B10.4 Attachment 1

TOWNSEND® GROUP
an Aon company

VIEW OF THE WORLD 2020

Executive Summary

Accelerating Trends in Real Estate

The Townsend Group, An Aon Company

Proprietary & Confidential | October 2020

INTRODUCTION

The current global pandemic and COVID-19 crisis has led to the acceleration of certain trends in global real estate. Given this and the economic uncertainty, institutional investors throughout the world remain acutely focused on evaluating risks and opportunities. Taken together with the cyclical nature of real estate, many are asking what this means, and where investment opportunities lie, for their portfolios.

In this, we present the executive summary for our View of the World in a unprecedented year. We are pleased to share our views on the global outlook for real estate markets and the different investment themes emerging around the world.

We develop these views from a unique vantage point, as one of the world's leading real estate investment advisers, driven by a number of key factors, including:

- **Scale & Proprietary Data –** derived from our work advising $146.4 billion in clients real estate assets, and managing $18.7 billion of assets[1]
- **Global Investment Capabilities –** since 2004, we have committed or invested capital to the value of $172 billion[1]
- **Deal Sourcing –** last year alone, we sourced over $39 billion of potential co-investment opportunities
- **Global Relationships –** through which we receive best-in-class research and commentary from a global network of real estate managers

To discuss any of the views or themes highlighted in this publication, please don't hesitate to get in touch.

Thank you,

Prashant Tewari
Christian Nye

[1] As of December 31, 2019, Townsend provided advisory services to clients who had real estate/real asset allocations exceeding $146.4 billion and had assets under management of approximately $18.7 billion

ABOUT THE AUTHORS

Prashant Tewari

Prashant Tewari is a partner of The Townsend Group and a member of the Investment Committee and the Global Macro Strategy Committee. Mr. Tewari leads global investment strategy for the firm, bringing over nineteen years of global real estate investment, capital raising, and banking experience to the firm.

Prior to joining The Townsend Group in 2014, Mr. Tewari was a Co-Portfolio Manager/Senior Research Analyst with Alliance Bernstein, responsible for a $2.5 billion global fund investing in REITs and other real estate securities.

Mr. Tewari has previously held roles with McKinsey & Co., and Standard Chartered Bank within the Asia real estate group. He has lived and worked in the US, Europe, and Asia.

Mr. Tewari received an MBA with honors from the Booth School of Management at the University of Chicago, a post-graduate diploma from the Indian Institute of Management where he was awarded the Director's medal for academic excellence, and a BS from the Indian Institute of Technology.

Christian Nye

Christian Nye joined Townsend in 2016 and is an Associate in the Advisory Group and on the research team. His main responsibilities include portfolio analytics, performance reporting, and supporting the development of Townsend's View of The World.

ECONOMIC OUTLOOK

Impact Of Pandemic On Real Estate Investment Strategy

Accelerating pre-COVID-19 trends

- Technology was already reshaping our living, working shopping and socializing habits
- Now, our reliance on technology increased significantly, accelerating many pre-COVID trends

Disruption effects of COVID-19

- The pandemic has led society to rethink living and working arrangements, shaping new preferences that may restructure demand for real estate
- Technology tools (like adequate bandwidth, conferencing software, wide availability of laptops across the workforce) that enable work-from-home may reshape the future work environment and, consequently, living preferences

Dislocation effects of COVID-19

- Global to local shift, globalization came under scrutiny when supply chains faltered during the pandemic and a number of countries/companies are calling for supply chain reshoring
- Travel restrictions and near-term impact of COVID-19 has had a disproportionate effect on select parts of the economy; real estate assets servicing those sectors are operationally challenged which is creating distress
- Since many of these assets fulfill important societal needs, over time many of them are likely to witness value appreciation leading to good tactical investment opportunities

Source: The Townsend Group

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ACCELERATING TRENDS

1 E-Commerce Filling the COVID-19 Gaps

2 Migration To Lower Cost, Less Dense Locations

3 COVID-19 Disruption Effects Will Create RE Risks and Opportunities

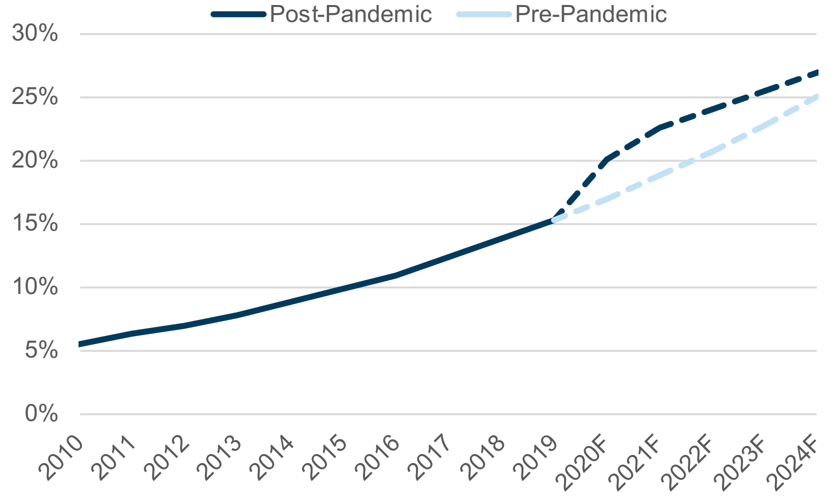
4 COVID-19 Is Likely To Create Dislocation/Distress Across Many Sectors

