

ARA House View H1 2026

January 2026



Macroeconomic Context

- AI investment has fueled strong economic growth, though we expect the boom to moderate as investors shift focus to realized profits and productivity.
- While unemployment remains low, fewer foreign-born workers and a greater reliance on technology have slowed job growth, creating challenges for young people.
- Against this backdrop, consumers continued to spend in 2025 despite feeling less optimistic.
- Elevated inflation expectations and deficits may keep long-term bond yields elevated, even as the Fed eases.
- There is upside to growth if deregulation and AI gains spur more investment and hiring.



Real Estate Impacts

- Improvement in lending conditions and stabilizing prices are supporting an ongoing recovery in transaction volumes.
- Fundamental recovery decelerated slightly in H2 2025, but low development pipelines and a solid economic backdrop should support rents in 2026.
- With growth coming from a more concentrated group of industries and households, we expect this recovery to be more nuanced than previous ones.
- Performance for most sectors appears to be converging, suggesting market, submarket, and asset selection are likely to drive differentiation.

I. Macro Outlook

- ▶ GDP growth is being supported by robust AI investment amidst crosscurrents from shifting trade policy, labor market transitions and polarized consumers.

- ▶ A narrower set of industries and households are doing well, while others have lost momentum, creating divergent “K-shaped” paths.

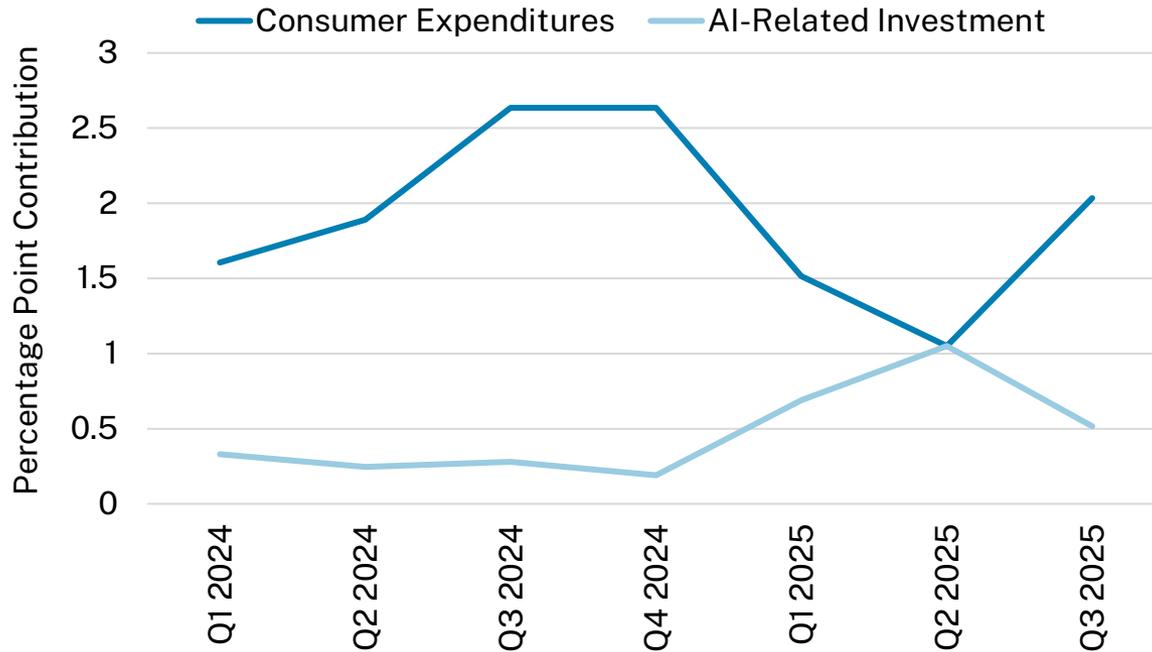
- ▶ There is growing slack in the labor market; even so, these soft spots alone are not likely to derail economic growth.

- ▶ We expect growth to normalize through 2026 as fewer new jobs and tariff-induced inflation moderate the impact of AI investment and modest boosts from deregulation and fiscal stimulus.



GDP growth heading into 2026 is being fueled by changing forces.

Contribution to GDP Growth from Consumer Spending and AI-Related Investment



In the six months through Q2, **growth from AI-related investment was essentially the same as the contribution from consumer spending**, though investment normalized a bit in Q3.



With the consumer backdrop increasingly nuanced, **AI and data center investments** are expected to be a **critically important contributor** to GDP growth going forward.



Shifting GDP drivers are **strengthening economic resilience** by balancing a softer jobs market, though **risks remain if AI productivity gains fall short** of expectations. Overall, these factors together should **support steady, albeit moderate, growth**.

Source: American Realty Advisors based on data from Macrobond and the Bureau of Economic Analysis as of December 2025. Contributions figures reflect the six-month moving average contributions to quarter-over-quarter seasonally adjusted annualized GDP growth. AI-related investment includes investment in information processing equipment and investment in intellectual property software.

Low unemployment is masking softness for certain groups, while fewer new jobs from fewer industries increases risk.

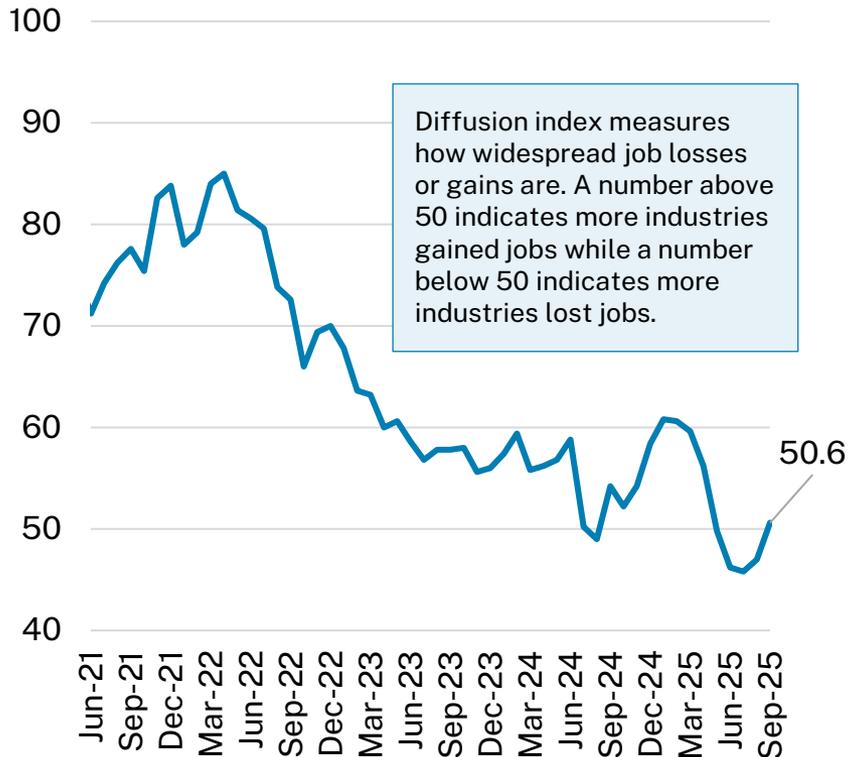


Job gains have moderated as unemployment remains low and fewer industries are adding headcount compared to a year ago.

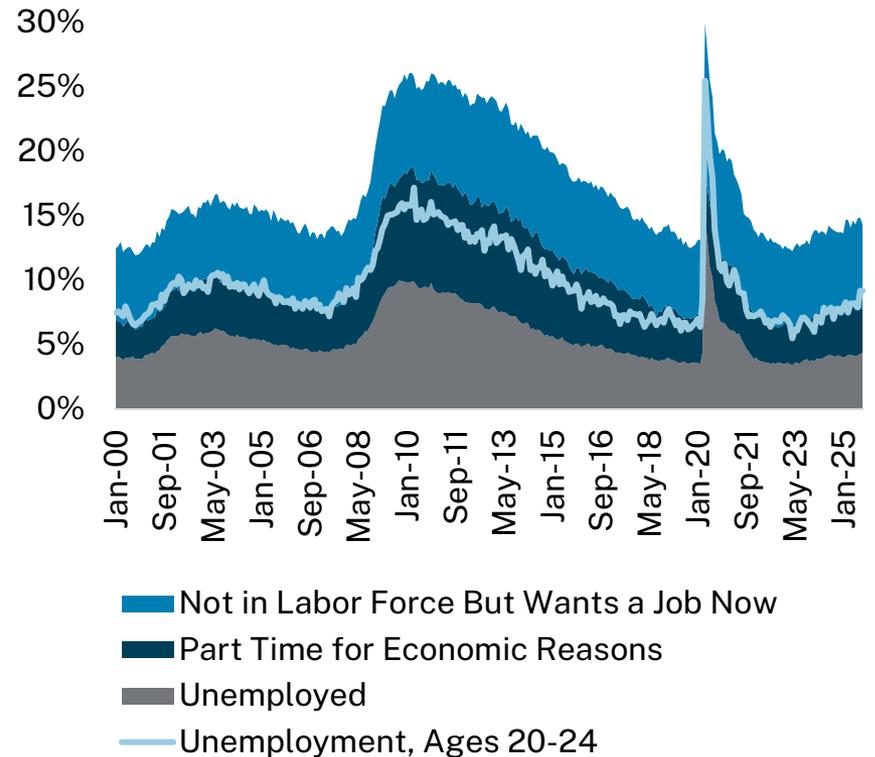


Overall unemployment remains low, but conditions feel less healthy for new labor market entrants and the underemployed.

