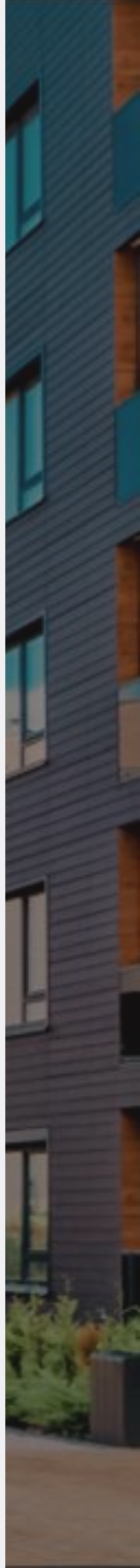# TREZ CAPITAL
PRIVATE REAL ESTATE FUND

2023
Year-in-Review

Letter to Investors

For Trez Capital Private Real Estate Fund Trust (TPREF)[1], 2023 served as a period for exhibiting resilience whilst positioning for long term growth. This recap delves into the overall performance, strategic decisions, and market dynamics that have shaped the TPREF portfolio throughout the year. Additionally, it outlines our forward-looking approach as we enter 2024, highlighting the opportunities and challenges that lie ahead.

Market Overview

In 2023, the real estate market experienced fluctuations influenced by a range of factors, including interest rate movements, valuation/price discovery, nearly no new construction starts and an evolving debt and financing landscape. Despite these challenges, the fund successfully navigated this environment by focusing on current residential development projects, as well as further lease-up and improvements in rental tone across our storage portfolio and a meticulous risk management approach. As we reflect on the market conditions that defined the past year, we gain valuable insights to inform potential future growth and performance.

Fund Performance

TPREF achieved an overall return of (0.80%)[2] in 2023. This report will provide a detailed breakdown of the fund's composition and performance metrics, emphasizing our commitment to delivering value to our stakeholders.

Strategic Initiatives

Throughout 2023, the fund implemented strategic initiatives aimed at enhancing the overall quality and resilience of the portfolio. From targeted development projects to maximizing value creation on our existing assets, each initiative was carefully aligned with our long-term investment objectives. By prioritizing our focus on the U.S. Sunbelt, residential asset classes and development strategies, we have positioned the fund for sustained growth and upside in the years to come.

This report also analyzes the potential opportunities for growth and innovation in 2024. From the increasing demand for single-family lots in the lot development sector to the rise of proptech solutions[3], we remain vigilant and adaptive to evolving market dynamics. We plan to leverage these trends to optimize the portfolio and capitalize on new avenues for value creation.

Outlook for 2024

In the final section of the report, we provide a forward-looking perspective on the real estate market and the fund's strategic priorities for 2024. For example, capitalizing on potential declines in U.S. treasuries to locking-in more favorable financing, repaying fund-level leveraging and strategic asset sales. Our outlook is shaped by a commitment to prudent decision-making, innovation, and sustained value creation for our investors.

As we navigate the intricate and evolving real estate landscape, we remain dedicated to achieving excellence and delivering optimal returns in the upcoming year.

[1]TPREF is best suited for clients with a long-term horizon, typically five years or more, given the nature of the asset class and fund terms. Please consult the Offering Memorandum for full details, TPREF is available in A, F and I Series.
[2]Based on F and I Series units.
[3]Proptech solutions integrates innovative AI and data technologies for investment management and real estate operating businesses.
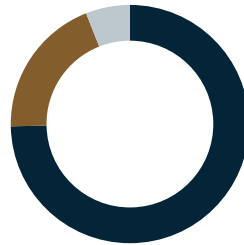
Fund Overview

Performance Drivers

U.S. SUNBELT MARKET SELECTION	+	RESIDENTIAL ASSET CLASS SELECTION	+	ALPHA-CREATING DEVELOPMENT STRATEGY

Portfolio Drivers

Geographical Region[1]

- Texas (27 assets) – 74.7% of equity
- Arizona (3 assets) – 19.3% of equity
- Georgia (1 assets) – 6.0% of equity

Asset Class[1]

- Multi-Family (5 assets) – 41.5% of equity
- Single-Family (4 assets) – 22.1% of equity
- Self-Storage (16 assets) – 21.2% of equity
- Lot Development (6 assets) – 15.2% of equity

Development

Development across the portfolio remains on-schedule and on-budget. TPREF's assets maintain valuations above cost, representing built-in development profit despite the turbulent market. Four of TPREF's five multi-family assets continue development progress as The Ovilla (Dallas, Texas) was the first to stabilize in October 2023; all five assets maintained strong valuations well above cost. TPREF holds one single-family and two self-storage assets that are in early development, with the remainder already stabilized. The lot development assets continue progress given their long-term investment horizons.

