BRIDGE
INVESTMENT
GROUP

2025 OUTLOOK

Positioning for the Rebound:

Navigating Commercial Real Estate

BRIDGE INVESTMENT GROUP

Table of Contents

INTRODUCTION

Executive Summary	3
A Year of Opportunity	4

THEMATIC ANALYSIS

Capturing Early Cycle Momentum	6
Geopolitical Landscape	12

SECTOR-SPECIFIC OUTLOOK

Residential Rental Market Trends	14
The Escalating Affordability Crisis	18
Navigating New Supply	20
Single-Family Rental	23
Industrial and Logistics Real Estate	25
Logistics	28
Advanced Manufacturing	30
Private Real Asset Credit	32

CONCLUSION

Summary	37

RESOURCES

References	38
Glossary	42

POSITIONING FOR THE REBOUND:

Executive Summary

The commercial real estate market stands on the precipice of a new cycle—one characterized by opportunity born from adversity. The past year was defined by a "long winter" of capital markets inertia, marked by high interest rates, low liquidity, and lingering economic uncertainty. Yet, as we enter 2025, the landscape is shifting. Stabilizing inflation, softening rate pressures, and improving market fundamentals signal that the thaw is underway.

Our 2025 theme, "Positioning for the Rebound," captures this pivotal moment. It reflects not only the challenges overcome but the necessity of strategic foresight to harness the upswing. We believe that the opportunity to capture value is greatest in early-cycle activity, acting decisively to benefit from accelerating momentum, normalization of capital flows, and resetting asset values.

In reflecting on last year's Outlook, we acknowledge that some of our assertions proved to be ahead of their time. For example, we expected a quicker normalization of capital markets activity, underestimating the persistence of elevated interest rates and their dampening effect on transaction volumes. Nevertheless, the underlying trends we highlighted—such as the resilience of demand-driven sectors and the growing role of private credit—were readily apparent. This reinforces our conviction in the broader market dynamics we identified and underscores the importance of having a long-term perspective in navigating complex cycles.

Three core pillars shape our Outlook for the year ahead:

1. **Navigating the New Interest Rate Environment:** As rates move off their peaks, we anticipate increased transaction velocity and pricing clarity across asset classes. For commercial real estate, this transition is likely to revive both equity and private debt markets, particularly in sectors with strong secular tailwinds.

2. **Capturing Demand Shifts in Undersupplied Markets:** From residential rentals to industrial and logistics, structural undersupply is still a defining feature of many real estate segments. We see great opportunities in these segments, which we believe are bolstered further by rebounding fundamentals driving sustained demand, offering fertile ground for strategic investment.

3. **Embracing Thematic Changes:** Whether through technology-enabled industrial spaces or the expanding institutional role in single-family rentals, innovation-centric investment strategies will define the next cycle.

While challenges remain—geopolitical tensions, consumer headwinds, and global economic unevenness—we believe the resilience of the US economy provides a durable foundation for navigating these risks.

Throughout our 2025 Outlook, we explore how evolving market dynamics intersect with specific investment strategies across private credit, workforce housing, industrial logistics, and beyond. Together, these insights provide a comprehensive roadmap for capturing the rebound.

POSITIONING FOR THE REBOUND:

A Year of Opportunity

We believe that 2025 marks the dawn of a new cycle for alternatives, with attractive opportunities ranging from real estate to private real asset credit strategies.

We believe US real estate is poised for a transformative year across living, industrial, and private credit. Early cycle opportunities in each of these sectors will be informed by evolving demand dynamics, a rebalancing of supply pipelines, and the cost and role of debt—each presenting unique challenges and opportunities. Understanding these forces is critical to positioning effectively for the rebound ahead. With the right approach, 2025 presents an environment primed for growth, despite the echoes of recent volatility.

In our view, this year will see a new phase of expansionary activity, and we expect a broad-based acceleration in momentum to take hold during 2025 due to the convergence of several crucial factors:

Meaningful Repricing of Assets. Commercial real estate asset values, which began declining in mid-2022 and bottomed out by late 2023, have started to rebound. With an initial decrease in interest rates, core asset prices have experienced a modest rebound, led by select sectors such as multifamily, and signaling renewed market momentum.[1,2]

Distress Remains Constrained but not Completely Avoided. Despite a slight increase in foreclosures during 2024, overall distress levels remain muted, at just 15% of the post-GFC peak.[3] This limited distress supports a positive outlook for pricing stability. Notably, distress is heavily concentrated in the office sector, which accounts for nearly half of troubled assets, while other property types have shown resilience and remained largely unaffected through year-end 2024.[4]

Pent-up Patient Capital. Notwithstanding a modest year in capital raising, dry powder levels remain high.[5] We believe that asset managers are likely to deploy capital in earnest over the coming year, with opportunistic and value-added strategies accounting for two-thirds of CRE dry powder.[6]

Residential Rental: Demand Resilience Amidst Supply Shifts

After a period of elevated multifamily completions in the past year, the residential rental market faces a rebalancing of fundamentals. A decade of underbuilding continues to underpin supply-demand dynamics. In addition to favorable demographic tailwinds, key themes shaping the Living sector in 2025 include:

Supply Dynamics: Multifamily deliveries peaked in 2024, with new construction starts and permits declining significantly throughout the year and into 2025. This tapering suggests a gradual absorption of inventory in 2025.

Deeper, Wider Renter Base: High-income households, cost-burdened renters, and older adults are reshaping demand, underscoring the importance of tailoring housing options to diverse needs.

Affordability Pressures: Rising costs of homeownership serve as a barrier to entry for many households and have expanded the depth of rental markets, amplifying demand for moderately priced units throughout the US.

Single-Family Rentals: Expanding Opportunities in a Tight Market

The single-family rental (SFR) sector is positioned attractively for steady growth in 2025, a function of structural homeownership affordability challenges and evolving renter preferences. Elevated mortgage rates and high home prices continue to widen the financial gap between renting and owning, driving robust demand for SFR properties. Key signposts to watch for in 2025 include:

Build-to-Rent (BTR): This rapidly growing segment offers institutional investors access to high-quality new homes at attractive cap rates in desirable markets as developers grapple with excess inventory unaffordable to end users at current mortgage levels.

Regional Variations: Select Sunbelt markets exhibit differentiated home price trends, driven by permit and resale activity.

Resilient Fundamentals: Vacancy rates remain low across markets, and demand fundamentals are supported by affordability constraints and limited attainable for-sale inventory.

Industrial and Logistics: Resetting for Long-Term Growth

Industrial and logistics real estate is approaching a turning point, with expansion expected to resume in the latter half of 2025. Following record absorption driven by e-commerce and inventory stockpiling, the sector faced meaningful supply headwinds in 2024. However, decelerating supply pipelines and sustained demand suggest renewed momentum ahead. Key takeaways for the coming year include:

Supply Constraints: Project starts have fallen sharply, creating an environment for increased occupancy and modest rent growth.

Technological Integration: Tenants increasingly prioritize facilities equipped with automation, robotics, and energy-efficient systems, reflecting long-term operational needs.

Small Bay Industrial: This segment continues to outperform larger properties, benefiting from proximity to urban centers and diverse tenant demand.

Private Real Asset Credit: Navigating Volatility and Capitalizing on Demand

Private credit emerges as a key growth area in 2025, offering flexible financing solutions amidst a wave of yet-to-be-resolved debt maturities and constrained conventional lending. With benchmark interest rates expected to decline, private lenders are uniquely positioned to address market gaps and support borrowers navigating transitional periods. Highlights include:

Debt Maturities: Over $1 trillion in commercial real estate maturities through 2026 creates significant refinancing opportunities.

Shrinking Debt Availability: Constrained conventional bank lending is driving borrowers toward private credit options.

Strategic Lending: By focusing on resilient sectors such as residential and industrial, private lenders can achieve robust returns while mitigating risk.

Aligning with Emerging Opportunities

As sectors transition into the next expansionary cycle, strategic alignment with evolving trends—such as diversifying renter profiles, regional supply variations, and technological advancements—will be essential to capturing value. Across residential, industrial, and private real estate credit markets, the ability to navigate supply-demand imbalances and adapt to shifting fundamentals will define success in the year ahead.

CAPTURING EARLY CYCLE MOMENTUM:

2025 Outlook for US Alternative Assets

The US economy showed remarkable resilience throughout 2024, driven by robust consumer spending and a normalizing labor market. While high inflation and elevated interest rates presented headwinds, steady economic growth underscored the adaptability and strength of the US economy in navigating difficult conditions. Amid global volatility and uncertainty, we believe private market alternatives, and in particular US Commercial Real Estate (CRE), offers a compelling combination of safety and quality in an otherwise volatile market.

With monetary policy moving past a key turning point, the outlook for the year ahead is one of cautious optimism, particularly regarding real assets. Historically, cap rates have been slow to respond to meaningful movements in interest rates, and we anticipate similar trends given the expectations that the Fed will continue to reduce interest rates slowly in the year ahead.

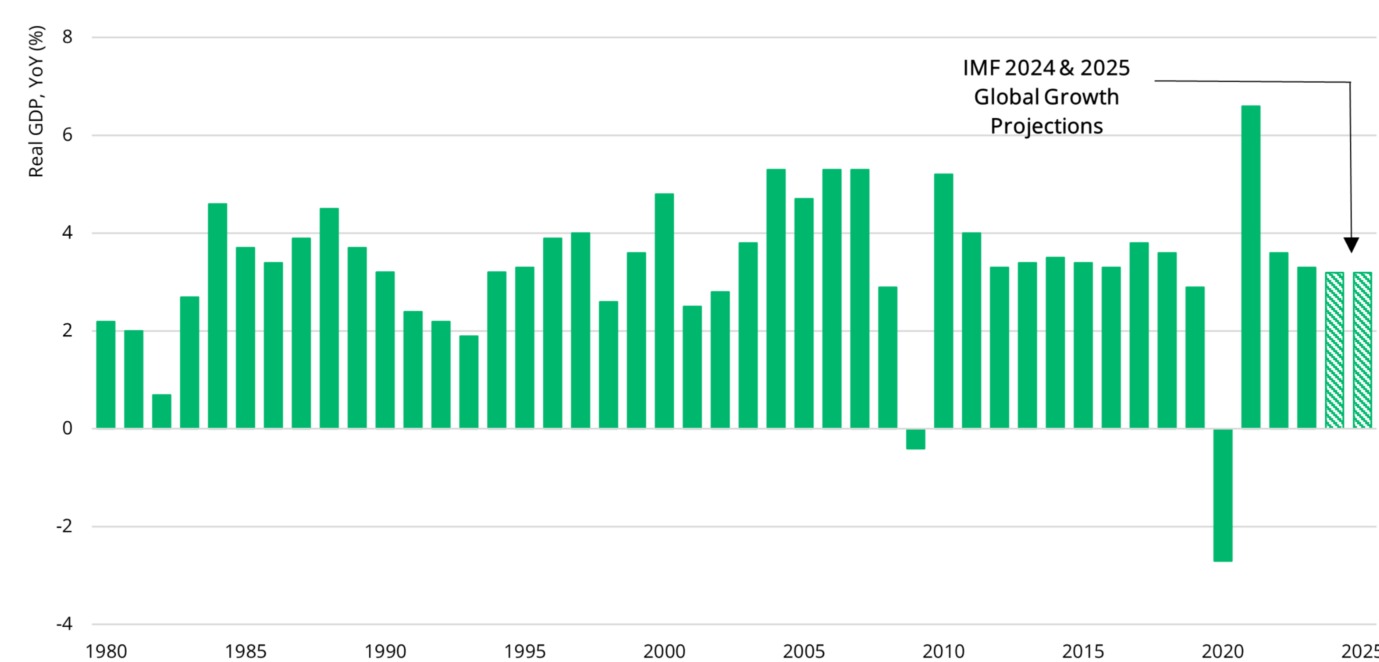
As we move beyond what has felt like an economic downturn for some, this new cycle brings several critical questions that market participants should consider:

- With geopolitical tensions rising, how strong are the risks that exogenous shocks could undermine US economic momentum?
- How likely are tariffs to disrupt trade and supply chains while reinforcing trends such as nearshoring and reshoring?
- Will anticipated shifts in immigration policy cause inflationary pressures for labor and construction costs, which are already elevated post the COVID-19 pandemic?
- When will capital markets activity resume its path to normalcy, and how long will it take for Fed Funds interest rate cuts to positively impact cap rates and real estate values?

Global Economic Challenges and the Path Ahead

The US economy is still resilient in the face of global pressures that we believe are likely to weigh disproportionately on global peers. As major central banks make gradual progress in easing monetary policy, we anticipate that global growth will stabilize while remaining somewhat soft as we progress through 2025.

Global Economic Growth Projected to Stabilize[9]



Key risks to the global outlook include a potential deepening of the Chinese economic slowdown, escalating geopolitical tensions in the Middle East, trade fragmentation, and energy instability—all of which could strain growth, complicate trade, and amplify broader economic uncertainty.[1 2] Over the course of the past year, the International Monetary Fund (IMF) lowered its 2025 global growth forecast by 10 basis points to 3.2%, in line with expectations for the prior year.[3] While this slight downward revision largely reflects weaker projections in the Euro Area and emerging markets, we believe this also highlights potential vulnerabilities regarding the global risk environment.

US Economic Resilience Amid Global Uncertainty

We believe the US is well positioned to absorb potential external shocks given demonstrable economic resilience over the past few years and increasing independence as a net energy exporter and lower trade dependencies overall.[4] Consequently, despite heightened geopolitical tensions, we expect the US to continue to outperform global peers, benefiting from a resilient labor market and strong domestic demand. Among the world's ten largest economies, the US not only leads in GDP per capita[5] but also has one of the stronger growth forecasts among advanced economies for 2025.[6] We believe this solid baseline positions the US to better absorb external shocks and provides a stable foundation for navigating future global uncertainties.

We anticipate continued positive, albeit moderating, US growth driven by above historic wage increases,[7] disinflation,[8] and lower interest rates—all factors that enhance consumer purchasing power and support economic expansion. While we believe some labor market metrics may show signs of moderation, overall conditions remain healthy.

Resolved labor disputes,[10] along with declining quits,[11] and layoffs below pre-pandemic (2014-2019) averages,[12] indicate reduced turnover costs, while worker productivity continues to improve.[13]

Strategic Opportunities in US Private Markets

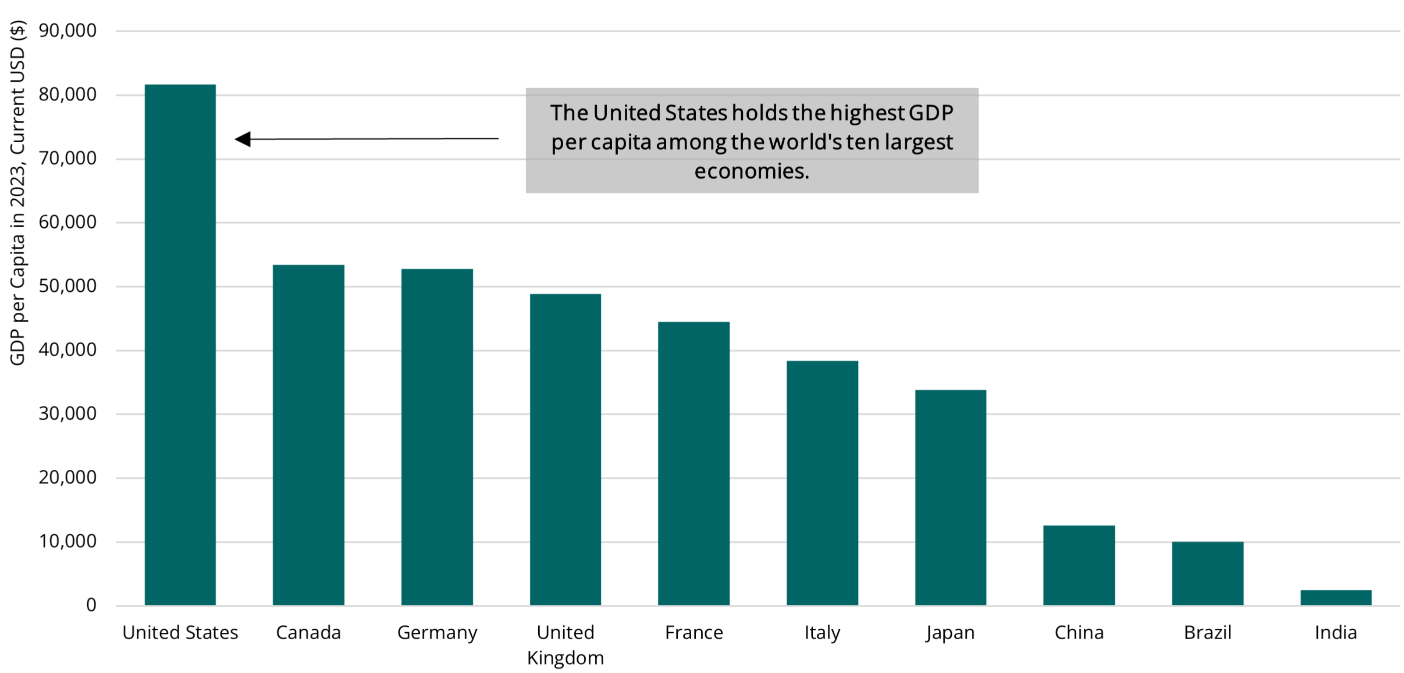
With a strong economic foundation and favorable conditions, we see the outlook for the US real estate sector in 2025 as positive. We believe the current US economic landscape—featuring disinflation and resilient labor market conditions—positions select US CRE segments to be arguably insulated from macro volatility. Disinflationary pressures benefit consumer-driven sectors, while wage growth and sustained workforce engagement bolster demographic-driven segments, a combination that we anticipate will create favorable conditions for household formation. We believe economic growth in 2025 will build on 2024 momentum, driven by a few underpinning catalysts:

We expect inflation to gradually align with the Fed's target, serving as a key momentum driver in 2025. Both headline and core Personal Consumption Expenditures (PCE), the Fed's preferred inflation metric, have dropped meaningfully since their peaks in 2022, reaching the lowest levels since early 2021.[14] This ongoing disinflationary trend is particularly beneficial for consumer-driven CRE sectors, as it supports stronger purchasing power, while lower interest rates will, in many cases, reduce expenses for business and assets alike, thereby boosting real estate transaction volume and pricing, improving margins, and fortifying balance sheets. We believe this environment will create a sustained positive impact across key CRE segments as inflationary pressures ease and economic conditions stabilize.

