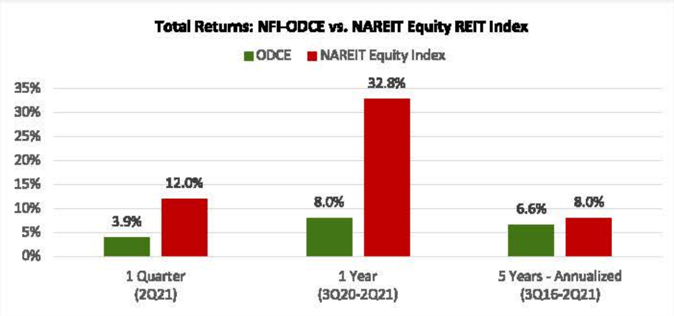
ODCE

OPTIMISTIC OUTLOOK FOR PRIVATE MARKET VALUES

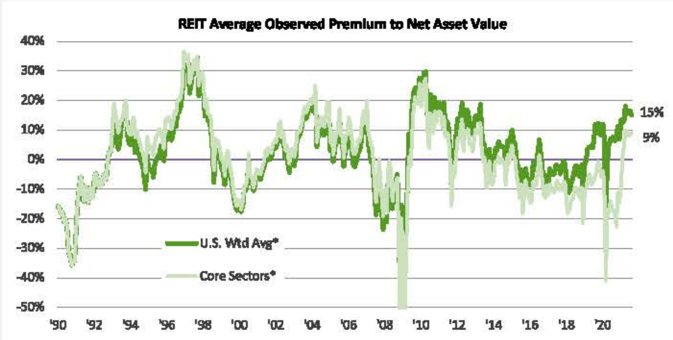
The NFI-ODCE Fund Index underperformed the NAREIT Equity REIT Index this past quarter and over the past year. The total gross quarterly return for the NFI-ODCE was 3.93% in 2Q21, comprised of 294 bps from appreciation and 99 bps from income, compared to 12.03% for the NAREIT All Equity REIT Index. Over the twelve months ending on June 30th, 2021, the NFI-ODCE Index underperformed the NAREIT All Equity Index by ~25% (8.02% vs. 32.80%). However, some of the underperformance over the twelve-month period can be explained by the sharp decline in REIT share prices at the onset of the pandemic, and subsequent rebound, which is captured to a much lesser extent in the private market data.

REITs and private market real estate often show divergent performance over shorter time frames, especially during periods of high market volatility. Over longer time periods, however, public and private real estate returns are highly correlated and REIT performance should be closely monitored by private market investors. For example, going back five years the underperformance narrows.



The Green Street Commercial Property Price Index, which tracks private market pricing across fifteen property types, has gained 14% over the twelve months ending July '21 and is now slightly above pre-Covid levels. While the velocity of some of the recent gains has been eye-opening, it has been warranted due to improving fundamentals and capital availability. All sectors have seen some level of price appreciation over the past twelve months, but the performance varies widely. The office and mall sectors have lagged the broader group while industrial has been a top performer with values up ~27% during this period (~21% above pre-Covid levels).

Looking forward, numerous factors paint a bullish picture for the direction of property values. First, real estate is priced about as favorably as ever relative to high yield and investment grade bonds. Second, REITs, following strong recent performance, now trade at a premium to the underlying asset values in aggregate. Historically, when REIT share prices are sitting above the value of the underlying assets, private market real estate pricing tends to climb.



**U.S. Wtd Avg includes REITs in all property sectors. Core sectors is an average of apartment, industrial, mall, office, and strip center (each sector equal weight).*

Third, the recently thawed transaction market has been met with plenty of buying power. Blackstone raised >$15B in its non-traded REIT fund from 3Q20-2Q21 and has been actively deploying capital. The pricing of the recently announced Blackstone agreement to acquire WPT, a Canadian-listed industrial REIT that owns US warehouses, suggests another move down in cap rates. With interest rates as low as they are today and commercial real estate investors flush with capital, bidding tents are likely to be crowded.

The probability of further price gains is high.

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