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Strength Matters

Financial Management Conference

October 15, 2018

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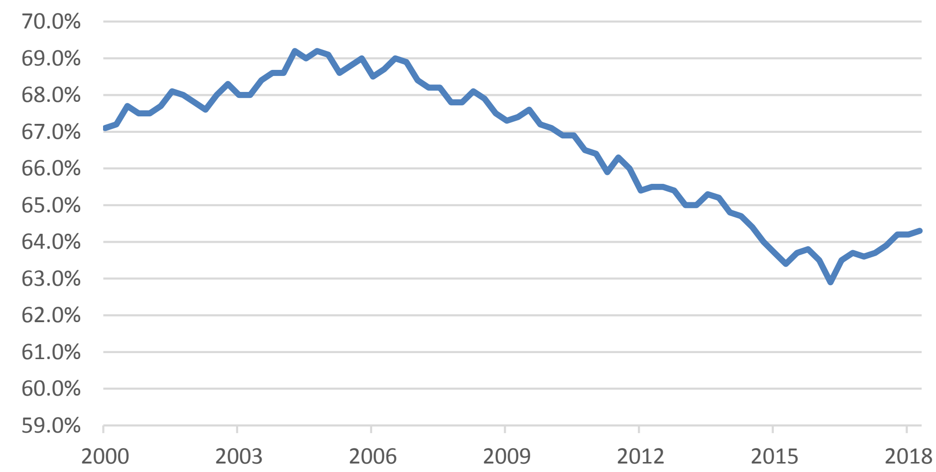
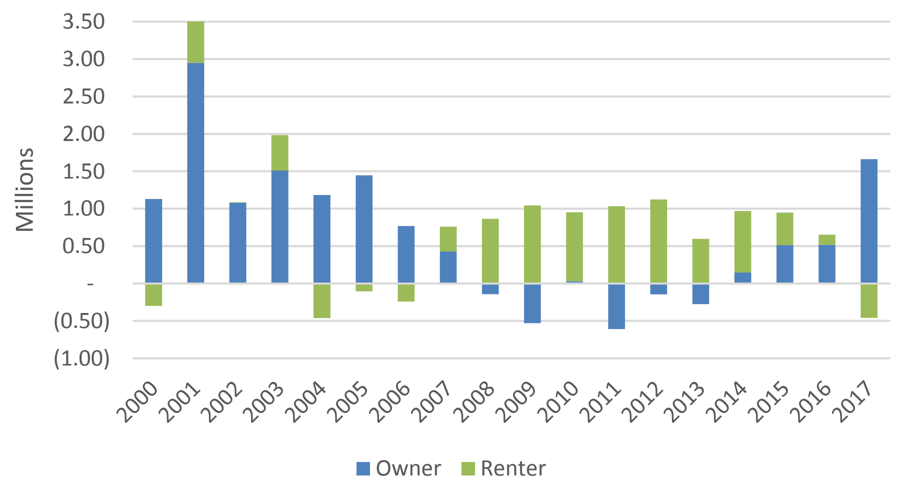
Current State – Rental Housing

- The U.S. housing market is comprised of 120 million households with approximately 43 million rental households. Of that total, 19 million households occupy buildings with 5 or more units, the remainder live in single family rentals or smaller multifamily structures.
- After hitting a record low in Q2 2016 at 62.9%, the homeownership rate has eased up to 64.3%.
- The shift toward rental has been driven by economic circumstances, including affordability, demographic changes and behavioral/preference issues.
- Advanced schooling and delayed family formation have worked to delay housing independence of younger adults and provide demand for rental housing.
- Mortgage finance for multifamily rental housing is a $1.4 trillion market, which is dominated by several major capital sources including commercial banks, Fannie Mae, Freddie Mac and FHA.

