

Ativore USA Real Estate Market Outlook

SECTORAL

October, 2024

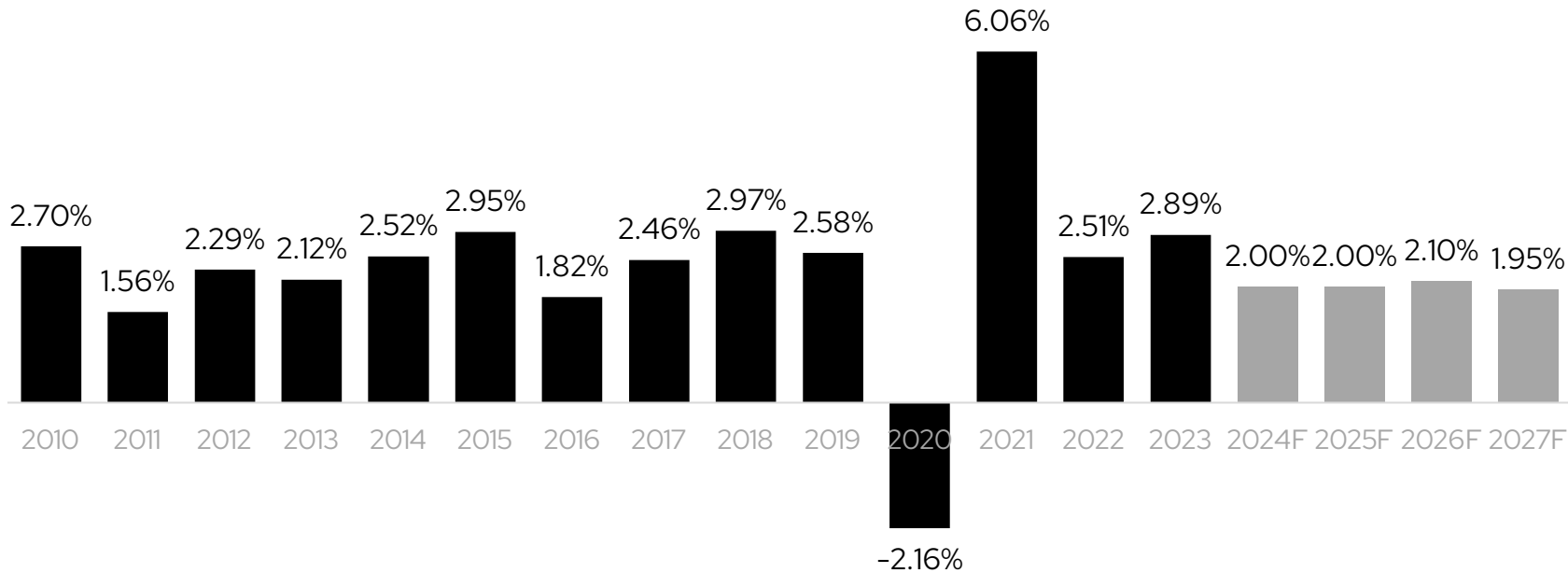


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U.S. Annual GDP Growth



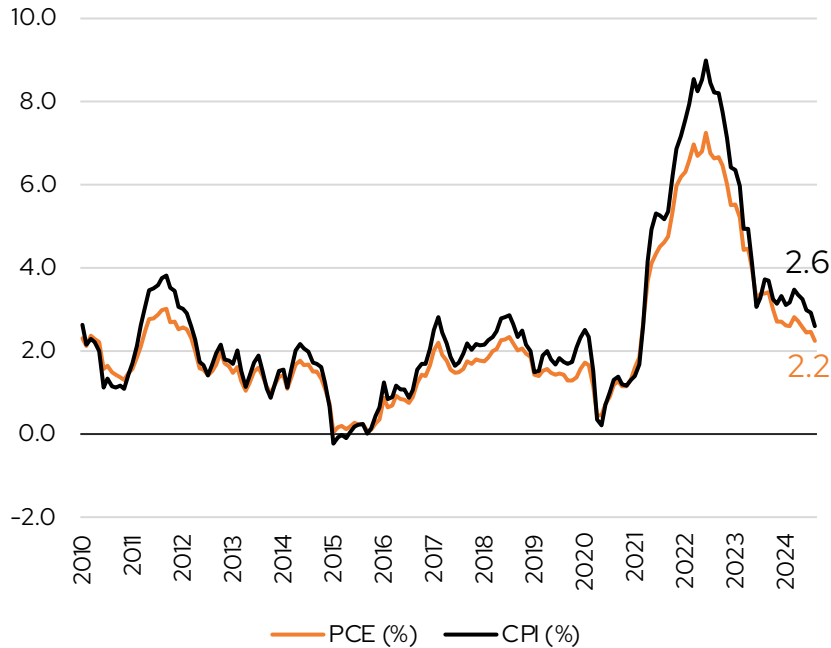
MACRO

Highlights

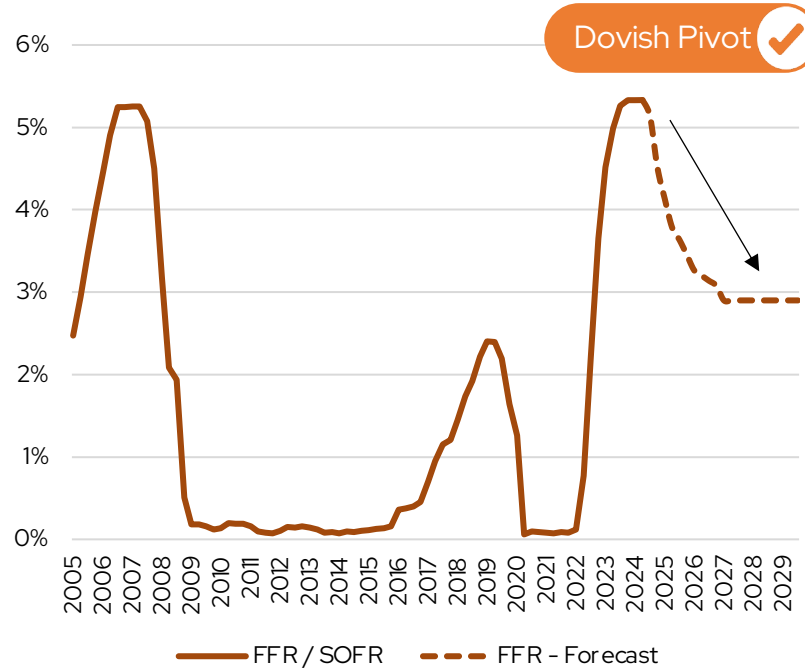
- ▶ Despite strong criticism of the Fed's actions – first for being slow to raise rates and then for the aggressiveness of the hikes – the market expects GDP to grow at around 2% over the coming years.
- ▶ If these projections are confirmed, the Fed will have achieved the desired "Soft Landing" – that is, bringing inflation down to target without an economic recession.
- ▶ **This is excellent news, putting the U.S. economy back on a healthy growth path with no major inflationary pressures, in principle, allowing interest rates to stabilize at levels lower than the current one.**

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CPI vs. PCE (2010 - 2024)



Federal Funds Rate – History and Projection



MACRO

Highlights

- ▶ With inflation expected to converge toward the long-term target of 2.0%, the Fed began its “dovish pivot” in September, cutting the policy rate by 50 basis points to the 4.75%–5.00% range.
- ▶ **The market expects that, from now on, cuts will continue to a greater or lesser degree depending on employment and inflation data.**
- ▶ Even so, the policy rate (Federal Funds Rate) is projected not to fall to levels as low as in the recent past, stabilizing near 3%.

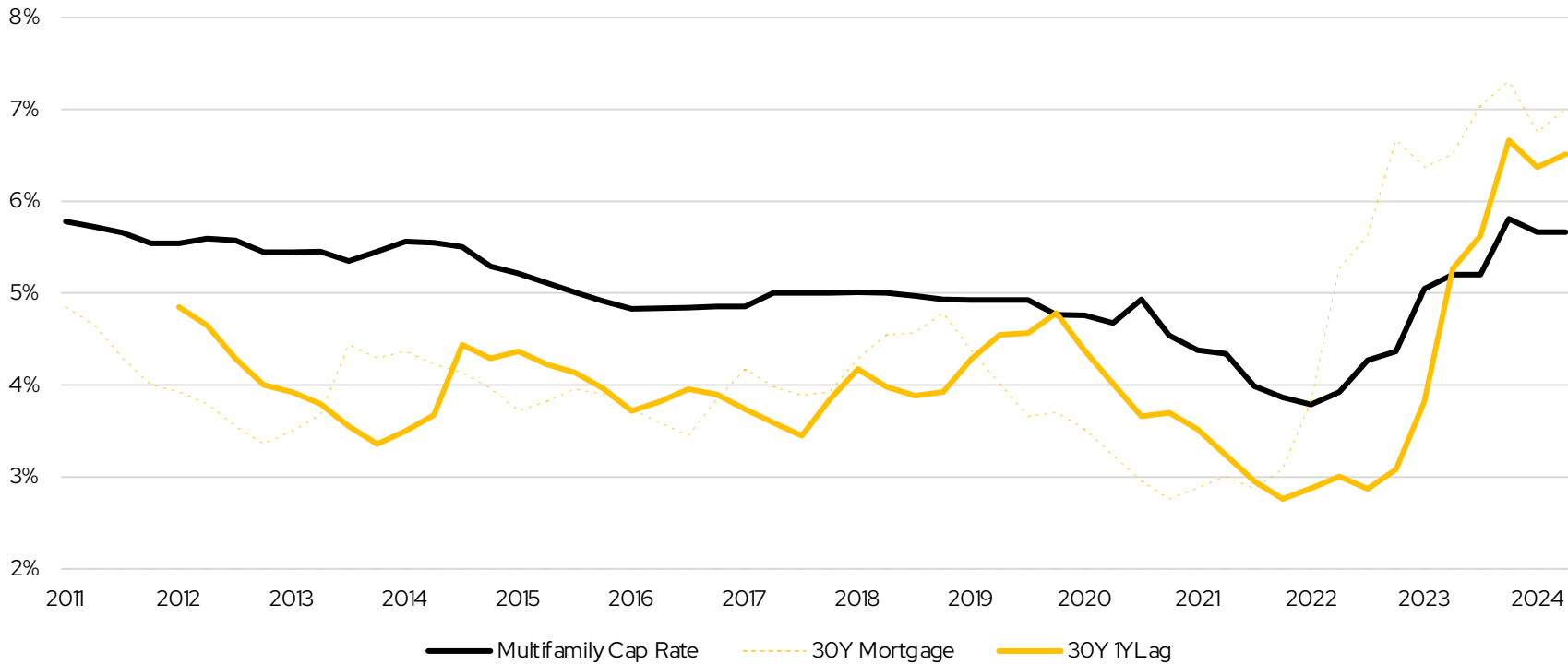
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MACRO

Highlights

- ▶ When interest rates start to fall, the private real estate market does not respond immediately, as the public market does, where information is quickly incorporated into the prices of exchange-traded shares and units.
- ▶ **This temporal lag, the "Time Lag", exists because private markets are slow to incorporate new information and market conditions into prices. Transactions in real assets occur over many months, and price discovery for the new market levels is slow.**
- ▶ Looking at the chart alongside, one can see how the cap rate curve fits better (higher correlation) with the 30-year mortgage curve advanced by one year.

Multifamily Cap Rate vs. 30Y Mortgage Rates (with 1Y Time Lag)



Correlations between Sectoral Cap Rates and the Federal Funds Rate (FFR), 30-Year Mortgage Rate, and 10-Year Treasury

Sector	Lodging						
	Time Lag (Years)						
Correlation	0	-0,5	-1	-1,5	-2	-2,5	-3
FFR	0,39	0,37	0,22	0,13	0,04	0,07	0,14
30 Year Mortgage	0,40	0,44	0,30	0,20	0,16	0,23	0,17
10Y T	0,41	0,44	0,28	0,19	0,15	0,23	0,19

Hotels:
Time lag of 0 to 0.5 years

Sector	Apartment						
	Time Lag (Years)						
Correlation	0	-0,5	-1	-1,5	-2	-2,5	-3
FFR	0,29	0,42	0,48	0,45	0,36	0,30	0,28
30 Year Mortgage	0,46	0,65	0,73	0,69	0,58	0,47	0,43
10Y T	0,53	0,65	0,72	0,70	0,61	0,49	0,41

Multifamily:
Time lag of 1 to 1.5 years

Sector	Strip Mall						
	Time Lag (Years)						
Correlation	0	-0,5	-1	-1,5	-2	-2,5	-3
FFR	0,33	0,50	0,62	0,66	0,60	0,55	0,48
30 Year Mortgage	0,41	0,65	0,76	0,77	0,68	0,56	0,48
10Y T	0,45	0,60	0,68	0,75	0,69	0,58	0,48

Strip-Malls:
Time lag of 1 to 1.5 years

Sector	Senior Housing						
	Time Lag (Years)						
Correlation	0	-0,5	-1	-1,5	-2	-2,5	-3
FFR	0,10	0,20	0,27	0,31	0,31	0,33	0,29
30 Year Mortgage	0,20	0,40	0,53	0,62	0,62	0,57	0,52
10Y T	0,35	0,50	0,57	0,63	0,63	0,60	0,53

Senior Housing:
Time lag of 1.5 to 2 years

Sector	Industrial						
	Time Lag (Years)						
Correlation	0	-0,5	-1	-1,5	-2	-2,5	-3
FFR	0,02	0,13	0,28	0,41	0,46	0,45	0,44
30 Year Mortgage	0,11	0,31	0,49	0,62	0,70	0,69	0,65
10Y T	0,27	0,41	0,55	0,67	0,72	0,70	0,65

Industrial:
Time lag of 2 to 2.5 years

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Highlights

- Due to the "time lag", cap rates are expected to remain stable for one to two years before they start to decline.
- Another way to view this is that borrowing costs will fall before property values rise.
- This phenomenon occurs across all property segments to a greater or lesser degree.
- Over the next 12 to 24 months, this opens a window of opportunity for real estate investments positioned in sectors with strong fundamentals.**

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1 Context

Residential Market

(Multifamily and Single-Family)



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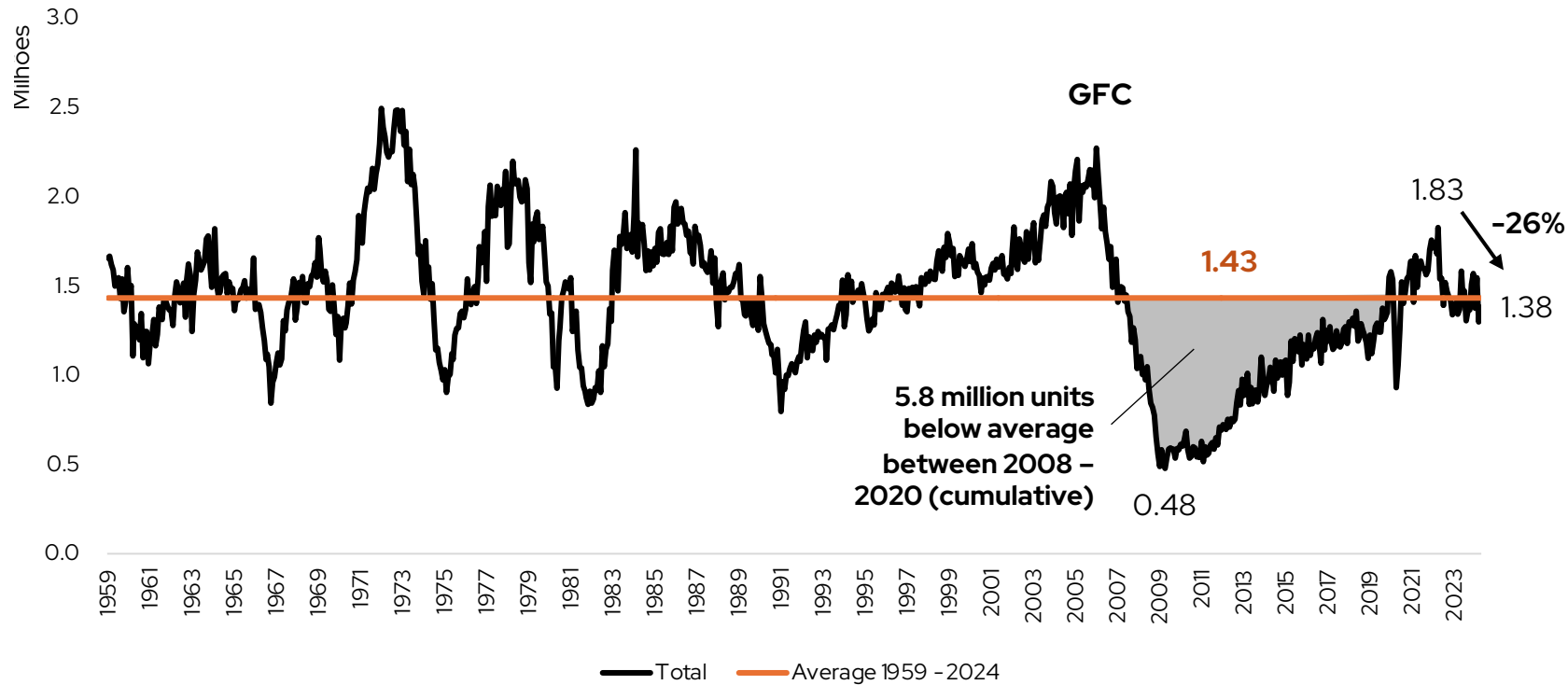


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RESIDENTIAL (MULTIFAMILY AND SINGLE-FAMILY RENTALS)

Context – Housing Deficit and Decline in Construction

New Residential Housing Starts (millions per year)



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Highlights

- ▶ With the 2008 crisis, there was a considerable shortfall in residential construction in the U.S.
- ▶ From 2011 onward, the pace of construction rose again and had been recovering toward its historical average.
- ▶ However, with the sharp rise in interest rates from 2022, new-unit construction fell 26% in volume, which will reduce future supply.

