# INREIT

# Invesco Real Estate Income Trust Inc.

QUARTERLY COMMENTARY I Q3 2023

Current investment: San Simeon Apartments | Houston, TX

Q3 '23

## Macroeconomic Background

Interest rates remain the dominant factor for real estate investors, but the story goes well beyond the Federal Reserve's ("Fed") continued efforts at the short end of the yield curve. While inflation is coming down, the economic data has evidenced a more resilient economy, suggesting the Fed will need to remain restrictive. For example, the Federal Open Market Committee's (FOMC) year-end projections for unemployment recently shifted down ~80 basis points ("bps") while real gross domestic product (GDP) shifted up ~160bps. As a result, the FOMC median forecast for the Federal Funds Rate at the end of 2023 and 2024 has increased by ~50bps and ~100bps, respectively.[1] These expert forecasts changed drastically in just nine months, contributing to a sharp increase in the 10-year US Treasury yield, up ~150 bps from the lows of Q2 to 4.75%. The relative direction, magnitude, and persistence of these shifts must be understood and distilled from the noise that persists in today's headlines.

## Sector Divergence and Financing Considerations

The commercial real estate universe is broad and encompasses various forms of rental housing, health care, logistics and storage facilities, retail and other commercial property types. The opportunities and challenges in one segment of the real estate market may not apply in others. This shows in the diverging performance in private real estate over the last year within sectors - the gap between the best and worst performing real estate sectors was 26.5%.[2]

Office grabs most of the headlines and for good reason – it's interesting, relevant to most of our daily lives, and we are likely witnessing a structural reduction in demand for traditional, non-differentiated office buildings. This reduction in demand, compounded by higher financing costs and decreased lender appetite, will likely continue to cause problems for owners and lenders of traditional office buildings. However, traditional office represents only 5% of the $1.2 trillion public real estate investment trust ("REIT") universe and 19% of the $1.0 trillion of institutionally owned private real estate market.[3] INREIT has never owned traditional office, nor do we currently intend to do so. We believe this context is critical.

Numerous markets that saw record demand for housing over the last five years are also experiencing a reversion to norms, thanks to decreasing affordability and a strong supply response. In some instances, we expect to see declining rents because this new supply currently exceeds demand. These reversions are coming off periods of well-above-average growth, which could negatively impact investment outcomes if buyers purchased assets "late in the cycle" without margin for error. Within INREIT's portfolio, we avoided chasing multifamily investments at peak multiples (or low cap rates) and, instead, built our residential allocation around student-housing and higher cap rate[4] multifamily assets without sacrificing growth potential. For example, our student housing investments achieved 16% rent growth for the 2023-2024 academic year, and we believe our outlook is favorable because the new supply remains muted.

Higher base rates mean debt capital is more expensive for everyone, and we suspect overall credit availability will be challenged as lenders sort through higher default risk and compounded regulatory scrutiny. Alternative lenders, including INREIT, are stepping into this capital void, but the real estate market needs a healthy bank lending market.

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## INREIT's portfolio

INREIT's balance sheet remains in good health with leverage below 40% and over 15% of net asset value (NAV) held in liquid sources. We have no secured debt maturities until the second half of 2025, and we believe our existing portfolio is insulated from a financing environment where refinancings are expensive and often require equity injections. Through Q3 2023, we have continued to accept and fulfill 100% of repurchase requests through our Share Repurchase Plan since our inception with no proration[5].

We have taken a hands-on approach to mining growth within the portfolio. Once we believe growth within a particular asset has been realized and there is an opportunity to recycle equity from within the portfolio at more attractive go-forward returns, we're compelled to do so, even if that means transacting in a more uncertain market environment. In our view, a difficult selling environment makes for a compelling buying environment, and we believe our smaller scale provides a competitive advantage.

## Our Investment Outlook

We believe INREIT's portfolio is built differently, with a defensive investment posture, floating rate assets exceeding floating rate liabilities, and a smaller portfolio with the ability to be nimble and opportunistic in today's market. We anticipate that the opportunity for new investments in sectors we value will be favorable over the next 12-18 months.

