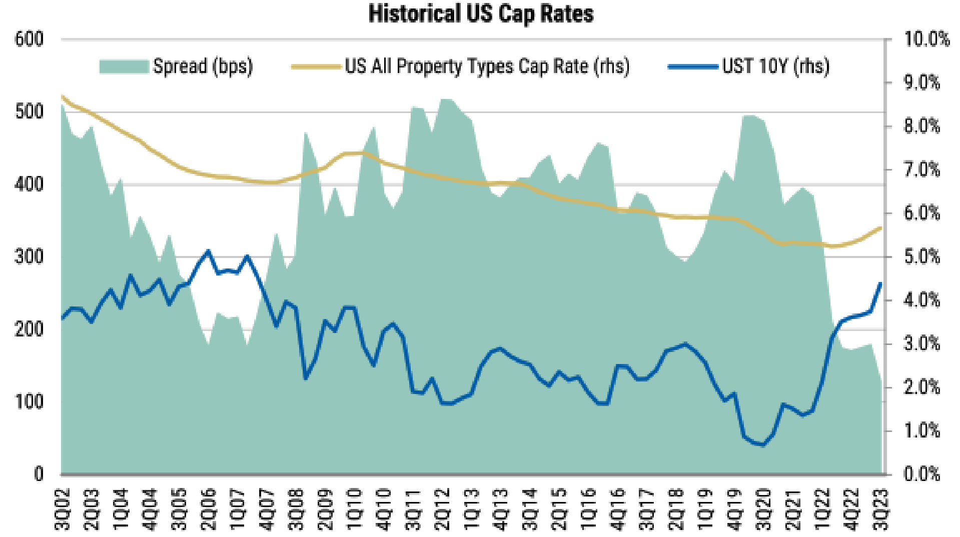
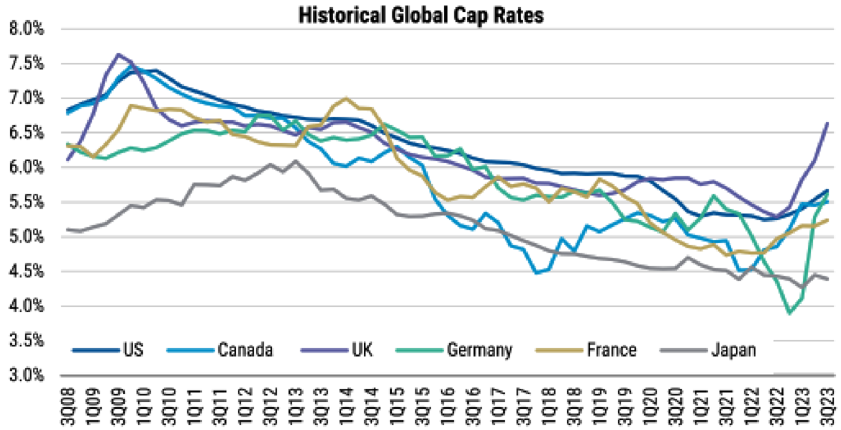
- Cap rates face upward pressure
  - Spread to Treasuries at all time low of 129nps vs historical average of 365
  - Lower rates will increase the spread
- Concern if spreads widen to the post GFC levels of 500bps



