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LISTED NON-CORE REAL ESTATE OPPORTUNITIES

CAPTURING EXCESS GROWTH POTENTIAL AND ACHIEVING PORTFOLIO COMPLETION

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Investing in listed non-core real estate may offer investors a compelling opportunity for portfolio diversification while capturing growth within the evolving real estate market. We view listed non-core real estate as a building block for most institutional real estate portfolios. It can offer diversification by enhancing investors' real estate portfolios with increased exposure to generally underrepresented, higher-growth property sectors, customized allocation to target investors' specific needs and objectives, and the potential to increase total and risk-adjusted returns.

In this piece, we outline non-core and core real estate sectors, discuss the ongoing introduction, over time, of new property types into the publicly listed real estate market, and detail the potential benefits of completing real estate portfolios with publicly listed non-core investments. Potential benefits include:

- Diversification of investment allocation, while optimizing risk and return objectives and existing investment portfolios through bespoke customization.
- Immediate access to emerging and faster growing real estate sectors, which are often substantially underrepresented in private portfolios due to liquidity, access, or specification issues.
- Demand-driven non-core sector returns that outpace broader real estate and equities market growth.

What Is Non-Core Real Estate?

The landscape of publicly listed real estate has undergone significant changes over the years. Traditionally dominated by core sectors such as retail, office, apartments, and industrial, the market has witnessed a transformation with the emergence of non-core sectors. These non-core sectors have diversified the real estate investment landscape and encompass a variety of property types like data centers, healthcare facilities, life science, self storage, student housing, single-family home rentals, manufactured home communities, cell towers, gaming REITs, and alternative real estate assets. Such diversification is driven by the recognition of emerging trends and growing demands in the commercial real estate landscape. For instance, increasing reliance on technology, specifically artificial intelligence, has elevated the importance of data centers, while an aging population has amplified the need for senior healthcare facilities.

Listed Core vs Listed Non-Core Real Estate Sectors

Non-Core Real Estate Sectors

Sector*	Weight (%)	Description/Exposures
Telecom REITs	13.9	Cell towers, fiber optic cable
Data Centers	9.0	Digital infrastructure, internet connectivity
Health Care	8.6	Senior housing, life sciences, medical offices, skilled nursing
Self Storage	7.4	Storage facilities
Gaming REITs	3.5	Gaming, entertainment, experimental
Specialty	2.9	Storage, information management, data centers, billboards
Timberland	2.7	Timber-related products
Single-Family Homes	2.5	Free-standing residential homes for rent
Manufactured Homes	2.3	Modular homes, mobile homes
Total Non-Core	**52.7**	

Core Real Estate Sectors

Sector*	Weight (%)	Description/Exposures
Industrial	13.8	Warehouses, logistics, cold storage
Apartments	9.0	Multi-family communities, student housing
Free Standing	5.5	Retail exposure, but risk offset by lease structure, targeted assets
Shopping Centers	5.0	Retail
Office	5.0	CBD office, suburban office, life sciences
Regional Malls	3.9	Retail
Lodging/Resorts	2.9	Hotels, resorts
Diversified	2.1	Companies with exposure across many sectors
Total Core	**47.3**	

Source: Nareit, Duff & Phelps Investment Management Co. Listed REIT universe represented by the FTSE EPRA Nareit Developed Extended Opportunities Index (Net) as of December 31, 2023.

