



Invesco Real Estate Income Trust Inc. (INREIT)

QUARTERLY COMMENTARY | Q3 2024



Current investment: 5201 Industry | Pico Rivera, CA

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New real estate value cycle

Optimism for a resurgence in real estate transaction activity, potentially kickstarting a new cycle in real estate values in late 2024 or early 2025, got a boost in September when the Federal Reserve cut the fed funds rate by 50 basis points¹. This emerging value cycle may experience less cap rate² compression than in previous recoveries, however, due to expected economic cooling and competitive pricing in high-income growth sectors like industrial and multifamily.

The November US presidential election raises questions about potential policy impacts on real estate. But historically, the relationship between the party occupying the White House and real estate investment returns has been inconsistent³. The current shift in monetary policy and capital markets provides more actionable information for investment decisions, in our view.

The difference in sector pricing today is close to a 30-year high, and the outlook on long-term secular drivers, economic cycle sensitivity, and supply exposure vary widely among sectors and geographies. In this environment, outperformance will likely come from disciplined market, sector, and asset selection. Driving performance this way is exactly what Invesco Real Estate's 40+ years of experience in core plus real estate investing has taught us.

Healthy balance sheet creates opportunity

Prioritizing balance sheet health in terms of liquidity and liability management has been a priority for INREIT since the fastest and largest rate-hiking cycle in US history began in 2022. With 100% of repurchase requests fulfilled without ever prorating since inception, portfolio leverage of 32%, liquidity exceeding 20% of net asset value, and the start of rate cuts, INREIT has a distinctive opportunity to take advantage of near-term and long-term growth investments.

The current risk-adjusted advantage of real estate debt over equity will likely even-out as interest rates are reduced, in our view. Recent loan repayments in INREIT's private real estate debt portfolio generated mid-teens total returns over the last two years. Though replacement debt investment opportunities with similar attractive lending spreads and healthy credit metrics are plentiful, recent industrial investments like the International Business Park 4535 outside of Charlotte, N.C. provide similar upside on an unleveraged basis through contractual tenancy that can be marked to market upon lease expiration.

As buyer optimism improves along with capital market liquidity, competitiveness in transaction activity will grow. A healthy balance sheet and no forced decisions from debt maturities, creates an opportunity for INREIT to strategically consider dispositions from a position of strength. With a robust pipeline of new investments, we're excited use liquidity on hand to create portfolio rotations into near- and long-term growth sectors like industrial and forms of residential.

Notes

Photos are for illustrative purposes only. There is no guarantee that future investments will have the same or similar characteristics. It should not be assumed that the investment properties identified were or will be profitable. Properties pictures shown are provided as an example of the types of properties INREIT invests in. Performance was not a criteria for selection.

All figures are approximate and as of September 30, 2024, unless otherwise indicated. The terms “we”, “us” and “our” refer to INREIT with reference to portfolio and performance data. In all other instances, including with respect to current and forward-looking views and opinions of the market and INREIT’s portfolio and performance positioning, as well as the experience of INREIT’s management team, these terms refer to Invesco Real Estate, which is part of the real estate group of Invesco Inc. (together with its affiliates, “Invesco”), a global investment manager, which serves as INREIT’s sponsor (“Invesco Real Estate”).

1. A basis point is a unit that is equal to one one-hundredth of a percent.
2. Capitalization rate (cap rates) is the quotient of a property’s net operating income divided by the property’s estimate value.
3. Historically, the party occupying The White House has not made a consistent difference in real estate performance. NCREIF Property Index (NPI) returns since inception (January 1, 1978) through December 31, 2023: Republican administrations = 7.3% annual average; Democratic administrations = 9.5% annual average. Democratic administrations excluding the Carter years, which coincide with the early inception years of NCREIF = 8.2% annual average. Both parties had terms of high annual returns (Carter-D at 17.7%, Clinton-D at 10.0%, Reagan-R at 11.1%) and low returns (G.H.W. Bush-R at -0.3%, Trump-R at 5.4%, Biden-D at 2.3%). 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. 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. 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.
- Investing in commercial real estate assets involves certain risks, including but not limited to: tenants’ inability to pay rent; increases in interest rates and lack of availability of financing; tenant turnover and vacancies; and changes in supply of or demand for similar property types in a given market.
- 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.

Important Information

Summary of Risk Factors (continued)

- 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.

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.

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