BLUEROCK™

2024 Economic and Markets Outlook

Inflation normalizing, real estate pricing rebound, lower interest rates, economy avoids hard landing

JANUARY 2024

BLUEROCK™

What We Do:

We serve a **Growing Market Need** for alternative investments for individuals

We seek **Asymmetric Risk-Return/Alpha Creation** in favor of our investors

We seek **Up Escalators**, i.e. growing markets with long-term structural tailwinds

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Introduction

Despite the longest and most significant yield curve inversion in several decades, a declining money supply, declining inflation, and several months of negative leading economic indicators, the long-awaited Federal Reserve-induced recession has yet to materialize. We don't believe recession risks have disappeared, but a strong labor market appears to be a material mitigating factor. We do see inflation stabilizing at a lower rate, (approximately 2.0-2.5% year-over-year) but above the deflationary environment that persisted in the post Great Financial Crisis era, and low enough to reduce the likelihood of any further monetary tightening.

After a strong 2023, the U.S. equities market may only offer minimal upside opportunity given equity risk premiums (as measured by S&P 500 earnings yield minus 10 year U.S. Treasury yield) are at decades-low levels. We see short-term interest rates declining slightly, but not enough to come close to post-pandemic levels. With longer term rates reversing course at the end of 2023, we believe real estate valuations are likely to bottom in early 2024. The asset class presents powerful opportunities for investors after nearly 20% price declines while simultaneously, net operating income has seen strong year-over-year growth. Income growth has been far more pervasive in the structurally sound sectors of industrial and residential, a trend we think will continue throughout 2024 and beyond.

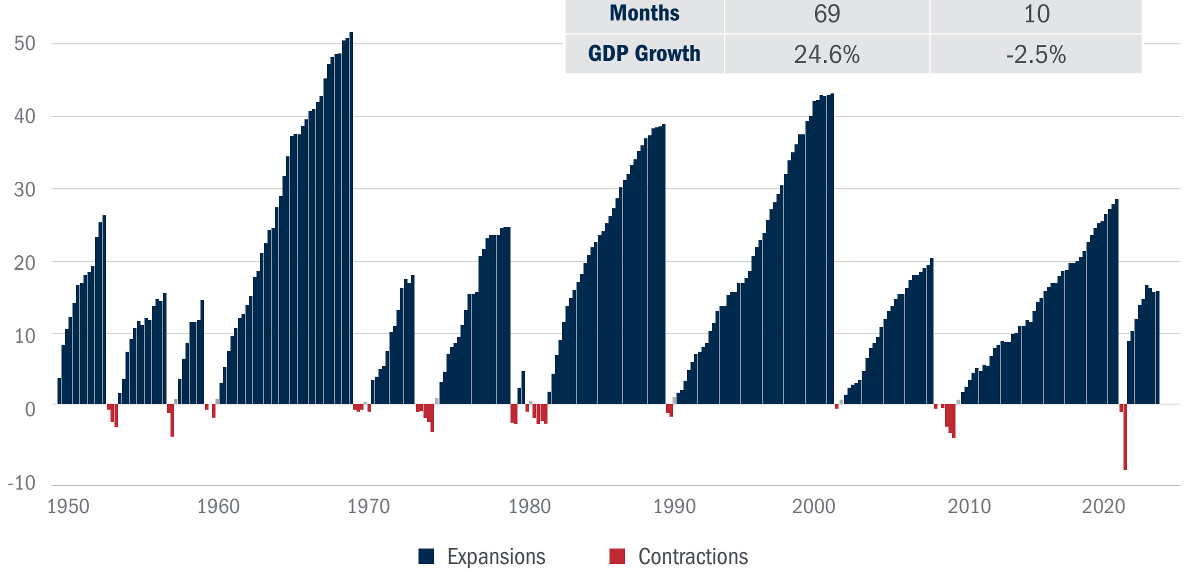
As bank lending continues to be constrained, we also see opportunities in private and alternative credit, particularly from larger companies who are better able to withstand higher rates and softer economic conditions. As bond yields drift down, the need for meaningful income will again become a focus of individual investors and within alternative credit, senior secured loans are an asset class poised to serve investor income needs.

As indicated in our 2023 Outlook, long-term perspective is always key. Recessions are simply part of the natural economic cycle and U.S. recessions have always rebounded with considerably longer expansions. There have been 10 recessions since 1950 averaging 10 months in length with an average GDP decline of -2.5%. The subsequent expansions averaged 69 months with an average GDP growth of nearly 25%. We expect if a recession does occur, it will be followed by another powerful economic expansion.

Historically, U.S. economic expansions are significantly longer and more powerful than recessions

Cumulative GDP Growth (%)

	Average Expansion	Average Recession
Months	69	10
GDP Growth	24.6%	-2.5%



Source: MUFG, Transition Period, May 2023

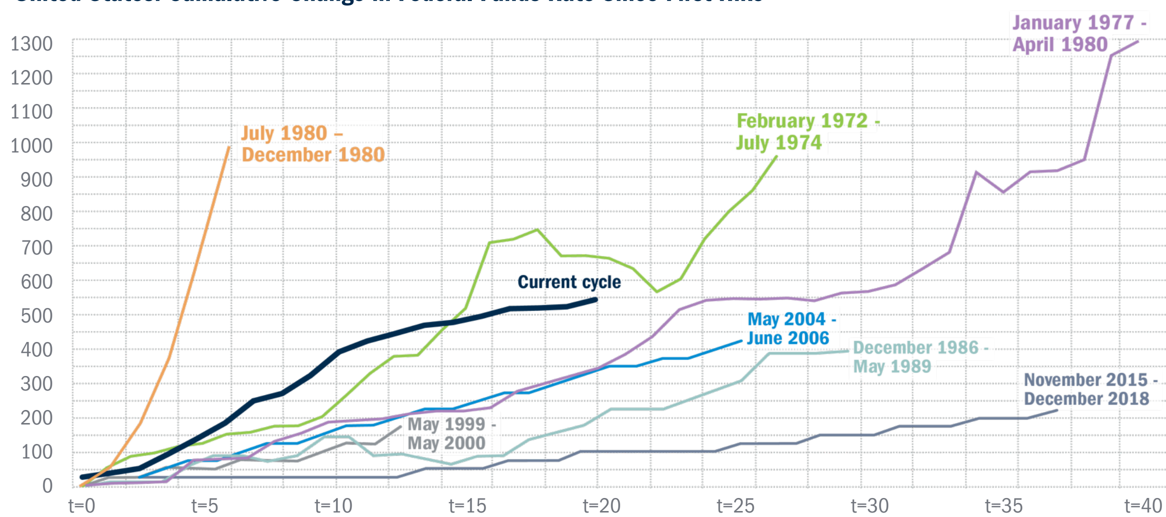
Sources: Capital Group, National Bureau of Economic Research, Refinitiv Datastream. Chart data is latest available as of 8/31/22 and shown on a logarithmic scale. The expansion that began in 2020 is still considered current as of 8/31/22 and is not included in the average expansion summary statistics. Since NBER announces recession start and end months, rather than exact dates, we have used month-end dates as a proxy for calculations of jobs added. Nearest quarter-end values used for GDP growth rates.

