2025

HOUSE VIEW

North American Property Market Outlook

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EXECUTIVE SUMMARY

We are pleased to present our **2025 North American House View**.[1] This publication is produced each year and serves two essential purposes. First, it highlights our outlook for the North American economy and the commercial real estate (CRE) sector. Secondly, it presents our strategic focus areas and approach to capture the opportunities presented in the current environment.

REPORT HIGHLIGHTS:

1. **Capital Markets Inflection Point:** The real estate market has entered a new phase, driven by a shift in Federal Reserve policy, stabilizing valuations, and renewed transaction momentum. We highlighted the emergence of a new liquidity cycle late last summer, which is creating opportunities across sectors.

2. **Real Estate & Tech-Driven Innovation:** The digital economy's growth is creating unprecedented demand for data centers. The two primary catalysts are cloud computing, which continues to be strong and stable, and generative AI, where growth is currently massive, though the long-term is less clear. E-commerce continues to reshape the logistics sector, with major players like Amazon back on the offensive after a brief pause. Simultaneously, onshoring and supply chain reconfiguration are driving demand for strategically located industrial space.

3. **Power Infrastructure:** Largely resulting from the unprecedented energy demand from the digital economy, the power infrastructure grid is facing a significant supply/demand imbalance. The amount of infrastructure investment required to meet this expected demand creates opportunities for multiple and unique applications, including renewables, nuclear, photovoltaic, battery systems, and new transmission and distribution solutions. These solutions are expected to be the infrastructure bridge between the power supply needed to create the traditional real estate investments that we know well.

4. **Real Estate Lending:** As traditional lenders retrench, private credit is stepping in to fill the gap, offering compelling risk-adjusted returns. With strategies ranging from construction lending to gap capital, this asset class is poised to capitalize on shifting capital stacks.

5. **Housing:** Demographic trends, coupled with a historic affordability gap, are driving sustained demand for rental housing. Multifamily assets, particularly those that have attainable rents, are positioned for long-term growth as supply constraints intensify.

1. Our 2025 European House View is available here.

1. U.S. ECONOMIC CONDITIONS

The latter part of 2024 was marked by several inflection points that will impact the real estate environment moving forward, including:

1. a long-awaited shift to more accommodative monetary policy
2. a decisive U.S. presidential election result removing a source of uncertainty that lingered throughout 2024
3. a bottoming of real estate values,[2] with clear positive momentum demonstrated in the public and private transaction markets

2. Outside of private market office valuations, which likely still have a few negative quarters remaining.

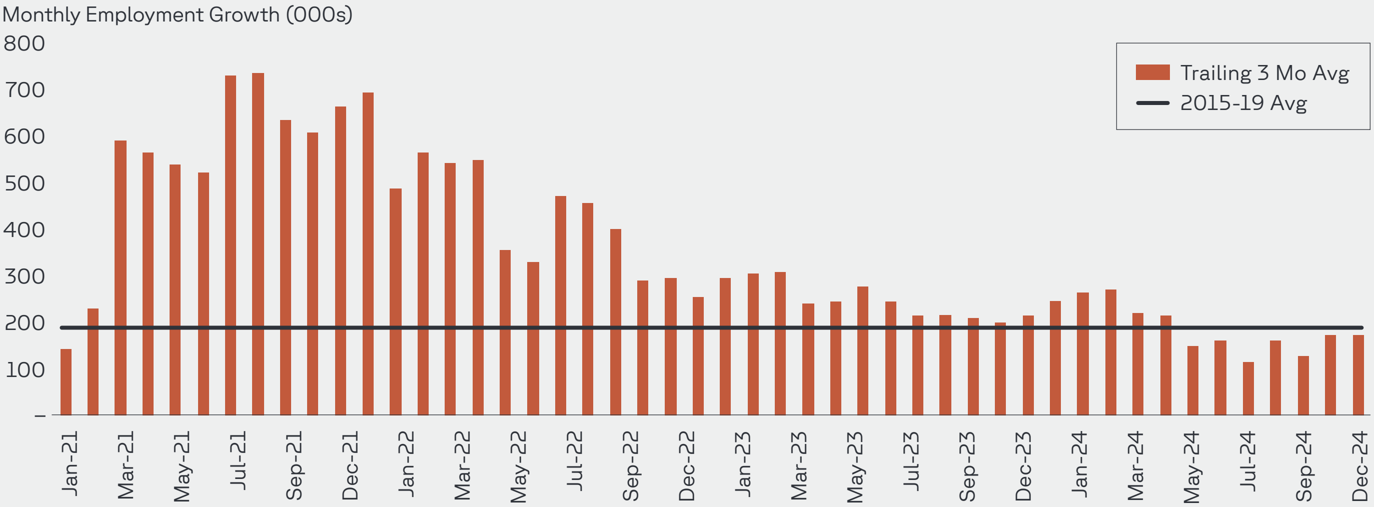
The Federal Reserve's Balancing Act

The Federal Reserve's dual mandate can be boiled down to two core objectives: **maximize employment** and **maintain price stability**. These goals sound simple in theory but can be tricky to achieve simultaneously, given they are often at odds in terms of policy implementation. The Federal Reserve has faced its most significant inflationary challenges in four decades, working to mitigate substantial fiscal and monetary stimulus provided during the pandemic, combined with supply chain disruptions resulting from both the pandemic lockdowns and geopolitical strife.

Both key measures tracked by the Fed experienced deceleration in the second half of 2024:

- Inflation finally started to ease. The U.S. CPI YoY growth[3] stood at 2.7% as of November 2024, while the Fed's preferred measure, PCE price index,[4] dropped to 2.3%. Both inflation measures would be below the Fed's 2% target inflation rate if not for the shelter component remaining elevated, driven by home price growth remaining robust, as lack of for-sale inventory continues to fend off elevated mortgage rates.
- Employment growth slowed to below pre-pandemic levels, after exceeding expectations in the first half of 2024 (see **Exhibit 1**). Other major indicators of the health of the employment markets remain mixed. The unemployment rate sits at just 4.1%,[5] and wage growth is robust, suggesting a tight labor market, which could be further exacerbated by slowing immigration. On the other hand, strong historical bellwethers such as a declining quits rate and reduction in total temporary employees continue to suggest potential weakness in the labor market.

EXHIBIT 1: U.S. TRAILING 3-MONTH EMPLOYMENT GROWTH



Source: FRED St. Louis, December 2024

These movements provided the impetus for the Federal Reserve to initiate its first rate cut in September. The magnitude of the cut (50 basis points) surprised some market participants. This action signaled the beginning of a downward trend in interest rates and generated optimism in the real estate market. The Fed continued on this path with additional 25 bp cuts in November and December.