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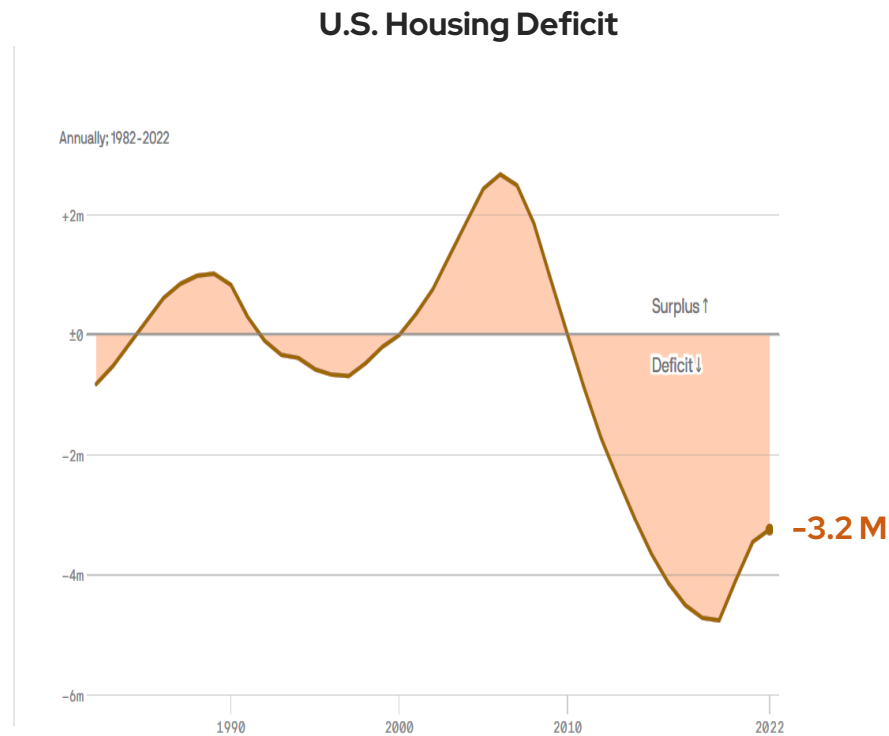
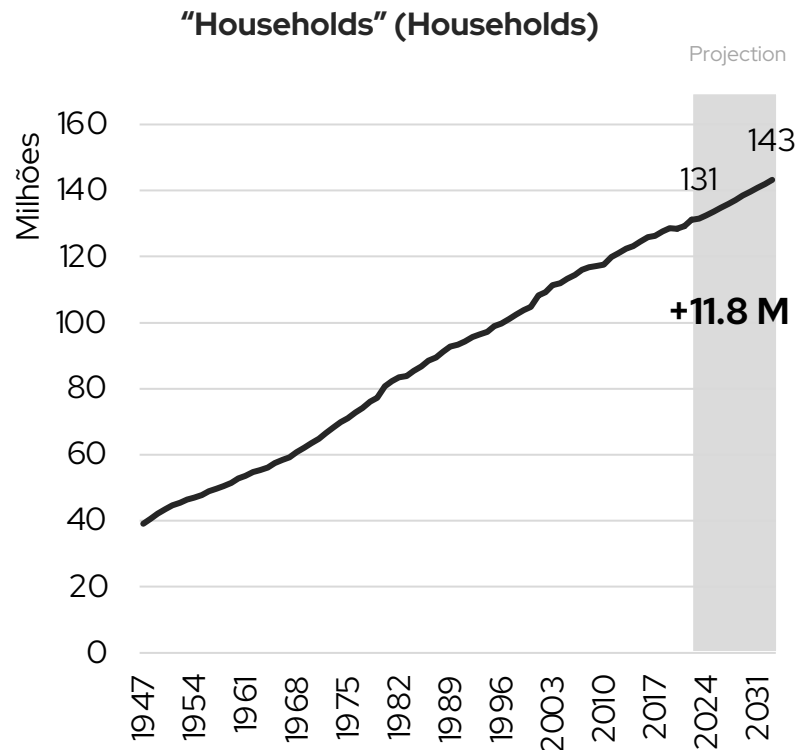
RESIDENTIAL (MULTIFAMILY AND SINGLE-FAMILY RENTALS)

Context – Future Structural Demand

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Highlights

- ▶ Long-term structural demand in the U.S. should persist, with about 11.8 million new households forming between 2024 and 2033.
- ▶ Added to these 11.8 million units are the current deficit, estimated at about 3.2 million units, and obsolescence, estimated at about 450 thousand units per year.
- ▶ **Thus, in terms of demand, an estimated 19.5 million residential units will be needed in the U.S. over the next decade.**

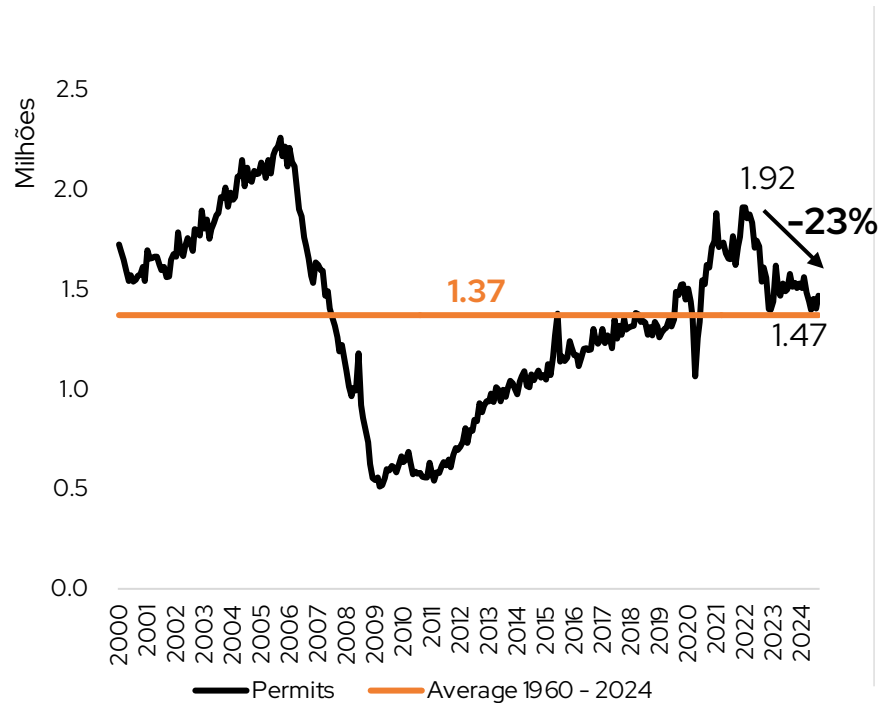


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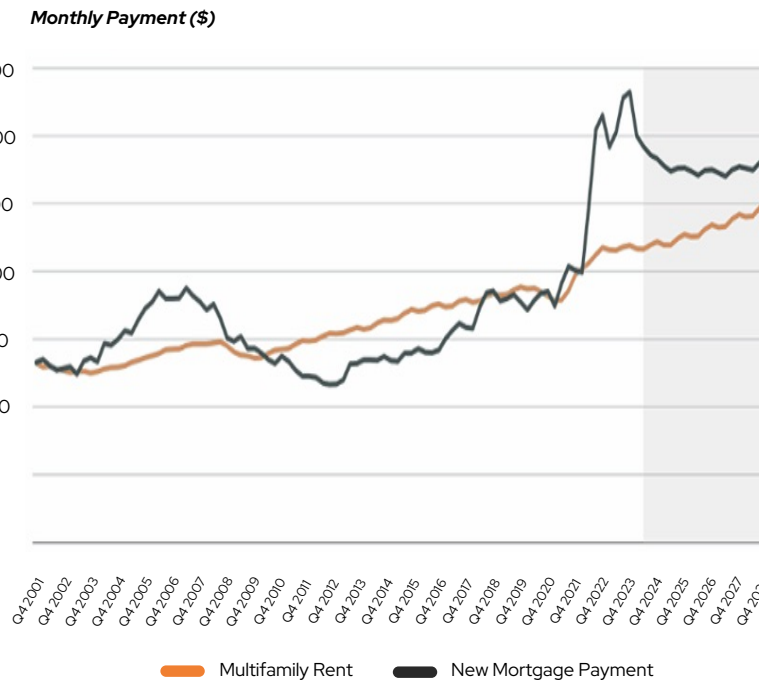
RESIDENTIAL (MULTIFAMILY AND SINGLE-FAMILY RENTALS)

Context – Decline in New Construction Permits and the Renting Advantage

New Residential Construction Permit Issuance



Average Rent vs. Mortgage Payment



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Highlights

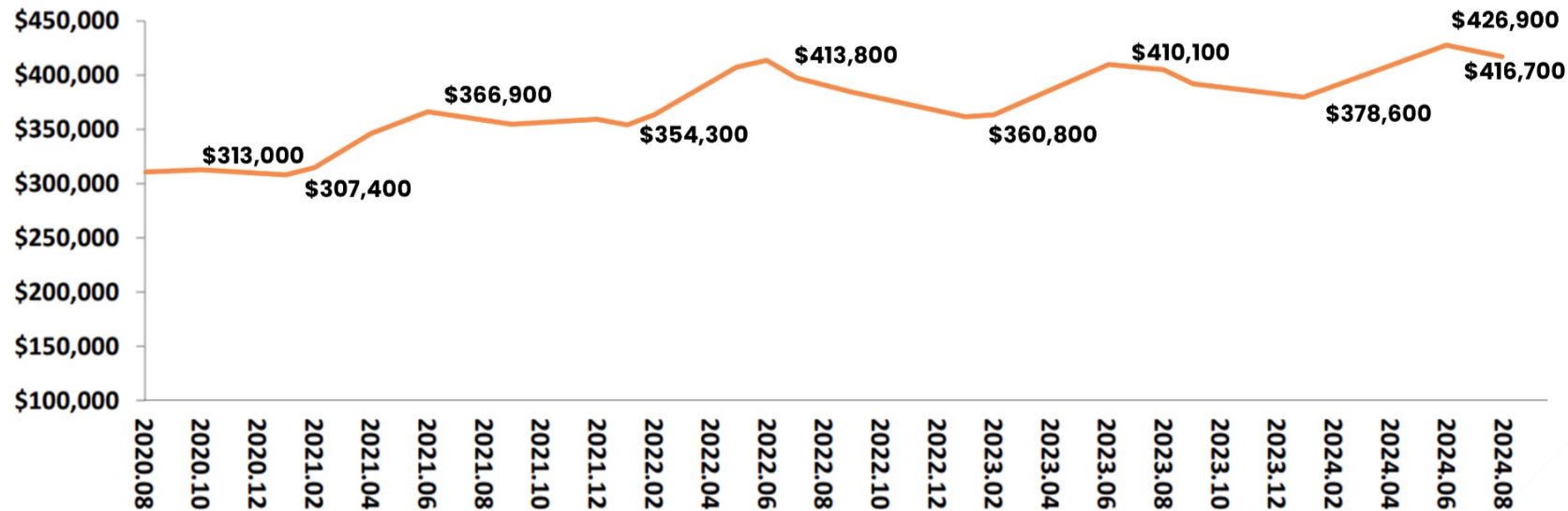
- ▶ The sharp drop in new construction permits is also an indicator of a more constrained future supply.
- ▶ CBRE estimates that, through 2028, the monthly payment on an average mortgage will remain 38% higher than the average rent.
- ▶ The gap is expected to persist even when accounting for expectations for property prices, interest rates, and rent growth.
- ▶ **The advantage of renting over buying is expected to remain even after interest rate cuts.**

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RESIDENTIAL (MULTIFAMILY AND SINGLE-FAMILY RENTALS)

Context – High Home Prices in the U.S.

Median Home Sale Price



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Highlights

- ▶ **Beyond higher interest rates, one of the main factors driving the rental market is the rising cost of homes in the U.S.**
- ▶ The abrupt drop in the pace of construction after 2008 is one of the factors explaining the widespread price increase in this market.
- ▶ **And given the slowdown in new construction after 2022, this scenario is projected to persist for many more years.**

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2

Apartments *(Multifamily)*



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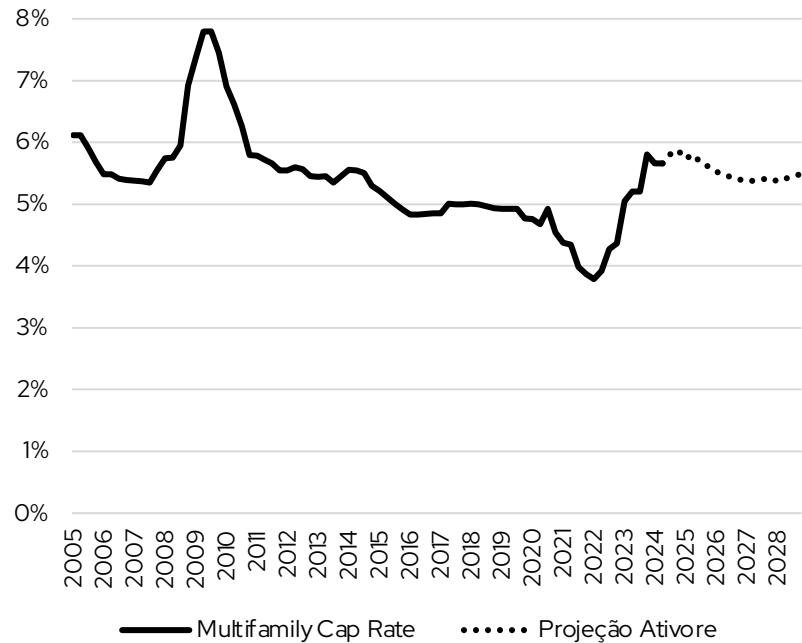


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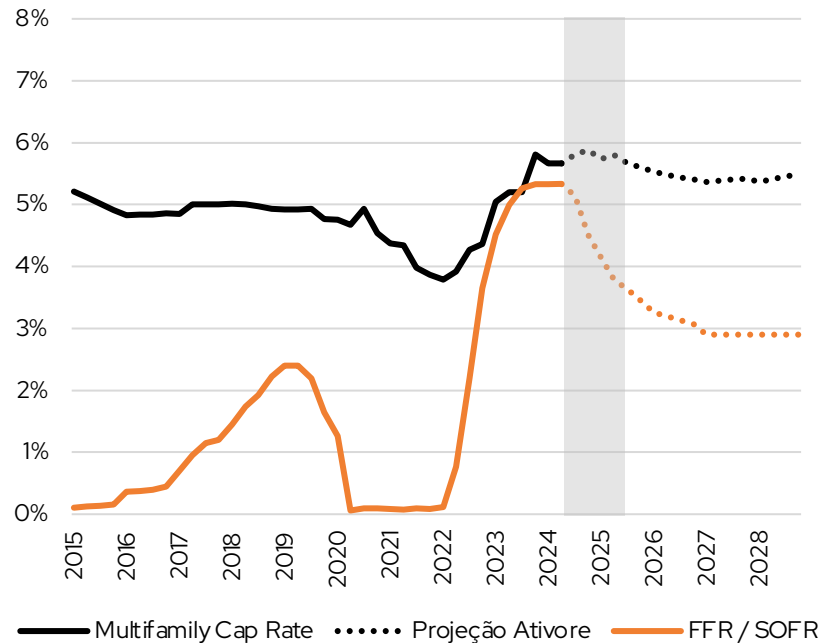
APARTMENTS (MULTIFAMILY)

Cap Rate – History and Projection

Cap Rate (2005 – 2028)



Cap Rate (2015 – 2028)



SECTORAL

Highlights

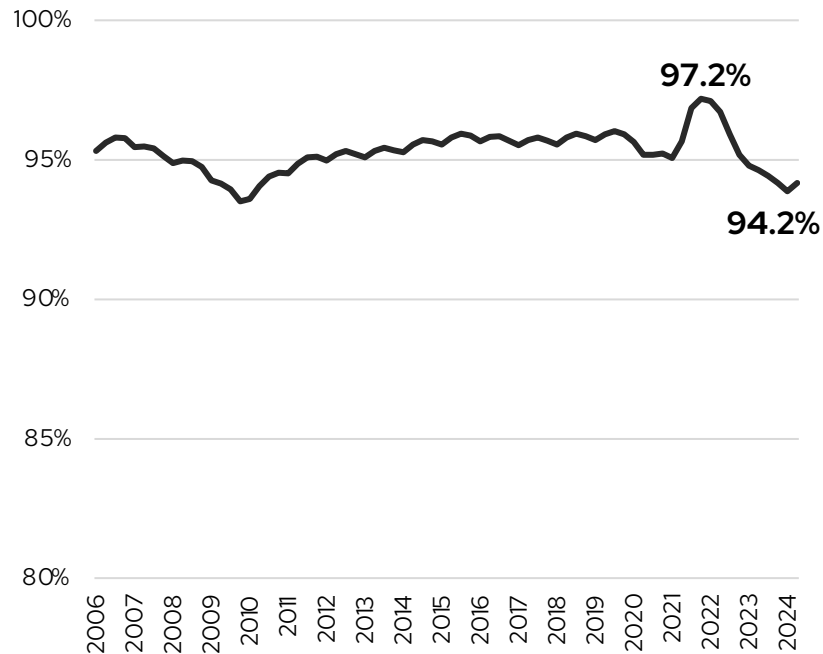
- ▶ The multifamily segment has become, over the past 20 years, the leading investment segment in the U.S. real estate market, far surpassing the office segment.
- ▶ **The time lag of the segment, of 1 to 1.5 years, is a good entry window into this segment, which has solid long-term fundamentals.**
- ▶ **In a scenario with somewhat higher rates, average cap rates are projected to stay stable for some time around 5.8% before starting to fall toward levels closer to 5.3%.**
- ▶ Financing conditions, on the other hand, have already been improving as projections of falling interest rates are priced in.

