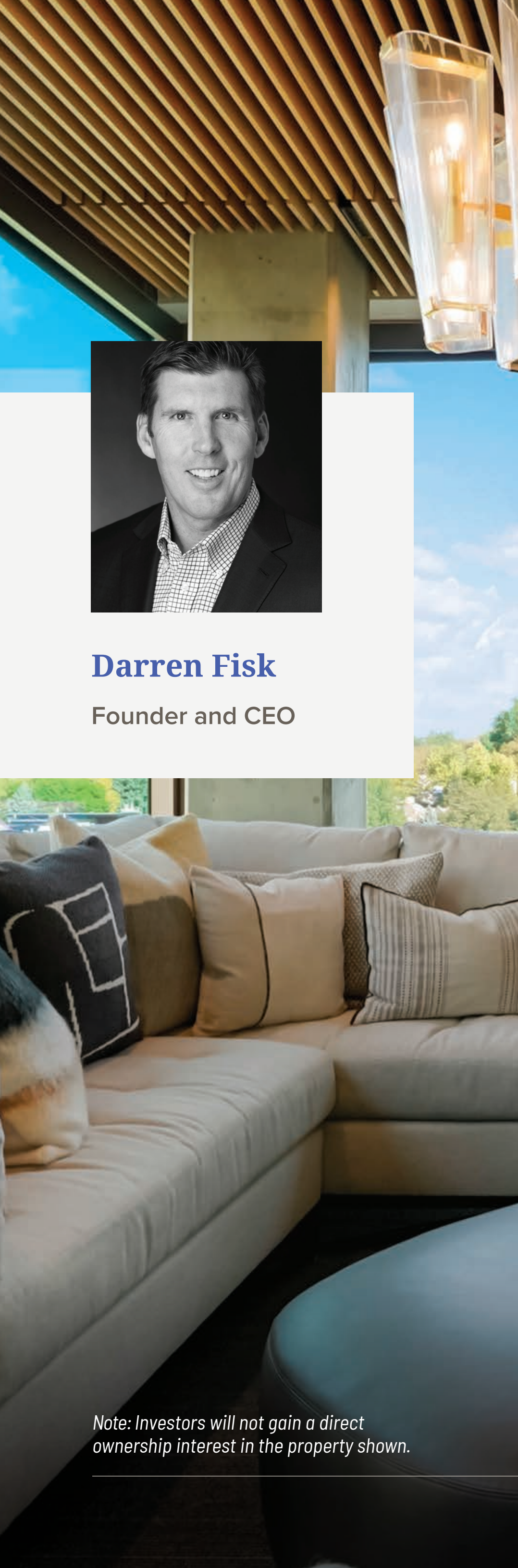
2025 Annual Market Outlook

NAVIGATING A SHIFTING REAL ESTATE LANDSCAPE

1. Forum Investment Group LLC is primarily comprised of Forum Capital Advisors LLC and FCA Capital Markets LLC, and is affiliated with Forum Real Estate Group, LLC (collectively, "Forum"). Note: Investors will not gain a direct ownership interest in the property shown.



Darren Fisk

Founder and CEO

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Positioned for What's Next: Key Themes Shaping Real Estate in 2025

Welcome to 2025! As the real estate market continues to evolve, Forum remains committed to providing insights that help investors navigate opportunities and challenges ahead. Real estate cycles tend to follow recognizable patterns, and as we analyze market data and engage with industry peers, several key themes are emerging for the year ahead.

THE RETURN OF EQUITY OPTIMISM.
We believe optimism for equity investment is stronger than it has been in years, even while multifamily debt opportunities remain.

HIGHER RATES ARE THE NEW NORMAL.
We do not see the 10-Year Treasury falling precipitously this year, although increased competition may narrow debt spreads in 2025.

TRANSACTION VOLUMES SET TO RISE.
We see guarded optimism for higher transactions volumes in 2025.

NO MORE "AMEND AND EXTEND."
We expect carry costs to finally force owners to make tough decisions and refinance or sell in 2025.

BANKS MIGHT BOUNCE BACK.
Some lenders might return to the market, but likely focused on post-construction developments with strong fundamentals, lease-up velocity, and solid sponsors.

