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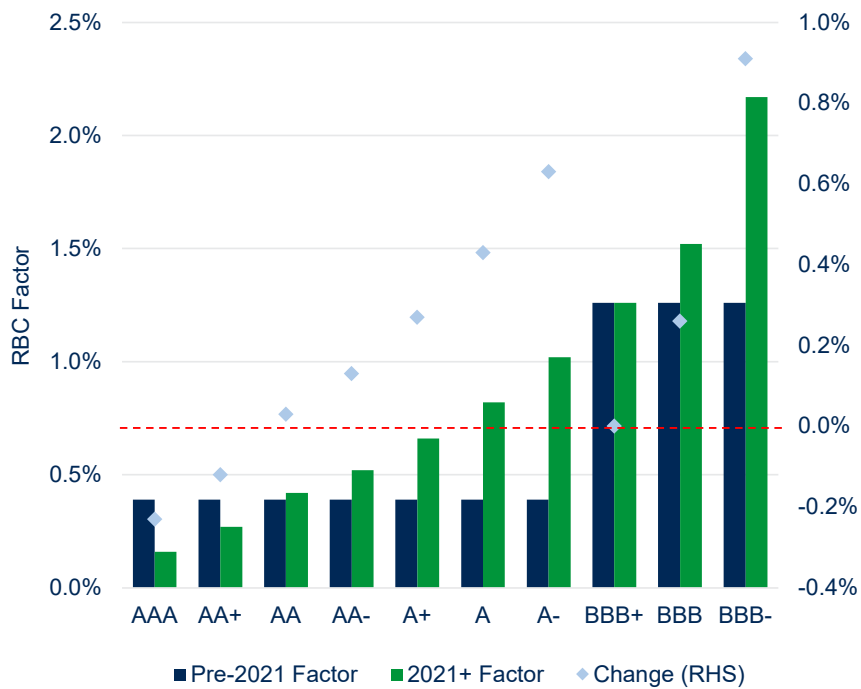
# Commercial Real Estate for Insurance Investors

September 13, 2022

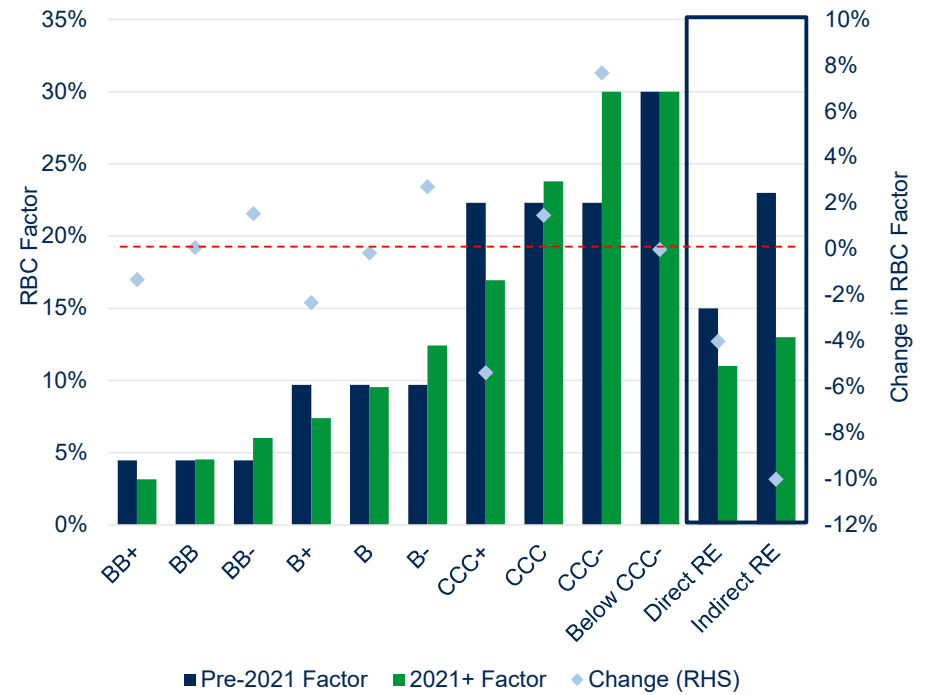
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# Updated Life Capital Factors, Effective Year-End 2021

## IG BONDS—ABSOLUTE RBC FACTOR CHANGE



## NON-IG & RE—ABSOLUTE RBC FACTOR CHANGE



Source: NAIC as of 12/31/21.

