ARA House View H2 2026

July 2026

AMERICAN
REALTY ADVISORS
INSTITUTIONAL CAPITAL MANAGEMENT

I. Macro Outlook

- **The U.S. economy continues to expand**, with GDP growth reaccelerating and consumer spending holding up for most households despite real pressure points.

- **Labor markets are generally stable**, but for anyone who loses a job or is trying to enter the workforce, it is a materially harder path back in.

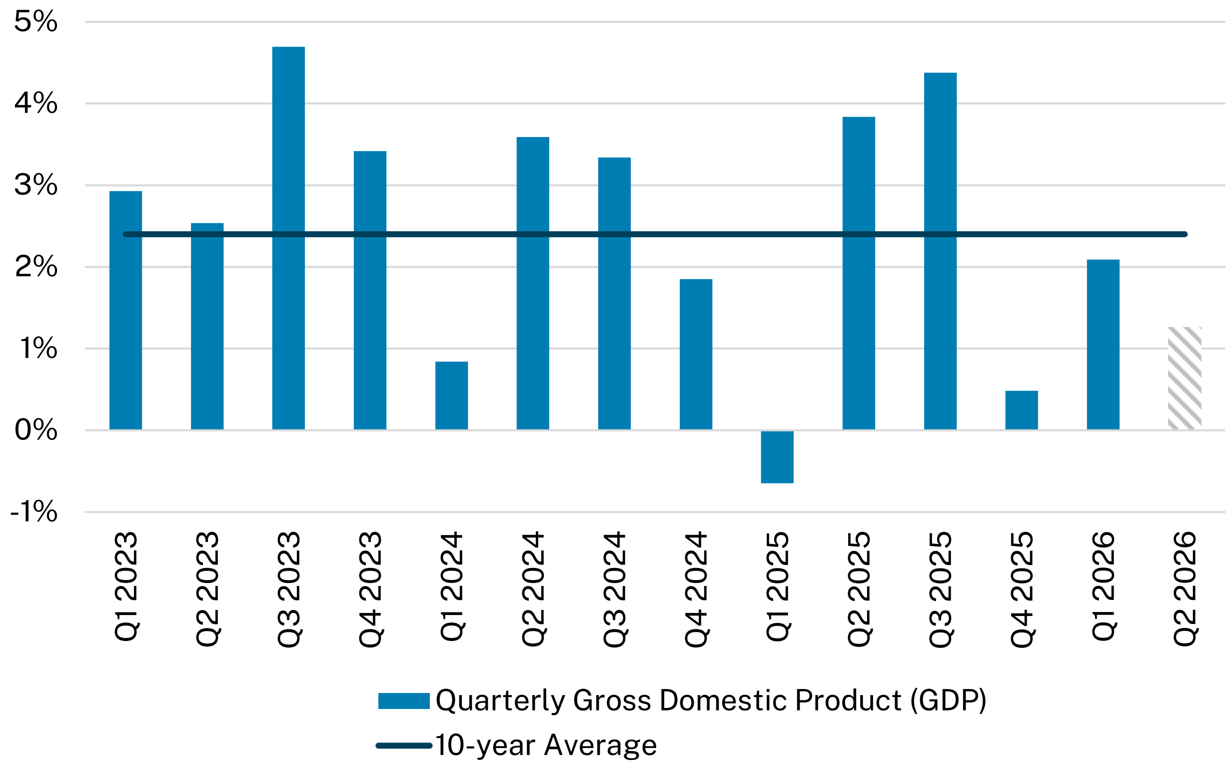
- **The gap between the data and how the economy feels is real,** driven mostly by inflation fatigue and anxiety about AI.

- In our view, the economy is healthy, and **the gap between data and sentiment should narrow as pressures ease.**

The U.S. economy continues to expand.

- GDP growth has regained momentum, and estimates point to a further expansion in Q2 as AI-related business investment and productivity gains continue.

U.S. Real GDP Growth, Q1 2023 – Q1 2026 and Q2 2026 Estimation



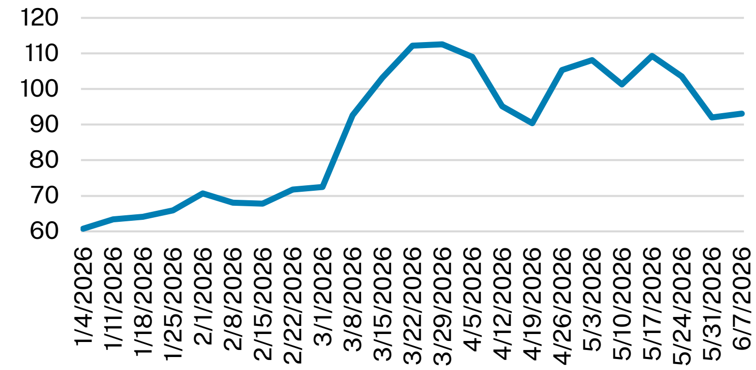
Note: Dashed column represents Atlanta Fed GDPNow estimation as of July 7, 2026, 10-year Average represents the 10-year period between the Great Financial Crisis and the Covid-19 Pandemic (Q1 2010 – Q4 2019).

Source: American Realty Advisors based on data from Federal Reserve Bank of St. Louis and the Bureau of Economic Analysis as of July 2026.

Oil adds near-term noise to the inflation picture, but **the more durable pressures lie elsewhere.**

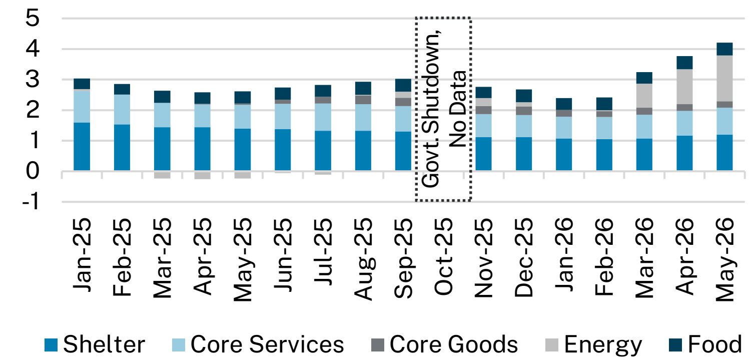
Brent crude prices rose in the wake of the Iran conflict, lifting prices at the pump – but **energy-driven spikes have historically been transitory and subject to reversal if tensions ease.**

Brent Crude Futures, USD per Barrel, Year-to-Date 2026



The recent spike in energy is real but not the story; shelter and services have been the persistent drivers of above-target inflation, and **those are generally unaffected by geopolitical oil dynamics.**

Contributions to Headline CPI by Category, Jan. 2025 – May 2026

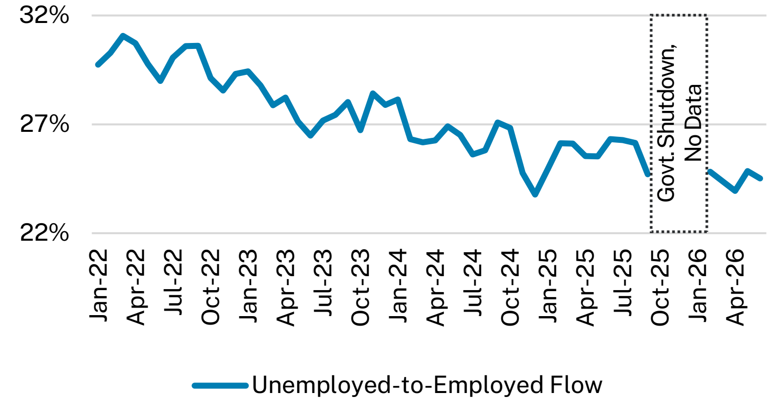


Source: American Realty Advisors based on data from Macrobond and the Bureau of Economic Analysis as of June 2026.

