PREPARED BY
URBANIST

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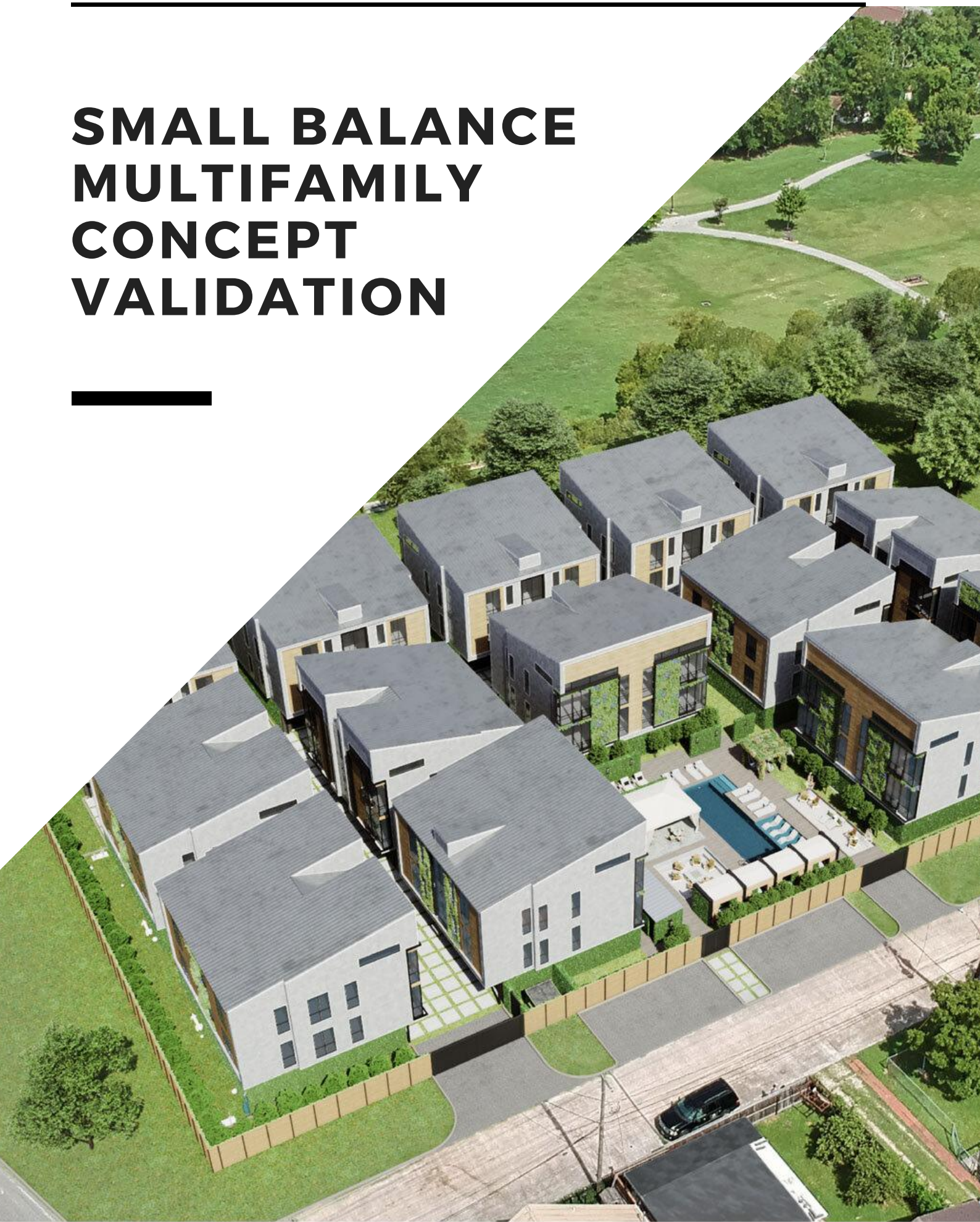
SMALL BALANCE MULTIFAMILY CONCEPT VALIDATION



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EXECUTIVE SUMMARY

Urbanist creates designer, wellness certified, PropTech-enabled apartments located in the fastest appreciating submarkets, desirable for tenant capture and retention, poised for rapid rental growth and capital gain, while offering comprehensive investor safeguards. Embracing the principles of 'new urbanism', Urbanist is curating the future of small balance multifamily (**SBMF**) housing within the most prominent Texan cities' urban cores.

> *"Real estate constitutes over 50% of the world's assets. Housing is a vital human need, and the commercial property sector delivers and manages the infrastructure needed for entrepreneurship to flourish. The future of the industry will be influenced as never before by technology and innovation."* — University of Oxford Said Business School, Oxford Future of Real Estate Initiative

> *"If there is land for beautifully-designed homes that fill a gap between stand-alone houses and mid-rise apartments, the smart thing to do is to fill it with housing types we've been missing in our market for so long."* — Heather Hood, Deputy Director, Enterprise Community Partners

> *"Many people of all ages would like to live in vibrant neighborhoods, downtowns, and Main Streets—places where jobs and shops lie within walking distance—but right now those places are in short supply. 'Missing Middle' Housing provides more housing choices. And when we have more choices, we create living, thriving neighborhoods for people and businesses."* — Lynn Richards, President and CEO of the Congress for the New Urbanism

About

Urbanist is the sponsor and brand behind the creation of boutique designer-smart-wellness enabled small balance multifamily projects. Urbanist inherently understands that in an era characterized by both complexity and opportunity, a visionary development company carves out its own unique niche; engaging its customers, predicting and meeting their needs, touching and enhancing people's lives by creating better buildings and communities. Urbanist is founded by an esteemed stakeholder group, individuals who have developed iconic residential and commercial projects for over 30 years, within the U.S. and internationally.

Urbanist creates urban communities with an extensive array of upscale and wellness features. Paying particular attention to maintaining a commitment to the nature of each project, our vision is to create timeless buildings with glamour and sophistication, combined with comfortable and luxurious living. The upscale design and biophilic aspects of our projects such as greenwall boxwoods, vertical gardens and pocket park inclusions are befitting of the wellness philosophy and a place where people want to call home.

Urbanist carefully selects rapidly appreciating urban core submarkets and incorporates progressive 'future-proof' product features. Health and wellness, especially nowadays, is an exceptionally important aspect which must be incorporated into every home's design, but unfortunately it is rarely considered by the real estate industry. Urbanist have partnered with the leading wellness real estate company in the world, Delos, who together with the Mayo Clinic created the internationally recognized WELL living standard. Urbanist now offers the first Delos small-balance multifamily healthy homes in Texas.

With projects located in urban, high-growth locations, we are constantly looking to the future for the ideas and opportunities that will underpin truly spirited outcomes. We partner with the finest caliber of architects, designers, builders and development consultants, to set new benchmarks for quality and design for infill, boutique multifamily communities. There is a true commitment to innovation, technology and attention to detail across all aspects, from design to construction, and most importantly safeguarding our partner's investments.

Urbanist maintains a considered, measured approach to every project, underpinned by strict acquisition criteria. There is no compromise on the quality of each location or access to amenity. These are places people aspire to live in, attracting a vibrant and diverse demographic of residents, and offering an attractive commercial return on investment for our investors and ultimate buyers. Notably, Urbanist's portfolio of assets boast multiple unique features and benefits, and at its core, value investing principles, creating a memorable experience and a positive lasting impression for all our residents, investors and partners. Urbanist prides itself on engaging in ethical business practice and strategies, and a relentless pursuit to build long lasting relationships for the benefit of all project participants.

Urbanist's highly experienced development team provides local and national insight to create and manage multifamily communities that continually redefine the parameters for investment, innovation and quality.

Small Balance Multifamily Offering

Since many Urbanist Buyers have existing capital gains from previous asset sales that wish to benefit from the considerable capital gains tax incentives created in the 2017 Tax Cuts and Jobs Act and granted to Qualified Opportunity Zone projects, the following section include relevant Opportunity Zone details. Urbanist SBMF Projects are selected, analyzed, and underwritten purely based on traditional multifamily metrics. The additional Opportunity Zone tax benefits are potential additional upside for those who qualify.

Urbanist has carefully curated a turnkey product offering for its Buyers and Investors which eliminates the land development risk, and mitigates virtually all of the construction, market and development timing risks associated with development and construction, because Urbanist's sponsored SBMF Projects are typically sold when the building permits have been issued and the Project is 'shovel ready'. This occurs within 6 to 12 months after the land has been strategically selected and secured, the correct zoning and entitlement obtained, and building permit approval for the complete set of construction documents received from relevant authorities.

Urbanist's 'off-the-plan' marketing and pre-sales real estate investment methodology, globally defined as 'Project Marketing', fits succinctly with the Opportunity Zone rules whereby the long term investor—i.e. Buyer—must "substantially improve" the Project or a Building as the 'Developer', or meet the "Original Use" provision to obtain the tax concession benefits. Urbanist has pre-arranged for DLA Piper (the world's fifth largest law firm) to consult with capital gains Buyers and establish for them a personally owned, single-asset Qualified Opportunity Zone Fund (**Captive QOF**).

Urbanist's inspiration rendering for its designer, healthy living, PropTech-enabled living room

Each Project is pre-packaged with a fixed-term, guaranteed-maximum-price (**GMP**) construction contract from a fully licensed, best-in-class general contractor, and can be further enhanced for risk mitigation with an A-rated construction performance bond. Urbanist sponsored Projects provide potential Buyers with a condensed 8 to 12 month construction timeline to achieve Certificate of Occupancy (**CO**) and thus, fast-track and enhance the Project's profitability and cash flow. In contrast, most QOF real estate projects' development timeline are running at 36 to 48 months, and some more than 5 years to reach CO status. Large projects may then take several more months or even years to fully lease and become cashflow positive. Another unique feature of our turnkey development packaging, is the fact that Urbanist can pre-lease the entire building prior to the development achieving CO status and prior to a Buyer taking ownership of the Project, by arranging for institutional grade, leasing management providers to execute a 2 to 5 year masterlease agreement, guaranteeing a minimum monthly income for each apartment in the building, and thus further de-risking the Project from vacancy risk, and effectively stabilizing the SBMF asset prior to CO.

The process, mechanics, and Buyer safeguards created by Urbanist are designed to protect Buyers, by removing the risk(s) associated with property development and instead allow Buyers to become more passive property owners. A bank approved general contractor, and an independent project manager acting as the Buyer's representative (owner's rep), together with Urbanist's oversight are responsible for successfully delivering the Project to CO when the prearranged lease(s) will begin. It is truly a turnkey Project immediately prior to construction commencing.

Purchase (Deposit) Timing	Cap Rate	Sales Price	Wholesale Discount for 1 Fourplex	Wholesale Discount for Project (4 Fourplex)	Buil-In Capital Gain
Pre-Construction (12 months prior to CO)	5.50%	$ 1,327,045	$ 209,533	$ 838,134	16%
4-8 months prior to CO	5.25%	$ 1,390,238	$ 146,341	$ 585,363	11%
1-3 months prior to CO	5.00%	$ 1,459,750	$ 76,829	$ 307,316	5%
At/Post CO	4.75%	$ 1,536,579	$ -	$ -	

Various purchase options available to Buyers of Urbanist buildings, allowing them to make the choice in regard to the size of the built-in discount

A scalable multi-layered wholesale-based distribution model allows Buyers of Urbanist's Class-A+ SBMF buildings to have the flexi-option to choose their preferred purchase arrangement, price formula, and product packaging, which can create substantial cost savings and built-in capital gain profits right from the outset, at the point of purchase, of up to 1.75% cap rate. This predetermined built-in capital gain, even prior to any rent growth or market appreciation, equates to a potential profit for the Buyer of up to $210,000 on just 1 fourplex building—a 16% built-in return on investment (ROI) based upon a $1,325,000 pre-sales acquisition price. It provides buyers/investors a truly unique opportunity to establish significant 'wholesale' discounts by eliminating the developer's 'middle-man' profit margin, something which would be normally be impossible under most other circumstances – except via the Urbanist platform. This is one

of the only real opportunities for passive investors to obtain the direct financial benefits of property development without the associated risks.

Alternatively, Urbanist sponsored Projects can be pre-sold to the Buyer to be delivered and closed at CO, which also meets the Opportunity Zone's "Original Use" requirement. However, the price will be higher based upon a lower Cap Rate with the Buyer still receiving a partial wholesale discount and built-in capital gain of approximately 22%, or nearly $300,000, compared to its fully stabilized value. CBRE reported that the current average market cap rate for all SBMF transactions occurring across the U.S. in Q2 2019 was 5.49% with an average building age of 60 years. It is fair to say that newly built, stabilized, Class-A+ designer SBMF buildings located in the largest urban centers should command a lower cap rate sale value closer to 5%. For reference, HFF forecasts 2020 cap rate for Houston multifamily as, Class-A: 3.75-5.50%, Class-B: 4.50-5.50%, Class-C: 5.75%+.

Notably, Urbanist class-A+ SBMF buildings are attainably priced from $1 million to $1.5 million (with each Project containing 4 to 6 buildings), given the fact that each branded, designer building is newly built and warrantied for 10 years, smart, wellness enabled, and located in rapid appreciating inner-city neighborhoods. Since "*not all Opportunity Zones are created equal*," Urbanist Projects are located in the very best located Opportunity Zones, typically neighboring a non-Opportunity Zone or a major focal demand driver such as a large university or key employment hub. The OZ Program adds a bonus to an already well positioned prudent investment.

A recent Moody's Analytics Real Estate Solutions (REIS) article discussed that many submarkets with lower rents than neighboring submarkets have been experiencing higher rent growth rate and "*with the presence of the new Opportunity Zone, it is possible that rent growth will increase even faster as capital flows into the area. Building improvements, more business and construction activity, and more households mean that [these] submarkets could grow even faster*."

Urbanist is creating an environment where tenants have access to truly attractive apartment enhancements related to design, specifications and security, which should be a significant driver of rental growth, and improve the probability of achieving and even surpassing 'market level' returns. Urbanist's turnkey, enhanced investor centric approach offers Buyers an extremely unique features not readily available with other multifamily offerings:

- SBMF – a sector with compelling macroeconomic evidence of strong ongoing market demand
- A product layered with unique selling propositions ("**USPs**") at no additional premium:
    - Starchitect branded designer finishes
    - The first true SBMF wellness apartments in Texas
    - Premium smart home inclusions
    - Secure leasing by one of the world's largest institutional rental management providers
- Identification of locations that are currently experiencing and offer statistically demonstrated ongoing potential for outstanding rent growth and capital appreciation.

Captive Qualified Opportunity Zone Fund

Urbanist offers capital gains investors the unique opportunity of a single-purpose QOF structure. Urbanist has arranged for DLA Piper (one of the world's preeminent law firms) to establish individual or small private syndicate QOF's for its Buyers and Investor clientele, including a personal consultation with the DLA's firm's Opportunity Zone partner. Furthermore, of the nation's foremost Opportunity Zone accounting experts, HCVT, can provide a streamlined accounting and reporting package for the duration of the QOF's existence. Urbanist makes this unique service possible without the cost, stress, and friction generally associated with the setup of this type of sophisticated asset ownership structure, and thus allows investors to maximize their capital gains and tax deductions in their own single-asset Captive QOF.

Perhaps Urbanist's SBMF product's most unique characteristic and offering, is that it provides investors and real estate asset buyers with the majority of the combined benefits of both an IRC Section 1031 exchange and an Opportunity Zone investment, while avoiding or reducing many of the respective pitfalls.

In particular, a related collection of troubling drawbacks inherent to most pooled Qualified Opportunity Zone Funds have been blamed as the reasons why some of the largest QOFs have met only 15% of their capital raise projections—namely the loss of direct ownership control, and being 'handcuffed' to a minimum 10 year timeline investment. Larger Pooled Funds QOF investors have little to no influence or control over their investment in relation to income, cashflow or having any say on exit timing, thus the timing of when their original capital gain investment and related profits may be returned is at the behest of the fund's manager, regardless if the investor requires access to their own funds for both tax planning and cash flow purposes. Urbanist Opportunity Zone Projects sold to an individual investor's own Captive QOF overcome these inherent challenges faced by larger pooled QOFs.

In October 2019, TRD International reported, *"According to an analysis by Novogradac, a San Francisco-based accounting firm, 103 Opportunity Zone funds have raised just 15% of what fund managers expected… Scaramucci's $3 billion Opportunity Zone fund is now $300 million. And he has only raised $30 million [1%] for it."*

The majority of QOFs are either blind pooled funds for a number of unidentified projects, or pooled funds for specific project(s). In both cases, there are a number of undesirable characteristics to capital gain investors of having their money tied up for at least 10 years, including the fact that a larger real estate development project may easily run 15 years in total duration (including development/ entitlement process, project hold time, and disposition) if market timing isn't favorable to exit for the fund's manager. Investors in these types of projects are at a significant disadvantage, ceding all control and decision making to the fund's manager, including decisions regarding development, leverage and refinancing, management, distribution of rental cashflow, and the ultimate exit and asset sale event, while purely relying on the expertise and motivations of the fund's manager to be consistently aligned with their own, for a period of at least 10 to 15 years. Thus, inherently this process can feel like a precarious and risky proposition for potential investors. There have already been many recorded instances where QOF promoters have abandoned planned projects and are considering liquidating all or a portion of their

investors' funds – thereby negating the deferral and future gain exemption and possibly incurring a loss for its investors in the process, thus significantly compounding their investors' losses and 'pain'. These are just several key factors which may correlate to the low capital raising results reported by the larger QOFs.

Cash-Out Refinance

By establishing a Captive QOF, a capital gains investor may take the unique advantage of the 'disguised sale rules' to procure a cash-out liquidity event by refinancing the Building asset any time after a two year hold period. Never before, has an investor been able to sell an asset, realize a capital gain profit, reinvest in a real estate asset which they wholly own, and utilize up to 75% of cash from the original capital gain shortly after reinvestment with no negative tax implications, whilst still retaining all the tax deferment as well as the considerable additional Opportunity Zone tax exemption advantages.

Investors who have made capital gain profits and want to avoid the payment of tax in the long term, whilst being able to utilize a portion or all of their funds have only limited if any options, until now. Assets which have increased in value for non-real estate related investments the only two options to avoid paying capital gains tax has been to continue holding for the long term or possibly gain access to high interest, short term debt. For a real estate investment, the primary option has been to utilize a 1031 exchange where all the original principal monies, plus the capital gain must be reinvested to defer the tax, thus not allowing investors to gain access to any of their cash.

Whether an investor initially has only a few hundred thousand dollars or substantially more in capital gain profits, Urbanist can assist them in establishing their own Captive QOF, purchase a brand new Class-A+ SBMF Building in a rapidly appreciating submarket of a top tier city, and cash-out 75% of their original capital gains profit after only 2 years, to utilize or spend as they please.

Alternatively, a capital gains investor may initially purchase a SBMF building utilizing debt leverage, typically up to 75% LTV, and after 2 years or more may cash-out any accumulated appreciation due to the property's growth via refinance to make additional investments or for any general purpose as they may chose.

This allows the investor to purchase a higher-priced, more valuable, investment quality asset, at up to 4 times their initial capital gains investment. Not only can this allow the investor to receive considerably higher rental income (especially given the current low-interest-rate environment), with the ability to obtain finance as low as 3.8% whilst receiving up to 7% in net operating rental income, but to also increase their opportunity to create greater tax free capital gain profits through asset appreciation due to the higher value investment. As described in the comparative example below, the opportunity to create both capital asset appreciation profits, as well as higher rental cash flow profits, should be greater when utilizing financial leverage.

1031 Exchange v Typical QOF v Urbanist Captive QOF Project

	1031 Exchange	Typical QOF ($25M+)	Urbanist Captive QOF Project
Investor/Buyer has control to:			
- Select Property	✓	×	✓
- Refinance	✓	×	✓
- Sell at any time	✓	×	✓
- Roll into alternative 1031 Project	✓	×	✓
- Roll into alternative Opportunity Zone Project	✓	×	✓
- Distribute rental cash flow	✓	×	✓
- Select property manager	✓	×	✓
Typical Asset value	$0-100M	$10M+	$1-5M
Time to identify/ Re-invest	45/ 180-days	180-days	180-days
Non-real estate related capital gains allowed	×	✓	✓
Available to non-accredited investors	✓	× - mostly	✓
Land development risk removed	✓	×	✓
Construction risk removed	✓	×	× - mitigated
Time to Certificate of Occupancy and cash flow	Immediate	24-48 months	Immediate or 6-9 months
Avoid fees and waterfalls	✓	×	✓
Avoid/ mitigate complicated comingled accounting, costs, and biannual testing concerns	✓	×	✓
Original capital gains tax deferred	✓ - until sale	✓ - until 2026	✓ - until 2026
Original capital gains tax reduced	×	✓ - 10% after 5 years	✓ - 10% after 5 years
New capital gains tax waived	×	✓ - after 10 years	✓ - after 10 years
Recapture on depreciation waived	×	✓ - after 10 years	✓ - after 10 years

As discussed in HCVT's November 2019 article, *Options for Qualifying Your Pre-2018 Opportunity Zone Property*, the Opportunity Zone program is arguably the largest safety net ever devised for 'blown' Section 1031 Like-Kind exchanges – and not necessarily by design. It is common for taxpayers to start down the path of a 1031 exchange only to discover that the 45-day identification and 180-day closing deadlines are

inadequately short, or that some or all of the proceeds from the sale cannot be reinvested in allocated timeframe. Interestingly the Like-Kind 180-day 1031 exchange period begins on the date of sale whilst the Opportunity Zone 180-day period will generally not begin until years end, since the gain will often come through on a K-1 and/ or will represent IRC Section 1231 gain – both of which are generally deemed to occur on December 31. From its very inception, an Opportunity Zone transaction will generally provide more time to execute than one using a 1031 exchange.

