LaSalle™

2020 ISA MID-YEAR UPDATE

Investment Strategy Annual

CHAPTER 1

An Unexpected Way for the Cycle to End

A group of LaSalle's clients heads off to the mountains to meditate in solitude in early February. Five months later, they return to civilization.

What will we tell them?

This is similar to the task we have set for ourselves as we review our ISA investment advice for 2020, sent to clients last December. What if our clients do not return to civilization until July 2021? What will we need to explain to these hypothetical hermits at that future date? This mid-year ISA update explores how real estate is likely to perform while we are still living with COVID-19 and it begins to imagine what lies ahead in a world where COVID-19 is controlled, but the experiences of the pandemic have lasting effects on society.

The world has changed dramatically since December. As the thought experiment on the previous page suggests, it is hard to know where to begin in describing the changes.

After explaining the ways that COVID-19 works to silently and invisibly infect large segments of the world's population, three much harder tasks still lie ahead. The first is to comprehend the ongoing impacts on societies, economies, government policies, and capital markets. The second is to manage the short-term financial impact on real estate portfolios by working closely with tenants and lenders. And, thirdly, an investment manager must look ahead to where investment opportunities are most likely to open up and where hidden dangers still lie ahead.

Economies around the world have been damaged more severely than any peacetime event since World War II[1]. The lockdown phase of the pandemic was especially devastating for urban life, and nearly all forms of economic activity that rely on personal contact. The re-opening phase has been, and will likely continue to be, rocked by waves of optimism, pessimism, and frustration as citizens are eager to get back to their former lives. We have charted this journey each month in LaSalle's Macro Decks and we remain committed to charting future changes in the months and years ahead.

Meanwhile, major institutions like stock exchanges, central banks, postal services, container ports, and most governments continue to function. Yet, other anchors to urban areas such as universities, airports, museums, hotels, theaters, shopping districts -- any place where people gather in numbers -- have all lost their ability to confer the locational advantages that successful real estate relies on.

We believe that the key to making good investment decisions during a period of radical uncertainty is to avoid letting "recency bias" control your thought process. In other words, looking through and ahead of a crisis, like the current pandemic, will be important in order to survive and thrive. We believe all investors and indeed, societies-at-large, face the challenge to look beyond the darkest hour. Real estate, because it serves all industries and all segments of society, must pay especially close attention to the difference between temporary and permanent changes.

At LaSalle, we asked ourselves if any of the suggested strategies in the ISA 2020 edition were still valid. It turns out that many of them are. The pandemic accelerated existing trends that we have been following for many years, as well as several incipient trends, including: the rise of logistics, the demise of merchandise/apparel retailers, the market segmentation of residential properties (luxury, urban high-rise, mid-rise suburban, workforce, active adult, etc.), the mainstreaming of alternative or niche sectors, and the rising importance of technology as a driver for many real estate decisions.

Many of these trends went into overdrive during the lockdown phase of the pandemic, and they continue to manifest themselves during the second re-opening phase. The rapid descent of economic activity has had a mild impact on our preferred strategies like distribution and fulfillment centers, life sciences, medical offices and well-managed residential properties. The COVID-19 induced recession has affected nearly all of our retail investments and, to a much lesser extent, several office assets. Fortunately, we focus on necessity and

1 See: World Economic Outlook, "A Crisis Like No Other, An Uncertain Recovery", International Monetary Fund, June 2020.

01 Phases of the COVID Crisis

PHASE 0
Pre-COVID

1. Pressing issues in the months leading up to the COVID Crisis
2. Geopolitical risks from the rise of nationalism and protest politics.
3. The slowing of advanced economies.
4. High values relative to CRE's own history, but not relative to bonds.
5. Tech as an accelerator (data centers/ logistics) and disruptor (retail).
6. Climate Risk: Getting priced (slowly) in the capital markets.

PHASE 1
Lockdown

- A sharp downturn unlike prior cycles
- Unprecedented mobility restrictions
- Rolling demand and supply-shocks
- Variety of health policy responses
- Unprecedented Fiscal/ Monetary stimulus
- Financial market volatility on par with 2008-2009
- Challenges of investing/ managing real estate remotely
- Rent collection issues
- Effectiveness of testing and containment policies are linked to the timing of advancing to Phase 2

PHASE 2
Partial Re-Open
"Living with COVID"

- A gradual, government-led process with huge differences in each country
- Consumer & Investor psychology: expect ultra-cautious behavior
- Geographies & property types vary greatly in their recovery paths:
- Health care capacity, containment and testing will influence metro/city differences
- Essential vs non-essential directives, density of use, building access
- Investment flows resume slowly; Price discovery begins with RE securities (REITs and CMBS) and some ultra-core
- Rental reset risk: leases are re-cast at lower levels

PHASE 3
New Normal
"COVID under control"

- Health and well-being focus. Expect changes in how tenants access buildings, how buildings are disinfected, density/spatial preferences
- Enhanced role of technology and communications for building operations, tenant relations, and virus-tracking.
- Capital markets continue the process of "price discovery" through private equity transactions involving core and non-core
- Recovery of rent levels & pricing will take time.
- The stabilized yield for real estate could be the same or lower in 2022 (vs 2019)
- Record levels of deficit spending and monetary stimulus did not lead to inflation after the GFC.

grocer-anchored retail instead of fashion-oriented enclosed malls. We were wary of co-working tenants and we believe our limited exposure to this hard-hit sector has been well-managed. Nevertheless, many questions remain ahead as we work through the gradual re-opening of lodging properties (in our debt and opportunistic funds) and learn from specialists who run student housing or self-storage properties in our direct, indirect and co-investment programs.

From a market analysis perspective, we are learning an incredible amount by working closely with our asset managers and helping them sort through tenant credit risk analysis, footfall-tracking and vehicular traffic data. The "big data" efforts that we put in place in prior years have turned out to be very valuable for identifying potential trouble spots in the portfolio and knowing where tenants may need extra forbearance to get through the loss of their customers or dramatic changes in traffic patterns. These detailed micro studies impress upon us the importance of high-frequency data in our industry and the uses to which this data can be put to underwrite and manage real estate assets.

Portfolio Construction Matters

The COVID-19 crisis and the ensuing global recession emphasize two important lessons about portfolio construction, which we will benefit from further in the years to come. First, property types respond very differently to global macro events, and they change in interest rate regimes, pandemics, or technology trends, which don't respect national borders. This means that the performance of the principal property types is more dispersed than we have ever seen. During the cap rate compression era, all the main property types tended to converge in terms of performance. Now, in a downturn, the different risk-return characteristics of each property type come to the fore. Moreover, the special circumstances of a pandemic mean that property types are responding quite differently than they did during the Global Financial Crisis (GFC). For example, retail properties were the top-performing property type and industrial/warehouses were among the worst during the GFC. The outperformance of industrial/warehouse and underperformance of retail started before the COVID-19 crisis. The pandemic simply accelerated the trend. Even with a sudden and sharp drop in global trade, warehouse demand has held up and we expect it will continue to do so, while e-commerce is surging.

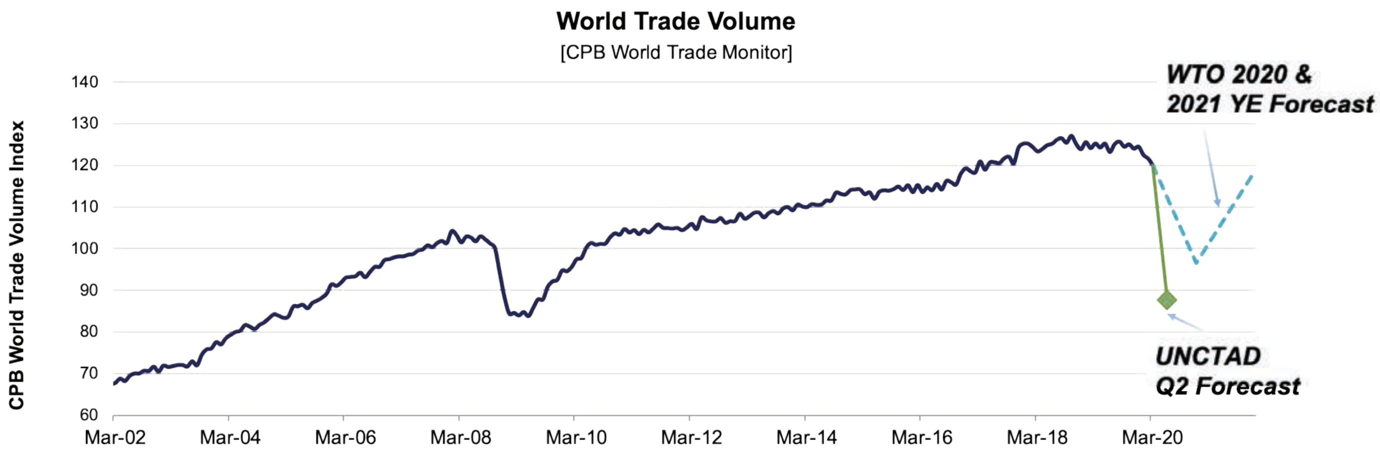
Giving guidance about when and how to shift from defense to offense is challenging for private equity until transaction volumes pick up and price discovery occurs. However, mispricing is much easier to take advantage of within a securities framework—both

02

Global Merchandise Trade In Steep Decline

Forecasts Of 27% Q/Q Drop In Q2 and 22% Drop in Full Year 2020

Sources: CPB Netherlands Bureau for Economic Policy Analysis (https://www.cpb.nl/en/worldtrademonitor), World Trade Organization, United Nations Conference on Trade and Development (UNCTAD), Capital Economics. Latest available data as of 29 May 2020.



Global trade tends to be especially sensitive to GDP change. In April, the UN Conference on Trade and Development (UNCTAD) forecast a 27% q/q decline in global trade in Q2 2020. The WTO forecasts some recovery in the second half but their mid-point forecast would still put trade in 2021 5% below its pre-COVID level. These trade declines suggest that real estate markets where demand is driven by port activity and trade will be especially volatile.

REITs and CMBS. Although these markets fell hard, they also have both rebounded. Our clients who were able to take advantage of that window of mispricing have performed very well. This same approach to invest with conviction will also work if and when capitulation starts to occur in the private equity markets. Yet, there are no guarantees that prices of the best quality properties will ever trade at a steep discount to 2019 values. Leverage levels going into this downturn were lower than prior to the GFC, and the amount of dry powder ready to jump back into real estate is also higher. So, this makes a return to offense likely to mean returning to a similar cost-of-capital approach that prevailed prior to the recession, but with lower Net Operating Income and lease-up assumptions factored in.

Thematic Investing Re-examined

LaSalle's long-term secular themes, DTU+E[2], must also be re-examined through the lens of Phase 2 and Phase 3 of the COVID-19 crisis, taking into account what we have learned about the way that pandemics work. Technology has risen in importance as it has become the lifeline to keep businesses, friends and families connected. Demographics have become more important, because COVID-19 appears to discriminate against specific cohorts in the population. Successful demand-side analysis in most countries should continue to follow the two biggest cohorts through their life cycles: The Millennials and The Boomers. The secular trend that has changed the most is Urbanization. Migration trends toward large cities and high density are turned on their head during and likely also after a pandemic. Whether flight from cities is temporary, only for the well-off, or whether it will lead to the structural reversal of a decades-long renewal of urban centers, remains to be seen. LaSalle's "Future of Workstreams" (Chapter 2) focuses on what the lingering effects of COVID-19 may mean for location

03 Global Research Work Streams at LaSalle

Future of Offices

- Work from Home ↑ Workplace Density ↓
- Capital Expenses for Safety and Health ↑
- Suburban Attractiveness ↑
- Tech industries driving demand

Future of Logistics

- Rise of E-commerce
- Rise of On-shoring of supply chains
- Rising demand for temperature-controlled facilities
- Steady demand from Small Business and Consumers (self-storage)

Future of Retail

- Shrinking Number of Top-Performing Shopping Centers
- E-Commerce Acceleration, Failing Retailers
- Conversions to non-Retail uses

Growing Role for Alternatives

- Niche Residential: Students, Active Adult, Workforce Housing
- Medical Offices, Lab/Life Sciences
- Technology Infrastructure (Cell Towers and Data Centers)
- Future Project: Virus-Free Entertainment, Leisure and Lodging

2 Demographics, Technology, Urbanization and Environmental Factors

> **"Successful demand-side analysis in most countries should continue to follow the two biggest cohorts through their life cycles: The Millennials and The Boomers"**

decisions by households and businesses. We believe opportunities for human capital and innovation to thrive in metropolitan areas, as opposed to rural areas, will remain intact. However, the spatial patterns of migration within those metropolitan areas and between very large- and medium-sized metros are likely to change.

Environmental factors have simultaneously moved to a second-order magnitude of importance in the minds of some investors, while in others it has leap-frogged quickly forward. A global recession tends to focus the minds of investors on financial metrics first, but also on their long-term goals as investors with diverse stakeholders. During this period of reflection during the lockdown, many investors have read about the rapid forward strides in environmental quality that are possible. Clean air and reduced carbon emissions suddenly seem within reach, and the opportunities to adopt principles of responsible investing have experienced a wave of rising awareness. (see sidebar p.41)

Macro Themes Revisited

As we entered 2020, we envisioned that political unrest in many countries would be the primary source of disruption. International trade agreements were in flux. Supranational organizations were challenged. Nationalism was on the rise. Street protests were increasing in major capitals. With COVID-19, none of these geo-political trends have disappeared. In fact, they may have increased in unpredictable ways.

We believed that financial stress would become more evident in the second half of 2020, especially in epicenters of political discontent like Hong Kong, the United Kingdom and the United States. However, we did not see a systemic financial crisis looming. Instead, we saw the powerful secular forces of demographics, technology, urbanization, and environmental factors working together to shape metropolitan economies and drive tenant demand. Now suddenly, we have COVID-19 (the ultimate global force) to contend with. And it has had a peculiarly direct impact on real estate. Tenants and their customers can no longer easily access buildings. The ability to pay rent is compromised. Job losses at historic levels hurt the demand side of the property market, and the subsequent capital market volatility creates a head-on collision between falling demand for space and the pricing of the asset class.

On the positive side, the rent-paying ability of institutional-quality assets has surprised investors around the world; achieving levels well above 90% for residential and warehouse properties, above 80% for class A offices, and above 60% for open-air shopping centers[3]. Fiscal stimulus programs have been rolled out that helped tenants get through the lockdown phase of the pandemic; some of these programs will need to be extended to deal with second-wave reinfection risks, before vaccines and effective treatments are widely available. Notwithstanding, the most severe negative impacts on financial performance could be confined to a 12- to 18-month period. As we noted in the ISA, the holding period for the typical institutional quality asset in a real estate portfolio is typically much longer than for other asset classes, with durations of over ten years commonly observed in core portfolios managed by listed companies and open-ended private equity funds. We expect, shorter hold, non-core strategies can take advantage of the dislocation that is likely to occur when over-leveraged properties or development assets can no longer sustain their pre-COVID-19 capital structure.

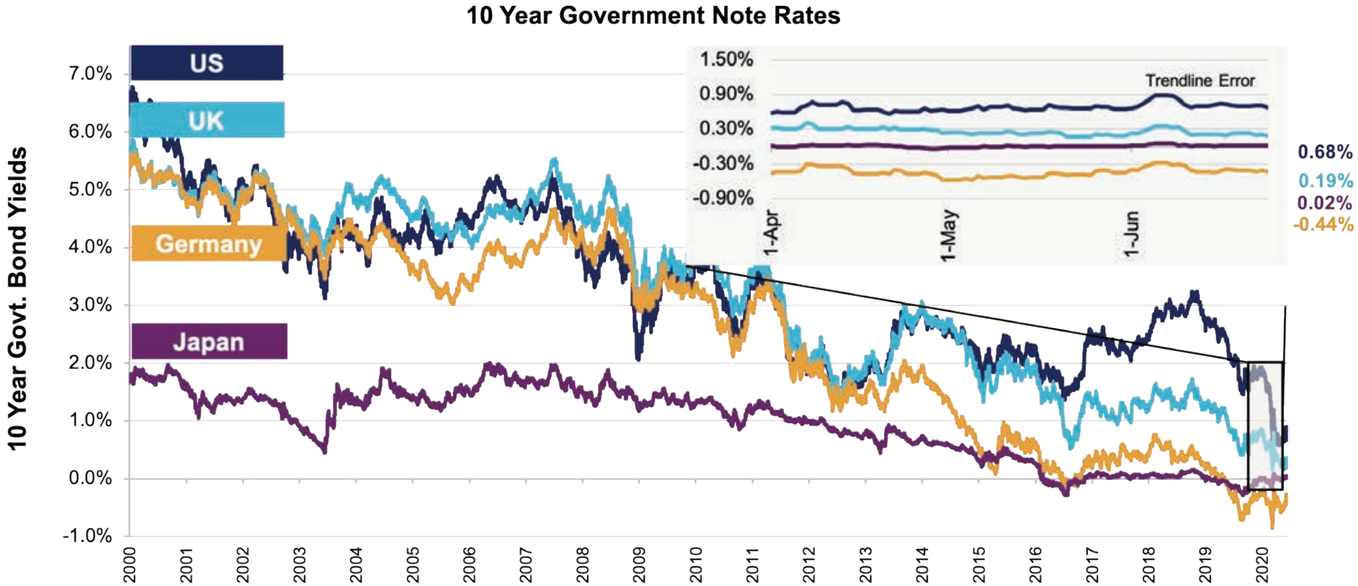
For 2020-21, LaSalle foresees a period of unprecedented volatility amidst a halting, stop-start process of global and country-specific economic recovery. As we pointed out in December, slow growth or no growth is linked to low interest rates, which props up real estate values. The pandemic has pushed sovereign rates even lower. Investors may continue to increase allocations to real estate as real estate yields continue to be attractive relative to investment-grade bonds. Temporary disruptions to real estate income streams are unsettling, but higher-than-anticipated rent collection rates show the resilience of the asset class through the lockdown and re-opening phases.

3 Although number vary slightly by country, these estimates are approximations for April and May rent collection as summarized by NAREIT, EPRA, NCREIF and LaSalle's portfolios.

04

Risk-Free Rates Flat in May

Rates Across Advanced Economies Have Converged Near Zero



Source: Bloomberg, LaSalle. Data through 24th June 2020. Note: Past performance is not indicative of future results. There is no guarantee that any trends shown herein will continue.

At the beginning of the year, we wrote that investors will need to steer through many headwinds and tailwinds over the next three years. We pointed out that after nearly a decade when tailwinds predominated, replicating past performance will be a harder goal to achieve. We had no idea how true this prognostication would turn out to be. Now, we must look ahead to how the next phase of the recovery will treat real estate—both in terms of supply-demand-rental rate fundamentals and in terms of how the capital markets react to falling rents and falling occupancies in once-thriving sectors. Forward-looking capital markets will also look through the coming impairment period to the recovery and resilience period to follow.

Rear View Mirror vs. Looking Forward

Economic forecasts done by the IMF and Oxford Economics point to a robust recovery, following this severe and unexpected downturn. As we describe in subsequent sections of this mid-year report, the recovery is unlikely to replace all the lost jobs in a year's time, but it could replace most of them in two to three years' time. The steep drop in economic activity in 2020 is likely to be followed by growth rates in 2021 that haven't been experienced by developed markets in decades.

Our House View is that the replacement of lost GDP will take two to three years to complete. Each country will follow its own path to recovery, but the pandemic will eventually be brought under control, businesses will rebuild, and people will return to working and spending. Real estate's earning power will participate in this recovery, but our response will lag many other industries. Real estate's capital markets, however, will not be looking in the rear view mirror. The best investment decisions will be made by investors who understand that the period of maximum impairment to real estate's income streams will be in 2020 and 2021, and then look ahead and take the coming recovery, and the structural changes accompanying this recovery, into account in their pricing models.