# Updated Life Capital Factors, Effective Year-End 2021

More favorable capital factors for Real Estate Equity investments have created an opportunity for U.S. Life Insurers

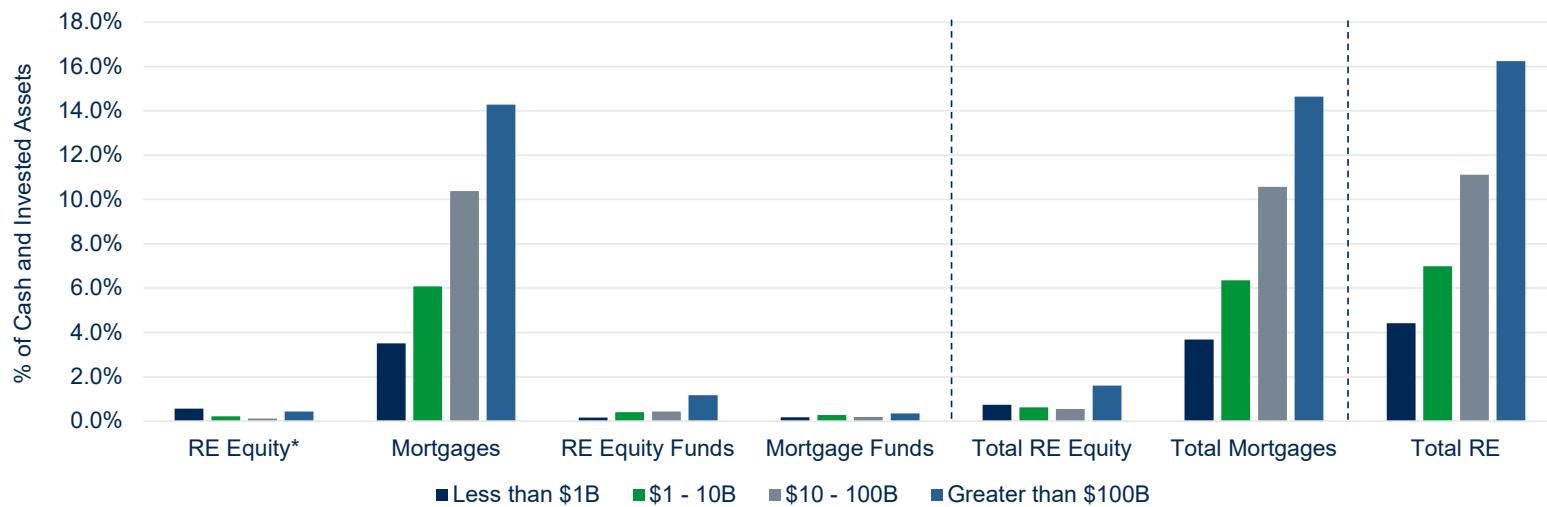
		Pre-2021 Category	2021+ Category	Pre-2021 Factors	2021+ Factors
<b>Fixed Income</b>	AAA	NAIC 1	NAIC 1a	0.4%	0.2%
	AA+ to AA-	NAIC 1	NAIC 1b-1d	0.4%	0.3%-0.5%
	A+ to A-	NAIC 1	NAIC 1e-1g	0.4%	0.7%-1.0%
	BBB+ to BBB-	NAIC 2	NAIC 2a-2c	1.3%	1.3%-2.2%
	BB+ to BB-	NAIC 3	NAIC 3a-3c	4.5%	3.2%-6.0%
	B+ to B-	NAIC 4	NAIC 4a-4c	9.7%	7.4%-9.5%
	CCC+ to CCC-	NAIC 5	NAIC 5a-5c	22.3%	16.9%-30.0%
	Below CCC-	NAIC 6	NAIC 6	30.0%	30.0%
<b>Equity</b>	Publicly Traded			30%+/- beta	30%+/- beta
	Direct Private Equity			30.0%	30.0%
	Indirect Private Equity			30.0%	30.0%
	Direct Real Estate Equity			15.0%	11.0%
	Indirect Real Estate Equity			23.0%	13.0%
<b>Mortgage Loans</b>	Commercial Insured/Guaranteed			0.1%	0.1%
	CM1			0.9%	0.9%
	CM2			1.8%	1.8%
	CM3			3.0%	3.0%
	CM4			5.0%	5.0%
	CM5			7.5%	7.5%
	Residential Insured/Guaranteed			0.1%	0.1%
	All Other Residential			0.7%	0.7%

