

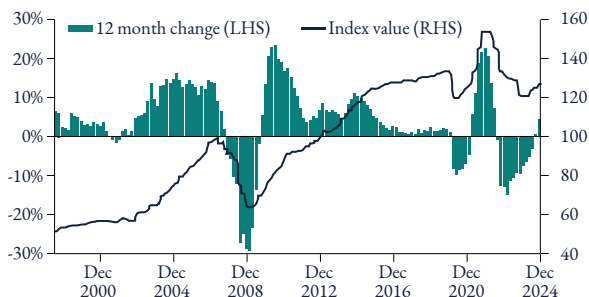
Real Estate

Major Trends

Valuations have stabilised (Exhibit 1). Valuations in most Real Estate sectors began to stabilise in 2024. REITs rose c.+5% during the year, while private real estate, which typically lags public markets, declined c.-5%.¹ Valuations across public and private markets look comparable today. Traditional public real estate sectors trade at a 5.2% cap rate, compared to a 5.4% cap rate for private real estate. By comparison, 12 months ago, REITs were valued at an aggregate cap rate of 6.0%, while private real estate was estimated to be valued at 5.5%.²

Exhibit 1

Green Street Commercial Property Price Index



Source: Green Street

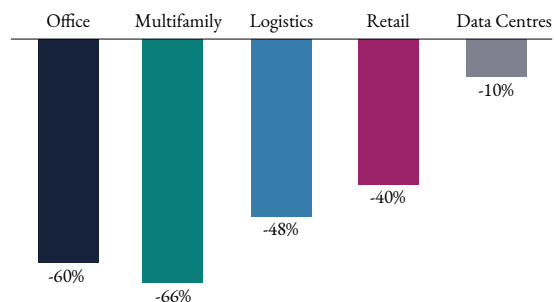
Transaction volumes remain low, but some signs indicate that they may improve in 2025. Transaction volumes remain significantly below peak levels in 2021 (Exhibit 2).¹ Several factors contribute to this trend. Many traditional buyers of Real Estate such as REITs and core funds remain out of the market. More than half of REITs trade at a discount to NAV, making equity issuance a challenge, while most core funds are managing redemption queues, though REITs and core funds focused on the industrial and data centre sectors have been notable exceptions. The average discount to NAV for REITs was -5% in January 2025.³ For core funds in the ODCE Index, the redemption queue equates to c. 20% of aggregate NAV.³ Most funds are managing redemption queues equal to 5-10% of their NAV, and certain outliers such as the UBS Trumbull Fund, are managing larger queues. Additionally, Private Equity Real Estate fundraising is down c. -47% over the past two years.⁴

1 REIT returns sourced from FTSE NAREIT, Private Real Estate from Cambridge Associates Real Estate Index
 2 CenterSquare REIT Cap Rate Perspective Reports, Q4 2024 and Q3 2024
 3 Green Street Real Estate Alert January 2025
 4 Pitchbook H1 2024 Global Real Estate Report

While there are few signs of recovery in aggregate transaction volume data, we note two potential indicators that 2025 may see growth in deal activity. Firstly, investor sentiment has improved, and for the first time in three years, most Real Estate investors believe values are likely to be stable or increase over the next 12 months. Secondly, 2024 saw the return of certain large opportunistic investors, most notably Blackstone, which made several sizable real estate acquisitions across residential, industrial, data centers, and retail. Examples include Blackstone’s take-private of Tricon a single-family rental REIT, in Q1, and their take-private of Retail Opportunity Investments Corp, a grocery-anchored retail REIT, in Q4. These opportunistic buyers are often the first movers following periods of volatility.

