"History doesn't repeat itself but it often rhymes" - Mark Twain

Commercial Market Research Summary For AARE's Real Estate Investment Trust (REIT)

Executive Summary:

For the shrewd investor prepared to take advantage of where we are at in this current market cycle, there is poetry in motion in the multi-family sector. Over the next three years, nearly $2 trillion, (approximately 42% of the $4.7 trillion market) of commercial real estate loans are set to mature. This represents a significant challenge for investors who acquired commercial properties from 2020 to 2023 with short term or floating debt, as they face the daunting task of refinancing in an environment where interest rates have risen considerably, and lenders are tightening their underwriting standards. Notably, since March 2022, the federal funds rate has risen by 525 basis points, which has resulted in a temporary disconnect in the multifamily market presenting a unique investment opportunity to acquire property at a discount despite the multifamily markets robust fundamentals. To date, we have already seen indicators of this coming to bear as many funds have frozen distributions to their investors and are stockpiling cash.

Our investment thesis for the Community Transformation and Real Estate Income Fund (REIT) is straightforward: We aim to capitalize on the market dislocation and purchase value-add institutional quality properties at a discount in order to provide investors with immediate and consistent cash flow and superior risk-adjusted returns. Our strategy will involve acquiring these discounted, and sometimes distressed assets all cash, and then leveraging the funds buying power to secure attractive low leverage debt. We will then create value through physical renovations and employing effective property management strategies proven to increase occupancy and rental income. Investors will enjoy immediate cash flow, asset appreciation, wealth preservation, and long-term value creation in a resilient alternative asset class. Additionally, investors will benefit from leveraging a tax-advantaged asset that serves as a powerful hedge against inflation and diversification from volatile public markets.

AARE's proven track record in fund management, stewardship and deep personal experience in the residential and multifamily sector places us in a prime position to capitalize on this opportunity. Our agents' presence, aligned with the geographical distribution of transactions, covers 24 states that contribute to 80% of total transactions, enabling us to monitor and respond to market trends effectively. Our strong ties with high-performing operators seeking to top off their next fund significantly benefit our investment strategies. Our leadership team has successfully advised institutional investors for decades. Moreover, our nationwide presence, strong team, and long-standing relationships give us a unique advantage in navigating the complexities of the market to secure the best investments for our high net worth and institutional clients.

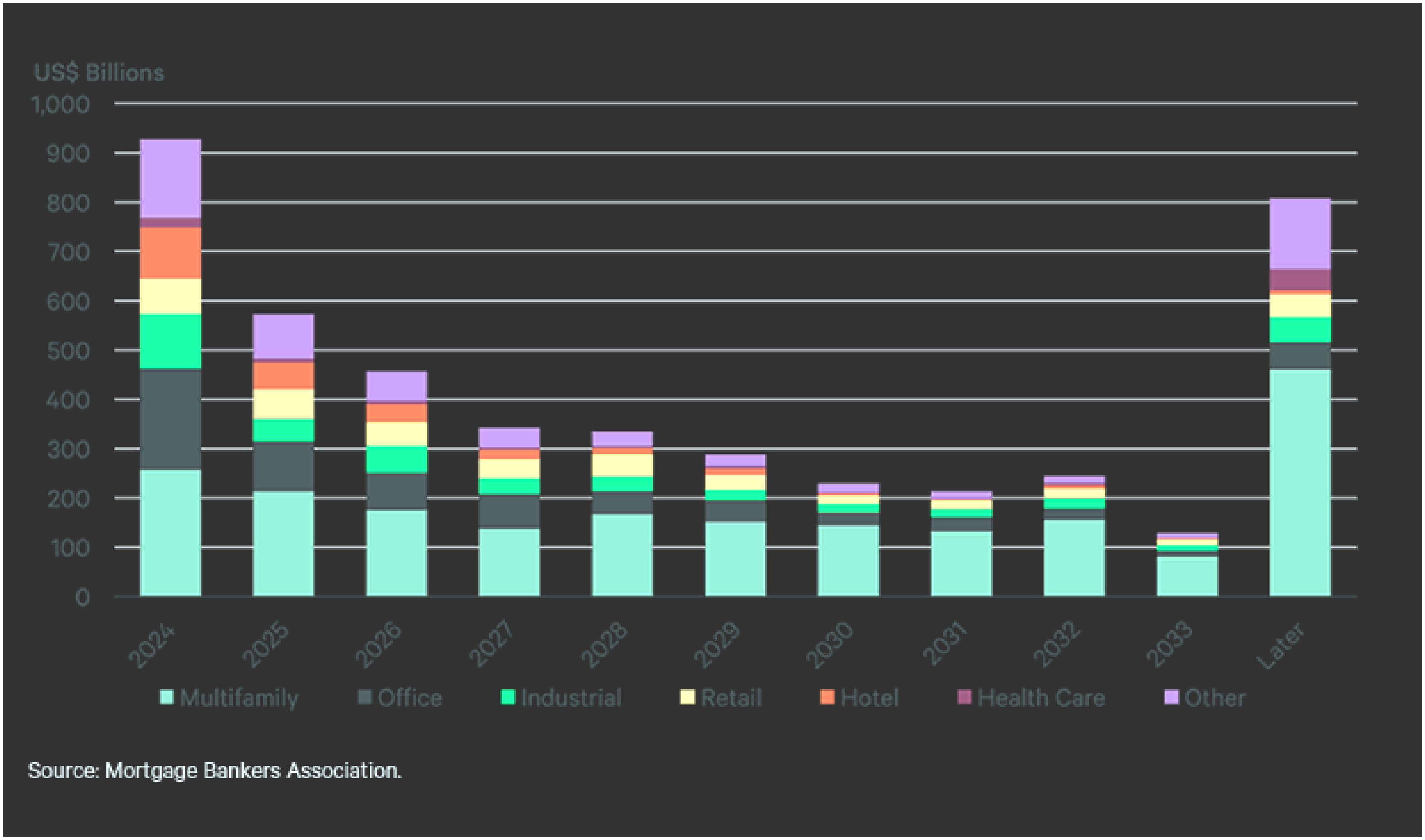
The Economic Data Driving The Investment Opportunity

