REAL ESTATE IN THE NEW REGIME

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BIG PICTURE

Our Work Suggests That We Have Entered a New Environment for Real Estate Investing

01 **We are experiencing a regime change.** We expect the higher 'resting heart rate' for inflation to persist. Higher inflation should support growth in nominal GDP, despite the mild recession we anticipate.

02 **Asynchronous recovery.** Rates are rising rapidly in the U.S. and Europe, but China and Japan have looser monetary policies.

03 **Lender's market.** Amid tightening financial conditions, it is currently a lenders market. That said, we expect global policy rates to peak this year.

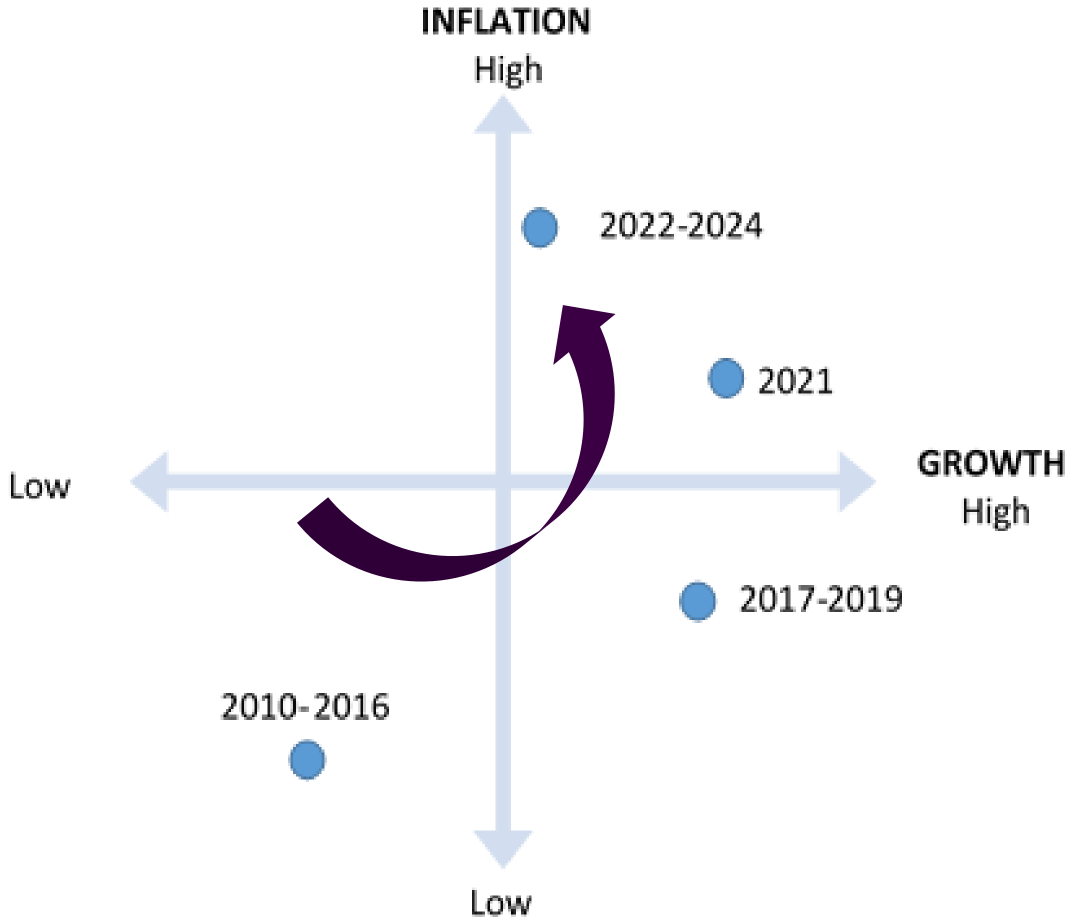
04 **Bifurcation across assets.** Real estate returns differ markedly by sub-sector and market. Understanding secular themes – including ESG, location and asset size preferences, is key to identifying areas of conviction.

05 **All of this requires a rethinking of asset allocation.** Diversification and pacing matter. We advocate leaning into collateral-based cash flows.

MACRO

We Have Entered a New Macroeconomic Regime

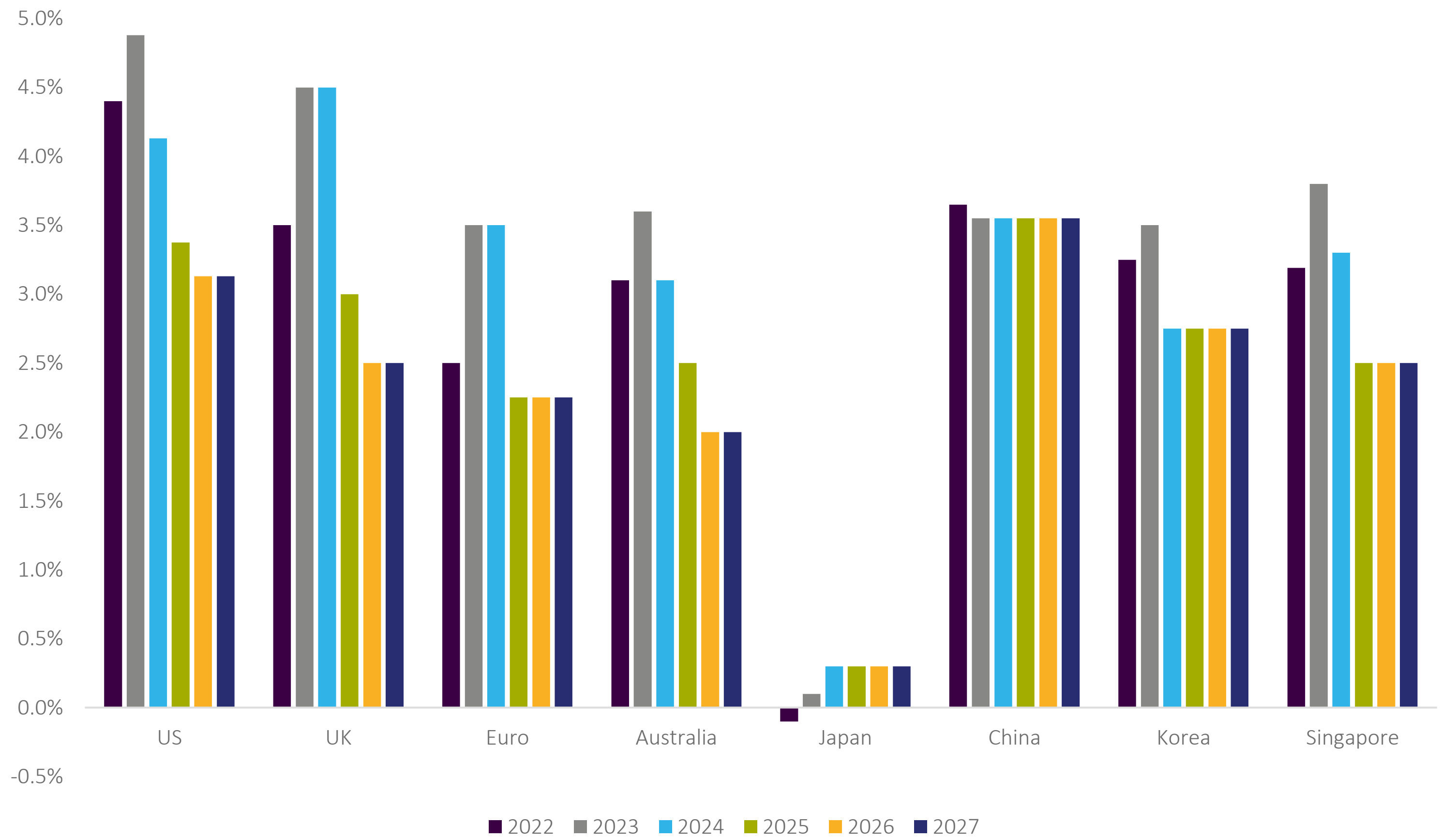
Shift from Low Growth, Low Inflation Regime to One Characterized by Low Growth and Elevated Inflation



Data as at March 9, 2022. Source: KKR GMAA analysis.

Rates Are Also Likely Headed Higher In Most Regions This Year

Policy Rates Expected to Tighten Further Before Easing in 2024 and 2025; China and Japan are the Outliers



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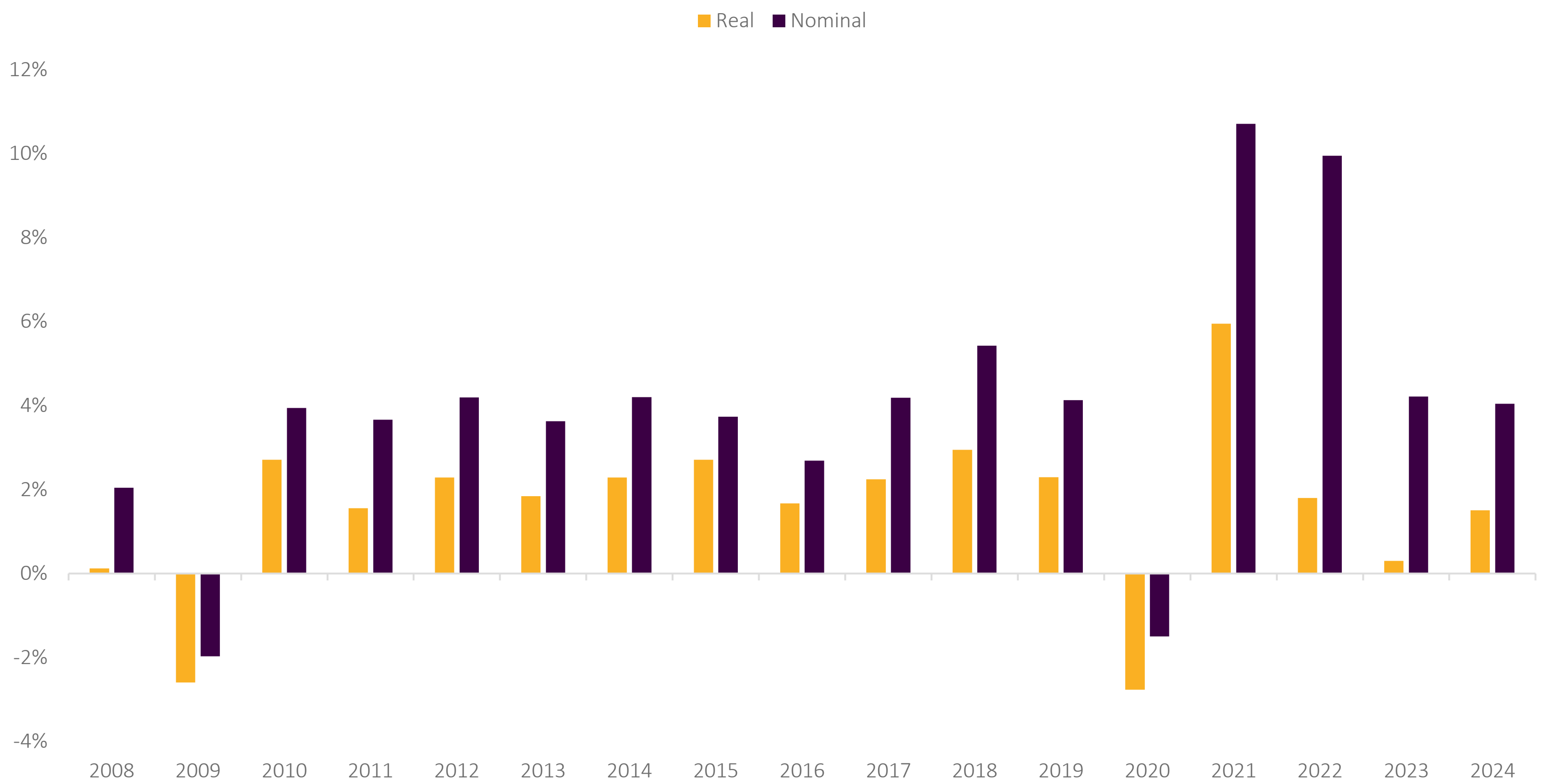
Forecast data as at January 6, 2023. Source: Bloomberg., KKR GMAA analysis. China policy rate is the LPR 1yr.

