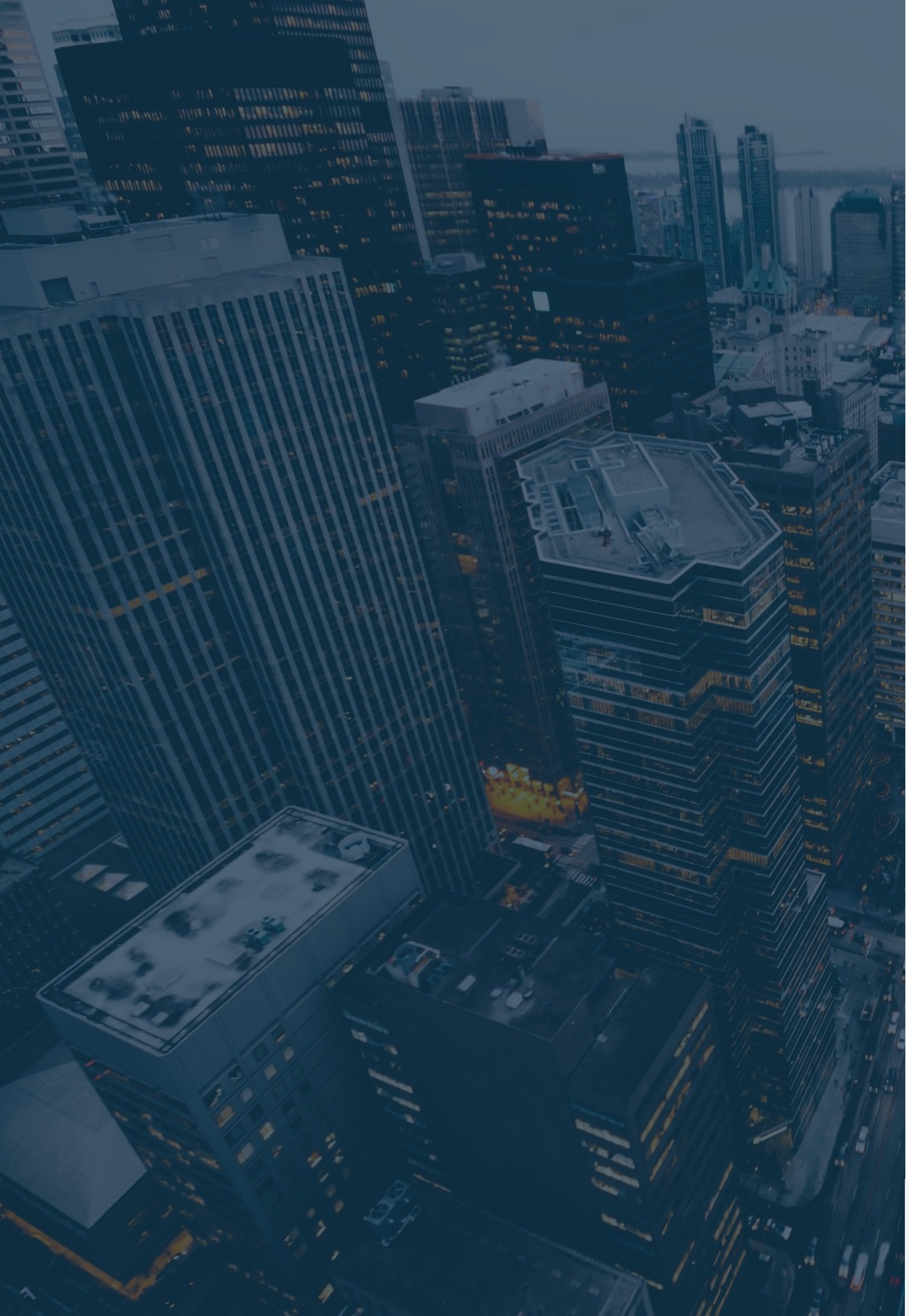

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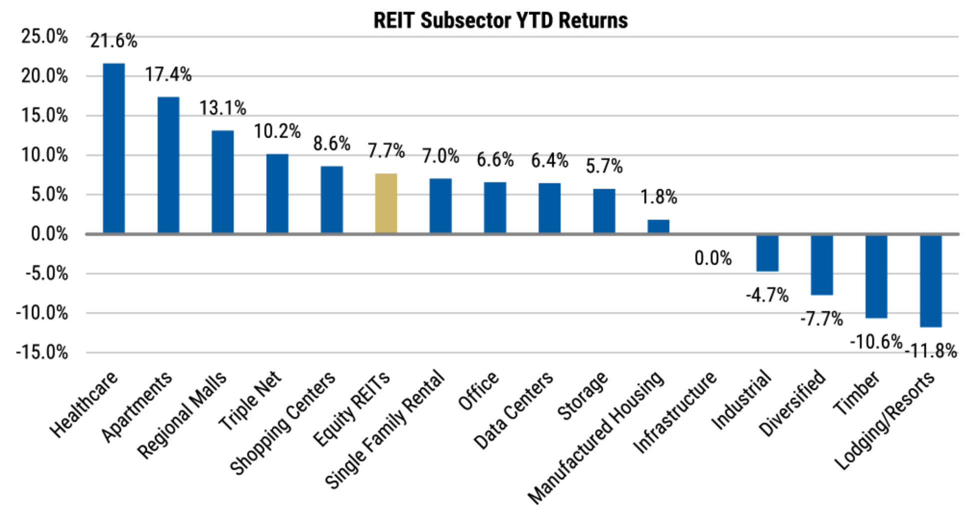
Q4 2024 Property Market Outlook

21 October2024

Exhibit 12: REIT subsector return dispersion



Source: Bloomberg, Morgan Stanley Research

REITS Pricing Indication

- **REIT up for the year**
  - YTD +7.7% and 2023 +6.3% have erased the -13.5% decline in 2022
- **All major sector other than industrial are up**
  - Industrial has had strong performance and the slowing, but still strong fundamentals have weakened
  - Fundamentals remain positive in most sectors

Source: Bloomberg, Morgan Stanley as of October 18, 2024

Property – Factors Driving Outlook Summary

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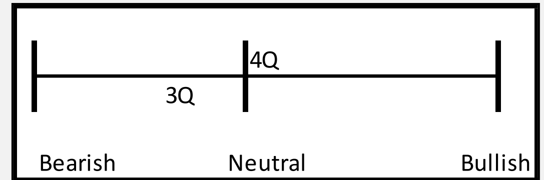
