VIRTUS
REAL ESTATE CAPITAL

U.S. REAL ESTATE 2025 OUTLOOK AND 2024 YEAR IN REVIEW

January 2, 2025

U.S. REAL ESTATE 2025 OUTLOOK AND 2024 YEAR IN REVIEW

As we reflect on 2024 and look ahead to 2025, surprise, surprise, the U.S. commercial real estate ("CRE") market continues its "Divergent" trajectory, with wide disparity in performance between winners and losers. As I travel around the globe visiting with institutional investors from other countries and regions, they are often amazed at not only the depth and breadth of the U.S. real estate market (~$120 T market cap for all U.S. private real estate, ~$40-$60 T of which is considered investment real estate, although those lines are blurring), but how hyper-segmented the U.S. commercial real estate market is. Likewise, when I visit with my friends, who are CEOs of private markets funds in other asset classes, such as buyout, growth capital, venture, energy, etc., they too are amazed at the scale and diversity of the U.S. CRE market. Compared to their more uniform asset classes, it is uncanny to them how one building type can perform completely differently than another building type across the street or how two buildings of the same type can perform differently from one market to another, or even submarket by submarket.

This is both the allure and the challenge of real estate investing anywhere, let alone in the U.S., with literally every property being unique and every investment being bespoke. There is generally less risk than other asset classes due to the downside protection of a physical asset that produces income and has far greater liquidity than other private markets asset classes. However, to be consistently successful, property type selection, building selection, and active oversight of the asset are critical.

Transaction volume has generally remained muted across U.S. CRE, but market stability has improved in the aftermath of the Great Tightening of 2022 and 2023. Property valuations bottomed in late 2023 and early 2024. Real estate professionals know where values are (even if most do not like them in their existing portfolios), interest rates have stabilized, and there are clearer signs of where property level fundamentals are positive and where they are negative. While capital markets have improved since the doldrums of 2023, capital structure distress continues to be widespread. Even though lenders have been far more patient than expected, many properties remain over levered, and properties with variable debt have had much higher borrowing costs than most investors underwrote when they purchased the property. Although those borrowing costs have started coming down, it likely will not be a sufficient reduction to bail out many overburdened capital structures.

The economic backdrop of 2024 proved to be as unconventional as recent years, defying many traditional forecasts. Federal Reserve Chairman Jerome Powell's 2023 statement that "this time really is different" continued to ring true throughout 2024. While the post-pandemic economic landscape remained distinct from historical patterns, some historical economic relationships began to emerge.

Despite ongoing challenges, 2024 presented compelling investment opportunities in select property sectors and markets. The mismatch between positive property-level fundamentals in certain sectors and the broader capital

market's difficult conditions persisted throughout 2024. This dynamic continued to create opportunities for well-capitalized investors with the expertise to identify and execute on mispriced assets or provide creative capital solutions.

From our perspective, several of Virtus' targeted property sectors offered some of the most attractive risk-adjusted returns we have seen in years. However, it is important to emphasize that 2024 was not a rising tide that lifted all boats in commercial real estate. Success required careful selection and execution, as the market remained highly bifurcated. The investment landscape in 2024 rewarded those who could navigate the complexities of each sector and market. In many cases, investors found opportunities to achieve higher returns for a given level of risk or to take on less risk for similar returns compared to recent years. This environment favored experienced operators with deep sector knowledge and the ability to add value through active asset management.

As we look ahead to 2025, we anticipate a continuation of many trends from 2024, albeit with a gradual trend toward normalization in some areas. The divergence between sectors and markets is likely to persist, though perhaps not to the extreme degree seen in recent years. We expect that careful asset selection, creative deal structuring, and operational expertise will remain critical to success in the coming year.

Investors should prepare for a year that will likely offer significant opportunities but also require a high degree of skill and diligence to navigate successfully. Identifying and capitalizing on mispriced assets or sectors experiencing recovery will be key. Additionally, the ongoing evolution of work patterns, demographic shifts, and technological advancements will continue to reshape demand across various property types, creating challenges and opportunities. As we enter 2025, we advise investors to remain vigilant, adaptable, and well-informed. The market will likely offer property investments with asymmetric return potential for those who can effectively navigate its complexities, but it will not be a simple environment. Careful sector and asset selection, operational excellence, and creative capital solutions will be essential for success in the year ahead.

EXECUTIVE SUMMARY

2024 Predictions Scorecard

We always find it important here at Virtus to consistently look in the mirror and assess and reassess where we were right and wrong, all with an eye toward improvement. Before we turn to 2025, as follows are the predictions we made this time last year for 2024 with our grades and comments (link to last year's paper here: 2024 Market Outlook)

2024 Outlook Highlights (Written December 31, 2023)

- *For the time being, it appears the Fed has engineered a soft landing; while the probability of a recession has fallen below 50%, few are calling for a deep recession, and if one were to come, it might actually be positive for some property sectors (Page 18)*

Grade: A. The soft landing persists, and economic indicators have mostly continued improving, although the Leading Economic Indicator ("LEI") index turned back negative again after a brief positive period in early 2024.

- *The Fed Funds rate will begin falling around mid-year, with the Secured Overnight Financing Rate ("SOFR") falling earlier, and the 10-Year Treasury has already found its new stabilized normal in the 3.5% – 4.0% range; (Page 19)*

Grade: A-. We were "right on the money" for Fed Funds when we specifically called for the Fed to begin reducing the Fed Funds rate in 3Q24, even bucking the consensus view saying it would happen sooner and fall farther than we predicted. And SOFR moved down well before the Fed Funds rate as it became clear the Fed would pivot. We were also on the money for our initial view of the 10-Year Treasury moving down to 4% with a long-term view of stabilizing within the 3.5% – 4.0% range. In fact, the 10-Year Treasury yield averaged 4.03% throughout 2024. However, the 10-Year has confounded us with yields moving up to 4.55% as of this writing (December 31, 2024) even as Fed Funds decreases. This is due to several factors, the most relevant being the market had priced in a greater reduction in short-term rates than what actually materialized, and many recognize that much of the new presidential administration's policies could be inflationary in the intermediate- to long-term.

- *New CRE debt issuance will increase but remain below its long-term average; (Page 21)*

Grade: A. Most lender categories, including debt funds, Government Sponsored Enterprises ("GSEs") like Fannie Mae ("FNMA") and Freddie Mac ("FHLMC"), and the banks increased their new origination volumes from the anemic levels of 2023, although new originations were way below historical averages and were substantially below the nearly $1 T of loans that matured in 2024.

- *Transaction volume will increase from 2023 levels, especially driven by deals with capital structure stress/distress, but it will be below the hyper-transaction activity of prior years; (Page 23)*

Grade: B+. The statement above was certainly accurate; however, we were quite surprised by how many lenders continued to be patient with borrowers with loans that had matured throughout 2022 – 2024, most of which were in technical default.

- *"Real" property values and cap rates have found their new stabilized levels heading into 2024; (Page 23)*

Grade: A-. This, too, was largely accurate, although there were some asset classes that likely did not reach their bottom until 1Q24. Some of the healthier property sectors, whose valuations had bottomed in the latter part of 2023, actually saw some modest value increases as some property sector cap rates reversed course and began declining a small amount in 2024.

- *Fundraising will increase from 2023 but remain below its 10-year average; (Page 25)*

Grade: F. We missed this one big time. After 2023, which was the worst fundraising year since 2012, we thought investors who had already missed much of the last two vintage years would recognize the compelling investment environment and begin allocating again. However, the lack of overall property transaction volume, especially in basic food group sectors, led to substantially reduced distributions from earlier vintage closed-end funds. Investors in open-end funds, such as Open End Diversified Core Equity ("ODCE") funds, remained stuck with redemption queues, only declining by 60 basis points to 17.4% from their highs in 2023. As such, 2024 was even worse for fundraising than 2023. In fact, on an inflation-adjusted basis, fundraising in 2024 rhymed with the anemic levels during the Global Financial Crisis ("GFC") of 2009 – 2011.

- *2024 will offer the most compelling real estate market opportunity seen in years, but it will not be a ubiquitous beta opportunity; and (Page 26)*

Grade: A+. This was certainly the case in 2024, with select areas offering the most compelling risk-adjusted returns we have seen since the GFC. The broad-based capital structure distress and the lack of new capital investment left many players sidelined. In contrast, those with capital (and courage) could invest in sectors with positive fundamentals at lower cost bases and elevated yields.

- *If spots are chosen wisely in this opportune environment, investors can generate asymmetric performance with higher returns at given risk levels. See our Outlook by property type plus Red/Yellow/Green Chart. (Page 40)*

Grade: A. This was especially true for core, core-plus, and lighter value-add investment opportunities, which generally offered unlevered returns several hundred basis points above their historical averages. This existed in select sectors and markets and was certainly NOT a market-wide opportunity.

2025 Outlook Highlights

As follows is a summary of our predictions for 2025.

- The economic outlook remains constructive, and the new presidential administration has already given the capital markets a "shot in the arm," which is likely to persist into 2025.

- The Fed Funds rate will continue decreasing, albeit at a more modest pace than the Fed consensus was calling for in early 2024, and the 10-Year Treasury will continue with competing headwinds and tailwinds leading to a moderate decrease from the current yield of 4.58% as of this writing.

- A Trump administration should be very constructive for U.S. CRE in the short-to-intermediate terms, but only neutral in the long-term due to certain inflationary policies.

- Credit availability for CRE is expected to improve further, approaching but still below historical lending levels, with lenders maintaining a cautious approach, focused on high-quality borrowers and properties.

- Transaction volumes are projected to increase further from 2024 levels, driven by improved market clarity and investors of many existing properties being forced to transact due to time constraints and/or lenders losing patience on defaulted and/or matured loans.

- Cap rates will likely remain relatively stable since their 4Q23 to 1Q24 recent highs, with modest compression in high-performing sectors and markets.

- New capital commitments will finally increase from their 2024 lows but will likely not reach historical long-term averages for fundraising until 2026; value-add and opportunistic strategies continue to dominate investor preferences, although risk/reward ratios in many core and core-plus properties may be superior, especially given the relative dearth of capital for lower risk strategies.

- **2025 will continue the pattern we witnessed in 2024 of offering some of the more compelling risk-adjusted returns we have seen in years due to simultaneous capital structure distress yet already positive and improving property level fundamentals, but only if property sectors and markets are chosen wisely.** See our Outlook by property type and our Red/Yellow/Green Property Sector Outlook Chart on page 42.

2024 U.S. CRE YEAR IN REVIEW AND CURRENT MARKET CONDITIONS

(DECEMBER 2024)

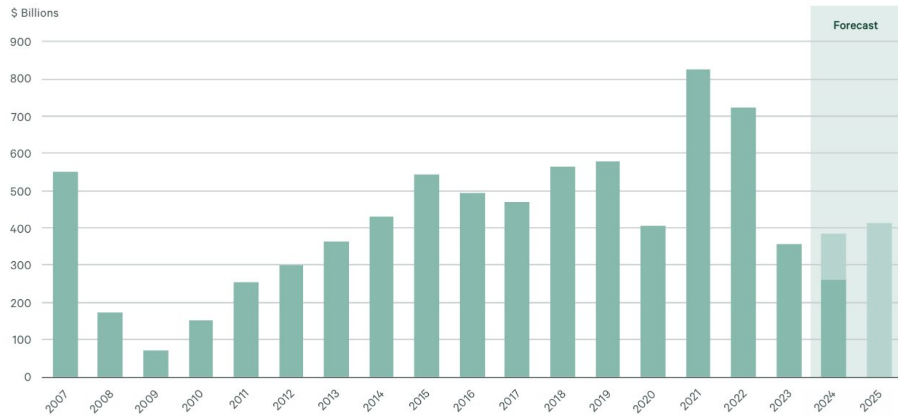
While not quite as tumultuous as 2023, 2024 saw significant shifts in market dynamics, a gradual recovery in some sectors, increased demand for hot sectors like data centers, solid performance in resilient sectors, and the emergence of new challenges across the CRE landscape. The year was marked by a partial rebound in transaction volume, though still well below pre-pandemic levels, and a stabilization of property values with the market

bottoming in late 2023 to early 2024, but fundraising was even worse than the anemic levels witnessed in 2023. However, the disparity in performance across property types and markets remained pronounced.

