American Realty Advisors

House View: H1 2021

AMERICAN REALTY ADVISORS
INSTITUTIONAL CAPITAL MANAGEMENT

FIVE KEY TAKEAWAYS

1. **The U.S. economy** is slated for an above-trend period of growth, fueled by record amounts of stimulus and pent-up consumer demand.

2. **Inflation** is the potential fly in the ointment, though we make the case that many of the contributing factors may be transitory — effectiveness and timeliness of Fed policy response is also key.

3. **Growing bifurcation** between and within property types necessitates investors use all levers successfully to achieve outperformance.

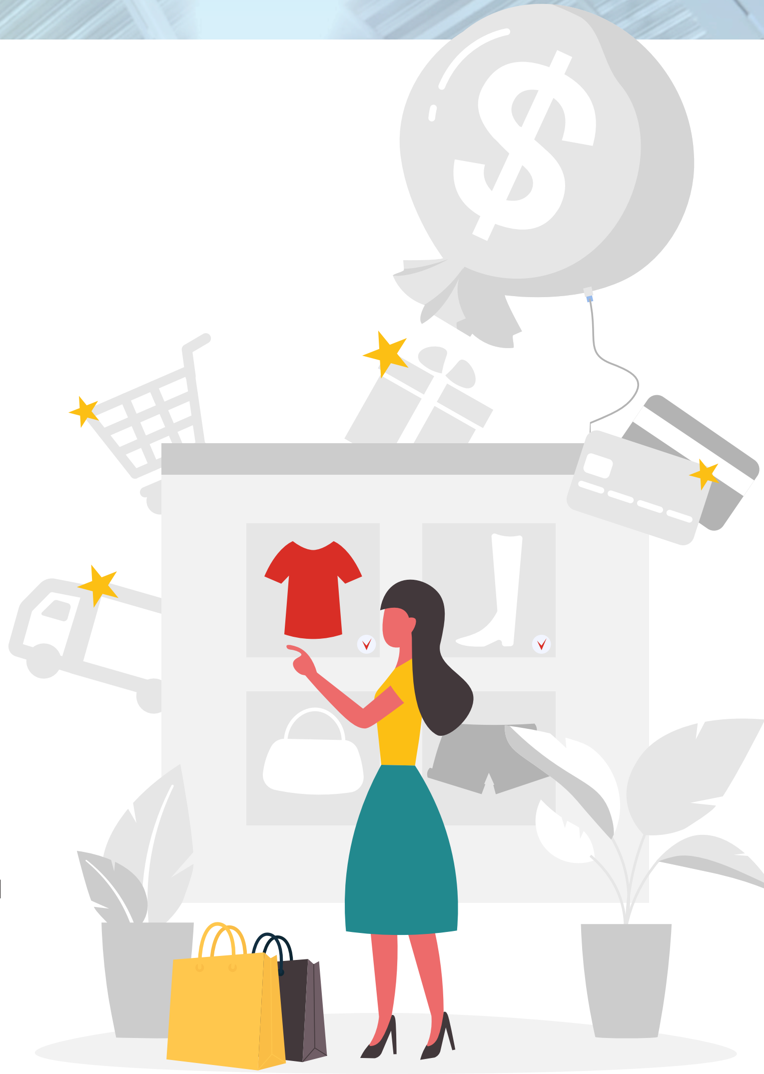
4. **Sectors with structural tailwinds** offer an opportunity to "go wide", whereas those facing challenges may require a highly selective approach ("go deep").

5. **Accelerating fundamentals** and a robust capital markets backdrop create acquisition and disposition opportunities to capitalize on momentum.

Twice a year, the ARA Research team undertakes to formalize their views on current and future market conditions and their implications for the commercial real estate market, the culmination of which is the ARA House View.

The primary goal of the House View is to develop and drive internal strategy by identifying where we see the greatest opportunities and, just as importantly, where we see potential risks in the years ahead.

