Principal Asset Management℠

Principal Real Estate

2024 Real Estate Outlook

Threading the eye of the needle

JANUARY 2024

OVERVIEW

Threading the eye of the needle

Macro and real estate markets

- The global economy is finely balanced with the push of higher interest rates colliding against the pull of strong labor markets.
- We continue to place a high probability of a modest recession within developed markets but are open to the prospect of a "soft landing."
- Real estate values are likely to remain under pressure due to elevated credit costs. However, structurally-driven property types are expected to remain better protected.
- We expect an array of opportunities to present themselves from 2024 onwards once repricing is largely complete.

Our high conviction ideas

- Real estate debt remains our highest conviction idea given its strong relative value and the premium it offers to core equity.
- We remain on watch for emerging opportunities in listed REITs if the economy were to head towards a "soft landing" scenario.
- We expect private real estate opportunities to emerge in 2H 2024 once repricing is largely complete and debt markets are more accommodating.
- Our conviction on structurally-driven property types (data centers, logistics, and residential) remains steadfast and we continue to advocate selective adds across all quadrants.

Source: Principal Real Estate, December 2023

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Macroeconomic & real estate overview

"It was the best of times, it was the worst of times...it was the season of darkness, it was the season of hope."

CHARLES DICKENS

A Tale of Two Cities

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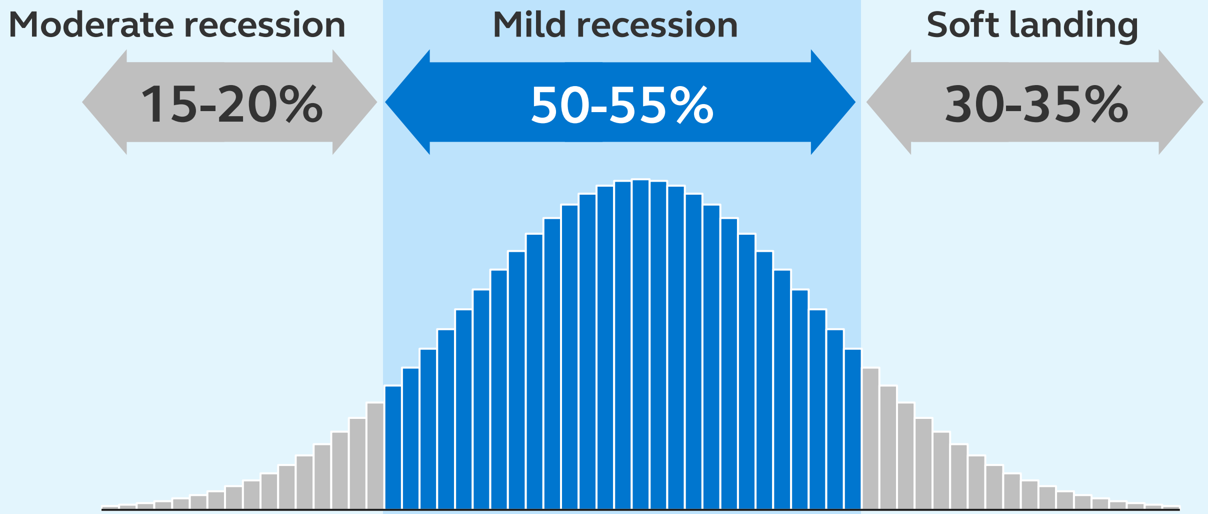
Modest recession remains our base case, but alternative paths exist

Key economic assumptions

- Tight central bank policies around the globe constrain growth; central banks have little room for error amidst the backdrop of geopolitical conflict.
- While higher rates have roiled markets, falling inflation suggests that there is light at the end of the tunnel.
- Conditions in Europe and the UK appear the most subdued, followed by the U.S. APAC economies are mixed, but are suffering from a slump in global trade, which could undermine potential growth for export-focused economies.
- To date fixed investment, corporate profits, hiring and wage growth remain healthy and stable, but this could shift over the next 12 months.
- We expect to be in a higher rate environment going forward and, as a result, expect consumers to begin to show stress.
- Under our base case, we expect a mild recession, which could result in a policy "pivot" in 2024.

Best case scenario for 2024

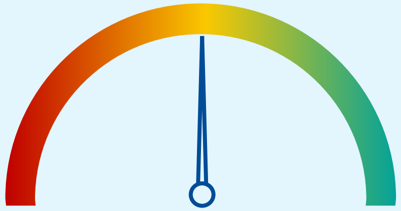


	Moderate recession	Mild recession	Soft landing
GDP	-1% to -1.5%	0%-1%	>1%
Inflation	0%-1%	1%-1.75%	2%-2.25%
Policy rates	2%-2.5%	3%-4%	4.5%-5%
Unemployment	+200bps	+100bps	+0bps

Source: Principal Real Estate, December 2023

Economic conditions vary across regions

Higher interest rates, inflation, and low housing affordability may hinder global growth



UNITED STATES

Economic growth remains healthy heading into 2024, but headwinds abound.

Inflation is not yet within the Federal Open Market Committee's (FOMC) prescribed target.

Policy pause as inflation cools, but a higher rate environment presents challenges.

Consumers are struggling to maintain spending as balance sheets adjust to post-stimulus norms.

Housing has stalled due to record-low affordability, which presents significant challenges to headline economic growth.

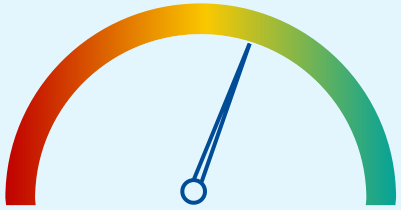
EUROPE

Economic growth has stalled and is expected to remain flat in the first half of the year as the full impact of tighter financial conditions continues to pass through.

Inflation has come down sharply to around three percent but the last mile toward the target may be bumpy as the energy price cap is phased out and subsidies are reduced.

Policymakers remain cautious regarding easing base rates, but their attention should shift from inflation risk to economic and financial risks.

Forward-looking economic indicators are in contraction territory, including business activity, consumer confidence, and lending demand.



ASIA PACIFIC

Economic growth remains muted as China, Japan, and Australia are expanding below potential.

Easing inflation has effectively ended the interest rate hiking cycle with the potential exception of Japan.

Exports are arguably the strength of most APAC economies but have declined over the past year. This remains the most prominent headwind to growth.

A growth recession is in the offing for 2024.

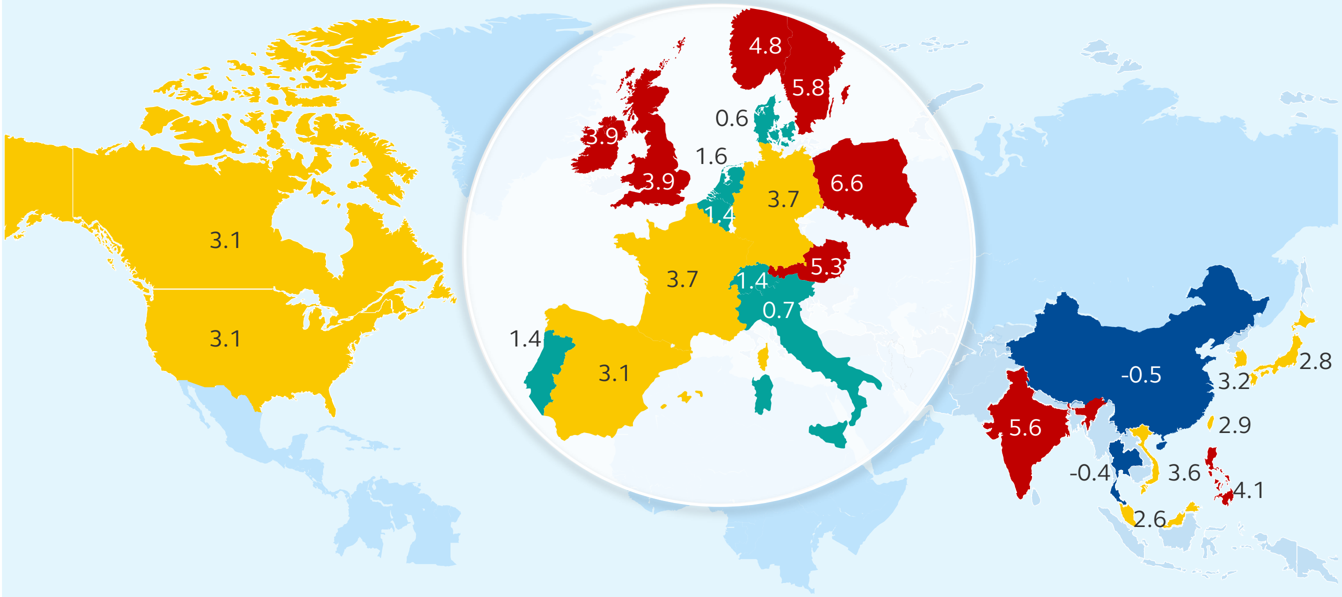
Source: Principal Real Estate, December 2023

Inflation continues to ease, but beware of false dawns

- Policy makers are wary of declaring an early victory having seen false dawns before with inflation.
- There are reasons for concern given the continued strength in wage growth which is unlikely to ease soon, barring a recession.
- We are cautiously optimistic that inflation's downward trend will continue but are prepared for unpleasant surprises.

Headline inflation

Percentage, December 2023



Inflation components

Percentage, December 2023

	CORE	TOTAL
	4.0	3.1
	2.8	3.1
	5.1	3.9
	4.1	3.1
	2.5	2.8
	3.1	3.2
	0.6	-0.5
	5.2	5.4

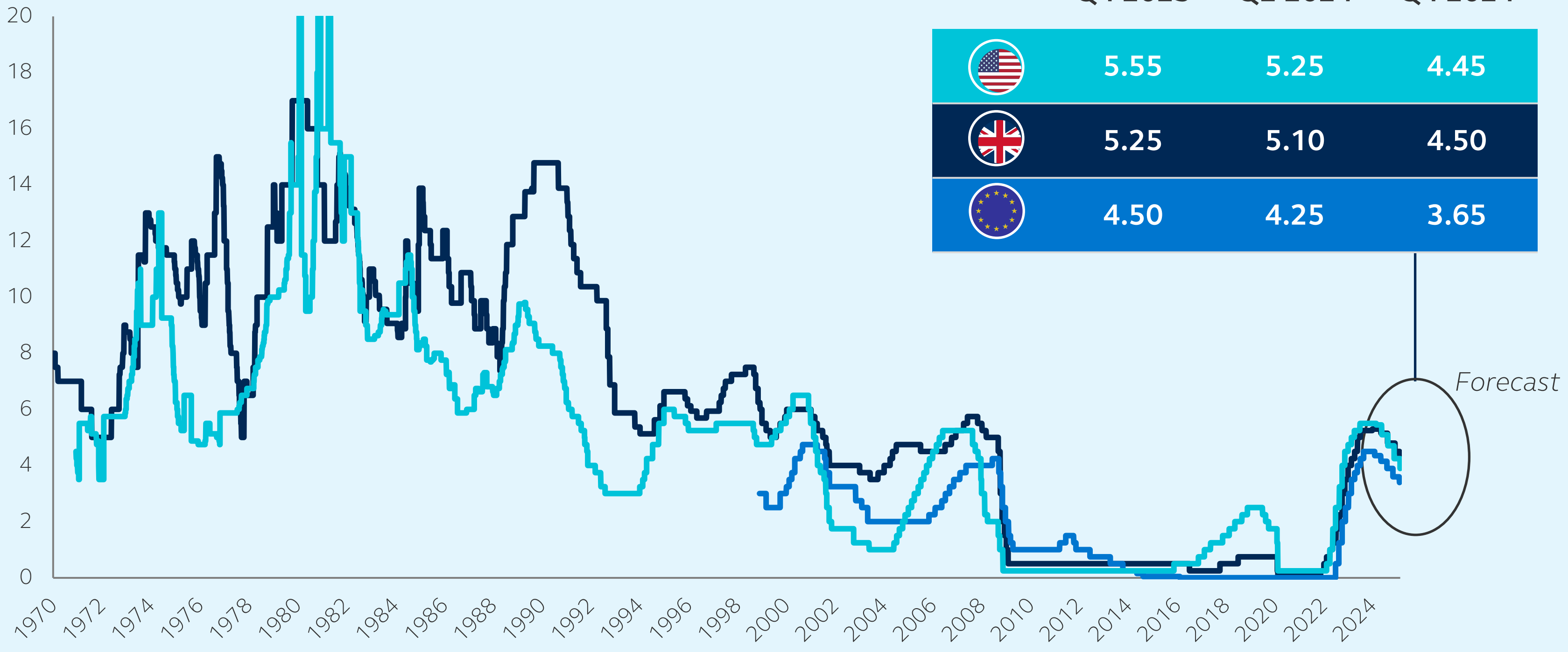
Note: Belgium, France, Germany, Portugal, Spain, Indonesia, South Korea, and Vietnam figures are as of December 2023. All other figures are as of November 2023.
Source: Macrobond, Principal Real Estate, December 2023

Policy rates may have peaked, but relief is not imminent

- Having been burnt by inflation, global central bankers are not expected to shift their guarded language around monetary policy in a hurry.
- While markets are pricing in rate cuts next year, it will not mean a return to cheap capital, which characterized the post Global Financial Crisis (GFC) era.
- We expect a recession or materially weaker labor markets to be catalysts for rate cuts.
- Investors need to be prepared for a "new" environment wherein interest rates are higher for longer.

Central bank policy rates

Percentage



Consensus forecasts, %

	Q4 2023	Q2 2024	Q4 2024
	5.55	5.25	4.45
	5.25	5.10	4.50
	4.50	4.25	3.65

Source: Fed, ECB, BoE, Bloomberg, Principal Real Estate, December 2023. These are the current views and opinions of Principal Real Estate and is not intended to be, nor should it be relied upon in any way as a forecast or guarantee of future events regarding particular investments or the markets in general.

