PERSPECTIVES | PROPRIETARY RESEARCH

Why Real Estate

Finding Value Amid Uncertainty

The real estate value proposition is rooted in the composition of its risk/performance over time. Portfolios or even single properties can offer the potential for ongoing income complemented by capital appreciation (the latter underpinned by rising income from rent increases). It's this combination of cash flow and capital appreciation that makes real estate, in our view, a hybrid with both equity and bond-like characteristics.

The combination of three key forces support our conclusion that real estate can perform well—perhaps even admirably—even in a potential paradigm shift to higher equilibrium inflation, higher uncertainty, and lower regional economic correlation driven by deglobalization:

1 Historically low volatility relative to other commonly held investments (due in part to the diversification benefits which may come from investing across global regions and sectors)

2 Evidence that property rents track with inflation

3 A view that property is a relatively direct "pure play" on the fundamentals of the local economy in which it sits.

Exhibit 1

Real estate may offer a bridge between the two traditional buckets— **bonds and equities**

Source: Hines Research. As of Q2 2025.

ALLOCATING TO ALTERNATIVES

While investment allocation is an inexact science, there is a view that private wealth portfolios could soon have as much as 30% allocated to alternatives, with equities and bonds making up the other 70%.[1] The bucket known as alternatives is quite broad, and generally will include private market corporate equity, real estate debt and equity, and infrastructure.

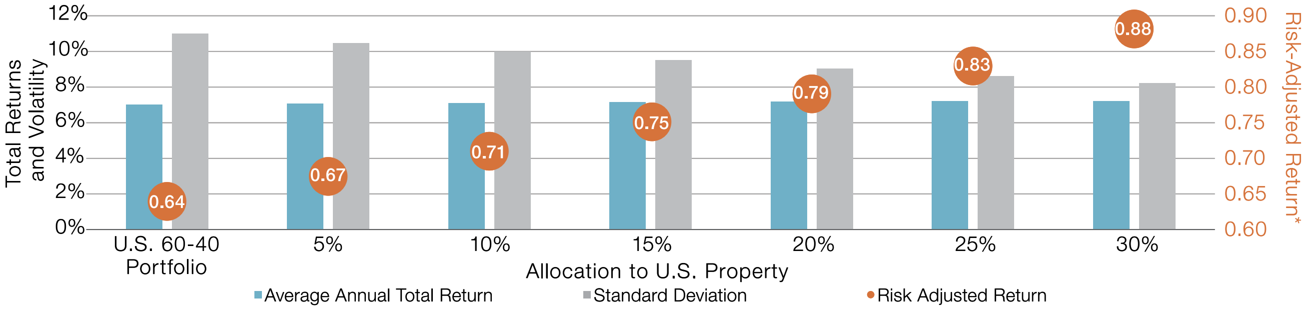
Our analysis here begins with the 60/40 split between stocks and bonds as a reasonably illustrative portfolio. The data showed that every 5% incremental increase in U.S. property allocation to such a portfolio both increased returns (real estate's equity-like characteristics supplanting the poorer return performance of bonds) and decreased volatility (real estate's more bond-like stability supplanting the higher volatility of equities) all the way up to 30%.

1 Source: The Case for the 40/30/30 Portfolio, wealthmanagement.com, January 2024.

In this paper, "we" and "our" refers to Hines Proprietary Research ("Hines Research").
Past performance cannot guarantee future results.
An investment in private real estate is not the same as an investment in bonds or equities.

Exhibit 2

A U.S. 60/40 Stock and Bond Portfolio with U.S. Direct-Owned Private Real Estate Added in 5% Increments



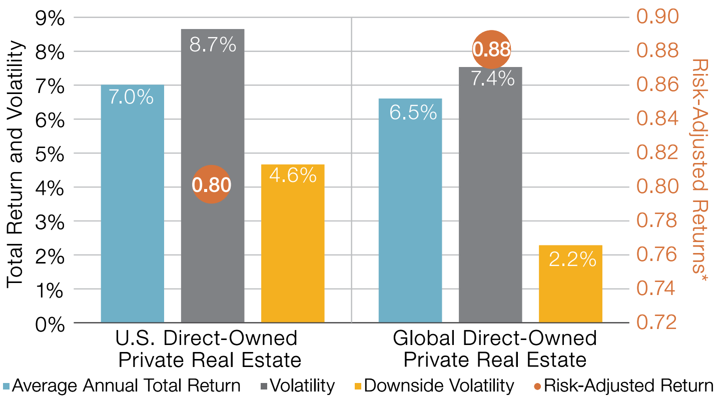
Past performance cannot guarantee future results.
Source: MSCI, Standard & Poor's, Bloomberg, Hines Research. As of 4Q2024 for the period from 2001 – 2024. We are using an annual index (MSCI Global Annual Property Index) of direct-owned private equity real estate total return performance from a single source to maintain comparability. For all country level indices provided by MSCI and included by MSCI in the Global Property Index, including the US (MSCI US Annual Property Index) utilized here, data is not yet available for 2025. *Risk-adjusted returns are calculated by dividing the total return by the standard deviation of rolling annual returns over the same period.

