EQUITYMULTIPLE

2024

SECOND HALF OUTLOOK

Market Trends & Voice of the Investor Survey Results

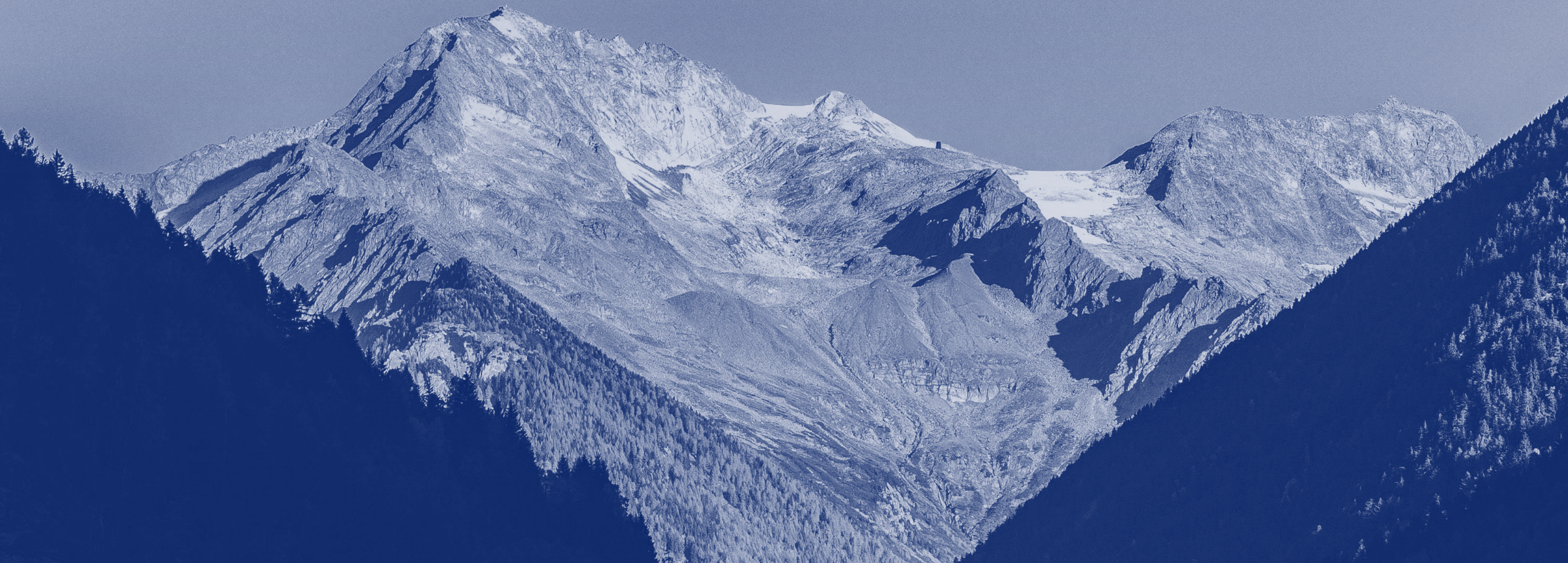


Table of Contents

3 Intro: Markets at a Crossroads

4 CRE Private Equity Returns

8 Do We Have Liftoff?

10 Voice of the Investor

11 Quarter-over-Quarter Trends in Market Rankings

12 Sector-Specific Trends

Intro: Markets at a Crossroads

As the months go on without rate cuts, without major shifts in the stock market or housing prices, it starts to feel like we are in a new "financial epoch." Generally speaking, **system-wide stability is a good thing for commercial real estate investors.** It means a better environment for price discovery in transactions and more firm mileposts as investors assess pro formas.

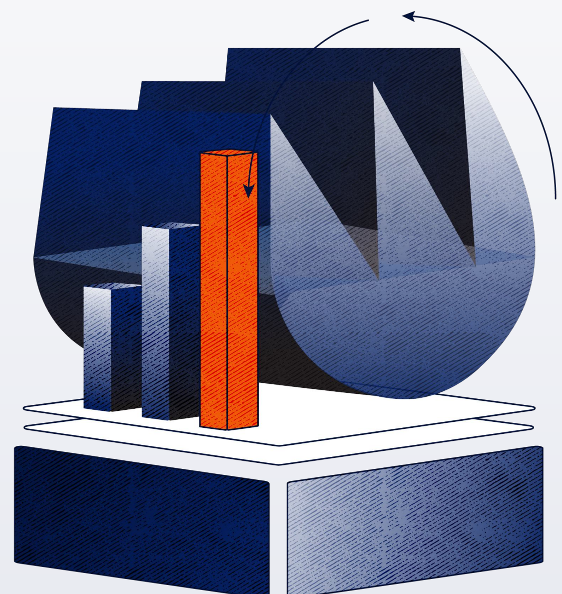
Beneath the surface, **a few factors could make the next several months very interesting for real estate investors**, both at a macro level and with respect to individual markets and sectors.