What does macro foretell for real estate?

We believe it will remain a lender's market; harder to be a borrower

- Debt will remain more expensive, less accretive; we expect lenders will continue to enjoy their time in the sun.
- Owners of equity real estate will continue to face write downs and cost of capital challenges.
- Quality is key and we believe those who have it in their portfolios should be better shielded and be able to reap the rewards on the recovery.
- 2024 will be a year of transition where values will stabilize, and the path of the recovery begins to crystalize.

Source: Principal Real Estate, December 2023

Our expectations for the four quadrants

Private Equity
Core, Value-add, and Opportunistic Strategies

- We expect property fundamentals to be stable but vulnerable to potentially weaker economic conditions.
- Property values have not fully adjusted to the cost of debt capital, and we expect additional losses in the next 6-9 months.
- We see select buying opportunities on the right basis in 2024 particularly in structurally-driven property types.

Public Equity
REIT and Infrastructure Securities

- Asset price discovery substantially complete ex-recession.
- Equity risk premia remains tight.
- Long durations are vulnerable in a rising yield environment partly offset by exposure to resilient sectors.
- Weakness expected through mid-2024 as a recession is priced in. A durable bottom is likely to be formed at that time.
- Potential to add risk in 2H 2024.

Private Debt
Commercial Mortgages and High Yield Debt

- Asset price discovery underway.
- Another 10%+ downside risk to collateral values.
- Credit is constrained with banks on the sidelines.
- Yields are relatively attractive. Spreads are likely to widen a little given recession call.
- Opportunity to dollar-cost-average through a potential recession.
- Duration target is neutral to short unless ALM matched.

Public Debt
Commercial Mortgage-Backed Securities (CMBS)

- Asset price discovery substantially complete ex-recession.
- Conduit and SASB pathway is open for conservative deals.
- “AA” quality bias given recession risk. Spreads and YTM are attractive.
- Liquidity and excess spreads for structured product have the potential to be accretive.
- Less focus on buy and hold and more emphasis on trading quality, spread, and duration.

Source: Principal Real Estate, December 2023

High interest rates and CRE exposure strain capital stack

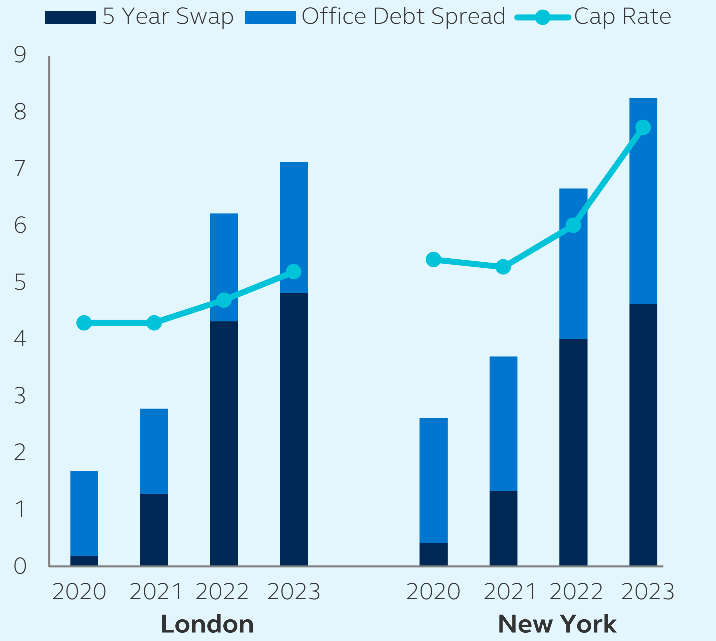
- Debt markets are less liquid due to concerns over high levels of commercial real estate (CRE) exposure at banks and potential refinance gaps as maturities loom.
- To the extent that debt capital is available, it is not accretive to higher returns.
- We expect distress and liquidation cases to rise as a large amount of debt will be refinanced in 2024.

Cost of capital

5-year swap rates, percentage

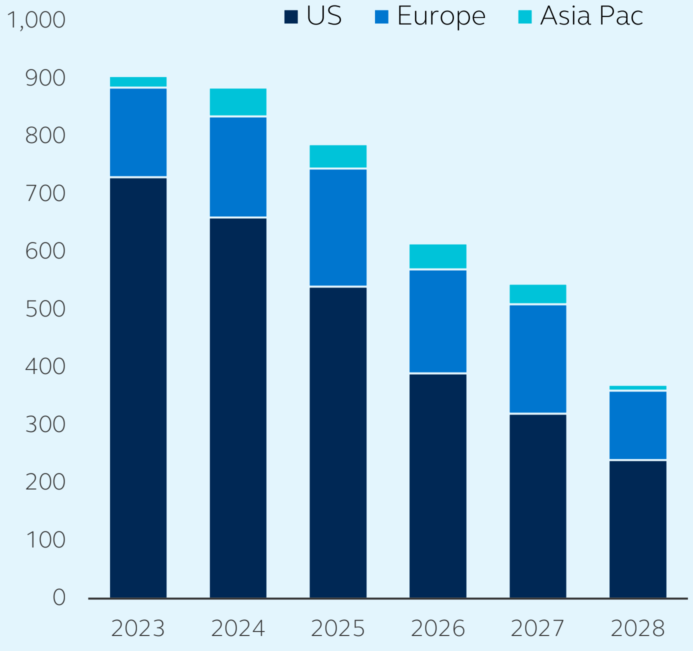
Office lending conditions

Percentage



Real estate loan maturity

$bn



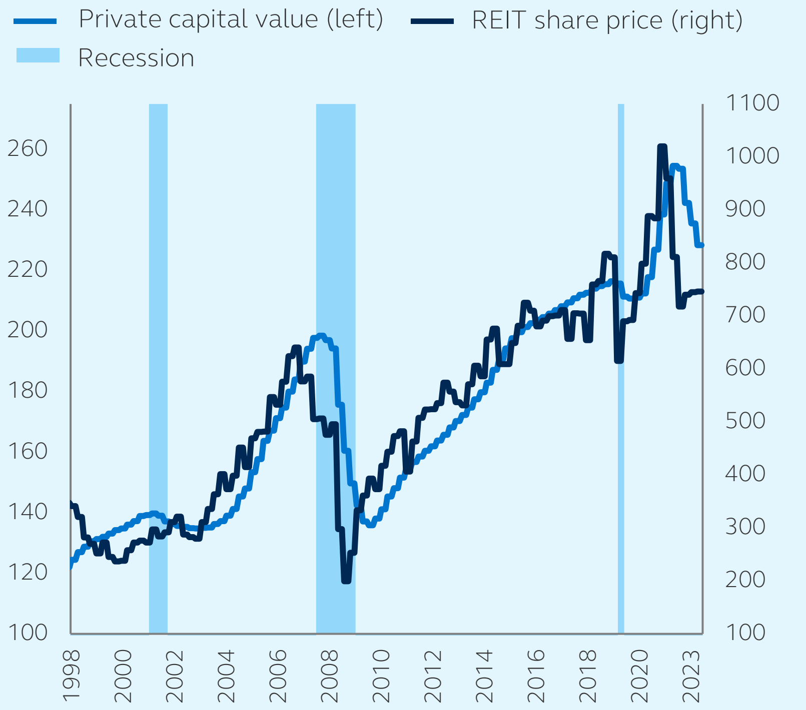
Source: Macrobond, PMA, Bloomberg, Principal Real Estate, December 2023

Public markets lead, but we expect convergence with private markets

- We believe that European private markets are more appropriately priced at this stage of the cycle than their U.S. counterparts.
- We expect 2024 to be a pivotal year for commercial real estate pricing in both regions as markets transition from correction to recovery.
- Although there are differences among countries and sectors, assuming policy rates have reached a peak and that recessionary forces in the next few months will only be mild, we believe private market repricing is almost complete.

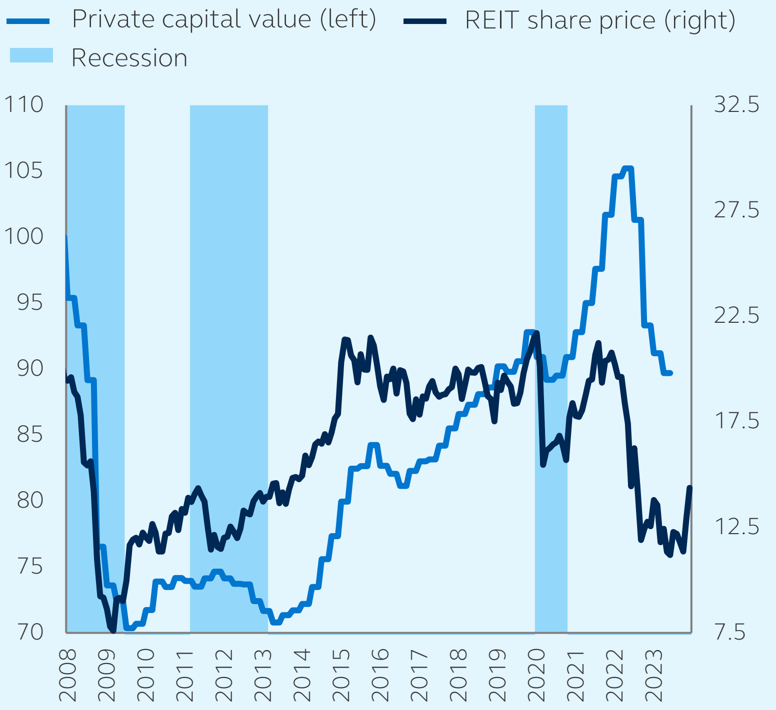
U.S. real estate

NCREIF (NPI) Capital Value and U.S. Equity REIT share price indices, 1977 Q4 = 100



European real estate

All property capital value vs REIT price, indices



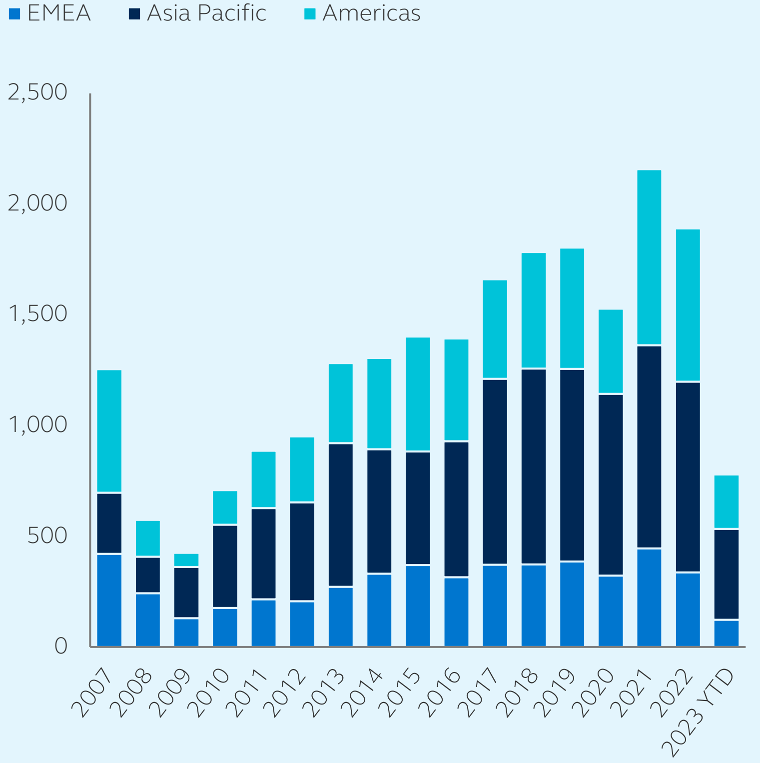
Source: NCREIF, MSCI, GPR, Principal Real Estate, Q3 2023

Capital markets liquidity dried up, deals are scarce

- We expect debt markets to remain highly selective during the first half of 2024 before markets begin to normalize.
- A pause or pivot in interest rates should increase debt capital flows improving clarity on pricing and begin to help unlocking the market.
- However, out of favor sectors (such as office) will continue to struggle well into 2025.