Notwithstanding a Potential Recession, Elevated Inflation Should Support Positive Growth in Nominal GDP

Unlike Other Recessions, We Do Not Foresee Nominal US GDP Contracting

US GDP Y-o-Y % Growth,
2022-2026 KKR Base Case Scenario



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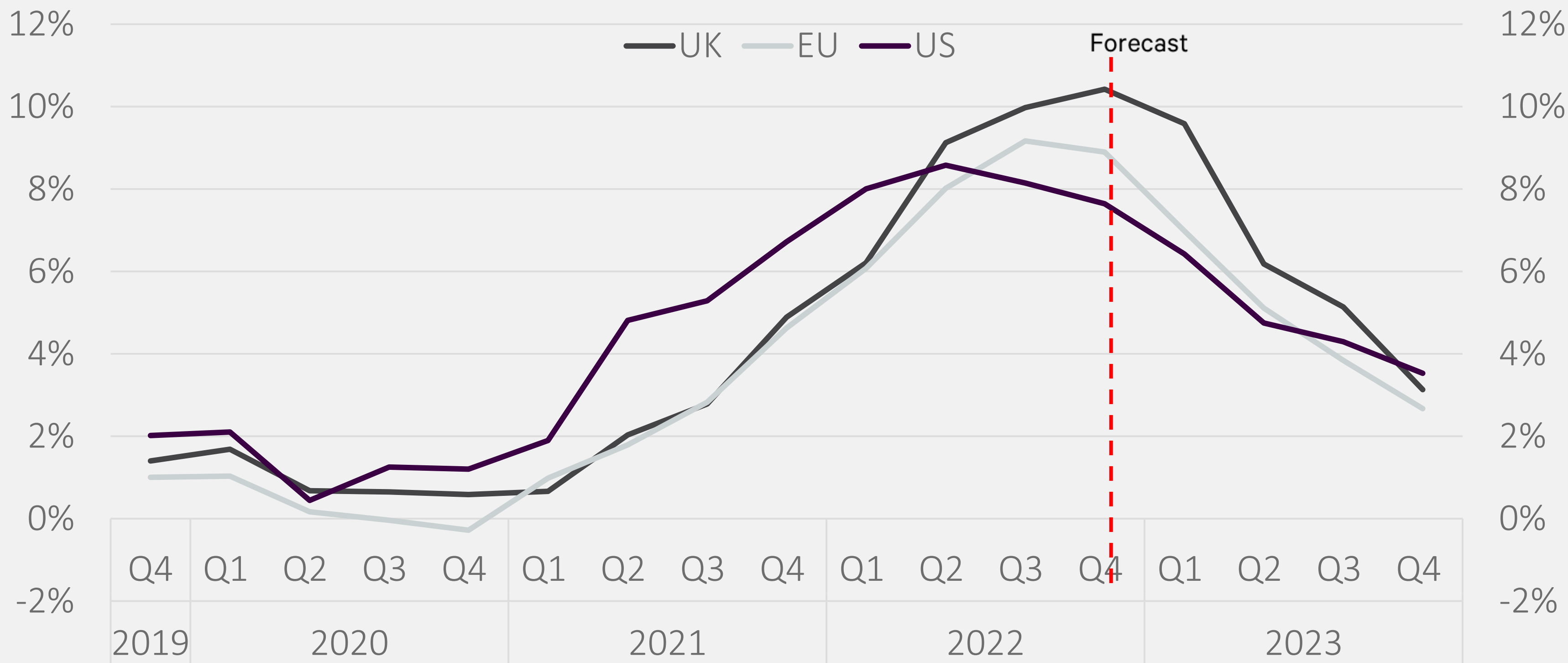
Forecast data as at December 14, 2022. Source: Bloomberg., KKR GMAA analysis.

Inflation Continue to Ease

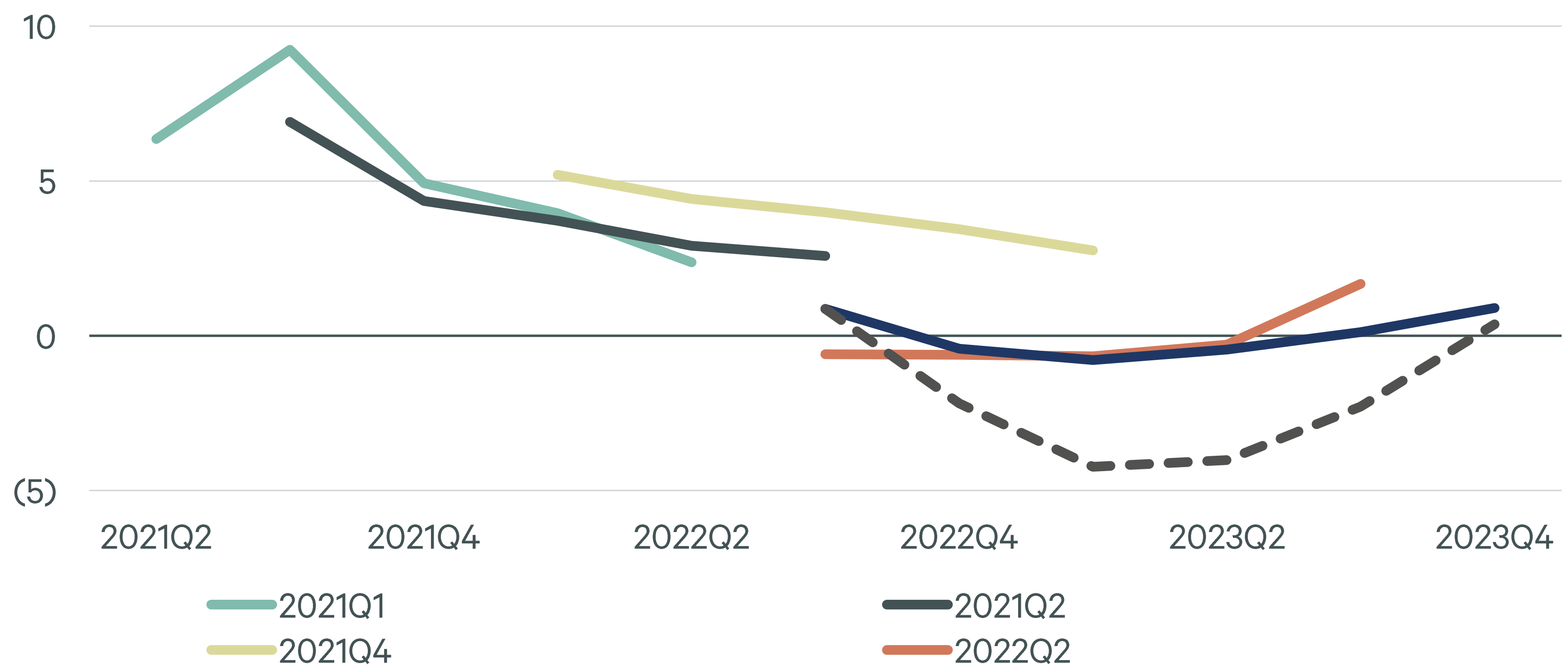
Y-o-Y Inflation Rate (%), Quarterly



Source: OECD, CBRE Research, Q4 2022

We expect a Mild Recession in 2023

GDP, Y-o-Y Change (%) Across Forecast Vintages & Current Scenarios



Source: CBRE Econometric Advisors

Latest Forecasts

CPI (Q4)						
Geography	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
US	6.7	7.3	**4.0**	2.9	2.6	2.4

Source: CBRE Econometric Advisors, December 2022

Downgrades to 2023 Forecast Will Continue Until Greater CPI Clarity

CBRE House View, April 2022 vs December 2022

United States	GDP 2022	GDP 2023	CPI 2022	CPI 2023	10 Yr 2022	10 Yr 2023
April 2022 House View	3.5	2.1	7.2	3.2	2.4	2.6
July 2022 House View	1.9	0.1	8.1	4.0	3.3	2.6
October 2022 House View	1.6	-0.2	8.1	4.7	3.7	2.7
December 2022 House View	1.8	-0.1	7.3	4.0	3.8	3.1

Note: German bond yields used for European 10 year
Source: CBRE Research Q4 2022

Latest Forecasts

Short-term Interest Rates (3-mo)						
Geography	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
US	0.13	3.67	**4.9**	2.5	2.0	2.0
UK	0.13	3.22	5.50	3.24	2.34	1.99
EU	0.00	2.02	3.25	2.27	1.78	1.66

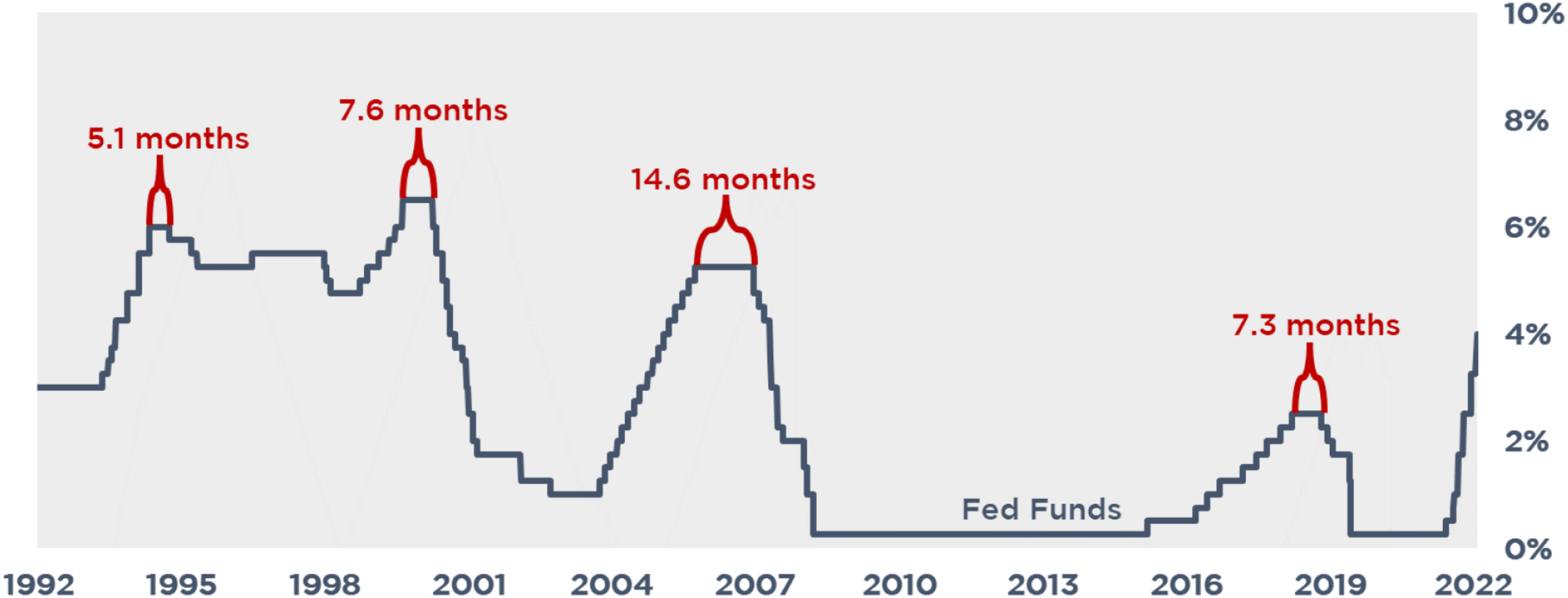
CBRE Econometric Advisors, January 2023

Time Until Next Cut – From Last Hike

In the last four tightening cycles, the time between the *last* hike and first cut…

