

INSIGHTS | NOVEMBER 2021

Public/Private Investing:

Real Estate to Enhance Portfolios

INVESTMENT STRATEGY GROUP

In the converging landscape of public and private real estate, investment has become increasingly professionalized. As a result, investors are better able to access the space through a variety of structures that align with their unique liquidity needs, risk tolerance and total return objectives.



The public and private real estate investment landscapes have been converging as the real estate market has become increasingly professionalized across both categories. While property-by-property investments continue to dominate, resulting in a fragmented, heterogeneous market, the creation of public and private real estate operating companies and the growth in private equity real estate vehicles have broadened available opportunity sets. As a result, investors are increasingly able to access the space through public and private structures in a manner that aligns with their unique liquidity needs, risk tolerance, and income and total return objectives.

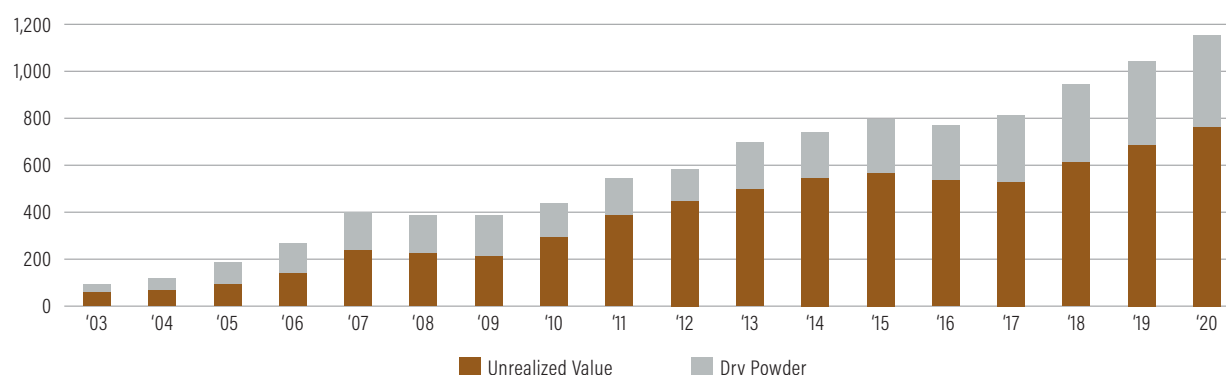
We believe the unique attributes of real estate can help investors diversify away from traditional public equity and fixed income asset classes to maximize risk management, improve yield and more effectively hedge the impact of inflation. In our view, these are all appealing characteristics in today's environment of low—and potentially rising—interest rates, elevated inflation and increasing correlations among traditional equity and fixed income assets. Real estate investors may also benefit from sector and geographic trends that have accelerated during the recent COVID-19 pandemic. As investors seek to address current and future market challenges, we believe real estate investments (both public and private) can play a critical role in a diversified portfolio.

EVOLUTION AND PROFESSIONALIZATION

Crucial to our view is the changing profile of real estate investing. For many years, the real estate market was focused on private ownership by family-run businesses, emphasizing tax minimization through the use of limited partnerships. Investors typically accessed real estate on an opportunistic basis, partnership by partnership and property by property, often driven by tax incentives. In the late 1980s and 1990s, real estate operating companies began to emerge, leading to the increased popularity of real estate mutual funds, followed more recently by a significant increase in professionally managed private equity funds. The \$16 trillion real estate market continues to be highly fragmented and largely privately owned.¹