The labor market is steady for those who have a job, and materially harder for those trying to find one.

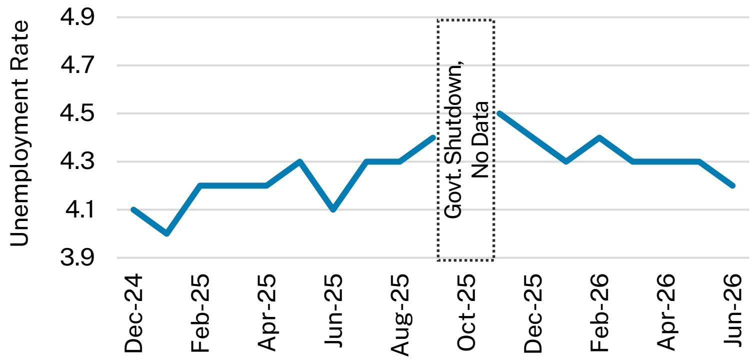
- Job prospects for those already out of work have deteriorated, **leaving some households behind in the economic recovery.**

Odds of Finding a Job if Unemployed, 3-Month M.A.



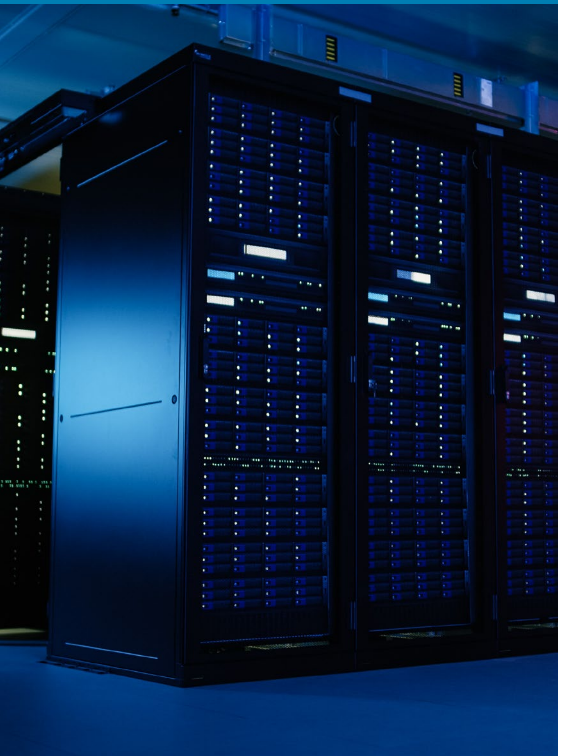
- For most workers, unemployment has remained remarkably stable for nearly a year, as **lower labor demand has been matched by lower labor supply.**

Unemployment Rate, December 2024 – April 2026



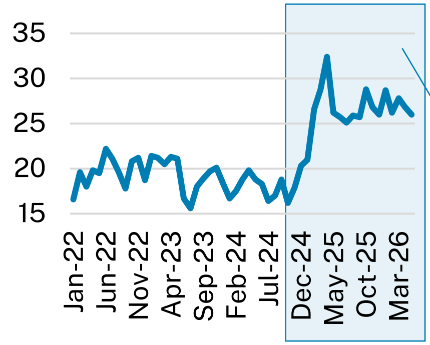
Source: American Realty Advisors based on data from the Bureau of Labor Statistics and Macrobond as of July 2026. M.A. = moving average. The government shutdown prompted there to be no data released for October 2025.

AI anxiety is compounding **a labor market that was already cooling** before AI became the headline explanation.



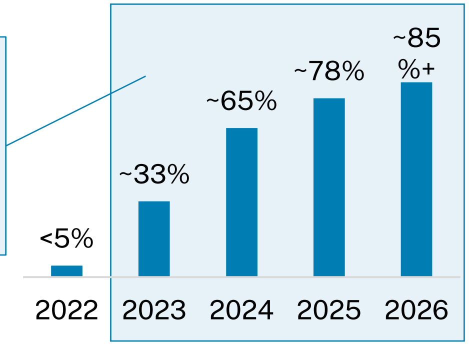
Workers have grown more pessimistic about the jobs outlook, and anxiety around AI appears to be part of the reason.

Conference Board Expectations for Fewer Jobs in Next Six Months



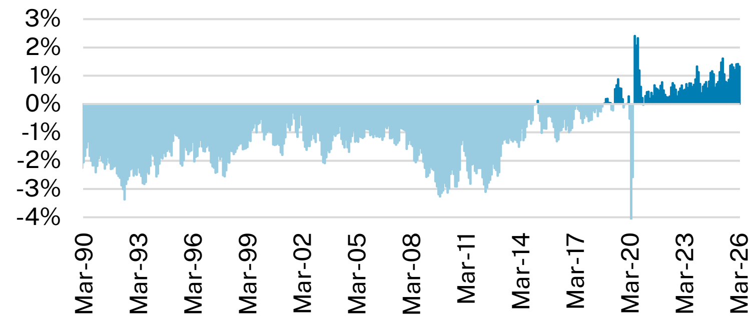
Concerns around jobs spiked around the time enterprise AI adoption jumped above 60%.

Estimated Enterprise Generative AI Adoption



Yet recent graduates have faced a tougher market since 2022, suggesting **entry-level hiring was shifting well before the AI boom.**

Spread in Unemployment Rate, Recent College Graduates vs. Total



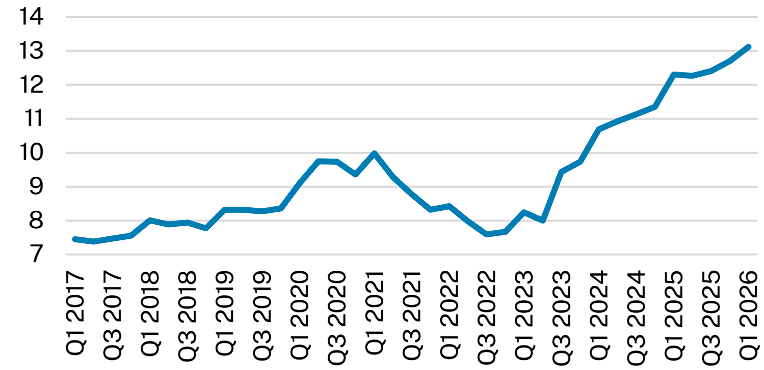
Source: American Realty Advisors based on data from Macrobond, the Conference Board, The Federal Reserve Bank of New York and the AI University estimation of enterprise adoption of generative AI over time using information from McKinsey's annual State of AI in 2023, 2024, and 2025 as of June 2026.

The Conference Board data reflects the percentage of respondents who expect there to be fewer jobs available six months from now.

