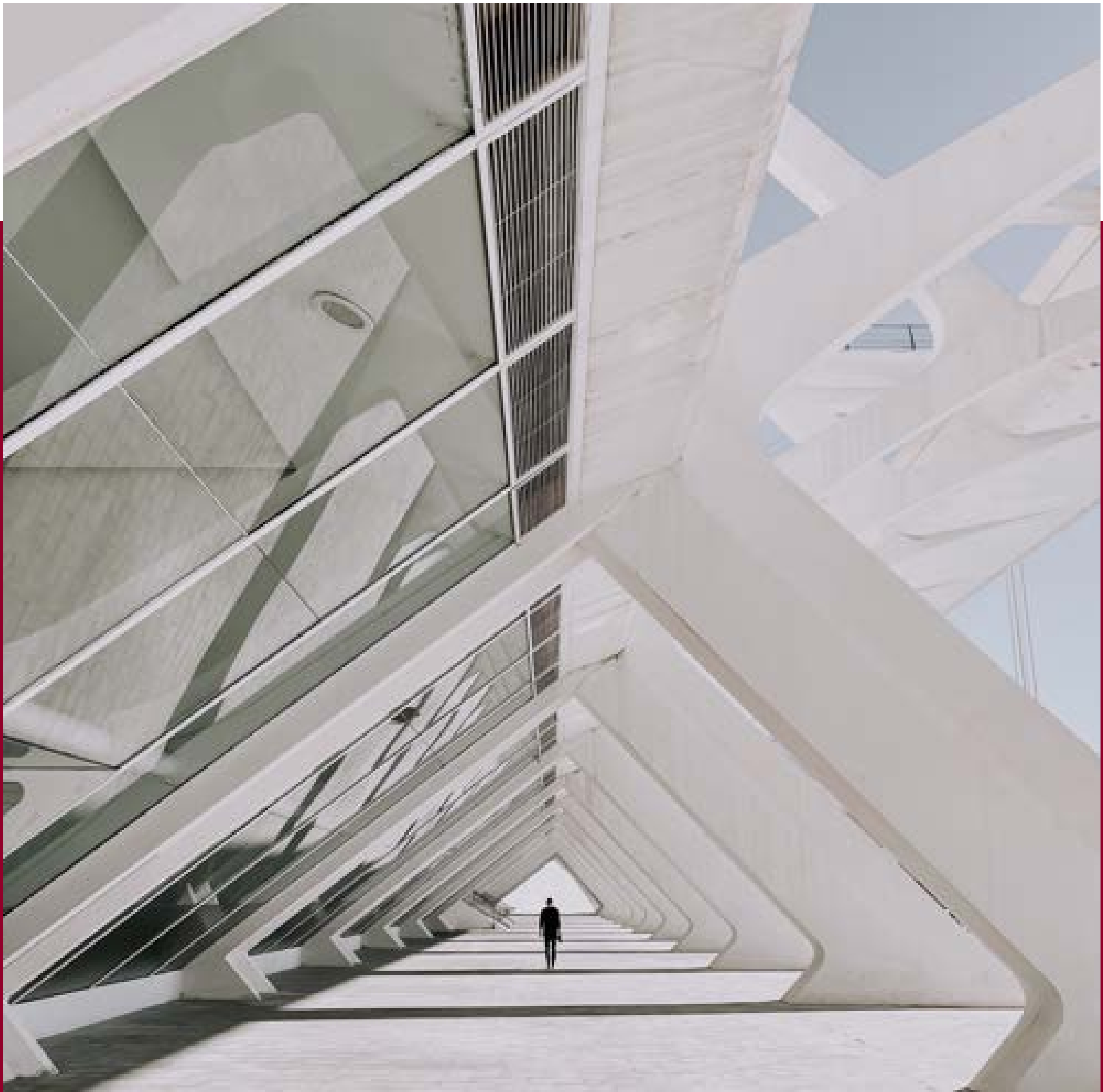
WLA INVESTMENTS

Q2 2025

CRE MARKET OUTLOOK & PORTFOLIO PERSPECTIVE



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CRE MARKET BEGINS TO STABILIZE AS VALUATION GAPS SHRINK

After a prolonged period of uncertainty and stalled deal-making, the commercial real estate (CRE) sector appears to be regaining some stability. For several years, mismatched pricing expectations between buyers and sellers created friction, slowing down transactions and disrupting valuation clarity. This disconnect often left assets in limbo, with few deals being completed and pricing benchmarks difficult to establish.