It is particularly instructive to understand the economic backdrop of 2024 when reviewing U.S. CRE. As the dust settled from the Great Tightening of 2022 – 2023, we began to see a normalization of certain economic relationships, though many traditional economic models still struggled to fully capture the nuances of this unique period. The soft landing engineered by Chairman Powell and the Federal Reserve in 2023 continued to defy expectations in 2024. Despite persistent predictions of a recession, the U.S. economy demonstrated remarkable resilience. Unemployment remained low, hovering around 4%, while inflation continued its gradual descent towards the Fed's 2% Personal Consumption Expenditures ("PCE") target. The Fed's pivot to a more dovish stance, initiated in late 2023, played out through 2024 with several rate cuts, the most recent being a 25 basis point cut announced in December. This shift in monetary policy provided some relief for the CRE market through lower borrowing costs and increased refinancing opportunities. However, the impact was not uniform across all sectors and markets, and the modest reduction in interest rates will not be fast enough or significant enough to bail out most over-levered borrowers.

Further, 2024 was to be the arrival of the long-anticipated "wall of maturities" in CRE debt. Despite the significant volume of overleveraged loan maturities in 2023, and particularly in 2024—many of which were in technical default—lenders demonstrated far greater patience than we had anticipated. Ironically, lenders have been more patient in the sectors that have been most impaired, office being the prime example. Since liquidity in that space is de minimis currently, it is hard for a lender to justify taking back an asset and memorializing a loan amount that is likely under water. In many cases, the lender does not want to know the real value of the loan, borrowers do not want to know either, and even many of their investors do not want to know. It will be fascinating to see how this "head in the sand" approach plays out in 2025 and 2026. Lenders were a little more aggressive on average in sectors with healthier fundamentals, like housing and healthcare. Ultimately, transaction volume did increase from 2023 but remained well below its long-term average.

FIGURE 1: TOTAL U.S. CRE TRANSACTION VOLUME



Source: MSCI Reat Assets CBRE Research 3Q24

Debt in 2024

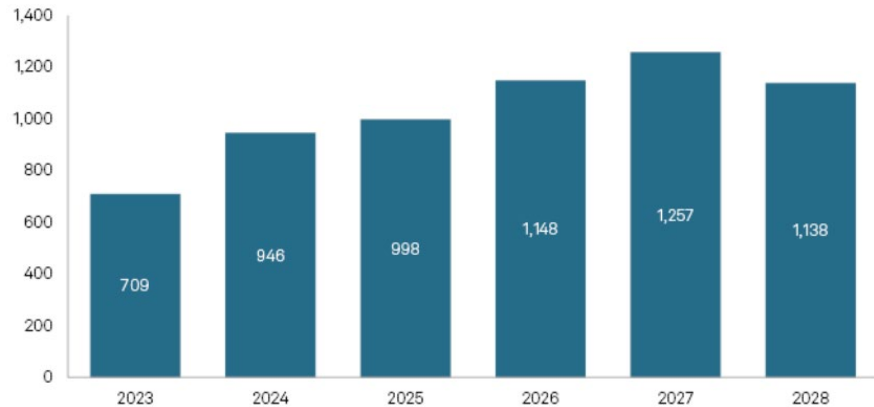
The CRE credit landscape saw gradual improvement in 2024, though lending levels remained below historical norms. While impaired sectors like office continued to face challenges, new credit flowed more freely to performing sectors such as student housing, medical outpatient buildings (“MOBs”), parts of multifamily, and data centers. However, leverage levels are still well below their historic levels. The year brought some modest relief to borrowers as interest rates stabilized and began to decline, with the Federal Reserve initiating rate cuts in September, “The Great Pivot.” This shift helped some borrowers who had taken on high-leverage floating-rate debt with shorter terms between 2019 and 2021 to extend or refinance their loans. However, others still grappled with debt service coverage ratios, particularly as the “wall of maturities” loomed large. Lenders did show an increased willingness to work with borrowers on loan modifications and extensions, particularly for performing assets. However, foreclosures and workouts increased for properties with severely impaired capital structures.

Private credit played a crucial role in filling the void left by traditional lenders, setting another record in terms of relative percentage of origination, with alternative lenders making up ~40% of year-to-date 9/30 non-agency originations. Life insurance companies increased their CRE debt allocations as yields in other fixed income instruments fell, although issuance remained below historical norms. While still subdued, Commercial Mortgage-Backed Securities (“CMBS”) issuance showed signs of recovery from the previous year’s anemic levels. Banks maintained a cautious approach, balancing regulatory pressures and their existing loan books. Nevertheless, some began cautiously re-entering the market, particularly for high-quality borrowers and performing assets. Construction lending remained tight, though well-conceived projects with strong sponsors saw increased participation from banks in syndicated loans.

Overall, 2024 saw improved liquidity throughout commercial real estate, but it remained a borrower’s market. Lenders continued to maintain strict underwriting standards, favoring high-quality assets and experienced

sponsors. This evolving landscape reflected a gradual return to stability, albeit with a more conservative approach to risk management in the post-pandemic era.

FIGURE 2: U.S. CRE LOAN MATURITIES BY YEAR



Source: S&P Global

Volumes Rebounded in 2024

2024 transaction activity was up slightly compared to the previous year, though volumes were still the lowest seen since the GFC, especially on an inflation-adjusted basis. This gradual recovery was fueled by several factors that helped restore some confidence in the market. Interest rate stabilization and a recalibration of property valuations allowed some buyers and sellers to find common ground on pricing, facilitating more deals. The looming "wall of maturities" also played a role, leading to an increase in forced sales as some owners struggled to refinance or recapitalize their assets.

A notable shift from 2023 was a modest return of select large portfolio transactions. Investors seeking scale and diversification once again showed a willingness to pay premiums for portfolios, albeit at more conservative levels than in previous years. Sector-specific trends emerged, with traditional "basic food group" sectors seeing a stronger rebound as pricing expectations began adjusting to the new market reality. Concurrently, defensive "niche" sectors like medical outpatient buildings and student housing maintained their appeal, remaining particularly liquid on a relative basis.

The deployment of significant dry powder that had been sidelined in 2023 contributed to the increased activity. Many investors who had adopted a wait-and-see approach re-entered the market, attracted by more favorable pricing and potential distressed opportunities. This influx of capital was complemented by the emergence of well-capitalized buyers who had previously been priced out of the market, now finding opportunities to acquire assets at more attractive valuations.

VIRTUS REAL ESTATE CAPITAL

While the overall transaction volume in 2024 showed improvement, it is important to note that the recovery was measured rather than dramatic. The market demonstrated increased liquidity across most sectors, with upticks in both individual asset and portfolio transactions. This gradual resurgence in activity signaled a cautious return of confidence to the commercial real estate market, laying the groundwork for a more normalized trading environment. The moderate increase in volume reflected a balanced approach among investors, weighing the opportunities presented by adjusted valuations against ongoing economic uncertainties and setting a tone of cautious optimism for the future.

Other Relevant Forces in 2024

The CRE landscape continues to be shaped by several key forces outside of the typical economic indicators. Property and casualty insurance premiums remain a significant concern for property owners, with costs remaining elevated due to ongoing climate-related risks. Although the extreme premium spikes seen in 2023 have definitely retreated, the industry is encouraging adaptation through the development of sophisticated risk modeling and mitigation strategies, acknowledging insurance expenses as a more material factor in property underwriting and operations. At Virtus, our asset management team overhauled our insurance coverage in 2024, saving millions in annual premiums, which significantly impacts overall property value when a cap rate is applied to the savings.

The Environmental, Social, and Governance ("ESG") landscape continues to evolve, with a growing recognition of its role in risk management and long-term value creation. **Investors increasingly seek a balanced approach that aligns ESG considerations with financial performance, focusing on more quantifiable metrics and tangible outcomes, particularly in areas like energy efficiency and climate resilience.** While most investors are taking a more balanced approach to optimizing both financial returns and ESG implications, especially concerning carbon footprint and the like, Virtus participated in a mandate for a commitment from a European pension in 2024. This pension was particularly focused on a Net Zero target for carbon emissions, even if it meant potentially sacrificing financial returns. **Our policy as a firm has been to continue increasing our energy efficiency and reducing our carbon footprint, and we are a leader in doing so and measuring the progress at each of our properties.** However, we do not believe that with today's technology, a Net Zero target for all our properties (at any given time, Virtus owns 100+ properties throughout the U.S.) is possible in the short-term without sacrificing financial returns, which we are not willing to do. **We expect technology to continue improving, we will invest in said technology, and we will also continue to be resolute about lowering our carbon footprint and targeting Net Zero by 2050, but we will not sacrifice financial returns to our investors to do so.**

Artificial Intelligence's ("AI") impact on the real estate industry accelerated in 2024, reshaping operations and decision-making processes. From advanced

property valuation models to predictive maintenance systems, AI is particularly valuable in data analysis for market trends, tenant behaviors, and investment opportunities. However, the industry is grappling with ethical considerations and the need for human oversight in AI-driven processes. The Virtus data analytics team continues making strides in adding new data tools and capabilities that inform our decision-making, especially investment considerations.

Another force not on most radars is the implications of a swelling U.S. federal government budget. When the U.S. was born in 1776, the framers of the Constitution anticipated minimal federal involvement in daily lives, with most governmental decision-making happening at the state and local levels. One hundred years later, even after the Civil War, federal government spending as a percentage of Gross Domestic Product ("GDP") was in the low single digits. As of today, federal spending is over 23% of U.S. GDP. This has many implications well beyond the scope of this paper, but some obvious takeaways are the federal government has become a massive employer, and its reach has gone far beyond the original intent of providing national defense, foreign affairs, monetary policy, checks and balances for states, and commerce oversight. Further, in many cases, it is ill-equipped to deliver some of the "services" it provides, thus very inefficient. What is surprising is that, even while the federal government budget has been swelling, its office footprint has generally been decreasing beyond just remote work implications in recent years. While the broader implications of a swelling federal government have minimal direct impact on U.S. CRE, and certainly the needs-based sectors Virtus targets, it is something on our collective radar we will monitor as it relates to employment and concentration risk for overall economic health.

The long-term effects of remote and hybrid work models continue to influence office and residential real estate. Companies are refining their space needs, leading to ongoing shifts in office demand and design, while residential preferences are evolving to accommodate home offices and flexible living spaces. In fact, the CEO of Avalon Bay (NYSE: AVB), one of the largest multifamily REITs, was recently quoted saying their new multifamily developments have units that are, on average, 100 square feet larger than the units they were building immediately Pre-Pandemic. **Demographic shifts, including the aging of Baby Boomers and the evolving preferences of Millennials and Gen Z, are driving changes across various real estate sectors (stay tuned for the fourth iteration of our Demographic Oriented Real Estate whitepaper that will be out later this quarter), particularly evident in the growing demand for senior living communities, healthcare-related properties, and several categories of residential.**

Robust digital infrastructure has become a key differentiator in 2024, with high-speed internet, smart building technologies, and cybersecurity measures now essential features across all property types. Geopolitical uncertainties, including ongoing conflicts and trade tensions, continue to impact real estate markets, influencing capital flows, currency valuations, and investor sentiment, particularly in gateway markets and cross-border investments.

VIRTUS
REAL ESTATE CAPITAL

Where Do We Stand Today?

As we enter 2025, the commercial real estate market finds itself in a state of recalibration after the turbulent period of 2023 – 2024. Several key conditions characterize the current landscape:

- The Federal Reserve's pivot to rate cuts in 2024 has materialized, with the Fed Funds rate ending the year at 4.5%. The 10-Year Treasury yield has stabilized around 4.6%, reflecting the start of a more normalized yield curve compared to the inverted curve of 2023.

- While some of the historically high dry powder of late 2022 has been deployed, and new fundraising is at its lowest level since the GFC, much of the remaining dry powder is still in the hands of larger fund managers, most of whom still have lingering issues in their existing portfolios requiring attention and capital.

- While still varied, property fundamentals have shown signs of convergence across sectors. The stark disparities observed in 2023 have moderated, though significant differences remain between top-performing and struggling asset classes.

- Individual market performance has continued to narrow, with secondary markets showing increased stability. However, certain high-growth markets still outperform their peers.

- The "wall of maturities" feared in 2023 – 2024 has been partially and temporarily addressed, but a significant amount of debt still needs to be refinanced or restructured in 2025 and beyond.

- Property valuations have largely stabilized, with the market finding a new equilibrium. Valuations are still down from their peaks in late 2021 and early 2022, with defensive sectors showing more resilience.

- After a sharp year-over-year decrease in 2023, transaction volumes have moderated slightly, though still below the peaks seen in 2021 – 2022.

