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SitusAMC Insights ValTrends Webinar

Shifting Dynamics



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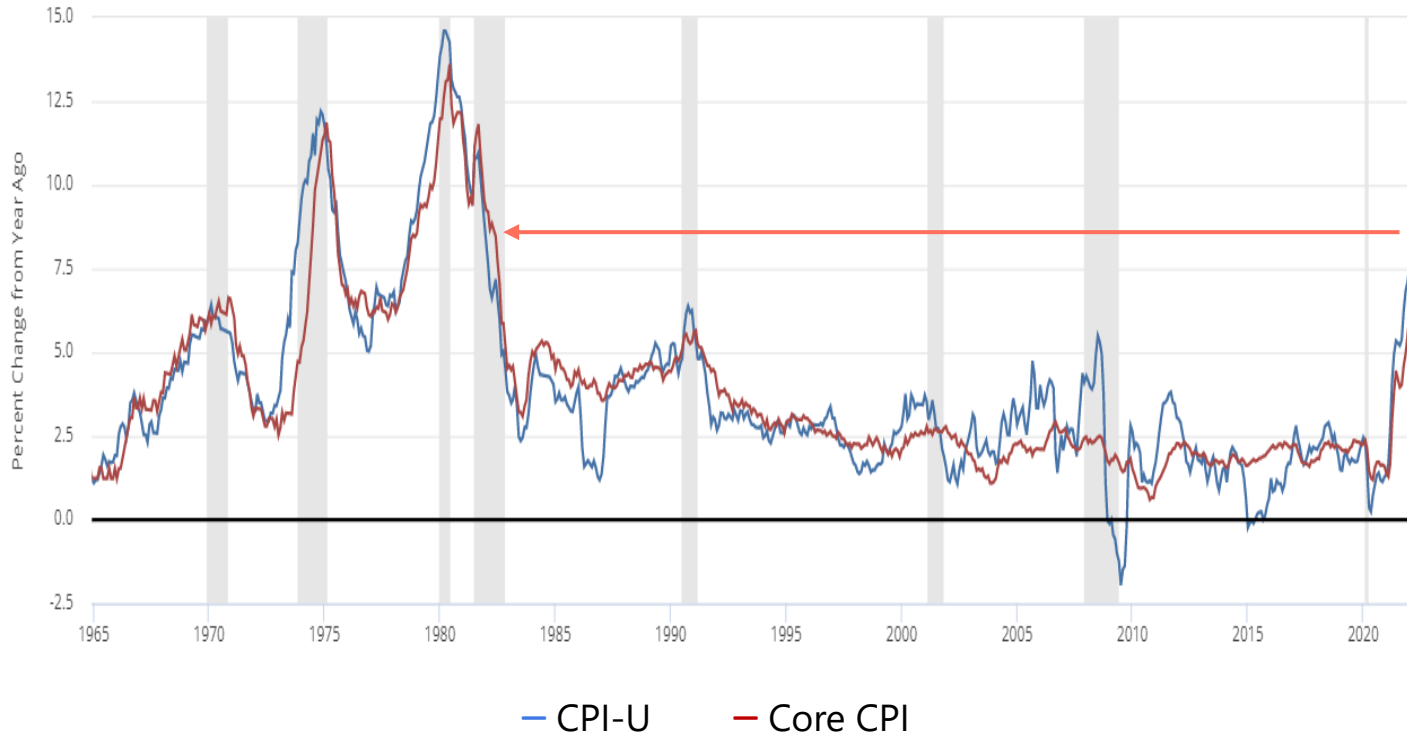
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1.0 5 Macro Trends Affecting the Investment Environment

1.1 Macro Trend #1: Inflation Pressures Mount

Inflation Jumps to 40-Year Highs Fueled By Strong Consumer Demand, Supply-Chain Backlogs and Loose Monetary and Fiscal Policy



- Intensity and Staying Power of Inflation Will Depend on Several Factors
 - Supply disruptions (Ukraine war, China COVID-19 outbreak)
 - Energy prices (Ukraine war)
 - Labor market tightness
 - Housing
 - Inflation Expectations
 - Infrastructure spending and policies (pressure on materials and labor, Buy American, Use Union)
 - Monetary policy

Note: Shaded areas indicate recessions.

Source: Federal Reserve Bank of St. Louis (FRED), BLS, SitusAMC Insights

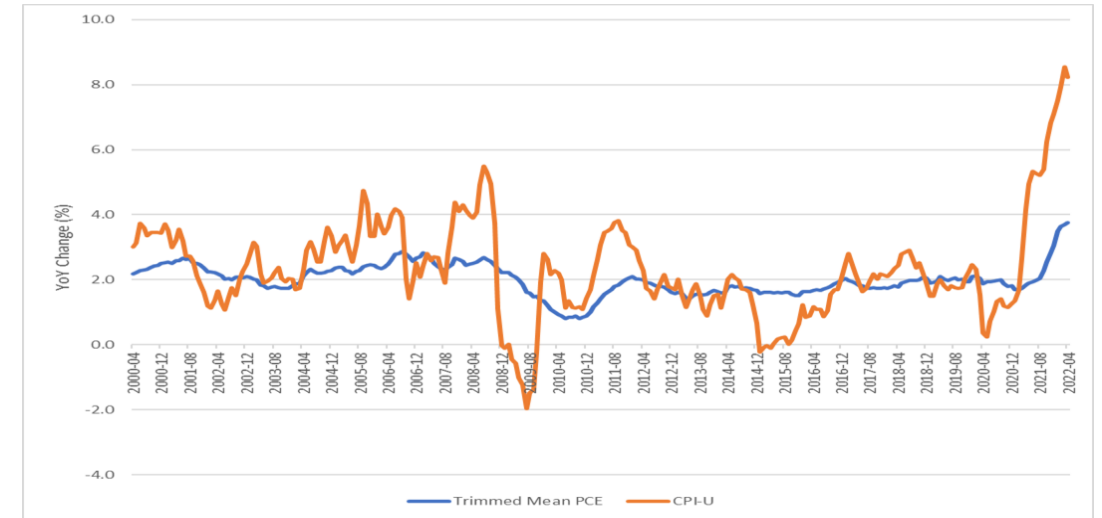
Inflation Expectations a Key to Fed Decision Making; Inflation Appears Still Embedded Across Goods and Services

10-Year Breakeven Rate



- Key to inflation staying power is whether inflation expectations permanently shift up

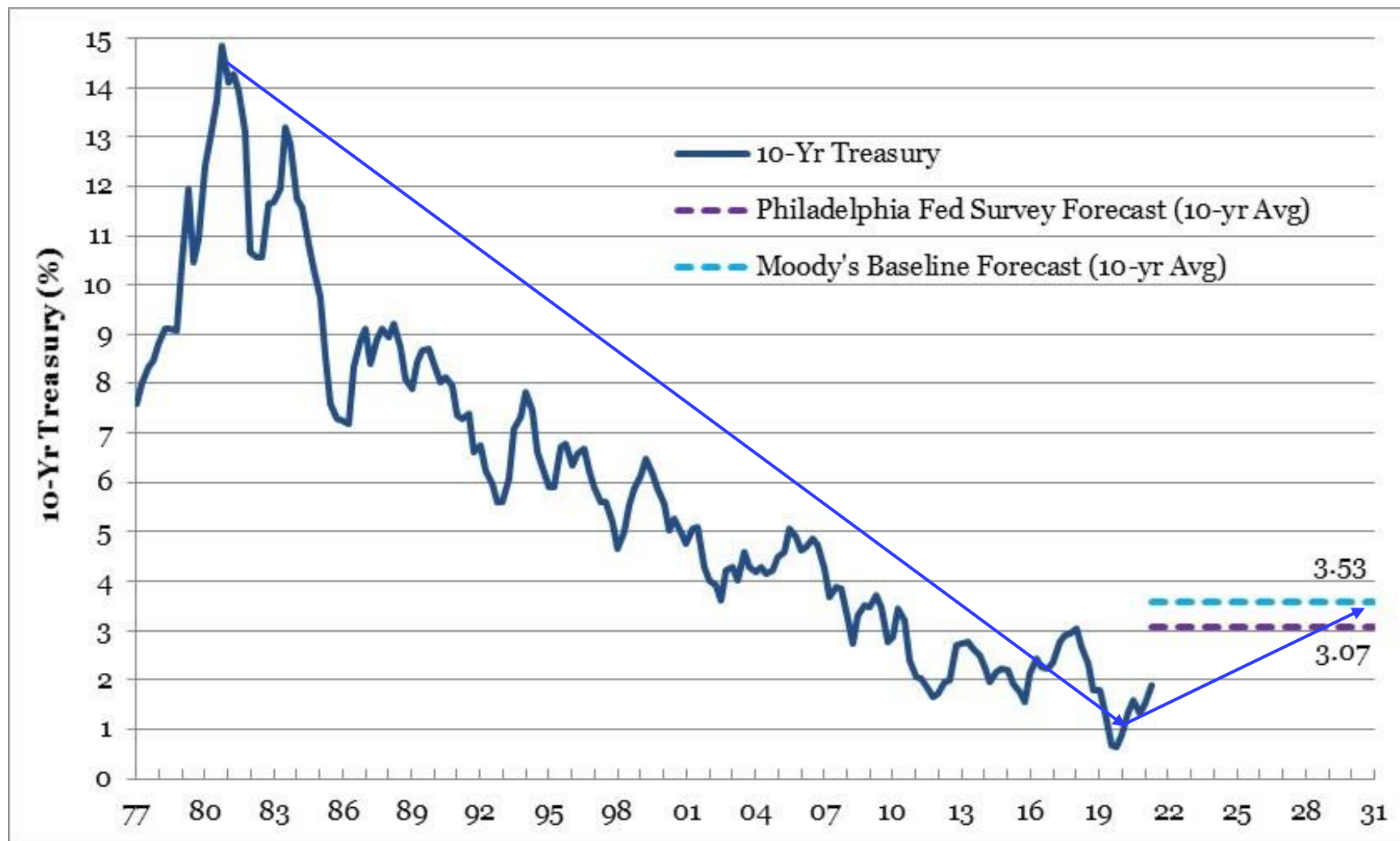
Trimmed Mean PCE



- Increase in trimmed mean inflation was a spur to enhanced Fed concern

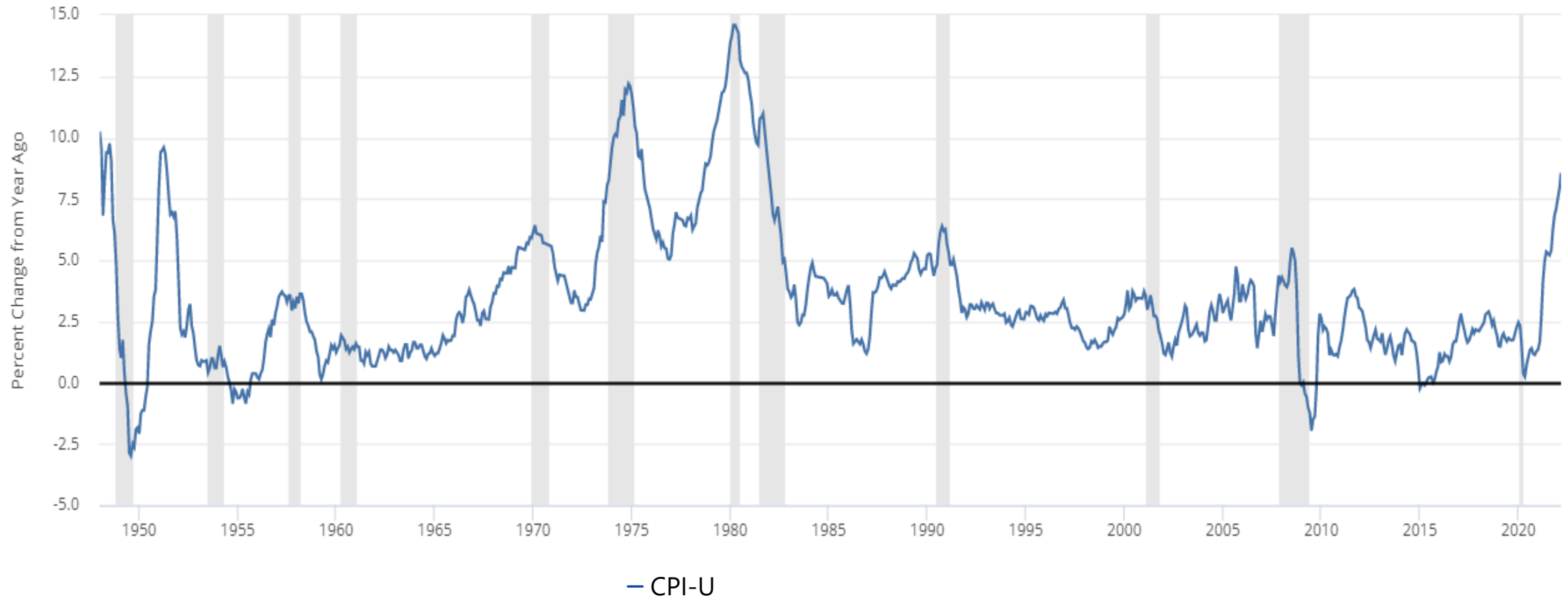
Source: Federal Reserve Bank of St. Louis (FRED), Federal Reserve Bank of Dallas, SitusAMC Insights

10-Yr Treasury Rates Expected to Rise Over Next Decade; Look to Stay Well Below Historical Highs but Reversal of Decades Long Decline



1.2 Macro Trend #2: Risk of Recession Grows

Major Spikes in Inflation Typically Followed by Recession

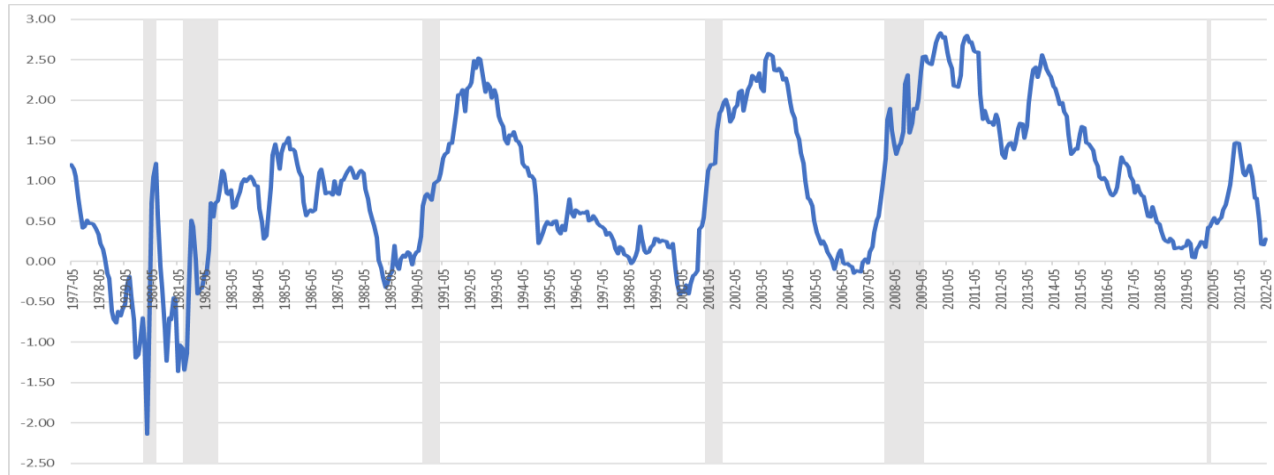


Note: Shaded areas indicate recessions.

Source: Federal Reserve Bank of St. Louis (FRED), SitusAMC Insights

Yield Curve Inversion Reliable Indicator of Recession

10-Year Treasury Minus 2-Year Treasury



30-Year Treasury Minus 5-Year Treasury



Note: Shaded areas indicate recessions.

Source: Federal Reserve Bank of St. Louis (FRED), SitusAMC Insights

- U.S. two-year Treasury yields surpassed 10-year Treasury yields (yield curve inversion) on April 1-2 and June 13.

