

Breakout Session A2: Real estate: Dragon's Den – take my money

2024 Frontier Advisors Annual Conference

Chair:



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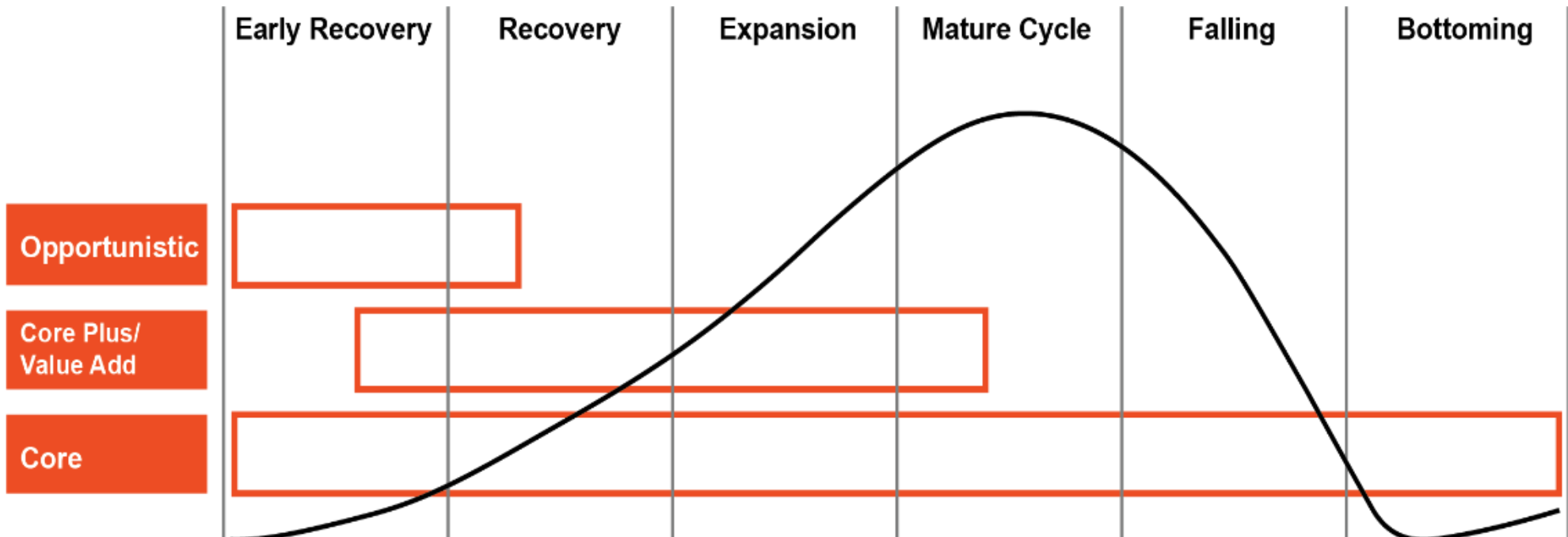
Kate Mistic

Head of Alternative
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How to invest through the real estate cycle

Resilience across cycles

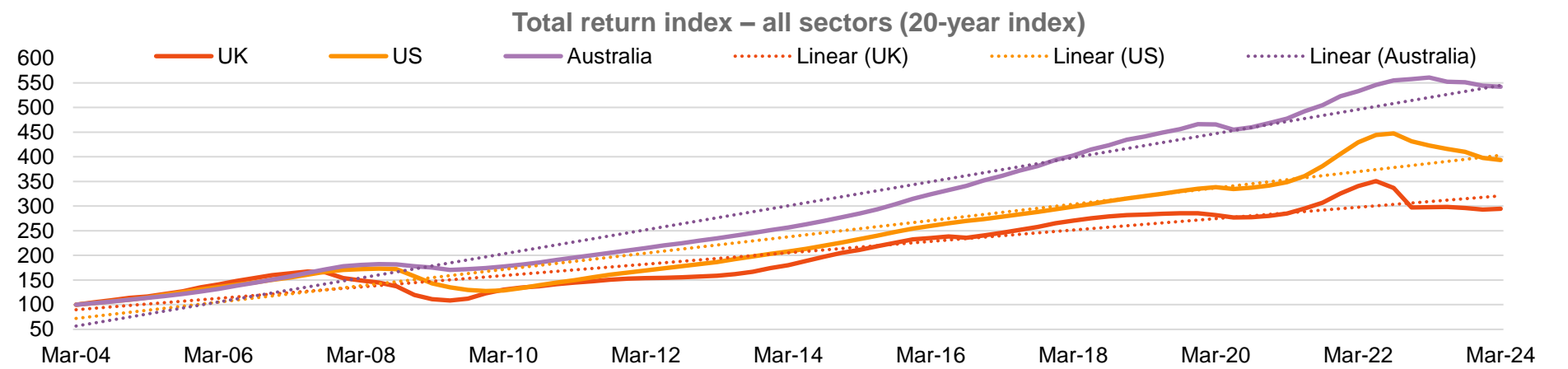
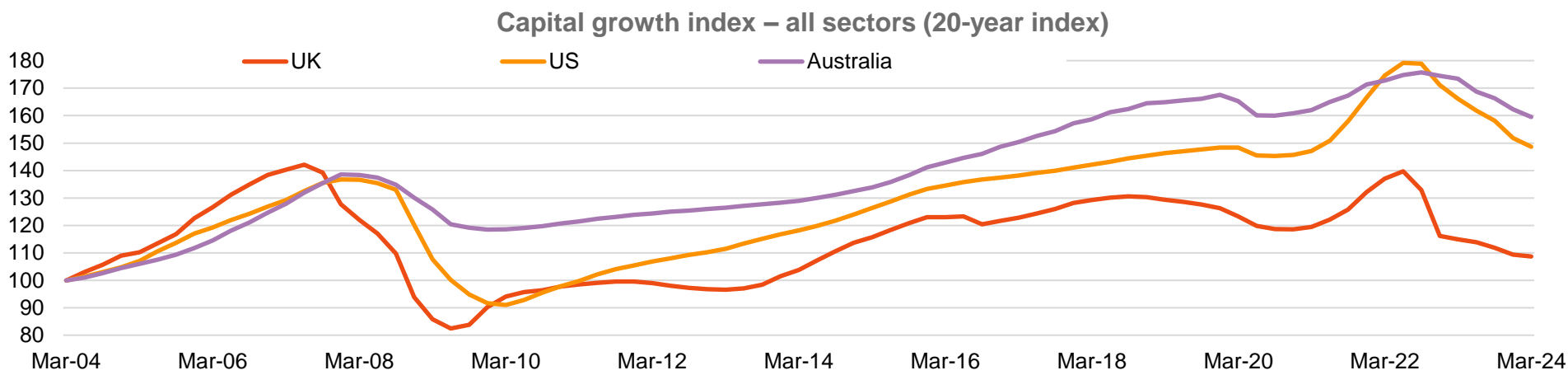
Wei Ji 危机 Wei means crisis while Ji means opportunity.
In the ancient Chinese philosophy, opportunities often arise from crisis.