Some consumers are falling behind, **but most keep spending.**

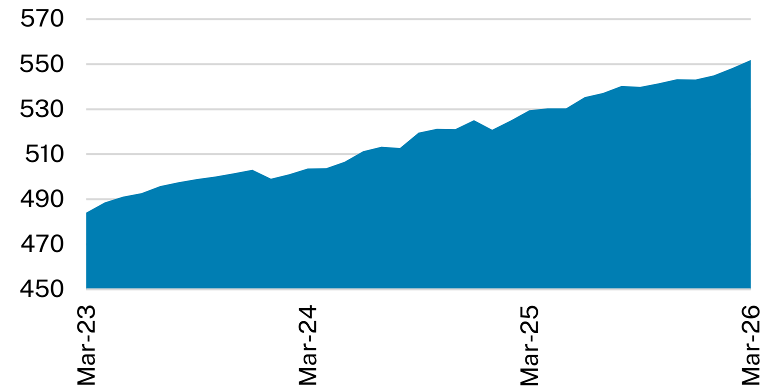
- Credit card delinquencies have been rising since 2022, and while still **less than 14% of total balances,** the trend is a sign that some households are running out of room**.**

Serious Delinquencies (90+ days Late), % of Balance, Credit Cards



- For most households, though, spending has continued to grow at a steady clip, suggesting that the **ability to buy remains intact.**

Retail Spending Ex. Motor Vehicles and Gasoline ($, Billions)



Source: American Realty Advisors based on data from the New York Federal Reserve Consumer Credit Panel Household Debt and Credit report as of 1Q 2026 and Macrobond and the U.S. Census Bureau as of June 2026.

The economy looks strong on paper, but the experience underneath is mixed. Three forces explain the gap.

1

A bifurcated labor market:
unemployment is low, but for those out of work or hoping to switch jobs, opportunities feel scarce.

2

Compounding inflation:
energy prices have made inflation feel like it is getting worse, but the underlying drivers are the same persistent price pressures we've navigated for three years – nothing new has broken.

3

AI displacement fears:
AI is not taking jobs yet, but the fear that it will is already weighing on how workers see the future.

When sentiment runs this far behind the data, **disciplined investors should have a window to acquire well-priced assets before confidence catches up.**

Source: American Realty Advisors as of June 2026.

II. Capital Markets

- Shelter and core services inflation have remained stubbornly above 2%, giving the central bank **reason to tighten** even if oil prices stabilize.

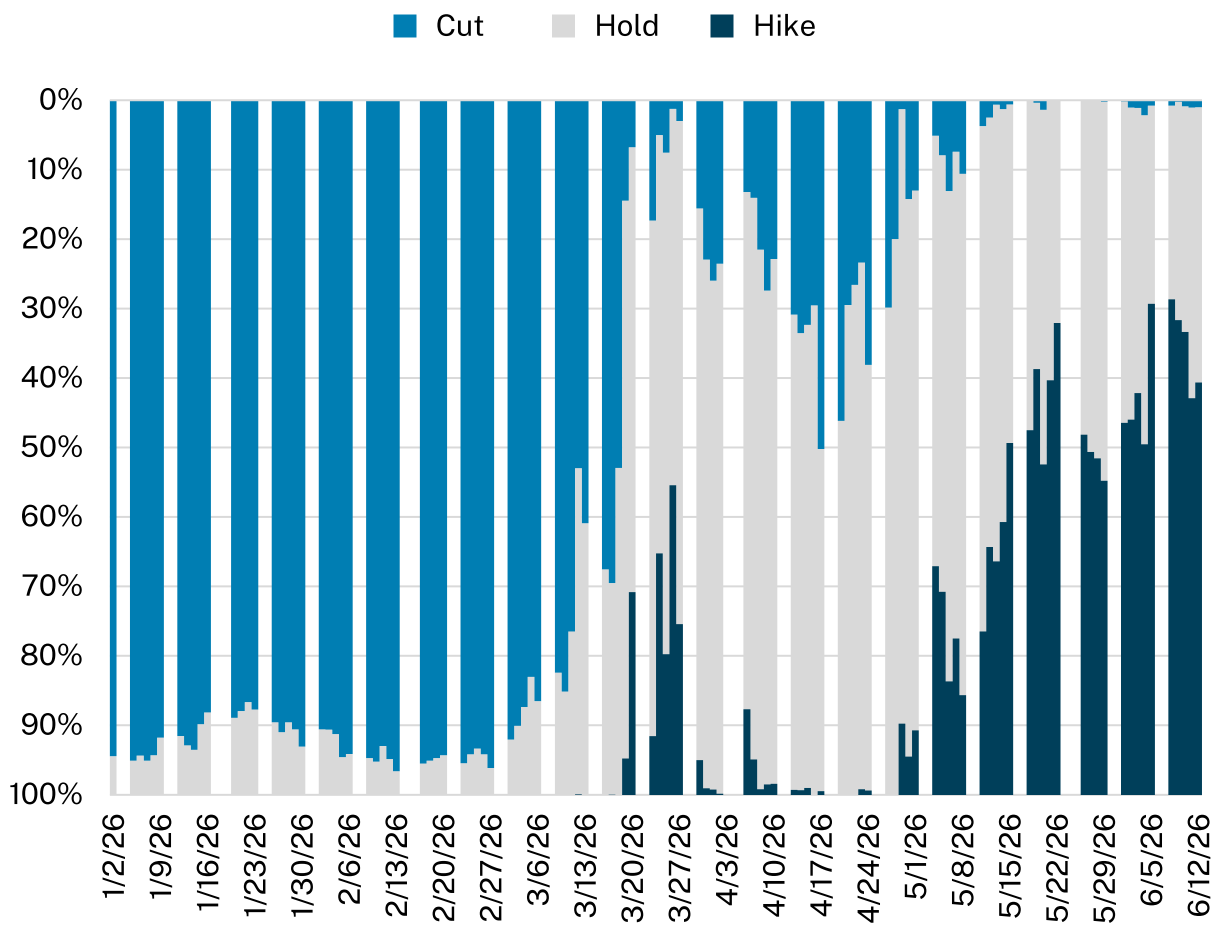
- With labor market risks no longer the Fed's top concern, focus has narrowed to inflation, and markets have repriced from expecting cuts to bracing for a hike by year-end.

- Despite macro volatility, real estate capital markets are still functioning: lending standards continue to ease, and transaction volume is tracking above the long-run average, a sign **the market is making peace with rates.**

- Cap rate spreads to Treasuries stay historically tight, but the case for real estate is not just about yield. On a 10-year annualized basis, **core real estate total returns have beaten bonds in most rolling periods over the past four decades.**

Markets have flipped from preparing for rate cuts this year to **expecting a hike.**