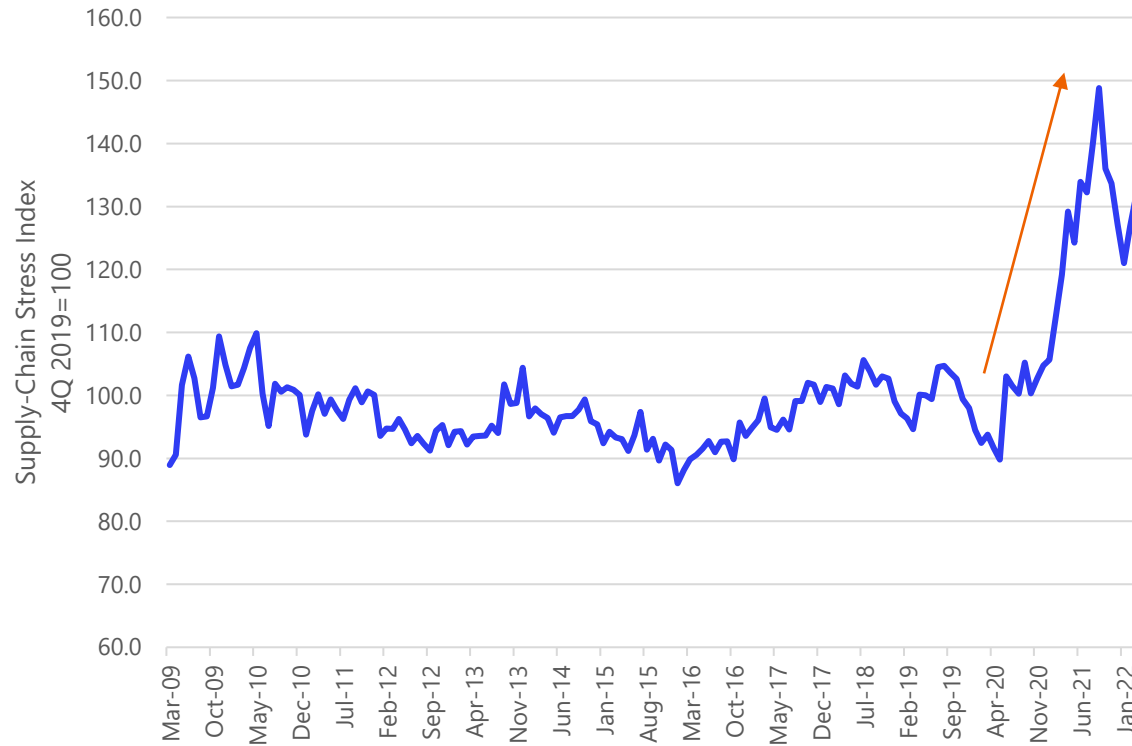
1.3 Macro Trend #3 Supply- Chain Backlogs Persist

Supply-Chain Crisis is a Conundrum for Real Estate

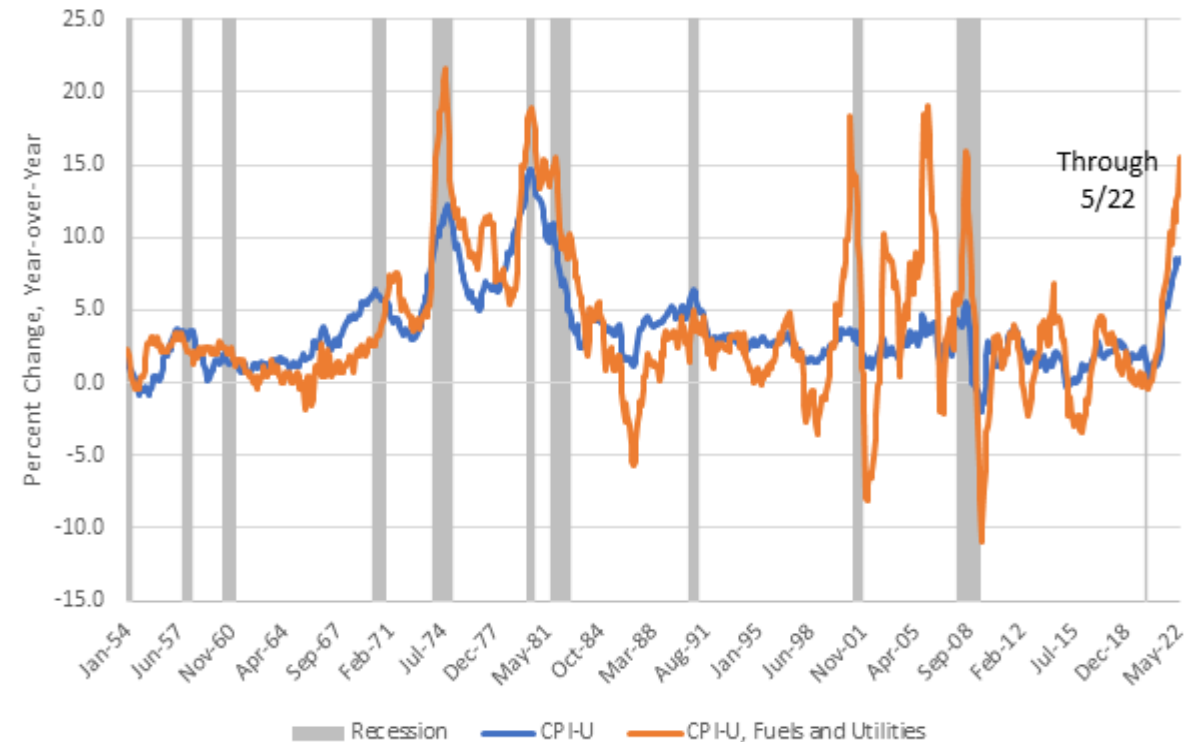
- China COVID-19 Lockdown
 - Tripled the number of ships waiting off Shanghai in just a few weeks
- Ukraine war
 - Disrupting agricultural exports/cooking oil shortages
 - Russian mined goods
- Increased construction costs
 - Detrimental to RE developers and homeowners
 - Constrains new RE supply; raises existing property values
- Pent-up demand for goods
 - May benefit industrial sector

Supply Disruptions and Product Shortages Have Been a Key Initial Factor in Higher Inflation

Moody's Supply-Chain Stress Index



- Energy accounts for nearly 5% of CPI
- Soaring energy costs disrupt transportation of goods and worsen inflation



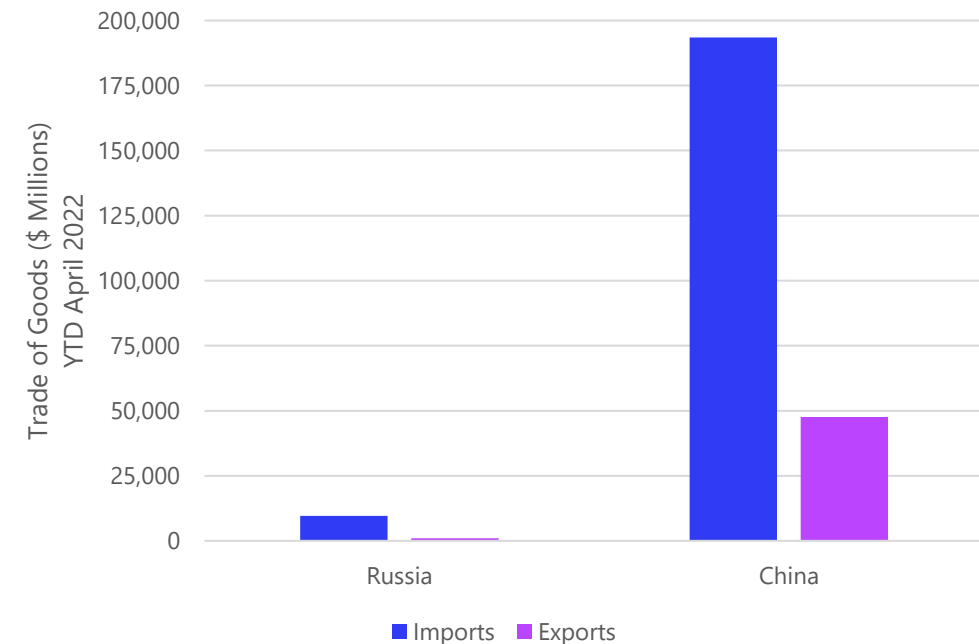
Note: Moody's Analytics Supply-Chain Stress Index (SCSI) is synthesized from 10 supply-side variables which fall into three broad categories: production, inventory, and transportation.
 Source: Moody's Analytics, Federal Reserve, US Census Bureau, BLS, Association of American Railroads, Baltic Exchange, SitusAMC Insights

1.4 Macro Trend #4: Geopolitical Instability Stokes Uncertainty

Increasing Tensions Present Risk for Global Economy, But Opportunity for U.S. Real Estate

- War in Ukraine
 - Aggravating supply chain issues and commodity and energy prices.
 - Flight to safety is pushing long-term yields down, even as Fed is trying to push them up, making inflation fighting more difficult.
 - Little effect thus far on RE industry.
- Escalating China-Taiwan Conflict
 - May prompt Western backlash.
 - Hard to sever China from international trade without crippling world economy.
- Worldwide food shortages could sow instability.
- May drive investors into relatively safe U.S. assets like real estate.

U.S. Economy Faces Much More Risk from Sanctions on China than Russia



1.51 CRE as an Inflation Hedge

Relative to Other Asset Classes, CRE Has the Strongest Positive Correlation with Inflation Since 1978

	S&P 500	Nasdaq	Moody's Aaa Bond Return	10-year Treasury Bond Return	NCREIF	Median Home Price	RCA CPPI All Property *	Nareit-All REITs	Private Equity **	CPI-U
S&P 500	1.00									
Nasdaq	0.77	1.00								
Moody's Aaa Bond Return	0.01	0.03	1.00							
10-year Treasury Bond Return	-0.01	0.02	0.99	1.00						
NPI	0.03	-0.06	-0.10	-0.15	1.00					
Median Home Price	0.28	0.21	0.01	0.00	0.15	1.00				
RCA CPPI All Property	0.16	0.07	0.34	0.19	0.79	0.26	1.00			
Nareit-All REITs	0.62	0.37	0.00	-0.01	0.12	0.23	0.10	1.00		
Private Equity	0.68	0.63	0.46	0.28	0.44	0.36	0.43	0.52	1.00	
CPI-U	-0.05	-0.08	-0.60	-0.64	0.36	0.03	0.26	0.02	-0.04	1.00

* RCA CPPI data are from 1Q 2001 to 3Q 2021.

** Private equity data are returns based on Prequin's Private Equity Quarterly Index (PrEQIn). Data are from 1Q 2001 to 3Q 2021.

- Private CRE returns (NCREIF) and CRE prices (RCA CPPI) have a moderate positive correlation with inflation (0.36 and 0.26, respectively); CRE returns and prices increase as inflation rises.
- Inflation has a negligible, but positive, correlation with public CRE returns (Nareit-All REITs) and single-family home prices at 0.02 and 0.03, respectively; REIT returns and single-family home prices slightly increase as inflation rises.
- Stock returns (at -0.05 and -0.08) and private equity returns (at -0.04) have small, negative correlations with inflation; stock and private equity returns slightly decrease when inflation rises.
- Bond returns have the most negative correlation with inflation (-0.60 and -0.64); bond returns decline substantially as inflation rises.

Source: SitusAMC Insights, Moody's, Federal Reserve Bank of St. Louis (FRED), Census Bureau, NCREIF, Nareit, BLS, 1Q 2022

CRE "Inflation Hedge" Is Even Stronger in Periods of High Inflation (>5%, Since 1978)

	S&P 500	Nasdaq	Moody's Aaa Bond Return	10-year Treasury Bond Return	NCREIF	Median Home Price	Nareit-All REITs	CPI-U
S&P 500	1.00							
Nasdaq	0.83	1.00						
Moody's Aaa Bond Return	0.10	0.10	1.00					
10-year Treasury Bond Return	0.10	0.09	1.00	1.00				
NPI	-0.15	-0.09	0.11	0.06	1.00			
Median Home Price	0.21	0.27	0.20	0.17	0.38	1.00		
Nareit-All REITs	0.80	0.64	0.05	0.06	-0.12	0.17	1.00	
CPI-U	-0.01	0.00	-0.41	-0.44	0.53	0.09	0.09	1.00

- Private CRE returns (NCREIF) have a strong positive correlation with inflation (0.53); CRE returns sharply increase amid high inflation.
- Public CRE returns (Nareit-All REITs) and single-family home prices have a small positive correlation with inflation (0.09 each); public CRE returns and single-family home prices increase amid high inflation.
- With correlations of -0.01 and 0.00, there is essentially no relationship between stocks and high inflation.
- Bond return correlations with inflation are strongly negative; bond returns decline amid high inflation.

6 periods of high inflation (>5%) since 1978:

- 1Q 1978-3Q 1982
- 2Q 1989
- 1Q 1990
- 3Q 1990-1Q 1991
- 3Q 2008
- 3Q 2021-1Q 2022

Source: SitusAMC Insights, Moody's, Federal Reserve Bank of St. Louis (FRED), Census Bureau, RCA, Nareit, NCREIF, 1Q 2022

CRE Provides the Greatest Returns During High Inflation (>5%, Since 1978)

Average Annualized Quarterly Returns During Periods of High Inflation (>5%) from:

1Q 1978-1Q 2022

NCREIF	14.5%
Nareit-All REITs	14.3%
Nasdaq	6.4%
S&P 500	5.9%
Median Home Price	5.5%
Moody's Aaa Bond Return	0.2%
10-year Treasury Bond Return	-0.1%
Private Equity **	-1.1%
RCA CPPI All Property *	-11.0%
CPI-U	8.7%

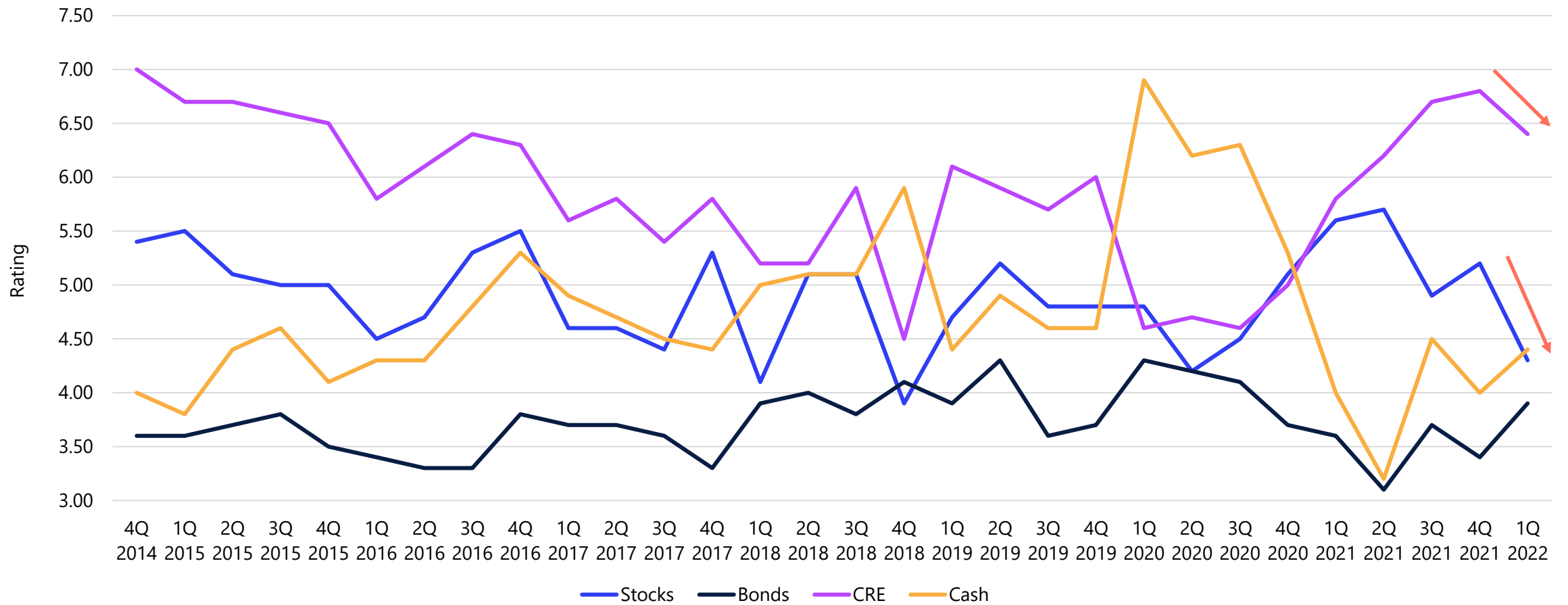
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- 3Q 2021-1Q 2022

Source: SitusAMC Insights, Moody's, Federal Reserve Bank of St. Louis (FRED), Census Bureau, RCA, Nareit, NCREIF

2.0 Capital Markets Overview

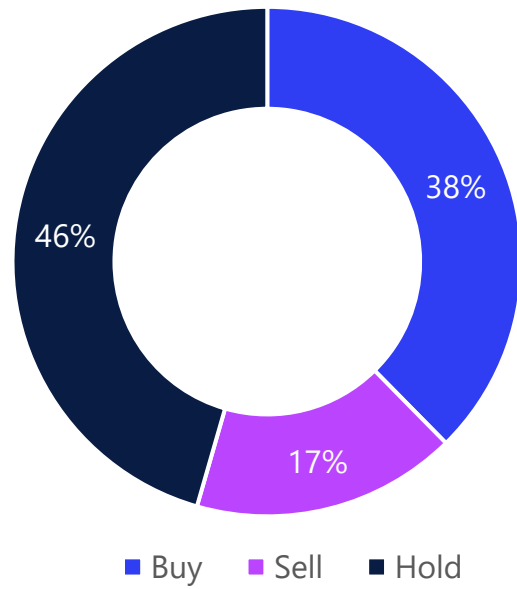
Investor Preference for CRE Dips But Remains Elevated; Preference for Stocks Tanks; Bonds Least Favored



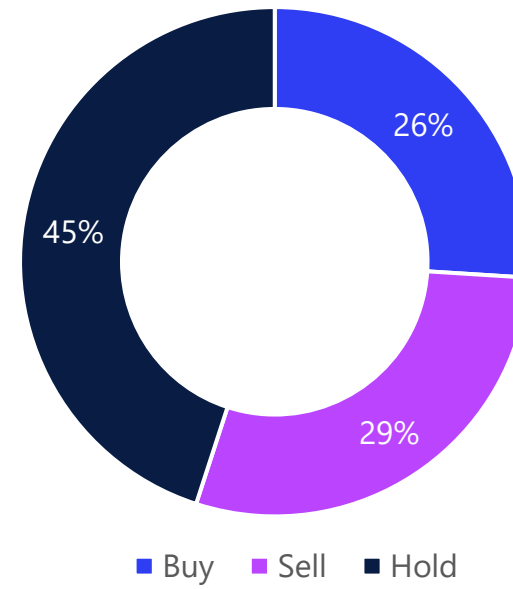
Ratings are based on scale of 1 to 10 with 10 being excellent.
Source RERC, 1Q 2022.

