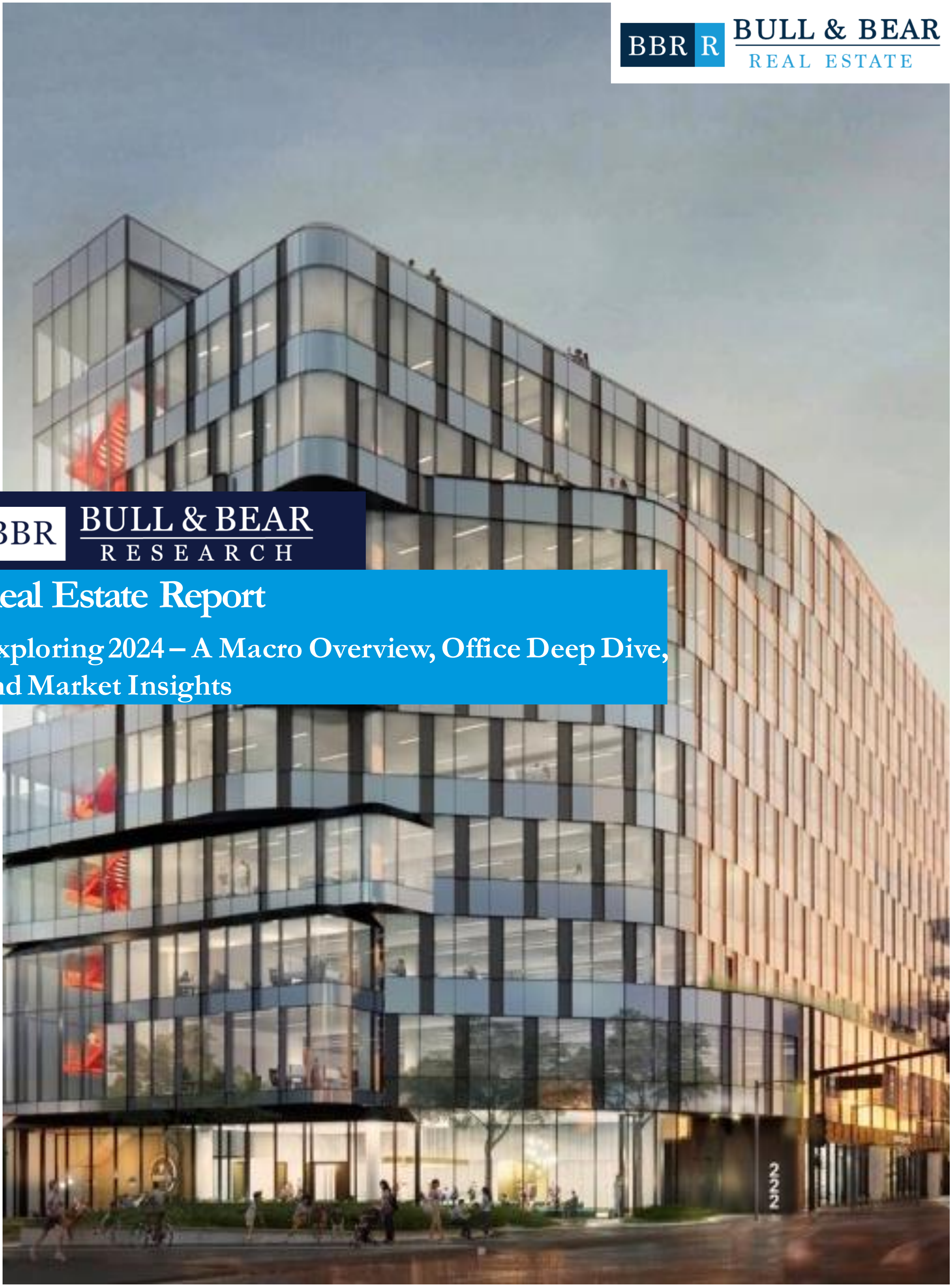

BULL & BEAR RESEARCH

Real Estate Report

Exploring 2024 – A Macro Overview, Office Deep Dive, and Market Insights

TABLE OF CONTENTS

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MARKET OVERVIEW

BULL & BEAR REAL ESTATE

The Real Estate Investment Market

The real estate investment market has had a tumultuous 18 months. Many challenges, including climbing inflation and the subsequent rise of rates, supply chain issues, and general economic uncertainty, have led to capital sitting on the sidelines. On a national scale, the US real estate market is projected to reach a value of $113.6T by the end of 2023, with residential real estate making up 78.2% of the figure and commercial real estate assets covering the other 21.8%. Residential real estate has seen prices dip from all-time highs experienced in 2021/2022, and the S&P Real Estate REIT Index and the Dow Jones U.S. Real Estate Index have seen year-to-date returns of 2.80% and 1.97%, respectively.

Geographically, the US is home to some of the biggest real estate markets in the world, including New York City, Los Angeles, and Boston. Even at the sheer size of these markets, they are not immune to the nationwide challenges currently being faced and their market-specific factors. The trend of hybrid and remote work is putting substantial pressure on office buildings and is having a downstream effect on the value of multifamily, retail, and hospitality properties within these cities, as there is less foot traffic and demand for space. An interesting market defying the odds is Los Angeles' post-covid recovery of retail properties, which has been attributed to new housing developments, tourism growth, and building reconfigurations to open-air concepts.

Macro and Micro Factors

What may seem like minor macroeconomic shifts can significantly impact this already-distressed real estate market. Notable factors that can impact real estate are inflation and interest rates. Inflation can affect the real estate market positively and negatively, creating higher rent prices and driving property appreciation while being the cause of increased labor, construction, and borrowing costs, slowing down real estate developments and acquisitions. Specifically, the inability to borrow to develop new properties will have long-lasting effects on markets, creating a vacuum in supply.

Microeconomic factors can uniquely impact real estate returns compared to other large sectors like technology or consumer goods, which are primarily unaffected. This is driven by the intimacy of each real estate property and the market they lie within. Two metrics worth noting are employment rate and median household income. High employment rates signal increased needs for companies to acquire space to complete operations; typically, tight job markets signal more people entering the market. Furthermore, median household income correlates to consumer spending power, directly affecting the success of retail real estate. Increased median household income can also contribute to elevated housing prices, positively impacting multifamily rental rates downward. Combining the macro and micro factors of real estate properties is crucial to ascertaining the outlook of various properties.

Major Real Estate Investment Strategies

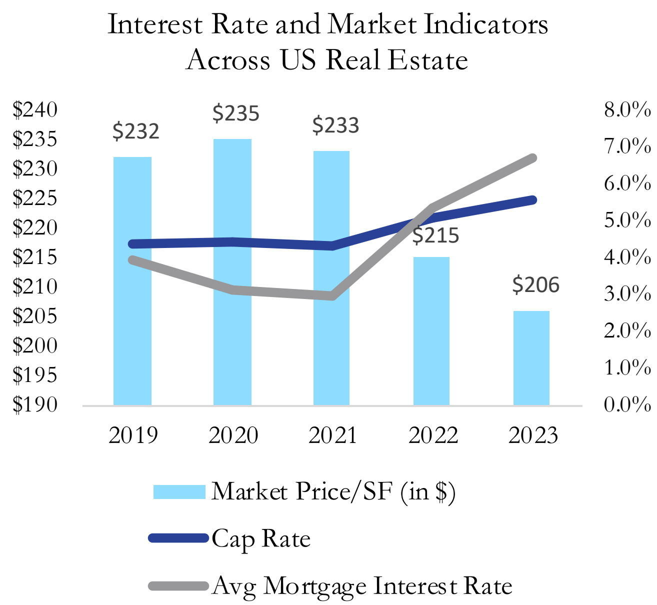
	Core	Core Plus	Value Add	Opportunistic
Description	Acquisition of stabilized, Class A real estate in high-quality markets, low upside and low risk	Acquisition of properties with some risk, upside to grow cash flow through operational efficiencies	Riskier acquisitions with heavy renovation plans possibly in up-and-coming markets where the opportunity for appreciation is imminent	Development opportunities where high leverage is needed to fund a long construction period before cash flow is generated
Risk	Low	Low to Moderate	Moderate to High	High
Annual Returns	7-10%	8-10%	11-15%	20%+
Leverage	40-45%	45-60%	60-75%	70%+

Sources: Marcus and Millichap, Statista, S&P Global, Los Angeles Times, Forbes, Goldman Sachs, Origin Investments

MARKET SNAPSHOT

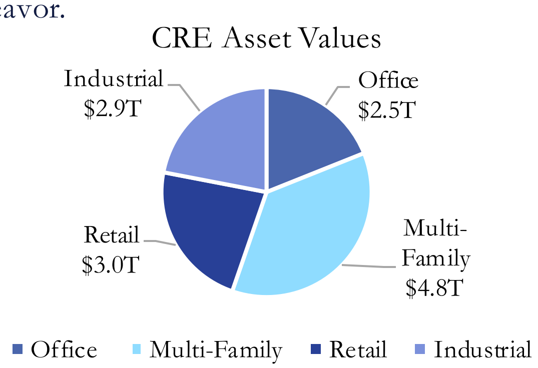
Real Estate Market Indicators

As interest rates continue to affect real estate affordability, it is evident that the real estate market has experienced significant shifts. The sharp increase in mortgage rates has impacted both buyers and investors, affecting the cost of borrowing and, consequently, the ability to purchase or invest in real estate. In 2019, the market's per-square-foot sale price was $232, but it has since declined to $206 due to rising mortgage rates and macroeconomic factors. Concurrently, cap rates, which reflect investment properties' return potential, have seen a shift. They were hovering around 4.4% in 2019 and 2020 but rising to 5.5% in 2023. This increase in cap rates reflects investor sentiment, driven by higher borrowing costs and a reevaluation of risk and return expectations within the real estate investment arena, influenced by evolving market trends.



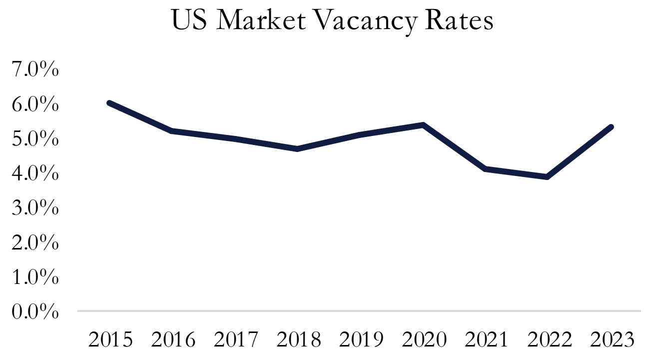
Industry Asset Value Overview

The shifts in interest and cap rates have played out against total asset value trends within the real estate industry. In 2019, the industry had a $11.2T valuation and experienced a rise into 2022, peaking at $13.5T before decreasing to $13.2T in 2023. These fluctuations in total asset value reveal the intricate relationship between interest rates, investment sentiment, and market dynamics in the real estate sector. With COVID-19 as the backdrop for the past three years, it has created an intriguing market environment with significant shifts, such as the surge in demand for industrial spaces driven by the shift away from traditional brick-and-mortar retailers. Additionally, low interest rates moved asset values systemically higher, as buyers could apply more leverage to deals. Given these evolving circumstances, predicting industry asset value remains a challenging endeavor.



A Dynamic Shift & Emerging Market

Diving into the current market trends most heavily impacting the real estate industry, it becomes clear that the office sector faces substantial challenges. The COVID-19 pandemic has accelerated a shift towards remote work and flexible office arrangements, causing businesses to opt for less in-person work. As companies continue to downsize office space due to a more flexible hybrid work schedule, the office vacancy rate continues to soar, hitting 13.4% in 2023. As market dynamics shift, new opportunities emerge in the real estate sector, driven by the growing need for data in our tech-driven age. As data consumption continues to increase, data centers have emerged as a promising asset class for real estate investors. With average rent growth 3.6 percent above the industry average, these spaces are in high demand and warrant observation.



Sources: CoStar, Green Street, stlouisfed

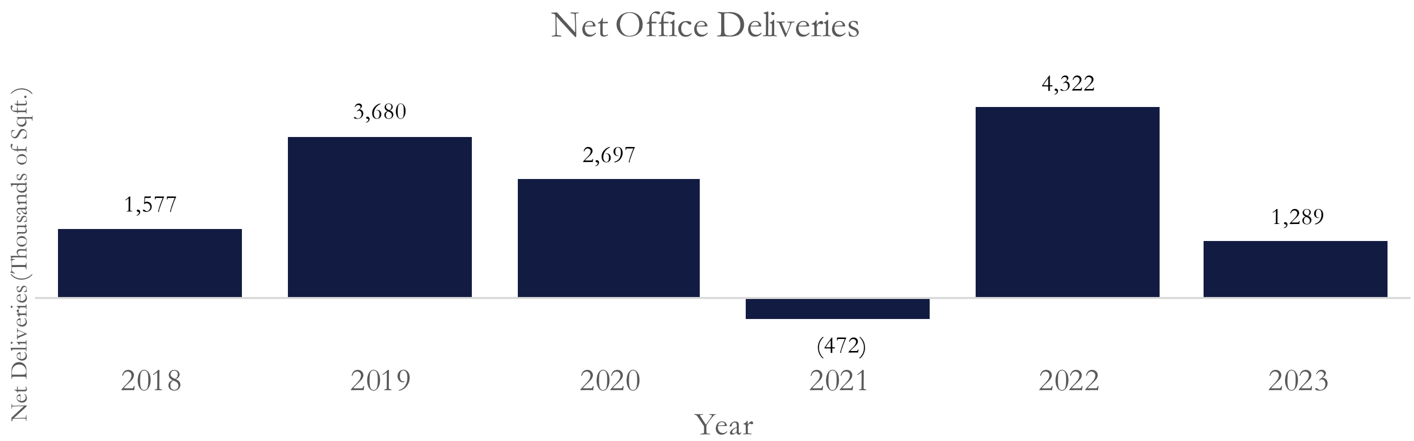
FINANCING

Transaction Volume

Transaction Volume measures the total number of transactions in dollar value occurring over a specified period. Investors, developers, real estate agents, and government officials use transaction volume to gauge market activity. Transaction volume can be explored on geographic and sector levels, helping investors understand specific trends on a micro level. In 2023, there has been a notable decline in transaction activity. The first half of 2023 witnessed a 40% reduction in the number of real estate deals and a substantial 65% decrease in the total sales value compared to the previous year. Notable macroeconomic and regulatory changes that contributed to the declining transaction volume were inflation and increased interest rates. Inflation effectively increased the prices of properties and costs of development, while heightened interest rates have increased borrowing costs, slowing down financiers. In Q2 2023, commercial real estate investment saw a year-over-year decrease of 64% to $75B, with the top three sectors being multifamily, industrial, and office, making up the most at $27B, $21B, and $11.2B, respectively. On a geographic scale, in the past four quarters, Los Angeles was the most favored among investors with $43B in transaction volume, and New York came in second with $37B in transaction volume. However, both cities still show sharp declines in transaction volume year-over-year, with Los Angeles showing a 39.1% decrease and New York having a 47.4% decrease. As a whole, the changing monetary and regulatory policy has stifled transaction volume.

