UNITED STATES

Perspective

MID-YEAR 2021

Shifting into expansion mode

INSIDE

U.S. GDP has fully recovered from the recession

COVID-19 lingers as a potentially disruptive force

CRE is well-positioned for a strong second half

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COVID RISKS LINGER AS THE ECONOMY REOPENS

- **The U.S. is positioned for a second half expansion.** GDP has recovered and major indicators are in expansionary territory. Healthy consumer balance sheets and pent-up demand to spend will propel the economy forward.
- **COVID-19 remains a downside risk as the Delta variant spreads.** Evidence to date suggests that vaccines are effective in preventing severe illness and death from this variant. Vaccination rates are slowing nationally and there are large differences in rates across the country.
- **Jobs are rebounding slowly as many workers remain on the sidelines.** Enhanced unemployment benefits, geographic and skill mismatches, retirement, low immigration, and other factors are leading to a significant rise in job openings.
- **Aggressive fiscal stimulus has helped the economy get back on track.** Momentum on a bipartisan infrastructure bill is a positive sign that the expansion could get an additional boost with tangible long-term benefits for the economy.
- **The Fed is content to let the economy run hot in the near term.** Interest rates remain low, but investors are jittery. Inflation data and the Delta variant are creating turbulence in the equity and bond markets. Inflation expectations seem to be moderating, but wage-driven pressure will be significant.
- **Housing demand is robust, even in gateway markets.** Limited supply and high prices in the for-sale market are helping to fuel demand for both apartments and single-family rentals.
- **Office demand continues to fall, albeit at a slower rate.** Mobility data show workers have yet to return in large numbers and the Delta variant is causing some employers to delay their plans to have employees return.
- **The reopening will not reverse the surge in ecommerce that unfolded during the pandemic.** Store-based retail should gain some traction in the near term and retail asset values are stabilizing. But we see industrial continuing its recent run of outperformance relative to other property sectors.
- **Economic and capital market conditions will support healthy property fundamentals and investment performance.** The setup is attractive for the asset class in the second half of 2021, although the pandemic lingers as a potentially disruptive force.

QUICKTAKE: 2021 SECTOR OUTLOOKS

	Operating Fundamentals	Investor Sentiment	Overall Outlook	In Short
Apartment				Demand has strengthened and construction has tapered. Significant upward pressure on rents will persist.
Office				Uncertainty lingers as the return to office has been slow. Suburbs seeing smaller uptick in vacancy than CBD submarkets.
Retail				Overall values in the sector are stabilizing. Rising investor interest in well-located, necessity-based retail. Malls continue to underperform.
Industrial				Demand for space grew significantly in H1/21 and continues to outstrip supply. Property values are surging.

Outlook Key

Positive
Mixed
Negative
Upgrade from Year-end Perspective Forecast

Source: CoStar Group, Inc., NCREIF, BGO Research

EXPANSION UNDERWAY AFTER SHORTEST RECESSION ON RECORD

- The U.S. economic recovery has been exceptional with GDP surpassing pre-pandemic levels in the second quarter of 2021. Fiscal and monetary stimulus, low interest rates, wealth effects from rising home values and stock prices, and pent-up demand have unleashed a wave of consumption.
- COVID continues to cast a shadow both through the spread of the more contagious Delta variant and lingering supply issues that have impacted production and consumption in almost every corner of the economy, from autos to housing.
- These supply issues have been a driver of inflation and are one reason the Federal Reserve believes higher inflation will only be "transitory." Elapsing base effects, normalizing demand after the initial reopening surge, and rebounding levels of supply should stave off more extreme rates of price growth.
- Over the past 15 months the labor market has undergone a dramatic improvement. From May 2020 through July 2021 employment rose by 16.7 million jobs and unemployment fell from 14.8% to 5.4%.
- The labor picture is not entirely rosy. Total employment is still 5.7 million jobs below February 2020 levels and unemployment claims remain persistently high. Lower unemployment is owed at least in part to an exodus from the workforce. The labor force is 3.2 million workers below peak levels.
- A myriad of factors are holding back the labor market recovery, including lingering health concerns, skill and geographic location mismatches, enhanced unemployment benefits, an aging workforce (retirements), and blunted immigration.
- As we observed in our report at the start of the year, employment prospects vary greatly by industry sector and skill/education level. Bar, restaurant, and hotel workers have been particularly hard hit by the drop in employment. Conversely, technology, research, and consulting-related jobs have expanded well-beyond pre-pandemic levels. Even finance and insurance jobs have grown.
- Not surprisingly, sectors related to ecommerce, including nonstore retail and warehouse and shipping related sectors have expanded. Some brick-and-mortar sectors have also done well as necessity goods and those tied to the active home improvement market see solid demand.
- For the economy to truly recover, more workers need to be pulled back into the labor force. Rising job openings show the potential for growth is there. Wages should rise as employers battle for workers, creating more durable pressure on inflation.

