



Capital Markets and Alternatives Insights

January 2025

Bluerock's 23-year commitment to delivering leading alternatives solutions to private wealth investors

“Bluerock has been an educational partner to financial professionals in effectively utilizing alternative investments in client portfolios for over 20 years.

As the alternatives landscape evolves, Bluerock is committed to serving as a leader in delivering compelling next-generation alternative investment solutions to individual investors.”

Ramin Kamfar
CEO and Founder, Bluerock



Macroeconomic Outlook

Executive Summary

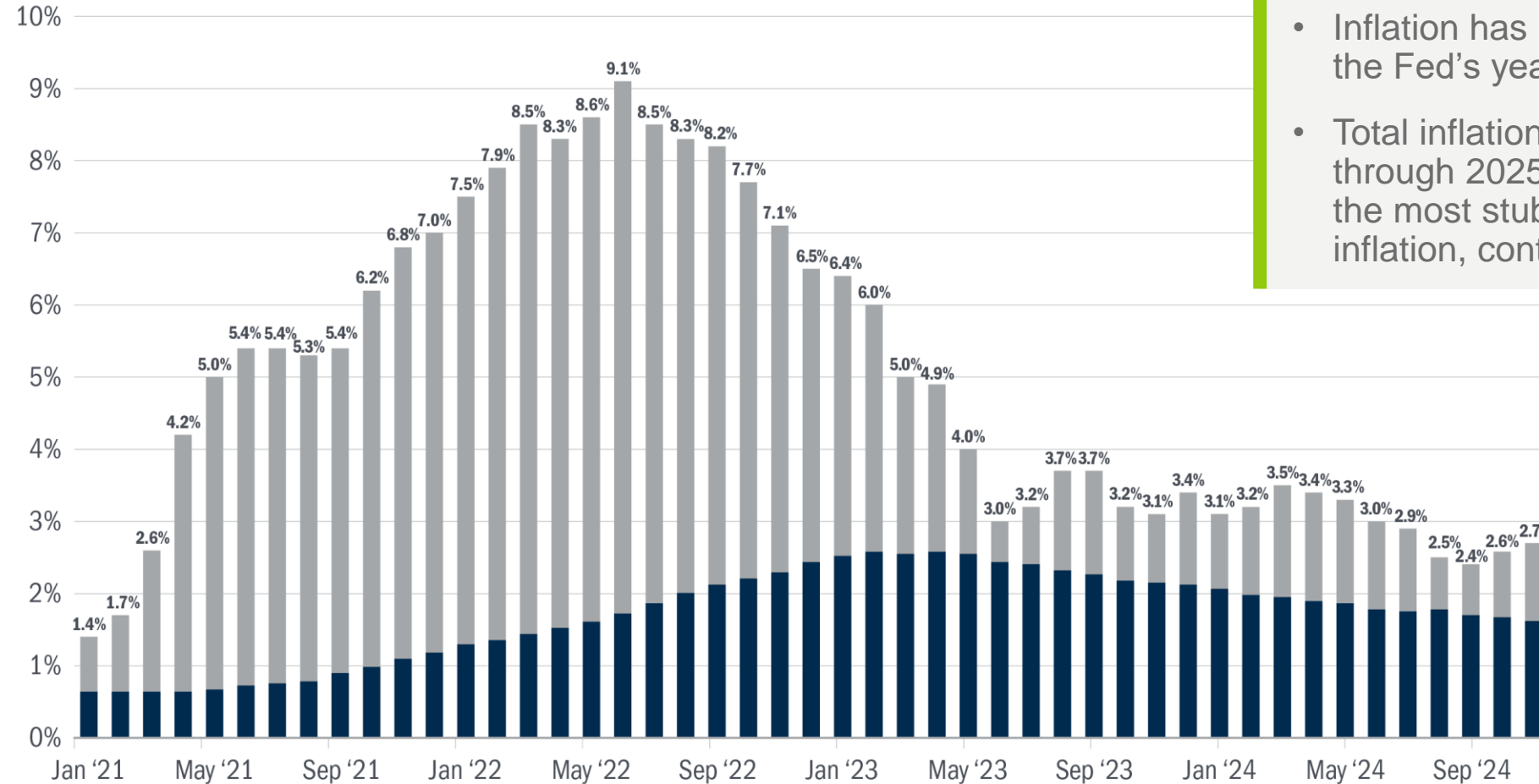
Macroeconomic and Capital Markets Outlook

Inflation has moderated, but remains a bit stubborn	The Fed’s annual 2% inflation target has still not been met, though much progress has been made. ¹ We anticipate annual inflation in the 2% - 3% range in 2025.
The Fed will tread carefully in 2025	Despite recent moderation, the labor market remains too strong to expect significant rate cuts. We expect the Fed to exercise caution in 2025, keeping the Fed Funds rate at or near 4% to avoid reigniting inflationary pressure and driving the 10-year US Treasury yields too high.
Economic “goldilocks” period will benefit private real estate and private credit	Economic data reflect a strong economy with moderating inflation creating a favorable environment for both private real estate – benefitted by both moderating borrowing costs and strong NOI growth and private credit – fueled by low default rates and relatively higher rates vs. recent standards.

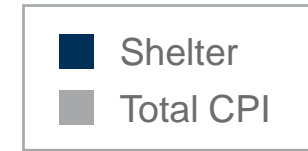
¹ Bureau of Labor Statistics, year-over-year consumer price index

Inflation continues to moderate

Year-over-Year % Change in CPI Inflation



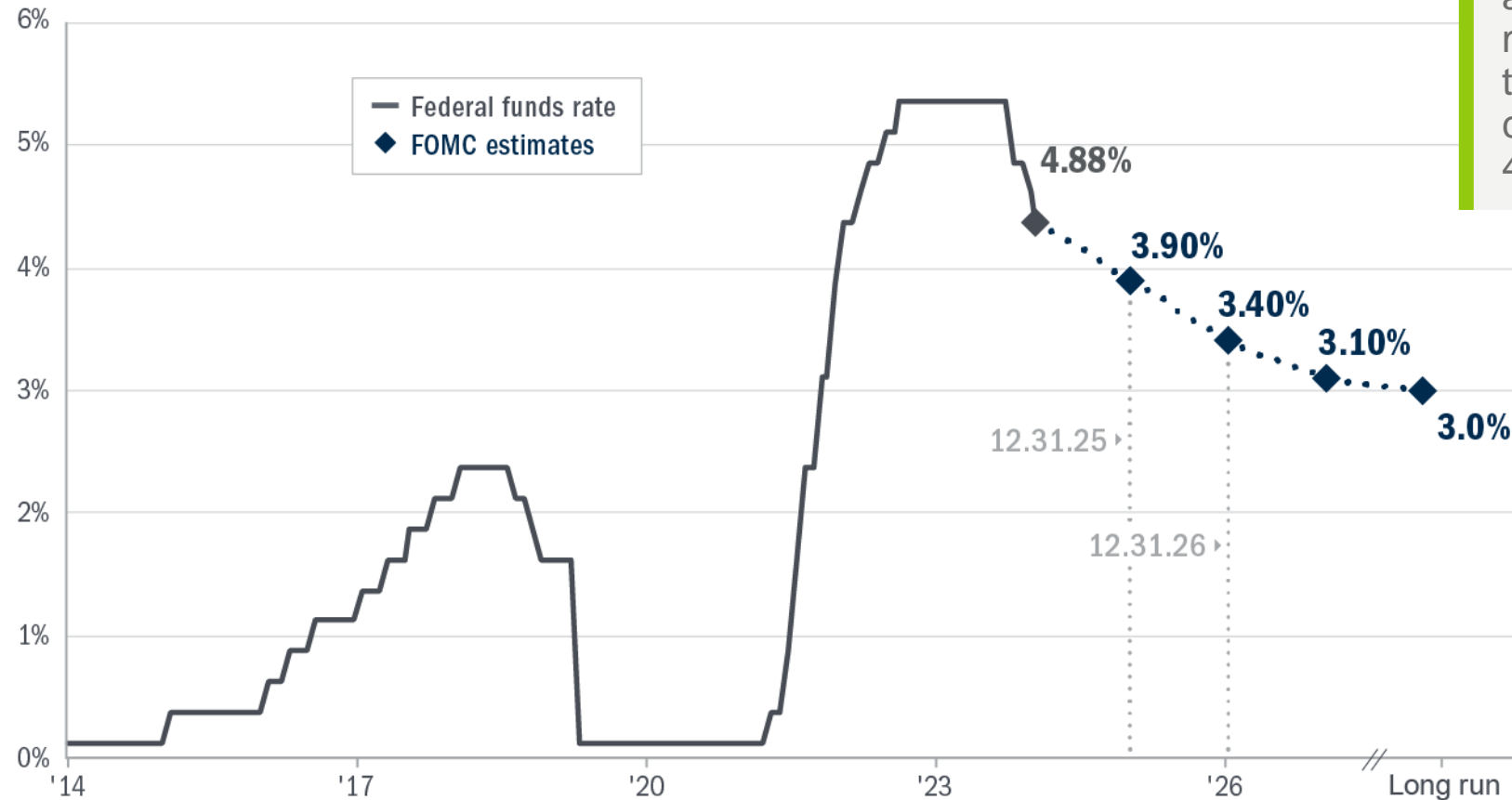
- Inflation has moderated, nearing the Fed's year-over-year target.
- Total inflation should come down through 2025 as Shelter costs, the most stubborn component of inflation, continue to decline.