Capital Markets

Capital markets are an integral aspect of the real estate industry due to developments and acquisitions utilizing heavy leverage for purchases and construction projects relying on large amounts of debt. Additionally, lenders allow investors to refinance projects, typically opening up cash flow for further investment. Shifting monetary and regulatory policy in 2022 and 2023 has affected the capital markets. Due to uncertainty, debt and equity providers have increased expectations of returns for their investments. This has made it extremely difficult for real estate investors to capitalize on projects. In Q3 2023, commercial mortgage rates were 6.7%, a 1.3% increase year-over-year. The effect of the rise in commercial mortgage rates can be seen through changes in other debt metrics such as the mortgage constant and debt service coverage ratio (DSCR). In Q3 2023 the commercial mortgage constant was 13.7% a steep increase from the pre-interest hike levels in 2022 Q1 at 12.3%. This shows an increase in annual mortgage payments in comparison to the total mortgage loan amount. With the increased costs of lending, real estate investors have increased debt obligations, which is displayed in the Q3 2023 commercial DSCR of 1.49 compared to the 2022 commercial Q3 DSCR of 1.77, indicating how cashflows have tightened throughout the industry within the past year. The effect of increased interest rates can be seen through these various debt metrics and reflects a slowdown in investment yields and development, creating a diminishing impact on long-term supply.



FINANCING (Continued)

Types of Private Debt

	Direct Lending	Junior Capital	Distressed Debt	Special Situation
Description	Provides loans directly to companies in need of capital	Ranks in between traditional debt and common equity. Includes subordinated debt, mezzanine, and preferred equity	A highly specialized investment in the debt of financially distressed companies with high default risk	Loans that are required for non-traditional corporate events such as undergoing M&As, divestitures, or other capital events
Characteristics	Flexible and able to negotiate loan terms directly with the borrower	Higher risk than senior debt but offers higher return	Discounted loans in exchange for higher risk and potentially higher reward	Varies widely from case to case
Investment Strategy	Earns income through interest payments	Receives interest payments and has the option to convert debt into equity	Profits through restructuring and operational turnaround	Earns profit from unique situations that require customized debt
Risk	Low	Fairly High	High	Varies

Borrowers Dilemma

For mortgages coming due in the next few years, the heightened rates have compressed values and leverage offered for refinances, leaving owners needing to source more capital into their deal or risk defaulting. Two primary sources are private debt and preferred equity. In traditional senior debt, when interest rates increase, the average leverage lenders offer decreases because lenders typically peg their leverage ratios to metrics like DSCR. With this considered, borrowers face increasingly expensive interest rates and lower proportional leverage on properties that have lost value. The challenges faced can be represented quantitatively. In 2019, the all-time low commercial LTV ratio was 62%, while in 2023, commercial LTV ratios were as low as 53%. This shows a shift in investors and developers utilizing less debt to cover investments reflecting an equity gap in their cap stacks. These factors illustrate how capital-strapped borrowers are in a difficult situation with two main options: electing from mezzanine debt and preferred equity or defaulting on their loans. If borrowers decide to rely on mezzanine debt or preferred equity, they will face higher interest rates than typical loans due to the risk. These instruments ultimately lower the long-term upside for owners. In the case of preferred equity, financiers may be entitled to extra profits in good-performing projects. However, in most scenarios, this is a much better alternative to default.

Private Credit Funds

The private credit fund market has expanded rapidly throughout the past couple of years, from $875B in 2020 to $1.4T at the beginning of 2023, representing a CAGR of 16.97%. These funds have gained much traction due to their flexibility and ability to meet various loan sizes and timing. Within private credit, there are generally four different types of lending: direct lending, junior capital, distressed debt, and special situations, each with different uses and levels of risk and reward for investors. Another reason for private credit appeal is its lessened government and regulatory oversight, unlike traditional banks, allowing for faster credit approval and a more streamlined process. These factors have made private credit funds a promising alternative to traditional bank loans. As an investment, private credit funds offer cashflows over time through interest payments and fees, less correlation with public markets, and a variety of risk-adjusted returns across varying loans. The demand for private credit funding as investments and sources of capital can be reflected quantitatively, with the average direct loan YTD yielding 12.5%. As such, real estate investors have moved towards utilizing private credits as both sources of funding and investments that can be used to bear the storm against the current economic challenges. The private credit fund market has been the clear winner throughout the past year, gravitating both investors and borrowers while also filling the equity gap left by traditional loan markets.

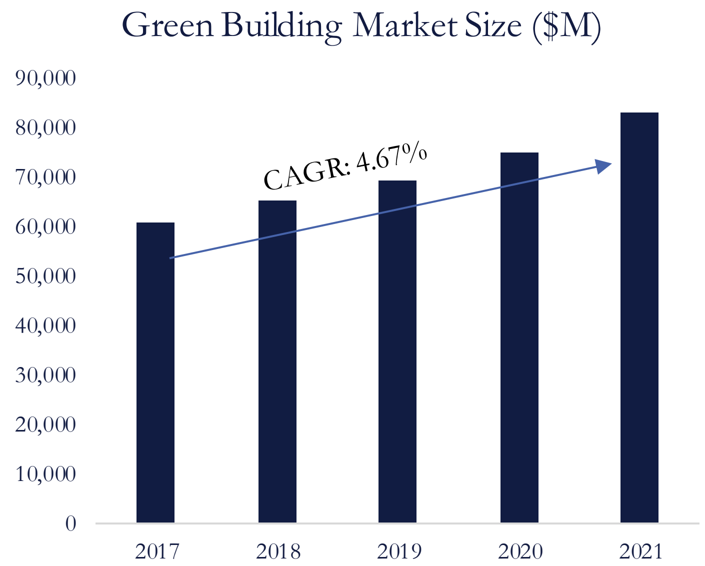
REGULATORY LANDSCAPE

Regulatory Summary

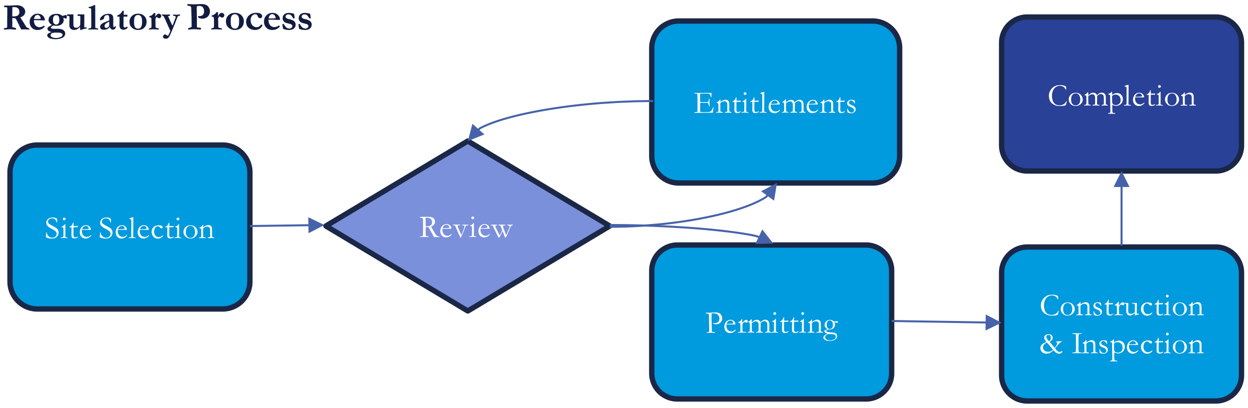
The real estate regulatory environment is complex, encompassing a web of policies designed to govern the buying, selling, and management of properties. Critical considerations of real estate regulations include zoning laws, property rights, building codes, and environmental regulations. An emerging macroeconomic trend is the focus on ESG. For real estate, these increasing efforts to create a more sustainable world are attracting more investment into environmentally friendly buildings and fundamentally changing how real estate is developed.

Zoning, Compliance & Taxation

Zoning laws play a crucial role in regulating property construction, location, and design. Developers must consider various factors, including building height restrictions and regulations specific to local areas. Although cumbersome for developers, zoning laws ensure the effective use of land and, in many places now, strike a balance between development goals and the environment's needs. Promoting sustainable and responsible development, LEED Certifications provide a framework for 'green' buildings and have become a target for developers to achieve as they seek to qualify for incentives such as tax breaks and save money on operational costs.



Regulatory Process



Affordable Housing

Recently, many cities have mandated that a specific percentage of newly developed properties be allocated for low-income residents to promote greater housing affordability. This addresses rising social issues and also provides real estate developers with tax incentives and benefits for taking on these projects. As a result, the low-income housing sector is experiencing rapid growth, with its value projected to reach approximately $170 billion by 2030.

Office Conversions

With office vacancies increasing, there's growing interest in converting office spaces into multifamily housing. In October 2023, the White House approved $45 billion in federal funds to support this conversion effort. Financing has been challenging due to rising interest rates and multifamily regulation standards, but this federal funds approval provides optimism for the feasibility of these conversions. It will be worth noting if possible conversions satisfy regulation requirements.

Sources: U.S. Green Building Council, Statista, Morningstar

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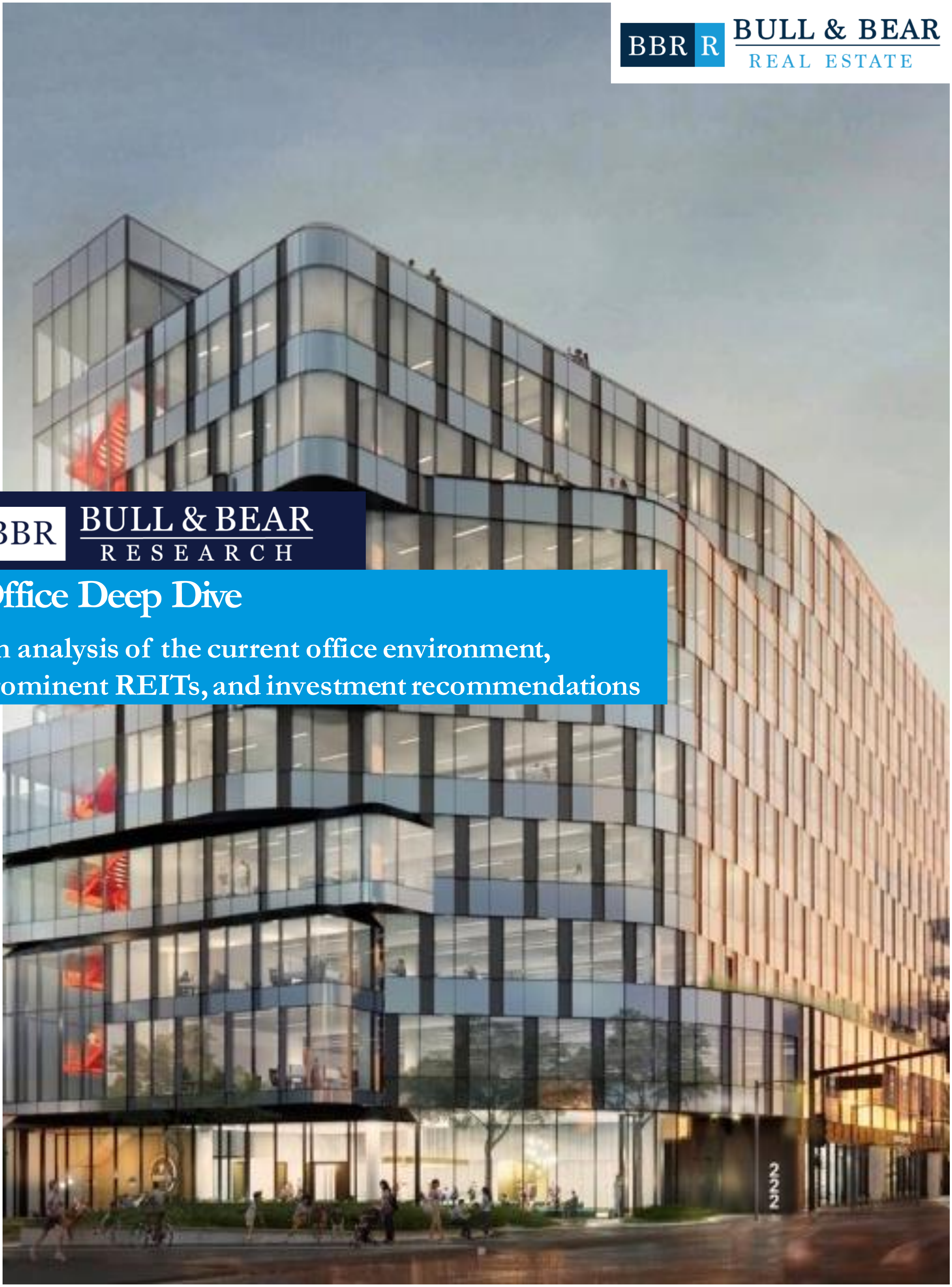