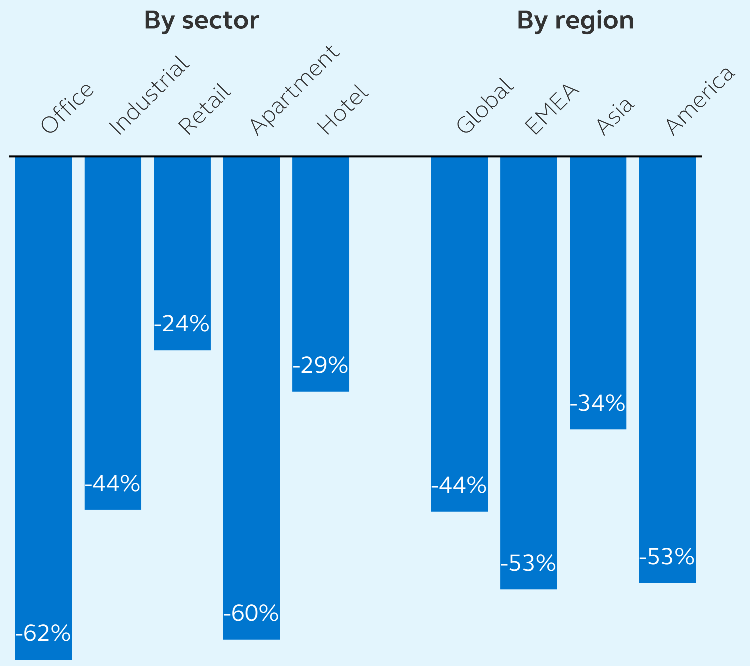
Global real estate transaction volume

$bn, excl. Russia



Declines are broad-based across regions and sectors

Volume percentage change, 3Q 2023 vs 3Q 2022

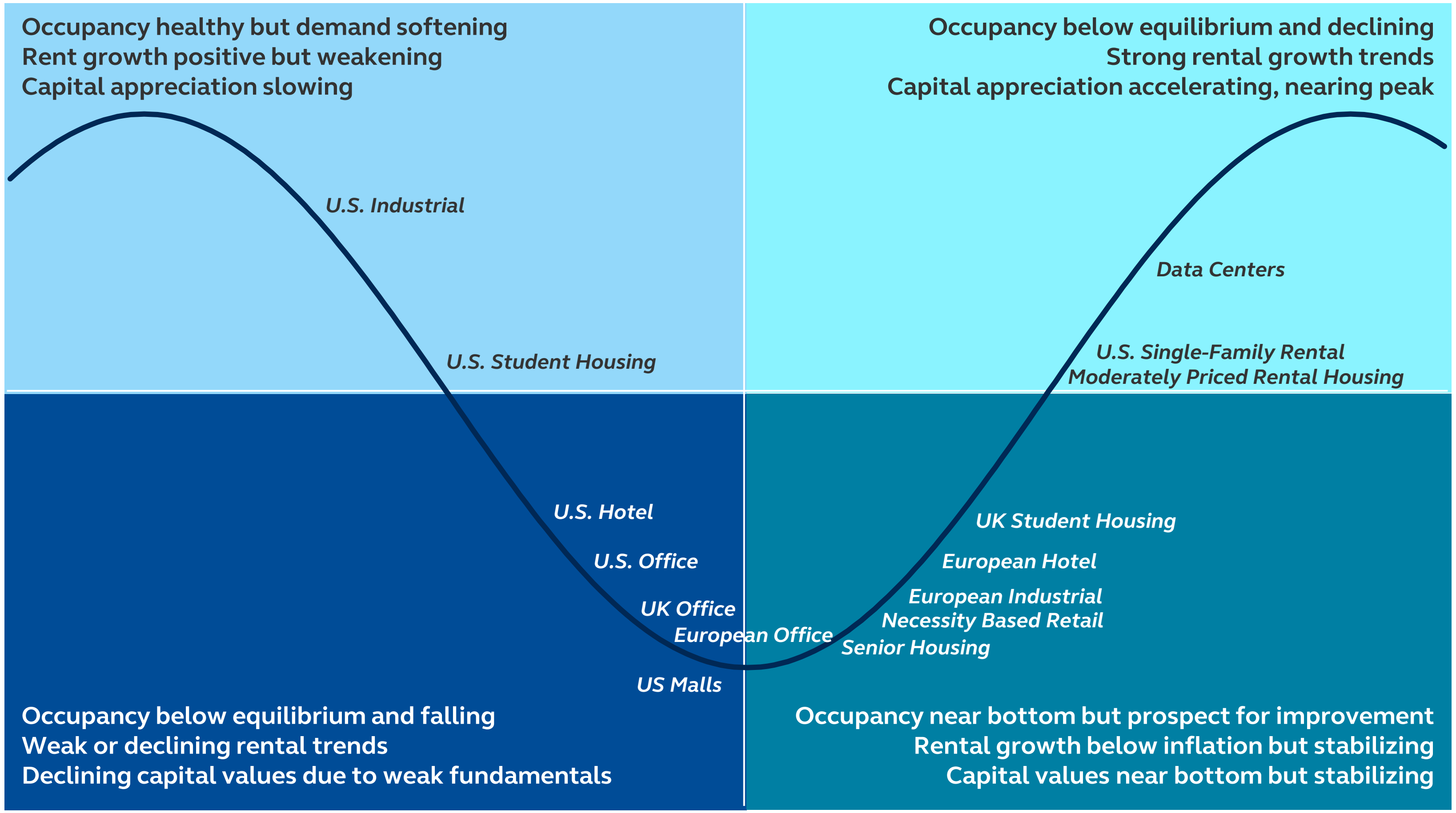


Source: RCA, Principal Real Estate, October 2023

Cyclical diversity across property types will create select opportunities

- The diversity of demand drivers allows investors to invest in property types where growth remains structurally resilient.
- Several property types tick the box of resilient cash flow based on underlying fundamentals.
- We continue to favor property sectors where demand is less dependent on cyclical growth and more driven by ongoing secular demand.
- Data centers, residential, logistics, and necessity-based retail offer investors ongoing opportunities.

Property sector fundamentals tracker



Source: Principal Real Estate, December 2023

HIGH CONVICTION TACTICAL STRATEGIES (6–12 MONTH HORIZON)

Overweight debt and keep an eye on emerging equity opportunities

Tactical strategies evolution

Left (H1 '24) and right (H2 '24) semi-circles refer to the evolution of our tactical recommendations over the next 12 months.

- We believe real estate debt offers compelling absolute and relative value making it our pick for preserving capital values while generating income over the short-term.
- With rates peaking and values expected to trough in the next six months, we will increasingly focus on the public and private equity real estate quadrants as means of gaining exposure.

REMAIN UNDERWEIGHT

UNDERWEIGHT TO NEUTRAL

UNDERWEIGHT TO OVERWEIGHT

REMAIN NEUTRAL

NEUTRAL TO OVERWEIGHT

REMAIN OVERWEIGHT

OVERWEIGHT TO NEUTRAL

	PRIVATE DEBT		PUBLIC DEBT	PRIVATE EQUITY			PUBLIC EQUITY
	Senior	Subordinate	CMBS	Core	Value-add	Opportunistic	REITs
United States	Overweight to neutral	Remain overweight	Neutral to overweight	Underweight to neutral	Underweight to neutral	Underweight to overweight	Underweight to overweight
Europe				Underweight to neutral	Underweight to neutral	Underweight to overweight	Underweight to overweight
Asia Pacific					Underweight to neutral	Underweight to overweight	Underweight to overweight

Source: Principal Real Estate, December 2023. The recommendations above reflect our tactical views on relative opportunities over a 6–12-month horizon.

2

High conviction opportunities

"Successful investing is about managing risk, not avoiding it."

BENJAMIN GRAHAM

OPPORTUNITIES

Stick with structural themes, but we also see niche opportunities

DATA CENTERS

Global

Demand for data centers will continue to rise in the short term, leading to strong performance within this sector.

Data centers have the highest cost of development of any major property sector. Higher capital costs and the lack of a more liquid debt market make it difficult for developers to keep up with increases in demand.

Consequently, we feel that both occupancy and values will continue to increase.

HOTELS*

Europe

Medium- and long-term demand for hotels remains strong, underpinning future growth.

However, stresses amongst certain operators across Europe, caused by the pandemic and interest rate hikes, have created an immediate opportunity.

Target single asset or portfolios requiring specialist experience to unlock and create value through strategic repositioning, discounted value, and improvement in top and bottom line through technology and innovations.

SINGLE-FAMILY RENTAL

U.S.

Shelter costs in the U.S. remain elevated and the lack of movement in the transaction market has not helped.

Low affordability and high mortgage rates have conspired to halt sales in the single-family market as homeowners are unwilling to trade out of their historically low mortgage rates.

Low affordability and high rates, have augured well for single-family rental demand, making it one of our highest conviction strategies for 2024.

STUDENT HOUSING*

Europe

The structural demand for higher education, in conjunction with the reduction in private market rental availability and affordability makes student housing a compelling investment across Europe.

The sector is significantly undersupplied, particularly in the UK, where the shortage of beds is likely to worsen further over the next decade.

We are in favor of strategies that develop new modern assets focused on student accommodations in supply-constrained submarkets, ensuring investors higher yield on cost.

ESSENTIAL RETAIL

Global

Consumers in the U.S. are showing signs of stress. Core sales categories have wavered as household balance sheets revert to pre-pandemic norms.

Retail spending has been strongest within the non-discretionary categories and consumers are increasingly substituting lower-cost goods.

While retail is generally a more cyclical sector, we continue to favor shopping centers with essential and value-oriented retail tenants.

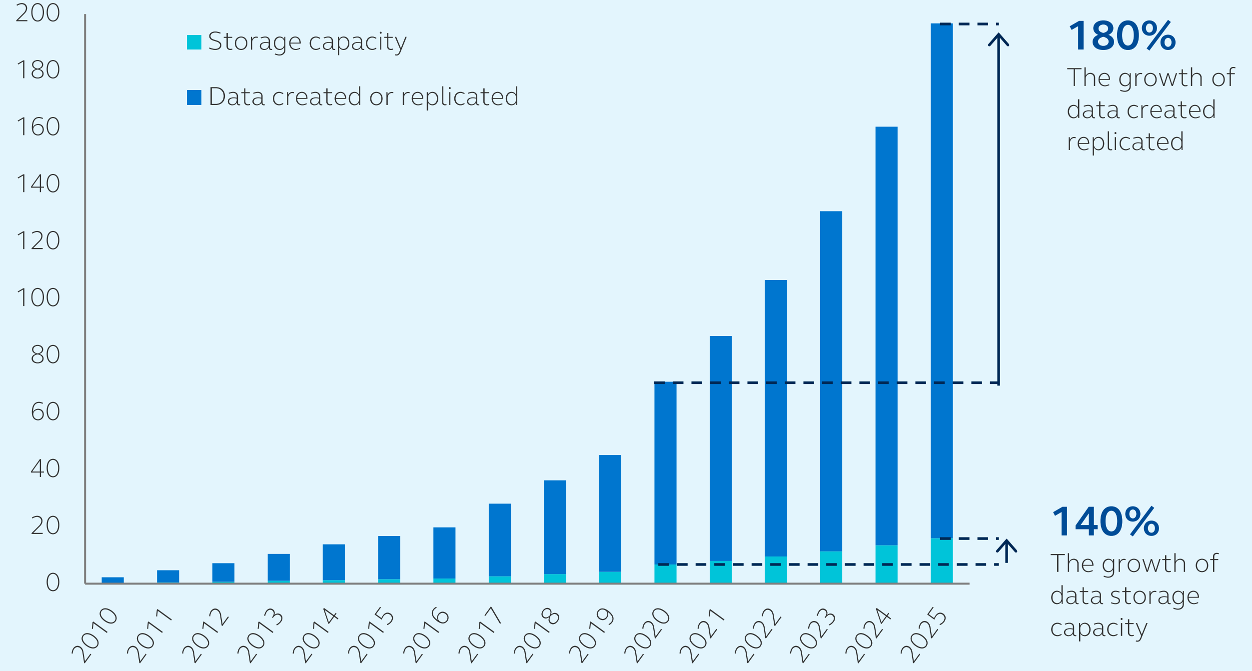
Source: Principal Real Estate, December 2023. Asterisk highlights niche opportunities.

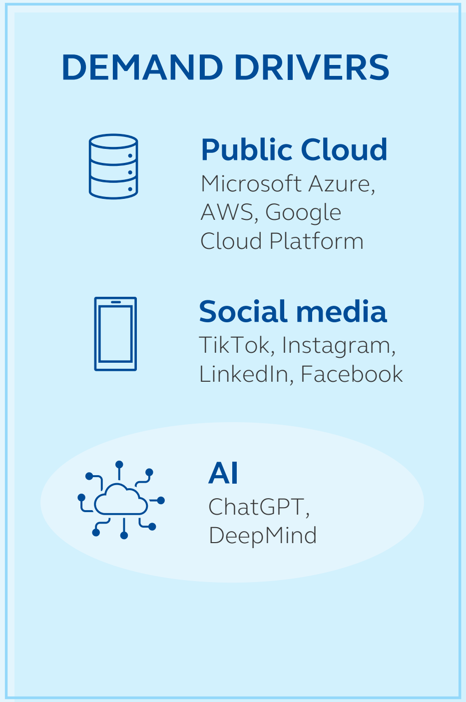
Data creation is set to largely outpace storage capacity

- Data centers have become one of the key pillars upon which our modern and knowledge-based society is grounded.
- In the last decade, the first wave of growth in data storage capacity was driven by migration to the cloud.
- We believe that a second wave of expansion will be driven by the artificial intelligence (AI) revolution creating increased demand for capacity.

Volume of data generated vs. storage capacity in the world

Zettabytes





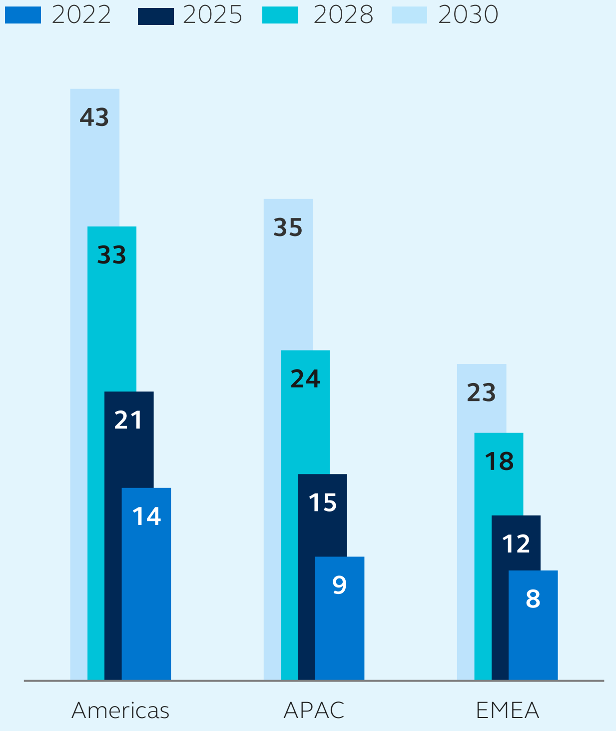
Source: IDC 2022, Principal Real Estate, December 2023

Demand is strong and will drive need for more capacity

- Given demand for storage is continuing to increase with an exponential trajectory, we believe this will create a need for increased data center development in North America, Europe, and Asia-Pacific regions.