Market Probability of Rate Outcome at December 9, 2026, FOMC Meeting

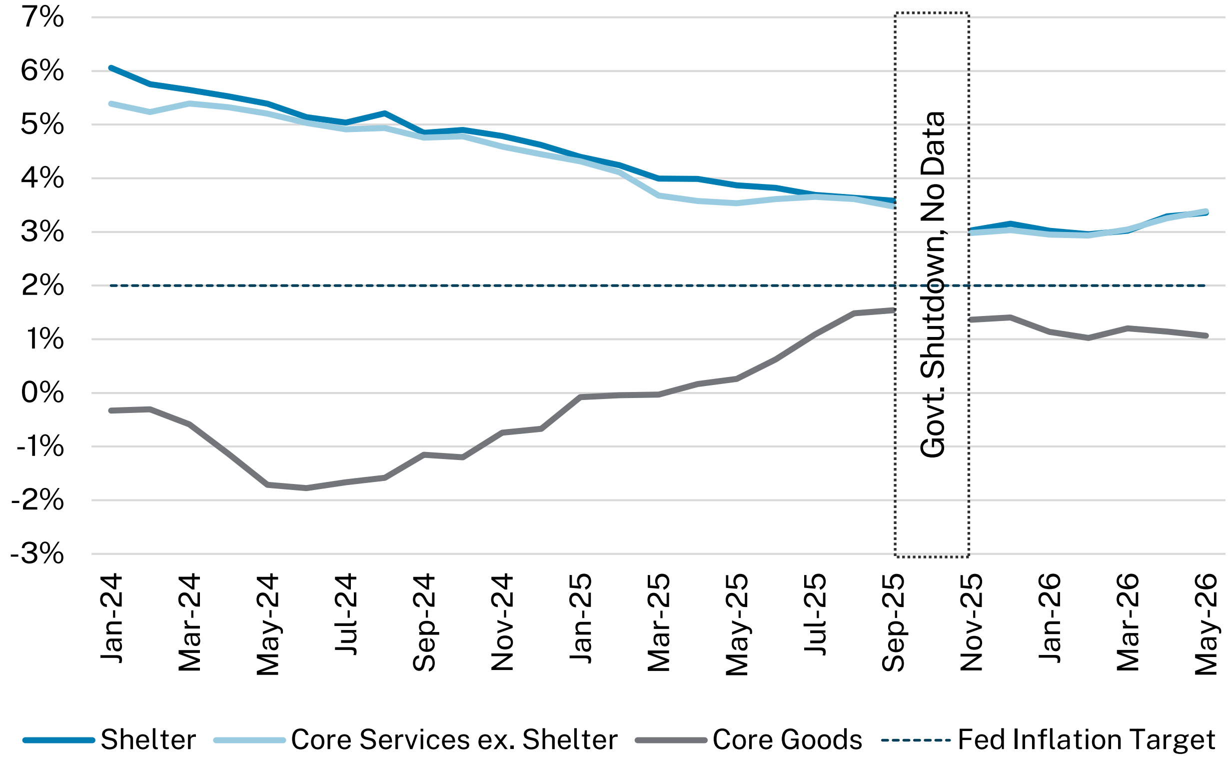


Source: American Realty Advisors based on data from CME FedWatch as of June 12, 2026. Cuts reflect the cumulative probability of target range being below 350 bps. Hold = probability of 350 – 375 bps (current target range). Hike reflects the cumulative probability of target range at or above 375-400 bps.

The sticky, non-oil-related parts of inflation are driving the case for tightening.

- Shelter and services, more than 60% of total CPI, continue to run above the Fed's 2% target. Now that major labor market risks have faded, **inflation is back at the center of Fed policy**.

Shelter, Core Services and Core Goods Inflation, January 2024 – May 2026



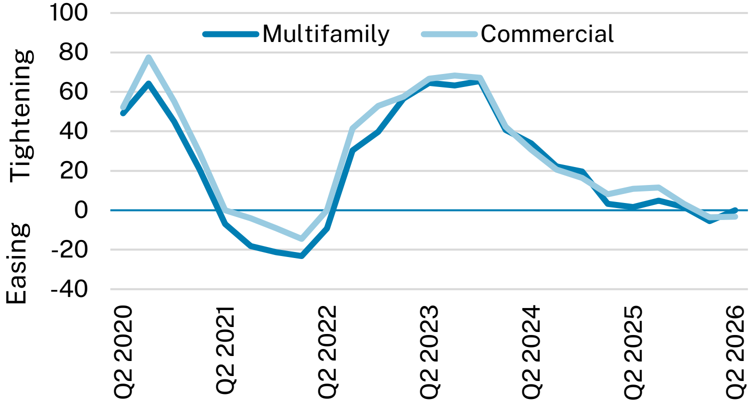
Note: Core services ex. shelter, sometimes referred to as "super core" include things like medical services, transportation (auto insurance, repairs, airfares), education and communication services, recreation, personal care, haircuts, and financial services, among others.

Source: American Realty Advisors based on data from Federal Reserve Bank of St. Louis as of June 2026.

Real estate liquidity has held up through the market swings, **keeping the recovery on track.**

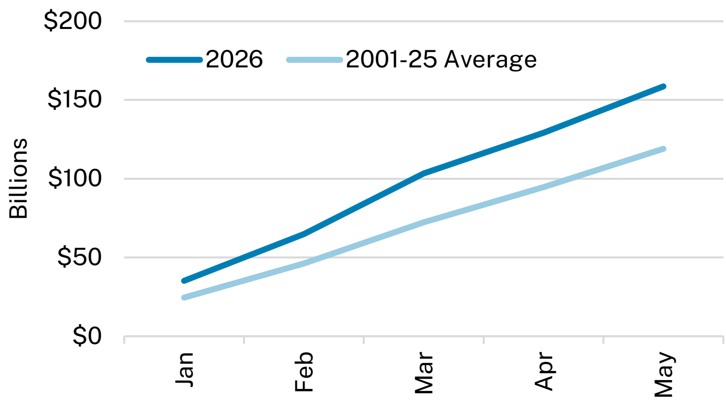
The credit conditions that choked deal flow over the past two years continue to ease, and **we expect transaction activity to broaden in the back half of 2026**.

Net Percentage of Domestic Banks Tightening Standards for Real Estate Loans Backed by Multifamily and Commercial Properties



Activity through May is already tracking above its long-run average, a sign that **buyers and sellers are finding common ground on price**.

Year-to-Date Real Estate Transaction Volume, 2026 vs. 2001-2025 Average for Same Period

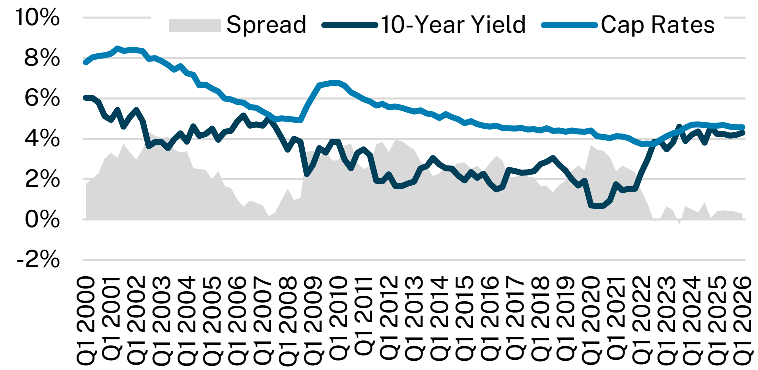


Source: American Realty Advisors based on data from the Federal Reserve Bank of St. Louis and MSCI Real Capital Analytics as of June 2026.

Yields might look thin today, but **real estate tends to outperform over a full hold period.**

Cap rate spreads to the 10-Year Treasury are tight by historic standards, leading some investors to question real estate's appeal over traditional bonds right now.