Sources: JP Morgan Guide to the Markets, 9.30.2024. Contribution to y/y % change in CPI, non-seasonally adjusted

Short-term interest rates likely to decline into 2025

Federal Funds Rate Expectations

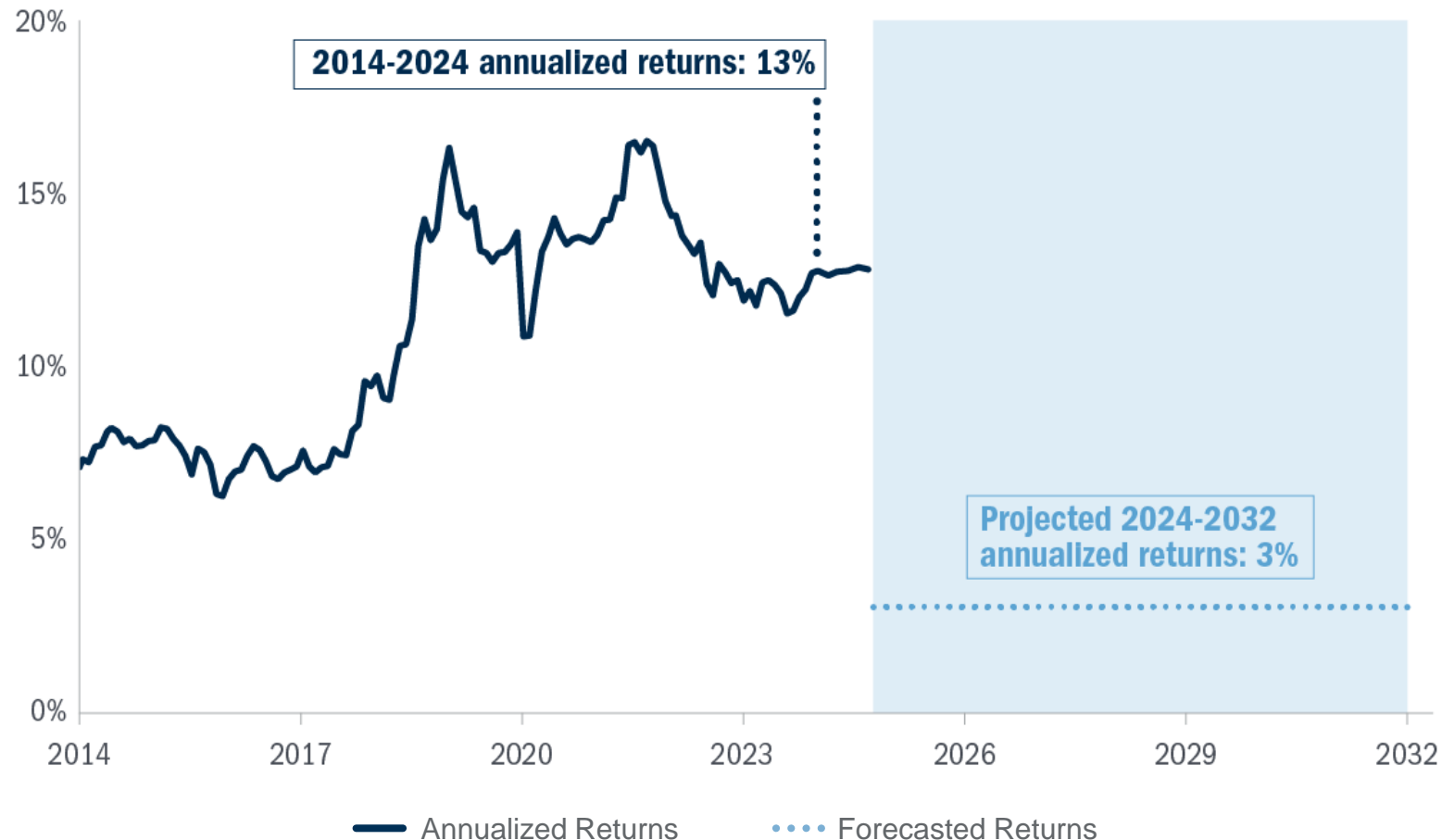


While significant rate cuts are unlikely given labor market strength, we expect the Federal Funds rate to come down to approximately 4% in 2025.

Sources: JP Morgan Guide to the Markets, 9.30.2024

Richly valued equities unlikely to deliver

S&P 500 Annualized Trailing 10-Year Returns



- While equities have generated over 13% annually over the last decade, expected returns are forecasted to decline dramatically.
- With the stock market expected to deliver only 3% annually through 2032, alternatives will play an increasingly important role in individual investor portfolios.

Capital Markets Overview: Real Estate and Private Credit

Potentially attractive entry point in real estate; opportunities in private credit



Real Estate

- **We see attractive entry points** in many commercial real estate sectors with the exception of office and **extraordinary opportunities in secondaries.**
- Commercial real estate pricing has **commenced recovery** signaled by **positive price indexes** and an **uptick in transaction volumes**¹
- Institutional real estate has **historically outperformed its long-term average** in the **years following periods of decline.**¹



Private Credit

- We see **tremendous opportunities in private credit** as a robust economic environment should **keep loss rates low**
- Overleveraged real estate transactions from peak pricing may bring **opportunities for unconventional financings**, including recapitalizations and mezzanine debt
- We believe **structured credit may be the most attractive** way to access these opportunities with very high yields and low downside risk.

¹ NCREIF Property Index, Green Street Commercial Property Price Index, Costar transaction data

Private Real Estate Outlook

Executive Summary

Private Real Estate Outlook

Inflation-adjusted real estate values are at 15-year lows	Real estate values turned positive during Q4 2024, signaling the start of a pricing rebound following the correction over the previous two years. ¹ With transaction volumes ticking up, we expect a strong multi-year recovery, consistent with previous real estate cycles.
Skilled sector and market selection key to driving returns	Expected real estate performance diverges widely by property type and geography making experienced active management critical to performance. Our highest conviction sectors include industrial, single-family rentals, and specialty sectors such as industrial outdoor storage and data centers. These sectors are forecasted to be among the highest returning in this cycle. ²
Tax advantaged real estate desirable amidst tax code uncertainty	With significant uncertainty in the tax rates for Federal and State income and as well as capital gains, tax-advantaged real estate investments will continue to demonstrate strong value for investors.

¹ NCREIF Property Index
² CBRE IM Market Update, July 2024

Inflation-adjusted real estate values are near 30-year lows

NPI Capital Value Index (Inflation Adjusted)
Q4 1994 – Q4 2024



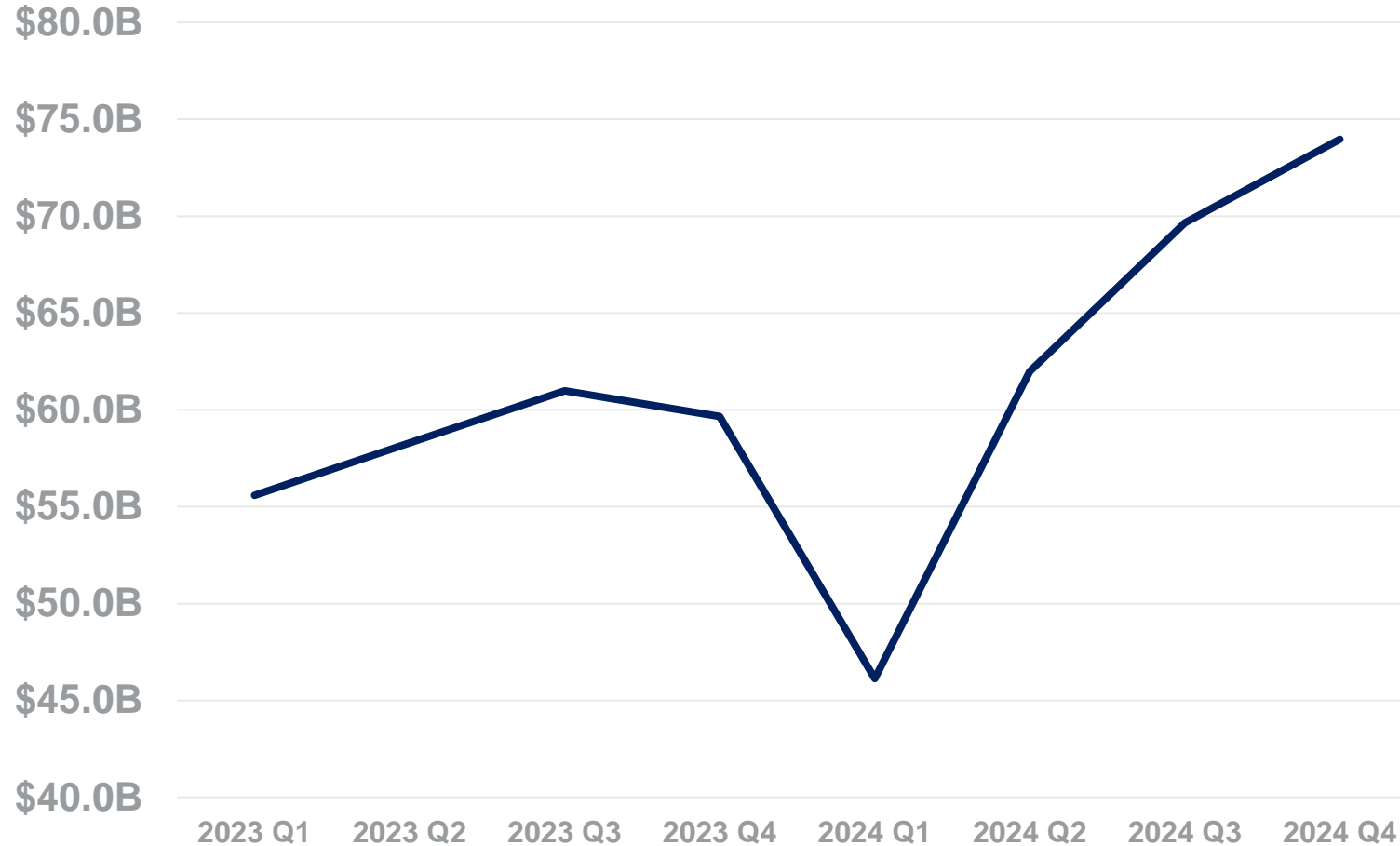
The fourth quarter of 2009 was the trough of the Financial Crisis decline, possibly *the most attractive property investment entry point in the entire post-war period*