- **Averaged 8.7 months**
- **Never exceeded 14.6 months**

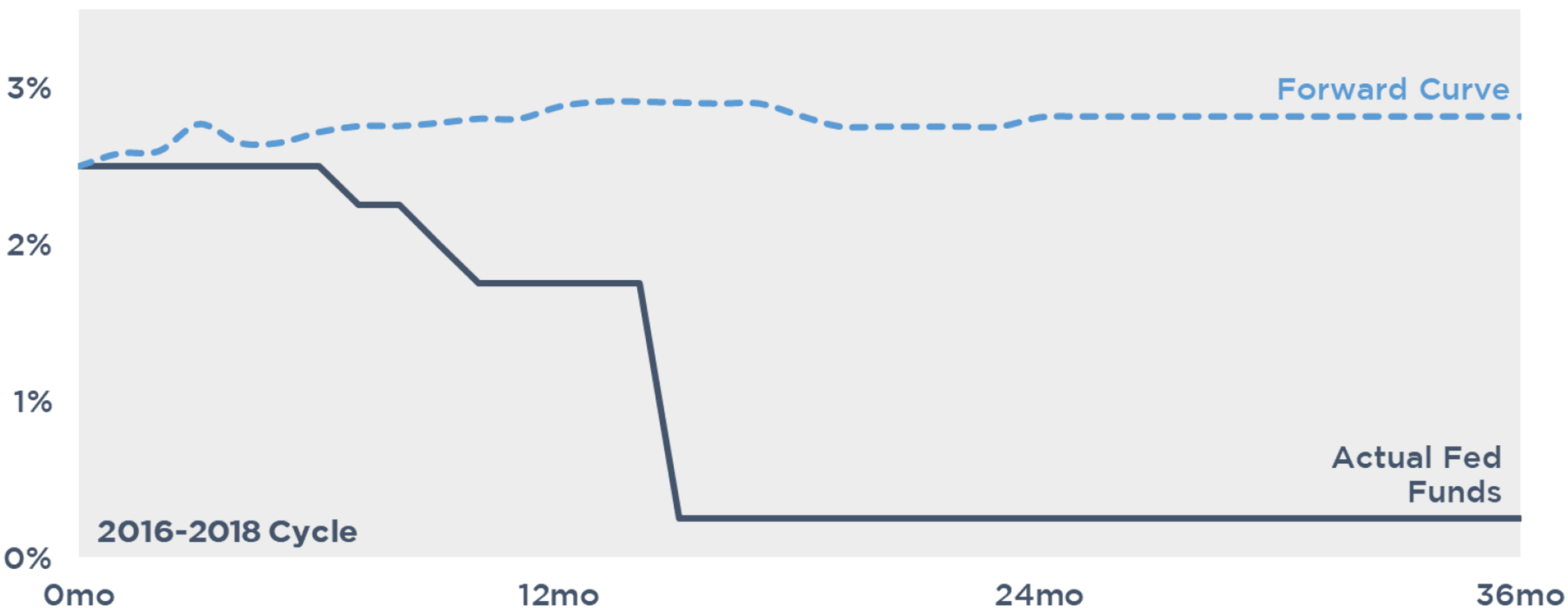
Source: Pensford Capital



Leveling Off | 2016-2018 Tightening Cycle

In the last five tightening cycles, the market has dramatically overestimated the path of floating rates when the Fed stopped hiking

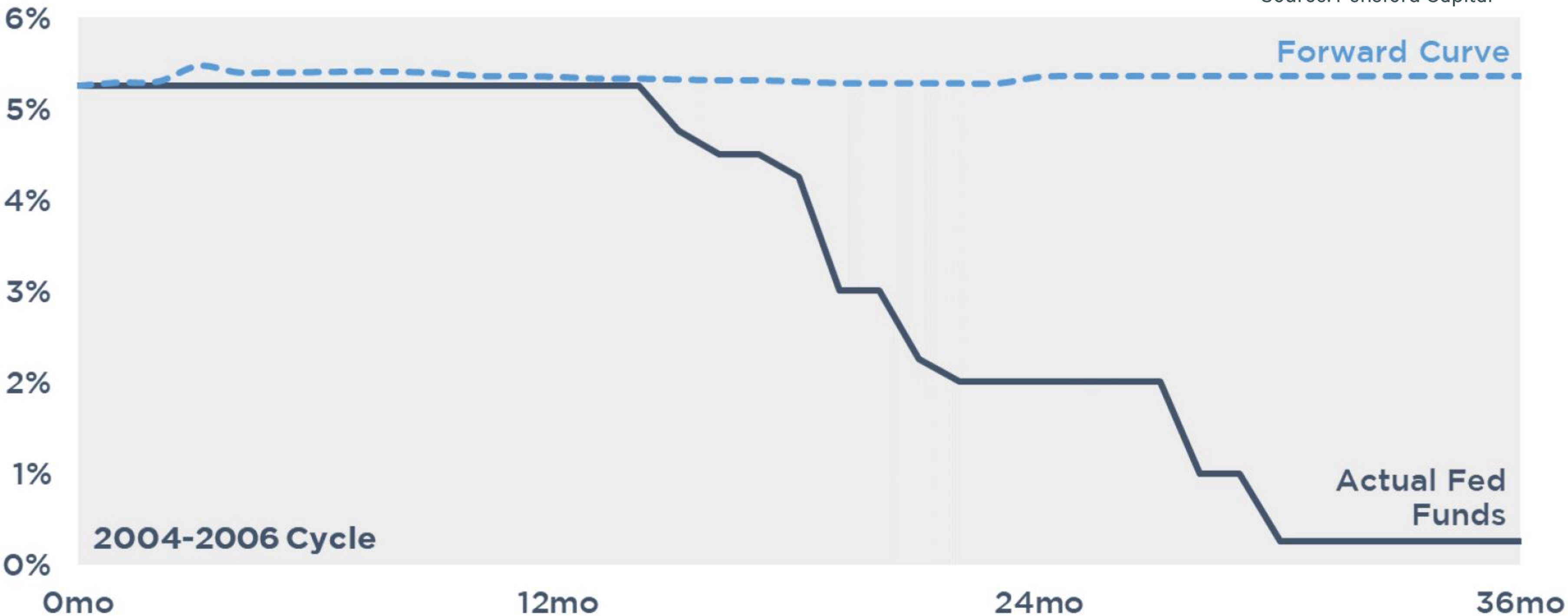
Source: Pensford Capital



Leveling Off | 2004-2006 Tightening Cycle

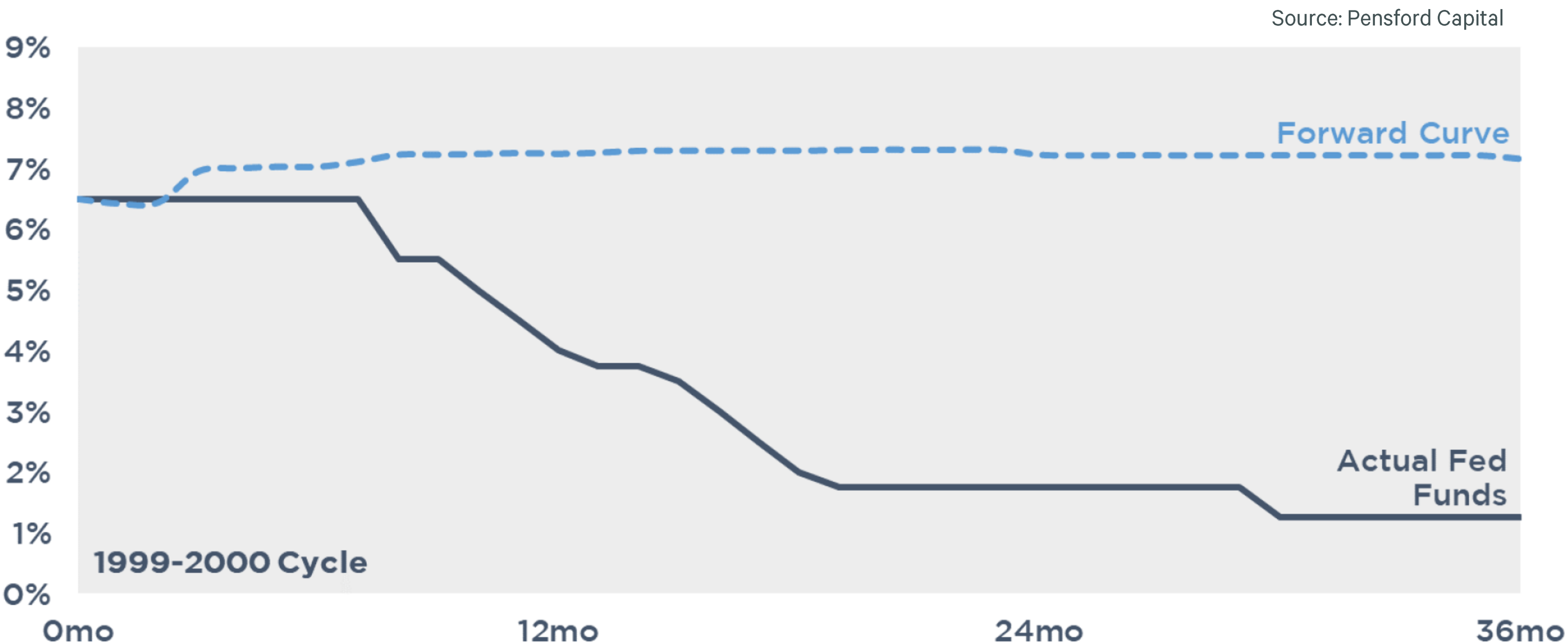
In the last five tightening cycles, the market has dramatically overestimated the path of floating rates when the Fed stopped hiking