At a high level, **here is what we are seeing, corroborated by major research institutions:**

- The economy is on track for a soft landing; Green Street forecasts 4q/4q GDP growth of 1.5% this year.
- The Fed is getting a handle on inflation, but this is a very slow process; the fabled "slow landing" will take a while.
- The labor market continues to cool; with job growth for the remainder of this year to average 150k/month.
- Finances are tight for some Americans; consumer confidence fell in May, and retail sales growth has been lackluster.
- The S&P 500 has been hitting highs; markets have adopted the consensus view that the economy will not break.
- **Property Pricing:** Stabilized but remains approximately 20% below the 2022 peak.
- **Cap Rates:** Expected to hold steady with real estate remaining fairly priced compared to corporate bonds.
- **REITs:** Considered fairly valued compared to corporate bonds but inexpensive relative to the S&P 500.
- **Private Credit:** Stability driven transaction volume will continue to fill the void left by sidelined banks.

There could be a major economic shock: risks persist in the form of geopolitical tensions and the specter of runaway inflation. This is always the case, however; in a globally connected world, this moment is no different. It seems likely that we've entered a mundane period for markets: higher rates, moderating growth, and a mixed bag in terms of real estate market fundamentals.

What does this mean for you, as an individual, self-directed real estate investor?

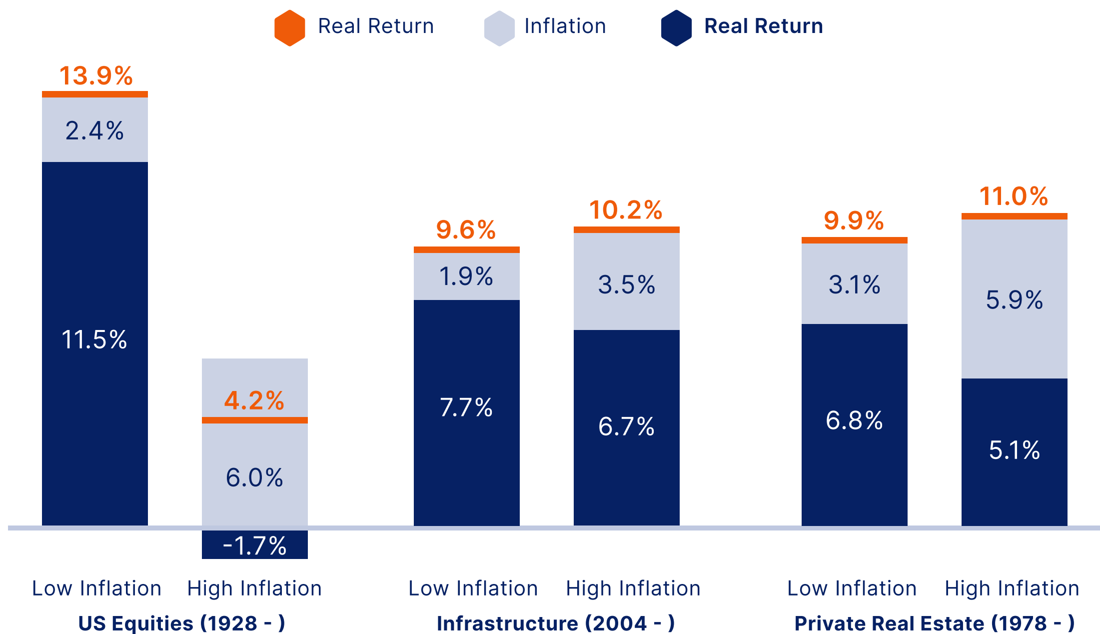


CRE Private Equity Returns Could Be Lower, and That's OK…

…Private Credit Returns will be Higher, and That's GREAT.

In a lower-growth, higher-rate environment, it is almost a given that return prospects are muted across asset classes. This is true of real estate, but not just real estate. Notably, public equities returns are forecasted to be lower than recent averages based on current price/earnings ratios, as well as the "top-heaviness" of the stock market (namely, recent gains concentrated to a small number of AI-related companies).

As Eastdil put it recently:
"While rates seem to be the topic du jour, and guessing if/when the Fed will finally make a cut is by far the most common headline, we believe that focusing our collective attention on risk-taking and a reversion to long-term expected returns could be most impactful."

