ARA House View H2 2025

July 2025

AMERICAN
REALTY ADVISORS
INSTITUTIONAL CAPITAL MANAGEMENT

U.S. Real Estate Investment Outlook

Uncertainty is weighing on growth, creating a slow start to the new cycle.

Macroeconomic Context

- Tariff talks are ongoing, but implementation could represent a paradigm shift from recent decades.
- Businesses have raised prices to keep up with rising costs, but profits have not benefitted to the same degree; the ability to hire and invest has moderated as a result.
- A softer labor backdrop and a more financially stretched consumer will likely supersede near-term inflation concerns.
- The Fed is likely to respond to softer growth with a cut, but we believe the pace will be gradual to guard against renewed inflation.

Real Estate Impacts

- Improving debt availability and lower debt spreads are reviving transaction volumes and helping pricing rebound.
- Fundamentals appear to be firming in residential, industrial, and even office, positioning these sectors for early upside; retail is normalizing.
- Recovery is taking shape unevenly as economic growth remains modest, creating targeted opportunities.
- Investor interest in specialty sectors is growing, though the best risk-adjusted opportunities may still lie in discounted core assets with unrealized upside.

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I. Macro Outlook

- Heightened uncertainty in the first half of the year is giving way to greater conviction in a slow-growth scenario.

- Moderating demand for labor is likely to contribute to softer consumer spending, but we believe a recession is unlikely.

- Less demand and growth should act as a counterbalance to tariff-related inflation risks to some degree.

- We believe interest rate policy through year end is likely to be shaped primarily by a slowdown in demand.

Cooling demand likely to lead the next phase of disinflation and take precedence over tariffs in shaping the rate path ahead.

Supply-Side Pressures

Result: Inflation Reaccelerates

- Higher tariffs materialize in higher goods prices.
- Middle Eastern conflict disrupts supply chains and pressures oil prices.
- Labor supply reduction from immigration changes pushes wages higher.

Demand-Side Pressures

Result: Demand Weakens

- Business spending and hiring have slowed amid elevated costs and lingering uncertainty.
- Consumer spending shows signs of softening as student loan payments resume, and caution sets in.

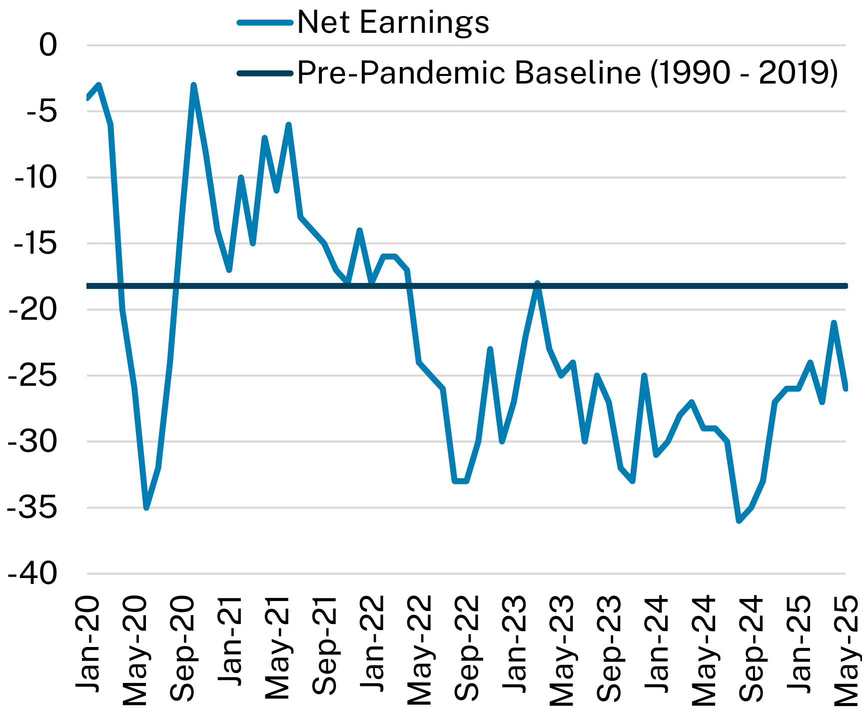
We expect demand-side dynamics to take the lead in easing inflation pressures, offsetting tariff pressures and **paving the way for rate cuts to sustain economic momentum.**

Source: American Realty Advisors based on data from Oxford Economics as of June 2025.

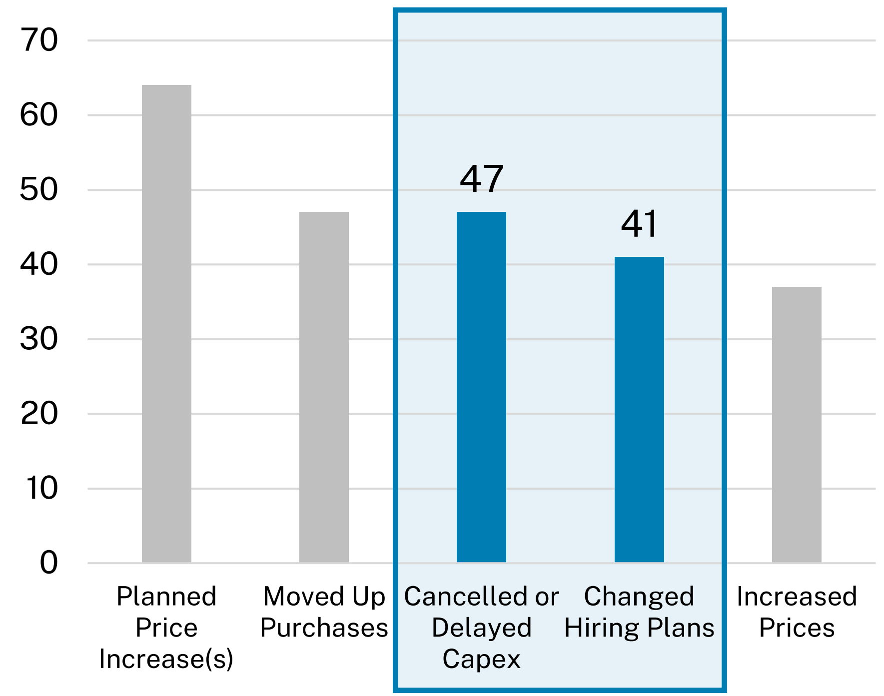
Earnings pressures are leading to cautious business spending and hiring.

A net majority of businesses have seen their profits decline despite higher sales prices, tempering momentum and moderating activity.

Earnings Changes, Last 3 Months versus Prior 3 Months



Percent of Firms Responding to Actions Taken Due to Recently Proposed or Implemented Tariffs on Imports



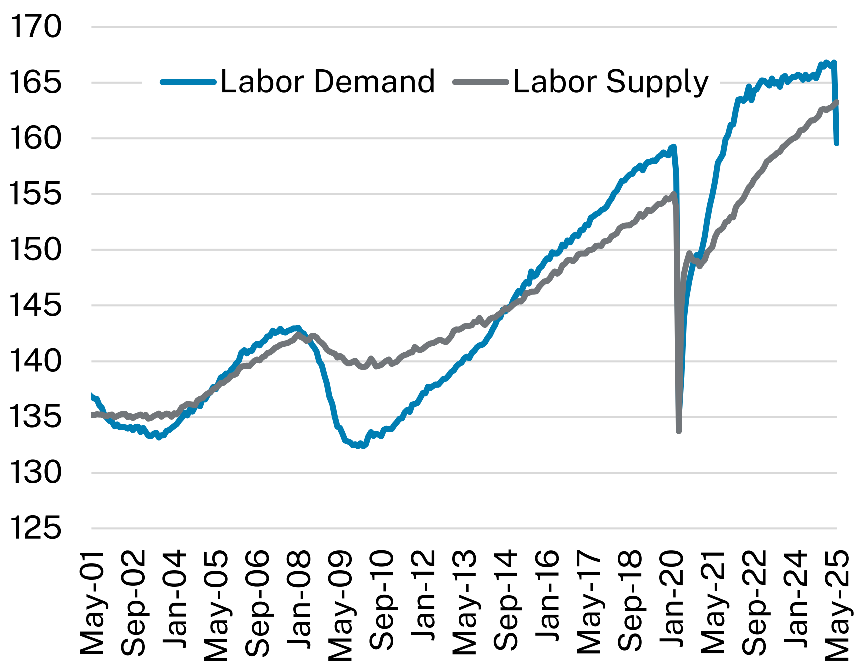
Source: American Realty Advisors based on data from Macrobond and the National Federation of Independent Businesses (NFIB) as of June 2025. The earnings change index measures the net percentage of small businesses reporting their earnings increasing versus decreasing in the most recent three months versus the prior three months. A negative value means more businesses are reporting lower earnings, while a positive value means more businesses are reporting higher earnings.