Recommendation for CRE Shifts from Buy to Sell QoQ

Investment Recommendations - 4Q 2021

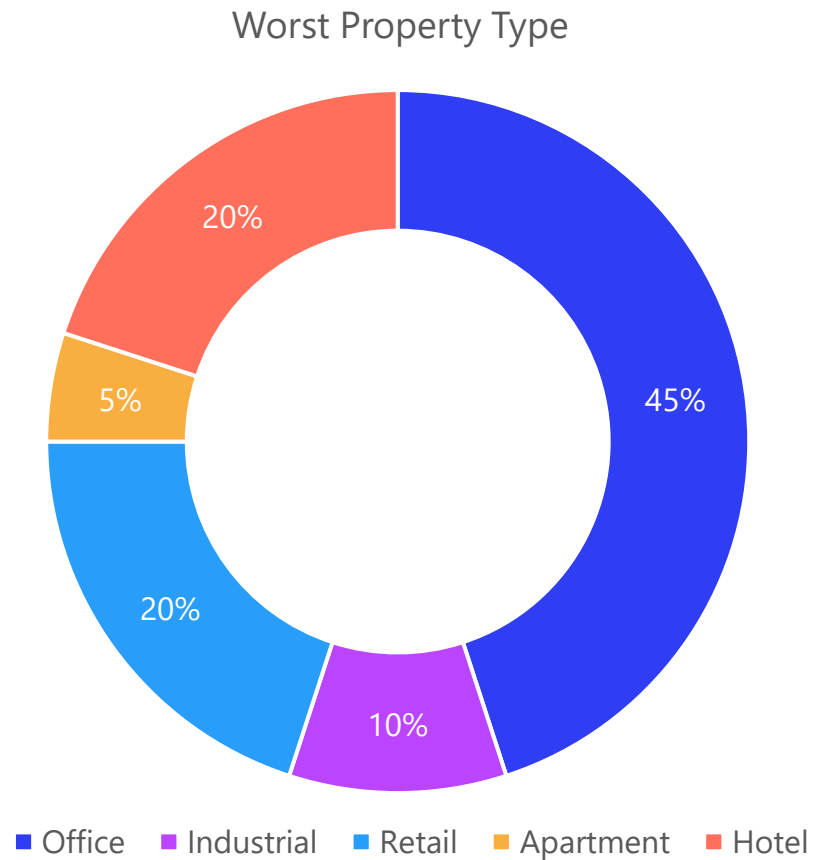
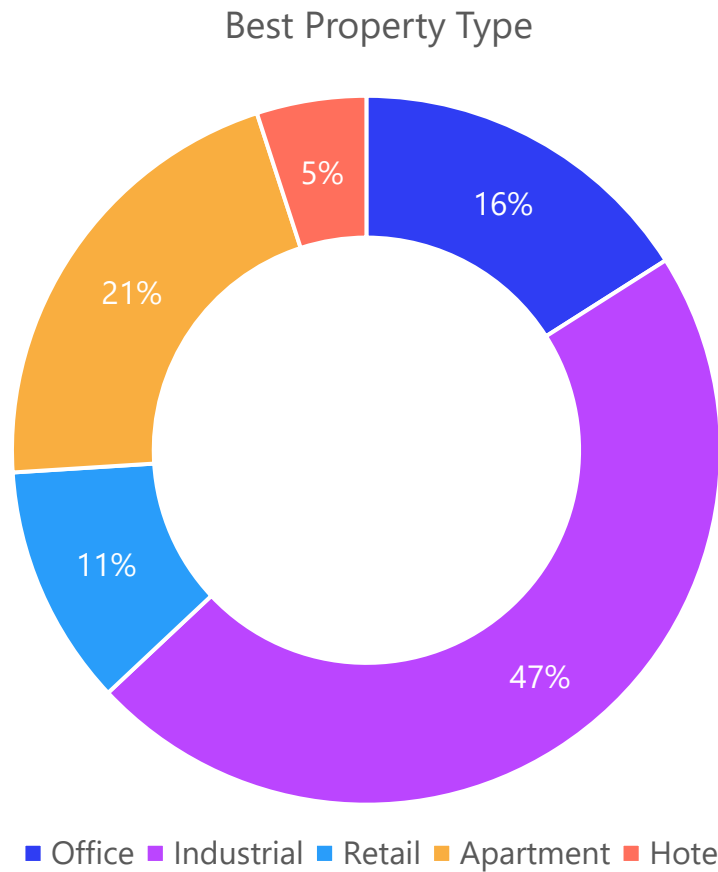


Investment Recommendations – 1Q 2022



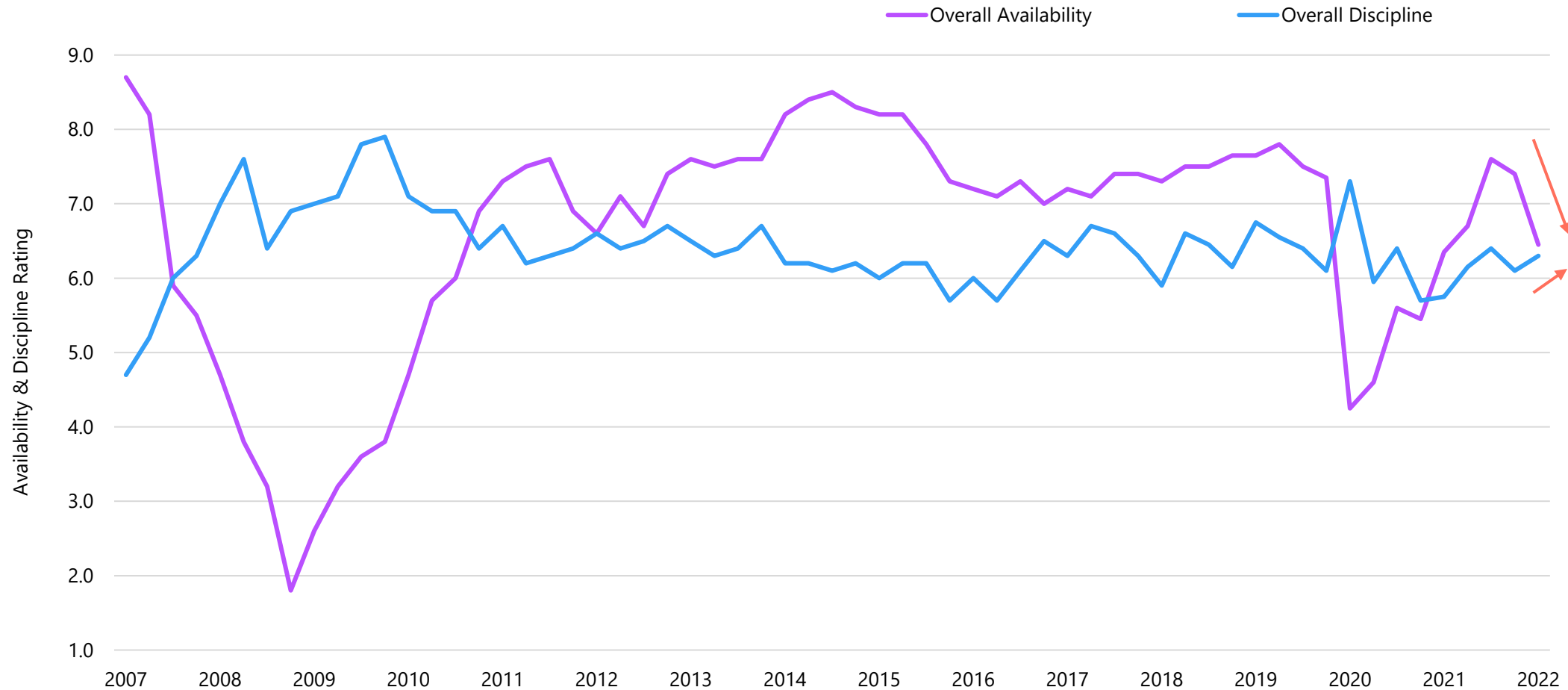
Source RERC, 1Q 2022.

Investors Keen on Industrial/Apartment, Wary of Office



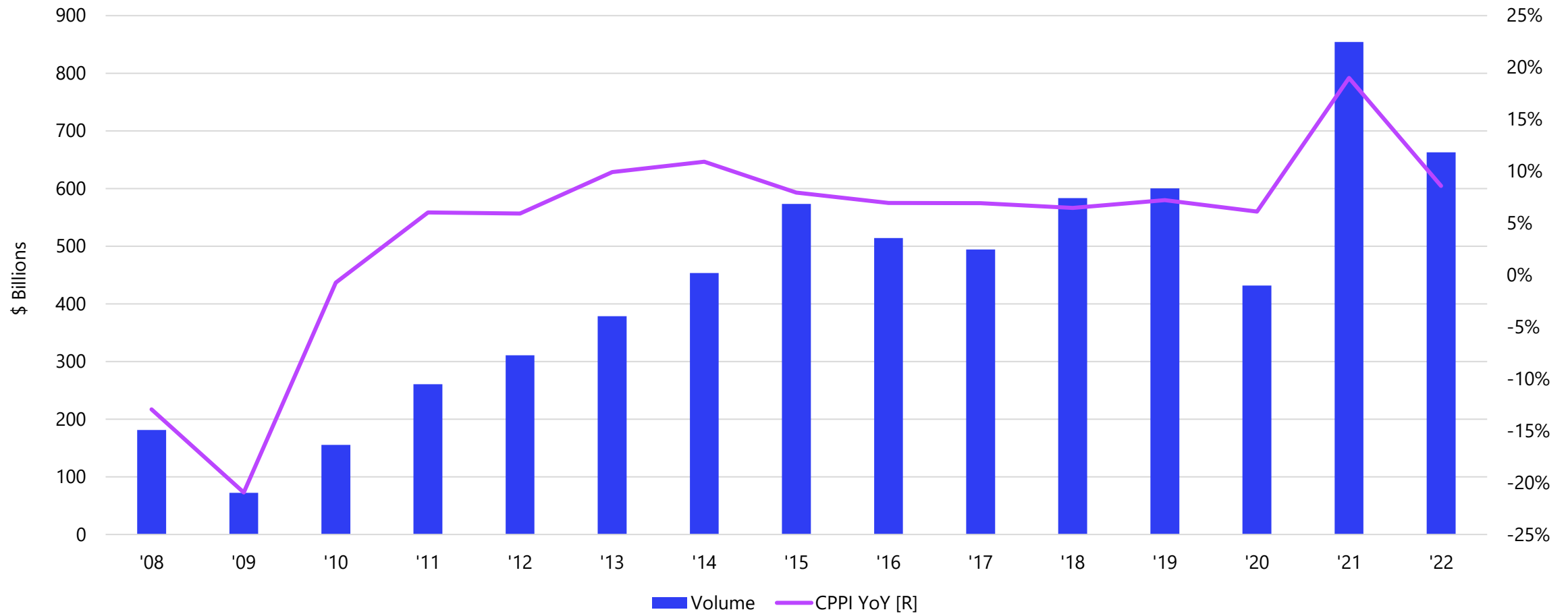
Source RERC, 1Q 2022.

Capital Availability Sharply Declines; Underwriting Discipline Ticks Up



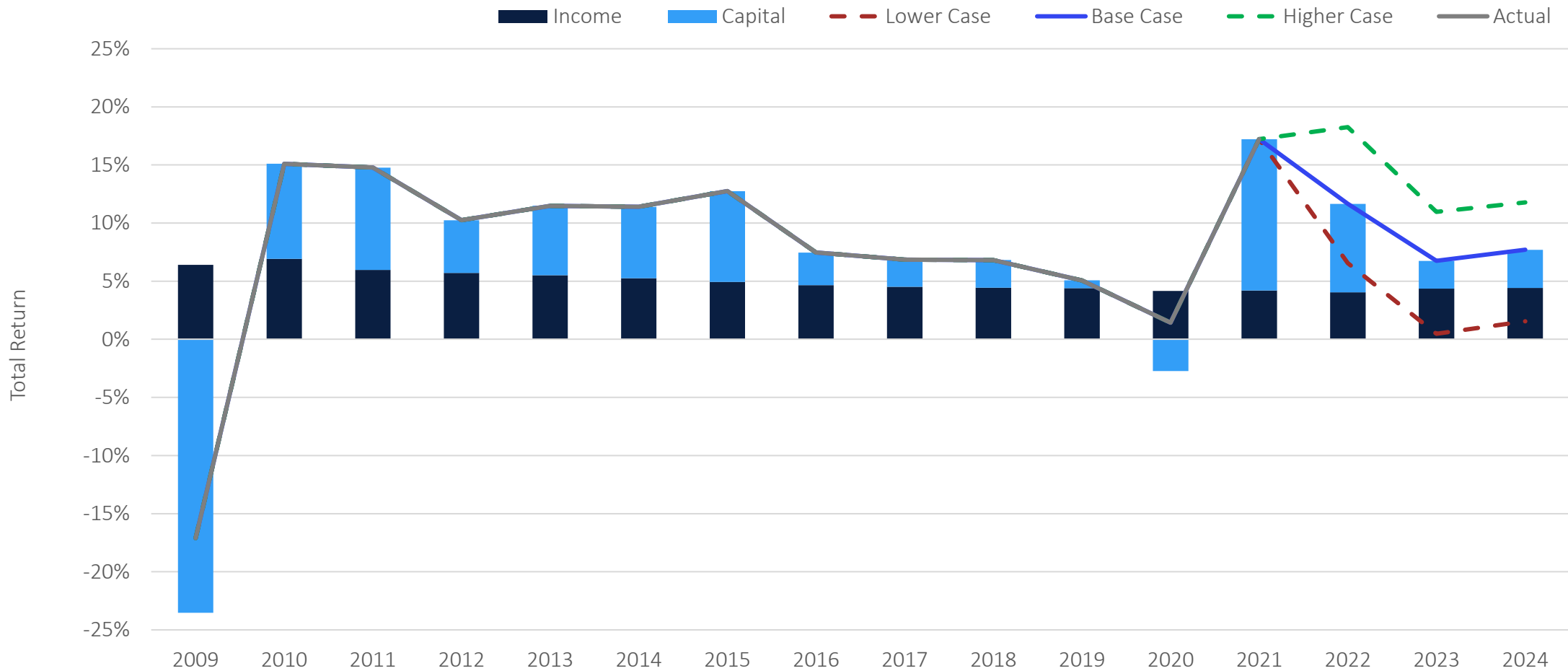
Ratings are based on scale of 1 to 10, with 10 being excellent.
Source RERC, 1Q 2022.

Volume and Prices Come Off of Record Highs; Likely to Fall Off Further



Source RCA, April 2022. Data for 2022 is YTD annualized.

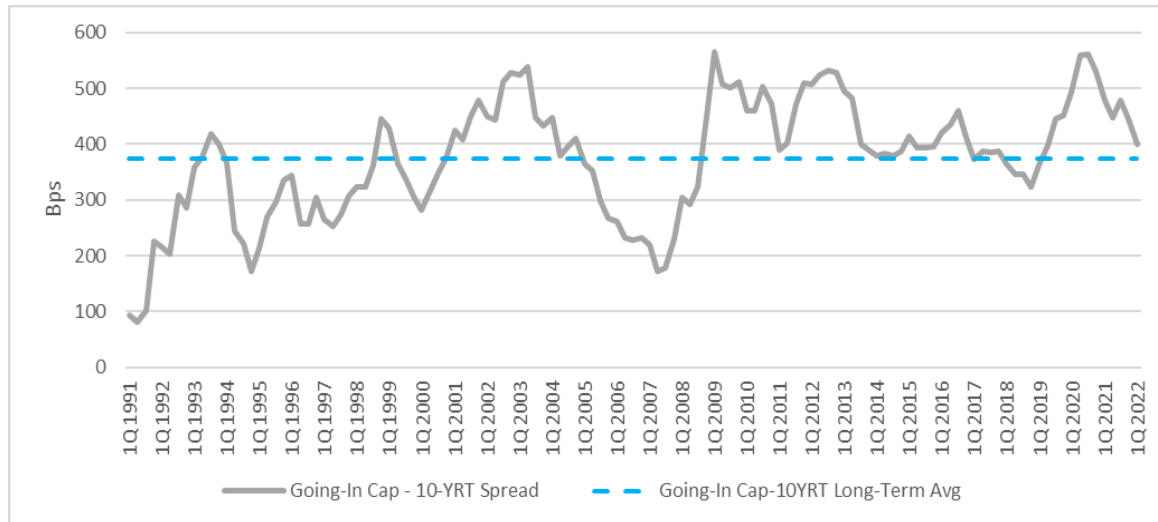
Overall CRE Returns to Retreat from Record Highs



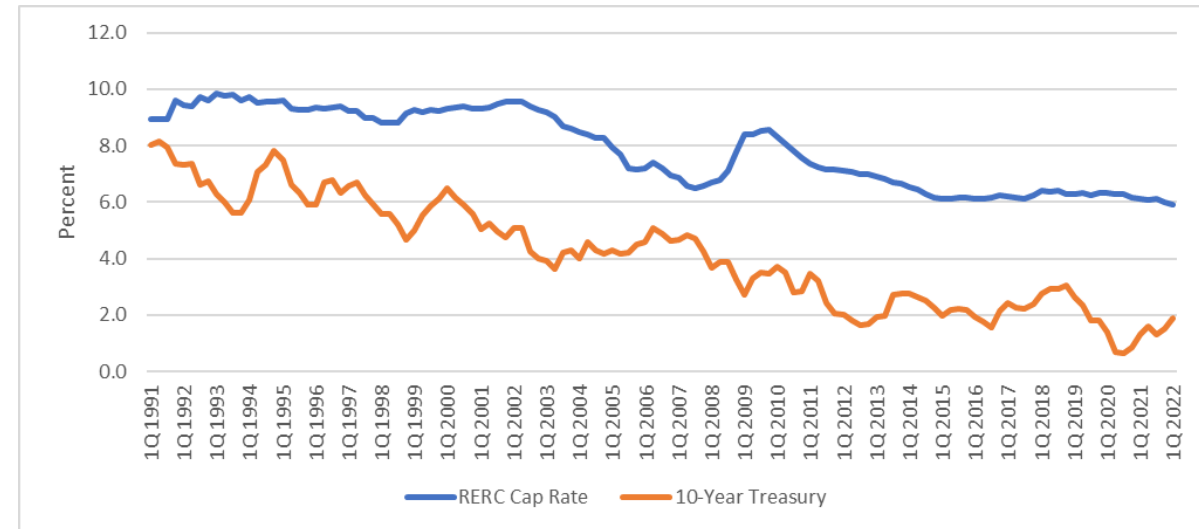
The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE, and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Sources RERC, NPI-ODCE, 1Q 2022.