Macro Outlook

The most aggressive start to a Fed tightening cycle over the last 40 years is likely to keep inflation in check

11 of the previous 14 rate hiking cycles have led to recession. The speed of this cycle has likely contributed to an unusually large lag effect, an effect likely to be felt in 2024. However, mitigating factors such as a strong labor market may help the economy avoid a hard landing.

United States: Cumulative Change in Federal Funds Rate Since First Hike

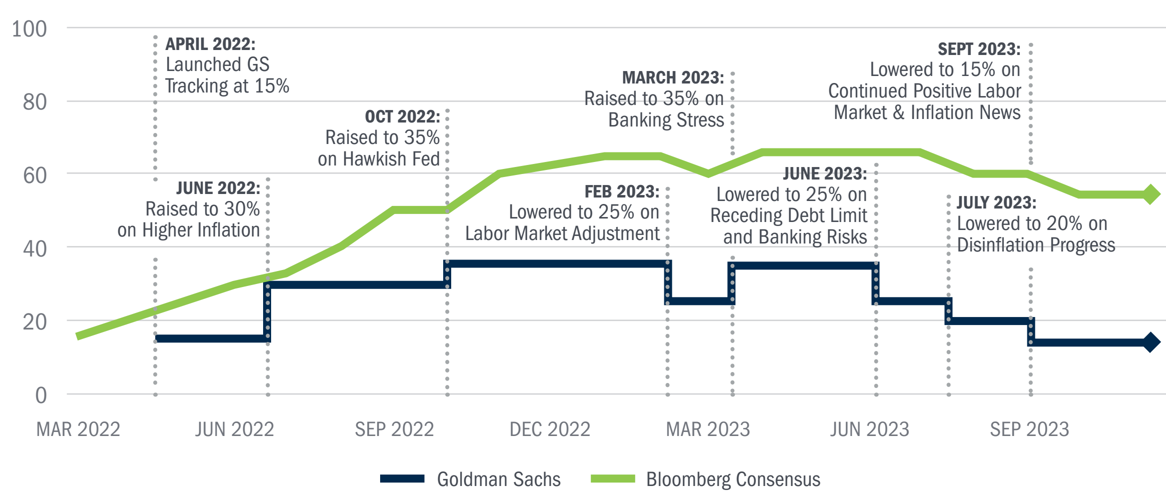


Source: Haver Analytics, Rosenburg Research, Federal Reserve Economic Data Effective Rates for 1970s periods

Recession probabilities are moderating, we anticipate some softening

The number of mitigating factors is skewing recession forecasts lower and a data-driven Fed standing ready to act if conditions materially weaken.

U.S. 12-Month Ahead Recession Probability

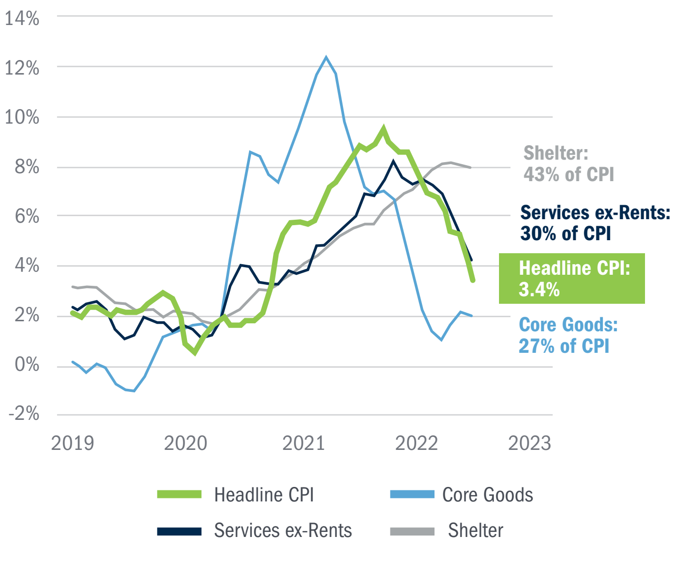


Source: Bloomberg, Goldman Sachs Global Investment Research

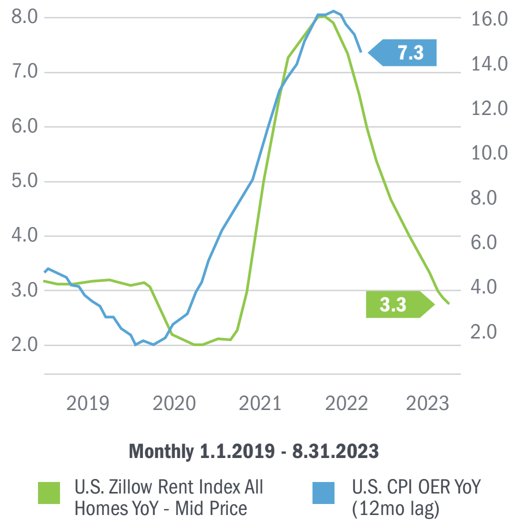
Inflation has declined and we believe disinflation to continue

Headline CPI, year-over-year, has dropped from 9.1% to 3.0%. Shelter inflation has remained high, but it's historically a lagging indicator. "On the ground" rent inflation has declined to pre-pandemic growth rates and we believe that will flow through to the CPI in 2024, further reducing overall inflation.

