PART III: GEOGRAPHY AND STRATEGY

Diversifying the Diversifier

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

GEOGRAPHIC DIVERSIFICATION

Domestic bias is always a concern because investors appear to be more comfortable investing in their backyard, whether with stocks, bonds, real estate, or other vehicles. In our view, this may be short sighted, as more than two-thirds of the world's investible commercial property is held outside of U.S. markets[2] which you can see in Exhibit 9.

Exhibit 9

Market Sizing Tells Us that a Global Property Allocation is Warranted

Current estimated share of investible U.S. property and ex-U.S. property as % share of total global property value

Estimate of the Global Investable Real Estate Landscape[1]

Past performance does not guarantee future results.

1. Diversification does not guarantee a profit or eliminate the risk of loss. International real estate investing is subject to additional risks that include the need to comply with a wide variety of foreign laws and the uncertainty of such laws; the tax treatment of transaction structures; political and economic instability; foreign currency fluctuations; and inflation and governmental measures to curb inflation that may adversely affect the performance of your investment.
2. Data as of 12/31/2023. Hines Research estimates the size of the investable real estate universe in each country by averaging that country's share of global gross domestic product ("GDP"), as sourced from Oxford Economics, and that country's share of global real estate transaction volume, as sourced from Real Capital Analytics, to estimate each country's share of the real estate universe. By blending the share of global transaction volume with the share of global GDP, Hines Research believes it is able to produce estimates that incorporate where real estate investors are actually allocating funds around the world.

We believe 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 THIS PAPER, "WE" AND "OUR" REFERS TO HINES PROPRIETARY RESEARCH ("HINES RESEARCH").

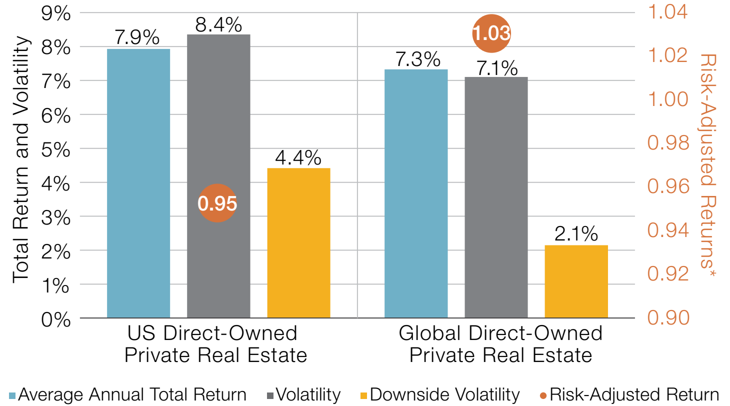
[2] Oxford Economics, Hines Research using estimates as of Q4 2023 (excluding Canada, the Middle East, and Latin America).

More traditional portfolio analysis provides quantitative evidence of the historical advantages of "going global." As shown in Exhibit 10, global direct-owned private real estate as represented by the MSCI Global Annual Property Index has demonstrated the ability to reduce risk by investing across countries that are not perfectly correlated. We found that while average annual total returns were slightly lower for global property (in U.S. dollar terms)[3] relative to the historically high-performing U.S. property market, that performance came with lower volatility. Consequently, risk-adjusted returns have been higher for the global index as well.

Exhibit 10

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

Comparative risk/return performance for US and Global Direct-Owned Real Estate



Past performance cannot guarantee future results.
Sources: MSCI, Standard & Poor's, Bloomberg, Hines Research. As of Q4 2022 for the period from 2001 – 2022. We are using an annual index (MSCI Global Annual Property Index) of direct-owned private 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 U.S., data is not yet available for 2023. *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.

