EUROPEAN AND U.S. REAL ESTATE DURING COVID-19

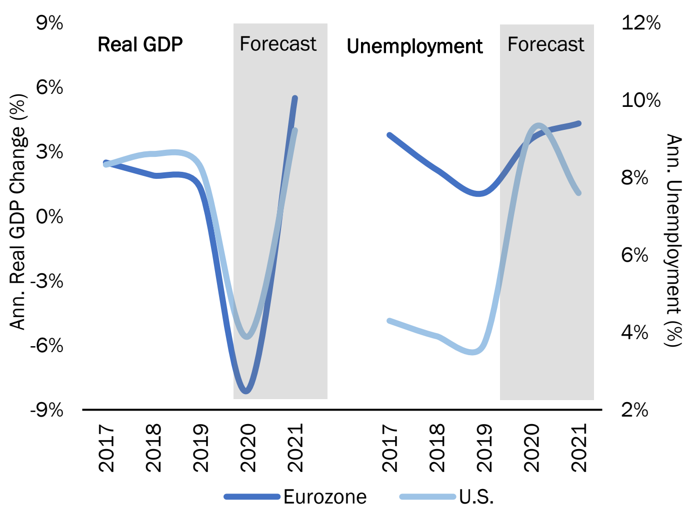
The global recession caused by the COVID-19 pandemic is the deepest of the post-war era. Lockdowns across Europe and the U.S. precipitated a historic demand shock that touched practically every industry *(fig.1)*. Governments responded quickly with decisive fiscal and monetary stimuli, likely averting another global financial crisis for now at least. However, the implications of COVID-19 on the global economy broadly and commercial real estate specifically likely will continue to play out in coming quarters and years.

Public REIT share prices in Europe and the U.S. collapsed in response to government-mandated shutdowns intended to control the infection curve *(fig.2)*. At their March 2020 nadir, composite REIT price indices were down by 34.6% from their February peaks but recovered 24.5% for Europe and 37.2% for the U.S. by the end of the second quarter.[1] Among core property sectors, industrial was most resilient, down 12.4% in Europe and 8.6% in the U.S. from recent peak, while retail and hotel were down by at least 39% across both regions as of Q2.[2]

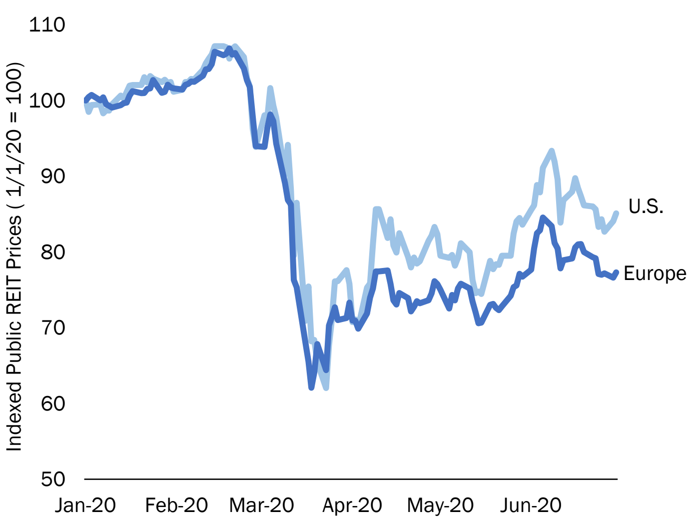
The real estate industry has benefitted indirectly from the estimated $9+ trillion[3] of global fiscal stimulus disbursed to businesses and households. Rent collection has held up better than expected even as economies remained closed. As the initial stimulus wears off, however, we believe more is needed to sustain property income as economies re-open slowly.

Prior to the pandemic, commercial real estate had been undergoing significant shifts in tenant demand caused by secular demographic, technological, and policy changes. In many ways, the pandemic has accelerated these trends, such as with e-commerce. In other ways, it has compelled a thorough reconsideration of existing usage, such as with traditional office work space configurations.

(FIG.1) **A HISTORIC GLOBAL RECESSION UNFOLDING**[4]



(FIG. 2) **PUBLIC REIT PRICES CORRECTED AND PARTIALLY RECOVERED**[5]



A NEW REAL ESTATE CYCLE EMERGES

Through 2019, we expressed our conviction that the maturation of the global business cycle signaled that another downturn was forthcoming. Although we did not anticipate that the coronavirus pandemic and its human toll would bring the real estate market cycle to such an emphatic end, we stressed that investors needed to be prepared for a correction.