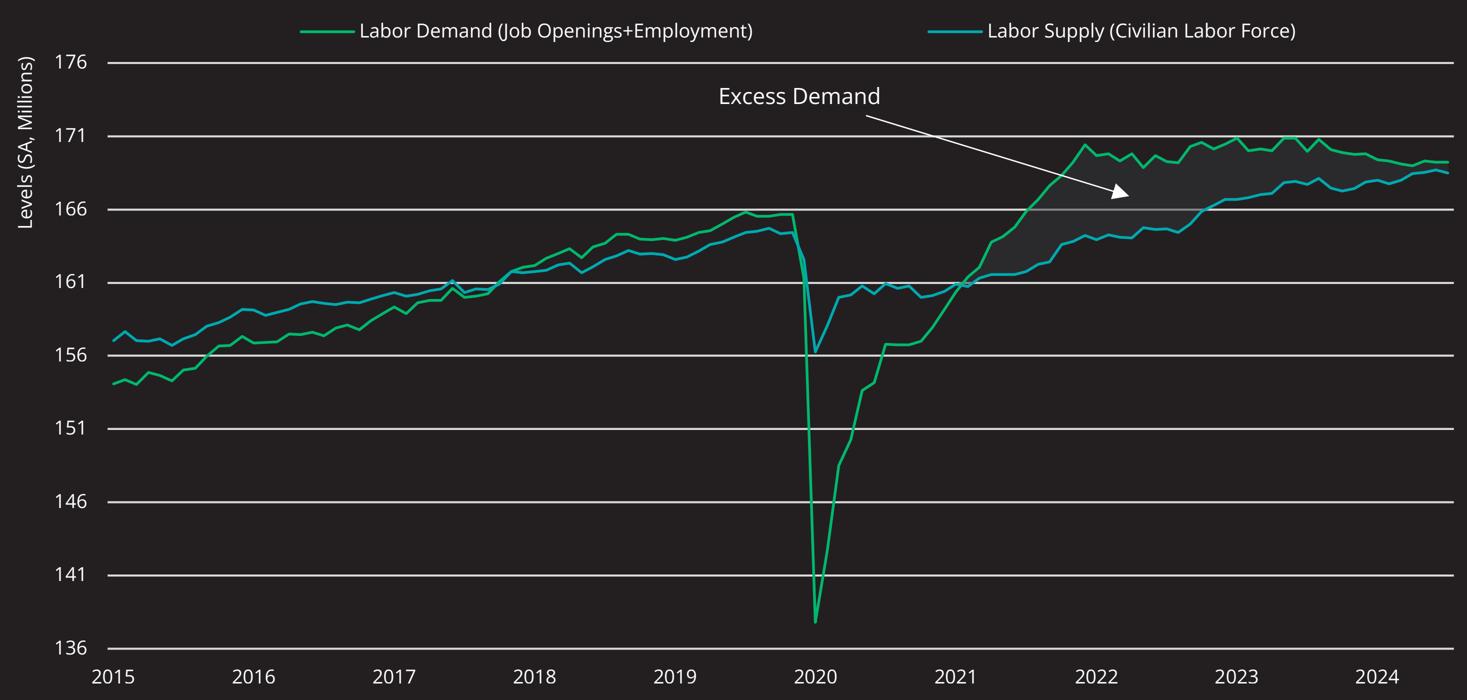
While the labor market may see some cooling, we expect it to remain robust through the year, at or above the pace necessary to keep up with population growth. Over the past year, the prime age labor force participation rate reached a close to 25-year high at 84%, the labor market began to normalize overall, and supply and demand dynamics came into better balance.[15 16] A balanced labor market, marked by steady wage growth and low unemployment,[17] is particularly beneficial for demographic-driven sectors, ensuring consistent demand for housing and commercial spaces while supporting property values.

Consumer spending makes up about two-thirds of US GDP, and the composition of spending has evolved over the past few years.[18] Categories such as food services, drinking places, building materials and garden supplies have gradually seen a diminishing contribution to retail sales. However, non-retail

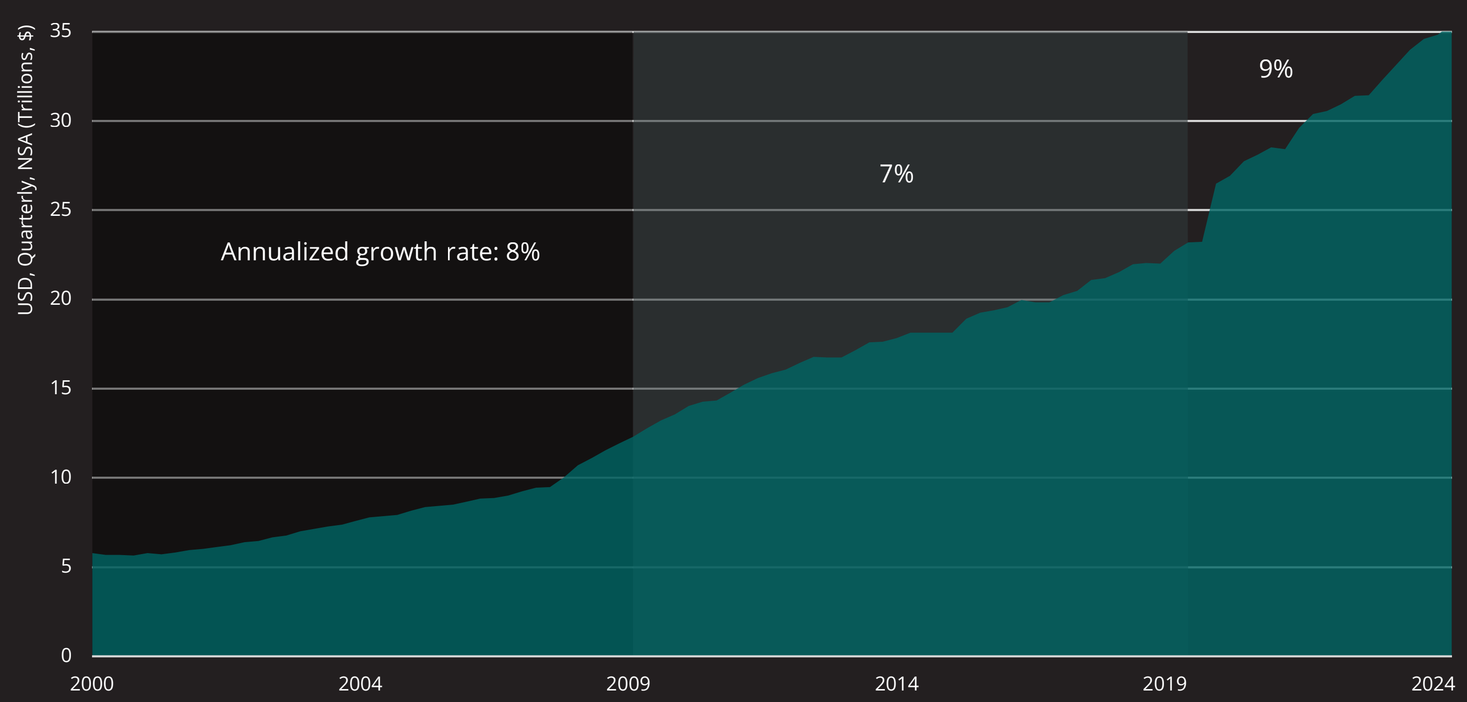
US Economic Growth Continues to Outperform That of Global Peers[19]



Labor Market Supply and Demand Dynamics Are Coming into Balance[20]



The US Federal Public Debt Continues to Rise[21]



shops have remained arguably steady, propping up retail sales and putting consistent demand on CRE segments such as logistics and industrial.[22] While consumer spending may moderate in 2025, we believe it will remain a momentum driver for commercial spaces and economic growth, notwithstanding some of the risks highlighted further below. This outlook is supported by steady wage growth that remains above historical wage figures,[23] alongside a still historically low unemployment rate,[24] despite the ongoing rebalancing of labor market dynamics.

Risks to the US outlook:

While we anticipate continued strength and resilience for the coming year, in our view there are certain caution lights to consider for the year ahead.

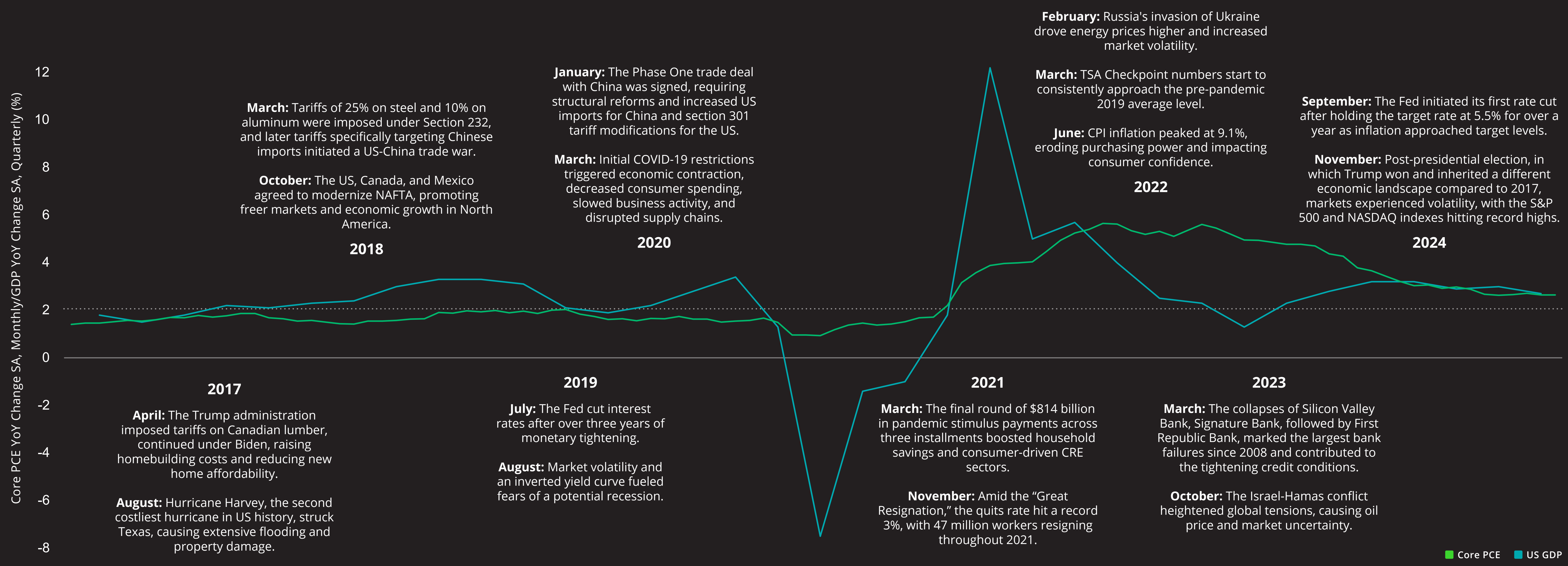
1. The unemployment rate rose to 4.3% in July of 2024, the highest since 2021.[25] While unemployment has since declined, a notable increase in the unemployment rate is a key risk factor. Low unemployment levels are a key support for demographic-driven CRE sectors. However, certain segments within the residential rental sector, such as attainable and affordable housing, may be less susceptible to these risks as individuals often seek lower cost living options when facing financial strain, and this type of housing becomes more in demand.

2. Consumer debt remains a crucial concern. Rising consumer debt, particularly high credit card debt and delinquencies, could strain household budgets and diminish consumer spending, affecting economic growth and some CRE segments.[26] Retail and logistics tenants that cater to essential needs consumption could be more insulated as consumers tend to prioritize necessities over discretionary items during times of financial hardship.

3. Potential tariff shocks and trade wars could have a negative impact on the macroeconomic landscape going forward. Higher tariffs could restrain trade, investment, and output.[27] These measures could also contribute to inflation, potentially resulting in higher consumer prices, reduced household spending, and further elevations to construction costs, which are already up 35% since the COVID-19 pandemic.

4. The US federal public debt has increased meaningfully in recent years.[28] Increasing federal deficits and debt levels could limit fiscal flexibility and the ability to respond to unforeseen economic downturns. It may also raise borrowing costs,[29] impacting consumer spending and risk assets generally. However, some CRE segments that benefit from long-term leases and sustained demand, such as residential rental, could be more resilient to these fiscal challenges.

Despite these risks, we believe the US is well-positioned and insulated against many global and domestic challenges compared to its international peers, particularly in consumer and demographic-driven sectors of real estate.

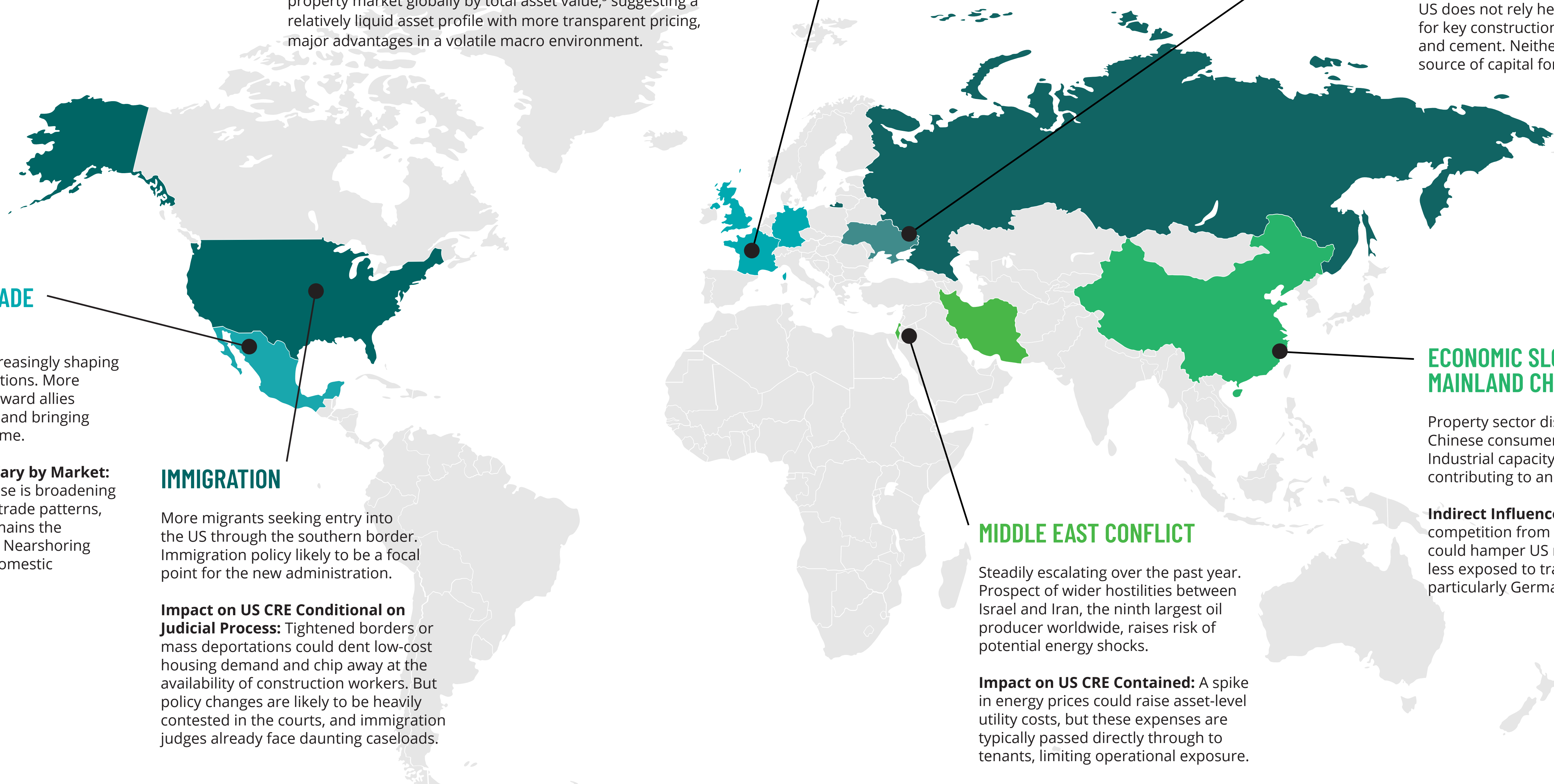


US REAL ESTATE:

A Safe Harbor Amid Evolving Geopolitical Landscape

We maintain our view of the US real estate sector as a haven for international capital. Amid persistent geopolitical uncertainty, we emphasize that real estate operations are fundamentally rooted in local market conditions, not the global economy, suggesting a degree of protection against international shocks.

We further note that US real estate appears to be cementing its status as a preferred destination for investors. The US share of global CRE fundraising climbed to a two-decade high of 75% in 2024,[1] and the sector is also attracting more foreign direct investment from abroad.[2] The US ranks as the deepest property market globally by total asset value,[3] suggesting a relatively liquid asset profile with more transparent pricing, major advantages in a volatile macro environment.



INTENSIFYING TRADE COMPETITION

Geopolitical factors increasingly shaping cross-border trade relations. More countries gravitating toward allies for essential resources and bringing production capacity home.

US CRE Implications Vary by Market: US logistics demand base is broadening in response to shifting trade patterns, though China-to-LA remains the preeminent trade lane. Nearshoring prompting a surge in domestic industrial activity.

IMMIGRATION

More migrants seeking entry into the US through the southern border. Immigration policy likely to be a focal point for the new administration.

Impact on US CRE Conditional on Judicial Process: Tightened borders or mass deportations could dent low-cost housing demand and chip away at the availability of construction workers. But policy changes are likely to be heavily contested in the courts, and immigration judges already face daunting caseloads.

EUROPEAN HEADWINDS

Political infighting has dampened growth prospects in Germany and France, the two largest economies in the EU, while the UK continues to grapple with stubborn above-target inflation.

Limited Bearing on US CRE: We emphasize that the US is not heavily dependent on the EU due to a diversified economic base as well as the leading role played by the domestic consumer.

UKRAINE-RUSSIA WAR

The protracted conflict shows no signs of resolution as of early 2025, whether through diplomacy or battlefield gains.

Minimal Second-Order Effects for US CRE: US does not rely heavily on Ukraine or Russia for key construction materials, such as lumber and cement. Neither country ranks as a major source of capital for US CRE.

MIDDLE EAST CONFLICT

Steadily escalating over the past year. Prospect of wider hostilities between Israel and Iran, the ninth largest oil producer worldwide, raises risk of potential energy shocks.

Impact on US CRE Contained: A spike in energy prices could raise asset-level utility costs, but these expenses are typically passed directly through to tenants, limiting operational exposure.

ECONOMIC SLOWDOWN IN MAINLAND CHINA

Property sector distress has spooked Chinese consumers, curtailing spending. Industrial capacity has been left underutilized, contributing to an export binge.

Indirect Influence on US CRE: Stiffer competition from low-cost Chinese goods could hamper US manufacturing, but US less exposed to trade volatility than the EU, particularly Germany.

-34.5%
decline in China's share of US imports since 2017

57.0%
increase over the past 10 years in value of imports entering the US from Mexico[4]

1 in 5
construction workers is foreign born[5]

HALF
The Middle East is home to 5 of the world's top 10 oil producers[6]

16.7%
China's share of annual worldwide economic output[7]

$360BN
value of annual US imports from Mexico[8]

RESIDENTIAL RENTAL MARKET TRENDS:
A 2025 Outlook

We see 2025 as a pivotal year for US residential rental assets, poised to benefit from rebounding market conditions and strengthening fundamentals. Following a period of historic supply nearly matched by demand, the sector remains anchored by a decade-long structural undersupply that has created a persistent housing deficit. This imbalance continues to drive strong demand, and in our view the next cycle will be defined by more than just traditional demographic drivers. We see a number of emerging themes that will be central to the performance of the residential rental sector, including the diversification of the renter pool, affordability challenges, and the increasing presence of high-income and older renters that are set to reshape demand dynamics, offering compelling opportunities and challenges in the years ahead.