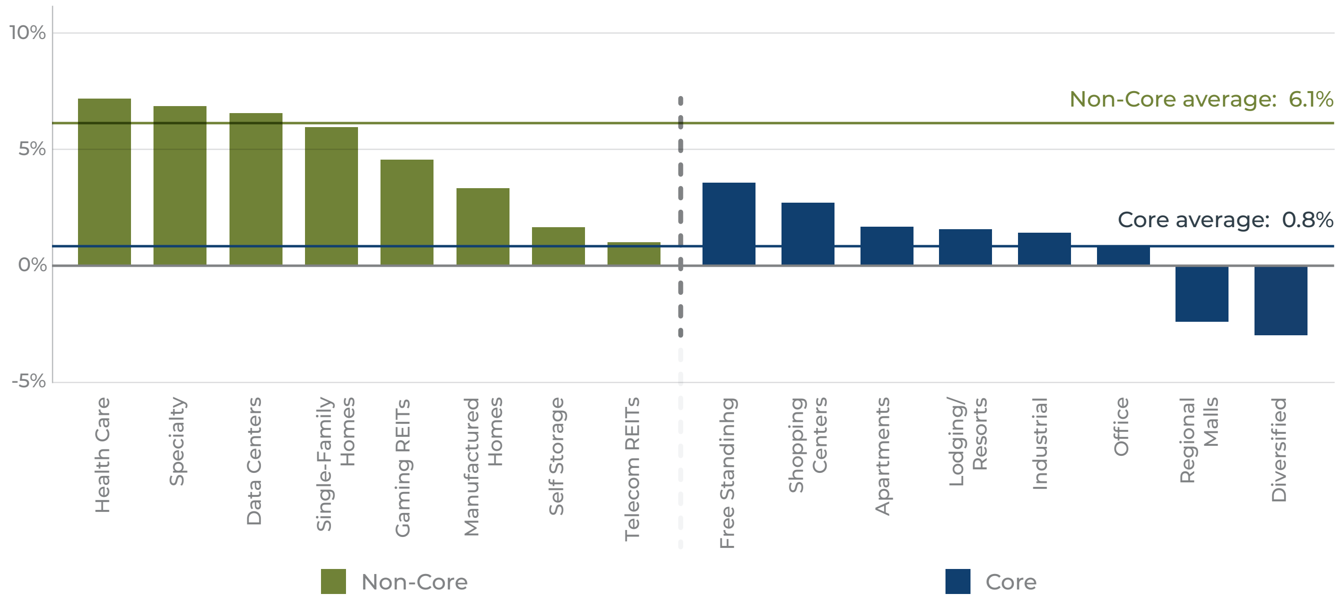
** Note: Categorization of core and non-core is for illustrative purposes and can be customized to client preferences.*

Growth of Non-Core Real Estate

Non-core real estate property types have demonstrated a continuing trajectory of demand-driven growth. While inflation appears to be moderating, we expect it to remain above the last 15-year average in the near- to mid-term. In such an environment, real estate should be poised to produce better real returns than the broader market, with non-core sector topline growth expected to outpace inflation and increases in expenses. For example, the healthcare sector's senior housing component demonstrated the ability to grow topline revenue in the high single digits, while keeping expenses growing in the low single digits in 2023, and REITs with senior housing exposure expect robust fundamentals to persist in 2024. Non-core segments not only offer investors exposure to high-growth industries, but may provide a hedge against economic downturns, as they are often less sensitive to economic cycles compared to traditional sectors. For example, data center demand significantly outweighs supply, leading to higher rent growth potential and low occupancy. In 2023, data centers' market rents rose over 20% and are expected to grow 10-15% in 2024.

As we look into the future, secular trends are expected to continue to drive higher earnings growth. Non-core property sectors are forecasted to post materially higher earnings in 2024 than core sectors, further evidencing ongoing secular shifts across real estate. The following chart shows the expected growth in funds from operations (FFO) over 2024, including greater expected growth for non-core sectors.

