Real Education and Market Views

Sean Ruhmann, Partner, TA Realty
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- Real Estate Investment Case Studies
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Real Estate As An Institutional Asset Class
Real Estate Overview

- Institutional quality real estate is property intended to generate a return from income/capital appreciation
  - Main property types include multifamily, office, industrial (warehouse) and retail
  - Can be privately held or publicly traded
  - Strategies span the risk/return spectrum from core strategies to opportunistic

- Large real estate investable universe
  - $600+ billion of privately-owned institutional quality real estate in the US
  - $1.5+ trillion of total capital raised by closed-end fund managers since 2005
  - $1.0+ trillion market cap of US publicly-traded REITs

- Three components of real estate return
  - Income: cash flow from tenant rents/leases that typically increase with inflation
  - Capital Appreciation: increase in the value of an asset between acquisition and sale
  - Leverage: can amplify returns (positively and negatively)

Note: Market size data as of December 31, 2018; private real estate represented by the NCREIF Property Index gross asset value, closed-end fundraising data from Prequin, REIT market cap represented by the NAREIT All Equity REITs Index.
### Main Property Types And Investment Characteristics

<table>
<thead>
<tr>
<th><strong>Industrial</strong></th>
<th><strong>Office</strong></th>
<th><strong>Retail</strong></th>
<th><strong>Multifamily</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Warehouse/logistics facilities</td>
<td>• Infill, multi-tenant office properties</td>
<td>• Grocery-anchored and lifestyle centers (including high street locations); malls</td>
<td>• Garden, mid-rise, and high-rise communities</td>
</tr>
<tr>
<td>• Modern, functional construction with generic improvements</td>
<td>• Efficient floor plates and modern systems</td>
<td>• Balanced tenant mixes with strong sales PSF</td>
<td>• Diverse unit type mix</td>
</tr>
<tr>
<td>• Primary logistics, seaports and inland ports</td>
<td>• Curb appeal and proximate to public transportation</td>
<td>• Visible locations along heavily-trafficked corridors</td>
<td>• Accessible locations proximate to multiple amenities, including public transportation</td>
</tr>
<tr>
<td>• Access to major transportation routes</td>
<td>• Diversified rent rolls with staggered lease expirations</td>
<td>• Stable escalating cash flow with longer term leases</td>
<td>• New or recently renovated properties</td>
</tr>
<tr>
<td>• Stable escalating cash flow with longer term leases</td>
<td>• Stable escalating cash flow with longer term leases</td>
<td></td>
<td>• Stable cash flows but short lease terms</td>
</tr>
</tbody>
</table>

![Example Industrial Building](image1.png)
![Example Office Building](image2.png)
![Example Retail Building](image3.png)
![Example Multifamily Building](image4.png)
Additional Property Types

- Hotels
- Medical office / laboratory space
- Self storage
- Senior housing
- Student housing
- Data centers
- Single family housing
- Gas stations
- Ski mountains/areas
- Marinas
- Land
Real Estate As Part Of An Investment Plan

- Real estate can play an important role as part of an overall investment plan:
  1. Low historical correlation to stocks and bonds
  2. Provides diversification benefits to the overall portfolio
  3. Provides both income and the potential for capital appreciation (each of which can be enhanced with leverage)
  4. Can provide a partial long term hedge against inflation
  5. Offers a spectrum of investment strategies that can be customized to meet plan objectives

- However, there are considerations of investing in real estate:
  1. Investments are generally illiquid, particularly during falling markets (excluding public REIT investments)
  2. Limited benchmarks to gauge investment performance (for private closed-end vehicles)
  3. Valuations are based on appraisals which can lag real-time market valuations
  4. Investments outside of the base currency are affected by currency movements
  5. The use of leverage amplifies negative performance
Investor Real Estate Allocations

- Investors have steadily increased their target allocations to real estate over the past five years from an average of 8.9% in 2013 to 10.4% in 2018 (source: Hodes Weill)
Components Of Real Estate Return

