WINTER 2024

THE FAMILY OFFICE REAL ESTATE MAGAZINE

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Embracing Change: Navigating the 2024 Real Estate Landscape for Family Offices

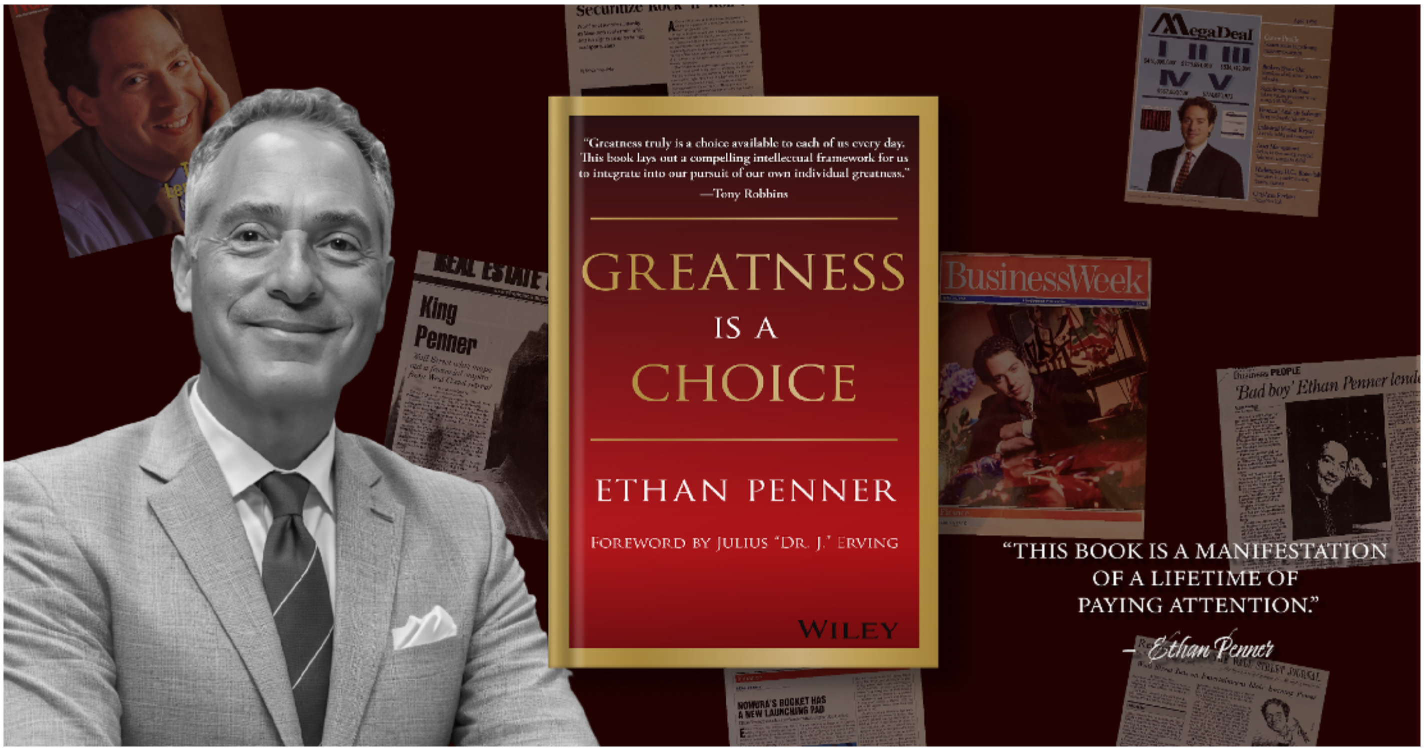
As we transition into 2024, the real estate landscape presents a complex yet promising horizon, particularly for family offices and investors navigating the shifting tides of interest rates, loan-to-value ratios, and capitalization rates.

The past year witnessed significant changes in interest rates, a trend that directly impacts real estate investment and financing strategies. With central banks globally adjusting policies in response to economic conditions, we've seen a ripple effect on borrowing costs. This shift necessitates a strategic reassessment for family offices, which often rely on leverage to optimize their real estate portfolios. The new landscape offers both challenges and opportunities – higher rates may increase borrowing costs, but they also bring the potential for more lucrative fixed-income investments.

Another critical factor to consider is the change in loan-to-value (LTV) ratios. As lenders react to economic uncertainties and regulatory changes, we're seeing a more cautious approach, with lower LTVs becoming commonplace. This shift calls for family offices to re-evaluate their capital structures and investment strategies, ensuring they maintain a healthy balance between debt and equity to mitigate risks and capitalize on opportunities.

Moreover, the expansion of capitalization rates (cap rates) is a trend worth watching. As interest rates rise, cap rates generally follow, impacting property values and investment yields. This scenario presents a nuanced landscape for family offices: while existing properties may experience a decrease in value, new investment opportunities with higher yields may emerge. It's a market that favors the informed and the agile.

Looking forward to 2024, it is essential to approach real estate investments with a blend of caution and optimism. The evolving economic landscape, marked by changes in interest rates, LTV ratios, and cap rates, requires a dynamic and informed strategy. Family offices, with their long-term investment horizons and focus on wealth preservation, are well-positioned to adapt and thrive in this environment.



The Visionary Mind Behind Modern Mortgage Markets and the Art of Connection

By DJ Van Keuren

Publisher's Insight: Ethan Penner is renowned as a legend in the realm of real estate finance, having made significant contributions to the industry. He is also highly esteemed for his dedication as a great friend and family man, embodying the values of loyalty and care in his personal life., his book "Greatness is a Choice" a must read!!

In an era often characterized by its stringent focus on metrics and bottom lines, the financial world can appear as a cold, numbers-driven realm. Against this backdrop, Ethan Penner stands out as a striking anomaly. His journey in finance is not just a tale of metrics and market strategies; it's a narrative enriched with human connection and innovative thinking.

Penner's story offers a refreshing perspective in a field often seen as impersonal. As the trailblazer behind Commercial Mortgage-Backed Securities (CMBS), his path from an ambitious college graduate to a titan of real estate finance is a remarkable one. It's a journey that showcases not just professional brilliance but also a profound commitment to building enduring relationships.

His approach to finance and business is a testament to the power of innovation, instinct, and, most importantly, human connection. These qualities have not only shaped his career but also transformed the way we understand and engage with the world of finance today.

EARLY FOUNDATIONS: PIVOTAL LESSONS IN FINANCE

Ethan Penner's formative years in the finance world, particularly his time at Mercury Savings in Huntington Beach, were more than just the early steps of his career. This period served as a crucial learning phase, where he gained invaluable insights into market dynamics and the influence of government policies on financial institutions.

Mercury Savings, a billion-dollar savings and loan institution, provided Penner with a unique vantage point. Here, he witnessed firsthand the complexities of financial operations within a government-regulated environment. The institution, primarily a home mortgage lender, underwent significant changes due to legislative shifts. These changes, intended to invigorate the sector, inadvertently led to financial turbulence, offering Penner a live case study of the fragility of financial systems.

This experience at Mercury Savings was instrumental in shaping Penner's understanding of the financial world. He observed the consequences of expanded operational liberties, which, while promising in theory, often led to precarious outcomes. These early lessons in the interconnectedness of financial systems and the critical importance of regulatory frameworks deeply influenced his future endeavors in finance.

THE CMBS REVOLUTION: FILLING A FINANCIAL VOID

In the late 1980s, the landscape of real estate finance was undergoing a seismic shift. A substantial void had emerged, primarily due to the retrenchment of savings and loan institutions in the aftermath of regulatory changes and economic turmoil. It was in this context that Ethan Penner identified a monumental opportunity – one that would not only bridge this gap but also revolutionize the real estate finance industry: the creation of the Commercial Mortgage-Backed Securities (CMBS) market.

IDENTIFYING THE GAP

The crisis in the savings and loan industry, exacerbated by imprudent lending and investment practices coupled with inadequate regulatory oversight, led to a significant contraction in real estate lending. This contraction created a vacuum in the market, particularly in the commercial sector. Traditional financing methods were becoming increasingly untenable, leaving a glaring gap in funding for commercial real estate projects.

Ethan Penner, observing these developments, saw not just a challenge but a ripe opportunity. Where most saw risk and uncertainty, Penner envisioned a novel approach to real estate financing. His idea was to apply the principles of securitization, already successful in the residential mortgage market, to commercial real estate loans – a concept that was revolutionary at the time.

THE BIRTH OF CMBS

The concept of CMBS involved pooling various commercial mortgage loans and issuing securities backed by these mortgages. These securities would then be sold to investors, providing a new avenue for real estate financing. This mechanism not only diversified risk but also opened up real estate investments to a broader range of investors, including those who might not traditionally invest in real estate directly.

Penner's proposal to securitize commercial mortgages was initially met with skepticism. The prevailing sentiment was that commercial mortgages, with their inherent complexities and unique risks compared to residential mortgages, were not suitable for securitization. However, Penner's deep understanding of the financial markets, honed through his early experiences, enabled him to see beyond these challenges. He recognized that, if structured correctly, CMBS could offer a stable, attractive investment while

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Ethan Penner Makes Huge Bets, Profits for Nomura Securities

By Michael Siconolfi and Mitchell PacelleStaff Reporters of The Wall Street Journal

Oct. 17, 1996 12:01 am ET

providing much-needed liquidity to the commercial real estate market.

OVERCOMING CHALLENGES AND SKEPTICISM

The path to establishing the CMBS market was fraught with challenges. Penner had to navigate not only market skepticism but also the intricacies of structuring securities that could accommodate the diverse nature of commercial real estate loans. This required innovative thinking and a deep understanding of both real estate and capital markets.

Penner and his team worked diligently to develop a structure that would address investor concerns, particularly around risk assessment and diversification. They introduced various tranches in CMBS offerings, each with different risk and return profiles, thus appealing to a wide spectrum of investors. This structuring was critical in mitigating perceived risks and gaining investor confidence.

A TRANSFORMATIVE IMPACT ON REAL ESTATE FINANCE

The introduction of CMBS fundamentally changed the landscape of real estate finance. It provided a new mechanism for funding commercial real estate, one that was more flexible and accessible than traditional bank financing. The success of CMBS also demonstrated the viability of securitization in a new asset class, paving the way for further innovations in finance.

Penner’s vision and determination in creating the CMBS market showcased his unique ability to identify and capitalize on opportunities that others overlooked. His foresight not only filled a critical gap in real estate financing but also laid the groundwork for a more dynamic and inclusive market.

The CMBS revolution, spearheaded by Penner, was more than just a financial innovation. It was a testament to the power of creative thinking in overcoming market challenges. It demonstrated that with the right approach, perceived risks could be transformed into viable, profitable opportunities. This transformative moment in real estate finance not only marked a significant milestone in Penner's career but also had a lasting impact on the industry, reshaping how commercial real estate projects were financed for decades to come.

A SYNTHESIS OF MARKET MASTERY AND HUMAN INSIGHTS

Penner’s professional narrative is unique in its balance. On the one hand, he demonstrated an exceptional ability to understand and capitalize on market trends, identifying opportunities where others saw obstacles. His role in pioneering the Commercial Mortgage-Backed Securities (CMBS) market is a testament to his visionary thinking. He didn't just foresee a gap in the market; he created a solution that permanently altered the landscape of real estate financing.

However, Penner's legacy extends far beyond his technical innovations. He understood that the bedrock of lasting success in finance, as in any industry, is built on the quality of relationships one nurtures. This understanding was evident in the way he conducted business, prioritized his team's well-being, and engaged with clients and peers. Penner knew that every interaction was an opportunity to build trust, foster loyalty, and create a network of mutually beneficial relationships.