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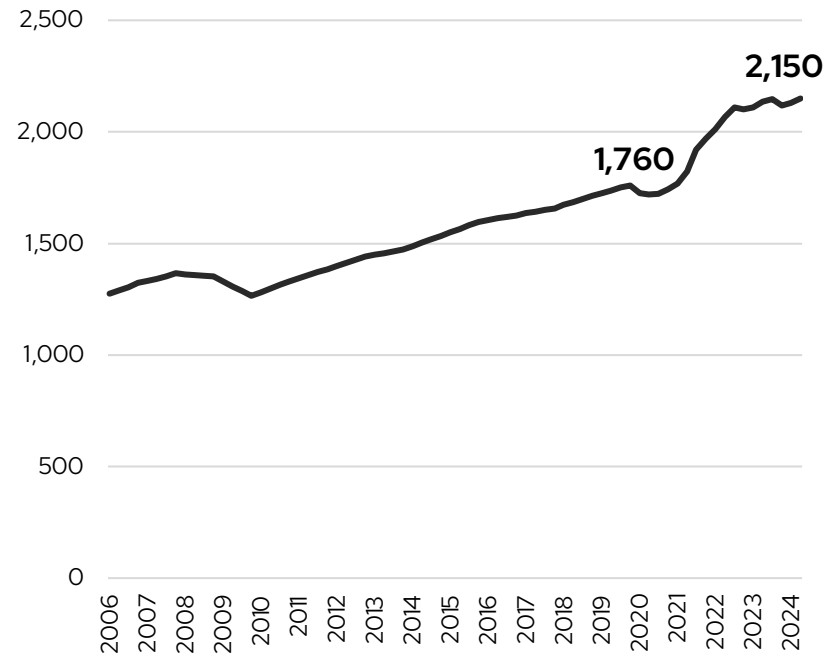
APARTMENTS (MULTIFAMILY)

Operating Metrics

Occupancy Rate (%)



Average Rent (US\$/month)



SECTORAL

Highlights

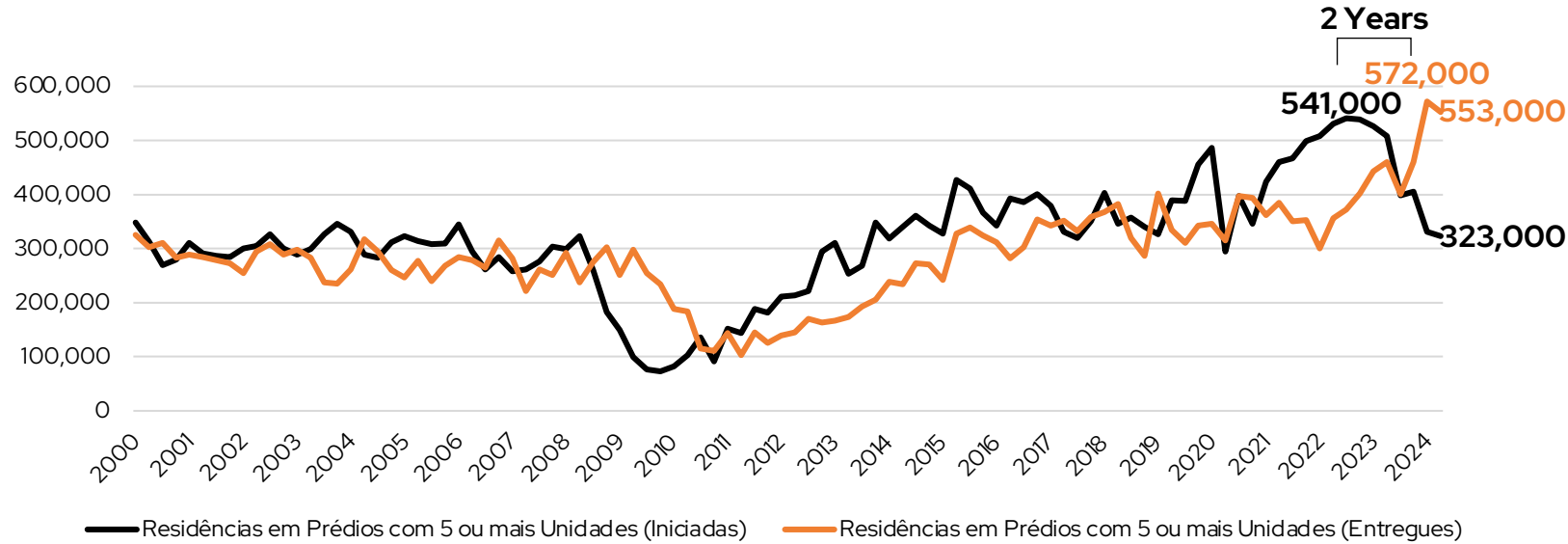
- ▶ The arrival of a larger supply of multifamily properties in 2023-2024 eased demand pressure and caused the occupancy rate to fall from 97% to about 94%.
- ▶ Over the next 5 years, average occupancy for the U.S. is projected to remain stable around 94%-95%, in line with historical levels.
- ▶ **Rents, which rose sharply after the start of the pandemic, are expected to rise more moderately over the next 5 years, at rates close to the historical growth of 3% to 4% per year.**

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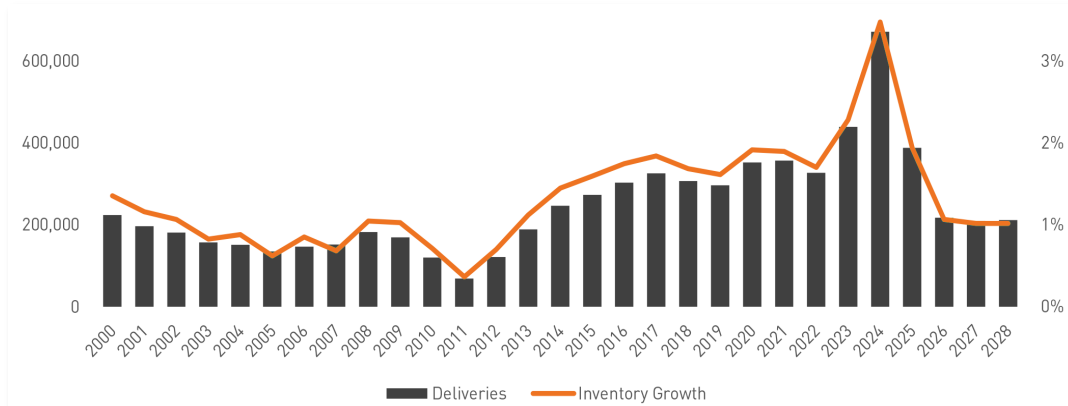
APARTMENTS (MULTIFAMILY)

Mismatch between Construction and Unit Delivery

New Residential Units in Buildings with 5 or More Units: Started vs. Delivered per Year



Units Delivered 2024 - 2028



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Highlights

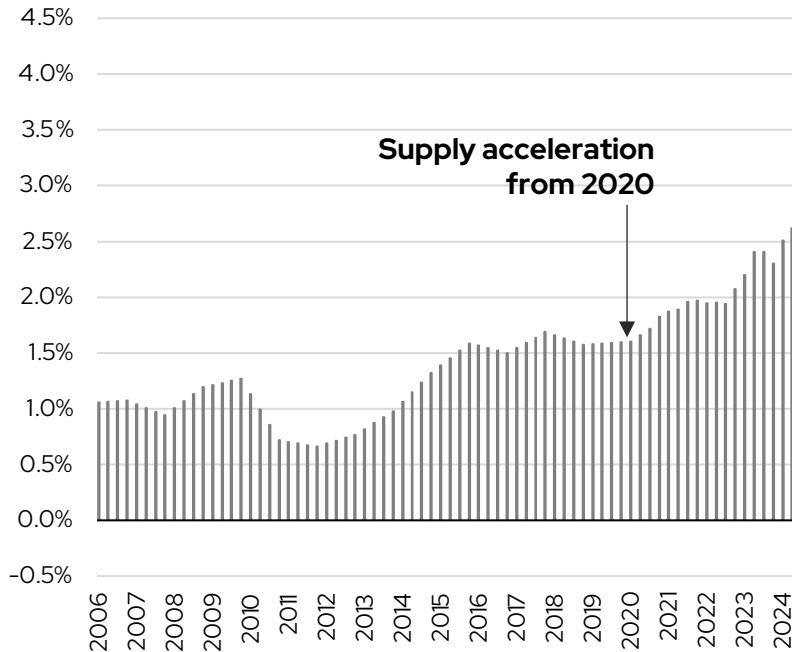
- ▶ There is a gap of approximately 2 years between construction start and delivery of multifamily properties.
- ▶ With a sharp rise in interest rates, there was a significant drop in new apartment construction starts. Projects started in 2022 are being delivered in 2024, with a sharp reduction in deliveries from 2026 onward.
- ▶ **Between 2026 and 2028, a delivery pace below that of the last 10 years is expected, which is an opportunity for developers who can deliver projects in this window with less competition.**

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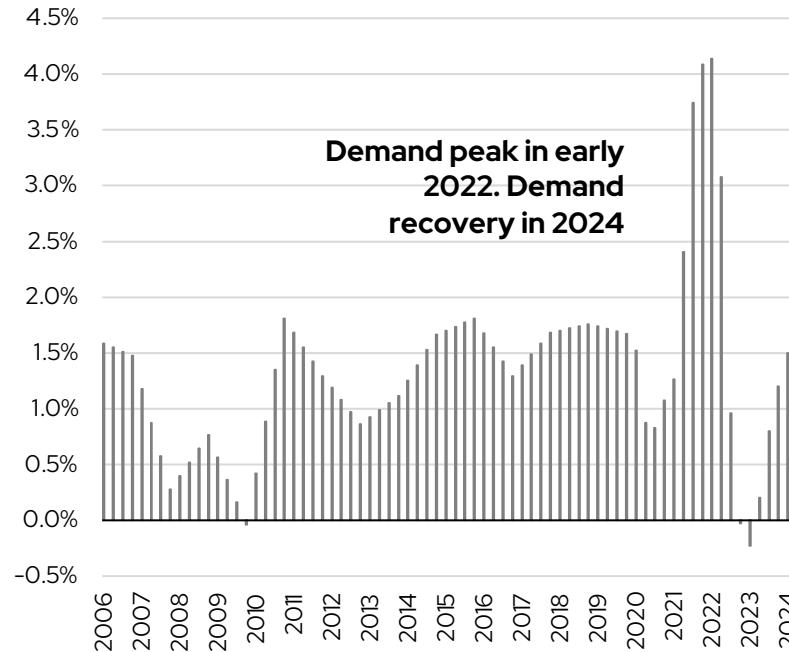
APARTMENTS (MULTIFAMILY)

Supply and Demand

Annual Supply Growth (% of Inventory)



Annual Demand Growth (% of Inventory)



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Highlights

- ▶ With the rising popularity of residential renting (by necessity or by choice), the annual supply of apartments in multifamily properties has been rising since 2011, accelerating in the post-pandemic period.
- ▶ Absorption, in turn, which had been near 1.5% per year, surged after 2020 and plunged after 2022.
- ▶ More recently, it has returned to historical levels of 1.5% per year, reinforced by structural demand growth.
- ▶ **The trend, from 2025 onward, is for supply to grow again at a slower pace and for supply and demand to rebalance.**

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Short- and Medium-Term Scenarios

Short Term (1 to 2 years): Neutral Bias

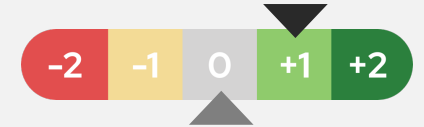
- Through early 2025, there is a large volume of properties being delivered and undergoing lease-up, which means greater competition for tenants and weaker operating performance. **It may be an opportunity to acquire operating properties at a discount, especially those with maturing financing that will need to be sold.**
- Some markets have excess supply that still needs to be absorbed before operating metrics improve. It is essential to carefully select attractive markets to avoid predatory competition.

Medium Term (3 to 5 years): Positive Bias

- From 2026, the pace of deliveries should decline substantially, and much of the units delivered between 2023 and 2024 should already have been absorbed. **This creates an excellent window for developers who can deliver projects between 2026 and 2028, since competition tends to be low.**
- In the long term, structural demand should remain healthy, accompanied by a more stable level of supply, since construction and financing costs are unlikely to allow a supply expansion like the one seen in 2023-2024.

Ativore View

Current half-year:



Previous half-year:

Positive bias: active search for opportunities

- Opportunities to acquire operating properties at a discount from operators with maturing financing.
- From 2025, positive structural fundamentals should once again drive the segment.

Attention for investors:

- Some markets should be avoided because they had a construction boom disproportionate to demand growth. In these markets, vacancy rose and effective rents have grown little or not at all. Knowledge of the supply-demand balance at the micro level is therefore critical.



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3 Single-Family Rentals



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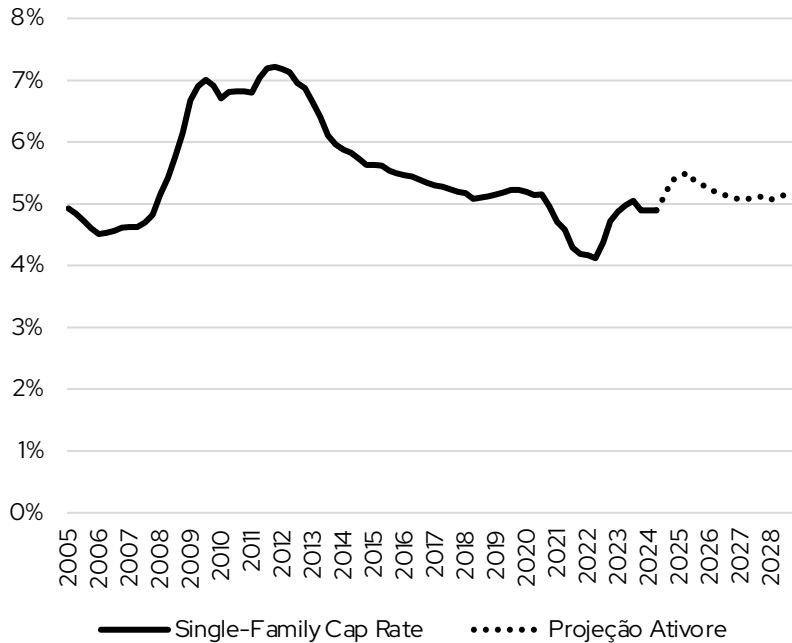


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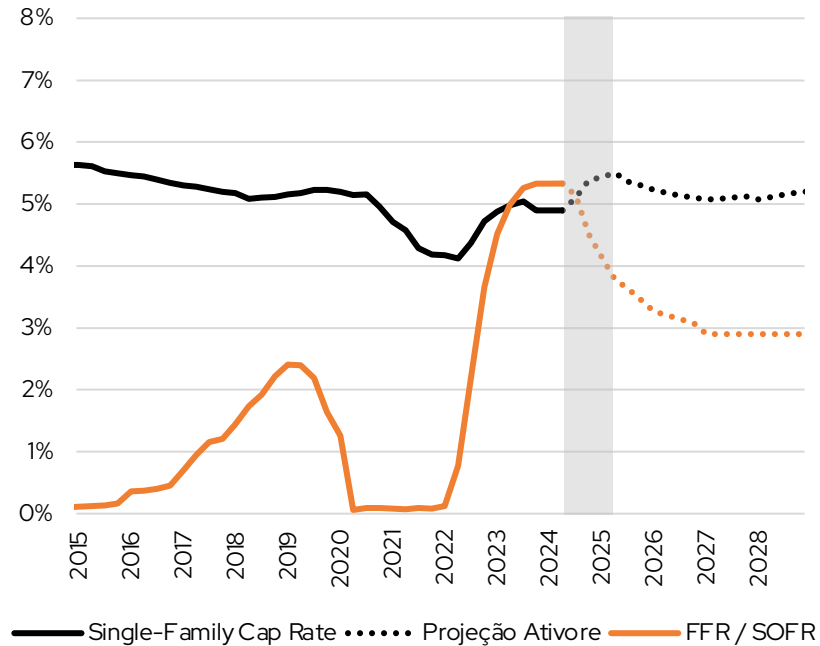
SINGLE-FAMILY RENTALS

Cap Rate – History and Projection

Cap Rate (2005 – 2028)



Cap Rate (2015 – 2028)