- Income: cash flow from tenant rents/leases that typically increase with inflation
- Capital Appreciation: increase in the value of an asset between acquisition and sale
- Leverage: can amplify returns (positively and negatively)

<table>
<thead>
<tr>
<th>Real Estate Valuation Equations</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Operating Income (or NOI) = Property Gross Asset Value (or GAV)</td>
<td>$10M = $200M</td>
</tr>
<tr>
<td>Capitalization Rate (or Cap Rate)</td>
<td>Capitalization Rate (or Cap Rate) = 5.0%</td>
</tr>
<tr>
<td>Net Asset Value (or NAV) = GAV - Debt</td>
<td>Net Asset Value (NAV) = $80M = $200M (GAV) - $120M (Debt)</td>
</tr>
</tbody>
</table>
# Real Estate Return Drivers And Investment Tenets

## Net Operating Income (NOI) Drivers
- Population Growth / Demographic Trends
- Economic Growth
- Supply Constraints
- Market Economic Diversity
- Job Growth / Employment Rate / Consumer Spending
- Home Ownership Rates
- Import / Export Volumes

## Cap Rate Drivers
- Global Capital Flows
- Market Liquidity
- Market Volatility
- Asset Class Returns Expectations
- Interest Rates
- Risk Appetite

## Investment Tenets
1. Focus on markets/submarkets/assets that mispriced and/or can deliver outsized long-term cash flow growth
2. Invest in desirable assets in those markets/submarkets at attractive prices
3. Proactively manage assets to implement business plans and drive incremental cash flow
4. Actively evaluate portfolio-level concentration risks
5. Dispose of assets when business plans are achieved (or before they become uncompetitive)
### Real Estate Investment Strategies

<table>
<thead>
<tr>
<th>Real Estate Investment Style / Overview</th>
<th>Investment Strategy</th>
<th>Portfolio Role</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core</strong></td>
<td>Stabilized income producing assets</td>
<td>Income focus and inflation protection</td>
<td>Vehicles are semi-liquid</td>
</tr>
<tr>
<td>• Historical long term returns: 7-8%</td>
<td>• Longer term hold</td>
<td>• Broad exposure to commercial real estate</td>
<td>Manager portfolio construction is critical</td>
</tr>
<tr>
<td>• Leverage: 15-30%</td>
<td></td>
<td>• Good benchmarks</td>
<td></td>
</tr>
<tr>
<td><strong>Value-Add</strong></td>
<td>Properties requiring lease-up, repositioning or renovation</td>
<td>Provides some income and appreciation</td>
<td>Vehicles are typically illiquid</td>
</tr>
<tr>
<td>• Historical long term returns: 8-10%</td>
<td>• Shorter term hold</td>
<td>• Some inflation protection</td>
<td>Vintage year is important</td>
</tr>
<tr>
<td>• Leverage: 40-70%</td>
<td></td>
<td>• Higher leverage vs core</td>
<td>Higher leverage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Poor benchmarks</td>
<td></td>
</tr>
<tr>
<td><strong>Opportunistic</strong></td>
<td>Development, distressed investments, recapitalizations, etc.</td>
<td>Appreciation with minimal current income</td>
<td>Vehicles are illiquid</td>
</tr>
<tr>
<td>• Historical long term returns: 10-12%</td>
<td>• Shorter term hold</td>
<td>• Limited inflation protection</td>
<td>Vintage year is important</td>
</tr>
<tr>
<td>• Leverage: 60%+</td>
<td></td>
<td>• High leverage</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Poor benchmarks</td>
<td></td>
</tr>
<tr>
<td><strong>Real Estate Debt</strong></td>
<td>Varying risk/return profiles (senior loans to higher risk structures)</td>
<td>Depends on manager strategy</td>
<td>Limited return upside</td>
</tr>
<tr>
<td>• Historical long term returns: 6-10%</td>
<td>• Shorter term hold</td>
<td>• Minimal inflation protection</td>
<td>Vintage year is important</td>
</tr>
<tr>
<td>• Leverage: varies</td>
<td></td>
<td>• Poor benchmarks</td>
<td></td>
</tr>
</tbody>
</table>