U.S. Home Ownership Rate



Net New Households



Source: U.S. Census Bureau American Community Survey, Current Population Survey/Housing Vacancy Survey

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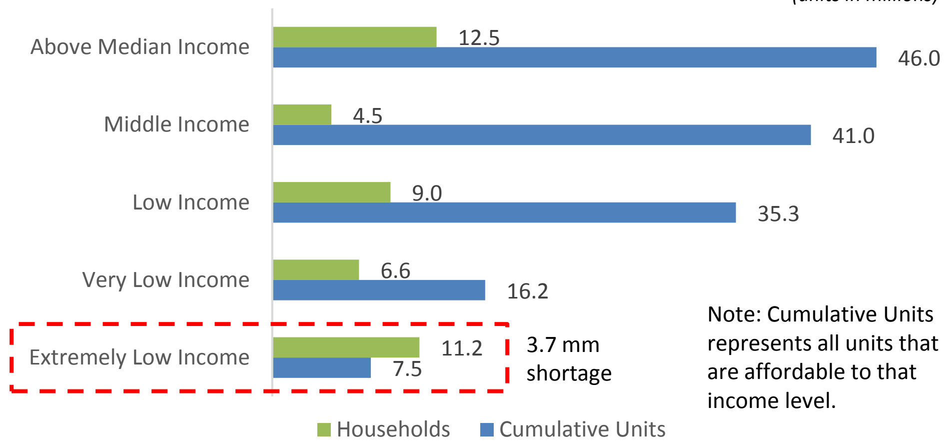
Cost Burden & Affordability

- Demand for affordable housing remains significant even as wage and job growth incrementally eased the number of people who spend more than 30% of their income on rent (“cost burdened”).
- The nation’s 20.9 million cost burdened renters account for 48.3% of all renter households with 25.2% being severely cost burdened (greater than 50% of income on rent).
- Much of the new developments in recent years has targeted higher-income households in downtown areas. Given high costs of development, median asking rents increased 27% between 2011 and 2016 to $1,480.
- Applying the 30% affordability threshold, renter household income would need to be at least $59,000 (52% higher than current renter household income).
- Median Renter Household Income is at an all time high of $38,944, but is still only 51.3% of Median Owner Household Income ($75,876).
- Given the lack of naturally occurring affordable housing units, federal assistance is critical; Urban Institute estimates 53% of units affordable to extremely low income renters have HUD/USDA assistance.
- Industry groups lobbying to address development regulation (research estimates +30% of development costs due to regulation).

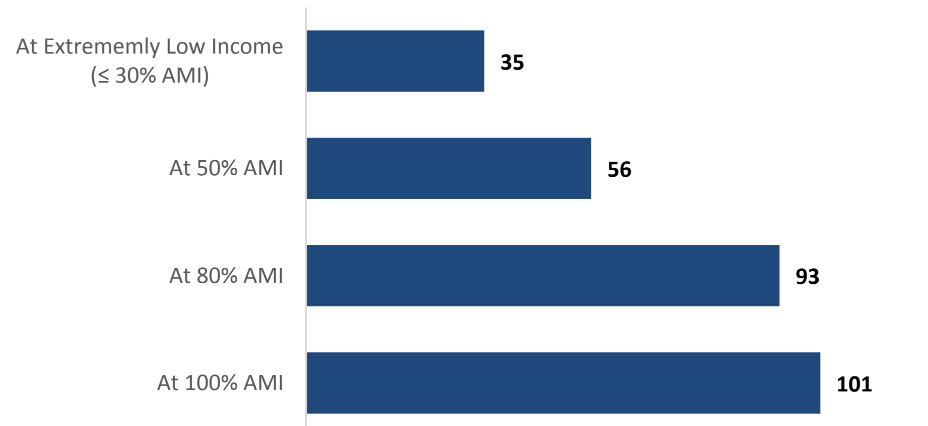
Rental Units & Renters Matched by Affordability & Income

(units in millions)



Source: NLIHC tabulations of 2016 ACS PUMS data

Available Affordable Rental Homes per 100 Renter Households



Source: NLIHC tabulations of 2016 ACS PUMS data; AMI = Area Median Income

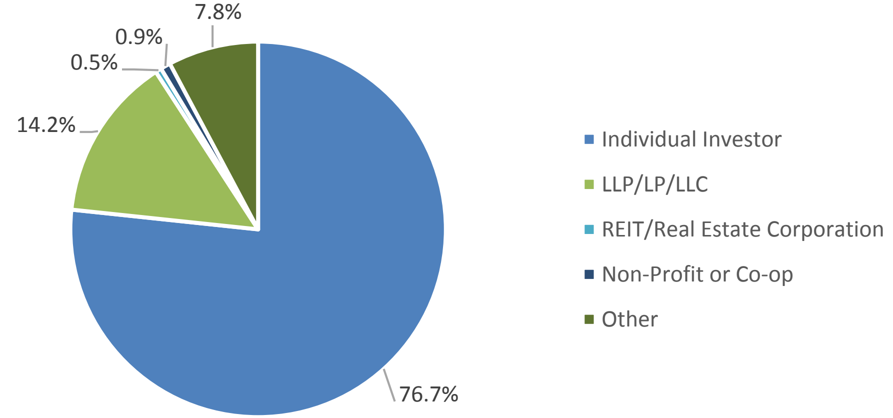
Source: JCHS America’s Rental Housing 2017, U.S. Census Bureau & NMHC

