SHOPOFF | REALTY INVESTMENTS

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For Accredited Investors Only

In this edition, I am pleased to share some highlights from our latest Virtual Industry Experts Panel, which took place on March 5, 2024.

In addition to myself, the panel featured thoughts and information from highly regarded market leaders:

- **Aaron Greeno:** Head of West Coast, Partner Dune Real Estate Partners
- **Douglas Blake:** Managing Director of Investment Solutions, Kingswood U.S.
- **Daniel Oschin:** Chief Strategy Officer, Shopoff Realty Investments (serving as Panel Moderator)

The dialogue commenced with an acknowledgment of the difficulty in forecasting interest rates, indicating that while we seem to be nearing the end of inflation's peak, a soft landing for the economy remains uncertain. The steep and sharp increase in interest rates has injected volatility into the market, causing rate spreads to widen dramatically. This situation has significantly increased the cost of capital, which, in turn, has impacted valuations and dampened investor sentiment. However, I remain optimistic for two key reasons: firstly, the current rates are notably lower than the median rates throughout my career, and secondly, based on my personal observation, I expect them to decrease in the near term, which will lead to stability and easing with lenders.

The panel unanimously agreed that stability and predictability, rather than low-interest rates, are crucial for the real estate market to flourish. The predictability and availability of loans, alongside a willingness from the investment community to deploy capital, remain key. This period of economic recalibration has made lenders more cautious, creating a ripple effect that influences all aspects of real estate transactions.

Aaron Greeno provided an opportunistic view of the market, particularly highlighting the slower-than-expected materialization of distressed assets, which investors had anticipated. He pointed out the significant amount of liquidity still present in the system, which has allowed many to "kick the can down the road." Greeno sees potential opportunities in certain market segments, especially in lower-quality office spaces where lenders are forcing issues due to regulatory pressures.

The discussion also touched upon the looming challenge of maturing debt and the anticipated influx of distressed properties. However, the panelists concurred that the impact of this situation might unfold more slowly than many expect, attributing this to the ongoing liquidity in the market and the ability of many to extend their debt obligations.

Adaptability and flexibility resonated throughout our discussion. In today's market, reevaluating and potentially revising investment strategies is a necessity. This might mean moving away from high-leverage deals towards arrangements that incorporate a greater equity component or exploring alternative asset classes and markets that offer more favorable risk-adjusted returns under current economic conditions.

The real estate market is undeniably facing a period of transition driven by broader economic shifts. Yet, within this transition lies opportunity—for those prepared to adapt and move with the market, the future holds promise. I think it feels like we're moving toward stability and maybe going back in the other direction towards more favorable interest rate conditions, but I don't foresee a world where we're going to see the kind of free-money environment that we experienced in the past.

For an in-depth exploration of the panel's discussions, please see the recording:

https://shopoff.sharefile.com/d-sa8990680982e424ea8bce19f0865c369