

October 2023

**CONFIDENTIAL**



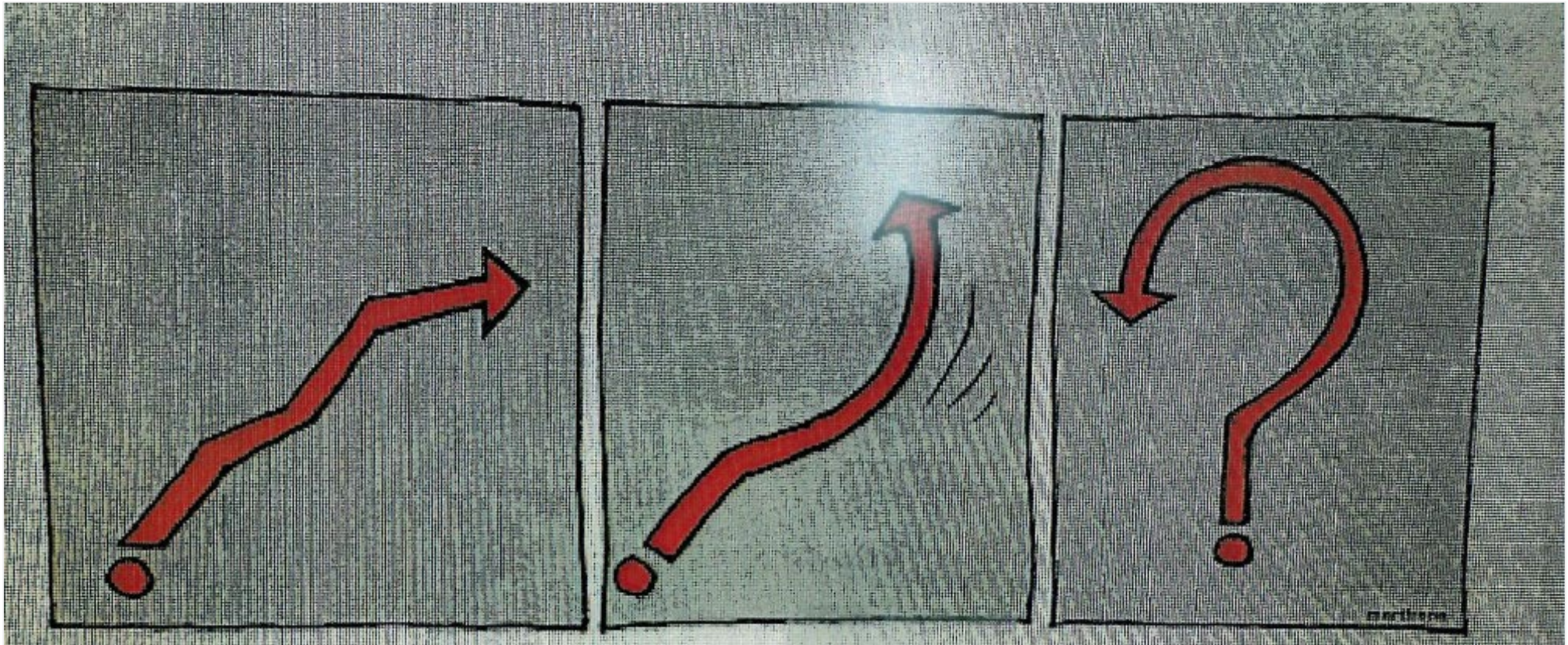
PROSPECTRIDGE

# Real Estate Update



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# 10-year US Treasury vs. CPI

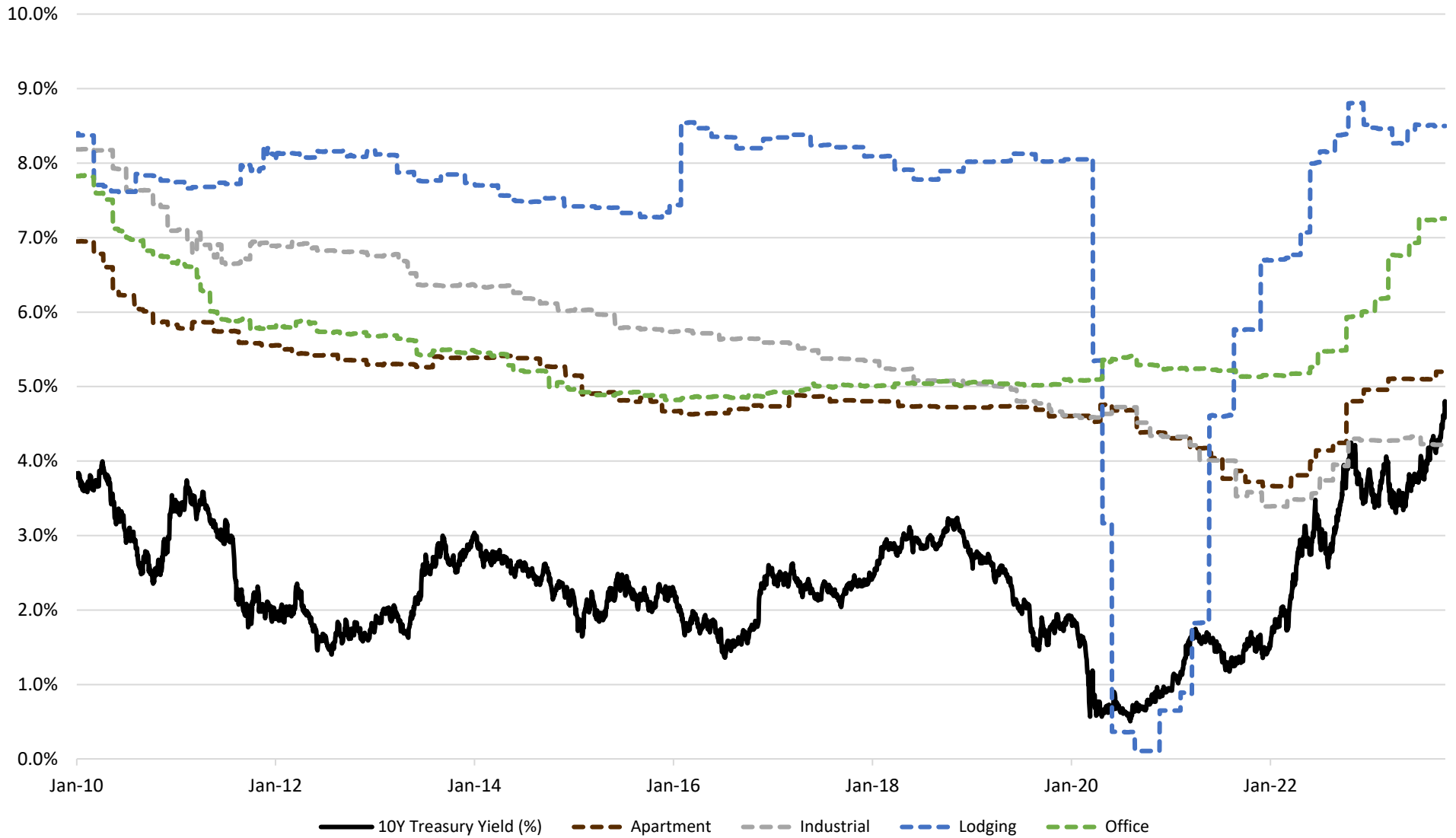


Source: WSJ Markets & Board of Governors of the Federal Reserve System, as of October 4, 2023



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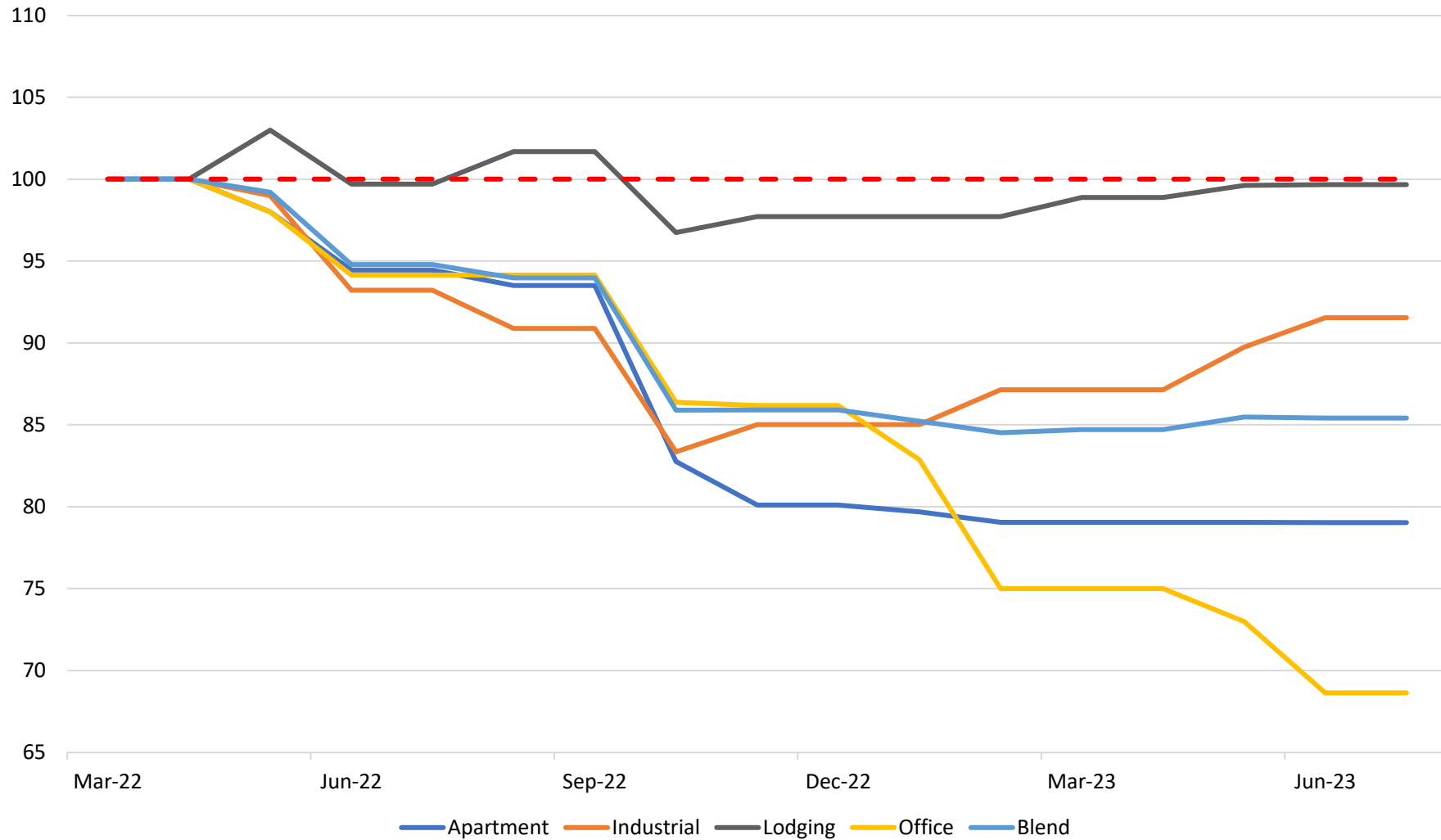
# 10-year US Treasury vs. Cap Rates



Source: WSJ Markets & Green Street Advisors, as of October 4, 2023

# Commercial Property Price Index (CPPI)

Index, March 2022 = 100



Source: GreenStreet Commercial Property Index (CPPI), As of July 31, 2023. Blend reflects an equal weighted distribution of Apartment, Office, Lodging, and Industrial CPPI values

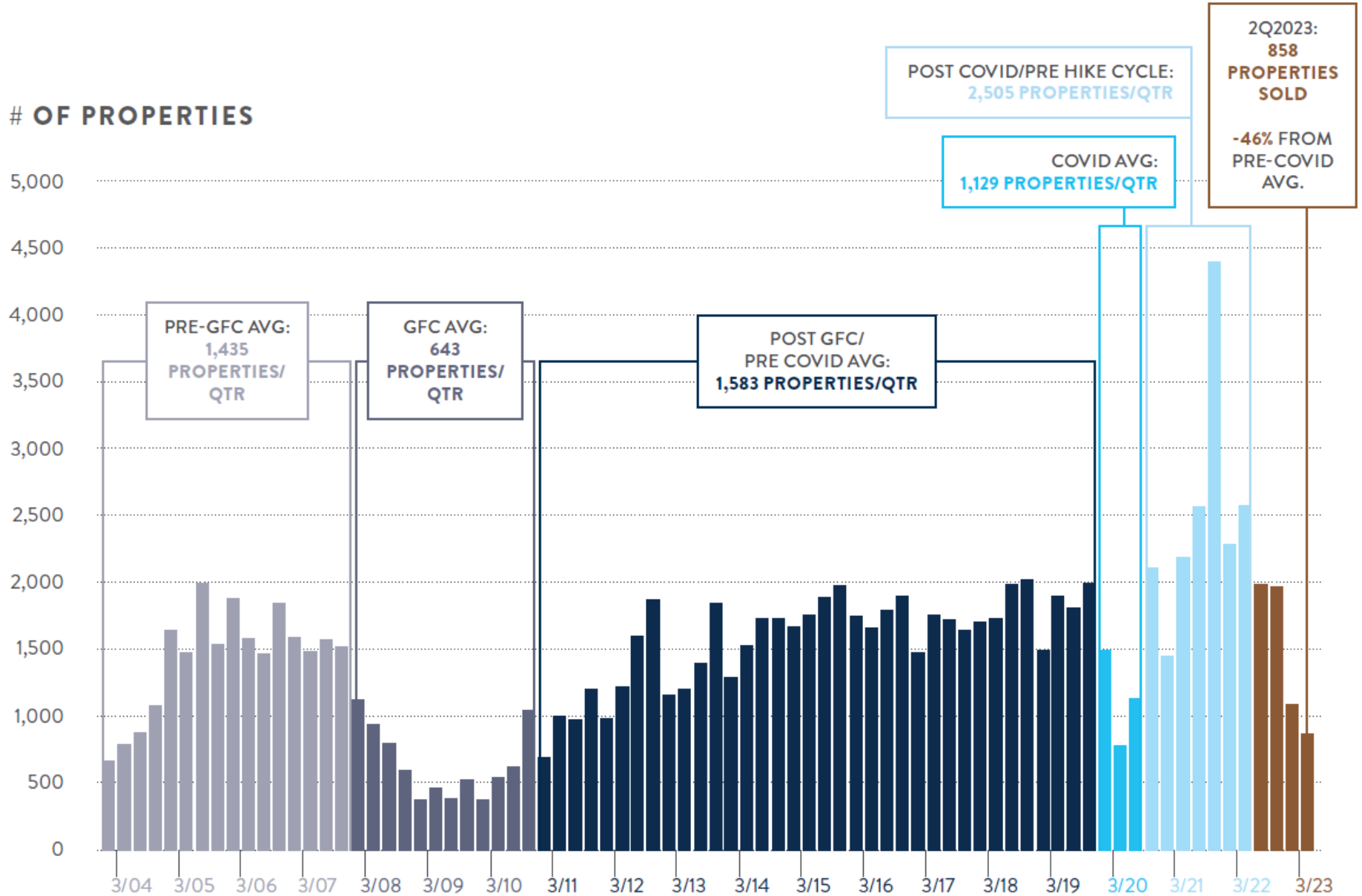
# REIT Performance

*Index, March 2022 = 100*



Source: FTSE NAREIT All Equity REITs Index, as of August 7, 2023

# Historical Transaction Volumes



Source: Walker and Dunlop, Market Intelligence as of August 2023 (Real Capital Analytics)



# Haves vs Have-Nots in Today's Market



## CHARACTERISTICS:

- » A+ Locations
- » Unique Product
- » Favorable Supply/Demand Metrics
- » Compelling Growth Stories – *employment, population trends, property-level upside etc.*
- » Strong Property-Level Fundamentals – *95% + occupied, out-sized trade-outs, lack of concessions*

## TRANSACTION RESULTS:

- » Buyer Pool Willing to Tolerate Negative Leverage for 12-18 months
- » Depth in Bid Sheets
- » Institutional Capital Showing up with Close End & Separately Managed Accounts
- » Sub 5% Going-In Cap, Likely 4.5-4.75%

## CHARACTERISTICS:

- » Secondary / Tertiary Locations
- » Commodity Product
- » Near-Term Supply Concerns
- » Difficulty Stabilizing - *i.e. strong lease-up last year but struggling to finish lease-up and manage upcoming expirations*
- » Flat to Negative Lease Trade-Outs

## TRANSACTION RESULTS:

- » Neutral Leverage Day 1
- » Shallow Bid Sheet with More Private Capital
- » Buyers are Yield-Oriented
- » Going-In Cap is Driven by Leverage Resulting in Low to Mid 5% Caps

Source: Walker and Dunlop, Market Intelligence as of August 2023

# Case Study – “Haves”

## CHARACTERISTICS:

- » Well maintained value-add asset with significant upside through unit interior renovations and mark to market on rents
- » Low density suburban product located in a strong submarket
- » Superior suburban school system
- » Limited historic and future supply pipeline
- » Fully classic interior units, with new roofs and no deferred maintenance
- » Owned by original developer since completion in late 90's
- » Stellar aged receivables
- » Over 7.5% rent growth on tradeouts and renewals during '23

## TRANSACTION RESULTS:

- » Nearly 200 CAs signed, 23 tours
- » Deep bid sheet - 30 round 1 offers
  - Property is located in smaller market so naturally more private capital interest than other markets, but two institutional buyers included in B&F group
- » Around a 4% cap rate going-in tax adjusted - tolerance for negative leverage given the significant upside. Positive leverage by Year 2.

