STATE OF THE U.S. HOUSING MARKET

Identifying Investment Opportunities in Rental Housing

AMENDED SEPTEMBER 2023

INVESTMENT THESIS

Evolving rental housing needs among a broad demographic coalition combined with inadequate housing supply has given rise to enduring investment opportunities across the rental housing spectrum (e.g., Premium, Middle-Market, Workforce, Inclusionary, and Single-Family Rental) that should persist for years to come.

EXECUTIVE SUMMARY

Housing is a necessity and the composition and trajectory of the U.S. population, combined with a supply and demand imbalance, have led to robust demand for rental housing and an enduring investment opportunity. This paper will evaluate investment conditions across rental housing sectors, focusing on the long-term outlook, demand drivers, and developing macro trends that will likely impact the broader housing market going forward. It will conclude by identifying a prudent approach for capturing the opportunity in U.S. rental housing.

Rental housing in the U.S. offers an attractive long-term investment opportunity. We believe a flexible strategy capable of capturing value across the rental housing spectrum remains an effective response to emerging and changing opportunities during both the current and future economic cycles, as highlighted in the following:

Favorable Demographics

The demographic tailwinds – driven by shifting needs of Millennials, Gen Z, and Boomers – that will underpin the rental housing market over the coming decade remain robust and strengthened since the Coronavirus health crisis. There are approximately 73 million Millennials, making up the largest demographic in the workforce today and roughly half are renters. They have been slower than previous generations in transitioning to homeownership due to mounting financial struggles as they entered the job market during the Global Financial Crisis (GFC). They also continue to experience high student debt levels, low savings, and now face a high mortgage rate environment with a slowing economy, thereby increasing their propensity to continue renting. An average 30-year mortgage rate hovering at its highest level since late 2000, combined with low mortgage origination levels and a period of elevated residential home prices should suppress overall homeownership rates, as highlighted in **Exhibit 1**. According to the National Association of Realtors, 2022 represented the highest median age (36 years old) of first-time homebuyers compared to 31 back in 1981, with this trend unlikely to reverse any time soon. Further, the nearly 65 million Americans in Generation Z have become the fastest growing renter segment in the U.S., which enhances the resilient nature of the multifamily sector.[1]

EXHIBIT 1: MORTGAGE ORIGINATIONS BY CREDIT SCORE

Source: Bloomberg L.P.

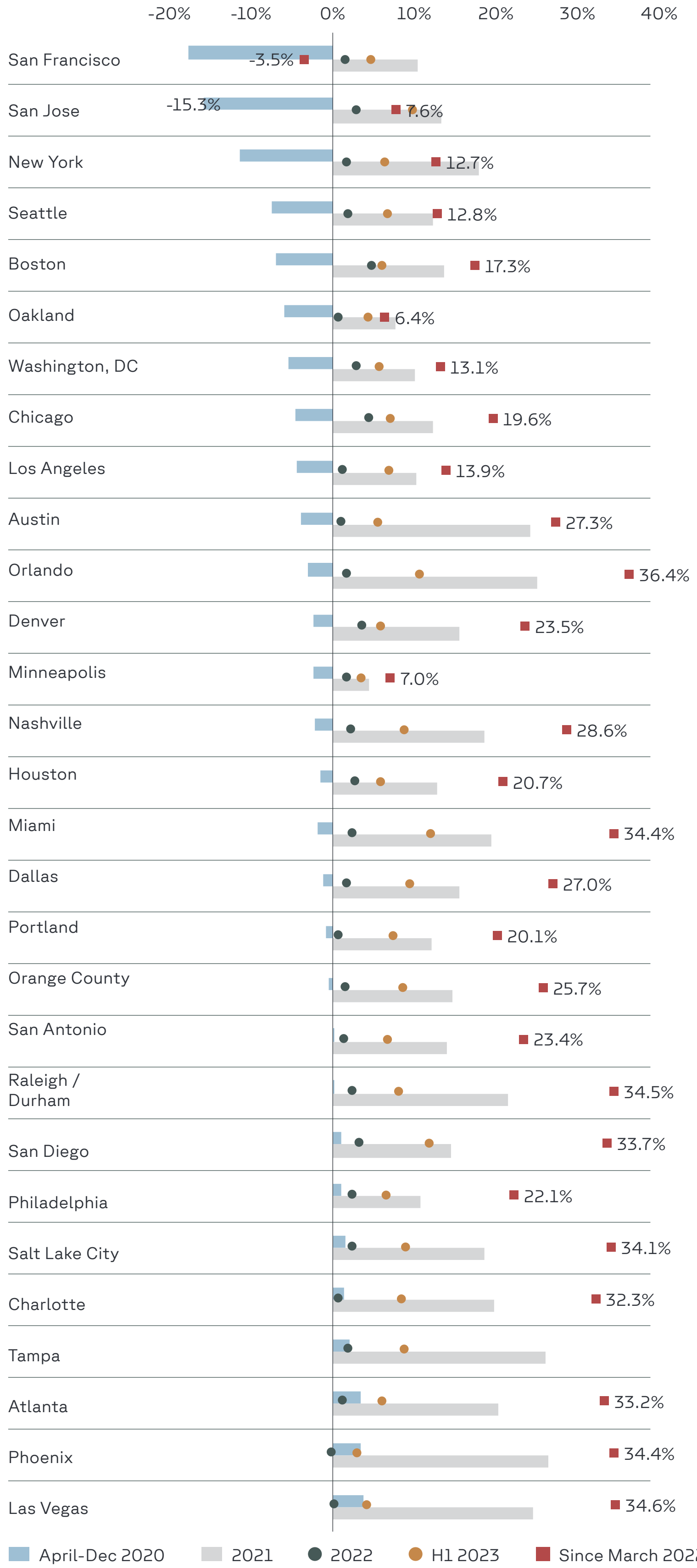
1. Statista. U.S. population by generation 2022. Published June 7, 2023.

The labor market remains surprisingly tight, despite pockets of layoffs occurring within the technology and banking industries, although wage growth has generally failed to keep pace with the recent inflationary pressures. Inflation spiked to 9.1% in mid-2022; however, multifamily has historically provided a strong hedge against inflation since asking rents are continuously adjusted based on current market dynamics and the current cycle has reaffirmed this critical investment merit. That considered, robust rent growth over the last 12 months in the multifamily sector (**Exhibit 2**) has exacerbated the affordability crisis, which will likely remain a key social concern and area of focus for Affinius Capital when evaluating investment opportunities in the years ahead.

The pandemic had an uneven impact on the multifamily sector by market, asset class, and area by density. Expensive and high-density markets that are dependent on mass-transit (e.g. New York City and San Francisco) underperformed in 2020 even in the midst of the recovery; however, starting in 2021, these markets experienced a broad-based rebound that witnessed rent growth of 20% or more in certain instances. As employers increasingly return to in-office work, we expect this divergence to diminish.