New Supply: Short-term Surge, Long-term Stability

A predominant concern in the current residential rental market is the imbalance between elevated supply and demand. We view the current excess supply as a temporary condition rather than oversupply, which we consider to be defined as a structural condition in which supply increases lead to a meaningful pullback in demand.

Nonetheless, we recognize the challenges in seeing past elevated levels of supply with 557,000 multifamily units delivered between Q4 2023 and Q3 2024, marking the highest four-quarter total in 24 years.[1] However, 2024 was the peak in multifamily deliveries, and we see meaningful tapering ahead. In particular, we believe that current demand dynamics in key markets are well-positioned to absorb the incoming supply.

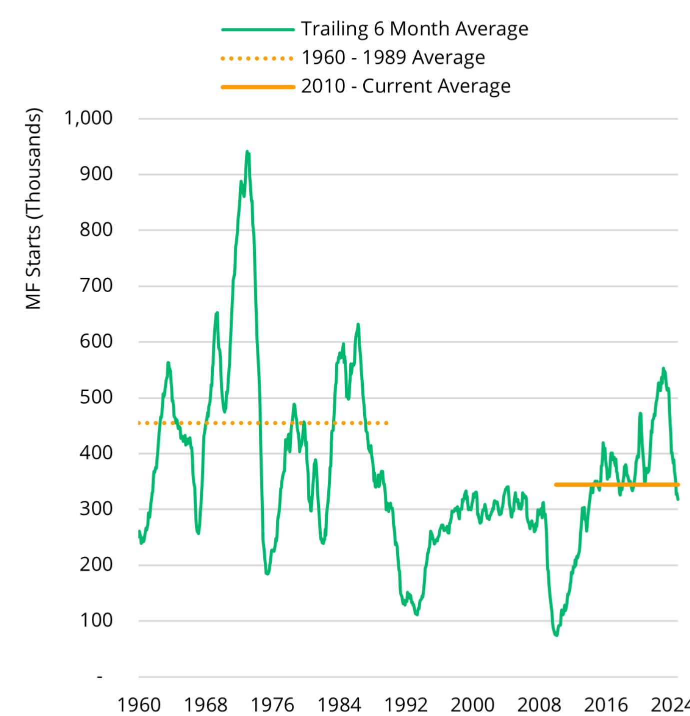
Historical Context: A Persistent Underbuilding Issue

Amid currently elevated supply conditions, it can be challenging to recognize that this is coming at the end of a prolonged period of a historically low period of underbuilding. Since 2010, average annual starts have been just over 340,000 units, which is approximately three-quarters of the 450,000 annual unit starts between 1960 and 1990, despite the US having a significantly larger population today.[2] Underbuilding has intensified in the years following the Global Financial Crisis (GFC), with household formation consistently outpacing new housing stock by 75%.[3] This shortfall created a housing deficit that our internal analysis suggests peaked at over 3 million units in 2020, which we believe provides the appropriate context for understanding the current mismatch of residential rental supply and demand.[4]

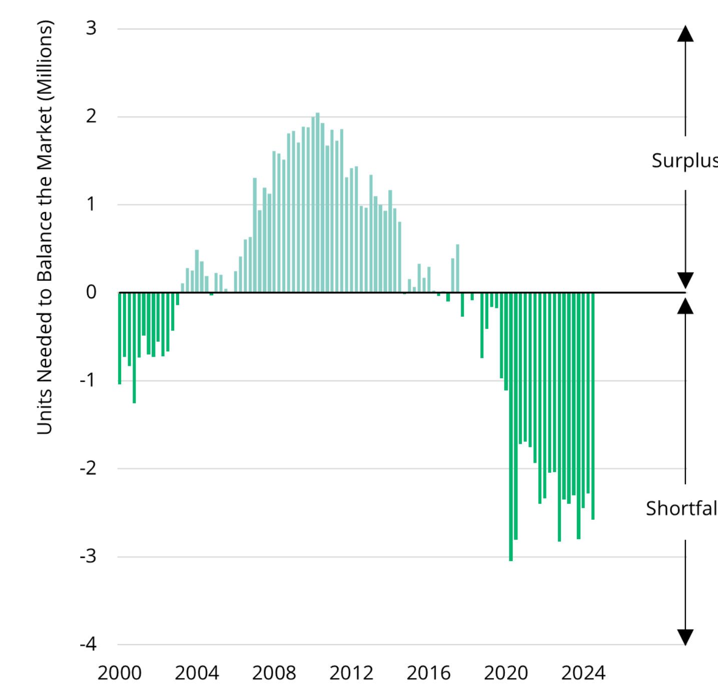
Market Balance: Vacancy Rates Remain Low

With supply currently elevated relative to demand, we believe residential rental's demand fundamentals will soon accelerate past a decelerating pace of new supply. Our internal estimates indicate that at least 2.6 million additional vacant units are needed to reach a balanced market and align with long-term vacancy trends.[5] We believe that the structural imbalance of supply and demand could be well in excess of the 2.6 million deficit, as this figure excludes the additional housing required to meet additional household formation, which we believe could accelerate should affordability challenges subside in the coming years.[6] With 2024 representing peak supply, stabilized vacancy rates suggest that concerns over a structural oversupply scenario are overstated, and that sustained demand is likely to absorb supply overhang in many markets in 2025.

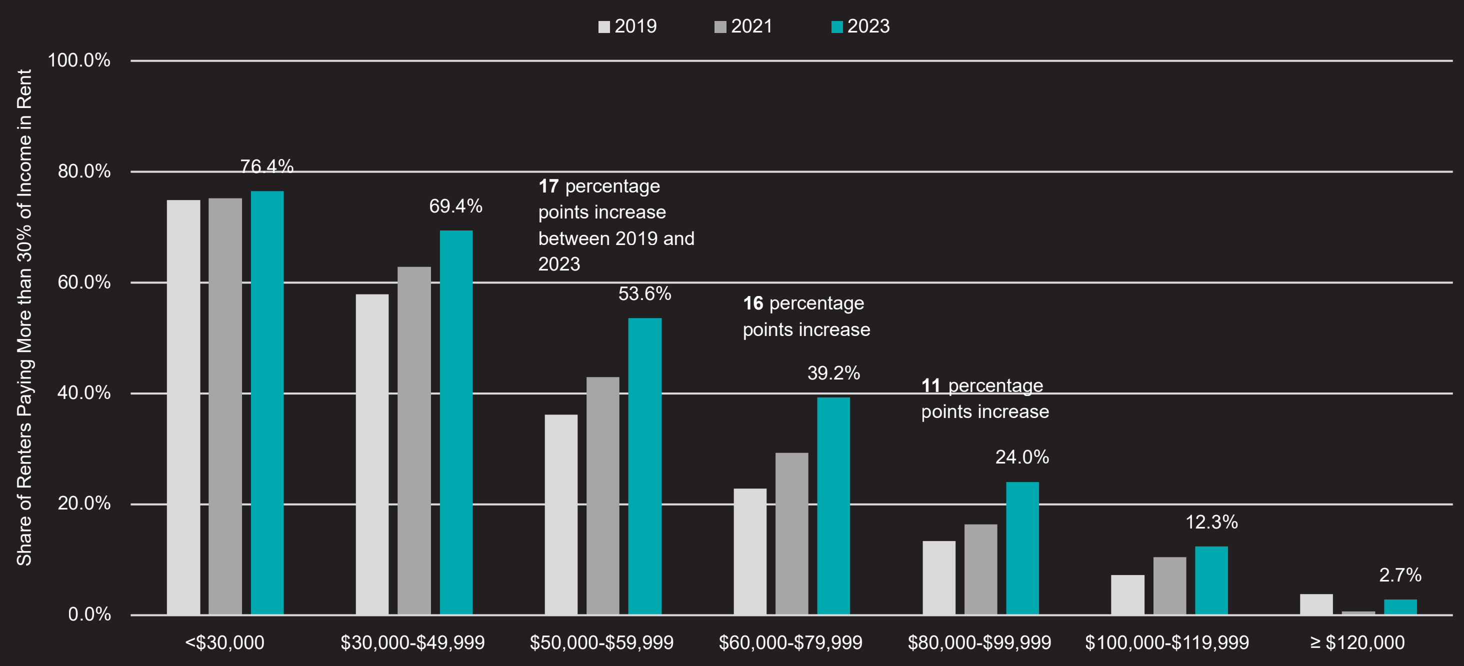
Recent Multifamily Housing Construction Boom Is Slowing Rapidly[7]



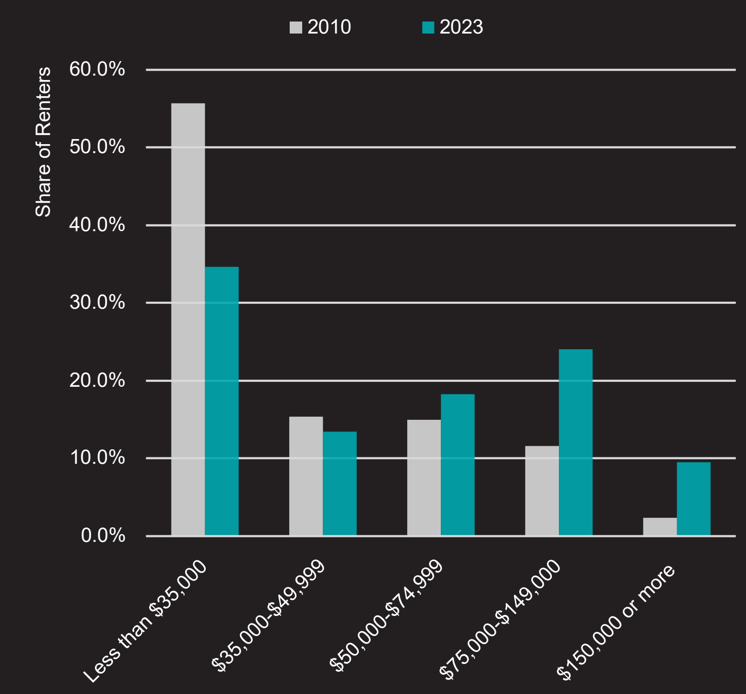
The US Needs 2.6 Million More Houses to Bring Vacancies in Line with Historic Averages[8]



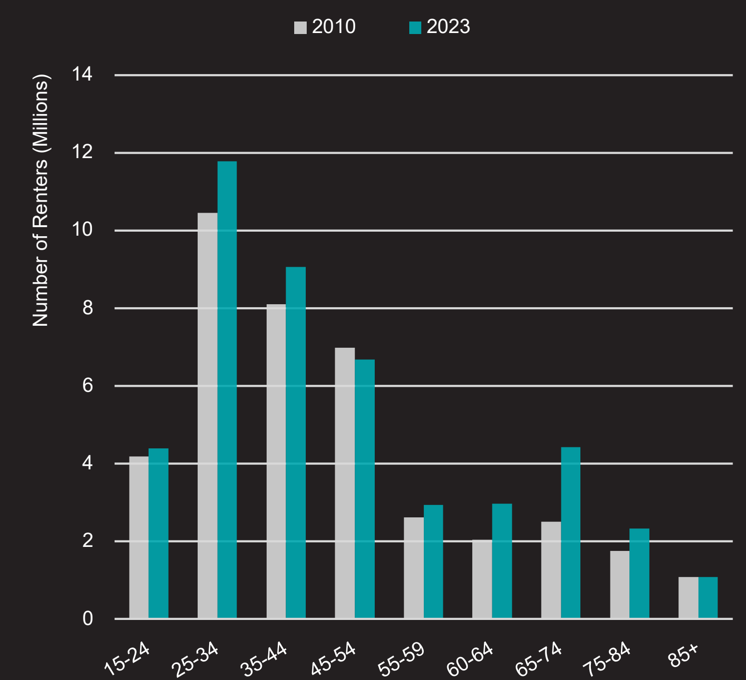
Increasing Share of Rental Cost Burdens Among All Income Groups[9]



High-income Renters Make Up a Significant Portion of the Current Renter Base[10]



Rentership Among Older Age Cohorts Have Increased Significantly[11]



Historical Construction Patterns Post-Downturn

Residential housing construction typically sees sharp declines as cycles end, and this cycle is no different—if anything, we expect to see a greater pullback in supply compared to previous cycles. This cycle is unique as interest rates are not only meaningfully higher than in past cycles, but also the speed at which they rose was a strong braking force for new development. For context, multifamily starts fell over 57% following the GFC.[12] Recently, a 42% drop in multifamily housing starts has been observed since late 2022,[13] which we believe could continue to decline. As we begin to see deceleration of the forward pipeline in certain markets, we anticipate demand will likely exceed supply in markets throughout 2025 and into 2026, which will contribute to growth in both rent and occupancy.

Demand Dynamics – A Broader and More Diverse Renter Pool

The profile of today's renter pool is diversifying, reflecting broader shifts in the housing market. We see not only a broader range of household income with increasingly affluent households, but also a more diverse range of renters by age. We believe this will amplify demand across the market while also influencing how property amenities evolve in response to a broader set of resident needs and desires. Below, we outline the three demand drivers that we believe will shape growth trends in the next cycle.

Demand Driver 1: Housing Affordability Challenges

Addressing the affordability challenge will require not only the rehabilitation of existing housing but also the delivery of attainable new housing. The current market is not delivering either at the scale needed, which has contributed to an increase in cost-burdened renters across income levels since 2019. This increase has been particularly acute for moderate-income households. Between 2021 and 2023, over half a million new renter households became cost-burdened, paying more than 30% of gross income on housing costs, bringing the total to nearly half of all renters.[14] Additionally, one-quarter of renters are now considered severely cost-burdened, spending more than half of their income on housing costs.[15] This is not just an issue for moderate income households as we see nearly a quarter of renters earning between $80,000 and $100,000 are cost-burdened, up from 13% in 2019.[16] Amid these shifts, we anticipate increasing demand in moderately priced segments of residential rental housing in the next year.

Demand Driver 2: Growth in High-Income Renters

A growing and key driver of residential rental demand is higher-income households. The share of these households as a proportion of all renters has grown amid the rising cost of homeownership–a confluence of record home prices, high mortgage rates, and limited available supply. The barriers to homeownership have intensified. For example, the typical mortgage payment has nearly doubled since the beginning of 2020, with monthly costs rising by over $1,000 for the median price existing home.[17] Consequently, we believe many high-income households are choosing to rent out of necessity, particularly in high-cost markets, which is a shift in the perspective of identifying renters-by-choice vs. renters-by-necessity. Illustrating this point, the number of renters earning over $75,000 tripled between 2020 and 2023, and in the same period we saw a sharp increase as well in the over$100,000 income segment.[18] These high-income renters reflect a growing preference for renting in high-cost, high-barrier markets. We see this trend as a stabilizing factor for rents in the top rental markets, which we believe is crucial as most newly delivered units target higher rent levels.

Demand Driver 3: Growth in the Older Renter Population

In the previous cycle, younger age cohorts were the main sources of residential rental demand. For multifamily in particular, the Millennial generation was a core share of renters across markets. In the coming cycle, while these cohorts remain the primary drivers of rental demand, we observe an increasing trend of older adults that are opting to rent, which we believe will continue. This is particularly notable as the renter population aged 55+ has grown by 42% since 2010 compared to growth of younger renters at 7.4%.[19]

We believe that an increasing share of older renters will provide meaningful uplift to demand in the next cycle. These older renters favor the flexibility and reduced maintenance responsibilities of renting, contributing to ongoing demand for rental properties, particularly those that cater to their lifestyle preferences. This older demographic not only strengthens overall demand but also encourages the development of diversified, amenity-rich rental housing in markets where they are concentrated.

Positioning for the Rebound in 2025

As we enter a new cycle for residential rental real estate, we believe that understanding the complex and diversifying sources of demand, paired appropriately with strategic market selection, is key to capturing value in an evolving sector. Not all markets face the same level of affordability challenges or demonstrate the same renter demographics. We believe that investors can maximize opportunities by aligning their investments with a range of strategies focusing on key demand drivers, such as addressing affordability for cost-burdened renters or targeting the growing segments of high-income and aging renters. This strategic alignment is essential for capturing value at this dynamic turning point in the cycle. Simply put, the resetting of asset values has meaningfully improved the prospects for a sector bolstered by a strong demographic-driven demand story.

THE MISSING MIDDLE:

The Escalating Affordability Crisis

An accelerating pace of renter household growth, which is now expanding over 2.5 times faster than in 2015 to 2019, is deepening the affordability crisis in the US by amplifying demand pressures. In our view, two primary factors are driving this intensification: persistent barriers to entry in the homeownership market and a faster household formation rate during strong economic times, both contributing to heightened demand in a an already structurally undersupplied market.

The Path to Homeownership Is More Expensive, Keeping Many Out

With affordability challenges manifesting across every segment of the broader housing market, many households wishing to buy a home are facing a stark choice between prolonged rentership or cost-burdened ownership. Since 2019, existing home prices have soared 47%, while wages have only risen 26%, creating a substantial affordability gap.[1] Many households, either unwilling or unable to take on this cost burden, are remaining in the rental market longer, and new households are also more likely to rent. Accordingly, we have seen first-time homebuyer activity decline to a historic low and push the median age of first-time buyers to a record high.[2]

For the households that have been able to buy a home, we have observed a jump in cost-burden levels. Over the past five years, the number of owners spending more than 30% of income on housing has risen 14.2%, faster than the 10.3% increase in the total number of homeowners, underscoring the pervasiveness of affordability pressures across the housing sector.[3]

Deteriorating Affordability in Nearly Every Major Market

With affordability pressures in homeownership filtering down to the rental market, the number of rent-burdened households increased approximately nine percent over the past five years to an estimated 22 million renter households, or nearly half of all renters.[4] Affordability challenges have grown increasingly pervasive across major markets, rising in 44 of the 50 largest multifamily markets.

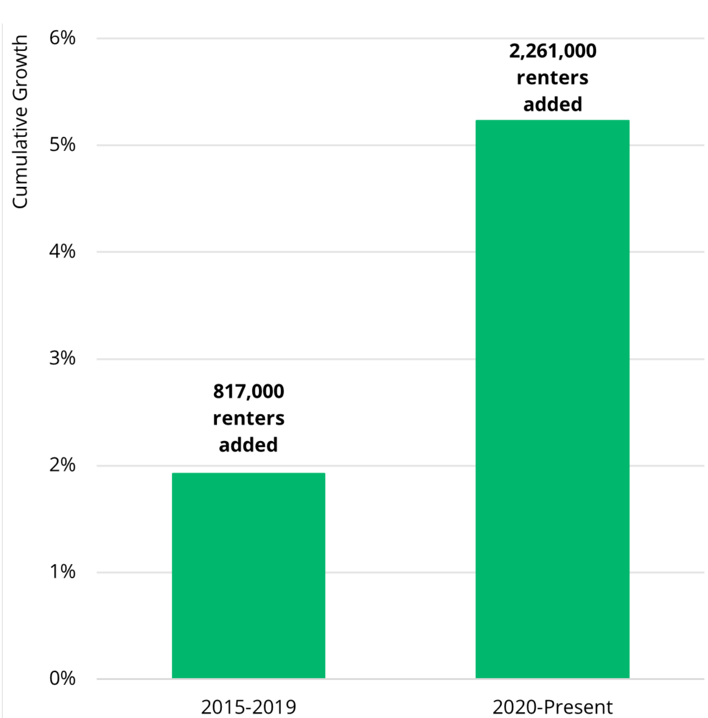
These significant increases in rent burdens have transpired even in Sunbelt markets that had historically been considered relatively affordable. As recently as 2018, gateway and Sunbelt markets exhibited comparable affordability levels, with approximately 48% of renter households classified as rent burdened. However, by 2023, 49% of renter households in the gateway markets were cost-burdened, versus a more substantial increase to 53% in Sunbelt markets.

