Commercial Real Estate Market Review and Outlook

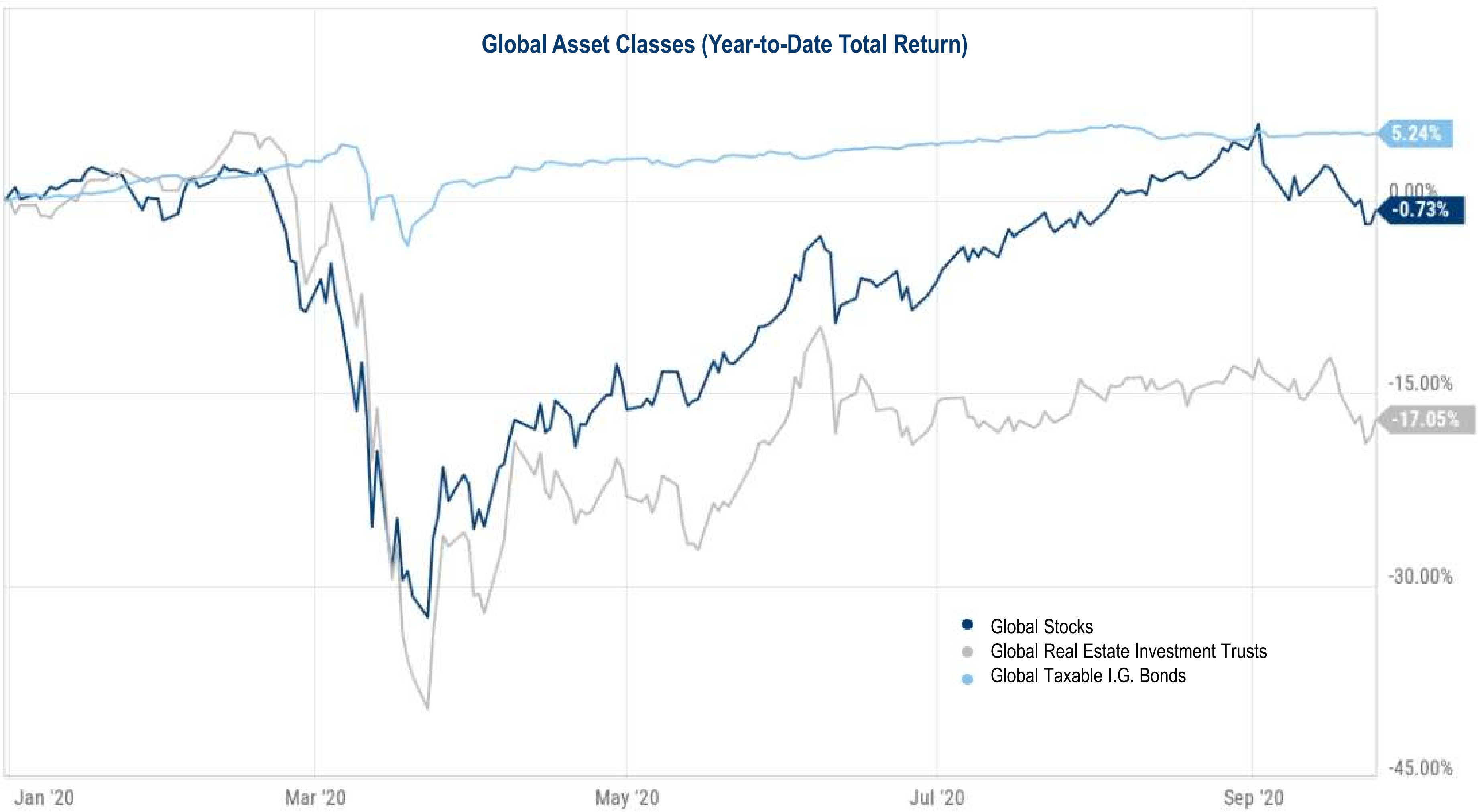
2020

CAPSTONE™

FINANCIAL ADVISORS

Commercial Real Estate Market Review and Outlook

- COVID-19 lockdowns and ensuing social-distancing measures have severely affected various asset classes and sectors, particularly real estate securities.



Source: YCharts. Date Range: 12/31/19 - 09/25/20. Global Stocks represented by Vanguard Total World Stock ETF (VT). Global Real Estate represented by DFA Global Real Estate Securities Portfolio (DFGEX). Global Taxable I.G. bonds represented by Vanguard Total World Bond ETF (BNDW). Past performance is not a guarantee of future results.