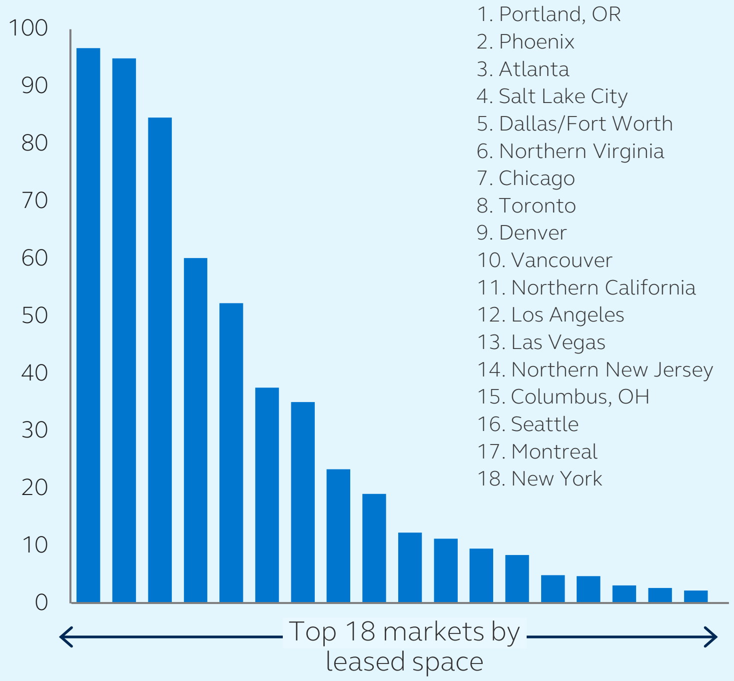
World live capacity projection

Capacity, GW



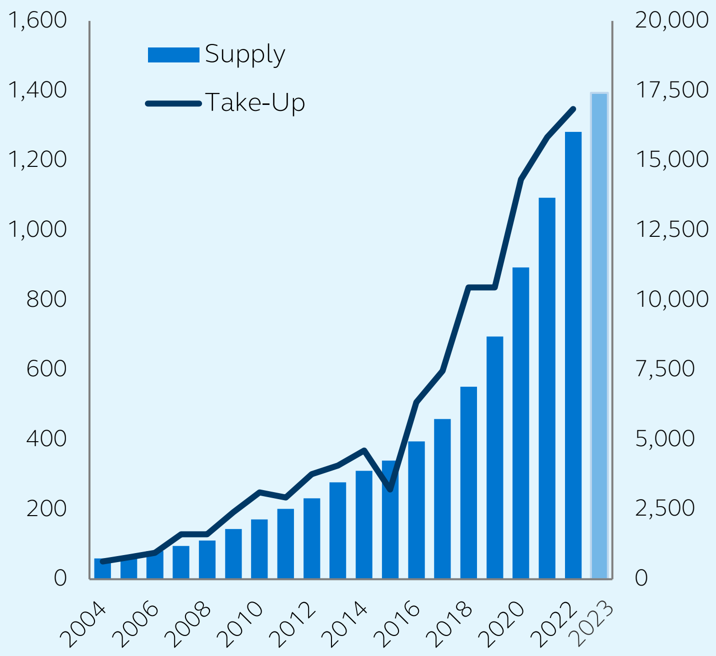
Top North American markets by leased space growth

Percentage, average annual growth over the last two years



European take up and supply

Take up (MW, left axis), aggregates supply (MW, right axis)



Source: datacenterHawk, CBRE, Principal Real Estate, 2Q 2023

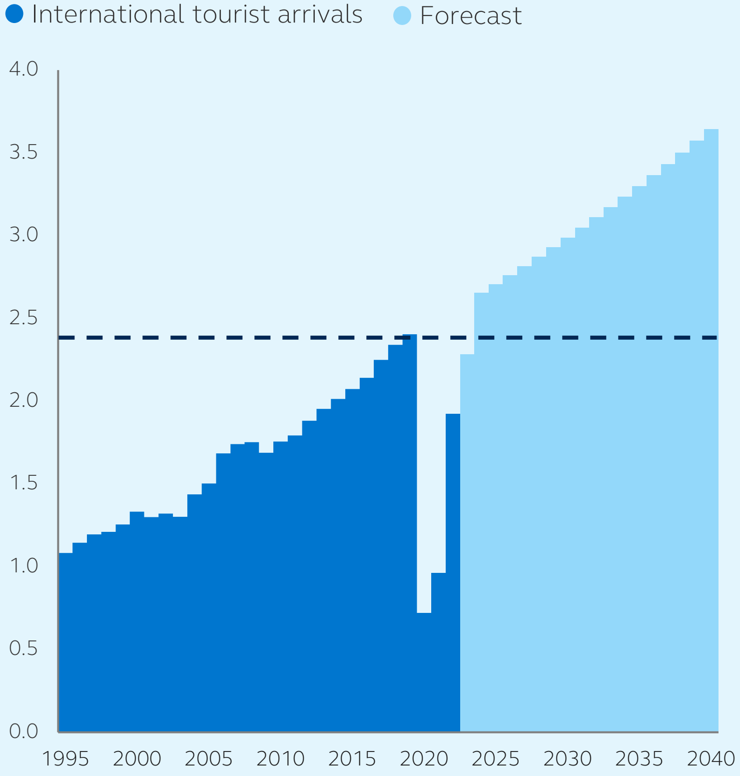
HOTELS (EUROPE)

Demand bounced back, but some operators are struggling

- Travel and tourism has surged since the COVID-19 related restrictions have ceased.
- Going forward, the sector is expected to resume its long-term upward trajectory, underpinned by global mobility growth, rising middle class in developing countries, and a mounting desire to devote more time to leisure activities and memorable experiences.
- Meanwhile, abundance of family-owned independent hotels across Europe, which have suffered from years of underinvestment, we believe offer favorable opportunities for acquisition and repositioning.

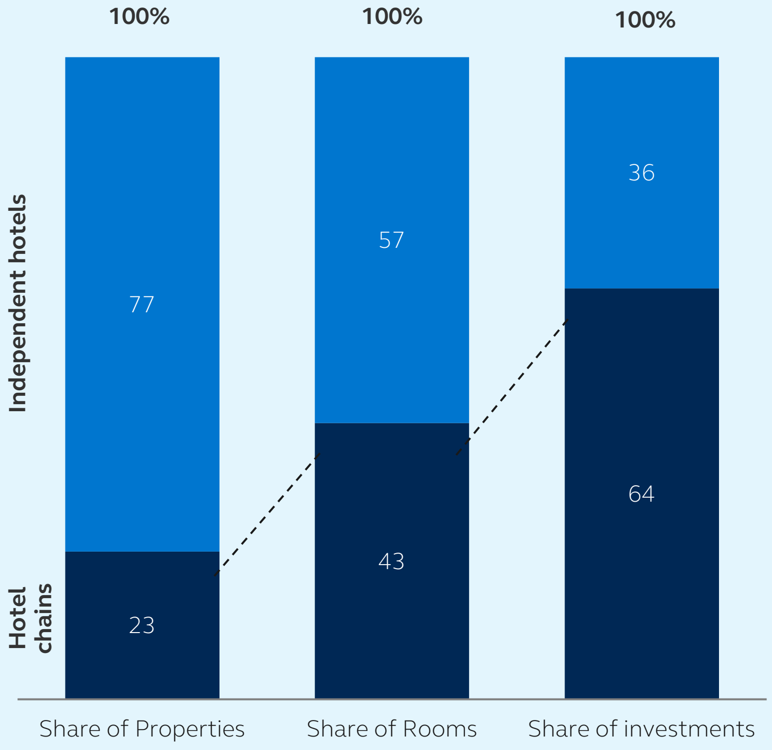
World international tourism

Number of arrivals, billion



European hotel market share breakdown

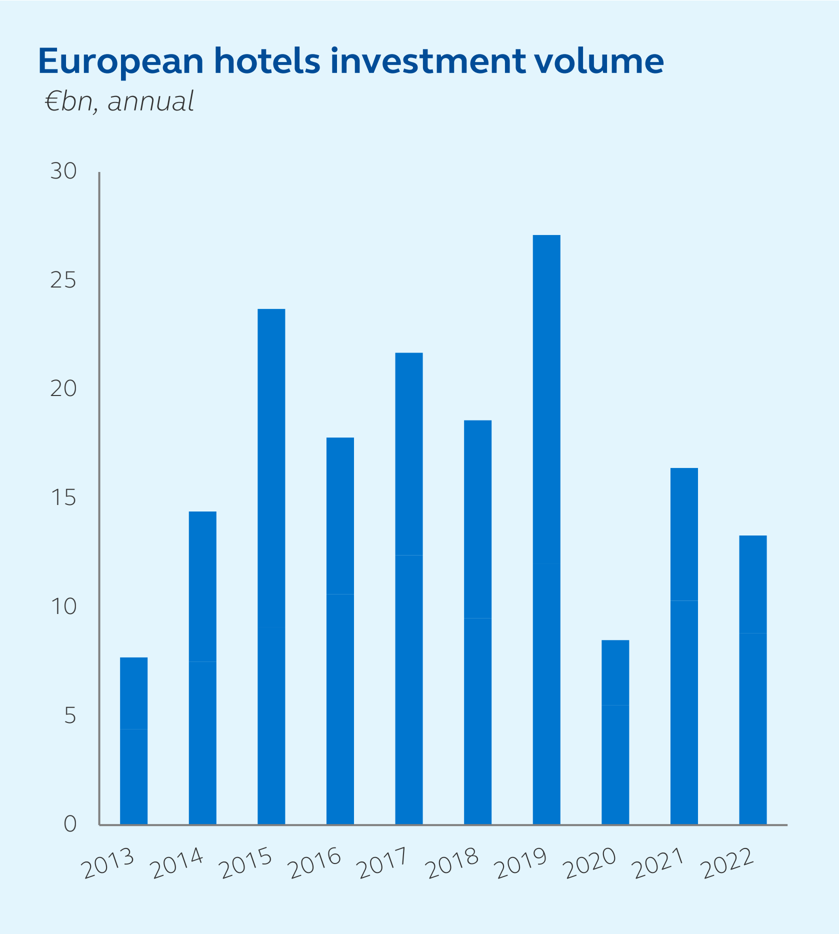
Percentage, 2021

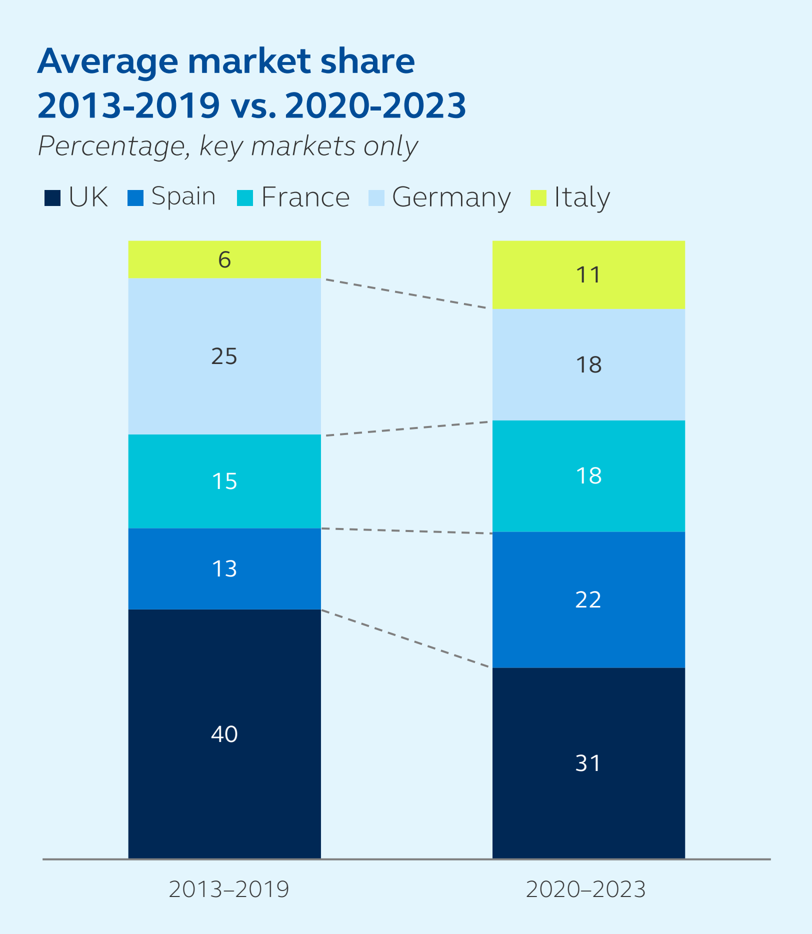


Source: (Left chart) UNWTO, Macrobond, Principal Real Estate, September 2023. (Right chart) STR, Principal Real Estate, September 2023

Focus capital deployment on desirable leisure destinations

- The boom in leisure hospitality across Southern European countries is attracting the attention of investors and global brands, especially in the luxury and economy segments.
- Spain and Italy, for example, have seen their share of transaction volume increase by nine and five percentage points respectively.





