

INSIGHTS

MARCH 2021

Investcorp Market Update: North America Real Estate

Atlanta Skyline

Team Bios



Herbert Myers
Co-Head of Real Estate
North America

Herbert Myers currently oversees all aspects of Investcorp's North American Industrial/Commercial Real Estate platform. Myers joined Investcorp in 2000 and assumed the role of Head of Acquisitions for all North American real estate in 2008. Under his leadership, Investcorp Real Estate North America has invested over \$10 billion of gross purchase price across all real estate property types and established itself as one of the top-50 investors in United States real estate. Myers currently oversees the North American Industrial/Commercial vertical totaling over \$2.5 billion of assets under management.

Prior to joining Investcorp in 2000, Myers spent four years as a Vice President in the real estate investment group at JP Morgan in New York. Previously, he was an Associate in real estate investment sales at Eastdil Realty Company and a Senior Associate in real estate leasing at Peter R Friedman Ltd. He holds a BA in Organizational Management from the University of Michigan and an MBA in Real Estate and Finance from Columbia University.



Michael O'Brien
Co-Head of Real Estate
North America

Michael O'Brien oversees the group's Residential Investment activities in North America. O'Brien joined Investcorp in 2007 and assumed the role of Head of Asset Management for all North American real estate. Under his leadership, Investcorp Real Estate North America has established itself as one of the top-50 investors in United States real estate. O'Brien currently oversees the North American Residential vertical totaling over \$2.8 billion of assets under management.

Prior to joining Investcorp, he was a Director with ING Clarion Partners in its New York office since 1995. He worked on ING's \$200 million development fund, was an Assistant Portfolio Manager for several separate account clients and ran its CMBS Special Servicing group. Previously, O'Brien was at Reichmann International/Quantum Realty Fund and Equitable Real Estate Investment Management. O'Brien holds a BS in Business Administration with a major in Finance from Georgetown University.



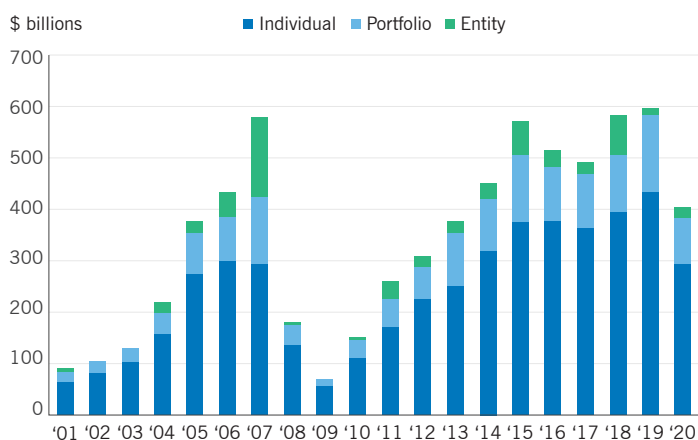
Introduction

The global COVID-19 (“COVID”) pandemic has impacted every business and sector, forcing real estate owners, operators and investors to reassess their approach. A critical overarching theme over the past several months has been that not all property types are created equal.

While real estate as an asset class has experienced solid performance over the last decade, there is a wide dispersion across individual property types and their outlook. For example,

Industrial and Residential for-rent real estate (“Multifamily”) have performed extraordinarily well this past decade. More importantly, the future prospects for Industrial and Multifamily remain bright given a number of secular tailwinds supporting their growth, from the continued acceleration in e-commerce and focus on supply chains to millennial preferences that favor the flexibility and mobility of renting. On the other hand, a number of other real estate property types including Retail, Hospitality and Suburban Office (“Lagging Property Types”) have underperformed in recent years and their future prospects remain uncertain given the challenges stemming from the pandemic.

Figure 1. **Overall US Real Estate Transaction Volume**



Source: Real Capital Analytics, Q4'2020

In addition to the recent impact from COVID, a number of key themes had been influencing the divergence in property type performance, including shifting demographics. Millennials now comprise the largest generation in the U.S. labor force and their behaviors are having a distinct effect on society and real estate, from e-commerce to changing workplace preferences and the integration of technology.