Small Multifamily

2-4 Unit Rental Properties

- 2-4 unit rental properties total roughly 6% of the U.S. housing stock or 7.6 million units.
- Given high development costs, most demand for low priced rentals is met by aging units with small multifamily properties accounting for roughly 25% of the low-cost units.
- Individual investors own over 75% of the 2-4 unit rental properties while entities own 85% of 5+ unit rental properties.

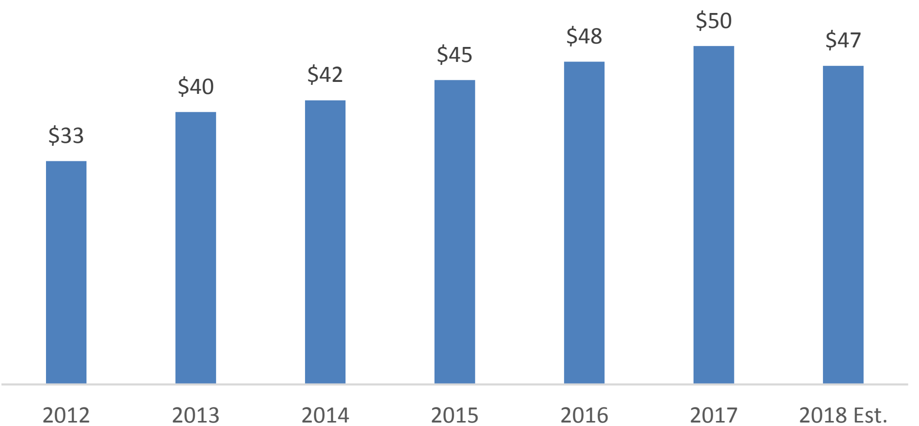
Ownership Entity of 2-4 Unit Properties



Small Balance Lending (Typically $1 to $5 million)

- Originations grew in recent years with 2017 up 4.8% over 2016, but expectations for 2018 indicate a 5.8% decline.
- The vacancy rate for small, affordable multifamily housing for Q2 2018 declined 0.30% year-over-year to 4.4% - the lowest level since 2008.
- Executing small multifamily loans has been cost prohibitive for some lenders; increasing view that technology advancements are critical for profitability and to drive scale.

Small Balance Multifamily Origination Volume *($bn)*



Source: JCHS America's Rental Housing 2017, Boxwood Means & Chandan Economics

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Workforce Housing Market *(non-luxury or MAH?)*