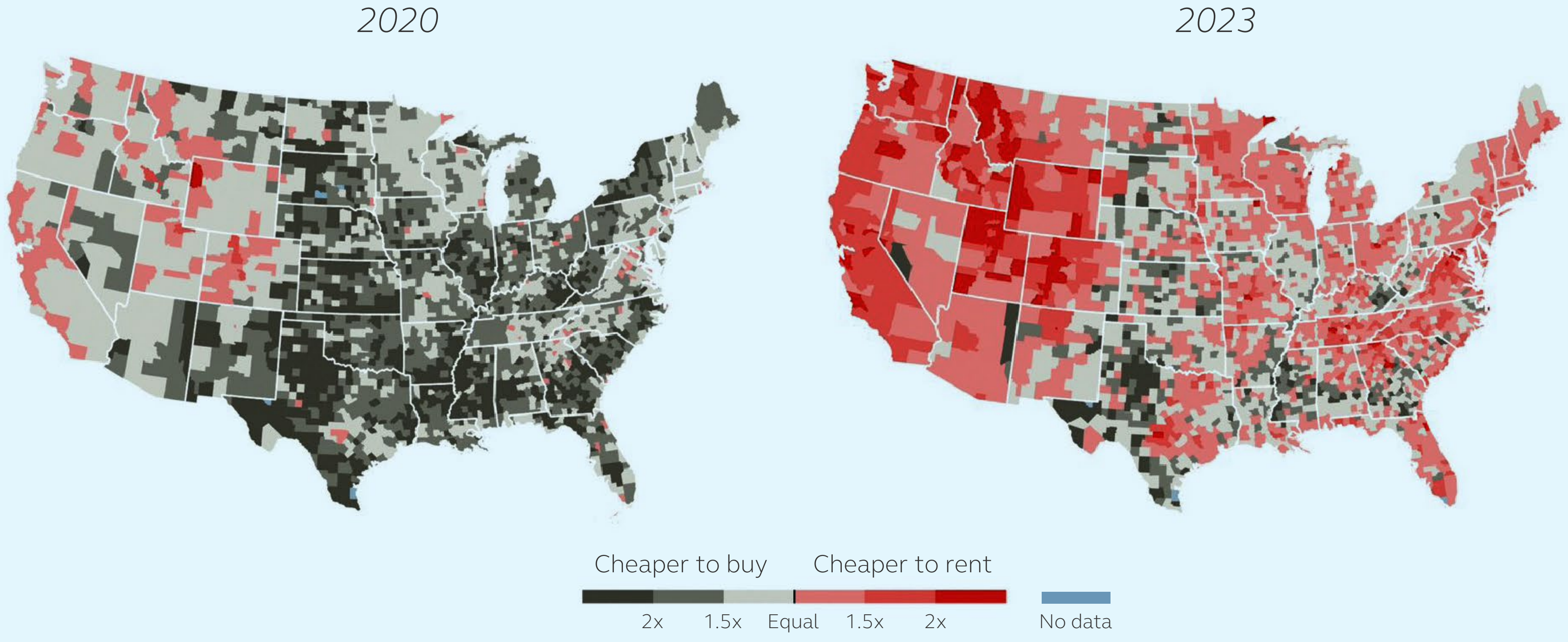
Source: RCA, Principal Real Estate, October 2023

In the U.S., renting has become more widespread vs. buying

- Housing affordability remains a critical issue facing both individuals and households in the U.S. This creates unique opportunities for investors and developers to meet a growing and more diverse demand for different types of housing.
- We believe that the affordability gap is greatest in the single-family purchase market, creating a need for the development of single-family rental units to accommodate younger households who are not ready to make their first home purchase.

Cost of buying vs. cost of renting in 2020 vs. 2023

$, annual

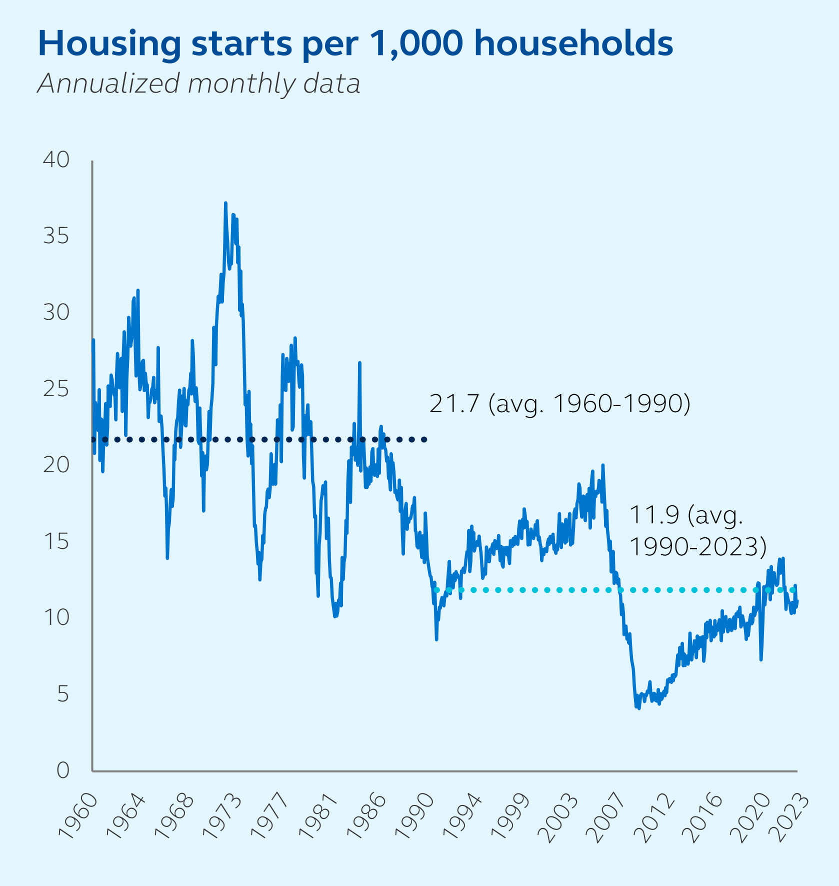


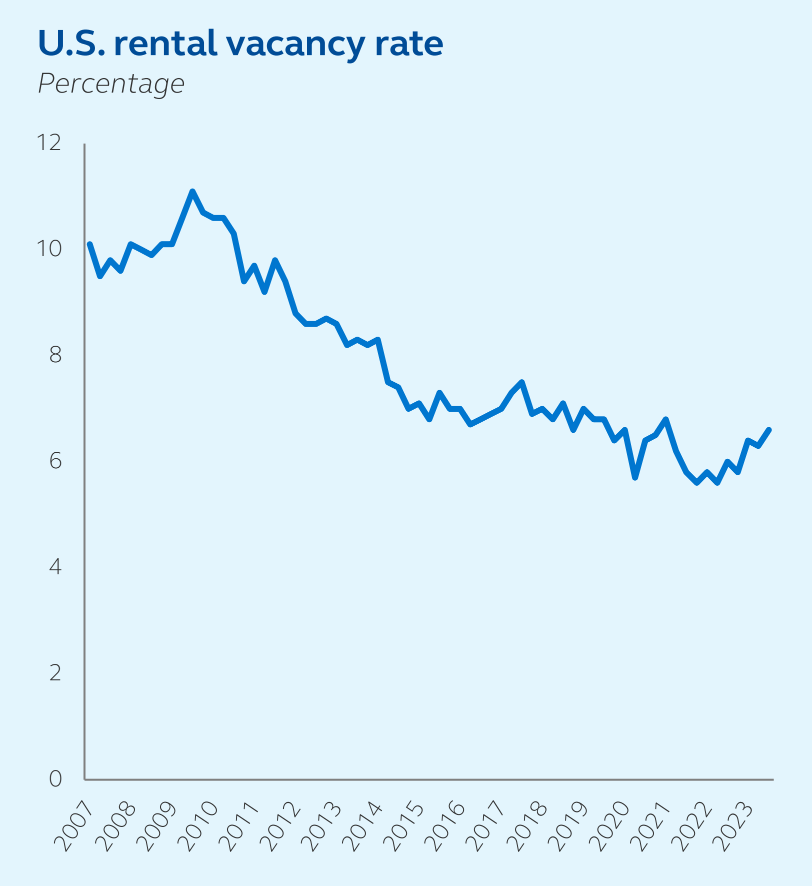
Source: The Economist, Principal Real Estate, December 2023

SINGLE-FAMILY RENTAL (U.S.)

U.S. housing market is underserved by historical standards

- Housing in the U.S. remains in short supply due to historically low levels of construction following the GFC.
- We believe that this creates opportunities across the spectrum of rental housing, but particularly within the single-family rental subsector due to shifting demographics.





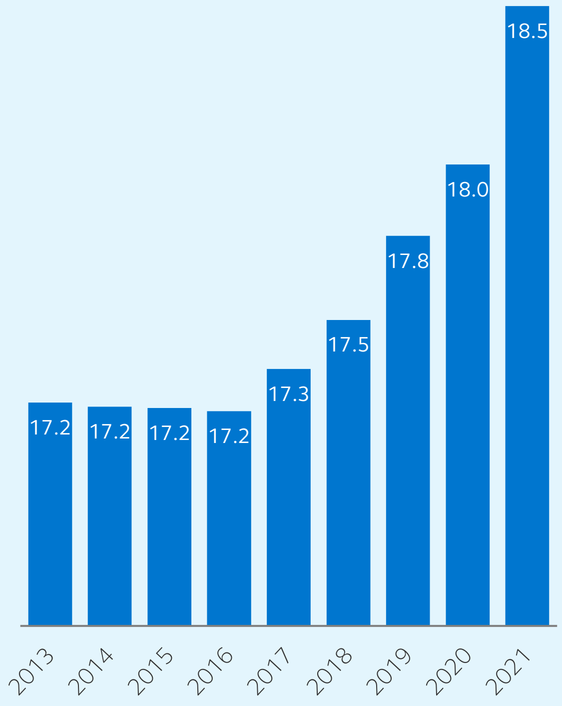
Source: Census Bureau, Moody's Analytics, Principal Real Estate, Q3 2023

Market is characterized by widening supply-demand imbalance

- Student housing, in several markets across Europe, is underpinned by a favorable and widening demand-supply imbalance.
- Socio-demographic trends and low availability of stock are the two main drivers that make student housing an attractive asset class, especially in those markets with a high penetration of international students and stringent private rental housing regulations, such as the UK.

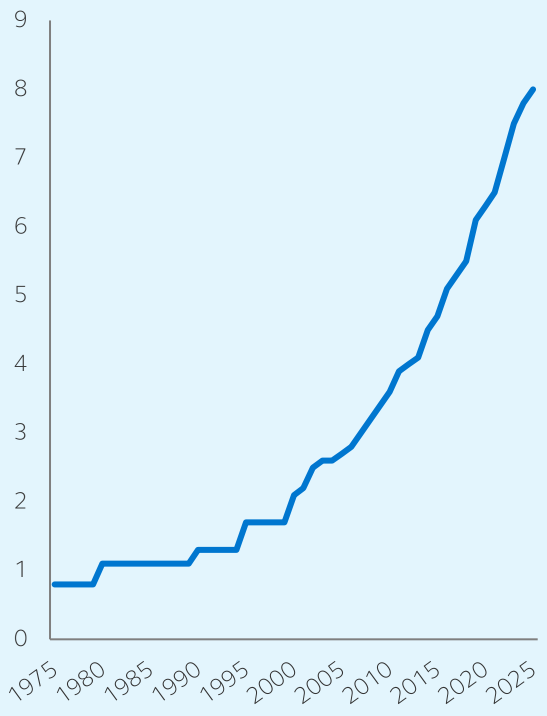
Europe, university enrollments

European Union 27, million people



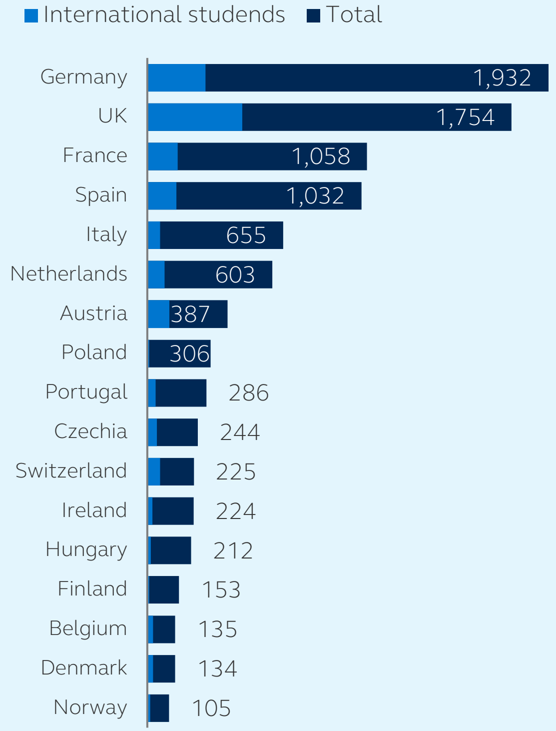
Internationally mobile students

World, million people



Students by country

Thousand students in key university cities



Source: Eurostat, PMA, Bonard, Principal Real Estate, December 2023

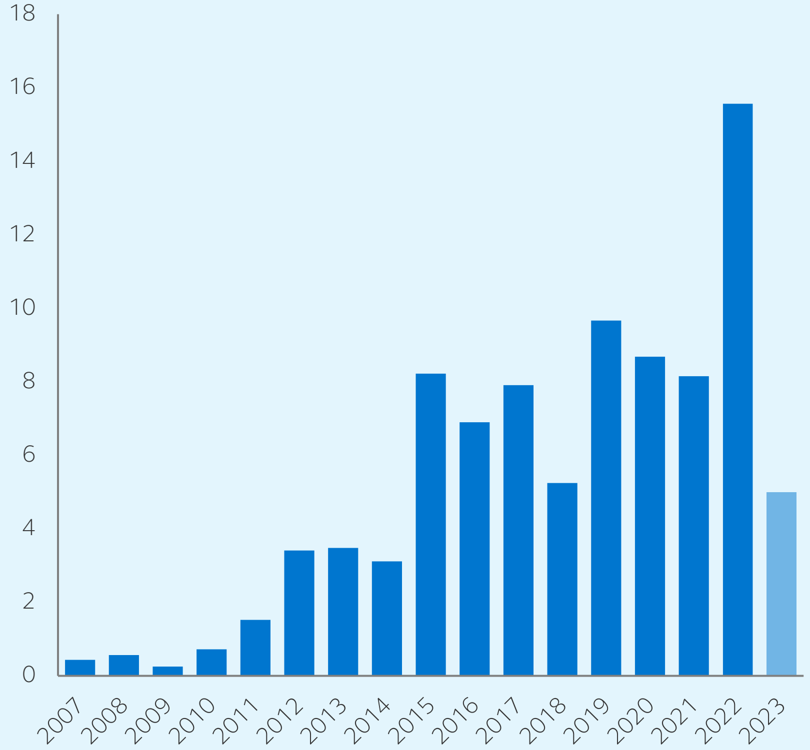
STUDENT HOUSING (EUROPE)

While capital has flowed in, the provision rate remains low

- Although the UK has the highest provision rate across European countries (31%), the stock of student housing beds (712k) is not enough to cater for the demand coming from first year domestic undergrads (525k) and international students (680k).
- The accommodation shortage is so severe in certain UK university towns that some students are being forced to commute from neighboring cities, defer their degree programs, or abandon them altogether.