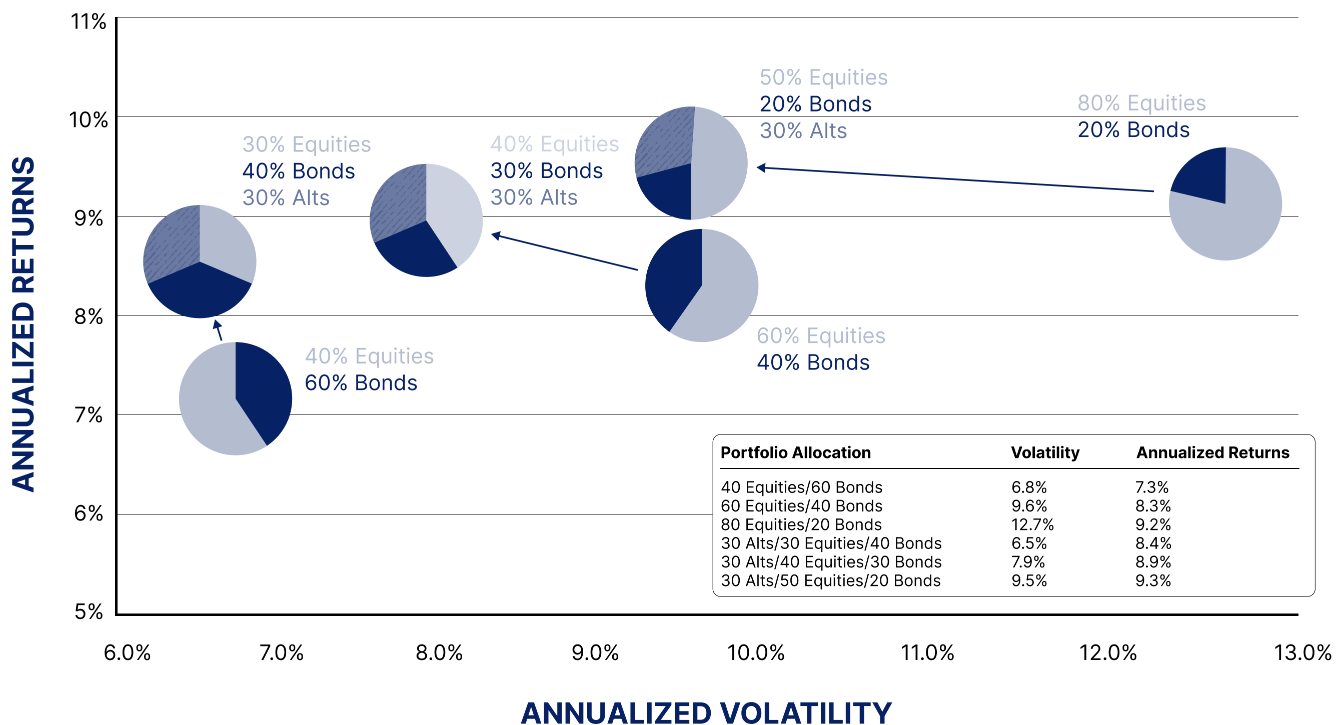


Annual total returns from 1928 to 2021 for the S&P500 from 1978 to 2021 for Real Estate and from 2004 to 2021 for Infrastructure. Real returns calculated as [(1+nominal return)/(1+Y/y Inflation) -1]. Inflation component of the asset class return calculated as the difference between nominal and real return over the given period of time. U.S. Public equities modeled with S&P500 Index. Private Infrastructure modeled using the Burgiss Infrastructure Index. Real Estate modeled using the NCREIF Property Levered Index.
Source: KKR Portfolio Construction analysis.

While we all hope inflation is under control, it's proven sticky and may prove sticky for a while. Policy changes in a new regime could also contribute to further inflation.

Toward the end of the "era of free money" it was not uncommon to see projected returns of 30% plus for value-add LP investments in many markets. This the stuff of an epically long bull market (in terms of job creation in particular) and near-zero interest rates. With the notable exception of 2022, public markets played along as well. It's important to note that, over most periods in U.S. financial history, annual returns of 5-15% were more typical for both public equities and private real estate.

In this next phase of the cycle, barring any major system shocks, core/core-plus LP equity may fetch in the 15-20% range, while value-add or more opportunistic strategies may typically project to 20-25% target IRRs. A healthy level of cash flow and appreciation is still quite possible at these levels, especially with long-term sectoral demand drivers pushing the sails, such as insufficient housing stock.



