ZIFF REAL ESTATE PARTNERS

2023 Year in Review & 2024 Outlook

February 26, 2024

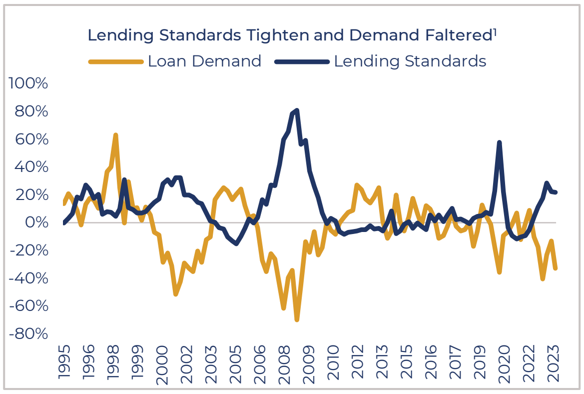
Fellow Investors and Friends:

Below you will find a brief update on our commercial real estate investing activities in 2023 and our outlook for this year.

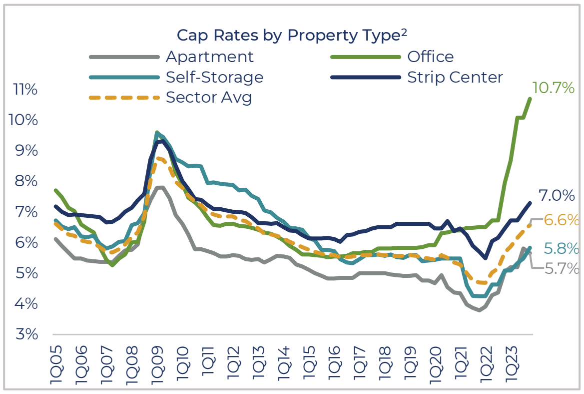
If you are an active investor with ZRP, please note, K-1s and updates for individual properties and K-1 estimates for the ZRP Storage Opportunity Fund will be distributed mid-March.

2023 REAL ESTATE MARKET OVERVIEW

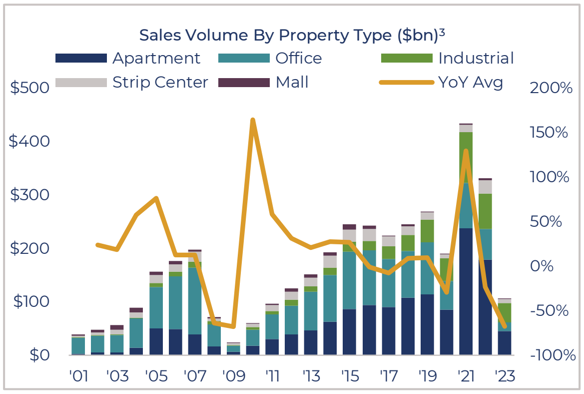
The commercial real estate market experienced several cross currents in 2023. Rising interest rates pushed cap rates higher and reluctant sellers combined with tight credit contributed to a 50% decline in transaction volume.



Economic fundamentals, however, were quite supportive, with better-than-expected GDP and job growth. Sector performance varied widely; office continued to suffer from high vacancies and declining rents and apartment occupancy and rent growth slowed under the burden of record new supply.



Among the sectors we invest in, retail was a strong performer with increasing occupancy and robust rent and NOI growth. Flex industrial was solid and self-storage continued to "normalize", i.e. return to historical seasonal fluctuations in occupancy accompanied by softer rents.