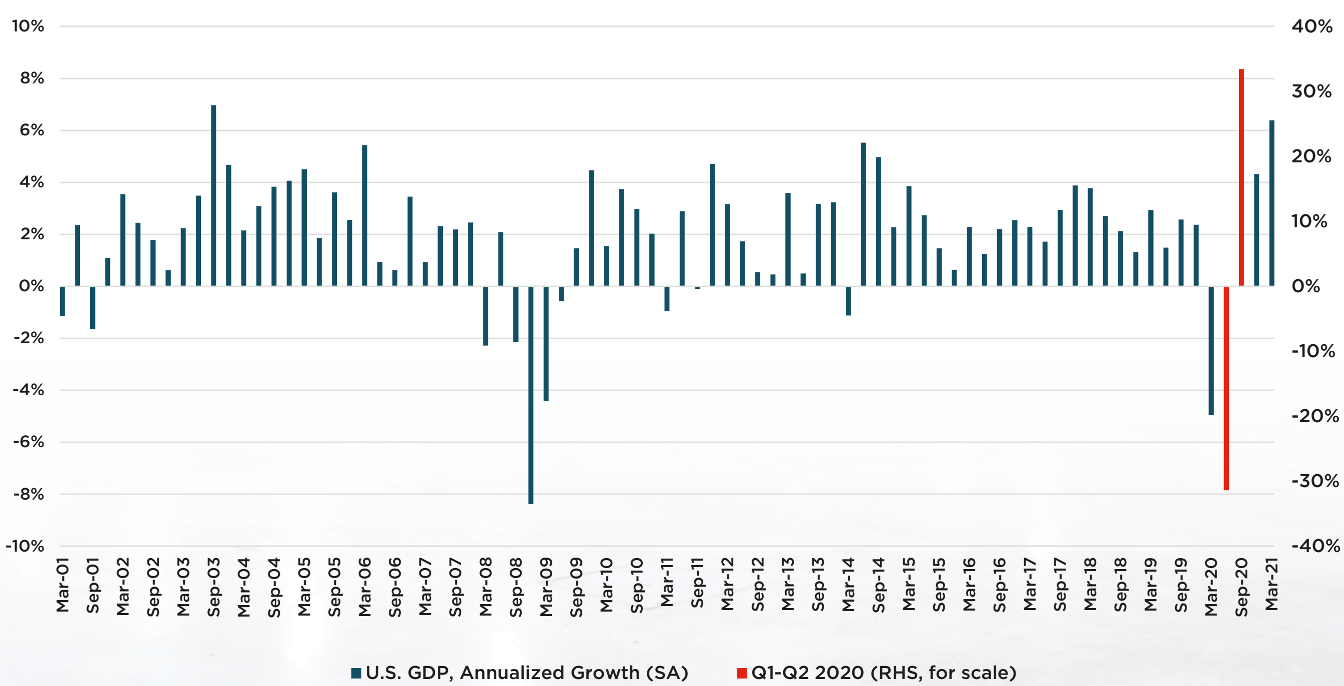
Macroeconomic Context



With the worst of the pandemic-induced pains of 2020 slowly receding into the rear-view mirror, market focus has turned towards the pace of recovery. Bolstered by an additional round of stimulus from the Biden administration and expedited vaccination efforts, the economy received a double shot to the arm, with real GDP expanding by an annualized rate of 6.4% in the first quarter.[1]

Though this figure will undoubtedly be revised in subsequent routine revisions by the BEA, the relative strength of the quarter is telling. Absent the record-breaking rebound recorded in the third quarter of last year, Q1 2021 marks the second-strongest pace of quarterly growth since 2003 and puts the U.S. economy within ~1% of its pre-COVID peak (Figure 1).

FIGURE 1: U.S. GDP GROWTH, SAAR, 1Q 2001 – 1Q 2021[2]



Source: American Realty Advisors based on data from Macrobond as of May 2021

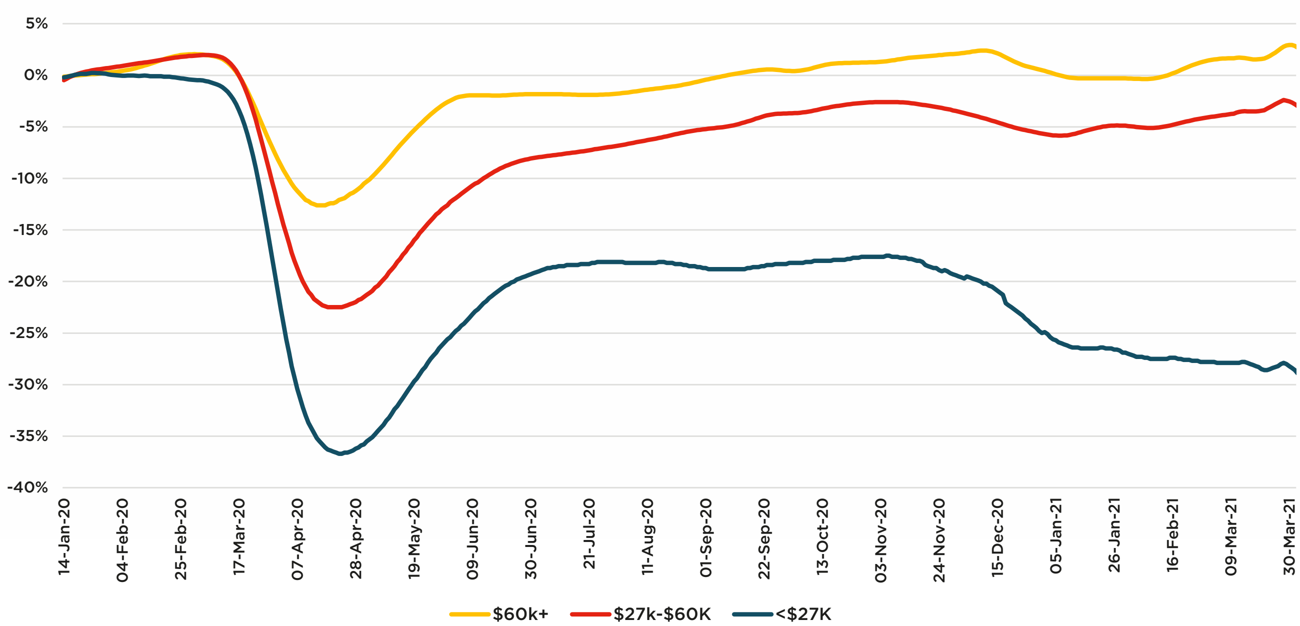
Consumers have been the catalyst for this rapid recovery. With fears surrounding the virus easing amidst vaccination progress, consumer confidence rose consecutively in the first four months of the year, with a correspondingly strong uptick in consumer spending posted for the first quarter.

