

# SBCERA INVESTMENT FORUM 2023

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**September 2023**

For Professional Investors only. All investments involve risk, including the possible loss of capital.

THE PURSUIT OF OUT**PERFORMANCE**



# PGIM REAL ESTATE OVERVIEW





# At-A-Glance

## 50+ Years

Real Estate Investment Experience

## 1,200+

Professionals across 35 cities worldwide

## Net Zero

By 2050<sup>3</sup>

## Top 10

Commercial Real Estate Lender<sup>5</sup>

## \$210B

AUM/ AUA<sup>1</sup>

## 6,300+

Owned and Financed Properties<sup>2</sup>

## Top 3

Global Real Estate Investment Manager<sup>4</sup>

## #2

Capital Raised for Debt Strategies<sup>6</sup>

**Past performance is not a guarantee or a reliable indicator of future results.**

Note: All data as of 6/30/23 and refers to PGIM Real Estate globally unless otherwise noted.

1. Gross AUM/AUA; net AUM is \$133B and AUA is \$49B.
2. Does not include properties where we service a loan only.
3. PGIM Real Estate is committed to the Urban Land Institute's (ULI) Greenprint Center for Building Performance Net Zero Carbon Goal to become Net Zero by 2050 for our global portfolio of managed properties.
4. PGIM Real Estate is the third largest real estate investment manager (out of 77 firms surveyed) in terms of global real estate assets under management based on 'Pensions & Investments' Top Real Estate Managers list published October 2022. This ranking represents global real estate assets under management by PGIM Real Estate as of 6/30/22. Participation in the ranking is voluntary and no compensation is required to participate in the ranking.
5. PGIM Real Estate is the tenth largest commercial real estate lender (out of 149 firms surveyed) in terms of production based on the 2022 Mortgage Bankers Association Annual U.S. Origination Rankings published in March 2023. This ranking represents originations production volume from 1/1/22-12/31/22. Participation in the ranking is voluntary and no compensation is required to participate in the ranking.
6. PGIM Real Estate is ranked second out of 50 firms published in PERE's Real Estate Debt 50 third-party capital raised survey published in May 2023. This ranking represents third-party capital raised for real estate debt strategies from 1/1/18-12/31/22. Participation in the ranking is voluntary and no compensation is required to participate in the ranking.



# U.S. Equity Investment Platform

## Resources and Experience

**\$63B**

AUM<sup>1</sup>

**8**

Cities

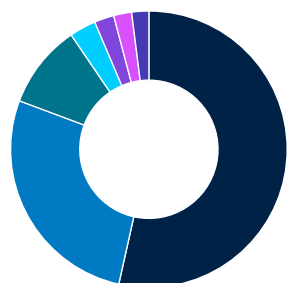
**50+**

Year History

**177**

Professionals<sup>2</sup>

## Distribution by Fund (Based on AUM)<sup>1</sup>

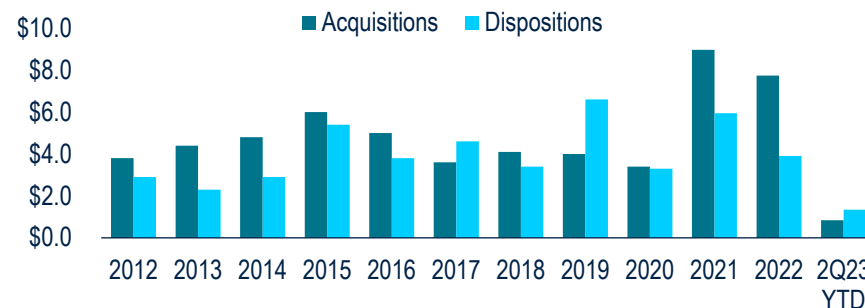


- 53.5% U.S. Core Fund
- 27.2% U.S. Core Plus Fund
- 9.8% U.S. Value-Add Fund
- 3.1% Single Client Accounts
- 2.3% Senior Housing
- 2.1% Sustainable Investing
- 2.0% Other Commingled Funds

## Cities



## U.S. Transaction History (\$ Billions)<sup>3</sup>



**Past performance is not a guarantee or a reliable indicator of future results.**

Note: As of June 30, 2023, unless otherwise noted. Percentages may not sum to 100% due to rounding. <sup>1</sup> Net U.S. Equity AUM equals \$44 billion; note this does not include PGIM Real Estate debt assets and does not include GRES AUM/AUA. <sup>2</sup> Investment Professionals headcount. <sup>3</sup> Includes closed acquisitions and closed dispositions data in the U.S., excluding debt strategies.



## U.S. VALUE-ADD FUND

# Snapshot

As of June 30, 2023

**\$6.1B**

Gross Asset Value

**\$2.9B**

Net Asset Value

**37.9%**

Leverage Ratio

**\$25.0M**

2Q23 Paid Redemptions

**91**

Number of Investments

**52**

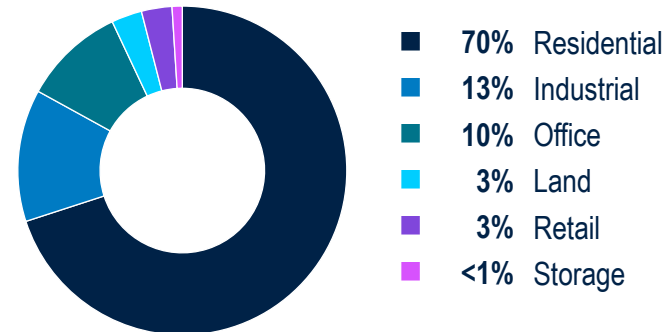
Number of Investors

League City, TX

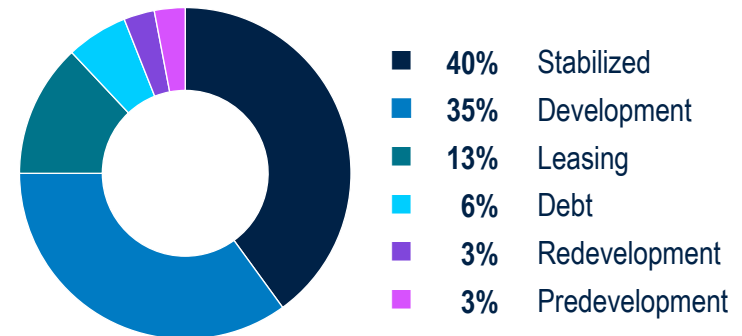


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## Property Type Diversification<sup>1</sup>



## Lifecycle Diversification<sup>1</sup>



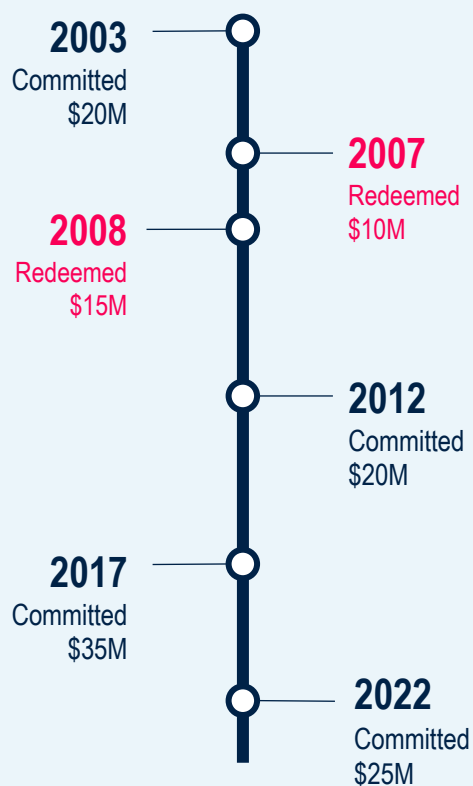
<sup>1</sup> U.S. Value-Add Fund's share of gross market value.

Note: Property image featured is for illustrative purposes only.

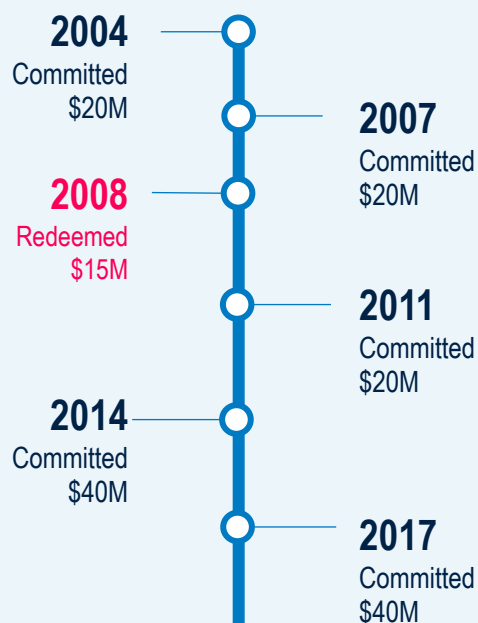


# SBCERA / PGIM Real Estate History

## U.S. Value-Add



## U.S. Core Plus



## Europe Real Estate Debt



As of June 30, 2023.