- Lending markets have shown signs of life in 2024.

- The multifamily sector has begun stabilizing, with some of the capital structure issues addressed through refinancing or recapitalization (most of which were only extended temporarily); however, pockets of distress remain, particularly in oversupplied markets and with properties that used floating rate and high-leverage debt.

- While widespread deep distress did not materialize as some predicted, targeted opportunities in specific sectors and markets continue to emerge, whether in healthier sectors or those that are still impaired.

2025 U.S. CRE MARKET OUTLOOK

As we look ahead to 2025, the U.S. commercial real estate market is poised for a period of stabilization and gradual recovery, building on the trends that

emerged in 2024. While some divergence across property sectors and geographic locations will persist, **we anticipate a more balanced and normalized environment compared to the volatility experienced in recent years.** The economic landscape is expected to be characterized by moderate growth and increased stability, with the Federal Reserve's efforts to engineer a soft landing appearing to be largely successful. Inflation is projected to continue its gradual descent towards the 2% PCE target, with the Fed maintaining a cautious stance and potential for further modest rate cuts if economic conditions warrant. However, future inflationary forces, including some of the anticipated policies coming from a Trump administration, will provide headwinds for reducing PCE and interest rates.

A Trump presidential administration will likely provide a very favorable backdrop for U.S. CRE performance in the short and intermediate terms. Lower taxes and lower regulation should continue buoying all capital markets, including real estate, as illustrated in the broad market performance immediately after Trump won the election. The biggest challenge a Trump administration may pose to the U.S. real estate market in the short-term is policy makers and corresponding markets may be slower to push interest rates down than otherwise, because they recognize that some of Trump's policies around onshoring and trade protectionism will eventually be inflationary in the intermediate to long-term. While higher interest rates on a relative basis can be seen as a headwind for U.S. real estate values down the road, inflationary pressure that typically correlates with higher interest rates is a positive for real estate in general, with real estate being one of the best inflation hedging asset classes one can have in their portfolio.

Our baseline economic scenario for 2025, assuming no massive black swan events, anticipates real GDP growth in the 2.5% – 3.0% range, reflecting a steady economic expansion. As measured by PCE, inflation is expected to stabilize between 2.25% – 2.75%, close to but slightly above the Fed's target. Unemployment is likely to increase modestly into the 4.25% – 4.75% range, near the natural rate. The Fed will take a measured approach to its continued reduction of the Fed Funds rate in the range of approximately a quarter point at each Federal Open Market Committee ("FOMC") meeting, settling in the 3.5% – 4.0% range by year end, with the yield curve returning to a more normal positive slope, as the 10-Year Treasury yield is expected to fluctuate between 4.2% and 4.7%.

"Experiential inflation" is expected to moderate further in 2025, providing some relief to consumers and businesses alike. Construction costs began to fall modestly in 2024, potentially opening more development opportunities in select markets and property types, but only on the edges. As our property teams put it, finding a development deal that pencils in today's environment is like looking for a needle in a haystack of haystacks. As of this writing, we only have three development deals in our pipeline that underwrite, and all three of them have unique conditions, making them viable unicorns. The labor market is likely to ease modestly, but there will be wider ranges of employment rates

VIRTUS
REAL ESTATE CAPITAL

across and within industries. Wage growth should be negligible overall, but again, some jobs will see continued wage increases while others will have decreases.

In this economic context, the commercial real estate market in 2025 is likely to offer opportunities to astute investors. Transaction volumes are expected to increase further from 2024 levels as pricing discovery becomes more established and capital markets stabilize. Cap rates will likely remain relatively stable, with the potential for modest compression in high-performing sectors and markets. There will be more owners forced to sell or recapitalize because it is not just all the current loans maturing that need to be dealt with, but many of the loans that matured in 2023 and 2024 were only temporarily dealt with, in some cases, like putting a Band-Aid on a bullet wound. New debt originations should continue normalizing, with more favorable terms available for high-quality assets and experienced sponsors.

Property fundamentals are expected to vary significantly by sector. Please see our Red/Yellow/Green chart on page 42.

This evolving landscape presents a complex but potentially rewarding environment for real estate investors and operators in 2025. Those who can navigate the nuances of different sectors, leverage technological advancements, and adapt to changing market conditions will be well-positioned to capitalize on the opportunities that arise in this period. **As we stated accurately in last year's Market Outlook, 2024 was the beginning of a new bull market in U.S. CRE, and 2025 will demonstrate the sustainability of the new bull cycle.**

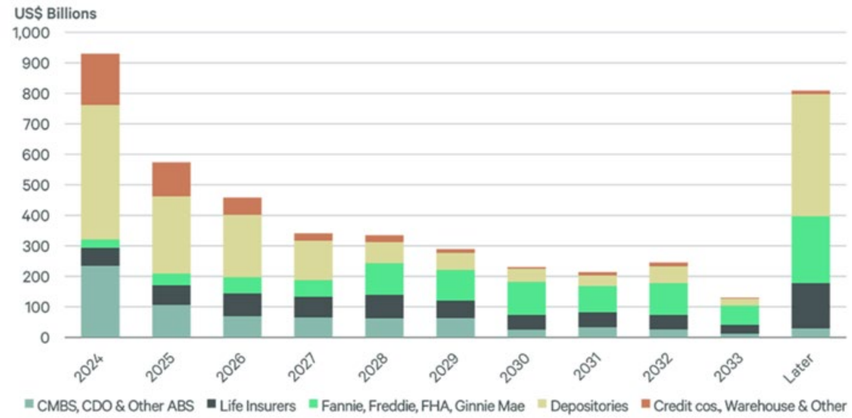
Commercial Real Estate Debt in 2025

The CRE debt landscape is expected to continue evolving from the challenges faced in 2023 and 2024. While some issues persist, there are signs of stabilization and gradual improvement. Foreclosures and workouts are likely to remain elevated in 2025. Many lenders have worked through a portion of their troubled loans, but there is still a backlog of distressed assets to address. The "wall of maturities" that dominated discussions in previous years will continue to be a factor. Credit availability for CRE is expected to improve further in 2025, approaching but still below historical lending levels. The gradual normalization of interest rates and increased clarity on property valuations should contribute to lenders' willingness to extend credit. However, underwriting standards are likely to remain conservative compared to pre-2023 levels.

Key trends in CRE debt for 2025 include selective lending, with lenders continuing to prioritize high-quality assets and experienced borrowers, particularly in resilient sectors. The role of alternative lenders is expected to remain significant, with private debt funds and other non-traditional lenders maintaining their expanded market share and offering flexible financing solutions where traditional lenders remain cautious. The CMBS market may show signs of revival in 2025, though issuance will likely remain below

historical averages. There is also an increasing focus on ESG factors in lending processes, with some lenders offering more favorable terms for sustainable properties.

FIGURE 3: COMMERCIAL REAL ESTATE LOAN MATURITIES BY LENDER TYPE

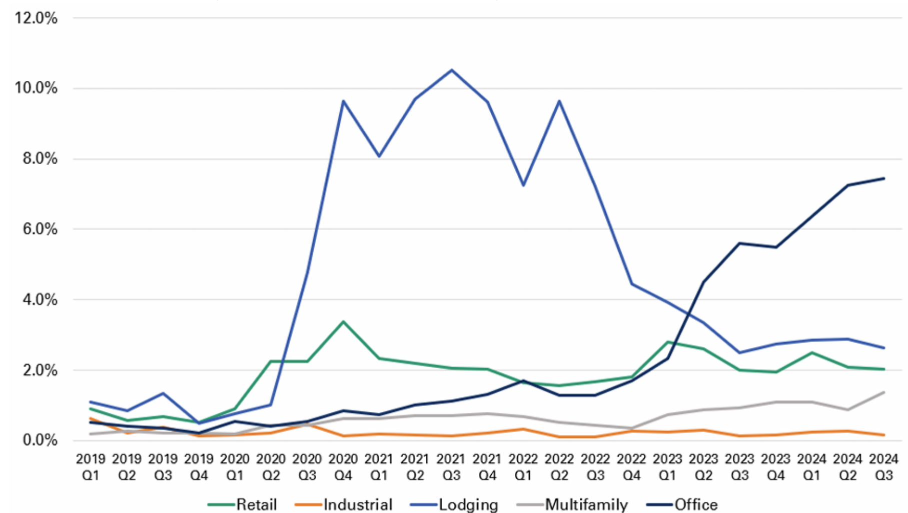


Source: Mortgage Bankers Association

The office sector will likely remain problematic, with lenders still grappling with how to handle distressed office assets and loans. Additionally, increased regulatory scrutiny on CRE lending practices, particularly for banks, may influence lending strategies and how to deal with defaulted loans.

Overall, while 2025 is expected to see improved conditions in CRE debt markets compared to 2023 – 2024, lenders will be cautious. The focus will be on quality assets, strong sponsors, and sectors with positive long-term fundamentals. Borrowers should anticipate continued scrutiny of their financial strength and the underlying property fundamentals when seeking financing.

FIGURE 4: COMMERCIAL REAL ESTATE LOAN DELINQUENCY RATE BY PROPERTY TYPE (BASIC FOOD GROUPS)



Source: Trepp T-AALLR 3Q24 Report

VIRTUS
REAL ESTATE CAPITAL

2025 Transaction Volume & Property Values

As we look back on 2024 and ahead to 2025, the commercial real estate market has shown signs of stabilization and gradual recovery, though challenges remain in certain sectors. Cap rates have largely stabilized in 2024, with some modest compression seen in high-performing sectors and markets. The anticipated decline in interest rates materialized, with the Federal Reserve implementing several rate cuts throughout the year. **This has provided some support for property valuations, particularly for assets with strong fundamentals. However, the spread between stabilized cap rates and the 10-Year Treasury remains inside of historical averages for most property types, although the spread is likely to increase with some modest declines in the 10-Year Treasury yield in 2025. In industrial and most multifamily, where cap rates have been nominally lower, negative arbitrage still exists for many properties when you consider today's borrowing costs relative to market cap rates.** And with rental rate growth being materially reduced, primarily due to supply growth in industrial and especially multifamily, it is hard to achieve positive arbitrage in the short-term, which is another reason transaction volume remains stymied.

After transaction volumes began rebounding in 2024 from the lows of 2023, activity should continue increasing, with 2025 transaction volume likely approaching historical averages, with increased clarity around pricing and a more stable interest rate environment.

ODCE funds began adjusting their Net Asset Values ("NAVs"), but they remain disconnected from current market realities. As follows are the cap rates by sector indicated by the National Council of Real Estate Investment Fiduciaries ("NCREIF") as of 3Q24:

FIGURE 5: U.S. CAP RATES BY SECTOR

Annual Cap Rates Summary Statistics

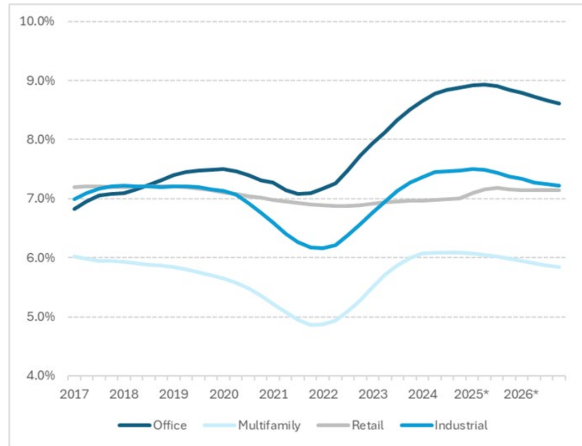
	United States Total	United States Apartment	United States Industrial	United States Office	United States Retail
Qtr	4.8%	4.4%	4.0%	6.2%	5.4%
1-Yr	4.7%	4.4%	3.8%	6.0%	5.4%
2-Yr	4.4%	4.1%	3.6%	5.5%	5.2%
3-Yr	4.2%	3.9%	3.4%	5.1%	5.1%
5-Yr	4.2%	3.9%	3.7%	4.8%	4.8%
7-Yr	4.3%	4.0%	4.0%	4.7%	4.7%
10-Yr	4.4%	4.1%	4.3%	4.6%	4.8%
15-Yr	4.9%	4.5%	5.0%	5.0%	5.2%
20-Yr	5.1%	4.7%	5.3%	5.2%	5.4%
25-Yr	5.7%	5.2%	5.9%	5.8%	5.9%
30-Yr	6.1%	5.7%	6.4%	6.3%	6.3%
Simple Avg	4.9%	4.5%	5.0%	5.0%	5.2%
Std Deviation	0.8%	0.6%	1.2%	0.8%	0.8%
Correlation to NPI	1.00	0.98	0.95	0.85	0.93
Sample Count	6,918	1,471	3,045	1,263	1,035
Sample MV ($Bil)	497,063	126,399	109,109	157,285	100,089

Source: NCREIF

You can contrast the above cap rates with where CoStar indicates current cap rates by sector below, but this is admittedly like comparing apples and oranges. CoStar's record of historical and current cap rates includes a broader set of properties, rather than exclusively institutional quality stabilized assets, which makes up most of ODCE funds' exposure.