Unemployment has come down materially since its April 2020 high as restrictions have eased and businesses have called employees back to work,

Yet at 6.1%, the headline unemployment figure is still 2.6 percentage points higher than the pre-pandemic trough.

further fueling the state of the nation's consumer. Yet at 6.1%, the headline figure is still 2.6 percentage points higher than the pre-pandemic trough, suggesting there remains meaningful slack in the labor force, much of which seems to be in the lowest bracket of earners. As of April 2nd, national employment among those making less than $27,000 annually was still nearly 30% lower than pre-pandemic levels, having worsened relative to where employment in this segment sat for much of 2020 (Figure 2).

FIGURE 2: Change in Employment Rates Among Workers By Wage Bracket, Jan 2020 – Mar 2021[3]



Note: Percentages reflect employment percentage relative to January 2020 baseline. Data is not seasonally adjusted.
Source: American Realty Advisors based on data from the Opportunity Insights Economic Tracker, Earnin, Intuit, Kronos and Paychex as of April 2021

At the same time, businesses are struggling to hire workers. There are more job openings today than before the pandemic, and fewer people actively in the labor force. This has prompted a debate over the influence of enhanced unemployment benefits, with some suggesting they have incentivized would-be employees to stay home. Yet this oversimplifies the myriad reasons why workers can't or won't go back to work. While there are indeed some opting not to seek work because they're receiving more in unemployment benefits than they might otherwise earn, continued concerns surrounding the virus and lack of childcare given ongoing school closures are other factors restraining an even-more vigorous labor market recovery.

> **"How this supply-demand imbalance works out, and over what period of time, is but one of the factors influencing the outlook for inflation."**

On the one hand, a persistent and sizable number of holdouts could spur at least temporary wage pressures as businesses are forced to up the ante to attract employees, which in turn could translate into higher prices passed on to consumers; on the other hand, with the enhanced unemployment benefits slated to expire in early September and several states rejecting the add-on federal aid, the window for these pressures to mount to unsustainable levels seems relatively short lived.

With some of the other looming factors keeping people at home expected to recede in tandem with rising vaccination rates, the U.S. and global economies appear poised to enjoy a period of robust above-trend growth, though the backdrop is not without risks.

While our base case assumes these are effectively avoided, we can envision the following scenarios where, if they materialized, would serve to stymie the duration of the current economic expansion:

Overheating economy:

The recent stimulus round by the Biden administration coupled with larger spending elements of the broader American Rescue Plan creates excess liquidity that continues to course through the economy, with the effect of demand far outpacing capacity leading to an unsustainable rate of growth and rising rates of inflation;

Runaway inflation:

Price pressures evolve from denominator-based transitory effects to a more sustained inflationary cycle; expectations of inflation by consumers and businesses become de-anchored from stated Fed policy goals and respond as if the level of price growth is permanent, creating a self-fulfilling inflationary spiral; and

Policy missteps:

With stated Fed policy oriented around average inflation targeting, there is the potential that tardiness in a necessary rate response to overheating could increase the chances of a hard economic landing, prompting a recession.

Much Ado About Inflation

It is not lost on us that the macro risks we've outlined are all related in some way to inflation. And with the sharp 0.8% month-over-month rise in headline CPI (the largest uptick since April 1982) putting the three-month annualized figure nearer to 7.2%[4], there appears to be a widening divide between those who argue the phenomenon is largely a one-time reopening adjustment and therefore transitory, and those who believe we are standing at the precipice of a new inflationary regime.

Both are right, to some degree. The question for investors is twofold:

1. What is the likelihood of the recent pace of price increases continuing? and

2. What effect is that likely to have on real estate values?

While a bit oversimplified, those who argue inflation is here to stay point to an unprecedented level of stimulus, elevated household savings, a shrinking and unwilling labor pool (by virtue of a retiring Baby Boomer cohort and shortages spurred on by elevated unemployment benefits) and aggregate demand outpacing supply for many component parts of CPI.

Yet when we consider each of these, many do seem to be underpinned by temporary phenomena that have less staying power. Yes, U.S. households' excess savings is estimated to stand at roughly $2.3 trillion today[5] which could serve to drive prices upward on a myriad of goods in the event it were rapidly unleashed and suppliers could not keep up. To us, this sounds like a relatively near-term anomaly for these reasons:

1. Once these funds are spent, there is little reason to believe further stimulus will backfill the gap to a level that would keep prices at elevated levels for the foreseeable future;
2. Supply backlogs are likely to work themselves out as companies invest to increase output to cater to what would be elevated sustained demand, and
3. A rotation of consumer activity into services in the latter half of the year should provide an additional reprieve to the goods supply chain, all of which serves to bring back into balance the consumer demand-goods supply equilibrium that has kept core CPI manageable over the last two-plus decades.

This leads us to consider the broader topic of supply and demand. At least some of the heady gains in the recent CPI figures are by virtue of one-off disruptions to supply chains – whether by virtue of quarantines and social distancing mandates preventing full assembly lines from ramping up production (which has impacted categories from new cars to semiconductors to lumber), shipping route blockages creating delays (a la the Ever Given's sojourn in the Suez Canal in March), or ransomware attacks on pipelines, these interruptions are navigable from an inflationary perspective in the sense that they are not indicative of broader and stickier supply gaps, the effects of which are likely to subside over the next 18 months.

The more structural risk to our temporary-inflation base case is the changing composition of the U.S. labor force, though we have a fair degree of confidence that this too is manageable and alone is likely not sufficient to usher in a revival of 1970's inflation.

The longstanding argument has been that lower birth rates plus an ageing population constrain the labor force to a point where wages go up, flowing downstream into goods prices and ultimately leading to higher inflation.