ACCELERATING TRENDS

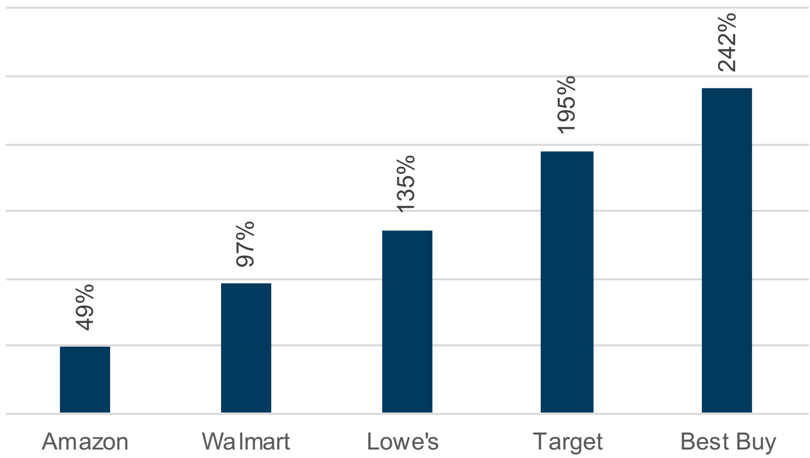
E-Commerce Filling the COVID-19 Gaps

- Prior to COVID-19, the industrial sector was benefiting from the accelerating shift to e-commerce based consumption; COVID-19 materially accelerated the utilization of e-commerce
  - Older generations, which may have been the most hesitant to shop online, would reduce personal risk the greatest by switching to e-commerce based shopping
- Long-term this shift in demand is forecasted to persist, with e-commerce as % of retail sales projected permanently higher
  - Bankruptcy of weaker retailers may create additional marginal tailwinds for e-commerce as consumers seek out a greater variety of selection
- The COVID-19 pandemic has demonstrated the absolute essential need for retailers to have an online presence and, at the very least, omnichannel capabilities

US E-Commerce Sales as a % of Total Sales (Projections by Prologis Research)



2Q20 Online Sales Growth YoY%



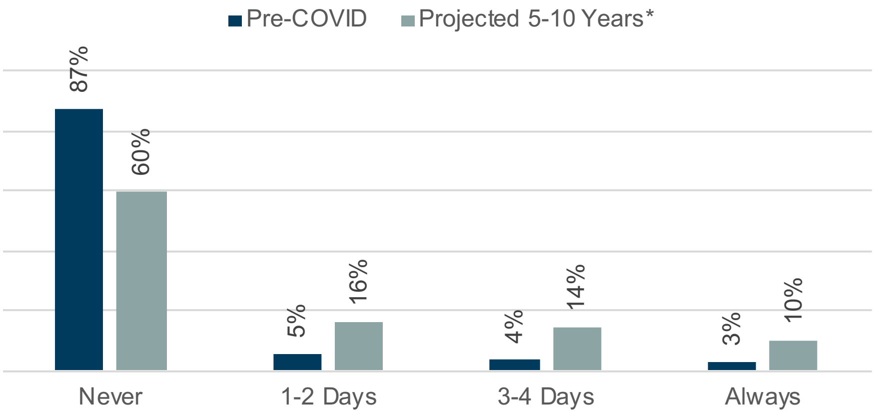
Source: Prologis Research (June 2020), U.S. Census Bureau, Euromonitor, Green Street, Company Disclosures

ACCELERATING TRENDS

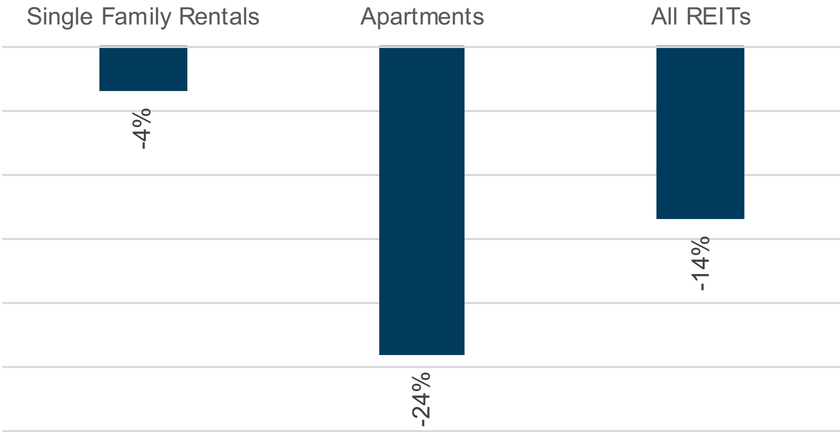
Migration To Lower Cost, Less Dense Locations

