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# Management Commentary

The Only Certainty is Complexity



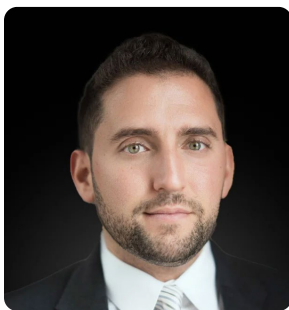
January 2025

## A Word from our President, Mark Pasierb



*As we look ahead to 2025, the economic outlook presents both significant opportunities and challenges. While the nation continues to recover from global disruptions, including inflationary pressures and supply chain issues, there are positive signs of resilience. Strong consumer spending, steady job growth, and innovation in sectors like technology and AI are key drivers that will help sustain economic momentum. However, we must remain cautious about potential risks such as interest rate fluctuations, geopolitical tensions, and the evolving dynamics of global trade policy. It's crucial for Kingbird to adapt to a shifting landscape. Higher interest rates, driven by efforts to curb inflation, have led to increased borrowing costs, making it more expensive to finance new acquisitions or refinance existing properties. This has created some challenges, especially for owners relying on debt to fund their investments. While challenging for some owners, Kingbird will position itself to capitalize on troubled ownership structures. The outlook for multifamily real estate remains positive in the long term, but the immediate environment requires careful navigation of financing options and operational efficiencies which Kingbird will emphasize during 2025.*

## Market Commentary from our Chief Investment Officer, Vincent Di Salvo



### Macroeconomic Overview

2024 exhibited uneven growth across global economies, as policymakers and markets grappled with the delicate balancing act of sustaining growth while containing inflation. Despite the Federal Reserve's initial aggressive approach to monetary tightening, inflation has technically remained above its artificial target of 2%, with headline CPI hovering around 2.7% by year-end, down from a peak of 9.1% in 2022.<sup>1</sup> Against this backdrop, the US was

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<sup>1</sup> Bureau of Labor Statistics

among the world’s best economic performers: annual GDP growth was 3.1%<sup>2</sup>, well above the EU average of approximately 1.1%<sup>3</sup>, and corporate earnings hit record highs, driven by a resilient consumer<sup>4</sup>.

In recent weeks, the Federal Reserve has reinforced its intention to moderate interest rate cuts, suggesting that rates are likely to stabilize at a higher level than in recent history. This shift comes in an environment of near record high debt-to-GDP levels, with the growing debt burden placing additional pressure on the Treasury market and amplifying concerns about fiscal sustainability.

“Risk-off” sectors have struggled under the weight of elevated interest rates, driven more recently by policy uncertainty. U.S. Treasuries experienced intermittent selloffs throughout 2024, with the 10-year yield fluctuating between 3.6% and 4.7% amid shifting inflation expectations<sup>5</sup>. This environment has placed downward pressure on most assets including commercial real estate values, as cap rates adjusted upward to account for higher borrowing costs, higher required rates of return and an uncertain policy landscape.

Conversely, “risk-on” assets, such as equities and digital currencies, have attracted significant capital inflows and delivered robust returns. U.S. equities ended the year with the S&P 500 up approximately 25% year-to-date, while leading digital assets posted gains exceeding 125%<sup>6</sup>.

Adding to this heightened volatility is the reelection of Donald Trump, whose policy inclinations have introduced new layers of uncertainty into the broader macroeconomic equation. These factors collectively underscore a complex and unpredictable investment environment as we move forward.

## Policy and Political Factors

The trajectory of U.S. real estate and its capital markets in 2025 and beyond will hinge significantly on the executive branch’s policy agenda and its interplay with Congress and the Federal Reserve. Among the policy items the administration can control (somewhat) through potential executive orders are immigration, tariffs, and fiscal initiatives such as tax cuts—specifically the possible extension and expansion of key provisions from the 2017 Tax Cuts and Jobs Act. While the President holds sway over trade and immigration policy, the Republican-led Congress will primarily influence budget allocations, entitlement spending, and infrastructure outlays.