A moderating labor market, resumption of student loan payments, and higher credit card interest is contributing to a more cautious consumer.

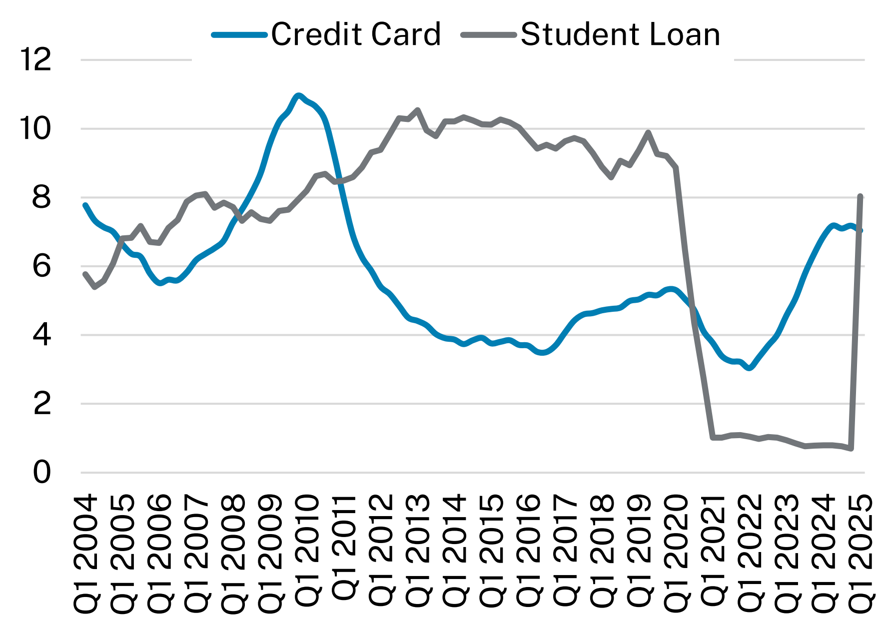
The ratio of workers relative to jobs is starting to normalize.

Delinquencies have risen, which we expect to temper spending power in the near term.

Labor Demand vs. Labor Supply (Millions)



Transition into Serious Delinquencies (90+ Days Late) by Loan Type



Source: American Realty Advisors based on data from Macrobond and the Bureau of Labor Statistics and the Federal Reserve Bank of New York as of June 2025. Labor demand is calculated as number of people currently employed plus job openings; labor supply is calculated as the employed labor force plus those not in a job currently looking for one.

II. Capital Markets

- We believe capital markets have responded to recent volatility rationally, treating it as transitory.

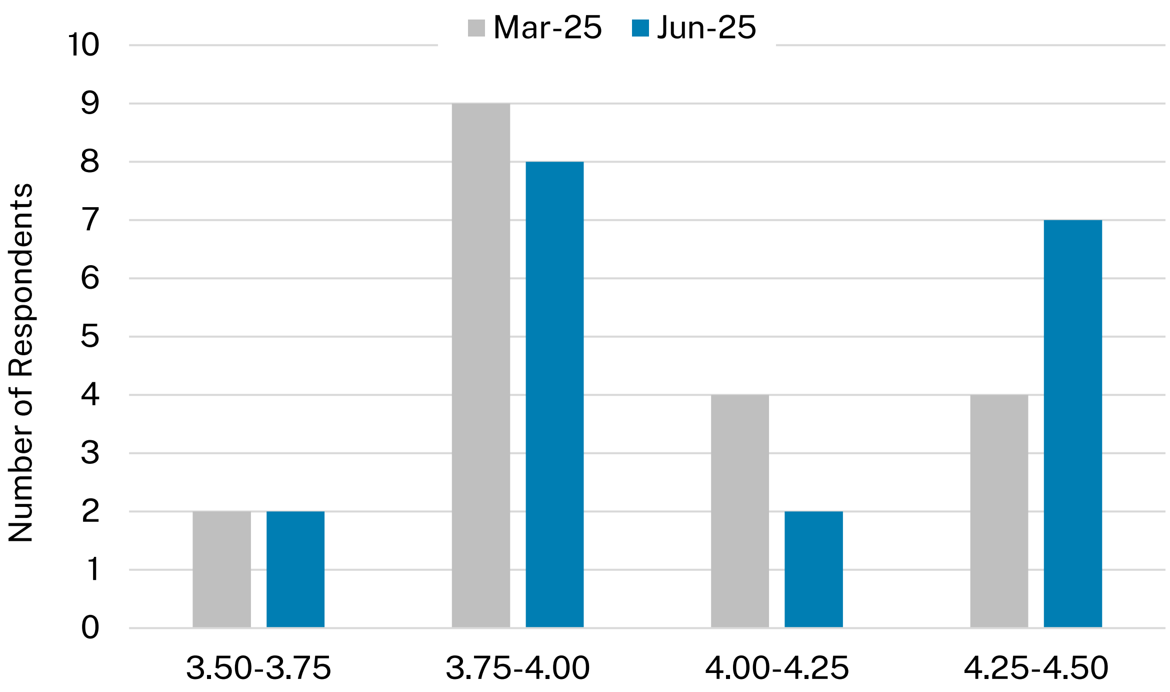
- Real estate lenders are getting more active, reflecting a growing confidence in the outlook.

- Asset values reflect discounts to replacement cost, creating a window for us to acquire at attractive bases.

- Real estate returns turned positive in 2024, and we think performance will continue to gain steam.

Fed policymaker views reflect growing disagreement about the path of interest rates through year end.

Dot-Plot Distribution, 2025 Year-End Federal Funds Rate Range, June vs. March



In June, a majority (8/19) of FOMC participants projected a year-end Fed Funds Target range of 3.75% - 4%, **suggesting 50 bps of cuts.**

However, **a nearly equal number** projected an **unchanged rate** by year end, almost double the number that thought the same in March.

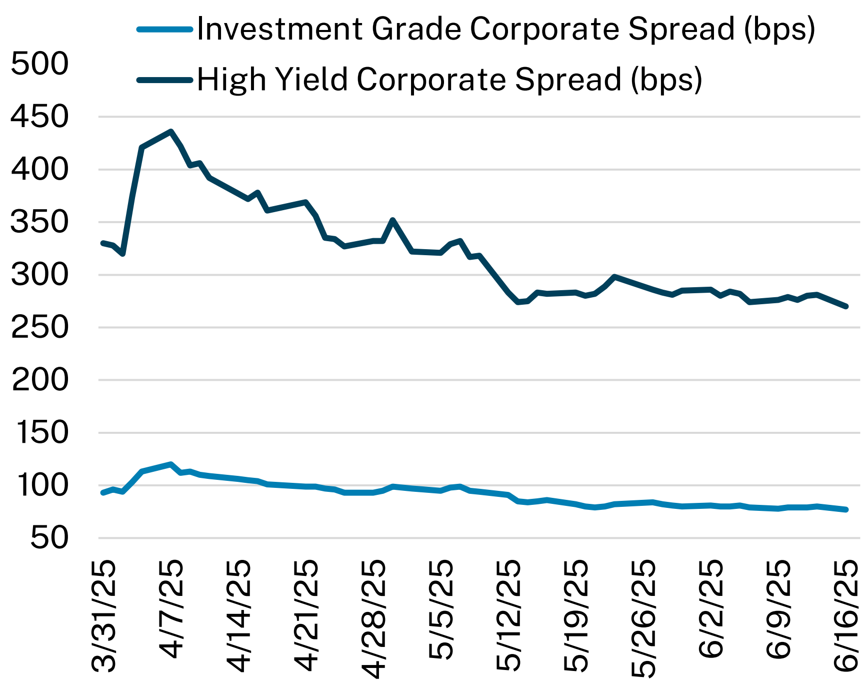
This divergence suggests there is a **growing group of policymakers who view inflation risks as the more pressing problem. We believe rate cuts are likely more appropriate.**

Source: American Realty Advisors based on data from the Federal Reserve as of June 2025.

