

CORE –PLUS: ADDITIVE TO PORTFOLIO PERFORMANCE

SEPTEMBER 2025

EXECUTIVE SUMMARY

As investors position for the next leg of the cycle, several dynamics reinforce the strategic role of core-plus investment, pointing to its ability to enhance returns, diversify portfolios, and capture relative value opportunities:

- **Cyclical Turning Point** – After nine quarters of declines, valuations stabilized in late-2024, with both private and public markets flat year-to-date through mid-2025. Transaction activity and financing conditions show early signs of improvement.
- **The “Plus” Premium** – Since 2013, non-stabilized properties in ODCE funds have delivered 10.4% annualized returns, versus 6.7% for stabilized assets, outperforming in 11 of 12 years.
- **Portfolio Impact** – Modest allocations to non-core properties have historically improved risk-adjusted returns, with Sharpe ratios rising even as volatility increased slightly. While allocations to non-stabilized assets reduce current yield, they enhance long-run portfolio efficiency and provide diversification across return drivers.
- **Investor Implication** – Core-plus offers an additive tool to capture incremental yield and relative value opportunities as the cycle turns upward.

MARKET AT AN INFLECTION POINT

Institutional real estate finds itself at an inflection point. After nine quarters of declining values across core property sectors, the market began to stabilize in the second half of 2024, driven by long-awaited rate cuts by the Federal Reserve. Despite the noise and volatility that marked the first half of 2025, valuations have barely budged, reflecting a market adopting a holding pattern. Private market valuations, per NCREIF, have now been essentially flat across the major property sectors, excluding office, for four straight quarters, and the NPI capital return stands at 0.12% in the first two quarters of 2025. We see the same trends in the UK and Europe, where private valuations are up 0.56% and 1.05% year-to-date, respectively.¹ Public REITs are sending the same signal, with the public REIT indices essentially flat year-to-date in both Europe and the U.S., as shown in **Exhibit 1**.²

EXHIBIT 1: REIT Indices Suggest Valuations Relatively Flat YTD



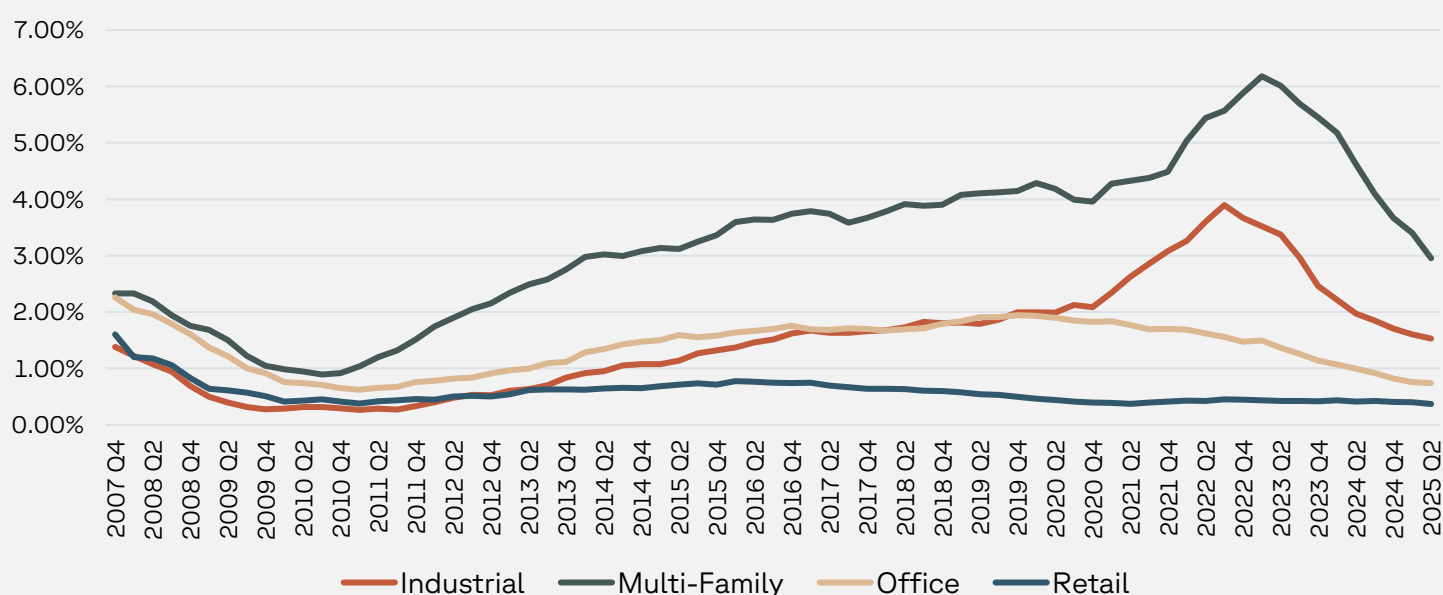
Source: Bloomberg, Affinius Capital Research, FTSE NAREIT All-Equity REIT Index for U.S., FTSE EPRA NAREIT Developed Europe Index for Europe