## UNDERWRITING BID MATRIX

BUYER TYPE	INSTITUTION - GENERAL ACCOUNT	PRIVATE CAPITAL	INSTITUTION - JOINT VENTURE	PRIVATE CAPITAL	PRIVATE CAPITAL
Year 1 Rent Growth	4.50%	4.00%	5.20%	4.71%	3.00%
Concessions Carried	0.00%	0.00%	0.15%	0.00%	0.50%
LTV Target	~60%	~60%	~60%	~60%	~60%
Proposed Rate	Not Provided	5.90%	5.75%	5.78%	5.80%
Insurance Quote	\$450/unit	\$488/unit	\$750/unit	\$471/unit	\$400/unit
Exit Cap	5.50%	5.30%	5.75%	5.50%	5.50%
Hold Period	10 Years	5 Years	3 Years	5 Years	5 Years
Target Return (IRR)	16% levered	15% levered	18% levered	15% levered	13-15% levered

Source: Walker and Dunlop, Market Intelligence as of August 2023

# Case Study – “Have-Nots”

## CHARACTERISTICS:

- » Secondary Location - 45 min outside nearest major MSA
- » 2020 Garden Product
- » Low 80% trending occupancy on back door leasing (currently 92% occ.)
- » Negative trade outs throughout marketing period -- negative low single digits
- » Bad Debt increase trend with 8+ evictions
- » No in-place debt
- » Limited room for value add

## TRANSACTION RESULTS:

- » Shallow Bid Sheet with More Private Capital
  - 3 private groups
  - Initial high bidder dropped out due to winning another deal in different market.
  - Winning bid came in last second at award price which exceeded other 2 bids by \$2M+
- » Year 1 cap rate fell around 5.50% - focused on path to positive leverage

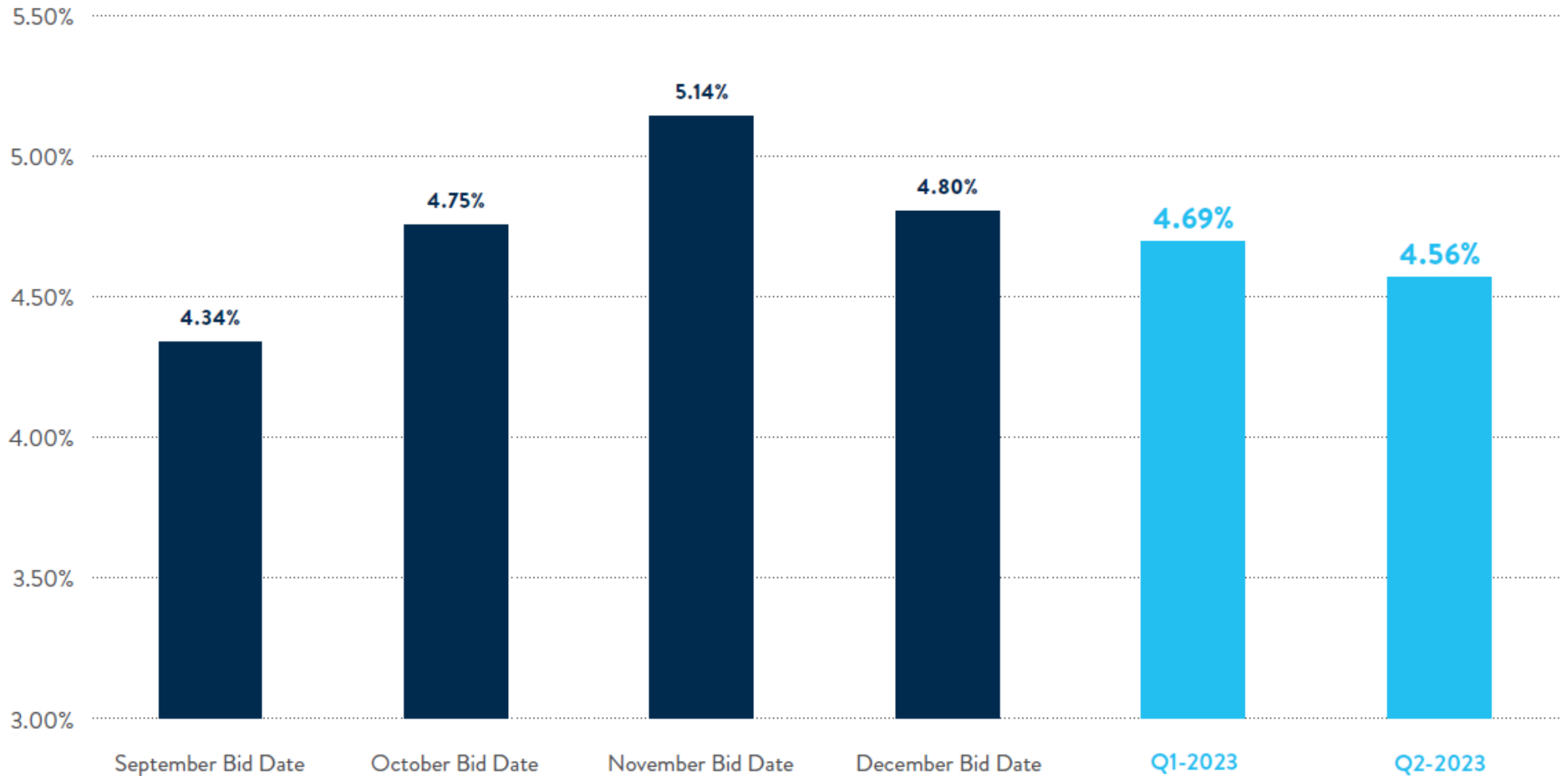
## UNDERWRITING BID MATRIX

BUYER TYPE	PRIVATE CAPITAL	PRIVATE DST BUYER - SYNDICATES AT INVESTOR LEVEL	PRIVATE REIT VEHICLE
Rent Growth	0%	N/A (proforma effective rent - \$1,694 Y1)	2.85% avg. rent growth years 1-5
Vacancy	5%	7% Y1	4.55% avg. vacancy years 1-5
Bad Debt	0.75%	1.00%	0.75% year 1, 0.50% year 2+
Concessions	0%	0.70%	0.50% years 1-5
Total Real Estate Taxes	\$390,065	\$401,203	\$354,375
% of PP	80% in (2025)	Reassessed at 80% of PP in 2025	2025 Reassessed at 80% of PP
Rate	2.55%	2.60%	2.54%
Insurance Per Unit	\$499/unit	\$675/unit	\$625/unit
Capital Reserve	\$250/unit	Not provided	\$250/unit
Year One Cap Rate	Not provided	Not provided	5.50%
Exit Cap Rate	Not provided	5.50%	4.75%
Hold Period (Years)	5-7 Years	10 Years	4 Year Hold
Targeted Yield (COC or IRR)	Not provided	N/A - not IRR focused	14-16% levered IRR

Source: Walker and Dunlop, Market Intelligence as of August 2023

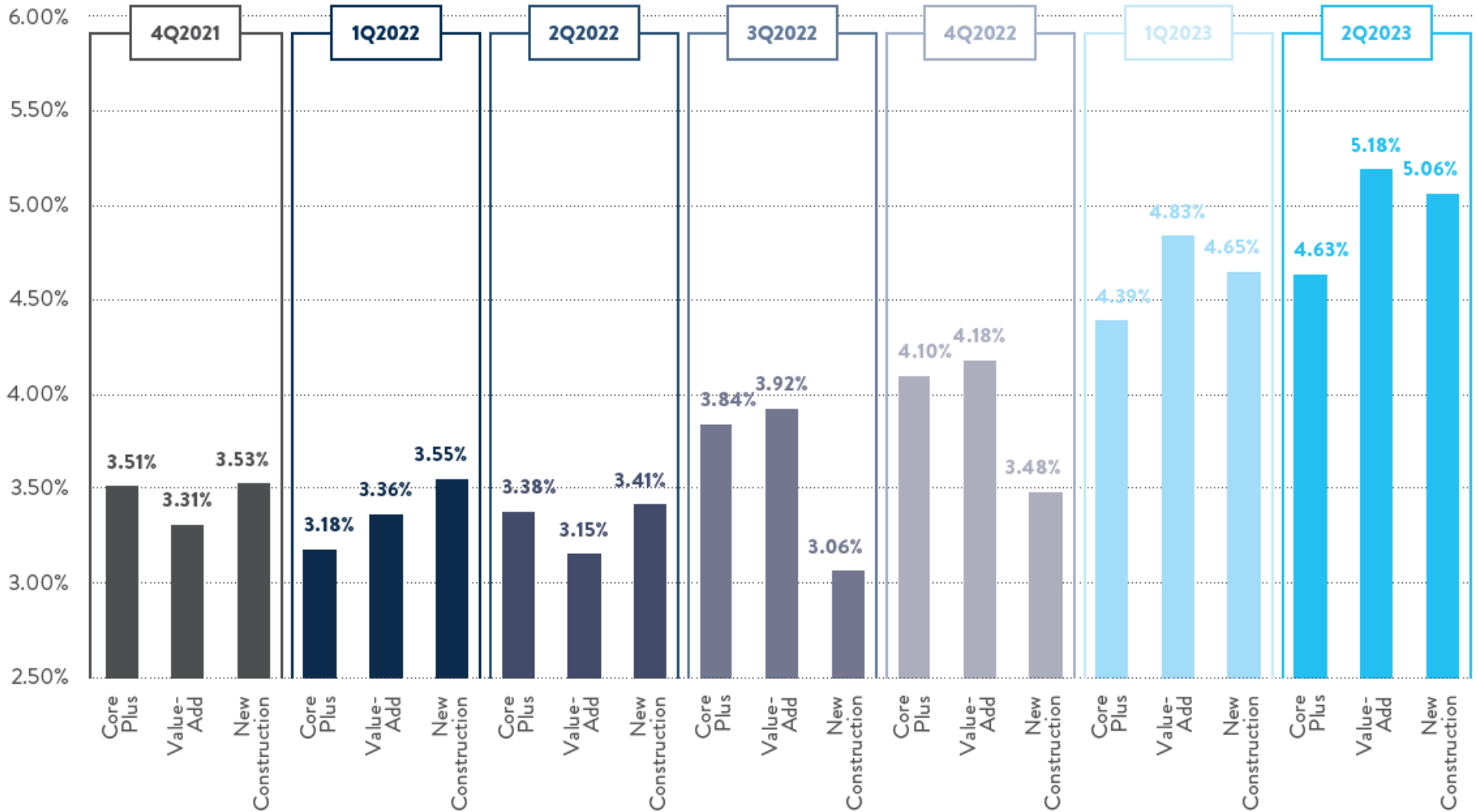
# Cap Rates on Recently Bid WDIS Transactions

*Cap Rates Continue to Stabilize from Q4 Peak*



\*Cap rates shown represent in-place cap rates (tax adjusted)  
Source: Walker and Dunlop, Market Intelligence as of August 2023 (W&D Internal Research)

# Cap Rates on WDIS Closed Transactions

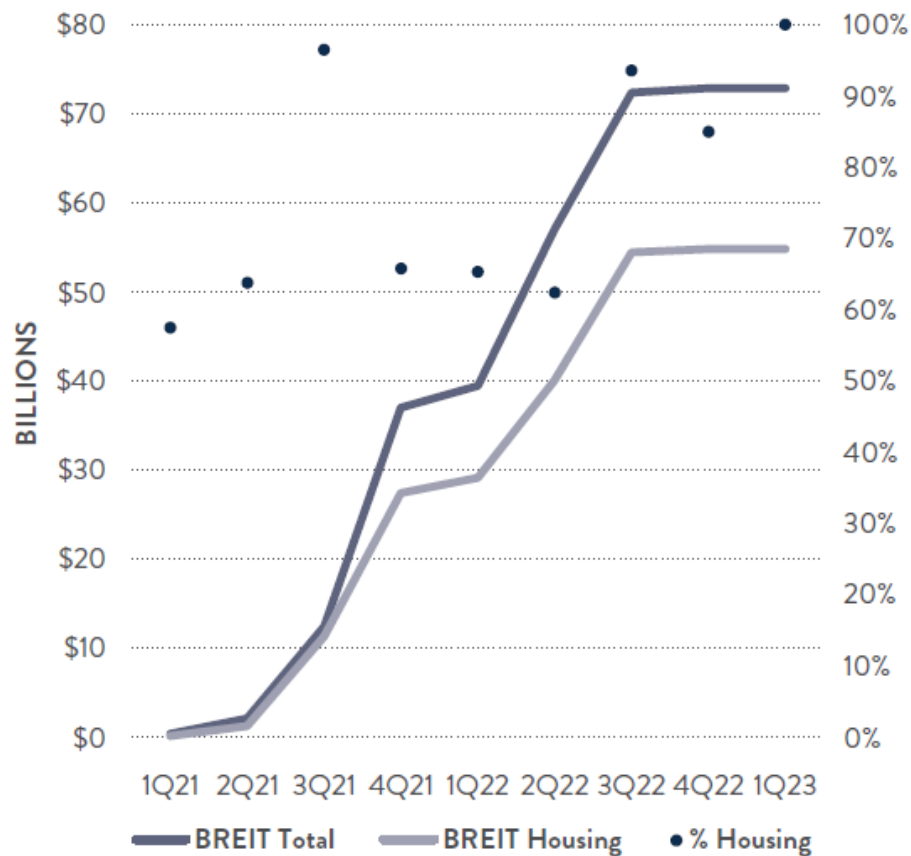


\*Cap rates shown represent in-place cap rates (tax adjusted)  
 Source: Walker and Dunlop, Market Intelligence as of August 2023 (W&D Internal Research)

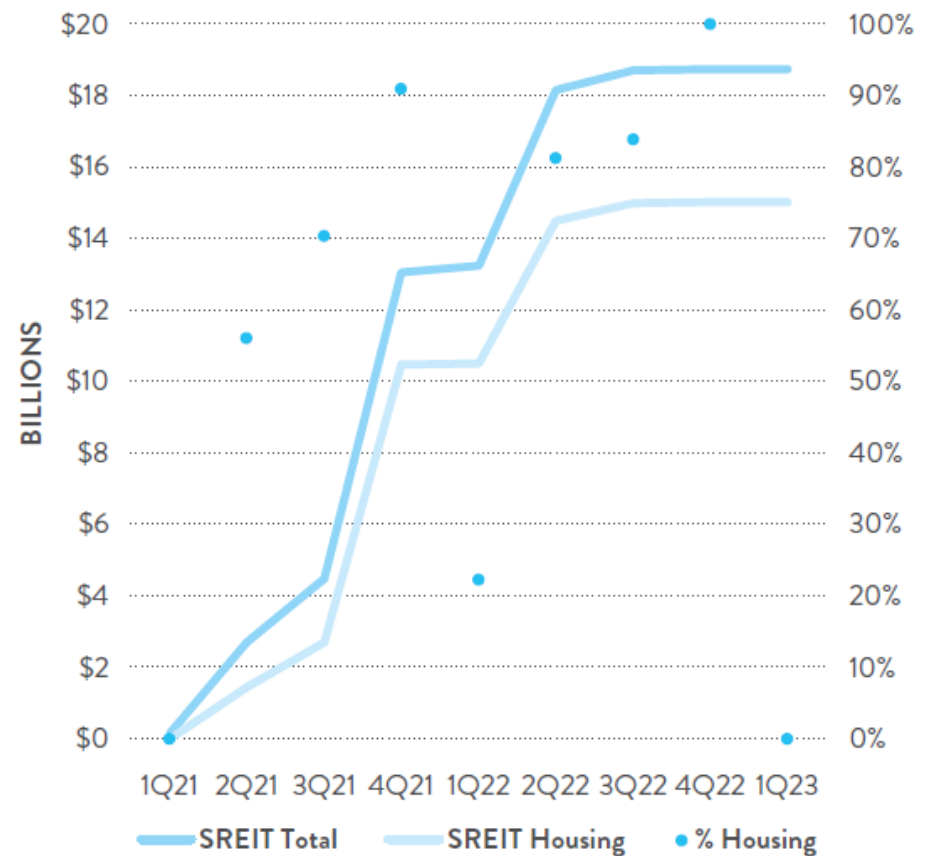
# Non-Traded REITs: Driving Volume

- BREIT and SREIT Driving Nearly \$10B in Acquisition Vol. per Quarter
- From 4Q2021 – 4Q2022: \$100M in Transaction Vol. Daily