Source: Real Capital Analytics, Morgan Stanley Research

Exhibit 86: Comparison of Global Cap Rates



Source: Real Capital Analytics, Morgan Stanley Research

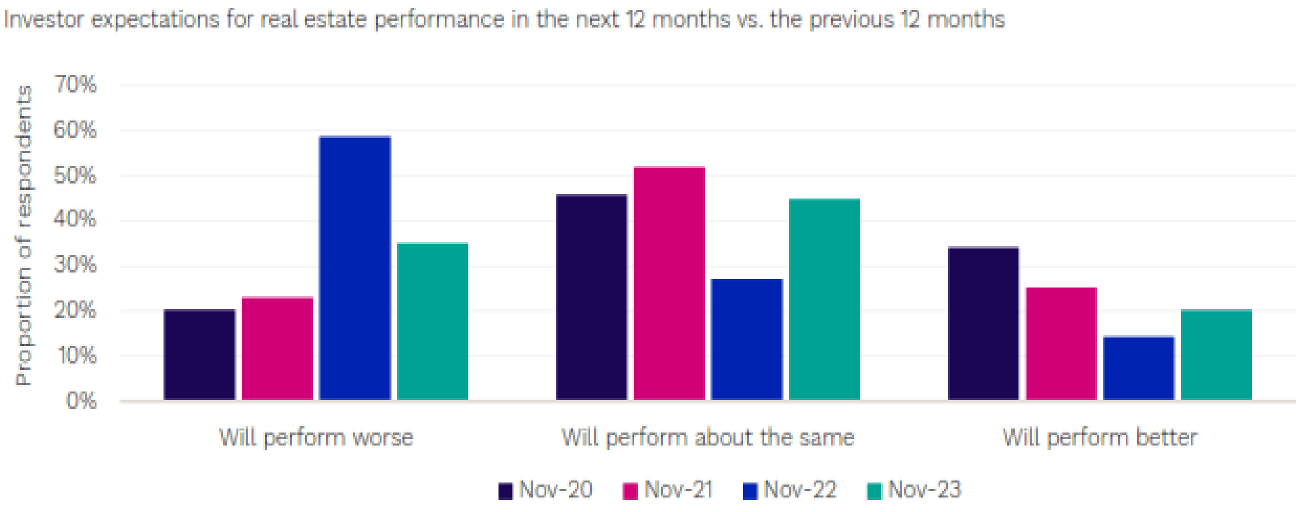
Exhibit 85: Comparison of Major Global Cap Rates

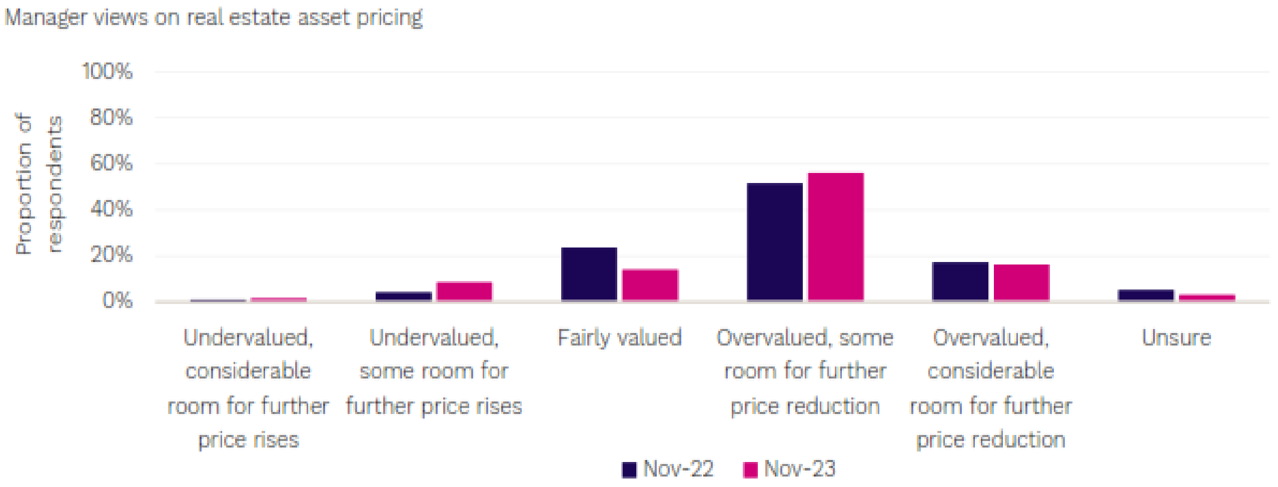
		2008 - 2022		3Q23 vs.		Date	
	3Q23	Max	Min	Max	Min	Max	Min
Chicago	5.7%	7.8%	5.2%	-2.0%	0.6%	3Q09	1Q21
NYC	5.5%	6.6%	4.0%	-1.1%	1.5%	3Q09	1Q18
London	5.2%	7.0%	4.2%	-1.8%	1.0%	3Q09	4Q22
Dallas	5.1%	7.6%	4.4%	-2.5%	0.7%	4Q09	3Q22
LA	4.9%	7.2%	4.5%	-2.2%	0.5%	4Q09	4Q22
Paris	4.9%	6.7%	4.2%	-1.8%	0.7%	4Q10	1Q22
Madrid	4.5%	6.9%	3.9%	-2.4%	0.7%	3Q14	2Q19
Sydney	4.5%	8.8%	3.9%	-4.3%	0.6%	1Q13	3Q22
Seoul	4.2%	6.8%	3.2%	-2.6%	1.0%	3Q09	1Q23
Tokyo	3.8%	5.7%	3.6%	-1.9%	0.2%	3Q12	4Q21
Hong Kong	3.0%	4.5%	2.4%	-1.6%	0.5%	1Q08	1Q19

Source: Real Capital Analytics, Morgan Stanley Research

Investors View

- Expectations improving as worse maybe over – maybe acceptance
- Majority expect further price reductions
- Increasing number of investors are reducing allocations – but only slightly
- Investors indicating an increase in allocations has gone from 40% in 2020 to 20% in 2023 – bad as the need for liquidity is high
- Is the post-GFC tourist capital leaving property?





