

PRINCIPAL REAL ESTATE

Leveraging the advantages of 60+ years of private real estate debt experience for clients

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AT-A-GLANCE

- With more than 60 years of private real estate debt investment experience, over 30 years providing private debt advisory services, almost a decade of operating a multi-investor Private Real Estate Debt Strategy series, and more than 105 private debt investment professionals, we've earned a reputation as a leader in the private real estate debt market.⁽¹⁾
- For over half a century, spanning multiple economic and real estate cycles, we have amassed a wealth of organizational knowledge that we believe leads to better asset selection and basis calibrations appropriate for helping to meet client risk/return objectives. Our depth of experience in more than 40 markets—as individuals and as an organization—enables a range of advantages for our clients.

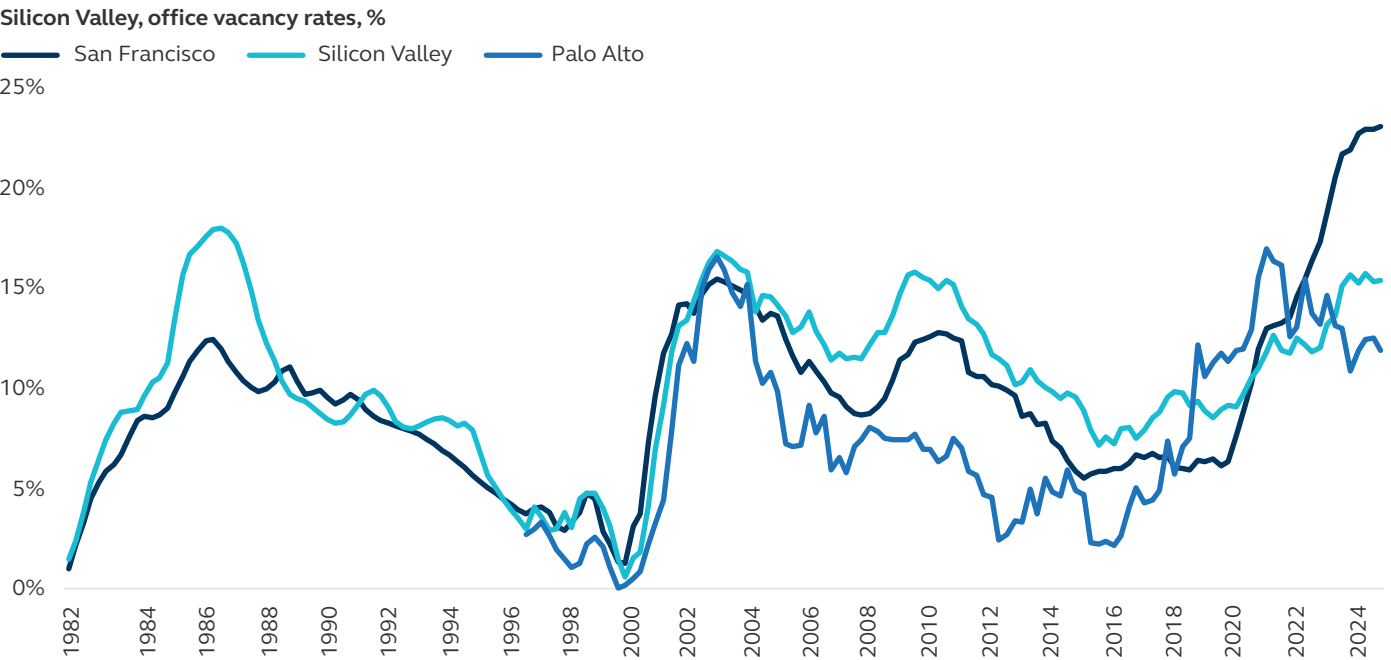
⁽¹⁾ As of 31 December 2024. Principal Real Estate became registered with the SEC in November 1999. Activities noted prior to this date above were conducted beginning with the real estate investment management area of Principal Life Insurance Company and later Principal Capital Real Estate Investors, LLC, the predecessor firm to Principal Real Estate Investors, LLC.

