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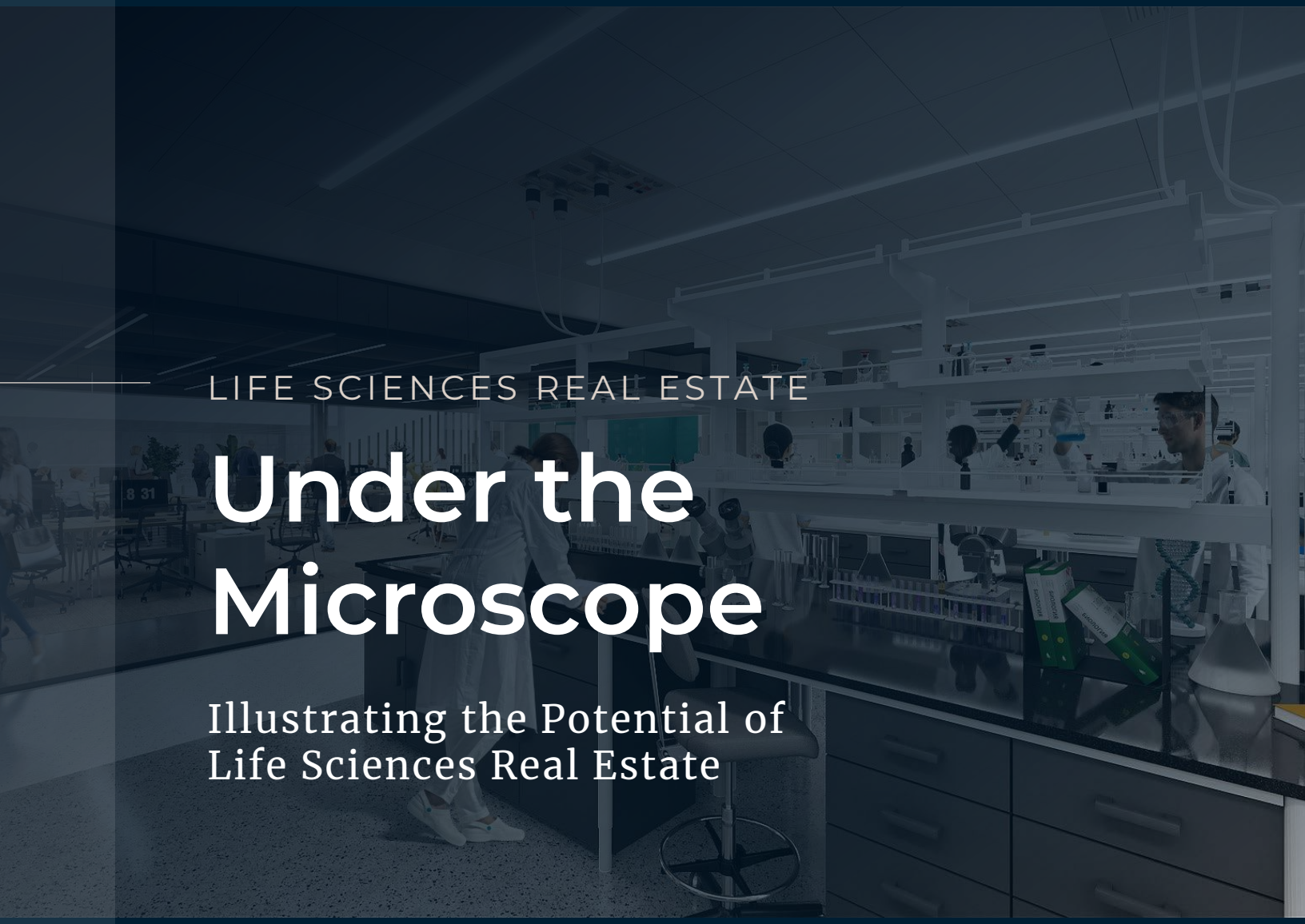

LIFE SCIENCES REAL ESTATE

Under the Microscope

Illustrating the Potential of Life Sciences Real Estate

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Unveiling Potential and Inspiring Progress

While the allure of residential and commercial real estate has long captured investors' attention, the life sciences sector has been quietly thriving. To understand the magnitude of the sector's success and impact, it is important to study the historical journey, explore the rate of institutional adoption, and shed light on recent trends in life sciences real estate, which has shown to be a dynamic asset class.