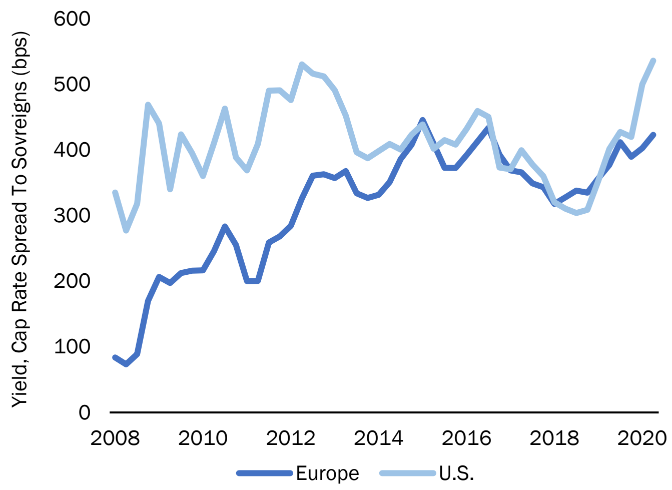
With both Europe and the U.S. officially in recession, investors can begin to put behind themselves the "what if" and focus on the "what now". While we believe it is unlikely at this point for measures of employment and real GDP to suffer another double-digit percentage decline as they did between the first and second quarters, economies and markets remain fragile. A hallmark of the COVID-19 downturn has been the speed of correction and recovery in public markets. Public REITs are a case in point – taking one month to bottom in 2020 versus almost seven in 2009.[6] We do not expect the private real estate to move at the speed of its public counterpart, however, public REITs have historically provided a critical signal for private investors as to when cycles turn.[7]

At present, asset level pricing is opaque especially relative to 2019 when transactional activity and debt capital were much more abundant. Central bank interventions have allowed real estate risk premiums to expand by lowering the risk-free rate, mitigating near-term uncertainty around property yields *(fig.3)*. Still, questions persist about the nascent third quarter economic rebound following the GDP declines in the second.

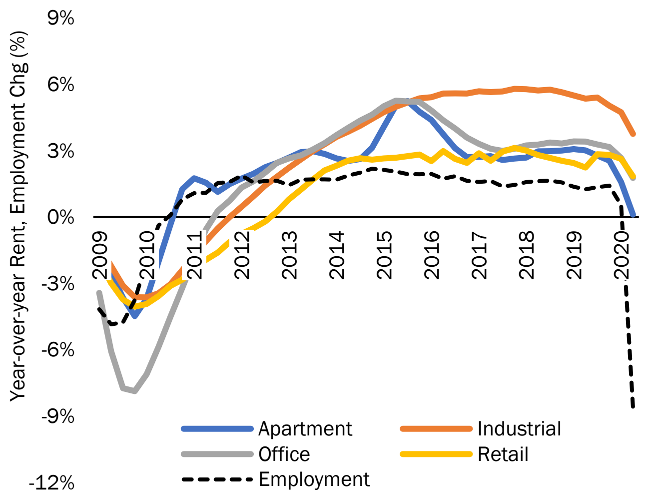
We still do not have a full picture of the COVID recession nor its private real estate implications, but given the severity of the shock, we believe we are coming upon the end of the prior cycle and the beginning of a new cycle *(fig.4)* with a wider opportunity set as well as new challenges. As this fast-moving dislocation gives way to recovery, we believe new and evolved secular investment themes will continue to present themselves.

All data as of Q2 2020. For illustrative purposes only. There is no guarantee or assurance the above trends will continue. Please see endnotes on page 5.

(FIG.3) **REAL ESTATE RISK PREMIUMS HAVE WIDENED** [8]



(FIG. 4) **U.S. RENT TRENDS SIGNAL END OF PRIOR CYCLE** [9]