Source: Pensford Capital



Leveling Off | 1999-2000 Tightening Cycle

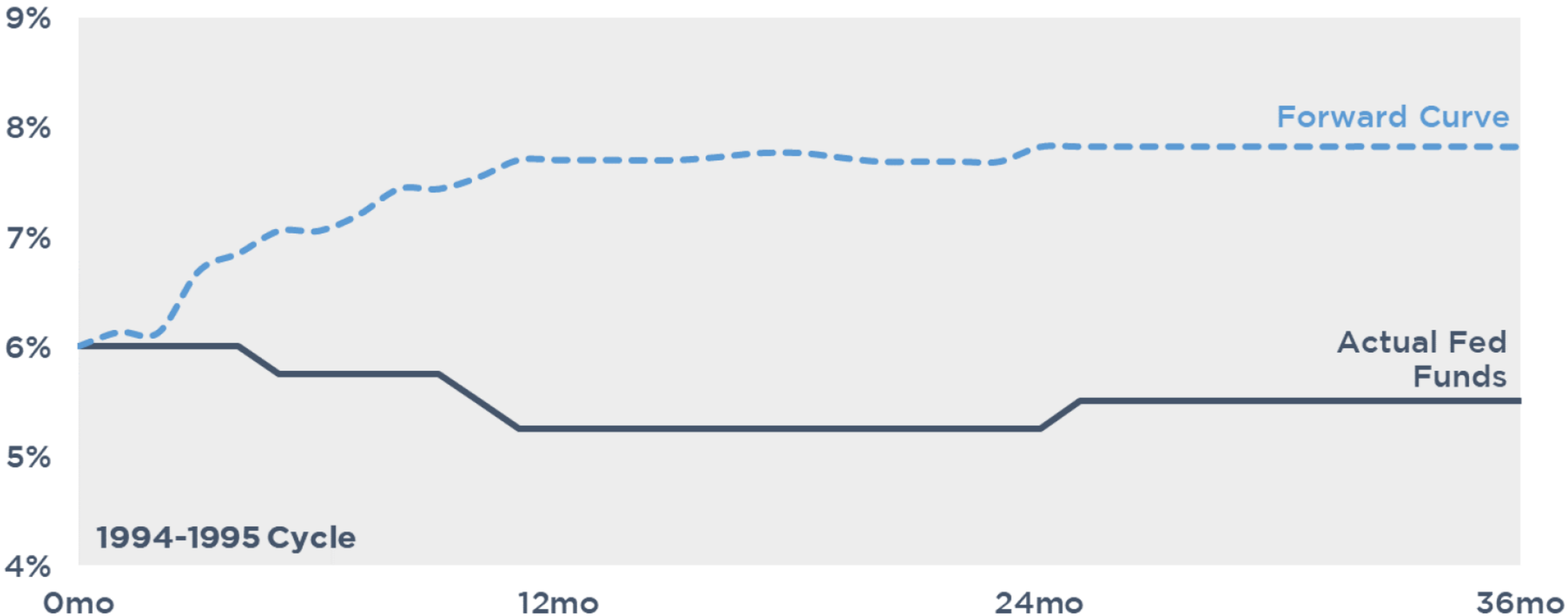
In the last five tightening cycles, the market has dramatically overestimated the path of floating rates when the Fed stopped hiking



Leveling Off | 1994-1995 Tightening Cycle

In the last five tightening cycles, the market has dramatically overestimated the path of floating rates when the Fed stopped hiking

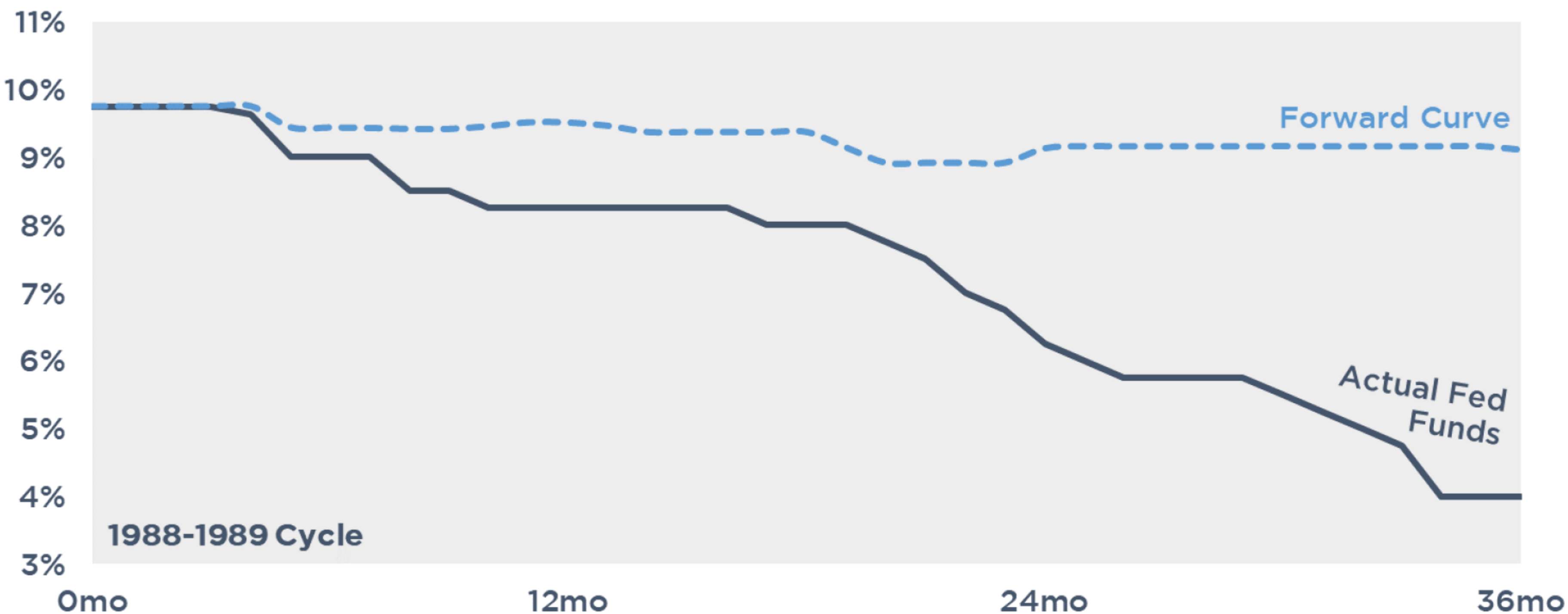
Source: Pensford Capital

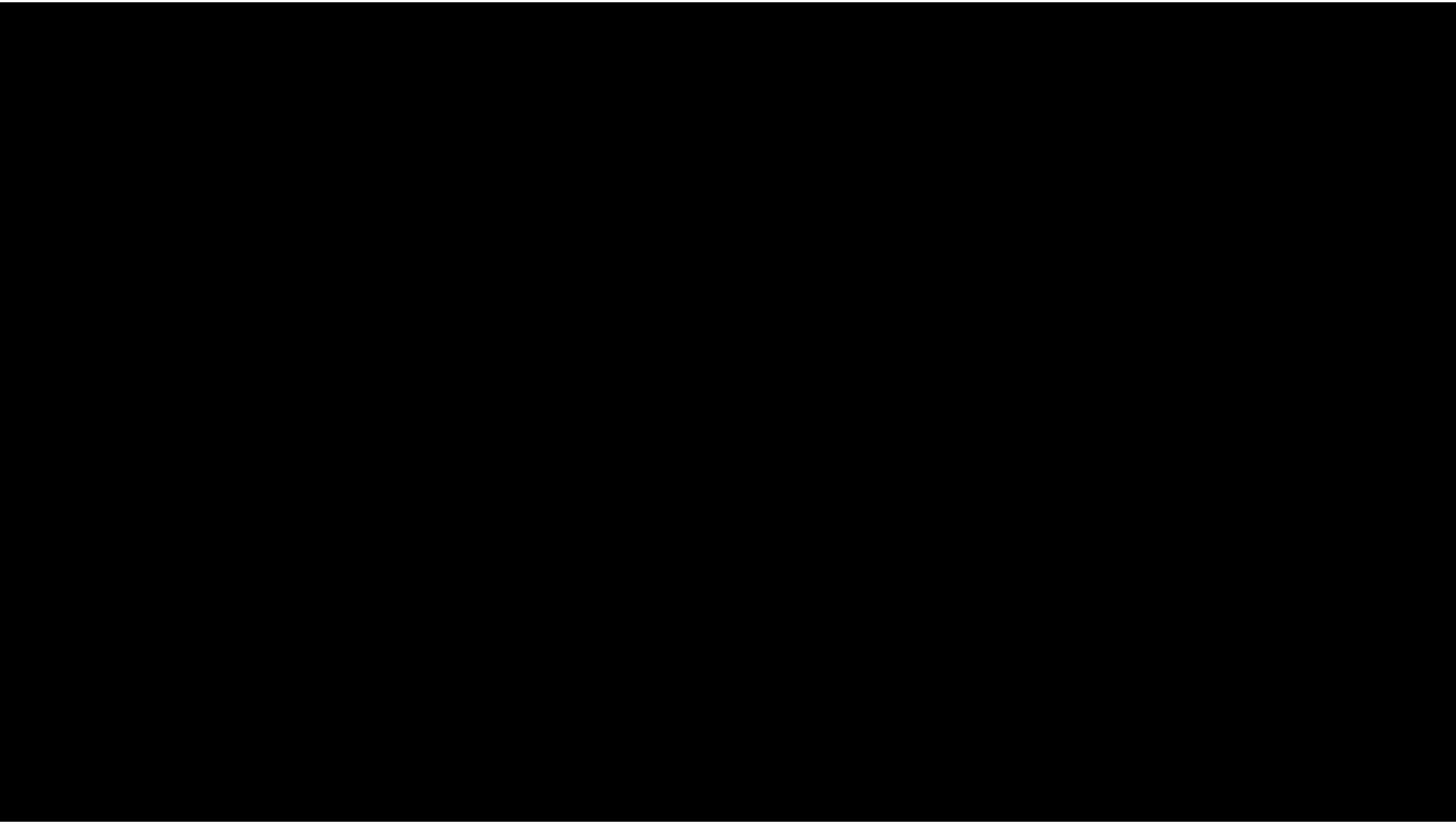


Leveling Off | 1988-1989 Tightening Cycle

In the last five tightening cycles, the market has dramatically overestimated the path of floating rates when the Fed stopped hiking