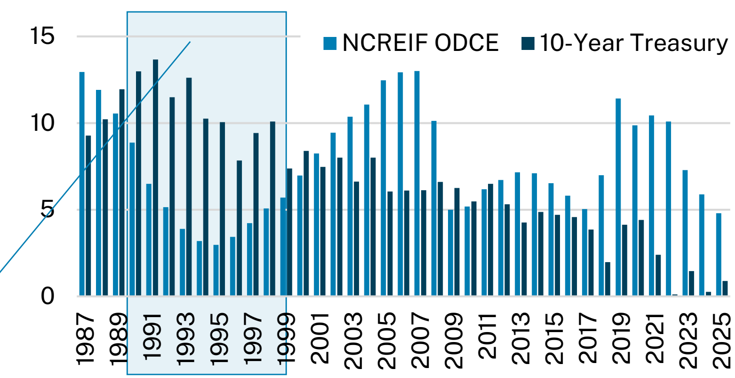
NCREIF Current Value Market-Weighted Cap Rates and Spread to 10-Year Treasuries



But yields are only one part of the return. With rent growth and asset-level opportunities to improve operations, **real estate has frequently outperformed bonds on a 10-year annualized basis.**

10-Year Annualized Returns, Core Real Estate and US 10-Year Treasuries

The 1980s bond rally needed rates to fall from record highs. Today's deficits, sticky inflation, and low starting yields make that difficult to repeat.



Source: American Realty Advisors based on data from NCREIF and Macrobond as of June 2026. NCREIF ODCE returns reflect total returns gross of fees to be comparable with gross returns on a 10-Year Treasury bond held to maturity.

III. Property Markets

- The market story does not match fundamentals in every sector – some appear stronger than they are and others appear weaker.

- We believe multifamily and industrial are turning a corner that the broader market hasn't yet noticed.

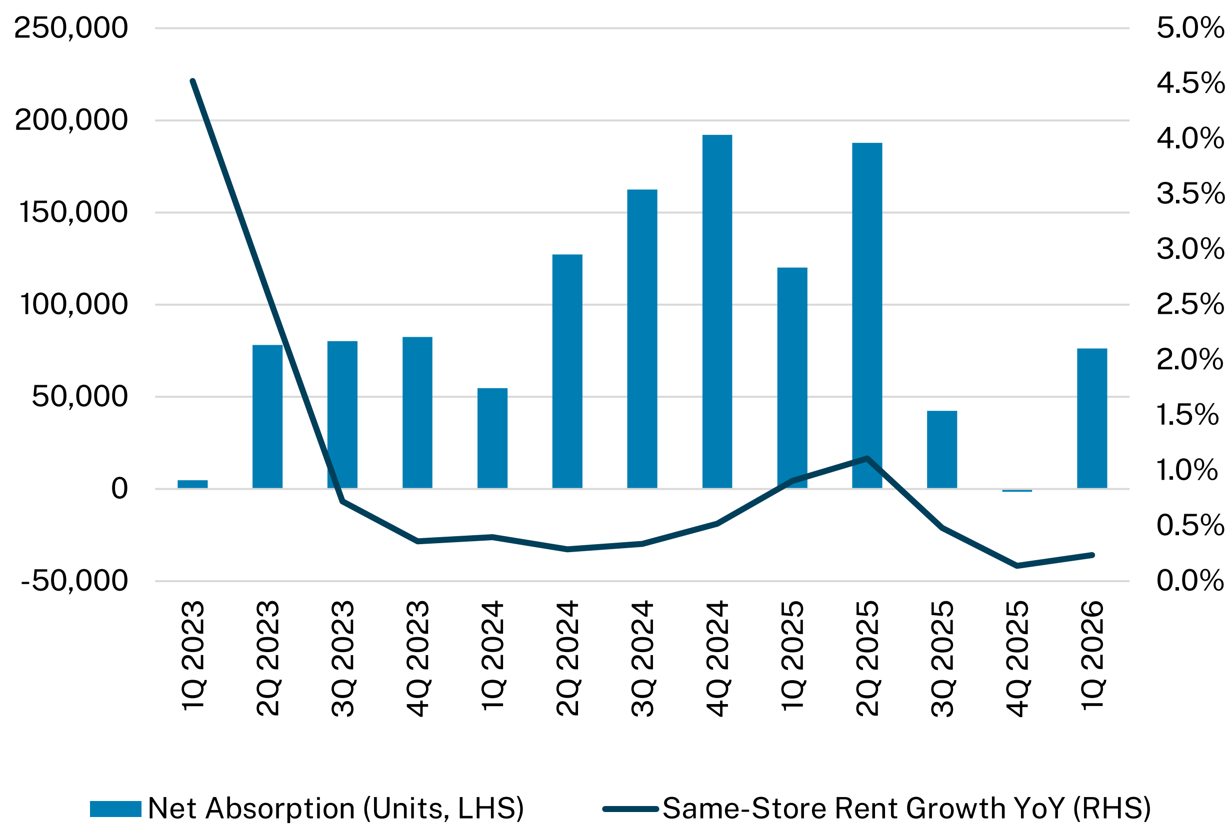
- Positive absorption in office suggests a recovery, but it may be shallower than headlines suggest.

- Retail has begun to outperform on returns, but broad buying interest means it is time to be picky, not chase the trend.

Multifamily demand has held up better than rent growth numbers would suggest.

- Record supply levels that delivered in 2023-2025 have been met with above-average levels of demand, creating a "gap" in rent growth that has taken time to close.

National Apartment Net Absorption and Year-over-Year Rent Growth

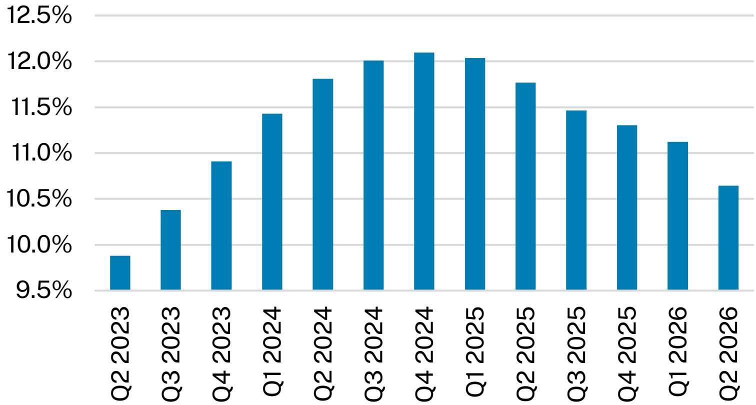


Source: American Realty Advisors based on data from CBRE-EA as of June 2026.

Lighter pipelines and ongoing absorption point to **a turning point for apartment rents.**

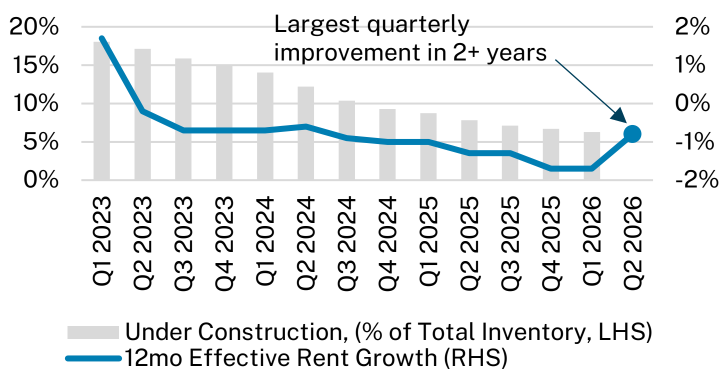
Vacancy is coming down from its recent peak, with absorption continuing to outpace new supply as the building wave fades.

Rolling 6-Month Apartment Vacancy, 4-5 Star Product



New construction has dropped for 11 straight quarters, from 18% of inventory down to just over 6%. The rent growth turnaround we have been expecting is finally beginning to appear.

