

The Compelling Case for Private Real Estate Credit

A potential alpha generator, and
how bank distress is creating a unique opportunity today



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US real estate conditions: Summary



Macro Conditions

Inflation moderating; growth easing; rates easing

- Tight monetary policy has reduced inflation; slowly getting closer to target.
- Fed started cutting rates; more cuts expected.
- Growth has moderated; Fed also focusing on job market.
- Consumers spending; but credit card and auto delinquencies rising.

Capital Markets

Price adjustment has led valuation adjustment

- Private real estate prices have adjusted; valuations have trailed but may be approaching trough.
- Investor sentiment has improved; capital focused on industrial and residential.
- Distress limited but expect this to change the longer policy rates remain elevated.
- Expect 2025 to be an attractive entry point for new investments.

Fundamentals

Slower leasing, more supply, moderating revenue

- Leasing activity for interest-rate sensitive sectors has eased.
- Some sectors face elevated near-term supply; vacancy is rising, rent growth moderating.
- But new starts have plummeted, which may position some sectors for recovery in 2025.
- Sectors with favorable secular demand drivers expected to be better positioned for recovery.

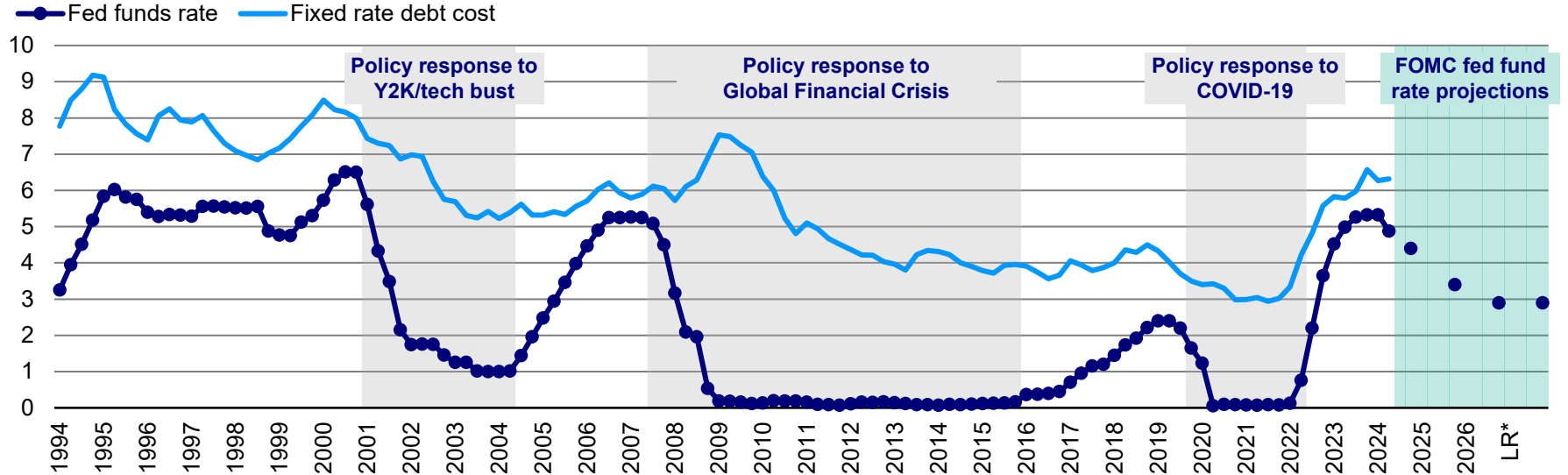
Source: Invesco Real Estate as of September 2024. IRE has permission to use the image shown. The opinions expressed herein are based on current market conditions and are subject to change without notice.

Anticipating more rate cuts

When the fed funds rate falls, real estate debt costs have room to fall

Central bank policy rates versus average real estate fixed debt costs per quarter (%)

History (Q1-1994 to Q2-2024) and policy rate projections (year-end 2024 to longer run)



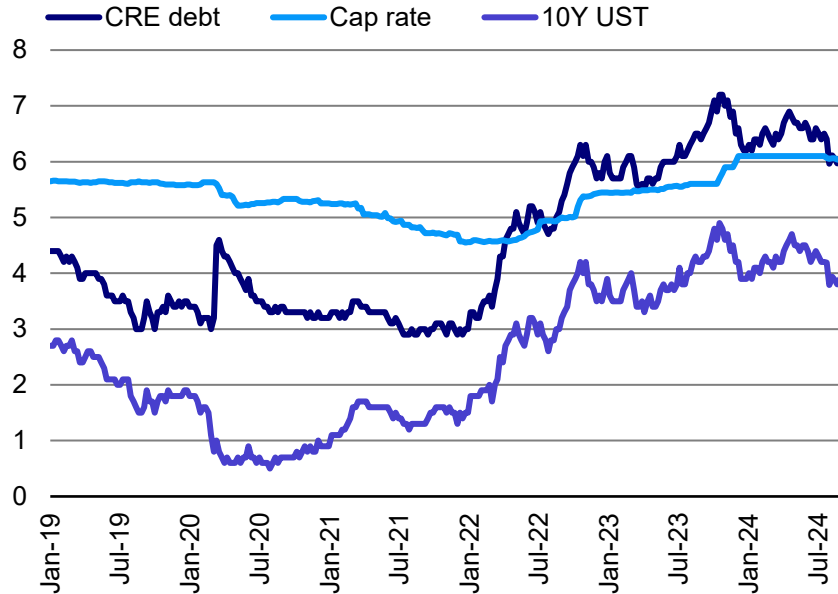
Sources: Invesco Real Estate, utilizing data from the Federal Open Market Committee (FOMC), Moody's Analytics, and the American Council of Life Insurers. FOMC fed fund rate projections are for year-end conditions in 2024, 2025, and 2026, and a longer run outlook (LR*) as of September 18, 2024.

Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions, there can be no assurance that actual results will not differ materially from expectations.

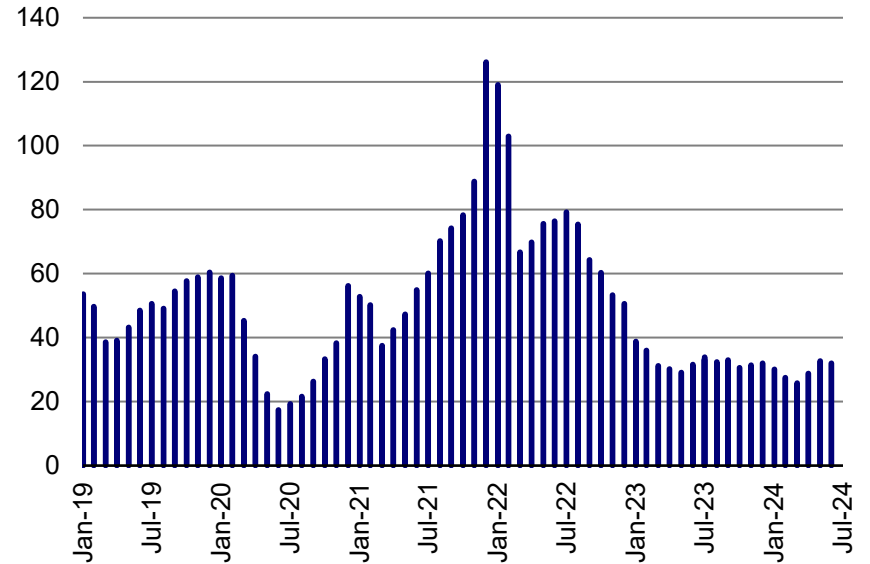
Real estate capital markets: Liquidity constrained

Transaction volume expected to rise as cost of debt moderates further

Real estate rates and US Treasury rate (%)



CRE monthly transaction volume (3MA, \$Bil)



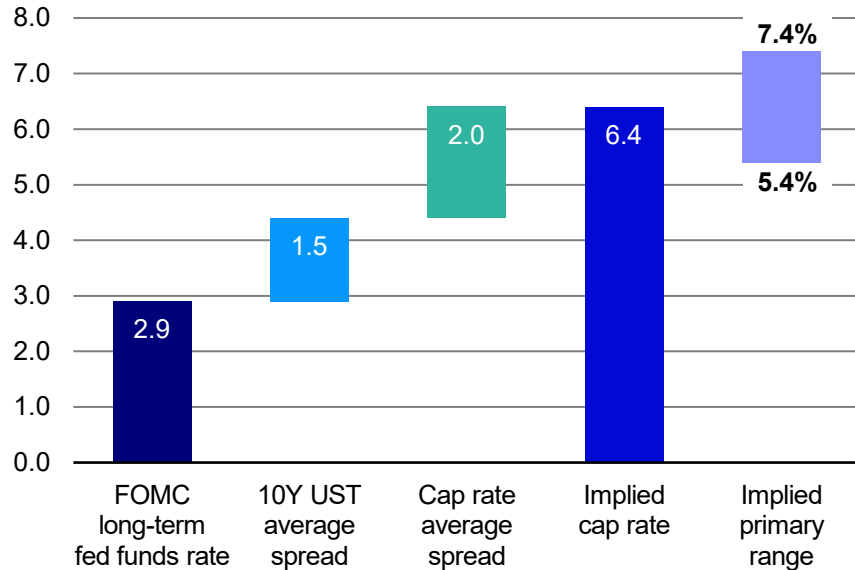
CRE debt based on 10Y fixed-rate loans with 50%-59% LTV

Source: Invesco Real Estate using data from Green Street, Moody's Analytics, and MSCI as of September 2024

Real estate pricing long-term

A simple long-term average framework based on historical relationships

Cap rate build up (%)



FOMC outlook for long-term fed funds rate:
published on September 18, 2024

2.9%

Avg spread between 10Y UST and fed funds rate:
1990-2023

+ 150 bps

Avg spread between NPI cap rate and 10Y UST:
1990-2023

+ 200 bps

Implied cap rate

= 6.4%

Implied primary range of cap rates:
+/- 100 bps average standard deviation 2020-2023

= 5.4% to 7.4%

Sources: Invesco Real Estate utilizing data from NCREIF, Moody's Analytics, and the Federal Open Market Committee as of September 18, 2024

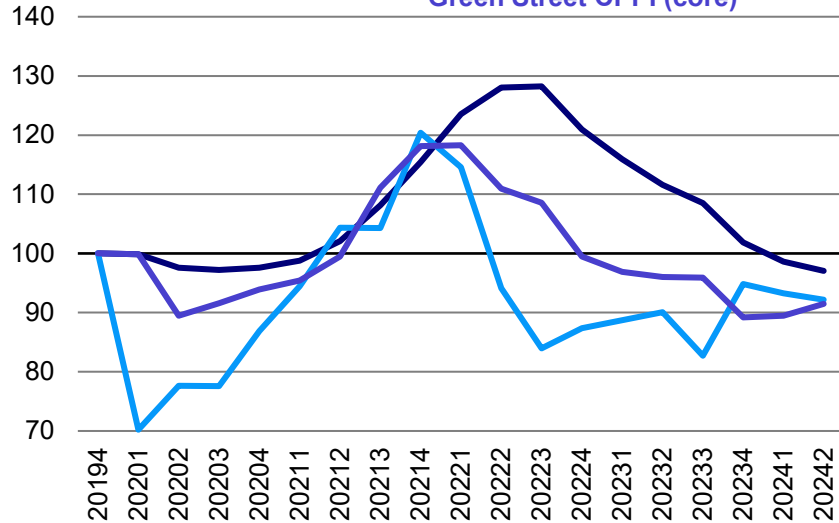
Commercial prices and values: Measures starting to converge