Source: Pensford Capital

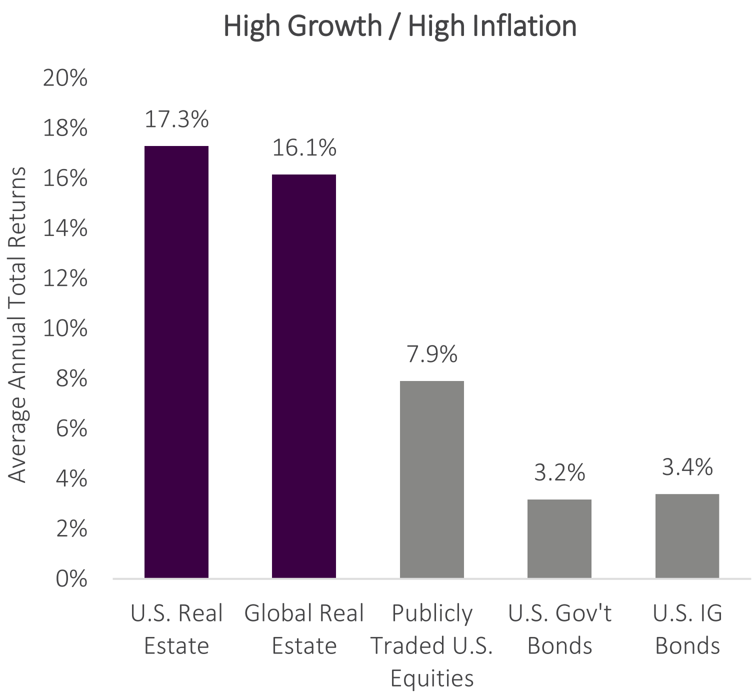


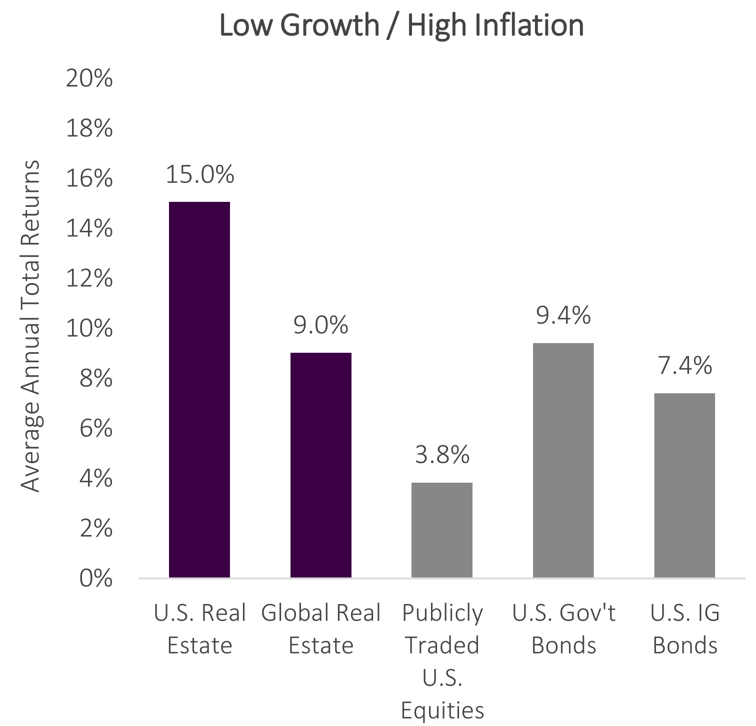


MICRO

Real Assets Tend To Outperform In Highly Inflationary Environments

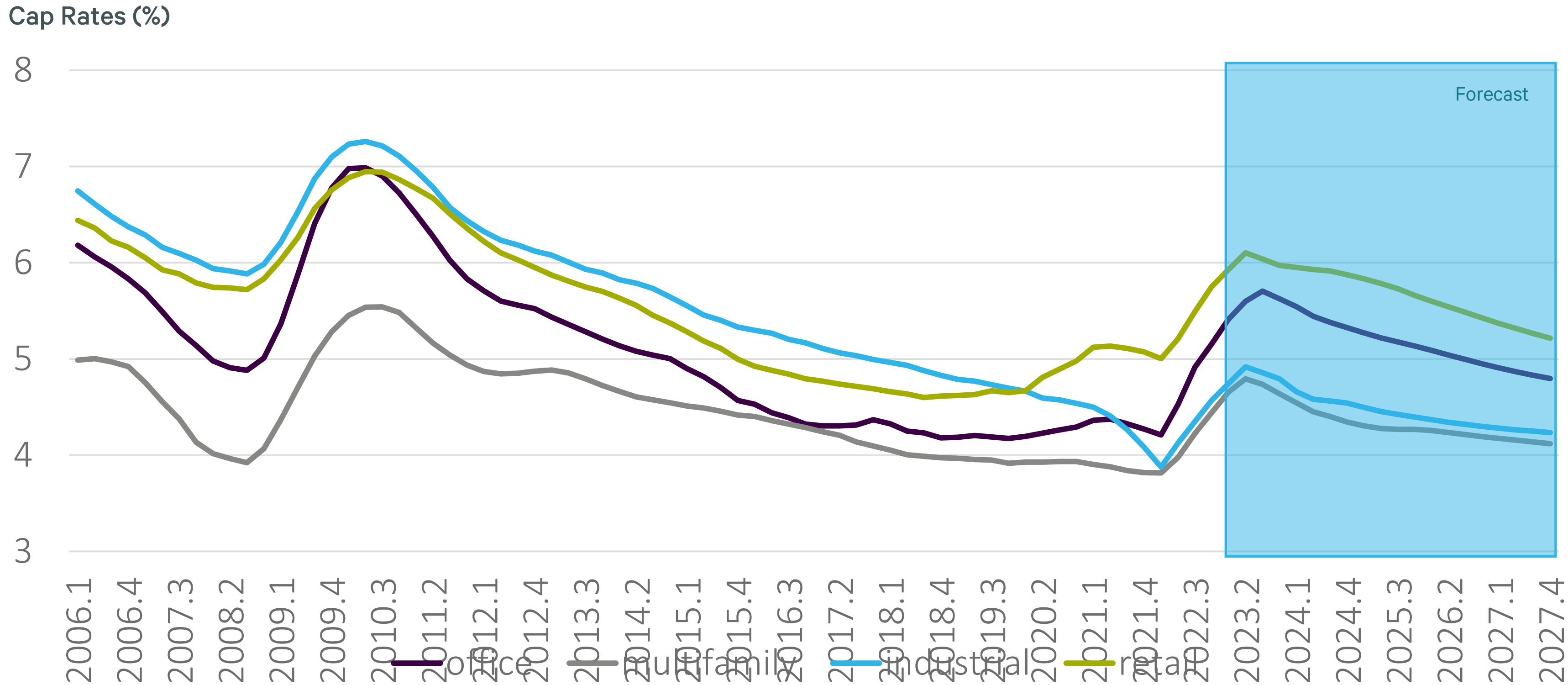
Real Assets Deliver Robust Performance Amidst Stagflation





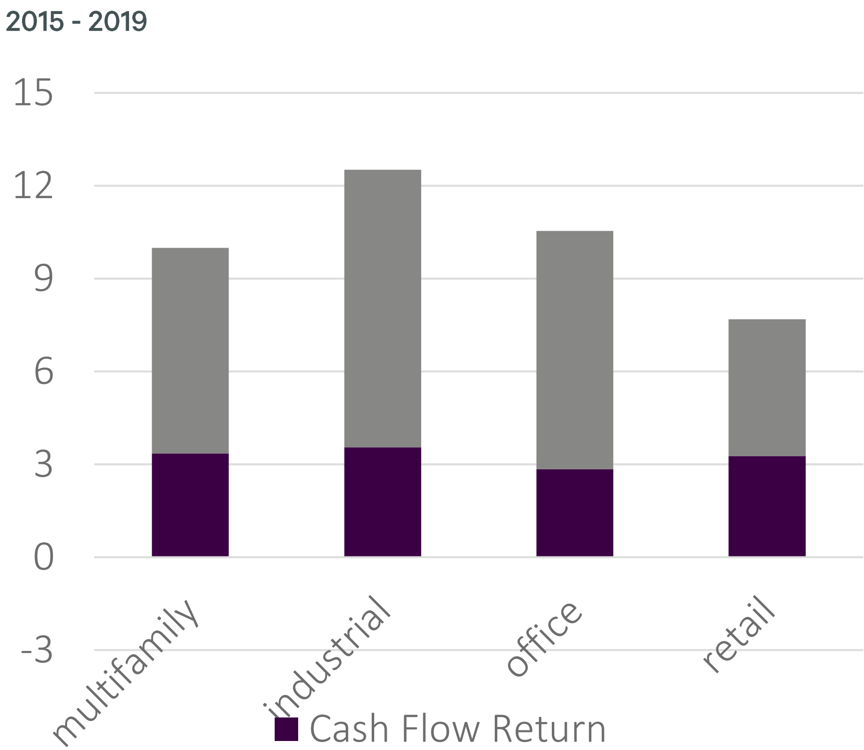
Note: Analysis conducted on annual data between 2001 and 2020. High Inflation is defined as the year-over-year change in the US CPI greater than 2.5% and High Growth is defined as the year-over-year change in US real GDP greater than 2.5%. Analysis uses the Bloomberg Barclays US Aggregate Index for US Government and IG Bonds, S&P 500 for US Equities, the NCREIF Property Index for US Real Estate, the Cambridge Global Real Estate Index for Global Real Estate. Source: Bloomberg, Standard & Poor’s, NCREIF, Cambridge, KKR GBR Analysis, EDHEC, Bureau of Economic Analysis, Bureau of Labor Statistics.

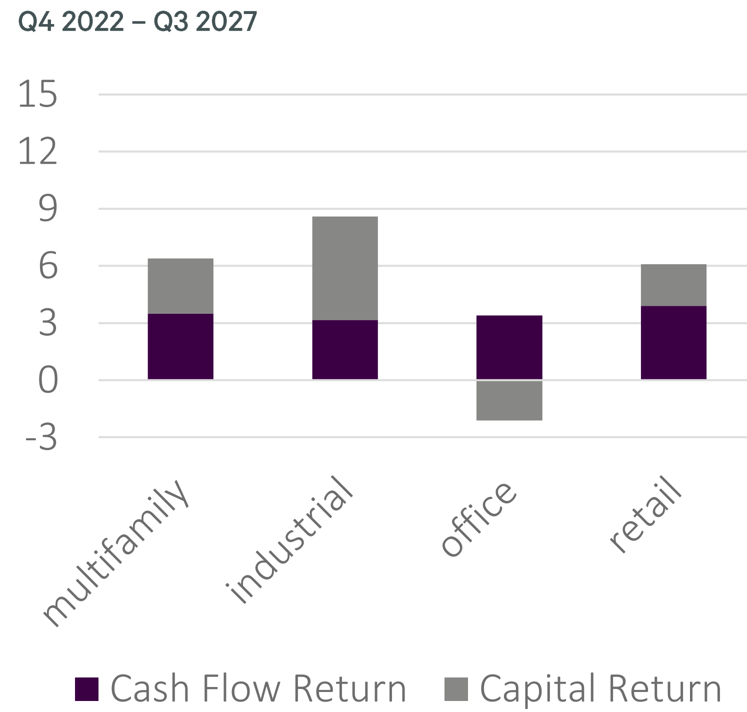
Higher Debt Cost Puts Upward Pressure on Cap Rates