Source: NAIC as of 12/21/21

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# Life Insurer Real Estate Allocation by Company Size

Larger companies tend to allocate a greater portion of their portfolio to real estate investments

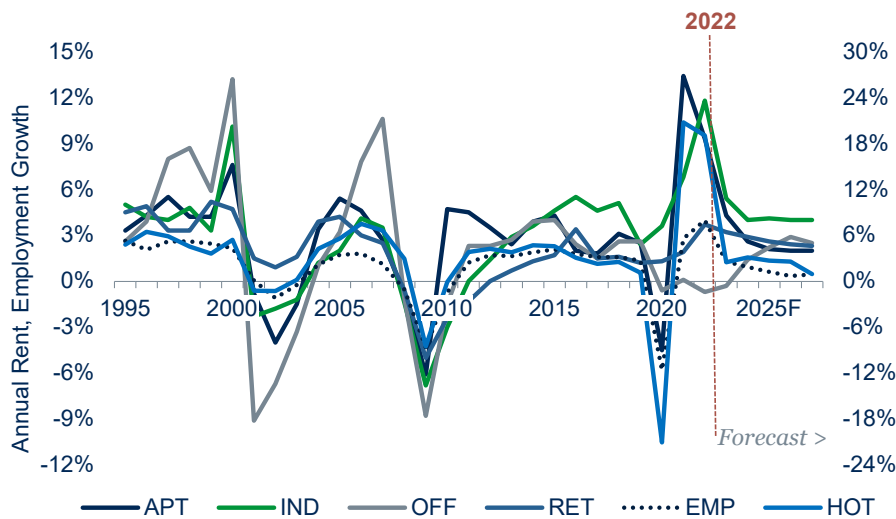


	RE Equity	Mortgages	RE Equity Funds	Mortgage Funds	Total RE Equity	Total Mortgages	Total RE
Greater than \$100B	0.4%	14.3%	1.2%	0.4%	1.6%	14.6%	16.2%
\$10-100B	0.1%	10.4%	0.4%	0.2%	0.5%	10.6%	11.1%
\$1-10B	0.2%	6.1%	0.4%	0.3%	0.6%	6.4%	7.0%
Less than \$1B	0.6%	3.5%	0.2%	0.2%	0.7%	3.7%	4.4%

Source: S&P Capital IQ. As of December 31, 2021.  
\*Income generating properties held on Schedule A.

# U.S. Real Estate Fundamentals Robust; Equity Risk Premium Compressed

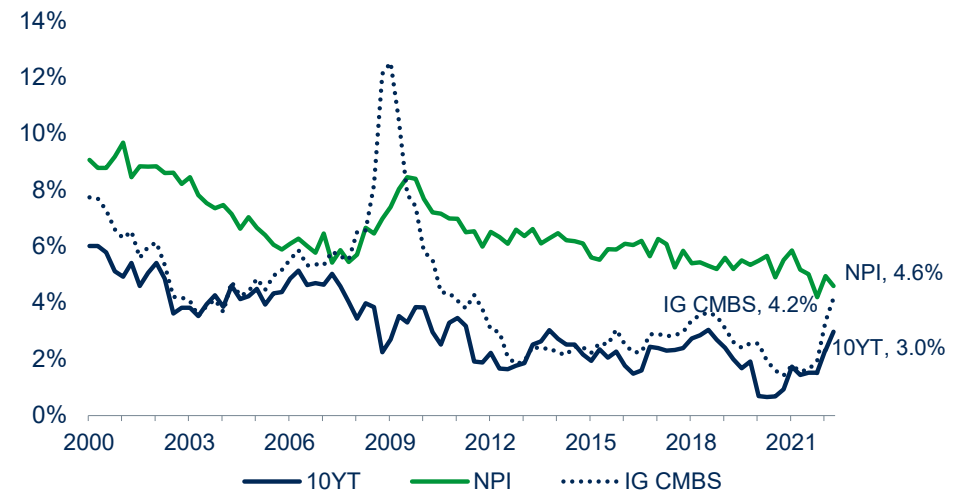
EMPLOYMENT, NOMINAL RENT GROWTH (%)