Source: Preqin Fund Manager Survey, November 2022 – 2023

Source: Preqin

RE Fund Raising –Very Difficult Environment

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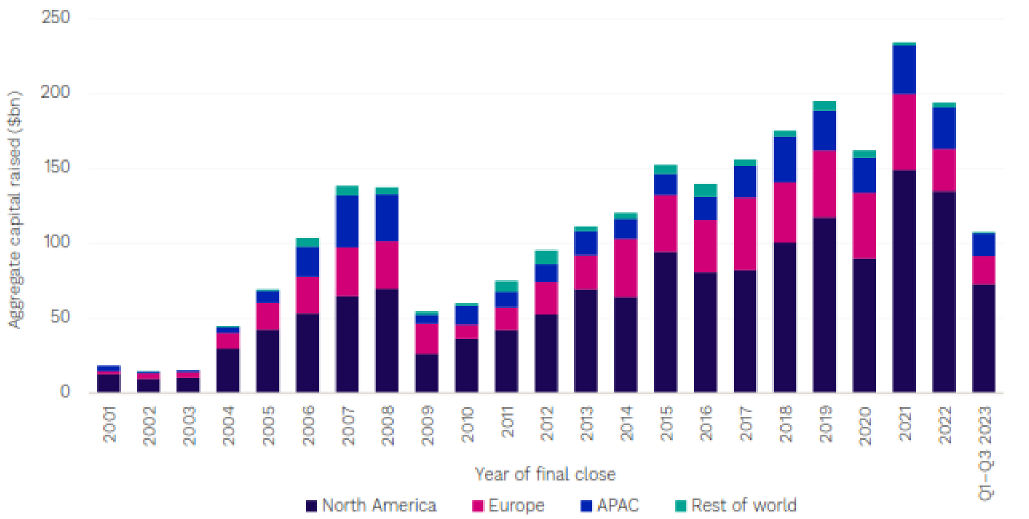
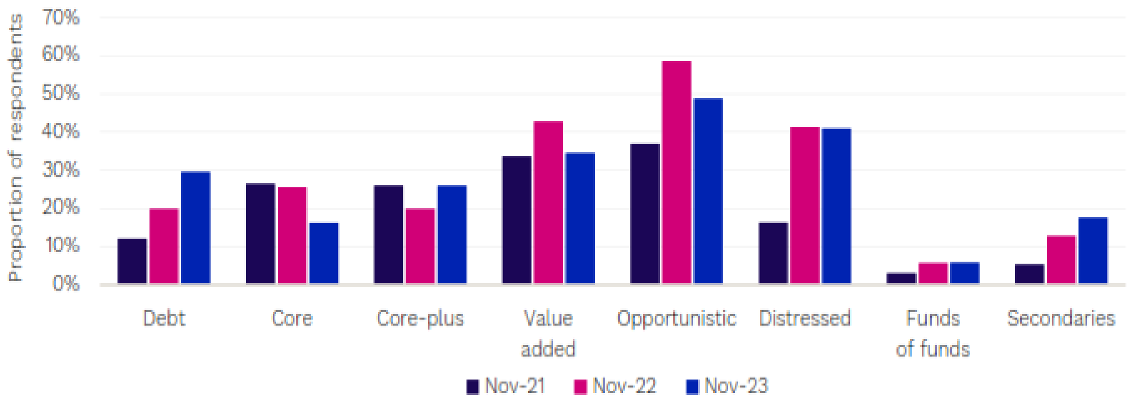
- Capital raising is difficult and investors indicating a reduction in allocations
  - Unsure how much 2021-22 capital is uncommitted
  - Dry powder has averaged $200-$300B
- Opportunistic and distress are the preferred strategies
- US is considered the preferred market

Aggregate capital raised by private real estate funds closed by primary geographic focus