COVID has accelerated many of these trends that were already forming prior to the pandemic. These include 1) the growth of e-commerce which has strengthened the need for Industrial warehouse space, and in many cases has limited the need for retail space; 2) the increase in working remotely, limiting the need for office space and placing greater importance on sizes and quality of living spaces; and 3) the lack of travel, harming the hospitality industry.



Investcorp North America Real Estate Platform

In 2014/2015, Investcorp made the prudent and strategic decision to sharpen our real estate investment focus on Multifamily and Industrial assets and begin an orderly process to dispose of suburban office, retail and hospitality assets within the portfolio. We believe that this foresight has been instrumental in continuing our long history of successful performance that has exceeded our own expectations. Furthermore, we also believe that our early recognition and decisive action to target the most resilient areas of real estate has enabled us to operate from a position of strength during COVID, thereby avoiding some of the challenges that other real estate investors have faced due to having exposure to struggling assets and Lagging Property Types.

Approximately 90% of Investcorp's real estate portfolio in North America is comprised of Multifamily and Industrial properties. There is no exposure to retail or hospitality real estate, and our lone suburban office investment is located near Amazon's new HQ2 development outside of Washington, D.C.

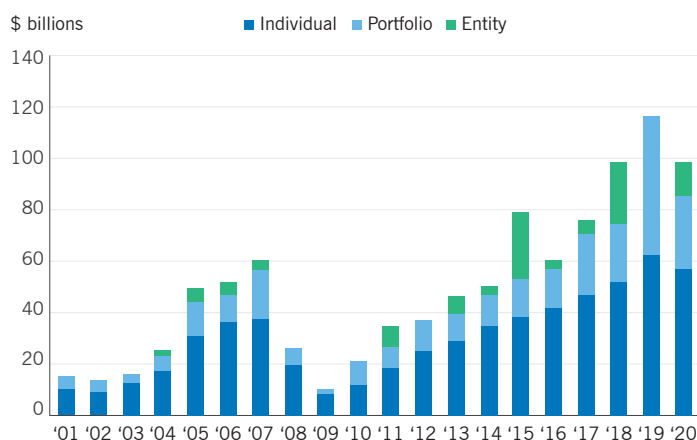
The growth and resiliency of Industrial and Multifamily has driven increased competition for assets and pressure to not only be a successful real estate investor in the right property types, but to also have exposure in the right markets and a clear plan for managing the properties and enhancing value creation.

Industrial Real Estate

Investors have been for many years materially under allocated to Industrial assets. Poor performance of Lagging Property Types is expected to lead to increased global interest in the Industrial real estate.

The emergence of e-commerce helped the Industrial market recover from the Global Financial Crisis. Furthermore, positive secular trends have positioned Industrial real estate as the most sought-after property type in recent years and this is expected to continue as Industrial real estate is projected to lead the post-COVID recovery. We believe that COVID has accelerated the ongoing transition of consumer spending from brick-and-mortar retail to online shopping. This is expected to increase demand for warehouse space.

Figure 2. Industrial US Real Estate Transaction Volume



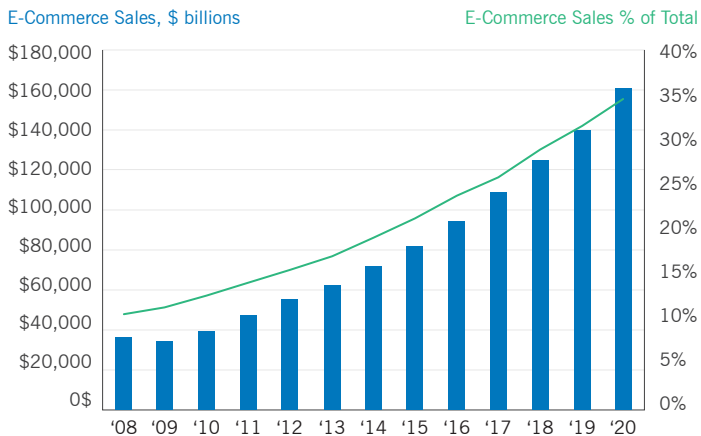
Source: Real Capital Analytics, Q4'2020

According to the U.S. Census Bureau, e-commerce sales as a percent of total quarterly retail sales have nearly tripled since 2010, leading to an increased demand for warehouse space. According to CBRE and CNBC, e-commerce sales growth is expected to generate a range from 400 million to 1 billion square feet of excess demand for industrial space in the next several years. While this is a wide range, it is clear that significant new



inventory is needed. E-commerce sales are growing at a 15% Compounded Annual Growth Rate (“CAGR”). Industrial supply on the other hand is growing at a 1.5% CAGR. This disparity is expected to result in a supply/demand imbalance favoring owners of industrial real estate assets, especially in desirable logistics markets.

