USAA REAL ESTATE

SQUARE MILE CAPITAL

2022 HOUSE VIEW

NORTH AMERICAN PROPERTY MARKET OUTLOOK

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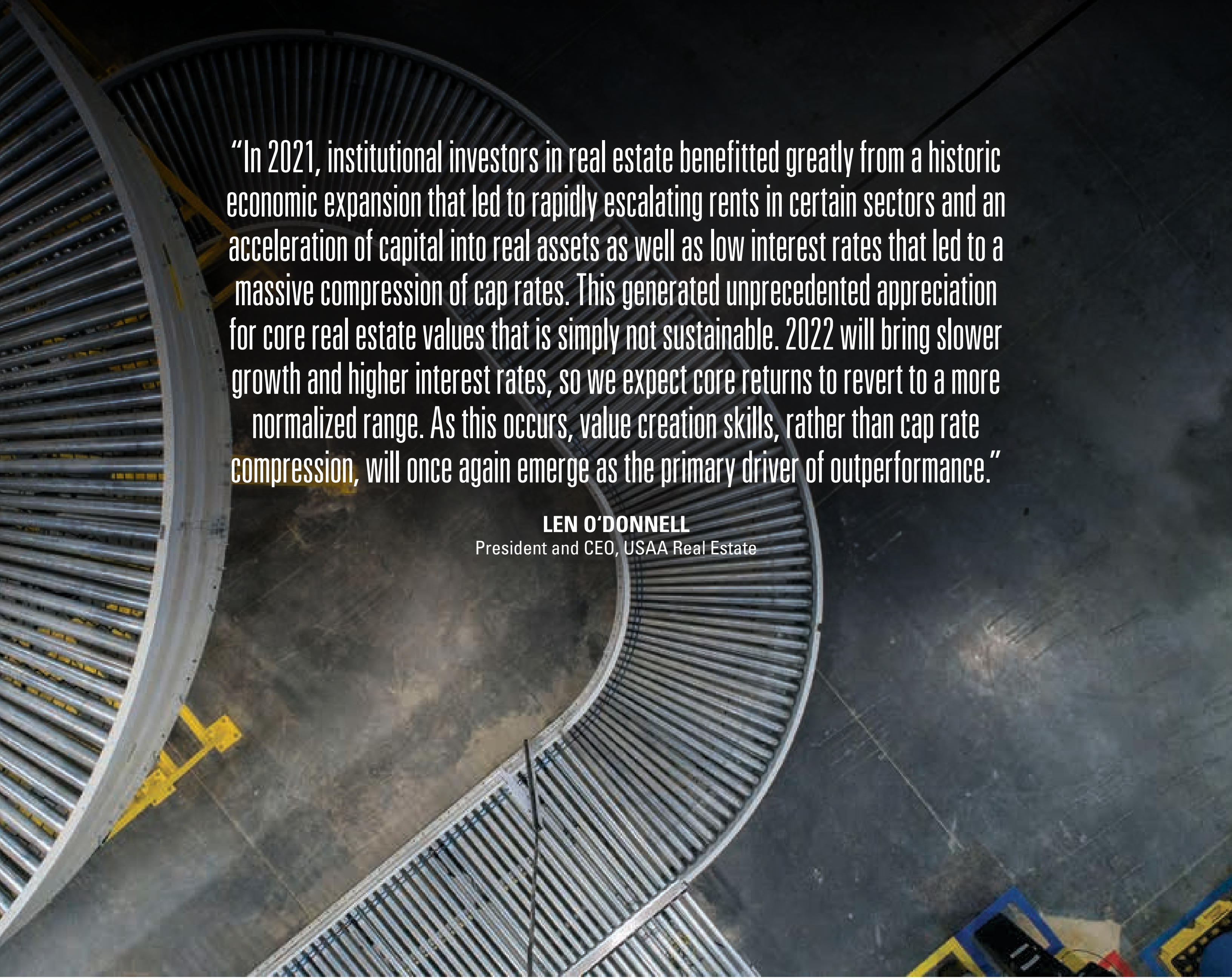
Executive Summary

We are pleased to present our **2022 House View** for North America. This publication is produced each year and serves two essential purposes. First, it highlights our outlook for the U.S. economy and the commercial real estate (CRE) sector, as well as significant trends and opportunities. Secondly, it reasserts our investment stance before providing a forward-looking framework regarding our investment themes and strategies. Highlights from the report include:

1. The U.S. economy experienced a swift recovery in early 2021, after COVID-19 fueled the worst, but shortest, economic recession in history.
2. Private real estate performed particularly well last year, driven substantially by historic compression of cap rates, but financial markets continue to evolve based on changing economic dynamics.
3. Inflation has become a broader risk that is affecting consumer prices in addition to construction and input costs for CRE development, leading to higher replacement costs. Historically, private direct real estate has served as a strong hedge against inflation for investors.
4. The combination of elevated federal debt and shifting demographics should continue to give rise to a yield-starved environment and strengthen the case for increased allocations to CRE.
5. Federal Reserve policy and associated bonds market pricing dynamics are finally setting the stage for interest rate hikes in the U.S.
6. The pandemic served to reinforce and accelerate specific themes that we believe are emerging around the intersection of technology and real estate, as well as rental housing.



"In 2021, institutional investors in real estate benefitted greatly from a historic economic expansion that led to rapidly escalating rents in certain sectors and an acceleration of capital into real assets as well as low interest rates that led to a massive compression of cap rates. This generated unprecedented appreciation for core real estate values that is simply not sustainable. 2022 will bring slower growth and higher interest rates, so we expect core returns to revert to a more normalized range. As this occurs, value creation skills, rather than cap rate compression, will once again emerge as the primary driver of outperformance."

LEN O'DONNELL
President and CEO, USAA Real Estate

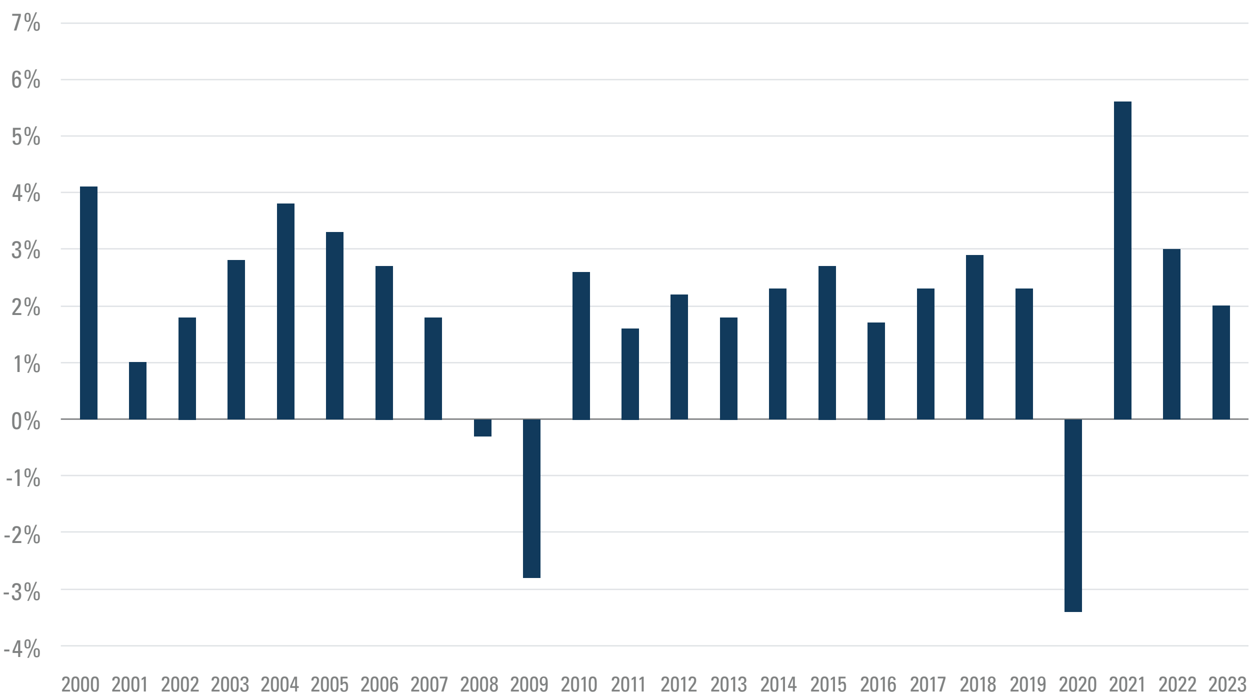
U.S. Economic Outlook

AN ECONOMIC REBOUND UNDER PRESSURE

2021 was largely symbolic of a strong recovery in economic growth, labor measures, and financial markets, but not before unleashing an interesting set of challenges, many of which continue to unfold. Since the 6.5% annualized rate of growth in the second quarter of 2021, as measured by the Bureau of Economic Activity, the recovery has come under pressure from supply chain problems, high and accelerating inflation, a tight labor market, the volatile effects of COVID variants, changing monetary and fiscal policy, and record high valuations for many risk assets. Despite these headwinds, the environment remains compelling for CRE investment based on the success of vaccination programs in the U.S., record levels of fiscal stimulus, interest rates at historic lows, and intense market demand for investments with high relative yield or that can serve as an inflation hedge. **These dynamics lead to an investment environment that continues to evolve at an even faster pace than in the past.**

Turning to the U.S. economy, Capital Economics, a UK-based economics research firm, is forecasting real GDP growth of 5.6% in 2021 (**Exhibit 1**), a slight downward revision to their previous estimate due to ongoing supply chain issues and the Omicron variant.[1] Longer term, the U.S. economy is projected to grow at a more normalized rate of 3.0%, and then 2.0% in 2022 and 2023, respectively.[2] There is a risk that the U.S. economy will begin to stall in 2023, negatively impacted by a combination of rising interest rates and subdued economic growth.