Resilience requires acting opportunistically at points in time

Re-pricing of unlisted real estate markets over time and geography

Australia slow to mark down values



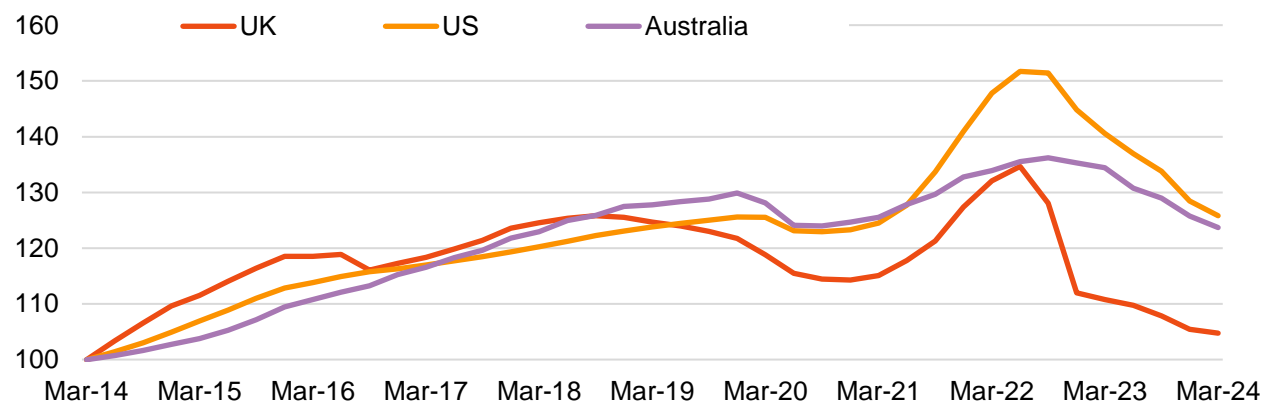
Source: MSCI, Frontier Advisors; *Max index values are raw numbers, while charts reflect a 20-year index (Mar-04 = 100)



Re-pricing of unlisted real estate markets over time and geography

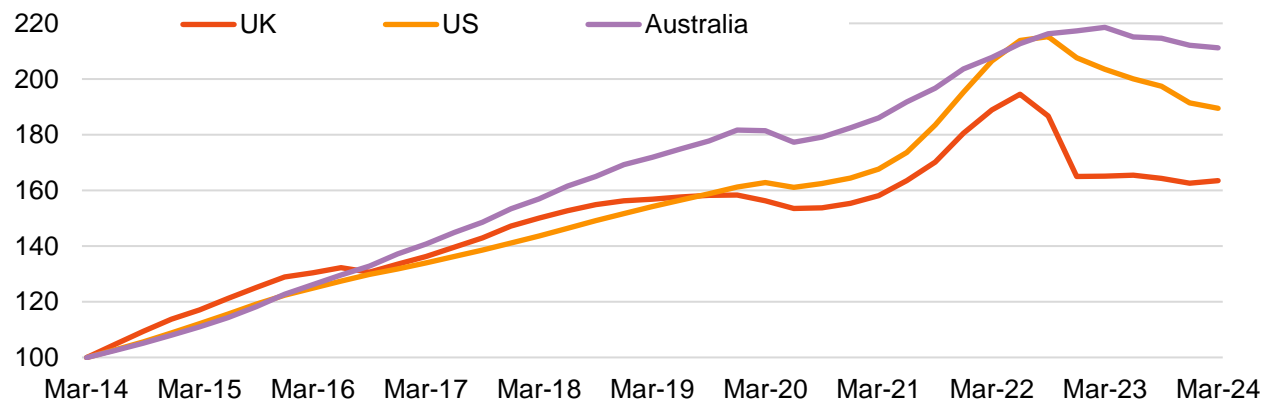
Australia slow to mark down values

Capital growth index – all sectors (10-year index)