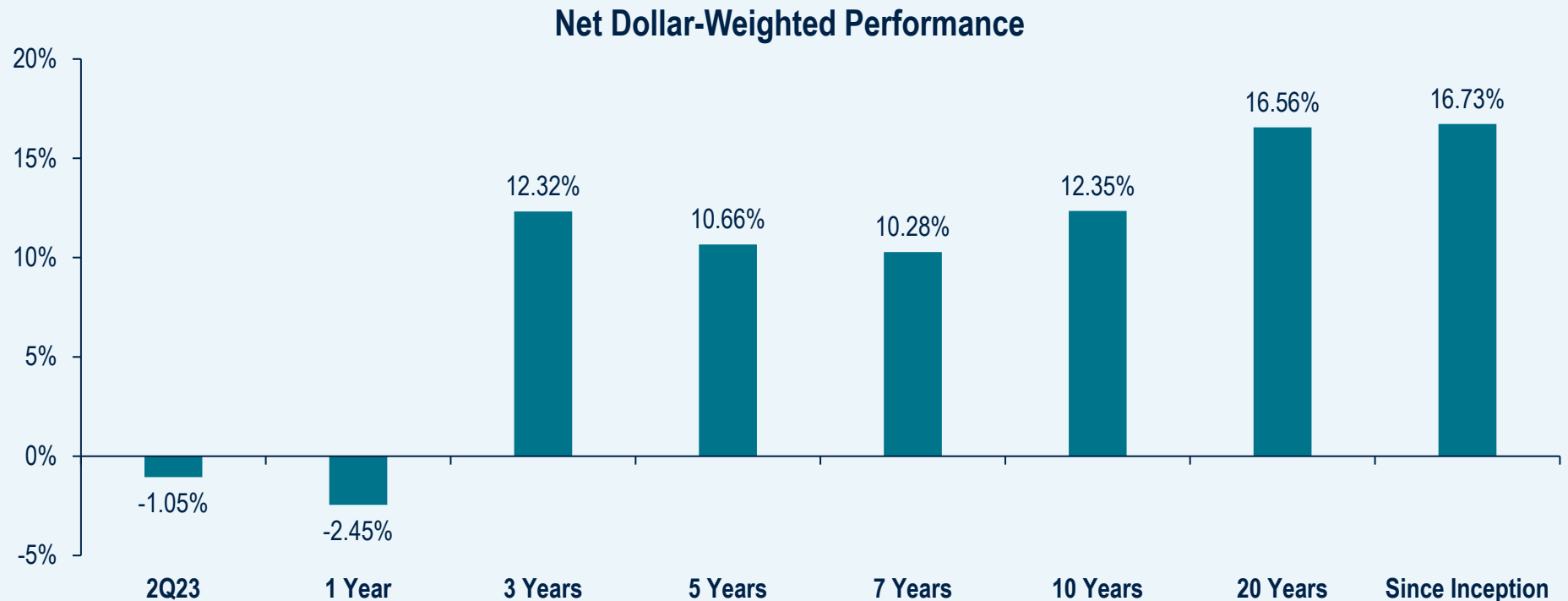
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# SBCERA Performance with U.S. Value-Add Fund

U.S. Value-Add Fund Assets as of June 30, 2023



**\$75.0M**  
Contributions

**\$75.9M**  
Earnings

**\$77.4M**  
Disbursements

**\$73.5M**  
Market Value

Note: **Past performance is not a guarantee or reliable indicator of future results.** Performance reflects the reduction of all management fees inclusive of incentive fees both paid and accrued. Numbers are rounded to the nearest dollar.



**U.S. REAL ESTATE:**  
**FALLING VALUES,**  
**RESILIENT INCOME**

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# Key Themes

- 1** | **U.S. REAL ESTATE:**  
The Current Headwinds
- 2** | **INVESTMENT OPPORTUNITIES:**  
Finding Ports in The Storm
- 3** | **CROWSNEST SPYGLASS:**  
Calmer Waters Ahead





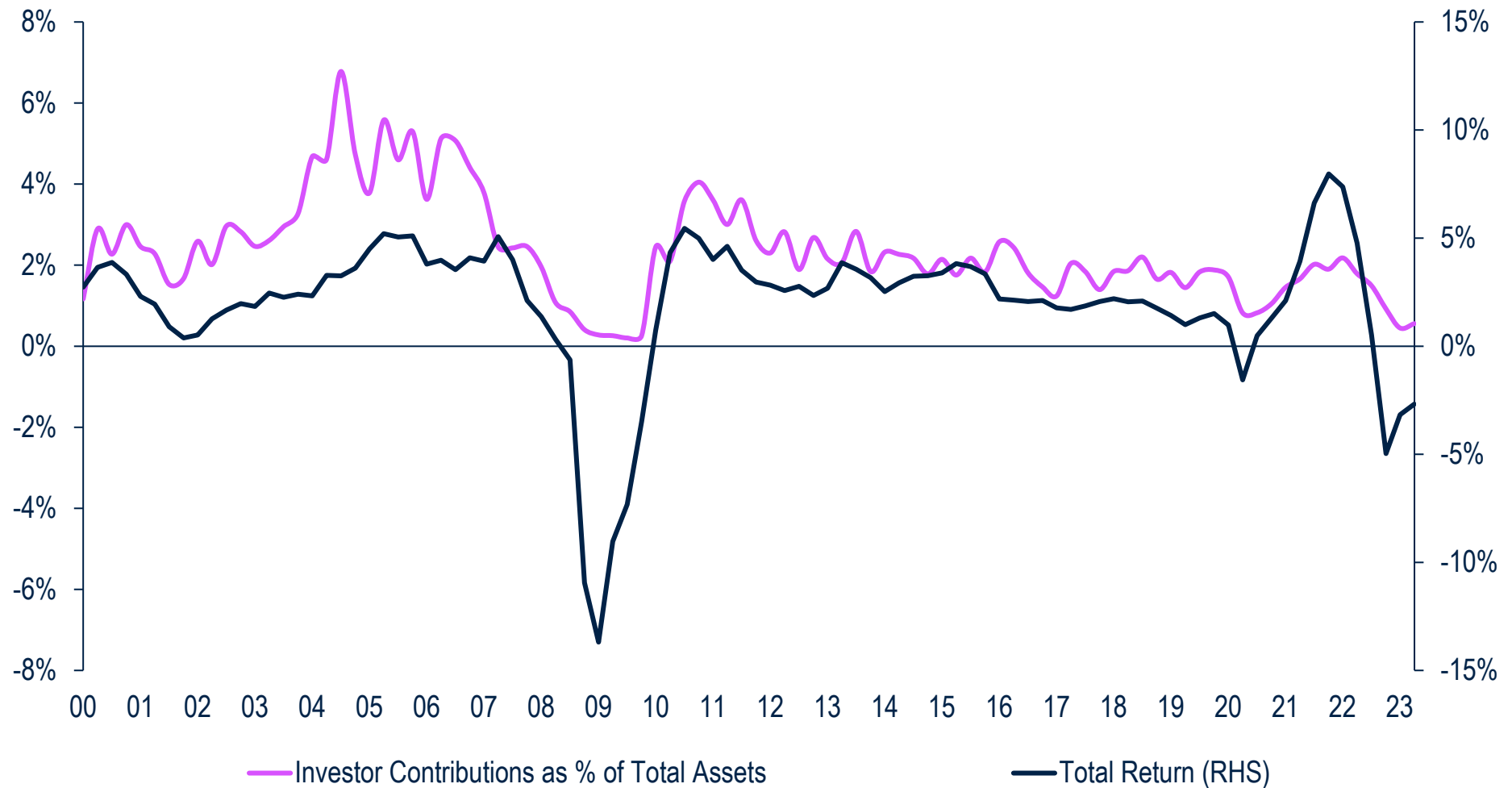
# 1 | THE CURRENT HEADWINDS





# It's Been a Wild Ride

## ODCE Investor Contributions and Total Returns



Sources: NCREIF, PGIM Real Estate. as of July 2023.