Factors | **Comments** | **Historical Range**

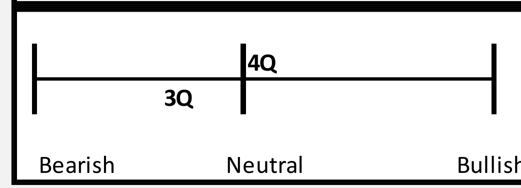
Valuations

Interest rates stabilizing albeit at a higher level
Transactions improving
NOI growth positive in most sectors



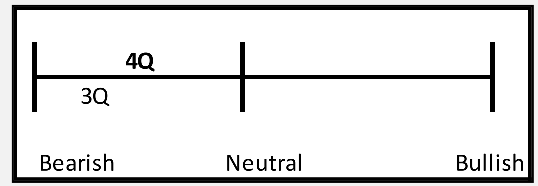
Fundamentals

New supply stopped - supporting rental growth
Demand remains strong in most sectors
Stress appears contained to office



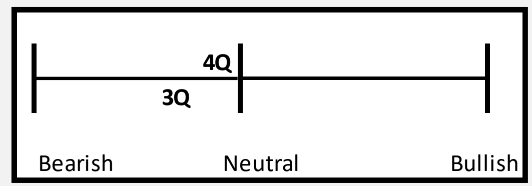
Technical

Non-RE debt capital will fill equity gap
Transactions still low but improving - FOMO?
Banks have not dealt with issue

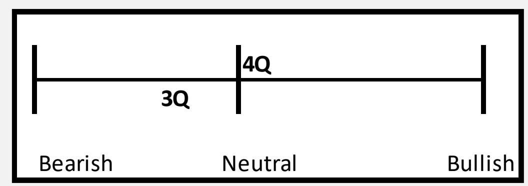


Macro Impact

Supply stop and NOI growth steady
Increase in layoffs impact use of real estate
Unsure of impact of election on economy -



