



StepStone Real Estate House Views

SPRING 2024 FULL REPORT

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All data is as of April 2024, unless otherwise noted.

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Executive summary



Market themes & macro setting

- **Real estate trading prices reflect current realities.** Funds remain overvalued
- Central bank tightening likely finished, with interest rates now 'higher for longer'; low liquidity as market digests
- US economy stronger than expected. Inflation above target with some resilience, challenging hopes for rate cuts
- European economies slow (rate cuts possible) and Asia below trend, with China largely offline for many real estate investors
- Loan workouts underway in US and Europe, likely to ramp up. **Post GFC it took 2-3 years for problems to create opportunities.**



Property outlooks

- Cyclic slowing of fundamentals in healthy sectors, particularly industrial, residential and certain niches
- US Office outlook remains poor due to work from home and functional obsolescence, amid frozen capital markets
- Retail finding its footing post e-commerce, prospects improving. Data center demand boosted by A.I.



Preferred strategies

- Seek entry points with attractive pricing due to dislocation, including harder to access properties – more of asset than beta focus
- Debt strategies continue to benefit from higher rates and spreads with greater selectivity due to reduced competition
- Recapitalizations benefit from need for gap financing to avoid losing assets, secondaries also solve LP liquidity needs
- Conditions present for strong non-core vintages



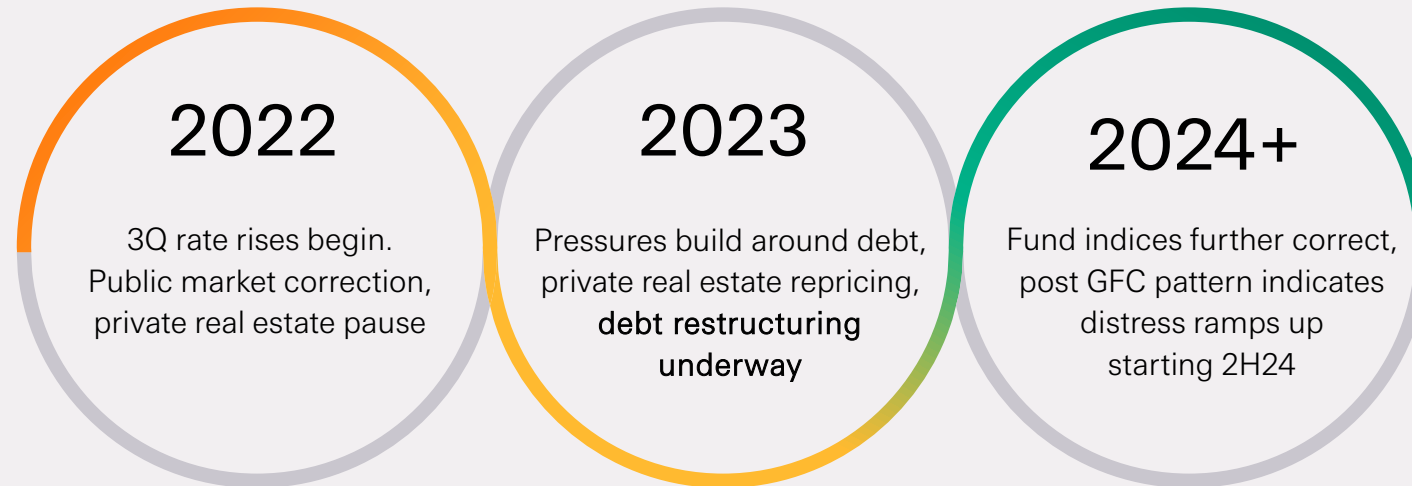
Portfolio construction

- Focus on resilient sectors and those supported by secular trends: industrial, affordable residential, select alternatives
- Position to capitalize on secondaries as LPs seek liquidity and GPs need additional capital
- NAV reductions progressing for core/core+, much slower in non-core. Continue to delay new open-ended fund commitments.
- Add to strong non-core managers, favoring those with distress and workout experience across the capital stack and NPLs



Market themes

Higher interest rates lead to new opportunity



Now

Favorable Outlook

- Debt
- Secondaries and recapitalizations
- Opportunistic/distress

Next

Core/Core+, after NAVs correct

- Repricing of open-ended funds ultimately likely to restore yields at normal spreads above now-higher interest rates

Ongoing

Real estate maintains its long-term targeted role in portfolios:

- Diversification
- Inflation protection
- Current income
- Appealing risk/return

Market and balance sheets digesting new realities

Secular trends exacerbate US office problems while dampening harm to others from cyclic slowdown

Market is repriced

- Current trades repriced to existing conditions
- Repricing levels and outlook varies by property type, location
 - Biggest drop for US office
- Appraisal- based fund valuations lag

Loan restructuring underway

- New lending down due to lender focus on workouts, banks' need to reduce CRE exposure, fewer payoffs to recycle
- Wide array of loan workout outcomes depending on circumstances
- To retain assets, owners must find way to fund gap between old and new loans
- **Post GFC it took 2-3 years for distress to manifest; this cycle now at 1.5 years**, rate hikes started mid-2022

Volume still depressed

- Signs of improvement - rising bid count for small deals in favored property types, deals pulled in 4Q 23 reportedly back in market, some larger trades in process
- Some green shoots of increased loan availability (i.e., CMBS)
- More volume does not equal sustained higher prices, especially with 2023 trading leaning to higher quality assets

New capital limited

- New non-core fund commitments halved in 2023, similar pace likely in 2024
- Denominator effect mostly gone despite lagging fund valuations
- **Liquidity problems.** Distributions in 2023 only 26% of long-term baseline, while capital calls are at 69%¹
- Non-core funds have considerable dry powder; much will be applied to restructure existing assets. Core/core+ funds are not active buyers

1. Sourced from StepStone proprietary database SPI Reporting including 343 RE value-add and opportunistic funds, vintage from 1983 to 2022.

Private markets repriced, fund marks lag

Total return

	2022	2023	Peak-to-12/31/23	Q1 2024	Peak quarter
Public Indices (USD)					
Broad public equities: MSCI ACWI	-18.0%	22.6%	0.5%	8.3%	Q4 2021
Barclays Capital US Aggregate Bond Index	-13.0%	5.6%	-8.2%	-0.8%	Q4 2021
US Public RE – All Equity REITs	-24.9%	11.4%	-16.4%	-1.3%	Q4 2021
Global Public RE - EPRA/NAREIT	-23.6%	9.8%	-16.1%	-1.4%	Q4 2021
Commercial Property Price Indices²					
US - Green Street CPPI, w/ODCE Weights	-15.9%	-10.3%	-24.8%	0.5%	Q1 2022
Europe - Green Street CPPI, w/ODCE Weights	-15.5%	-11.8%	-26.6%	0.3%	Q1 2022
Core Fund Indices³					
US - NCREIF ODCE	6.5%	-12.7%	-17.2%	-2.6% ⁵	Q3 2022
Europe - INREV ODCE	-1.3%	-10.3%	-16.4%	NA	Q2 2022
Asia - ANREV ODCE	6.3%	-0.6%	-1.4%	NA	Q1 2023
Non-Core Fund Indices⁴ (Q3 23)					
Global - Burgiss VA/Oppportunistic	2.2%	-3.3%	-6.2%	NA	Q1 2022



No more denominator effect.

Due to stock market recovery. Public RE showing typical high correlation to S&P and volatility vs. privates



Privates are fairly valued

Green Street research shows private RE is fairly valued vs. public RE and bonds, RE is cheap vs. S&P 500



Core fund indices correcting

but still behind property trading prices



Non-core values and flows lag

Slow fund revaluations, distributions and capital calls *still leave many investors at capacity for RE*

Sources: NCREIF, INREV, ANREV, Burgiss, Green Street, NAREIT, Bloomberg and FTSE, Apr 2024. Note: In aggregate, public REITs are 47% allocated to major property types (retail, residential, industrial, and office) as of Q4 2023 according to NAREIT, compared to 88% exposure to major property types in the private Global Real Estate Fund Index produced by ANREV, INREV, and NCREIF as of Q4 2023.

2. Green Street CPPIs, w/ODCE Weights are reported in local currencies. Property type mix matches regional ODCE. US: A quality assets; Europe A and B quality.

3. All Fund Indices' returns are net of fees and reported in local currencies.

4. As of Q3 2023. In addition, Q3 2023 return is based on reported valuations, excluding roll-forwards. 5. Preliminary result released on Apr 11, 2024.

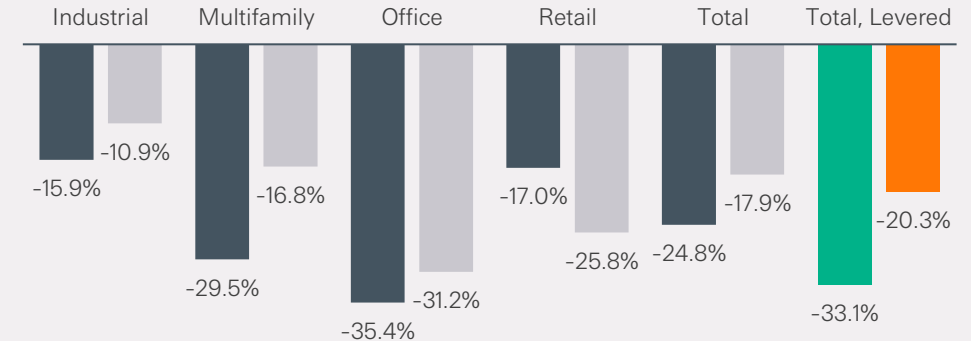
Core fund indices still don't reflect trading prices

- Fund NAVs rely on appraisals
- Valuation problem likely worse in non-core, detail data not available
- Industrial best entry point
- Cap rate data suggests Europe funds are more fairly priced
- Green Street commentary states that roughly 15% drop in US ODCE brings it in parity with CPPI

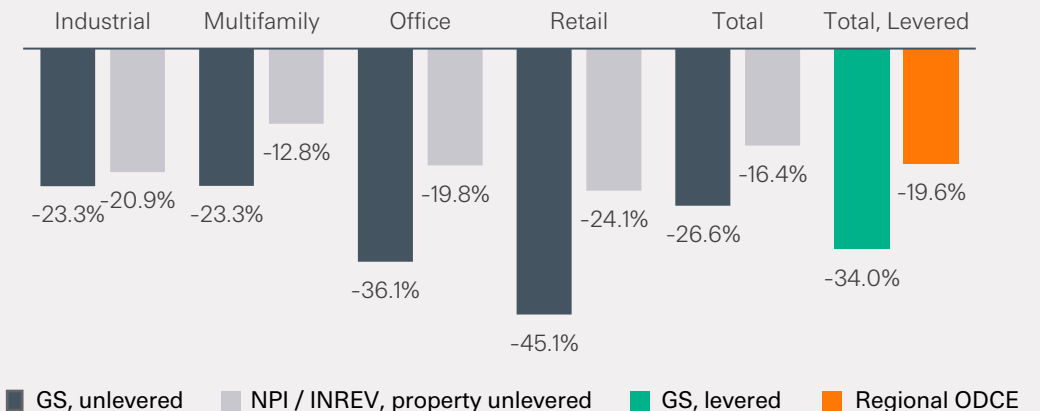
Capital returns as of Q4 2023

	Peak-to-2023	LTV %	Exposure to office
US			
GS CPPI w/ODCE Weights, Levered ¹	-33.1%	26.2%	17%
NCREIF ODCE Capital Return	-20.3%	26.2%	17%
Europe			
GS CPPI w/ODCE Weights, Levered ¹	-34.0%	24.2%	34%
INREV ODCE Capital Return	-19.6%	24.2%	34%

US²



Europe / UK²



Sources: NCREIF, INREV, Green Street, SRE calculation, Mar 2024. US index returns in USD and Europe index returns in local currency.

1. US Green Street CPPI Levered returns are estimated with regional ODCE's LTV. Borrowing costs are estimated assuming 70% fixed rate and 30% floating rate, where fixed rate is based on SRE manager survey as of Q3 2023.

2. Peak Quarter is Q1 2022 except Retail. US NPI Retail peaked at Q1 2018. Europe GS Retail peaked at Q1 2017. Note CPPI for European Office includes prime and non-prime assets; overstates loss on prime assets.

Core funds indices don't reflect market rates

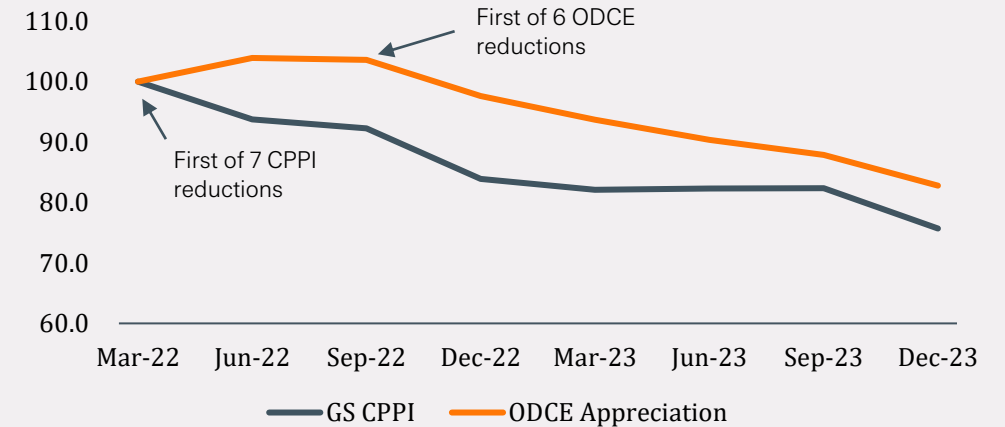
US

Sector	ODCE appraisal cap rate	Market cap rate		Borrowing cost	ODCE exposure
Industrial	3.5%	5.1%		5.9%	36%
Multifamily	4.1%	Class A: 5.4%	Class B: 6.1%	5.9%	27%
Office	5.8%	Class A: 8.0%	Class B: 10.7%	6.4%	17%
Retail	5.4%	Retail: ex-Mall 7.3%	Mall (Grade A): 8.4%	6.0%	10%

Europe / UK

Sector	ODCE appraisal cap rate ¹ (Q3 23)	Market cap rate – prime ²	Market cap rate – all ³	Borrowing cost	ODCE exposure
Office	4.3%	4.6%	7.1%	5.8%	34%
Industrial	4.8%	5.0%	6.0%	5.3%	31%
Residential	3.5%	4.1%	4.7%	5.2%	16%
Retail	5.7%	4.3%	8.9%	5.8%	15%

US Pricing – ODCE vs. GS CPPI⁴



- Appraisal lag is normal; GFC lag was three quarters
- It is not necessary to close the cap rate gap fully, but US differential is too large for current NAV to be credible without further mark downs
- European pricing is much more aligned at cap rate level. Unlike US, individual fund level returns diverge considerably

Sources: NCREIF, INREV, Green Street, CoStar, CBRE, Cushman & Wakefield, Catella, March 2024. Europe market cap rates weighted by ODCE country and sector mix. US borrowing rates from Commercial Mortgage Alert March 2024 and StepStone data, assuming 30% - 35% LTV.

1. Value-weighted appraisal cap rates reported by ODCE fund GPs, as of Q3 2023.

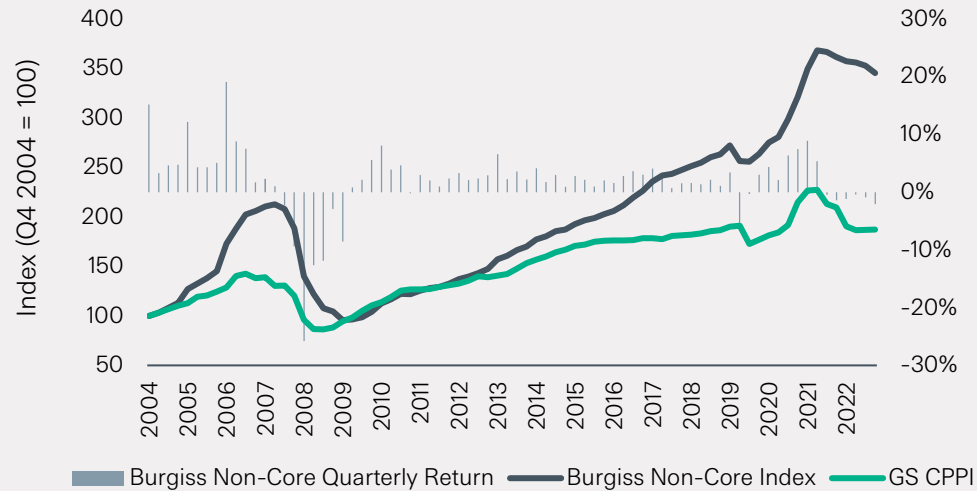
2. Residential market cap rates as of Q3 2023.

3. Net Initial Yield from Green Street, inclusive of purchasing costs.

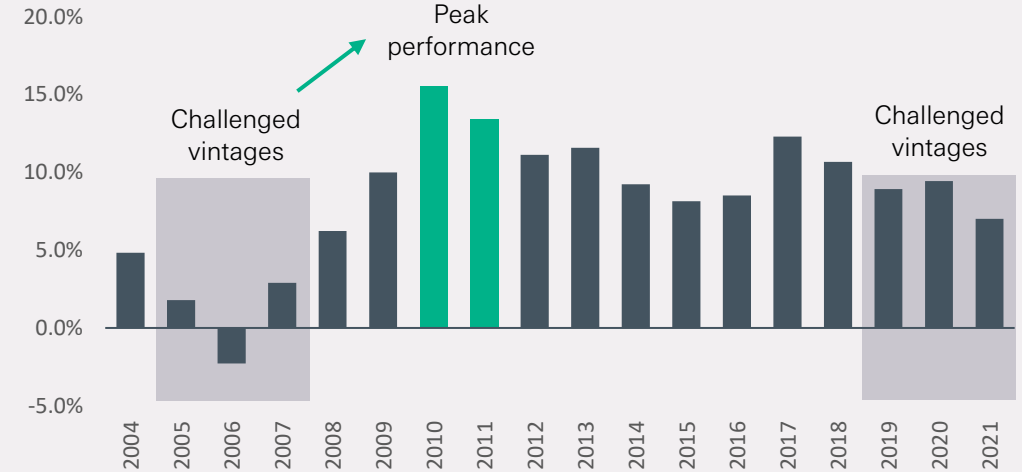
4. US GS CPPI weighted by NCREIF ODCE property mix.