We believe the rise in rent-burdened households in the Sunbelt can be largely attributed to substantial demand growth and heavy in-migration, a trend we expect will continue to erode affordability. In the past year, demand in Sunbelt markets surged by about 134% compared to the 2015-2019 average, while gateway markets saw a comparatively modest increase of about 29%, highlighting the likelihood of divergent affordability challenges across gateways and the Sunbelt.[5]

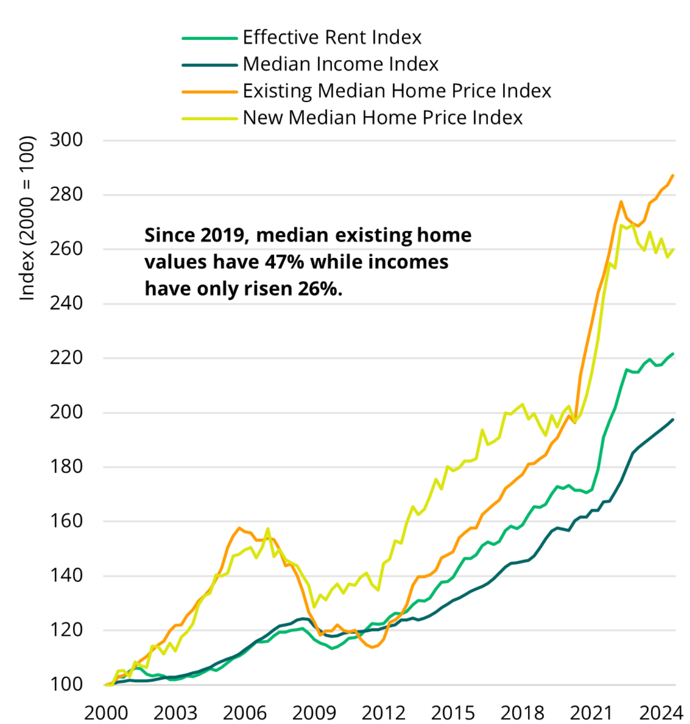
Expanding "Missing Middle" Drives the Need for More Affordable Housing Options

With rising cost pressures, we note rapid growth in middle-income renter cohorts, underscoring the need for workforce housing attainable by this and other underserved income groups. The number of "missing middle" households (earning 51% to 80% of Area Median Income (AMI)) has grown 16% since 2017, outpacing other income cohorts by a substantial margin. Now totaling almost ten million renter households nationwide, the "missing middle" accounts for more than one in every five renters, underscoring the depth of demand at moderate price points.[6] This is a demographic for whom government-sponsored programs such as Low Income Housing Tax Credits and Section 8 vouchers are out of reach by income level, such that the cohort's housing needs are neither met by subsidized housing nor by market-based development, highlighting the need for a private sector solution.

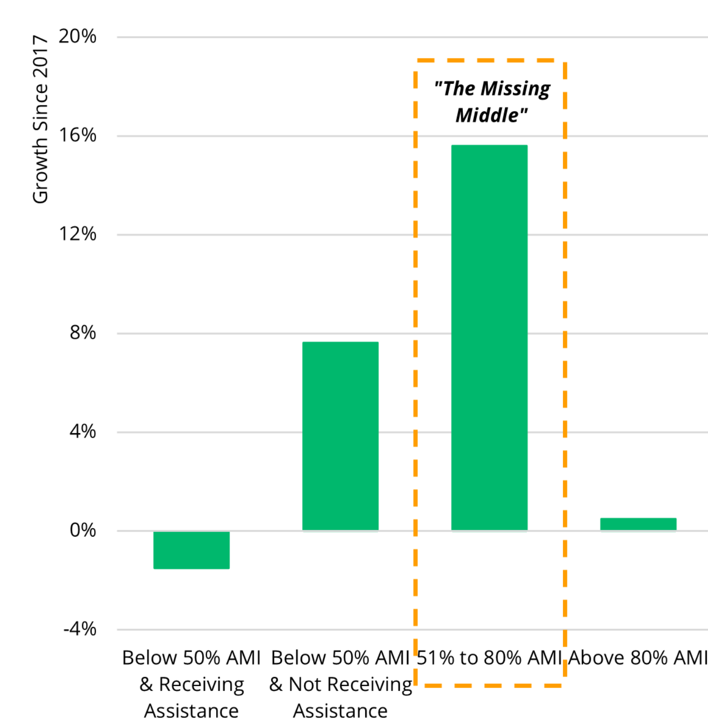
Renter Household Growth Accelerated by Over 2.5x[7]



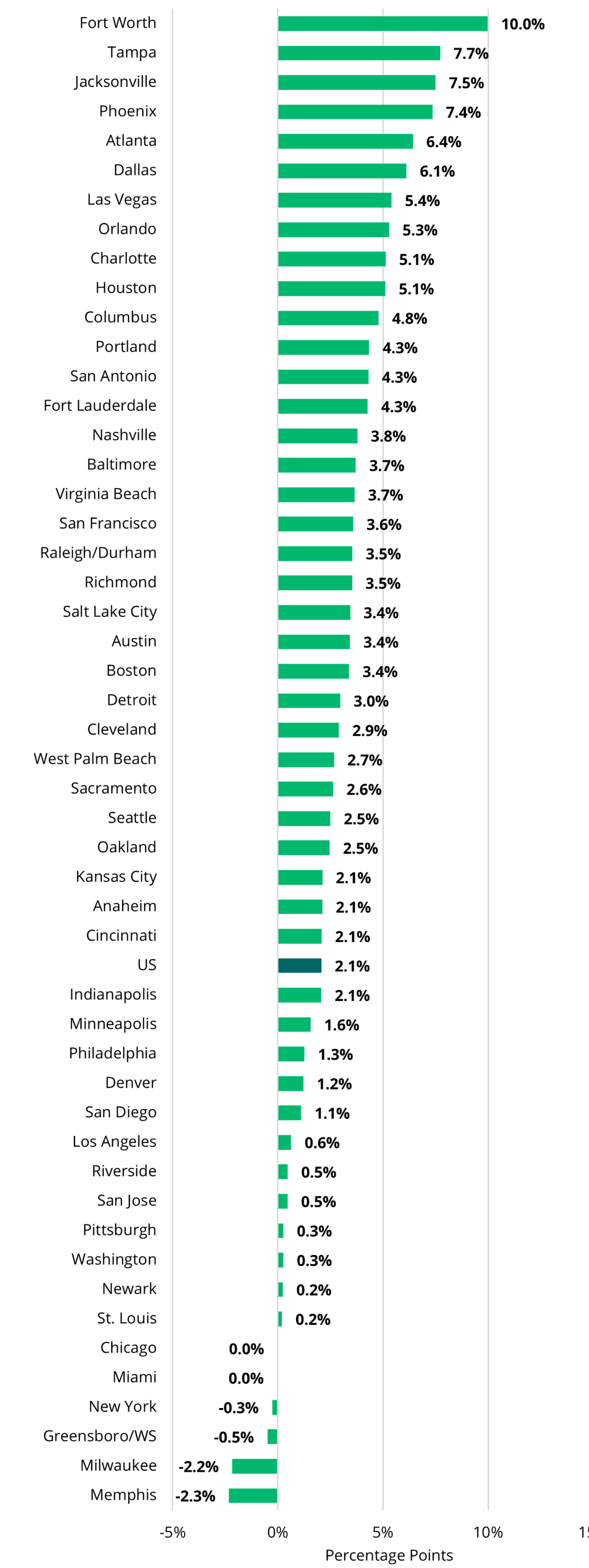
Home Prices Have Become Increasingly Unaffordable[8]



Expansion of the Missing Middle AMI Band Since 2017[9]



Five-Year Change in Share of Renters That Are Cost-Burdened[10]



NAVIGATING NEW SUPPLY:

Positioning for the Rebound in High-Supply Markets

We anticipate that most high-supply markets will see improved occupancies and rent growth performance throughout 2025. Nearly two-thirds of the 50 largest metros reached peak supply in 2024 and are now progressing through the latter stages of this cycle. Importantly, new supply is relatively concentrated in specific submarkets, leaving portions of large metro areas somewhat insulated from high intensity development. This underscores the growing importance of submarket selection in the coming year, which is more crucial than ever as supply has had a meaningful impact on rent growth.

Looking further ahead, we anticipate a sharp decline in new deliveries due to high construction costs and persistently elevated interest rates, which have already slowed new construction starts. For developers to regain the confidence necessary to re-enter the market in scale, project feasibility must improve. However, we believe this is unlikely until rent growth accelerates meaningfully and construction lending costs fall materially lower from their cycle peaks. (See callout box for more on the inflection point of rates, construction costs, and starts.)

Strengthening Fundamentals Anticipated in 2025 Amid Slowing Deliveries and Robust Demand

High-supply markets are well positioned, in our view, for a reversion to positive rent growth and occupancy gains this year. Across the nation, 31 of the top 50 markets have now moved beyond peak quarterly deliveries and are now seeing the pace of supply slow, a critical factor providing much-needed stability in asset operations.[1] Other markets are well on their way. For example, large pipeline markets in the Sunbelt, such as Austin, Phoenix, Charlotte, Nashville, and Raleigh/Durham are likely to achieve occupancy growth in 2025 by an average of 90 bps after falling by an average of about 240 bps since the end of 2019.[2] However, occupancy may be uneven, and we recognize some markets like Nashville and Charlotte still face a significant pipeline ahead of them and may only see slight increases in occupancies in 2025.

Receiving less attention than supply this past year, demand in nearly every high-supply market surged to historic highs, and we anticipate 2025 demand levels will see a similar trend, fueled by healthy job creation and in-migration trends. This past year saw demand increase 334,000 units over 2023 levels and come close to matching the historic peak in 2021.[3] Although labor markets began to cool during the latter half of the past year, we expect demand to hold strongly through 2025 as most markets work through the final quarters of elevated supply.

Robust demand has been a strong signal for developers, and we believe that most markets that saw supply spikes are well positioned to absorb the recent surge. Among the top 50 markets, those with anticipated inventory growth above 2.6% in 2025 are forecasted to see net absorption in 2025 jump to 130%+ above 2015 to 2019 averages. Similarly, markets with slower inventory growth are projected to experience an average demand uptick of 71% relative to the 2015 to 2019 average, which is lower on a relative basis but still quite strong.[4] We anticipate that robust demand will help lift most high-supply markets back into positive rent growth territory over the coming year.

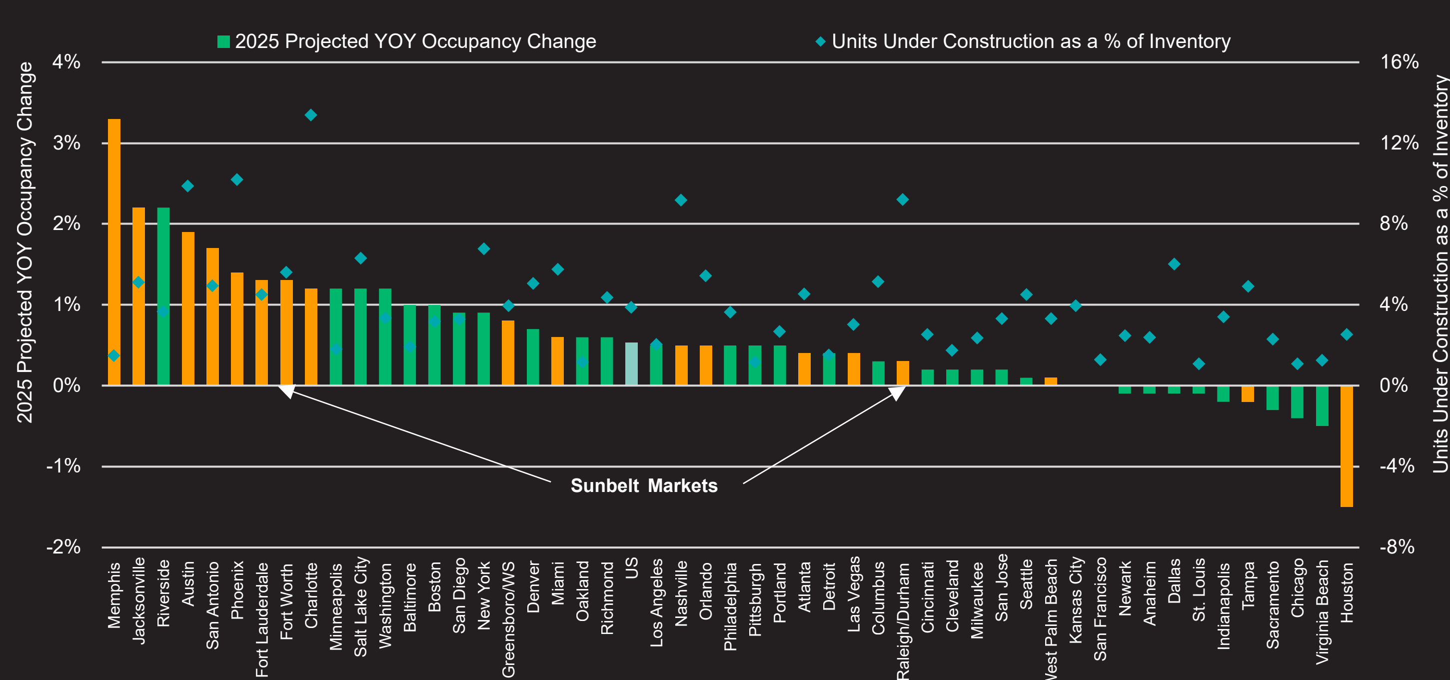
Fundamentals Are Likely to Hold Steady in Low-Supply Submarkets

As the pace of deliveries slows across markets in 2025, we note that new supply has been heavily concentrated in a small subset of submarkets, many in urban neighborhoods. Nearly 50% of the past year's deliveries in major markets landed in only 13% of submarkets, and approximately one in six submarkets experienced no inventory growth.[5] Notably, none of the 120 submarkets with zero inventory growth were urban submarkets, meaning that all urban areas saw at least some level of inventory expansion, leaving the bulk of future supply spread across the remaining suburban submarkets.[6]

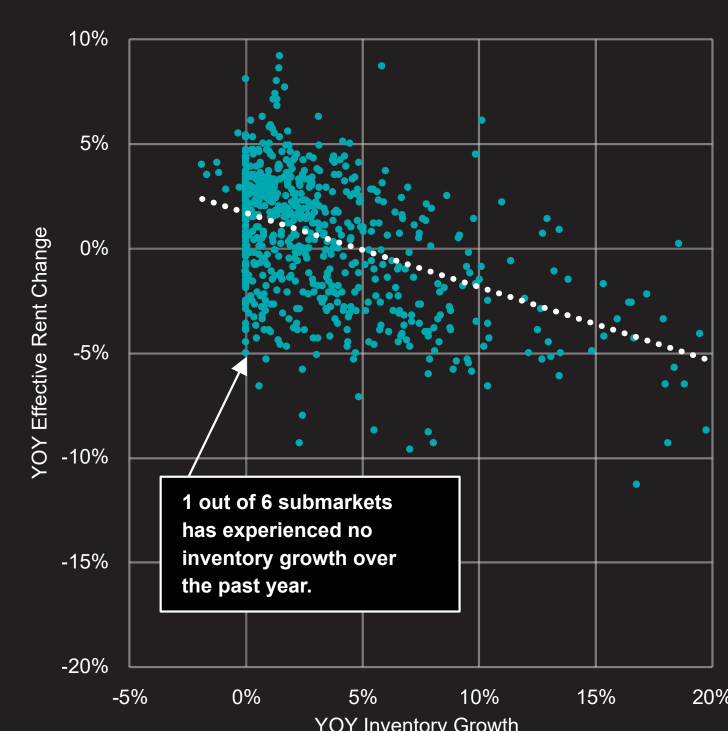
The submarkets with limited increases in inventory have experienced relatively more robust rent growth, highlighting the need, in our view, for careful and deliberate submarket selection. In contrast, only three of 46 submarkets that have experienced a 10%+ YOY increase in inventory have achieved positive rent growth.[7] As these high-supply submarkets work through recent deliveries and the development pipeline declines, we anticipate rent growth will shift into positive territory in 2025.

In 2024, submarkets across the Northeast and Midwest showed some of the strongest rent growth while posting some of the slowest inventory growth in the US. Markets like Chicago, Milwaukee, Detroit, Kansas City, Boston, Newark, and Pittsburgh have posted some of the most significant rent increases, which in our perspective highlights the impact of differing levels of development activity in the current market landscape.