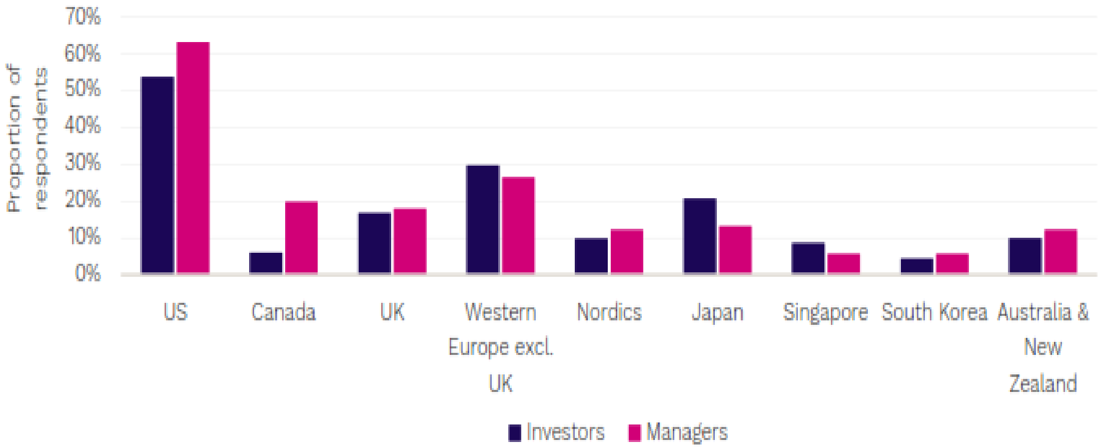
Source: Preqin Pro

Real estate investor views on the fund types presenting the best opportunities in the next 12 months



Source: Preqin Investor Surveys, November 2021 – 2023

Developed markets targeted by real estate fund managers vs. investors in the next 12 months



Source: Preqin Investor and Fund Manager Survey, November 2023

Source: Preqin

Declining prices and maturing debt = distress

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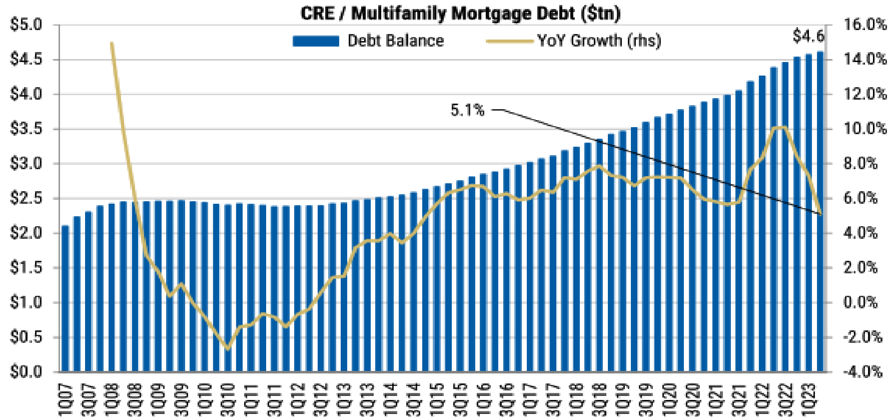
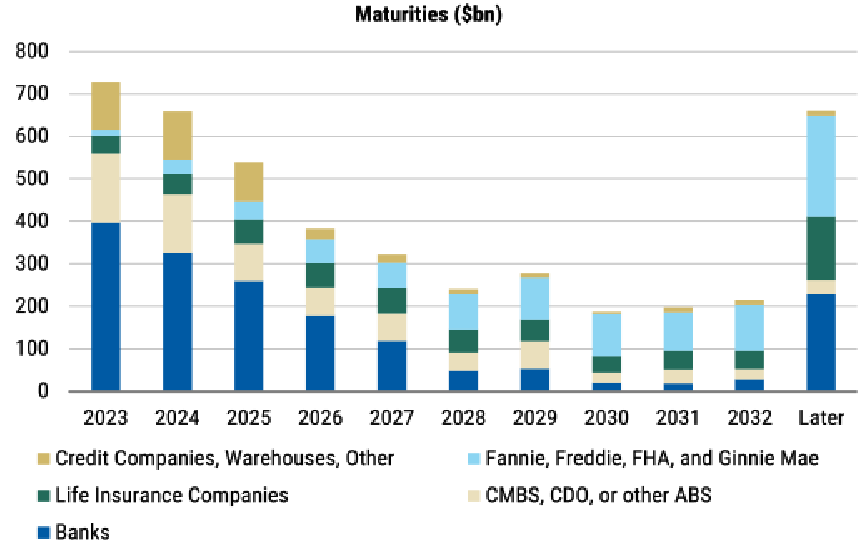
- Since 2019 the amount of debt increased by ~$1T almost double the pre and post GFC levels
- Reportedly a significant amount of the $720B in debt maturing in 2023 was extended adding to the 2024-25 maturities
- Banks the largest holders are opaquer than CMBS the dominate lender during the GFC
- No pressure to act from banks who do not want the assets back
- Will be a different playbook from the S&L
  - Banks and regulators are smarter now (?)
- Is there enough dry powder to recapitalize the loans