EMPLOYMENT RECOVERING, BUT WITH DRAMATIC DIFFERENCES ACROSS SECTORS

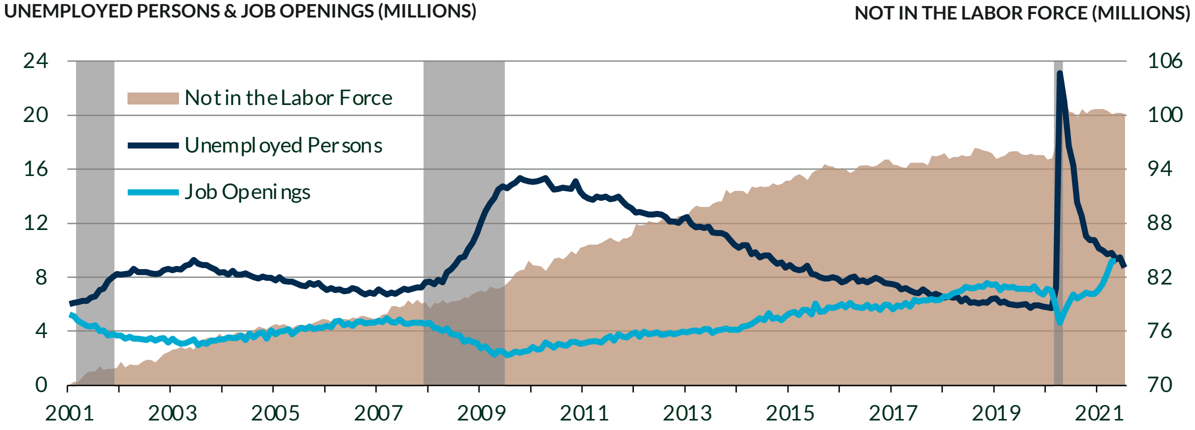
Largest Pandemic Job Creators	Change vs. Feb. 2020 (%)	Change vs. Feb. 2020 (#, 000s)
Couriers & messengers	14.0%	123.6
Warehousing & storage	8.6%	114.1
General merchandise stores	2.8%	84.4
Building & garden supply stores	5.6%	72.1
Scientific R&D svcs.	7.8%	59.3
Mgmt. & tech. consulting svcs.	3.2%	49.6
Nonstore retailers	6.6%	38.7
Accounting & bookkeeping svcs.	3.4%	35.3
Other information svcs.	7.4%	26.1
Finance & insurance	0.4%	25.8

Largest Pandemic Job Losers	Change vs. Feb. 2020 (%)	Change vs. Feb. 2020 (#, 000s)
Other svcs.	-4.0%	-236.0
Social assistance	-5.7%	-245.1
Other Transportation	-7.7%	-278.3
Accommodations	-17.3%	-364.2
Local gov. excluding education	-5.6%	-373.4
Nursing & residential care facilities	-11.2%	-377.7
Arts, entertainment & recreation	-16.1%	-403.2
Manufacturing	-3.4%	-433.0
Administrative & support svcs.	-6.4%	-565.5
Food svcs. & drinking places	-7.9%	-969.9

