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1H 2026

Management Commentary

Selective Recovery

August 2026

A Message from Our President

Mark Pasierb
President

Multifamily real estate remains in a period of fundamental repricing. Elevated interest rates have pushed capitalization rates higher, constrained transaction volume, and exerted downward pressure on asset valuations. Lenders are increasingly addressing distressed assets, signaling an end to the prolonged "extend and pretend" environment, while many owners face refinancing and capital-stack challenges as debt matures. We believe investors should underwrite to a higher-for-longer interest-rate environment rather than to a return of the low rates and abundant liquidity that followed the Global Financial Crisis and were supercharged by pandemic-era stimulus. That period, defined by quantitative easing, historically low interest rates, and geoeconomic stability, should be viewed as extraordinary rather than as a reasonable baseline for underwriting future performance.

Despite the challenges facing existing owners, multifamily fundamentals continue to be supported by durable rental demand and a development pipeline that has contracted meaningfully from its recent peak. We expect moderating new supply to support operating performance over the coming years, even as capital markets are constrained. In that context, the current environment is creating an increasingly attractive opportunity for well-capitalized investors. As banks, funds, and other lenders resolve distressed assets and legacy capital structures, we expect opportunities to acquire quality real estate at discounted valuations. We believe the next phase of the cycle will favor disciplined investors with patient capital, conservative leverage, strong operating capabilities, and a focus on basis, durable cash flow, and downside protection rather than financial engineering or aggressive appreciation assumptions.

Against this backdrop, Kingbird is prudently and actively managing its portfolio, with a focus on protecting asset values, managing leverage, and positioning each investment to perform through the current market cycle. We are evaluating capital structures, operating performance, and strategic alternatives at the asset and corporate level while remaining disciplined on capital expenditures and new investment. This proactive approach is designed to preserve flexibility, protect downside, and position the portfolio to benefit as market conditions improve.

1H 2026 Market Commentary: A Selective Recovery

Justin Hoogerheyde
Vice President

The operating fundamentals and outlook for U.S. multifamily assets improved meaningfully during the first half of 2026. The industry is moving beyond the peak effects of the post-pandemic supply wave, with rent growth turning positive in a growing number of previously pressured markets, though dispersion is wide, and new development activity continuing to contract. However, a full capital markets recovery has yet to materialize. Elevated borrowing costs, persistent valuation gaps, and limited price discovery continue to constrain transaction activity and broader capital formation.

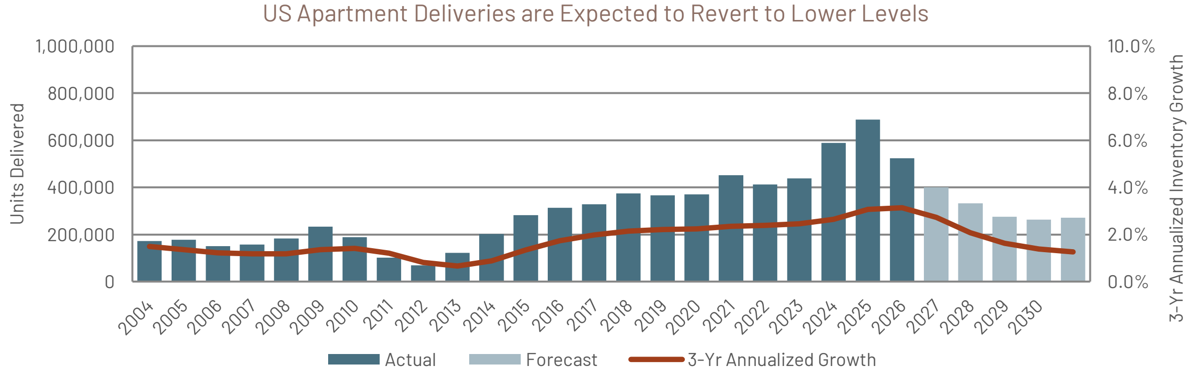
With challenging macroeconomic conditions, the current environment is best characterized as a selective recovery. Fundamentals are improving, but the benefits are being realized unevenly across markets and property types. While operating performance is stabilizing, capital markets have been persistently challenged by higher financing costs and investors' expectations anchored to valuation levels established during the low-interest-rate period of 2021 and 2022.

