CLEAR INVESTMENT GROUP
MONTHLY NEWSLETTER

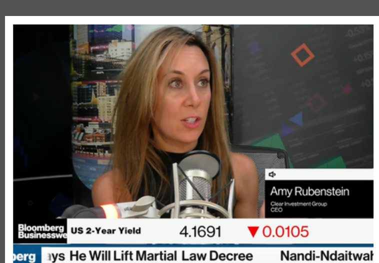
DEAL PIPELINE

Clear Opportunities Fund I will acquire at least one more larger portfolio of assets. At present, we have LOIs submitted on portfolios in St. Louis, MO; Montgomery, AL; Louisville, KY; Tulsa, OK; and Oklahoma City, OK. We aim to have a portfolio under contract in Q4 2024/Q1 2025, with a closing date slated for late Q1 2025.

Clear Opportunities Fund II is tentatively scheduled to begin accepting commitments in Q1 2025. This Fund will be raising $250-$300MM in member equity. The Fund's strategy and focus will mirror that of Fund I but achieve more significant scale, including the acquisition of approximately 15-18 portfolios of assets, with increased geographic diversity. The first close of Fund II will present an enhanced performance structure for early investors, including a 12% current pay priority return between the first and second closings, in addition to the standard equalization benefits enjoyed by earlier investors in COFI.

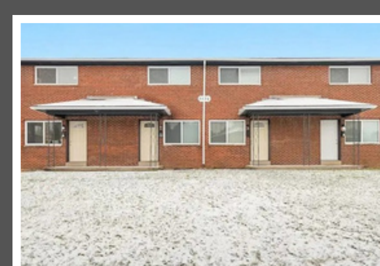
Interested investors may contact IR@clearinvestgroup.com for preliminary inquiries.

CIG IN THE NEWS



Our CEO, Amy Rubenstein, is interviewed LIVE by Bloomberg Radio

Clear Investment Group Expands Midwest Footprint



Chicago-based firm adds to its portfolio of apartments

INTEREST RATE RELIEF

The Federal Open Market Committee has cut the target Federal Funds Rate to 4.5% - 4.75%, a 75bps reduction from its height just months ago.

The 50bps reduction that was announced in September was significant; aside from emergency cuts amidst COVID-19, prior cuts of this scale have coincided with periods of more severe volatility – including the global financial crisis and the dot-com bust. Nonetheless, this ease in monetary policy was apparently targeted at the cooling job market; the proxy being the effort to moderate inflation.

The full impact of this cut on the commercial real estate market may not be realized for several quarters, but the immediate effects appear to fall in two major categories: 1) a reduction in carrying costs; 2) a psychological boost to prospective buyers, driving an increase in overall transaction volume.

To the former point, the Fund is currently financed with approximately $36.9MM in floating rate debt. The 75bps reduction represents an annual reduction of roughly $282,441 in carrying costs, or 1.13% return over capital allocated to these transactions. While we intentionally place floating rate debt for recapitalization or sale purposes so as not to be tied to prepayments and/or yield maintenance, the savings are additive to the overall portfolio performance.

Moreover, the perception of both transacting and investing in the CRE market appears to be shifting. Whereas transactions slowed beginning in 2022, thanks to high borrowing costs and a broadly more conservative lending environment, the recent reduction is spurring an increased interest from real asset operators.

Anecdotally, our firm has already seen a notable up-tick in deal flow over the past six weeks – both on the acquisition and sales side – compared to months prior. We anticipate this trend to continue, as access to capital becomes increasingly more fluid and borrowing costs trend downwards (CME FedWatch predicts an 82.3% probability of another 25bps drop at the December FOMC meeting, and an 88.4% probability of another cut of at least 25bps in January).

Furthermore, movement in the fixed income markets is likely to impact cap rates, transaction pricing, and valuation. While the correlation between cap rates and interest rates is more nuanced, the two metrics generally move in tandem. Higher interest rates over the past 24 months have pushed cap rates up across all asset classes, including multifamily real estate. While we are cap rate agnostic on acquisitions (often we purchase at negative caps), our exit modelling is affected by cap rate expansion or compression. The aforementioned bodes well for Fund I, as we will be selling into a market that likely will see cap rates compressed, resulting in a lift in overall Fund portfolio values.

In future quarters, as the CRE market experiences the real-time impact of cooling rates, we should see a reduction in cap rates across most real asset classes.

ELECTION AFTERMATH

Tempering this positive market outlook is the uncertainty of a new administration. Economists are divided on the long-term impacts of a second Trump presidency and its policies, but our view follows those that believe the short term impact of the President-elect's broad tariffs, if implemented, will drive inflation and unemployment up in the near-term. Other proposed policies, including the extension of the Tax Cuts & Jobs Act of 2017, have further potential to hasten economic growth, drive up inflation, and increase the budget deficit – which, in turn, may result in higher Treasury yields.

Another reason we see caution is the slow rate at which banks are originating CRE loans. CRE originations grew moderately in Q2 – up 11% from Q1 according to TREPP – but were still well below pre-pandemic levels. Compared to 2019, multifamily originations are still down by 61%. With banks bearish on CRE, more capital is being sourced from CMBS and private lenders. Banks have historically been our chief target for debt financing, given their low spreads and flexibility with prepayment, which is beneficial for short-term borrowers such as COFI. We are optimistic that the reduction in rates and stabilization of CRE values will prompt banks to loosen lending standards.

Source: Oxford Economics and Wells Fargo Economics

UNDERWRITING SHIFTS

With this mixed bag of economic drivers, we remain conservative in our underwriting, to ensure deal fundamentals of all new acquisitions. At present, we are underwriting the financing of all new deals at SOFR + 300bps (today ~7.64%), with no additional cuts to the index, modeled. Of course, any reductions in rate will boost cash flows (as noted above), but this strategy ensures that modelled leverage is conservatively priced, and any positive spread in financing costs are additive to a transaction, but not the primary drivers of deal economics or financial engineering.

Further to this point, the standard exit cap rate is modeled at 6.5-7%, unless sales comps from the subject property's submarket can justify higher realizable values. In any regard, we never underwrite sales below a 6% cap rate out of an abundance of caution.

STAY IN TOUCH:

Check out our website, follow us on LinkedIn or send us a note! For investment inquiries, please reach out to the email below. We would love to hear from you.

www.clearinvestgroup.com

www.linkedin.com/company/clear-investment-group/

ir@clearinvestgroup.com