



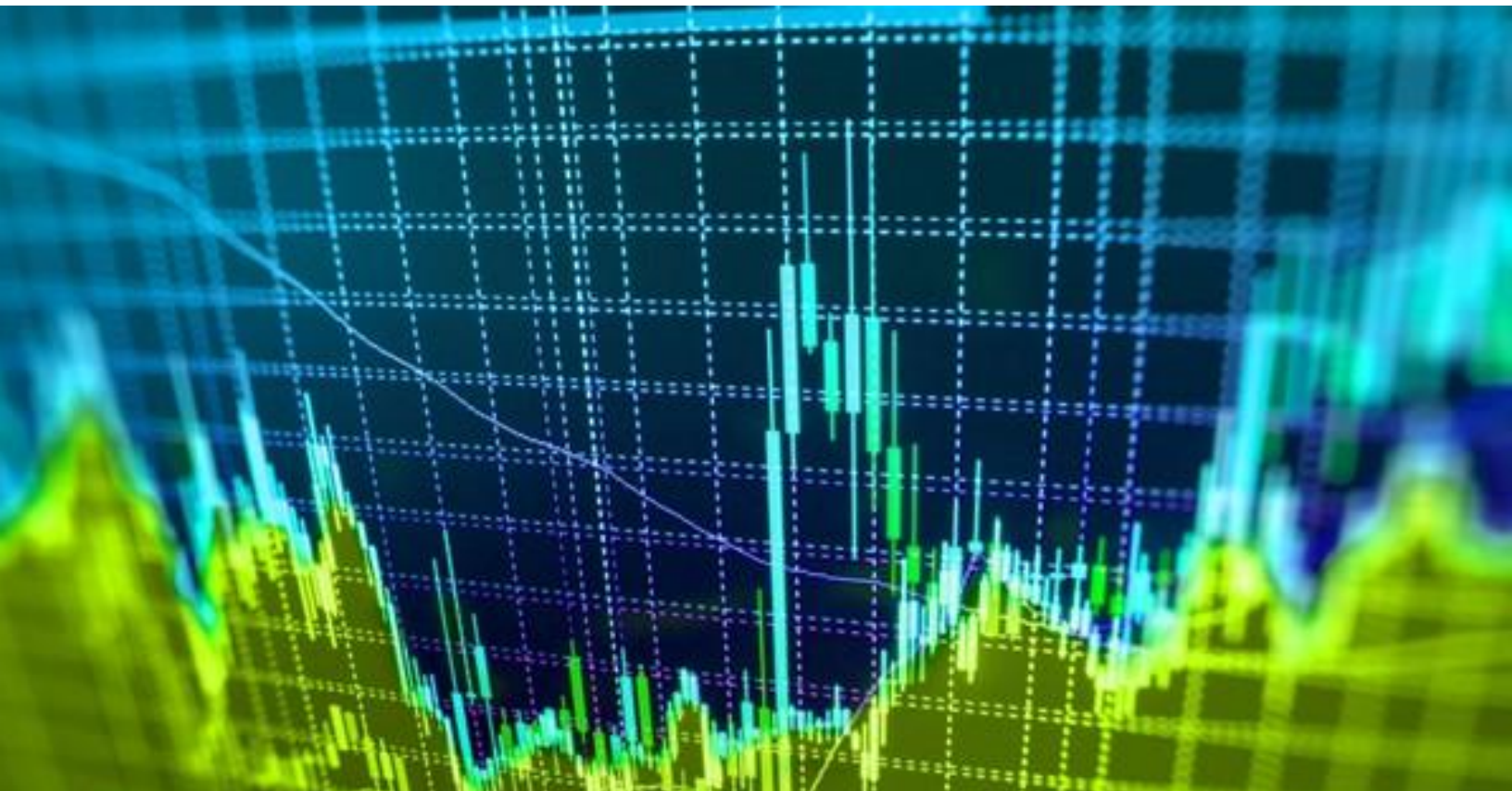
AURORA

REAL ESTATE EQUITY FUND

Disciplined Capital Protection. Tax Efficient Real Estate Returns.