If the administration’s proposed tariffs and budget cuts fail to offset the revenue lost to expanded tax cuts and potentially reduced economic activity, federal borrowing could increase, raising questions about long-term fiscal sustainability. Additionally, questions arise around immigration enforcement. In a historically tight labor market—unemployment is currently 4.2%<sup>7</sup>—large-scale deportations could exacerbate wage pressures and further stoke inflation. These dynamics underscore the broader implications of fiscal and immigration policies on market stability and investor sentiment.

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<sup>2</sup> Bureau of Economic Analysis

<sup>3</sup> International Monetary Fund

<sup>4</sup> Bureau of Economic Analysis

<sup>5</sup> Treasury Department

<sup>6</sup> Bloomberg

<sup>7</sup> Bureau of Labor Statistics

However, beyond the impact of executive and legislative decisions, factors less directly controlled by the White House and legislative branch— such as the cost of US debt and Fed policy—add complexity to the US economic backdrop. Uncertainty is being priced in through higher yields as the US Treasury market demands clarity as the Federal Reserve remains steadfast in its fight against inflation. Some economists estimate this “policy uncertainty premium” could add 25-100 basis points to long-term U.S. Treasury yields compared to a baseline scenario with more policy predictability. The cost of uncertainty is also showing up in wider credit spreads and tighter lending conditions<sup>8</sup>.

## Trump-Based Uncertainty

President Trump’s reelection reflects the conscious desire of some voters to weaken traditional institutions. Whether these institutions are eliminated or replaced, and what they would be replaced with, will matter, but until there is more clarity, uncertainty will reverberate through capital markets and international investor sentiment.

While these processes will take time and in the short term will provide economic stimulus through tax cuts and reduced regulatory burdens, in the long term the impact will be more complicated and less clearly favorable. As a result, JPMorgan Chase and Goldman Sachs recently lowered their forecasts for the U.S. dollar starting in Q4 2025, citing the cumulative impact of potential tariff measures, disruptive immigration policies, and the renewed prospect of higher inflation.<sup>9</sup> If these policies materialize meaningfully, core PCE inflation—which the Fed monitors closely—could edge back above the 3% mark, prompting further tightening or more market volatility.

Since the election, “risk-on” assets such as equities and digital currencies have reacted with cautious optimism to the economy’s immediate trajectory. The S&P 500 has gained 2.5% between Election Day and year-end, reflecting a boost from expected corporate tax cuts. Bitcoin has surged 37% during the same period<sup>10</sup>, driven by the Trump administration’s crypto-friendly and laissez-faire policy stance, which has bolstered valuations in digital asset markets.

Separately, “risk-off” assets such as debt instruments and the commercial real estate sector remain under pressure, with U.S. REITs down 5%<sup>11</sup>, driven by the Federal Reserve’s hawkish stance on slowing reductions of the Federal Funds Rate, targeting 3.75% by year-end 2025 amid a stronger-than-expected economy and policy-driven inflation risks.

## Implications for U.S. Real Estate, Particularly Multifamily

For U.S. real estate investors, these policy shifts and macro headwinds translate directly into investment strategy reevaluations. Multifamily real estate—traditionally viewed as a relatively defensive (“risk-off”) asset class—has experienced modest softening.

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<sup>8</sup> <https://www.statestreet.com/us/en/asset-manager/insights/us-treasuries-supply-demand-dynamics>

<sup>9</sup> <https://www.bloomberg.com/news/newsletters/2024-12-16/dollar-strength-seen-cooling-after-a-landmark-year-in-2024?embedded-checkout=true>

<sup>10</sup> Bloomberg

<sup>11</sup> Bloomberg

Fundamentally, national multifamily occupancy rates dipped slightly to around 92% (from roughly 93.0% a year prior) in 2024<sup>12</sup>, due to the aftereffects of a temporary COVID-era supply surge and a slowdown in household formation resulting from the rising cost-of-living. Rent growth cooled to about 1.1% year-over-year nationally, compared to the more robust 7% growth seen during and immediately after the pandemic<sup>13</sup>. Cap rates for stabilized Class A multifamily properties in major markets have risen by approximately 40 basis points since early 2023, now generally falling between 4.8% and 5.8%<sup>14</sup> depending on location and asset quality, as investors demand higher returns to compensate for heightened risk and interest-rate volatility.