UNDERSTANDING THE POWER OF INDIVIDUALS INTERACTIONS

Penner recognized that in the high-stakes realm of finance, the human element often gets overshadowed by the pursuit of success and recognition. He challenged this norm by advocating for a more compassionate and empathetic approach to business. Penner understood that the true measure of greatness in any field, particularly in business, was not solely in the accumulation of achievements and accolades but equally in the capacity to positively impact others.

Every interaction, no matter how small, was seen by Penner as an opportunity to spread kindness and joy. This could be through a well-planned and executed corporate event that left attendees feeling valued and uplifted, a thoughtful gesture towards a colleague or client, or a meaningful conversation that could change someone's perspective or brighten their day.

THE IMPACT OF THOUGHTFUL GESTURES IN BUSINESS

In Penner's view, business was not just a series of transactions but a tapestry of relationships built over time. He believed that thoughtful gestures, often overlooked in the fast-paced business world, were powerful tools for building trust and loyalty. These gestures, whether acknowledging a team member's hard work, offering support during challenging times, or celebrating personal milestones, contributed significantly to creating a positive and productive work environment.

Penner’s approach went beyond mere professionalism; it was about infusing warmth and humanity into the workplace. He championed the idea that a leader’s strength is also measured by their ability to empathize and connect on a personal level with their team and peers.

CREATING A CULTURE OF POSITIVITY AND SUPPORT

By advocating for the ripple effect of kindness and joy, Penner aimed to create a culture where positivity and support were not just encouraged but were ingrained in the very fabric of the organization. This culture fostered an environment where team members felt valued and understood, leading to higher levels of engagement, satisfaction, and ultimately, productivity.

Penner’s focus on fostering a joyful and kind work environment also extended to client interactions.

He understood that clients were more likely to engage deeply with a firm that treated them with genuine respect and care, going beyond the standard client-service provider relationship. This approach not only improved client relationships but also often led to long-term partnerships based on mutual respect and trust.

THE LONG-TERM IMPACT OF JOYFUL APPROACH

The long-term impact of Penner's philosophy was profound. By embedding kindness and joy into the DNA of his business practices, he created a legacy that went beyond financial success. The relationships built under this philosophy were stronger, more resilient, and often led to unexpected opportunities and collaborations.

Moreover, the ripple effect of Penner's approach extended beyond his immediate circle. Those who experienced this positive environment were likely to replicate it in their own interactions, thereby amplifying the impact of his philosophy. In this way, Penner's belief in the power of kindness and joy had a far-reaching influence, extending into the wider business community and beyond. This facet of his career is epitomized in his orchestration of events akin to the famed 'Predator's Ball,' which redefined the essence of business networking in the financial world.

THE GENESIS OF A UNIQUE NETWORKING PHILOSOPHY

In the cutthroat environment of finance, networking events are often seen as transactional – opportunities to seek out potential business deals or to bolster one's professional standing. However, Penner envisioned something radically different. He understood that the most enduring and impactful relationships in business are rooted not in transactions, but in genuine, personal connections. This understanding led to the creation of his own version of networking events, which were far more than just business gatherings.

CRAFTING UNFORGETTABLE EXPERIENCES

Penner's events were meticulously designed to transcend the conventional business meeting or networking event. He believed in creating an environment where meaningful, personal interactions could flourish, free from the immediate pressures of business dealings. These events were not just about exchanging business cards but were orchestrated to foster a sense of community and shared experience among attendees.

To achieve this, Penner brought together a diverse array of individuals from the financial world, including potential borrowers and prominent bond buyers. The genius of these gatherings lies in their ability to break down the formal barriers that often exist in professional settings. By doing so, Penner facilitated the development of relationships that were based on mutual respect and personal connection, rather than just business interests.

THE ROLE OF MUSIC AND SHARED MOMENTS

A key element that set Penner's events apart was the inclusion of performances by legendary music artists such as Elton John, Crosby, Stills, Nash, and Bob Dylan. These weren't just entertainment acts; they were integral to creating a shared experience that attendees would cherish. The power of music to unite people, evoke emotions, and create unforgettable moments was something that Penner leveraged masterfully.

The performances by these music icons did more than just provide entertainment – they served as a catalyst for bonding. As attendees shared in the joy and awe of these performances, they formed connections that went beyond professional courtesy. These were moments of collective exhilaration and appreciation,

fostering a sense of camaraderie among the guests.

LASTING IMPACT THROUGH SHARED MEMORIES

The impact of these events was profound and long-lasting. By creating experiences that were memorable and emotionally resonant, Penner ensured that the connections made during these events were deep and enduring. The shared experiences of music and camaraderie created a unique bond among the attendees, turning potential competitors into collaborators and acquaintances into allies.

Penner’s approach to networking demonstrated a deep understanding of human psychology. He knew that shared positive experiences could forge stronger and more meaningful connections than any traditional business interaction. The bonds formed in these settings were based on genuine emotions and experiences, making them far more potent and enduring.

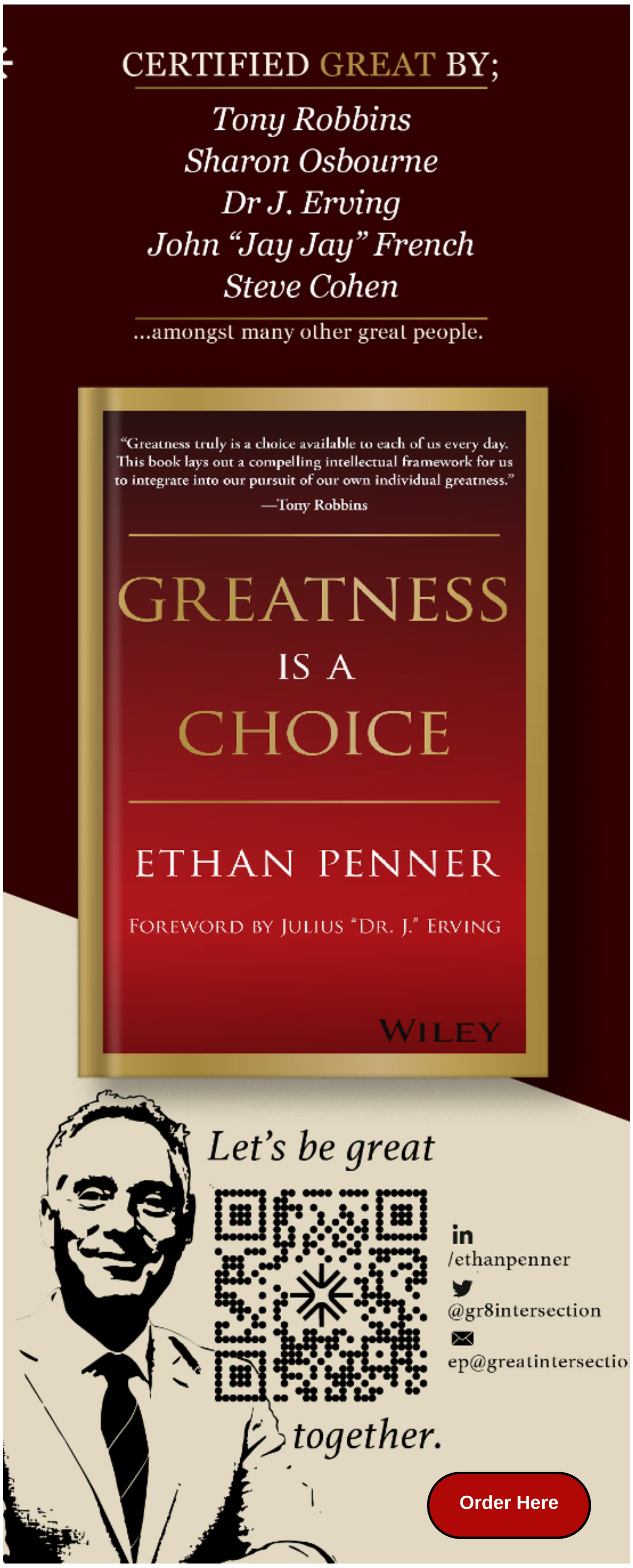
ETHAN PENNER'S NEW BOOK: A JOURNEY FROM FINANCIAL INNOVATOR TO AUTHOR

Ethan Penner, renowned for his transformative contributions to the world of finance, has recently embarked on a new venture as an author. His foray into writing is not just an extension of his professional legacy but a deeply personal journey that reflects his philosophy, experiences, and the wisdom he has garnered over the years, and was inspired by a deeply personal desire: to leave behind a tangible legacy for his children, a compendium of the wisdom and lessons he had gleaned from his remarkable career and life experiences. This desire culminated in the creation of his book, "Greatness Is a Choice," which unexpectedly evolved from a personal memento into a broader message for a global audience.

THE UNEXPECTED JOURNEY OF THE BOOK

Penner's initial intention was to create a limited set of copies, primarily for his children and close family. However, the constraints of publishing meant he had to order a minimum of 100 copies. This surplus led to an unforeseen and serendipitous expansion of the book's reach. One copy found its way into the hands of a reader overseas, who began reading a chapter each day to his child. This simple yet profound act resonated deeply with Penner, prompting him to reconsider the potential impact of his book.

"GREATNESS IS A CHOICE", A GUIDE FOR LIFE



"Greatness Is a Choice" is more than just a reflection on Penner's life in finance; it's a battle-tested guide on living a great life, filled with insights applicable to a broad spectrum of readers. Each chapter serves as a guidepost, addressing today's challenging societal issues while being deeply rooted in timeless principles derived from Penner's personal and professional journey.

In his book, Penner delves into themes like kindness, respect, and faith, underscoring the importance of family and legacy. He challenges readers to see the interconnectedness of various aspects of life - from politics and finance to ideology, nature, and music. The book is a call to action, asking readers to engage in critical thinking and to make conscious choices that lead to personal and societal betterment.

IMPACT AND REACH

The impact of "Greatness Is a Choice" is multi-dimensional. It encourages readers to:

1.Redefine Success: Discover new perspectives on defining and achieving personal success, moving beyond traditional metrics.

2.Reflect on American Principles: Revisit the foundational principles of America, understanding their role in shaping a nation of hope, equality, and prosperity.

3.Pursue Personal and Societal Growth: Recognize that personal growth is inextricably linked to societal benefits, encouraging a life of continuous learning and contribution.

4.Engage in Thoughtful Action: Be motivated to take action that contributes to a more peaceful and productive future, understanding the power of individual choices.

A CALL TO INTELLECTUAL COURAGE

"Greatness Is a Choice" is not just a book; it's an invitation to be intellectually challenged, to consider and embrace new ideas, and to engage deeply with the choices that shape our lives and our world. It's a book for those who dare to think differently and who are committed to forging a better path for themselves and future generations.

SHARING THE VISION

Penner envisions this book as a tool to establish a better intellectual framework for the future. It's an ideal resource to share with others, to spark conversations, and to foster a collective understanding of the principles and actions that lead to a fulfilling life. "Greatness Is a Choice" is Penner's gift to readers worldwide – a gift that encapsulates his belief in the power of thoughtful choices and the indelible impact of leading a life grounded in wisdom, compassion, and purpose

DISCOVER THE INSIGHTS OF A FINANCIAL VISIONARY

As we delve into the insights and experiences that Ethan Penner shares in "Greatness Is a Choice," it becomes evident that this book is more than just a memoir or a professional guide. It's a comprehensive reflection of a life lived at the intersection of financial innovation and personal growth. For those inspired by Penner's journey and eager to delve deeper into the principles that guided his remarkable career, "Greatness Is a Choice" is an essential read. Whether you're a seasoned finance professional, an aspiring entrepreneur, or simply someone seeking guidance on making impactful life choices, this book offers valuable lessons and insights.