	US	UK	Aus.
Max. index value (post-COVID)	189	469	267
Date of max. value	Jun-22	Jun-22	Sep-22
Latest index value (Mar-24)	157	394	242
Peak to current change	-17.0%	-16.0%	-9.2%

Total return index – all sectors (10-year index)



	US	UK	Aus.
Max. index value (post-COVID)	707	153	3,426
Date of max. value	Sep-22	Jun-22	Mar-23
Latest index value (Mar-24)	622	119	3,310
Peak to current change	-12.0%	-22.2%	-3.4%

Source: MSCI, Frontier Advisors; *Max index values are raw numbers, while charts reflect a 10-year index (Mar-14 = 100)



CIM |

2024 CIM Group

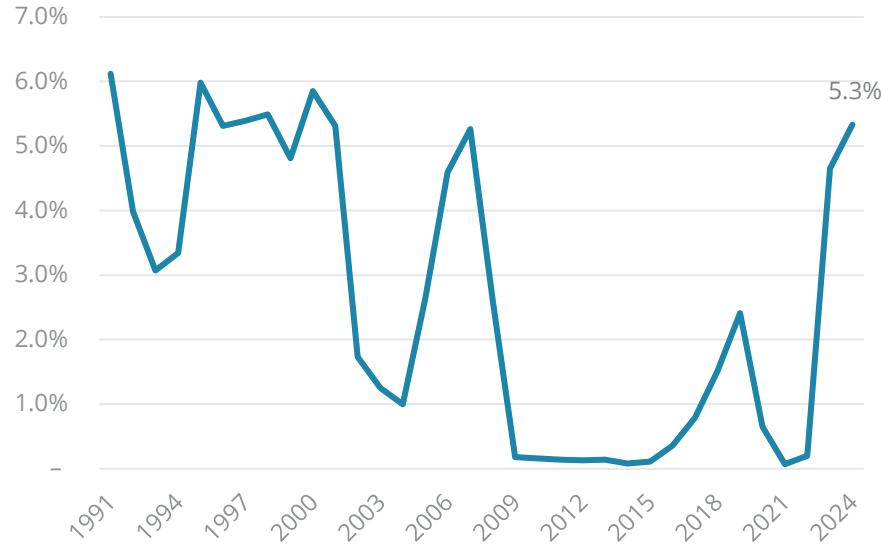
Compelling Opportunities

Market Conditions

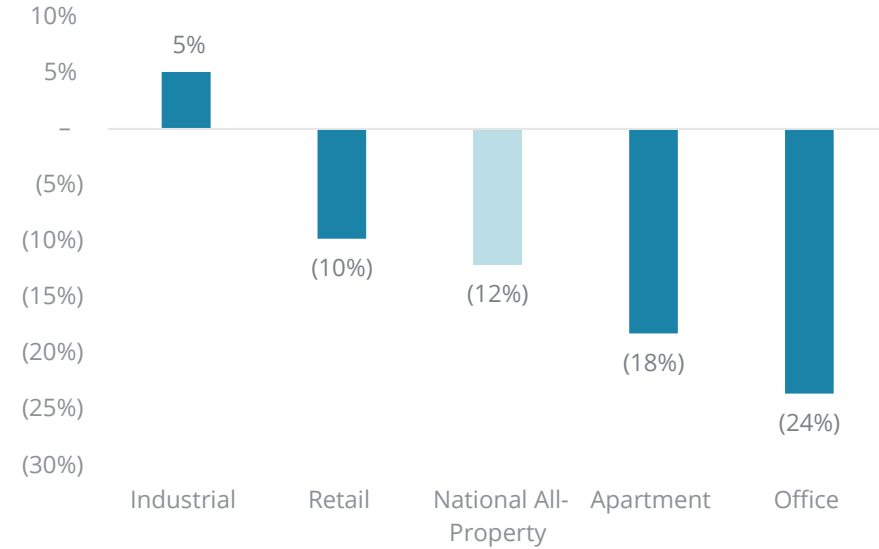
Rising interest rates, declining asset values, lack of financing and looming loan maturities create compelling conditions for investments

1. Federal Reserve Bank of New York. Accessed 6/13/24. <https://www.newyorkfed.org/markets/reference-rates/effr>.
2. Real Capital Analytics, April 2024.
3. Analysis limited to failures by US commercial banks, savings banks, and savings and loan associations between Jan. 1, 2008, and April 26, 2024. S&P Global Market Intelligence.
4. Mortgage Bankers Association Report – Commercial / Multifamily Loan Maturity Volumes. 12/31/22