Portfolio Allocation	Volatility	Annualized Returns
40 Equities/60 Bonds	6.8%	7.3%
60 Equities/40 Bonds	9.6%	8.3%
80 Equities/20 Bonds	12.7%	9.2%
30 Alts/30 Equities/40 Bonds	6.5%	8.4%
30 Alts/40 Equities/30 Bonds	7.9%	8.9%
30 Alts/50 Equities/20 Bonds	9.5%	9.3%

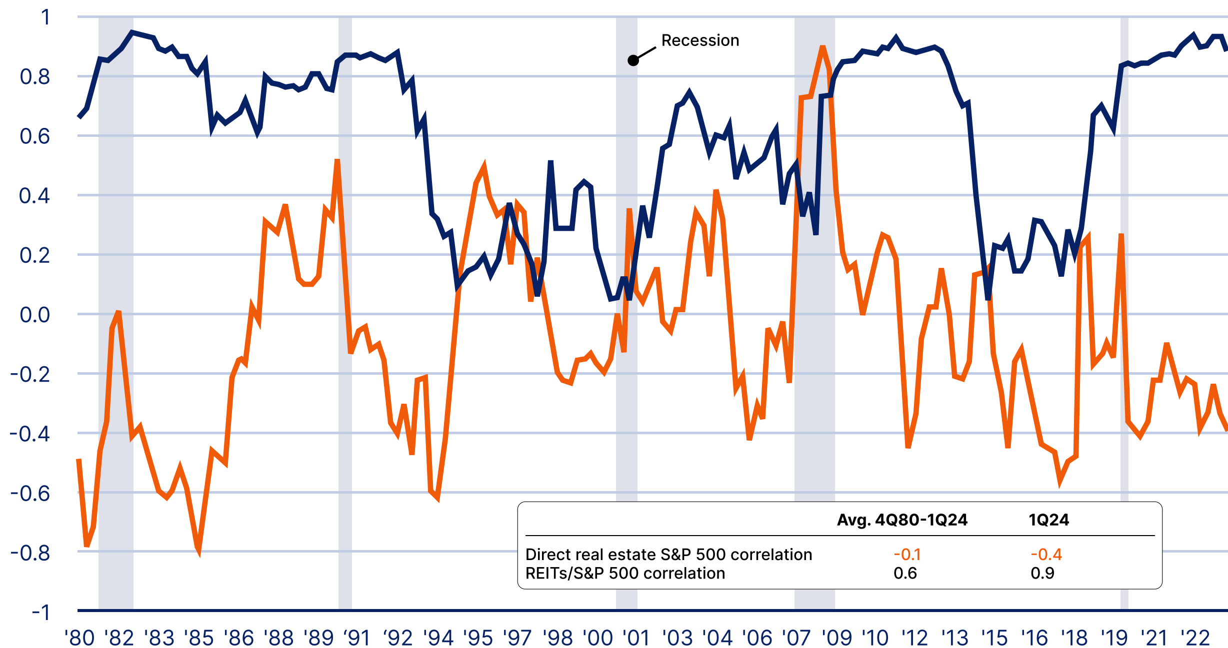
When the market cycle shifts, it is also a good moment to recall the implications of modern portfolio theory: an allocation to private-market alternatives – which historically correlate less closely with the stock market – can potentially boost risk-adjusted returns for any portfolio strategy.

Asset Class Correlations Across US Historical Market Return Environments (2000-2022)

		Positive Market Environments					Negative Market Environments				
		Asset Classes					Asset Classes				
		LC	SC	Intl	Bond	Cash	LC	SC	Intl	Bond	Cash
BASIC	US Large Cap (LC)	1.00	0.82	0.73	0.14	-0.20	1.00	0.88	0.82	-0.40	0.09
	US Small Cap (SC)	0.82	1.00	0.67	0.00	-0.13	0.88	1.00	0.74	-0.38	0.18
	Non-Us Equity (Intl)	0.73	0.67	1.00	0.15	-0.10	0.82	0.74	1.00	-0.22	0.25
	Core Fixed Income (Bond)	0.14	0.00	0.15	1.00	0.24	-0.40	-0.38	-0.22	1.00	0.30
	Cash (Cash)	-0.20	-0.13	-0.10	0.24	1.00	0.09	0.18	0.25	0.30	1.00
ENHANCED	REITs	0.54	0.51	0.44	0.44	-0.07	0.53	0.63	0.50	0.03	0.37
	Private RE Equity	-0.40	-0.37	-0.40	-0.17	0.19	0.42	0.35	0.43	-0.15	0.21
	Private RE Debt	0.14	-0.02	0.10	0.83	0.09	-0.04	0.02	0.04	0.56	0.24

Source: PGIM "2024 Best Ideas — Rethinking Resiliency and Risk," Morningstar Direct.