2024 Fund From Operations (Earnings)
Growth Rate Estimates by Property Sector
As of February 7, 2024

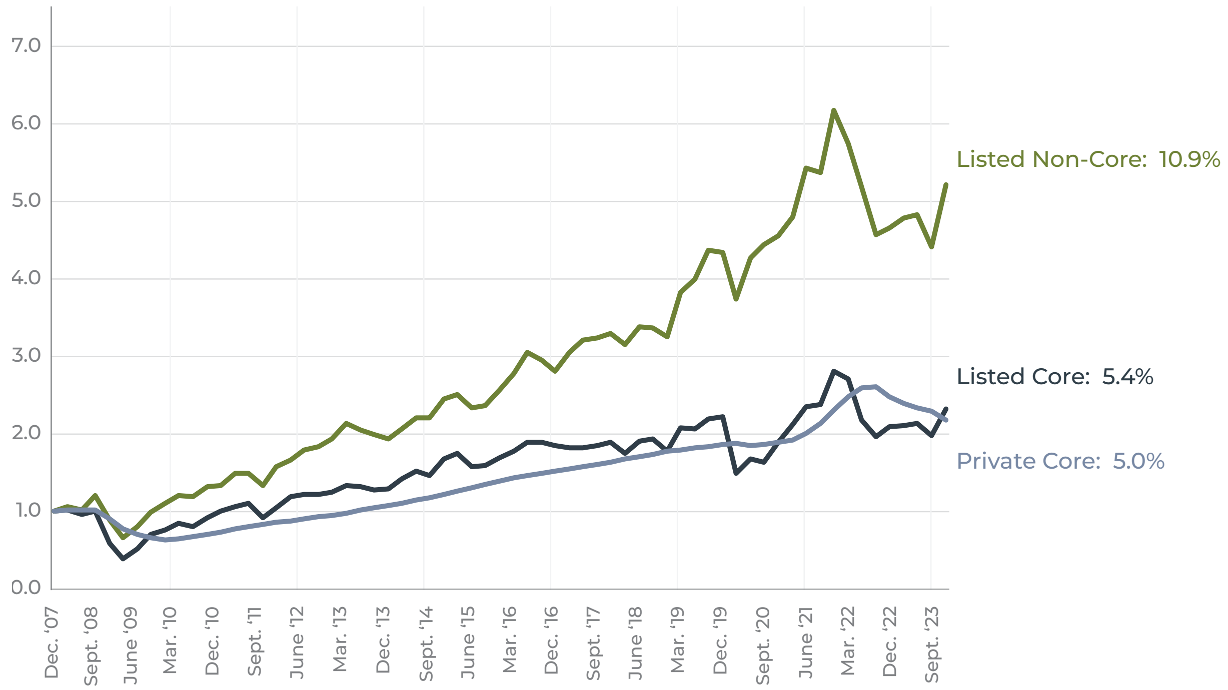


Source: *Duff & Phelps Investment Management Co. REITs represented by FTSE Nareit All Equity REITs Index. Indices are not available for direct investment and indices do not contain any fees. Different periods or points in time may produce different results. Past performance is not indicative of future results. Based on estimates.*

Non-core property sectors have shown excess performance compared to core property sectors, as seen in the following chart. The pursuit of niche markets and innovative property types has paved the way for these sectors to outperform, providing investors with the potential for enhanced returns. This excess performance can be attributed to the unique characteristics and dynamics of non-core assets, which include scarcity, technological advancements, highly specified organizational know-how, and changing consumer preferences. Self storage and single-family rentals are examples of non-core sectors that have produced outsized earnings growth. Self storage returns' growth has been driven in part by the secular trends of baby boomers downsizing their homes and millennials residing in small urban apartments without ample storage space, and also by the ability of REIT managers to extract value at scale to maximize revenue potential. High single-family rental returns growth can be attributed in part to high mortgage rates and inflation, and lack of supply, which have led to a higher value proposition for renting as an alternative to ownership.

Growth of a Dollar: Listed Core, Listed Non-Core, and Private Core Real Estate

December 31, 2007 - December 31, 2023



REIT universe represented by the FTSE Nareit All Equity REITs Index. The listed core and listed non-core sector data above was carved out of the FTSE Nareit All Equity REITs Index. Private core represented by the NFI-ODCE Property Index.

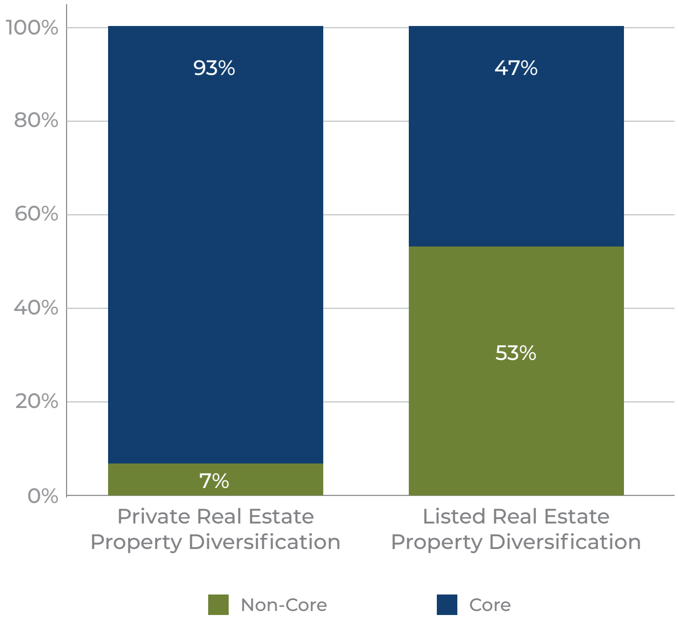
Duff & Phelps Investment Management Co. does not have data for private non-core performance. Indices are not available for direct investment and indices do not contain any fees. Different periods or points in time may produce different results. Past performance is not indicative of future results.

