2024 Annual Letter

Concord Companies

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February 18, 2025

"Establishing Partnerships Today to Ensure Prosperity Tomorrow"

Dear Valued Clients,

For many real estate investment professionals, 2024 was a turbulent year, characterized by fiscal hardship and forced reductions in portfolio size. For the fortunate ones, it was a historically uneventful year. Although I have at times been frustrated with the lack of activity, I am grateful that for Concord it has been more of an uneventful year than a destructive one.

The widespread once-in-a-generation buying opportunity that we've been waiting for over the past 24 months has not yet materialized. Transaction volume has been remarkably slow, and for the most part, the deals that have come to market have not been obvious bargains.

Seller capitulation has been delayed due to an abundance of fixed income capital supporting refinancing's, supplemental loans, and recapitalizations. Capital allocators who recently invested in common equity for proforma returns in the 12-18% range—returns which in many cases did not materialize—are now quite satisfied taking first mortgage, mezzanine, and preferred equity positions for contractually guaranteed returns in the 10-16% range. This shadow capital flow has propped up overbought investments—my assessment is that most multifamily assets purchased from 2020 to 2022 and most office assets purchased at any point in time are underwater today—and prevented normal sales volume from materializing.

Throughout the year, we've bid selectively on investment opportunities that have provided unique value propositions, while investing substantial resources in the growth of our service businesses. We've implemented new technologies and remodeled substantial portions of our organization to further build our moat as a first-class real estate operator. The following pages will provide more detailed updates on our ongoing activities in the investment, lending, property management, leasing, and construction arenas.

Our entire business exists for our partners and clients, so to those of you reading, I want to say thank you. On behalf of the entire Concord Companies team, I wish you and your family a healthy and prosperous new year.

Best Regards,

Reuben S Robin
Chief Executive Officer
Founding Principal

OVERVIEW | 2024

In this year's Annual Letter, we reflect on the milestones achieved by Concord Companies over the past year while highlighting key trends that we've observed in the market. This letter includes sections for each of our major business lines, before wrapping up with some key ideas that we believe will define the real estate investment landscape in 2025.

I | INVESTMENTS

A mismatch between strong property-level fundamentals and soft capital markets demand has created a uniquely challenging environment for deal-making.

II | PROPERTY MANAGEMENT

Property managers have pivoted from aggressive revenue growth toward a more defensive position, with the focus centering on protecting occupancy and mitigating expense growth.

III | CONSTRUCTION

With residential absorption rates holding historic highs in both the for-rent and for-sale residential categories, the demand for new construction remains healthy.

I | INVESTMENTS

With such a large percentage of commercial real estate owners either unable or unwilling to sell at anything close to today's market prices, transaction velocity has slowed to a crawl. As the size of the market has dwindled, valuations for the broadly desired product types (i.e. multifamily, industrial, essential retail, manufactured housing, and self-storage) have been propped up by an increasingly small cohort of ultra-aggressive buyers, a trend that exemplifies the economic concept of the downward sloping demand curve.

While the flow of attractively valued assets with strong underlying fundamentals hasn't materialized to the extent that we expected heading into this down-cycle, we have discovered some degree of opportunity at the margin, in deals that either have a sufficient level of complexity to dissuade many of the more aggressive buyers from participating, and in niches that have largely fallen out of favor with the buyer pool.

Concord Capital Partners underwrote just shy of $3 Billion in assets over the course of the last twelve months, and we've activated numerous channels, including broker relationships and direct-to-seller connections, to source acquisitions. As we enter 2025, we remain fully engaged in the marketplace and will continue to bid on assets that we believe present compelling value propositions.

The lull in transaction volume has created an opening for us to focus a large portion of our collective effort on aggressively managing existing assets and further building out our platform's capabilities. Our most recent acquisition, Vista Azul Apartments (acquired in January of 2024), generated net operating income this year within 1.5% of the underwritten proforma value.