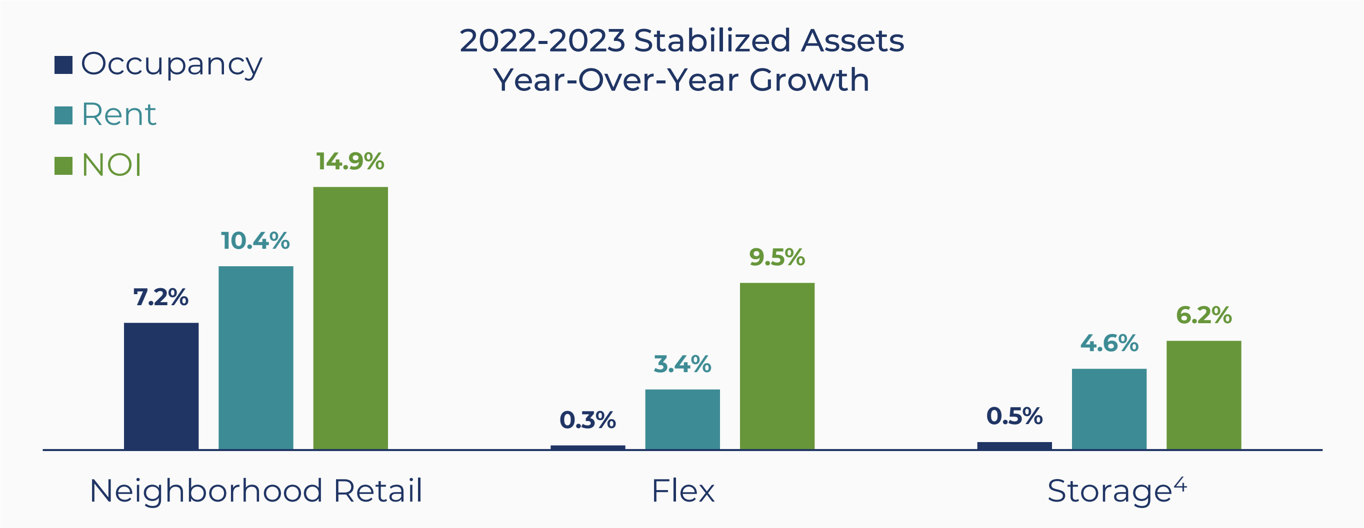


While rising interest rates and tight credit markets are short-term headwinds for commercial real estate, they can also lead to greater investment opportunity by reducing the construction of new supply, increasing the flow of distressed sales and making sellers more realistic. ZRP is well positioned to take advantage of what we believe will be a promising acquisition environment in 2024.

[1]Green Street Advisors, accessed February 2024
[2]Green Street Advisors, accessed February 2024
[3]RCA and Morgan Stanley Research, Global Macro Forum February 2024

ZRP OPERATING PERFORMANCE

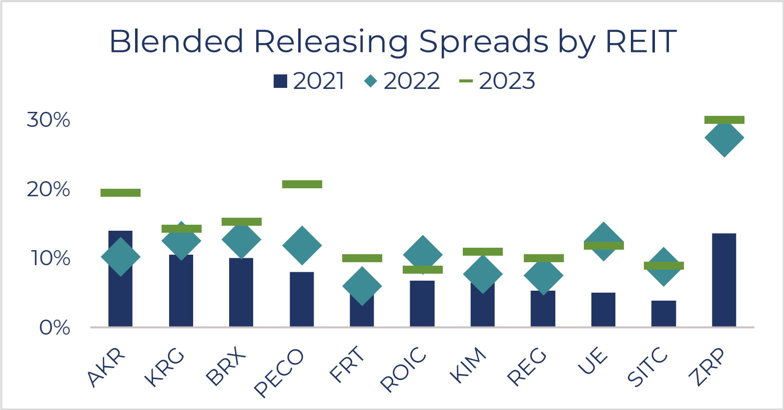
As shown below, in 2023 we successfully increased occupancy and rents, contained operating cost increases and grew NOI.



Last year's operating performance highlighted the benefit of having an in-house leasing and property management team to maximize rent growth and tenant retention and to keep expense growth below the rate of inflation, rather than relying on third parties.

Our **retail** properties had an exceptional year with **occupancy and rents increasing by 7.2% and 10.4%** on a same-store basis. The leasing team produced a blended average **increase in base rent of 31.4%; 40.6% for new leases and 24.2% for renewals**. The property management team effectively limited expense growth to 2.3%, which contributed to a **15% increase in NOI**.

Since 2021, we have outperformed the top 10 public REITs in releasing spreads. Our hands-on internal management and attentive customer service has helped us minimize turnover, attract new tenants and drive rent growth.