Illuminating the Past of Life Sciences Real Estate

GENESIS OF INNOVATION

The early days of this sector were characterized by a profound separation between the worlds of science and real estate. Scientific innovation occurred strictly within the walls of laboratories and research institutions like the Massachusetts Institute of Technology (MIT), Harvard, and Stanford, and the proximity of these institutions to each other and to emerging technology centers set the stage for the inevitable convergence of life sciences and real estate.

In the post-World War II era, there was a substantial surge in scientific research and technological advancements. Research institutions and universities became the backdrop for groundbreaking discoveries, and the need for specialized spaces emerged organically.

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Kendall Square in Cambridge, Massachusetts, stood as a beacon of this transformation. Home to MIT and Harvard University, it was the epicenter of innovation. As life sciences research boomed in the 1960s and 70s, it necessitated real estate spaces designed to cater to the unique requirements of these new scientific hubs.

Likewise, on the other side of the country, Silicon Valley, synonymous with the tech revolution, transformed into a hub where the worlds of science and technology seamlessly converged. The technology sector's growth spurred demand for office and laboratory spaces more conducive to innovation, shaping the physical landscape and creating environments that fueled technological advancements and the collaborative spirit essential for progress. Real estate developers and investors recognized an opportunity: providing spaces that could meet the needs of a rapidly evolving and technology-driven industry.

In Kendall Square and Silicon Valley, the convergence of life sciences technology and real estate was not just a transactional development but a cultural and intellectual fusion. The physical spaces became more than mere structures; they became incubators of ideas, propelling scientific and technological breakthroughs to reshape the world.

Pictured Above: MIT's Rendering of Kendall Square Project, Image Source: Interface and Design Distill

BIOTECH BOOM AND METAMORPHOSIS

The 1980s marked a seismic shift with the advent of the biotechnology boom. Breakthroughs in genetic engineering, the sequencing of the human genome, and the promise of revolutionary medical treatments fueled an unprecedented demand for research and development facilities.

The need for advanced research and development facilities became evident, with biotech startups, research institutions, and pharmaceutical giants leading the charge in the 1990s. It ultimately required substantial capital investments and long lease terms, which attracted real estate developers and investors.

Beyond the traditional strongholds in the United States, life sciences clusters began sprouting across the globe at the turn of

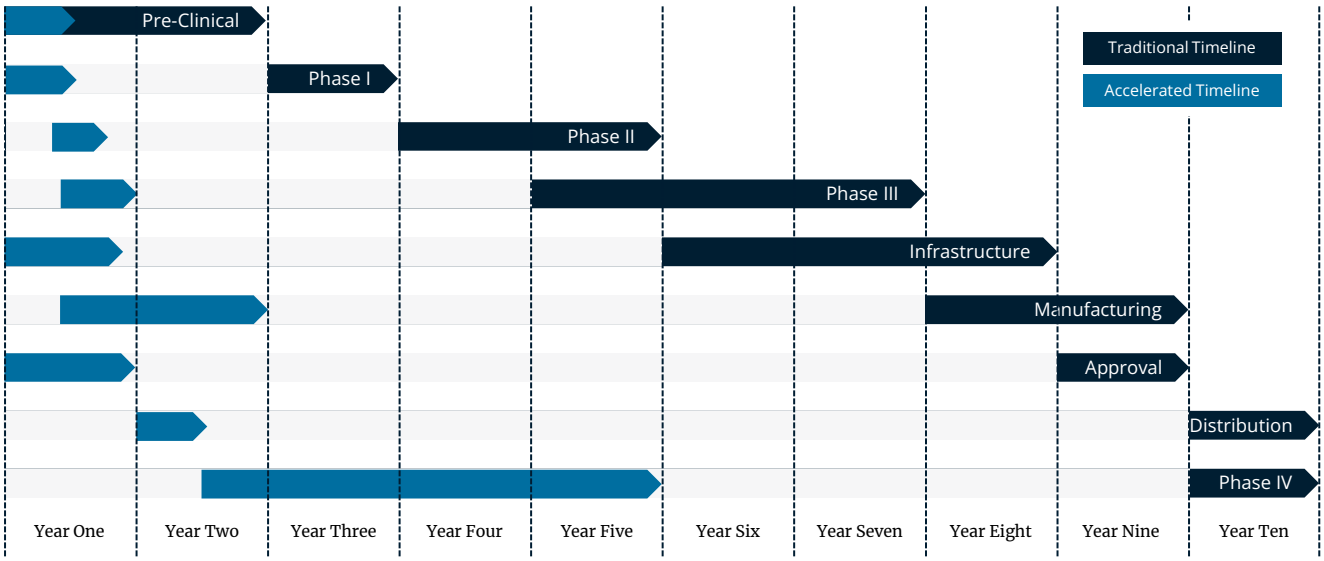
the millennium. Cities such as London, Basel, and Shanghai emerged as international hubs, fostering collaboration between research institutions, biotech companies, and investors. Recognizing the multifaceted needs of researchers, developers expanded their portfolios to include research parks, innovation hubs, and specialized facilities tailored to various aspects of the life sciences industry.