Today's valuations are similar to those in Q4 2009

Inflation Adjusted (=100 in Q4 1994)

Improving real estate transaction volumes point to recovery

CRE Transaction Volume (2023-2024)

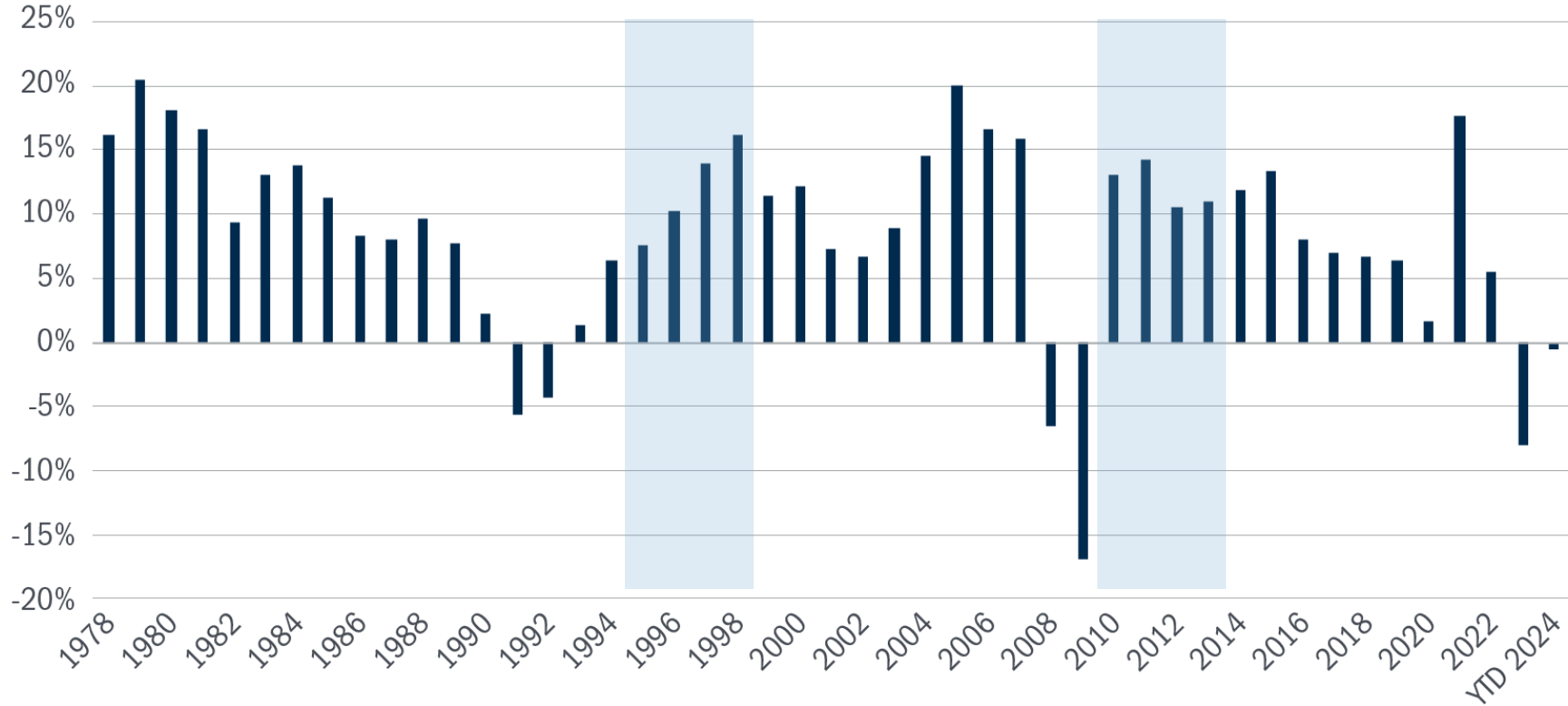


Upward trending transaction volumes signal higher valuations in the near term

Post-decline environments have historically generated outsized returns

NCREIF Property Index Total Return, 1978 – Q3 2024

In the four-year periods following the previous two market declines, real estate has averaged a 12.9% annualized return



Previous real estate declines have been followed by periods of outsized returns

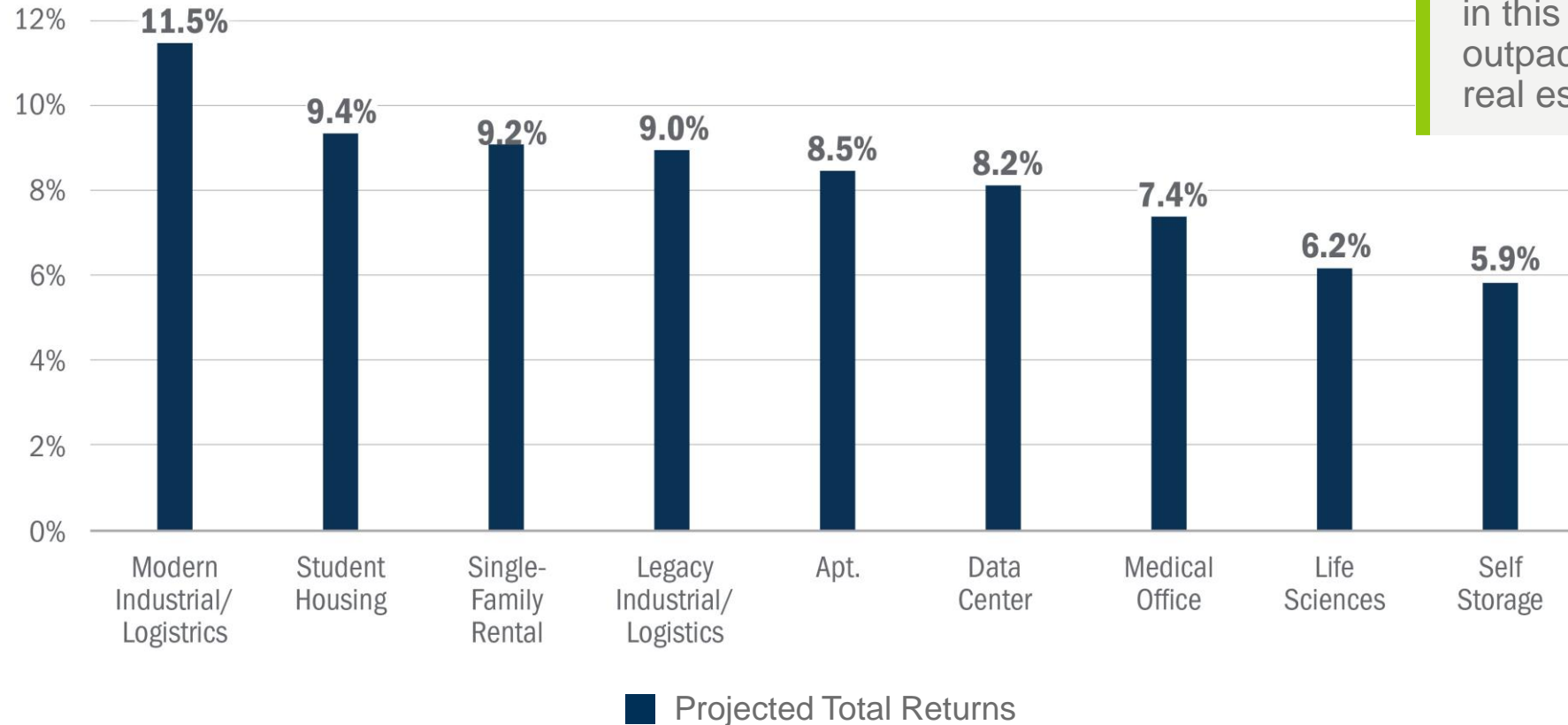
Post-decline recovery periods

Sources: National Council of Real Estate Investment Fiduciaries Property Index (NPI). Morningstar Direct. Past performance is not indicative of future results. You can not invest directly in an index.



High conviction sectors projected to deliver strong outperformance

Projected Total Returns by High Conviction Sector
(Q3 2024-Q2 2029)



Bluerock's high conviction sectors are forecasted to generate strong outperformance in this real estate cycle, outpacing the broad commercial real estate market

Industrial Real Estate Outlook

Executive Summary

Industrial Real Estate Outlook

Strong industrial demand is being powered by the continued growth of e-commerce

E-commerce growth continues to eclipse store-based sales with on-line shopping expected to grow at triple the rate of in-store purchases over the next five years, driving increased warehouse demand.¹

Contract rents are at a discount to market rents creating large upside as leases mature

We expect strong rent growth in the industrial sector as current leases mature and reset to market rates, which are materially higher.