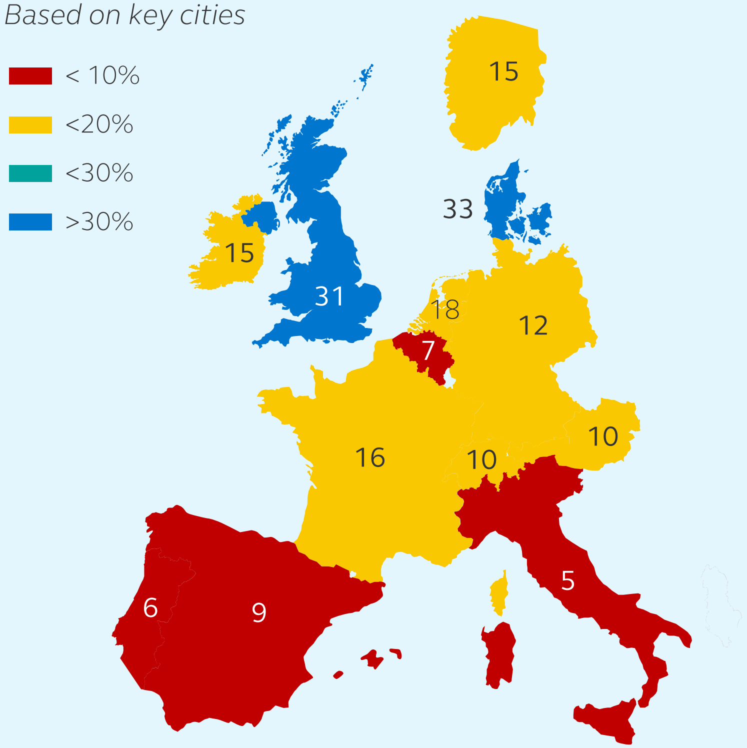
European student housing transaction volume

Annual, €bn



Student housing provision rate

Total number of beds / total number of students
Based on key cities

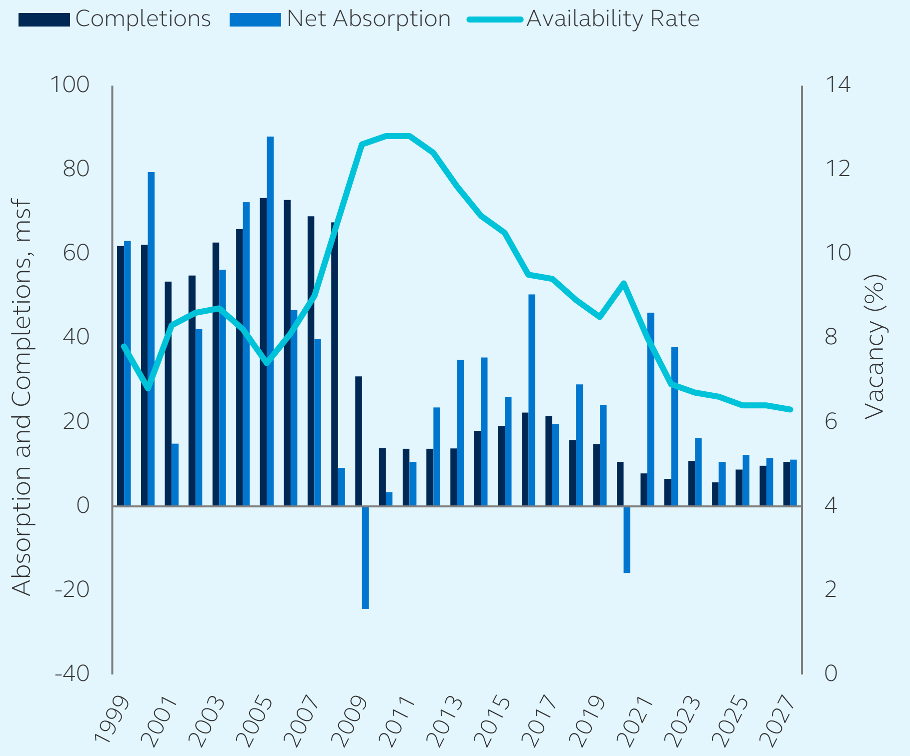


Source: RCA, Bonard, Principal Real Estate, December 2023

Fundamentals are healthy for necessity-based retail

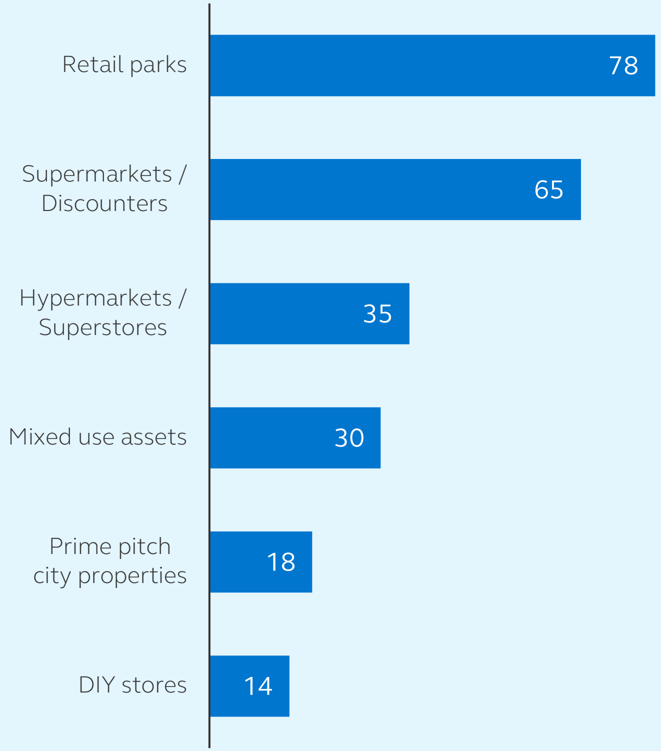
- We believe essential retail shopping centers are well-positioned to absorb the slower economic growth projected for 2024.
- The lack of new supply since the GFC combined with resurgent consumer traffic at brick-and-mortar retail auger well for sustained income growth over the next 12 months.

Neighborhood & community centers: Supply and demand



Investor rating of European retail assets

Percentage of respondents



Source: CBRE EA, Hahn Gruppe Retail Report 2022/2023, Principal Real Estate, Q3 2023

NEUTRAL

3

Sectors in neutral

"The single greatest edge an investor can have is a long-term orientation."

SETH KLARMAN

Principal Asset Management℠

NEUTRAL

Long-term resiliency, but short-term wobbles

INDUSTRIAL

U.S.

Industrial has remained one of the top-performing property sectors over the past year, but a wave of new supply and more moderate demand are conspiring to push vacancy rates higher.

The good news is that the sector is entering this period of moderation from a position of strength, which included record low vacancy in 2022.

Supply should subside once the under-construction pipeline clears toward the end of 2024. With a bit of luck, this will help rebalance the market and maintain NOI growth.

INDUSTRIAL

Europe

The sector remains fundamentally strong as the weakening economic environment is counterbalanced by extremely low availability of prime logistic facilities and declining construction activity.

Returns are expected to turn positive sooner than other sectors, as yields softened quickly, price correction is nearly completed, and occupier demand remains robust. However, the sector’s performance will stay well below the double-digit levels seen in the last years (excluding 2022).

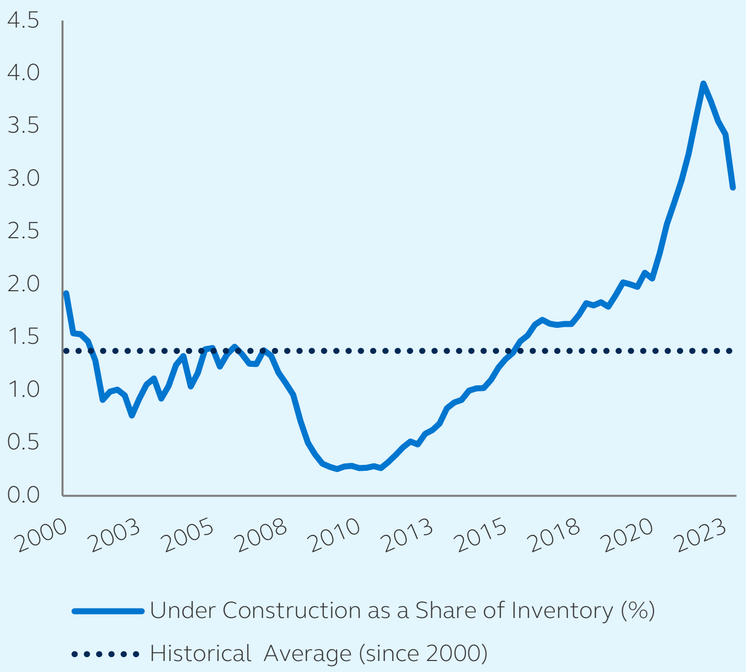
Source: Principal Real Estate, December 2023

Supply remains a primary headwind in 2024

- We feel that the construction pipeline will present a moderate headwind to market fundamentals in the U.S. in 2024.
- The silver lining is that the amount of supply in the pipeline will dwindle quickly due to higher interest rates and a more restrictive lending environment.
- While demand for warehouses in the U.S. is not what it was during the pandemic, we understand that it was never in the cards.
- Demand for warehouse space will remain healthy in 2024, even in a slower growth environment, due to strong structural drivers.

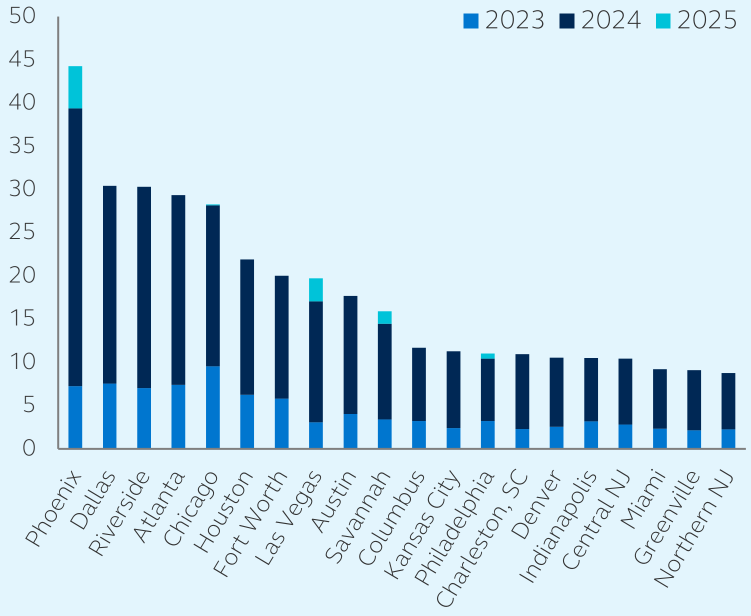
Industrial under construction

% of inventory



Top 20 U.S. markets for under construction activity

msf



Source: CoStar, CBRE EA, Principal Real Estate, Q3 2023

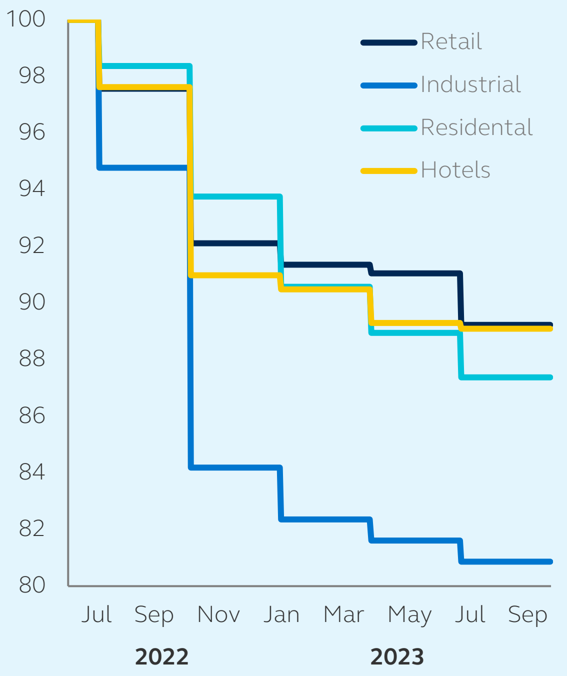
INDUSTRIAL (EUROPE)

Divergence between capital markets and occupier demand is evident

- The sector may provide a good entry point next year as the correction in values has sharpened and is almost complete.
- Meanwhile, occupier demand remains robust although below the three-year trailing average.
- We believe ongoing correction and strong fundamentals may lure investors back sooner than in other sectors due to secular tailwinds.

