

Real Estate: Current Status and Future Outlook

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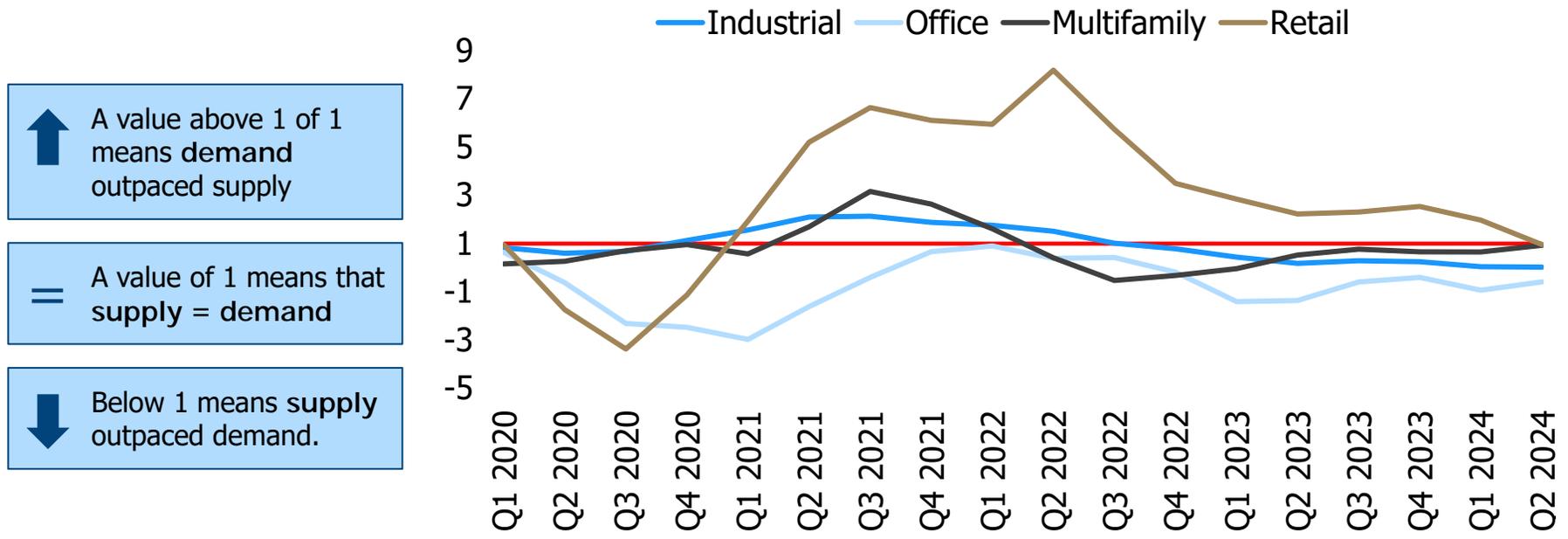
International Foundation
OF EMPLOYEE BENEFIT PLANS 

Key Questions We're Going to Attempt to Answer Today

- What drove real estate's recent subpar performance?
- Where are things headed now?
- How can investors gear up for what's next?

Fundamentals Softened Amidst Elevated New Supply

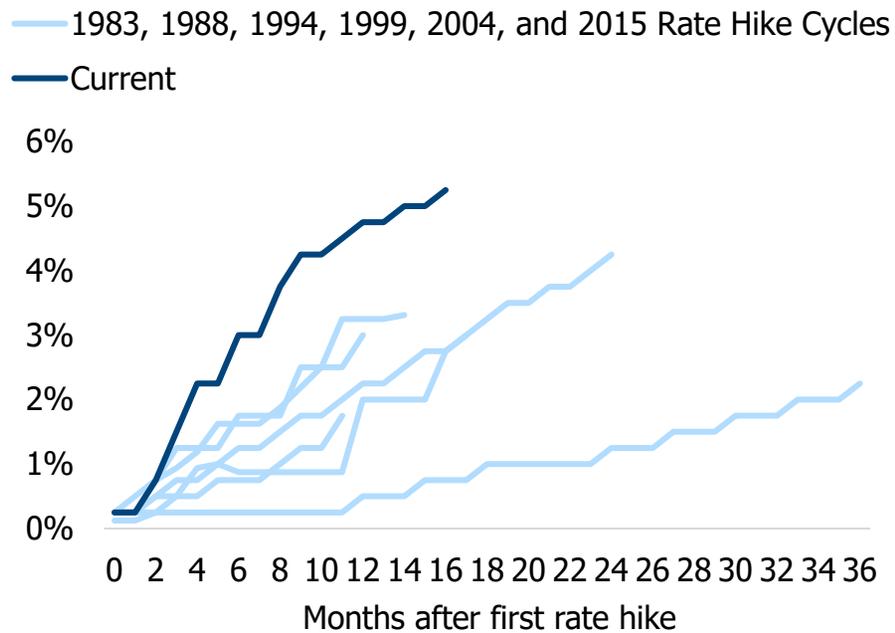
Rolling 6-Month Supply-Demand Ratio, Four Primary Property Types



Source: American Realty Advisors based on data from CBRE-EA as of September 2024.

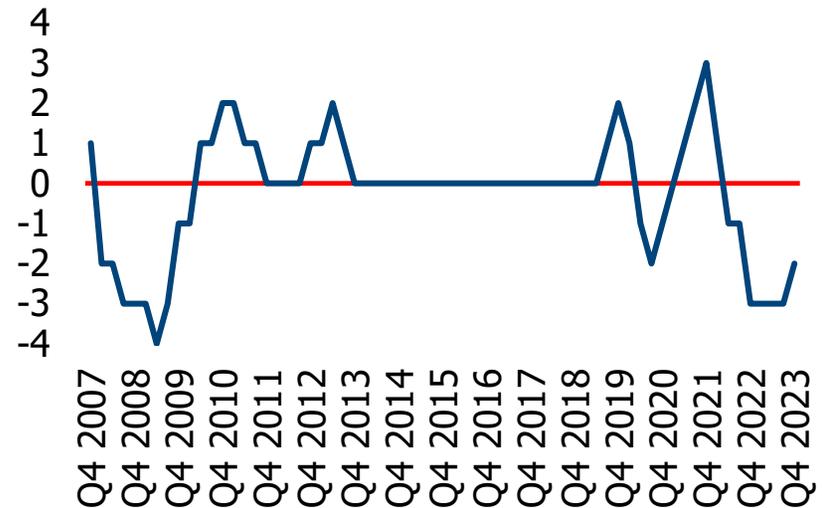
Most Aggressive Rate Hike Cycle in Decades Dried Up Liquidity