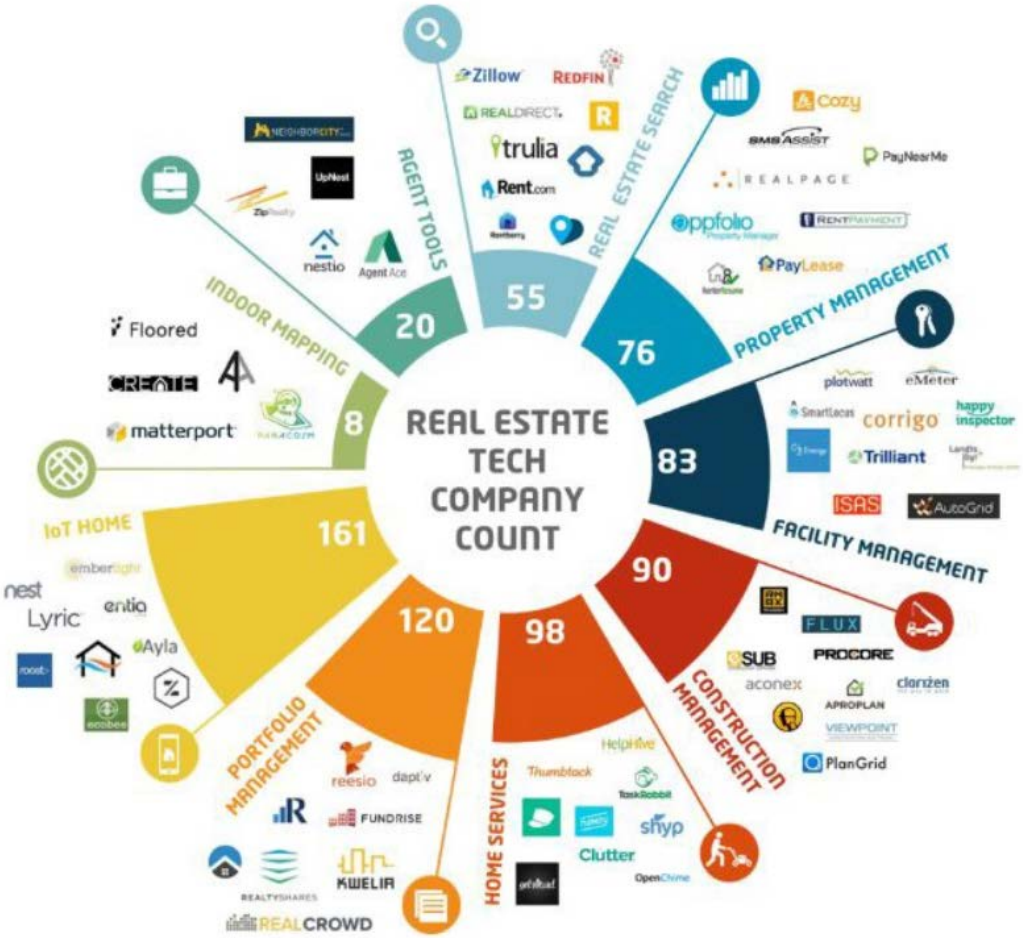
The 'gating' of Opportunity Zone Program reinvestments get even better as you start adding up all of the regulatory relief for reinvestment timing vs. a 1031 exchange structure. The Opportunity Zone Program can effectively provide a real estate investor with a replacement window of up to 43 months or more – a very attractive alternative to the highly restrictive 180-day replacement period for a traditional 1031 exchange. This can effectively give a taxpayer the ability to execute a new built construction project as the replacement property – a near impossibility for a traditional 1031 exchange transaction.

Further discussion surrounding the Federal Opportunity Zone program and details of the numerous benefits of Urbanist's Captive QOF for investor buyers can be found in the 2020 White Paper by HCVT (the 34th highest ranking tax and CPA firm in the U.S. and an Opportunity Zone specialist).

INDUSTRY OVERVIEW

Urbanist business model touches several high demand and fast growth industry segments:

- Multifamily
    - Small Balance Multifamily ("SBMF")
    - Student Housing
    - Corporate Housing
    - Coliving
- Short to medium stay furnished apartments
- Branded Residences
- Smart-Technology PropTech Enabled Real Estate
- Health and Wellness Real Estate



Market Size, Supply and Demand

Existing U.S. Housing Stock

According to the 2017 American Housing Survey, there are 121.5 million housing units in the United States. Single-family houses account for 77 million (63%) and 2-20 unit multifamily buildings account for 19.5 million (16%). 2-20 unit multifamily buildings represent two thirds of all multifamily buildings and within that, by far the most common unit typology is 2-4 units, i.e. Duplex, Triplex and Fourplex. Urbanist is developing new communities of these most popular housing verticals.

Characteristics	Estimate
Total	121,560
Units in Structure	
1, detached	76,833
1, attached	8,958
2 to 4	8,363
5 to 9	5,780
10 to 19	5,282
20 to 49	4,116
50 or more	5,427
Manufactured/mobile home or trailer	6,727
Other (Boat, RV, van, etc.)	75
Cooperatives and Condominiums	
Cooperatives	975
Condominiums	7,152

**Estimates in thousands of units*

Urbanist is creating inner-city multifamily communities ranging from 12 to 40 units. A typical Project or community will consist of 16-24 apartments which falls into the SBMF category of 5-50 units valued at less than $10 million for reporting. Each typical Project of 16-24 apartments is divisible into a series of fourplex and SBMF buildings and each apartment will typically contain 2 bedrooms and 2 bathrooms. Thus, Urbanist is paying most attention to the SBMF market as this is where we see our competition and primary Buyer pool situated.

The 2018 SBMF loan origination volume was approximately $55 billion with 2019 on track for $58 billion (including refinances as well as purchases). CBRE reported that the 2018 transactional volume of SBMF buildings priced at $2.5 million to $10 million was $13 billion "*however, this purchase count is conservative since a notable number of transactions were under $2.5 million and therefore not included in the total.*" Across the country, there will be many 5+ unit SBMF transactions that fall below a $2.5 million price point, especially as the average age of all SBMF buildings is 60 years. Since Urbanist has the benefit of selling

Projects as individual fourplex buildings, the annual volume of 4-unit buildings transacted adds to an even greater liquidity pool.

When Urbanist meets its first year's selling target of 200 units at an estimated $65 million of value, the 200 units will barely scratch the surface by accounting for 0.001% of all 2-20 multifamily unit buildings existing in the U.S. – thus the possibility of accelerated growth and nationwide expansion is substantial. Based on an estimate that the annual transactional volume of $1 million to $10 million SBMF buildings plus fourplex buildings is $18 billion, Urbanist Projects would approximately increase annual transactional volume by only 0.36% for this category.

Current U.S. Rental Revenue

During the 2010s, U.S. renters paid about $4.5 trillion in rent, according to Zillow. That's more than the 2018 GDP of the world's fourth-largest economy, Germany.

In 2019 alone, renters paid out $512 billion in rent. The total amount of rent paid in 2019 was 2.9% higher than in 2018, with 43.6 million people renting across the U.S.

The National Council of Real Estate Investment Fiduciaries reports that annualized growth of net operating income jumped from 3.4% in the first quarter of 2018 to 7.5% in the first quarter of 2019. At the same time, National Apartment Association data show a 2.1% nominal rise in operating expenses.

Multifamily Occupancy Overview

In 2019, multifamily housing had record-breaking numbers in terms of occupancy.

According to data from RealPage, apartment occupancy climbed to its highest point in August 2019, higher than it has been at any point since the last tech boom of the year 2000. August also marked the seventh consecutive month that apartment occupancy has risen. The 150 largest apartment markets in the country averaged an occupancy of 96.3% in the month of August.

Housing Shortage Crisis and the Increasing Demand for Rental Units

There has been a historical shortage of new housing supply in dense urban areas. Urban areas across the country have seen limited housing starts in recent times. In a January 2020 analysis by Realtor.com, *"despite a booming economy and healthy household formation, sustained levels of relative underbuilding and unfaltering demand since 2012 have left a sizable gap of 3.84 million new single-family homes."* In the millennial era of economic expansion between 2012, when the first millennials turned 31, and 2019, a total of 5.92 million single-family homes have been constructed. However, over the same 8 year period, 9.76 million new households have been formed, according to U.S. Census data. A large shortage of single-family housing creates a large demand driver for multifamily rental accommodation.

The table below demonstrates that the last decade has had by far the largest and most severe undersupply of housing accommodation for the past 50 years, with an average annual shortage of housing supply at 160,200 residences per year, which has significantly contributed to the US housing crisis.

	Household Growth		Housing	
	Percent	Number (Millions)	Completions (Units, M)	Difference
1970s	2.4	1.68	1.70	24,800
1980s	1.3	1.13	1.49	364,400
1990s	1.4	1.40	1.33	-72,300
2000s	1.0	1.14	1.56	420,900
2010s	0.9	1.04	0.88	-160,200
Average*	1.4	1.25	1.40	150,800

Source: CBRE Research, U.S. Census Bureau, Moody's Analytics, Q1 2019. *Average per year for entire 1968-2018 period.

Axios' January 2020 newsletter, *The New Housing Crisis,* portrays *"the big picture: There just isn't enough housing to go around. Every year the number of U.S. households grows by more than 1 million, while simultaneously somewhere between 300,000 and 400,000 existing housing units are demolished."*

CBRE's U.S. multifamily research brief, *Housing Undersupply Contributes to Housing Affordability Challenge*, says *"the resultant undersupply has been a major contributor to rising single-family home sales prices and multifamily rents. Rising land costs, increased labor costs, greater development regulations and many other factors have also contributed to rising housing costs."* It goes on to say that, *"through the 2010s, average sales price and rent increases have outpaced wage growth."*

Another factor contributing to the housing shortage, as mentioned in a January 2020 Forbes article, *Here's How Many New Homes It Would Take To Fix The Housing Shortage*, *"Baby Boomers and Gen Xers will need to free up some of the existing housing supply."* A November 2019 Redfin article, *Homeowners are Staying in Their Homes Five Years Longer Compared to 2010, Leaving First-Time Homebuyers with Fewer Options*, explains this point in more detail. It reported that 53 out of 55 metros studied had far fewer homes listed for sale in 2019 compared with 2010 with results ranging from -10.6% to -62.2%. The article asserted that a primary cause is due to the *"typical American homeowner in 2019 had spent 13 years in their home, up from eight years in 2010. Median home tenure increased in all of the 55 metros Redfin analyzed. In Salt Lake City, Houston, Fort Worth, San Antonio, and Dallas homeowners have been in their homes the longest [between 21.9 to 23.4 years], with typical homeowners in those metros staying in their homes over eight years longer than they did in 2010."* Part of this shift is due to the new desire among baby boomers to age in place. Older Americans are not leaving and freeing up their homes at the same rate as previous generations did at their age.

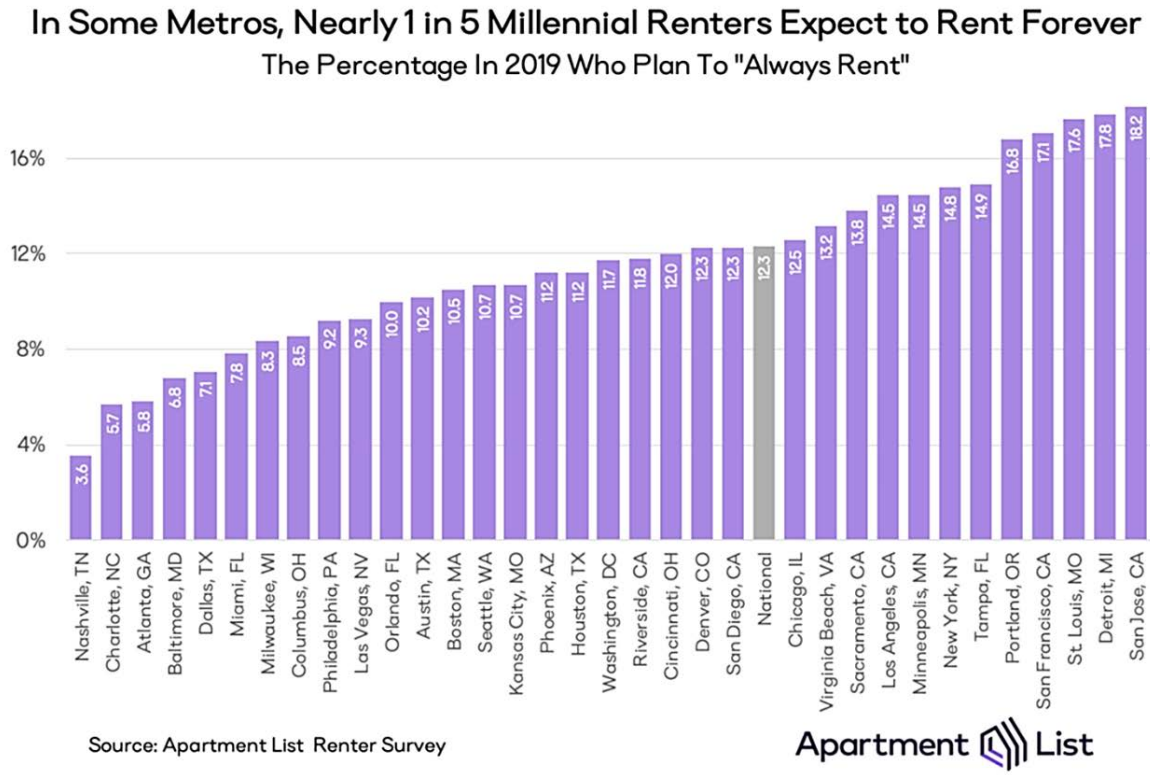
The whole country is experiencing this in real time. While *"December is not the most popular time to list a home for sale historically, this past December [2019] it was particularly unpopular. The supply of homes for sale was 12% lower compared with December 2018,"* according to realtor.com

PwC reported in October 2018 that, "*the anticipated formation of 1.5 million new households in 2018 suggests that total single- and multifamily starts expectations of 1.3 million will fall short of demand, putting more upward price pressure on for-rent and for-sale properties. "Even at 360,000 multifamily starts, we're not building enough units in the right places to meet demand and keep rents in check, and now construction costs are going up faster than we can raise rents," says the chief executive officer of one of the nation's top 20 multifamily developers*."

However, due to typical construction delays, the reality is that the quantity of apartments being delivered on an annual basis is consistently much lower than expectations based on number of starts, and thus falling short of the already insufficient supply. REIS report in their Q4 2019 Construction Analysis, *"with many projects delayed, the annual completions figure came out to only 184,000 new units in 2019, a decrease of 30.5% in annual completions from 2018 which saw 265,000 units completed."* REIS continues to state that, *"supply growth is expected to slow, leading to less pressure on apartment rents and vacancies. As long as demand remains strong (and demographic patterns suggest that rental demand will likely remain robust for another five to ten years)."* REIS reported that the average multifamily vacancy rate across all asset classes in the U.S. remains steady at 4.7%, an impressive number from a national perspective.

December 2019 – Inman News: ***Will millennials rent forever? Study shows they believe so***

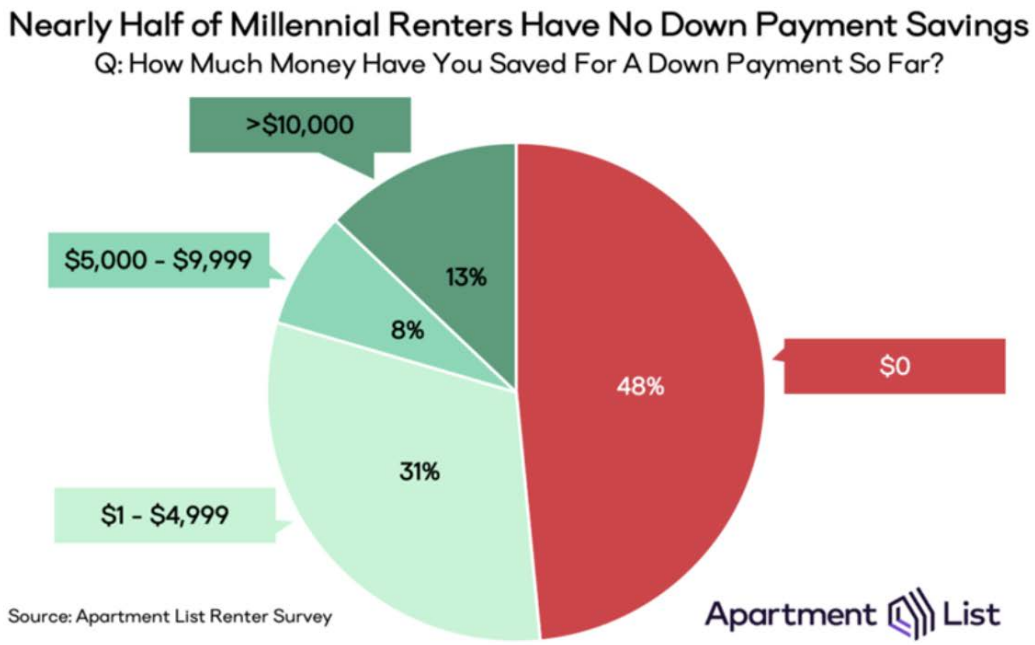
Over the past year, more than a million additional millennials gave up on planning to buy a home and resigned themselves to renting for the foreseeable future, and perhaps the rest of their lives.



A new Apartment List study provides the first hard evidence that large numbers of millennials who would like to become homeowners are so frustrated with soaring home prices and meager supplies that they have changed their minds, at least for now. The study defines millennials as those between the ages of 23 to 38. Depending on which age brackets demographers use, the number of millennials in the United States hovers around 80 million.

Apartment List, which has tracked millennial rental trends for five years, also found that 48% of millennials haven't saved anything to go toward a down payment. In every major metropolitan area covered by the survey, fewer than half of aspiring millennial homeowners will be financially ready in the next five years, even at just 5% down.

The table below clearly demonstrates that only 13% of American millennial renters have saved over $10,000 to use as equity down payment to purchase a home. In essence these statistics showcase that most people in the future will stay as long term 'lifetime' tenants, making the multifamily investment niche even more lucrative for investors and developers due to the retention of current residents, as well as the continuous increase of the potential tenant pool.



The Apartment List survey echoes a June Freddie Mac survey, which found that a record 82%of renters now believe renting is more affordable than owning, up from 67% just a year ago. Freddie Mac found that a quarter of older millennials who are renting today believe it is not very likely or not at all likely that they will buy in the future.

More than a year ago, the Urban Institute estimated that more than 19 million millennials in 31 cities are 'mortgage ready,' with credit scores and debt levels good enough to qualify for a loan, however more than a year later, most are still renting.

National Apartment Association (NAA) – U.S. Needs 4.6 Million New Apartments By 2030 or It Will Face A Serious Shortage

To meet growing demand, America needs to build at least 4.6 million new apartment homes at all price points by 2030. In addition, as many as 11.7 million older existing apartments could need renovation during the same period.

These projections come from a new study commissioned by the National Apartment Association (NAA) and National Multifamily Housing Council (NMHC) and conducted by Hoyt Advisory Services (HAS).

"It's important to note that this number excludes the supply-demand imbalances already existing in some markets," said Paula Munger, NAA's Director of Research and Industry Analysis.