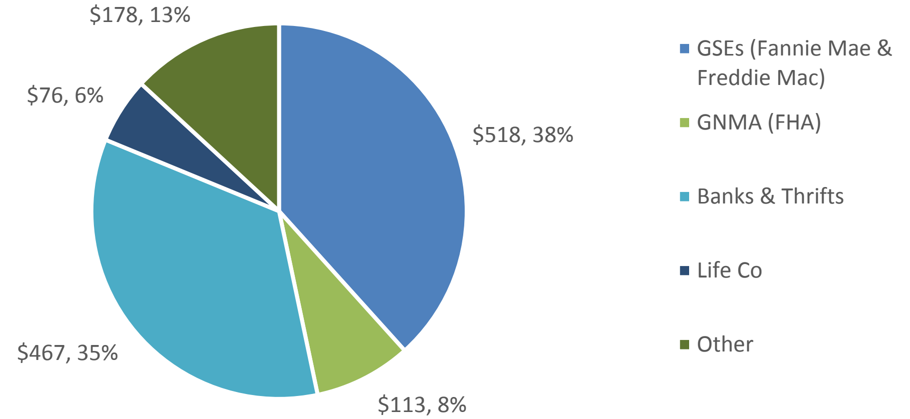
- Commonly viewed as renters that earn between 60% and 120% of AMI (approximately 13.3 million Workforce Renters).
- JCHS expects an additional 4.7 million renters will be added between 2015 and 2025.
- A significant portion of would be renters do not qualify for subsidized housing, but are unable to afford market-rate rents causing them to seek housing in submarkets outside the urban core.
- Significant demand and finite subsidies are leading to an opportunity for investors: the growth of workforce housing funds as impact investing. Examples include:
  - Turner Multifamily Impact Fund is targeting $1 billion invested in workforce housing and currently owns 6,000 workforce housing units.
  - Avanath is an investment firm with over $1.4 billion AUM focusing on affordable housing, naturally occurring affordable housing (NOAH) and workforce housing.
  - Minneapolis NOAH fund provides 10-year equity financing at a 6.5% hurdle.
  - The California State Teachers' Retirement System (CalSTRS) committed $300 million to Belay Investment Group for value add investments including a Hispanic-focused workforce housing specialist.
  - LEM Capital closed a $300 million fund focused on Class B value-added multifamily properties (incl. workforce housing) targeting net returns of 12-16% with local institutional investors.
  - Enterprise Community Investment has a $110 million fund targeting the acquisition and preservation of existing affordable multifamily properties in danger of conversion to market rate housing.
  - Freddie Mac launched a social impact initiative to preserve workforce housing by providing low-cost loans in exchange for voluntary rent restrictions for households earning up to 80% of AMI.

Multifamily Lending

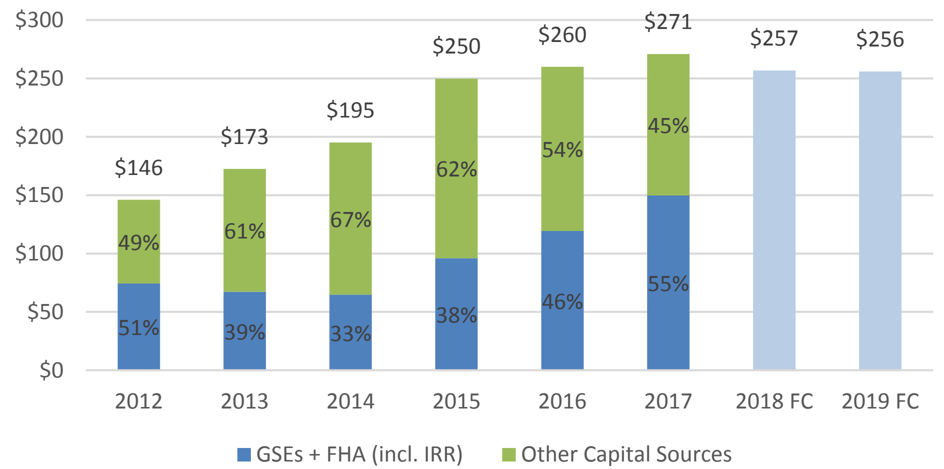
- Commercial and multifamily mortgage debt outstanding (MDO) stands at $3.27 trillion. Multifamily MDO grew 8.8% in 2017 to $1.3 trillion.
- The GSEs and FHA are the largest capital providers to multifamily, holding 46.7% or $631 billion, with banks holding $467 billion.
- Multifamily origination volumes likely peaked in 2017 as rising interest rates sap refinance demand and transaction volume has plateaued.
- Increased market share will be at the expense of other lenders – forcing lenders to differentiate to stay competitive.
- Role of technology continues to expand; more lenders investing in portals and processing engines.