Cumulative Fed Rate Hike Increases



Broad Measure of Real Estate Liquidity

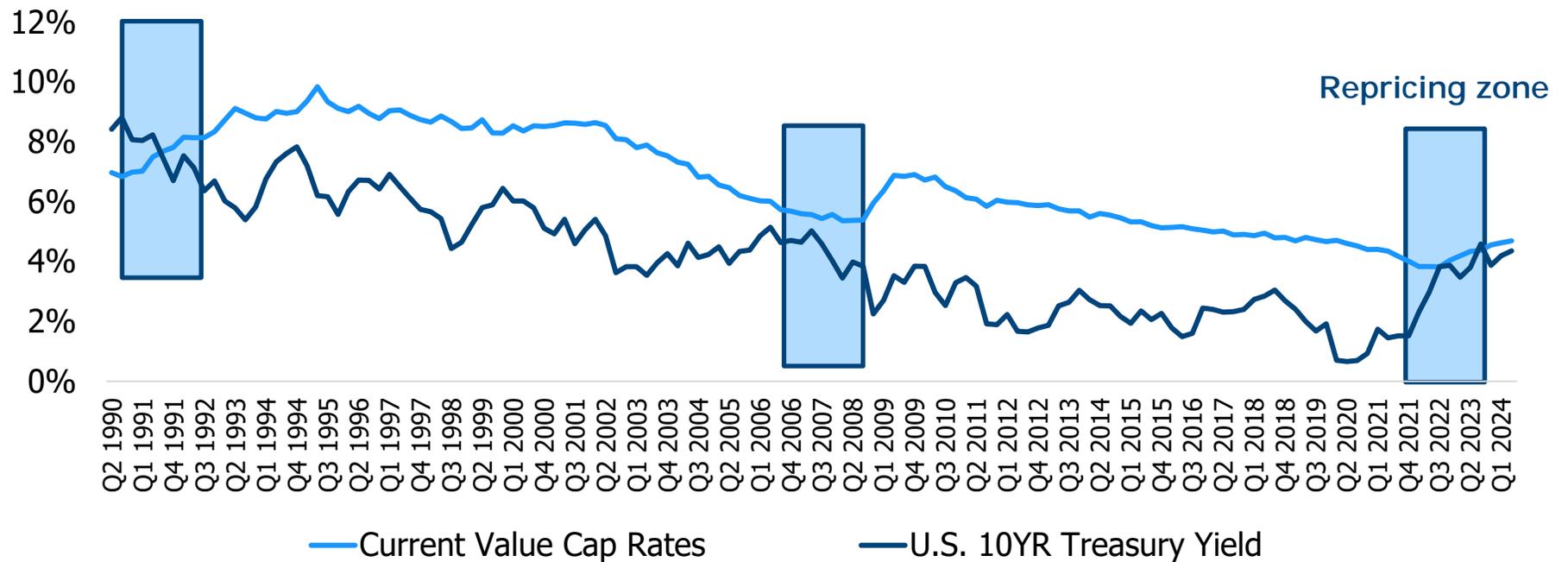
— ARA Liquidity Barometer



Source: American Realty Advisors based on data from Macrobond, MSCI Real Capital Analytics, Green Street Advisors, FRED St. Louis and NCREIF as of June 2024. The barometer aggregates the sum of four broad measures that influence real estate liquidity – the average interest rate on commercial real estate debt, CMBS issuance, bank lending conditions and transaction volume – measured against their historic long-run normal bounds.

Higher Interest Rates Elsewhere Prompted a Repricing of Real Estate.

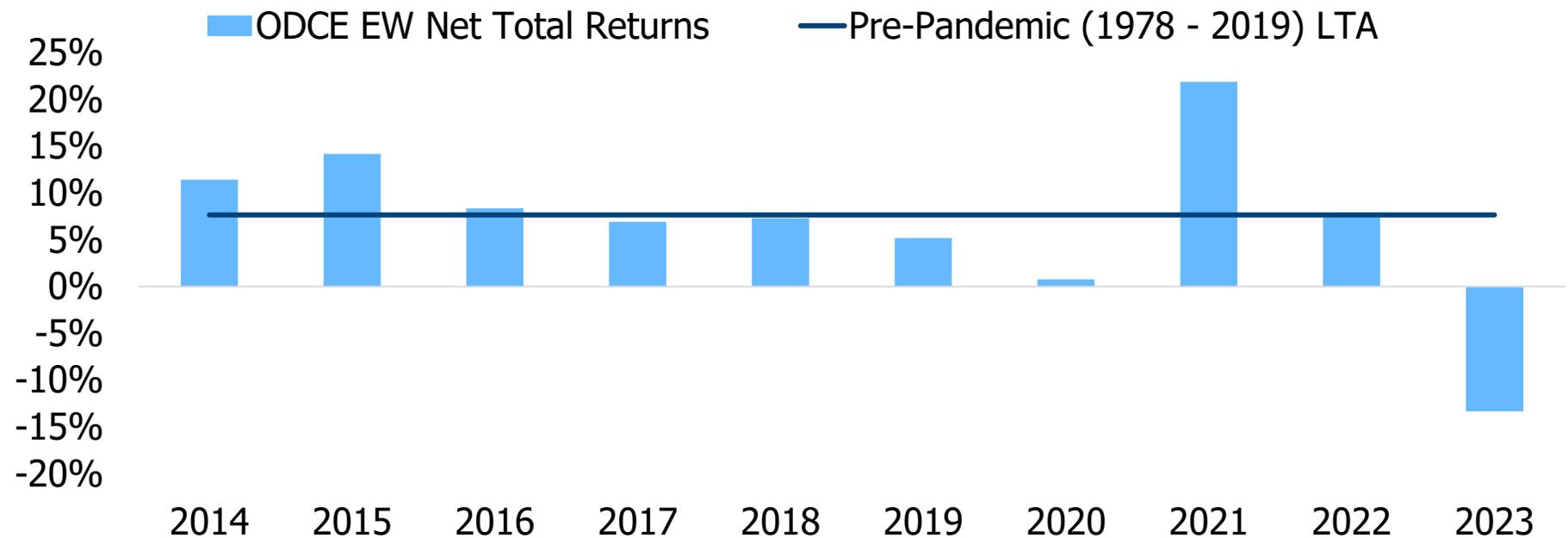
Real Estate Cap Rates, U.S. 10-Year Treasury Yield and Appreciation



Note: Cap rates reflect current value cap rates according to the NCREIF Property Index (NPI).
 Source: American Realty Advisors based on data from NCREIF and Macrobond as of August 2024.

Weaker Fundamentals + Repricing = Below-Average Performance

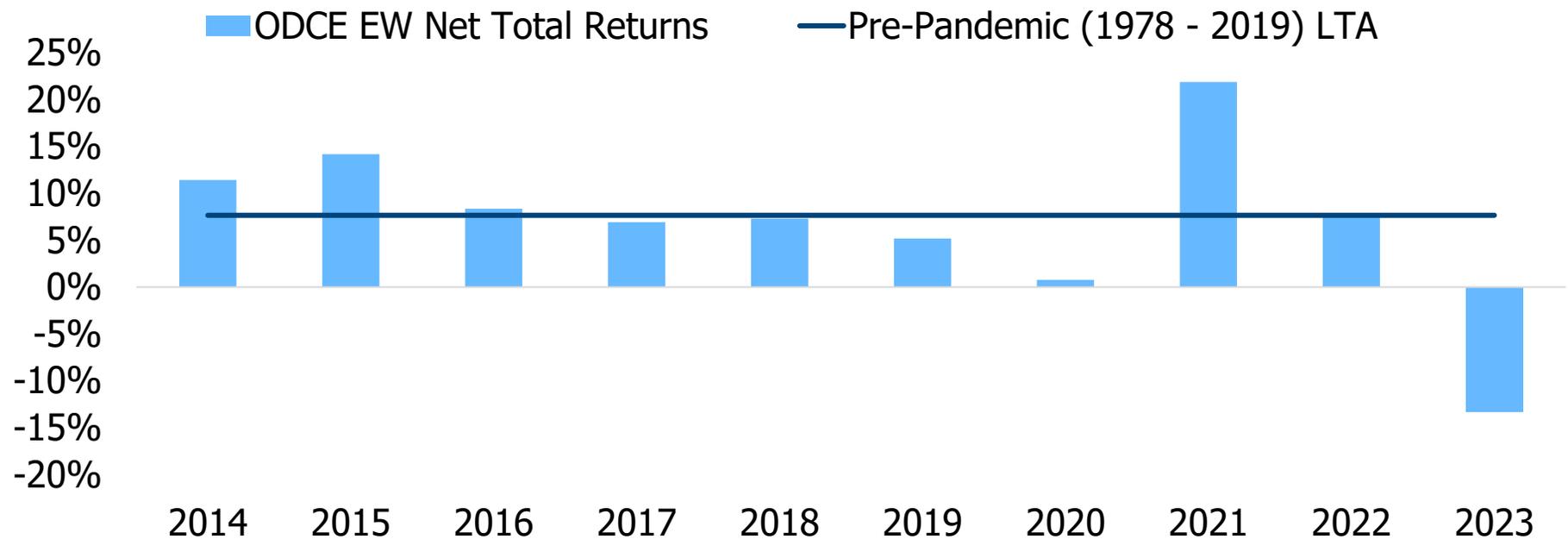
NCREIF Open-End Diversified Core Fund Total Returns, 2014 – 2023 vs. Pre-Pandemic LTA



Source: American Realty Advisors based on data from NCREIF as of September 2024.

Bad But Going to Be Fine

NCREIF Open-End Diversified Core Fund Total Returns, 2014 – 2023 vs. Pre-Pandemic LTA



Source: American Realty Advisors based on data from NCREIF as of September 2024.