As the 2010s unfolded, the integration of advanced technologies into life sciences real estate became increasingly pronounced. Smart laboratories equipped with cutting-edge equipment, data analytics, and automation emerged as standard features. Sustainability also took center stage, with green building practices and energy-efficient designs becoming integral to modern life sciences facilities. Environmental considerations became paramount in the design and construction of life sciences facilities. Sustainable building practices, energy-efficient infrastructure, and green certifications became standard features.

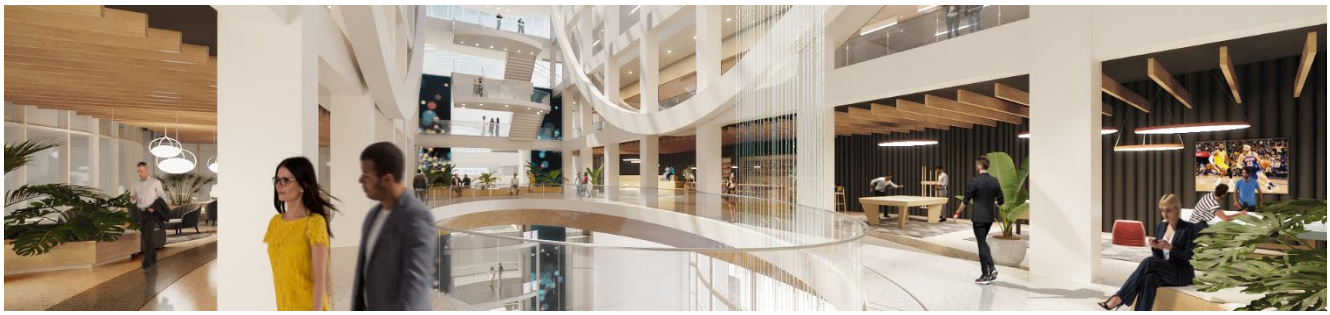
COVID-19 in 2020 disrupted the life sciences industry as a dynamic and transformative period. The growth during this global crisis was fueled by unprecedented demand, a focus on collaboration, and the imperative to secure supply chains. The global response underscored the critical importance of life sciences research and created an urgency to develop vaccines, treatments, and diagnostics.

The timeline for COVID-19 vaccine development was accelerated and ultimately led to the pandemic laying a solid foundation for life sciences real estate to play a central role in providing the necessary spaces for research institutions and biotech companies to address current and future health challenges.

COVID-19 Vaccine Development Accelerated Timeline, Source: World Health Organization



The Case for Institutional Adoption



Pictured Above: Rendering of the Atrium of NexPoint's Redevelopment Project, The Texas Research Quarter in North Texas

ATTRACTIVE INVESTMENT CHARACTERISTICS

Stability and Long-Term Leases

Research and development facilities typically require significant capital investments and are typically backed by long-term lease agreements with blue-chip tenants, including pharmaceutical giants and established biotech companies. These tenants are committed to their spaces, providing the potential for reliable and consistent rental income, often spanning several years. The top three U.S. life sciences markets had vacancy rates of just 4% or less at year-end in 2021[1]. This stability is a cornerstone of institutional investment strategy.

Rental Growth and Potential for Capital Appreciation

Scientific advancements, breakthroughs in biotechnology, and evolving healthcare needs contribute to the ongoing demand for research, development, and manufacturing facilities. Rental rates in life sciences real estate tend to experience steady growth, offering investors the allure of income appreciation over time. The industry's explosive growth has slowed in 2023 but remains steady, and the long-term outlook remains positive. When asked about the growth of the industry and outlook for the second half of 2023 and beyond, Matt Gardner, CBRE Americas Life Sciences Leader, stated, "The life sciences sector has gone from 150 miles per hour to 100 miles per hour, but the underlying sector is robust and healthy."