U.S. REITs, Direct Real Estate and Equities (12-Quarter Rolling Correlations, Total Return)



Source: FactSet, NAREIT, NCREIF, Standard & Poor's, J.P. Morgan Asset Management.
Real estate investment trusts (REITs). Indices do not include fees or operating expenses and are not available for actual investment. Past performance is not necessarily a reliable indicator for current and future performance. This slide comes from J.P. Morgan Asset Management's Guide to Alternatives.
Guide to the Markets — U.S. Data are as of June 30, 2024.

This is also a good moment to recall that returns should be viewed on a *risk-adjusted basis and relative to other investment options*. Let's talk for a moment about private real estate credit.

As Howard Marks put it almost a year ago, private credit can now deliver "equity-like returns" while offering the downside protection of asset collateralization and payment priority. With interest rates likely to stay elevated for the foreseeable future, these "equity-like returns" could stick around for some time. Real estate private credit (such as EquityMultiple brings you in the form of individual loans and the Ascent Income Fund) fits the bill. Individual debt investments on the EquityMultiple platform typically offer low-teens fixed rates of return, and the Ascent Income Fund has drawn over $25M of investor capital with a 10.83% historical distributed yield as of Q2, 2024.

The Ascent Income Fund

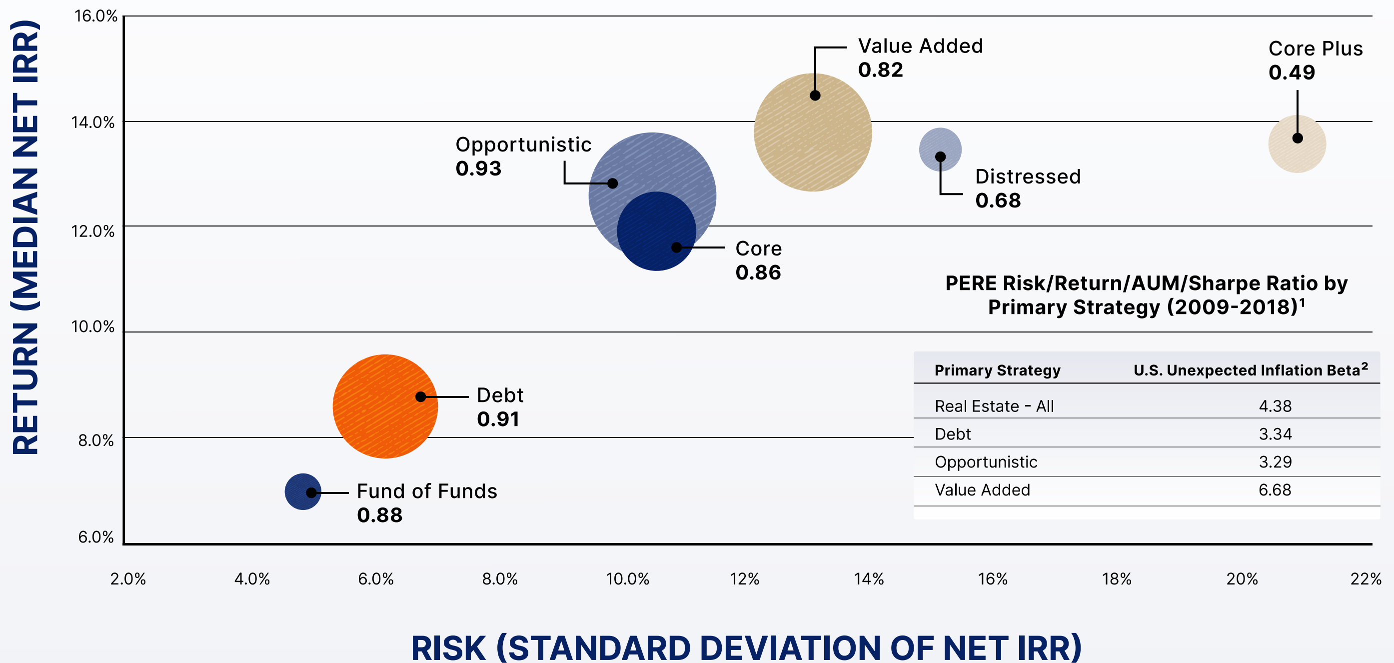
Since the Ascent Income Fund's launch, credit markets have experienced further dislocation, starting with banks and conventional lenders becoming increasingly more conservative
Since the Fund's launch in the third quarter 2023, the credit markets have experienced further dislocation, starting with banks and conventional lenders becoming increasingly more conservative, and presenting private, non-bank lenders with unique and attractive lending opportunities.

Coupled with interest rates remaining high for the foreseeable future, borrowers are experiencing increasing pressure to source viable refinance alternatives, increasingly seeking solutions from the private credit markets. The Fund continues to source new and attractive loans for its investors and is currently benefiting from a robust pipeline, with lending opportunities in Top 35 U.S. metro areas.