We are currently preparing to roll out Juniper Square, the industry-leading investment management software suite, across our full portfolio. Juniper Square provides clients with an interactive, comprehensive view of their investments with secure documentation access. Clients will be able to easily manage distributions, access tax documents, and view quarterly reports through the portal. The subscription process for new investments will likewise be streamlined. This transition is expected to meaningfully improve the investment experience for our private and institutional partners alike.

We're strong believers in the value of multifamily real estate as an investment strategy in today's market. The asset class has the capability to satisfy a wide variety of portfolio objectives along the entire risk/reward continuum. We continue to invest with discipline, avoiding widely marketed examples of down-the-fairway deals which tend to bid up by overly aggressive investors, focusing instead on unique situations and assets that we really love. Absorption rates are the highest that we've ever seen in many of the major markets, a fact which will likely underpin the next round of rent growth as the supply pipelines dry up.

Although we didn't see substantial transaction volume in 2024, we currently have a relatively robust pipeline, with some extremely interesting projects on the horizon. It is too early to say for certain, but it certainly feels like activity in the market has picked up just over the last several weeks. We are seeing interesting deals on a daily basis directly from sellers, lenders, and brokers alike.

With cutting edge technology systems and world-class asset management capabilities, Concord is poised to capitalize on whatever opportunities the coming year presents. We are happy to see that market valuations have retreated to levels more in-line with historical norms as transaction volume has slowly begun to pick up. Please reach out to inquire about particular investment opportunities.

F2, our private real estate lending platform, had an exceptional year in 2024, marked by growth, stability, and significant milestones. Building on the disciplined foundation we've established; we navigated an ever-evolving market landscape with strategic precision and unwavering commitment to excellence.

This year, we achieved a remarkable milestone with the closing of our largest loan to date—a $17.5 million direct senior loan secured by a prime property in Long Beach. This landmark transaction not only reflects the trust and confidence our partners place in F2 but also underscores our ability to execute in complex, high-stakes situations. Additionally, our portfolio remained robust throughout 2024, with numerous successful payoffs and continued strong performance across our underlying collateral assets. This stability is a testament to our rigorous due diligence and proactive management strategies.

Beyond our financial achievements, 2024 was a year of meaningful connections and growth for the F2 platform. We participated in leading industry conferences, traveled extensively, and cultivated relationships with new capital partners and borrowers. These engagements have broadened our network, deepened our understanding of emerging trends, and positioned F2 to capitalize on future opportunities.

As we look ahead to 2025, F2 remains committed to the principles that define us: prudent underwriting, conservative portfolio management, and transparent communication. We are excited to refine our strategies further, embrace innovation, and continue delivering exceptional results for our investors and stakeholders.

We enter the new year with confidence and a clear vision, prepared to build on our momentum and seize the opportunities that lie ahead.

II | PROPERTY MANAGEMENT

Concord Property Management continued along a path of steady growth in 2024. The team onboarded a number high profile assets, including the iconic Grand Central Apartments in Downtown Los Angeles, and a 1,500-bed student housing portfolio serving the University of Southern California. We are proud to say that as the platform has expanded, the quality of service has remained constant—the company saw 100% client retention throughout the year.

With rent growth having largely subsided in the markets which we serve, our team has focused on maximizing net operating incomes through the active mitigation of economic vacancy loss and aggressive expense control. At year-end, our portfolio-wide occupancy was approximately 97%, with credit loss running below 3%.

We've continued to make incremental refinements to our workflows and organizational structure to control growth in labor costs, while taking several measures to assist our owners in mitigating "non-controllable" expense lines. We've worked with our insurance brokers more actively than ever to solicit competitive quotes in a broken marketplace and have contracted with third-party consultants to appeal property tax assessments based on reduced market values.

