ZIFF REAL ESTATE PARTNERS

2021 Annual Letter

2021 Year in Review and 2022 Outlook

We thank all our partners: investors, tenants, brokers, lenders, and team members, for making our 31st year investing in commercial real estate a successful one. In this brief letter we will provide updates on our operating performance and investment activities in 2021 and discuss where we see risk and opportunities in 2022. If you are a current investor, please note K-1's will be distributed in March and you will receive detailed year-end financial statements and operating updates for each of your investments in April, once the year end accounting process is complete.

2021 Performance

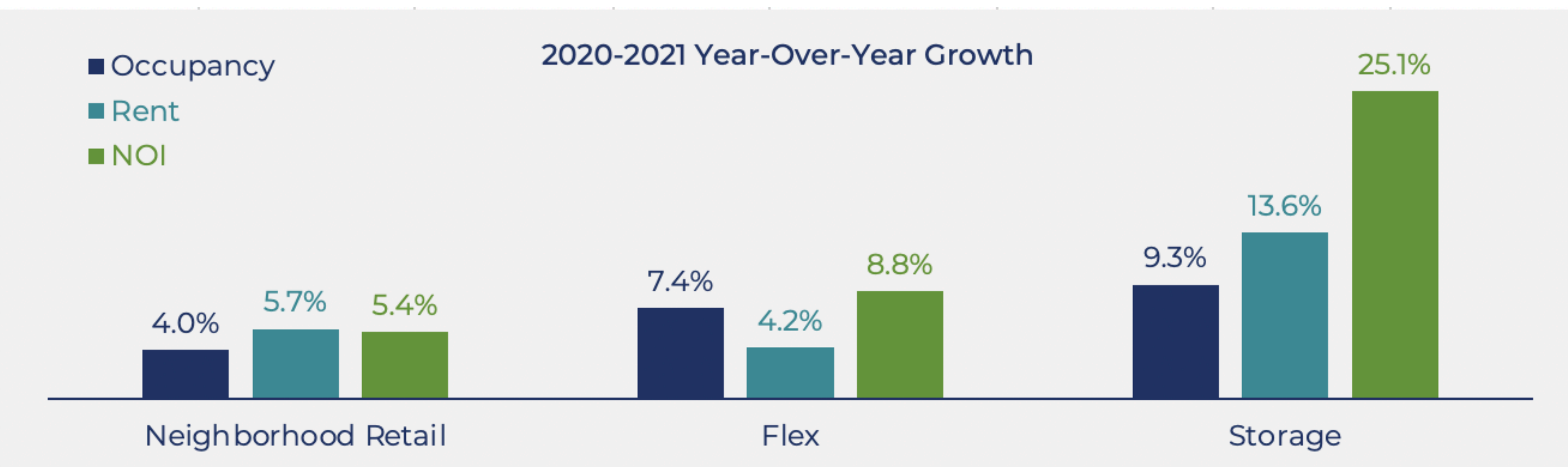
Commercial real estate performed well in 2021, driven by strong operating fundamentals as well as lower cap rates. Our investments certainly benefited from cap rate compression, however over the long-term we seek to rely primarily on our strategy of adding value through capital investment and superior operations to drive growth in net operating income (NOI), property values and investment returns.

From an operating standpoint, all property types delivered impressive NOI growth.

Retail continued to recover from the pandemic with occupancy increasing by 400bps, renewed leases increasing on average by 10.6% and new leases increasing 16.6%. Our hard-working in-house property management team helped us reduce operating expenses and bring capital projects under budget by 13%, despite inflationary pressures.

Flex industrial properties benefited from robust demand for space by small- to mid-sized businesses and constrained supply which drove higher occupancy and rent growth.

Self-storage rent and NOI growth were exceptional due to record high occupancy for the industry and meaningful rent growth.



Investment Activity

Our investment strategy is focused on **acquiring** undermanaged properties in quality locations below replacement cost, **improving** operating performance and **selling** when our target valuation has been achieved. We are not market timers, however years like 2021 with strong buyer demand, accommodative lending and compressed cap rates do provide an opportunity to monetize our more mature investments.

For the year, we were net sellers, realizing more than $130 million in sales proceeds from the disposition of 14 self-storage facilities and two neighborhood retail centers. For these sales, our net realized IRRs averaged 18.3% with a MOIC of 2.5x.

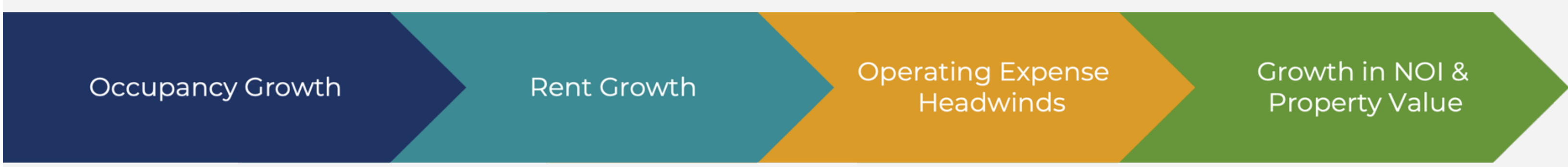
On the acquisition side, we closed on the purchase of two neighborhood retail centers, one flex industrial property and three self-storage investments. These acquisitions totaled over $46 million including planned capital expenditures, and the projected base case net IRRs average just over 20%.