PUBLIC NON-CORE **VERSUS PRIVATE REAL ESTATE**

Despite the demonstrated growth and excess performance of non-core property types, private market real estate investing has been largely underweight non-core sectors. Private real estate allocations have traditionally favored core

Listed Real Estate Provides Greater Access to Non-Core:

Non-Core Represents a Large Piece of the U.S. REIT Universe



Source: Nareit, Duff & Phelps Investment Management Co.

Private real estate represented by NCREIF Open End Diversified Core Equity, as of December 31, 2023. Listed REIT universe represented by the FTSE Nareit All Equity REIT Index, listed core and listed non-core are sub-sets of this index, as of December 31, 2023.

sectors, potentially giving an advantage to public REITs markets in providing investors with opportunities in the non-core real estate universe. By redirecting a portion of their private real estate allocations toward publicly listed non-core REITs, investors can strategically position themselves to benefit from the growth potential inherent in non-core sectors.

Non-core real estate is gaining a major and rapidly growing share of the REIT universe. From 2000 to 2023, non-traditional REITs' share of the U.S. REIT market rose from 26% to more than 50%. As the real estate market has evolved, so too have investment guidelines, with emphasis on allocation target ranges for non-core sectors, which in many cases materially exceed typical private real estate allocations. Furthermore, core property sectors like the office sector may face strong headwinds. With the work-from-home trend persisting in the U.S., private sector allocations to the office sector remain significant, while the

> *Public real estate's focus and management expertise is critical to maximizing the value of acquisitions and new builds.*

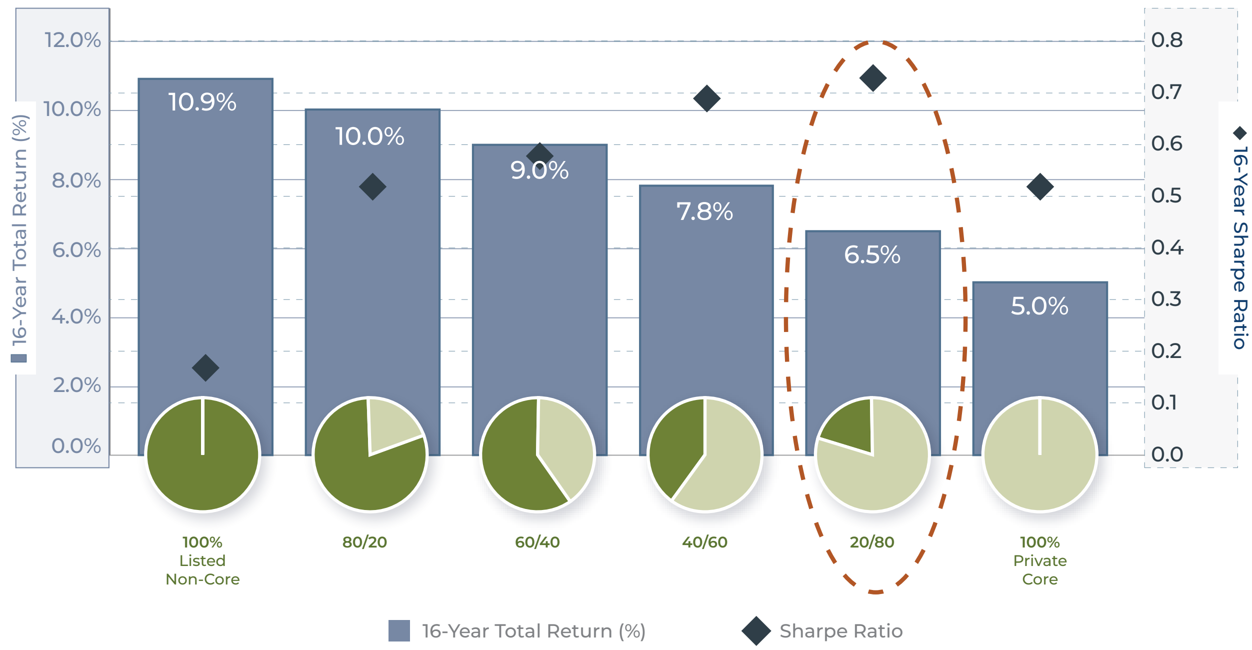
public real estate universe is made up of only 3-7% office. Clearly, the trend of non-core representing an increasing share of the public universe has attracted increased attention from private investors. In many cases, private investors have bought public companies at a premium. A recent deal announced the acquisition of a single-family rental REIT by a private investor at a 30% premium to the REIT's trading share price. Also, REITs' access to capital through the public equity and corporate bond markets may lead to increased opportunistic buys in constrained or dislocated markets. Public real estate focus and management expertise has been critical to maximizing the value of acquisitions and new builds. For example, a healthcare REIT recently projected high-single-digit to mid-teen unlevered IRRs on acquisitions. We believe, the breadth and depth of property-specific REITs, liquidity, and expertise of management are clear advantages for public real estate vis-à-vis private real estate.