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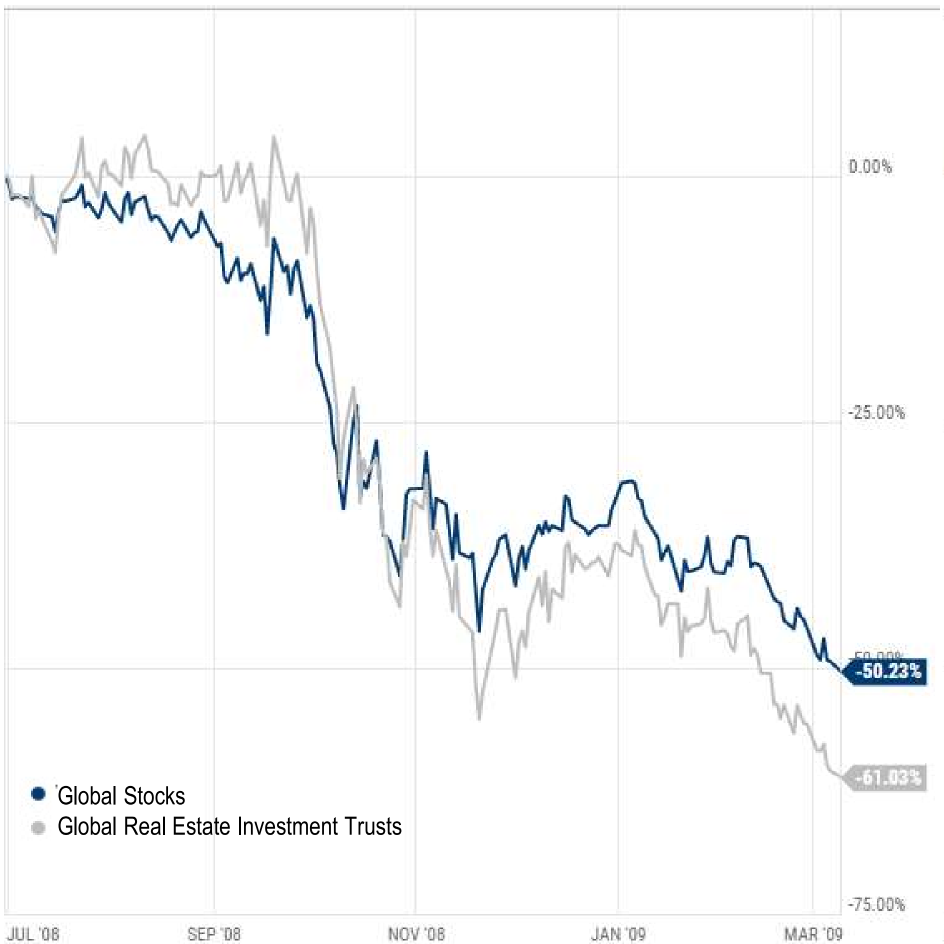
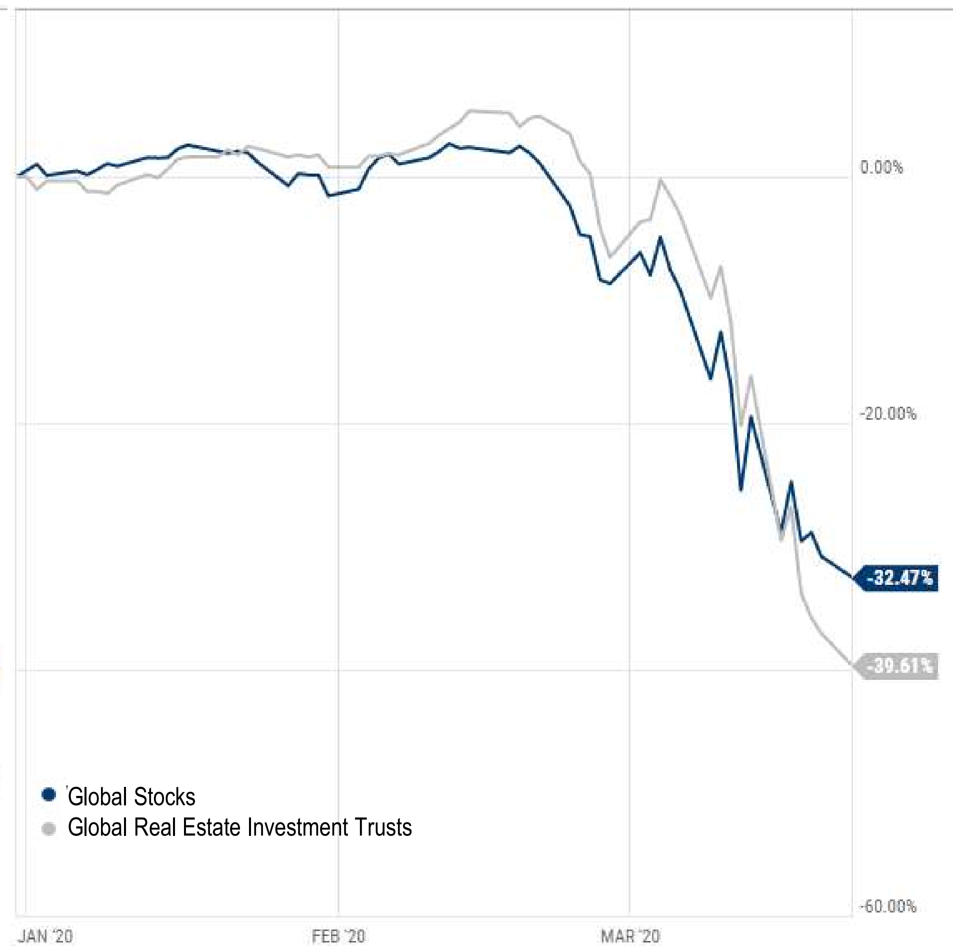
- The commercial real estate sector came into this current crisis in relatively healthy position and with lower leverage, so it has held up much better than the worst of the 2008/2009 Global Financial Crisis.

Global Financial Crisis (Total Return - Jul '08 to Mar '09)



COVID-19 (Total Return Jan '20 to Mar '20)



Source: YCharts. Date Range for GFC: 06/30/08 – 09/09/09. Date Range for COVID-19: 12/31/19 – 03/23/20. Global Stocks represented by Vanguard Total World Stock ETF (VT). Global Real Estate represented by DFA Global Real Estate Securities Portfolio (DFGEX). Past performance is not a guarantee of future results.