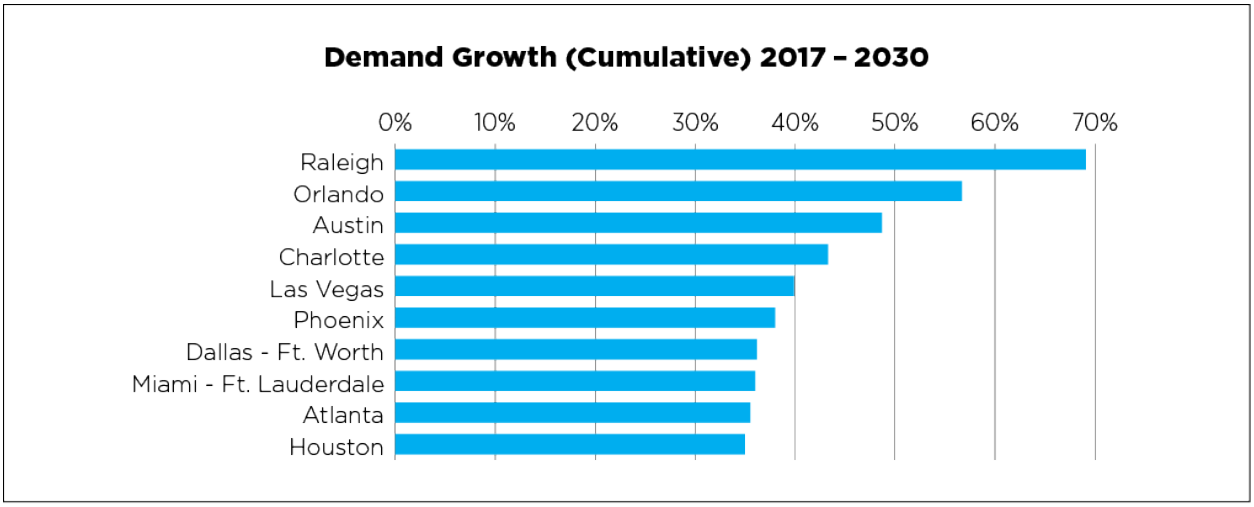
The study attributes this increased demand to:

- The rise of young adults ages 18 to 34 as the largest generational demographic group and who are delaying homeownership;
- The aging population who are choosing the convenience of apartment living;
- Immigration, which is predicted to account for about half of all new U.S. population growth through 2030.
- Demand for apartments is at an all-time high as the number of renters has reached an unprecedented level. Nearly 39 million people in the United States — that is almost 1 in 8 — call apartments home. This demand:
- Puts significant pressure on the apartment housing industry to meet their needs.
- Makes it challenging for millions of families nationwide to find quality rental housing they can afford at their income levels. Underlying the affordable rental housing shortage is an income problem.

Meeting projected demand means building more than 325,000 new apartments each year on average — a number the industry has not been able to hit for decades. From 2012 through 2016, the apartment industry built, on average, only 244,000 new apartment homes per year. The last time the industry built more than 325,000 in a single year was 1989.

Annual growth in renter households exceeded one million on average over the past five years, which is a record amount. Meanwhile, apartment vacancy rates as measured by RealPage Research fell or remained the same for seven straight years from 2009 to 2016.

At the individual Metropolitan Statistical Area (MSA), demand was ranked by both sheer number of apartment units needed as well as the percent increase of new apartments over the current stock. New York, Los Angeles, Dallas-Fort Worth, Chicago, Washington, D.C., and Houston each need over a half-million units over the next 13 years.



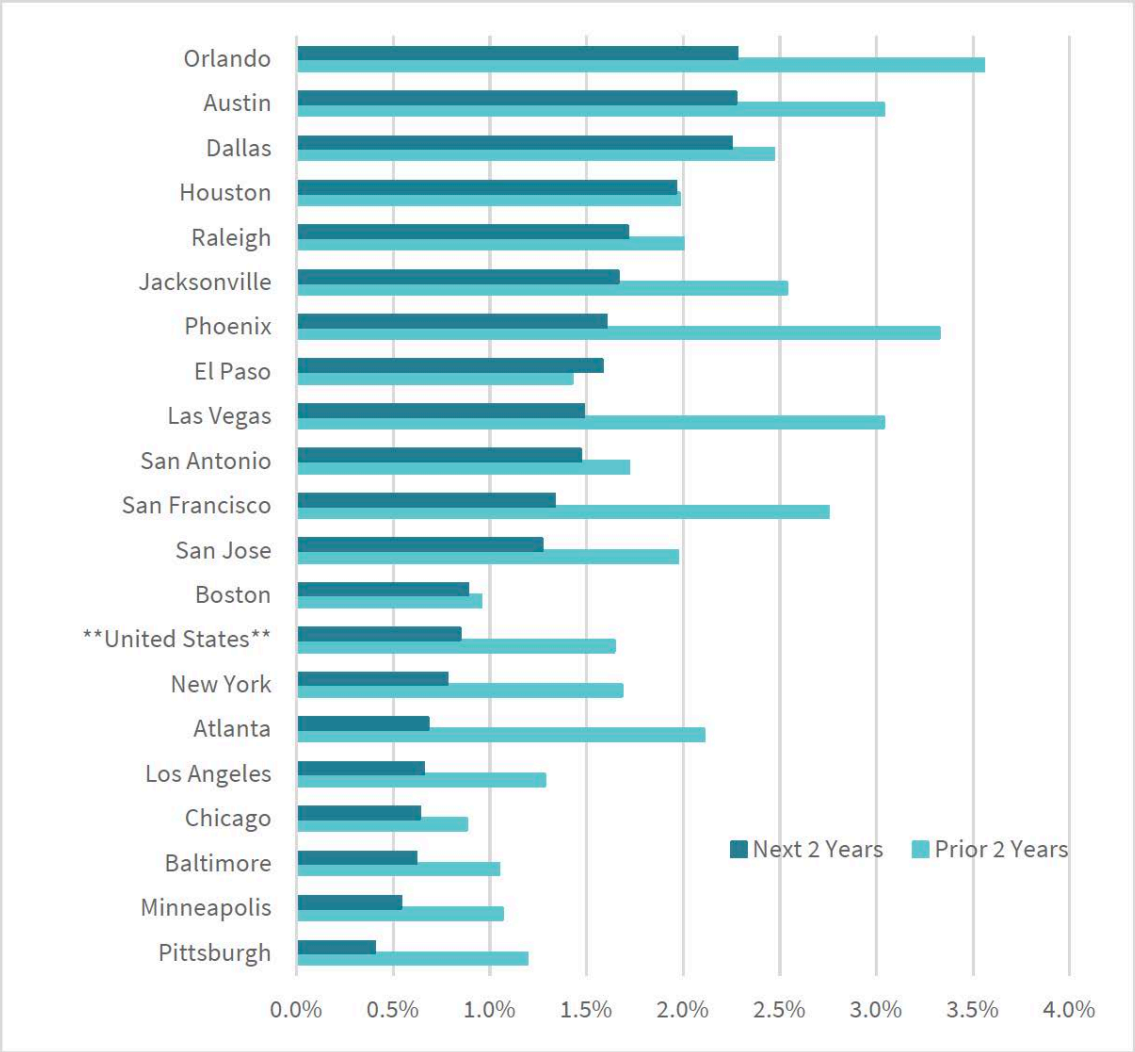
SOURCE: HOYT ADVISORY SERVICES

July 2019 Fannie Mae Multifamily Supply and Demand Market Commentary
Kim Betancourt, Director of Economics

While there may seem to be a lot of multifamily units under construction, at a national level the potential demand for new units is expected to be in balance with current supply underway. Unfortunately, much of this potential demand – and supple – is not evenly matched around the country; the match between supply and demand varies greatly between metropolitan areas.

Job growth is expected to be about 1.5% this year, according to Fannie Mae's forecast, an estimated addition of more than 2.2 million new jobs. Based on that amount of job growth, multifamily rental demand could theoretically be in the range of about 450,000 units in 2019. Some of the metropolitan areas with the best anticipated job growth over the next 18 months include a number of the Texas metropolitan areas.

Change in Employment (CAGR) – Select Metropolitan areas



Source: Moody's Analytics, 4Q2018

As seen in the table above, most major metropolitan areas may be oversupplied over the next 12 to 24 months, based on projected job growth. Only a few, two of which are highlighted in yellow will likely be undersupplied. Some of the larger and/or higher-cost metropolitan areas likely to face oversupply include New York, Washington, DC, Denver, Boston, Atlanta, Portland, and Miami, but even smaller and/or less expensive rental metropolitan areas have not been spared. These include Colorado Springs, Richmond, Kansas City, and even Detroit.

Some Metropolitan Areas Need More Apartment Supply

Total New Units Expected

Metro Area	(Units)	Potential Demand
New York	57,331	37,328
Washington, DC	33,105	15,974
Dallas	29,782	24,174
Los Angeles	26,313	14,973
Boston	23,617	8,970
Seattle	22,500	13,897
Atlanta	20,224	7,660
Miami	17,910	7,262
Austin	17,879	9,897
Denver	17,521	6,097
Chicago	17,098	12,458
Orlando	16,031	12,115
Minneapolis	14,527	4,352
Houston	12,896	24,684
Oakland	12,530	5,480
Philadelphia	10,840	8,060
Phoenix	10,743	13,792
San Francisco	10,419	6,223
Charlotte	9,759	7,109
San Antonio	9,663	6,298
Portland	9,393	6,611

Source: Dodge Data & Analytics and Moody's Analytics.

Note: Supply equals total number of apartments units completed in 2019 and 2020 per Dodge Supply Track. Potential Demand is estimated by factoring in both the amount of new supply and the total number of new jobs expected in the metropolitan area in 2019 and 2020, per Moody's Analytics.

Houston, Phoenix, and Las Vegas are a few of the metropolitan areas that are expected to see some of the best job growth in the nation over the next two years. This is primarily due to growth in the professional services and education and healthcare sectors, and in the case of Las Vegas primarily the tourism sector. Yet, these metropolitan areas are likely to be undersupplied, especially over the short-term.

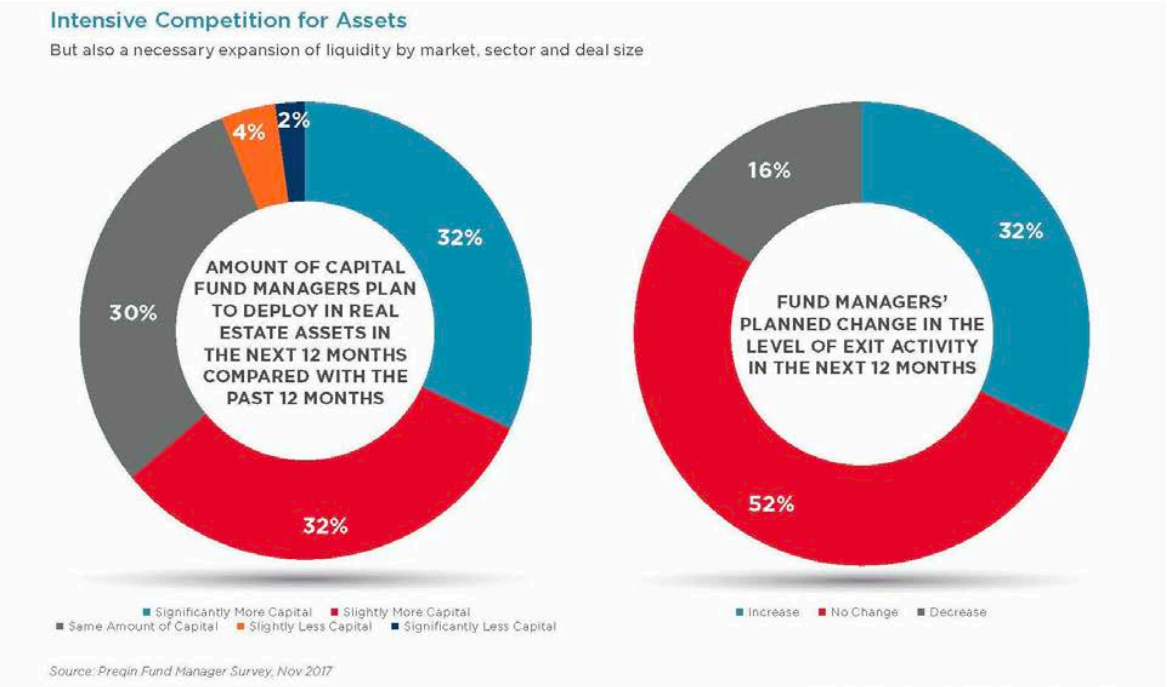
While Houston's reliance on the energy sector is still a primary driver of its economy, it also relies on the education and healthcare sectors as well as professional and business services sectors, thereby improving the metropolitan area's industrial diversity. As a result, overall job growth has been above 2.0% on average annually since 2018 and is expected to remain above the national average over the next several years. While that should produce demand for more than 24,000 multifamily units through 2020, only about 12,000 units are expected to deliver by that time.

	% Increase 2018 to 2020		
Market	**MF Inventory**	**Total Jobs**	**Difference**
Minneapolis	5.4%	1.1%	-4.3%
Richmond	6.0%	1.8%	-4.1%
Oakland	6.1%	2.3%	-3.8%
Washington, DC	5.7%	1.9%	-3.7%
Austin	8.2%	4.6%	-3.7%
Denver	5.5%	2.0%	-3.5%
Nashville	5.8%	2.3%	-3.5%
Miami	6.4%	3.0%	-3.3%
Atlanta	4.7%	1.4%	-3.3%
Boston	4.9%	1.6%	-3.2%
Charlotte	6.1%	2.9%	-3.1%
Orlando	7.7%	4.6%	-3.1%
Columbus	4.6%	1.6%	-3.0%
San Antonio	5.7%	3.0%	-2.7%
Jacksonville	5.9%	3.4%	-2.6%
Seattle	5.9%	3.4%	-2.5%
Salt Lake City	4.6%	2.3%	-2.3%
Philadelphia	3.5%	1.4%	-2.2%
Raleigh	5.6%	3.5%	-2.1%
Portland	4.8%	2.7%	-2.0%
San Francisco	4.6%	2.7%	-1.9%
Baltimore	2.8%	1.2%	-1.5%
Indianapolis	2.9%	1.5%	-1.5%
New York	2.9%	1.6%	-1.3%
Los Angeles	2.4%	1.3%	-1.1%
Dallas	5.6%	4.6%	-1.1%
Chicago	2.4%	1.3%	-1.1%
San Jose	3.5%	2.6%	-1.0%
Orange County	2.4%	1.5%	-0.9%
San Diego	2.0%	1.7%	-0.3%
Tampa	2.7%	2.6%	0.0%
Sacramento	2.4%	2.5%	0.2%
Phoenix	3.0%	3.2%	0.2%
St. Louis	1.5%	1.9%	0.4%
Tucson	1.1%	1.6%	0.6%
Albuquerque	1.0%	1.6%	0.6%
Cleveland	0.6%	1.5%	0.9%
Las Vegas	1.6%	3.0%	1.4%
El Paso	1.4%	3.2%	1.8%
Houston	2.1%	4.0%	1.9%

Source: Dodge Data & Analytics and Moody's Analytics

Investor Demand for Multifamily Assets

As reported by Cushman & Wakefield, *"there is significant investment on the sidelines looking for quality assets to deploy capital into. Fundraising in the first quarter of 2019 in the U.S. marked a further rise, and dry powder from closed-end funds has jumped to a new high of $206 billion."*



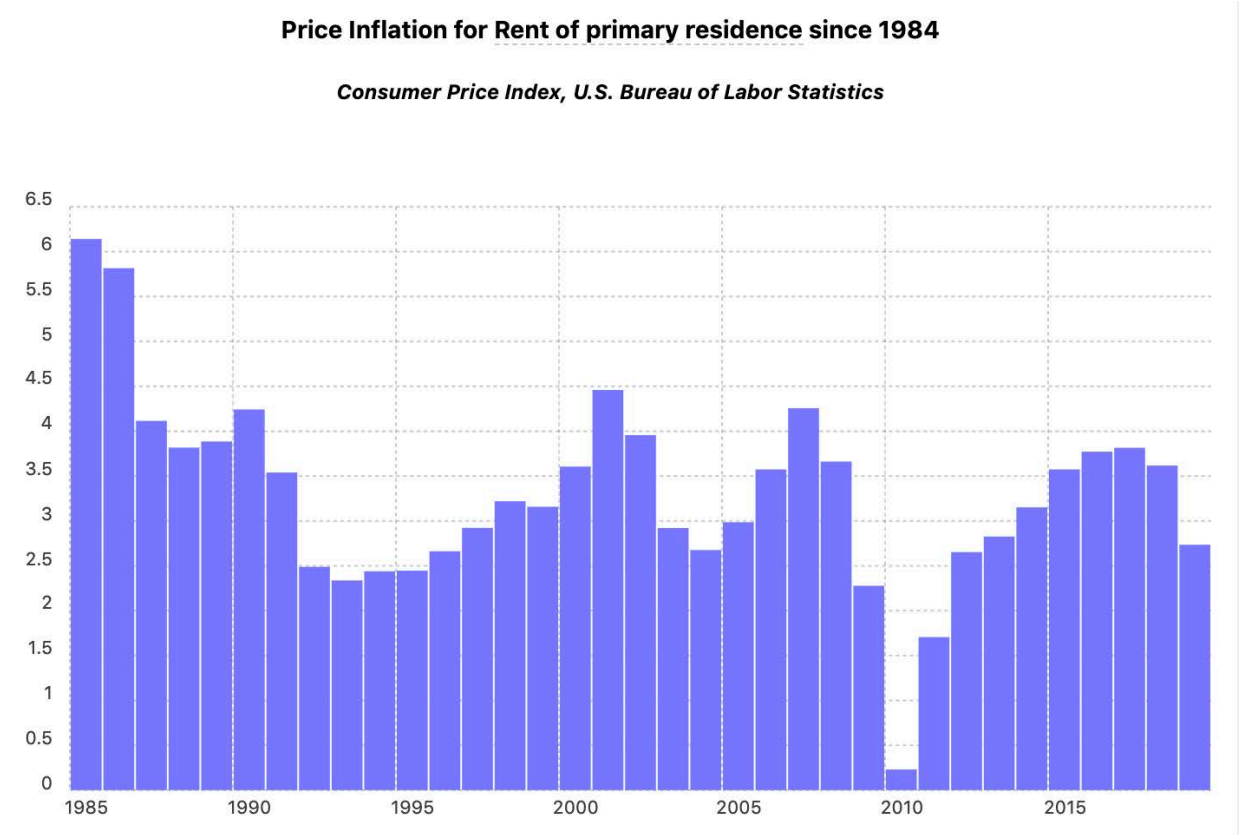
The NAA's *2019 Apartment Housing Outlook* included a recent National Real Estate Investor survey which revealed that, *"only 14% of multifamily investors plan to be net sellers. The most common complaint from rental housing investors of late is the inability to find deals that will deliver returns within their target range."*

Investors interest continue to increase because of steady rent gains and low vacancy rates. According to the Real Capital Analytics Commercial Property Price Index, growth in rental property prices cooled through the beginning of 2019, but prices were still up 7.1% year-over-year in April. Nationally, prices rose the most for properties in car-dependent suburbs and for garden-style/low-rise apartment buildings.

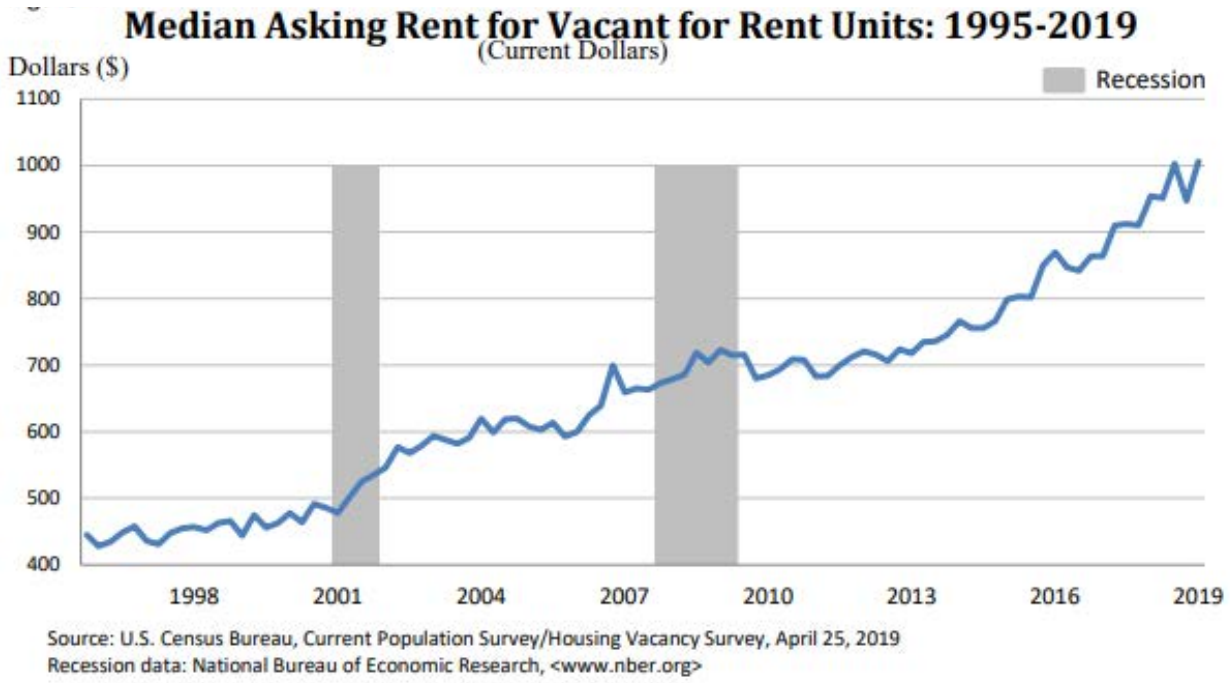
Thirty-five Years of Rent Appreciation: 1984 to 2019

US real estate is truly a great investment, especially if structured correctly from the outset. According to the U.S. Bureau of Labor Statistics, prices for rent of primary residence were 211.5% higher in 2019 versus 1984. In other words, an apartment costing $1,000 in the year 1984 would cost $3,115 in 2019.