Notwithstanding the findings of Exhibit 2, a 30% allocation to private real estate is not likely the answer as there are many other investment ideas under the alternatives umbrella to be considered. To arrive at what might be thought of a rational allocation, we triangulated by examining what a passive market weight allocation would be. This is a market-sizing exercise in which the total value of investible real estate is considered relative to other asset classes, and, in effect, generates an allocation as determined by market forces. In a global context, the total value of invested direct-owned private commercial real estate is **closer to 15% of the sum of global equities, bonds, and property itself.**[2]

Exhibit 3

Global Property Has Offered Lower Volatility Than U.S. Property, Even in Downturns

Comparative risk/return performance for U.S. and Global Direct-Owned Real Estate



Past performance cannot guarantee future results.
Sources: MSCI, Standard & Poor's, Bloomberg, Hines Research. As of 4Q2024 for the period from 2001 – 2024. We are using an annual index (MSCI Global Annual Property Index) of direct-owned private equity real estate total return performance from a single source to maintain comparabilit. *Risk-adjusted returns are calculated by dividing the total return by the standard deviation of rolling annual returns over the same period. **Downside volatility is a measure of volatility that uses standard deviations of only negative returns, so a measure of the relative scale of declines.

DIVERSIFYING THE DIVERSIFIER

We also believe that a blend of distinct real estate investments may diversify against each other. Here we explore two approaches that could make up a multilayered real estate allocation.

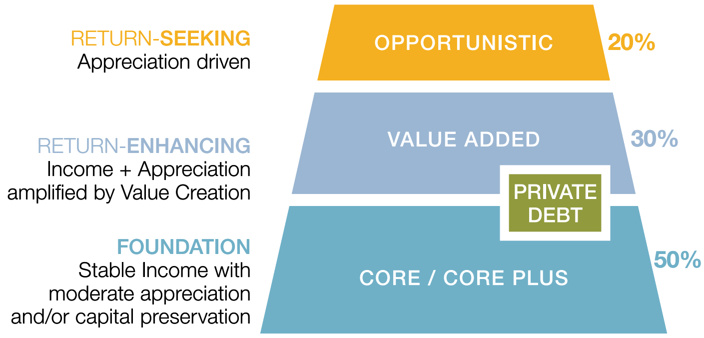
The first is **Geographic Diversification.** More than two-thirds of the world's investible commercial property is held outside of U.S. markets,[3] and we would argue that a broad opportunity set across markets with asynchronous economic and fundamental cycles will likely offer the potential for arbitrage (i.e. investing in a less expensive or recovering market when others are expensive and/or set for a correction). In fact, global direct-owned private real estate has demonstrated the ability to reduce risk by investing across countries that are not perfectly correlated with an asset class that benefits directly from those economies.

2 Sources: Bank of International Settlements, Hines Proprietary Research ("Hines Research") and World Federation of Exchanges. 1. Market capitalizations: as of Q4 2024 for fixed income; global real estate and equities where value of Global Fixed Income is $255 trillion, Global Real Estate is $54 trillion, and Global Equities is $119 trillion. 2. There is no assurance that real estate investments will achieve capital appreciation, provide regular distributions or protect against inflation. The value of an investment in global real estate may seem less volatile because its value is not subject to the market pricing forces to which publicly traded investments are subject. An investment in global real estate is significantly less liquid than publicly traded investments and is not immune to fluctuations. Diversification does not guarantee a profit or eliminate the risk of loss.

3 Sources: Oxford Economics and Hines Research. Using estimates as of Q4 2024 (excluding Canada, the Middle East, and Latin America).

Style Diversification is a second approach. Within the real estate investment sector, there are various strategies intended to deliver different risk/return profiles along a continuum from lower risk/lower return to higher risk/higher return. The major strategy categories are Core/Core-Plus, Value-Add, and Opportunistic (Development), but increasingly there is also Private Debt.[4] The opportunity for style diversification can be graphically depicted, as in Exhibit 4.