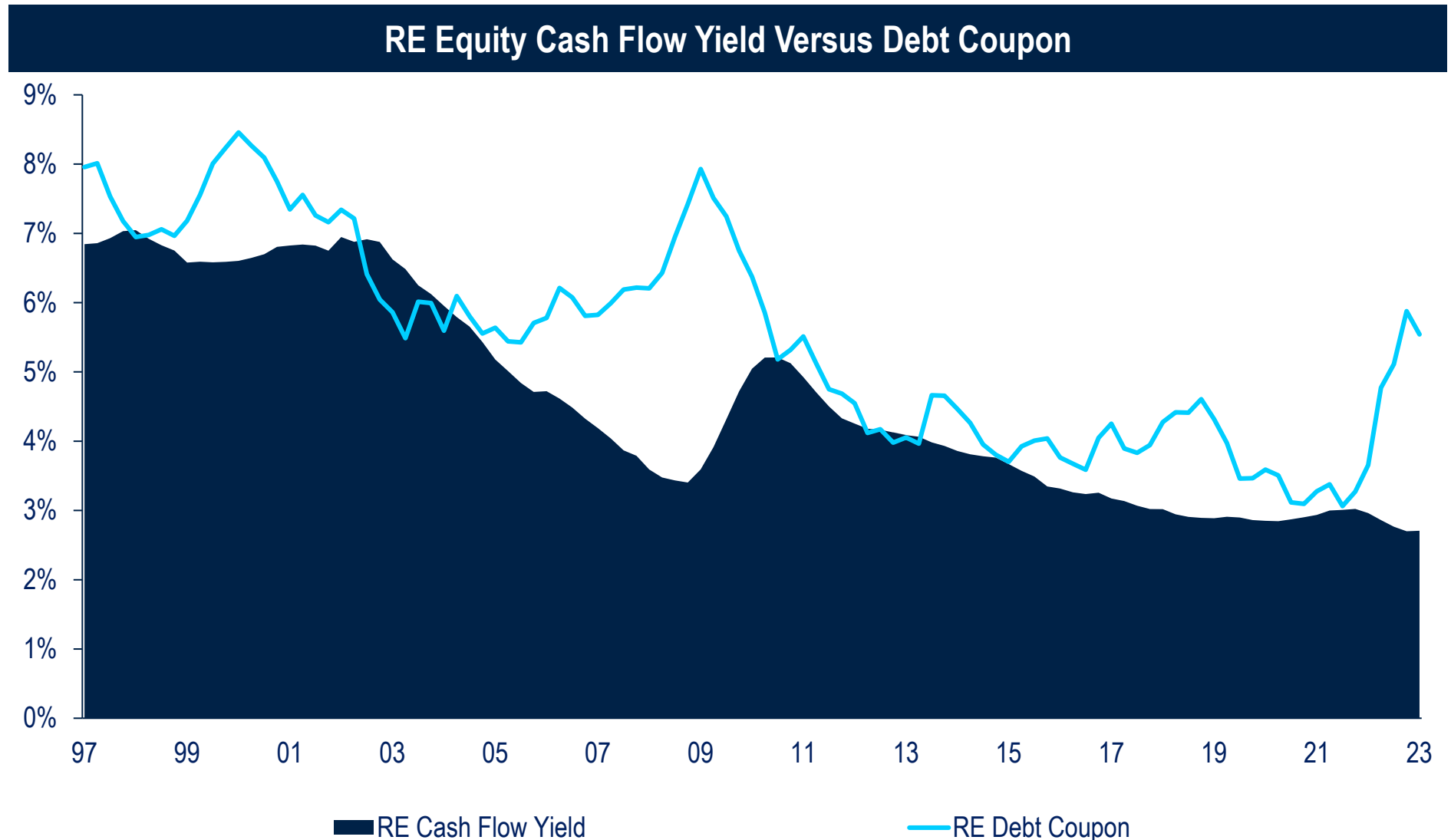
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# ...And Interest Rate Pressures Remain...



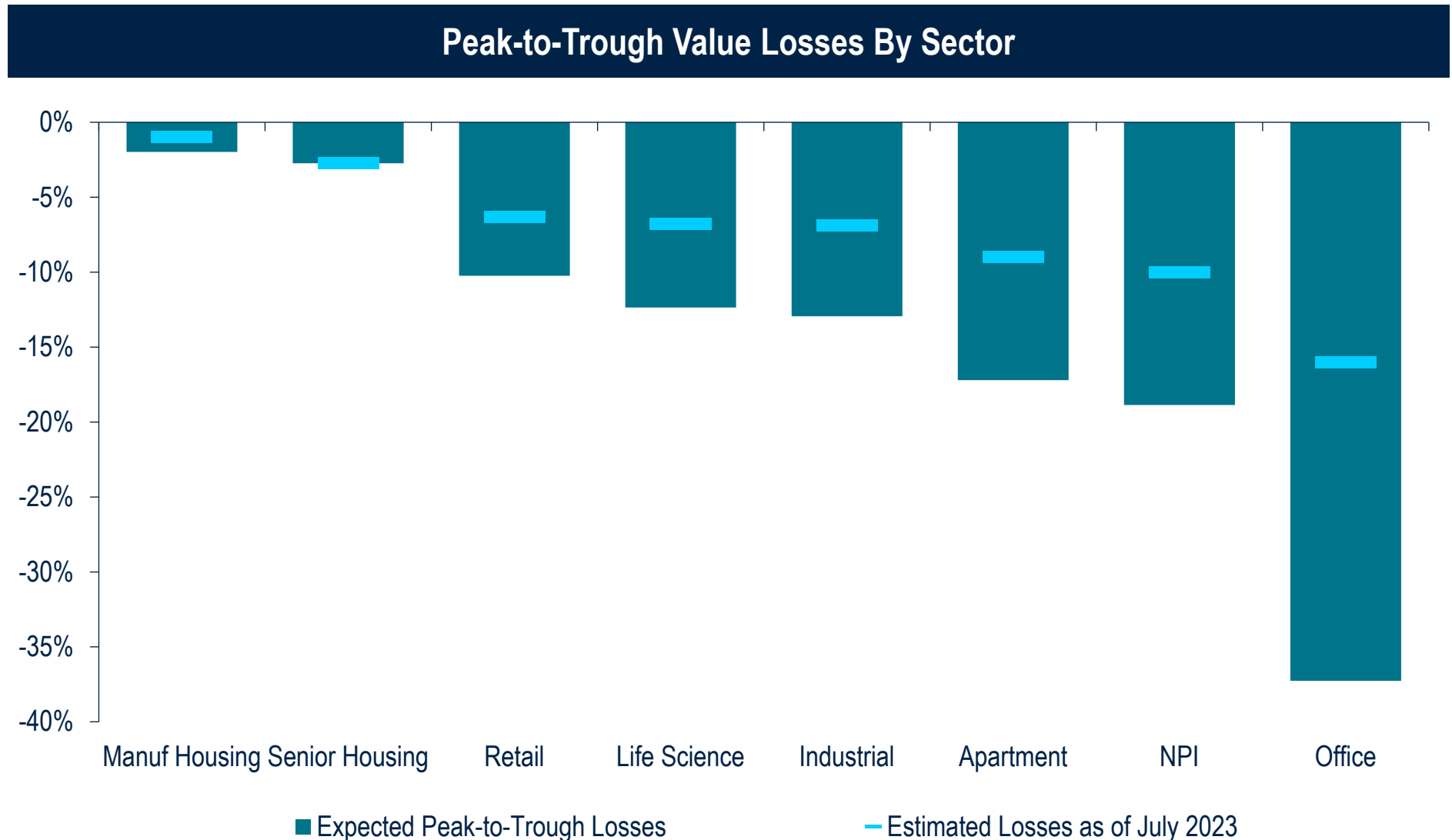
Sources: Giliberto-Levy, NCREIF, PGIM Real Estate. As of July 2023.

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# ...Yet Valuation Declines Are Mostly Behind Us



Sources: CoStar, RealPage, Green Street Advisors, NIC Map, NCREIF, Oxford Economics, PGIM Real Estate. As of July 2023.