CBRE Econometric Advisors Q3 2022

Expect Less of a Boost From Appreciation in Coming Years





:CBRE Econometric Advisors Q3 2022

This is a Lender's Market

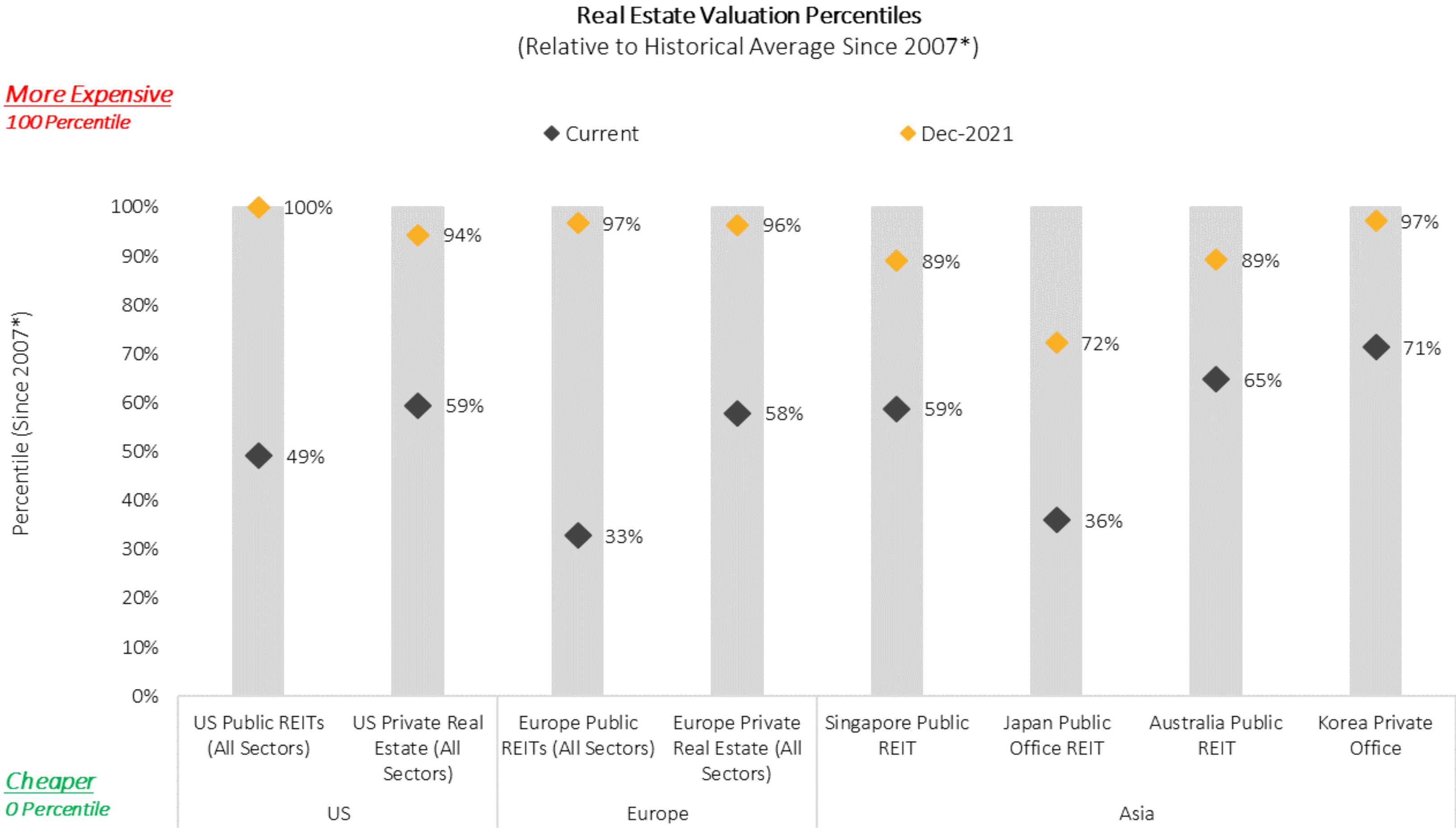
Comparison of Annual Risk and Return Across Asset Classes as of Q2 2020

Average Annual Returns and Risk (1985 – 2019)				
	Public Investment-Grade Debt	Public Equities	Core CRE Equity	Core CRE Debt
Annual Returns	6.94%	12.77%	8.16%	7.45%
Annual Risk	5.62%	16.92%	7.37%	5.53%
Sharpe Ratio	0.741	0.567	0.632	**0.794**

For illustrative purposes only. Indices referenced include the Bloomberg Barclays Capital US Aggregate Bond Index as of Q2 2020 for "Public Investment-Grade Debt", the S&P 500 Index as of Q2 2020 for "Public Equities", the NCREIF Property Index as of Q2 2020 for "Core CRE Equity", the Giliberto-Levy Commercial Mortgage Performance Index as of Q2 2020 for "Core CRE Debt". Sharpe Ratio calculation uses 3-month T-bill yield as risk-free rate. Please refer to section "Index Definitions" for additional information.

Identifying The Optimal Entry Point Amidst Tight Financial Conditions Is Paramount

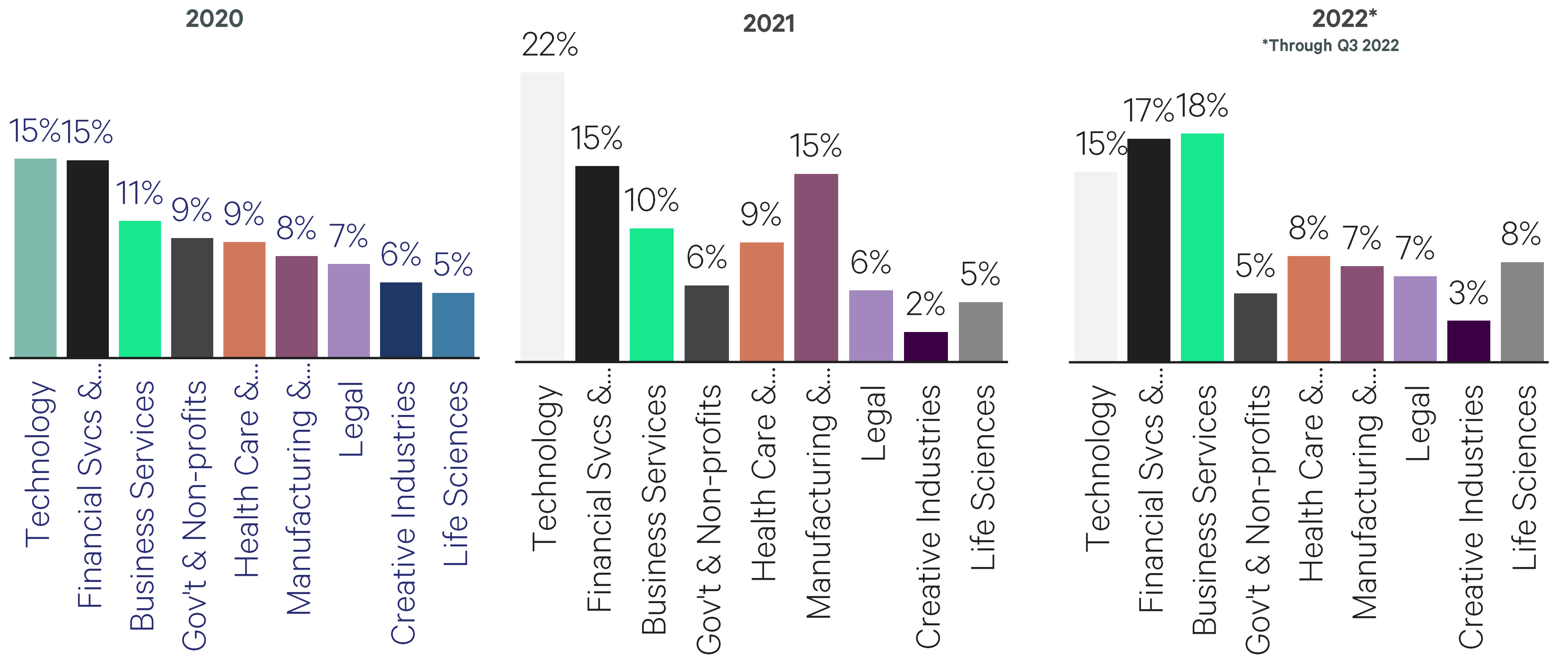
Public Market Valuations Have Generally Reset More Than Private Markets, Especially in Europe



Source: KKR GMAA analysis, Green Street, NAREIT, CBRE, Bloomberg. US Public REITs source is NAREIT (Market-Cap Weighted). US Private and Europe source is Green Street (Equal-Weighted). Japan Public Office REIT valuation proxied by Nippon Building Fund. Singapore Public REIT proxied by CapitaLand Integrated Commercial Trust. Australia Public REIT proxied by The GPT Group. *Data since 12/29/2006 or since data is available. US Private Real Estate data since 1Q 2001.

Life Science Grows While Tech & Manufacturing Pull Back

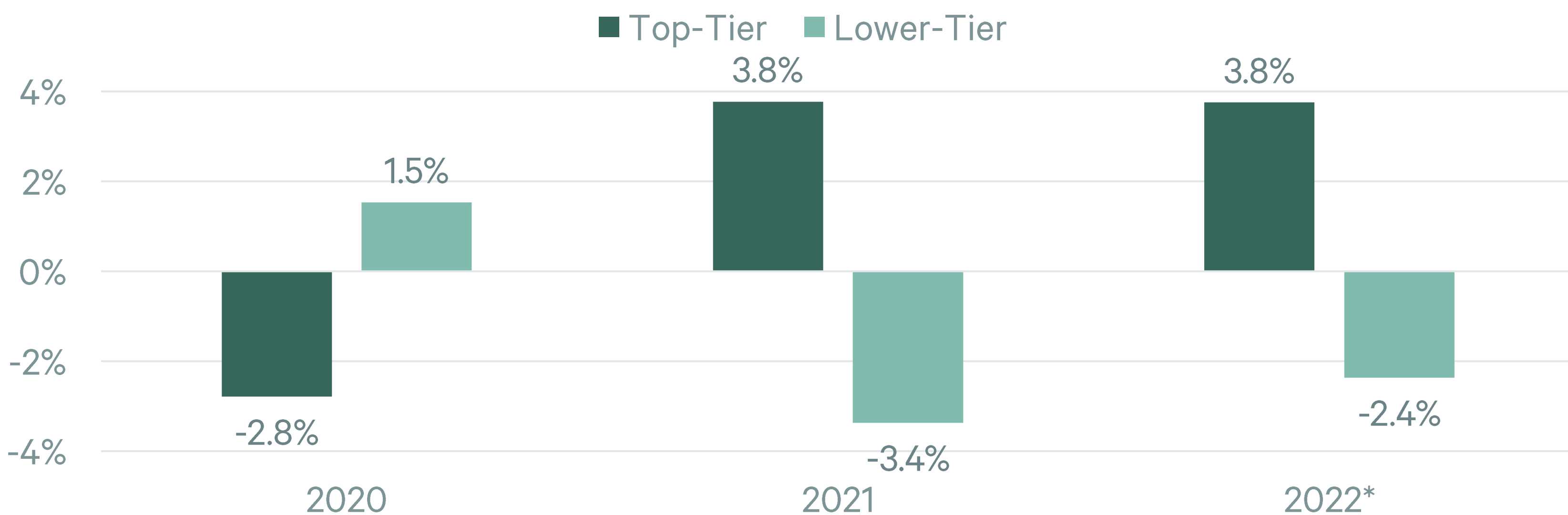
Share of U.S. Office Leasing Transactions by Sq. Ft.



Source: CBRE Research, Q3 2022.