Despite the rate cut, the 10-Year Treasury yield has shown volatility. It declined leading up to the Fed's announcement, falling as low as 3.6%, but has since increased 100 bps,[6] suggesting the bond market may be concerned about the potential for renewed inflation. The new administration will need to navigate a global environment that could increasingly be characterized as a geopolitical tinder box. It is expected that they will continue to focus on bringing manufacturing and critical supply chains closer to home; however, certain levers, such as wide-ranging tariffs, are likely to be inflationary if implemented and could disrupt the soft landing that the Fed desires. Adding to the headwinds for the Federal Reserve is the rising national debt, which crossed $35 trillion in Q3 2024 (up 53% over the past five years), and requires increased Treasury issuance, creating concerns about the market's ability to absorb the inventory of bonds.

3. Consumer Price Index for All Urban Consumers: All Items in U.S. City Average.
4. Personal Consumption Expenditures: Chain-type Price Index.
5. BLS, as of December 2024.
6. As of January 23, 2025.

Another factor we are tracking is the U.S. consumer, one of the key drivers of the global economy. While wage growth has been strong and the "average" U.S. household balance sheet is healthy, rising costs for essentials like food and shelter have impacted many American families, and signs of stress are forming:

- Credit card delinquencies hit 11.1% in Q3 2024, up 300 bps since Q2 2023 and the highest since the GFC.
- Pandemic "excess savings" reached $2.1 trillion in mid-2021, but ran out in May 2024 and currently face a deficit of $300 billion.[7]
- Retail sales growth, adjusted for inflation and population size, has been negative every month since April 2023. Since 2019, retail sales growth for low-income households has been less than half that for households making over $60,000 annually.

That said, given the spike in retail sales in 2021 and 2022, the overall level of U.S. retail sales is 5% above the pre-pandemic trendline, so recent negative numbers may partially reflect a reversion to more normalized levels. To date the Federal Reserve has done a commendable job of navigating rocky waters caused by the pandemic stimulus and geopolitics; however, there is no lack of risks as we survey the horizon.

2. CRE CAPITAL MARKETS: EMPHASIS ON CAPITAL

The initiation of a rate cutting cycle in September 2024, and the expectation of it in the weeks leading up to the announcement, fueled positive sentiment, as this easing of the cost of capital is seen as positive for asset values and a catalyst for transaction activity. As we discussed in October,[8] **this is signaling the emergence of a new liquidity cycle.**

Lenders are showing greater appetite for transactions, and credit spreads are tightening. Increased activity is being demonstrated across all sources of debt capital:

- Life companies are expanding their product offerings and competing with banks and debt funds for bridge and construction loans, particularly for core, low-leverage product.
- Debt funds are also vying for bridge opportunities, often reducing minimum interest periods and reducing SOFR floors to attract new business.
- The CMBS market is very active, with U.S. issuance in 2024 experiencing its third strongest year since 2007.[9]
- Banks remain somewhat constrained, though participation from domestic and foreign banks is beginning to increase, particularly in permanent financing for quality transactions. Some regional banks are even re-entering the construction lending segment, a positive sign for the market.

Leverage points continue to be limited for the banks, but non-traditional lenders are filling the void, consistent with structural trends the market has experienced since the GFC, as debt funds, life insurers, and the GSEs increased their market share from 20% of U.S. CRE origination in 2007 to 56% in 2023.[10]

> "The Fed has finally cut rates, debt markets are liquid and ready to lend, investor sentiment is improving and a new liquidity cycle has commenced."
>
> **LEN O'DONNELL**, Chairman & CEO

7. https://www.frbsf.org/research-and-insights/data-and-indicators/pandemic-era-excess-savings/
8. O'Donnell, L. (2024, October 24). A Message From Len O'Donnell to the Friends and Partners of Affinius Capital.
9. This excludes agency issuance, including only conduit, large loan/floater, single-borrower, and CRE-CLO issuance.
10. MBA Origination Surveys, 2007 & 2023.

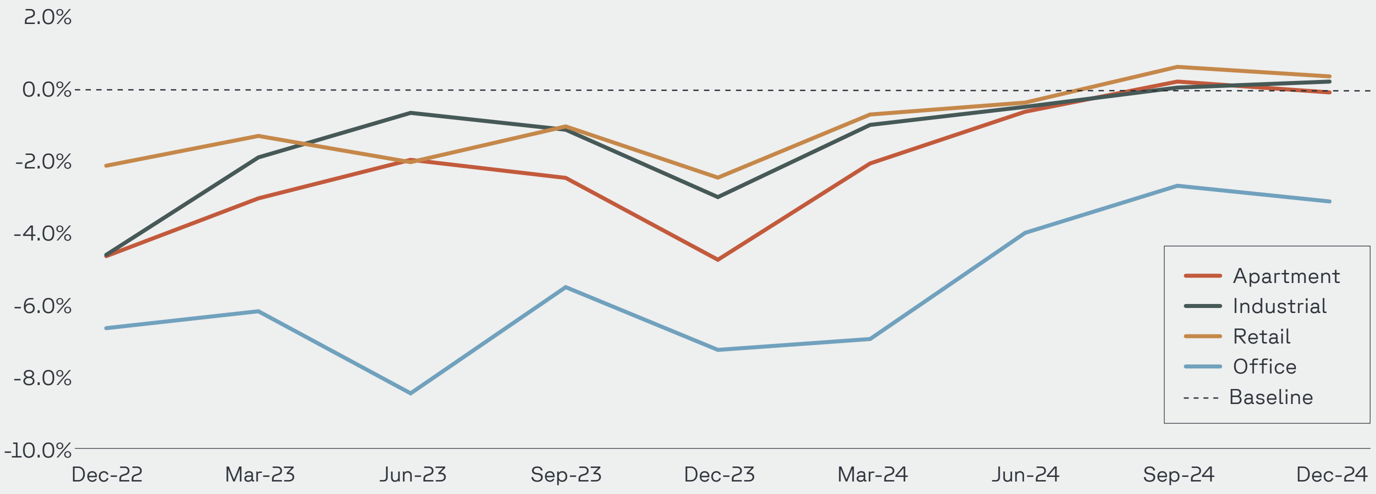
Increased lender competition, along with falling short-term rates, has reduced borrowing costs and helped to stabilize valuations.

- Cap rates between the public and private sectors are converging. Whereas most major REIT property sectors were trading at a substantial (double-digit) discount to NAV a year ago, they currently sit at NAV or at a premium.[11] Historically, this transition implies positive pricing momentum in the private markets.