EXHIBIT 1: Annual U.S. Real GDP Growth

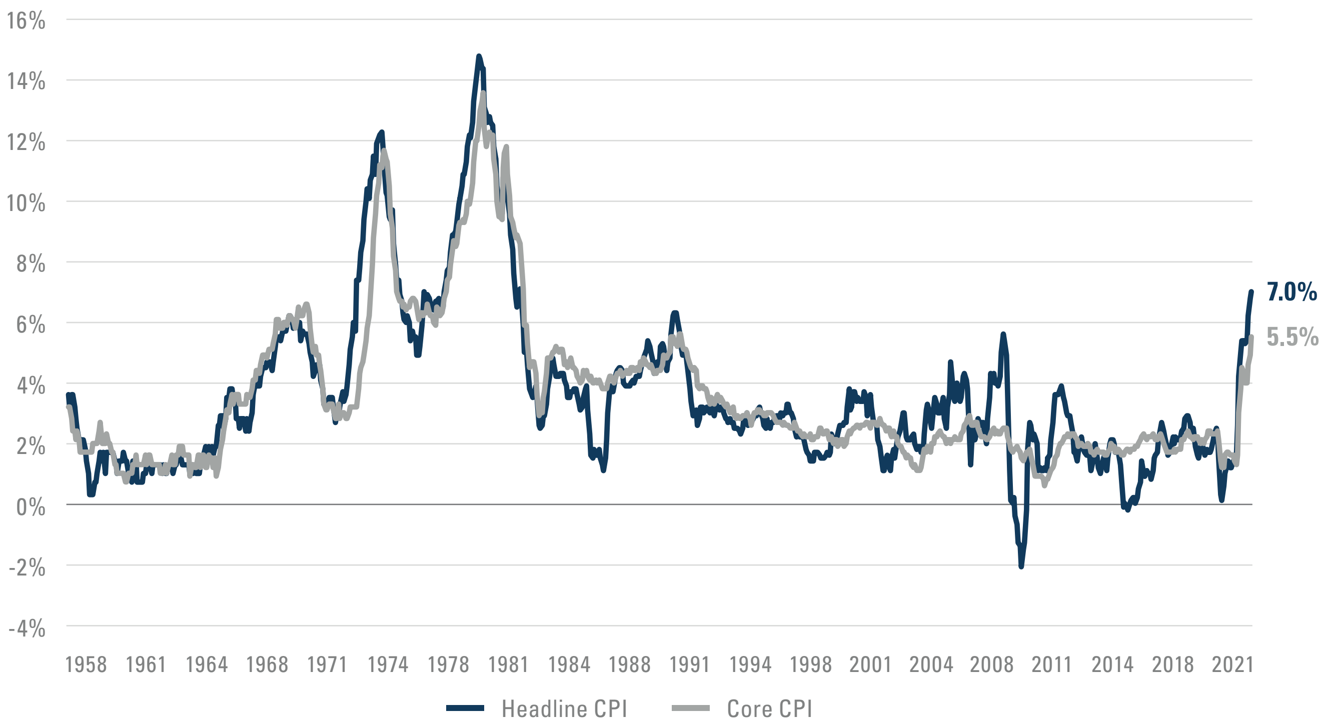


Source: Bloomberg L.P., Capital Economics

1. Bloomberg, L.P. Goldman Cuts U.S. GDP Forecast with Omicron a Drag on Growth. Published December 4, 2021.
2. Capital Economics. 2022: High Inflation to Drive US Policy Tightening. Published January 5, 2022.

One side effect of the fast recovery in the U.S. has been elevated inflation. The headline Consumer Price Index (CPI) rose 7.0% year-over-year (**Exhibit 2**), dramatically accelerating throughout 2021.[3] The highest inflation in over 40 years has been a result of several factors, including 1) low base effects from 12 months prior; 2) government stimulus programs potentially providing excess liquidity and temporarily disincentivizing workers from re-entering the labor force; and 3) disruptions to supply chains during the pandemic that are facing labor or materials shortages and, thus, having difficulty increasing again. **We continue to see rising prices for construction materials that may provide a tailwind for existing CRE in the form of longer construction periods and increased replacement costs that will burden and somewhat reduce new supply.** Price inflation should ease next year, but it has been larger and will likely last longer than previously thought, due in part to the cyclical pressures from rising wages.[4] Labor market conditions will remain tight in 2022 amid a reduced workforce participation rate, leading to broad shortages of available, qualified, and willing workers in the U.S. The U.S. economy is still more than 3 million jobs short of the peak employment reached prior to COVID-19.

EXHIBIT 2: U.S. Consumer Price Indices (YoY, Not Seasonally Adjusted)



Source: Federal Reserve Bank of St. Louis

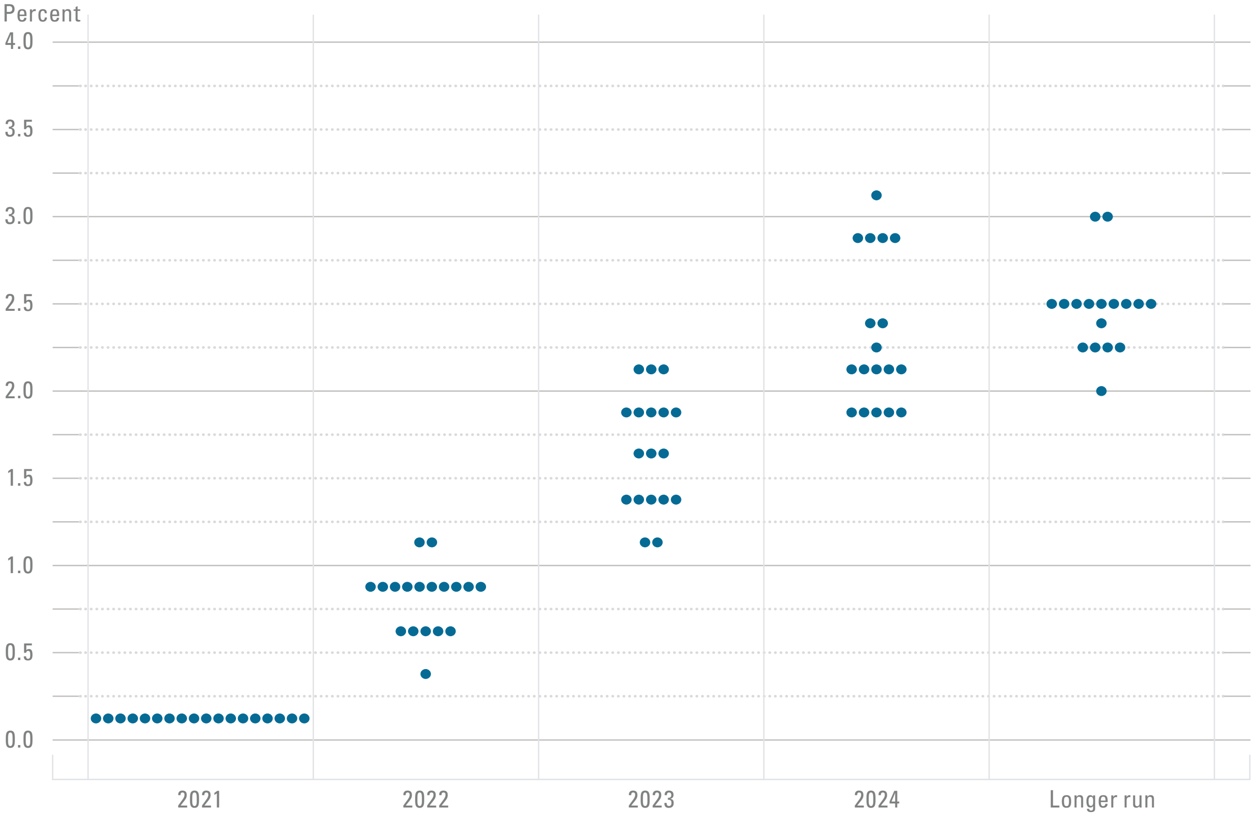
One result of the unprecedented government response, both recently and since the Global Financial Crisis, has been a continued low interest rate environment. Prior to the pandemic, the 10-Year U.S. Treasury rate began 2020 at just under 2%, before dropping to an all-time low of 0.51% in August 2020 and staying below 1% for the remainder of the year. In 2021, the 10-Year U.S. Treasury averaged just 1.43%. In order for the U.S. government to continue to support economic growth and to ease the interest rate obligations on its expanding federal debt burden, Treasury rates are now projected to remain low from historical standards for a prolonged period. The Congressional Budget Office revised its projected average 10-Year U.S. Treasury rate downward to 2.3% for the next decade.[5] Therefore, a yield-starved environment is likely to persist, favoring higher allocations to CRE investments.

3. CPI-Urban Consumer All Items increase as of December 2021.
4. Capital Economics. Global Economic Outlook – October 2021.
5. OMB, Budget of the U.S. Government, The 2021 Long-term Budget Outlook, March 2021.

Given elevated inflation, which has moved from being transitory to more persistent, and a tight labor market in the U.S., **the concluding statements from the December Federal Open Market Committee (FOMC) meeting signaled an increasingly hawkish shift in tone.** Specifically, Federal Reserve Chairman, Jay Powell, announced a doubling to the current size of its bond repurchase program, which will end in February 2022. Further, the updated dot plot projection (**Exhibit 3**) now shows four hikes to the Federal Funds Rate in 2022, with the first beginning in March. This is followed by three hikes in 2023 and two further hikes in 2024, with the Federal Funds Rate climbing to more than 2% at that point in time.[6] If the market reaction to the first couple of rate hikes is too severe, the Federal Reserve might choose to slow down the pace of the increases.