Exhibit 4
Real Estate Allocation by Strategy



Past performance cannot guarantee future results. See endnotes for additional information on these strategies.
Sources: Prequin, NCREIF, Hines Research. As of 4Q2024. Proposed allocations by strategy shown was developed by comparing size of market for Core/Core Plus, Value-Add and Opportunistic funds. Data was used for only the U.S.where we believe fund tracking data is most comprehensive. Core/Core Plus combines both closed-end funds and the equity in open-ended funds followed by NCREIF (NFI-ODCE Index constituents). For Value-Add and Opportunistic, the tally covers closed-end, US-focused, commingled funds that have already closed. Actual weights were 48% for Core/Core Plus, 30% for Value-Add and 22% for Opportunistic.

CONCLUSION

The value proposition of real estate as a blend of equity and bond-like characteristics offers a natural bridge between the two traditional buckets of stocks and bonds for private wealth portfolios, as they move forward from the traditional 60/40 compositions to embrace the inclusion of a higher-percentage of investments in alternatives. A strategic allocation to geographically diversified global real estate assets, also stylistically diversified from Core/Core-Plus to Value-Add, Opportunistic, and Private Debt can provide portfolios with the potential for capital appreciation, inflation hedging, income distributions, and downside risk mitigation resulting from a lower level of volatility relative to publicly traded asset classes.

ABOUT HINES' PROPRIETARY RESEARCH TEAM

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Joshua Scoville and his team, including Michael C. Hudgins, Senior Managing Director, and the lead author on this paper, are responsible for constructing the Hines macroeconomic view and outlook for commercial real estate market fundamentals and pricing. Hines Research is also responsible for assisting with the development of investment strategies for the firm's investment programs; working closely with the local and fund management teams, clients and partners; and supporting U.S. regional and international country heads in identifying market/submarket opportunities and risks. The views of the local and fund management teams on the latest market developments are exchanged regularly via biweekly conference calls and quarterly market updates and are essential for reviewing investment strategies and fund portfolio allocations.

Additional members of Hines' Proprietary Research team include Ryan McCullough, James Purvis, Tim Jowett, Erik Thomas, Michael Spellane, and Anthony Witkowski.

4 Private debt is the provision of debt finance to companies from funds, rather than banks, bank-led syndicates, or public markets.

DISCLAIMER

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ENDNOTES

This paper contains information in the form of charts, graphs and/or statements that we indicate were obtained by U.S.from published sources or provided to U.S.by independent third parties, some of whom we pay fees for such information. Hines considers such sources to be reliable. It is possible that data and assumptions underlying such third-party information may have changed materially since the date referenced. You should not rely on such third-party information as predictions of future results. None of Hines Interests Limited Partnership ("Hines"), its affiliates or any third-party source undertakes to update any such information contained herein. Further, none of Hines, its affiliates or any third-party source purports that such information is comprehensive, and, while it is believed to be accurate, it is not guaranteed to be free from error, omission or misstatement. Hines and its affiliates have not undertaken any independent verification of such information. Finally this information should not be construed as investment, tax, accounting or legal advice. An investment cannot be made directly in an unmanaged index.

U.S. Unlevered Real Estate is represented by the NCREIF NPI, short for the NCREIF Property Index -- is a quarterly index tracking the performance of core institutional property markets in the U.S. The objective of the NPI is to provide a historical measurement of property-level returns to increase the understanding of, and lend credibility to, real estate as an institutional investment asset class. The universe of investments: (1) is comprised exclusively of operating properties acquired, at least in part, on behalf of tax-exempt institutions and held in a fiduciary environment; (2) includes properties with leverage, but all returns are reported on an unleveraged basis; and (3) includes apartment, hotel, industrial, office and retail properties, and sub-types within each type. The database fluctuates quarterly as participants acquire properties, as new members join NCREIF, and as properties are sold. Sold properties are removed from the index in the quarter the sales take place (historical data remains). Each property's market value is determined by real estate appraisal methodology, consistently applied.

FTSE Nareit Equity REITs Index contains all publicly-listed and traded equity REITs not designated as Timberland REITs or Telecommunications REITs. Prior to December 2010, the index included Timberland REITs and Telecommunications REITs.

Stocks/U.S. Equities are represented by the S&P 500 Index, widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

Global Equities are represented by the MSCI World Index, a global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries. The index is reviewed quarterly with the objective of reflecting change in the underlying equity markets in a timely manner, while limiting undue index turnover.

U.S. Property – MSCI U.S. Annual Property Index is the U.S. component of the MSCI Global Annual Property Index.