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Office Deep Dive

An analysis of the current office environment, prominent REITs, and investment recommendations

BULL & BEAR REAL ESTATE

OFFICE OVERVIEW

A Look Inside Today's Environment

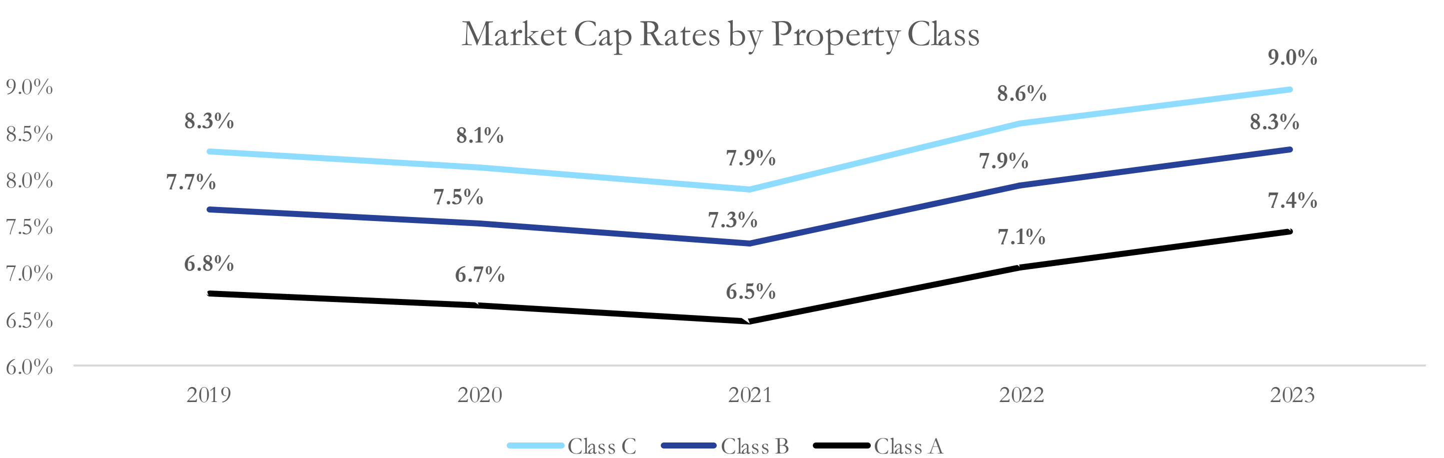
The current real estate market has experienced a significant slowdown in office leasing demand. This leaves property owners and operators struggling to increase cash flows across portfolios. Even though COVID has passed, the remote work trends stickiness and economic uncertainty are still hurting office assets. Office-related employment is 6.5% higher than in 2019, but many of these "office" employees work remotely. Sales have bounced back from the pandemic's lowest points, but Q2 2023 saw transaction volumes 66% below the five-year average leading into 2019. The combination of stifled cash flows and unfriendly financing conditions made office the worst-performing sector in the past eight quarters, according to the MSCI U.S. Quarterly Property Index.

As we advance, debt maturities are a looming challenge. In late 2023 and 2024, around $24.5B in Commercial Mortgage-Back Securities (CMBS) office loans are slated to mature, with $16.5B anticipated in 2023 Q3 & Q4. TTM property transactions through June 2023 amounted to $50B, reminiscent of the post-global Financial Crisis recovery in 2011. Buyers and sellers are currently at a disconnect between the attributed property values. However, lackluster financing conditions and pressure from lenders may push values to a level at which sellers will transact.

Class A, B, and C Office Property

Not all real estate was created equal, necessitating a clear distinction in property classes: A, B, and C. These classifications typically depend on multiple criteria, including the age of the building, location/accessibility, rental rates, quality of HVAC and infrastructure, technological capabilities, and amenities.

Class A	Class A properties are the most prestigious buildings competing for premier tenants in high-quality locations. Typically, these buildings are in central business districts with an overarching market presence. They have high levels of accessibility and parking. Class A spaces have the highest quality finishes, tenant improvements, security, and technology for tenant's workspaces.
Class B	Class B properties compete for tenants with varying uses and needs of office space. These buildings are catered to the middle of the market, offering practical space. They are in quality markets but not in premier locations. Usually, these spaces have respectable upkeep and maintenance, with nice tenant improvements. The buildings have functional HVAC, infrastructure, and technology capabilities, but it is far from the best.
Class C	Class C properties, when transacted, are typically labeled as value-add opportunities. These buildings are old and have shoddy upkeep. They have few amenities, and the tenant improvements offered are limited. Typical tenants are blue-collared businesses operating on a tighter budget. These businesses will sacrifice location and quality for lower rents. Class C is viewed as an operational space.



Sources: CoStar MSCI, VTS,

HEADWINDS

Downward Pressure on NOI

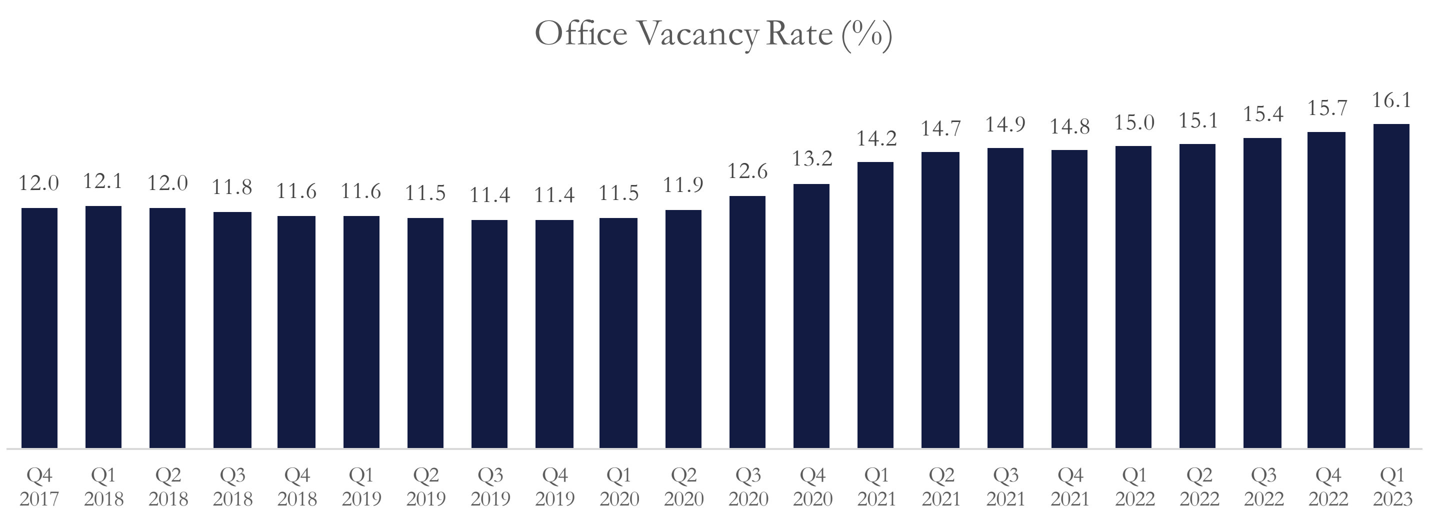
Throughout 2023, office real estate has experienced various challenges that have damaged the profitability and valuations of buildings. The bottom-line operating metric, net operating income (NOI), has seen pressures on both the income and expense side. Looking into the income side, nationwide increases in vacancy rates and decreases in asking rent growth have stifled owners' ability to generate revenue. Furthermore, many owners are offering generous concessions, driving down effective rent. Vacancy rates in office space have risen despite an uptick of people returning to work due to the persistence of hybrid work models that limit company needs for office space. The US office vacancy rate in Q1 2023 was 16.1%, a steep increase from the 11.5% pre-covid vacancy levels in Q1 2020. To entice possible renters and fill the vacant space, landlords have made short-term sacrifices to income to increase long-term profits through actions such as lowered rent, rent abatement, higher concessions, and higher tenant improvement budgets. Pivoting to the expense side, increased operational and financing costs have pushed NOI lower. A combination of inflation and a tight labor market has increased the wages demanded by operating employees, increasing operating expenses. Heightened natural disasters and rising inflation have increased commercial real estate insurance costs by 7.6% annually since 2017. Under normal circumstances, office landlords would normally have renters pay for insurance costs; however, with many of them having high vacancy rates, they are left to pay the bill themselves.

Class B & C Struggles

Class B and C office properties are stuck in a precarious position. In a world of shrinking demand and high vacancy rates, they are forced to compete with Class A space for a tenant pool that once could only afford B & C space. Tenants are targeting modernized space with various amenities, new technology, and a finish that Class B & C does not provide. Class B & C owners are exploring two options to adapt to the times: conversions and modernization. While still early, conversions have yet to prove to be feasible. This is primarily due to structural differences and complications in converting offices to multifamily residential units. This leaves owners exploring the modernization of their buildings; however, it would cost them in a market with inflated construction prices and high financing costs. As clearly shown, both class-B and C office types are in an unwinnable situation without sacrificing large amounts of capital.

THE EMERGENCE OF AI

While not an immediate threat, AI's improving efficiency and innovation could leave traditional office jobs obsolete. The development of AI has left an estimated 300 million jobs at risk of automation leading to higher vacancy rates and less demand for future office space. As AI develops and advances, the challenge of filling office space could continue.



Sources: Wall Street Journal, Statista, Goldman Sachs, JP Morgan

TAILWINDS

The Fight to Return to Office

In October, the US economy added 150,000 jobs, a sharp decline after a summer of an unbelievably hot jobs market. The demand for employees ultimately stifled companies' ability to push a return-to-office mandate. However, as the labor market cools and employment becomes increasingly competitive, this trend is set to change. One institution leading this charge is the Federal Government, as White House Chief of Staff Jeff Zients has called for an increase in in-person work in recent months. Additionally, in a recent survey of 1,000 company leaders by Resume Builder, 90% of companies plan to implement a return-to-office policy by the end of 2024. These leaders cited deterioration of culture, productivity, and collaboration as reasons employees must return. As in-person requirements become normalized again, office building owners will benefit from renewed demand and higher occupancy levels.

Long Term Supply Slowdown

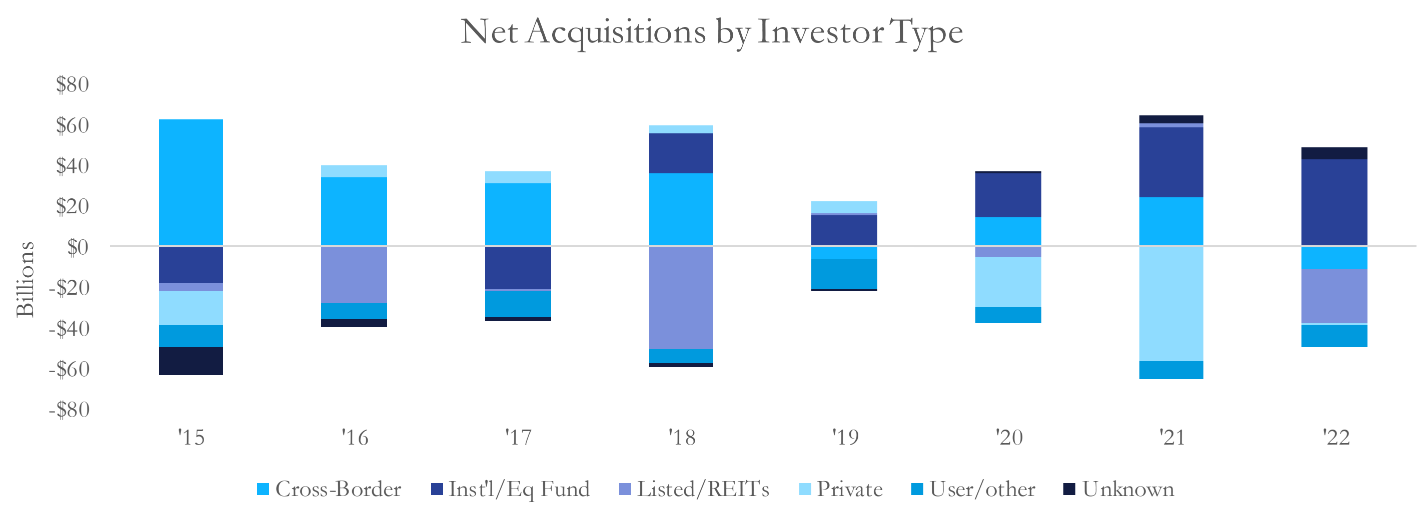
The lack of affordable financing, a tight labor market, and the uncertainty surrounding the future of traditional office buildings have driven developers away from new construction. Net deliveries in 2023 & 2024 are projected to be 45M & 49M SF, respectively. This figure is similar to the average between 2018-2022 of 52M SF. However, it is imperative to be mindful of the horizon on construction projects, typically lasting at least five years, meaning many of these projects were started in a pre-Covid environment.

Looking at projects trying to be built in current financing conditions, it is a lot more constrained. In Q3 2023, new construction starts totaled under 6M SF, the lowest figure since the recession era. Net deliveries in 2026 and 2027 are projected to be negative, signaling a stark falloff in development appetite. Furthermore, the construction cost index posted a figure of 182.4 in Q3 2023, the highest ever recorded. The lack of future supply should help ease the burden for existing office buildings with historically low occupancy rates.

Institutional Equity Funds Stepping In

As of Q3 2023, total real estate transaction volume is down 53% YoY, and the office space is down 65%. Major sectors like Cross-Border investors, REITs, Private Capital, and Users experienced negative net acquisition figures in 2022. The REIT sector alone disposed of $26.75B worth of RE.

The one sector reporting positive net acquisition figures was institutional equity funds, acquiring over $43.3B worth of real estate in 2022. Interestingly enough, the last time equity funds represented most of the net real estate acquisition was during the Global Financial Crisis. These funds' willingness to acquire property during distressed macroeconomic times serves a key role in injecting liquidity into the market. Additionally, these funds stand to make outsized returns as distressed assets are sold at significant discounts to true market value.