1. Per the MSCI UK Quarterly Property Index and MSCI Global PFI Europe Funds Quarterly Property Index, both measured in domestic currency.
 2. The FTSE NAREIT All-Equity REIT Index is up 1.04% YTD, and FTSE EPRA NAREIT Developed Europe Index is down 1.91% YTD, as of 9/5/2025.

Taken together, these data points suggest the market may have reached a valuation floor. The question now is whether this period of stability marks a durable bottom, and if conditions are in place for a renewed phase of appreciation. These conditions are prompting investors to weigh whether the next phase will resemble past recoveries. Several dynamics have historically supported this pattern:

- **Limited New Supply** – Uncertain conditions and tighter lending standards during the period of declining valuations often make it difficult for new construction to pencil. The result is a dearth of deliveries during the early stages of recovery, creating favorable tailwinds for existing assets, especially high-quality, well-located properties. As shown in **Exhibit 2**, the construction pipeline is declining rapidly across traditional property sectors, particularly industrial and multifamily.
- **Income Resilience** – Even through periods of valuation adjustment, stabilized core assets continue to generate relatively steady cash flows. Once the upward pressure on cap rates abates, this income provides a strong foundation for total return acceleration.
- **Capital Re-Engagement** – As confidence slowly returns, investors typically re-enter the market with a focus on stabilized assets, where income durability and lower risk profiles are easier to underwrite. This initial wave of capital inflows helps reset pricing and provides a base for broader market recovery. This generally occurs in tandem with stabilizing credit markets, as improved financing conditions provide a lever for enhanced equity returns.
- **Capital Rotation Across Sectors** – Downturns frequently reset relative value perceptions across property types. As investors reallocate, sectors with stronger fundamentals or supply-demand imbalances often see outsized gains during the early years of recovery.

EXHIBIT 2: U.S. Under Construction Pipeline as a Percent of Stock



Source: CoStar, Affinius Capital Research

Many of these historical drivers appear to be aligning in today's environment. Construction pipelines for both industrial and residential have declined significantly, setting the stage for supply constraints to emerge over the next several years. At the same time, demand drivers in sectors such as logistics, housing, and digital infrastructure have proven broadly resilient. Finally, narrowing spreads and early signs of improved financing conditions suggest that the repricing of debt may be easing, an important precursor for renewed capital flows into stabilized assets. The transaction markets have already demonstrated signs of strength, with U.S. transaction volumes up 16% YoY in the first half of 2025³, and European transaction volumes up 11% over the same period.⁴