Note: Data as of July 2021

Source: U.S. Bureau of Labor Statistics, BGO Research

LABOR CONSTRAINTS WILL CHALLENGE THE EXPANSION



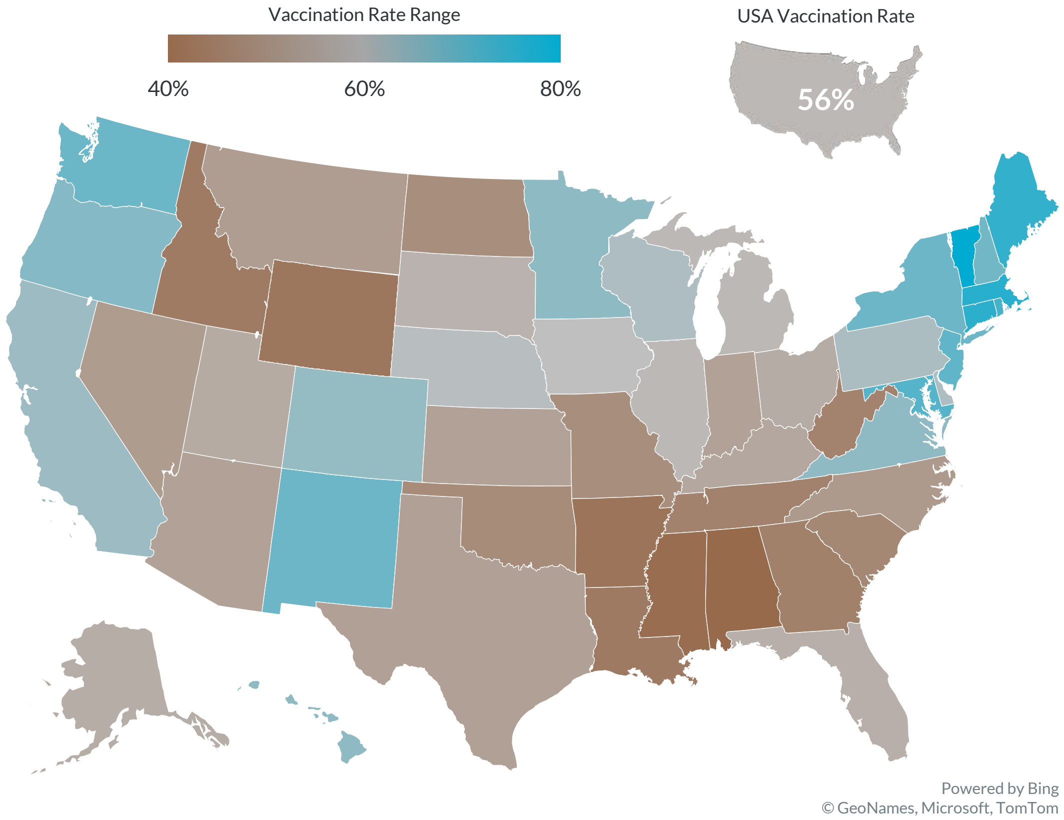
*Recessions shaded

Source: U.S. Bureau of Labor Statistics

VACCINATIONS HELP THE ECONOMY REBOUND

LOWER VACCINATION RATES IN SOME STATES PRESENT A RISK AS VARIANTS SPREAD

POPULATION 12+ FULLY VACCINATED AS OF JULY 21, 2021



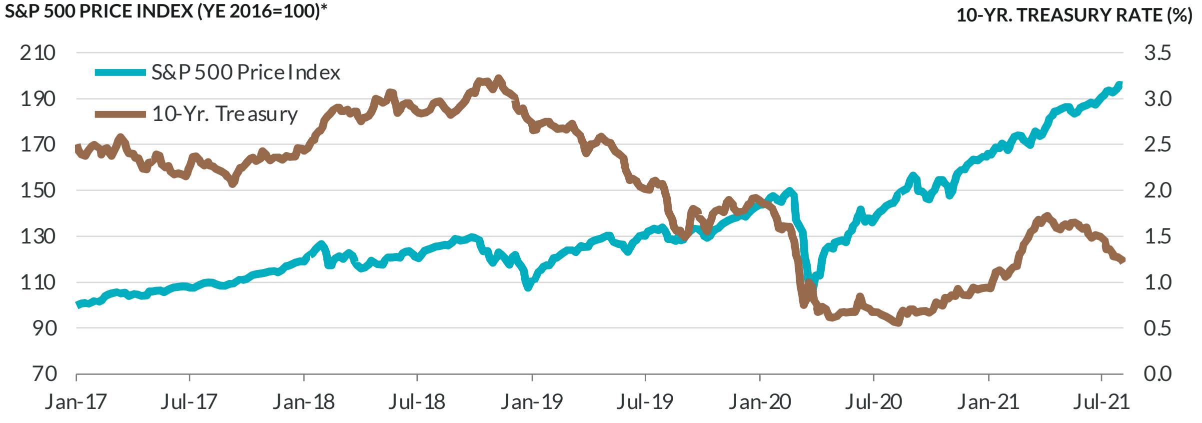
Source: Moody's Analytics, U.S. Centers for Disease Control and Prevention (CDC), U.S. Census Bureau, BGO Research

- Roughly 160 million Americans have been fully vaccinated against COVID-19, about 56% of the population age 12 and older. After some initial missteps, the vaccine rollout has been relatively successful in the U.S. versus other parts of the world. This success positioned the national economy well for a strong reopening.
- Vaccination momentum has faded, however, and other countries like Canada and the U.K. have overtaken the U.S. The number of Americans fully vaccinated increased 4.3% in the first three weeks of July versus 10.5% in the first three weeks of June.
- The geographic disparity in vaccination rates across U.S. states is particularly noteworthy. Nearly 76% of Vermont's population age 12+ is fully vaccinated versus less than 40% in Alabama. States with lower vaccination rates could be at risk for additional shutdowns and/or restrictions, particularly as the more transmissible Delta variant gains a foothold.
- That said, it is worth noting that lower vaccination rates have not necessarily been correlated with weaker economic recoveries. Moody's Analytics' Back to Normal Index, which measures economic activity relative to the end of February 2020 (index level = 100) was higher on average in the worst 10 states for vaccination (96.7) than it was in the best 10 (90.4).
- As has been the case through much of the pandemic to date, it will be state and local government restrictions and industry exposure that most determine local economic outcomes, but vaccine resistance in certain parts of the country is concerning considering the Delta variant's higher transmissibility. Additionally, we may see health officials recommend a booster shot to improve resistance to new variants – a moot point in areas resistant to vaccination in the first place.
- General vaccine hesitancy in the U.S., along with the delayed approval of vaccines for children, could pose a challenge as children return to school in the Fall and more parents attempt to get back to the office.
- All-in-all, the rapid development, approval, and distribution of COVID-19 vaccines has been a technological marvel. Long-term downside risks from health-related black swan events seem mitigated by our improved ability to tackle such health challenges. Moreover, the markets with proficiency in bio/pharma research have solidified a comparative advantage.

CONDITIONS FAVOR COMMERCIAL REAL ESTATE

- Economic conditions are bolstered by major stock market indices continuing to set new highs and interest rates remaining low in both a historical and global context.
- Institutional investors need to rebalance their portfolios as these asset types grow in value. They also need to identify opportunities to generate yield, which favors commercial real estate and alternative asset classes broadly.
- Stocks should have tailwinds in the near term as earnings reports show favorable results. But supply constraints and base effects create some downside risk over the balance of the year as corporations will be hard-pressed to replicate recent strength. Investors are also jittery about COVID-19 variants, inflation, and the potential unwinding of monetary stimulus.
- Bond traders have also been processing these risks. Rates should reflect long-term expectations for the economy and inflation, and it seems even with less monetary stimulus these expectations are for rates to remain low. This is further supported by large amounts of investment capital looking for a home and U.S. interest rate levels remaining high versus other developed economies.
- For commercial property investors the tailwinds are considerable. Not only are public markets supportive of a growing economy, but they are making cash flowing assets with modest inflation hedging characteristics, like commercial real estate, look relatively attractive. Further, commercial property investors can amplify returns with accretive leverage.
- These conditions are creating a weight of capital that is driving asset values higher and compressing yields, particularly in the apartment and industrial sectors where COVID-19 and secular changes in the economy have, in some cases, created benefits (e.g., ecommerce and working from home), whereas these changes have been largely negative for office and retail.
- Transaction volume in the major property sectors during the year-ending 2021 Q2 was only 7.6% below the average for the same periods during 2015-19. This is despite the obstacles to transacting that persisted for a portion of the past year due to the pandemic.
- The reallocation of capital to apartment and industrial and away from office and retail (and a more subtle shift away from primary markets in these two sectors) is clear, but investors remain vigilant for opportunities in these more challenged sectors. There is also large interest outside the four main sectors for alternatives like life science, single family rental, self storage, and data centers.