With all this in mind, **we anticipate the 10-Year U.S. Treasury rate to increase to a range of 2.00-2.25% in 2022 before rising to 2.75% in 2023, with limited further upside** in rates driven by strong foreign investor appetite at U.S. Treasury auctions and the risk of economic stagnation due to the combination of slow economic growth and high inflation (i.e. stagflation).[7] As the Federal Reserve raises U.S. interest rates, it may lead to heightened foreign exchange risk for overseas investors. The bond market is finally reacting to this impending structural shift in rates, with the 10-Year U.S. Treasury increasing to 1.78% as of early January 2022, although still not eliciting enormous angst about the direction the Federal Reserve is currently taking. We are hopeful that the Federal Reserve will follow through with shrinking the size of its balance sheet before meaningfully hiking interest rates, as the fading levels of monetary easing should have a strong incremental effect on rates in and of itself. As discussed above, the risk of economic stagnation in 2023 further supports a continued low interest rate environment, albeit off the lows more recently experienced.

EXHIBIT 3: FOMC Federal Fund Rate (FFR) Dot Plot Projection



Source: U.S. Federal Reserve System - December 2021

6. Capital Economics. Hawkish Powell Consistent With March Rate Hike. Published January 11, 2022.
7. Capital Economics. 2022: High Inflation to Drive U.S. Policy Tightening. Published January 5, 2022.

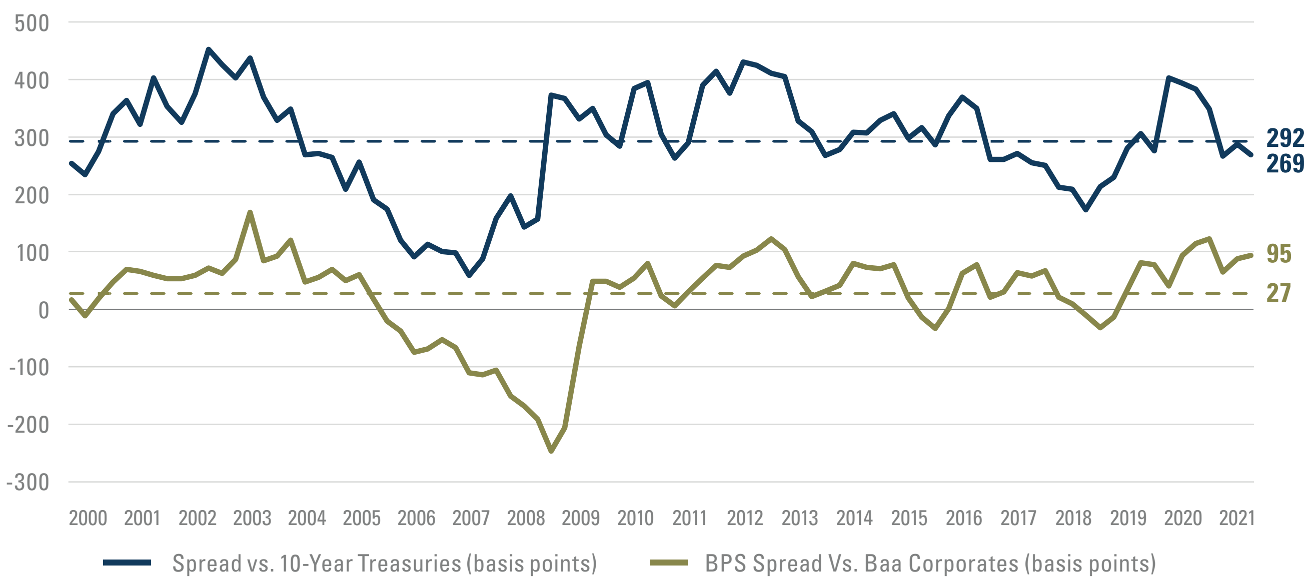
Trends and Opportunities:
INVESTMENT VIEWPOINTS

As we turn our attention to a post-pandemic world filled with more uncertainty, we provide a brief evaluation of CRE market conditions before highlighting perspectives on inflation and supply shortages that investors should be considering. We believe these topics should be particularly impactful for real estate markets as economies reemerge and market participants refocus towards future growth.

Evaluating Market Conditions

Similar to the economy, commercial real estate market conditions are evolving at a torrid pace. **2021 marked strong performance broadly speaking, with the industrial sector outperforming on robust capital flows and favorable market dynamics.** Nationally, core cap rates fell to a record low, averaging 4.18% at the end of the third quarter of 2021, 50 basis points lower than pre-pandemic.[8] Except for the retail sector, cap rates compressed across all property types last year, which came even in the face of a slightly rising 10-year Treasury yield.[9] Current investment IRRs remain compelling relative to other asset classes (**Exhibit 4**).

EXHIBIT 4 : Cap Rate Spreads vs. U.S. Treasury and Corporate Yields



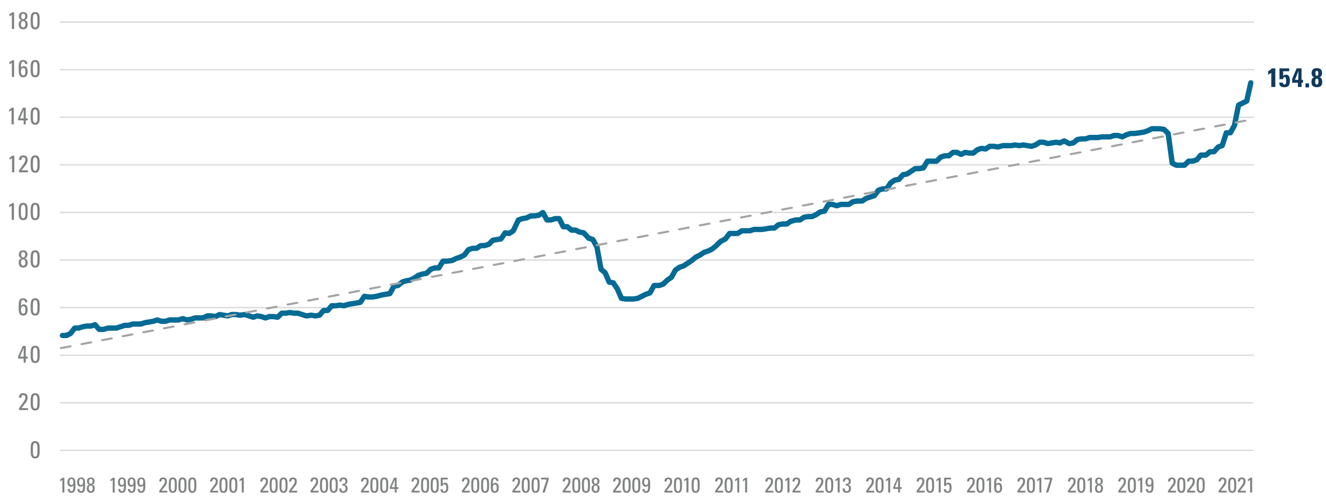
Source: NCREIF, Moody's, USAA Real Estate

8. Per NCREIF appraisal cap rates as of Q3 2021.
9. Real Capital Analytics. Big Picture Q3'21 – Recent Trends.

Given a backdrop of three to four rate hikes and a 10-Year U.S. Treasury rate north of 2%, we expect broad CRE cap compression will end this year, leading to flat or even slightly higher cap rates in 2022. That said, strong velocity in rental pricing at the property level and intense investor interest in CRE from foreign and domestic sources could make it difficult to compare cap rates across specific assets, resulting in situations that may look like compression on assets deemed to have either below market rents and/or outsized rent growth potential. Even if cap rates rise, rental growth could be strong enough to offset the impact to asset values, although some value correction is likely for certain assets in 2022.

Exhibit 5 shows the Green Street's Commercial Property Price Index falling 11% peak-to-trough in 2020; however, prices have surpassed the pre-COVID high by 14.4% through November 2021.[10] As previously mentioned, the Industrial sector continues its dominance, rising 54.2% since the start of COVID, whereas the regional malls and office sectors have fallen 8.7% and 2.7%, respectively.[11] Multifamily rental rates have recovered in most major markets, with some sunbelt metropolitan statistical areas (MSAs) seeing upwards of 20% annual rent increases for new leases. The industrial sector will benefit from the strongest market fundamentals in 2022, with the potential for 30% year-over-year rental rate hikes in the top markets.

EXHIBIT 5: CRE Pricing Back Above Long-Term Trend



Source: Green Street Advisors

Moving to levered private fund performance, the NFI-ODCE Index rose 21.1% in 2021, representing one of the strongest annual returns since the index began in 1978. To note, this type of performance is not sustainable without continued compression of cap rates. The ODCE Index, comprised of core real estate funds, benefited from appreciation that required no value creation at the asset level, but was instead largely driven by favorable appraisals and, to a lesser degree, by rent growth.