The Fund's active pipeline as of 1Q2024 was approximately $188.7 million of new potential loan originations with five transactions immediately actionable. To-date, The Ascent Fund has generated an average yield to investors of 10.83%, outperforming the major fixed income indices, including leveraged loans, high-yield and investment-grade corporate bonds.

Debt vs. Other Real Estate Investments

Strong inflation-hedging capability and superior risk-adjusted returns



Primary Strategy	U.S. Unexpected Inflation Beta[2]
Real Estate - All	4.38
Debt	3.34
Opportunistic	3.29
Value Added	6.68

Source: Preqin

1. *Values called out alongside label denote Sharpe Ratio with risk-adjusted return based on 10-yr Treasury Note at 3.26% as of Sep. 1, 2022*
2. *Based on Preqin multivariate analysis of unsmoothed quarterly indices against expected/unexpected inflation, significant at >95%, across all sectors/property types/rent structures*

Do We Have Liftoff?

Per GreenStreet, CRE prices have stabilized but remain 20% below their 2022 peak. In fact, GreenStreet's CPPI (commercial property price index) showed a 0.7% increase in values in May, the first such increase since the onset of COVID and peak valuations in late 2020. In this rather dry assessment lies something fairly exciting: *we could be at or near the bottom of the market*. We may have passed it already, and looking back years from now may see our present moment on the upward curve.

While debt markets seem to be improving from a pricing standpoint — costs of secured debt are currently down 64 basis points from the 2023 peak — CMBS issuance volumes are showing increased activity: year-to-date issuance has already eclipsed that of full-year 2023. Whereas a portion may be attributable to emerging acquisition opportunities, the main driver is likely the wall of CRE loan maturities stemming from the flurry of transactions between mid-2020 and mid-2022, and as those 3-5 year term facilities are coming to maturity in this high-rate environment. With more than $1T in CRE loans maturing in the US

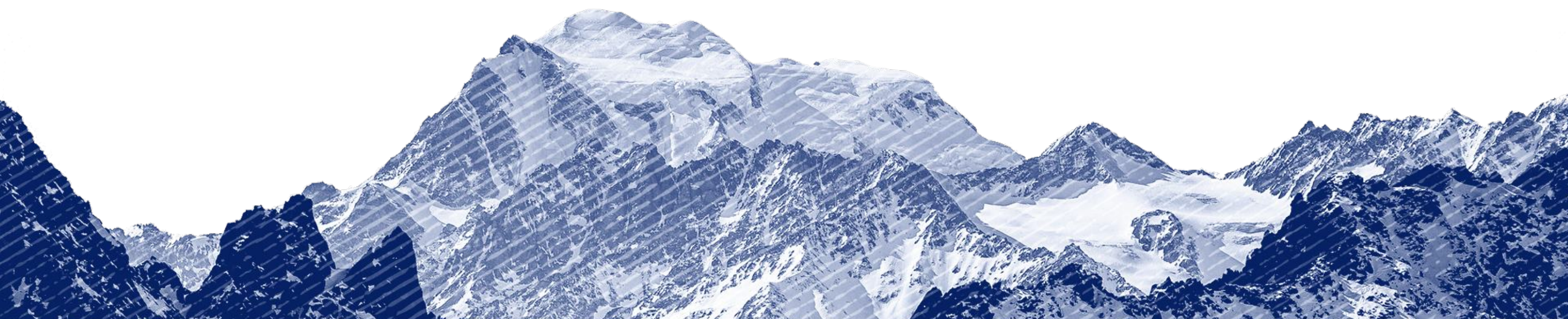
through 2026, a high volume of funding gaps will emerge in this environment with increasingly tight lending standards. Hence, we expect to see an ongoing shift to alternative lenders, driving strong CRE credit opportunities.

How should you interpret these factors as you survey the CRE landscape?

- The rebound in CMBS means more competition for real estate private credit. Now may be the time to lock in rates (e.g. via an investment in EquityMultiple's Ascent Income Fund) before increased appetite from traditional lenders softens the market for alternative debt capital.
- On the flip side, a rebound in transaction volume means more opportunity and more diversification options for individual investors in CRE private equity.
- Across the capital stack (debt and equity) the potential that we are at or near the bottom of the market means now may be the time to place a few bets and potentially capitalize on depressed values.

Taken togther, what do these factors mean for your asset allocation choices? Now may be the moment to lean into real estate private credit (debt-based investments). But, given the possibility that we are at or near the bottom of the market, investors may still want to keep a sizable allocation in real estate private equity, given the ongoing possibility of capitalizing on depressed valuations (and the likelihood of a near-term rebound).