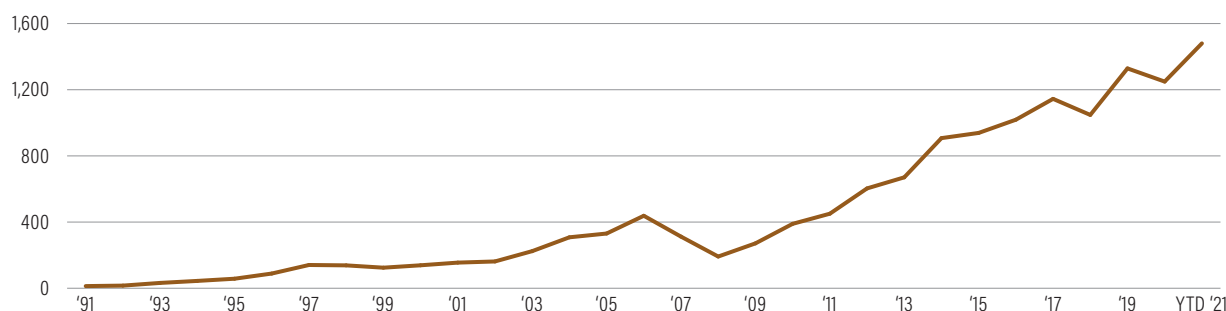
REAL ESTATE FUNDS—PRIVATE AND PUBLIC—HAVE SEEN RAPID GROWTH

Real Estate Private Equity Funds Assets Under Management (\$ Billions)



Source: Preqin, as of September 2021. There can be no assurance that such characteristics will persist in the future.

REIT Market Capitalization (\$ Billions)



Source: NAREIT and Bloomberg, as of September 2021. FTSE NAREIT All REITs Index. There can be no assurance that such characteristics will persist in the future. Please see disclosures at the end of this presentation for more information concerning Indexes, which applies throughout this presentation.

¹ Source: NAREIT and Neuberger Berman estimates, as of October 2021.

Today, this trend toward professionalization may help investors gain diversified exposure to real estate across a range of avenues. Depending on the investor, this may include a single operating company (public or private), a public real estate investment trust (REIT) mutual fund, or a private equity-style real estate fund. Diversification may be available across geography, property type, risk profile or underlying tenant, among other factors.

In our view, such exposure can complement personal real estate holdings. At the same time, we believe that professional investors are uniquely positioned to deliver potential long-term performance due to the fragmented, heterogeneous nature of real estate markets, extensive due diligence involved in evaluating real estate transactions, and the need for in-depth knowledge of local regulatory and tax-related issues, as well as the informational advantage often enjoyed by those who understand local market dynamics. We believe this professionalization may grow more important in a rapidly changing macroeconomic and real estate environment—particularly as investors attempt to deal with various current challenges in seeking to generate return and manage risk.

FACING TODAY'S INVESTMENT CHALLENGES

Investors currently face a combination of issues associated with the early to middle stages of any economic expansion, which also relate to the economy's reemergence from the pandemic. At a high level are the low yields associated with the Federal Reserve's aggressive monetary easing, designed to keep the markets and economy going in the worst of the pandemic. As the reopening accelerated, so did inflation, propelled by pent-up demand, ample liquidity, supply chain issues and shortages—notably in the commodity space—as many industries sought to ramp up production from reduced levels. At first perceived as transitory, it now appears that elevated inflation could last into next year and beyond. This, in turn, has prompted many central banks to start pulling back on bond purchases and ultralow interest rates, potentially putting pressure on the bond market, and increasing correlations between stocks and investment grade bonds—reducing the benefit of the latter as a portfolio diversifier.

As a result, there may be urgent questions around portfolios: how to keep up with inflation, how to generate meaningful income without taking excessive risk, and how to effectively diversify to limit losses during market volatility and both smooth returns and maintain potential for capital appreciation.

In the current climate, we believe that real estate, from both public and private sources, can potentially help with all of these issues, depending on the characteristics of the investment and the goals of the investor.