We funded the equity portion of these investments with **$15 million in capital** from our internal partners and employees as well as from our friends and family investors.

In 2021, our first full year of accepting capital from outside investors, we welcomed **150 new limited partners** and raised a total of ~ **$60 million in total equity commitments** (including the undrawn portion of our Storage Opportunity Fund). The launch of our investor portal on Juniper Square proceeded smoothly, and we have been pleased with the feedback from our investors.

2022 Outlook

In terms of the general backdrop for CRE in 2022, we expect continued growth in occupancy and rents; operating costs will likely be a headwind, but we still expect solid NOI growth as we add value through capital improvements and renew expiring below market leases at market rent levels. The acquisition climate will likely remain challenging as the attractive returns and diversification characteristics of commercial real estate investing continues to attract new capital from both retail and institutional investors who increasingly view it as a fixed income surrogate with inflation protection characteristics.



The good news is that most of this capital is being channeled into very large private REIT and institutional vehicles, which need to invest in larger transactions that can put very substantial capital to work. At Ziff, we are fortunate enough to have an institutional quality acquisition and operating platform that can invest in the less efficient and less competitive end of the commercial real estate market; acquisition sizes ranging from $5-$20 million.

That doesn't mean it will be easy to find compelling investment opportunities, however our acquisition team has deep sourcing relationships, and our strong balance sheet and successful 30+ year history makes us a preferred transaction counterparty for brokers and off-market sellers. For 2022, we plan to continue sourcing value-add investment opportunities in the asset types we are most expert at managing: self-storage, neighborhood retail and flex industrial business parks.

Self-Storage:

We have a solid pipeline of acquisition prospects for our Storage Opportunity Fund, and our ability to execute value add expansions of existing facilities, repurpose non-storage structures into Class A storage facilities, and build new, gives us many opportunities to create a portfolio of properties that we believe will produce attractive risk-adjusted returns. To date, the ZRP Storage Opportunity Fund has acquired three properties and has three more under contract and scheduled to close in the first half of 2022. The average projected base case IRR and MOIC on these investments are approximately 21% and 2.5x respectively.

Neighborhood Retail:

While retail, *broadly defined*, remains somewhat out of favor among investors, we invest primarily in necessity-based neighborhood retail centers in prime locations that are difficult to replace at today's land and construction costs. Certain tenant user types have become obsolete, but the locations of these neighborhood centers have become more valuable than ever and are attractive to a broad base of service retail tenants that are not exposed to e-commerce disruption. The negative market sentiment towards retail has resulted in very little new supply and has allowed us to acquire these properties at cap rates that are hundreds of basis points wider than other real estate types. Attractive entry points combined with an experienced in-house property management and leasing team has allowed us to source opportunities that we believe will produce 20%+ IRRs while still assuming very conservative exit cap rates.

Flex Industrial Business Parks:

Flex industrial properties (aka "business parks") serve a very wide range of small-to-medium sized businesses and provide affordable warehouse and office spaces. With higher land and construction prices, it is difficult to build new flex industrial properties based on current rental rates and thus there is little new supply. Institutional capital is primarily focused on big-box distribution facilities serving e-commerce clients, and we see an ongoing opportunity to buy existing flex assets built in the past 20-40 years, upgrade them to current specifications, and bring rents to market as we seek to provide a compelling offering to the underserved small business warehouse and office user.

Risk Management

With the near-term outlook for GDP, employment and consumer spending positive, the primary risk to real estate in 2022 is the impact of inflation on operating costs, interest rates and exit cap rates.

We deal with these risks in several ways. We use fixed rate financing for most of our transactions, and our underwriting assumptions for lease up times, rent and expense growth are realistic but err on the conservative side. Historically, commercial real estate has provided more of an inflation hedge than other income producing investments given the ability to raise rents, particularly for assets with shorter lease periods such as self-storage.

Most importantly, we utilize exit cap rates in our models that are materially wider than current levels and reflect historical cap rates for the asset type over the past decade, not recent peaks.

Lastly, and as mentioned earlier, our ability to acquire below replacement cost and add value through our operating expertise produces idiosyncratic, asset specific improvement in value rather than relying primarily on cap rate compression.

If you are an existing investor and would like to speak in more detail, we are always available for a call. If you are a prospective investor who would like additional information about Ziff or you would like to refer a friend, please contact Sarah Brantley, Director of Investor Relations.

We wish you and your family a healthy and prosperous 2022.

Ziff Real Estate Partners

Tim Walter, Chairman and CEO **Curt Schade Co-CEO**

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