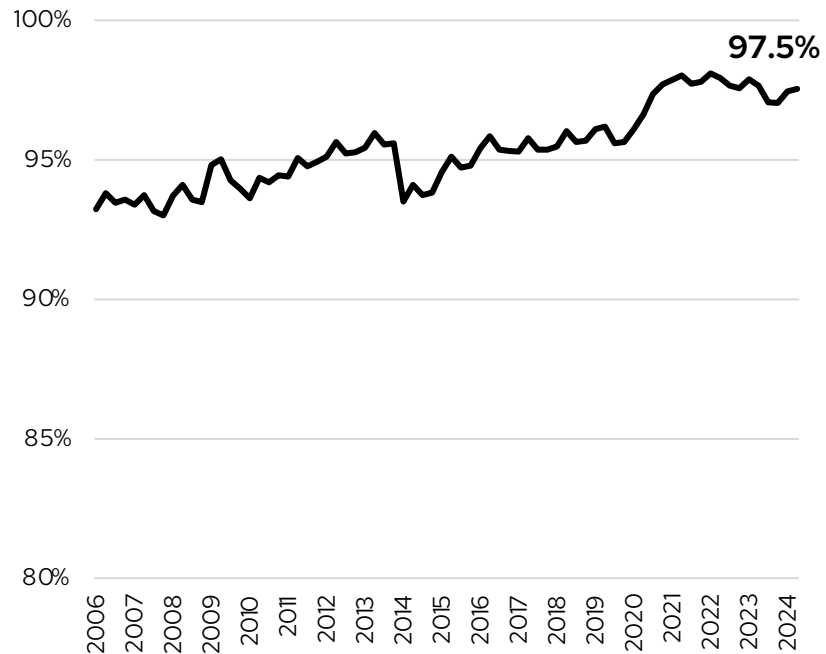
SECTORAL

Highlights

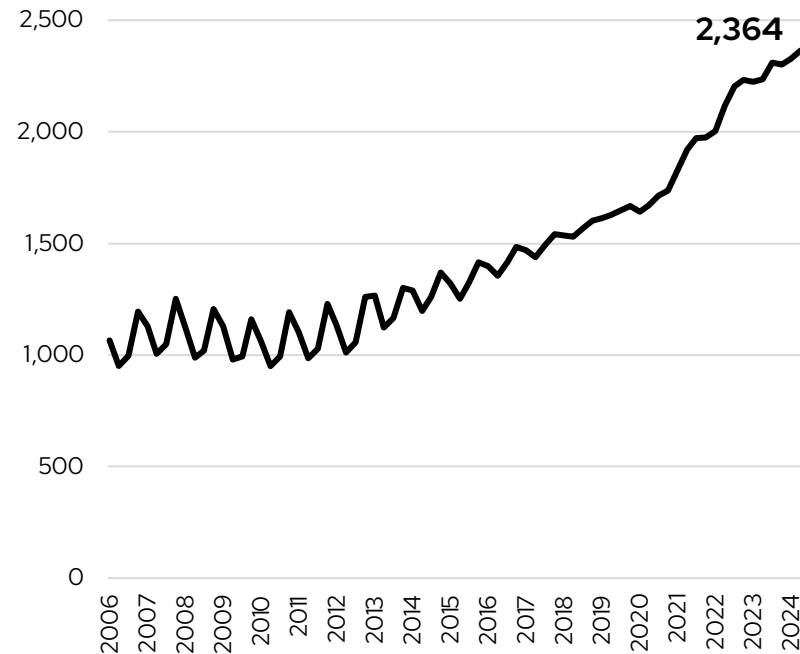
- ▶ The institutional Single-Family Rentals market is relatively new and has been expanding.
- ▶ Cap rates in the Single-Family Rentals segment tend to track the cap rates of Multifamily.
- ▶ These cap rates are projected to rise slightly before falling again.
- ▶ **This market is typically dominated by individual investors. It is therefore less professionalized and more inefficient, which can create opportunities for professional investors.**

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Occupancy Rate (%)



Average Rent (US\$/month)



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Highlights

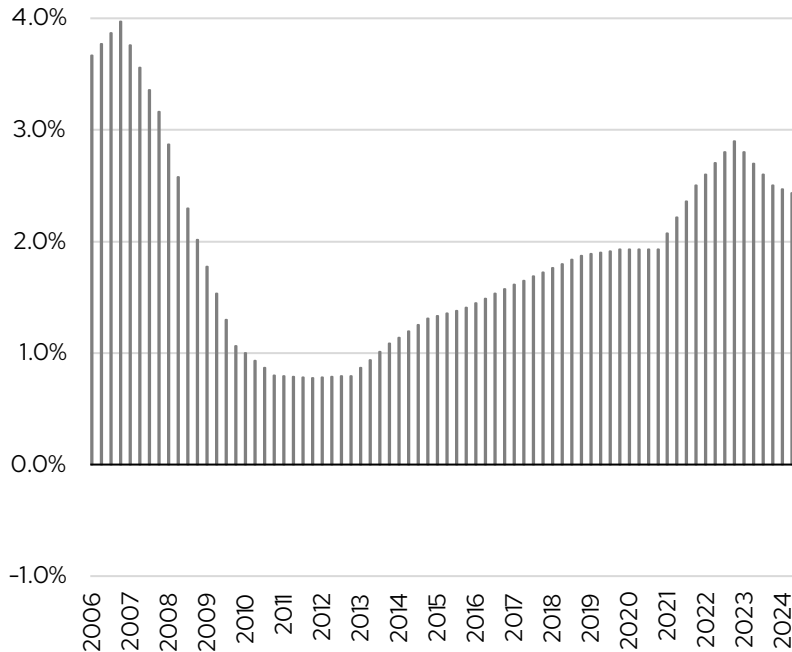
- ▶ The Single-Family home is the preferred housing of the typical American. At a time when buying a home has been a difficult goal for many families, renting Single-Family homes has been gaining prominence.
- ▶ **Renting this type of home is driven by the same long-term fundamentals that positively influence the apartment segment in multifamily properties – falling future supply, resilient demand, and the difficulty of buying a home.**
- ▶ The segment's occupancy rates are close to historical highs.
- ▶ And rents have risen consistently since 2017.

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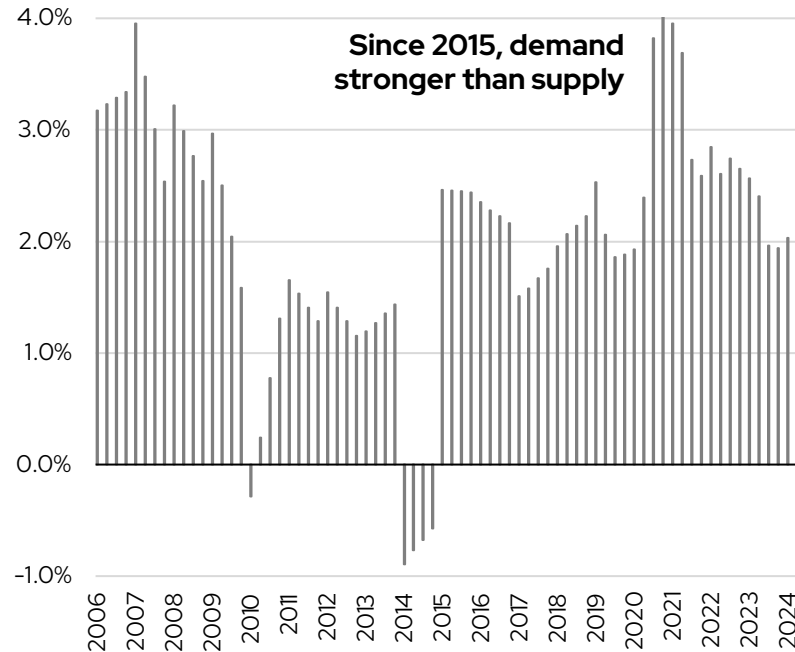
SINGLE-FAMILY RENTALS

Supply and Demand

Annual Supply Growth (% of Inventory)



Annual Demand Growth (% of Inventory)



SECTORAL

Highlights

- ▶ Supply in the segment has been growing gradually since 2012, following the 2008 crisis, which hit Single-Family Home construction most heavily.
- ▶ Since the rise in interest rates in 2022, a slight pullback in the construction of this type of property has begun.
- ▶ **Demand, however, has been consistently greater than supply since 2015, which explains the improvement in the segment's operating metrics.**
- ▶ **With the pandemic and an even greater appreciation for living in houses – more spacious and with more open areas than apartments – demand for Single-Family rentals intensified further and should remain high.**

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Short- and Medium-Term Scenarios

Short Term (1 to 2 years): Positive Bias

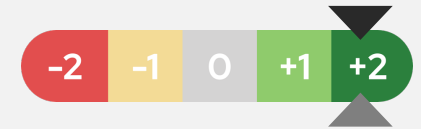
- A very positive scenario for renting Single-Family homes, the preferred housing of the typical American.
- With the pandemic, the preference for houses – with more space and open areas – intensified.
- Still-high interest rates and median home prices at historical highs make buying very costly and should strengthen the Single-Family home rental market.

Medium Term (3 to 5 years): Positive Bias

- This is a market still dominated by individual investors and therefore more imperfect and inefficient, with more opportunities for professional investors.
- The segment benefits from the solid fundamentals of the residential rental market: falling future supply, resilient demand, and the difficulty of buying a home.

Ativore View

Current half-year:



Previous half-year:

Positive bias: active search for opportunities

- ▲ Solid structural fundamentals for the residential segment as a whole.
- ▲ The preference for Single-Family homes and the difficulty of buying a home are factors that have strongly driven the Single-Family rental segment.
- Traditionally, Single-Family homes were rented one by one, independently. Today, the build-to-rent community market is gaining strength, in which the entire community is dedicated to renting. This model combines consumer preference for this type of product with greater business management efficiency.



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4 Retail *(Strip Malls)*



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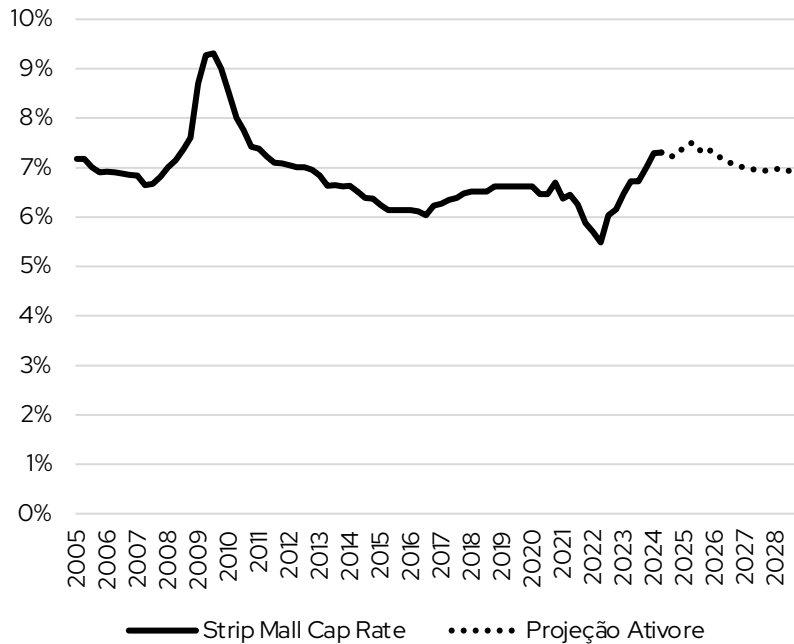


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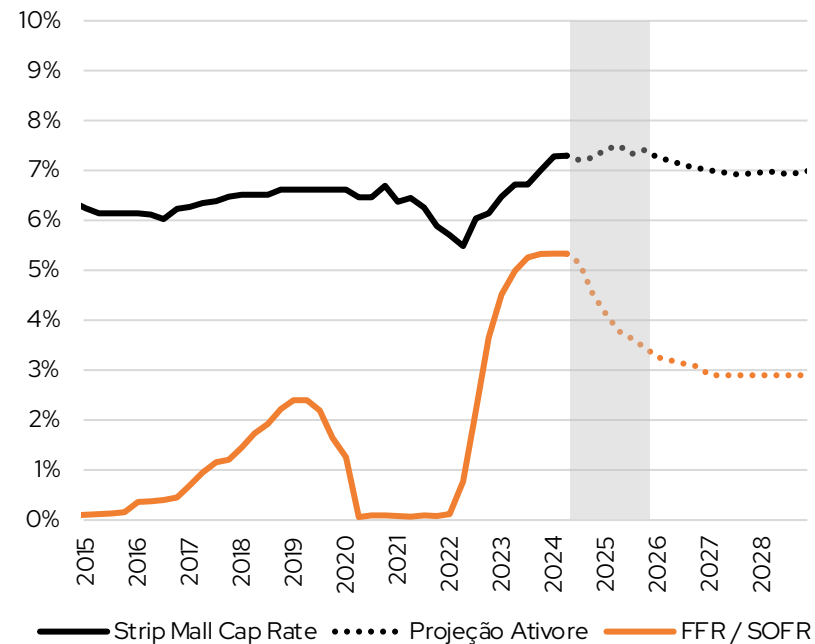
NEIGHBORHOOD RETAIL (STRIP-MALLS)

Cap Rate – History and Projection

Cap Rate (2005 – 2028)



Cap Rate (2015 – 2028)



SECTORAL

Highlights

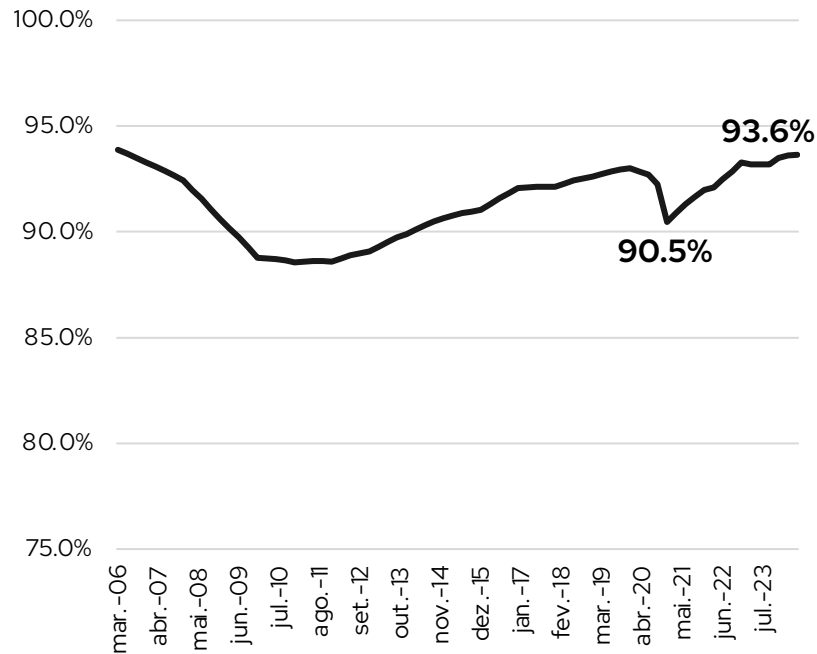
- Historically, average cap rates ranged between 6% and 7%.
- With monetary tightening, they rose above the 7% level.
- Because of the time lag of 1 to 1.5 years, there is a more general downward trend in cap rates from late 2025 onward, which represents an opportunistic window for acquisitions.**
- Financing costs, however, have already begun to fall, positively influencing retail purchases and financing for property acquisitions.

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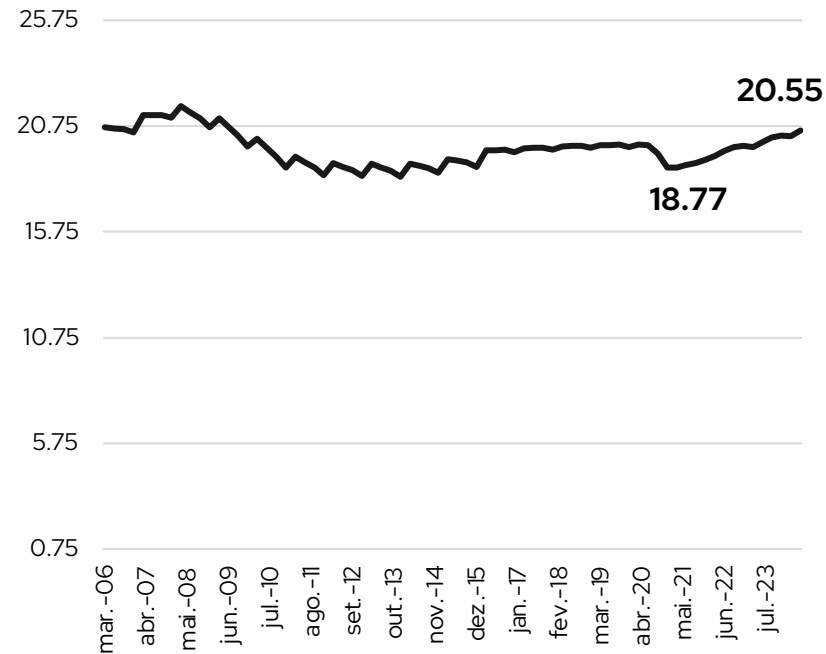
NEIGHBORHOOD RETAIL (STRIP-MALLS)

Operating Metrics

Occupancy Rate (%)



Average Rent (US\$/sq ft/year)



SECTORAL

Highlights

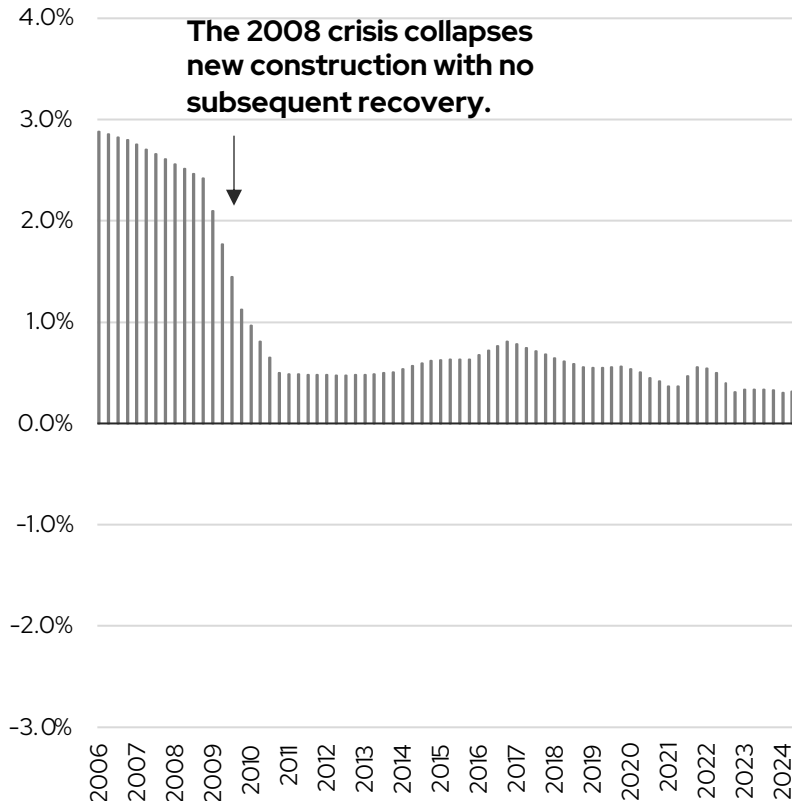
- ▶ Strong recovery of the segment after the pandemic.
- ▶ Occupancy at 93.6%, close to historical highs.
- ▶ The occupancy rate is driven mainly by the shortage of available space.
- ▶ Rents, however, are stable over the long term, with a slight increase since 2021 (+9.7%).
- ▶ Rising occupancy tends to reinforce the upward trend in rents.
- ▶ On the other hand, the segment faces difficulty in raising rents, since retailers have seen little growth in sales per square foot.

