CEO QUARTERLY LETTER

AN OVERVIEW OF THE COMMERCIAL REAL ESTATE INVESTMENT MARKET

Q2 2023 RECAP | **Daniel Farber,** CEO, HLC Equity

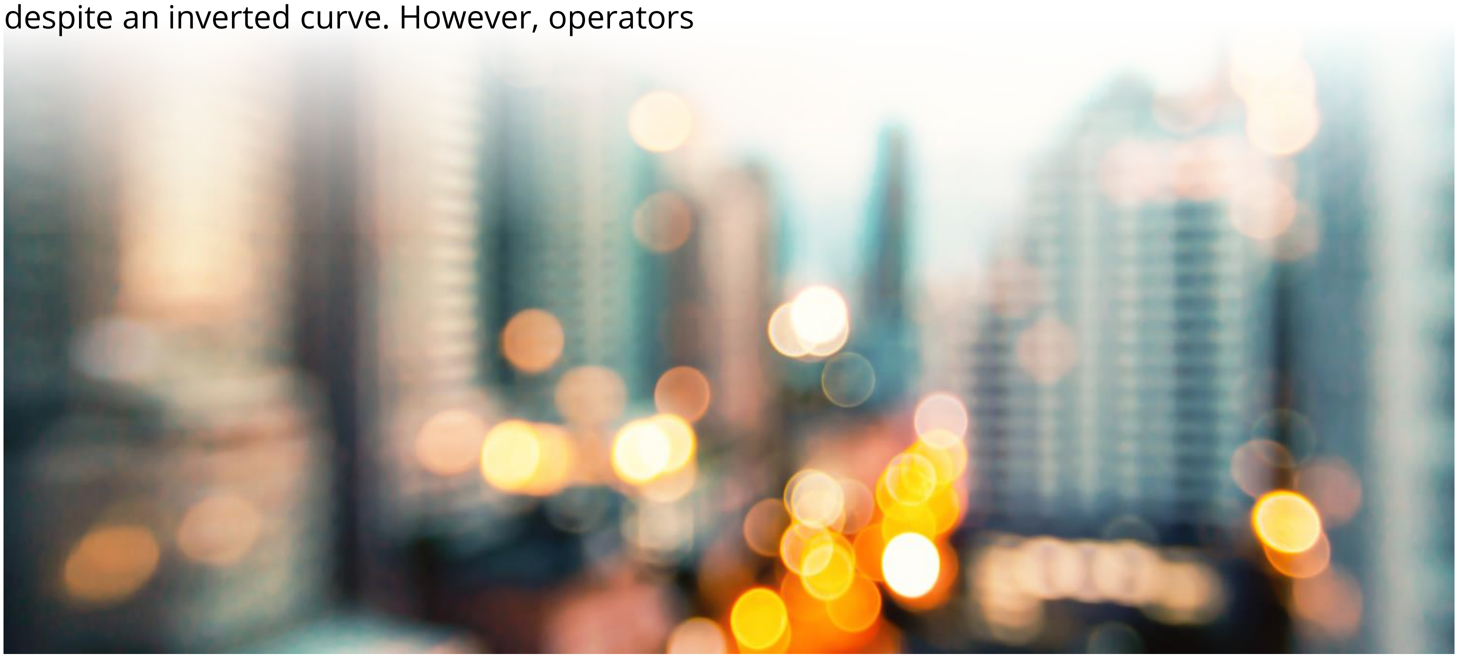
We find ourselves in an intricate tapestry of market dynamics as we navigate Q2 2023. The Commercial Real Estate (CRE) investing landscape has been under the transformative influence of the Federal Reserve's intervention to battle high inflation, which precipitated a slowing of capital markets, crucial to the entire real estate market and financial system. This period of financial stringency led to a decrease in transaction volume, coupled with the dual shocks experienced by credit markets—an increase in interest rates affecting the value of debt products, and a wave of depositor withdrawals challenging the entire banking system, especially regional banks. Although mainstream media has moved on from the bank saga, the challenges with regional banks persist as regional banks have the largest exposure to floating rate construction loans and troubled office debt. In some cases, the value of the real estate backing the loans that these institutions are holding may have dipped lower than the actual loans that have been issued.

