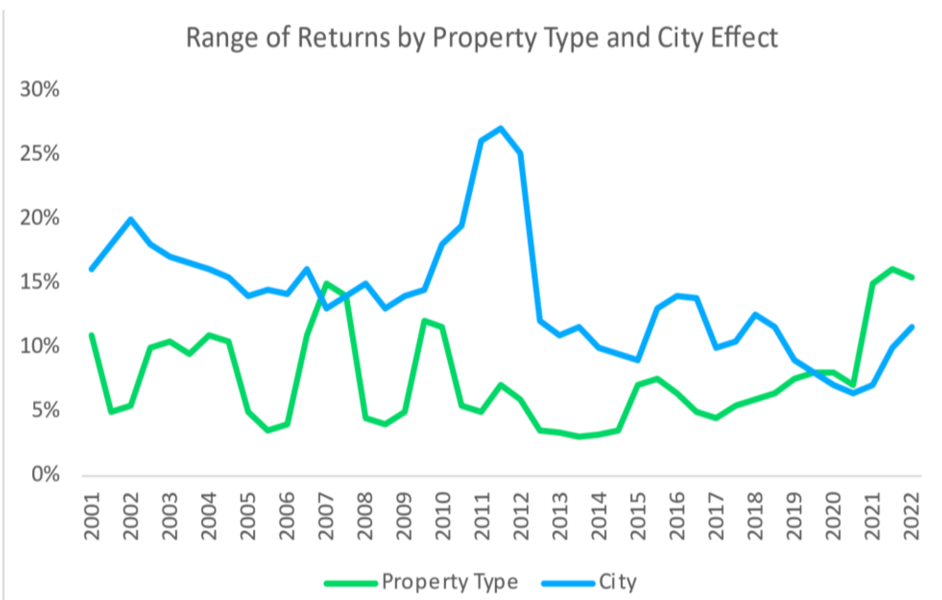
REAL ESTATE

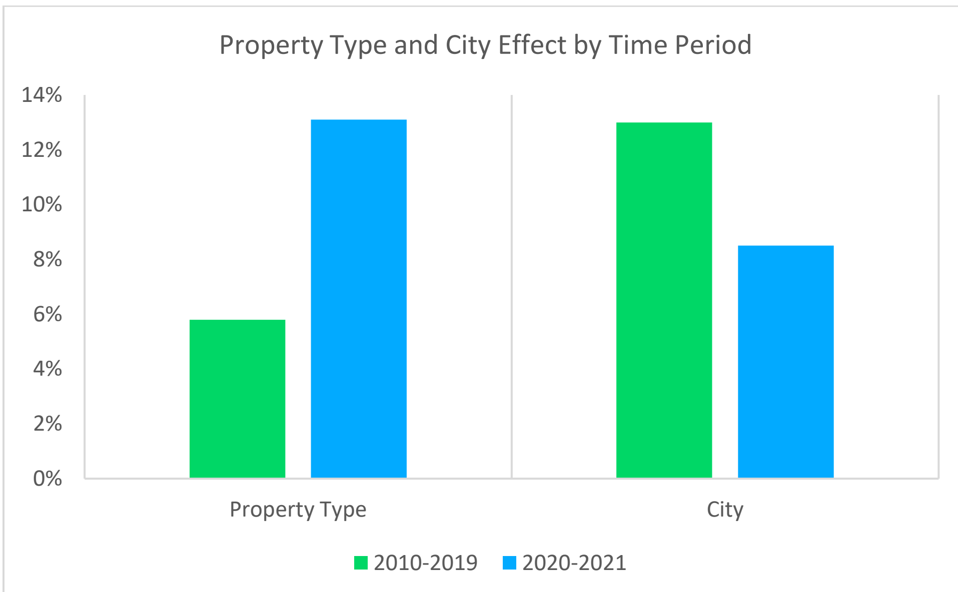
Real estate markets continued to recover across all major property types in the fourth quarter. As real estate presents a compelling opportunity for investors looking for stabilized core assets with strong income yield. In an era of rising inflation, real estate, along with infrastructure and asset-based financing are attractive, as returns in these asset classes are based on pricing power and collateral-based cash flows. This is even more true for certain sectors such as industrial and multifamily, where demand materially outpaces supply in some submarkets, allowing property owners of supply constrained assets to experience pricing power and see real rental increases in a rising inflationary environment.

Divergence of returns across the main four property types has been particularly pronounced over the past two years. Industrial and multifamily showed their resilience and continue to lead the pack during recovery, while retail and office have lagged in performance. Historically, this divergence in sector returns is elevated, as demonstrated in the chart below.



During past recovery-to-expansion phases of real estate cycles, city selection had an outsized impact on performance attribution, while property type selection played less of a role. The prior theory in portfolio construction was that the strongest cities would deliver higher returns, but the most recent cycle suggests that property type selection will play a greater role, as the pandemic has accelerated structural shifts and driven performance disparities.

As office and retail assets experienced a strong Q4 recovery in occupancy, rental growth, and value, the spread between retail and industrial performance has shown its first sign of tightening. The widely accepted view is for industrial to continue to lead the four main property types in returns as consumer spending habits continue to shift online, but the spread between sector performance has shown initial indications of tightening as capitalization rate begin to stabilize, hinting at a return to prior cycles where cities play a larger role in performance attribution.



RockCreek core real estate has been focused on the highest quality markets in the main four property types, while favoring overweight exposure towards industrial and multifamily. Within non-core real estate, we have focused on areas where waves of institutional capital have not compressed returns. This includes alternative property types, where we can aggregate assets and stabilize portfolios at scale for institutions in need of stabilized yield in a low fixed income environment. We continue to monitor the property type and city performance dispersions as we consider portfolio construction changes to best capitalize on this continued recovery period of the cycle.