Valuation indexes have lagged price indexes; price indexes appear to be flattening

US property price and value trends

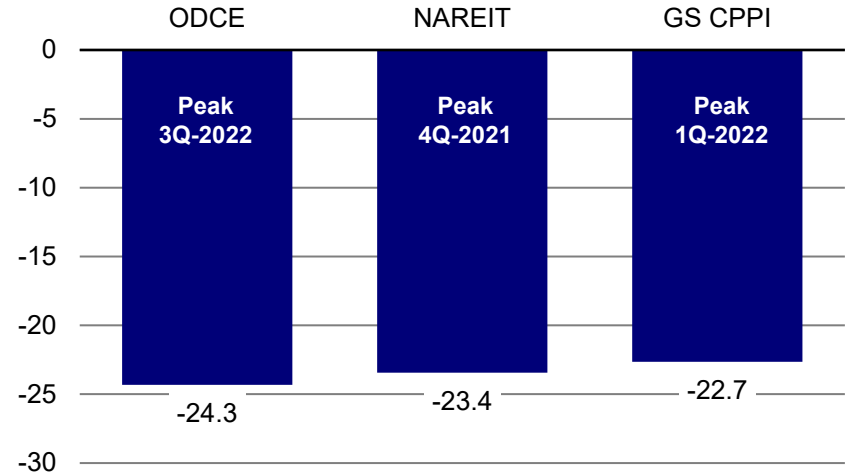
Index: 4Q-2019 = 100

ODCE appreciation index
 FTSE NAREIT Equity price index
 Green Street CPPI (core)



Price or value decline from recent peak (%)

Data as of 2Q-2024



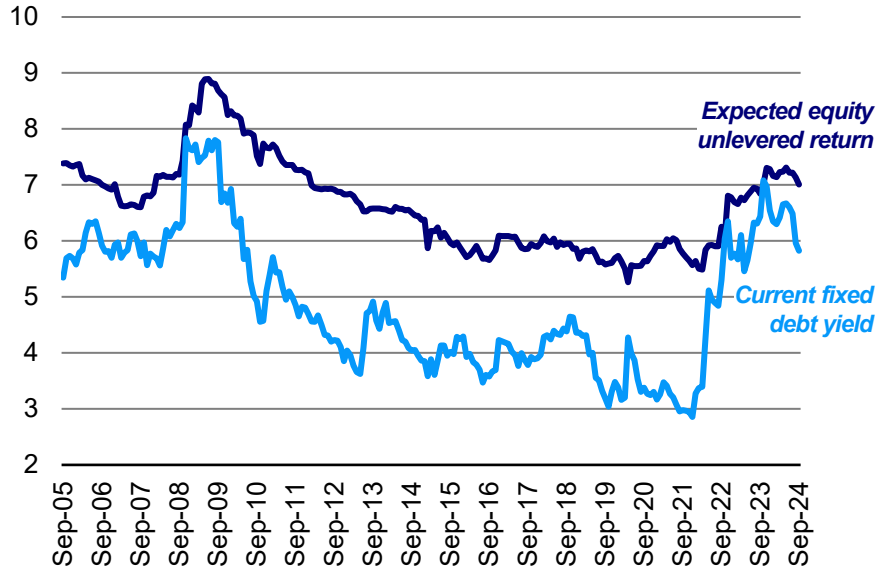
NCREIF ODCE equal-weight capital appreciation index; FTSE/NAREIT Equity REIT price index; Green Street Commercial Property Price Index (CPPI) – core sectors (equal-weight apartment, industrial, office, and retail).

Source: Invesco Real Estate using data from NCREIF, NAREIT, and Green Street as of August 2024

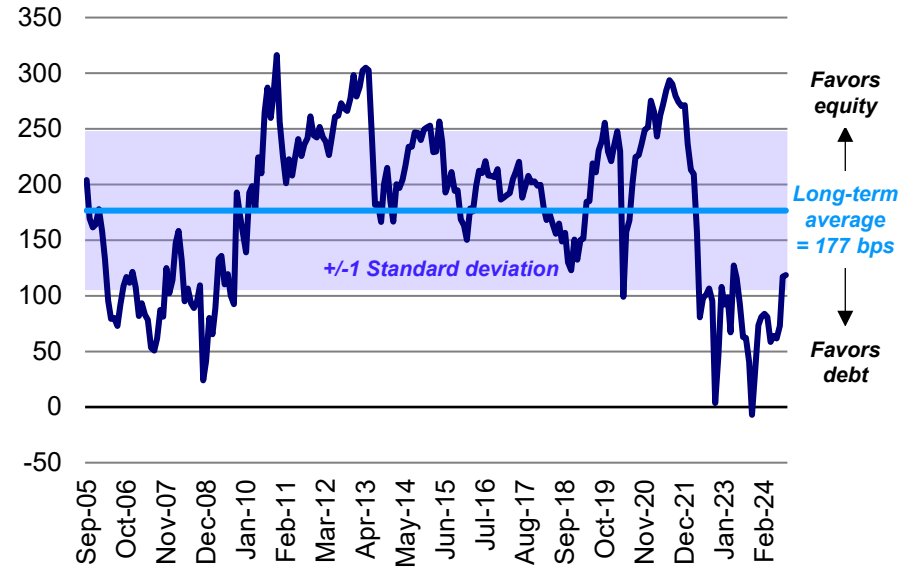
CRE relative value: Debt has moved from great to very good