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Real Estate Investing Has Its Seasons



We Believe We're Beginning to Thaw...



...and Full Bloom May Not Be Too Far Off



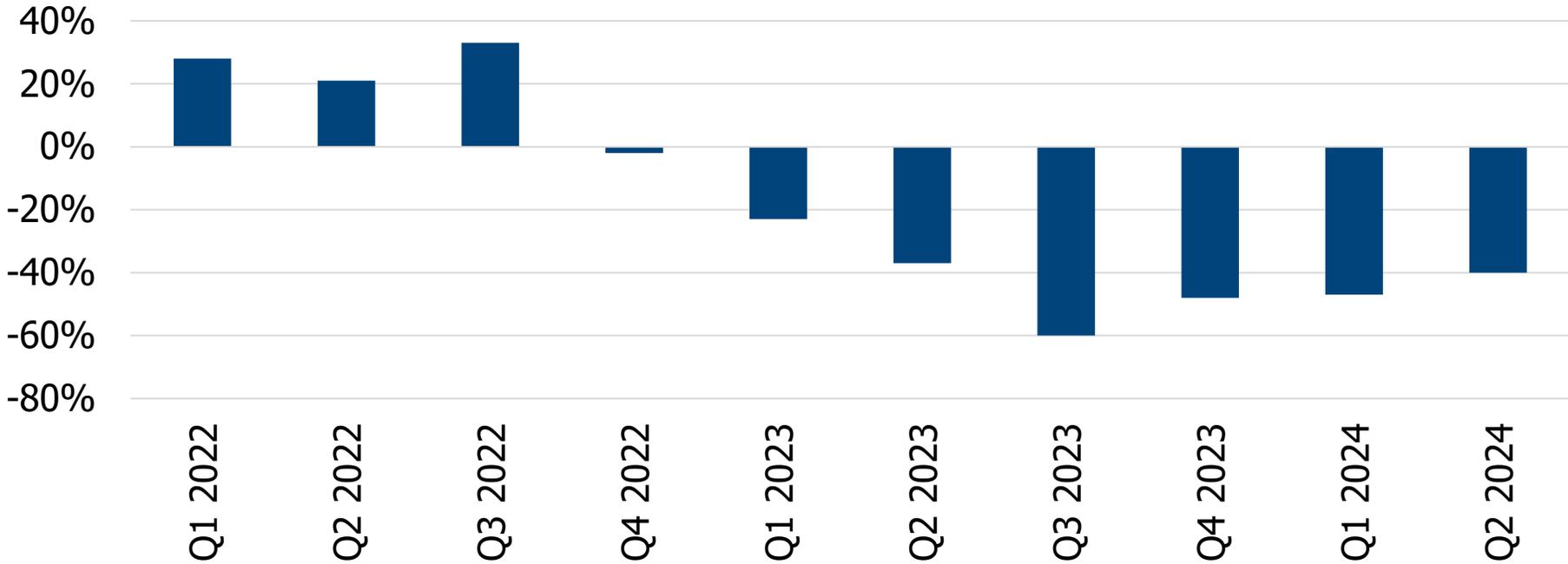
Identifying Green Shoots

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Pricing	Real Estate Yield Spread to Bonds	Red	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
	YoY Change, CPPI	Yellow	Yellow	Red	Red	Green														
	YoY Change, Cap Rates	Green	Green	Red	Red	Green														
	QoQ Change, Cap Rates	Yellow	Green	Red	Red	Green														
Liquidity	YoY Difference, Average Interest Rate, CRE Debt	Yellow	Yellow	Yellow	Green															
	CMBS Issuance (\$ millions)	Green	Green	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
	Net Percentage of Banks Tightening Lending	Yellow	Yellow	Red	Red	Green														
Fundamentals	YoY Change, Transaction Volume	Yellow	Red	Red	Green															
	Supply-Demand Ratio, Industrial	Yellow	Yellow	Red	Red	Green														
	Supply-Demand Ratio, Retail	Yellow	Yellow	Red	Red	Green														
	Supply-Demand Ratio, Office	Yellow	Yellow	Red	Red	Green														
	Supply-Demand Ratio, Residential	Yellow	Yellow	Red	Red	Green														
	YoY Change, Multifamily Permitting	Yellow	Yellow	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
YoY Change, Industrial Starts	Yellow	Yellow	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	

Source: American Realty Advisors based on data from NCREIF as of September 2024.

Industrial Starts Still Plummeting on an Annualized Basis...

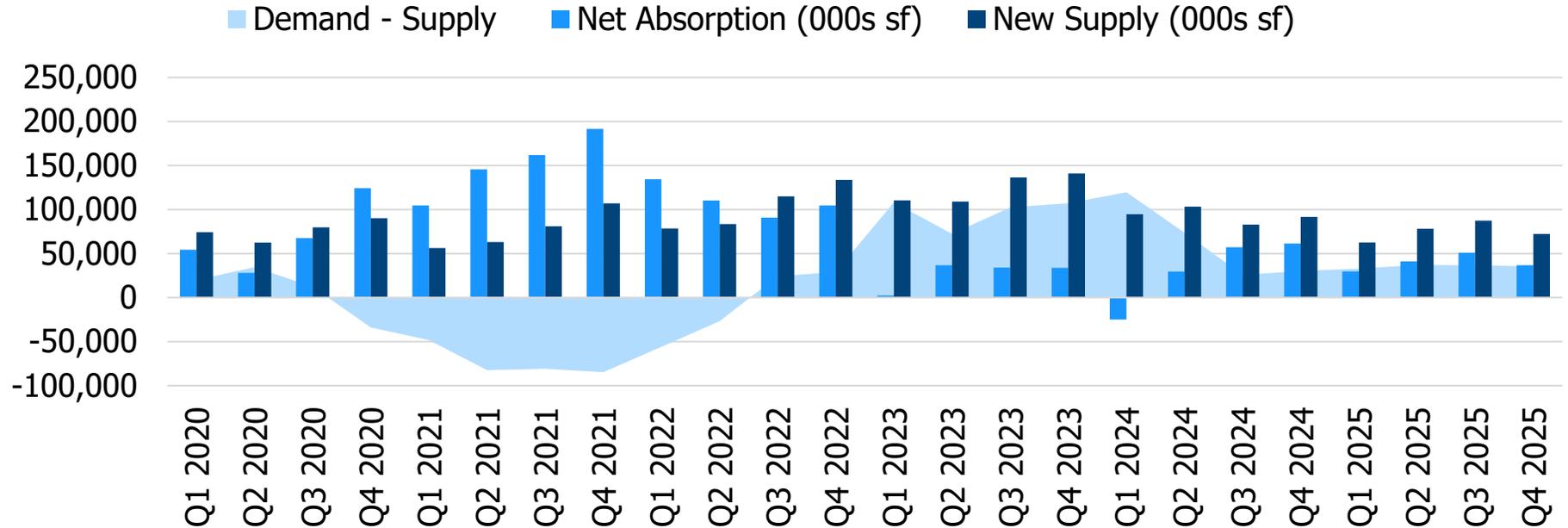
Year-Over-Year Change, Industrial Construction Starts



Source: American Realty Advisors based on data from Newmark and CoStar as of August 2024.