Valuing CRE has always been a challenge, given the infrequency of trades and the uniqueness of each asset. However, recent market indicators suggest that pricing alignment is gradually improving. The disparity between property sale prices and appraised values has narrowed meaningfully in recent months. Sale prices are now within 4–5% of broader valuation indices, a significant improvement from the 10% gap reported just a quarter prior. This shift has sparked cautious optimism that pricing stability may be returning to the sector.

Despite this progress, transaction activity remains subdued—well below seasonal norms. Limited deal volume makes it harder to draw broad conclusions about market trends, as fewer data points may not fully represent the larger landscape.

Among the different asset classes, industrial real estate continues to outperform. Prices in this sector remain close to their recent highs, supported by strong income performance. Cap rates on appraisals rose modestly, while actual sales reflected slightly compressed yields—indicating solid investor confidence and suggesting that industrial properties may have already passed their pricing trough.

The office sector tells a more complex story. While cap rates have hovered around 6%, ongoing vacancies and weaker income have weighed on performance. However, premium assets—particularly those in major metros—have shown signs of resilience. In some cases, owners are choosing to retain their holdings rather than divest at a discount, hinting at a longer-term strategic shift as leasing momentum slowly builds in select urban markets.

Multifamily properties have also demonstrated relative strength. Cap rates remain in the mid-4% range, with limited new development on the horizon. Vacancy rates are expected to tighten over the next few years, and rent growth forecasts remain strong, with annual increases potentially reaching 5% by the end of the decade. This outlook supports healthy projected returns, especially for unlevered investments.

Retail continues to be a mixed bag. Overall stability has returned to the sector, but deal data reveals inconsistency. Notably, grocery-anchored centers have influenced recent cap rate shifts, pushing the average up from 5% earlier in the year to 6.5% in prior months. Nonetheless, steady income growth suggests a solid foundation for continued performance.

As the gap between buyer and seller expectations narrows and fundamentals improve across key segments, there are early signs that the market may be entering a new phase of price discovery and gradual recovery. **Source: www.globest.com*

MULTI-FAMILY SECTOR SHOWS RESILIENCE AMID MARKET VOLATILITY

The multifamily real estate sector continued to demonstrate stability in the first half of 2025, with tenant demand remaining strong despite a steady influx of new units. Although a large number of completions are still hitting the market, a sharp drop in new construction starts is fueling optimism that rent growth could accelerate once the current wave of supply is absorbed.

The broader economy has shown surprising durability in the face of shifting policies and economic headwinds. However, uncertainty persists due to factors such as rising tariffs, market volatility, and mixed policy signals. For the multifamily sector in particular, interest rates remain a key concern. With the economy balancing between slower growth and inflationary pressures, a meaningful drop in rates seems unlikely in the near term.

Nationwide, asking rents have been growing at a modest pace—around 1% annually. While markets in the Northeast and Midwest are generally seeing positive momentum, many high-growth Sun Belt metros are experiencing slight rent declines, largely due to oversupply. These regional trends are expected to continue into the second half of the year.

After a record year of completions in 2024, the development pipeline is slowing. New project starts have fallen by roughly 50%, although more than half a million units are still scheduled for delivery in 2025. The full effects of this construction slowdown will likely be felt in 2026 and beyond.

