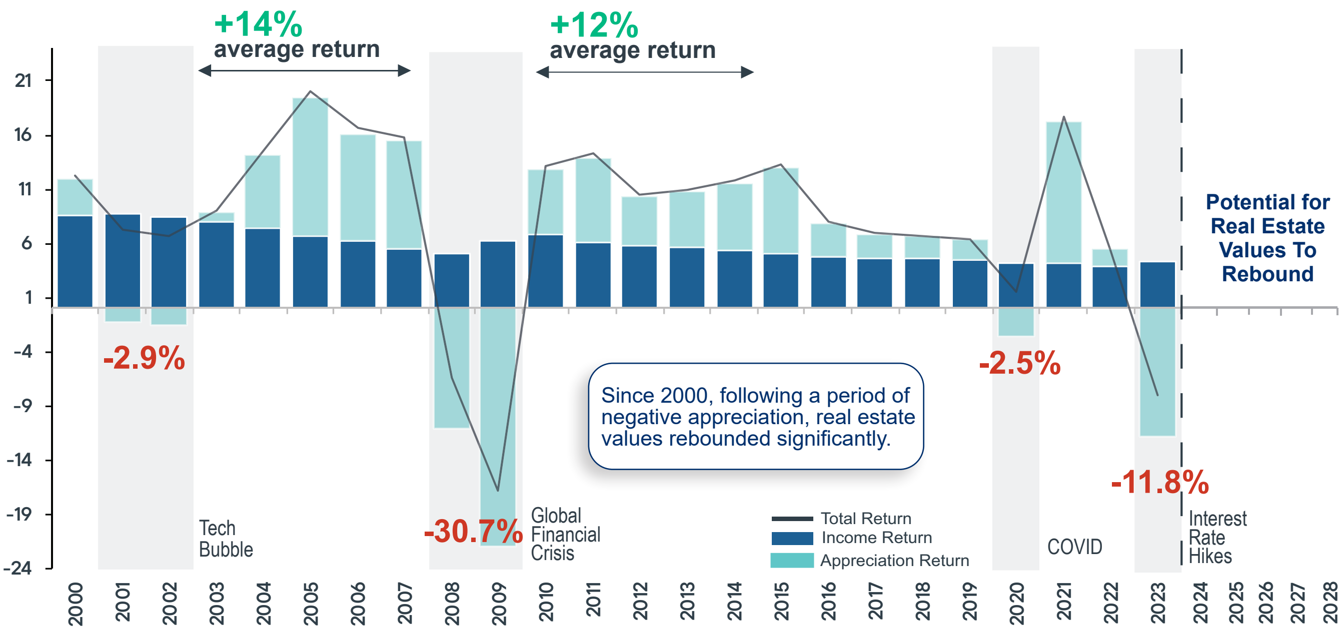
Clarion Calls:
Investing in U.S. Private Real Estate Today

July 2024

Is a New Positive Real Estate Cycle Poised to Begin?

NCREIF Property Index (NPI) Total Return by Calendar Year



Near-term drivers provide for a compelling entry point

Inflation has moderated:

- Over the past year, inflation has decreased to 3.3%.
- By the end of 2025, it's projected to stabilize in the 2.3% range.[1]

Interest rates are below peak levels:

- The 10-year treasury yield is significantly below its recent peak of 5%.
- At the same time, borrowing spreads for real estate have declined.

Real estate values have adjusted:

- Private real estate values are down 17.9% from the recent peak in mid-2022.[2]
- Assets are generally trading below replacement cost.
- Historically, values have rebounded towards replacement cost in locations and property types for which demand is strong and new supply is constrained.

Source: NCREIF, Clarion Partners Investment Research, Q4 2023. Past Performance is not indicative of future results.

[1] U.S. Bureau of Labor Statistics, Bloomberg, June 2024

[2] NCREIF, Q1 2024. Note: Based on the change in the Classic NPI appreciation index from Q2 2022 to Q1 2024

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Long-term drivers support potential for growth

Macro themes are driving demand:

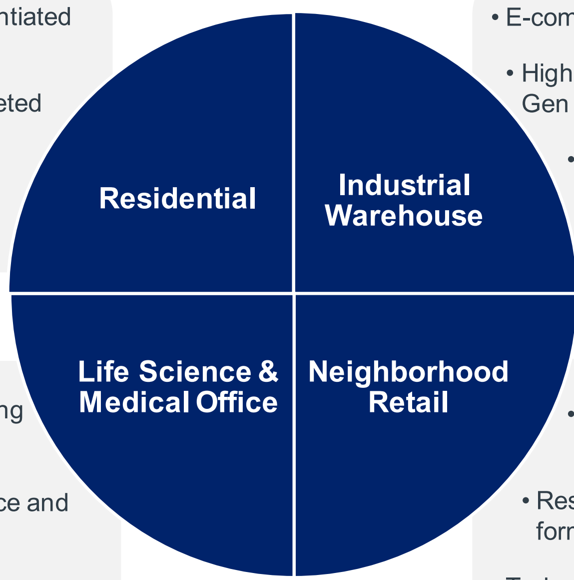
- Demographics, Innovation, Shifting Globalization Patterns, a Housing Shortage with Affordability Challenges, and Resiliency are driving strong demand across the residential, industrial warehouse, life science, and neighborhood retail sectors.
- As a result, current vacancy rates are below long-term averages for these sectors.[3]

New supply is limited:

- With higher interest rates and increased return requirements, new construction has slowed significantly resulting in limited new supply across sectors.
- We do not expect near-term deliveries to keep pace with growing demand.

- Millennials & Gen Z driving differentiated housing demand / next gen cities
- Retiring boomers driving age-targeted housing
- Historic low affordability pushing households to renting

- E-commerce growth → warehouse demand
- Higher earning wave of Millennials / Gen Z are driving consumption
- Shifting trade patterns leading to nearshoring and onshoring of manufacturing



- Innovation industries are expanding to new locations
- Aging population drives life-science and medical office
- Need for health technology, health informatics, precision medicine

- Millennials / Gen Z entering prime earning and spending years
- Resiliency of grocery & necessity formats
- Technological advancements in omnichannel retail driving demand near consumers

[3]Clarion Partners Research, CBRE EA, Q1 24