Core Real Estate as an Inflation Hedge

After having not experienced a period of high, sustained inflation in the U.S. in more than 40 years, headline inflation soared in 2021 and recently rose to 7.0% in December, due to the reopening of the U.S. economy and lingering effects of COVID-19. Further, core inflation rose to 5.5%, the largest increase since 1982. **Given that a key objective of many investors is maintaining the purchasing power of their portfolios in real terms, inflation risk has intensified.**

10. Green Street, as of November 2021.
11. Ibid.

EXHIBIT 6: Asset Class Characteristics vs. U.S. Inflation
March 1978 – September 1981

	Correlation	Return	Risk	Sharpe Ratio
Intermediate U.S. Gov't Bonds	0.71	2.4%	7.1%	-1.16
U.S. Equities	0.87	4.7%	15.0%	-0.40
Commodity Futures	0.75	11.2%	32.1%	0.02
REITs	0.96	17.9%	52.9%	0.14
NFI-ODCE	1.00	17.7%	25.8%	0.27
Physical Gold	0.78	29.2%	170.4%	0.11

Source: Bloomberg L.P., USAA Real Estate [Indices: Barclay's Intermediate Corporate Bond Total Return Index, S&P 500 Index, S&P GSCI Index, FTSE NAREIT All Equity Index, NCREIF ODCE Index, Gold U.S. Dollar Spot Price Index]

In addition to the risk, return, and diversification benefits that direct private real estate, as measured by the NFI-ODCE Index (Exhibit 6), provides to a mixed-asset portfolio, it can also serve as an inflation hedge. Over this time period, CPI rose by a cumulative 11.0%. Real estate can provide a hedge against inflation because rental and lease payments – varying by property type and associated lease structure – typically can be adjusted regularly for inflation. Additionally, price appreciation can occur as a result of the capital rotation out of stocks and bonds and into direct real estate in times of inflation. Historically, other traditional investments like stocks, nominal bonds, and even listed REITs tend to be negatively impacted during inflationary environments in the U.S., or represent a suboptimal asset allocation decision given today's enhanced investment landscape. In contrast, direct private real estate is positioned to be a hedge against rising inflation. One of our **recently published papers** provides a deeper exploration of the topic.

Construction Materials Shortages: Delayed Deliveries and Accelerating Rent Growth

The pandemic exposed significant challenges for supply chains globally, disrupting the flow of raw materials and finished goods. **Research shows that ongoing disruption is driving a global shortage of raw building materials, resulting in increased input prices and extended lead times.** Since the start of the pandemic, input costs for nonresidential construction in the United States have soared more than 30% (**Exhibit 7**).[12] Materials availability issues are experiencing lead times with delays of up to 12 months or more for some products. This compares with lead times of four to six weeks, prior to the pandemic.[13]

The strength of occupier demand for industrial space during the pandemic has continued to fuel new development. However, increased materials pricing and required lead times are causing some property developments to be paused or delayed. Assuming demand remains robust, we could see historically low vacancy rates in 2022 as new supply will simply not be available. With continued strong demand and increased materials costs, industrial rents will likely continue to move up to align with the increased cost of development, as discussed in our **recent paper on this topic**. The good news is that rising prices should encourage additional production. As disruption fades, suppliers will be in a better position to respond to demand, so this may alleviate some of the price pressure on materials. This will help to moderate price increases, although, in the short term, additional price escalation and longer lead times are expected. Further, similar to the shortages in key materials, well-located undeveloped land parcels are also becoming scarce so current dynamics make it attractive to control the land to manage costs and alleviate gaps in construction timing.

EXHIBIT 7: Change in U.S. Construction Input Costs

Source: U.S. Bureau of Labor Statistics – October 2021

12. U.S. Bureau of Labor Statistics, October 2021.
13. USAA Real Estate Research. Interview with Lange Allen (USAA Real Estate), December 2021.

CRE OPPORTUNITIES

USAA Real Estate has developed several investment themes, which we believe present attractive investment opportunities both in the near term and over the long run. We discuss all our investment strategies later in this report; however, the following represents two major themes that will underpin USAA Real Estate's investment platform as this new economic and real estate cycle takes hold.

I. The Intersection of Technology and Real Estate

Our focus here will be on those critical elements of real estate infrastructure that serve as essential building blocks for the new economy while also satisfying investors' growing need for reliable and sustainable income, including:

Industrial/Logistics: We will continue to build on our existing core competencies and market leadership in e-commerce and logistics, including developing key elements of the e-commerce distribution system that are critical to meeting surging consumer demand. The industrial/logistics sector has outperformed other sectors during the COVID-19 crisis, mainly due to the millions of global consumers that have fully embraced online shopping. **In the U.S., digital sales as a percentage of total retail sales spiked to an all-time high in the second quarter of 2020 (16.1%), a trend that continued in 2021.**[14] Similarly, in the E.U., e-commerce sales in April 2020 increased by 30% compared to April 2019, while total retail sales diminished by 17.9%.[15] The structural shift toward online sales was already underway before the health crisis but has now accelerated. There is strong demand from businesses to fulfill the "last mile" distribution channel, and the fundamental imbalances in select markets are favorable to landlords.

Moreover, many companies have been increasing inventories to prevent shortages experienced during the pandemic, which increases warehouse demand. Some organizations have already begun to diversify their supply chains by reshoring to North America. Given this backdrop, USAA Real Estate will focus on expanding its industrial platform, as we believe the sector is well-positioned to thrive in the years to come.

Data Centers: We will capitalize on the exponential growth in demand for data center capacity critical to enabling new technologies. The ability to host services and store associated data depends on specialized physical infrastructure to maintain secure, uninterrupted service. Technological innovation has led to consumers being digitally connected constantly. **The Global Datasphere (which quantifies and analyzes the amount of data created, captured, and replicated in any given year across the world) estimates that the amount of data created over the next three years will eclipse the collective data produced the past 30 years.**[16] This dynamic will be mainly due to the nearly 56 billion devices forecast to be internet-connected by 2025 – 7x more massive than today's global population.[17] In response, technology companies are investing in data centers as mission-critical infrastructure. This infrastructure enables consumers of e-commerce, financial services, media and entertainment, healthcare, and other applications that require reliable internet connectivity to access data seamlessly. The data center sector has been resilient amidst the COVID-19 crisis due to increased internet-connected devices and the secular trend of content consumption.

14. U.S. Census Bureau News, Quarterly Retail E-Commerce Sales 3rd Quarter 2021. BBC Briefing, February 2020, Heriot-Watt University
15. Organisation for Economic Co-operation and Development. E-commerce in the time of COVID. Includes sales via mail order/internet
16. IDC. IDC's Global DataSphere Forecast, May 2021.
17. IDC. How You Contribute to Today's Growing DataSphere and Its Enterprise Impact, November 2019.

Digital Media Platform: In conjunction with our affiliate Square Mile Capital, we will continue to capitalize on the intersection of media and technology coupled with the explosion in demand for digital content. **Statista forecasts that global video streaming revenue will increase 65% over the next several years – rising from $71 billion in 2021 to $116 billion by 2026.** Similarly, the segment will experience strong user penetration growth, expanding from 14.3% in 2021 to 18.9% by 2026.[18] Thus, robust digital content demand will lead to remarkable growth in studio and creative office space. We are responding to strong demand in the U.S., United Kingdom, Canada, and Europe.

Life Sciences: We will continue to capitalize on the secular tailwinds that exist around demographics, quality of life, and healthcare spending. **Over the five years ending in 2010, the Food and Drug Administration (FDA) approved an average of 22 new drugs per year; however, over the five years ending in 2021, FDA approvals grew by 236% to an average of 52 new drugs per year.**[19] Today, there is less than 150 million square feet of lab space in the U.S. to support life sciences' growth. Comparatively, there is 13.6 billion square feet of industrial inventory in the U.S. and 4.3 billion square feet of traditional office inventory.

Emerging Technologies: We will utilize new technologies that enhance investment performance related to investment execution, business operations, and management. These tools range from innovative construction techniques, to machine learning and predictive analytics that enable dedicated applications to drive better risk-adjusted returns. They also provide better visibility into the economic and business cycles while enhancing our understanding of relative investment risk across property markets – these include downside protection measures at the asset level during our underwriting, due diligence, and property operations. **Therefore, sophisticated managers balance the use of technology as a tool to enhance the decision-making process across different stages of an investment to supplement their institutional knowledge and human intuition.**

18. Statista. Worldwide Video Streaming (SVoD), November 2021.
19. JLL Research. 2021 Life Sciences Real Estate Outlook. United States - 2021.

II. Rental Housing

The demographic tailwinds – driven primarily by Millennials, Generation Z, and the Baby Boomers – that will underpin the rental housing market over the long term remain robust and have arguably strengthened as a result of the COVID-19 health crisis. **With Millennials finally starting to transition to homeownership in the long aftermath of the GFC, the nearly 67 million Americans in Generation Z have now become the fastest growing renter segment in the U.S.**[20] In addition to our traditional multifamily activities, we have added focus in the following areas:

Workforce Housing: USAA Real Estate is committed to addressing the lack of workforce housing in the United States. We have identified systemically under-supplied markets, where communities are struggling to find housing for essential workers, and employers cannot recruit new workers because of a lack of workforce housing options. We will focus on creative solutions for these markets while capitalizing on the increased demand in markets with more favorable affordability.

Single-Family Rentals: USAA Real Estate is developing a for-rent residential platform across the U.S. **17 million renters dwell in single-family rental homes and the industry has been the fastest growing segment of the housing market since 2006.**[21] Household formation and changes in the homeownership rates are two fundamental drivers for residential housing demand. The construction of purpose-built, single-family neighborhood rentals offers a compelling opportunity.

Senior Housing: **Pew Research estimates there are 71.6 million Baby Boomers today.**[22] **Over half of them (38 million) are between 65-74 years of age, and an average of 10,000 Baby Boomers will reach retirement age every day until 2030.** There remains an insufficient number of caregivers to provide for this cohort as they age, creating ongoing need-based demand for congregate-care facilities. Additionally, the new health requirements born out of the COVID-19 crisis should generate demand for a modern senior housing product, as older stock may be rendered obsolete.