Headline CPI Peak: 9.1%



U.S. CPI Owners Equivalent Rent (12-month lag) and Zillow Rent Index

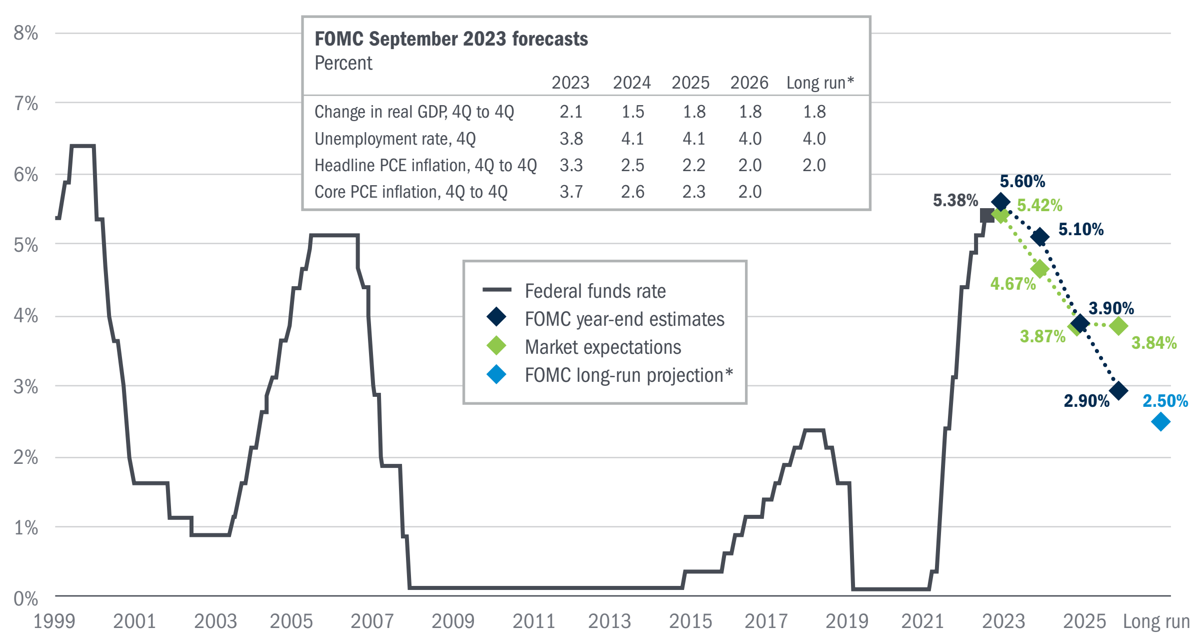


Source: Franklin Templeton, MUFG, Bureau of Labor Statistics

Federal Reserve and markets projecting lower Fed fund rates as inflation declines

As inflation subsides, it is likely that the Federal Reserve reduces their benchmark rate to a 3%-4% range throughout 2024 in hopes of stable inflation and full employment.

Federal Funds Rate Expectations - FOMC and Market Expectations for the Federal Funds Rate



FOMC September 2023 forecasts
Percent

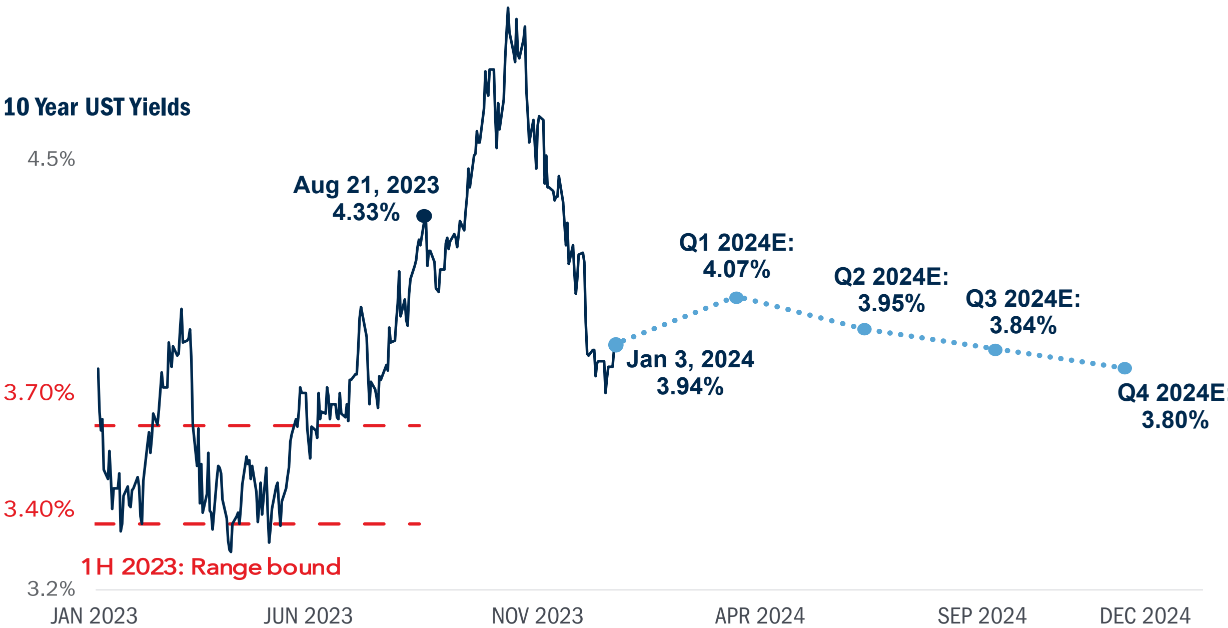
	2023	2024	2025	2026	Long run*
Change in real GDP, 4Q to 4Q	2.1	1.5	1.8	1.8	1.8
Unemployment rate, 4Q	3.8	4.1	4.1	4.0	4.0
Headline PCE inflation, 4Q to 4Q	3.3	2.5	2.2	2.0	2.0
Core PCE inflation, 4Q to 4Q	3.7	2.6	2.3	2.0	

Source: JP MorganGuide to the Markets, 9.30.2023

Markets projecting lower long-term yields as well which bodes well on a go-forward basis for commercial real estate

10-year US Treasury yields have already been falling from the 5%+ high, dropping below the 4% level to end 2023. Following market consensus for lower long-term interest rates in 2024, we see the 10-year Treasury yields lower at the end of 2024 than at the start.