Figure 3. E-Commerce Sales

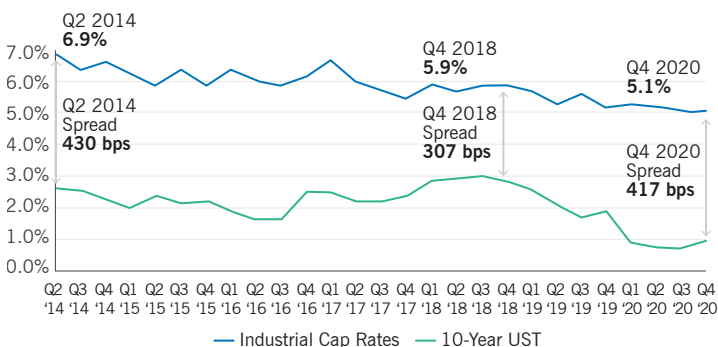


Source: Green Street Advisors, Q4'2020

Beyond the adjustments to consumer behavior, COVID is also influencing industries and manufacturers to prioritize resilience over agility. This has been leading to an increase in the onshoring of goods to maintain greater inventory levels as companies prioritize greater supply chain diversification.

Industrial real estate is currently producing the highest returns of any Commercial Real Estate sector for the most consecutive quarters ever, with a 10-year return of 13% on an unlevered basis according to the National Council of Real Estate Investment Fiduciaries (NCREIF).

Figure 4. Industrial Cap Rates vs. US Treasury Rates



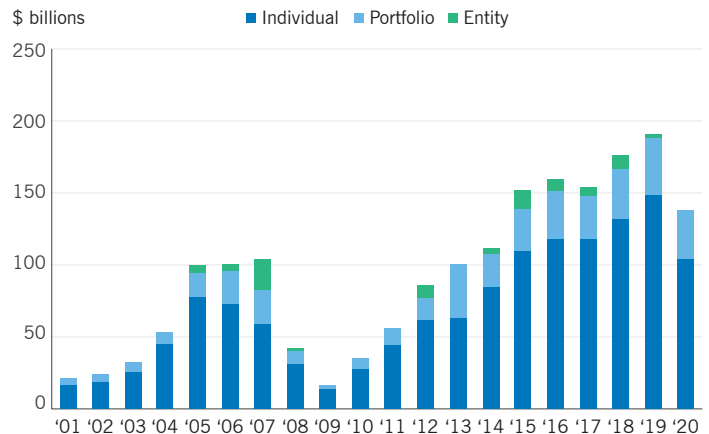
Source: CBRE Econometric Advisors and Real Capital Analytics, Q4'2020



Multifamily Real Estate

Investors continue to view the Multifamily sector as a relatively safe property type. Millennials have been one of the main drivers of the increased Multifamily renting lifestyle as they continue to focus on liquidity and mobility, partly due to increasing student debt, changing lifestyle dynamics including delayed marriage, changes in family planning and increased divorce rates.

Figure 5. Multifamily US Real Estate Transaction Volume

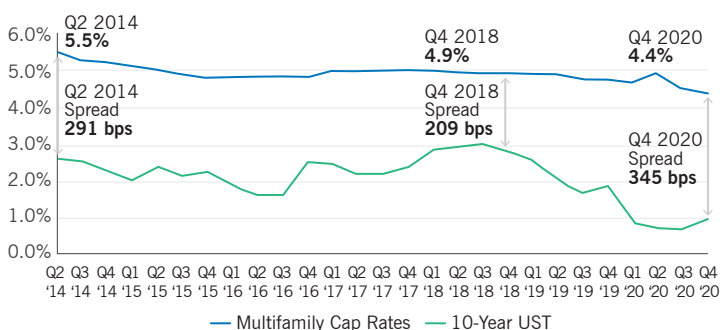


Source: Real Capital Analytics, Q4'2020

As seen since the onset of the COVID and demonstrated in past cycles, the Multifamily sector is typically recession resilient. Since the early 2000s, the Multifamily sector experienced the shortest period of negative rent growth when compared to other sectors. Further, during the Global Financial Crisis, the Multifamily sector experienced the lowest level of rent decline and the fastest recovery.