Rent growth in the top 13 markets has consistently increased and is rising in most of the nation's markets, albeit slower than in the past several years[2].

1. Despite the Cost, Construction of Life Sciences Properties Brings Strong Returns, CBRE, April 22, 2022, https://www.cbre.com/insights/briefs/despite-the-cost-construction-of-life-sciences-properties-brings-strong-returns
2. 2023 U.S. Life Sciences Outlook, CBRE, April 2023

Investments in this sector often offer the potential for substantial capital appreciation, especially when strategic locations within thriving life sciences clusters are involved.

Pictured Above: Semiconductor Manufacturing Plant in Temecula, California

RISK MITIGATION

Economic Downturns

After record years in 2020 and 2021, the growth of the U.S. life sciences industry has returned to a more normal path in a cautiously optimistic 2023[3]. History suggests that the life sciences industry may be better positioned than many other industries to weather an economic downturn.

While other real estate sectors may experience cyclical downturns and the impacts of economic volatility, the need for research, development, and manufacturing facilities demonstrated strength through strong employment growth, low vacancy rates, and continued government incentives through the 2022 federal CHIPS and Science Act. The CHIPS and Science Act includes $200 billion in funding for science, technology, engineering, and R&D redevelopment aimed at boosting semiconductor research development, and production. Government incentives and record-level employment growth contribute to life sciences real estate potentially becoming an attractive and dependable asset class for institutional investors.

Alignment with Healthcare and Demographic Trends

With an aging global population and rising healthcare demands, the need for medical breakthroughs and innovative solutions is more critical than ever. The average American life span has increased 30% since the 1920s, indicating greater quality-of-life and age-related life science research is needed[4]. Currently, over 400 medicines and therapies are being developed and aim to target chronic diseases impacting older Americans, according to PhRMA, and over 800 active clinical trials focused on aging, according to the National Institutes of Health (NIH) database[5].

Investments in life sciences real estate are not just investments in physical properties but are investments in healthcare innovation. The sector's performance is intricately connected to broader healthcare trends, making it a wise choice for institutional investors with their fingers on the pulse of societal and demographic shifts.

3. 2023 U.S. Life Sciences Outlook, CBRE, April 2023
4. American Realty Advisors based on data from Our World in Data, University of Oxford and United States Census Bureau, Population Projections of the United States by Age Sex, Race, and Hispanic Origin: 1995 to 2050
5. Life Sciences Update: 2023 September, Cushman & Wakefield, September 2023

Recent Trends in Life Sciences Real Estate

SURGE IN DEMAND

As a result of the pandemic in 2020, an increase in government incentives and the need for more advanced research for our aging population, the life sciences sector experienced an unprecedented surge in demand. This surge is augmented by remarkable advancements in biotechnology, pharmaceuticals, and healthcare. As healthcare becomes increasingly personalized and innovative, the need for specialized research, development, and manufacturing facilities has skyrocketed and is not limited to a specific region; it's a global phenomenon.

