



Real Estate in Changing Economic Times

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Executive Summary

- A shift in economic regimes has occurred exiting the pandemic
- Increased inflation creates new challenges for capital markets
- Real estate capital markets are impacted

Background

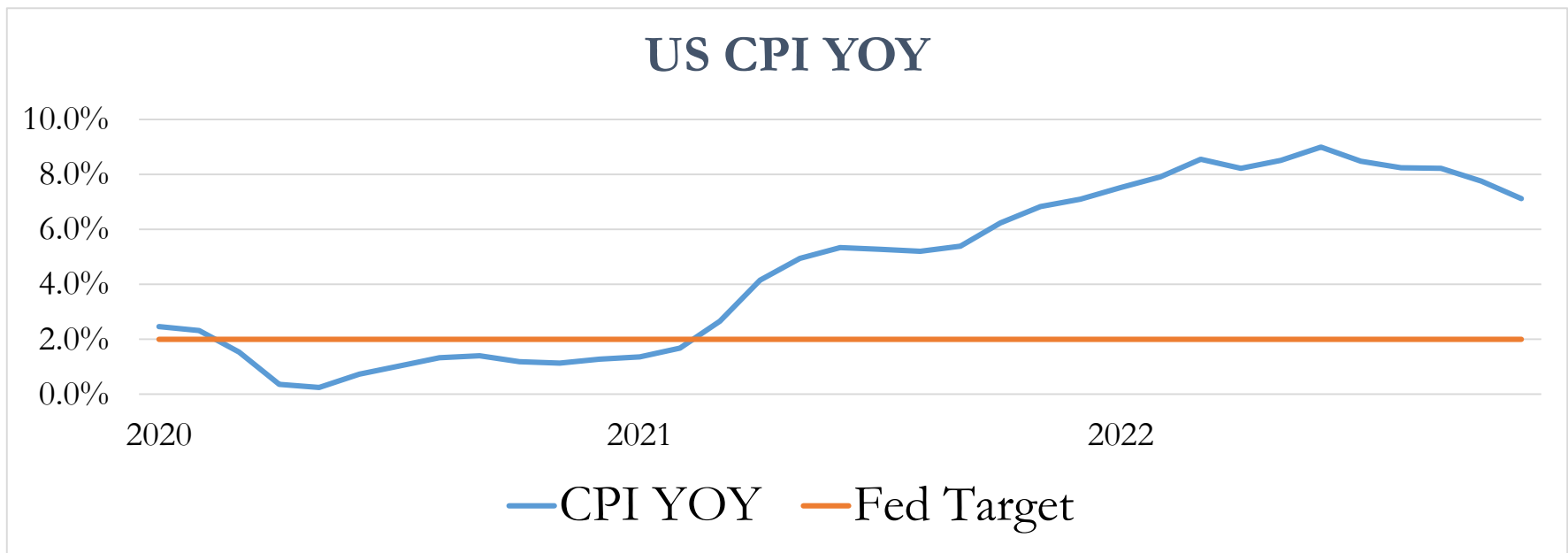
- Real estate returns have been strong since the GFC
- Returns since the pandemic have been very strong
- Changing economic regimes present uncertainty going forward

Real Estate Returns & Cap Rates

- Real estate returns are generated through income and appreciation
- Capitalization (“Cap”) Rates are the common industry valuation metric within real estate
- $\text{Cap Rate} = \text{Net Operating Income (“NOI”)}/\text{Market Value}$