Nonfarm Employment Diffusion Index, 3-Month M.A.



Measures of Un- and Underemployment, % of Labor Force



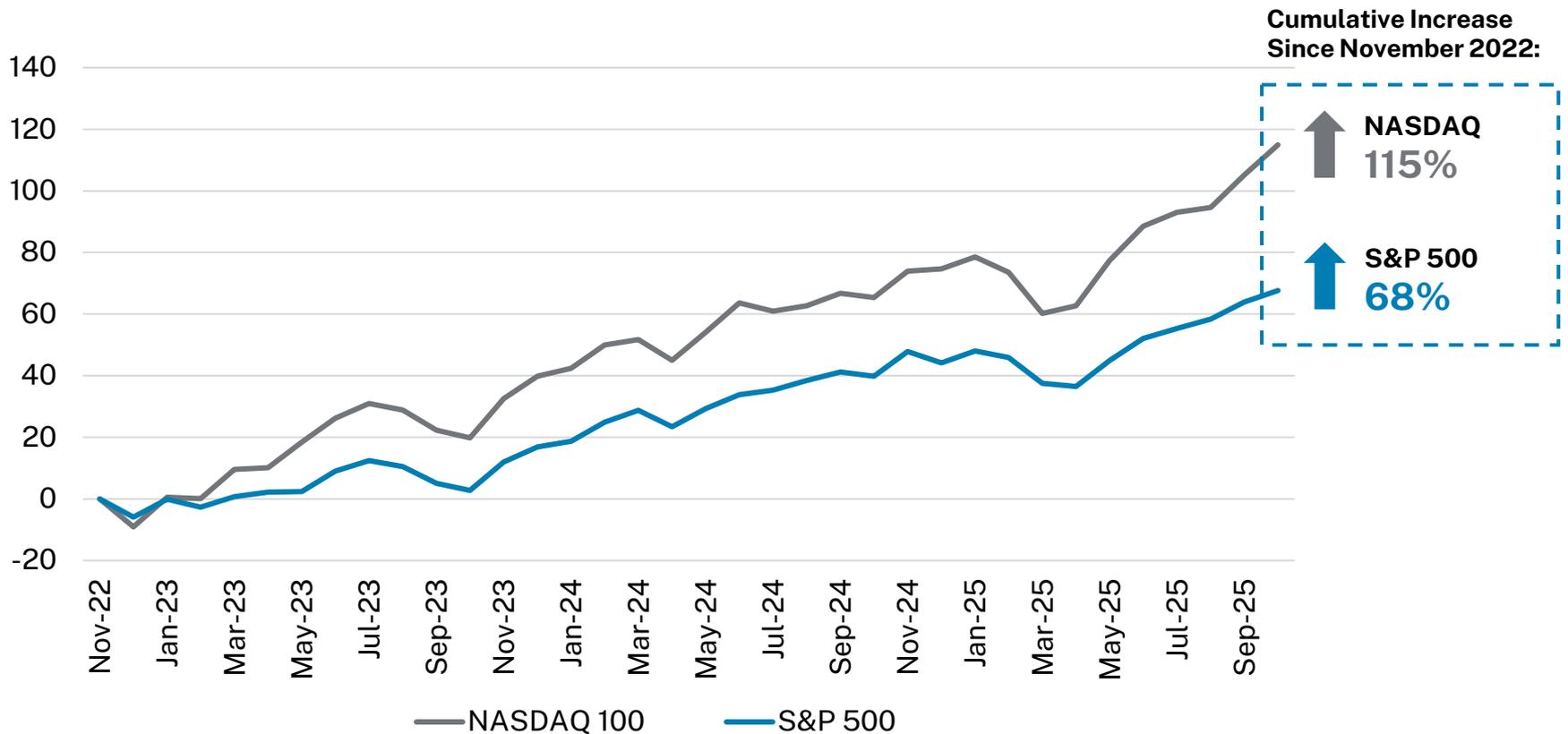
Source: American Realty Advisors based on data from Macrobond and the Bureau of Labor Statistics as of December 2025.

Wealth effect is bolstering top-earning households' ability to continue to spend.



Despite a pullback from lower-income households, affluent households' stock market positions continue to support overall consumer spending.

% Change, Stock Market Price Indices (Rebased to November 2022 = 100)



Source: American Realty Advisors based on data from Macrobond, S&P, and NASDAQ as of December 2025. Compares the NASDAQ and S&P 500 by rebasing both indices to 100 as of November 30, 2022, and displaying the cumulative percentage change from that starting point.

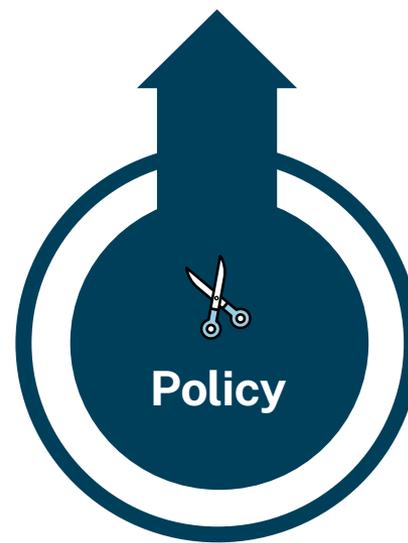
We see four main forces influencing the macroeconomy in the near term.



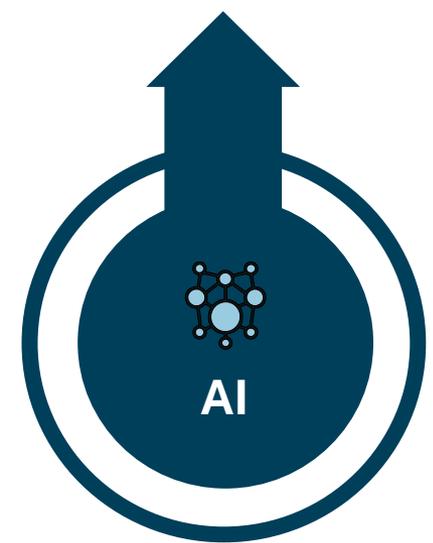
- Front-loaded inventories imported in 2025 are beginning to dwindle.
- **We believe inflation impacts from tariffs have not been totally avoided, but more likely delayed.**



- With fewer net jobs being added, wage increases may become less robust.
- **Despite low unemployment, fewer opportunities could dampen spending ahead.**



- President Trump's agenda to reduce red tape could stimulate the economy.
- **Deregulation, combined with modestly supportive fiscal policies, are likely to support GDP growth.**



- AI-related investment is surging, becoming a meaningful driver of GDP.
- **Eventual AI productivity gains are a positive, but the lag could let some air out of the investment balloon.**

II. Capital Markets

- ▶ Inflation likely to stay above Fed target given protracted impacts from tariffs and other structural shifts, but not enough to halt policy easing.

- ▶ Real estate capital markets reflect growing confidence as lending and transaction activity continue to strengthen.

- ▶ Reset values and still-elevated replacement costs make today's real estate pricing even more compelling.

- ▶ Positive total return trajectory appears to be entrenching across sectors (even office), driven by income.



We believe an upward bias on inflation means long-term bond yields are likely to remain within a narrow band around current levels.