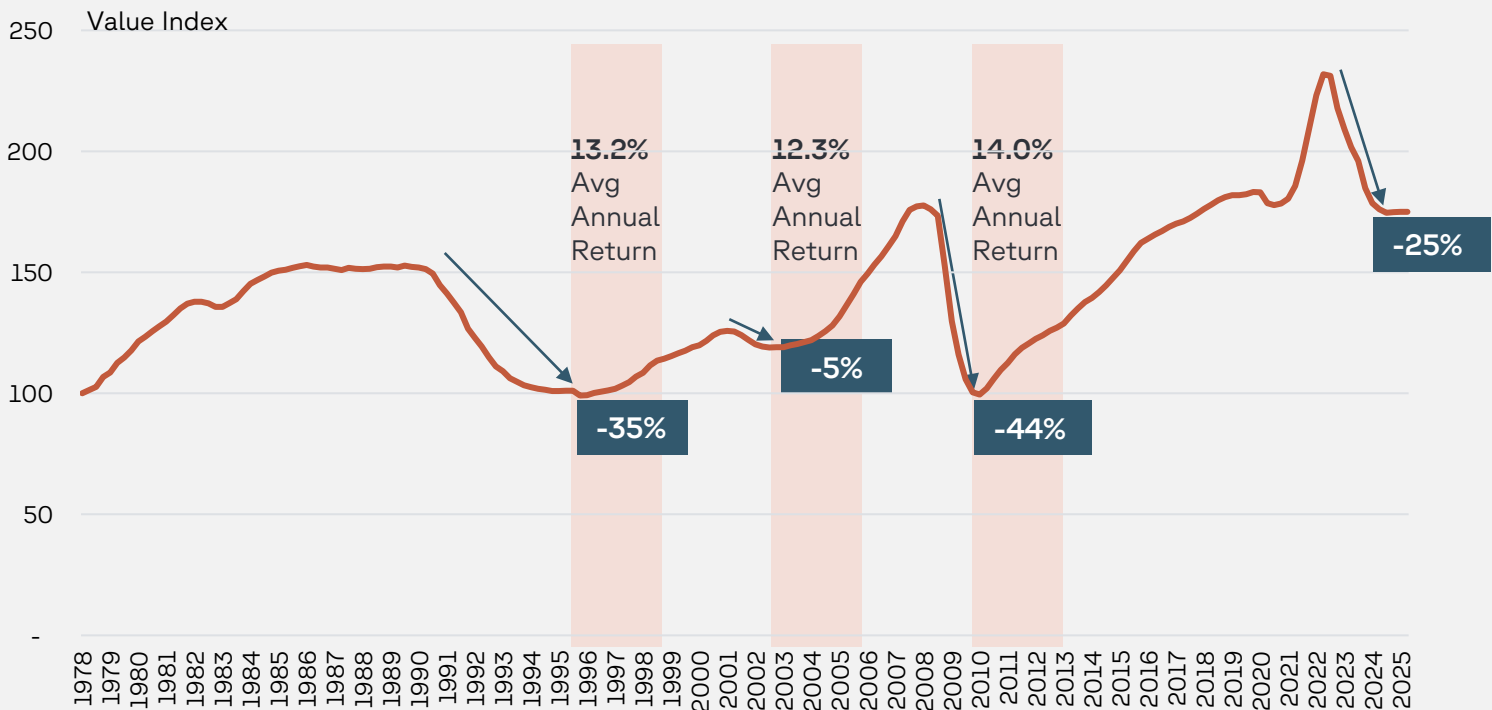
3. Per Real Capital Analytics.

4. Savills, Spotlight: European Investment – Q2 Preliminary Results and Forecasts

HISTORY DOESN'T REPEAT, BUT WILL IT RHYME?

In each of the last several cycles, the four years following a downturn in real estate valuations have delivered double-digit annualized net returns for core real estate funds. This pattern reflects both the cyclical nature of valuations and the resilience of income-producing assets once pricing resets and capital begins to re-engage, as discussed above. Today, as investors reassess portfolio positioning, these historical precedents suggest that the current environment may represent a period of opportunity rather than retrenchment. **Exhibit 3** demonstrates the strong performance of U.S. core real estate assets following the valuation declines of the three previous real estate cycles. Valuation declines across the globe are fairly similar in the current cycle, down 25% in the U.S. from 2022 peaks, 21% in the U.K., and 19% for Europe.⁵

EXHIBIT 3: NFI-ODCE Net Returns Following CRE Valuation Declines



Source: NCREIF, Affinius Capital Research

At the same time, drawing simple parallels across cycles can be misleading. The drivers of recovery vary, whether tied to interest rate regimes, credit availability, or shifts in tenant demand, factors that must be considered despite real estate's long-established cyclical recovery dynamics. In today's environment, the opportunity extends beyond traditional core strategies. Investors with the ability to execute efficiently and move across the risk spectrum are well positioned to take advantage of relative value by selectively targeting sectors and situations where incremental yield is available without meaningfully altering the risk profile.

Defining risk profiles for commercial real estate investors is not without its challenges and shortcomings. Institutional real estate strategies are often described along a risk-return spectrum spanning core, value-add, and opportunistic, but the boundaries between these categories are less rigid than many investors assume. The clearest definition exists at the core end of the spectrum.⁶ These standards provide a formalized benchmark for what qualifies as "core" in practice: while they create useful guardrails, the definitions are arbitrary in many ways and often do not provide for the most efficient risk-adjusted returns.