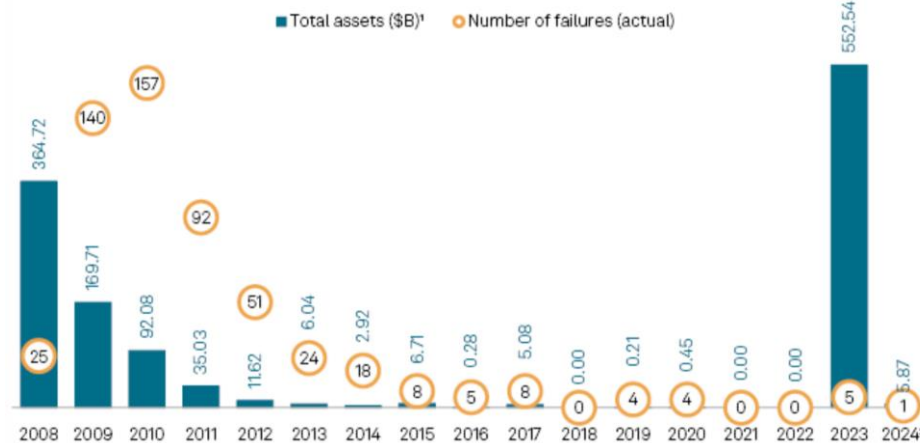
Fed Funds Rate¹



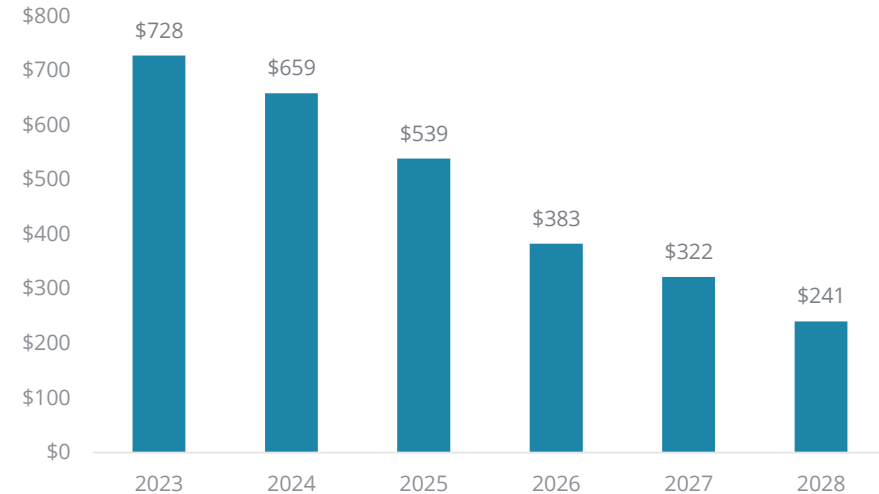
Change in RCA CPPI Since July 2022²



U.S. Bank Failures Since 2008³



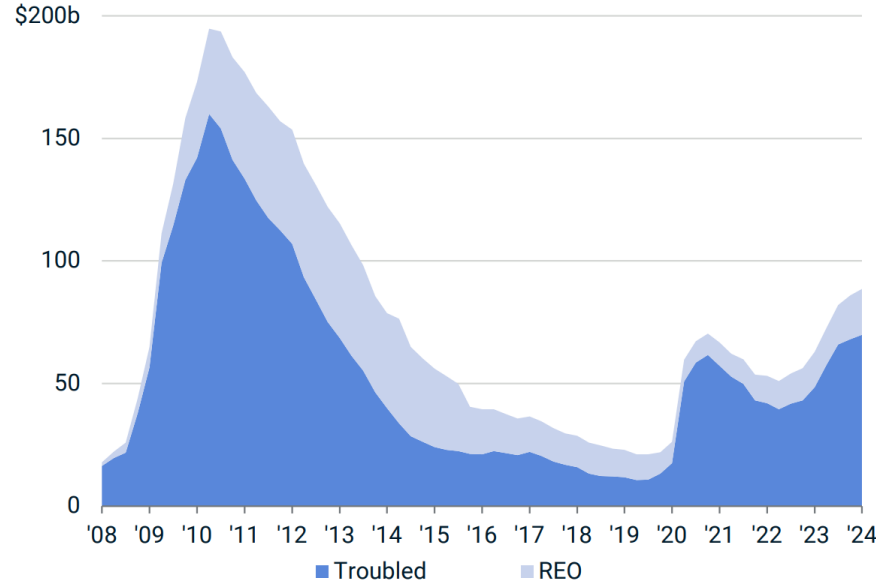
Total CRE Debt Maturities by Year and Property Type (\$B)⁴