- Working from home is forecasted to accelerate pre-existing migrations trends, especially in the US, which has broad implications for living and working preferences
  - The response to work from home has been mixed, but the reality is a number of employers may likely offer the flexibility to retain staff and drive down operating costs via lower office space requirements
  - High city taxes may hasten the pace of businesses relocating or adding additional work from home days to minimize local tax liabilities
- Prior to COVID-19, migration toward smile states was a common theme, given higher QOL, lower taxes, and better weather. Post COVID-19 the trend is forecasted to accelerate as individuals seek to take advantage of remote work
  - Traditionally, gateway cities attracted talent with high paying jobs, but these jobs are the same jobs that can be done remotely
  - In a restructured tech-based economy, remote working allows companies to access the most talented individuals for a given task/job
- Public market performance indicates strong bet on outperformance of suburban residential going forward

Propensity To Work From Home



Unlevered US REIT Property Sector Returns Since Feb 21st



Source: *Green Street, Bureau of Labor Statistics, The Townsend Group

ACCELERATING TRENDS

COVID-19 Disruption Effects Will Create RE Risks and Opportunities

	DISRUPTION	REAL ESTATE IMPACT
Work-from-home	• Wide availability of technology that enables work-from-home • Employer acceptance of the model • Lockdown experience demonstrated feasibility	• Overall, demand for office space likely to come under pressure • However, given the current conditions, the market is overestimating the impact of this on demand for office • For those who will be able to work from home, the preference is likely to shift to living in suburban locations
De-densification	• Society reevaluating a decade and half trend of moving to city centers • Growing preference to socially distance at work, after a prolonged trend of reduction of space per person	• Muted demand for CBD office space in many large cities • While fewer people are expected to be working in CBD locations, those that do will occupy more space per person (WFH may effectively create more space per person in the office) • Demand for office space in desirable live-and-work neighborhoods to rise • Migratory trends to lower cost-of-living and warmer cities in the South and South East to gain momentum
Strained financial condition of the millennials	• Millennials facing their second major crisis	• Preference for renting likely to continue • Single family rentals likely to be a preferred property type given that many millennials have, or about to have, school going children
Rethinking senior living preferences	• Senior living could go from being a voluntary life style change to more necessity driven	• Demand for senior housing likely to remain muted • Single family living communities (e.g, around golf courses) tailored to seniors may gain increased adoption

Source: The Townsend Group

ACCELERATING TRENDS

COVID-19 Is Likely To Create Dislocation/Distress Across Many Sectors

SECTORS	POTENTIAL DISLOCATION
Hotels	• Occupancy levels remain low as travel is restricted and on the margin some part of demand may be permanently impaired, however, as travel comes back, well-located assets may sustain their income earning potential and hence their value
Student housing	• Student population on campuses has dropped as temporary shift to online learning, aversion to virus exposure, and international travel restriction continues • However, most students still prefer to be on campus and as we emerge on the other side of this pandemic, the demand for well-located good assets is likely to return • Student housing continues to be selectively appealing, with asset quality, proximity to campus, and school quality being the primary differentiating factors
Office	• Work-from-home will likely reduce demand for office space, however, office assets located in desirable growth areas are likely to gain momentum, especially those that conform to new distancing norms • While demand for office space may be moderately impacted due to economic contraction and WFH, distressed investment opportunities (if they arise) may offer attractive entry point
Senior housing	• Given that many senior facilities saw outbreak of Covid-19, the demand for such assets is likely to remain low, however, necessity based demand for highest quality assets may return
Debt	• High yield debt interest rates have gone up due to risk aversion, however, debt for good quality collateral remains readily available and low yielding

Source: The Townsend Group

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As of December 31, 2019, Townsend provided advisory services to clients who had real estate/real asset allocations exceeding $146.4 billion. Advised assets includes real estate and real asset allocation as reported by our clients for whom Townsend provides multiple advisory services—including strategic and underwriting advice for the entire portfolio. Advised assets are based on totals reported by each client to Townsend or derived from publicly available information. Advised assets are calculated quarterly. Select clients report less frequently than quarterly in which case we roll forward prior quarter totals

DISCLOSURES

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Index figures do not reflect deduction of fees, expenses, or taxes. One cannot invest directly in an index.

Value-Added: Funds that generally include a mix of core investments and others that will have less reliable income streams. The portfolio as a whole is likely to have moderate lease exposure and moderate leverage. As a result, such portfolios should achieve a significant portion of the return from appreciation and are expected to exhibit moderate volatility.

Opportunistic: Funds of preponderantly non-core investments that are expected to derive most of their returns from appreciation and/or which may exhibit significant volatility in returns. This may be due to a variety of characteristics such as exposure to development, significant leasing risk, high leverage, or a combination of risk factors.