At Forum, we continue to expand our investments across development, equity, private credit, and debt strategies to help investors capitalize on these evolving trends. In this annual outlook, we take a deeper dive into the market forces we see shaping 2025 and how Forum is positioning for the opportunities ahead.

Information presented herein is opinion only and is not intended to be relied upon in any manner as legal, tax, investment advice, other advice, or recommendation.

Jay Miller

Chief Investment Officer

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Market Commentary

We at Forum are looking forward to a busy 2025 as real estate markets continue to evolve and we are excited to share our thoughts with you here. Forum's philosophy hinges on understanding and anticipating real estate market cycles, which typically follow predictable patterns influenced by supply and demand fundamentals such as occupancy rates and rent growth, as well as capital markets involving the cost of capital and market pricing. Over four years ago, when we recognized that historically low capital costs were set to likely rise and that new supply would challenge NOI growth, Forum made a strategic decision to avoid equity markets. Instead, the firm shifted its focus to debt investments, aiming to capitalize on rising interest rates and enhance return potential. Today, while high interest rates continue to support our debt investment strategy, we see capital costs as peaking and demand poised to outpace supply. As such, as we look ahead into 2025, Forum anticipates a market shift back towards equity investing even as the lending opportunity continues.

U.S. Macro Economy

The macroeconomic landscape presents growth opportunities influenced by the incoming administration and its new policies. Notably, we believe the multifamily sector has the potential to benefit from pro-growth policies and potential changes in the structure of agency lenders. Increased domestic energy production, the extension of the 2017 tax cuts, and further corporate tax cuts, along with efforts to boost domestic manufacturing, are all expected to contribute positively to growth.

Another major development in the multifamily sector revolves around the agency lenders and the Trump administration's potential plans to remove them from conservatorship, a status they have held since 2008. Although any restructuring of the Government-Sponsored Enterprises (GSEs) is likely to be a gradual process, movement towards privatization appears inevitable.[1]

1. Source: Yardi Matrix; "U.S. Outlook Winter 2025", December 18, 2024.

The Fed

Recognizing that changes in monetary policy take time to influence U.S. interest rates, the prospect of stable, if not lower, borrowing costs has bolstered sentiment and capital market confidence[1]. The Federal Reserve's (the "Fed") rate cuts in 2024 and adherence to a gradual easing cycle are anticipated to help stabilize borrowing costs. In December, the Federal Reserve reduced the Federal Funds rate by 25 basis points, aligning with investor expectations, as was widely reported. This marked a continuation of a measured approach to easing, as the Fed has cut the benchmark rate by a combined 100 basis points since September 2024.[1]

Outperforming consensus forecasts of a slowdown, the economy grew at a 2.8% rate in the third quarter, and full-year growth is expected in the 2.5% range.[2] The resilient labor market and wage growth, alongside a stable economy, are anticipated to support the Fed's measured approach. Year-over-year wage growth stabilized in 2024, and steady job growth is expected to bolster wages in 2025.[3]