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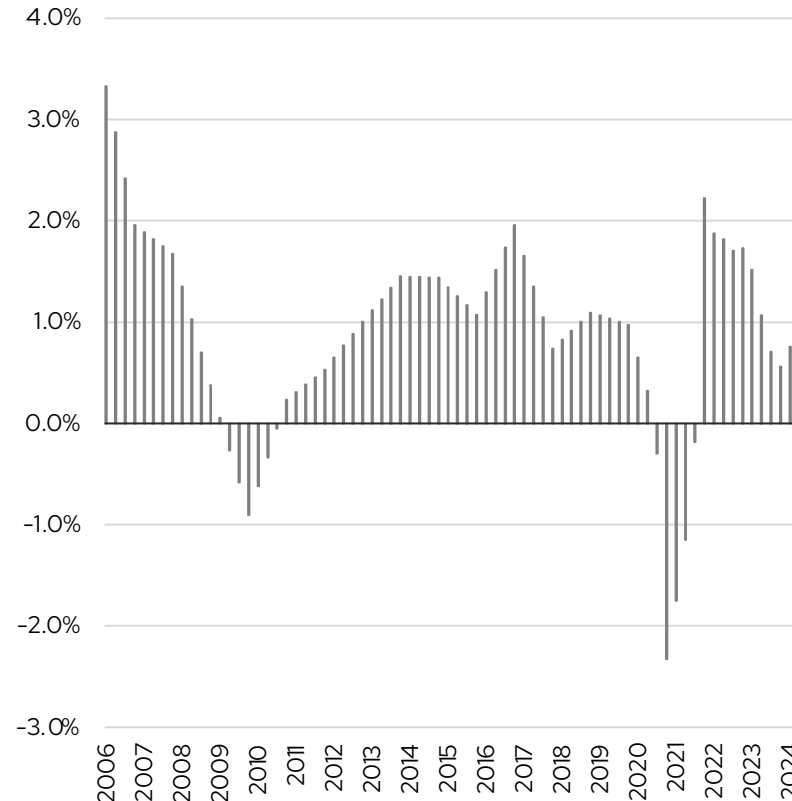
NEIGHBORHOOD RETAIL (STRIP-MALLS)

Supply and Demand

Annual Supply Growth (% of Inventory)



Annual Demand Growth (% of Inventory)



SECTORAL

Highlights

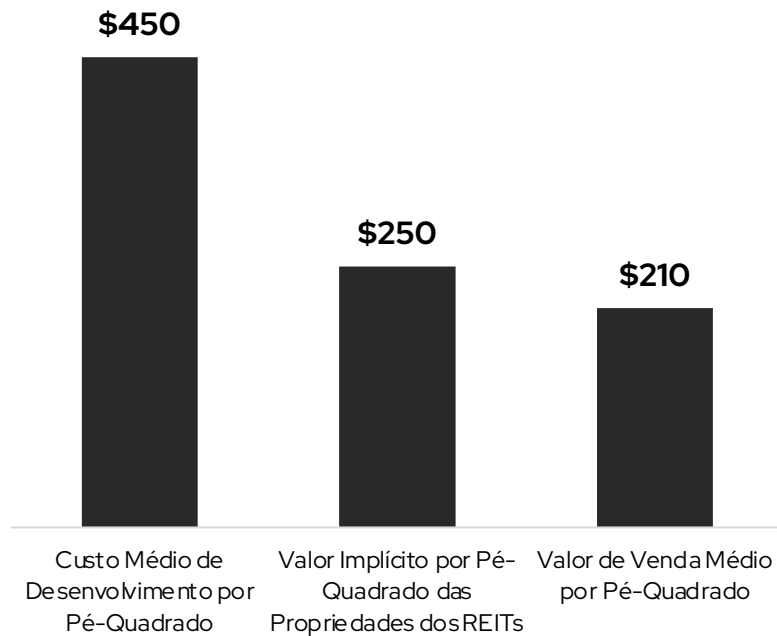
- ▶ **Since 2009, a very sharp drop in the supply of new space.**
- ▶ Currently, construction is below 0.5% of inventory per year.
- ▶ Beyond the low supply of new properties, many well-located, older strip-malls have been demolished to make way for other types of real estate (mainly residential), which also pushes supply down.
- ▶ **Demand for new space grows slowly but has exceeded supply since 2012.**

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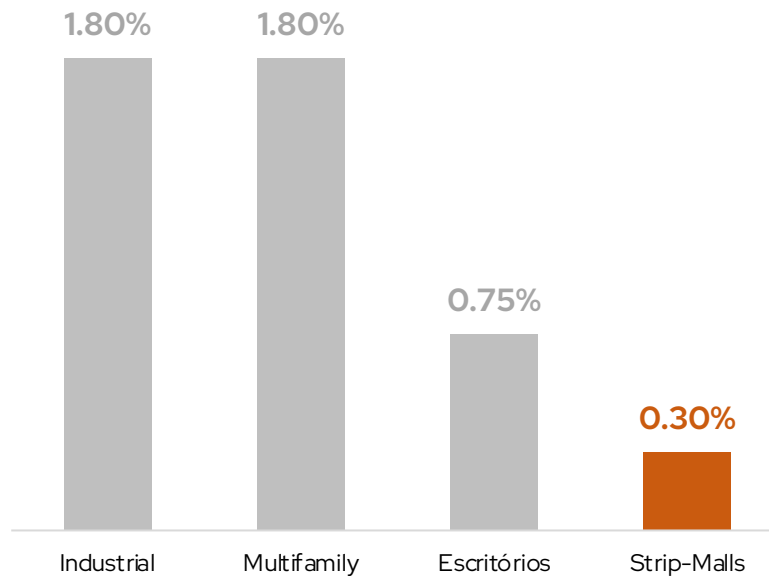
NEIGHBORHOOD RETAIL (STRIP-MALLS)

Development Cost and Future Supply

Significant Discount to the Development Cost of New Properties (Aug-24)



Average Annual Supply Growth between 2024 – 2028 (% of Inventory)



SECTORAL

Highlights

- ▶ The extremely low supply levels are explained by rising construction costs relative to rent values.
- ▶ Developing a new strip-mall can cost more than double an equivalent older property.
- ▶ As a result, new strip-malls are currently built only when around 60% of tenants have already signed leases at high rent values. And this has only happened in high-income locations and/or locations highly desired by retailers.
- ▶ **The combination of stable rents and high construction costs will not allow inventory growth in the short and medium term. The sector has the lowest projected supply growth for the 2024 – 2028 cycle.**

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NEIGHBORHOOD RETAIL (STRIP-MALLS)

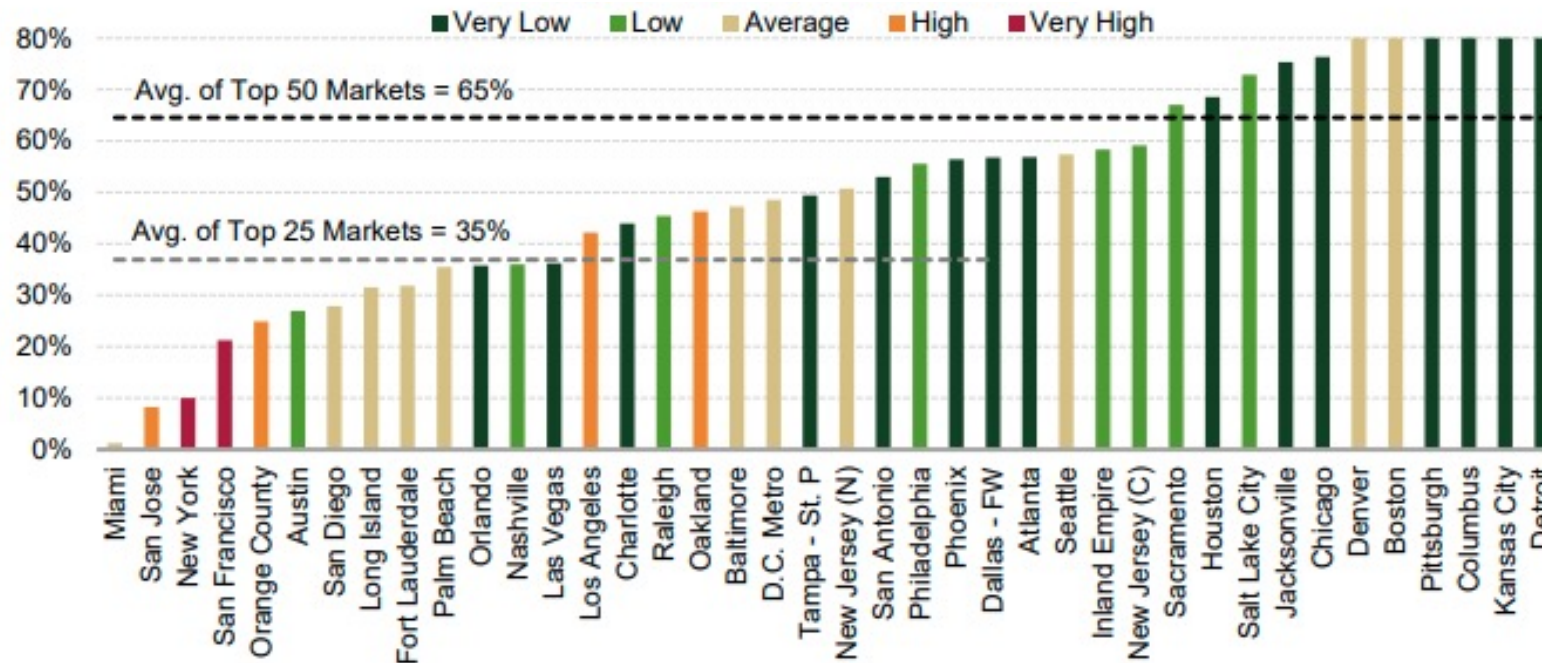
Lack of Viability for New Construction

SECTORAL

Highlights

- ▶ At current rent levels, it is very difficult for new retail property development to “pencil out.”
- ▶ In a Green Street survey, average rents would have to rise 65%, on average across the 50 largest markets, for new property development to be economically viable in those markets.
- ▶ The only major market where rent values would already justify new property development is Miami.
- ▶ Ironically, in the locations where rents need to rise the least (San Jose, NYC, etc.), construction is very difficult (permitting challenges, “nimbyism”, etc.).

Rent Growth Required (%) to Justify Building a New Strip-Mall
(colors indicate the level of barriers to construction in the market)

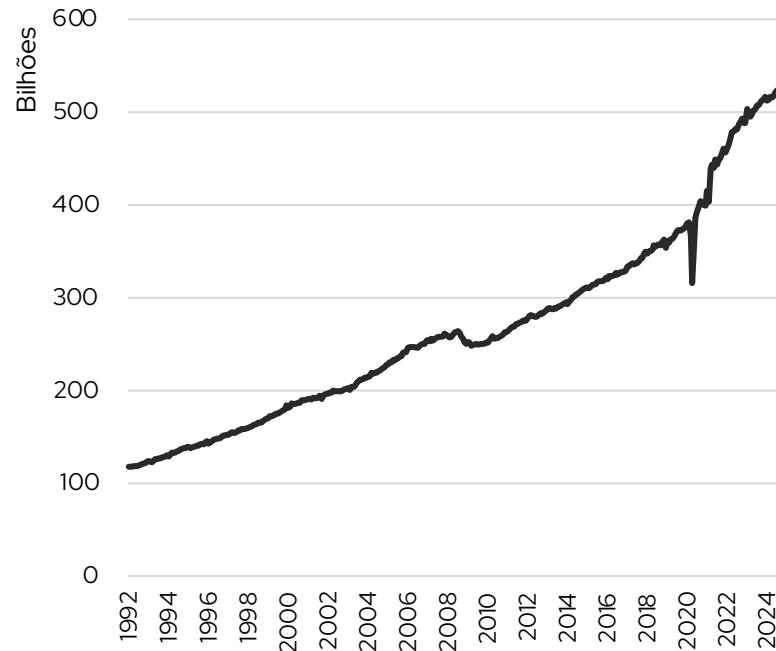


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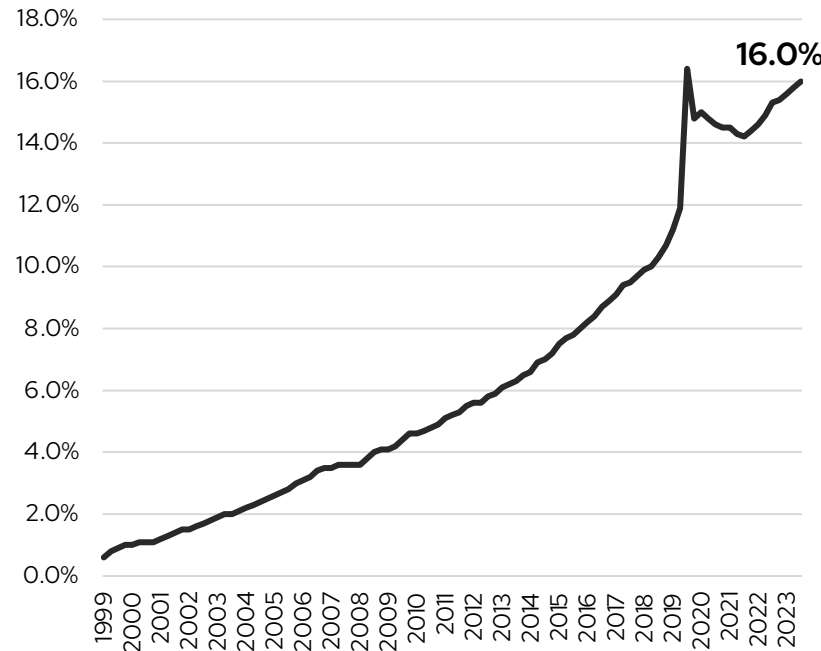
NEIGHBORHOOD RETAIL (STRIP-MALLS)

Retail Sales and E-Commerce Penetration

Total Monthly Retail Sales, Excluding Vehicles, Auto Parts, and Fuel



E-Commerce Share of Total Sales



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Highlights

- ▶ Stable growth in U.S. retail spending is what has ensured the durability of demand for space. Although this factor is heavily influenced by short-term economic fluctuations, no long-term decline in U.S. consumer spending is expected.
- ▶ On the other hand, online retail is growing strongly, already reaching a 16% share of retail spending.
- ▶ **Strip-malls, in turn, end up being more protected than other types of retail, since they are positioned as neighborhood retail, focusing on food and services (restaurants, snack bars, gyms, clinics, beauty salons, entertainment, etc.).**

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NEIGHBORHOOD RETAIL (STRIP-MALLS)

Cap Rates of REITs by Property Type

Cap Rates REITs – by Property Type (August/24)

Average Cap Rates for the 11 Retail-focused REITs / Change Since the Last Estimate in May/24

Strip-Mall Type	Supermarket Anchor	% of Value	Gateway Market	Primary Market	Secondary Market	Tertiary Market
Neighborhood Center	Yes	23	5.9% / 0 bps	6.0% / 0 bps	6.3% / -15 bps	6.3% / -20 bps
Neighborhood Center	No	3	6.6% / 0 bps	6.5% / 0 bps	6.6% / 0 bps	6.6% / -25 bps
Community Center	Yes	28	6.2% / 0 bps	6.4% / -5 bps	5.6% / -15 bps	6.8% / -25 bps
Community Center	No	6	7.2% / 0 bps	7.1% / -15 bps	7.3% / -20 bps	7.9% / -30 bps
Power Center	Yes	22	7.0% / 0 bps	7.2% / -5 bps	7.9% / -20 bps	7.7% / -30 bps
Power Center	No	6	8.5% / 0 bps	8.2% / -15 bps	8.1% / -10 bps	8.1% / -30 bps
Lifestyle Center	N/A	6	6.6% / 0 bps	6.4% / -5 bps	6.7% / -15 bps	6.7% / -15 bps

Gateway = Boston, D.C. Metro, Los Angeles, New York, San Francisco, Seattle

Primary = Austin, Chicago, Dallas, Denver, Houston, Long Island, Northern NJ, Oakland, Orange County, Portland, San Diego, San Jose, South Florida

Secondary = Other markets within Green Street's top 50.

Tertiary = Assets located outside Green Street's top 50 markets or one hour or more from the center

Source: Green Street; Analysis: Ativore Asset.

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Highlights

- Neighborhood strip-malls (Neighborhood Center) tend to have lower cap rates than larger, non-neighborhood strip-malls (Power Centers). This is due to the nature of neighborhood retailers, which offer the appeal of convenience, services, and a supermarket anchor, and are therefore less affected by online retail.
- Considering the portfolio of the 11 REITs retail-focused REITs, except for cap rates in "Gateway" markets, there has been a slight reduction in cap rates across all types of strip-malls in all markets (property appreciation).

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Short- and Medium-Term Scenarios

Short Term (1 to 2 years): Positive Bias

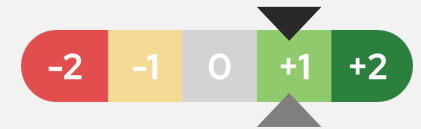
- Rising occupancy and slightly growing rents suggest a positive scenario for the strip-malls segment in the short term.
- The stabilization of retail spending and the decline in U.S. consumer confidence are factors that could reduce sector revenues and demand for new space.
- Falling interest rates, however, tend to boost U.S. consumer spending again, benefiting retail directly.