ZRP's Outperformance of Releasing Spreads

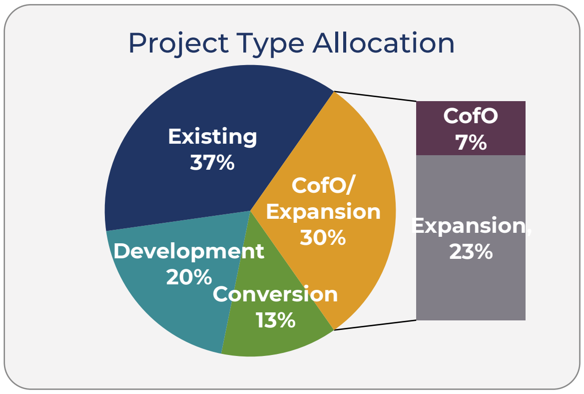
590 bps	1,750 bps	1,710 bps
2021	2022	2023

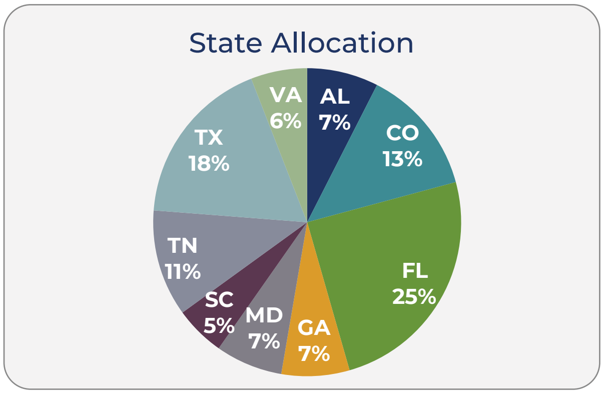
[4] Storage chart only includes assets owned in both 2023 and 2024 and does not include recently completed expansion assets.

Our stabilized **flex industrial** properties performed well with **occupancy, rent and NOI increasing by 0.3%, 3.4% and 9.5%**. The average base rent increases for **new leases and renewals were 2.2% and 9.8%**, respectively. The more recently acquired Directors Row property in Indianapolis is early in its value-add transformation, and we have been investing to transform obsolete physical spaces which are now ready for an aggressive leasing campaign in 2024. In 2023, 13 new leases or renewals were signed for over 57,500sf of space at the business park.

The **ZRP Storage Opportunity Fund** is now fully invested and will begin producing same store data as our newly opened facilities mature. For our storage assets acquired this year, it is typical to see occupancy decline once taking over ownership, as our goal is to replace below-market rent tenants with higher rent payors, and this is reflected in the modest 0.5% occupancy increase since acquisition. Despite the flat occupancy, properties owned in both 2022 and 2023 (excluding expansion properties) **performed well with rent growth of 4.6% and NOI increasing 6.2%** over the prior year. The construction budgets of our development projects are, in aggregate, under budget to date with some projects slightly above budget and some below.