The small bay segment of the industrial market is one of the most attractive subsectors

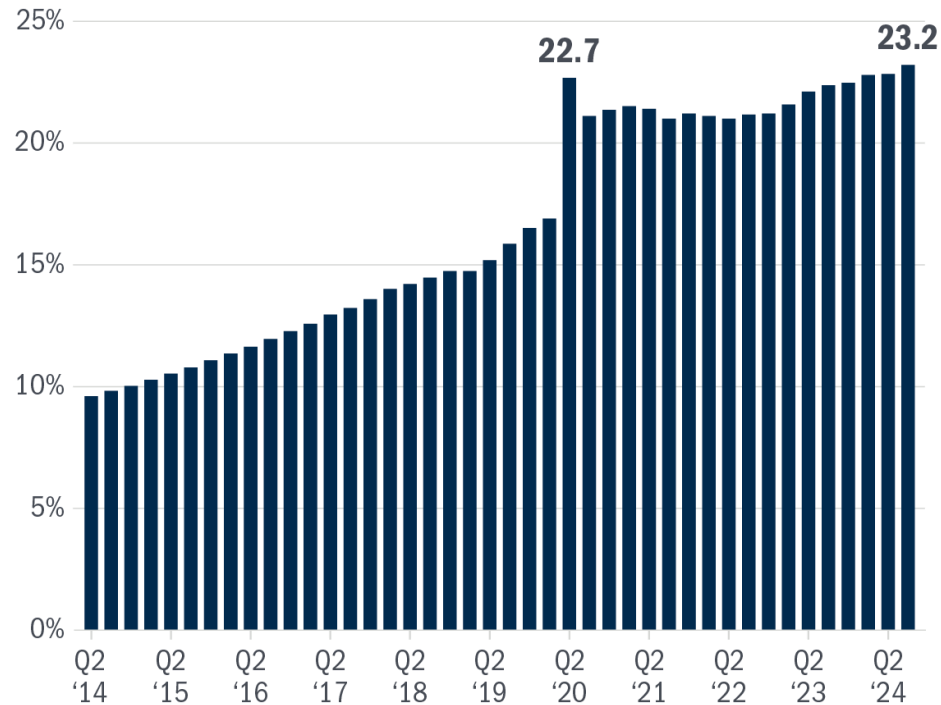
Small bay industrial buildings, an area of the market less accessible to large managers, are experiencing extremely high demand as a result of the increasing need for “last mile” fulfillment warehouses located in infill locations.²

¹ Green Street
² Bridge 2025 Investment Outlook

E-commerce powering demand for industrial space

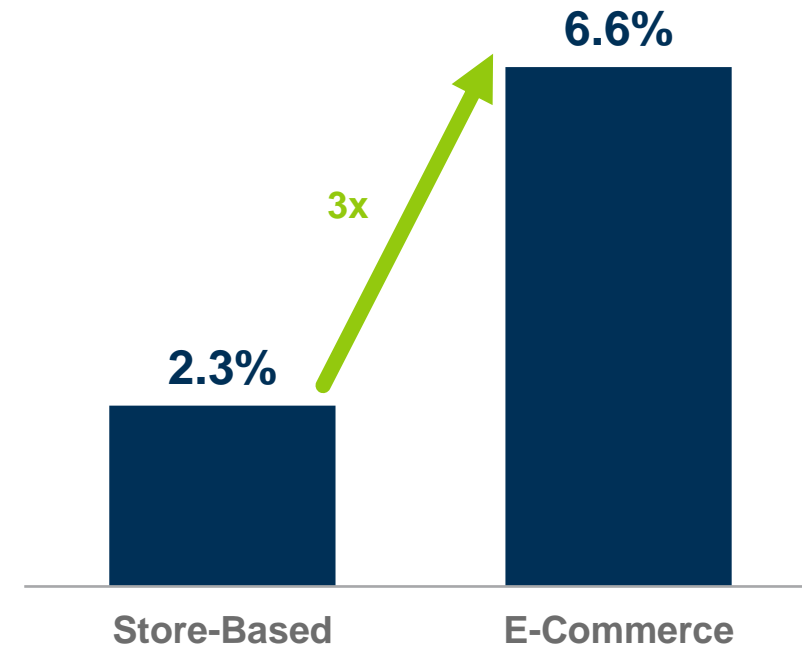
E-commerce market share continues to grow

E-Commerce market share as a percent of total sales



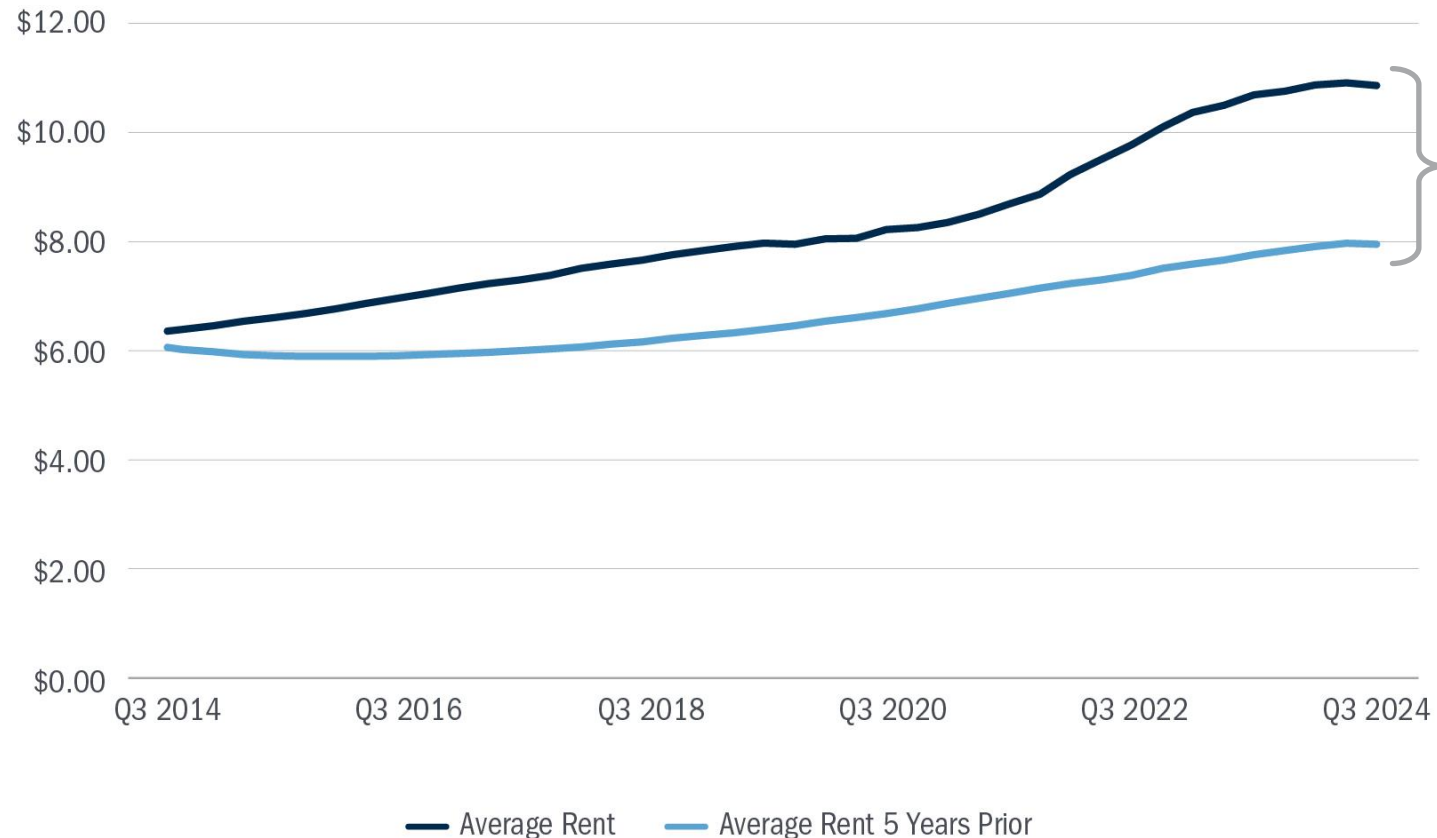
E-commerce growing at nearly 3x the rate of store-based sales

E-commerce vs. Store-based Sales Forecasts
(2024 to 2028 Annual Growth Rate)