Note: Historical long term returns per NEPC, LLC.
Real Estate Investment Geographies

- Real estate offers a wide variety of geographies for investment (not all are equal)
  - US vs Non-US
  - Developed vs emerging
  - Urban vs suburban strategies

- Market selection is critical ... in the US the 20 largest GDP producing metropolitan areas accounted for 37% of the US population in 2012 but captured 48% of 5-year population growth and 62% of the 5-year GDP growth

Source: US Census and the US Bureau of Economic Analysis. Data from 2012 to 2017. A metropolitan statistical areas usually consist of a core city with a large population and its surrounding region, which may include several adjacent counties. The area comprised by the MSA is typically marked by significant social and economic interaction.
Investment Geographies And Rental Growth

**Industrial 5 YR Annualized Rent Growth**
- San Jose: 5.5%
- Denver: 6.0%
- Los Angeles: 6.0%
- New York: 6.0%
- San Diego: 6.0%
- Seattle: 5.0%
- San Francisco: 4.0%
- Detroit: 2.0%
- Miami: 2.0%
- Atlanta: 2.0%
- Charlotte: 2.0%
- Portland: 2.0%
- Dallas: 2.0%
- Boston: 2.0%
- Phoenix: 2.0%
- Chicago: 2.0%
- D.C.: 2.0%
- Houston: 2.0%
- Baltimore: 2.0%
- Minneapolis: 2.0%

20 City Average: 2.0%

**Multifamily 5 YR Annualized Rent Growth**
- Phoenix: 4.0%
- Atlanta: 4.0%
- Seattle: 4.0%
- San Diego: 4.0%
- Portland: 3.0%
- Denver: 3.0%
- San Jose: 3.0%
- Los Angeles: 3.0%
- Dallas: 3.0%
- San Francisco: 3.0%
- Charlotte: 3.0%
- Detroit: 2.0%
- Minneapolis: 2.0%
- Boston: 2.0%
- Miami: 2.0%
- Chicago: 2.0%
- New York: 2.0%
- Houston: 2.0%
- D.C.: 2.0%
- Baltimore: 2.0%

20 City Average: 3.6%

Source: CoStar Realty Information, Inc. ("CoStar"). Five year period ending 3Q’18.
Investment Geographies And Rental Growth (Cont.)

Office 5 YR Annualized Rent Growth

- San Jose: 4.5%
- San Francisco: 3.9%
- Charlotte: 3.2%
- Seattle: 2.9%
- Los Angeles: 2.8%
- Atlanta: 2.4%
- Portland: 2.4%
- Phoenix: 2.4%
- Miami: 2.3%
- San Diego: 2.3%
- Minneapolis: 2.3%
- Boston: 2.1%
- Chicago: 2.0%
- Denver: 2.0%
- Dallas: 2.0%
- New York: 1.8%
- Detroit: 1.7%
- Baltimore: 1.6%
- D.C.: 1.6%
- Houston: 1.6%

20 City Average: 2.0%

Retail 5 YR Annualized Rent Growth

- Denver: 2.9%
- Miami: 2.8%
- San Jose: 2.7%
- Seattle: 2.7%
- Portland: 2.6%
- Los Angeles: 2.6%
- San Francisco: 2.5%
- Dallas: 2.5%
- Detroit: 2.5%
- Houston: 2.5%
- Boston: 2.4%
- Boston: 2.4%
- Charlotte: 2.4%
- San Diego: 2.4%
- Phoenix: 2.4%
- D.C.: 2.4%
- Atlanta: 2.4%
- Baltimore: 2.4%
- New York: 2.4%
- New York: 2.4%
- Minneapolis: 2.4%
- Minneapolis: 2.4%
- Chicago: 2.4%

20 City Average: 2.4%

Source: CoStar Realty Information, Inc. ("CoStar"). Five year period ending 3Q'18.
Investment Structures: Liquid And Semi-Liquid Vehicles