Supply Under Construction as a Percent of Inventory and T-12 Rent Growth



Source: American Realty Advisors based on data from Costar as of July 2026.

A regulatory win for Single-Family Build-to-Rent (BTR) should keep capital flowing into the housing sub-type.

- The final version of the 21st Century ROAD to Housing Act explicitly leaves BTR communities with no new restrictions.

What It Means for Our Strategy

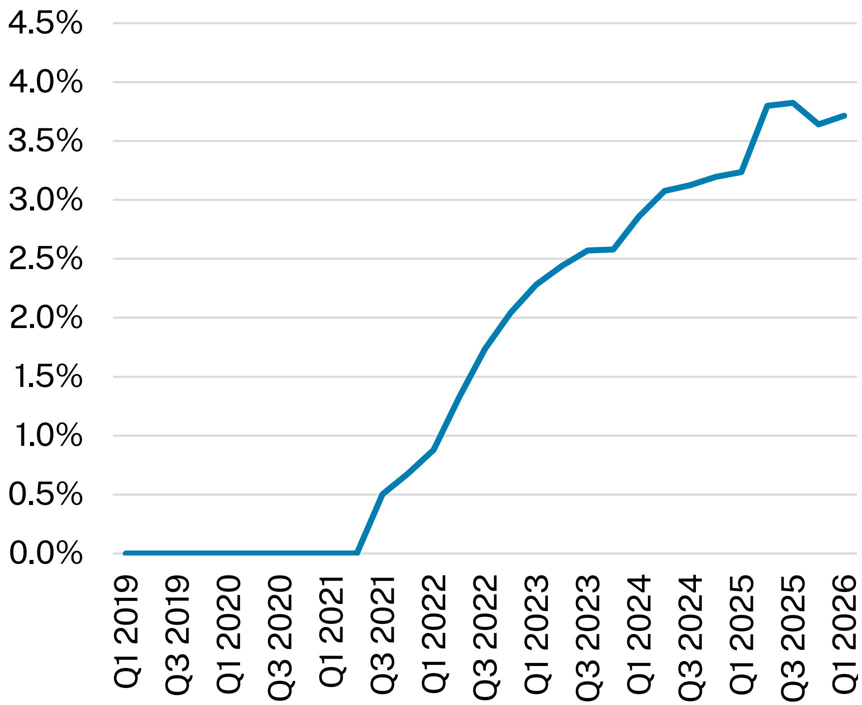
Long-Term Holds Remain Viable

With no forced disposition requirement, the institutional BTR investment model is preserved, allowing for long-term hold strategies.

Capital Flow Catalyst

With greater regulatory clarity, we suspect portfolios seeking residential diversification will continue to target BTR acquisitions, supporting values and future appreciation.

ODCE Share of Residential Allocations to Single-Family Rentals

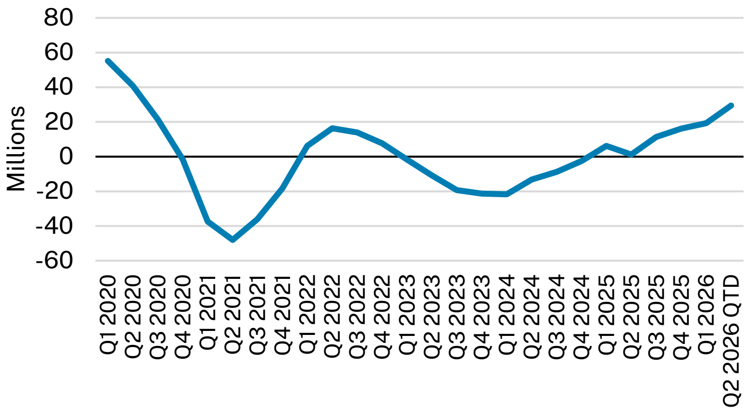


Source: American Realty Advisors based on data from NCREIF as of June 2026.

Office absorption is positive, but it will likely take **years of gains to work off all the vacancy.**

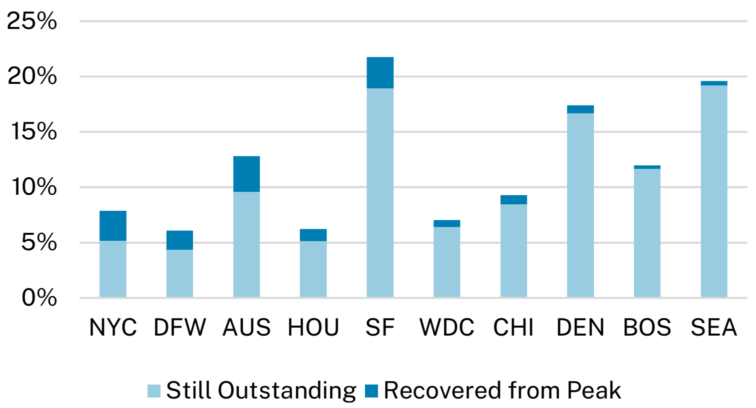
National office absorption has now been positive for five consecutive quarters, suggesting office demand is genuinely stabilizing.

National Office Net Absorption, Square Feet Trailing 12 Months



However, vacancy is still high across major markets, with even bright spots like New York still running 5% above pre-2020 baselines.