**BREIT: TOTAL & HOUSING ACQUISITIONS OVER TIME**



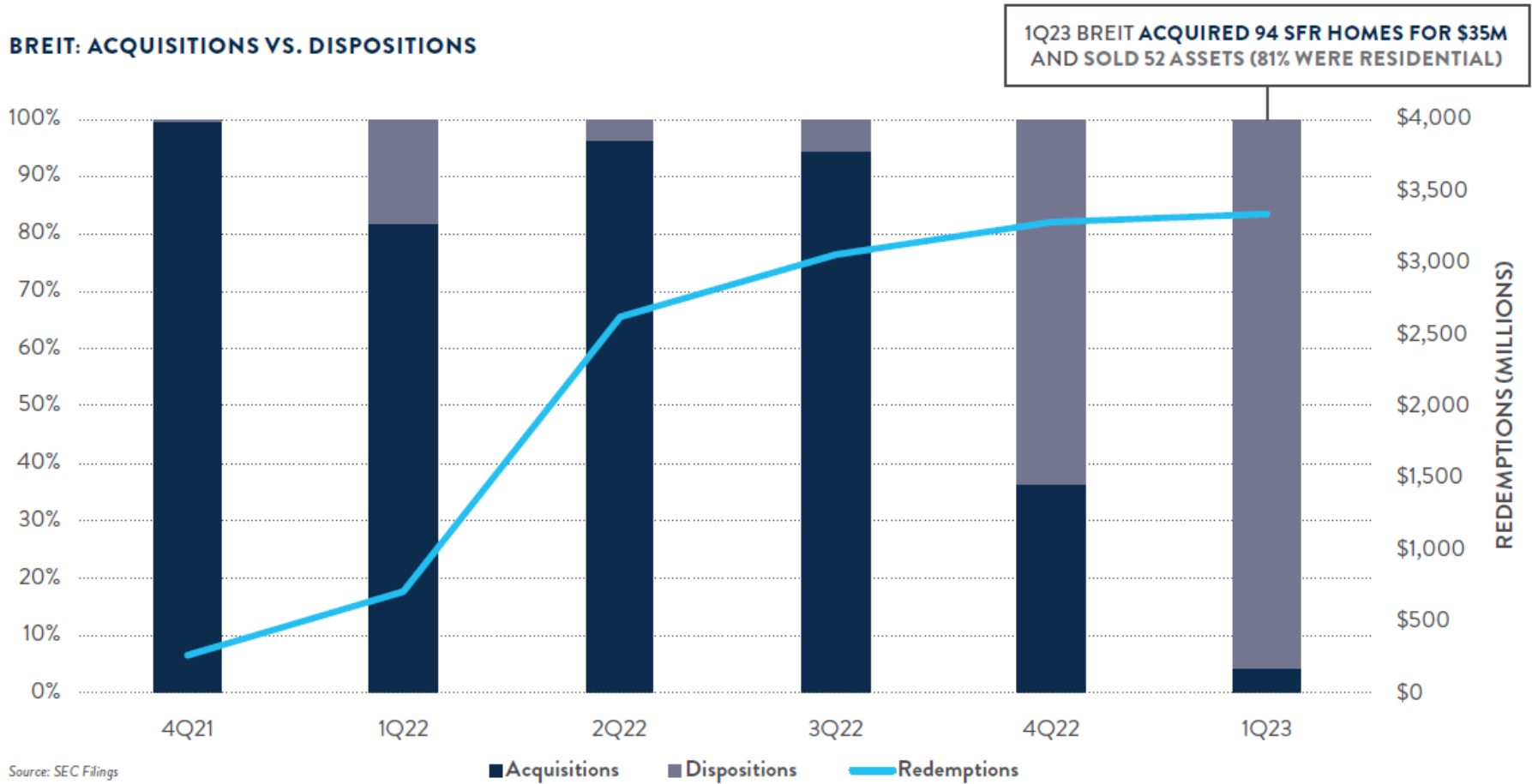
**SREIT: TOTAL & HOUSING ACQUISITIONS OVER TIME**



Source: Walker and Dunlop, Market Intelligence as of August 2023 (SEC Filings)

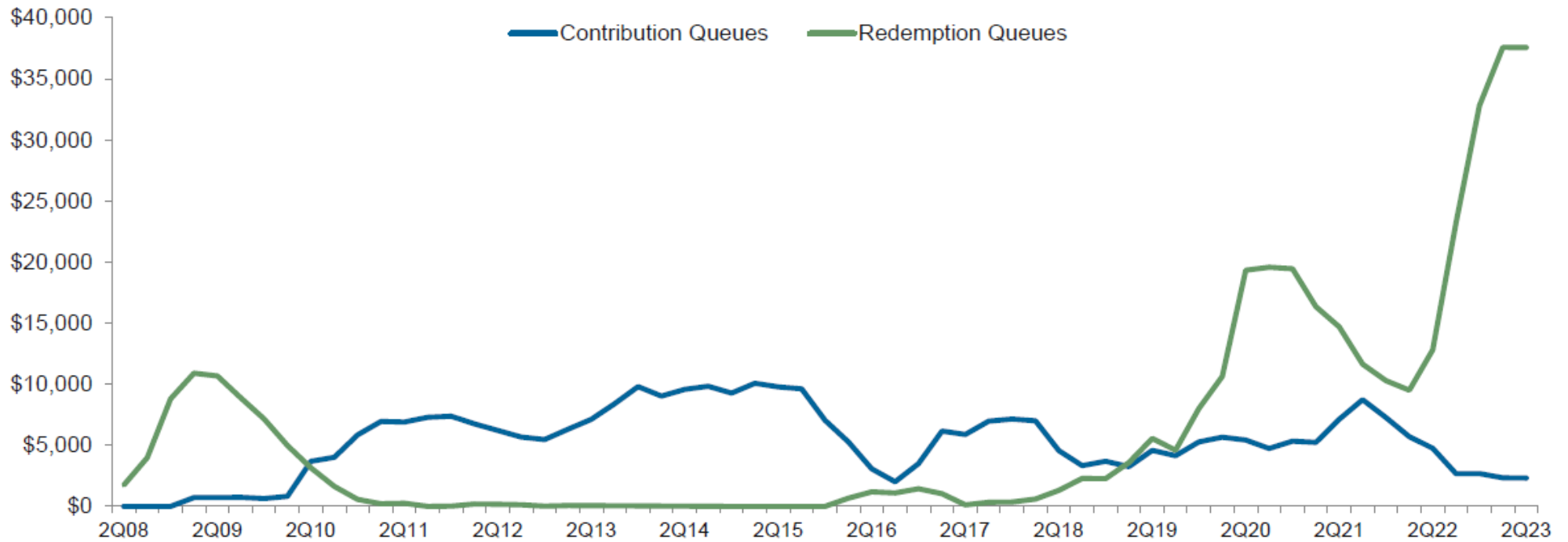
# Non-Traded REITs: BREIT Acquisitions vs. Dispositions

Acquisitions down 99% and Dispositions up 36% (YoY) as of 4Q2022



Source: Walker and Dunlop, Market Intelligence as of August 2023 (SEC Filings)

# Core Fund Contribution/Redemption Queues (\$mm)

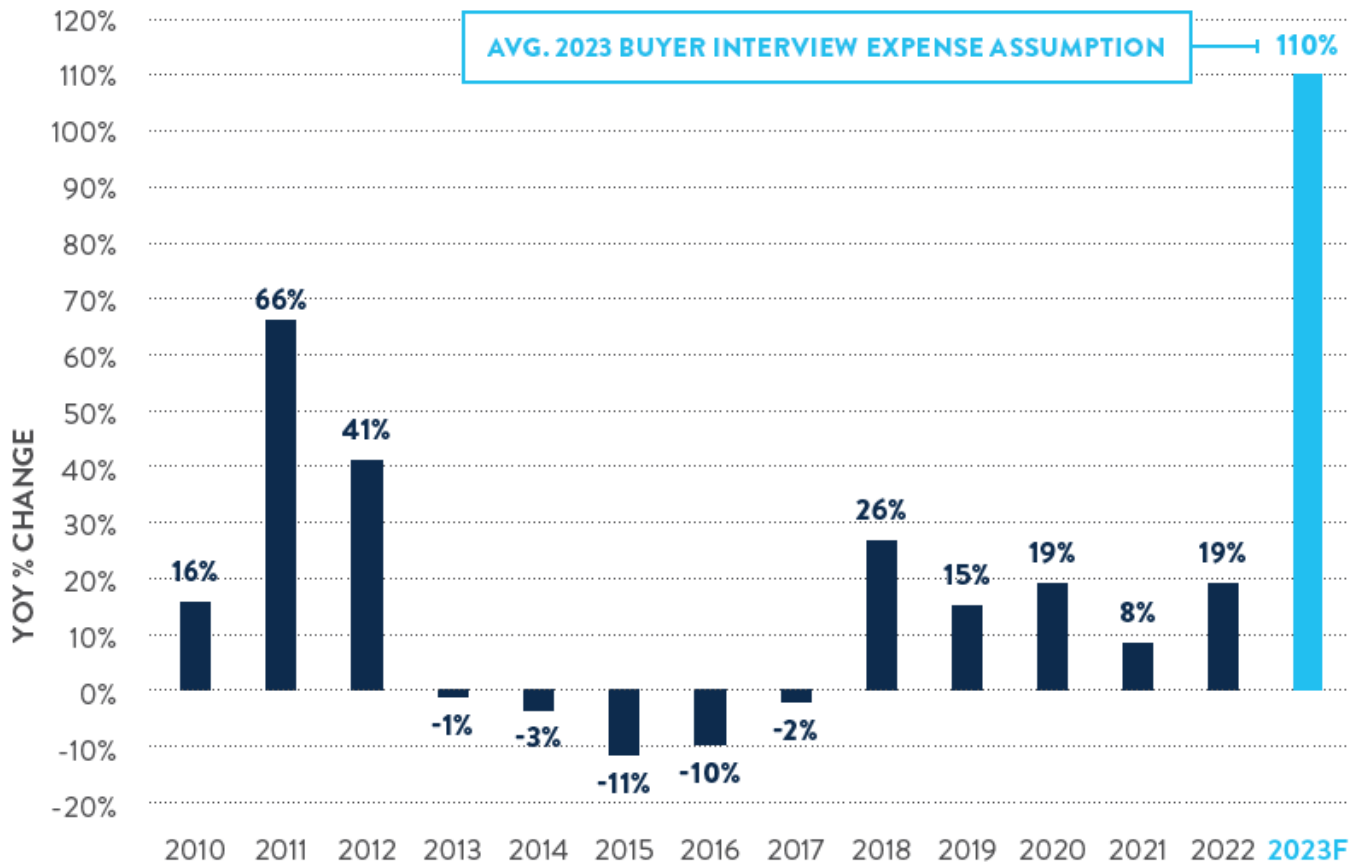


Source: Callan Associates, as of 2Q 2023



# W&D Servicing Portfolio

## Florida Insurance Expense – YoY Change



Source: W&D Internal Research

### RECENT BUYER INTERVIEW INSURANCE EXPENSE ASSUMPTIONS BY MARKET

#### ORLANDO

\$1,100 | \$1,200 Per Unit

#### SARASOTA

\$1,400 | \$1,500 Per Unit

#### JACKSONVILLE

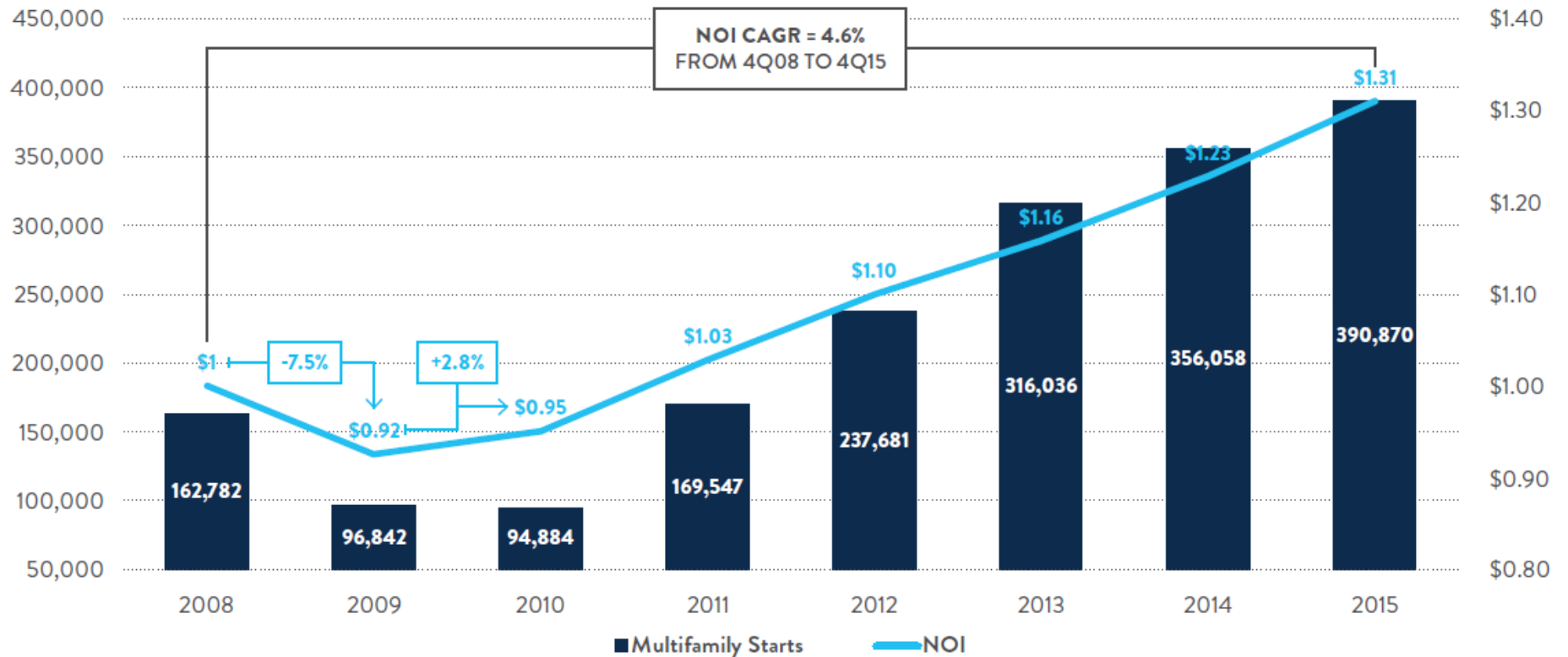
\$1,100 | \$1,700 Per Unit

**FLORIDA'S INSURANCE HAS CONSISTENTLY RISEN OVER THE LAST 5 YEARS. RECENT BUYER INTERVIEW METRICS ARE POINTING TO A 110% INSURANCE EXPENSE INCREASE BETWEEN 2022 AND 2023.**

Source: Walker and Dunlop, Market Intelligence as of August 2023 (SEC Filings)

# NOI Growth vs. Multifamily Starts During the GFC

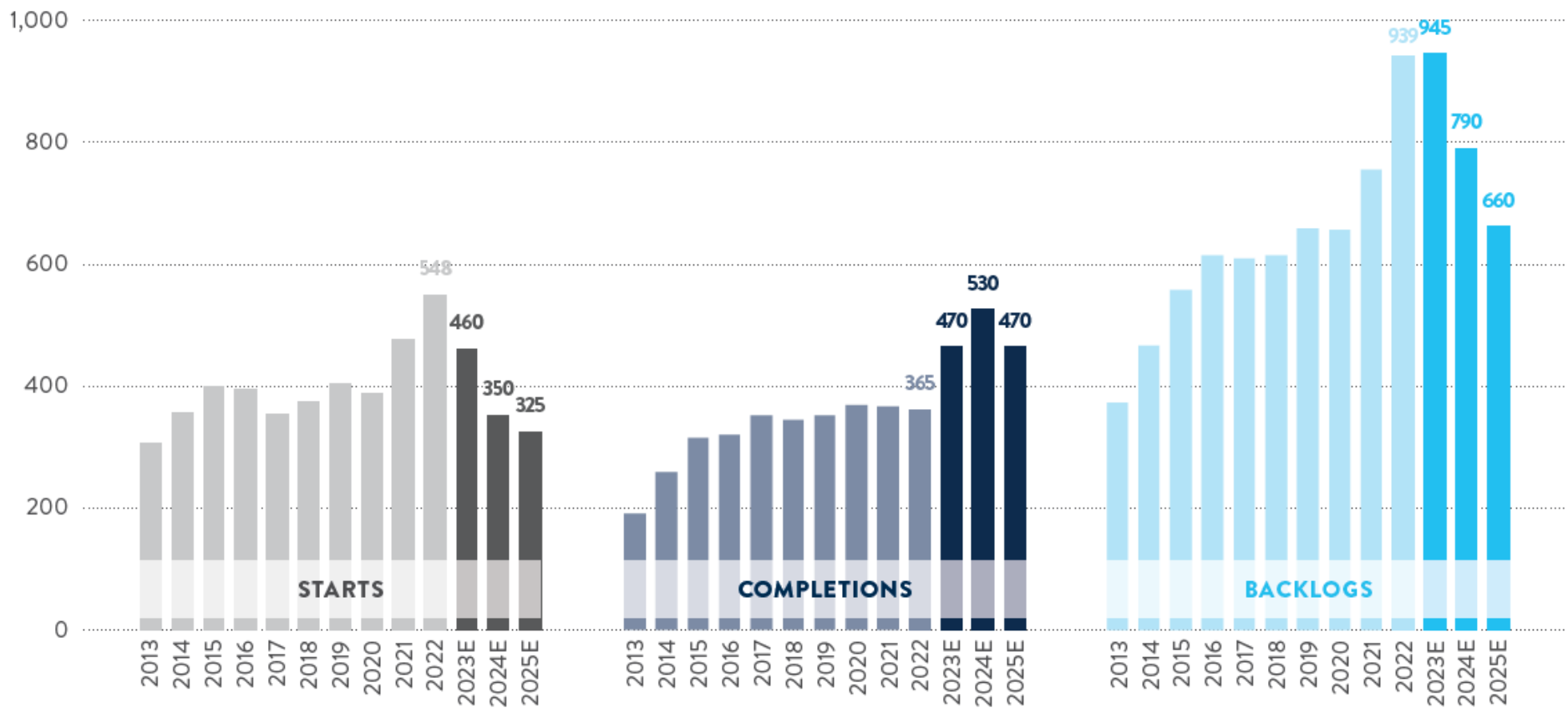
LOOKING AT NOI GROWTH FROM 2008 TO 2015, THERE WAS A 4.6% CAGR OVER THIS SIX-YEAR PERIOD, WITH NOI FALLING ONLY ONE YEAR (YOY) BEFORE QUICKLY REBOUNDED IN 2010. DURING THIS SAME PERIOD, MULTIFAMILY STARTS DECREASED 40.5% IN 2009, AND REMAINED SUBDUED FOR A 24 MONTH PERIOD