Medium Term (3 to 5 years): Positive Bias

- The main factors favoring long-term growth are the extremely low supply of new space (due to high construction costs that are incompatible with rent values) and long-term growth in U.S. consumer spending.
- On the other hand, the segment tends to face increasing competition from e-commerce, which tends to limit the expansion of demand for physical space.

Ativore View

Current half-year:



Previous half-year:

Positive bias: active search for opportunities

- ▲ Although strong demand growth is not expected, the supply of new space will remain very limited for many more years, greatly reducing investment risks and maintaining the segment's attractiveness over the long term.
- ▲ With higher current returns (higher cap rates), the strip-malls segment maintained positive leverage throughout the entire rate-hiking cycle, a trend that should strengthen with the projected decline in financing costs.





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5 Logistics *(Industrial)*

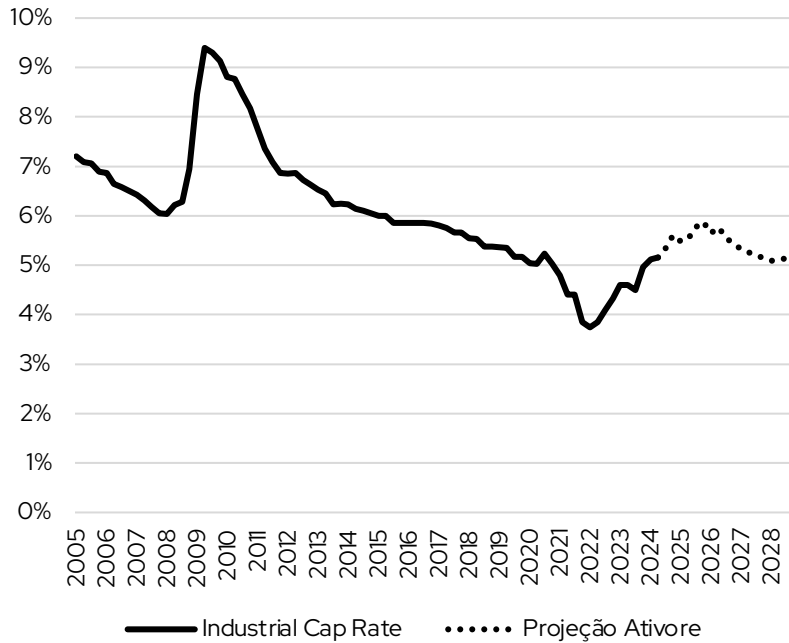


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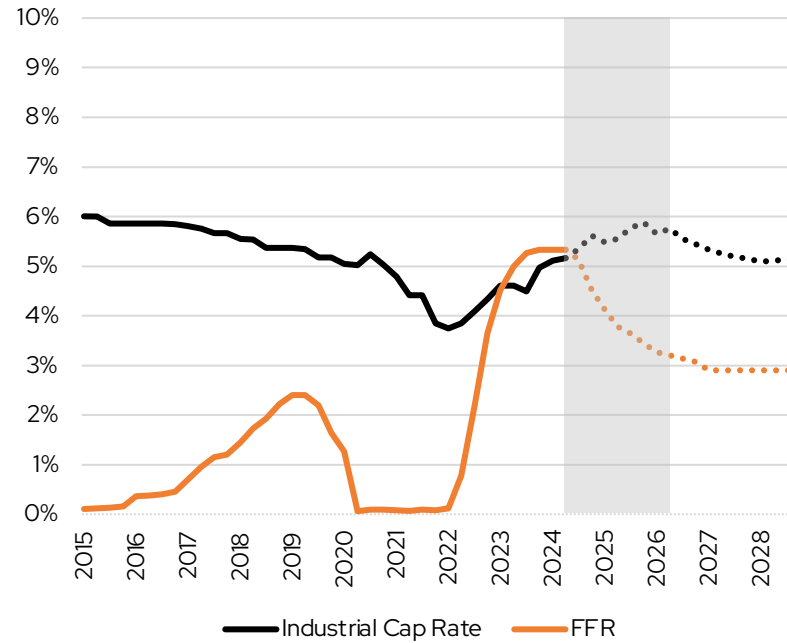


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Cap Rate (2005 – 2028)



Cap Rate (2015 – 2028)



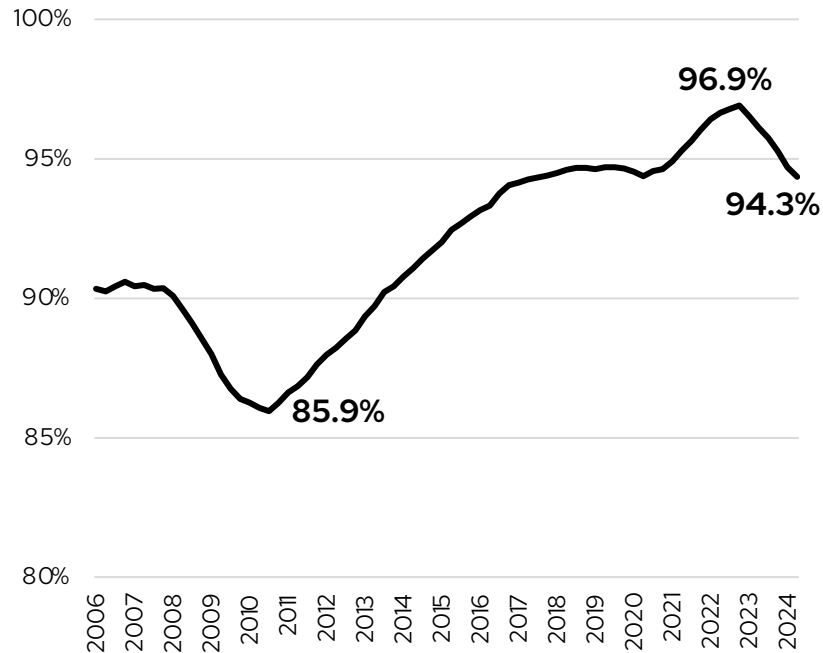
SECTORAL

Highlights

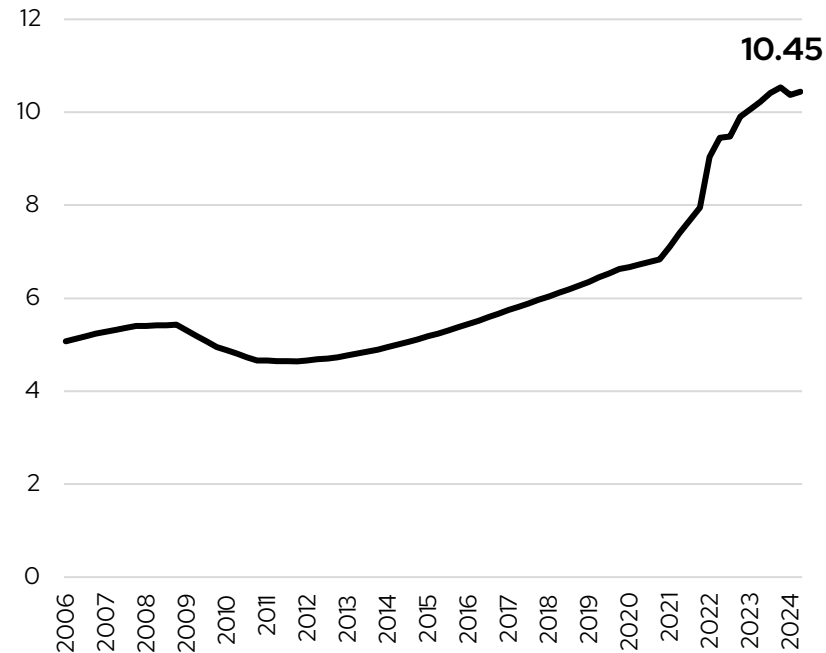
- Average cap rates in the logistics segment are coming off very low levels after the growth boom the sector experienced during the pandemic.
- A further increase in cap rates is projected over the next two years before they decline again.
- Part of this movement is explained by the recent mismatch between supply and demand at the current moment.

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Occupancy Rate (%)



Average Rent (US\$/sq ft/year)



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Highlights

- ▶ **The growth of online retail strongly boosted demand for logistics facilities, driving occupancy from 86% to nearly 97% at its peak in 2022.**
- ▶ With cooling demand and rising supply, occupancy fell to about 94%, a level that is still historically high.
- ▶ Average rent, above US\$ 10 per square foot, is also close to historical highs. However, until the new supply is absorbed, it should remain at this level for the next 1 to 2 years.

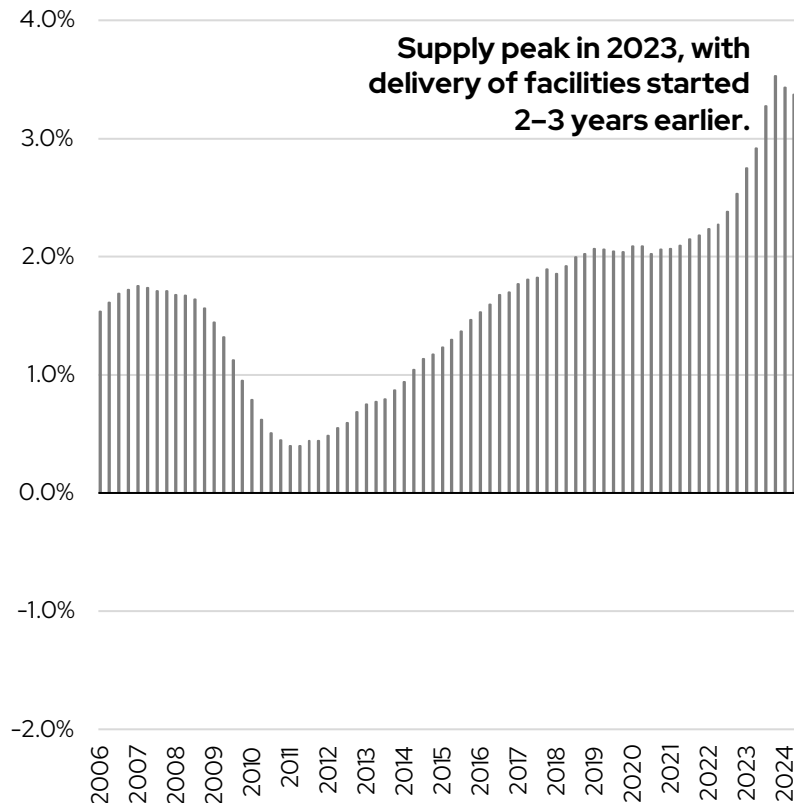
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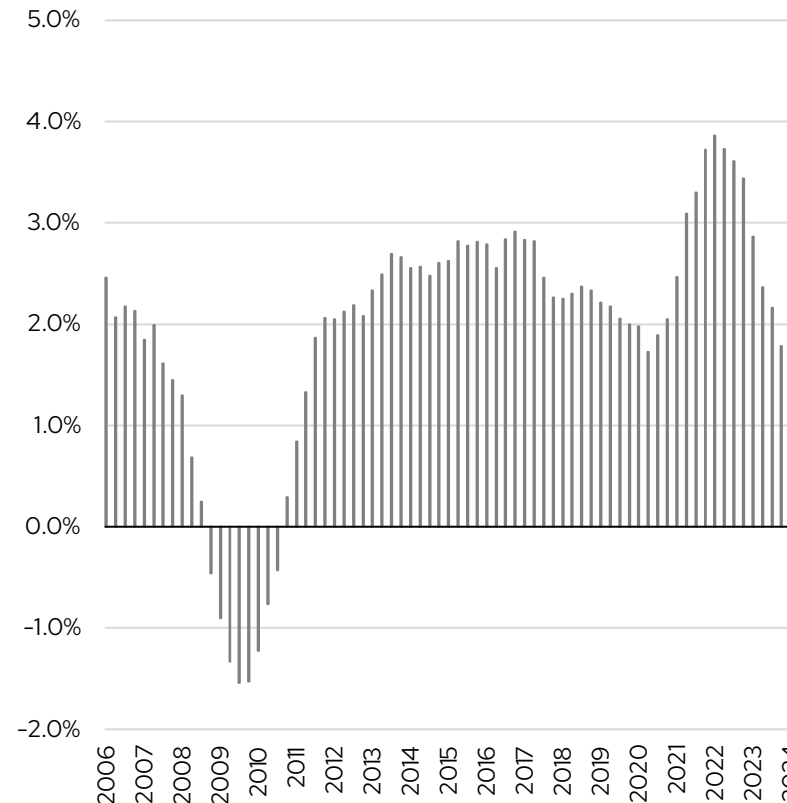
Highlights

- ▶ The time required between permitting and construction of logistics properties has caused a recent imbalance between supply and demand for this type of property.
- ▶ **Precisely when demand has been retreating, after the pandemic boom, supply has been increasing, with a consequent rise in vacancy in the segment.**

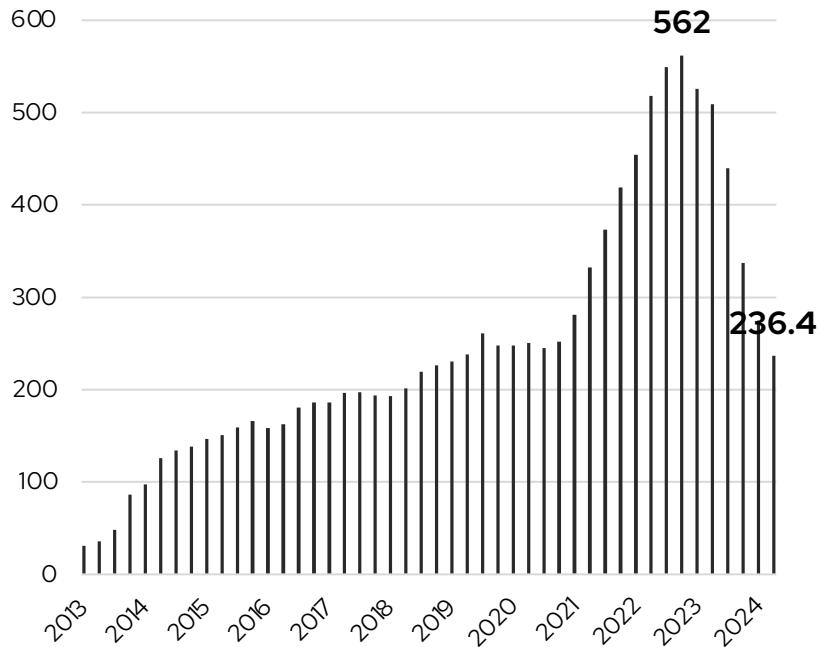
Annual Supply Growth (% of Inventory)



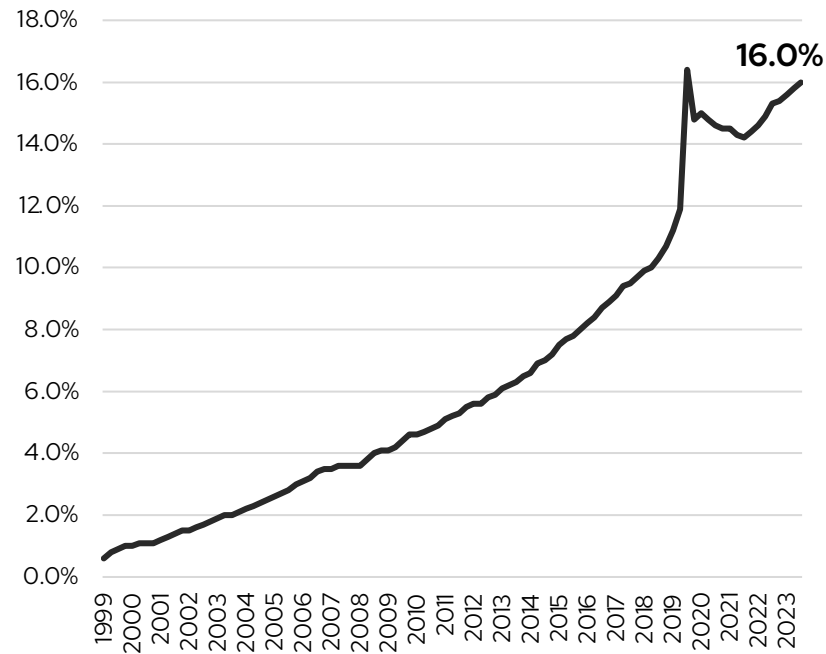
Annual Demand Growth (% of Inventory)



Properties under Construction (millions of square feet)



E-Commerce Share of Total Sales



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Highlights

- ▶ Since the peak in late 2022, however, the volume of logistics properties under construction has fallen considerably as they are completed and delivered to the market.
- ▶ **Deliveries are expected, over the next two years, to return to pré-pandemic levels, which should help stabilize the balance between future supply and demand.**
- ▶ **As for long-term demand, in addition to organic growth in overall sales, online retail is expected to keep growing and sustaining demand for logistics facilities.**



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Short- and Medium-Term Scenarios

Short Term (1 to 2 years): Negative Bias

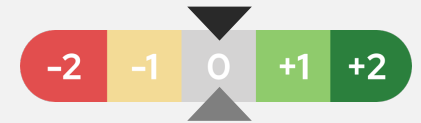
- › In the short term, the logistics property segment is still likely to suffer from supply exceeding demand and a degree of sector cooling.
- › Cap rates are likely to rise somewhat more before starting to fall again.

Medium Term (3 to 5 years): Positive Bias

- › Retail growth, in general, benefits the logistics property segment over the long term.
- › E-commerce growth, in particular, is also a positive structural demand driver.
- › Movements of “onshoring” and “nearshoring” should benefit the sector – in addition to bringing production in-house, companies are increasingly focused on building more resilient supply chains, which tends to increase demand for logistics facilities in the country.