- Main focus is on core / core-plus strategies with long term hold expectations
- Open-end funds and publicly traded REIT funds are the most common investment vehicles for institutions
- Assets are typically valued on a quarterly basis (except public REITs, which have daily market pricing)
- Vehicles typically include management fees only (and do not typically include promote structures)

<table>
<thead>
<tr>
<th>Structure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open-End Funds</td>
<td>• Typically semi-liquid with quarterly valuations and entrance/exit at managers discretion</td>
</tr>
<tr>
<td></td>
<td>• Most vehicles are large ($2+ billion of net asset value) and focus on core / core-plus strategies</td>
</tr>
<tr>
<td>Publicly Traded REIT Funds</td>
<td>• Comprised of REITs and REOCs (Real Estate Operating Companies) that file with the SEC and whose shares trade on national stock exchanges such as the NYSE, AMEX or NASDAQ</td>
</tr>
<tr>
<td></td>
<td>• Publicly traded security provides significant liquidity to investors</td>
</tr>
<tr>
<td>Separate Accounts</td>
<td>• An exclusive investment vehicle designed and managed by a third party fiduciary for an individual institution (generally created to allow the institution to pursue a specific investment strategy)</td>
</tr>
<tr>
<td></td>
<td>• Investors have significant control over investments</td>
</tr>
<tr>
<td>Direct Investments</td>
<td>• Non-intermediated (or direct) investment in an individual real estate asset (pool of assets)</td>
</tr>
<tr>
<td></td>
<td>• Owners have complete control over investment</td>
</tr>
</tbody>
</table>
## Investment Structures: Closed-End (Illiquid) Vehicles

- Structured like private equity funds where investors make commitments which are drawn down over time
- Liquidity is defined by the life of the fund; investors have limited rights defined by the limited partner agreements
- Funds are typically smaller in size ($100M to $1B+) with ten-year terms
- Funds typically focus on higher risk/return strategies (value add, opportunistic or debt)
- Funds typically include both management fees and promote structures

<table>
<thead>
<tr>
<th>Structure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified Funds</td>
<td>- Diversified investment strategy that targets multiple sectors. More typical in the value-add or opportunistic space.</td>
</tr>
<tr>
<td>Focused Funds</td>
<td>- An investment strategy targeting specific market segments, including individual geographies and property sectors</td>
</tr>
<tr>
<td>Debt Funds</td>
<td>- An investment strategy focusing on income producing and/or structured products (i.e. not pure equity). Investment strategies can range from new origination of debt to the acquisition of existing debt.</td>
</tr>
<tr>
<td>Fund-of-Funds</td>
<td>- An investment strategy of holding a portfolio of other investment funds</td>
</tr>
<tr>
<td>Secondary Funds</td>
<td>- Strategy targets investor LP interests which are generally purchased at a discount from valuation from motivated sellers. Generally, the interests purchased have limited exposure to unfunded capital commitments</td>
</tr>
</tbody>
</table>
## Example Real Estate Benchmarks

<table>
<thead>
<tr>
<th>Benchmark Index</th>
<th>Benchmark Applicability</th>
<th>Description</th>
</tr>
</thead>
</table>
| NCREIF Property Index (NPI) | Core | • Time weighted return measure (released quarterly)  
• Reported gross of fees and does not include leverage  
• Index comprises a large pool of individual real estate assets acquired by institutions for investment purposes  
• Valuation methodology is based on the appraised value of underlying assets |
| NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE) | Core | • Time weighted return measure (released quarterly)  
• Reported gross and net of fees and includes leverage  
• Index comprises 25 open-end commingled core funds dating back to 1978  
• Valuation methodology is based on the appraised value of underlying assets |
| Cambridge Associates Real Estate Index | Non-Core | • Since inception IRR and multiples by fund vintage year (a pooled time weighted return index is also provided)  
• Index comprises closed-end real estate funds; data is comprised of both active investments, as well as funds that have completed their full lifecycle  
• Valuation methodology is based on the appraised value of underlying assets |
Historical Real Estate One Year Rolling Returns

Core: NFI-ODCE
One Year Rolling Returns (Net)