Pre-correction non-core funds likely to face challenges

Non-core funds cumulative return versus CPPI



Performance by vintage



Marks likely to come down

- Post GFC, aggregate non-core funds down 55%, while CPPI was down 38%
- This cycle, aggregate non-core funds are down 6% while the CPPI is down 25%
- Funds vary, fund returns are dampened, and yet there is likely to be erosion in unrealized track records, particularly for recent vintages

Recent vintages challenged by acquisitions at peak pricing

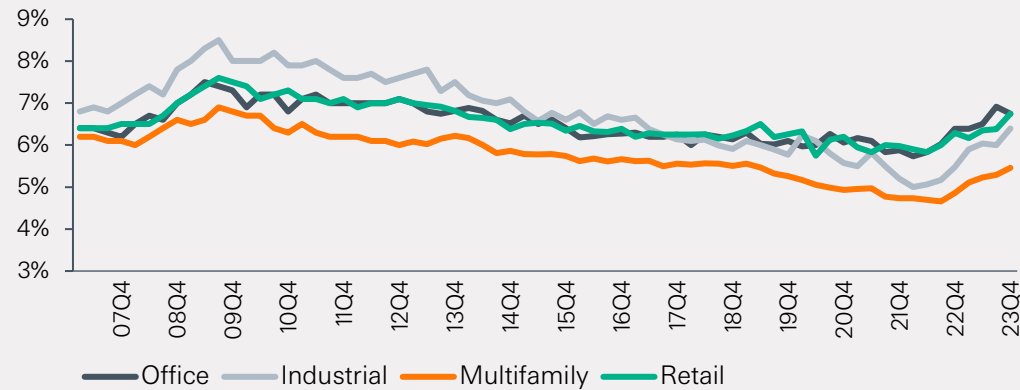
- Asset transition plans may be behind on leasing, cost and timing
- Average leverage is 55%, likely higher for recent vintages
- Debt includes a lot of shorter term and floating rate debt that is costly to manage. Unused dry powder likely redeployed to save existing assets

Peak performance was 2-3 years after the crisis point

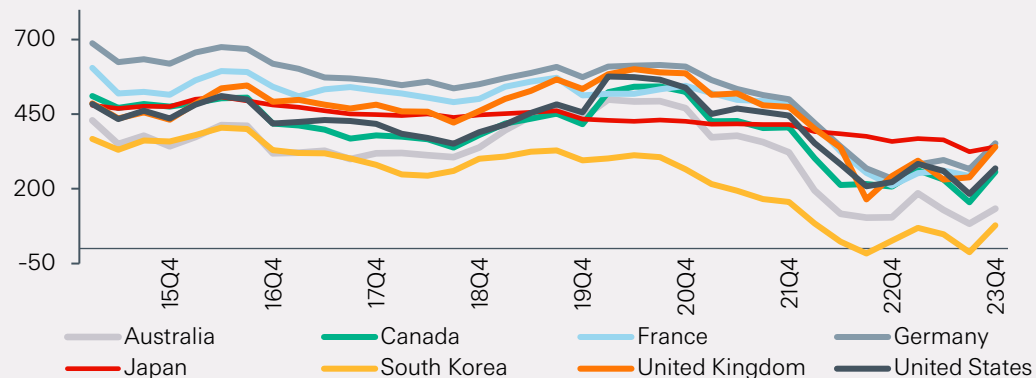
Cap rates rising

Narrow spreads imply additional cap rate expansion

Median global cap rate trends by property type



Overall cap rate spread to government bond yield by country (bps)



Cap rate quartiles by largest property types, Q4 2023

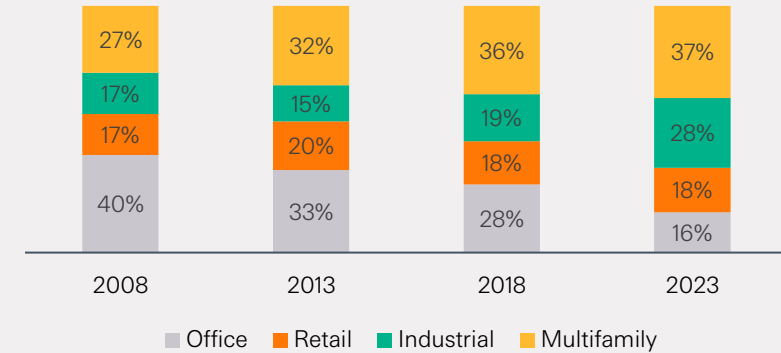
Region	Property type (volume leaders)	Bottom quartile		Median		Top quartile	
		Cap rate	YoY Chg.	Cap rate	YoY Chg.	Cap rate	YoY Chg.
US	Multifamily	6.1%	60 bps	5.5%	60 bps	5.0%	61 bps
	Industrial	7.3%	107 bps	6.3%	85 bps	5.4%	99 bps
Europe / UK	Office	8.7%	139 bps	7.0%	63 bps	5.6%	30 bps
	Industrial	7.4%	62 bps	6.9%	135 bps	5.7%	85 bps

Global cap rate spreads by country, Q4 2023

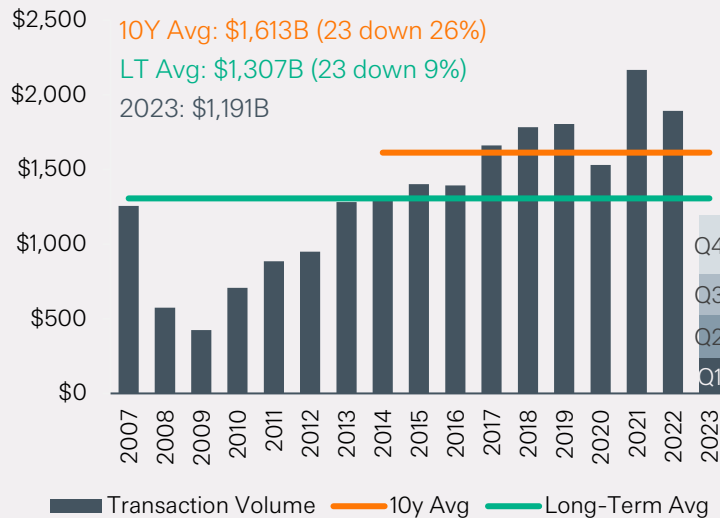
Country	Cap rate	Spread	15y avg spread	Delta
Australia	5.6%	134	311	177
Japan	4.0%	340	453	113
Korea	3.7%	78	237	159
France	6.5%	352	456	104
Germany	6.6%	352	513	161
UK	7.0%	340	445	105
US	6.8%	269	446	177

Trading remains dampened

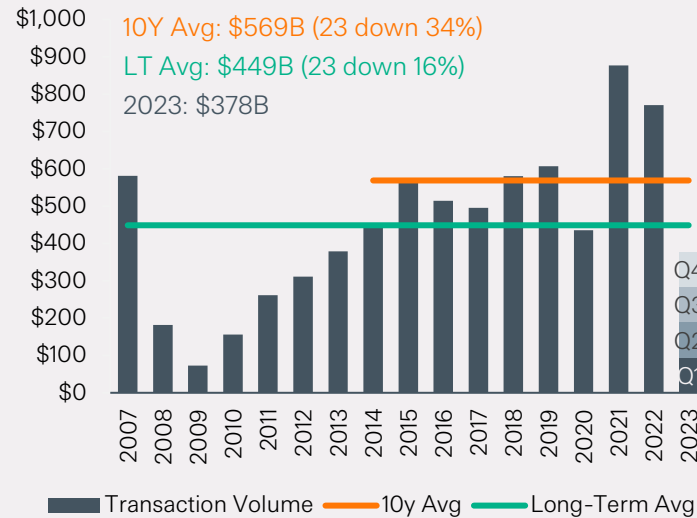
- Global 2023 trading 9% below long-term average, 26% below expansion period (2014-23)
- US 2023 trading 16% below long-term average, 34% below expansion period
 - Usual fourth quarter spike halted by October statement that Fed might increase rates again by year end
 - EMEA 2023 trading is half of expansion period average
- Property type mix now dominated by multifamily and industrial, with big drop in office led by US likely to persist
- Larger transactions gradually reappearing as CMBS issuance recovers



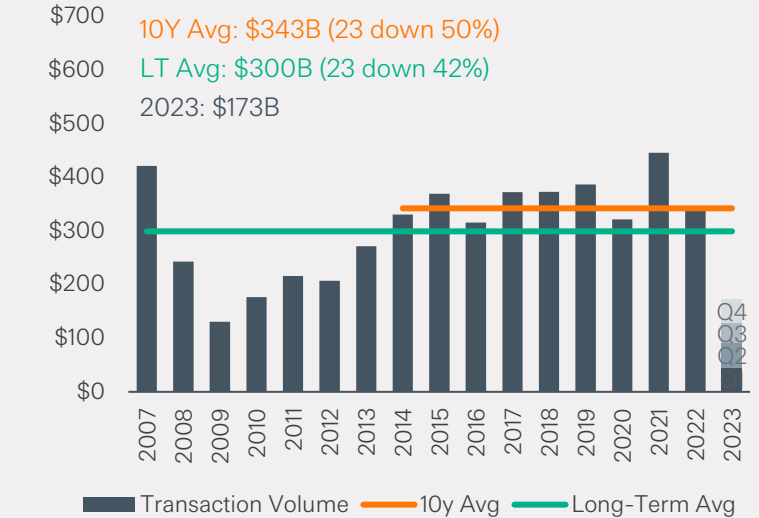
Global quarterly transaction volume
\$ in billions



US annual transaction volume
\$ in billions



EMEA annual transaction volume
\$ in billions



Source: MSCI Real Capital Analytics, as of March 2024.

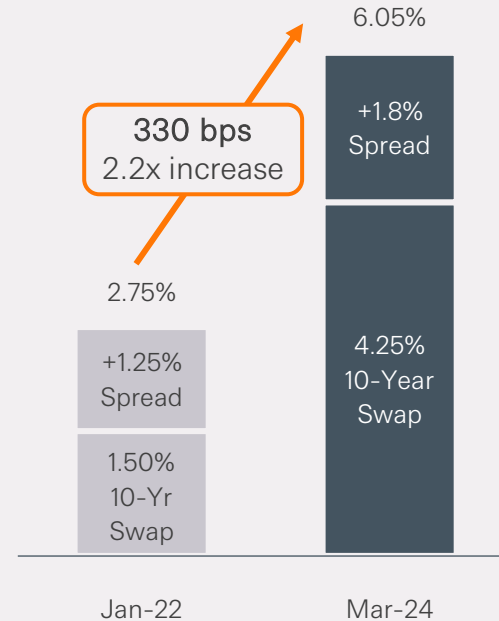
Debt costs doubled since early 2022

Rising interest rates equate to lower financing proceeds so leveraged owners with near term maturities and/or floating rate debt face funding gaps, or 'cash in' refinancing

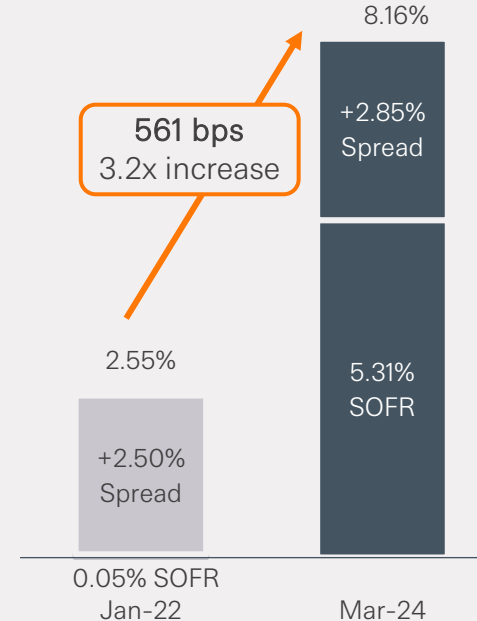
Greater impact on more leveraged owners

- Recent easing still leaves rates high, and they are not likely to drop back near 2022 levels
- Median non-core fund LTV at Q3 2023: 55%¹ mostly floating
- Refinance proceeds much lower, availability constrained
- Business plan delays, weaker leasing, and higher expenses put pressure on debt service coverage
- Higher debt costs crowd out cap ex spending

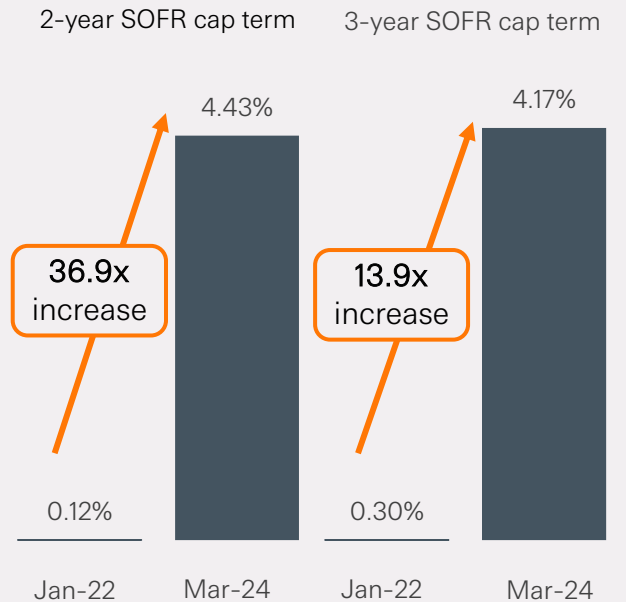
Loan cost: fixed²



Loan cost: floating³



Interest rate cap cost



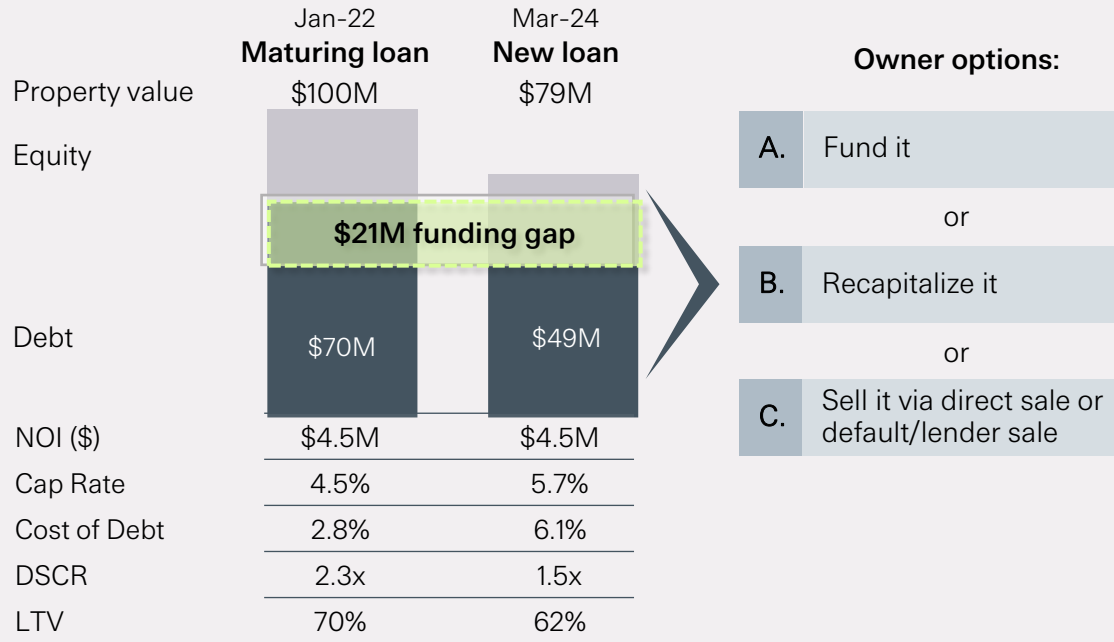
Sources: StepStone data, Chatham Financial, Federal Reserve, CBRE, March 2024.

Sourced from StepStone SPI Reporting, including 214 Non-core funds as of Q3 2023.

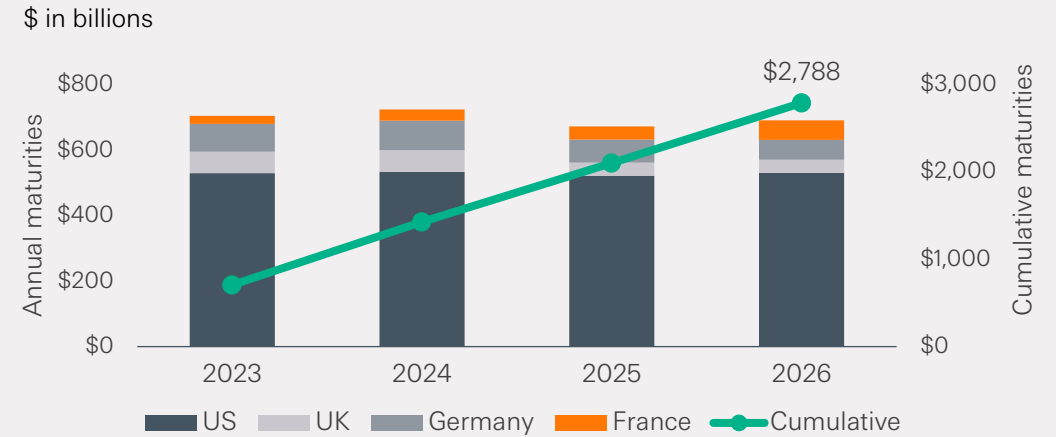
Fixed loan cost for stabilized multifamily at 50% to 59% loan-to-value.