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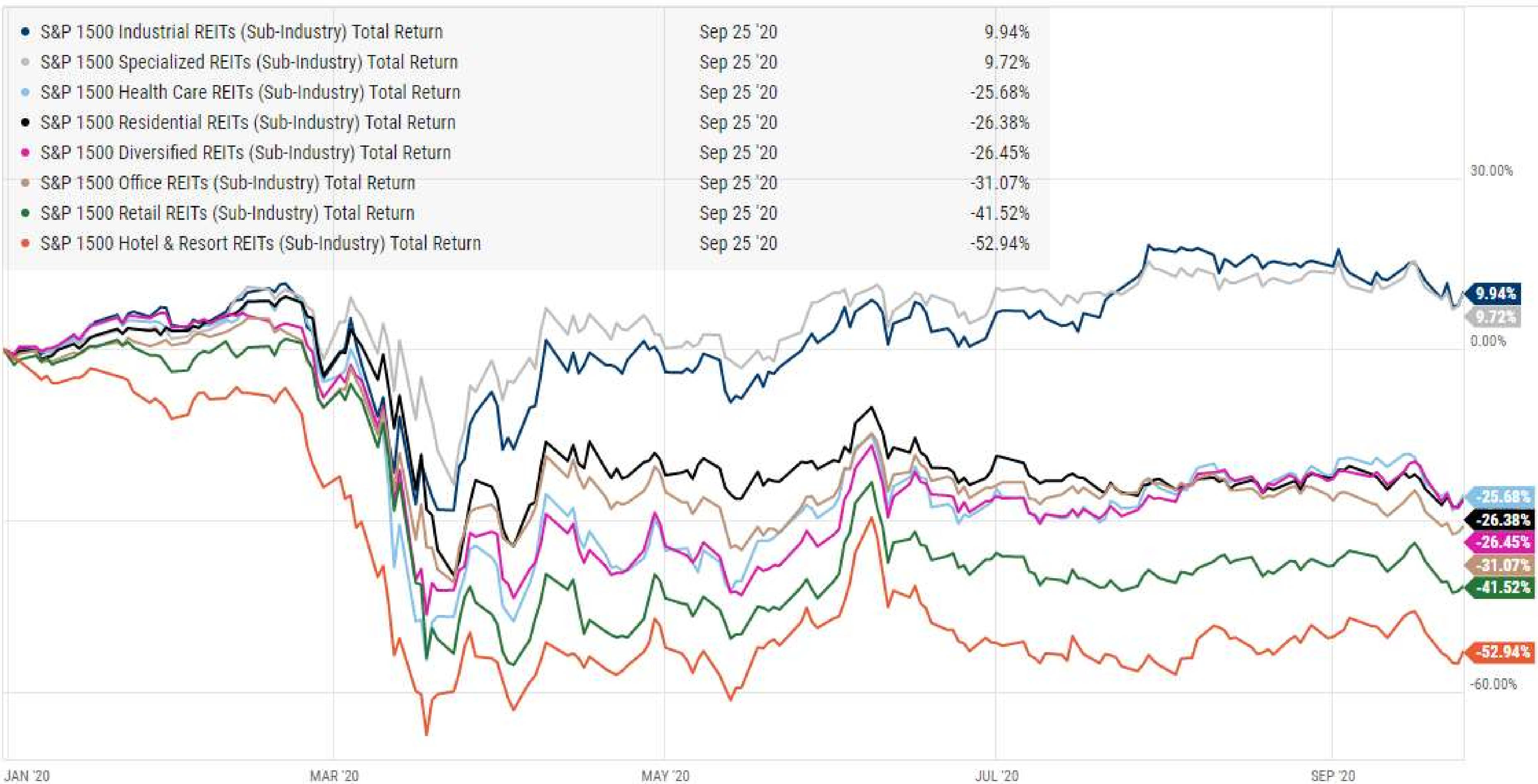
- **COVID-19 impact has not been uniform.** There has been a huge divergence in industry performance within the commercial real estate sector. Industries linked to digitization and online-retail trends have done well, while those linked to travel and brick-and-mortar retail have declined significantly.

U.S. Real Estate Sector (Year-to-Date Total Returns)



Source: YCharts, S&P. Date Range: 12/31/19 - 09/25/20. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

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- There have been varied levels of sensitivity across real estate industries during COVID-19.

Real Estate Sub-Sector Sensitives to Disruption from Social Distancing

Source: Brookfield Public Securitas Group. For Illustrative Purposes.

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- Global Real Estate Investment Trust securities are trading at a significant discount to Net-Asset-Value (NAV), one standard deviation cheaper than long-term average.

Global Historical Premium/Discount to NAV

Source: UBS Global Real Estate Research, Brookfield Public Securities Group. Date Range: 12/31/06 – 06/30/20. Past performance is not a guarantee of future results.

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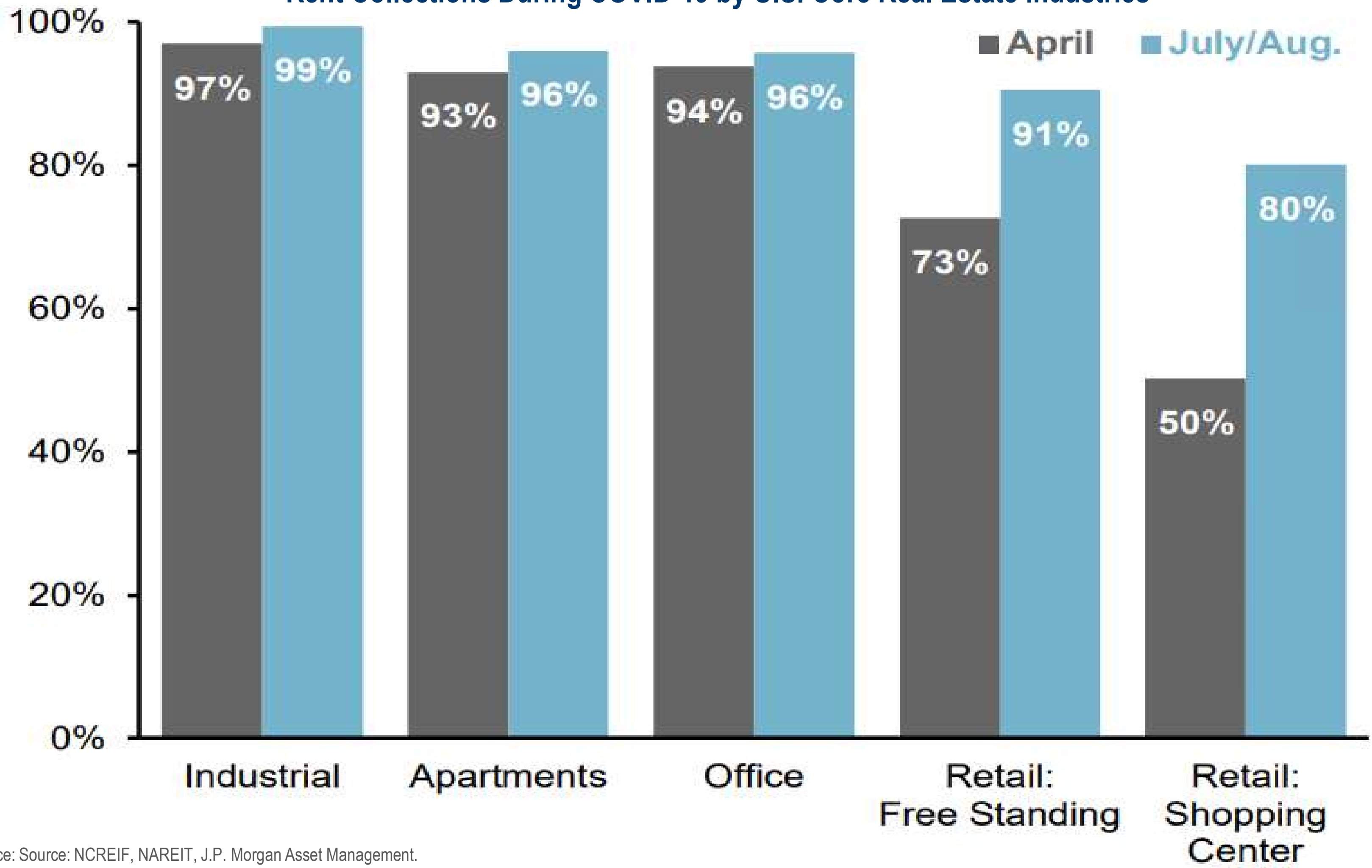
- **Rent collections in many REIT sectors have remained stable.** Aside from rent collections falling in the retail industry near the beginning of the pandemic, most of the other core real estate industries have collected over 90% of their rents. Rent collections have more recently started improving across all industries.