Inflation

- Inflation has been running higher than the Fed's 2% target



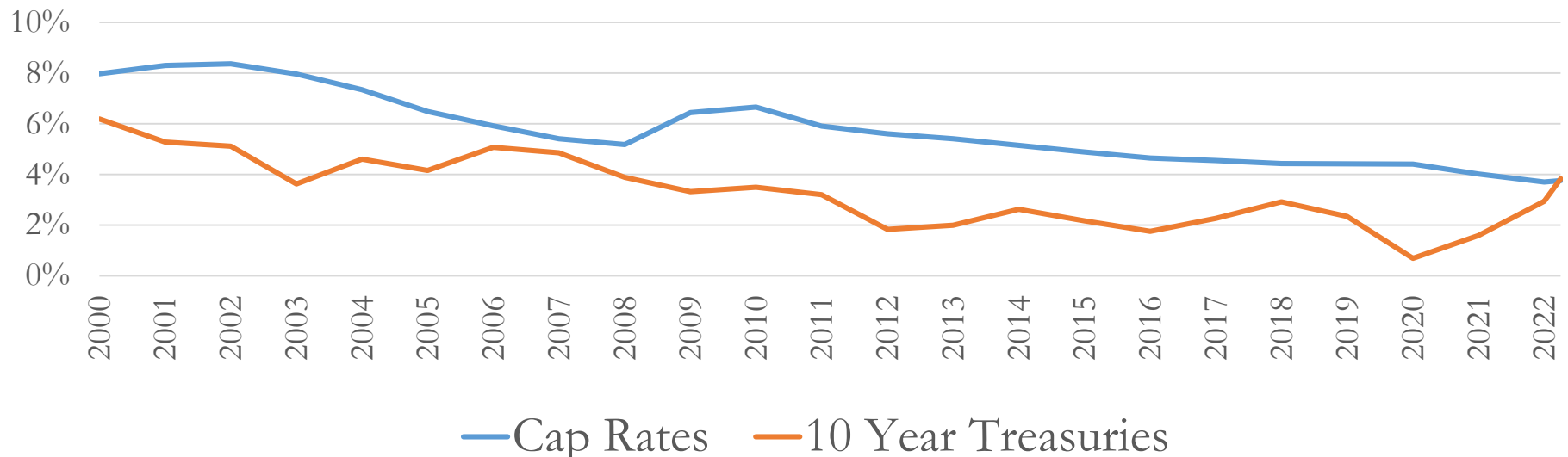
Interest Rates

- The Fed is committed to raising rates to combat higher inflation
- Borrowing costs are rising as a result
- Path remains unclear with macro backdrop

Impact on Real Estate

- Higher rates tend to put upward pressure on cap rates
- Higher cap rates create lower valuations, all else being equal

NPI Cap Rates vs. Treasury Yield



Macro Fundamentals

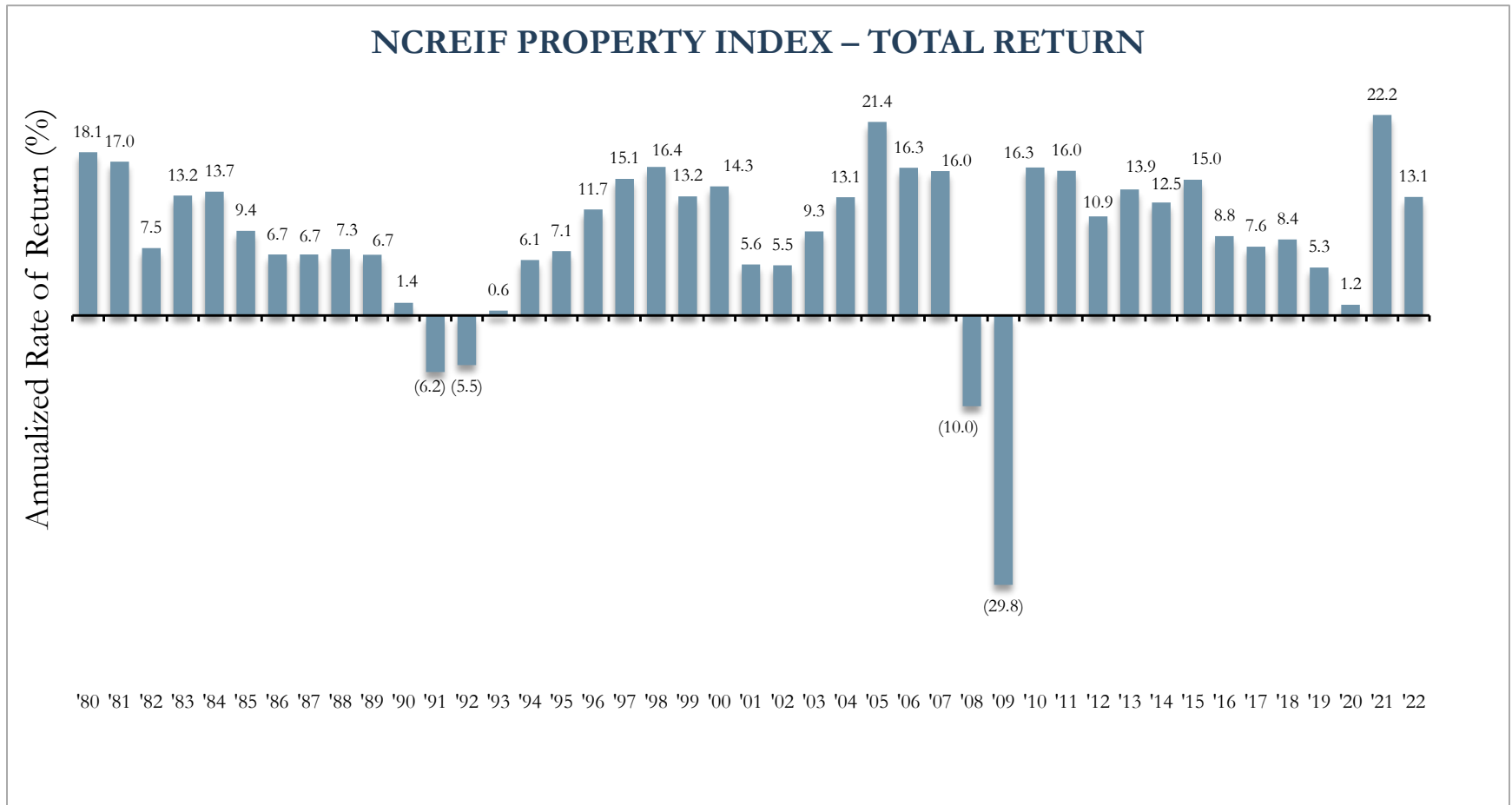
- Macro Fundamentals important to real estate returns include:
 - Employment
 - GDP Growth
 - Inflation