Source: Walker and Dunlop, Market Intelligence as of August 2023 (Zelman & Associates, & CoStar)

# Updated Zelman Forecasts – Starts Declining Slower than Expected YTD

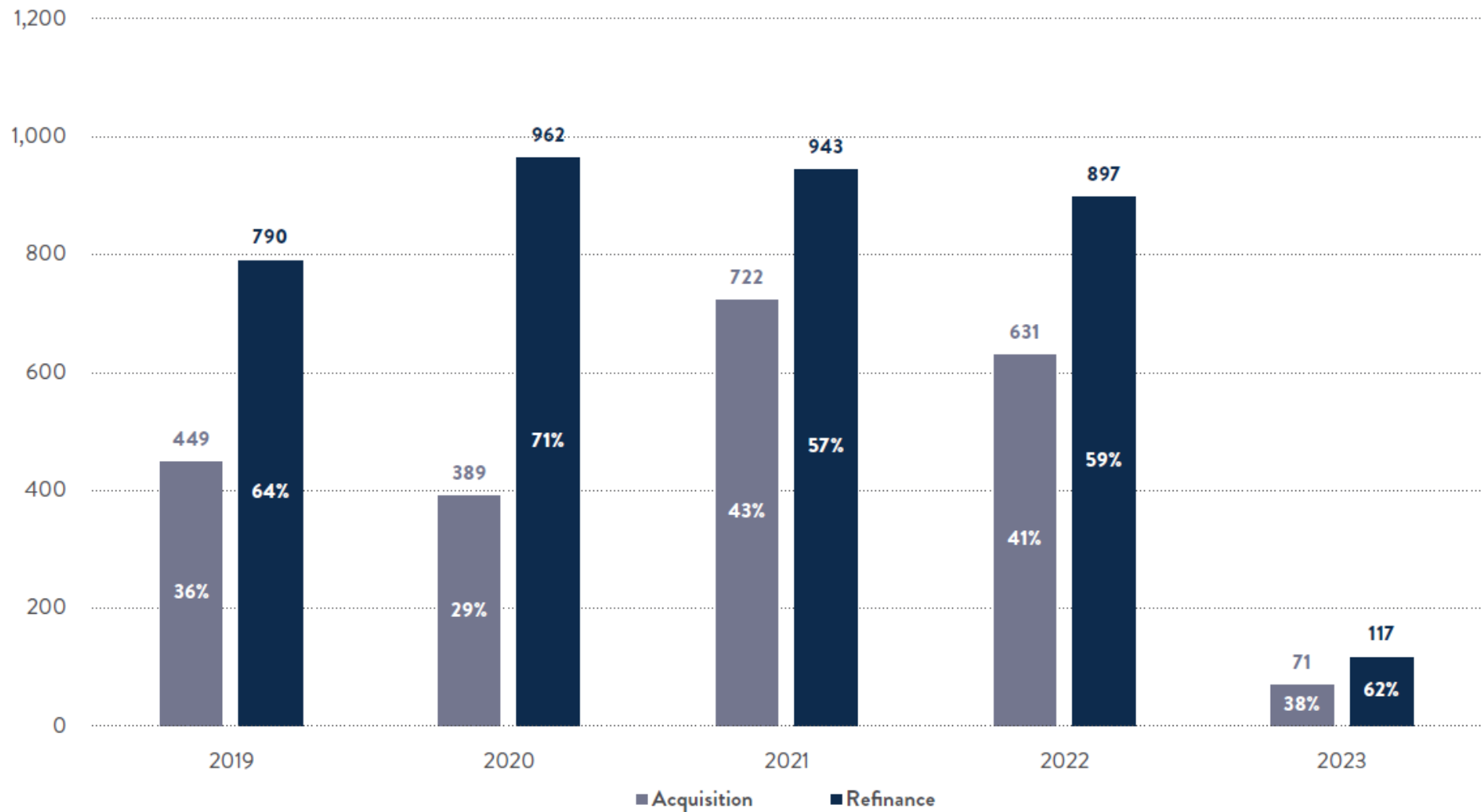
## MULTIFAMILY CONSTRUCTION - UNITS IN THOUSANDS



Source: Walker and Dunlop, Market Intelligence as of August 2023 (Zelman & Associates Apartment Survey)

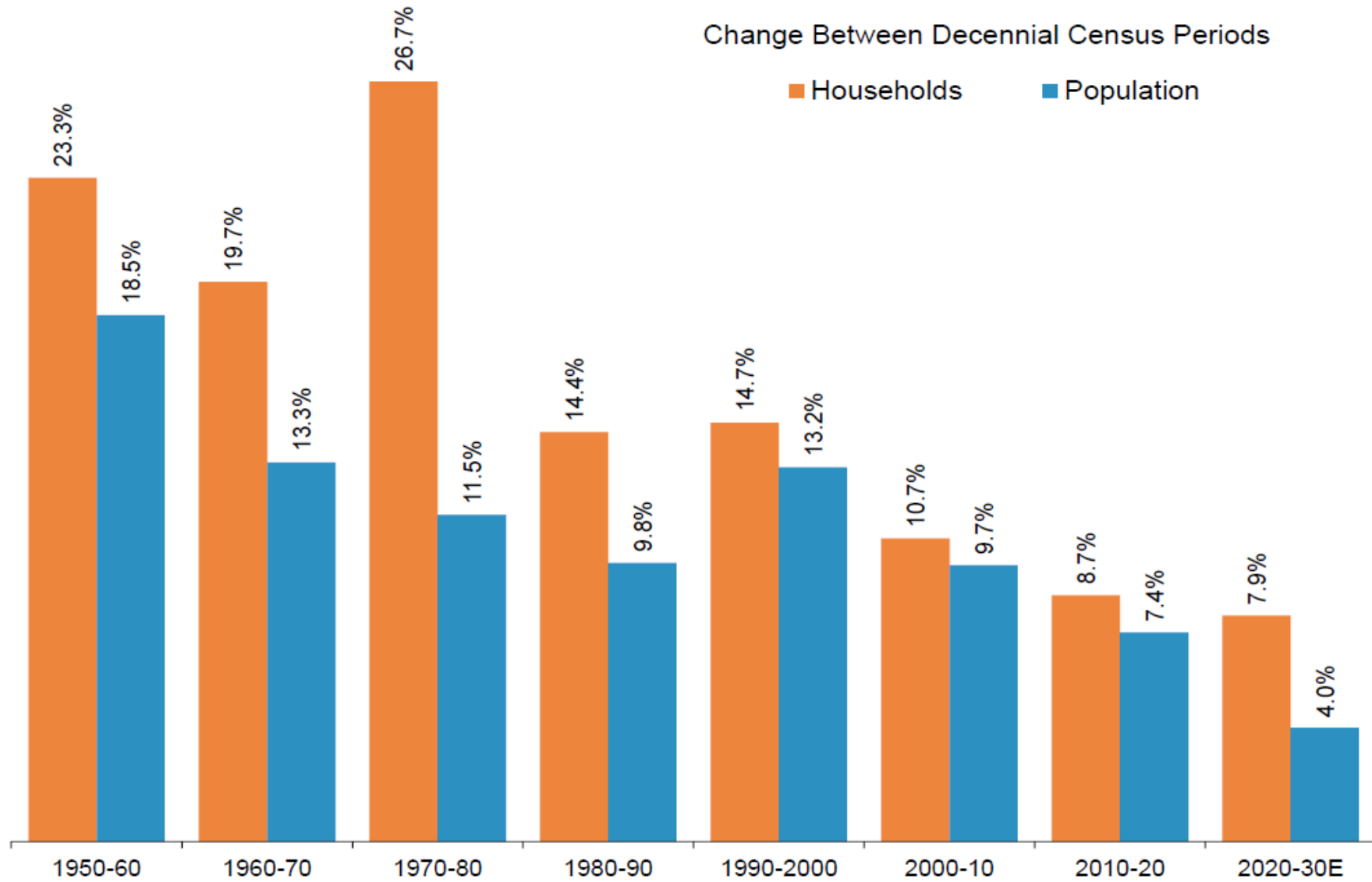
# Acquisition vs. Refinance – Loan Activity Trend

## ACQUISITION VS. REFINANCE - BY NUMBER OF LOANS



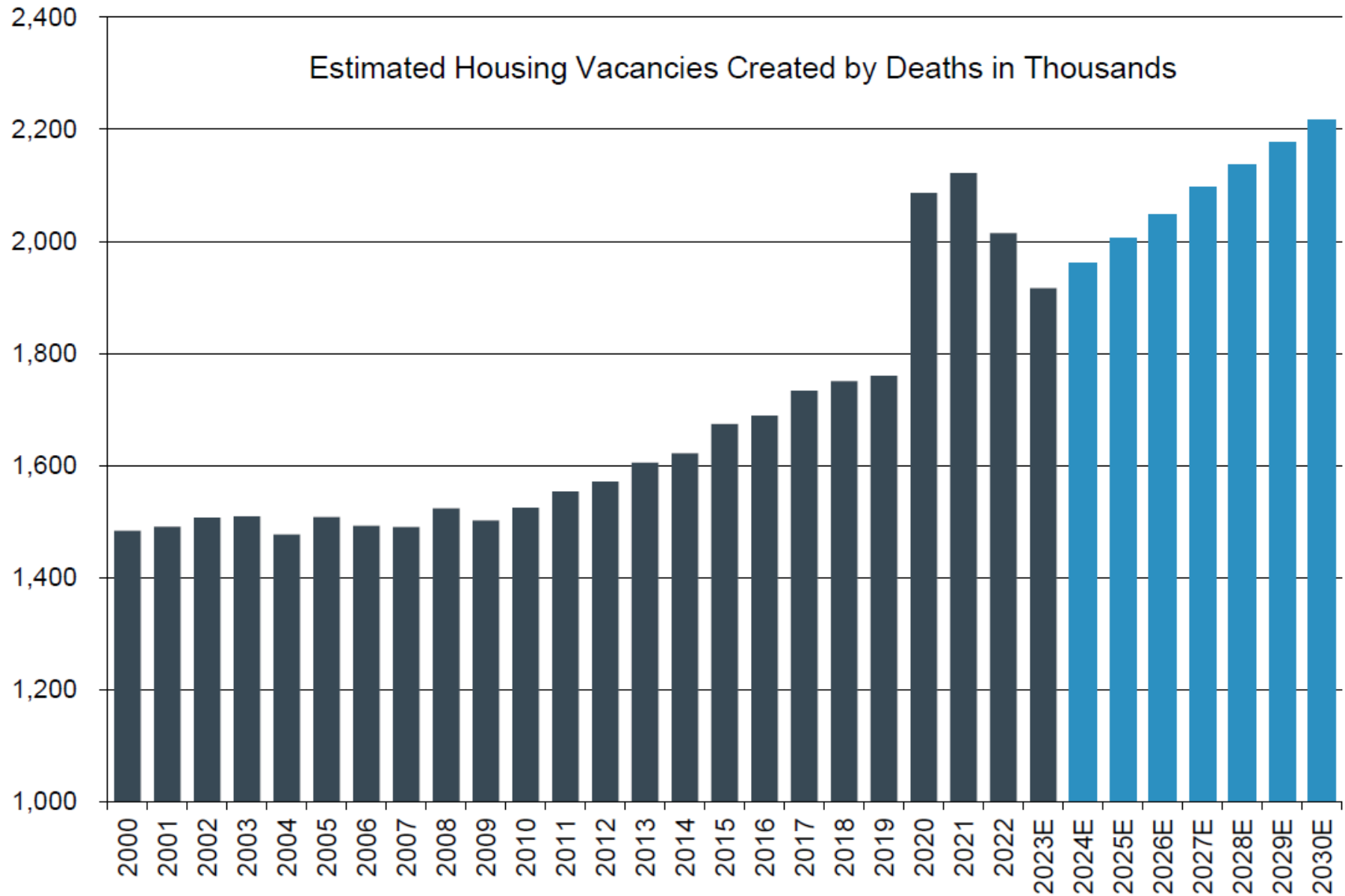
Source: Walker and Dunlop, Market Intelligence as of August 2023 (W&D Internal Research)

# Population, Household Growth Continues to Slide



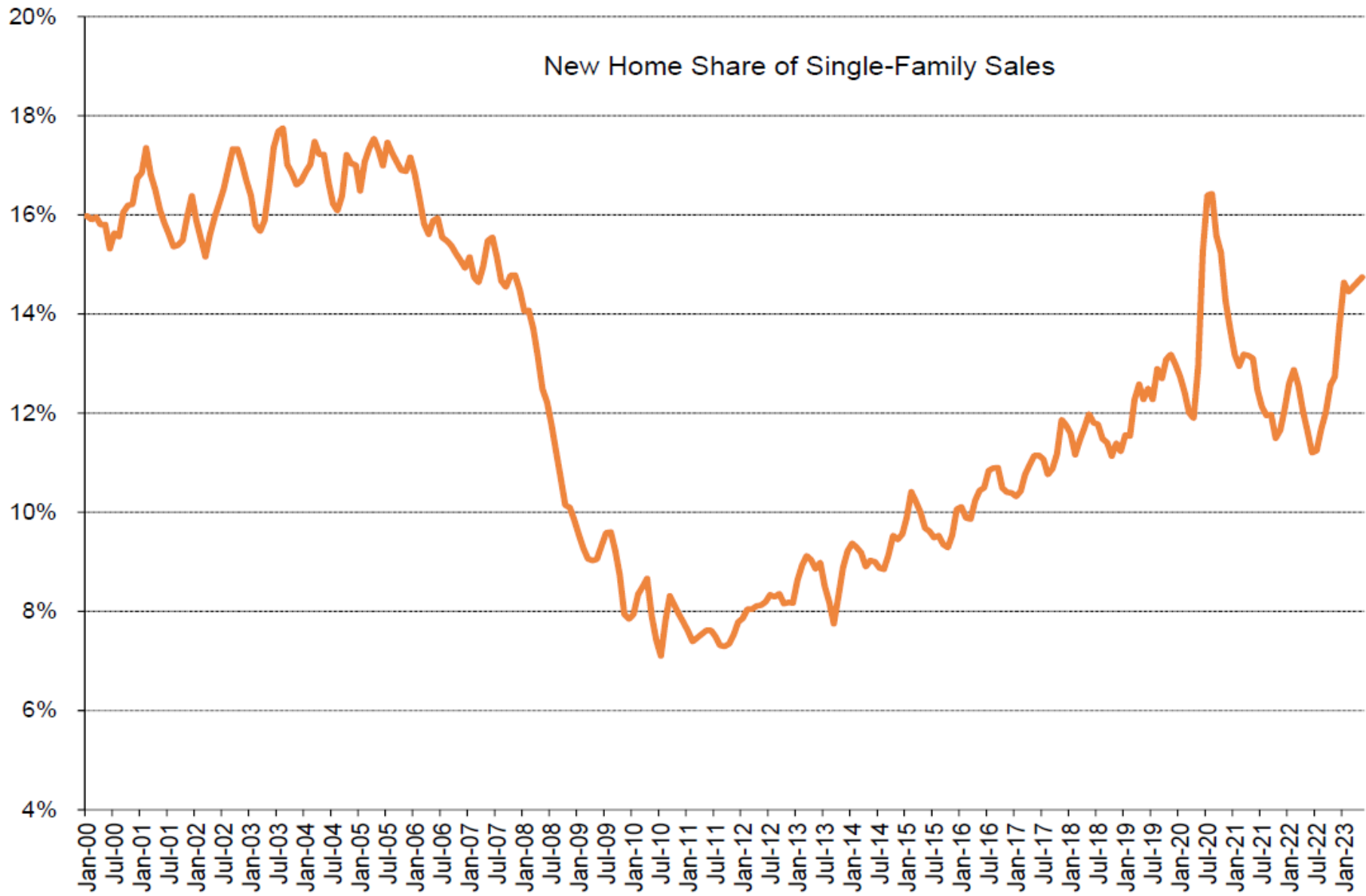
Source: Zelman Associates, Housing Market Update as of October 2023 (US Census Bureau)