...Which Should Help Support a Gradual Recovery in the Balance of Fundamentals

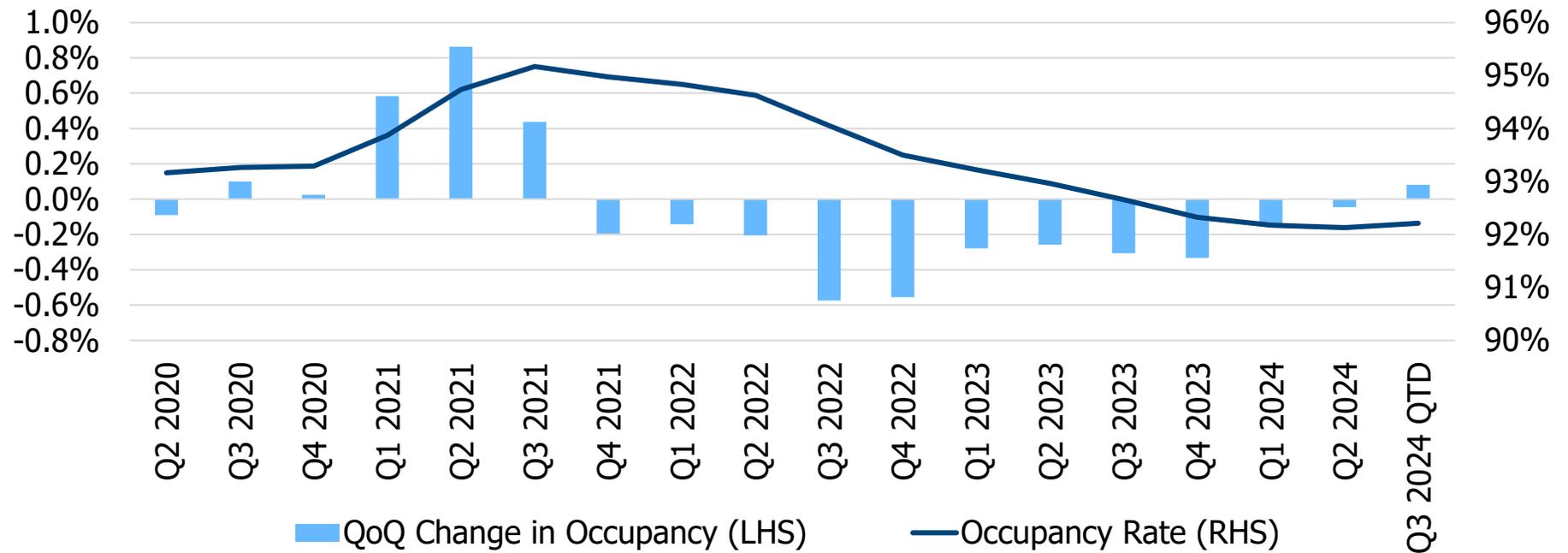
National Industrial Supply-Demand Balance



Source: American Realty Advisors based on data from Newmark and CoStar as of August 2024. Data for Q3 2024 onward reflect forecasts by CoStar as of August 2024.

Multifamily Occupancies Have Turned a Corner...

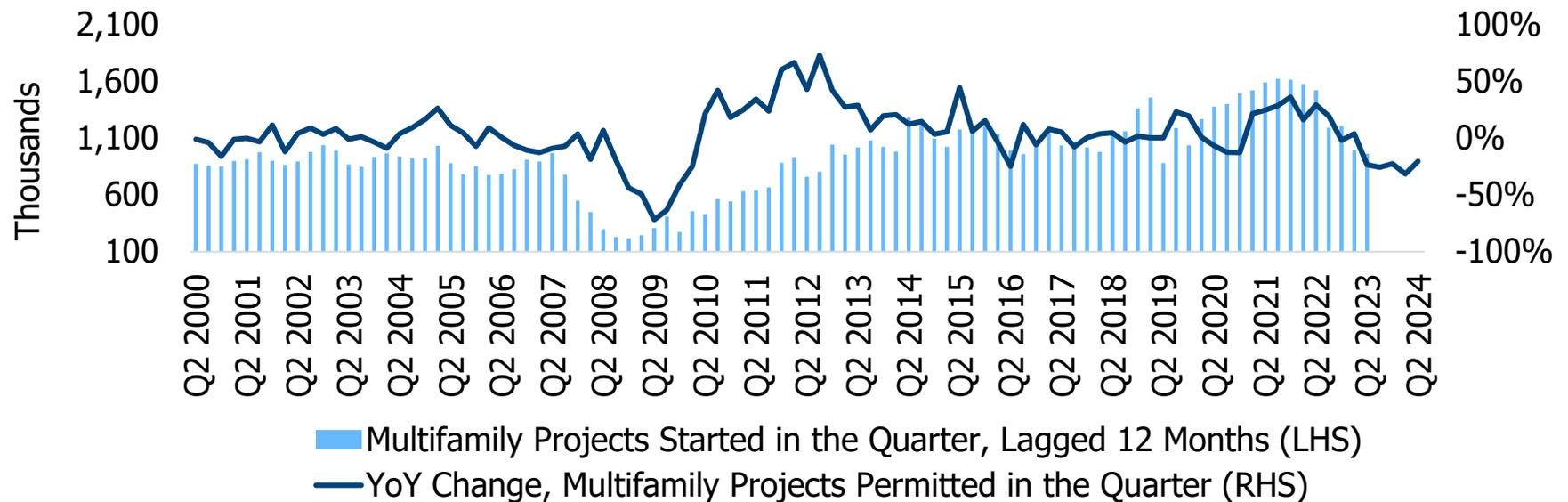
U.S. Multifamily Occupancy and Quarterly Change



Source: American Realty Advisors based on data from CoStar as of August 2024. 3Q 2024 QTD = quarter to date through August 28th.

...With Drop-off in Permitting Driving Further Decline in Starts and Deliveries in Coming Years

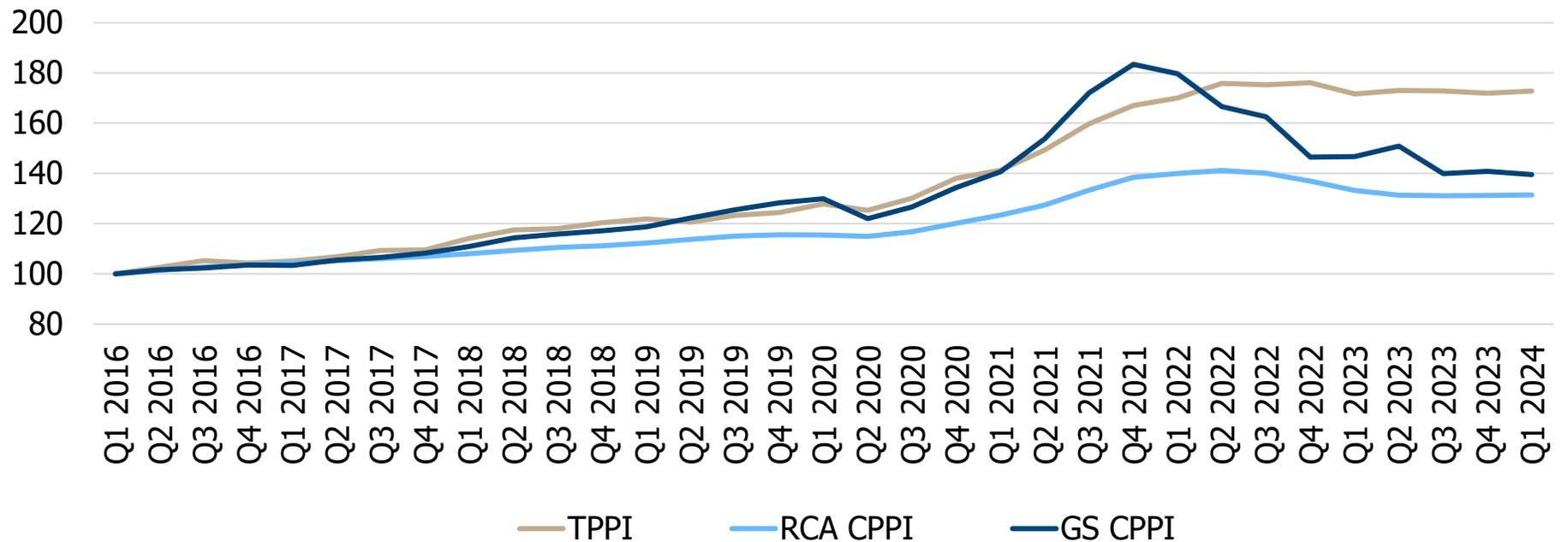
Year-over-Year Change, Quarterly Multifamily Units Permitted (5+) and Multifamily Projects Started Lagged 12 Months, Q2 2000–Q2 2024



Source: American Realty Advisors based on data from the U.S. Census Bureau as of August 2024.

