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Q3 2023 Property Outlook

25 July 2023

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Public Market Returns

- US Office may have bottomed but Europe and Asia has continued decline
- Industrial has declined in US and Europe as growth has slowed albeit from record levels

FTSE ERPA/NAREIT Index Returns through 6/30/23 (USD)	QTD	Last QTD	YTD	1 Year	3 Year	5 Year
Region Total Return						
Global	0%	1%	1%	-4%	3%	0%
Europe	-3%	-3%	-6%	-15%	-8%	-7%
North America	2%	3%	5%	-1%	9%	4%
Asia	-3%	-1%	-5%	-6%	0%	-2%
US						
Industrial	-1%	10%	9%	6%	11%	14%
Retail	1%	-2%	-1%	8%	16%	0%
Residential	7%	2%	9%	-6%	8%	7%
Office	1%	-15%	-14%	-24%	-9%	-7%
Lodgings/resorts	2%	4%	6%	7%	16%	-6%
Europe						
Industrial	-4%	5%	0%	-20%	-3%	4%
Retail	2%	2%	4%	9%	4%	-17%
Residential	5%	-14%	-10%	-30%	-21%	-11%
Office	-2%	0%	-3%	-6%	-3%	-4%
Lodgings/resorts	-5%	12%	6%	6%	1%	-6%
Asia						
Industrial	-4%	-3%	-7%	-9%	-6%	4%
Retail	-3%	-3%	-6%	0%	4%	-2%
Residential	1%	-3%	-2%	-3%	-4%	3%
Office	-5%	-4%	-10%	-15%	-3%	-3%
Lodgings/resorts	-7%	0%	-7%	10%	10%	-4%

Private Market Returns

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- Returns are declining globally with the exception of Non – Core Europe and all Asia
- US and Europe Core and Open End have had the largest returns most likely from the typically high office exposure of these vehicles
- Non-core has performed the best most likely from their ability to grow NOI which offsets value declines from rate increases which the Core funds do not have

GREIF Returns as of 1Q23												
	US				Europe				Asia Pacific			
	Total	Core	**Non-Core**	Open End	Total	Core	**Non-Core**	Open End	Total	Core	**Non-Core**	Open End
3 months	-3.03%	-3.38%	**-2.14%**	-3.03%	-0.97%	-1.39%	**5.74%**	-1.24%	0.33%	0.13%	**1.88%**	0.11%
6 months	-7.71%	-8.37%	**-6.00%**	-7.71%	-6.95%	-7.44%	**1.03%**	-7.10%	2.02%	1.67%	**4.39%**	1.66%
1 year	-2.58%	-3.91%	**0.97%**	-2.58%	-5.53%	-6.09%	**3.59%**	-5.77%	3.38%	4.11%	**-0.66%**	4.14%
3 year	9.07%	7.46%	**14.04%**	9.07%	3.50%	3.45%	**4.60%**	3.81%	6.41%	6.16%	**7.06%**	6.07%
5 year	7.93%	6.56%	**12.44%**	7.92%	4.50%	4.55%	**4.38%**	5.04%	6.59%	6.48%	**6.77%**	6.47%

Where are Values today?