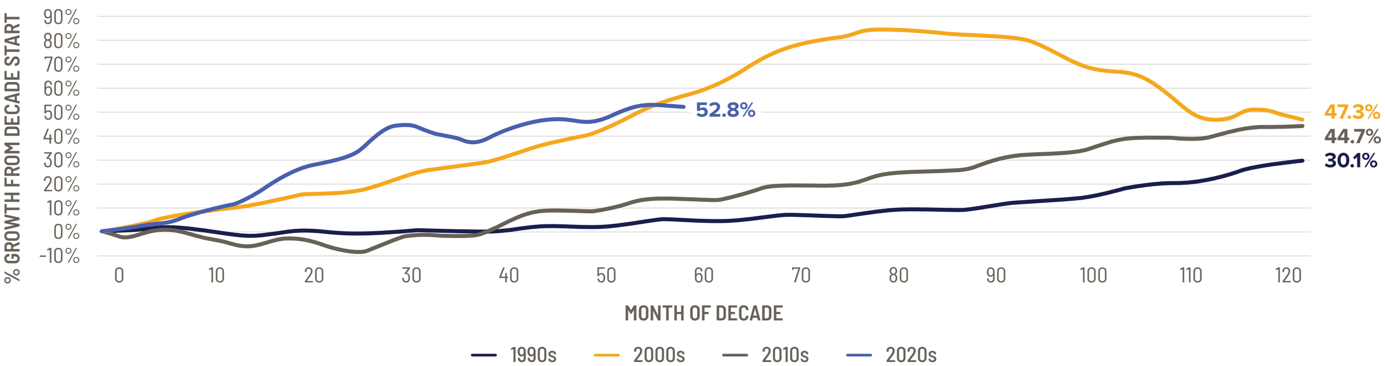
Housing

No review of the U.S. economy is complete without a discussion of the U.S. housing crisis. In a word, the supply shortage in U.S. housing is likely to persist, keeping home values high and making renting a more affordable option. While challenging for prospective home buyers, these dynamics point to a promising outlook for the real estate market, with positive trends in multifamily and other sectors.

We believe the supply shortage of U.S. housing is likely to last at least 5-10 years, preventing a major reduction in home values. Home prices have risen by over 50% in the first four years of the 2020s. This rate of increase is striking compared to the 2010s, which took 10 years to hit the 50% mark, and the 1990s, which never made it. The 2000s matched this pace of price increases but included an unsustainable sub-prime lending bubble.[4]

U.S. HOME PRICE GROWTH BY DECADE

THROUGH THE FIRST 58 MONTHS OF THE 2020s DECADE, U.S. HOME PRICES ARE UP 52.8%



Source: Case-Shiller National Home Price Index, data through 10/1/2024.

1. Source: Altus Group - Insights; "The last Fed interest rate cut of 2024 - Implications for US commercial real estate", December 18, 2024. 2. Source: Yardi Matrix; "U.S. Outlook Winter 2025", December 18, 2024. 3. Source: GreenStreet; "Residential Sector Update", November 27, 2024. 4. Source: Real Page; "Market Intelligence: U.S. Fall Apartment Outlook", Q4 2024.

YoY WAGE GROWTH

Source: YoY Wage Growth, Residential Sector Update, GreenStreet, November 27, 2024.

FORUM'S KEY TAKEAWAYS:

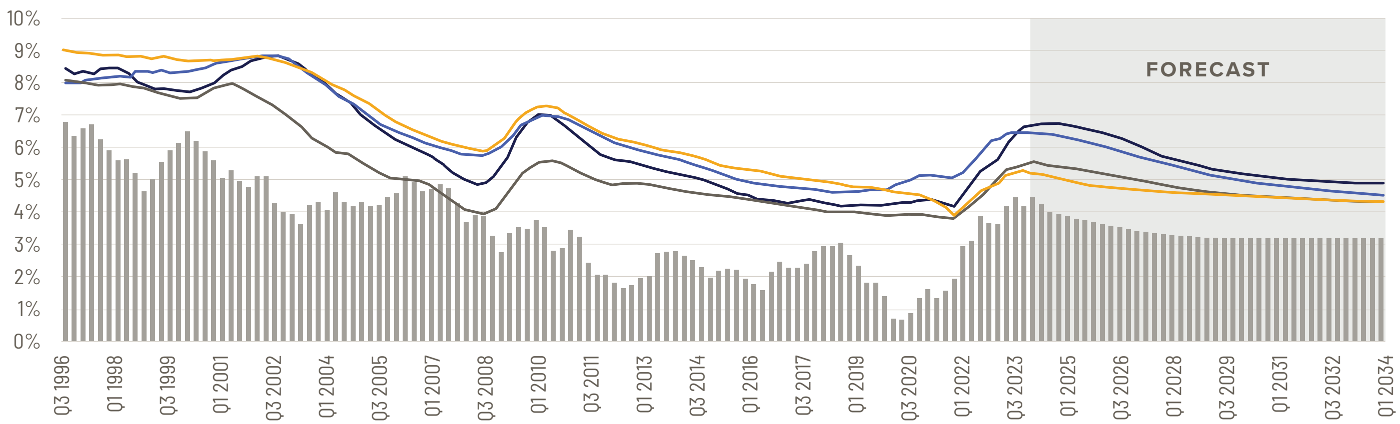
U.S. delivers steady wage growth.