For illustrative purposes, floating rate example does not consider a SOFR cap. Floating loan cost for transitional multifamily at 65% loan-to-cost and acceptable debt yield.

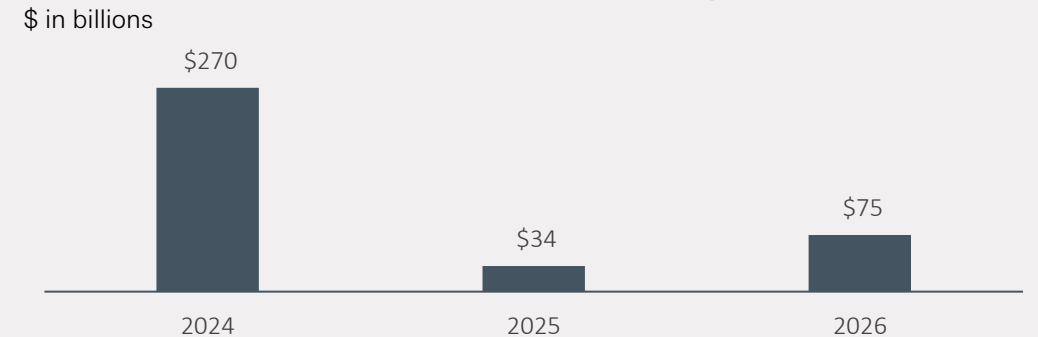
Higher interest rates drives need for recaps



Commercial / multifamily mortgage maturities¹



Estimated \$375 billion of US 2023 loan maturity deferrals²



- Likely to persist with higher rates and \$3 trillion of maturities
- Approx. \$375 billion of US 2023 maturity has been extended to 2024 and beyond
- Tighter lending standards further reduce proceeds. Loan availability is a challenge
- Example assumes income is constant, but income is under pressure
- Example reflects trough-to-current lending rates; rates down slightly in last 6 months

Sources: StepStone data, US Federal Reserve, CBRE, March 2024. Figures reflect hypothetical stabilized asset with 10-year fixed rate debt.

1. US data is sourced from Trepp, March 2024. European data is sourced from PGIM as of November 2022.

2. Marcus & Millichap estimate of loans scheduled to mature in 2023, but extended to 2024-26.

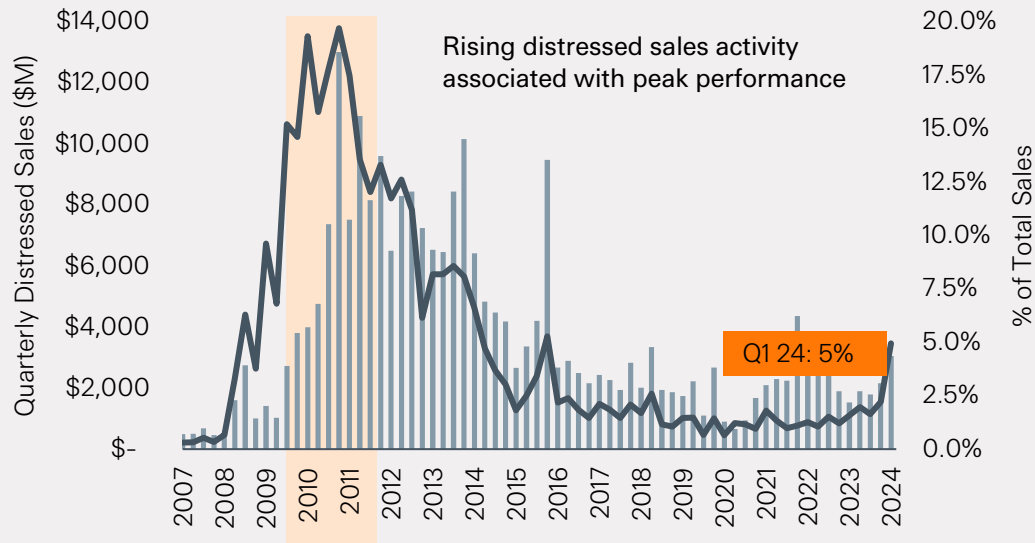
The long workout process is underway

Mapping GFC timing onto the current situation implies distress opportunities ramping up mid 2024

GFC opportunity peaked 2-3 years after crisis

- Crisis began 2007/08
- Bank delinquencies peaked 2009/10; CMBS delinquencies peaked 2012
- Opportunity peaked 2010/11 per non-core vintage year returns

GFC era distressed sales activity



Asset circumstances vary meaningfully and determine the workout options available

- Lender and borrower health, relationship
- Property outlook
- Capital structure

Workouts involve:

- Partial paydown or resizing for additional term,
- Adjusted rates,
- Possible cash sweep, and
- In tougher situations, part may be accrued ie via A/B structure (often 'pretend')
- Lenders who can take losses can sell the note, force sale of the building, or do a discounted payoff with the borrower

Healthy circumstances enable extension or renewal:

- Also with some paydown or resizing and rate adjustment
- Can still require default event to get lender attention
- This is not 'pretend'

Hard choices lead to new opportunity

Pressures mount for owners of transitional and/or overleveraged assets who must address the gap between loan payoff and refinancing proceeds or infuse capital to obtain extensions ("funding gap")

Ways to resolve funding gap

Fund it

- Uncommitted capital can be reallocated to save worthy assets
- Complex ownership structures constrain options
- Dry powder deployed to save assets at the expense of new deals
- Dearth of property sales and distributions can add to funding challenges

Recapitalize it

- Raising money for recapitalizations allows managers to retain assets, complete business plans, and retain assets until market recovers
- Starring role for participating, preferred high yield equity/debt with new pricing and terms

Sell it

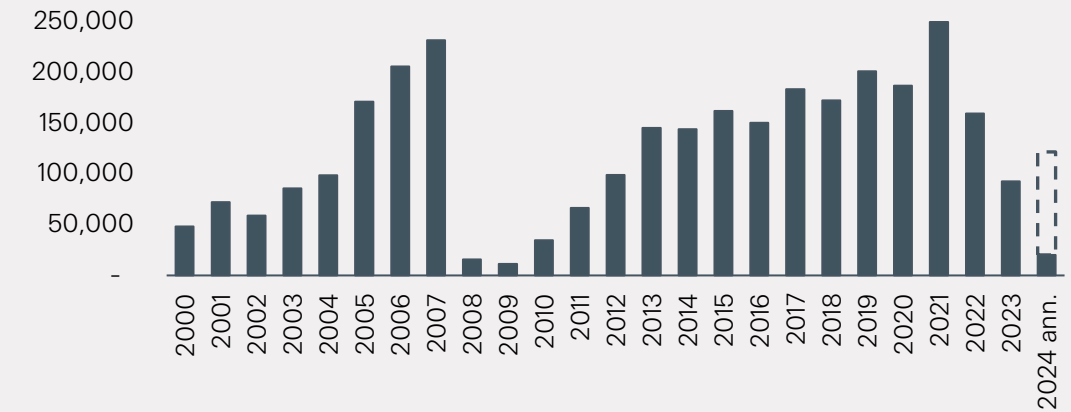
- Sellers (including foreclosing lenders) take losses, leading to market repricing
- Growing willingness to take losses on less worthy assets (office)
- Seller financing necessary for tougher assets especially office
- Quality assets also becoming available as owners seek liquidity to fill gaps
- Conditions favor strong, non-core vintage period

Signs of CMBS recovery amid rising delinquencies

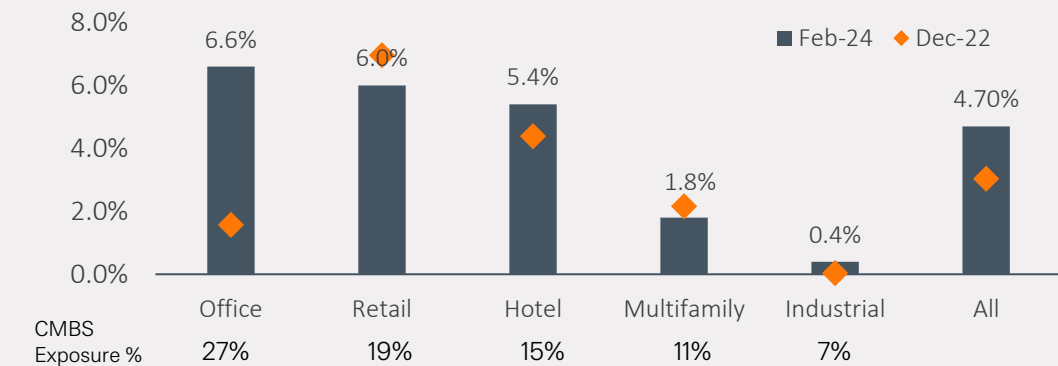
- The transparency of CMBS offers insight on the rest of the market
- Issuance appears to be improving, which is important to facilitate larger asset sales
 - Demand is up and some recent issues were oversubscribed
 - There have been several >\$500M transactions
- Delinquency is rapidly rising, hitting 4.7% as of February 2024, still well below GFC rates which exceeded 10%
 - Office is driving the increase, up more than 500 bps
 - Retail is high but trending downward, getting resolved
- Special servicing rates are also increasing
 - Office is highest, sitting around 10%
 - Multifamily remains low, although that is expected to change

CMBS annual issuance

\$ in millions



CMBS delinquency rate by property type (%30 days+)¹



Source: Green Street, CREFC, Trepp March 2024.

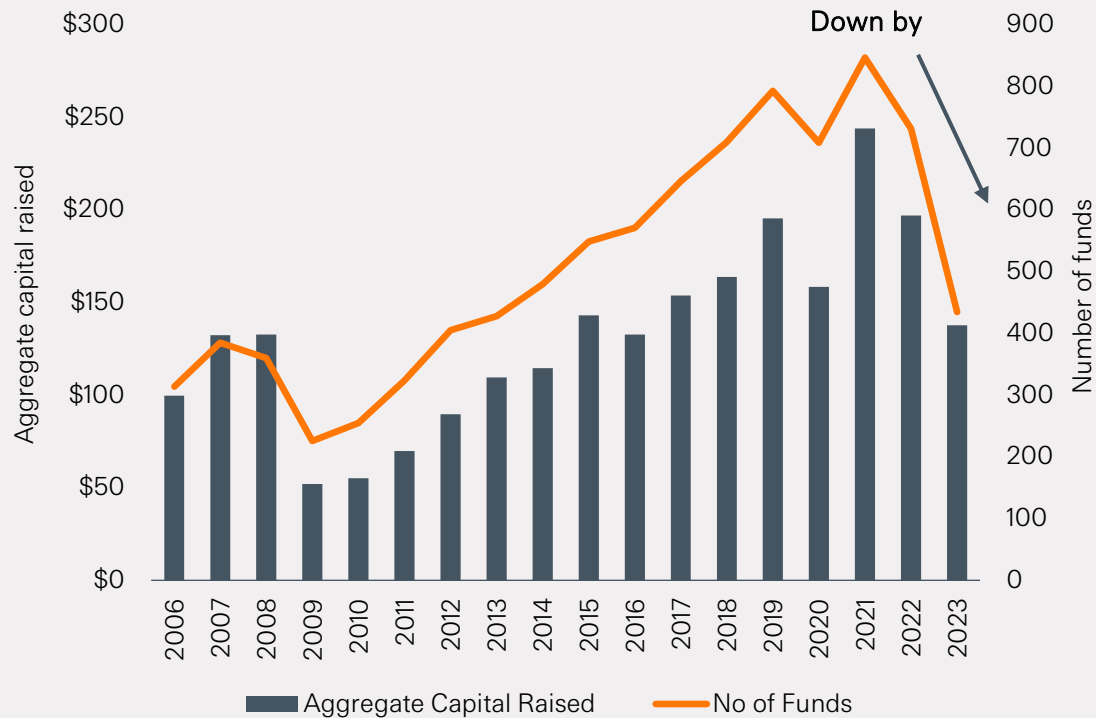
1. The remaining CMBS exposure include self storage, healthcare, and defeased CMBS,

Non-core fundraising down, still a lot of dry powder

Pre-correction assets likely to use dry powder, reducing acquisitions for pre-23 vintages

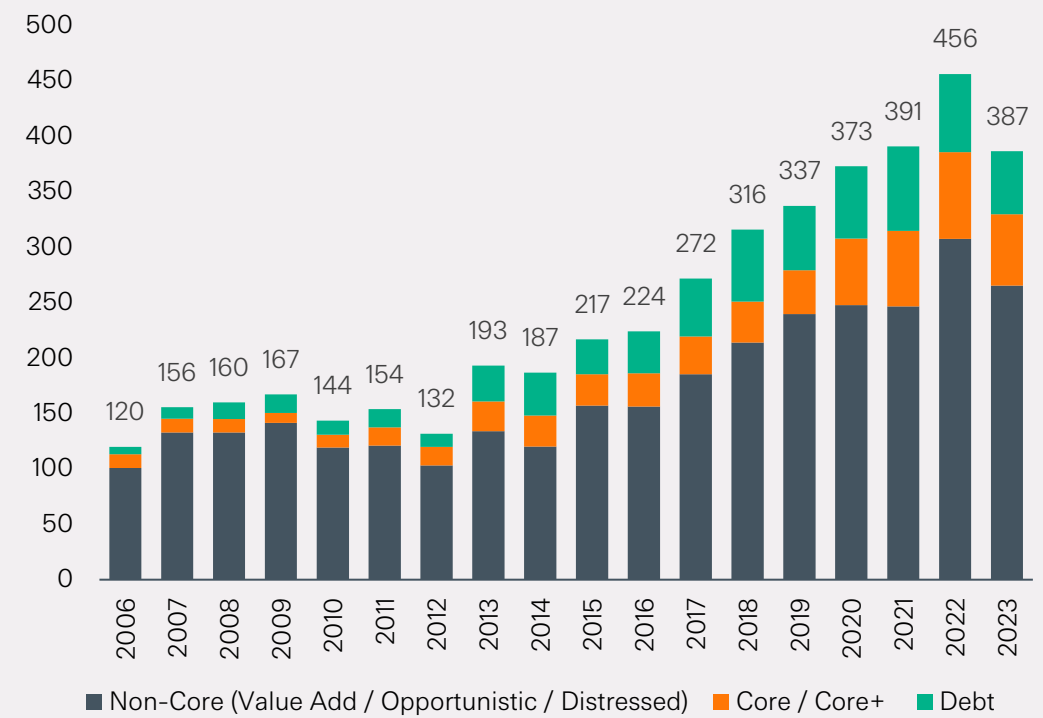
Global private real estate fundraising

\$ in billions



Global private real estate fund dry powder

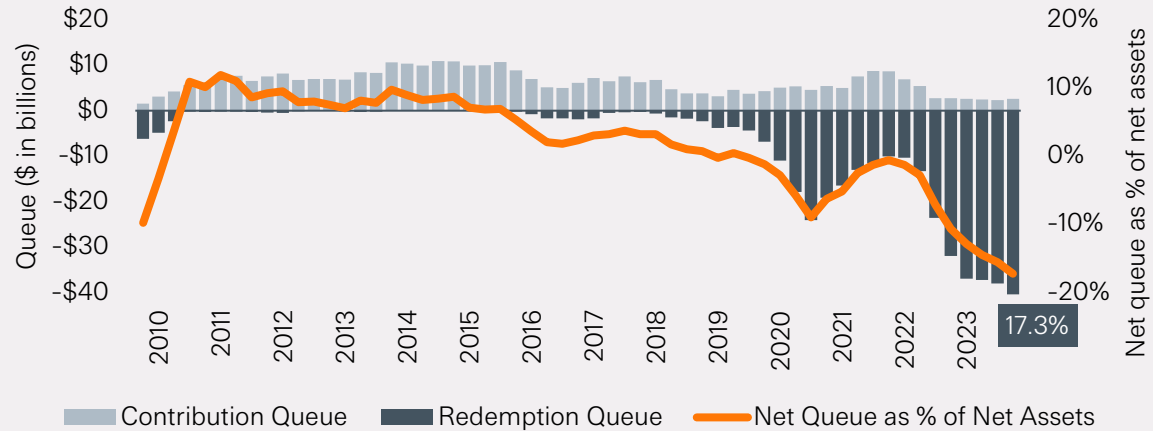
\$ in billions



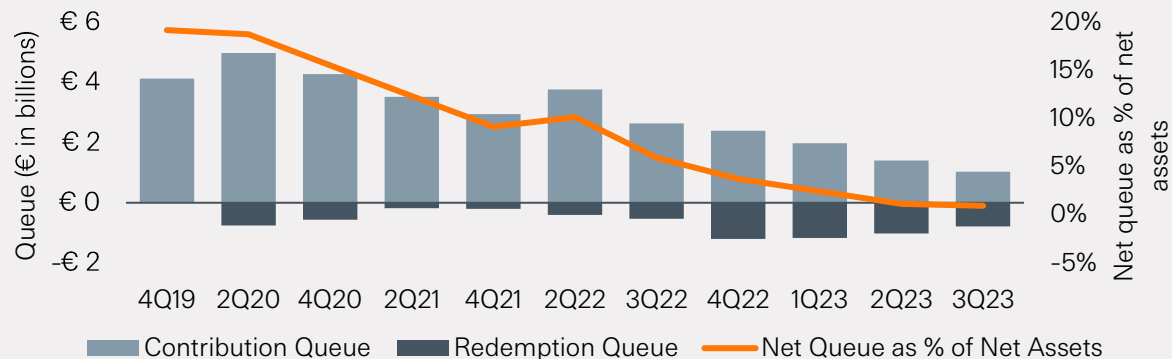
Source: Burgiss and MSCI, March 2024.