Current spread of equity returns over debt yields is at low end of historical norms

US private real estate equity returns vs. debt yields



Relative value: Equity returns less debt yields

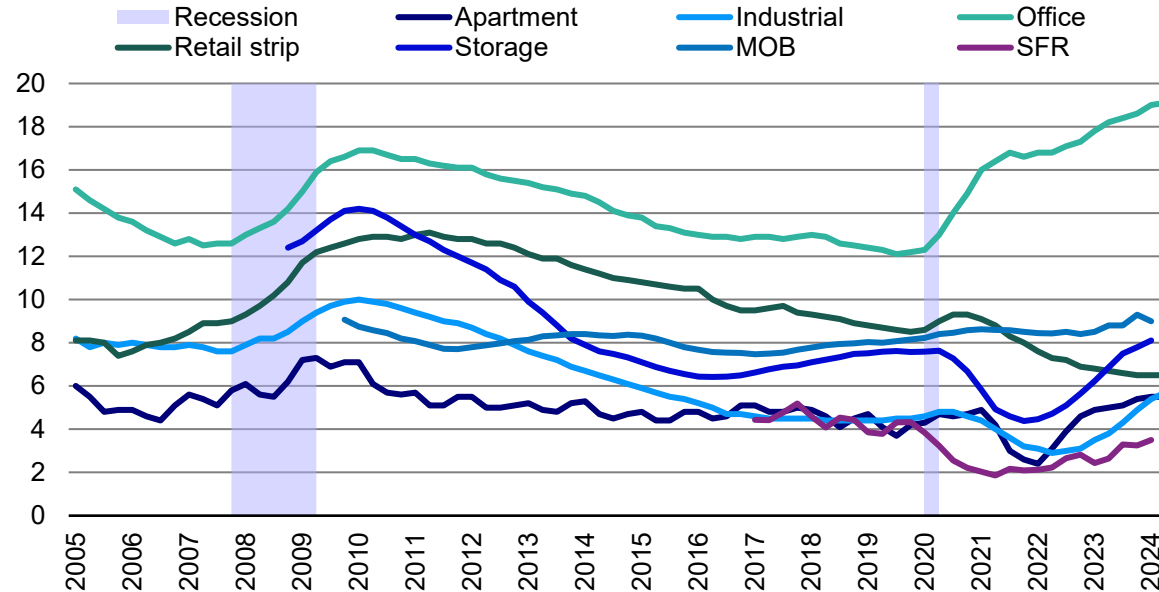


Sources: Invesco Real Estate, utilizing data from Green Street as of September 2024. Returns and yields reflect equal-weight averages for the apartment, industrial, office, and retail sectors from September 2005 to September 2024.

Sector vacancy rates: Sector trajectories have varied

Vacancy has started to rise across all sectors x-retail; office remains the outlier

Vacancy rate/Availability rate (%)



	2Q24	YY Chg	10Y Avg
Apartment	5.5%	+60bps	4.5%
SFR	3.5%	+110bps	3.4%
Industrial	5.7%	+190bps	4.5%
Office	19.1%	+90bps	14.6%
MOB	9.0%	+50bps	8.2%
Retail strip	6.5%	-20bps	8.8%
Storage	8.1%	+190bps	6.7%

MOB, Storage, and SFR data as of 1Q24
SFR average = 7 years

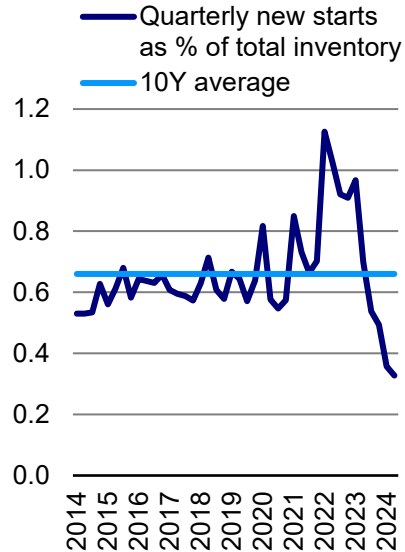
Based on CBRE-EA's sum of markets series for primary sectors; data for retail strips represent availabilities; storage and SFR data represents aggregation of REIT data; MOB data from Revista.
Source: Invesco Real Estate using data from CBRE-EA, Revista, and company financial reports as of August 2024

Construction starts: A plunge in new starts means lower forward deliveries

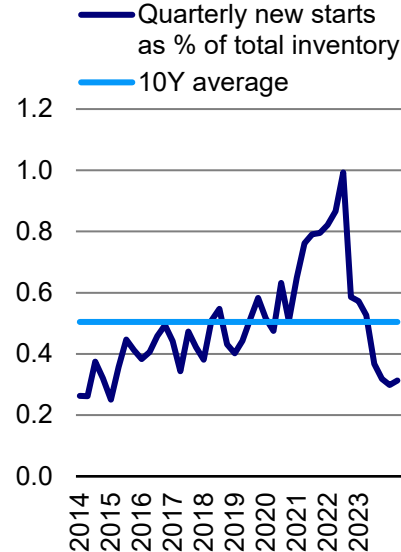
Recent reductions of new starts makes room for rent growth once leasing improves