Real Estate Fundamentals

- Fundamentals important to real estate returns include:
 - Rental Growth Rates
 - Vacancy Rates
 - New Supply
 - Functioning Capital Markets
 - Return Expectations/Fund Flows

Historical NCREIF Total Returns

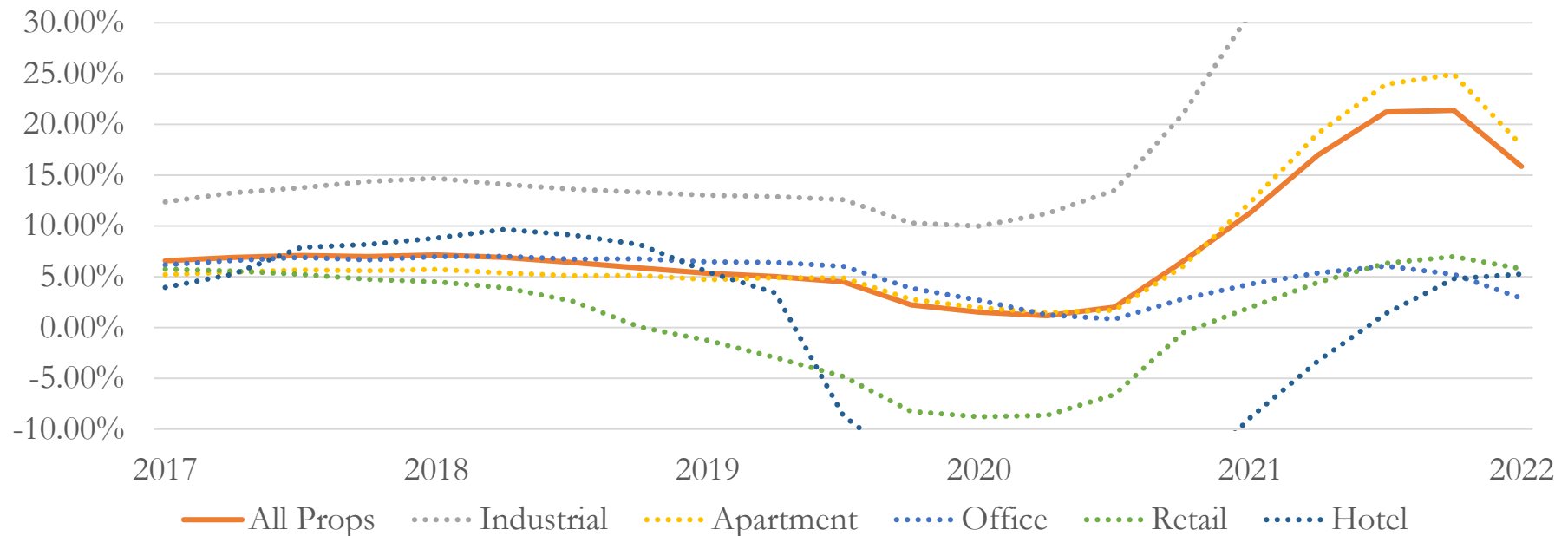
NCREIF Core Index has returned 8.9% since inception



Sector Dispersion

- Not all real estate sectors perform the same

Property - Level Trailing 1-Year Rolling Returns



Source: NCREIF, returns gross of fee, data as of 9/30/2022

Thoughts going forward

- Rising rates are resetting valuations for capital markets, including real estate
- NOI growth can offset valuation decreases, to some extent
- Some sectors maintain momentum despite financial market conditions – supply and demand matter

Conclusion

Uncertain Times Ahead

- Income helps provide the base for future real estate returns
- Diversification helps mitigate headwinds in single sub-sectors

Biography

Andrew Brett

Senior Director, Consultant & Portfolio Relations



Andrew Brett has primary responsibility for consultant relations while broadly supporting Intercontinental’s mission of highly dedicated institutional services. Andrew works closely with Portfolio Management and Research together with other departments across the Company in order to advance the Company’s Institutional Services practice. Prior to joining Intercontinental, Andrew spent over 14 years at New England Pension Consultants (“NEPC”), a leading investment advisory firm based in Boston, Massachusetts. He was a Principal of the firm, spent the last five years as Director of Real Assets Research and served on the firm’s Alternative Asset Committee.

Andrew earned a B.A. in Economics from Union College and holds the Chartered Alternative Investment Analyst (CAIA) designation. Andrew is a member of Intercontinental’s Investment Committee and ESG Committee.