Current market conditions have corrected from the outsized rental growth resulting from COVID-19. Rental growth peaked in the first half of 2022 and was more muted over the next year as the pandemic-related demands drivers (e.g., structural migration, fiscal stimulus, shifting working environments) fully subsided. In the second half of 2023, market conditions have returned to normal.

EXHIBIT 2: RENT GROWTH OF SELECT MAJOR U.S. MARKETS



Source: AxioMetrics

Investing With a Purpose

Doing well and doing good are not mutually exclusive, they can be interconnected and even drive outperformance. Seeking opportunities for integrating social benefit into investment strategy and combining profit with purpose by pursuing a triple bottom line – profit, people, and planet – can lead to what's been referred to as a "higher kind of capitalism." It is about emphasizing the intersection of strong investor returns and purpose-driven decisions that ultimately deliver social and environmental benefits while enhancing financial results. In doing so, the business serves a greater purpose and builds a shared value for multiple stakeholders, in scale.

As well, the strategy is to capitalize on a sharp supply and demand imbalance in U.S. rental housing and capture a significant value creation opportunity for our investors through ground-up development and value-add acquisitions, along with creating a geographically diverse and sustainable portfolio that is overweighted to workforce and mid-market housing ("Attainable Housing").

Creating rental housing in the U.S. offers the opportunity for doing good by addressing two of society's pressing problems. The first is reducing the deficit in Attainable Housing and meeting deep demand from price-sensitive renters by providing more housing supply at price points for rents that are affordable to a larger percentage of the renter households in each market. The second is mitigating the impact of the building sector on the environment by constructing sustainable apartment developments that meet green standards and utilize innovative design tools and construction techniques ("Green Housing"). After all, the building sector has long been plagued by inefficiency and waste and is responsible for contributing 40% of the greenhouse gas emissions that have fueled climate change over the years.

Prudent Strategy

In some ways, the pandemic has validated a key component of our housing platform strategy, which is centered around value creation and flexibility. This approach allows us to shift the investment focus between acquisitions and development across rental sectors and layers of the capital stack, at different points of the cycle, and in different markets depending on construction cost relative to market values and the relative risk-adjusted returns. Notably, we structured the housing platform with this distinction in mind well in advance of the health crisis. Regardless of the economic catalyst, a prudent strategy requires the ability to go where the value creation opportunities are compelling within the rental housing market.

Early in a recession, for example, pockets of distressed opportunities could emerge in certain markets or subsectors, leading to the acquisition of core assets at attractive price points. As the economic recovery takes hold, apartment development could create significant value by capturing lower construction costs and better land pricing, while also delivering units during a period of relatively low supply, rising effective rents, and a recovering job market. Similarly, elevated supply in a submarket or high construction cost basis of a project may lead us to invest in high-quality multifamily through preferred equity structures with material sponsor subordination to deploy capital at a reduced basis, thereby offering above-market yields and protection to the investor's last dollar exposure. Further, preferred equity may provide a more optimal capital structure depending on the affordability of senior and mezzanine debt to close any investment financing gap with efficient speed of timing ("Gap Capital"). Regardless, our investment focus will shift accordingly, thanks mainly to the flexibility that was designed at the onset of the platform.

Thus, we are confident in our ability to maneuver through a dynamic market environment and ultimately outperform over the long term, primarily due to this agile approach combined with deep market knowledge and our highly selective and disciplined investment style that is underpinned by proprietary research and artificial intelligence tools. These include machine learning and predictive analytics that enable dedicated applications to drive better risk-adjusted returns and help identify rental housing opportunities.

Value Creation Philosophy & Defensive Approach

It is our view that a prudent strategy for capturing the value creation opportunity in U.S. rental housing must be flexible, as noted earlier, **while also having a combination of several key attributes:**

- **Maintain** a highly selective and defensive, but active, investment stance
- **Adhere** to guiding principles that maintain a focus on market, product, and cost basis while creating value across rental housing sectors and layers of the capital stack
- **Harness** the full value creation potential via active management of the portfolio including strategically monetizing tactical investments when appropriate
- **Utilize** proprietary predictive analytics tools together with the Affinius research platform to inform market selections and decisions over the life of the investments
- **Execute** asset-specific business plans to enhance value and drive income growth for long-term holdings
- **Integrate** purpose into strategy and deliver a green and Attainable Housing product while exceeding the financial target

Looking ahead, we believe that conditions are in place for attractive opportunities to not only emerge in the rental housing sector as a result of the current environment, but they should also endure across economic cycles over the long term. Again, we are focused on being well-positioned to capitalize on attractive rental housing conditions.

Mission Statement

Our housing platform is designed to take advantage of our core creation capabilities in the face of market disruptions, which from our experience ultimately leads to value-creation events. As the Commercial Real Estate (CRE) market has stabilized following the rapidly evolving conditions caused by COVID-19, we will also aggressively seize on opportunities that reflect our primary themes across the investment spectrum.

"The housing platform strategy is to capitalize on a sharp supply and demand imbalance in U.S. rental housing and capture a significant value creation opportunity for our investors through ground-up development and value-add acquisitions along with creating a geographically diverse and sustainable portfolio that is overweighted to Workforce and Mid-Market Housing and what we are referring to as 'Attainable Housing'."