Homes getting even harder to buy.

Real Estate

While Fed action grabs headlines, the long end of the yield curve influences real estate investment activity more than changes in short-term policy rates. CBRE expects the U.S. economy to avoid a recession but expects the 10-year Treasury yield to maintain recent increases averaging 4% in 2024 but drifting downward to the mid-3% range in 2025, which in turn should put downward pressure on cap rates. In fact, real estate returns have already turned positive in Q3 2024, marking the end of a two-year negative performance period, with appreciation showing positive trends in all sectors except office.[1]

CAP RATES & 10-YEAR TREASURY YIELDS



Source: CBRE Econometric Advisors.

10-YEAR TREASURY YIELD — INDUSTRIAL — OFFICE — RETAIL — MULTIFAMILY

Real estate investors are choosing among sectors, focusing on resilient sectors like multifamily and logistics while in the office market, we believe there are early signs of recovery and distressed opportunities in select markets.[2] Transactions activity reflected that preference as average sale prices fell by double digits in the office and industrial sectors and held steady in the retail and hotel markets while multifamily rebounded.[3]

The difference among sectors was also apparent in real estate fund returns. In the third quarter of 2024, apartment growth rates began trending back up with quarterly returns exceeding industrial for the first time in at least two years even as industrial returns improved based on strengthening market rents.[4] The decline in office returns began easing off in some of the larger metros.[4]

__1.__ Source: Altus Group; "Altus Analysis of NCREIF ODCE Index", Q3 2024. __2.__ Source: PERE Network; "North American real estate investors: commitments and strategies", November 13-14, 2024. __3.__ Source: GreenStreet; "Real Estate Alert: Office, Industrial Price Averages Sink Sharply", November 19, 2024. __4.__ Source: CBRE; "Impact of Interest Rate Cuts on Real Estate Cap Rates", October 10, 2024

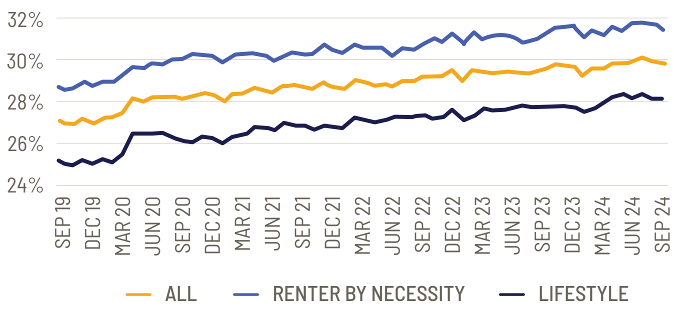
FORUM'S KEY TAKEAWAY:

Market sees little risk of 10-Year increases.

Multifamily Demand

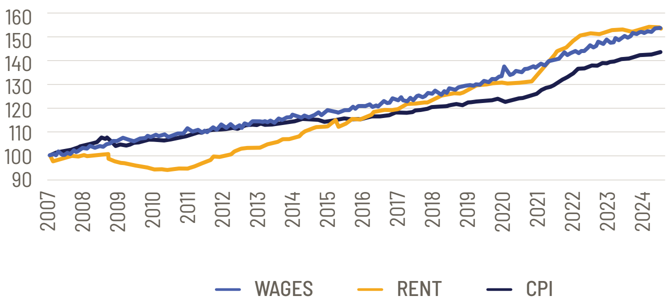
The U.S. economic expansion continues to support multifamily demand as rising wages provide more income to allocate to rent[1]. Wage growth, which has grown in line with rent growth, also supports rising rents.[1] Renting continues to be much cheaper than owning.[1]

NATIONAL AVERAGE RENT TO INCOME RATIOS



Source: National Average Rent-to-Income Ratios, U.S. Multifamily Outlook, YardiMatrix, October 2024.

AVERAGE ASKING RENT VS. CPI VS. WAGES



Source: U.S. Bureau of Labor Statistics, YardiMatrix, data through 11/30/2024.