Fundamentals

The multifamily development pipeline continues to normalize. Units under construction have fallen to approximately 568,000 nationally, representing the lowest level in roughly a decade[1]. Multifamily starts and permits are still significantly below their 2022 peaks, with trailing-twelve-month starts of ~324,000[2] and permits of ~373,000[3], down 55% and 47% respectively, reflecting the impact of elevated financing costs and more conservative development underwriting.

Demand has largely kept pace with new supply. During the twelve months ending June 30, 2026, apartment deliveries totaled approximately 461,000 units while absorption reached approximately 455,000 units[4]. National occupancy remained stable at approximately 92%[5], demonstrating the resilience of renter demand by fully absorbing the tail of the historic supply wave.

US Apartment Deliveries are Expected to Revert to Lower Levels



Sources: CoStar, Census Bureau; as of June 30, 2026

[1] CoStar
[2] CoStar, U.S. Census Bureau
[3] U.S. Census Bureau
[4] CoStar
[5] CoStar

Rent performance, however, endures as a market-specific metric. National effective rents improved modestly (up 0.4% year-over-year)[6], but significant dispersion persists across major markets with 40% of institutional markets still demonstrating negative rent growth[7]. Supply-constrained coastal markets continue to outperform, benefiting from limited new construction: Boston, San Francisco, and New York posted rent growth of 4.5%, 13%, and 3%, respectively[8]. In contrast, Sun Belt markets such as San Antonio, Phoenix, Tampa, and Austin are under pressure as they continue to absorb historically high levels of new supply delivered over the past several years.

Many of the markets that experienced the greatest pressure during the recent supply wave showed meaningful improvement during the first half of 2026 and are beginning to stabilize as construction activity slows and new deliveries moderate. The sector's recent challenges continue to be driven primarily by supply and capital markets conditions rather than weakening demand. Looking beyond the current cycle, our analysis still indicates the United States is structurally undersupplied by approximately 2.6 million multifamily units and would require roughly 720,000 annual deliveries over the coming decade to move toward long-term equilibrium. Current development activity is far below that threshold[9].

As a result, the long-term outlook for multifamily fundamentals remains constructive. With new supply contracting sharply and demand remaining resilient, improving market conditions should support renewed rent growth across many markets over the coming years.

Macroeconomic Backdrop and Capital Markets

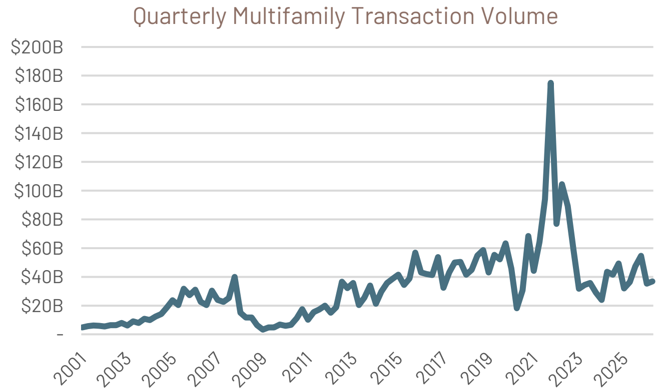
The macroeconomic backdrop presents persistent challenges despite improving real estate fundamentals. Long-term interest rates remain elevated even as monetary policy has stabilized. Early actions by Federal Reserve Chairman Kevin Warsh suggest a renewed emphasis on price stability, more limited forward guidance, and a shift away from prior communication practices, though the long-term implications of these changes are uncertain.

Meaningful and sustained relief in Treasury yields will require credible progress toward fiscal sustainability as we commented previously in 2025. Federal deficits and higher net Treasury issuance have increased investor sensitivity to bond pricing, limiting the prospect of a substantial decline in long-term rates in the near future. As a result, we expect a continuation of the elevated and volatile interest-rate environment that has characterized the market in recent years.