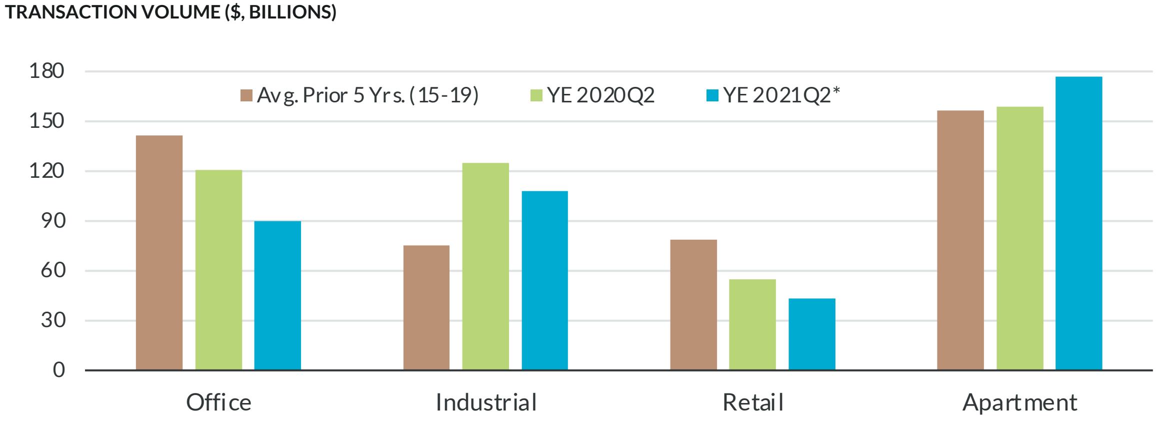
STOCKS SETTING NEW HIGHS & INTEREST RATES REMAIN LOW



* Data smoothed using a five-day moving average

Source: S&P Dow Jones, Federal Reserve

INVESTMENT ACTIVITY HAS BOUNCED BACK, ALBEIT WITH A SHIFT IN FOCUS



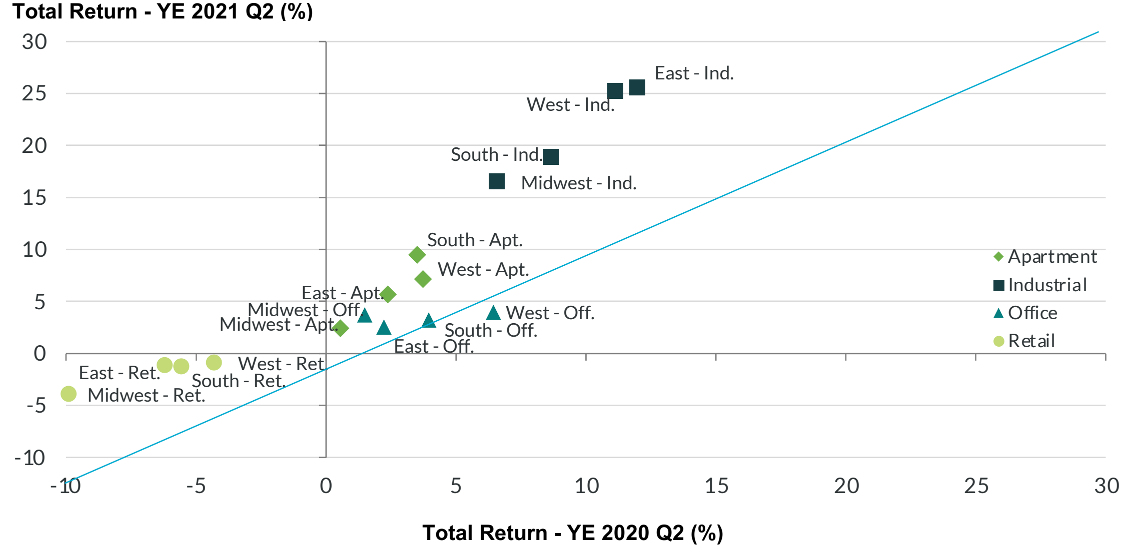
* Preliminary data

Source: Real Capital Analytics, Inc.

STARK DIFFERENCES IN PERFORMANCE ACROSS REGIONS/SECTORS

- Capital flows to commercial real estate will be perpetuated by attractive investment performance. According to NCREIF, total returns for the year ending 2021 Q2 outpaced those for the same period a year earlier. This was true across nearly all regions and sectors. Only office properties in the South and West posted weaker returns in the last year.
- Retail properties performed better across all four regions of the country, but still failed to muster a positive return for the 12-month period. On the upside, retail property values showed signs of stabilization in 2021 Q2.
- Industrial properties continue to outperform, with rent growth and cap rate compression driving tremendous appreciation. Investor expectations for rent growth remain high due to low vacancy and robust demand drivers.
- While no other sector matched industrial's recent stellar appreciation, there are positive signs for future performance in other sectors. Apartment values have very clearly turned the corner due to strong fundamentals, office values have stabilized, and even retail seems to be finding a bottom in terms of property values, albeit with persistent differences across subsectors.
- Interest rates are undoubtedly playing a role in performance. Rates are low and lenders are bidding aggressively to win new business, creating attractive financing options. Cap rates spreads versus treasuries generally look reasonable and some investors are drifting away from traditional rules of thumb for reversion cap rates given the low for long environment we have been operating in.