1. Source: Federal Reserve FOMC Projections materials as of September 20, 2023, from federalreserve.gov. The Federal Funds Rate is the rate at which depository institutions lend to each other. An investment cannot be made into an index.

2. Source: Trailing one-year performance from NCREIF Property Index Plus performance as of Q2 2023, excluding Hotels. Highest and lowest performing sectors for the period were Manufactured Housing and Central Business District Office, respectively. NCREIF data reflects the returns of a blended portfolio of institutional quality real estate and does not reflect the use of leverage or the impact of management and advisory fees. Index performance does not represent INREIT performance and an investment in INREIT is not an investment in any index. Past performance is not a guarantee of future results.

3. Source: Public REIT universe represented by FTSE-NAREIT All Equity REIT Index as of August 2023. Private real estate represented by NCREIF Property Index Plus as of Q2 2023.

4. Capitalization rates (cap rates) is the quotient of a property's net operating income divided by the property's estimate value

5. Proration: In the event that INREIT determines to repurchase some but not all of the shares of common stock submitted for repurchase during any month, shares submitted for repurchase during such month will be repurchased on a pro rata basis. All unsatisfied repurchase requests must be resubmitted after the start of the next month, or upon the recommencement of the share repurchase plan, as applicable.

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# INREIT Portfolio Overview

**$1.1b**
Total Asset Value[1]

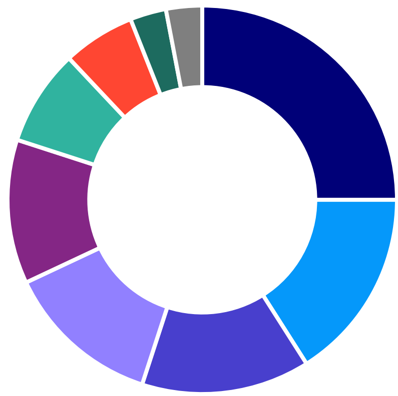
**$635.1m**
Net Asset Value[2]

**50**
Number of Properties[3]

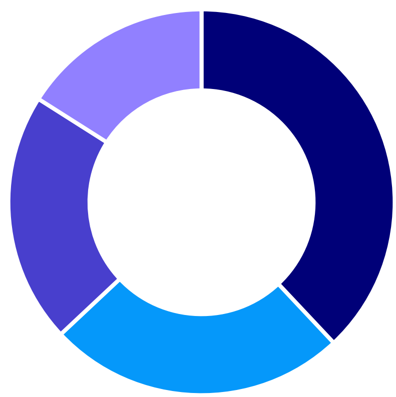
**95%**
Occupancy[4]

**36%**
Leverage Ratio[5]

## Property Type[6]




## Geography[7]




## Performance – Total Returns[8]

| | | Monthly (%) | Year-to-date (%) | One-year (%) | Inception-to-date (%) |
|---|---|---|---|---|---|
| **Class T** | No Sales Load | -0.76 | -3.26 | -5.52 | 7.77 |
| | With Sales Load | -4.23 | -6.64 | -8.82 | 6.14 |
| **Class S** | No Sales Load | -0.64 | -3.10 | -5.38 | 7.87 |
| | With Sales Load | -4.12 | -6.50 | -8.69 | 6.24 |
| **Class D** | No Sales Load | -0.72 | -3.06 | -5.25 | 8.01 |
| | With Sales Load | -2.21 | -4.52 | -6.67 | 7.31 |
| **Class I** | No Sales Load | -0.70 | -3.10 | -5.11 | 8.41 |
| **Class E** | No Sales Load | -0.67 | -2.54 | -5.05 | 10.16 |

| | Class T | Class S | Class D | Class I | Class E |
|---|---|---|---|---|---|
| NAV[2] | $29.11 | $29.10 | $29.12 | $29.24 | $30.52 |
| Monthly net distribution[9] | $0.13 | $0.13 | $0.13 | $0.14 | $0.14 |
| Annual net distribution[9] | 5.28% | 5.43% | 5.48% | 5.60% | 5.36% |

Past performance is not a guarantee of future results.

