ASCENTRIS®
REAL ESTATE PRIVATE EQUITY

RESTORE THE CORE

The opportunity returns - this time after the 'Great Repricing'

INTRODUCTION

For decades, institutional real estate investing has been defined by three familiar categories: Core, Value-add, and Opportunistic.

These categories have long served as shorthand for expected returns, perceived risk, leverage levels, and business plan complexity. Yet after the extraordinary events of the past fifteen years, including the Global Financial Crisis, the zero-interest-rate era, the COVID-19 pandemic, and the sharpest interest rate shock in decades, these traditional categories have become increasingly inadequate.

More than fifteen years ago, **Marc Louargand, Ph.D.** introduced the concept of "Restore the Core[1]" during the aftermath of the Global Financial Crisis. His central observation was both simple and contrarian at the time: some of the most attractive real estate opportunities emerge when institutional-quality properties experience temporary distress and can be acquired and restored to long-term stability and relevance. Today, his idea has become highly relevant once again.

Many institutional-quality real estate properties are no longer easily categorized. A well-located multifamily community with temporary lease-up challenges may now be classified as value-add. A modern office building facing refinancing pressure may be viewed as opportunistic, or even uninvestable. A mixed-use property with temporary occupancy decline may suddenly fall outside a traditional core definition despite possessing all the physical characteristics of core real estate. Yet, in all these cases, the underlying real estate itself may remain fundamentally durable.

At Ascentris, we believe many of the U.S. property markets are entering the recovery phase of the current cycle, creating compelling opportunities to acquire institutional-quality properties with impaired capital stacks, operating model complexities, inadequate leasing strategies, or stressed ownership structures resulting from the excesses of the prior cycle. Firms with demonstrated expertise in correcting these impairments can restore cash flows, enhance a property's position within the market, and ensure it is poised to capture sustained, resilient income streams appropriate for a long-term buyer or owner. In other words: restore the core.

[1] Dr Marc Louragand, Saltash Partners: *Restore the Core: Impaired Core Properties Offer Compelling Opportunity*, The Institutional Real Estate Letter North America, November 2010

THE GREAT REPRICING

The period between 2010 and 2022 was one of the most accommodative capital market environments in modern real estate history. Historically low interest rates, abundant liquidity, compressed cap rates, loosening underwriting standards, and intense capital flows supported rising valuations across nearly every property type and market. In many cases, financial engineering had become as important as real estate fundamentals.

That environment changed abruptly in 2022 with the rapid rise in interest rates. The result was not simply declining values, but a broad repricing of risk, liquidity, leverage, and duration across real estate.

At the same time, broader structural changes accelerated across the industry including remote and hybrid work patterns, higher construction costs, reduced bank lending, tenant flight to quality, slower transaction markets, and widening performance dispersion between high-quality and obsolete properties.

Importantly, some of today's distress is not rooted in the physical quality of the underlying real estate itself. Instead, the distress stems from capital structure mismatches, excessive leverage, poor timing, insufficient operational execution, partnership misalignment, and temporary disruption in leasing fundamentals.

This distinction is critical. The most compelling restore the core opportunities emerge when capital structures become impaired while the underlying real estate remains fundamentally sound.

RESTORE-ABLE VS OBSOLETE

One of the defining characteristics of the current market cycle is the growing bifurcation between properties that can be restored and those that have become structurally obsolete. This distinction requires far greater nuance than the traditional classifications imply.

In our view, the most attractive restore the core opportunities share several common characteristics:

Characteristics of restore-able real estate			
Quality of Location	**Access & Connectivity**	**Amenity Richness**	**Demographic Support**
Financing Durability	**Long-term Tenant Relevance**	**Age of Physical Plant**	**Durable Demand Drivers**

A property may experience declining occupancy, capital expenditure needs, lease rollover, refinancing pressure and operational disruption while still possessing institutional-quality construction, an exceptional location, embedded replacement cost advantage, long-duration demand drivers, and enduring market relevance. These are restore-able properties.

Conversely, some properties face deeper structural challenges, such as poor locations, obsolete design, declining demand drivers, functional obsolescence, and limited competitiveness. Importantly, not all distressed real estate deserves restoration. The opportunity lies in identifying the difference between temporary dislocation and long-term impairment.

The properties most capable of restoration are often those that remain institutionally important despite temporary dislocation.

WHY OPERATIONAL CAPABILITIES MATTER

The prior cycle often rewarded financial engineering and access to inexpensive capital. We believe the next cycle is more likely to reward operational capability.

The ability to create value today increasingly depends on leasing execution, tenant engagement, recapitalization expertise, repositioning experience, asset management intensity, and operational discipline. The hallmark of an investment manager that is able to create value at the property level through any cycle, and particularly the current investment environment, requires a focus on seeking solutions to complex operational challenges including restoring occupancy, improving functionality, modernizing tenant experience, restructuring ownership, and extending duration of tenancy, all of which culminates in stabilized long-term cash flow critical to a core investment profile.