Exhibit 2

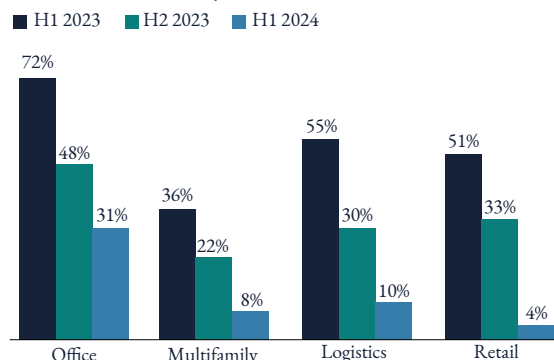
Real Estate Transaction Volume: 2024 vs. 2021



Source: Green Street

Exhibit 3

% of Investors Expecting Cap Rates to Increase (CBRE Semi-Annual Survey)



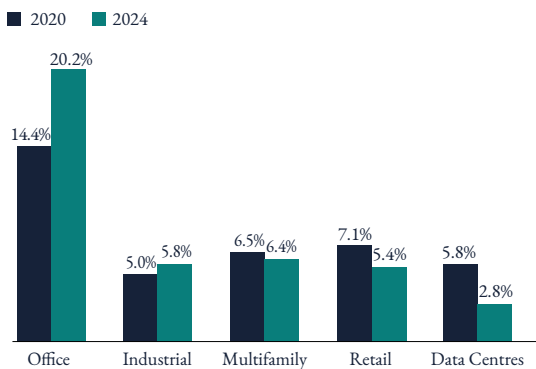
Source: CBRE

Operating performance has exceeded expectations.

Although capital markets are challenged, most Real Estate sectors continue to perform well on an operating basis. Vacancy rates are c. 6% or lower in all major sectors except office. Strong occupancy is likely to be supported by the sharp drop in new construction over the past 24 months. This can be seen in the data for net operating income growth. Green Street data shows positive net income growth in 2024 for all asset classes excluding office and self-storage.

Exhibit 4

Vacancy rates by sector: 2020 vs. 2024

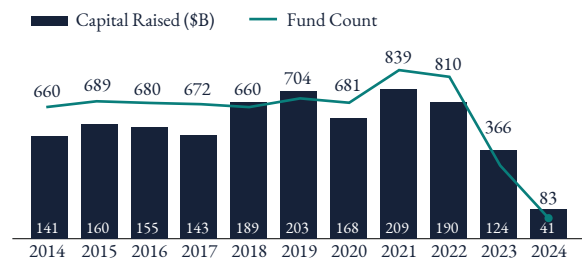


Source: Federal Reserve Bank of St. Louis

LP sentiment remains weak, potentially creating opportunities for investors with disciplined deployment across vintages. Capital flows to real estate are sharply down. Private Equity Real Estate fundraising declined c. -47% over the past two years and real estate construction is down -30-40% in most sectors. Although lending markets have improved, the capital markets environment remains challenging for most real estate owners, particularly those that acquired assets with high leverage at peak valuations in 2020 and 2021. Many of the loans for those transactions will mature over the next 24-36 months. In evaluating partners for this environment, we look for managers with strong sourcing networks, a track record of disciplined deployment and both capital markets and operating expertise.

Exhibit 5

Real estate fundraising activity



Source: PitchBook

Golden Rules

1. Aim to build Real Estate portfolios at stabilised unlevered yields 1-2% above prevailing market cap rates. This can be achieved through acquisition discounts and/or identified net income growth during the hold period. This creates upside in normal market environments and provides a margin of safety against declining market valuations and rising debt costs.
2. Partner with vertically integrated managers with excellent operational capabilities and local knowledge.
3. Focus on a “Buy, Fix, Sell” approach within Private Equity Real Estate. For a core-plus, pursue a “Buy, Fix, Hold” approach in high-conviction markets.
4. Focus on sectors and regions with the strongest fundamentals, where institutional demand creates liquid property markets; be wary of tertiary and emerging markets.
5. Be prudent on the level and structure of leverage.
6. Consider tax benefits or disadvantages, depending on investor type and market.

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Sub-Strategy Attractiveness

By Strategy

Private Equity Real Estate ('PERE'): Favourable view.

For new investments in real estate in 2025, we believe making new acquisitions remains more able than entering an existing portfolio at appraised valuations. Although appraised values for private real estate are generally in-line with public real estate valuations, our PERE managers have been acquiring assets at cap rates 100-200bps wider than the market. Due to their structure, PERE funds can typically take on more complex business plans, including distressed loan workouts or portfolio acquisitions. We believe this flexibility and ability to lean into stressed and distressed situations is valuable in the current real estate environment.