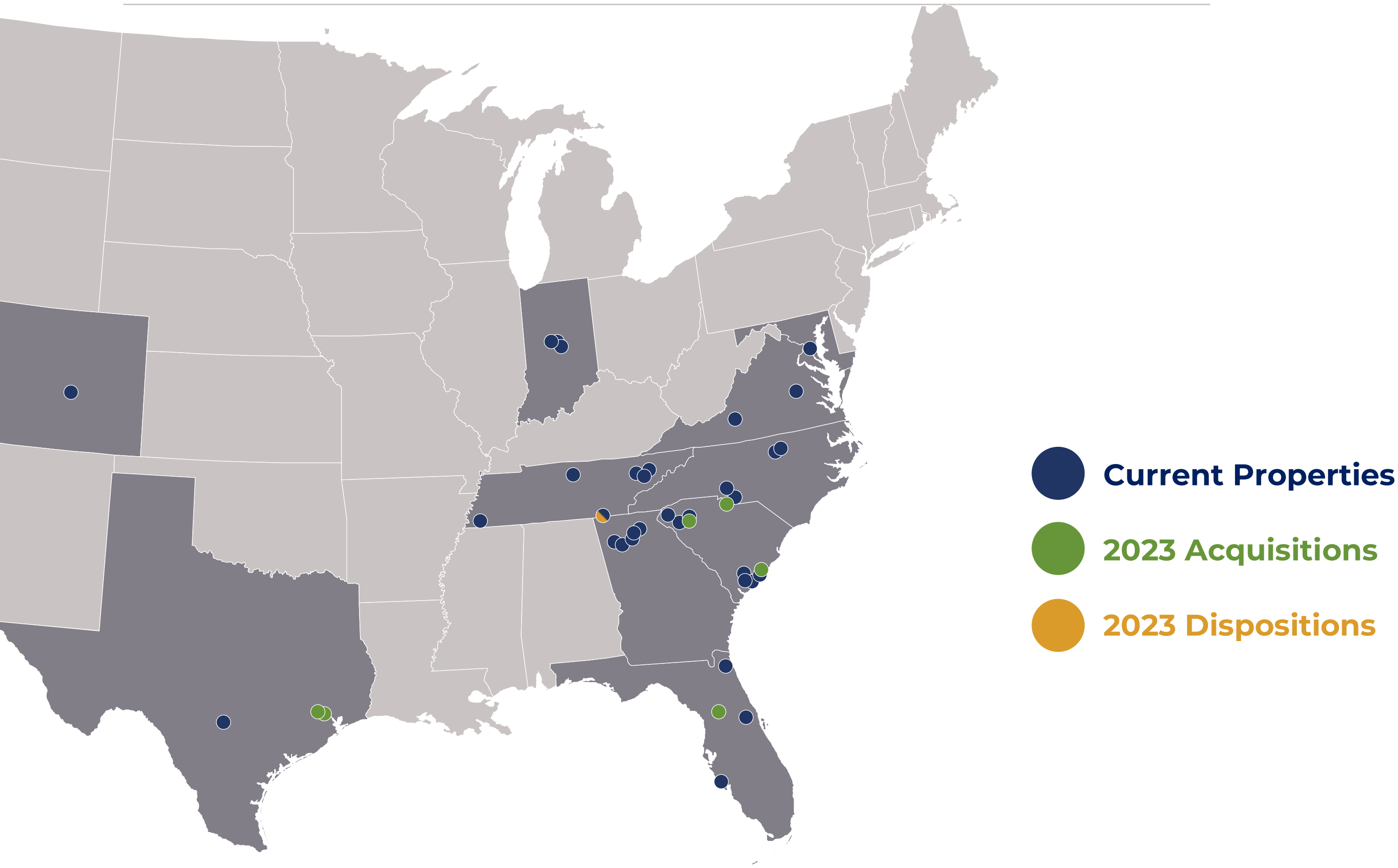
The Storage Opportunity Fund now owns 15 high-quality properties in 9 states with 7,000 units (72% climate controlled and 28% non-climate controlled) totaling over 850,000 square feet. The fund's equity is almost equally allocated between project types with 37% existing facilities, 33% development/conversion projects and 30% expansion or C-of-O lease-up facilities that are intended to produce a combination of current income and capital appreciation. We have two remaining development projects and two expansion projects that will be completed this year.





ZRP INVESTMENT ACTIVITY

2023 Transaction Volume	
ACQUISITIONS:	6 assets, $82.3m in total Retail: $50.5m Storage: $31.8m
DISPOSITIONS:	1 partial sale and 3 outparcel sales $4.3m
FINANCING:	7 debt financings totaling $57.8m
ASSETS UNDER MANAGEMENT:	21 retail, 3 flex, 16 storage $446m AUM



For the year, we were net buyers as we completed the investment program for the Storage Opportunity Fund and acquired **two neighborhood retail centers**. These acquisitions totaled over $82 million including planned capital expenditures, and the projected base case net IRRs averaged 14.3%.

Since first accepting capital from outside investors in late 2020, we have now **welcomed 260+ external partners** from 31 US states with investment sizes ranging from $25,000 to ~$5,000,000.