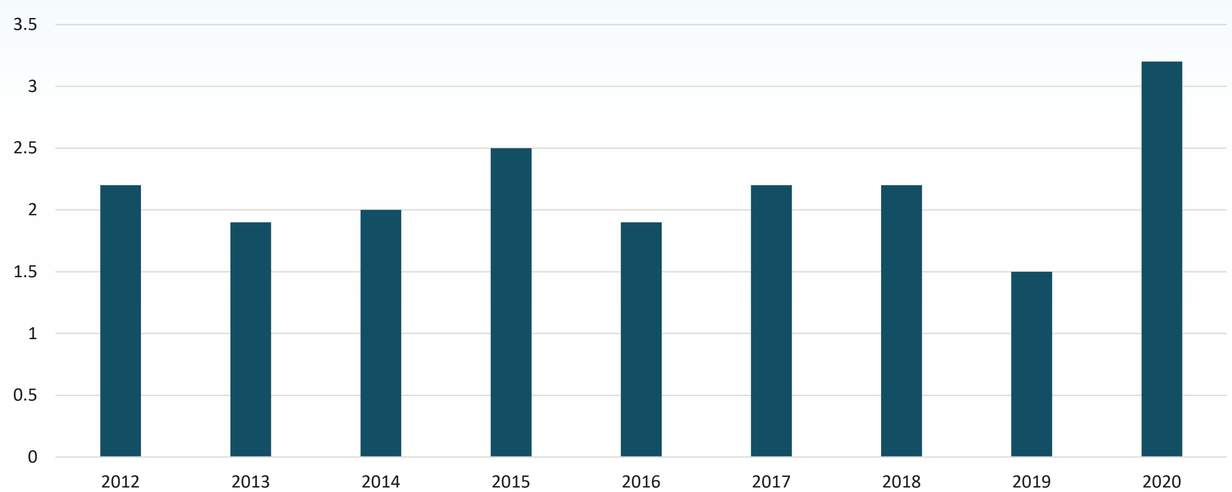
Until this year, the number of Baby Boomers retiring had been growing by roughly 2 million annually on average since 2011 (the year the first of the cohort reached 65); the pandemic has had the effect of accelerating the pace of Baby Boomer retirements (Figure 3). And while the annual pace of change may appear nominal, these figures equate to nearly 30 million Baby Boomers leaving the workforce.

At the same time, with average federal and state unemployment benefits averaging out to $15 an hour at a 40-hour work week assumption, the prospect of enhanced unemployment benefits outweighs the median hourly wage many would be anticipated to have earned should they have returned to the workforce, contributing to labor shortages in specific parts of the market, particularly the services industry.

This has spurred restaurants and other employers to offer signing bonuses, college tuition reimbursement and higher pay to entice workers back, all of which has sparked dialogue about whether these tactics will prove a permanent fixture of corporate recruitment.

While this has the makings of a more fundamental shift in employee-employer relations, particularly for lower-wage workers, we do not believe it constitutes a meaningful enough risk to pierce through the passing inflationary pressures and create long-run overinflation. For one, the enhanced unemployment benefits are set to expire in September – so the clock is ticking on the supply-constraint side. Furthermore, if there is indeed a wide swath of the unemployed market who will face this precipice come fall, there may be wage *deflation* for these categories as would be-workers flood the market. And this says nothing as to the potential investments in productivity via technology which companies may opt to deploy in the event upward wage pressure does persist more meaningfully.

FIGURES 3: Annual Increase in the Number of Retired Baby Boomers, 2012-2020 (millions)[6]



Note: Retired refers to those not in the labor force due to retirement. For this analysis Baby Boomers are defined as those born between 1946-1964. Each year's retired Boomer population is based on the average of the July, August and September estimate. Source: American Realty Advisors based on data from the Pew Research Center analysis of July, August, and September Current Population Survey monthly files (IPUMS)

Our view is that the inflation landscape over the next three years will be above the Fed's 2% target, but only marginally so absent this year, when base effects and supply-side disruptions materialize in the data. We hesitate to fall into the "Goldilocks" camp (whereby overinflation and stagflation are simultaneously avoided, and policy guidance prevails), though we are optimistic enough to believe the U.S. is in position to enjoy a sturdy recovery.