## Rate Sensitivity

Multifamily lending showed sensitivity to shifts in interest rates in 2024. As of Q3 2024 (the latest available data), multifamily commercial mortgage origination volume increased by 11%, largely driven by a 56% year-over-year surge in Q3<sup>15</sup>. This increase aligns with a decline in the 10-Year Treasury yield, which fell from 4.48% at Q3's start to a low of 3.63%<sup>16</sup>. However, during Q1 and Q2, when interest rates were generally rising, origination volume fell by -7% and -13% respectively<sup>17</sup>. While Q4 origination data is not yet available, given general market conditions and the fact that the 10-Year Treasury rate rose from 3.74% to 4.58% during the quarter<sup>18</sup>, it is highly probable that loan volume was once again low year-over-year, despite Q3's increase.

These changes in origination volume demonstrate the impact of interest rate changes on the multifamily lending environment and the sector's sensitivity to changes in economic policy and conditions.

Lending conditions for real estate acquisitions and refinancings have tightened since Q3 with 10-Year Treasury rates above 4.50% to end the year; commercial banks and life insurance companies have signaled more conservative loan-to-value ratios and stricter debt service coverage requirements. Government-sponsored enterprises (Fannie Mae and Freddie Mac) continue to provide liquidity to the multifamily market, but even they are carefully monitoring underwriting standards in the face of policy shifts that could affect labor supply, rental demand, and construction costs.

As with prior years, the fundamental supply/demand dynamics underpinning the multifamily sector remain favorable. Despite the recent uptick in vacancy and slowing rent growth, the US still has a long-term housing shortage, currently estimated at 5.6 million units<sup>19</sup>. To close this gap over the next decade while simultaneously keeping up with new household formation, the residential real estate construction sector would need to build 2.4 million units annually, well above the post-Global Financial Crisis average of 1.3 million<sup>20</sup>. Yet, this may be further hamstrung by Trump policy stances on immigration and tariffs which could reduce labor and material

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<sup>12</sup> CoStar

<sup>13</sup> CoStar

<sup>14</sup> Real Capital Analytics

<sup>15</sup> Mortgage Bankers Association

<sup>16</sup> Treasury Department

<sup>17</sup> Mortgage Bankers Association and Treasury Department

<sup>18</sup> Treasury Department

<sup>19</sup> Internal Calculations Based on Freddie Mac, Zillow, CoStar, US Census Bureau, and Federal Reserve Data

<sup>20</sup> US Census Bureau

supply, increasing costs and construction times. This bodes well for the long-term prospects of multifamily real estate investment.

## Looking Ahead

Strict adherence to Trump's stated policy positions suggests the potential for renewed inflationary pressures, higher interest rates, and continued volatility in real estate capital markets. While many politicians moderate or adjust their platforms once in office, the market must account for all possibilities—particularly those central to a presidential campaign.

2024 taught us that complexity and uncertainty are the world's only constants. Investors in U.S. real estate—particularly in the multifamily sector—should prepare for a more cautious lending environment characterized by tighter spreads against a backdrop of policy-driven unpredictability. While the underlying fundamentals of housing demand remain intact and can drive income growth for the next few years, the cost of capital, immigration policy, fiscal experiments, and the global perception of US institutional stability will all shape the industry's outlook in the years ahead.

In response to this environment, Kingbird will focus on select investment opportunities and the strategic management of its existing portfolio to optimize operations and enhance property level performance. Kingbird will closely monitor capital market conditions to identify optimal opportunities for refinancing or property sales, to return capital to its investors.

As always, we are grateful for your continued support and wish you a Happy New Year.

Sincerely,



Vince DiSalvo  
Chief Investment Officer

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### Kingbird’s Form ADV can be found here:

<https://reports.adviserinfo.sec.gov/reports/ADV/308069/PDF/308069.pdf>