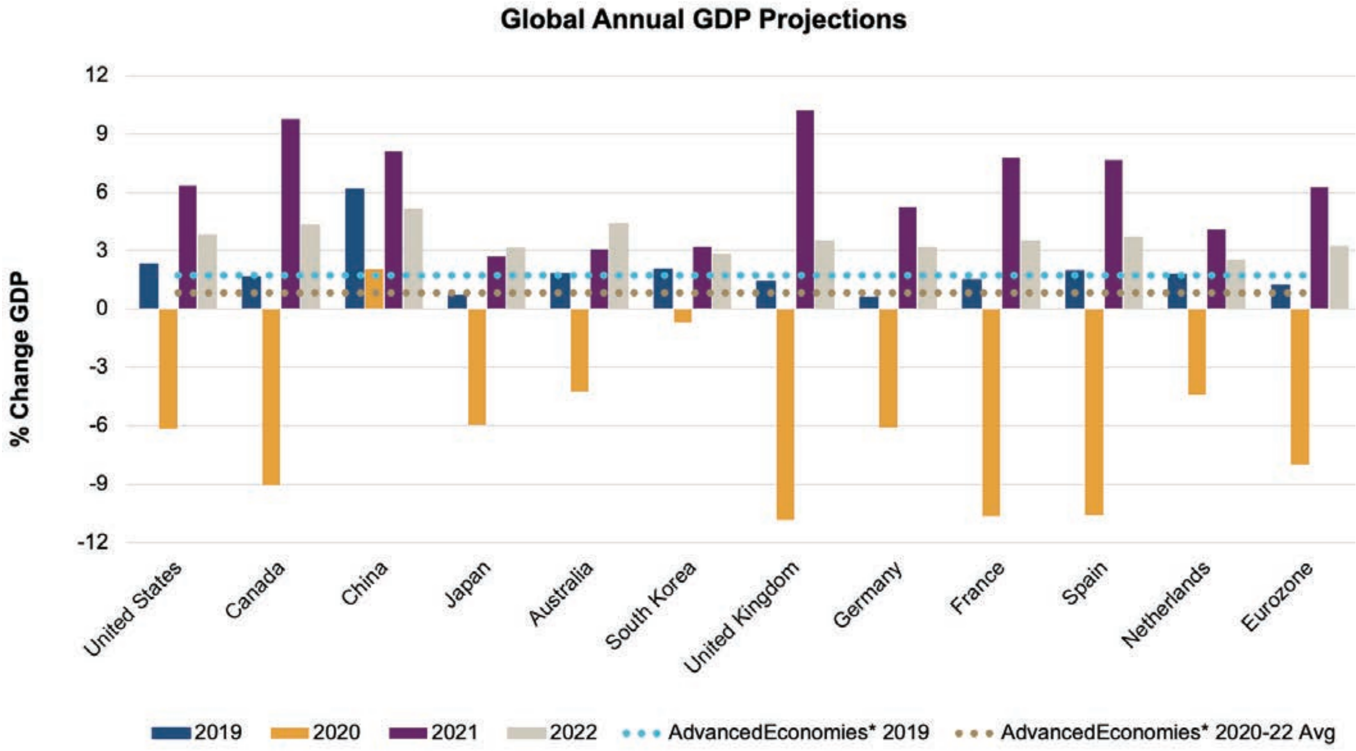
05

Sharp Downturn in 2020, Followed by Strong Recovery

Greatest Swings in Canada, UK, France and Spain

*Aggregation based on Oxford Economics country classification: https://services.oxfordeconomics.com/api/definitions/WDMacro/GlobalMacroEconomicDatabank.pdf

Source: Oxford Economics Forecast most recent as of 22 June 2020.



Asia Pacific Economic Recovery is Likely to Lead

Six months ago, we described how one of the key downside risks at this stage of the cycle is an exogenous shock.

Although none of us predicted a pandemic, it took this kind of tail-risk event to derail the Asia-Pacific region, the fastest growing region in the world. At the mid-year mark, we find a number of factors that lend resilience to the region, including: 1) High levels of trust in Asia Pacific governments and their ability to control the pandemic; 2) An earlier start to the downturn is likely to translate into an earlier start to the recovery; 3) Unprecedented monetary and fiscal stimulus; and 4) The region's important role in global supply chains, especially China. These macro factors, combined with high-frequency indicators, shed light upon our outlook for Asia Pacific economies and real estate markets, despite the uncertain duration of the pandemic.

Asia Pacific is likely to come out of the pandemic ahead of other regions due to the relative success of their public health policies. Like other regions, we expect to see setbacks caused by new outbreaks from time to time. Nevertheless, the early success of stay-at-home, social distancing, and mandatory mask-wearing policies suggest that local populations will continue to cooperate with new lockdown policies if they are needed.

01

Asia Pacific is the largest economic region of the world

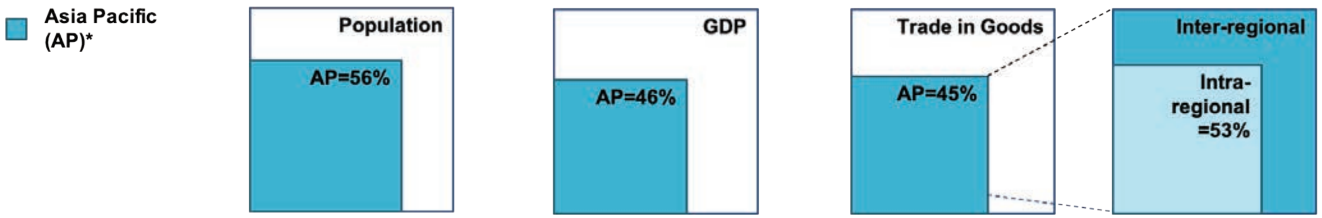
Note:

Asia Pacific includes economies such as Australia, China, Hong Kong, Japan, Macau, New Zealand, Singapore, South Korea, and Emerging Asia.

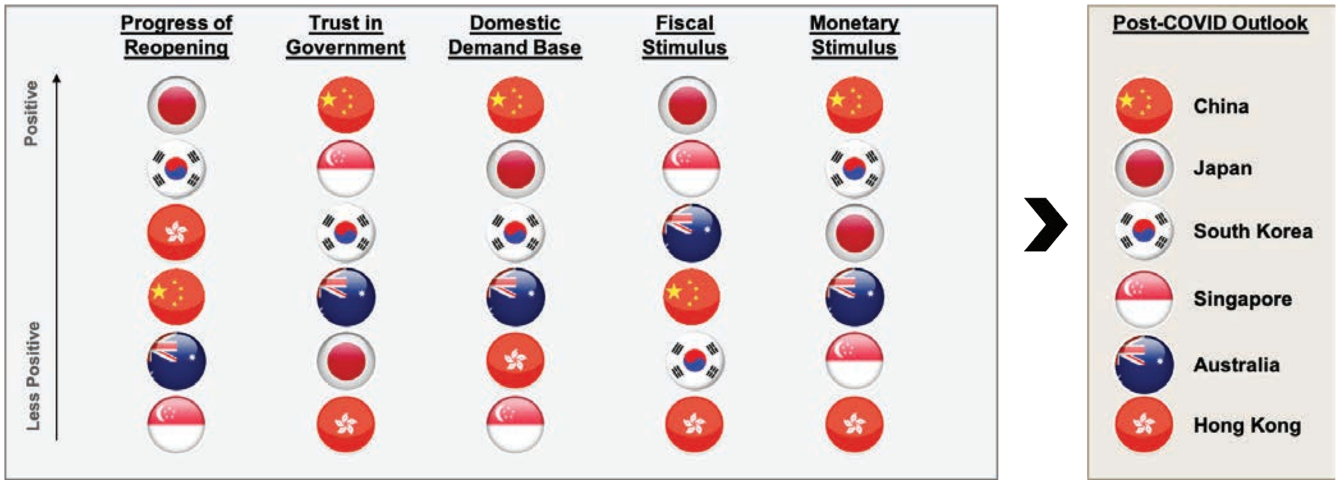
Trade in goods is defined as the aggregate of both import and export of goods.

Source: IMF Direction of Trade Database (Trade in goods data), as of 2018; Oxford Economics (Nominal GDP purchasing power parity (PPP) exchange rate basis, Population), as of 2019; Edelman Trust Barometer (Trust in Government data is as of May 2020, except Australia, Hong Kong, and Singapore which are as of December 2019); Goldman Sachs Effective Lockdown Index, as of 16th June 2020; The Services Australia, as of 4th June 2020; The Singapore Ministry of Finance and The Monetary Authority of Singapore, as of 26th May 2020; The Hong Kong Monetary Authority, 8th April 2020; The Cabinet Office of Japan (economic measures announced on 5th December 2019); The Cabinet Secretariat of Japan (fiscal stimulus and financial support on COVID-19, as of 7th April 2020); The Ministry of Finance of Japan (social welfare spending due to consumption tax hike, as of 20th December 2019); The Ministry of Economy and Finance of South Korea, as of 3rd June 2020; The Ministry of Finance of PRC, and The People's Bank of China, as of 3rd June 2020.

Asia Pacific in a Global Perspective (as a percentage of the World)



Asia Pacific Economic Outlook Post-COVID



As shown above, LaSalle's ranking of the relative strength of major Asia Pacific economies in the post-COVID-19 outlook has China leading, followed by Japan, South Korea, Singapore, Australia and Hong Kong.

Trust in Governments Sheds Light upon the Path to Recovery

When sudden threats arise, citizens naturally turn first to government institutions for aid and protection. The 2020 Edelman Trust Barometer May Update shows that, amid the pandemic, trust in governments surged to an all-time high, making governments the most trusted institutions for the first time in the 20 years of study[1]. Among the 11 global countries surveyed, domestic trust in the Chinese government is the highest, while the US and Japan recorded the lowest levels of trust. South Korea is one of the countries where the public's trust improved the most during the pandemic, as the government was able to navigate through the health crisis to become one of the first countries to reopen its economy.

The ability of several Asia Pacific governments, particularly those of China and South Korea, to navigate through

1 The four types of institutions surveyed by Edelman are governments, non-governmental organizations, businesses and media.

uncertainty during the pandemic has invigorated domestic economic confidence. Looking ahead, although renewed outbreaks show the continued risk of the pandemic, any resurgence of COVID-19 is high. Consequently, we expect the trust in government to rejuvenate Asia Pacific consumer and business confidence, which will help drive the recovery of tenant demand and improve investor sentiment. Asia Pacific countries have been leading the reopening globally, and currently account for 46% of the world's GDP and 56% of the world's population[2]. All of these factors could reinforce the region's strong position in the post-COVID-19 recovery outlook. Post-COVID-19 recovery to focus more on domestic drivers than cross-border economic activities, given the unique threat of this health crisis to trade and travel.

Large Domestic and Regional Recovery in Asia Pacific Eclipses Global Recovery

The escalating geopolitical tensions, especially between the US and China, add another layer of challenge to cross-border cooperation. Looking forward, the larger the domestic economy, the stronger the pace of the country's recovery is expected to be. China, Japan and South Korea, being the three largest economies of the region, will drive the recovery. Within these countries, their largest markets—Shanghai, Beijing, Tokyo, Osaka and Seoul—are expected to benefit the most due to their large metropolitan populations and economic bases.

Asia Pacific countries have developed stronger trade, tourism, and supply chain linkages with each other following the Global Financial Crisis. China has been the key driver of these intra-regional linkages. As China continues on the path of economic reopening (despite the recent renewed outbreak), the leading position of China could benefit the rest of the region. We, therefore, expect domestic recovery to be followed by steady growth of economic cooperation within the Asia Pacific region. The resumption of global economic connectivity will take longer to be re-shaped, as it is further clouded by the escalating US-China tensions.

Unprecedented Monetary and Fiscal Stimulus Packages

While lockdowns and drastic social distancing measures have been effective in saving human lives, they come at a price — severe impact on economies. For example, China's economy recorded the worst contraction in 1Q 2020 since 1976. These shutdowns are unprecedented in a peacetime economy. The effectiveness of government responses is likely to set countries apart on their path to post-COVID-19 recovery. In Asia Pacific, similar to western countries, many governments are focusing on providing short-term income support to consumers and businesses. While the concept of some level of income guarantee seemed utopian under a normal environment, it is now at the centre of many fiscal policies. Most governments in Asia Pacific have announced fiscal spending packages at record size, speed, and scale to cushion some impacts from the pandemic, and the aggregated amount substantially exceeds that of the Global Financial Crisis. Japan has announced fiscal stimulus packages totalling over 40% of GDP and about 20% of GDP from the Singaporean government.[3] More fiscal stimulus is expected to come from major Asia Pacific countries if the resurgence of COVID-19 infections threatens their economic recovery.

China's Key Role in Supply Chains is Unlikely to be Reduced in the Short Term

The COVID-19 pandemic has caused severe disruptions to global trade, and Asia Pacific countries play a big role in these supply chains. The pandemic, combined with the rise of nationalism and geopolitical tensions (particularly the US-China tensions over trade and Hong Kong), has renewed focus on the concentration risks inherent in supply chains. Companies could accelerate the de-concentration of supply chains away from parts of the Asia Pacific region and bring production back to their home countries or shorten and simplify their existing global supply chains. The existing trend of lower-value-added manufacturing leaving China

> **"Most governments in Asia Pacific have announced fiscal spending packages at record size, speed, and scale to cushion some impacts from the pandemic, and the aggregated amount substantially exceeds that of the Global Financial Crisis"**

2 Source: Oxford Economics, as of 2019

3 Sources: The Cabinet Office of Japan (economic measures announced on 5th December 2019); The Cabinet Secretariat of Japan (fiscal stimulus and financial support on COVID-19, as of 7th April 2020); The Ministry of Finance of Japan (social welfare spending due to consumption tax hike, as of 20th December 2019); and The Singapore Ministry of Finance and The Monetary Authority of Singapore, as of 26th May 2020.

for other emerging markets or automated facilities in advanced economies may also accelerate. However, China's key role in supply chains is so important that it is unlikely to be drastically reduced in the short term. If the shift from China can be crystalized, it is likely to take an extended period of time, as it will be difficult to replace China's manufacturing capacity quickly.

Seeking High-Frequency Indicators for Leading Guidance

Traditional economic indicators such as retail sales, industrial production and GDP growth, in theory, provide a comprehensive picture of the state of the economy. However, these indicators often take several months to be tabulated and so tend to be backward looking. The current COVID-19-led recession is unique in many respects. Investors in the real estate sector—a relatively slow-moving asset class—are now actively tracking high-frequency indicators to get a fix on the Phase 2 re-opening process. At LaSalle we are using real-time indicators, such as vehicular traffic data, urban public transportation passenger volume, and flight patterns to gauge the status of social and economic activity. Real-time satellite images of the level of nitrogen dioxide (part of a group of gaseous air pollutants) are also referenced as a proxy of industrial production and supply chain movements.

We acknowledge that these high-frequency or real-time indicators have their limitations. For instance, more car journeys do not necessarily translate into more consumer spending or retail sales. Nonetheless, high-frequency data, together with trust/sentiment surveys, provide us with some conviction on the path to a potential recovery and the relative order of recovery among major Asia Pacific countries.

Asia Pacific Economic and Real Estate Market Outlook & Investment Recommendations

Country Outlook and Investment Recommendations Post-COVID-19

Taking all of the above into consideration, our ranking of the relative strength of major Asia Pacific economies in the post-COVID-19 outlook has China leading, followed by Japan, South Korea, Singapore, Australia and Hong Kong.

China: The pandemic has had a severe short-term impact on the Chinese economy and property markets. However, headline indicators of business activity largely returned to pre-COVID-19 levels by the end of April. The Chinese government's "coordinated approach" appears to have shielded the economy from a deep and prolonged downturn, while a range of measures introduced by owners and tenants have provided a foundation for a gradual property market recovery. We continue to favor the logistics sector, including temperature-controlled warehouses. On the contrarian side, we are cautious on the Shanghai office market. The demand shock due to the pandemic and availability of leasing options are expected to drive landlords to be more accommodative in their lease negotiations in the near term.

Japan: The economic growth outlook has worsened since the pandemic. The easing of social distancing measures is likely to be gradual in Japan, which will continue to soften real estate occupier demand, especially for hotels and retail properties. However, Japanese companies have built up substantial amounts of liquidity. Although confronted by the COVID-19 crisis, relatively large cash holding positions have enabled most Japanese companies to avoid bankruptcy, and most importantly, keep most of their employees. All of these bode well for a gradual recovery of property market demand drivers. Major real estate markets and sectors in Japan currently have low vacancy rates (except hotel), much lower than the vacancy rates of other major Asia Pacific markets/sectors. Low vacancy rates help to cushion some downside effects from the pandemic.

Most importantly, the Bank of Japan is expected to maintain yield curve control for an extended period of time. In a zero interest rate environment, yield spreads between real estate yields and government bond yields are the widest in Japan among major Asia Pacific countries. Additionally, the size of the Japanese real estate market – the largest institutional market in Asia Pacific – offers strong liquidity to investors, which supports real estate pricing in Japan. We expect these trends to continue to drive investor demand, especially for core real estate in Japan over the long term.

South Korea: We have upgraded our macro outlook of South Korea, partly driven by the fact that the country is leading reopening globally. However, we do not expect a V-shape recovery, as weak external demand, especially for petrochemical products and automobiles, is expected to continue. In addition to the retail and hotel sectors, we remain cautious on Seoul office due to the demand shock and elevated vacancy rate pre-COVID-19. We continue to favor logistics, including temperature-controlled warehouses.

Singapore: The country is lagging in the reopening progress and has been one of the most severely pandemic-hit economies in Asia Pacific, as the country is closely intertwined with global production, trade activity and tourism. Substantial policy support by the government has reduced the impact of job and wage losses, but it is unlikely to fully offset the impact of the pandemic. The weak global and domestic economic outlook is leading to a substantial slowdown in real estate fundamentals. However, Singapore, recently rising to be the most competitive economy in the world[4], is expected to rebound much faster than countries where the domestic trust in government is low. Additionally, challenges in Hong Kong could direct some capital flows from Hong Kong to Singapore, which could be supportive of real estate pricing in Singapore in the near and medium term.

Australia: The pandemic has negatively impacted all growth drivers of the Australian economy—consumer spending, business investment, and net overseas migration. Geopolitical tension between Australia and China is likely to hinder Australia's ability to leverage the recovery of China. Therefore, the economy is projected to enter its first technical recession in 29 years despite substantial fiscal and monetary support. The weak economic growth outlook is expected to prompt occupiers to review their space requirements and occupancy costs, especially in the retail sector. That said, a delayed or deferred supply pipeline and stringent bank lending criteria are expected to help support the real estate market recovery. Additionally, the relatively high yield spreads between real estate yields and government bond yields are expected to continue to attract real estate investors globally.

Hong Kong: Although the Hong Kong government has been effective in containing the pandemic and reopening most parts of the economy, we expect a deep reset in Hong Kong's economy. The impact of the pandemic and rising uncertainties (particularly around the new national security legislation) is projected to lead to further challenges in the real estate sector. The direct economic impact of the new national security legislation on the economy should be limited, but reputational damage could spur outflows. Looking forward, hotels, luxury retail and CBD offices are expected to be the most challenged, while staple retail has started showing some signs of recovery, and mass-market residential continues to be relatively more resilient. Overall, we expect risk premium for the real estate sector in Hong Kong to be elevated in the near term.

Sector Outlook and Investment Recommendations Post-COVID-19

Logistics: The logistics sector, although not immune to the impact of the COVID-19 pandemic, has been a relative winner of the global demand shock. We expect the growing e-commerce penetration, particularly online grocery/food sales, to persist post-COVID-19. Over the past few months, supply chain delays have led some tenants to increase inventory levels to mitigate unexpected disruptions. The shift from "just-in-time" to "just-in-case" is likely to persist as long as the pandemic lasts, and could be extended throughout the recovery period. In general, higher inventory levels are positive for logistics demand. In Asia Pacific, exports and imports are not the key driver of logistics demand. Logistic demand has been primarily driven by domestic consumption in the region and is expected to be the least disrupted by the divergence of supply chains. All of these are supportive of logistics demand in Asia Pacific.

Professionally managed rental apartment: The COVID-19 pandemic presents investors/developers an opportunity to consider the concept of professionally managed apartments in Asia Pacific. With the exception of Japan, the apartment sector is not institutionalized in most parts of the region. The US apartment sector could be the reference. Looking ahead to the post-COVID-19 outlook, it could be attractive to offer better amenities for residents and enable them to work from home in a better environment, e.g., business center, small working space, conference room, etc., in the apartment complex. We are in favor of the above for higher-return strategies, including value-added and build-to-core.

Logiport Sagamihara | Kanagawa, Japan

4 Source: The IMD World Competitiveness Center, June 2020

Office: We do not expect central / CBD offices in major Asia Pacific office markets to go away post-COVID-19, although we anticipate a reduction of net absorption of office space on an aggregated basis, partly due to the adoption of working from home. It is too early to draw a conclusion on a structural move from CBD to decentralized offices in Asia Pacific. 70-90% of companies in major Asia Pacific economies (except Japan and Hong Kong) are small and medium-sized companies[5]. Most of these small and medium-sized companies are unlikely to afford setting up satellite offices or having the technical infrastructure for employees to work remotely. Japan has the largest portion of large companies (about 60%) in Asia Pacific, which in theory presents better capacity than other countries to set up satellite offices or offer the technology infrastructure for working remotely. However, the favourable culture of meeting in person and small residential units are likely to prevent a structural shift in Japan. Additionally, some large-sized enterprises may not be in favor of flexible working arrangements due to security and information confidentiality reasons.

We do not exclude the possibility of some companies being willing to set up some satellite offices near residential neighborhoods. However, to the extent companies would still need office space (even with a smaller amount of space or a different format of office space), the amenity and transportation network near CBD locations are still relevant. Therefore, we take the view that CBD offices would still be more favorable than decentralized offices on a relative basis in major office markets in the region.