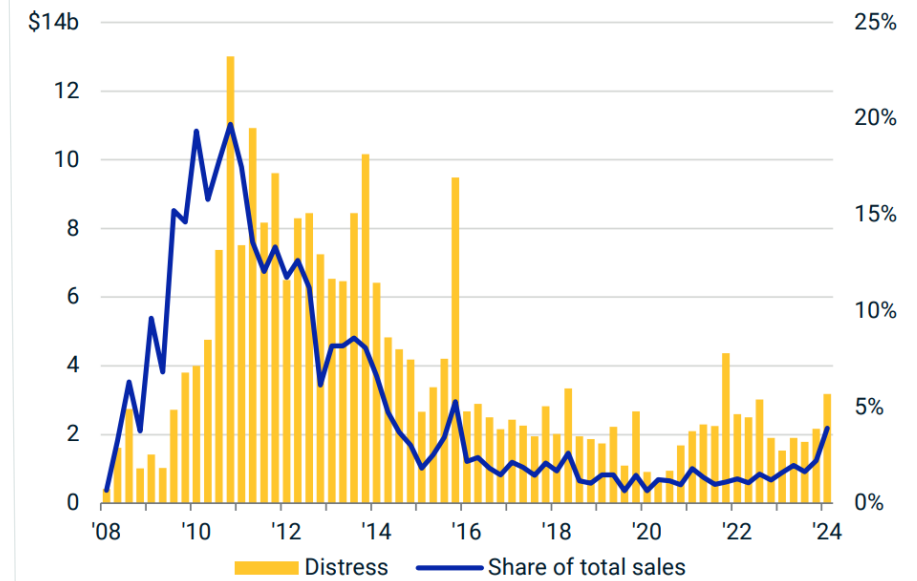
Market Conditions

Despite the rise in cumulative distress, much of the distress remains unresolved.

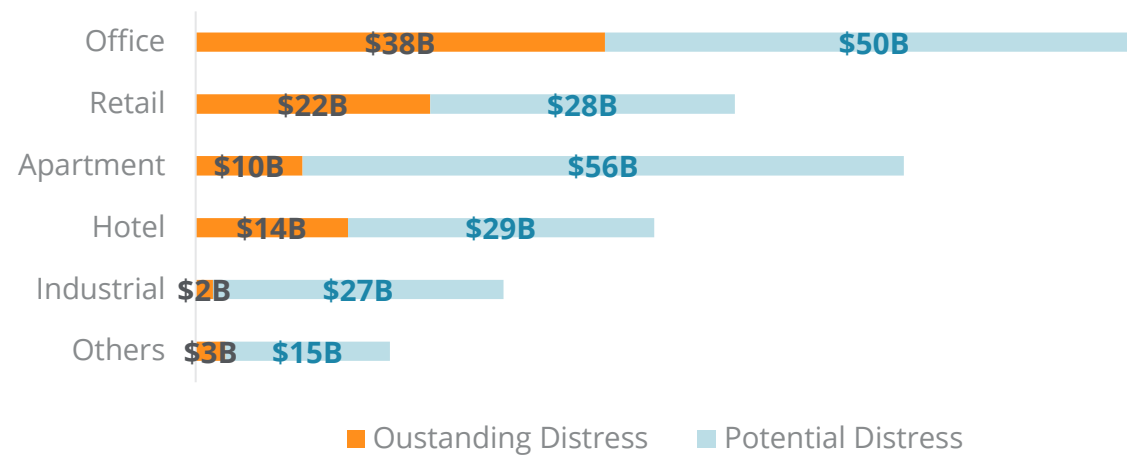
Cumulative Distress



Distressed Sales and Share of Total



Balance of Distress by Property Type



Distress Indicators

Outstanding	Potential
Bankruptcy	Delinquent loan payment
Default	Forbearance
REO	Watchlist
Special Servicing	

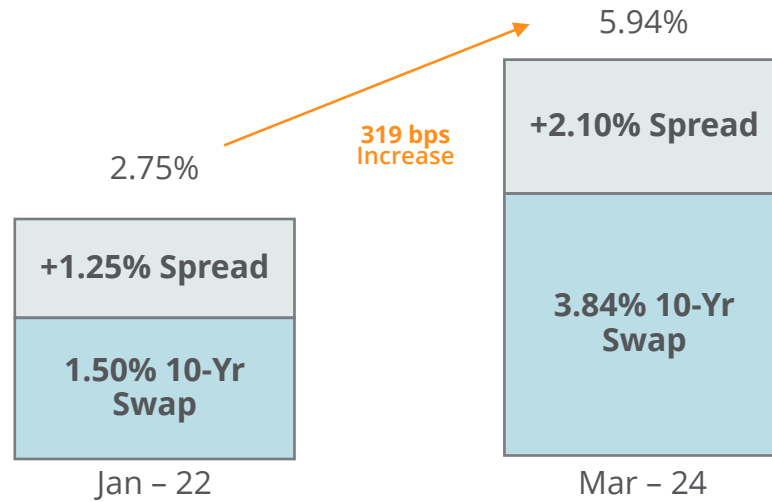
Credit & Distressed Equity

Compelling opportunity to provide senior secured loans at a lower basis, higher debt yield, and 2-3x higher rates than 2022