# 2 | FINDING PORTS IN THE STORM





HOUSING

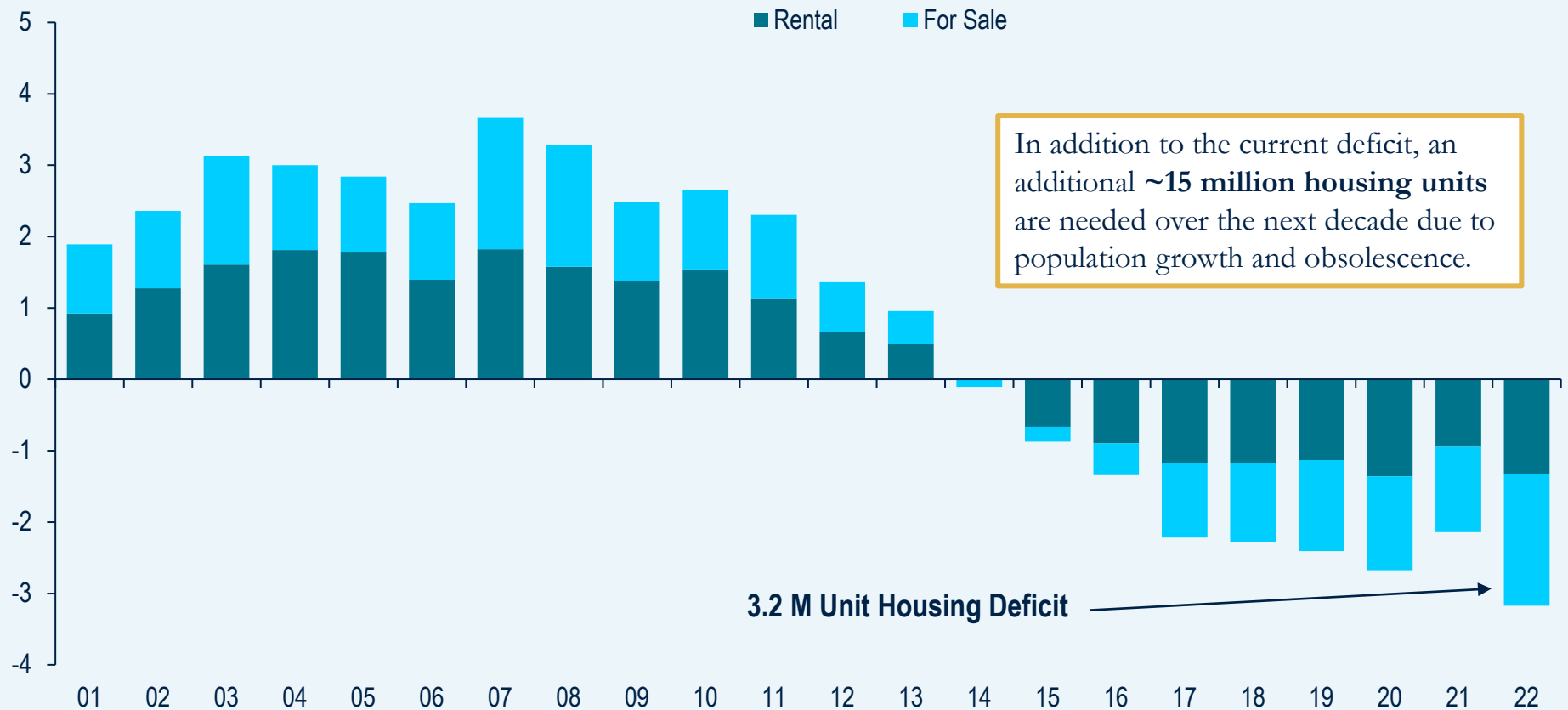
# PORT OF THE SUNBELT





# Housing is Structurally Undersupplied in the U.S.

Estimated Surplus/Deficit in Housing Stock (Units, Millions)\*



\*The housing surplus/deficit is calculated by 1) estimating potential pent-up demand for housing based on the difference between current headship rates and historical averages and 2) estimating the additional vacant stock required to bring current vacancy rates up to their historical averages.

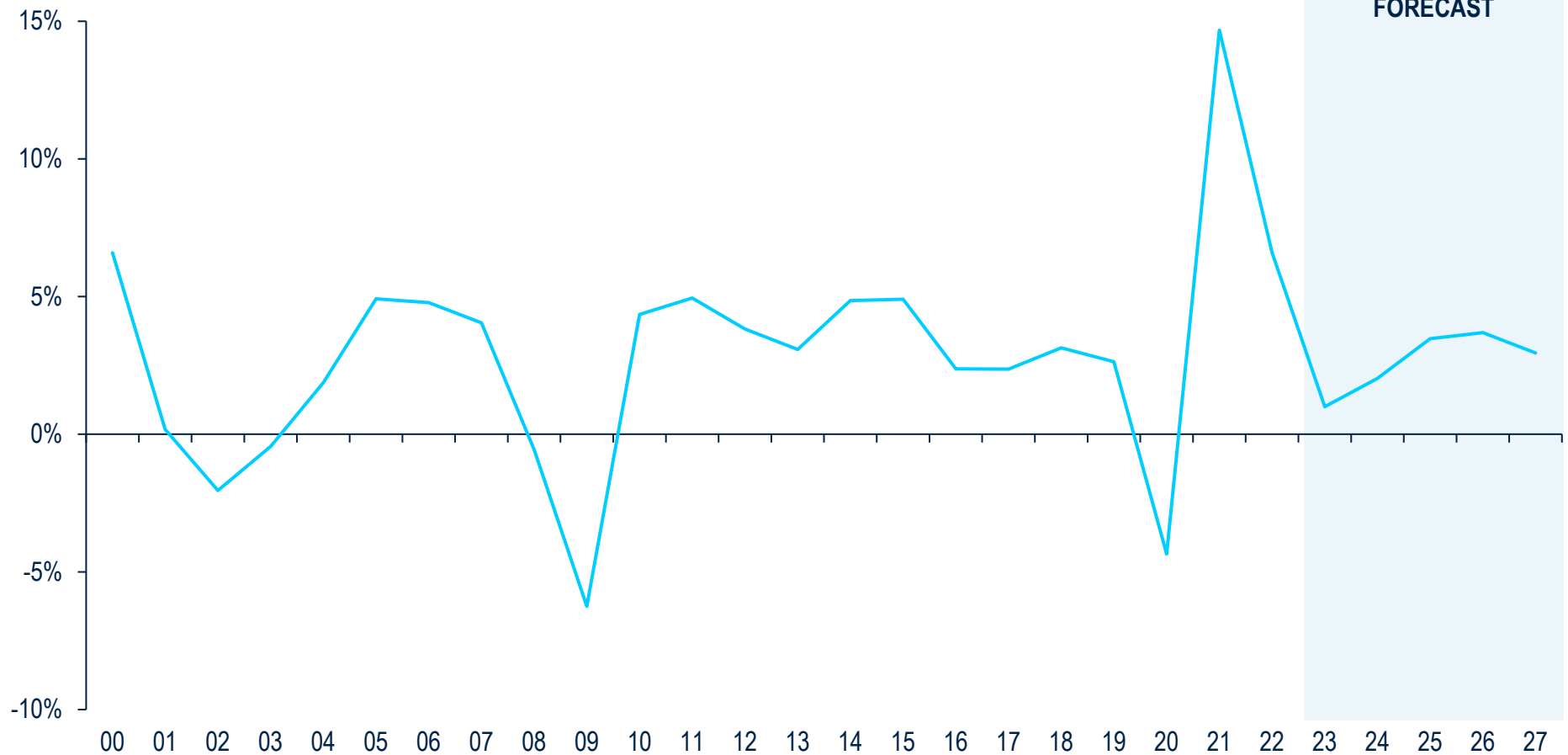
\*\*We apply a rate of obsolescence equivalent to ~0.4% of total housing stock per year, in line with the estimate used in the National Multifamily Housing Council's 2022 study "U.S. Apartment Demand Through 2035."

Sources: U.S. Census Bureau, PGIM Real Estate. As of May 2023.



# ...Supporting Rent Growth

## Apartment Rent Growth Forecasts



Sources: CoStar, RealPage, PGIM Real Estate. As of July 2023.

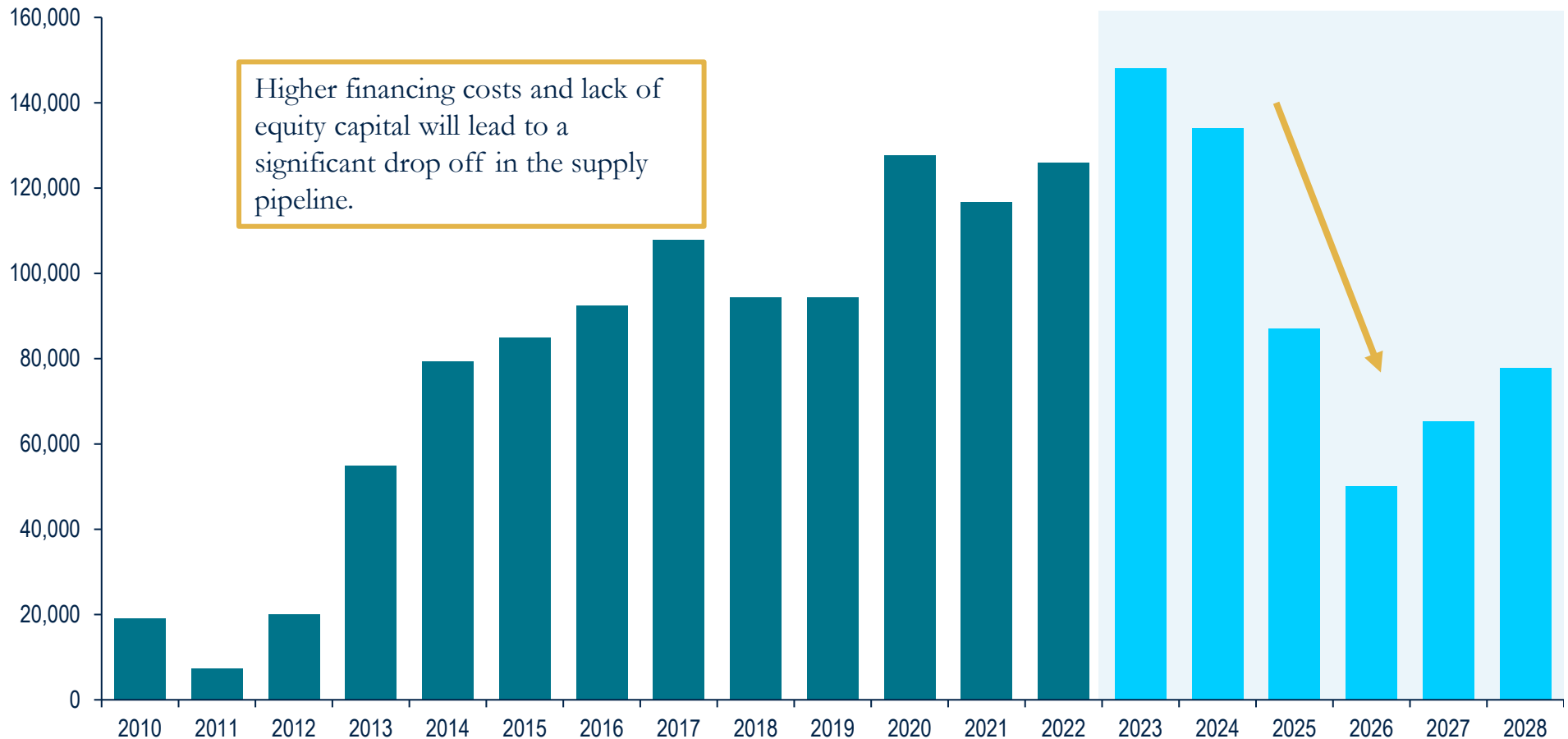
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# Pipeline Will Drop Dramatically