Infrastructure: Favourable view. We believe there are compelling opportunities in several areas of the infrastructure market. While we have not previously broken out infrastructure as a distinct asset class, we have built conviction in several infrastructure sub-sectors over the past 18-24 months, in particular digital infrastructure and power/energy infrastructure, resulting in several fund commitments and co-investments on behalf of our clients. These sectors have many of the attributes we target: 1) strong secular demand tailwinds, 2) supply constraints, 3) a high degree of specialization and 4) durable and inflation-protected cash flows. We are most focused on 'value-added' infrastructure investments that target higher opportunistic real estate returns and take some development risk.

Core and Core-Plus Real Estate: Neutral view.

While we believe core-plus funds serve an important role in our strategic asset allocation, for investors making new commitments to Real Estate in 2025, we recommend prioritising new acquisitions through PERE funds over investing in core funds. While valuations for core funds have moved in line with public REITs, the capital position of these funds, whereby most funds are managing redemption queues, means they are net sellers as opposed to net buyers of assets today. We think the current environment, with more limited availability of real estate capital, is buyers over sellers.

By Industry

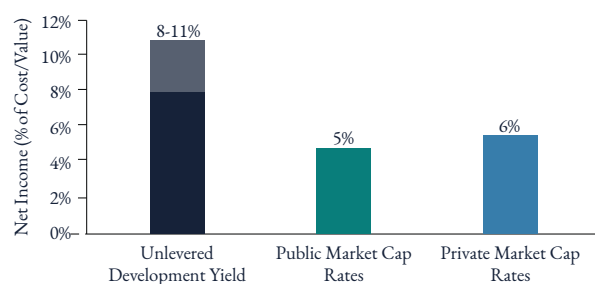
Industrial: Favourable view. Vacancies remain at or below 6% in most major markets. Ongoing e-commerce penetration growth and 'near-shoring' supply chains continue to drive demand. Our preferred method of accessing the space is through owner-operators executing a portfolio roll-up strategy in small (100-250K square feet) last-mile assets. There is an opportunity for those operators to create additional value by re-positioning and re-leasing older properties. While the sector is not immune to the challenging capital markets environment, our managers have had success sourcing financing from insurance companies. In certain cases, our managers have opted to acquire assets on an unlevered basis where they believe unlevered returns of 14-16% IRR are achievable.

Hypothetical return expectations do not represent actual trading and are based on simulations with forward-looking assumptions, which have inherent limitations. No representation is being made that any investor will or is likely to achieve returns similar to those shown. Such forecasts are not a reliable indicator of future performance.

Digital Infrastructure: Favourable view. The rapid growth in data consumption driven by internet usage and cloud adoption is set to further accelerate as AI adoption becomes more widespread. Hyperscalers, the largest users of data center assets, have made several large scale capex announcements over recent months; Microsoft announced plans to spend \$80B while Meta announced plans to spend \$60B+. While demand drivers are well understood, supply remains constrained due to challenges accessing appropriate sites with ability to secure the right zoning and sufficient access to power. We believe there is an opportunity to partner with experienced managers, with the network and execution capabilities to take advantage of long-term secular growth, driven by growing demand for compute and storage. We are seeing the opportunity to develop assets at unlevered yields on cost of 8-11%, which compares to private market cap rates of c.5.5% and public market cap rates of c.4.8% (Exhibit 6).

Exhibit 6

Strong demand and finite supply in data centers is creating the opportunity to generate attractive yields for experienced developers



Source: CenterSquare Investment Management

Sustainable Energy and Power Generation: Favourable view. Power demands are growing due to data consumption growth, reshoring of industrial manufacturing, and adoption of EVs. The 5yr forecasted electricity growth in the US is now +16%, after being essentially flat for the past 15 years (+0.2% CAGR from 2010-2022).⁵ We believe there is an attractive opportunity to acquire and develop assets which generate or transmit sustainable power. These assets offer an attractive risk/return profile with good downside protection (generating stable, inflation-linked cashflows, often used for essential services), strong market growth and scope to drive upside through clear levers such as development, M&A growth and building platform value.