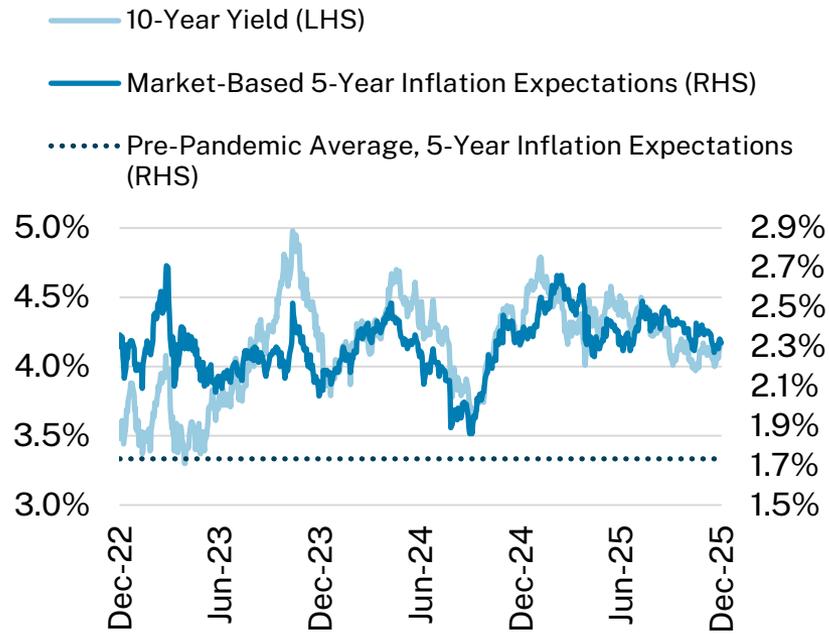


Inflation expectations have settled materially above pre-2020 norms, creating a **higher floor for long-term yields**.

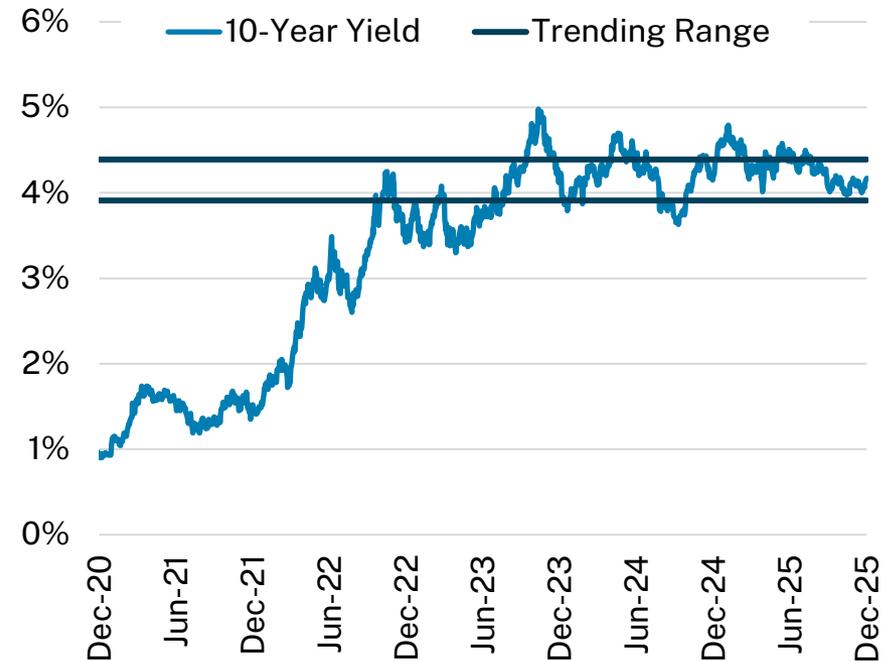


10-Year Treasuries have traded within a relatively tight band of **3.9% to 4.4%** in recent years, which **remains the base case**.

10-Year Treasury Yields and 5-Year Breakeven Expectations, Last 3 Years vs. Pre-Pandemic Averages



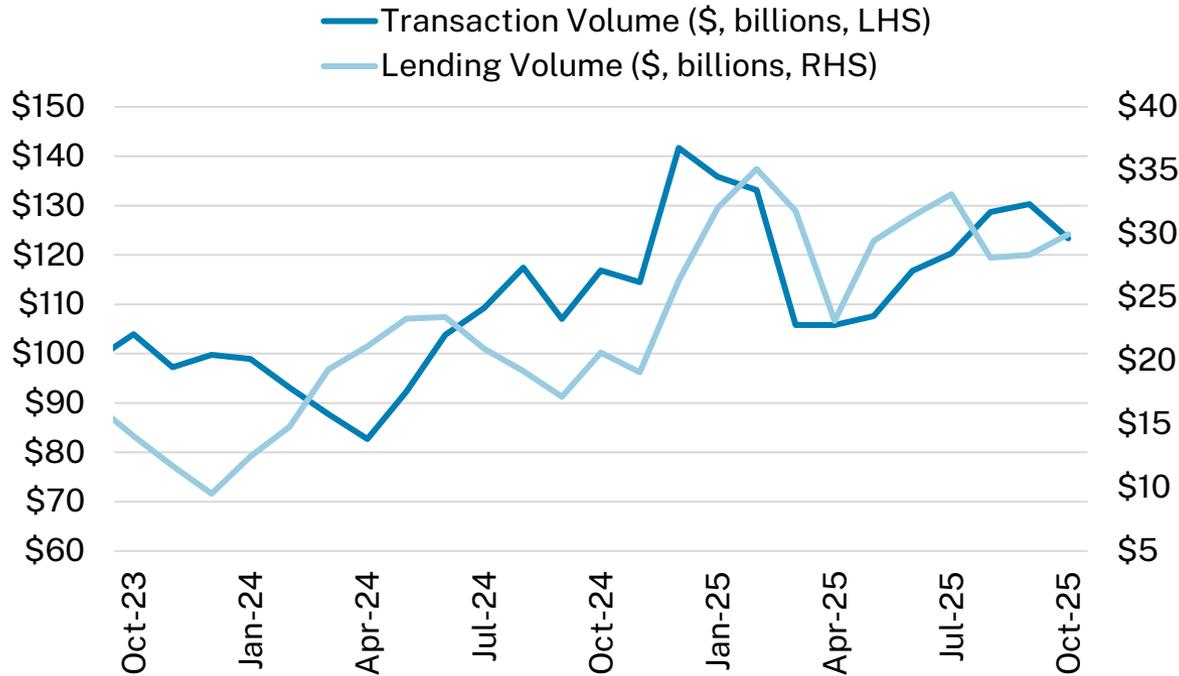
10-Year Treasury Yield



Source: American Realty Advisors based on data from Macrobond and the Federal Reserve as of December 2025. Trending range is calculated as the interquartile range of the 10-Year bond yield for the three-year period through December 8, 2025. Pre-pandemic average for the 5-year inflation expectations reflects the average from January 1, 2009 through December 31st, 2019.

A healthier transaction market is being supported by an ongoing recovery in lending volumes.

Rolling 3-Month U.S. Real Estate Transaction and Loan Volume, Sept. 2023 – Oct. 2025



Transaction volumes in the three months through October were up **5.5%** year over year, while lending volumes increased **45%** over the same period.



Rising deal and lending activity should provide **clearer pricing benchmarks heading into 2026** and allow for greater conviction from investors.



While cap rate compression may not drive returns this cycle, greater deal flow creates more reliable comps such that **increasing liquidity is likely a precursor to a modest firming in valuations over the next 6-12 months.**

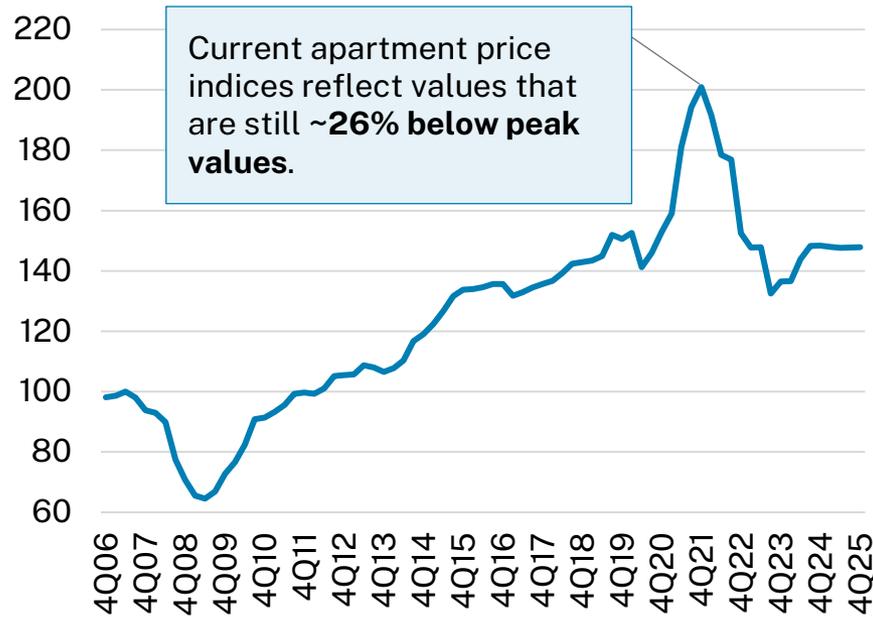
Source: American Realty Advisors based on data from MSCI Real Capital Analytics and PERE Credit as of December 2025.