Strong upside potential as industrial leases mature

Average Industrial Rent Today vs. Five Years Prior

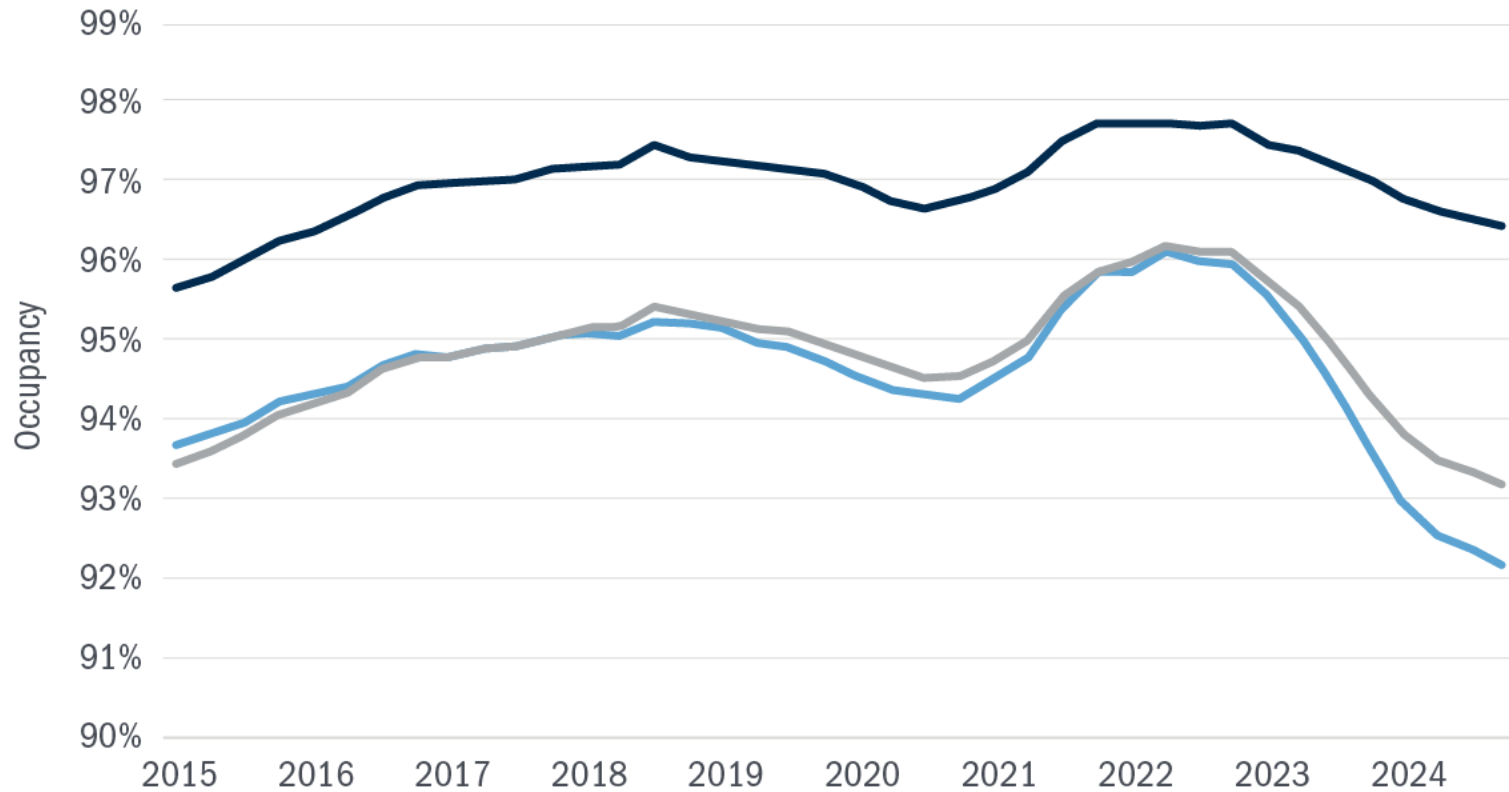


Strong upside potential with market rent more than \$3/sq ft more expensive than contracted rents

- Industrial rents for in-place leases are more than 35% lower than market rates.
- Industrial landlords will capture these gains as leases mature and reset to market rates.

Small bay industrial has achieved consistently higher occupancy rates than overall industrial space in the last 10 years

Small Bay Industrial (50 Largest Markets) vs. Larger Industrial and National

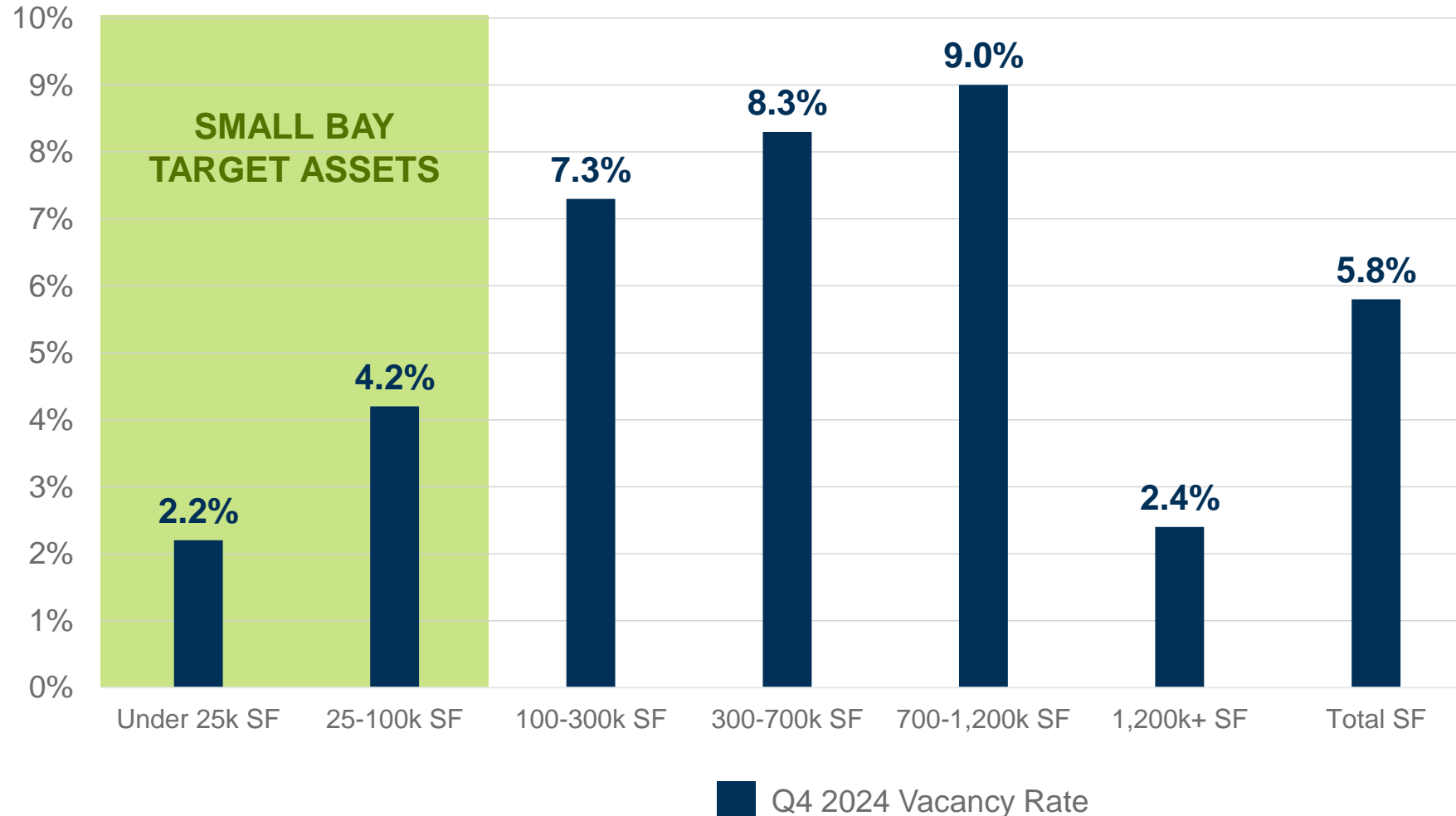


Small bay occupancy rates have averaged approximately 97% in the last 10 years, well above the overall industrial market. This highlights the higher demand and structurally limited capacity of new development of these buildings.