Ativore View

Current half-year:



Previous half-year:

- › Neutral bias: segment still cooling before it improves in the short term, the segment is going through a cooling phase and tends to underperform other segments.
- › In the medium and long term, however, with a better balance between supply and demand, it is a promising sector with attractive structural fundamentals.



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6 Self-Storage



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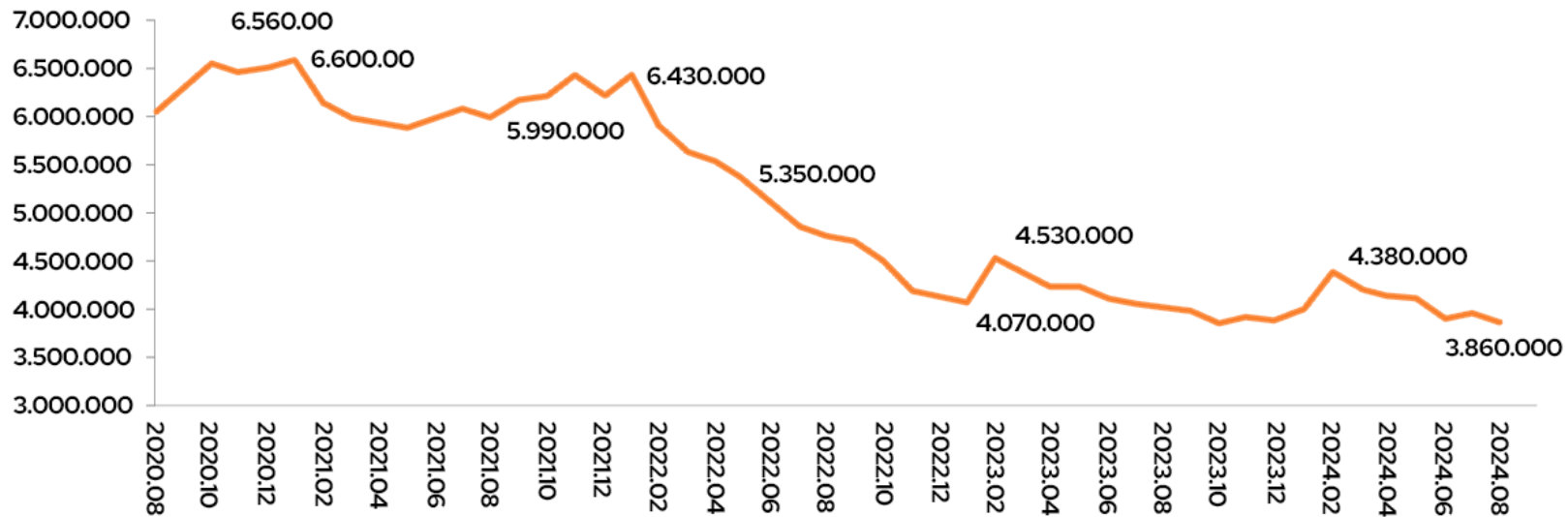


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SELF-STORAGE

Context – Impact of the Decline in Residential Sales Volume

Total Home Sales (annualized)



SECTORAL

Highlights

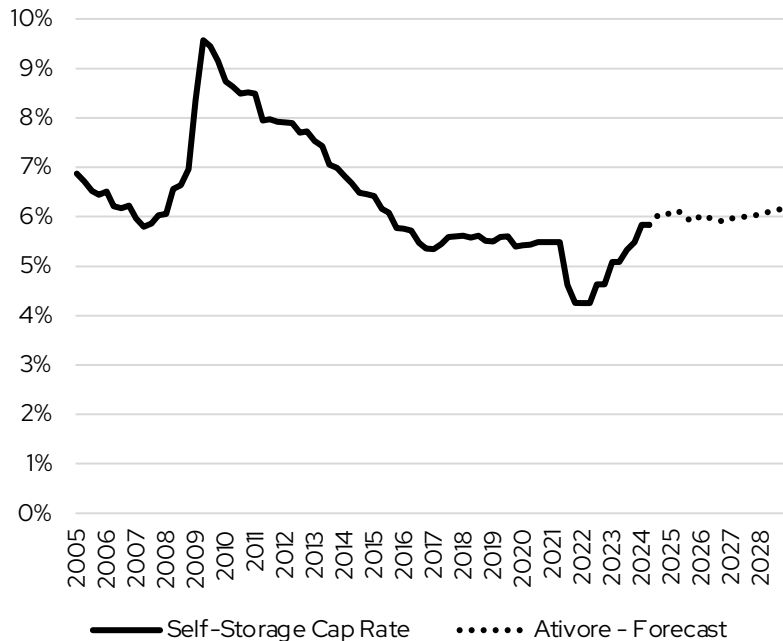
- ▶ With the rise in mortgage rates from 2022, there was a significant drop in the number of homes sold in the U.S.
- ▶ Fewer sales translate into fewer household moves, which in turn are one of the main demand drivers for using self-storages.
- ▶ **As a result, the self-storage segment, despite still having relatively healthy operating metrics, has seen a drop in demand that should only reverse with falling interest rates and increased home transactions in the U.S.**

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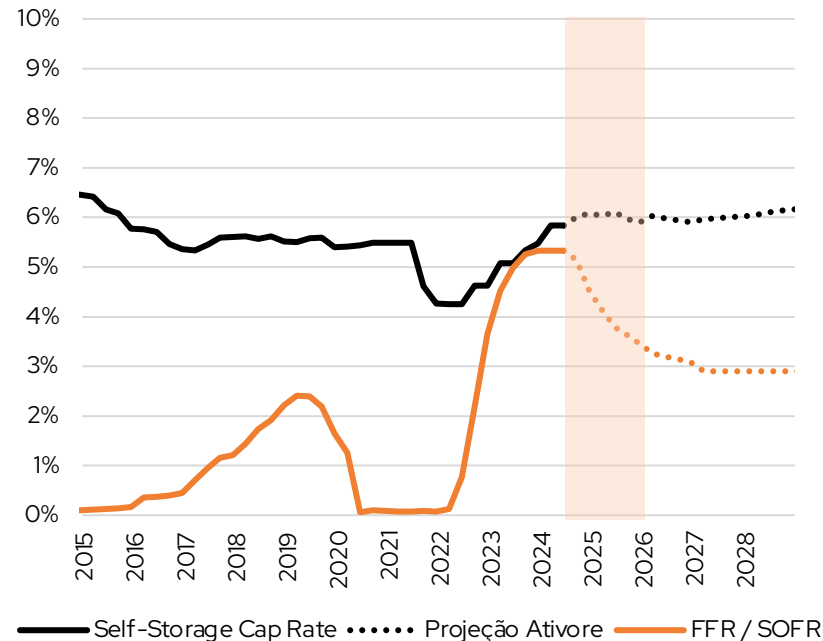
SELF-STORAGE

Cap Rate – History and Projection

Cap Rate (2005 – 2028)



Cap Rate (2015 – 2028)



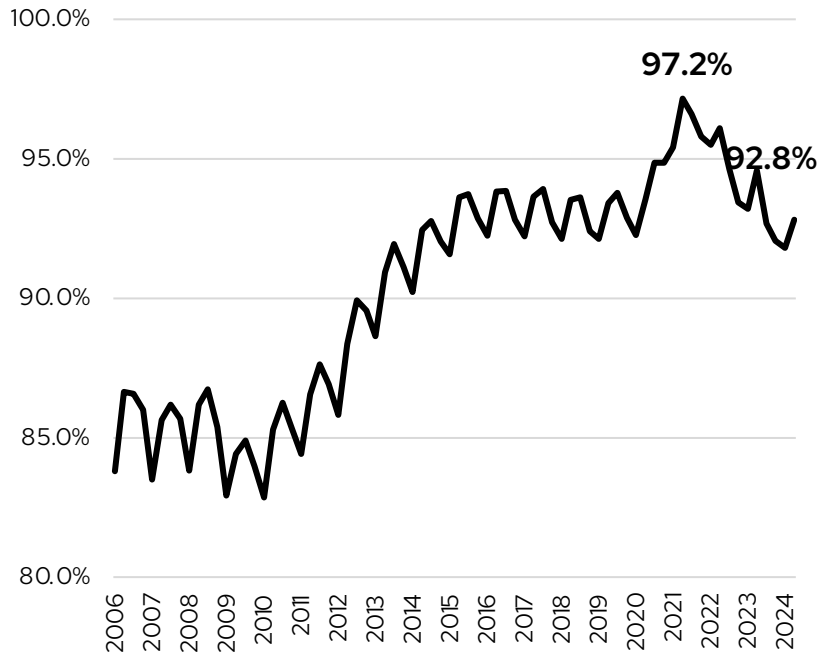
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Highlights

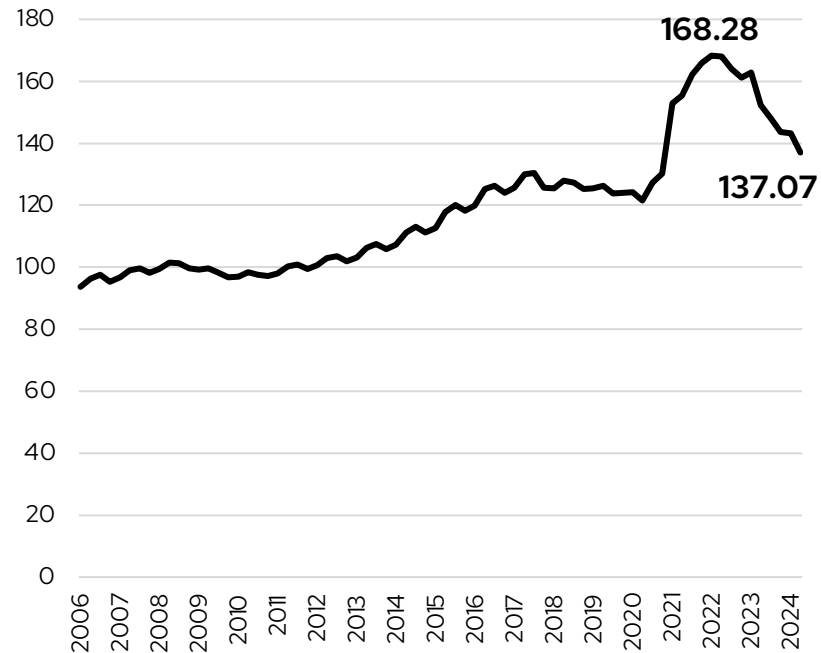
- Typically, cap rates in the self-storage segment follow the cap rates of the multifamily segment with a spread of approximately 0.5% above.
- Since 2015, the segment's average cap rates have ranged between 5% and 6%, falling to near 4% at the height of the pandemic.
- They are now projected to remain stable around 6%.

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Occupancy Rate (%)



Average Rent (US\$/unit/month)



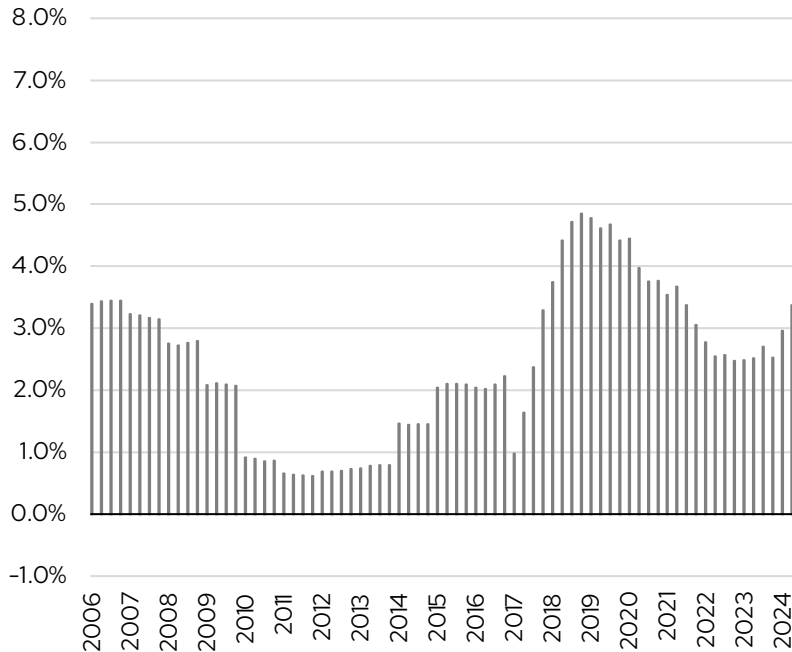
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Highlights

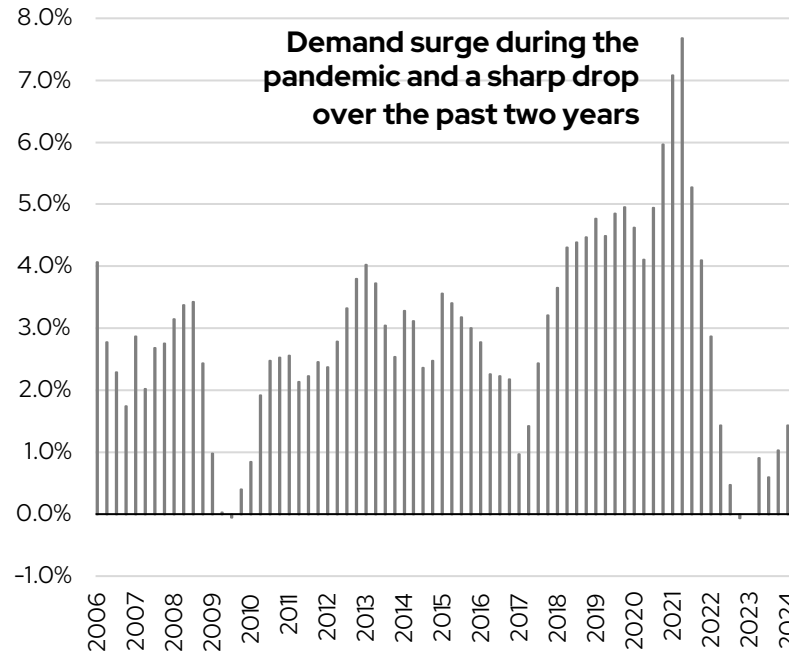
- ▶ With falling demand and rising supply, the occupancy rate fell from the historical record of 97% to the current 93%.
- ▶ Average rents also pulled back significantly, by almost 20% from their peak.
- ▶ Even so, current prices are above prépre-pandemic levels, and the use of self-storages by the U.S. population continues to expand.

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Annual Supply Growth (% of Inventory)



Annual Demand Growth (% of Inventory)



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Highlights

- ▶ The supply of self-storage had been growing since 2018, and the sector has been undergoing a process of professionalization and consolidation.
- ▶ During the pandemic, space absorption grew strongly to record levels, as many people wanted more space at home for a home office, or because they started spending more time at home, hosting more friends, etc.
- ▶ Over the past two years, however, there was a sharp pullback in demand, due to the decline in home sales and the consequent decrease in household moves.
- ▶ **In the medium and long term, with the recovery in moves, supply and demand tend to rebalance again.**

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SELF-STORAGE

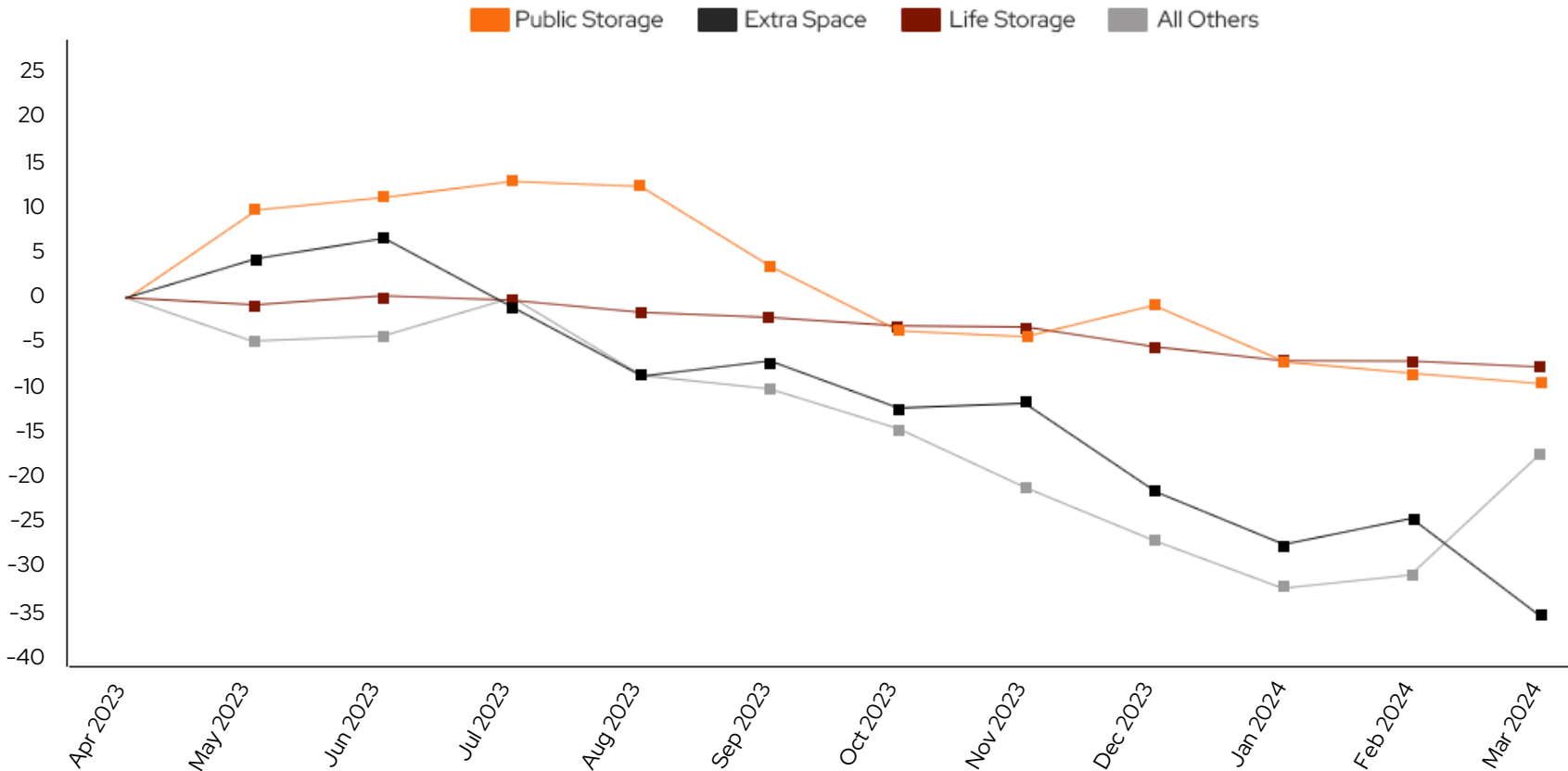
Price Competition in the Segment

SECTORAL

Highlights

- ▶ Although the self-storage market is still quite fragmented, the REITs end up influencing the market as a whole through their business practices.
- ▶ And one of the consequences of the temporary drop in demand is that there has been a certain price war among the REITs focused on self-storage.
- ▶ These players have adopted aggressive discount policies in the first 1 to 3 months of the lease, aiming to attract customers.
- ▶ **Although the discounts are temporary, they can be quite aggressive, reaching 50% in the first 1 to 3 months of the lease. In the short term, this has negatively affected the segment's performance.**

Change in Prices (and Pricing Strategy) of the Major Self-Storage REITs



Short- and Medium-Term Scenarios

Short Term (1 to 2 years): Negative Bias

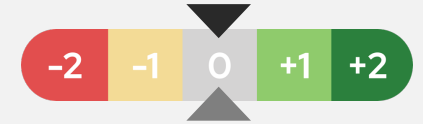
- › The drop in property sales negatively impacted the self-storage segment, since household moves are one of the sector's main demand drivers.
- › With falling demand, aggressive discounts are being implemented by the sector's main REITs.
- › Falling interest rates should mark the beginning of the cycle of improvement in the segment's indicators, driven by the increase in the number of home transactions.