Real estate pricing looks especially compelling when viewed through the dual lenses of discount to peak and discount to replacement costs.

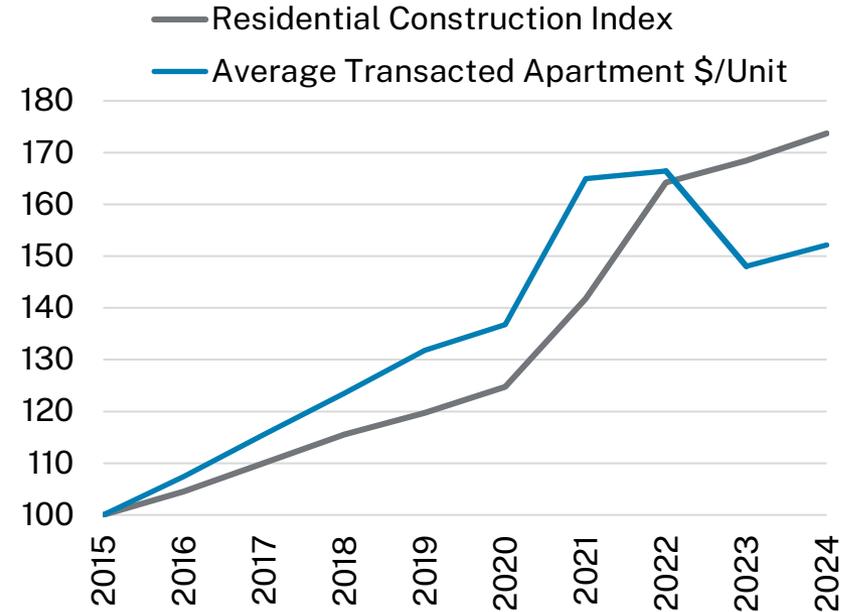


With current pricing in some sectors reset to 2019 levels and deals transacting ~10% below replacement cost, investors can access real estate at a meaningfully improved basis whether through portfolios with existing marked-to-market assets or new strategies buying at today's compelling entry point.

Green Street CPPI – Apartments (Q2 2007 = 100)



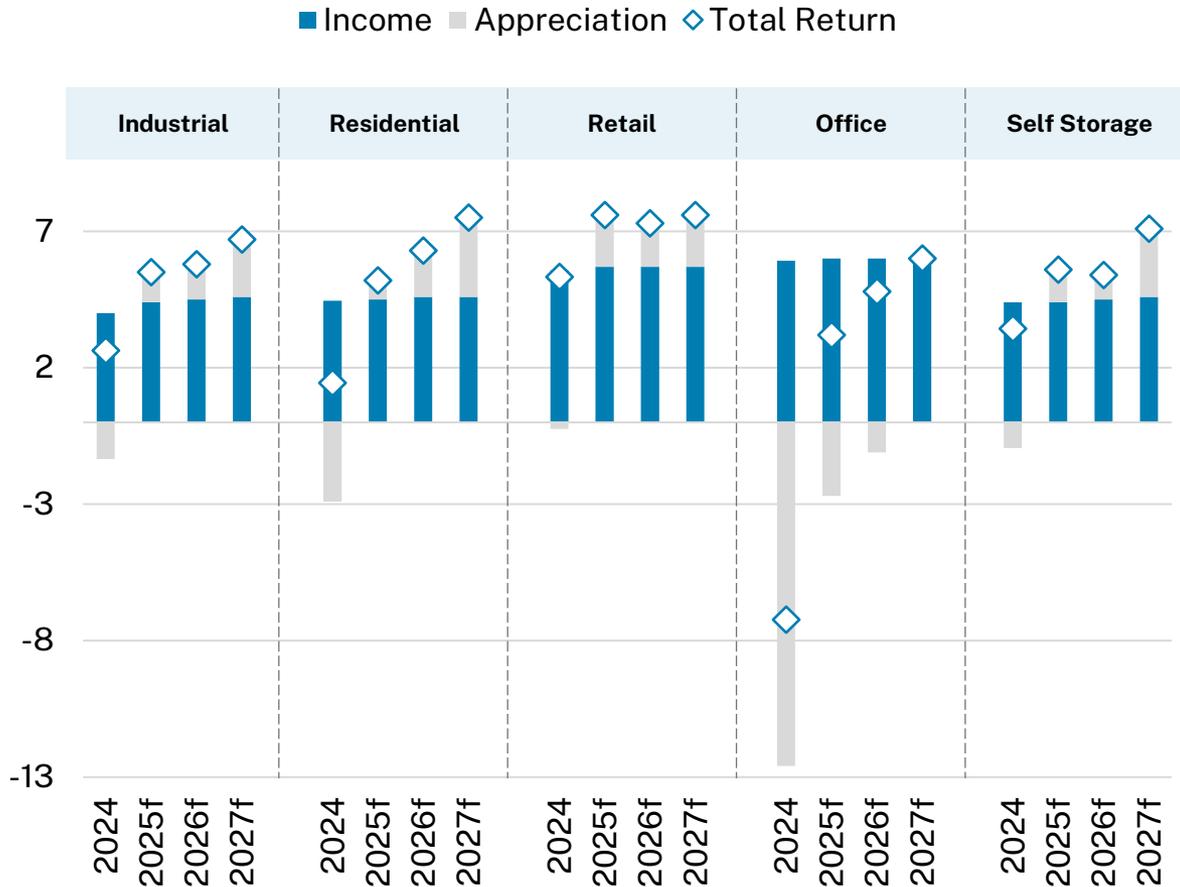
Residential Construction and Transaction Pricing (2015 = 100)



Source: American Realty Advisors based on data from Construction Analytics, MSCI Real Capital Analytics, and Green Street Advisors as of December 2025. CPPI = Commercial Property Price Index, a time series of property values that captures the prices at which commercial real estate transactions are currently being negotiated and contracted. Transaction pricing reflects year-over-year change in average sales price per multifamily unit based on hedonic series which controls for factors influencing pricing such as age, size, and location of transaction, indexed to 2015.

Consensus forecasts reflect strengthening momentum in returns based on income.

Unlevered Income, Appreciation, and Total Returns, Select Sectors (%)



- ▶ Total returns appear to be improving, with 2025 projected to be the first year since 2021 where **all sectors' total returns are positive**.
- ▶ Historically, appreciation returns when **income is sustainable, cap rates stop expanding, and NOI growth strengthens** – we believe that could start to occur in 2026.
- ▶ Differences in the outer years should continue to justify overweighting certain sectors, but we believe **greater differentiation will depend more on granular geographic and asset selection**.

Source: American Realty Advisors based on data from NCREIF and the PREA Consensus Survey results of December 2025. Returns reflect the unlevered returns for the NCREIF Expanded Property Index. f=forecast.