> **Data centers, healthcare, and malls all sit at a 30% premium or more to NAV.**

- Green Street's Commercial Property Price Index is up 5% over the past 12 months, though still 18% below peak 2022 levels.[12]
- In the last two quarters of 2024, the major sectors in ODCE all saw valuations up slightly, except for office (see **Exhibit 2**). While office is still negative, the rate of quarterly value declines is slowing.

EXHIBIT 2: NFI-ODCE QUARTERLY VALUATION CHANGE BY SECTOR, Q4 2022-Q4 2024



Source: NFI-ODCE

The ODCE benchmark valuations continue to lag current market trades, failing to provide the leadership it was designed for, as reflected by discounts available for recent secondary trades. However, the gap is narrowing across many sectors, with assets beginning to trade near or even at appraised values. Rising transaction volumes in 2025 should provide appraisers with the data needed to align valuations with market realities. Ironically, as liquidity returns and values rise, some market participants will have avoided marking assets to their true lows, effectively benefiting from their delay.

The combination of rising debt availability and stabilizing valuations should lead to an improved transaction environment in 2025. U.S. CRE transaction volumes were down 57% in 2024 from the peak in 2021.[13] Transaction volumes have fallen the most in office and multifamily. While the data has yet to reflect a measurable uptick in activity, our industry operates on a longer sales cycle compared to other sectors. Anecdotal evidence from our portfolio, combined with insights from ongoing discussions with brokers, strongly indicates that momentum is building—especially for assets that meet specific criteria. Assets that align with these criteria across different property types are attracting robust interest, marked by larger pools of prospective bidders and competitive, multi-round bidding processes. This heightened activity signals a healthier market emerging, and private discussions with Eastdil and JLL validate a significant surge in activity.

In the context of evolving market dynamics, we are now on the other side of a challenging market environment and anticipate transaction volumes to improve over time and provide further pricing transparency. While the recovery is underway, progress remains measured as the market rebuilds confidence, setting the stage for more sustainable growth ahead. A critical factor in navigating the path ahead is acknowledging that cap rate spreads remain significantly compressed compared to historical norms, while interest rates are unlikely to return to the extraordinary lows experienced post-pandemic. For some investors, this means facing the reality of loss recognition or, at best, breakeven outcomes on the previous cycle of deals to restore liquidity and move forward, but we believe that 2025 may be the year where sellers finally begin to capitulate to this reality.

11. Green Street, as of 11/27/24 vs. 9/29/23.
12. Green Street, as of November 2024.
13. RCA, annualized rate based on first three quarters of 2024, vs. 2021.

TRENDS, OPPORTUNITIES, AND STRATEGIES

While the U.S. CRE capital markets sit at an inflection point, the fundamentals across key sectors have remained healthy through this cycle. Beginning in 2025, many sectors will see a sharp drop in new construction deliveries, a direct result of limited starts due to elevated borrowing costs and high construction material prices in recent years, creating additional tailwinds. We don't foresee the reemergence of the historically low cap rate environment we experienced in 2021/22. Thus, our focus remains firmly on value creation and investment themes anchored in strong demand and growth characteristics, such as the intersection of real estate and technology, credit, rental housing, and capitalizing on opportunistic and foundational strategies.

Technology & Real Estate

The U.S. economy is increasingly driven by technology and digitizing, reshaping traditional industries and creating entirely new markets. The rapid advancement of artificial intelligence, cloud computing, and big data analytics is beginning to transform how businesses operate and redefine consumer experiences. Companies across sectors are leveraging digital tools to streamline processes, enhance productivity, and scale operations globally. The proliferation of e-commerce, along with traditional sectors such as manufacturing and healthcare leveraging technology to improve efficiency and deliver new products and services, demonstrates how digital platforms have become embedded in everyday life, accelerating economic activity and innovation. The adoption and integration of these platforms is profoundly influencing real estate demand.

3. DATA CENTERS

The U.S. economy's increasing reliance on technology has placed data centers at the core of its digital evolution. Data centers are like the vital organs of the digital economy, processing and storing the information that powers everything from online transactions to AI computations.

Supporting them is a vast network of fiber optic cables and transmission lines, functioning as the circulatory system that transports data globally, much like veins and arteries carry nutrients and oxygen through the body. Together, these "digital organs" and their "circulatory system" form the backbone of modern connectivity, ensuring the seamless flow of information that sustains the increasingly digital-dependent global economy.

Data centers are facing unprecedented demand, as our **RESEARCH** demonstrates, propelled by two primary tailwinds:

- The adoption of cloud computing remains robust, and cloud computing revenues by the largest providers[14] demonstrate annual growth rates of over 27% since 2016.
- Generative AI has accelerated this trend, requiring immense computational power and storage capacity to train and deploy advanced models. The immediate demand from generative AI is substantial, with strong visibility over the next three to four years. However, the longer-term growth trajectory remains less certain, contingent on advancements in technology, adoption rates, and evolving use cases.

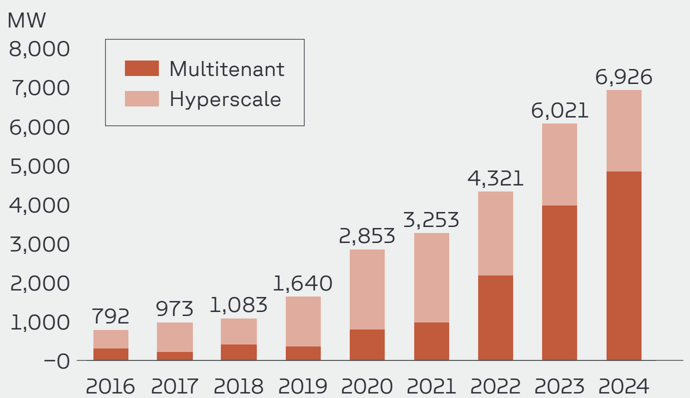
In 2023 alone, data center absorption surpassed 6,000 MW, marking a 31% increase in the sector's total capacity— a remarkable milestone that underscores its explosive growth trajectory. **In 2024, absorption neared 7,000 MW** (see **Exhibit 3**). This is a substantial increase compared to just over 1,000 MW of leasing as recently as 2018.