R squared: Coefficient of determination ranging between 0 -1 (0 -100), reflecting percentage of the response variation reflected by the linear model/factor. The higher the number the higher the correlation with 1 (100) reflecting a complete correlation.

Global Property – MSCI Global Annual Property Index ("MSCI Global Annual"). The constituents of the MSCI Global Indexes are real estate investments that are held in professionally managed portfolios. They therefore may include properties held in insurance and pension funds, sovereign wealth funds, listed property companies including REITs, unlisted pooled funds, charitable trusts, traditional landed estates, and by other large private property owners.

The MSCI Global Annual reports the market rebalanced returns of the 27 most mature markets (including the U.S.). The index began tracking markets in 2001 and reporting results starting with the year ended December 31, 2001. Results are reported annually. The MSCI Global Annual Indexes measure unlevered total returns of directly held standing property investments from one valuation to the next. The returns are based solely on directly held standing investments in completed and lettable properties, often described as operating properties. The index tracks performance of 52,832 property investments, with a total capital value of USD 1,821.2 billion as of December 2024 and is comprised of all property sectors (retail, office, industrial, residential, hotel and other), direct ownership structures and interests. The index is computed at the building level and excludes properties held indirectly through investment in other funds, the impact of debt, fund management fees, taxation and cash. The MSCI Global Annual is used to gauge the performance of the global real estate market. The countries included in the MSCI Global Annual will be subject to change as their coverage extends to more countries and as more accurate estimates of the value of each investment market become available. The Indexes reflect the impact of entity level expenses.

U.S. Bonds are represented by the Bloomberg U.S.Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS, and CMBS (agency and non-agency).

Global Bonds –are represented by the Bloomberg Global Aggregate Index which is a measure of global investment grade debt from a multitude local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Investments in direct real estate may be subject to more expenses than a direct investment in bonds, including management fees and entity-level expenses.

U.S. Property Returns are represented by the NFI ODCE, short for NCREIF Fund Index Open End Diversified Core Equity, is a capitalization weighted, gross of fee, time weighted return index with an inception date of December 31, 1977. Other supplemental data such as equal weight and net of fee returns are also provided by NCREIF for information purposes and additional analysis. To be eligible for NFI ODCE membership, each member fund must be marketed as an open-end fund with a diversified core investment strategy primarily investing in private equity real estate. All members funds must adhere to the following index inclusion criteria: (1) At least 80 of market value of net assets must be invested in real estate 20 cap on cash and equivalents); (2) At least 80 of market value of real estate net assets must be invested in private equity real estate properties 20 cap on real estate assets invested in but not limited to, property debt, public company equity/ debt or private company equity/debt; (3) At least 95 of real estate net assets must be located in U S markets; (4) At least 80 of market value of real estate net assets must be invested in office, industrial, apartment and retail property types; (5) No more than 65% (+/- for market force) s of market value of real estate net assets in one property type or region as defined by NCREIF Property Index; and (6)No more than 40% leverage. Each member fund must also comply with the NCREIF PREA Reporting standards. Please note that when returns are computed for the NPI, the returns for the levered properties are computed on a de-levered basis, i.e., the impact of financing is excluded.

UK Property Returns are represented MSCI UK Quarterly Property Fund Index, which represents the performance of U.K. unlisted pooled property funds. The Index is value-weighted, denominated in Great Britain Pound Sterling (GBP) and based on the Net Asset Value (NAV) of its constituent property funds each quarter.

Opportunistic are investments characterized by high risk/high return, including development, redevelopments, or acquisition projects where most of the expected return is from value appreciation, have significant leasing risk or high leverage, and are typically under a shorter-term tactical investment.

Core investments are separated into two categories: (1) Traditional Core and (2) Core-Plus. Traditional Core are investments characterized by low risk/ low return, are generally institutional quality operating properties with most of the return derived from income with little expected volatility of that income and are typically a long-term strategic investment. Core-Plus are investments characterized by lower risk/lower return (relative to value-add or opportunistic strategies), are generally institutional quality operating properties with most of the return derived from income with some expected volatility of that income and are typically long-term strategic investments. Core-Plus presents somewhat more risk than Traditional Core because of higher leverage, leasing risk, or moderate capital expenditures. Value-add investments are separated into two categories: (1) Traditional Value-Add and (2) Long-Term Hold Value-Add.

Traditional Value-Add are investments characterized by moderate risk/higher return, generally operating properties or properties in lease-up, may require some renovations, have a significant portion of return expected from the appreciation of the property, and are a shorter-term tactical investment. Long-Term Hold Value-Add is the same as above but with the intention of holding for the long term.