III. Property Markets

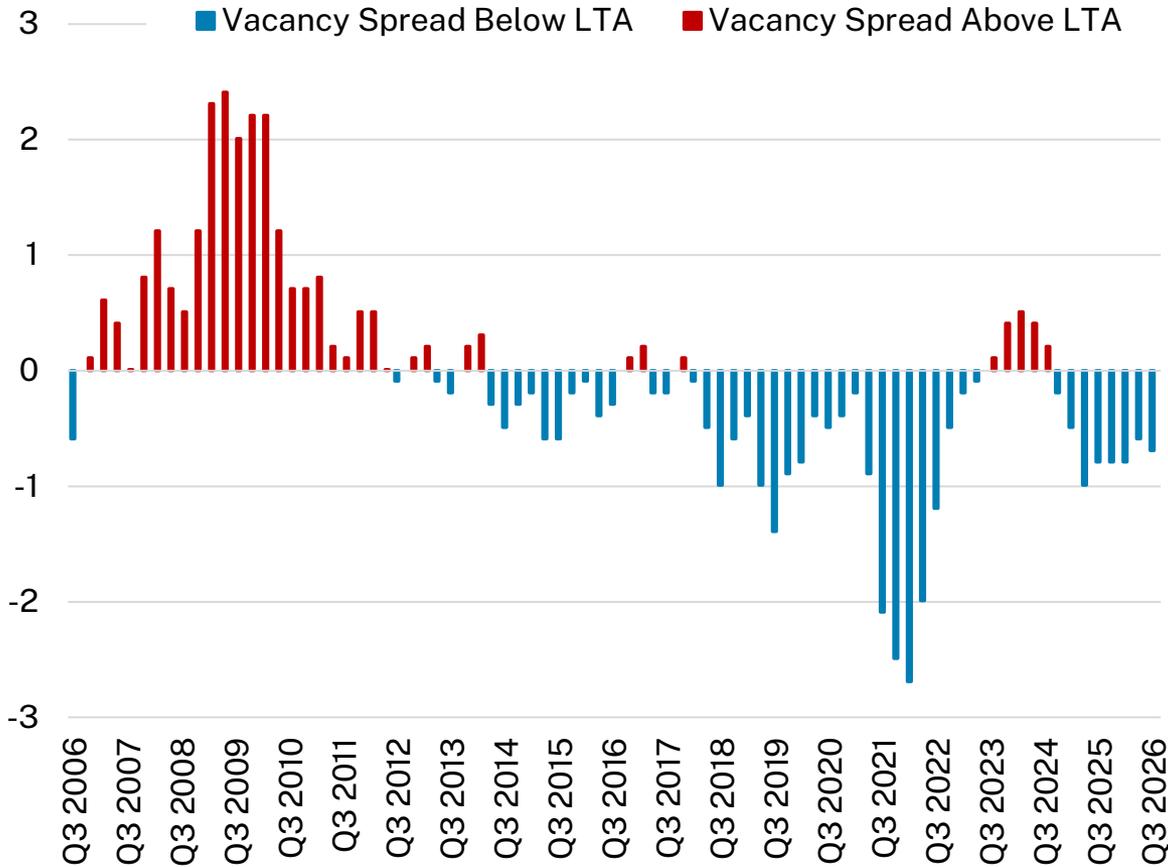
- ▶ Fundamental recovery in most sectors lost some momentum in H2 2025 given macro uncertainty, but we see signs of improvement.
- ▶ Market-level distinctions matter, but we believe real differentiation shows up at the submarket and asset level.
- ▶ Office data suggests an inflection point, but fewer new jobs is likely to be a material headwind.
- ▶ A more modest economic growth backdrop raises the bar on precision and execution – every basis point of incremental upside is increasingly valuable.





Multifamily vacancy looks relatively benign, with conditions expected to hold through 2026.

Difference in Current Vacancy Rate vs. Long-Term Average



Though leasing activity has moderated given labor softness, **apartment vacancy nationwide has been below the LTA for the last four quarters.**

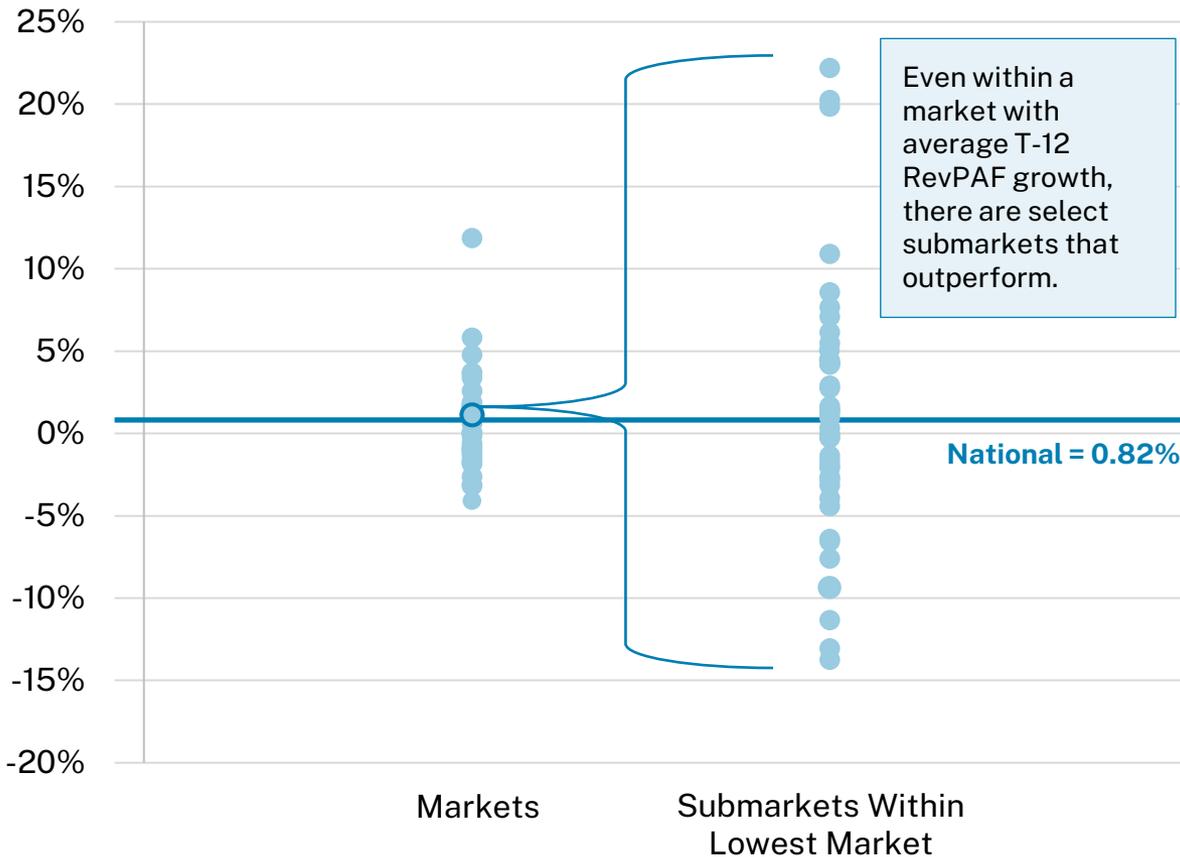
Looking out through 2026, **we expect vacancies and rents to gradually improve** as fewer deliveries ease concession pressures on existing properties.

Source: American Realty Advisors based on data from CBRE-EA as of December 2025. Long-term average = Q1 1994 through Q3 2025. Vacancy spread to LTA is red when vacancy is above the LTA and blue when it is below the LTA. Q4 2025 = estimate, Q1 2026-Q3 2026 = forecast. Forecasts from CBRE-EA.



Markets matter, but there appears to be even greater opportunity for selection upside at the submarket level in multifamily.

Dispersion of Annual RevPAF Growth, Cross-Market and Intra-Market



Most apartment markets' revenue per available foot (RevPAF) growth remains tightly clustered near the national average, **providing less upside from market selection alone.**

Even in an average market, select **micro locations can outperform**; we believe **identifying these areas will be crucial for driving outperformance** in this next stage of the cycle.

Source: American Realty Advisors based on data from CoStar as of December 2025. T-12 RevPAF growth reflects the year-over-year change in RevPAF growth, calculated as rent times occupancy.



Industrial occupiers have seemingly begun to accept the fluid nature of trade policies and shown a greater willingness to lease.

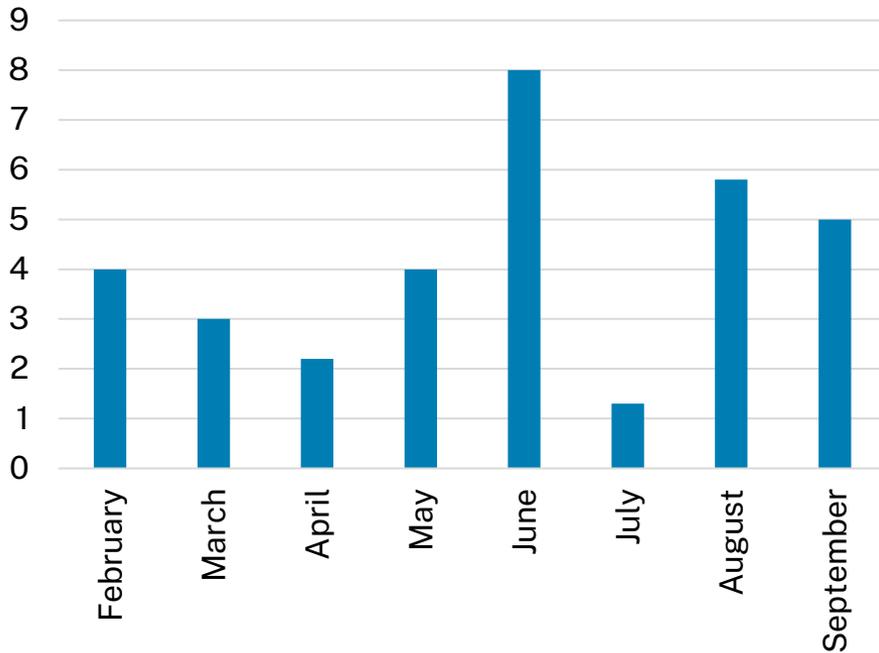


Tariff policies were a moving target in 2025, creating major swings in effective tariff rates and complicating business decision making.