Leading tech companies are driving this momentum, as the opportunity in artificial intelligence drives significant capital expenditures to expand their digital infrastructure. The magnitude of the spend is breathtaking; in 2024, hyperscaler capital expenditures hit $261 billion, up 51% YoY,[15] and are projected to accelerate further based on forward guidance from Amazon, Microsoft, and Alphabet.[16]

Despite the strong demand, the industry faces critical supply constraints. The rapid growth in demand is putting pressure on power grids, particularly in key markets like Northern Virginia. Companies are having to be more strategic in their site selection and development plans to ensure access to sufficient power. A shortage of suitable locations, supply chain disruptions, and power infrastructure limitations have hindered development. Vacancy rates in the sector hit a historic low of 1.7% nationally in Q4 2024, and hyperscale rents in key markets like Northern Virginia are achieving double-digit annual increases. Addressing the 47 GW of incremental power generation capacity needed to meet projected demand through 2030 remains a pressing challenge, with utilities and governments scrambling to upgrade power grids and increase resilience.

Data center development aligns with Affinius Capital's investment philosophy of identifying sectors where technology is driving outsized demand for real estate.

EXHIBIT 3: U.S. DATA CENTER ABSORPTION



Source: datacenterHawk, Affinius Capital Research

Together with our affiliate Corscale, we operate as a vertically integrated platform, enabling us to control the entire development process, from design and construction to leasing and management. What makes this approach work is our ability to combine proprietary designs with "powered shells" customized to meet hyperscale tenant needs. This flexibility isn't just a technical feature—it's a strategic advantage. By aligning more closely with tenant requirements, we've strengthened partnerships with industry leaders, unlocking a wealth of opportunities for our investors and solidifying our position as a trusted partner in this dynamic, fast-growing market.

14. Amazon, Microsoft, and Alphabet.
15. "Cloud Capex Tracker: Robust Spending Intensity Continues." Morgan Stanley Research, 05 Nov. 2024
16. Based on Q4 2024 earnings call projections.

4. LOGISTICS & E-COMMERCE

The U.S. logistics sector was the top performing sector in the NCREIF Property Index every calendar year from 2016 to 2022, an unprecedented run. While the performance of fundamentals slowed beginning in mid-2022, recent activity is increasing, and we expect that the combination of strong demand from e-commerce and the reconfiguration of North American supply chains and on/nearshoring, combined with reduced construction deliveries the next few years, should serve as a tailwind to performance.

E-COMMERCE has become a cornerstone of the U.S. economy, driving significant changes in consumer behavior, business operations, and supply chain dynamics. The convenience of online shopping, accelerated by the pandemic and advancements in technology, has led to explosive growth in digital sales. In Q3 2024, e-commerce accounted for 16.2% of all retail sales, a record high reflecting the enduring shift in how Americans shop. The amount of e-commerce spend has doubled from ~$150 billion quarterly in 2019 to over $300 billion in Q3 2024.

The rise of e-commerce has heightened demand for robust logistics networks and strategically located warehouses to facilitate the rapid delivery that consumers now expect. Companies have invested heavily in expanding their distribution capabilities, prioritizing proximity to urban centers and transportation hubs to optimize "last-mile" delivery, across the U.S., Mexico, Europe, and UK.

The narrative that Amazon is scaling back or offloading space is misplaced. In the U.S., Amazon continues to dominate, quietly absorbing 110 million square feet of industrial space from 2022 to 2024, with another 45 MSF slated for 2025.[17] Since 2022, they have only shed less than 3 million square feet, a substantial net expansion. We are actively engaged in discussions with Amazon about potential build-to-suit developments, underscoring the continued strength of their logistics footprint and the critical role e-commerce plays in driving industrial real estate demand.

Additionally, industrial demand is being enhanced by **emerging onshoring and nearshoring activities**, and we expect this to grow over the next several years as new manufacturing facilities come online. Structural shifts in global trade and consumption patterns are supporting demand for logistics space, and key industries such as semiconductors, electric vehicles, and pharmaceuticals are at the forefront of this shift. Government initiatives like the CHIPS Act and Inflation Reduction Act have incentivized companies to build advanced manufacturing facilities in

the U.S., driving demand for large-scale industrial sites, and the Trump administration is expected to increase pressure on tech companies to bring home manufacturing. Demand is coming from abroad as well; for example, we are seeing increased activity from Asian e-commerce and 3PL companies, driven in part by the "China Plus One" manufacturing model, which seeks to diversify supply chains beyond China into both the U.S. and Mexico. Mexico continues to offer a compelling opportunity driven by several factors:

- **Manufacturing Powerhouse:** Mexico recently surpassed China as the largest U.S. trading partner. Exports surged to a record $612 billion,[18] driven by competitive labor costs, strategic proximity to the U.S. and Canada, and a skilled workforce.
- **Supply Chain Resilience and Market Proximity:** North America's combination of the world's largest consumer market (the U.S.) and competitive labor costs (Mexico) creates an ideal environment for industrial investment. Onshoring and nearshoring reduce supply chain risks and improve responsiveness by relocating production closer to consumers. This shift parallels the efficiencies of last-mile logistics but applies to manufacturing, cutting transportation costs and enabling faster market adaptation.

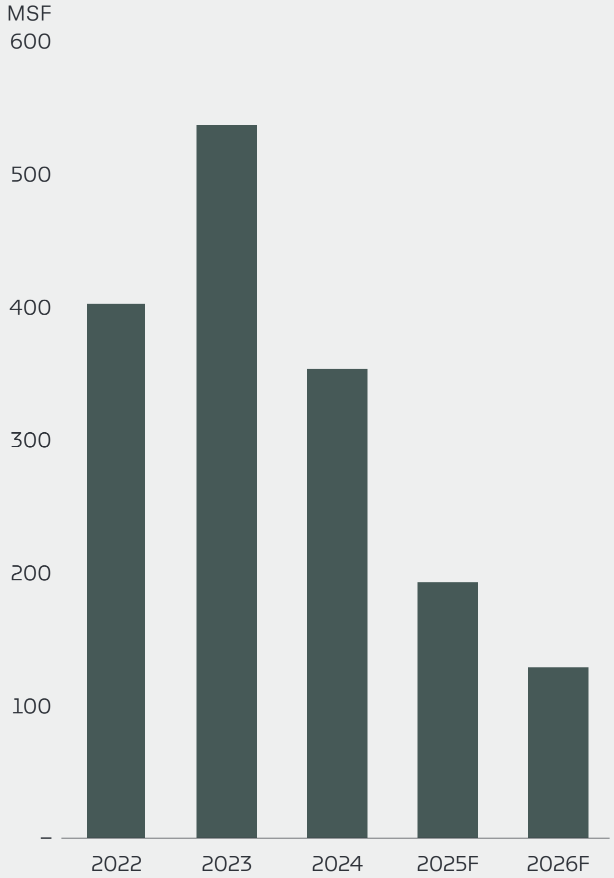
17. This increases to 185 MSF from 2022-24, and 74.8 MSF in 2025, if we include mezzanine space.
18. Trailing 12 months, as of October 2024.