In every single year since 1984, average rental prices increased across the U.S. In the last 35 years, 2010 was the only year that annual rent growth was less than 1%. Saying this, rent prices rose 0.23% in 2010 at a time when U.S. house prices were still declining due to the recession.

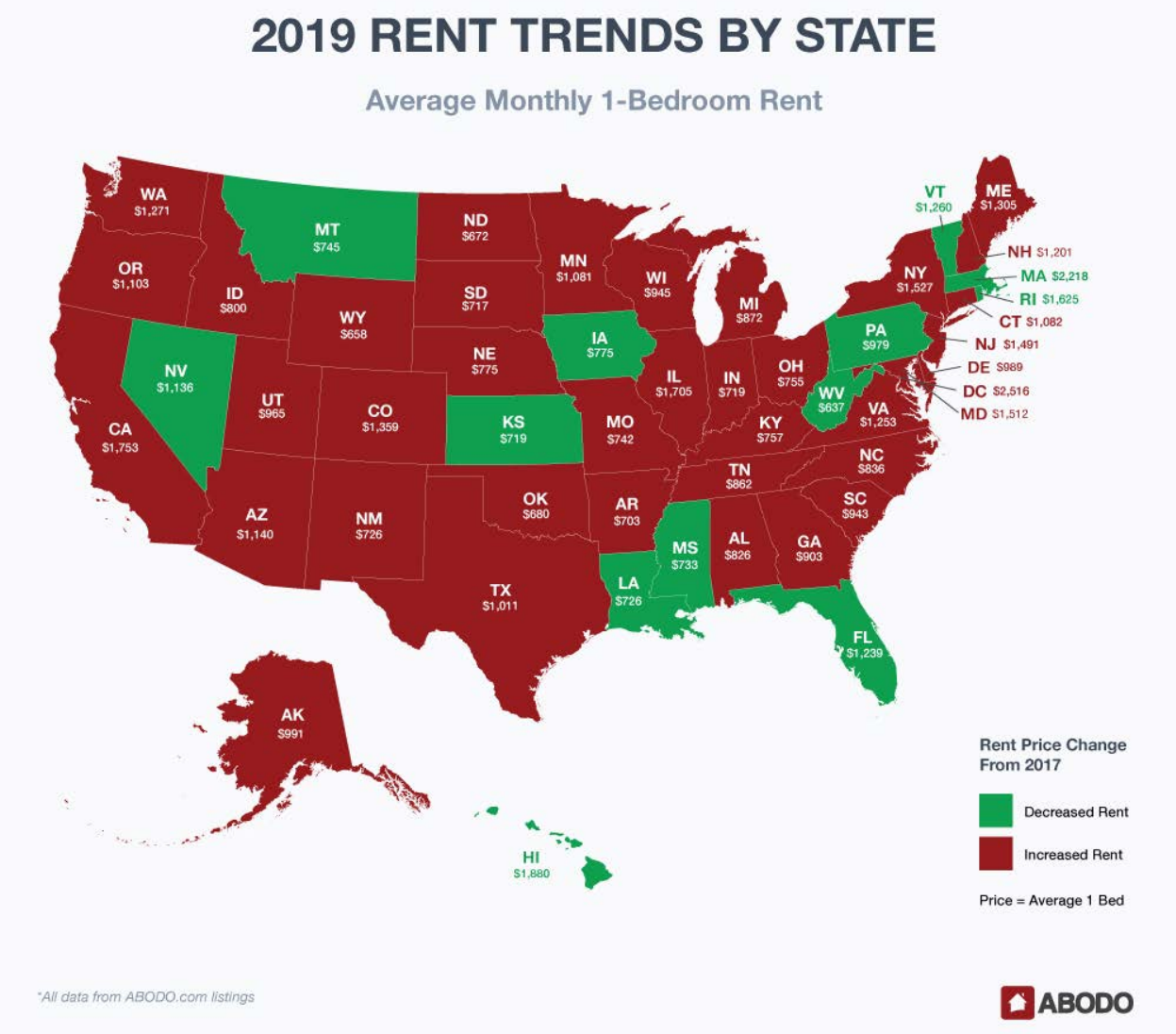


While average house prices were declining for 4 years between 2007 to 2011, rent prices throughout the recession period generally remained at healthy levels, and actually increased every year, albeit at a lower rate than the 35 year average.



America's 2019 Rental Market in Review: Did Renters Pay More?

Nationally, one and two-bedroom 2019 rents rose steadily, faltered in the third quarter, and then trended higher. The national median rent for one-bedrooms rose 4.1%, ending the year at $1,078. Rents for two-bedroom apartments stood at $1,343 in December reflecting a solid 5.5% gain.



August 2019 Yardi Matrix Multifamily National Report
Jack Kern, Director of Research & Publications

U.S. multifamily rent growth rose by 3.3% year-over-year in August. Lifestyle rents increased by 3.3%, while Renter-by-Necessity rose by 3.6%. Rent growth has remained exceptionally consistent. Consistency extends in a number of directions. For example, the growth for the luxury Lifestyle segment has increased to roughly the same level as that of the Renter-by-Necessity segment.

The market's accomplishments are not a mystery – the combination of strong demographic trends, social changes that create demand for apartments, demand for new housing and the country's long period of economic growth have propelled the segment. With the exception of the economy's performance, most of those trends are long term in nature.

Single Family Residential – House Price Appreciation

The Case-Shiller Home Price Indexes track changes in home prices (single-family residences only) throughout the U.S. They are based on a constant level of data on properties that have undergone at least two arm's length transactions. Notably, the indexes are used as the underlying pricing mechanism in CME real estate futures and options. Shown below is the Index from 1987 to 2019.

Houston Home Appreciation Rates

Below is the greater Houston Home Price index, which did not grow at the same frantic pace as some other cities leading up to the recession - most notably not getting too over heated - and in turn, Houston had virtually no price deflation at a time where real estate prices in most US markets crashed, showcasing Houston as a consistent and reliable marketplace for real estate investment.

According to NeighborhoodScout with analytics from Location, Inc., *"in the last 10 years, Houston has experienced some of the highest home appreciation rates of any community in the nation. Houston real estate appreciated 54.07% over the last ten years, which is an average annual home appreciation rate of 4.42%, putting Houston in the top 10% nationally for real estate appreciation. If you are a home buyer or real estate investor, Houston definitely has a track record of being one of the best long term real estate investments in America through the last ten years."*

HOUSTON APPRECIATION RATES

TIME PERIOD	TOTAL APPRECIATION	AVG. ANNUAL RATE
Last 2 Years: 2017 Q3 - 2019 Q3	8.21% ↑	4.03% ↑
Last 5 Years: 2014 Q3 - 2019 Q3	26.29% ↑	4.78% ↑
Last 10 Years: 2009 Q3 - 2019 Q3	54.07% ↑	4.42% ↑
Since 2000: 2000 Q1 - 2019 Q3	119.35% ↑	4.06% ↑

Source: NeighborhoodScout / Location, Inc

Buy Versus Rent

House Price Index vs. Owners' equivalent rent

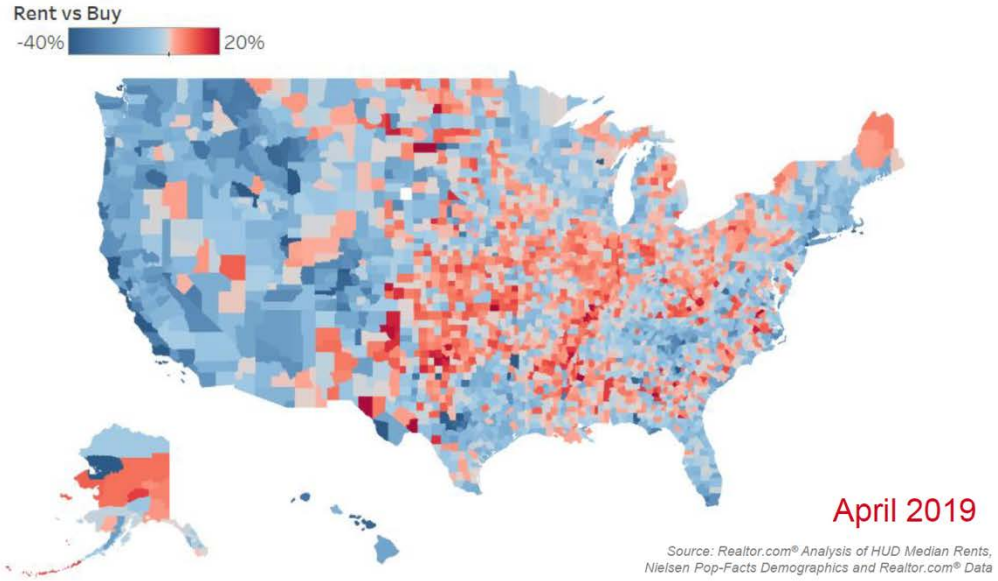
Nationwide, housing prices have again far outstripped wage growth and rental prices. Owners' equivalent rent (OER) is the amount of rent that would need to be paid to substitute a currently owned house as a rental property. Although not shown on the below graph, the average hourly earnings index trends almost identically to OER.

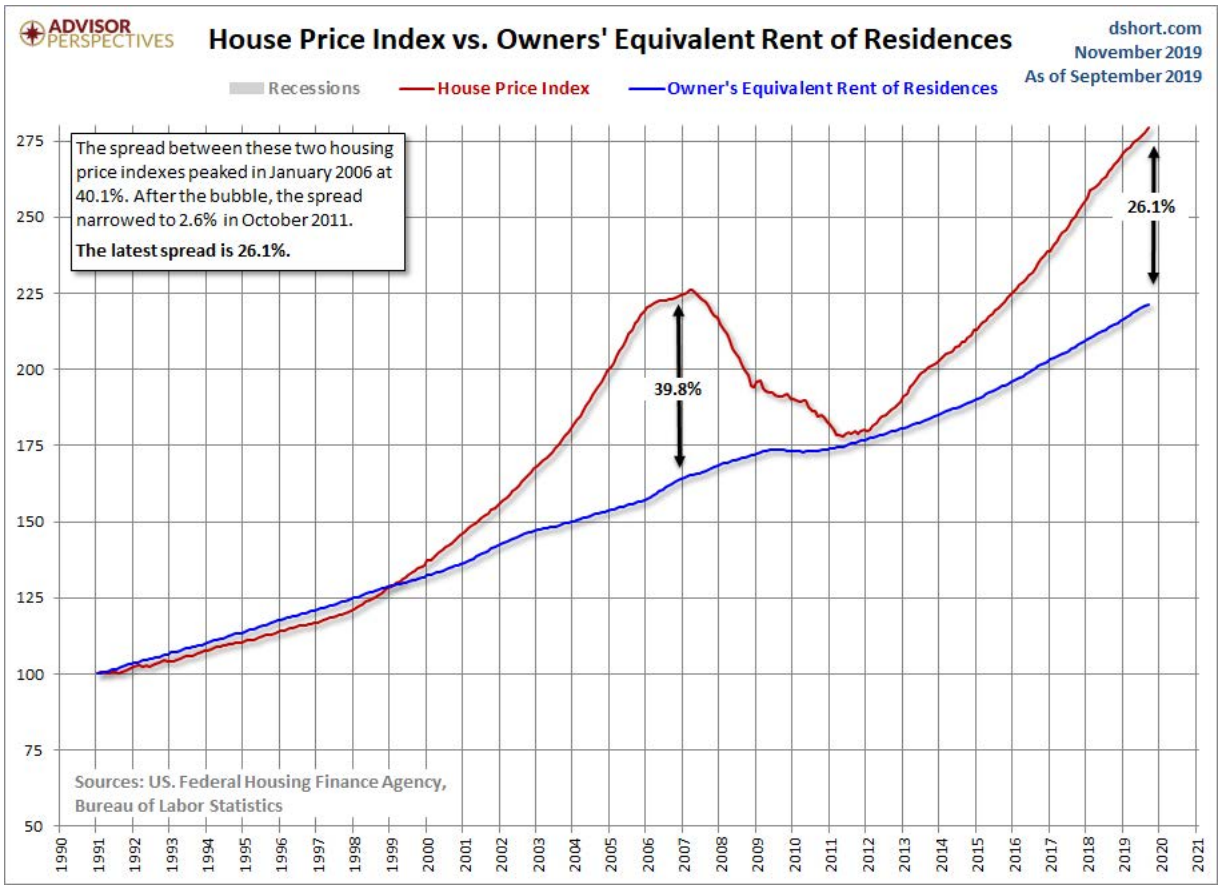
Homes are nearly as unaffordable now as they were at the peak of the housing bubble during the recession. That's without factoring in student debt and the community attitude changes towards debt, assets, lifestyle and mobility. 2012 was the last chance to purchase a home in the US at a truly affordable price. Home prices are not quite as bad as they were in July of 2006, but pressure on would-be buyers is

extreme, and thus for many millions of Americans, renting is the far more affordable, and better value for money option.

In Realtor.com's November 2019 Market Outlook, which emphasizes home ownership trends, one slide's heading stated, "*Cheaper to buy in 39% of counties,*" meaning that in 61% of counties it is a more affordable option to rent rather than purchase, which is a key rental demand driver. The infographic below showcases the affordability heat map, comparing the cost benefit of owning and renting U.S. real estate. The mid-point of the monthly cost analysis chart has renting at 10% more affordable than owning, and in some markets, renting can be up to 40% cheaper, literally making it the only affordable lifestyle choice.

Simple monthly cost analysis favors renting now in more places





Many home owners, especially those with a large residence in a 'hot' market with high appreciation, will wish to sell their property for a significant 'cash-out', downsize to a smaller house, or downsize and enjoy the perks of renting-by-choice. Simultaneously, they may prudently purchase a SBMF investment property in a desirable rental market to protect and grow this recently accumulated capital gain via a more suitable and maximized real estate investment vehicle.

Emerging Trends in Rental Housing

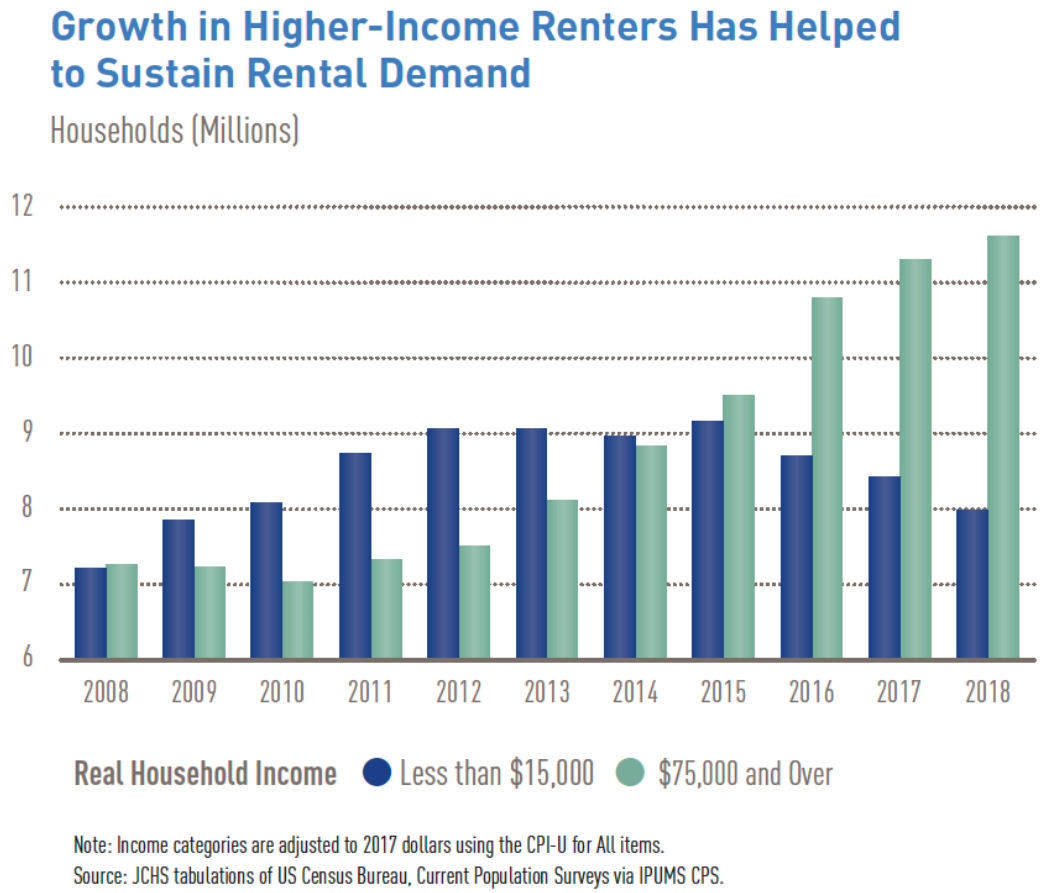
2019 Harvard University – The State of the Nation's Housing

The latest Joint Center for Housing Studies of Harvard University (JCHS) projections, incorporating Census Bureau data through 2018, put average annual household growth in 2018–2028 at 1.2 million households, in line with recent averages.

There was strong growth in the numbers of older and higher-income households that now rent their housing. According to the Current Population Survey, the number of renter households headed by a person age 55 and over rose by about 189,000 in 2018, following gains of 343,000 on average in the prior

two years. With these increases, older households now make up more than a quarter of renters. Households under age 35, however, still account for the largest share of renters at 38%.

Consistent with nationwide growth in households with incomes of at least $75,000 in constant 2017 dollars, the number of renters in this income group rose by 311,000 from 2017 to 2018. This was the eighth consecutive annual increase in higher income renters, lifting their numbers by 4.6 million, or 66%, since 2010. The share of renter households earning at least $75,000 now exceeds 25%, up from 19% in 2008.



2019 PwC and Urban Land Institute – Emerging Trends in Real Estate
R. Byron Carlock Jr, U.S. Real Estate Research Leader and W. Edward Walter, Global CEO

The sluice gates of demand for rental homes and communities still flow at every age and economic level, but what has changed—in a very big way—is that the expense of developing properties and improving existing stock has gone up fast, to a level that now exceeds income gains among would-be renters.

Remaining are strong forces of fundamental demand, from an age demographics perspective. Millions of 20-somethings are still funneling along at a high amplitude into rentals, now solidly supported by a macro

economy that has reached virtually 'full' employment. That economy has even started, slowly, to improve household wage and income opportunity for younger members of the workforce.

The game that developers changed during the latest run—likely forever—has to do with who chooses to rent versus who has to. A lot of that recent demand, particularly for walkable, higher-end, highly amenitized, culturally evolved, urban-chic communities that have become the symbol of metro magnetism—among well-heeled younger adults and a fresh influx of retiree downsizers alike— speaks to a newly tapped class of folks who prefer renting to owning. A financially lucrative market in the making that represents a big near-term operational upside.

The other X-factor for the past seven or eight-plus years, swelling above normal the ranks of natural age-pattern demographic demand for multifamily rentals, has been a massive cohort of homeownership refugees who lost their homes during the mortgage meltdown on the demand side.

There are three priority areas that will go far toward helping to either normalize business prosperity going forward, or, alternatively, emerge as formidable headwinds for real estate investment in multifamily.

The Rise of Applied Technology. The first priority area centers on emerging technology's ability to favorably influence the expense to develop and build a multifamily community, and the cost to operate and manage a property once it is leased.

The Specter of Local Overreach. A growing push among municipalities, especially more expensive, economically dynamic ones, to permit local elected officials to impose and enforce rent-control guidelines and regulations.

Cracking the Code on Who and Why. The housing preferences and access of both those who now choose to rent and those who need to rent. When it comes down to it, sanctuary, safety, livability, and all the other values we associate with home can take many forms and underlie many potential new business models, some of which we haven't even gotten on our radars yet. Airbnb units, co-living, single-family-home rentals, micro apartments, and eventual hybrids of all four models have cropped up on the fringes of the long-term-lease, cash-generation business models that dominate the multifamily space today. Smart money—both inside and outside the established business leaders in the space—is closely tuned into what is happening on those fringes.

The next five- to ten-year period will be characterized by an interweaving of operational excellence and innovation; of data-backed real estate shrewdness and technology-supported design, development, and construction methods; and, ultimately, of the true convergence of real property and intellectual property as a means and solution to developing regenerative home and community equity.