Rent Collections During COVID-19 by U.S. Core Real Estate Industries



Source: Source: NCREIF, NAREIT, J.P. Morgan Asset Management.

Data is based on availability as of 08/31/20.

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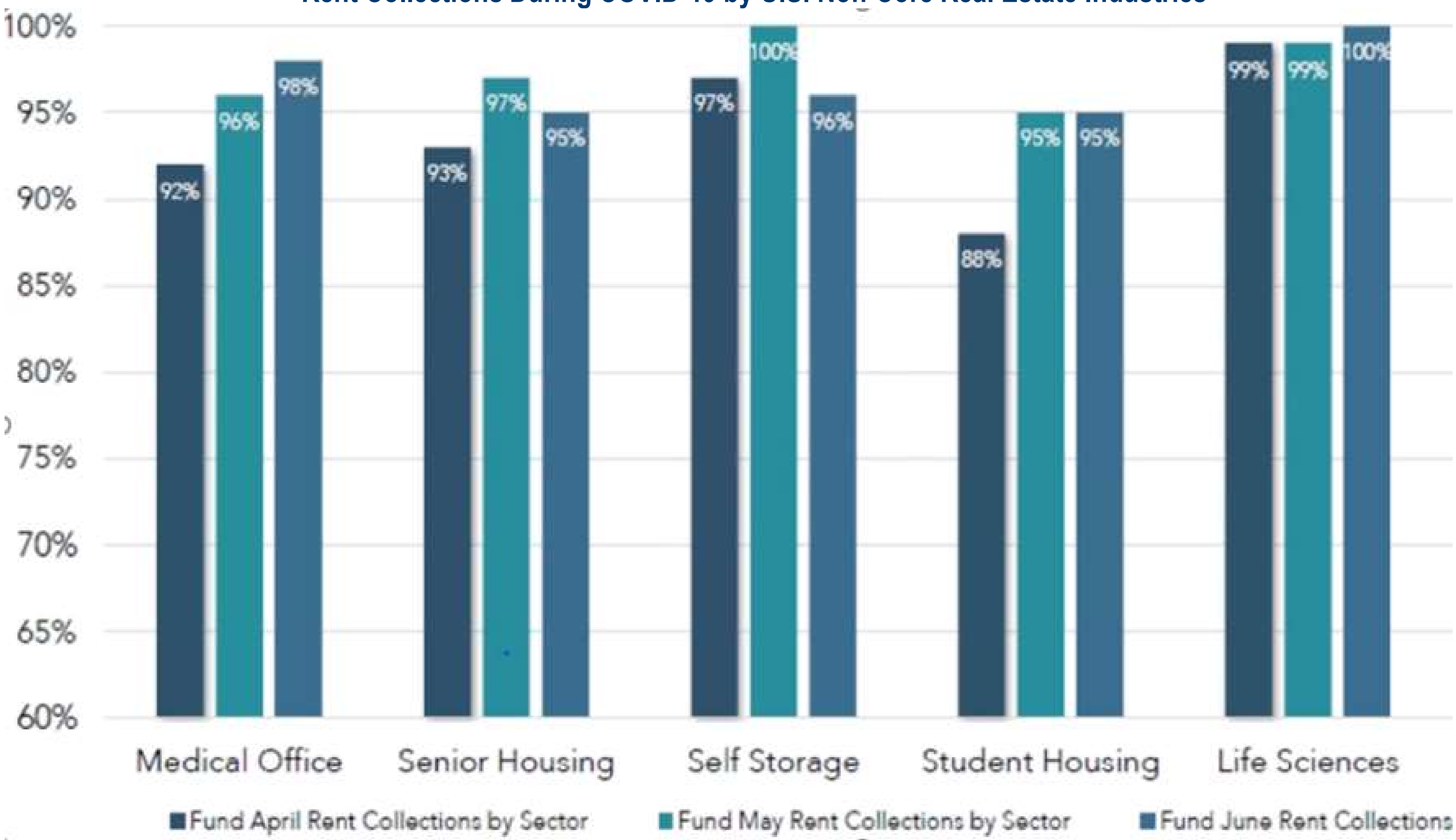
Rent Collections During COVID-19 by U.S. Non-Core Real Estate Industries



Source: Harrison Street, Versus Capital. Data as of 06/30/2017.