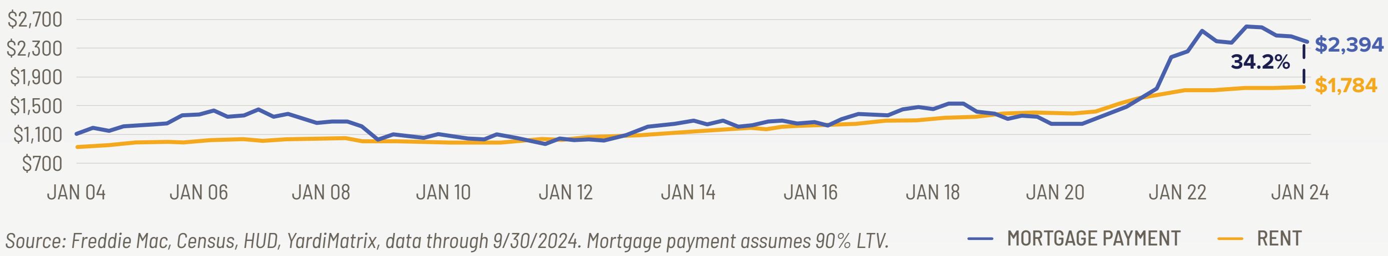
FORUM'S KEY TAKEAWAYS:

Rent to income ratios higher but sustainable.

Rents have grown in line with wages.

Renting still more favorable than buying.

HOME MORTGAGE PAYMENT VS. RENT



Source: Freddie Mac, Census, HUD, YardiMatrix, data through 9/30/2024. Mortgage payment assumes 90% LTV.

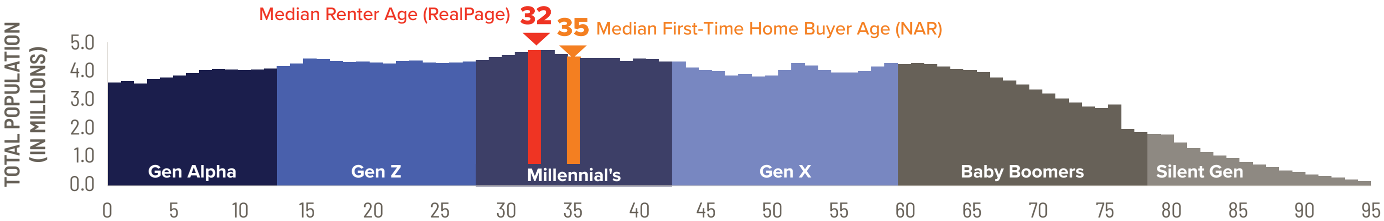
We believe that a resurgence in international migration trends in recent years, alongside a robust labor market, continue to drive some of the best multifamily demand on record.[2] In 2024, national net absorption rose to approximately 272,000 units, marking a 73% increase from 2023 and continuing the upward trend that began in 2023.[3] The U.S. economy absorbed 138,000 units in the third quarter of 2024 alone, the fourth-highest level on record, up from 133,000 units in the second quarter of 2024, which was the fifth highest on record.[2] Sun Belt markets generally lead in job growth through 2026 and West Coast markets lead in ratio of job growth to supply deliveries.[4]

Note: Investors will not gain a direct ownership interest in the property shown.

1. *Source: Yardi Matrix; "U.S. Multifamily Outlook", October 2024.* **2.** *Source: Cushman & Wakefield; "Marketbeat: United States Multifamily", Q3 2024.* **3.** *Source: ALN Apartment Data; "Apartment Demand was a Positive in 2024", December 10, 2024.* **4.** *Source: GreenStreet; "Residential Sector Update", November 27, 2024.*

In the longer term, demographics suggest sustained renter demand as future generational cohorts age into the median age of renters. In the past, the large Baby Boomer generation preceded a smaller Gen X. Today, by contrast, Millennial renters are followed by the similarly sized Gen Z, with Gen Alpha expected to grow through migration as they reach adulthood. As Gen Z and Alpha age, they will continue to require housing, whether through renting or homeownership, thereby sustaining demand in the housing market.[1]

U.S. TOTAL POPULATION BY YEAR OF AGE + GENERATIONAL ATTRIBUTION



Source: U.S. Total Population by Age + Generational Attribution, U.S. Demographics Support Demand, RealPage Analytics Blog, 10/2/2024.