We are well-positioned to capitalize on the opportunities in Mexico given our experience in developing modern facilities, our fostering of local, exclusive partnerships enabling us to control large land positions in key markets, and established relationships with leading global e-commerce and logistics tenants.

There are concerns that a potential impact of widespread tariffs on U.S. trading partners could be rising input costs to U.S. domestic manufacturers, along with a potentially reduced labor supply should immigration policies be substantially altered. That said, for the logistics sector, this may be largely offset as these same factors (ex. rising construction materials costs and fewer construction workers) might further limit supply, which is already projected to decline precipitously. From 2017 to 2024, the U.S. saw an average of 325 MSF delivered annually, with a peak of 535 MSF in 2023; this is set to decline over 70% to 190 MSF in 2025 and 127 MSF in 2026 (see **Exhibit 4**).

Despite elevated supply, the vacancy rate in Q3 2024 stood at 6.6%, up from the historic low of 3.8% in the middle of 2022 but still below the 20-year average of 6.9%. There are strong indications that industrial values have hit their bottom, setting the stage for renewed growth in 2025. While rents have remained relatively stable over the past year, the broader market dynamics are shifting. Assets with long-term leases and lower annual escalations, which have lagged recently, are poised for a comeback. With inflation now perceived as under control and tenants pushing back on aggressive annual escalations, these assets are likely to regain favor as the market recalibrates.

EXHIBIT 4: U.S. INDUSTRIAL NET COMPLETIONS



Source: CoStar, as of Q3 2024

5. MEDIA & STUDIOS

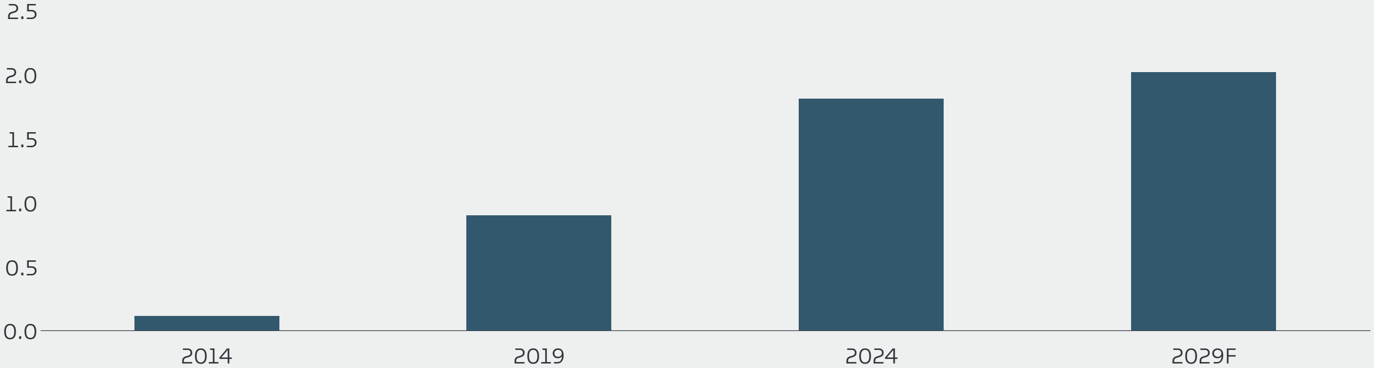
The rise of streaming platforms like Netflix, Amazon Prime, and Disney+ has transformed media consumption by offering on-demand access that untethers audiences from traditional schedules and physical formats.

Enabled by smartphones, tablets, and smart TVs, these platforms provide unparalleled convenience and flexibility. Additionally, similar to other online content, they leverage AI-driven algorithms to deliver personalized recommendations, enhancing engagement by catering to individual preferences. Currently there are an estimated 1.8 billion paid online streaming subscriptions worldwide and projected to reach over two billion globally in the next five years (**Exhibit 5**). The current trajectory is a marked slow-down from the doubling in global subscriptions from 2019 to 2024, accelerated by pandemic viewing shifts. The rise of digital content and streaming platforms increased demand for studio space, as streamers ramped up original content production to compete for subscribers. This surge in production added a new layer of demand to an already competitive market, with traditional studios and streamers vying for limited space. Consequently, the need for modern, scalable facilities has fueled investments in studio expansion and infrastructure upgrades.

After a full shutdown of production activity during the pandemic that impacted 2020 and 2021, the industry's recovery faced significant headwinds in 2023 and 2024, due to strikes and other labor issues that corresponded with significant pressure from Wall Street for the content providers to pivot from a "growth at any cost" approach to an approach focused on ROI and profitability.

However, demand for original content has remained resilient and we continue to believe premier studio properties in the top global markets are well-positioned to capitalize on the recovery. The future of this sector will be shaped by evolving technologies that favor vertically integrated platforms. These platforms combine operational expertise with ownership of the most strategically located and technologically advanced facilities, creating a competitive advantage that goes beyond scale. This integration enables faster production cycles, better resource utilization, and seamless alignment with evolving consumer demands, particularly in a world increasingly dominated by streaming and global distribution.

EXHIBIT 5: NUMBER OF PAID GLOBAL VIDEO STREAMING SUBSCRIPTIONS (BILLIONS)



Source: Ampere Analysis, December 2024

6. REAL-ESTATE ADJACENT INFRASTRUCTURE

We see a growing intersection between real estate and infrastructure, driven by the increasing need for real estate expertise to address new demands for specialized facilities. This trend is especially evident in data center adjacencies, where the demand for innovative power generation solutions, enhanced fiber connectivity, and more advanced cooling methods continues to grow.

Our recent activities reflect this shift. For instance, we are working on the development of renewable natural gas fueling stations for fleet fueling for some of our e-commerce occupiers seeking to find alternative fueling solutions. We are also exploring alternative power solutions for data centers, which provide not only lower costs but also more reliable power sources in some cases. We are increasingly finding that by providing these alternative and renewable power sources back to the grid operators we, in exchange, are unlocking significant power reservations in locations that have scarce supply, thereby creating multiple investment opportunities along the value creation spectrum.

As the power demand is expected to double in the next 12-15 years and the cost to upgrade the power grid in the U.S. will require massive investment, novel solutions like these will be required. Further along this thinking, within the buildings we are investigating advanced systems for heating and cooling traditional real estate assets. These initiatives are still in the early, formative stages, but they highlight our focus on creative approaches to meet these evolving needs.