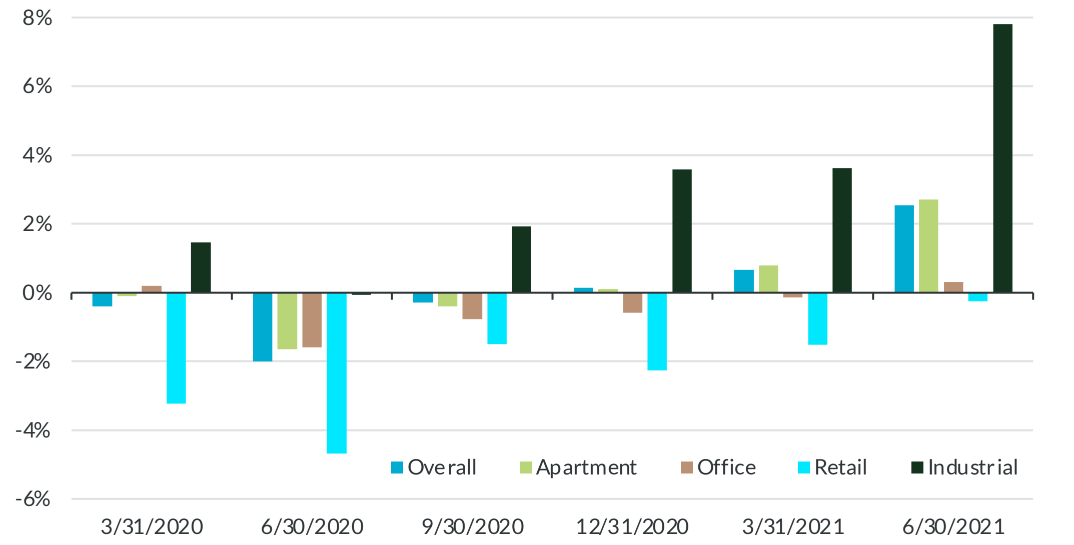
STRONG INVESTOR DEMAND GENERATED POSITIVE RETURN MOMENTUM OVER THE PAST YEAR



Source: NCREIF

MAJOR DIFFERENCES IN APPRECIATION ACROSS SECTORS; VALUES RISING OVERALL

QUARTERLY APPRECIATION RETURN



Source: NCREIF

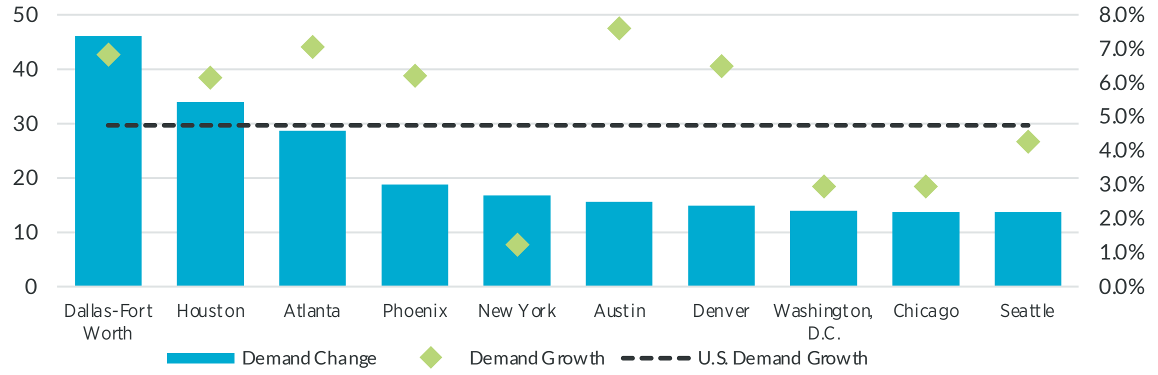
SURGE IN DEMAND DRIVES RENTS HIGHER

- With the economy reopening, rental household formation has created a strong upward trend in apartment net absorption. Occupancy rates are improving and year-over-year effective rent growth is at its highest level in a decade.
- Limited supply of for-sale housing and skyrocketing prices have enhanced the rental demand trend. The FHFA's Home Price Index rose 18% year-over-year as of May 2021. Low mortgage rates and limited supply should perpetuate these high prices.
- Rental demand has been stellar, led by the Sunbelt and Mountain West. Dallas, Houston, Atlanta, and Phoenix led all markets for the increase in units demanded over the 18 months ending in 2021 Q2. The rate of demand growth in these locations has been faster than the national average, which was strong at 4.7% per CoStar.
- Risks in most major markets due to urban supply and a drop in demand during the pandemic are fading. Aside from San Francisco, demand has risen above year-end 2019 levels in every major market, according to CoStar data. Rents do reflect some of the challenges of major urban centers over the past year, but the recent monthly trend has been favorable even in these hard-hit locales.
- Effective rent growth has been exceptional in the top performing markets, with many posting double-digit gains. Same-store effective rent data from RealPage show some of the fastest increases in the Southwest, led by Phoenix at over 19% year-over-year.
- High construction costs and labor constraints should perpetuate recent trends in the rental market by limiting new supply. According to CoStar data, construction underway is down 15% year-over year as of 2021 Q2, although it remains relatively high versus history.
- The federal eviction moratorium has been extended to early October for most of the country and some state moratoriums remain in place. Given the high number of workers that have left the labor force, we have previously expressed concern that the end of this protection could reveal hidden weakness in the rental market. But we are encouraged by very strong rent collections across the market and within the portfolios we manage.
- The apartment sector's historical stability has been on display through this volatile period. Demand will continue to grow as payrolls rise. COVID has created some shifts in the types of units demanded – including increased demand for single-family rentals. More space within the units is favored as renters spend more time at home. But the sector is seeing increasingly broad-based strength.

APARTMENT DEMAND HAS REBOUNDED FROM PRE-PANDEMIC LEVELS

CHANGE IN UNITS DEMANDED 19Q4 TO 21Q2 (000S)

GROWTH RATE IN UNITS DEMANDED 19Q4 TO 21Q2

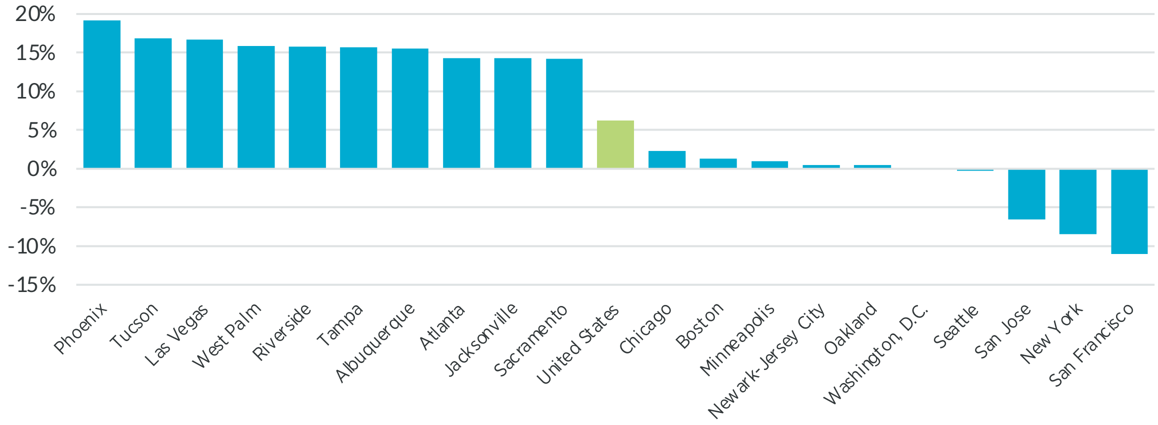


Note: select leading markets for demand change shown.