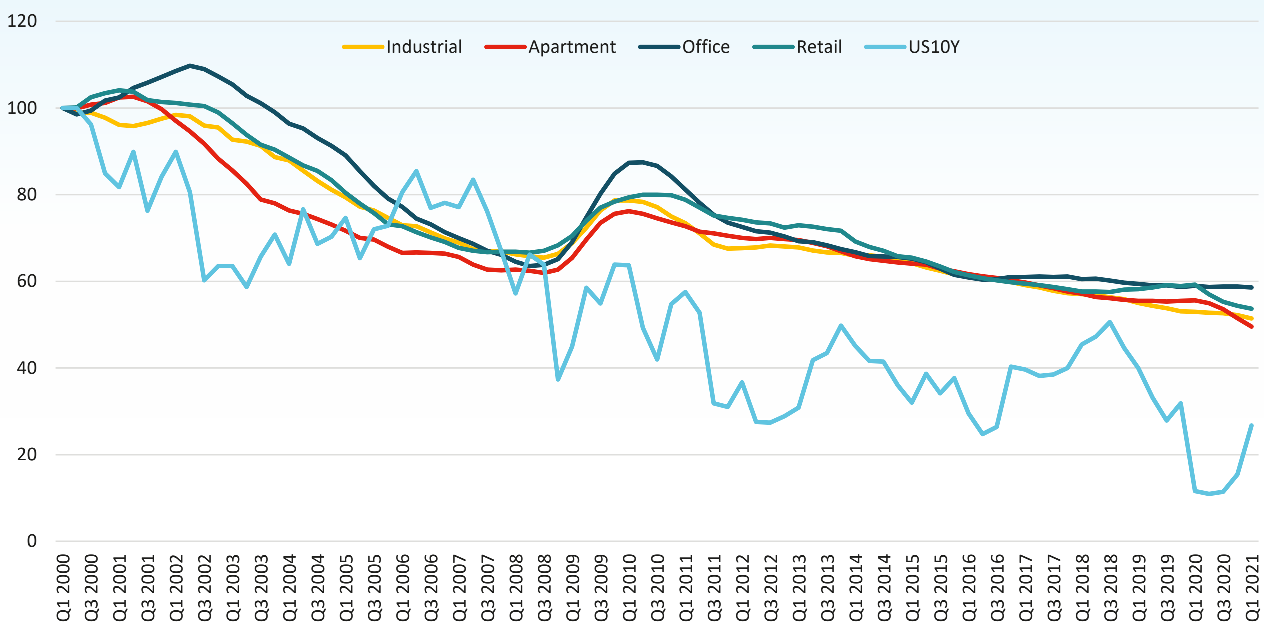
The only question that remains unanswered then, is "how might real estate values fare in a temporary inflationary environment?". To answer this, we need to also consider what the inflation we've described above tells us about the health of the macroeconomy. If inflation is occurring because demand is rising (check) and hiring increases to meet this demand (check) resulting in mild increases in prices (check), this is generally the sign of a healthy, growing economy. Real estate values tend to increase during these periods, as appetite for space and material input costs increase (the latter boosting demand and the former reducing supply), creating landlord-favorable conditions that are conducive to rent growth.

In addition, the sheer amount of dry powder awaiting deployment into U.S. real estate (to the tune of roughly $250 billion) creates sufficient competition for assets such that value erosion purely as a function of moderately rising rates is largely prevented. This has been true over the last twenty years as well, as there have been periods where the 10-year Treasury has risen yet not produced a corresponding increase in cap rates (Figure 4).

Ultimately, it is our view that what matters about inflation is its "stickiness" and its magnitude for however long it persists. There will undoubtedly be base-effect boosts that, when coupled with supply-side challenges, may produce some impressive inflationary numbers this year, though these elements should begin to normalize in 2022/23 as households cycle their savings into spending on experiences and give goods supply chains an opportunity to bolster inventories.

It is our view that what matters about inflation is its "stickiness" and its magnitude for however long it persists.

FIGURES 4: Rolling Quarterly U.S. Cap Rates and 10-Year U.S. Treasury Yields, 1Q 2000 – 1Q 2021 (1Q 2000 = 100)[7]



Note: Quarterly 10-Year Treasury data reflects the rate at the end of the quarter. Source: American Realty Advisors based on data from Macrobond and NCREIF as of May 2021

Property Markets

The notion of active selection as a driver of real estate outperformance is neither novel nor new. Yet the gamut of returns across the institutional landscape suggest it is easier said than done.

The central focus of our property sector analysis for this House View was considering the various ways of achieving outperformance, which we undertook by analyzing and exploring the different selection mechanisms one can pull to drive returns. Given a widening bifurcation between and within property types, all the levers — sector, market, submarket and asset selection — need to be working together.

This led us to a wide-versus-deep framework to guide our strategy. In a sector like industrial where essentially all markets outperform the NPI, we recommend adopting a "wide" market, submarket and asset approach, as the propensity to "win" is higher, versus retail, where the strike zone is smaller and thus requires a deep, or considerably more narrow focus on only the best markets and assets.

Industrial

OUTLOOK

The pandemic did very little to quell the industrial sector's growing momentum. In fact, national stay-at-home orders only served to strengthen industrial demand, as consumers were required to embrace e-commerce in greater numbers in place of routine brick-and-mortar-based consumption. While relaxed social distancing measures will allow for traditional retail to claw back some of these sales, the accelerated penetration of online purchases that we saw in 2020 is likely to result in permanently higher adoption. Furthermore, the industrial sector was served additional tailwinds, as international COVID-19 containment measures exposed suppliers to the vulnerabilities in "just-in-time" supply chain models and further boosted demand for warehouse space for domestic stockpiling. As a result, demand for industrial assets in both infill and regional distribution markets will continue to grow, as e-commerce use expands and amplifies the need for different types of logistics centers.

With an immense amount of capital chasing industrial deals, investors are left pondering just how much further the sector can run. Yet with e-commerce sales expected to increase from 14% of total retail sales today to 25% by 2025 — a milestone accelerated by the pandemic — there appears to be minimal risk of demand seizing (Figure 5). Furthermore, as the general rule-of-thumb goes, for every incremental $1 billion in e-commerce sales, an additional 1.2 million square feet of distribution space is required to accommodate it. Based on our forecasts, an extra $860 billion in e-commerce sales through 2025 would equate to additional demand for over 1 billion square feet of necessary distribution space, which should salve investor fears of oversupply in the aggregate. With so much room left to run, there appear few hurdles that would derail the industrial trajectory any time soon.

Based on our forecasts, we expect users will require an additional 1 billion square feet of distribution space to cater to e-commerce sales between now and 2025.