10 Year UST Yields



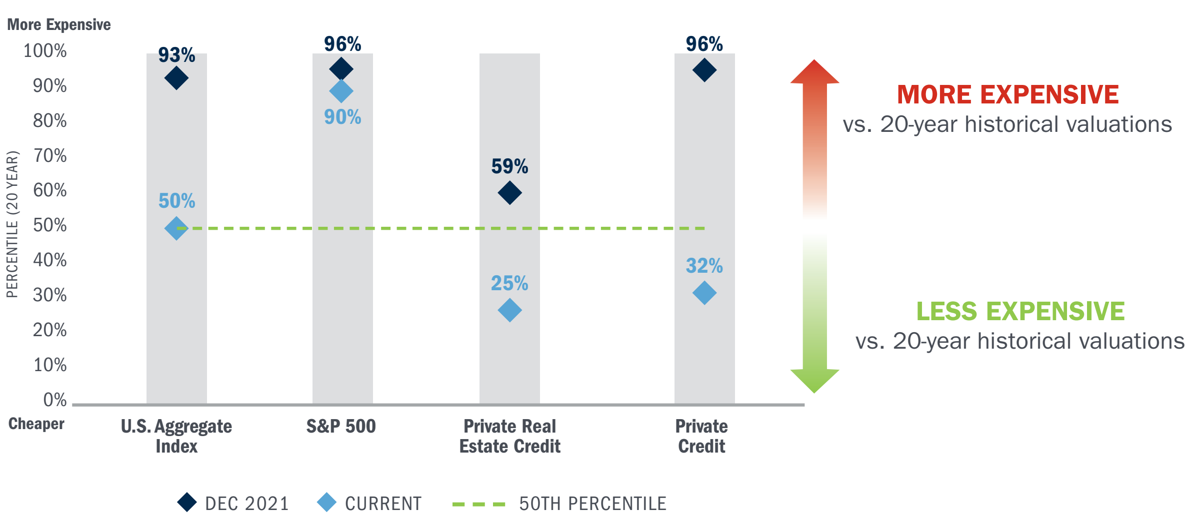
Source: MUFG | forecasts are consensus estimates.

Institutional Real Estate and Private Credit Outlook

Private credit is more attractively valued than stocks and bonds and we believe warrants higher allocations

Based on historical valuation indicators, private credit has become much less expensive since December 2021 compared to stocks and bonds. Private credit values are now less expensive than they have been 68% of the last 20 years.

Cross-Asset Valuation Percentiles

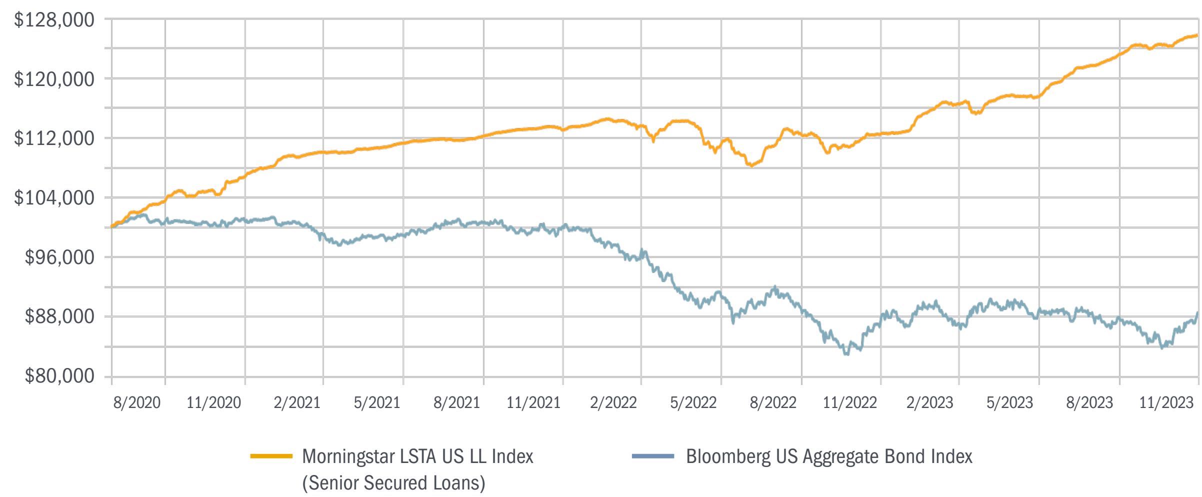


Source: KKR Private Wealth Investment Playbook, Q2 2023

We believe senior secured loans offer better exposure for income investors due to higher yields and lower correlation to broader markets

The senior secured loan (SSLs) index has outperformed the leading bond index during the rising rate environment as SSLs are floating rate and, thus, less sensitive to interest rate movements like fixed income securities.

Growth of $100,000
August 2020 - November 2023

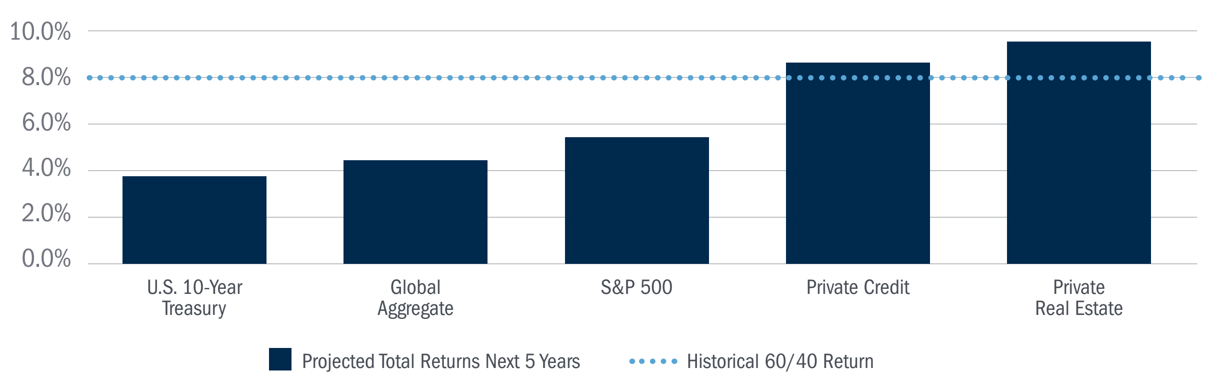


Source: Morningstar Direct

Private real estate and private credit projected to outpace stocks, bonds, and the 60/40 portfolio in the next five years, affirming our bullish outlook

Given relative valuations, private real estate and private credit should outperform asset classes in the next five years whose valuations might be stretched relative to historical averages.

Asset Class Expected Returns (%)



Source: KKR Private Wealth Investment Playbook, Q2 2023

The current real estate decline presents an attractive entry point as current market fundamentals are stronger than in the great financial crisis

Three key indicators tend to determine real estate valuations: unemployment levels, leverage, and supply. Compared to the Great Financial Crisis, none of those indicators are of great concern in today's environment which is why we believe this decline will be milder and shorter and perhaps lead to a faster recovery.