US open-ended fund redemption queues still sizeable

US NCREIF ODCE fund queues



Europe INREV ODCE fund queues



Source: StepStone Real Estate Manager Surveys data. US as of Q4 2023 while Europe as of Q3 2023.

US

Fund level net redemption queue as % of its NAV	# of funds	NAV (\$ in billions)
Under 10%	9	\$47.4
10% - 20%	9	\$124.9
Over 20%	7	\$47.4
	25	\$219.7

- Funds are gated so redemption requests are not met. Some funds which have cleared the queue had it refill. Declining NAVs raise queue as pct of NAV, and queue volume is up.
- While initially similar, queues now vary. With some exceptions they are simply aimed at rebalancing.
- Eventual repricing typically resolves the queues. Now, shift in ODCE composition and changing property type demand may require some groups to pro-actively reduce queues.

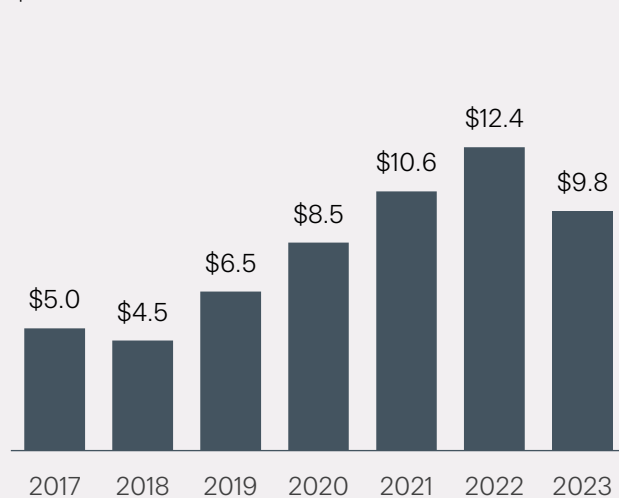
Europe

- Fund demand balanced. 4 of 14 funds have exit queues.

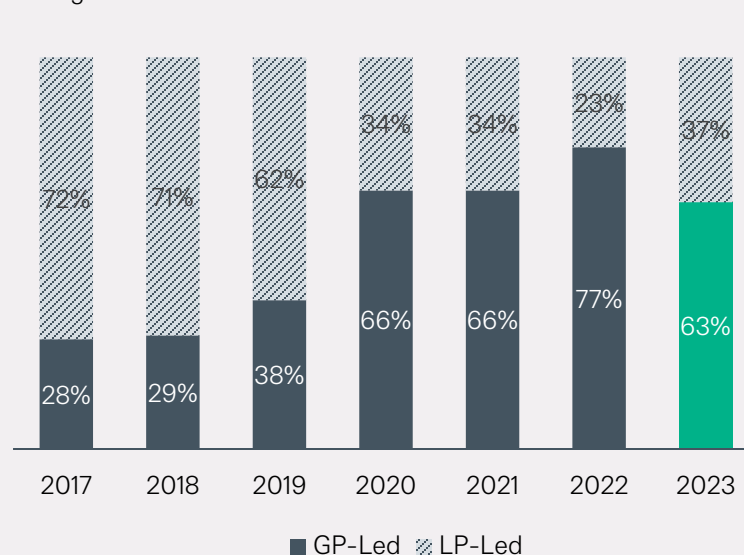
Secondary sales growth anticipated

- GP led secondaries likely to be in heavier use to manage funding gaps and address LP liquidity requests
- A significant portion of GP led secondaries trading is bespoke and unreported, therefore not well captured in the data
- Two main factors contribute to price drop for LP secondaries
 - Investors selling funds with weak outlook, especially office
 - Declining (and lagging) NAV means buyers need higher discounts
- Until this corrects, LP secondaries volume likely to stay well below projected amounts

Global real estate secondaries volume
\$ in billions



Share of real estate secondaries volume by type
% of global volume



Global secondaries pricing as share of NAV



Sources: Jeffries LLC, Ares, Greenhill, March 2024.



Preferred strategies & portfolio construction

Core/core+: property-level performance prospects

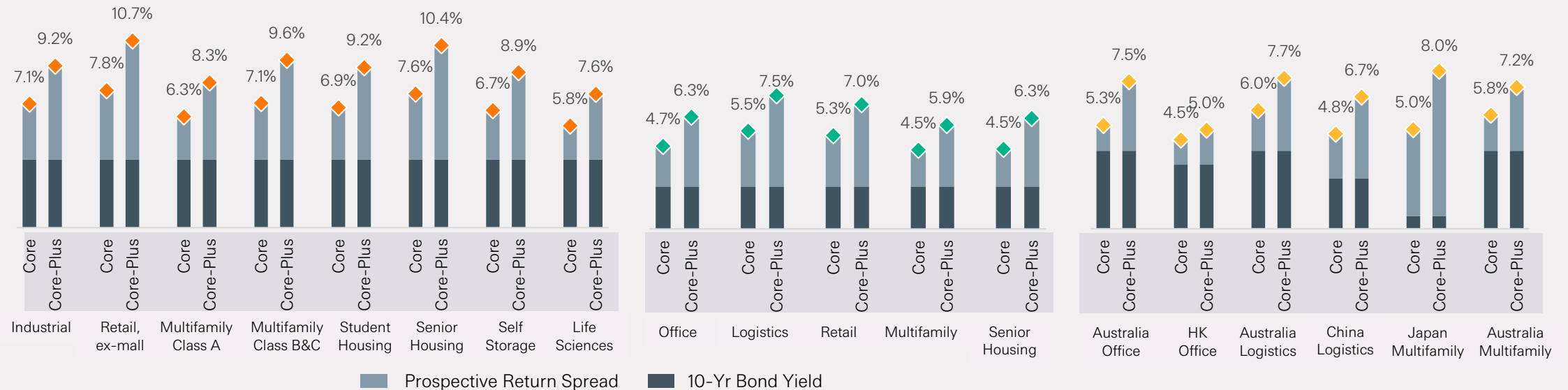
Indicative five-year prospective core/core+ unleveraged property performance in local currency¹

- Returns based on initial investment per current market price data. Open-ended fund commitments made at above market NAVs will yield lower returns
- **Fundamentals** in all sectors except office are reasonable with secular lift helping to mitigate cyclic slowing
- SRE has temporarily removed US office from the projections due to lack of visibility on demand, future capital expenditure and exit market

United States

Europe / UK²

Asia-Pacific



Past performance is not indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses. Source: StepStone Real Estate calculations, Green Street, Knight Frank, MSCI RCA, Cushman & Wakefield, Catella, CBRE, IPF European Consensus, NCREIF, INREV, Oxford Economics, Chatham Financial, Consensus Economics, March 2024. Prospective five-year buy-and-hold return for a representative Grade-A/Core asset reflecting a market average level of return. For illustrative purposes only. Target returns are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target IRRs will be achieved or that the investment will be able to implement its investment strategy, achieve its investment objectives or avoid substantial losses. Further information regarding target IRR calculations is available upon request. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass.

1. All return projections are in local currency.

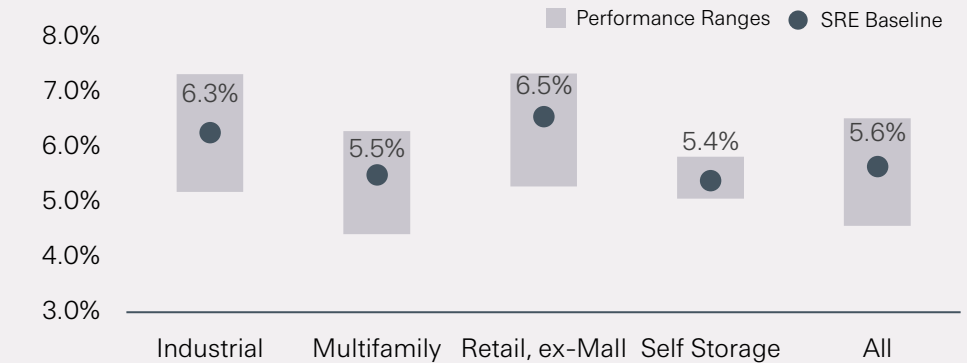
2. 10-Yr Bond yield is blended average of 80% Europe and 20% UK.

Possible core/core+ performance scenarios

	Third-party baseline	Scenarios
Growth	<ul style="list-style-type: none"> Recent outperformance leads to modest upgrades to forecast Eurozone growth turning up; still below other regions Asia-Pacific leads growth, also at a slower pace 	<ul style="list-style-type: none"> ▲ Central banks cut rates as inflation hits target, driving stronger than expected growth ▼ High inflation persists; tight policy and financial distress keep growth well below trend in advanced economies
Inflation	<ul style="list-style-type: none"> Slowly declines, reaching central bank targets in 2025. Inflation expectations remain elevated Diverges by country 	<ul style="list-style-type: none"> ▲ Central banks' 2% target is achieved earlier ▼ Core inflation persists above central bank targets into 2025
Monetary policy	<ul style="list-style-type: none"> Inflation remains the focus Policy will remain restrictive in 2024 unless easing triggered by downturn Government bond yields stabilize at higher levels 	<ul style="list-style-type: none"> ▲ Policy tightening shifts to easing with inflation at target ▼ Interest rate hikes resume and weigh on financial markets, housing; credit remains tight
Employment	<ul style="list-style-type: none"> Low, sub-GDP, employment growth globally Affects most sectors and locations as higher rates weigh on businesses and households 	<ul style="list-style-type: none"> ▲ Policy easing and subsequent boost to investment limit rise in unemployment ▼ Unemployment rises more and stays elevated as growth resumes below-trend pace
Geopolitical	<ul style="list-style-type: none"> Leading concern of businesses per OE survey due to conflicts in Ukraine, Gaza, tensions over Taiwan Emerging impact on ME supply lines not in baseline 	<ul style="list-style-type: none"> ▲ Easing of tensions ▼ Increased tension China/Taiwan or Middle East escalation; oil price spike and supply disruption

Range of five-year real estate core fund performance expectations¹

US core fund perf by property type, net of fees



- Range in performance fairly consistent across property types, driven by cyclic changes in forecasted rent growth
- New supply in 2024/25 weighs on multifamily returns; Class B/workforce housing less vulnerable to new supply
- Industrial likely to absorb supply quickly, upside policy easing unleashes demand among larger space users
- Non-mall, necessity-based retail is less sensitive to changes in consumer spending; higher baseline returns reflect lack of new supply
- Self-storage more range bound, reflecting its non-cyclical demand drivers

Past performance is not indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses. Table source: Oxford Economics, Consensus Economics, StepStone Real Estate analysis, as of March 2024. Prospective five-year buy-and-hold return for a representative Grade-A/Core asset reflecting a market average level of return. Leverage is applied at the current level of the NFI-ODCE at a 26% LTV using StepStone Real Estate estimates for debt finance costs. The NFI-ODCE estimate is calculated using the 4Q2023 index weightings, adjusted for office depreciation projection. Office projections currently suspended due to lack of visibility. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass.

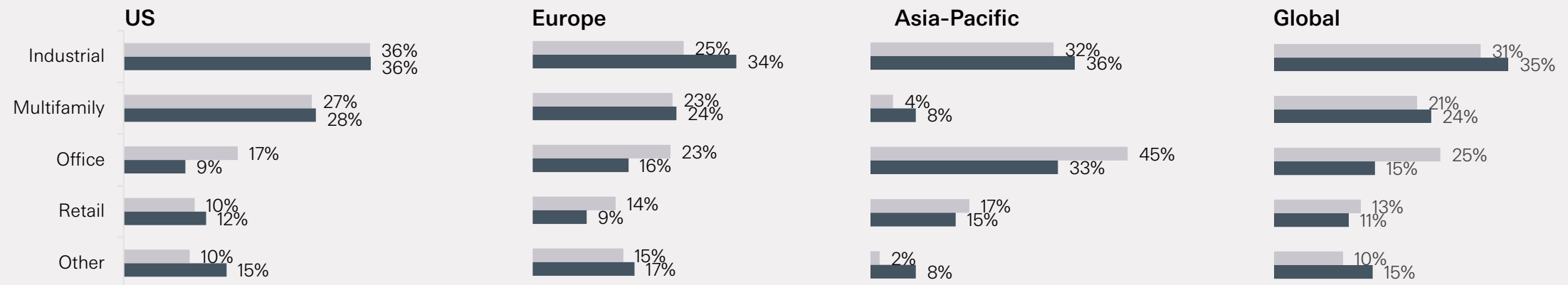
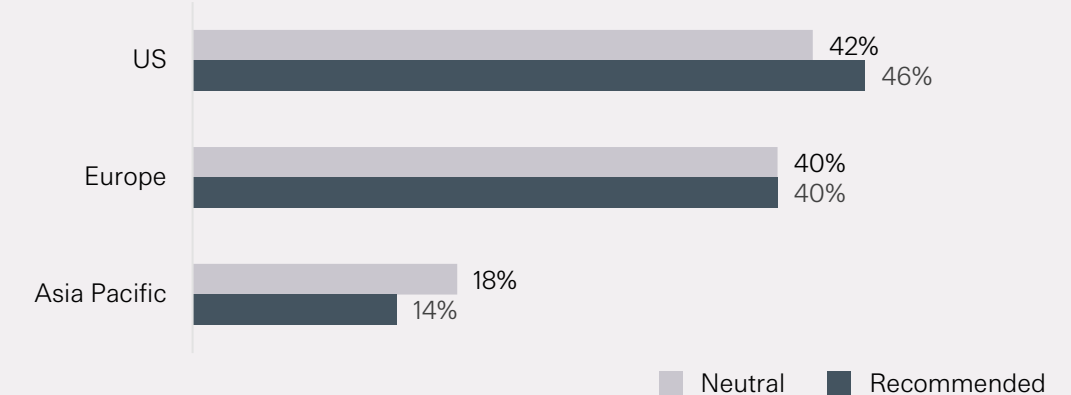
1. For illustrative purposes only. Target returns are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target IRRs will be achieved or that the investment will be able to implement its investment strategy, achieve its investment objectives or avoid substantial losses. Further information regarding target IRR calculations is available upon request.

Global real estate portfolio positioning

Considerations

- Recommendations are for mature, core portfolios; encourage greater tilts for newer, core+ and non-core portfolios
- Overweight US for distress opportunity, better growth outlook
- Neutral to Europe, distress offset by greater risks to growth
- Asia opportunity largely focused on Japan; limits overweight ability
- Recommended tilts for risk exposure:
 - Defer new open-ended funds contributions pending repricing
 - Overweight non-core to capture distress, including recapitalizations and secondaries
 - Overweight debt for current income with attractive risk/return

Geographic



Sources: StepStone Real Estate calculations, March 2024. Neutral weightings sourced from Global Real Estate Fund Index as of Q4 2023 for global property and geographic allocations and ANREV, INREV, and NCREIF core fund indices as of Q4 2023 for property allocations by region. Other property includes hospitality, healthcare, self-storage, senior housing, and student housing. Recommendations are recast in relation to new neutral weightings. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass.

Preferred themes in non-core real estate and debt

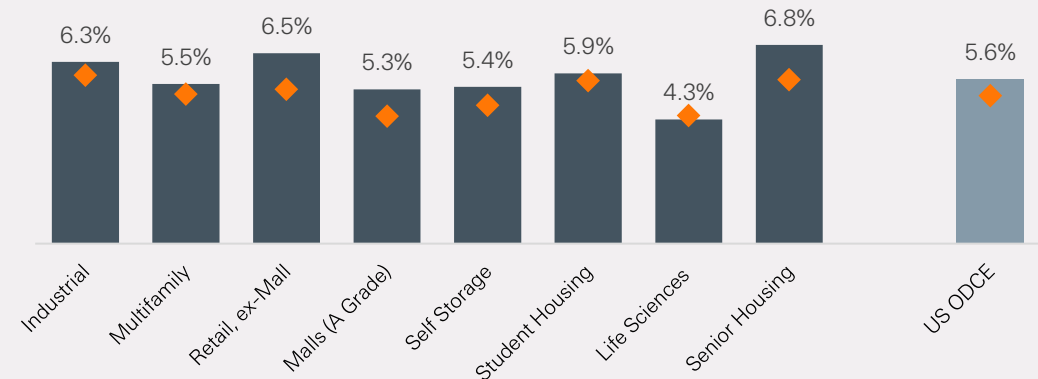
	Sector	Drivers	Identified strategies
PROPERTY TYPE	Industrial / logistics	Demand support: <ul style="list-style-type: none"> Near & on-shoring E-commerce penetration 	Supply constraint: <ul style="list-style-type: none"> Availability and cost of financing Construction costs
	Alternative Rental Housing	Demand support: <ul style="list-style-type: none"> High ownership costs Urbanization 	Supply constraint: <ul style="list-style-type: none"> Availability and cost of debt Construction costs Regulation
	Healthcare	Demand support: <ul style="list-style-type: none"> Aging population Government support Non-discretionary spending 	Supply constraint: <ul style="list-style-type: none"> Low development Skilled developers and operators Operator distress
	Data Centers	Demand support: <ul style="list-style-type: none"> Exponential growth in data use and storage, AI boost 	Supply constraint: <ul style="list-style-type: none"> Power Entitled sites
CAPITAL STRUCTURE	Secondaries / recaps	Capital markets effect: <ul style="list-style-type: none"> Material funding gaps pressuring GPs Portfolio management and reallocation needs pressuring LPs 	<ul style="list-style-type: none"> GP-led secondaries/recaps to resolve funding gaps, allow completion of business plans and orderly exit in recovered exit market, avoiding selling in a trough. Ability to be highly selective. Entry at current pricing, with new terms, can be structured as participating debt for downside protection. LP-led volume set to increase, allowing more attractive terms and better selectivity after NAVs adjust.
	Debt	Maturity walls facing supply constraint: <ul style="list-style-type: none"> Wall of maturity and needs to be refinanced Funding gap problems amid low availability of debt capital with traditional lenders less active 	<ul style="list-style-type: none"> Lending in both US and Europe enjoy higher spreads and greater selectivity across the risk spectrum. Possibility to achieve equity-like returns for some strategies.