Multifamily: Favourable view. Multifamily has outperformed expectations over the past two years. Due to strong investor sentiment and low cost of debt, multifamily development spiked in 2021/22. We have seen these developments completing and coming to market over the past 12-18 months, and we believe supply is likely to remain elevated for a further 12 months. Against this backdrop, most expected rents in multifamily to decline, and while certain of the most oversupplied markets, such as Nashville and Phoenix, have seen declines, at the national level, rents have been flat. This was due to stronger-than-expected demand, driven in part by a more robust economy and the sharply rising cost of home ownership. We expect long-term supply-demand fundamentals to remain positive. Additionally, we view multifamily as a compelling sector for investors, given the defensive nature of the cash flows, and the repeatability of business plans. This is an attractive set-up for sector specialists with strong operating expertise and in-house asset management capabilities.

Real Estate Credit: Favourable view. As described more fully in our Private Debt section, we have a favourable view on the opportunity set in real estate lending, driven by ongoing capital constraints in the market. Financing and refinancing options are more limited for real estate owners today, due primarily to the pullback of regional banks. Exit options are also reduced in an environment with low transaction volume, reduced fundraising activity, and limited core capital being deployed. This creates attractive opportunities for specialist lenders with ability to provide flexible capital solutions.

⁵ Source S&P IQ, EIA

Real Estate

continued

Retail: Neutral view. Having been a difficult asset class for many investors for the past 10 years, the environment for retail has improved. Capital flows out of retail and into other sectors have resulted in valuations declining, increasing going-in cash yields, and vacancy rates falling, due to the limited development pipeline. On that basis, large investors are becoming more active in retail again. Notable transactions include Blackstone's c.\$4B take-private of Retail Opportunity Investments Corp., a portfolio of 93 grocery anchored retail properties. While the environment has improved, we do not see the same opportunity for rent growth as we see in our preferred sectors, and we believe there remains the risk of further e-commerce disruption.

Office: Negative view. Vacancy rates in the US are at or above 20% in most major US markets. Sentiment has marginally improved, in part due to back-to-office mandates from large companies such as Amazon and JP Morgan. Nonetheless, leasing remains highly concentrated in a small number of trophy properties. There remains significant uncertainty around achievable market rents in most office properties. While there may be selective opportunities for conversions, this is a narrow opportunity set. Moodys estimated that of the 1,100 office buildings they track, only 35 were viable candidates for conversion based on structural and cost considerations. The relative strength of the trophy office market is well-understood by the market and that segment has been stable, meaning opportunities to invest at attractive valuations are limited.

Hospitality: Negative view. Hospitality is the most economically sensitive Real Estate sector, reflecting its short-dated income profile, and correlation to business and leisure travel. An economic slowdown in consumer spending would create headwinds for hospitality, particularly in an environment where inflation remains sticky, impacting expenses and interest rates remain high, impacting borrowing costs.

2025 Strategic Priorities

- **Invest in digital and power infrastructure opportunities.** As described in the section above, we believe there is a compelling opportunity set in these sectors today. We made several commitments and co-investments in these sectors in 2024, and we expect to identify at least one high conviction opportunity in each sector in 2025.
- **Partner with experienced opportunistic GPs.** We believe the next three years will be an attractive environment for opportunistic real estate managers. We expect certain capital markets challenges to remain, in particular access to and cost of debt capital. Against this backdrop, fundamentals in many real estate sectors remain solid and are likely to further improve given the limited development pipeline. In partnering with managers for this environment, we look for several critical criteria: 1) strong sourcing networks with a broad top-of-the-funnel, 2) a track record of disciplined deployment in past cycles, 3) capital markets expertise, required for complex transactions with debt issues and 4) operating expertise, as the most attractive buying opportunities may be from less sophisticated owners who undermanaged assets.
- **Continue to drive fee discounts, co-investments, and other able economics.** Fundraising in real estate declined c. -47% in 2023-24 compared to 2021-22, with many LPs taking a broad-brush approach to reducing their exposure.⁶ Despite headwinds, we believe there are attractive opportunities to deploy capital, and with a relative scarcity of LP capital, we are in a strong position to drive fee discounts and other able economics. For investments made in 2023, we secured a weighted average management fee discount of 0.4%.

⁶ Pitchbook

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Private Investment Fund Risk

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