  ~~Location, Location, Location~~ Liquidity, Liquidity, Liquidity

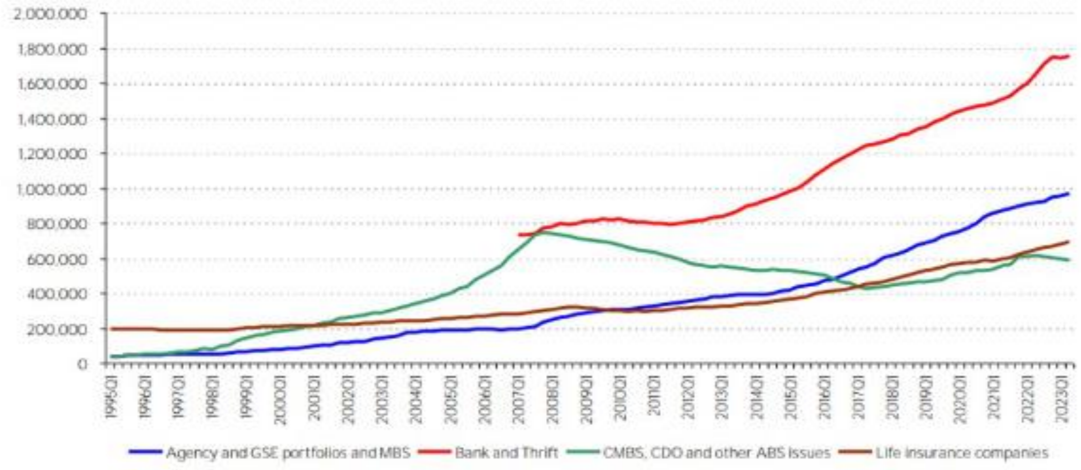
Exhibit 10: Outstanding CRE / Multifamily Debt of ~$4.6Tn