RERC Cap Spreads Still Wide vs. Treasuries but Show Diminished Cushion to Rising Rates

Cap Rate/10-Year Treasury Spread



Cap Rate and 10-Year Treasury Rate

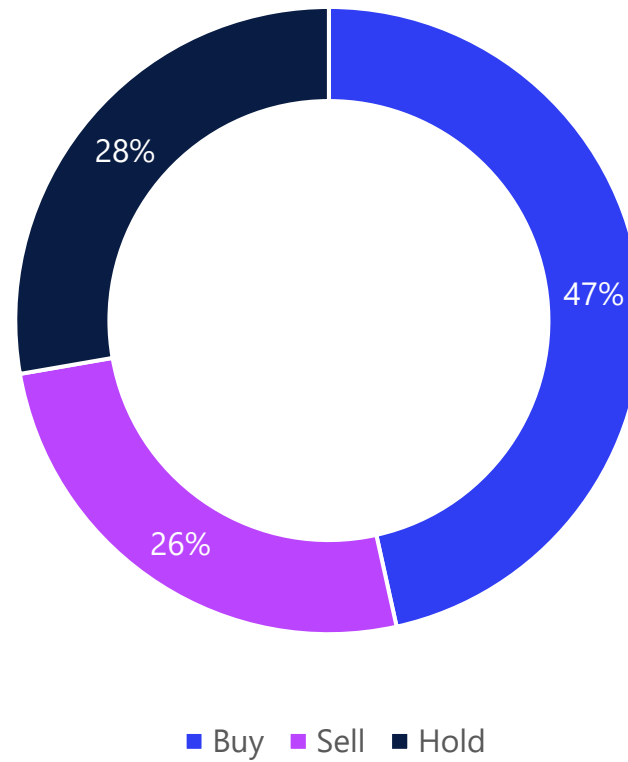


Source: RERC

3.0 Apartment Market Cools But Remains Strong

Investors Bullish on Apartments

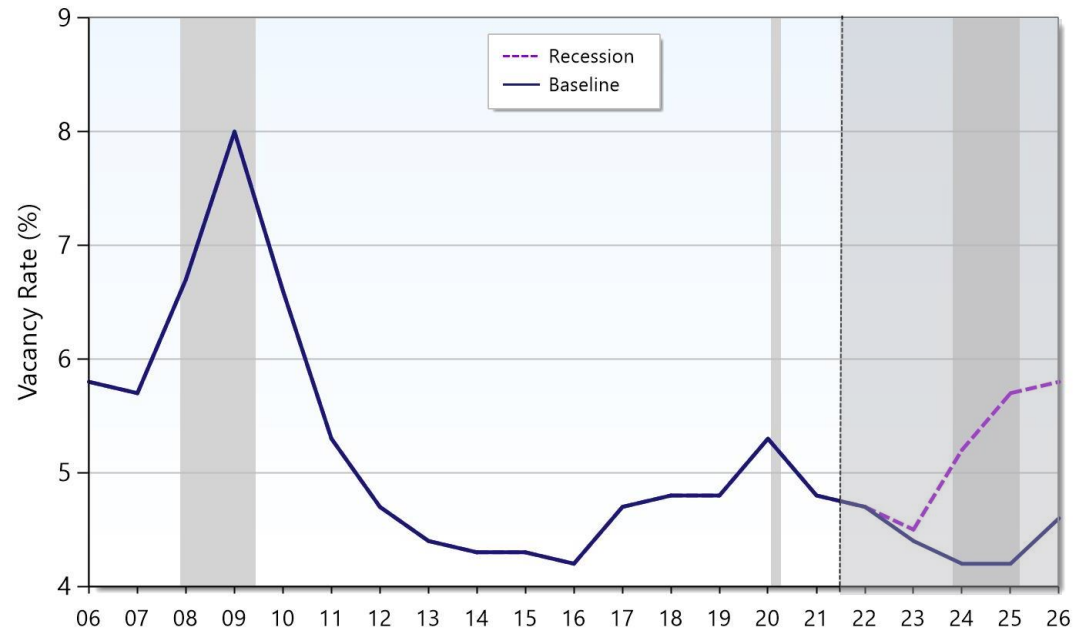
Investment Recommendations - Apartment



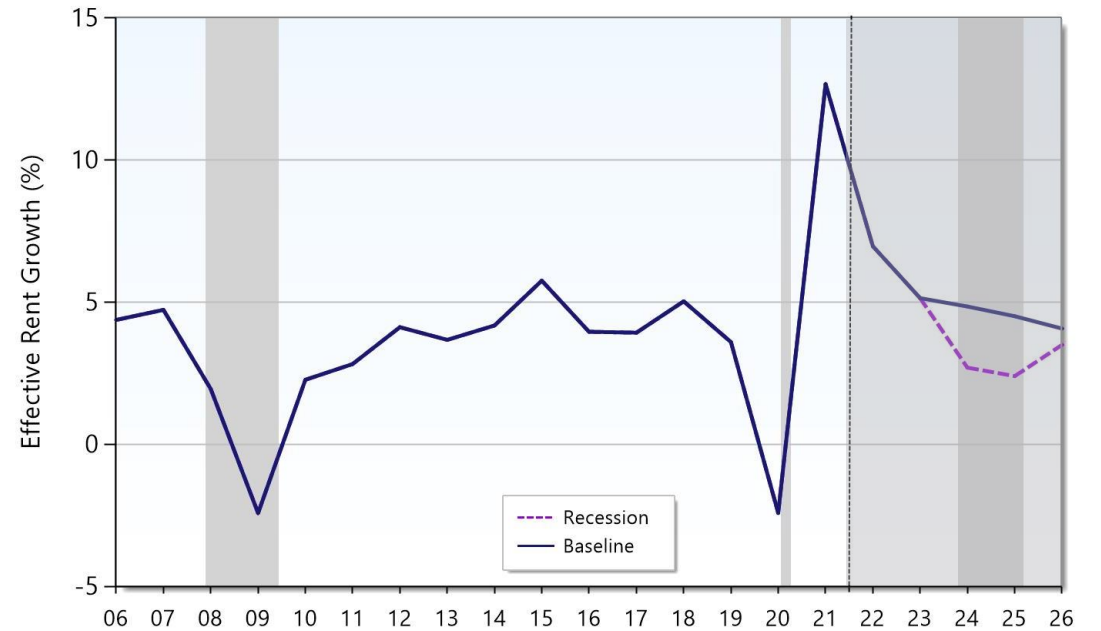
Source RERC, 1Q 2022.

Apartment More Resilient in a Downturn

Vacancies Would Rise Amid Downturn Scenario, But Remain Far Below GFC High



Despite Cooldown, Rent Growth Would Remain Positive

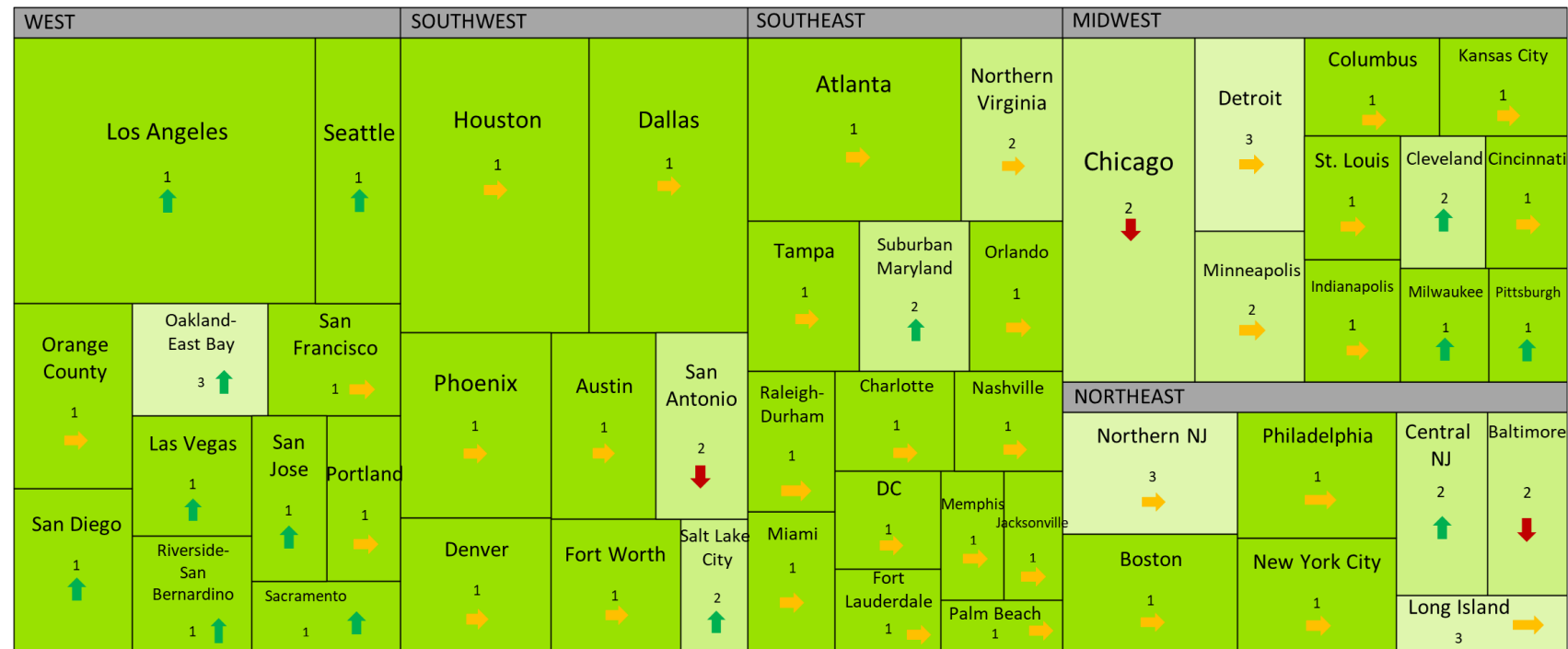


Source: Reis, SitusAMC Insights forecasts, 1Q 2022

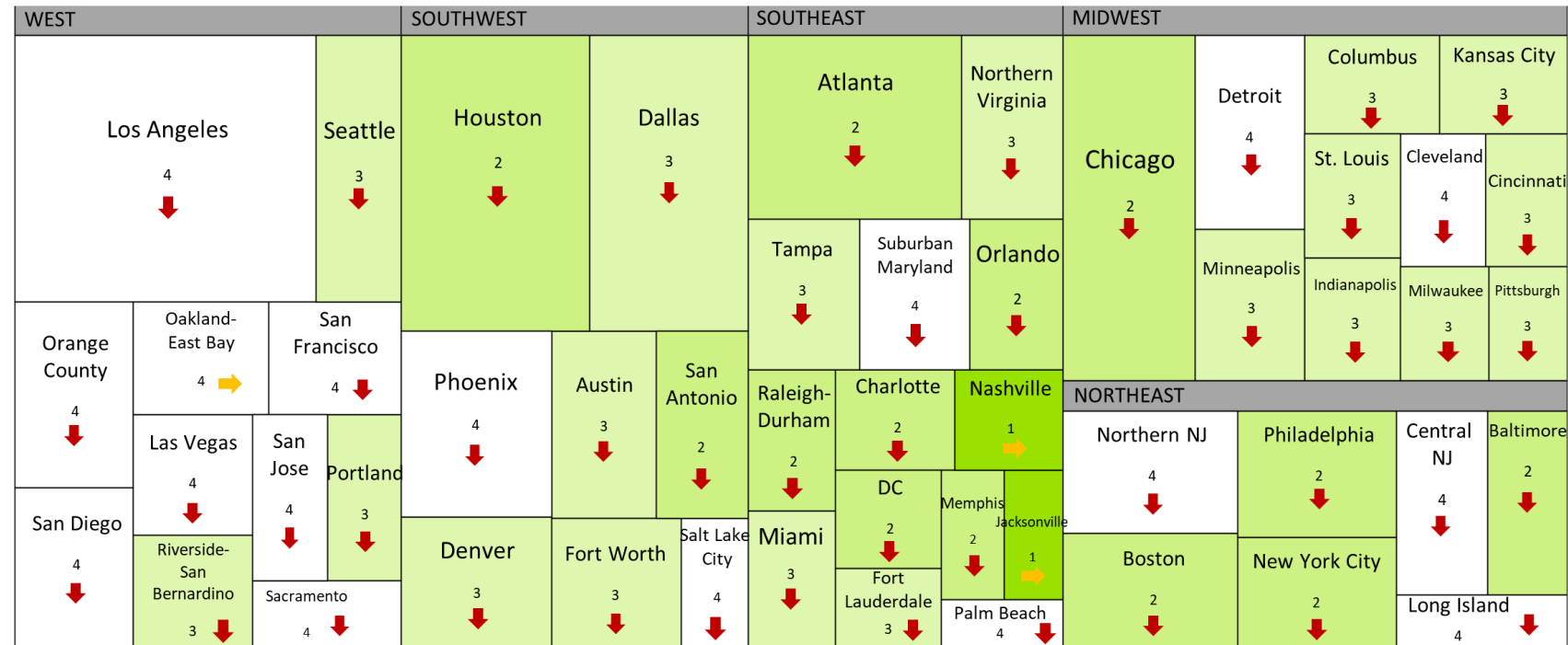
Apartment Heat Maps

- A recession would undermine NOI growth in many U.S. apartment markets, but the overall outlook remains good.
- All but four markets have lower scores in the recession case, and the average score dropped from 1.6 to 3.0, dragged down by large declines in the West and Southwest, which worsened by 1.7 and 1.8 points, respectively.

Baseline:

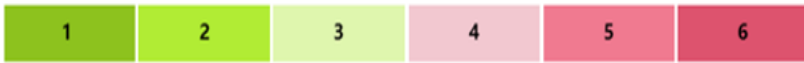


Recession:



NUMERICAL RANKINGS & COLORS

These represent the current and five-year projected strength of each market.



<< STRONGEST OUTLOOK >> MODERATE OUTLOOK << WEAKEST OUTLOOK >>

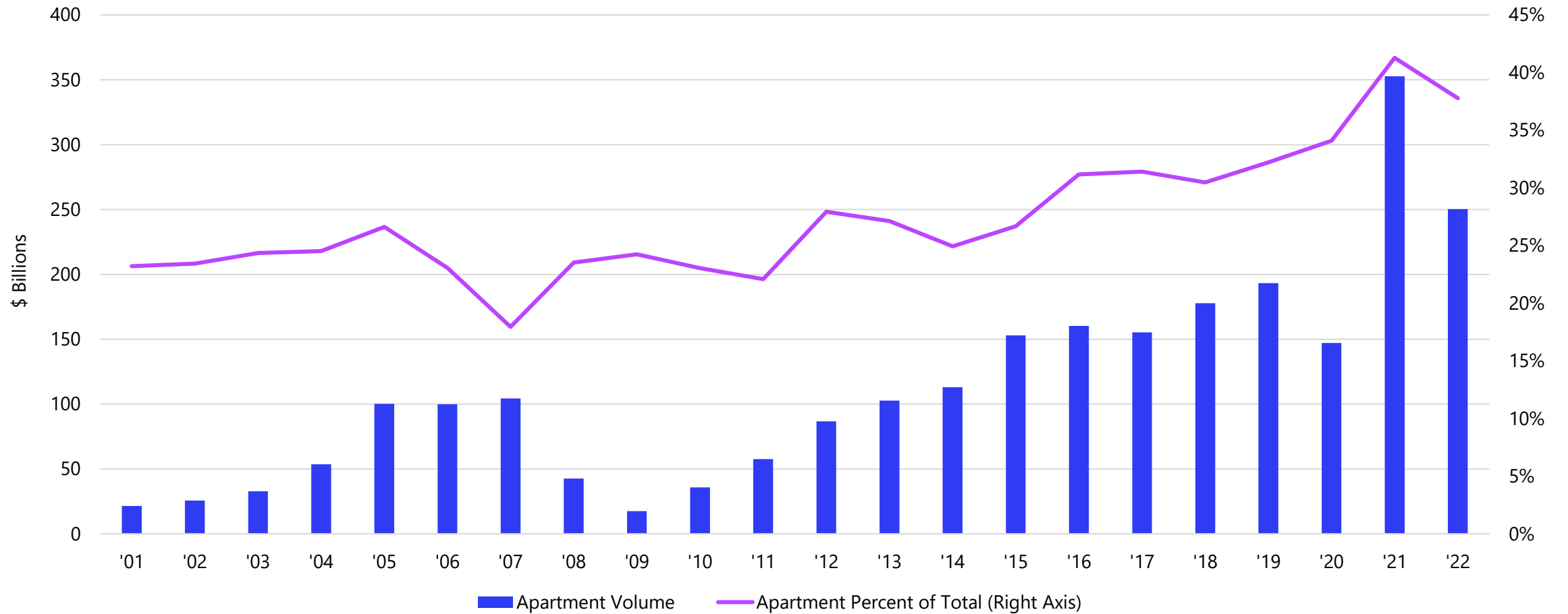
NOI Growth: >5% NOI Growth: 4%-5% NOI Growth: 3%-4% NOI Growth: 1.5%-3% NOI Growth: 0%-1.5% NOI Growth: Negative

ARROWS

- ▲ IMPROVED
 - ▬ UNCHANGED
 - ▼ DETERIORATED
- The arrows represent how each market is trending according to our most recent quarterly analysis. An upward arrow denotes an improved rating, a bar means the market is unchanged, while a down arrow signifies deterioration.