Small Bay Among the Lowest Vacancy Rates of the Entire Industrial Sector

U.S. Industrial Vacancy Rates by Building Size

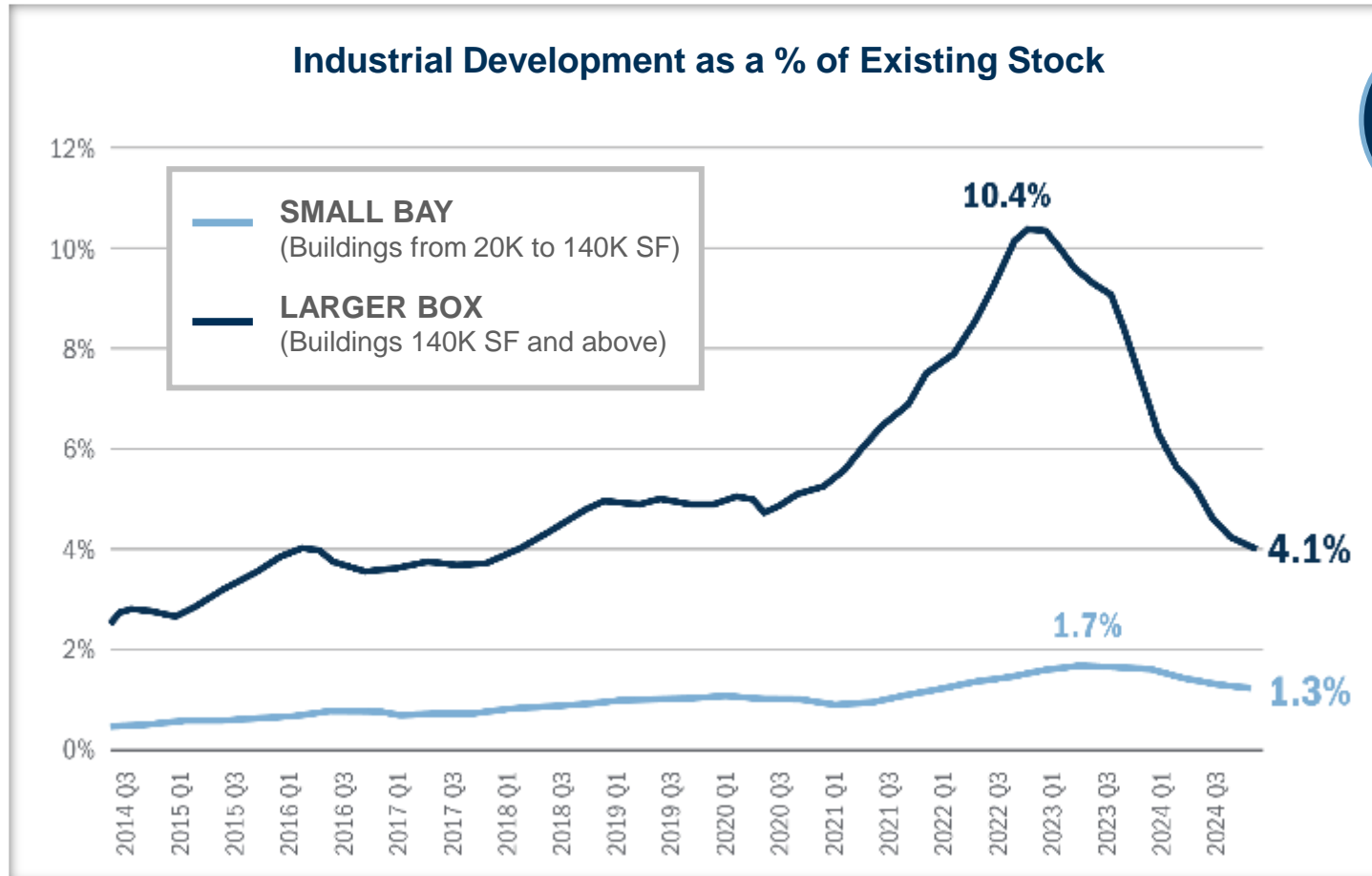


The current market is consistent with historical averages as small bay spaces generally have stronger occupancy than the larger spaces

Source: CBRE Econometric Advisors Q3 2024

Small Bay Industrial: Limited Supply and Diversification Benefits

Small Bay development has historically represented a lower percentage of existing industrial stock, translating to decreased investor competition



TENANT DIVERSIFICATION BENEFITS

- + Varied unit sizes capture the sweet spot of the market and allow for growth within the parks, leading to higher tenant retention
- + Diversified rent rolls limit property owners' exposure to secular downturns in any one industry
- + Multiple tenants create stable occupancy and reduce cash flow volatility

Source: AVANT by Avison Young; CoStar

Single-Family Rental Real Estate Outlook

Executive Summary

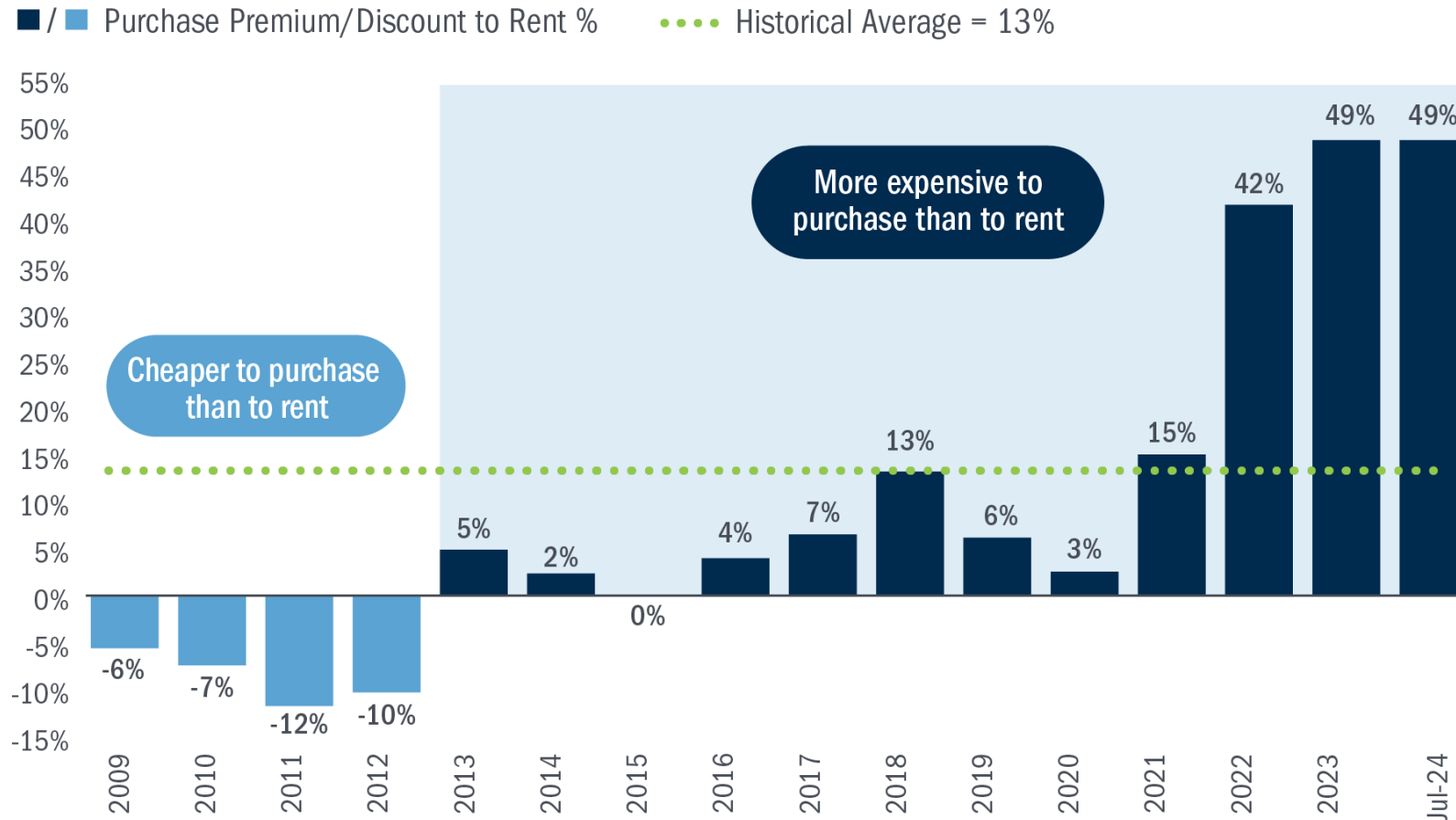
Single-Family Rental Real Estate Outlook

Favorable renting economics	With the cost of renting a home now at a record discount vs. the cost of a mortgage, fundamentals for the single-family rental sector are attractive. ¹
Overall housing shortage	The decline of overall rental and for-sale housing completions per capita have left the nation with an acute housing shortage. ²
Strong demographic tailwinds powering the single-family rental market	The growth of select age segments are key for single family rental demand

¹ John Burns, September 2024, includes maintenance for single-family starter home, historical average calculated 2000
² Bridge Investment 2025 Outlook

The single-family rental discount

National Cost Of Purchasing vs. Renting Single Family Starter Home
 Monthly mortgage payment vs. monthly rent %

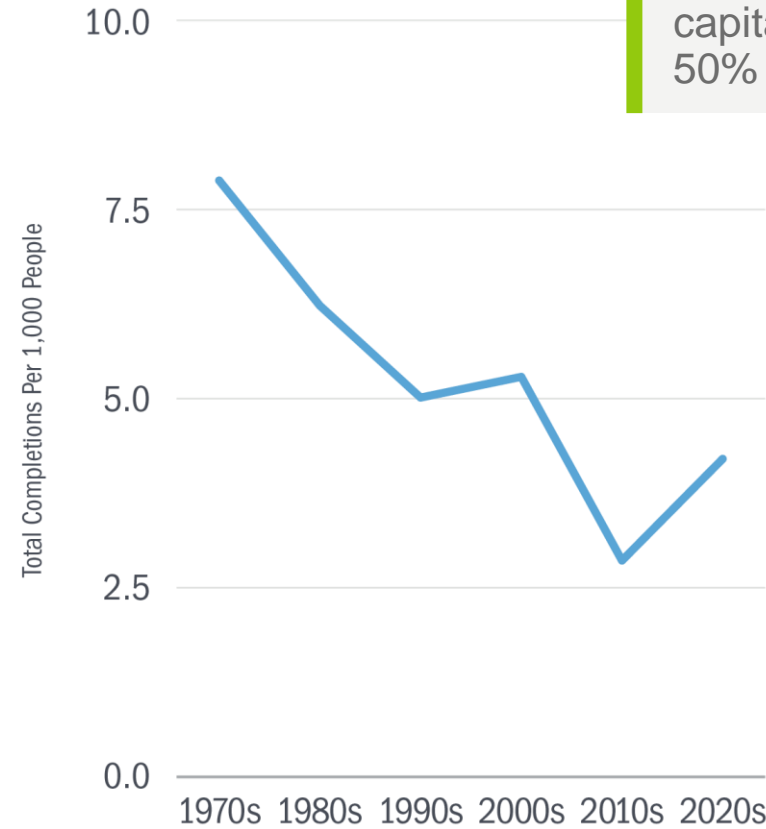
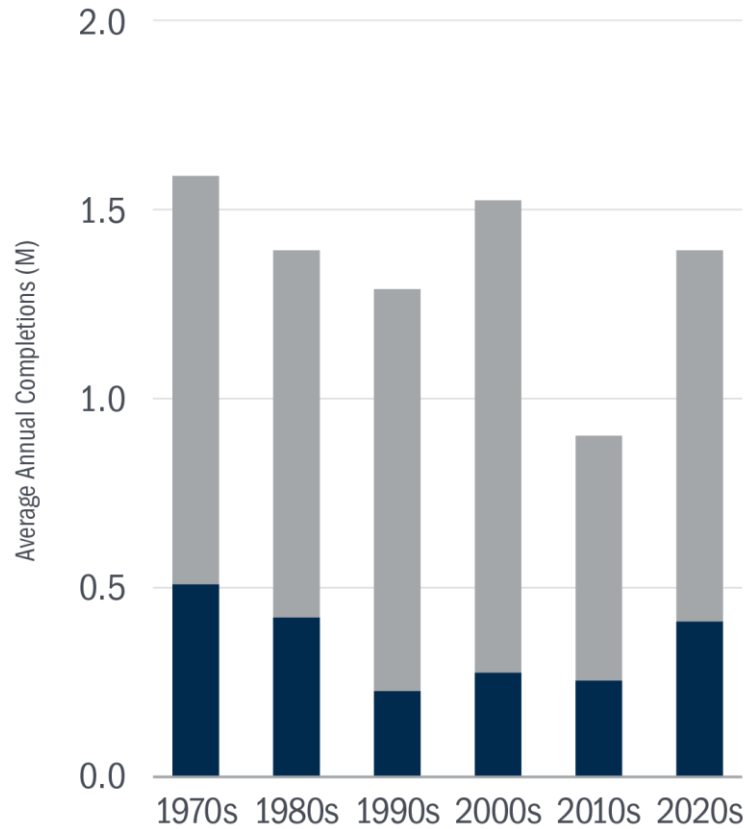