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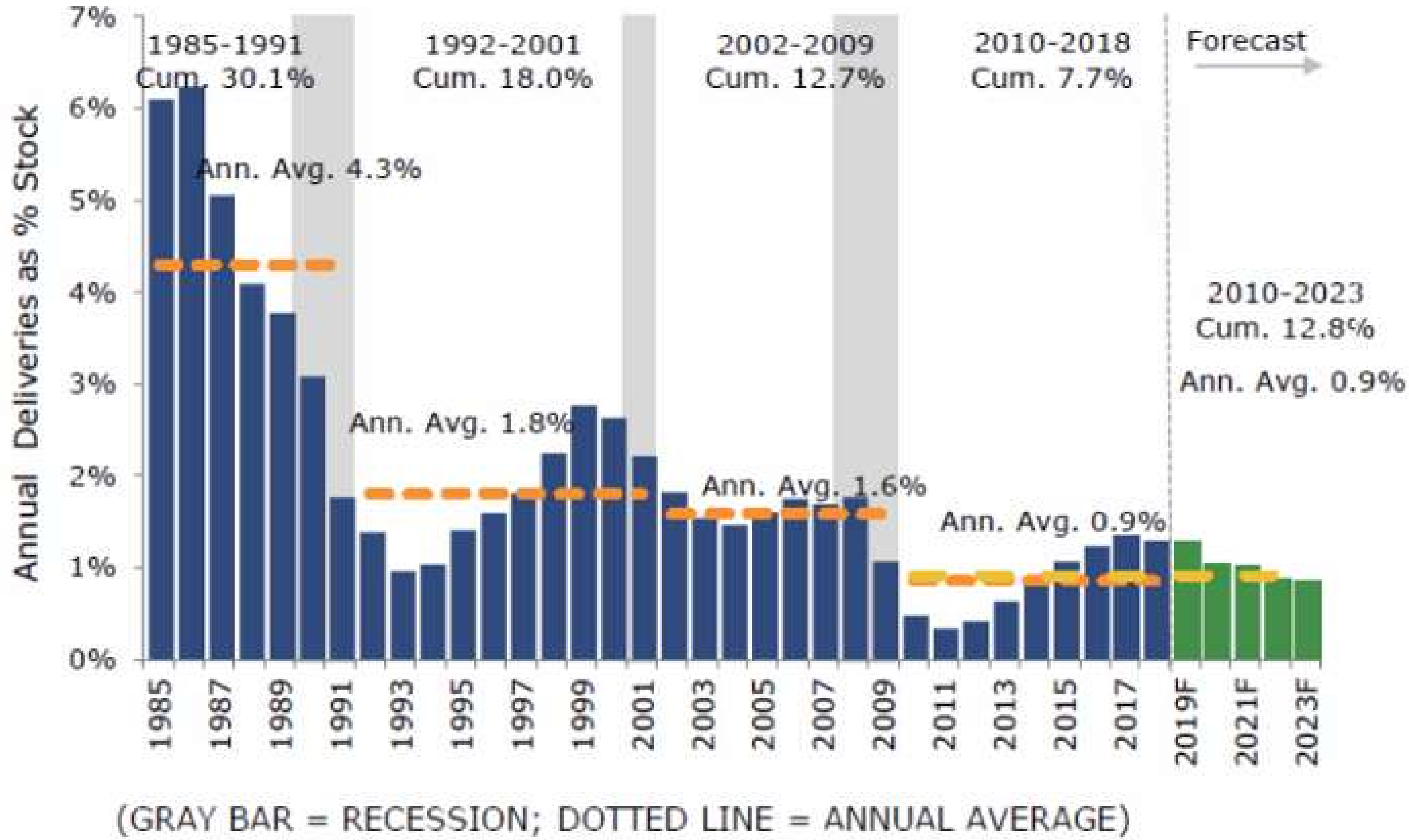
- Coming into COVID-19, new building supply coming to market was relatively low. New supply pipelines have completely shut-off and likely to be the case for the foreseeable future. New projects that are not out of the ground yet are on hold, particularly for office and retail industries.

Cumulative and Average New Supply



Source: CBRE-EA, Clarion Partners Investment Research. Data as of 12/31/19.

Note: Deliveries % is the average industrial, multifamily, office, and retail sectors. Cumulative new supply was calculated from the beginning of the cycle to the end of recession. Past performance is not indicative of future results. The impact of the outbreak of COVID-19 on the economy and the Fund's properties and operations is highly uncertain. Valuations and income may change rapidly and significantly than under standard market conditions.

Office Real Estate Dynamics

- There is a lot of uncertainty about the future of office real estate. Fortunately, office buildings can and will likely be made safer through technology and redesign.

Features of a Successful Future Office

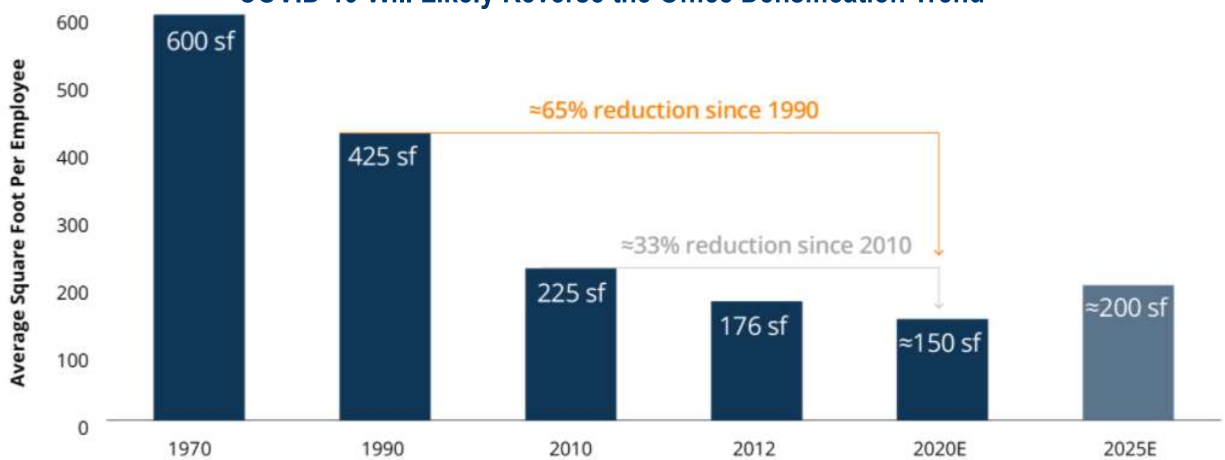
Multiple entrance/exit Wide circulation space reducing pinch points	Natural light and ventilation	Touchless technology & tech-enabled
Multi-modal transport options (above-ground preferred)	Greater proportion of collaboration vs. routine desk space	More personal space – min 125 sq ft seat/seat min 6ft/desk
Net zero carbon	Enhanced vertical transportation (elevators and stairs)	Mechanical and electrical systems to promote wellness

Source: CBRE. For Illustrative Purposes.

Office Real Estate Dynamics

- Most employees also want more personal space, not only for health and safety reasons, but because the decades-long move toward office densification may have swung the pendulum too far in one direction.

COVID-19 Will Likely Reverse the Office Densification Trend



Source: Brookfield, UBS, Cushman & Wakefield

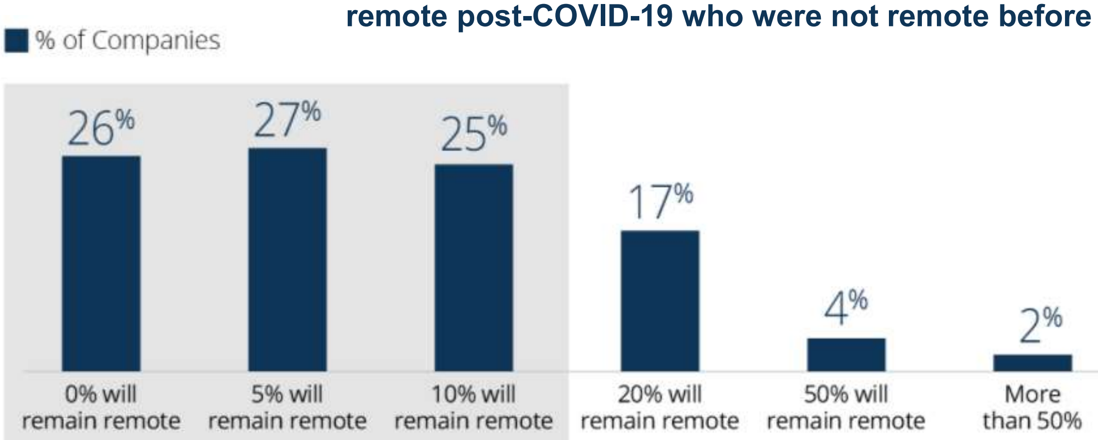
Which changes to your company's office environment would make you feel comfortable returning to the office?

