

JULEX CAPITAL

Public vs Private real estate - Timing between them

Rob Brown, PhD, CFA

Julex Capital Advisory Board Member, Website www.robrownonline.com



40 Grove Street, Suite 140, Wellesley, MA 02482

Phone 781-489-5398

Email info@julexcapital.com

Web www.julexcapital.com

Public vs private real estate

Is now the time for public instead of private

How does one understand the difference between these two

Can one time between them

How does one understand the difference

Public vs private

Blackstone

PRIVATE WEALTH SOLUTIONS

UC Investments to Invest \$4B in BREIT

We are pleased to announce that UC Investments ("UC") will invest \$4B in Blackstone Real Estate Income Trust, Inc. ("BREIT").

UC is one of the most sophisticated institutional investors globally, managing \$150B on behalf of the University of California system and its beneficiaries. This investment is a massive affirmation of the quality of BREIT's portfolio, its asset values and performance outlook.

TRANSACTION OVERVIEW

PRESS RELEASE

To learn more, we invite you to read the Wall Street Journal article [here](#).

Blackstone

Real Estate
Income Trust

FOR BREIT STOCKHOLDERS ONLY

JANUARY 2023

University of California landmark \$4 billion investment in BREIT

“We consider BREIT to be one of the best positioned, large-scale real estate portfolios in the U.S., managed by one of the world’s top real estate investors.” – Jagdeep Bachher, UC Chief Investment Officer¹

What is the background?

- UC Investments (“UC”) is one of the most sophisticated investors globally, managing \$150B on behalf of the University of California system and its beneficiaries
- UC reached out to us following press about BREIT, and subsequently conducted intensive due diligence on the Company and its assets
- Long-standing relationship: UC has invested with Blackstone for over 15

THIS IS A TWO-STEP TRANSACTION

1

UC acquires \$4B of BREIT Class I common shares at the January 1, 2023 public offering price with fees and terms consistent with all Class I common stockholders, other than

- 2** Blackstone and UC enter into a separate strategic venture with a waterfall structure for returns received by UC on its BREIT shares
- Blackstone will contribute \$1B of its current holdings in BREIT, which will support UC with an 11.25% minimum annualized net return for UC over the effective 6-year hold period
 - Blackstone will be entitled to receive an incremental 5% cash promote payment from UC on any returns received in excess of the specified minimum

- It looks . . . something like
- **BlackStone BREIT**
 - Promised UofC an 11.25% return over the next 6 years
 - In return for \$4 billion . . . and a 6-year lockup
- **This is a best case outcome**
 - Everyone wins . . . everyone
 - UofC
 - BlackStone
 - Already existing retail investors in BREIT
 - Keeps all of the regulators and litigators comfortable
- **BlackStone was seriously desperate**
 - Paid through the nose . . . big time
 - But made the right decision a smart and impressive move . . . what you want to see when this... happens

How does one understand the difference

Public vs private

- The price you see . . . is what you can sell it for
- You can sell it

- **BUT**
 - That price is overly driven by
 - Liquidity concerns
 - Emotion of the markets

- **Therefore**
 - At times, public real estate will be
 - Overvalued
 - Undervalued
 - Sort of be careful what one means by this
 - Opportunity exists in playing off public vs private

- Earn an illiquidity premium
- Pricing is problematic
- Extreme need to consider exactly who your fellow investors are
 - Will they behave
 - Elephants all heading for the exit at the same time
 - Weak hands
 - The “bank run” problem
 - Did they even understand the illiquidity they were signing up for
 - Are 90% of your fellow investors from national wire houses ???
- Hidden fees/expenses can be a serious problem
- Abusive sales practices are legion
- But . . . but . . . but
 - The opportunity on the other side is pretty darn big
 - Private deals can be sweet
 - Your challenge is timing
 - and . . . can you separate the good from the bad The 5/95 problem

The nature of quality private real estate

It's rare and not common it requires a hardcore search

All about giving up liquidity . . . giving it up

Worse yet . . . the answer changes over time

- Seriously good . . . great product does exist
- But
 - Are they paying for shelf space
 - Good firms don't need to pay for shelf space
 - Is your provider . . . in the business of selling shelf space
- **It's all about . . . only two issues**
 - Does your manager have an edge . . . in the current environment
 - Who are your fellow investors . . . that you're dependent upon

- Serious quality exists
- It's rare and not common it requires a hardcore search
- All about giving up liquidity . . . giving it up

- Worse yet . . . the answer changes over time

- If you're static . . . doing what you were doing back in 2009 then, you're toast

