Inside Look

Public Market Returns

	4Q20	1 Year	3 Year
S&P 500	12.15%	18.40%	14.18%
Dow	10.17%	7.25%	7.38%
Nasdaq	15.41%	43.64%	23.13%
FTSE NAREIT[1]	8.15%	-5.11%	5.29%
Barclays Agg	0.67%	7.51%	5.34%
10-yr Treasury[2]	0.93%	1.92%	2.40%

Private Market Returns

	4Q20	1 Year	3 Year
NCREIF Property Index			
Total Return	1.15%	1.60%	4.89%
Income	1.01%	4.20%	4.43%
Appreciation	0.14%	-2.52%	0.44%
Hospitality	-3.31%	-25.56%	-6.07%
Industrial	4.68%	11.78%	13.14%
Multifamily	0.99%	1.83%	4.45%
Office	0.48%	1.57%	4.97%
Retail	-1.24%	-7.48%	-1.24%

Source: NCREIF, Morningstar.
(1) FTSE NAREIT All Equity REITs Index.
(2) Represents current yield at the end of 4Q20, 4Q19, and 4Q17, respectively.

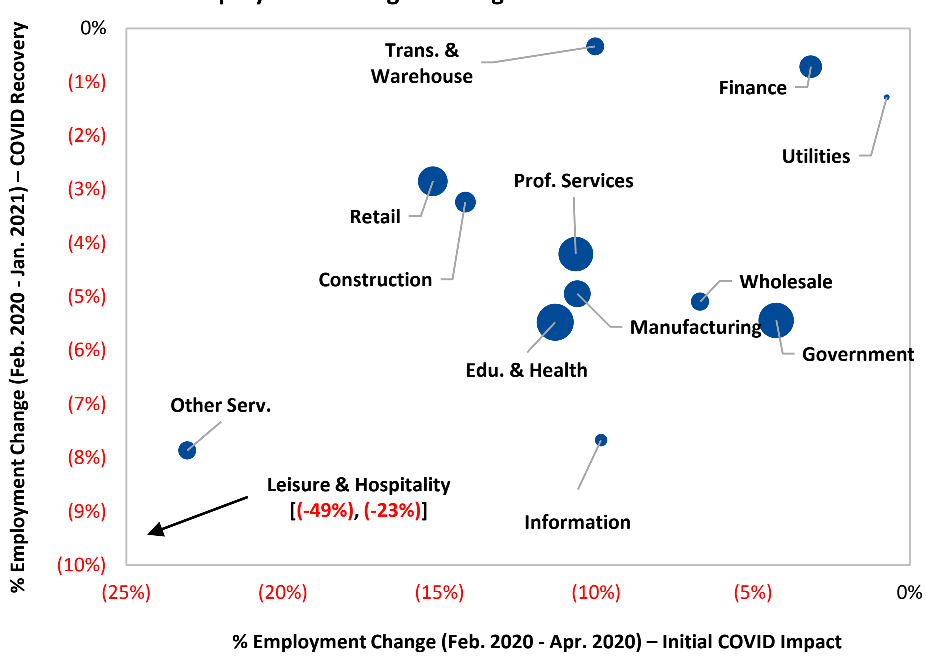
Demographic-driven real estate sectors garner increased investor attention as U.S. remains poised for economic rebound

State of the Economy

The U.S. economy closed out 2020 with GDP down 3.5%, but with clear signs of a recovery underway. GDP increased 8.5% in the second half of 2020 and 12.5 million jobs have been added since April. The labor market in particular has shown a better than expected recovery, with 6.6 million job openings and an unemployment rate of 6.7%, beating the Fed expectation of 9% unemployment by the end of December 2020.

The U.S. has adapted to the new normal, and some initially hard-hit industries have recovered well. For example, retail trade employment has made up the most ground of any employment sector, regaining about 95% of its jobs losses from the spring. However, in the labor market at least, the "k-shaped" recovery is in full effect and low income, low-skilled workers have borne the brunt of the layoffs while high income workers have mostly managed to work from home and keep their jobs. A household making more than $75,000 a year is twice as likely to have worked from home for some period of time compared to those making less than $75,000.