Real Estate Pricing Beginning to Find Its Footing as Bid-Ask Spreads Narrow

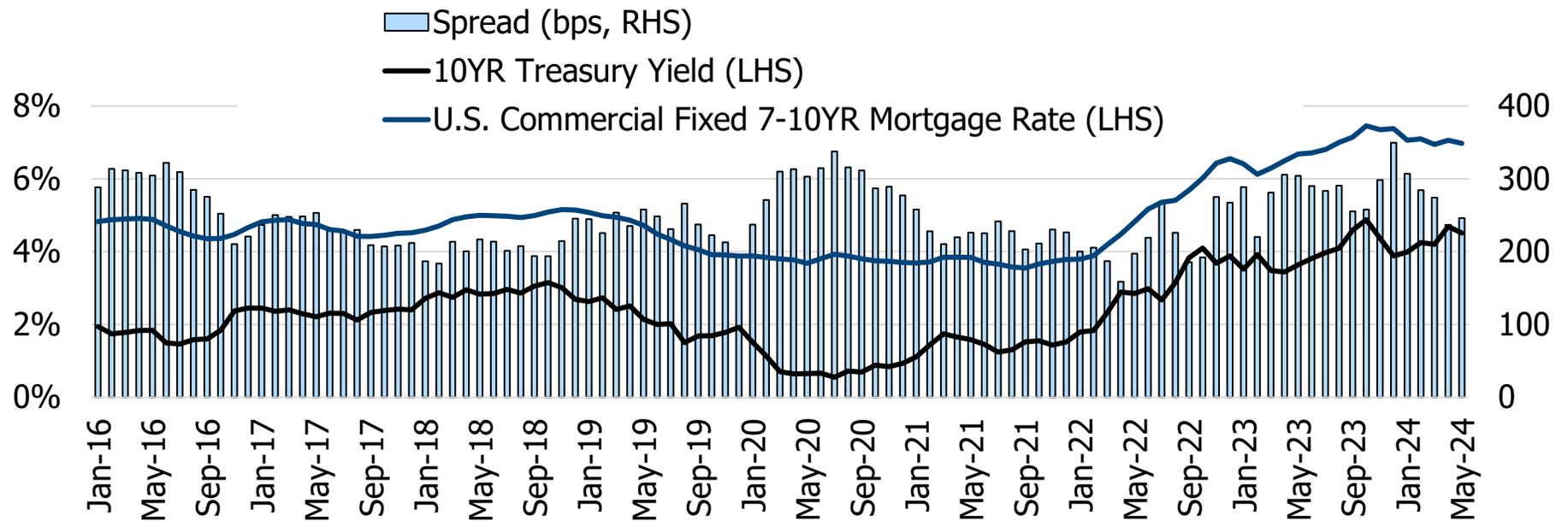
Different Measures of Real Estate Pricing (Q1 2016 = 100)



Source: American Realty Advisors based on data from MSCI Real Capital Analytics, Trepp, and Green Street Advisors as of June 2024. Green Street CPPI reflects an equal-weighted index of the industrial and apartment indices.

Lending Market Becoming Slightly More Favorable for Borrowers

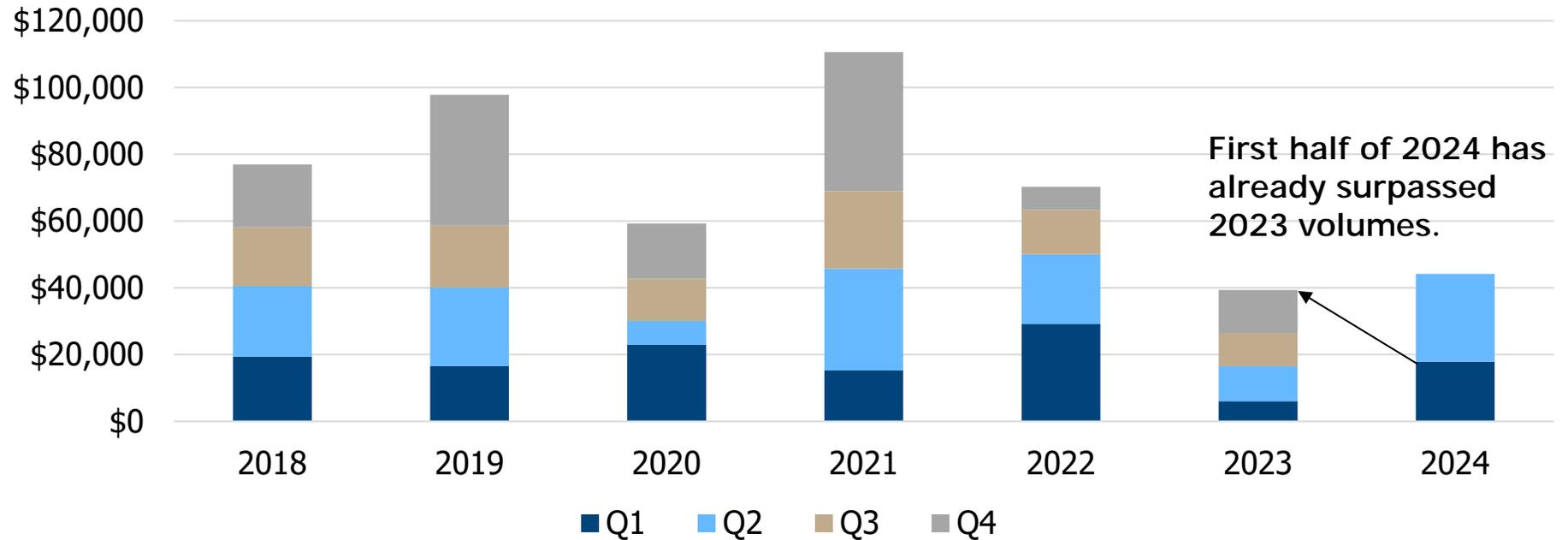
Credit Spread Between 10YR Treasury and 7-10YR Fixed Rate Commercial Loan



Source: American Realty Advisors based on data from Macrobond and MSCI Real Capital Analytics as of August 2024.

CMBS Issuance Has Reaccelerated After a Lukewarm 2023

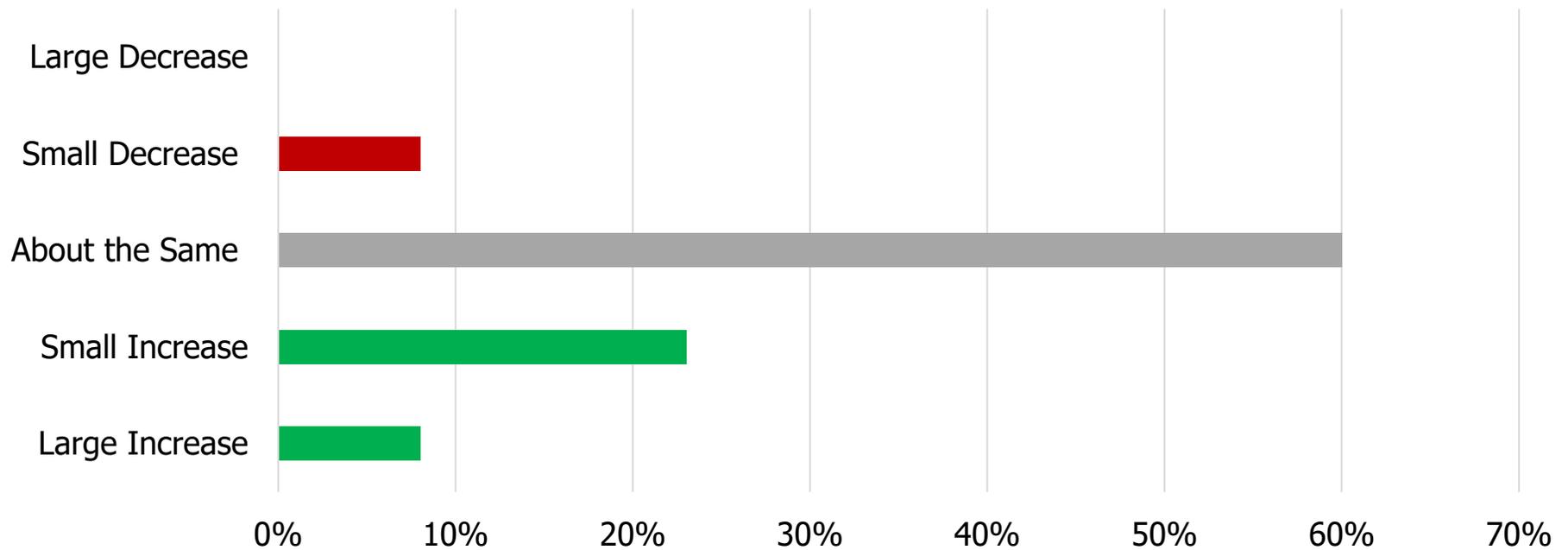
U.S. CMBS Volume (\$M)



Source: American Realty Advisors based on data from Green Street as of August 2024.