New construction starts per quarter

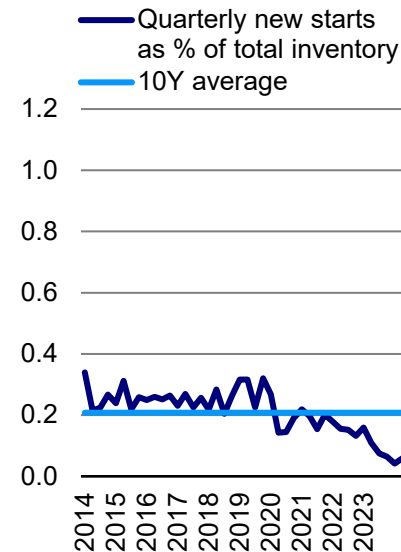
Multifamily



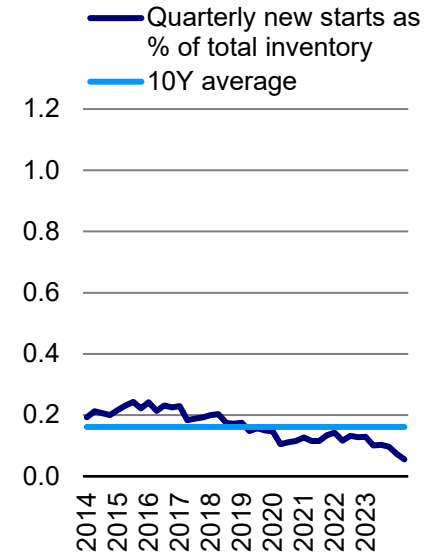
Industrial



Office



Retail



Sources: Invesco Real Estate, utilizing data from CoStar as of September 2024

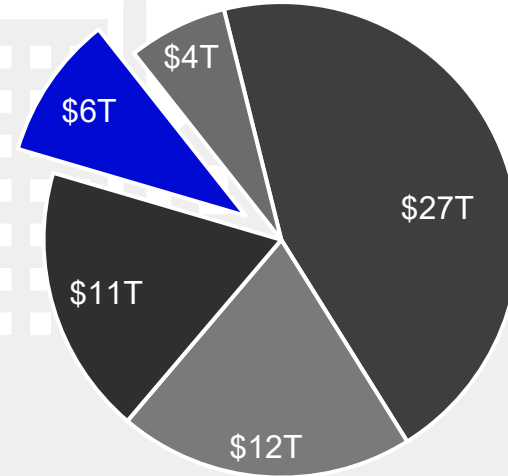
Why Commercial Real Estate Debt?

Size & Scale

Significant fixed income sector with limited historic access for investment from retail investors.

Market Landscape - \$'s Outstanding (US\$)

■ Treasury	\$27 Trillion
■ US Mortgage-Backed Securities	\$12 Trillion
■ Corporate	\$11 Trillion
■ Commercial Real Estate Debt	\$6 Trillion
■ Municipal	\$4 Trillion



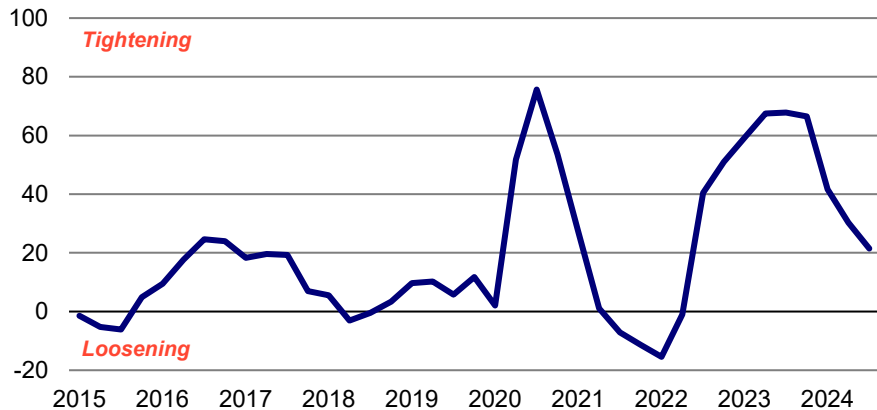
Source: SIFMA Q1 2024 for Treasury, Corporate, Municipal \$'s Outstanding. U.S. Board of Governors of the Federal Reserve System (Z.1 Financial Accounts of the United States) Q2 2024 for US MBS \$'s Outstanding and Commercial Real Estate Loans \$'s Outstanding.
As of September 16, 2024 most recent data available.

Why Commercial Real Estate Debt?