Retail and Hotel: The pandemic has most severely impacted the health of the hotel and retail sectors. The sharp decline in brick-and-mortar sales has substantially reduced rent affordability of offline retailers. The pandemic also accelerates the negative impact of online retailing which has already been underway. Despite governments' fiscal supports offered to offline retailers, they are unlikely to be sufficient to offset the downward pressure on profitability. The path of the retail sector recovery is likely to be "U" or "L"-shaped. We expect domestic travel to lead the hotel sector

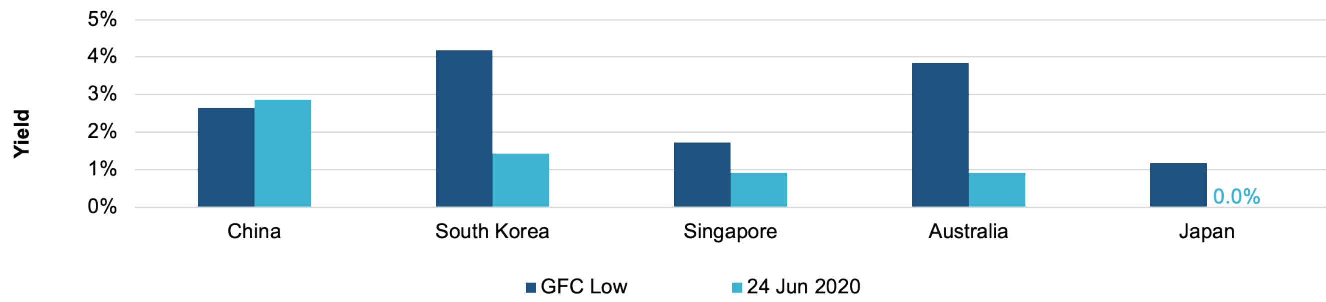
02

Risk-free rates & risk premium substantially below GFC levels

Source: Data for Asia Pacific investment grade (AA) corporate bond yields and high yield (B) corporate bond yields are sourced from Bank of America Merrill Lynch via Bloomberg, and government bond yields are sourced from Bloomberg, as of 24th June 2020

Asia Pacific Corporate Bond Yield Spreads – High-Yield Bond minus Investment-Grade Bond

10-Year Government Bond Yields



5 Source: The Japan Statistics Bureau, as of 16th April 2020

recovery, although with tremendous uncertainty. We are not in favor of hotel and retail assets, particularly for investors with low risk tolerance.

Capital Market Outlook

Throughout the pandemic, real estate capital markets in Asia Pacific have generally been strong. Most investors are taking a wait-and-see view on new investments, and focusing on existing portfolios. We have not seen substantial pricing discounts in Asia Pacific, although we are in the worst recession of decades. Current risk-free rates and risk premiums are substantially lower than during the GFC, although this COVID-19-led recession is projected to be much worse than the GFC. The reduction in interest rates may offset the tightening in lending standards and the increase in risk premium, but it is too early to conclude. The good news is that most property owners in Asia are not under pressure to sell, as liquidity remains abundant under the ultra-low or zero interest rate environment. The biggest unknown lies in the outlook for NOI. If resurgences of infections get much worse than today or last much longer than anticipated, NOI could deteriorate further than anticipated—pricing movements could be partly driven by anticipation. Furthermore, the increase in capital market volatility is expected to drive flight-to-safety, keeping cap rates low, particularly for core assets. This trend is projected to widen the pricing differences between assets with secured cash flows and those without them. In sum, the COVID-19 pandemic presents risks, but also potential opportunities in Asia Pacific, as investment managers play the arbitrage between the “haves” and the “have nots”.

03

Asia Pacific investment Recommendations

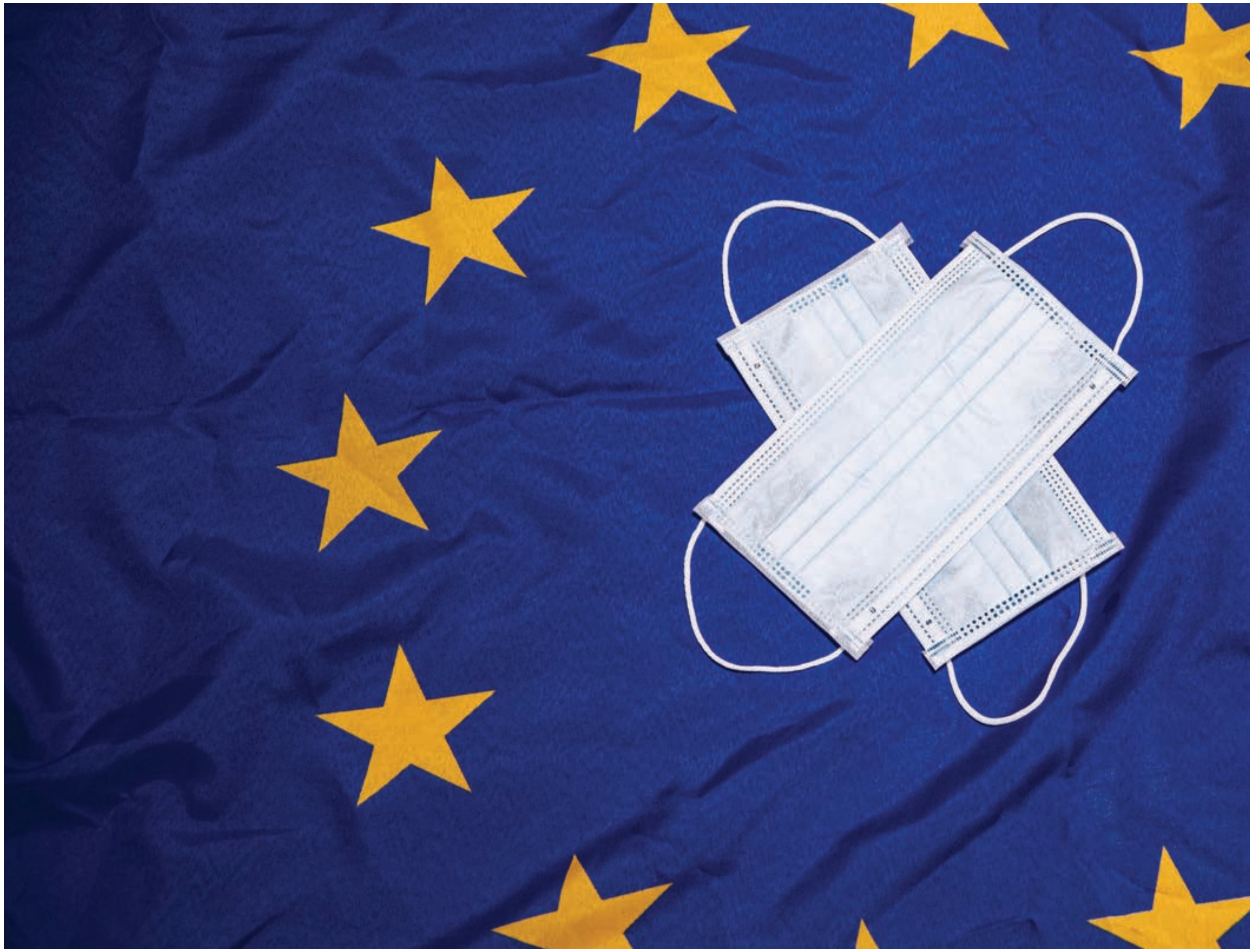
	CORE	HIGHER RETURN
LaSalle's Best Opportunities	**Modern warehouses in well-located and supply-constrained submarkets**	
	(China Tier 1 & satellites cities, Seoul, highly selective in Australia Eastern Seaboard)	*(China Tier 1 & satellites cities, Select China Tier 2 cities, Seoul)*
	Multifamily *(Japan)*	**Highly selective office submarkets with flexible exit timing** *(Tokyo 5-ku Grade-B, Osaka 2-ku, Melbourne CBD, Sydney CBD, Singapore)*
		Multifamily *(Japan, China Tier 1 cities, Seoul, Sydney, Melbourne, Singapore)*
Other Opportunities	Modern warehouses *(Highly selective in Singapore, Tokyo and Osaka)*	
	Office *(Tokyo 5-ku Grade B office, Osaka 2-ku office, Melbourne CBD, Sydney CBD)*	Distressed/repricing opportunities; Preferred equity

Source: LaSalle (06/20)

European Economy Hit Hard by COVID-19

Property Markets Remain Solid, with Notable Exception of Retail

Several countries in Europe have been at the epicenter of the COVID-19 pandemic during the first half of 2020, with some of the world's highest mortality rates in Belgium, the UK, Italy, Spain and Sweden.



The region is now starting to emerge into Phase 2 – 'living with COVID-19'-- as hard-hit economies are permitted to gradually re-open. Despite significant efforts by governments to ease the impact, GDP falls in 2020 are going to be unprecedented in their severity and are only forecast to recover by 2022.

UK macroeconomic outlook complicated by unresolved Brexit

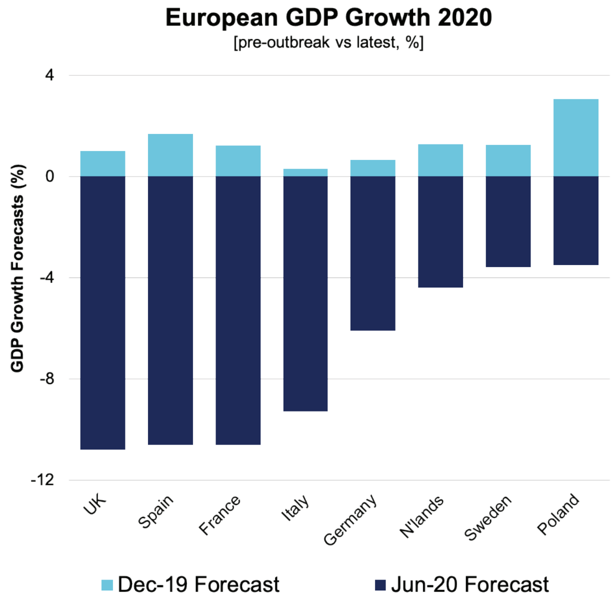
The UK's initial strategy for the Coronavirus pandemic meant that it went into lockdown later than several other large European countries. It then enforced a lockdown which was less stringent than in France, Italy, or Spain. By early May, the UK had surpassed Italy in recording the most coronavirus deaths in Europe. Whilst the infection rates are now falling rapidly and the lockdown is easing, in the coming months there will nonetheless be many questions asked as to how this state of affairs came to fruition.

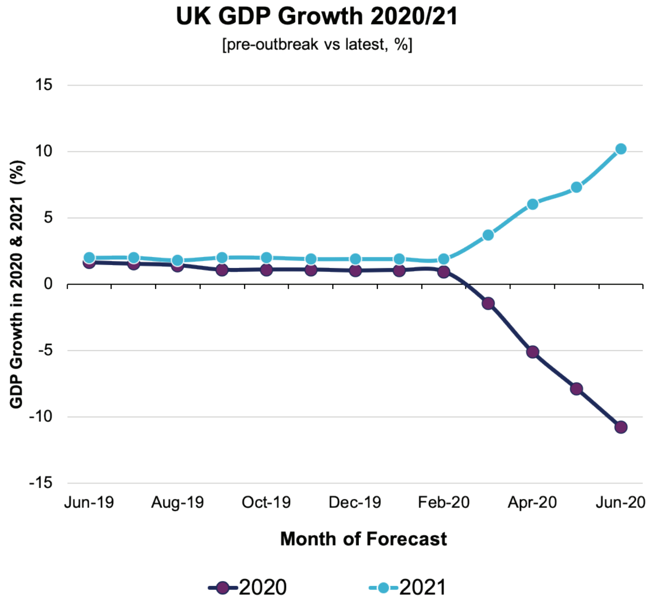
01

European growth in 2020 downgraded sharply

However, strong recovery expected in most countries in 2021

Source: LaSalle (06/20) Oxford Economics (06/20)





As we move into the second half of 2020, the debate around the UK's unresolved future relationship with the EU re-ignites. From the start, Brexit has evenly divided both politicians and the public alike. The current debate around the future trade agreement is no different. There is a high likelihood that the UK will end its transition period with either no deal or only a very limited one in place, leading to more confusion and unpredictable costs for embattled UK businesses. The sharp drop in GDP already forecast for 2020 (-10.8%) and the subsequent recovery in 2021 (+10.2%) may mask much of the impact. The true costs of a WTO relationship may only become apparent over time. As ahead of other key Brexit milestones since 2016, some foreign real estate investors will wait for clarity in 2021 before targeting the UK. Others may choose to look through this noise and take advantage of the UK's current attractive relative pricing point, weak currency, and the stability that this majority parliament affords. Yet they will have to operate in an economy now even more indebted following the unprecedented fiscal and policy support provided by the UK government. Even with this support, raised unemployment and weak wage growth will take time to revert to previous trends. Inflation will be low in the first instance. But with the cost of borrowing expected to remain at its lower bounds for the long term, there lies a modest risk of runaway inflation in the medium term. Some real estate assets can act as a partial hedge against that risk should it transpire.

Continental Europe severely impacted by coronavirus

On the Continent, the pandemic looks likely to reinforce a two-speed Europe. Italy initially was the among the hardest hit countries, though Belgium, Spain and France have seen significant spikes in mortality and case loads too. Germany, the Nordics (excluding Sweden) and Central & Eastern Europe have emerged with far fewer casualties. As we go into the second half of the year, stringent lockdowns are easing across the continent.

The pandemic caused commensurate supply and demand shocks to the region. Eurozone's economy collapsed, with GDP growth projected to decline by about 8% in 2020. This is the largest fall in the history of the EU and comes after the gradual slowdown in growth already observed in 2019. The most significant declines have been seen in France and Spain, followed by Italy, while Germany and the Benelux countries are proving more resilient. Governments have responded on an unprecedented scale; loose monetary policy and quantitative easing abound, much of which is

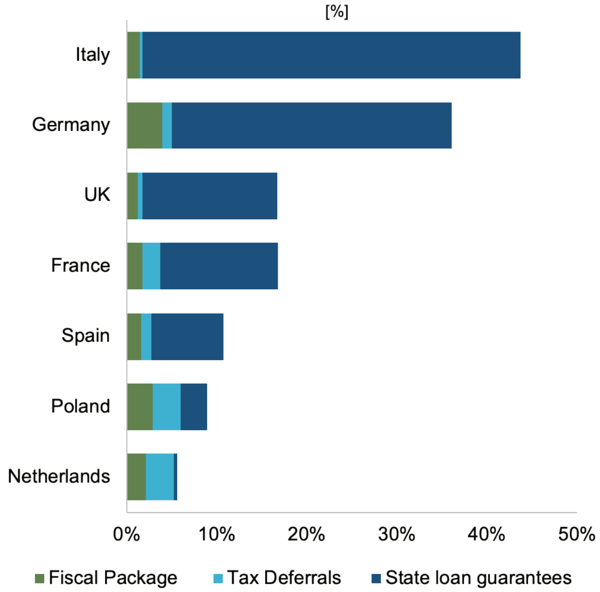
02

German policy response one of the strongest in Europe

Germany and Netherlands better placed to accommodate for the fiscal stimulus

Source: LaSalle (06/20) Oxford Economics (03/20) WorldGovernmentBonds.com (06/20)

Policy Responses as Proportion of GDP



Sovereign Credit Ratings

	Moody's	S&P	Fitch
Aaa or AAA	Germany Netherlands US	Germany Netherlands	Germany Netherlands US
Aa1 or AA+		US	
Aa2 or AA	France UK	France UK	France
Aa3 or AA-			UK
A1 or A+	China	China	China
A2 or A	Poland	Spain	
A3 or A-		Poland	Poland Spain
Baa1 or BBB+	Spain		
Baa2 or BBB		Italy	
Baa3 or BBB-	Italy		Italy

aimed at shoring up a fragile peripheral Europe and heading off the risk that Italy's fiscal position will cause a new Eurozone crisis. The ECB could purchase up to €1.1 trillion of bonds in 2020, a move which would allow governments to increase their debt issuance substantially. Yet unlike other central banks, the ECB has left its deposit rate unchanged so far. Monetary conditions are expected to remain ultra-loose for an extended period.

Overall, we expect Eurozone GDP to rebound 6.2% in 2021, although a considerable degree of uncertainty surrounds this forecast. The extent of the recovery depends on the trajectory of the virus, the duration or recurrence of strict containment measures, as well as the size of the European governments' policy responses.

Sectoral Trends

Retail's structural change accelerated by coronavirus

The European retail sector was facing structural challenges before the coronavirus. It was characterized not only by online sales and rising costs impacting both sales and profits but also by changing consumer behaviour. The result was an increase in store closures and insolvencies, rising vacancy rates within shopping centres, negative investor sentiment, and ultimately a correction in pricing. These shoots first emerged in UK, but have recently spread to the Continent. The pandemic has subsequently accelerated and amplified the impact of these trends.

UK retail began to unwind rapidly in 2017, never having fully recovered from the GFC. A perfect storm of events collided in the aftermath of the EU referendum and remain to this day[1]. These have been exacerbated in dramatic fashion by the pandemic's immediate impact on physical shopping. Limited evidence from both the listed and unlisted market points to a deeply troubled and overrented sector. Nonetheless, the pandemic does not alter our view as to what will ultimately emerge as the winning retail businesses, formats, or locations. Department stores and shopping centres that offer neither convenience nor experience will struggle to adapt. The principal challenge for retail landlords will be to formulate an exit strategy that minimizes losses in an illiquid market. Certain secondary retail assets may be able to provide attractive income returns, but question marks remain as to how sustainable that

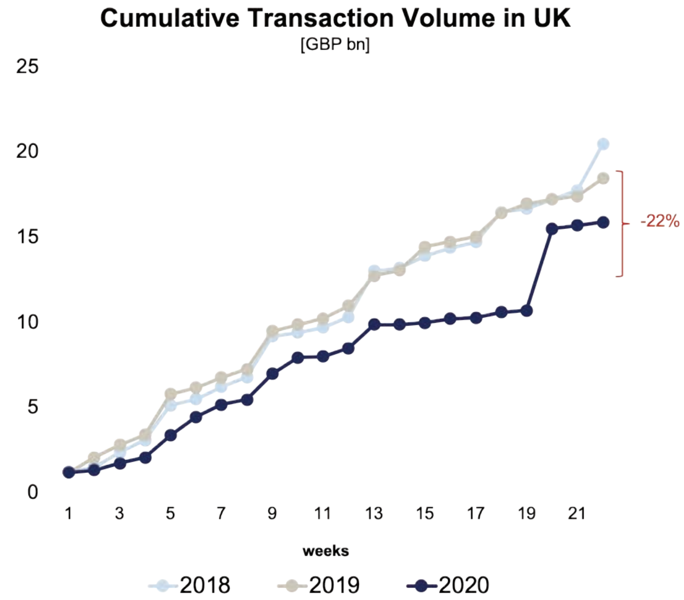
1 The perfect storm consists of many factors, among them: Brexit uncertainty, the demise of department stores, the rise of e-commerce, the withdrawal of debt capital, and rising occupancy costs due to rising property rates (taxes) and leaseholds that together create higher OCRs (occupancy cost ratios) in UK real estate relative to retail sales than other countries.

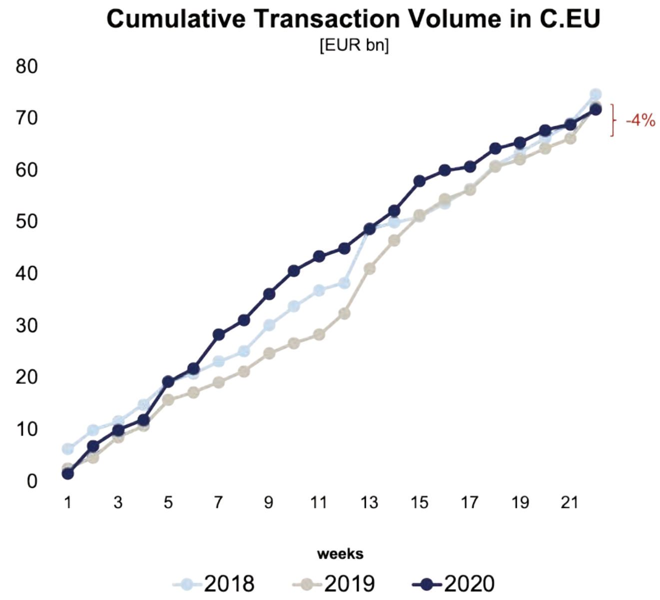
03

Drop in investment activity sharper in UK than in C.EU

Increase in C.EU lot sizes obscures the trend as both regions saw similar falls in deal count

Source: LaSalle (06/20) RCA (06//20)





income stream is and what risks are attached to it. By contrast, adaptable multichannel retailers willing to embrace new business models in the strongest locations will survive these turbulent times best. On average, UK retail has lost c.12% of its value since 2018, and we expect another 30% decline on average in 2020. Positive rental growth is unlikely until competition between occupiers returns to the market in several years' time.

In continental Europe, the impact of the structural trends has not been as profound as in the UK. That said, increasing vacancy rates and rental declines have emerged in Belgium, Netherlands, Spain and parts of Germany. Rental growth was stagnating even before the lockdowns. Projected sluggish consumer spending will have a severe impact going forward, and will be especially evident in tourism and leisure-related retail. By contrast, non-discretionary, grocery-anchored retail, and retail parks will continue to play an important, albeit changing, role across the region. Nonetheless, rents are anticipated to decline for the next three years at a minimum, before survivorship bias eventually facilitates slow growth from rebased, more sustainable levels.

Logistics continues to deliver

Responding to many of the same secular drivers, but sitting at the polar opposite of the opportunity spectrum, is logistics. Migration to online retail is supporting demand in the logistics sector. Moreover, re-shoring of some manufacturing may start to happen in Europe and boost both industrial and logistics demand further.