TRANSACTION ACTIVITY AND PRICING

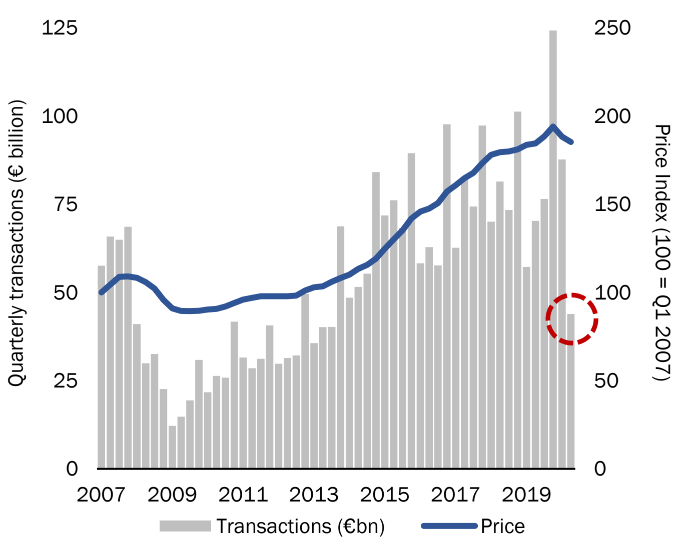
In the second quarter, transaction activity is estimated to have fallen by 37.6% over the past year in Europe and by 68.2% in the U.S.[10] For Europe, the quarterly decline was sharp, but shy of the record 70.2% drop registered in the first quarter of 2009 *(fig.5)*.[11] The second quarter 2020 decline was closer to the global financial crisis (GFC) for the U.S. By comparison, real estate sales volume fell by a record 80.3% during the fourth quarter of 2008 *(fig.6)*.[12]

Steep declines in Europe were experienced across all major property sectors including hotels (-83.0%), industrial (-34.1%), office (-42.2%), residential (-28.5%), and retail (-23.2%). Similarly, U.S. sales volume fell across all property sectors. Declines in apartments (-70.4%), hotels (-91.3%), industrial (-49.7%), office (-71.4%), and retail (-73.1%) trades reflect how pervasively pandemic-related uncertainty permeated across sector activity.[13]

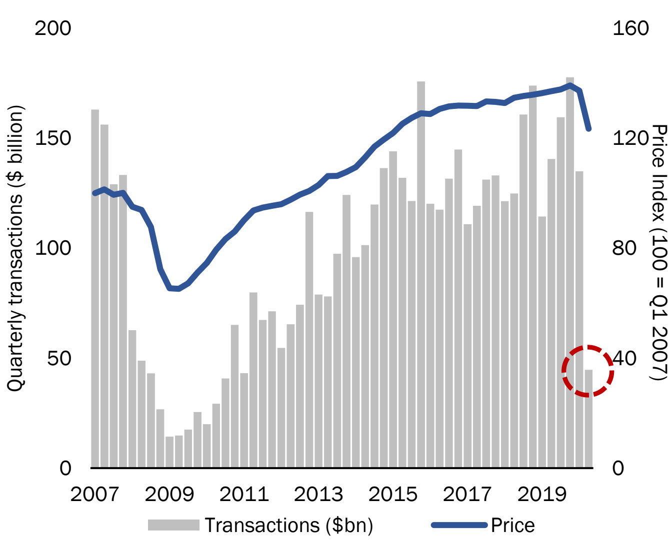
Across both regions, price trends have turned downward decisively for the first time since 2008.[14] Given the lagging appraisal-based nature of property prices, there are few definitive signs of a bottoming in valuations presently. However, if transaction activity was to stabilize in coming quarters, that has historically boded well for price discovery.

Global dry powder reached a record high $370 billion in December 2019 just prior to the outbreak. The level of dry powder has trended down to $341 billion as of July,[15] but there are few indications that institutional investor target allocations have changed meaningfully. There remains nearly twice the capital awaiting deployment as there was on the eve of the GFC, and we expect this also should help backstop severe value destruction across the industry.[16]

(FIG.5) **EUROPEAN TRANSACTION VOLUME DECLINES 38% YOY** [17]



(FIG. 6) **U.S. TRANSACTION VOLUME DECLINES 68% YOY** [18]



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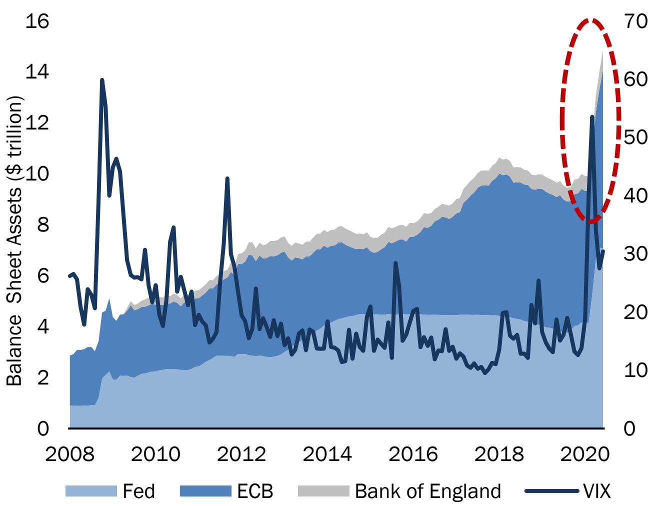
OUTLOOK FOR DISTRESS AND RECOVERY