Non-Core: Cambridge Associates Real Estate Index
One Year Rolling Returns (Net)

Note: Core data per NCREIF for the NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE) and published as of September 30, 2018. Non-Core data per the Cambridge Associates Real Estate Index most recently published as of September 30, 2018. Index returns are median and based on data compiled from 1,035 real estate funds, including fully liquidated partnerships, formed between 1986 and 2018. All returns are net of fees, expenses, and carried interest. Returns are based on the one year period ending September 30 each year.
Non-Core Since Inception Returns By Fund Vintage Year

**Since Inception Net IRR by Fund Vintage Year**

- **10.7% Average Net IRR**

**Since Inception Net TVPI Multiple by Fund Vintage Year**

- **1.38x Average Net TVPI Multiple**

Note: Data per the Cambridge Associates Real Estate Index most recently published as of September 30, 2018. Index returns are median and based on data compiled from 1,035 real estate funds, including fully liquidated partnerships, formed between 1986 and 2018. All returns are net of fees, expenses, and carried interest.
Portfolio Structure Considerations

- Real estate offers many different risk/return profiles and is not a “one size fits all” asset class
- The mix of various risk/return strategies should be customized based on plan objectives (allocation to illiquid alternatives, liquidity needs, inflation sensitivity, risk/return/volatility tolerance, plan size, etc.)

<table>
<thead>
<tr>
<th>Fund Style</th>
<th>Primary Return Driver</th>
<th>Historical Long Term Returns</th>
<th>Example Plan Target Allocations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Income Focused</td>
</tr>
<tr>
<td>Core</td>
<td>Income + inflation protection</td>
<td>7% - 8%</td>
<td>80% ± 20%</td>
</tr>
<tr>
<td>Value-Add</td>
<td>Income + Appreciation</td>
<td>8% - 10%</td>
<td>5% ± 5%</td>
</tr>
<tr>
<td>Opportunistic</td>
<td>Appreciation</td>
<td>10% - 12%</td>
<td>5% ± 5%</td>
</tr>
<tr>
<td>Real Estate Debt</td>
<td>Income</td>
<td>6% - 10%</td>
<td>10% ± 5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk/Volatility Expectation</th>
<th>Lower</th>
<th>Moderate</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model Return Expectation (Mean Return)</td>
<td>7.8%</td>
<td>8.5%</td>
<td>9.7%</td>
</tr>
<tr>
<td>- % of Return Expected from Income</td>
<td>70%</td>
<td>60%</td>
<td>30%</td>
</tr>
<tr>
<td>- % of Return Expected from Capital Appreciation</td>
<td>30%</td>
<td>40%</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: NEPC, LLC.
Real Estate Investment Case Studies
Core Case Study: Northeast US Office

**Asset at Acquisition**

**Investment Overview**

- Class A mixed-use urban office directly adjacent to multi-modal public transportation hub
- Staggered lease maturities with in-place rents below market
- Initial gross unleveraged NOI yield of 4.22%
- Opportunity to drive value through marking leases to market as leases rollover and reconfiguring non-NOI-producing space to alternative use

<table>
<thead>
<tr>
<th>Date Acquired:</th>
<th>December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Type:</td>
<td>Class A Urban Office</td>
</tr>
<tr>
<td>Acquisition Price:</td>
<td>$316.3 MM</td>
</tr>
<tr>
<td>Asset Size:</td>
<td>371,016 SF</td>
</tr>
<tr>
<td>Occupancy (at Acquisition):</td>
<td>100%</td>
</tr>
<tr>
<td>Strategy:</td>
<td>Core asset but with upside potential</td>
</tr>
</tbody>
</table>
Core Case Study: Northeast US Office (Cont.)