9-12 month view



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Outlook

Not Many Changes Since Last Quarter

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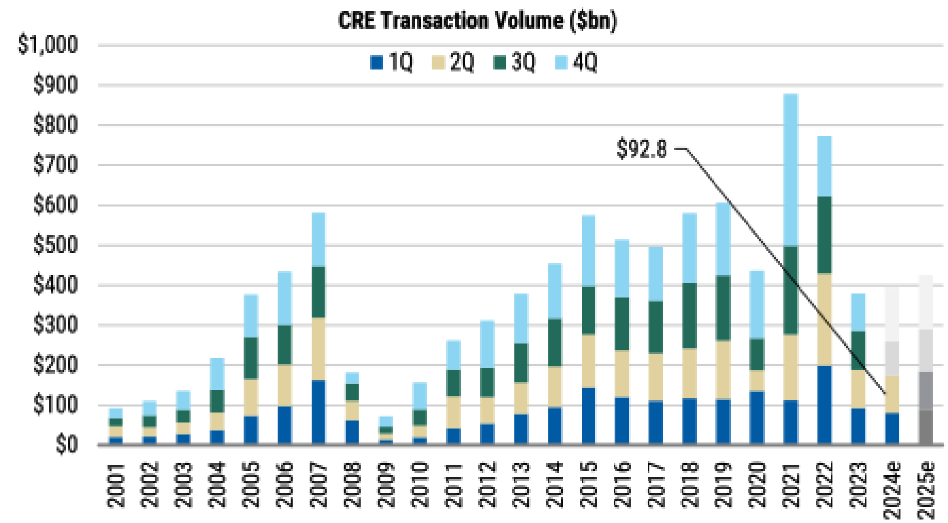
- Transaction volumes
  - Still at historic lows – industrial and apartments trading (66% of volume)
  - Values on transactions down 10% but on appraisals down 19%
- Fundamentals healthy but moderating
  - NOI growth still positive but well off 2021 underwriting
  - Vacancy rates starting creep up
- Lending remains down
  - Flat 1Q24 after being down 29% and 49% Y/Y in 4Q23 and 3Q23
  - CMBS picking up volumes as banks and agencies remain on sidelines
- Starting to see change
  - Managers indicating that the market is starting to open

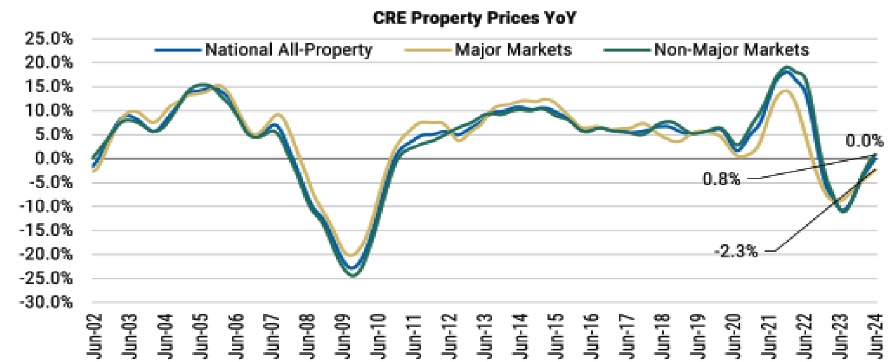
Exhibit 29: Transaction Volume - All Property Types Down -2.0% YoY in 2Q24