Ascentris' approach reflects this philosophy. Our cradle-to-grave staffing model maintains continuity from sourcing through disposition, thereby reinforcing accountability and operational ownership while enhancing long-term alignment throughout the life of an investment. Rather than separating acquisitions from asset management, investment teams maintain full lifecycle responsibility for execution and value creation.

In today's environment, restoring institutional relevance increasingly depends on operational execution rather than financial engineering. Restore the core is fundamentally a through-cycle investment philosophy rooted in long-duration ownership requiring operational focus and intensity.

POTENTIAL MARKETS AND MICRO-CORE ENVIRONMENTS

We believe these opportunities are most compelling in markets and micro-core environments that continue to attract residents, employers, retailers, and capital despite temporary operational or capital structure dislocation.

A few markets to consider may include:

Market	Micro-core submarkets	Restore the Core thesis	Most relevant property types
Denver, CO	▪ Cherry Creek ▪ Platt Street Corridor ▪ Belleview Station	Flight-to-quality demand and embedded replacement cost within institutionally durable mixed-use environments	▪ Mixed-Use ▪ Office
Austin, TX	▪ The Domain ▪ West Sixth ▪ South Congress ▪ Southwest	Significant basis reset opportunities in institutional-quality assets following oversupply and capital markets disruption	▪ Multifamily ▪ Retail
Charlotte, NC	▪ SouthPark ▪ Uptown ▪ Lower South End ▪ Ballantyne	Long-duration mixed-use demand supported by migration, demographics, and institutional capital formation	▪ Mixed-Use ▪ Multifamily
Nashville, TN	▪ The Gulch ▪ Wedgewood-Houston ▪ Green Hills ▪ Midtown	Lifestyle-oriented urbanization and durable experiential demand within constrained mixed-use nodes	▪ Mixed-Use ▪ Multifamily

RESTORE THE CORE IN PRACTICE

Recent Ascentris investments illustrate how the restore the core philosophy can be applied across different property types, market conditions, and forms of temporary impairment:

Sugar Alley

Located in the heart of the Sugar House submarket of Salt Lake City, the multifamily property represented a compelling opportunity to restore a fundamentally strong property temporarily impaired by operational disruption and capital structure distress following a late-stage construction fire. Ascentris recapitalized and restarted the project, ultimately restoring the property with institutional-quality amenities, construction standards, and operational management. These characteristics, upon stabilization, enabled the property's leasing performance to exceed underwriting expectations and reaffirm long-term durability of the underlying location and real estate.

Arbor Old Town

Positioned in the middle of the Old Town Scottsdale submarket of Phoenix, the office property represented an opportunity to restore a fundamentally sound office campus whose long-term relevance had not kept pace with the evolution of the surrounding submarket. The business plan focused on repositioning the property into an experiential hotel-oriented office environment designed to meet evolving tenant preferences and restore its long-term competitiveness within one of the most dynamic submarkets in the Phoenix metropolitan area.

CONCLUSION

The next phase of institutional real estate investing may reward fundamentally different capabilities than the prior cycle. Traditional distinctions and clear dividing lines that were attempted to be drawn between core, value-add, and opportunistic investing may become increasingly less relevant as market cycles, capital structures, and operational realities continue to evolve.

At Ascentris, we believe some of the most compelling opportunities today often exist where institutional-quality real estate has become temporarily impaired, not because the properties themselves lack durability, but because market conditions, capital structures, or ownership dynamics have disrupted stability.

The objective is not simply to buy distress. It is to selectively identify high-quality real estate whose long-term relevance remains intact despite temporary operational, leasing, or capital structure disruption, and restore it to its former institutional strength.

In many cases, the next generation of real estate outperformance may not come from creating relevance, but from restoring it.

ABOUT THE ORIGINAL AUTHOR

Marc Louargard, Ph.D., (1951-2013), was a leading figure in the commercial real estate investment industry and globally recognized urban economist. Amongst his many notable achievements, Louargand co-Founded Cornerstone Real Estate, founded Saltash Partners, LLC., was a professor of finance and economics at the University of Connecticut and Massachusetts Institute of Technology, and founded the Pension Real Estate Association (PREA) Institute, an academic organization led by real estate researchers and professionals. Louargand also served as a strategic consultant for the predecessor of Ascentris from 2007-2013.

ABOUT ASCENTRIS

Ascentris is a Denver-based real estate private equity firm that manages a series of fully discretionary institutional investment vehicles focused on value-add, core-plus, and core strategies across major property types and markets throughout the United States. Since 2003, the Ascentris management team has followed an investment philosophy and organizational structure designed to identify opportunities ahead of the market while delivering a high-level of service, transparency, and accountability to investors. Ascentris is a privately held, management-owned, SEC-registered investment adviser* committed to putting investors' interests first.

*Registration does not imply any level of skill or training