VIRTUS
REAL ESTATE CAPITAL

FIGURE 6: HISTORICAL BASIC FOOD GROUP CAP RATE TRENDS BY PROPERTY TYPE



Source: CoStar

A more directive comparison to ODCE would be the chart of cap rates we put together for our Annual General Meeting ("AGM") in the third quarter, indicating the change in cap rates from their lowest points in late 2021 and early 2022 to their highest points almost exactly two years later in 4Q23 and 1Q24, specifically for stabilized class-A properties in each sector. Every property is bespoke, so this is meant to be directionally accurate, even though there are certainly exceptions to these ranges. This will differ from CoStar as a whole on a nominal basis because the below is focused on institutional quality class-A core stabilized assets rather than a broader property set that CoStar measures for basic food groups trends above. Regardless, the vector of the trends is aligned. These cap rates are assembled from a combination of third-party sources (including CoStar) and internal Virtus data as of 3Q24:

VIRTUS
REAL ESTATE CAPITAL

FIGURE 7: CAP RATE COMPARISON BY PROPERTY TYPE CLASS-A CORE

"Basic Food Group" Property Sectors Class-A Core Stabilized Cap Rate Comparison		
Property Type	4Q21	3Q24
Office	4.75 - 5.5%	10.0 - 12.0%+
Retail	6.5 - 7.0%	7.0 - 8.0%
Industrial	2.75 - 4.0%	5.5% - 6.0%
Multifamily	3.75 - 4.25%	5.25 - 6.0%

Needs-Based Property Sectors Class-A Core Stabilized Cap Rate Comparison		
Property Type	4Q21	3Q24
Medical Outpatient	4.0 - 4.5%	5.50 - 6.00%
Senior Living	N/A	6.75 - 7.75%
Life Sciences	4.75 - 5.25%	5.75 - 6.50%
Self-Storage	4.5 - 5.00%	5.50 - 6.0%
Early Education	5.25 - 5.75%	6.25 - 7.25%
Student Housing	4.0 - 4.75%	5.25 - 5.75%
Middle-Income Workforce Housing	3.75 - 4.25%	4.75 - 5.70%

Source: CoStar, Greenstreet, W&D, JLL, and Virtus direct observations and closed transactions

When comparing our view of values for class-A stabilized properties to where NCREIF indicates ODCE funds are likely marked above, there remains a substantial spread, especially in basic food groups. A small part of the spread between ODCE marks and our view of reality is minimized by assumable fixed-rate debt, which can motivate a would-be buyer to pay a lower cap rate if the assumed loan has an interest rate below what is available in the debt markets today. **The anticipated sales from ODCE funds and non-traded REITs to meet investor redemptions occurred at a minimal pace, primarily because of the spread in marks to current property value reality.** This is why the peak redemption queue in 2023 of 18% only declined to 17.4% as of 3Q24 for ODCE funds, despite many investors banging on the proverbial bank teller's window since 2022 demanding their money back. **Short of burning the bank down, investors will likely have to remain patient in 2025 and perhaps beyond to get their capital returned, and it is unlikely it will be at present NAVs given current market realities.**

You will also notice above that the valley-to-peak cap rate spreads for basic food group sectors are wider than in needs-based sectors where Virtus primarily traffics. Whereas basic food group sectors generally expanded 175 – 400+ basis points (other than retail which had already blown out prior to this period), needs-based sectors expanded 100 – 150 basis points. Although the current economic backdrop is very different than during the GFC, these valley-to-peak increases are quite similar. From 2008 to 2010, basic food groups generally expanded by 250 – 400 basis points, with industrial, office, and retail being the biggest losers, while needs-based sectors only expanded by 75 – 150 basis points. **Not only do needs-based sectors typically have more resilient**

VIRTUS REAL ESTATE CAPITAL

rent rolls and hence NOI off of which a cap rate is calculated to assess value, cap rate volatility is also generally less. There are certainly exceptions from time to time, such as the extreme volatility of senior living during COVID-19, which we discuss more in the property sector section below, but the vector remains clear: needs-based sectors offer more resilient income streams with less valuation volatility.

Developers faced significant challenges in 2024, with many projects remaining unviable due to the combination of higher cap rates, borrowing costs, and construction expenses. However, we continue to see an increase in creative deal structures, including preferred equity and revised profit-sharing arrangements, to get some well-located projects off the ground, which should lead to increased development activity in 2025. This will especially be the case in residential segments in growing markets because construction starts plummeted over the last two years with annual starts falling below 250,000 units nationwide as of this writing. Given the U.S. already has a housing shortage of approximately three million units, at least 1/3 of which is multifamily housing, renter demand for multifamily in 2026 and beyond is likely to outpace supply by a wide margin, likely leading to significantly increased rental rates in 2026 and especially beyond. **While everyone and their brother in the residential sectors would like to put a shovel in the ground in 2025, so they can deliver into what will likely be a VERY friendly landlord environment in 2026 and 2027, only a select few development projects are viable in today's market conditions.**

CRE FUNDRAISING IN 2025

Fundraising Recovery: A Strategic Opportunity

The commercial real estate fundraising environment in 2025 presents a strategic opportunity for disciplined investors. While fundraising continues to recover from the subdued levels of 2024, the pace will increase, but overall activity is expected to fall below historical averages. Institutional investors, particularly in the U.S., are navigating the year with cautious optimism. Target allocations to real estate are holding steady at 10.8% for the third consecutive year, but the modest 10 basis-point reduction signals a nuanced approach to capital deployment.

Institutional portfolios have shifted materially in the past year. The denominator effect—which previously inflated allocations—has reversed, leaving real estate allocations 60 basis points below targets. This reflects a combination of strong public market performance and ongoing write-downs in real estate portfolios. The percentage of institutions over-allocated to real estate has dropped significantly to 27% from 39% in 2024, illustrating a slow but steady rebalancing process. Additionally, investors are showing a preference for sectors offering defensive attributes, such as student housing, workforce housing and MOB, given their resilience in volatile markets.

Allocating with Conviction

Despite headwinds, CRE remains an area of conviction for many institutions. The current environment offers attractive entry points for those prepared to deploy capital selectively. Value-add and opportunistic strategies continue to dominate investor preferences, with 79% and 73% of institutions, respectively, indicating plans to allocate to these higher-return strategies. Core strategies remain less appealing in the Americas and APAC but continue to attract interest in Europe, the Middle East and Africa ("EMEA") markets, where stabilization is more pronounced. Notably, institutions are increasingly focused on opportunities in secondary and tertiary markets, which are perceived to offer higher growth potential and lower competition. Ironically, this still leaves a dearth of capital availability for core and core-plus opportunities, where, in many cases, the risk/reward ratios are particularly compelling.

The Role of High-Net-Worth Capital

High-net-worth investors, including family offices and wealth managers, are expected to tread cautiously in 2025. Emotional decision-making, often heightened during uncertain markets, is still a factor. However, seasoned investors with experienced teams are increasingly positioned to exploit market dislocations and deploy capital into differentiated opportunities. These investors are particularly drawn to niche asset classes like self-storage and student housing.

Global Capital Flows

Cross-border capital remains a critical component of U.S. CRE fundraising. North America continues to lead as the preferred destination for global allocations, although the appetite for cross-border investments has softened slightly. APAC-based institutions remain particularly active, with 80% planning to allocate capital outside their home markets, compared to 75% in EMEA and 65% in the Americas. These dynamics underline the enduring attractiveness of U.S. markets to global investors. Moreover, currency fluctuations and interest rate differentials are expected to significantly shape cross-border investment flows.

Evolving Preferences in Investment Structures

As transaction volumes remain muted, institutional preferences are shifting toward more tailored investment structures. Direct investments, joint ventures, and separate accounts are increasingly favored over traditional closed-end and open-end fund vehicles. However, we witnessed a reversal of this trend in 2024. As we met with larger institutional investors who have historically favored "Separately Managed Accounts ("SMAs") to increase control and reduce fees, a number of them are executing a 180-degree pivot.

For example, a large city pension plan abandoned its SMA strategy and began deploying to open-end funds in 2023 and 2024. A large state pension that has been investing via SMAs for decades is now focused on funds commitments again. And one of the largest investors of U.S. CRE from Europe, an insurance company, is likewise shifting from SMAs and favoring more funds investments. **The primary reasons reported by these institutions are performance or tracking error, and especially a lack of manpower to oversee even semi-direct strategies.**

The environment remains challenging for emerging managers, as only 13% of institutions expect to allocate to first-time managers. Established relationships continue to dominate, with approximately 64% of allocations projected to flow to existing manager partnerships, and the majority of the remainder will go to more established fund managers. Meanwhile, investors are scrutinizing fee structures and alignment of interests, prioritizing transparency and performance-based incentives.

ESG: A Regional Divide

ESG considerations remain a critical differentiator for investors globally. European and Australian institutions continue to lead the charge, integrating ESG policies into their investment processes. In contrast, U.S. institutions lag significantly, with only 23% citing ESG as an influencing factor in their strategies. This divergence highlights varying regional priorities and underscores the need for tailored approaches to sustainable investing. Furthermore, European regulatory pressures are expected to accelerate the adoption of ESG metrics, setting a potential benchmark for other regions. As indicated above, Virtus remains focused on simultaneously optimizing financial performance and ESG best practices.

Conclusion

In summary, for 2025, we anticipate further stabilization of cap rates at a greater scale, with the potential for modest compression in top-performing sectors and markets. Continued transaction volume improvement is expected, potentially approaching pre-pandemic levels in some sectors. Ongoing repositioning of institutional portfolios along with widespread capital structure distress, whether in healthy or impaired sectors, will drive transaction activity in 2025. Increased development activity, particularly in sectors with strong fundamentals, is likely as construction costs moderate and financing becomes more widely available. While capital flows tend to lag investment opportunity, fundraising should certainly rebound in 2025 from the anemic levels of the last 24 months.

For experienced real estate investors, 2025 represents a year of recalibration and opportunity. While fundraising conditions are improving, they demand a disciplined and strategic approach. Managers with proven track records in value-add and opportunistic strategies and established investor relationships

are well-positioned to thrive. While the relative lack of capital for lower-risk more stabilized strategies implies a very attractive cost basis entry point. As the market stabilizes, the ability to navigate complexity and execute high-conviction opportunities will be the hallmark of success. Investors who prioritize alignment, resilience, and strategic capital deployment will find themselves best equipped to capitalize on the evolving landscape.

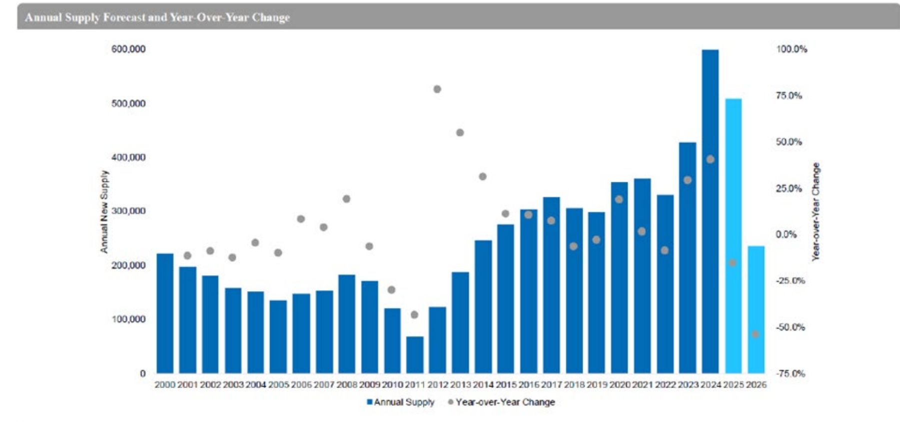
2025 U.S. CRE OUTLOOK BY PROPERTY SECTOR

2024 Middle-Income Workforce Housing Year In Review and 2025 Outlook

Going into 2024, it felt certain we would see more distressed opportunities in workforce housing (also known as "Key Worker Housing") play out than what came to fruition. We quickly realized that the select portfolios of distress that came to the forefront were so operationally impaired that the asset was not worth the debt, nor did we have a line of sight into any material improvements, nor were lenders willing to accept discounted offers. On the other hand, there were several well-located opportunities with more stabilized operations that simply had capital stack distress, and we were happy to participate in those deals at attractive terms.