Insurance has become a notable headache and risk center for owners. Although we've anecdotally seen slight improvements in pricing for several markets, the overall story remains one of steadily worsening conditions. California, due in part to a uniquely burdensome regulatory regime, has seen liquidity become extremely shallow, with premiums increasing dramatically. Even those markets that have historically not been particularly costly to insure, such as Arizona, have seen substantial increases. Property taxes represented one area of relief for many owners in 2024. With values not currently experiencing substantial growth and tax bases in many major markets having already increased meaningfully over the past five years, the rate of increases has generally slowed to a crawl, and in a few cases, turned negative. In some states, there is an opportunity today for owners who purchased assets closer to peak market values to appeal their assessments.

One of our more successful operational initiatives in 2024 was the introduction of the Legal Liaison, a full-time role within our main office dedicated to managing delinquencies across our residential portfolio. With ever changing local regulations, as well as federal regulations implemented through Fannie Mae and Freddie Mac policy, evictions have become difficult. Having a highly specialized professional driving communications with non-paying residents and counsel has proven to be a great benefit.

Concord Leasing has implemented technology to automate the answering of incoming inquiries and the scheduling of tours, which has freed up agents to focus on delivering high-touch personalized service to qualified leads. At the same time, we've slightly spending slightly on online marketing to drive more leads to properties with vacancies. When the leasing market was hotter, we found that advertising and marketing beyond the bare minimum was largely not a necessity, however the market-wide pullback in leasing velocity has forced a more active approach to lead generation.

At Concord, we have always viewed ourselves as operators first. Our philosophy is that strong management is the most reliable driver of alpha in the real estate asset class. Our continued growth, high client retention, and industry-leading portfolio performance metrics are testaments to the strength of our team and approach.

III | CONSTRUCTION

In 2024, **Concord Construction** focused on enhancing our Concord portfolio assets while continuing to expand its third-party construction management and general contracting service lines, with a focus on commercial clients.

The company completed a wide range of projects, from the ground-up construction of a 7,000 Sq Ft luxury home in Sherman Oaks to the build-out of multiple high-end retail spaces in West Hollywood, the construction of numerous ADUs throughout Los Angeles, and the renovation of apartment units across portfolio assets. The variety of projects completed and underway is a testament to the company's breadth of expertise and growing popularity with clients.

SunTrust Restoration, a venture within our Concord Construction division specializing in disaster remediation services, became a successful business line within a year of its launch. A standout case study in the company's capabilities was the rapid management of flood damages at the Luxe Hotel on Sunset Boulevard, a major project in which we effectively addressed widespread storm damages while minimizing operational disruptions. Bringing disaster remediation services in-house has substantially benefited Concord portfolio assets, yielding substantial cost savings. Moving into 2025, SunTrust aims to enhance its operational capacity and further solidify its role in the remediation and restoration sector.

FORWARD OUTLOOK | 2025

A confluence of factors, including volatile interest rates and inflationary concerns, have made market movements more difficult than ever to forecast in recent years. With that said, there are a few trends that appear to already be underway, albeit in the early innings, that will likely color the investor's experience in 2025. Here are five major themes that we are tracking.

1

Return of Institutional Capital to Office

Several major real estate private equity leaders have recently voiced an interest in moving back into office acquisitions. After four years that saw nearly zero provision of professionally-managed capital to the asset class, 2025 might represent a turning point. Institutional capital often appears to adhere to a strong heard mentality, and the narrative of office as a 'contrarian play' appears to be taking hold.

2

Multifamily Rental Market Strength

Occupancy rates and rent growth softened dramatically in most markets beginning in 2023, as large volumes of new supply were delivered. Absorption rates have remained strong however, and the deluge of deliveries is turning into a trickle, as development costs have ballooned. For these reasons, 2025 will likely be the beginning of a transition back toward supply-constrained conditions.

3

Resurgence of the Coastal Majors

Investors over the last several years have favored emerging Sunbelt markets over the traditional power centers such as New York, San Francisco, Los Angeles, and Chicago, largely due to regulatory and tax concerns. While those risks are real, the shunning of what were long considered the 'Tier 1' markets may have been overplayed. Strong demand drivers and continued tightness in rental markets may lead to a resurgence of investor interest.

