BLACK CREEK® GROUP

2021 | MARKET OUTLOOK

OPPORTUNITIES AND TRENDS

What is in Store for Commercial Real Estate?

2020 brought with it a number of surprises. Entering the year, the United States had a record low unemployment rate urging businesses to seek more attractive office space to draw top talent. Industrial warehouses were pushed closer to urban centers where they could easily accommodate growing city populations and changing consumer behaviors. The multifamily space aggressively catered to those seeking top amenities and work-life balance, and retail businesses were continuing to adapt to an evolving e-commerce world. When COVID-19 made its entrance, we saw an acceleration of many of these trends — setting 2021 up to be a year of opportunity.

Commercial real estate was not immune to COVID-19, but the industry sectors weren't impacted equally, and we are seeing some sectors recover faster than others. In fact, gross domestic product (GDP) is expected to be down by 4.0 percent for 2020 and rebound by 4.5 percent in 2021.[1] As a result, we believe that the overall outlook for commercial real estate is bright, but some sectors may experience slow growth until widespread vaccination is in place.

4.5%
EXPECTED INCREASE
in GDP in 2021[1]

Why Industrial Real Estate?

Q&A

Dwight Merriman
Head of Industrial

Q | WHAT MAKES THE INDUSTRIAL SECTOR ATTRACTIVE GOING INTO 2021?

A | Industrial properties provide a unique opportunity in a landscape still recovering from COVID-19. Demand has remained fairly steady throughout 2020 and we have seen construction reach new heights with about 30 to 35 percent of it being pre-leased. It is also believed that the value of industrial properties is expected to rise as long as interest rates and vacancy remain low and rental growth continues to rise at a national pace of three to five percent. In fact, for the last six years, we have experienced rental growth consistently exceeding those figures, expanding at a rate of five to six percent.

We're seeing a global change in the way consumers purchase goods, and the pandemic has pushed the swift expansion of e-commerce into overdrive. As a result, e-commerce businesses are increasingly searching for storage-optimized warehouses near urban centers to help make deliveries more efficient — a trend we don't see changing in the near future.

[1]CBRE 2021 U.S. Real Estate Market Outlook https://www.cbre.us/research-and-reports/US-Real-Estate-Market-Outlook-2021

Industrial Real Estate

Q | HOW HAS COVID-19 IMPACTED THE INDUSTRIAL SECTOR AND HOW IS THE INDUSTRY RESPONDING?

A | Some industries were hit harder than others, but the impact was widely felt during the first half of 2020. Many smaller businesses struggled to pay rent throughout the second quarter, and as businesses around the country were forced to shut down, many smaller tenants had to halt operations. In some of the worst cases, property owners were pressed to make concessions and set up payment plans with the tenants who saw their income drastically diminish. Despite some of these tenant struggles in the first part of the year, the second half of 2020 was very different as we saw demand for industrial space accelerate and rent collections steadily increase as tenants resumed operations.

Q | BESIDES COVID-19, WHAT ECONOMIC FACTORS AND TRENDS ARE INFLUENCING THE INDUSTRIAL SECTOR?

A | The pandemic highlighted the fact that many businesses were too reliant on foreign manufacturing and importation. We are now seeing some manufacturers shift away from importing from a single place. In the future, these businesses will be better positioned to minimize overall supply chain issues. Since businesses cannot diversify their suppliers overnight, we believe this trend will continue over the next three to five years, strengthening the industrial sector as businesses explore more domestic options.

E-commerce also continues to have a growing need for industrial real estate as more people embrace online shopping. We have seen Amazon become the dominant industrial tenant in the U.S. by a large margin — based on total transactions processed. However, we know that third party logistics companies still rent more aggregate square footage. There has been widespread success and the growth for e-commerce tenants shows no signs of slowing down. It is anticipated that by 2025, the U.S. will need another one billion square feet of industrial space.[2]

~1 BILLION SQUARE FEET

of new industrial space needed by 2025 in the U.S.[2]

Q | WHAT ARE THE BIGGEST HEADWINDS THE INDUSTRIAL SECTOR WILL FACE IN 2021?

A | The demand for industrial space is very durable and we are seeing it grow faster than it did in 2019, despite the pandemic. We expect this to hold true in 2021, but some businesses will continue to be impacted depending on the availability and effectiveness of a vaccine. The longer the pandemic goes on, the higher the risk for some companies.

