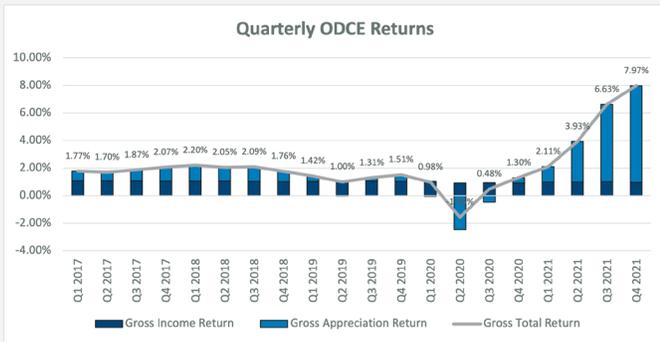


ODCE

ANOTHER RECORD-BREAKING QUARTER FOR THE ODCE!

In Q4 2021, the index posted its second consecutive quarterly return record, posting a 7.97% gross return. Capital appreciation contributed 6.99% to the record setting performance while the income return declined slightly to 0.97% for the quarter. The strong returns in the previous two quarters led to an extraordinary year for the ODCE with a 22.17% gross return. As the economic recovery in the U.S. continued to take hold throughout the year, the environment for commercial real estate proved to be very favorable.

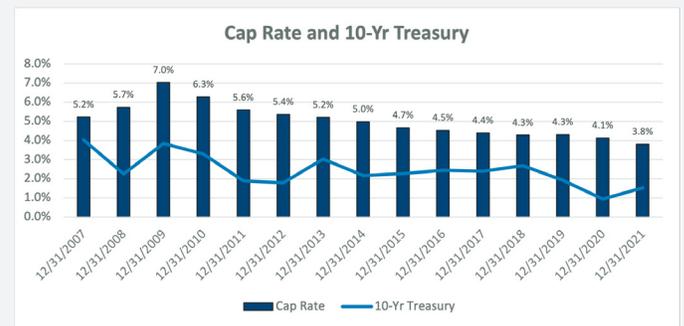


In a continuation of the trend from the previous quarters, the industrial and multi-family property types led the way again this quarter. For both property types, the fundamentals continue to strengthen. Demand for industrial properties continues to outweigh supply. Additionally, efforts to impose broad standards on warehouse development sent prices higher in southern California, with industrial properties in the area appreciating by approximately 20% during the quarter. Multi-family demand also showed no sign of slowing with U.S. home prices soaring and mortgage rates increasing. Vacancy rates further declined and are now well below the long-term average. NOI growth in the property type was strong again during the quarter at 3.0%.

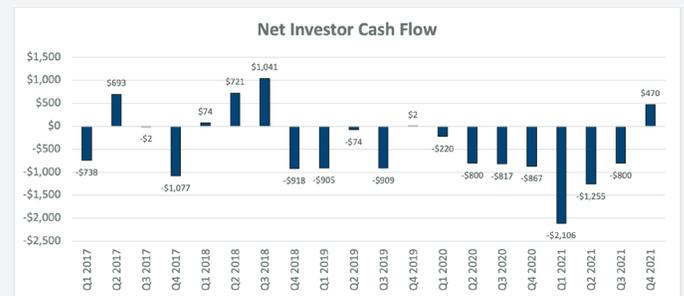
Transactions picked up in the 4th quarter which again is consistent with the trend that began to emerge since the 4th quarter of 2020. The higher transaction volumes throughout the year have largely supported asset valuations. Heading into the year, many investors had concerns regarding asset prices because there was limited transparency with transactions significantly declining in 2020. However, with the economy recovering and transaction volume increasing, those concerns seemed to have abated.



Cap rates continued to decline during the 4th quarter, especially in the industrial and multi-family property types. With the extremely strong fundamentals as previously noted, the decline in cap rates was no surprise. Additionally, long-term interest rates remained steady in the 4th quarter with the Federal Reserve continuing its path of easy monetary policy. However, now that the Fed has telegraphed its intention to begin the tightening, rates will likely increase in the coming year. That said, even with the decline in cap rates and the potential rise in interest rates, the relative spreads still remain healthy from a historical perspective.



Finally, with the very strong relative performance of the ODCE index, and the favorable economic climate, many investors have a renewed interest in allocating to core real estate. Net investor cash flows were just under \$500m in the 4th quarter of 2021. This was the first significant inflow into the ODCE index in 18 quarters. As the U.S. economy continues to strengthen, and investors continue to search for yield, this is a trend that will hopefully pick up steam in the coming year.



*Dr. Thomas Miller, CFA
CEO and Chief Investment Officer
Union Square Capital Partners*