# Aging Population a New Challenge



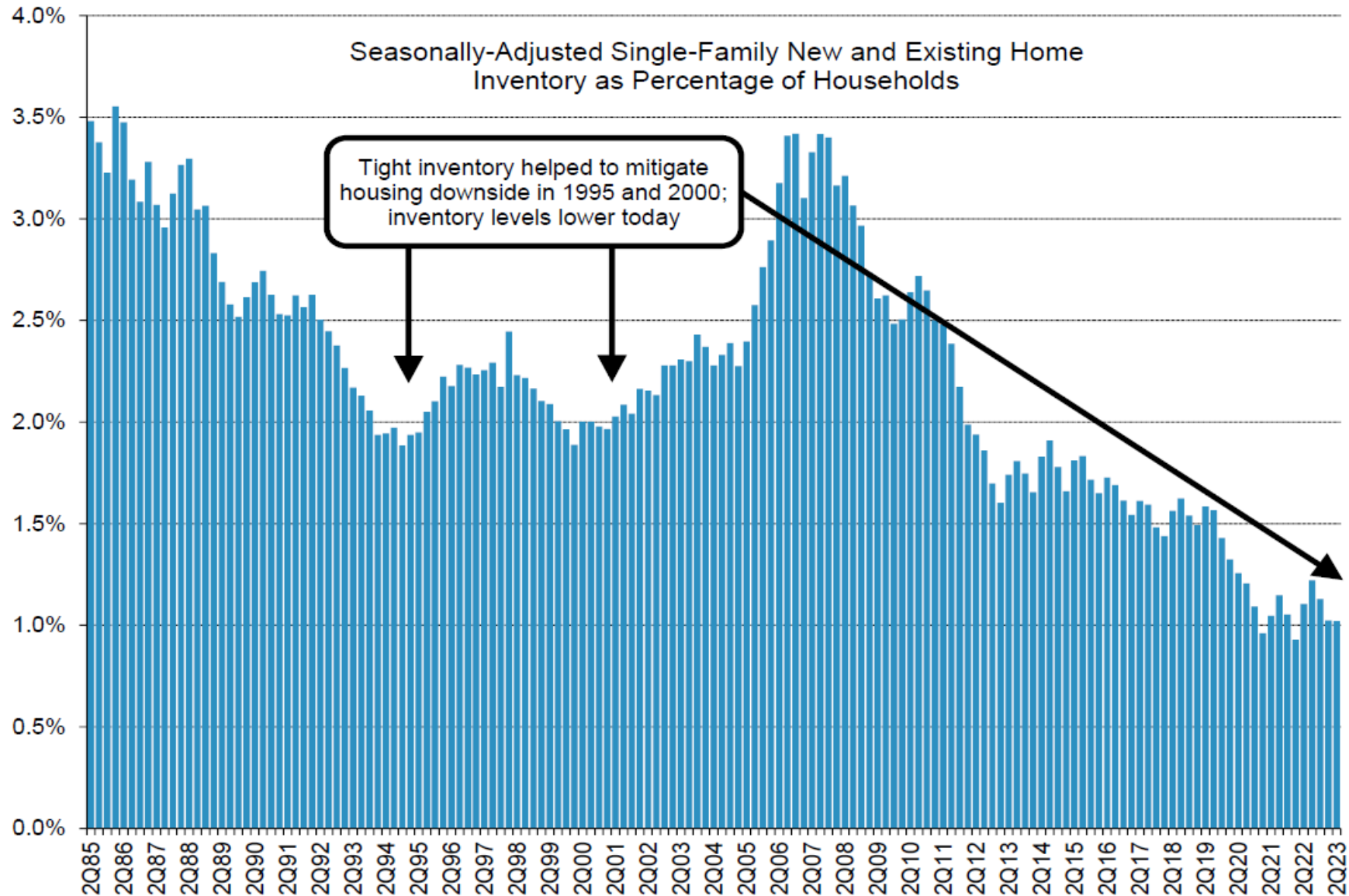
Source: Zelman Associates, Housing Market Update as of October 2023 (US Census Bureau)

# New Home Share Pops Due to Tight Market



Source: Zelman Associates, Housing Market Update as of October 2023 (US Census Bureau)

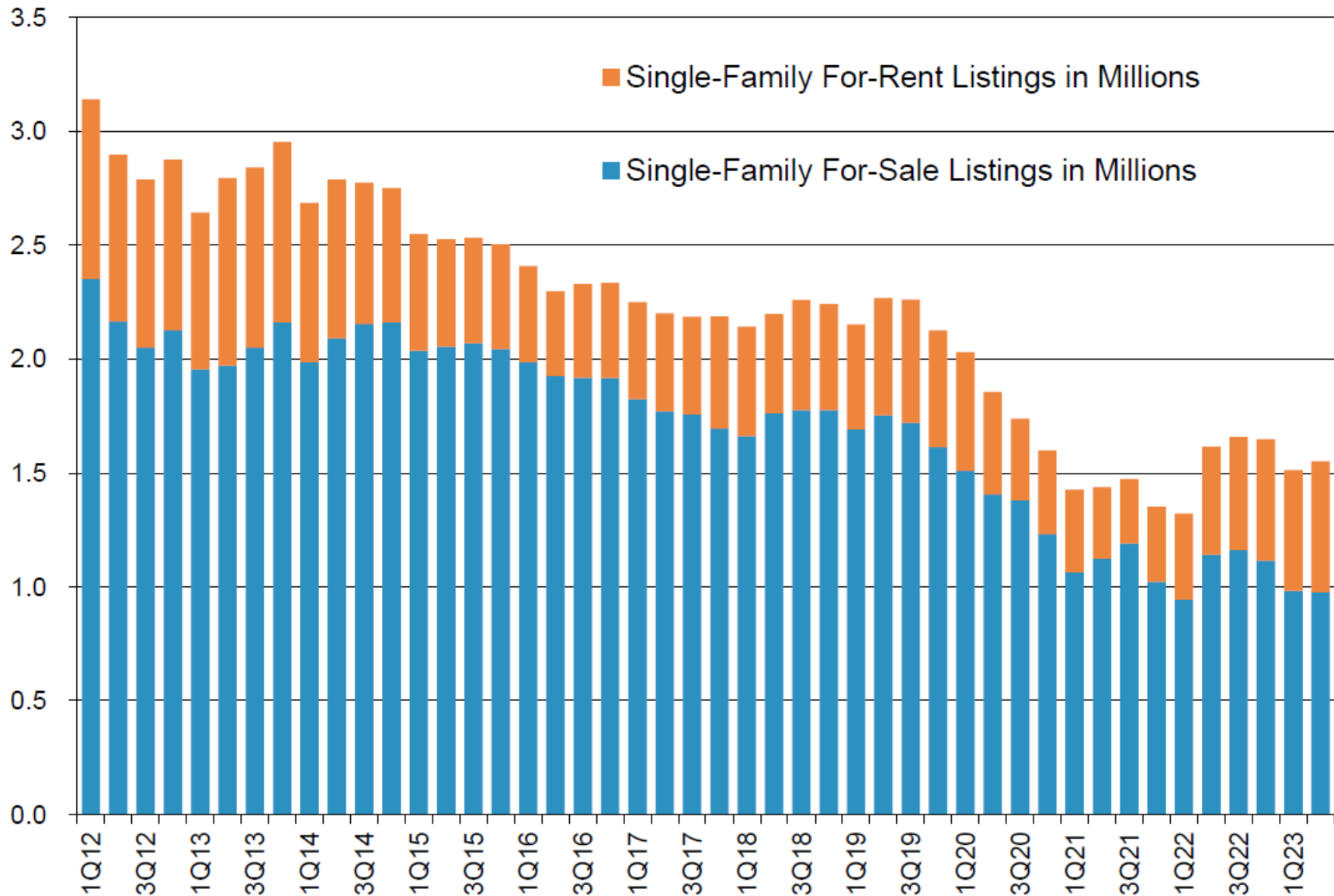
# Inventory as a % of Households Remains Tight



Source: Zelman Associates, Housing Market Update as of October 2023 (US Census Bureau & NAR)

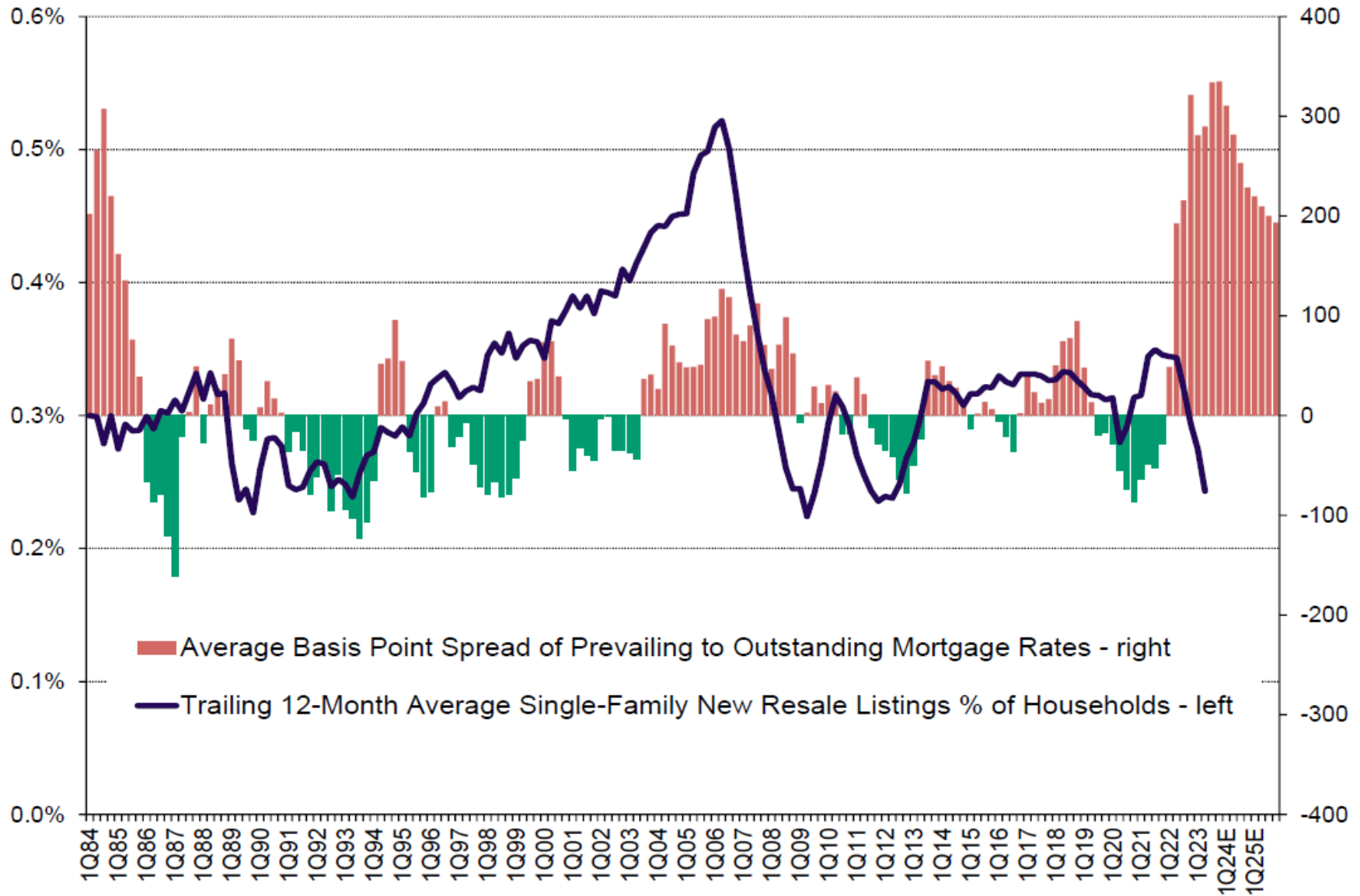


# Total Single-Family Supply Should be the Focus



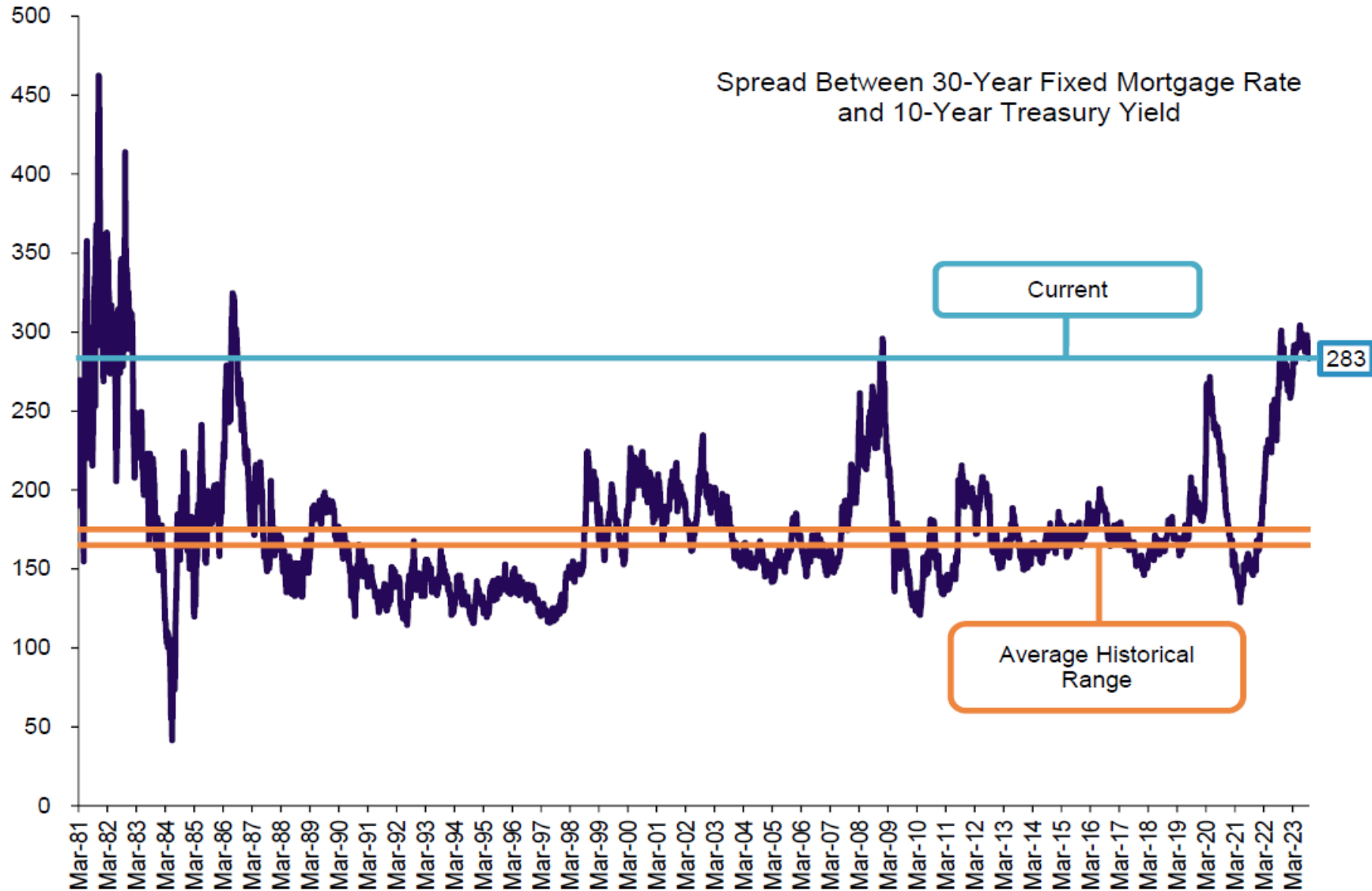
Source: Zelman Associates, Housing Market Update as of October 2023 (NAR)

# New Listings Unlikely to Improve Given Rates



Source: Zelman Associates, Housing Market Update as of October 2023 (BEA, Freddie Mac, & NAR)