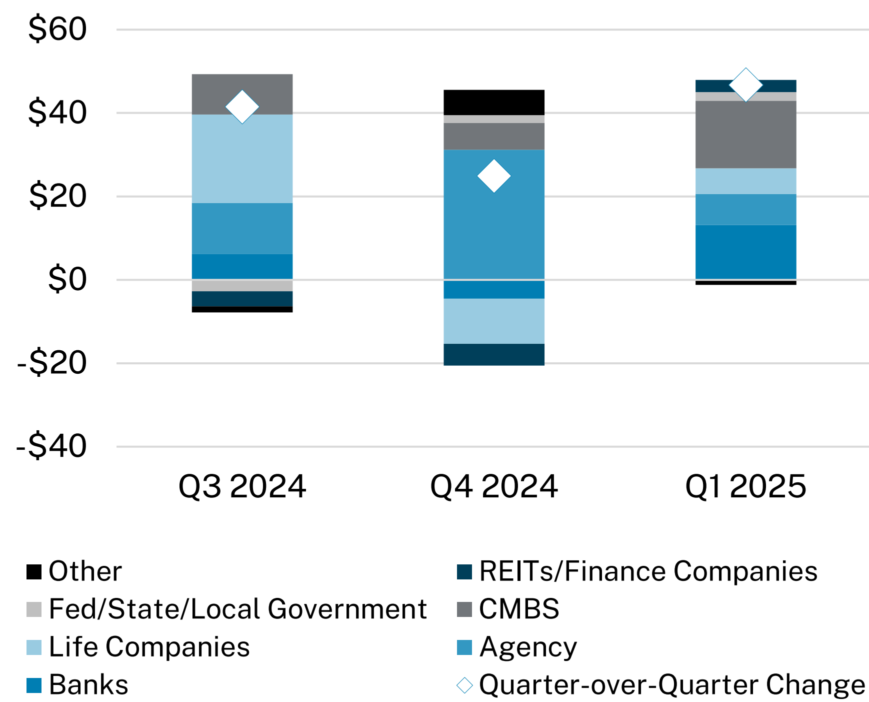
Stabilized spreads and rising lending reflect a credit market backdrop that is functioning with a higher degree of conviction.

Spread stability usually indicates **macroeconomic risks are not perceived as worsening,** which seems to be corroborated by a **greater number of real estate lenders increasing activity in Q1.**

Investment Grade and High-Yield Corporate Bond Yields Spreads to 10-Year Treasury



Net Quarterly Change of Outstanding Real Estate Debt by Select Lender Type, Billions

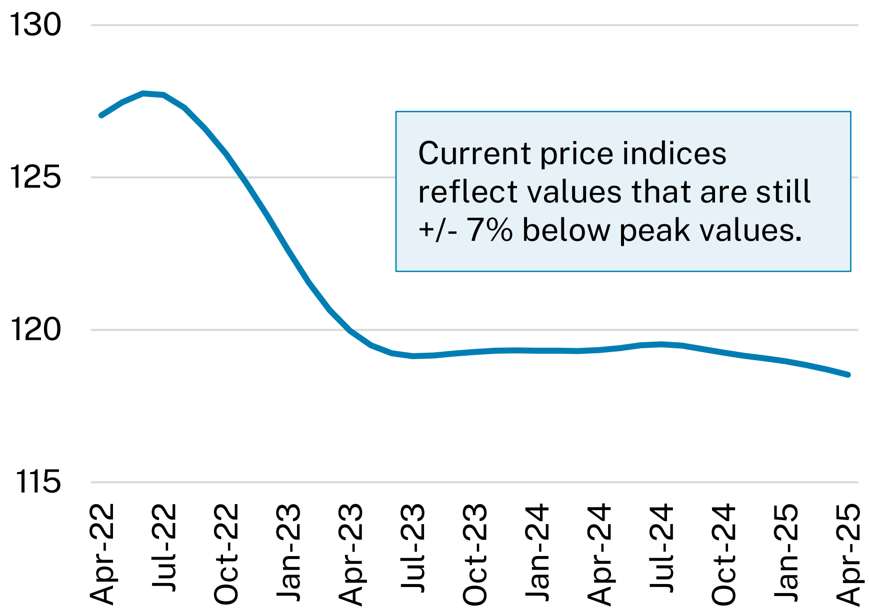


Source: American Realty Advisors based on data from Macrobond, the University of Michigan, and the Mortgage Bankers Association as of June 2025. Other includes private pension funds, other insurance companies, nonfinancial and nonfarm corporate businesses, and the household sector as of June 2025.

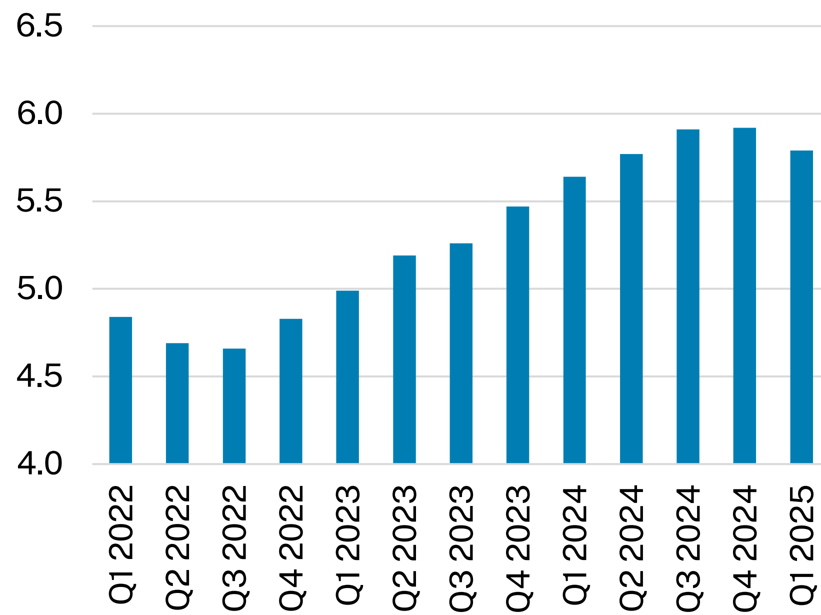
Cap rates have started to compress slightly but still reflect discounts to peak values, making for a potentially compelling re-entry point.

Appraisals still reflect discounts, but with transaction-based data beginning to show **cap rate compression**, investors may find making **allocations to existing marked-down portfolios just as compelling as entering new funds** acquiring at today's prices, though the window for buying at the plateau may close quickly.

RCA CPPI – Core Commercial Sectors (12/2006 = 100)



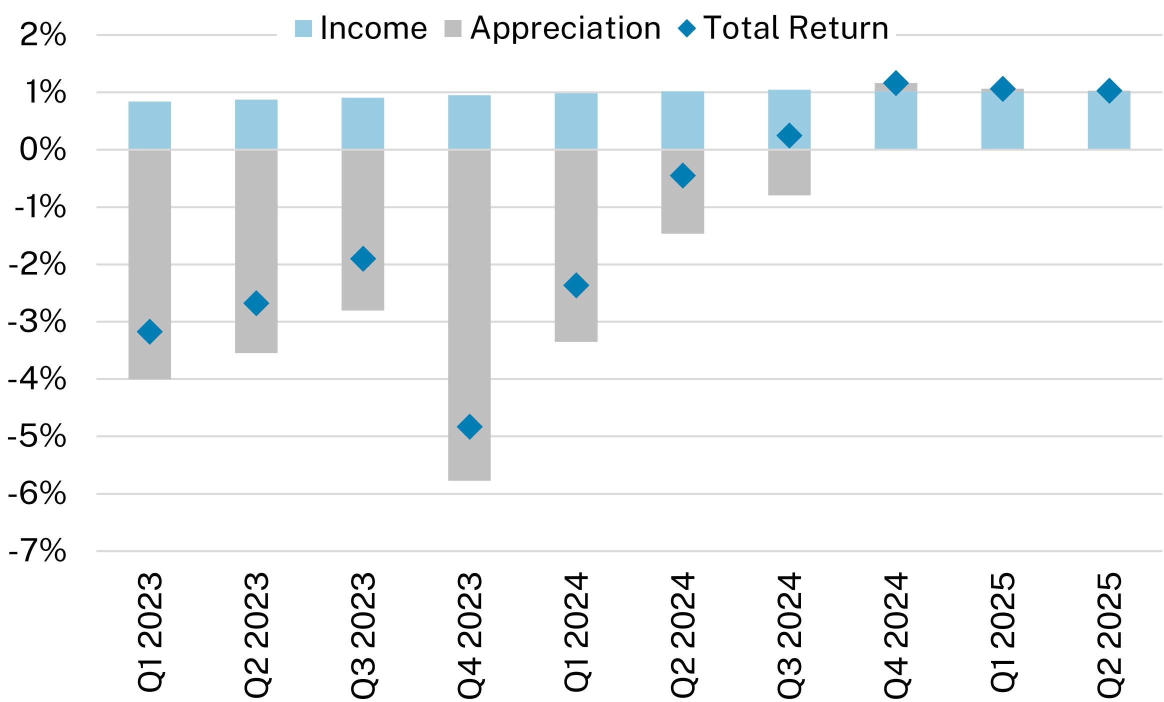
4-Quarter Moving Average, NPI Transaction Cap Rates