We believe this convergence of real estate and infrastructure is only the beginning and will continue to open up opportunities for innovative solutions that address the challenges of a changing world.

OPPORTUNISTIC

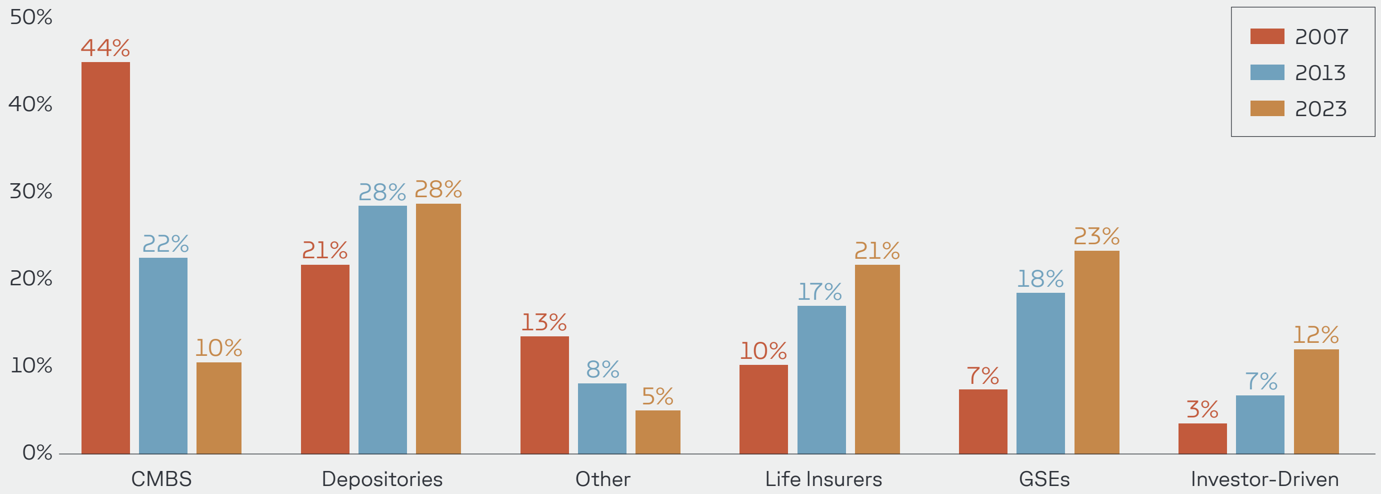
We continue to lean into opportunistic real estate investment through our funds and co-investment activities, positioning ourselves to seize what we anticipate will be significant opportunities in 2025. One area of focus is GP investments, stepping in to support sponsors who need to recapitalize as they navigate the lingering effects of this protracted liquidity drought. While we do not foresee a repeat of the “GFC-style” distress cycle, the landscape is ripe with potential for strategic plays. There is a clear opportunity to deliver essential liquidity across various points of the capital stack, unlocking strong, risk-adjusted returns by bridging the gap between market dislocation and value creation. These situations may require skillful navigation, but investors with expertise in navigating complexity are positioned for opportunities with asymmetric upside.

7. REAL ESTATE LENDING

The commercial real estate lending market continues to undergo a major shift. **Traditional lenders, especially banks, have pulled back due to a combination of regulatory pressures, legacy issues, and economic uncertainty.**

This dynamic began as a result of market and regulatory dynamics post-GFC, and has accelerated in recent years. As shown in **Exhibit 6**, this has enabled debt funds, along with life insurers and the GSEs, to increase market share substantially.

EXHIBIT 6: U.S. SHARE OF LOAN ORIGINATIONS BY LENDER TYPE



Source: MBA Loan Origination Survey

As discussed in our recent **RESEARCH PAPER**, several factors have altered the landscape and caused some banks to lend to private funds rather than directly to borrowers, including:

- **Regulatory Capital Efficiency:** Changes to Risk-Based Capital (RBC) rules since the GFC have led to higher capital requirements for banks, especially for loans considered "High Volatility Commercial Real Estate (HVCRE)". HVCRE loans, which often finance acquisition, development, or construction of commercial real estate, carry risk weights of 150% or more. This means banks need to hold more capital against these loans, reducing their profitability. In contrast, loans to non-bank lenders, like private debt funds, have lower risk weights, often 50% or less if the fund has a good credit rating. This can make it more capital-efficient and profitable for banks to lend to funds rather than directly to CRE projects, especially riskier ones.
- **Asset Management Expertise:** If a bank balance sheet loan goes bad, they may lack the specialized asset management skills needed to effectively manage the distressed property. Private debt funds, on the other hand, often have expertise in managing and working out distressed real estate assets.
- **Regulatory Scrutiny:** Banks face significant regulatory scrutiny, and a high rate of loan defaults can trigger even more oversight and potentially higher capital requirements. Lending to a well-established private debt fund with a strong track record can help banks avoid this added monitoring.

Reduced competition has enabled private credit to continue to offer **COMPELLING RISK-ADJUSTED RETURNS IN TODAY'S MARKET,** particularly for investors seeking refuge from the valuation volatility of recent years. This asset class offers diverse strategies that cater to varying risk appetites while filling critical gaps in the capital markets:

- **Core First Mortgage Lending:** Current market dynamics, including the elevated rate environment and some existing lenders moving to the sidelines, are creating opportunities to originate lower leverage mortgages with attractive coupon rates and spreads. These loans have exhibited compelling attributes over the last 20 years, with strong relative value, risk-adjusted returns, and low correlations versus other asset types.
- **Gap Capital:** Lender retrenchment in recent years has lowered LTVs available from many senior lenders; combined with reduced valuations in the current environment, this is offering attractive detachment points for gap capital strategies, offering equity-like yields but with the benefits of subordination.
- **Construction Lending:** The sharp decline in bank construction lending—negative YTD in 2024 for the first time since the GFC—has created a vacuum for private credit to step in. Investors with flexible capital are well-positioned to take advantage of favorable terms in construction, much of which will deliver in a lower-supply competition environment.