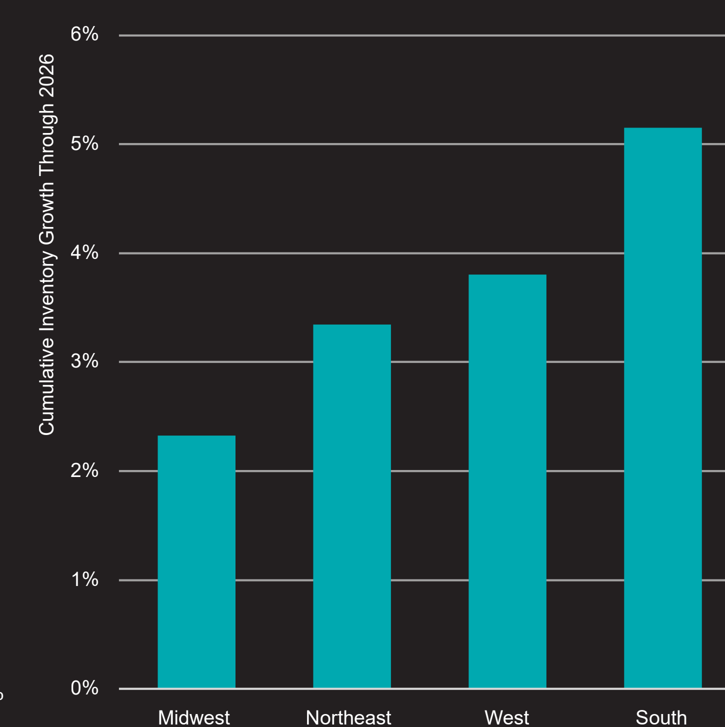
Sunbelt Markets Expected to Power Through Supply Wave, Though Some Risks Remain[8]



Higher Supplied Submarkets Saw Worse Rent Growth[9]



Midwest and Northeast Submarkets Fared Better Over the Past Year[10]



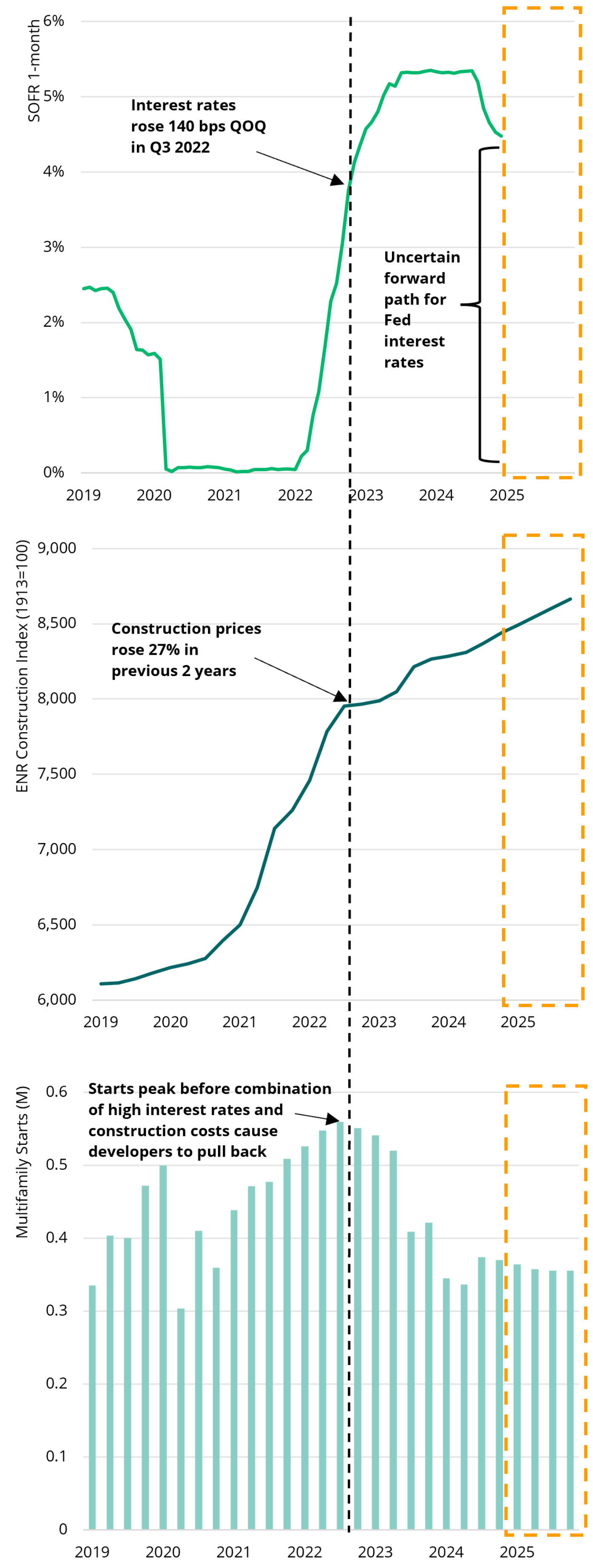
Construction Pipeline Drawing Down Rapidly as Starts Stage a Rapid Retreat

We expect construction activity to continue to decelerate in 2025, particularly in the markets that experienced the most rapid inventory growth in 2024. The high-cost environment for new development and elevated interest rates persist at levels well above pre-pandemic norms, which has made it increasingly difficult for deals to pencil. With multifamily starts down sharply nationwide, we note that Sunbelt markets have experienced some of the most pronounced drop offs in activity.[11]

We see no signs of broad-based declines in construction expenses in the near-term but rather believe the construction sector has navigated to a new, higher normal, tracking with broader inflationary trends across the economy. The 2020-2021 surge in construction costs was largely driven by supply chain disruptions, but costs are still climbing almost 2% YOY even though developers are now reporting minimal difficulties with obtaining construction materials.[12] Hourly wages for construction workers are also rising, up 4.5%+ YOY in recent months.[13]

For construction activity to resume at previous levels, we believe developers will first need to see rents push to higher levels that can justify development against a higher-cost backdrop. Construction costs vary widely from one market to the next in part due to differing building standards, but one nationwide estimate pegs the cumulative jump at 35% since late 2019.[14] By comparison, national multifamily rents are up only 29% over the same timeframe.[15] This widening gap, coupled with longer construction times that are delaying first occupancy and positive cashflows,[16] suggest persistent challenges to underwrite new construction in 2025 even as borrowing costs start to edge downward.

Construction Price and Interest Rate Mismatch[17]



SINGLE-FAMILY RENTAL:

Opportunities Amid Sustained Demand and Affordability Challenges

The single-family rental (SFR) sector is poised to become a robust segment of the residential real estate investment market in 2025. Elevated homeownership costs continue to widen the financial gap between renting and owning, driving sustained demand for single-family rental properties amid ongoing affordability challenges. With both single-family and multifamily construction tapering from recent peaks, we expect to see meaningful differentiation in SFR fundamentals across markets, especially as build-to-rent (BTR) evolves as an increasingly dynamic and scalable channel for institutional capital.

Elevated Homeownership Costs Continue to Boost SFR Demand in 2025

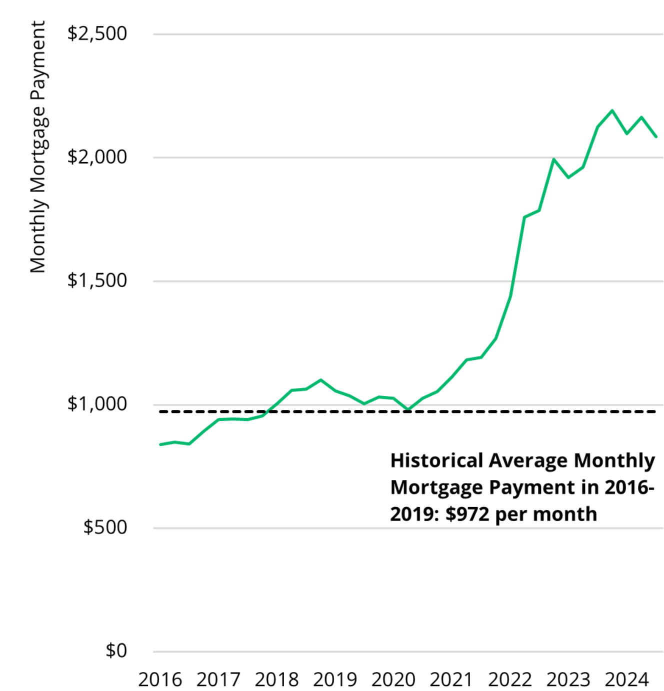
SFR demand is supported by a sustained, historically wide cost disparity between renting and homeownership. This gap, which has doubled over the past five years, now averages $700 per month and shows no signs of narrowing.[1] Even as housing markets normalize after years of volatility, the typical mortgage payment remains at record highs, limiting the affordability of homeownership for many.

Despite hopes for price relief, tight inventory levels in the for-sale market are expected to keep a high floor under home prices.[2] Both new and existing home prices are at historically high levels, and measures such as the Housing Affordability Index indicate that homeownership has not been so unaffordable for several decades. We anticipate this substantial cost gap to persist given expectations for home prices to see a low-single-digit percentage increase in the coming year.

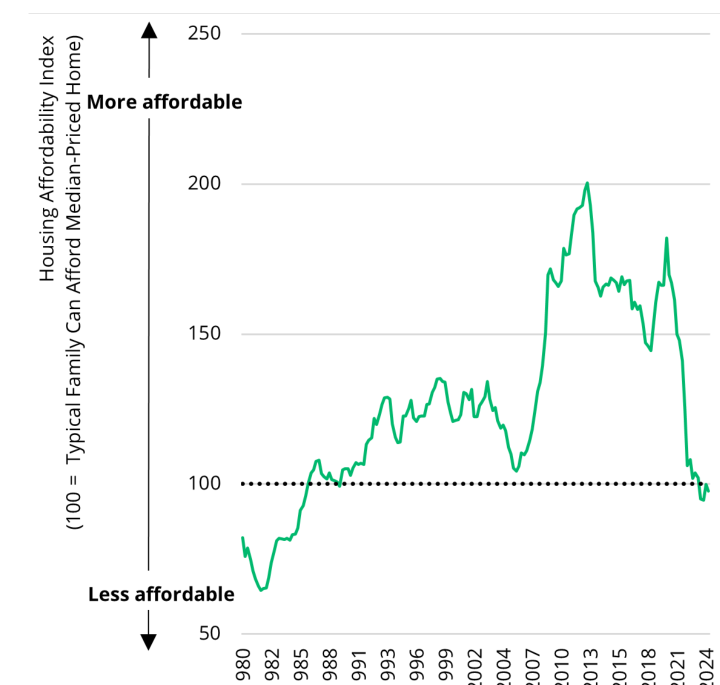
We note variations in home prices exist across markets, which appear to be driven primarily by changes in development and sales activity. Markets with permit and resale volumes well-above the US averages, such as Austin, San Antonio, and Tampa, have tended to exhibit lower house price growth in recent months, while markets with slower permitting and resale activity, such as Newark and Orange County, are posting stronger price momentum.[3]

We anticipate that mortgage rates will continue to stay elevated through 2025, reinforcing the barrier-to-entry posed by high financing costs. While the average 30-year mortgage rate has fallen slightly from the recent cyclical peak, at current home prices, it would need to drop to unprecedented lows (<1%) to reduce the typical monthly mortgage payment to 2019 levels.[4] Similarly, while income growth outpaces historical trends, restoring mortgage-to-income ratios to pre-pandemic baselines would require an extraordinary two-thirds increase in household incomes. These conditions continue to elevate the attractiveness of the SFR market as an alternative to homeownership.[5]

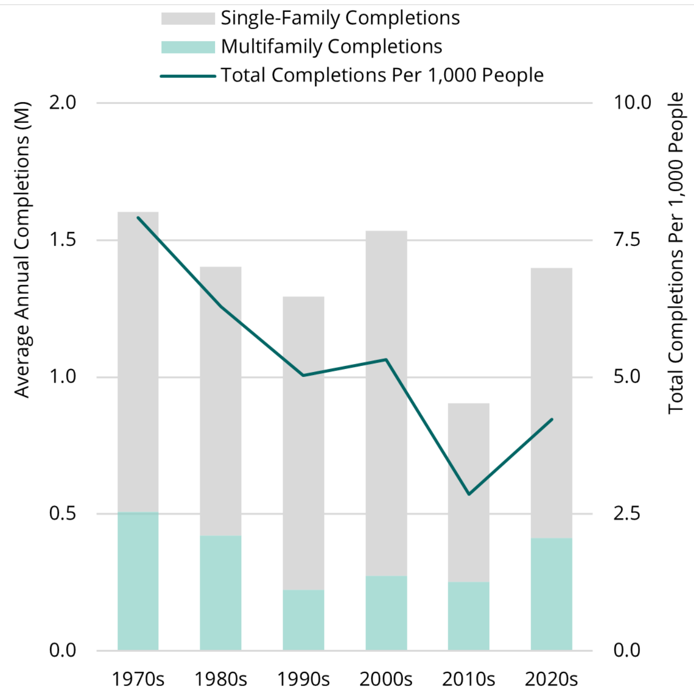
The Typical Mortgage Payment is at an All-time High[6]



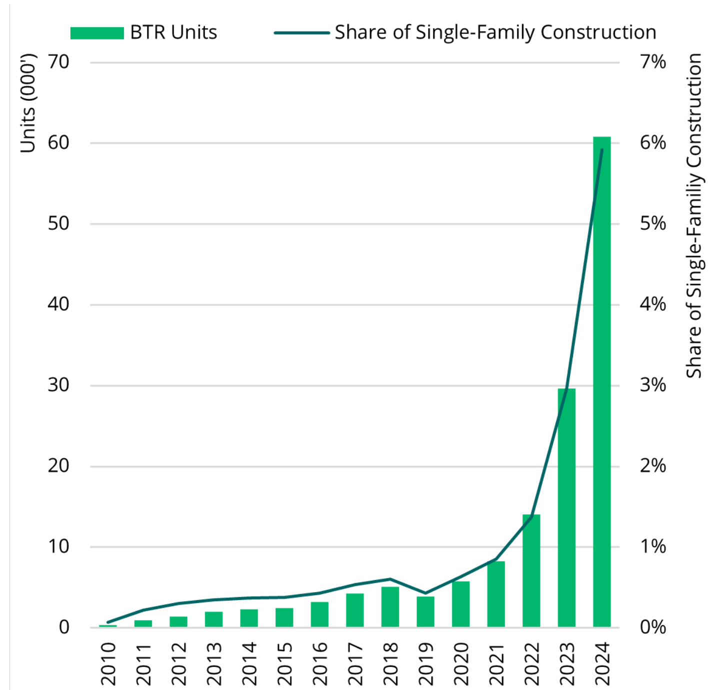
Housing Affordability Declined to the Lowest Levels in Decades[7]



Housing Completions per Capita Have Dropped Nearly 50% Over the Past 50 Years[8]



2024 Was a Record Year for BTR Supply[9]



Strong SFR Fundamentals but Persistent Supply Risk

The SFR sector's fundamentals remain sound, with vacancy rates stabilizing at approximately 5.5% after dipping to decades-low levels in 2020.[10] While rent growth has moderated from its peak, it still surpasses the previous cycle average, supported by strong underlying demand.

We view these moderating trends as primarily supply-driven across the residential rental sector. SFR rent growth, like home prices, has demonstrated an inverse relationship in recent quarters to both resale listings and the pace of single-family permits.[11] We have noted a similar trend related to multifamily inventory as eight of the ten markets with the slowest SFR rent growth have seen multifamily supply grow 4% or more, and we are optimistic for stronger performance in the coming year as multifamily supply pressures ease.[12]

Build-to-Rent Expanding Rapidly as a New Class of Institutional Real Estate

Institutional interest in SFR continues to pivot toward BTR, a rapidly expanding subset offering promising yields and operational efficiencies. Institutional BTR is one of the fastest-growing segments of residential real estate with the pace of deliveries doubling in each of the past two years, and we estimate BTR now accounts for approximately one-fifth of institutional SFR portfolios.[13] Despite the rapid growth, institutionally owned BTR still represents only 1.7% of the broader SFR market, indicating significant room for expansion.[14]

Looking ahead, institutional BTR is likely to remain firmly entrenched in warm-climate markets in the Southeast US with favorable regulatory environments. Historically, only a handful of institutional investors participated in the market, and in recent years we have seen new entrants—a trend that we expect to continue, especially with BTR acquisition channels providing quick on-ramps to scale. We estimate there are 50,000 institutional-grade BTR units currently under construction nationwide, and this development activity is heavily concentrated in Sunbelt markets, with Phoenix, Dallas, and Fort Worth leading the way.[15]

Looking Ahead to a New Cycle of Growth

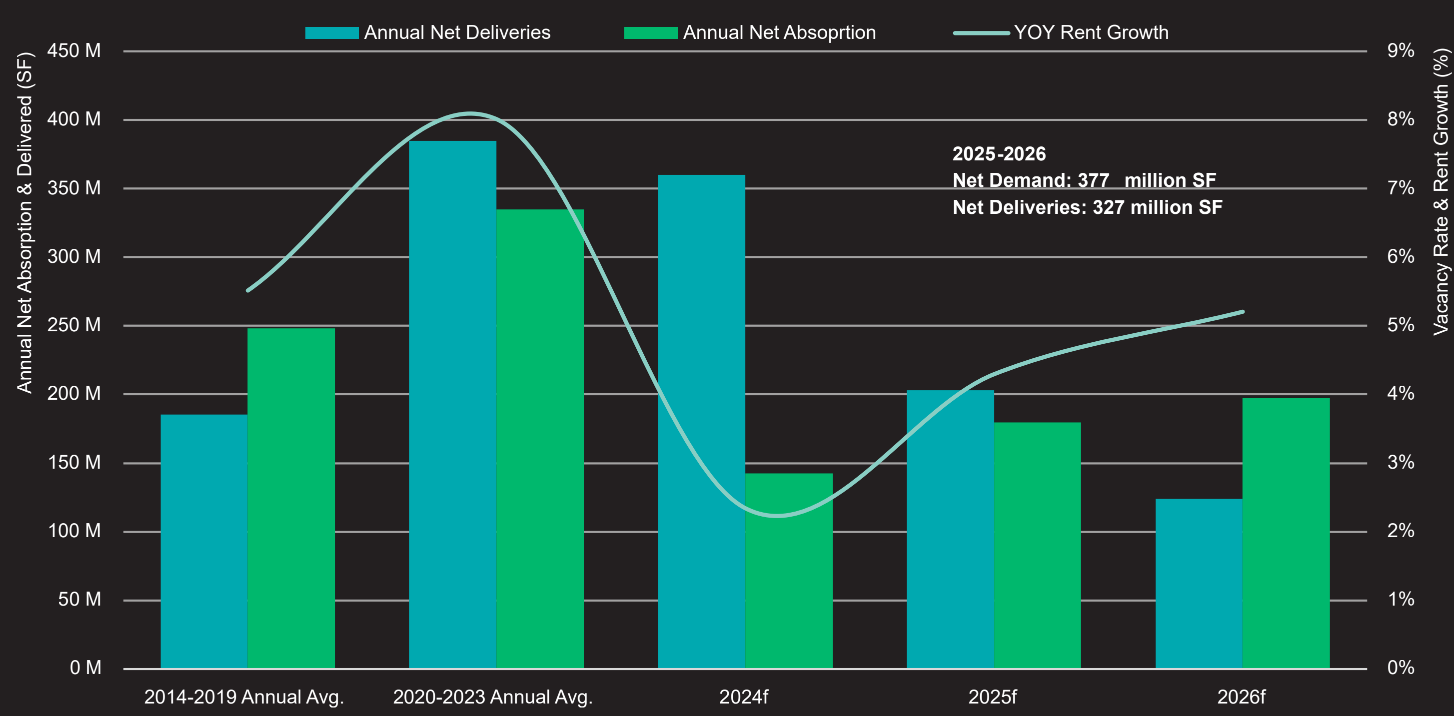
As affordability constraints persist and new supply moderates, the SFR sector is well-positioned for steady demand and growth. Investors who recognize the nuanced interplay between homeownership barriers, regional supply variations, and the emergence of BTR will be best placed to capture value in this evolving landscape. Strategic market selection and alignment with growth trends will be pivotal for success as 2025 unfolds.