Exhibit 1 : CRE transaction activity

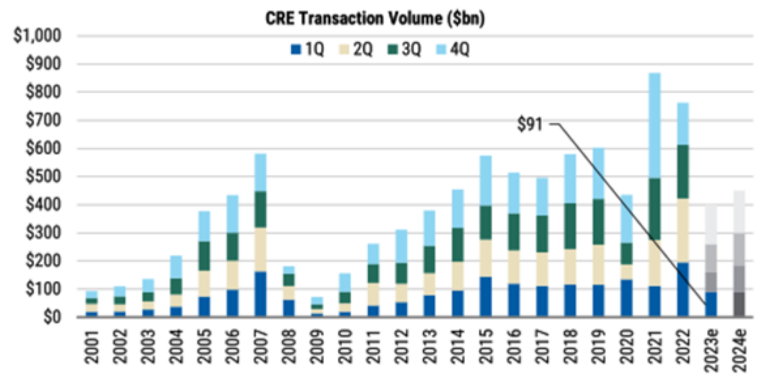
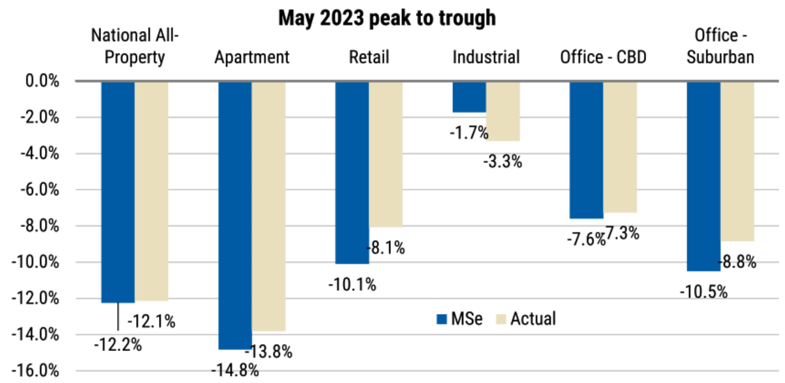


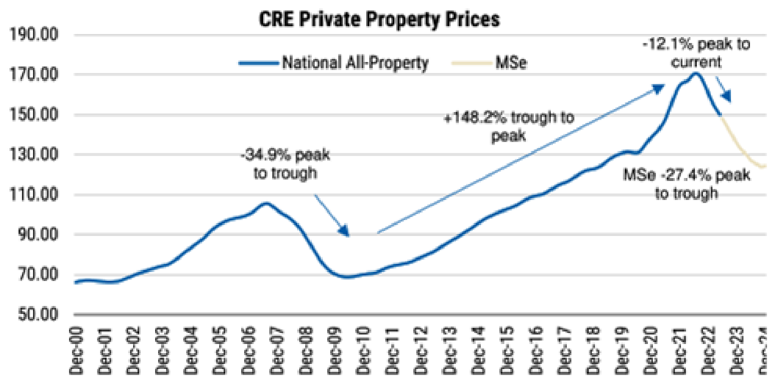
Exhibit 3: Actual vs Expected



- Reduced investment levels limit transparency
- Expectation that distressed sales will impact valuations
- Positive and negative factors include:

- **(+) bank stress test and agencies guidance on loan workouts**
- **(+) soft landing in the economy**
- **(=) transaction volumes and distressed sales**
- **(=) fundamental occupancy and NOI growth**
- **(=) credit spreads below GFC levels**
- **(=) private capital on the sidelines**
- **(-) lending conditions**

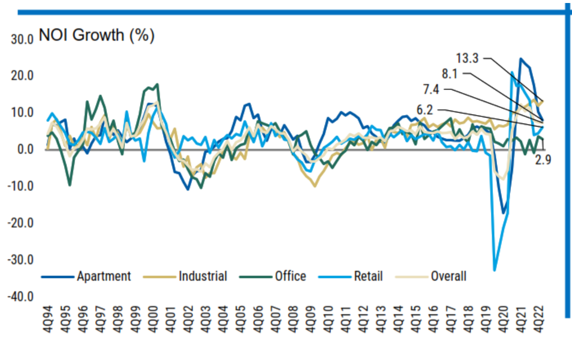
Exhibit 2 : CRE private property prices - all property sectors