OPPORTUNITIES

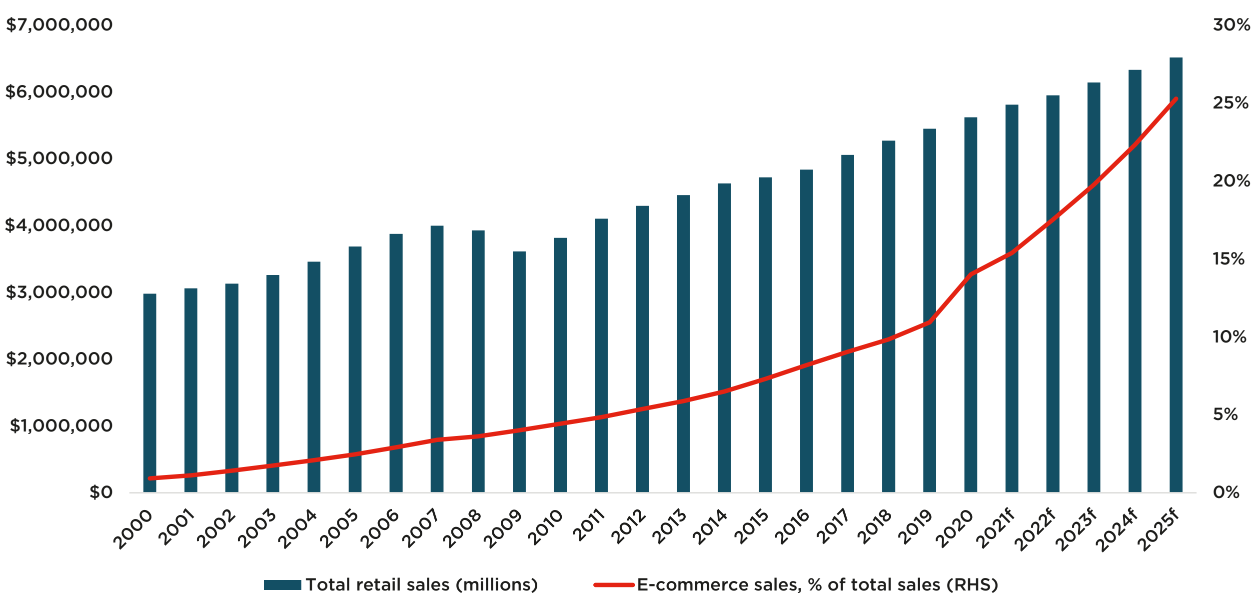
As the pandemic spurred major changes in the way consumers and goods suppliers interact, we view the space as offering ample opportunities across strategies over the next few years.

- **URBAN OPPORTUNITY:** As the e-commerce base continues to grow, demand for infill warehouse product is expected to increase as suppliers need last-mile facilities to reach more rooftops and shorten delivery periods. We like supply-constrained markets with high barriers to entry, such as Orange County, New York, and Seattle, in order to capitalize on strong anticipated rent growth and limited competition.

- **CAPITAL APPETITE FOR CORE:** There continues to be an insatiable demand for industrial product from both investors and tenants alike, as rental rates have continued to grow robustly throughout the pandemic. As demand is expected to remain quite healthy for the prolonged future, we like opportunities to develop and sell core product into a wide appetite in the capital markets.

- **PRICE AND GROWTH BALANCE:** With a significant amount of capital pursuing industrial assets, cap rates continue to compress. As the sector outlook remains resolute, investors should evaluate going-in pricing against future rent growth propensity. Investors can achieve outperformance by targeting markets with even modestly higher cap rates and comparably high rent growth projections. We like markets such as Boston, Atlanta, and Northern New Jersey, which offer some of the most attractive combinations of pricing and rent growth potential.

FIGURE 5: Total retail sales and % e-commerce, 2000 – 2025f[8]



Source: American Realty Advisors based on data from the Federal Reserve Bank of St. Louis (FRED), Macrobond and Oxford Economics as of May 2021. f=forecast.

Residential

OUTLOOK

Though the residential sector fared better than other property types during peak COVID uncertainty, confusion surrounding resulting fundamental shifts in the asset class remain. Yet as many are beginning to appreciate, the post-pandemic residential landscape reflects merely an acceleration of trends that were already occurring pre-pandemic. For instance, city-dwelling Millennials, who had already been contemplating homeownership or lower costs of living, were driven by pandemic-induced confinement to finally make the leap to suburban living in order to secure larger residences and outdoor space at lower rates. These moves sparked headlines declaring the "end of urban living" as reports claimed residents were fleeing cities in droves. However, move data from USPS reveal a more nuanced narrative as relocations out of cities saw only a marginal increase throughout the pandemic. In fact, major metros retained the lion's share of their residents and of those that did move, the majority remained within 100 miles of the city, suggesting a far more benign shift than what had originally been reported.

Millennials and Baby Boomers alike have exhibited an appetite for single-family rentals, spurring greater institutional interest in the segment.

And while over the past decade Millennials have begun hitting major life milestones in greater numbers, much of the generation remains encumbered with mounting student loan debt and a resulting inability to save the requisite amounts required for purchase down payments. This has materialized in a growing opportunity set in the residential universe via single-family rentals, as indebted Millennials search for accessible housing and downsizing Baby Boomers opt for the space of a home with the ease of rentership.

OPPORTUNITIES

Given the dispersion of renter households in terms of geography and appetite, we view the space as offering ample opportunities for both core and value-add investment strategies over the next few years.