The following is a table of contents of the data sets, charts and explanations we detail below:

1. Commercial Real Estate Loan Maturities Are at Record Highs

Of the $900 billion in commercial real estate loans maturing this year, multifamily accounts for the largest portion, $257 billion. Roughly 85% of the commercial mortgages that were due to mature in 2023 were extended, increasing the total of loans coming due this year by $271 billion. This trend is expected to continue through 2024 and into 2025 but eventually the music will stop and lenders are going to need to address the devalued assets on their books. According to CBRE, "*Loan defaults will be concentrated in office, which suffers from high vacancy and lower demand, and in multifamily, where many investors who financed acquisitions at ultra-low interest rates face significantly higher debt servicing costs as loans mature.*"[1]

Chart A: Commercial Real Estate Loan Maturities by Property Type



2. Commercial Real Estate Lenders Are Tightening Standards and Decreasing Liquidity

Those with rolling debt maturities over the next few years will be met with tightening lending criteria and decreasing debt capital available. According to CBRE, "*Bank lending will remain subdued given less capital to recycle as loans are extended and regulators manage banks' exposure to commercial real estate. Banks, which currently hold about 38% of total commercial real estate debt, will focus on maintaining their current loan portfolio and managing exposure to the sector over the next several years. This will be partly driven by greater regulatory scrutiny. Consequently, we think bank lending for commercial real estate will be relatively subdued.*"[2] As multi-family property owners face increasing pressure due to these factors, they will be incentivized to sell at discounted prices to avoid defaults, which will ultimately create an opportunity to purchase quality assets that lenders have taken back at a reduced price. This will be especially true for investors ready and able to buy properties all cash.