Small Balance Multifamily (SBMF) Reports

H1 2019 CBRE Small Multifamily Assets Series
Jeanette I. Rice, CBRE Americas Head of Multifamily Research

There were 1,531 small property (5-50 unit) acquisitions in H1 2019, representing 36.7% of all multifamily asset purchases and revealing the scope of small asset buying. However, this purchase count is conservative since a notable number of transactions were under $2.5 million and therefore not included in the total.

The percentage of small asset purchases in 2019 is on pace to exceed the 35% annual average since 2010. The expected gain is attributable to several factors, including healthy property market fundamentals, investors' search for new investment opportunities, new buyers entering the market and attractive financing options.

Aided by lower interest rates, 2019 investment volume should be comparable to the 2016-2018 annual average of $12.8 billion and be the second strongest year for small asset investment volume.

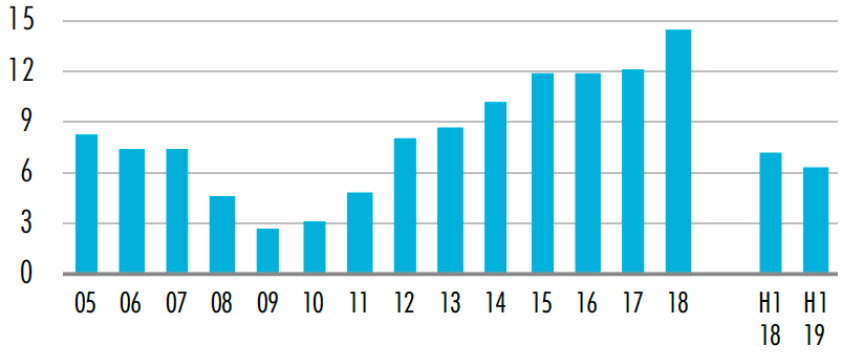
Small asset investment is attractive for many reasons. The size of these assets makes them accessible and operationally manageable to a very large pool of investors (91.6% of investment in H1 2019 was by private buyers). Debt financing has been favorable, with many lenders expanding their small balance lending programs. Market fundamentals remain healthy.

Historical cap rate data reveals a consistent trend of small asset cap rates being lower than overall multifamily averages. Lower operating costs and the strong appeal of the product help keep cap rates low.

Although they encompass a deal size range of $2.5 million to $10 million, the average sales price for Q2 acquisitions was only $4.2 million.

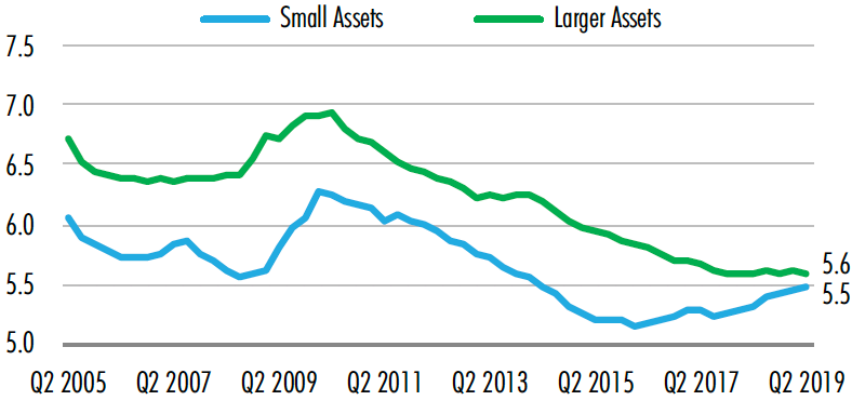
Small assets are older. The average age of small assets acquired in Q2 2019 is 60 years, versus 31 years for all other multifamily acquisitions. Most small asset investment also is in older neighborhoods, many of which are undergoing significant gentrification and redevelopment—certainly a driver of steady investor interest.

Figure 2: Historical Sales Volume ($ Billions)



Source: CBRE Research, Real Capital Analytics, Q2 2019. Note: Multifamily properties 5 to 50 units and ≤$10 million sales price. RCA data captures transactions of at least $2.5 million, thereby underreporting small asset buying activity.

Figure 3: Historical Cap Rate Averages (%)



Source: CBRE Research, Real Capital Analytics, Q2 2018. Small = multifamily properties 5 to 50 units and ≤$10 million sales price.

CBRE is the leader in multifamily capital markets transactions across the globe, including small- to mid-cap deals. In the first half of 2019, these deals made up nearly half of the multifamily assets sold and more than 60% of the multifamily assets financed by CBRE Multifamily Capital Markets professionals.

Figure 4: Characteristics of Multifamily Sales, Q2 2019

	Small	Larger	All
Property Characteristics			
Year Built	1959	1988	1974
Age of Property	60	31	45
Transaction Characteristics			
Cap Rate (%)	5.49	5.60	5.59
Price Per Unit ($)	191,592	165,157	166,968
Average Deal Size ($ Millions)	4.2	29.5	20.1

Source: CBRE Research, Real Capital Analytics, Q2 2019. Note: Small = multifamily properties 5 to 50 units and ≤$10 million sales price.

Q3 2018 CBRE Small Multifamily Assets Series

Jeanette I. Rice, CBRE Americas Head of Multifamily Research

Small asset investment is attractive for many reasons. The size of these assets makes them accessible and operationally manageable to a very large pool of investors (95% of investment year-to-date has been by private buyers). Debt financing has been favorable, with many lenders expanding their small balance lending programs. Market fundamentals have been healthy.

Real Capital Analytics' (RCA) historical cap rates reveal a consistent trend of small asset cap rates being lower than broad multifamily averages. Lower operating costs is one factor.

Small multifamily assets currently have high occupancy levels (and possibly the highest in many years). RCA data shows that small properties purchased this year had an average 97% occupancy.

Q1 2019 CBRE Tight Vacancy Bodes Well for Small Multifamily Assets

Jeanette I. Rice, CBRE Americas Head of Multifamily Research

Small multifamily assets—those with 50 units or less—are enjoying favorable market conditions. Recent and historical vacancy figures provide quantitative evidence of their investment potential. Statistics reveal very low vacancies. Less seasonal volatility in vacancy rates than larger assets, which have much more seasonal fluctuation. Small-asset vacancy also is less volatile through cycles. Other statistics show that small-asset vacancy was less impacted by the 2008/2009 recession than the larger-asset market.

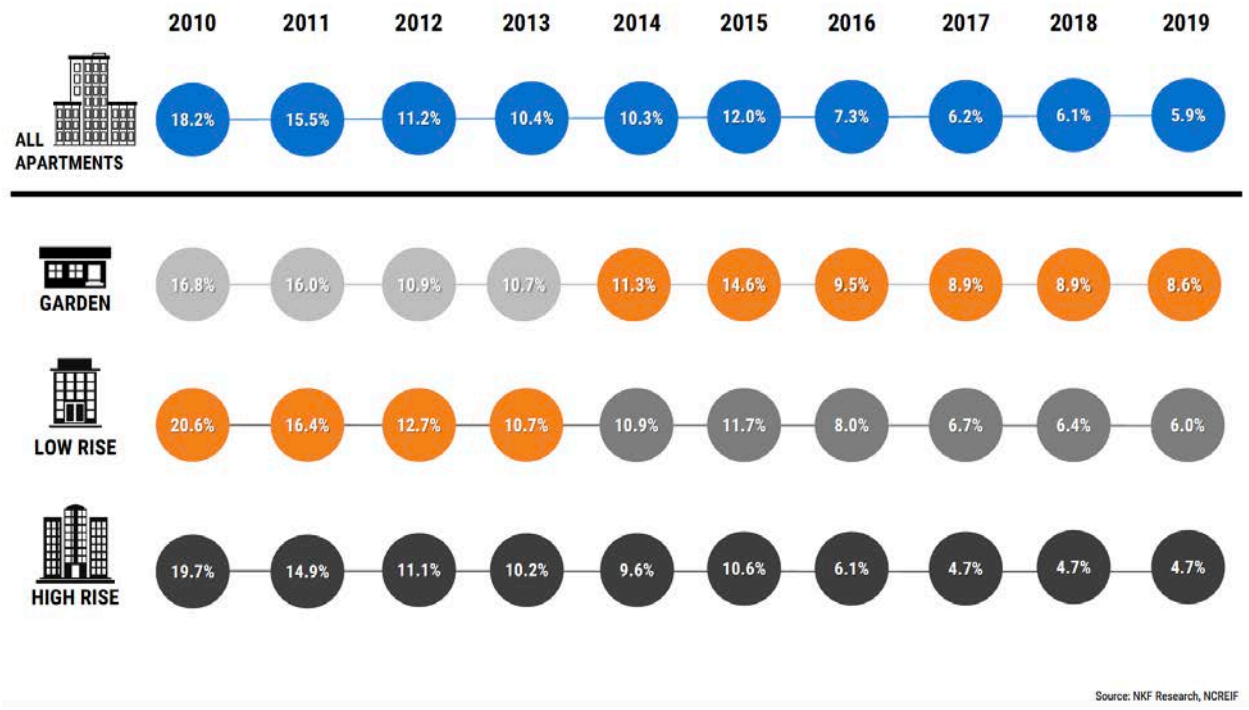
The cyclical and secular factors helping to create strong overall multifamily demand are also helping small multifamily properties. Anecdotal evidence indicates that small multifamily assets have higher retention and lower turnover rates than larger assets.

The near-term outlook is for continued low vacancies in small multifamily assets. Strong multifamily demand, very limited new supply in the communities where small assets are located, improved neighborhood and product quality and attractive rents for potential renters should all contribute to maintaining very low vacancies in small multifamily assets for the next few years.

Q1 2019 Newmark Knight Frank US Multifamily Capital Markets Report

Jeff Day, Head of Multifamily Capital Markets

As of Q1 2019, total returns for all apartments declined to 5.9% based on appreciation and income. However, garden apartments [followed closely by low rise apartments] continue to outperform the overall sector by 270 basis points – and have been the best performing subtype since 2014.



Smaller boutique multifamily buildings are the hottest asset class within the sector

Small Balance Multifamily Lending

Q2 2019 Arbor – Multifamily Small Loans Report

Smaller multifamily properties (5 to 50 units) have between $1 million and $7.5 million in unpaid principal balance and the market tends to move quicker than it does for larger, more conventional properties.

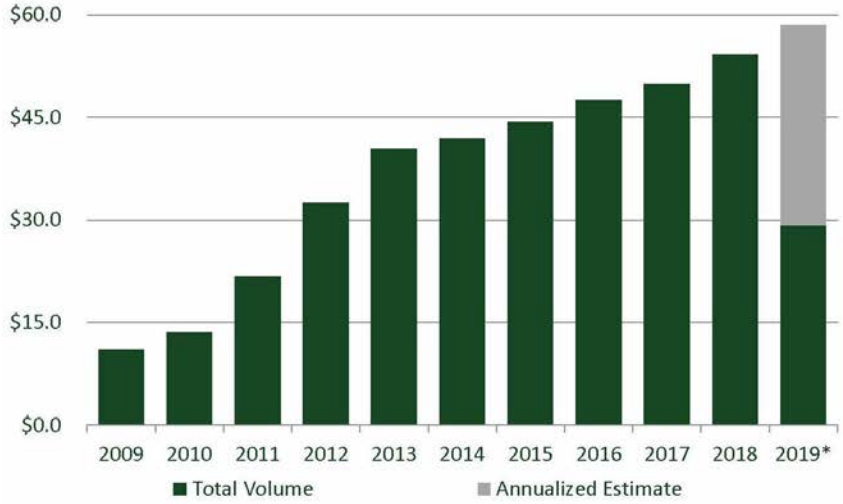
The nation's rental market had a total of 43.4 million renter-occupied housing units as of 2017, according to the U.S. Census Bureau's American Community Survey. Small asset multifamily, 5-to 49-unit small apartment properties, represented 32% (13.4 million units) of the total rental market. Duplex-quadruplex (two-to four-unit) properties represented 19% (7.6 million units).

Millennials accounted for an estimated 44% of all renters in small asset multifamily in the Top 5 metros. This figure rose to 48% in the Next 15 metros and peaked at 50% in the Next 30 metros.

National average cap rates for multifamily properties backed by small balance loans dropped to their lowest post-crisis level following a steep drop in Treasury yields. In the second quarter of 2019, small multifamily cap rates dropped to 5.8%, a decline of 9 basis points (bps) from the preceding quarter and down 11 bps from a year earlier.

Small Multifamily Origination Volume

United States, Multifamily, Billions

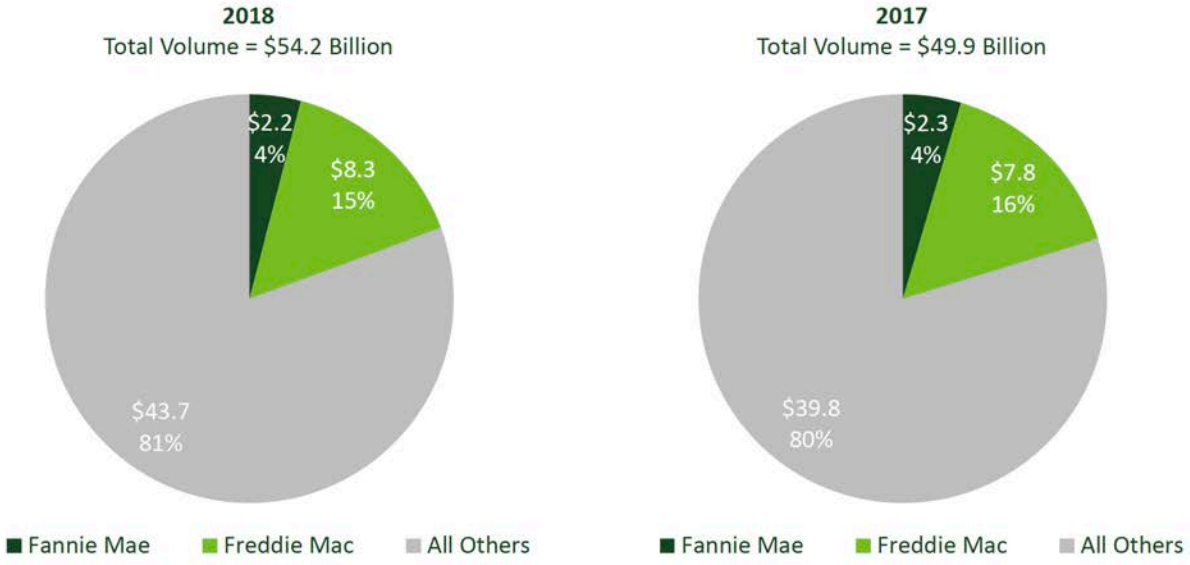


	Volume
2009	$11.1
2010	$13.6
2011	$21.7
2012	$32.5
2013	$40.4
2014	$41.9
2015	$44.9
2016	$47.6
2017	$49.9
2018	$54.2
2019 *	$29.3

* as of June 30, 2019

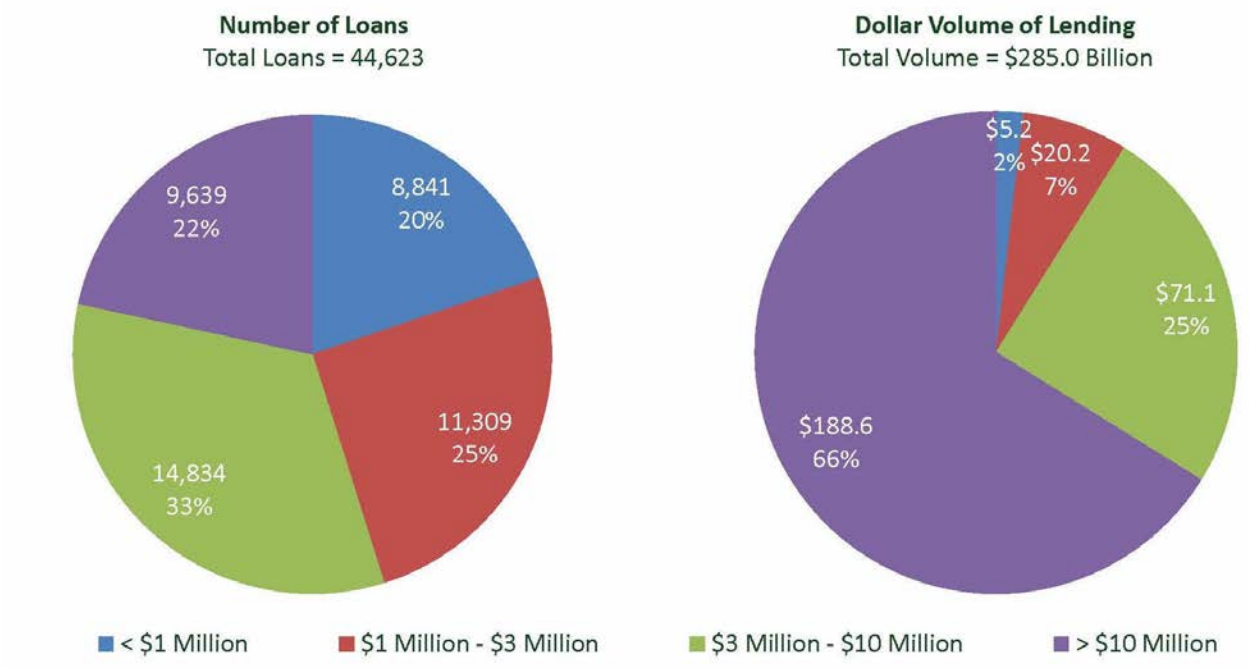
Fannie Mae and Freddie Mac Share of Multifamily Small Loans

Multifamily, Based on Volume, Billions



Distribution of Multifamily Lending by Loan Size

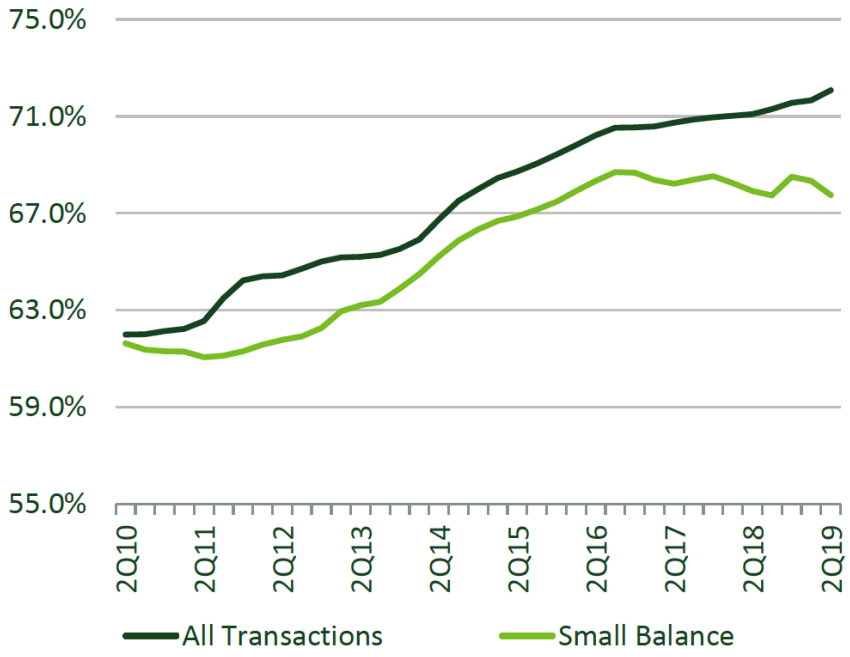
Based on the Mortgage Bankers Association Annual Report on Multifamily Lending, 2017



Source: Mortgage Bankers Association

Small Multifamily Loan-to-Value (LTV) Ratio

United States, Quarterly



Note: Chandan Economics defines small loans as those with original balances between $1 million and $6 million (and up to $7.5 million in select markets) —including loans for the sale and refinancing of rental apartment properties.

Multifamily Reports

2019 CBRE US Multifamily Report
Spencer G. Levy - Chairman & Senior Economic Advisor, CBRE Americas Research

Extremely low yields plus super-expensive hedging costs mean we are in a new investment world where institutional investors are willing to accept more risk for less return.

Although we are late in the cycle, the outlook remains very good for each of the four major real estate asset types. Continued economic growth bodes well for the office, retail and industrial sectors, while less homebuilding is benefitting multifamily and lenders and developers have avoided the temptation to overbuild in this cycle. 2019 has been another healthy year for the multifamily sector. Demand for multifamily housing has been very healthy through this cycle due to a combination of cyclical and secular factors. Total multifamily demand in 2019 should mirror the high level achieved in 2018.

Lifestyle trends favoring multifamily housing in recent years should sustain multifamily demand in 2019. These include delayed marriage, delayed child-bearing and preference for renting (vs. owning) for financial flexibility and mobility. Sustained popularity of urban or "urban-like" living, combined with the development of new, attractive multifamily communities in the urban and "urban-suburban" conurbations, also will keep multifamily demand very strong in 2019.