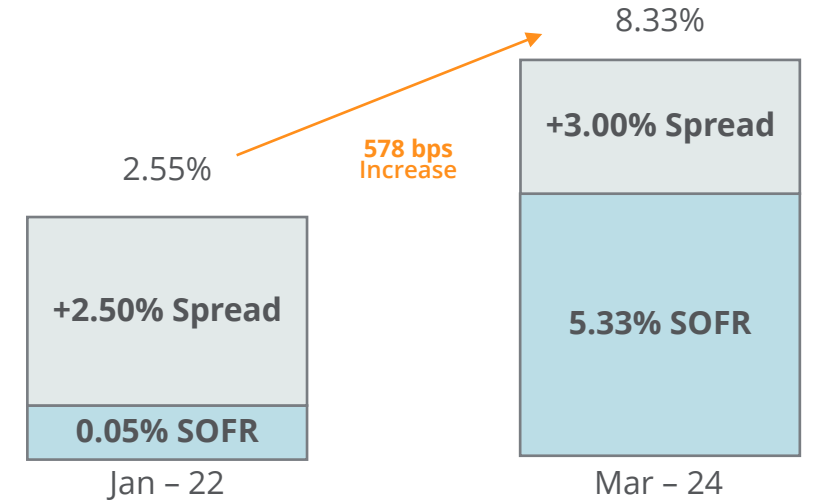
Distress from refinancing gap will create forced sales / REOs or structured recapitalizations

Sources: 1. Chatham Financial Lending Market Overview, Q1 2024.