Can one time between them

Is it even possible to move back and forth between public and private

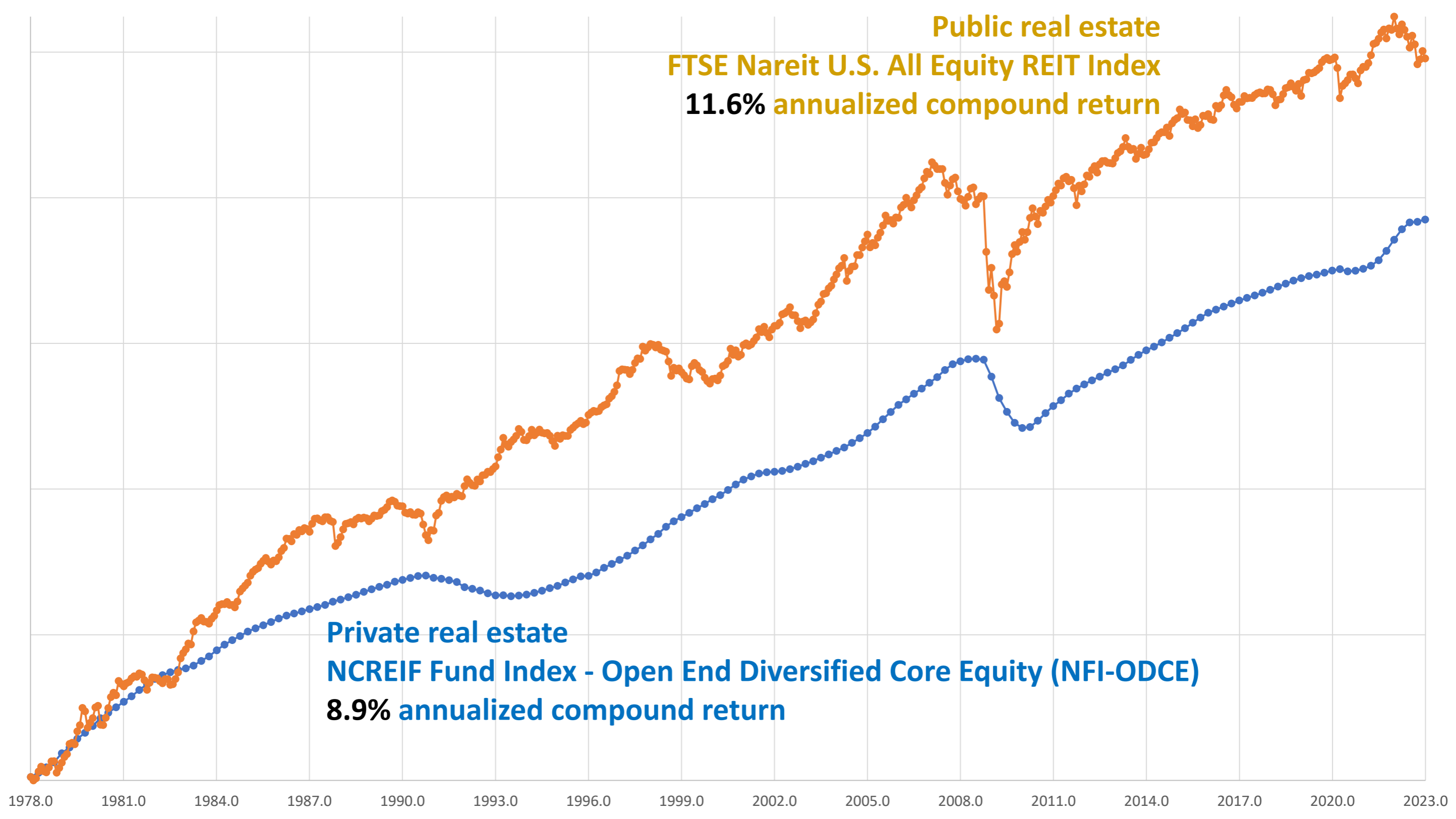
What's the practical compromise

- NO
- How so?
- Quality private real estate requires illiquidity . . . you can't get out anytime you want

- **Maybe you have new dollars to deploy**
 - Then as a fiduciary . . . you ask . . . which offers the better deal today
- **Maybe**
 - You've been in private . . . for "a long period"
 - It's late-Feb of 2020
 - Dah . . . it just doesn't get any easier . . . or more obvious !!!
 - This was once-in-a-lifetime
 - Just dump 100% of your private
 - Redeploy into public

Is now the time for public

Instead of private



Public real estate
FTSE Nareit U.S. All Equity REIT Index
11.6% annualized compound return

Private real estate
NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE)
8.9% annualized compound return

Compare the returns

- 11.6% for public real estate
- 8.9% for private real estate

- **Well**
 - There is conservative private and aggressive private
 - If you want a high return in the private space . . . then accept more risk . . . go “aggressive”

- **Retail**
 - But be careful when dealing with retail private real estate
 - The fees and expenses can and are likely to eat up everything

- As of 12/31/2022
- **Private (estimate)**
 - NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE)
 - This is a conservative and low-levered index of vanilla properties
 - +15%
- **Public (equity real estate)**
 - Vanguard Real Estate Index Fund (VNQ)
 - -26%
- **The GAP**
 - That's a 41% gap . . . delta
- If not now . . . then when . . . what are you waiting for ???

- Julex offers a public market real estate solution
- Quant based
 - Therefore . . . it is testable
 - Not susceptible to human emotion
- Will there be a time to set it aside?
 - YEP Absolutely
 - But that time is not now

For more information contact



Jeff Megar, CFA
Email jeff.megar@julexcapital.com
Office 781-772-1378



Liam Flaherty
Email liam.flaherty@julexcapital.com
Office 781-489-5398

Commodities - Are they an effective inflation hedge

Friday

January 20th

11:00 a.m. EASTERN

All data and statistics were provided by Global Financial Data, Inc. and NDR, Inc. (unless otherwise indicated in the exhibit)

This information in this presentation is for the purpose of information exchange. This is not a solicitation or offer to buy or sell any security. You must do your own due diligence and consult a professional investment advisor before making any investment decisions. The use of a proprietary technique, model or algorithm does not guarantee any specific or profitable results. Past performance is not indicative of future returns. The performance data presented are gross returns, unless otherwise noted.

The risk of loss in trading securities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. All information posted is believed to come from reliable sources. We do not warrant the accuracy or completeness of information made available and therefore will not be liable for any losses incurred.

Some part of the investment performance shown is HYPOTHETICAL. It is based on the back tests of historical data. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

No representation or warranty is made to the reasonableness of the assumptions made or that all assumptions used to construct the performance provided have been stated or fully considered.