2024 Highlights

Strategy

TPREF is positioned in the fastest growing U.S. markets (Sunbelt states) across operationally strong assets in the most attractive sectors (primarily residential) with strong valuations that include development profit.

2023 Performance

TPREF's net asset value (NAV) decreased slightly in 2023 as operational performance and accrued development progress were offset by rising capitalization rates (therefore lower asset valuations) and the impacts of higher interest rates on income.

Looking Ahead

Looking ahead, we expect many of TPREF's challenges to be remediated as market interest rates recover, asset performance continues to strengthen, and we continue investing in the strongest markets and sectors.

[1]As at December 31, 2023

TREZ CAPITAL
PRIVATE REAL ESTATE FUND

2023 | Year-in-Review

While the TPREF net asset value (NAV) remained nearly flat in 2023, there were several exciting news updates related to the fund. In Q3, Wildflower was added to the portfolio – a new lot development asset. Later in Q3, The Ovilla project was the first multi-family asset to stabilize, doing so above underwriting projections. Additionally, in Q4, lot sales began in the lot development sector, which are expected to continue through 2024.

Investment Highlights

(0.80%) NAV DECREASE

NAV decreased slightly due to strong asset performance offsetting adverse market factors

NEW INVESTMENT

TPREF invested in Wildflower – a 129-unit lot development asset in Dallas, Texas

FIRST STABILIZATION

TPREF's first completed multi-family asset – The Ovilla – reached stabilization

FIRST LOT SALES

Aster Park was the first lot development asset to sell completed lots to homebuilders

Sector Performance

MULTI-FAMILY

Development progress and rent increases offset the impacts of rising cap rates on valuations; one asset stabilized this year

SINGLE-FAMILY

Ongoing lease up partially offset the impacts of rising cap rates on valuations; opportunity for recovery via rents and cap rates

LOT DEVELOPMENT

Lot sales commenced from one asset; housing demand and potential revenue from municipalities lead to continued strong forecast
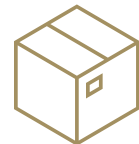
SELF-STORAGE

Strong asset performance in high rent and occupancy, however market cap rates negatively impacted valuations

2023 | Major Updates

NAV Movement Explained

2023 performance was primarily impacted by the year's rapid increase in interest rates. Overall, despite commercial property values having declining by as much as 20.0% in certain markets, TPREF's NAV has weathered the storm to produce a year-to-date loss of 80 basis points (bps)[1] as our active approach to value creation has offset almost all of the market's downward adjustment. We believe that this market correction is fully priced into the portfolio, as a result of the external appraisals that we commission twice annually for each asset.

The major impacts within the fund came from cap rate expansion on the self-storage, multi-family and single-family rental portfolios (see chart below). Interestingly, notwithstanding elevated interest rates, our lot development portfolio performed very well as demand for lots increased and the value of additional land within the sites increased. Given that the average in-place American mortgage is currently fixed for 30 years at a sub-4.0% interest rate, homeowners are generally unable to move homes without bearing drastically higher monthly payments. Since people are still moving south, the best option is to buy new, and as a result, land pricing for new homes has been driven upwards.

Going forward in 2024, we expect to experience a strong recovery of value and cash flow from the fund, mainly from lot sales and multi-family moving to stabilization, and the single-family rental assets moving to positive cashflow.