Class B Workforce Housing has benefited the past decade and is predicted to continue to benefit from structural demand shifts including limited income growth and stricter credit standards, as well as decreasing supply. This supply/demand dynamic has driven Class B Workforce Housing to outperform the overall U.S. Multifamily market and we expect this trend to continue.

Figure 6. Multifamily Cap Rates vs. US Treasury Rates



Source: Green Street Advisors and Real Capital Analytics, Q4'2020

Investcorp Multifamily Case Study

Between late 2016 and mid-2017, Investcorp acquired 4,161 Multifamily units over eight properties in five high growth markets (Phoenix, AZ, Orlando, FL, Inland Empire, CA, Jacksonville, FL and Long Island, NY). The markets and submarkets were selected after a thorough analysis of market fundamentals including population and employment growth trends, single family housing fundamentals, and new supply projections. We believe that the acquired properties were under managed by the previous owners, which presented Investcorp experienced in-house Asset Management team the ability to implement value-add upside strategies.

During the approximate 3.5-year hold period, Investcorp invested capital to improve the properties through amenity upgrades and interior unit renovations. This included upgrading and expanding leasing offices and fitness centers, improving dog parks, and enhancing unit interiors. The property improvements and operational efficiencies helped to both improve occupancies and grow in-place rents across the properties.

Following a well-executed operational and capital improvement plan, Investcorp began to explore a sale of the properties in February 2020. In the first month of the marketing process, COVID reached the US. As a result, the appetite for large portfolio transactions declined due to the immediate uncertainty of COVID.

Investcorp pulled the assets from the sales market and continued to actively manage the properties and support tenants, which averaged 97% rent collections and were significantly above the national Multifamily average.

After continued strong property performance and the Multifamily market rebounding after the initial shock of COVID, Investcorp determined that completing individual asset sales was the right approach to maximizing value instead of completing one large portfolio sale. In H2 of calendar year 2020, Investcorp closed on the individual sales of all eight of the Multifamily assets at pricing that was approximately 5% higher than pre-COVID guidance, generating strong returns for investors.

Conclusion

Industrial and Multifamily real estate have delivered exceptional performance over the last decade. We expect this trend to continue given the strong fundamentals in these sectors, which have been further strengthened by COVID but will continue to support these markets post-pandemic.

Investcorp has a long history of successfully investing in real estate across multiple market cycles, having acquired more than 850 properties with a combined value of more than \$20 billion since 1996. Our team is comprised of approximately 30 investment professionals and our senior leadership team has an average of more than 25 years of industry experience. We believe that our talent, experience and capabilities will continue to be key performance drivers as we advance our strategy of investing in highly-occupied Industrial and Multifamily real estate assets that offer stable cash flows and additional upside potential.

About Investcorp

Investcorp is a global investment manager, specializing in alternative investments across private equity, real estate, credit, absolute return strategies, GP stakes and infrastructure. Since our inception in 1982, we have focused on generating attractive returns for our clients while seeking to create sustainable long-term value for our shareholders and communities as a prudent and responsible investor with a commitment to sound Environmental, Social and Governance (ESG) practices.

We invest a meaningful portion of our own capital in products we offer to our clients, ensuring that our interests are aligned with our stakeholders. We take pride in partnering with our clients to deliver tailored solutions for their needs, utilizing a disciplined investment process, employing world-class talent and combining the resources of a global institution with an innovative, entrepreneurial approach.

As of December 31, 2020, Investcorp Group had US \$35 billion in total AUM, including assets managed by third party managers, and employed approximately 430 people from 43 nationalities globally across its offices in New York, London, GCC, Mumbai, China and Singapore. For further information, visit www.investcorp.com and follow us @Investcorp on LinkedIn, Twitter and Instagram.

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