Institutional Private Real Estate

A Timely Asset Class in Inflationary and Rising Rate Environments

Institutional Private Real Estate has historically:

1 Outperformed investment grade bonds in rising rate and high inflation environments.	2 Experienced high correlation with inflation relative to other asset classes.	3 Generated average annual rent growth that has kept pace with inflation.

Is the U.S. in an Inflationary and Rising Interest Rate Environment?

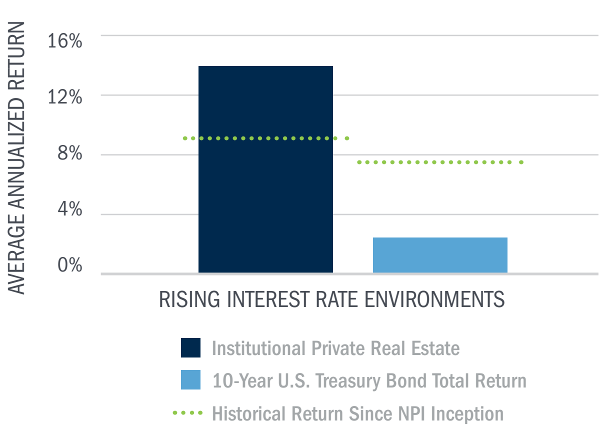
Seemingly dormant since before the Global Financial Crisis, inflation resurfaced in 2021 fueled by pandemic-induced shortages in goods and labor. The Consumer Price Index (CPI) rose 5.4% year-over-year in June, the highest level since 1991. Recent increases in the 10-year U.S. Treasury Bond yield from record lows, expectations for a robust economic rebound, and proposed additional fiscal spending are sparking concerns of longer-term inflation. The Federal Reserve has identified "transitory inflation" as the prevailing economic condition, which describes temporary inflation due to a rebound of the economy from the sharp contraction experienced in 2020.

Transitory or not, economic conditions are spurring investors to reconsider questions they often asked in the past: *Which asset classes perform better in periods of rising interest rates and in inflationary periods?*

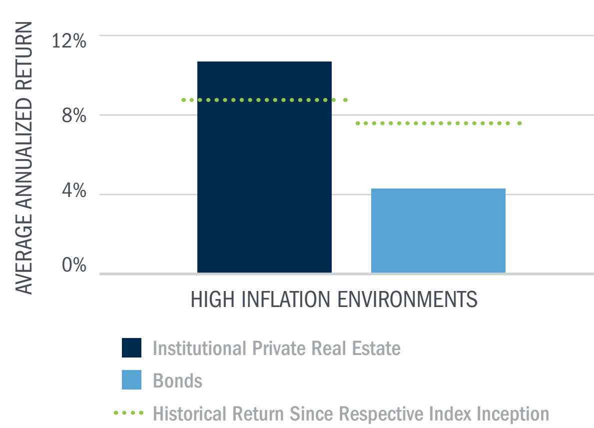
Macroeconomic theory posits that private real estate may perform well in inflationary and rising interest rate environments because increasing rates typically have occurred during periods of strong economic activity, which drives occupancy rates and lease rate growth. The quantifiable historical data support these assertions.

Historically, real estate has performed above its long-term average in inflationary and rising rate periods, while investment grade bonds have performed below their long-term average.

Outperformance During Rising Interest Rate Environments[1]



Outperformance During High Inflation Environments[1]



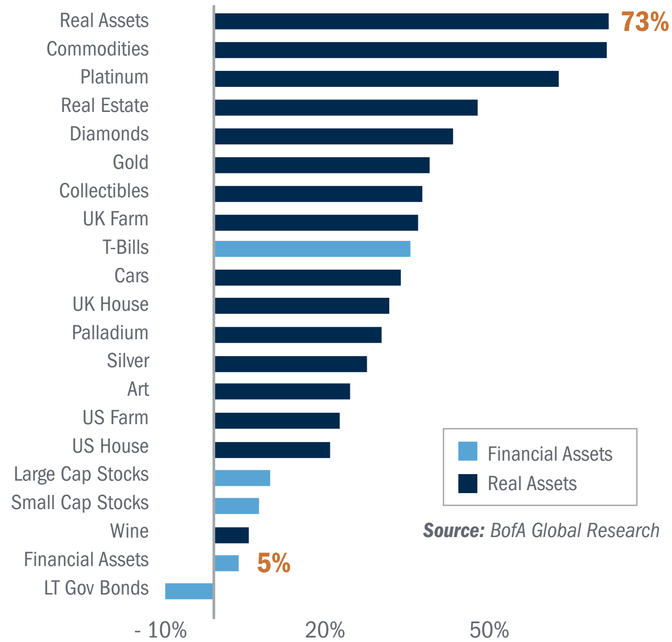
1) *Source: NCREIF, US Federal Reserve.* **A rising interest rate environment** is defined as quarters when the Effective Federal Funds Rate (FFR) increased 25 basis points or more; NCREIF Property Index (NPI) and 10-year US Treasury Bond Total Return (ICE BofA US Treasury 7-10 yr.) tallied, averaged and annualized for those quarters. Analysis since NPI inception (Jan 1978) through Dec 2020. **A high inflation environment** is defined as quarters when the Consumer Price Index (CPI) increased 100 basis points or more; NCREIF Property Index (NPI) and Bloomberg Aggregate Bond Index tallied, averaged and annualized for those quarters. Analysis since Bloomberg Aggregate Bond Index inception (Jan 1980) through Dec 2020.