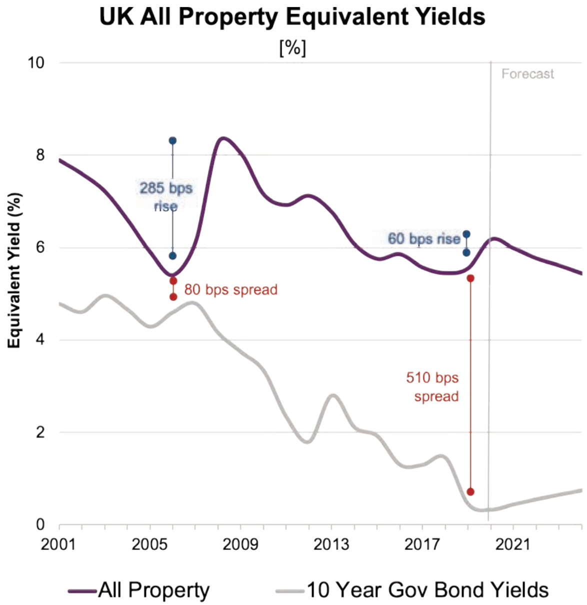
Not unlike other countries, online sales during lockdown reached record levels (30% of total) in the UK. In Germany, online sales grew by 12% between January and April 2020. This contrasts with overall retail sales, which dropped by 8%. Emergency supply chain reorganization has reinvigorated occupier demand that had started to wane. This will temporarily alleviate some concerns over near-term speculative oversupply of motorway logistics. However, we are unchanged in our view that this format is at risk in the longer term from technological advances, such as autonomous vehicles and 3D printing. Urban logistics, however, remains severely undersupply, and we expect little or no rental declines in the major markets in the near term.

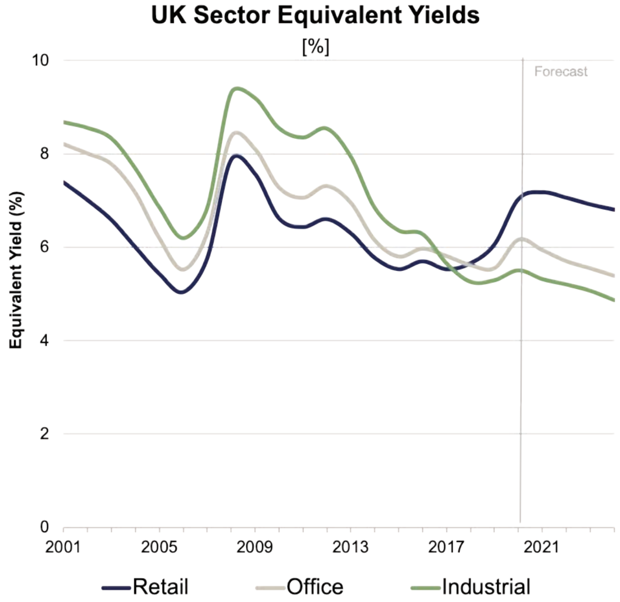
04

Pandemic end & lower bond yields sharpens UK yields in 2021

However, only modest yield recovery expected in Retail

Source: LaSalle (05/20) MSCI (12/19) Thomson Reuters (06/30)





Office sector's resilience threatened by co-working & remote working

The relative strength of the office markets during the pandemic is partly due to its occupiers' ability to work remotely. It is business-as-usual for many financial, professional, and technology companies, and these sectors have not recorded many job losses to date. However, the success of remote working is a double-edged sword, threatening the medium-term demand for office space. We believe that whilst this threat should not be underestimated, some negative impact could be offset in the short term given that the European largest office markets are all undersupplied for high-quality space. In most cases, the construction pipeline is also restricted. In the UK, this has been largely due to developer and lender reticence since the Brexit saga began. This undersupply will limit rental declines in 2020/21 to modest levels compared with the GFC.

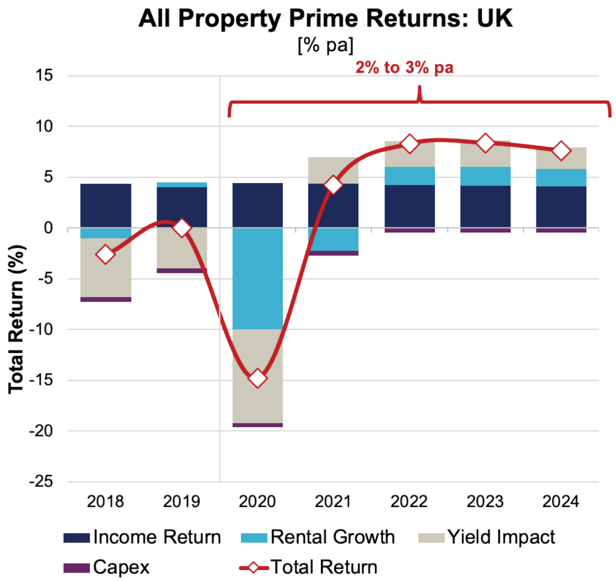
In the UK, unchanged from our view prior to coronavirus, this supply/demand imbalance will encourage investors to pursue refurbishment and redevelopment strategies in enduring locations once the market has stabilized. Some of the 'at risk' service office providers occupy highly-desirable office buildings in prime Central London locations that should appeal to higher return investors. In continental Europe, the office sector has recorded strong performance in the run-up to the pandemic. Tenant selection and high-specification buildings will become more important as the economic recession takes hold and attitudes towards remote working evolve.

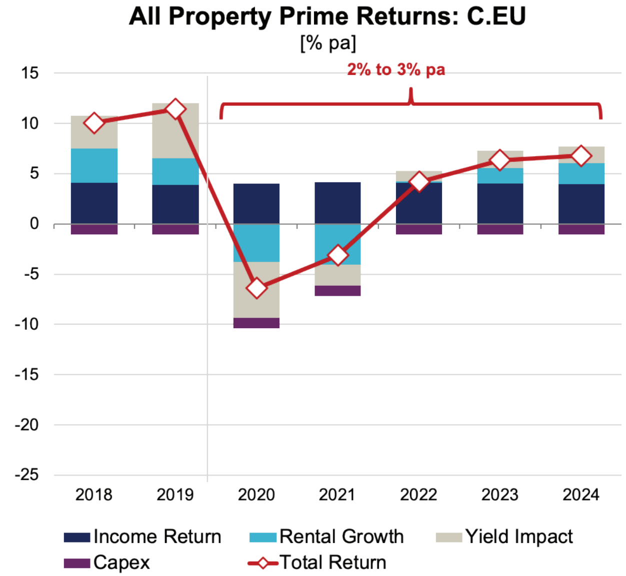
05

Returns negative in 2020 but Continent more resilient than UK

2021 will prove to be a strong vintage year

All Property is Retail, Office, Logistics but excludes Alternatives
Source: LaSalle (05/20) MSCI (12/19)





Residential is living up to the “safe as houses” adage

In terms of life stages, the institutional investment market for residential property in several European countries could be characterized as a young adult. Yet this relative lack of maturity does not prevent it from being the most resilient sector in the face of current challenges. The residential sector is receiving more support from the government than commercial real estate, and the illiquidity in the housing-for-sale market is supporting demand for rental properties. The net result is a sector with appealing long-term drivers that continues to attract interest from both domestic and cross-border investors alike, even amidst the ongoing uncertainty.

Other residential-based sectors are faring less well. However, unlike the retail sector, we expect these headwinds to largely dissipate as we move into Phase 3 of the pandemic. Understandably, most impacted to date has been the hotel sector. Student housing has also been adversely affected, although this counter-cyclical sector often sees higher demand from students during economic recession given the poor employment prospects. And whilst there are downside risks due to the large component of foreign students, especially in the UK, the detrimental effect of the pandemic should be short-lived. Least affected of the residential-based sectors is healthcare; whilst care homes may suffer from stagnant demand until such time as the coronavirus is truly vanquished, other medical establishments will remain resilient.

06

UK: Investment recommendations

New acquisitions must have strong ESG credentials

Source: LaSalle (05/20)

	Core		Value-Add	Opportunistic
	Defensive	Income		
Best Opportunities	Mezzanine debt & whole loans			Residential Development
	UK Residential	Regional Offices *prime in key centres only*	London & key regional city offices refurb/build-to-core *incl. discounted pooled funds & REITs*	
	Inflation-linked with high site value	Income-producing assets with high site value *incl. urban retail parks & distressed retail*		
	Ground leases & income strips			
	Long hold irreplaceable assets	Urban logistics & multi-let industrial *incl. income producing & development*		Special situations *incl. pref equity, development finance, recaps & distressed loans*
	Affordable housing, retirement housing, healthcare, educational facilities *incl. for Social Impact*			

The only active strategies until market liquidity returns. Other strategies on hold

Filling the void left by the banks

Although the banking industry is in a far better position than it was during the GFC, lenders are nonetheless cautious, given the heightened uncertainty that prevails. Alternative lenders are well equipped to step into this void, particularly in the established whole loan or mezzanine loan area. However, it is also increasingly evident that higher-returning opportunities will be forthcoming. These would include recapitalizations, distressed loans, and preferred equity. Whilst these higher return opportunities may be most plentiful in the retail sector, the downside risks here will also be most acute.

Playing the long game

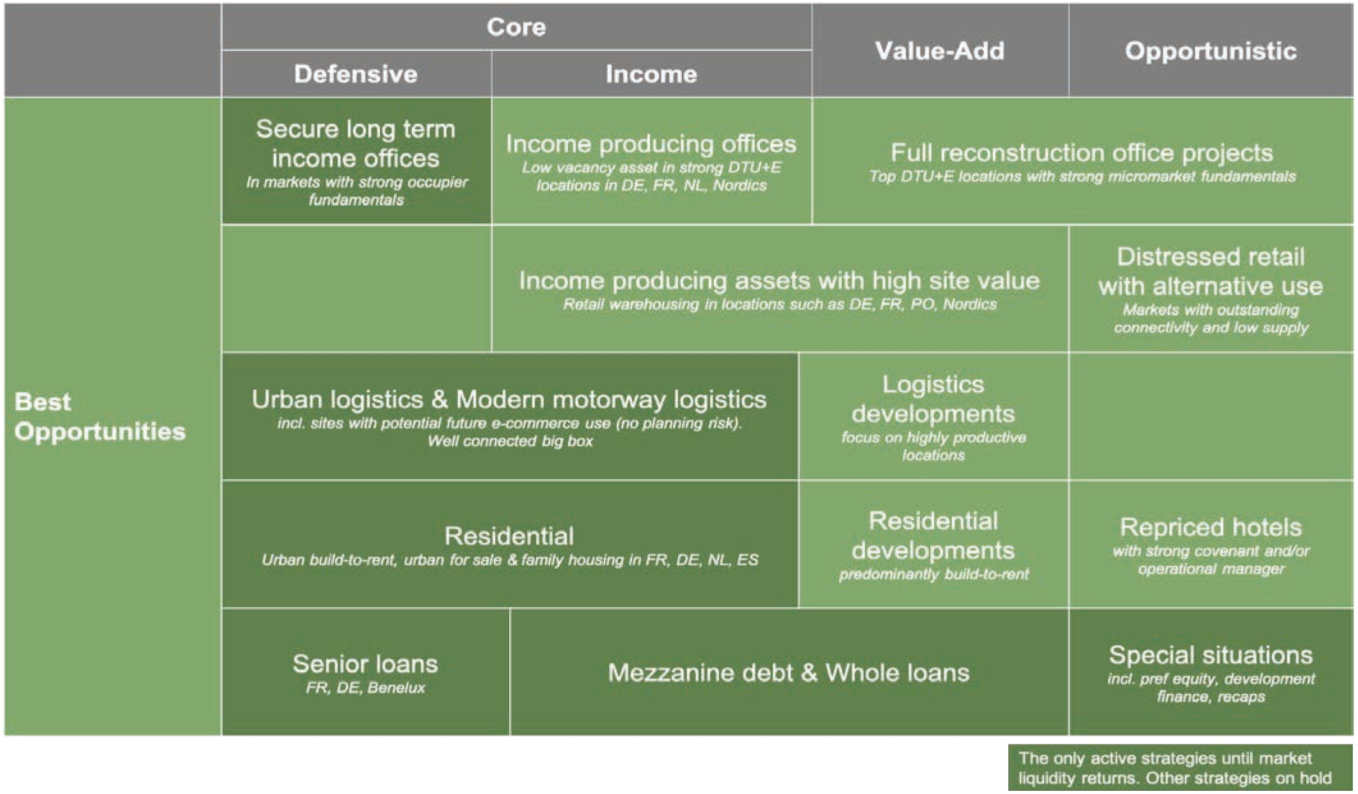
European investment activity has been very strong in recent years, surpassing previous records reached just ahead of the GFC. The strong occupier fundamentals and the generous spread of real estate yields over risk-free rates meant that real estate seemed attractively priced to investors on a relative basis.

Moving into 2020 and the COVID-19 pandemic, the European investment volumes held up well but will inevitably slow in the remainder of the year; the lockdowns have put a brake on the completion of transactions. Investors, especially private smaller players, started to adopt a ‘wait and see’ attitude and delay decision making. Cross-border capital has been disrupted by the curtailment of networking events, face-to-face meetings and inability to view assets. Liquidity will remain low until these conditions change. The ongoing flight-to-safety is likely to widen pricing differences between assets with a secure cash flow and those without.

The most resilient of all UK real estate is the sector which least resembles it. The pricing on liability-matching assets such as income strips or long index-linked leases to investment-grade covenants, has

07

Continental Europe: Investment Recommendations



Source: LaSalle (05/20)

not been adversely affected to date. The strength of this opportunity lies in its resemblance and superior pricing to bonds, which are delivering historically-low yields. With the outlook for bonds set to remain weak for the foreseeable future, this traditionally domestic opportunity is now seeing increasing interest from foreign investors. The challenge is to ensure that the income stream is robust and will remain so in an uncertain world.

Some investments are poised to make an impact

Recent events may prove to be a pivotal moment for the nascent impact investing sphere in Europe. The pandemic has had enormous public health ramifications across the globe and has fundamentally affected behaviours and attitudes, particularly towards the wider needs of society. Whilst we believe that the long-term structural drivers for impact investing in real estate remain relatively unchanged by the pandemic, changes in behaviour and attitude will have a profound effect on the demands of investors to see returns beyond financial ones. This should lead to more capital entering the sector, particularly in the UK, when stability and liquidity returns to the market. The state is often seen as the natural impact investor, and given that the governments of most developed nations have stepped in with unprecedented economic support in the wake of the pandemic, we expect this to limit their ability to fund critical areas of need in housing, health and education in the future. This is likely to lead to an increase in the need for private funding to support such initiatives, and hence the investment opportunities for an impact strategy in real estate may well increase.

North America: Canada and US Will Experience a Sharp Recession, but both Countries are Leaders in Labor Mobility and Innovation; US is a Laggard in COVID-19 Control

The path taken through the COVID-19 pandemic by the US and Canada highlights their unique positions among property investment markets, but both countries are being impacted by global thematic forces.

Both the US and Canada entered the downturn from a position of strength, and both countries are providing significant fiscal and monetary policy support to mitigate the impacts of a sharp economic contraction due to the pandemic. The differences from other countries are tied to their diversity, in both geography and policies that derive from a federal system of government. This section addresses these similarities and differences, then capital markets conditions, and finally, other events we are watching in these markets.

Heading into the pandemic, both economies and most of the major real estate markets in the US and Canada were on solid footing, with low unemployment and vacancy rates. Both countries were in a period of remarkable stability, with steady transaction volumes, moderate value increases for the major property types except

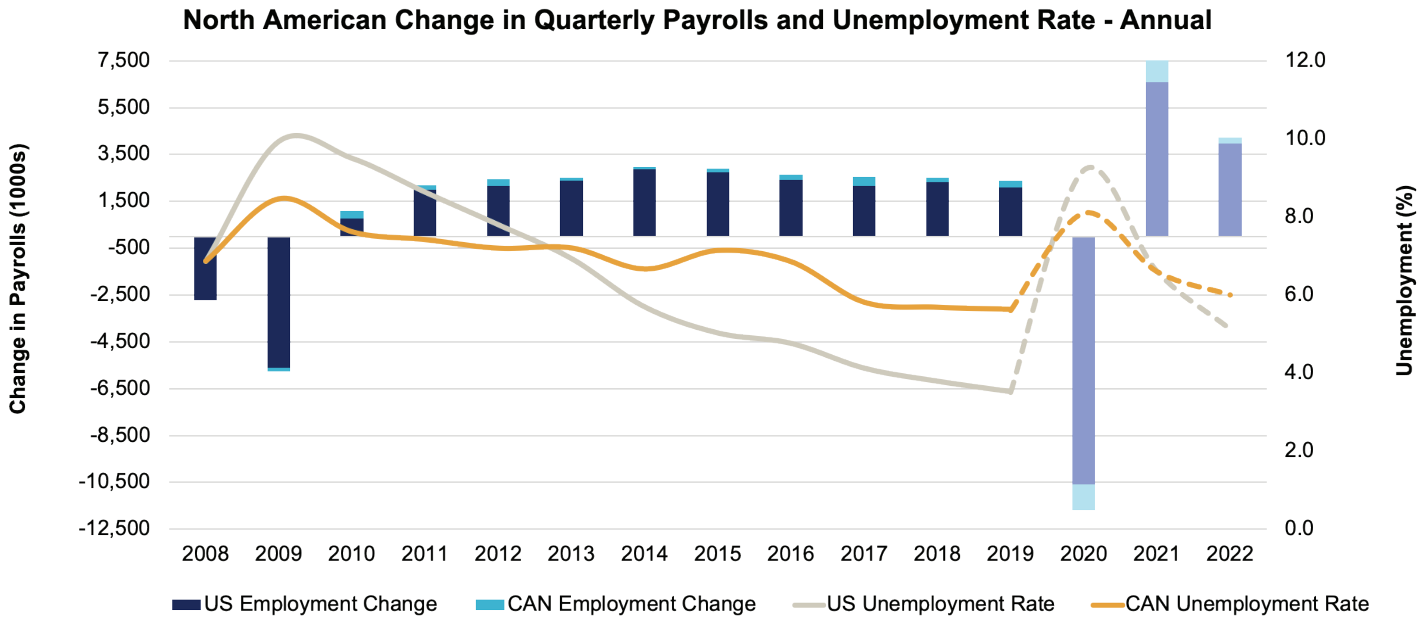
02

North American Change in Quarterly Payrolls and Unemployment Rate

US Unemployment forecast to be more volatile than Canada

Source: US Bureau of Labor Statistics, Statistics Canada, Conference Board of Canada, Oxford Economics. Quarterly data through Q1 2020. Forecast data most recent as of June 2020.

Note: Past performance is not indicative of future results. There is no guarantee that any trends shown herein will continue or that any forecasts shown herein will materialize as expected.



retail, and balanced supply and demand. This footing will help the economies and real estate markets weather the pandemic, but there will be significant near-term volatility and risks. Unemployment has increased rapidly, but recent double-digit increases in the unemployment rate are less traumatic when the starting point is an all-time low and many of the job losses are due to furloughed workers whose employers intend to invite them back once the economy re-opens. Regardless, temporary or permanent job losses are painful, especially for those in lower income brackets without savings to fall back on. Yet, the Canadian and US labor markets are both more fluid than those in other G-20 countries, with higher levels of metro-to-metro migration and churn. This labor fluidity may shorten the path back to a healthy economy.

Property Market Outlook

The near-term relative performance across property types is reflected in the level of vacancy entering the downturn. Industrial properties were near record low levels of availability, a key reason we expect the severity of this downturn to be less for industrial than past recessions. Apartments were also in a strong position with relatively low vacancy and a balanced supply and demand, but both at strong levels. This suggests the near-term will see rising vacancy and falling rents, but a quick recovery as new supply slows and the previous demand trends resume, which will quickly bring the market back into balance. In the US, office had only moderate demand with high vacancy rates relative to other property types at levels just below the long-term average. This aligns with our forecast for a typically volatile downturn and then a slow recovery, as demand will not be sufficient for a strong rebound. In Canada, office demand was strong in most markets, with the exception of Calgary and Edmonton, which have been weak since the 2014-15 oil price downturn. Retail entered this downturn from a position of weakness, with e-commerce eroding brick and mortar sales and many retailers over-leveraged. This will compound the near-term weakness across retail segments and tip some weaker retail properties into distress.

The other key similarity is the robust fiscal and monetary policy support to help mitigate the economic impact of the pandemic. Both the US and Canadian governments approved significant fiscal stimulus. In Canada, nearly CAD $250 billion was approved at the federal level, or roughly 12% of GDP; and in the US, over $2 trillion was approved despite deep political divisions. If future

Bay Centre | Victoria, British Columbia, Canada

70 University - Tech tenants | Toronto, Canada

O'Hare Industrial Portfolio | Elk Grove Village, IL

stimulus is needed, the outlook for approval in the US is murky, which puts the US at elevated risk in the event of a second wave of required economic shutdowns; while the Canadian government appears more willing to extend unemployment benefits if needed. The US Federal Reserve was quick to aid financial markets amid significant stress that emerged in mid-March, as the impact COVID-19 would have on the US and global economy became clear. The Bank of Canada also quickly cut rates to 0.25% and initiated bond buying for the first time in its history. This support has enabled lending to resume and provides many businesses with the footing needed to survive until the recovery and the capacity to expand when that recovery starts.