US core/core+ fund portfolio positioning

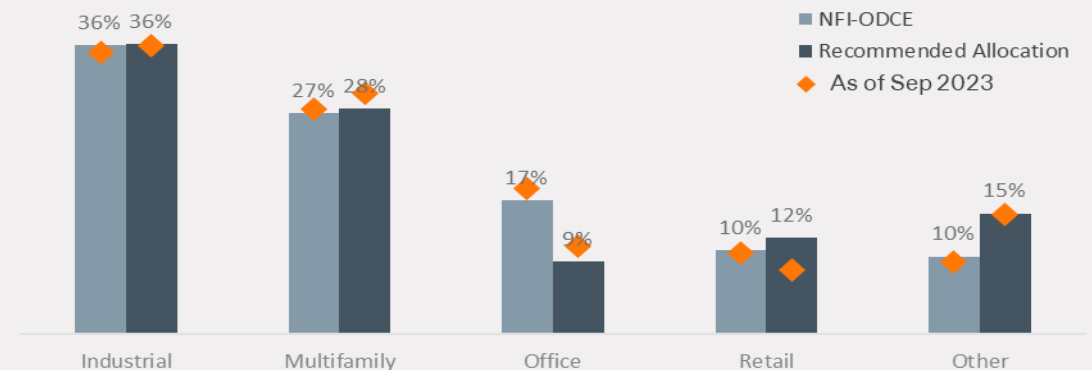
Considerations

- Asset/fund selection drives performance in lower growth period
- Growth outlook better in primary and larger secondary markets
- Fund NAVs overvalued; dampened returns until NAVs fully correct
- Non-ODCE funds better priced, offering more attractive entry basis
- Secondary market NAV discounts of 5-15% approaching reasonable entry points
- SRE has temporarily removed office projections due to lack of visibility. Returns based on initial investment at ODCE NAV.
- NCREIF announced changes to ODCE classifications April 8, 2024 that are not reflected in this document

Five-year core fund net return projections by type



Recommended property type Tilts vs. NFI-ODCE



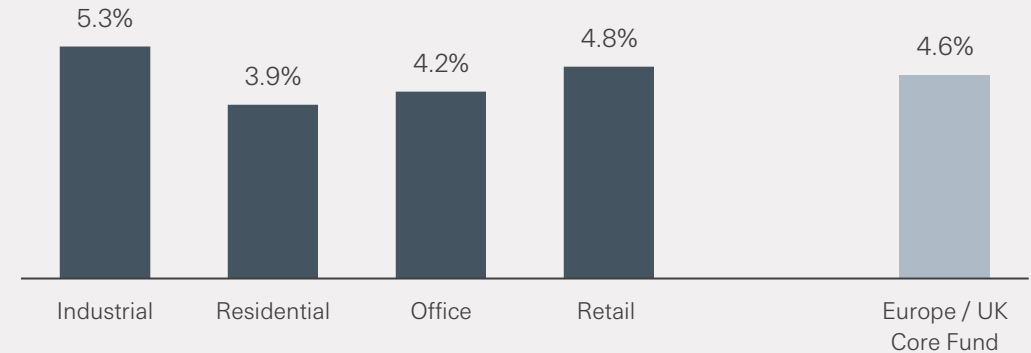
Sources: StepStone Real Estate calculations, NCREIF, March 2024. Prospective five-year buy-and-hold return for a representative Grade-A/Core asset reflecting a market average level of return. Leverage is applied at the current level of the NFI-ODCE at a 26% LTV using StepStone Real Estate estimates for debt finance costs. NCREIF ODCE weightings are the value-weighted share of net real estate assets as of Q4 2023. Other property includes hospitality, healthcare, self-storage, senior housing, and student housing. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. For illustrative purposes only. Target returns are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target IRRs will be achieved or that the investment will be able to implement its investment strategy, achieve its investment objectives or avoid substantial losses. Further information regarding target IRR calculations is available upon request.

Europe core/core+ fund portfolio positioning

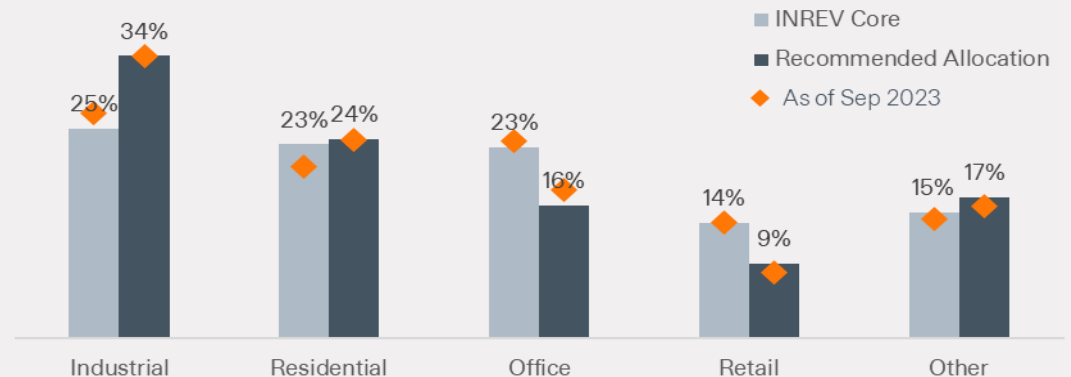
Considerations

- Healthy fundamentals vulnerable to recession in parts of the region; likely to differentiate manager performance
- Industrial leads performance; residential challenged by new rent regulations
- NAVs have come down meaningfully; UK and Nordic focused funds have repriced the quickest
- Unlike US, fund level NAV adjustments to new market pricing vary considerably. Secondaries pricing requires careful underwriting.
- Returns based on initial investment at NAV. SRE focuses on the larger INREV Core, which includes country specific funds; INREV ODCE is only pan-European funds.

Five-year core fund net return projections by type



Recommended property type Tilts vs. INREV Core



Past performance is not indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses. Sources: StepStone Real Estate calculations, INREV, March 2024. Prospective five-year buy-and-hold return for a representative Grade-A/Core asset reflecting a market average level of return. Leverage is applied at the current level of the INREV-ODCE at a 24.2% LTV using StepStone Real Estate estimates for debt finance costs. INREV Core weightings are based on INREV Core Index as of Q4 2023. Other property includes hotel, leisure, parking and agricultural, etc. The opinions expressed herein reflect the current opinions of StepStone as of the date appearing in this material only. There can be no assurance that views and opinions expressed in this document will come to pass. For illustrative purposes only. Target returns are hypothetical and are neither guarantees nor predictions or projections of future performance. Future performance indications and financial market scenarios are no guarantee of current or future performance. There can be no assurance that such target IRRs will be achieved or that the investment will be able to implement its investment strategy, achieve its investment objectives or avoid substantial losses. Further information regarding target IRR calculations is available upon request.

Preferred market/property type strategies

Property type	Trends	North America	Europe	Asia-Pacific
Office	Cyclical and secular changes reduce demand	Best properties outperform. Severely limited debt and liquidity even for best properties	High quality assets or assets that can be refurbished to modern ESG-relevant space in primary locations only	Under-rented assets in greater Tokyo, Osaka, and Seoul
Industrial & logistics	Secular changes (ecommerce, onshoring) increase demand; offset cyclical risk	Opportunity to acquire quality assets at better pricing due to distress situations	Last mile and assets close to transportation hubs connecting key markets with sustainability credentials	Prime locations in Japan, Australia, and select submarkets in greater Seoul
Retail	Historically low new supply generating rent growth in strong markets. Cyclical risk- GDP / Retail Spending	Suburban grocery-anchored, strip and necessity-based retail. Centers with strong in-line tenant demand and mark-to-market potential.	Necessity-based retail across the region	Necessity-based retail across the region and prime retail in select tourist destinations
Multifamily	Secular affordable housing shortage and high mortgage rates, cyclic weakness	New supply causing softness in Sunbelt. Coastal high-barrier markets resilient and rebounding.	Select supply constrained major cities, affordable housing and schemes not impacted by rental regulation	Undersupplied markets in Japan
Hospitality	Strong leisure travel despite slowing economy	Loan funding gaps create entry opportunities. Strong barriers to new supply in long-term.	Affordable and luxury, in key city or vacation locations that can leverage business and leisure demand	Japan leading rebound in tourism
Life sciences / R&D	Venture investment way down post-pandemic	Significant supply deliveries and sublease availability with limited demand lift vacancy, weaken fundamentals	Purpose-built developments, often as part of R&D Parks and in proximity to anchor-institutions	R&D labs and medical offices across APAC
Data centers	High growth in data use and storage; boosted by AI, power caps supply	Development of hyperscaler facilities; targeted edge facilities	Structured solutions to develop for hyperscalers	Structural growth in demand across APAC. Japan and Korea hyperscale opportunities
Self-storage	Cyclically resilient	Operational underperformance due to deteriorating fundamentals and new supply deliveries	Nascent and fragmented. Focus on major cities and on businesses with experienced management.	Supply constrained locations across the region; focus on Japan and Australia
Cold storage	Support from secular changes (ecommerce etc) likely to offset cyclical slowing	Persistent supply-demand imbalance continues to boost operating fundamentals. High quality assets in critical locations for tenants create sticky customer base.		
Senior housing	Secular support from aging global population, met by margin challenges post covid	Stabilized or near-stabilized high-quality assets in coastal markets at repriced higher yields. Lease-up of new construction assets.	Limited liquidity of core institutional buyers creates opportunity for attractive pricing on high quality assets in the UK and Continental Europe	Nascent across the region despite supportive demographic trends
Student housing	Demographic support from higher education participation	Strong fundamentals due to limited supply deliveries and growing enrolment. Higher yields and higher growth outlook than multifamily.	Focus on major markets that also lack broader residential supply	Australia benefitting from return of Chinese students; Select opportunities in Japan
Other rental housing	Secular affordable housing shortage, reduced home buying	SFR more viable than home ownership due to mortgage rates. Manufactured housing: limited supply, strong demand.	SFR emerging in UK, Denmark and Spain	Underserved

■ Overweight
 ■ Neutral
 ■ Underweight

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Private debt: better terms, less competition, higher returns

Landscape increasingly favors private lenders

- **Market remains tight** with bank lending still depressed. Low lending volume reduces transaction volume. Mortgage Bankers Association projects a 29% lift in loan volume for 2024 vs. 2023 in US.
- **Forward curves** now sloping down. Long-term rates expected to remain higher than recent years; they are near long-term averages.
- **Better Structure and Attractive Returns:** Alternative lenders can originate at lower LTVs than CMBS, with better structure and covenants, to better sponsors and high-quality assets, still meeting their overall return targets. Transitional lending strategies can offer equity like returns at lower risk.

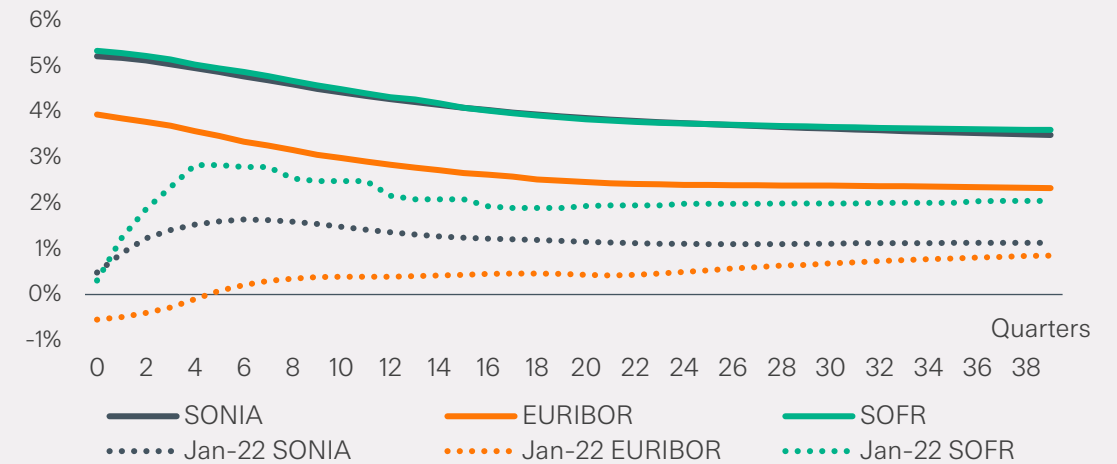
All-in lending spreads over base rate by loan type

As of March 2024



Three-month forward curves

Q1 2024 vs. Q1 2022



Source: PGIM (Nov-23), AIG, StepStone Real Estate analysis (Mar-24), For illustrative purposes only.

Source: Chatham financials as of March 2024.

Private debt: preferred strategies

Loan type	Features	US	Europe
Senior loans / investment grade	<ul style="list-style-type: none"> Senior commercial real estate mortgages on high-quality stabilized properties Max 60% LTV European lenders incur low solvency capital charges 	<ul style="list-style-type: none"> Pricing and terms favor life company and certain unlevered debt fund originators Bank liquidity remains severely constrained Refers mainly to lower LTV, fixed rate product so the impact of higher base rates and an inverted yield curve not as onerous, but locking in now for longer duration still considered costly 	<ul style="list-style-type: none"> Total returns more than doubled following the increase in base rates, spreads remain similar These generally back well-capitalized assets where sponsors have been able to de-lever the position when needed Banks are reducing direct lending but continue to lend to alternative lenders, leaving them and insurance companies with more share
Whole loans / stretch senior	<ul style="list-style-type: none"> Whole loans on core-plus and light value-add properties Max 65-70% LTV 	<ul style="list-style-type: none"> Life companies, REITs, and core-plus debt funds still with less available capital. Acquisition financing is down significantly and the refinance market still resetting. Office loan problems persist. Agency lending down in 2023, 33% below FHA quotas with LTVs down 5-10%; emphasizing properties with more affordable rents 	<ul style="list-style-type: none"> Whole loans currently generate high double-digit returns coupled with first-lien security, on LTVs that are 10-15% lower than 1H22 and based on new valuations Equity investors are returning to market following capital value adjustments, this is expected to stimulate transactions and therefore more acquisition funding (which is preferred by lenders over refinancing)
Levered whole loan / high yield / mezzanine	<ul style="list-style-type: none"> Floating rate whole loans on transitional properties with financial leverage or retention of high yield subordinate/mezzanine positions Typical whole loan is 65% LTC advance rate and 75% stabilized LTV 	<ul style="list-style-type: none"> Double digit yields on 2-2.5/1 levered transitional loans and high-quality mezzanine debt at 50%-70% LTC Mezzanine spreads ~700 bps on stabilized and 900+ bps on deeper transitional business plans New warehouse/facility finance becoming more available, but regional bank leverage limited and highly selective. CLO executions available but not as accretive as in past years. 	<ul style="list-style-type: none"> As in US, Loan-on-loan financing is available to lever quality transitional loans, enhancing whole loan returns to double digits Multi-strategy lenders can also achieve target returns by providing mezzanine or subordinated tranches to cover any funding gap Elevated execution risk as lenders have limited appetite to take syndication risk on the senior and therefore require simultaneous close
Development financing	<ul style="list-style-type: none"> Lending to a narrower range of property types including multifamily, other living sectors, industrial, and health sciences Max 80% LTC 	<ul style="list-style-type: none"> Focus on industrial and multifamily, build to suit, and pre-leased credit; late cycle interest in storage, student, niche sectors Partial recourse levels from traditional lenders are up sharply, also increasing use of mezzanine debt and preferred equity Regional bank pullback creates private opportunity to lend and buy loans 	<ul style="list-style-type: none"> Limited development activity taking place as cost of capital is often too high to bear; interesting selected opportunities have started to come through Alternative lenders are stepping into high quality projects in the right sectors, but capital provision is muted across most sectors
Special situations / opportunistic debt	<ul style="list-style-type: none"> Recapitalizations Sub-performing Loans (SPLs) 	<ul style="list-style-type: none"> Opportunities for recaps and select placements (i.e., loan acquisitions, recap funding including of DPOs); strong relationships benefit. Regulator's "bank" problems will require a private markets solution NPL investing aimed at equity ownership 	<ul style="list-style-type: none"> Continued focus on refinancing driven by the 'funding gap'; however, this has not yet widely resulted in distressed borrowers or lenders Some financial institutions are overexposed to CRE loans, but these don't seem to pose a systemic risk

Overweight Neutral Underweight



Macro setting

Themes impacting real estate performance

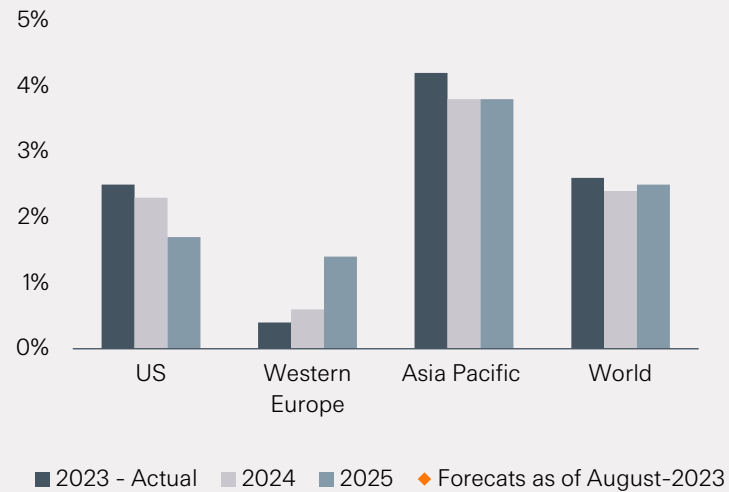
Changing space use	Cultural and technologic changes in the way people use space are having a profound effect on the built environment, affecting space configuration and location preferences. This includes behavioral changes in how people live, work and shop.
Changing debt market	Debt is the catalyst for real estate market repricing . It is more expensive with higher rates, spreads and hedging costs. New loans have lower proceeds, requiring 'cash in' refis. Lender focus on workouts, lack of repayments and pressure on banks to reduce CRE exposure significantly reduce new lending. Long term non-bank lenders will gain share. Conditions leading to interesting new investment opportunities .
Monetary policy	With rate hikes likely finished, higher for longer remains the interest rate prognosis in the US, UK, Europe and Australia. While the US banking system is healthy and well supported by the Fed, some banks will face CRE related challenges and may fail.
Environment: sustainability	Increasing carbon emissions regulation (particularly in Europe), energy costs, and tenant preferences driving strategy and asset selection . Growing ' green-to-brown ' spread may create opportunities around retrofit and electrification. Though historically minor, insurance costs are rising rapidly in the US. Prevalence of natural disasters factors into asset choices and is affecting supply lines (Panama Canal drought).
Environment: geopolitics	Geopolitical risks now score as a leading concern of businesses in Oxford Economics survey. Conflicts are impacting supply lines in the Red Sea, though economic impact is expected to be minimal.