In the first half of 2020, we saw non-essential shipments piling up at ports. This caused supply chain disruptions and many businesses were not able to operate at their full inventory levels. Though the situation began to remedy in the second half of 2020 for businesses that sell everyday items, it is still a concern for those that sell specialty goods, and it may continue to be one throughout 2021.

[2] JLL — Industrial Real Estate Demand on the Rise in the U.S., Summer 2020

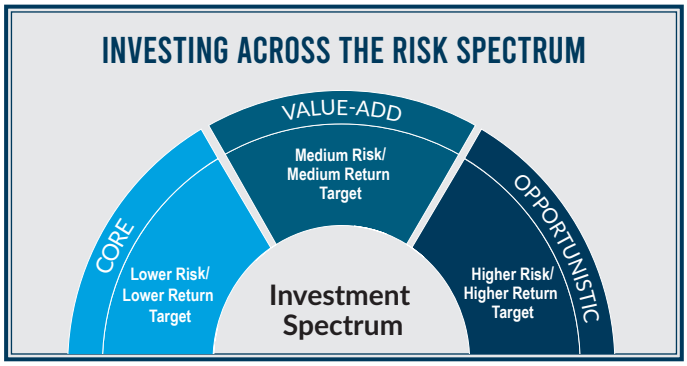
Industrial Real Estate

Q | WHAT IS BLACK CREEK DOING TO POSITION ITS INDUSTRIAL HOLDINGS FOR SUCCESS IN 2021?

A | We work hard to manage our holdings for maximum efficiency. This entails keeping our debt levels on investments moderate to leave room for growth or even unexpected events such as COVID-19. Actively staggering lease expirations enables us to keep buildings filled at a higher occupancy while gaining a degree of rent growth every year.

Additionally, we continue to look at investment opportunities across the risk spectrum, particularly in top markets that offer access to dense populations via established infrastructures like ports, airports, railroads and highways. There are only so many locations businesses can bring goods into the country, so new space in these supply-constrained markets remains in high demand.

Also, investing across the risk spectrum, whether in core, value-add or development, allows us to offer varying investor risk-return profiles.



Why Multifamily Real Estate?

Q&A

Chris Westcott
Senior Vice President, Multifamily Acquisitions

Q | WHAT MAKES THE MULTIFAMILY SECTOR ATTRACTIVE GOING INTO 2021?

A | We expect rent growth — particularly in suburban markets — to be the biggest value driver for the multifamily sector, especially in the second half of 2021. Due to COVID-19, there was an unexpected rental rate drop throughout the country for multifamily real estate. However, as the vaccine is made available to more people, we anticipate occupancy and rents to return to pre-pandemic levels. We have already started to see suburban markets post positive rent growth. Additionally, we believe strong renter demand mixed with projected lower supply becoming available in 2023, as a result of a limited construction environment in 2020, bodes well for future rent growth.

While demand from Baby Boomers, Generation X and Millennials remains stable, we are seeing that demand from younger generations such as Generation Z is only getting stronger. With Generation Z renters expected to boom in the upcoming years, we should expect to see lower vacancy rates and strong rent growth across multifamily real estate.

BABY BOOMERS	GENERATION X	MILLENNIALS	GENERATION Z
born between 1946 & 1964	born between 1965 & 1980	born between early 1980s & mid-1990s	born between mid-1990s & early 2010s

Multifamily Real Estate

Q | HOW HAS COVID-19 IMPACTED THE MULTIFAMILY SECTOR AND HOW IS THE INDUSTRY RESPONDING?

A | Unlike previous recessions where many renters lost their jobs and there was an abundance of multifamily real estate, the sector has generally done well this past year, despite the pandemic. This is because of three major factors. First, amidst the widespread shutdowns, a large portion of renters didn't lose their income because they were able to continue to work from home. Second, the government put programs in place like increased unemployment benefits that helped people avoid eviction. Third, responsible lending practices leading up to the pandemic aided in keeping supply in check during this time.

The pandemic presented unique challenges when it came to amenities, particularly in luxury buildings that have gyms, pools and community spaces, as statewide health and safety mandates forced the closure of many of them. As landlords are able to open these amenities, they will have to be extra cautious about cleaning and following safety protocols. The process is focused on making tenants feel safe because this is their home. This sentiment is one we have seen further highlighted as tenants begin to move out of highly populated areas in favor of suburban ones that offer more space.

Focus on Helping Tenants Feel Safe

Q | BESIDES COVID-19, WHAT ECONOMIC FACTORS AND TRENDS ARE INFLUENCING THE MULTIFAMILY SECTOR?