- It is 49% more expensive nationally to purchase a single-family starter home than to rent a same-valued home, **the highest premium ever.**
- This suggests rental rates will increase more rapidly to offset this difference.

Source: John Burns, September 2024, includes maintenance for single-family starter home, historical average calculated 2000

Low overall housing supply contributes to shortage and higher rents

■ Single-Family Completions ■ Multifamily Completions — Total Completions Per 1,000 People

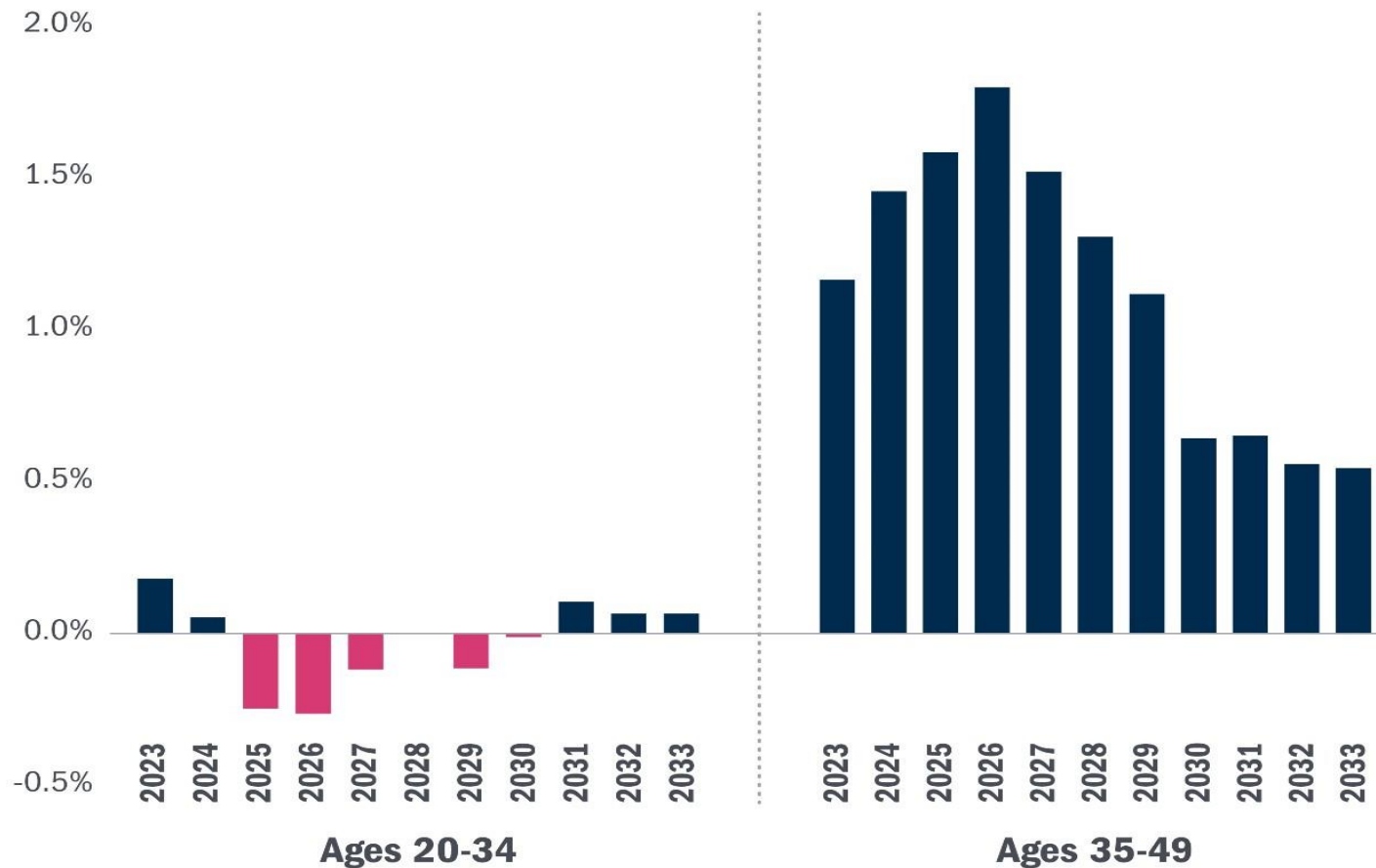


Housing completions per capita have declined nearly 50% over the past 50 years.

Source: Bridge Investment 2025 Outlook

Projected population growth drives single-family rental demand

Projected Population Growth (%) by Age Segment through 2033¹



People aged 35-49 are projected to grow more rapidly than people aged 20-34. The 35-49 segment is a significant demand driver of single-family rentals.

¹ Source: U.S. Census Bureau

Opportunistic Private Credit Outlook

Executive Summary

Opportunistic Private Credit Outlook

Loan market fundamentals are strong

Larger companies have recently performed better than smaller companies providing a better cushion against defaults and losses¹

Yields continue to remain elevated vs. recent historical standards

Yields across many fixed income markets are attractive, particularly senior secured loans.²

Amidst a moderating rate environment, fixed income asset class selection is critical

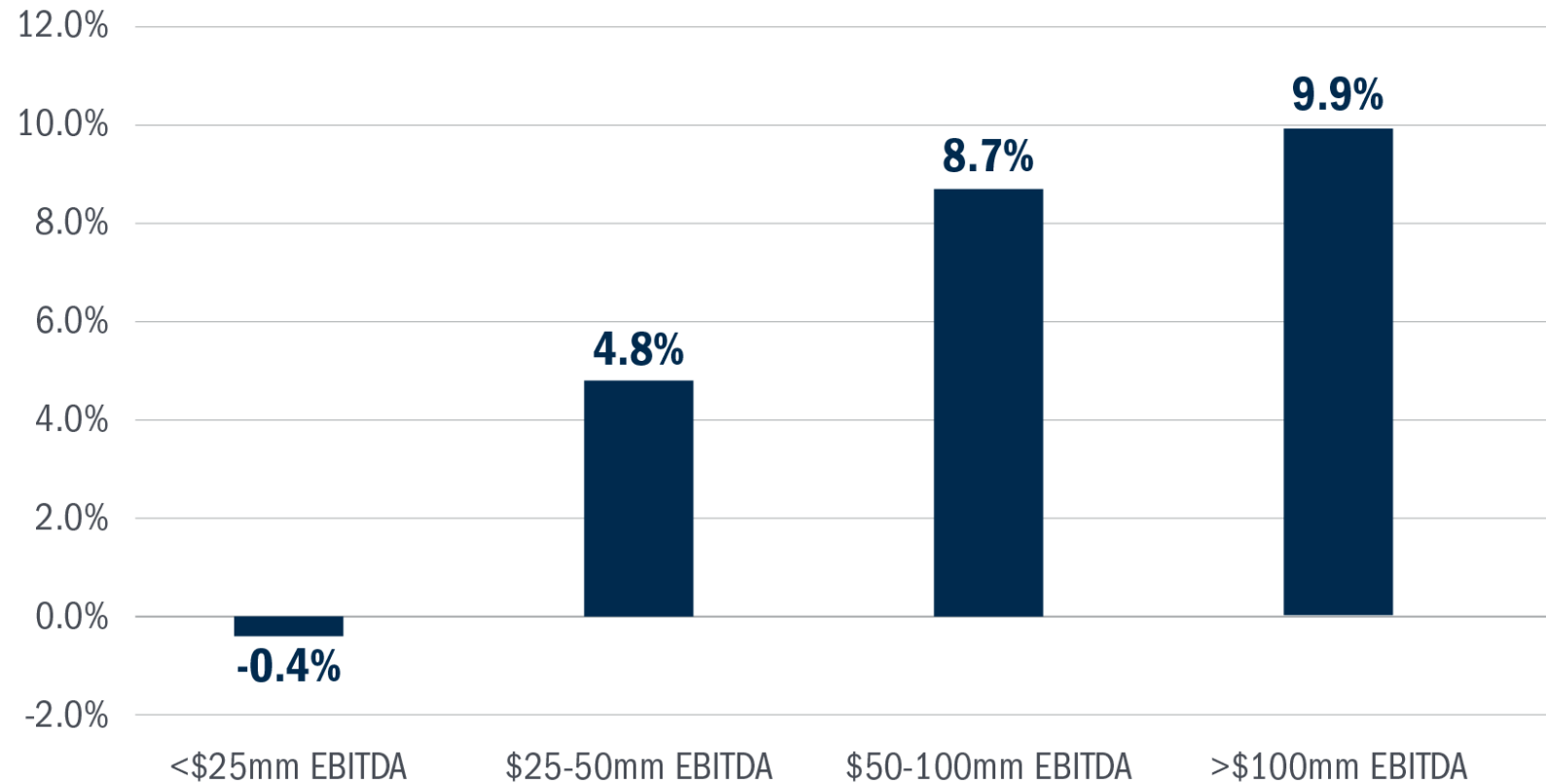
Certain fixed income categories perform particularly well in declining rate environments, such as senior secured loans.²