4

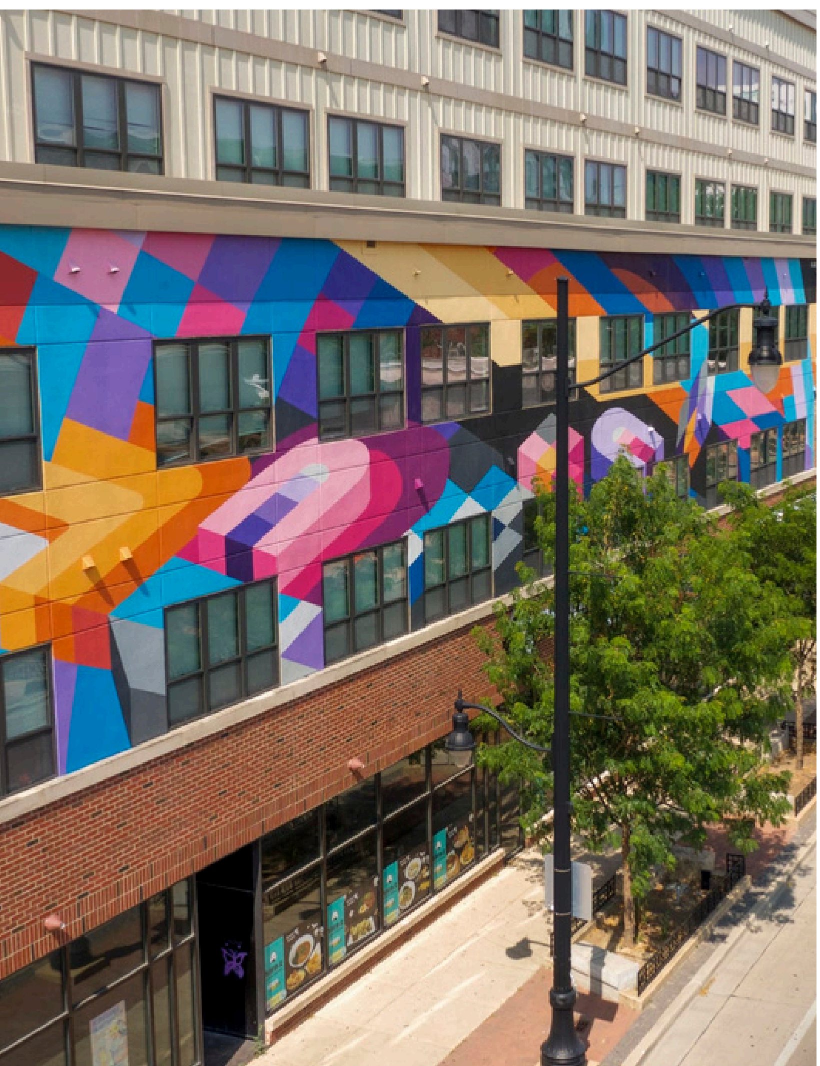
Discounted Sales

Many owners effectively do not have the option to sell today, as the strike prices are at or below the loan balances, leading to some interesting dynamics in the transaction markets. Further, lenders are realizing the extent of their impairments, and recognizing the fact that recovery may not occur in the immediate future. The longer that the downturn persists, the more that we see lenders moving past 'blend and extend' strategies to realize losses.

5

Slight Improvement in Transaction Volume

Deal activity has remained sluggish throughout 2024, with high interest rates, bid-ask spreads, and a general sense of uncertainty keeping transaction volume well below peak levels. While this year is unlikely to bring a full return to the breakneck pace of 2021/2022, improving price discovery, stabilizing rates, and pent-up capital demand could lead to a moderate uptick in activity. Expect a market that's still cautious but moving with slightly more velocity.



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