The financial challenges of moving into homeownership will continue to bolster multifamily demand in 2019. Homeownership rates are likely to inch up one-half point to about 65% in 2019, largely due to the size of the millennial cohort and its age demographics. Yet even with moderate movement into homeownership, most millennials will remain in rental housing next year. Rising home prices (albeit it at a lower level than recent years), and limited availability of moderately priced homes will sideline many potential buyers.

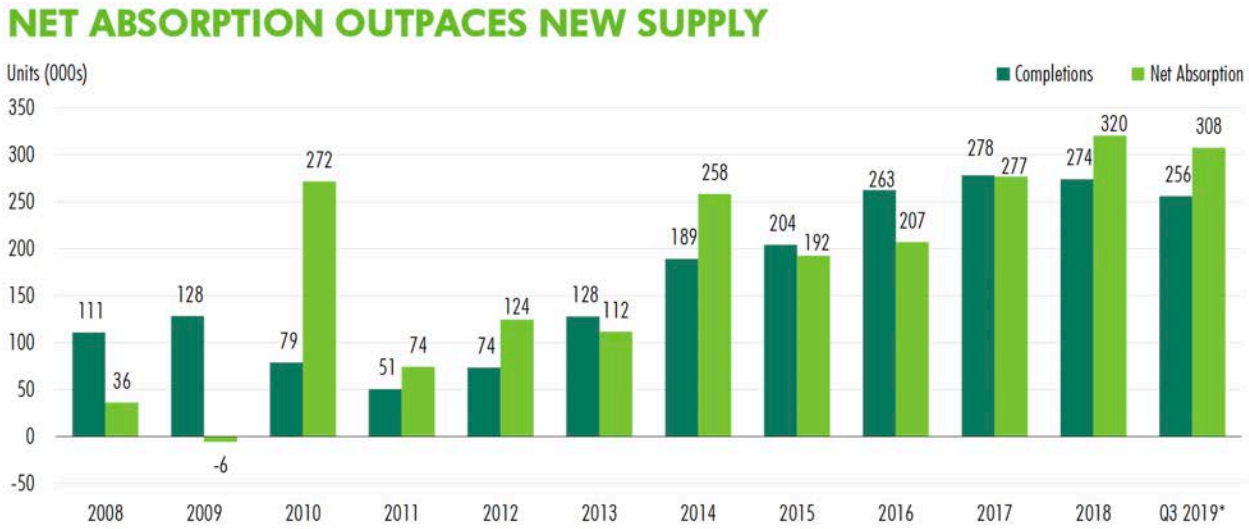
Permits for multifamily construction fell in 2018, largely due to higher development costs and land prices, labor shortages, higher wages, higher materials costs and more restrictive development regulations. The decline in permits should lead to a reduction in starts next year, which in turn should create a more balanced market in 2020.

Houston is positioned well to outperform in 2019, given relatively low levels of completions and a renewed economic vitality. Demand will outpace supply, leading to rent growth far exceeding historical averages.

Q3 2019 CBRE U.S. Multifamily Figures
Richard Barkham, Ph.D,. Head of Americas Research

Net absorption of 307,600 units outpaced completions of 256,000 for the year ending in Q3 demonstrating the sustained high levels of multifamily demand throughout the U.S.

Net absorption totaled 115,600 units in Q3 2019, the second highest third-quarter total in 21 years, after Q3 2018's 127,300 units.



Source: CBRE Research, CBRE Econometric Advisors, Q3 2019. Based on the 66 markets tracked by CBRE EA. (For the ranking tables, contiguous metros are combined, such as Dallas and Ft. Worth. Counting these combined metros, the CBRE EA coverage is 56 metros.) Completions and net absorption of newly-built communities are counted in the quarter in which the property reaches occupancy stabilization. *Four quarters ending Q3 2019.

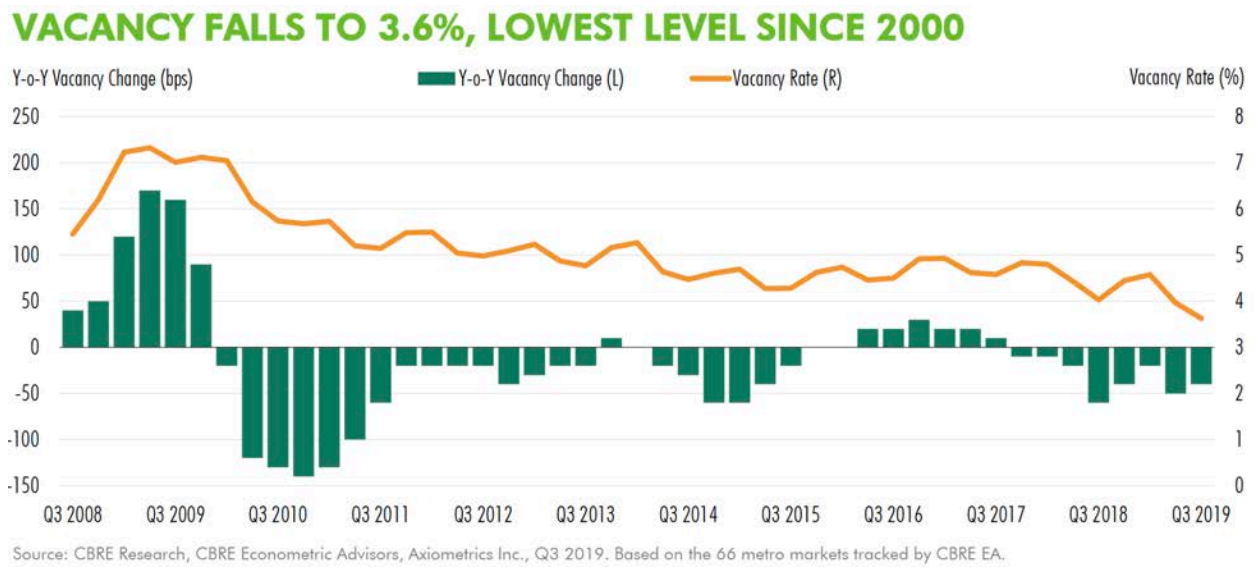
Half of all new supply delivered in the past year is in just nine markets. Among them, Seattle and Denver have the highest completions-to-inventory ratios (the higher the ratio, the greater the risk of overbuilding). [For the year ending Q3 2019, Houston had the lowest completions-to-inventory ratio and by far the highest absorption-to-completions ratio out of the top 22 multifamily markets.]

Of the 22 markets with the highest delivery totals, 19 had more net absorption than completions. Of the three with completions higher than net absorption, the difference was relatively minor.

Rank by New Supply	Metro Market	Completions 4 Quarters Ending Q3	Completions As % of Inventory	Net Absorption 4 Quarters Ending Q3	Net Absorption As % of Inventory	Net Absorption As % of Completions
	Sum of Markets	**256,000**	**1.7**	**307,600**	**2.0**	**120**
1	New York Metro	30,300	1.3	38,600	1.7	127
2	Dallas/Ft. Worth	18,200	2.5	19,300	2.7	106
3	Los Angeles/So. California	15,000	1.0	17,000	1.1	113
4	Washington, D.C.	12,900	2.2	16,300	2.8	126
5	Miami/So. Florida	12,400	2.1	14,200	2.4	114
6	Seattle	12,200	3.1	12,800	3.3	105
7	Denver	10,200	3.2	11,100	3.5	109
8	Chicago	9,600	1.3	12,900	1.7	133
9	Atlanta	8,600	2.0	9,700	2.2	112
10	Austin	8,500	3.9	9,700	4.5	113
11	Boston	8,400	1.7	10,700	2.2	128
12	San Francisco Bay Area	7,500	1.3	8,100	1.4	108
13	Portland	7,200	3.6	7,300	3.6	101
14	Orlando	6,700	3.2	6,200	2.9	93
15	Philadelphia	6,700	2.2	8,200	2.7	123
16	Minneapolis	6,600	2.4	5,900	2.1	89
17	Phoenix	5,700	1.6	7,800	2.2	137
18	Nashville	5,200	3.7	6,300	4.5	121
19	Tampa	5,100	2.1	4,500	1.9	88
20	Charlotte	5,000	3.1	5,700	3.5	115
21	Houston	4,900	0.8	7,900	1.3	161
22	San Antonio	4,700	2.5	5,900	3.2	127

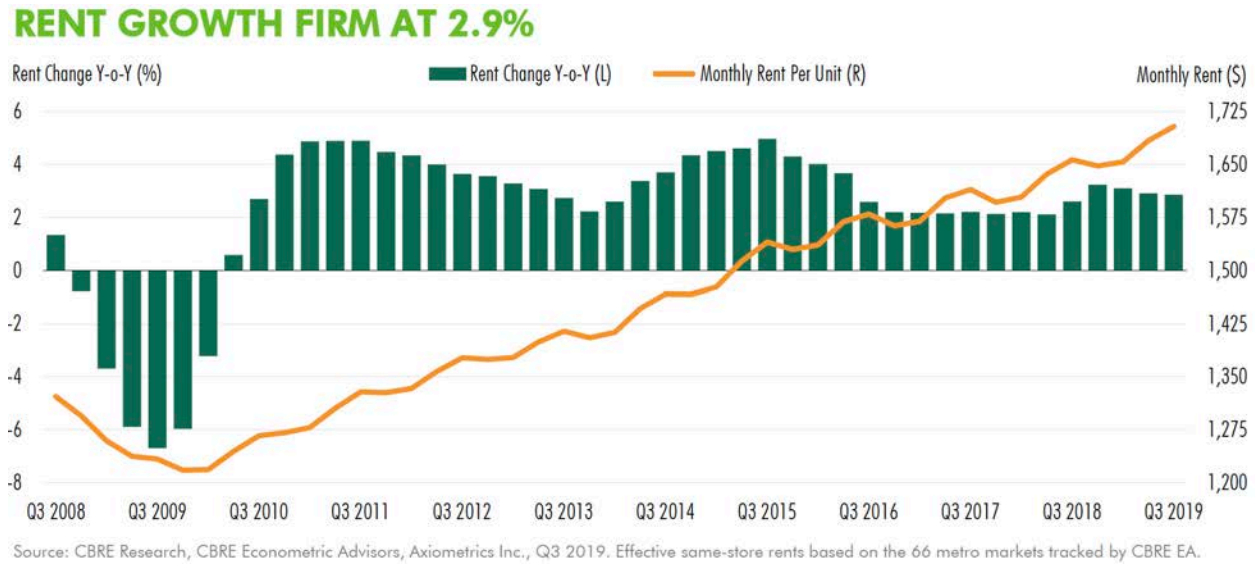
Source: CBRE Research, CBRE Econometric Advisors, Q3 2019. All ratios based on unrounded figures.

Multifamily vacancy fell by 40 bps year-over-year to 3.6% in Q3, the lowest level since 2000. Vacancy has fallen on a year-over-year basis for the past eight quarters and has remained under 5% for more than 5 years.



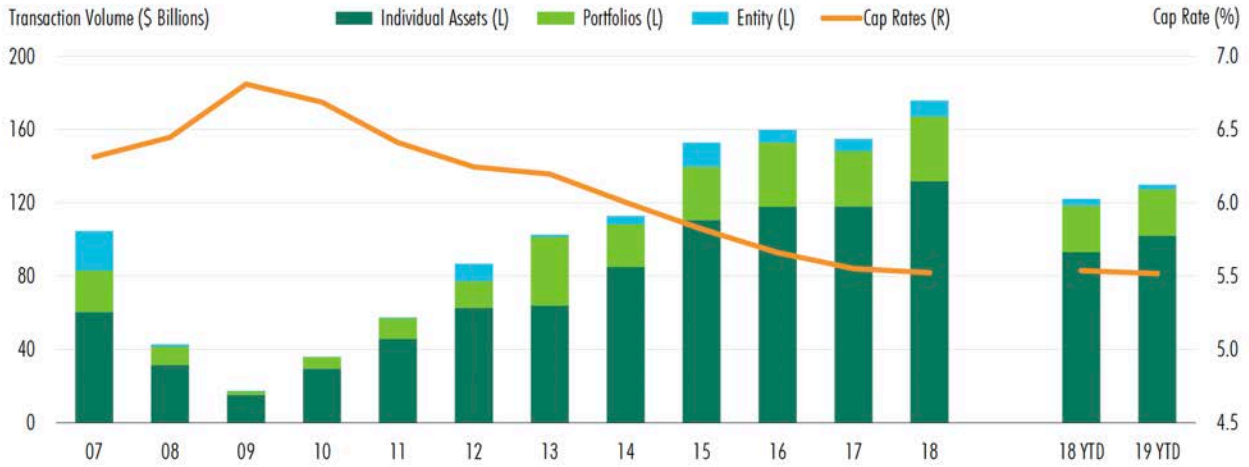
Monthly effective rents averaged $1,704 per unit, up 2.9% from the prior year based on "same-store" comparisons. Q3 annual rent growth is on par with the prior quarter, but up from Q3 2018's 2.6% and up from the 20 year average of 2.6%.

Since the market trough (Q4 2009), rents have risen by 39.9% or an annual average of 3.5%. Rent growth average has been 4.1% for garden style apartments and 2.2% for high-rise multifamily properties.



While multifamily rents have risen considerably this decade—causing affordability issues—single-family prices have risen substantially more. The National Association of Realtors reports that the median sales price for single-family homes rose by 67.9% or 5.5% per year since 2010.

YTD INVESTMENT ABOVE 2018'S PACE



Source: CBRE Research, Real Capital Analytics, Q3 2019.

Multi-family acquisitions totaled $129.9 billion year-to-date, up 6.4% over the same period in 2018. Multifamily has maintained the highest level of investment activity among the major property types.

Given the very high total in Q4 2018, it is likely that full year 2019 investment volume will fall below last year's record $175.9 billion. 2019 will still be one of the highest investment years in history.

Multifamily cap rate tightened about 10 bps in Q3, a reflection of both the sustained level of interest and deep pockets of investors interested in the multifamily sector as well as lower borrowing costs.

MORTGAGE MARKET MORE ATTRACTIVE FOR BORROWERS

Key Underwriting Measures for Multifamily Loans (%)	Q3 2019	Q2 2019	Q3 2018	Q3 2017
Debt Service Coverage Ratio	1.33	1.38	1.32	1.41
Loan-to-Value	67.9	67.5	68.3	68.4
Cap Rate	5.6	5.8	5.3	5.6
Amortization Rate	20.0	19.8	22.2	13.1
Loan Constant	5.58	5.71	6.00	5.48
Mortgage Rate	3.99	4.34	4.66	4.03
Debt Yield	8.45	9.10	7.86	8.47

Source: CBRE Research, Q3 2019. Based on CBRE Capital Markets multifamily financings.

Q2 2019 CBRE Houston Multifamily Figures

E. Michelle Miller, Head of Field Research, CBRE South-Central Division

In Q2 2019, both occupancy and rents rose significantly year-over-year, improving on the flat rent and occupancy growth in Q1 2019. In Q1 + Q2, net absorption reached 10,094 units, which means Houston has already in two quarters absorbed more units than it had all of last year. Second quarter net absorption meaningfully exceeded deliveries by over 2,600 units.

High wage growth doubles the national average. Expect Houston to remain a top three market in job and population growth (alongside New York and Dallas/Fort Worth). Industrial construction sits at 20.5 million sq. ft. underway, the highest ever recorded by CBRE Research for Houston.

Figure 4: Absorption Continues To Outpace Deliveries

Source: CBRE Research, Apartment Data Services, Q2 2019.

2020 Apartment Data Houston Report – Prepared by CBRE

Thomas Deal, Vice President, Valuation & Advisory Services Group

The table below shows that as of January 2020, Houston stabilized Class-A multifamily buildings, have achieved 94.8% occupancy rates which is in line with US average for major urban centers.

Stable vs Lease-Up Communities						
	Class A	Stable	Lease-Up	Class B	Stable	Lease-Up
# of Apartments	6	5	1	27	26	1
# of Units	797	637	160	4,166	4,086	80
Size (sf)	822	816	849	748	744	978
Price ($/mo)	1,231	1,248	1,165	809	808	865
Rental Rate ($/sf/mo)	1.50	1.53	1.37	1.08	1.09	0.88
Occupancy	86.1%	94.8%	51.2%	89.5%	91.2%	0.0%

Communities operating for 13+ months are defined as **Stable**, while those operating for less than 13 months are considered to be in **Lease-Up**. The table below compares the market's Stable communities to those that are currently in Lease-Up.

Floorplans (EFFICIENCY)					
	Total	Class A	Class B	Class C	Class D
# of Apartments	18	1	4	10	3
# of Units	263	24	11	211	17
Size (sf)	474	484	462	475	450
Price ($/mo)	590	1,045	550	561	327
Rental Rate ($/sf/mo)	1.24	2.16	1.19	1.18	0.73

This table shows statistics for the EFFICIENCY units in the market. Along with the totals, the table displays the information by Class (A,B,C and D). Prices and rental rates are displayed as effective - net of concessions and electric utility adjustments.

2019 CBRE Global Multifamily Report

Richard Barkham, Ph.D., Global Chief Economist and Americas Head of Research, CBRE

In 2018, we noted how real estate markets are buzzing with innovation. This remains true, but even more remarkable in this cycle is the level of balance between demand and supply. The amount of completed new buildings has steadily increased around the world over the last three years in the industrial, office and multifamily sectors. However, unlike past cycles, it is not a speculative surge, but a more controlled rise in stock that, in most cases, matches the increase in demand that has come from a decade of economic growth and corporate expansion. Overall, real estate markets are in good shape. Most importantly, the U.S. Federal Reserve has indicated that it will keep interest rates unchanged for the time being and be more accommodative if necessary.

Steady multifamily demand continues to drive up rents, attracting sustained investment. Sustained elevated levels of market demand, development and investment to characterize U.S. market in 2019.

2018 direct investment into multifamily by cross-border buyers totaled $15 billion (8.6% of the total). 2019 should equal or exceed this figure.

Investors will employ two principal strategies, either buying in submarkets and assets which are currently outperforming the overall market or buying well-located high-quality assets to hold for the longer term, even with minimal rent growth over the near term (taking a short-term risk on revenue for the promise of longer-term gain on value.

In the U.S., high levels of development activity and impressive market demand will buoy the multifamily property market. Investment activity in 2019 will also come close to the peak volumes achieved in recent years and exceed $150 billion. With multifamily residents spending an average of 25% of incomes on rent, most markets have headroom to deliver further rent growth. Rising home sale prices will also curtail renters' ability to move into homeownership.

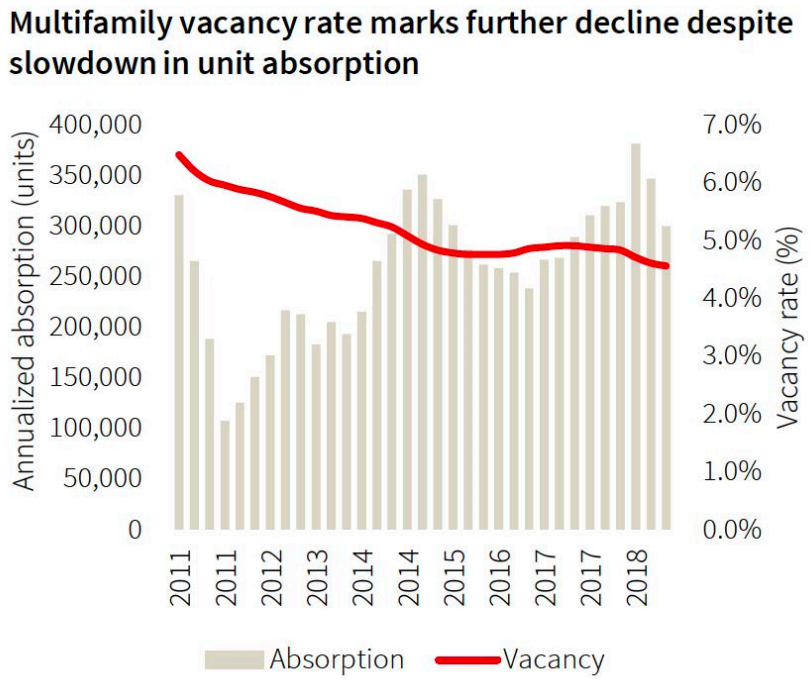
Q1 2019 JLL Multifamily Investment Outlook
Sean Coghlan, Senior Director, JLL Investor Research

Following a year which exceeded expectations in terms of capital deployment, all sectors other than multifamily posted a decrease in transaction volume versus the first quarter of 2018.

The past several months have seen new green shoots of optimism in response to rebounding equity markets, exceedingly stable jobs figures and a stronger than expected reading of first-quarter U.S. GDP. In addition, the more dovish stance of the Federal Reserve has bolstered investor sentiment.

This—coupled with ongoing strength in real estate occupier fundamentals—is evidencing what remains a supportive market for real estate. Investment strategies are focusing on secular shifts, and this is benefiting the multifamily. Investors continue to reallocate capital to gain exposure to engines of growth; during the past two years, the multifamily and industrial sectors have represented 1.5 times the share of acquisitions volume compared to the last cycle.