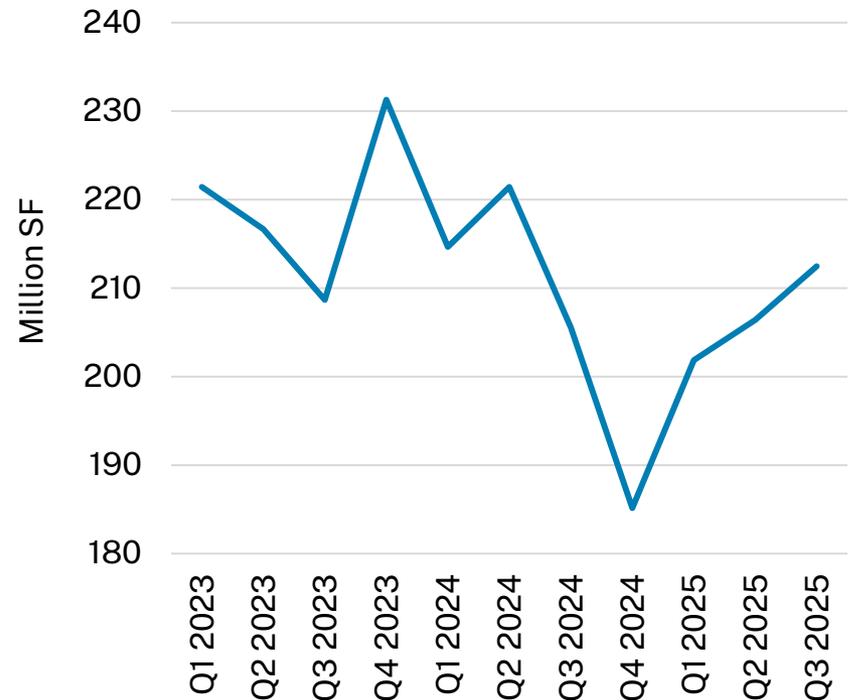


Nevertheless, warehouse users appeared to gradually accept the uncertainty, with **leasing up quarter over quarter in Q1, Q2, and Q3.**

Average Number of Days Between Changes in U.S. Tariff Policy, 2025



Industrial Leasing, Q1 2023 – Q3 2025

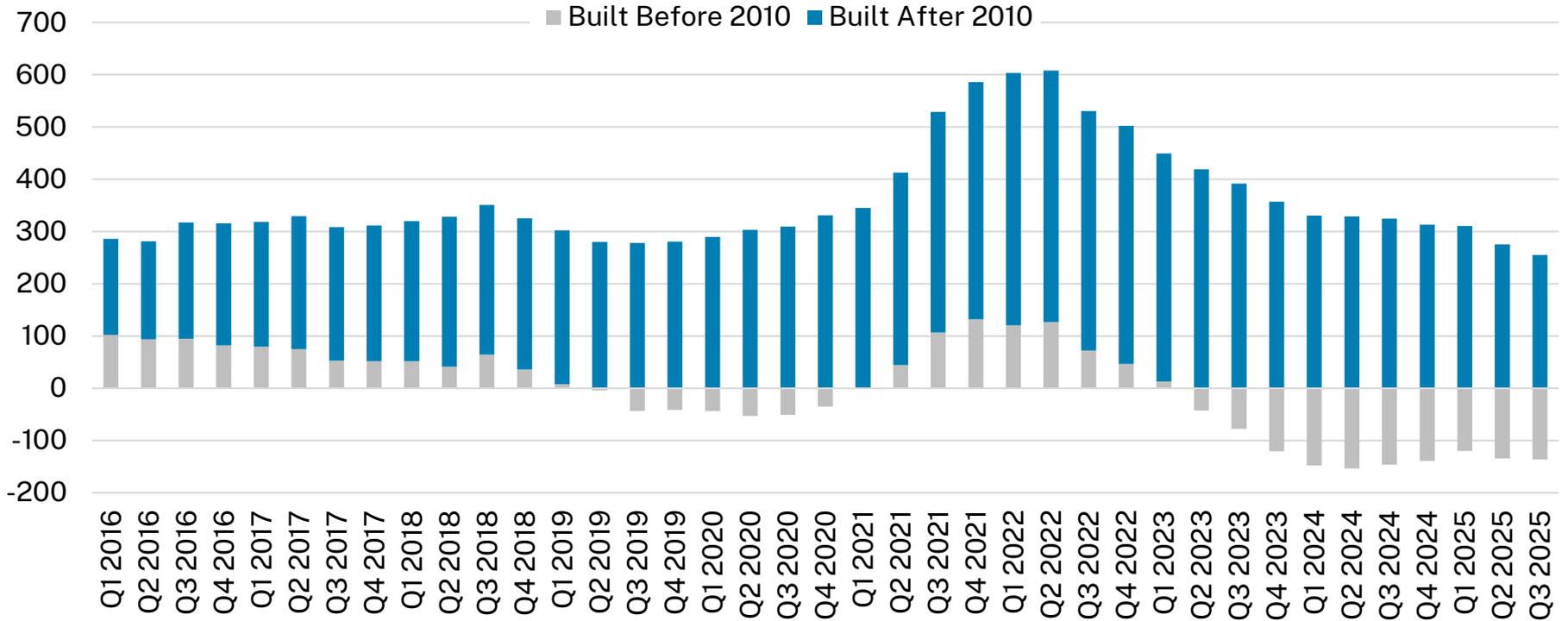


Source: American Realty Advisors based on data from Newmark, Yale Budget Lab, and CoStar as of December 2025.



Selection matters in industrial too, as modern buildings are faring better than their older counterparts.

Year-over-Year Occupancy Change, Million Square Feet, Modern vs. Old



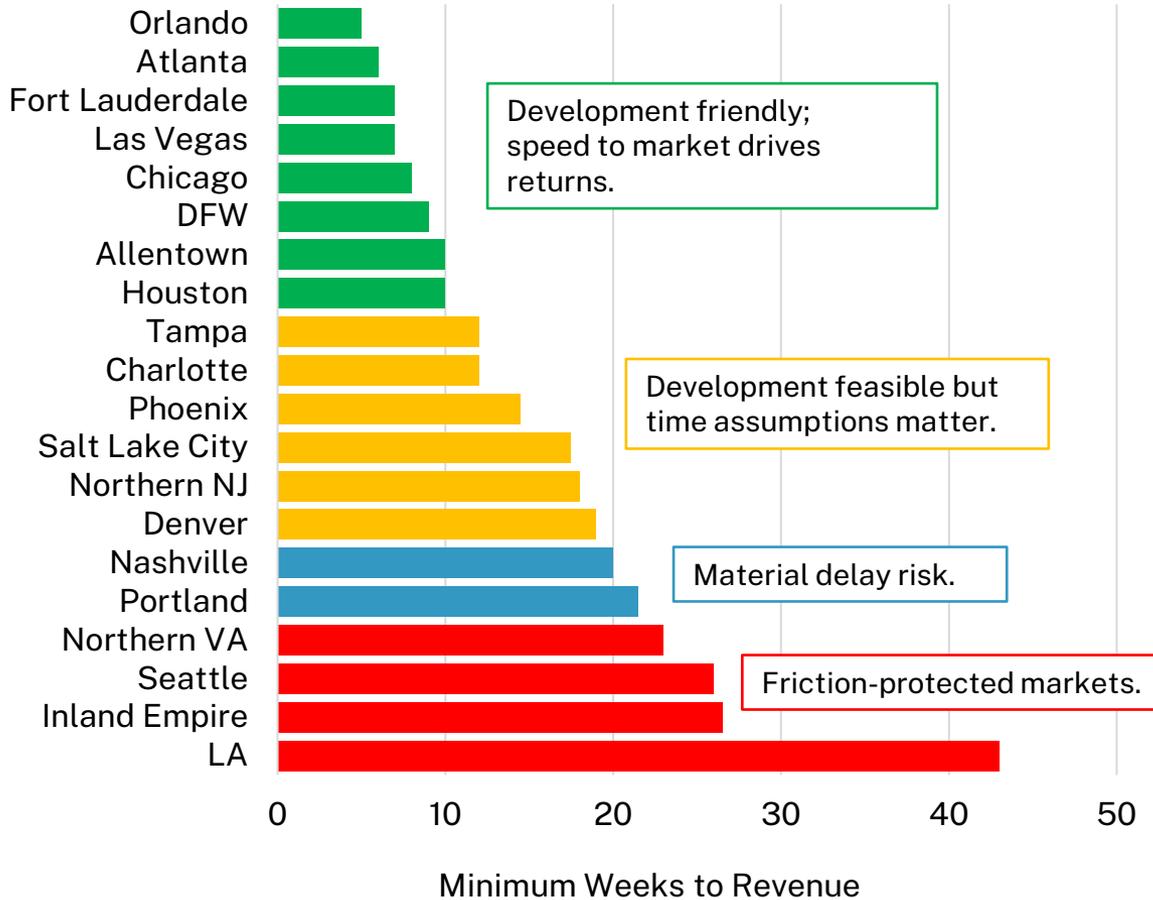
When vacancies were tight, older industrial buildings were able to garner positive occupancy trends, but now with more options, companies are increasingly prioritizing modern buildings. We believe **newer buildings will continue to capture the lion’s share of leasing, while older buildings may struggle.**

Source: American Realty Advisors based on data from CoStar as of December 2025. Modern buildings were built after 2010, old are those built prior to 2010. Data reflects top 50 largest industrial markets in the country.