## Sunbelt Apartment Net Supply Additions



Sources: CoStar, PGIM Real Estate. As of May 2023.

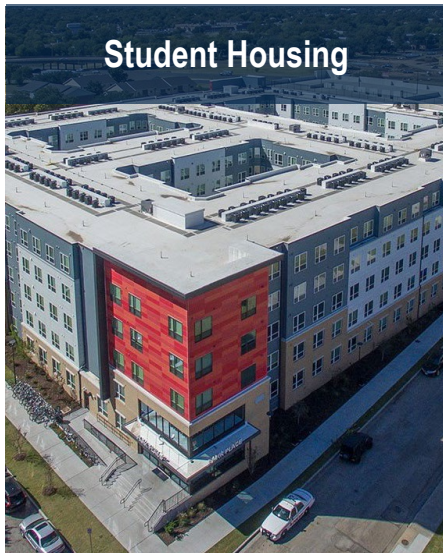
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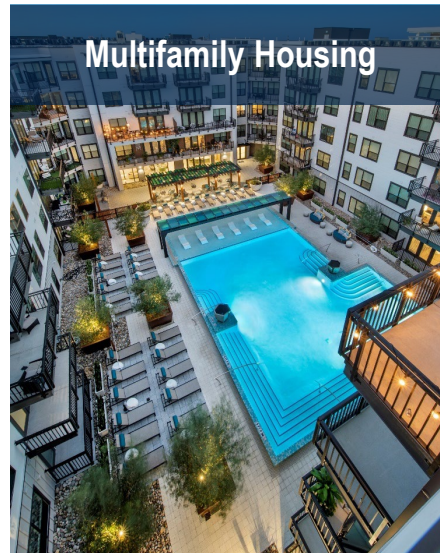
# Diversified Housing Strategies

## Housing Across Tenant Lifecycles



Student Housing

- Top universities with enrollment growth
- Record occupancies during COVID-19
- Students now fully returned to campus



Multifamily Housing

- Resilient demand
- Continued rental growth
- Strong Sunbelt markets



Single Family Rental

- Demographic trends
- Declining homeownership affordability
- Flexible working arrangements



Senior Housing

- Baby Boomer demographic trends
- “Second retirements” with a need for enhanced care and services

Source: PGIM Real Estate, August 2023. Note: Property images featured are for illustrative purposes only.

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# The Case for Single-Family Rental

Single-Family Living with the Convenience, Flexibility and Affordability of Multi-Family

Best of Both Worlds for Renters	Multifamily Rental	Single Family For Sale	Single Family Rental
No Down Payment	✓	X	✓
Expansive Common Amenities	✓	X	✓
Attached Garage and Yard	X	✓	✓
Lock & Leave Maintenance/Landscaping	✓	X	✓
No Neighbors Above/Below	X	✓	✓

## ATTRACTIVE TO INVESTORS

- High Occupancy
- Low Turnover
- Underserved Demographics
- Strong Capital Market Demand
- Attractive Financing



Note: Property image featured is for illustrative purposes only.

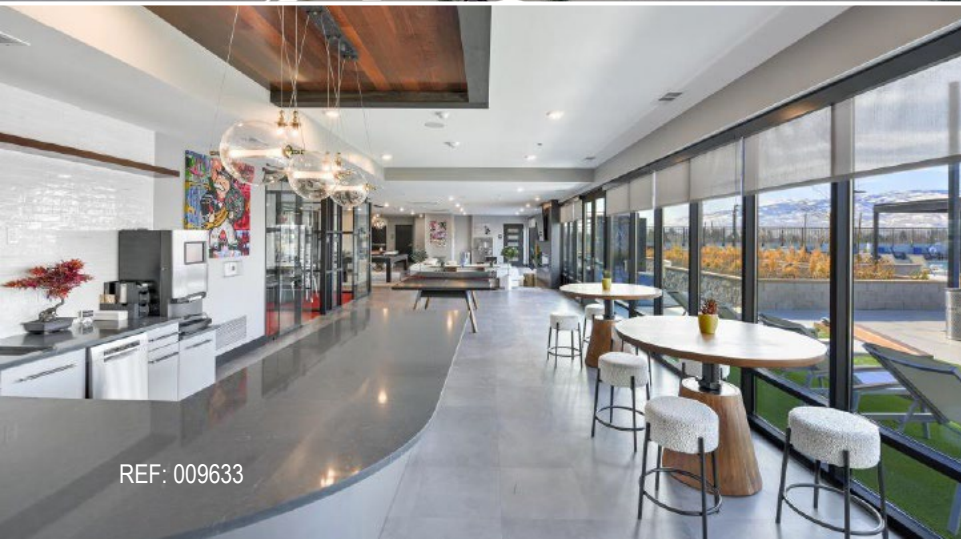
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## MEZZANINE LOAN

# Case Study

## Icon Student Housing Austin, TX



REF: 009633

### DEAL INFORMATION<sup>1</sup>

Gross Commitment	\$37.5M
Loan Term	3 years, with two 1-year extensions
Interest Rate	15.0%
Interest Accrual Cap	\$10.5M
Capital Stack - LTC	47.3% - 77.3%
Units / Beds	216 / 555

## INVESTMENT RATIONALE

- Trophy Product at Top-Tier University
- Attractive Structure & Risk-Adjusted Returns
- Experienced Sponsorship

The images, and associated information, in this section represent properties that U.S. Value-Add Fund is currently invested in as of August 2023. These were selected to show an example of student housing investment the Fund has made, and are for illustrative purposes only. There can be no assurance that U.S. Value-Add Fund will be able to acquire similar properties in the future or that future acquisitions will be profitable or on similar terms. A complete list of U.S. Value-Add Fund investments is available upon request. Investors cannot participate in direct ownership of the properties listed. An investment in the Fund is speculative and involves risk, including but not limited to those related to real estate investments. The Fund's offering memorandum includes a more in-depth discussion of these and other risks and should be reviewed prior to any investment in the Fund.

<sup>1</sup> Underwriting metrics as of the Investment Committee case dated August 11, 2023.