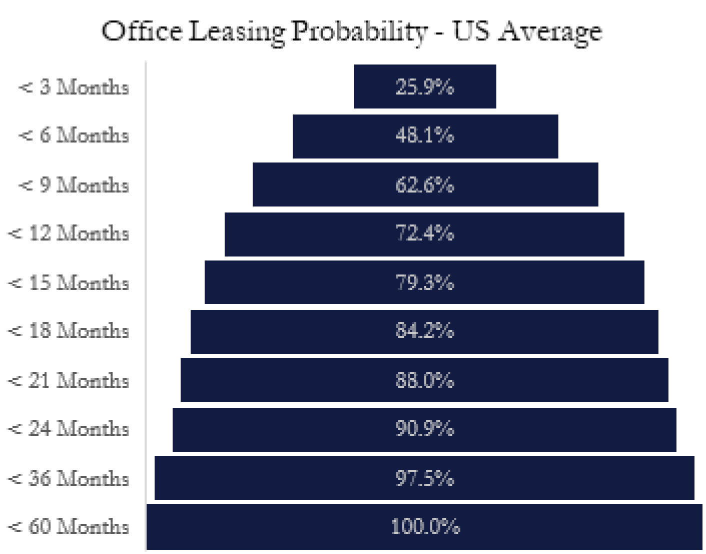
Sources: Reuters, Resume Builder, CoStar, RCA, Mortenson

LEASE EXPIRATION + VACANCY PREDICTIONS

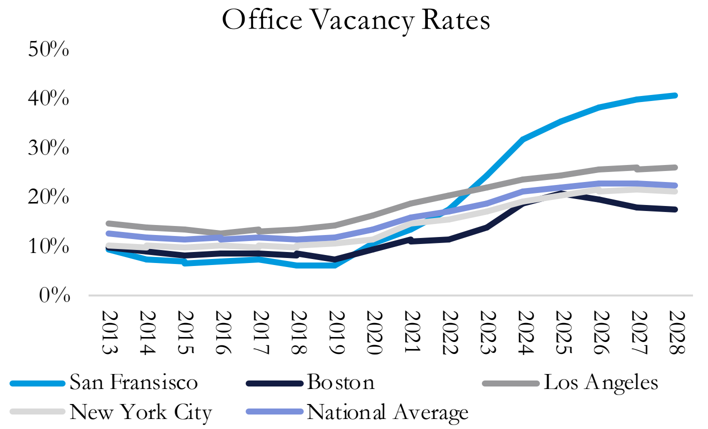
Leasing Overview

The office leasing environment currently sees 95 million SF of space leased a quarter, down 17% from pre-pandemic averages. Office leases are fiercely negotiated agreements between owners and prospective leasees. With demand down, negotiating leverage has shifted into the hands of leasees, which has stifled rent growth. Another vital factor that is changing is the lease term length. Businesses opt for flexibility due to the uncertainty around the long-term viability of remote working, preferring shorter-term leases. ⅓ of current office leases are under 12 months, more than double the pre-pandemic average. Typically, operators would prefer longer leases to ensure cash flows and the ability to cover their debt. Without this luxury, raising capital from financiers becomes even more challenging for offices, further compounding financial issues.

Looking at the leasing market in aggregate, the net absorption for the United States has been -61M SF YTD and is projected to lose ~90M SF by the end of 2023. In 2024, this figure is projected to reach ~133M SF before beginning to retract in future years. Additionally, to attract a smaller pool of leasees, tenant improvements (TIs) offered have been growing. In Manhattan, one of the most touted office markets in the world, total concessions averaged 16.7% pre-pandemic; now, this figure sits at 21.3%.



Vacancy Predictions



Observing vacancy rates in major coastal hubs: NYC, Boston, LA, and San Francisco (SF), an interesting trend emerges. Over the past ten years, these cities' vacancy rates have been similar and typically moved in tandem. However, San Francisco is projected to experience ominous vacancy levels, peaking at 38.7% in 2028. This is driven by two significant factors: local government and a dim outlook on growth and tech startups. On the governing side, the City of San Francisco has let their image of a bustling, prosperous city degrade into one commonly thought of as "dying." Additionally, San Francisco is a city known for startups, which drives a lot of demand for office space in the area. With investors shifting into risk-off assets after years of underwhelming returns in the venture capital space, much of the tenant pool has dried up. For cities, it is crucial to ensure governance is driving growth and more value for its citizens and to try diversifying its major business hubs to prevent situations like this in the future.

Additionally, it is appropriate to take a nuanced approach in terms of the quality of real estate. Class A office spaces, compared to the overall market, have seen lower vacancy rates than their Class B and C counterparts. Given prospective tenants' power and the greater availability of Class A space, companies that mandate back-to-office conditions will value the amenities and qualities of Class A products that used to be out of the price range. The problem and desperation for Class B and C will likely exacerbate as national vacancy levels rise.

MERGERS AND ACQUISITIONS

BULL & BEAR REAL ESTATE

Announced Date	Target	Acquirer	Deal Size	Property Focus
Q4 2023	Healthpeak Properties	Physicians Realty Trust	$21 Billion	Healthcare
Q2 2023	Life Storage Inc.	Extra Space Storage Inc.	$16 Billion	Self-Storage
Q4 2023	Spirit Realty Capital	Realty Income Corp.	$9.3 Billion	Diversified
Q3 2023	RPT Realty	Kimco Realty	$2 Billion	Retail
Q2 2023	Urstadt Biddle	Regency Centers	$1.4 Billion	Retail
Q2 2023	Global Net Lease	Necessity Retail	$950 Million	Diversified

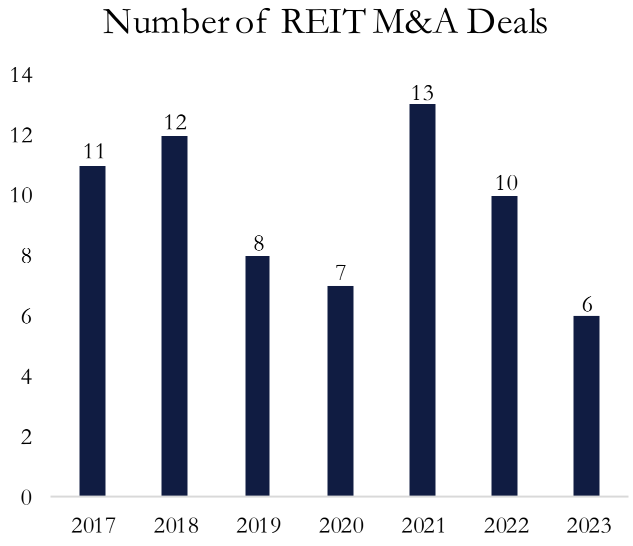
Notable Transaction Activity

The merger between Healthpeak Properties and Physicians Realty brought significant attention to the healthcare sector and set a high bar in the REIT M&A market by boasting the largest deal in 2023 in terms of valuation. The $21 billion merger highlights the growing importance of the healthcare real estate sector. According to the Chief Executive Officer of Healthpeak, this merger will "bring them to the next level to create a company uniquely focused on healthcare discovery and delivery," a goal that is being worked towards as they now manage a 52 million square foot portfolio. This merger will place Healthpeak in a great spot, providing them with a competitive advantage. Now, they have a "tenant roster comprised of the world's leading health system, biopharma, and physician tenants." Their portfolio will expand, and their relationships within the healthcare sector will only broaden their reach as they continue to operate.

Another notable move came from within the self-storage sector, as Extra Space Storage Inc. announced its acquisition of Life Storage Inc., which solidified Extra Space Storage's presence and expanded its portfolio of storage facilities across the United States.

Transaction Activity Cont.

This merger marks a significant consolidation in the industry. With the deal valued at $16 billion, Extra Space Storage is now the largest storage operator in the United States. With an expansive portfolio featuring over 3,500 locations and 270 million square feet of rentable space, it is now a major player in the storage industry, leading in scale and reach. The merger solidifies its position in the market as an industry leader and increases its potential for growth by leveraging combined operation efficiencies and expanding its market reach.



MAJOR TRANSACTIONS

245 Park Ave, New York, NY	
Date: June 26, 2023	*Price:* $2B ($1,121 / RBA SF)
Buyer: Mori Trust Co Ltd	*Seller:* SL Green

On June 26th, 2023, SL Green announced the sale of their 49.9% interest in 245 Park Ave to a US subsidiary of Japanese firm Mori Trust Co Ltd for $2B. 245 Park Ave, an office in Midtown Manhattan, was originally completed in 1967 but has since undergone several renovations to include modern amenities, sustainable technologies, and an updated look. The office comprises 1.754M rentable square feet, which values the building at approximately $1,121/square foot of rentable building area. Mori Trust Co Ltd cited an interest in expanding their overseas portfolio.

15 Necco St, Boston, MA	
Date: April 12, 2023	*Price:* $700M ($955 / SF RBA)
Buyer: Mori Trust Co Ltd	*Seller:* Alexandria Real Estate Equities (18%) National Development (2%)

On April 12, 2023, a US affiliate of Mori Trust Co. bought a 20% stake comprised of 18% from Alexandria Real Estate Equities and 2% from National Developments in the currently developing life sciences office building on 15 Necco St. in Boston for a total of $700M. The 345,995-square-foot building is expected to be completed in late 2023. The life science office building will include a variety of amenities and sustainable certifications. This acquisition values the building at $955/square foot of rentable building area.

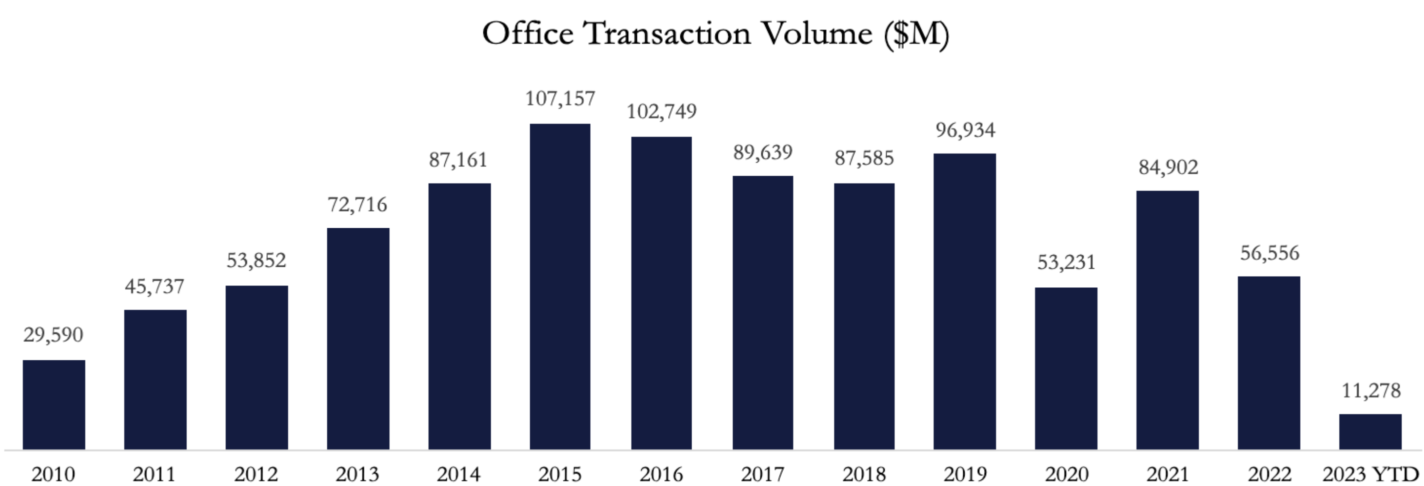
165 Broadway, New York, NY	
Date: April 6, 2023	*Price:* $1B ($426 / SF RBA)
Buyer: Brookfield	*Seller:* Blackstone

Brookfield, the majority owner of One Liberty Plaza on 165 Broadway in Lower Manhattan, bought out Blackstone's 49% stake for $1B to gain full ownership. One Liberty Plaza, a 54-story office building originally built in 1972, has 2.3M rentable square feet. After this transaction, it would value the building at approximately $426/square foot. Brookfield sold the 49% stake to Blackstone in 2017 at a $1.5B valuation.

175 5th Ave, New York, NY	
Date: October 25, 2023	*Price:* $47M ($635 / SF RBA)
Buyer: The Brodsky Organization	*Seller:* Nathan Silverstein

In a court-ordered auction, Nathan Silverstein's 25% stake in the famous "Flatiron Building" located at 175 5th St, New York, NY, was acquired by GFP Real Estate, along with ABS Real Estate Partner and Sorgente for a price of $161M. Originally constructed in 1902, the building has become a New York City landmark and has 205,000 rentable square feet, with this auction valuing the building at $635/square foot. The group plans to pursue a residential condominium conversion with the space.

Office Transaction Volume (2010 – 2023)



Sources: The Real Deal, BLDUP, Metro Manhattan, Boston Plans, Traded, New York Post, Statista

OFFICE REIT OVERVIEW

BULL & BEAR REAL ESTATE

Office REITs are specialized companies that own, operate, and finance office properties. Each office REIT's focus ranges across aspects such as market location, tenant diversity, building class, and office size. The chosen REITs, comprising BXP, KRC, ARB, CUZ, and HIW, focus on larger office spaces and have a more office-focused portfolio than other large REITs.