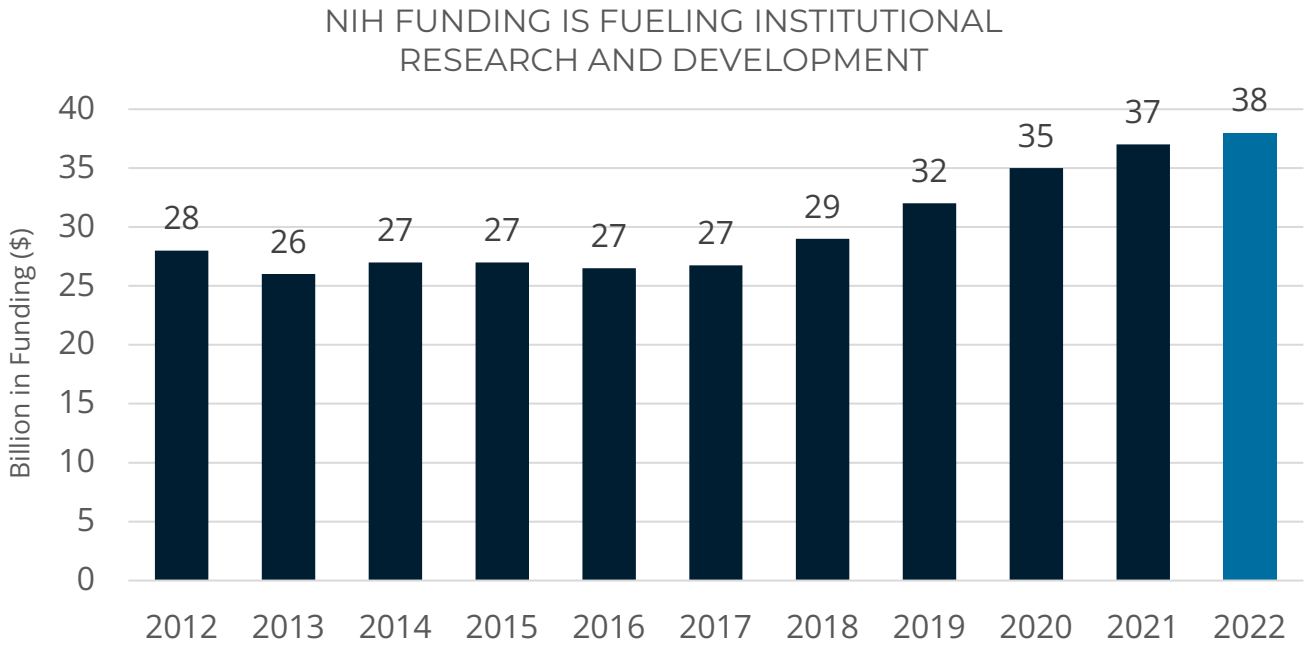
Emerging Markets and Clusters

In the dynamic landscape of the life sciences sector in the United States, both well-established hubs and emerging markets play pivotal roles in shaping the industry's future. While regions like Boston, San Francisco, and San Diego continue to be the bedrock of life sciences innovation, emerging markets are making significant strides, presenting fresh opportunities, and contributing to the sector's expansion. Cities such as Houston, with its burgeoning focus on cancer research and biotechnology, and Raleigh-Durham, renowned for the Research Triangle's concentration of pharmaceutical and biotech companies, are emerging as vibrant players in the life sciences arena. Similarly, Atlanta's rise as a hub for healthcare technology and Minneapolis-St. Paul's growth in medical technology highlights the diversification of life sciences activities across the nation.

Emergence of Contract Development and Manufacturing Organizations (CDMOs)

An increasingly prominent trend within the life sciences sector is the surging prevalence of CDMOs. These specialized entities play a crucial role in the pharmaceutical and biotech landscape by producing pharmaceuticals, biologics, and other medical products on behalf of external companies. As the pharmaceutical and biotechnology industries witness a growing reliance on CDMOs for their manufacturing needs, the demand for specialized facilities tailored to accommodate the unique requirements of these organizations intensifies. These facilities are equipped with state-of-the-art infrastructure and tailored to adhere to stringent industry regulations. They have become integral components in fostering innovation, collaboration, and efficiency within the broader life sciences ecosystem. The symbiotic relationship between the rising prominence of CDMOs and the demand for cutting-edge life sciences real estate underscores the dynamic evolution and adaptability of the industry to the changing landscape of pharmaceutical and biotechnological advancements.

Pictured Above: Philadelphia, Pennsylvania-based CDMO, Adare Pharmaceuticals, Drug Manufacturing Facility



Source: National Institutes of Health, Newmark Research; The National Life Sciences Market Overview, Midyear 2023

PANDEMIC-RESISTANT ASSETS

While many sectors faced unprecedented challenges in the wake of the 2020 pandemic, research laboratories and manufacturing facilities experienced more demand than ever, underscoring the significance of these assets and solidifying their attractiveness to investors.

- **Health Security:** Government entities and pharmaceutical companies, with their need for secure and specialized laboratory spaces, continued operations despite global disruptions, establishing life sciences real estate as an essential component of health security infrastructure.
- **Supply Chain Localization:** The pandemic exposed vulnerabilities in global supply chains, particularly in pharmaceutical and biotech manufacturing, and investors are now looking to support the localization of supply chains by investing in life sciences real estate. This trend is about ensuring the availability and reliability of critical medical supplies and medications.
- **Regulatory Flexibility:** Regulatory agencies are offering more flexibility and support for expedited approvals of new drugs, therapies, and vaccines, as demonstrated by the accelerated timeline when developing and approving the vaccines for COVID-19. This has a direct impact on the life sciences sector's growth and the demand for real estate that supports research and development.