Supply

Supply growth is tapering with the peak in new multifamily supply soon in the rear view mirror.[2] In fact, projections indicate a 40% drop in completions next year.[3] Additionally, it is expected that deliveries will continue to decrease through 2026.[3]

Furthermore, total construction starts for the first and second quarters of 2024 fell more than 50% from the figure for the same period in 2023, with the most significant drop occurring in the Sun Belt region.[4] Currently, total units under construction have declined more than 35% from the peak levels observed in the first quarter of 2023.[5]

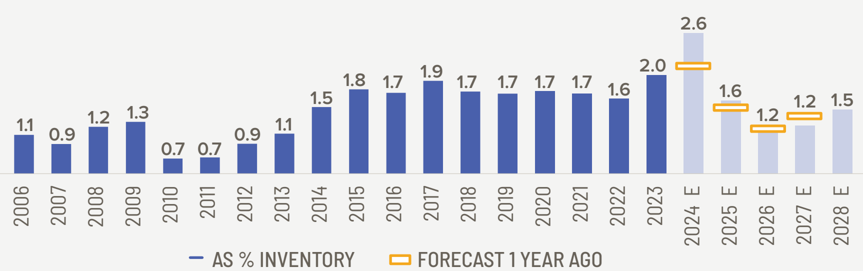
FORUM'S KEY TAKEAWAYS:

Demographics reflect steady pipeline of renters.

Supply expected to decline.

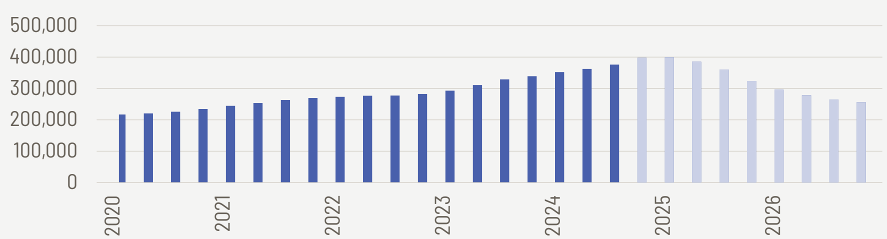
Supply decline is broad based.

MULTIFAMILY SUPPLY GROWTH (%)



Source: Multifamily Supply Growth, Residential Sector Update, GreenStreet, November 27, 2024.

TRAILING 4-QUARTER DELIVERIES IN TOP 50 MARKETS



Source: Trailing 4-Quarter Deliveries in Top 50 Markets, Residential Sector Update, GreenStreet, November 27, 2024.

1. Source: Real Page; "U.S. Demographics Support Continued Housing Demand", October 2, 2024. **2.** Source: ALN Apartment Data; "Apartment Demand was a Positive in 2024", December 10, 2024. **3.** Source: GreenStreet; "Residential Sector Update", November 27, 2024. **4.** Source: Yardi Matrix; "Bulletin: Multifamily Supply Forecast Notes", Q4 2024. **5.** Source: Cushman & Wakefield; "Marketbeat: United States Multifamily", Q3 2024.