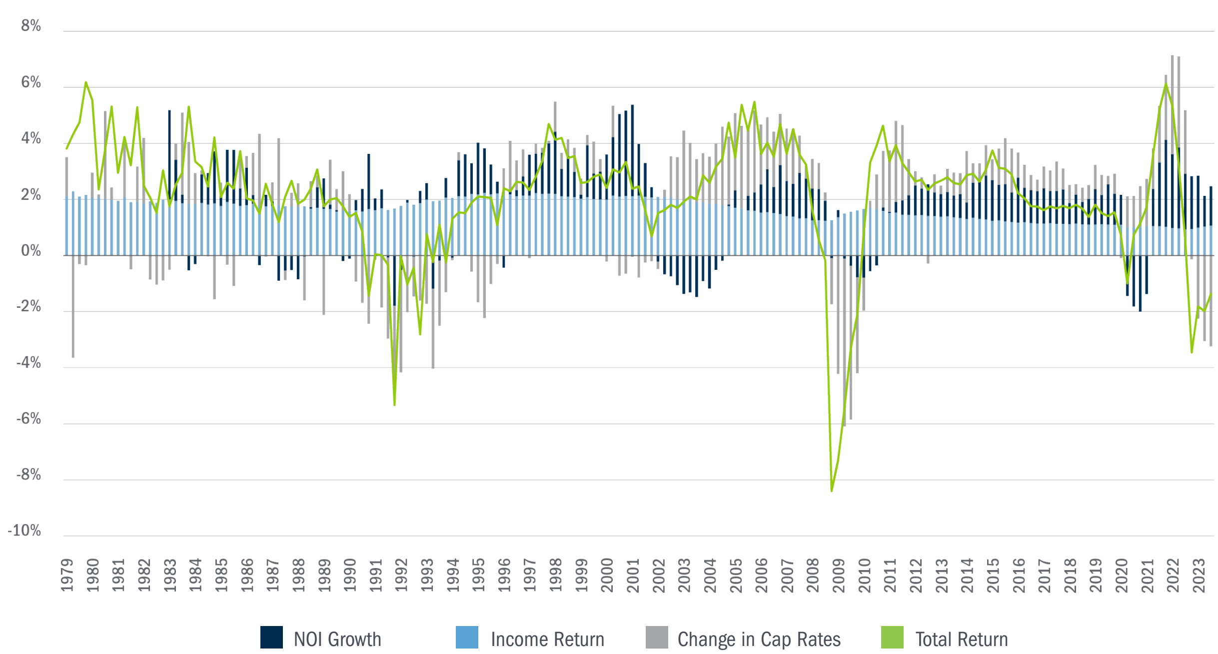
	GFC	TODAY
UNEMPLOYMENT The U.S. unemployment rate was a low 3.8% as of August 2023, near the lowest level since 1969.	HIGHER	LOWER
LEVERAGE The use of leverage in the post Great Financial Crisis recover from 2010-2019 has been the lowest of any real estate/ economic recovery in the last 40+ years.	HIGH	LOW/ MEDIUM
SUPPLY New real estate supply as a percentage of total inventory is the lowest It has been in the trailing 10-year period compared to previous periods and is forecasted to remain at lower levels.	OVERSUPPLY	LIMITED
NOI GROWTH Net operating income (or NOI; in effect, lease rates) went down during the GFC driven by lack of demand. Currently private real estate is seeing high occupancy rates and NOI growth above the historical average for 2010-2020.	NEGATIVE	POSITIVE

Sources: Bureau of Labor Statistics, Carlyle Group, Federal Reserve, Clarion Partners.

Recent real estate return declines are due solely to cap rate increases, positive NOI growth sets the stage for strong rebound when cap rates stabilize

The current third major drawdown in institutional real estate is unique from the previous two (1990-93 & 2008-09) in that net operating income has grown, however growth is considerably stronger among select sectors.

NPI Components of Quarterly Return (1979 - Q3 2023)



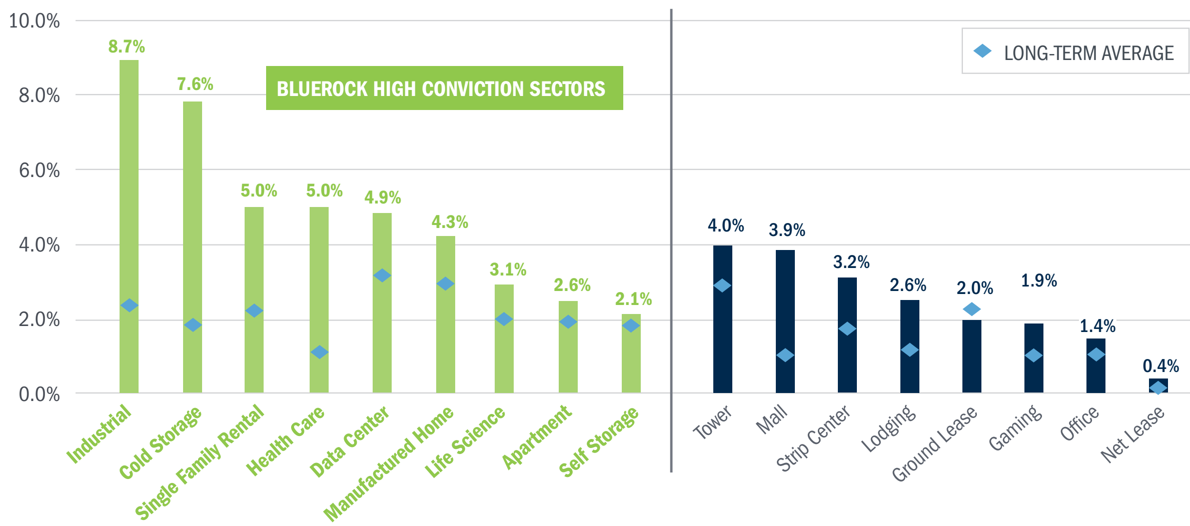
Source: NCREIF

High Conviction Sector and Markets Outlook

High projected NOI growth for Bluerock high conviction real estate sectors is likely to drive values higher for select sectors

Industrial, residential, and health care sectors dominate the list of projected highest growing NOIs in the next 4 years. We believe this will lead to higher total returns in those sectors as well.