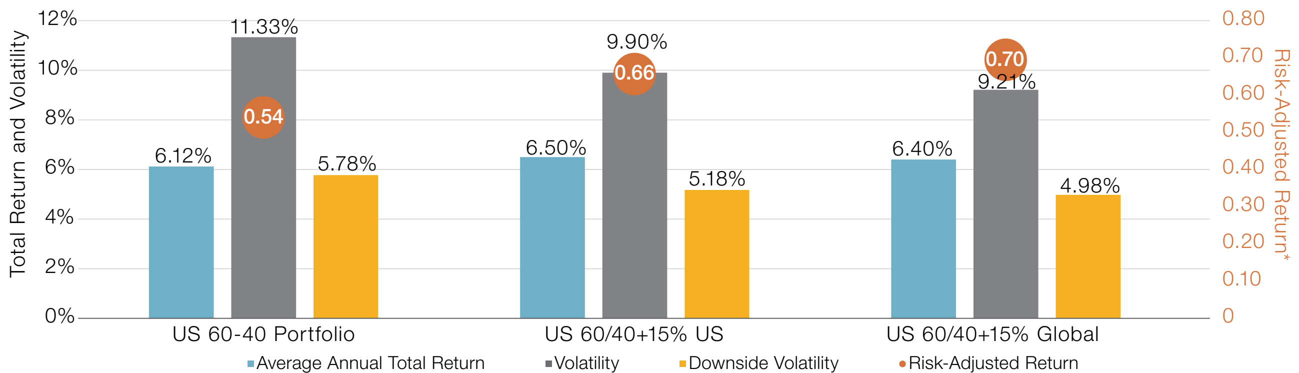
IMPACT ON PERFORMANCE

To examine the impact of geographic diversification on portfolio performance, we took the next logical step of replacing the 15% U.S. property allocation to the 60/40 stock and bond portfolio with an equal allocation to global property. Due to lower volatility, the risk-adjusted return with a 15% global real estate allocation exceeded that of the traditional equity/fixed income mix and of the 15% U.S. real estate allocation – see Exhibit 11.

Exhibit 11

Global Property Has Offered Further Geographic Diversification Benefits

Comparative risk/return for U.S. and global direct-owned real estate at 15% allocation to a U.S. 60/40 stock/bond portfolio



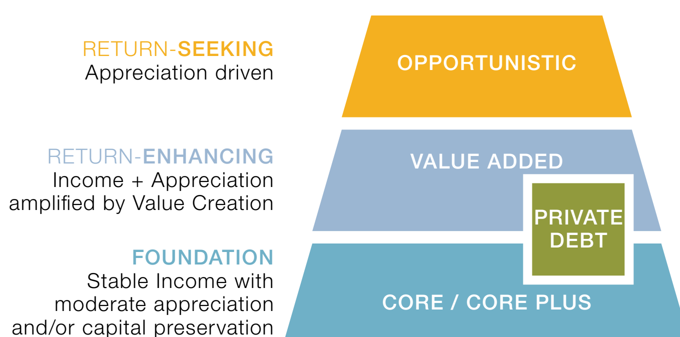
Past performance cannot guarantee future results.
Sources: MSCI, Standard & Poor's, Bloomberg, Hines Research. As of Q4 2022 for the period from 2001 – 2022. We are using an annual series of direct-owned private real estate return performance from a single source to maintain comparability. For all components of this family of indices, including the U.S., data is not yet available for 2023. *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.

[3] The data we used is in US dollar terms with floating exchange rates. Thus, this analysis incorporates the impact of currency, both deleterious and advantageous.

STRATEGY DIVERSIFICATION

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, but we will also consider Private Debt.[4]

Exhibit 12
Real Estate Allocation by Strategy



Past performance cannot guarantee future results. See endnotes for additional information on these strategies.
Sources: Hines Research. As of Q4 2023.

Core/Core-Plus: Historically this strategy is primarily invested in "Core" property considered to have high-quality design, function, be in highly sought-after locations, and be leased to a level of 95% or higher across all sectors.

- This strategy typically uses lower amounts of leverage.
- In the case of Core-Plus, there may be a mandate to take some marginal risk (relative to pure Core funds) in asset management to earn moderate additional return through value creation at the property level.

Core/Core-Plus real estate generally earns returns that generate a relatively moderate return premium ("alpha") over the market.[5] It should provide all the benefits of real estate: potentially stable income, appreciation supported by this income (and potential income growth), capital preservation, and long-term inflation hedging from rent growth.

Value-Add: A Value-Add strategy seeks to invest in assets in high-quality locations but possessing flaws that can be addressed by a new owner/manager (such as poor design, high vacancy rate, poor access to capital, etc.).

- The goal of this strategy is to "buff to Core" – improve it and sell to a "Core" buyer for a premium. An additional sub-strategy is to exploit price discounts, particularly from distressed sellers.
- This strategy generally uses slightly higher amounts of leverage.

Value-Add real estate seeks to generate higher returns (relative to Core/Core-Plus returns) through active value creation, with the added benefit that owned assets (either successfully improved or partially leased during improvement phase) could contribute additional investor income.

Opportunistic: This is a "return-seeking" strategy that carries higher risk. It is the highest risk strategy along this continuum but has the highest potential for compelling returns.

- An opportunistic strategy typically includes development projects where an asset (or group of assets) is built from the ground up. Opportunistic may also take the form of buying existing distressed property. An example would be a completely empty or highly discounted asset with flaws that, while surmountable by a skilled operator, are extensive.
- Opportunistic strategies focus on schedule maintenance, cost maintenance, and executing a plan that is believed to create something highly desirable. The skill of the developer is of paramount importance to success.