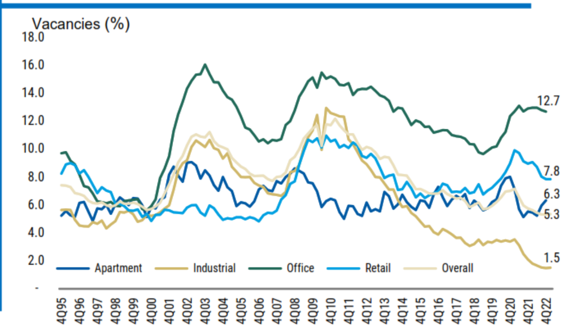


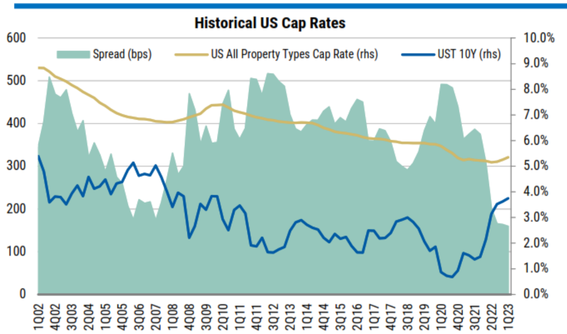
Source: Real Capital Analytics, Morgan Stanley Research

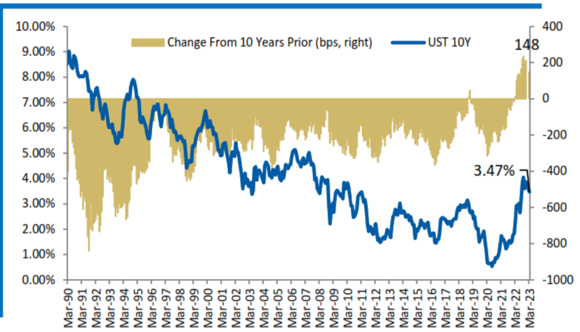
Fundamentals and Prices

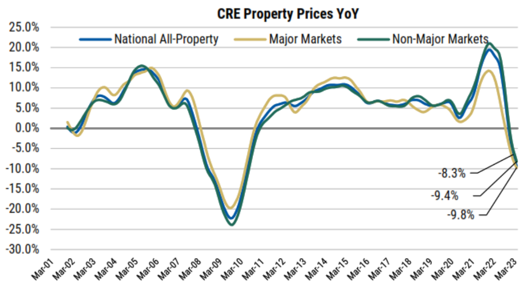
- NOI growth weakening but still positive even in office but that varies by market and building quality
- Decline NOI growth in apartments will cause issue for deals underwritten during 2020-21 peak
- Vacancies are flat to up except industrial which is reflected in continued NOI growth
- Cap rate spread to UST is at all time low – more price declines if NOI growth continues to decline

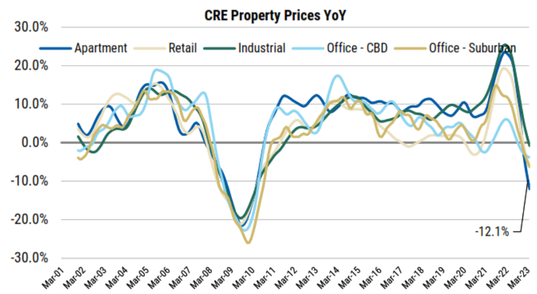












Source: Morgan Stanley

Outlook

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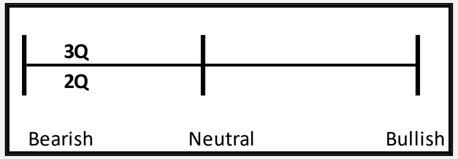
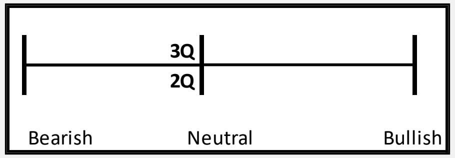
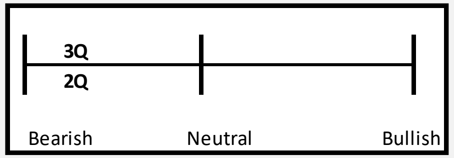
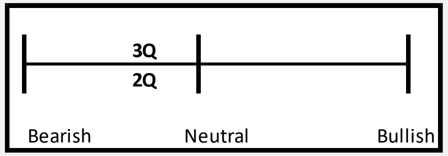
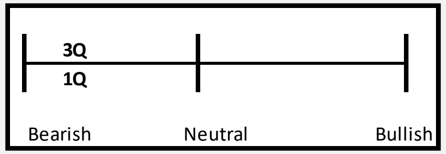
Factors	Comments	Historical Range
Valuations	Rising interest rates negative impact on values NOI growth will offset effect of increase in cap rates but value	
Fundamentals	Supply remains in check Demand in leading sectors (apartment and industral) slowing - but still strong	
Technical	Dry power may not provide floor on pricing Low volumes making price discovery difficult Interst rates will lead to value declines	
Macro Impact	NOI growth slowing from peak levels in some sector but still healthy Increase in layoffs impact use of real estate especially in tech office markets	
	9-12 month view	