Affordable Housing: USAA Real Estate is committed to strategies that can address the affordable housing crisis in the United States through public-private partnerships and creative financing. **Continued strength in residential home prices and large increases in multifamily rents, in addition to a volatile economic landscape and other socio-economic factors, have contributed to a shortage of 6.8 million affordable rental units in the U.S.**[23] We will focus on those major markets, where we have past investment experience, that feature the strongest societal needs.

20. RentCafe. Vibrant Small Towns In America's Heartland Are the Best Cities For Gen Z Renters. Published March 16, 2021.
21. John Burns Real Estate Consulting. U.S. Housing Summary - 2020.
22. Pew Research Center. Millennials Overtake Baby Boomers as America's Largest Generation, April 2020.
23. National Low Income Housing Coalition. The Gap: A Shortage of Affordable Rental Homes, March 2021.

Investment Stance: Remaining Active In A Rising Rate Environment

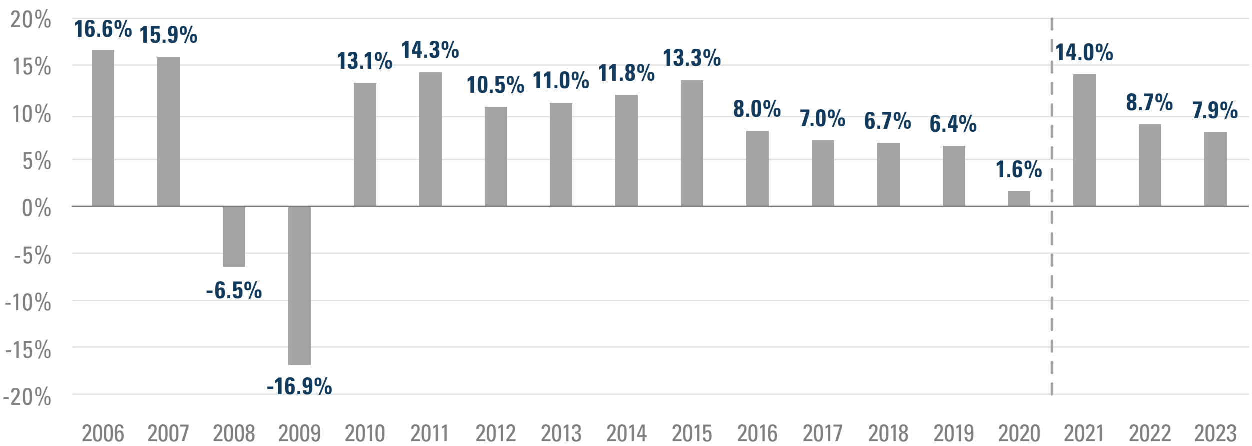
The slow growth, low yield environment that persisted before the pandemic had already set the stage for lower CRE returns, and COVID-19 was originally thought to exacerbate the situation. However, CRE returns (**Exhibit 9**) are in-line from a historical perspective, as measured by the NCREIF Property Index (unlevered), and remain attractive today on a relative basis. As previously mentioned, ODCE Fund Index (levered) performance reached 21.1% in 2021. Given the recent rise in inflation, real estate is expected to play an increasingly important role in multi-asset portfolios in the years ahead. **In addition to providing an inflation hedge, the sector provides stable income and compelling total return prospects at a time when the traditional "60/40" portfolio (comprised of 60% equities and 40% bonds) has become less attractive for many of today's sophisticated institutional investors.**

Having a defensive posture in place before COVID-19 undoubtedly enhanced performance during the pandemic. As we enter this new commercial real estate cycle, we maintain our pragmatic approach, while also actively and aggressively capitalizing on opportunities that reflect our primary investment themes. **As cap rate compression ends, value creation skills regain importance. Development and value-add strategies will enable our investors to benefit from what will still be a significant spread between cost and value, even if values flatten or decline.**

Artificial Intelligence CRE Forecast

Using machine learning and predictive analytics, USAA Real Estate has created back-tested, proprietary artificial intelligence (A.I.) models that examine a vast set of robust historical datasets and information. **A collection of these tools provides better visibility into economic and business cycles while enhancing our understanding of relative investment risk across property sectors and MSA.** They have also helped us to incorporate downside protection measures at the asset level during our underwriting, due diligence, and property operations. Our initial release of these models in our January 2019 House View implied that there was elevated risk in core real estate. The mean forecast suggested an 11% decline in values across sectors, indicating that core real estate was fully-priced at the time.

EXHIBIT 8: Annual NCREIF Property Index Total Returns



Source: NCREIF

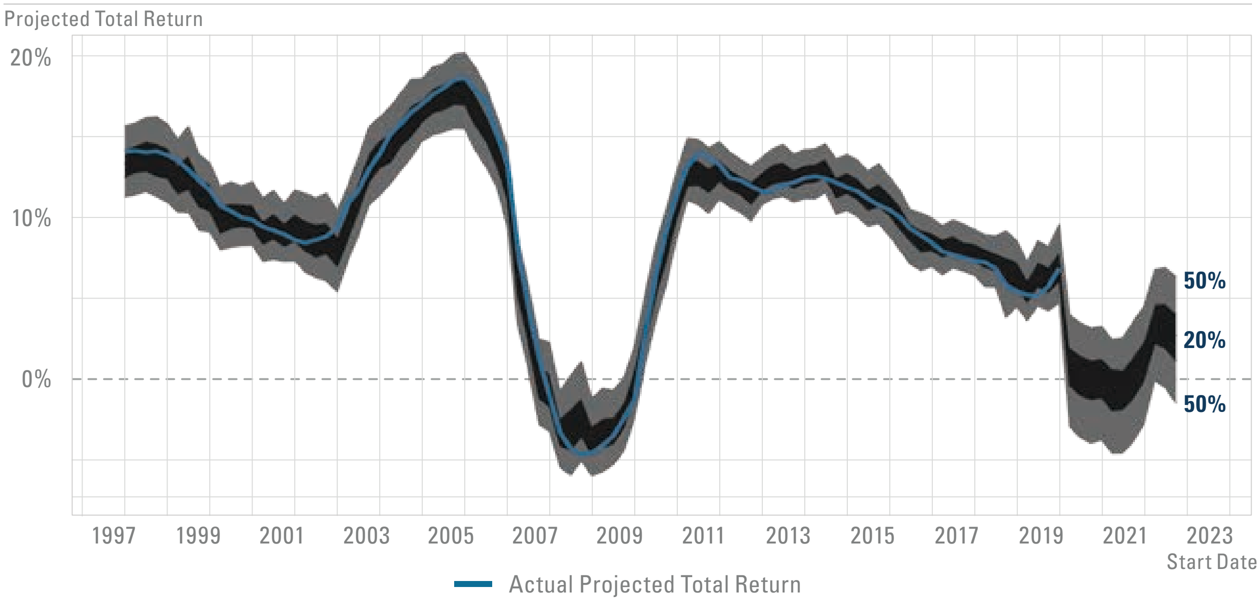
Exhibit 9 illustrates the current CRE total return projections for core properties from one of our A.I. forecasting models. It shows the middle of the distribution in outcomes has improved over the past few quarters, as the capital markets appear to have weathered the pandemic. The nature of this cycle is different than any cycles the model has seen since the 1970s. The model has historically performed well in predicting the turn and severity of cycles. **The unprecedented nature of the pandemic on economic indicators in 2020, with a complete shutdown of the economy followed by a relatively robust bounce back, provided a distinctive test of the models, and they appear to have performed capably.** Given the nature of this economic downturn, we have seen unparalleled fiscal rescue packages, as well as a revolutionary monetary intervention by the Federal Reserve. This massive entanglement of the federal government and the Federal Reserve in private sector activity has not yet been fully reflected in the model.

The following attributes provide a framework for our analysis:

1. The forecasts are for core real estate over the next three years (e.g., assuming you were to acquire core properties at today's market price).
2. Our forecasts provide a range of outcomes with confidence intervals. For example, the mean forecast suggests core valuations will begin to slow from recent strong gains, which may not be sustainable.
3. In **Exhibit 9**, the blue line shows the actual subsequent three-year NCREIF total returns and how they align with the forecast of returns for that period. Historically, the model has been highly accurate in forecasting the turn of the cycle before the actual shift in values occur.

Ultimately, our A.I. forecasting models provide a complementary view that enhances our understanding of the market environment. Today, these A.I. models generally align with our traditional forecasting tools and on-the-ground intelligence presented throughout this document. Our modeling goals were twofold: first, to observe the direction of the cycle and second, to estimate a band around the quantum of the cycle. One notable output from the models is that we see the dispersion across property sector results at an all-time high, reflecting disparities in expected returns across sectors. The current differential between the top and bottom-performing sectors is double the historical average.[24] **We continue to monitor the models to ensure they are resilient to the recent volatility in the economic and financial data.**