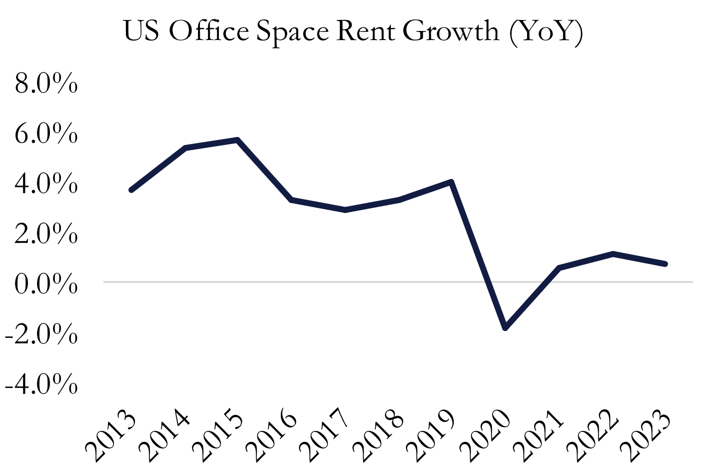
$ in millions of USD (As of 11/29/23 Close)

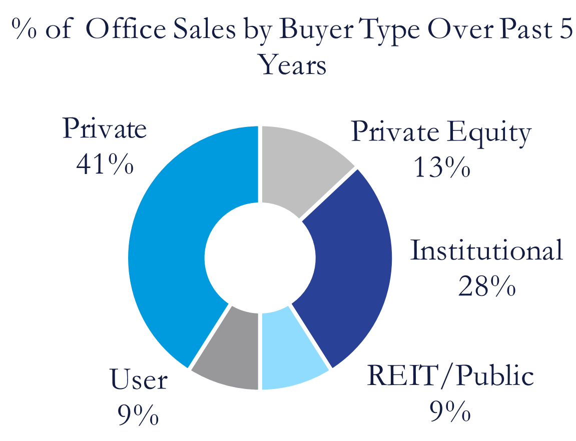
Company	Market Cap	Enterprise Value	Share Price	LTM		TEV/		EPS	P/E
				Revenue	EBITDA	Revenue	EBITDA		
Alexandria Real Estate Equities, Inc. (ARE)	$18,943	$34,170	$109.01	$2,799	$1,594	12.15x	21.34x	1.39x	78.42x
Boston Properties, Inc (BXP)	8,946	25,871	57.00	3,234	1,851	7.91x	13.83x	1.23x	46.34x
Kilroy Realty Corporation (KRC)	3,905	8,579	33.31	1,145	698	7.23x	11.86x	1.85x	18.01x
Cousins Properties Incorporated (CUZ)	3,104	5,538	20.45	800	500	6.90x	11.05x	0.59x	34.66x
Highwood Properties, Inc (HIW)	1,979	5,252	18.72	839	530	6.27x	9.93x	1.29x	14.51x
Lower	$2,541	$5,395	$19.59	$820	$515	6.59x	10.49x	0.91x	16.26x
Median	3,905	8,579	33.31	1,145	698	7.23x	11.86x	1.29x	34.66x
Mean	7,375	15,882	47.70	1,764	1,034	8.09x	13.60x	1.27x	38.39x
Upper	13,944	30,021	83.01	3,017	1,722	10.03x	17.59x	1.62x	62.38x

Office REIT Overview

These REITs' primary functions are acquiring and developing office space, leasing, efficient tenant management, investing in property maintenance, and growing overall revenue and returns. Performing these tasks efficiently allows REITs to generate income by creating leases that charge higher per-square-foot prices and opportunities for longer lease terms. Tenant management in times of economic distress is essential, as having diverse and stable leasees reduces exposure to specific industries and companies that may struggle. Across all industries, REITs are unique investment vehicles because of their requirements to distribute a significant portion of their income to shareholders, allowing for favorable tax treatment in return.

Office REITs and the general office real estate market have been a topic of contingency as vacancy rates continue to fluctuate and tenants continue to have power over owners.
Major US cities remain target markets for some of the largest office REITs: New York City, Chicago, Boston, and San Francisco. BXP's and ARE's portfolios are centralized across cities in the northeast, while KRC's spans across the West Coast, and CUZ and HIW hold portfolios throughout the sunbelt states. Sales and refinancing in the office real estate space have come from over-valued properties requiring large payments backed by high-interest rates, all while coupled with decreased income driven by lowered occupancy levels.



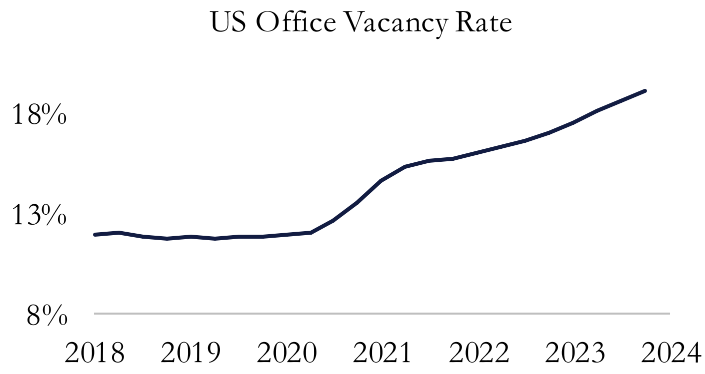


OFFICE REIT OVERVIEW (continued)

BBR R BULL & BEAR REAL ESTATE

Investing Metrics

Office REITs are valuable investment vehicles, that can be analyzed on various metrics to capitalize on the true value behind the portfolio. Funds from Operations (FFO) represent the REITs' net income (excluding gains or losses from property sales) to show the cash-generating ability better. Monitoring office space demand can provide insights into the REIT's ability to attract and retain tenants. Occupancy levels draw a strong correlation on a REIT's performance: low occupancy can drive lower returns, impacting market capitalization strategies and debt metrics. Given the current interest rate environment, debt metrics have been heavily analyzed to track REITs' abilities to cover their interest payments as leases are terminated or come to an end. Similarly, for investors, it is crucial to understand the location of the portfolio buildings from an insurance perspective, where coastal areas are charging increasingly higher premiums for insurance.

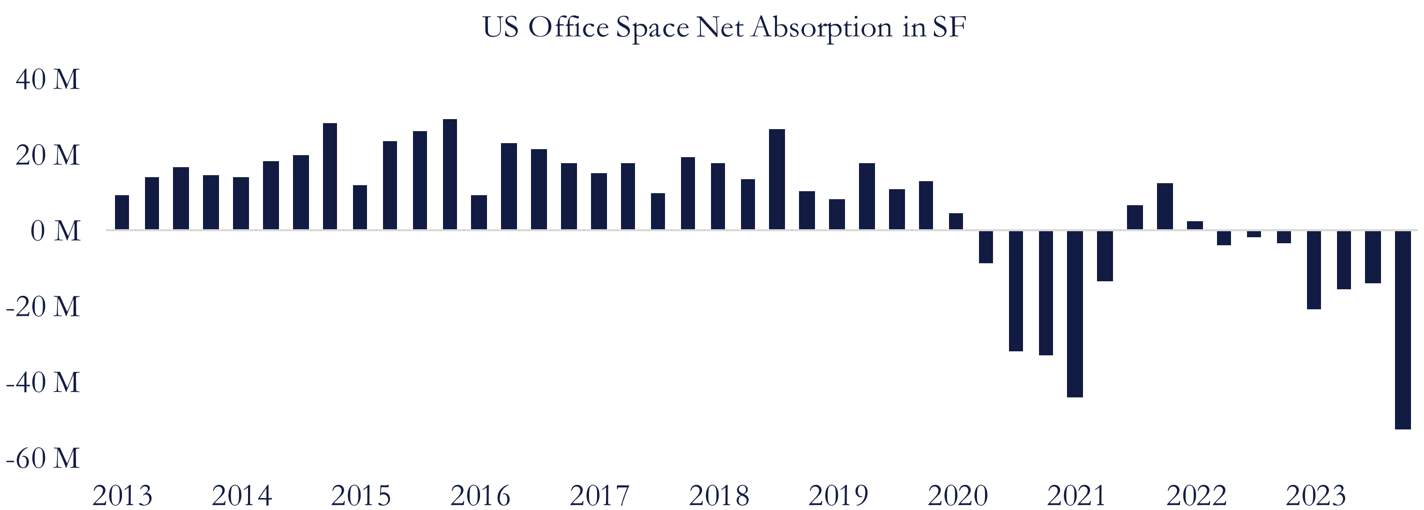


Investing Risks

Investing in U.S. office REITs entails specific risks that warrant cautious evaluation. Primarily, the fluctuating demand for office space significantly impacts occupancy rates, making revenue streams uncertain. The rise of remote work has caused many firms across the country to reconsider or downgrade their office spaces. On this note, conservative investors are gravitating away from lower quality, older buildings and pivoting towards single-tenant buildings. Single-tenant buildings with strong credit and long lease durations can expect to have more certain revenue streams and have seen rising yields across all classes (A, B, C) over the last 2 years. Secondly, the current macroeconomic environment can be characterized by the recent run-up in interest rates and low credit availability. This can constrain a REIT's operational flexibility. Elevated borrowing costs have adversely affected REITs' ability to refinance existing debt or acquire new assets.

Past Year Performance

YTD, US office vacancy rates are up 7.26% from Q4 2022. Smaller tenants are more reliable across the market, while larger corporate establishments are reassessing their options, finding growth of the work-from-home trend, and moving to higher-quality spaces to capture newer talent. Office REIT stocks performed the worst across all property types in Q1 and Q2 of 2023. Across the 5 office REITS showcased, the average close price was 20.84% YoY.



Sources: CoStar, Green Street, Wall Street Journal, NASDAQ

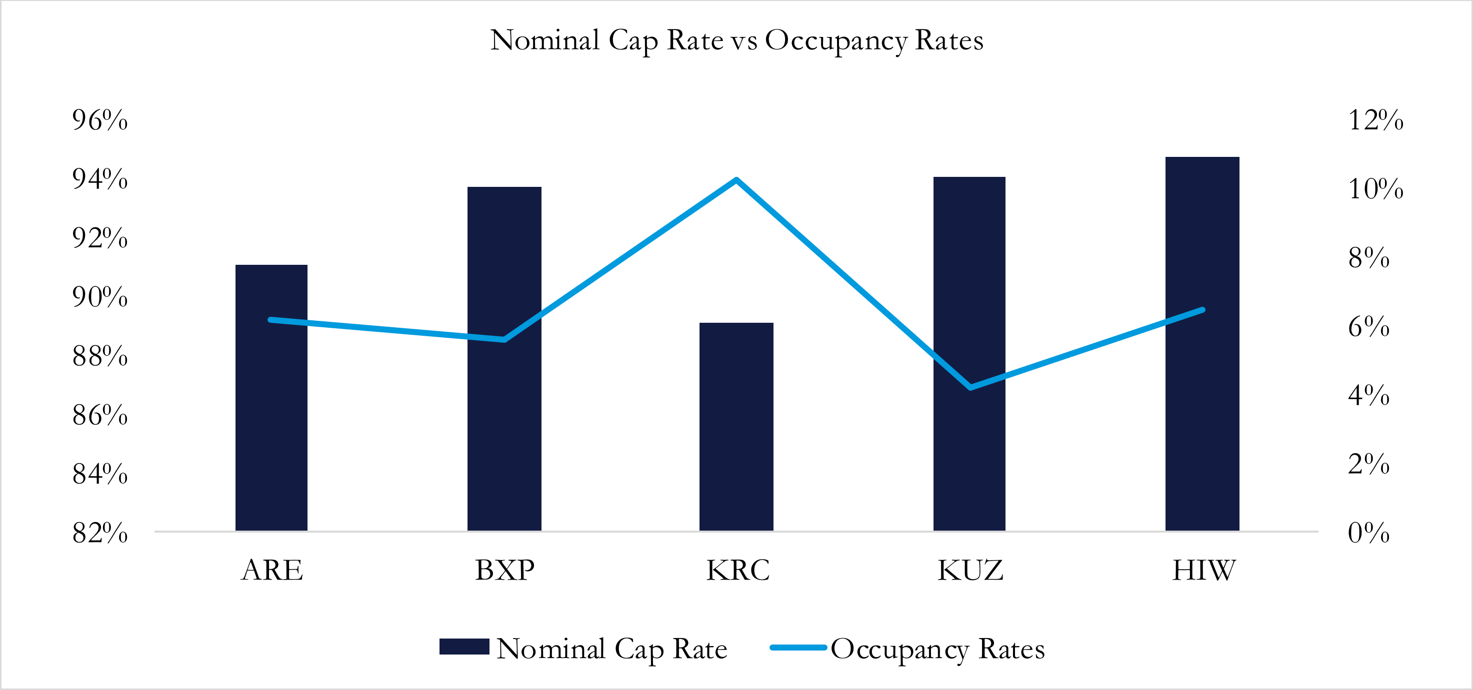
COMPARABLE: BASIC

BULL & BEAR REAL ESTATE

$ in millions of USD (As of 11/29/23 Close), Gross Leasable Area in millions of SF

Company	Average Occupancy (Q3)	Number of Properties Owned	Gross Leasable Area	Dividends per Share LTM	Dividend Yield
Alexandria Real Estate Equities, Inc. (ARE)	93.70%	419	75.06	$4.90	4.50%
Boston Properties, Inc (BXP)	88.80%	190	53.50	3.92	6.88%
Kilroy Realty Corporation (KRC)	86.20%	120	16.30	2.16	6.48%
Cousins Properties Incorporated (CUZ)	87.30%	36	19.15	1.28	6.26%
Highwood Properties, Inc (HIW)	88.90%	n/a	27.34	2.00	10.68%
Lower	86.75%	57	17.72	$1.64	5.38%
Median	88.80%	155	27.34	2.16	6.48%
Mean	88.98%	191	38.27	2.85	6.96%
Upper	91.30%	362	64.28	4.41	8.78%

The office REIT industry has been met with disdain from many investors and industry experts, mainly caused by the downward spiral experienced in occupancy rates, values, and general sentiment. Five large office REITs were selected for in-depth analysis to understand how specific REITs and their respective portfolios navigate this tumultuous environment. These REITs were selected due to their historically strong performance and high occupancy levels. Office REITs must adapt to market changes and meet tenant preferences to maintain high occupancy levels, which significantly impacts the portfolio's ability to achieve profitability, manage debt, and boost value. BXP and ARE have the two highest dividends per share, but ARE has a significantly lower dividend yield than the rest of the comp set. A low dividend yield for ARE can be attributed to the high stock price. The occupancy rates of each REIT are relatively in line; however, there is a correlation between cap rates and occupancy levels, where higher occupancy leads to lower cap rates. Especially with the uncertain future of office space with economic trends and new work-from-home environments, investors favor accepting lower returns in exchange for the perceived stability of high occupancy. There would be more volatility if the comp set included less established REITs, but looking at dividend yields, cap rates, and occupancy can give insight into investor sentiment.