A LEGACY THAT SHAPES THE FUTURE OF FINANCE

As we reflect on Ethan Penner's extraordinary journey in the financial world, it becomes clear that his legacy extends far beyond his pioneering work in CMBS. Penner's innovative spirit and human-centric approach have not only reshaped the landscape of real estate finance but also set a precedent for future financial innovations.

In today's rapidly evolving financial markets, where technology and digitization are at the forefront, Penner's principles of innovation, risk assessment, and personal connection remain more relevant than ever. His ability to foresee market needs and craft creative solutions offers a blueprint for modern financiers and entrepreneurs. In an age where fintech and sustainable finance are gaining momentum, Penner's approach to balancing technological advancement with human insight is particularly instructive.

Moreover, Penner's emphasis on building lasting relationships and fostering a culture of empathy and support in the workplace is a model that resonates strongly in the current corporate climate. As businesses increasingly recognize the value of corporate responsibility and employee well-being, Penner's philosophy serves as a reminder that financial success and ethical business practices are not mutually exclusive.

Looking ahead, the financial industry stands at the cusp of transformative changes, driven by emerging technologies like blockchain, artificial intelligence, and green finance initiatives. In navigating these changes, Penner's legacy of innovation, combined with his commitment to ethical and human-centric business practices, provides a guiding light. His career is a testament to the fact that the most enduring and impactful financial innovations are those that not only solve complex market problems but also enhance human connections and contribute positively to society.

Ethan Penner's story is not just a chronicle of financial triumphs; it is a narrative that intertwines the art of finance with the art of living. As we move forward into a new era of financial innovation, his journey inspires us to pursue excellence in our professional endeavors while remaining steadfast in our commitment to the values and relationships that enrich our lives.

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Capitalizing on single-family home assets: Key trends to watch

By Gene Garcia & Crystal Sunbury - RMS US LLP (www.rsmus.com)

The single-family housing market continues to evolve as corporate investors and families look to find their footing amid the shifting landscape. While speculation swirls around the future of commercial real estate, much less has been said about the residential market. Given the significant headwinds affecting housing, will the macroeconomic variables and other market uncertainties dramatically change the investment outlook for this sector? We'll look at factors shaping market trends and the response from investors and buyers.

THE CURRENT SITUATION

The Federal Reserve has made it clear that interest rates will remain higher longer. Zillow data shows that over 80% of homeowners have rates locked in below 5%, providing little incentive to move. How might this change when rates begin to ease and pent-up demand is unleashed into the market?

Potential homebuyers face historically low affordability, with the highest mortgage rates in over two decades and elevated housing prices that have recovered from a short-lived dip in 2022. Despite these obstacles, single-family housing permits and starts reached 948,000 and 941,000 seasonally adjusted annualized units as of August 2023, an increase of 7.1% and 2.4%, respectively, from a year prior. New home sales climbed 11.9% year over year, to 714,000 seasonally adjusted annualized units, as buyers competed for limited options.

The U.S. housing shortage, estimated at over 3.5 million units, is a direct result of underproduction following the global financial crisis of 2007–09. Millennials who have reached prime homebuying age and baby boomers who want to stay in their homes longer are exacerbating the need for more housing. Meanwhile, resale inventory remains

Monthly rent vs. monthly payment, median-priced existing home*

Source: U.S. Census Bureau; Mortgage Bankers Association; Redfin; RSM US LLP

*30-year mortgage

anemic as current homeowners opt to maintain their locked-in low rates.

Even as the market grapples with low supply, the long-term outlook for residential real estate remains positive. However, affordability and post-pandemic lifestyle preferences will continue to influence the decision to rent versus buy, with a growing emphasis on affordability, flexibility and convenience of renting.

THE GROWTH OF SINGLE-FAMILY RENTAL INVESTMENTS

The single-family rental (SFR) portfolio gained dominance during the Great Recession, when the housing bubble provided an opportunity for private equity to take advantage of a very distressed single-family market heavily owned by private investors and families. The current macroeconomic environment of elevated rates has increased borrowing costs and put homeownership out of reach for many in the market, securing steady demand for SFR products across the nation.

An April 2023 **Urban Institute** report estimated that as of June 2022, large institutional investors (i.e., those with more than 1,000 single-family units) owned 574,000 homes. The growth of SFR portfolios increased from 2020 through 2022 due to historically low interest rates, robust rent growth, increased occupancy and home appreciation. As SFR dominated the market with favorable fundamentals, large funds focused on strengthening operational alpha. Elevated property taxes and insurance costs demanded operational excellence and achievement of economies of scale on maintenance and management.

BUILD-TO-RENT EXPANDS ON SFR'S SUCCESS

The build-to-rent (BTR) investment thesis is centered on developing and operating purpose-built rental communities with an eye toward well-designed, professionally managed homes that cater to market demand. The BTR model is often described as a hybrid of conventional multifamily with all the great benefits of SFR. The demand for these properties started to increase during the pandemic when, as an alternative to buying, renters flocked to larger properties with backyards and more privacy and amenities, with annual sales of BTR communities spiking in 2021.

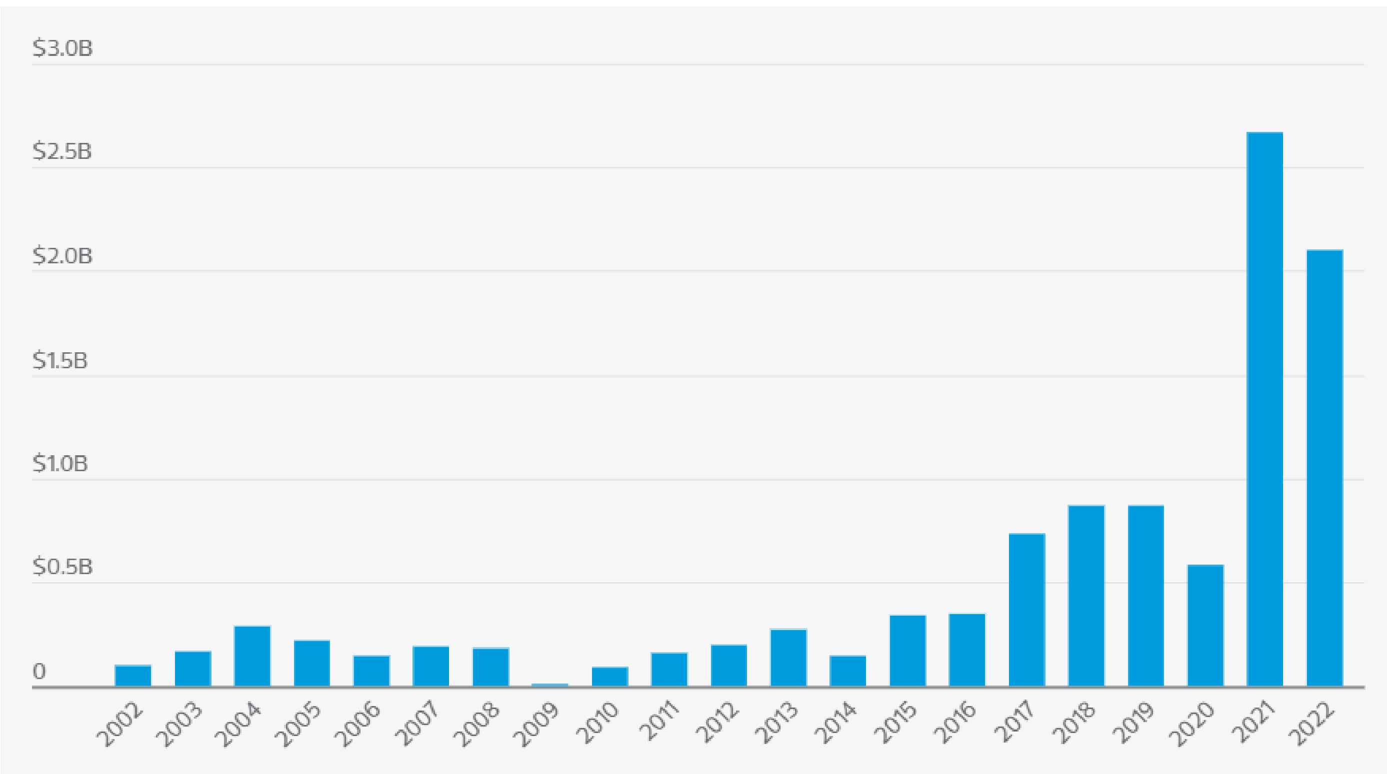
BTR developers nationwide are building at a record pace, with the South leading the charge by outpacing the next closest market (the West) by more than 2 to 1, according to data from **RealPage Analytics**. Across the country, BTR homes are included as a critical component of successful master-planned communities. The Yardi Matrix 2023 second-quarter report shows 6,600 BTR units delivered in the first half of 2023 and 50,000 units currently under construction. With 36,000 more units in the planning stage, the BTR market continues to grow at an impressive pace for 2023 and beyond.

FAMILY OFFICE INTEREST IN SFR AND BTR ASSETS

As emerging real estate investment power players, family offices will continue to pour capital into this alternative asset class, fueled by the great wealth transfer that will occur over the next 10 to 20 years. The tax advantages of real estate make it a top choice for family offices, whose preference for income- and appreciation-oriented assets align with many single-family housing investment opportunities.

SFR funds offer family offices a unique opportunity to capitalize on economies of scale—which is critical in building margin and long-term operating profitability—through bulk purchases and bundled maintenance and management costs. BTR investments have a similar profile but require a less expensive build than conventional multifamily and offer better build-to-cap rates.