Softer fundamentals due to oversupplied markets presented additional challenges. To put that in numbers, more units have been delivered over the first three quarters of 2024 than in all of 2023 (30-year record), and the number of completions in the third quarter of 2024 was the highest for a single quarter in 50 years. Fortunately, the pipeline is expected to decrease by 15.2% in 2025 and 53.8% in 2026, decreasing supply for multifamily housing and boosting occupancies and rent growth. Looking forward, multifamily fundamentals should stabilize as we are on the backside of the supply wave in most of our target Metropolitan Statistical Areas ("MSAs"). Ten of the 16 markets with the largest supply pipelines (ranked by inventory growth) are expected to enter 2025, having already peaked in new deliveries. **The fact remains we are already approximately three million housing units undersupplied in the U.S., and the current delivery of both homes for sale and multifamily or homes for rent ("BTR" or "BFR") will fall well short of current demand levels and hence not even make a dent in three million units undersupplied. There is short-term pain in terms of supply in select markets and submarkets, but an intermediate to long-term opportunity for increased housing throughout the U.S., especially in growing markets.**

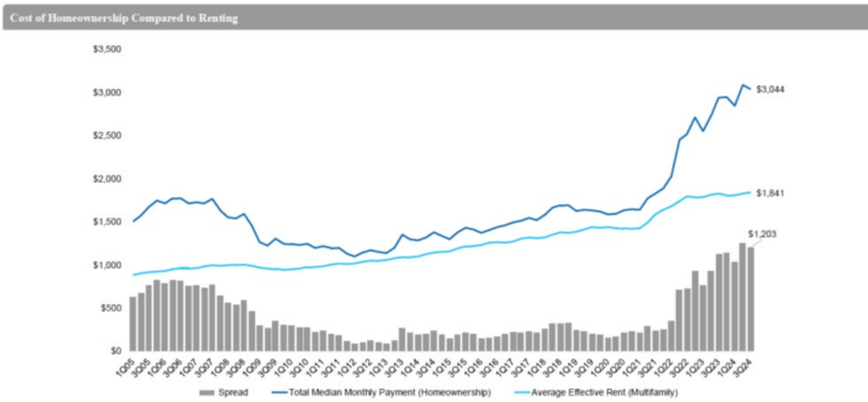
FIGURE 8: ANNUAL SUPPLY CHANGE YEAR OVER YEAR CHANGE



Source: RealPage

We had hoped that transaction activity would pick up as well due to forced sales, but year-over-year sales were only up 3%. Additionally, lenders only required payoffs from the most liquid of assets, while allowing troubled assets to delay in exchange for paydowns or restructuring of their existing debt; therefore, anticipated sales from distressed owners rarely occurred in 2024. An estimated $1 T+ of maturities is coming due next year—almost $300 B of that due to extensions from 2024—and with lenders more willing to recognize losses, this should spur more market activity next year. The continuation of the wide monthly premiums between buying and renting a home will preserve existing renter demand in 2025. With new mortgages 53% greater than in-place interest rates, any significant uptick in home sales will also be unlikely.

FIGURE 9: COST OF HOMEOWNERSHIP VERSUS RENTING



Source: Newmark Research, Atlanta Federal Reserve (10/17/24), RealPage

There are multiple reasons why Virtus believes 2025 will be a pivotal year for middle-income workforce housing or key worker housing:

- As of this writing, annual demand exceeds new supply in 48 of the top 50 U.S. markets, which represents the fourth consecutive quarter in which at least 47 of the top 50 markets had demand outpace supply.

VIRTUS
REAL ESTATE CAPITAL

- New supply has peaked in the third quarter of 2024 with an expected slowdown in pipeline in the coming years, allowing for levels to moderate once again; rolling four-quarter starts and permits have declined 36.7% and 36.8%, respectively, from their peak in 3Q22.
- Demand remains strongest in Virtus' target markets throughout the sunbelt, both nominally and relative to inventory compared to the rest of the U.S. markets, with a few exceptions.
- Annual demand is historically strong relative to inventory, increasing to 2.5% in 3Q of this year, which is remarkable in that only five other times since 2000 has trailing 12-month demand been 2.5% or more.
- Household formation has increased year-over-year for the past 10 years, which continues to support housing demand.
- Lastly, following the GFC, there has been a limited supply of single-family homes, as this past decade's completions fell over 41% below the prior decade's average, and this shortfall will continue to support long-term demand for both middle-income multifamily apartments as well as build-to-rent product.

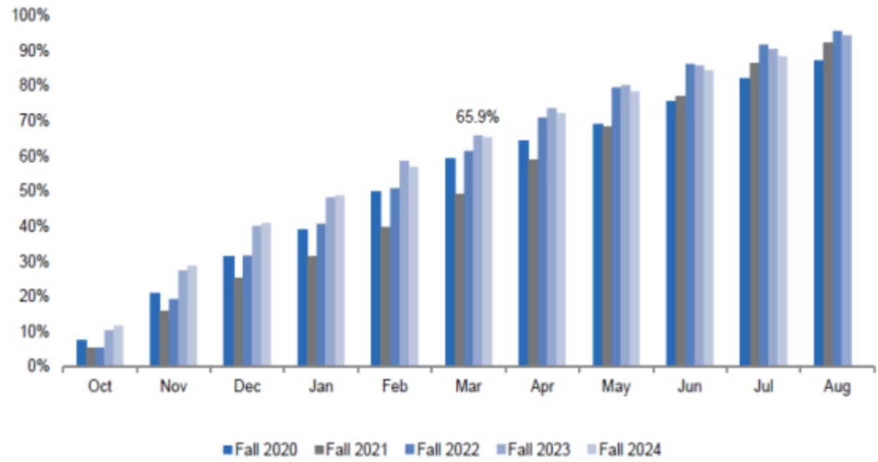
In conclusion, while the market continues to digest outsized supply, not only do these levels revert to historical averages, but the rate of decline is unprecedented and will allow for Virtus to seize multiple opportunities in the short- and medium-term as we track which markets are set to recover first. While the supply side of the equation made things challenging, the silver lining has been impressive demand and record absorption, keeping markets from having a hard landing. Elevated interest rates and borrowing costs remain a concern, but we will continue to focus on growth opportunities with a line of sight into positive leverage within the first 12 months upon acquisition or more stable opportunities with attractive in-place assumable debt. In general, we look forward to a year of renewed growth and tightening dynamics across the spectrum within rental housing.

2025 Student Housing Outlook

Student housing continues to be one of the top-performing asset classes in the commercial real estate industry, demonstrating consistency, resilience, and sustainable growth in periods of economic uncertainty. After two years of historically high performance in terms of rent growth and occupancy for the 2022 and 2023 school years, the 2024 school year continued the trend, achieving 5.8% rent growth and 92.8% occupancy nationally. Early preleasing activity for the 2025 school year indicates another strong year, with velocity slightly behind 2024 and rent growth tracking to 4.9%.

VIRTUS
REAL ESTATE CAPITAL

FIGURE 10: STUDENT HOUSING PRELEASE OCCUPANCY TRENDS



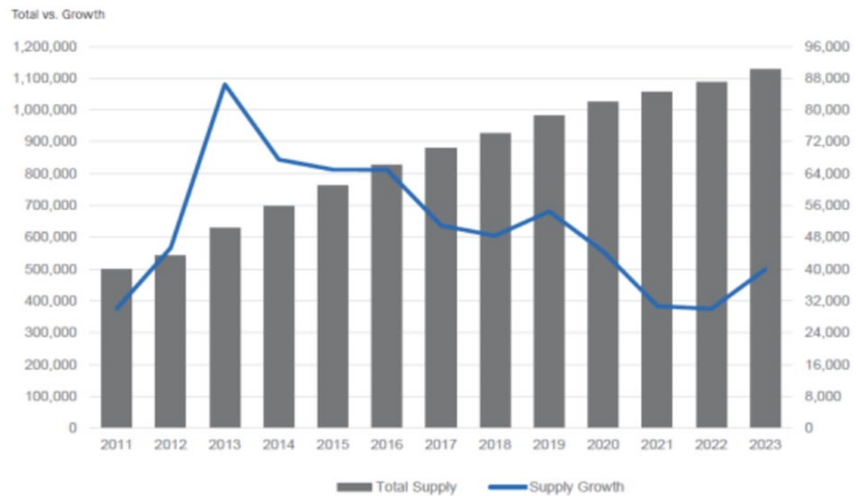
Source: Newmark Student Housing Report, Axiomatics/RealPage

Consistency, resilience, and sustainability of the asset class hinges on two obvious variables: supply and demand. Demand remains robust. Per RealPage, there were approximately 17 million students enrolled in the U.S. in the Spring of 2024, an increase of roughly 500,000 students compared to the Spring of 2023. But in total, there are 20 million total university students in the U.S., and broad enrollment growth is only expected at a 0.9% Compound Annual Growth Rate ("CAGR") over the next 10 years. However, "Power Five" sports conference schools have seen a 5.8% increase in enrollment from 2019 to 2023, while non-conference schools have declined by 2.1%. We have continued to see this trend play out over the years. **Many public Power Five conference schools provide a compelling return on investment ("ROI") to students and their parents because these universities are affordable, deliver quality academic outcomes, and offer the quintessential "college experience" through sports and other university clubs and programs.** With the college-aged student population declining nationally, these universities capture a majority of the qualified in-state high school-age population while also attracting out-of-state students. We have seen universities successfully increase out-of-state enrollment by strategically placing full-time recruiters across the country in targeted states, offering grants and scholarships to students who meet minimum academic criteria, and investing in new infrastructure at the university. Virtus primarily targets Tier I Public Flagship Research universities in Power Five sports conferences for these reasons and others. After selling several student assets in 2023 and 2024, all of which were "COVID-19 specials" (when capital left the space temporarily in 2020, yet property fundamentals were strong, so Virtus leaned in), we were down to 7,680 beds in late 2024. Virtus' existing portfolio comprises 11 assets, with ten located at public Power Five conference schools, with an average enrollment of 31,300 students per university, average enrollment growth of 1.5% over the past five years, and average in-state tuition of $13,000. The average income of the parental guarantees ranges from $200,000 – $400,000 per year,

depending on the university and specific property. Thus, default rates are de minimis at most.

On the supply side of the equation, per Yardi Matrix, there were approximately 41,000 new beds delivered in 2024, a 5% decrease from 2023. This represents a material decrease compared to the pre-COVID-19 average of 58,000 new beds delivered from 2012 – 2019. **Looking forward, it is anticipated the development pipeline will remain below the long-term average for a few reasons.** First, like most of the commercial real estate industry, construction costs and the cost of debt have hampered the ability for developers to meet the construction yields required to capitalize deals. Secondly, there is a lack of quality buildable sites near high-ROI universities. Out of the ~4,000 universities in the country, there are only 58 public Power Five conference schools. The easy development sites have been picked over, and developers are left having to parcel multiple sites together from multiple sellers and need additional density to make construction yields work. This causes longer entitlement timelines, larger deal sizes, and higher bed counts.

FIGURE 11: STUDENT HOUSING BEDS DELIVERED



Source: Newmark Student Housing Report, Axiometrics/RealPage

Out of the approximately 41,000 beds delivered in 2024, only 11 campuses had over 1,000 beds delivered in each market. This concentration of new supply can disrupt an individual market and leave it susceptible to short-term headwinds. Understanding individual market supply/demand dynamics and an asset's positioning (location, relative value, product differentiation) in the market is paramount to success in this asset class.