Investor activity remains sluggish, even though ample capital is available. Many property owners are opting to hold off on selling, betting on future interest rate reductions to improve pricing. The 10-year Treasury yield continues to hover in the mid-4% range, while the Federal Reserve maintains a cautious stance.

On the financing side, lenders remain active, with CMBS issuance approaching levels not seen since before the financial crisis. Banks, insurance companies, government-sponsored enterprises, and private debt funds are all providing liquidity. While loan delinquencies have risen, the presence of significant rescue capital is helping borrowers restructure maturing debt.

Policy discussions are playing an increasingly important role in shaping the industry's future. Recent legislation has protected several key tax incentives for real estate, and funding has been expanded for programs like Low-Income Housing Tax Credits and Opportunity Zones. However, there is growing concern about the potential for cutbacks in renter assistance programs as budget debates continue.
** Source: Yardi by Matrix*

LOS ANGELES MULTIFAMILY MARKET UPDATE – JUNE 2025

Steady Rent Growth, Strong Occupancy

The Los Angeles multifamily market entered the second quarter of 2025 with a measured sense of stability. Asking rents in the metro area posted a 0.2% increase over the three months ending in April, matching the national average and signaling continued recovery after a modest dip late last year. The average monthly rent now stands at $2,652, with annual growth reaching 1.1%, slightly ahead of the U.S. pace.

Despite ongoing deliveries, occupancy in stabilized apartment communities remained robust. As of March, occupancy in L.A. stood at 96%, outperforming the national average of 94.4%. Both luxury and workforce housing segments posted slight improvements, suggesting that demand remains healthy across asset classes. Lifestyle-oriented properties reached 95.4% occupancy, while more affordable, necessity-driven rentals came in at 96.4%.

Job Market Shows Signs of Softening

Labor market trends in Los Angeles present a mixed picture. Employment growth through February was modest at 0.4%, lagging the national rate of 0.9%. The region's unemployment rate climbed to 4.8% in March, slightly above the U.S. figure. Most industries reported employment declines over the previous year, with the exception of education and healthcare—which added approximately 48,000 jobs—and government, which saw gains of over 9,000 positions.

To support recovery and drive future growth, California has announced a new initiative that will channel over $245 million into targeted industries and infrastructure projects.

Development Pipeline Moderating

As of April, approximately 29,500 units remained under construction across the L.A. metro. However, only about 2,900 new units were completed in the first four months of the year, equating to just 0.6% of existing stock. This slower pace of deliveries suggests a more measured approach by developers amid shifting market conditions. Forecasts project around 11,000 units will be delivered in 2025, aligning with the region's annual average since 2017.

Rent Trends by Segment and Submarket

Rent performance varied by property class. Rents in workforce-oriented properties held steady at $2,284 over the three-month trailing period, while higher-end lifestyle units experienced a 0.4% increase to $3,270. Although luxury rents had previously declined, they are now regaining momentum.

Several neighborhoods and suburban markets stood out for strong annual rent growth. Inglewood led the pack with a 14.8% increase to $2,359. Other high performers included Silverlake (up 11.8% to $2,588), Thousand Oaks (up 5.1% to $2,944), Gardena (up 4.6% to $1,863), and Glendale (up 4.4% to $3,009).
** Source: Yardi by Matrix*

SAN DIEGO MULTIFAMILY MARKET UPDATE – JUNE 2025

Rent Growth Sluggish, Occupancy Remains Solid

The multifamily market in San Diego began the leasing season with signs of steadiness, though rent growth has been limited. Average asking rents increased by just 0.1% year-over-year through April, reaching $2,741. While this falls short of national trends, it reflects ongoing demand in a market still finding its post-pandemic footing.

Occupancy rates in stabilized properties remain strong, climbing slightly to 96.2% as of March. This performance continues to outpace the national average, signaling that renter demand remains healthy, even as rent growth has flattened.