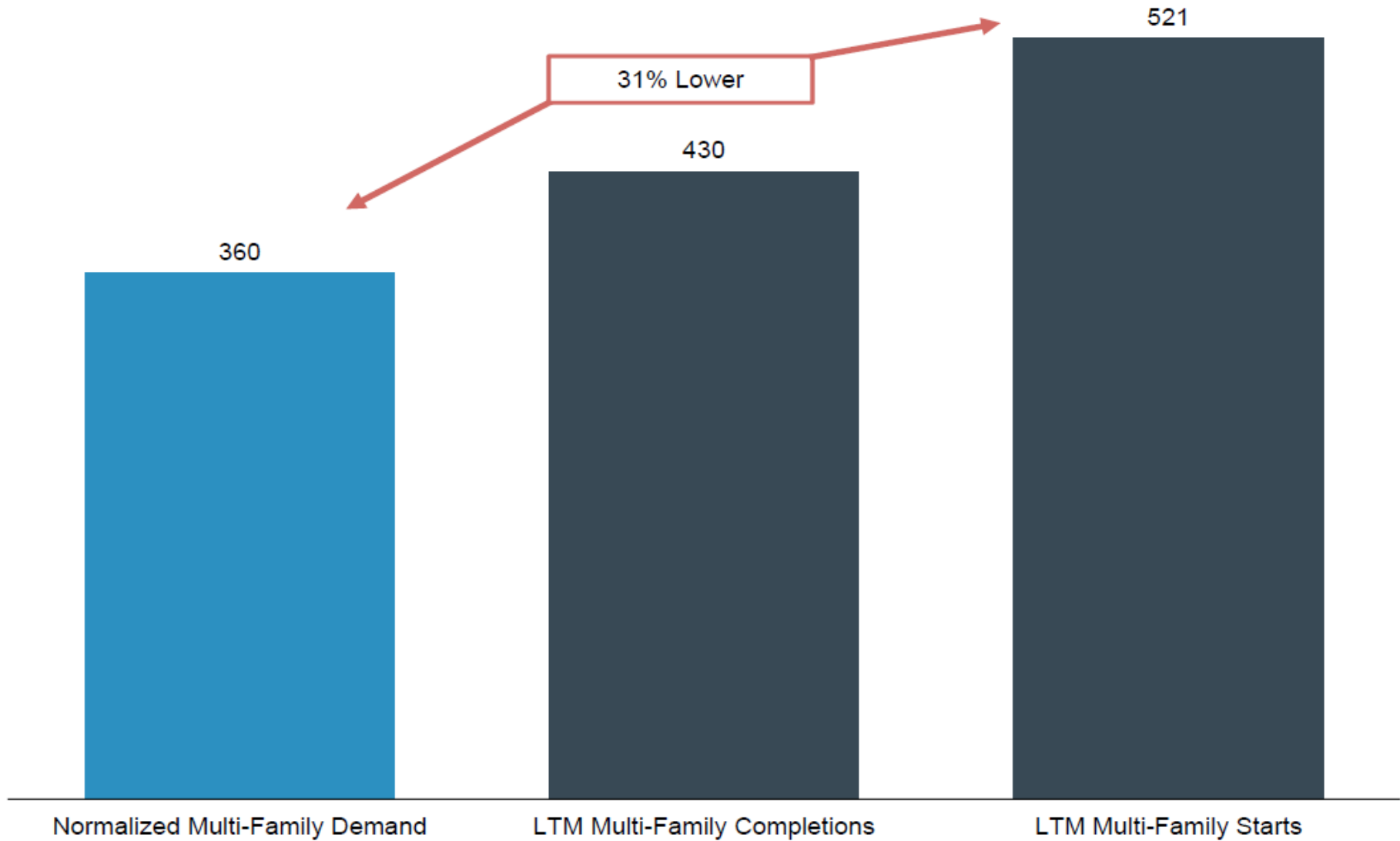
# Historical Context on Mortgage Spreads



Source: Zelman Associates, Housing Market Update as of October 2023 (Freddie Mac)

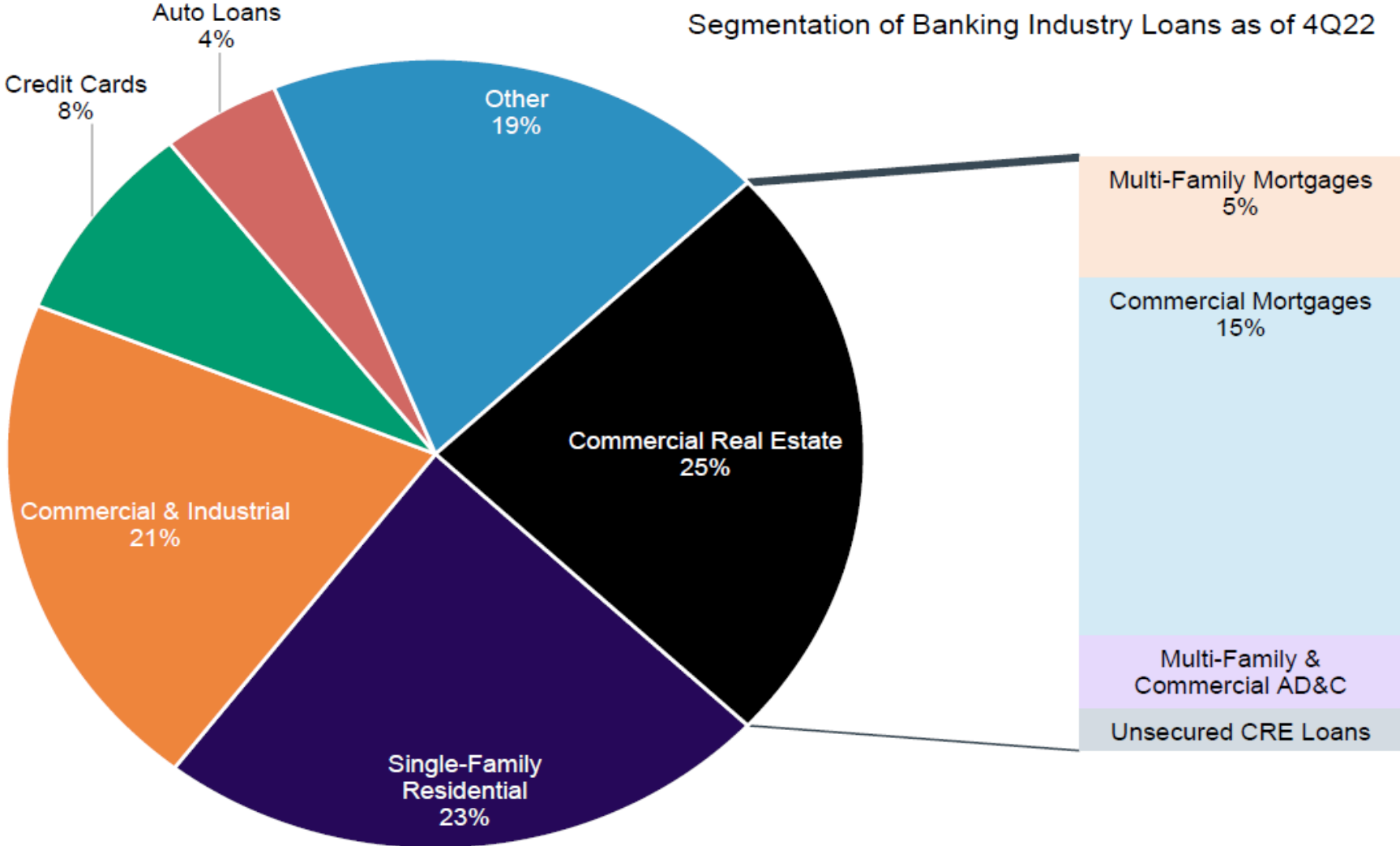
# Multifamily Starts Well Above Normalized Demand

Recent Housing Supply Metrics Versus  
Normalized Demand Estimate



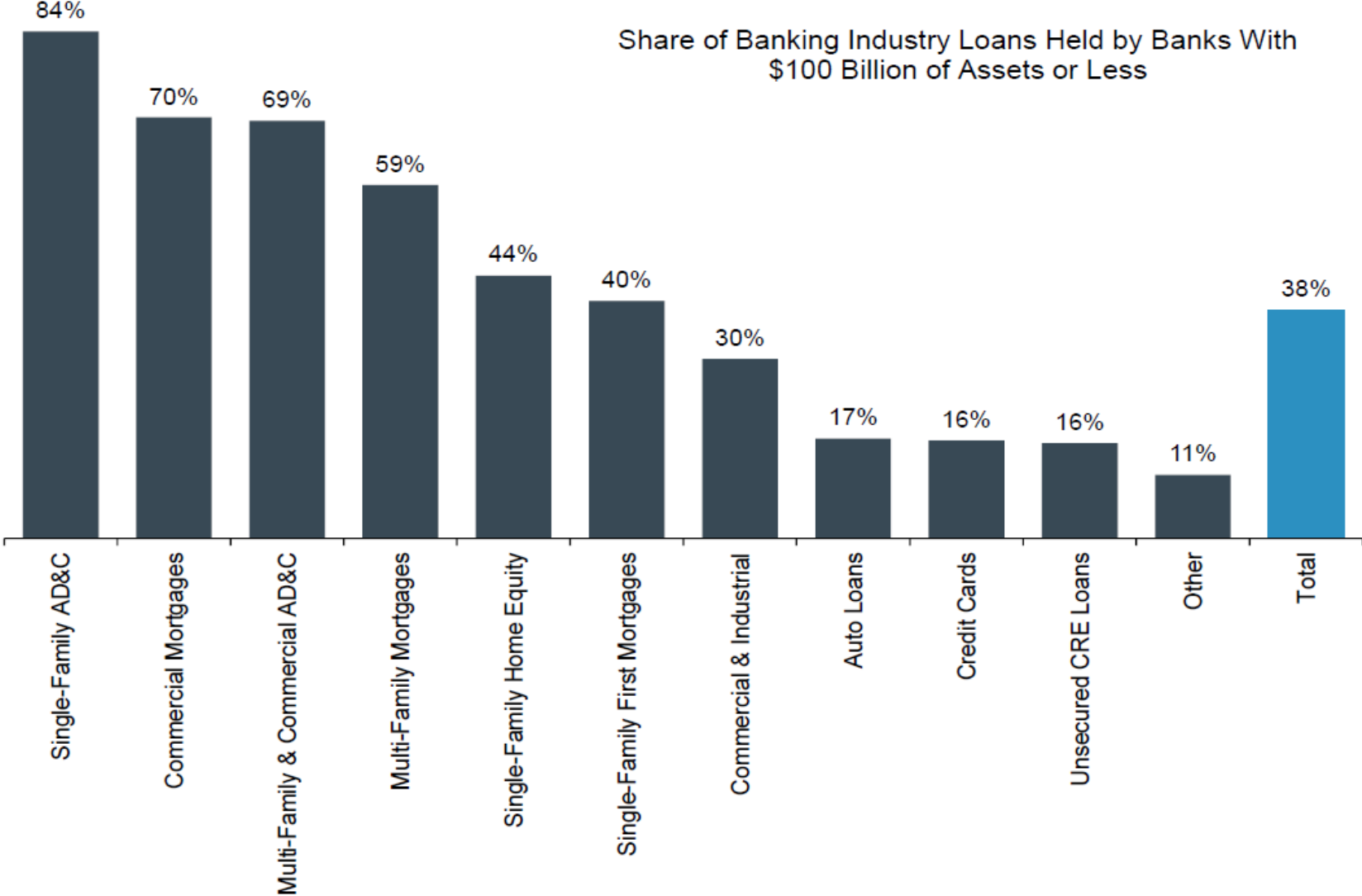
Source: Zelman Associates, Housing Market Update as of October 2023 (US Census Bureau)

# CRE at Center of Banking Turmoil



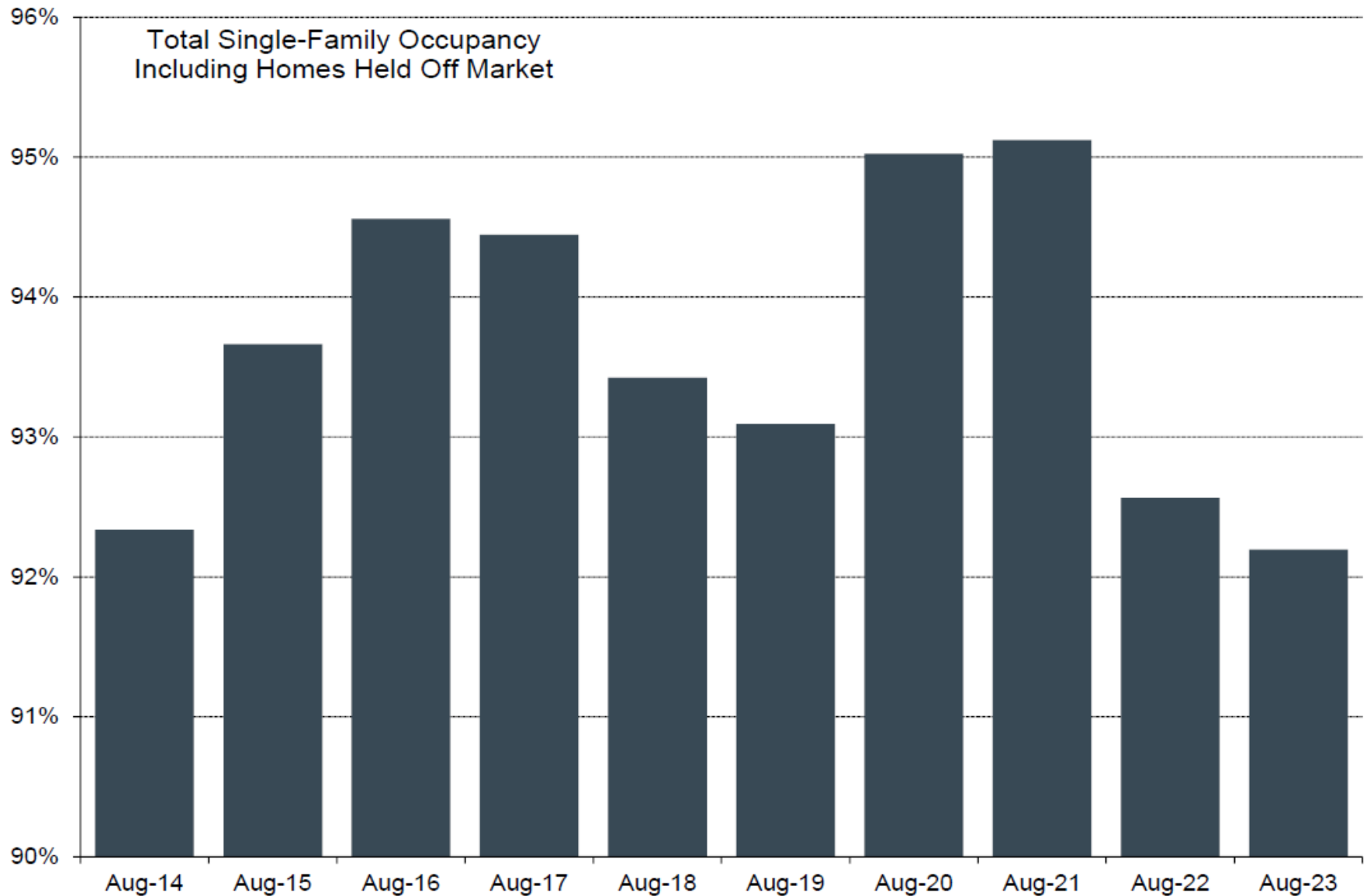
Source: Zelman Associates, Housing Market Update as of October 2023 (FDIC)

# Small Banks Have High Exposure to MF AD&C



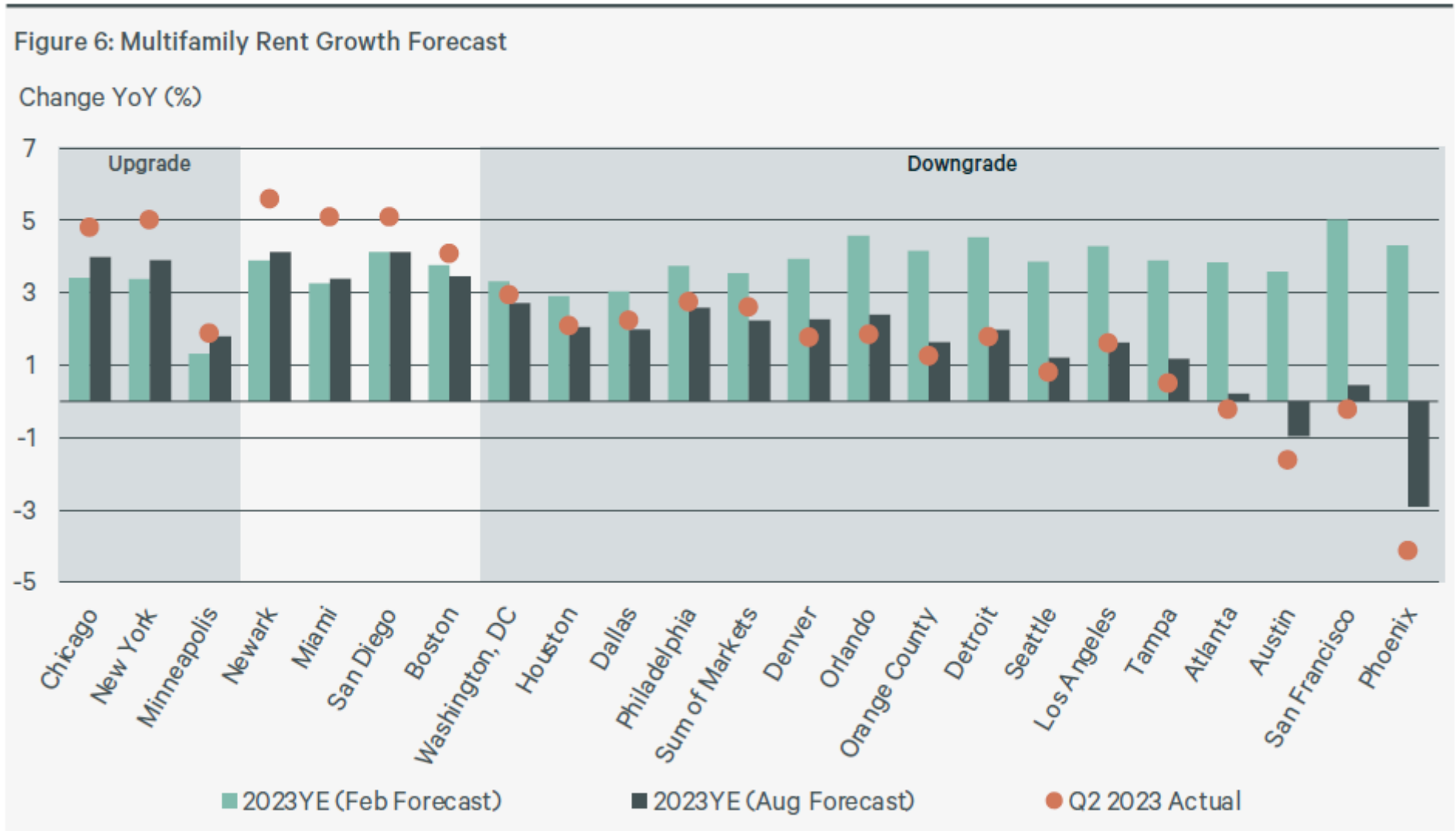
Source: Zelman Associates, Housing Market Update as of October 2023 (FDIC)