- Multifamily absorption keeps pace with unit completions, allowing fundamentals to strengthen for sixth consecutive quarter.
- Urban multifamily submarkets saw rent gains accelerate for the seventh consecutive quarter.
- As a region, the Sun Belt commanded the highest average effective rent growth at 5.5%.
- Multifamily transactions totaled $38.3 billion in the first quarter of 2019, representing a 13.0% increase from Q1 2018. The multifamily sector was the only asset type to post year-over ear gains, lifting its share of total U.S. real estate transaction volumes to 41.5%.
- The quarter saw an 8.8% increase in single-asset transaction size on an annualized basis.
- Private investors' share of acquisitions hits new high; foreign interest remains strong.
- Private investment continues to pour into the space, representing 72.2% of total multifamily volumes in Q1 2019.
- Rising appetite for midrise assets contributed to the increase in private capital.
- Rising 23.8% from one year ago, annualized cross-border investment activity remains near record levels at $14.6 billion. growing familiarity with non-gateway markets has led to growth in foreign investment.



2019 HFF Multi-housing Pulse

HFF

Capitalization Rate Forecast

City	Class A	Class B	Class C
Atlanta	4.25% - 5.25%	4.50% - 6.25%	6.00% - 7.50%
Austin	3.75% - 5.00%	4.25% - 5.50%	5.00% +
Bay Area - Suburban	4.25% - 4.75%	4.50% - 5.25%	5.25% +
Bay Area - Urban	3.75% - 4.25%	4.25- 5.00%	4.50% +
Birmingham	4.75% - 5.25%	5.25% - 6.75%	6.50% - 7.50%
Boston - Suburban	4.00% - 4.50%	4.50% - 5.50%	5.25% +
Boston - Urban	3.75% - 4.25%	4.00% - 5.00%	4.50% - 5.50%
Charleston, SC	4.50% - 5.00%	5.00% - 5.75%	6.00% - 7.00%
Charlotte	4.50% - 5.00%	4.75% - 5.75%	6.00% - 7.00%
Chicago - Suburban	4.75% - 5.50%	5.00% - 6.25%	6.50% +
Chicago - Urban	4.50% - 5.00%	4.75% - 5.25%	5.50% - 6.50%
Columbus	5.00% - 5.75%	5.50% - 6.50%	6.75% +
Dallas - Suburban	4.75% - 5.50%	4.75% - 5.75%	6.00% +
Dallas - Urban	4.25% - 4.50%	4.75% - 5.25%	5.00% +
Denver	4.50% - 5.00%	5.25% - 5.75%	5.75% - 6.25%
Greenville	4.75% - 5.25%	5.50% - 6.00%	6.00% - 7.00%
Houston - Suburban	4.00% - 5.25%	5.25% - 6.25%	5.75% +
Houston - Urban	3.75% - 4.50%	4.50% - 5.50%	5.75% +
Indianapolis	5.25% - 6.00%	5.75% - 6.50%	6.25% +
Jacksonville	5.00% - 5.50%	5.25% - 5.75%	6.25%+
Kansas City	5.00% - 5.75%	5.50% - 6.50%	6.75% +
Los Angeles - Suburban	4.50% - 5.00%	4.75% - 5.25%	5.50% +
Los Angeles - Urban	4.00% - 4.50%	4.50% - 5.00%	5.00% +
Louisville	5.00% - 5.75%	5.50% - 6.50%	6.75% +
Minneapolis	4.75% - 5.75%	5.50% - 6.50%	6.50% +
Nashville	4.25% - 5.25%	4.75% - 6.25%	6.00% - 7.50%
New Jersey - Northern	4.25% - 5.25%	4.75% - 5.50%	6.00% - 7.00%
New Jersey - Southern	5.00% - 5.75%	5.50% - 6.50%	7.00% - 8.00%
New York - Long Island	4.75% - 5.25%	5.00% - 6.25%	6.25% - 7.25%
New York - Outer Boroughs	4.75% - 5.25%	5.25% - 5.75%	5.75% - 6.25%
New York - Westchester	4.75% - 5.25%	5.25% - 6.25%	6.25% - 7.25%
New York City	4.00% - 4.25%	4.50% - 5.00%	5.25% - 5.50%
Orange County	4.00% - 4.50%	3.75% - 4.50%	4.75% - 5.25%
Orlando	4.50% - 5.00%	5.00% - 5.75%	5.75% +
Philadelphia - Suburban	5.00% - 5.25%	5.50% - 6.00%	6.25% - 7.00%
Philadelphia - Urban	4.75% - 5.25%	5.25% - 5.75%	6.00% - 6.50%
Phoenix	4.50% - 5.25%	4.75% - 5.50%	5.75% +
Pittsburgh	5.25% - 5.75%	5.75% - 6.25%	6.25%+
Portland - Suburban	4.50% - 4.75%	4.75% - 5.25%	5.50% +
Portland - Urban	4.00% - 4.50%	4.50% - 5.00%	5.25% +
Raleigh	4.50% - 5.00%	4.75% - 5.75%	6.00% - 7.00%
San Antonio	4.50% - 5.50%	5.25% - 6.00%	5.50% +
San Diego	4.00% - 4.25%	4.25% - 4.75%	4.75% - 5.25%
Seattle - Suburban	4.25% - 4.50%	4.50% - 5.25%	5.50% +
Seattle - Urban	4.00% - 4.25%	4.50% - 5.00%	5.25% +
South Florida - Broward	4.00% - 5.25%	5.00% - 5.75%	6.25% +
South Florida - Miami	4.00% - 5.00%	4.75% - 5.50%	6.00% +
South Florida - Palm Beach	4.00% - 5.25%	5.00% - 6.00%	6.50% +
St. Louis	5.25% - 6.00%	5.50% - 6.50%	6.75% +
Tallahassee	5.25% - 5.75%	5.50% - 6.00%	6.25% +
Tampa	4.75% - 5.25%	5.00% - 5.75%	6.00% +
Washington D.C. - Suburban	4.75% - 5.50%	5.25% - 6.00%	6.25% +
Washington D.C. - Urban	4.00% - 4.50%	4.75% - 5.75%	6.00% +

The top five markets in terms of sales volume in 2018 were Los Angeles, Dallas, Manhattan, Atlanta, and Houston. Cap rates have increased slightly to 4.8% in the six major metros, which is up 8 basis points (bps) from 2017.

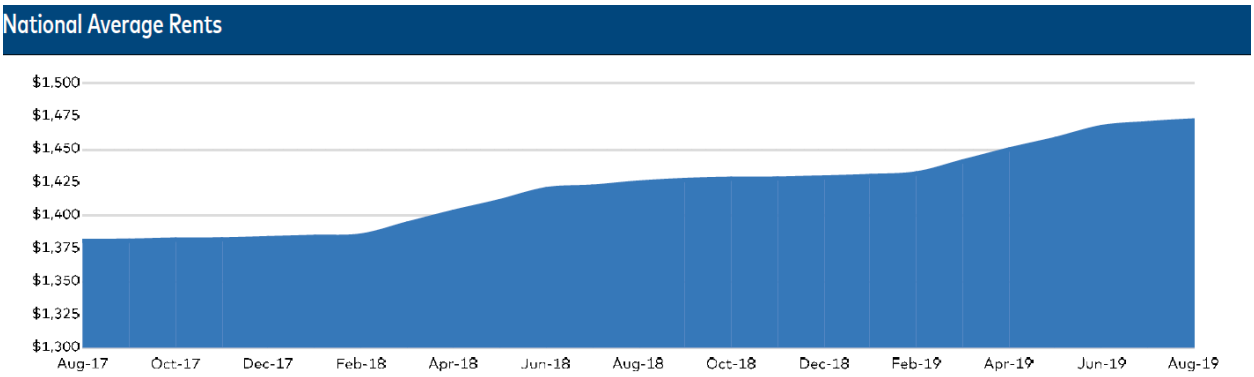
Multi-housing continues to remain a desirable investment for institutional investors, large investment funds, public and private REITs, and private operators. The market has continued its strong pace, achieving 3% effective rent growth nationally through 2018. The larger number of new units completed in 2018 is expected to soften rent growth, however the market remains tight with occupancy at nearly 96%. Over the long-term, Axiometrics' apartment fundamentals remain bullish as the data suggests the long-term demand will outpace the new supply being delivered.

Opportunity Zones will be a topic of discussion in 2019, with pricing discovery at the forefront of the conversation. There is significant capital being raised for Qualified Opportunity Zone Funds and there will be a race to deploy the capital. According to the Washington, D.C. based Public Policy Organization Economic Innovation Group, U.S. investors currently hold approximately $2.3 trillion in unrealized capital gains.

August 2019 Yardi Matrix Multifamily National Report
Jack Kern, Director of Research & Publications

U.S. multifamily rent growth rose by 3.3% year-over-year in August. Lifestyle rents increased by 3.3%, while Renter-by-Necessity rose by 3.6%. Rent growth has remained exceptionally consistent, and has been at least 2.7% since the beginning of 2018. Consistency extends in a number of directions. For example, the growth for the luxury Lifestyle segment has increased to roughly the same level as that of the Renter-by-Necessity segment.

The market's accomplishments are not a mystery – the combination of strong demographic trends, social changes that create demand for apartments, demand for new housing and the country's long period of economic growth have propelled the segment. With the exception of the economy's performance, most of those trends are long term in nature.



National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

Coliving Reports

H1 2019 Cushman & Wakefield Survey of the Coliving Landscape
Susan Tjarksen, Managing Director, Cushman & Wakefield

Coliving: where location, convenience, community and affordability are all maximized for the tenant, while revenue is maximized for the owner and operator

A housing crisis is raging across the United States. For decades, young professionals have been steadily emigrating into the once inert urban submarkets of major cities. A positive feedback loop formed between the influx of highly-educated workers and the concentration of corporate investment and job opportunities in these areas. Over the course of this past decade, this feedback loop has heated both renter and owner housing markets. Between 40 and 50% of residents in these key markets have become cost-burdened - spending more than over 30% of their pre-tax household income on rent.

Simultaneously, other demographic trends began to affect the prime renting population in their twenties and thirties. Marriage and family formation have been delayed. Educational attainment among this age bracket is at record highs. Consequently, student loan debt is also at record numbers, along with record low savings accounts.

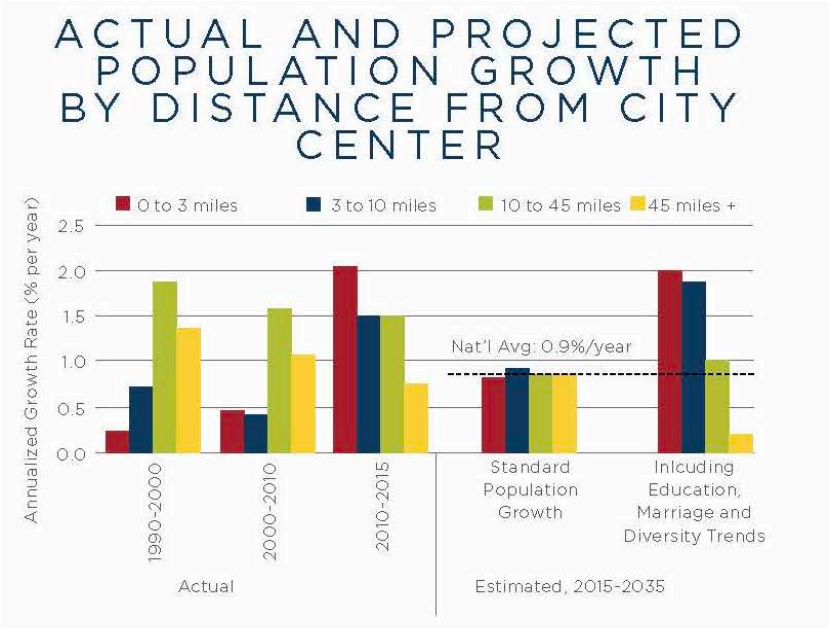
The American dream has always been partially defined as owning your own house. It helped elucidate status, inspire community engagement and promote a path toward financial stability if not substantial wealth. Several factors have changed the revered and longstanding model.

- A demographic shift toward delayed household formation.
- The recession saw economic destruction of homeownership as a means to wealth.
- Lifestyle changes have also altered the American Dream.
- The number of 18-to-28 year olds moving from the cities to the suburbs has decreased by 40% in the last 20 years.

- Americans increasingly spend disposable income on experiential activities, rather than tying up equity in homes.
- The seismic shift from rural to urban life has also impacted the shifting American Dream.

According to the United Nations 55% of the world's population lives in urban areas, a proportion that is expected to increase to 68% by 2050. Americans will continue to rent indefinitely.

Coliving is a natural solution to this housing environment where tenants can share units and amenities under a cohesive community assisted by a skilled operator. Location, lifestyle, community and affordability are all maximized for the tenant. In this, operators are providing product that better reflects the price range and types of living situations people are looking for when they move into an urban area. Through coliving, tenants are able to pay less rent by trading private space for more and better shared communal space. Typically, coliving providers include additional services and perks, including fully furnished units, all utilities included, hosted community events and even housekeeping, which in the aggregate represent as much as a 20% discount to living alone. For the operator, this opens new avenues to differentiate their product, tap into a large renter base not currently served by top-end luxury product, and maximize revenue on a per square foot basis.



First emerging among the high cost coastal markets where the necessity was greatest for young professionals, the model has continued to evolve. Coliving has now begun to appear in secondary and tertiary markets. The phenomenon has also spread to a wider range of incomes and ages. Given long-term demographic trends and the continued tightening of the housing market, coliving sits on the precipice of rapid expansion.

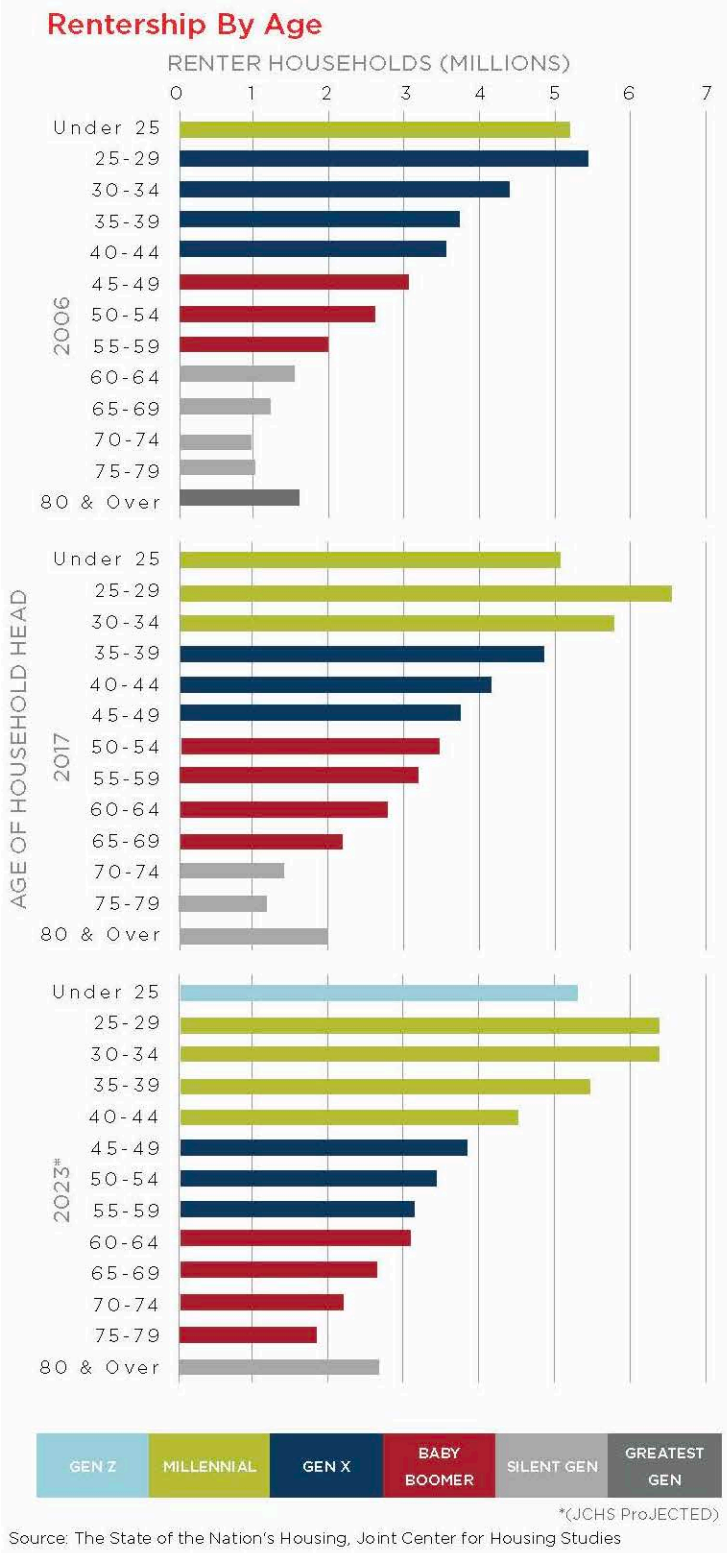
COMPETITIVE OVERVIEW

Some of the most standard features that these companies provide are common areas that are integral to the coliving experience. These areas provide the community aspect for individuals renting in a coliving building. Integrated technology, such as in-app full-service management and complementary Wifi, are community essentials in all of these buildings. Tenants are expecting a seamless operating platform that can provide everything from necessities to communication to even planning.

More specifically, this operating platform connects all aspects of the community including: group events, catered events, fully furnished rooms (with fully-integrated kitchens, bathrooms and washers and dryers), cleaning services, all-inclusive bills, gyms and movability.

DISRUPTION IS THE NEW NORMAL

Despite a relative nascent entrance into the real estate world housing market, coliving has already reached the beginning of a critical tipping point. There is a proven demand for the product, as evidenced by the burgeoning number of companies entering the market. From well established firms to newer players, all of these organizations are grabbing a foothold. And these organizations are evolving. They're entering new cities and markets, increasing capacity at established locations and partnering with other services to curate an experience that attracts the largest number of tenants.



Demand is proven. Yet, there is still a lack of supply despite market expansion, and this enables institutions to enter during this inflection point. The ability to deploy large amounts of capital in a relatively new and small arena will have an enormous impact. However, this impact will shrink once more coliving companies emerge and more institutions with capital enter the fray.

RISE OF NICHE ASSET CLASSES

Post-recession, niche real estate classes such as allocations across age restricted and affordable housing, coworking, data centers, as well as self and cold storage have soared as solid investments. Over time, investors have taken notice and many of these niche classes now make an appearance in the most prestigious portfolios. Coliving follows in these footsteps.

Student Housing Reports

With regards to the existing market and demand for student accommodation, University enrollment in the U.S. was approximately 19.9 million in 2018. Occupancy levels for both on-campus and off-campus housing have stayed fairly constant over the past four years at approximately 95%. Student housing investment volumes in the U.S. have surged since 2010, as the sector became an institutionally accepted asset class. Between 2014 and 2016, U.S. student housing investment volume more than tripled to almost $10 billion. In 2018, investment volume totaled $11 billion, consisting of 278 properties and 165 transactions. The spread between pedestrian student housing and mid-rise/high-rise multifamily cap rates has narrowed to 0.38% as U.S. student housing has become a more institutionally accepted investment class.

Please see Student Housing + University of Houston white paper.

BRANDED RESIDENCES

The Branded Residences concept originated in North America, so it is no surprise that this market is the most developed, and has the largest presence accounting for a third of all 400 branded projects across the globe. The results of a Knight Frank study confirm that branded developments are priced at a premium to non-branded developments with an average 31% uplift in comparable price analysis, ranging from 7% to over 50%, and as much as 132% in some cities.

The Savills 2018 *Branded Residences Report* says, *"When a luxury brand is given to a residential product, it benefits from the same qualities of that brand by association and design. Purchasers of*

branded residences are assured of a quality product, limited in supply, that shares in the values of the brand. Pre-existing brand awareness means that the residential product may enjoy greater profile and attract a larger demand base. For this reason, purchasers are willing to pay more for branded than non-branded property."

"Gone are the days that the primary motivation for buying 'branded' was the status symbolism and the assured quality of the furniture, fixtures and equipment, so the choice is much more about how the brand's values appeal to the decision-maker's emotions, intellect and soul," comments Lynn Villadolid, former Director of Six Senses Private Residences. *"Consumers are more home and design conscious than ever before. They want to work in creative spaces and to holiday in beautiful hotels, and they want that design aesthetic to continue through their personal lives into their homes."* Robert Green at Sphere Estates agrees: *"Respected architects and interior designers certainly do add value, helping purchasers to identify with a development as well as the type of lifestyle it will deliver."*

As Muriel Muirden Executive Vice President & Managing Director, Strategy at WATG enthuses, if executed correctly, branded residences also offer developers attractive price premiums and accelerated sales velocity. As a recent article on luxury brand experiences published by Luxury Society stated, *"residents want cool, they want fun and they want experiences."* As such, the quality and range of Branded residences continually evolves upwards.