# Notes

**Definitions**

1. **Basis points ("bps"):** A unit of measure to describe the percentage change in the value of financial instruments or the rate change in an index or other benchmark. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001.
2. **Gross domestic product ("GDP"):** A monetary measure of the market value of all the final goods and services produced in a specific time period by a country or countries. GDP is most often used by the government of a single country to measure its economic health.
3. **10-year US Treasury Yield:** The effective annual interest rate that the U.S. government pays on one of its debt obligations, expressed as a percentage.
4. **Base rates:** The interest rate that a central bank – such as the Federal Reserve – will charge commercial banks for loans.

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1. Total asset value ("TAV") is measured as (1) the asset value of real estate investments (based on fair value), excluding any third-party interests in such real estate investments, plus (2) the asset value of real estate-related securities measured at fair value, plus (3) any other current assets (such as cash or any other cash equivalents). TAV is not a measure under generally accepted accounting principles in the United States ("GAAP"), and the valuations of and certain adjustments made to our assets used in the calculation of total asset value will differ from GAAP. You should not consider TAV to be equivalent to GAAP total assets or any other GAAP measure. Total asset value is calculated as GAAP total assets excluding (1) third-party interests in total assets, (2) straight-line rent receivable, (3) below market leases and (4) certain other assets, plus (5) depreciation and amortization and (6) unrealized real estate appreciation. For more information, please refer to our annual and quarterly reports filed with the SEC, which are available at https://www.invesco.com/inreit/news-and-filings. As of September 30, 2023, our TAV was approximately $1,055.8 million and our GAAP total assets were $1,036.2 million.
2. NAV is calculated in accordance with the valuation guidelines approved by our board of directors. NAV is not a measure used under generally accepted accounting principles in the United States ("GAAP"), and the valuations of and certain adjustments made to our assets and liabilities used in the determination of NAV will differ from GAAP. You should not consider NAV to be equivalent to stockholders' equity or any other GAAP measure. As of September 30, 2023, our NAV per share was approximately $29.11, $29.10, $29.12, $ 29.24 and $30.52 per Class T, S, D, I and E share, respectively, and total stockholders' equity per share was $26.06, $25.37, $25.92, $ 28.65 and $18.86 per Class T, S, D, I and E share, respectively. For a full reconciliation of NAV to stockholders' equity, please refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operation" section of our annual and quarterly reports filed with the SEC, which are available at https://www.invesco.com/inreit/news-and-filings. NAV based calculations involve significant professional judgment. The calculated value of INREIT's assets and liabilities may differ from its actual realizable value or future value which would affect the NAV as well as any returns derived from that NAV, and ultimately the value of your investment. As return information is calculated based on NAV, return information presented will be impacted should the assumptions on which NAV was determined prove to be different. For further information, please refer to the "Net Asset Value Calculation and Valuation Guidelines" section in the Prospectus which describe INREIT's valuation process and the independent third parties who assist INREIT.
3. Reflects real estate property investments only, including unconsolidated properties, and does not include private real estate debt investments or other real estate-related securities investments.
4. Occupancy rate measures the utilization of properties in the portfolio and is weighted by the total value of all real estate properties. Investments for Multifamily is the percentage of all leased units divided by the total unit count; Student housing is the percentage of all occupied beds divided by the total bed count. For Healthcare, industrial, office, retail, and self-storage is the percentage of all leased square footage divided by the total available square footage.
5. Leverage ratio is measured by dividing (i) the sum of consolidated property-level debt, entity-level debt, debt-on-debt, net of cash and The calculation used to ensure compliance with the charter limitation is distinct from the leverage ratio calculation shown here. restricted cash, by (ii) the asset value of real estate investments, private real estate debt investments and equity in INREIT's real estate-related securities portfolio (in each case measured using the greater of fair market value and cost), including the net investment in unconsolidated investments. For purposes of determining the asset value of INREIT's real estate investments, the asset value of the DST Properties is included due to the master lease structure, including INREIT's fair market value purchase option. The leverage ratio calculation does not include (i) indebtedness incurred in connection with funding a deposit in advance of the closing of an investment, (ii) indebtedness incurred as other working capital advances, (iii) indebtedness on INREIT's real estate securities investments,(iv) the pro rata share of debt within INREIT's unconsolidated investments, or (v) any financing liability included in INREIT's net asset value calculation resulting from the sale of real estate property investments held by the Delaware Statutory Trusts for which INREIT has issued and sold beneficial interest. The leverage ratio would be higher if any of the foregoing categories of indebtedness were taken into account. INREIT's charter prohibits it from borrowing more than 300% of net assets, which approximates borrowing 75% the cost of investments.
6. Property Type weighting is measured as the asset value of real estate investments for each sector category (Healthcare, Industrial, Office, Multifamily, Grocery-Anchored Retail, Self-Storage, Student Housing, Private Real Estate Debt, Other) against the total asset value of all real estate investments, excluding the value of any third-party interests in such real estate investments. The Other segment includes non-controlling interests in retail properties through INREIT's interest in ITP Investments LLC. Real estate investments include INREIT's direct property investments, unconsolidated investments, private real estate debt, and our non-controlling interests in retail properties. Totals may not sum to 100% due to rounding.
7. Geography weighting excludes the asset value of any investments in private real estate debt, real estate-related securities, or cash and is measured as the asset value of direct real estate properties and unconsolidated investments for each geographical category (East, Midwest, South, West) against the total asset value of all real estate property investments. Totals may not sum to 100% due to rounding.