— Hailey Ghalib, CAIA, AIA

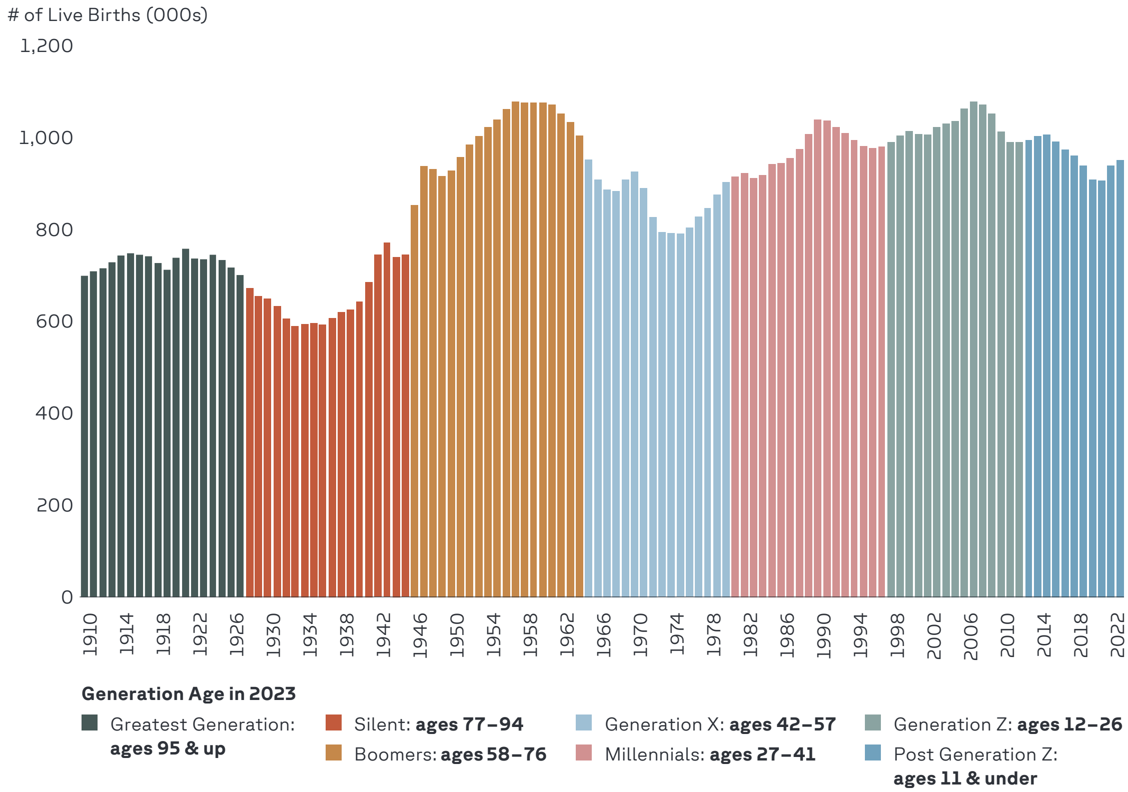
EXECUTIVE MANAGING DIRECTOR, HEAD OF HOUSING INVESTMENT AND DEVELOPMENT

MARKET OVERVIEW

Demographics Drive Demand

The Millennial generation, approximately 73 million people, is the largest cohort in the U.S. labor force, and roughly half of them are renters today.[2] This group consists primarily of young people in their late 20s and 30s who have delayed getting married and having children, relative to previous generations. **Due, in part, to entering the workforce during the Global Financial Crisis (GFC), the Millennial cohort has experienced financial hardships, including record levels of student loan debt and difficulty saving for a down payment required to purchase a home.** This group not only dealt with the GFC but also the most recent downturn and subsequent inflationary environment, which only reaggravated their inability to financially qualify for homeownership. Therefore, Millennials will likely rent for an extended period of their lifetimes relative to previous generations, evidenced by the median age (36 years old) of first-time homebuyers climbing to its highest point since 1981 in 2022.

EXHIBIT 3: DEMOGRAPHIC COHORT SIZE IMPACTS HOUSING DEMAND



Source: U.S. Census Bureau, Moody's Analytics

Over the next decade, we expect Millennial family formations will gain momentum, and some members of this cohort will continue to transition to single-family housing – prioritizing attributes such as school district quality, yard size, and privacy – a trend more recently supported by the strength of the Single-Family Rental sector. At the same time, Generation Z (the post-Millennial cohort) has begun to backfill the apartment space vacated by Millennials. According to Moody's, approximately 65 million births occurred during Generation Z's era, which is four million more than the comparable 16-year reign (1981-1996) of the Millennial cohort. **As such, the nearly 65 million Americans in Generation Z have now become the fastest growing renter segment in the U.S., adding 4.5 million renters over the last five years.**[3] Thus, rental housing demand should increase substantially to accommodate the larger Generation Z cohort as well as the number of Millennials who will become longtime renters.

2. RentCafe. Market Insights. Published April 20, 2023.
3. RentCafe. Market Insights. Published April 20, 2023. Affinius Capital Research, John Burns Research, National Association of Realtors. As of: YE2022.

Meanwhile, an increasing number of Baby Boomers and members of the Silent Generation are aging into senior housing. **An average of 10,000 Baby Boomers reach retirement age every day, and this trend will continue into 2030. Furthermore, the number of people over the age of 75 is forecasted to almost double from 21 million today to over 40 million by 2035. Collectively, these favorable demographics will continue to spur rental demand across the housing spectrum.**

Supply Demand Imbalance

From a supply perspective, the fundamentals continue to favor investment opportunities in the housing sector, given that the market is woefully undersupplied – a housing deficit of 4.5 to 6.8 million units depending on the source.[4] From 1980-2008, the U.S. averaged nearly 1.5 million total housing completions, including both single-family homes and apartments. Over the next decade, the economy produced an average of only 870,000 units annually – a shortage of nearly 5 million homes during those 10 years when compared to the long-run average. As of 2023, total housing completions were approaching a relatively healthy pace of roughly 1.4 million units, their highest level since 2007.

Before the global pandemic, the housing market's supply/demand fundamentals were already out of balance. Historically, new housing starts have outpaced household formation growth. From 1960-2016, there were 11 new housing units built for every 10 households formed. This dynamic allowed for vacancies, demolition due to obsolescence, and owners of second homes; thus, there was not an issue with oversupply.

The slow recovery in housing starts compared to household formations that occurred between 2010-2016 has contributed to the inadequate private housing supply that persisted until more recently. Further, supply chain challenges have resulted in increased and more volatile lumber prices, contributing to a limited supply in the type of modern product that meets current preferences and leading to further escalation in residential home prices, effectively locking many first-time buyers out of the market.

Various factors contribute to this situation, such as rising construction costs driven by labor shortages, anti-development sentiment, and communities limiting zoning for dense residential housing due to pressure on public facilities (e.g., schools, hospitals, and transportation systems). Consequently, without innovative and collaborative solutions (which we will discuss in the Workforce Housing: Tackling the Cost Issue section), the current housing shortage will likely intensify over the long run as the robust demographic tailwinds continue to take hold.

4. Affinius Capital Research, John Burns Research, National Association of Realtors. As of: YE2022.

SECTOR INSIGHTS

Apartments: A Multi-Dimensional Story

Roughly 44 million U.S. households rent their homes today (an all-time high).[5] The nation will add approximately 9.2 million new households over the decade, from 2022 to 2032.[6] **If the current renter-to-household ratio holds steady around 36%, the market would require nearly 3.3 million new units over that period by our estimate, or an average of almost 330,000 units per year, to maintain a healthy supply/demand equilibrium. While this estimate includes all major rental types (i.e., condos, duplexes, and multifamily), it does not account for losses in inventory due to obsolescence for example, meaning the need for rental units could be even higher.**

5. Number of renter occupied housing units in the United States from 1975 to 2021, July 2023, Statista. www.statista.com.
6. Moody's Analytics, as of August 2023.

The apartment sector has become an increasingly important part of the rental housing mix, delivering 452,000 units in 2022, following 406,000 units in 2021. Over the last five years, new construction averaged 404,000 units annually.[7] However, demand has outpaced supply, and the national vacancy rate is roughly 5% as of mid-2023, after staying in the 6.1-6.7% range from 2015 through early 2020.[8] When considering the financial obstacles that many first-time homebuyers face, a cultural/demographic shift toward rental housing, and a single-family housing market that is dealing with its own set of evolving challenges, the apartment sector is well positioned to benefit from considerably more renter demand going forward.

