

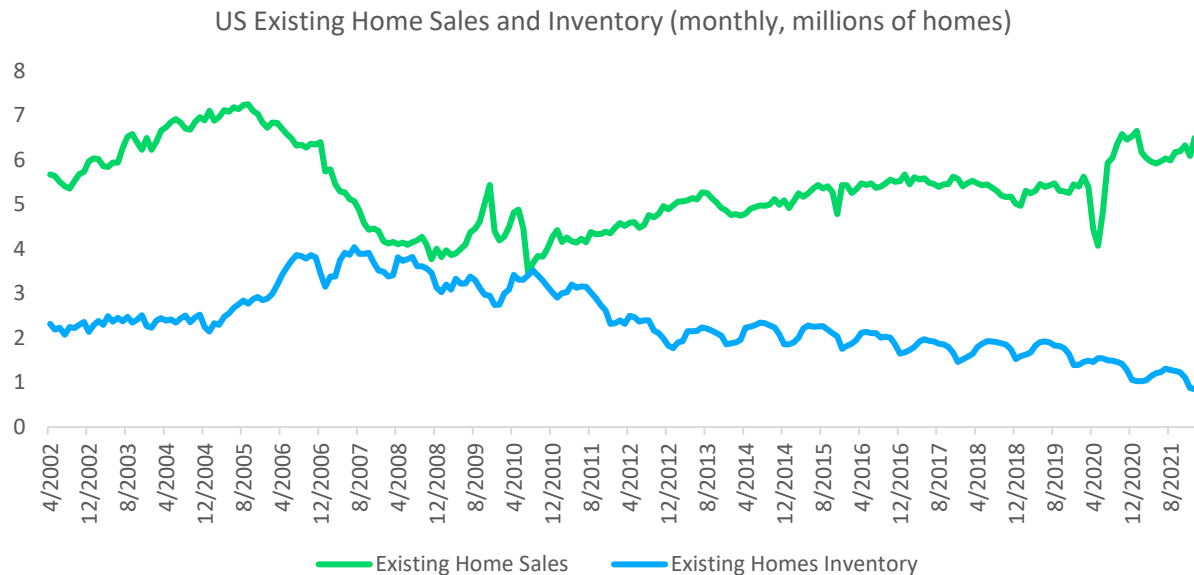
## REAL ESTATE

Real estate markets have continued to recover across all major property types through the first quarter of 2022. This trajectory is expected to continue as investors seek durable income yield in an inflationary environment. Within the main real estate property types, industrial and multifamily continue to set the pace with the best three-year forward outlook as structural and demographic trends provide tailwinds for both. Retail has experienced a strong recovery as shoppers return in mass as restrictions have been lifted, and the retailers that survived the pandemic have emerged with stronger balance sheets and improved market share relative to 2019.

Office, however, still is experiencing mixed performance. Sunbelt markets, particularly those with in-migration have benefitted from demand from tenants seeking to bring employees back to the office. The newer, class-A office buildings that provide flexible floor plans, superior locations, energy efficiency, and amenities have attracted the high rent paying tenants, bringing lower vacancies, higher rent growth, and lower turnover as tenants focus on creating an attractive environment for their employees to convene. We have focused on this segment, while avoiding older, commoditized products that continue to face leasing headwinds. Additionally, certain submarkets in Manhattan, Chicago, San Francisco, and DC where workers have not returned to office due to reliance on public transit and continued Covid restrictions, have not experienced the same recovery as their counterparts in the sunbelt.

The housing sector has been extremely hot, as home prices rose 18.8% in 2021, according to the S&P CoreLogic Case-Shiller US National Home Price Index, the biggest increase in 34 years of data and substantially ahead of 2020's 10.4% gain. With the price increases, the headline 7.2% decrease in existing-home sales month-over-month in February has caused concerns in the market, especially when paired with rising mortgage costs pushing above 5% for the first time since 2011 as the Fed has begun to increase interest rates. This leaves investors questioning if this drop off in home sales is due to decreasing demand due to perceived higher financing costs or if it's a supply issue with a lack of available homes for homebuyers.

Our data suggests that homebuilders have such incredible demand for houses that they are electing to wait until completion to sell and capture value increases rather than pre-selling homes, indicating it's a lack of supply induced drop in sales. The chart below details the decreasing inventory or homes for sale, with supply struggling to keep up with the elevated demand.



Source: National Association of Realtors

This lack of available homes for sale has resulted in pricing power with landlords leading to rent growth and lower turnover, resulting in a favorable investment environment for multifamily. As a result, investors have been positioning themselves overweight to the rental sector. As such, we have seen non-rational pricing from sellers due to the increased liquidity in the space. In one submarket, we have seen single family rental homes trade at an implied valuation premium of 30-50% relative to the exact same house from the same homebuilder across the street that is going for sale-homes. With this arbitrage, we're cautious about the future implications of the affordability of rental housing over the medium to long term as supply catches up to demand. For our portfolios, this has been a key area of focus where we have diversified our multifamily investments not only by type, but also across affordability levels to capture renter demand while also avoiding concentration. Interestingly, our investments in the creation and preservation of affordable housing have performed exceptionally well in the past few quarters as the resiliency of the property type was proven during Covid and investors have increased their focus on buying portfolios that generate an impact and stabilized income yield.