High rates continue amid stronger growth

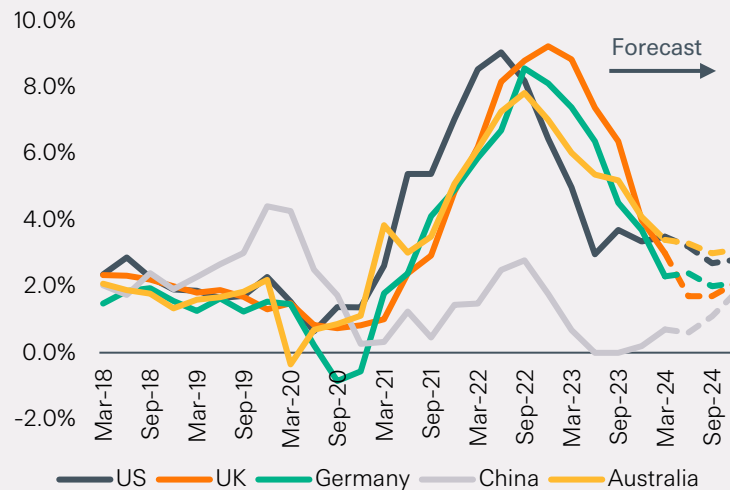
SRE growth outlook

- Despite central bank tightening, surprising US outperformance lifted 2023 global growth above expectations
- APAC leads global growth, but at a below trend pace for the region. China struggling to recover amid significant structural issues. Japan narrowly avoided recession in 2023; remains vulnerable
- Consumer spending boosting US GDP growth
Downside risk to spending in 2024 around slower job and wage growth, higher consumer debt levels
- With central bank tightening likely finished, stronger US economy is slowing inflation reduction and reducing hopes for near term rate reductions
- European results mixed. UK in technical recession; Germany is on the brink. Export demand and tourism boost France and Spain
- Rate reduction more likely in Europe
- Europe forecast to lift overall in 2025, albeit to lower level than slowing US

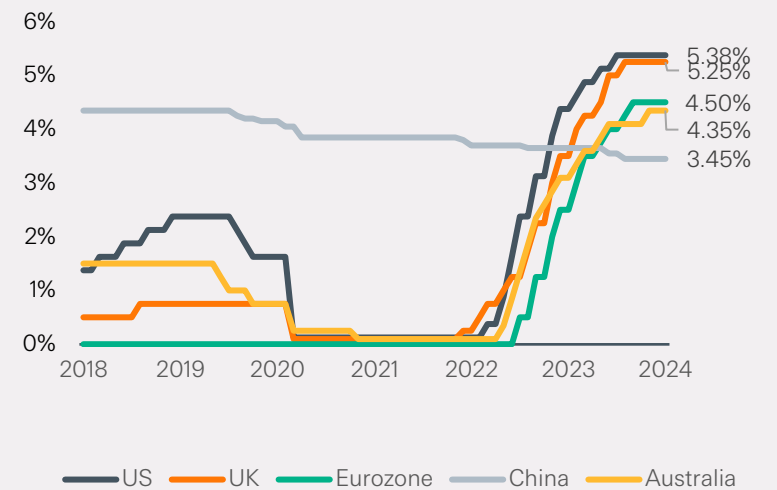
Real GDP annual growth outlook



Annual CPI inflation



Global base rates



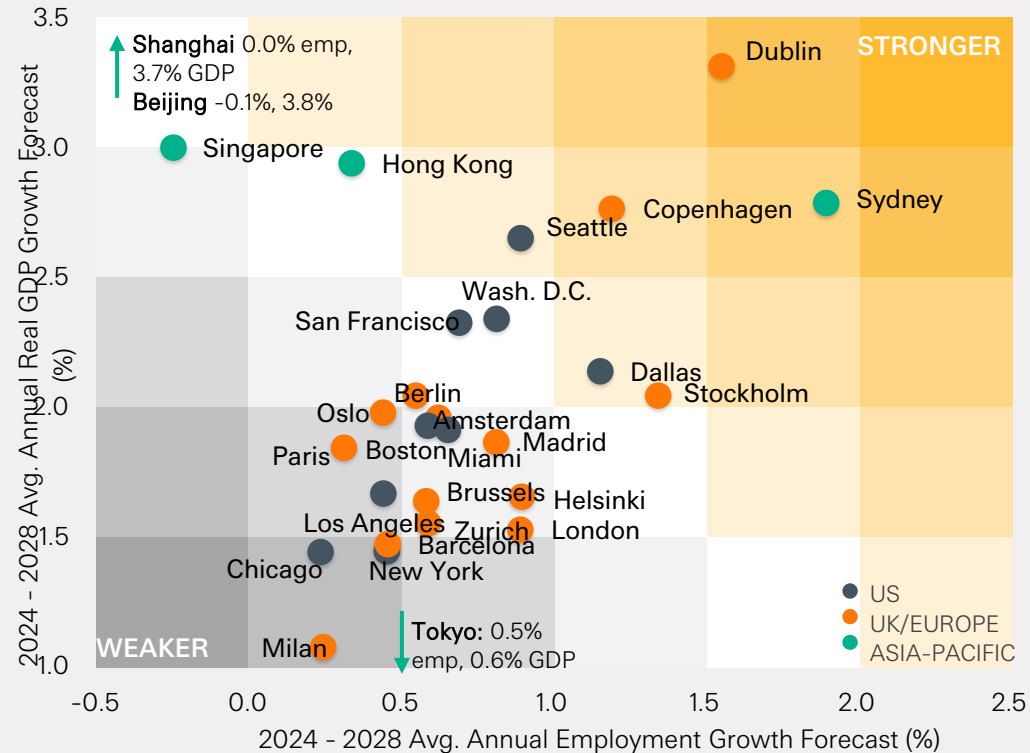
Source: Consensus Economics, April 2024.

Source: OECD, Consumer Price Index All Items, retrieved from FRED, Federal Reserve Bank of St. Louis, March 2024.

Source: Bank for International Settlements, as of March 2024.

City-level economic drivers of real estate demand

Employment and GDP growth prospects, key cities by region



Top 10 cities by job growth	5Y avg. job forecast	5Y avg. GDP forecast
Sydney	1.9%	2.8%
Dublin	1.6%	3.3%
Stockholm	1.3%	2.0%
Copenhagen	1.2%	2.8%
Dallas	1.2%	2.1%
Helsinki	0.9%	1.7%
Seattle	0.9%	2.7%
London	0.9%	1.5%
Wash. D.C.	0.8%	2.3%
Madrid	0.8%	1.9%

- Some cities buck the trend, lifted by stronger local drivers. GDP outlook improving for many top cities, although job growth prospects remain muted.
- Dallas, Seattle and DC rank among top 10 global markets for job growth. Along with San Francisco, they lead US GDP growth prospects.
- Not on this chart, the collection of smaller Florida cities tops consistently tops US property demand growth charts.
- Europe includes 6 of the top 10 expected global job growth leaders. Dublin, Copenhagen and Stockholm have Europe's best outlooks for job and GDP growth, ahead of top US cities.
- While slowing, GDP growth in China's major cities still tops global charts, albeit with minimal job growth. Sydney leads global job growth with no other Asian cities in the top 10.

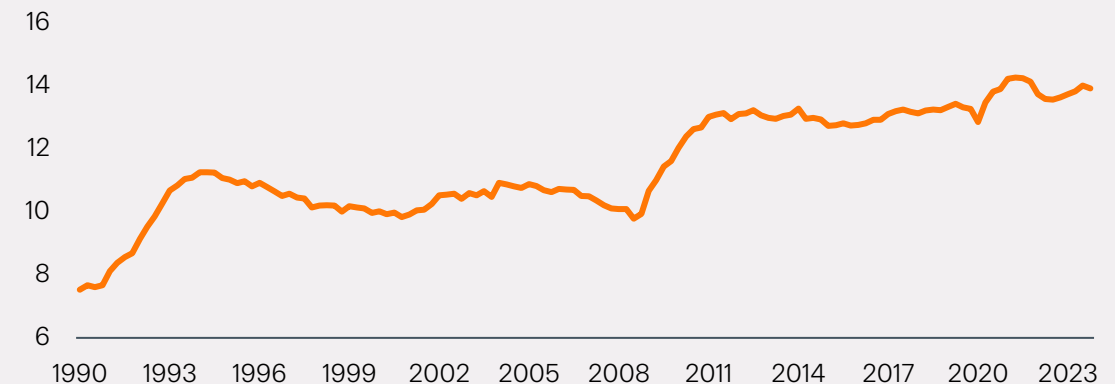
US bank system can weather its CRE challenges

Financial sector remains solid and well supported by the Fed

- The largest banks comprise the majority of system assets and can afford their CRE losses
- Most banks are well capitalized, with sufficient Tier 1 Risk-Based Capital Ratios even in stressed, bear case scenarios
- Smaller banks have less diversified businesses
 - Some face CRE stress and may fail
 - This is another chapter in the consolidation of a system that has about 4,000 banks, down from over 15,000 in 1980
- CRE exposure is nuanced
 - Office exposure, esp. CBD office, is concentrated among the largest, most diversified banks
 - Smaller banks have more, higher-risk construction loans
 - CRE-led failures tend to be specific to certain banks with less well managed balance sheets and riskier loan books

Asset size group	% of system assets	CRE loans of total assets	Tier 1 risk-based capital ratio
Assets > \$250B	58%	6%	14.2%
Assets \$10B - \$250B	28%	19%	13.5%
Assets \$1B - \$10B	10%	34%	13.5%
Assets \$100M - \$1B	5%	27%	15.4%
Assets < \$100M	0%	12%	22.5%
All insured institutions	100%	13%	13.9%

Tier 1 risk-based capital ratio % (all insured institutions)

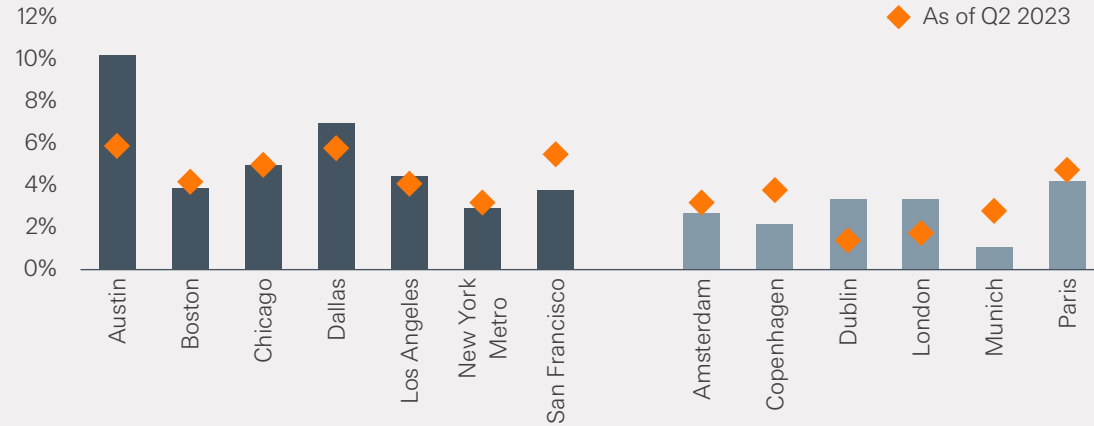




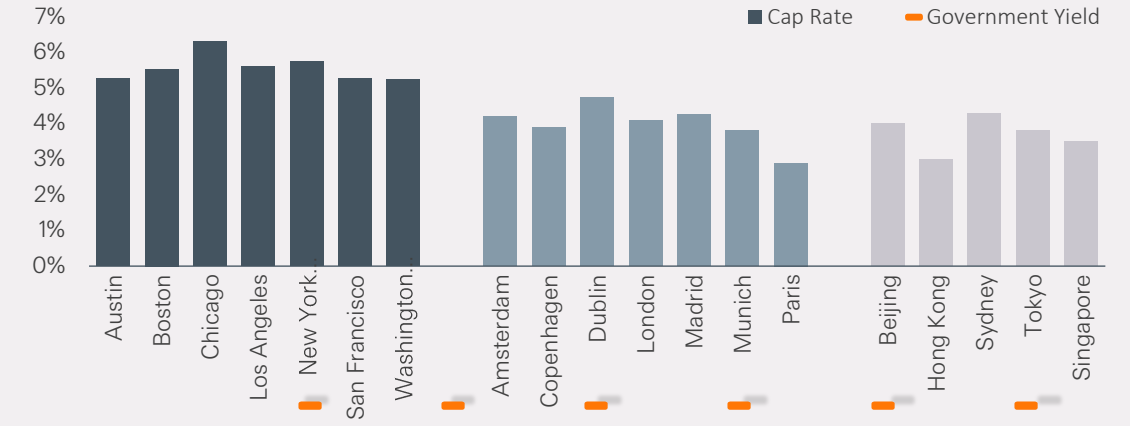
Property type outlooks

Multifamily

Vacancy rates¹



Grade-A cap rates & 10yr govt yields²



Key market trends

Healthy operating conditions. Rent regulation increasingly prevalent and an ongoing risk, presently greatest in parts of Europe.

- US:** Good source of beta. Solid fundamentals yet softening, especially in Sunbelt; rents falling in supply-heavy submarkets. Expense growth trimming margins. Many over-levered and peak buyers under stress. Debt and equity financing are available; investor appetite from non-core investors, family offices. Workforce and affordable more resilient, better debt availability vs luxury/Class A. Declining construction pipeline boosts longer term outlook.
- Europe:** Housing shortages and affordability challenges exacerbated by material drop in construction starts. Operating fundamentals strong. Political /regulatory risk remains relatively difficult to navigate. Material repricing across major European cities is beginning to offer attractive risk-adjusted returns. Development viability still somewhat challenging.
- Asia-Pacific:** Mature multifamily markets in Japan, such as Tokyo and Osaka, benefitting from urbanization and limited supply. Australia build-to-rent remains in a nascent stage with a small number of operating assets. Uncertain economic outlook in mainland China and Hong Kong continues to negatively impact sentiment.