BRINGING PHARMA HOME: RESHORING DRUG MANUFACTURING

In recent years, a notable trend has been reshaping the pharmaceutical landscape that involves bringing drug manufacturing back home. Commonly referred to as "reshoring," this strategic shift in the pharmaceutical supply chain signifies a departure from offshoring practices and a return to domestic production.

For decades, pharmaceutical companies sought cost efficiencies by outsourcing manufacturing to countries with lower production costs. While this offshoring strategy delivered economic benefits, it also introduced vulnerabilities to the pharmaceutical supply chain. Dependence on overseas manufacturing left the industry susceptible to disruptions, as witnessed during global events like the COVID-19 pandemic.

Before 2020, over 80% of manufacturing sites making active pharmaceutical ingredients (API) and nearly two-thirds of sites making finished dosage forms were located outside of the United States[6]. The tide is now turning, driven by a recognition of the importance of a robust and resilient pharmaceutical supply chain. Several factors contribute to the resurgence of reshoring drug manufacturing:

- **Supply Chain Disruptions:** The COVID-19 pandemic exposed the vulnerabilities of global supply chains, particularly in the healthcare sector. The disruptions caused by the pandemic, including shortages of critical medical supplies and drugs, have led to a renewed focus on domestic production.
- **National Security:** There are growing concerns about the national security implications of relying on foreign countries for critical medical supplies and drugs. The US government has taken steps to encourage the reshoring of drug manufacturing to ensure a reliable supply of essential medicines.
- **Regulatory Environment:** The regulatory environment for drug manufacturing in the US has been improving, with the FDA taking steps to streamline the approval process for new drugs and reduce regulatory burdens for manufacturers.
- **Public Health Concerns:** There are growing concerns about the quality and safety of drugs produced in countries with less stringent regulatory standards. Reshoring drug manufacturing to the US can help ensure that drugs meet high standards of quality and safety.

6. Drug Shortages: Root Causes and Potential Solutions, U.S. Food & Drug Administration; 2019

LIFE SCIENCES CONSIDERATIONS

While life sciences trends point in a positive direction, potential investors venturing into this sector should bear in mind several factors:

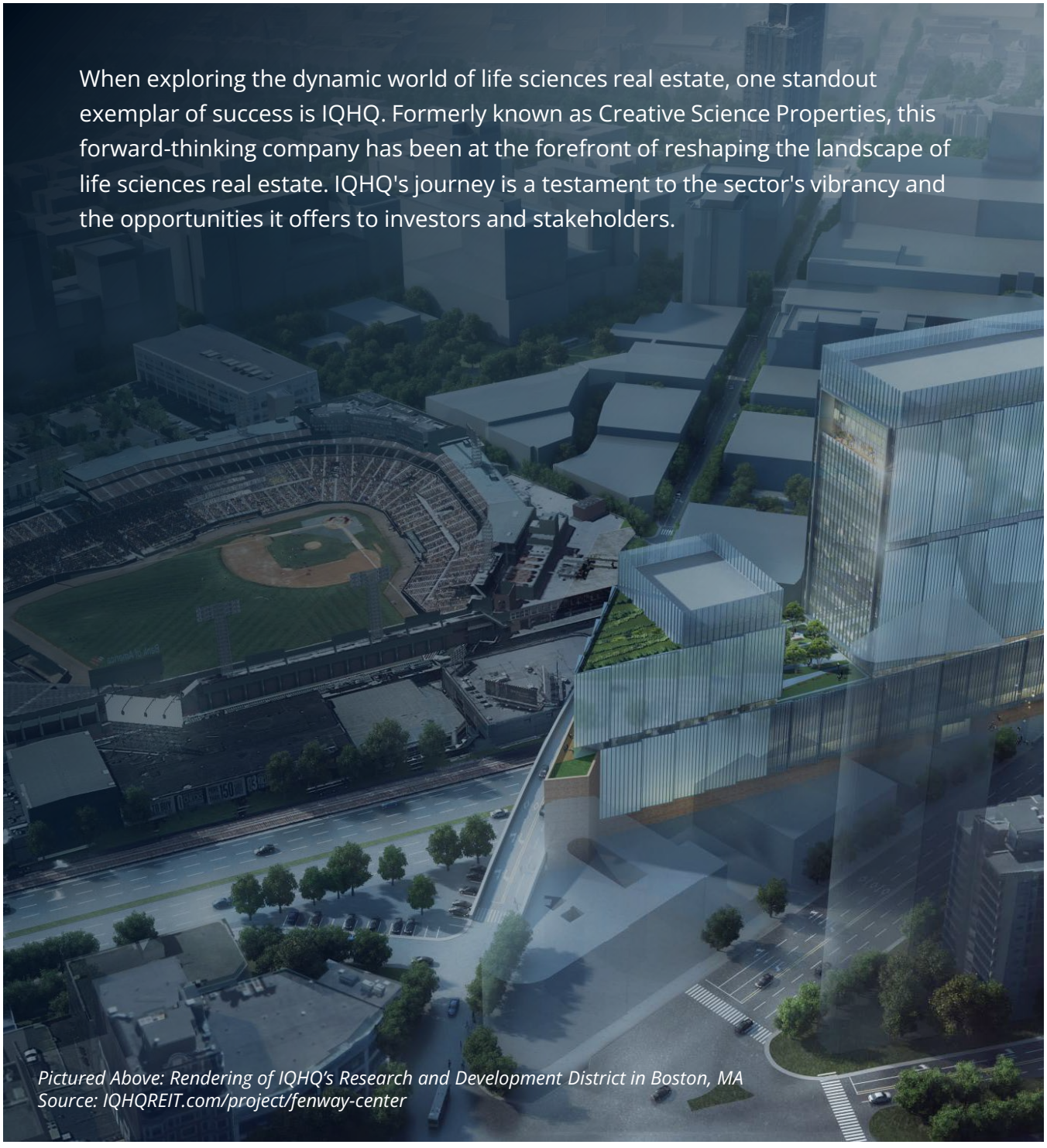
- The rise of investor interest and pricing could potentially reduce risk-adjusted returns
- A large wave of new supply
- Continued weaker private venture capital and public funding
- Persistently high interest rates
- A labor market slowdown and/or recession
- Tenants of life sciences real estate require space that is highly specialized, technical, and complex when compared to office real estate
- Regional clusters in the life sciences sector can pose challenges for investors looking to diversify geographically
- Life science companies are often subject to stringent regulatory frameworks, and changes in these regulations can have a significant impact on operations, approvals, and overall business viability
- Emerging market trends can potentially shift consumer behavior. New tech disruptions, such as artificial intelligence (AI), impacting demand for new space and employment

Pictured Above: Rendering of Lab Space in NexPoint's Redevelopment Project, The Texas Research Quarter in North Texas

Reshoring drug manufacturing is not just a strategic move for pharmaceutical companies; it's a win-win scenario for stakeholders across the board. Local communities benefit from job creation, and the healthcare system gains a more secure and responsive supply chain. Additionally, it fosters innovation and collaboration between pharmaceutical companies and local research institutions.

IQHQ Case Study: Pioneering the Future of Life Sciences

When exploring the dynamic world of life sciences real estate, one standout exemplar of success is IQHQ. Formerly known as Creative Science Properties, this forward-thinking company has been at the forefront of reshaping the landscape of life sciences real estate. IQHQ's journey is a testament to the sector's vibrancy and the opportunities it offers to investors and stakeholders.



Pictured Above: Rendering of IQHQ's Research and Development District in Boston, MA
Source: IQHQREIT.com/project/fenway-center

THE IQHQ VISION

IQHQ emerged with a clear vision: to create innovative environments that empower life sciences companies to push the boundaries of scientific discovery. The company recognized that the life sciences sector required specialized spaces that could not only accommodate advanced research and development but also foster collaboration, creativity, and forward-thinking solutions.

IQHQ's first significant step was acquiring the iconic life sciences campus in San Diego, the Research and Development District (RaDD). This prime location, home to prominent research institutions and biotech startups, became the centerpiece of their vision. It is the largest urban commercial waterfront site along the Pacific Coast, encompassing five businesses over eight acres[7].