- **URBAN REBOUND:** Despite initial urban hesitancy amongst multifamily investors at the onset of the pandemic, a mix of sticky residents and pent-up demand has helped drive city resiliency, sustaining opportunities for metropolitan multifamily assets. While many major metros experienced contractions in rent growth throughout the pandemic, most urban markets are expected to experience robust rental rebounds in 2021-2022 as landlords reduce pandemic concessions and young professionals continue migrating to cities for employment opportunities. We like plays centered on riding the rent rebound.

- **CITY-ADJACENT SUBURBS:** Though discussions were dominated by theories that work-from-home would lead to a mass migration to far-flung suburban and exurban locales with less density, investors should not confuse noise for sound. In order to capture the increased suburban demand, investors should focus on CBD-adjacent multifamily submarkets, as workers have opted to remain close to urban business hubs due to their expectation to be called back to the office imminently. We like garden-style multifamily buildings that offer larger floor plans than their urban counterparts at meaningful chunk rent spreads in commutable submarkets.

- **SELECTIVE SUN BELT:** Investors eager to follow migration trends should note that not every Sun Belt market will provide investors with superior returns. Investors should primarily target metros that have a combination of high projected net migration and relatively lower supply growth, as these markets are poised for outperformance. We like markets such as Austin, Phoenix and Raleigh.

- **SINGLE-FAMILY RENTALS:** As shifts in demographic fundamentals begin to accelerate, traditional multifamily offerings alone are no longer sufficient in satisfying renter appetites. Portfolios should expand to incorporate a broader spectrum of residential product and property owners should embrace similarities in asset management techniques in order to shorten learning curves. We like build-for-rent communities as opposed to scattered acquisition strategies, as operations and management of contiguous communities more closely mirrors that of traditional multi-family (see Case Study).

The investable universe in residential has broadened amidst a shifting demographic landscape.

CASE STUDY: Purpose-Built SFR in Austin

With increasing capital flows into the single-family rental (SFR) sector, market selection is critical in creating outperformance, which is why American Realty Advisors was meticulous in its pursuit of a 65-unit build-for-rent development project in South Austin on behalf of one of our commingled funds. Our sector-specific market selection strategy targets those cities with above-average projected net migration, for-sale home price appreciation and demonstrated job growth strength. Austin scored highly in all three criteria. With the three-year forward net migration rate 7x higher than the national average, the market is slated to capture the future population growth necessary to sustain a robust renter pool. Net migration into Austin averaging 152 persons per day has put pressure on for-sale affordability, driving significant home value appreciation — the market's cumulative home appreciation has exceeded the national average by 12.9% over the last five years.

ACQUISITION HIGHLIGHTS

- Development of 65-unit, townhome-style SFR project with attached direct-access garages in a dynamic part of a high-growth market.
- Shovel-ready project at favorable going-in basis relative to stabilized traditional multifamily projects in the market.
- Larger units cater to growing families who may be priced out of Austin's hot for-sale market.

Office

OUTLOOK

The future of offices has been at the forefront of investors' minds since the onset of the pandemic. As offices across the country emptied out and employees settled into their work-from-home routines, employers and real estate owners alike feared permanent cataclysmic damage had been done to office demand. And while sublease availability has ticked up meaningfully in the last year as those companies willing to move decisively have put excess space on the market, a mass exodus from all things office has not materialized.

With employees expressing their desire to incorporate "work from anywhere" flexibility into the work week and employers anticipating that workers will spend less time in the office in the aggregate, headquarters will need to evolve beyond daily workstations and morph into a physical representation of company culture. While this may sound like buzzy corporate speak, the best chance for offices to avoid obsolescence is by making them a more purposeful and enticing destination by placing greater emphasis on creating spaces that promote collaboration and evoke excitement. Employers will look to best-in-class assets to accomplish these various needs, and as a result, buildings with superior offerings are expected to win the day.

On the other side of the coin, the demand case for life sciences-oriented office space from tenants has been accelerated by the pandemic. With the prospects for softer demand in aggregate in traditional office, some owners are viewing their vacant spaces through fresh eyes as potential conversion candidates. Yet not every building lends itself to successful repositioning –the building's location, physical infrastructure, and cost of conversion will ultimately determine winners and losers in this strategy (see Repositioning Office into Life Science).

OPPORTUNITIES

Given the pandemic-produced structural changes occurring in the office sector, we believe the current environment has created opportunities for both core and value-add investment strategies over the next few years.

- **A NEW VISION OF THE BEST:** Employers will be eager to ease employee return concerns by prioritizing health and sanitation measures, leaving building owners to expand their idea of best-in-class offerings to include high-grade sanitation and air filtration systems. In-demand assets are also likely to be those that offer companies the ability to flex into/out of space as needed, via coworking and shared meeting room options. We like best-in-class office product with differentiated amenities that capture the lion's share of future leasing opportunities.

- **COMPETITIVE COST MARKETS:** Many office strategies have centered around markets with meaningful exposure to high-tech employment, as these metros have historically experienced robust job growth and strong net migration. In aggregate, however, returns in these "Innovation Hub" markets typically follow a similar trajectory as the NPI-Office average returns. Investors search for superior total return profiles should be expanded to include markets that are primarily driven by firms attracted by their competitive cost structures. In aggregate, these "Competitive Costs" metros consistently beat out NPI-Office and NPI-All returns over the medium-to-long term. We like markets such as, Atlanta, Nashville, and Charlotte, as they offer attractive return prospects and reasonably priced product compared to their tech-oriented peers, with less capital competition.