~45 MILLION IN GENERATION Z WILL ENTER THE HOUSING MARKET BY 2025[3]

A | Millennials are still a very large portion of renters. Though this generation is beginning to start families, many have delayed purchasing homes because of economic uncertainty. Work-from-home policies have also allowed them to live and work from anywhere, so they're dominating the higher-end multifamily units we primarily invest in. Nonetheless, we are seeing a gradual shift in the demographics of renters overall.

Boomers also continue to be a driving force in the rental landscape as an increasing number of them sell their houses and move back into apartments that are lower maintenance. Whether they have grown tired of their larger homes or want to move closer to work or family, we expect this trend will continue to grow. It's expected that 45 million people in Generation Z will enter the housing market by 2025, with most of them likely to become renters.[3]

Q | WHAT ARE THE BIG HEADWINDS FOR THE MULTIFAMILY SECTOR IN 2021?

A | COVID-19 remains the biggest headwind in 2021. There is a lot of uncertainty, but we are better prepared to deal with the pandemic. We have learned that potential residents are willing to virtually tour and lease, which can help keep buildings occupied while making potential and current tenants feel safe.

Low interest rates could also become another potential headwind. Tenants who are already thinking about buying a home may accelerate their decision if interest rates remain low. This may ring especially true among higher income demographics. Additionally, lower interest rates mixed with attractive financing alternatives may support higher valuations and thus spur more development in the sector, which could be a potential headwind.

[3]GlobeSt. — We're On Track to be a Renter Nation Again, November 2020

Multifamily Real Estate

Q | WHAT IS BLACK CREEK DOING TO POSITION ITS MULTIFAMILY HOLDINGS FOR SUCCESS IN 2021?

A | Diversification is important to help reduce risk. Our multifamily investment strategy centers primarily around newer properties in suburban markets that have strong fundamentals and limited new supply. We also look at older buildings in similar markets that have been recently renovated. For both opportunities, we will consider acquiring properties that are either stabilized or may require some leasing to become stabilized, which is a beneficial way to create value. Overall, these suburban markets pose a huge opportunity for growth as people continue to move from crowded cities amidst the pandemic, and neither of these investment types come with the same risk of maintenance and upgrades as older, unrenovated communities.

We are very prudent right now when it comes to making investment decisions in the multifamily sector. We never want to rush into a deal. One of the larger risks during 2020 was pandemic-related job loss, which was muted across our tenant base given our multifamily holdings are largely Class A properties with residents who generally have been less impacted financially. Our strategy of investing in suburban locations with strong job markets was beneficial in 2020 and we plan to continue this strategy into 2021.

Why Office Real Estate?

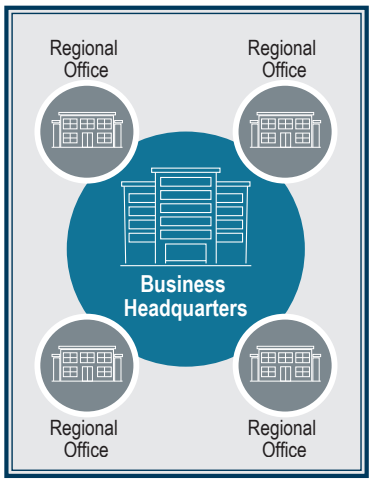
Q&A

Brian Lindenberg
Vice President, Office Asset Management

Q | WHAT MAKES THE OFFICE SECTOR ATTRACTIVE GOING INTO 2021?

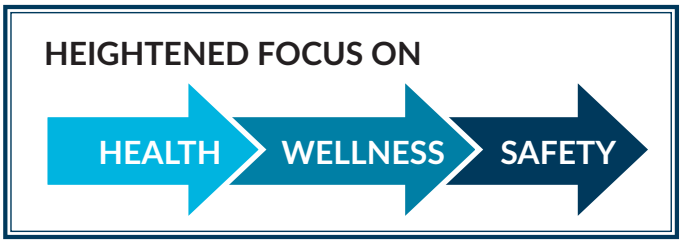
A | We have continued to see high-quality suburban, boutique properties become more attractive heading into 2021 as organizations look to move out of high-density urban cities into areas that may not rely as heavily on public transportation — something that has lost much of its appeal since the onset of the pandemic. Additionally, these suburban locations allow for easier work-from-home access because often the property is closer to where employees live.

Even amidst the pandemic and more flexible work-from-home policies, we believe employees will still want a physical office to provide them with an experience and environment to foster relationships and company culture. Though companies may have fewer people in the office, we do not expect to see much of an impact in 2021 when it comes to square footage needs. This is because companies will need to accommodate social distancing requirements for the foreseeable future.