Annual sales of build-to-rent communities



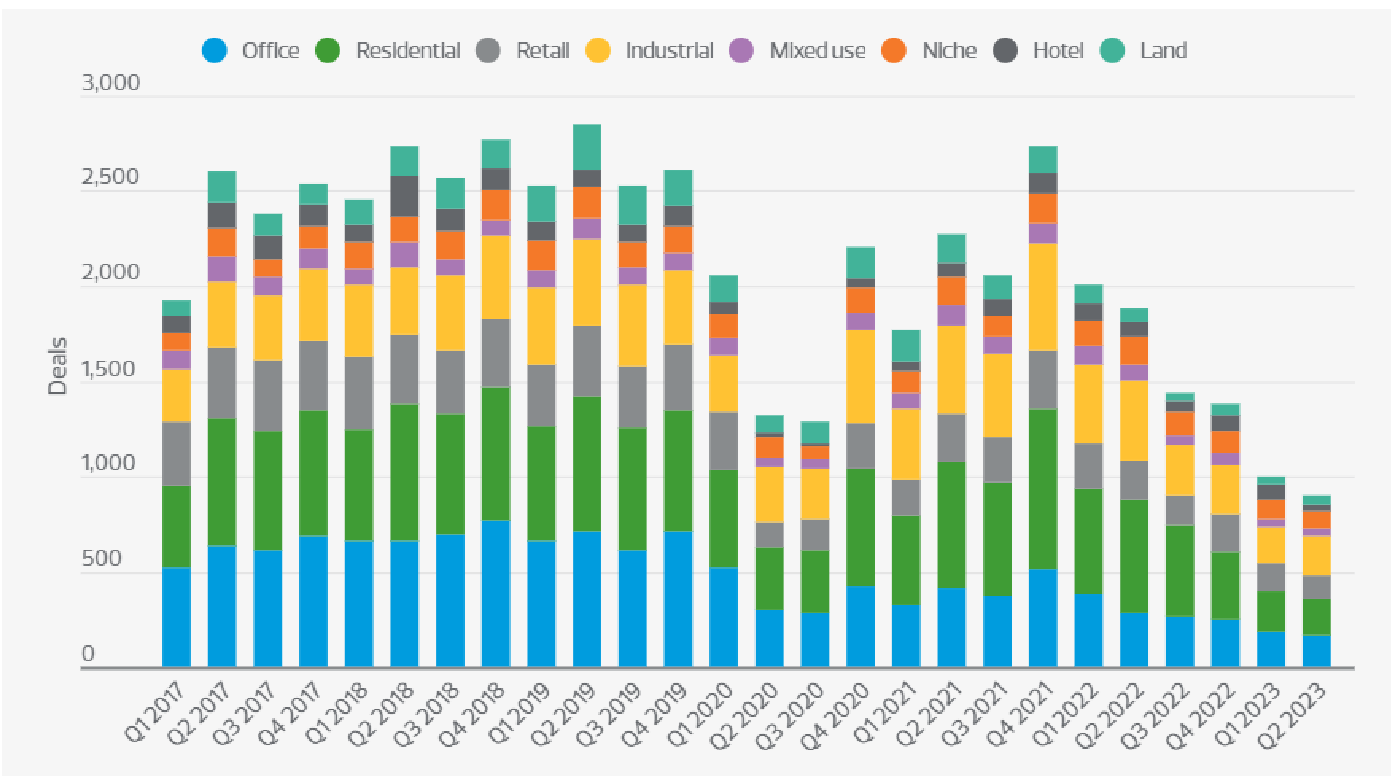
Source: Yardi Matrix; RSM US LLP

THE OUTLOOK

Housing market dynamics—including historically low inventory, continued price appreciation, and changing demographics and lifestyle preferences—are reshaping the single-family investment landscape and opening the door to BTR and SFR opportunities. However, as with all sectors of real estate, higher interest rates and a tighter lending environment will continue to limit residential real estate investor transaction volume.

Still, an influx of capital from value seekers entering the market has led to more activity focused on the rental space. While SFR and BTR opportunities still make up only a very small percentage of the single-family market, we expect to see more focus on rental property portfolios as corporate investors and family offices continue to place their bets on residential real estate.

Number of real estate deals by property type

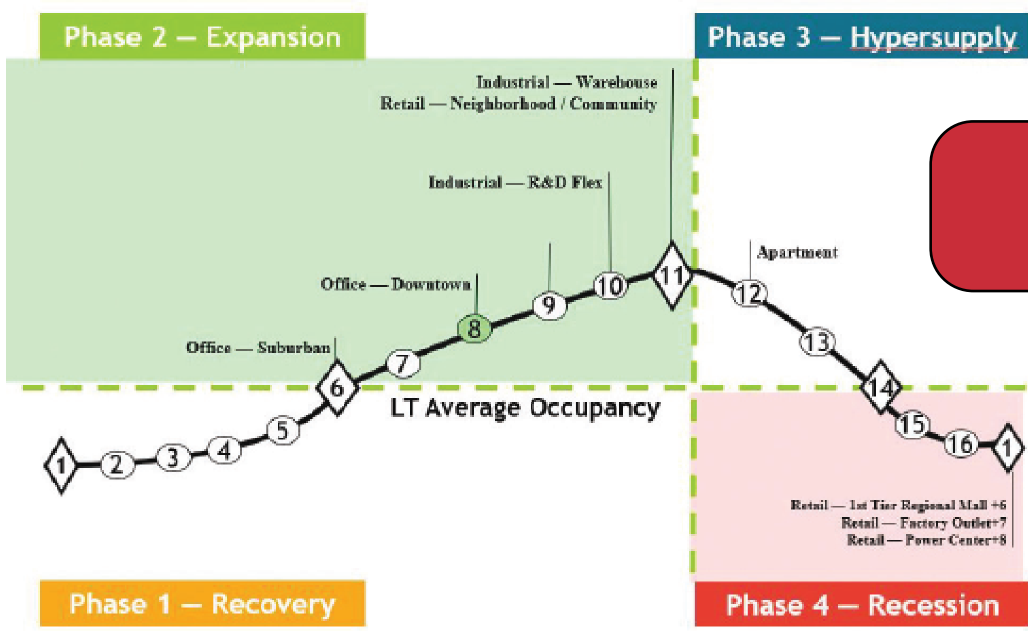


Source: Preqin Pro; RSM US LLP

Educated REIT Investing

The Ultimate Guide to Understanding and Investing in Real Estate Investment Trusts

Stephanie Krewson-Kelly
Glenn R. Mueller
with Merrie S. Frankel and Calvin Schnure



WILEY

EXPLORING CAUSES, CONSEQUENCES, AND RECOVERY

By Family Office Real Estate Institute

A recession is an economic downturn characterized by a significant decline in economic activity across various sectors of the economy.

It is a period of general economic decline, often marked by a contraction in GDP, increased unemployment rate, reduced consumer spending, and declining business profits.

In this article, we will explore the definition of a economic recession, its causes, the impact it has on individuals and society, and steps to prepare for and recover from a recession.

WHAT IS A RECESSION?

The global economy is subject to cyclical fluctuations, and recessions are an inevitable part of this economic cycle.

A recession is typically a result of various interconnected factors that lead to a decline in economic research growth. Understanding what a recession is and its implications is crucial for individuals, businesses, and policymakers.

DEFINITION OF A RECESSION

A recession is generally defined as a period of two consecutive quarters of negative economic growth, as measured by the Gross Domestic Product (GDP). However, it is important to note that other factors, such as employment rates, oil prices, consumers spending, and business activity, also play a significant role in determining the presence of a recession.

CAUSES OF A RECESSION

Recessions can be caused by a combination of economic, financial, and psychological factors. Let’s take a closer look at each of these factors:

ECONOMIC FACTORS

Economic factors contributing to a recession include:

1. Deteriorating Business Investment: A decline in business investment, such as reduced spending on machinery, equipment, and infrastructure, can signal an economic slowdown.

2. Reduced Consumer Spending: When consumers cut back on their discretionary spending, it can lead to a decrease in overall economic activity spread.

3. Negative External Shocks: Events like natural disasters, wars, or global crises can disrupt supply chains, negatively impacting businesses and the economy as a whole.

FINANCIAL FACTORS

Financial factors can also contribute to a recession:

1. Tightening Credit Availability: When banks and financial institutions become more cautious in lending, it can limit access to credit, affecting business economic expansion and investments.

2. Asset Price Bubble Burst: Speculative bubbles in asset prices, such as housing or stock markets, labor market, can burst, leading to a decline in wealth and economic instability.

PSYCHOLOGICAL FACTORS

Psychological factors can influence economic behavior and contribute to a recession:

1. Loss of Confidence: Negative sentiment and fear can drive consumers and businesses to reduce spending and investments, further dampening economic growth.

2. Herd Mentality: When individuals follow the actions of others without conducting independent analysis, it can amplify market fluctuations and exacerbate recessions.

SOCIAL CONSEQUENCES

1. Poverty and Inequality: Recessions can exacerbate poverty levels and widen income inequality as vulnerable groups face the brunt of economic hardships.

2. Health and Well-being: Economic downturns can impact people's mental and physical health due to increased stress levels and reduced access to healthcare services.

3. Housing and Homelessness: Recessions may lead to a rise in homelessness as individuals struggle to meet housing costs and face evictions.

HOW TO IDENTIFY A RECESSION

Identifying a recession requires analyzing various economic indicators. Some key indicators include:

1. Gross Domestic Product (GDP): A decline in GDP for two consecutive quarters indicates a recession.

2. Unemployment Rates: Rising unemployment rates are often observed during recessions.

3.Consumer Spending: Reduced consumer spending can be an indication of an economic downturn.

4. Business Activity and Investment: Declining business activity and reduced investments are signs of a potential recession.

GOVERNMENT RESPONSE

During recessions, governments implement various measures to mitigate the negative effects. These measures include:

1.Fiscal Policies: Governments can use fiscal policies, such as tax cuts, increased government spending, or targeted subsidies, to stimulate economic growth.

2. Monetary Policies: Central banks may lower interest rates because of international monetary fund, making borrowing cheaper and encouraging business investment and consumer spending.

3. Stimulus Packages: Governments may introduce stimulus packages that provide financial support to individuals, businesses, and specific industries.

RECOVERY FROM A RECESSION

Recovering from a recession requires a combination of economic indicators and strategies. Here's what can aid the recovery process:

1. Economic Indicators: Monitoring key economic indicators, such as GDP growth, employment rates, and consumer spending, can indicate the direction of recovery.

2. Implementing Stimulus Measures: Governments can continue to implement stimulus measures to support economic recovery and growth.

3. Investing in Infrastructure: Infrastructure investments can stimulate economic activity, create jobs, and boost long-term growth.

4. Promoting Innovation and Entrepreneurship: Encouraging innovation and entrepreneurship can drive economic growth and create new job opportunities.

5. International Cooperation: Collaboration between countries can contribute to a more robust and synchronized global recovery.

SO WHAT ABOUT THE IMPACT OF RECESSIONS ON THE REAL ESTATE MARKET?

The Impact of Recessions on the Real Estate Market

1. Decline in Property Values: During a recession, property values often experience a decline as demand weakens and market activity slows down. Factors such as job losses, reduced consumer confidence, and stricter lending conditions contribute to a decrease in housing prices.

2. Reduced Housing Demand: Recessions typically lead to a decrease in housing demand as individuals become more cautious about making major financial commitments. High unemployment rates and economic uncertainty often deter potential homebuyers, resulting in a slowdown in home sales.

3. Limited Construction Activity: During recessions, construction activity in the real estate sector tends to decrease. Builders and developers may delay or scale back new construction projects due to lower demand, limited financing options, and a cautious approach towards investments.

4. Increased Inventory Levels: As housing demand declines during a recession, the supply of available properties may exceed the number of potential buyers. This surplus of inventory can put downward pressure on prices and lead to longer periods on the market for sellers.

5. Challenges in Mortgage Financing

Obtaining mortgage financing can become more challenging during a recession. Lenders may tighten their lending criteria, making it harder for prospective buyers to secure loans. This can further contribute to the decline in housing demand.

6. Opportunities for Family Office Investors: Recessions can present opportunities for real estate investors. Lower property prices and increased market supply may allow investors to find attractive investment opportunities, particularly in distressed properties or areas with potential for future growth.

7. Shifts in Rental Market: During a recession, the rental market may experience changes as some individuals opt for renting instead of buying homes. Rental demand could increase, potentially leading to more stability in rental prices or even slight growth, depending on the local market conditions.

8. Importance of Location and Property Type: In a recession, the impact on the real estate market can vary depending on the location and property type. Certain markets and property segments may be more resilient or less affected compared to others. Factors such as job growth, industrial production, and property market fundamentals play a crucial role in determining the extent of the impact.

9. Long-Term Investment Perspective: While recessions can present challenges in the real estate market, it is important to consider the long-term perspective. Real estate has historically shown resilience and the ability to recover and appreciate in value over time, making it a viable long-term investment option.

10. Adapting Strategies for Recessionary Periods: Real estate professionals and investors need to adapt their strategies during recessionary periods. This may involve focusing on cash flow, seeking opportunities in undervalued markets, diversifying investments, and maintaining a cautious approach towards financial commitments.

By understanding the impact of recessions on the real estate market and being proactive in adjusting strategies according to national bureau, Family Office investors can navigate the challenges and potentially capitalize on opportunities presented during economic downturns.

CONCLUSION

Understanding what a recession is and its implications is vital for individuals, businesses, and policymakers. Recessions can have significant economic, social, and psychological consequences.