Ultimately, markets with diverse economic drivers and strong population growth will likely outperform over the long term, even if supply levels rise above the historical average in the near term. Finding success in this sector will heavily depend on an investor's ability to align the appropriate rental product at the right price point for a given submarket. For example, **Exhibit 4** classifies renter households in the Denver metro based on various affordability price points.

> We believe the most attractive opportunities over the next decade will occur primarily around the Middle-Market and Workforce pricing segments (per **Exhibit 4**), referred to as "Attainable Housing." These market segments reduce the deficit in Attainable Housing and meet deep demand from price-sensitive renters by providing more housing supply at price points that are affordable to a larger percentage of the renter households in each market, while generating strong returns for our investors.

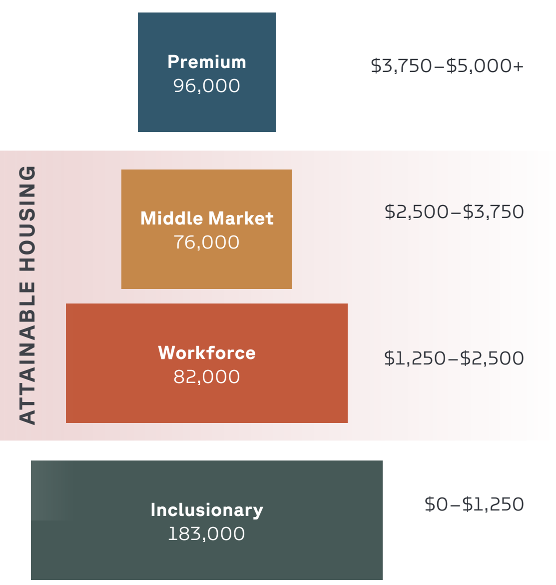
EXHIBIT 4: RENTER HOUSEHOLD CLASSIFICATIONS RELATIVE TO AFFORDABLE MONTHLY RENT LEVELS

PREMIUM: The highest rent range within a major market and often accounts for 15-25% of renter households.

MIDDLE-MARKET: The centerpiece of a critical price point segment that we believe is an attractive investment opportunity over the long run, generally accounting for 15-25% of renter households in major markets.

WORKFORCE: For the sake of this analysis, it is housing that is affordable for those making 80-120% of an area's median income (AMI) and typically accounts for 15-35% of renter households in major markets.

INCLUSIONARY: For the sake of this analysis, it includes renters making below 80% of AMI. It is associated with affordable housing programs intended for lower-income families, typically accounting for 35-50% of renter households in major markets.



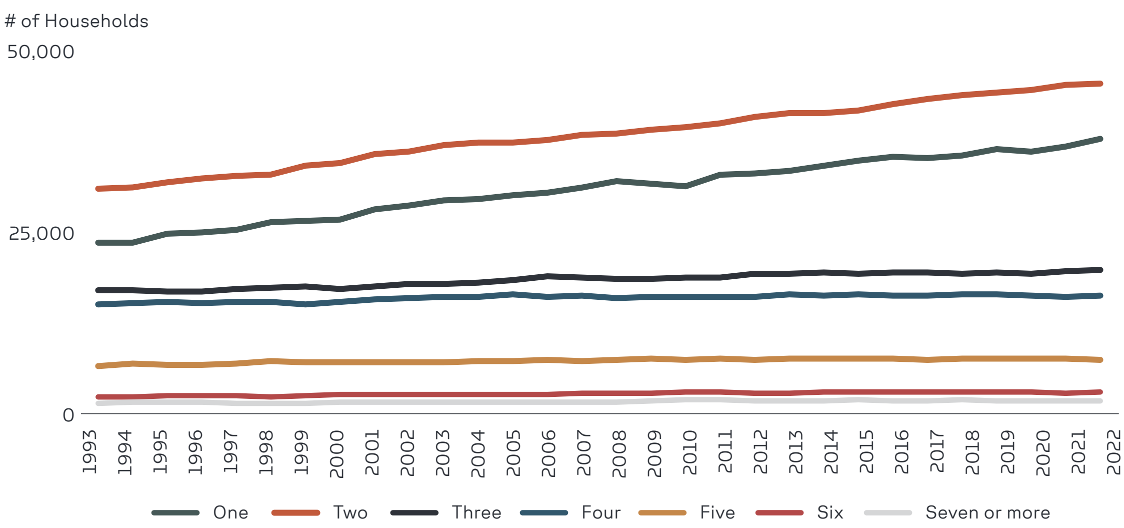
This exhibit uses the Denver market as a proxy, and household rent assumptions are based on 30% of Gross Household Income.

Source: Affinius Capital Research reporting via Environics demographics data and Moody's Analytics as of April 2021.

7. CoStar, as of Q2 2023.
8. Data per Axiometrics. As of Q2 2023.

The rise in single-person households reflects a shift in the nation's family structure and its renter profile. As of 1975, this group accounted for 19% of households and has since risen steadily to 28% or 38 million households in 2022. This change in household structures is due to various factors, such as older adults living alone and younger adults delaying marriage and having kids, which bodes well for rental housing demand.[9]

EXHIBIT 5: SINGLE PERSON HOUSEHOLDS ON THE RISE



Source: For more information about ASEC, including the source and accuracy statement, see the technical documentation accessible at: https://www.census.gov/programs-surveys/cps/technical-documentation/complete.html

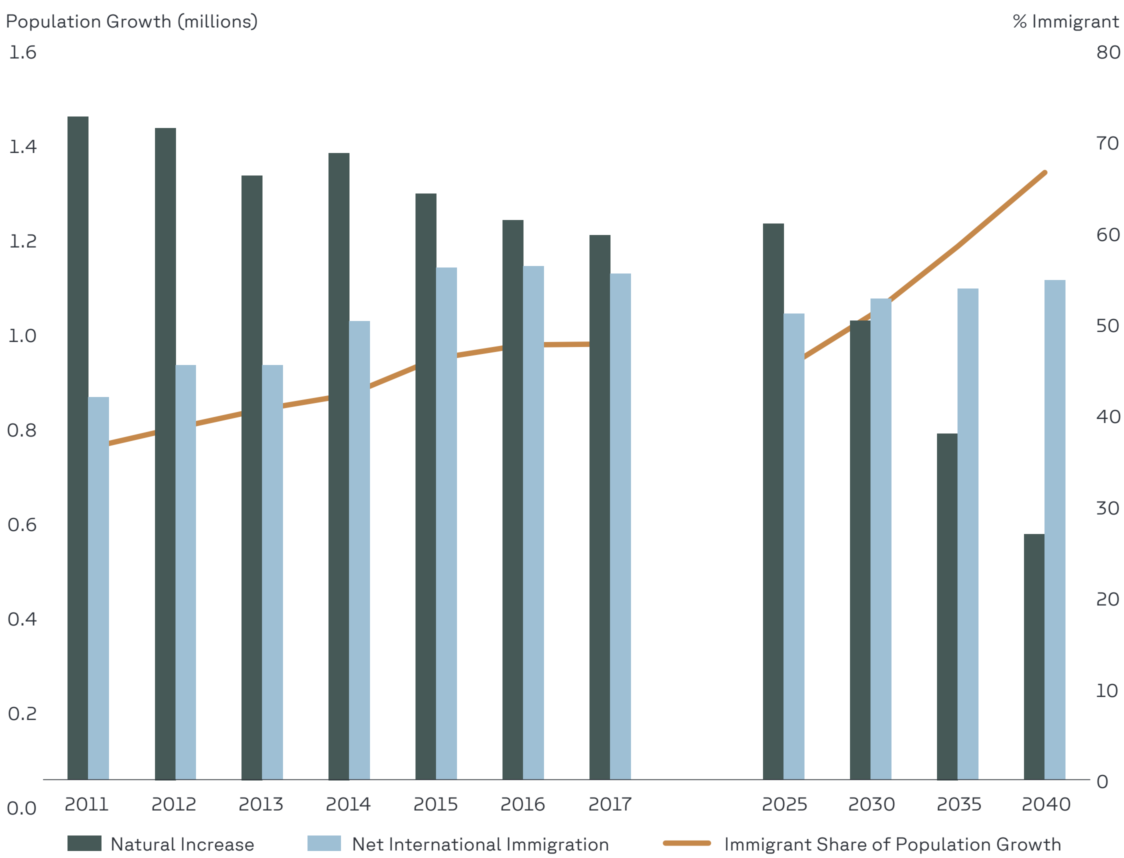
9. U.S. Census Bureau. New Estimates on America's Families and Living Arrangements, November 2021.