Improved Investor Sentiment Reflects Increasing Appetite for Investment Activity

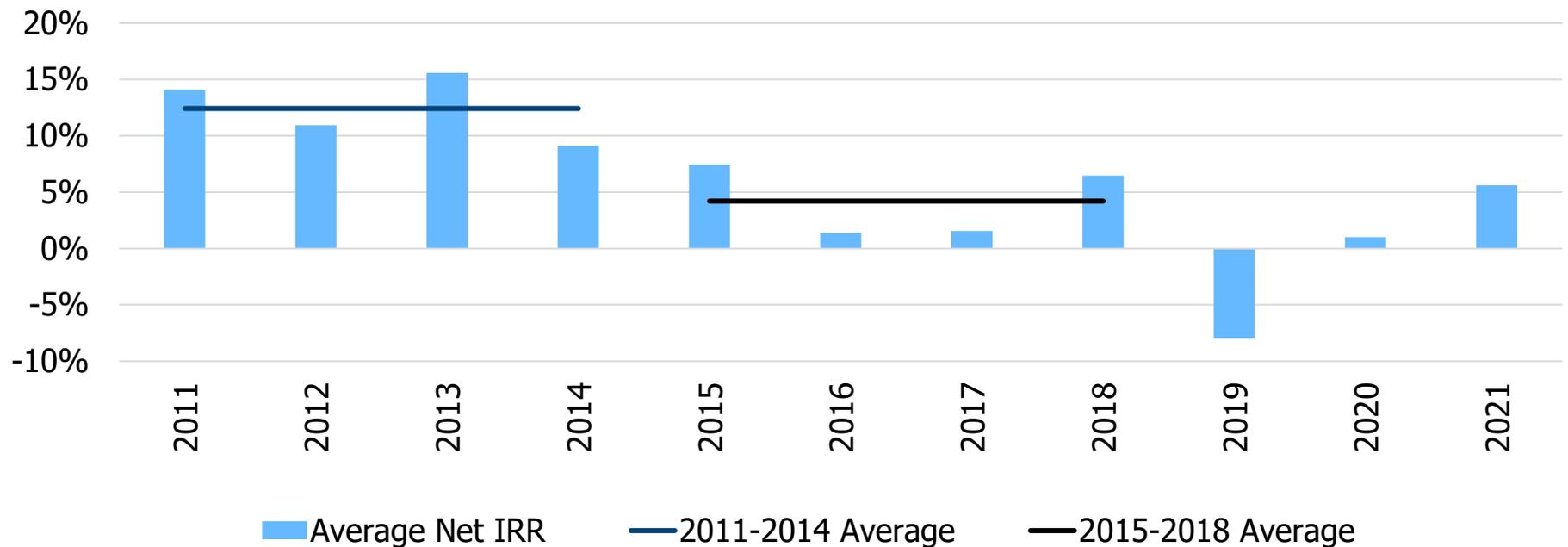
Real Estate Allocation Expectations for 2024



Source: American Realty Advisors based on data from CBRE's U.S. Investor Intentions Survey 2024.

There Is Something to Be Said for Investing Earlier in Recoveries

Average IRR, Vintage-Year Value-Add Funds



Source: American Realty Advisors based on data from NCREIF dated March 31, 2024, the latest the series was available. Value-add real estate fund performance reflects the NCREIF Fund Index – Closed-End Equity Value-Add Strategies (NFI-CEVA) equally weighted as of the reporting date.

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How Do We Invest for a Future That's Unknown?



The Three Ws



WHO
will need space?



WHAT
will they use it for?

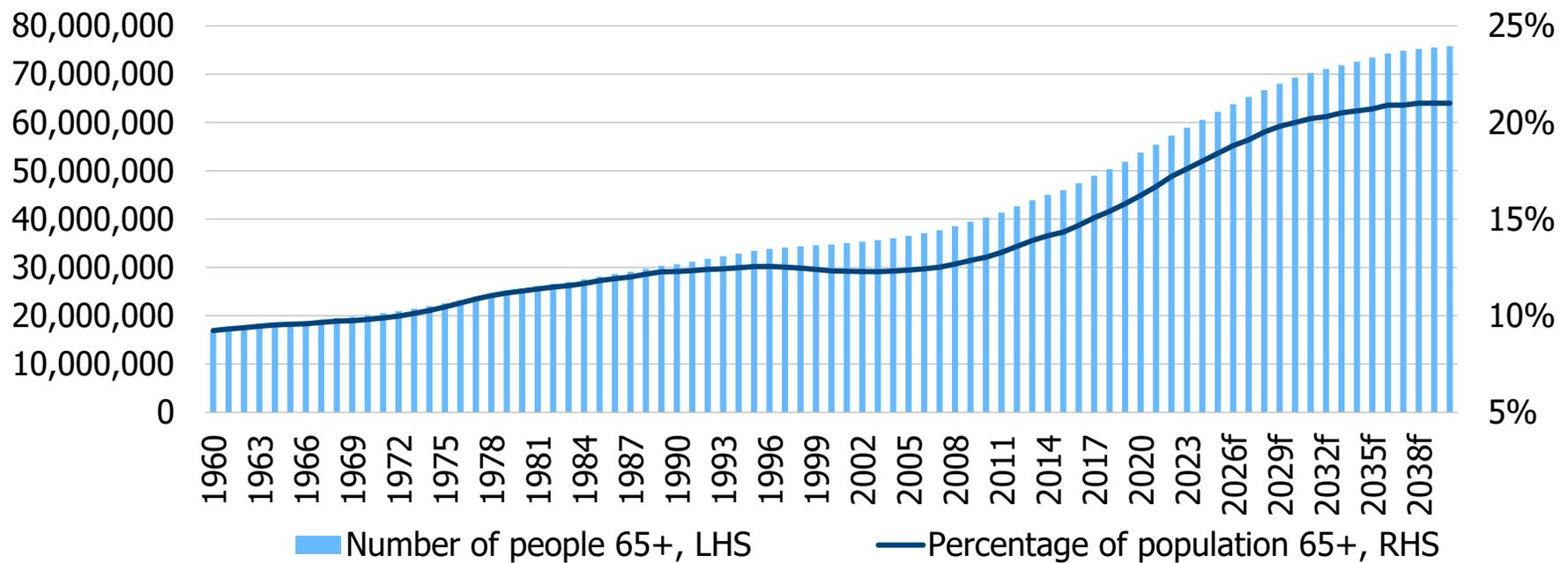


WHERE
do they want it?