WHY FAMILY OFFICES SHOULD CONSIDER CUSTOM HOME BUILDING INVESTMENTS

Aaron Koski & Gabrial Carter - Wolf House (www.wolff-house.com)

In the diverse world of real estate investment, family offices should pay close attention to custom homebuilding, a sector ripe with potential and ripe with potential and often overlooked. An example of opportunities to take advantage of this type of investment, is in the type of neighborhood that is found in LoHi in Denver. This area exemplifies the ideal mix of urban appeal and residential charm, attracting a demographic that values both luxury and convenience. The rising demand for housing in LoHi, driven by affluent young professionals and families, underscores the potential of investing in neighborhoods with similar characteristics. loHi, a neighborhood in Denver provides the opportunity to create properties that stand out with unique features like rooftop decks, indoor/ outdoor living spaces, and custom design elements. These aspects not only meet the lifestyle demands of the residents but also add significant value and exclusivity to the properties. The strategy often involves redeveloping older homes into new, custom-designed residences, maximizing land use and enhancing the overall investment value. An example of this approach, can be exemplified by the successful redevelopment at 3640/3642 Mariposa in LoHi.

LEARNING FROM THE 3640/3642 MARIPOSA PROJECT: A CASE STUDY IN CUSTOM HOMEBUILDING

An example is the 3640/3642 Mariposa project in Denver which serves as an instructive example for family offices considering investments in custom home building. This project began when we collaborated with a broker who identified a deal that was on the verge of collapse. The contract for a classic 900 square foot Denver bungalow was reassigned, preventing the deal from falling through. The bungalow was then demolished, and the lot was split to construct two new custom homes, adhering to a well-established business model in real estate development.

Architecturally, the project embraced a transitional Tudor farmhouse style, with varying roof slopes and entryway styles to visually distinguish the two homes while ensuring they complemented each other. Gas lanterns were added to the entryways, enhancing the welcoming ambiance and elevating the street's overall appeal. The interior design focused on open spaces with a clear intention towards functionality and movement. Features included multiple entertainment areas, with the kitchen and living area extending into the back patio for seamless indoor to outdoor living, as well as a rooftop bar and deck. The primary suite was crafted as a private retreat within the home, complete with a 5-piece ensuite bath with heated floors, a walk-in closet, a brick gas fireplace, and a private deck. The use of natural stone and unlacquered brass in the finish selections added to the homes' warmth, designed to patina naturally over time.

However, the project encountered significant challenges, common in the construction industry. During the excavation phase, old foundations from a previous carriage house were discovered, requiring a substantial modification to the excavation permit and causing a two-month delay. This led to a new approach in future projects, assuming full excavation requirements from the outset to better budget and predict timelines

The COVID-19 pandemic further complicated the project with widespread supply chain disruptions, significantly extending lead times for appliances and other materials. This situation necessitated a shift *from a just-in-time material purchasing strategy to purchasing key elements at the project's beginning and storing them on-site or locally. This change, although increasing carrying costs, was deemed necessary to maintain project schedules in a challenging construction industry.*

Upon completion, the homes were listed in a difficult market, contrasting with previous experiences where multiple offers and bidding wars were common. To navigate this, a partnership was formed with a leading luxury brokerage, offering access to pre-approved clients and a robust media presence. Additionally, a focus on developing the brand through a PR and marketing firm was initiated, aiming to enhance online presence and neighborhood engagement, and to direct potential buyers from platforms like Zillow/Redfin to a dedicated lead capture system.

The 3640/3642 Mariposa project highlights several key lessons for family offices in custom home building: the importance of flexibility in deal-making, the need for adaptability in construction and supply chain management, and the value of strategic partnerships and brand development in a fluctuating real estate market.

AN OPPORTUNITY TO CONSIDER

This case study truly shows the opportunity for family offices in custom home building in LoHi and beyond in Denver. Similar investment prospects are emerging in other parts of Denver and across the United States. Each location presents its unique demographic trends and real estate dynamics, offering a variety of opportunities for savvy investors. Understanding the specific characteristics of each area and tailoring investment strategies accordingly is key to capitalizing on these opportunities.

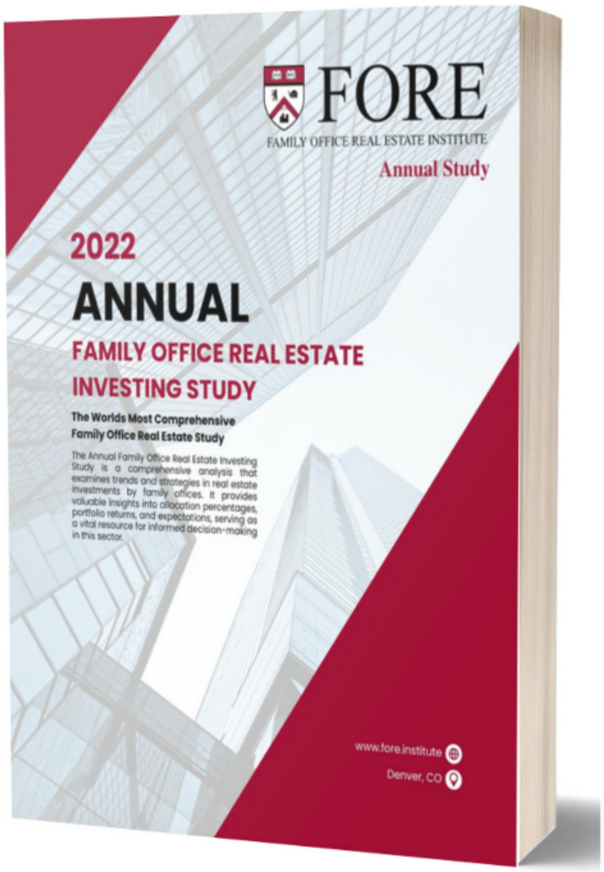
Investing in custom homebuilding, regardless of the location, comes with its set of challenges, such as navigating site conditions or managing supply chain disruptions. These challenges highlight the importance of partnering with experienced developers who have a track record of successfully overcoming such obstacles. The ability to adapt and respond to unforeseen situations is crucial for the success of these investments.

In conclusion, the potential for custom home building as a strategic investment avenue is vast, extending from specific neighborhoods like LoHi in Denver to various urban areas across the country. The growing demand for unique, luxury homes in thriving urban neighborhoods presents a compelling case for family offices to consider. By focusing on high potential neighborhoods, investing in properties with distinctive, luxury features, and collaborating with seasoned developers, family offices can achieve significant returns, diversifying their investment portfolios while contributing to the development of vibrant communities.

These insights are invaluable for family offices looking to invest in similar projects, offering a road map to navigate the complexities and capitalize on the opportunities in custom home building.




2022 US Family Office Real Estate Investing Report



"The most comprehensive study of its kind on family offices and their real estate investments"

DJ Van Keuren
Founder FORE Institute
Evergreen

The Family Office Real Estate Institute research study is now available. In our 5th Year The report offers insight into the performance, types of real estate investments and objectives. Over 100 family offices in the US have contributed to the research. The research provides the insite into all aspects of a family office real estate investments and key areas such as allocations, property types for investments, generational investing, real estate impact investing and opportunity zone investing.

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Mueller
Real Estate Market Cycle Monitor
Second Quarter 2023 Analysis
August 2023

The Physical Market Cycle Analysis of 5 Property Types in 54 Metropolitan Statistical Areas (MSAs) By Glenn Mueller - Professor in the Burns School of Real Estate & Construction Management at the University of Denver

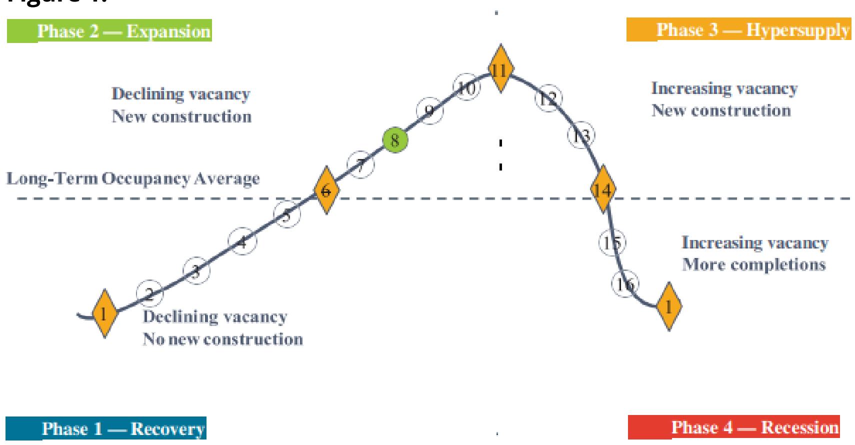
Sign Up Here for Updates

The cycle monitor analyzes occupancy movements in four property types in 54 MSAs. Market cycle analysis should enhance investment - decision capabilities for investors and operators. The five property type cycle charts summarize almost 300 individual models that analyze occupancy levels and rental growth rates to provide the foundation for long-term investment success. Commercial real estate markets are cyclical due to the lagged relationship between demand and supply for physical space. The long-term occupancy average is different for each market and each property type. Long-term occupancy average is a key factor in determining rental growth rates — a key factor that affects commercial real estate income and thus returns.

Rental growth rates can be characterized in different parts of the market cycle , as shown in Figure 2.

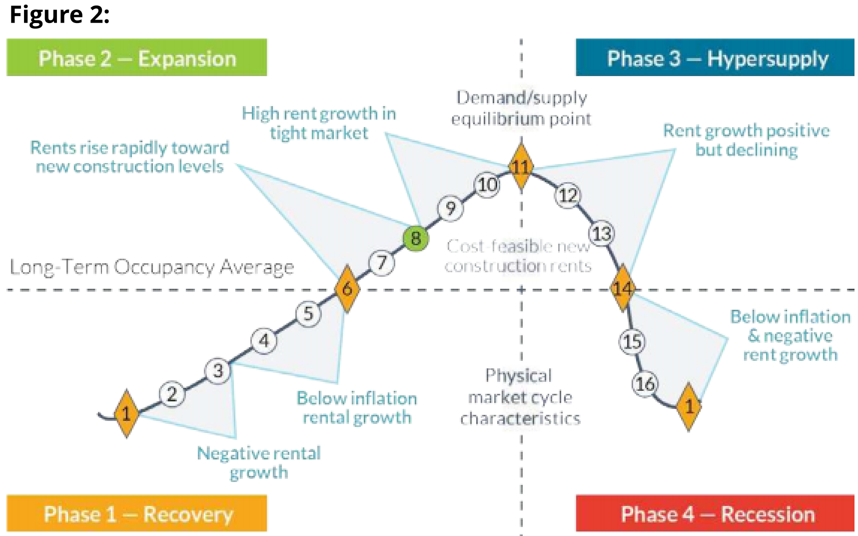
Market Cycle Quadrants

Figure 1:



Source: Mueller, Real Estate Finance, 1996.

Figure 2:



Source: Mueller, Real Estate Finance, 1996.

Overview

The Physical Market Cycle Analysis of 4 Property Types in 54 Metropolitan Statistical Areas (MSAs).

Inflation continued to hover in the 3%+ range in 2023, thus most economists expect the Fed to hold or increase interest rates further to get to their target 2% inflation goal. We expect the 10-year treasury benchmark rate to remain above 4.5% for the rest of 2023, keeping prime borrowing costs above 5.5%. Commercial real-estate lending has declined to less than half the volume in 2022, this decline has also driven transaction volume to about 1/3 of the peak years in 2021 & 2022. These low levels should help to keep new construction starts to low levels in the next few years allowing demand and supply to balance out over the next few years. The National Property Type Cycle Locations graph shows relative positions of the sub-property types

Office occupancy declined -0.3% in 3Q23, while rents grew 0.1% for the quarter and were up 0.6% annually.