Source: American Realty Advisors based on data from NCREIF and MSCI Real Capital Analytics as of June 2025.

We expect positive return trajectory that began in Q3 2024 to entrench gradually over the rest of 2025.

NCREIF ODCE Income, Appreciation, and Total Returns



After seven consecutive quarters, core fund **total returns** moved **into modestly positive territory** in Q3 2024.

Appreciation is expected to continue to strengthen as NOI growth improves, which should see **total returns accelerate further going forward**.

Source: American Realty Advisors based on data from NCREIF as of June 2025. Returns in the chart reflect gross returns for the NCREIF Open End Diversified Core Equity (NFI-ODCE) value-weighted index. Net total returns for the NFI-ODCE for the same Q1 2023 – Q2 2025 period shown are as follows: -3.38%, -2.88%, -2.10%, -4.99%, -2.58%, -0.66%, 0.02%, 0.96%, 0.85%, and 0.81%.

III. Property Markets

- Multifamily, industrial, even office fundamentals appear to be turning the corner.

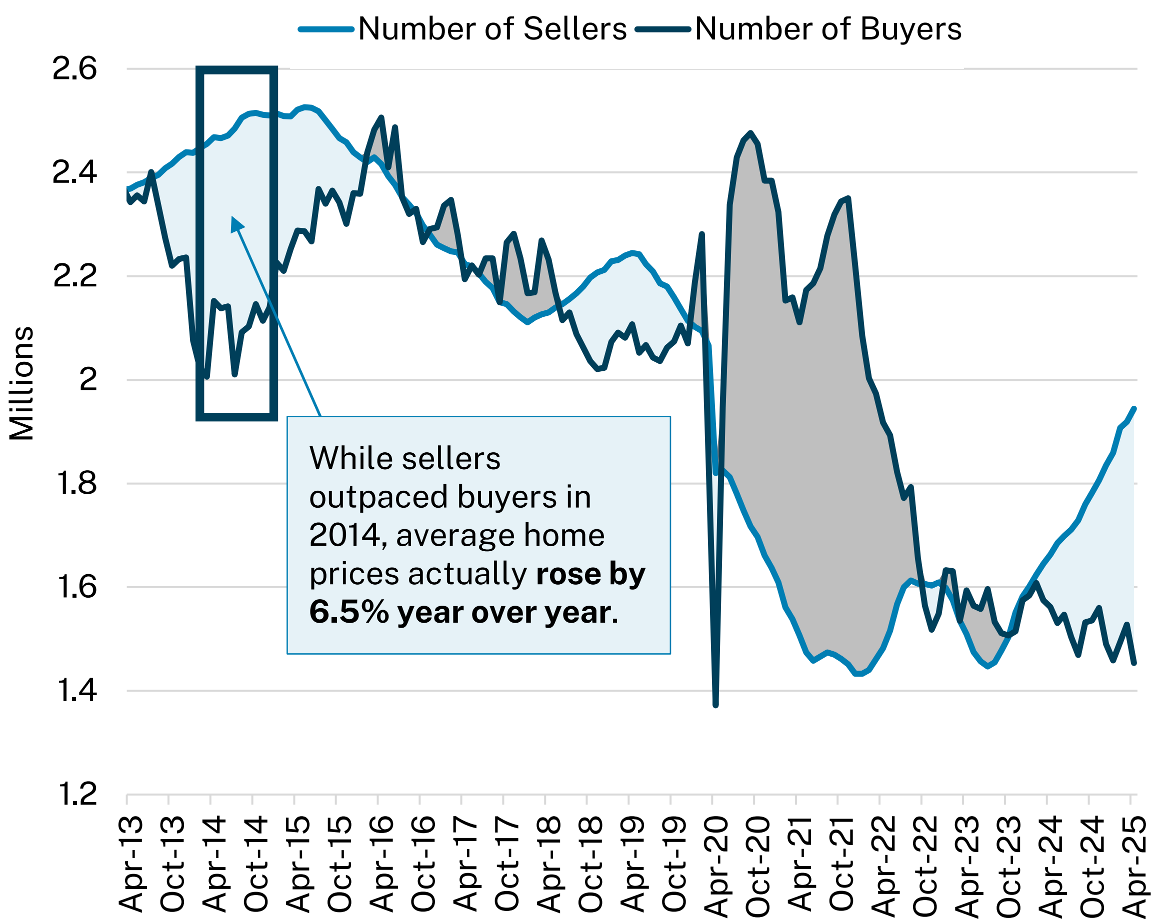
- Not all areas are improving at the same pace, so we are focused on exploiting those market nuances.

- Specialty sectors are getting a lot of attention, but not all of them have resilient structural drivers.

- Slower growth heightens the need to be selective, as today's challenges could persist for some time.

Homes for sale are approaching pre-pandemic levels, but buyers aren't biting.

Number of Home Buyers and Sellers (January 2013 – April 2025)



The **gap between home buyers and sellers has averaged ~380,000 the last six months**, on par with the differential throughout much of 2014.

While we do believe **prices are likely to decline**, it **isn't likely to be large enough to transition renters to ownership** given the compounded effect of higher interest rates.

Source: American Realty Advisors based on data from Redfin and Wall Street Journal as of June 2025. Yellow denotes periods where sellers outnumber buyers, whereas blue denotes periods where buyers outnumber sellers.

The changes required to make for-sale housing affordable would likely only occur during a recession.

Illustrative Example: Effect of Price or Interest Rate Decline on Home Affordability