Employment Changes through the COVID-19 Pandemic



*Size of bubble represents employment size of industry in January, 2021
Source: CoStar Advisory Services, Bureau of Labor Statistics

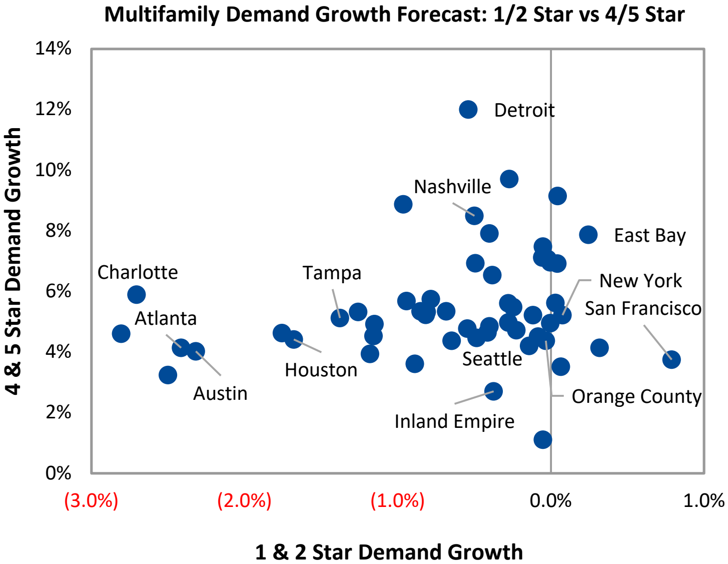
As of January 2021

U.S. fiscal and monetary policy was active in 2020 and is expected to remain so. With another stimulus bill in the first half of 2021, monetary policy remains accommodative, and the Fed has stated its intention to keep rates low for the next few years. These two factors have created some concern about inflation, as the money supply has grown by 26% since the beginning of 2020. If inflation above the Fed's 2% target does appear, it is unlikely to be sustained, as structural economic issues have continued to exert downward pressure on prices since the 1990's.

Multifamily Investment Outlook

The gradual revival of optimism in U.S. economic growth in the latter half of 2020 coincided with enormous spikes in new COVID-19 cases, an announcement of vaccines finally set for wider approval, and the end of a bitter and tumultuous election season. For multifamily investors, improvement in the near-term outlook was evident on a number of fronts. Specifically, demand notched a record for a fourth quarter as renters continued to make the moves many had delayed in the first and second quarters. Rents stabilized in many markets, including in some downtown cores as renters took advantage of added concessions in anticipation of returning to the office. Meanwhile, the promise of stimulus reaching renters from a united government in Washington has spurred confidence that rent payment levels will rebound. Demand among 4 and 5 star product is strong with 5% annualized growth.

Multifamily Demand Growth Forecast: 1/2 Star vs 4/5 Star

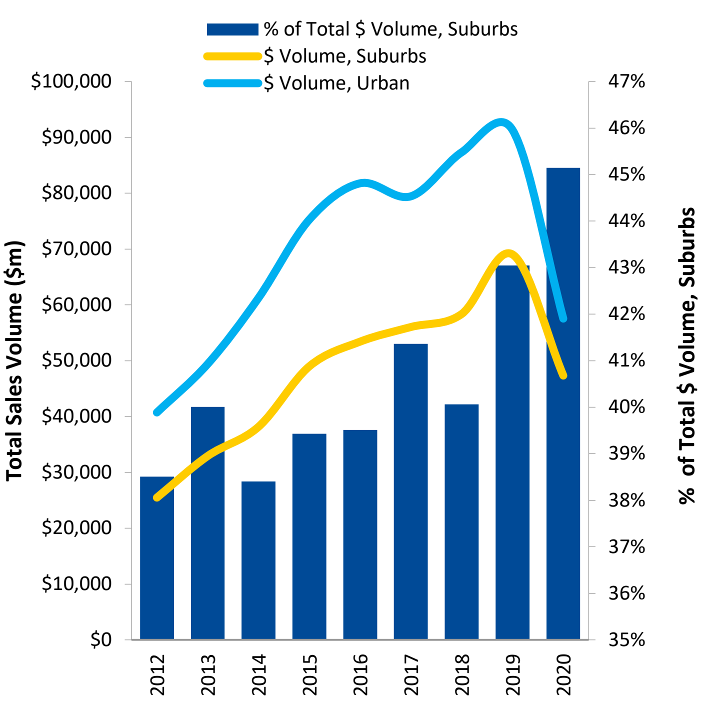


*Note: Demand at YE 2020 vs projected demand at YE 2025
Source: CoStar Advisory Services As of 4Q 2020