Multifamily Mortgage Debt Outstanding *($ in bn)*

Total Multifamily Debt Outstanding: $1,352 bn



Multifamily Origination Volume *($ in bn)*



Source: Fannie Mae, Freddie Mac, FHA/HUD, Federal Reserve & MBA

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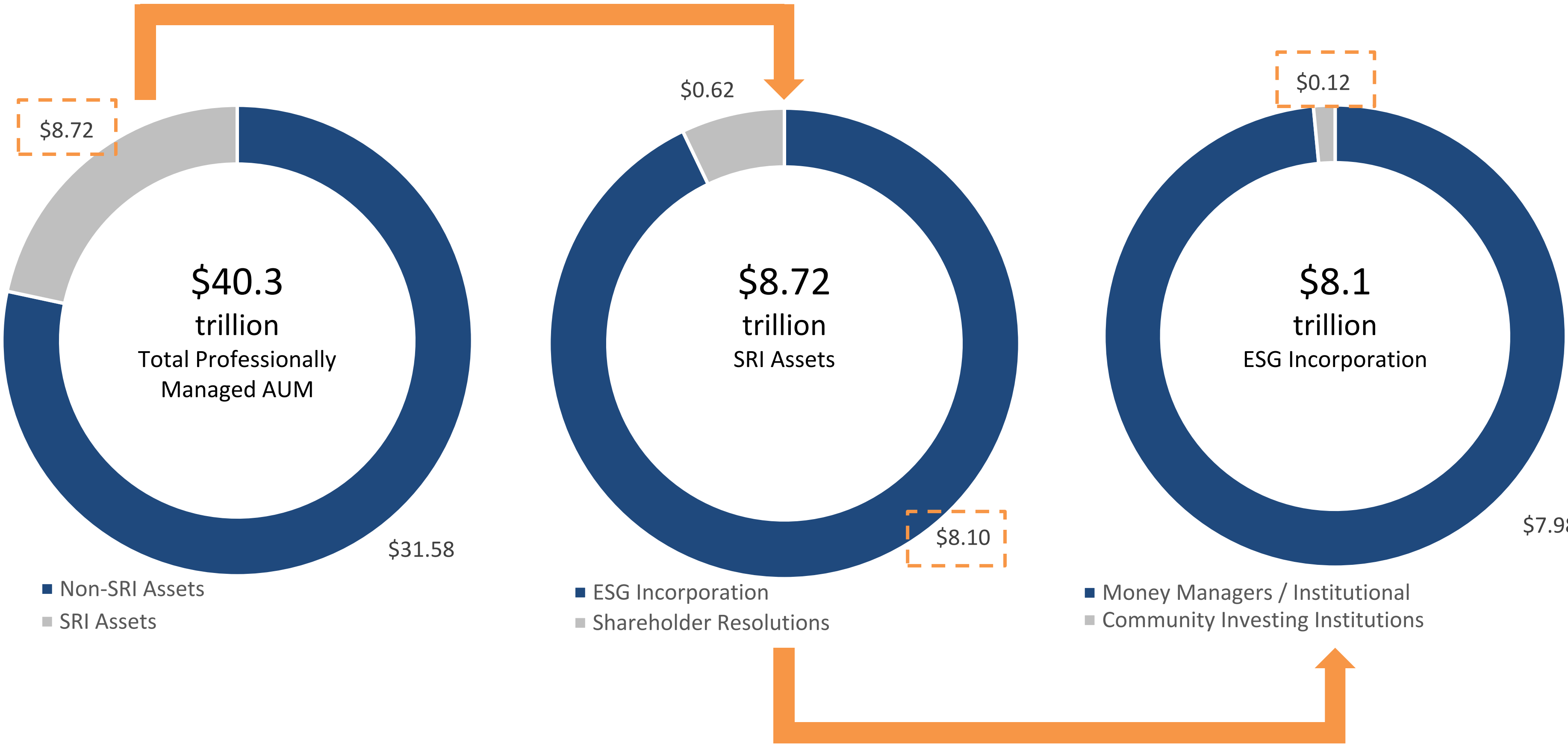
SRI and Impact Investing

- Sustainable, Responsible and Impact (SRI) Investing includes both ESG and Impact Investing
- $8.1 tn ESG assets are a subset of SRI capital
- $122 bn through over 1,000 Community Investing Institutions
- Money Managers/Institutional average $10 bn per firm; Community Investing Institutions average $117 mm.



Source: USSIF Foundation

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SRI Selection Criteria

SRI selection encompasses more than negative screening for unacceptable sectors/investments (i.e., no war zone investments, no poor governance).