5. Per NCREIF NFI-ODCE, MSCI UK Quarterly Property Index and MSCI Global PFI Europe Funds Quarterly Property Index, all measured in domestic currency.

6. The NFI-ODCE index sets requirements around stabilized occupancy ($\geq 75\%$ leased), property-type concentration ($\geq 75\%$ combined in office, industrial, residential, or retail, with diversification across at least three sectors), and leverage ($\leq 35\%$).

FROM CORE TO MORE: CAPTURING INCREMENTAL RETURN

In institutional real estate investing, the term “core-plus” is widely used yet inconsistently defined. At its simplest, core-plus strategies are viewed as an extension of core – high-quality properties, but with added elements of risk or return enhancement. However, what qualifies as the “plus” is highly situational, and could include:

- **Leverage** – Moderately higher levels of debt could lead to a core-plus definition.
- **Property Sector/Geography** – Property types outside the traditional office, industrial, retail, and residential sectors would historically have been considered outside the core definition, as would exposure to secondary markets – this is less often the case today.
- **Vintage & Quality** – A building’s age, condition, or need for repositioning might introduce enough incremental risk to move it from a core to a core-plus definition.
- **Lifecycle** – Modestly lower occupancy or shorter weighted-average lease terms. From a fund perspective, this could include an allocation to non-stabilized real estate via redevelopment or “develop to core” strategies.

The diversity of these interpretations underscores the gray areas inherent in real estate classification systems. Unlike fixed income, where maturity and credit rating provide clear delineations, commercial real estate risk categories are inherently judgment-based. This ambiguity creates both challenges and opportunities: challenges in benchmarking, reporting, and aligning expectations, but also opportunities for investors to exploit inefficiencies in how strategies are labeled and priced. Notably, “develop to core” has emerged as an increasingly popular approach within the core-plus framework, where investors accept development risk in exchange for creating modern, stabilized assets that ultimately qualify as core. For the following analysis, we focus on this non-stabilized property component of core-plus investing, as it provides a useful lens into how incremental development and lease-up exposure can differentiate performance outcomes relative to fully stabilized portfolios.