As this occurs, a significant portion of larger institutional investors have expressed a need for a market shake-up to streamline acquisitions. Many institutions are also preserving funds due to their involvement in less liquid investments which may be facing liquidity issues.

HLC EQUITY'S SOUTHGATE APARTMENTS

Interestingly, large institutional groups are holding their reserves to protect their portfolios, while simultaneously raising large funds specifically targeting the acquisition of stabilized and distressed multifamily and industrial properties. A significant inflow of capital is expected post-2023 where there is an expectation that additional capital will flow into the multifamily space, as institutions readjust their allocations away from office, and into asset classes that are showing more stability, such as multifamily, industrial, health care, and self-storage. Currently, market liquidity for large deals is relatively thin, leading to a slowdown in larger transactions. Smaller properties of $40M or less are still in a pricing discovery influx, in which some properties are selling at reasonable discounts in relation to recent years, while other assets are still fetching aggressive offers given current market conditions.

Today's market resilience, which has been bolstered by stimulus funds, is impressive, despite an inverted curve. However, operators are grappling with major operational challenges beyond floating rate debt and interest rate hikes. I was recently at a YPO (Young Presidents' Organization) real estate gathering, where leaders of the top real estate firms met to discuss the current market. When asked what is keeping owners and operators up at night, the overwhelming response was the dramatic rise in property insurance costs and real estate taxes. Indeed, at HLC Equity we have also experienced a significant rise in both of these expenses. On the real estate tax side, Dallas has been one of the most aggressive cities when it comes to increasing real estate taxes. The good news is that due to political pressure and a built-up surplus in Texas, real estate taxes in that market are projected to go down significantly over the next few years. In terms of insurance, the HLC Equity operations team continues to work with top consultants and insurance providers to deliver the best coverage possible, while making substantial steps to reduce the insurance prices as much as possible.



Our strategy continues to be focused on acquiring high-quality properties at discounts relative to peak pricing. The focus continues to be on generating current income and adding value on long term assets, while also keeping our eyes out for dislocations and distressed deal flow opportunities. We see great potential in trades that may require an opportunistic business plan. but offer superior returns due to discounted pricing. Currently, we see deal volume decreasing along with price readjustments, and simultaneously large amounts of dry powder on the sidelines waiting to transact. It seems clear to us that as soon as the market shows stability and interest rates begin to level off, the herds will jump right back into the market. Therefore, we feel strongly that we could be in a limited window of opportunity to purchase solid multifamily assets at a reasonable basis, with attractive yields for the patient long term holder.

We continue to navigate these choppy markets to seek out opportunity, and we are thankful for your partnership and trust that you place in our team to deliver in both up and down markets.

Daniel Farber

CEO, HLC Equity

DAVID MELTZER & DANIEL FARBER @ PROPTECH360

About HLC Equity

Our mission is to utilize our real estate portfolio to build thriving community experiences for our community members and the public at large.

HLC Equity is a 70+-year-old company, with an expansive real estate investment portfolio, the entrepreneurial spirit of a startup, and institutional level execution.

Harnessing our time-tested approach to real estate investment and management, today HLC Equity is an active real estate investor and operator, engaged in a wide range of asset classes, constantly monitoring fundamental market shifts, and excited about integrating leading technology advances into our operations and investment thesis.

HLC Equity and its affiliated group of companies have been creating, building, and operating, thriving US enterprises for over a century. Impeccable work ethic, integrity, innovative entrepreneurialism, and dedication to the community have been the cornerstone components of HLC Equity's culture from its humble beginnings, and they remain core principles of the group's culture today. HLC Direct offers investors the opportunity to invest alongside HLC Equity in institutional quality real estate transactions

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