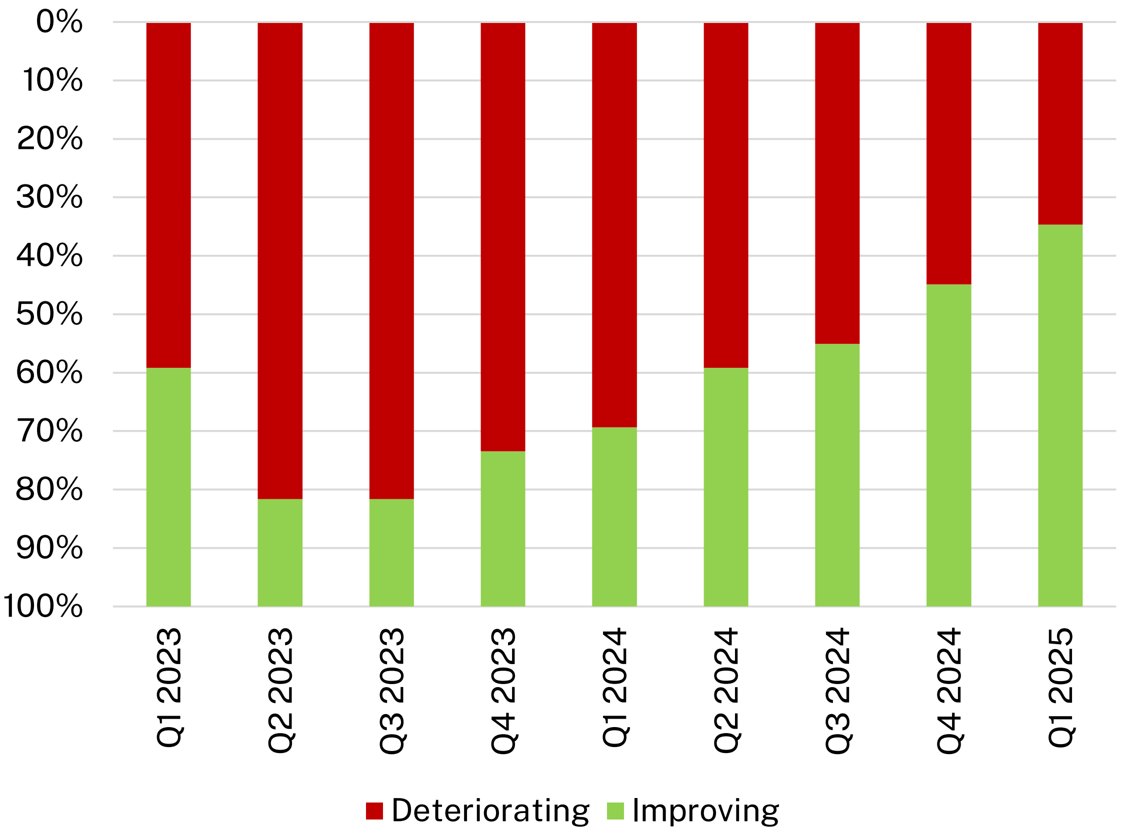
	Current Home Affordability	**If Home Prices Dropped 15%**	**If Interest Rates Declined 50 bps**	**If Home Prices Dropped 15% AND Rates Declined 50 bps**	**If Home Prices Dropped 47% AND Rates Declined 125 bps**
Median sale price, nationwide:	$440,997	$374,848	$440,997	$374,848	$233,728
30-year mortgage interest rate:	6.77%	6.77%	6.27%	6.27%	5.52
Median household income:	$79,409	$79,409	$79,409	$79,409	$79,409
Monthly cost of ownership:	**$3,591**	**$3,145**	**$3,454**	**$3,029**	**$2,017**
Mortgage payment share of median income:	**54.3%**	**47.5%**	**52.2%**	**45.8%**	**30%**

Both **a material decline in home prices** (-47%) **and a significant drop in interest rates** (-125 bps) **would be necessary to put home ownership at an affordable level** for the median household, which is **insulating rental demand.**

Source: American Realty Advisors based on data from Redfin and the Federal Reserve Bank of Atlanta's Home Ownership Affordability Monitor as of June 2025. "Affordable" means housing costs represent 30% of median household income or less. Current mortgage rate is as of June 23rd, 2025. Current median sale price is as of May 2025. Ownership costs include assumptions on property insurance and tax and PMI as of March 2025 from the Federal Reserve Bank of Atlanta. Math assumes a 6% down payment, typical of a first-time buyer.

Amidst easing supply pressures and prohibitive for-sale prices, multifamily RevPAF has gained momentum.

Share of Multifamily Markets that have RevPAF Improving or Deteriorating (Q1 2023 – Q1 2025, YoY)



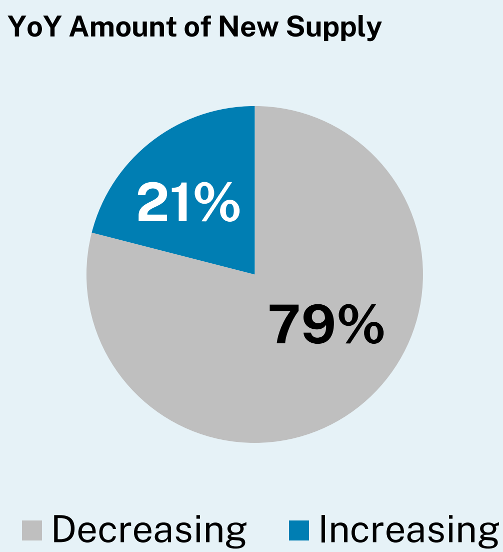
Q4 2024 marked a tipping point when **more than half of multifamily markets nationwide recorded year-over-year improvement in rental and occupancy (RevPAF) growth.**

While momentum is encouraging, it isn't likely to accelerate fast enough to save broken capital stacks, **creating opportunities to acquire capital-constrained assets and ride the gradual recovery.**

Source: American Realty Advisors based on data from CoStar as of June 2025.

Nearly 80% of industrial markets nationwide have seen a drop-off in new deliveries year over year.

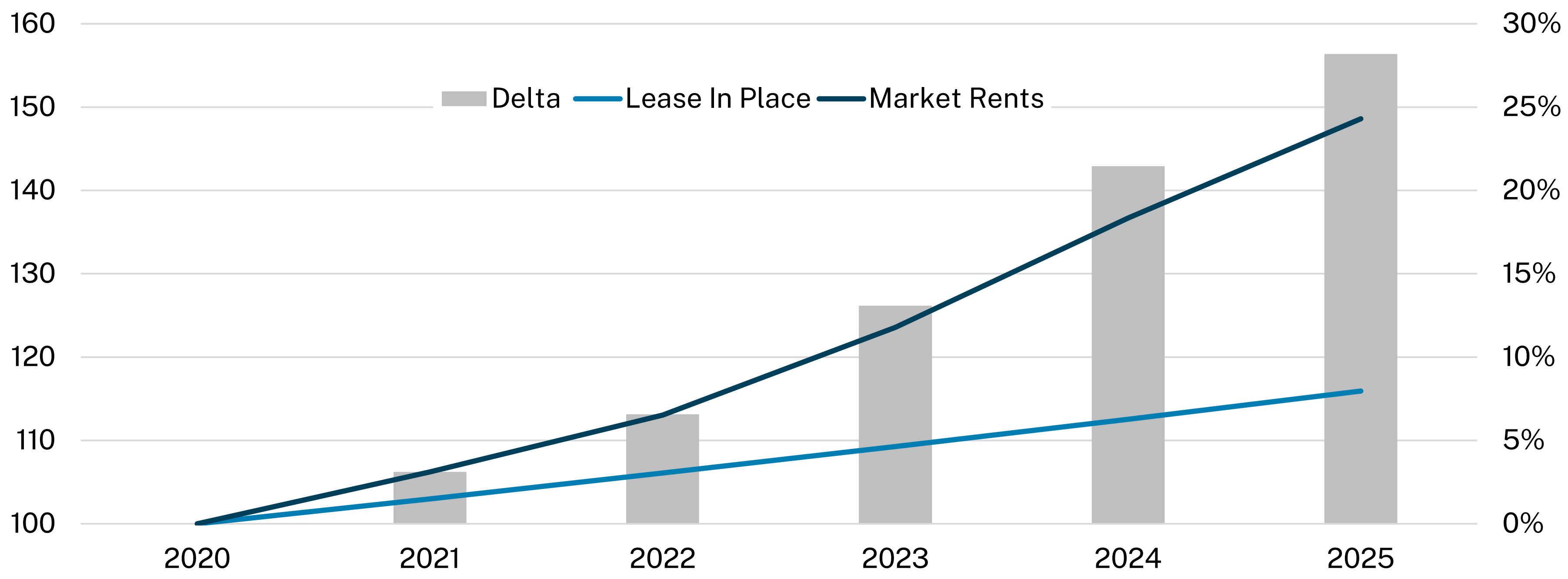
Industrial Markets Where Deliveries in H1 2025 > H1 2024



Source: American Realty Advisors based on data from CoStar as of June 2025.

Embedded NOI growth may offer upside on industrial leases despite current moderation in rent growth.

Illustrative Example: Mark-to-Market on 2020-Vintage Lease, DFW Market



Acquiring a building this year with an in-place lease from 2020 offers the potential to mark rents up to market nearly **30%.** Even if rents soften, **there is still considerable upside from the accrued growth** that occurred since the original lease was signed.

Source: American Realty Advisors based on data from CoStar as of July 2025. 2020 vintage lease assumes a 5-year term with 3% annual escalations. Market rents are grown by market rent growth as reported by CoStar.

Office recovery broadens as momentum appears positive in many (many but not all) key markets.

