

Understanding Private Commercial Real Estate

Private commercial real estate defined

Private commercial real estate (“private real estate”) refers to investments in, or ownership of, institutional-quality properties that are generally either multifamily or business occupied buildings. Investors can gain exposure to this asset class by investing in properties directly or through pooled investment vehicles that are managed by a third party and not listed on a publicly traded exchange. Private real estate investments are not subject to the same market volatility and share price fluctuations that publicly traded real estate

vehicles may demonstrate. Private real estate investments are priced based on underlying fundamentals without public perception affecting the net asset value, which makes them less prone to emotional selling decisions as compared to public real estate, but they may offer only periodic liquidity. Investors typically invest in private real estate to achieve diversification, durable inflation-resilient income and long-term growth potential.

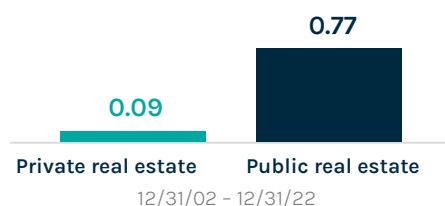
Five realities of private real estate

#1 Private real estate has delivered enhanced diversification.

Private real estate has demonstrated significantly lower correlation to public equity markets than public real estate. Private real estate had a 0.09 correlation to the S&P 500 Index over the past 20 years, and a negative correlation of 0.21 over the past 10 years. This has historically made private real estate an effective source for portfolio diversification.

Private real estate’s correlation to the returns of the S&P 500 Index was 0.09 for the 20 years from 12/31/02 to 12/31/22; 0.21 for the 10 years from 12/31/02 to 12/31/12, and -0.21 for the 10 years from 12/31/12 to 12/31/22. Sources: Bloomberg; NCREIF; FTSE NAREIT All Equity REITs Index. 20 years ending December 31, 2022. Private real estate is represented by the NCREIF Open-End Diversified Core (ODCE) Index, a value-weighted, time-weighted index representing a blended portfolio of institutional-quality real estate reported net of management and advisory fees (with the exception of the private real estate income data shown, which is reported gross of management and advisory fees). There are many material differences among these asset classes, including differences in fees and expenses, liquidity, safety and tax features. Past performance does not guarantee future results. Diversification does not guarantee against a risk of loss. Private real estate does not provide ready liquidity as public real estate does.

Low correlation to the S&P 500 Index over the past 20 years...



...And a negative correlation of 0.21 over the past 10 years

#2 Private real estate has experienced shallower drawdowns compared to public real estate.

Historically, drawdowns in the private real estate sector have been less frequent and shallower than public real estate declines. This has historically resulted in lower volatility (and increased durability), which can potentially make private real estate a key building block of more resilient portfolios.

Robust downside protection over the past 20 years

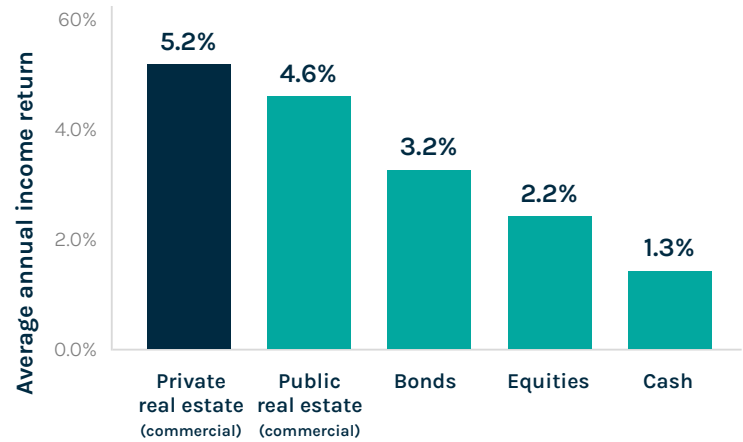


#3 Private real estate has provided durable income.