Employment Growth Modest, Yet Resilient

Job creation in San Diego has continued at a modest pace, growing by 0.4% as of February—below the national rate of 0.9%. Employment gains were concentrated in a few key industries, including healthcare, education, government, and hospitality. Meanwhile, sectors such as professional services and manufacturing experienced declines. The metro's unemployment rate stood at 4.0% in April, slightly lower than the national figure and outperforming other major California cities.

Construction Continues, But at a Measured Pace

Approximately 700 apartment units were delivered during the first four months of the year, with over 12,000 additional units under construction. While developers remain active, the pace of new completions has slowed, reflecting a more cautious approach given rising costs and evolving market dynamics.

Rent Trends Vary by Asset Class

Rent performance has been mixed across property types. The Renter-by-Necessity (RBN) segment held steady at an average of $2,392 on a trailing three-month basis, while Lifestyle-oriented properties averaged $3,186. The RBN category has shown greater resilience with fewer declines over the past two years, while Lifestyle units have faced more pronounced fluctuations.

One-third of San Diego's tracked submarkets posted rent declines year-over-year through April, particularly in higher-cost areas. However, neighborhoods with more active development pipelines have experienced modest rent increases, suggesting some underlying demand in areas with new supply.

Market Outlook

San Diego continues to be defined by high occupancy and modest rent gains. Job growth, while not robust, remains steady enough to support stable demand for housing. A combination of cautious development, ongoing migration recovery, and resilient renter demand is likely to shape the multifamily outlook through the remainder of the year.

Though headwinds remain—including elevated construction costs and tighter capital markets—San Diego's fundamentals continue to demonstrate strength in occupancy, which provides a solid foundation for future rent growth once broader economic conditions improve.

Economic Outlook – Summer 2025

The U.S. economy continues to show resilience despite lingering uncertainty in both domestic and international policy. While market participants await greater clarity around trade negotiations and policy direction, core economic indicators like job creation, inflation, and consumer spending have held steady. Interest rates have remained flat rather than falling, tempering some expectations for stronger real estate momentum this year.

That said, the pace of economic expansion appears to be cooling. After a slow start to the year, second-quarter growth is projected to bounce back—largely driven by strong consumer activity. However, full-year forecasts have been revised downward, with most projections now expecting modest growth around 1.5%. Contributing to this slowdown are trade policy changes, reduced immigration, and delayed business investment amid policy unpredictability.

Under normal conditions, slower growth would prompt the Federal Reserve to consider cutting rates to spur economic activity. But with inflation still a consideration and the long-term impact of current policies not yet fully visible, the Fed is expected to remain cautious. As of May, inflation is tracking close to the central bank's target, but tariff impacts could pressure prices higher later in the year.

The labor market remains a bright spot. The U.S. added 139,000 jobs in May and over 700,000 jobs year-to-date. The unemployment rate, while slightly up, remains historically low at 4.2%. However, a decline in both new hires and voluntary quits suggests growing hesitation among workers and employers alike—possibly signaling a shift in economic confidence.

Consumer spending has continued to grow, but signs of strain are emerging. Delinquency rates have risen, reaching levels not seen since the post-financial crisis period. While student loan stress is leading the way—particularly in the wake of withdrawn forgiveness programs—broader consumer debt stress hints at financial pressure, especially in lower-income households.

On a sectoral level, employment growth has been most concentrated in government, healthcare, and hospitality—sectors generally less sensitive to economic fluctuations. However, broader job gains remain modest outside these areas.

Policymakers are betting that deregulation and falling energy prices will offset some of the drag from tighter labor markets and trade disruption. The reduced flow of immigration, however, poses a challenge—especially as the nation grapples with a wave of retirements and persistent labor shortages. Without the usual influx of new workers, productivity growth will need to carry more of the economic load.

The business community continues to be hampered by unpredictability. Trade activity—especially with key manufacturing partners—has been disrupted by inconsistent tariff policies, complicating long-term planning. A patchwork of new federal spending priorities and agency cutbacks has further contributed to this uncertainty, raising concerns about long-term impacts on innovation, workforce development, and the ability to meet emerging challenges like public health and disaster response.