Repositioning Office into Life Science

Due to pandemic-induced uncertainty, owners may consider repositioning their office assets in order to capture growing life science demand. However, not every market has the propensity for outperformance in the cluster-oriented life science sector. In order to select submarkets suitable to office reposition plays, investors should look to pockets with a combination of growth-accommodating elements:

Robust university presence providing steady pipeline of new talent:
- Focus on research schools with ample funding and an abundance of STEM graduates
- Market location quotient above 1.5 for STEM Jobs

Market is attractive to both businesses and employees alike:
- Depth and maturity of existing companies
- Affordable cost of living
- Pro-business sentiment

Significant presence of existing talent:
- Focus on markets with an established life science cluster, as companies and employees are attracted to the benefits of agglomeration

Ability for companies to expand:
- A dynamic life science ecosystem, with sufficient physical infrastructure catering to the various stages of a company's life cycle and evolution

Retail

OUTLOOK

It is impossible to deny that retail has had an extremely difficult few years, especially as business restrictions prevented in-person shopping over the past year. Non-necessity retailers entered 2021 in a weakened state as consumers predominately allocated spending to necessity-oriented and discount retailers throughout the pandemic. However, hope is on the horizon with over 154 million Americans receiving at least one dose of the vaccine as of May 2021, allowing officials to ease business restrictions and consumers to move about more freely.

Furthermore, with the personal savings rate significantly exceeding pre-pandemic levels, and with households having saved approximately 43% percent of the third federal stimulus payment[9], consumers are well equipped to act on pent-up demand, particularly for services. Economists anticipate consumers will disburse their $2.3 trillion in excess savings in a smooth spending tail rather than a splurging cliff. As a result, the retail sector will receive a bit of a reprieve in the subsequent several quarters, by virtue of a base-level rebound and elevated household reserves. However, structural headwinds, predominately from growing e-commerce penetration, will continue to loom threateningly once the rebound subsides. In response, owners will likely continue to attempt to rotate their retail assets into more experiential and service-based offerings in order to insulate and differentiate. This once-in-a-decade cyclical lift to the sector will allow owners to fill vacancies in response to stronger retail appetite and capitalize on the opportunities to sell into a more forgiving capital market.

With households having saved approximately

43%

of the third federal stimulus payments, consumers are well equipped to act on pent-up demand.

OPPORTUNITIES

Given the rising post-pandemic consumer optimism, we believe the space offers greater relative opportunities today than it has for some time.

- **NEEDING NECESSITY:** Throughout the pandemic, consumer spending on grocery, discount, and necessity products increased, as consumers were more discerning with their expenses. Amidst strong demand, select grocery and necessity retailers sought expansion opportunities, while middle market and department stores faced challenges. We like community retail centers anchored by grocery and necessity retailers in high-density markets.

- **ESSENTIAL APPETITE:** While holders of retail portfolios search for opportunities in the sector, many will target necessity-anchored assets due to their outperformance. We like opportunities to sell into the elevated capital appetite for this type of product.

- **BLEND AND EXTEND:** As many retailers struggled due to COVID-19 business restrictions, owners who were able to work with their tenants were able to avoid significant space vacancy. We like opportunities for tenant retention by embracing flexibility in near-term lease renewals.

...the retail sector will receive a bit of a reprieve in the subsequent several quarters, by virtue of a base-level rebound and elevated household reserves.

Conclusion

Invigorated by policy support and an abating health crisis, the U.S. economy is poised for growth, the likes of which we haven't seen in several decades. This promising economic outlook should serve to boost real estate fundamentals overall over the next few years, creating opportunity for investors and furthering institutional appetite for commercial real estate.

Yet the pandemic era has intensified and, in some cases, accelerated existing macro forces, widening the performance gap between winners and losers. In this type of environment, cyclical and structural elements can sometimes send opposing signals of where opportunities lie — which to pursue depends on strategy, risk tolerance and hold period.

Though the current backdrop is not without risks, we are focused on pulling the right combination of value creation levers to best capitalize on accelerating fundamentals' and capital markets' momentum.

Endnotes

[1] Source: U.S. Bureau of Economic Analysis, First Quarter 2021 Advance GDP Estimate as of April 29, 2021. [2] Source: U.S. Bureau of Economic Analysis and Macrobond as of May 2021. [3] Source: Opportunity Insights Economic Tracker, Earnin, Intuit, Kronos and Paychex as of April 2021. [4] Source: Oxford Economics, Haver Analytics and Bureau of Labor Statistics, April 2021 statistics. [5] Source: Oxford Economics U.S. Economic Outlook Webinar dated May 13, 2021. [6] Source: Pew Research Center analysis of July, August and September Current Population Survey monthly files (IPUMS). [7] Source: NCREIF and Macrobond as of May 2021. [8] Source: Federal Reserve Bank of St. Louis (FRED), Macrobond and Oxford Economics as of May 2021. Forecasts are based on American Realty Advisors analysis. [9] Source: Wall Street Journal, Oxford Economics as of May 2021.

Authored by:

Stanley L. Iezman
Chairman & CEO
siezman@aracapital.com

Sabrina Unger
Managing Director,
Research & Strategy
sunger@aracapital.com

Britteni Lupe
Analyst,
Research & Strategy
blupe@aracapital.com

AMERICAN REALTY ADVISORS
INSTITUTIONAL CAPITAL MANAGEMENT