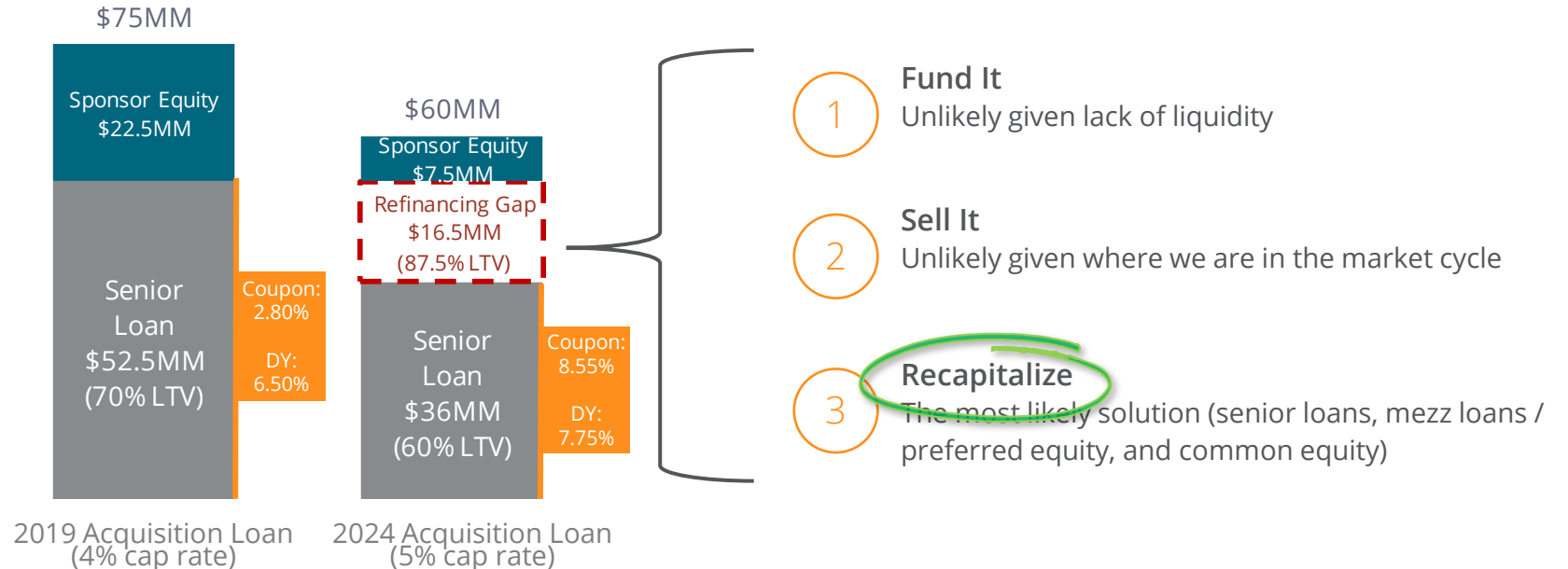
Loan Cost Fixed¹



Loan Cost Floating¹



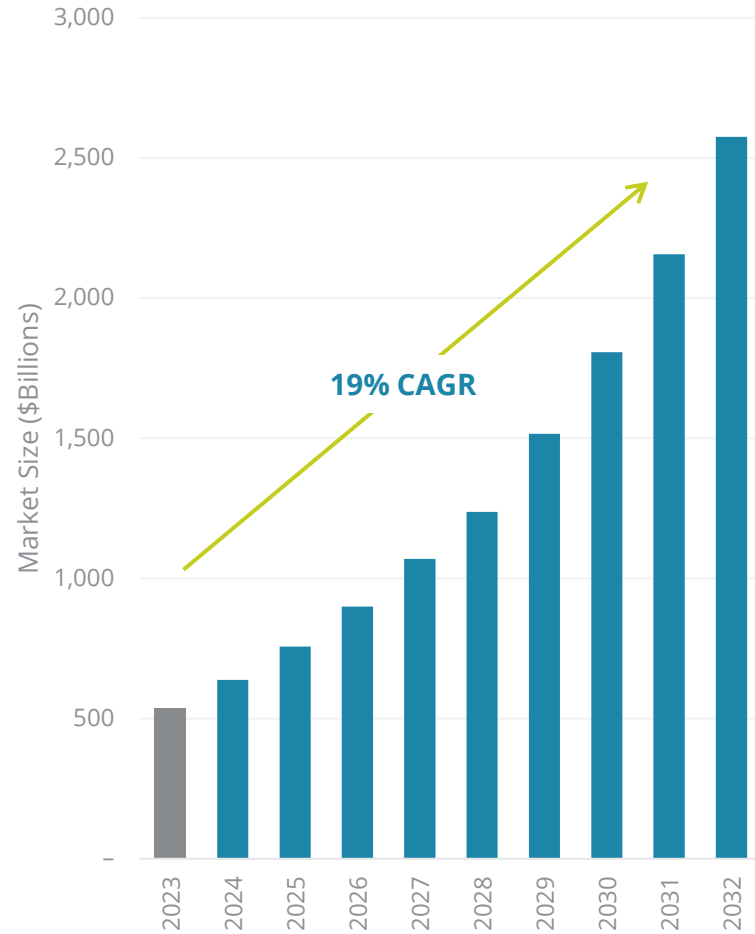
Illustrative Gap in the Capital Stack



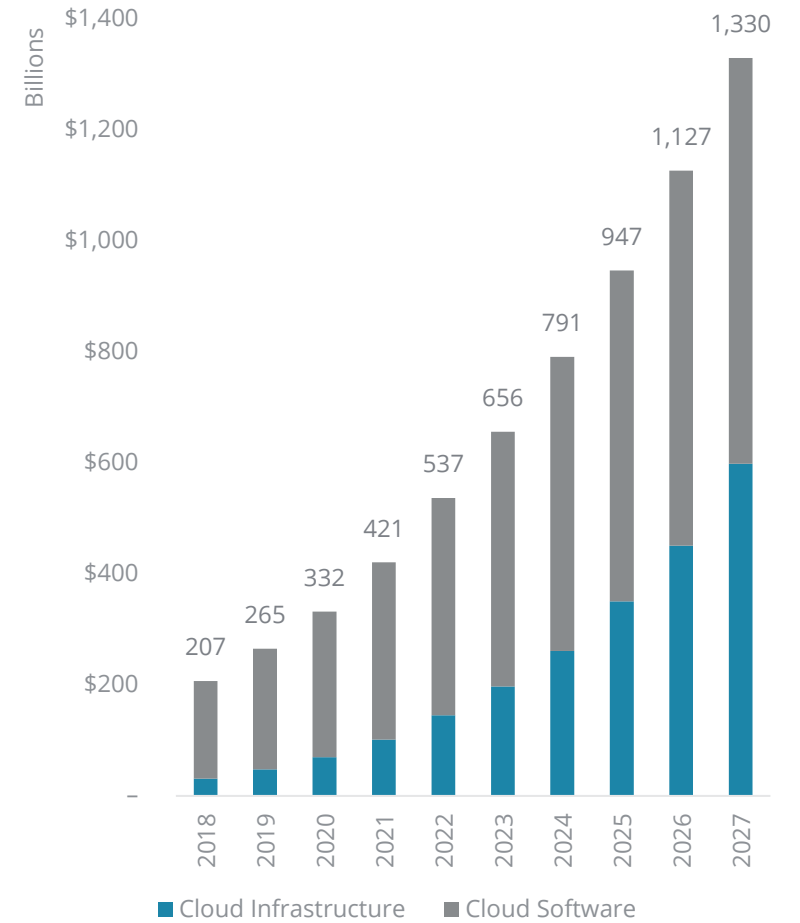
Digital Infrastructure

Unprecedented Demand

Estimated Global AI Market Size (\$Billions)¹







Total Public Cloud Spending Forecast²



1. Precedence Research, Artificial Intelligence (AI) Market Size, Growth, Report By 2032. 2. Bloomberg Business Intelligence Report, Generative AI: Assessing Opportunities and Disruptions in an Evolving Trillion-Dollar Market.

Digital Infrastructure

Looking Ahead: Risks & Mitigants

Risks		Mitigants
	Power Supply Constraints	<ul style="list-style-type: none">• On-site natural gas plants• Small modular nuclear plants• Using high-capacity transmission lines with new materials
	Environmental Impact	<ul style="list-style-type: none">• Waterless cooling systems• Alternative fuels for backup generators (e.g., vegetable oil, natural gas)• Renewable energy integration
	Siting and Zoning Issues	<ul style="list-style-type: none">• Community engagement• Strategic placement of data centers next to low-carbon power sources (e.g., nuclear plants)• Diversifying data center locations beyond traditional hubs
	Infrastructure Challenges	<ul style="list-style-type: none">• Innovative transmission solutions (e.g., high-capacity lines)• Reconsidering aging power plants (e.g., repurposing old coal and nuclear plants)• Investment in long-haul fiber and digital infrastructure

Source: Keynote Interview with CIM Group's David Blackford, June 2024.

Best Ideas

Top Investment Opportunities



1 Credit

The regional banking crisis, increased long-term interest rates, and the significant amount of maturing debt, creates a favorable opportunity for **credit investments**.