# Total Occupancy Lowest Since 2014



Source: Zelman Associates, Housing Market Update as of October 2023 (Zelman & Assoc. Single-Family Rental Survey)

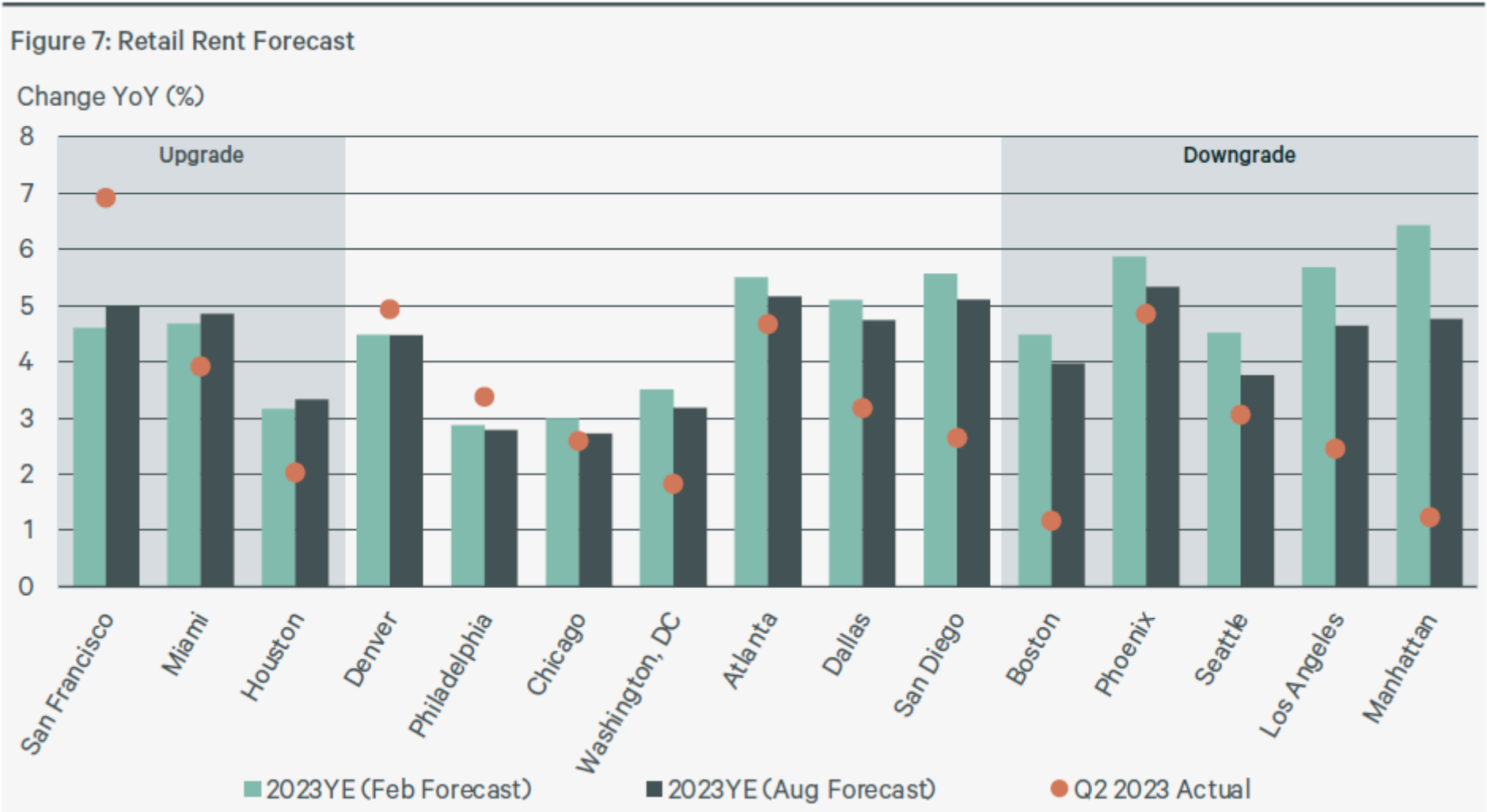
# Multifamily Rent Growth Forecast



Source: CBRE Research, 2023 Real Estate Market Outlook Midyear Review, as of August 2023 (CBRE Econometric Advisors Q2 2023)



# Retail Rent Growth Forecast

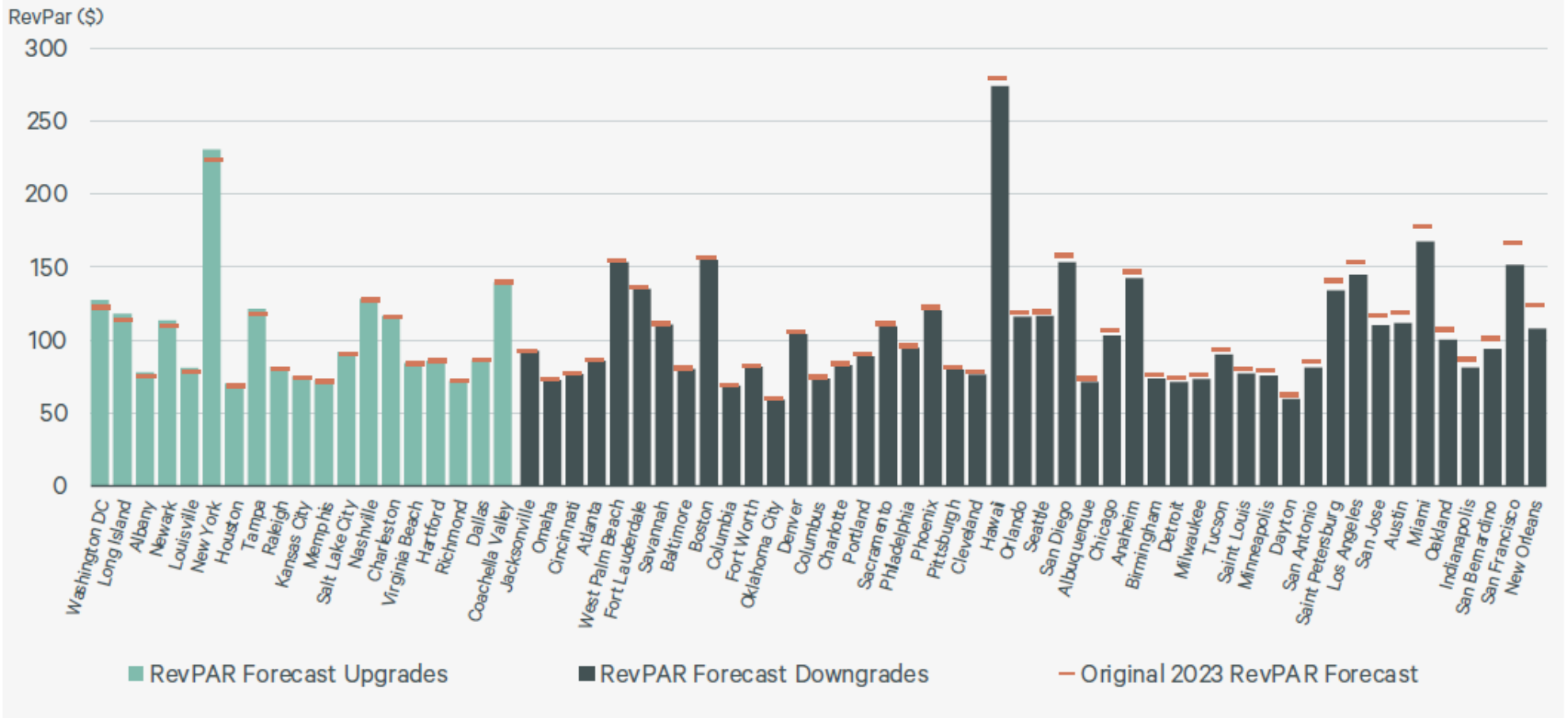


Note: Primary retail markets, which includes those with most supply of neighborhood, community & strip centers, plus Manhattan and San Francisco.

Source: CBRE Research, 2023 Real Estate Market Outlook Midyear Review, as of August 2023 (CBRE Econometric Advisors)

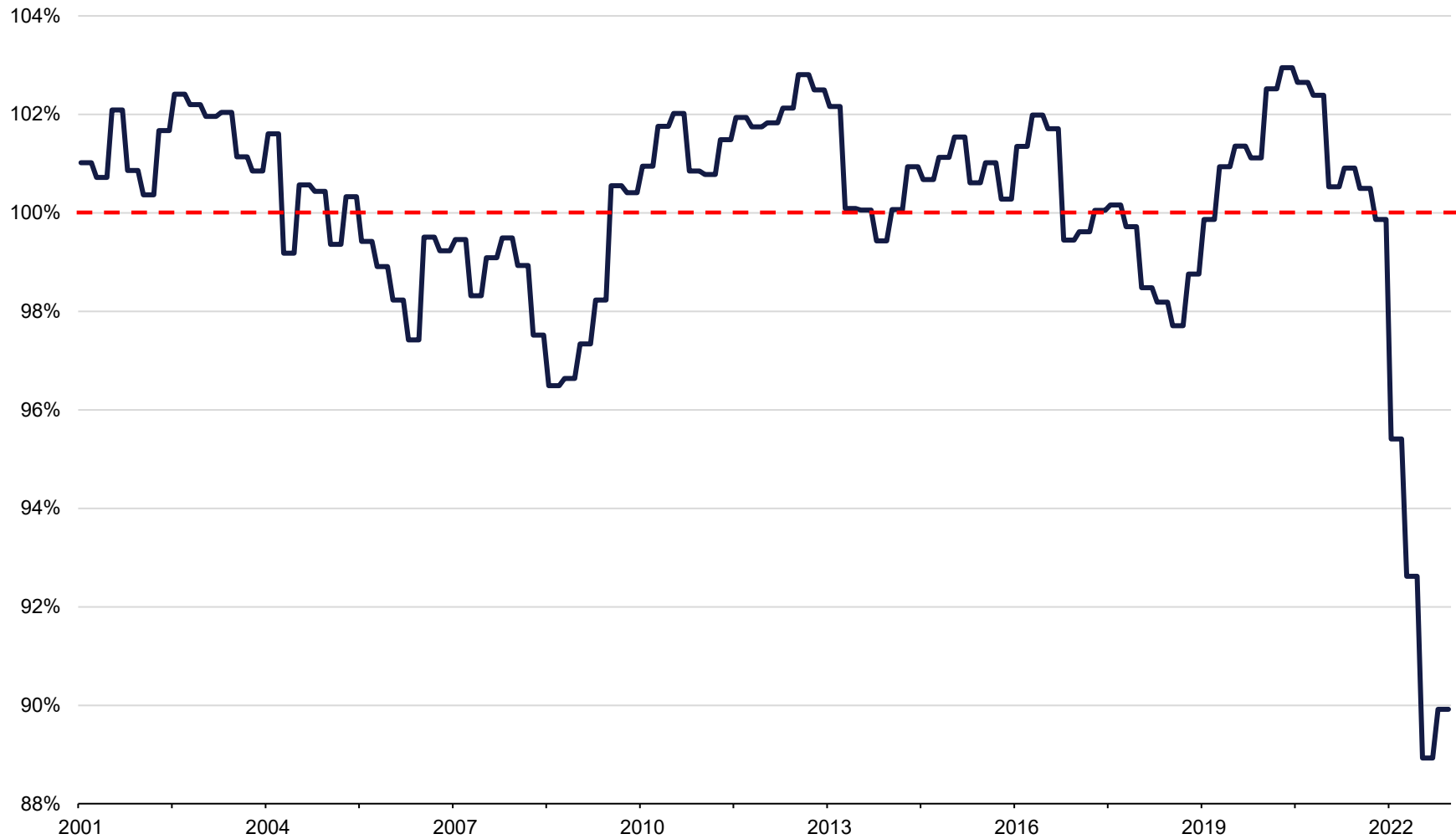
# RevPAR by Market

Figure 8: 2023 RevPAR by Market, Current vs. Original Forecasts



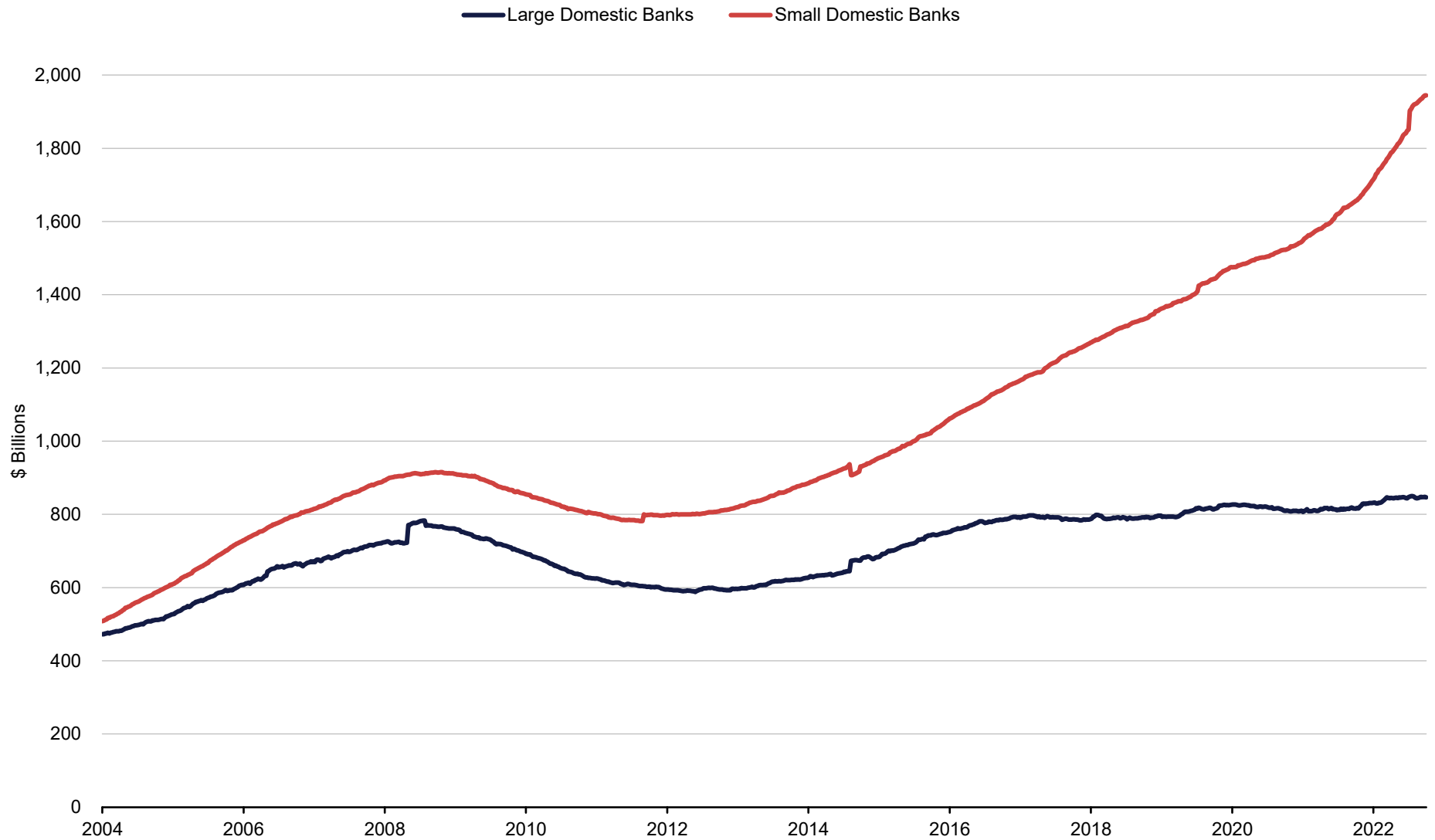
Source: CBRE Research, 2023 Real Estate Market Outlook Midyear Review, as of August 2023 (CBRE Hotels Research, Kalibri Labs)