The project is slated to become a world-class life science campus with retail shops, restaurants, five acres of open space, an on-site art program, and subterranean parking with plentiful access to mass transit and walkable destinations. The five buildings, Rise, Alley, Core, Edge, and Vida, will have shared amenities, including a bike hub, event space, conference center, rooftop deck, and other full-service wellness amenities. This district will be a hub with connectivity to trains, pedestrians, the ferry to Coronado, cruise ships, and the pedestrian trail along the Embarcadero path at the district's edge.

Pictured Above: Rendering of IQHQ's Research and Development District in San Diego
Source: IQHQREIT.com/project/radd

7. IQHQ: 2022 ESG Annual Report, March 2023

SUCCESS AND IMPACT

IQHQ's transformation of life sciences real estate has been nothing short of remarkable. The San Diego campus, now known as The Heights, stands as a testament to their success. The campus attracted top-tier life sciences companies and provided a platform for them to thrive.

IQHQ's commitment to innovation and its ability to create dynamic spaces for scientific exploration has benefited the companies within their campuses and contributed to the advancement of scientific knowledge and medical breakthroughs. The impact of their work is felt not only within the real estate sector but across the entire life sciences industry.

IQHQ's journey offers valuable lessons for investors and financial advisors:

- **Vision and Innovation:** IQHQ's impact is rooted in a clear vision and a commitment to innovation. Investors should look for opportunities in companies and properties that share these principles.
- **Collaboration and Community:** The power of collaboration and community-building within life sciences real estate cannot be overstated.
- **Adaptation and Evolution:** As the life sciences sector evolves, it's crucial to invest in properties that can adapt to changing needs.

Pictured Above: Rendering of IQHQ's Spur Project, Phase 1 in South San Francisco
Source: IQHQREIT.com/project/spur-phase-1

Shaping Tomorrow: The Enduring Legacy and Future Horizon of Life Sciences

The past, present, and future of life sciences real estate are intertwined with the remarkable journey of scientific discovery. It's an industry with potential, resilience, and strong investment characteristics. Overcoming biases against this sector requires a deeper understanding of its history, institutional adoption advantages, disadvantages, and the latest trends.

Life sciences real estate is more than bricks and mortar; it's the bedrock of healthcare innovation. Institutional investors and financial advisors who venture into this dynamic sector have an opportunity to participate in the scientific and medical breakthroughs that can shape the future, making the sector a potential choice for forward-thinking investors.

Pictured Above: Rendering of NexPoint's Texas Research Quarter, a Life Sciences Redevelopment Project in North Texas

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Past performance does not guarantee future results.

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Real Estate Risk. Real estate investments are subject to various risk factors. Generally, real estate investments could be adversely affected by a recession or general economic downturn where the properties are located. The full extent of the impact and effects of the recent outbreak of COVID-19 on the future financial performance of the Fund, and specifically, on its investments and tenants to properties held by its REIT subsidiaries, are uncertain at this time. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. Real Estate involves a high degree of risk, including risks associated with the general economic climate, local real estate conditions (including the availability of excess supply of properties relative to demand), changes in the availability of debt financing, credit risk arising from the financial condition of tenants, buyers, and sellers of properties, geographic or market concentration, competition from other spaces, and various other risks. The possibility of partial or total loss of capital will exist, and prospective investors should not subscribe unless they can readily bear the consequences of such loss.

Life Science Risk. Factors impacting the Life Science market. The success of life science depends, in part, on conditions in the life science market. The life science market consists of the fields of pharmaceuticals, biotechnology, biomedical technologies, nutraceuticals, cosmeceuticals, and others. Investment strategies are premised on assumptions about occupancy levels, rental rates, interest rates and other factors, and if those assumptions prove to be inaccurate, cash flows and profitability will be reduced. Recent strengthening of the U.S. economy and job growth, coupled with government programs, and interest has been driven in part by the COVID-19 pandemic, as the sector exponentially grew due to activity around vaccine development. Lab science risks differ from typical office construction, as they have very specialized infrastructure requirements. This includes the need to have space for chemicals and chemical storage, clean room spaces, special ventilation and fireproofing systems, extra power and emergency generators, among other requirements.

There are substantial risks in any investment program. Before investing in any funds and offerings, you should carefully consider the investment objectives, risks, charges and expenses. Investors should read the risk factors of the accompanying private placement memorandum ("PPM") for a discussion of the risks relevant to any offering. Distributions are not guaranteed. Please review the entire PPM prior to investing. All prospective purchasers must read the PPM and no person may invest without acknowledging receipt and complete review of the PPM.

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