Sector house views

Distress entry changes appeal

	North America	Europe	Asia-Pacific
Winners	<ul style="list-style-type: none"> Preferred gap equity, note sales Supply constrained coastal and urban markets Class B where there is healthy discount vs. Class A 	<ul style="list-style-type: none"> Select assets in Copenhagen, London, Berlin and Madrid SFR in UK while housebuilders' volumes remain subdued 	<ul style="list-style-type: none"> Mature markets in Japan
Losers	<ul style="list-style-type: none"> Highly-levered, fully-priced transitional plans especially in supply-heavy markets Certain sunbelt markets with historic levels of new supply in next ~2 years 	<ul style="list-style-type: none"> Over-levered listed PropCos Netherlands due to increased transfer tax and new rental regulation Dublin due to 2% rental caps (under review in 2024) 	<ul style="list-style-type: none"> Mainland China and Hong Kong due to uncertain economic recovery
Distress Potential	<ul style="list-style-type: none"> Above average 	<ul style="list-style-type: none"> Above average 	<ul style="list-style-type: none"> Below average

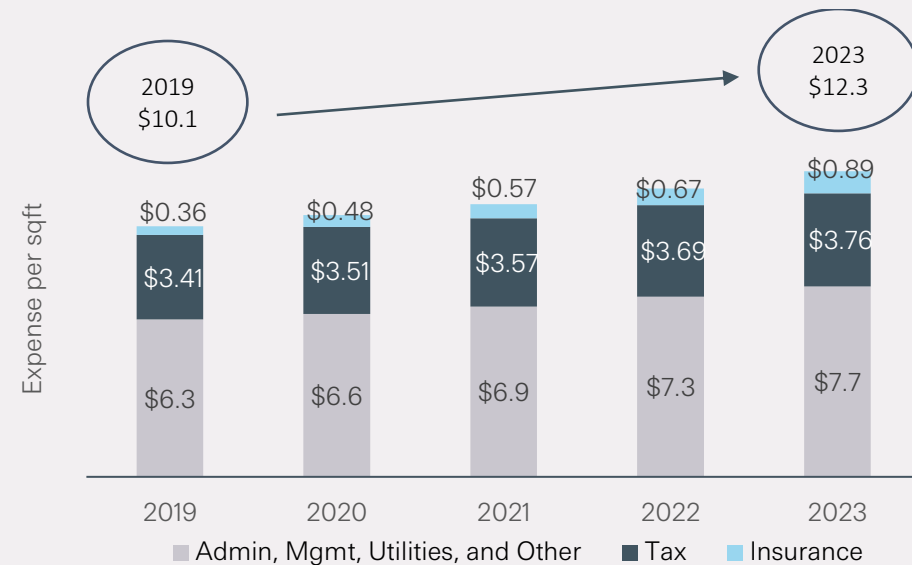
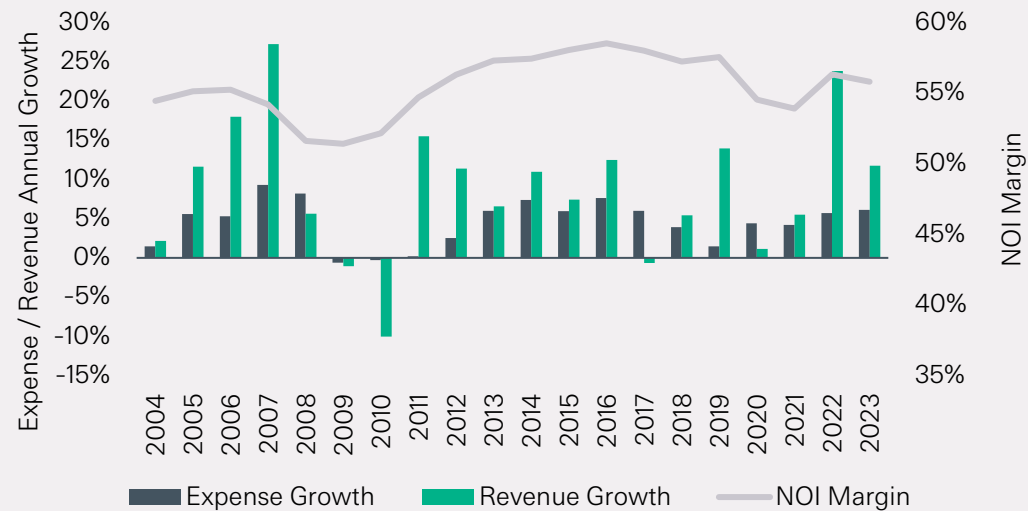
1. Sourced from Green Street as of Q4 2023.

2. Sourced from Green Street, MSCI RCA, CapIQ, Oxford Economics as of Q4 2023. European residential cap rates from Catella European residential market overview Q3 2023. Asia cap rates from MSCI RCA and DWS.

Rising multifamily expenses reduce margins

Harder to absorb as revenue growth slows

- Expenses have risen over 5% per year since 2019, well above average inflation for the period of 3.6%, with all line items contributing
- Insurance rates have tripled with growing risk of inability to secure ongoing coverage in some locations
 - Issue varies by location and is more acute in sunbelt markets including Florida, Texas and California
- Property taxes have risen with values and will be slow to adjust downward given revenue pressures on municipalities
- Labor expenses are rising and labor availability can be an issue; this *also affects capital expenditure budgets*
- *Other property types face similar challenges*



Affordable class B multifamily offers better growth

The renting vs. owning cost differential has expanded

- Home prices are slow to fall as mortgage rates rise, contributing to a sharp increase in the average monthly mortgage payment
- At year-end 2023, the average mortgage payment was more than \$1,200 above the average apartment rent

Rising rents are challenging renter households

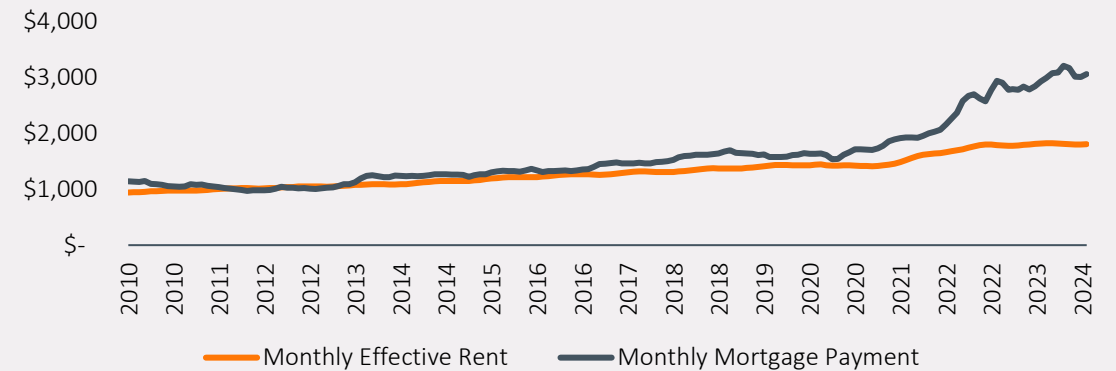
- As households decoupled in the wake of the pandemic, demand for apartments soared and rent growth followed
- The share of cost burdened renters has expanded by 70% over the past 20 years

Supply/Demand fundamentals favor Class B

- With high development costs, most new units are higher rent Class A/A+
- Demand for more affordable units, meanwhile, has only increased, leaving that market vastly undersupplied

Result is higher, more stable rent growth for Class B

Effective rent vs. mortgage payment







Class B vs. class A effective rent growth



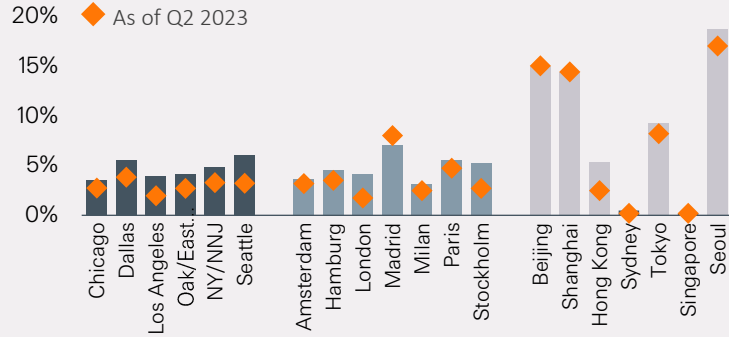
Sources: CoStar, Federal Reserve Bank of St. Louis, CoStar,, Federal Reserve Bank of St. Louis, Freddie Mac. Monthly mortgage payment assumes 10% down payment, taxes and insurance assessed at 2% of value

Other rental housing sectors

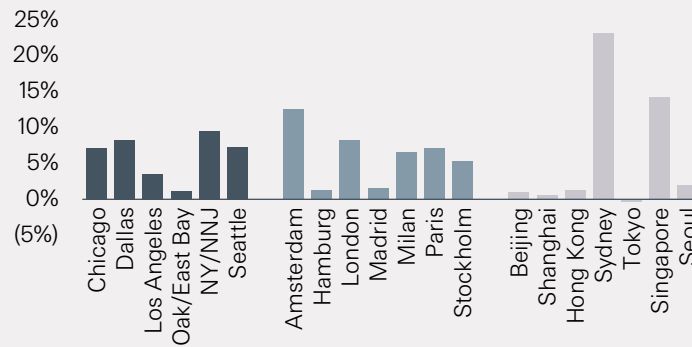
Sector	Commentary	Distress potential
 <p>Manufactured housing</p>	<ul style="list-style-type: none"> • Operating fundamentals strong due to affordability, limited supply and development pipelines. Demand bolstered by rising housing costs and increased government support to improve access • Capital markets comparatively strong with both investor and lender demand for well-located, high-quality product 	Low
 <p>Single family rental</p>	<ul style="list-style-type: none"> • Rise in mortgage rates is keeping likely buyers in rental market and limiting supply by reducing existing home sales (due to mortgage lock-in effect). Both factors support operating fundamentals • Retail home values buoyed by supply-demand imbalance leaving the sector expensive • Perpetual housing shortage supports long-term sector outlook, construction will continue through this market dislocation 	Average
 <p>Senior housing</p>	<p>US: Recovery in fundamentals is ongoing. Rising occupancy (still below pre-COVID levels) and far above-inflationary rent growth has continued for last 15+ months. NOI margins below pre-COVID levels due to labor shortages, wage growth and higher insurance costs.</p> <ul style="list-style-type: none"> • Expensive bridge financing (non-agency) for value-added or lease-up investments is causing significant repricing for that asset profile • Overall, attractive mid-term sector outlook <p>Europe: Needs-based, rather than discretionary, is less cyclic and more attractive in weakening economy</p> <ul style="list-style-type: none"> • UK supply and demand imbalance persists, with the sector receiving funding from public sources • Widening cap rates enable potential for increased investment opportunity in continental Europe, especially with core buyers largely offline; local funding systems and lease standards crucial to assessing relative value between markets 	Above average
 <p>Student housing</p>	<ul style="list-style-type: none"> • US: Strong pre-leasing for next academic year. Muted new supply deliveries and enrollment growth lifting rents. Transaction volume increasing due to strong fundamentals and capital markets liquidity • Europe: Continued undersupply that will last; increasing financing and construction costs limit new development. Cap rates have moved out across Continental Europe. Nordic cap rates remain tighter. Milan a major focus for pan-European educational ventures • Australia and Japan: In Australia, demand from international students and undersupply are driving strong rental growth. Japan relies more heavily on domestic students and offers select opportunities due to undersupply 	Average

Industrial

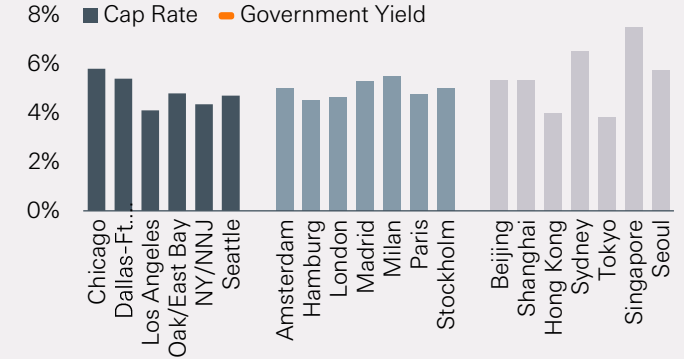
Vacancy rates¹



YoY rental rate growth²



Grade-A cap rates & 10yr govt yields³



Key market trends

Overall fundamentals are softening in most markets but medium and long-term outlook is strong.

- US:** Fundamentals returning to pre-COVID levels with reasonable rent growth ahead. Rents down in markets with new supply (i.e., Inland Empire). Sizable NOI growth still expected as below market leases roll up after circa 40% rent growth 2021/22. Few transactions >\$150 million; smaller sales remain competitive. Buyers prefer short lease term with below market rents and high-quality infill assets. Cost of debt and replacement costs driving pricing.
- Europe:** Growth in prime rents robust with low supply pipeline, due in part to expensive financing conditions. Average vacancy creeping up. Signs of improving investment activity at the end of the year. Sustainability credentials matter.
- Asia-Pacific:** Across the region, vacancy increased following supply spike. The uneven distribution of supply creates opportunities in prime locations and undersupplied submarkets. In Australia, low vacancy and strong rental growth, but growth is expected to moderate. Oversupply in Seoul is lifting vacancy. In mainland China, weak economic growth and ample supply limit rental growth.

Sector house views

	North America	Europe	Asia-Pacific
Winners	<ul style="list-style-type: none"> Absence of core buyers can create access to quality product Submarkets proximate to large semiconductor, EV, and battery manufacturing Cold storage and outdoor storage Select with electrical access 	<ul style="list-style-type: none"> Absence of core buyers can create access to quality product Well-located assets with high sustainability credentials (energy efficiency, lower carbon footprint) 	<ul style="list-style-type: none"> Modern assets in select Japan submarkets Well-located projects in Australia
Losers	<ul style="list-style-type: none"> Submarkets with pockets of over-supply in 2H23/1H24 Assets >500k SF; uncertainty delays large corporate decisions Markets with labor disputes and supply chain disruptions 	<ul style="list-style-type: none"> Dated, underinvested assets with sub-standard ESG specifications Assets with no reversionary potential or poor quality tenants Big-box units and speculative developments 	<ul style="list-style-type: none"> Lower-tier cities in Mainland China Oversupplied submarkets in South Korea
Distress Potential	• Average	• Average	• Low

Distress entry changes appeal

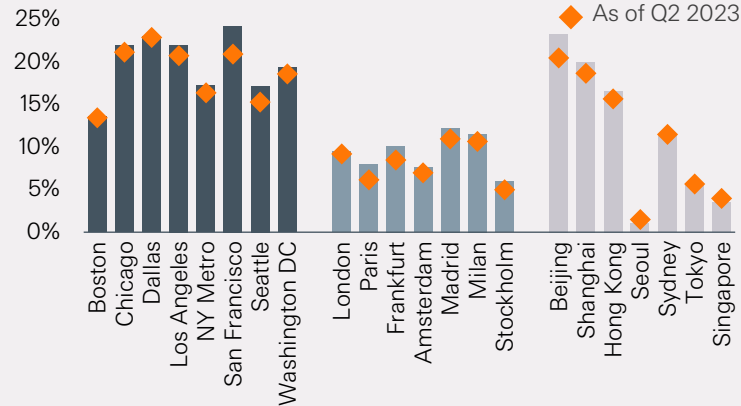
1. Sourced from Green Street, CBRE as of Q4 2023.

2. Sourced from CoStar, Cushman & Wakefield, and CBRE as of Q4 2023.

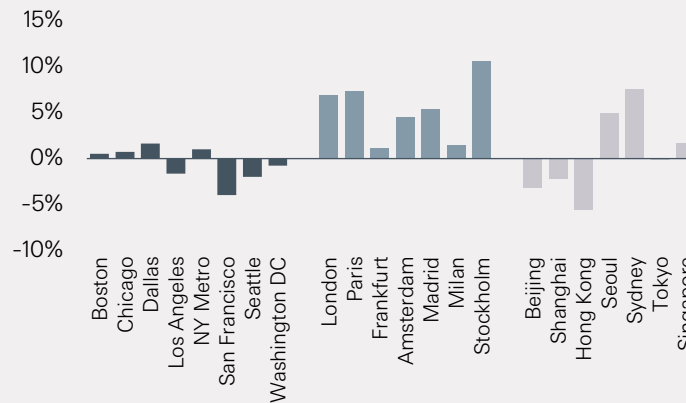
3. Sourced from Green Street, Cushman and Wakefield and CapIQ as of Q4 2023. Asia cap rate is sourced from CBRE as of Q3 2023. Note that EU cap rate source is switched from Green Street to Cushman and Wakefield to capture prime yields instead.

Office

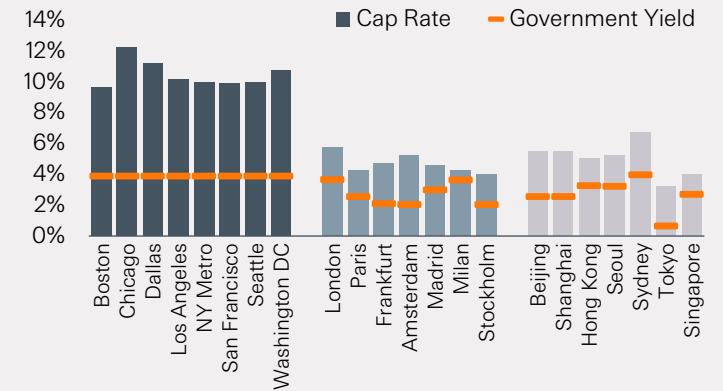
Vacancy rates¹



YoY rental rate growth²



Grade-A cap rates & 10yr govt yields³



Key market trends

Challenged sector with widening gap between winners and losers.

- US:** Operational outperformance continues in trophy buildings. Capital markets remain challenged for all office assets with limited liquidity options. Limited transaction volume with most buyers focused on longer term holds and basis.
- Europe:** Rental growth in prime locations; softer in secondary areas. Elevated operating and build-out costs make relocation decisions difficult for tenants, who are still uncertain of space requirements. Low liquidity, high bid-ask gap, with some high-profile sale processes faltering. Occupier focus on ESG credentials due to net zero targets and on well-being (flexible space, outside areas, better air quality and light) create upgrade potential.
- Asia-Pacific:** Mainland China and Hong Kong still struggling with high vacancy and negative rent growth due to new supply and weak demand. In Japan, increasing corporate asset sales create value-add opportunities in under-rented assets. Hybrid working continues in Australia but is not meaningful elsewhere in the region.