IMPLEMENTING
A NON-CORE STRATEGY

Investment in non-core real estate can be made in two simple ways: as a growth-seeking standalone investment or as a completion portfolio with bespoke customized allocations to optimize a client's risk and return objectives. To implement a completion non-core strategy effectively, an investor should consider a broad mix of non-core sectors to complement their core private portfolio. Diversification across different property types, such as healthcare, data centers, and self storage, can mitigate risks and provide well-rounded exposure to non-core real estate. This approach allows investors to capture growth in sectors with unique drivers and dynamics, thus enhancing overall resilience and performance of their real estate portfolios.

Customization, via the inclusion of handpicked non-core sectors, is vital to implementing a non-core strategy that successfully meets an investor's real estate needs and objectives as they evolve over time. Sector exposures in a listed non-core completion portfolio can be changed over time to mirror or complement an investor's private real estate portfolio. An effective non-core completion strategy enhances a real estate portfolio with increased exposure to generally underrepresented high-growth non-core sectors, and is positioned to increase an investor's total returns, diversification, and overall Sharpe ratio. As shown in the following chart, adding publicly listed non-core real estate investments to existing private allocations can increase return potential with a reduction in potential risk, which leads to improved Sharpe ratios. Our analysis concluded that a mix of 80% private blended with 20% public non-core leads to the highest Sharpe ratio, followed by a mix of 60% private blended with 40% public non-core.

Enhancing Risk/Return by Blending Private Core and Listed Non-Core Investments



REIT universe represented by the FTSE Nareit All Equity REITs Index, listed core and listed non-core are sub-sets of this index.

Private core represented by the NFI-ODCE Property Index.

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In 2023, the average range between the top- and bottom-performing companies across each of 16 REITs sectors was 46%. With such a wide dispersion between best- and worst-performing companies across property sectors, active management becomes crucial. In this volatile landscape, the ability to carefully select individual names across sectors can increase performance potential and improves risk management. Applying careful bottom-up analysis, one can aim to navigate market fluctuations, focus on balance sheet health, and target companies with better growth prospects, instead of simply tracking an index.

> *...adding publicly listed non-core real estate investments to existing private allocations can increase return potential with a reduction in potential risk...*

Conclusion

Non-core publicly listed real estate presents a opportunity for investors looking to diversify their portfolios and capitalize on growth potential in real estate. By strategically incorporating a mix of listed non-core holdings in their real estate portfolios, investors can position themselves to potentially capture excess performance, complement their core private real estate allocations, or both, depending on their objectives. Non-core real estate holdings are a key to achieving complete and more resilient growth-oriented real estate investment strategies.

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Geoffrey Dybas heads the Duff & Phelps Global Real Estate Securities Team and serves as a senior portfolio manager for all strategies managed by the team. He is a co-founder of all REIT strategies managed by Duff & Phelps. Mr. Dybas joined Duff & Phelps in 1995 and began his investment career in 1989. He holds an M.B.A. from the Kellogg School of Management at Northwestern University and a B.S. in finance and marketing *cum laude* from Marquette University.

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Mr. Spindler is a client portfolio manager for institutional clients, consultants, and intermediaries for the firm's listed real asset investment strategies. He joined Duff & Phelps in 2023 and began his career in the investment industry in 2004. Mr. Spindler holds a B.S. in finance from California State University, Northridge.

At Duff & Phelps Investment Management we pursue a limited number of specialized investment strategies with exceptional depth of resources, expertise and intellectual rigor.

In this way, we leverage the perspective and culture of a respected fundamental research boutique to provide specialty investment strategies that enhance client outcomes through active portfolio management and customized solutions.

Since our earliest beginnings providing vital research and analysis of utility company securities to Depression-era investors, our attention has been squarely set on identifying attractive opportunities and strategies, while effectively managing the risks of investing in listed securities.

Today, with our analysts and portfolio managers building on our distinguished legacy, Duff & Phelps has earned a reputation as a leader in investing in listed real assets and developing and managing customized investment solutions for institutional clients.

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