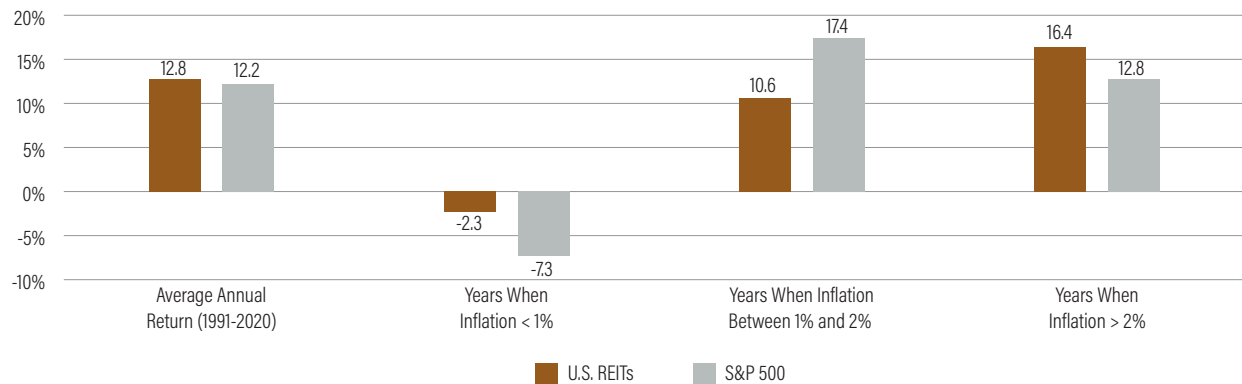
A HEDGE AGAINST INFLATION

Historically, one of the key functions of “real asset” investments, including real estate, was to keep up with inflation. After the extraordinary price increases of the 1970s, Paul Volcker's intense monetary tightening “broke the back” of inflation and, for the past several decades, it has been of limited concern. However, as inflation comes back into focus, it is worth understanding how that hedge can work.

At a basic level, real estate prices are a core part of the inflation rate and the two tend to go hand in hand. Beyond that, the economic arrangements created around real estate often take inflation into account. Think of a landlord, for example, who every year or two may have the ability to raise the rent on an apartment or storefront to cover costs or match market rates. Longer-term commercial leases often have protections, with annual “escalators” that may reset rents every year based on an inflation index. This resilience in the face of inflation has typically extended to real estate securities as well, as suggested by the total returns of publicly traded REITs and commercial real estate across inflation regimes (see displays on page 4).

RESILIENCE DURING INFLATION

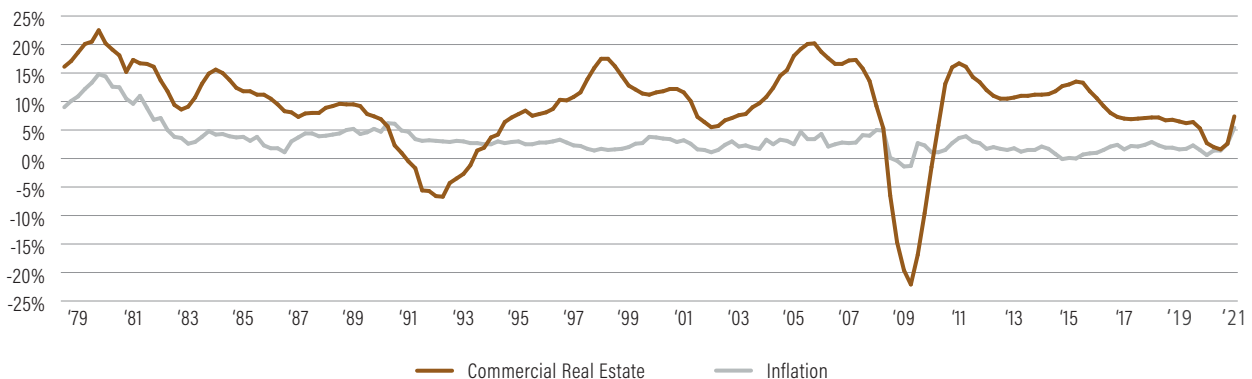
REIT vs. S&P 500 Returns in Different Inflation Regimes



Source: NAREIT, as of December 2020. NAREIT analysis of prices for the FTSE NAREIT All Equity REIT Index and S&P 500 Index; 1972-2020. Inflation measured for all items, all urban consumers. Indexes are unmanaged and are not available for direct investment. Unless otherwise indicated, returns reflect reinvestment of dividends and distributions. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

U.S. COMMERCIAL REAL ESTATE GROWTH VS. INFLATION

Year-Over-Year Percentage Change



Source: Bloomberg, NCREIF National Council of Real Estate Investment Fiduciaries. Data through September 2021. Year-over-year percentage change. Commercial real estate is represented by the NCREIF Index, inflation is the Consumer Price Index. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