## HISTORIC RENT GROWTH EXCEPT OFFICE

- Inflation, re-opening have bolstered rent growth, except for Office
- Forecasts expect deceleration of growth, some softening, but few indications of decisive pullback in tenant demand
- Secular demand tailwinds intact esp. for Industrial, Apartments
- As with inflation, rent growth peaking, but still near record pace

TREASURY, IG CMBS, NPI TRANSACTION CAP RATES (Q2 2022)



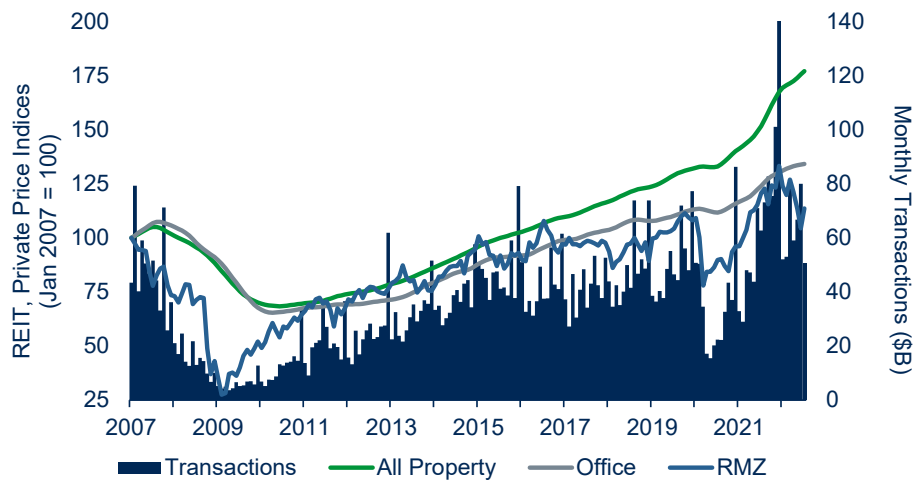
## RISK PREMIUM COMPRESSED

- Recent, rapid rise in base rates (10YT) caused transaction cap rate spread to compress; bid-ask spread has widened
- Appraisal cap rates are even tighter than transaction
- Debt costs (IG CMBS yield) at highest level in a decade
- Debt liquidity lower, but lending spreads have not spiked to crisis levels

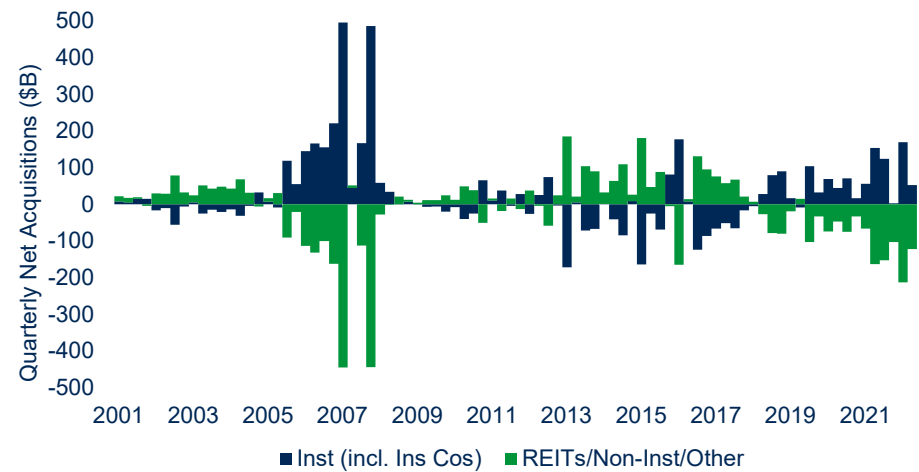
Sources: Barings Real Estate Research; Bloomberg; Bureau of Labor Statistics; CBRE. As of August 2022.