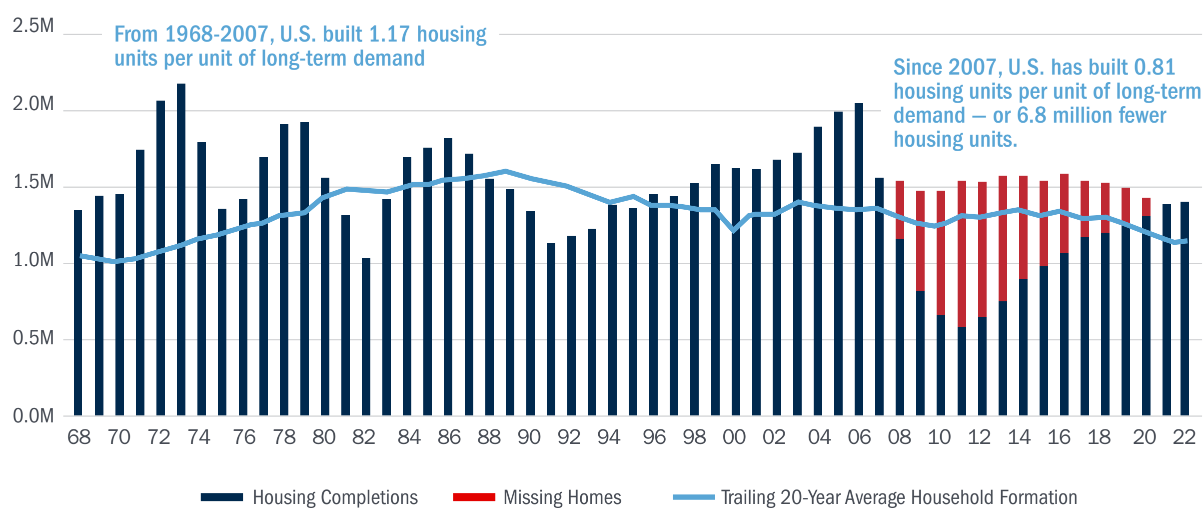
5-Year Annualized NOI Growth Rate Projection by Sector



Source: Green Street, Commercial Property Monthly, January 2024

Housing demand has outpaced supply prompting our favorable residential outlook for outsized rent growth

A 6.8 million unit shortfall should keep a lid on vacancy rates for years, driving rent growth.

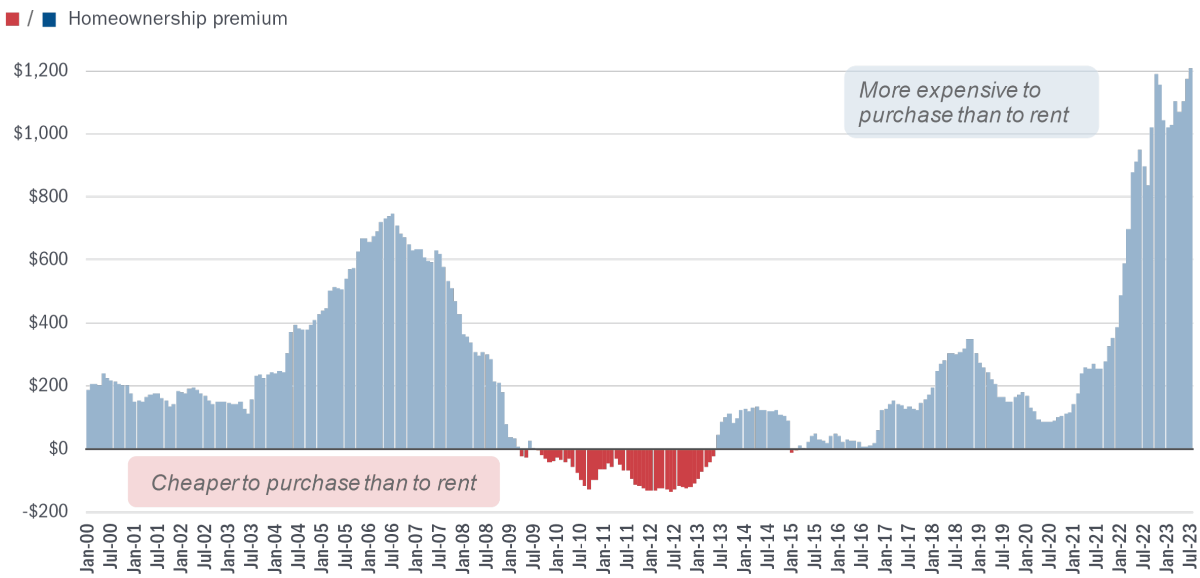


Source: Census Bureau, CBRE Investment Management, 2022. Housing construction figures are annualized through August 2022.

The highest ever home ownership premium should drive demand and values higher for single family rentals (SFR)

Higher mortgage rates has led to extreme homeownership affordability challenges. This renter discount should drive more households to rent, pushing rates and values higher.

Homeownership Premium to Single-Family Rent

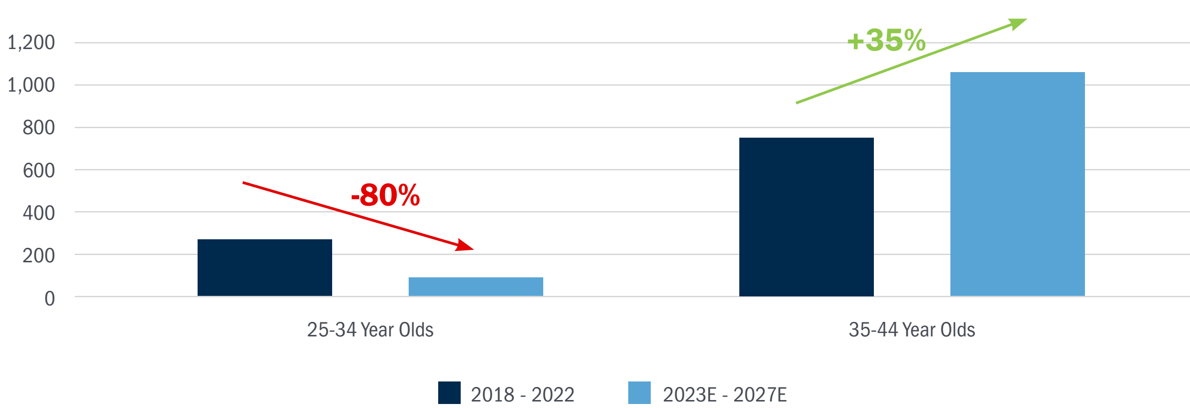


Source: John Burns Research and Consulting, LLC (Data: Jul-23, Pub: Sep-23)

Aging millennials with higher space demands support single family rental (SFR) demand

Single family rental (SFR) units are typically larger than apartment units and as population growth has shifted to an older cohort that typically desires more space, more demand should shift to SFRs.