RESETTING THE FOUNDATION:

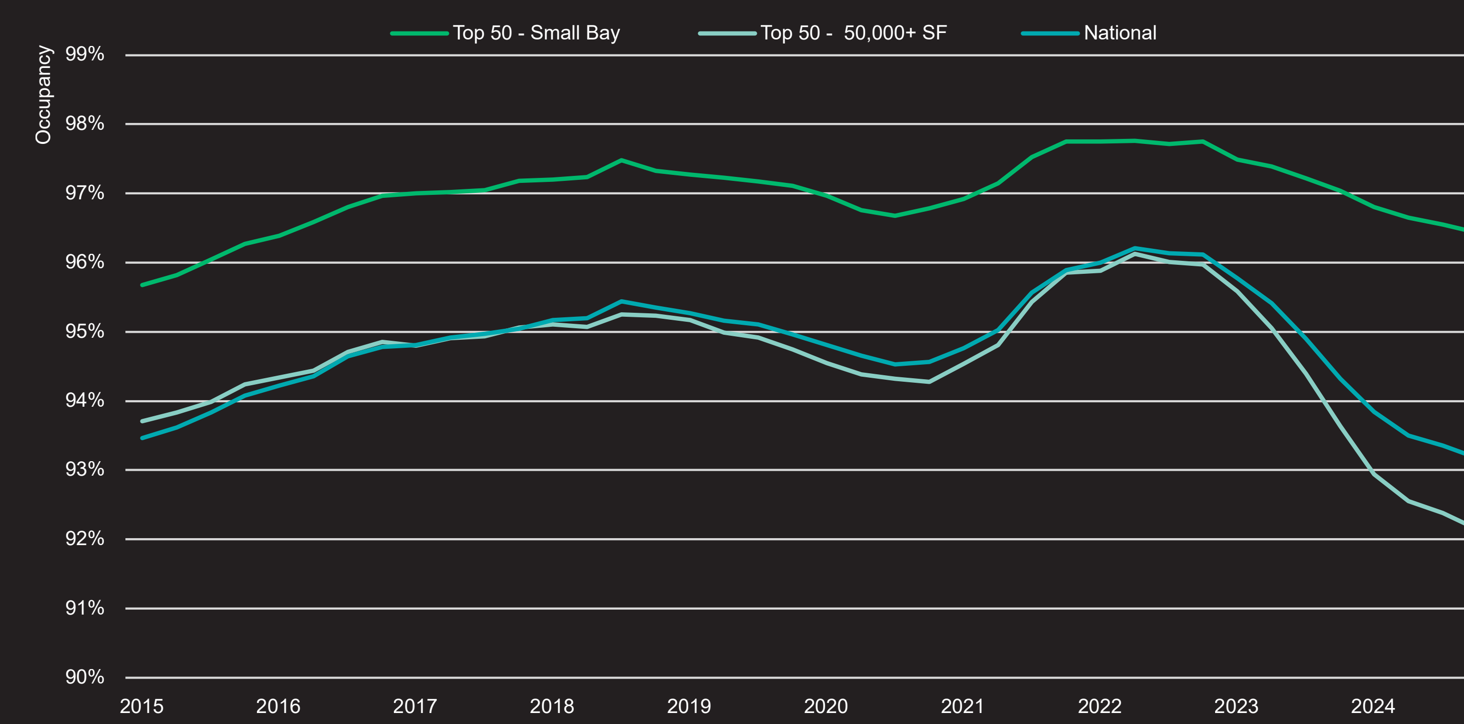
Preparing for the Upswing in Industrial and Logistics

The industrial and logistics real estate sector is approaching a rebound point, with expansion expected to begin in the second half of 2025. Following a surge in demand to start the decade, e-commerce growth and inventory stockpiling drove record absorption. In the back end of 2023 and into 2024, leasing and development activity cooled substantially. Elevated interest rates and increased construction costs tempered new project starts, leading many developers to delay or scale back plans. However, this pullback in new development has, in our view, set the stage for an expansionary period with sustained, long-term demand fundamentals, likely restoring pricing power over the next few years.

Industrial Sector Fundamentals Progressing Out of the Trough[1]



Occupancy: Small Bay Industrial (50 Largest Markets) vs. Larger Industrial and National[2]



Demand: Hitting the Trough and Preparing for Rebound

In 2024, national absorption in the industrial real estate sector fell to just 143 million square feet, the lowest level in over a decade, setting the stage for sector expansion in 2025.[3] This steep decline marked a cyclical low in demand, as companies recalibrated space needs and are now preparing for a more strategic growth phase. Absorption is expected to increase approximately 26% this coming year and match deliveries, and then accelerate well past new supply starting in early 2026.[4]

During this transition period, technology and innovation have been a key differentiator within markets, which we believe to be a durable trend throughout the next cycle. Operators and occupiers are increasingly focused on properties that offer long-term viability with technology-enabled buildouts. Modern industrial tenants, from logistics providers to light manufacturers, are prioritizing facilities that can integrate technology and accommodate automation, robotics, and efficient energy systems (crucially important given higher energy demand loads). These features support effective operations, reduce costs, and help tenants stay competitive in a market that demands speed, reliability, and sustainability.

Supply Cutting Back: Rising Costs and Reduced Project Starts

The decelerating new supply pipeline reflects the impact of prolonged high interest rates and elevated construction costs, priming the market for an upturn in fundamentals. Project starts have dropped nearly 66% since peaking in 2022, falling to lows last seen more than a decade ago.[5] Developers have responded to these economic headwinds by delaying or canceling projects, resulting in lower delivery expectations in 2025 and 2026, especially because construction costs remain stubbornly high. We expect the combination of current demand and supply trends to increase occupancy in the near term with modest rent growth. Furthermore, a newfound balance between supply and demand will set the foundation for stabilization in 2026 and beyond.

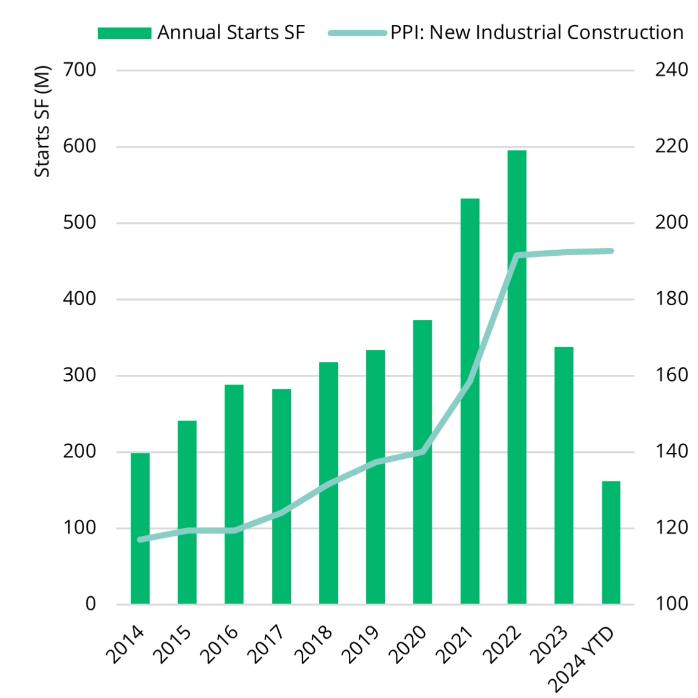
This rapid shift from expanding inventories and speculative development to selective, strategic development underscores a critical point in the industrial sector: future growth will depend on properties that can deliver value through technology and strategic location rather than sheer square footage.

Small Bay Industrial: A Big Performer in a Cooling Market

Among sector-wide slowdowns we view the small bay industrial segment—properties typically measuring less than 50,000 square feet—as a segment of particular opportunity in 2025. Small bay industrial has outperformed larger counterparts in both vacancy and absorption. In the past year, small bay industrial occupancy averaged 96.4% across the 50 largest US markets, which was well above peak national occupancies in 2022 and represents a spread of more than 400 bps over larger properties.[6] This level of demand highlights the unique advantages of small bay properties, which are more commonly found in or near urban centers, providing tenants with convenient proximity to consumers and allowing faster delivery times.

The small bay segment's success owes, in part, to an ability to appeal to a diverse tenant base that includes logistics firms, local service providers, and light manufacturing businesses. This diversity makes small bay industrial spaces more resilient to economic downturns and sector-specific challenges, as they are not broadly reliant on any single industry. As companies prioritize closer connections to end-users, the small bay segment is well-positioned to support the evolving industrial landscape, especially in supply-constrained markets.

Starts and Producer Price Index: New Industrial Building Construction[7]



LOGISTICS:
Securing the Right Assets in the Right Locations

Shifting dynamics in e-commerce, retail inventory strategies, and coastal port activity are expected to reinforce strong logistics demand fundamentals in the coming year. E-commerce remains a key driver of warehouse demand, especially in major markets with larger consumer bases and higher spending levels. At the same time, evolving retail sales and inventory trends are pushing operators to adopt more strategic and forward-looking approaches to expansion. Additionally, port volumes have rebounded to pre-2022 levels, with large coastal markets expected to regain momentum in 2025.

Major Markets: The E-commerce Logistics Winners

E-commerce continues to stand out as the primary demand generator for logistics space. Online retail now makes up 16% of total retail sales,[1] which has effectively doubled over the past five years. While e-commerce growth has moderated since the pandemic surge, online sales are projected to grow 5.8% annually, doubling again by 2037.[2]

We note the targeted and meaningful changes that Amazon, as the largest space occupier in the sector, announced in 2023 to double last-mile facilities in major cities, fueling demand in urban infill locations. Responding to consumer demands, in the past year the company announced enhancements to its inbound network to increase the speed of delivery to the end customer.[3] We expect the online giant to continue to prioritize the largest markets where household spending on e-commerce is notably higher. In the largest 25 metros, households spend approximately $3,200 per year online, roughly 13.1% more than the next 25 largest (26-50) metros.[4]

Retailers Using Technology to Right-Size Inventory Amid a Persistent Retail Consumer

Retail sales and retail inventories show two different levers that are moderating with respect to overall logistics demand. Retail sales have grown 1.9% annually over the past two years, slower than the 3.9% annual growth rate in the two years leading up to the pandemic.[5] This suggests that retailers will continue to need more space to keep up sales, though at a relatively slower rate.

Inventory levels add more context to the picture though; amid pandemic-era supply chain issues, many companies built up excess inventory to avoid disruption. But as supply chains have steadied, companies have moved to right-size inventory levels to their needs, and technology investment is playing a major role in facilitating efficient distribution networks.

Highlighting how technology and innovation are fundamental to growth, Walmart, the world's largest retailer by revenue, announced plans to improve its distribution network through new high-tech facilities that grant more flexibility in inventory levels. High-tech distribution centers "store twice as much volume and process more than double the volume of traditional distribution centers."[6]

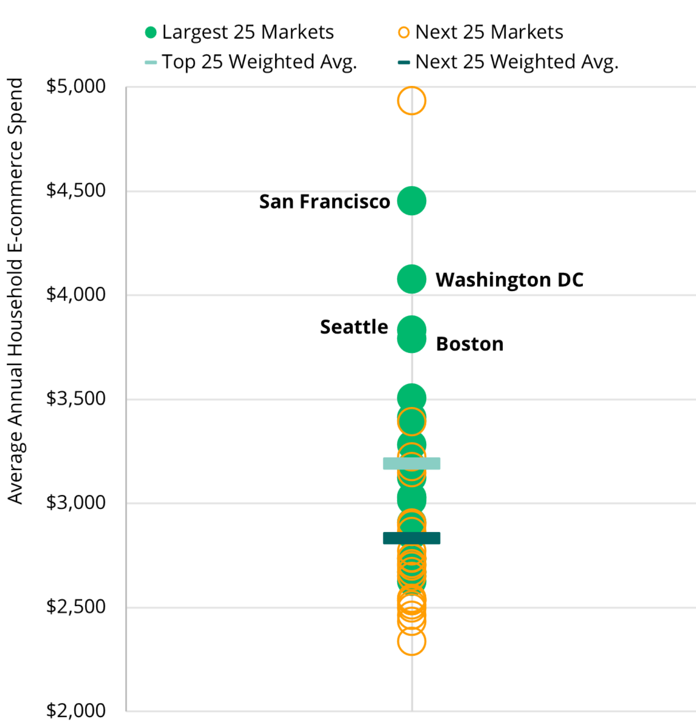
Walmart's investments in technology to streamline inventory could serve as a precursor for the broader retail industry as more companies focus on automated inventory management solutions that allow operators to monitor both upstream and downstream throughput. A recent survey found that 81% of business executives believe automation, "is set to revolutionize supply chain management," helping merchandisers adapt quickly to fluctuations in demand without holding excess inventory, potentially limiting the need for more space.[7]

Port Volume Lagging Proximal Market Recovery

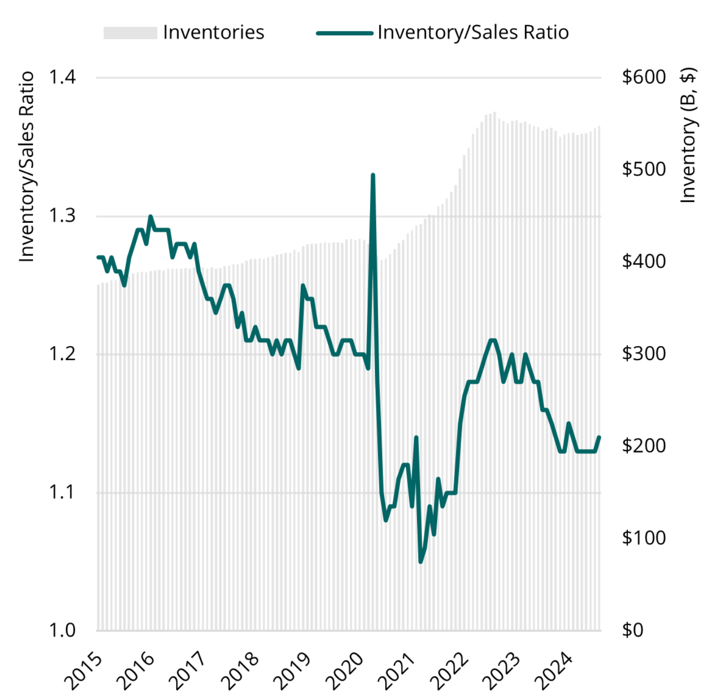
Following a period of subdued port volume and cooling industrial demand, we expect port markets will experience an inflection point in 2025 that brings back momentum in rent growth. The nine largest US ports processed 4.2 million containers of throughput in August 2024, on par with pre-2022 levels and representing a 17.8% year-over-year increase.[8]

Port volumes and rent growth in port markets have historically been closely interlinked, but when operators pulled back on leasing and port volumes began to fall, so did rent growth. This was especially true in Los Angeles, the largest port market, where quarterly rent growth has been negative since Q1 2024. Also important to note is that port markets have experienced a smaller increase in warehouse inventory, 5.9%, since the start of 2022 compared to the nation at 6.8%.[9] We believe that with the return to prior port volume levels and with port strikes tentatively under control, growth in port-adjacent markets will begin to regain momentum in 2025.

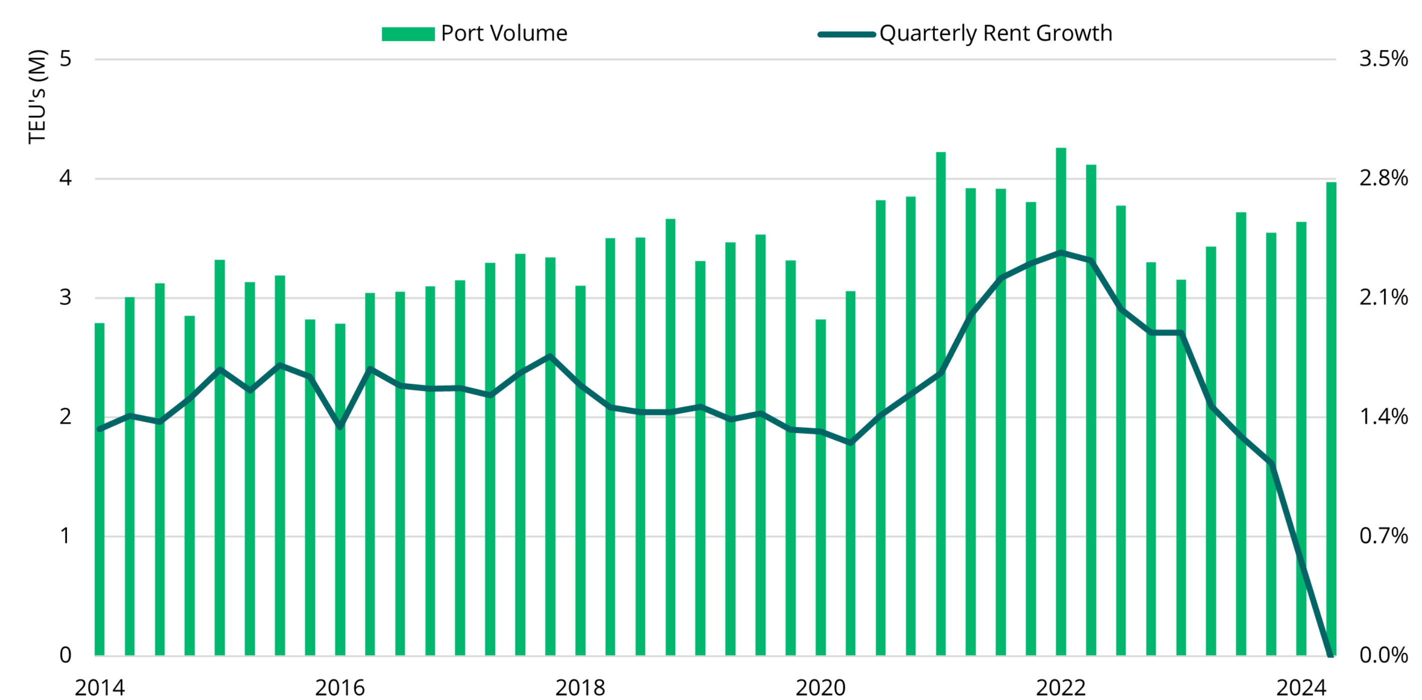
Average Household E-commerce Spend by Market[10]



Retail Inventory-to-Sales Ratio, Retail Inventory, and Retail Sales less Auto and Dealer Parts[11]



Major US Port Volume and Port Market Rent Growth[12]



ADVANCED MANUFACTURING:

Top Trends Influencing Supply Chains and High-Tech Job Growth

Nearshoring and Reshoring: Building Resilient Supply Chains and Driving Demand for Manufacturing Real Estate

The past decade has seen a meaningful shift and reorientation of supply chains and advanced manufacturing, which we believe will continue to accelerate throughout the next cycle. Nearshoring and reshoring are transforming manufacturing supply chains as companies increasingly produce goods closer to US consumers. Despite a decade of momentum building, we believe that sustained investment and facility development will take years to generate production capacity and reduce reliance on imported manufactured goods.

While we see this as a crucial trend shaping investment and demand in the next cycle, projections are better conceptualized in terms of scale rather than precision. For example, initial estimates of foreign domestic investment (FDI) job announcements were 366,000 for 2023, but actual figures were approximately 20% lower, suggesting some moderating in the pace of investment.[1] That said, in terms of scale, the most recent data on FDI jobs indicates that it is the second-highest annual figure recorded, and we expect additional investment announcements to come in 2025.