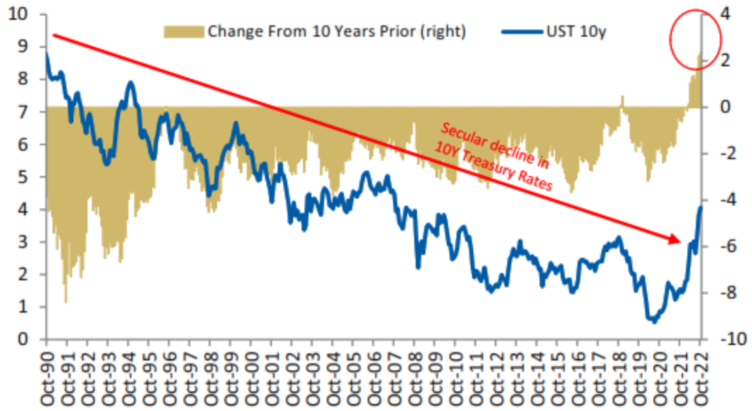
Summary – 2023 Set Up for New Investment Cycle

- 2023 outlook driven by impact of rising interest rates
  - Resizing of short-term debt at higher interest rates
  - Decline in value due to higher buyers return requirements
  - Impact on operating fundamentals from recession
- Attention will be on opportunistic strategies
  - Rebalancing of short-term loans that need equity paydowns
  - Non-distressed owners will not sell but hope to wait until interest rates decline
  - Maybe some forced selling to meet redemptions ques
- Activity will be driven by reactions of the banks
  - Lending criteria, preferred assets, best borrowers
  - Bank and thrifts are the major lenders of more volatile sectors and strategies
- Impact on returns
  - Vary by sector, strategy and vintage
  - Loan re-equitizations triggered by extension tests
  - Manager's banking relationships critical
  - Declining values and extended holds will wipe out promotes – watch behavior
- Caution
  - Past recovery may not be like GFC
  - NOI growth will be key
  - I am glad CW McCall is not here to see this!

Secular Decline In Interest Rates Big Driver in Value

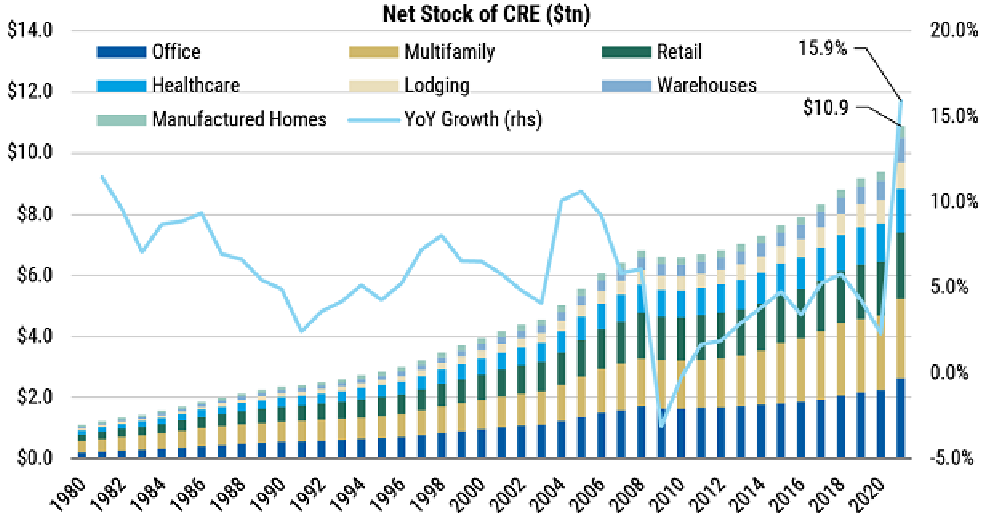
- CRE market is $10.9T up from ~$6T in 2008 and $2T in 1990 (2018-22 up $2.4T)
- Growth driven by declining interest rates, declining cap rate, and strong NOI growth
- Fundamentals relatively strong but multifamily and industrial growth is beginning to slow
- How much of the gain was from the hunt for yield?