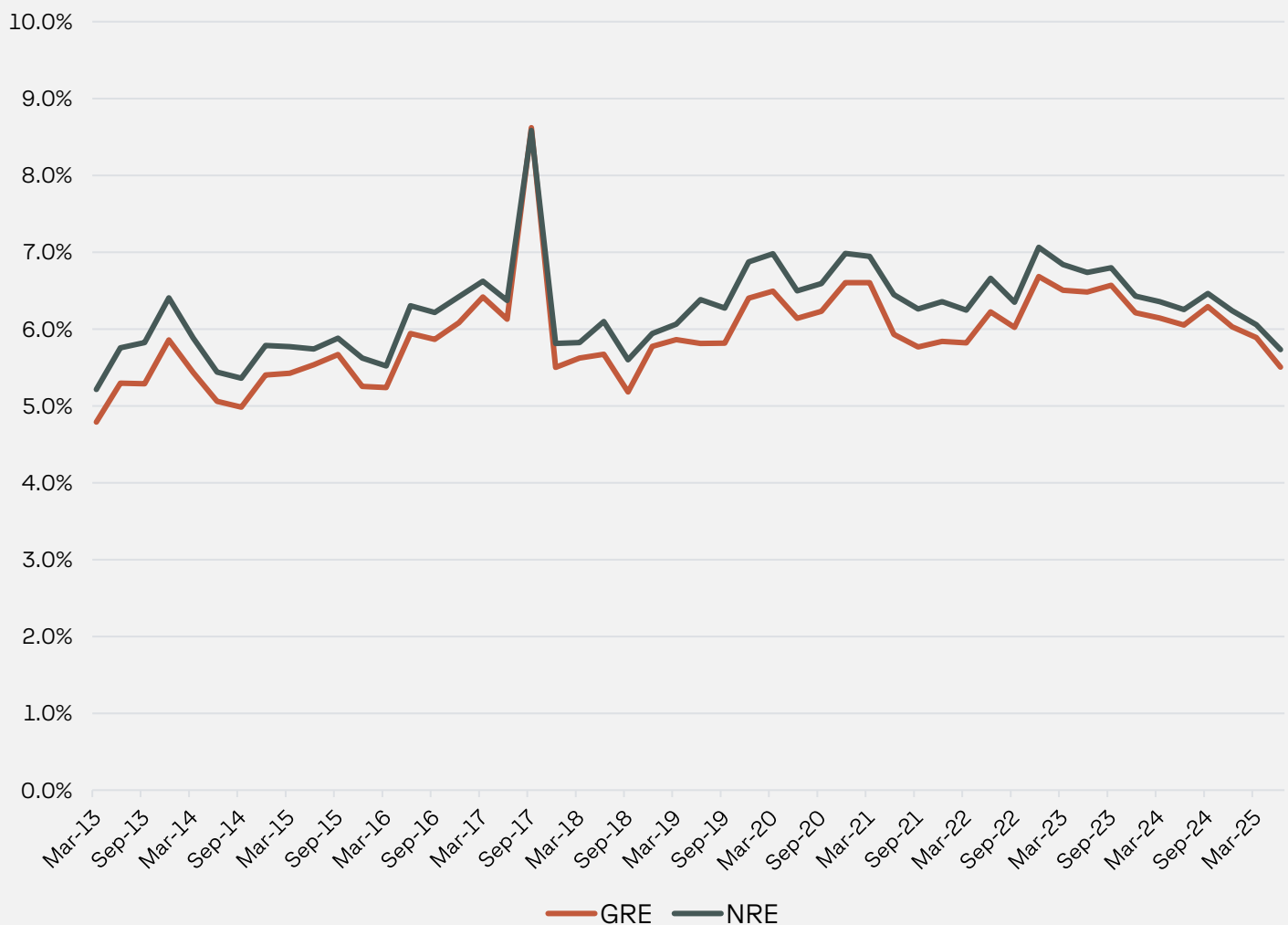
Using the NFI-ODCE funds as an example, we see that the percentage of market value within the funds allocated to non-stabilized properties⁷ is 5.5% of gross real estate, and 5.7% of net real estate, as of Q2 2025. As shown in **Exhibit 4**, this percentage has stayed fairly consistent since NCREIF began to offer this level of reporting granularity 12 years ago. Note that the level of non-stabilized investment in the UK and Europe in the major indices is similar to the U.S.⁸



7. For NCREIF, the definition we use for stabilized properties is operating properties, defined as existing properties that are purchased, regardless of current occupancy. For a newly developed property, operating is defined as reaching 60% occupancy or having been available for occupancy for a year from its certificate of occupancy. If a property has been recently purchased with a "redevelopment" strategy and the property is undergoing substantial expansion, re-tenanting, rehabilitation or remodeling, the property is defined as operating when occupancy reaches 60%.

8. MSCI uses a definition of Held-Not Stabilized definition for non-core, which is when a property is less than 75% occupied for at least half of the quarter in the time period, different than the NCREIF operating property definition. As of Q2 2025, for the market value of non-core properties in MSCI's U.S. Quarterly Property Index, Europe Quarterly Property Index, and UK Quarterly property index were 15%, 11%, and 15%, respectively.

EXHIBIT 4: NFI-ODCE Allocation to Non-Operating Properties as a Percent of Gross & Net Real Estate