Industrial development upside is starting to come back, but time to permit influences time to return.

Total Permitting Friction: Shortest Time to Revenue by Market



Higher interest rates mean there is a greater need for speed when it comes to development projects, as longer timelines prolong the pre-revenue period.

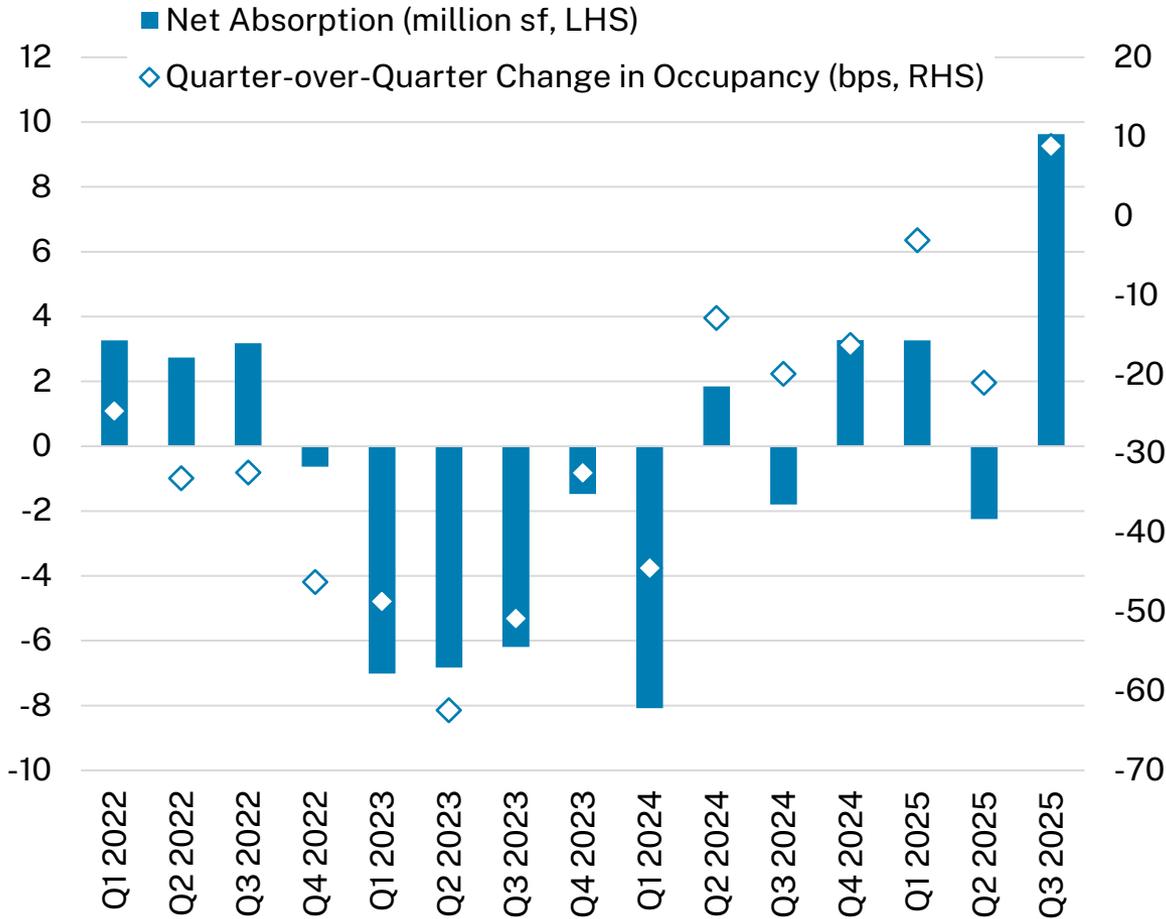
We believe **short-process markets** convert capital into income faster, which is **better for development**; **slower permitting favors existing assets** where friction protects values (by virtue of lesser new competition).

Source: American Realty Advisors based on data from Cushman and Wakefield as of December 2025. Total friction score adds the midpoint of the range for TI permit review weeks and midpoint of the new construction permit review range. Northern NJ represented by pre-development timelines in Woodbridge, Houston represents the average timeline for the City of Houston, La Porte, and Sugarland, and LA represents timelines for LA County.



Office demand improved in Q3 2025, but the pace of progress suggests a long road ahead.

Office Net Absorption and Quarter-over-Quarter Occupancy Change



Net absorption in Q3 2025 represented **the highest quarterly figure since Q1 2020**, with quarter-over-quarter occupancy gains (a relatively muted 8.8 bps) the greatest since before the pandemic.

However, with vacancy elevated versus long-run equilibrium, **the sector's recovery is likely to be protracted.**

Source: American Realty Advisors based on data from CoStar as of December 2025. Long-run equilibrium vacancy calculated as average vacancy in 4-5 Star properties nationwide from Q1 2009 to Q4 2019.



Lesser demand for office-using workers stemming from slower growth and AI-related efficiencies are worrisome for office sector.

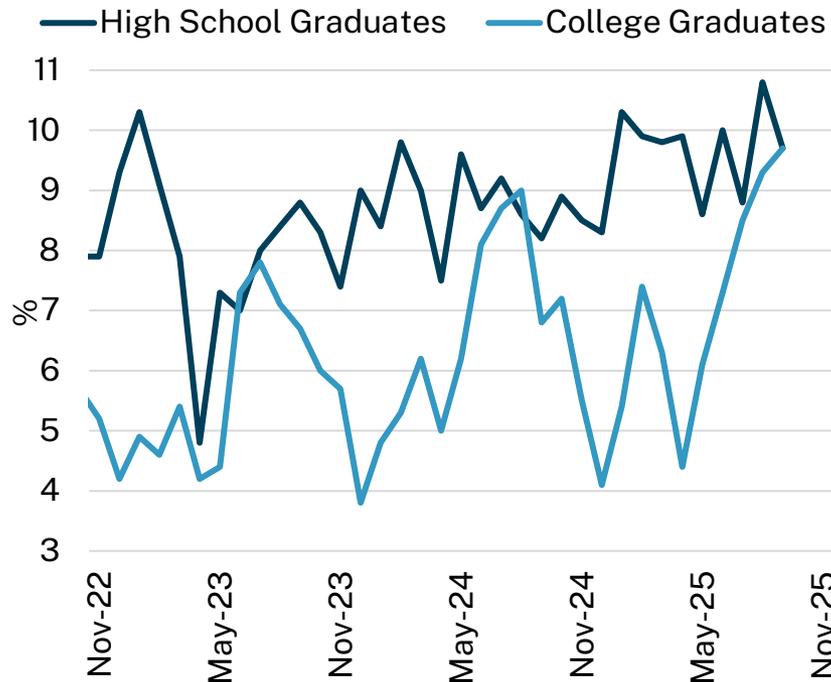


The unemployment rate for recent college grads is on par with high school graduates, as AI reduces opportunities for entry-level jobs.