Exhibit 26: ...as we enter a new regime of higher rates than where they were 10 years ago



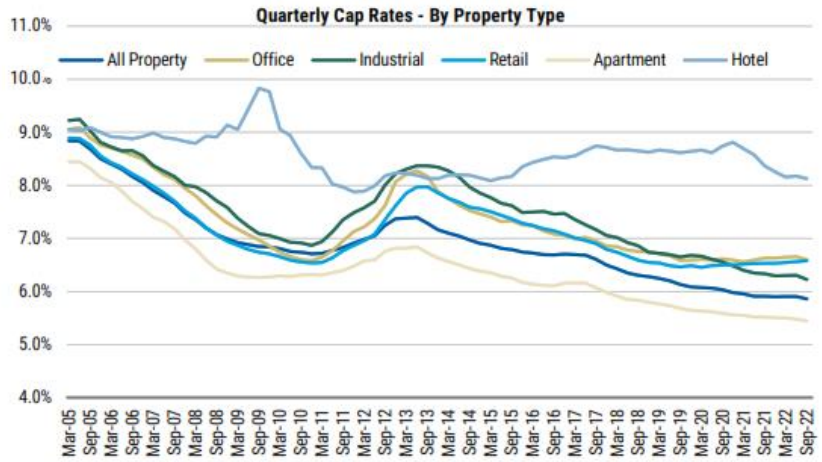
Source: Bloomberg, Morgan Stanley Research

Net Stock of CRE at ~$10.9 Trillion



Source: BEA, Haver Analytics, Morgan Stanley Research

Exhibit 27: Cap Rates Have Generally Followed Treasury Rates Lower...



Source: Real Capital Analytics, Morgan Stanley Research

Disconnect Between Cap Rates and Mortgage Rate

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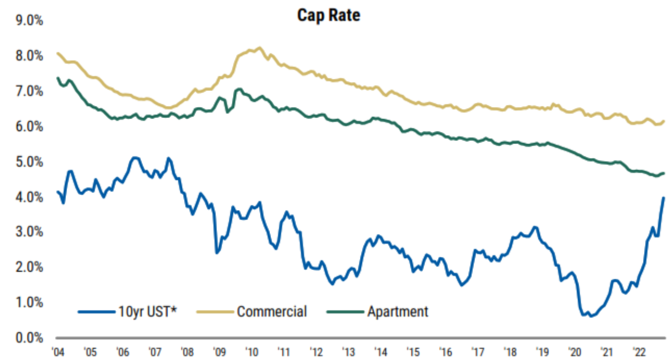
- Cap rate spread to risk free is 150bp vs average of 375bp and the post GFC high of 500bps
- Expect correction to occur in1H23

Exhibit 111: Cap Rate & UST 10y



Source: Real Capital Analytics, Morgan Stanley Research

Exhibit 62: The Cap Rate Spread to Treasuries Is at the Historical Average (bps)