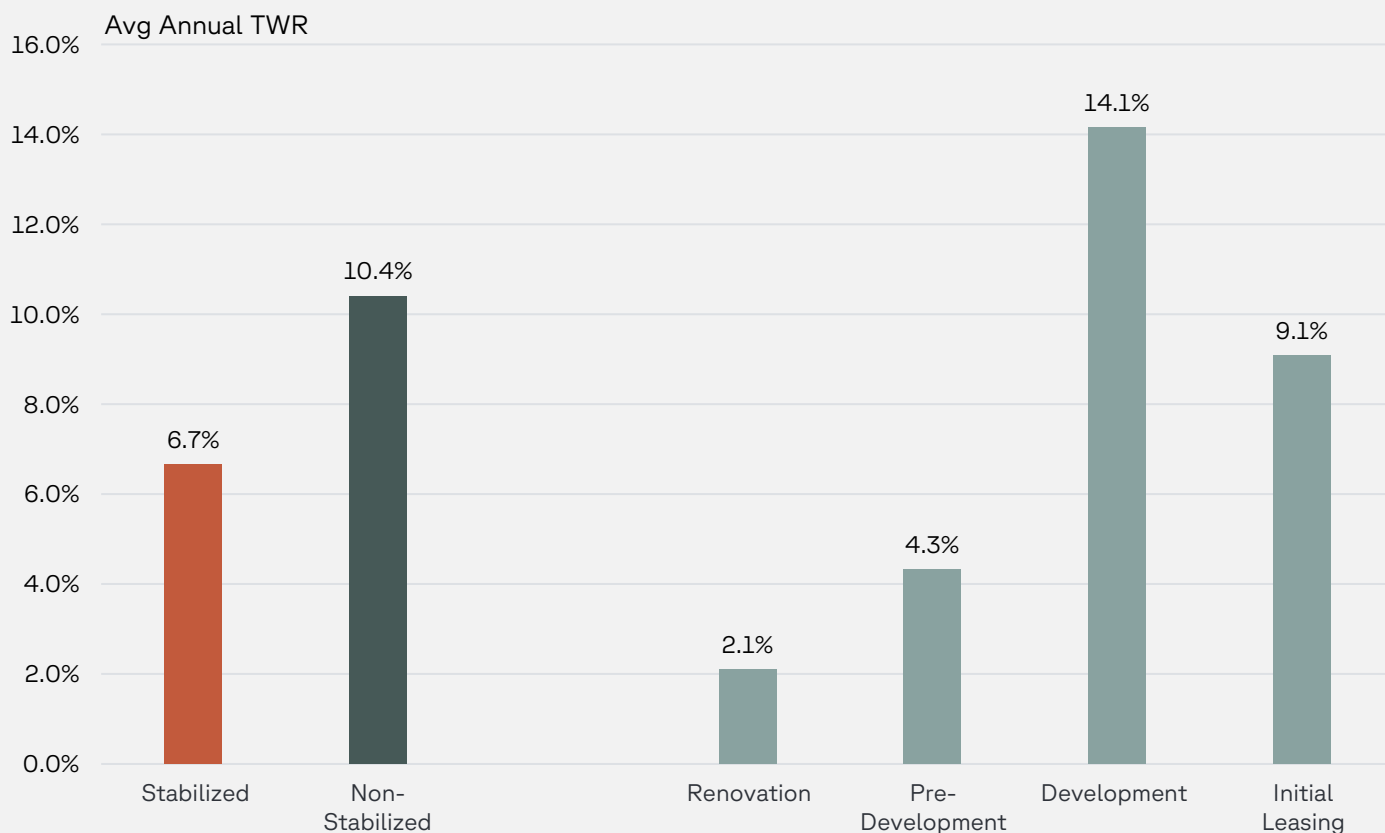
Source: NCREIF, Affinius Capital Research

Since NCREIF began disaggregating this data in Q1 2013, non-stabilized assets within ODCE portfolios have generated an average annual return of 10.4%, compared with 6.7% for stabilized properties, representing a 375-basis point differential. This return premium highlights the incremental value that “develop-to-core” and lease-up strategies can deliver, even within diversified, income-oriented fund structures. The consistency of this pattern is particularly notable. From 2013 through 2024, non-stabilized properties outperformed stabilized assets in 11 of 12 calendar years. The breakouts by type of non-stabilized properties within ODCE funds are shown in the light blue bars of **Exhibit 5**, and since 2013, the various stages of the development lifecycle have significantly outperformed, while renovation properties, by design, tend to lag during the capital investment period before subsequently outperforming once stabilized.⁹ By design, properties tagged as renovation would often underperform during the period before once again being stabilized, and thus are bringing down the overall performance of non-stabilized properties.

9. NCREIF Lifecycle definitions are as follows: Renovation - Undergoing substantial rehabilitation or remodeling. Pre-Development - Raw land or land undergoing property site development. Development - Property under construction, including preparation and installation of infrastructure. Initial Leasing - Completed construction that is less than 60% occupied since the end of construction and has been available for occupancy for less than one year.