Advantage 1: Experience in over 40 markets across multiple cycles gives us an understanding of how submarkets differ in depth of troughs and recovery timelines

No two markets are the same, and even submarkets often perform quite differently. So it is essential to have deep experience within each market and across multiple cycles to understand which submarkets perform best in terms of shallower troughs and faster recoveries. Where some real estate investors will practice less differentiation in market selections, our approach is to go deep within the 40+ markets we know well, giving us the depth of experience to understand which submarkets tend to be more resilient, and we calibrate our approach to investing accordingly.

For example, Principal Real Estate has been investing in the Bay Area for well over 30 years, and we’ve seen how certain submarkets like Palo Alto typically go into a downturn last and come out first compared to other submarkets in the area. This experience has given us the conviction to be one of the most active lenders in these markets and it has served our clients well.

EXHIBIT 1: Experience has taught us the submarkets that perform much better during down cycles



Source: CoStar, Principal Real Estate, Q1 2025



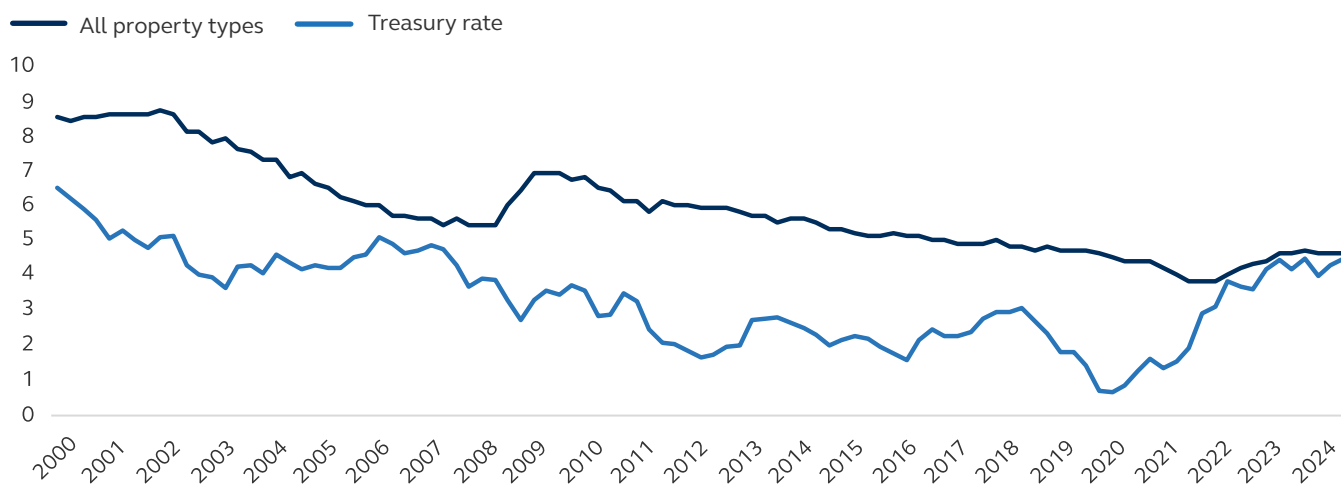


Advantage 2: Experience in a variety of interest rate environments gives us a deep understanding of the interrelated nature of capital market dynamics and their impact on real estate

Real estate underwriters who began their careers in the last decade—still a decently long tenure—do not have firsthand experience with interest rates much above 2-3%. Until recently, they haven't experienced anything but tailwinds from historically low lending rates and cap rates. Underwriting loans in an environment with a 10-year treasury yield above 4% is quite different, and dealing with headwinds requires a different approach.

Therein lies the value of a multi-generational investment team. As investors in commercial real estate across multiple cycles, we assess multiple interest rate environments in our underwriting and exit analysis. In fact, it was our experience in previous cycles that led us to remain disciplined on our debt yield minimums to eliminate the noise of artificially low interest rates. As interest rates have increased to a more long-term average, that decision has served our clients well.