A new dynamic did emerge in student housing in 2024. Certain universities located in dense urban areas, particularly in higher population growth markets, experienced headwinds leasing up for the 2024 school year. The reason is due to a temporary glut of multifamily supply that caused rental rates to drop for traditional multifamily while student housing rental rates have been skyrocketing the last three years, we finally saw a handful of students in those

markets pivot away from student housing to multifamily and other forms of "shadow inventory." Historically, when new student housing was built in a market, whether in a university town or a dense urban market, it always pulled students from the shadow market into purpose-built off-campus student housing ("POSH"). That is one of the reasons POSH has been so resilient, even in the face of new supply, when a higher percentage of students were living in shadow product. That is because most students want to live with other students and have access to higher quality properties closer to the university with a compelling amenities package. And their parents also prefer it both for security and especially because the parental guarantee is applied "by the bed" rather than by the unit. In other words, a parent only has to guarantee their child's rent, rather than a broader guarantee in a traditional multifamily community or rental house, which typically requires joint and several liability for all parents guaranteeing the rent. Because the spread in total occupancy costs between POSH and shadow product has grown so substantially, a small percentage of students and their parents are willing to pivot away from POSH toward shadow product. Admittedly, this is not a huge percentage, and likely, this is only a temporary phenomenon given how fast shadow inventory is currently being absorbed in high-growth markets. We felt it was worth noting, nonetheless.

The other question or concern we often hear from offshore investors about U.S. student housing is; "Does a Trump presidency, with all of his rhetoric around forced outmigration and shutting the borders, mean demand will fall if international students find it difficult to enroll and enter the U.S.?" The short answer is no. Unlike universities in most other developed countries, especially in Europe, only ~5% of university students in the U.S. are from overseas. That number can flex up or down a couple hundred basis points, and we did see a reduction after the first Trump presidency, but total enrollment growth at High ROI universities actually increased simultaneously. **This is because most of those have fairly low acceptance rates, so even if there is a decrease in enrollment applications (Virtus target markets have rarely seen a decrease in applications), a university merely has to increase its acceptance rate a nominal amount and fill the same number of seats at the university. Further, the current Trump rhetoric is directed less at university students and educated foreigners wanting to remain in the U.S. to work post-college and more at other illegal immigrants perceived to be a burden on the economy or a risk to national security.** Either way, foreign student enrollment is on our student housing team's radar, but it truly is a university-by-university consideration, given its minimal effect at a national level.

Virtus remains bullish on student housing going into 2025 and will remain hyper-focused on understanding a university's long-term enrollment growth strategy, market barriers-to-entry, and how each asset we acquire or develop is differentiated from its competitive set.

2025 Early Education Outlook

While Virus has been investing in the Early Education space since 2017, we have not included it in the past years' outlooks, because it has been a smaller

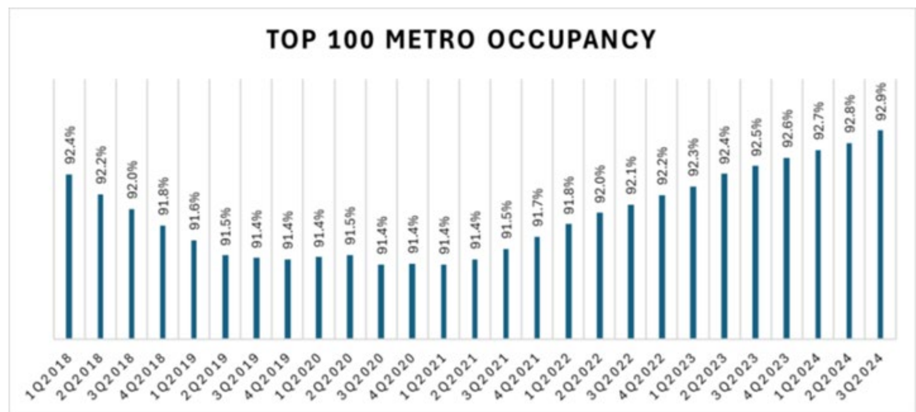
VIRTUS
REAL ESTATE CAPITAL

part of our investment activities. However that activity continues to increase, so please see the primer we wrote of the Early Education space last quarter here: Early Education Overview 3Q24.

2025 Medical Outpatient Outlook

The medical outpatient building, formerly known as medical office building, sector remained strong and resilient in 2024, and as usual, we see no significant headwinds on the horizon. Occupancy rates in the top 100 metros grew to 92.9% in 3Q24, and despite a slight slowdown in rent growth (2.3% year-over-year), NOI growth (2.2%) continued to weather inflationary expenses due to the preponderance of net lease structures, with tenants paying their own building operating expenses. Another measure of the reliability of the asset class is tenant retention, which grew to 85.3% in 3Q24 – when is the last time your doctor's office closed locations or even moved? Compare that to traditional office, which historically had a ~70% renewal rate pre-COVID-19, and the market is still figuring out where renewal rates will ultimately bottom post-COVID-19, with early signs being well below 50%, especially when you consider renewals that decreased their footprints.

FIGURE 12: TOP U.S. METRO OCCUPANCY

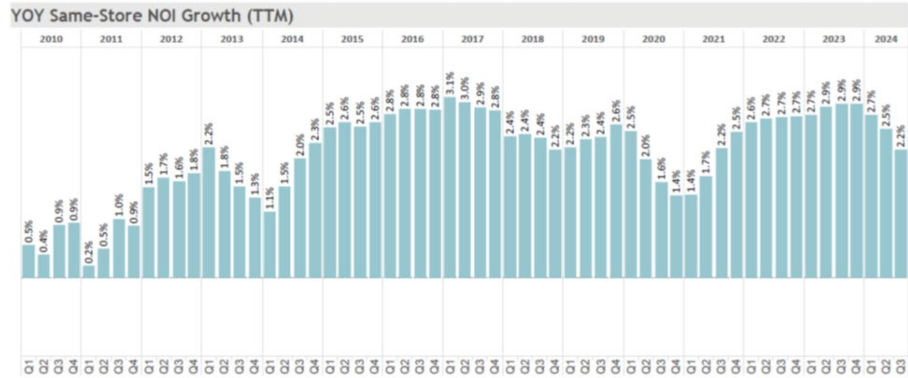


Source: RevistaMed

MOB also continues to be an asset class that generally does not overbuild, given the high barriers to entry from use and credit markets. Construction completions were only 1.4% of existing stock in 3Q24, slightly below the pre-pandemic high of 1.9% in 4Q18. This is due to rising construction costs and interest rates, with a significant shift towards off-campus developments. Today 73% of projects are under construction. Compare 1.4% of total inventory delivered annually to the projected increase in National Healthcare Expenditures ("NHE") in the U.S. of 5.6% annual average growth rate from 2023 to 2032. Sure, healthcare is being delivered more efficiently and in more remote manners, but the growth in general demand, including in-person healthcare delivery, still outpaces this by a wide margin. Further, the 1.4% annual deliveries statistic is a gross number and does not include the reduction of healthcare real estate due to aging stock and functionally obsolete buildings

being taken offline every year. **In sum, new building supply can not keep up with current and projected demand at a national level.**

FIGURE 13: SAME-STORE NOI GROWTH (TRAILING 12 MONTH)



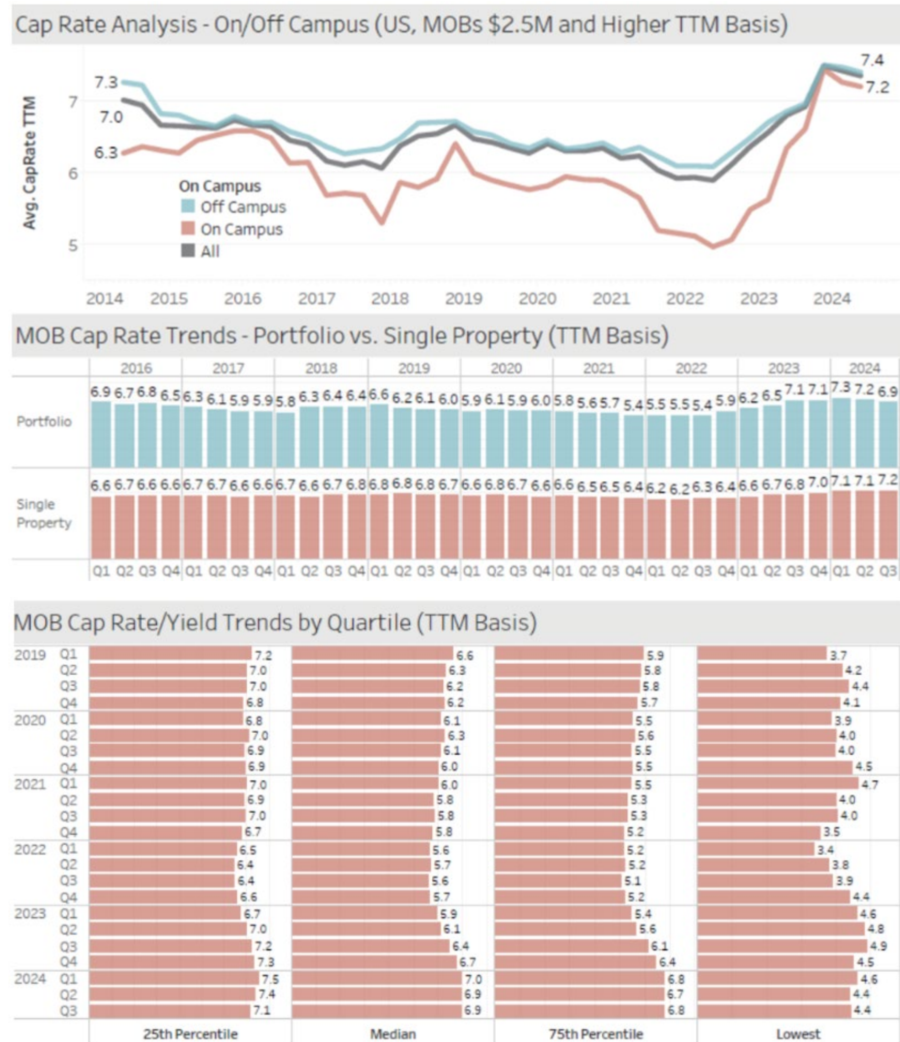
Source: RevistaMed

Transaction volumes in 2024 increased by 15.9% from 2023, although they remained below historical averages when excluding major mergers. MOB cap rates have been expanding since 2022, with 2024 rates being the highest recorded in the low-mid 7% cap range. Admittedly, this includes a broad set of building types and markets. This is why the reported numbers illustrate higher cap rates than where actual capital rates currently reside for institutional quality buildings in primary healthcare markets. See the chart on page 31 for more clarity around class-A stabilized institutional quality cap rates.

The market no longer needs education on the difference between traditional office and medical assets, as office occupancy has plummeted into the mid-80% range and is much worse in some cases. **This value disparity has some users and investors considering office-to-medical conversions, but this strategy is very hard and extremely expensive.** While we will continue evaluating and selectively investing in conversions, we do not view the stock of national office vacancy as a real threat to our MOB assets or strategy because only ~5% of existing inventory is convertible in light of location, zoning, parking, ingress/egress, mechanical systems on top of the obvious considerations, like traditional office and medical tenants do not play well in the sandbox together.

Another factor that continues to play out is the growth in demand for off-campus MOB tenancy. The long-dated trend of moving most healthcare delivery to an outpatient setting and away from the hospital campus to reduce costs and increase convenience for the patient and the provider has led to minimal disparity in tenancy demand and hence investor demand for on-campus versus off-campus MOB. **As such, the spread in cap rates between MOBs in off-campus settings versus on-campus remains minimal.**

FIGURE 14: MEDICAL OUTPATIENT BUILDING CAP RATE ANALYSIS



Source: RevistaMed

There are three key takeaways from the graph and chart above:

1. The difference in demand and spread in cap rates for on-campus MOB versus off-campus MOB is now minimal;

2. The historical spread in cap rates between diversified MOB portfolios and single building MOBs of 50 to 100 basis points shrunk in 2023 and 2024 to only 10 to 30 basis points, given the dearth of overall capital in the market, but that is likely to revert to historical norms in the coming years; and

3. MOB offers a narrower range of performance and more predictable outcomes regarding rent roll resilience and investor demand. This is why MOB should be a hallmark of a real estate portfolio, especially one focused on lower-risk core and core-plus strategies.