In the U.S., immigration will become a significant driver of population growth in the coming years, delivering a steady stream of potential renters. **By 2030, immigrants will account for 15.8% of the population, the highest level since the U.S. Census began tracking this data in the 1850s.** The year 2030 also marks a turning point as net immigration is projected to overtake natural increases (the excess of births over deaths) as the primary driver of population growth for the country.[10]

Steady immigration into the U.S. will help to offset lower levels of domestic population growth.

In 2021, President Biden lifted the previous administration's executive order that suspended entry into the country for certain immigrants temporarily in the wake of the Coronavirus.[11] This initiative was a short-term measure because the U.S. economy will rely heavily on immigrants in the years ahead, especially as disruption caused by the novel Coronavirus to international supply chains and manufacturing drives future repatriation of these functions. Under the current administration, we believe that having a strong immigrant pipeline will play a vital role in the years ahead. Ultimately, the multifamily sector's demand drivers (e.g., favorable demographics, evolving family structures, and stable immigration growth) should support the sector's momentum over the next decade and beyond.

EXHIBIT 6: IMMIGRATION IS A KEY DRIVER OF POPULATION GROWTH



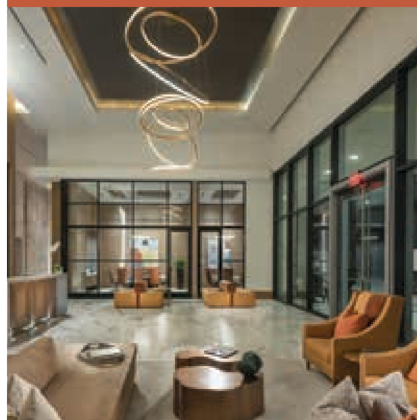
Source: JCHS tabulations of US Census Bureau, Population Estimates and 2017 Population Projections.

10. Projections of the Size and Composition of the U.S. Population: 2014 to 2060, March 2015, U.S. Census. www.census.gov.
11. A Proclamation on Suspension of Entry, November 2021, White House. Whitehouse.gov.

Workforce Housing: Tackling the Cost Issue

What is workforce housing? The criteria surrounding workforce housing tend to vary by region, but most definitions are based on housing affordability for those making near the median household income of a particular area. For the sake of this paper, we will define workforce housing as rental units that are affordable to households earning 80-to-120 percent of the area's median income, assuming tenants spend 30% of their income on housing. **Workforce housing is often associated with the ability of essential employees – such as emergency personnel, healthcare professionals, and teachers – to find reasonably priced accommodations in their respective communities.**

Today, workforce housing encompasses an even larger group (e.g., young professionals, retail sales personnel, some office workers, and service workers). All of them have found it increasingly difficult to afford housing in both urban and rural areas. According to the Joint Center for Housing Studies, 44 million homes in 2019 (14% more than in 2009) were “cost-burdened,” meaning they spent more than the recommended industry standard of 30% on housing. In the aftermath of COVID-19, an already dire situation has been amplified by elevated levels of inflation coupled with residential home prices at all-time highs, as measured by the S&P Case-Shiller U.S. National Home Price Index. With a record high 64% of U.S. households living paycheck to paycheck last year, it is reasonable to expect affordable housing to remain both a critical social issue and a potential investment opportunity in the years ahead as the economy normalizes. This income gap is exacerbated by the fact that consumers have seen little to no actual income growth on an inflation-adjusted basis over the last three years.[12]



The multifamily sector ultimately benefitted from the pent up demand created by COVID-19.

Several other factors have also contributed to the affordability issue. To start, the increased demand for rental housing has led to rising rental prices that have outpaced wage increases across the country. While apartment construction has been near record levels in recent years, most of the new deliveries focused on Class A product that typically has rents that fall outside what would be considered practical for the average U.S. household. Affordability issues have even begun to limit rental growth in Premium Class A product in some submarkets and urban centers as well. Lately, residential home prices have exceeded the above average levels of multifamily rental rate increases.

12. Bloomberg L.P. “More Americans Earnings $100,000 Live Paycheck-to-Paycheck. Published January 30, 2023.

Market participants have struggled to provide a comprehensive and viable solution to the affordability crisis that also meets institutional return requirements. Still, investors are beginning to take a more innovative approach to this issue, particularly regarding new development. Aside from delivering inclusionary housing as part of established local zoning requirements on new ground-up developments in certain cities, possible solutions could include:

- Technology-driven construction methods that could potentially lower construction costs and reduce delivery schedules
- Creation of mixed-use, ex-urban nodes to ease pressure on urban centers while offering an affordable solution
- Public-private cooperation to encourage and facilitate more housing that helps offset high land prices
- Corporate sponsorship of affordable housing initiatives
- Creating affordable housing through development and acquisitions by utilizing low-income housing tax credits ("LIHTC")

Young people have been a critical driver in the revitalization of the urban core during the most recent cycle, especially in large metro areas like New York and San Francisco. However, the pandemic temporarily made these areas less attractive, given the difficulty of quarantining in small apartments that are also relatively expensive compared to suburban options that offer more space. This situation was further compounded by work from home policies that have been extended, allowing many professional office employees to work remotely in 2023; however, the trend back towards in-office work has been gaining traction. In the near term, this situation allowed for a short-lived tactical buying opportunity in select submarkets, as values softened on slowing demand due to the unique conditions created by the health crisis.