How 'Branded Estates' Can Create Desirability – And Grow Your Wealth Faster

Visionary CRE multifamily developers can turn (and constantly do so) a development located in a more 'regentrifying' area into a desirable 'must-live-in' destination that has tenants lining up to live there. New developments can enjoy elevated prices and exceptional yields and returns for smart investors who 'see' this vision. They do this by creating an entire lifestyle, not just walls and floors to live in like the houses in neighboring streets and suburbs. They create lifestyles that engage community involvement, ownership and close friendships, combined with a team of the best designers producing architecturally stunning residences, with high-end finishes. Branded, designer developments 'raise the bar' in living standards to a level where it becomes relatively impossible to compare like-for-like with neighboring suburbs - there are no comparisons.

As previously stated, branded developments often sell at premiums of up to 31% more than 'non-branded' properties in a nearby area. However, Urbanist's wholesale client centric methodology, of passing on substantial discounts to our investors, and thus providing a realistic opportunity for our Buyers to secure blue chip multifamily family assets generally only available to institutional investors at significant discount to true market value, potentially creating substantial equity appreciation and capital gain profit from day 1 – while getting started with a surprisingly modest upfront investment.

2019 Knight Frank Branded Residences Report
Liam Bailey, Global Head of Research

Across the years, there is a direct correlation between wealth creation and demand for branded residences. It is no coincidence that we are seeing such a renewed interest in the branded concept given the rapid growth in global wealth witnessed since 2000. The concept has always been aspirational.

The branded residences sector globally is growing exponentially. Until the 1980s, branded residences were a scarce commodity. They can now be found in almost every major city. Some international cities, especially in Asia are achieving extraordinary price premiums. The top 4 cities recording the highest premiums above non-branded luxury residences were Bangkok at 132%, followed by Kuala Lumpur at 69%, Manila at 36%, and Phuket at 8%, and this type of consequential price premium demand could easily happen in the US in the near future, as the considerable advantages of branded developments, including the heightened possibility for increased investment returns become more mainstream and well known in the general US marketplace. *"The sector's growth has been such that, in some areas, the development type has almost become ubiquitous. They were once the exception rather than the rule,"* adds Chris Graham, an expert on branded residences, "*but look at Thailand today, where almost 40% of all new developments are now branded."* There is little doubt that leading brands today can add value and assist greatly in the marketability of new projects.

Facilities alone are not enough to create a best in-class residence. All aspects relating to the residence must be considered carefully and each stage in the development process interrogated as to what is going to add the most value to the buyer. "Having the right architecture, right location, superior interior designers, and extras, such as landscape gardening, marry together as real value drivers. It has to have a combination of great design and tremendous architecture, top class interiors, plus the right amenities and experiences. Luxury is expected from our clients; the most important element is how to raise the bar across every aspect of the overall offering. You have to remember that you are still designing a residential scheme. Space and function will always outsell frills. Scheme concept and space planning, from building form to detailed layouts, must be perfect. Cost control and specification analysis is also critical in an inflationary environment."

While a brand association may result in a premium in any region, the additional value varies substantially from one place to another. Where it's an entirely new offering, residences might be two or three times the price of anything in that market. In other markets there will be price ceilings.

> *"Brand involvement can increase project visibility and enhance values for residential developers. This can be something of an insurance policy. From a consumer perspective, the power of brand identification is only growing. The world is becoming increasingly design conscious and brand aware. We talk about appealing to 'a tribe' of like-minded people, people who want to live and socialise with other people with whom they share things in common."* – James Snelgar, director of global business development at YOO, founded in 1999 by the world's most celebrated designer, Philippe Starck.

2012 Knight Frank The Impact of Branding on Luxury Residential Developments
Liam Bailey, Global Head of Research

Using brands as a means of identification has become increasingly important in a competitive marketplace. Residential developers have applied lessons learnt in the hotel sector to their own developments, helping to create individuality and also exclusivity. The rising profile of design and branding in residential developments, especially at the top of the market, is reflected in the shift in consumer expectations. The branding of residences creates an aspirational model and a reflection of luxury and prestige associated with that brand, helping developers to stand out in a competitive market.

We worked with our global network to assess like-for-like pricing for 26 branded developments in 17 global locations, together with 79 comparable prime non-branded developments. Our analysis has allowed for differences in development location, unit sizes and specification. Our results confirm that, for each location where we were able to attain sufficient evidence, branded developments outperform non-branded developments. The results of this exercise confirm that branded developments are priced at a premium to non-branded developments with an average 31% uplift.

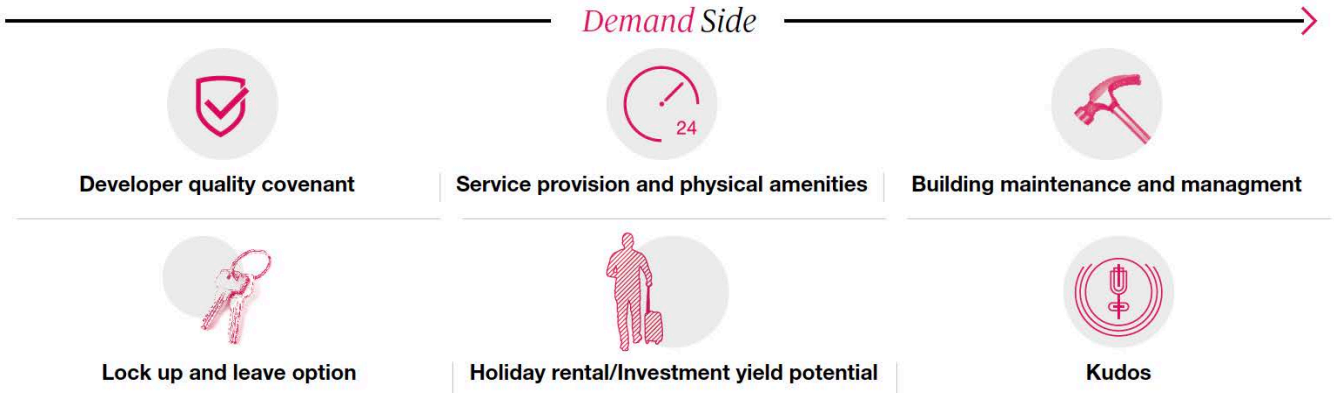
The Drivers of the Price Premium

Firstly, branded developments sit at the most competitive and innovative edge of the market. This is the sector where developers are attempting to reinvent the concept of the residential development, by fusing the best of hotel and other services into a residential template – this innovation attracts buyers who are looking to buy into the latest trends.

Secondly, the benefits and convenience of the service offer is prized by buyers to the extent that they are happy to pay for the higher service charges associated together with the uplift in headline capital value.

The third factor is design and identity. That purchasers are attracted by good design is not especially ground-breaking. What is important is that they are attracted by the opportunity to associate themselves with the brand, designer or architect involved in the scheme.

The fourth and, for many, the most important factor is the trust associated with buying into a known brand. The ability to identify with a known brand often therefore gives confidence in the delivery of the development and its ongoing management.



HEALTH AND WELLNESS REAL ESTATE

Please see Wellness Real Estate + Healthy Home white paper.

SMART HOME TECHNOLOGY

Connectivity, or the 'internet of things' ("**IOT**"), is being incorporated into products all around the home, from light bulbs to coffee brewers, from thermostats to ovens, from video doorbells to robot vacuums, making appliances and general home products smart and wireless – once only a 'science fiction' dream, but now in 2020, an affordable reality. There is an ever increasing adoption of a smart-technology, mobile lifestyle with app users able to choose to download 2.6 million Android and 2.2 million iOS as of early 2019, and even more importantly with the proliferation of Amazon Alexa and Google Home over the past few years, smart-voice home control devices have become a booming trend for both home owners and apartment residents.

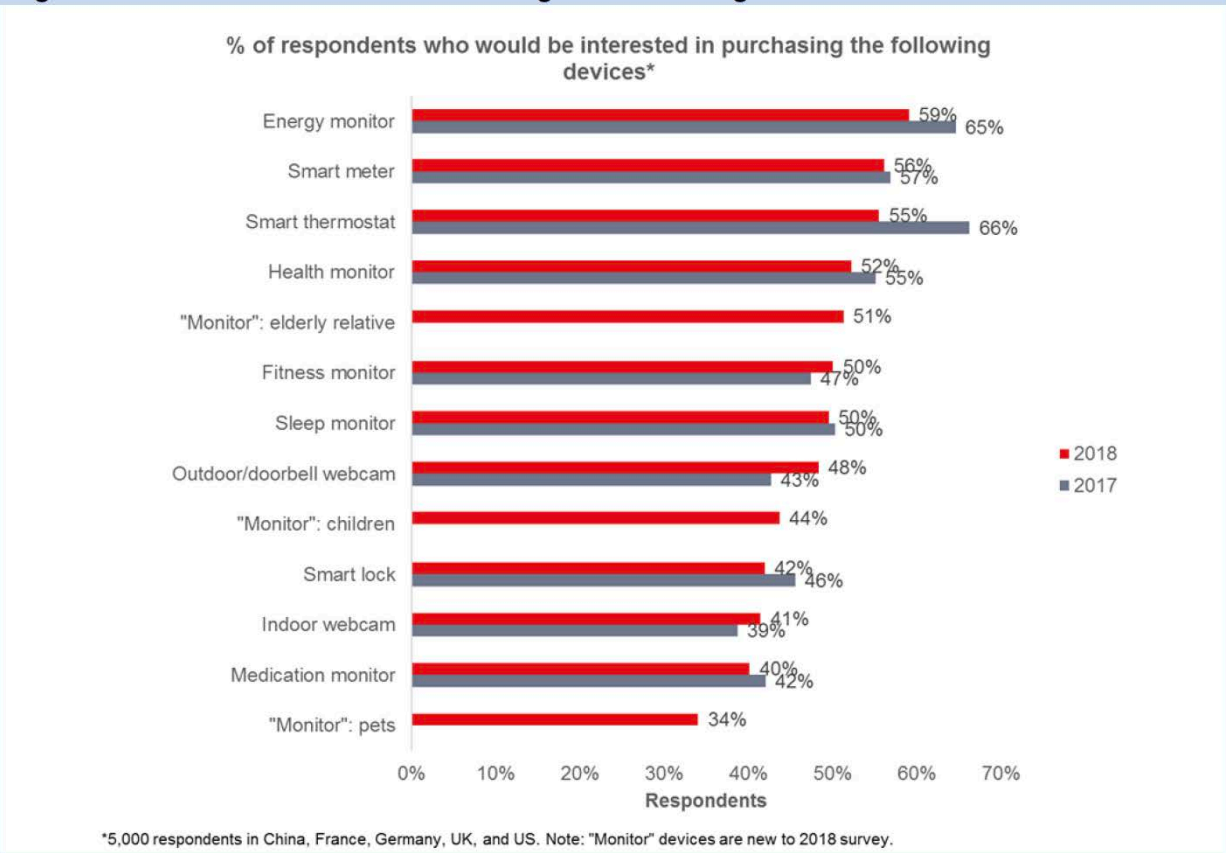
Home automation is an enormous, and rapidly growing market. In 2018, it was estimated to be a $70 billion industry with as many as 9 billion new connected devices. According to a 2017 Home Buyer and Seller Generational Trend report by the National Association of Realtors, the smart home market is expected to become a $130 billion industry by 2020. The U.S. is estimated to account for almost $40 billion of this market share. Smart home technology is no longer solely piquing the interest of early technology adopters or tech-minded Millennials. In fact, "*43% of Americans with smart home products are Millennials 33% are aged 33-54; and 24% are age 55 or older*," according to the report.

The 2018 International Housewares Association report describes that as far back as Q4 2016, 26% of households had a smart home device with, "*adoption of smart home products and services continuing to grow.*" Home automation products were among the fastest selling items during the holiday season according to NPD Group's Retail Tracking Service however, "*this trend hasn't hit the home-products*

industry to the degree it has hit the tech space with things like security and monitoring products, which account for the largest share of category dollar sales." Less than 5% of U.S. homes have smart devices in their kitchen, *"but over a quarter of people are interested in them".*

In Ovum's 2019 Rends to Watch: Smart Home report, *"Smart speakers will push automation into new households and lead the smart home device category."* The report describes how, "*the growth in smart speaker household penetration during the last 12 months has been staggering*." In the US, more than 21% of homes have a smart speaker installed, in China the figure has increased to over 25%.

Figure 2: Potential demand for smart living tech remains good



Source: Ovum's Digital Consumer Insights 2018: Smart Living

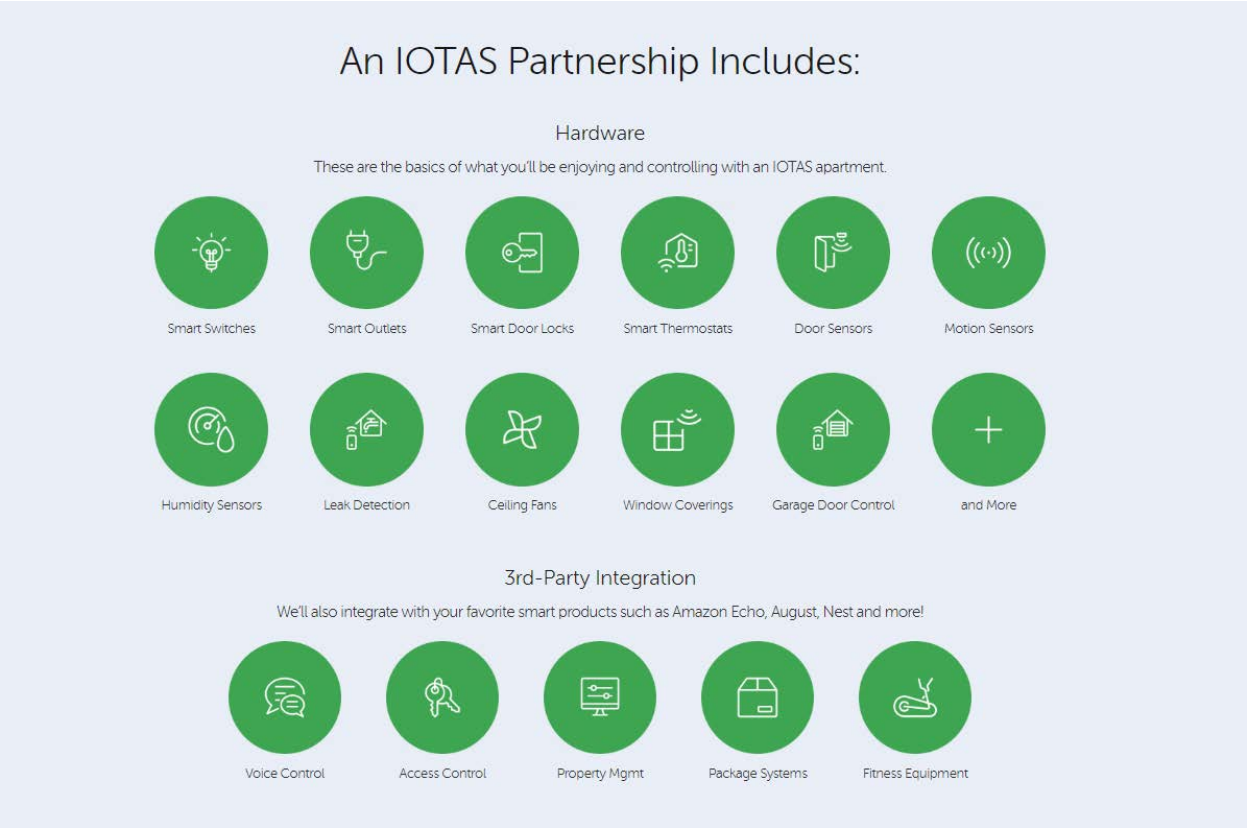
In a recent Schlage and Wakefield Research survey of 1,000 U.S. multifamily renters, 86% of millennials say they are willing to pay 20% more for a smart apartment compared to 65% of baby boomers. Gen Y renters are 61% more likely to rent a unit because of electronic access such as keyless entry, and 55% are willing to pay more in rent for a unit with a smart lock. In other words, sought-after technology provides additional value to property owners and managers, says Bracha Halperin, chief operating officer at Cazamio, a rental platform. Smart apartments will generally attract more tenants and ultimately rent faster.

A 2019 PropTech survey by Property Week, a global real estate magazine, shows 54.0% of commercial real estate building owners expect investment in technology to have a significant impact on their revenue (41.4% said it will have an impact, and 4.3% said it will have no impact). In addition, 52.0% of respondents said they were willing to innovate and try new products and 44.6% said they would try products that were market-proven. These numbers have risen consistently over the last two years, notes Halperin. *"I see a dramatic difference in the last year talking with multifamily operators where two years ago or even one year ago when we were talking multifamily operators, they all agreed that smart apartments were coming, but they were talking about it as something in the future,"* he says.

Urbanist has partnered with IOTAS, a leading smart home technology integrator specifically for premium rental properties. The IOTAS hub and software platform is a modern enterprise solution intended to compliment tenant and landlord experience, and the necessary resetting of devices such as security features and comfort inclusions. This is an important differentiator when compared with the numerous technology integrators and hubs designed for personal homes that do not require and more importantly incorporate these necessary features and benefits. The IOTAS Home Platform, pre-configured for each individual apartment, provides new tenants with *"seamless onboarding, allowing residents to enjoy their new smart home the moment they move in. No setup, just works."*

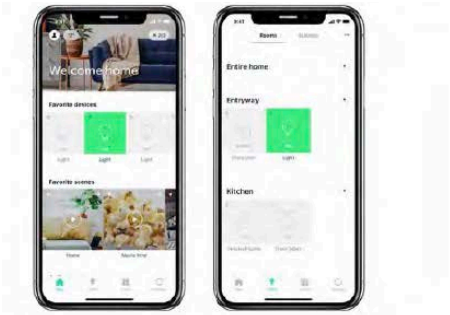
IOTAS has sought to incorporate a vast array of progressive smart home features you might only expect in a luxury 'personal' home, above and beyond the ubiquitous smart lock and smart thermostat beginning to be found in larger newly built multifamily buildings - a complete ecosystem of lights, outlets and sensors.

Every Urbanist apartment will feature a selection of approximately 30+ interconnected smart-devices, even more than most new built luxury homes – making life more enjoyable, comfortable and totally secure for our residents.

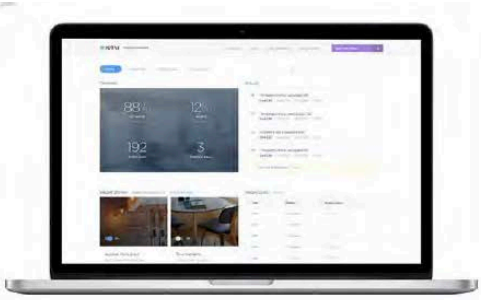


Most Urbanist buildings will include smart-home features such as, Alexa smart home devices with native smart home voice user interface, smart-lock solutions, smart wi-fi light dimmers, smart thermostat, smart-enabled garage door control and monitoring system, and 24/7 leak & flood detection monitoring. The residences will also come with Fibaro's RG BW Controller allowing the resident to adjust each room's colors as their moods and needs change, creating an atmosphere suitable for work, focus or relaxation via a smart-phone or voice command. Smart 70" screen ultra-HD television with home theatre sound system will combine beautiful design, superior technology and intuitive operation. From voice activated ambient lighting integrated with Alexa or Google, to issuing alerts in the event of an unlocked door, to the ability to operate house and garage doors from a touch of a screen, Urbanist residents will enjoy a rich user experience, as well as smart security features which will provide total peace of mind protection.

IOTAS' tagline, *"smart apartments made easy"* also refers to the property manager (or owner) experience. Aside from the simple onboarding for the resident, which keeps troubleshooting inquires to a minimum, the IOTAS Platform provides the property manager with full *"building-wide management and control"* that has full integration with their own management software, greatly improving operational efficiency.



IOTAS Home App
(Residents)



Property Dashboard
(Property Staff)

Smart properties are proven to increase net operating income for their owners by positively effecting the two key drivers – rental income and operating expenses. In some cases, clients of IOTAS who offered their units with and without smart home features experienced up to a 10% rent premium on those that did and contributed to a much faster lease up rate than expected. IOTAS also states that some customers reported a 27% reduction in utility costs and a weekly saving on labor, which is particularly relevant for low-rise SBMF buildings.

Rent premium	Building efficiency	Weekly labor savings
10%	27%	1-3 hours
Customers who did A & B testing experienced a rent premium, in some cases 10%	Reduction in utility costs reported by our customers on average for vacant units and common areas	Typical time saved adjusting temperature and lights in vacant units and common areas, even more on average for garden style properties

Monte Vista	Oaks Union Depot	Kaktus Life
3.5%	50%	4 Days
Rent premium	Lease up	Deployment
Increase in rent for smart apartments in Portland, OR	Fully leased up building in only 6 months, exceeding original 12-month budget projection	Set up 210 units in only 4 days, 60 units per day