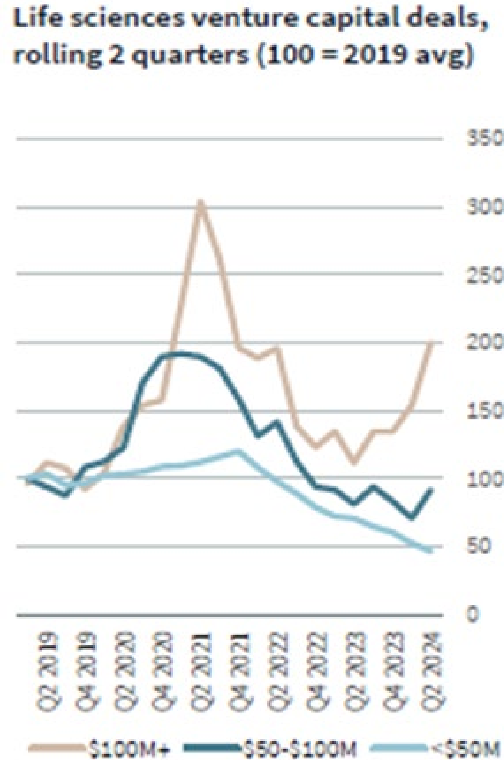
VIRTUS
REAL ESTATE CAPITAL

Our 2025 MOB investment strategy focuses on acquiring newer, purpose-built medical assets in top metropolitan areas, with a preference for high-quality healthcare tenants. Emphasis is placed on location, targeting submarkets with significant growth in the senior population and healthy payor mixes. Key areas of concern include avoiding properties with above-market rents and speculative leasing of properties with significant vacancy. We have learned through the years that any significant lease-up play requiring more than 10,000 square feet of net new leasing per annum to reach stabilization during the hold period is likely untenable. It may be possible, but we would never underwrite such. We will continue to seek core-plus and value-add investments, each with specific criteria and return profiles. **Overall, the strategy aims to capitalize on the growing demand for outpatient services and MOBs' stability while navigating the challenges of rising construction costs and evolving market dynamics.**

2025 Life Sciences Outlook

Life sciences real estate faced further fundamental challenges in 2024, deepening the pre-existing supply-demand balance in the major markets (Boston, San Francisco, and San Diego). Tenant demand, defined as active lease requirements in the market, showed signs of recovery, with a 47.0% year-over-year increase over the past three quarters. However, demand remains 60.0% below its 4Q21 peak. This recovery was primarily driven by a rebound in life sciences venture capital ("VC") funding, with 2024 ironically expected to mark the second-highest year for VC funding since 2010. Notably, the composition of demand has shifted as VC firms increasingly favor mature companies. As a result, 67.0% of large pharma leases in 2024 resulted in space optimization and a reduction of overall real estate footprint—a trend expected to persist in 2025. Also, early-stage companies, constrained by prohibitive build-out costs and limited VC funding, are increasingly outsourcing to large Contract Manufacturing Organization ("CMO") and Contract Development and Manufacturing Organization ("CDMO") providers for lab and manufacturing services to keep fixed costs down, even though variable costs will eventually be higher.

FIGURE 15: LIFE SCIENCES VENTURE CAPITAL DEALS

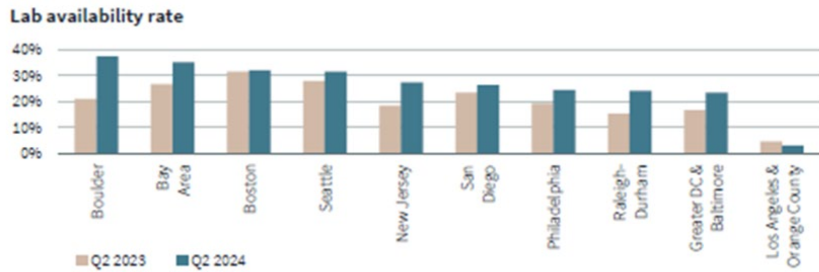


Source: JLL

Despite a 50.0% reduction in the forward development pipeline (from 38.4 million to 19.1 million square feet) in the major markets, occupancy and availability metrics continued to deteriorate in 2024. Sublease space increased by 3.5 million square feet—a 55.0% jump from last year—and now accounts for 17.3% of total availability. Additionally, 20.5 million square feet of existing supply, the equivalent of 13.6% of total inventory, was delivered in major markets. Combined, these factors pushed national lab availability to 30.0%, up from 24.8% in 2023. Average asking rents fell by 9.0%, returning to early 2022 levels, and rents are expected to decline further in 2025 as competition intensifies in these oversupplied markets. **This is why Virtus has not made a new investment in life sciences properties in several years, and our healthcare team has historically focused on certified Good Manufacturing Practice facilities ("cGMP"), which are buildings certified by the Federal Drug Administration for the R&D, manufacturing, and distribution of healthcare and pharma products.** These buildings are typically leased to more established companies, often the massive stalwarts of the healthcare industry, so they are far more resilient than traditional wet lab space leased to smaller venture-backed companies.

VIRTUS REAL ESTATE CAPITAL

FIGURE 16: U.S. LAB AVAILABILITY



U.S. lab	Mid-2024	Mid-2023	Change
Total inventory	171.6 MSF	151.1 MSF	+20.5 MSF
Occupied lab space	130.8 MSF	131.0 MSF	-0.2 MSF
Pipeline	19.1 MSF	38.4 MSF	-19.2 MSF
Availability rate	30.0%	24.8%	+520 bps
Sublease availability	9.9 MSF	6.4 MSF	+3.5 MSF
H1 leasing	4.13 MSF	4.54 MSF	-9.1%
Avg direct asking rents	$71.62 NNN	$78.47 NNN	-8.7%

Source: JLL Research; Bay Area, Boston, Boulder, Greater DC & Baltimore, New Jersey, Philadelphia, Raleigh-Durham, San Diego, Seattle

Source: JLL

The weakening fundamentals have not yet resulted in widespread distress, but the landscape could shift in 2025 if lenders fail to provide relief and leasing activity does not recover. The life sciences sector remains highly sensitive to interest rates, with leasing volumes closely tied to public valuations and long-term interest rates inversely correlated with the performance of the major index, S&P Biotechnology Select Industry Index (“XBI”). A substantial drop in interest rates could be the catalyst for reviving both deal-making and leasing activity.

FIGURE 17: 10-YEAR TREASURY YIELD VERSUS XBI DAILY CLOSING PRICE

Source: JLL

FIGURE 18: QUARTERLY U.S. LAB LEASING DEAL COUNT

Source: JLL

Due to the unfavorable supply-demand imbalance, the life sciences sector faces continued near-term headwinds. However, its long-term prospects remain promising, supported by favorable demographic trends and groundbreaking scientific advancements. These drivers ensure the sector's critical role in producing innovative therapies, pharmaceuticals, and medical devices. Over the long term, major markets are expected to outperform

emerging markets due to the robust existing ecosystems, leading academic institutions, and deep talent pools. Out of the major markets, we continue to favor San Diego in the short term due to its disciplined development pipeline.

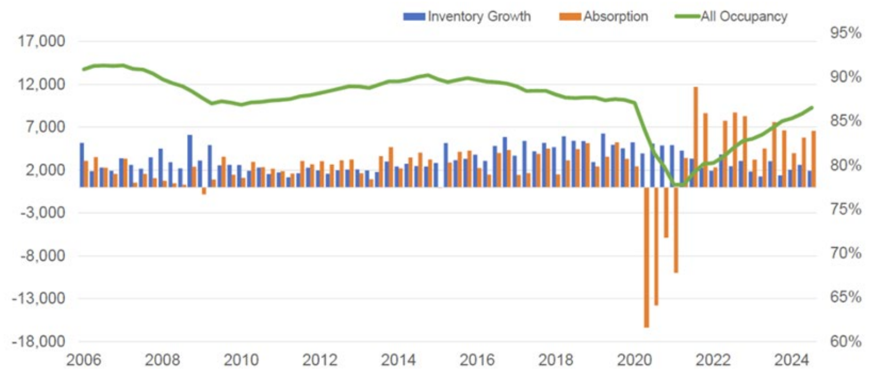
Virtus will maintain a tactical approach in 2025, focusing on distressed opportunities and conservative capital stack investments, such as participating preferred equity, as well as unique opportunities in the cGMP space.

2025 Senior Living Outlook

As we reflect on the current state of the senior living market, the industry is clearly experiencing notable improvements across several key metrics. While significant challenges remain long-term, most notably persistent labor shortages and lower operating margins, the near-term outlook for senior living is favorable, fueled by shifting demographics and limited new supply growth.

The senior living sector saw consistent improvement in fundamentals throughout 2024. Occupancy across the 31 primary markets tracked by the National Investment Center for Seniors Housing ("NIC") stands at 86.5%. This figure has now increased for 13 consecutive quarters. **The positive absorption momentum is ubiquitous—all 31 NIC primary markets experienced positive occupancy gains versus one year ago.**

FIGURE 19: SENIOR HOUSING FUNDAMENTALS (1Q06 – 3Q24)

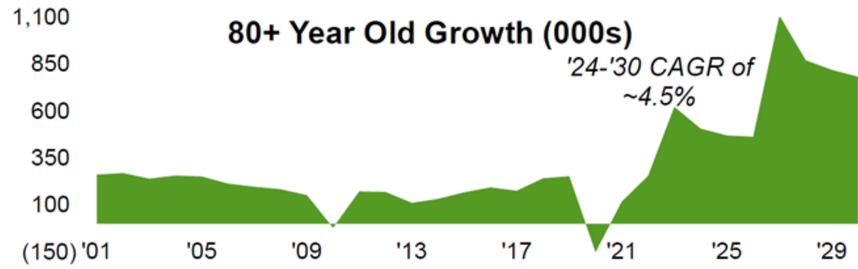


Source: NIC MAP Data

We are just now reaching the point that the massive wave of baby boomers (at its peak, there were 78 million "boomers" who were born between 1946 and 1964) will start accessing senior living, with the oldest boomers just recently turning 80. As you see below, the annual growth rate of 80+ year-olds is ~4.5%, compared to a broader U.S. population CAGR of only 0.63% during the same period.

VIRTUS
REAL ESTATE CAPITAL

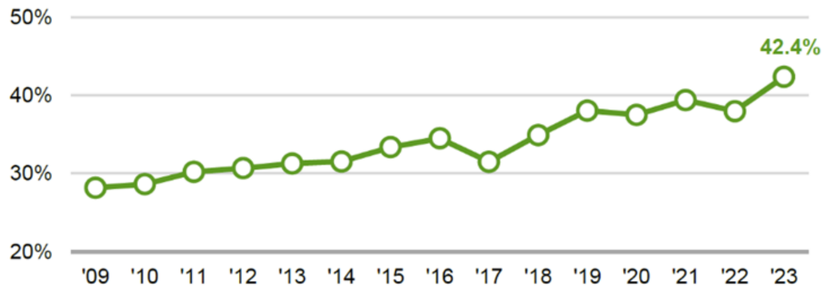
FIGURE 20: SENIOR POPULATION GROWTH



Source: U.S. Census

Rent growth has also been robust. Nationally, rents rose 4.2% year-over-year. Revenue per occupied room (RevPOR), a metric that captures ancillary income such as care fees, grew even more, with many communities experiencing 5-8% growth. Most operators are now budgeting 3- 6% RevPOR increases for 2025. **While revenue growth has been strong, it remains unclear what level of additional rate increases consumers can afford.** Senior living is already quite expensive, often costing $6,000- $10,000+ per month for assisted living with services. Affordability has been bolstered of late by elevated housing prices, equity portfolios, and fixed-income rates, but those tailwinds could erode in 2025 and beyond. If senior living operators continue to push aggressive rate increases, at what point does the consumer tap out, causing demand to wane? **For now, the wealth and income of aging Americans, as indicated below, are outpacing cost growth.**

FIGURE 21: SENIOR HOUSING AFFORDABILITY



Source: U.S. Census

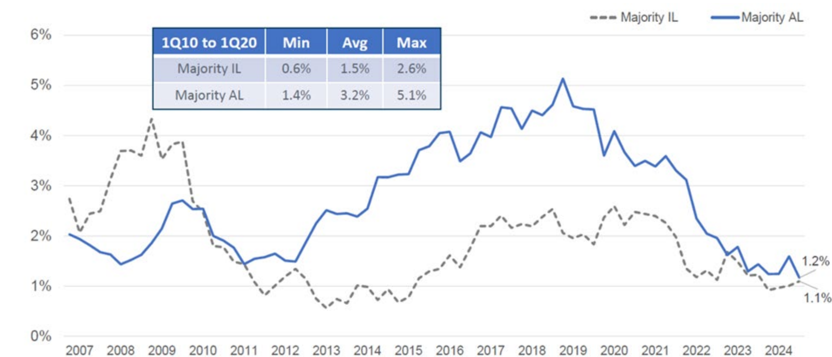
Despite strong top-line growth, expense growth remains elevated (albeit well below the extreme levels during the Global Pandemic), posing a significant risk for the industry's recovery. Expense inflation is most acute with respect to staffing costs, insurance, and food costs. Finding and retaining workers, primarily servers and caregivers, remains a daily monumental challenge for many communities. In addition, more states and municipalities are implementing complex minimum wage and minimum staffing laws. Insurance