To reiterate, Affinius Capital is committed to integrating purpose into strategy and integrating benefit with profit by addressing the affordability crisis in the United States in a way that also achieves attractive investor returns. Continued strength in residential home prices and large increases in multi-family rents, in addition to a volatile economic landscape and other socio-economic factors, have contributed to roughly half of all renter households being cost-burdened.[13] We will focus on Attainable Housing that delivers supply that is affordable to a large percentage of households in each market.

13. Joint Center for Housing Studies of Harvard University. The state of the Nation's Housing 2021.

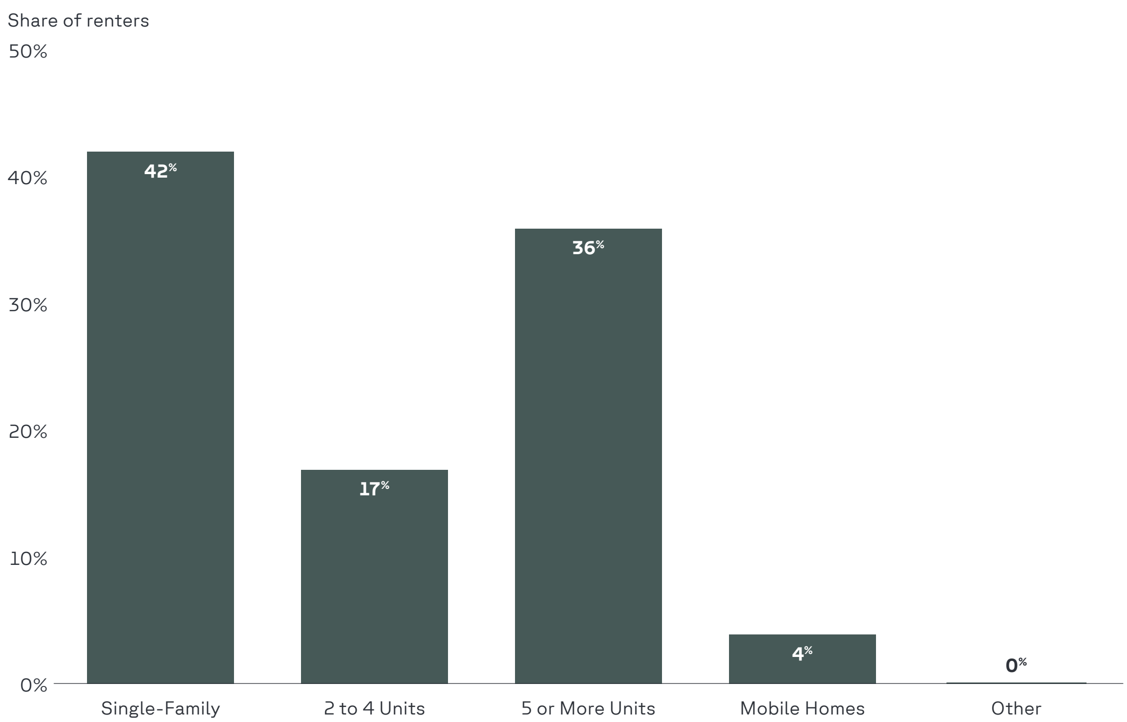
Single-Family Rental: Reshaping the American Dream

Today, single-family detached homes account for more than 62% of the housing stock in the U.S. While most of these houses are owner-occupied, single-family rentals have long played a critical role in the housing market. Approximately 20% of single-family homes were rentals during the 1970s. The number of renters declined during the 1990s as easing credit standards and falling interest rates made buying a home more accessible. In the wake of the GFC, single-family rentals expanded rapidly. In the 10 years between 2006 and 2016, nearly four million additional households became renters of single-family homes. **Over the last ten years, the single-family rental sector has been one of the fastest-growing segments of the housing market.[14] As of 2020, approximately 42% of renters in the United States lived in single-family homes (Exhibit 7)**.

While the GFC may have reignited today's rental housing revolution, this trend will rely heavily on demographic tailwinds going forward, mainly from Millennials for the time being. **This generation represents the largest cohort in the workforce today, and they will likely follow in the footsteps of previous generations and eventually marry, have kids, and gravitate toward single-family homes, but not necessarily as buyers.** As noted earlier, this group has generally faced significant financial challenges (e.g., record levels of student loan debt, poor credit scores, and difficulty saving for a down payment). These conditions could limit their ability to purchase a home as they transition into the next phase of life. Thus, many Millennials will likely look to rent versus own a single-family home over the next decade, mostly out of financial necessity.

The construction of purpose-built, single-family neighborhood rentals offers what we view as a compelling opportunity to capitalize on the previously described conditions. **Unlike the assemblage of disparate homes, purpose-built, single-family rentals provide a viable solution for consumers who cannot afford to purchase a home, while also providing investors/owners with operational efficiencies, a consistent renter experience, and opportunities for amenitization.** This type of emerging housing opportunity suggests that the single-family rental market has significant investment potential going forward.

EXHIBIT 7: DISTRIBUTION OF RENTAL ACCOMMODATIONS IN THE U.S. BY STRUCTURE TYPE (2020)



Source: Statista

14. Housing Supply Chartbook, January 2020. Urban Institute. www.urban.org.

MACRO FACTORS

Looking Ahead: Key Issues in the Next Decade and Beyond

The following factors are influential to U.S. housing conditions, and investors should be mindful of these issues when considering a long-term housing investment program.

The Triple Bottom Line: Doing well and doing good are not mutually exclusive; they can be interconnected and even drive outperformance. It is about emphasizing the intersection of strong investor returns and purpose-driven decisions that ultimately deliver social and environmental benefits while enhancing financial results. In doing so, the business serves a greater purpose and builds a shared value for multiple stakeholders in scale.

Attainable and Green Rental Housing: Affinius Capital's strategy is to capitalize on a sharp supply and demand imbalance in U.S. rental housing and capture a significant value creation opportunity for our investors through ground-up development and value-add acquisitions along with creating a geographically diverse and sustainable portfolio that is overweighted to workforce and middle-market housing.

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Low-Income Housing Tax Credit ("LIHTC"): Created in 1986, LIHTC is the federal government's primary mechanism to encourage the development and rehabilitation of affordable rental housing in the U.S. Using federal tax credits, developers can offset or reduce construction costs in exchange for agreeing to reserve a certain percentage of units with affordable rents for low-income households. The LIHTC is responsible for creating over 100K units of inclusionary housing per year, and arguably increased funding would contribute to even higher levels of affordable rental housing construction or rehabilitation.[15] Based on the severity of the housing affordability crisis in many parts of the country, additional funding is not outside the realm of possibility.

"The recent crisis highlights that a flexible strategy, capable of capturing value through development and acquisitions across the spectrum of rental housing sectors and layers of the capital stack, remains an effective approach for responding to emerging and changing opportunities across this and future economic cycles."