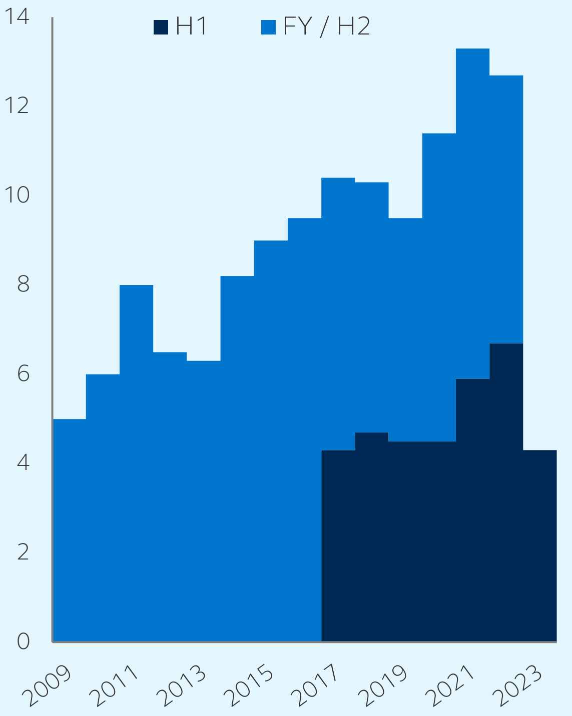
Capital value correction since H2 2022

MSCI European All Property Capital Value Index, Rebased to June 2022 = 100



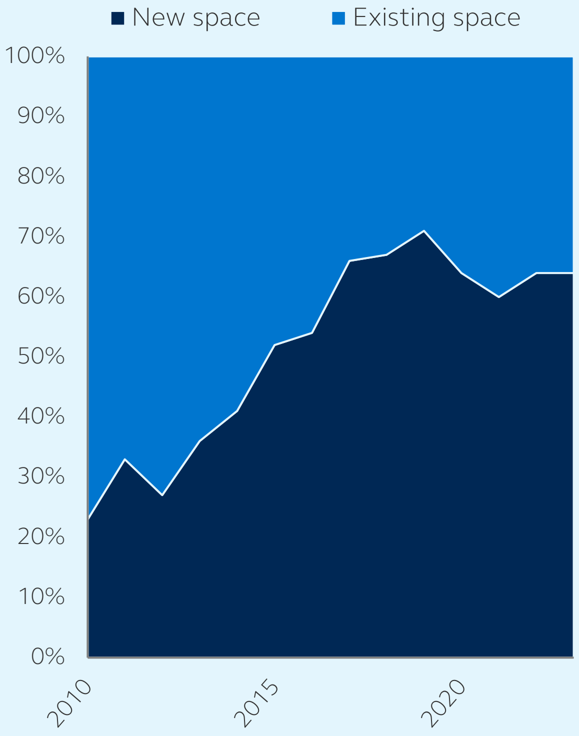
Logistics take up

Key 30 city markets, m sqm



Take up by type

Key 30 city markets, share of total



Source: MSCI, PMA, Principal Real Estate, October 2023

CAUTION

4

Sectors warranting caution

"The two most powerful warriors are patience and time."

LEO TOLSTOY

CAUTION

Structural challenges and a case of oversupply

OFFICE

Global

Despite a lack of new supply over the past few years, vacancy rates have increased globally due to new post-pandemic working arrangements.

We believe that the worst may be behind us with respect to market fundamentals. In-office attendance is improving globally and vacancy rates in several European and APAC cities are either at peak or declining.

We believe that 2024 will be a turning point for the office sector, though values will remain challenged, particularly for older and non-centrally located assets.

DISCRETIONARY RETAIL

Global

Higher inflation has taken a toll on consumers across the globe. Despite disinflationary trends taking hold over the past 12 months, slower wage growth, weaker hiring, and the gradual erosion of household balance sheets have put a strain on non-essential spending.

While we continue to believe that the global economy will avoid a moderate to severe recession, retail centers focused on discretionary spending will face challenges in 2024.

LIFE SCIENCES

Global

Venture capital has not been able to keep pumping funds into the life sciences space, which has slowed demand.

Supply growth has also slowed due to the high development costs of life sciences spaces. Once cost of capital reaches a more palatable level, we can expect demand to outpace supply again.

Despite these challenges, education corridors will be the most attractive markets since they benefit from deep pockets of talent.

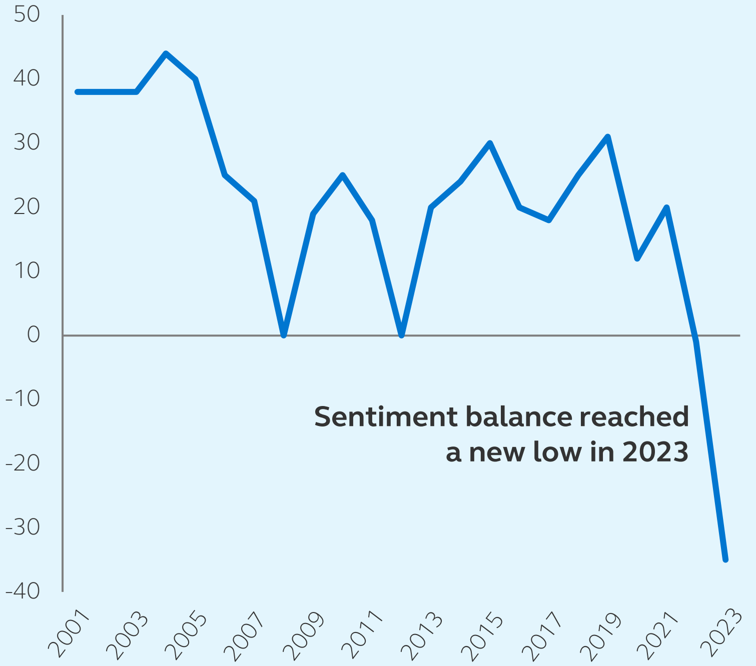
Source: Principal Real Estate, December 2023

Sentiment remains weak, although occupancy is improving

- Job growth among office-using occupations remains robust across most regions.
- While we believe that the growth within office-using industries will continue to grow, short-term dislocations will continue to present challenges for investors who are active within the sector.

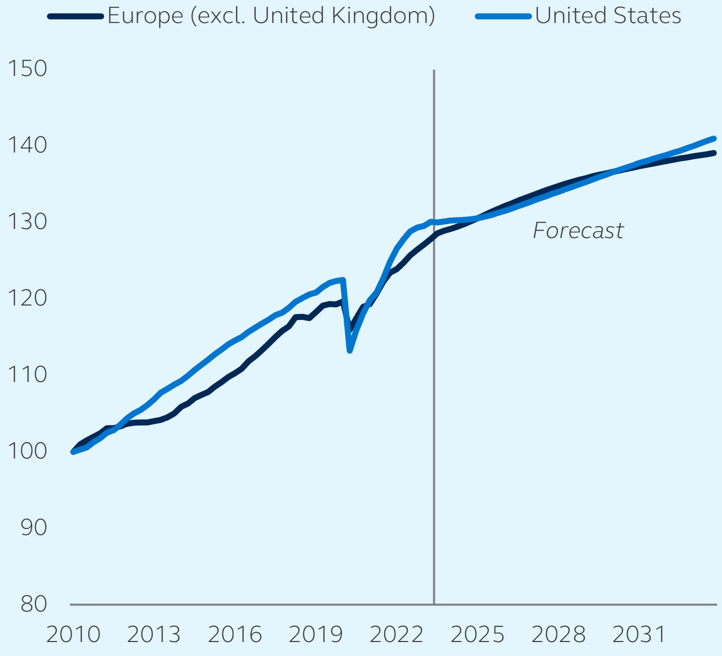
Office investor sentiment—balance of intentions

Percentage



Office-using employment

Millions employed by office-using industries, Indexed (Q1 2010 = 100)

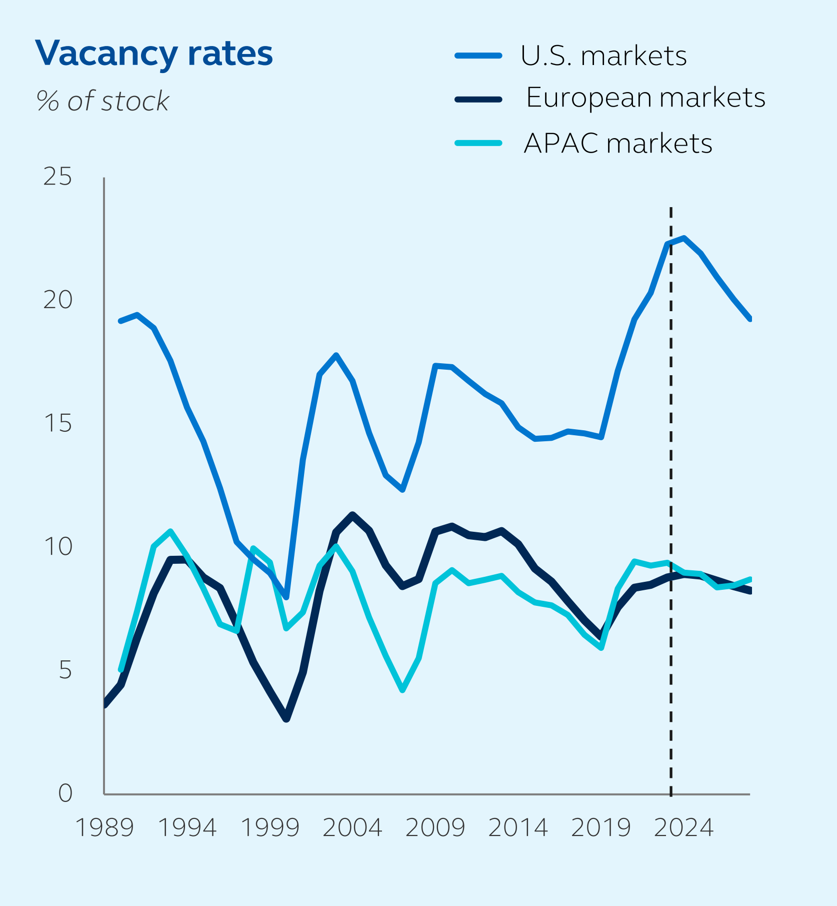


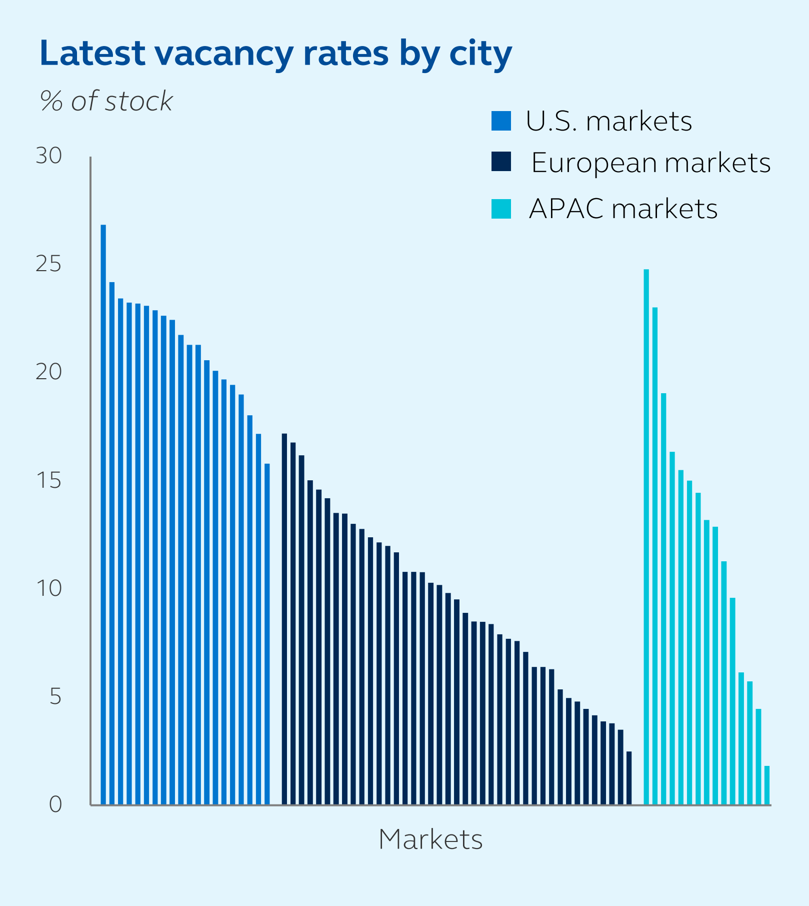
Source: PMA, Moody's BLS, Eurostat, Principal Real Estate, November 2023

OFFICE (GLOBAL)

Vacancy rates will crest in 2024

- Select European and APAC markets continue to perform well despite headwinds facing the office sector.
- We believe 2024 will offer an inflection point for demand, but U.S. markets will remain among the most challenged.





Source: PMA, Principal Real Estate, October 2023

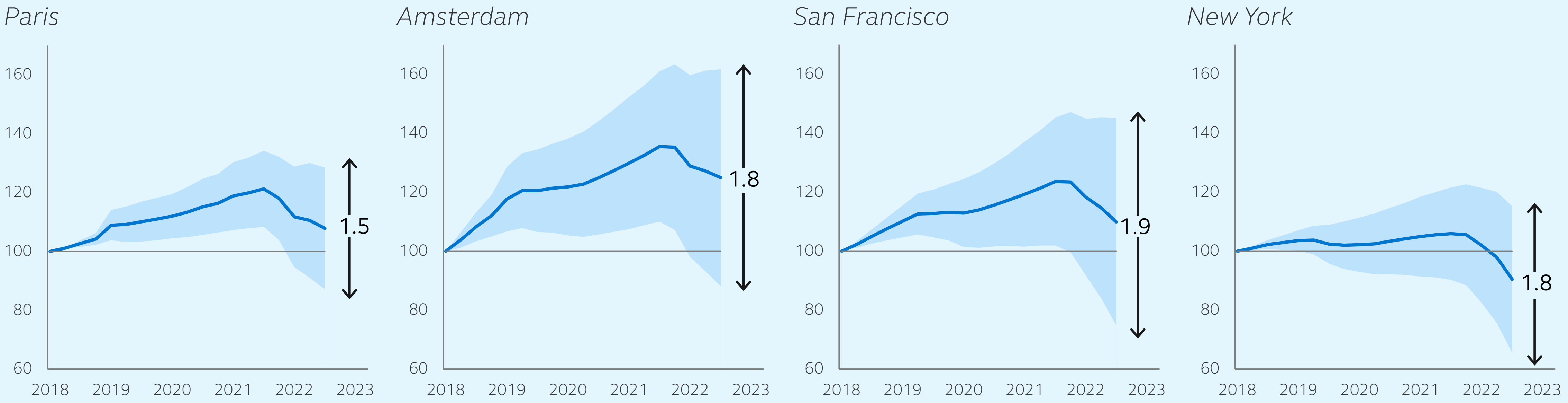
OFFICE (GLOBAL)

All is not lost for office investors

- Structural challenges notwithstanding, certain office assets have continued to perform well.
- High-quality assets in key global markets have outperformed their peers on a relative bases and we believe this trend will continue.