Sector house views

	North America	Europe	Asia-Pacific
Winners	<ul style="list-style-type: none"> New, trophy space, which is outperforming operationally Medical office (could serve to fill office exposure requirements for investors) Single-tenant, HQ space 	<ul style="list-style-type: none"> Repriced high-quality offices in prime locations and with strong ESG credentials 	<ul style="list-style-type: none"> Prime asset in Seoul Grade B assets in greater Tokyo and Osaka
Losers	<ul style="list-style-type: none"> Older, non-trophy office Borrowers facing upcoming maturities and/or needing significant capital infusions 	<ul style="list-style-type: none"> Borrowers with upcoming maturities Secondary/tertiary offices in suburban locations Assets in Paris affected by new PUI legislation 	<ul style="list-style-type: none"> Non-prime office in Australia. Mainland China and Hong Kong
Distress Potential	<ul style="list-style-type: none"> High, not yet appealing 	<ul style="list-style-type: none"> High, less appealing 	<ul style="list-style-type: none"> High, mostly not appealing

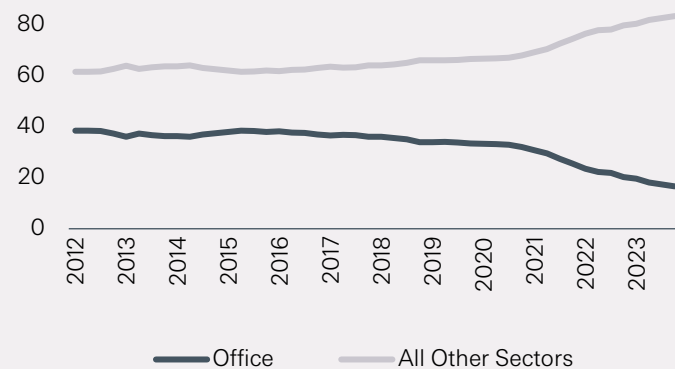
1. Sourced from CoStar, Green Street, CBRE as of Q4 2023. The Pacific markets data is as of Q2 2023.

2. Sourced from CoStar, Cushman & Wakefield, and CBRE as of Q4 2023.

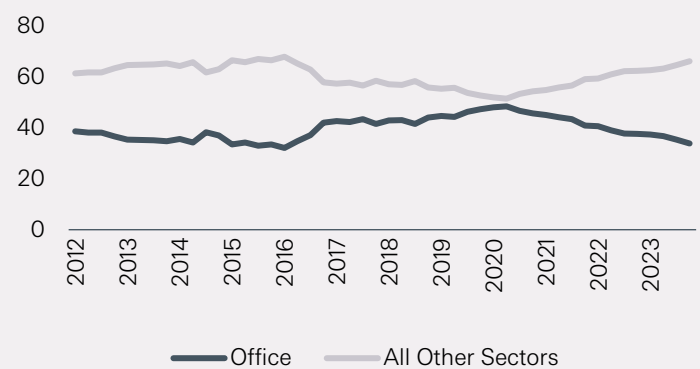
3. Sourced from Green Street and Cushman & Wakefield as of Q4 2023. European data sourced is changed to Cushman & Wakefield to reflect prime yields only. Asia cap rate is sourced from CBRE as of Q2 2023.

US/Europe office correction is a secular shift

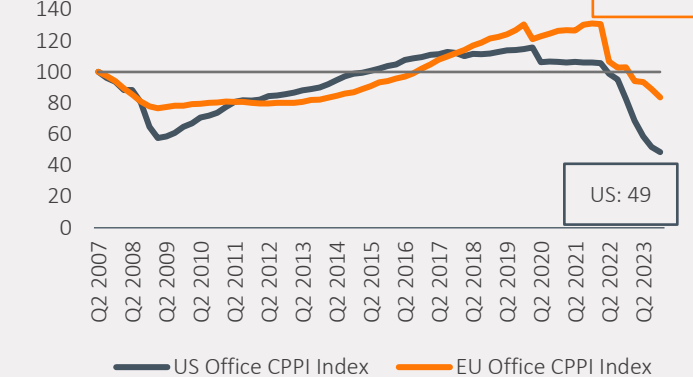
US core fund (NFI-ODCE) allocations (%)



UK/Europe core fund (INREV ODCE) allocations (%)



US/Europe office pricing, Average B/B+ (Q2 2007=100)



Long downward trend in office space exacerbated by work from home

- Work from home averages 1.4 days per week in English speaking countries, with considerable support. Varies by location
- Tenants and employees in a hybrid work experiment that may change office demand and lease terms. Companies want flexibility. Likely will take years to resolve
- Long-term hit to office demand estimated 15% in US, 25% in UK, less elsewhere. Function of density, ease of transportation and cost of living

Capital markets shunning office, especially in US

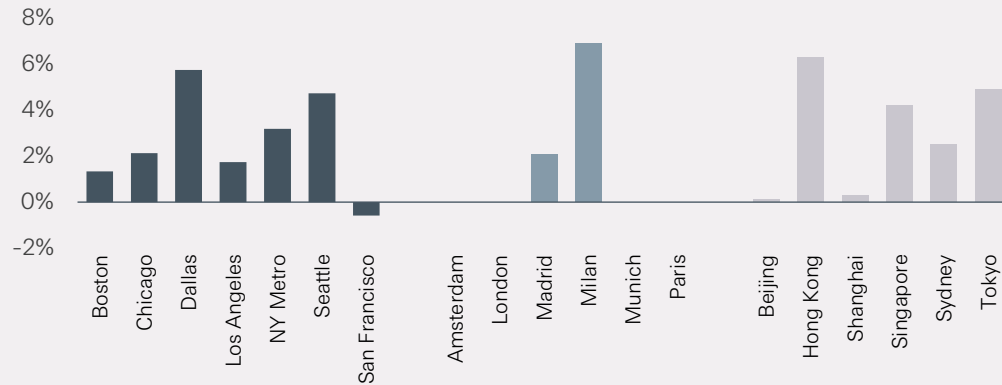
- Growing number of 'zombie' buildings with no capital for leasing until there is price correction and better visibility on demand
- Even the best product – dense, transit-oriented, amenity-rich, sustainable, low emission – that attracts tenants is not supported by capital markets

Office headed down retail's long restructuring path

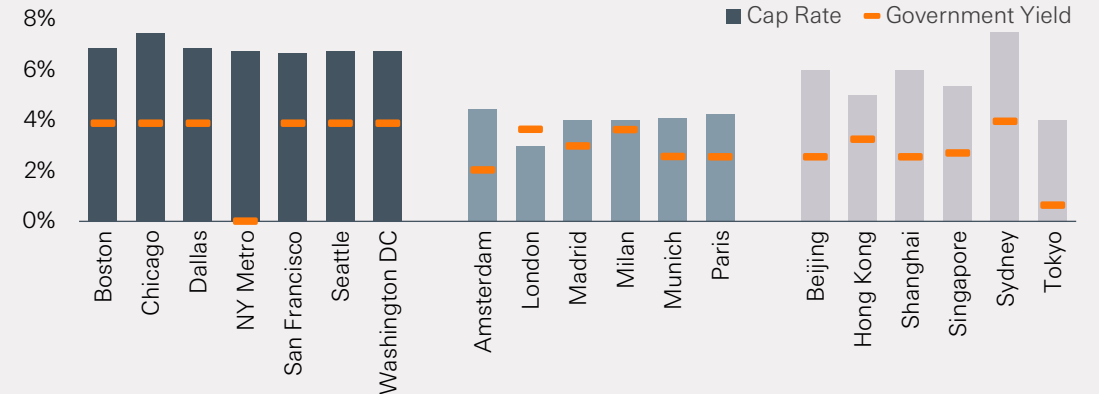
- Retail took 10-15 years to find its footing after e-commerce hit, with big price drops, winners and losers
- For both office and retail, quality locations with enduring demand consistently leased well during the transition
- Already driving strong shift in locational preferences including easy access and amenities
- Loss of tax revenue related to office will add considerable stress to affected municipalities, compromising their ability to respond successfully

Retail

YoY rental rate growth¹



Grade-A cap rates & 10yr govt yields²



Key market trends

Attractive where repriced. Economic cycle impacts subtypes differently

- US:** Positive operating fundamentals with historically low supply pipeline in the suburban grocery anchored and strip retail subsectors. Institutional investors now favor these for attractive current yield and mid-term growth prospects, post major repricing and elimination of weak sites and tenants. Tenant health and limited vacancy lifting rents.
- Europe:** Investors have started considering the asset class again but recessionary pressures and work from home alter the face of retail in inner cities. There are operationally sound shopping centers if grocery-led and/or proximate to transportation and tourist centers.
- Asia-Pacific:** Rebound in tourism benefits retail in Japan, South Korea, and Singapore, specifically in luxury retail locations. Economic uncertainty in mainland China weakens the outlook for both mainland China and Hong Kong retail, given Hong Kong's reliance on mainland Chinese consumers.

Sector house views






Distress entry changes appeal

	North America	Europe	Asia-Pacific
Winners	<ul style="list-style-type: none"> Well located grocery-anchored, strip and necessity-based retail with service-oriented tenancy in markets with limited availability Flight to quality across all retail sub-types 	<ul style="list-style-type: none"> Necessity based retail Outlets / Discount retail Prime retail in strong demographic centers/tourist destinations with best-in class sales productivity 	<ul style="list-style-type: none"> Luxury retail locations in popular tourist destinations Select necessity-based retail
Losers	<ul style="list-style-type: none"> Large format centers (big box power centers) and enclosed shopping malls Urban retail in commuter locations (less demand due to work from home) 	<ul style="list-style-type: none"> Regional shopping centers Fashion led department stores 	<ul style="list-style-type: none"> Mainland China and Hong Kong
Distress Potential	<ul style="list-style-type: none"> Low probability of appealing assets in distress 	<ul style="list-style-type: none"> Low probability of appealing assets in distress 	<ul style="list-style-type: none"> Low probability of appealing assets in distress

1. Sourced from CoStar, Cushman & Wakefield, CBRE as of Q2 2023. London, Munich and Paris rental growth is flat.

2. Sourced from Green Street, MSCI RCA, CapIQ and Oxford Economics as of Q2 2023. Asia cap rate is sourced from CBRE as of Q1 2023. European market data reflects High Street retail.

Alternative sectors

Sector	Commentary	Distress potential
 Data centers	<ul style="list-style-type: none"> The digitalization of companies and integration of AI & Cloud technologies by businesses is further driving data usage Current elevated cost of capital environment is driving increased BTS lease yields and generating attractive development opportunities \$250B+ of stabilized assets in core locations expected to be recapitalized in the next 2-3 years as operators seek to recycle capital into new developments Create strategic & structured financing solutions for high growth platforms with funding gaps for their development pipeline given capital intensity 	Low
 Life sciences	<ul style="list-style-type: none"> Below peak venture and governmental research funding depressing tenant demand Tenant demand focused on pre-built and small block space. Large block and "headquarters" space more challenged Geographic clusters driven by large pharmaceutical companies and major academic/healthcare institutions outperform Higher availability rates and development pipelines driving supply concerns in some markets 	High, limited appeal
 Medical office	<ul style="list-style-type: none"> Solid fundamentals with largely creditworthy tenants. Healthcare-driven non-discretionary demand and lack of new speculative supply Repricing modestly; Class A assets today are still liquid with senior financing available Cyclically resilient; focus on quality tenants and locations to avoid deteriorating creditworthiness and corresponding increases in cap rates 	Low
 Self storage	<ul style="list-style-type: none"> US asking rents and occupancies down due to less demand and significant supply deliveries driving competition European institutionalization of the sector now underway, with a growing interest in smaller aggregation strategies if platform acquisitions not available 	Average
 Hotel	<ul style="list-style-type: none"> Strong leisure travel continues to drive healthy fundamentals. WFH likely to create a permanent shift in demand for mixed business-leisure travel European hospitality has recovered more quickly than North America post-pandemic. Strong rebound in Japan tourism despite Chinese tourism still below pre-pandemic levels. Leisure travel drove RevPAR growth in 2023, group demand and business travel expected to outperform in 2024. Year-over-year RevPAR growth continues, but has slowed into the low single-digits. Demand vulnerable to slowing economy and rising geopolitical tensions; outlook remains positive near-term. Expense growth will continue to put pressure on bottom line growth 	Above average

Data centers

Strong fundamentals create opportunity across the property life cycle

- Data centers support growth of the digital economy:
 - Data consumption and storage requirements are growing exponentially, with about half the projected growth driven by AI¹
 - Most hyperscalers have a high propensity to outsource, which has resulted in record-breaking leasing in recent years
- Lack of available power and permitted land make it hard to meet the rapidly growing demand
 - Predominantly US/Europe opportunity; shortage more acute in Europe. Issues with power availability and upcoming supply create challenges for data centers in Asia
 - ESG goals requiring clean power exacerbate supply problems. Some locations (ie France, certain US assets) successfully meeting power need with nuclear power
- Valuation levels have remained resilient despite a challenging macro-economic backdrop



Planning, zoning, power

Opportunity to form partnerships to acquire land sites and obtain permitting & power for data center use, and prepare development plans for an Operator / Hyperscaler

- **Business Plan Duration:** 3-5 years
- **Leverage:** None
- **Risk/Return Profile:** Opportunistic+



Construction & lease-up

Opportunity to capitalize the construction of data center sites through partnerships with Operators and/or GPs

- **Business Plan Duration:** 5-7 years
- **Leverage:** Modest (60-70% LTC)
- **Risk/Return Profile:** Non-core



Stabilized / operational assets

Opportunity to create a diversified pool of stabilized hyperscale focused data center portfolios and platforms

- **Business Plan Duration:** ~5-10 years
- **Leverage:** Low (50-60% LTV)
- **Risk/Return Profile:** Core/core+

1. Source: Citi Bank research report.

RISKS AND OTHER CONSIDERATIONS

Risks Associated with Investments. Identifying attractive investment opportunities and the right underlying fund managers is difficult and involves a high degree of uncertainty. There is no assurance that the investments will be profitable and there is a substantial risk that losses and expenses will exceed income and gains.

Restrictions on Transfer and Withdrawal; Illiquidity of Interests; Interests Not Registered. The investment is highly illiquid and subject to transfer restrictions and should only be acquired by an investor able to commit its funds for a significant period of time and to bear the risk inherent in such investment, with no certainty of return. Interests in the investment have not been and will not be registered under the laws of any jurisdiction. Investment has not been recommended by any securities commission or regulatory authority. Furthermore, the aforementioned authorities have not confirmed the accuracy or determined the adequacy of this document.

Limited Diversification of Investments. The investment opportunity does not have fixed guidelines for diversification and may make a limited number of investments.

Reliance on Third Parties. StepStone will require, and rely upon, the services of a variety of third parties, including but not limited to attorneys, accountants, brokers, custodians, consultants and other agents and failure by any of these third parties to perform their duties could have a material adverse effect on the investment.

Reliance on Managers. The investment will be highly dependent on the capabilities of the managers.

Risk Associated with Portfolio Companies. The environment in which the investors directly or indirectly invests will sometimes involve a high degree of business and financial risk. StepStone generally will not seek control over the management of the portfolio companies in which investments are made, and the success of each investment generally will depend on the ability and success of the management of the portfolio company.

Uncertainty Due to Public Health Crisis. A public health crisis, such as the recent outbreak of the COVID-19 global pandemic, can have unpredictable and adverse impacts on global, national and local economies, which can, in turn, negatively impact StepStone and its investment performance. Disruptions to commercial activity (such as the imposition of quarantines or travel restrictions) or, more generally, a failure to contain or effectively manage a public health crisis, have the ability to adversely impact the businesses of StepStone's investments. In addition, such disruptions can negatively impact the ability of StepStone's personnel to effectively identify, monitor, operate and dispose of investments. Finally, the outbreak of COVID-19 has contributed to, and could continue to contribute to, extreme volatility in financial markets. Such volatility could adversely affect StepStone's ability to raise funds, find financing or identify potential purchasers of its investments, all of which could have material and adverse impact on StepStone's performance. The impact of a public health crisis such as COVID-19 (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict and presents material uncertainty and risk with respect to StepStone's performance.

Taxation. An investment involves numerous tax risks. Please consult with your independent tax advisor.

Conflicts of Interest. Conflicts of interest may arise between StepStone and investors. Certain potential conflicts of interest are described below; however, they are by no means exhaustive. There can be no assurance that any particular conflict of interest will be resolved in favor of an investor.

Allocation of Investment Opportunities. StepStone currently makes investments, and in the future will make investments, for separate accounts having overlapping investment objectives. In making investments for separate accounts, these accounts may be in competition for investment opportunities.

Existing Relationships. StepStone and its principals have long-term relationships with many private equity managers. StepStone clients may seek to invest in the pooled investment vehicles and/or the portfolio companies managed by those managers.

Carried Interest. In those instances where StepStone and/or the underlying portfolio fund managers receive carried interest over and above their basic management fees, receipt of carried interest could create an incentive for StepStone and the portfolio fund managers to make investments that are riskier or more speculative than would otherwise be the case. StepStone does not receive any carried interest with respect to advice provided to, or investments made on behalf, of its advisory clients.

Other Activities. Employees of StepStone are not required to devote all of their time to the investment and may spend a substantial portion of their time on matters other than the investment.

Material, Non-Public Information. From time to time, StepStone may come into possession of material, non-public information that would limit their ability to buy and sell investments.

ESG Integration. While StepStone seeks to integrate certain ESG factors into its investment process and firm operations, there is no guarantee that StepStone's ESG strategy will be successfully implemented or that any investments or operations will have a positive ESG impact. Applying ESG factors to investment decisions involves qualitative and subjective decisions and there is no guarantee the criteria used by StepStone to formulate decisions regarding ESG, or StepStone's judgment regarding the same, will be reflected in the beliefs or values of any particular client or investor. There are significant differences in interpretation of what constitutes positive ESG impact and those interpretations are rapidly changing. The description of ESG integration herein is provided to illustrate StepStone's intended approach to investing and firm operations; however, there is no guarantee that the processes will be followed in every circumstance or at all.

Performance Information. No investment decisions may be made in reliance on this document. In considering performance information herein, readers should bear in mind that past performance is not necessarily indicative of future results and that actual results may vary. There can be no assurance that any StepStone fund will be able to successfully implement its investment strategy or avoid losses. Performance shown herein may include investments across different StepStone funds. The aggregate returns are not indicative of the returns an individual investor would receive from these investments. No individual investor received such aggregate returns as the investments were made across multiple funds and accounts over multiple years.



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