Vacancies nationally have been helped by the wave of demand that swept through the second half of 2020. U.S. multifamily vacancy rates rose slightly from 6.8% to 6.9% quarter-over-quarter and from 6.4% to 6.9% year-over-year. Nearly 90,000 units delivered in the fourth quarter, while net absorption was slightly less than 65,000 units. As uncertainty roiled development in 2020, new starts fell to the lowest total since 2013 as only 290,000 units entered the pipeline. 4 & 5 Star assets, which have been the most scrutinized for new supply, are poised to benefit from vacancy compression given the five-year demand forecast nationally shows renter interest mainly lies in the top end of the market.

Transaction volume rebounded strongly in the second half of 2020, with the fourth quarter tallying the second-highest quarter total behind only 4Q 2019. Still, the excess shortage of deal volume in the middle months of the year meant total volume for the year fell to the lowest mark since 2015 at roughly $114 billion. Investors reentered the market with new directions in mind as well, shifting attention and investments to Sunbelt markets that have weathered the pandemic well like Phoenix, Charlotte, Atlanta, and Dallas-Fort Worth rather than perennial core favorites like New York and San Francisco.

Total Multifamily Sales Volume



Source: CoStar Advisory Services As of 4Q 2020

Tracking with the increased outflow of renter interest from urban areas to suburban ones, investor appetite for suburban assets as a percentage of total multifamily sales increased as well. Transactions split between urban and suburban areas mostly stayed static between 2012 and 2018 as suburban accounted for roughly 40% of the total. In 2020 that percentage rose to 45% even as overall volume tumbled. Given the strong indications that multifamily demand will spread more broadly between urban and suburban areas post-COVID, investors diversifying portfolios to weight suburban more equally is unsurprising. Meanwhile the diminished supply pipeline, the vaccine roll-out and stimulus both receiving higher priority in Washington D.C., and increased tenant activity will all serve to enhance value through 2021, ensuring that multifamily is widely expected to recover its footing at a faster pace than the office, retail, or hotel sectors.

In Focus: Garden Blooms

If the pandemic has managed to drive home only one lesson for a wide spectrum of businesses, it may be that putting all of one's eggs in a single basket is the ultimate risk. With that sentiment in mind, and as renters put suburban living back at the forefront of the multifamily conversation nationwide, now is a perfect moment to delve into what part the garden product plays in a well-rounded, prudently diversified portfolio.

Garden skews heavily toward suburban areas more than many multifamily subtypes, with a high percentage of new garden supply delivering into either prime suburban or suburban areas. Given the proclivity of development over the last decade to concentrate in urban or prime urban areas, and the often-prohibitive constraints suburban communities can impose on new multifamily product, new garden assets have been relatively few and far between during the last cycle.