EXHIBIT 9: Projected Total Returns — All Sectors



Source: USAA Real Estate Research

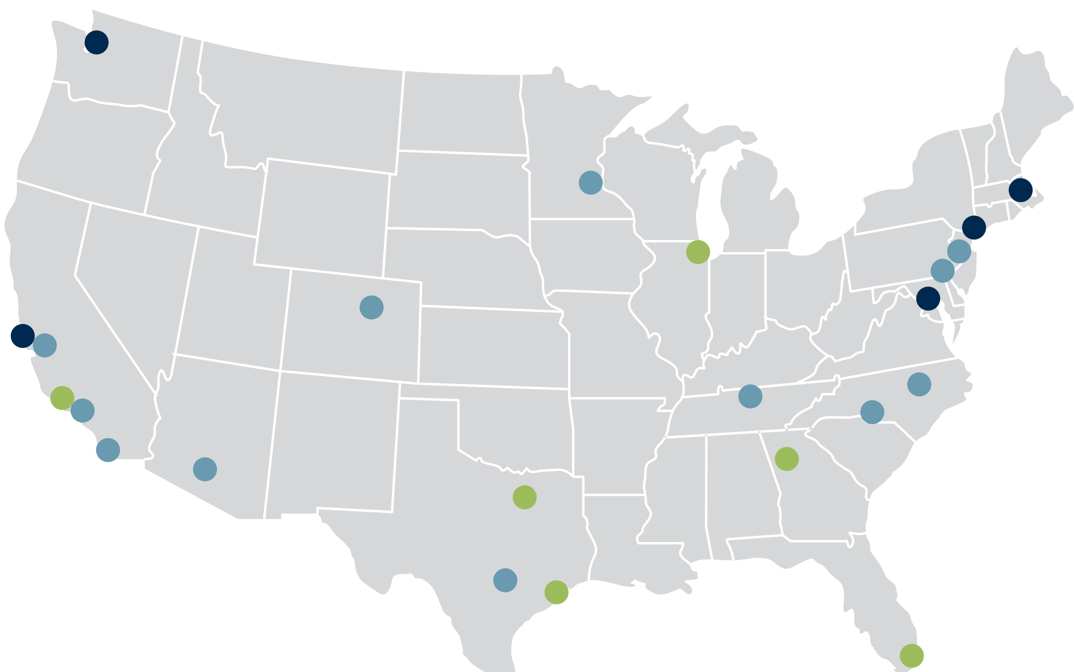
24. Since Q4 1996.

North American Investment Strategies

As always, we remain true to USAA Real Estate's Guiding Investment Principles:

1. Develop and acquire high-quality assets with strong elements of design, size, and access
2. Pursue assets with broad appeal to prospective tenants and future buyers
3. Thoughtfully select assets in the best location
4. Maintain discipline concerning replacement cost
5. Actively manage each investment with a view toward maximizing risk-adjusted returns

Furthermore, we categorize Gateway, Primary, and Secondary target markets, as indicated below.



• Gateway Markets

- Boston
- New York
- San Francisco
- Seattle
- Washington D.C.

• Primary Markets

- Atlanta
- Chicago
- Dallas/Fort Worth
- Houston
- Los Angeles
- Miami

• Secondary Markets

- Austin
- Charlotte
- Denver
- Minneapolis
- Nashville
- Northern New Jersey
- Orange County
- Philadelphia
- Phoenix
- Raleigh
- San Diego
- San Jose

While the classification varies by product type, these descriptions should generally hold true for office and multifamily, with slight variations between categories for hotel and retail. For the industrial/logistics sector, other major markets include Baltimore, Central Pennsylvania, the Inland Empire, Central Valley, St. Louis, Indianapolis, Tampa, Portland, Sacramento, Nashville, Orlando, Louisville, Cincinnati, and Kansas City. Also, we would consider grocery-anchored retail in some large population centers.

Investment Themes and Strategies

NORTH AMERICAN INVESTMENT STRATEGIES

Acquisition Capital

USAA Real Estate is closely monitoring core values in the wake of the ever-evolving economic environment. We will continue to favor value-creation opportunities, with an emphasis on markets experiencing population and job growth. We are allocating acquisition capital in the following areas:

Multifamily: In this critical area of our business, our emphasis continues to be on core creation by acquiring assets below replacement cost, with the potential to add value through renovation and enhanced property management. As a result of COVID-19, city centers within Gateway markets like New York and San Francisco have, in our opinion, been temporarily impacted by weak demand, which could allow for a tactical buying opportunity should values fluctuate due to the unique conditions created by the health crisis. Low density areas within each of these markets saw an increase in demand. Before the pandemic, multifamily supply was near its historical average, but pipelines have now slowed at a time when demand is expected to rise as the threat of the pandemic subsides. **Multifamily occupancy rates are at all-time highs nationally and we saw robust rent growth across markets in 2021.** Thus, the housing shortage in the U.S. has been further exacerbated by the COVID-19 crisis. While strong demographics are expected to increase demand over the long term, the housing affordability issue remains a critical challenge in several major U.S. markets. Therefore, a strategy targeting well-located (high quality, but lower cost) alternatives remains attractive. With this in mind, we intend to significantly expand our activities in creating workforce housing.

Industrial/Logistics: With continued strong demand and increased materials costs, industrial and logistics rents will likely continue to move up to align with the increased cost of development. This also bodes well for the fundamentals of existing properties; increasing replacement costs may be a "rising tide lifting all boats" in the near term. Given this shift in price structure, assets that may have been charging above-average market rents six months ago are now likely below market. Thus, we continue to evaluate assets with vacancies or opportunities with near-term lease rollovers to capture significant rent growth, which can also be purchased below the cost of new development. Identifying attractively priced assets in this sector will continue to prove difficult in 2022.

Office: For the time being, we will remain cautious on office acquisition until we have more concrete visibility into (1) a return to work plan for major employers, (2) how space utilization will eventually be reshaped by COVID-19, and (3) the persistence of demand shifting from urban centers to more diverse locations.

Government Office: We will seek opportunities to expand our portfolio of government-leased, Class A assets. Government-property investments align with our defensive approach; they are more likely to withstand a downturn given the durable credit quality, single-tenant occupancy, and long-term lease structures (typically 10 or more years). While this segment's value proposition has primarily been in new development, we believe government lease credit may, in fact, be mispriced today, particularly in comparison to the private net lease environment. The combination of these factors may present an opportunity to acquire assets at a favorable basis that meet our return expectations.

Square Mile Equity Strategies: Square Mile Capital's equity investment activity will continue to be centered around its opportunistic investment strategy, complemented by its value-add (preferred equity) program. Additionally, we expect to build on the momentum created within our co-investment platform that invests alongside each of these verticals.

Square Mile's opportunistic investment platform seeks attractive, risk-adjusted returns while emphasizing capital preservation. This approach strategically balances two focus areas: (1) distress-driven investments and (2) theme-driven investments. Two of the current themes driving investment activity include urban infill industrial and media and technology convergence. Across its investments, Square Mile Capital provides creative solutions for its operating partners and appropriately tailors transaction capital structures to address deal-specific risks, while aiming to generate targeted returns. Investment structures in this strategy take the form of preferred equity, joint venture equity, platform capitalization equity, and the acquisition of sub-performing and non-performing debt.

The value-add preferred equity strategy focuses on a range of structured equity investments, with tailored capital structures for preferred equity investments that are designed to mitigate risk associated with value-add and development business plans created by:

1. Requiring substantial equity subordination to offer protection for the preferred equity's basis in the transaction
2. Mandating that cash flow and capital proceeds be paid first to the preferred equity
3. Utilizing a conservative leverage strategy at the asset level, which minimizes maturity and other potential event risks

Hospitality: The hospitality sector experienced drastic and immediate declines in operating performance resulting from the healthcare crisis. Thus, at the appropriate time in the market, Square Mile Capital will opportunistically seek to acquire hotel assets at significantly reduced valuations, purchase sub-performing/non-performing loans for control, recapitalize troubled deals with gap capital, and provide rescue capital to operating/management platforms.

Development Capital

As noted earlier, development remains favorable in many markets across our key themes due to solid fundamentals and an attractive spread given the cost of new construction. Additionally, the market value of stabilized assets in certain sectors, remains above replacement cost despite some reduction in core values and increases in construction costs. While USAA Real Estate has been a leader in this market segment, we are ever sensitive to its risks, as construction pipelines have increased significantly in several U.S. markets. As we initiate development projects, we are mindful of the supply/demand conditions that will prevail at the time of delivery. Therefore, we continue to focus our development activity in those submarkets and asset classes that we believe will offer outsized tenant demand and investor interest. Our governing thesis is to invest in development at times when assets are trading well above replacement cost. It is our view that development remains attractive in our areas of focus, notably e-commerce/industrial and rental housing, and as cap rate compression ends, development and other traditional value creation strategies will drive attractive risk-adjusted returns.

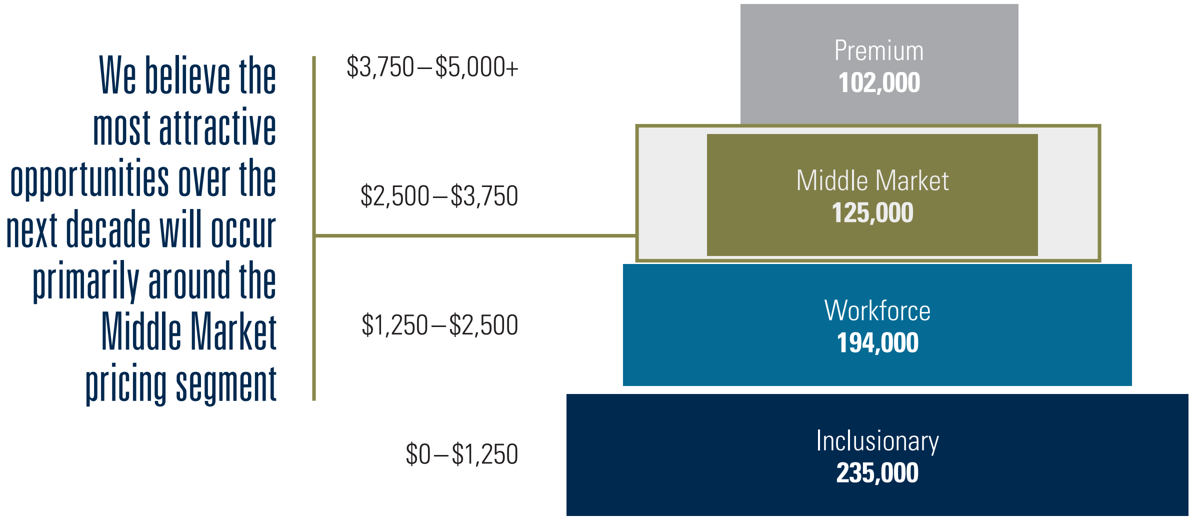
We believe an attractive spread between core values and the cost of new development in certain sectors will persist, presenting the opportunity to "create core assets" at prices well below current trading values. We are also carefully monitoring construction costs and supply in some markets. Labor shortages, increased material costs, and even tariffs have caused cost escalations. Overall, we expect the current crisis to slow the growth of new supply, especially in rental housing, which should accelerate the recovery of rental rates and occupancy levels as the pandemic subsides. We will continue to provide development capital in the following areas:

Multifamily: We take a highly selective and disciplined approach to new multifamily development. Our process includes extensive research on approximately 50 U.S. metropolitan markets (and an even more significant number of submarkets). Tenant demand has mostly kept pace with the rising supply levels across the country in past years. The multifamily sector has benefited from the pent-up demand created by COVID-19, helping apartment rents to recover.

