MARKET INSIGHTS

BLUEROCK™

INDUSTRY NEWS | REAL ESTATE AND FINANCIAL MARKET TRENDS

THIRD QUARTER **2023**

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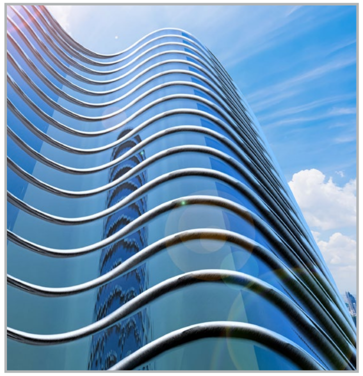
IN THE **NEWS**



$205B OF DRY POWDER READY TO POUNCE ON DISTRESSED CRE ASSETS

The rise in Treasury yields has increased cap rates and decreased valuations, however plenty of capital is positioning to invest which could lead to a recovery bounce in values, another reason why the average investor shouldn't try to time to the bottom.

Source: Globest.com

READ FULL STORY

'CORE' REAL ESTATE DEFINITION SHIFTS AS INVESTORS EMBRACE NICHE SECTORS

Core real estate used to be the four main "food groups" – office, industrial, retail, and apartments. However, investors clinging to this historically narrow definition have missed out. Industry groups are rapidly adapting to expanding the definition to include several other non-traditional sectors.

Source: Fund Fire

READ FULL STORY

WHY MUTUAL FUNDS AND INTERVAL FUNDS ARE MORE DIFFERENT THAN YOU THINK (LIQUIDITY TIMELINES ARE JUST A START)

Interval funds and mutual funds have much in common, but some key differences including the level of illiquid investments, redemptions, and other differences.

Source: Bluevault

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MORNINGSTAR: MULTIFAMILY SHOULD REMAIN STRONG DESPITE UNCERTAINTY

While Morningstar believes there could be a looming recession, they conclude "While single-family home inventory remains scarce, multifamily owners and investors can continue to expect relatively stable net operating income, which can help mitigate the effect of rising interest rates. If underlying performance remains stable, investor returns in the multifamily market should outperform other major real estate sectors."

Source: Globest.com

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FEATURE **ARTICLE**

NEW CLO MANAGERS EYE $1.3 TRILLION MARKET, BETTING ON RETURN

Tighter AAA spreads are good news for CLO equity investors: "A key metric – CLO spreads – is already starting to improve. Triple-A rated portions of CLOs in the US, which make up 60% of the bonds, have come in, with some recent deals pricing at around 170 basis points over the Secured Overnight Financing Rate or tighter, after extending to around 260 basis points in late 2022 amid a lack of demand."

Source: Yahoo Finance/Bloomberg

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QUOTES OF THE **QUARTER**

"So, a predicted rise in the 10 -year rate to 4.75% from 2.2% would cause a 150-basis-point increase in the average cap rate. Under this scenario, a prime asset trading at a 4.5% cap rate would now trade at a 6% cap rate, equivalent to an approximate 25% fall in capital values,"

Richard Barkham,

Global Chief Economist for CBRE

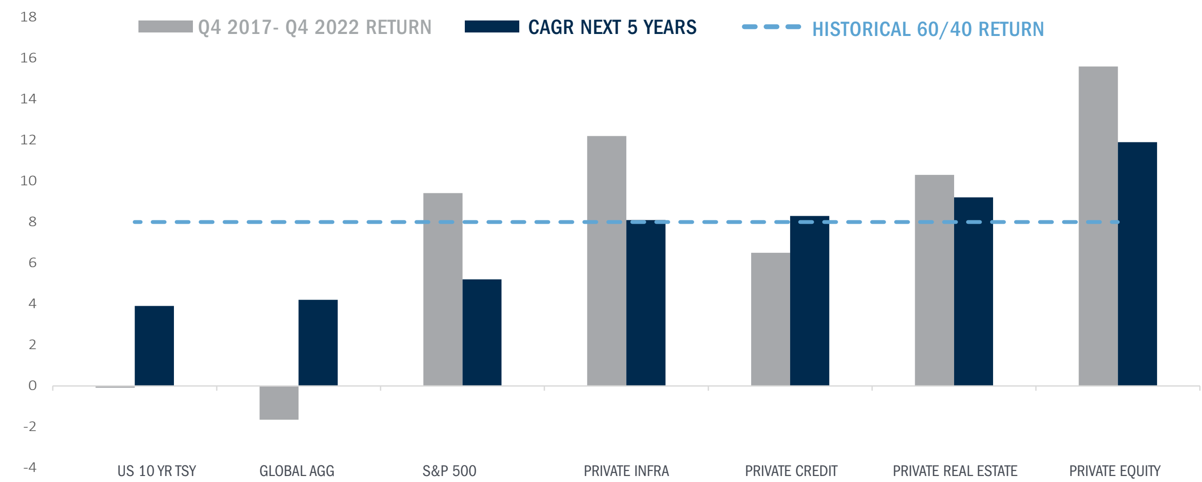
"At current ODCE weightings, the inclusion of alternative sectors contributes minimally to aggregate total returns. If the portfolio allocation to alternative sectors was increased to 40%, however, the NPI-ODCE would have seen an average additional 230 basis points of average annual total return outperformance from 2011 Q4 to 2023 Q1. With many of these sectors struggling from secular demand shifts, or facing correlated performance during downturns, core real estate is constrained without the inclusion of more alternatives."

NCREIF Report

NEW **DATA**

GOING FORWARD, TRADITIONAL ASSET CLASSES MAY BE INSUFFICIENT TO ACHIEVE RETURN GOALS

ASSET CLASS EXPECTED RETURNS (%)



Source: *KKR, Private Wealth Investment Playbook | August 2023*

RESEARCH **REPORT**

KKR, PRIVATE WEALTH INVESTMENT PLAYBOOK | AUGUST 2023

READ FULL REPORT

"Following the banking crisis and plans for increased regulation, there are more opportunities for private lenders to fill the financing gap left by traditional banks. Against this backdrop, we think Private Credit and Private Real Estate Credit are compelling. Investors should also consider higher quality, yielding opportunities available in Liquid Credit."

"We believe Infrastructure and select Real Estate investments can provide attractive sources of return while protecting purchasing power in a higher inflation environment, particularly as rates begin to normalize. These asset classes generate upside potential if operators boost profitability of the underlying asset, especially in thematic areas that may benefit from sustainable, long-term industry tailwinds."

"With the market bottom hopefully behind us, we think it could be an opportune time to begin to lean in given the compelling entry point. Investors have become more comfortable taking on risk since the start of the year. Market timing is likely to be less effective and waiting until the dislocation ends may prove long term costly."