Source: CoStar Group, Inc., BGO Research

RENT GROWTH STILL VARIES DRAMATICALLY BY MARKET

YEAR-OVER-YEAR EFFECTIVE RENT GROWTH



Note: Top 10 and bottom 10 of 60 largest markets tracked shown.

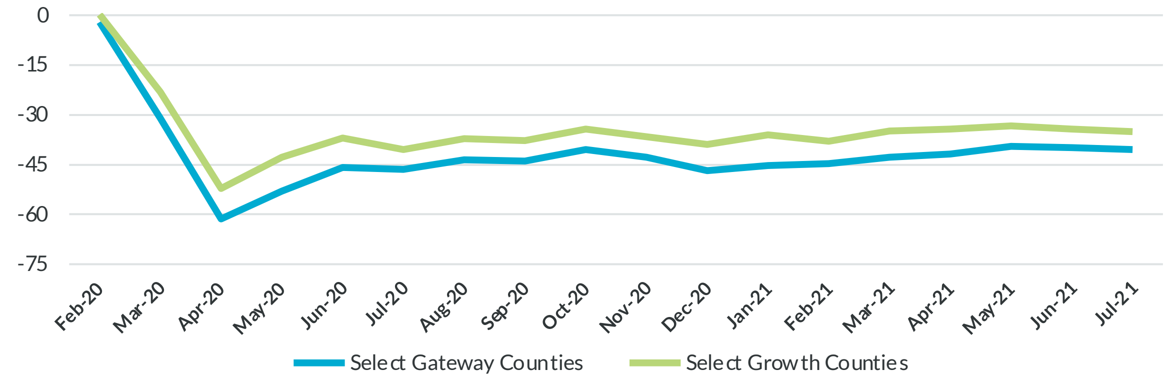
Source: RealPage

COVID VARIANTS DELAY ALREADY-SLOW RETURN TO OFFICE

- Office fundamentals continued to deteriorate in the first half of 2021 as net absorption remained negative. The pullback in demand does appear to be fading, but uncertainty lingers. A number of major employers are pushing back their return to office as the Delta variant spreads.
- High-frequency mobility data from Google and other sources such as Kastle Systems continue to corroborate the anecdotal evidence that the return to office remains muted. This is the case nationwide, even in locations that have been less apt to restrict behavior amid the pandemic. But “remote friendly” markets, including tech-heavy Boston, Seattle, and San Francisco are even further off pre-pandemic office attendance.
- Data from the VTS Office Demand Index (VODI), which was developed to track office demand using active tenant requirements in the market tells a more favorable story. The index is off about 25% from its pre-pandemic benchmark. Here again, Boston, Seattle, and San Francisco have seen more suppressed activity. Conversely, Chicago, New York, and Washington, D.C. have seen active space requirements rebound more significantly. Overall, office leasing traffic has improved, and time will tell if this activity materializes into positive levels of absorption.
- Not surprisingly, the divergence in CBD and suburban fundamentals has continued. Neither geographic group has been immune to declining demand for space, but CBD locations have seen a greater deterioration.
- Office construction underway has notched down a bit from about 2% of inventory before the pandemic to about 1.8% today, according to CoStar. With demand still on the decline, vacancy will continue to move higher in the near term.
- It does appear that investor interest is starting to turn the corner. Office investment activity was up 85% in 2021 Q2 versus the same period a year ago. This is being driven in part by expectations that demand will rebound in the coming quarters. Growing appetite for office conversions, particularly to life science spaces is also taking place in certain markets, resulting in very strong price execution for sellers.
- While we believe that office utilization has likely experienced some level of permanent change, we continue to expect tenants to return to their offices in large numbers and for office markets to get back on track. Concerns about productivity, corporate culture, and employee development are significant. The balance between office and remote work will be a key determinant of the sector’s recovery. This balance will vary depending on location and industry sector.

RETURN TO OFFICE HAS STALLED; ONLY MODESTLY BETTER IN GROWTH MARKETS

WORKPLACE MOBILITY AS A % OF BASELINE (MONTHLY AVERAGE)

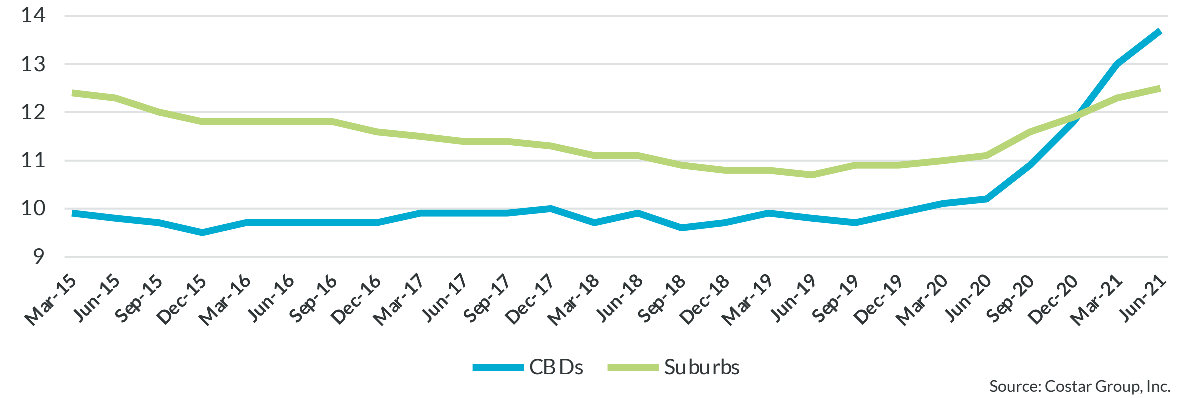


Note: Gateway counties reflect Boston, New York, Chicago, San Francisco, Los Angeles, and Seattle; growth counties reflect Dallas, Nashville, Denver, Atlanta, Charlotte, Salt Lake City, Austin, and Raleigh