Asset Repositioning Potential

- Weighted average in place rents of $54.70/SF
- One tenant lease (80,494 SF) expired in 3Q’18; tenant was in holdover through 1Q’19 (average expiring rent of $50.03/SF); 100% of tenant space preleased:
  - 8,817 SF at starting rent of $60.00/SF
  - 48,589 SF at starting rent of $65.50/SF
  - 23,088 SF at starting rent of $65.00/SF
- Model previously assumed space was re-leased at $60.59/SF

Deal Execution

<table>
<thead>
<tr>
<th>Asset Repositioning Potential</th>
<th>Deal Execution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Asset Value:</td>
<td>$345.0 MM</td>
</tr>
<tr>
<td>Cost Basis:</td>
<td>$317.7 MM</td>
</tr>
<tr>
<td>Occupancy (current):</td>
<td>100%</td>
</tr>
<tr>
<td>Gross Unleveraged IRR:</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

Note: Data as of March 31, 2019 and is based on TA Realty Altus model forecasts.
Core+ Case Study: Pacific US Multifamily

**Asset at Acquisition**

**Investment Overview**

- Class A multifamily located in Fullerton, CA, in close proximity to a Target and Albertson anchored retail center
- Growing population in the top-ranked K-8 school district
- Initial gross unleveraged NOI yield of 4.02%
- Asset is well-built with desirable amenities/location, opportunity to increase rents through select updates

**Date Acquired:** September 2016

**Property Type:** Class A Multifamily

**Acquisition Price:** $115.1 MM

**Asset Size:** 292 units; 10,347 retail SF

**Occupancy (at Acquisition):** 94% multi / 100% retail

**Strategy:** Opportunity to increase rents through minor capex program
292 total units: 138 units have been renovated
Avg. Cost to Renovate: $21,500/unit
Average Monthly Unit Premium: $250 per month (11% increase)
Avg. ROI Per Year: 14.1%
Projected Property NOI Yield on Cost (Year 5): 5.0%
Projected Market Cap Rate: 4.25-4.50%
NOI forecasted to grow from $5.06M in 2018 to $6.70M in Year 5 (TTM ending 12/31/2023); 6.07% CAGR (2019-2023)

<table>
<thead>
<tr>
<th>Asset After Repositioning</th>
<th>Deal Execution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Asset Value: $131.7 MM</td>
<td>Cost Basis: $120.8 MM</td>
</tr>
<tr>
<td>Cost Basis:</td>
<td>Occupancy (current): 94% multi / 100% retail</td>
</tr>
<tr>
<td>Occupancy (current):</td>
<td>Gross Unleveraged IRR: 7.8%</td>
</tr>
</tbody>
</table>

Unless noted, data as of March 31, 2018.
Value Add Case Study: Northeast US Industrial

Asset at Acquisition

<table>
<thead>
<tr>
<th>Date Acquired:</th>
<th>March 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Type:</td>
<td>Industrial</td>
</tr>
<tr>
<td>Acquisition Price:</td>
<td>$9.6 MM</td>
</tr>
<tr>
<td>Asset Size:</td>
<td>133,000 SF</td>
</tr>
<tr>
<td>Occupancy (at acquisition):</td>
<td>100%</td>
</tr>
<tr>
<td>Value Add:</td>
<td>Asset Repositioning</td>
</tr>
</tbody>
</table>

Investment Overview

- Off-market transaction
- Initial gross unleveraged NOI yield of 6.04%
- Purchase price of $72/SF (~60% of estimated replacement cost)
- Tenant that was a known vacate (at end of 2016)
- Building featured 25 loading positions, 20-foot ceiling height and excess trailer parking
- Located in New Jersey near the intersection of I-95 (NJ Turnpike), Garden State Parkway and Route 1/9; property is 30 minutes south of Jersey City and New York City which can be accessed via multiple routes from I-95 North
- Property is currently one of only a handful of standalone distribution availabilities of greater than 100,000 SF, but less than 250,000 SF in the submarket
Value Add Case Study: Northeast US Industrial (Cont.)