Source: MBA, Morgan Stanley Research



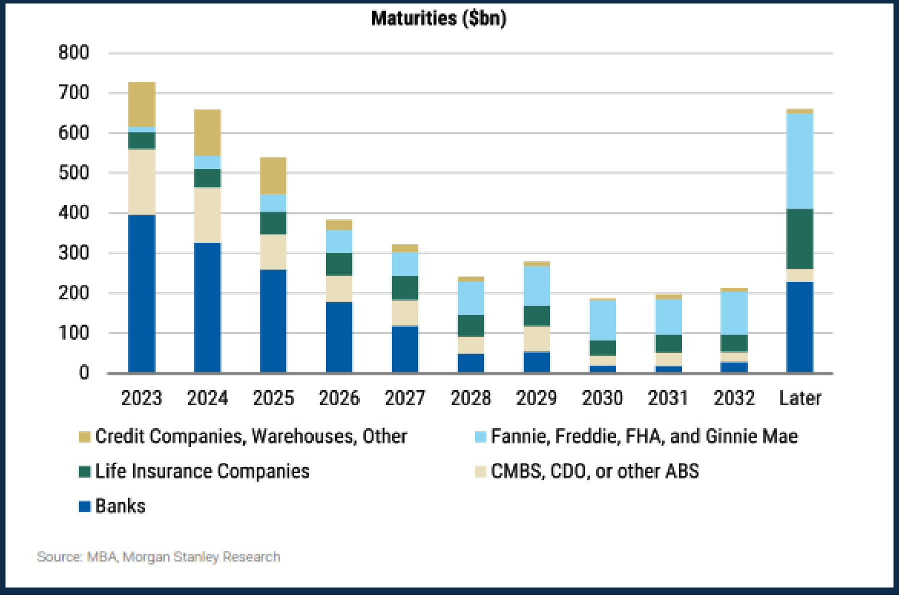
Source: MBA, Morgan Stanley Research

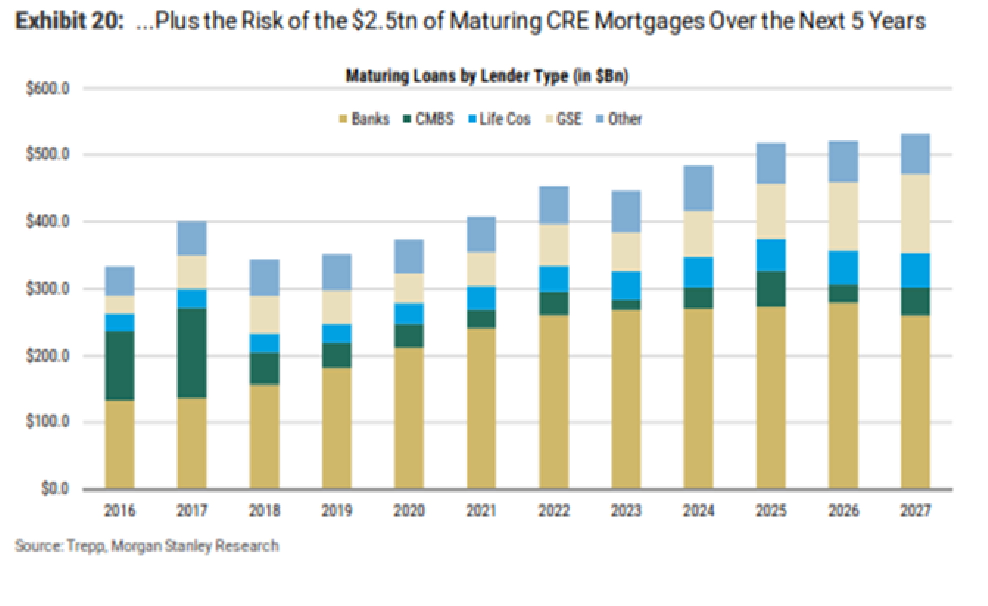


Source: MBA, Morgan Stanley Research

Not Sure What Happened to Loan Maturity Estimates

- Morgan Stanley research estimates of loan maturities has changed
  - 2023 and 2004 maturities have increased approximately $450 million
  - 2023-2007 still $2.5T
- Reportedly a significant amount of the $720B in debt maturing in 2023 was extended adding to the 2024-25 maturities
  - Setting up for a tough 2024 - 2025





Distress Cycle is Beginning – Not Sure GFC best indication

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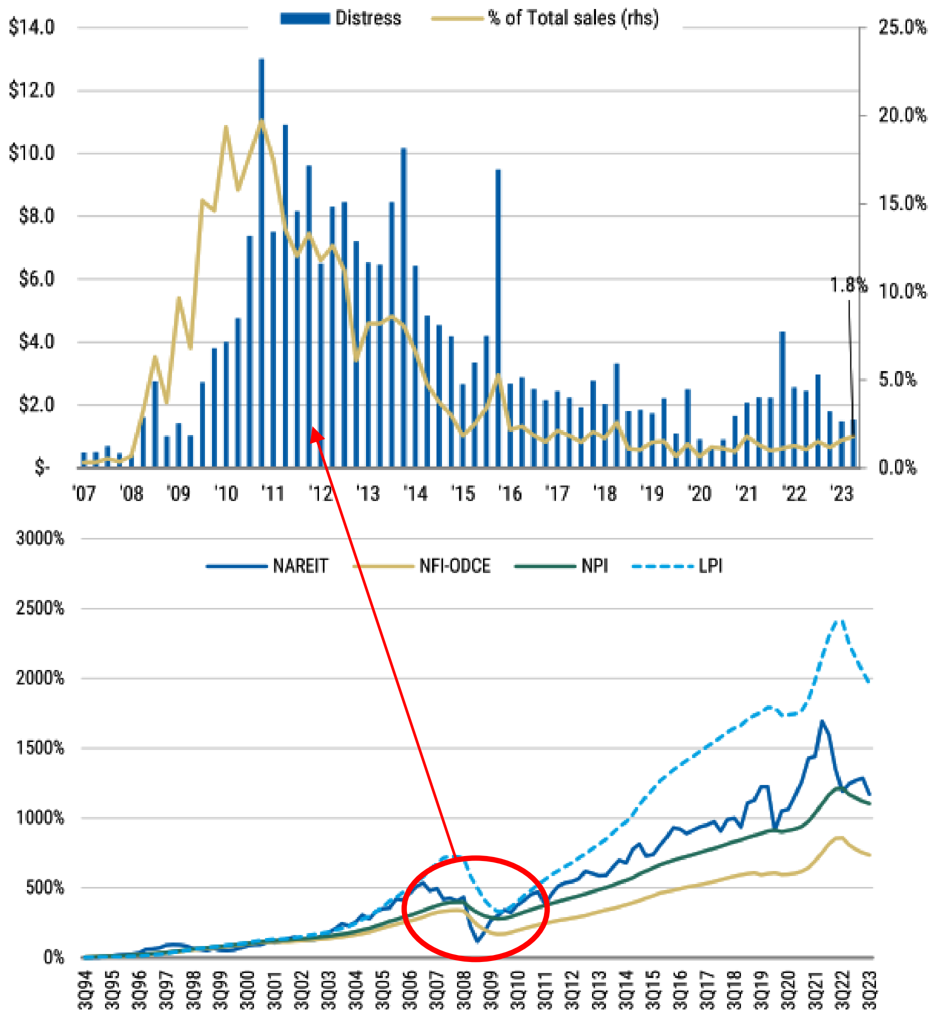
- Differences from GFC
  - The CRE market has doubled since the GFC
  - Rates cut post GFC reducing level and duration of declines
  - GFC more transparency faster action
  - Banks now own assets – not forced to act
  - Do not expect large loan sales (as of now)
  - Loans being extended
  - Not enough dry power to recapitalize