Source: Google Mobility Data, BGO Research

OFFICE VACANCY CONTINUES TO MOVE HIGHER, LED BY CBD PROPERTIES

VACANCY IN 10 LARGEST U.S. OFFICE MARKETS (%)

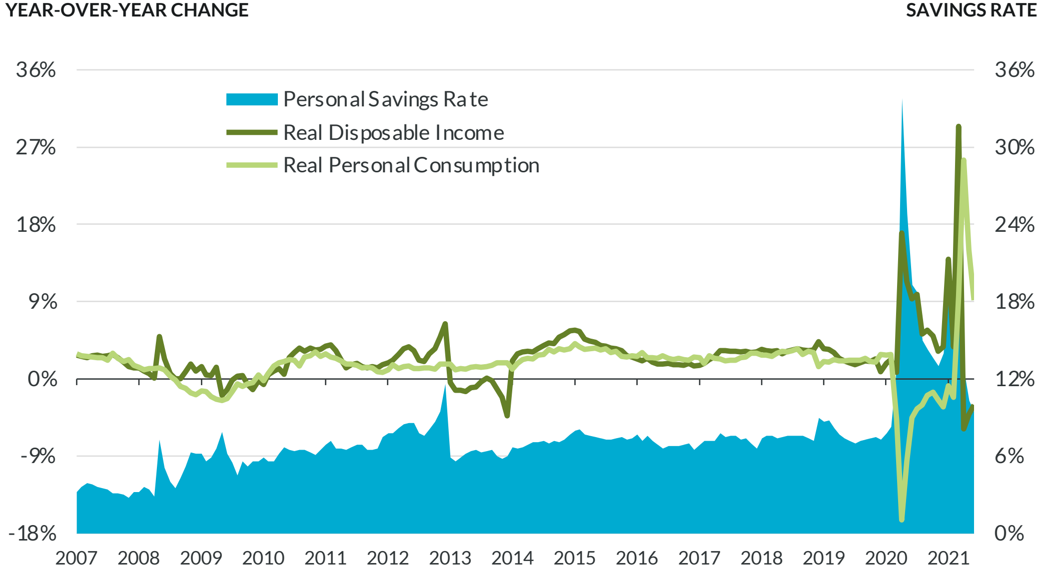


Source: Costar Group, Inc.

CONSUMERS BEGIN TO SPEND DOWN THEIR PANDEMIC SAVINGS

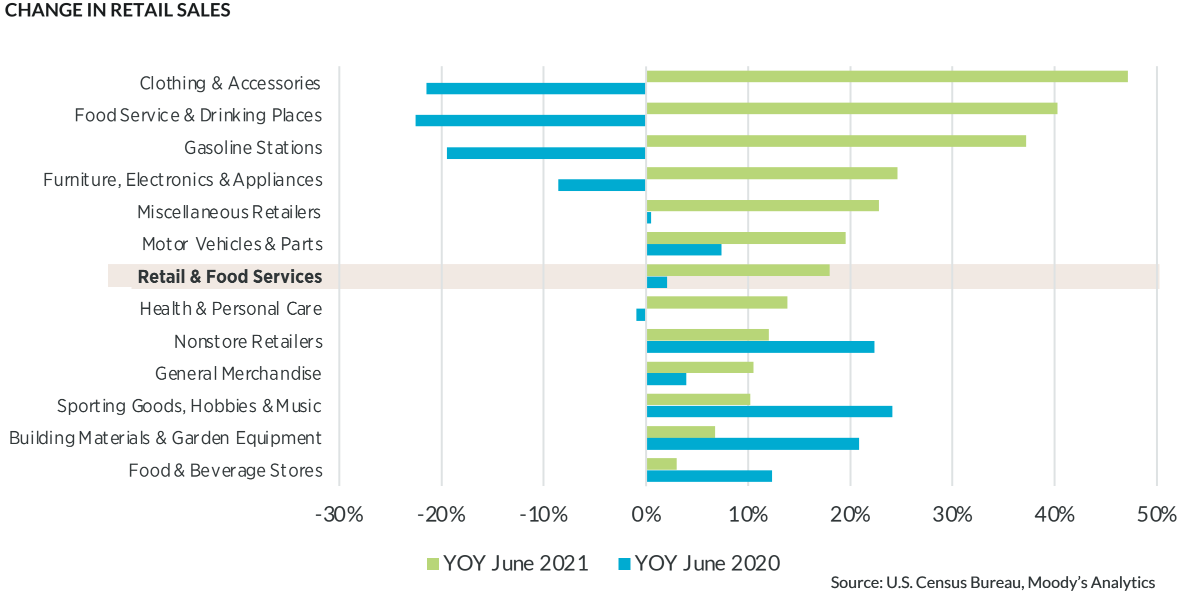
- The reopening has unleashed a consumer rebound fueled both by a pent-up desire to leave the home and a spending down of the savings built up during the pandemic. Real disposable income growth stalled a bit recently, in part because of rising prices, but growth has been strong for most of 2021.
- Consumption growth is very strong on a year-over-year basis after running sharply negative for most of 2020. Spending is occurring both on retail goods as well as services, such as restaurants, hotels, travel, and recreation. Google Mobility data for retail and recreation locations show a much more substantive rebound than data for workplaces, with a strong upward trend since February 2021.
- Specific to retail sales, most sectors are performing well, including the overall retail and food services numbers, which reflected a nearly 18% gain year-over-year as of June 2021.
- Many of the best performing retail segments over the past 12 months were those that fell sharply in the prior year. Sectors tied to social experiences and travel led most other retail categories in terms of sales growth.
- Conversely, growth was more subdued in sectors that had performed better during the lockdowns. These are sectors generally tied to home improvement and hobbies as well as necessity-based retail, such as grocery stores.
- Bifurcation in fundamentals and investment performance across retail subtypes remains evident. The Delta variant and the sizable shift to ecommerce that occurred during the lockdown are downside risks for retailers.