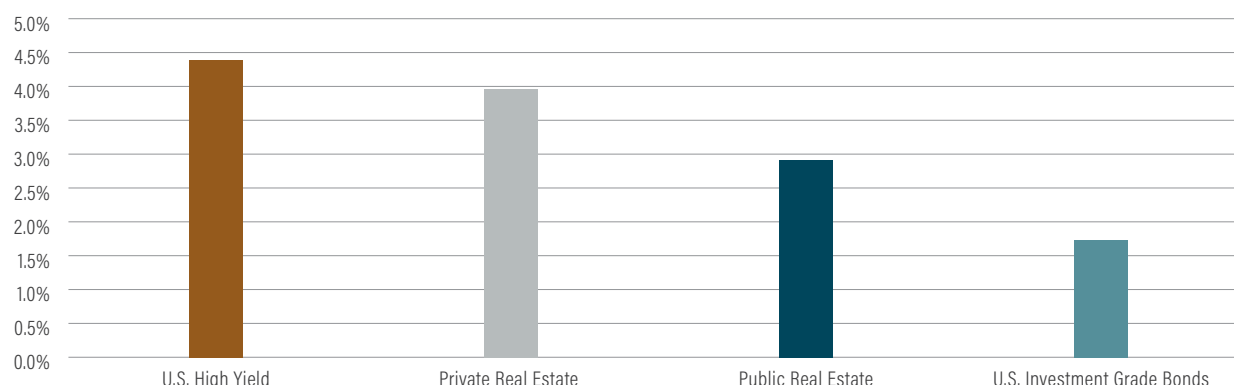
INCOME GENERATION AND DIVERSIFICATION

As with other broad investment categories, real estate characteristics vary. This extends to income generation, with some vehicles and strategies opting to provide yield as part of a total return approach and others focused more on capital appreciation. As a general idea, however, real estate often has the ability to generate income, which may be particularly valuable in light of low yields on many investment grade fixed income securities (see the first display on page 5).

Beyond yield, real estate has displayed a valuable level of diversification from traditional assets over the last 20 years—suggested by REIT correlations versus other publicly traded assets (see second display on page 5), with a correlation of 0.71 relative to large-cap equities and 0.03 to investment grade bonds. (1.0 represents perfect correlation in price movements, zero shows no relationship, and -1.0 reflects perfect inverse movement.) As you might expect, correlations between private real estate and publicly traded assets are even lower, at -0.05 and -0.13 relative to large-cap equities and investment grade bonds, respectively, given private markets' greater insulation from short-term market dynamics. In our view, the idiosyncratic nature of real estate may be particularly valuable as we navigate an uncertain and evolving market climate.

APPEALING YIELDS IN A LOW-INCOME ERA

Yield Comparison: Real Estate vs. U.S. High Yield and Investment Grade Bond Indices