Exhibit 26: Distress Sales as % of Transaction Volumes Not Abnormally High



Source: Bloomberg, NAREIT, NCREIF, Morgan Stanley Research

Source: Bloomberg, NAREIT, NCREIF, Morgan Stanley Research

New Territory

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CRE Bull Market Since 1993

Exhibit 76: CRE Prices +29% Over Past 10 Years, Driven by Record NOI Growth and Continued Cap Rate Compression

10-Year Period	Avg NOI Growth	UST 10y Change	Cap Rate Change	Price Change
1984 - 1993	1.7	-6.0	0.83	-19%
1985 - 1994	1.4	-3.7	0.84	-25%
1986 - 1995	1.3	-3.4	0.64	-29%
1987 - 1996	1.4	-0.8	0.89	-28%
1988 - 1997	2.3	-3.1	0.54	-26%
1989 - 1998	2.4	-4.5	-0.05	-22%
1990 - 1999	2.9	-1.5	0.75	-21%
1991 - 2000	3.3	-3.0	0.77	-15%
1992 - 2001	4.2	-1.6	0.20	-5%
1993 - 2002	3.6	-2.9	-0.67	6%
1994 - 2003	2.9	-1.5	-1.37	14%
1995 - 2004	2.5	-3.6	-2.10	24%
1996 - 2005	2.6	-1.2	-3.00	42%
1997 - 2006	3.0	-1.7	-3.12	54%
1998 - 2007	2.9	-1.7	-2.83	62%
1999 - 2008	2.5	-2.4	-1.83	35%
2000 - 2009	1.8	-2.6	-0.85	2%
2001 - 2010	0.6	-1.8	-1.69	5%
2002 - 2011	0.7	-3.2	-2.45	14%
2003 - 2012	1.5	-2.1	-2.34	21%
2004 - 2013	2.2	-1.2	-1.46	26%
2005 - 2014	2.8	-2.0	-0.83	26%
2006 - 2015	3.0	-2.1	-0.52	21%
2007 - 2016	2.7	-2.3	-0.04	13%
2008 - 2017	2.6	-1.6	0.06	5%
2009 - 2018	3.0	0.5	-1.12	21%
2010 - 2019	3.8	-1.9	-2.66	58%
2011 - 2020	3.0	-2.4	-1.87	45%
2012 - 2021	3.9	-0.4	-1.45	52%
2013 - 2022	4.3	2.1	-1.57	48%
2014 - 2Q23	4.3	1.5	-1.09	29%

Source: NCREIF, Bloomberg, Morgan Stanley Research

Last Era of Cap Rate Expansion

First Time Rate Increases

Source: NCREIF, Bloomberg, Morgan Stanley Research

Summary

- We believe 2024 will be challenging for RE owners
  - Capital markets main challenge
  - Value discovery will be sobering
- Fundamentals are expected to remain OK but could be impacted if there is recession
  - Will deleveraging of the larger economy impact space use?
  - Does the “vibecession” result in a recession?
- Investment theme will be distress
  - We do not think it will be large portfolio sales
  - The dry-powder floor may fall out – need to deal with portfolio issues and not enough for loan re-equitization