# Notes (continued)

8. Past performance is not a guarantee of future results. Total Return does not necessarily mean that an investor is receiving a financial return, INREIT's NAV is internally valued and INREIT retains the ability to pay distributions from sources other than cash flow. Total Returns shown are calculated by taking the percent change in the NAV per share from the beginning of the applicable period, plus the amount of any distribution per share declared in the period. All returns shown assume reinvestment of distributions pursuant to INREIT's distribution reinvestment plan, are net of all INREIT expenses, including general and administrative expenses, transaction related expenses, management fees, performance participation allocation, and share class specific fees, but exclude the impact of early repurchase deductions on the repurchase of shares that have been outstanding for less than one year. Class T, Class S and Class D shares listed as (With Sales Load) reflect the returns after the maximum up-front selling commission and dealer manager fees. Class T, Class S and Class D shares listed as (No Sales Load) exclude up-front selling adjustments, may not correspond to realized value and commissions and dealer manager fees. The inception date for Class E shares was May 14, 2021, Class I shares was May 21, 2021 and June 1, 2021 for the Class T, S, D shares. The returns have been prepared using unaudited data and valuations of the underlying investments
9. The Monthly Net Distribution per Share reflects the current month's distribution per share, net of any applicable stockholder servicing fees. The Annualized Distribution Rate reflects the current month's distribution annualized and divided by the prior month's net asset value, which is inclusive of all fees and expenses. For the quarter ended June 30, 2023, 74% of distributions were funded from cash flows from operations, 15% from distributions of capital from investments in unconsolidated entities, and 100% from financing proceeds. Distributions are not guaranteed and may be sourced from non-income items. Past performance is not a guarantee of future results.

# Summary of risk factors

Invesco Real Estate Income Trust Inc. (INREIT) is a non-listed REIT that invests primarily in stabilized, income-oriented commercial real estate in the United States. To a lesser extent, INREIT also originates and acquires private real estate debt, including loans secured or backed by real estate, preferred equity interests and interests in private debt funds. INREIT also invests in liquid real estate-related equity and debt securities intended to provide current income and a source of liquidity for its share repurchase plan, cash management and other purposes. This investment strategy involves a high degree of risk and is intended only for investors with a long-term investment horizon and who do not require immediate liquidity or guaranteed income. If INREIT is unable to effectively manage the impact of the risks inherent in its business, it may not meet its investment objectives. You should only invest in INREIT if you can afford a complete loss of your investment. You should read the Prospectus carefully for a description of the risks associated with an investment in INREIT. The principal risks relating to an investment in INREIT include, but are not limited to the following:

- INREIT has held its current investments for a short period of time, and you will not have the opportunity to evaluate INREIT's future investments before it makes them, which makes your investment more speculative.
- Since there is no public trading market for shares of INREIT's common stock, repurchase of shares by INREIT will likely be the only way to dispose of your shares. INREIT's share repurchase plan will provide stockholders with the opportunity to request that INREIT repurchases their shares on a monthly basis, but INREIT is not obligated to repurchase any shares and may choose to repurchase only some, or even none, of the shares that have been requested to be repurchased in any month. In addition, repurchases will be subject to available liquidity and other significant restrictions. Further, INREIT's board of directors may make exceptions to, modify or suspend its share repurchase plan. As a result, INREIT's shares should be considered as having only limited liquidity and at times may be illiquid. Your ability to have your shares repurchased through INREIT's share repurchase plan is limited, and if you do sell your shares to INREIT, you may receive less than the price you paid.
- There is no assurance INREIT will pay distributions in any particular amount, if at all. Distributions may be modified and are at the discretion of the board of directors. Distributions are not indicative of profitability, have been in excess of net income and may be funded from sources other than cash flow from operations, including without limitation, the sale of assets, borrowings, return of capital or offering proceeds. There are no limits on the amounts that may be paid from such sources.
- The purchase price and repurchase price for shares of INREIT's common stock will generally be based on the prior month's NAV and will not be based on any public trading market. While there will be independent valuations of INREIT's properties quarterly, the valuation of properties is inherently subjective, and INREIT's NAV may not accurately reflect the actual price at which its properties could be liquidated on any given day.
- INREIT has no employees and is dependent on Invesco Advisers, Inc. ("Adviser") to conduct its operations. The Adviser will face conflicts of interest as a result of, among other things, the allocation of investment opportunities among INREIT and Other Invesco Accounts (as defined in the Prospectus), the allocation of time of its investment professionals and the substantial fees that INREIT will pay to the Adviser.
- INREIT is conducting a "best efforts" offering. If INREIT is not able to raise a substantial amount of capital on an ongoing basis, its ability to achieve its investment objectives could be adversely affected.
- Principal and interest payments on any borrowings will reduce the amount of funds available for distribution or investment in additional real estate assets.
- There are limitations on the ownership and transferability of INREIT's shares. No person or group may directly or indirectly acquire or hold more than 9.9% of INREIT's outstanding common stock in value or number of shares of all classes or series, whichever is more restrictive. An investment in INREIT is not a direct investment in real estate. See "Description of Capital Stock – Restrictions on Ownership and Transfer" in the prospectus for more information.
- INREIT does not own the Invesco name, but is permitted to use it as part of INREIT's corporate name pursuant to a trademark license agreement with an affiliate of Invesco. Use of the name by other parties or the termination of INREIT's trademark license agreement may harm its business.
- If INREIT fails to qualify as a REIT and no relief provisions apply, its NAV and cash available for distribution to its stockholders could materially decrease.
- Accurate valuations are more difficult to obtain in times of low transaction volumes due to fewer market transactions that can be considered in the context of the appraisal. There will be no retroactive adjustment in the valuation of assets, INREIT's offering price of its common stock shares, the price INREIT paid to repurchase its common stock or NAV-based fees INREIT paid to the Adviser and the Dealer Manager to the extent valuations prove to not accurately reflect the realizable value of INREIT's assets. The price you will pay for shares of INREIT's common stock and the price at which shares may be repurchased will generally be based on the prior month's NAV per share. As a result, you may pay more than realizable value or receive less than realizable value for your investment.

# Important Information

**Forward-looking statement disclosure**

This material contains forward-looking statements about INREIT's business, including, in particular, statements about its plans, strategies and objectives. You can generally identify forward-looking statements by the use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue" or other similar words. These statements include INREIT's plans and objectives for future operations, including plans and objectives relating to future growth and availability of funds, and are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to these statements involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to accurately predict and many of which are beyond INREIT's control. Although INREIT believes the assumptions underlying the forward-looking statements, and the forward-looking statements themselves, are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that these forward-looking statements will prove to be accurate, and INREIT's actual results, performance and achievements may be materially different from that expressed or implied by these forward-looking statements. In light of the significant uncertainties inherent in these forward-looking statements, the inclusion of this information should not be regarded as a representation by INREIT or any other person that INREIT's objectives and plans, which are considered to be reasonable, will be achieved.