Nominal Population Growth (000's) in Top 25 Single-Family Residential Markets

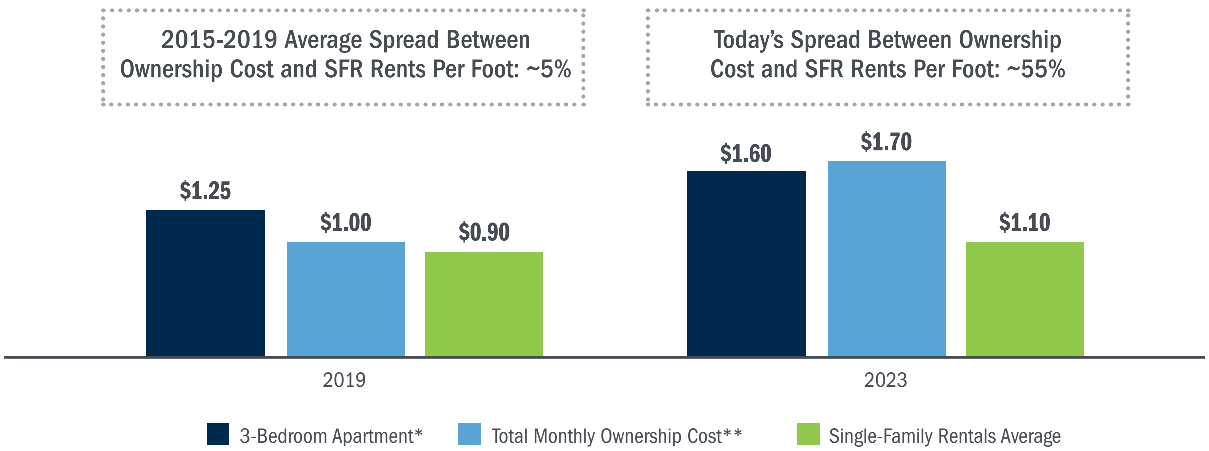


Source: Green Street, Residential Insights, July 2023

SFR is a more economical solution for larger households seeking more space which should help the subsector shine among overall residential

As homeownership costs have risen, a typical 3-bedroom apartment is somewhat more economical per square foot, but single-family rentals are far less expensive per square foot than either homeownership or larger apartments, making them more attractive in today's market.

Monthly Cost / Rent per Square Foot



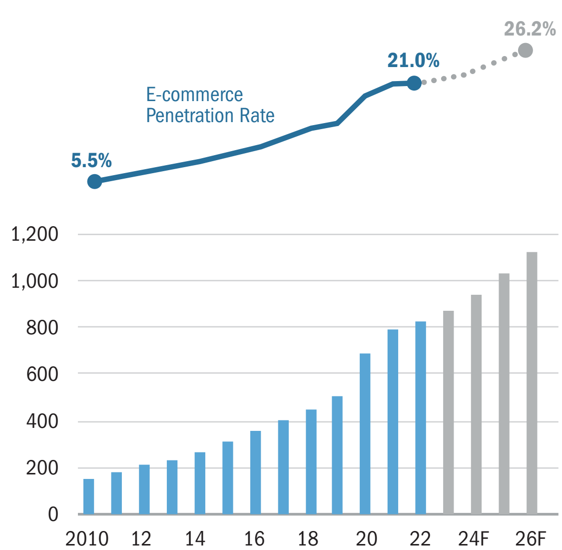
*An estimate based on REIT disclosure and Green Street assumptions. Representative of Top 25 SFR Markets.
**Based on avg. monthly payments for a home across the Top 25 SFR markets after a 20% downpayment. Assumes a high-6% and high-3% mortgage rate today and 2019, respectively.

Source: HIS Markit, as of February 2023. Centers for Medicate & Medicaid Services, as of December 2022. Working age reflects those between the ages of 15 to 64.

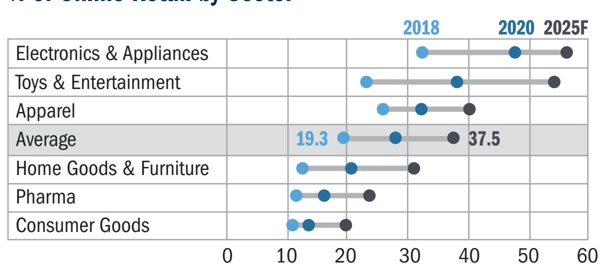
Logistics real estate is integral to the e-commerce experience driving industrial rent growth into the foreseeable future

E-commerce sales are projected to increase significantly in the next several years driven by an increasing penetration rate in many goods sectors. This is a key component of additional industrial demand as e-commerce requires 3 times the amount of space as store-based sales.

Online Sales



% of Online Retail by Sector

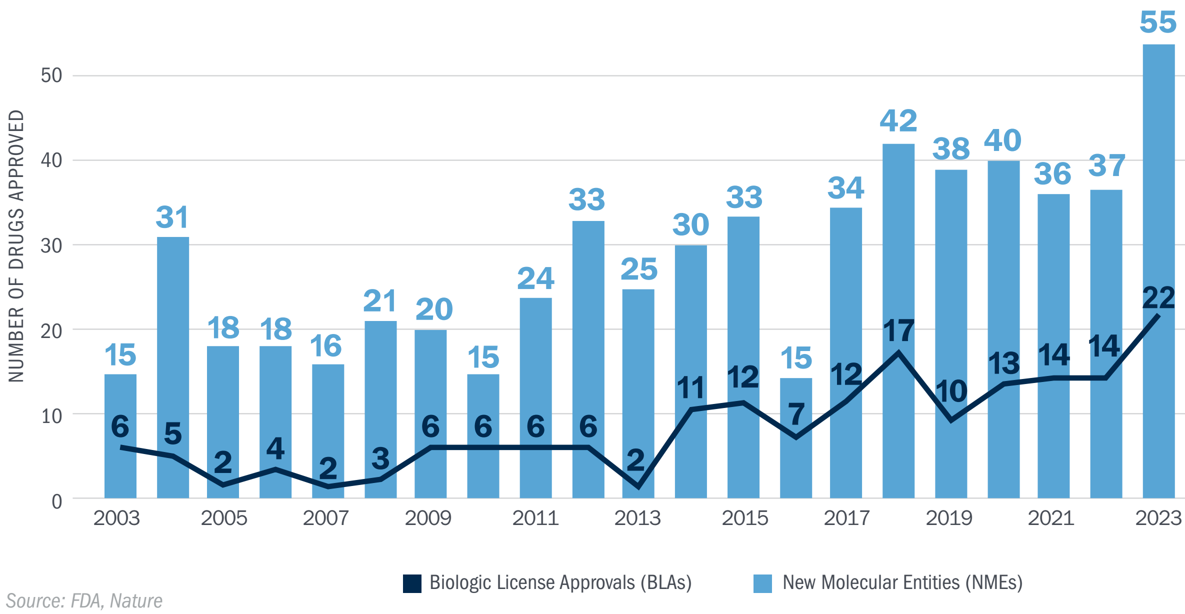


Online Retailers are an Intense User of Logistics Space[3]