EXHIBIT 5: NFI-ODCE Allocation to Non-Operating Properties



Source: NCREIF, Affinius Capital Research

The performance history of ODCE funds suggests that modest allocations to non-stabilized properties can meaningfully enhance portfolio outcomes. As of Q2 2025, the average ODCE allocation to non-core assets stood at 5.5% of gross real estate market value, slightly below the 5.9% average since NCREIF began reporting the data in 2013. Based on recent performance, a 5% incremental increase in non-core allocation is associated with an approximate 19-basis point uplift in total return for core portfolios. Importantly, while volatility rises moderately with higher non-stabilized exposure, the improvement in return more than offsets the added risk, resulting in stronger Sharpe ratios, as shown in **Exhibit 6**.

One trade-off, however, is that greater allocations to non-core assets tend to reduce current yield, as development and lease-up strategies emphasize value creation over immediate income. Further, by pursuing development, investors can secure the newest, highest-quality assets in the market without paying the acquisition premium that comes with fully marketed, stabilized core properties. This underscores the role of non-stabilized properties as a performance enhancer within diversified portfolios: an allocation that can increase risk-adjusted returns, but which requires careful balancing against investor objectives for income, liquidity, and portfolio stability.

EXHIBIT 6: NFI-ODCE Allocation to Non-Operating Properties

Allocation	Total Return	Total Volatility	Sharpe Ratio
100/0 Core/Non-Core	6.65%	4.04%	1.25
95/5 Core/Non-Core	6.84%	4.09%	1.28
90/10 Core/Non-Core	7.03%	4.14%	1.31
85/15 Core/Non-Core	7.22%	4.20%	1.34
80/20 Core/Non-Core	7.40%	4.25%	1.36
75/25 Core/Non-Core	7.59%	4.32%	1.39

Source: NCREIF, Affinius Capital Research

For investors evaluating relative value across the risk spectrum, this evidence underscores the additive role that selective exposure to non-stabilized real estate can play in portfolio construction. While these strategies entail higher risk and execution complexity, the track record suggests that, when deployed prudently within core-plus frameworks, they have historically provided an efficient means of enhancing returns without materially shifting the overall risk profile of ODCE funds. Crucially, outcomes in this space are not uniform. Manager selection becomes paramount, as the ability to identify, execute, and deliver on development and lease-up strategies determines whether non-stabilized exposure translates into true performance uplift.

For skilled managers, this segment offers a compelling opportunity to generate incremental value as the real estate cycle turns upward. As conditions align today, the premium for execution skill could take on increased importance.

Note that the outperformance of core-plus strategies has also been demonstrated globally and at the fund level. Comparing MSCI's Global Core Quarterly Property Fund Index and the Preqin Real Estate Core-Plus, Value-Added, and Opportunistic indices, we observe in **Exhibit 7** that Core-Plus funds have outperformed since the inception of the Preqin indices in Q3 2010.

EXHIBIT 7: GLOBAL REAL ESTATE FUND PERFORMANCE COMPARISON Q3 2010-Q1 2025

	Core	Core-Plus	Value-Added	Opportunistic
3-Year	-1.6%	0.0%	-4.0%	-1.3%
5-Year	3.4%	6.2%	4.4%	6.4%
10-Year	5.7%	7.9%	7.1%	7.7%
Since Q3 2010	7.4%	10.4%	8.8%	9.7%

Source: MSCI, Preqin, Affinius Capital Research

CONCLUSION

The evidence points to a market at a turning point. With valuations stabilizing, construction pipelines contracting, and financing conditions showing early signs of normalization, the foundation for cyclical recovery is being laid. History suggests that such periods create outsized opportunities for investors able to allocate capital efficiently across the risk spectrum. Within this context, core-plus strategies stand out. By incorporating a modest share of non-stabilized properties, investors have historically captured incremental returns, averaging 375 basis points over stabilized assets since 2013, without materially altering the overall risk profile of diversified portfolios. The result has been not only higher absolute total returns, but also improved Sharpe ratios, reflecting enhanced efficiency in portfolio construction.

For institutional investors reassessing positioning at this inflection point, the implication is clear: core-plus can be a tool for enhancing outcomes in the early stages of recovery by taking advantage of the market upswing while also benefiting from inherent value creation at the property level. While trade-offs exist, particularly in the form of reduced current yield, the long-term benefits of selective exposure to development and lease-up strategies are compelling. In a market where demand drivers remain resilient, supply pipelines are thinning, and capital is beginning to re-engage, core-plus offers a means of capturing relative value while positioning for the next leg of the cycle. In short, this is a moment where the “plus” may prove additive in more ways than one.



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