Trailing 12-Month Net Absorption Momentum, Q1 2024 to Q1 2025

Was positive, now negative	Was negative, now negative	Was negative, now positive	Was positive, now positive
Austin	Atlanta	Charlotte	Baltimore
Boston	Chicago	Columbus	DFW
Los Angeles	Denver	Indianapolis	Fort Lauderdale
Minneapolis	East Bay	Kansas City	Houston
	Portland	New York	Miami
	San Francisco	OC	Nashville
	Seattle	Phoenix	Orlando
	WDC	Pittsburgh	Philadelphia
		San Jose	Raleigh
			SLC
			San Diego
			Tampa

While the recovery remains uneven, recent momentum suggests **a modest but meaningful improvement in office fundamentals, particularly in the Sun Belt and secondary markets.**

We continue to believe **office recoveries will be highly localized**, but green shoots are beginning to show incremental progress for the sector.

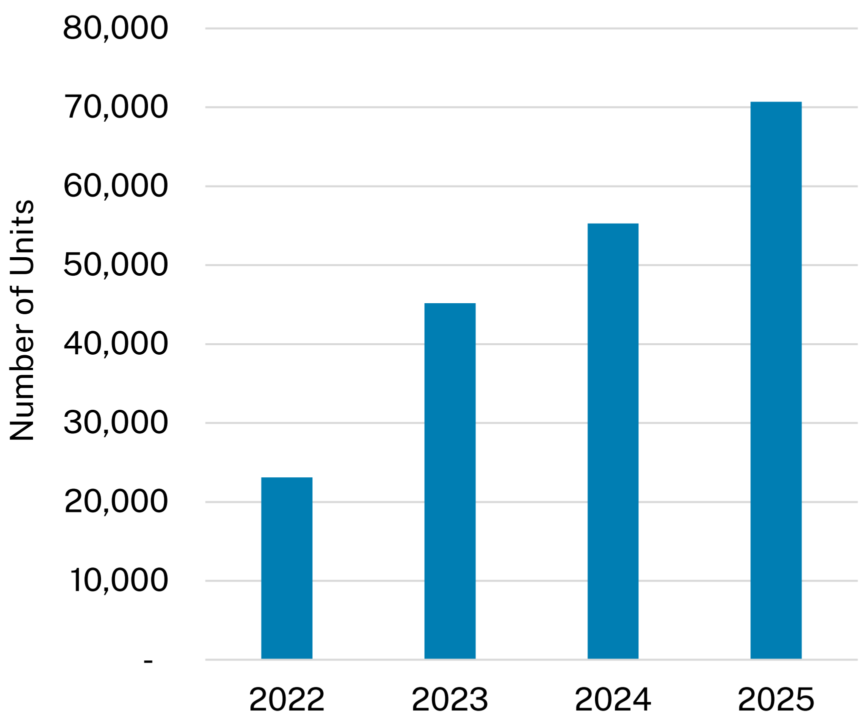
Source: American Realty Advisors based on data from CoStar as of July 2025.

Office conversions are accelerating, but their power to "quick fix" vacancy varies considerably by market.

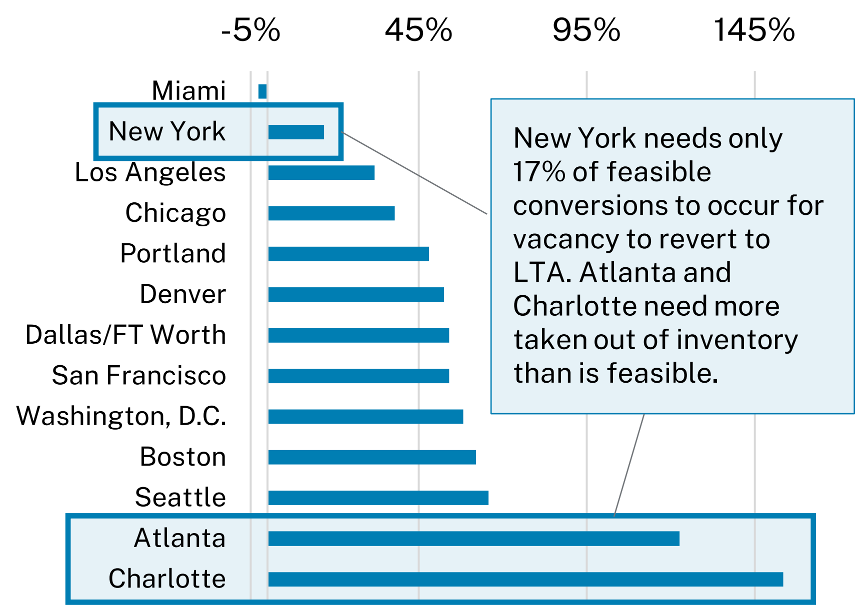
Office-to-apartment conversions are scaling quickly, with 45% compound annual growth since 2022.

Some markets need only a small percentage of feasible conversions to materialize to bring vacancy back to LTA.

Office-to-Apartment Conversions, National



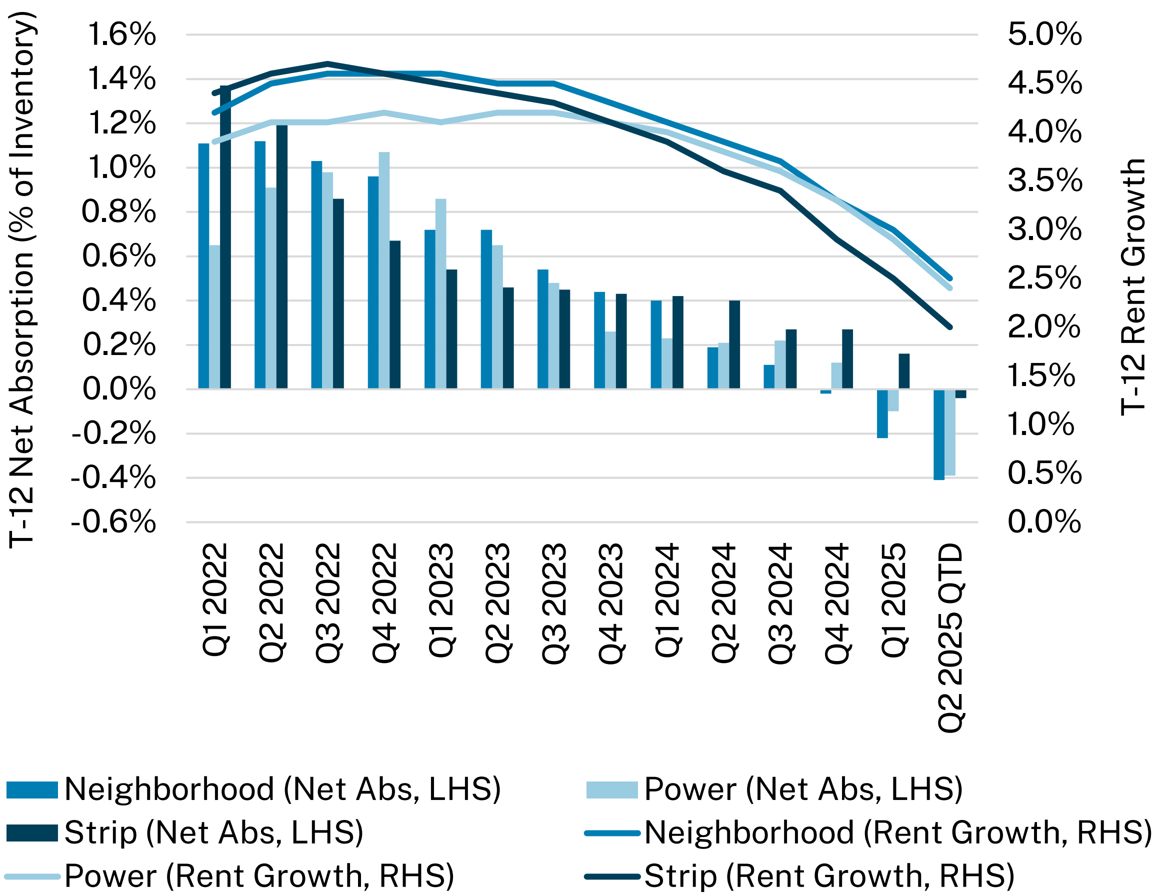
Share of Square Feet Suitable for Office-to-Apartment Conversion Needed to Bring Market Vacancy Back Down to LTA



Note: The share of buildings suitable for future conversions in each metro was calculated by combining the shares of Tier I and Tier II buildings, based on the Conversion Feasibility Index (CFI) from CommercialEdge.
Source: American Realty Advisors based on data from RentCafe, Commercial Edge, and Yardi Matrix as of June 2025.