These dynamics have important implications for commercial real estate. While multifamily fundamentals continue to stabilize, buyer and seller expectations are misaligned, largely because financing costs do not support transaction pricing consistent with prior valuations. Transaction volume totaled approximately $36.7 billion during the first half of 2026[10]; however, after adjusting for a single large take-private transaction, underlying market activity declined approximately 8%, with individual asset sales falling roughly 7%. Liquidity remains limited as market participants recalibrate to new long-term borrowing costs and still-adjusting asset valuations.

[6] CoStar
[7] CoStar
[8] CoStar
[9] U.S. Census Bureau, CoStar, Federal Reserve
[10] Real Capital Analytics

Until financing conditions and pricing expectations become more aligned, we expect transaction activity and price discovery to be selective.



Sources: Fannie Mae, Freddie Mac, Real Capital Analytics, as of June 30, 2026

The refinancing challenges that many market participants anticipated are beginning to emerge with greater frequency. Multifamily CMBS delinquency rates have climbed to ~7.5%, while data shows the multifamily distress rate more than doubling since February from 6% to 13%[11]. Fannie Mae's multifamily REO inventory rose from 181 properties ($1.0 billion) at year-end 2025 to 218 properties ($1.5 billion) as of June 30, 2026, reflecting increased foreclosure and deed-in-lieu activity. These dynamics indicate growing pressure within portions of the multifamily market, creating opportunities for well-capitalized investors capable of providing structured equity solutions, recapitalizations, and liquidity to constrained owners.

We believe the most attractive opportunities today are centered on gap equity investments and selectively distressed situations. These structures allow investors to access multifamily assets at an attractive basis relative to replacement cost, while benefiting from improving operating fundamentals and a gradually strengthening supply-demand balance.

Portfolio Management

The most important factor influencing portfolio management during the first half of 2026 remained long-term interest rates and their effect on refinancing activity, valuations, and liquidity. Interest rates continue to pressure debt proceeds and require greater equity contributions, particularly for assets financed during the low-rate environment of prior years.

Against this backdrop, our focus rests on preserving asset value, maintaining liquidity, and enhancing cash flow durability. Across the portfolio, refinancing activity has required creativity and discipline. In several instances, gap equity solutions and negotiated capital-stack modifications allowed us to avoid significant cash-in refinancing requirements while preserving flexibility for future realizations.

Operationally, results vary by market and asset type. Assets in supply-constrained coastal markets benefited from stronger demand and accelerating rent growth, while those in high-supply Sun Belt markets continued to experience elevated concessions and rent pressure. Across all markets, we maintained a disciplined focus on revenue optimization, expense control, and targeted capital improvements designed to protect occupancy and support long-term value creation.

We are also beginning to observe moderation in several expense categories that experienced significant inflation over recent years, including property insurance, real estate taxes in certain jurisdictions, and administrative costs,

[11] Trepp, CoStar

despite inflation being above the Fed's 2% long-term target. Inflation persistently above 3% requires conservative underwriting assumptions on expense growth, rent trajectories, and exit cap rates. Consequently, our portfolio management strategy continues to emphasize cash flow durability, operational efficiency, and prudent liquidity management while positioning assets for future refinancing or realization opportunities.

Closing Thoughts

We believe the next several years will be defined by an uneven transition from supply-driven distress toward market-by-market recovery. The first half of 2026 provided increasing evidence that this inflection is underway. Many previously challenged markets are exhibiting improving rent trends, stabilization in occupancy, and the early stages of pricing recovery.

Markets with limited new supply are already demonstrating stronger performance, while those that experienced the largest development waves continue to work through excess inventory — though sharply reduced construction activity should support them over the coming years. Institutional liquidity, meanwhile, has been slow to return. While improving market fundamentals support long-term optimism, elevated financing costs continue to create a mismatch between buyers and sellers, limiting transaction volume and delaying broader valuation resets.

Accordingly, our approach remains patient, disciplined, and focused on protecting investor capital. We continue to prioritize active asset management, prudent liquidity management, and selective investment opportunities where current market dislocations provide attractive risk-adjusted return potential. As the recovery progresses, we believe investors who retain flexibility, discipline, and a long-term perspective will be best positioned to benefit from the opportunities emerging across the multifamily sector.

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