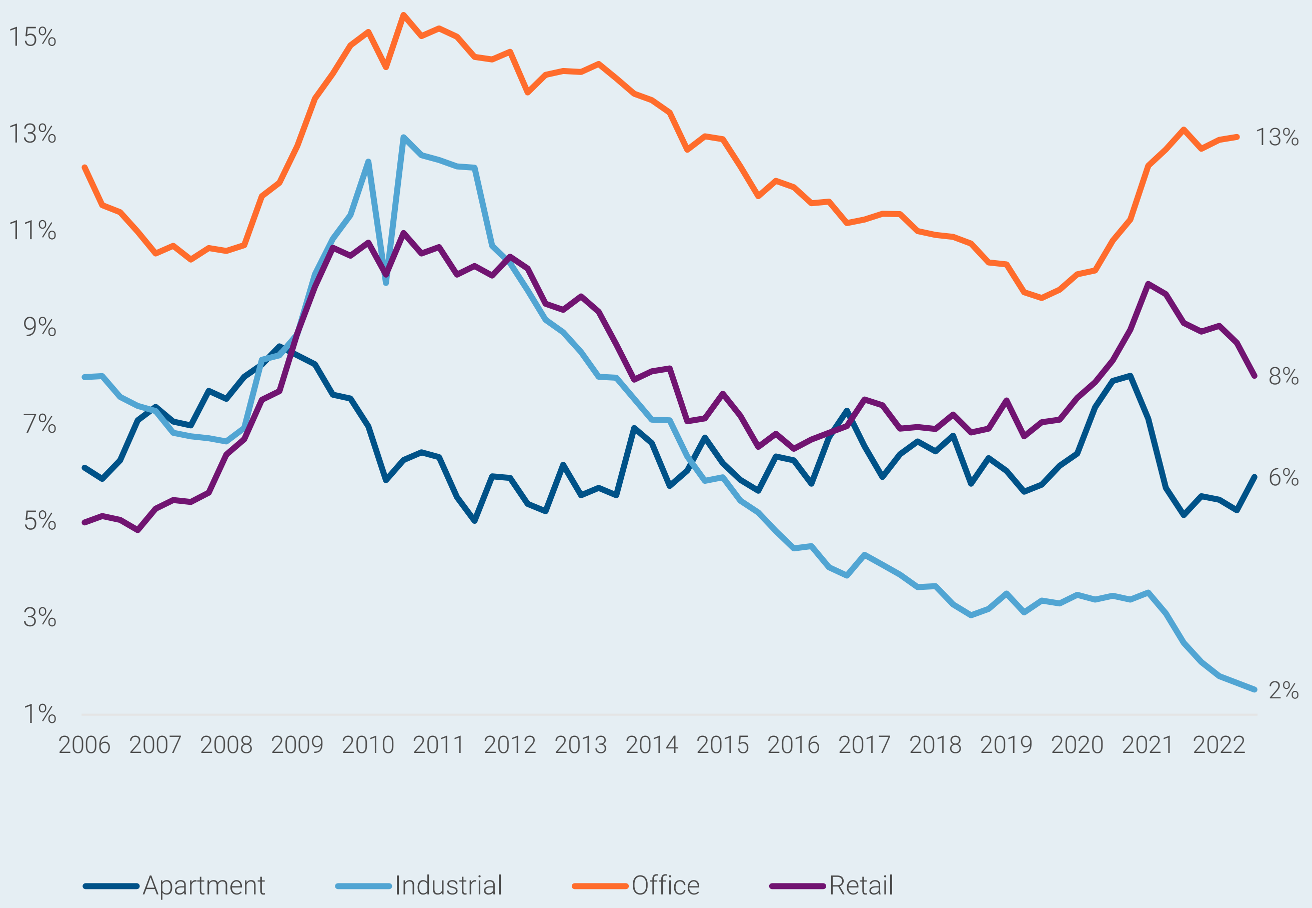
Hamilton Lane®

Hamilton Lane
Real Estate Market Overview

January 2023

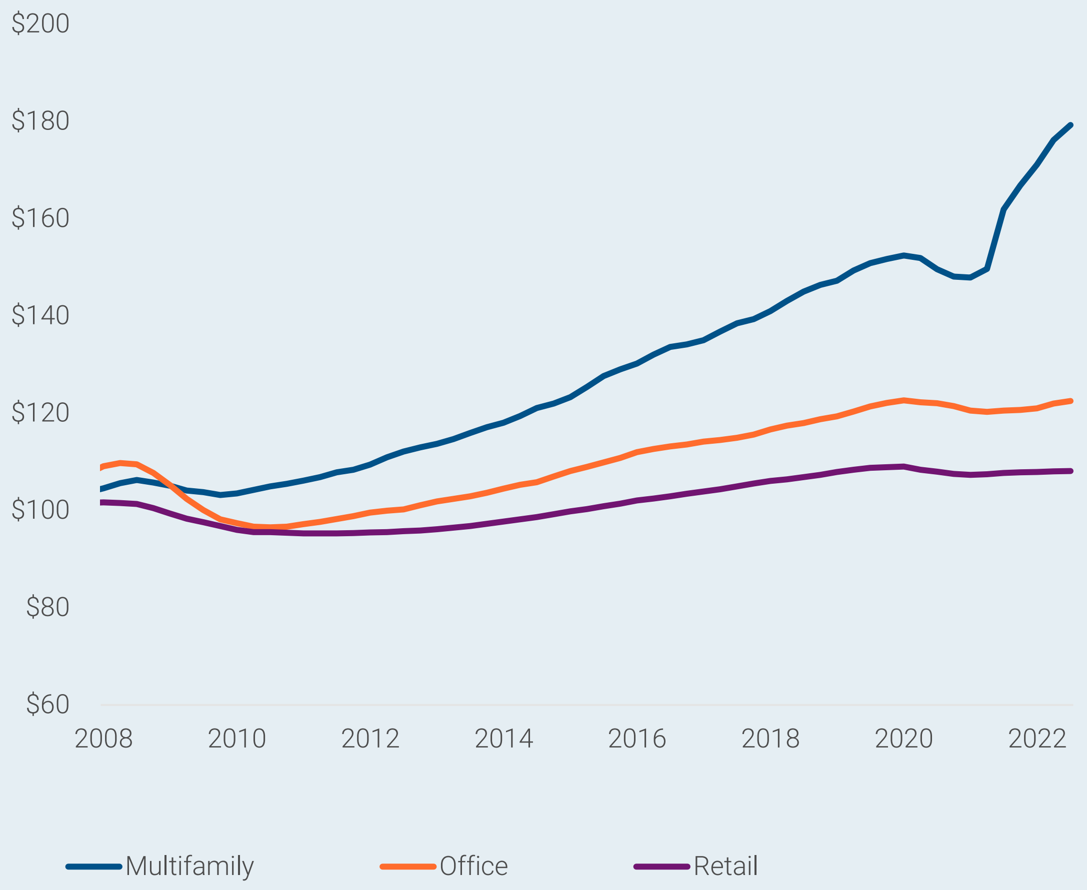
Real Estate Fundamentals

Vacancy Rates by Property Type



Source: NCREIF as of September 30, 2022

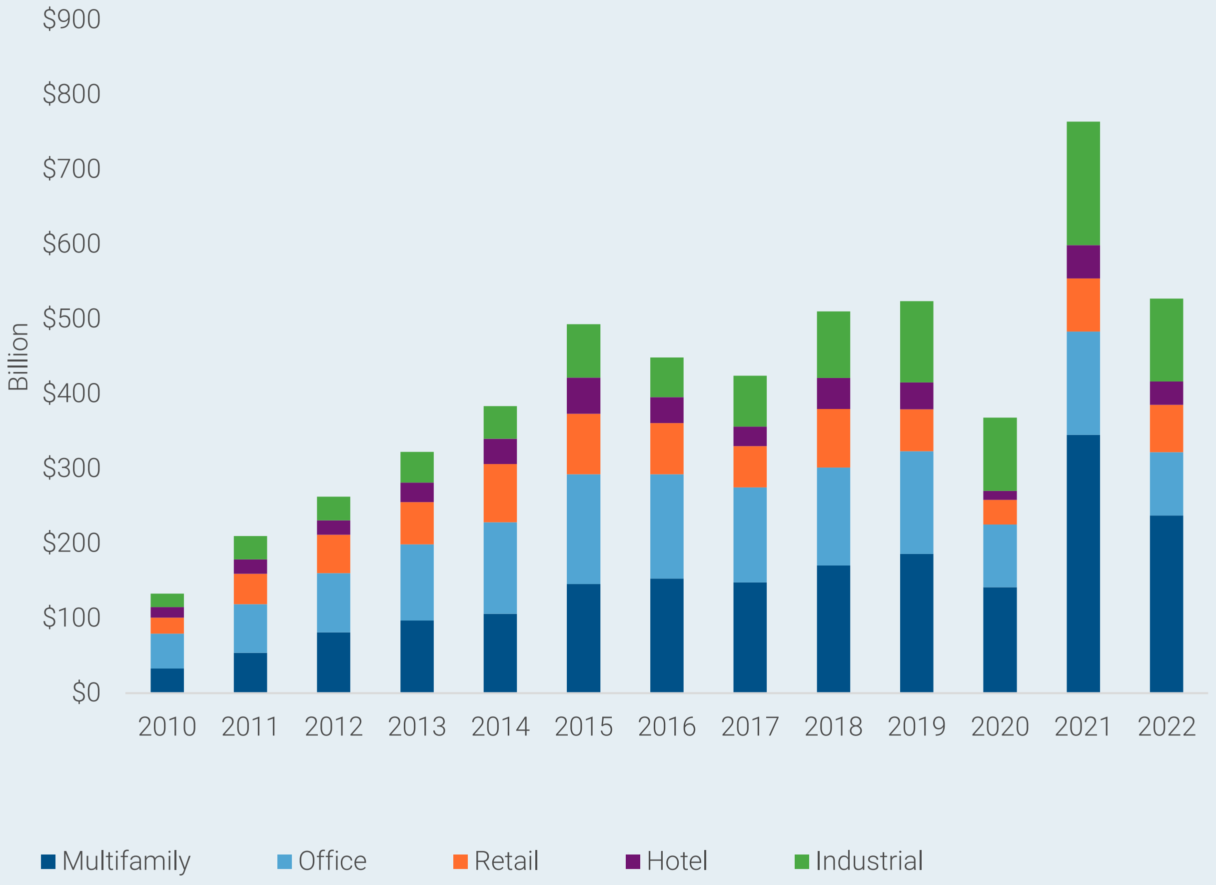
Effective Rent Growth



Source: Bloomberg as of September 30, 2022

Real Estate Transaction Activity

Transaction Volume ($ bn)



Source: Bloomberg as of September 30, 2022

Yield Spreads (Cap Rate vs. 10-Year Treasury)