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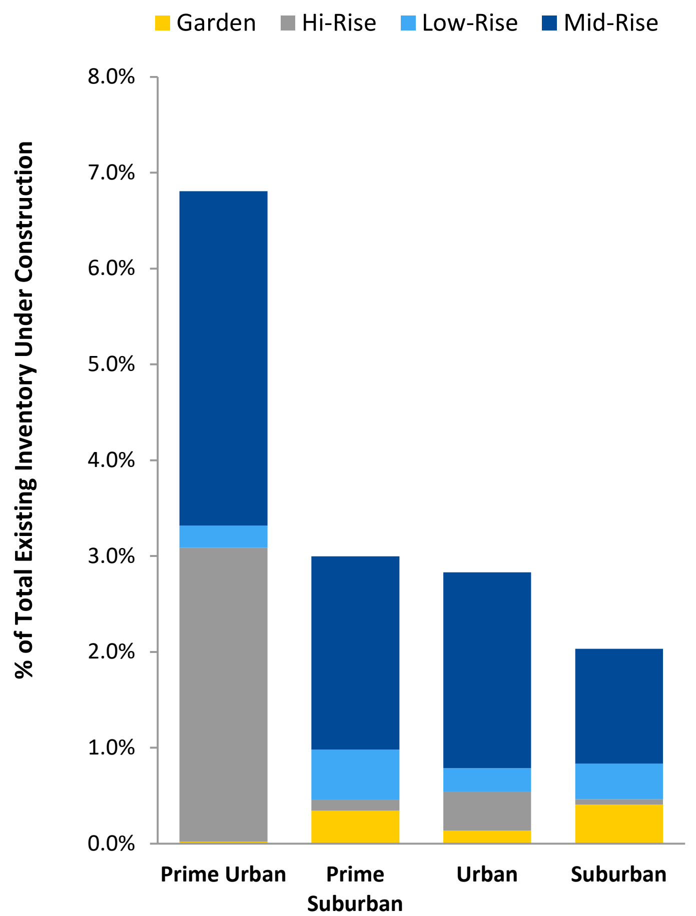
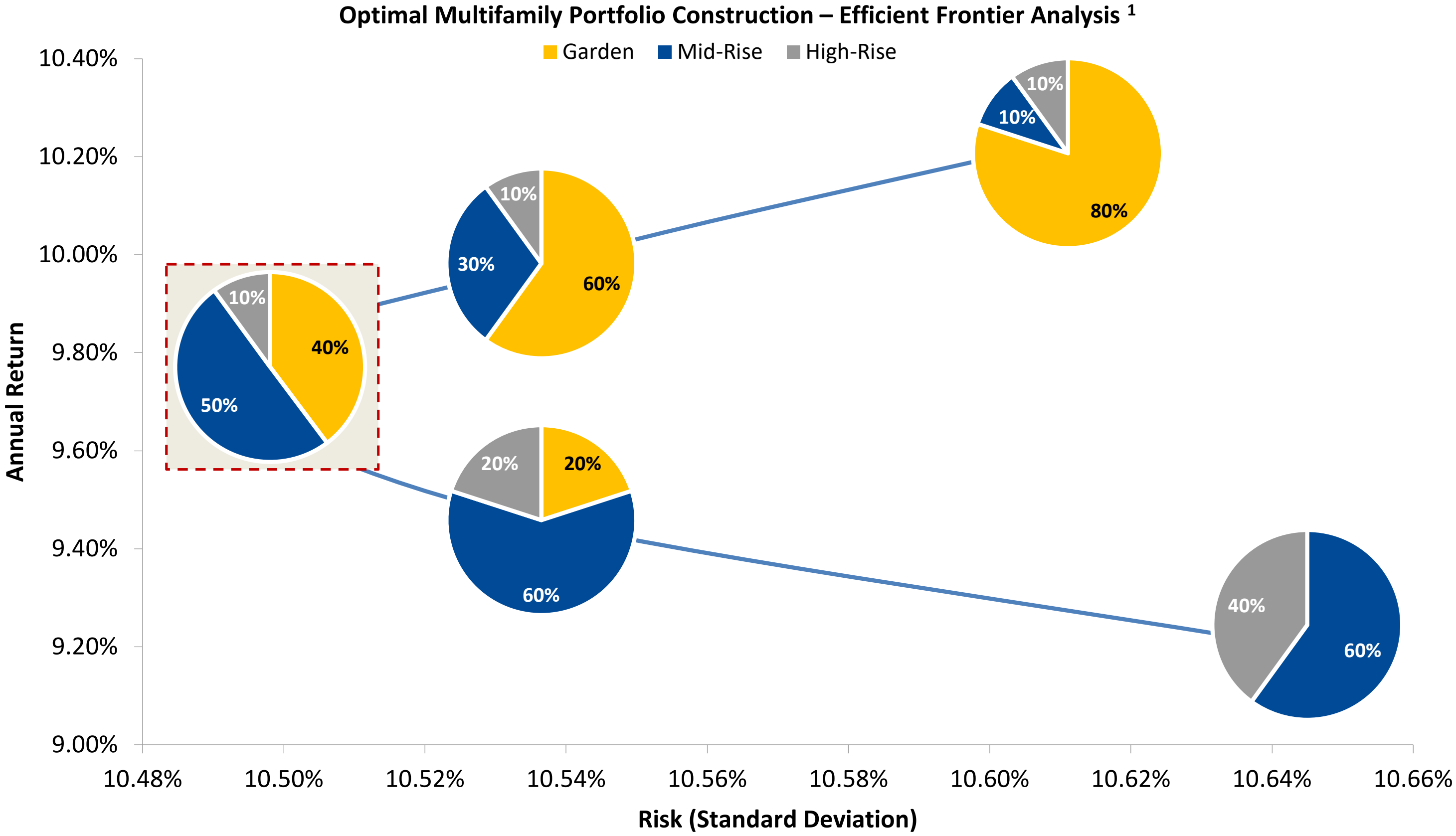
% of Total Existing Inventory Under Construction [1]