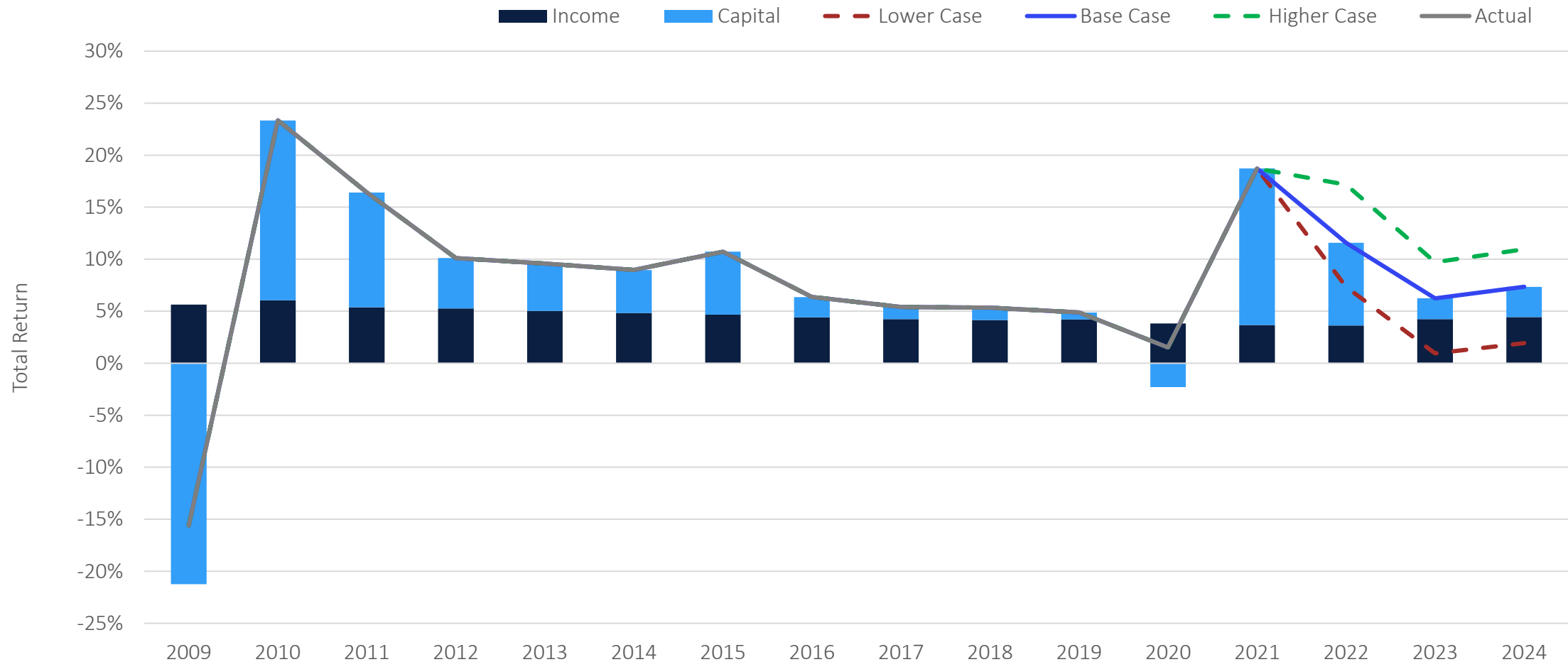
Sizing: The size of each market box represents each market's size by population for economic heat maps. The metros are aggregated by region; the combined size of each regional box represents the relative size of each region, enabling an at-a-glance take on regional conditions.

Apartment Transactions Skyrocketed in 2021; Lower but Still Strong So Far in 2022



Source RCA, April 2022. Data for 2022 is YTD annualized.

Apartment Returns Pull Back in 2022 and 2023 from Extraordinary 2021

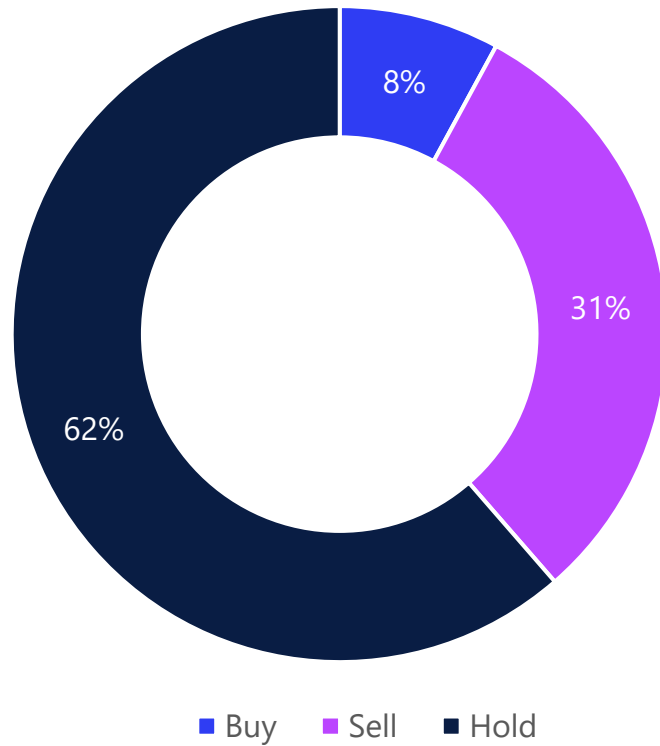


The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE, and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Sources RERC, NPI-ODCE, 1Q 2022.

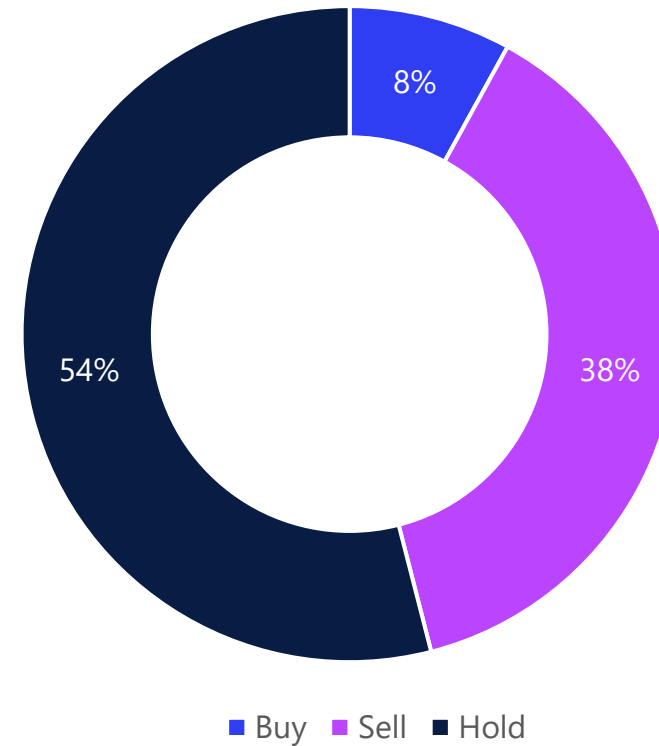
4.0 Office Sector Still Struggling

Investors Wary of Both Office Subtypes

Investment Recommendations - CBD



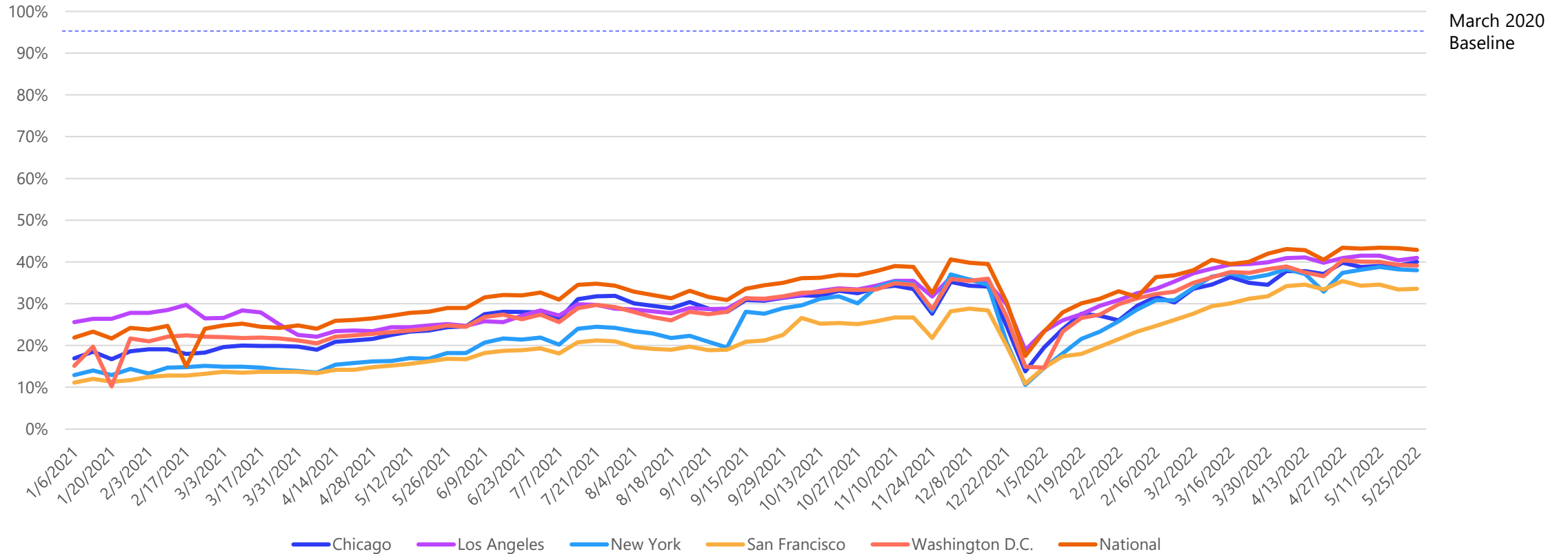
Investment Recommendations - Suburban



Source RERC, 1Q 2022.

Daily Office Usage Remains Well Below Pre-Pandemic Levels

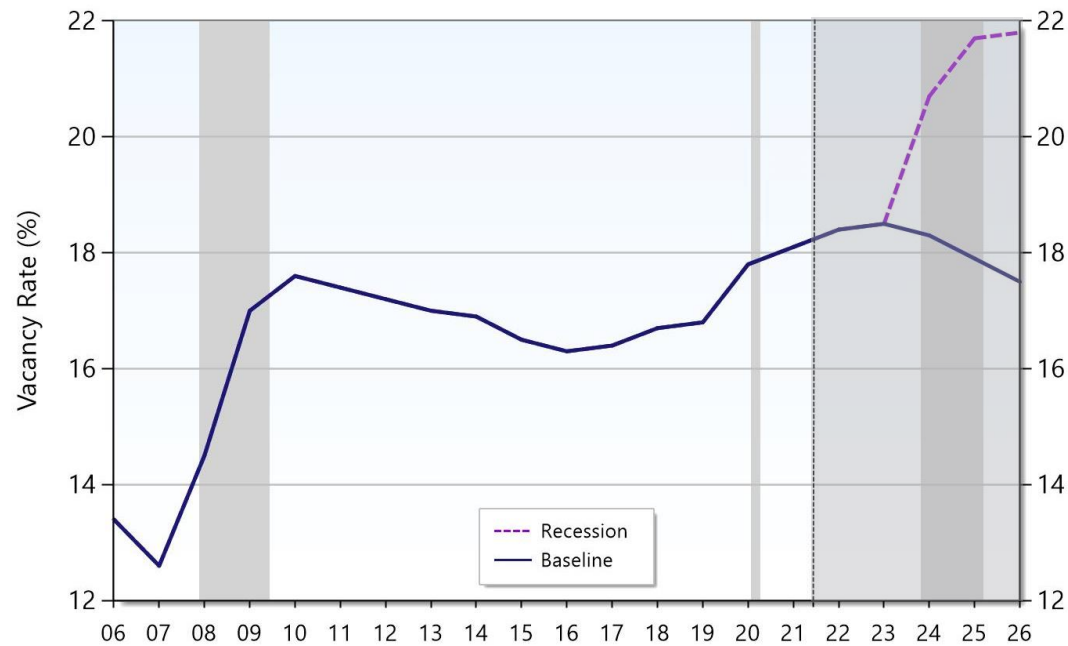
- 38 percent of New York employees went to the office in late May, a pandemic-era high, but far below the 80% norm before the pandemic.



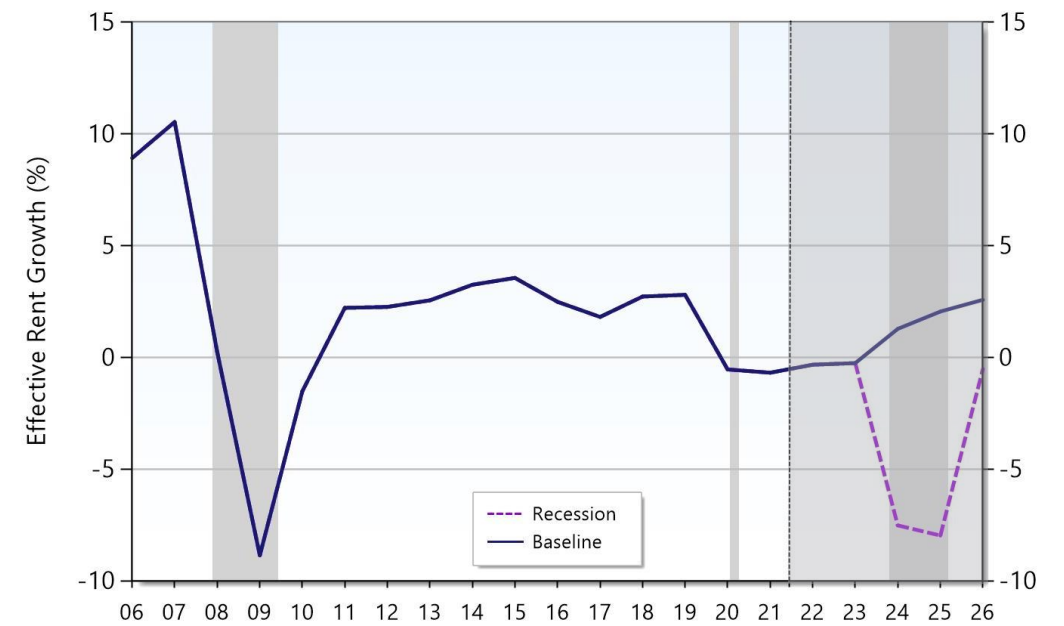
Sources Kastle Systems, SitusAMC Insights, March 2022.

Office Fundamentals Derailed in Downside Scenario

Office Vacancy Rates Surge to New Highs in Downside Forecast



Rent Growth Would Remain Negative Throughout Forecast Period

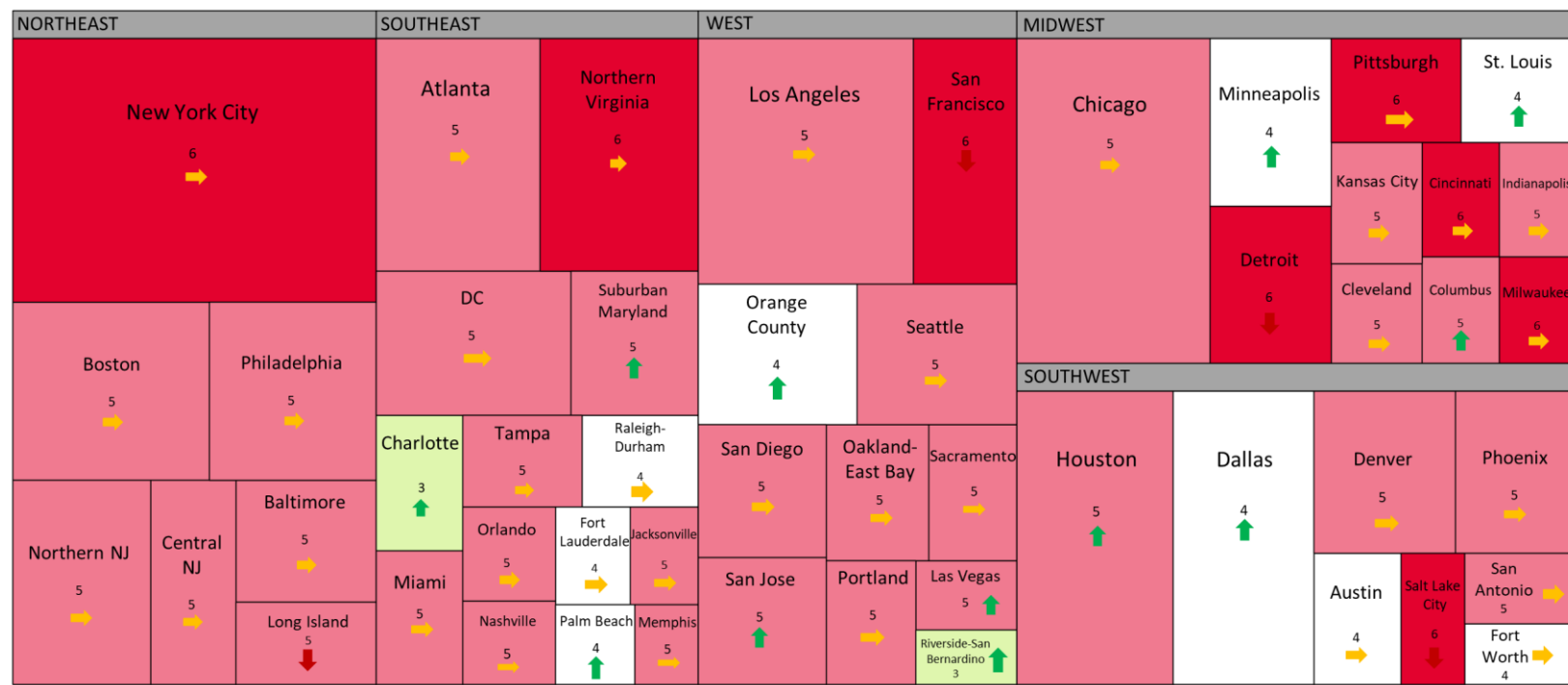


Source: Reis, SitusAMC Insights forecasts, 1Q 2022

Office Heat Maps

- The already weak outlet for office becomes grim in event of recession.
- All markets receive a 6 rating, indicating NOI declines over the 5-year horizon in the recession case.