A Divergence in Pandemic Responses

The US starts to diverge from Canada (and many other countries) in the lack of a strong national response to contain the spread of COVID-19. The US Federal government put the onus on states to implement regulations on businesses, develop testing capacity, provide needed protective equipment and treat affected people. This has and continues to cause unnecessary confusion and even fighting between states for needed medical resources, but it also acknowledged the vast differences in how different states and localities were impacted and how they responded. As of this writing in late June, the hardest hit US markets, such as New York, Boston, and Chicago, are experiencing the lowest levels of new cases since the onset of the pandemic and are going through a slow and measured process of re-opening their economies. On the other hand, some places that were spared the brunt of the first wave of infections are seeing record levels of new cases (e.g., major markets in Arizona, Florida, and Texas) and re-imposing social distancing and business restrictions as they attempt to control an outbreak that is overloading healthcare systems. As this impacts these major markets and potentially others, it could set the nascent US recovery back. The wavy nature of the recovery is likely to be pronounced in the US until either vaccines or treatment are available to move the country into the Phase 3, post-COVID environment.

Large Countries, Diverse Markets

There is also diversity among markets based on lifestyle and climate, which impacts the risk of exposure. In Canada, Phase 2 re-openings recently began in the larger, denser markets of Toronto and Montreal, while the rest of their provinces, where cases have been significantly lower, started their re-opening phases sooner. In contrast, in the US Sunbelt, most trips are made in personal automobiles, and the milder climate allows for some outdoor activities. In more dense markets such as New York, most people use mass transit; and when COVID-19 started to spread it was winter, keeping many activities indoors. Beyond lifestyle and climate, there is also diversity in public attitudes towards prevention. There is an emerging, counter-productive rebellion against public mask wearing among some segments of the US population, while others embrace masks as a social responsibility to keep themselves and others safer.

How policy, geography, climate, and beliefs interact with the diversity among regional economic drivers will determine the relative performance across US and Canadian markets and real estate portfolios in both the near-term and the long-term (and the near-term and long-term might not align). In the near-term, laggards will be metros with high levels of new infections (challenging to predict), high density metros -- especially major markets with dominant urban cores -- and markets with the greatest exposure to tourism and energy (Las Vegas, Orlando, Houston and Calgary). But this relates to Phase 2 performance, and given the timeframe of real estate investment, more of our focus is on Phase 3 performance. As we move into a post-COVID-19 world, we see a different set of drivers being critical to economic and real estate performance. The near-term issues of infection levels, density challenges, and tourism exposure will be less significant. We expect to see an increase in the ability to work from home will enable some people to locate where they want. This sets the stage for lower-cost markets with a better quality of life to be leaders. This includes places like Austin, Denver, Charlotte and Ottawa.

In addition to geography, property type is an important lens on the future of the US and Canadian real estate markets. While the near-term outlook is informed by conditions entering the downturn, long-term trends are generally aligned with the global property type themes in Chapter 2. In addition to the office, retail and industrial trends, a large share of US investment is in the apartment market and in a variety of specialty property types. In Canada, the strong investment performance of apartments has made them an increasingly sought-after property type, which currently accounts for 12% of the capital value of the MSCI/REALPAC Canada Annual Property Index, up from less than 6% ten years ago. Apartment demand is not expected to see long-term structural impacts from COVID-19. Picking the right markets and assets will continue to be informed by demographic trends and location preferences. The specialty property types LaSalle has recommended for US private equity investment have largely lived up to their defensive promise. Medical Office was more adversely impacted in the short-term than in previous downturns, but activity is recovering. Self-Storage remains a defensive property type but struggled a bit more than in the past due to elevated new supply. Life sciences has historically been volatile but appears to be benefiting from a surge in research activity to find vaccines and treatments for COVID-19. Some traditionally defensive specialty property types have been more adversely impacted, notably student housing and senior housing, which were hurt by school closures and COVID-19 control issues, respectively. Meanwhile, some of the strongest-performing specialty property types are more investable through public REITs; this includes data centers, cell towers, manufactured housing, and single-family home rentals.

At this point in the pandemic recovery, we have limited visibility on real estate pricing, and only marginally more on the direction of capital flows. Transaction volumes have fallen sharply since March, and properties trading are those with the strongest buyer interest with limited value declines from pre-COVID-19 pricing. To determine where the market might be heading, we are focused on which pools of capital are active, what they are likely to target, and where capital seems to be lacking.

This capital markets analysis starts with the so-called, “dry powder” in Private Equity funds. This capital was in place at the start of 2020 and is largely ready to invest, but only when absolute return targets are achievable. This often requires debt, or a significant discount to stabilized values, which is only available in distressed situations that are slow to emerge. There is some debt capital available for stabilized assets, especially in industrial and apartments, but it is more limited for office and especially retail. Thus we expect higher return buyers to be the first movers for opportunities in the apartment or industrial sectors, and to become active for other opportunities either at sharp discounts or when debt is available for those situations.

“We expect to see an increase in the ability to work from home will enable some people to locate where they want.”

REITs moved to the sidelines almost universally as public market values collapsed in March. Since then, REIT values have been on a slow and steady recovery, but for most traditional property types, REITs are still trading at discounts to updated NAVs. There are specialty property types where REITs can be active, and potentially industrial.

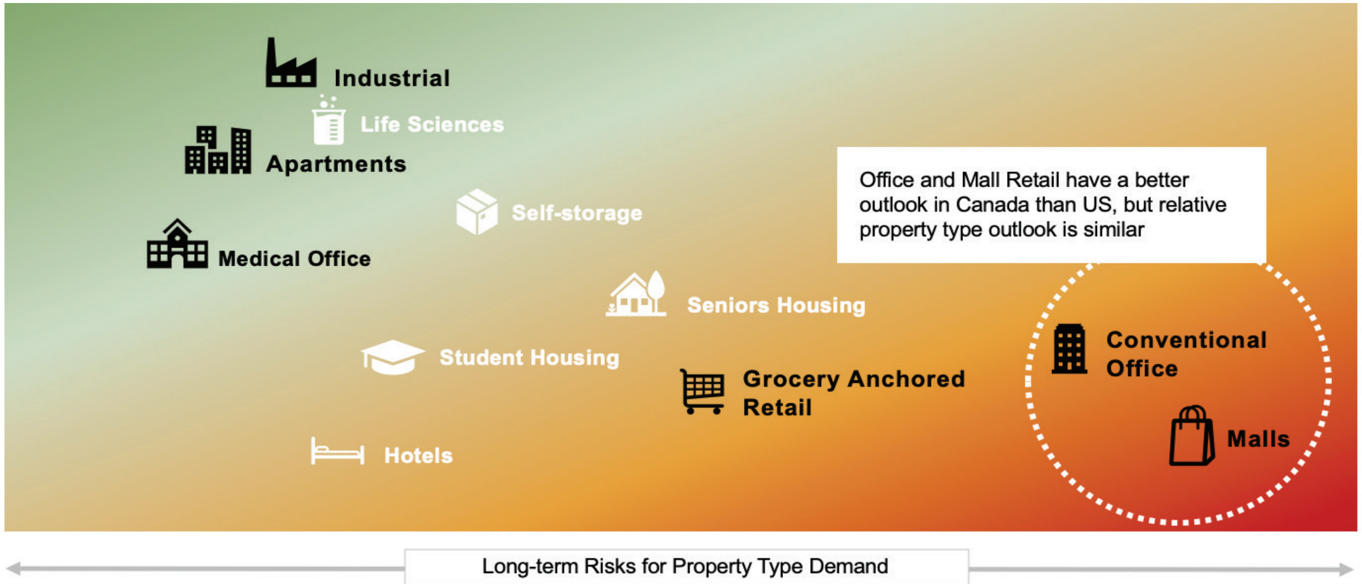
Open-end core funds are not expected to pursue new investments until their investors have confidence that appraisal values are indicative of market values. The severe and rapid onset of the downturn at the end of the first quarter put open-end funds in a challenging situation, as appraisers were reluctant to lower values without

03

Expected Rent Growth vs. Long Term Risk

Source: LaSalle Investment Management. As of June 2020.

As based on market assumptions, opinions and research by LaSalle's Research and Strategy group at the time of this presentation



transaction evidence. This also prompted some funds to place temporary suspensions on contributions and redemptions given the uncertainty around valuations. An extended slowdown in transactions (due in part to travel bans and government shutdowns) means alignment between appraisal values and market values might still not be possible in the second quarter. We expect the healthier open-end funds to resume activity by the end of 2020, but not be first movers. The typical first movers in the core space have been foreign investors, but this is expected to be limited in this cycle due to travel restrictions. Perhaps the first movers in the core space in this cycle will be domestic separate account investors, who (thanks to a strong rebound in the broader stock market) do not have denominator effect issues in this recovery.

As with any downturn, there are investors on the lookout for distressed situations. Thus far, distressed equity sales have been few and far between, but we are less than four months into this downturn. Investors focused on distress are finding it first in the US debt space, with loans backed by challenged assets being put up for sale. Some of these situations could become equity transactions in the months to come, but that will be an extended process. However, if the recovery continues in a measured but relatively steady pace nationally, we expect distress will be driven more by assets with severely impacted operating fundamentals rather than over-leverage of financial distress. This will be most notable in the lodging and retail property types and more common in the US, where more assets are owned by groups with limited financial resources to bridge a period of operating distress.

Social Unrest and Political Factors

While the economic data and real estate outlook is dominated by COVID-19 impacts, there are other events to note that can impact real estate investment. In late May, the ongoing racial inequities in the US returned to the spotlight with the murder of George Floyd by Minneapolis police. This led to nationwide non-violent protests; and in early June, looting and property damage occurred in some cities. The quick return to non-violent protests is a hopeful sign for positive societal changes, and a signal the US will not see a repeat of the urban out-migration that occurred two generations ago following urban riots in the late 1960s. There will be a Presidential election in November, with a public health crisis and civil unrest as a backdrop. As these issues come to the fore, economic issues, and especially long-term economic policy questions, are fading from the spotlight. President Trump

04

US Real Estate Capital Sources and Trends

Capital Source	Near Term (1-2 quarter) Outlook	Mid-Term (2021) Outlook	Notes
Open-End Funds	↓	↑	• Value uncertainty a near-term headwind. • Role of real estate in a diversified portfolio reinforced. • Investor denominator impacts not expected
Closed-End Funds	↔	↑	• Continue to have high level of dry powder. • Likely first movers, but distressed opportunities might not be limited.
Cross-Border Capital	↓	↑	• Travel restrictions remain a near-term barrier to investment. • Lower hedging costs likely to boost capital flows.
REITs	↓	↔	• NAV discounts will limit activity. • Highly uncertain when major property type REITs will have a competitive cost of capital
Direct High Net Worth Investors	↑	↑	• Interest in real estate remains and one of few buyer groups remaining active • Low interest rates will boost relative appeal of direct real estate ownership
Defined Contribution Funds	↔	↑	• A small player in the market today, but recent US DOL ruling should broaden availability of direct real estate to DC funds.

Source: Bloomberg, LaSalle. Data through 21 June 2020.

Note: Past performance is not indicative of future results. There is no guarantee that any trends shown herein will continue.

was planning to make a strong economy the centerpiece of his campaign for a second term, but with that being taken away, it appears social issues will be put in the forefront. As we consider the impact of this election on the real estate market, our view is that it will be relatively minor despite the vast differences in tone and policy between the two candidates. This is because while we have seen from the last several elections that policy can impact the lives of many, it is not the main guiding force for overall economic activity. In considering our economic and real estate outlook through the end of 2021, politics falls well behind the COVID-19 pandemic as a driver of outcomes. This is also the case in Canada, where despite there presently being a minority government at the federal level, there is currently no cohesion among the opposition nor any non-confidence motions in play that would force an election in the near term.

05

North American Investment Recommendations: 2020 Mid-Year New acquisitions must have strong ESG credentials

Multi-Family and Industrial Dominant Preferred Strategies. Cautious Approach to Office and Retail Investment Recommended

Source: LaSalle (05/20)

BEST OPPORTUNITIES	LASALLE'S TOP US STRATEGY RECOMMENDATIONS	
SECONDARY OPPORTUNITIES	CORE	HIGHER RETURN
MULTIFAMILY	US: Suburban Income Strategy, Secondary Markets	US: Select Development Situations, Specialty Residential (Active Adult, Single Family for Rent)
	Canada: Major Market Urban	Canada: Suburban Repositioning, Build-to-Core
OFFICE	US: Creative / Suburban Town Centers	US: High Yield Suburban
	Canada: Creative/Edge-of-CBD Urban,	Canada: Renovation/ Lease-Up
RETAIL	US: Top STARS* Centers with Ecommerce Resistant Tenancy	US: Deep discounts on centers with strong box tenants
	Canada: Urban Grocery-Anchored	Canada: Repositioning (Conversion, Densifying, Adding Mixed Use)
WAREHOUSE	US and Canada: Distribution and Logistics Buildings in Major and Secondary Markets	US and Canada: Modern Warehouse Development; Shallow Bay and Multi-tenant at Discount Pricing
Niche	US: Medical Office, Self-Storage, Life Sciences Canada: Self-Storage, Medical Office, Student Housing	

Offices

The Rapid Rise of Workplace Flexibility

We expect the current market disruption being experienced as a result of COVID-19 to have profound and long-term implications on the future of office demand and investment strategy. Some of those changes will be clear in the near term, others will take more time for clarity to emerge. The top four trends we are watching closely are:

1. **The balance between remote working and employee density on overall demand**
2. **The impact on geographic demand from changing employee/employer location preferences**
3. **Outlook for specialized office types such as life sciences and medical office**
4. **The future of the flexible office subsector**

At LaSalle, we will be continuing research on each of these themes in the months and years ahead. We acknowledge the challenges that the current climate presents in terms of uncertainty. Also, a property researcher has limited ability to quantify trends at this early stage, as distinct from re-quoting anecdotes reported in the news media. The first two trends listed above will not be clear until well into "Phase 3", for the purposes of calibrating long-run office demand. We also expect to find significant differences by market, tenant type, or asset. In the meantime, we have set up models that weigh how these forces are likely to generate both net increases and net decreases in office demand, depending on the expressed preferences of office users in each market. The third trend has been generally positive for specialized office demand, but we have learned from experience that these niches also take special skills to operate. For several years, we have produced research reports that explore the fourth trend—the dynamics of flexible office—as has our parent company, JLL.

The pandemic redirects the flexible office conversation in some important and interesting new ways. Powerful near-term headwinds face co-working operators whose business models rely on high levels of close-up interaction. Yet, the global "work from home" experiment also sets the stage for potential long-term tailwinds for greater workplace optionality. The rolling membership and short-term lease models adopted by flexible operators have been left exposed during a time of social distancing and remote working, particularly where the demand base is largely made up of individuals and small businesses. As such, these operator models will not likely survive in its current form. The demand for flexibility—for leases and for space layouts—will remain a growing part of office market dynamics. We expect to see major changes in the way that the office industry evolves to meet this demand.

In the short-term, buildings and submarkets with less exposure to Flexible Office should demonstrate greater resilience in cash flow and value. In the long-term, we expect to see consolidation of operators, changes to physical space (more private areas, less community focus, even more flexible buildouts), and new demand in non-traditional coworking markets to serve users

seeking increased flexibility and shorter commutes. A key challenge for operators and landlords will be how to operate in this environment profitably and sustainably, given historically thin margins.

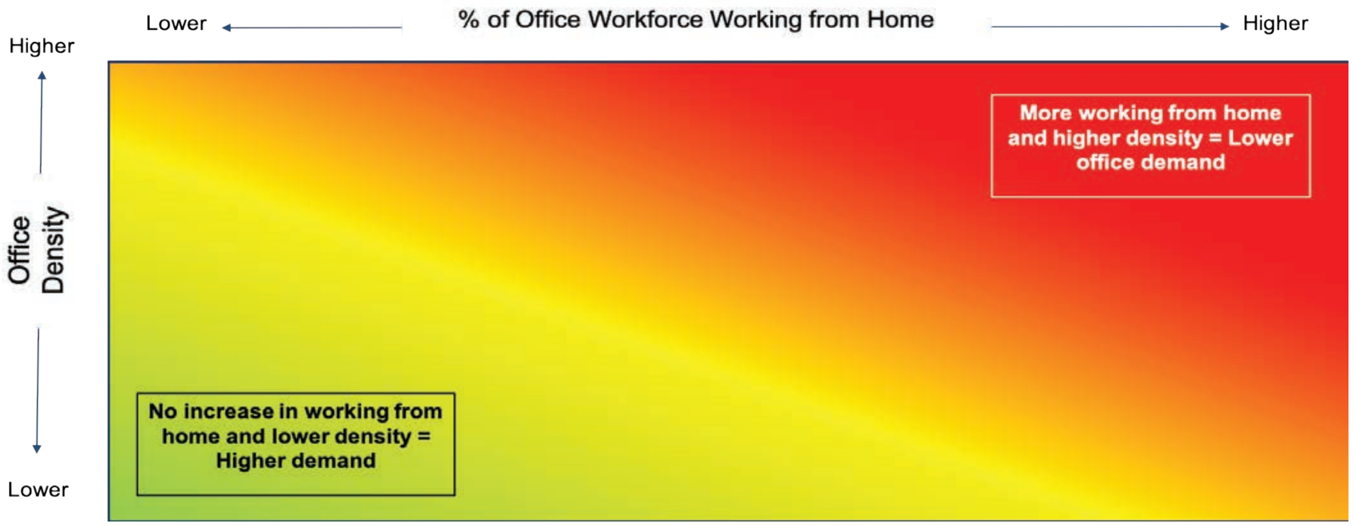
In addition to the risks facing Flexible Office pre-pandemic, several new risks and challenges have been identified since COVID-19-related shutdowns began. These include: 1) The decreased importance of having an office for individuals and small business as online collaboration and video conference usage has risen; 2) The health risks associated with the dense office build-outs that were common among flexible office

01

Finding the Pre- and Post-Pandemic Balance: Working from Home and Office Density Impact Office Demand

Source: LaSalle Investment Management. As of June 2020.

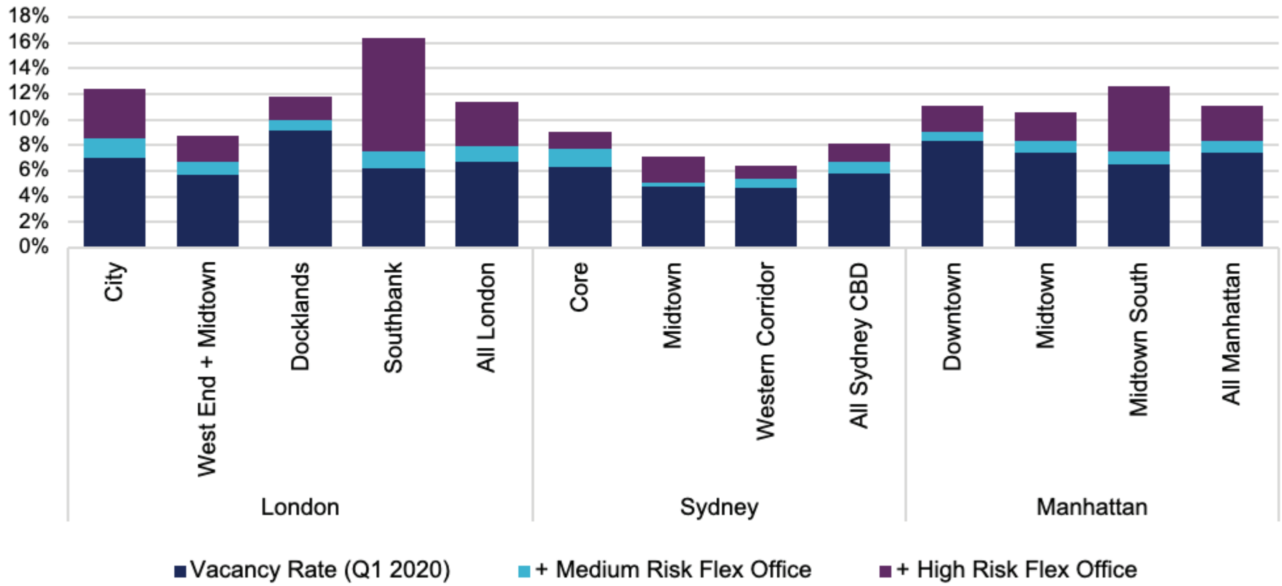
As based on market assumptions, opinions and research by LaSalle's Research and Strategy group at the time of this presentation

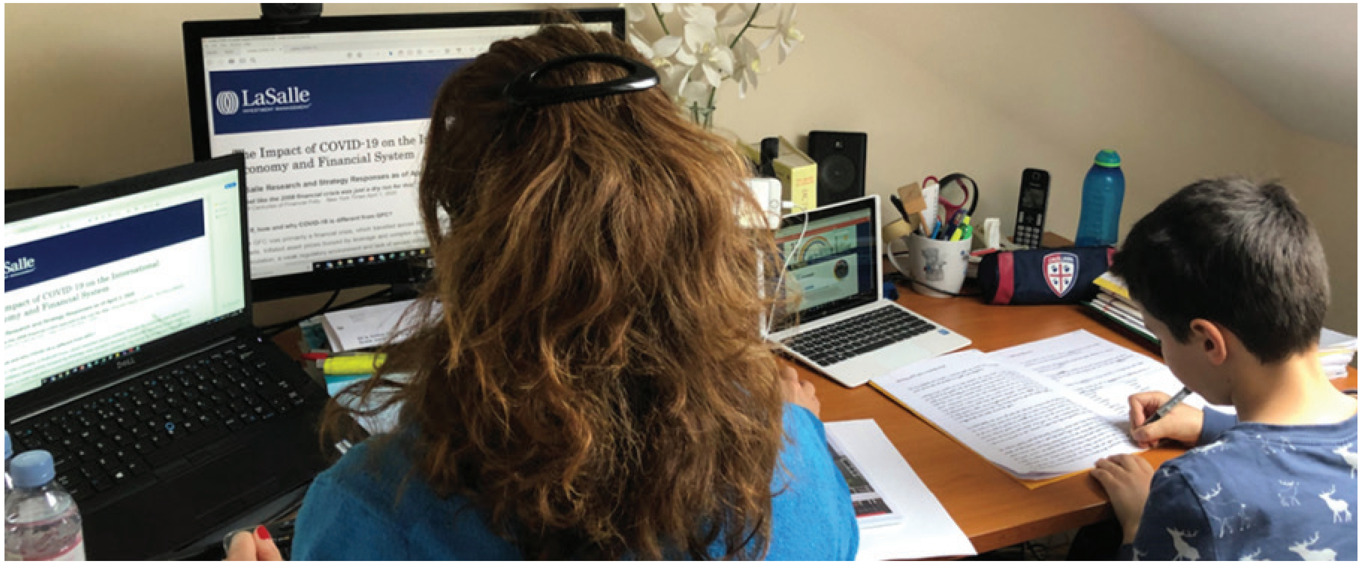


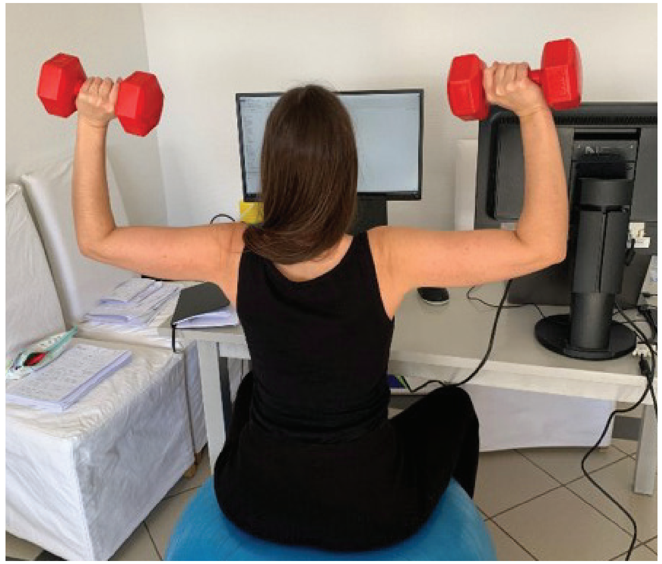
03

Current Vacancy + Potential Vacancy from Co-Working Space

Source: LaSalle







providers; and 3) The impact of government mandated shut-downs of membership-model workspaces.