5 Factors Driving Outlook for Property

- **Macro Environment/Trends** – Urbanization (?)
  - E-commerce growth accelerated driving logistics and hammering retail
  - Aging population's housing and medical needs pushing senior housing and life sciences/healthcare
  - Affordable housing needs highlighted
  - Urbanization – WFH, Crime….
  - US Student Housing – Cost/Benefit ?
  - Ozempic – the next retail killer?

- **Valuations** – Expect decline across all sectors
  - Recapitalization capital could be more than existing dry powder
  - NOI growth only backstop to cap rate driven value declines
  - Expect bifurcation in lending market between borrowers

- **Fundamentals** – Slowing but still positive
  - Inflation in cost and banks retrenching keeping supply low
  - What will be the impact of recession and layoffs

- **Interest rates**
  - Impact of rising rates on economic activity
  - Rate stability and expectation of cuts positive - new normal still painful
  - Will investor leave sector as better returns can be earned in fixed income

- **Level of distress** – How will investor react to losses
  - Impact on managers and ability to retain talent

Outlook for Respective Premia

- **Investors looking for more opportunistic and distress**
  - Demand remains strong supporting strong managers that can borrow and deliver new or repositioned assets
- **Continued need for modern assets**
  - Demand for new, better located and more efficient product continues across all sectors
- **Supply and demand across most sectors remain in check**
  - Inflation and stricter lending standards stopping marginal projects
  - Need to understand the impact of layoffs and any recession
- **Managers will be on damage control for 2015-2020 vintage funds**
  - Importance of lender relationships
  - How much dry powder will be used for paydowns

Need to Change Inputs to Outlook:

Based on Drivers & Catalysts

- **Recession**
  - Impact on demand
- **Rising interest rates**
  - Impacting refinancing of short-term debt requiring equity paydowns
  - Investors leaving the sector as fixed income returns increase
- **Repricing based on increase in rates**
  - Expect those that can will pursue opportunistic deals
  - Dry powder providing floor maybe tested, and exits for value-add deals to core buyers will be tested
- **Catalyst for a Change in Outlook**
  - Valuation declines once transactions return
  - Weakening NOI due to recessionary pressures

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Catalysts That Could Change Your View

- Inflation not gone, but slowing; reducing Fed rate cuts
- Health of underlying tenants

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Equity investments involve a high degree of risk. Equity securities may decline in value due to factors affecting securities markets generally, and equity securities generally have greater price volatility than debt securities/investments. Equity securities of certain jurisdictions may experience more rapid and extreme changes in value and may be affected by uncertainties such as international political developments, currency fluctuations and other developments in the laws and regulations of countries in which an investment may be made. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

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LDI and equity overlay strategies may invest and trade in many different market strategies and instruments (including securities, non-securities and derivatives) and may employ different investment, hedging, leverage and arbitrage methodologies, so the risks of those would be material to understanding the risks and benefits of the portfolio. Counterparty and ISDA arrangements may pose potential risk. Furthermore, derivative strategies may be exposed to the risk of market disruptions, volatility, and governmental interventions.

Illiquid investments (such as, but not limited to, private credit, private equity and infrastructure):

General/Loss of capital. Investment involves a high degree of risk. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Limited liquidity. Investments in private markets may result in restricted liquidity since withdrawal rights are limited and interests are not freely transferable or redeemable. There is unlikely to be a secondary market for private market investments interests.

Volatility. Investment techniques used may include the use of leverage and derivative instruments such as futures, options and short sales, which could amplify the possibilities for both profits and losses and may increase volatility.

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Modelling Assumptions:

Forward looking return, volatility, and correlation assumptions have been derived by SECOR, and are based on a combination of: a) the historic performance of each asset class based on what we consider to be appropriate indices or suitable proxies, and over a period that we consider to be appropriate in light of prevailing market conditions (typically 10 years); and b) our judgement in relation to how historic performance, and its various components, may differ in the future. This may include, for example, ad-hoc adjustments to reflect our view that markets are over or under valued.

The resulting assumptions are assumed to be appropriate for asset and liability projections over the medium to long term i.e. 10 to 20 years or longer, and are net of all ongoing management costs and fees.

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