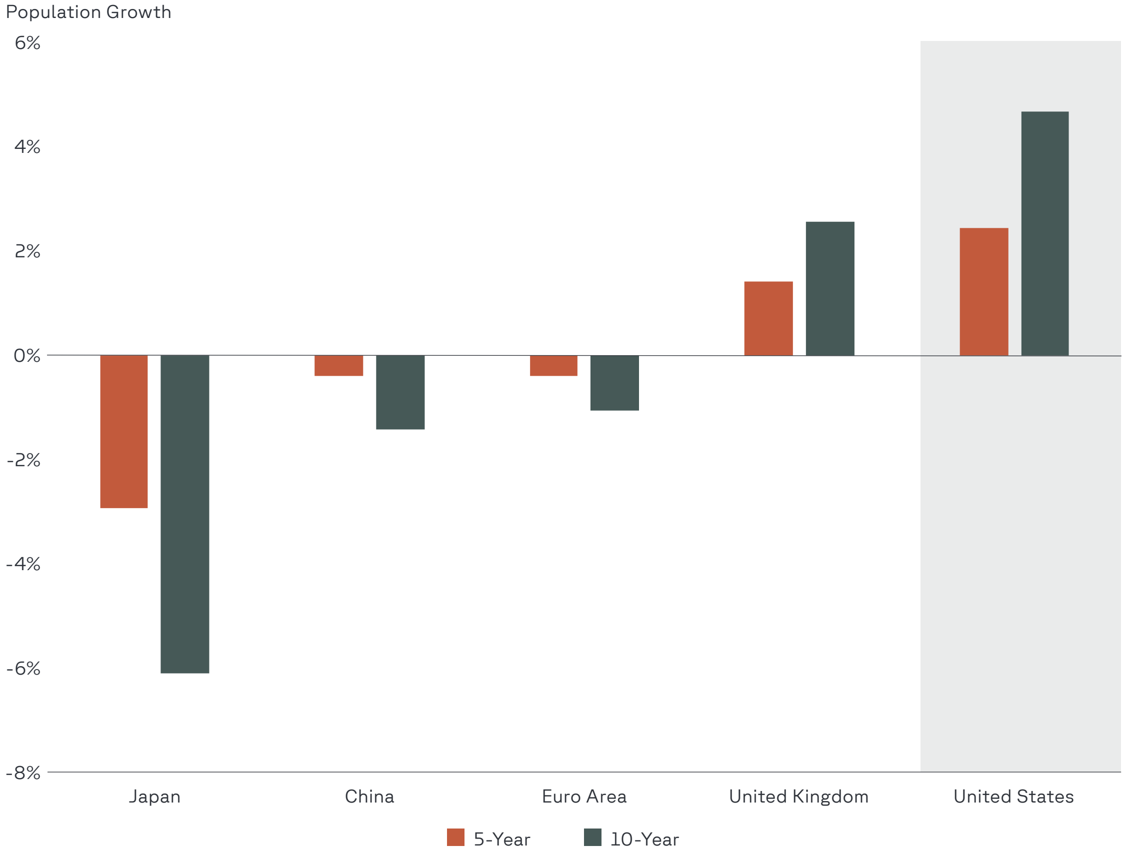
— Hailey Ghalib, CAIA, AIA

EXECUTIVE MANAGING DIRECTOR,
HEAD OF HOUSING INVESTMENT AND DEVELOPMENT

15. Tax Policy Center. Urban Institute and Brookings Institution.

Population Growth: The pace of population growth is arguably one of the most critical demand drivers across all major segments of the housing market. An increase in a market's population tends to be associated with an uptick in job growth, which ultimately impacts the demand for housing across all sectors. The U.S. population growth rate has gradually declined over the last several decades; however, the long-term forecast ranks near the top among advanced economies (see **Exhibit 8**). In absolute terms, the U.S. population will top 355 million by 2030, 24 million more than in 2020.[16] Furthermore, the nation's steady immigration growth will help buffer multifamily and other rental housing sectors against slower population growth. From a global perspective, the U.S. housing market offers investors other attributes as well – a resilient economy, highly-developed legal system, strong corporate governance, and healthy liquidity. Therefore, the U.S. housing market remains an attractive investment opportunity on both a relative and absolute basis.

EXHIBIT 8: U.S. POPULATION GROWTH FORECAST OUTPACES OTHER ADVANCED ECONOMIES



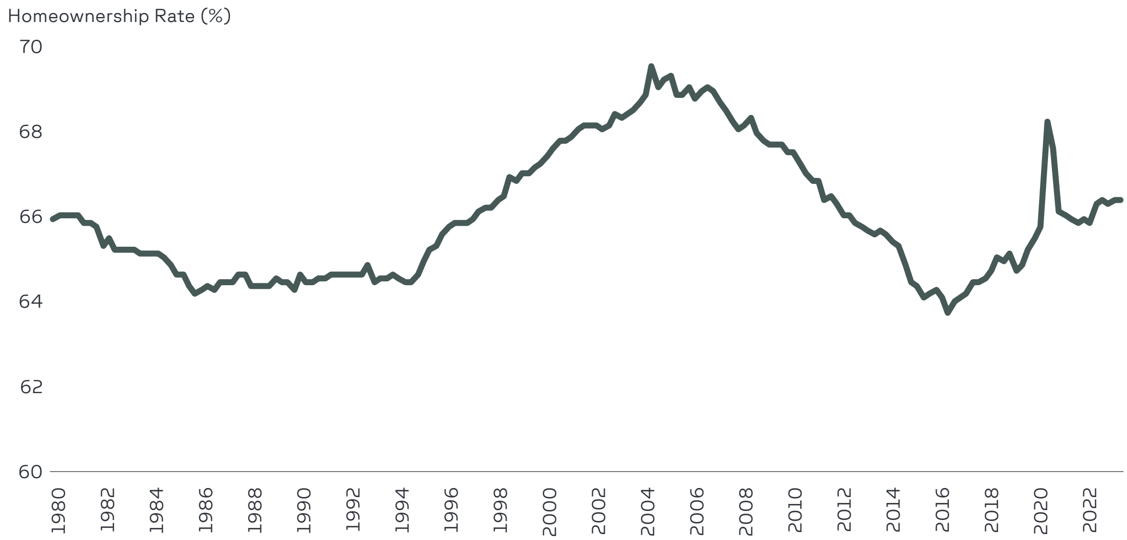
Source: World Bank

Policy Initiatives: Government policy will have an ongoing influence on the housing market. By way of example, given the significant impact that the Coronavirus has had on the housing market, the U.S. government helped to prevent a single-family housing crisis like the one that occurred during the GFC. Government officials provided forbearance for nearly 15 million loans to keep foreclosures to a minimum. The government agencies (e.g., FHA, Fannie Mae, and Freddie Mac) account for about 70% of outstanding mortgages, and they allowed homeowners to receive up to 12 months of forbearance. While the remaining 30% of lenders may not be as forgiving, the government's approach should hold the homeownership rate steady at around 65%, still below the 2004 high of 69.2%. Additionally, Government Sponsored Entities (GSEs) have been a reliable source of liquidity and low cost of capital in the multifamily sector. Since 2007, they have more than tripled their lending balances from $235 billion of multifamily loans outstanding to over $750 billion as of the start of 2020.