Retail rent growth is normalizing, echoing the moderation in net absorption.

Trailing 12-Month Rent Growth and Net Absorption as % of Inventory by Center Type

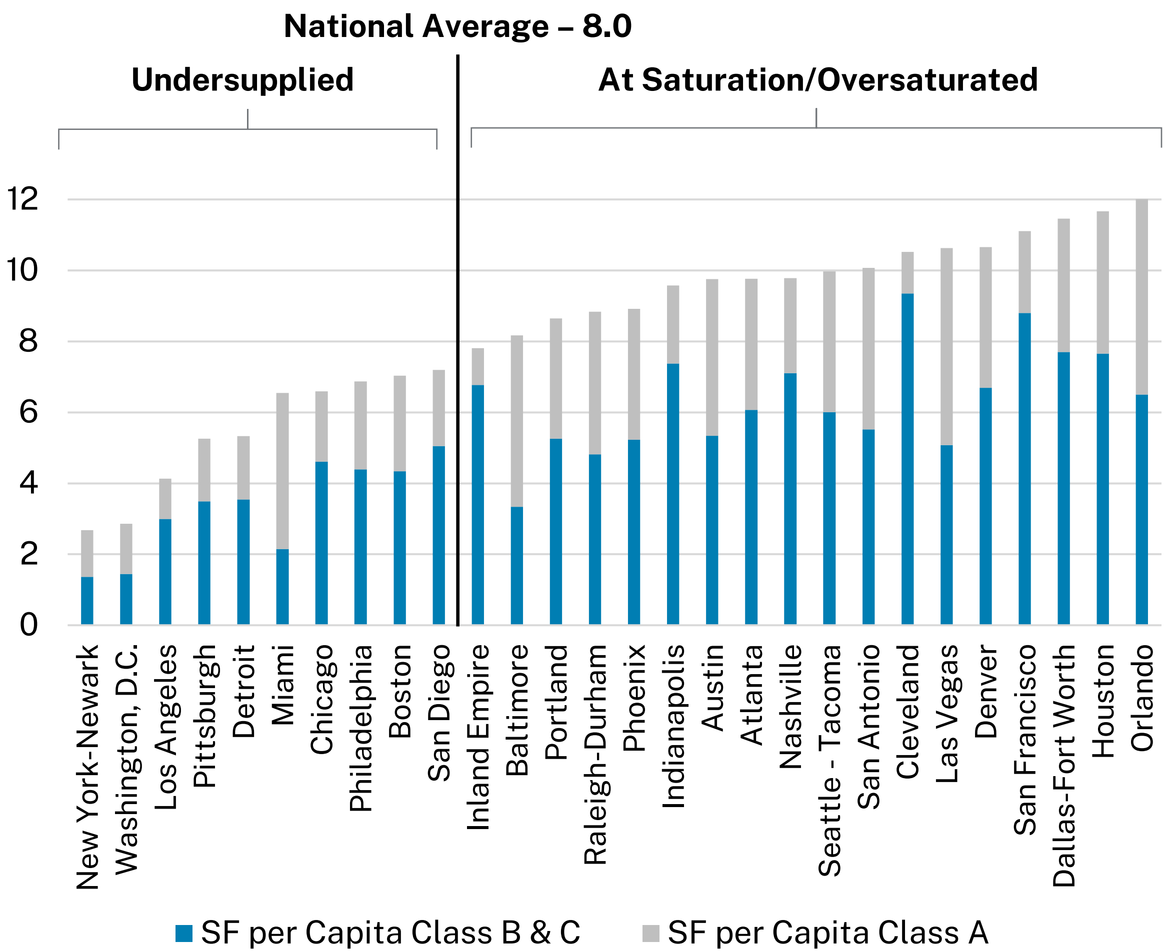


Given the outlook for a more hesitant consumer and already-decelerating fundamentals, **we believe this may be a good time to harvest profits given high investor interest and potential for softening fundamentals.**

Source: American Realty Advisors based on data from CoStar as of June 2025.

A lack of Class A self-storage space may offer opportunities even in markets that look oversupplied.

Self Storage Square Foot per Capita by Quality



Typically, **the less existing self-storage space there is per person** in a market **allows for stronger rent growth** - so markets to the left may be good core targets.

However, quality also matters - **markets with ample older stock but less Class A competition** (such as Nashville) **may lend themselves favorably to value-add repositioning**.

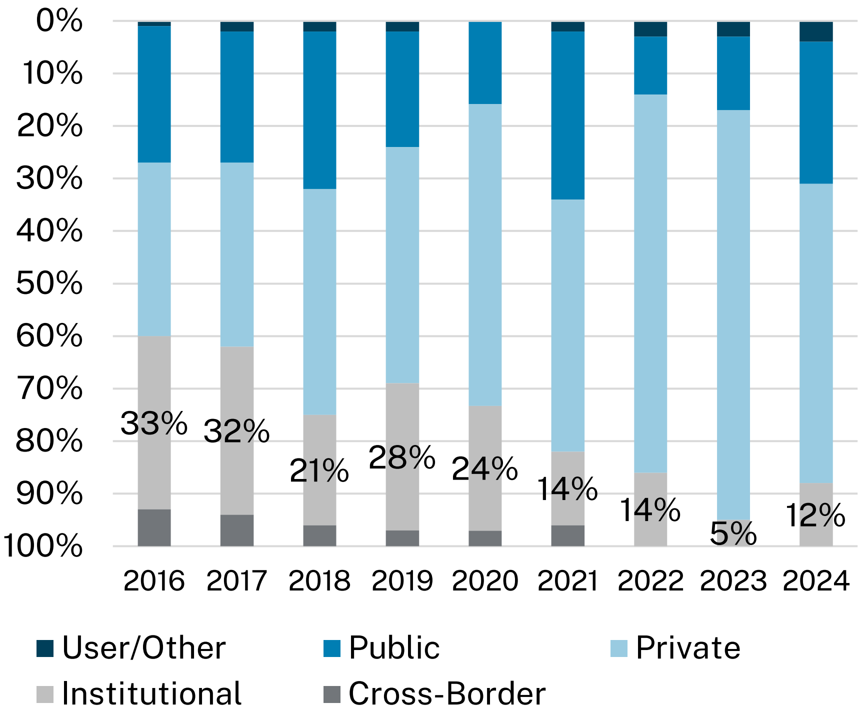
Source: American Realty Advisors based on data from Yardi Matrix and Oxford Economics as of June 2025.

Institutional buyers are largely pulling back from operationally complex senior housing.

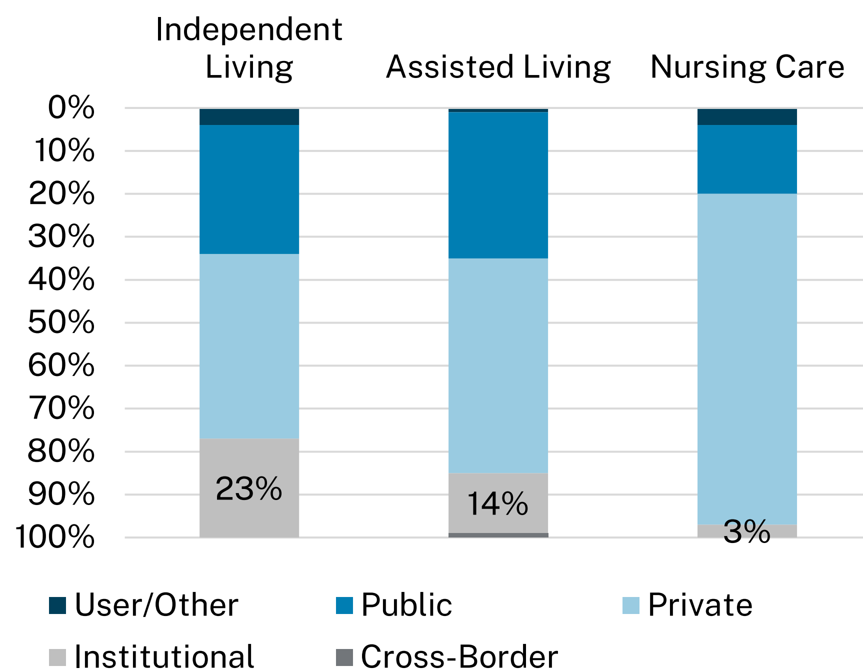
Over the past decade, the **share of institutional buyers in the senior housing sector has shrunk by nearly half** of annual volumes.