VIRTUS REAL ESTATE CAPITAL

increases of 30- 100% have been commonplace, and food cost inflation has remained sticky to the upside. **Despite a rebound in occupancy, many communities, especially those in oversupplied markets or "commodity" products with limited pricing power, remain shackled by lackluster NOI growth, all due to persistent expense growth.**

As a result, new construction has not penciled in most areas for several years. Annual new supply growth is down to 1.2% of total assisted living supply, lower than in the immediate aftermath of the GFC and significantly below peak deliveries of 4% – 5% per year in 2017 – 2019. Independent living is similarly low at 1.1%. **New supply growth will remain muted in the near term, putting significant upward pressure on occupancies, rental rates, and care revenue as demand grows in lockstep with the aging Baby Boomer demographic.**

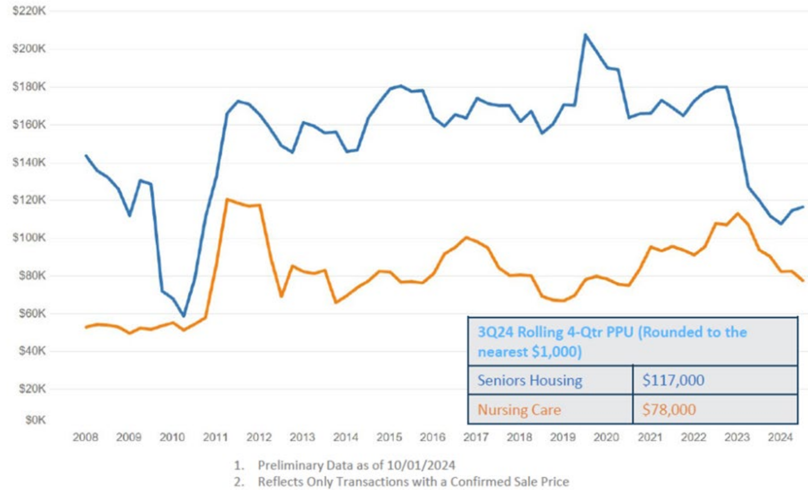
FIGURE 22: SENIOR HOUSING INVENTORY GROWTH RATE (4Q06 – 3Q24)



Source: NIC MAP Data

The capital markets for senior living have improved but continue to be in a state of flux. **Distress remains abundant—many owners still have impaired capital stacks and struggle to pay debt.** Yet lenders have been willing to work with borrowers, at least temporarily, preventing a wave of sales from flooding the market. On the buy side, the healthcare REITs, notably Welltower and, to a lesser extent, Ventas, were the most active buyers of institutional-quality properties in 2024. Welltower, with its exceptionally performing stock price, has enjoyed a significant cost of capital advantage in the market. The REIT leveraged this advantage to acquire $6 B of real estate through 3Q24, a large portion of which was allocated to senior living. Outside the REITs, a "changing of the guard" is transpiring. Many historically active private senior living funds are on the sidelines, focused on managing impaired portfolios and struggling to raise capital. New active bidders have stepped in, predominantly large private equity opportunity funds and sophisticated family offices.

FIGURE 23: SENIOR HOUSING TRANSACTIONS ROLLING FOUR-QUARTER PRICE PER UNIT (1Q08 – 3Q24)



Source: NIC MAP Data

Take the chart above about pricing with a grain of salt, because that includes many low quality non-institutional assets, but the direction of the movements in pricing is quite relevant. In summary, the senior living sector is on a positive trajectory, with improving fundamentals and favorable supply/demand dynamics driving the sector in the near term. However, investors must remain mindful of the challenges posed by rising operating expenses, affordability concerns, and the evolving dynamics of the capital markets. As our CIO often says, senior living is an operating business with real estate around it. In contrast, all our other needs-based property types are real estate with a basic operations component. This is why we think senior living, despite its defensive nature during economic downturns, belongs only in a higher risk value-add and opportunistic strategy, rather than in a core or core-plus strategy. **The concluding message of our senior living outlook from last year still rings true: for Virtus to consider a senior living investment in 2025, it must exhibit defenses to all these challenging factors, and all the investment stars must align (it appears the stars may FINALLY be aligning).**

2025 Self-Storage Outlook

The self-storage industry faced continued challenges in 2024, marked by weakening fundamentals across occupancy, revenue, and street rates. The primary factor was a sluggish housing market, marked by minimal sales activity and, consequently, limited moving activity—a key driver of self-storage demand—which persisted throughout the year as mortgage rates remained elevated. REITs experienced negative year-over-year NOI growth for three consecutive quarters, and street rates fell for the 22nd consecutive month, marking the sector's longest stretch of negative growth since the Global Financial Crisis. However, Existing Customer Rent Increases ("ECRIs")

continued to partially offset these declines, with some operators achieving annual rent bumps of 17% – 22%.

Transaction volumes dropped significantly, down 33% year-over-year, with valuations dipping 19% from early 2022 peak levels. This decline reflects the pricing gap between buyers and sellers amid macroeconomic uncertainty and rising capital costs.

However, REIT implied cap rates compressed over 100 basis points year-over-year, suggesting that the public market believes fundamentals found the bottom with incremental growth projected going forward. Additionally, new supply declined by 9.3% compared to 2023, which should help stabilize existing stores' occupancy and rental rates.

While short-term challenges persist, the industry still exhibits solid long-term tailwinds, including:

- **Rising Penetration Rates:** Household penetration reached 10.2%, up from 9.3% in 2019, with CBRE projecting this figure could rise to 15.7% over the next decade.

- **Improved Affordability:** Storage costs relative to household income of 2.1% are below the pre-pandemic average as move-in rents for new tenants ("street rates") have come down 45% from peak levels in 2021.

- **Supply Contraction:** New development slowed, with a 9.3% decline in new supply compared to 2023, and abandonment rates for planned projects doubled. Looking ahead to 2025, the self-storage market is expected to recover incrementally but generally remain muted, with the recovery in home sales projected to be delayed until 2026.

Key drivers include:

i. **Normalization in Home Sales:** Mortgage rates are projected to begin easing by late 2025, potentially spurring a rebound in home sales and corresponding storage demand.

ii. **Opportunistic Investment Environment:** Markets with the steepest rental declines and highest levels of new supply will likely present acquisition opportunities, particularly among properties underwritten at peak rates in 2021 – 2022.

iii. **Modest NOI Growth:** NOI is expected to increase by 1.1% in 2025, setting the stage for more substantial growth in 2026 and beyond as fundamentals improve and supply constraints intensify.

Overall, 2025 presents a cautiously optimistic outlook for the self-storage industry, with gradual recovery expected across key metrics underpinned by long-term demand drivers and disciplined capital allocation strategies. Our 2025 strategy emphasizes highly selective investments, focusing on participating preferred equity opportunities, development deals with local demand drivers, and low-basis acquisitions that allow for lower initial rates and longer lease-ups.

2025 Market Outlook by Property Sector Chart

As follows is our 2025 Outlook by Property Sector Chart whereby we consider a plethora of variables that fall into three simple categories:

1. Current and projected demand for the property type;

2. Current and projected supply risk; and

3. Current entrance pricing, buy, and build.

FIGURE 24: ONE-YEAR MARKET OUTLOOK BY PROPERTY SECTOR

Property Type	Demand	Supply	Entrance Pricing	Investment Opportunities
Hospitality	Demand continues improving, but still not at Pre-Covid-19 levels on a sustained basis	Minimal new supply being delivered other than some mega properties already underway, but existing out of favor supply holding back ADR	Trophy assets are likely fairly priced, and the remainder of market offers higher yields reflective of operational risks	N/A
Retail	Survivor bias with much of functionally obsolete retail gone, but ecommerce still dominates	Negligible new supply has been delivered in years, but still working through earlier oversupply	Bifurcated pricing for grocer-anchored versus all other	N/A
Industrial	Demand remains strong and likely to continue with onshoring policies	New supply has been a problem in low barrier markets and submarkets keeping rent growth modest	Bid/ask spread remains wide even with expanding cap rates due to near-term negative arb for borrowing costs	N/A
Office	Demand continues falling for most of the stock although some rare bright spots	Negligible new supply being delivered, but certainly a backlog of oversupply given falling demand	For what few properties are trading, unlevered yields are near double-digit	N/A
Multifamily	Demand is solid with for-sale housing untenable for many Americans	Oversupply abounds in select markets/submarkets, but still undersupplied nationally	Cap rates have risen, but still expensive relative to 10 Year UST and Borrowing Costs	N/A
Workforce or Key Worker Housing	Demand remains strong for Key Workers and growing	Oversupply abounds in select markets and submarkets, although muted compared to luxury multifamily, and new development rarely pencils currently	Cap rates have risen, but still expensive relative to 10 Year UST and borrowing costs	Acquire performing deals with capital structure distress at discounts to replacement cost, provide rescue capital, and seek rare development opportunities for 2026+
Student Housing	Demand at High ROI universities remains elevated and growing, but be mindful of affordability	Supply of POSH has been muted, but need to be mindful of shadow inventory at lower rents	Cap rates beginning to compress from their highs and most new development does not pencil	Increased selectivity in 2025 with increased capital competition likely, and look for select development opportunities at undersupplied universities
Self-Storage	Demand is relatively flat with reduced home sales and hence moving; ECR to street rate wider than ever	Backlog of new supply in select markets and submarkets, but minimal new construction	While cap rates have expanded, hard to justify current pricing with negligible rate growth	Preferred equity investing for select developments and conversions
MOB	Perennially stable and growing, but rental rate growth is always muted in this slow and steady asset class	Minimal new supply, especially relative to total healthcare spending growth rates	Cap rates have expanded, but limited transaction activity and muted rental rate growth	Acquire core, core-plus and value-add deals at more attractive basis with higher potential for return despite lower risk, and select pre-leased development
Life Sciences	Demand to improve moderately with increased venture funding and healthcare expenditures	Still a glut of oversupply being slowly absorbed in the three primary markets	While cap rates have expanded, pricing does not yet reflect market headwinds	Focus on cGMP properties, and stay close for broader distressed opportunities, but likely minimal activity
Senior Living	Strong and growing more now with baby boomer generation reaching 80 years old	New supply is below the levels even during the GFC, while occupancies have returned almost to pre-COVID levels	Some moderate cap rate compression for select assets, but overall remains attractive	Stars finally aligning for senior living with the ability to generate higher returns even for stabilized properties, but the yellow stable rating for the space is reflective of operational risks
Active Adult	Penetration rates increasing, especially with the massive amount of baby boomers in prime use years currently	Minimal new supply being delivered, because nothing has penciled for some time	Like multifamily, cap rates have expanded, but not fully reflective of lease-up velocity and borrowing costs	Select opportunities for stabilized properties being purchased at discount to replacement cost, but hard to make value-add or opportunistic returns pencil

Legend: Positive Stable Challenging

CONTRIBUTORS

Terrell Gates

Founder & CEO

James Snee

Research Assistant

Virtus Investment Team

ABOUT VIRTUS

Virtus Real Estate Capital is one of the longest tenured private equity real estate fund managers in the U.S. focused exclusively on cycle resilient needs-based property sectors, such as healthcare, education, storage, and middle-income workforce housing. The Firm was founded in 2003 in Austin, TX. The Firm has acquired or developed over 300 commercial properties totaling over $7 B throughout the U.S. Virtus is known across the industry for its deep expertise in social infrastructure sectors and its commitment to people, which is driven by a strong corporate culture around its four core values: Thoughtful Evolution, Resilience, Honorable Action, and Purposeful Work.

VIRTUS
REAL ESTATE CAPITAL

No Offer: This presentation does not constitute an offer to sell or a solicitation of an offer to buy any security. This information is being furnished solely for informational and discussion purposes and the contents herein are not intended to be, nor should they be construed as investment, financial or legal advice. Certain information contained in this presentation constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "project," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking statements. Although Virtus believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information. Factors that could cause actual results to differ materially from those set forward in the forward-looking statements or information include but are not limited to: general economic conditions; changes in interest and exchange rates; and availability of equity and debt financing.

VIRTUS
REAL ESTATE CAPITAL