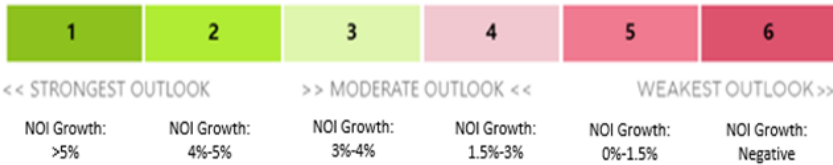
Baseline:



Recession:

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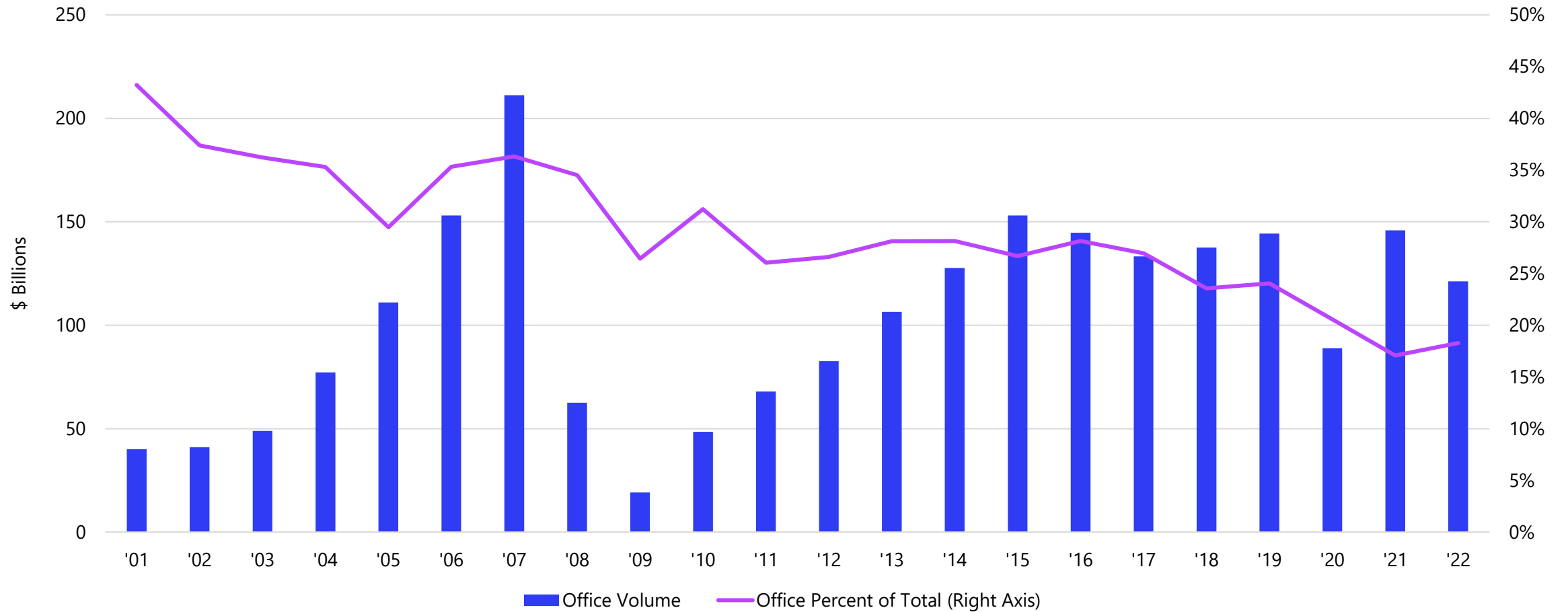
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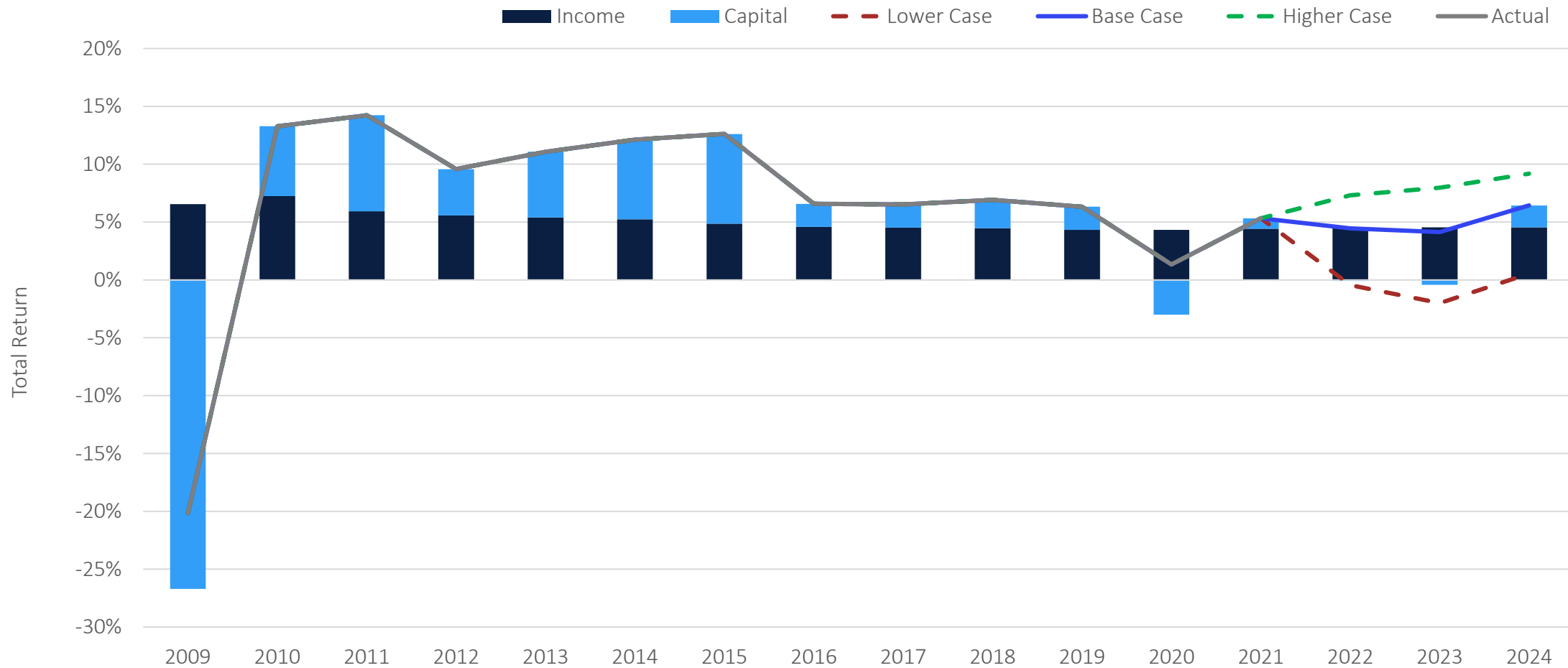


Office Deal Flow Below Pre-COVID-19 Levels



Source RCA, April 2022. Data for 2022 is YTD annualized.

Office Returns to Remain Subdued

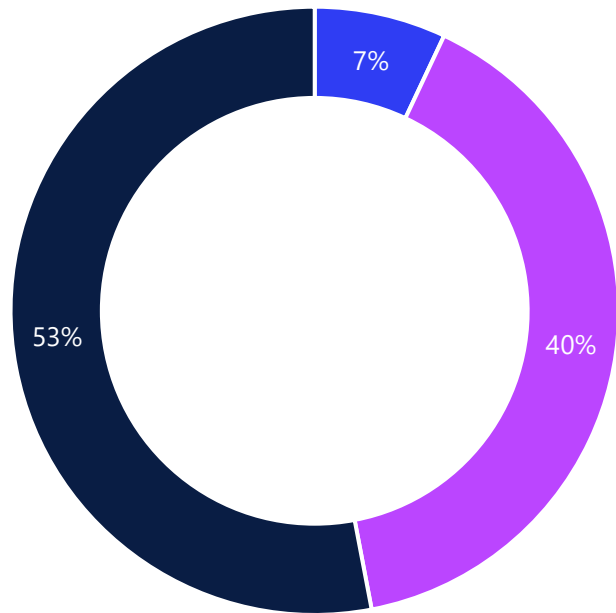


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5.0 Flickers of Light in Retail

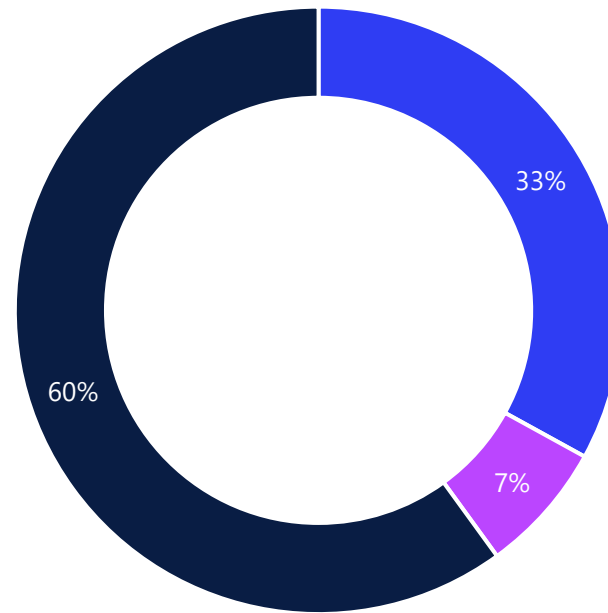
Investors Sour on Malls, Very Bullish on Neighborhood/Community Centers

Investment Recommendations - Mall



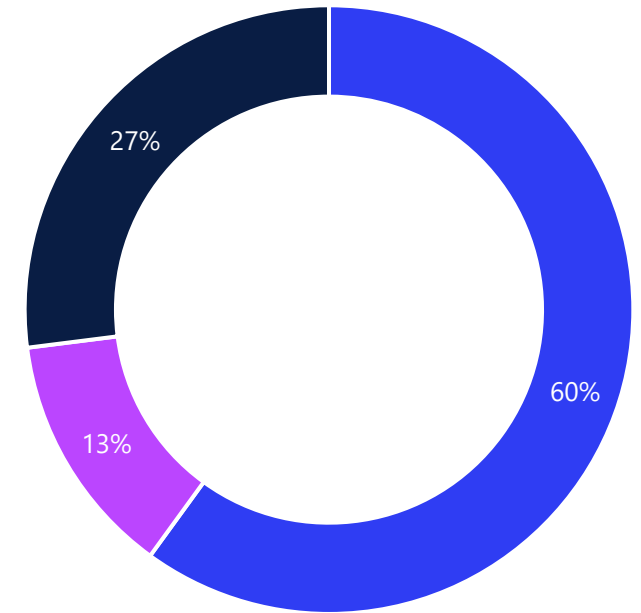
■ Buy ■ Sell ■ Hold

Investment Recommendations - Pwr Ctr



■ Buy ■ Sell ■ Hold

Investment Recommendations - Neigh/Comm

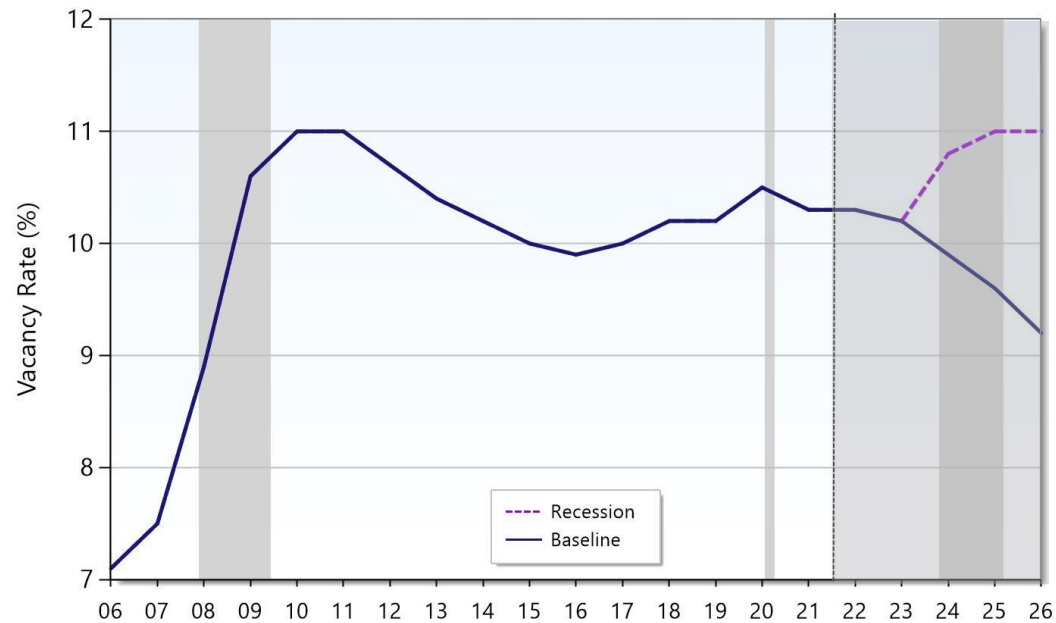


■ Buy ■ Sell ■ Hold

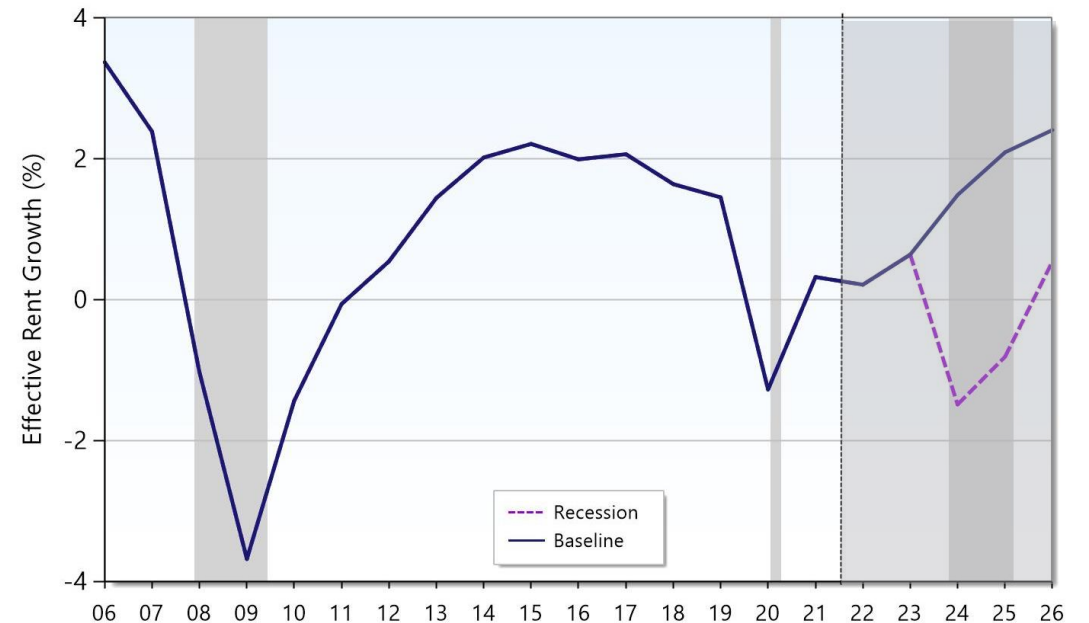
Source RERC, 1Q 2022.