Vacancy Progress: Peak Excess Recovered vs. Still Outstanding

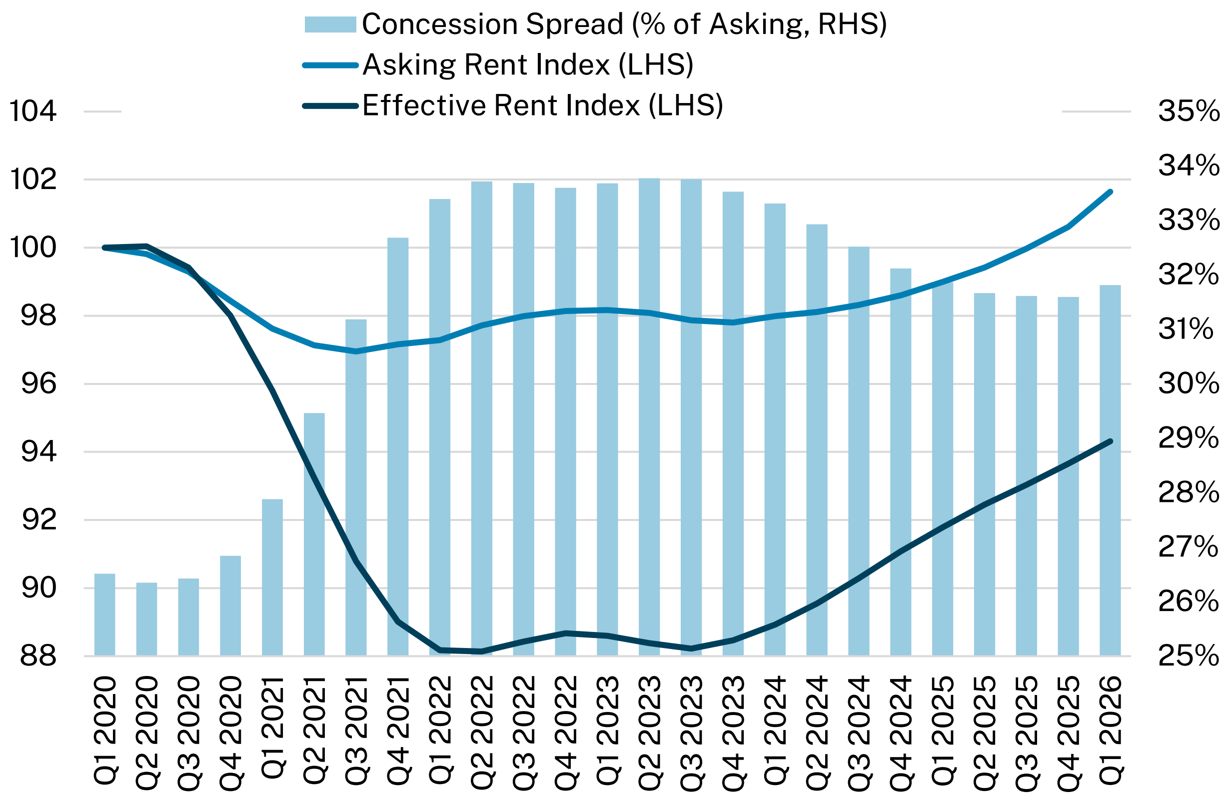


Source: American Realty Advisors based on data from CoStar and CBRE-EA as of June 2026.

It might feel like the time to jump back into office, but the recovery has not yet translated into real pricing power, hurting investment economics.

Owners are still **giving back nearly 32 cents of every asking-rent dollar in concessions**, meaning they are capturing a lot less rent growth than the headline asking-rent indices suggest.

National Asking and Effective Rents and Concessions as % of Asking Rents



Source: American Realty Advisors based on data from CoStar and CBRE-EA as of June 2026. Asking and effective rent indices indexed to 100 starting Q1 2020.

Industrial demand is picking up across many markets.

Momentum gains in major industrial markets outnumber losses by roughly 2:1, a signal that suggests **the sector is turning a corner broadly, not just in a handful of markets.**

Change in T-12 Industrial Net Absorption Momentum, Q2 2025 to Q2 2026

Turning positive

- Charleston
- Columbus
- Detroit
- Memphis
- Orange County
- Orlando
- Pittsburgh
- Reno/Sparks
- Sacramento
- San Diego
- Stockton/Modesto

Accelerating

- Atlanta
- Baltimore
- Charlotte
- Chicago
- Cincinnati
- Dallas/Fort Worth
- Denver
- Houston
- Indianapolis
- Jacksonville
- Las Vegas
- Louisville
- Philadelphia
- Phoenix
- Raleigh/Durham
- San Antonio
- Washington, DC

Moderating

- Austin
- Boise
- Inland Empire
- Minneapolis/ St. Paul
- Nashville
- Northern NJ
- Salt Lake City
- Savannah
- Tampa

Turning negative

- Kansas City
- Portland
- Seattle
- St. Louis
- Palm Beach

Deteriorating further

- Cleveland
- Fresno
- New York
- Lehigh Valley

Stabilizing

- Boston
- East Bay
- Los Angeles
- Fort Lauderdale
- Miami

Source: American Realty Advisors based on data from CoStar as of June 2026.

Industrial cap rates are converging where fundamentals are not.

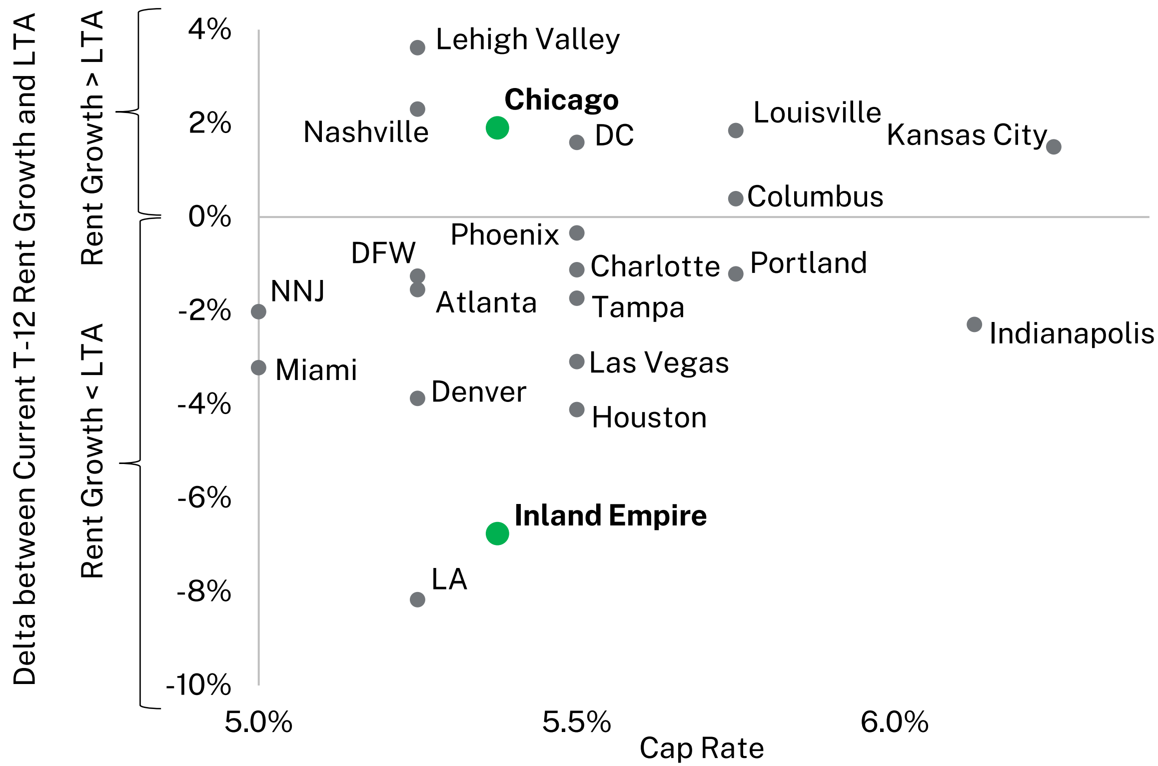
Markets can price at similar cap rates while sitting at very different points in their rent growth cycle. **We would rather pay the price for a market with reversion upside** (like the Inland Empire) **and approach with caution a market where recent performance vs. long-run trend suggests the potential for deceleration** (like Chicago).

Industrial Cap Rates and Delta Between Current T-12 Rent Growth and LTA by Market

How to read the chart:

The scatterplot shows how each market is priced against how far its recent rent growth is running above or below its long-term average.

Markets sitting at similar cap rates but in very different vertical positions are priced the same despite having different potential in returning to average.