In recent years, rising land and construction costs have resulted in lower development yields when core values softened. Though issues present challenges for investors, opportunities remain in submarkets where demand will outpace supply over the next several years. In these areas, we will continue to pursue our build-to-core strategy, targeting submarkets with substantial population and employment growth. We believe these areas will outperform over the long term.

We believe the most attractive opportunities over the next decade will occur primarily around the Middle Market and Workforce pricing segments (per **Exhibit 10**), developing product that serves an expanding pool of price-sensitive renters while maintaining focus on quality, location, and other differential attributes. While we are mindful of construction costs and supply levels in some markets, there are signs that construction costs have begun to decline as supply pipelines have softened and the supply chain begins to recover post pandemic. Thus, rental rates and occupancy levels have rebounded as the pandemic subsides. This sub-sector of housing has seen a frenzy of investment, pushing prices to record highs well above replacement cost and record low cap rates in most markets.

EXHIBIT 10: Renter Household Classification vs. Affordable Monthly Rent Levels



This exhibit uses the Denver market as a proxy, and household rent assumptions are based on 30% of gross household income.

Source: Costar, USAA Real Estate

Premium
The highest rent range within a major market and often accounts for 15–25% of renter households.

Middle Market
The centerpiece of a critical price point segment that we believe is an attractive investment opportunity over the long run, generally accounting for 15–25% of renter households in major markets.

Workforce
For the sake of this analysis, it is housing that is affordable for those making 80–120% of an area's median income (AMI) and typically accounts for 15–35% of renter households in major markets.

Inclusionary
For the sake of this analysis, it includes renters making below 80% of AMI. It is associated with affordable housing programs intended for lower-income families, typically accounting for 35–50% of renter households in major markets.

Single-Family Rentals: The construction of purpose-built, single family neighborhood rentals offers a compelling opportunity to capitalize on the current housing shortage, as well as increased incremental demand driven by Millennials transitioning to family formation stage of their lives. Unlike the assemblage of disparate homes, purpose-built, single-family rentals provide a viable solution for consumers who cannot afford to purchase a home while also providing investors/owners with operational efficiencies, a consistent renter experience, and opportunities for amenitization. This type of emerging housing opportunity suggests that the single-family rental market has significant investment potential going forward.

Senior Housing: The expected growth in senior housing over the next decade is a demographic phenomenon mainly supported by the Baby Boomers and the Silent Generation cohorts. The oldest Baby Boomers turned 75 years old in 2021, and the bulk of them are in their 60s. Similarly, the number of people between the ages of 82-86, which is the peak demand segment for senior housing, is expected to rise from 5.1 million to 6.6 million (a 29% increase) between 2017-2025. This dynamic should spark demand for other parts of the senior housing spectrum (e.g. assisted living, and memory care). Thus, we are continuing to expand our presence in this sector, and senior housing options such as independent living have become increasingly popular.

As previously described, the demographic trends suggest that congregate care will play a vital role as a large swath of the U.S. population continues to age into retirement. Still, the recent health crisis was a wakeup call for the elderly and the senior housing industry. Older Americans are more vulnerable to the coronavirus, causing senior living providers to radically alter their normal operations in hopes of limiting the spread of the virus. **In the future, facilities will adopt new features ranging from infrared temperature gauges that can remotely monitor for fever and alert medical staff, to commercial-grade HEPA (high-efficiency particulate air) filters that capture over 99% of airborne particles. Further, building designs will incorporate touchless technology and facilitate enhanced social distancing.** Thus, we will target markets with strong senior housing fundamentals, where there is an opportunity to deliver a differentiated product that serves the unmet demand from Silent Generation seniors and is well-positioned to receive the Baby Boomers, as more of them enter the senior age bracket.

Industrial/Logistics Build-to-Suits: Partially fueled by the COVID-19 pandemic, we have experienced a significant increase in build-to-suit activity, with strong demand from e-commerce, food and beverage, medical equipment, pharmaceutical, and third-party logistics users. We remain very active in the sector with an emphasis on facilitating the accelerated needs of our e-commerce clients and other creditworthy users seeking enhanced efficiencies and greater resilience within their supply chain. While pricing remains competitive for industrial/logistics build-to-suits, given the weight of capital-seeking opportunity in the sector and continued low interest rate environment, we continue to find opportunities through our client and development partner relationships. The ownership or control of service-ready and entitled land will continue to provide enhanced margin opportunities. We will continue to focus our efforts on land control, long-term leases with credit quality tenants, and flexible project design in locations exhibiting favorable consumer and labor demographics.

Speculative Industrial/Logistics: Speculative leasing velocity in the logistics space remains strong despite the economic uncertainties caused by the COVID pandemic. The industrial vacancy level remains near cyclical lows with limited new quality space available, while rental rates have continued to increase due to further e-commerce adoption and expansion. E-commerce remains a significant catalyst for industrial demand and is poised to continue to grow for years to come. Although construction levels are robust in select markets, the industrial/logistics fundamentals remain strong, owing to accelerating tailwinds associated with e-commerce, on- and near-shoring, and a shift from "just in time" to "just in case" inventory levels. Given the prevalence of high levels of obsolescence, general supply constraints in consumer-centric market locations, and the tailwinds of demand, we expect fundamentals to remain healthy and continue supporting inventory development. As mentioned regarding build-to-suit development, based on the scarcity of "development-ready" sites in most markets, we seek to proactively acquire or control attractive land parcels that can be activated at the appropriate time. We have found that this provides for more favorable risk-adjusted returns for both build-to-suit and speculative development.

Data Centers: The rapidly increasing demand for digital storage will continue to change the data center landscape for many years to come. Data consumption is growing exponentially, requiring data centers to be closer in proximity to the consumer to reduce latency. From an investment perspective, the construction elements mirror modern industrial/logistics warehouses, while the site selection process is dependent on access to reliable and abundant power, and fiber infrastructure.

In fact, access to these two raw materials provide important supply constraints in the face of massive demand. With this in mind, it will likely become necessary for users of data centers to expand the number of markets in which they will need to operate, which means addressing latency issues, because the core markets such as Northern Virginia and San Jose simply can't meet the impending demand.

In order to successfully address this market opportunity, we concluded it was necessary to demonstrate to the hyper-scalers and other consumers a deep understanding of the space and the ability to execute upon the specific development. To accomplish this, USAA Real Estate along with our strategic development partner and affiliate, Patrinely Group, have created Corscale, which is a data center development company consisting of a world-class team with deep expertise and experience in the sector. This team is actively engaged in the development of more than $5.9 billion of current and future projects.

Life Sciences: As in data centers, we are seeing a massive surge in demand for life sciences lab and office space. As referenced earlier, this is still a relatively small sector at approximately 150 million square feet, but we believe the expansion of the sector has only just begun, driven by emerging technologies and treatment options that are being fueled by capital, access to super-computing, and recent successes of specific drugs.

As in data centers, Life Sciences demand is heavily focused in a small number of markets, led by greater Boston, as well as San Francisco and San Diego. However, demand has also emerged in markets such as New York, Raleigh, Washington D.C., and Seattle and we will monitor growth in these markets.

USAA Real Estate has made a significant commitment to the space with nearly 200 thousand square feet under construction and 4.6 million square feet in various stages of development in the Boston and San Francisco markets.

Office Build-to-Suits: During the economic recovery following the GFC, the office sector experienced a shrinking supply of quality office space for corporate tenants. Current pandemic-related consequences have decreased near-term office demand. But, regardless of the level of demand in the broader office market, we believe we will see increased demand for new, innovative, health sensitive, and efficient buildings within the technology, life sciences, media, and medical sectors. We anticipate remaining a market leader in the creation of build-to-suits and significantly preleased office buildings under long-term leases to credit tenants.

Government-Leased Office: Investments in this subsector offer an attractive opportunity given their stable cash flows and typically limited ongoing capital requirements. Government leases are naturally defensive, as the tenant base has high-quality credit and usually signs lease commitments of 10 years or more. The recent election may drive incremental demand for real estate from the General Services Administration.

Speculative Traditional Office: We will remain cautious in this area and do not anticipate proceeding with speculative office development in the near term.

Debt Capital

USAA Real Estate and Square Mile Capital continue to manage a suite of complementary debt and preferred equity strategies. **At this point in the cycle, these strategies offer highly attractive, risk-adjusted returns consistent with our defensive posture while also providing downside protection.** Many of the traditional CRE debt capital sources remain constrained by the current regulatory environment, and opportunities exist for non-traditional lenders to fill the resulting gap. USAA Real Estate, in conjunction with Square Mile Capital, is actively responding to this opportunity by providing accretive loans across the capital stack. We continue to focus on the following areas:

1. **Whole Loans:** USAA Real Estate offers senior mortgage whole loans on institutional-quality properties throughout the U.S., focusing on long-term, fixed-rate debt for major property sectors in Primary and Secondary markets. The terms range from 5 to 30 years, with loan-to-value (LTV) ratios of 50% to 65%. This investment strategy focuses on producing strong relative value for fixed income investors that have asset-liability matching needs.