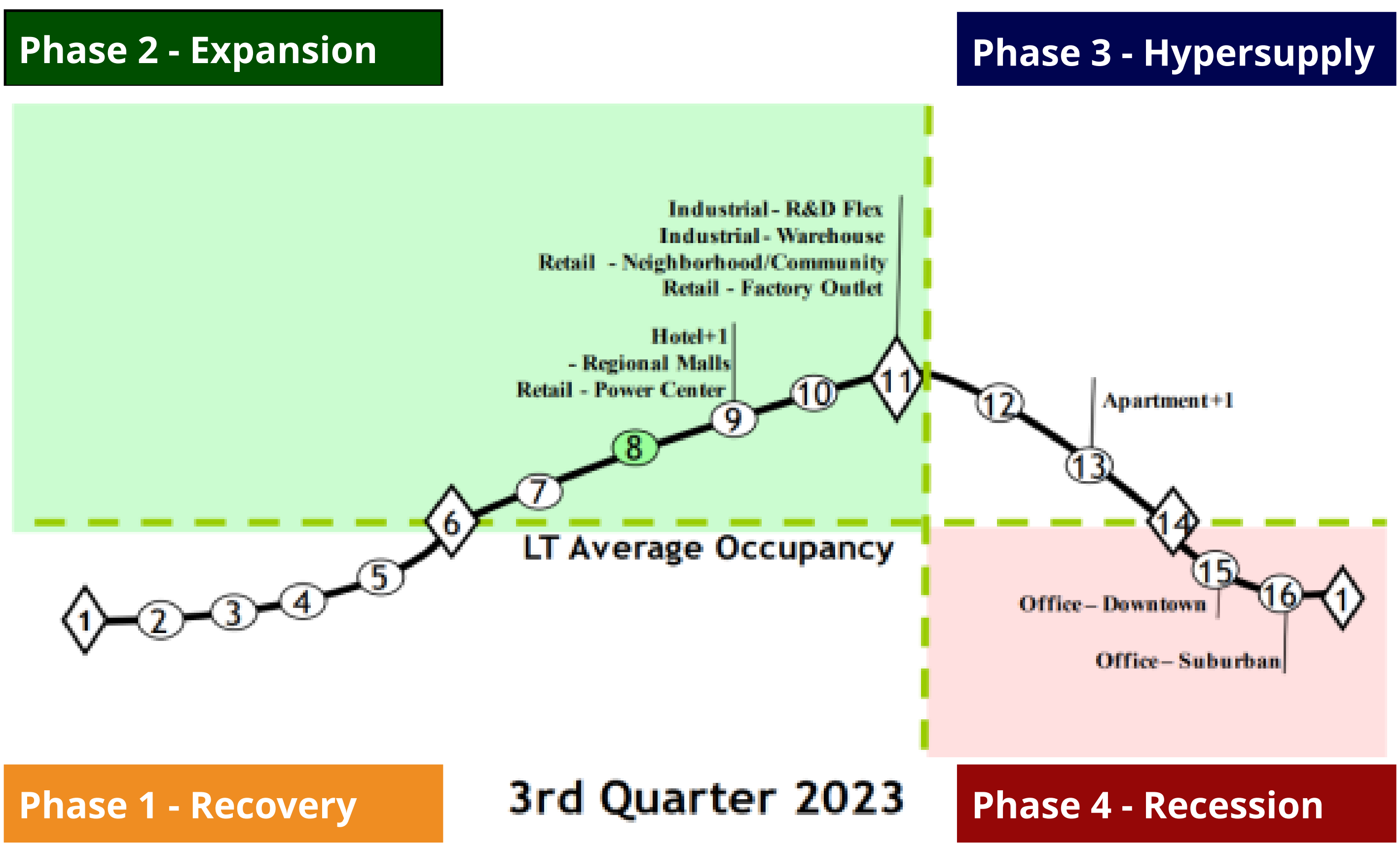
Industrial occupancy declined -0.3% in 3Q23, and rents grew 1.1% for the quarter and were up 4.6% annually.

Apartment occupancy decreased -0.2% in 3Q23, and rents declined -0.7% for the quarter, and were up 0.8% annually.

Retail occupancy was flat in 3Q23, and rents grew 0.7% for the quarter and were up 3.6% annually.

Hotel occupancy increased 0.1% in 3Q23, and average RevPAR grew 1.7% for the quarter and was up 4.7% annually.

National Property Type Cycle Locations



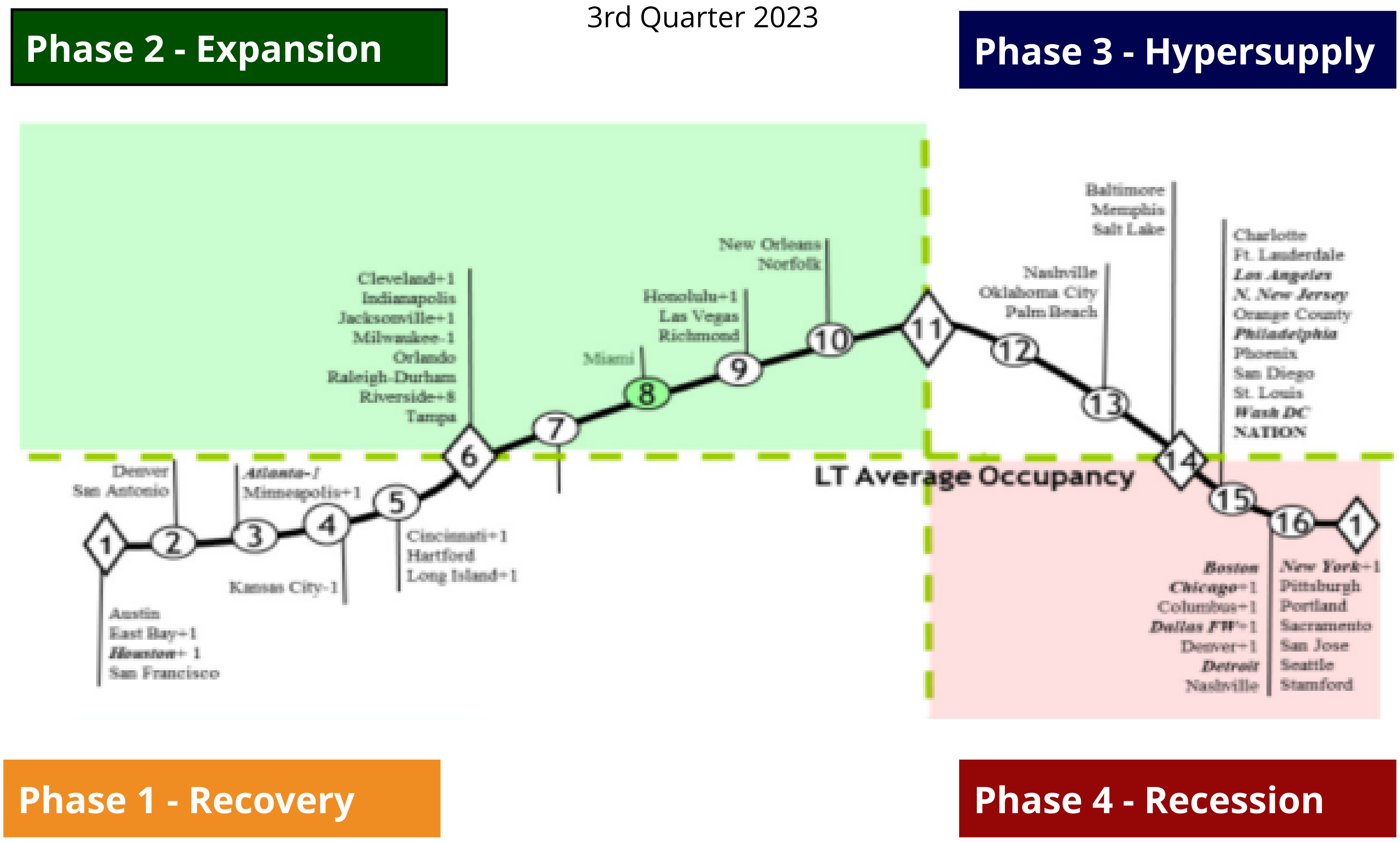
Source: Mueller, 2023

Office

The national office market occupancy level decreased 0.3% in 3Q23 and was down 0.7% year-over-year. Warren Buffett warned that a storm is brewing in office real estate markets: “The buildings don’t go away … but the owners do”. Employers who want workers back in the office must manage a vastly different set of employee priorities than existed pre-COVID. The five-day office schedule is gone, while flexibility, short commutes, and cool neighborhoods being more important. High amenity office space may no longer be the big draw. Many believe that more than 1billion SF of office space could be obsolete within seven years. The only office bright spot is the premium class A space that financial, and wealth advisory firms desire to impress clients. Unfortunately, 59 million SF of new office

Office Market Cycle Analysis

3rd Quarter 2023



Source: Mueller, 2023

Note: The 11-largest office markets make up 50% of the total square footage of office space we monitor. Thus, the 11-largest office markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

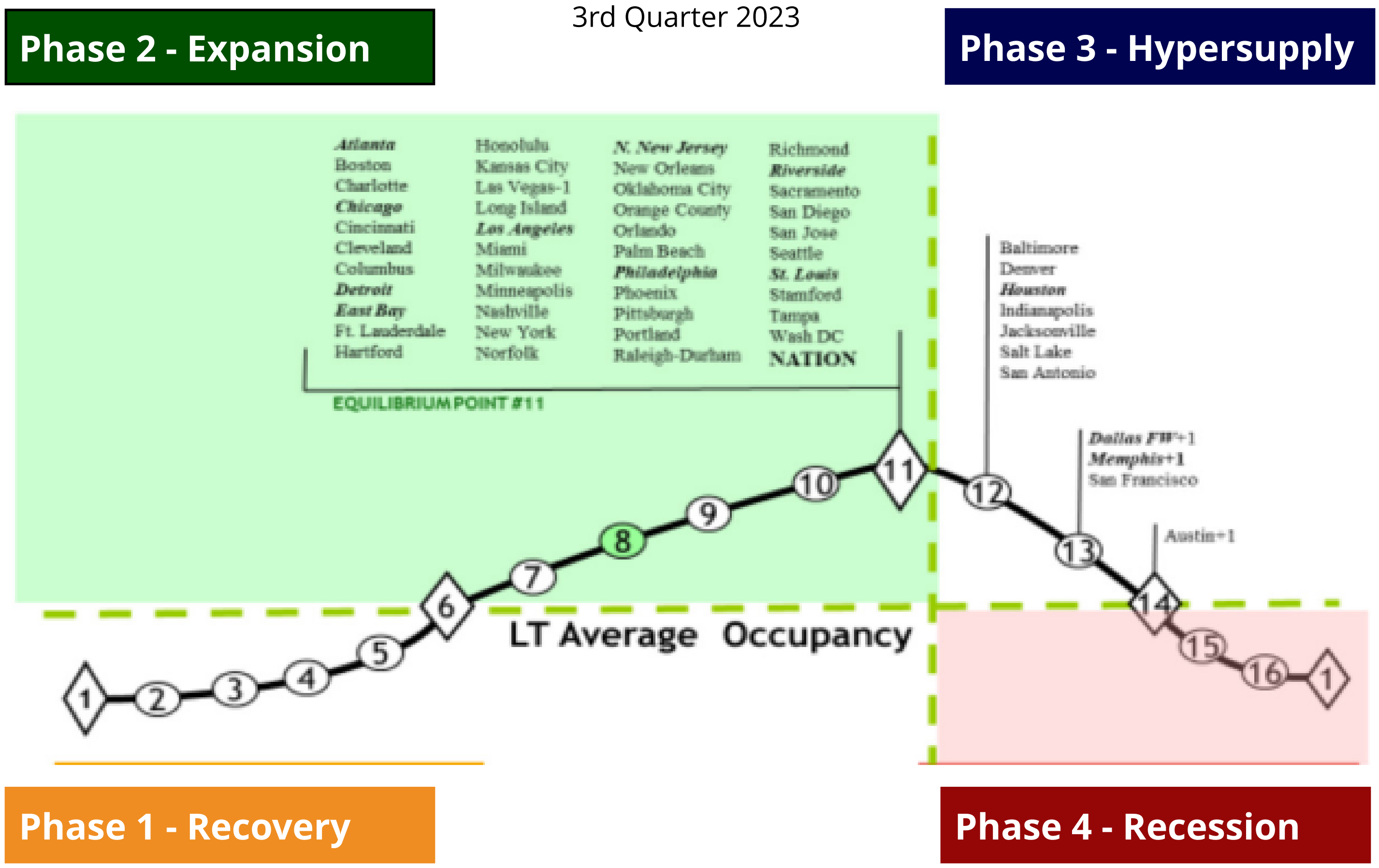
Markets that have moved since the previous quarter are now shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, i.e., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