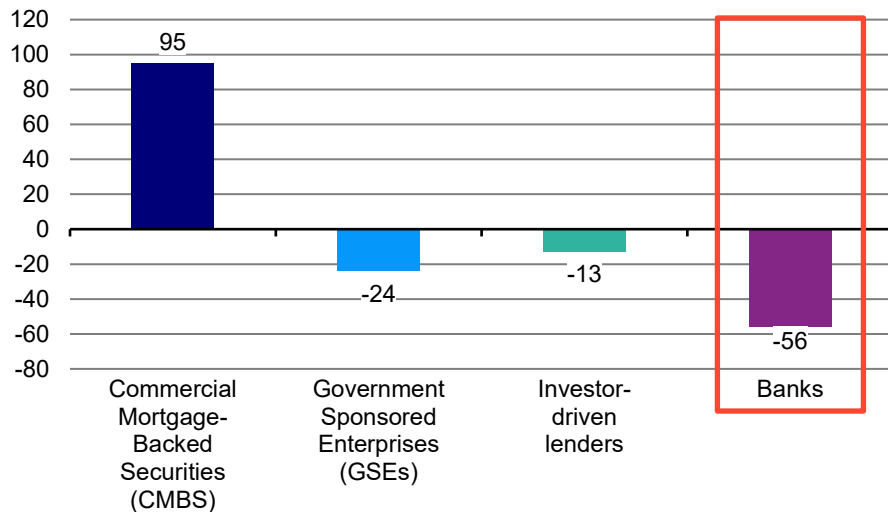
Less Competition = Better Pricing Power

56% decrease in originations year-over-year by banks, allowing for alternative lenders to gain market share

Senior loan officer survey: Commercial Real Estate (CRE) loans¹
Net % banks tightening/loosening lending standards



% Change of dollar volume of loans originated
Year-ending Q2-2024²



1. Source: Invesco Real Estate using data from FDIC as of September 2024.

2. Source: Mortgage Bankers Association (MBA) as of 2Q 2024.

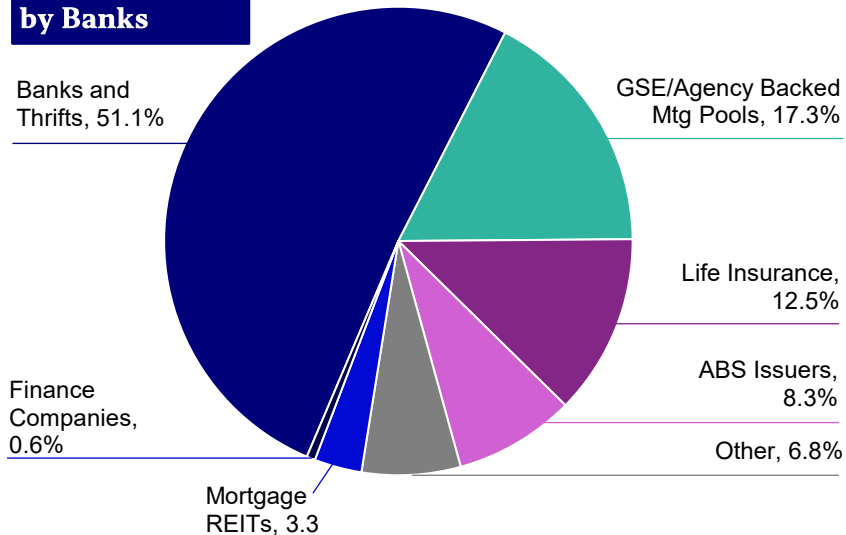
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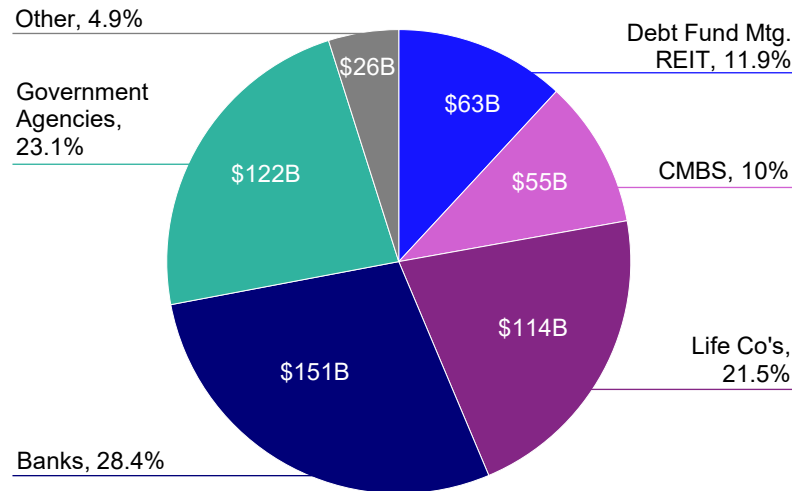
There are 33% fewer active lenders in the market at end of H1 2024 since peaking in H1 2022¹