> ***Our view is that global values will hit a trough in the middle of 2024. Using past downturns and recoveries as a guide, it is optimal for equity investors with longer-term strategies to deploy capital at or even just before the turning point, which reduces the probability of exiting investments in a future downturn.***
>
> *– PGIM Real Estate Global Outlook, May 2024*



Voice of the Investor

We periodically survey investors to get a pulse of how our community is feeling about markets and about their real estate portfolios. These results, when aggregated, can provide a useful barometer for other self-directed investors as they consider their real estate allocation.

As of early July 2024, results indicate a collective posture of cautious optimism, perhaps a "wait and see" attitude, among our investor network.

- A plurality feel "about the same" about the health of their portfolio versus the same time last year.
- A plurality indicated that they plan on maintaining a similar allocation to real estate going forward as in recent years.

What Are Your Strategic Priorities Going Forward for Your Real Estate Portfolio?

#1 Upside/appreciation potential

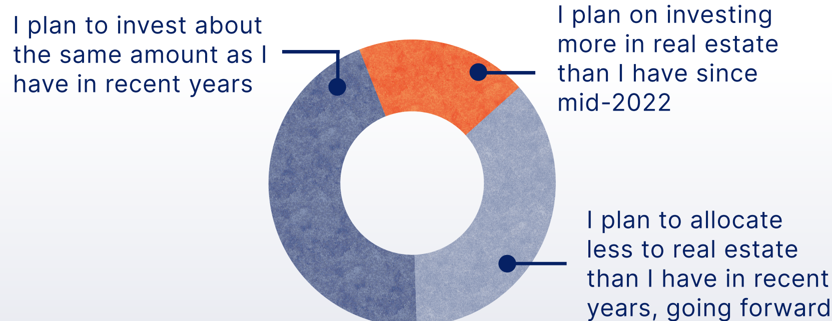
#2 Cash flow

#3 Stability and reducing exposure to potentially volatile public markets

#4 Hedging against inflation

#5 Realizing tax benefits

How Much Do You Plan on Investing in Real Estate Going Forward, Versus Recent Years?



As far as priorities, investors indicated that cash flow and upside were roughly neck-in-neck.

The Latest from our Proprietary Market Rating Framework

Each quarter, the capital markets team at EquityMultiple, otherwise known as EM Investment Partners, revises our proprietary Market Rating Framework. This in-house model makes use of first and third-party data sources to arrive at ranked lists of markets within each CRE sector. While these rankings do not create a hard-and-fast determination of which markets we will source investments, the model is key to informing where we believe the best risk-adjusted return potential lies.

The framework follows a consistent methodology across sectors, with sector-specific factor weightings.

Since we last shared the model's insights at the start of 2024, here are some of the major outcomes:

Quarter-over-Quarter Trends in Market Rankings

- **Miami** remains a top-ranked market across multiple sectors, reflecting strong demographic and investment opportunities, largely underpinned by strong post-COVID in-migration and continued strength in several real estate fundamentals.
- Adjacent Florida markets such as **Fort Lauderdale** and **Orlando** also feature prominently due to their growth and investment potential.
- Notable markets such as **Austin**, **Boston**, and **Raleigh-Durham** are highlighted for their sector-specific strengths, in particular their strong foundation around education, and bio/health-science and research industries.

Key Industrial Trends

- **Surging Markets:** Chicago, San Antonio, Jacksonville
- **Strengthening Markets:** Philadelphia, Baltimore, Portland
- **Softening Markets:** New York, Los Angeles, Boston
- **Weakening Markets:** New Jersey (Northern), Orange County, Las Vegas

Key Multifamily Trends

- **Surging Markets:** Phoenix
- **Strengthening Markets:** Miami, Seattle, Dallas/Fort Worth, Raleigh-Durham, Nashville
- **Softening Markets:** New York, Columbus, Salt Lake City, San Francisco
- **Weakening Markets:** Atlanta

Sector-Specific Trends

Residential Sector

Following a pandemic-driven boom, residential fundamentals (i.e. multifamily) are normalizing and driving the elusiveness of high-rent growth markets. The pressures on household formation, against a backdrop of persistently prohibitive costs of homeownership, propels current apartment renters to become single-family renters (vs. first-time homebuyers) if current market conditions hold.

- **Houston** continues to hold a leading position, reflecting its strong economic fundamentals. A strong business climate and a rapidly diversifying local economy signal lasting strength.
- **Miami** has improved its position, indicating better growth prospects compared to the previous quarter. The metro benefits from a large pipeline of relocating major employers.
- **Seattle** and **Denver** have dropped somewhat from the last market rankings, but still benefit from high quality of life and strong tech sectors.