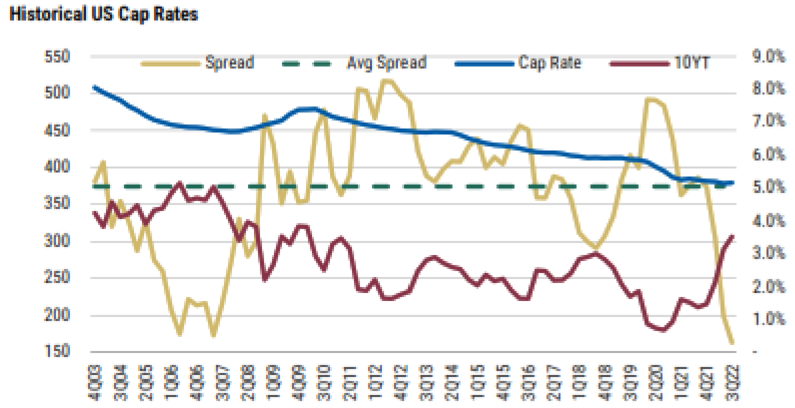
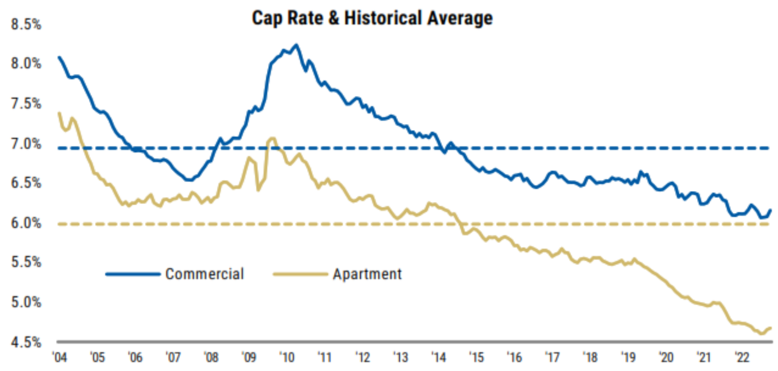
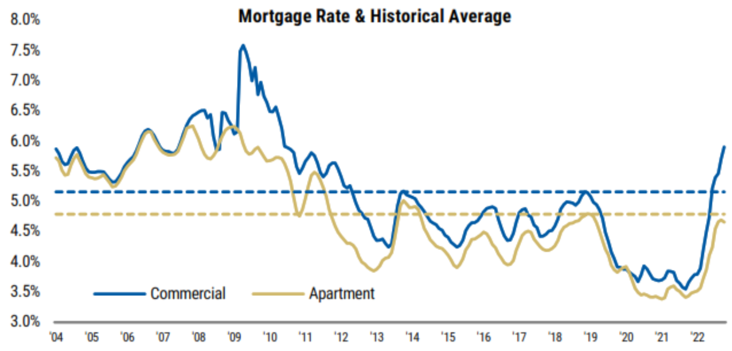