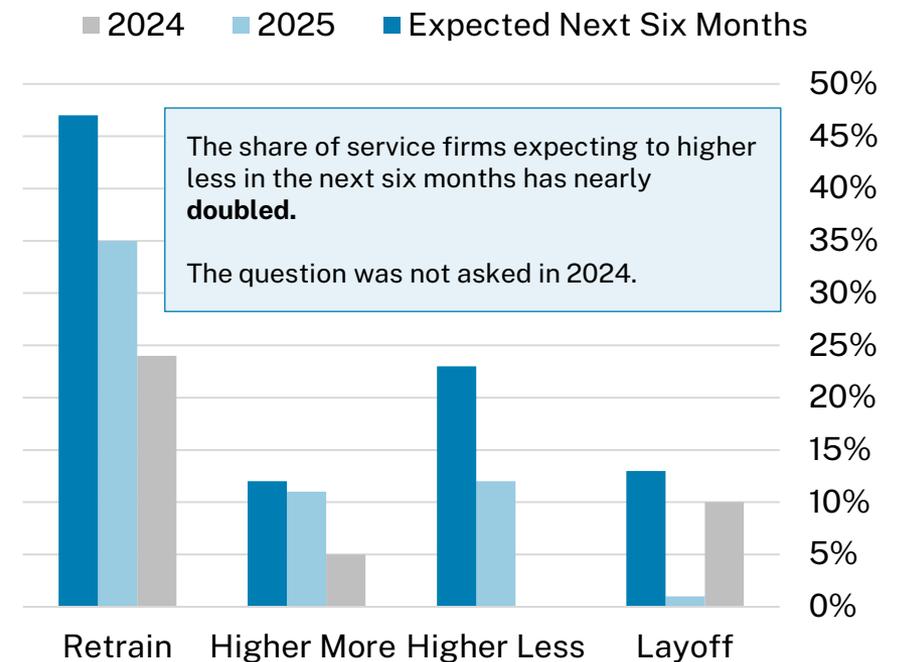


While most companies intend to retrain rather than layoff workers, there is also an expectation that AI will enable them to hire less.

Unemployment Rate, Recent College vs. High School Graduates (Ages 20-24)



Service Firms' Employment Adjustments from AI, Share of Respondents

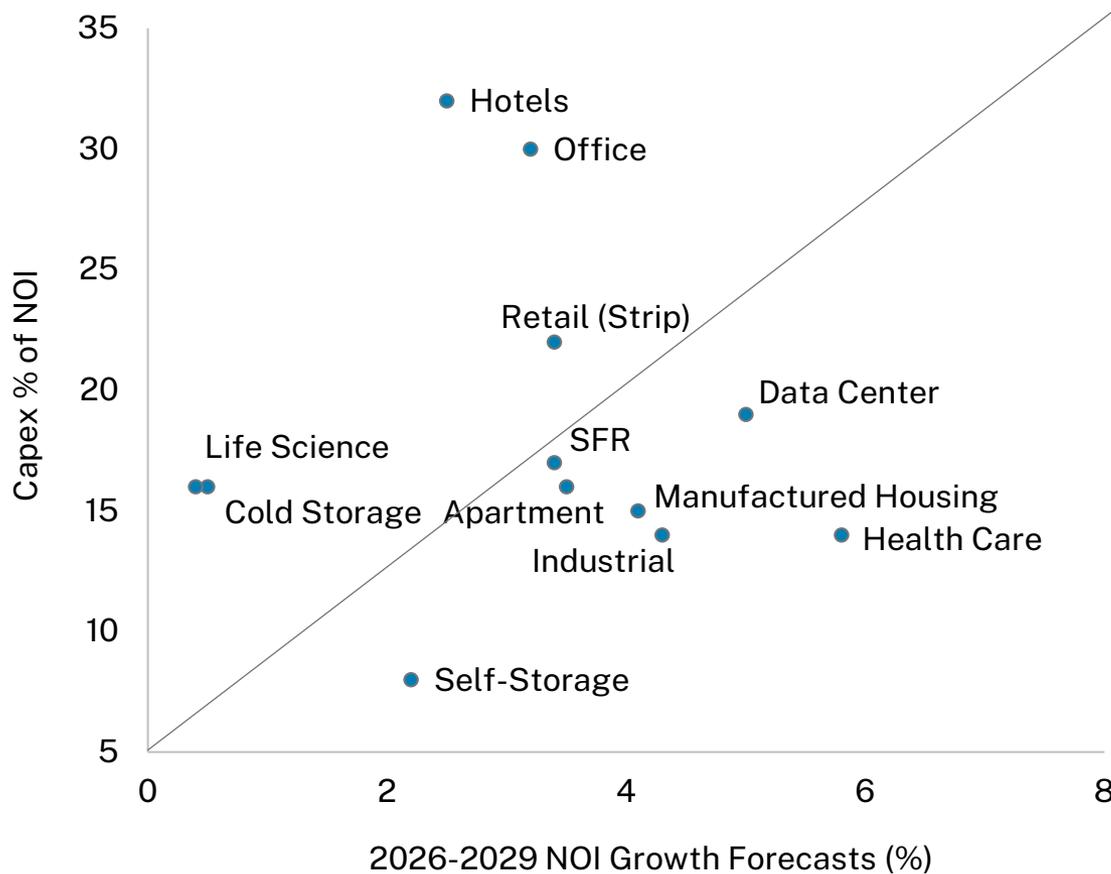


Source: American Realty Advisors based on data from Green Street Advisors, FRED St. Louis, the U.S. Census Bureau and U.S. Bureau of Labor Statistics, Current Population Survey (IPUMS) as of December 2025.



Some specialty sectors require outsized capex while delivering comparable NOI growth to less-burdensome sectors.

Capex Reserve vs. Near-Term NOI Growth Forecasts by Property Type



Capex are the dollars required to keep buildings competitive; higher relative share of NOI growth means investors are paying more for less.

We favor sectors where capital investment is rewarded with durable or outsized NOI growth (such as the different residential subtypes and self storage).

Source: American Realty Advisors based on data from Green Street Advisors' U.S. Model Portfolio as of December 2nd, 2025.

Outlook for Property Sectors

The recovery is ongoing, but unlike prior recoveries, we believe the current rebound is defined by precision rather than breadth.



Industrial

- Activity is improving as tenants appear to have accepted the fluid nature of tariffs and begun making space decisions.
- Market vacancy appears to be plateauing, though we do expect pipelines to start to expand year-over-year beginning in 2026.



Office

- Office occupancy improvement has accelerated, but from a low basis.
- Fewer entry-level hires is a headwind to demand longer term, as the in-person benefits are disproportionately skewed to young workers.



Specialty Sectors

- Specialty sectors are likely to continue to attract capital, but performance is increasingly differentiated by operating intensity, capital requirements, and structural demand.
- Needs-based specialty sectors that are supported by demographic and life-event demand – such as senior and manufactured housing and self storage – look to offer meaningful cash flow upside with manageable capital requirements.



Residential

- Supply overhang appears to be dwindling gradually as new-building specials entice renter households.
- With more options, we believe outperformance will come down to being able to pinpoint the micro-locations most desirable to renters.



Retail

- Grocery-anchored shopping formats are being competitively priced, but NOI growth outlook does not appear significantly more robust than other, more favorably priced sectors.
- Discount and value retailers are likely to fare better in the near term as consumers remain discerning.



While conditions are improving, the pace suggests outcomes will vary widely – we continue to favor disciplined, selective deployment over broad market exposure.

Implications for Core and Value-Add Strategies

Without broad market forces uniformly boosting returns, we believe the current environment calls for a more discerning approach whereby performance is driven by execution.



Asset Management

- Prioritize tenant retention and proactive leasing strategies which may include short-term renewals to bridge to tighter fundamentals one to two years out.
- Right-size residential rental concessions to match specific market/submarket recovery.
- Focus capex spend on projects that support leasing and retention (e.g. make-ready vacant space to drive tenant activity and shorten time to delivery).
- Manage controllable operating expenses to drive bottom-line revenues and drive overall returns.



Portfolio Construction

- Target for-rent housing at below replacement cost in submarkets with improving fundamentals.
- Act now to develop right-sized industrial properties for future delivery into recovery markets with less competition.
- Selectively pursue scalable opportunities in demographically supported specialty sectors such as build-to-rent single-family rentals, seniors and manufactured housing.
- Watch for overexuberant market dynamics that may drive pricing ahead of fundamentals; consider strategic dispositions that can take advantage of investor demand.

Summary and Strategy Implications

The market recovery feels measured but functional, as upside from AI and pro-growth policies is being tempered by a tepid jobs market.

- ▶ Economic growth has come from a different source than in past expansions, with AI investment, not the consumer, contributing more meaningfully.
- ▶ The labor market is resilient despite low job growth, though fewer entry-level jobs is disproportionately hurting young workers.
- ▶ Capital markets reflect growing confidence, with transaction and lending volumes both up year over year.
- ▶ Improved liquidity is expected to support a modest firming in valuations over the course of the year.
- ▶ Opportunities today have the dual benefit of reflecting discounted values relative to recent peaks but also discounts to replacement cost.
- ▶ With construction pipelines considerably thinned compared to recent years, the next leg of the recovery is likely to be driven by the pace of demand.
- ▶ We see this cycle playing out a bit more like the 1990's than the 2000's – that is, generally sideways cap rates, normalized interest rates, and returns driven by income growth and operations, not capital markets.
- ▶ We are approaching our favored sectors of residential, industrial, and self storage selectively, prioritizing asset quality and underwriting assumptions that are grounded in achievable upside.

Disclosures

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