We expect these challenges to cause some operators to default on leases, leading to a consolidation of providers and landlords assuming more of the economic risk of providing Flexible Office. This will shift both the upside and downside risk further towards landlords vs. the prior operator-centric model.

As Flexible Office operators default on leases, there will be situations where space will be made available for direct lease to tenants, which will have a negative effect on occupancy that will vary in severity by market. To help understand this impact, we examined the scope of Flexible Offices leased to operators in select global major markets (London, New York and Sydney) and developed a risk rating of the operator tenants in each of those markets. This risk rating is based on the operators financial position, their target customers, and the density of their build-outs. We share this analysis as a model for how to understand the range of impacts that the near-term disruption can have on local office market fundamentals.

As of Q1 2020, space leased to Flexible Office operators as a percentage of stock in London, New York, and Sydney stands at 3.6%, 2.6%, and 1.3%, respectively. Operators were categorized by risk, with the following attributes contributing to that evaluation: credit, lease size, years in business, quality of offerings and adaptability of space to a phase 2 “Living with COVID-19” environment. The chart on p.33 summarizes that analysis and shows the impact the failure of High and potentially Medium-Risk Flexible Office will have on vacancy by market and submarket. This shows both a quite meaningful impact on vacancy in some of the submarkets with particularly high exposure to Flexible Office operators. In the knowledge and innovative neighbourhoods of Manhattan’s Midtown South and London’s Southbank, this could nearly double vacancy rates and push them from below to above the market average. Meanwhile, the overall lower exposure to flexible office and high-risk providers in general means Sydney is less exposed to this COVID-19 related stress.

This Flexible Office impact is just one of the dynamics we are analyzing, but one of the most material in the short term. Longer-term office market fundamentals will be driven by tenant preferences more than operator economics, and we are developing more analyses that can help shed light on post-COVID-19 tenant preferences. One long-term trend we expect is office tenants will still value flexibility, but the pending failure of co-working operators is likely to force them to pay more for the optionality they value.

Retail Properties

Phase 2: 'Living with COVID-19'

The retail sector has been facing rising competitive pressures, e-commerce growth and rapidly changing consumer preferences for the last five years, or even longer in many countries. A decade ago, retail was the #1 or #2 top performer of all the major property types during the Global Financial Crisis. Today, many lower-grade shopping centres are likely to close and medium-grade centres are experiencing falling occupancy. During Phase 1 of the pandemic's impact on real estate, mandated store closures decimated sales at many retail tenants. The world's shift into Phase 2 has brought hopes of a slow, steady recovery in footfall and sales. However, it also brings new challenges for retail and leisure, including additional running costs, behavioural shifts in its customer base, and accelerated e-commerce demand. These will persist in some form until a coronavirus vaccine is in place.

Higher proportion of online sales

A release of pent-up demand in the early stages of Phase 2 will level off as new inconveniences like social distancing and longer wait times drive shoppers to other solutions – including persisting with e-commerce. Many countries were experiencing double-digit e-commerce growth and the pandemic has accelerated growth further. We expect e-commerce penetration to jump by five to fifteen percentage points from pre-coronavirus levels, varying by country. Click-&-collect/BOPUS[1] has also grown, particularly for groceries and pharmacy items. Physical distancing will limit capacity and thus revenues for retailers, placing downward pressure on rents. Financial support will provide lifeline for many retailers during period of subdued sales and help mitigate widespread permanent closures. This support will not fix the systemic problem faced by many retailers—the ratio of occupancy costs to store sales is not sustainable.

Survival will vary by retail format

The tenant mix of retail properties will increasingly determine their destiny. While hard-hit retail tenants like restaurants are under severe short-term revenue pressure, limited service restaurants are likely to stage a strong recovery as Phase 2 progresses, because take-away and curb-side pick-up has been a welcome relief from the chore of 8 to 12 weeks of home meal preparation for most households. By contrast, houseware goods and apparel will be major, permanent losers from e-commerce competition. Retail properties with a high proportion of tenancy in essential segments (grocery, drug stores) or e-commerce insulated segments (home improvement, services, limited service restaurants) will likely see the most Phase 2 recovery in occupancy and least rent decline.

Phase 2 is likely to see upper-income consumers in many countries shop in smaller scale, more local shops to minimize travel and avoid crowds. A May 2020 survey by ICSC in the US and Canada noted that as a result of the pandemic, four in five consumers were more supportive of local businesses. In addition, three in four respondents were more likely to purchase

1 Buy On-line Pick up at Store (BOPUS)

from retailers or brands that helped local communities and first responders than those who did not. However, those small independent retailers do not have the financial resources that the national retailers, and so their survival during Phase 2 is a precarious one. By contrast, families on tight budgets could travel farther and safely in their own vehicles to reach a "retail warehouse" or "power centre" to stock up and make less frequent trips to hypermarkets or wholesale-club types of big box retailers. Some high-volume retailers could require more space to add automated fulfilment centres to facilitate the growing BOPUS trade.

Enclosed malls were facing a range of challenges before the pandemic and Phase 2 will exacerbate these. Shoppers are likely to be remain wary of malls in the early parts of Phase 2. Early indications in many markets are that footfall has only recovered modestly since Phase 1. This will ultimately lead to higher vacancies and declining rents. Several prominent chains were facing closures or consolidation before the pandemic, and a wave of closures and bankruptcies is likely to materialise in Phase 2. On the landlord side, one of the most prominent failures to date has been the largest shopping centre owner in the UK, Intu. This heavily-indebted REIT had been struggling since 2017; Phase 2 proved to be one headwind too many. The US is particularly vulnerable to store closures--Nordstrom, JC Penney, and Victoria Secret, The Children's Place, Signet Jewelers, and Zara owner Inditex have all announced thousands of US closings in 2020. Industry experts expect over 25,000 store closings in the US, breaking the previous record of 9,300 in 2019[2]. Other regions are also vulnerable, although retailers in the US were already over-stored and over-leveraged compared to other countries.

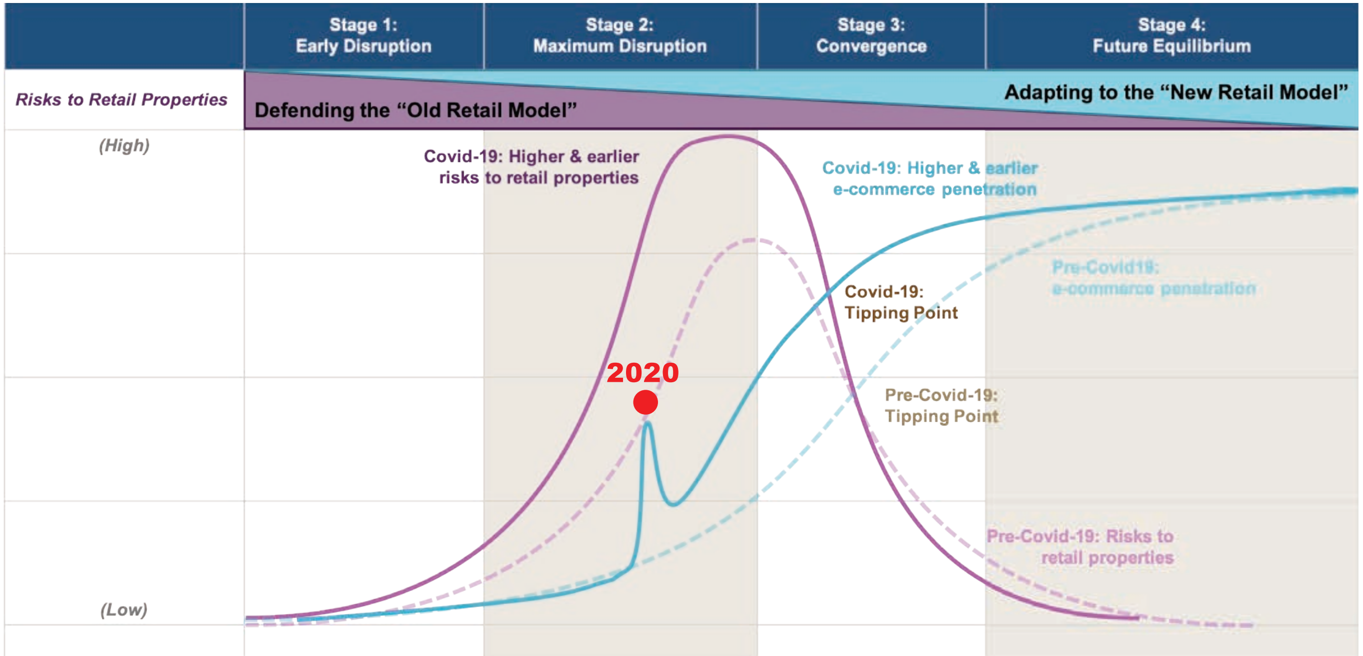
The shift in recent years to entertainment and food-oriented tenancies in malls will be on hiatus in Phase 2. As malls re-open, some of these higher density tenancies within the malls may remain closed, depending on the country or location. As these uses re-open demand is likely to remain subdued unless social distancing restrictions can be circumnavigated without affecting the experience.

Digital disruption cycle

Based on our digital disruption framework for a shopping center with a top tier catchment, the steepening of e-commerce penetration growth trajectory, coupled with the decline in brick-and-mortar sales, has exacerbated the risks to retail properties. It has brought forward the point of maximum risk for retail properties but has also accelerated the transition to the new retail model.

01

Digital disruption cycle



Source: LaSalle

2 See: https://www.businessinsider.com June 11, 2020 "More than 2,100 store closing are announced in a single week".

Sharp rental correction underway

We expect open-air retail rents to fall 10-15% in the main markets around the world. Yet declines could be half that at the centers with the most resilient tenant mix in the highest traffic locations, as well as even more negative at retail properties with high exposure to home goods and apparel. Retail leasing and transaction markets will start to reflect a painful adjustment during Phase 2. It will also likely reveal opportunities, with more potential distress likely, and a higher dispersion between winning and losing properties. This will give an advantage to those able to distinguish moribund retail from properties poised for a recovery in values.

Phase 3: Post-Vaccination

Whilst there is no guarantee of a vaccination for COVID-19, the current estimate is that one may be produced, manufactured and distributed by the summer of 2021. This will be a catalyst for many aspects of life returning to normality, although some behavioural traits and social restrictions normalized during Phases 1 and 2 will persist into Phase 3. Within the real estate industry we anticipate that Phase 3 will be characterized by an acceleration of existing trends, albeit with some new features specifically related to either Coronavirus or to the economic repercussions thereof. With countries around the world all in different stages of e-commerce adoption, our view of the future outlined below will not apply uniformly or synchronously to all markets or retail formats.

Higher proportion of online sales

One of the most striking characteristics of Phase 3 will be that there will be first fewer retailers and ultimately fewer stores. However, the halo effect of a physical store's impact on local online sales means that many stores will remain. Few physical or multi-channel retailers will move online entirely, and likewise we expect several pureplay online retailers to open physical stores. Winning retailers are more likely to embrace an omnichannel approach in Phase 3, if they have not already done so by this stage. They may also compete more directly on price, convenience, shopping experience, ethics, brand or customisation. All of these changes will come at a considerable upfront infrastructure cost, and may prove too much for some retailers. For example, modernizing inventory systems, making staffing changes (reducing headcount, introducing automation etc), reorganising supply chains, offering home deliveries that are frequently unprofitable, outlaying capital into improving the health, safety and security for both in-stores and online customers.

In addition to these changes, many retailers that survive and prosper within Phase 3 will embrace a different business model. On the physical side they will seek to drive in-store footfall through click & collect/BOPUS. They may choose to introduce charges for both home deliveries and returns. On the marketing front, retailers will look to engage more directly with consumers as a means to drive both physical and online sales.

Changing consumer behaviour

These changes to business models will be partly driven by costs or margins, but also by an evolving customer base. This was already underway in many countries prior to coronavirus. But the post-coronavirus acceleration will be particularly stark amongst those demographics now less familiar with online retail; such as the elderly in developed economies or all age groups in cash societies or developing economies. Overall, we would anticipate fewer visits to physical shops in Phase 3 than before coronavirus. Although online sales are highly unlikely to remain as prevalent as they are during Phase 2. We will also find that the duration of each shopping visit becomes longer, particularly for either experiential or community destinations. Basket size may also be larger, and we would expect to see more participation in the related leisure offerings in certain locations.

The way the customer engages with the retailer is also anticipated to evolve. In certain markets there will be increasing emphasis placed on a retailer's ethics and whether they are taking their corporate ESG responsibilities seriously, although this will be largely limited to wealthier consumers. For example, whether retailers adhere to sustainable manufacturing, and use recyclable materials and packaging. The provenance of goods will become more important, with a preference in some product categories for local produce or fair trade.

What consumers want and how they want to receive it has also been changing in recent years. But the widespread adoption of e-commerce and the technological advancements that COVID-19 has engendered will act as a catalyst. We expect to see more customisation of products - particularly fashion - enabled in part by advances in 3D printing. There are also repercussions for alternations and repairs. All of this will mean retailers will hold less inventory and therefore require less storeroom space on site. We may see more on/near-shoring of goods manufacturing. Related to this, the seasonality of fashion ranges is less influential than it was as clothing will be reproduced ever more quickly and cheaply than before. Designs are being driven increasingly by social media and celebrity influencers.

Consumer behaviour is a major factor in the success or failure of different retail formats, although there are other drivers too (for example, oversupply, planning authorities, population density, culture, and the weather).

Role of the government

As countries move from Phase 2 into Phase 3 many will still be emerging from a sharp economic recession. And with retail one of the hardest hit parts of the economy the government may have to support this sector for many years to come. As budget deficits rise the fiscal support provided in Phase 2 cannot continue indefinitely, and so governments will seek out other means of shielding the sector. At times they will act as special purchasers of failing retail assets in order to support local communities. They could also lead to reforms in municipal planning regimes to allow for easier change of use from retail to other formats. High on the agenda for many European governments is redressing the imbalance between physical and online retailers through taxation, although this will take international cooperation which until now has been forthcoming.

Issues for real estate investors

Whilst the retail sector undergoes its accelerated transition during Phases 2 and 3 there will likely be a period of significant underperformance relative to the other sectors. In certain cases, landlords will have to absorb higher tenant incentives, more asset capital expenditure, lower rents, and possibly even structural voids. In countries where turnover leases are not commonplace, landlords and valuers will need to adapt to this lease structure, which is quickly becoming the preferred option for retailers looking to share the burden. Even several years into Phase 3, we believe that retailers will have the upper hand in lease negotiations in all but the most sought-after locations.

Repositioning physical retail as a different property type will be an option for many assets but will not be viable for all given the costs involved. Urban retail is the most likely candidate for redevelopment. Many balanced real estate funds will seek to reduce their exposure to retail to avoid dragging on portfolio performance. In the most extreme cases, investors may opt to sell at significantly below current valuations in order to mitigate this drag. However, the challenge of establishing a minimum sales price in an illiquid market in the aftermath of a major recession should not be underestimated. Indeed, the high income of a weak retail asset may deliver an attractive return, if that income is sustainable at an acceptable level of capital expenditure.

Repositioning or disposing of underperforming retail assets is one challenge. Reinvesting that capital is another, not least because of the transaction costs. A lower weighting to retail within a portfolio will in some cases leave it with shorter leases and with less inflation-tracking income. Those keen to retain retail within their portfolio will focus increasingly on the strongest formats and locations, which will lead to a persistent bifurcation between the highest and lowest quality assets. After over four decades as a foundation of an institutional real estate portfolio, with weightings between 20% and 45% in many countries, shopping centres and high-street retail could shrink to a single-digit position in many portfolios, as it has done already in the REIT universe.

Several prominent chains were facing closures or consolidation before the pandemic, and a wave of closures and bankruptcies is likely to materialise in Phase 2.

Warehouse Properties

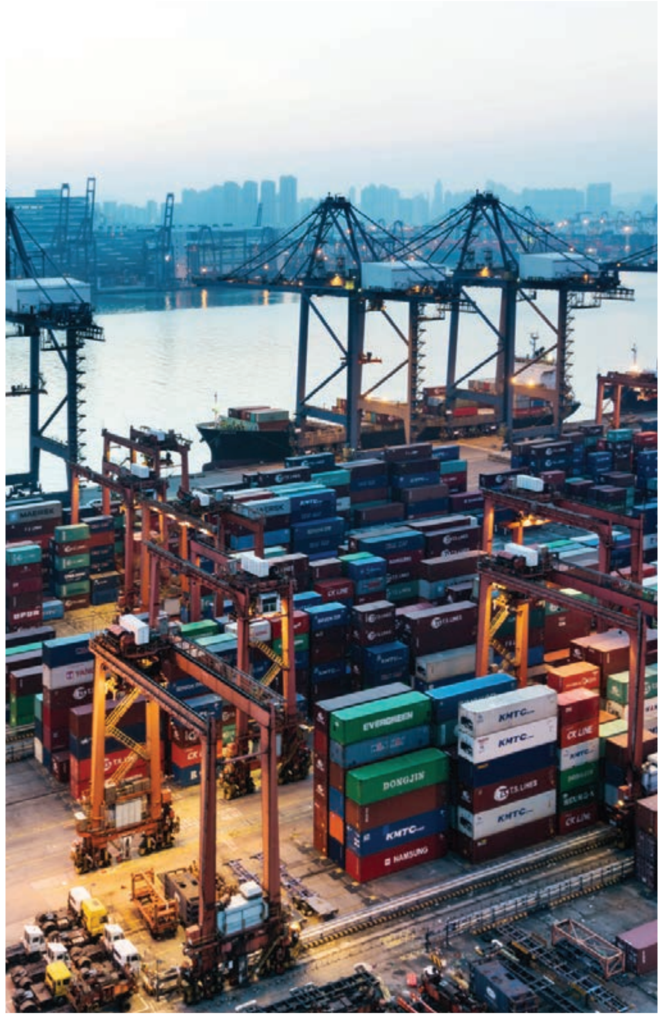
The Logistics Revolution is Still Underway

Logistics assets, although not immune to the impact of the COVID-19 pandemic, have been relative winners of the global demand shock created by the pandemic. We expect structural trends such as growing e-commerce penetration to persist and support logistics demand for many years to come. Maintaining higher inventory levels has also been a positive trend for logistics demand during the pandemic. This trend is expected to continue throughout the Phase 3 “COVID-19-contained” recovery period. Over the long term, inventories could be maintained at levels somewhat higher than those of pre-COVID-19, which we expect to be slightly positive for logistics demand. Whether the shift from “just-in-time” to “just-in-case” strategy will transform logistics demand as a structural trend lies in the future of global supply chains, which is likely to vary by region or country.