Chart B: Commercial Real Estate Loan Maturities by <u>Lender</u> Type

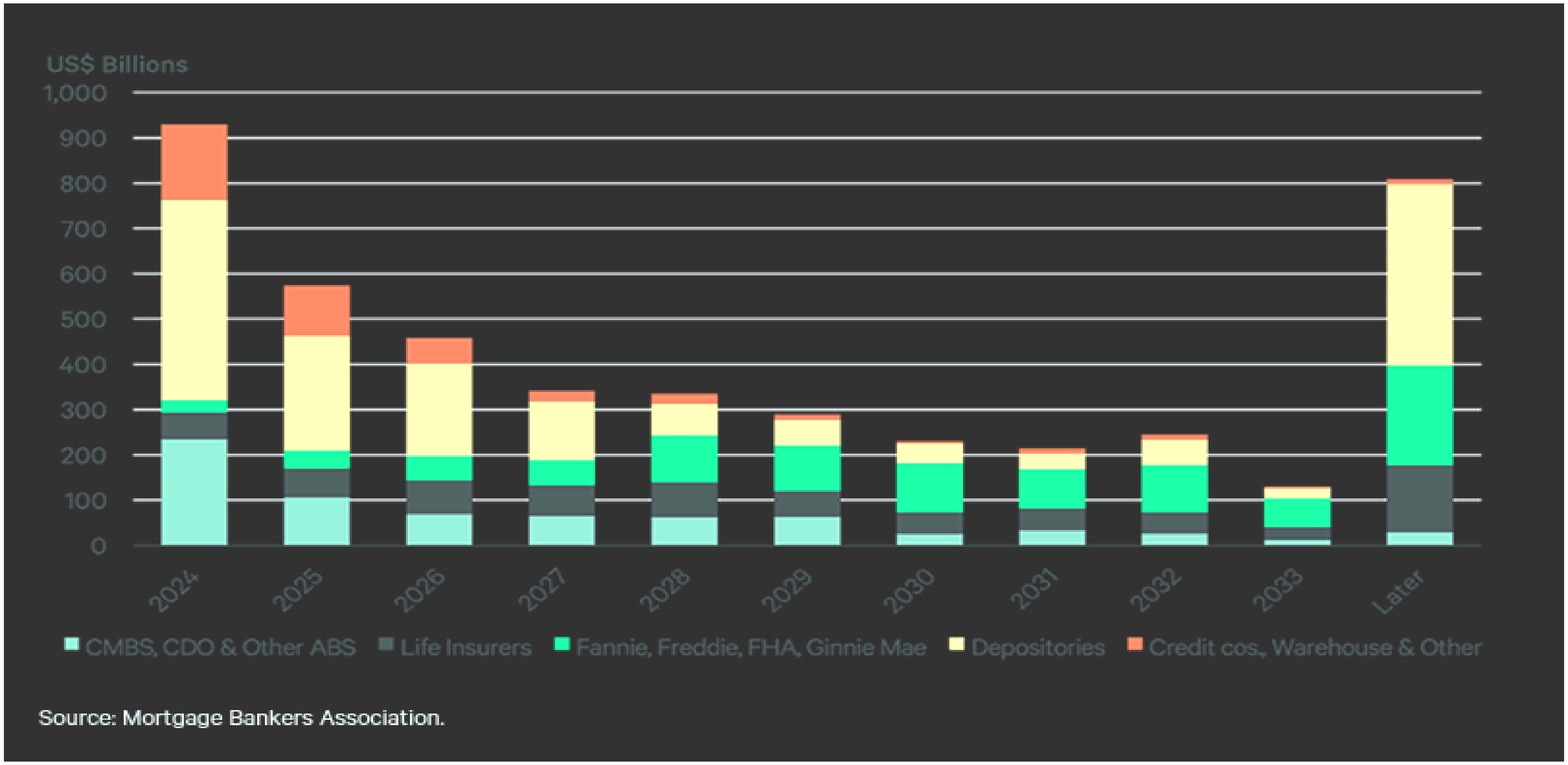
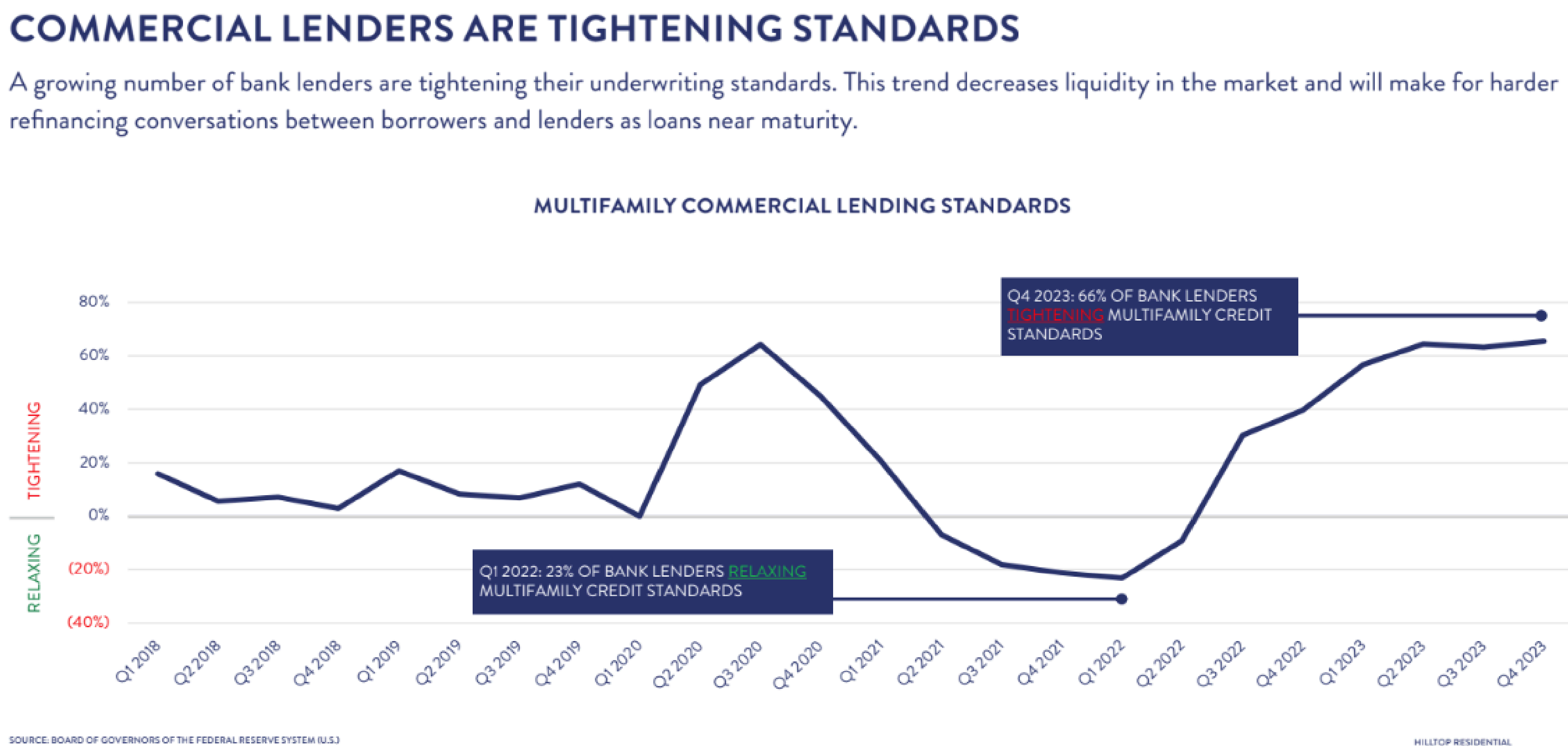