2024 OUTLOOK

Investment Opportunities:

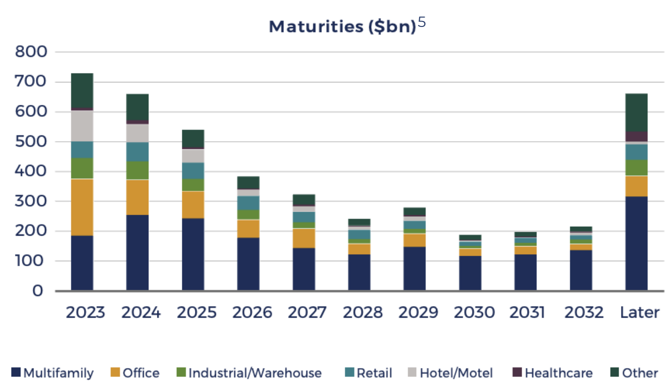
While 2023 saw reduced transaction volumes, sellers became more realistic as the year progressed. In Q4, a bankruptcy receiver awarded us the purchase of a Class A retail property at an attractive valuation in a prime location adjacent to a top-performing Kroger grocery store.

Under Contract

We also contracted for the purchase of a Class A self-storage property at completion of construction and receipt of C of O. Located in Birmingham, AL, the 70,000sf facility was originally listed for $10M, we negotiated a contract price of $8M and ended up closing at a price of $7.85M. The newly built storage facility consists of a large climate-controlled building and six drive-up non-climate buildings. The property sits adjacent to Lakeshore Pavilion, a Publix-anchored shopping center that was built in 2021 and sees over 750,000 visitors/year. This is the final storage property to be added to the Storage Opportunity Fund.


"C-of-O" Acquisition *(as of 10/23)*

While it appears the Fed is done increasing short term interest rates, and the futures market is pricing in several cuts this year, the real estate credit markets remain tight, and we think this coupled with a substantial amount of debt maturing may increase distressed asset sales in 2024.



[5]RCA & Morgan Stanley Research, February 2024

Neighborhood Retail:

Crossroads Centre in Charleston, SC has been owned by ZRP since 1992.

We see nothing at this time that would indicate anything other than a continuation of the positive operating outlook for neighborhood retail in 2024. Given high land and construction costs, it is difficult to bring on new supply, and demand from an ever-widening spectrum of tenants (both traditional retailers and healthcare and other service providers) is supporting high occupancy rates and rent growth for both renewing and new tenants. This past year was an exceptional year for rent growth; however, we expect the outsized percentage increases in renewals and new leases to return to normal as the pool of sub-market leases are renewed or replaced and brought to market levels.

Self-Storage:


Ground-up construction in Deltona, FL was completed September 2023.

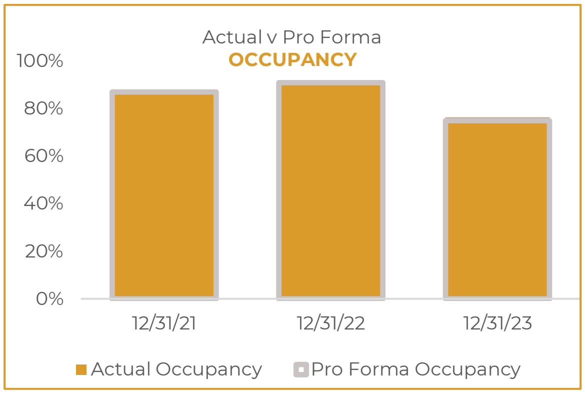
Self-storage demand is influenced by, among other things, the movement of households and there is a normal seasonality to this, with demand for new storage units peaking in spring and summer when families move prior to the start of the new school year and less movement in the winter and around holiday periods. This seasonality was materially reduced during the pandemic as there was additional, non-seasonal, migration out of cities and the need to work from home created incremental demand to de-clutter and put items in storage.