Operational complexity appears to be a key consideration, as **the more intensive the care requirements, the lower the institutional presence.**

Buyer Composition for Senior Housing



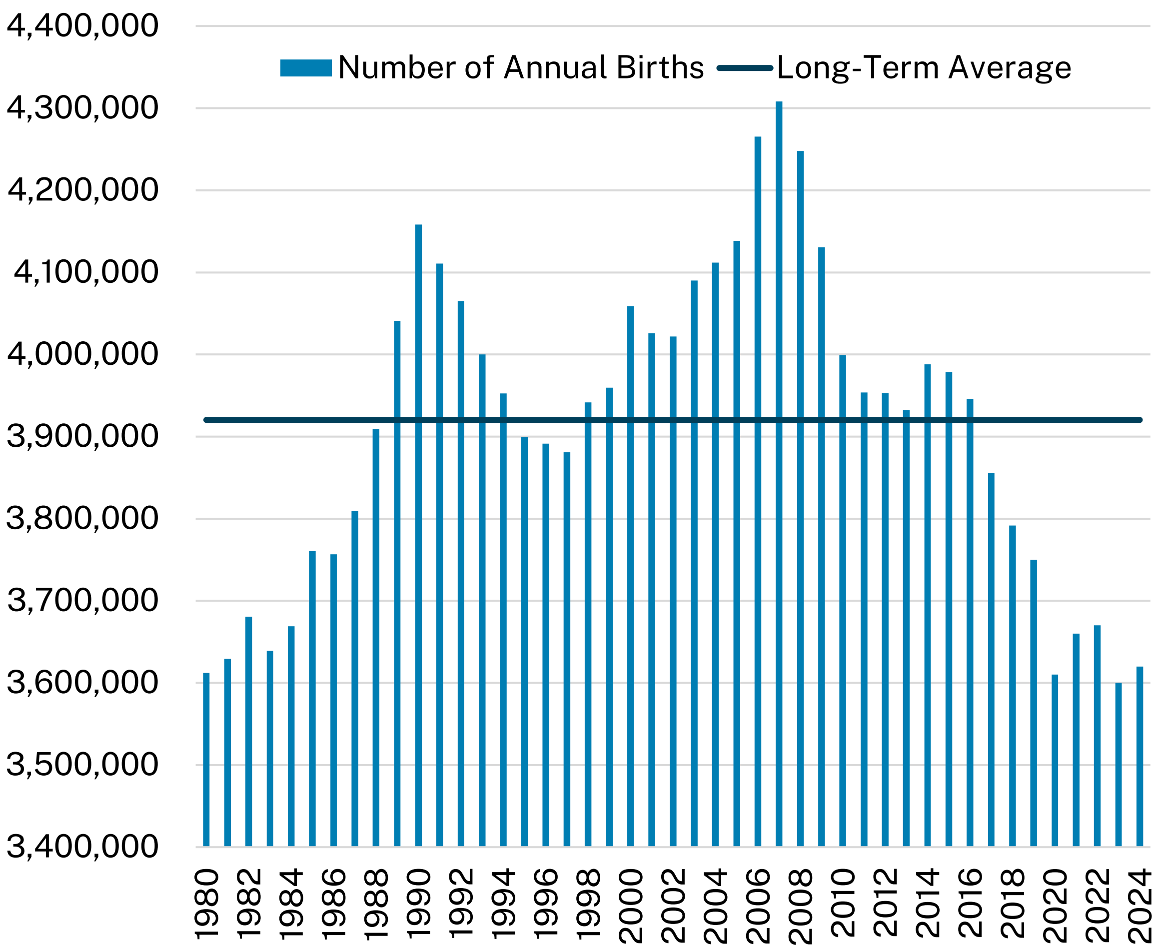
Buyer Composition by Care Subsectors, 2024 Transactions



Source: American Realty Advisors based on data from JLL and Real Capital Analytics as of June 2025.

Fewer babies born post 2009 suggests renter pool for student housing is slated to shrink.

Number of Babies Born in the U.S., 1980-2024



2007 marked the peak of the most recent baby boom, and while near-term cohorts remain sizable, **the long-term trend is a shrinking student housing base.**

Tighter restrictions on international students, who make up ~6% of the U.S. student body, **will likely further shrink future demand.**

Source: American Realty Advisors based on data from U.S. Centers for Disease Control and Prevention as of June 2025.

Outlook for Property Sectors

Signs of renewed momentum are emerging across most property types, but recovery paths vary significantly across markets.

Industrial

- The wave of industrial supply is receding, with most markets now seeing fewer completions YoY.
- Pandemic-era leases rolling in coming years may offer strong upside as they reset closer to current market rates.

Residential

- Higher for-sale inventory has softened prices, but not enough to draw buyers back amid steep ownership costs.
- Conditions are firming as rent and occupancy growth return across a widening set of markets.

Office

- The path to stabilization is proving highly uneven, with turnarounds clustered in a handful of resilient markets.
- Conversion activity is rising, but only a few markets have enough viable projects to materially reduce vacancy.

Retail

- Momentum in retail fundamentals appears to be moderating amidst ongoing strains on consumer wallets.
- Grocery-anchored and high-traffic formats continue to attract capital, offering attractive divestment opportunities despite a broader slowdown in retail fundamentals.

Specialty Sectors

- Despite headline oversupply in some self-storage markets, select metros offer room for value-add investment where modern stock remains scarce.
- Institutional participation in senior housing continues to decline, with operational intensity and high fixed costs acting as a growing barrier to capital deployment.
- Slower birth rates and tighter immigration policies are reshaping long-term demand for student housing, particularly at non-flagship schools.

Localized crosswinds may mask risk even in broadly improving markets; navigating this next cycle will require a more selective, precision-based approach to deployment.

Implications for Core and Value-Add Strategies

We believe today's environment rewards selectivity and creativity, targeting embedded upside while avoiding the trap of shiny, short-lived rebounds.

Asset Management

- Unlock value through embedded mark-to-market rent upside, especially in industrial leases signed prior to the pandemic.
- Reassess amenity and capex spend considering softening consumer sentiment; capital improvements should prioritize cost efficiency and tenant retention rather than premium positioning.
- Reassess incentive strategies in multifamily markets that no longer require deep concessions to drive new leasing and renewals.
- Prioritize tenant retention and proactive leasing strategies to mitigate vacancy risk, particularly as economic uncertainty and tighter corporate budgets weigh on space demand.

Portfolio Construction

- Take advantage of asymmetric return potential, as downside risk has largely been priced in, but upside likely hasn't.
- Lean into "fix-and-hold" strategies where broken capital stacks can be restructured at a discount; focusing on well-located assets that were over-levered and not overbuilt.
- Take opportunities to acquire existing, well-leased, quality assets at significant discount to replacement cost, as they will benefit from a lack of new development.
- Selectively scale up leverage as positive appreciation returns; financing availability alone should not lead the return profile.
- Stress test leasing timelines; underwriting should reflect lengthier lease-up periods, particularly for office and retail.

Summary and Strategy Implications

Greater policy clarity in H2 2025 should help steady the economy, but the outcome will shape whether growth reignites, or the slow burn drags on.

- The economy downshifted in the first half of the year, as tariff negotiations and geopolitical events prompted bouts of volatility and uncertainty.
- So far inflation has remained relatively benign in the face of potentially higher import costs, which has kept Fed policy rates unchanged.
- Businesses are contending with higher costs without a commiserate increase in profits, which in turn is slowing hiring and increasing layoffs, disadvantaging consumers.
- Capital markets broadly have continued to stabilize post-Liberation Day.
- Transaction volumes are picking up as investors price through the near-term uncertainty and seek to capture remaining discounts.
- Recoveries are entrenching across many sectors, but wide dispersions remain in performance and potential at the market- and submarket level.
- We see compelling opportunities to invest today, particularly in re-priced assets where much of the downside risk has already been absorbed, but the upside remains underappreciated.
- We are especially focused on sectors like industrial, residential, self-storage, and structured debt, where strong fundamentals and pricing dislocation create room for outperformance.

Disclosures

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