# U.S. Real Estate Fundamentals Robust; Equity Risk Premium Compressed

## MONTHLY TRANSACTION ACTIVITY, RE PRICE TRENDS



## QUARTERLY NET PROPERTY ACQUISITIONS (\$B)



### TRANSACTIONS BACKING OFF H2 2021 LEVELS

- December 2021 transactions hit a frenzied \$190B (off the chart), far surpassing any prior month
- Since then, monthly transactions pulled back, not to COVID levels
- July 2022 (red bar = \$51 B) lowest level since May 2021
- RMZ down ~18% from recent peak; private property values (green=All property, grey=Office) yet to correct

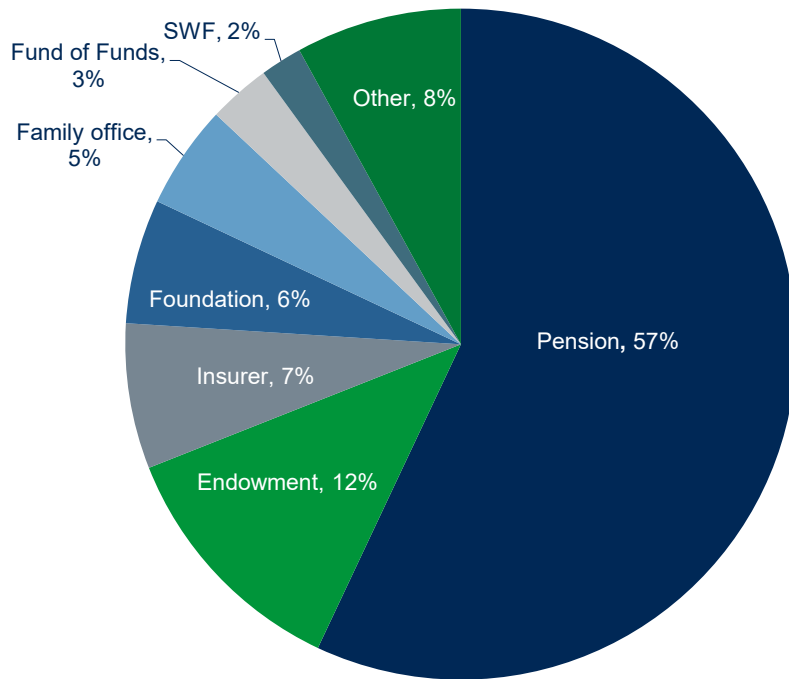
### INSURANCE COMPANIES REMAIN NET BUYERS

- Institutional buyers, including insurance companies, net buyers of real estate since 2018
- REITs, private (non-institutional) net sellers over same timeframe
- Since 2001, institutional investors have outpaced other investors by at least 3.6T according to RCA likely understated
- Institutional investors continue to target the asset class as allocations remain unchanged

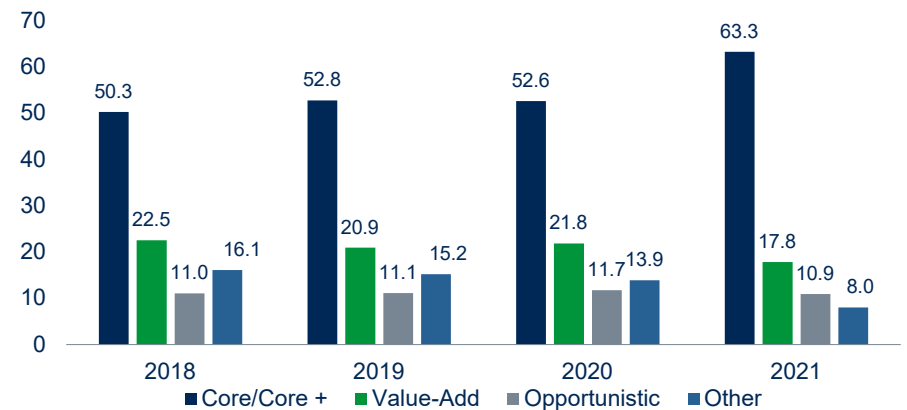
Sources: Barings Real Estate Research; Bloomberg; Bureau of Labor Statistics; CBRE. As of August 2022.