Effective rents have risen for top-tier office buildings and fallen for lower-quality properties since 2021

Annual Effective Rent Growth by Type



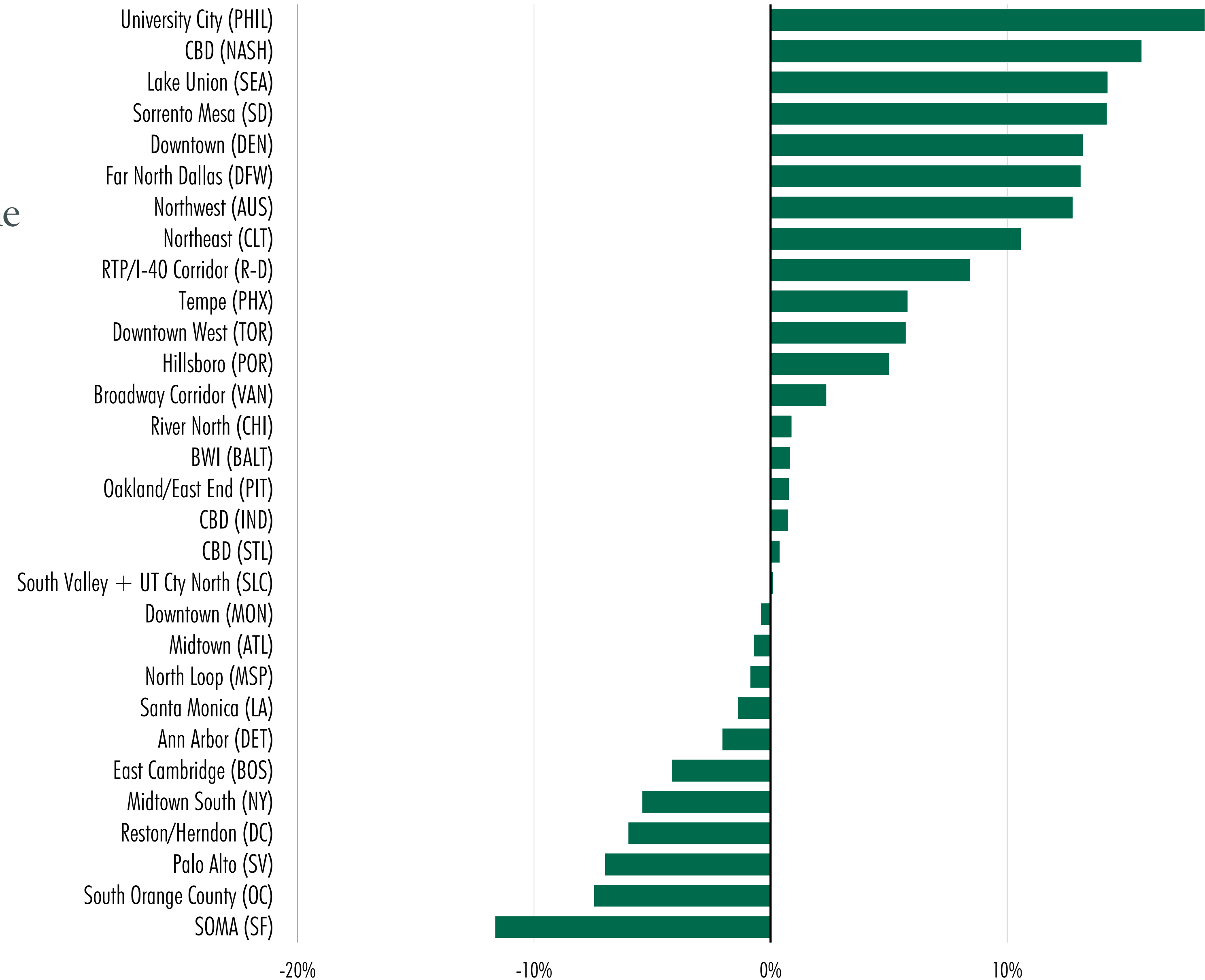
*Through Q3 2022

Source: CBRE Research, Q3 2022.

Rents Are Rising in the Tech Submarkets

Office Rent growth top tech submarket
Q2 2022 vs. Q2 2021

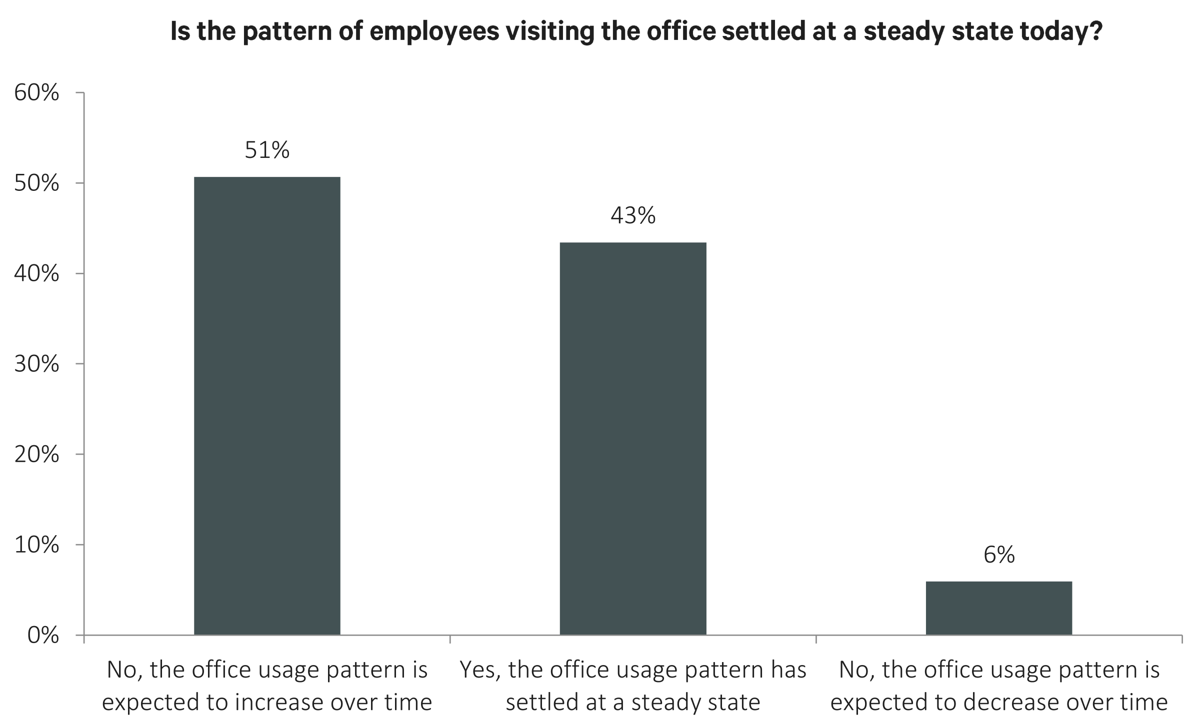
Figure 6.2: Rent Growth Top Tech Submarket
Q2 2022 vs. Q2 2020



Source: CBRE Research, Q2 2022.

Source: CBRE Research, Q2 2022.

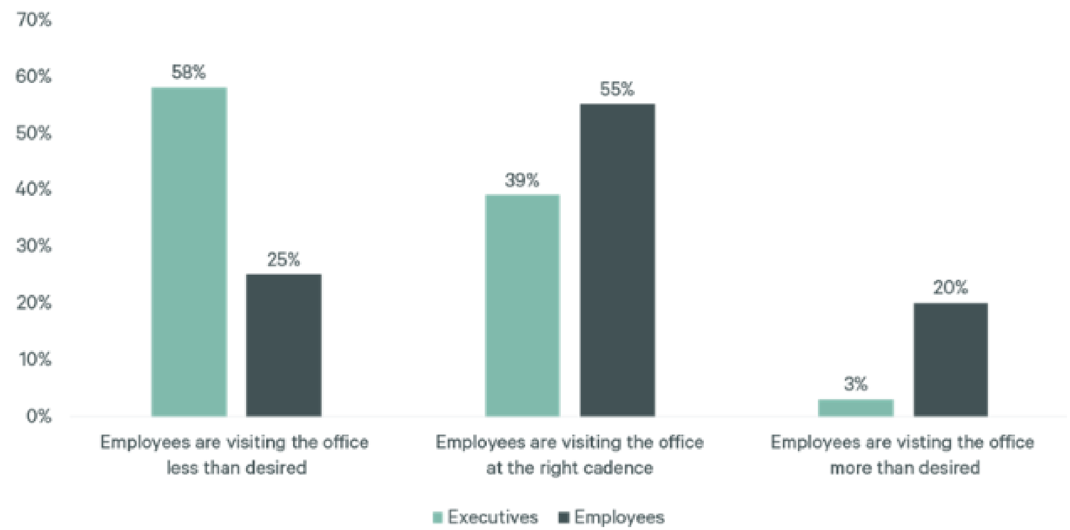
Majority of Corporate Users Believe Return to Office Has Not Yet Reached a Steady State…



Source: Occupier Survey, CBRE & CoreNet Global, August 2022.

Employer and employee expectations are not aligned; companies can do more to close the gap.

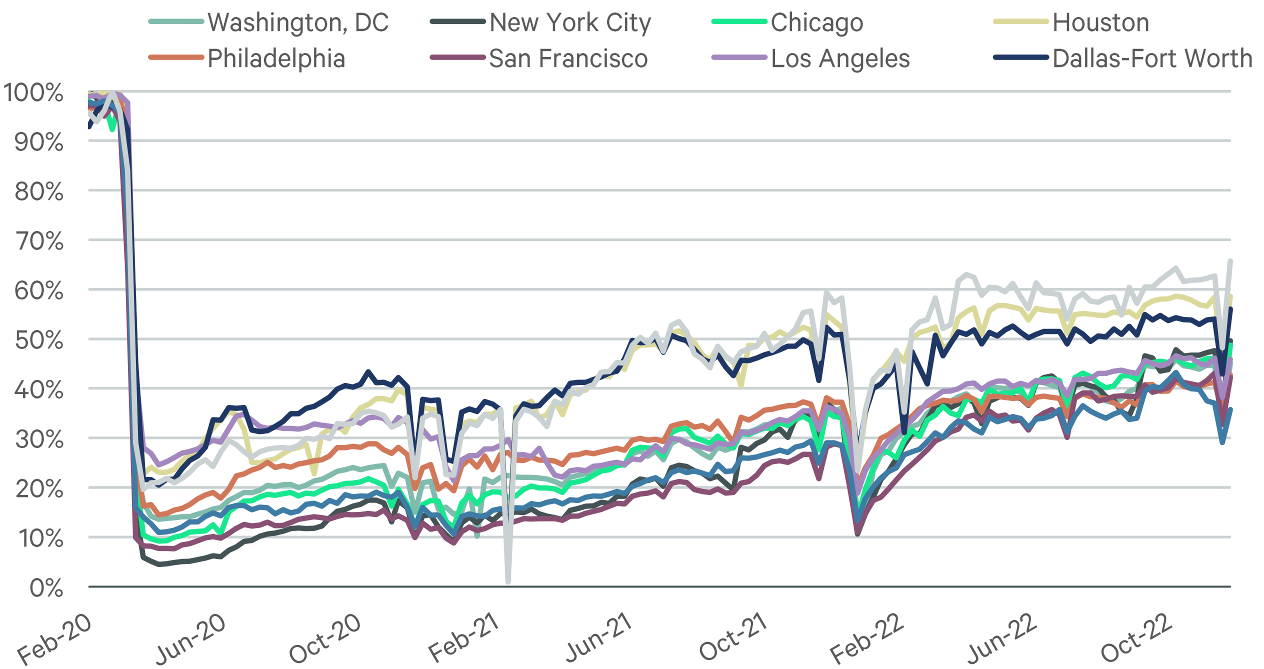
Executive Sentiment vs. Their Perception of Employee Behavior Regarding Return to Office



Source: Occupier Survey, CBRE & CoreNet Global, August 2022.

Sunbelt cities in the U.S. lead the return-to-office, while dense downtown markets struggle to realize a sustained uptick in occupancy.