INDUSTRIAL

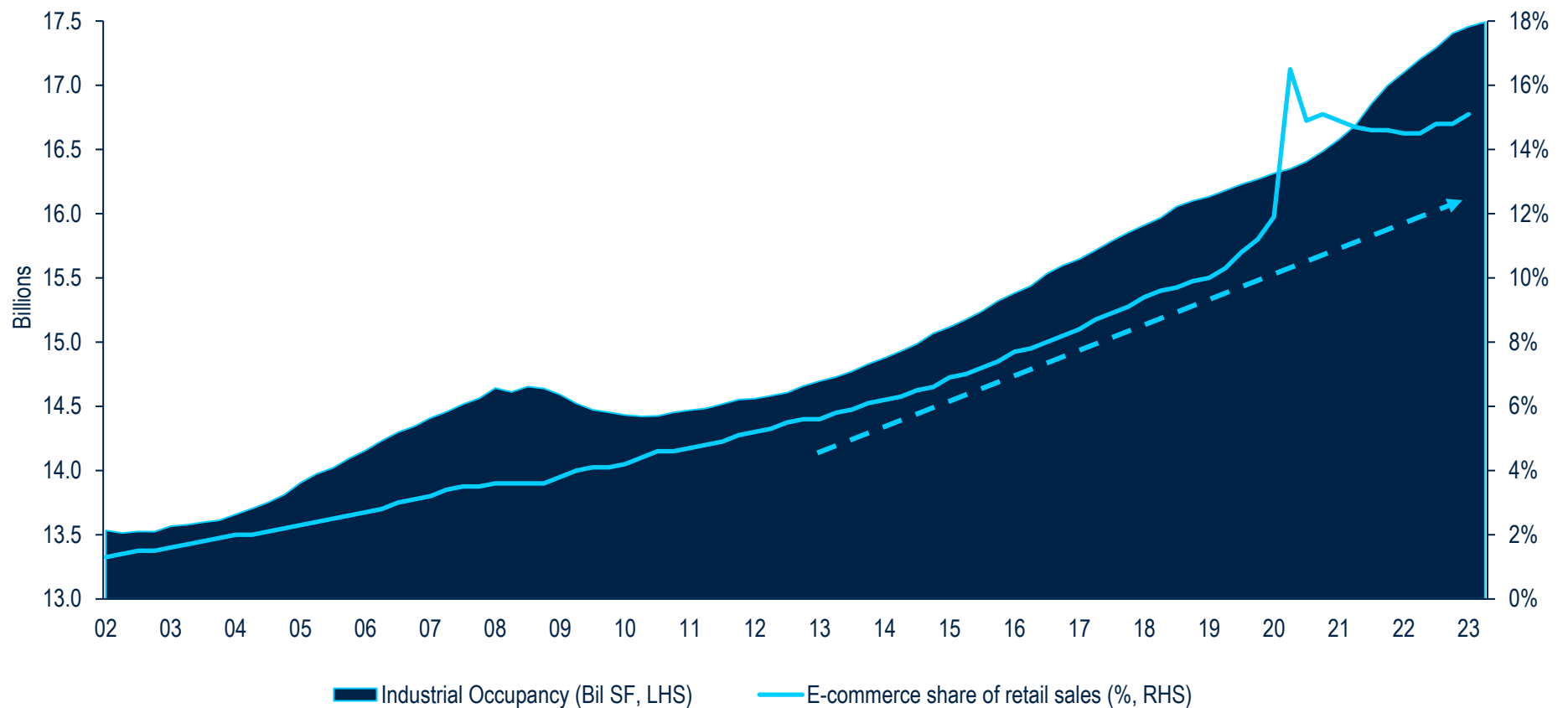
PORT OF LA/LONG BEACH





# E-commerce Kicked Off an Industrial Super-Cycle

## Industrial Demand and E-commerce Market Share



Source: U.S. Census Bureau, Federal Reserve Board of St. Louis, CoStar, PGIM Real Estate, as of August 2023.

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# Sector Attributes

- Very Low Current Vacancy
- Record Recent Rent Growth
- Proximate and Redundant Supply Chains
- Investment in Technology/  
Automation

Image featured is for illustrative purposes only.

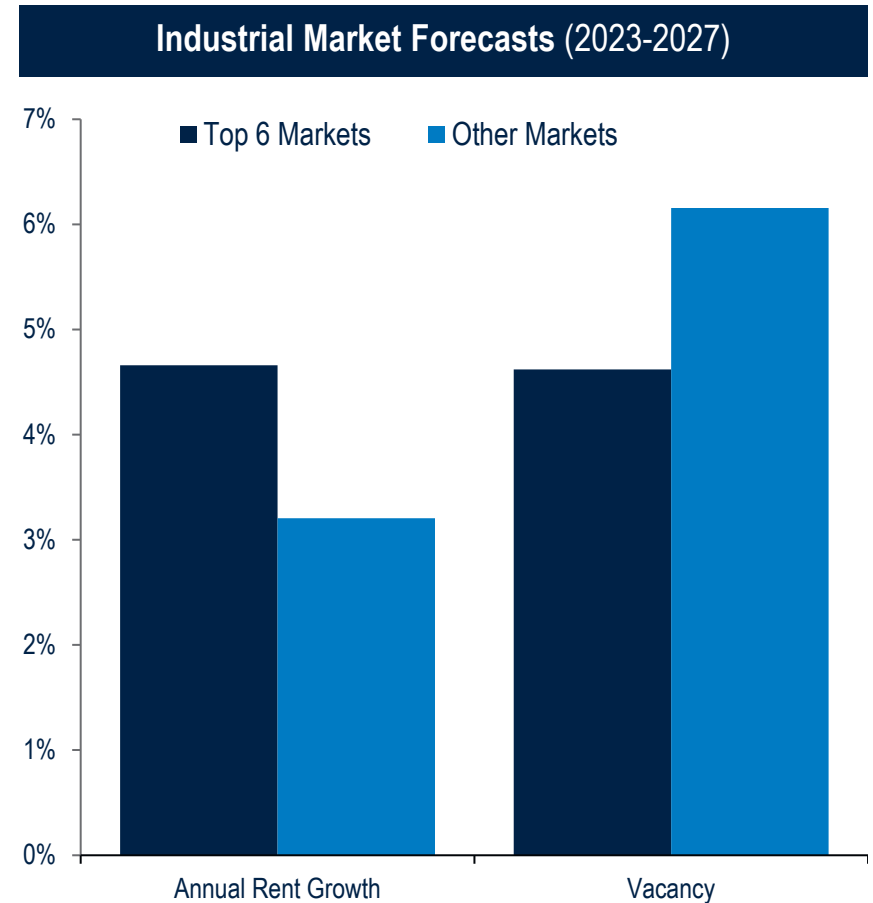
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# More Nuanced with Major Industrial Markets to Outperform...

	Spending Growth	Supply Constraints	Trade Volumes
Los Angeles	●	●	●
SF Bay Area	●	●	●
NY/NJ	●	●	●
Seattle	●	●	●
Inland Empire	●	●	●
South Florida	●	●	●
Dallas	●	●	●
Atlanta	●	●	●
San Diego	●	●	●
DC/Balt.	●	●	●
Raleigh	●	●	●
Austin	●	●	●
Denver	●	●	●
Portland	●	●	●
Boston	●	●	●
Nashville	●	●	●
Houston	●	●	●
Phoenix	●	●	●
Orlando	●	●	●



Our top ranked markets are expected to see outsized rental growth and tighter vacancy rates over the forecast.

Sources: CoStar, PGIM Real Estate. As of May 2023.



## INDUSTRIAL DEVELOPMENT

# Case Study

Seattle Crossed 2-Pack  
Covington & Bothell, WA



Covington 18



REF: 009633  
North Creek Commerce Center

### DEAL INFORMATION<sup>1</sup>

Gross Commitment	\$129.2M (\$263/SF)
U.S. Value- Add Fund Equity	\$56.3M
Total SF	490,392
Construction Start	3Q 2023
Projected Construction Completion	2Q 2024

### INVESTMENT RATIONALE

- Infill Locations with Regional Accessibility
- Favorable, Crossed Joint Venture Structure
- Strong Development Partner

The images, and associated information, in this section represent properties that U.S. Value-Add Fund is currently invested in as of August 2023. These were selected to show examples of industrial investments the Fund has made, and are for illustrative purposes only. There can be no assurance that U.S. Value-Add Fund will be able to acquire similar properties in the future or that future acquisitions will be profitable or on similar terms. A complete list of U.S. Value-Add Fund investments is available upon request. Investors cannot participate in direct ownership of the properties listed. An investment in the Fund is speculative and involves risk, including but not limited to those related to real estate investments. The Fund's offering memorandum includes a more in-depth discussion of these and other risks and should be reviewed prior to any investment in the Fund.

<sup>1</sup> Underwriting metrics as of the Investment Committee case dated June 20, 2023.



ALTERNATIVES

# PORT OF INSTITUTIONALIZATION





# Self-Storage Attributes & History

## SECTOR ATTRIBUTES

- Strong profit margins
- Low capital requirements
- Low operating intensity & overhead
- Low nominal monthly rents
- Resistant to economic market cycles

## PGIM REAL ESTATE PORTFOLIO

- 154 assets across 26 states
- Total appraised value of \$4.3 billion<sup>1</sup>

**Past performance is not a guarantee or reliable indicator of future results.**

Image featured is for illustrative purposes only.

<sup>1</sup> Value is as of 3Q23 appraised values.