While a formal recession isn't the consensus forecast, the outlook is clouded by a higher likelihood of slower growth and increased volatility. The coming months will likely hinge on policy clarity, consumer resilience, and how businesses adapt to an evolving economic landscape. ** Source: Yardi by Matrix*

LEGISLATIVE UPDATE: KEY TAX ADVANTAGES PRESERVED FOR REAL ESTATE INVESTORS

Real Estate Tax Breaks Remain Intact Under New Legislation

A newly enacted federal legislative package introduces sweeping fiscal changes that carry significant benefits for commercial real estate investors. While introducing some new provisions, the legislation largely retains many of the tax advantages that have supported real estate investment over the past several years. These updates are expected to enhance after-tax returns, improve deal viability, and support continued development across the sector.

Enhanced Depreciation Benefits for CRE

One of the most impactful provisions for real estate investors is the return of full first-year depreciation on eligible assets. The law makes 100% bonus depreciation permanent, allowing investors to immediately deduct the full cost of qualifying property in the year it is placed in service. Additionally, the Section 179 expensing limit was raised, increasing the immediate tax write-offs available for certain improvements. Together, these changes improve the economics of value-add and renovation projects, making more deals financially viable, particularly those that require significant capital improvements.

A new provision also provides targeted tax incentives for industrial and manufacturing properties, allowing full expensing of property used in domestic production if construction begins within a designated time frame. This could increase interest in development or repurposing of industrial assets in strategic locations.

Continued Tax Relief for Pass-Through Entities

The 20% deduction for qualified business income (QBI) has been made permanent. This offers long-term clarity and continued tax savings for investors earning income through partnerships, LLCs, and other pass-through structures. Importantly, the income thresholds at which the deduction phases out have been raised, allowing more investors to benefit fully from the deduction.

The estate and gift tax exemption has also increased, providing additional opportunities for tax-efficient wealth transfer and estate planning. Starting in 2026, individuals can exclude up to $15 million, or $30 million for married couples, from taxable estates — a significant increase over prior levels.

1031 Exchanges and Carried Interest Preserved

Two widely used tax strategies in real estate remain intact. The ability to defer gains through like-kind exchanges continues, preserving a key mechanism for reinvestment and portfolio growth. Additionally, the current treatment of carried interest remains unchanged, preserving long-term capital gains rates on eligible performance-based income.

Opportunity Zones Made Permanent

In a move to reduce investor uncertainty and promote longer-term planning, the Opportunity Zone program has been made permanent. Designations will now follow 10-year cycles, offering recurring opportunities for new geographic areas to qualify. Investors can continue to defer capital gains by investing in qualified Opportunity Zone funds and may benefit from stepped-up basis increases depending on holding periods — including the potential for tax-free gains on investments held beyond a decade.

Increased SALT Deduction a Win for High-Tax States

The cap on the State and Local Tax (SALT) deduction has been lifted significantly, rising from $10,000 to $40,000 starting in 2025, with a phase-out at higher income levels. This change provides meaningful tax relief for property owners in states with higher tax burdens, helping to improve overall after-tax cash flow. Additionally, the deductibility of state-level pass-through entity (PTE) taxes is preserved, offering further benefit to those investing through flow-through structures.

Bottom Line for Investors

This legislation solidifies many of the tax advantages that have been central to real estate investment strategy. By locking in bonus depreciation, preserving like-kind exchanges, and extending tax relief for pass-through income, the bill provides clarity and incentive for continued investment. Investors in high-cost or high-tax regions also stand to benefit from expanded deductions and favorable estate planning thresholds. ** Source: IPA: Institutional Property Advisors*

PORTFOLIO PERSPECTIVE
2Q 2025

AIRPORT PARK SALT LAKE CITY (APS) 2008

Distributions will continue to accrue until the remaining two buildings are sold. We were hopeful that TSA would expand their premises in conjuctuction with the Salt Lake City Airport Expansion ($5.1 billion project began in 2014 and is scheduled for completion in 2026). However, the Federal Government DOGE project has put any TSA expansion plans on hold indefinitely. The property is 60% occupied with break-even operations. The commercial office market remains severely constrained due to "work from home" flexible work schedules by most employers. This has resulted in much lower office occupancy than historical averages. The buildings continue to be marketed for lease and/or sale.