WHITE PAPER: The Volatility Paradox

**Constructing Resilience: The Case for a
Hybrid Private Real Estate Investment
Strategy Beyond The 60/40 Mix**



Introduction

In a decade defined by economic shocks and rapidly shifting market dynamics due to two global economic events in less than six years, high-net-worth investors, family offices, and institutional consultants have faced renewed urgency in evaluating portfolio resilience for their clients' allocations. Notably, the onset of COVID-19 and the recent emergence of prolonged U.S.-global trade tariffs—have triggered widespread volatility and dislocated market expectations. These consecutively occurring macroeconomic events, less than six years apart, underscore a central truth as noted in BlackRock CEO's, Larry Fink, 2025 Letter to Shareholders; The Democratization of Investing;

“Diversification has been called the “only free lunch.” It was the motivating idea that led Nobel Prize-winning economists like Harry Markowitz and Bill Sharpe to develop Modern Portfolio Theory, which became the foundation for the standard portfolio of roughly 60% stocks and 40% bonds. Generations of investors have done well following this approach, owning a mix of the entire market rather than individual securities. But as the global financial system continues to evolve, the classic 60/40 portfolio may no longer fully represent true diversification. The future standard portfolio may look more like 50/30/20—stocks, bonds, and private assets like real estate, infrastructure, and private credit.”

Private real estate, particularly stabilized Class A (core) multifamily and medical office assets, offers a compelling option to offset the growing effects of **“The Volatility Paradox”** This ubiquitous asset class provides a natural hedge against volatility, thereby providing investment stability that is unmatched by most traditional investment opportunities. Its low correlation to public markets, stable income production, and inflation-aligned appreciation characteristics make it a foundational asset for today's diversified portfolios seeking an alternative to the standard 60/40 structure based on Modern Portfolio Theory. This is especially true for wealth stewards focused on fulfilling long-term investment mandates—whether those are defined by generational wealth transfer, various institutional objectives, or retirement planning through tax-efficient structures like self-directed IRAs.

Executive Summary: The Impact of the Volatility Paradox

The contemporary investment landscape is increasingly defined by the **“Volatility Paradox”**—a structural shift where the democratization of investing through the expansion of online trading and social networking has created a measurable link between social media sentiment and market risk.

Historically, price discovery was an institutional process based on rational data analysis. However, the rise of social networking and commission-free retail trading has introduced a "reactionary" market mechanism driven by sentiment-based collective action.

- **The "Net Transmitter" Effect:** Research confirms that during crises, social media sentiment ceases to be a "receiver" of market news and becomes a "net transmitter" of shocks, directly contributing to spikes in the CBOE Volatility Index (VIX).
- **Instantaneous Shocks:** On April 23, 2013, a single fraudulent tweet caused the S&P 500 to lose **\$136 billion in value** in under three minutes. This event proved that high-frequency algorithms trade on social keywords, making public markets instantly susceptible to unverified information.
- **Retail Herding:** Platforms that allow for coordinated collective action (e.g., short squeezes) can overwhelm traditional institutional hedging, leading to extreme, sudden price volatility.

To mitigate this volatility paradox, we propose the **"Dual-Mandate"** strategy: combining the cyclical growth potential of Class A Multifamily with the defensive stability of Class A Medical Office. Our analysis suggests that this private real estate combination offers a superior risk-adjusted return profile (Sharpe Ratio) compared to a pure public equity allocation, providing a critical hedge against both inflation and recessionary environments. This strategic shift anchors wealth to real-world fundamentals rather than transient digital narratives, offering superior risk-adjusted returns and a robust hedge against sentiment-driven volatility.

Part I: The Public Market Dilemma

The Volatility Tax

While the S&P 500 has delivered robust returns over the last decade, it demands a "volatility tax" from investors. The journey to a 10% average return is rarely linear; it is characterized by sharp drawdowns (e.g., 2000, 2008, 2020, 2022) that introduce significant "Sequence of Returns Risk." For an investor entering the withdrawal or preservation phase, a 20% market correction in the wrong year can permanently impair capital longevity.