# Market Value of Banks' Securities as a % of Cost



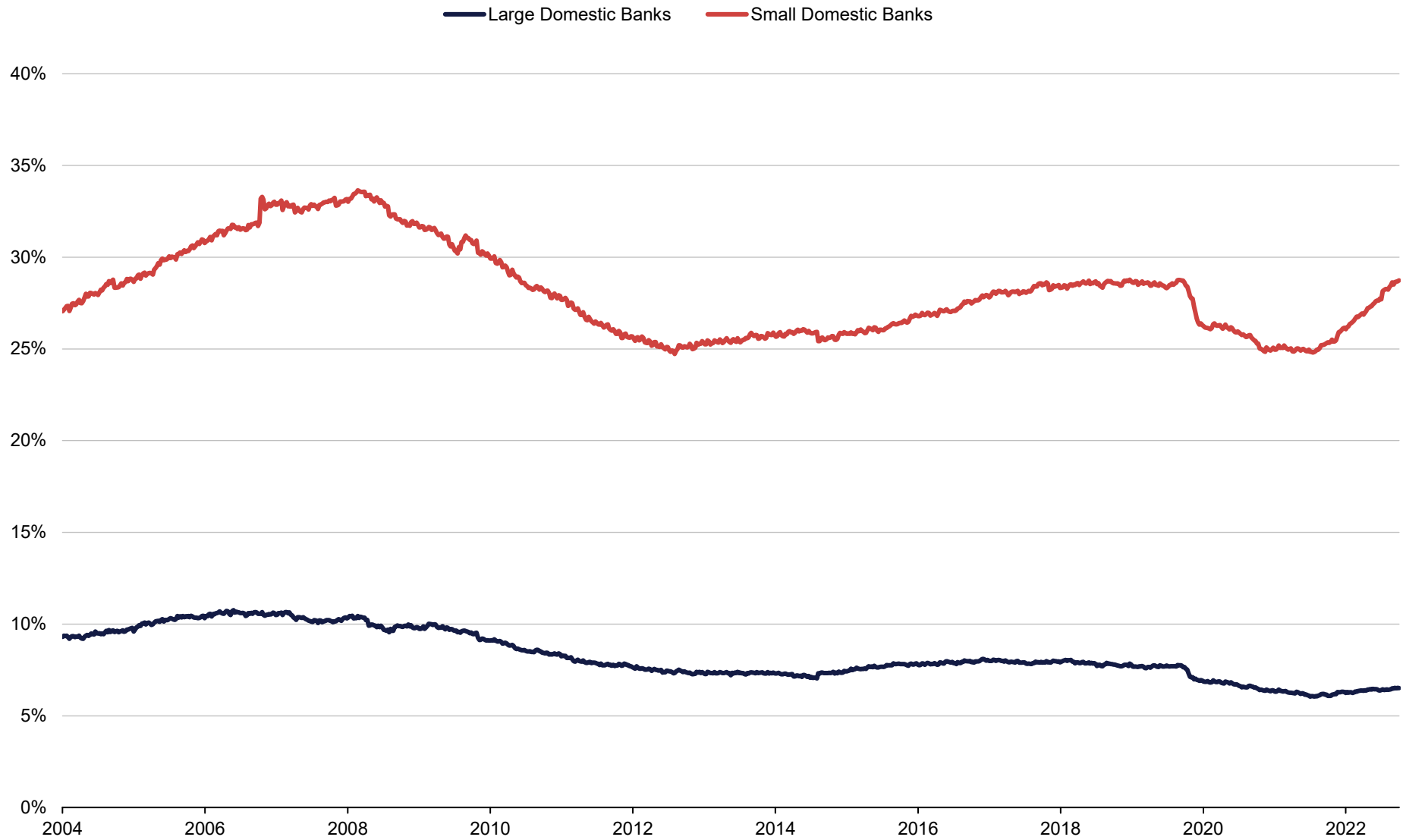
Source: FDIC Consolidated Reports of Condition and Income via the Wall Street Journal "Where Financial Risk Lies, in 12 Charts" published March 26, 2023

# CRE Loans: Commercial Banks



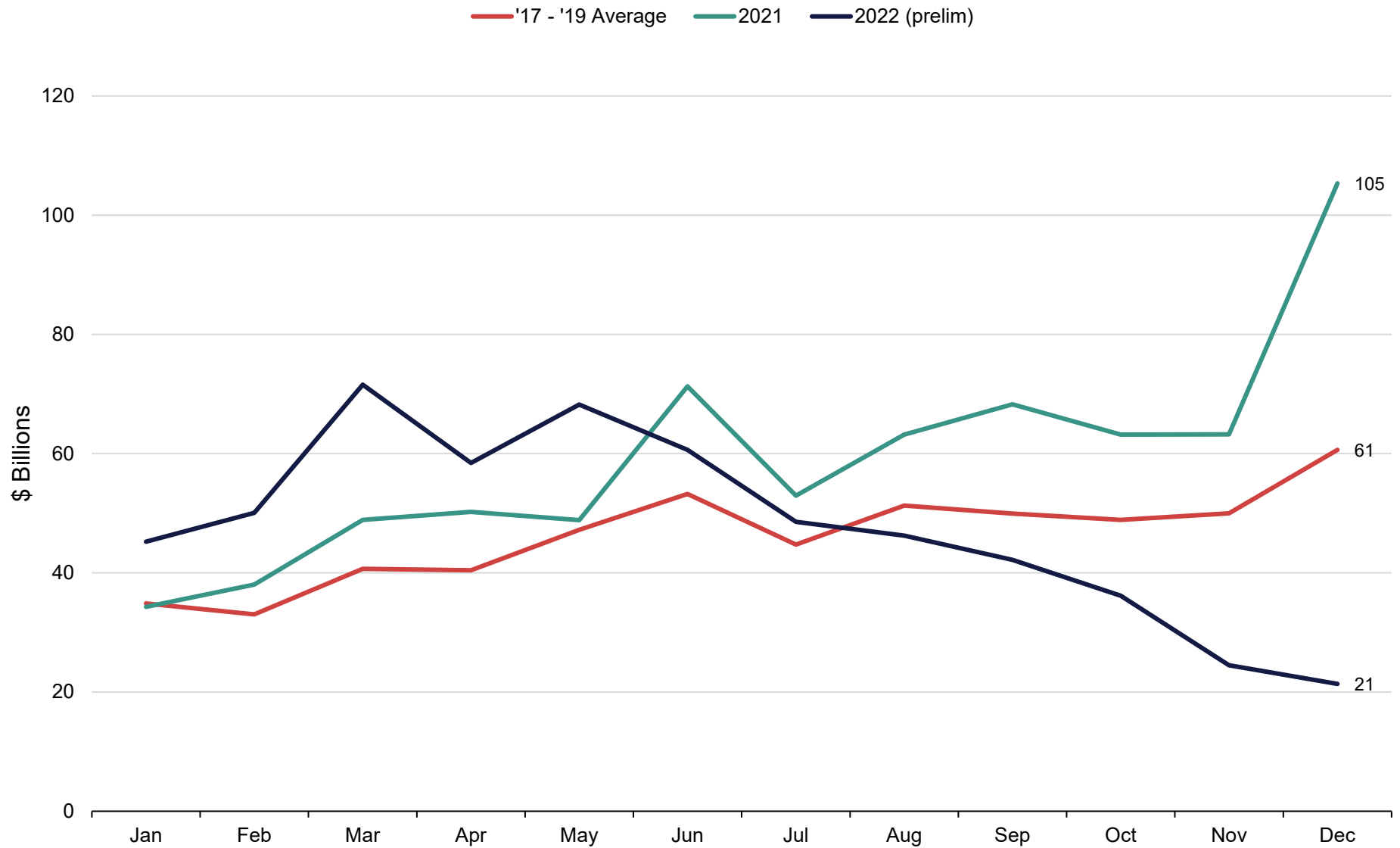
Source: Fed H.8, as of March 1, 2023.

# CRE Loans as a % of Assets



Source: Fed H.8, as of March 1, 2023.

# Monthly CRE Debt Origination Volume

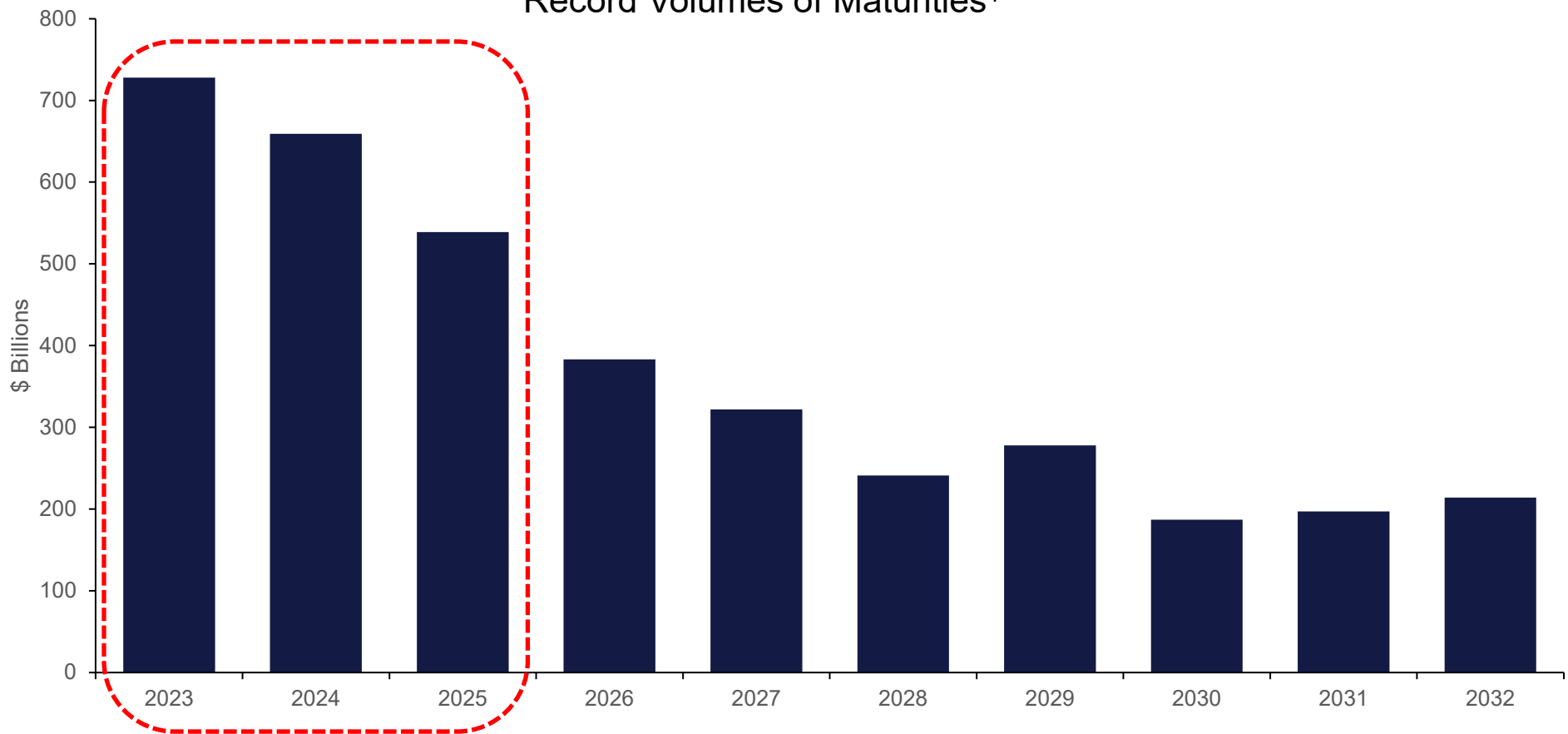


Source: Capital Markets Report, Q2 2023 by Newmark as of June 30, 2023. Volume includes bank, government agency, CMBS, insurance, financial, and private debt originations

# Imminent Refinance Gap – Wall of Maturities

Over \$1.9 trillion of non-construction CRE<sup>†††</sup> debt is set to mature in 2023-2025

Record Volumes of Maturities<sup>1</sup>

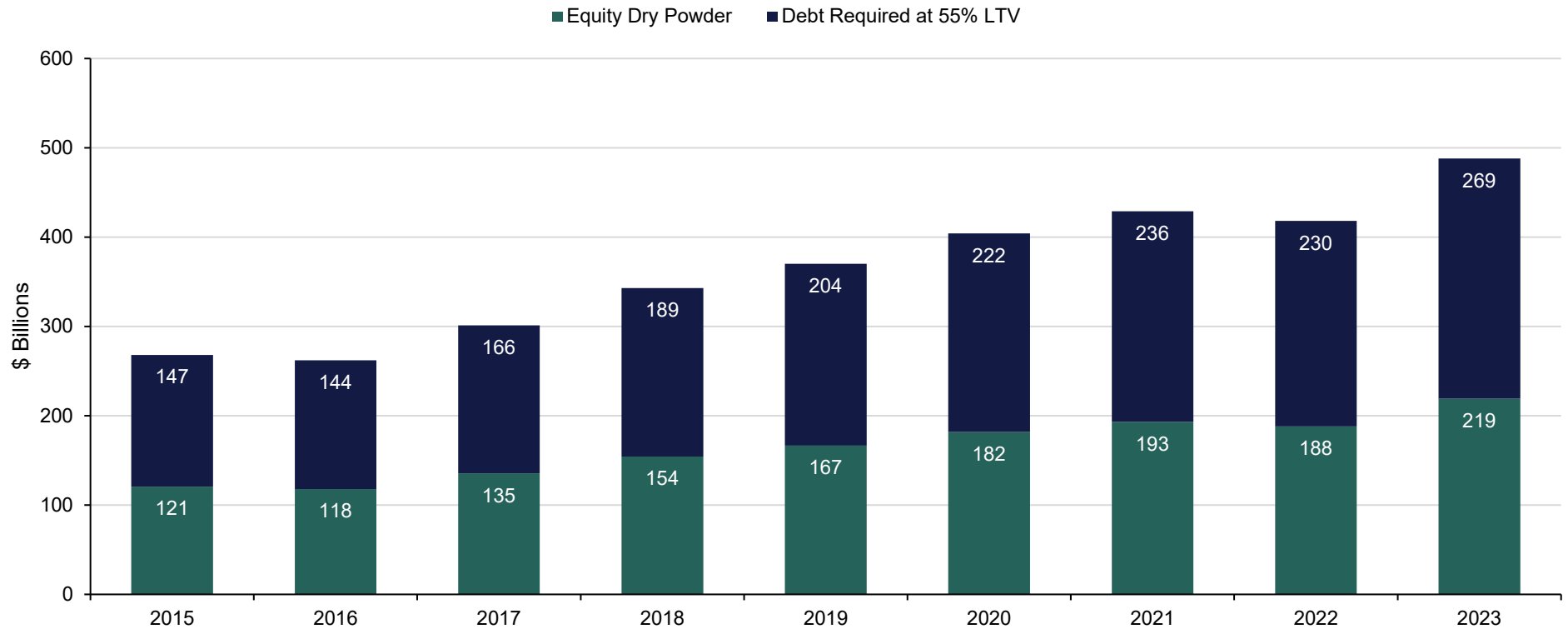


Source: Capital Markets Report, Q2 2023 by Newmark, as of June 30, 2023

††† Please see the Glossary section at the back of this presentation for further information

# Equity Dry Powder in Need of Debt Financing

## Equity CRE<sup>†††</sup> Dry Powder – Closed-End Funds



- Equity CRE<sup>†††</sup> dry powder rose to **\$219 billion in Feb'23<sup>1</sup>**
- At 55% LTV, this would imply **\$269 billion of financing opportunities**

Source: Capital Markets Report, Q2 2023 by Newmark, as of July 2023

††† Please see the Glossary section at the back of this presentation for further information



# DISCLOSURES



# Notes to Performance Information

## Glossary

† **CRE**: Commercial real estate (CRE) lending includes acquisition, development, and construction (ADC) financing and the financing of income-producing real estate. Financing provided by GSEs (Government-Sponsored Enterprises) and real estate that is occupied by its owner or related party are excluded

†† **CRE**: Commercial real estate (CRE) lending includes acquisition, development, and construction (ADC) financing and the financing of income-producing real estate. Income-producing real estate includes real estate held for lease to third parties and nonresidential real estate that is occupied by its owner or related party

††† **CRE**: Refers to definition used by NKF in the Capital Markets Report, Q2 2023