TPREF NAV[2] vs TPREF Cap Rates[3] vs SOFR[4]
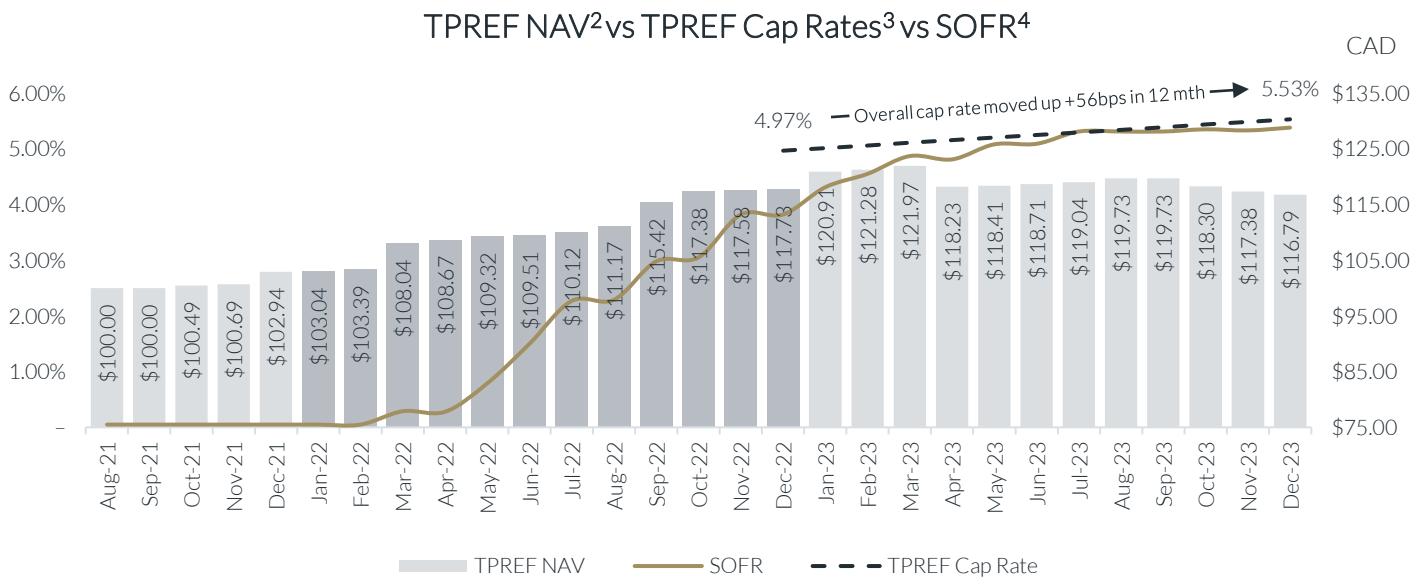
[1] Based on F and I Series. A Series unit value differs in fee structure.
[2] Net Asset Value (NAV) as at November 30, 2023, effective December 31, 2023. Based on F and I Series. A Series unit value differs in fee structure.
[3] Capitalization Rate (Cap Rate) is a profitability metric used to determine the return on investment of a real estate property. Period of December 31, 2022 to December 31, 2023. Past results are not indicative of future performance, which may differ significantly.
[4] Secured Overnight Financing Rate (SOFR) as at December 31, 2023

2023 | Major Updates

The Ovilla Stabilization & Refinance

The Ovilla is a 288-for-lease-unit multi-family development asset held in TPREF. Located in the Dallas-Fort Worth MSA, construction began in late 2020, a time of decreased construction starts and market uncertainty due to the pandemic – not dissimilar to today's environment. As a result, the asset was built into a recovering market and achieved stabilization[1] in October 2023 – well ahead of our conservative underwriting. The project was completed on budget at $41.7 million however rent per-square-foot at stabilization was $1.93, significantly higher than projections of $1.44. As such, the unrealized profit on cost exceeded underwritten expectations of 24.5% at 57.6%[2].

In Q2 2023, the project was successfully refinanced with an upsized loan from the incumbent lender, Texas Capital Bank. The loan was increased by approximately $11MM, to $37MM on a 24-month term[3].

TPREF holds four additional multi-family assets at various stages along the development process. The next expected to stabilize (~Q4 2024) is Larkspur Phase I, a 254-unit asset located in Austin, Texas, with the same development partner as The Ovilla. The remaining three projects, spread across Dallas, San Marcos, and Phoenix, are all currently on-budget and on-schedule.

Mid-2021

Mid-2022

October 2023

[1] Stabilization refers to a point in time when a property reaches its market potential in terms of occupancy, income and expenses.
[2] Past results are not indicative of future performance, which may differ significantly.
[3] The loan was increased to $35MM with a further $2MM being released once the Certificate of Occupancy is received and the project is 75% occupied

TREZ CAPITAL
PRIVATE REAL ESTATE FUND

2023 | Major Updates

Start of Portfolio Lot Sales

TPREF's lot development portfolio began lot sales in November 2023, when seven (of 1,010 total) lots in the Aster Park asset were sold, in accordance with the business plan. TPREF holds five additional lot development assets, bringing the total portfolio lot count to 6,826. By Q3 2024, we are expecting all six lot development assets to have commenced lot sales.