REF: 009633





# Manufactured Housing Attributes & History

## ATTRIBUTES

- Ground lease ownership position
- Lower CapEx and expense ratios
- High occupancy with sticky tenancy
- Resilient rent growth due to high barriers to entry, almost non-existent new supply
- Emerging institutional asset class

## HISTORY

- 2017: PGIM Real Estate's first investment in MH
- PGIM Real Estate Portfolio Today: 14 properties, 3,586 total sites



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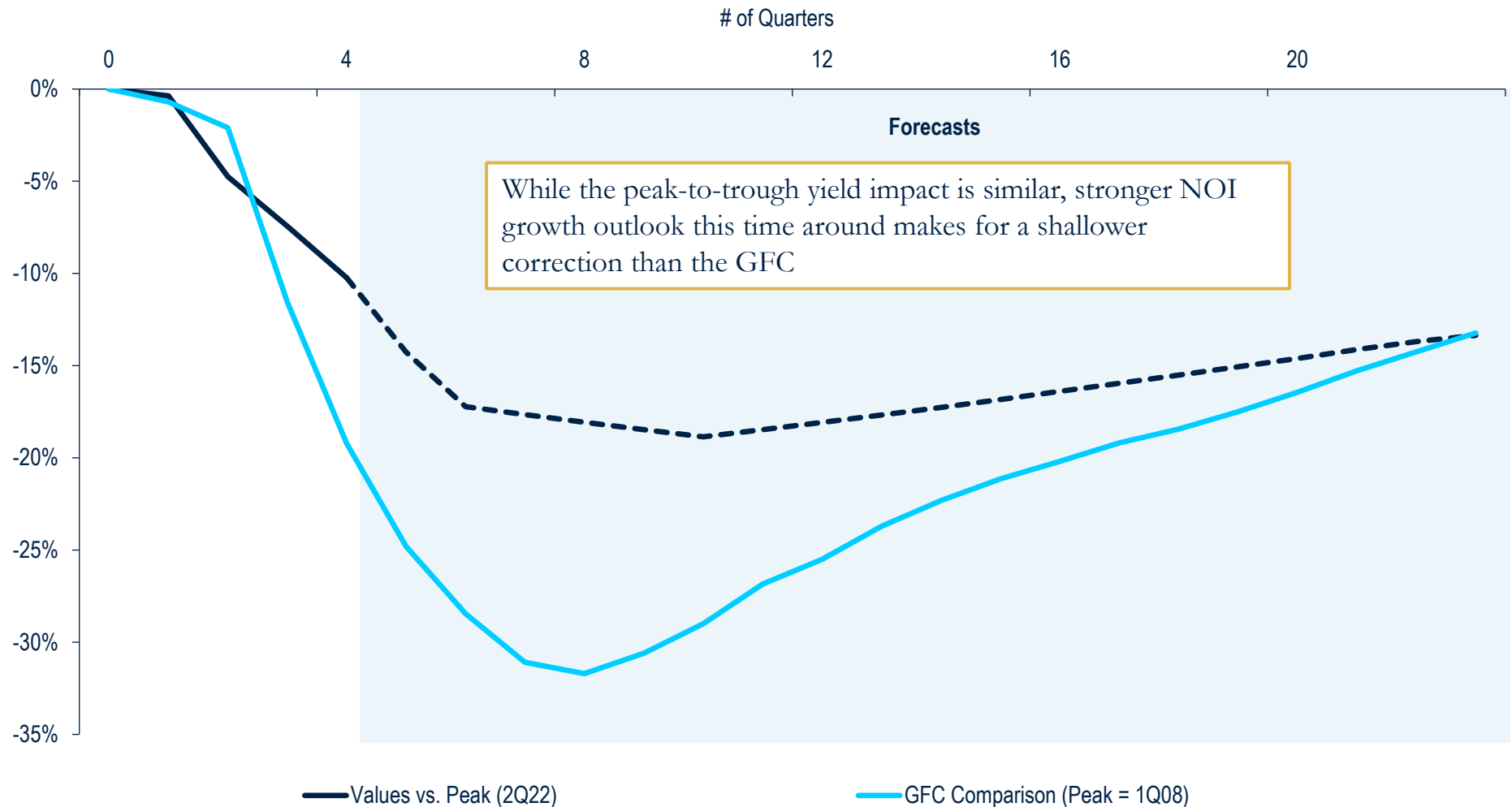
3

# CALMER WATERS AHEAD



# The Correction is Mild Compared to the GFC

## Capital Values vs. Peak – Cycle Comparison, U.S. All Property



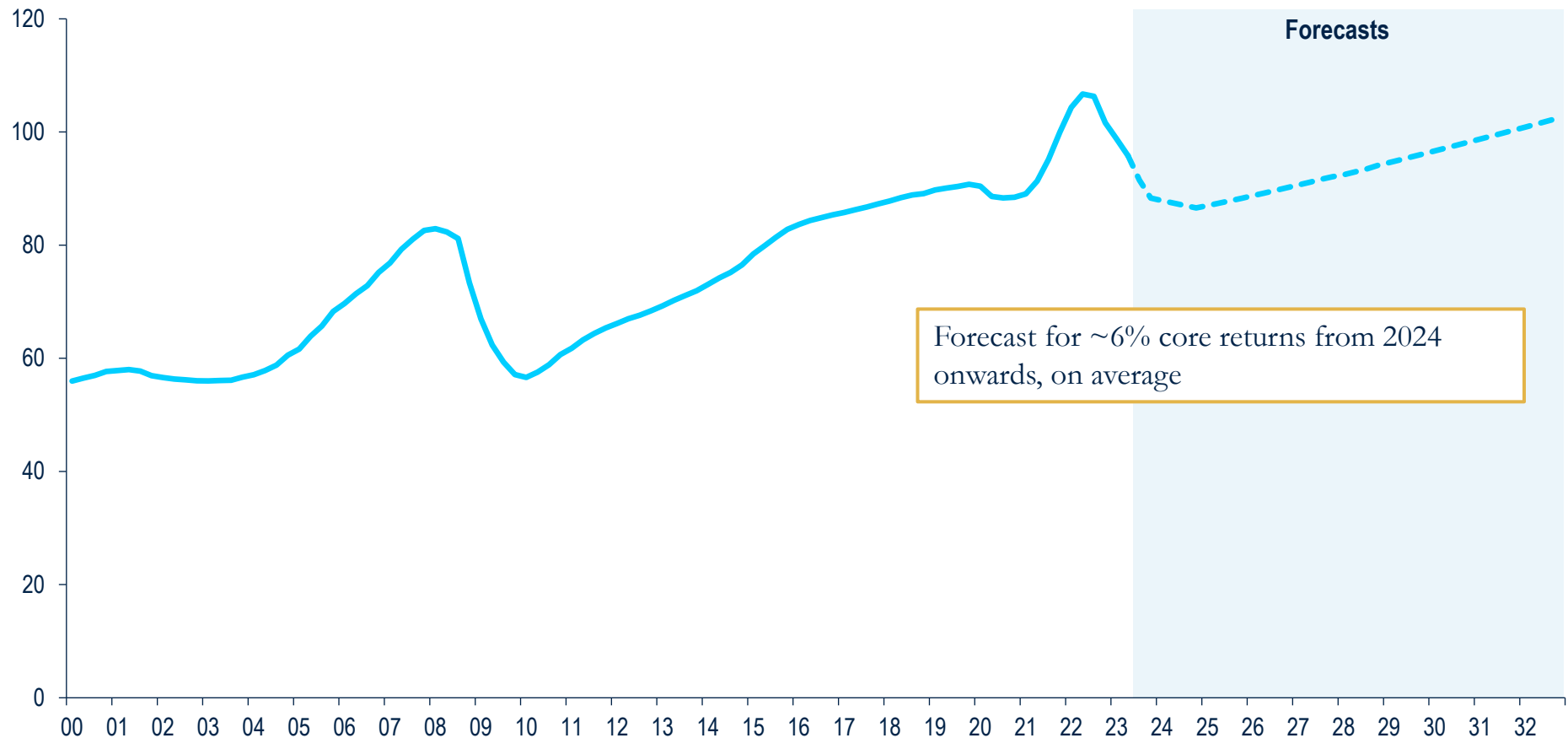
Sources: NCREIF, PGIM Real Estate. As of August 2023.

REF: 009633



# Return Moderation Anticipated

Capital Value Index, U.S. All Property (4Q21=100)