Retail Fundamentals Would Reverse Course Amid Downside Scenario

Retail Vacancy Rates Would Approach Post-GFC Highs



...While the Sector Grapples with Rent Losses

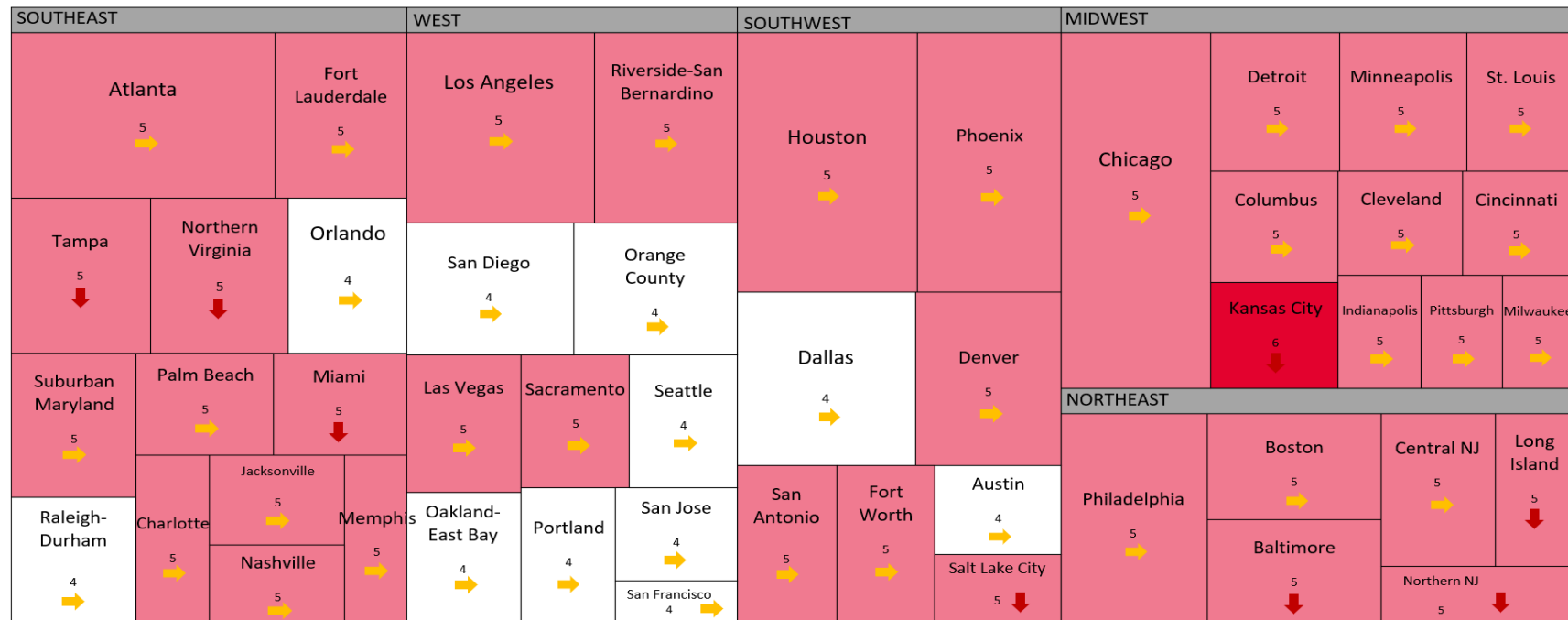


Source: Reis, SitusAMC Insights forecasts, 1Q 2022.

Retail Heat Maps

- The tentative signs of improvement in some retail markets are reversed in event of recession.
- Most retail markets receive a 6 rating, indicating NOI declines over the 5-year horizon, in the recession case.

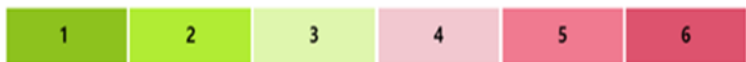
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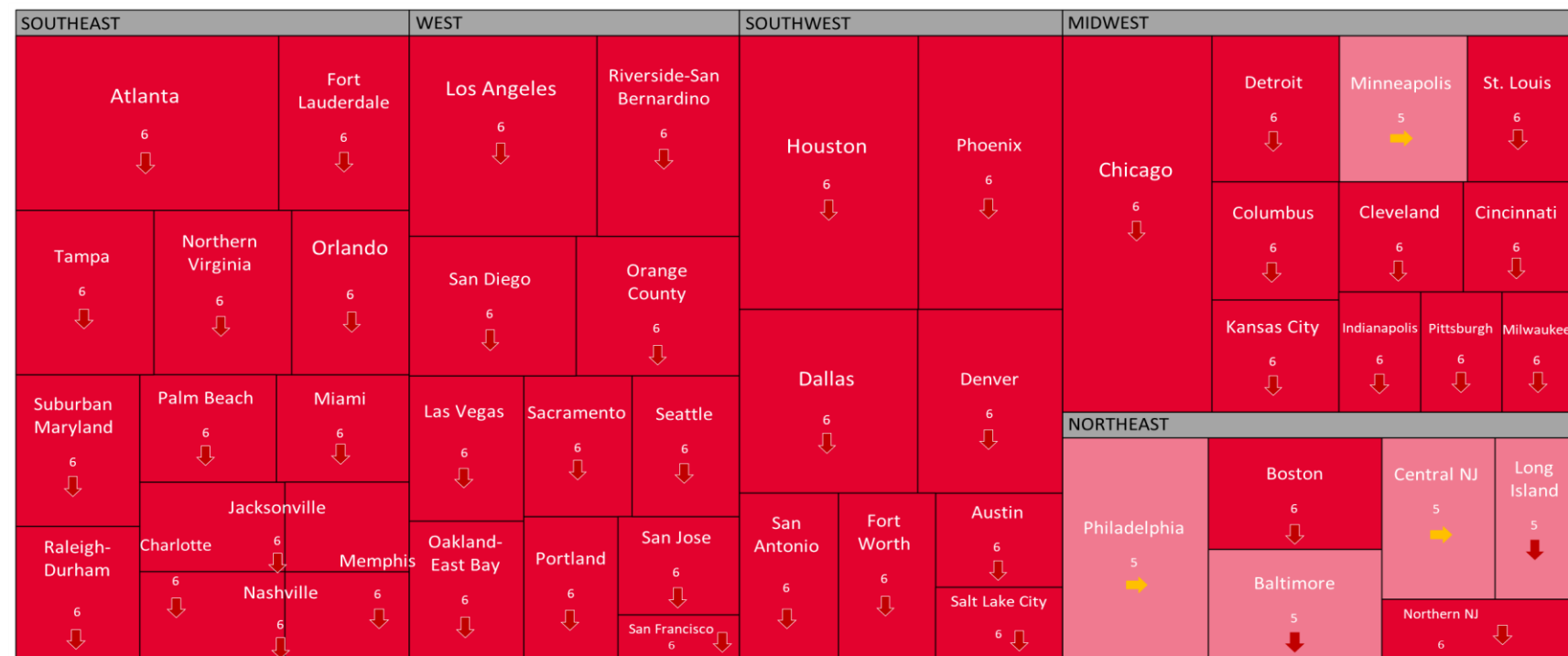
<< STRONGEST OUTLOOK >> MODERATE OUTLOOK << WEAKEST OUTLOOK >>

NOI Growth: >5% NOI Growth: 4%-5% NOI Growth: 3%-4% NOI Growth: 1.5%-3% NOI Growth: 0%-1.5% NOI Growth: Negative

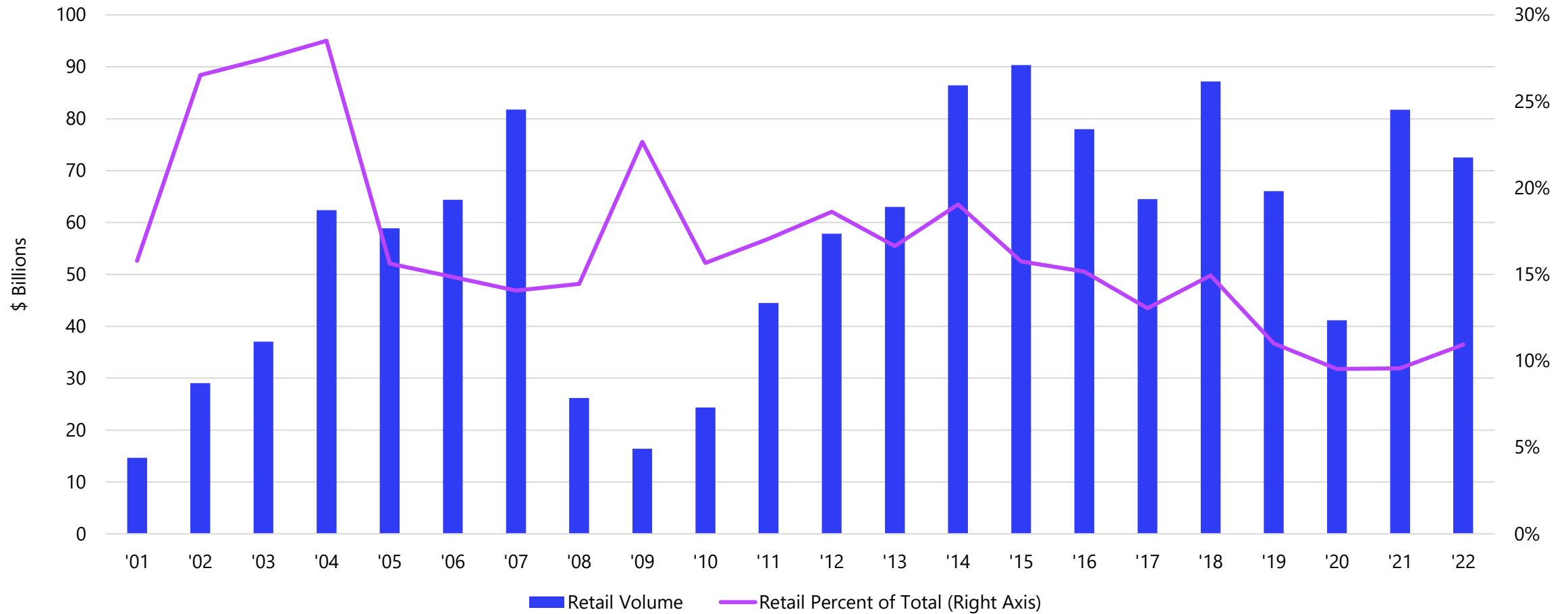
ARROWS

- ▲ IMPROVED
 - ▬ UNCHANGED
 - ▼ DETERIORATED
- The arrows represent how each market is trending according to our most recent quarterly analysis. An upward arrow denotes an improved rating, a bar means the market is unchanged, while a down arrow signifies deterioration.

Sizing: The size of each market box represents each market's size by population for economic heat maps. The metros are aggregated by region; the combined size of each regional box represents the relative size of each region, enabling an at-a-glance take on regional conditions.

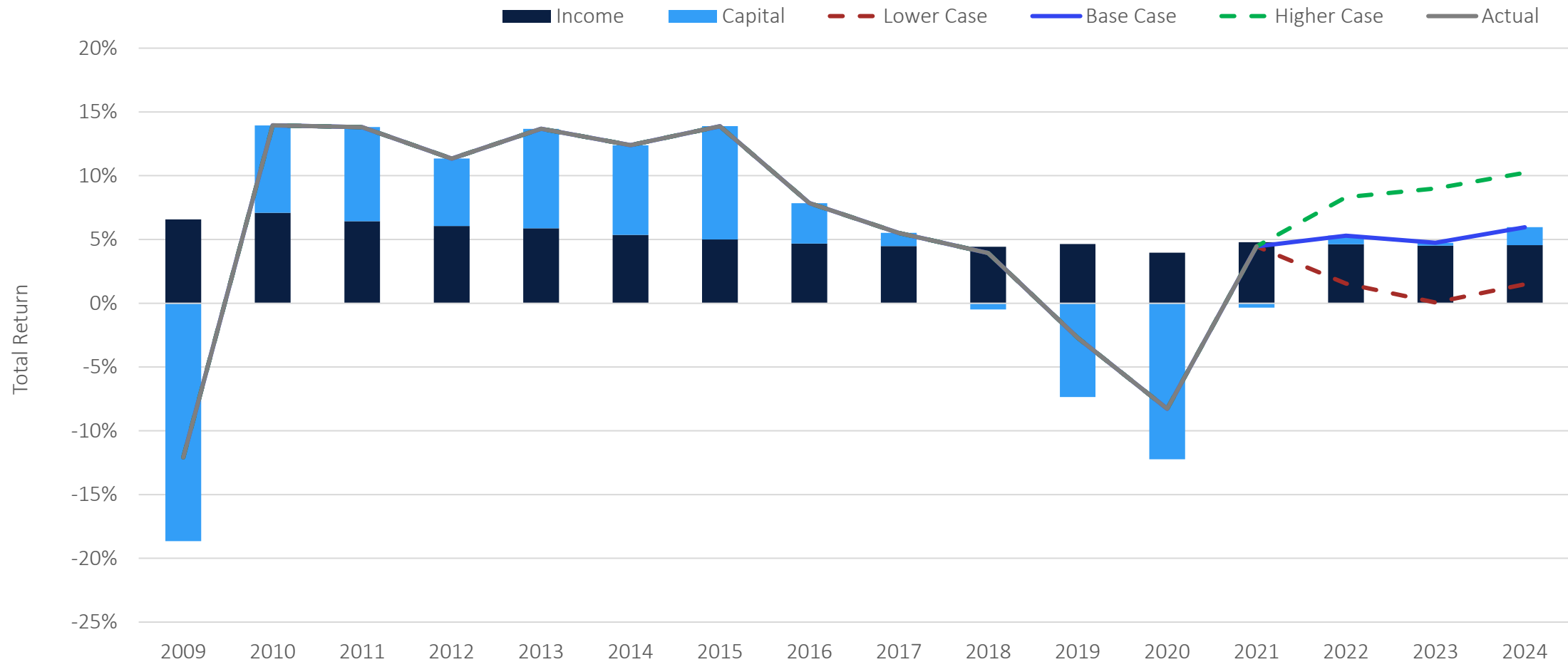


Investors Becoming Slightly More Interested in Retail in 2022



Source RCA, April 2022. Data for 2022 is YTD annualized.

Retail Capital Returns Slowly Shift to Positive

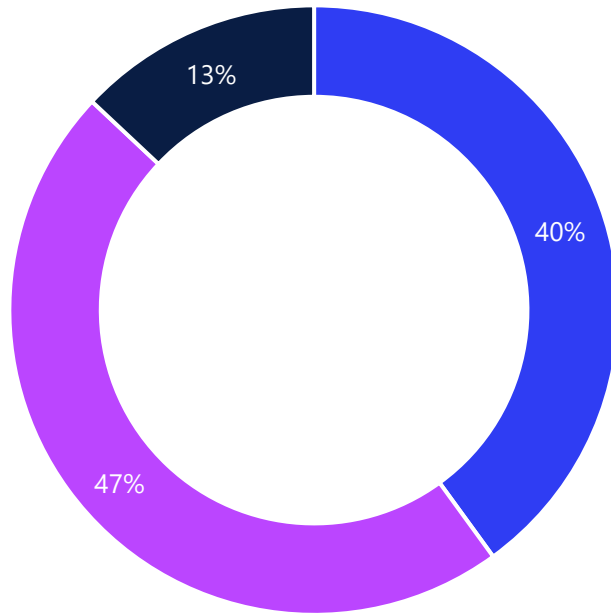


The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE, and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Sources RERC, NPI-ODCE, 1Q 2022.

6.0 Industrial Still Strong Though Decelerating

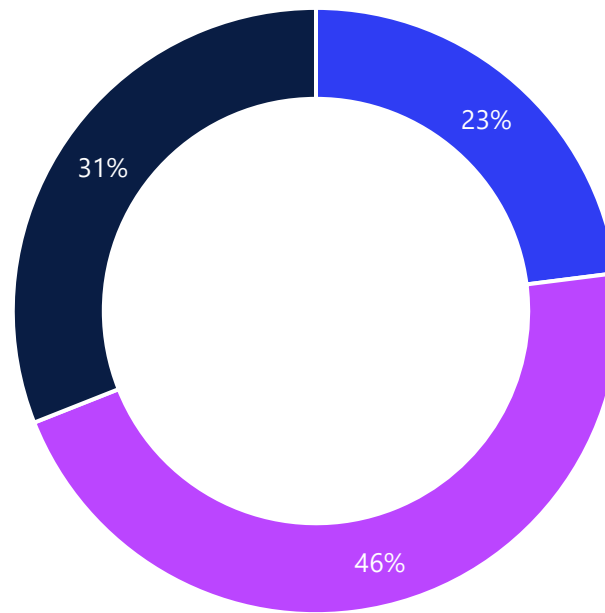
Investors Become Squeamish on Industrial