The newest asset in the lot development sector is Wildflower – a 126-lot investment that closed in Q3 2023. Wildflower continues TPREF's strategy to further invest in lot development across our target markets.

Mirador Site Plan

The lot development sector is an exciting and growing component of TPREF's portfolio, as value is expected to be built over the upcoming 10+ years from the existing assets, and we continue to maintain a strong pipeline of new opportunities. Housing created as an outcome of lot development investments offers a strong response to the nationwide housing crisis, particularly in the underserved yet high-growth markets TPREF targets.

Lot Development Profit Forecast[1]
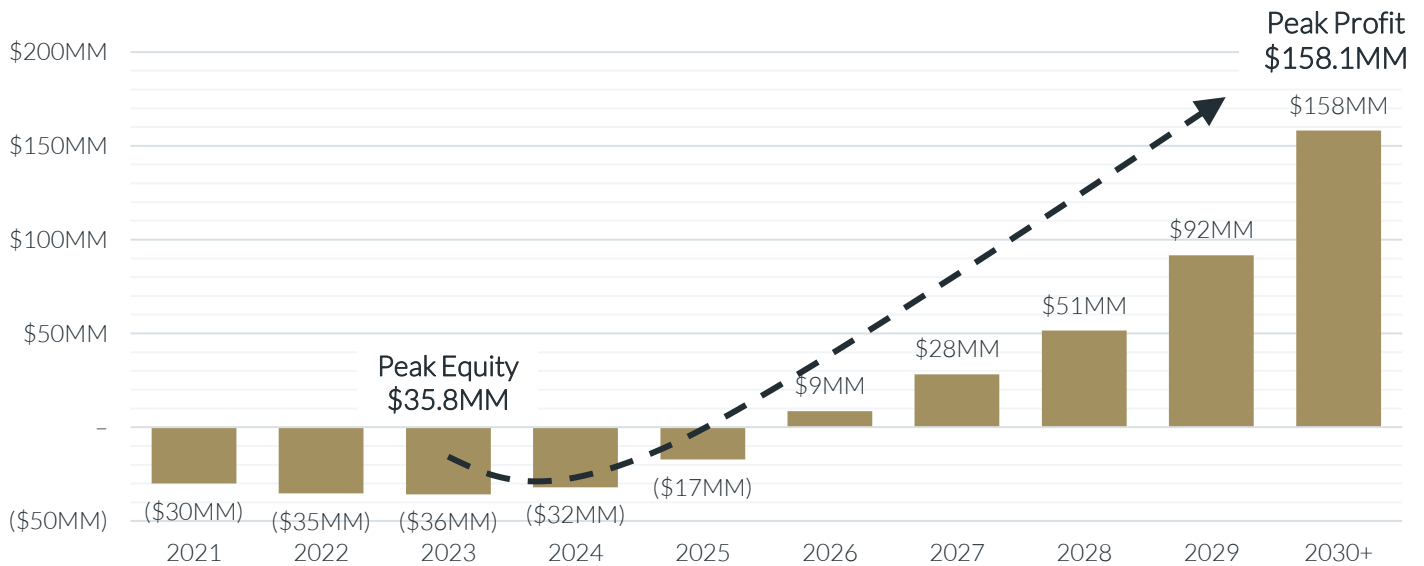
[1]TPREF LP equity. Views expressed in this material and forward-looking statements are as of the date indicated, based on the information available at that time and may change based on market and other conditions.

2023 | Major Updates

Industrial Land Sale

High Point Ranch is one of TPREF's lot development assets. The investment consists of 1,824 single-family lots and pods over 608 acres located in Kaufman County MSA of Dallas, Texas.

In April 2023, one of the land tracts was sold for $8.15 million, as it was zoned for industrial use. The land was underwritten at a significantly lower value; therefore, as a result of this and other updates, the sale resulted in a significant increase to projected returns – including internal rate of return (IRR) from 26.4% to 39.0%[1] and equity multiple from 4.5x to 6.8x)[2].