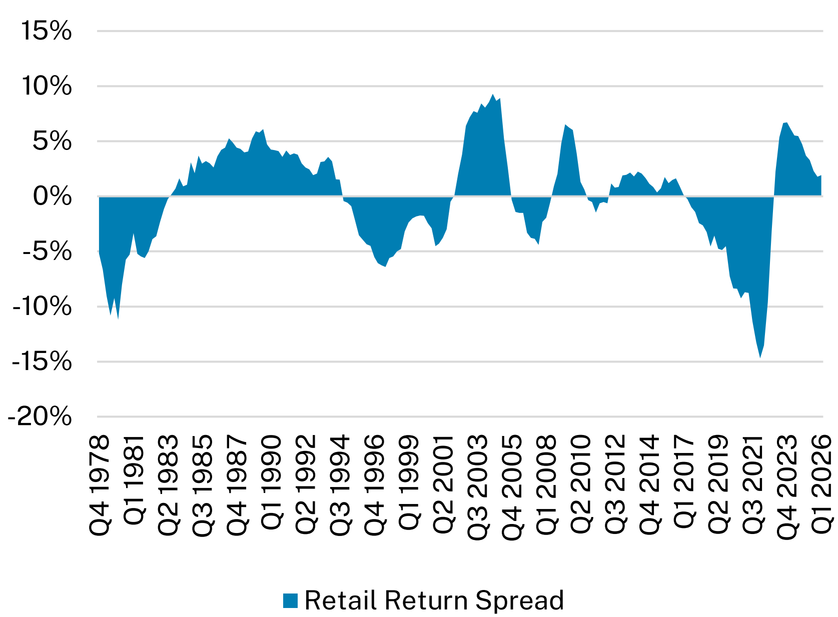


Source: American Realty Advisors based on data from CBRE and CoStar as of June 2026. Cap rates reflect the midpoint of the ranges provided in the CBRE H2 2025 Investor Cap Rate Survey. LTA = long-term average, 2001-2025.

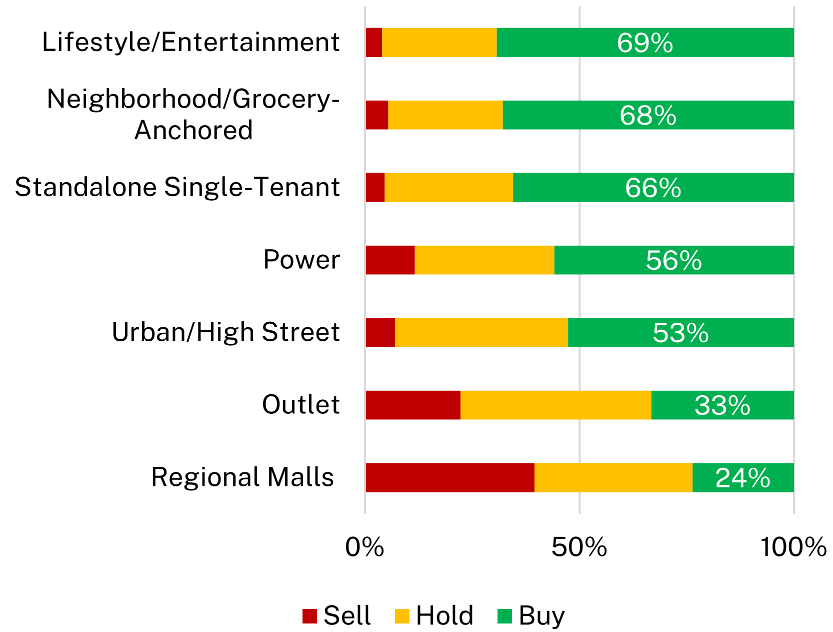
Capital keeps flowing into retail even as its performance edge fades.

- Retail outperformance is starting to cool, but investors are still looking to buy across the board, including more discretionary-oriented formats. **Capital may be chasing a cooling trend rather than being selective about investments.**

Retail Over-/Underperformance vs. NPI, Annualized Total Returns



U.S. Respondents, Sell/Buy/Hold, Retail Formats



Source: American Realty Advisors based on data from NCREIF and the PwC ULI Emerging Trends in Real Estate 2026 report as of June 2026. NPI = NCREIF Property Index, a quarterly, unlevered index tracking performance of individual, institutional-grade commercial real estate properties acquired in the private markets for investment purposes only. Returns are reported gross of fees and include both income and appreciation.

Outlook for Property Sectors

Not all recoveries are created equal: some sectors are genuinely strengthening, while others only look improved relative to how far they'd fallen.

Industrial

- Demand momentum is broadening, with market showing improving demand outnumbering those weakening by roughly 2:1.
- Cap rates have not caught up to how different the fundamentals are across markets, offering opportunity.

Residential

- Multifamily absorption has stayed resilient, and rent growth posted its largest quarterly improvement in over two years.
- The ROAD Act gave BTR some clarity, which should keep capital interested as a complement to a multifamily portfolio.

Office

- Absorption has been positive for five consecutive quarters, but vacancy overhang is still a real hurdle in most markets.
- Landlords are still discounting asking rents by roughly 32 cents on the dollar, a gap the headline absorption numbers do not capture.

Retail

- The return advantage in retail over the broader market has been fading, even after a hot start to this outperformance cycle.
- Few opportunities for new construction means competition for existing assets can quickly push pricing ahead of fundamentals. That's a signal for selectivity.

Specialty Sectors

- Specialty sectors have gone from emerging to essential, with data centers, senior and student housing, and self-storage appearing increasingly in core portfolios' allocations.
- Operational intensity, scalability, and financeability vary among specialty sectors. We like the added diversification but are cautious not to treat them all the same in their risk-return profiles.

Conditions are improving, but unevenly. We favor positioning that separates sectors with genuine momentum from those where the headlines are outpacing fundamentals. Where improvement is real, we are leaning in; where it is mostly a function of low base doing the work, we are staying disciplined.

Implications for Core and Value-Add Strategies

We believe rates are more likely to rise than fall from here, so broad market tailwinds are unlikely to do the heavy lifting. That leaves little room for the market to bail out a generic business plan.

Asset Management

- Right-size multifamily concessions market by market as the rent growth inflection takes hold.
- In office, continue prioritizing tenant retention and payback periods. Carefully evaluate hold/sell decisions for more commodity properties.
- In industrial markets where rent growth is still running above trend, push for shorter renewal terms to capture the upside sooner.
- Stress test budgets against stickier super-core inflation, as insurance, repairs, and admin costs are not expected to come down the way energy prices have.

Portfolio Construction

- Sell stabilized, fully priced assets while volume and lending conditions are improved, redeploying into higher-conviction opportunities.
- Let the gap between current rent growth and trend drive industrial allocation when going-in cap rates look similar.
- Selectively explore 5-Star office acquisitions ahead of broader vacancy recovery that could reprice the sector.
- Target multifamily markets where rent growth has not caught up to thinning supply, as the lag is where we believe the greatest opportunity for mispricing is.
- Increase alternatives exposure with emphasis on high operating-margin assets.

Summary and Strategy Implications

The recovery is real but uneven. Growth is outrunning sentiment, so the opportunity is in finding where the lag remains rather than following where sentiment has already caught up.

- Labor supply and demand have cooled together, keeping unemployment steady, but that stability masks a materially harder path for anyone trying to re-enter the workforce.
- Shelter and services, not the recent oil spike, are the real drivers of above-target inflation, which is keeping the Fed focused on tightening.
- Markets have flipped from pricing rate cuts to bracing for a hike by year-end, so capital markets recovery cannot count on a falling rate tailwind.
- Much of the gap between the data and how it feels comes down to AI anxiety and inflation fatigue, not structural weakness in the economy.
- Real estate has still outperformed bonds on a 10-year view even with cap rate spreads as tight as they are, perpetuating the ongoing case for investment.
- Supply is no longer the swing factor it was for much of the last three years; from here, the pace of demand, not the pace of construction, will decide how quickly the recovery shows up in rents.
- Without falling rates as a broad tailwind, the return story for any investment must work on rents and operations alone.
- We would rather be early in markets where pricing has not caught up to the fundamental inflection points than crowd into trades the whole market is pursuing.

Disclosures

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