¹ Morgan Stanley The Road Ahead, Private Credit in 2025

² JP Morgan Guide to the Markets, Q4 2024

Credit market fundamentals are strong

Trailing 12-Month EBITDA Growth by Company Size

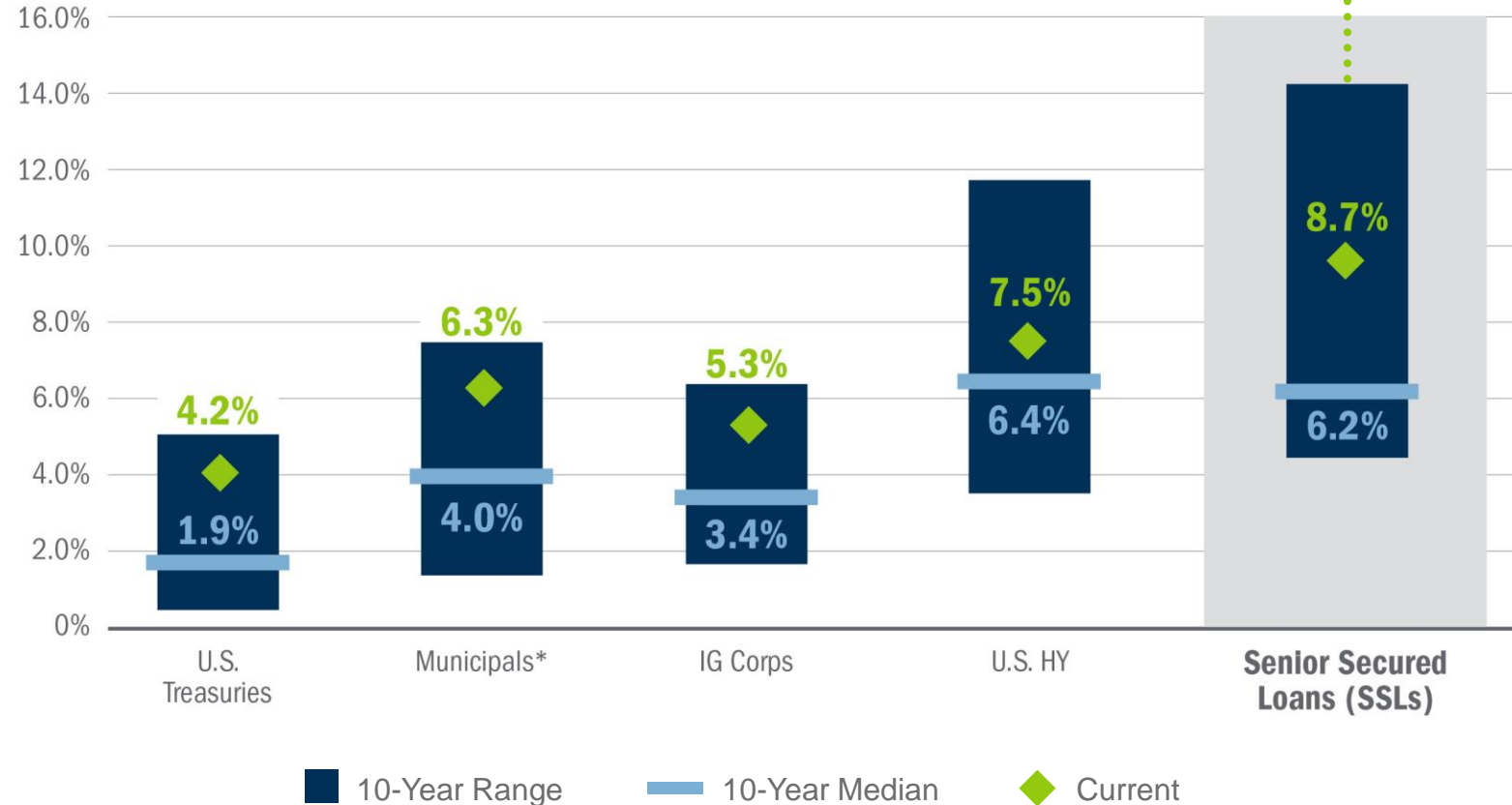


Stronger EBITDA growth among larger companies provides more cushion against loan defaults and losses.

Fixed income continues to deliver strong yields

Yields Across Fixed Income Sectors

PERCENT
PAST 10 YEARS



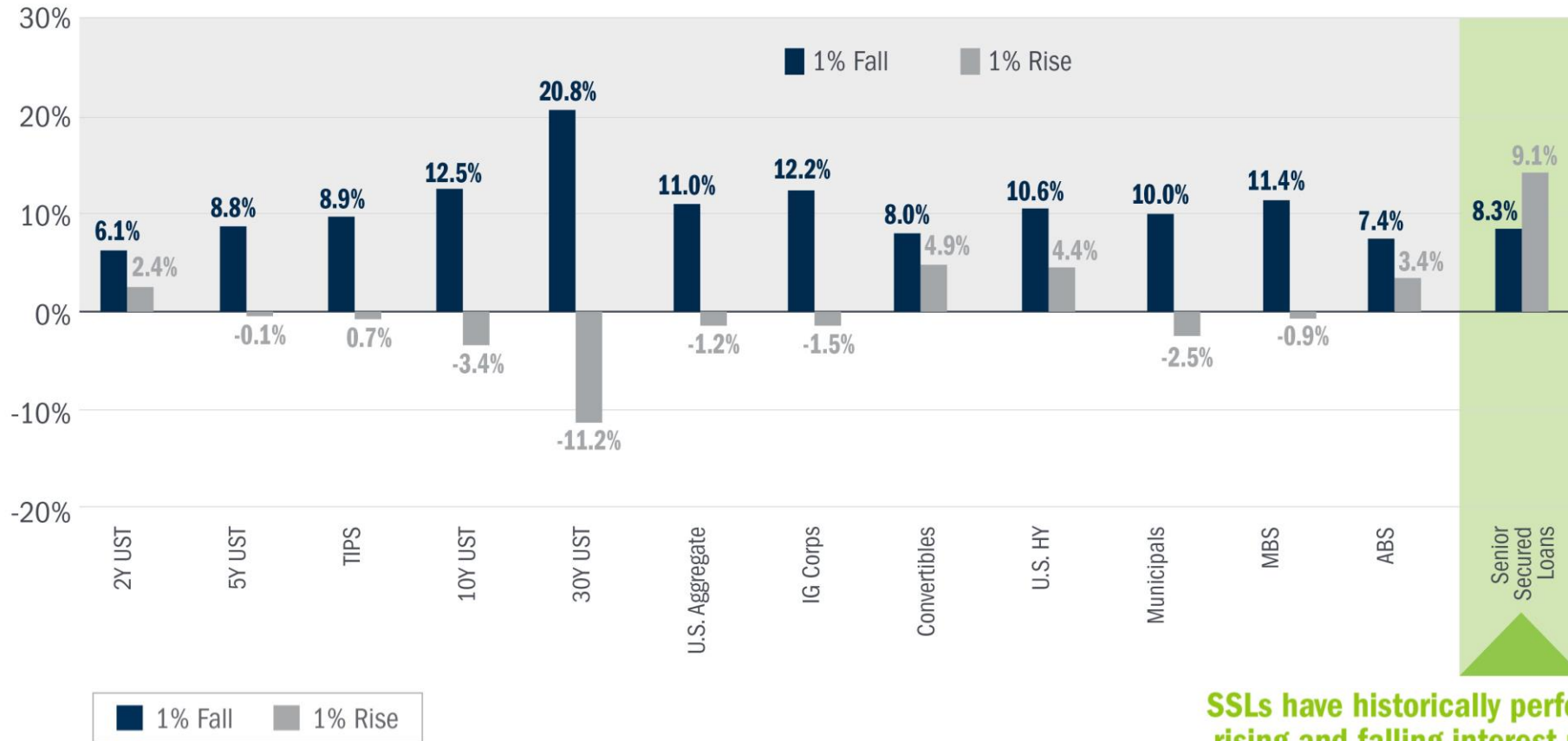
SSLs are delivering attractive yields vs. other fixed income categories

Current yields are still near their highest levels in the past decade, illustrating that some fixed income categories continue to offer meaningful income

Source: JPMorgan Guide to the Markets 4Q 2024.

Fixed income asset class selection critical in today's environment

Impact of a 1% rise or fall in interest rates



Floating rate senior secured loans historically deliver meaningful positive returns in both rising and falling rate environments

SSLs have historically performed well in both rising and falling interest rate environments

Source: JPMorgan Guide to the Markets 4Q 2024, Total return, assumes a parallel shift in the yield curve.



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