Office Real Estate

Q | HOW HAS COVID-19 IMPACTED THE OFFICE SECTOR IN 2020 AND HOW DID THE INDUSTRY RESPOND?



A | The office sector has been undeniably impacted by the pandemic as stay-at-home orders pushed people out of communal workspaces into remote work. With uncertainty around what the work environment may look like in the next year, businesses found themselves shifting toward short-term lease renewals versus trying to solve longer term space needs in the midst of a pandemic. We are also seeing companies move away from one large office in a downtown area and opting to spread employees across numerous, smaller suburban locations.

There is no denying that COVID-19 will influence how we look at office space long after the pandemic. There will be a heightened focus on health, wellness and safety. Nonetheless, we are seeing a growing trend of employees becoming tired of the isolation they experience when working from home and are expressing a desire to come back to an office. While a flexible work setup may be good periodically, it's difficult to grow a company without the collaboration and community that is offered by being together in the office. Striking the right balance will be key.

Q | BESIDES COVID-19, WHAT ECONOMIC FACTORS AND TRENDS ARE INFLUENCING THE OFFICE SECTOR?

A | A shift in office space utilization was happening prior to the pandemic — COVID-19 just accelerated this transformation. Companies that were long apprehensive to implement remote work policies were forced to immediately begin using technology, building temporary virtual offices to keep business going. There is now increased accessibility to employees no matter where they may be, fueling a more nimbler work environment. Adapting to a more distributed and agile workplace ecosystem will offer options for workers and employers who seek variability in their work conditions. With many employees able to work from anywhere, companies may be driven away from high-cost cities like New York and San Francisco and attracted to lower tax and lower cost-of-living cities such as Charlotte and Austin. Additionally, increasing flexibility allows employers to reach a global labor pool; however, we believe new hires may quickly become less passionate about their company if they do not get to experience its culture and values through frequent in-person interactions.

Q | WHAT ARE THE BIGGEST HEADWINDS THE OFFICE SECTOR WILL FACE IN 2021?

A | Tenant uncertainty is the biggest headwind facing the office sector in 2021. Due to this uncertainty, we expect tenants will look for flexibility and short-term leases. As things stabilize after the pandemic, we believe that many people will want to return to their offices to build and promote culture and collaborate with colleagues.

Office Real Estate

Q | WHAT IS BLACK CREEK DOING TO POSITION ITS OFFICE HOLDINGS FOR SUCCESS IN 2021?

A | Even though businesses are signing shorter-term leases amidst the pandemic, we are making an effort to carefully manage lease terms, so the risk of future vacancy is staggered and strategic. COVID-19 has allowed us to complete many capital and operational improvements in our office properties — in many instances at a lower cost than what we would have achieved otherwise. These improvements may not have been done if properties were occupied and include enhancements that tenants will care about when the pandemic is over — improving the overall attractiveness of our investments.

Targeted capital expenditures also position us well for attracting future tenants. After almost a year of working remotely, tenants do not want to wait another three to five months to customize an office space that will suit their needs. If we can be prepared for new tenants with ready-to-go suites when the timing is right for them, then we will be positioned to begin generating income quickly. We are always positioning ourselves to be ready for the next one to three years and believe we are well prepared for 2021 and beyond.

Why Retail Real Estate?

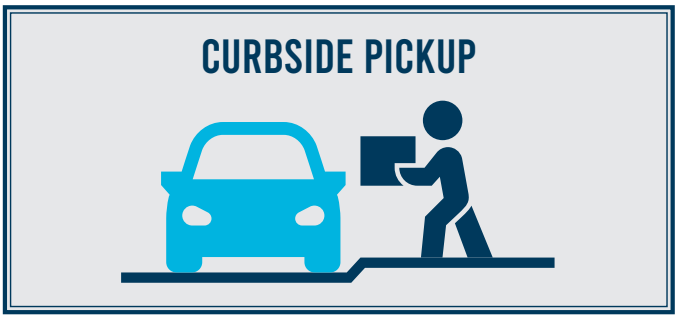
Q&A

Mike Moran
Vice President, Retail Acquisitions & Asset Management

Q | WHAT MAKES THE RETAIL SECTOR ATTRACTIVE GOING INTO 2021?

A | Because the retail sector includes numerous categories — many of which were subject to widespread government restrictions — it was undoubtedly hit hard during the pandemic. However, certain sub-sectors of retail such as grocery-anchored or necessity-based retail have proven to be resilient, which we expect to continue heading into the new year. As the pandemic moved the population indoors, consumers began buying more food to eat at home and grocery stores, as well as other essential retailers, came out as clear winners.