U.S. Office Occupancy



Source: CDC, Kastle Systems, "Back to Work Barometer", November 2022.
Note: Occupancy data is indexed (February 2020 = 100).

Most major companies have announced hybrid work policies to balance flexibility and productivity.

Fully In-Office / Office-First

- Goldman Sachs
- NETFLIX
- Morgan Stanley

Hybrid

- BANK OF ENGLAND
- amazon
- citi
- Deutsche Bank
- CVS Health
- salesforce
- EY
- ExxonMobil
- UBS

Fully Remote / Remote-First

- AB
- yelp
- Deloitte.
- airbnb

This company list is a sampling of companies that have announced their return-to-office plans. It is not an exhaustive list, and companies' policies toward office work are subject to change.

[redacted]

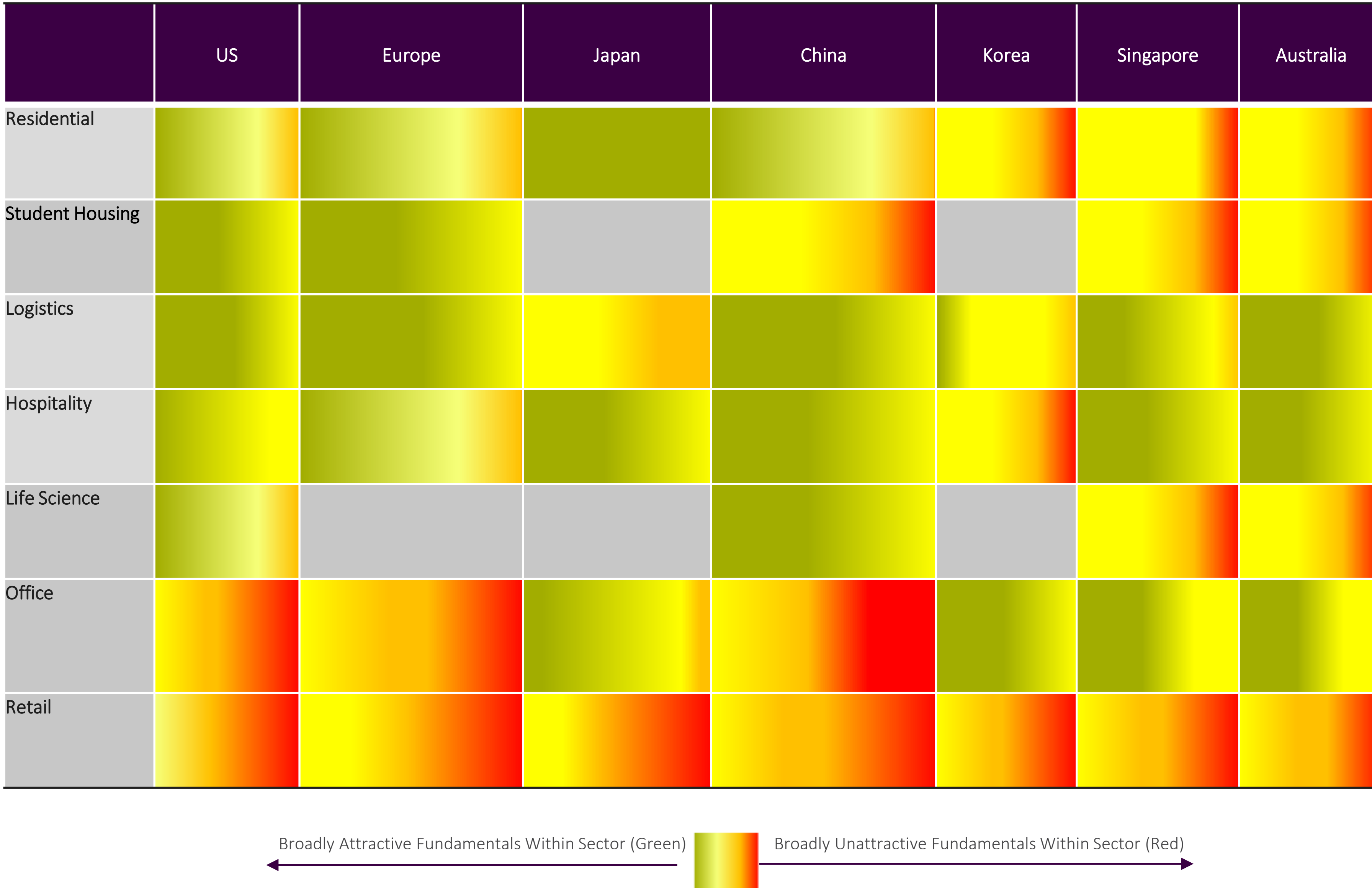
BIG IDEAS

Understanding Shifts In Secular and Macro Trends Will Be Key to Selecting Subsectors And Markets

Existing Trends Accelerated by the Pandemic	New Trends Emerging from the Pandemic
De-Globalization	Rise of Labor Power
Data-Driven Customer-Centric Omnichannel	Sticky Inflation
Rentership	Remote / Flexible Work
Migration Shifts	Security and Supply Chain Spending
ESG and Sustainability	

The pandemic has created new trends and accelerated themes in place long before stay-at-home orders were enforced in 2020

Comparison of Real Estate Sub-Sector Fundamentals



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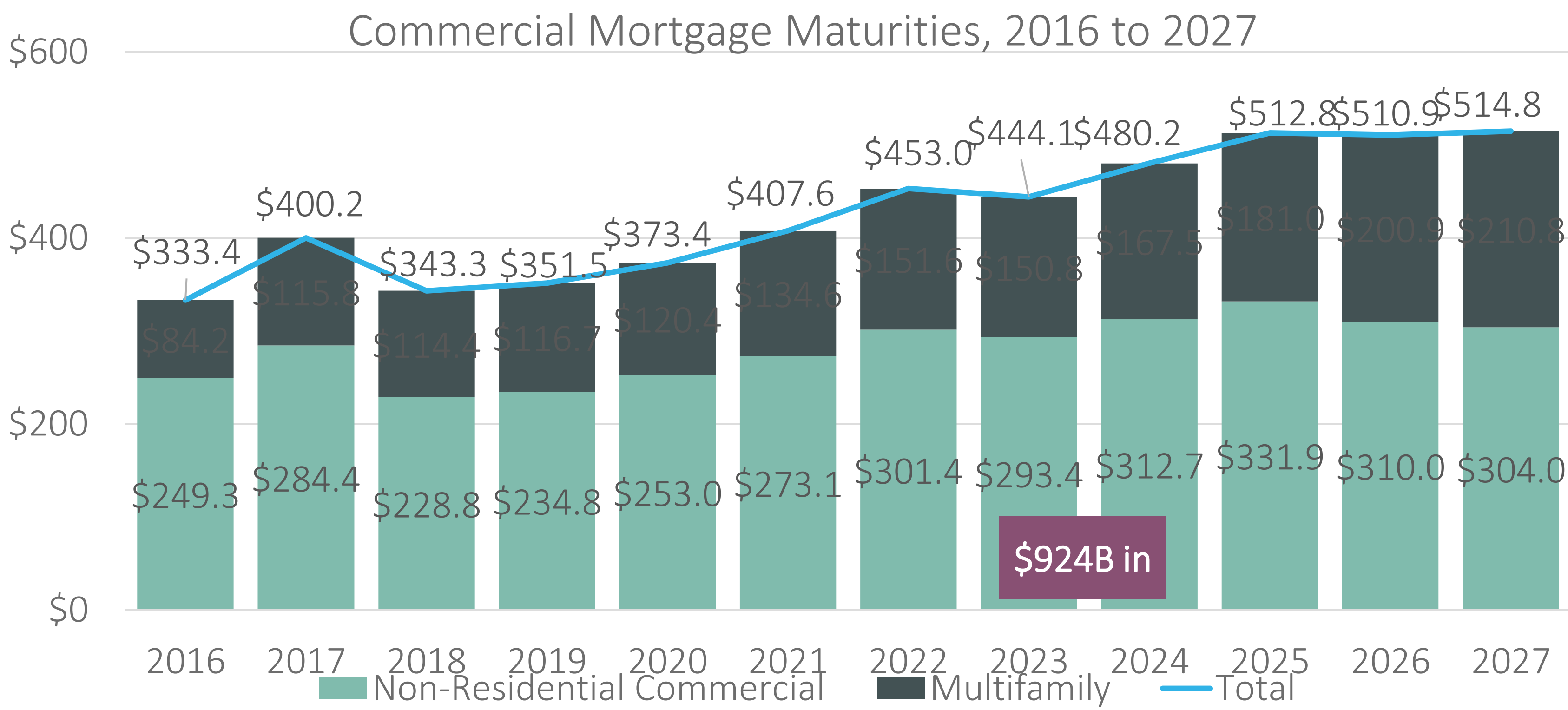
Trepp: $924B in Maturing Loans in 2023 & 2024



Source: CBRE Research, Trepp, Inc.

Trepp: $53B in Near Term Loan Maturities with DSCR <= 1.25x

Multifamily	1,457	45.6%	18,592,908,253	35.1%
Office	353	11.1%	9,044,239,583	17.1%
Lodging	326	10.2%	7,715,898,901	14.6%
Retail	326	10.2%	6,725,733,360	12.7%
Industrial	479	15.0%	4,591,423,445	8.7%
Mixed-Use	110	3.4%	3,090,717,061	5.8%
Self Storage	36	1.1%	2,177,710,987	4.1%
Other	15	0.5%	670,236,846	1.3%
Co-op Housing	61	1.9%	181,829,281	0.3%
Healthcare	10	0.3%	139,025,000	0.3%
Mobile Home	16	0.5%	61,384,552	0.1%
Warehouse	2	0.1%	1,697,395	0.1%
N/A	3	0.1%	7,333,115	0.1%
Total	**3,194**	**100.0%**	**$53,000,137,759**	**100%**

Source: CBRE Research, Trepp, Inc.

Summary Macro Outlook

	US	Europe	Japan	China	Korea	Singapore	Australia
Tailwinds	• Solid Nominal GDP growth • Peaking USD • Resilient labor market • Real wages inflecting positively • Strong consumer cash balances • Inflation has peaked	• Compelling relative value • Well positioned for sustained rent growth • Resilient labor market • Government fiscal support • Improvement in energy supply	• Covid reopening • Ramp in tourism, top destination • Low inflation • Strong credit availability • Decline in real wages • Increased foreign capital amid weak JPY	• Exit from Zero Covid/ herd immunity • Solid real GDP growth forecast • Easing financial conditions • Reduced competition • Strong credit availabil ity	• Covid reopening • Fiscal stimulus • Strong credit availability	• Covid reopening • Fiscal stimulus • Growth is likely to weaken • Declining household savings	• Covid reopening • Ramp in tourism
Headwinds	• High debt costs • Lagged effects of central bank tightening • Higher energy costs • Mild recession	• Uncertain energy supply • Rising core inflation • Declining household purchasing power • UK housing risk • Tight financial conditions will drag on business investment	• Still low, but modestly rising inflation and interest rates • Slowing growth	• Elevated Covid infection rate • Lower inflation • Geopolitical risks • Property downturn • Government debt risk • Global recession weighing on exports	• Global recession wei ghing on exports • Rising u-rate • Higher debt costs	• Elevated inflation • Decline in PMI • Global recession w eighing on exports	• Elevated inflation • Elevated borrowing costs • Significant decline in home values

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