**Other important information**

The opinions expressed are those of INREIT as of the date appearing in the materials, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals. Stockholders, financial professionals and prospective investors should not rely solely upon the information presented when making an investment decision and should review the Prospectus. Certain information contained in the materials discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. The information contained herein does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions. Invesco Advisers, Inc. is the investment adviser for INREIT; it provides investment advisory services to individual and institutional clients and does not sell securities. Invesco Distributors, Inc. (member FINRA/SIPC) is the dealer manager for the INREIT offering. Both entities are indirect, wholly owned subsidiaries of Invesco Ltd.

**Important Index Information:**

**The following indexes represent investments with material differences from an investment in non-traded REITs, such as INREIT, including related vehicle structure, investment objectives and restrictions, risks, fluctuation of principal, safety, guarantees or insurance, fees and expenses, liquidity, and tax treatment. An investment in INREIT is not a direct investment in real estate and has material differences from a direct investment in real estate, including those related to fees and expenses, liquidity, and tax treatment.**

Private Real Estate market is represented by the NCREIF Property Index (the "NPI") on the basis that the NPI is the broadest measure of private real estate index returns. The NPI is published by the National Council of Real Estate Investment Fiduciaries and is a quarterly, composite total return (based on appraisal values) for private commercial real estate properties held for investment purposes including fund expenses but excluding leverage and management and advisory fees. The NPI excludes leverage and therefore is less volatile than real estate vehicles such as INREIT, which employ leverage. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors and held in a fiduciary environment. NCREIF data reflects the returns of a blended portfolio of institutional quality real estate and does not reflect the use of leverage or the impact of management and advisory fees. Public Real Estate are represented by the FTSE NAREIT All Equity REITs Index ("NAREIT Index"), which is a free-float adjusted, market capitalization-weighted index of publicly traded US equity REITs. The NAREIT Index is utilized as an institutional real estate performance benchmark. Constituents of the NARIET Index include all tax-qualified publicly traded US REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property.

FTSE NAREIT All Equity REITs Index is meant to illustrate general market performance; it is not possible to invest directly in an index. An investment in INREIT's shares is different from a direct investment in the commercial real estate properties represented by the NPI or US private real estate. An investment in US private real estate differs from the (i) NARIET Index in that US private real estate investments are not publicly traded US equity REITs. These indexes are used in comparison to the NPI in order to illustrate the differences in historical total returns generated by private and public real estate. The prices of securities represented by these indexes may change in response to factors including: the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates and investor perceptions. All indexes are unmanaged and do not include the impact of fees and expenses. Comparisons shown are for illustrative purposes only and do not represent specific investments or the performance of INREIT.

Distributions received from a REIT, including distributions that are reinvested pursuant to a distribution reinvestment plan, will generally be taxed as ordinary dividend income to the extent they are paid out of current or accumulated earnings and profits. The current maximum US federal income tax rate for distributions payable by corporations to domestic stockholders that are individuals, trusts, or estates is 20% (plus a 3.8% "Medicare tax" surcharge). Distributions payable by REITs, however, generally are taxed at the ordinary income tax rate applicable to the individual recipient, rather than the maximum 20% income tax rate, subject to certain applicable deductions. However, if a long-term capital gain is recognized upon the sale of an asset, a portion of distributions may be designated and treated as a long-term capital gain. In addition, some portion of distributions may not be subject to tax in the year received due to the fact that depreciation expense reduces earnings and profits but does not reduce cash available for distribution. Amounts distributed in excess of earnings and profits will reduce the tax basis of an investment and will not be taxable to the extent thereof on a current basis, and distributions in excess of tax basis will be taxable as an amount realized from the sale of shares of common stock. This, in effect, would defer a portion of taxes payable until the investment is sold or the REIT is liquidated, at which time one may be taxed at capital gains rates. However, each investor's tax considerations are different and consulting a tax advisor is recommended. Any of the data provided herein should not be construed as investment, tax, accounting or legal advice. Fixed income securities are subject to interest rate, inflation, credit and default risk. As interest rates rise, bond prices usually fall, and vice versa. Prices may decline if an issuer fails to make timely payments or its credit strength weakens

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