Tomorrow's Real Estate Users: Increasingly Older



Number and Percentage of U.S. Population 65 and Older

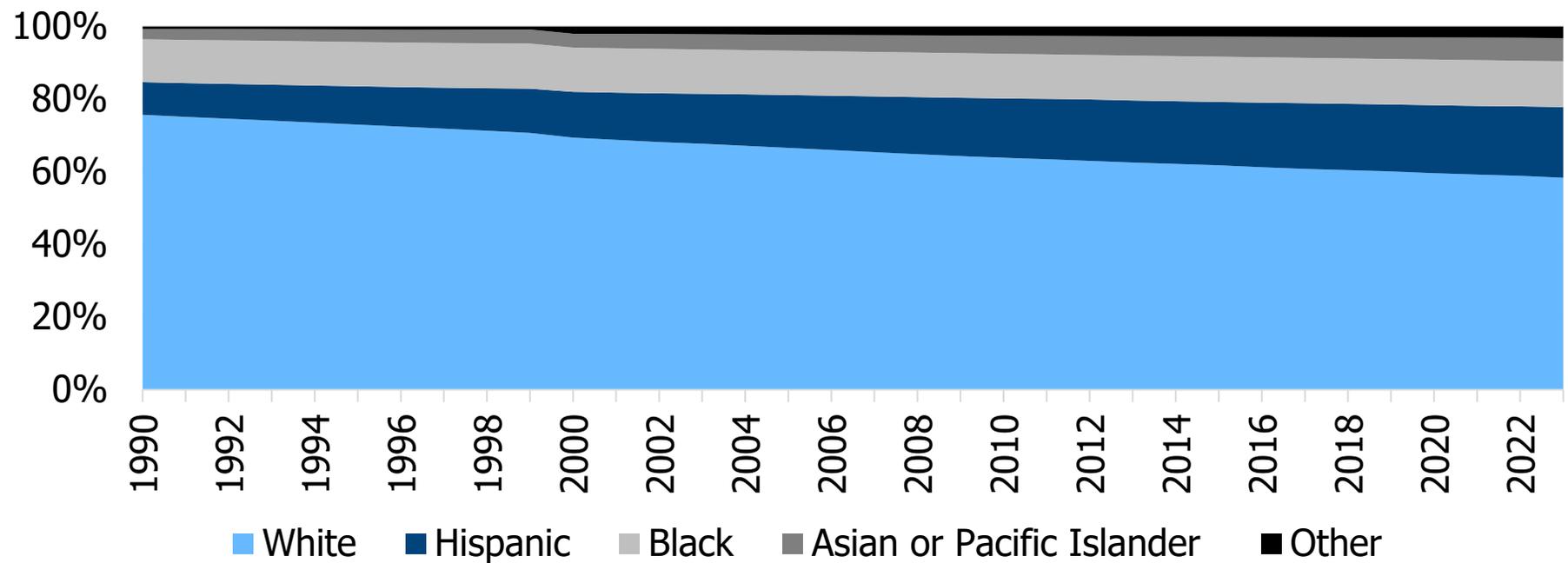


Source: American Realty Advisors based on data from The World Bank and Oxford Economics as of July 2023. f=forecast.

Tomorrow's Real Estate Users: More Diverse



Share of Population by Race/Ethnicity, 1990 – 2023

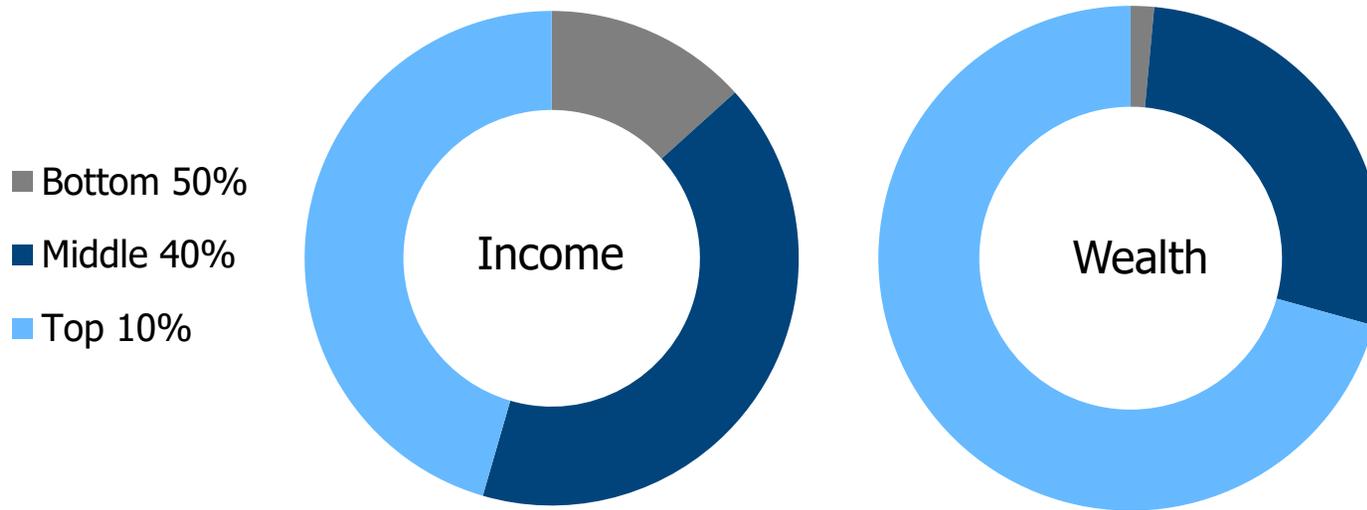


Source: American Realty Advisors based on data from the U.S. Census Bureau as of September 2024.

Tomorrow's Real Estate Users: Stratified by Income



U.S. Income and Wealth Distribution



The top 10% take home half of all income and own more than 70% of the wealth.

Source: American Realty Advisors based on data from The World Inequality Database as of 2022.

The Three Ws



Tenants may be older,
more price conscious,
and more diverse.



WHAT
will they use it for?

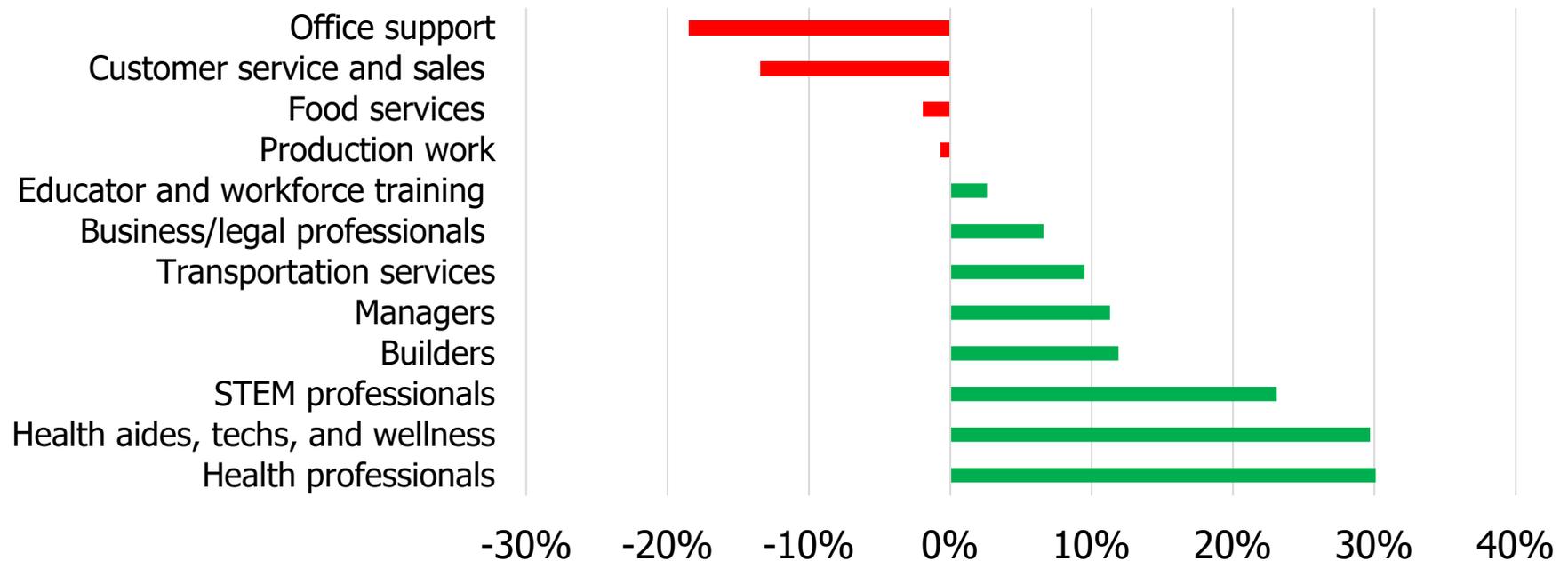


WHERE
do they want it?