2. **Stretch First Mortgages and Mezzanine Debt:** Square Mile Capital originates loans backed by properties with a value-add component predominantly through its Credit Partners lending program. The market opportunity, consistent with all non-bank lending, is derived from borrower demand for debt that is unmet by traditional lenders comprised of banks, life insurance companies, and Government-Sponsored Enterprises. With the onset of COVID-19, much of 2020 was focused on asset management, portfolio surveillance and in limited cases, loan modifications and enforcement of rights leading to conversion to ownership. Overall, credit challenges within the portfolio were constrained, in part due to limited exposure to the most impacted sectors, namely hotels and retail properties. As a result, we were able to continue to look externally for new opportunities but found few actionable transactions over the course of the last year. Both borrowers and lenders cautiously weighed the impact of the market dislocation, leading to accommodative lenders giving borrowers the luxury of time to defer recap and sale decisions.

   This year, the tone of the market has shifted with increasing optimism as the economy accelerates and the immutable fact that with the passage of time, real estate accumulates the need for capital. Property upkeep, new capital projects, and the cost of maintaining or adding tenants never goes away and only expands over time. As a result, borrowers increasingly must transact to protect or enhance property value. This pent-up borrower demand and greater underwriting clarity as market activity resumes has led to an extremely robust pipeline of high quality investments. We are finding strong risk-adjusted returns in residential, industrial, and selectively the office sectors, including life sciences. While we remain cautious of hotels, we have found actionable transactions in markets with near pre-COVID performance levels. The hotel sector will likely be an important but smaller component of our portfolio. Retail continues to have fundamental challenges and is not expected to attract our focus.

3 **Construction Lending:** Square Mile Capital originates construction loans predominantly through its Tactical Partners lending program. Like all non-bank lending, the market opportunity is a function of traditional lender conservatism. COVID-19 has accelerated the trend of tenant demand for state-of-the-art improvements across all sectors, and with it, an increasing separation in performance vis-a-vis aging real estate. Tenant demand is responding to increasing workforce focus on light, air, automation/technology, security, and amenities especially in residential, hotel and office properties. The separation in performance can be even more acute in office/lab space and industrial space as tenants require certain modern physical attributes to feasibly conduct their business. Across our portfolio, we are seeing the greatest leasing absorption in newly-constructed buildings and high-quality repositioned buildings. Construction lending leverages our significant property ownership and development business, enabling us to source and underwrite construction loans that represent among the strongest risk-adjusted returns we see in today's market and we see a continuation of increased demand for non-bank lending in 2022.

Other Areas of Interest

Mexico: We continue to progress with the systematic expansion of our industrial/logistics development business in Mexico. Given Mexico's maturing demand drivers – competitive production costs, diversified economy, favorable demographics, expanding middle class, near and reshoring in North America, and final approval of the United States-Mexico-Canada Agreement (USMCA) – the country is well-positioned to benefit from global institutional real estate capital flows seeking enhanced risk-adjusted returns within the industrial/logistics sector. The nation's emerging middle class has led to healthier retail sales growth, sparking opportunities for accelerated growth in e-commerce sales and corresponding fulfillment space requirements.

We are pursuing a broad strategy of developing in the best markets along with established developers with a strong reputation and focus on institutional quality design, credit quality tenants, and U.S. Dollar-denominated leases, while seeking to facilitate the requirements of our current tenant relationships within the U.S. The pipeline of opportunities continues to expand. We executed our initial investments in Mexico in the second half of 2020, including multi-building inventory development and a multi-market build-to-suit project with a long-standing tenant relation. For additional information, please see our **recent report** on Mexico Industrial Demand Drivers.

Dispositions

In the years leading up to the COVID-19 pandemic, except for the retail sector, pricing of commercial real estate had far exceeded prior peak levels. In that context, USAA Real Estate held the view that core asset pricing would likely recede. Consequently, we elected to harvest billions of dollars of embedded gains across our portfolio, which resulted in the monetization of asset values and realization of outsized returns at an optimal point in the cycle. Throughout the ensuing pandemic and recovery, changes in core asset pricing and deal activity have been uneven across property types and markets. In response, we have and will continue to dispose of assets across segments that have largely recovered and are now at, or above pre-pandemic levels. In such cases, investor appetite continues to surprise to the upside and pricing achieved is, in many cases, well above midpoint broker opinions of value. Ultimately, **our disposition philosophy will continue to reflect our disciplined decision making at the asset level, which seeks to maximize value creation and investment performance. This philosophy differentiates us from other real estate managers whose focus may be primarily on amassing assets under management.**

European Investment Strategies

As we advance into our eighth year of investment in Europe, USAA Real Estate has successfully executed and exited multiple investments across the region. We remain cautiously optimistic about both the ongoing control of the virus and the nature and extent of economic recovery. Monetary policy remains loose, with interest rates expected to stay low. This should support elevated allocations to real estate as the recovery ensues. **We plan to continue and, in some cases, accelerate our European investment activities, focusing on markets and product types with strong economic and cultural drivers, favorable demographics, and healthy real estate fundamentals.**

Since 2014, USAA Real Estate has invested in European logistics in our Mountpark Venture, mainly through development. Mountpark has an enviable and historical track record in delivering successful and complex logistics development projects throughout the UK and Europe. We have become a market-leading, pan-European, logistics development, and investment platform specializing in the development of large footprint modern logistics assets. **Our extensive, strategically located network of logistics projects currently spans seven countries, providing access across Europe's major supply-chain corridors.** The Venture is positioned to take advantage of the maturation of the logistics real estate market in Europe, and we see the opportunity to grow our investment activities in this area further.

Our European development activity has capitalized on surging demand for new big-box industrial/logistics warehouses. We have also realized opportunity in the growing demand for consumer-centric, mid-sized regional warehouses in campus formats proximate to large population centers. In response to demographic trends of urbanization and growing e-commerce and consumer demand, we have seen the greatest opportunity in the development of logistics campuses near large population clusters that can accommodate occupier demand in a range of sizes and allow for active asset management and lease expiration and tenant diversification.

The need for warehouses close to population centers is especially prevalent in Europe, where three-quarters of the population live in cities. Despite this, Europe has only one-third as much warehouse space per capita as the U.S. On the other hand, the scarcity of locations with planning approval and growing demand for distribution and logistics space has resulted in substantial yield compression for stabilized assets, as well as appreciation in development land values. Accordingly, we will remain defensive in this area while still recognizing the strategic advantage that a well located and attractively priced land bank provides. In locations with sustainable growth prospects and barriers to entry, we will look to hold modern logistics assets and benefit from the modernization and sector change in the logistics market.

There is a compelling opportunity to invest in areas where technology and real estate are converging, and we can capture demand as digital transformation continues to accelerate.

At the intersection of this is investing in Europe's data center infrastructure. From an investment perspective, the site selection process and some construction elements mirror modern logistics warehouses. Therefore, we will be leveraging our logistics expertise in pursuit of data center opportunities as they emerge.

We also see a maturing opportunity to develop institutional-quality multifamily residences in select European markets based on compelling demographics and supply/demand factors. Institutional ownership of purpose-built for-rent residential has become more mainstream in Europe, but there are still opportunities to develop high-quality modern product. The residential sector in Europe is highly fragmented and facing increasing regulatory pressures with government rent control measures, creating an inefficient market and this may present an opportunity for USAA Real Estate to leverage its multifamily expertise in key European and UK markets.

Similar to our track record of uncovering value investing themes in the U.S., we will look to capitalize on opportunities driven by demographic shifts, the inadequacy of capital at specific points along the risk spectrum, and individual property types or markets that appear to be mispriced compared to the actual underlying risk profile. We have not yet seen signs of distressed selling in response to the current crisis. However, we will continue to monitor the fallout, which may create opportunities, especially if uncertainty regarding the outlook continues to rise. USAA Real Estate, in conjunction with Square Mile Capital, continue to manage a suite of complementary debt and preferred equity strategies, which offer an interesting way for investors to access the market, specifically in the U.S. At this point in the cycle, these strategies are attractive for investors that are focusing on yield as a risk-adjusted investment play.

As in the U.S., we will take both a strategic and tactical approach to value-driven investments in Europe. We expect Europe's economy to remain supportive of real estate markets in the long-term. Consequently, we believe there will be opportunities to acquire existing assets, provide development capital, and even consider structured debt or equity investments across some markets and sectors. Over the long term, we will continue to grow our investment platform in Europe, and adjust to market opportunities, while maintaining a cautiously optimistic outlook.

Conclusion

As this new economic and real estate cycle takes hold, we recognize the inherent risk in today's market. Our investment platform was designed to capitalize on market disruptions, which ultimately leads to value-creation opportunities. While some investors may be tempted to chase yields, our value-investing approach to real estate is consistent across market cycles. This methodology requires being quick to respond to emerging opportunities, while also:

1. Adhering to our guiding investment principles
2. Maintaining a disciplined underwriting approach
3. Remaining prudent in the face of widespread uncertainty

Thus, given the current economic backdrop, USAA Real Estate will continue to emphasize capital preservation while actively and aggressively seizing opportunities that reflect our primary investment themes. As cap rate compression ends, value creation skills regain importance. Development and value-add strategies will still benefit from a significant spread between cost and value, even if values flatten or decline.

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