Source: Brookfield, Gensler U.S. Work From Home Survey 2020. The survey was conducted online through an anonymous, panel-based survey of over 2,300 U.S.-based workers who were full-time employees of a company of 100+ people. Each respondent routinely worked within an office environment prior to COVID-19 and was currently working from home at the time when the survey was released between April 16 and May 4, 2020. Responses were evenly distributed across 10 industries and represent a wide range of seniority levels, roles, ages and geographies.

Office Real Estate Dynamics

- **Working from home trends**: Companies are generally eager to get employees back in the office and interacting. A recent survey of over 2,300 workers in the U.S. shows that many employees feel the same way.

What percentage of your workforce will remain permanently remote post-COVID-19 who were not remote before COVID-19?



A RECENT SURVEY INDICATED 78% OF COMPANIES EXPECT THAT 10% OR LESS OF THEIR WORKFORCE WILL REMAIN PERMANENTLY REMOTE.

Source: Brookfield, A Gartner, Inc. survey of 317 CFOs and finance leaders. As of May 2020.

Do you prefer to go back to the office or continue to work remotely?

ONLY 12% OF U.S. WORKERS WANT TO WORK FROM HOME FULL-TIME, ACCORDING TO A RECENT SURVEY.

Source: Brookfield, Gensler U.S. Work From Home Survey 2020. The survey was conducted online through an anonymous, panel-based survey of over 2,300 U.S.-based workers who were full-time employees of a company of 100+ people. Each respondent routinely worked within an office environment prior to COVID-19 and was currently working from home at the time when the survey was released between April 16 and May 4, 2020. Responses were evenly distributed across 10 industries and represent a wide range of seniority levels, roles, ages and geographies.

Industrial/Logistics Real Estate Dynamics

- E-commerce will increase its share of total retail sales. Online sales will continue to be the biggest catalyst for both activity and change in industrial/logistics real estate over the next cycle. Euromonitor forecasts that online sales as a percent of total retail sales in the top 10 countries for e-commerce penetration will likely rise from 17% in 2019, to 21% by 2021.

E-Commerce Sales by Country, % of Total Retail Sales

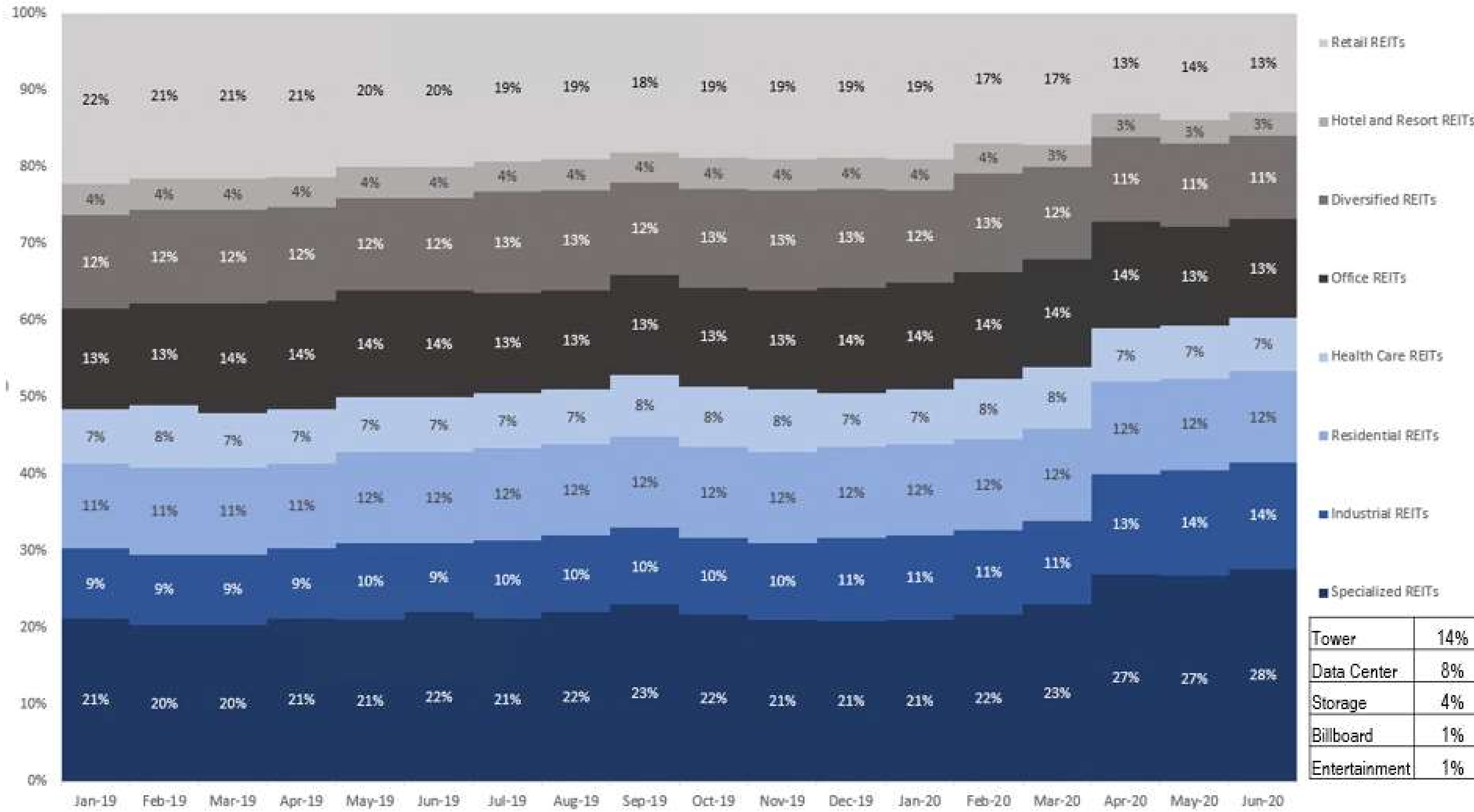
Source: Source: Euromonitor, Q2 2020.