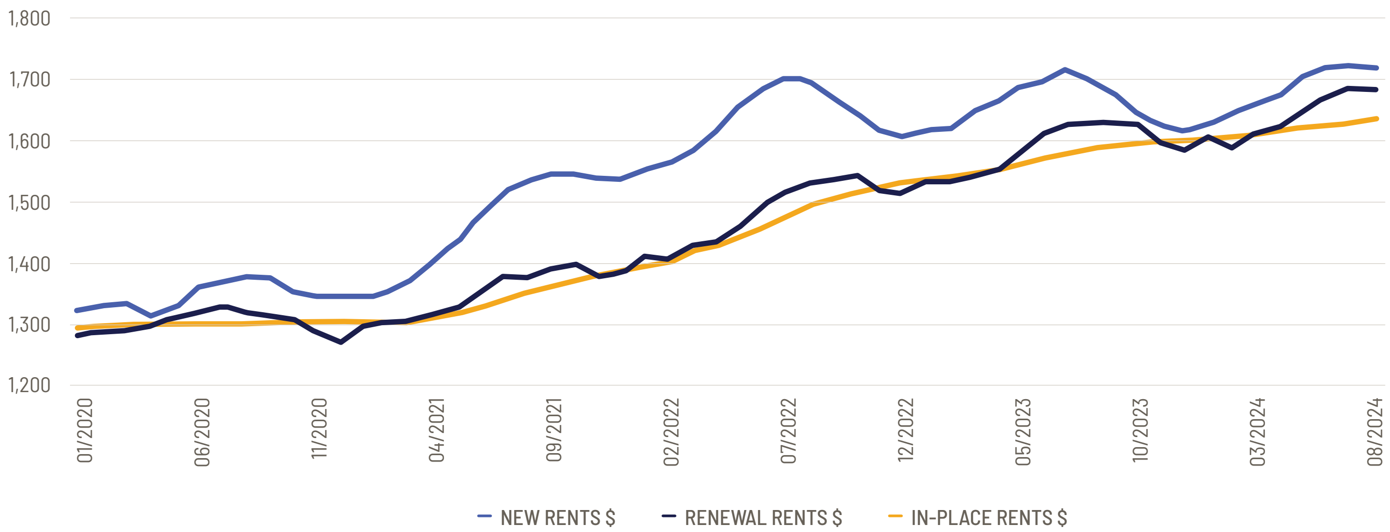
Investment Returns

Supply and demand fundamentals are strengthening, and we believe these point to stronger returns ahead. In the public REITs, 2024 NOI exceeded expectations.[1] Rents are rising. For much of the past year, rent growth has been muted and below historical averages, hovering in the 1.5% range year-over-year. But in the last two quarters, we have seen rent growth rise as resurgent demand is beginning to exert upward pressure.[2] The trend has been in place for some time. National average market rents, both new and renewal, have been growing since early 2021.[3]

FORUM'S KEY TAKEAWAY:

Rents have been rising since early 2021.

NATIONAL AVERAGE RENTS



Source: National Average Rents, U.S. Multifamily Outlook, YardiMatrix, October 2024.

Rising rents also appear to be broad-based. In most markets, rents are rising. More than half of the markets tracked by Cushman & Wakefield in 2024 had rent growth above 3%, and 26 markets posted rent growth of more than 4%. Six markets, though smaller, posted rent growth above 5%.[2]

Economics do remain differentiated at the market level. The Sunbelt region led in multifamily demand in 2024, with 10 of the top 15 markets in net absorption.[4] But in Q3 2024, all markets posted positive returns for the first time in at least two years, led by the Mid-Atlantic, Northeast and Midwest, which all saw a lower supply overhang.[5]

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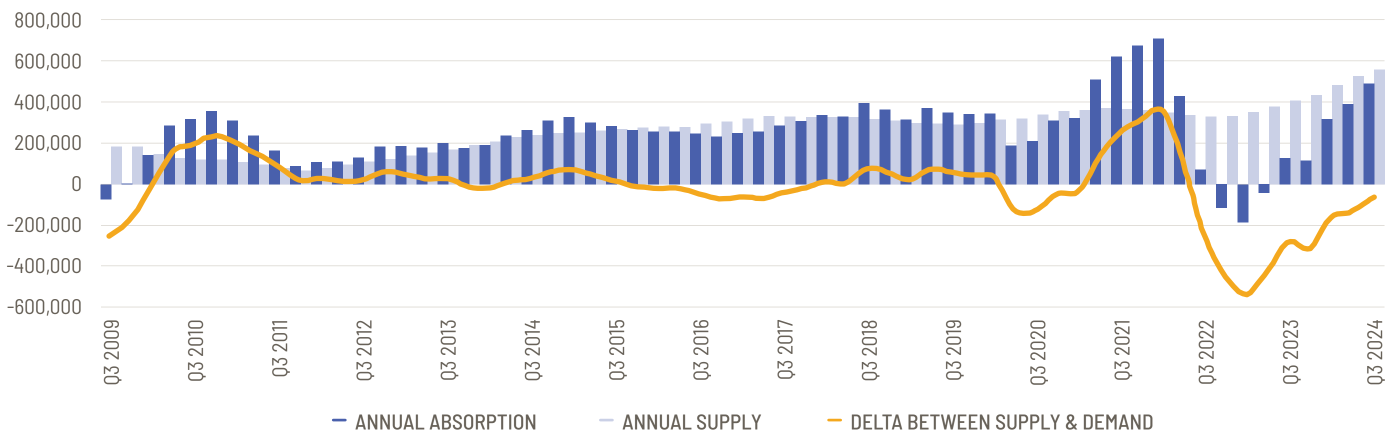
1. *Source: GreenStreet; "Residential Sector Update", November 27, 2024.* **2.** *Source: Cushman & Wakefield; "Marketbeat: United States Multifamily", Q3 2024.* **3.** *Source: Yardi Matrix; "U.S. Multifamily Outlook", October 2024.* **4.** *Source: ALN Apartment Data; "Apartment Demand was a Positive in 2024", December 10, 2024.* **5.** *Source: Altus Group; "Altus Analysis of NCREIF ODCE Index", Q3 2024.*

