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WHITE PAPER

UNCOVER NEW OPPORTUNITIES IN MIDDLE MARKET REAL ESTATE

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Executive Summary

Access a Powerful Alternative for Portfolio Diversification, Income, and Tax Benefits

- Investors previously starved for yield in the persistent low-interest-rate environment of 2008-2021 now face a new challenge: creating strong risk-adjusted returns in a well-diversified portfolio
- Middle-market real estate provides a powerful total returns opportunity through highly diversified assets valued between \$5 million and \$50 million without property type bias
- Maintaining focus on the most promising geographies of the greater southwest region of the United States positions investors to benefit from high projected population growth in exceptionally business-friendly markets
- Traditional institutions often miss middle market real estate opportunities because they lack the internal capacity to fully manage projects to profitability
- The diversity of projects in middle market real estate allow investors to meet a broad range of goals, including income, growth, and tax planning and reduction

Intro

01. Overcome Today's Unique Market Challenges

Until very recently, many investors have been starving for yield from the fixed income assets in their portfolio. Persistent low interest rates offered capital gains on existing bonds and U.S. Treasuries, but income gains continued to decline, eventually struggling to keep pace with inflation.

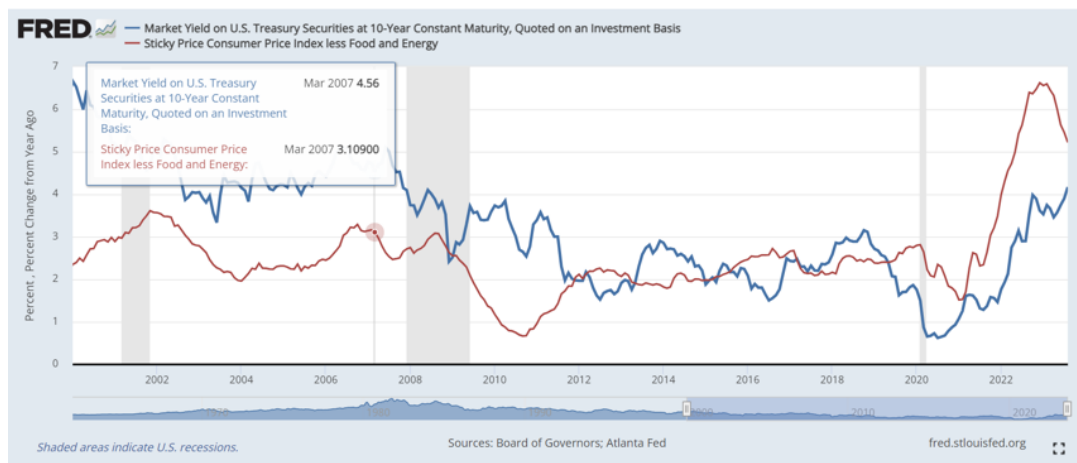
The search for growth led many portfolio managers to alternative assets, including real estate. Fund managers took advantage of historically low interest rates to leverage their assets.

Many of those bills are now coming due. Nearly \$1 trillion in multi-family mortgage debt is set to mature in the next four years¹. With interest rates likely rising 2x-3x higher on renewal, how can investors continue to benefit from the diversification alternative real estate assets provide while also offering strong total return opportunities?

\$980.7 billion

Multi-family debt maturing between 2023 and 2027

Middle-market commercial real estate offers a real alternative for investors seeking portfolio diversification without sacrificing income opportunities.



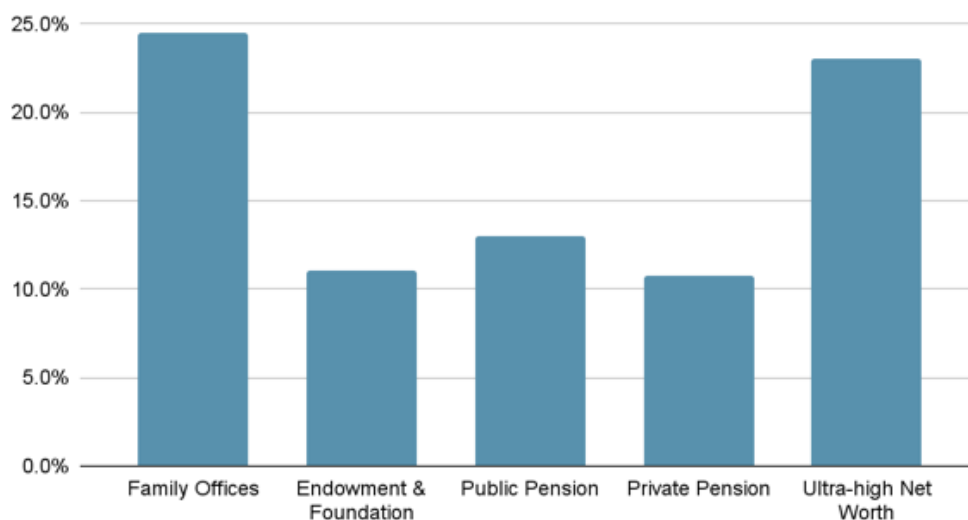
¹ Source: Levine, Richard B. "A Real-Estate Haven Turns Perilous with Roughly \$1 Trillion Coming Due." *The Wall Street Journal*. 8 Aug 2023.