Industrial

Industrial occupancies decreased 0.3% in 3Q23 and were down 0.6% year-over-year. Demand growth continues but is decelerating as tenants slow their inventory accumulation in anticipation of a slower economy and higher carrying costs. Orders of core capital goods increased 0.9% so far this year, but durable goods were up only 0.2%. Prologis, Inc believes larger logistics real estate space saves on costs and 800,000 square feet of space is now needed to support each $1 billion in retail sales. There were 50 million SF of deliveries so far in 2023 while absorption was more than triple at 181 million SF. 12 month net absorption was also positive at 248 million sq.ft. but slowed by 30% from the previous year. Amazon's strong sales growth has them expanding same day delivery

Industrial Market Cycle Analysis

3rd Quarter 2023



Source: Mueller, 2021

Note: The 12-largest Industrial markets make up 50% of the total square footage of office space we monitor. Thus, the 12-largest Industrial markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

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Evergreen

Helping Family Offices Maintain Their Legacy & Wealth for **Future Generations.**

OUR PLATFORM

Evergreen's exclusive invitation-only consortium of family office investors, coupled with their specialization and extensive real estate expertise, provides family offices with a unique opportunity to access carefully curated Co-GP and GP-LP opportunities, enabling them to invest alongside other like-minded families.

Evergreen invests in attractively priced assets in growing, liquid markets with strong demographics that they believe will yield appropriate risk-adjusted returns with best-in-class operators.

With a current focus on industrial, workforce housing, and market-rate multifamily real estate, Evergreen leverages decades of relevant experience and billions of dollars of management expertise to family offices.

WHY EVERGREEN?

Evergreen distinguishes itself through a profound grasp of the unique intricacies associated with family offices in their real estate investments. This expertise has been honed over years of close collaboration with numerous prominent families, amalgamating our knowledge in family office real estate and institutional operations.

$15 BILLION
OF TOTAL TRANSACTIONAL VALUE

50 YEARS
OF EXPERIENCE THROUGHOUT THE UNITED STATES AND CANADA IN EVERY MAJOR REAL ESTATE ASSET CLASS, INCLUDING INVESTING ON BEHALF OF FAMILY OFFICES AND INSTITUTIONS

114 MILLION SQUARE FEET
OF REAL PROPERTY ACQUIRED, DEVELOPED, MANAGED, AND/OR ADVISED

5,000 MULTIFAMILY UNITS
ACQUIRED AND MANAGED

$1.4 BILLION
OF INTERNATIONAL PUBLIC COMPANY BOARD EXPERIENCE

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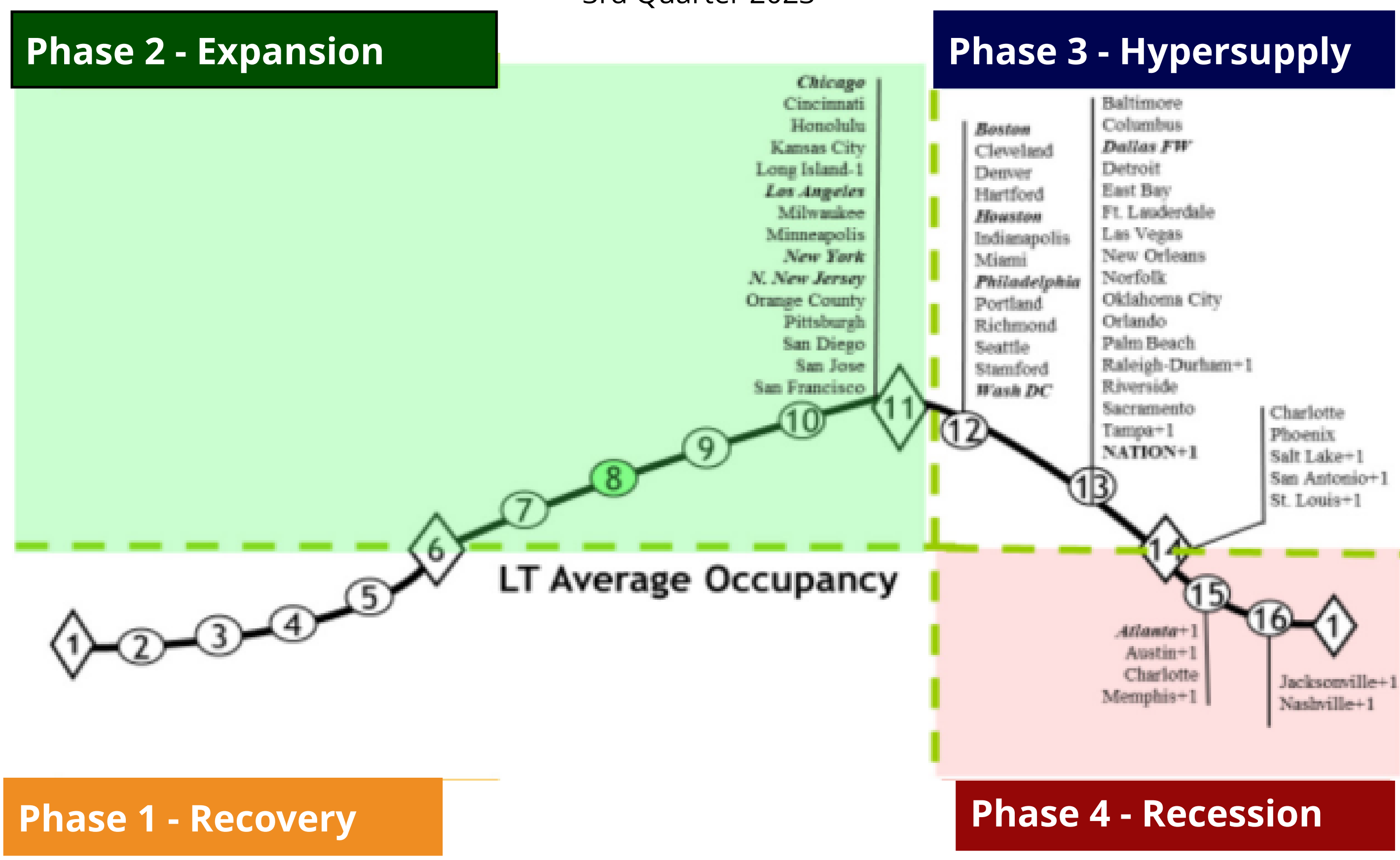
Apartment

The national apartment occupancy average declined 0.2% in 3Q23 and was down 1.1% year-over-year. Demand growth has been positive for eight quarters in a row, with 3Q23 seeing 116,000 units absorbed, but 140,000 units delivered. The oversupply problem continues with almost 300,000 units absorbed in the last 12 months, but almost 550,000 units supplied. Lower cost - less than class A properties have been in highest demand with their occupancies being 1% higher than the national average. The majority of new supply has been in sunbelt cities that had strong in-migration during and after COVID that spurred strong new construction starts. The Midwest and Northeast cities are now in better balance with less new supply and better rent growth. The national average apartment asking rent growth declined -0.7% in 3Q23, but rents grew 0.8% year-over-year

Apartment Market Cycle Analysis

3rd Quarter 2023



Source: Mueller, 2023

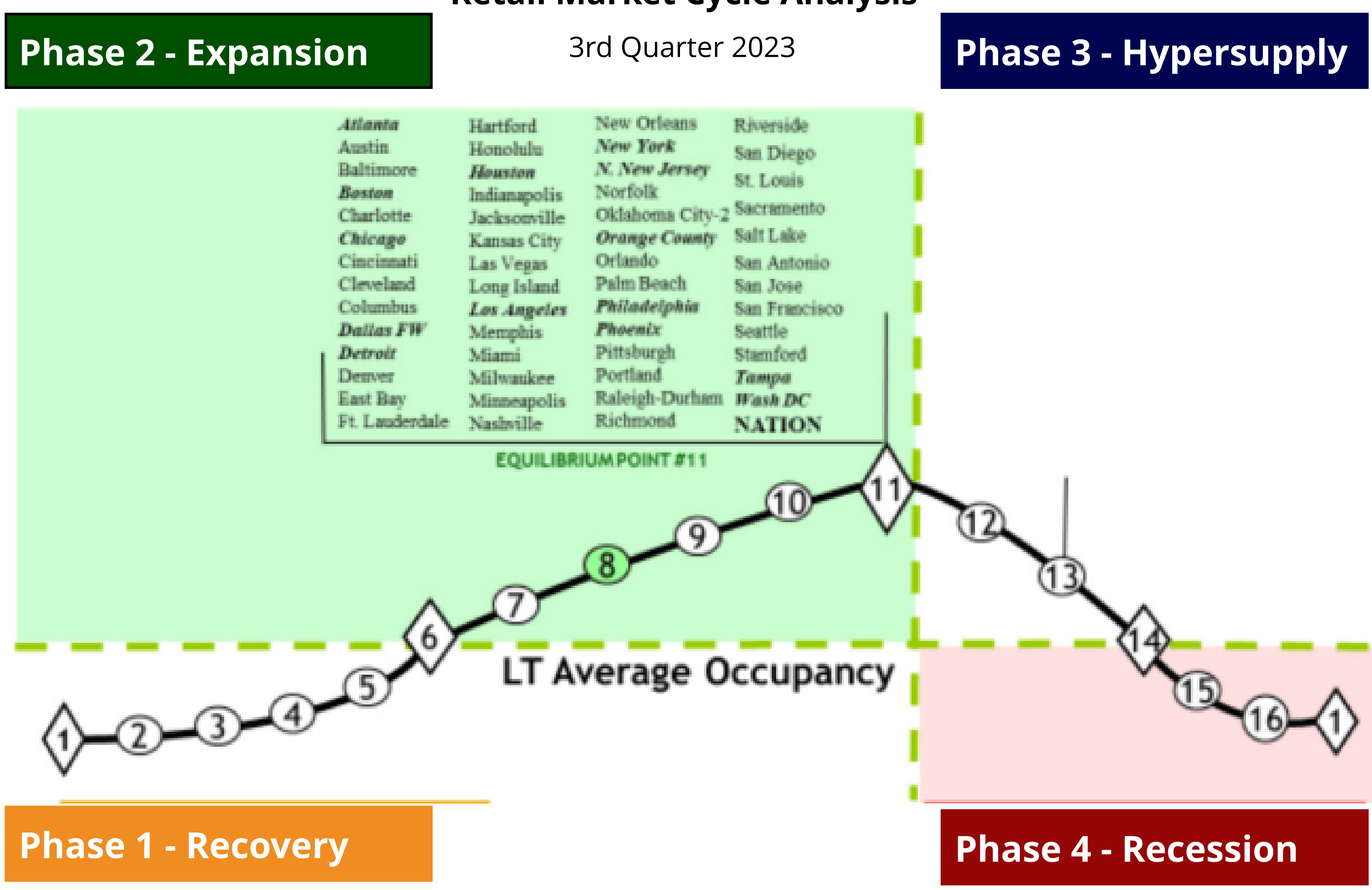
Note: The 10-largest apartment markets make up 50% of the total square footage of multifamily space we monitor. Thus, the 10-largest apartment markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