Private real estate can offer a balanced mix of long-term growth and consistent income. Historically, more than 60% of the total return of private real estate has come from income.¹ By delivering differentiated sources of return, private real estate can offer important diversification benefits for investors' portfolios.

Sources: Bloomberg, NCREIF, FTSE NAREIT All Equity REITs Index. 20 years ending December 31, 2022. There are material differences among these asset classes, including differences in fees and expenses, liquidity, safety and tax features.

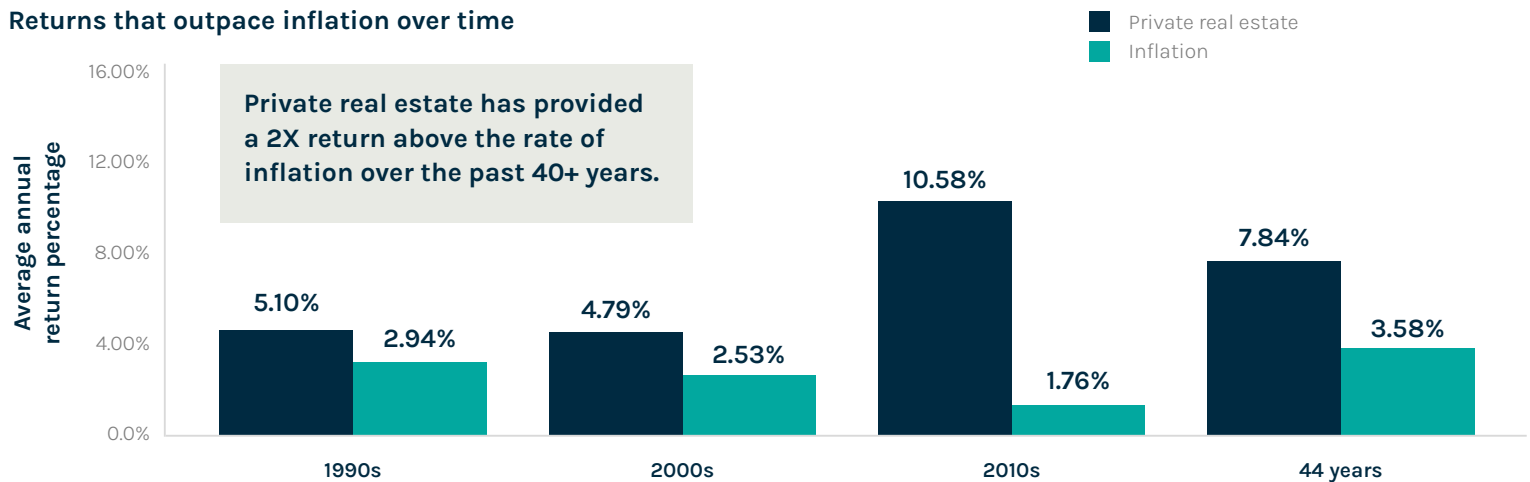
A higher proportion of total return from income



#4 Private real estate has provided a hedge against inflation.

Even at its long-term average rate of 3%, inflation can erode investors' purchasing power over time. Private real estate has demonstrated the ability to raise rents alongside and ahead of inflation through contractual rent escalators built into leases and by realizing organic market rent growth as leases expire. Further, during periods when inflation is higher, existing real estate values also tend to go up, in part due to the rising cost of development/redevelopment, enabling investors and owners to keep pace with higher prices.

Returns that outpace inflation over time



Past performance does not guarantee future results. Private real estate investments do not provide ready liquidity. There is no guarantee that the returns generated by private real estate will exceed inflation. Sources: NCREIF. Private real estate is represented by the NCREIF ODCE Index and reflects total return.

#5 Private real estate can be a tax-efficient investment.

Certain privately traded real estate structures offer investors the potential for tax-efficient income. Distributions from such vehicles are taxed at different rates depending on whether they are characterized as ordinary income, capital gains or return of capital.