Investment Recommendations - WHSE



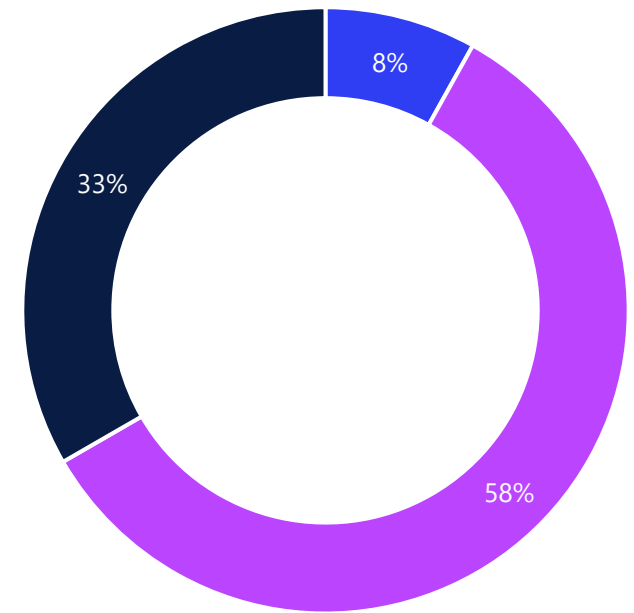
■ Buy ■ Sell ■ Hold

Investment Recommendations - R&D



■ Buy ■ Sell ■ Hold

Investment Recommendations - Flex

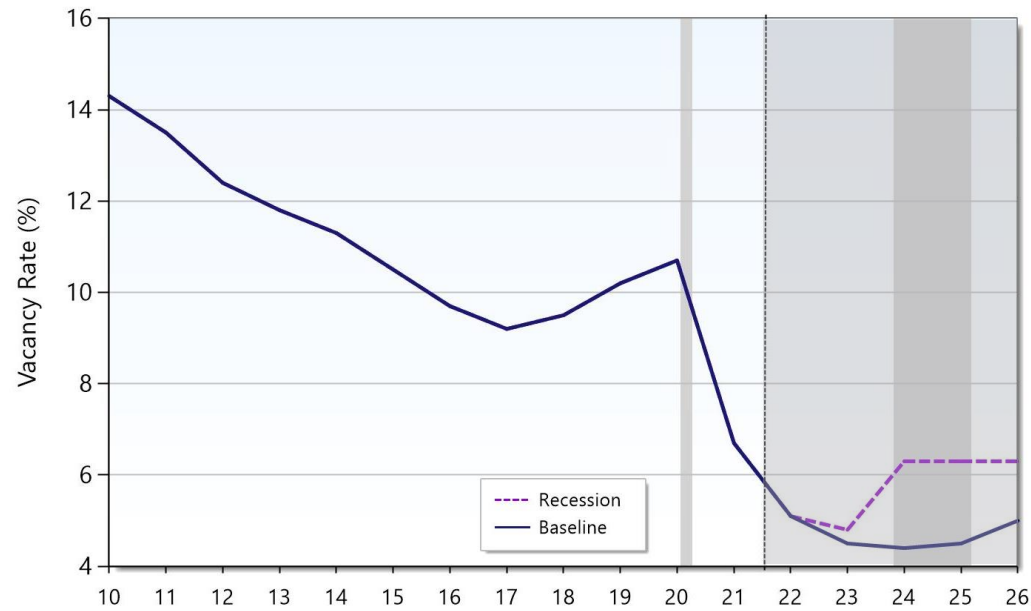


■ Buy ■ Sell ■ Hold

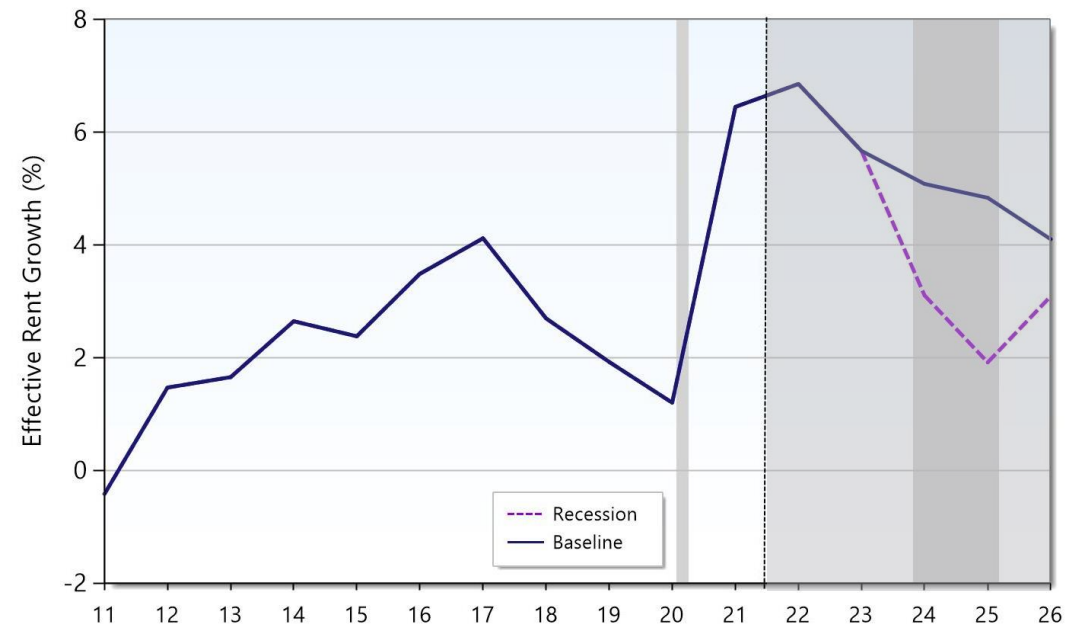
Source RERC, 1Q 2022.

Industrial Shows More Resilience Through Potential Downturn

Despite Minor Uptick, Industrial Vacancies Would Remain Tight Amid Downturn Scenario



Rent Gains Would Slow But Remain Positive

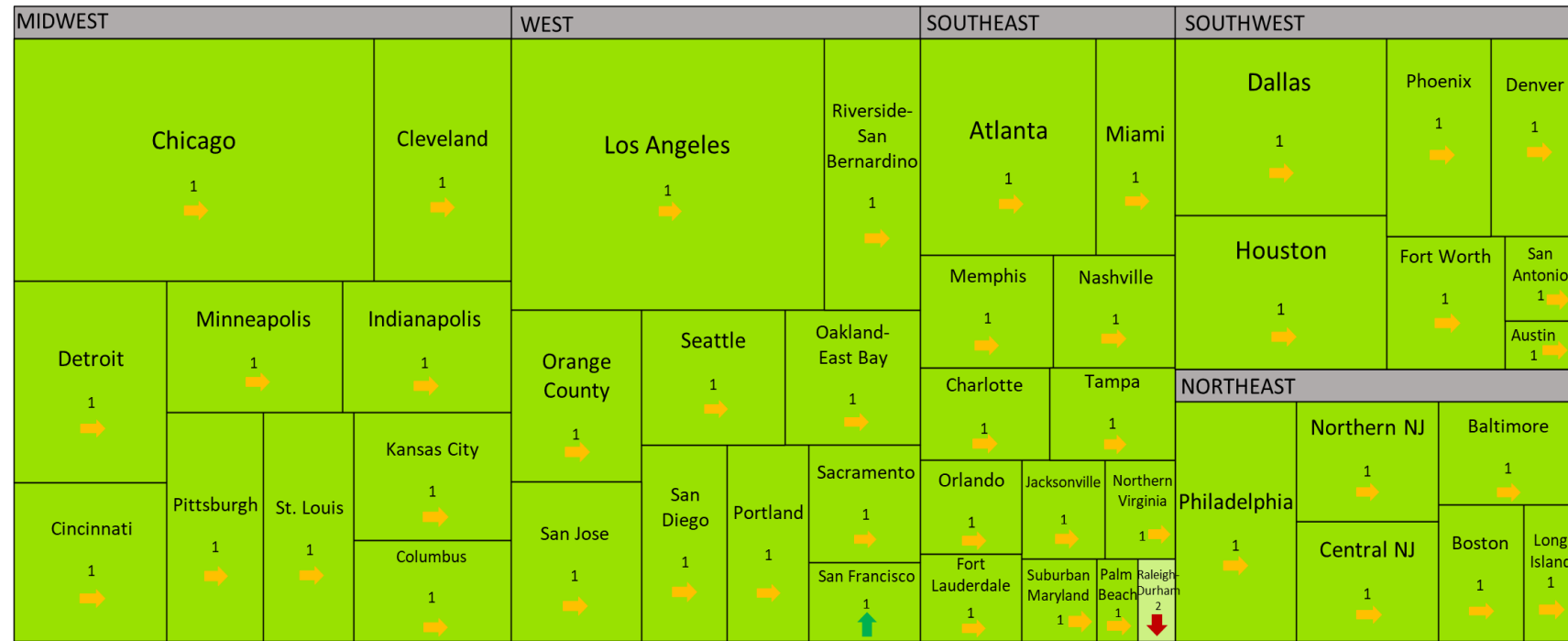


Source: Reis, SitusAMC Insights forecasts, 1Q 2022

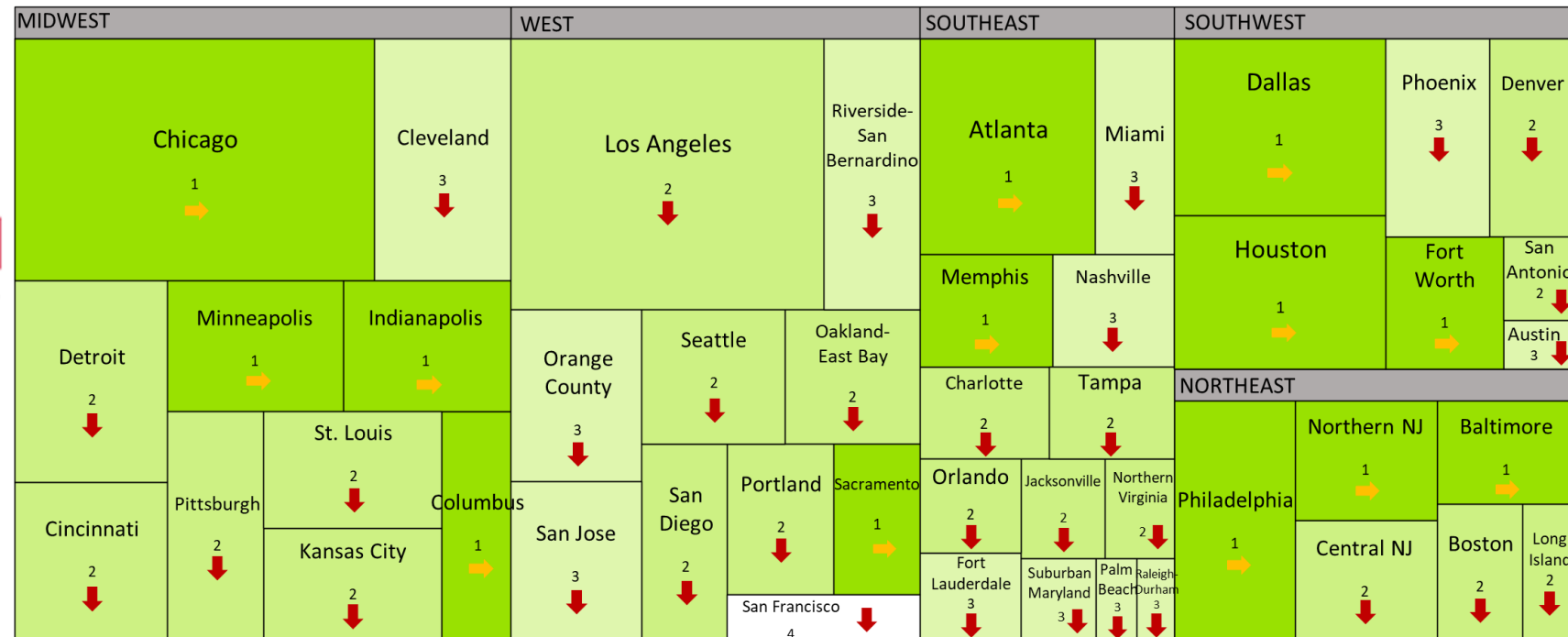
Industrial Heat Maps

- The strength of industrial fundamentals today helps most markets power through a recession with minor damage.
- However, 33 markets received lower scores in recession scenario and the average overall score falls from 1 to 2.
- A notable trend is the strength of large markets in a recession. Except for the West region, the larger markets in each region, on average, did better than their smaller counterparts.

Baseline:

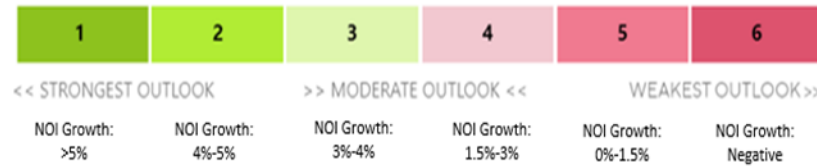


Recession:



NUMERICAL RANKINGS & COLORS

These represent the current and five-year projected strength of each market.

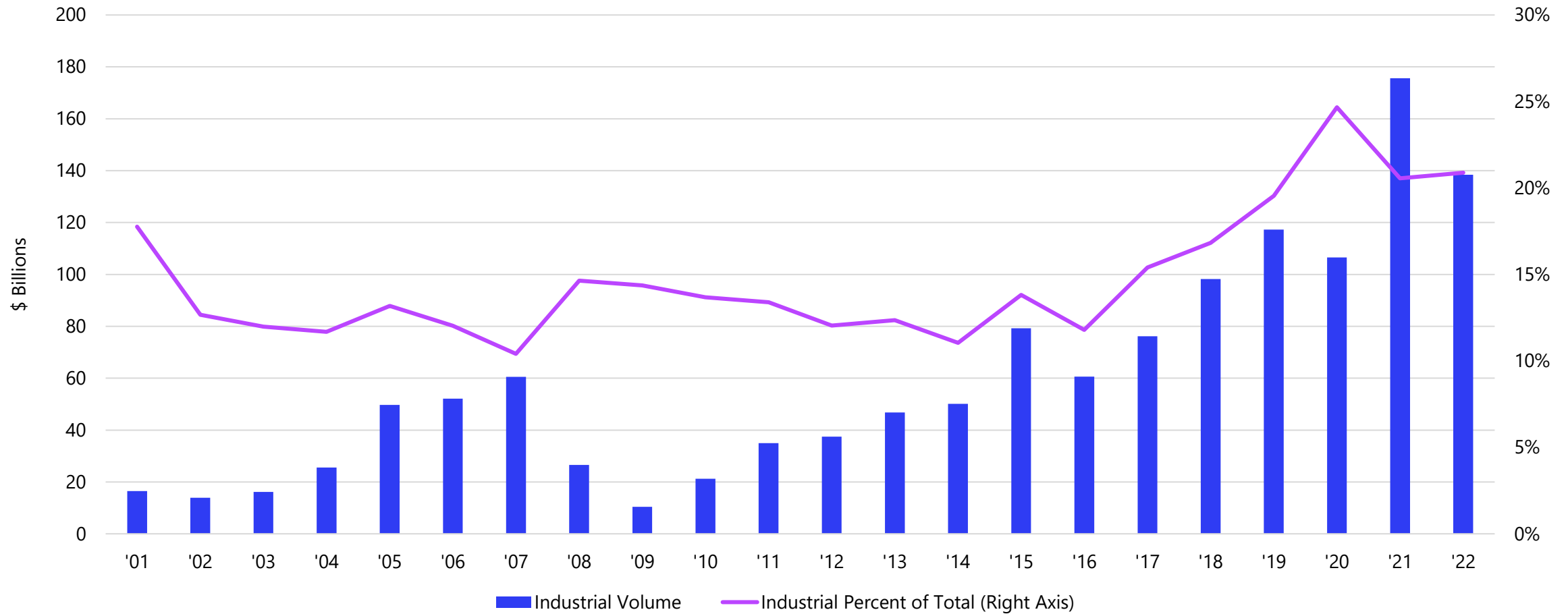


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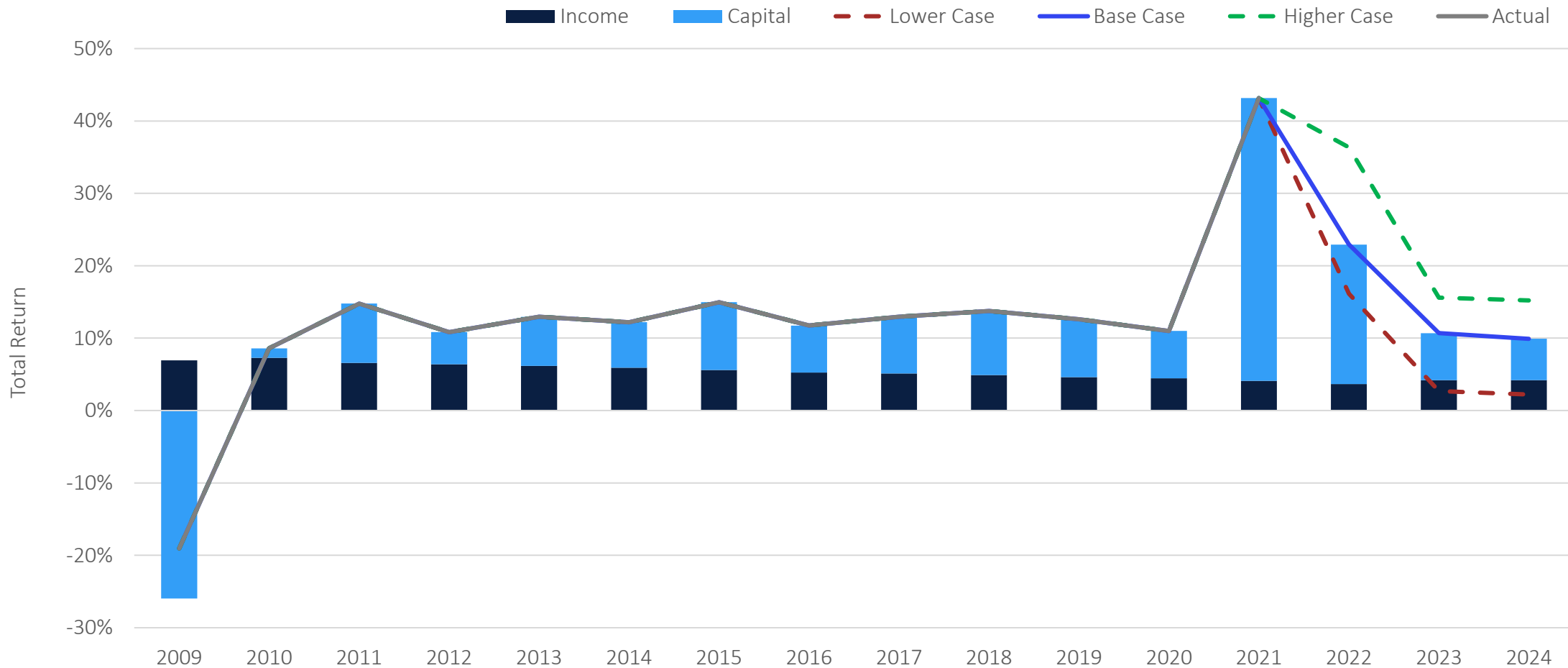
Sizing: The size of each market box represents each market's size by population for economic heat maps. The metros are aggregated by region; the combined size of each regional box represents the relative size of each region, enabling an at-a-glance take on regional conditions.

Industrial Volume Strong So Far in 2022; Allocations Increased Amid Red-Hot Demand



Source RCA, April 2022. Data for 2022 is YTD annualized.

Industrial Returns to Remain Strong but Ease from Record Highs



The total return forecast is RERC's proprietary model based on RERC data and data from NPI-ODCE, and is for unleveraged, institutional-grade properties. Total returns are derived from an income component and a capital appreciation/depreciation component. Sources RERC, NPI-ODCE, 1Q 2022.

Thank You!



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