- $4.4 MM in capital improvements to increase functionality through a comprehensive renovation program

- Upgrades included additional loading positions, conversion of interior dock doors to exterior dock doors, additional trailer parking, replacement of existing office buildout, removal of structural mezzanine, interior lighting modernization, sprinklers upgrades, roof replacement, exterior and interior painting, new paving and secure fencing around the entire facility

- After negotiating multiple lease and user offers, the property was ultimately sold to a user for $140/SF, representing an approximate 27% gain on cost and a gross unleveraged IRR of 14.1%

<table>
<thead>
<tr>
<th>Date Sold:</th>
<th>May 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales Proceeds:</td>
<td>$17.9 MM</td>
</tr>
<tr>
<td>Occupancy (at sale):</td>
<td>0%</td>
</tr>
<tr>
<td>Gross Unleveraged IRR:</td>
<td>14.1%</td>
</tr>
</tbody>
</table>
Value Add Case Study: Pacific US Office

Investment Overview

- Acquired off-market from a private individual that had owned the property since the mid-1980s; property had been mismanaged and under-leased relative to its competitive set; Market vacancy is 4.8%; Mountain View features second highest rental rates in Silicon Valley, behind Palo Alto
- Projected stabilized (Year 3) gross unleveraged NOI yield of 6.69%
- Purchase price of $493/SF (~82% of estimated replacement cost)
- Property is located less than 1.5 miles from downtown Mountain View

<table>
<thead>
<tr>
<th>Date Acquired:</th>
<th>April 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Type:</td>
<td>Office</td>
</tr>
<tr>
<td>Acquisition Price:</td>
<td>$24.6 MM</td>
</tr>
<tr>
<td>Size:</td>
<td>49,880 SF</td>
</tr>
<tr>
<td>Occupancy (at acquisition):</td>
<td>60%</td>
</tr>
<tr>
<td>Value Add:</td>
<td>Asset Repositioning</td>
</tr>
</tbody>
</table>
Value Add Case Study: Pacific US Office (Cont.)

Asset After Repositioning

- Completed $3.1 MM in system upgrades as well as common area updates; constructed spec creative space in a portion of the vacancy
- Capital improvements were completed including addition of bike storage, outdoor amenity area and renovation of all common areas within the building
- Executed five new leases representing 80% of the building at lease rates 27% greater than pro forma rents; currently 91% occupied
- The property was sold to a regional office fund who had an international equity partner for $801/SF. This represents an approximate 29% gain on cost and a gross unleveraged IRR of approximately 15.9%

Deal Execution

- Date Sold: September 2018
- Net Sales Proceeds: $38.6 MM
- Occupancy (at sale): 91%
- Gross Unleveraged IRR: 15.9%
Real Estate Market Conditions
The US Real Estate Market Continues To Be Attractive

- The US economy is strong with low unemployment, high GDP growth and modest inflation
- Real estate operating fundamentals are solid and new construction levels are reasonable
- Demographics, urbanization and technology trends continue to drive real estate demand in major metropolitan areas
- Real estate transaction volumes are healthy
- Investors remain under-allocated to real estate
- Return expectations for real estate remain attractive relative to other asset classes
- Debt capital markets remain healthy with low borrowing costs and high debt service coverage ratios
- US real estate cap rates and spreads remain healthy versus the 10-year US Treasury (“UST”)
Unemployment Is At 15-Year Low

- Total employment is 109% of the prerecession peak
- Office-using employment is 110% of the prerecession peak
- Sectors with biggest % of above peak:
  - Education/Health (123%)
  - Leisure/Hospitality (122%)
  - Prof/Tech Services (120%)
- Sectors with biggest % of below peak:
  - Mining (97%)
  - Construction (96%)
  - Manufacturing (86%)

Unemployment Is At 15-Year Low

US Unemployment Rate

Unemployment Rate (Seasonably Adjusted, 16 Years and Over)

Source: Bureau of Labor Statistics. Data from 3Q'03 to 4Q'18 and CoStar.
Real gross domestic product (GDP) decreased to an annualized rate of 2.6% in 4Q’18

15-year average annualized quarterly Real GDP growth is 2.1%

Concerns exist about the impact of trade policy on economic growth

US inflation has increased and is “at or near” the target Fed rate (September 2018 Fed Minutes) and has ranged between 1.5% to 2.5% since the GFC