B STREET APARTMENTS SAN DIEGO (BASD) 2018

This property is paying Note Holders 10% interest. Distributions will continue to accrue until the property is sold. We have seen renewed interest after adjusting the asking price and continue to market the building for sale. While overall market activity has slowed this year, we remain one of the few newly developed small-scale projects available.

BROADWAY APARTMENTS SAN DIEGO (BDSD) 2018

Distributions will continue to accrue until the property is sold. We continue to market the site for sale. However, the high cost of construction, insurance, and interest rates continue to outweigh the benefit of building. The "for-sale market" is currently very slow, and land is even slower, as most potential buyers are developers with high cost structures. At this time, we don’t see a foreseeable exit, as costs are not expected to decrease and carry costs are rising. As a result, we’re targeting buyers who are comfortable banking land for the long term.

8TH AVENUE APAREMENTS SAN DIEGO (EASD) 2022

Distributions will continue to accrue until the property is sold. The property is now fully stabilized and ready to be marketed for sale. Given current market conditions, we anticipate listing it at a higher cap rate than originally projected.

GEORGIA APARTMENTS SAN DIEGO (GASD) 2018

Distributions will continue to accrue until the property is sold. We are actively marketing the site for sale. Due to persistently high costs related to construction, insurance, and interest rates, it no longer makes financial sense to build. Market activity is slow across the board, with land sales lagging even further. Most buyers are developers facing similar cost constraints. With no viable exit on the horizon, we are focusing on potential buyers who are willing to hold land long-

GOLDEN HILL APARTMENTS SAN DIEGO (GHSD) 2018

Distributions will continue to accrue until the property is sold. We continue to market the property for sale in light of ongoing high costs related to construction, insurance, and interest rates. The land market is exceptionally slow, and most prospective buyers are developers with similar financial challenges. Given no signs of cost relief, we are focusing efforts on buyers interested in long-term land holds.

HERSHEY INDUSTRIAL POMONA (HIPC) 2017

Distributions will continue to accrue until the property is sold. We are continuing to market the building for both lease and sale. Recently, we reduced the asking price to stimulate activity, though to date, no competing properties in the area have transacted this year. A national tenant previously interested in leasing has opted not to proceed, which has contributed to the current pause in momentum.

HILLCREST APARTMENTS SAN DIEGO (HASD) 2020

The property has been sold, and escrow closed on July 1, 2025. We are currently in the process of closing out the books, awaiting any final refunds or outstanding invoices from property management. We anticipate sending the sale distribution within the next 45–60 days.

PORTFOLIO PERSPECTIVE 2Q 2025

<u>JADE COURT SAN GABRIEL, LP (JCSG) 2020</u>
Development Property. Distributions will continue to accrue until construction is complete and the property is fully leased. Construction is progressing well overall, though minor delays have occurred due to LA County inspections. Phase 1 is complete, Phase 2 is 90% complete, Phase 3 is 70% complete, and Phase 4 is 55% complete. Leasing activity has been strong, and we continue to see solid demand for the newly renovated units.

<u>MONTECITO APARTMENTS SAN DIEGO (MCSD) 2018</u>
Distributions will continue to accrue until the property is sold. We continue to market the property for sale, as the economics of new construction no longer make sense due to high costs for labor, materials, insurance, and financing. Market conditions remain sluggish, with most buyers being other developers who share similar cost pressures. Since we do not foresee costs coming down, we are targeting land bankers who are taking a long-term approach.