EXHIBIT 2: NPI cap rates and treasury yields (%), as of Q1 2025



Source: NCREIF, Federal Reserve, Principal Real Estate, Q1 2025



Advantage 3: A deep history of investing at all points along the risk spectrum gives us an in-depth understanding of the credit curve and ability to take advantage of market dislocations to maximize relative value for clients

Delivering value to our investors requires pursuing investments that will generate appropriate returns, while managing the associated risk. Doing that well requires deep experience across different cycles and investment strategies to understand where those opportunities might arise. Further, taking advantage of market dislocations requires having the capabilities and programs in place before the opportunity arises.

For example, as a result of making construction loans since 1996, we were well-positioned to take advantage of the market dislocation associated with banks' recent commercial lending retrenchment and the resulting supply-demand imbalance for construction capital.⁽²⁾ We were able to capitalize on the opportunity and deliver attractive risk-adjusted returns for our clients.

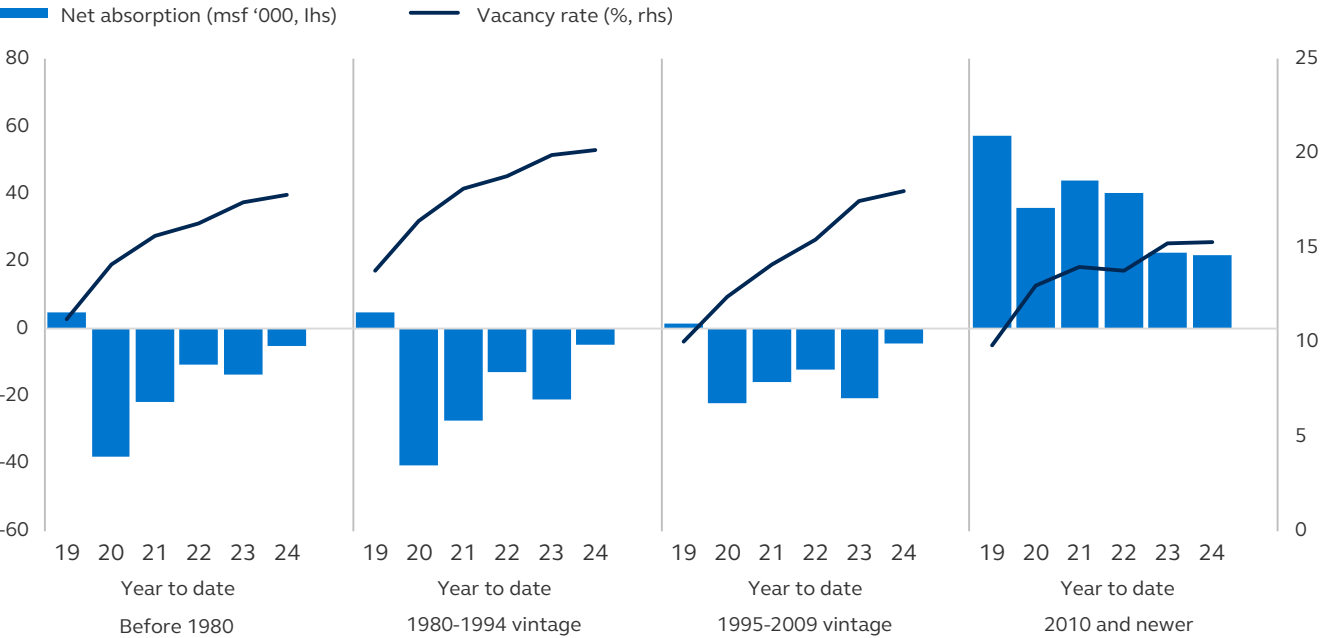
Another example comes from the significant amount loan maturities coming to the market over the next few years. Many of these maturities represent high-quality, newly constructed assets that are not yet ready for permanent financing or asset sale. The fact that we have had bridge lending capacity since 1993 enables us to take advantage of this attractive risk adjusted lending opportunity. Without this capability already established, we would be playing catch-up and risk missing the most attractive opportunities that typically happen in the first 12-24 months of the credit cycle.