# Investors Composition, Institutional Investor Allocations

COMPOSITION OF INSTITUTIONAL INVESTORS



COMPOSITION OF INSTITUTIONAL INVESTORS



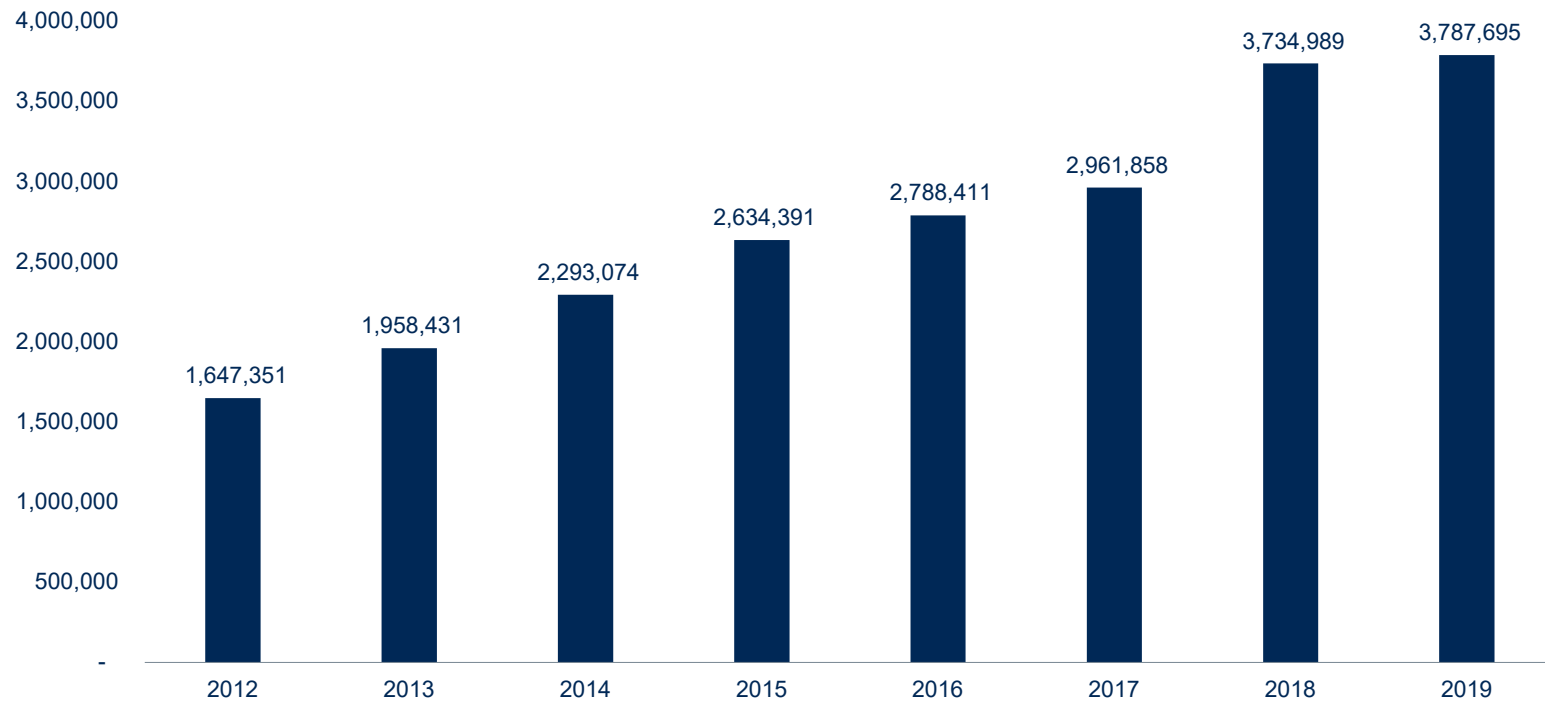
## ONE THIRD OF ALLOCATIONS TO VA, OPP

- Majority of institutional investor real estate allocations directed to core/core-plus
- Allocations to value-add, opportunistic tend to change depending upon expectations of cycle
- Relative to core, other strategies have no common benchmarks for performance
- Value-add targets gross IRRs of 15–19%, opportunistic 20%+

Source: Barings Real Estate Research, IREI. As of 2021. Numbers based upon investor survey.

# From 2012 to 2019 Underproduction Has Grown by Over Two Million Homes

U.S. HOUSING UNDERPRODUCTION BY YEAR