Chart C: Commercial Lenders Are Tightening Standards



3. Many Assets Are Overvalued Due to A Rise in Interest Rates and Inflation

There is significant concern in the market as Blackstone's Real Estate Income Trust, the largest Real Estate Investment Trust in the nation ($130.8 Billion) is still assuming "high single digit" growth rates for its net operating income assumptions and has been criticized for having the highest discounted cash flow and cap rate assumptions in the market. In their public defense, Blackstone cited that they had increased exit cap rates by more than 18% for rental housing since December of 2021.[3] By way of example, if they were assuming a 4.0% cap rate in December of 2021, they are now assuming a ~4.72% cap rate. Meanwhile, the Fed has increased the "risk free" interest rate by 5.25% in the same time period and inflation has also risen so that the Real cap rate (the difference between a property's cap rate minus the inflation rate)[4] has dropped.

Chart D: Federal Funds Interest Rate Hikes - 525 Basis Point Increase Since March of 2021

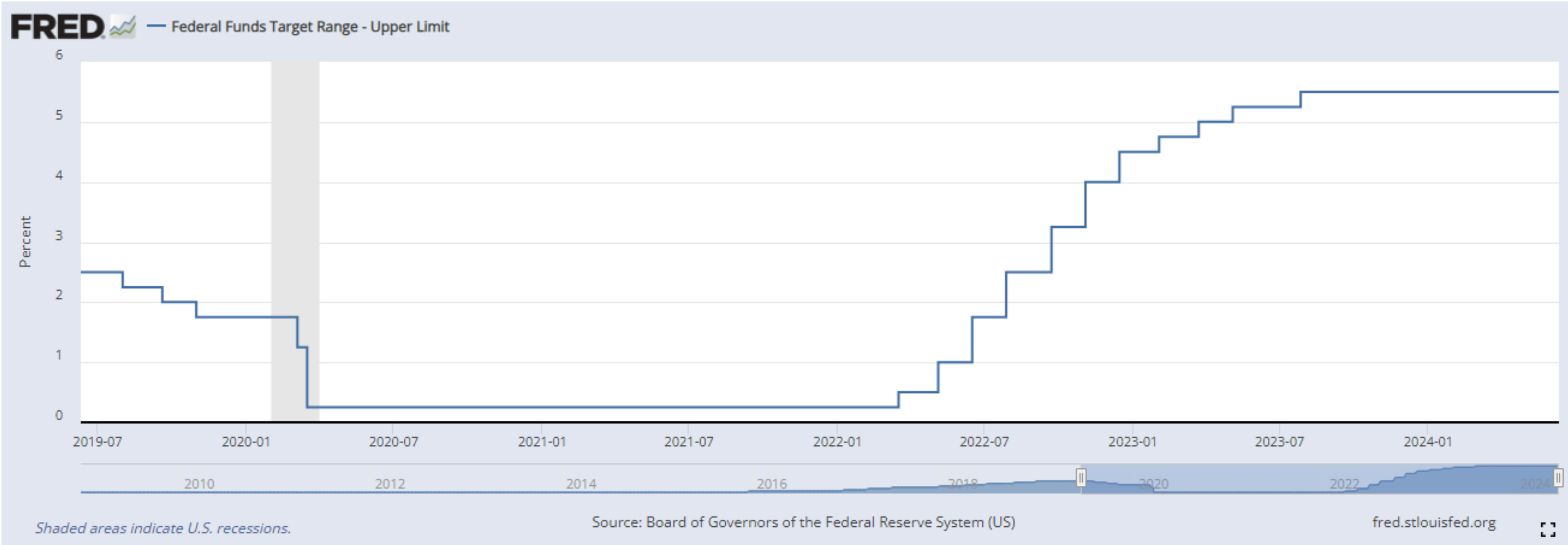
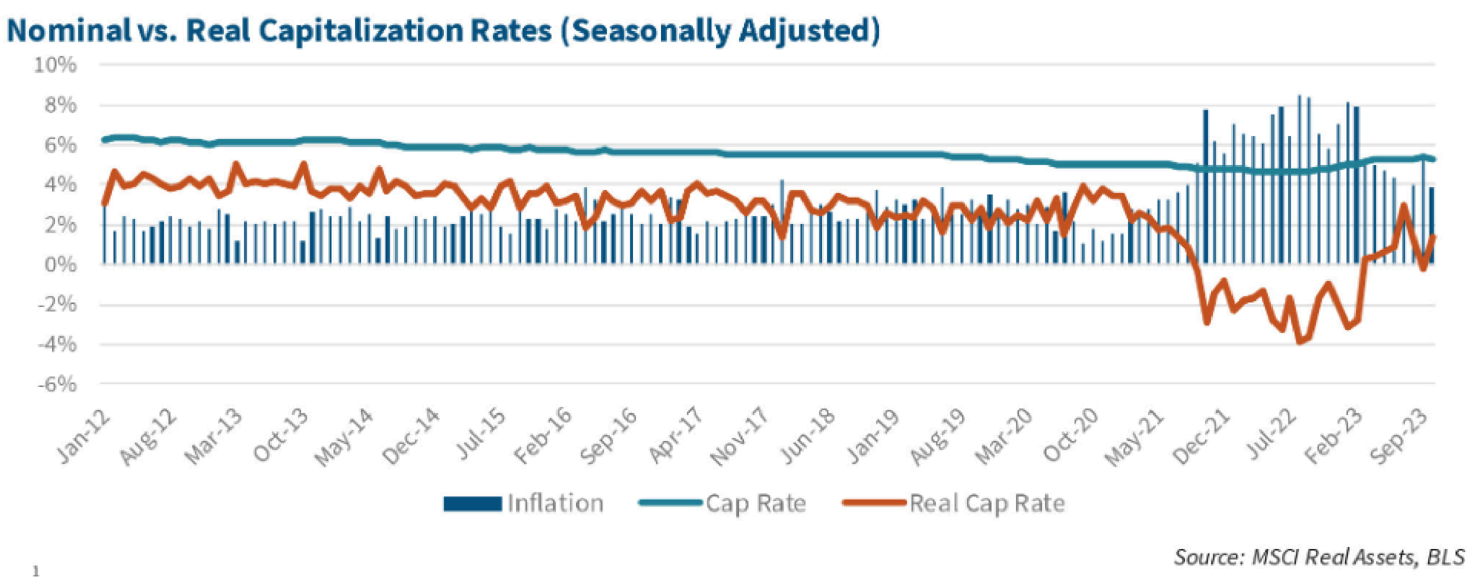


Chart E: Nominal vs. Real Cap Rates - Aggressive Fed Rate Hikes Has Created Volatility