Outstanding Loans By Lender Type (%)²

Over half held by Banks



2023 U.S. Debt Originations of \$531 Billion (%)³



1. Newmark Knight Frank Report Q2 2024 State of the U.S. Capital Markets, using data from Real Capital Analytics

2. Source: Federal Reserve. Data as of June 30, 2024.

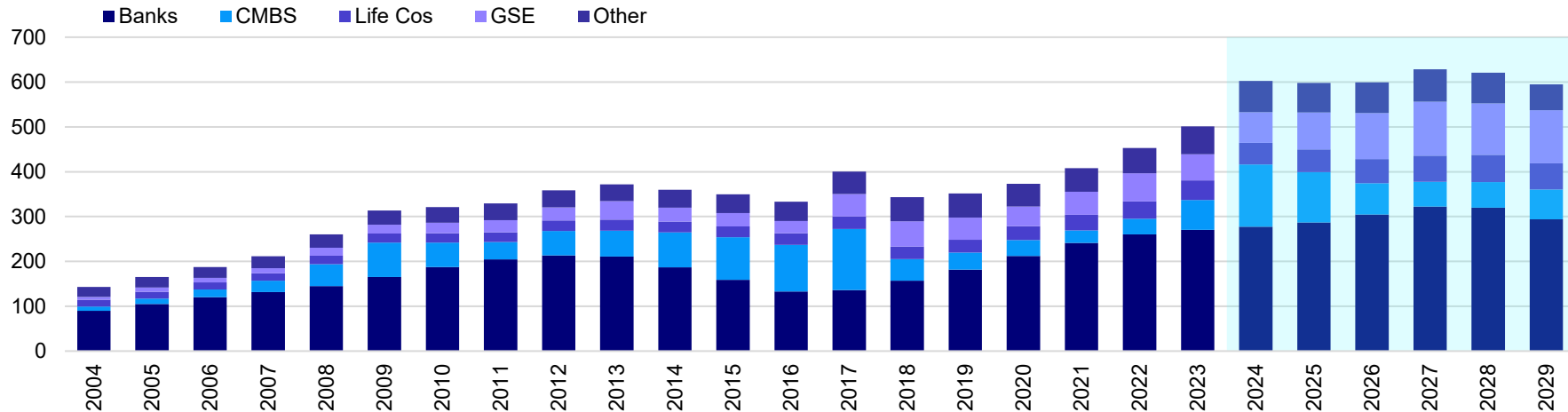
3. Source: Mortgage Bankers Association (MBA) as of 2023.

Why Commercial Real Estate Debt?

Significant Historical Growth; Sizable Maturities Pending

2024 mortgage debt outstanding is 71% higher than 2010s average; \$3.6T is scheduled to mature between 2024 and 2029

Maturing mortgage debt by lender per year (USD billions)

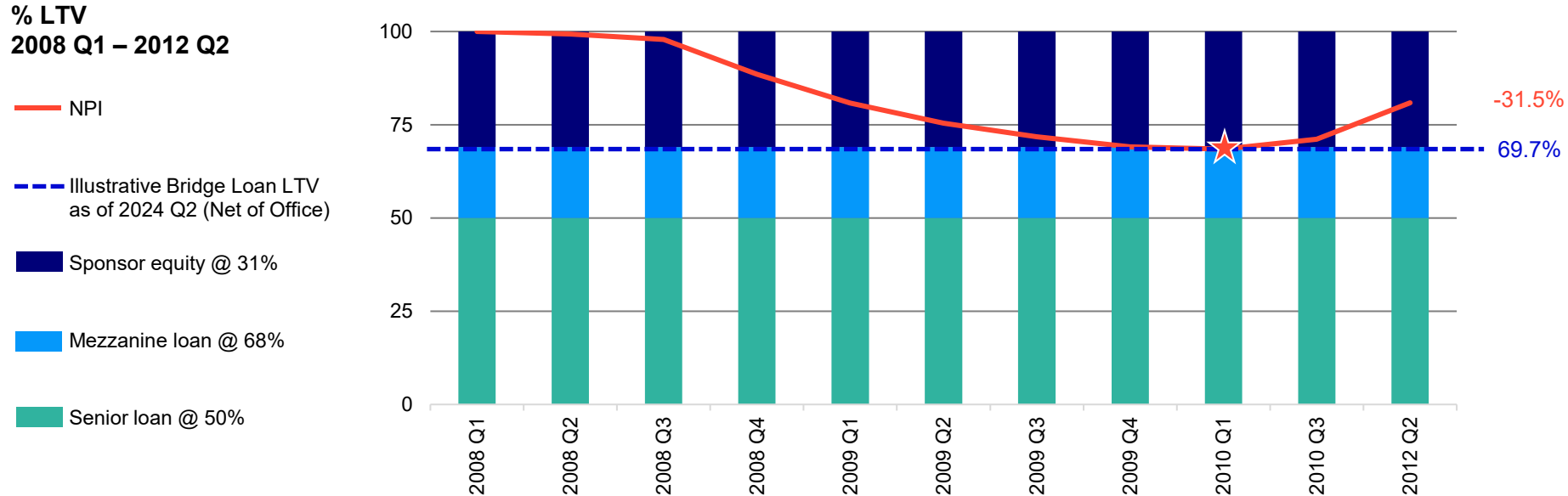


Source: Invesco Real Estate based on data from Trepp as Q1-2024. Most recent data available. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions, there can be no assurance that actual results will not differ materially from expectations.

Why Commercial Real Estate Debt?

Commercial Real Estate Debt has Remained Resilient Against Economic Headwinds

Core plus bridge loans would have seen very limited impairment even at depth of Global Financial Crisis.



Source: Invesco Real Estate using data from NCREIF as of December 31, 2023. Data for NPI reflects capital appreciation. An investment cannot be made directly into an index. Past performance is not a guarantee of future results.

Why Private Real Estate Debt?

Current Yield Potential and Improved Credit Metrics

Illustrative Examples

May 2022 Loan Origination¹

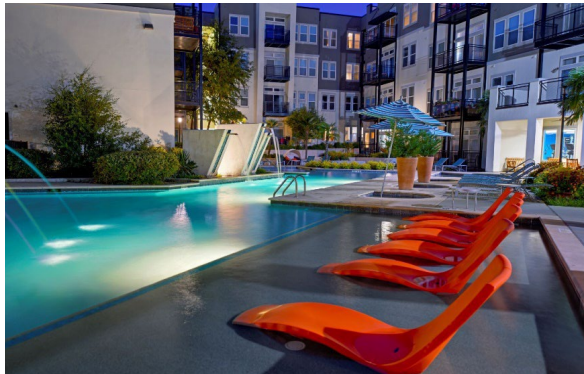
**IRE Loan
(Institutional)**

**Multifamily
Asset Type**

**Dallas, TX
Location**

**Acquisition Financing
Loan Purpose**

**Renovation
Strategy**



- Class A (2009 vintage), wrap-style multifamily property totaling 309 units
- The property is located within the Design District neighborhood of Dallas, nearby an abundance of shopping and restaurant options.