Opportunity

02. Discover the Middle Market Real Estate Opportunity

Real estate remains an attractive asset class for investors. Real Estate Investment Trust assets totaled over \$870 billion through the second quarter of 2023². Institutional investors across the board plan to maintain strong real estate holdings in 2023 and beyond³. Rising interest rates and highly leveraged real estate funds have many investors searching for new opportunities.

Real Estate Target Portfolio Allocation (2023)



² Source: Board of Governors of the Federal Reserve System (US). Real Estate Investment Trusts; Total Financial Assets, Level (BOGZ1FL644090005Q), retrieved from FRED, Federal Reserve Bank of St. Louis, September 26, 2023.

³ Source: Family Office Real Estate Institute 2022 Study.

Middle market real estate offers a compelling option. The middle market exists in the intersection of meaningful qualities:



- **Rich deal flow**

The market for assets with \$5 million to \$50 million initial valuations provides large deal volume with less competition, especially when viewed without a bias toward property type.

- **Specialized geographies**

The Greater Southwest region of the United States (including Utah, Nevada, Idaho, Colorado, Texas, and Arizona) offers uniquely friendly investment environments. These six states all rank among the 10 fastest-growing in population, and exhibit lower tax regimes, business-friendly state and local government policies⁴.

Job growth represents another critical driver of middle-market real estate opportunities. Within the Greater Southwest, markets in Phoenix, Austin, Dallas, and Denver project above-average job growth in the near term, especially in forward-looking fields like healthcare and technology.

Furthermore, a focus on regional markets and secondary cities offers opportunities some less-agile institutions consider too small or too expensive to efficiently manage. Funds with experienced management and a verticalized approach are uniquely positioned to capitalize on these middle market real estate opportunities.

⁴ Source: PwC ULI 2022 Emerging Trends RE.

⁵ Source: ASU's Seidman Institute.

Potential Risks

03. Navigate Potential Risks



Many institutions lack the technical skill, familiarity with local geographies, and dry powder to take advantage of middle market real estate opportunities. Distressed properties are already showing up in the market. For example, Blackstone entered special servicing on 11 Manhattan apartment buildings⁶. Nationwide office occupancy remains depressed at 49% of pre-pandemic levels⁷.

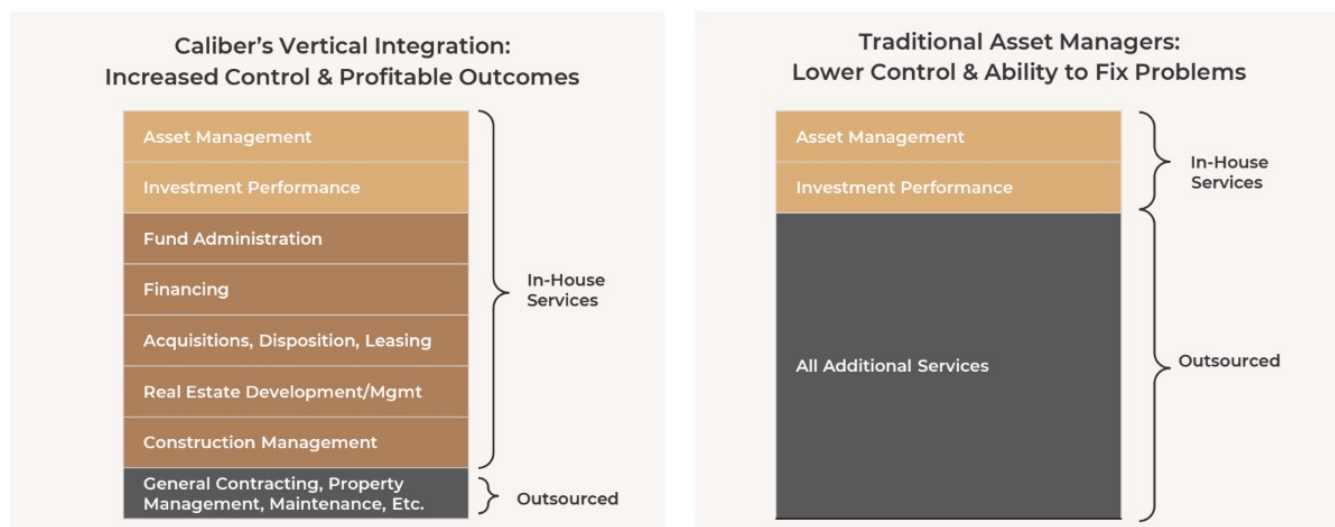
A higher interest rate environment, uncertainty around rates' future trajectory, and financial institutions whose broader exposure to tech, crypto, and fixed income portfolio mismanagement all place immense stress on both developed assets and the ability for firms to seize emerging opportunities. Investors can remain optimistic because, unlike the 2008 financial crisis where the underlying assets were distressed, today the opportunities remain strong – institutions are distressed by the current environment.