Many of our lot development assets have similar potential upside opportunities that were conservatively underwritten.
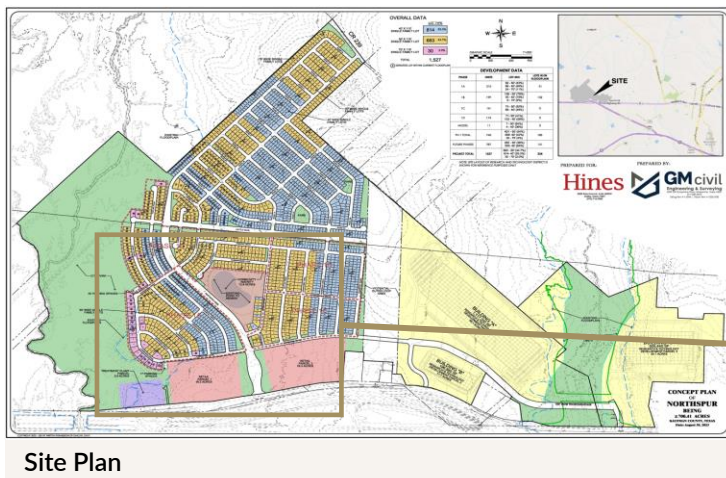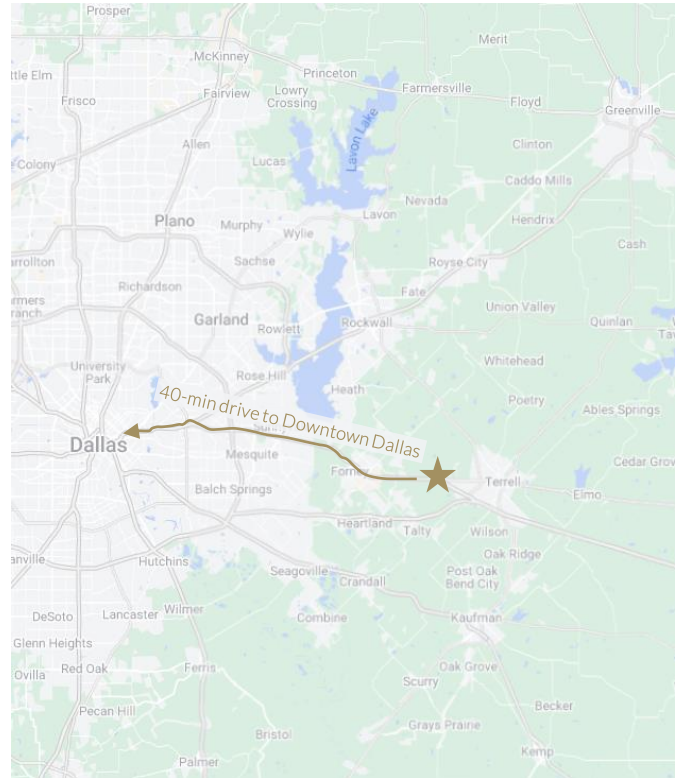
Site Plan

August 2023

[1]IRRs indicate the net return to investors that the Manager is targeting, actual realized returns will vary.
[2]Pre-Tax Projected L.P. Past results are not indicative of future performance, which may differ significantly.

2024 | Looking Ahead

Market Updates

APPRAISAL VALUATIONS

Interest rates – and therefore cap rates – are expected to decrease, leading to higher asset valuations.
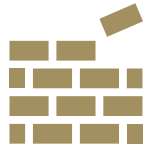
DEVELOPMENT PROFIT

As development continues, TPREF is expected to accrue more development profit toward stabilized asset value.
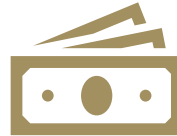
RISING RENTS

The U.S. housing crisis continues to drive rent prices higher in our target markets, ultimately leading to higher asset valuations.

CONTINUED LOT SALES

We are anticipating 973 lot sales (14.5% of total) from TPREF assets in FY2024, adding significant cash to the portfolio.

Strategy Forecast[1]

LOT DEVELOPMENT

Lot Development is expected continue to be TPREF's most exciting sector with new investment opportunities.

SUNBELT MARKET

We continue to believe the U.S. Sunbelt market presents the strongest opportunity for residential real estate growth.

RISK MITIGATION

We continue to analyze opportunities under strict criteria that fits TPREF's strategy given current market forecasts.

FUTURE STABILIZATION

New investment today (values are relatively low) are expected to stabilize into strong future markets with compounded upside.

[1]Views expressed in this material and forward-looking statements are as of the date indicated, based on the information available at that time and may change based on market and other conditions.

TREZ CAPITAL

For further information, please visit us at trezcapital.com or contact Investor Services
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