Sources: Bloomberg, S&P Global, NASDAQ, Boston Properties, Alexandria Real Estate Equities

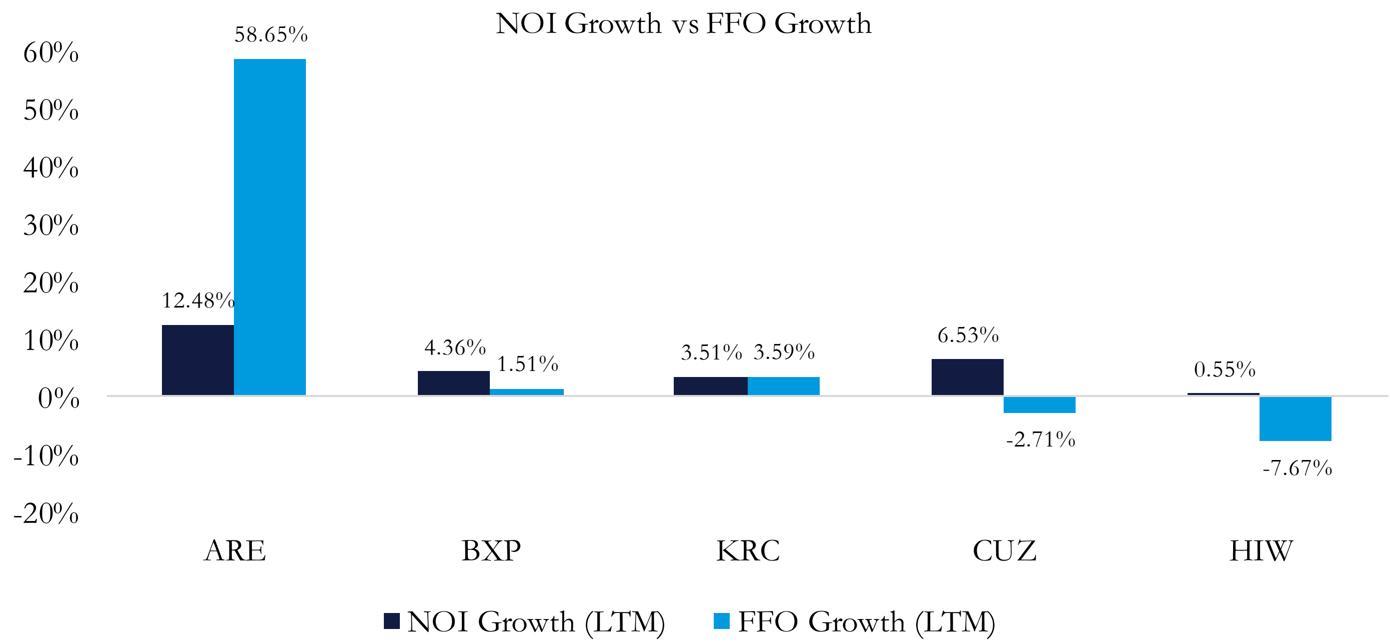
COMPARABLE: PROFITABILITY

BULL & BEAR REAL ESTATE

$ in millions of USD (As of 11/29/23 Close), All in terms of LTM

Company	FFO	FFO Growth	AFFO	AFFO Growth	NOI	NOI Growth	Profit Margin	Profit Margin Growth
Alexandria Real Estate Equities, Inc. (ARE)	$1,173	58.65%	$1,496	14.06%	$1,958	12.46%	8.80%	-59.48%
Boston Properties, Inc (BXP)	1,151	1.51%	941	26.93%	1,984	4.36%	5.94%	-80.12%
Kilroy Realty Corporation (KRC)	562	3.59%	476	10.84%	800	3.51%	19.00%	-10.37%
Cousins Properties Incorporated (CUZ)	400	-2.71%	278	-0.83%	530	6.53%	11.03%	-73.03%
Highwood Properties, Inc (HIW)	410	-7.67%	246	-17.78%	570	0.55%	16.48%	-47.26%
Lower	$403	-6.43%	$254	-13.54%	$540	1.29%	7.21%	-78.35%
Median	486	-0.60%	377	5.00%	685	3.94%	13.76%	-60.15%
Mean	631	-1.32%	485	4.79%	971	3.74%	13.11%	-52.70%
Upper	1,003	3.07%	824	22.91%	1,688	5.99%	18.37%	-19.59%

Funds from Operations (FFO) shows a REIT's ability to generate cash from the company's core operations. FFO gives context and clarifies the cash flow from operations, which is paramount to a portfolio's success. The financials from Q3 2023 and the last twelve months show that each REIT showcases different profitability performances. Across the board, negative FFO growth from Q2 to Q3 shows that the office space still struggles to grasp the ever-changing work environment and back-to-office mandates. BXP and ARE maintain premium FFOs over the office REIT comp set, which can be attributed to their asset portfolio focusing on the East Coast, where occupancy rates are high and cities continue to operate amidst a potential economic slowdown. Significant markets along the East Coast (NYC, Boston, and Washington D.C.) typically fare better in recessionary environments than developing markets. KRC holds a strong portfolio on the West Coast, where the office real estate business is spiraling, and properties are trading at values that are multiple times less than their value five years ago. FFO and profit margins are likely to grow if the Fed continues to decide not to hike interest rates and back-to-office mandates are increasing leasing activity. These figures might decrease further if the economy falls into a recession. At first glance, Alexandria Real Estate Equities, Inc. (ARE) shows the greatest sign of current and continued profitability success with the highest FFO growth, and the largest AFFO. One caveat to the FFO growth is that ARE has simply bounced back to the norm after back-to-back poor quarters of subdued FFO in Q4 2021 and Q1 2022. ARE remains in a strong position to improve portfolio profitability.



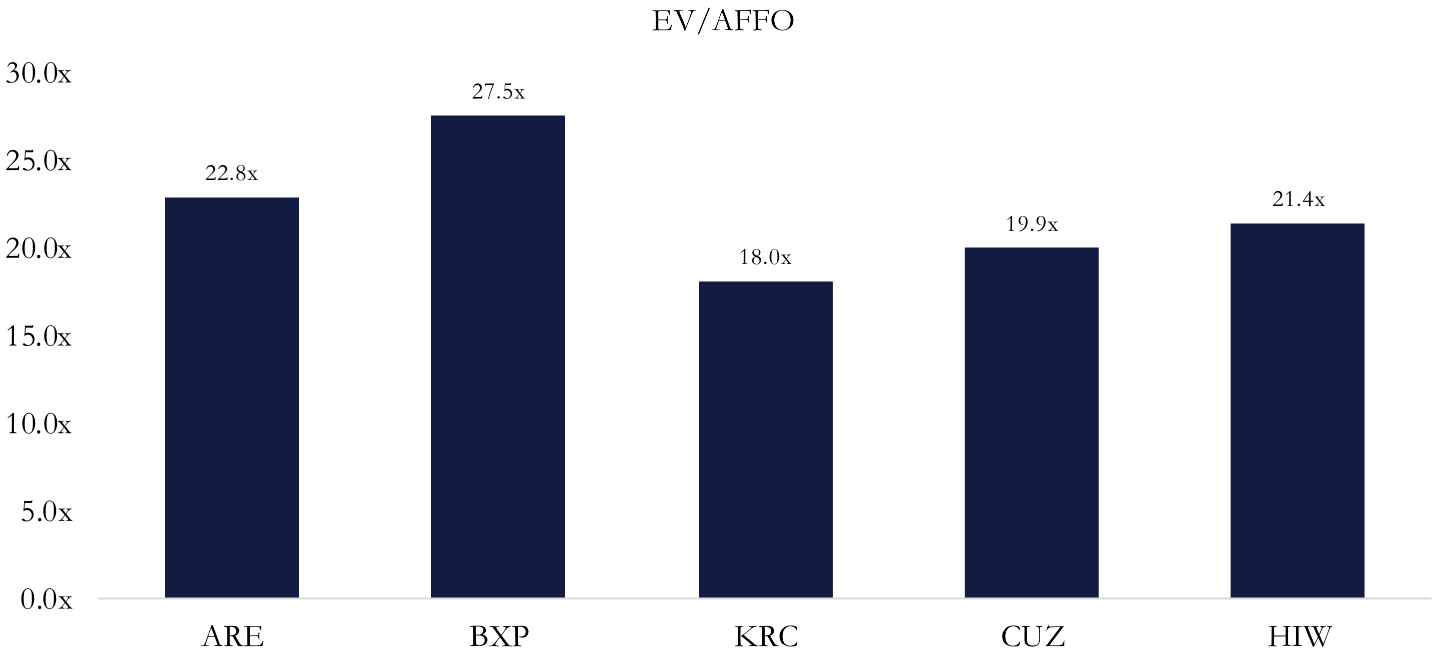
COMPARABLE: VALUATIONS

BULL & BEAR REAL ESTATE

$ in millions of USD (As of 11/29/23 Close)

Company	EV/FFO	EV/AFFO	FFO/Share	P/FFO	P/NAV	NAV	Nominal Cap Rate
Alexandria Real Estate Equities, Inc. (ARE)	29.13x	22.84x	6.93x	15.73x	0.82x	$132.83	6.09%
Boston Properties, Inc (BXP)	22.49x	27.50x	7.31x	7.80x	1.11x	51.23	7.79%
Kilroy Realty Corporation (KRC)	15.27x	18.04x	4.70x	7.09x	0.69x	48.34	10.01%
Cousins Properties Incorporated (CUZ)	13.84x	19.94x	2.64x	7.75x	0.68x	30.16	10.31%
Highwood Properties, Inc (HIW)	12.82x	21.37x	3.81x	4.91x	0.78x	24.01	10.91%
Lower	13.33x	18.99x	3.23x	6.00x	0.68x	$27.08	6.94%
Median	15.27x	21.37x	4.70x	7.75x	0.78x	48.34	10.01%
Mean	18.71x	21.94x	5.08x	8.65x	0.82x	57.31	9.02%
Upper	25.81x	25.17x	7.12x	11.76x	0.97x	92.03	10.61%

The chosen comps have differing Net Asset Values and Market Caps, as well as varying profitability and debt levels. This uniqueness can create difficulties in comparing the REITs, but valuation multiples and metrics help show how investors value these companies on a normalized basis. EV/AFFO offers the enterprise value of the entire portfolio over the adjusted operating performance and helps display the relationship between income and the total value of a REIT. BXP and ARE have the highest EV compared to FFO and AFFO, which creates the skepticism of overvaluation. These REITs sit with the most considerable debt, $15.6M and $11.7B, respectively, which drives the overall EV. Boston Properties has the highest indications of overvaluation because of the Price/NAV at 1.11x, which indicates that the market values the REIT higher than its net asset value. The lower cap rates at 7.79% and 6.09% for BPX and ARE represent another metric of overvaluation for the two office REITs. On the other hand, KRC and CUZ are giving signals of undervaluation, trading at values significantly less than their NAV. While both REITs' occupancy rates sit around the entire comp set average, investor sentiment about their portfolio may drive down prices. KRC is heavily invested in San Francisco and the West Coast, and CUZ is focused in the sunbelt states where development is starting to cool and true property values are falling into place. The higher cap rates of KRC and CUZ also signals to lower property valuations, which can be driven by this risky perspective of the portfolio, further driving the stock to its lower valuations compared to the overall comp set.



Sources: Bloomberg, S&P Global, CNBC, Green, Kilroy Realty Corporation, Cousins Properties Incorporated

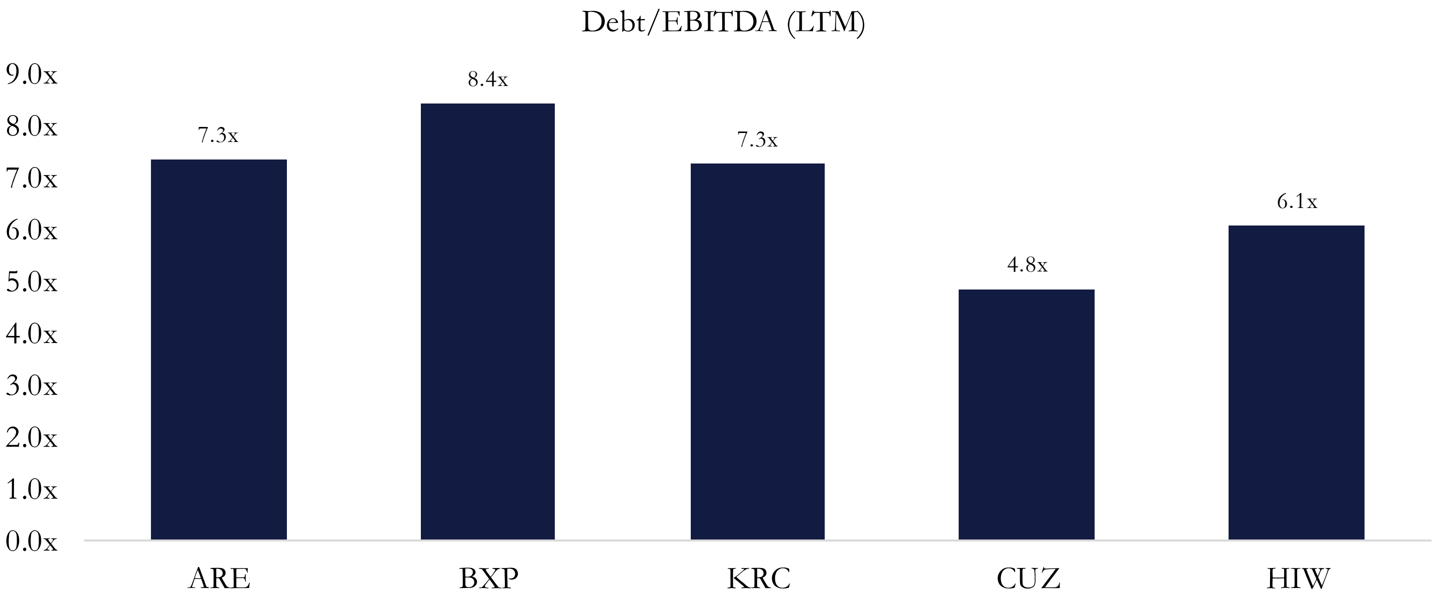
COMPARABLE: LIQUIDITY

BULL & BEAR REAL ESTATE

$ in millions of USD (As of 11/29/23 Close)