Markets that have moved since the previous quarter are now shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, i.e., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

Retail

Retail occupancies were flat in 3Q23 and remained unchanged year-over-year, holding at the all-time peak occupancy level for retail. Demand continued in 3Q23 with 52 million SF absorbed over the past year and new supply held at a reasonable 50 million SF. The number of store closures and move-outs has also been low. Finding space in the best locations has been a problem for retailers in most markets. Supply has also been kept in check with over 30 million SF of retail being demolished or repurposed each year for the past 5 years. Most new construction continues to be pre-leased. National average retail asking rents were up 0.7% for the quarter and were up 3.6% year-over-year

Retail Market Cycle Analysis



Source: Mueller, 2023

Note: The 10-largest apartment markets make up 50% of the total square footage of multifamily space we monitor. Thus, the 10-largest apartment markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

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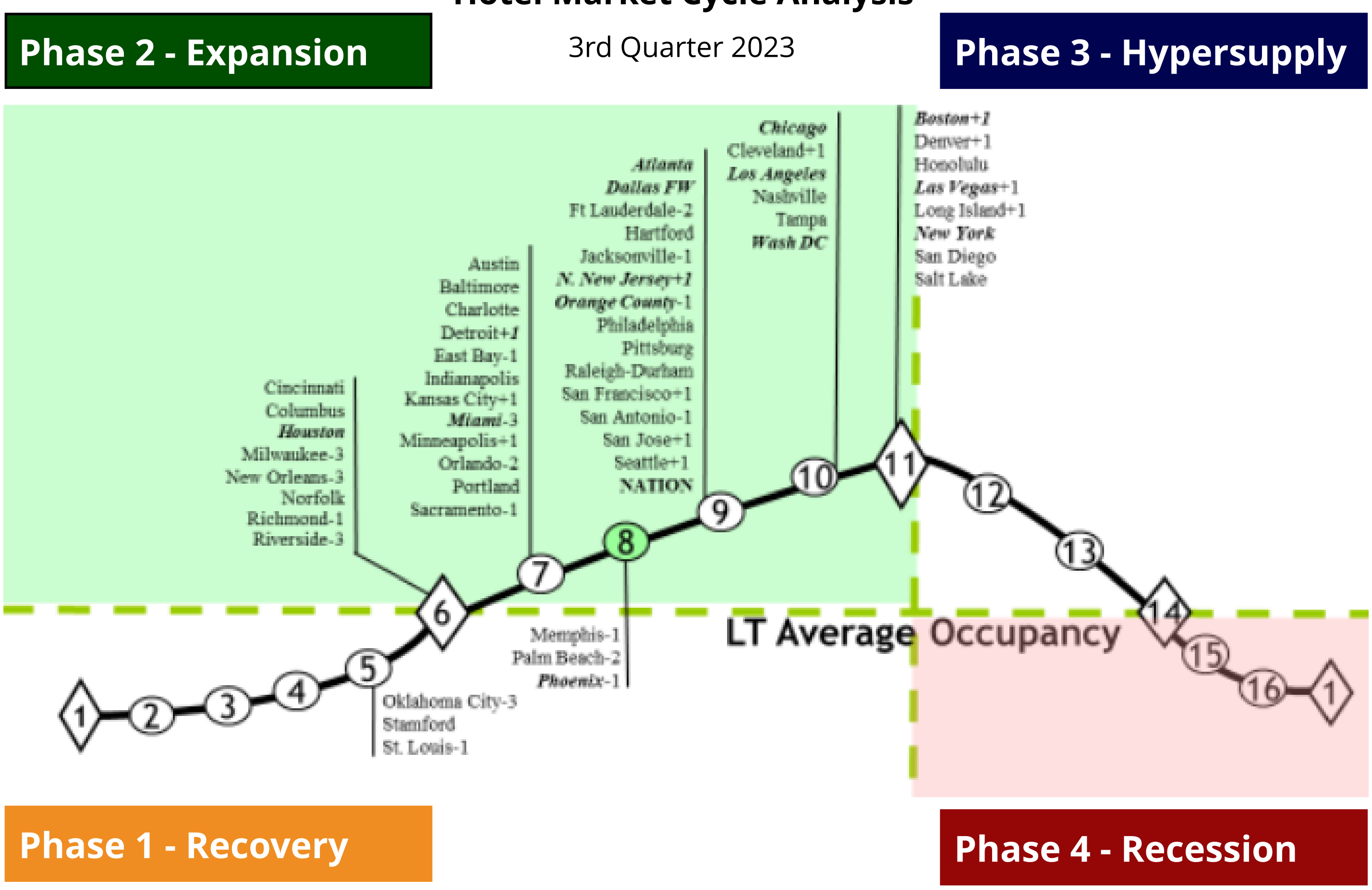
Hotel

Hotel occupancies were down 0.1% in 3Q23 and down 0.2% year-over-year. The positive economic environment provided good consumer confidence and travel growth. Recreational and conference demand continued to be strong, and business travel marched ahead at a still slow, but positive, growth rate. Many small and medium sized businesses created much of the new business travel demand according to Marriott. The 12-month demand was 1.3 billion room nights, while 12-month supply was 2 billion room nights. National average Revenue Per Available Room – (RevPAR) was up 1.7 for the quarter and up 4.7% year-over-year.

Hotel Market Cycle Analysis

3rd Quarter 2023



Source: Mueller, 2023

Note: The 14-largest hotel markets make up 50% of the total square footage of hotel space that we monitor. Thus, the 14- largest hotel markets are in ***bold italic*** type to help distinguish how the weighted national average is affected.

Markets that have moved since the previous quarter are now shown with a + or - symbol next to the market name and the number of positions the market has moved is also shown, i.e., +1, +2 or -1, -2. Markets do not always go through smooth forward-cycle movements and can regress or move backward in their cycle position when occupancy levels reverse their usual direction. This can happen when the marginal rate of change in demand increases (or declines) faster than originally estimated or if supply growth is stronger (or weaker) than originally estimated.

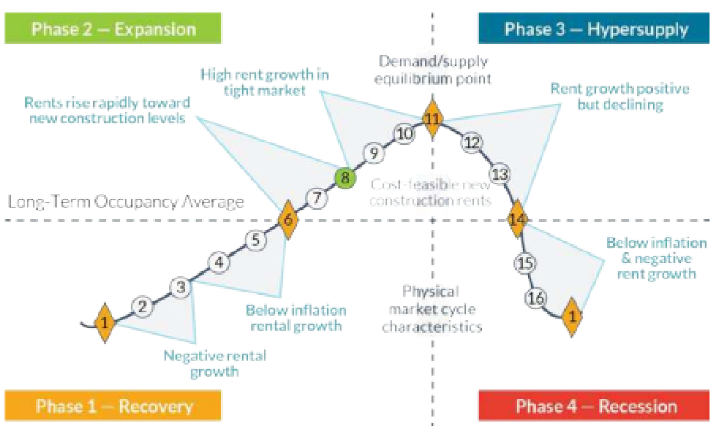
Market Cycle Analysis - Explanation

Supply and demand interaction is important to understand. Starting in Recovery Phase I at the bottom of a cycle (see chart below), the marketplace is in a state of oversupply from either previous new construction or negative demand growth. At this bottom point, occupancy is at its trough. Typically, the market bottom occurs when the excess construction from the previous cycle stops. As the cycle bottom is passed, demand growth begins to slowly absorb the existing oversupply and supply growth is nonexistent or very low. As excess space is absorbed, vacancy rates fall, allowing rental rates in the market to stabilize and even begin to increase. As this recovery phase continues, positive expectations about the market allow landlords to increase rents at a slow pace (typically at or below inflation). Eventually, each local market reaches its long-term occupancy average, whereby rental growth is equal to inflation. expectations about the market allow landlords to increase rents at a slow pace (typically at or below inflation). Eventually, each local market reaches its ***long-term occupancy average***, whereby rental ***growth is equal to inflation***.

In Expansion Phase II, demand growth continues at increasing levels, creating a need for additional space. As vacancy rates fall below the long-term occupancy average, signaling that supply is tightening in the marketplace, rents begin to rise rapidly until they reach a costfeasible level that allows new construction to commence. In this period of tight supply, rapid rental growth can be experienced, which some observers call "rent spikes." (Some developers may also begin speculative construction in anticipation of cost-feasible rents if they are able to obtain financing). Once cost-feasible rents are achieved in the marketplace, demand growth is still ahead of supply growth — a lag in providing new space due to the time to construct. Long expansionary periods are possible and many historical real estate cycles show that the overall up-cycle is a slow, long-term uphill climb. As long as demand growth rates are higher than supply growth rates, vacancy rates will continue to fall. The cycle peak point is where demand and supply are growing at the same rate or ***equilibrium***. Before equilibrium, demand grows faster than supply; after equilibrium, supply grows faster than demand.

Hypersupply Phase III of the real estate cycle commences after the peak / equilibrium point #11 — where demand growth equals supply growth. Most real estate participants do not recognize this peak / equilibrium's passing, as occupancy rates are at their highest and well above long-term averages, a strong and tight market. During Phase III, supply growth is higher than demand growth (hypersupply), causing vacancy rates to rise back toward the long-term occupancy average. While there is no painful oversupply during this period, new supply completions compete for tenants in the marketplace. As more space is delivered to the market, rental growth slows. Eventually, market participants realize that the market has turned down and commitments to new construction should slow or stop. If new supply grows faster than demand once the long-term occupancy average is passed, the market falls into Phase IV

Recession Phase IV begins as the market moves past the long-term occupancy average with high supply growth and low or negative demand growth. The extent of the market down-cycle will be determined by the difference (excess) between the market supply growth and demand growth. Massive oversupply, coupled with negative demand growth (that started when the market passed through long-term occupancy average in 1984), sent most U.S. office markets into the largest down-cycle ever experienced. During Phase IV, landlords realize that they will quickly lose market share if their rental rates are not competitive. As a result, they then lower rents to capture tenants, even if only to cover their buildings' fixed expenses. Market liquidity is also low or nonexistent in this phase, as the bid–ask spread in property prices is too wide. The cycle eventually reaches bottom as new construction and completions cease, or as demand growth turns up and begins to grow at rates higher than that of new supply added to the marketplace



Source: Mueller, Real Estate Finance, 1996

This research currently monitors five property types in 54 major markets. We gather data from numerous sources to evaluate and forecast market movements. The market cycle model we developed looks at the interaction of supply and demand to estimate future vacancy and rental rates. Our individual market models are combined to create a national average model for all U.S. markets. This model examines the current cycle locations for each property type and can be used for asset allocation and acquisition decisions.

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"I've always believed in the mantra 'be greedy when others are fearful - but at the right time'.
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