Exhibit 113: Cap Rate & Historical Average



Source: Real Capital Analytics, Morgan Stanley Research

Exhibit 114: Mortgage Rate & Historical Average

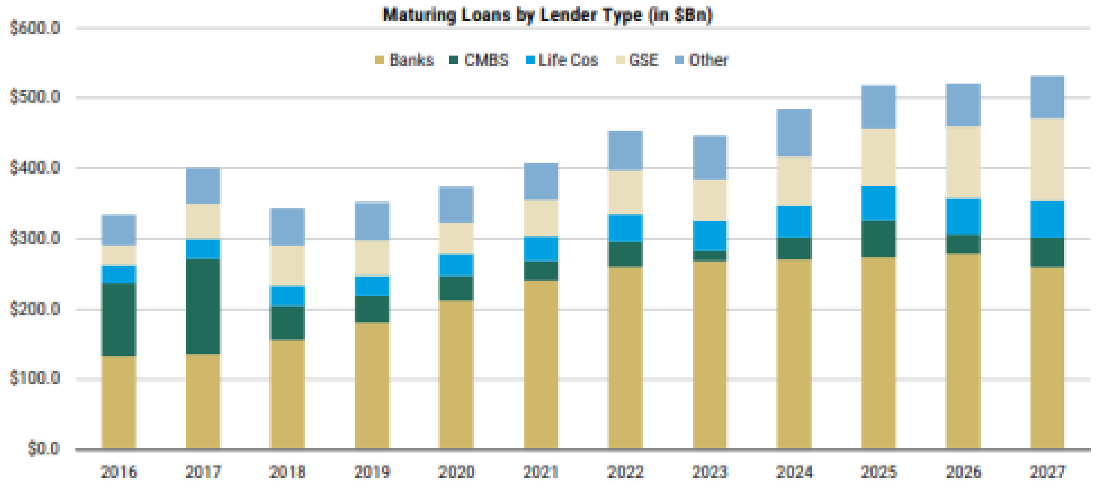


Source: Real Capital Analytics, Morgan Stanley Research

Wall of Maturities Largest Uncertainty

- $2.5T of debt maturing over next five years majority floating rate
  - –12% paydown on expiring debt would exhaust $300B of dry powder
- Significance of banks and thrifts
  - – Will involve bank regulators – In the office sector they are telling lenders to work with borrowers
  - –Cannot extend and pretend (GFC) forcing resolution
  - –Lender will need to work with borrowers to avoid getting the keys back
- Rising rate impact on cash flow
  - –REIT refinancing will result in 37% increase in debt service
  - –This will be similar with non-public assets

Exhibit 20: ...Plus the Risk of the $2.5tn of Maturing CRE Mortgages Over the Next 5 Years



Source: Trepp, Morgan Stanley Research

There Will be Distress – Order of Magnitude Uncertain

- Distress sales in 2009-14 were in a low interest rate environment that allowed extend and pretend
- Regulators of banks and thrifts may not allow this again – another RTC unlikely

Exhibit 21: Distress Sales Are 0.6% of Transaction Volumes...($Bn)

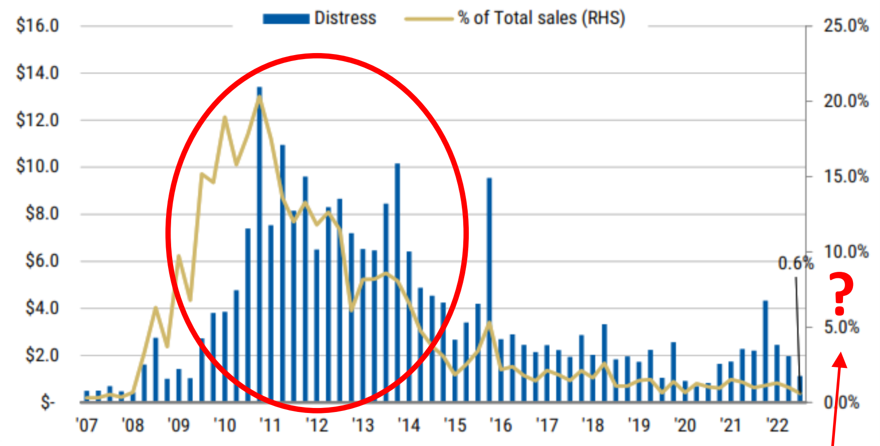
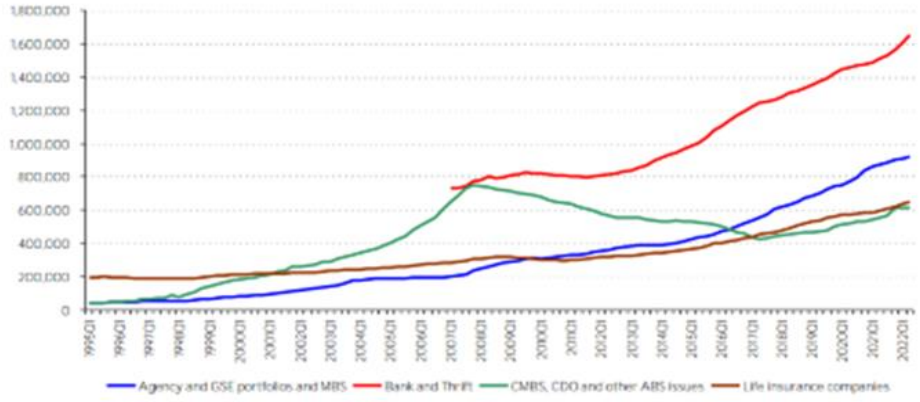
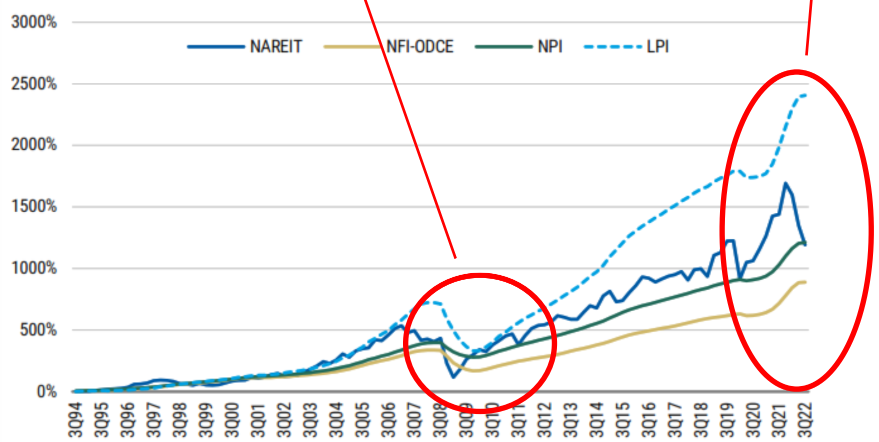