⁶ Source: Levine, Richard B. "A Real-Estate Haven Turns Perilous with Roughly \$1 Trillion Coming Due." *The Wall Street Journal*. 8 Aug 2023.

⁷ Source: BakerTilly. "Commercial Real Estate Market Report." Q2 2023.

Managers can potentially maximize investment performance by vertically integrating executive capacity within the firm. Traditional asset managers outsource operations over their portfolio holdings, choosing instead to specialize in fundraising and investor relations.

A more verticalized approach brings a broader array of operations in-house. A vertical focus centralizes fund activities like administration, financing, acquisitions, disposition, and leasing, real estate development and management, and construction management. In this model, the firm has more opportunities to control costs and create profitable outcomes for investors.



Source: Caliber's estimates and internal research reviewing comparable business models

Investment Goals

04. Meet a Wide Variety of Investment Goals

Unique flexibility to meet investment goals is a primary benefit of middle market real estate. Because the asset class allows for strategic investments in a wide array of small projects, funds can be designed for purposes including:



Income Focus

Access to broadly diversified deal flows provides strong risk-adjusted returns through small, low-cost improvements to high-quality assets



Growth Opportunities

Expertise in distressed or undervalued assets and centralization of operations allow for a strategic focus across property types



Tax Planning & Reduction

Capital gains created within qualified opportunity funds held for at least 10 years are not taxed upon disposition

This allows for new firms to be more adaptable to a continuously changing market; the scope of a firm with new funds permits the firm to change its structure when new problems surface, allowing new funds to more freely allocate capital to potentially more profitable investments. New firms are set to capitalize when equities and real estate markets further correct as they will have cash to use when prices fall, while legacy firms will experience losses or be forced to sell their assets. Legacy firms many times have the issue of being tied to existing assets that face significant headwinds, as rising rates cause cap rates to fall, and prices decline on current assets.

Diversify

05. Diversify Portfolio Holdings with Middle Market Real Estate

For smaller investors, local residential real estate is sufficient to provide short- and intermediate-term portfolio diversification and income. They have the time to uncover and develop properties and manage single-family residences and even duplexes and triplexes. As the portfolio becomes more sophisticated, investors need more professional management of their assets.

Middle market real estate provides an opportunity for strong risk-adjusted returns, income, and opportunities to manage tax liabilities. Large real estate projects face challenges from changing interest rate environments and secular market shifts. Middle market real estate projects between \$5 million and \$50 million offer substantial deal flow, both in developing new projects in growing areas and identifying good quality assets that can be easily improved to yield greater income and capital gains.

A focus on the Greater Southwest opens markets with strong population growth projections, business-friendly governance, and growth capacity in promising industries like technology and healthcare. This market isn't without complexity, and success depends upon a battle-hardened, vertically integrated management group with the ability to quickly identify and capitalize on emerging opportunities.

Successful managers can meet the unique needs of a broad array of investors. Middle market real estate funds can be designed to meet investor needs for strong risk-adjusted returns, growth focus, and tax reduction.

About

Connect with Caliber

With more than \$2.9 billion of managed assets, Caliber's 15-year track record of managing and developing real estate is built on a singular goal: make money in all market conditions. Our growth is fueled by our performance and our competitive advantage: we invest in projects, strategies, and geographies that global real estate institutions do not. Integral to our competitive advantage is our in-house shared services group, which offers Caliber greater control over our real estate and visibility to future investment opportunities. There are multiple ways to participate in Caliber's success: you can invest in Nasdaq-listed CaliberCos Inc. and/or you can invest directly in our Private Funds.



Contact us at invest@caliberco.com
to schedule an Investment Strategy
Call with our Capital Markets Team