Source: Bureau of Economic Analysis. Data from 1Q’04 to 4Q’18.
US GDP Growth Has Outpaced Other Developed Markets

Source: The World Bank: World Development Indicators. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current US dollars. Dollar figures for GDP are converted from domestic currencies using single year official exchange rates. Data from 2007 to 2017.
US Population Growth Has Outpaced Other Markets

- US population of 325.7 million residents
- 2017 population growth of 0.72% (2.3 million residents)

Source: The World Bank: World Development Indicators. Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship. The values shown are midyear estimates. Data from 2007 to 2017.
High Birth-Rate Decades Shaping US Real Estate Demand

US Birth Rates By Decade
1960 to 2009 (Millions of Births)

Source: The World Bank: World Development Indicators. Data from 1960 to 2009.
Births Per Decade Have Decreased In Other Markets

Source: The World Bank: World Development Indicators. Data from 1960 to 2009.
Vacancy Rates Are Well Below Long-Term Averages

- Industrial vacancy rate of 4.7% as of 2Q’18
- Multifamily vacancy rate of 5.7% as of 2Q’18
- Office vacancy rate of 9.6% as of 2Q’18
- Retail vacancy rate of 4.6% as of 2Q’18

Source: CoStar Realty Information, Inc. ("CoStar"). Data from 3Q’03 to 2Q’18.
Rental Growth Rates Remain Strong

- Industrial YOY rent growth of 5.7% as of 2Q’18
- Multifamily YOY rent growth of 2.9% as of 2Q’18
- Office YOY rent growth of 2.1% as of 2Q’18
- Retail YOY rent growth of 1.6% as of 2Q’18

Source: CoStar Realty Information, Inc. ("CoStar"). Data from 3Q’03 to 2Q’18.
Multifamily TTM net completions as percent of stock of 1.8% as of 4Q’18

- Industrial TTM net completions of 1.4%
- Retail TTM net completions of 0.4%
- Office TTM net completions of 0.6%

Source: CoStar Realty Information, Inc. ("CoStar"). Data from 1Q’04 to 4Q’18.
For the last 30-years, US housing stock completions (multifamily and single-family) averaged 1.28 million/year.

For the year ending 4Q’18, housing stock completions totaled 1.18 million.

Source: United States Census Bureau. Data Not Seasonally Adjusted. Universe included approximately 19,000 permit-issuing places from 2002 to December 2003, 19,300 permit-issuing places from 2004 to 2013, and 20,100 permit-issuing places from 2014 forward. Data from 4Q’89 to 4Q’18. 4Q’18 data is preliminary.
Driven by e-commerce, industrial demand and new supply is cannibalizing retail demand and new supply.

Source: CoStar Realty Information, Inc. ("CoStar"). Data from 4Q'06 to 4Q'18.
Real Estate Transaction Volumes Remain Healthy

- US real estate transaction volume has averaged $70.2 billion per quarter since 2001
- For the last five years transaction volume averaged $110.5 billion per quarter

**US Real Estate Quarterly Transaction Volume**

*Includes Multifamily, Industrial, Office and Retail Properties ($ in Billions)*

Source: Real Capital Analytics. Data from 1Q'01 to 4Q'18. Includes multifamily, industrial, office and retail properties.
Real Estate Lending Environment Is Robust

- Debt capital for real estate remains readily available in the US
- Over $200 billion of positive net debt issuances annually since 2015
- CMBS issuance remains low
- Given available debt capital, competition for lenders is expected to increase in 2019 which should apply negative pressure to yield spreads (per PWC’s, 2019 Emerging Trends in Real Estate Report)

Source: Federal Reserve. Data from 2004 to 4Q'18.
Cap Rates Spreads Are Healthy Versus the 10-Year UST

- Real estate cap rates and spreads remain healthy versus the 10-year UST (310bps spread)

Source: Real Capital Analytics. Data from 1Q'04 to 4Q'18. Includes multifamily, industrial, office and retail properties. Weighted average cap rate by market value.
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