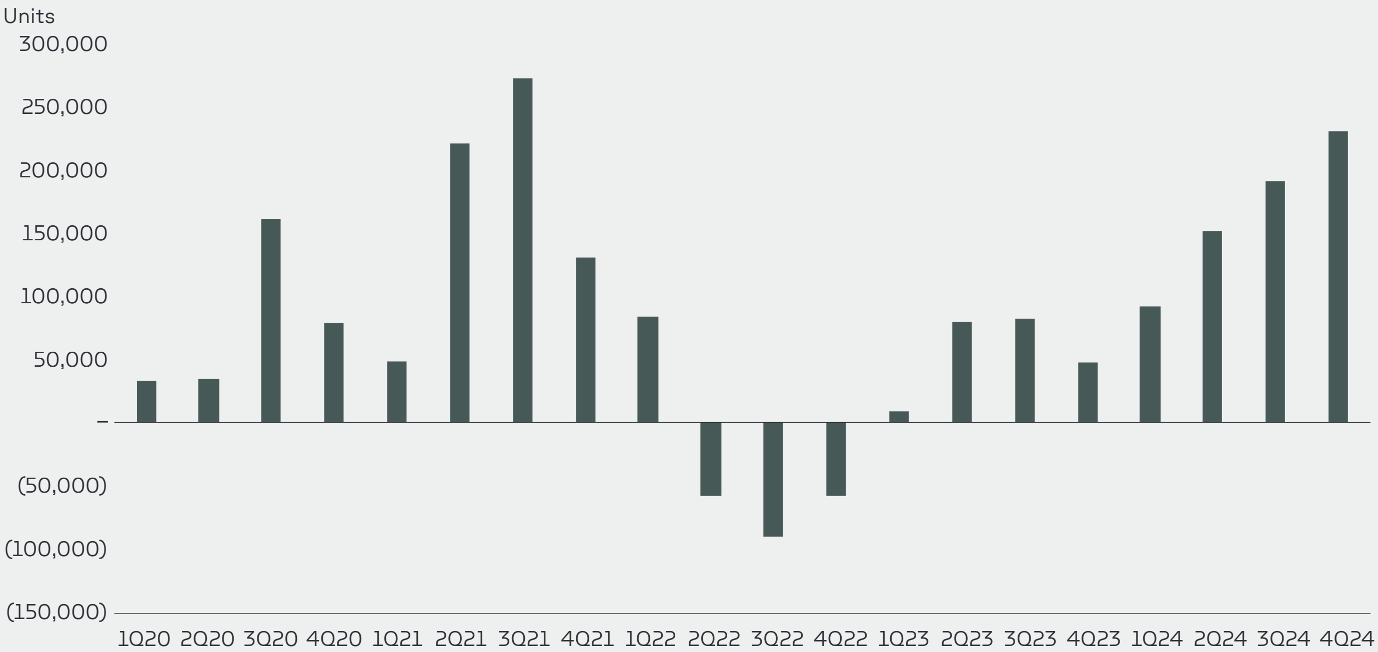
8. HOUSING

The U.S. rental market is experiencing improving demand driven by key demographic and economic trends. Household formation is projected to climb by an additional 1.2 million new households annually through 2030, a 30% increase from the past seven years.

- **Shrinking Household Sizes:** Single-person households, growing fastest of any segment and now comprising 30% of all U.S. households, increasingly prefer multifamily living for affordability and community.
- **Net Immigration:** Immigration is accounting for a growing share of population growth, with many new arrivals opting to rent due to mobility and cost considerations. While net immigration is expected to slow from recent record levels, uncertainty about policy implementation under the new administration is a potential risk factor. Indications are the new administration will seek to reduce illegal, lower-skilled immigration, though has recently signaled support for potentially expanding the H1-B visa program.[19]

In addition to demographic tailwinds, the affordability gap between renting and homeownership has reached its widest point since the 1970s, driven by the continued rise in home prices and elevated mortgage rates. Homeownership costs have become unattainable for many, especially younger Americans burdened by student debt and economic setbacks from the GFC and pandemic, increasing the difficulty of saving for a down payment. This unaffordability is demonstrated in recent demand; in the first three quarters of 2024, rental households made up 75% of new household formation, compared to comprising only 34% of existing households. Multifamily net absorption has accelerated to near-record levels, reflecting the growing preference for renting in an increasingly constrained housing market (see **Exhibit 7**). This is also demonstrated via historically low turnover rates in 2024 for multifamily operators.

EXHIBIT 7: U.S. MULTIFAMILY NET ABSORPTION



Source: RealPage, Affinius Capital Research

19. Implementation of new immigration policy may be further constrained by legal challenges, bureaucratic limitations, and resistance at the state and local levels, similar to the first Trump administration.

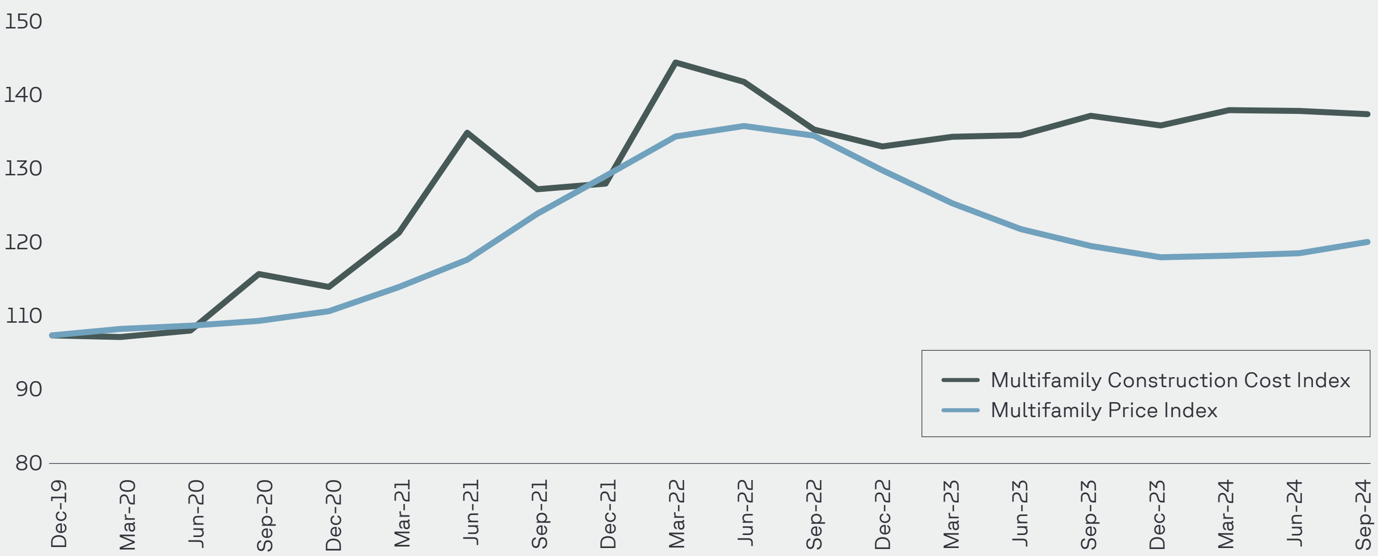
The surge in household formation has temporarily been met by a wave of supply, particularly in the Sunbelt markets that rapidly responded to post-pandemic demand shifts. However, long-term housing fundamentals remain strong:

- The U.S. faces a housing shortage of several million units, which is particularly pronounced in the attainable/affordable sectors.
- High borrowing costs and elevated construction expenses have slowed development, with multifamily unit deliveries projected to drop by nearly 60% over the next two years.
- Meanwhile, post-pandemic shifts, including work-from-home flexibility, have intensified demand for multifamily housing in suburban and Sunbelt markets. These trends underscore a mismatch between available supply and evolving renter preferences, creating opportunities for investors to fill the gap with well-targeted developments.
- Public policy in some markets, while well-intentioned, continues to exacerbate the shortage with regulations that stifle new housing development.