The Liquidity Illusion

Public Real Estate Investment Trusts (REITs) theoretically offer exposure to real estate. However, data from the *FTSE Nareit All Equity REITs Index* demonstrates that public REITs exhibit a high correlation (~0.70–0.80) to the broader stock market. In moments of panic, REITs are often sold off in lockstep with equities, failing to provide true diversification when it is needed most.

The 2025 Valuation Disconnect

As of Q4 2025, a notable divergence exists. The S&P 500 has rallied significantly, pricing in aggressive future growth. Conversely, private real estate markets have spent the last 18–24 months undergoing a "valuation reset" in response to interest rate shifts. **This creates a compelling entry point for private capital: buying institutional-quality assets at stabilized bases while public markets may be overheating.**

Part II: The Solution — A Dual-Mandate Private Portfolio

To achieve true diversification, capital must move into **Private Core Real Estate**, which historically exhibits a low correlation (~ 0.14) to the S&P 500. However, not all real estate is created equal. We advocate for a portfolio constructed of two complementary asset classes:

1. The Growth Engine: Class A Multifamily

- **Economic Driver:** Employment growth, household formation, and housing shortages.
- **Lease Structure:** Short-term (12-month) leases.
- **Role in Portfolio: Inflation Hedge.** Because leases reprice annually, Multifamily Net Operating Income (NOI) can adjust quickly to rising CPI, protecting the purchasing power of capital.
- **Current Outlook:** Following the supply wave of 2024, the Multifamily sector is positioned for a rebound in rent growth as new construction starts have plummeted, creating a looming supply gap in 2026–2027.

2. The Yield Anchor: Class A Medical Office (MOB)

- **Economic Driver:** Aging demographics (Baby Boomers) and non-discretionary healthcare spending.
- **Lease Structure:** Long-term (7–10 year) leases with investment-grade tenants.
- **Role in Portfolio: Recession Defense.** Healthcare tenants are "sticky." Due to the high cost of specialized buildouts (Tenant Improvements), renewal probabilities for MOB assets often exceed 80%.
- **Stability:** Even during severe economic contractions, patients require care. This ensures that the portfolio generates consistent cash flow to cover debt service, even if the broader economy stalls.



The "Flywheel" Effect

By combining these two assets, the portfolio achieves a "Flywheel" effect. The Medical Office component provides the bond-like floor of safety, ensuring distributions continue during downturns. The Multifamily component provides the equity-like ceiling, driving capital appreciation during economic expansions.

Part III: Historical Performance & Risk Analysis (1992–Present)

To validate this thesis, we analyzed performance data over a 33-year horizon, covering multiple economic cycles including the Dot-Com Bubble, the Great Financial Crisis, and the COVID-19 pandemic.

The Data: S&P 500 vs. Private Core Real Estate

Metric (1992–2025)	S&P 500 (Public Equity)	Private Core Real Estate (NFI-ODCE)
Historical CAGR	~10.2%	~9.6%
Volatility (Std. Dev)	~16.5%	~5.2%
Sharpe Ratio	0.55	1.05

(Source: S&P 500 Total Return Index; NCREIF Fund Index - Open End Diversified Core Equity)

Analysis of Risk-Adjusted Returns

While the Compounded Average Growth Rate (CAGR) of the S&P 500 and Private Real Estate are comparable over long periods, the **volatility profile** is vastly different.

- **The S&P 500** achieves its return through high-variance swings, requiring investors to endure significant psychological and financial stress.
- **Private Core Real Estate** has historically delivered similar returns with approximately **one-third of the volatility**.

This results in a significantly higher **Sharpe Ratio** (1.05 vs. 0.55) for private real estate. For the sophisticated allocator, this means that for every unit of risk taken, private real estate has historically generated nearly double the return of the public market.



Conclusion

In an investment landscape defined by uncertainty and high public market valuations, the "Growth + Stability" model offers a prudent path forward. By eschewing the volatility of the public markets and focusing on the tangible fundamentals of **housing** (Multifamily) and **healthcare** (Medical Office), investors can construct a portfolio that is resilient by design.

The **Aurora Real Estate Equity Fund** strategy is not built on speculation; it is built on the structural necessity of shelter and care. We invite you to review our specific underwriting criteria to see how we apply this philosophy to current market opportunities.