Medium Term (3 to 5 years): Positive Bias

- › In the medium term, with the recovery of home transaction volume, demand for self-storages is expected to rise.
- › Other long-term trends also contribute to the segment's attractiveness:
 - › A growing renter population and a desire for greater mobility;
 - › E-commerce growth;
 - › An aging population and "downsizing".

Ativore View

Current half-year:



Previous half-year:

Neutral bias: the segment should still go through a cooling phase before improving

- In the short term, the sector faces the challenge of falling demand and a certain price war.
- However, with falling interest rates, an increase in property transaction volume is expected, more household moves, and a moderate increase in demand for self-storages.
- Long-term fundamentals also favor investment in the segment.
- The professionalization and consolidation of the segment represent major opportunities for investors, since more than 60% of properties are managed by "mom-and-pop" operators. Automation and the use of new technologies have also been a frontier of growth in the segment.



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7 Offices

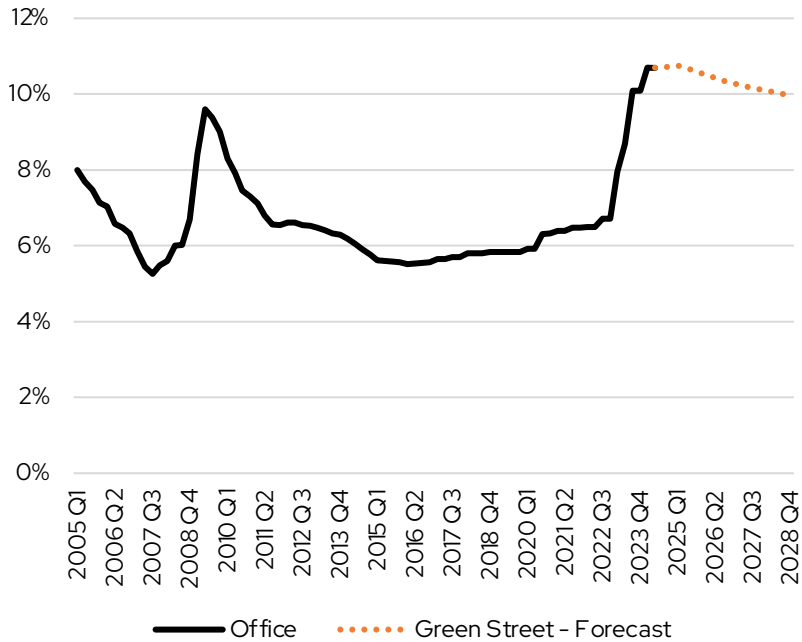


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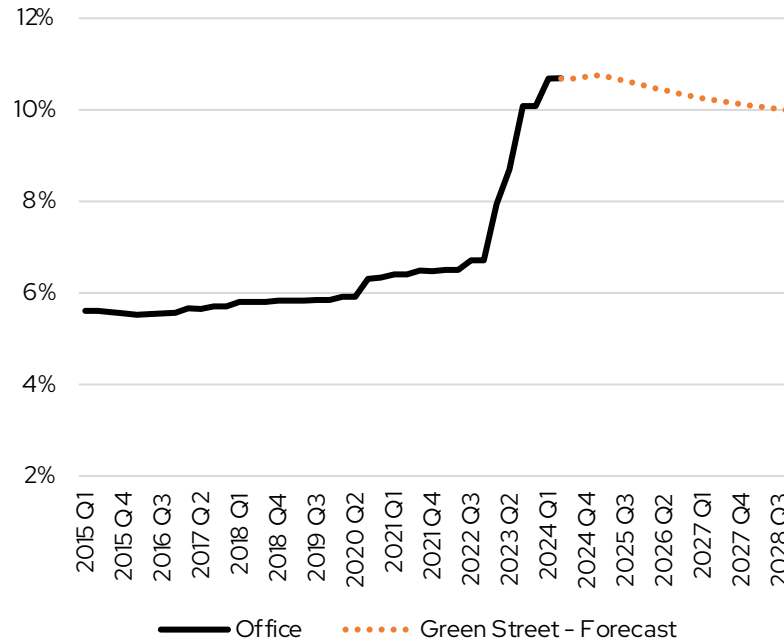


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Cap Rate (2005 – 2028)



Cap Rate (2015 – 2028)



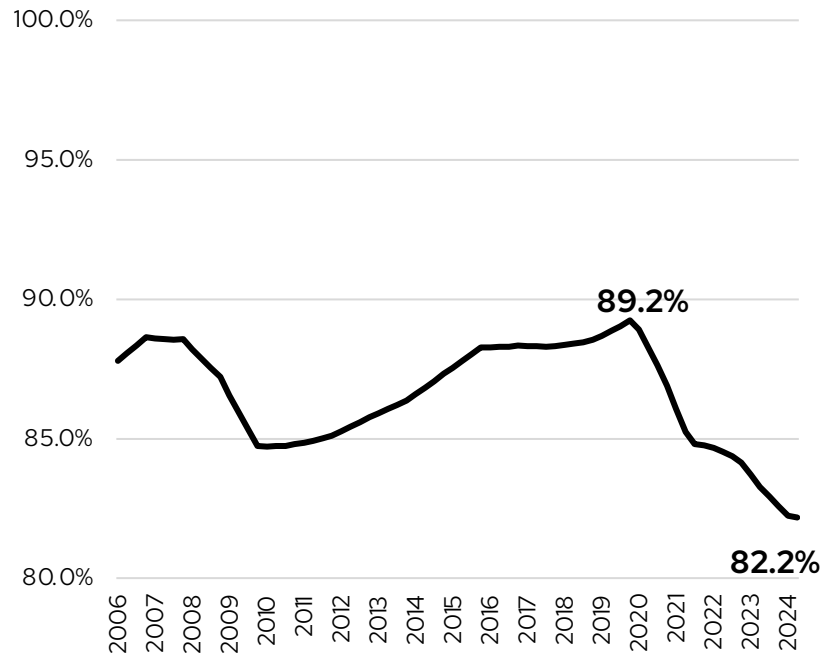
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Highlights

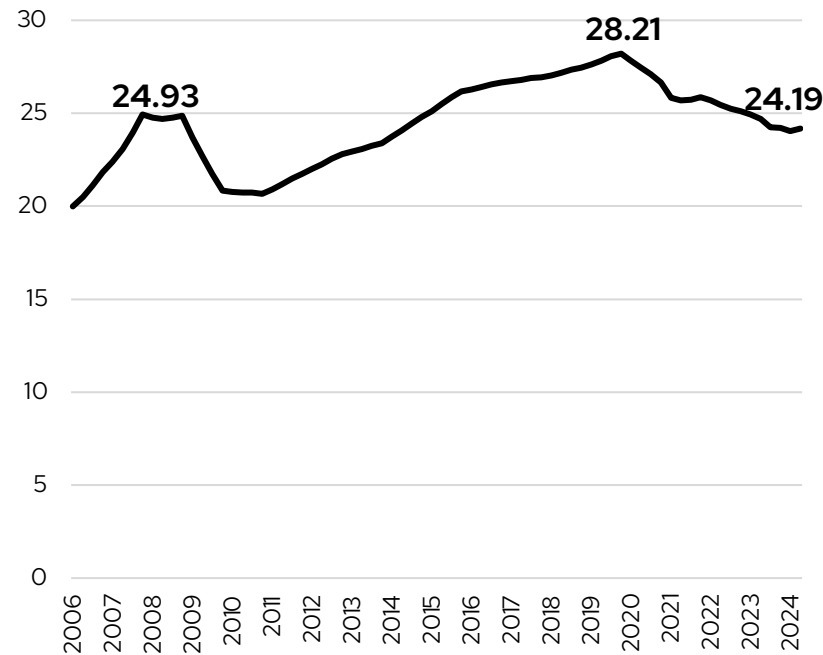
- ▶ **With remote work, there was a drastic rise in average cap rates, from about 6% to nearly 11%. This rise represents an average 45% decline in property values.**
- ▶ According to Green Street projections, the segment's average cap rate should remain stable until the first quarter of 2025, when it begins to fall toward the 10% level through 2028.
- ▶ Even with a decline, this is the highest cap rate level in the segment's history.

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Occupancy Rate (%)



Average Rent (US\$/sq ft/year)



SECTORAL

Highlights

- ▶ The office segment was, without a doubt, the most structurally affected by the pandemic and remote work.
- ▶ The occupancy rate has been falling drastically and has already gone from 89% to 82%.
- ▶ **With such a high vacancy level, even if the segment begins to recover from 2024, many years will be needed to absorb the idle supply.**
- ▶ Average rents are also declining, sitting at 2008 levels.

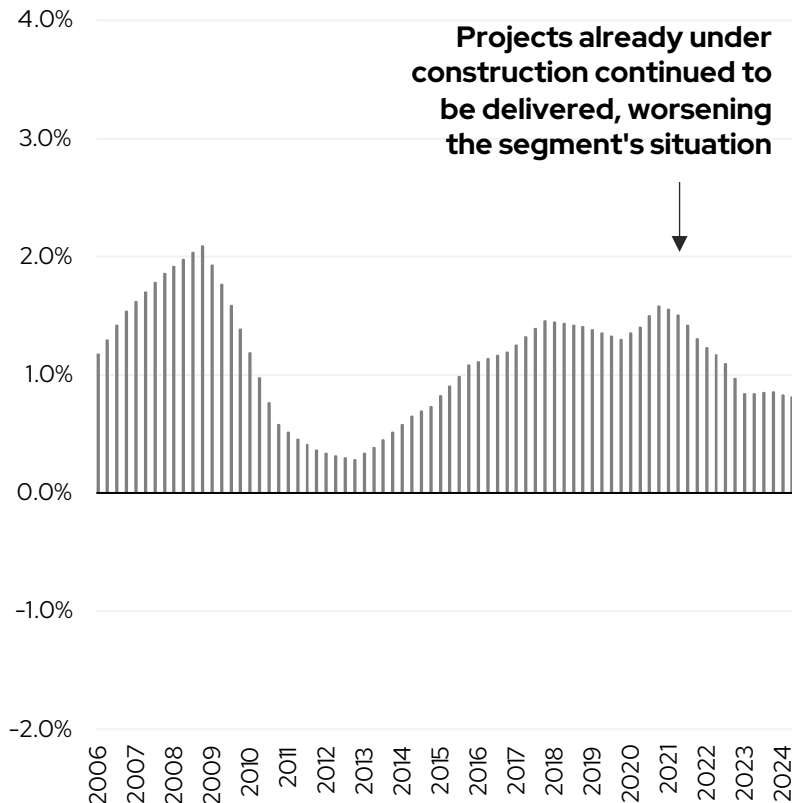
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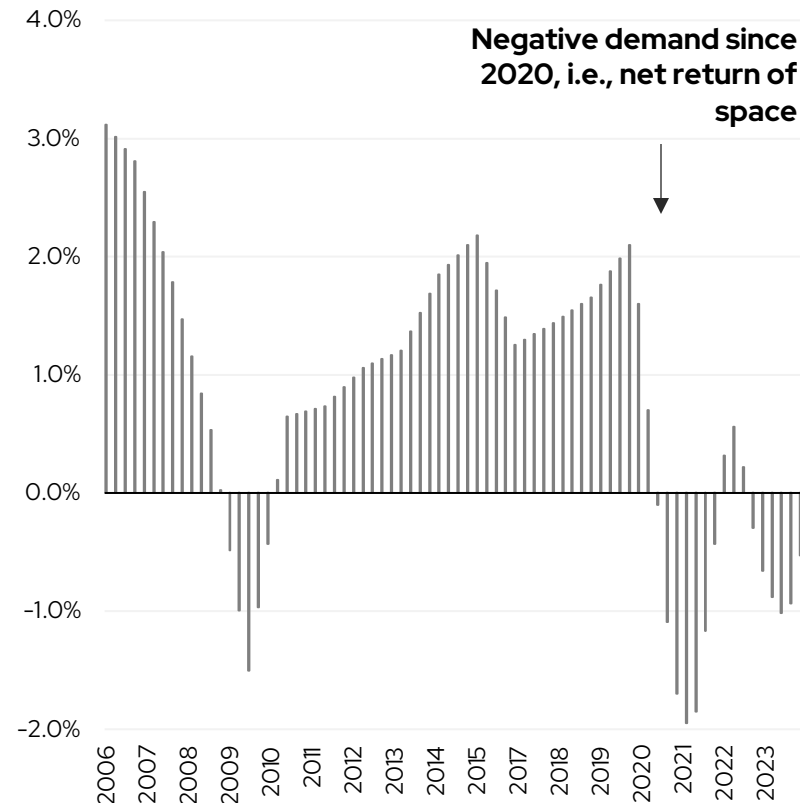
Highlights

- Part of the new office supply was already under construction and was delivered even during the pandemic, worsening the segment's situation. Only high-end (AAA) offices in premium locations continue to be built.
- Converting offices into apartments can help reduce excess supply, but this is a fairly limited move, since corporate floor plates are poorly suited to apartment projects.
- With remote work, there was a structural shift in demand to lower levels.
- A slow recovery in demand is expected, however, over the coming years, as pressure to return to the office increases.**

Annual Supply Growth (% of Inventory)



Annual Demand Growth (% of Inventory)



Short- and Medium-Term Scenarios

Short Term (1 to 2 years): Strongly Negative Bias

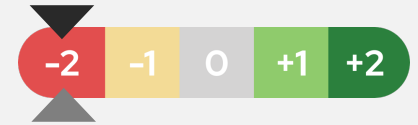
- ▶ With the exception of high-end offices in prime locations, most players in the segment are in a quite difficult situation, with rising vacancy and low bargaining power against tenants, given the strong competition in the segment.
- ▶ Class B and C offices have been most affected, because many tenants took the opportunity to move their operations to smaller but higher-quality spaces (class A, AA, or AAA).

Medium Term (3 to 5 years): Negative Bias

- ▶ The medium-term situation tends to improve somewhat as more companies call their employees back to the office.
- ▶ The weakening labor market also makes employees more willing to give up remote work.
- ▶ In any case, given current vacancy levels, it is unlikely that the segment's situation will reverse materially over the next five years.

Ativore View

Current half-year:



Previous half-year:

Negative bias: except for deeply discounted high-end assets, a segment to avoid

- ▼ In general, no significant improvement in the segment is expected over the next five years.

Attention for Investors:

- ▲ There are some opportunities to acquire offices at significant discounts ("distressed assets").
- The risk, however, is high, since the capex for both modernization and conversion of offices is quite high.
- ▼ Thus, even a low acquisition price may not be low enough, given the investments needed for a potential turnaround and a high vacancy rate.



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Ativore View

SUMMARY

October, 2024



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Ativore View by Segment

Segment	Short Term	Medium Term	Recommendation	Final Assessment
Multifamily	Neutral	Positive	Positive bias: active search for opportunities	<i>Current half-year:</i> <i>Previous half-year:</i>
Single-Family Rentals	Positive	Positive	Positive bias: active search for opportunities	<i>Current half-year:</i> <i>Previous half-year:</i>
Retail (Strip-Malls)	Positive	Positive	Positive bias: active search for opportunities	<i>Current half-year:</i> <i>Previous half-year:</i>
Logistics (Industrial)	Negative	Positive	Neutral bias: segment should still go through a cooling phase before improving	<i>Current half-year:</i> <i>Previous half-year:</i>
Self-Storage	Negative	Positive	Neutral bias: segment should still go through a cooling phase before improving	<i>Current half-year:</i> <i>Previous half-year:</i>
Offices	Strongly Negative	Negative	Negative bias: except for deeply discounted high-end assets, a segment to avoid	<i>Current half-year:</i> <i>Previous half-year:</i>

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