Key Opportunities:

1. *Bridge (Acquisition, Pre-development, Repositioning)*
2. *Construction (Development)*
3. *Special Situations*

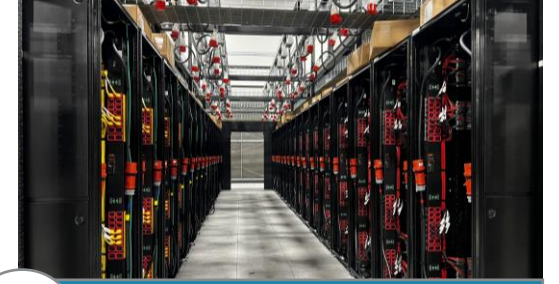


2 Distress

Debt maturities and expanding cap rates with interest rate increases create a favorable opportunity for **distressed investments**.

Key Opportunities:

1. *Foreclosed or Forced Distressed Sales*
2. *Structured Equity Rescue Solutions*
3. *Recapitalization*
4. *Advanced Mid-Construction Projects*



3 Digital Infrastructure

We believe the significant growth in Cloud and Artificial Intelligence (“AI”) will continue to increase demand for **data centers**.

Key Opportunities:

1. *Powered Shell Data Center Development (Build to Core)*



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Dragons



John Longo

Head of Property,
Cbus

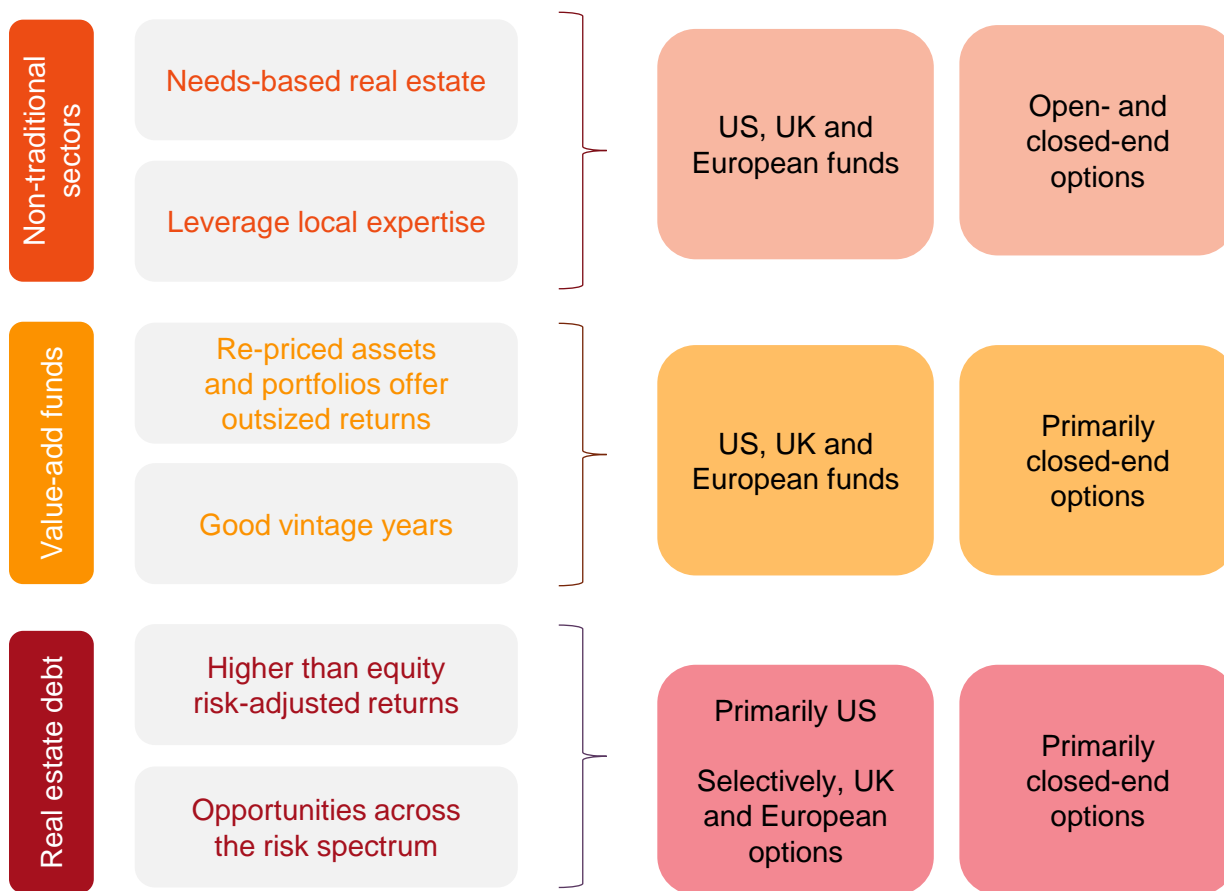


Kate Misic

Head of Alternative Investments
and Real Assets, TelstraSuper

What should clients do?

The cycle is heading towards stabilisation. We expect strong tactical pathways for rebalancing portfolios.



Action for clients:



Review your portfolio from the ground up



Identify gaps and risks. Know the Devil in the detail



Talk to Frontier about ideas and return-enhancing strategies and managers to address gaps

Thank you for joining us.

2024 Frontier Advisors Annual Conference

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