Return of capital (ROC)	20% deduction for REIT ordinary dividends	Simple tax reporting
REIT distributions in excess of earning and profits and within the investor's stock basis benefit from ROC (i.e., tax deferral until stock sale).	REIT ordinary dividends qualify for the Tax Cuts and Jobs Act of 2017 20% deduction.	Form 1099-DIV sent to investors annually.

Enduring drivers aid private real estate growth

Several global, long-term trends are supporting the historically attractive opportunity of private real estate and the sustained growth of the asset class, particularly in certain sectors and geographies. Such factors include the growing importance of e-commerce, which is in turn fueling a boom in warehouses and other industrial facilities. Additionally, population growth and certain demographic trends are fueling the strong demand for rental housing for multifamily and student housing properties. We are also seeing strong demand drivers for life sciences and self-storage properties.

Why is private real estate playing an increasingly important role in individual investors' portfolios?

Whether they are navigating inflation, rising interest rates or public market volatility, most investors need guidance about how to better prepare their portfolios for uncertainty and grow

their wealth over the long term. Private real estate has become a mainstream asset class that can offer meaningful long-term benefits for an investor's portfolio.



Enhanced diversification

Private real estate has demonstrated lower volatility and reduced correlation relative to traditional public real estate and equities, while consistently keeping pace with inflation but offering only periodic liquidity.



Durable income

With more than 60% of its historical total return coming from income, private real estate can help investors enhance their expected yields while diversifying their sources of income.¹

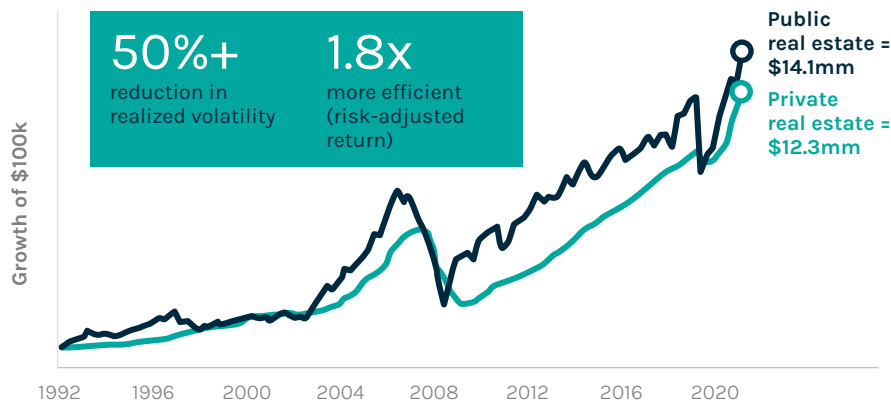


A growing asset class

The market capitalization of private real estate has increased by nearly 30% since 2018, making it the third-largest U.S. asset class.^{2,3}

Private real estate has delivered historically stronger risk-adjusted returns

Private real estate has outpaced public real estate with less volatility over time.



As of 3/15/2022. Sources: NCREIF, U.S. Bureau of Labor Statistics. Based on quarterly returns that have been annualized. NCREIF represents publicly traded real estate investments and may not be reflective of private real estate investment performance. An investment in private real estate is significantly less liquid than an investment in publicly traded real estate and is not immune to fluctuations, including downward fluctuations.

Ready to learn more?

AccessAres is your resource for education and information about the private markets. Talk to us to learn more about these important asset classes.

¹ Sources: Bloomberg, NCREIF, FTSE NAREIT All Equity REITs Index. 20 years ending June 30, 2022. Distributions are not guaranteed.

² CRE includes multifamily, office, industrial, flex, retail and hotel properties. As of 4Q18. The data presented reflects a common time period of 2Q 2021, as that is the most recent time period for which all data is available.

³ Sources: Bloomberg, Federal Reserve Economic data, CoStar Portfolio Strategy. As of 2Q21.

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