Tomorrow's Real Estate Houses: Highly Skilled and Specialized Work



Net Expected Change in Labor Demand from 2022 to 2030, Select Occupations (%)



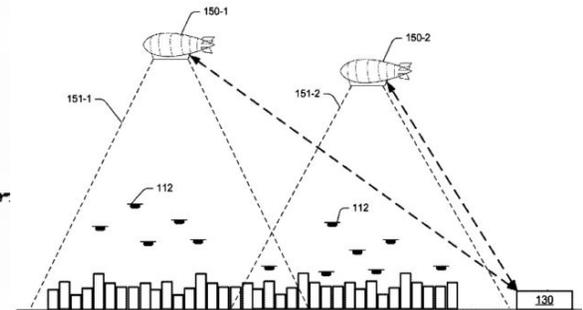
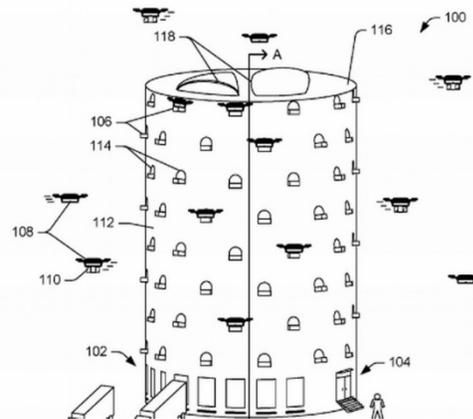
Source: American Realty Advisors based on data from McKinsey Global Institute Analysis as of May 2024. Forecast predicated on a midpoint adoption scenario which is between the late work-automation model and early work-automation model adoption scenarios in McKinsey's analysis.

Tomorrow's Real Estate Houses: Increasingly Roboticized Functions



Source: American Realty Advisors based on data from The World Inequality Database as of 2022.

Tomorrow's Real Estate Houses: Increasingly Roboticized Functions



Source: American Realty Advisors based on data from Amazon, Walmart patent filings.

The Three Ws



Tenants may be older, more price conscious, and more diverse.



Spaces will need to accommodate highly skilled workers alongside new technologies.



WHERE
do they want it?

Tomorrow's Real Estate Is Increasingly Distributed



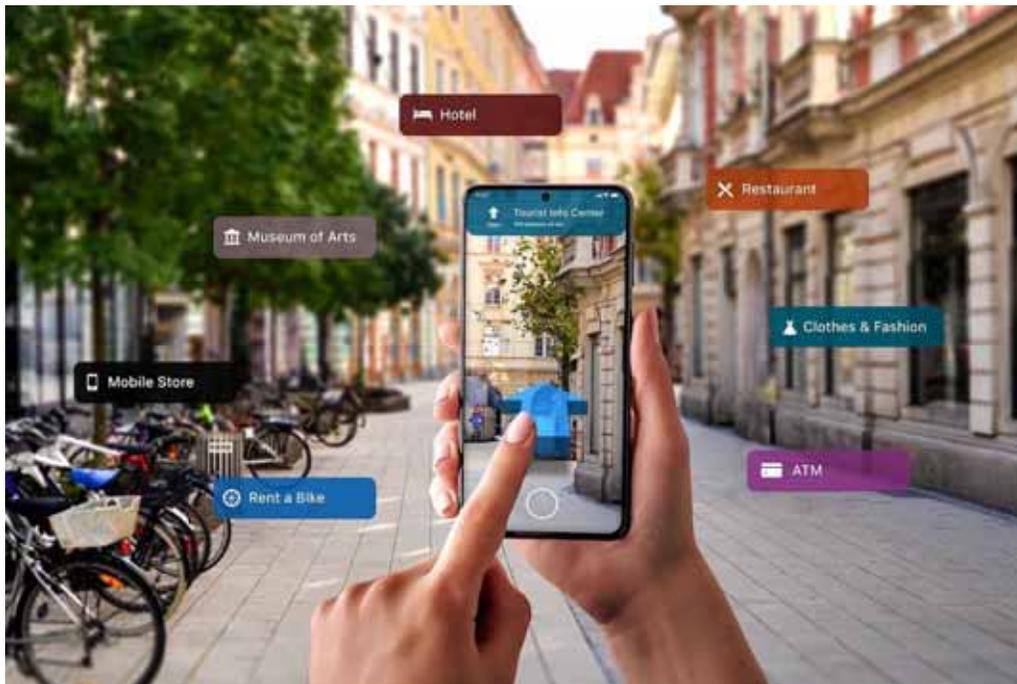
- Growth de-centralized from just the major gateway markets → more investable cities.
- Technology facilitates greater flexibility → growth of exurbs.
- Cities become more dynamic as they reinvent.

Tomorrow's Real Estate Is Increasingly Distributed



<https://youtu.be/YEx7h0NKnXE>

Tomorrow's Real Estate Is More Fluid



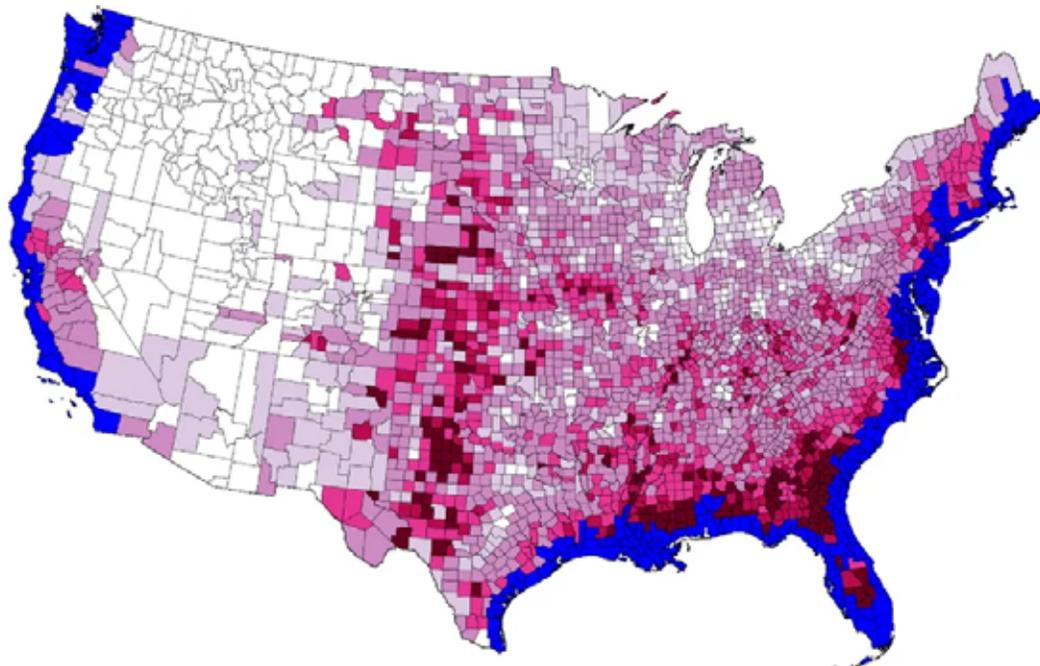
- The “four walls and a roof” of a building can be monetized.
- More buildings serving multiple uses.
- Your property can advertise itself!

Tomorrow's Real Estate Is More Fluid



<https://youtu.be/N6v7HQiCNiQ>

Tomorrow's Real Estate Is More Resilient



- Insurance premiums and risk level could make certain properties “un-investable”.
- Risk-return profiles even within the same city could vary considerably block by block.
- Desirability of markets may shift over time.

Source: American Realty Advisors based on data from Bloomberg “Where America’s Climate Migrants Will Go As Sea Level Rises”, February 3, 2020. Areas in blue are directly affected, areas in shades of purple are indirectly affected and areas in white are not affected.

The Three Ws



Tenants may be older, more price conscious, and more diverse.



Spaces will need to accommodate highly skilled workers alongside new technologies.



Market invest-ability and desirability may change and expand the opportunity set for plans.

How Do We Translate This to Investing Today?



- Focus on price point for housing, retail offerings
- Highly selective on office
- Modern spaces that can accommodate machines or data = Good
- Keen eye towards extreme weather and climate risks to the bottom line

Key Takeaways



Current conditions are signaling a turning point.



Investing earlier in recoveries has yielded better returns.



Today's investments should work for tomorrow's uses.



The future is uncertain, but ultimately it comes down to the three Ws.

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Session Evaluation



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