Institutional Private Real Estate Experienced a High Correlation to Inflation Compared to Other Asset Classes

Beyond historical returns, there is great interest in the level to which select asset classes correlate with inflation. With the specter of higher inflation returning, correlation data may be a signal of the coming years' higher performing investments. A recent BofA analysis assessed the historical correlation of multiple asset classes with inflation, as measured by the CPI. The results of this analysis (as shown on chart to the right) clearly indicates that real assets, including real estate, have a higher correlation to inflation than financial assets such as stocks and bonds. This is also a reason why investors favor real estate during inflationary periods.

Correlation of assets with US CPI inflation since 1950

Financial and Real asset correlations



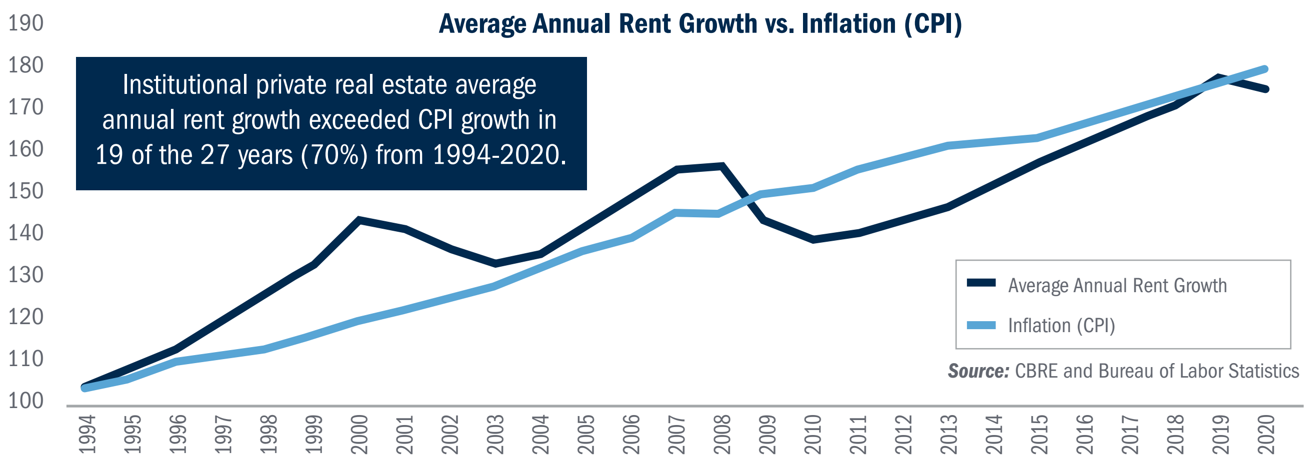
Source: *BofA Global Research*

Institutional Private Real Estate Generated Average Annual Rent Growth that has Kept Pace with Inflation

Institutional private real estate is both an income and growth asset class. The income portion's value is in part based on net operating income (NOI), which in turn is generated from lease revenue. The rate of lease increases has historically kept pace with inflation over long periods of time as shown in the chart below. NOI increases also drive higher real estate values.

Higher inflation tends to drive higher rents which in turn, drive higher real estate values. In contrast, bond income is fixed and stock dividends tend to be industry dependent.

Average Annual Rent Growth vs. Inflation (CPI)



Source: CBRE and Bureau of Labor Statistics

The Historical Precedence Delivered by Institutional Private Real Estate

Institutional private real estate has historically exhibited strength during rising interest rate and inflationary periods. Although equity markets may to a lesser degree deliver positive returns in these environments, we believe the current historically-high equity market valuations may not hold up in a rising rate environment. Fixed income investments are challenged in a rising rate and inflationary environment due to fixed rate payments and lack of principal growth which in most cases may not increase substantially during the securities' term.

Net operating income trends tend to mirror the broader economy as an expanding economy and higher inflation have historically led to higher rents and higher NOI. **Rising interest rates are likely to be preceded by higher inflation and stronger economic growth, thus rising rates are likely to be accompanied by rising net operating income translating into higher real estate values.**

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