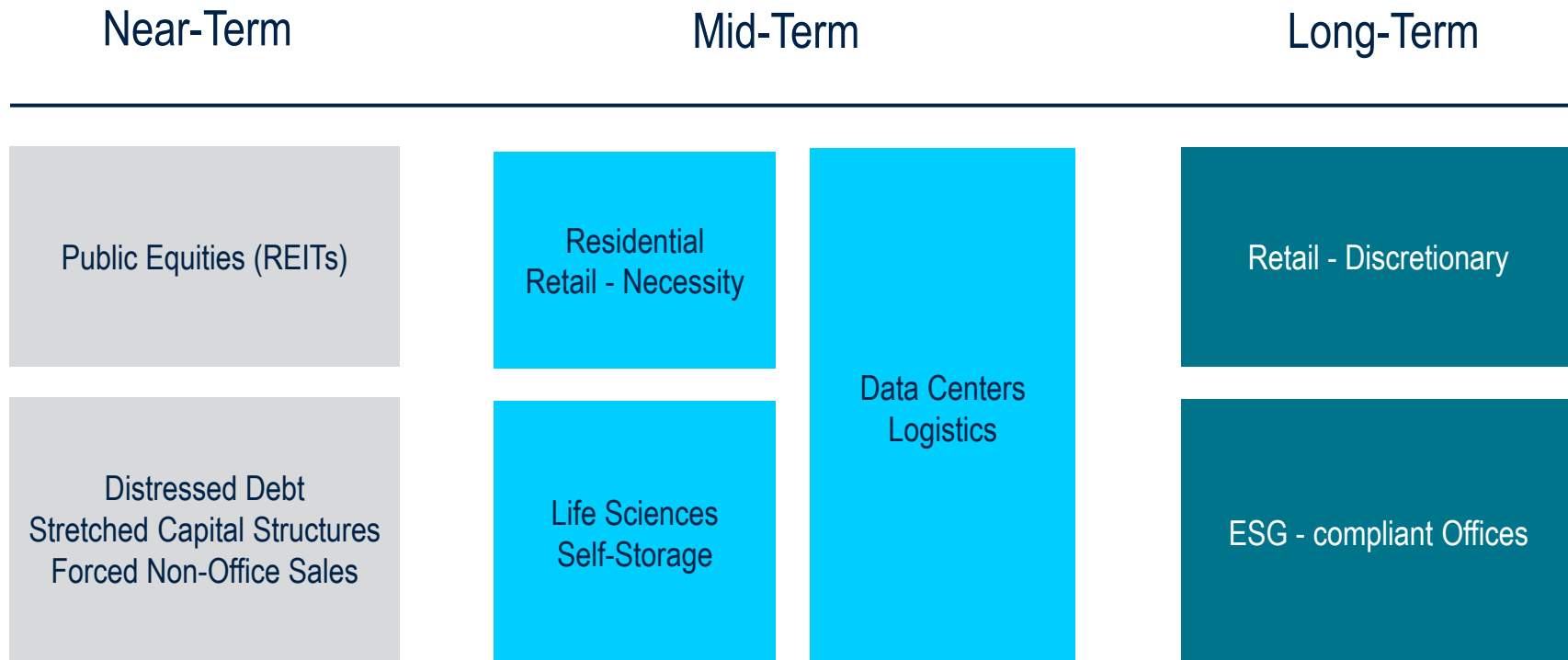
Sources: NCREIF, PGIM Real Estate. As of August 2023.

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# Timeline of Opportunities









# Important Information

## VALUATION POLICY

Properties held by the Fund are accounted for at fair value in accordance with applicable contractual requirements and in compliance with authoritative accounting guidance ("U.S. GAAP"). Property level debt is also accounted for at fair value based on the amount at which the impact of the liability could be measured in a current transaction exclusive of direct transactions costs. The Fund's current valuation procedure is as follows:

The Global Chief Real Estate Appraiser (the "Chief Appraiser") of PGIM Real Estate, who has an independent reporting line from the business (reporting to Investment Risk), is responsible for the valuation process of the Fund's investments and approves final gross real estate values. The Chief Appraiser retains an independent Appraisal Management Firm ("AMF") to run the day-to-day operation of the appraisal process. The AMF is responsible to assist with the selection, hiring, oversight, rotation and/or termination of third-party appraisal firms. Third-party appraisers are typically rotated on a three-year cycle and are selected from the Chief Appraiser's Approved Vendor's List through a competitive bid process. To be included in the list, individual experts are interviewed, referenced and a sampling of their work is reviewed to understand capabilities and competencies of the appraiser. In addition to the administrative services, the AMF collects asset manager comments and provides independent reviews of the appraisal reports and opines on the reasonableness of the value conclusions in order to maintain documentation and monitoring of the independence and accuracy of the valuations. The reported fair values are based on the external appraisal conclusions following the completion of the formal internal and external reviews and sign-offs. However, in the rare instance a material fact or error be identified and considered unresolved during the AMF review process, the AMF is responsible to provide the substantiation and compelling evidence to make an adjustment to the appraised value and it would be reported to the Fund investors.

Real estate properties (including properties under development) and other investments are appraised every quarter with few exceptions such as properties recently acquired or under a letter of intent for sale. The fair value of land held for development is considered to be acquisition cost, including soft costs incurred prior to development, assuming it is the assumption a market participant would use. Income producing real estate property appraisals primarily rely on the income approach to value (DCF) with consideration of the cost and market approaches, as applicable. Real estate property appraisals and the AMF appraisal reviews are performed in accordance with the Uniform Standards of Professional Appraisal Practice ("USPAP"), which is the standard for real estate appraisals in the United States. USPAP is consistent in principle with RICS Valuation- Global Standards ("Red Book Global Standards") and the International Valuation Standards ("IVS") as set forth by the International Valuation Standards Council.

As described above, the estimated market value of real estate and real estate related assets is determined through an appraisal process. These estimated market values may vary significantly from the prices at which the real estate investments would sell, since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. Valuations should be considered only estimates of value and not a measure of realizable value. In addition, such valuations should be viewed as subject to change with the passage of time.



# Disclosures

**For Professional investors only. All investments involve risk, including the possible loss of capital. Past performance and target returns are not a guarantee and may not be a reliable indicator of future results.**

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## Home Jurisdiction of the Fund: Unites States

As at the date of this document, U.S. Value-Add Fund has been notified, registered or approved (as the case may be and however described) in the United Kingdom by the Financial Conduct Authority ("FCA") in accordance with the UK Alternative Investment Fund Managers Regulations 2013, as amended (the "AIFMR") for marketing to: (i) professional investors within the meaning of Regulation 2(1) of the AIFMR or (ii) persons to whom the Fund may otherwise lawfully be promoted including, without limitation, (A) investment professionals within the meaning of Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ("FP Order") or Article 14 of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 ("PCISE Order"); (B) high net worth companies and certain other entities falling within Article 49 of the FP Order or of the PCISE Order; or (C) persons to whom it may otherwise be lawfully be communicated or cause to be communicated (collectively, "relevant UK persons"). This document must not be acted or relied upon by persons who are not relevant UK persons. Any investment or investment activity to which this document or the fund relates is available only to relevant UK persons and will be engaged in only with relevant UK persons.

In relation to other Member States and the United Kingdom (each a "Relevant State") which has implemented the AIFMD / as the AIFMD forms part of the local law of the Relevant State, the Fund may only offered or placed in a Relevant State (i) at the investor's own initiative; or (ii) to the extent that this document may otherwise be lawfully distributed and the interests in the Fund may lawfully be offered or placed in that Relevant State.

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Pursuant to the international dealer registration exemption in NI 31-103, PGIM Real Estate is informing you of the following: PGIM Real Estate is not registered in Canada as a dealer and is trading with you, its client, in reliance upon an exemption from the dealer registration requirement under NI 31-103. PGIM Real Estate's head office or principal place of business is located in New Jersey, U.S.A. The name and address of the agent for service of process of PGIM Real Estate in each province of Canada where it is availing itself of this exemption is listed immediately below. There may be difficulty enforcing legal rights against PGIM Real Estate because all or substantially all of its assets may be situated outside of Canada.

**Alberta** - Borden Ladner Gervais LLP, Centennial Place, East Tower, 1900, 520 - 3rd Avenue SW, Calgary, Alberta T2P 0R3 (Attention: Jon Doll); **British Columbia** - Borden Ladner Gervais LLP, 1200 Waterfront Centre, 200 Burrard Street, P.O. Box 48600, Vancouver, B.C. V7X 1T2 (Attention: Michael T. Waters); **Manitoba** - MLT Aikins LLP, 30th Floor - 360 Main Street, Commodore Exchange Tower Winnipeg, Manitoba R3C 4G1, (Attention: W. Douglas Stewart); **Newfoundland** - Stewart McKelvey Cabot Place, 100 New Gower St., PO Box 5038, Stn. C, St. John's, Newfoundland A1C 5V3, (Attention: Neil Jacobs, Q.C.); **New Brunswick** - Cox and Palmer, Suite 300, TD Tower, 77 Westmorland Street, Fredericton, New Brunswick E3B 6Z3, (Attention: Deborah M. Power); **Nova Scotia** - Cox & Palmer, Nova Centre - South Tower, 1500 - 1625 Grafton Street, Halifax, Nova Scotia B3J 0E8, (Attention: Daniel F. Gallivan, Q.C.); **Ontario** - Borden Ladner Gervais LLP, Bay Adelaide Centre, East Tower, 22 Adelaide Street West, Toronto, ON M5H 4E3, (Attention: Prema K. R. Thiele); **Prince Edward Island** - Stewart McKelvey, 65 Grafton Street, P.O. Box 2140, Charlottetown, PEI C1A 8B9, (Attention: James C. Travers, Q.C.); **Québec** - Borden Ladner Gervais LLP, 1000 de La Gauchetière Street West, Suite 900, Montreal, Québec H3B 5H4, (Attention: Neil Hazan); **Saskatchewan**, MLT Aikins LLP, 1500 - 1874 Scarth Street, Regina, Saskatchewan S4P 4E9, (Attention: Aaron D. Runge).

## CHILE

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Please refer to the Fund's Private Placement Memorandum ("PPM") or draft PPM for full description of identified risks. The PPM is available in the English language.



# Disclosures

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