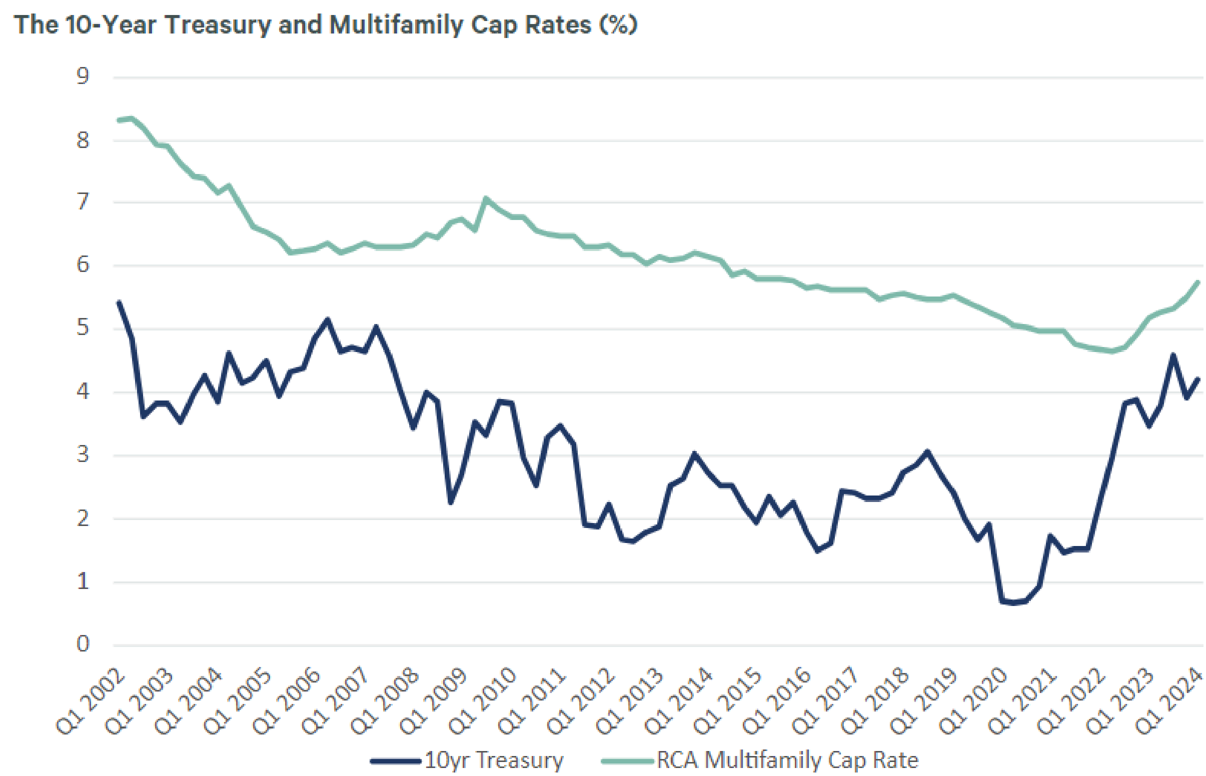


1

Chart F: The Gap Between the 10 Year Treasury and Cap Rates Has Tightened

CAPITAL MARKETS

There is a relationship between cap rates and long-term government bond yields. Though it is not one-to-one.



Source: CBRE Research, MSCI Real Assets, Federal Reserve Bank of St. Louis, Q1 2024.

What Does This Mean? Cap rates and interest rates are generally correlated. There is traditionally a healthy margin between the 10 Year and the RCA cap rate due to the risk differential. We are currently experiencing a minimization to that margin and it is only a matter of time before the market corrects it and the margin gap widens which will lower multifamily real estate values. <u>This is the nucleus of the market opportunity for investors.</u>

Conclusion and Call to Action:

AARE is fundraising for this market opportunity right now. We anticipate the window of opportunity to be 18-24 months. The market size for this opportunity exceeds $10 billion. If you have deployable capital to participate in this real estate trust (REIT) investment opportunity, contact Andrew Arroyo or Nick Bonner for investment details.

References:

[1] CBRE Intelligent Investment Brief, "*Some Distress Will Emerge Amid Wall of Loan Maturities*", CBRE Research, May 2024
[2] Ibid.
[3] Costar News, Lloyd R. Wertheimer, AARE, *Here's How Blackstone REIT Values Assets – and Why It's Drawing Concern*, May 16, 2024

[4] https://multifamily.fanniemae.com/news-insights/multifamily-market-commentary/multifamily-values-not-driven-solely-rent-growth