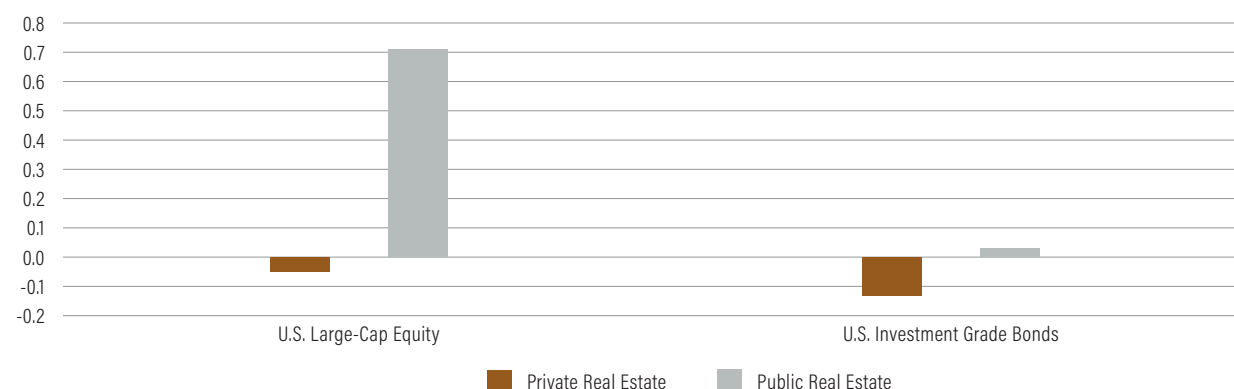


Source: Bloomberg, National Council of Real Estate Investment Fiduciaries. Data as of November 2021 for U.S. High Yield Market Index, public real estate (FTSE NAREIT All Equity REITs Index) and U.S. investment grade bonds (Barclays Capital U.S. Aggregate Bond Index), and as of September 2021 for private real estate (NCREIF Property Index, trailing 12-month income yield). Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal.

Past performance is no guarantee of future results.

VALUABLE DIVERSIFIER

Real Estate Correlations vs. Stocks, Bonds



Source: NAREIT, Neuberger Berman. Public real estate: FTSE NAREIT All Equity REITs Index, private real estate: NCREIF Property Index, U.S. large-cap equity: S&P 500, U.S. investment grade bonds: Barclays Aggregate Bond Index. All calculations based on quarterly index returns for trailing 20 years ending June 30, 2021. Indexes are unmanaged and are not available for direct investment. Unless otherwise indicated, returns reflect reinvestment of dividends and distributions. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. **Past performance is no guarantee of future results.**

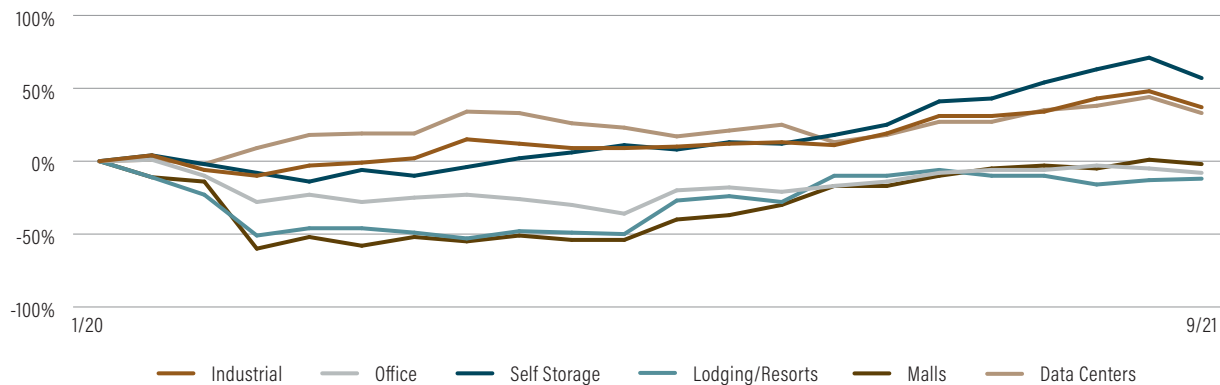
ASSET CLASS IN MOTION: CURRENT REAL ESTATE DYNAMICS

The global economic landscape has been changing dramatically over the past two years, and in our view real estate is no exception, as pressures from the pandemic coupled with ultra-aggressive monetary and fiscal stimulus, as well as pre-existing strategic issues, have combined to affect business results and prospects. Assessing potential opportunity may require close attention to regional/industry specifics as well as valuation.

In terms of sectors, single-family homes, industrial warehouses, data centers and infrastructure including cell towers have secular tailwinds but may also carry higher pricing. Meanwhile, more COVID-exposed areas like retail, offices and hotels may provide appreciation potential as the reopening matures and the economy moves back toward broader normalcy. The displays on page 6 reflect the sharp bifurcation of performance in the real estate market thus far, both in public and private segments. All told, although real estate assets have seen significant appreciation since the depths of the health crisis and lockdowns, we still see significant room for return potential given strong economic growth and still-strong demand in some areas, but we emphasize the need for selectivity to manage ongoing risks.