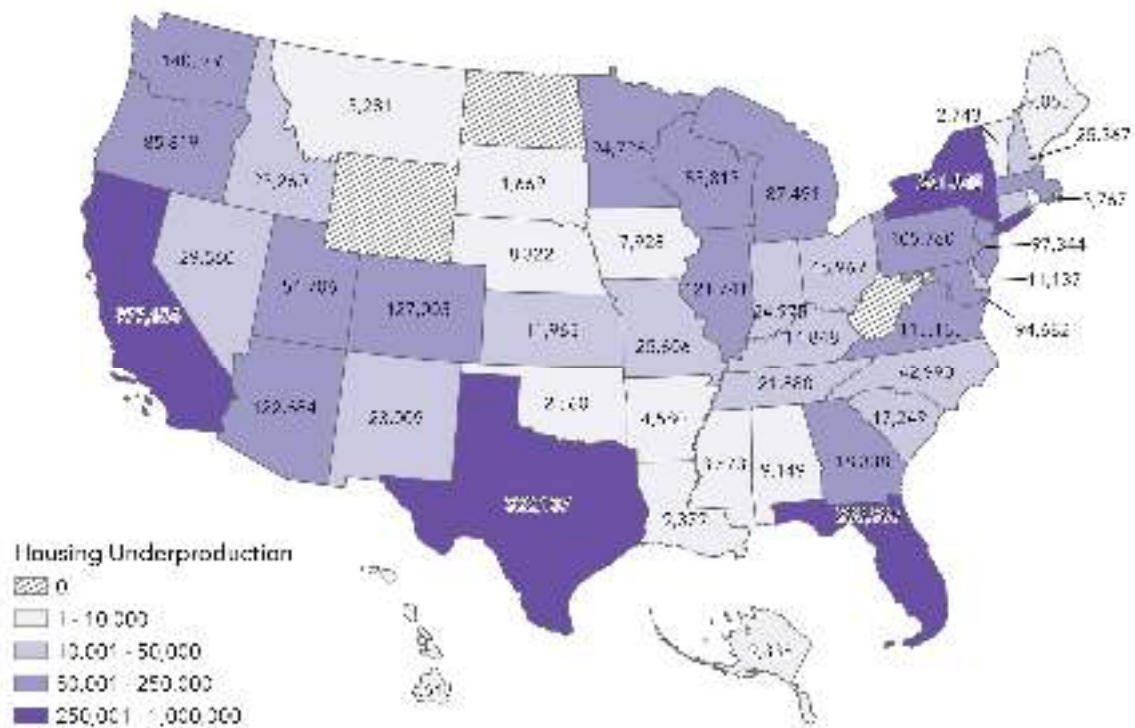
Source: Up for Growth 2022 Housing Underproduction in the U.S report.



# 47 States in the U.S. Face a Housing Underproduction

America's Housing Underproduction totals 3.8 million homes across 47 states and Washington, DC in 2019.

- California, New York, Texas, Florida, Colorado, Utah, Oregon, Washington, Arizona, Minnesota, New Jersey and Massachusetts have the highest rates of underproduction in the country.
- Almost half of the Underproduction being in California, New York, Texas and Florida.



Source: Up for Growth 2022 Housing Underproduction in the U.S report.

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