For important information about each loan, see slide 16

1. Upfront Fees: 0.75%; Exit Fees: None. Source: Invesco Real Estate as of closing date May 18, 2022. This case study is shown for illustrative purposes only and is intended to provide additional information on the properties and loans origination examples on the following slide. The above is representative of a current Invesco Real Estate loan.

2. Upfront Fees: 1.00%; Exit Fees: None. Source: Invesco Real Estate as of closing date December 7, 2023. There is no guarantee that future loans will have the same or similar characteristics. It should not be assumed that the loans identified were or will be profitable. The information shown on this slide are provided as an example of the types of loans that the portfolio could originate, acquire, and manage. Performance was not a criteria for selection.

December 2023 Loan Origination²

**IRE Loan
(Retail)**

**Multifamily
Asset Type**

**Dallas, TX
Location**

**Acquisition Financing
Loan Purpose**

**Renovation
Strategy**



- Class A, garden-style apartment community totaling 398 units
- Located in the Plano, a suburban neighborhood located northeast of Dallas, this location uniquely differs from other infill submarkets due to the concentration of high-wage jobs, entertainment venues, and high-quality school districts.

Why Private Real Estate Debt?

Current Yield Potential and Improved Credit Metrics

Today's market environment for loan origination is more attractive than in recent years, with potential improvements in lending terms, higher spot rates, and collateral values discounted from their peak

Illustrative example comparing the origination of 2 different loans for 2 separate Class A¹ Multifamily properties located in Dallas, TX.

Key statistics for May 2022 Loan Origination	Key statistics for December 2023 Loan Origination	Key differences
\$65,033,900 Total Financing	\$70,000,000 Total Financing	
Acquisition Financing Loan Purpose	Acquisition Financing Loan Purpose	
Renovation Strategy	Renovation Strategy	
0% Value Discount to Peak	~25% Value Discount to Peak	Investors may benefit due to discounted underlying collateral value which further decreases the strategy's risk of impairment
69% Loan-to-Value (LTV) at Origination	66% Loan-to-Value (LTV) at Origination	Lower Loan-to-Value → Borrower is putting more equity upfront ³
SOFR + 2.60% Floating Rate + Credit Spread	SOFR + 2.80% Floating Rate + Credit Spread	0.20% increase in credit spread → Allows the strategy the potential to participate in higher total returns
6.75% Spot Rate at Origination ²	11.54% Spot Rate at Origination ²	4.79% increase in Spot Rate → Could lead to an increase in distribution rate

1. Class A means the higher quality buildings in their market and area, generally newer properties with desirable amenities and tenants. 2. Spot Rates are not reflective of loan fees/expenses. May 2022 loan origination term of 2 Years (Initial) + Three (3) One-Year Extension Options. December 2023 loan origination term of 3 Years (Initial) + Two (2) One-Year Extension Options. 3. Loan-to-value (LTV) ratio is calculated as the loan amount divided by the property's total value. A lower LTV is more favorable for lenders as it indicates less financing exposure in proportion to the property's total value, whereas the borrower has a larger equity stake. Source: Invesco Real Estate. For illustrative purposes only. The case studies shown above were originated are the same sector / metro area and intended to illustrate the current market opportunities within the loan origination marketplace. Performance was not a criteria for selection. These case studies do not constitute a recommendation or advice. Financial data stated is based on Invesco Real Estate's underwriting at origination. Due to various risks and uncertainties, actual events, results or the performance of a fund may differ materially from those reflected or contemplated in such forward-looking statements. IRE currently holds the December 2023 loan origination in its portfolio and in the future may not be able to identify or acquire similar investments. Default rates and losses on commercial mortgage loans will be affected by a number of factors, including global, regional and local economic conditions in the area where the mortgage properties are located, the borrower's equity in the mortgage property, the financial circumstances of the borrower, tenant mix and tenant bankruptcies, property management decisions, including with respect to capital improvements, property location and condition, competition from other properties offering the same or similar services, environmental conditions, real estate tax rates, tax credits and other operating expenses, governmental rules, regulations and fiscal policies, acts of God, terrorism, social unrest and civil disturbances. A continued decline in specific commercial real estate markets and property valuations may result in higher delinquencies and defaults and potentially foreclosures. Please see previous slide for more information on the illustrated properties and loan origination details.

Risk warnings

Alternative products typically hold more non-traditional investments and employ more complex trading strategies, including hedging and leveraging through derivatives, short selling and opportunistic strategies that change with market conditions. Investors considering alternatives should be aware of their unique characteristics and additional risks from the strategies they use. Like all investments, performance will fluctuate. You can lose money.

Investing in commercial real estate assets involves certain risks, including but not limited to: tenants' inability to pay rent; increases in interest rates and lack of availability of financing; tenant turnover and vacancies; and changes in supply of or demand for similar property types in a given market.

Investments in real estate related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of property is generally a matter of an independent valuer's opinion and may not be realized. The value of investments and the income from them can go down as well as up (this may partly be the result of exchange rate fluctuations in investments which have an exposure to foreign currencies) and investors may not get back the amount invested.

For strategies invested in a particular sector, you should be prepared to accept great fluctuations in the value of the portfolio than for a strategy with a broader investment mandate.

Debt instruments are exposed to credit risk which is the ability of the borrower to repay the interest and capital on the redemption date.

Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

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