Often referred to as the "fear index", the VIX hit a new high of 82.69 in March, eclipsing the previous record of 80.74 set in November of 2008.[19] Perhaps learning from their inaction nearly a decade ago, central banks moved decisively to counter the building panic with assurances that they were prioritizing the stability of the global financial system *(fig.7)*. Public markets settled and even began to recover. Since then, however, a stark disconnect with the "real economy" has emerged when assessing the damage done to wage-earners who have seen their income prospects greatly diminished as well as the millions of small and medium enterprises facing escalating risk of insolvency even as they slowly re-open. We believe this disconnect will continue to play out in the European and U.S. real estate market over the coming cycle.

One indication of real estate distress has been the U.S. CMBS market where spreads and delinquency rates (DQs) have spiked. In just two months, 30+ day DQs rose by 800 bps, a rise that took close to *2.5 years* following the GFC.[20] Even as lockdowns eased, retailer bankruptcies and store closings have accelerated. After suffering an unprecedented collapse in cashflows in the first quarter, hotels now face a RevPAR recovery that could take several years. Unsurprisingly, hotel and retail loans are largely behind the spike in DQs. As of June 2020, delinquencies for hotel and retail increased by 22.8 and 14.2 percentage points respectively March levels *(fig.8)*. In contrast, June industrial and office delinquencies are below their June 2019 percentages, and apartment is only 120 bps above. Depending upon rising infections, incidences of distress could continue to rise. Yet we also believe that distress and recovery will run along parallel trajectories over the coming quarters given the highly differentiated nature of the COVID-19 impact upon property sectors and geographies.

(FIG. 7) **CENTRAL BANKS' RESPONSE QUICK, FORCEFUL**[21]



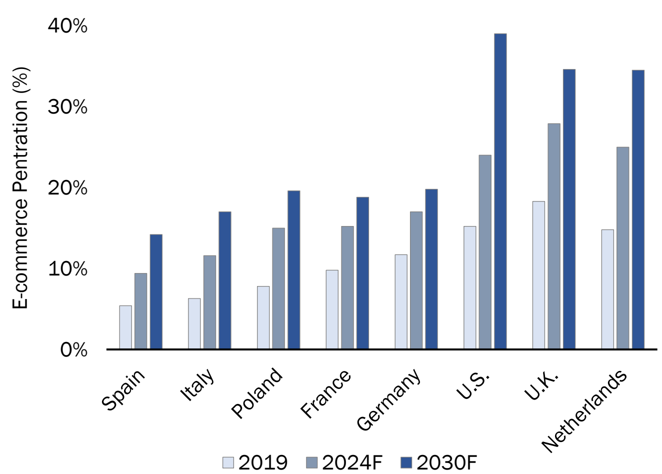
(FIG. 8) **CMBS DELIQUENCIES HIGHLIGHT HOTEL, RETAIL DISTRESS**[22]

CMBS Delinquency Rates (30+ days)	Jun-20	May-20	Apr-20	Mar-20	Dec-19	Jun-19
Apartment	3.3%	3.3%	1.9%	1.6%	2.0%	2.1%
Industrial	1.6%	1.8%	1.4%	1.4%	1.6%	1.9%
Hotel	24.3%	19.1%	2.7%	1.5%	1.5%	2.4%
Office	2.7%	2.4%	1.9%	1.9%	1.9%	3.0%
Retail	18.1%	10.1%	3.7%	3.9%	3.8%	4.4%
Total	10.3%	7.2%	2.3%	6.6%	6.6%	6.6%

CONCLUSION

The GFC remains the watermark to which most investors have instinctively compared market dislocations over the past decade. The COVID-19 recession has been different from the GFC, but we believe the disruption of traditional business models for real estate owners and investors will likely be as substantial and long-running as it was in the post-GFC era. Traditional retail must overcome serious structural challenges to regain relevancy while the evolution of the industrial sector is poised to accelerate due to e-commerce *(fig.9)*. Residential real estate has proven defensive but is being tested by persistently high unemployment. The hotel sector, already in a downcycle before the pandemic, is expected to take years to get back to its pre-COVID-19 revenue levels. Where utilization efficiency and open work areas were once the trend for offices, tenants and landlords are now rethinking space configurations given social distancing requirements.