During the pandemic, the adoption of e-commerce has partly cushioned the negative impacts of slowing economies and declining global trade on logistics demand. E-commerce sales as a percentage of total retail sales surged in many countries during the lockdowns, accelerating the migration of retail sales from offline to online, which was already underway. Growth in online food grocery sales, in particular, have outpaced those of total online retail sales in a large number of countries, including the UK, the US, Canada, South Korea and China. Specialized online food / grocery vendors and major supermarkets that are set up to handle home deliveries have seen the strongest boost in logistics demand, which has boosted the demand for temperature-controlled facilities. Looking forward, e-commerce penetration rates in most countries are expected to continue to increase, as more consumers have embraced online shopping during the lockdowns.

Despite being the relative winner, there are downside risks should the COVID-19 pandemic persist well into H2 2020 or beyond. Traditional offline retailers, representing a notable proportion of logistics demand, are the most impacted by the pandemic. In Europe, retailers accounted for 29% of logistics demand, and third-party logistics operators, which serve both offline and online businesses, accounted for another 37%[1]. Over the long term, investors should adjust their portfolios to capitalize on the long-term trend toward online retailing instead of relying on a brick-and-mortar retail portfolio. Investors should also balance their warehouse tenancy and avoid an over-reliance on retailers who are vulnerable to failure.

The long-term outlook of the logistics sector also lies in the future of global supply chains. These were heavily disrupted during the pandemic and further clouded by the ongoing trade war. Over the past few months, supply chain delays have led some warehouse tenants to increase inventory levels to mitigate unexpected disruptions. The trend is likely to persist if the pandemic lasts and throughout the recovery period. In Europe, a dip in China’s GDP growth is expected to be felt most acutely in the region that relies on China as a source of final demand or where China is highly integrated in the supply chain. Businesses are likely to re-evaluate their



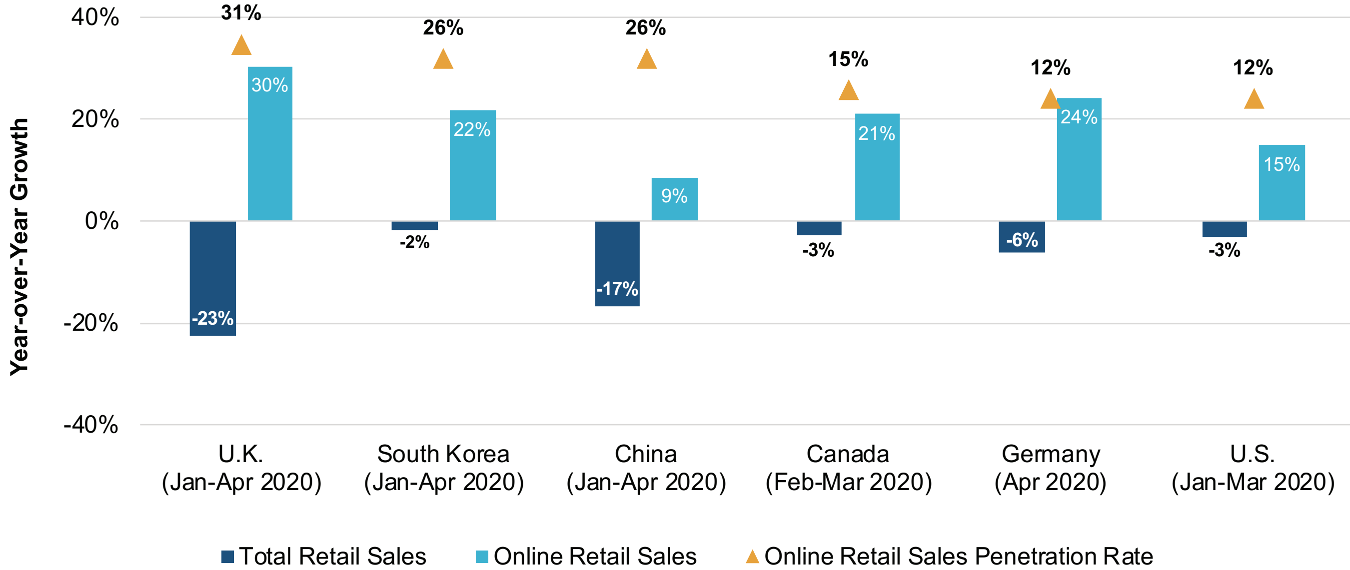
1 Statistics Korea, The U.S. Census Bureau (BOC), Statistics Canada, The U.K. Office of National Statistics, EuroStat, as of 11th June 2020;
Online Retail Sales and Online Retail Sales Penetration Rate: The National Bureau of Statistics of China, as of April 2020, Statistics Korea, as of April 2020, U.S. Census Bureau (BOC), as of March 2020, E-Marketer (Canada), as of March 2020, The U.K. Office of National Statistics, as of April 2020, EuroStat (online retail sales growth), as of April 2020, PMA (Germany’s online retail sales penetration forecast for 2020), as of 11th June 2020

01

Total Retail Sales vs. Online Retail Sales vs. Online Retail Sales Penetration Rate[7]

Source: Retail Sales: The National Bureau of Statistics of China, Statistics Korea, The U.S. Census Bureau (BOC), Statistics Canada, The U.K. Office of National Statistics, EuroStat, as of 11th June 2020;

Online Retail Sales and Online Retail Sales Penetration Rate: The National Bureau of Statistics of China, as of April 2020, Statistics Korea, as of April 2020, U.S. Census Bureau (BOC), as of March 2020, E-Marketer (Canada), as of March 2020, The U.K. Office of National Statistics, as of April 2020, EuroStat (online retail sales growth), as of April 2020, PMA (Germany's online retail sales penetration forecast for 2020), as of 11th June 2020



global supply chains, including near-shore production, diversifying supply sources and increasing inventories at their warehouses. In general, higher inventory levels are a positive for logistics demand. In Asia Pacific, exports and imports are no longer the primary drivers of logistics demand. Demand in Asian Logistics markets in the last decade has been primarily driven by domestic consumption and is expected to be the least disrupted by the divergence of supply chains.

Looking ahead, logistics properties expected to fare well are those in urban locations or near large population areas across most global cities. Supply pipelines have been limited, particularly in urban locations, due to opposition from local populations and the relatively high values of competing land uses. This demand-supply dynamic has led to low availability and increasing rents for urban logistics assets in many markets globally. Another trend we are watching closely is the rapid increase in the use of robotics and other technologies like remote-sensing, drones and radio frequency identification to improve efficiency within warehouses. In the US and Canada, logistics markets at good locations with availability rates at or near historical lows pre-COVID-19 continue to prove attractive too. In Asia Pacific, temperature-controlled facilities located near expressways connecting to major urban population areas are well positioned to capture the expansionary demand of online food sales. We expect other countries will also see a surge in demand for temperature-controlled facilities.

CHAPTER 3: THE FUTURE OF...

Climate Change

What we Learned during the Pandemic

It is undeniable that the global economy and real estate portfolios are being tested by the COVID-19 crisis. The pandemic has also accentuated the link between the economy and the drivers of climate change. Reduced movement and economic activity have disrupted global energy consumption, resulting in substantial declines in carbon emissions. Between January and April 2020, global emissions fell by -8.6% compared to the same period in 2019. This reduction has given climate scientists evidence that curbing the global rise in temperature, with great effort, might be possible.

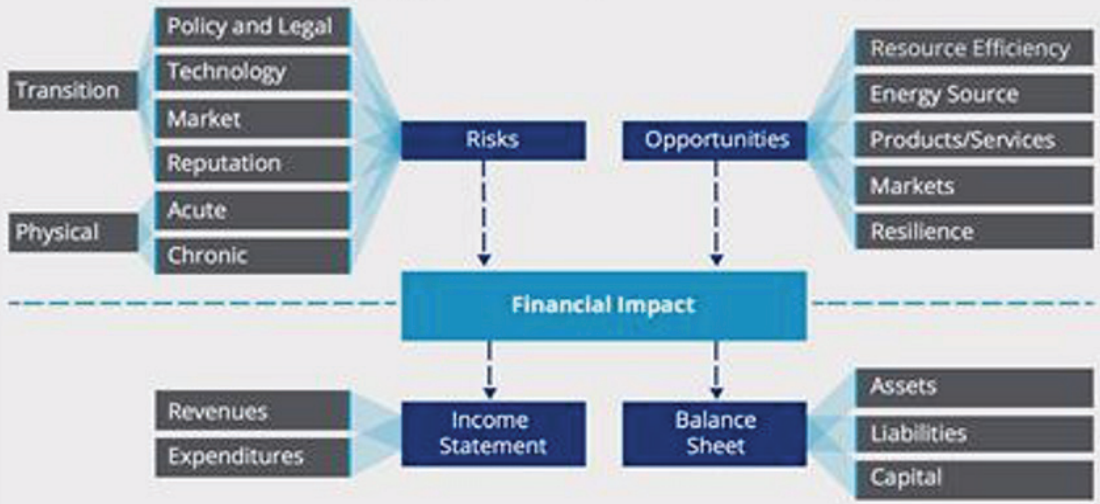
The long-term risks and opportunities arising from climate change will outlive the impact of the pandemic. As lockdown restrictions ease and economic activity levels rise, carbon emissions will return, and even surpass, pre-pandemic levels. Meanwhile, the construction and operation of real estate will continue to be a principal contributor to global carbon emissions. Pre-pandemic estimates highlighted that the sector contributes roughly 40% of global emissions according to the World Green Building Council[1].

Over recent years, awareness of the threat climate change poses to our planet has only increased. Different actors are taking steps to keep global warming below 2°C and accelerate the transition to a clean energy, low carbon economy, including the US $4.6 trillion AUM represented by the United Nations-convened Net-Zero Asset Owner Alliance, and the 1,000+ organizations that have publicly signed on as supporters to the Task Force for Climate-Related Financial Disclosure (TCFD). Reporting frameworks will play an integral role for investors, and the TCFD framework ensures consistent standards of reporting from investment managers across the asset classes, including real estate.

While steps are being taken by asset owners to push the market towards net zero carbon adoption through carbon offsets and emission reductions, the 2020 edition of JLL & LaSalle's Global Transparency Index highlights that, in fact, no country achieved LaSalle's highest score for this factor. Market transformation and disclosure have proven to be the main drivers of lowering carbon emissions to date in the real estate industry, especially in Australia, Canada and across Europe, including the UK.

Investment professionals' awareness of the interplay between political, regulatory, and climate-related factors and investment performance has increased[2]. Most analyses decompose climatechange-related

01 Climate-Related Risks, Opportunities, and Financial Impact



1 "Temporary reduction in daily global CO2 emissions during the COVID-19 forced confinement", 19.05.20. Nature Climate Change https://www.nature.com/articles/s41558-020-0797-x2Buildings play a dominant role in the clean energy transition. Building construction and operations accounted for 36% of global final energy use and nearly 40% of energy-related carbon dioxide (CO2) emissions in 2017. See:unenvironment.org/resources/report/global-status-report-20183The release of the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations in June 2017 and the more recent launch of the Net-Zero Asset Owner Alliance at the United Nations Climate Change Summit in September 2019 show how international organizations are acting, sometimes without the support of national governments.

8 Buildings play a dominant role in the clean energy transition. Building construction and operations accounted for 36% of global final energy use and nearly 40% of energy-related carbon dioxide (CO2) emissions in 2017.

risks into two categories: physical[3] and transition[4] risks. Physical risks could pose financial implications for organizations; through damage direct to assets or indirectly via impacts such as supply chain disruption. Most notably, transition risks will be manifested through the way asset owners and tenants respond to changing regulatory and political landscapes. In addition, the regulatory environment will differ country-to-country, and often city-to-city. The geographically diverse yet localised nature of real estate investment means that climate-related risk and opportunity identification will also differ by region/location, market, and property type. This makes adapting to climate change and mitigating transition and physical risks more complicated in the real estate industry than in other asset classes, since stocks and bonds are not typically rooted to specific locations. As LaSalle begins to analyse climate risk data that has been generated for our portfolios, we expect to learn a lot more about which risks can be eliminated or contained and which cannot.

Insurance plays a pivotal role in understanding the financial impact of climate change for numerous reasons. Most notably, insurance coverage is a key consideration for most firms when addressing loss from climate-related catastrophes. No matter the natural catastrophe, insurance is often the first, and sometimes only, recourse for recouping financial loss. Secondly, the insurance industry has long been the modeler of choice for predicting and evaluating these natural catastrophe events, which are now occurring with more frequency and severity. The output of these models has important implications for insurance availability and pricing, terms and conditions, regulatory oversight, and capital adequacy.

Recognizing the key role of insurance, LaSalle, in conjunction with its risk management advisor Aon, has identified nine global insurers to begin a climate change information exchange. This will help LaSalle in its decision making around financing and insurance costs for our investment models, at both the portfolio level and the property level. Additionally, it will allow LaSalle to enter dialogue with insurance companies to compare views on current and future pricing, availability, and the intersection of real estate, insurance decisions, and climate risk.

Beyond the information exchange, LaSalle's Sustainability, Risk Management, and Research teams are working together on two parallel initiatives analyzing climate-related physical and transition risks. First, in collaboration with Aon, LaSalle has been reviewing and vetting the capabilities of several climate change analytics and modeling firms. Second, LaSalle is developing its global carbon strategy and European pathway to achieve net-zero carbon by 2050. Although considerable work remains, these efforts enhance LaSalle's understanding of the risk factors with a goal to apply this knowledge to any investment strategy.

With many pressing short-term concerns created by the pandemic, climate-related factors could be relegated temporarily to a secondary role within investment analysis. We believe that would not be prudent. Given the long-term window over which climate-related risks operate, portfolios will eventually need to anticipate the cost of rising insurance costs or possibly the loss of any coverage for real estate in the highest risk locations or jurisdictions. Analysis of climate risk in 2020, followed by careful portfolio re-positioning, could spare a portfolio manager from much bigger costs in 2025, as the insurance and investment markets begin to price climate change. This kind of longer-term view will build financial resilience into an investment portfolio as well as begin to make a positive contribution to the pressing societal need to "flatten the curve" of rising temperatures.

2 The release of the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations in June 2017 and the more recent launch of the Net-Zero Asset Owner Alliance at the United Nations Climate Change Summit in September 2019 show how international organizations are acting, sometimes without the support of national governments.
3 Acute physical risks physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods. Chronic physical risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves.
4 Transition risks involve broader societal, economic, and political implications. Transitioning to a lower carbon emission economy will likely entail extensive policy, legal, technology, and market changes to address requirements related to climate change. Depending on the speed of these changes, transition risks may impose immediate or distant future financial liability and reputational risk to investment managers.

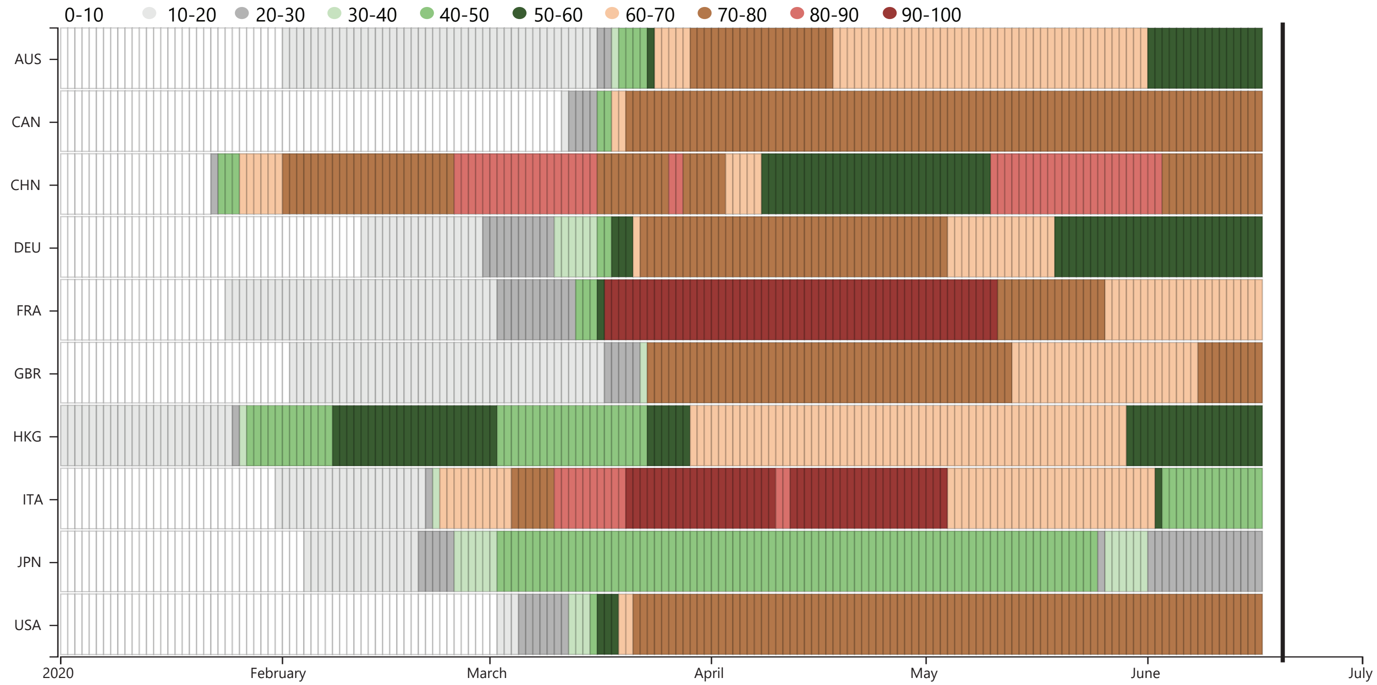
Real Estate Research

Real-Time Analytics to Monitor Impact of COVID-19

01

Government Response Tracker

Source: The Blavatnik School of Government at Oxford University



A timeline of the stringency of governments' response to fight COVID-19 infection spread. 0 represents an absence of response and 100 is the most stringent response

Data providers of many different types, including tech firms and health authorities, have given free access to their resources (data sets, visualizations and dashboards) to help businesses and the general public navigate the coronavirus crisis. Analytics are helping us to assess the impact of the dramatic changes, reduce the uncertainties and take more informed decisions. The Data Science team at LaSalle is using high frequency, high-volume real-time alternative data sets to assess the impact of lockdowns on consumer fear,

uncertainty in our economies and real estate markets. These data will also help to discern the ‘new normal’ as the world reopens but the threat of COVID-19 lingers. Below we describe some examples of the analytics that we have deployed to inform our investment strategies.

COVID-19 Infections and Social Distancing

Using hyperlocal mobile data from Safegraph, Google, Apple and health agencies we estimate how people are altering their social distancing behavior and monitor the spread of COVID-19. Such daily updated and granular information is one of the factors that we use to estimate impact on relative performance across markets and property types. For example, in June hot spot markets emerged in US metro areas that had a limited number of infections initially. Less rigorous social distancing led to very specific locations associated with rapid spread of the coronavirus.

Government Policy Response

Governments are taking a wide range of measures to tackle the COVID-19 outbreak, and in this situation government actions are expected to be a strong lead indicator for the economy and risk asset markets. We incorporate data from the Blavatnik School of Government at Oxford University, which tracks policies such as school closure, travel bans, and other lockdown measures, and combines it with fiscal and monetary interventions. It gives us a global overview of where measures and lockdowns are eased or restricted and should enable us to identify countries which are likely to recover quickly and those which may endure a protracted downturn.

Activity tracking

Keeping track of the aggregate movement of individuals and of vehicles, we highlight the key economic activities which are prioritized, and the rate at which other economic activities recover – as well as geographic disparity in such activity. Real-time mobile phone footfall trends for retailers feed into decisions concerning physical retail space, show winners and losers among the brick-and-mortar stores as well as illuminating the growth of e-commerce. Datasets from FlightRadar will be vital for monitoring the recovery of business and leisure travel, and the health of the leisure sector can further be ascertained through booking and pricing data from providers such as OpenTable for restaurants and Trivago for hotel stays.

Real Estate's Performance in the Pandemic

The contribution of real estate to a mixed-asset class portfolio of securities, real assets, private credit, and venture capital has been stellar for the past ten years. Real estate provided competitive returns with low correlations, exactly as it was supposed to do. However, the 2008-2009 Global Financial Crisis reminds us that when a severe shock hits, all asset classes tend to become highly correlated and huge amounts of wealth can evaporate quickly. This global exogenous shock was no different. With the exception of sovereign bonds, all risk assets fell together in late February and March. Listed real estate fell especially hard, and valuation-based private equity real estate can be expected to follow a downward trajectory also, with a six to nine-month lag.

When the dust settles on 2020, we expect that real estate will remain an important contributor to the performance of an investment portfolio through its income-generating ability and the different path it tends to take during up and down economic and capital market cycles. The hard fall of real estate securities has already been reversed by a strong recovery in both REIT share prices and investment-grade CMBS. For about a month, securities pricing seemed to be saying that real estate's income-generating characteristics were impaired and possibly permanently damaged. Fear of rent non-payment and broken leases led to a 43% decline in REIT share prices between February 21 and March 23. Since then, the securities market has recognized that rent collection has not been irrevocably impaired and April and June both witnessed increases in the value of REIT shares.