Positive/Best-in-Class

Investments in sectors, companies or projects selected for positive ESG performance relative to industry peers

Negative/Exclusionary Screening

Screening of certain sectors or companies involved in activities deemed unacceptable or controversial

ESG Integration

The systematic and explicit inclusion by investment managers of ESG factors into traditional financial analysis

Impact Investing

Impact investing aimed at solving social or environmental problems

Sustainability Themed Investing

The selection of assets specifically related to suitability in single- or multi-themed funds

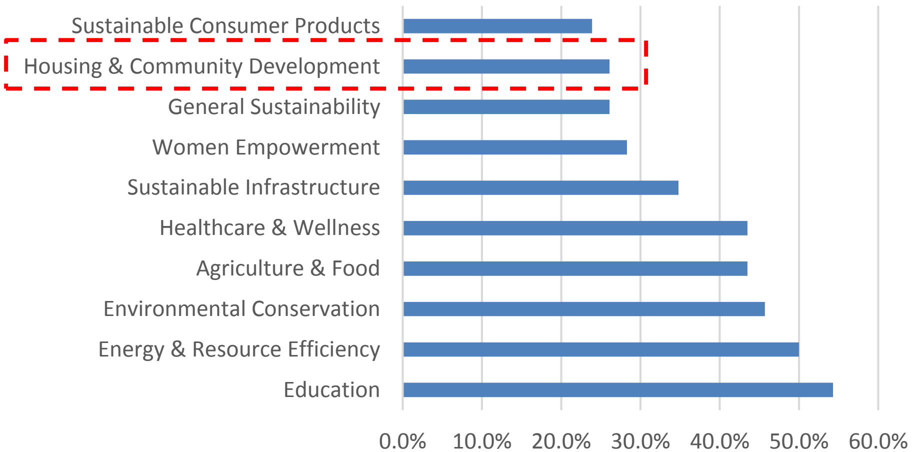
Community Investing

Investment that directs capital to communities that are underserved by affordable financial services

Impact Investing

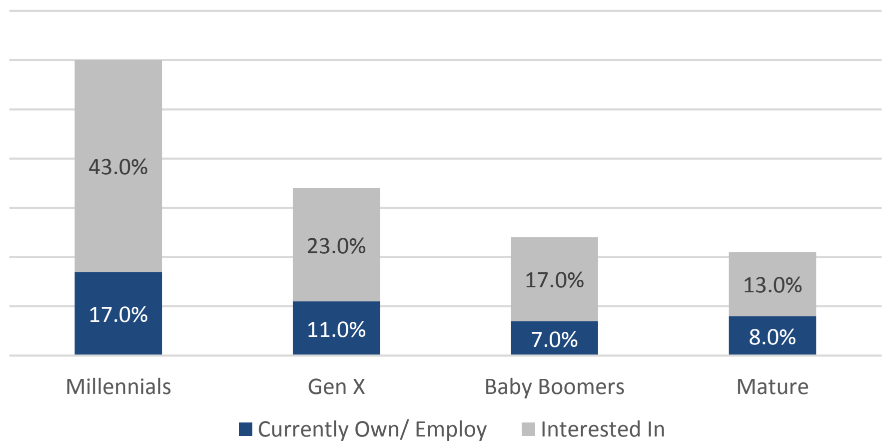
- There are different impact strategies that can overlap based on the ESG guidelines or other metrics being used (i.e., Women's Rights could overlap with a Human Rights strategy).
- According to USSIF, 26% of Family Offices have exposure to Housing & Community Development as an area of impact investing focus.
- Approximately 30% of Family Offices are active with multiple impact investments across asset classes or causes.
- Impact investment opportunities are sourced from a variety of sources, but are most commonly sourced from clubs/networks, co-investment opportunities, direct approaches from investees and dedicated internal staff.

Top Sectors for Impact Investing by Family Offices



Source: USSIF Foundation

SRI Investment Interest by Age Cohort



Source: USSIF Foundation & US Trust Bank Survey of HNW & UHNW Individuals

Source: USSIF Foundation & Financial Times

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Opportunity Zones

- The Opportunity Zone legislation is intended to incentivize private capital to invest in distressed communities by providing tax benefits on re-invested capital gains.
- U.S. Treasury certified 8,700+ eligible low-income census tracts.
- Secretary Mnuchin estimates $100 billion in private capital will be invested in Opportunity Zones as a result of the new legislation and incentives.
- Challenges exist to combine Opportunity Zones with LIHTC, but historic tax credits may prove to be more compatible when paired.
- The legislation has no metrics for impact accountability or reporting, which could be critical for attracting investors and evaluating program effectiveness.
- Kresge Foundation is seeking to influence market norms and establish best practices in terms of impact accountability, transparency and reporting.
- The nascent Opportunity Zone industry is eagerly waiting guidance from Treasury that will address critical issues and allow fund formation.

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