Company	Total Debt	Debt/EBITDA (TTM)	Debt Ratio (TD/TA)
Alexandria Real Estate Equities, Inc. (ARE)	$11,674	7.33x	31.74%
Boston Properties, Inc (BXP)	15,556	8.41x	62.88%
Kilroy Realty Corporation (KRC)	5,059	7.25x	44.10%
Cousins Properties Incorporated (CUZ)	2,418	4.84x	31.88%
Highwood Properties, Inc (HIW)	3,212	6.06x	53.32%
Lower	$2,815	5.45x	31.81%
Median	5,059	7.25x	44.10%
Mean	7,584	6.78x	44.79%
Upper	13,615	7.87x	58.10%

Office REITs rely on liquidity to maintain their operations, facilitate future and ongoing investments, and support growth. The high interest rates have put immense pressure on the entire real estate market, making it difficult for companies to transact on properties and maintain profitability. Many private and public real estate companies have been overleveraged and mired in expensive debt, with office assets decreasingly occupied. This can force companies to liquidate and sell investments at a discount to fair value. In a macro environment like today, companies must manage its debt obligations effectively. Looking at the REITs with the most concerning liquidity fundamentals, BXP sits at the top of the list, utilizing the largest amount of debt to fund its growth, making it more exposed to risk with a debt ratio of 62.88%. BXP has $4.3B worth of projected development deliveries between 2022-2026, much of which is covered by debt weighing down the balance sheet and driving this debt ratio. Even amidst the unfavorable capital markets, BXP is bullish in the markets they own and develop in. ARE shows signs of healthy debt management, holding $11.67B in debt but having the lowest debt ratio at 31.74%. ARE has no debt set to mature before 2025, and 99% of its debt is locked in at a fixed rate, which allows for predictability and stability in cash management. Given the skepticism of office buildings due to low occupancy levels, advancing technology, and changing lifestyle preferences, coupled with the increased cost of capital and its adverse effects on leverage, office REITs must rely on raising more equity to finance new projects. Being over-levered can be detrimental to a REIT's future success if it does not have the liquidity to make loan payments and can bog down its ability to acquire profit-generating assets.



KILROY REALTY CORPORATION (KRC)

BULL & BEAR REAL ESTATE

What Does the Company Do?

Kilroy is an owner, developer, and manager of high-class office space, with a portfolio focus on major West Coast cities. The REIT's portfolio of assets focuses on serving industries across life science, biotechnology, and pharmaceuticals.

Products and Services

- KRC's major tenants include LinkedIn, Salesforce, Amazon, and Adobe.
- KRC owns 120 properties, with a bit more than 90% located in LA/Ventura, San Francisco, San Diego, and Seattle.

News

- Earlier in October, KRC reported an FFO/S of $1.12, beating consensus by $0.05. KRC also reported a revenue of $283.6M, beating by $6.48M.

What is the Market's View of the Company?

- **Goldman Sachs**: Focused on the upside opportunities that can come from KRC's strong balance sheet to acquire high-quality real estate at discounted valuations.
- **JP Morgan**: Values the property quality that KRC focuses on developing and acquiring. Has a strong belief in the opportunity to avoid vacancies by bringing offices with premier features.
- According to Bloomberg, KRC has 8 Buys, 7 Holds, and 0 Sells.

What is Our View of the Company?

- We believe that KRC is a quality company with a strong presence in markets that are not popular with most investors.
- KRC offers strong financial metrics across the board with high cap rates, low EV/FFO, and is trading a bit below NAV.
- KRC has maintained a stable level of operational performance while managing a healthy amount of leverage in markets where office values have plummeted.

Why Does this Opportunity Exist?

- The issues with office real estate, especially in West Coast cities, are slightly overstated when looking at KRC. KRC's bottom line has not been affected as much as some other peer office REITs. KRC saw only a 10% decrease in profit margin YoY.
- Lack of optimism towards office REITs, especially those with presence in SF.

What Will Change the Market's View?

- The market's view will change once there is a clearer understanding of where major West Coast cities are headed. While these cities have taken significant hits with the outward migration of businesses to sunbelt states and work-from-home environments, quality buildings with quality tenants should not be undervalued.
- Positive news regarding interest rates should bode positively for KRC and similar office REITs

Thesis Risks

- A more severe macroeconomic slowdown than expected, that continues the slow leasing environment, would not bode well for KRC.
- KRC may be hesitant to acquire undervalued properties if the office market takes an extended period to recover.

Stock Rating	**BUY**
Price Targets	$40.00 (GS)
	$37.00 (JPM)
	$39.00 (WF)
Price (11/29/23)	$33.31
Ticker	KRC
Exchange	NYSE
52 Week Range.	$25.59 - 43.48

Research Team

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	KRC	Peers
P/FFO	7.09x	8.65x
P/NAV	0.69x	0.82x
EV/FFO	15.27x	18.71x

Market Cap (mm)	$3,905
Shares Outs. (mm)	117.24
Free Float (%)	98.73%
Dividend Yield (%)	6.48%

Sources: Bloomberg, CoStar, Green Street, St. Louis Fed, Goldman Sachs, JP Morgan, Kilroy Realty Corp.

HIGHWOODS PROPERTIES, INC. (HIW)

What Does the Company Do?

Highwoods Properties, Inc. owns, operates, and develops office buildings with a centralized portfolio across the southeast and sunbelt states. Highwood's tenants predominantly span the finance, legal, and tech industries.

Products and Services

- HIW owns and manages Class A office space with the goal to provide tenants quality workspace.
- HIW has about 70% of its Gross Leasable Area in Raleigh, Nashville, Atlanta, and Tampa.

News

- Highwoods is offering $350 million in unsecured notes to pay off a $200 million loan that the company took on in 2022 and other existing debt weighing on the balance sheet in the wake of a looming recession.

What is the Market's View of the Company?

- **Wells Fargo**: While Highwoods has maintained attractive occupancy rates throughout and after the pandemic, the portfolio has many upcoming lease expirations and low pre-leasing activity for the spaces currently being developed.
- **Truist**: Values Highwood's attractive FFO, FAD, and Cap Rate but finds some worry about the major moveouts and lease expirations in the upcoming years, combined with the negative pressure on net effective rents.
- According to Bloomberg, HIW has 2 Buys, 8 Holds, and 0 Sells.

What is Our View of the Company?

- Low NOI margin growth could signal operational challenges that may take time to rebound, given the challenging leasing environment.
- HIW saw significant decreases in FFO, AFFO, and net income margin YoY.
- Highwood's traditional tenant mix of financial and legal jobs creates worry about the ability to maintain and drive occupancy levels. Many jobs across their tenant base can, and are, being done in a work-from-home environment.
- 5 major lease expirations through 2025 combined with under-leased projects in Dallas and Raleigh do not bode well for HIW.

Why Does this Opportunity Exist?

- HIW has already taken a hit with the office REIT sell off, but the locations of its assets being in developing cities has led to HIW avoiding some of the sell off.

What Will Change the Market's View?

- Once the properties under development in areas like Dallas and Raleigh are delivered, the leasing demand will be more apparent through the ability to fill the newest Class A product across the Sunbelt.
- These markets' health will become much clearer once large tenants' leases expire and the next few years of occupancy levels are more accurately laid out – giving insight into Highland's ability to drive revenue.

Thesis Risks

- A strong push in the Dallas and Raleigh developments would reassure outlook and reaffirm HIW's investments in these areas.

Stock Rating	**SELL**
Price Targets	$18.00 (CITI)
	$22.00 (MS)
	$22.00 (WF)
Price (11/29/23)	$18.72
Ticker	HIW
Exchange	NYSE
52 Week Range.	$17.06 - 31.88

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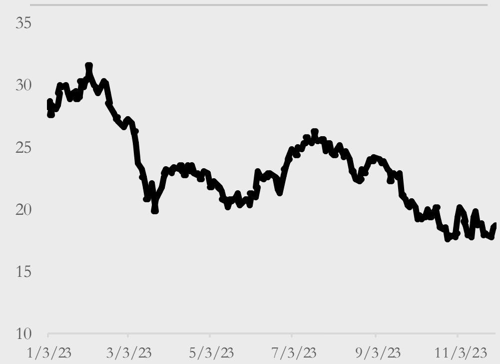


	HIW	Peers
P/FFO	4.91x	8.65x
P/NAV	0.78x	0.82x
EV/FFO	12.82x	18.71x

Market Cap (mm)	$1,979
Shares Outs. (mm)	105.69
Free Float (%)	98.52%
Dividend Yield (%)	10.68%

Sources: Bloomberg, CoStar, Highwoods Properties Inc., Wells Fargo, Truist, Morgan Stanley

BBR BULL & BEAR REAL ESTATE

BBR BULL & BEAR RESEARCH

Market Insights

A look into emerging and growing markets worthy of investment consideration

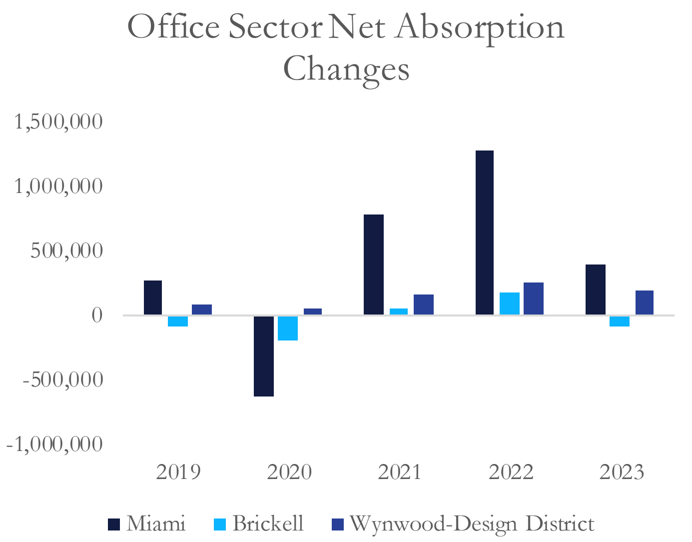
MARKET PICK: MIAMI, FL

BULL & BEAR REAL ESTATE

The Race to Miami

As a young and vibrant city, Miami is recognized for its appealing atmosphere, which has been a significant draw for investors, young professionals, and families. The city's diverse demographic, thriving economy, and lively nightlife have made it a sought-after location in residential and commercial real estate markets. This appeal is further enhanced by Florida's absence of personal income tax and Miami's low corporate income tax, making it a magnet for both individuals and businesses. This is reflected in Miami's population growth per year of 0.8% over the last five years, the fourth fastest increase out of the 50 largest cities in the United States. Miami has also shown an annual job growth of 4.1% through Q2 2023, outpacing the national U.S. rate of 2.5%. This job growth can be attributed to the migration of several large firms, such as Citadel and Andreessen Horowitz, and the expansion of existing firms, such as Microsoft and Blackstone. The unemployment rate is 1.8% compared to the national U.S. rate of 3.6%.

In 2023, Miami's real estate landscape continues to evolve, marked by surges in property values and shifting patterns in buyer and seller activities. The multifamily market shows a healthy 5% vacancy rate for Q3 2023, reflecting a balanced demand for rentals.. Absorption for Q3 2023 is 62 units, significantly lower than last year. This trend might indicate a shift towards a renters' market, but increasing home values and less accessible ownership could support demand.. The 12-month rent growth rate sits at 1.2%, which is a positive sign indicating it is a growing market. Finally, the average asking rent per unit is $2,278, reflecting Miami's affluent renter base. The vitality of Miami's multifamily market may be contributing to the strength of its office sector, showcasing the city's overall real estate growth. Moreover, Miami's office market, with an 8.9% vacancy rate, fares better than the national average and major cities like L.A., S.F., and NYC. The 12-month rent growth rate in the office space sits at 4.9%, with 12-month net absorption 500,000 square feet. The 4.9% growth rate strongly outperforms the national rent gains of 0.7%. The office space has also seen an average sales price per square foot of $408 in the past 12 months.



Brickell & Wynwood-Design District

Miami has many strong submarkets, but the Brickell and the Wynwood-Design District stand out as solid areas for office space. With a substantial market share of 7.8% and a high market rent of $77.52, Brickell stands out as a top pick for high-quality office space within the Miami market. Brickell sits in the heart of Miami's financial district, and its average office space price is among the highest in Miami, reflecting its desirability and premium status. Currently, in this submarket, there are three buildings under construction, with 71.9% of the space pre-leased, which is a positive sign for investors in this area. The Wynwood-Design District is another submarket showing promising growth amidst a national struggle for office buildings. Three new buildings have recently been completed, accounting for 5.6% of the total market, showing the area's commitment to developing modern and appealing office spaces. More significant is the construction of 5 buildings currently underway, which comprise 27.4% of the market, indicating investor confidence within this submarket. Another notable metric of this submarket is the rent. Currently, the Wynwood-Design District ranks as Miami's second highest office rent, coming in at $65.02 per SF, with Brickell being the only submarket ranking higher. With new construction underway and rent rivaling the top pick for premium office space in Miami, the Wynwood-Design District is a market to keep watching.