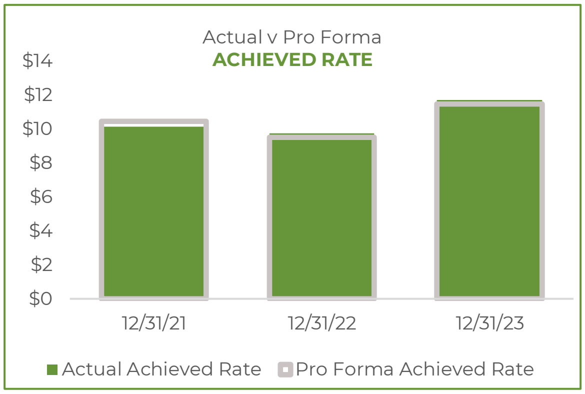
With the pandemic having passed, this incremental demand has receded, and we are back to normal seasonality, with demand and rental rates stronger in the peak season and softer in the off-season. This trend was evident in 2023 and we expect it to continue in 2024. **Two additional factors will likely make for a muted year in self-storage:** first, the industry is digesting new supply brought on when easy money and low interest rates spurred new development.

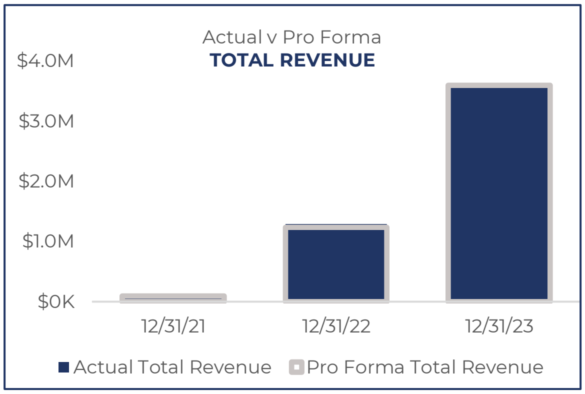
Second, higher mortgage rates have suppressed household movement as homeowners with low interest mortgages are staying put and new households are finding it challenging to purchase a home at current mortgage rates. Green Street Real Estate Research estimates that, “40%-60% of the variation in move-in rent growth can be attributed to changes in existing home sales. Home sale activity reached a ~30-year low in 2023 as mortgage rates climbed north of 7%.”

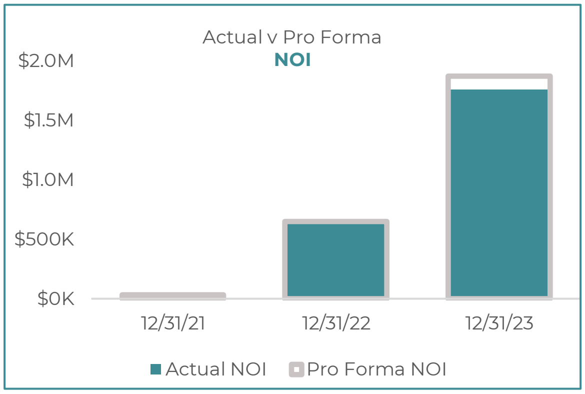
How has this environment affected our Storage Opportunity Fund? We will be sending our year end update for the fund around mid-March, but in short:

- We have assembled a high-quality, well-diversified portfolio.
- We have come in on budget for new construction and adaptive reuse projects.
- To date we have hit our projected lease up and rent projections. However, we saw below target NOI in Q4 as rental rates lagged expense growth. While we feel our projections are attainable over the expected hold period of the investment, it is possible, given the current environment, that we will continue to lag in 2024.









It is important to note that we try to be conservative in our operating assumptions and financial projections. As an illustration of this, prior to retaining a third-party property manager for a storage property, we ask them to underwrite the facility based on what they believe they can deliver in terms of lease up time and rents. There is little incentive for them to exaggerate as ultimately, they are measured against these budget numbers. As shown in the exhibit below, the projections for the recently acquired property in Birmingham that we underwrote internally are more conservative in terms of lease up period and rents than those of our REIT manager.

ZRP EMPLOYS CONSERVATIVE UNDERWRITING ASSUMPTIONS

	Stabilized Occupancy	Months to Stabilize	Stabilized Base Rent/SF	Yield on Cost (Yr 5)	Cash Yield (Yr 5)
ZRP	91%	30	$15.10/sf	8.2%	8.1%
REIT	94%	24	$16.80/sf	10.8%	13.9%

Cap Rate Variables:	5.25%	5.75%	6.25%	6.75%	7.25%
Project IRR (Yr 5)					
ZRP	22.4%	19.3%	16.5%	13.8%	11.3%
REIT	32.9%	30.0%	27.4%	24.9%	22.6%
Project MOIC (Yr 5)					
ZRP	2.6x	2.3x	2.1x	1.8x	1.7x
REIT	3.9x	3.5x	3.1x	2.8x	2.6x

Additionally, we believe our 6.25% exit cap rate assumption still appears reasonable, with cap rates having moved from the mid 4's to the mid-to-high 5's as of today.