1) 2) Source: U.S. Census, Euromonitor, Prologis Research
3) Source: Internet Retailer, company filings, Prologis Research. Note: Based on 2019 company 10-K reports

Explosive growth in new drugs by FDA, driven by low-cost genomic sequencing, is driving increased demand and opportunities in Life Sciences and Life Sciences Real Estate

FDA Approval of Biological License Application (BLA) Approvals and Novel Molecular Entities (NME) by year

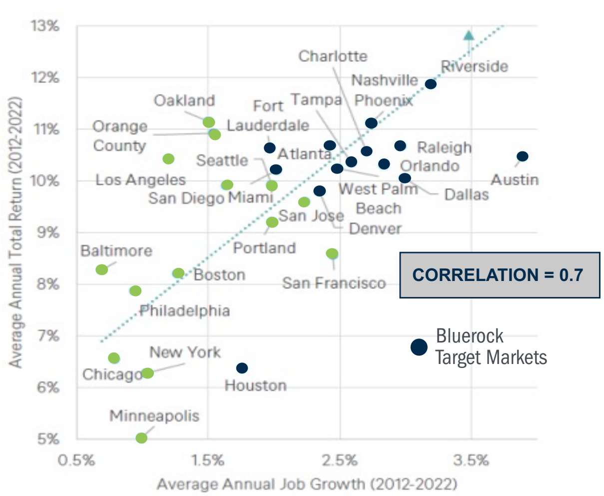


Source: FDA, Nature

We continue to focus on high job growth markets as historically, private real estate's returns are highly correlated with higher job growth markets

Markets with higher average job growth, including many Sunbelt markets, have a strong historical correlation to institutional real estate returns with many of those same markets having the highest projected job growth.

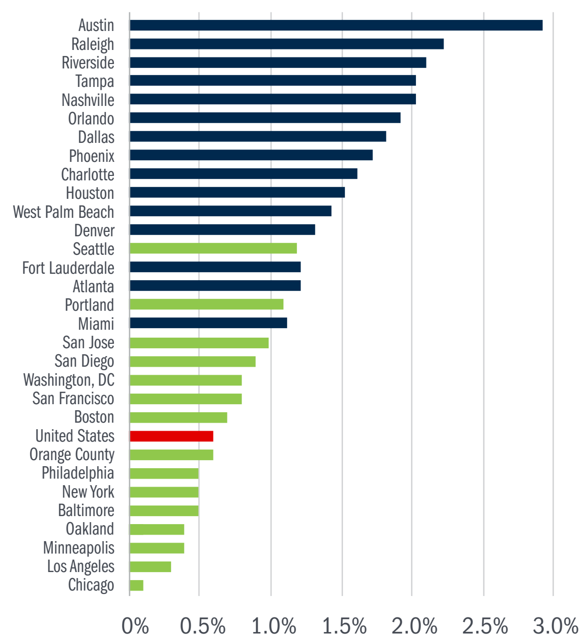
Job Growth and NPI Total Return by Market



Sources: BLS (Job Growth), NCREIF (Total Return), DWS (Job Growth Forecasts). As of December 2022

RREEF America II / Mercer Investment Consulting, Inc. / March 2023

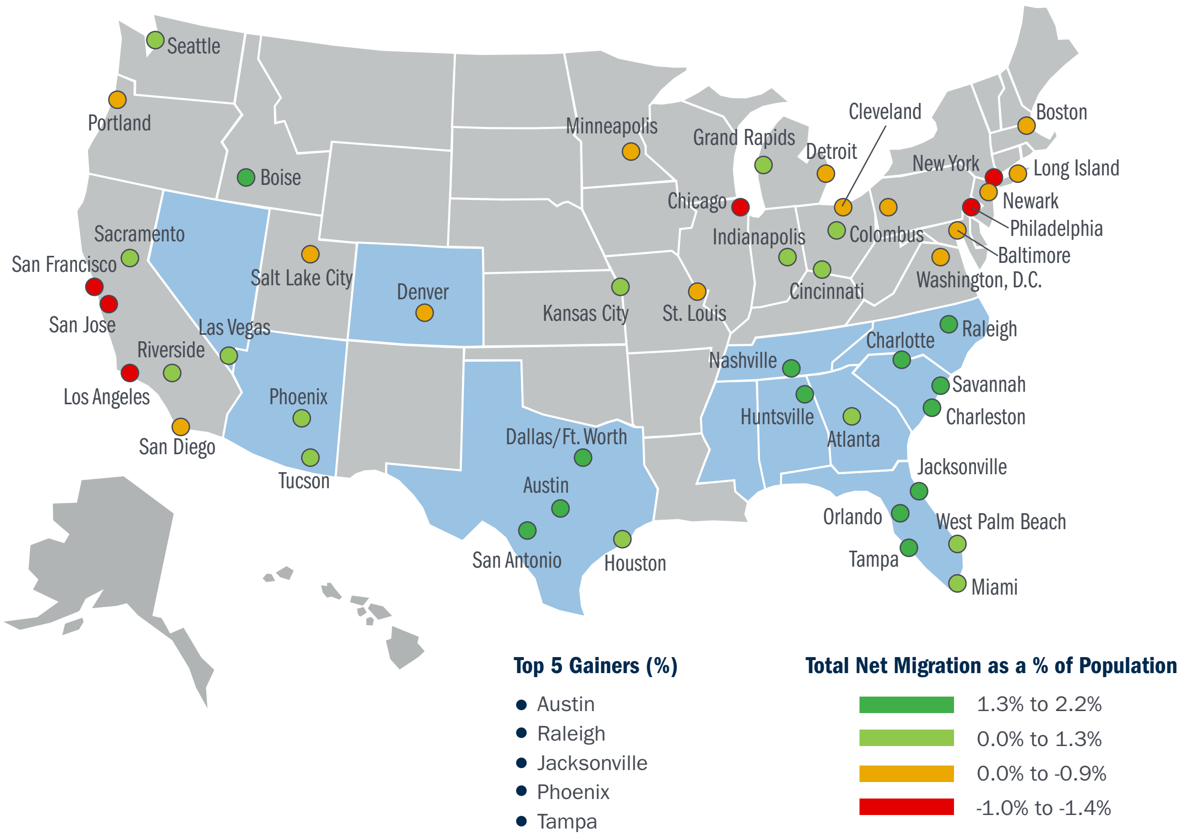
Job Growth (2023 - 2027)



Our target markets have experienced heavy in-migration and population growth which should be positive for real estate values in these markets.

The blue-colored states are Bluerock target markets and also represent several of the nations' highest population growth metros.

2021-2022 Total Net Migration by Metropolitan Area



Source: Clarion House View

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