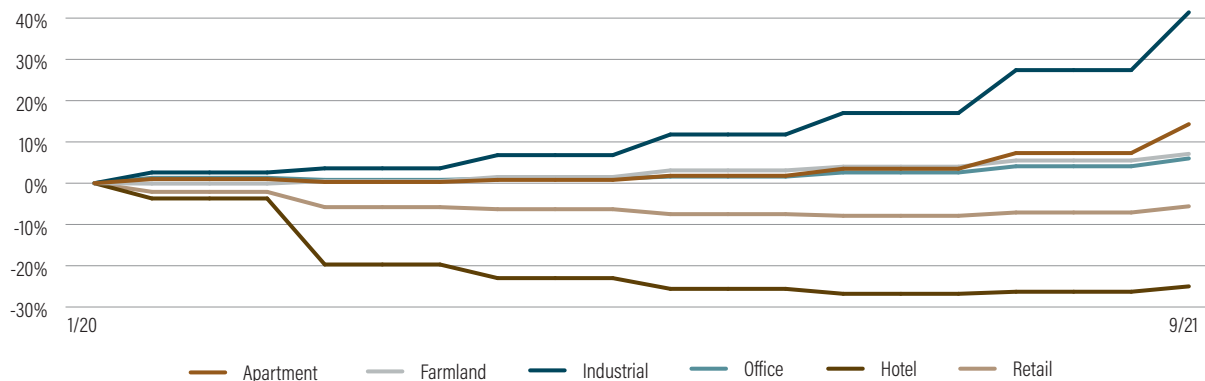
PERFORMANCE GAPS DURING THE PANDEMIC

Public Real Estate Sector Cumulative Performance: January 2020 – September 2021



Source: Morningstar, NAREIT. Cumulative returns from January 1, 2020 to September 30, 2021. There can be no assurance that such characteristics will persist in the future.

Private Real Estate Sector Cumulative Performance: January 2020 – September 2021



Source: Morningstar, NCREIF National Council of Real Estate Investment Fiduciaries, Cumulative return from March 31, 2020 to June 30, 2021. There can be no assurance that such characteristics will persist in the future.

ACCESSING THE REAL ESTATE MARKET

Direct real estate has also been a common means of investing for generations. However, as many have likely learned from experience, opportunities in individual properties aren't for everyone. They often require large time and capital commitments, are typically hard to diversify, and may require very specialized expertise. We believe more relevant to readers here, therefore, are means to access professionally managed real estate portfolios, which fall broadly into private real estate and publicly traded real estate categories. Both categories potentially benefit from the characteristics outlined previously, including a fragmented market, local market differentiation, asymmetric information, long transaction lead times, and heterogeneous property characteristics. Moreover, we believe the use of professionally managed vehicles enhances the opportunity for long-term performance in light of the unique characteristics of real estate—an idea that in our view applies to both public and private markets.

PRIVATE REAL ESTATE

About 90% of the \$16 trillion U.S. commercial real estate market is in private hands,² and much of that is increasingly within fund structures. Private funds typically bring with them professional management and an array of focus areas and disciplines and, depending on the assets involved, may be particularly flexible in seeking to achieve investor goals, whether related to income or capital appreciation. They may also be able to generate exposure in areas of particular interest to the investor, and where opportunities may be particularly ample, although they typically focus on traditional real estate sectors such as office, industrial, multifamily residential, office, retail and lodging. Like other strategies in the private markets, private real estate funds may be able to operate without the short-term orientation and market turbulence that often affect publicly traded counterparts. Properties and companies that remain private tend to be smaller and less established than public REIT counterparts. Like many private equity funds, they typically have investor qualifications and relatively large investment minimums, although those are easing with the introduction of new investment structures. Traditional private funds also tend to be illiquid for multiyear periods and may require gradual commitments of capital before investors begin to see potential investment returns.

Private real estate opportunities can be differentiated by risk profile and fall in to three main categories, as shown below:

	Core	Value-Add	Opportunistic
Source of Return	Income	Income + Capital Appreciation	Capital Appreciation
Risk / Return Profile	Moderate	Moderate – High	High
Leverage	Low	Moderate	High
Occupancy / Level of Development	High Occupancy /Low Development	Moderate Occupancy / Moderate Development	Low Occupancy /High Development

For illustrative purposes only.