Note: Does not reflect the COVID-19 impact.

Global Real Estate Sector Breakdown

- The Specialized and Industrial real estate industries have grown substantially over time as the Retail sector has declined. These trends have accelerated during COVD-19. Broad diversification has enabled investors to participate in areas of the real estate markets that are doing well while limiting exposure to areas in decline.

Global REIT Sector Market Capitalization



Tower	14%
Data Center	8%
Storage	4%
Billboard	1%
Entertainment	1%

Source: Dimensional. Based on holdings data for the DFA Global Real Estate Securities Portfolio Fund from January 2019 to June 2020.

Commercial Real Estate Outlook and Views

- In the short-term, most property types and markets face noteworthy declines in asking rents and meaningful increases in vacancy rates due to decline in economic activity, but these effects are more likely cyclical than structural/permanent. In the long-term, Capstone is positive/neutral on most REIT sectors.

Capstone Outlook and Views

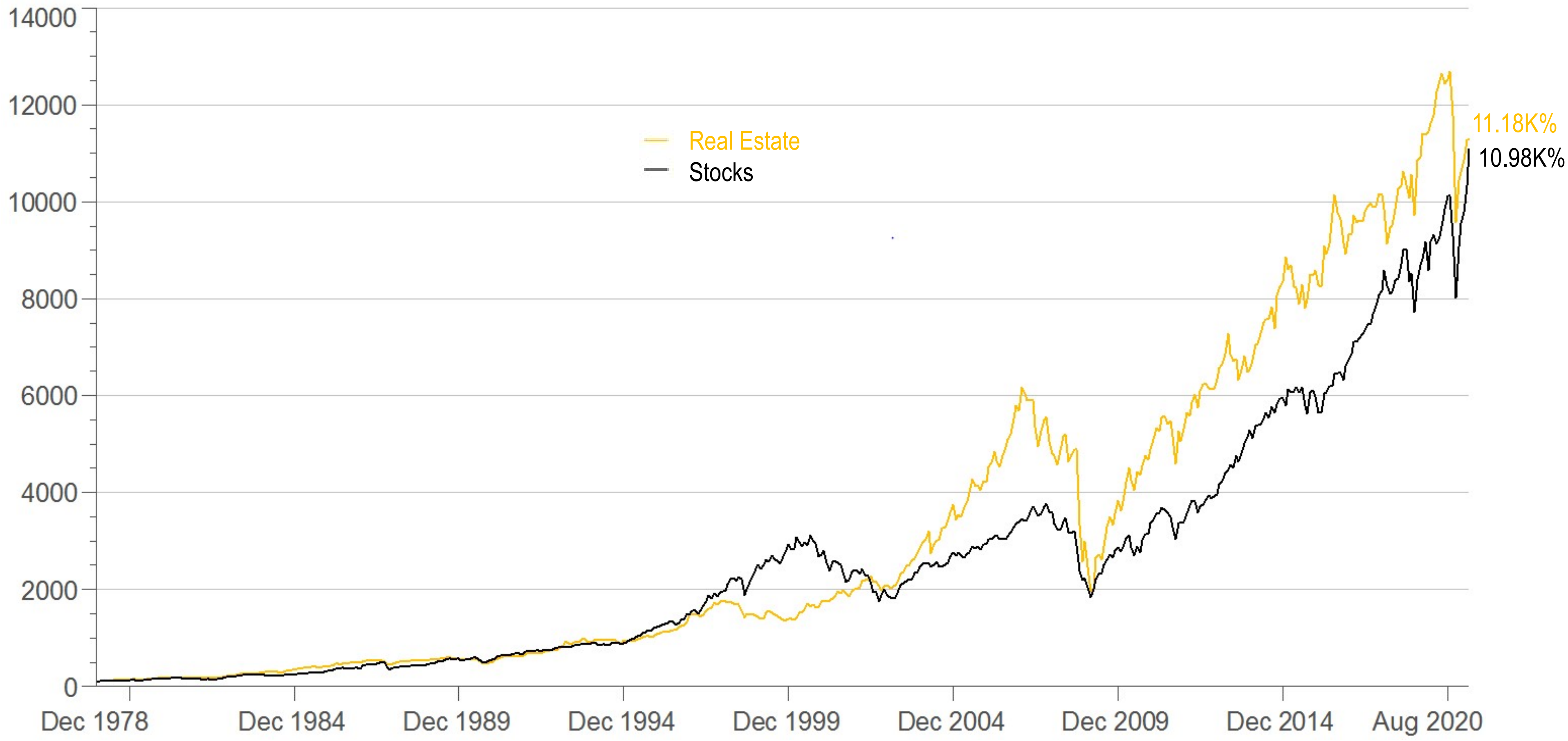
		Outlook		Views	
REIT Sub-Sectors	Market-Cap Weight[1]	Short-Term (During COVID-19)	Long-Term (Post-COVID-19)	Positives	Negatives
Tower REITs	14%	Positive	Positive	Increase in working from home would necessitate investment in stronger mobile networks. Data transmission speeds will increase with the 5G network updates.	Technology could be replaced with satellite technology at some point in the future.
Industrial/Logistics REITs	14%	Positive	Positive	E-commerce growth will be the biggest catalyst for activity in industrial real estate (e.g., warehouses, distribution facilities).	Rental rates are not as high as many other REIT sectors. Retail assets could convert some spaces to warehouses and distribution facilities.
Office REITs	13%	Neutral	Neutral	Office companies have had high rent collections and limited tenant bankruptcies. Office densification trend will reverse leading to demand upside. Many opportunities exist to make offices safer through technology.	Asking rents across markets have started to decline modestly. Less people will work from offices. A weaker economy (for longer) could negatively impact tenant demand.
Retail REITs	13%	Negative	Negative	Retail will naturally become higher quality. Retail with strong balance sheets will be positioned to effectively repurpose assets. Retail mall space could convert old department store space to warehouse space.	Retailer bankrupsies are increasing. Retail assets have had the weakest rent collection. The COVID-19 pandemic has accelerated the E-commerce trend.
Residential REITs	12%	Neutral	Neutral	Somewhat less discretionary nature. There will likely still be demand for apartment renters in cities beyond the COVID-19 pandemic.	We could see rent collection pressure ahead with the expiration of eviction freezes and extra unemployment benefits. Low mortage rates and increased demand for more space/outdoor area may shift demand to suburban housing for longer than expected.
Diversifed REITs	11%	Neutral	Neutral	-	-
Data Center REITs	8%	Positive	Positive	Increase in working from home would necessitate investment in increased cloud storage.	Data center assets are expensive to outfit and customize for tenant; highly specialized.
Health Care REITs	7%	Negative	Positive	Medical office buildings tend to have long-term leases, stable occupancy and income, and tenant credit quality. Non-emergency surgeries that were previously delayed are starting to take place again. Senior housing, assisted living, and skilled nursing facilities are a necessity and the aging population is growing every day.	Accelerated telehealth trends may likely supplant some onsite care post COVID-19. Senior housing and assisted living properties have been overbuilt the past few years and many suffered a huge blow from large outbreaks from within the properties themselves.
Storage REITs	4%	Neutral	Neutral	Has largely not been affected by the COVID-19 pandemic. Demand for storage space should stay steady regardless of the economy.	It is a highly competitive space with large supply of storage facilities from both REIT and private operators.
Hotel and Resort REITs	3%	Negative	Positive	Hotels and resort leisure activity should recover back to 2019 levels fairly quickly once a vaccine is available and widely distributed again.	Business travel may not resume to pre-COVID-19 levels for a long time.