⁽²⁾ Persistent inflation, continued uncertainty about the economic impact of Fed tightening, and failures including Silicon Valley Bank and First Republic Bank, contributed to a 47% decline in commercial lending activity in 2023 over 2022. At the same time, a \$2 trillion wall of maturities created huge demand for capital. Learn more in [Why it's \(still\) a good time to invest in private real estate credit](#).

Advantage 4: Experience across a variety of property sectors and multiple cycles has created a quality bias in our investment selection

Even within particular sectors, some property profiles are more defensive than others. For example, because we have primarily focused on the highest-quality office properties, we’ve been better insulated from the massive downturn that no one could have predicted when the COVID-19 pandemic sent office workers home en masse. As Exhibit 3 shows, newer Class-A office properties have garnered the vast majority of the leasing activity post-COVID. Vacancy rates are still higher than before the pandemic, but these properties have fared much better than the lower quality office inventory.

EXHIBIT 3: Office net absorption and vacancy rates by vintage



Source: CBRE EA PeerSelect, Principal Real Estate, Q4 2024



Advantage 5: An experienced team and deep relationships with borrowers in each of our 40 markets enables sourcing advantages

The average tenure of our origination team is 16 years, and the average tenure of our loan servicing staff is 18 years. Our investment professionals have built and nurtured deep relationships with the borrowers and intermediaries in their markets—relationships that benefit our clients in a range of ways, including sourcing advantages that can help Principal be selected as the winning lender in a competitive marketplace.

For most brokers and borrowers, there is significant value in working with a known trusted partner like Principal. They know we will perform and deliver on the terms and timeframe we offered. They know that during and after the loan closing, they'll get the same high-quality experience with our in-house closing and loan servicing teams. Furthermore, the fact that we offer a range of programs—including core, bridge and construction loans, as well as subordinate debt—makes it more likely we'll be able to meet the borrower's needs, saving them from sourcing a new capital partner for their various needs across their portfolio.

Advantage 6: A collaborative culture and institutionalized mechanisms for knowledge transfer ensures the advantages of 60+ years of experience extend beyond any single individual

Long-tenured teams enable many advantages, but it is essential to ensure the transfer of knowledge between the professionals who have spent decades with us and those who are new to the company. Most of us are in the same office and we interact every day. For every deal we have open analysis and discussion. In each market, a senior investment professional is paired with a more junior analyst. They travel together on a regular basis to ensure junior-level employees get not only the knowledge transfer but also the opportunity to build and deepen relationships.

In addition, we have institutionalized collaboration at every stage of a loan. Our vertically integrated debt platform includes underwriting, closing, appraising, engineering, research, and servicing. Beyond the private debt team, we collaborate closely with our private real estate equity teams as well, sharing market data and insights.

CONCLUSION

Over 60+ years⁽³⁾, we have experienced first-hand many different economic cycles and real estate markets. Because we work in the same 40+ markets, our depth of experience has enabled us to quickly assess current conditions and adjust accordingly to maximize relative value and minimize risk for our clients. At the same time, we work hard to ensure that the next generation of investment professionals at Principal receives all the benefits of those 60+ years⁽³⁾ of experience—and our clients do, too.

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Risk Considerations

Investing involves risk, including possible loss of Principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed. Potential investors should be aware of the risks inherent to owning and investing in real estate, including value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk. All these risks can lead to a decline in the value of the real estate, a decline in the income produced by the real estate and declines in the value or total loss in value of securities derived from investments in real estate. Investments in private debt, including leveraged loans, middle market loans, and mezzanine debt, second liens, are subject to various risk factors, including credit risk, liquidity risk and interest rate risk. Incorporating alternative investments into a portfolio presents the opportunity for losses including the loss of your total investment. Also, some alternative investments have experienced periods of extreme volatility and in general, are not suitable for all investors.

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