Performance divergence between lower and higher quartile

Total return index, local currency, rebased to Dec 2018 = 100



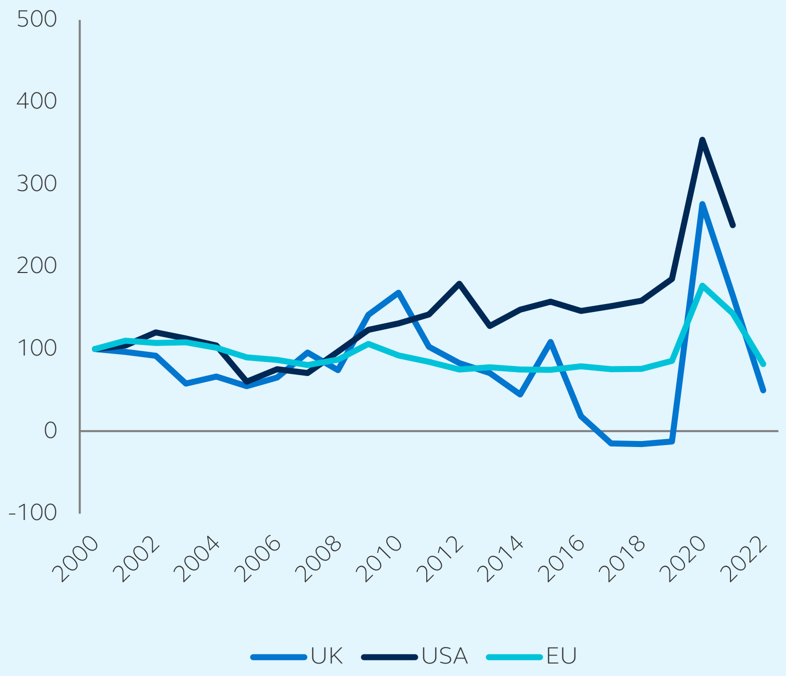
Source: MSCI, Principal Real Estate, September 2023

Shifting tides: Consumer spending amid evolving economic realities

- Dwindling household savings and increasing credit card delinquency rates suggest that household balance sheets are under pressure.
- Anecdotally, large retailers have warned that consumers are becoming more cautious and increasingly substituting with lower cost items.
- Consequently, we believe that slower economic growth and waning consumer sentiment will create a more difficult environment for discretionary retailers in 2024.

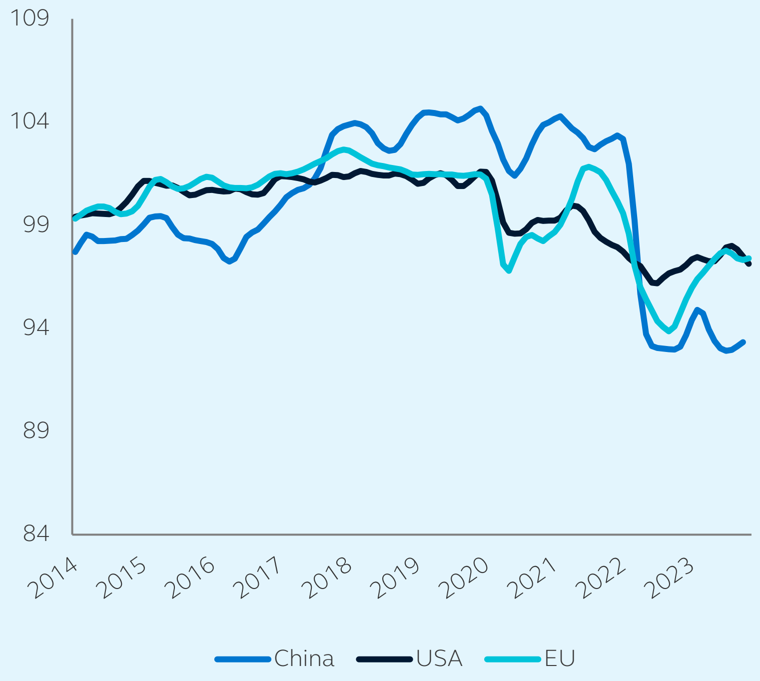
Global household savings

Indexed to 2000 = 100



Consumer Confidence Index

Amplitude adjusted, long-term average = 100



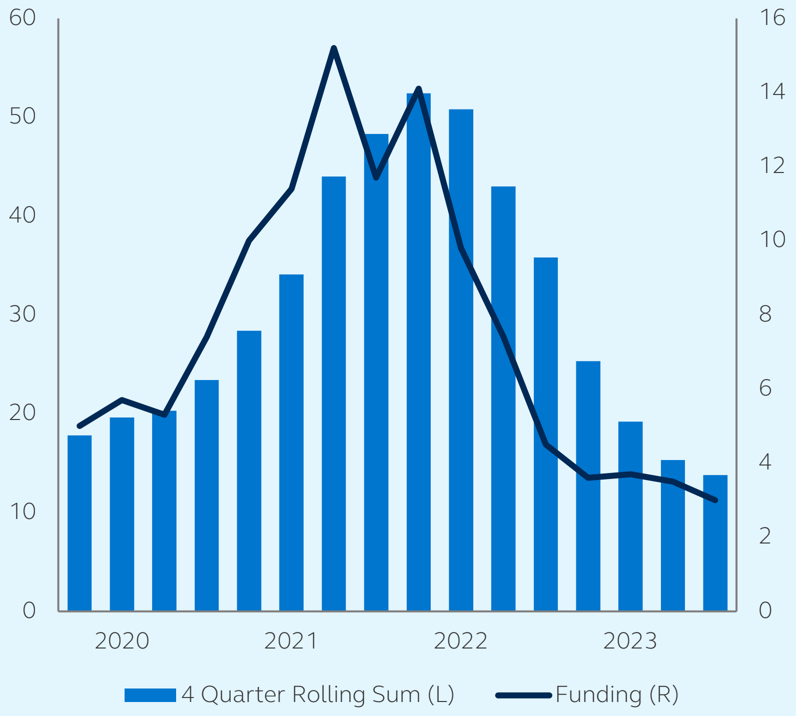
Source: OECD, Federal Reserve, Principal Real Estate, September 2023

Venture capital funding is under stress

- Capital market volatility has led to more restrictive capital flows toward life sciences and healthcare companies.
- In turn, there has been a decline in research and development, which should find a bottom in the next 12 to 18 months.
- We believe that the lull in venture capital funding, which is partially driven by higher cost of capital, as well as elevated development costs, will help the sector re-calibrate as new supply will remain limited.
- While we have seen uneven performance in 2023, we anticipate improvement due to structural support for health care and life sciences over the longer term.
- Also, an aging population and a well-developed life sciences sector will auger for improved performance beginning in 2025.

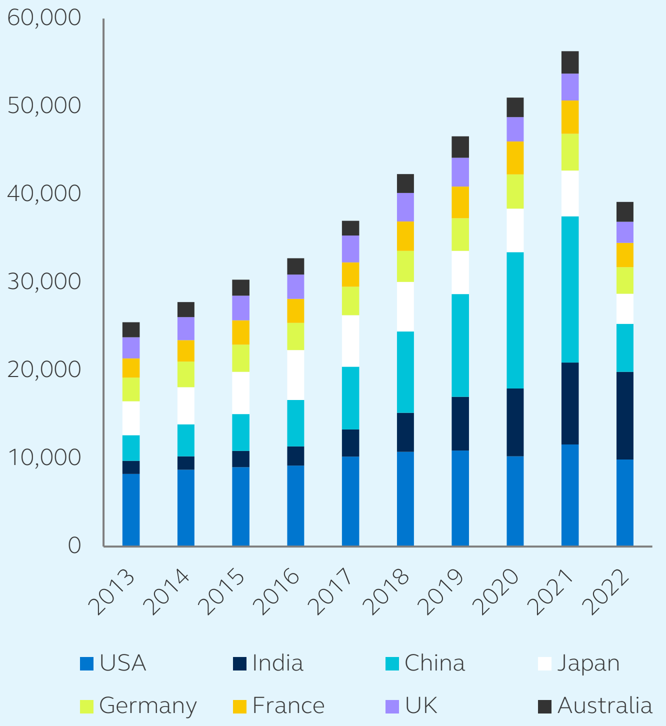
Global digital health funding

$billion



Clinical trials by country

# of trials



Source: (Left chart) CB Insights, Principal Real Estate, Q3 2023. (Right chart) WHO, Principal Real Estate, February 2023.

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Conclusion

"It is better to be roughly right than precisely wrong."

JOHN MAYNARD KEYNES

Principal Asset Management[SM]

A YEAR OF TRANSITION IS AHEAD

Threading the eye of the needle in 2024

1 We expect 2024 to be a transition year and one of two halves

We believe debt opportunities will remain more attractive in the first half of 2024 offering strong absolute and risk-adjusted returns. The second half is where we expect listed and private equity to re-emerge from a two-year winter and start to present select opportunities.

2 Our long-term conviction for structurally-resilient property sectors is unchanged

Data centers, Logistics, and Residential sectors are structurally underserved, and we are advocates of adding to portfolios as needed given the resiliency of underlying demand.

3 Threading the eye of the needle in 2024

Quality and sector selection are key to an effective investment strategy in the next 12 months, as values stabilize and the path of the recovery begins to crystalize.

Source: Principal Real Estate, December 2023

About Principal Real Estate

Access the full spectrum of today's commercial real estate investment opportunities.

Principal Real Estate is the dedicated real estate investment group within Principal Asset Management.

We have a 360° view of real estate, with capabilities that span the spectrum of public and private equity and debt investments. We seek to maximize opportunities and find the best relative value on behalf of our clients using our specialized market knowledge, dedicated and experienced teams around the globe, and extensive connections across all four real estate quadrants.

- Top 10 global manager of real estate[1]
- Over $95 billion in real estate assets under management[2]
- Over 60 years of real estate investment experience[3]
- More than $122 billion in real estate debt and equity transactions over the past decade[4]
- Recognized globally as a leader in sustainable investing[5]

PrincipalAM.com/RealEstate

See important information for footnote references

PRINCIPAL REAL ESTATE

Global Research and Data Strategy & Analytics

Global Research

MADHAN RENGARAJAN, CFA
Senior Director
rengarajan.madhan@principal.com

ARTHUR JONES
Senior Director
jones.arthur@principal.com

DANIEL TOMASELLI
Manager
tomaselli.daniel@principal.com

JD STEHWIEN
Senior Analyst
stehwien.jd@principal.com

THOMAS MCGING
Research Analyst
mcging.thomas@principal.com

Data Strategy & Analytics

ARMEL TRAORE DIT NIGNAN
Head of Real Estate Data Strategy & Analytics
traoreditnignan.armel@principal.com

WESLEY BRUELAND
Quantitative Developer
brueland.wesley@principal.com

JONATHAN FRANK
Manager
frank.jonathan@principal.com

BELAY KASSIE, Ph.D.
Sr. Quantitative Research Analyst
kassie.belay@principal.com

THOMAS REISING
Associate Quantitative Developer
reising.thomas@principal.com

JESSE WAITMAN
Quantitative Developer
waitman.jesse@principal.com

ERIC YUAN, CFA
Sr. Quantitative Research Analyst
yuan.eric@principal.com

Important information

[1] Managers ranked by total worldwide real estate assets (net of leverage, including contributions committed or received, but not yet invested; REOCs are included with equity; REIT securities are excluded), as of 30 June 2023. "The Largest Real Estate Investment Managers," Pensions & Investments, 9 October 2023

[2] As of 30 September 2023. Includes clients of, and assets managed by, Principal Real Estate Europe Limited and its affiliates. Does not include assets that are managed by Principal International and Retirement and Income Solutions divisions of Principal. Due to rounding, figures shown may not add to the total.

[3] Experience includes investment activities beginning in the real estate investment area of Principal Life Insurance Company and continuing through the firm to present.

[4] As of 31 December 2022. Excludes public REIT transaction volume.

[5] As recognized by Global Real Estate Sustainability Benchmark (GRESB) assessment 4-Star rating (2023) as of October 2023: U.S. Core strategy, 8th consecutive year; European Core strategy, 4th consecutive year; European Office strategy, 2nd consecutive year. 2023 Global Real Estate Sustainability Benchmark (GRESB) assessment, data as of 31 December 2022. 4-star rating reflects top 40% worldwide performance. In order to receive a ranking, the Firm paid GRESB an application fee to be evaluated and rights to use the rating. Principal Real Estate recognized as ENERGY STAR Partner of the Year 2016-2023, Sustained Excellence Award 2018-2023. The U.S. Environmental Protection Agency (EPA) annually honors organizations that have made outstanding contributions to protecting the environment through energy efficiency, as of April 2023.

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