[4] Private debt is the provision of debt finance to companies from funds, rather than banks, bank-led syndicates, or public markets.
[5] "Alpha" is used to measure the ability of an investment manager to select and efficiently manage assets. Alpha is calculated as the difference in unlevered IRR over the hold period of the asset and the benchmark unlevered IRR of the same market and property type over the exact same hold period.

- The strategy may also employ a “build to hold” structure where once development is complete, the investors remain invested or are replaced by other capital while the developer transitions into a role as day-to-day asset manager.
- Opportunistic strategies typically use significantly higher amounts of leverage.

The Opportunistic strategy seeks heightened value creation, thus potentially higher return. It offers no income and less inflation sensitivity as compared to a portfolio holding longer-term, income-producing assets where rents could respond to inflation. However, if market fundamentals work in the favor of landlords, development can benefit from rising costs and rents in an inflationary environment as well. Moreover, the scale of returns (supported by value creation), may outrun inflation and act as a hedge.

Private Debt: Private Debt is a growing investment opportunity that seeks to deliver enhanced cash distributions and capital preservation. It will generally not provide capital appreciation or inflation hedging.

Exhibit 13
The Benefits of Key Real Estate Strategies

	Distribution	Capital Appreciation	Stability	Inflation Sensitivity	Value Creation
Core / Core Plus					
Value Add					
Opportunistic					
Private Debt					

Past performance cannot guarantee future results.
Source: Hines Research. As of Q4 2023.
Private debt, also known as private credit, is a private capital strategy in which investment managers and institutions invest by making private, non-bank loans.

LEARN MORE
Interested in further insights from Hines Research on real estate as an investment solution? Download our full whitepaper, Real Estate Investment Solutions, available at Hines.com/privatewealth.

ABOUT HINES’ PROPRIETARY RESEARCH TEAM

Josh Scoville and his team, including Michael C. Hudgins, Senior Managing Director, 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.

Disclaimer

Past performance is no guarantee of future results. Investing involves risks, including possible loss of principal. The opinions presented herein cannot be viewed as an indicator of future performance.

Confidential Information
This document is intended only for the recipient to whom it has been furnished by Hines. The reproduction of this document in whole or in part is prohibited. You are not permitted to make this document, or the information contained herein and/or the information provided to you, available to any third parties.

Preliminary Selective Information
This document is being provided to you on a confidential basis for the sole purpose of providing you with initial and general information at your own responsibility. This document is not suitable to inform you of the legal and factual circumstances necessary to make an informed judgment about any prospective investment. Prospective investors are requested to inform themselves comprehensively and, in particular, to verify the contractual documentation that will be provided in the future.

Not An Offer
This document does not constitute an offer to acquire or subscribe for securities, units or other participation rights. The distribution of this document is reserved to institutional investors and may be restricted in certain jurisdictions. It is the responsibility of the recipient of this document to comply with all relevant laws and regulations.

Third-Party Information
This material contains information in the form of charts, graphs and/or statements that we indicate were obtained by us from published sources or provided to us by independent third parties, some of whom we pay fees for such information. We consider 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, you should not construe such third-party information as investment, tax, accounting or legal advice.

Forward-Looking Statements
This material contains projected results, forecasts, estimates, targets and other "forward-looking statements" concerning proposed and existing investment funds and other vehicles. Due to the numerous risks and uncertainties inherent in real estate investments, actual events or results or the actual performance of any of the funds or investment vehicles described may differ materially from those reflected or contemplated in such forward-looking statements. Accordingly, forward-looking statements cannot be viewed as statements of fact. The projections presented are illustrations of the types of results that could be achieved in the given circumstances if the assumptions underlying them are met but cannot be relied on as accurate predictions of the actual performance of any existing or proposed investment vehicle.

Disclaimer
The statements in this document are based on information that we consider to be reliable. This document does not, however, purport to be comprehensive or free from error, omission or misstatement. We reserve the right to alter any opinion or evaluation expressed herein without notice. Statements presented concerning investment opportunities may not be applicable to particular investors. Liability for all statements and information contained in this document is, to the extent permissible by law, excluded.

©2024 Hines. All rights reserved.

Endnotes

This paper contains information in the form of charts, graphs and/or statements that we indicate were obtained by us from published sources or provided to us 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.

US 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 25 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 58,827 property investments, with a total capital value of USD 2,079.7 billion as of December 2022 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.

©2024 Hines. All rights reserved.

Endnotes - continued

US Bonds are represented by the Bloomberg US 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.

US 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.

©2024 Hines. All rights reserved.