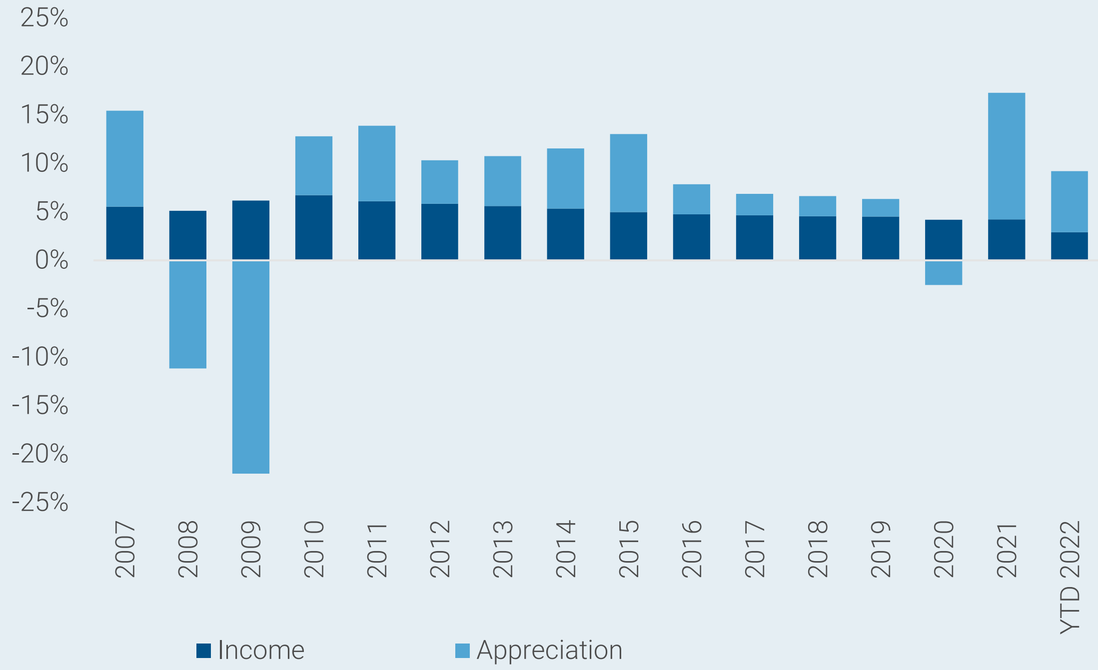
Source: FRED, GreenStreet Advisors, LLC, Bloomberg as of September 30, 2022

Real Estate Returns

NPI Performance by Property Type

Source: NCREIF as of October 25, 2022

NPI Income vs. Appreciation



Source: NCREIF as of October 25, 2022

Investment Themes

Structural demand drivers fueling "K-shaped" recovery

- Acceleration of e-commerce continues to spur demand for industrial logistics space
- As for-sale residential reaches record price levels, affordability becomes increasingly challenging, and with rising mortgage rates eroding homebuyer purchasing power, demand for multifamily has strengthened
- Healthcare real estate is supported by defensive, needs-based demand and an ageing population
- Industrial, residential, and healthcare properties continue to post strong returns given positive rent growth and absorption, while office, retail and hospitality assets struggle to maintain long-term performance

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Cyclical demand drivers negatively impacting vulnerable sectors