Sources: MMG Equity Partners, CoStar

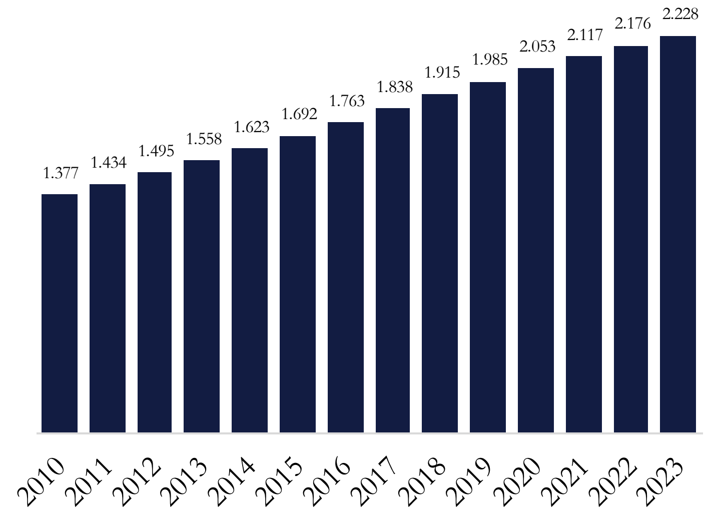
MARKET PICK: AUSTIN, TX

The Movement South

From 2010-2020, the Austin metro area recorded a 33% spike in population, marking it the #1 fastest-growing metro by a wide margin. Within the city, Austin's population growth is expected to rise 7.8% over the next five years compared to the national average of 1.6%. This unprecedented population growth is due to many factors, including a competitive cost of living, low taxes, and a migration of employers to the area. On a comparative basis, the cost of living in Austin is 33% lower than in Los Angeles, 55% lower than in New York City, and 16% lower than in Miami. Additionally, Texas offers some of the lowest overall tax rates in the US. The metropolitan area offers an excellent life for citizens, boasting great nightlife, food, and ample activities for the population to indulge in. The aforementioned trends have driven a young, highly educated workforce to the area, with 74% of the MSA receiving some college education, compared to the national average of 63%. The median household income in the city currently sits at ~$99,000 compared to the national average of ~$76,000. By 2028, this income is projected to surpass $114,000

Austin's unprecedented migration and boom in job creation have set the scene for multifamily properties to do well in the future. Notable companies that recently moved to Austin include Tesla, Samsung, and Oracle, all high-growth companies with top-end earning opportunities. These opportunities and high living standards are forecasted to keep the demand for multifamily units high. In the last 12 months, the increased demand has translated to 9,372 units absorbed. After being adjusted for market size, Austin is second in the nation for the highest rate of annual net absorption. However, developers have been cognizant of these trends, and a critical risk for the Austin market is oversaturation. In the past 12 months, 20,862 units have been delivered, effectively increasing the vacancy rate to 12.3%, an increase from last year's 8.6% figure, and a -5.3% YoY change in rent prices to $1,590 per month. While the risk is prevalent and the future pipeline is full, the staggering growth Austin has experienced will be poised to grow them out of this issue.

Austin's Population (M)



Sources: Costar

Round Rock-ing!

The Austin metro office market is dealing with headwinds. These include a lack of demand from prospective tenants, driving down asking rents. In 2024 and 2025, asking rents are projected to decrease by 5.3% and 4.7%, respectively. An abundance of new online supply is a factor in decreasing asking rents. Austin has the most active office construction pipeline in the country relative to its size. Additionally, tenants are flocking from lower-quality buildings to premier spaces in a market of weakened demand. From a zoomed-out perspective, the Austin office market certainly does not seem like an area worth investing in.

However, the Round Rock submarket presents a different story. Located 20 miles north of Downtown Austin, Round Rock is a relatively suburban market. Unlike much of Austin, which currently sports an average vacancy rate of 16.6%, Round Rock sits at 3.7%. One of the factors buoying vacancy rates is the presence of major employers like Dell, which owns ~25% of the submarket's inventory. Additionally, the future supply pipeline of 873K SF is record-breaking for Round Rock, but Samsung has already committed to owning and occupying 92% of it. The Round Rock submarket is uniquely positioned to avoid some of the most significant risks plaguing the Austin market while benefiting from the metro's significant growth.

Sources: Colliers, CoStar, City of Austin, Payscale, Tax Foundation,

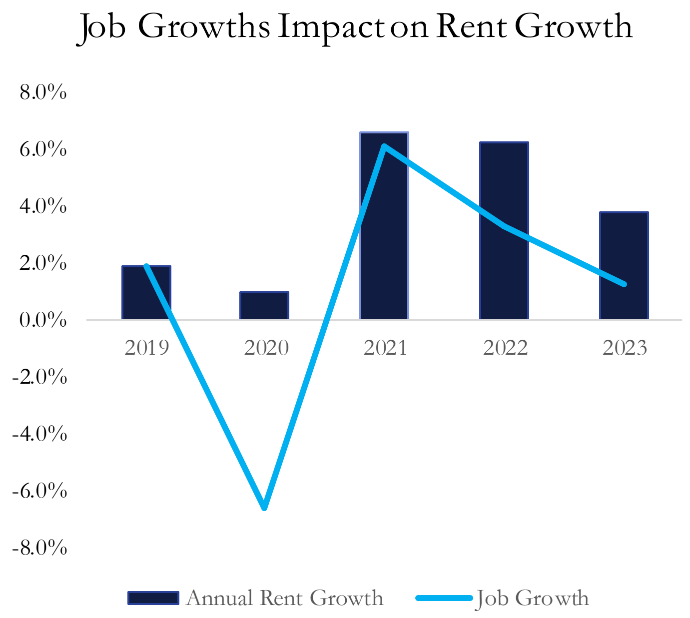
MARKET PICK: FORT LAUDERDALE, FL

BBR R BULL & BEAR REAL ESTATE

Fort Lauderdale's Rising Tide

The Fort Lauderdale market stands out as a top pick in the office sector. Annual office rent growth in the fourth quarter of 2023 comes in at 4.2%, surpassing the national average of 0.7%. This significant difference not only underscores the unique strength of the Fort Lauderdale market but also reflects a growing trend of regional economic resilience and investor confidence in the area. The rent growth in Q4 2023 is not a single isolated event but part of a three-year run for Fort Lauderdale, where rent has increased by 5% per year on average. This steady growth shows signs of a stable market and puts Fort Lauderdale as a compelling candidate for market investment. Although 2023 marks a slightly slower pace in rent growth compared to the three-year average, demand in Downtown Fort Lauderdale, particularly for high-quality office spaces in the 4 and 5 Star segments, continues to thrive. Since 2019, the absorption of over 240,000 square feet of space underlines this enduring demand. Even with a 2.5% increase in availability, the market's overall trajectory remains positive. This steady pattern of growth and demand, despite some fluctuations, highlights the robust performance of the Fort Lauderdale office sector. Its ability to maintain rent gains amidst changing conditions highlights the market's resilience and solidifies its standing as an attractive investment opportunity.

A strong labor market is another driving factor behind the success of this market's high-quality office spaces. With unemployment below the national average and the highest influx of jobs in the business and professional services sector over the last year, the outlook for office space growth in Fort Lauderdale looks optimistic. The surge in employment within these core sectors concerning the office market suggests a future sustained demand for space to meet the needs of a growing workforce. The multifamily housing market in Fort Lauderdale also reflects these economic and demographic trends. The record construction of new apartments indicates a dynamic response to changing housing demand. Although catering mainly to the high-income bracket, it is part of the city's adaptation to its evolving demographic landscape.



Leasing Trends and Submarkets

The leasing landscape in Fort Lauderdale, particularly in strong submarkets like Downtown, Plantation, Cypress Creek, Southwest Broward, and Pompano Beach have seen an increase in high-quality office space absorption. Key deals continue to push forward this trend as in Q1 2023, toy manufacturer Jazwares signed for 130,000 SF, marking one of the year's most significant deals. The three-year lease of this 4-star office property marks a trend in leasing seen across Fort Lauderdale's office market: high-quality demand. Over the past two years, 25% of all leasable space was spread across seven deals, six of them being either 4 or 5-star properties.

With such a strong trend within the strong submarkets of Fort Lauderdale, Downtown Fort Lauderdale comes out ahead of the rest. With net absorption in the general market predicted to be -191,008 SF in 2024 and 306,133 for 4 and 5-star office properties, it's essential to look at the leaders in high-quality offices within the submarkets. Downtown Fort Lauderdale stands out across the board, capturing the most market share, having the most buildings under construction, having the highest market rent, and the best quarterly market rent growth. Downtown Fort Lauderdale excels as a dynamic and robust submarket, demonstrating unparalleled growth in high-quality office spaces.

EXECUTIVE SUMMARY

Real estate investors in public and private markets eagerly await 2024 and a hopeful return to a balanced and active investment market. Since the inaugural rate hike in March 2022, signaling the beginning of a historic tightening cycle, market participants have navigated through uncertainty, a decrease in value, and slowed transaction volumes. With rate hikes seemingly over and a more precise macroeconomic policy coming to fruition, a path forward is slowly being carved, allowing projects to be financed and pricing to find consensus. Even if it is not a return to zero-interest rate policy (ZIRP) environment, rate cuts are expected, which will improve property values and ease lending restraints around various metrics, like DSCR.

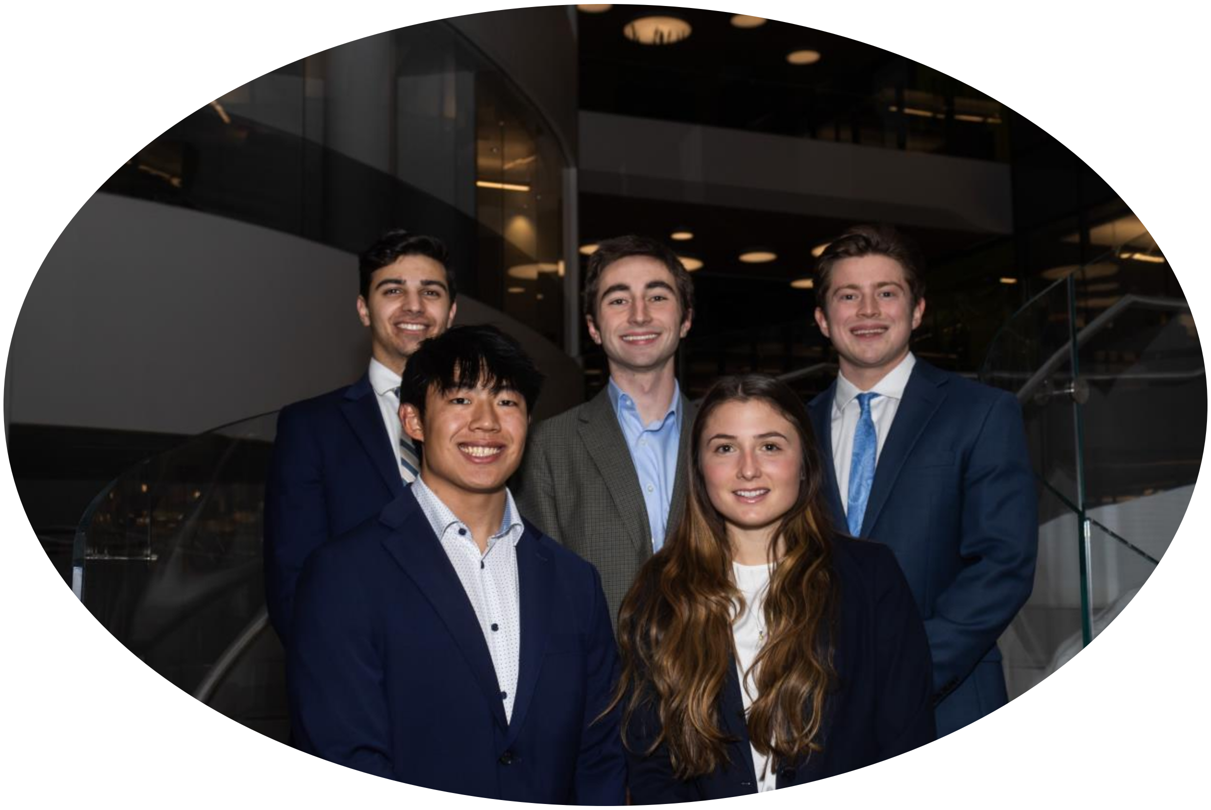
Nevertheless, not all real estate projects are on equal footing, and those financed in pristine interest-rate environments may face challenges. Over-leveraged projects that penciled in high rent growth and a low cap rate exits will struggle to find traditional financiers to offer enough capital to fulfill obligations. These gaps may offer investors the opportunity to acquire assets at a discount to market value. If forced to foreclose, most traditional lenders do not want to operate properties and would rather sell their positions and recoup their capital. As the report (page 9) discovered, the last time institutional equity funds represented almost all of the net acquisitions was in the wake of the global financial crisis, when distressed opportunities arose and ultimately generated tremendous returns once the property market stabilized. It is apparent that the secondary market will be very active with great opportunities, as liquidity is highly sought after in this restrained environment. To avoid foreclosure, owners look into the rapidly growing private credit space to take on mezzanine loans and preferred equity agreements. Lenders with available cash will stand to make outsized returns in relatively low-risk but high-upside positions.

Shifting the focus to office space, the asset class' outlook warrants a nuanced conversation. Investors have applied a broad stroke of negative sentiment across the class. Largely, this negativity is justified. Many Class B, C, and low-tier Class A properties will likely foreclose and become obsolete. However, the "death" of traditional office space is greatly exaggerated. Return-to-work mandates are gaining steam, and in a less tight job market, employees will be forced to compete and out-perform, further encouraging more people back to the office. Additionally, the dearth of new office development will help improve demand for existing space in the future. Identifying submarkets and micro-locations with economic resilience, growth, and a bustling environment will uncover undervalued properties. Overall, a complete recovery for office buildings may take five years or more, making now an opportune time for investors with a long horizon and readily available capital to explore acquiring buildings trading below or close to land value.

- Robert Ulrich

Let's Talk

BULL & BEAR REAL ESTATE



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