[1] According to allocations in DFA Global Real Estate Securities Fund (DFGEX) as of 06/30/2020.

Historical Perspective

- Real estate is an asset class that has delivered significant returns for long-term investors, comparable to stocks.

U.S. Real Estate Investment Trusts (REITs) vs. Stocks Cumulative Total Return (40+ Years)

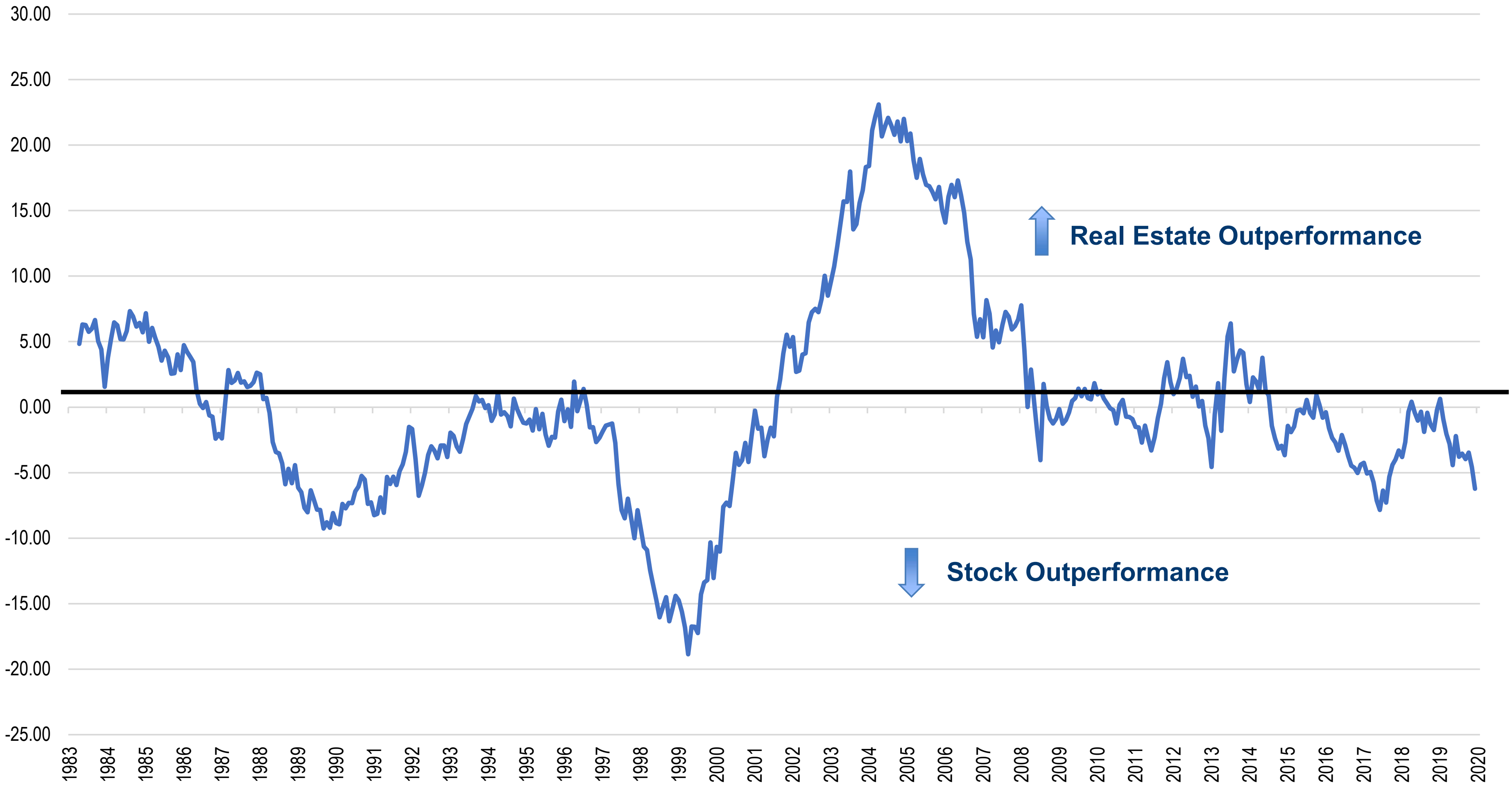


Source: Zephyr StyleAdvisor. Date Range: 12/01/1978 to 08/31/2020. Stocks represented by the Russell 3000 Index TR. Real Estate represented by the FTSE NAREIT All Equity REIT Index TR. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

REITs vs. Equities

- ❑ Real estate is an asset class that is not perfectly correlated with stocks, and therefore provides meaningful portfolio diversification to long-term investors.

U.S. Real Estate Investment Trusts (REITs) vs. Stocks Relative Performance
Difference in annualized total returns over rolling 5-year periods



Source: Zephyr StyleAdvisor. Date Range: 08/31/1983 to 08/31/2020. Stocks represented by the Russell 3000 Index TR. Real Estate represented by the FTSE NAREIT All Equity REIT Index TR. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Important Disclosure Information

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