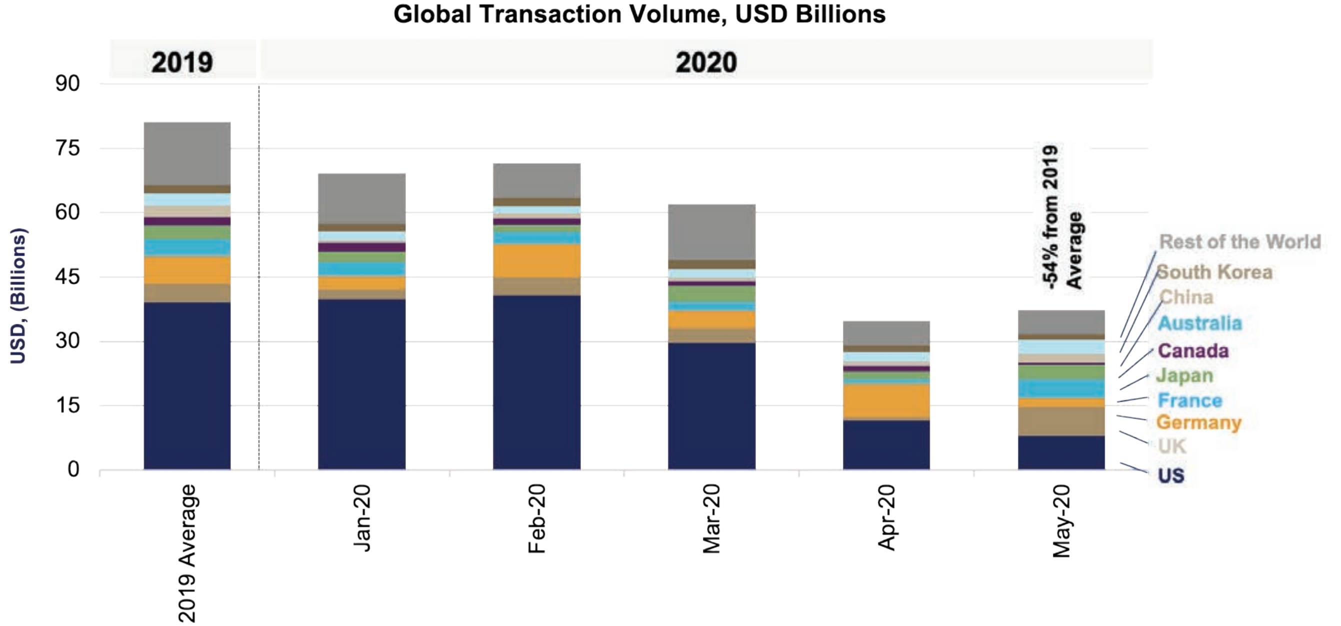
01

Global Monthly Transaction Volume

Source: RCA. Note: Closed transactions; excludes privatizations, hotels, senior housing, and development sites.

Excludes transactions with a gross value of less than $5 MM. Data through May 2020. Most recent as of 30 June 2020.

Note: Past performance is not indicative of future results. There is no guarantee that any trends shown herein will continue.



02

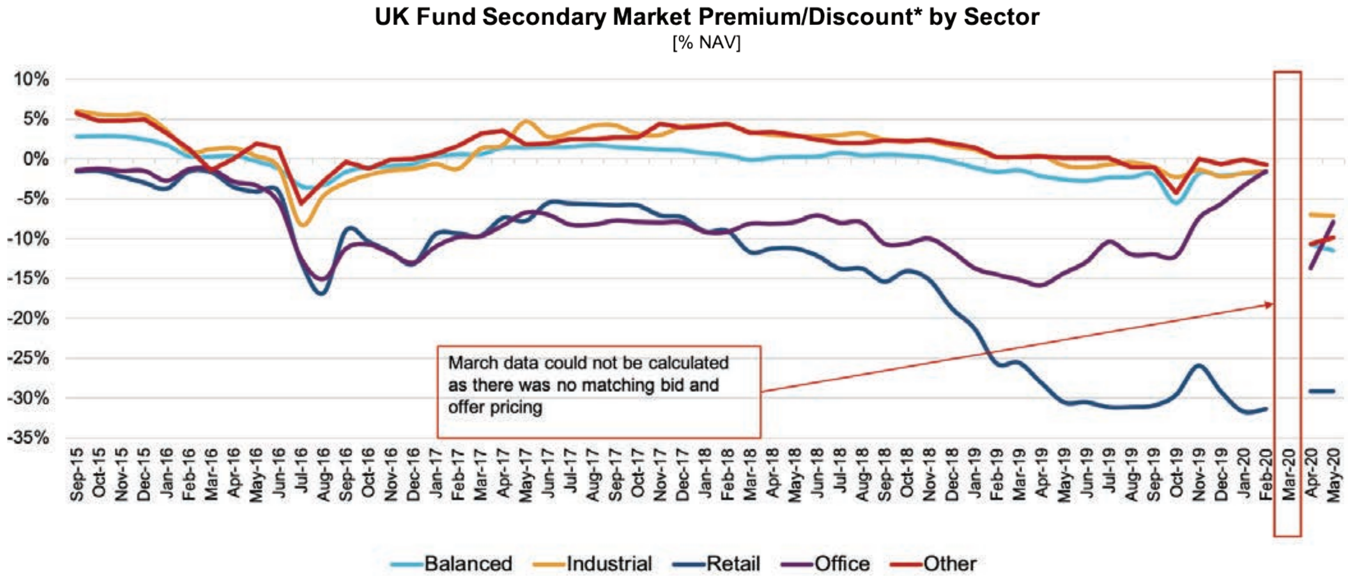
(Typically) Liquid UK Secondary Market Dries up in March

Pre-COVID: sharp discounts on offer for retail funds, and improved sentiment towards offices

*Premia or discount to NAV are represented by the mid-point of Bid and Offer pricing as a % of NAV.

Data as at 1 July 2020

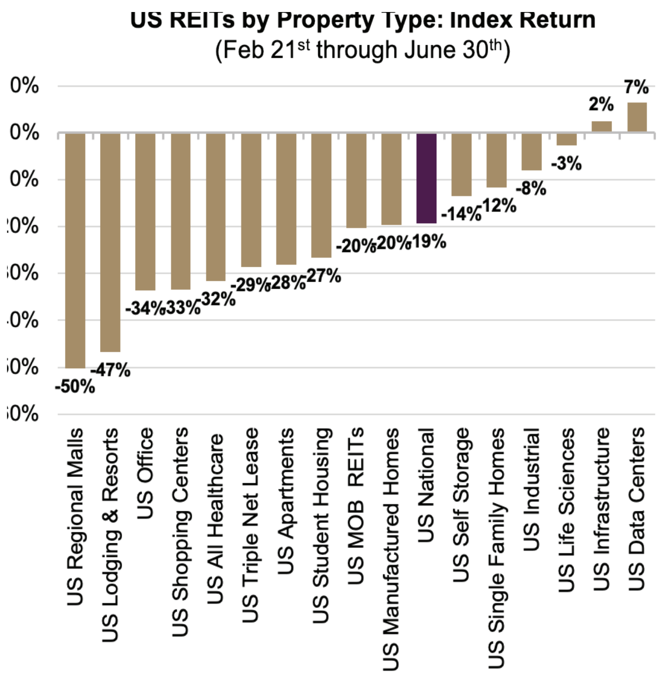
Source: Tullett Prebon, Property Match, LaSalle GPS (03/20)

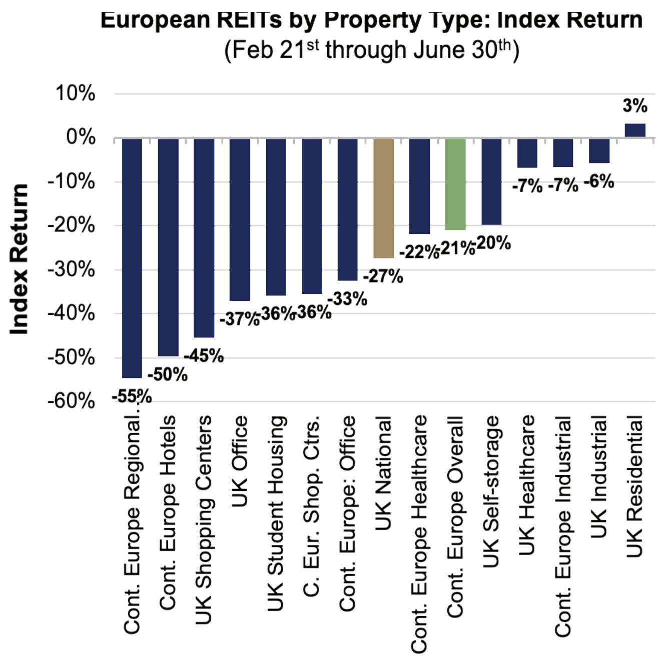


03

REIT Price Changes Reflect Diverging Property Type Outlooks

Note Most US healthcare REITs are diversified across several property types, owning seniors housing as well as life sciences, hospitals and medical office buildings. Source: NAREIT, EPRA LaSalle Global Real Estate Securities. Data to 30 June 2020 (US as of 3pm and Europe at end of day). Note: Past performance is not indicative of future results. There is no guarantee that any trends shown herein will continue.



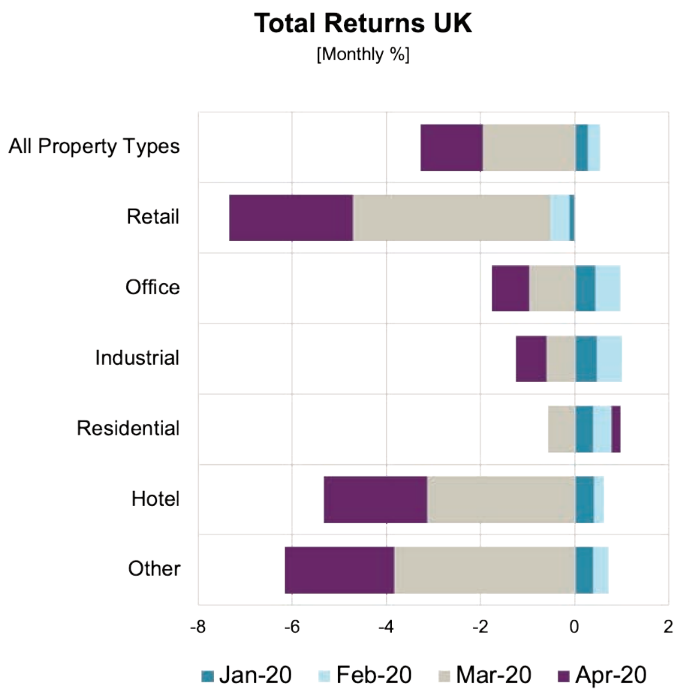


04

UK: Year-to-date MSCI Returns by Property Type

Residential market shows the greatest resilience so far in 2020

Source: LaSalle (06/20) MSCI (04/20)



Equivalent Yields UK

[%]

Dec 19	Jan 20	Feb 20	Mar 20	Apr 20
6.0	6.0	6.0	6.1	6.2
6.7	6.7	6.7	7.1	7.2
6.1	6.2	6.2	6.3	6.3
5.4	5.4	5.4	5.5	5.5
5.3	5.3	5.3	5.3	5.3
4.6	4.6	4.6	4.8	5.0
5.3	5.4	5.3	5.6	5.9

Notwithstanding the strong comeback, real estate securities have exhibited high beta characteristics in 2020, contrary to real estate's usual role as a low beta asset class. REITs went into the pandemic with strong balance sheets and much more modest leverage compared to 2007. So, to some extent, this high beta is a function of the very specific ways that the pandemic affects the use of commercial buildings versus other industries. It also reveals how the real estate asset class is itself highly divided in how well it can generate income when a pandemic hits.[1] It is interesting to note that the range of responses was amplified in the stock market beyond what was actually experienced in terms of rent collection.

Meanwhile, private equity indices registered almost no change in the first quarter, as though they were living on a different planet entirely from a COVID-19 stricken Earth. In the year ahead, it is likely values will settle between these two extremes. Just as listed REITs may have over-reacted in early March to the "stay-at-home" Phase 1 lockdown, private equity valuations under-reacted. Valuers need to see an accumulation of evidence before write-downs can occur, and when private equity transactions shut down, evidence became difficult to come by. Long-term contractual leases could have been put under strain as never before by the interruption of tenant revenue due to COVID-19 shutdowns. Instead, in most cases leases have proven resilient. Private real estate remains positioned as a shock absorber within portfolios, with risk and returns between those of stocks and bonds.

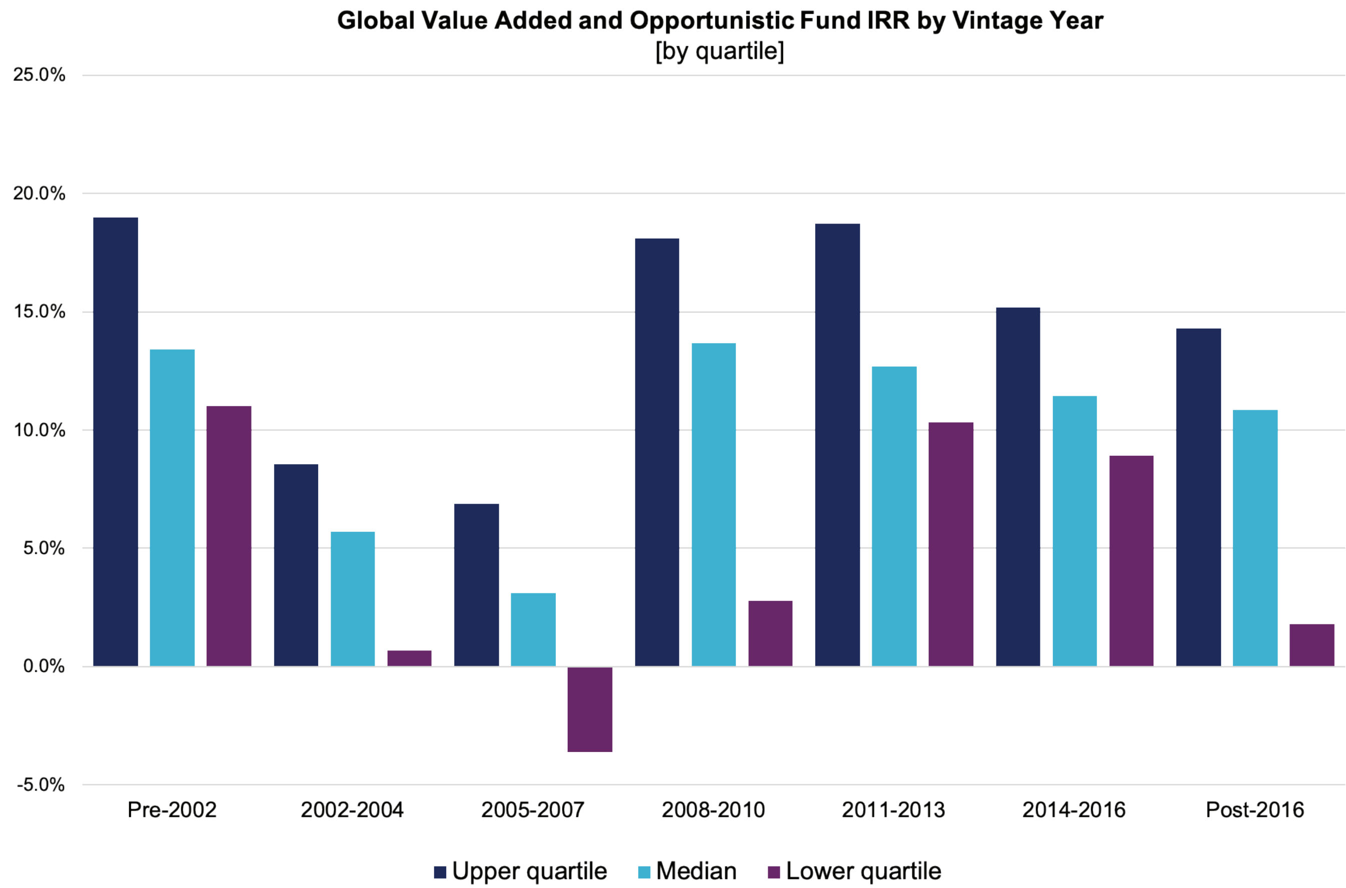
1 See "Finding Alpha in a Sea of Beta" GreenStreet Advisors June 22, 2020

05

Vintage Year is Especially Important for Higher Return Strategies

Data as at 01/07/2020

Source: INREV/ANREV/NCREIF Global IRR Index Q1 2020. Sample is comprised of 313 value added and opportunistic funds predominantly for institutional investors. They typically invest more than 75% in their target regions of Europe, Asia and the US. Value added and Opportunistic are defined as per each regional organisation's criteria .



Signals from the Capital Markets

Global transactions slowed sharply in April and May, declining 54% from their average pace in 2019. Bid-ask spreads had already been widening in the retail sector, with some of the strongest evidence of this coming from secondary market pricing in the commingled-fund market.

- Both UK secondary market bid and ask prices were unavailable in March, highlighting how uncertainty interrupted private market liquidity. Since April, the secondary markets began to open up, with discounts to NAV ranging from 5% for diversified strategies to in excess of 30% for retail strategies.
- The real-time and liquid public markets for global real estate securities have sent clear signals on the vast differences in expected COVID-19 impacts on cash flows and values between property types.
- REIT index returns since the US market peak on February 21st show hospitality, malls, and office expectations have shifted the most negatively whereas industrial, life sciences, and storage have proven most resilient.

Monthly private market return data from the UK further confirms the large differences in property type returns. Although the valuation metrics are derived differently in securities and private equity, the rank order of impairment is nearly the same.

Opportunities by Strategy

As transaction activity begins to pick up in the second half of 2020, the market disruption wrought by COVID-19 has also created opportunity for investors to fill capital market gaps and take advantage of pricing shifts in the second half of 2020.

- **Real Estate Securities Investors** can capitalize on the especially wide gaps between public market pricing and NAV created by both equity market volatility and the shake-up in consensus views that underpin private market values.
- **Indirect Investors** also have a front seat to take advantage of market dislocation, helped by the especially wide net they are able to cast for opportunities across many partners, as well as their relative value approach that can benefit from price discrepancies between public and private real estate and debt vs. equity.
- **Specialized Debt investors**, such as those lending against residential renovation, now benefit from a less crowded competitive landscape and wider debt spreads. Distressed debt and unrated CMBS tranches could also be a place to find value for an investment manager with the right skills.
- **For core investors**, inflection points and recessions can generate attractive entry points for long-term strategies. Ten-year forward index returns in the US and UK have historically been above average in the wake of market inflections. In the UK, for example, ten-year returns beginning in 2009 exceeded the long-term index average by a considerable margin (550 basis points). Yet it is also notable that market timing matters much less for core strategies. For example, a ten year point forward return from 2007 in the US, just prior to the GFC, still managed to produce a 6.9% average annual return through 2017. Steadily averaging-in to core market exposure and relying on core to provide diversification benefits in a multi-asset class portfolio remains our recommended strategy.
- **Higher return investors** are both the most vulnerable and poised to benefit the most after inflection points in pricing – due to higher leverage and strategies more reliant on speculative leasing. Data from non-core indices around the world show the following:
  - Timing and fund vintage have historically been important for higher return strategies as shown in the vintage year IRR graph on page 48.
  - The worst performing funds were those invested in advance of the GFC market correction. For investors in fully invested closed-end funds though there is little to do but hope managers made good property selection decisions and are adjusting asset business plans to a shifting market environment.
  - Funds investing in 2008-2010, after the GFC, had among the best performance seen in the last 20 years.

Looking Ahead

Real estate's financial performance will undoubtedly suffer as a result of COVID-19 economic disruption, and capital markets are grappling with a significant re-evaluation of long-term prospects for real estate across different property types. Geography also plays a role, although not nearly as much as property types. Despite the potential for a period of declining net operating income, the benefits of diversification and risk management have shone through amid the turmoil. And if this cycle resembles previous ones, the 2020-21 downturn can be expected to be much shorter in duration than the ensuing up-cycle in 2022-2025 or beyond.

It is notable that in contrast to the Global Financial Crisis (GFC), the causes of this recession do not lie within the capital markets themselves. Strong central bank responses have prevented risk spreads from rapidly expanding the way they did during the GFC. CMBS and investment grade bond spreads have declined since March. This points toward a larger impact on property values from deteriorating operating conditions rather than capital markets. With very low sovereign rates likely to persist for many years, the possibility for cap rate compression in the most desired markets and property types is likely to re-assert itself. As a result, any diminution of capital values will likely be more attributable to erosion of net operating income than to cap rate or discount rate expansion.

The window of opportunity for real estate investors in the aftermath of inflection points is often short, and only fully recognized in retrospect. The compression of time between contraction and recovery in the current recession suggests that this pattern is likely to be repeated. Scientists are working hard to find a vaccine for COVID-19, but there can be no guarantees when or if they will find one . If they do, a sharp recovery can be expected. If an effective vaccine is not deployed until mid to late 2021 and a second wave of the virus occurs in the late fall and winter of 2020, the recovery will be delayed. The uncertainty between these two scenarios must be weighed by every investor in every asset class. The implications for real estate are especially significant, because buildings serve the public and provide places where people congregate. As we look ahead to producing a 2021 edition of the ISA, we trust that the future will become a lot clearer and that much of this lingering uncertainty will be removed.

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