We anticipate that the incoming Trump Administration and Republican-controlled Congress will have a positive impact on domestic manufacturing growth, and we are likely to see meaningful shifts with regards to the use of subsidies versus tax incentives. We anticipate as well that reestablishing domestic manufacturing through broader tariffs may further drive domestic demand, particularly as supply chains adjust. This will open the door for increased domestic industrial and manufacturing investment as reshoring becomes cheaper on a relative basis, which is likely to both strengthen and sustain domestic manufacturing tailwinds.

We expect demand for facilities that support high-output manufacturing with easy access to highways and railroads to increase in popularity during 2025 and note that these types of spaces are in greater supply now than in years past due to recent broad sector deliveries. Highlighting the scalability of this sub-sector, manufacturing spending is at a historic peak where we see an emphasis on real estate solutions that meet the needs of diverse industries ranging from large-scale production of automotive and aerospace to smaller-scale facilities for computers and electronics.

Similar to shifting geographic patterns in logistics, domestic manufacturing is experiencing tailwinds within the Midwest and Southern markets and along the US-Mexico border. Mexico's rise as the largest US trading partner has sparked manufacturing real estate development alongside border areas in Texas and Arizona, but more so on the Mexico side, providing demand tailwinds to logistics land-port facilities.

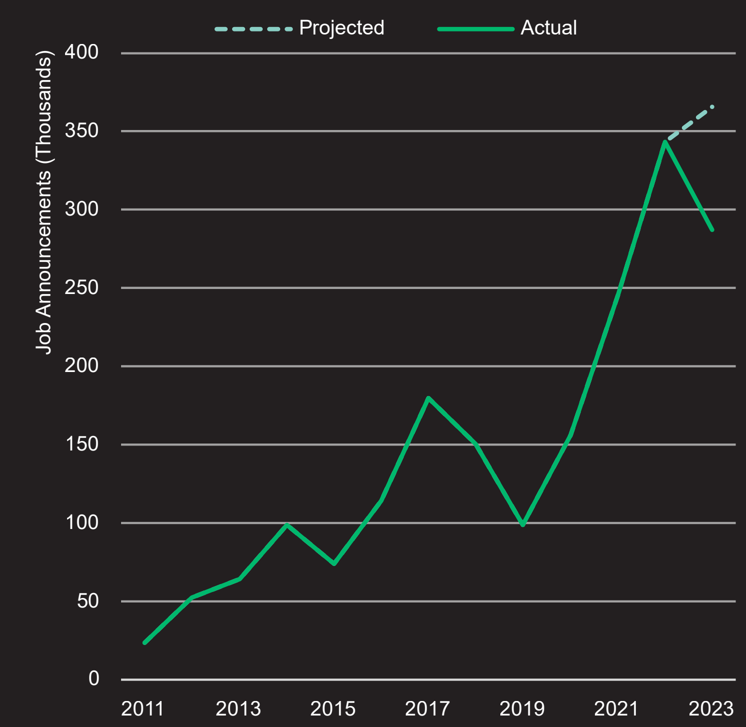
We have seen significant manufacturing investments continue to reshape the Midwest markets near legacy cities and Southern markets, where states offer competitive tax incentives, lower labor costs, and established transportation networks. In the last year, a cluster of investments has formed in Northeast markets as well. These regions are becoming long-term production hubs, and industrial developers are focusing on scalable real estate solutions that meet the needs of diverse industries, including automotive, aerospace, and computer and electronics goods.

High-Tech Manufacturing Jobs: The CHIPS Act and Its Demand for Specialized Real Estate

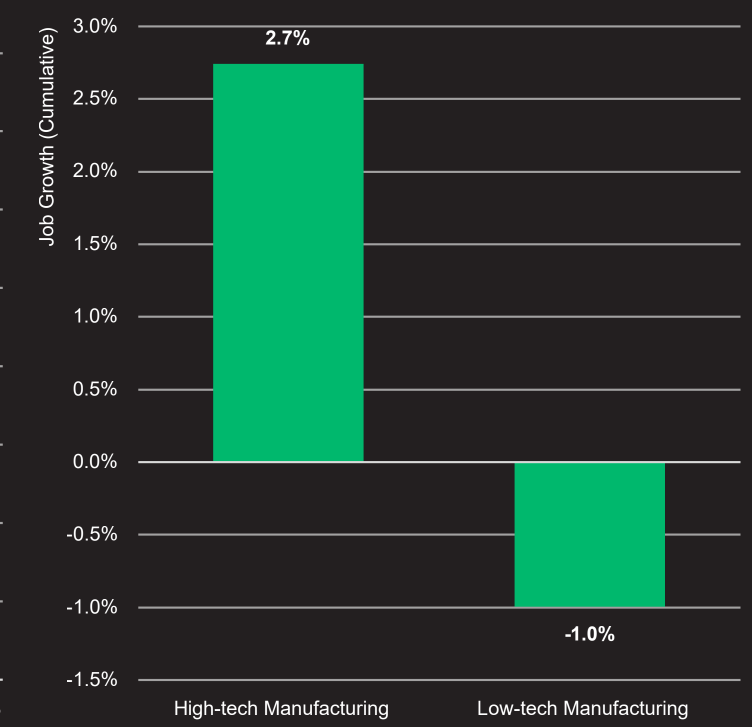
We see additional development tailwinds from incentives from the CHIPS and Science Act, which has generated strong momentum in US high-tech manufacturing, particularly in semiconductor production, electronics, and transportation equipment. Since the CHIPS Act's signing in 2022, cumulative growth in high-tech manufacturing jobs has outpaced low-tech jobs, with the high-tech segment growing by 2.7% while low-tech manufacturing contracted by 1.0%.[2] Total manufacturing jobs grew just 0.2% underscoring the point that a relatively smaller share of manufacturing jobs is high-tech. These job growth trends are a continuation of broader trends in the last decade as low-tech manufacturing is being offshored and high-tech manufacturing is domestically prioritized.

The resulting growth in high-tech manufacturing jobs from these investments is driving demand for specialized manufacturing real estate designed for advanced production needs and enhanced power capacity. These facilities require significant real estate investments, as they must meet high standards to support high-tech equipment and accommodate advanced manufacturing processes. From the originally allotted $50 billion for the CHIPS and Science Act, there remains meaningful funds to be handed out. As of late 2024, $14 billion is still available, which we expect to be allocated by the end of 2025.[3] As funds continue to be awarded, we believe that we will see new production capacity in addition to already underway semiconductor plants and electronics manufacturing facilities, and these spaces will anchor regional economic hubs, especially in the Southwest, Midwest, and Southeast.

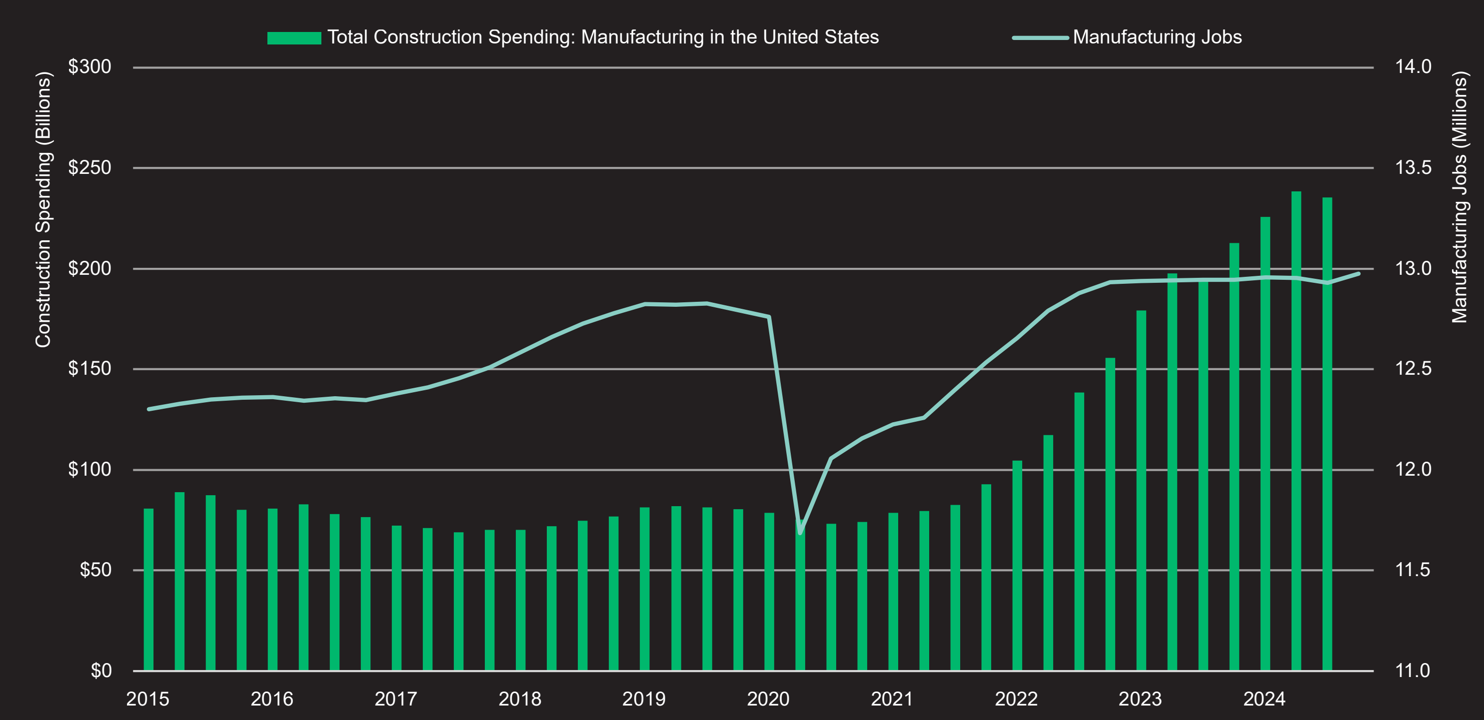
Annual Reshoring and FDI Job Announcements[4]

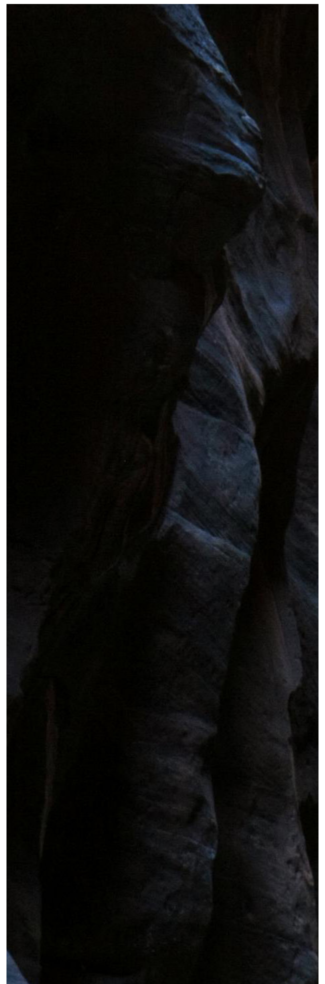


High-tech vs Low-tech Manufacturing Job Growth August 2022-August 2024 (Cumulative)[5]



Manufacturing Construction Spending & Manufacturing Jobs[6]

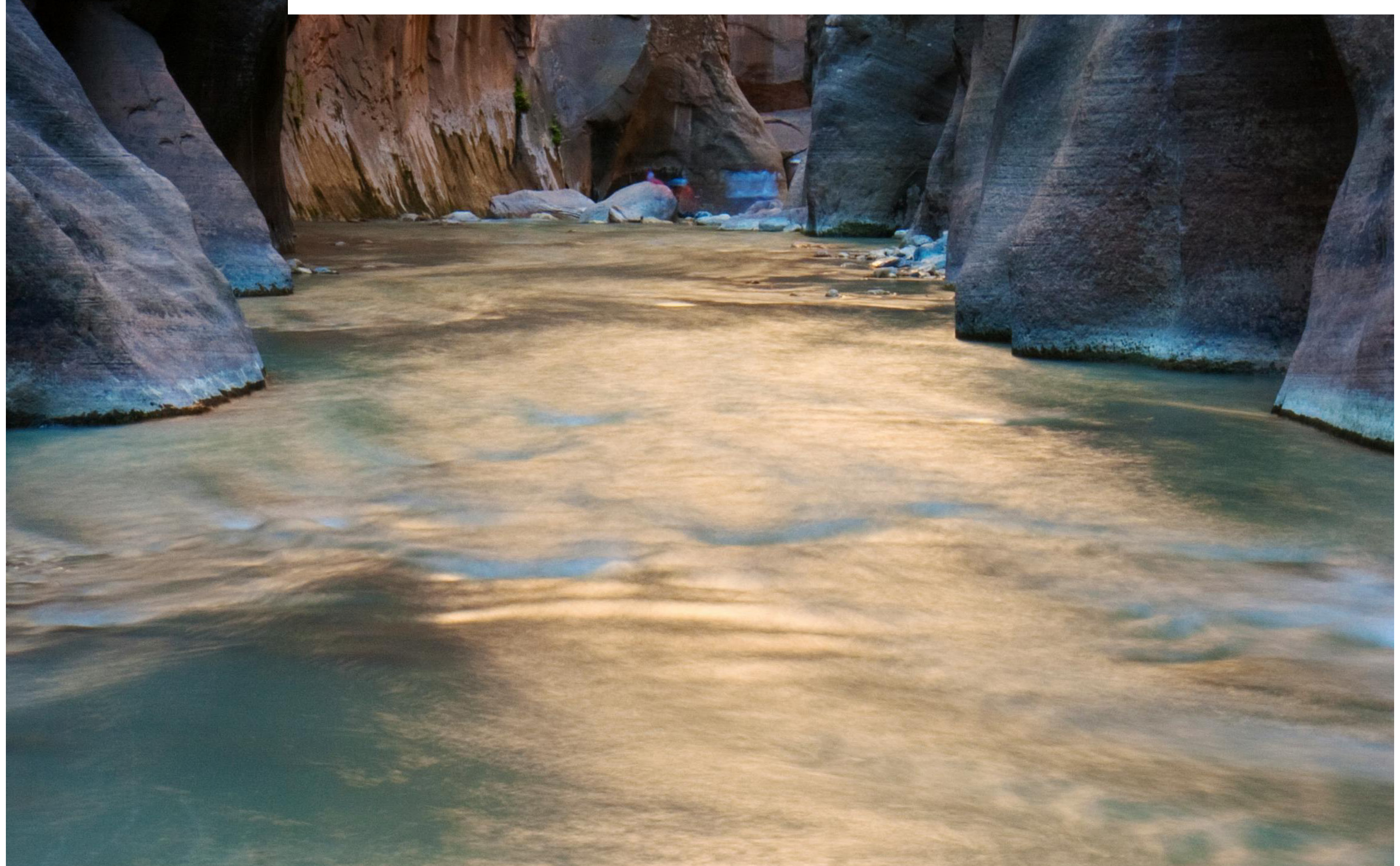




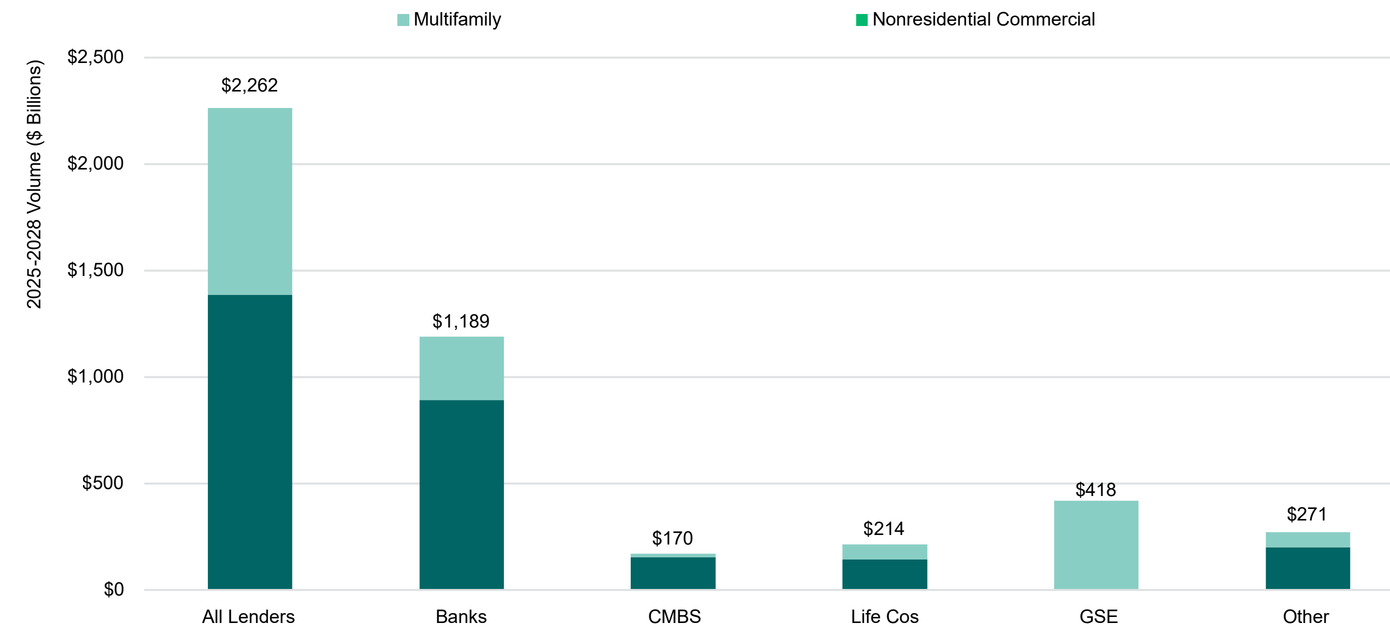
PRIVATE REAL ASSET CREDIT:

Poised for a Rebound in Volatile Markets

Private credit is poised to capitalize on significant opportunity in 2025 as markets navigate volatility and move toward normalization. We anticipate benchmark interest rates are likely to decline gradually throughout the year, setting the stage for increased capital markets activity. However, the high-for-longer rate environment that defined much of 2024 will initially temper early market expectations, delaying a full rebound until clearer signs of normalization emerge—we believe this is likely in the first half of the year. In the meantime, private lenders are uniquely positioned to capitalize on uncertainties, particularly as there remain capital needs driven by an unresolved wave of debt maturities and growing borrower demand for flexible financing solutions amid constrained conventional bank lending. We are bullish on real asset private credit in 2025 and believe that a focus on resilient sectors and disciplined underwriting can deliver strong risk-adjusted returns amidst evolving market conditions.



Over $2 Trillion Worth of CRE Mortgages Are Maturing in the Next Four Years[1]



Growing Demand for CRE Financing: Key Drivers and Trends

As benchmark interest rates began to decline in H2 2024, the CRE private credit market reached a pivotal juncture, poised for growth. Lower rates were initially expected to drive a surge in CRE transactions and refinancing activity, benefiting private debt investors ready to provide flexible financing solutions. However, through the final quarter of 2024, US Treasury yields surged again, particularly at mid- to longer-term maturities. This rebound underscored the persistence of the "higher-for-longer" rate environment, delaying the anticipated pivot point for CRE transaction activity into 2025.