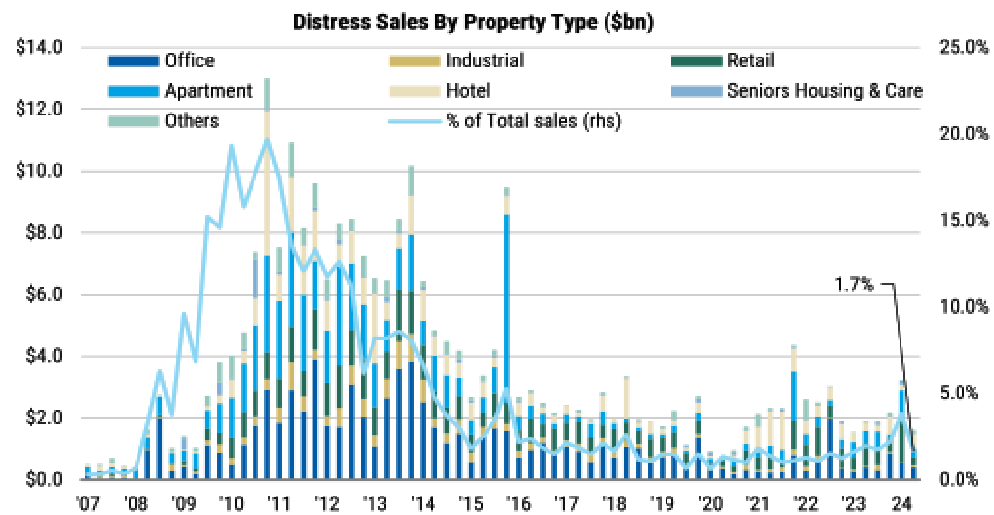
Distress not what is expected based on past cycles

- Low transaction volume – no real price discovery
  - Values on transactions down 10% but on appraisals down 19% indicating only best assets trading
- Debt markets opening up slowly
  - Not for all properties and LTV's low on new values and rates still well above historical
- Lending remains down
  - Flat 1Q24 after being down 29% and 49% Y/Y in 4Q23 and 3Q23
  - CMBS picking up volumes as banks and agencies remain on sidelines

Exhibit 20: CRE Property Prices YoY Change



Source: Real Capital Analytics, Morgan Stanley Research; Note: The 6 Major Metros (6MM) are Boston, Chicago, Los Angeles, New York, San Francisco and Washington DC. Non-Major Metros (NMM) refers to



Source: RCA, Morgan Stanley Research

Summary

- Market has accepted a higher for longer environment
  - Properties beginning to trade but only the best
- Debt maturities the most significant issue
  - Expect that pressure will build on bank to address issue
  - Capital is forming to provide liquidity to owners and capitalize on distress
- Impact of higher rates on tenants
  - Should not be a major issue unless there is a recession
- Offices still be most troubled sector but starting to settle
  - Leasing velocity returning but absorption dominated by new buildings
  - Lack of new supply should support rates in new and renovated buildings
- Continued growth in alternatives
  - AI driving data center demand should drive rental growth in existing assets
- Sustainability continues to impact sector
  - European energy standards will force owners to invest in their assets

5 Factors Driving Outlook for Property

- **Continued Positive Macro Environment/Trends**
  - Urban environment still attractive?
  - Residential demand continues for students and seniors
  - Technology impact spread beyond industrial and retail – AI on office?
- **Valuations – Have declines stopped?**
  - Transaction market has not returned, value declines based mostly on appraisals
- **Fundamentals – Slowing but still positive**
  - Low levels of new supply keeping rents/NOI strong
  - 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 investors 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 for supporting 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
- **Less rate reduction than expected**
  - Impacting refinancing of short-term debt requiring equity paydowns
  - Investors leaving the sector as fixed income returns increase
- **Repricing based on transactions vs appraisals**
  - Is there sufficient capital to support current appraised values or will lack of competition drive values lower?
  - 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

Catalysts That Could Change Your View

- Continued high Inflation
- Banks forced to act on bad loans
- How severe are price declines in an active transaction market
- Health of underlying tenants

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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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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.

Expected returns for an asset class are generally built up from and include an allowance for our projected return on cash, inflation, spreads, risk premiums, liquidity premiums, potential losses, valuation adjustments, alpha for active management, management fees, other ongoing costs, and any other factors that we may consider are appropriate for the asset class and/or prevailing market conditions. Expected returns generally do not allow for SECOR advisor or fiduciary management fees, or any transition or rebalancing costs between asset classes or an existing portfolio.

A material risk factor is that the projected returns modelled are underpinned by historic market returns combined with SECOR's assumptions on future market returns, meaning that the projected net returns used for modelling portfolios may not be realised within expected timeframes.

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