These factors will sustain strong demand for rental housing across segments, with lower cost housing solutions leading the way. Conventional multifamily, single-family rentals, and even shared living will also benefit as demographic and economic pressures continue to favor renting.

In addition to healthy demand drivers, multifamily investment is well-positioned to withstand the risk of reaccelerating inflation that may be stimulated by additional tariffs and stricter immigration policy. As demonstrated in recent years, multifamily is a strong inflation hedge, as rents are generally reset on an annual basis, more frequently than most commercial sectors, and rents are up 28% nationally since December 2019, vs. 22% CPI growth over the same period.[20] Increased tariffs and reduced immigration could also make new construction more expensive; 30% of U.S. construction material imports are from China,[21] and roughly 30% of U.S. construction workers are immigrants.[22] This dynamic amplifies the acquisition opportunity available in the market today, as the divergence between multifamily pricing and construction costs (see **Exhibit 8**) has created a window to buy below replacement costs.

EXHIBIT 8: MULTIFAMILY PRICE INDEX & CONSTRUCTION COST INDEX



Source: RCA, FRED St. Louis, Affinius Capital Research

Additionally, to the acquisition opportunity, rising construction costs will only exacerbate the challenges of developing housing that is affordable to middle- and low-income households. At the same time, declining deliveries suggest excess supply will be largely absorbed by early 2025, setting the stage for accelerating rent growth and a new development cycle delivering units in late-2026 through 2028. For investors, this convergence of factors presents a compelling long-term opportunity in multifamily housing.

20. Per RealPage and U.S. Bureau of Labor Statistics, as of December 2024.
21. https://www.gep.com/blog/strategy/the-impact-of-covid-19-on-building-materials
22. https://immigrationforum.org/article/immigrant-construction-workers-in-the-united-states/

9. FOUNDATIONAL STRATEGIES

From a strategic standpoint, open-end fund strategies continue to offer investors a compelling mix of dependable income, capital preservation, diversification, and attractive risk-adjusted returns.

While these funds traditionally focus on stabilized assets, incorporating a value-add approach has the potential to enhance performance. This has been demonstrated by ODCE funds, for example, where the **non-stabilized properties have consistently outperformed stabilized properties since 2013, by 430 bps annually.** Over this period, non-stabilized assets made up 6.2% of total market value in the ODCE Index, on average. As demonstrated in **Exhibit 9**, the historical experience suggests that increasing the non-stabilized allocation would have led to improved performance, both on an absolute and risk-adjusted basis. An increase of the non-core allocation from 5% to 25% improved total returns by 88 bps annually, while improving the Sharpe Ratio by 15%.

Tactically, the current market environment presents an intriguing setup for capital deployment in open-ended funds. These funds should benefit from a new liquidity cycle. The trough in NCREIF valuations across most sectors in 2024 should bring both fresh capital and increased rescission activity, as investor sentiment and real estate allocations improve. Well-positioned funds, including those with a pipeline of build-to-core opportunities, are poised to capture value through execution in an improving market environment. While past is not always prologue, historically, core and core-plus real estate funds have experienced strong performance on the other side of a down cycle in valuations.

Despite prevailing concerns around office spaces and appraisal inconsistencies, lease term will continue to be a differentiator in a challenging office valuation environment. Long-term credit leases with mission-critical tenants, including U.S. Government Agencies, demonstrate resilience. A common theme among many tenants, including the GSA, is consolidation into newer, Class A buildings with modern amenities. Several large organizations, including JPMorgan Chase and Amazon, are focused on bringing employees back to the office five days a week, and we continue to monitor return-to-work for government employees; early indications are that the newly-formed Department of Government Efficiency (DOGE) is placing an emphasis on full return-to-office. The key takeaway here is that open-ended funds, when thoughtfully managed and strategically positioned, are not just weathering current market challenges—they are well-positioned to capitalize on the opportunities these challenges create. For investors, this represents a chance to align with forward-looking strategies in a market poised for recovery.

EXHIBIT 9: ODCE PROPERTY-LEVEL TOTAL RETURNS: STABILIZED VS. NON-STABILIZED

ALLOCATION (CORE / NON-CORE)	TOTAL RETURN	TOTAL VOLATILITY	SHARPE RATIO
100	6.53%	4.20%	1.23
95 / 5	6.81%	4.26%	1.28
90 / 10	6.98%	4.30%	1.31
85 / 15	7.20%	4.35%	1.34
80 / 20	7.42%	4.41%	1.38
75 / 25	7.64%	4.46%	1.41

Source: NCREIF, Affinius Capital Research. Analysis from Q1 2013 – Q3 2024

CONCLUSION

The U.S. real estate market stands at a pivotal moment, shaped by the confluence of monetary policy shifts, stabilizing asset values, and an evolving economic landscape. After a challenging period marked by uncertainty, signs of recovery are emerging. The Federal Reserve's rate cuts signal the beginning of a new liquidity cycle, fostering optimism and encouraging transaction activity. Meanwhile, structural trends such as onshoring, technological innovation, and demographic shifts are reshaping demand across key sectors, from industrial and multifamily housing to data centers. These dynamics underscore the potential for strategic investments to capture both near-term recovery and long-term growth.

Yet, this inflection point demands careful navigation. While key indicators like inflation and employment have stabilized, the road ahead is not without risks. Shifting geopolitical conditions, supply chain realignments, and evolving consumer behaviors will continue to influence market trajectories. For investors, this juncture represents a unique opportunity to align with transformative strategies that capitalize on emerging trends, focus on value creation, and leverage the structural changes reshaping the real estate landscape. The stage is set for a market recovery, but success will favor those who remain agile, informed, and ready to adapt to the challenges and opportunities of this evolving environment.

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