Industrial Sector

This sector should benefit from durable forward trends: continued growth of ecommerce, outsourcing of logistics, and onshoring (or near-shoring) of supply chains and trade, despite macro headwinds in the form of an increasingly consumption-wary consumer and over-supply.

- **Miami** and **Fort Lauderdale** maintain strong positions, showing robust industrial growth, including last-mile and logistics.
- **New York** and **Los Angeles** have softened relative to last quarter's rankings, mostly relative to other leading domestic markets, while markets such as New Jersey are more heavily impacted by potential market saturation, economic challenges, and macro events such as the overall pullback on East Coast shipping traffic due to the Panama Canal droughts and Suez Canal instability.

Retail Sector

Persistent inflation and signs of weakened consumer confidence present headwinds for select types of retail. Essential and grocery-anchored retail continue to be core drivers for the sector.

- **Miami** continues to lead, with **Austin** and **Phoenix** showing strong prospects.
- Markets with favorable employment and demographic fundamentals such as **Boston** and **Raleigh-Durham** are bright spots for retail in general (not just essential retail).

Self-Storage Sector

The industry-leading sector fundamentals that propelled the sector to record returns in recent years have softened. The deeper demand pool driven by work-from-home adoption has been muted by a weak housing market and cautious consumers. Markets that have experienced more favorable demographics/in-migration post-COVID, against a supply-constrained backdrop, remain compelling.

- **Salt Lake City** emerges as a stable market with consistent demand.
- **Miami** (and adjacent markets) and **Austin** continue to benefit from demographic trends and migration patterns.
- **New York** and **Seattle** have softened, reflecting shifts in urban storage demand from a conscious consumer in a market with above-average supply.

Office Sector

Positives are sparse, but pockets of opportunity are emerging, including amenitized modern office space and space for "non-remote-able" industries such as healthcare and biotechnology.

- **Miami** remains stable, benefiting from corporate in-migration and resilient office demand.
- **Boston** and **Raleigh-Durham** remain stable, underpinned by a strong bio/life-science industry.
- **New York** show signs of strengthening, indicating a degree of recovery in key office markets, and shift to highly amenitized, newly developed office.
- **Atlanta** and **Dallas / Fort Worth** have softened, reflecting ongoing challenges in the office sector and prior 'office' stronghold markets.

In sum, the "sunshine state" metros continue to outperform, benefitting from recent in-migration, diversifying local economies, low cost of living, and favorable tax/business environments. Still, some gateway (particularly coastal) major metros, such as Boston, benefit from irreplaceable human capital, industries that continue to employ (on-site) and compensate relatively well, and overall cultural cache, driving living desirability and corresponding demand.

Today's environment for CRE investments remains highly fluid. This is true at the macro level, and with respect to specific sectors and markets. Hybrid/remote work dislocations, elections (and hence fiscal and monetary policy), and geopolitical tensions are all factors to watch in the near term. Above all, the near-to-mid-term future of interest rates looms large. EquityMultiple operates across sectors, and across the United States. As opportunities emerge in this fluid market, we seek to source investments that provide idiosyncratic return opportunities and a strong, timely risk-adjusted return thesis.

Sources & Further Reading

Walker & Dunlop, Blackstone

If you have any questions, or would like to discuss your asset allocation strategy within EquityMultiple, please don't hesitate to reach out to Investor Relations at ir@equitymultiple.com, or schedule some time to speak with the team.

Hypothetical Returns: This material describes hypothetical net returns that may be earned by an investor in this offering for illustrative purposes only. These returns have not been achieved by any investor. In certain cases, the described returns are a function of the contractual interest rate or preferred return associated with the investment. In other cases, the forecasted net IRR or equity multiple is a hypothetical return derived from assumptions regarding the future operating performance of the property. The assumptions involved in such forecasting include growth of market rental rates in the market, achievable market rental rates based on current and future property conditions, growth rate in property operating expenses and prevailing cap rates upon future sales of the property. These assumptions are derived from comparable properties, market reports, broker opinions, industry underwriting conventions and prior Sponsor/Borrower experience. While EquityMultiple believes that these assumptions are reasonable, due to various risks and uncertainties, actual events or results or the actual performance can differ materially from those reflected or contemplated.

These investments have a high degree of risk, and there can be no assurances that any of the assumptions will be true or that the investment's actual performance will bear any relation to these hypothetical illustrations. The particular assumptions used to evaluate the return potential of this investment should be reviewed prior to investment. To access them click the “View Offering” button above in this email and download the Financial Overview available on that page.

Hypothetical performance is subject to inherent limitations, is prepared with the benefit of hindsight, and should not be relied upon in making an investment decision. Additional information regarding the projected performance metrics presented herein is available upon request.