The retail space is gradually returning to normal as everyone better understands and embraces safety protocols. A rapid rise in e-commerce has also presented new opportunities. Retailers have leveraged their physical locations as last mile distribution hubs and we expect this trend to remain in effect long after the pandemic. Convenience has become king, and necessity-based retail accommodates that in many ways, making it an attractive asset class in 2021 and beyond.



Retail Real Estate

Q | HOW HAS COVID-19 IMPACTED THE RETAIL SECTOR AND HOW IS THE INDUSTRY RESPONDING?

A | The biggest impact of COVID-19 that we have seen in the retail sector is the acceleration of trends that existed before the pandemic. We see this largely in the decline of enclosed shopping malls and the adoption of e-commerce. There is now an increasing demand for omni-channel retail, which offers a hybrid experience of online and brick-and-mortar shopping. This has caused businesses to rapidly rethink how to improve delivery and fulfillment options via their existing supply chains, while simultaneously driving sales via a website or app. While some shoppers still prefer to visit physical retail locations, many may prefer to pick up their goods quickly in store or at designated curbside locations. We believe this acceleration will better prepare retailers moving into 2021.

Q | BESIDES COVID-19, WHAT ECONOMIC FACTORS AND TRENDS ARE INFLUENCING THE RETAIL SECTOR?

A | Prior to the pandemic, e-commerce was one of the major trends influencing the retail sector and this will likely continue long after a vaccine is widespread. Nonetheless, physical stores have proven to be a very important part of the supply chain and will continue to morph and adapt to fulfill their role in a diversified supply chain.

Though more people are shopping online than ever before, we are still seeing many consumers prefer well-positioned neighborhood shopping centers that fit into their routine traffic patterns. This will only become more important in 2021 as workers return to offices and resume their regular commutes.

Grocery-anchored retail has now become the darling of the retail sector because it offers convenient locations for consumers, attracts other great tenants to the area and fills a need in the market.

Q | WHAT ARE THE BIGGEST HEADWINDS THE RETAIL SECTOR WILL FACE IN 2021?

A | We anticipate that the impact of COVID-19 will be the biggest headwind for the retail sector in 2021. The more widespread and effective a vaccine, the safer people will feel and the more likely they will be to return to prior shopping behaviors. However, even with an effective vaccine, the service segment of retail, such as fitness centers, nail salons and restaurants, may be slower to recover as people could continue to avoid smaller spaces that require closer contact. Heading into the pandemic, these service retailers were considered drivers of retail as they were shielded from e-commerce, so a slower recovery could impact things on a larger scale.

For some retailers, finding competitive space could also be an issue in 2021. Unlike five or 10 years ago, tenants aren't choosing the cheapest rent locations. Instead, retailers want the best property with bigger name co-tenants that will draw traffic. If the pandemic continues to slow the growth of new builds, the strongest — not the cheapest — locations will become the most competitive.

Retail Real Estate

Q | WHAT IS BLACK CREEK DOING TO POSITION ITS RETAIL HOLDINGS FOR SUCCESS IN 2021?

A | It is rewarding to look at our holdings of neighborhood grocery-anchored real estate and see how well they have responded to one of the biggest shocks imaginable. Black Creek's particular retail holdings are heavily based in suburban areas, and we do expect growth in those areas as the pandemic and wider-spread adoption of work-from-home policies sends people away from crowded urban areas.

As a whole, necessity-based retail properties produce steady and relatively predictable income streams, thus creating very attractive long-term investment opportunities. For example, people will always need to buy food or get their hair done, so necessity-based retail will not contract the way other industries might, even though shopping patterns may evolve. We do not invest in malls or power centers — the spaces that retailers are leaving the most. We are well positioned for the future of omni-channel, and 2020 has only made us feel more confident in our approach.

ABOUT BLACK CREEK GROUP

Black Creek Group, LLC (Black Creek Group) is a leading real estate investment management firm that has bought or built over $22 billion of investments throughout its more than 25-year history.[4] The firm manages diverse investment offerings across the spectrum of commercial real estate — including industrial, multifamily, office and retail — providing a range of investment solutions for both institutional and wealth management channels.

Black Creek Group, your source for commercial real estate knowledge. BlackCreekGroup.com.

[4]As of September 30, 2020.

To learn more about Black Creek Group, visit www.blackcreekgroup.com

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