Source: CoStar Advisory Services As of 4Q 2020
(1) Multifamily product types defined as follows: 1-3 stories with 4 or more buildings = Garden; 1-3 stories with 1-3 buildings = Low-Rise; 4-14 stories = Mid-Rise; 15+ stories = High-Rise

In fact, the progressive addition of more and more garden assets to a multifamily portfolio comprised of only mid-rise and high-rise assets moves a portfolio's Sharpe ratio, or measure of risk-adjusted return, rapidly higher. This indicates garden's strength as a powerful facet to a multifamily portfolio as the diversification of the total rent roll through adding the stable, renter-by-necessity tenant base mitigates volatility from other assets. A hypothetical portfolio comprised of 60% garden, 30% mid-rise and 10% high-rise outperforms by 52 basis points when comparing returns to a portfolio comprised of 20% garden, 60% mid-rise and 20% high-rise. This illustrates the importance of garden product – maximizing upside with nearly an identical amount of risk.

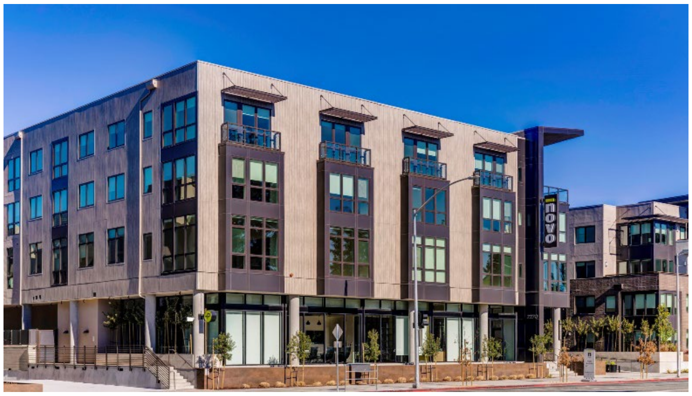


Source: CoStar Advisory Services As of 4Q 2020

As the pandemic prompts more work-from-home renters to contemplate seeking larger units, garden holds a slight edge in this regard as well. Many urban units tilt toward smaller configurations as pre-pandemic focus was naturally centered on amenities within an asset and those provided by the surrounding area.

Garden's numerous advantages including barriers to new supply, diversification of rent rolls, historical rent growth performance, and an increased tenant interest in larger unit sizes have caused significant institutional investor interest. Ultimately, the subtype, perhaps disregarded in the last cycle in favor of more glamorous urban locales, is finally being more heavily weighted as part of an overall multifamily portfolio strategy, as "core" gets redefined.

(1) Multifamily product types defined as follows: 1-3 stories with 4 or more buildings = Garden; 1-3 stories with 1-3 buildings = Low-Rise; 4-14 stories = Mid-Rise; 15+ stories = High-Rise
Note: Data limited to class A product from 1Q 2006 to 4Q 2020 utilizing CoStar's National Markets Index which encompasses the top 54 U.S. markets



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(1) AUM as of 12/31/2020

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