The Opportunity

So what does it all mean? The apartment industry is on an encouraging trajectory, with a significant shortfall between net absorbed units and delivered units over the last two years.[1] The rapid increase of rates in 2022 created uncertainty in pricing, stalling multifamily sales and leaving many properties underwater on mortgages. We expect increased trading activity in 2025, as rate cuts will not be fast or deep enough to rescue properties in need of refinancing[2]. We believe rising delinquencies seem likely in 2025, short of crisis levels but likely enough to create opportunities to buy high quality assets from distressed owners over the next 12-18 months.[2]

By many measures that we have detailed here, we believe apartment demand remains robust. Remarkably, demand has kept up with record supplies with net absorption since early 2023. Absorption is now poised to outpace supply as Q3 2024 reported the smallest gap to supply in over two years.[3]

U.S. ANNUAL APARTMENT SUPPLY VS. ANNUAL ABSORPTION



Source: Absorption is inching closer, Market Intelligence, U.S. Fall Apartment Market Outlook, RealPage, as of Q3 2024.

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The debt opportunity seems to remain strong in the meantime. According to the Mortgage Bankers Association (MBA), $213 billion of multifamily loans are scheduled to mature in 2025. Anticipating a surge of extended loans refinancing during the year, the MBA estimates that multifamily lending will increase more than 20% in 2025 to $390 billion. Opportunities should exist for those with originations capabilities in mezzanine debt and buying loan portfolios from banks.[4] Some estimate that almost half of securitized multifamily loans with an initial maturity at the end of 2025 or earlier could be insolvent. Many of the maturing loans are floating-rate which have risen to levels that are no longer economically viable.[5] Investors apparently agree as the first half of 2024 saw debt join with opportunistic equity strategies to account for almost 80% of an otherwise reduced fundraising year.[6]

FORUM'S KEY TAKEAWAY:

Demand poised to exceed supply.

__1.__ Source: ALN Apartment Data; "Apartment Demand was a Positive in 2024", December 10, 2024. __2.__ Source: Yardi Matrix; "U.S. Outlook Winter 2025", December 18, 2024. __3.__ Source: Real Page; "Market Intelligence: U.S. Fall Apartment Outlook", Q4 2024. __4.__ Source: Yardi Matrix; "U.S. Outlook Winter 2025", December 18, 2024. __5.__ Source: Bloomberg; "Short Seller Carson Block Sees Trouble Ahead for Apartment Landlords", November 27, 2024. __6.__ Source: PERE Network; "North American real estate investors: commitments and strategies", November 13, 2024.

Looking Ahead: Seizing Opportunity in 2025 and Beyond

As we look ahead in 2025, we anticipate a market shaped by more stable borrowing costs, improving multifamily fundamentals, and increased transaction activity. Equity investment opportunities are expected to grow alongside a gradual return of traditional lenders—though disciplined underwriting will remain key. Meanwhile, rising carry costs and the passage of time will likely bring more sellers to market, creating new opportunities for investors.

At Forum, we remain committed to navigating this evolving landscape with a focus on strategic growth and continuous improvement. We appreciate the trust our investors place in us and look forward to the opportunities ahead. Here's to a dynamic and productive year—we look forward to staying in touch!

Darren Fisk
Founder and
Chief Executive Officer

Jay Miller
Chief Investment Officer

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