Strategies vary, but popular approaches include: investments in real estate operating companies, which provide meaningful diversification and the ability to invest with strong management teams with expertise in their specific niches and regions; lending, which rather than investing in the equity of a given firm or project, draws potential return from directly underwritten debt of real estate companies and transactions; and private equity-style real estate funds, which invest in individual properties across risk profiles, property types and geographies. Of particular interest today, in our view, is the recent growth and maturation of the real estate secondaries market, which involves the purchase of existing private equity real estate funds, often at a discount to prevailing market prices. Secondary market investing may reduce the delay before return of capital and investment proceeds that often takes place with many traditional approaches, and may provide some risk reduction given accumulated knowledge about the seasoned assets involved.

PUBLIC REAL ESTATE

Most REITs are publicly traded companies that own, operate or finance real estate. Because of federal tax rules, they are required to distribute the bulk of the income they produce each year. Much like their traditional equity counterparts, publicly traded REITs tend to skew to larger and higher quality, and REITs are typically better able to withstand the scrutiny of the public markets and to support the required distribution of income in the REIT structure. Although initially focused on more traditional sectors of the real estate market, they have in recent years expanded to include a range of disruptive business trends, as shown below in the current sector breakdown of a prominent U.S. equity REIT index. This differentiated sector exposure may complement private real estate strategies in an overall portfolio and diversify away from existing personal property holdings. REIT funds operate much like other diversified investment strategies, providing exposure to a range of companies to help increase potential for opportunity and manage risk. Unlike private counterparts, they are subject to equity market-related volatility, particularly during short-term bouts of volatility. However, over the long term, publicly traded REITs tend to reflect the fundamentals and investment returns of the real estate market, independent of equity markets overall (much like private real estate).

² Source: NAREIT and Neuberger Berman estimates, as of October 2021.

PUBLIC REAL ESTATE: OLD AND NEW

Percentage of FTSE NAREIT All Equity REITs Index

U.S. REITs 50%+ Alternative Real Estate Exposure			
		Alternative Real Estate Sectors	53%
		Infrastructure	17%
Traditional Real Estate Sectors	47%	Data Centers	9%
Retail	12%	Healthcare	9%
Industrial	11%	Self-Storage	6%
Apartments	11%	Specialty	4%
Office	7%	Manufactured Homes	3%
Diversified	3%	Timber	3%
Lodging/Resorts	3%	Single-Family Homes	2%

Source: FTSE NAREIT, as of September 30, 2021.

CONCLUSION: FITTING REAL ESTATE INTO PORTFOLIOS

We believe the public and private real estate markets are at a unique juncture today, as the spread of professionalized asset management has helped to enhance opportunities and manage risks within a still-fragmented landscape. Exposure to real estate may help generate income and total return, as well as serve as a potential hedge against renewed inflation. The use of both public and private vehicles in a portfolio may expand the array of opportunities and help craft exposure in line with individual objectives and risk tolerance.

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Investing entails risks, including possible loss of principal. Investments in hedge funds and private equity are speculative and involve a higher degree of risk than more traditional investments. Investments in hedge funds and private equity are intended for sophisticated investors only. Indexes are unmanaged and are not available for direct investment. Past performance is no guarantee of future results.

The FTSE NAREIT All Equity REIT Index measures the performance of all publicly traded equity real estate investment trusts traded on U.S. exchanges.

The NCREIF Property Index (NPI) is a quarterly, unleveraged market-weighted composite total return for private commercial real estate properties held for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors and held in a fiduciary environment. Only operating apartment, hotel, industrial, office and retail properties are included in the NPI. An operating property is defined as existing and at least 60% leased. The property can be wholly owned or held in a joint venture structure.

The S&P 500 Index measures the performance of the 500 largest U.S. companies, and captures approximately 80% coverage of available market capitalization.

The Bloomberg Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. It covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

The Bloomberg Barclays Capital U.S. Corporate High-Yield Bond Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

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