<u>THE PALMS ON PARK SAN DIEGO, LP (PPSD) 2021</u>
Distributions will continue to accrue until the property is sold . We are now over 90% leased and have begun marketing the property for sale. Due to soft market conditions, we are offering it at a higher cap rate than originally anticipated. While there has been some early interest, we have not yet received any formal offers.

<u>SEARS DISTRIBUTION CENTER DENVER (SDCD) 2018</u>
Distributions will continue to accrue. Distributions will continue to accrue. The execution of the TFP Nutrition lease was delayed as the tenant faced some unforeseen delays in connection with the permitting of their pet food manufacturing plant (i.e., separate facility). We now expect TFP Nutrition to execute their lease in short order for 98,500 square feet in the northwest corner of the building. Their lease would commence in 2Q26 and TFP has the right to double their premises during the first 23 months of their term. Separately, we have come to an agreement with a third-party logistics (3PL) company that will be leasing between 100,000 and 350,000 square feet over the next 12-18 months commencing in August. Finally, Amprius Technologies (~775,000 square feet) continues to timely pay rent and expense reimbursements. Their stock price and market capitalization (~$800M) have hit recent highs, but the tenant remains on hold with their building improvements for the time being.

<u>WESTSIDE APARTMENTS SAN DIEGO (WASD) 2017</u>
This property is paying Note Holders 10% interest. Distributions will continue to accrue until the property is sold. We had the property on the market and recently identified a 1031 exchange buyer seeking a newer product. While the price is lower than originally anticipated due to today's high cap rate environment, the deal presents a viable exit in the current climate.

STAYING THE COURSE: MARKET UPDATE FROM WLA INVESTMENTS

Transaction activity across all asset types remains subdued, with cap rates having climbed 1–2% over the past few years. Elevated construction and insurance costs continue to place pressure on both development and exit strategies. While capital is more accessible than it was 12 months ago, private lenders remain the most dependable financing source—albeit at higher costs, with rates in the 9–10% range plus points. These conditions continue to challenge deal underwriting and timing.

Strategic Focus Amid Market Headwinds

Despite the ongoing volatility, our team remains hands-on and deeply engaged with each asset in the portfolio. Our focus is on preserving value, optimizing operations, and positioning properties for successful outcomes as market conditions evolve. In a few cases, market realities have significantly outpaced original projections. For those investments, we've determined that a well-timed and strategic exit is the most responsible course of action. While difficult, these decisions are made thoughtfully—with the goal of protecting remaining capital and redeploying it into stronger-performing opportunities.

Looking Ahead

This cycle has tested the commercial real estate industry—but it has also reinforced the importance of disciplined execution, active management, and long-term thinking. Many of our properties are well-occupied and continue to receive buyer interest, even in a slower transaction climate. We remain confident in our strategy and are committed to seeking opportunities that align with our investment principles.

We sincerely appreciate your trust and continued partnership. Should you have any questions about your investment or a specific property, we welcome the opportunity to connect. Thank you for being part of our journey—we value your support as we navigate this market together.

WLA NEWS

WLA Prefunding and Investment Priority

Interested in a Prefunding Account?
This establishes investment priority. Interest will accrue on prefunding balances as earned by the Manager's Money Market account where funds are held. These funds are personally guaranteed by WLA Investments Inc. and may be withdrawn at any time.

Prefunding establishes priority to invest in offerings as they become available. You will be provided with an offering prospectus (PPM), which will require your acceptance and verification of the amount to be committed. Your priority is contingent on availability in any specific investment but will continue for future offerings if funds are retained in the account. Realize that you have the right to withdraw funds at any time, however, your priority will be terminated in that case. We require a minimum deposit of $5000 to establish a Prefunding account.

Note: Prefunding is not a commitment to invest in a specific offering, and prefunding monies may be used for any of the following reasons including or excluding those properties for which you may have specified: contractual deposits, escrow extension fees, closing costs including but not limited to down payments, escrow fees and any other fees pertaining to the acquisition of any property.

WLA Investments

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