PROJECTED STORAGE OPPORTUNITY FUND NET RETURNS UNDER VARIOUS EXIT CAP RATE

Cap Rate Scenario	Exit Cap Rate	Equity Deployed	Cash Flow From Ops	Cash Flow From Refi & Dispo	Total Cash Received	IRR	MOIC
At REIT Avg Cap Rate (Green Street, 12/2022)	5.00%	$50 M	$14.1 M	$154.6 M	$168.7 M	23.5%	3.36x
Base -100 bps	5.25%	$50 M	$14.1 M	$144.4 M	$158.5 M	22.3%	3.16x
Base -50 bps	5.75%	$50 M	$14.1 M	$126.7 M	$140.8 M	19.9%	2.81x
Base Cap Rate Assumption	**6.25%**	**$50 M**	**$14.1 M**	**$111.8 M**	**$125.9 M**	**17.5%**	**2.51x**
Base +50 bps	6.75%	$50 M	$14.1 M	$99.1 M	$113.2 M	15.6%	2.26x
Base +100 bps	7.25%	$50 M	$14.1 M	$88.2 M	$102.3 M	13.7%	2.04x

The following graphic describes where the self-storage market has been, where we are now, and the environment we expect over the next several years.

	2020 - 2022	2023	2024 - 2030
SUPPLY OF NEW STORAGE PROPERTIES	Recovery of new storage development after post-GFC (2009) collapse in new supply	Peaking new supply	New supply constrained by high cost of debt
DEMAND FOR STORAGE	Robust demand due to covid-induced move to suburbs, work from home, etc.	Normalizing post-covid, further impacted by reduced housing mobility due to high mortgage rates	Release of pent-up demand if mortgage rates decline and housing mobility increases
OCCUPANCY	Record highs with reduced seasonality	High, but return of seasonality	Anticipated increase as pent-up demand is unleashed into a market with reduced new supply
CAPITAL	Low cost and plentiful	High cost and limited availability for new construction	Normalized lending environment for proven storage managers
MARKET CONDITIONS & SELLER EXPECTATIONS	"Seller's Market" – compressing cap rates as acquirors compete for deals	Buyer/seller standoff – seller expectations gradually adapting to higher cost of capital	More balanced two-sided market
VALUATION TRENDS	Compressing cap rates	Widening cap rates but lagging the higher cost of debt	Normalizing cap rates, potential for compression as credit markets and interest rates ease

We believe the current interest rate environment is producing an attractive investment opportunity as developers and owners of self-storage properties are forced to sell due to expiring interest rate caps or maturing loans. With construction financing very difficult to obtain, new supply has ground to a virtual halt. Over the next few years, we expect robust occupancy and solid rent growth as reduced new supply confronts increased demand driven by a resumption of household movement when mortgage rates normalize.

Flex Industrial Business Parks:

ZRP Directors Row in Indianapolis, IN.

Flex industrial properties (aka "business parks") serve a wide range of small-to-medium sized businesses and provide affordable warehouse and office space. We continue to like this sector fundamentally because there is solid demand, but very limited new supply given the challenges of higher land, labor and construction costs. We will continue to monitor the sector for potential one-off opportunities which may materialize as a product of tight credit and rising defaults.

CONCLUSION

We are very comfortable with the properties we own, and they remain on track to achieve their pro-forma returns. We believe 2024 will bring attractive investment opportunities as tighter financial market conditions pressure those with floating rate debt and expiring interest rate caps to sell properties at attractive levels. We look forward to keeping you up to date as the year progresses and please feel free to schedule a call with us if you have any questions.

Tim Walter   Curt Schade

If you are a prospective investor who would like additional information about Ziff or an existing investor who would like to refer a friend, please contact our Partner, Sarah Burris, Director of Investor Relations.

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