Exhibit 8: Banks and Thrifts Have Highest Exposure to CRE / Multifamily Debt (~$1.65tn)



Source: MBA, Morgan Stanley Research

Exhibit 60: REITs Produce Similar Total Returns Over Various Periods of Time Compared to Other CRE Market Indices



Source: Bloomberg, NAREIT, NCREIF, Morgan Stanley Research

Battle of NOI Growth vs Interest Rate

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CRE Bull Market Since 1993

Exhibit 55: CRE Prices Have Increased by 55% over the 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 - 3Q22	4.1	2.1	-1.70	55%

Source: NCREIF, Bloomberg, Morgan Stanley Research

Source: Morgan Stanley Research

Summary

- 2023 will be challenging for RE owners
  - Most see capital markets as main challenge, not fundamentals
  - Lenders and owners will have to deal with maturing low-rate debt in a higher environment
- Fundamentals are expected to remain ok but could be impacted if there is recession
  - Greatest impact in office as tenants give back space both for reduced headcount and permanence of work from home
- Investment theme will be all distress
  - All funds will partake in opportunity
  - The dry-power 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** – No change
  - 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 in major markets could continue as infrastructure improves deferred maintenance
- **Valuations** – Expect decline across all sectors
  - Capital needed to recapitalize transactions could be more than existing dry powder
  - NOI growth over holding periods only backstop to cap rate driven value declines
  - Expect bifurcation in lending market between borrowers
- **Fundamentals** – Supply and demand remains in check
  - Inflation will drive construction costs, requiring higher rents to justify new construction
  - Changing demand in certain assets classes will remove obsolete inventory
  - What will be the impact of recession and layoffs
- **Interest rates**
  - Impact of rising rates on economic activity
  - Higher investor yield requirements drive down value
  - Investors have never invested in a rising interest rate environment
  - Will investor leave sector as better returns can be earned in fixed income
- **Level of distress** – How will investor react to losses

Outlook for Respective Premia

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- **Continued demand for stabilized cash flowing assets**
  - 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 2015-2018 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**
  - Continued decline in REIT valuations
  - Weakening NOI due to recessionary pressures

Catalysts That Could Change Your View

- Fed reducing interest rates at end of 2023
- Recession not as bad as expected

Investment Distress

- Target sectors that will be over sold
  - Office nationally
- Strong sectors in weak markets
  - San Francisco residential
- Repriced sector that offer good entry
  - Industrial
- Distress debt funds
  - Bank NPLs on foreclosed assets
  - Short non-major banks and thrifts

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