INCOME GROWTH AND PAST SAVINGS HELP FUEL A REBOUND IN CONSUMPTION



Source: U.S. Bureau of Economic Analysis

RETAIL CATEGORIES THAT SHRANK DURING LOCKDOWNS SEE A BOUNCEBACK



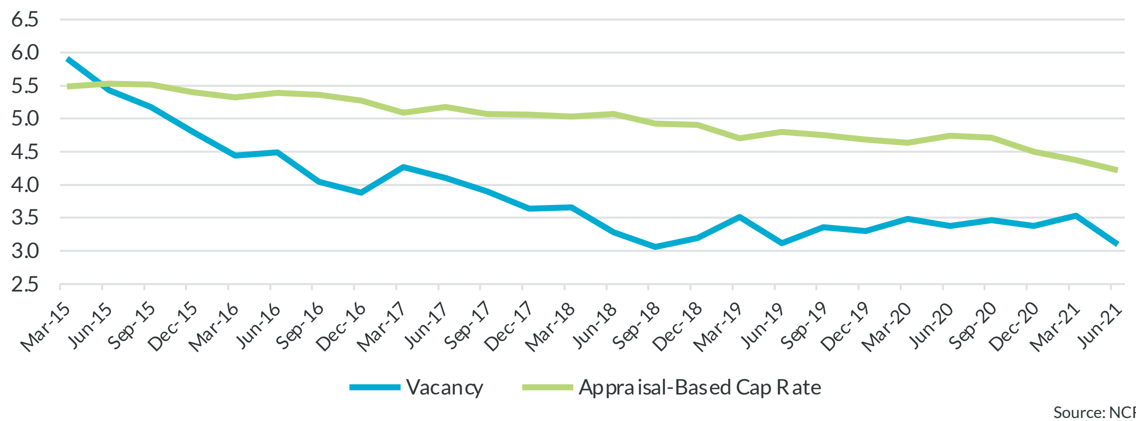
Source: U.S. Census Bureau, Moody's Analytics

THE INDUSTRIAL MUSIC CONTINUES TO PLAY

- Between consumers' shift to higher levels of online purchasing and the reopening of the economy, the industrial sector is on cruise control. Vacancy continues to fall and rents are rising rapidly. CoStar tracked over 108 million sf of net absorption in 2021 Q2 alone, which eclipses the already strong levels of demand experienced during the pandemic.
- Investor expectations for rent growth and total returns remain equally robust. Cap rates continue to head lower, with investors now commonly showing a willingness to accept a cap rate in the 3.0%-range for high-quality product. Geographic variation in pricing also seems to be dissipating as investors look past historical concerns around supply risk and liquidity at exit in smaller, growth markets.
- We believe this optimism is largely warranted with the secular shift to ecommerce leading to significant undersupply of modern fulfillment product in many markets. Low vacancy rates will continue to fuel outsized growth in rents.
- Even with high construction costs, new construction has ramped up to levels that would be problematic if the economy hits an unexpected soft patch. CoStar is tracking nearly 403 million square feet of space underway, an increase of almost 24% from a year ago. Construction risks should not be ignored, but the ratio of construction underway to trailing four-quarter demand has fallen considerably over the past few quarters. With significant need for businesses to rebuild their inventories, there is ample reason to expect this relationship will hold.
- The future of ecommerce spending and the resultant depth of demand for fulfillment space remains key to the outlook for the industrial sector. Consumers will do more in-store shopping in the near-term, but we believe there has been a permanent shift in behavior.
- Although second quarter ecommerce sales are not yet available for the nation, Amazon's recently released sales likely provide some insight into what we can expect in the near to medium term. The company's second quarter sales leveled off a bit but were still up nearly 16% year-over-year. Nationally, ecommerce spending grew at about this rate during 2019. If this pace is the new normal over the next few years, the industrial sector should remain healthy.
- Even in a downside scenario where demand growth stalls, extremely low current vacancy rates should insulate landlords. Despite the recent uptick, construction underway is only equal to 2.3% of inventory suggesting market deterioration would not be severe.

STELLAR FUNDAMENTALS LEADING MORE INVESTORS TO THE INDUSTRIAL SECTOR

VACANCY/CAP RATE (%)



Source: NCREIF

ECOMMERCE GROWTH MAY BE POISED TO "NORMALIZE" FOLLOWING PANDEMIC SURGE

U.S. ECOMMERCE SALES ($, BILLIONS) **AMAZON ONLINE STORE SALES ($, BILLIONS)**

Source: U.S. Census Bureau, Amazon Corporate Earnings Reports, BGO Research

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ABOUT BENTALLGREENOAK

BentallGreenOak is a leading, global real estate investment management advisor and a globally-recognized provider of real estate services. BentallGreenOak serves the interests of more than 750 institutional clients with approximately $62 billion USD of assets under management (as of March 31, 2021) and expertise in the asset management of office, industrial, multi-residential, retail and hospitality property across the globe. BentallGreenOak has offices in 24 cities across twelve countries with deep, local knowledge, experience, and extensive networks in the regions where we invest in and manage real estate assets on behalf of our clients in primary, secondary and co-investment markets. BentallGreenOak is a part of SLC Management, which is the alternatives asset management business of Sun Life.

The assets under management shown above include real estate equity and mortgage investments managed by the BentallGreenOak group of companies and their affiliates. As of 1Q21, BentallGreenOak changed its definition of Total AUM to include certain uncalled capital commitments for discretionary capital until they are legally expired and continue to exclude certain uncalled capital commitments where the investor has complete discretion over investment.

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United States Perspective MID YEAR 2021