- The movement of people and employers during the COVID pandemic has had a stronger impact on real estate than ever before
- Sectors supported by corporate demand, such as office and hospitality, have slowed as increases in interest rates have tapered economic expansion
- A drop in overall consumer spending may further impact retail real estate, which has already been facing structural headwinds

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Inflation and rising interest rates continue to be a strong focus

- Rising interest rates have caused a temporary slowdown in transaction volume as buyers and sellers struggle to determine price discovery
- Increased borrowing costs have led to negative leverage in some instances
- Concern among banks and traditional commercial real estate lenders has led to a reduction in real estate loan originations, further fueling pricing volatility across the market
- Volatility from rising rates and less accretive debt financing is expected to create investment opportunities due to capital value re-pricing, particularly in sectors and geographies with record low cap rates
- Opportunistic fund managers with dry powder are starting to analyze distressed debt and equity investments in high quality assets with strained balance sheets

Attractive Areas for Investment – US

Focus Sectors	Market Driven Themes	Considerations
Life Science, Lab, R&D, Medical Office (“MOB”)	• Large capital flows fueling growth • MOB proved highly resilient during Pandemic • Health systems favor outpatient facilities • Sticky tenants • Deep buyer pool for MOB portfolio acquisitions	• Highly concentrated “cluster” markets are very competitive • MOB portfolio assemblage is a labor-intensive process • Life science demand dependent on venture capital funding
Multifamily, Single-Family-Rentals, Build-to-Rent, Other Residential	• Structural demand tailwinds • Short term leases benefit from rental growth • Multiple ways to play • Capital flows support build to core • Rental housing growing internationally • Attractive agency financing	• Rental growth slowing in certain markets • Cap rates remain low, despite slight increases in 2022 • Negative leverage spreads may impact performance • Highly competitive environment
Industrial, Self-Storage, Container Storage, Truck Terminals	• e-Commerce tailwinds • Sustained supply/demand imbalance • Evolving sector with numerous ways through which to gain exposure • Logistics users constantly looking to reduce distance to consumers	• Rental growth slowing • Narrow or negative spreads over borrowing rates • Highly competitive environment
Movie Studios, Creative Office, Data Centers, Tech-Adjacent Real Estate	• Aggressive push for content fueling demand for modern studio real estate • FAANG operations generate demand for creative office in surrounding areas • Supply/Demand imbalance favors development/redevelopment	• High TI requirements • Limited land availability in infill locations • Fewer experienced investor/operators reduces buyer pool

The information contained herein is based on the latest available information as of 12/31/22 and Hamilton Lane's opinions as of the date of this presentation and subject to change at the Firm's discretion.

Attractive Areas for Investment – Europe and Asia

Focus Sectors	Europe	Asia
Industrial	• Robust demand for logistics with continued rise in e-commerce • Shortage of new spaces and rising inflation have put upward pressure on rental growth • Prime yields are expected to widen in leading European markets due to rising long term yields and inflationary pressures	• Low-to-moderate yield expansion is expected across the region after experiencing rises in capital values during the pandemic • Australia is an attractive logistics market as low vacancy rates (0.8% in 2022) are driving rental growth
Residential	• Multifamily remained resilient throughout the Covid-19 pandemic as shrinking households and rising house prices have led to strong growth in private rentals • Mixed outlook for PBSAs with a shortage of beds amid disruptions from Covid-19	• Japan remains the key multifamily market, supported by continual net migration into Tier I cities (Tokyo, Osaka, Nagoya) • Japan multifamily investment volumes are expected to remain healthy, underpinned by strong fundamentals, low cost of debt and a relatively cheaper yen
Retail	• Recovery of footfall and sales in luxury retail has led to upward rental pressure, outpacing mass-market streets • Headwinds continue to dominate the sector with the growth of e-commerce and weaker household incomes	• While fundamentals have started to improve, concerns over recession, inflation and rising interest rates continue to weigh on investor sentiment • Domestic-focused and suburban retail expected to outperform in the near term
Office	• Undersupplied core markets to support rental growth • Vacancy rates remain low in prime markets • Dislocation in sub-prime markets remains, driven by obsolescence risks and WFH trends	• Office space utilization is back to pre-pandemic levels as most employees are returning to office-based working • Grade A office rents are expected to remain resilient in the near term as workers demand more workspace amid supply pressures • Cap rates are expected to tick upwards with rising rates (Japan is exception)
Other / Niche	• Led by strong absorption from hyperscalers, upcoming supply of data center space is expected to be met by demand with vacancies remaining flat or decreasing • Increasing environmental concerns has resulted in fewer new project approvals in FLAP regions, driving demand for data centers outside these core markets	• Data centers are supported by strong, unmet demand from e-commerce and hyperscale players. Tight cap rates result in transactions dominated by greenfield opportunities • The hospitality sector is expected to rebound sharply, riding on the surge in tourism from the reopening of China's borders

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