BLUEROCK™

Institutional Private Real Estate

Long-Term Structural Tailwinds Favor Specific Sectors Despite Current Macro-Economic Challenges

Strong market fundamentals and sector specific structural drivers point to a bright future for a well-constructed institutional real estate portfolio. We believe investor concerns about the impact of rising interest rates on institutional private real estate values may be overstated given the strong market fundamentals and structural tailwinds that exist today.

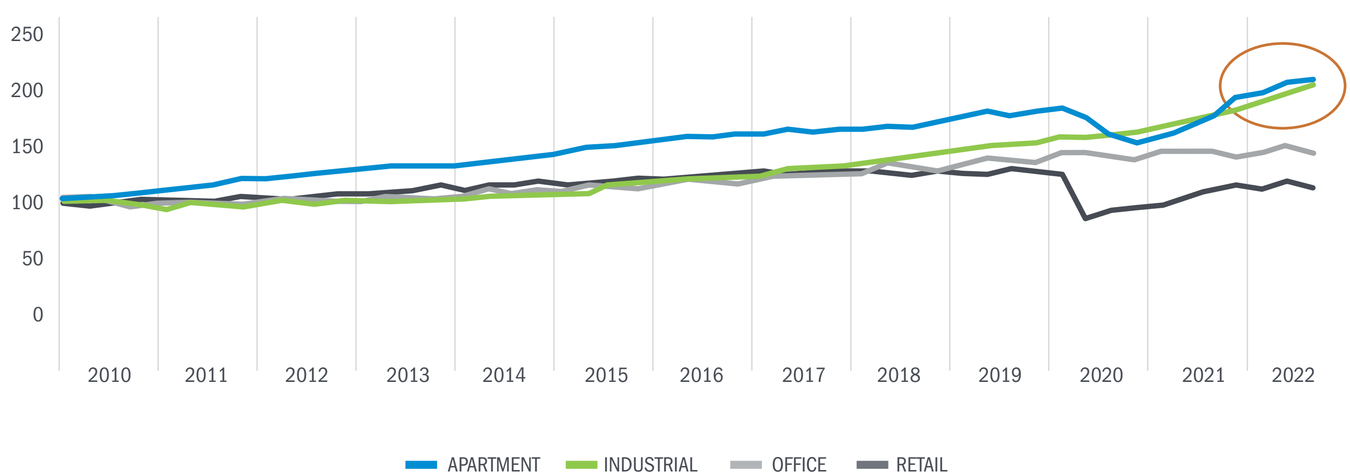
In fact, rarely have underlying market fundamentals in select sectors been as strong during a period of economic turbulence as they are now. In today's inflationary environment, investors should give as much or more attention to income growth as they do to rising rates when considering the trajectory and magnitude of valuations. It is our view that in many cases, returns generated from higher rents can offset potential pricing impact associated with higher capital costs, which is one of the characteristic traits of institutional real estate during inflationary and rising rate periods. Higher rates are a function of monetary policy and a response to inflation, where inflation also drives above-average rent growth.

We believe this will position institutional real estate to thrive once rates stabilize. Until then, both systemwide leverage and supply are in balance, thus we expect the broader real estate market, particularly the strongest sectors, to offer a flight to quality for investors, and largely withstand any significant impacts from a possible upcoming recession.

Continued High Occupancy and Strong Rent Growth Among Favored Sectors

On a sector basis, growth in NOI is highest in the industrial and multi-family residential sectors as shown below, significantly more robust than office and retail. Much like stock market earnings, NOI reflects real estate market profits and is one of the principal metrics that drives growth in values.

Major Sectors NOI Growth, Indexed to 100 in 2010



Source: *National Council of Real Estate Investment Fiduciaries*

Non-Cyclical, Long-Term Demand Drivers Set the Stage for Future Value

More than ever, we believe sector allocation is as important as any current market consideration in real estate investing. We are bullish on the industrial, residential, life science, and other specialty sectors. We believe these segments of the market will continue to outperform the broader real estate market, while being cognizant that the current macro-environment may create temporary headwinds.

The industrial sector has been transformed by the prevalence of e-commerce, and indicators point to continued expansion. Consumer demand for faster delivery times and limited supply of last-mile, direct-to-consumer distribution chains signal strong support for industrial demand and rent growth.

The residential sector, comprised of both apartments and single-family rentals, should continue to benefit from the overall lack of supply in the market, with Millennials aging into the prime household formation years, and home affordability near all-time lows, many potential homebuyers will need to rent for a longer period of time.

Specialty sectors include those outside the four traditional sectors such as life sciences, medical office, self storage, student housing, and data centers. We are particularly bullish on life sciences real estate where demand continues to increase, driven by growing medical research, which extends well beyond pandemic-related work. Aging populations and rapid medical advances combine with specialized buildouts to make this a unique and exciting sector.

We believe these sectors, along with active management, will lead the way for potential performance over the broader market in our long-term investment horizon.

Institutional Private Real Estate: Almost 45 Years of Stable Returns and Consistent Income Generation

Institutional private real estate, as measured by the NCREIF Property Index, has a nearly 45 year history with only 4 negative returning years. Income returns have averaged over 6% annually and the rare index declines have been a fraction of leading stock market indexes. This asset class, representing domestic institutional private real estate, has endured multiple recessions, high and low interest rates, geopolitical conflicts, and other economic malaise while generating equity-like returns with considerably lower volatility.

High quality private real estate remains an asset class with attractive qualities for long-term allocations: meaningful income generation, reduced impact from rising rates, and inflation protection. Through thoughtful sector allocations and active management, we continue to see attractive opportunities that we believe may outpace the broader market.

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