Sources, References & Disclosures

1. Timeframe & Methodology

- Analysis covers the period from **Q1 1992 through Q3 2025**.
- **CAGR (Compound Annual Growth Rate)** represents the geometric progression ratio that provides a constant rate of return over the time period.
- **Sharpe Ratio** is calculated by subtracting the risk-free rate (using the 3-Month Treasury Bill as a proxy) from the asset's return and dividing by the standard deviation (volatility).

2. Indices Used

- **Public Equities:** Represented by the **S&P 500 Total Return Index**, which tracks the market capitalization-weighted performance of 500 of the largest publicly traded companies in the U.S., assuming full reinvestment of dividends.
- **Private Core Real Estate:** Represented by the **NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE)**. The NFI-ODCE is a capitalization-weighted index of investment returns (net of fees and expenses) reporting on distinct open-end commingled funds pursuing a core investment strategy.
- **REITs:** Referenced using data from the **FTSE Nareit All Equity REITs Index**.



3. Risk & Volatility Disclosure

- **Appraisal Smoothing:** Volatility for private real estate is calculated using the standard deviation of quarterly returns. Investors should note that the S&P 500 is priced daily, reflecting real-time market sentiment, while Private Real Estate values are based on periodic appraisals. This "appraisal smoothing" effect may result in understated volatility for private real estate indices compared to public market indices.
- **Liquidity:** Private real estate is an illiquid asset class. Unlike the S&P 500 or REITs, capital cannot be withdrawn daily. This illiquidity allows the manager to execute long-term value creation strategies but prevents investors from accessing capital on demand.

4. **Fink, L. (2025).** [Larry Fink's 2025 Letter to Shareholders: "The Democratization of Investing- Expanding prosperity in more places, for more people"](#)

4. General Disclaimer

- *Past performance is no guarantee of future results. Indices are unmanaged, and it is not possible to invest directly in an index. Private real estate investments involve unique risks, including illiquidity, interest rate sensitivity, and the potential loss of principal, which are not present in broad public market indices. This white paper is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any securities.*



About Solara Holdings-

Solara Holdings is a boutique, vertically integrated real estate firm and the sponsor of the **Aurora Real Estate Equity Fund**, our premier alternative investment vehicle focused on Class A properties. Leveraging over thirty years of experience, our core mission is simple: to **protect investor capital** from market volatility while delivering superior, tax-efficient, and risk-adjusted returns utilizing our **Four-Pillar Risk Mitigation Framework** based on **demographic resiliency, debt-service coverage, operational efficiency, and local market supply constraints**. This methodology guides every investment decision to focus on long-term stability and capital preservation while delivering three powerful benefits traditional investments cannot:

- **True Diversification:** Class A private real estate is an asset that is genuinely **uncorrelated** with the daily swings of the stock and bond markets, providing a foundational hedge your portfolio needs.
- **Tax-Efficiency:** We leverage non-cash deductions like real estate depreciation that can effectively shield your passive income from taxes, significantly enhancing your net returns and allowing for greater wealth compounding.
- **Superior Risk-Adjusted Returns:** By rigorously mitigating volatility through our framework, we aim to provide competitive returns with a demonstrably lower overall risk profile than publicly traded alternatives.

At Solara Holdings, we believe stable wealth creation requires institutional-quality real estate as a strategic hedge against both market downturns and inflation. When you partner with us, you are investing in a **proven, disciplined strategy** designed for long-term appreciation, not a quick market-timing bet.

Michael Butler, MBA Founder & Managing Partner, Solara Holdings

As Managing Principal of Solara Holdings, Mike has been instrumental in the acquisition and asset management of over \$80 million in rental real estate through strategic private placements. With a keen eye for identifying opportunities and mitigating risk, he drives the fund's investment strategies with a strong focus on capital preservation and growth. Mike's unique, over three decades of experience through multiple economic cycles in both the real estate and healthcare industries have been central to executing the firm's investment objectives while safeguarding investor interests and optimizing portfolio performance.

[Schedule A Call](#)



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