(FIG. 9) **E-COMMERCE PENETRATION ACCELERATES POST-COVID**[23]



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CORONAVIRUS AND PUBLIC HEALTH EMERGENCY RISKS

As of March 17, 2020, there is an outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic. The outbreak of COVID-19 has resulted in numerous deaths, adversely impacted global commercial activity, and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores, and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries. The impact of COVID-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess.

Any public health emergency, including any outbreak of COVID-19 or other existing or new epidemic diseases, or the threat thereof, and the resulting financial and economic market uncertainty could have a significant adverse impact on the Fund, the pricing and fair value of its investments and real estate assets and its subsidiaries, and could adversely affect the Fund's ability to fulfill its investment objectives.

The extent of the impact of any public health emergency on the Fund's and its subsidiaries' operational and financial performance will depend on many factors, including the duration and scope of such public health emergency, the extent of any related travel advisories and restrictions implemented, the impact of such public health emergency on overall supply and demand, goods and services, investor liquidity, consumer confidence and levels of economic activity and the extent of its disruption to important global, regional and local supply chains and economic markets, all of which are highly uncertain and cannot be predicted. The effects of a public health emergency may materially and adversely impact: (i) the value and performance of the Fund and its investments, (ii) the ability of the Fund and/or its subsidiaries to continue to meet loan covenants or repay loans on a timely basis or at all, (iii) the ability of the Fund and/or its subsidiaries to repay their debt obligations, on a timely basis or at all or (iv) the ability of borrowers to repay Loans on a timely basis or at all, or (v) the Fund's ability to source, manage and divest investments and the Fund's ability to achieve its investment objectives, all of which could result in significant losses to the Fund. Moreover, risks related to borrower delinquencies and defaults, foreclosures, non-performing investments, extended workout negotiations and/or restructurings, and write-downs or write-offs of the principal of impacted Loans will likely be magnified in the current environment in light of global economic distress, supply chain disruptions, decreases in consumer confidence, expected increase in tenant defaults, inability to complete construction in a timely manner, etc., all of which could result in significant losses to the Fund.

All unrealized performance information, investment strategy, and targeted returns presented throughout this presentation were prepared as of the dates indicated. Such information was prepared at such times in good faith based on a number of fundamental assumptions as of such dates, including assumptions relating to the broader economy, macro and applicable micro economic conditions, the geopolitical landscape, interest rates, availability and pricing of credit, liquidity and depth of transactional markets, health, population, and the environment, etc. With the unprecedented (and to date uncurable) advancement of COVID-19, most of those assumptions at the current time appear to be materially off or in a state of suspension. Consequently, all unrealized performance information, the portions of the investment strategy which related to targeted returns, and valuations of current investments held within or warehoused for the Fund are at the time of this writing indeterminate but presumed to be materially lower than those last presented. While in the medium to longer term the Manager believes the Fund should see attractive opportunities consistent with its larger investment themes and strategy, it will likely take some time for the markets to recover.

In addition, the operations of the Fund, its subsidiaries and investments, the General Partner and the Manager may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, voluntary and precautionary restrictions on travel or meetings and other factors related to a public health emergency, including its potential adverse impact on the health of any such entity's personnel.

REF: RE-01387

ENDNOTES

1 Bloomberg Consensus Forecasts as of July 2020. Forecasts are inherently limited and should not be relied upon as indicators of actual or future results
2 FTSE/NAREIT, Bloomberg as of June 30, 2020.
3 International Monetary Fund, IMFBlog "Chart of the Week", May 20, 2020.
4 Bloomberg consensus forecasts, Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), Eurostat as of Q2 2020.
5 FTSE/NAREIT, Bloomberg as of June 30, 2020.
6 Ibid.
7 Green Street Advisors, "Heard on the Beach: End of the Beginning", April 16, 2020
8 Federal Reserve (Fed), CBRE, European Central Bank (ECB), Real Capital Analytics (RCA) as of Q4 2019.
9 BLS, Costar as of July 2020.
10 CBRE, RCA as of July 2020.
11 CBRE as of July 2020.
12 RCA as of July 2020.
13 Ibid.
14 CBRE, RCA as of July 2020.
15 Preqin as of July 2020.
16 Ibid.
17 CBRE as of August 2020.
18 RCA as of July 2020.
19 CBOE VIX as of July 2020.
20 Trepp CMBS Research, "CMBS Delinquency Rate Surges for Third Month", July 2020.
21 Bank of England, Bloomberg, CBOE, ECB, Fed as of Q2 2020.
22 Trepp CMBS Research, "CMBS Delinquency Rate Surges for Third Month", July 2020.
23 CBRE forecasts as of April 2020. Forecasts are inherently limited and should not be relied upon as indicators of actual or future results