Two key trends are shaping this landscape. First, the "wall of maturities"—a significant volume of CRE debt set to mature—continues to grow. Second, traditional banks remain cautious in their lending approach, constrained by regulatory pressures and increasing loan loss provisions. While banks are slowly easing some restrictions, private lenders are well-positioned to gain market share, particularly among high-quality borrowers in resilient sectors such as residential and industrial.

In 2025, the timing of the anticipated rate pivot will be critical, and we expect the normalization of rates will result in a surge in demand for CRE financing. Two primary drivers underpin this outlook: the looming wave of debt maturities and the Fed's likely path toward a neutral and terminal rate in late 2025. In our view, these factors signal the beginning of a new cycle in the CRE market, with increased loan originations and transaction activity.

Refinancing: Incremental Demand as Loans Hit Maturity

The CRE sector is facing a significant volume of debt maturities, with over $1 trillion in CRE debt maturing in 2025 and 2026. Rising interest rates since 2022 have prompted many borrowers to pursue short-term solutions, such as extending loan terms or modifying existing agreements, without fundamentally restructuring their financing. As a result, the median percentage of modified CRE loans more than doubled year-over-year in the first half of 2024.[2]

We anticipate that rates will remain elevated at the beginning of 2025, which may lead to a rise in loan modifications early in the year. This shift will create favorable conditions for private lenders, providing flexibility and liquidity for borrowers navigating this transitional period.

Originations: Renewed Source of Demand as Transactions Pick Up

With anticipation of a gradual decline in interest rates following a pause at the beginning of 2025, we expect transaction volumes in the commercial real estate market to accelerate, leading to increased lending activity. We believe as we progress through 2025, a more favorable interest rate environment and improved pricing clarity are expected to encourage borrowers who previously delayed transactions to re-enter the market. This shift will, in our view, present meaningful opportunities for private debt investors to capture loan origination volumes. In 2024, originations by investor-driven lenders grew 38.5% in the first three quarters alone, while depositories, including banks and thrifts, lagged behind. We anticipate this momentum will carry through well into 2025.[3]

Supply Side: Traditional Lenders Still on the Sidelines

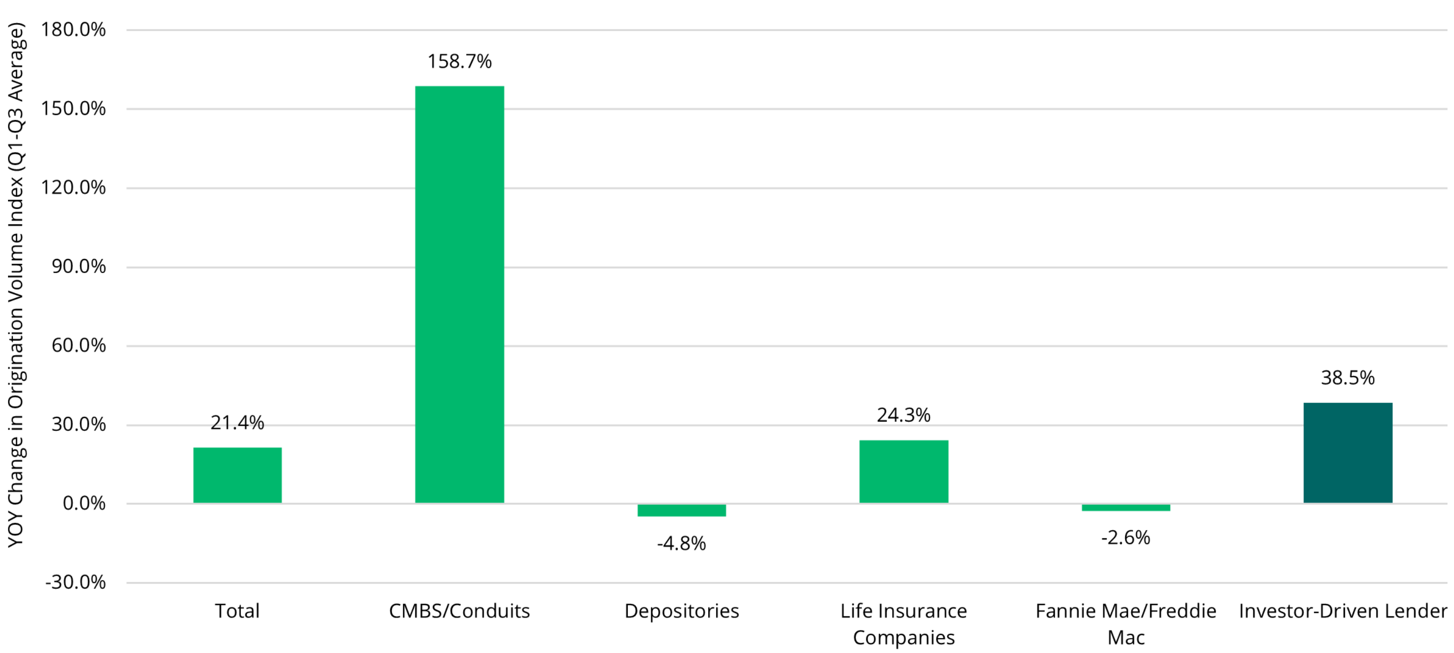
While traditional lenders have eased their strict CRE lending standards compared to the height of 2023, they remain constrained by regulatory constraints, risk management considerations, and operational pressures. We believe going into 2025, in addition to regulatory requirements, we believe banks will continue to practice caution for several reasons:

The rise in delinquency and charge-off rates stemming from sectors such as office, retail, and lodging has prompted banks to increase loan loss reserves, further restricting capacity for new lending. Highlighting this point, CRE delinquency rates climbed from 0.9% in Q2 2023 to 1.4% in Q2 2024, while charge-offs increased from 0.2% to 0.3%.[4] Although these figures remain below GFC levels, they now exceed the highs seen during the pandemic. We believe a more cautious stance will limit conventional lenders' ability to extend new loans, driving more borrowers toward private credit sources.

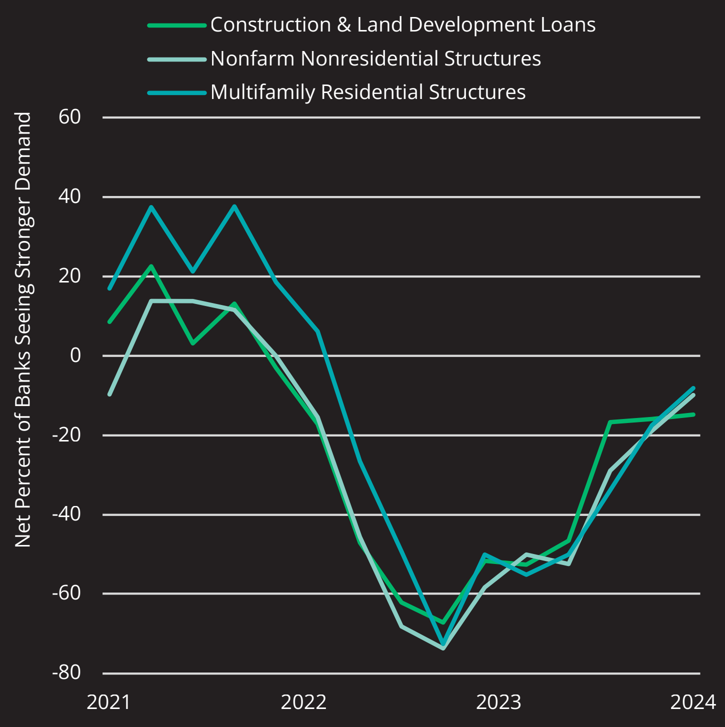
Another factor limiting traditional banks is the duration mismatch between long-term CRE loans and shorter-term deposit funding, a structural risk amplified by the banking turmoil of 2023. This mismatch constrains banks' lending flexibility and increases their exposure to interest rate fluctuations. In contrast, private lenders often benefit from locked-in capital structures, allowing them to work with borrowers over longer time horizons. We believe this structural advantage positions private lenders as a more viable source of financing for borrowers needing refinancing as loans mature.

We believe the current market cycle presents significant opportunities in CRE debt originations and refinancing, but not all CRE sectors offer the same balance of risk and reward. We believe by focusing on resilient sectors such as residential and industrial in demographically supported locations, private credit investors can achieve attractive returns while mitigating risk.

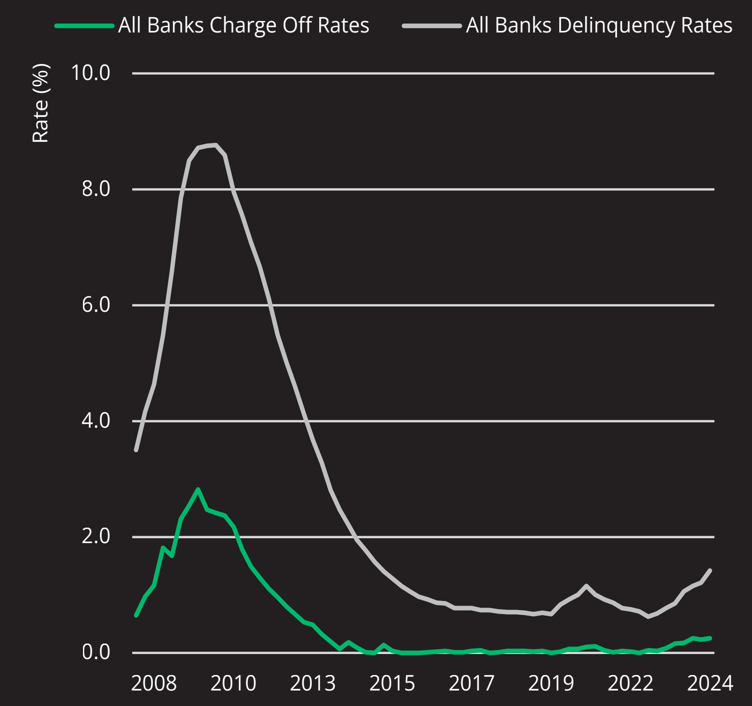
Investor-Driven Lenders Are Experiencing Strong Growth in Loan Originations (2023-2024)[5]



Demand for CRE Loans is Rebounding[6]



CRE Delinquencies and Charge-offs Among Banks Are on the Rise[7]



Lending Spreads Have Retreated in 2024 but Remain Higher Compared to 2022 for Most Sectors[8]

CONCLUSION:

Positioning for the Rebound in 2025

As we step into 2025, the US real estate market stands at the threshold of a new cycle, shaped by rebounding sectors, shifting fundamentals, and emerging opportunities. This year's theme, "Positioning for the Rebound," underscores the importance of aligning strategies with evolving market dynamics to navigate challenges and capture value across a transformative landscape. We anticipate that that momentum will build through the year as US commercial real estate emerges from a long winter.

What We See and Why It Matters

As real estate emerges from its long winter, the market reset that began in 2022 creates fertile ground for early-cycle opportunities. Decelerating supply pipelines, resetting values, and evolving demand drivers are reshaping the investment landscape. This year, we expect many opportunities to capture value in sectors benefiting from structural tailwinds and long-term resilience. In our view, we see the greatest opportunities for deploying capital at scale in select sectors, each characterized by attractive and differentiated characteristics.

Residential Rentals: As multifamily completions peak and taper, we anticipate improved absorption and occupancy gains. Rising affordability challenges will continue to drive demand for rental housing, with high-income households and older renters contributing to the diversification of the broader renter pool. Tailoring housing solutions will be critical not only to meet this demand but also to support a much-needed comprehensive housing ecosystem.

Single-Family Rentals: We believe that the SFR sector is likely to be a cornerstone of institutional growth in 2025, supported by the affordability gap between renting and homeownership. Institutional interest in build-to-rent developments, particularly in Sunbelt markets, underscores the sector's scalability and potential for continued expansion.

Industrial and Logistics: With supply pipelines contracting sharply, industrial and logistics real estate is poised for a sharp rebound in activity in the latter half of the year. We see differentiated opportunities in urban-centric small bay industrial properties, technology-driven and innovation-focused assets, and facilities equipped for advanced technological manufacturing.

Private Credit: We see private real estate credit strategies as a standout opportunity in 2025, addressing the gap left by constrained conventional lenders. Combining traditional lending structures with the large amount of unresolved debt maturities in the coming year, private lenders are positioned to play a pivotal role in refinancing and originating loans with particularly attractive opportunities in resilient residential and industrial.

Our Strategy for the Year Ahead

The year ahead demands a strategy rooted in focus and adaptability. By anticipating secular trends such as the growing diversification of renter profiles, advancements in industrial technology, and the flexibility of private credit solutions, market participants can navigate market inflection points with confidence and be well positioned for the rebound.

2025 is a year of possibilities—where strategic foresight and decisive action will define success in a transforming real estate market. Our view is that this is not a year to sit out of the market.

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GLOSSARY AND KEY TERMS

Absorption
Refers to the change in occupancy over a given time period.

Bps
Basis points—Values equal to one-hundredth of one percentage point. These are often used in relation to cap rates and spreads.

BTR
Build-to-rent—Single-family homes that were built specifically for the rental market rather than sold to owner-occupants.

Cap Rate
The rate of return for a property that reflects the relationship between one year's net operating income expectancy and the total price or value. Calculated by dividing the net operating income by the sale price or value.

Cash Flow
The income stream, before income taxes, generated on an annual basis after deducting Debt Service and Capital Expenditures from the Net Operating Income (NOI).

Charge-Offs
The value of loans removed from the books and charged against loss reserves, are measured net of recoveries as a percentage of average loans and annualized.

CMBS
Commercial Mortgage-Backed Securities (CMBS) are fixed-income investment products that are backed by mortgages on commercial properties rather than residential real estate.

Concessions
Average concession offered on asking rent, expressed as a percent or dollar value during the period.

Cost-Burdened Renters
A household is cost-burdened when it spends more than 30% of its income on rent and utilities.

CRE
Commercial Real Estate.

Debt Covenants
Debt covenants are restrictions that lenders (creditors, debt holders, investors) put on lending agreements to limit the actions of the borrowers.

Delinquent Loans
Delinquent loans are those past due thirty days or more and still accruing interest as well as those in nonaccrual status. They are measured as a percentage of end-of-period loans.

Deliveries
Total gross square feet or units constructed and completed.

E-Commerce Sales
E-commerce sales are sales of goods and services where the buyer places an order, or the price and terms of the sale are negotiated over an Internet, mobile device (M-commerce), extranet, Electronic Data Interchange (EDI) network, electronic mail, or other comparable online system. Payment may or may not be made online.

Effective Rent Growth
The percentage change in effective rent from a previous time period, such as month, quarter, or year. Effective Rent Change is calculated from same-store sample sets.

Fannie Mae
The Federal National Mortgage Association, commonly known as Fannie Mae, is a United States government-sponsored enterprise (GSE) that purchases mortgage loans made by lenders, who are then able to use those funds to offer mortgage loans to more people.

Fixed Income
Fixed income broadly refers to those types of investment security that pay investors fixed interest or dividend payments until their maturity date.

Gateway Markets
Includes major metros such as New York, Los Angeles, Chicago, San Francisco, Boston, and Washington, D.C. that are long-established centers of commerce and population.

GSE
A government-sponsored enterprise (GSE) is a quasi-governmental, privately held agency established by the Congress to improve credit flow in some regions of the US economy, particularly mortgages and the housing market, through capital market liquidity.

GFC
Global Financial Crisis (GFC) refers to the economic recession that lasted from mid-2007 through early 2009.

Homeownership Rate
Homeownership rate is defined as the number of owner-occupied housing units divided by the total number of occupied housing units.

Industrial
A type of building(s) adapted for a combination of uses such as assemblage, processing, and/or manufacturing products from raw materials or fabricated parts. Additional uses include warehousing, distribution, and maintenance facilities.

In-Migration Rate
The number of people moving into an area as a share of that area's total number of movers.

Inventory
Total square footage of buildings or total units within a market that are able to be occupied by tenants. Does not include space that is either planned or under construction.

Labor Force Participation Rate
The Labor Force Participation Rate (LFPR) is an estimate of an economy's active workforce. calculated as dividing the number of people ages 16 and older who are employed or actively seeking employment by the total non-institutionalized, civilian working-age population.

Leasing Activity
Volume of square footage that is committed to and actually signed in a given period of time. It includes direct leases, subleases, and renewals of existing leases. It also includes any pre-leasing activity in under-construction, planned buildings, or under renovation buildings.

LPs
A limited partner (LP) is an investor in a business who doesn't actively manage the day-to-day operations. LPs are also known as "silent partners" or "passive investors".

Major Coastal Markets
Includes major metros such as New York, Los Angeles, San Francisco, Boston, and Washington, D.C. that are long-established centers of commerce and population.

Months of Existing Home Supply
Months' supply refers to the number of months it would take for the current inventory of homes on the market to sell given the current sales pace.

Mortgage Debt Outstanding
Mortgage debt outstanding (MDO) is the amount of mortgage debt that is still owed in the US mortgage market. It includes the principal, interest, and additional fees.

Net Absorption
For existing buildings, the measure of total square feet occupied (indicated as a Move-In) less the total space vacated (indicated as a Move-Out) over a given period of time.

Net Deliveries
Net Delivered Units calculated as gross delivered units less demolished units.

Net Lease
A lease agreement where a lessee pays a portion or all of the taxes, insurance fees, and maintenance costs for a property in addition to rent.

Non-Conventional Lender
Non-conventional lenders include REITs, Federal Government, Nonfarm Noncorporate Business, Finance Companies, Other Insurance Companies, Nonfinancial Corporate Business, Private Pension Funds, State and Local Government Retirement Funds, Household Sector.

Nonfarm Payrolls
Total number of employed workers in the US excluding farm workers and workers in a handful of other job classifications.

Occupancy Rate
The percentage of floor space or units occupied by tenants as compared to the total leasable area of the building.

Rental Rates
The annual rental costs for a particular space often quoted on a per square foot basis.

Rent-to-Income Ratios
The rent-to-income ratio is the percentage of a tenant's gross income needed for monthly rent. It is calculated by dividing the rent by the renter's income.

Reshoring
Reshoring refers to the practice of bringing manufacturing and services back to the US from overseas.

Sales Volume
Total sales volume in dollars of actual transactions and includes allocated prices for portfolio properties.

SF
Square Feet.

SFR
Single-Family Rentals (SFR) Detached homes, attached homes, townhomes, and two- to four-unit properties that are renter occupied or available for rent.

SLOOS
The Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) is a quarterly survey of up to 80 large domestic banks and 24 branches of international banks conducted by the Federal Reserve Board of Governors.

SOFR
The Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by US Treasuries.

Sticky Inflation
Prices of goods and services that are slow to change due to the low frequency of their price adjustment.

Submarkets
A submarket is broadly defined as a distinct part of a larger market.

Sunbelt Market
The Sunbelt Market comprises the southern tier of the United States, including the states of Alabama, Arizona, Florida, Georgia, Louisiana, Mississippi, New Mexico, South Carolina, Texas, roughly two-thirds of California (up to Greater Sacramento), and parts of North Carolina, Nevada, and Utah.

Vacancy Rate
Current available space/units in buildings that is vacant as a percentage of total building square feet/units.

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