16. U.S. Census Data.

This represents more than 2.5 times the growth of any other source of lending capital during this period. Over the last decade, there have been ongoing discussions regarding the potential privatizations of the GSEs, which is an issue that investors should monitor given the potential impact on the housing credit market. Furthermore, while longstanding inclusionary housing policies (such as entitlements for new developments) are a viable path to delivering affordable housing in many cities, abrupt changes in these requirements or rent stabilization laws run the risk of creating an environment of uncertainty – limiting new supply and exacerbating the problem they were intended to resolve. **Ultimately, while the current socioeconomic and demographic tailwinds suggest that homeownership rates will fluctuate in the near term, prudent investors must be mindful of evolving political and regulatory factors that could impact housing conditions.** As shown in **Exhibit 9**, homeownership rates increased as a result of dynamics related to COVID-19 combined with historically low mortgage rates, although rising mortgage rates have dampened the momentum of this trend more recently.

EXHIBIT 9: U.S. HOMEOWNERSHIP RATE AROUND HISTORIC AVERAGE



Source: U.S. Census Bureau (BOC); Moody's Analytics Forecasted

Economic Outlook: Recessions have occurred approximately every seven years on average since the 1960s, and any long-term housing investment strategy will almost certainly face an economic slowdown. The U.S. economy is unique relative to other advanced countries in its resilience following a recession. For instance, the U.S. was the first advanced economy to emerge from the GFC and has experienced the most robust GDP growth amongst that group over the last decade as well. Further, the nation's recovery from the Coronavirus induced recession was the strongest in history. The U.S. has the youngest population among countries with advanced economies, which should fuel GDP growth and serve as a catalyst for solid economic growth on a secular basis.

In 2023, the U.S. has managed to avert a recession and expand at nearly its full capacity relative to pre-pandemic levels. As such, economic activity has shown a surprising resilience in its ability to absorb the impact of the most hawkish interest rate policy from the Fed in over 40 years and the highest absolute rate environment in more than 20 years.[17] However, forecasts still call for a recession to occur in 2023 based on declines of -1.5% in the final two quarters of the year before a recovery of economic activity in 2024.[18] While deflationary pressures are building in the U.S., particularly in the housing portion of CPI, a recession would serve to alleviate lingering price increases in part on a weakened consumer spending base if unemployment rises. Lastly, the spike in interest rates combined with a softening economic outlook has given way to receding debt availability and consequently reduced transaction activity in the CRE market.

17. Capital Economics. 2022: High Inflation to Drive U.S. Policy Tightening. Published January 5, 2022.
18. Capital Economics. US Economic Outlook. Economy will bend not break under higher rates. Published April 12, 2022. www.capitaleconomics.com/clients/publications/useconomics/us-economic-outlook/economy-will-bend-not-break-under-higher-rates/

Intersection of Real Estate & Technology: The intersection of real estate and technology is an important focus for Affinius Capital. This theme encompasses several key functions (Investment Execution, Business Operations, and Management), as shown in Exhibit 10, that will play a vital role as the industry continues to evolve in the years ahead. In addition to innovative construction techniques, as mentioned earlier, we have focused our efforts on machine learning and predictive analytics that enable dedicated applications used to identify rental housing opportunities. These tools also provide better visibility into the economic and business cycles while enhancing our understanding of relative investment risk across property markets – including downside protection measures at the asset level during our underwriting, due diligence, and property operations. Therefore, in time, the more sophisticated managers will balance the use of technology as a tool to enhance the decision-making process across different stages of an investment against their institutional knowledge and human intuition

EXHIBIT 10: OPPORTUNITIES FOR TECHNOLOGICAL ENHANCEMENT IN COMMERCIAL REAL ESTATE BY FUNCTIONAL AREA

INVESTMENT EXECUTION	BUSINESS OPERATIONS	MANAGEMENT
Market data and analysis	Revenue management tools	Facility and building management
Predictive analytics	Valuation and appraisals	Capital projects management
Automated workflows	Real-time data harvesting, analytics and reporting	Asset and portfolio management
Construction methods and materials	Mortgage lending	Lease and tenant management

Source: Affinius Capital Research

A demographic coalition – consisting of Millennials, Generation Z, and aging seniors within the Baby Boomer and Silent Generation cohorts – combined with insufficient housing supply has given rise to enduring investment opportunities across the rental housing spectrum (e.g., Premium, Middle-Market, Workforce, and Single-Family Rental) that should persist for many years to come.

INVESTMENT PERSPECTIVE

Execution & Strategy: A Prudent Approach

We believe that it is prudent to consider the entire rental housing market (including all the major sectors as noted earlier) as a cohesive housing platform opportunity, with an emphasis on investments that primarily target middle-market and workforce rents (per **Exhibit 4**) while maintaining a keen focus on location, quality, and other differentiation attributes. **This approach allows investors access to a deep pool of potential renters in each market while focusing on the sectors that serve the most significant population segments, provide the highest renter demand, and offer attractive long-term risk-adjusted returns.** This method is appropriate primarily because the housing market is multifaceted, fluid, and shaped by several complex factors (e.g., an evolving demographic landscape, government policy, consumer preferences, and economic cyclicality).

Rental Housing is an attractive long-term investment mainly due to the following attributes: 1) having an efficient cash flow, 2) being an excellent inflation hedge, and 3) providing rent growth that has historically outpaced inflation. Over an extended period, the various underlying housing sectors will eventually present more significant opportunities for value creation and risk-adjusted returns depending on the market and the timing in the economic cycle. **Therefore, a flexible, value-oriented strategy that seeks rental housing opportunities in different markets at various points in the cycle and can allocate capital across the entire rental housing spectrum (rather than focusing on one sector) has the potential to outperform.** Furthermore, it allows for both strategic and tactical investing and geographic diversity, all while focusing on segments where the opportunity for value creation is the greatest.

Successfully capitalizing on the U.S. rental housing opportunity in a post-COVID-19 environment requires the ability to recalibrate an investment focus as market conditions fluctuate, understand the demand drivers within each underlying housing sector, and recognize how macro factors influence the investment environment. This approach allows investors to remain nimble and to respond quickly to where the greatest rental housing opportunity is in a given market or point in the cycle. Additionally, Affinius Capital will leverage its access to the technology sector (as highlighted in the Intersection of Real Estate & Technology section) to execute the housing platform strategy – specifically regarding the issue of construction costs and housing affordability.

Thus, given this environment, we believe conditions are in place to capitalize on enduring investment opportunities within the U.S. rental housing market in the years ahead.

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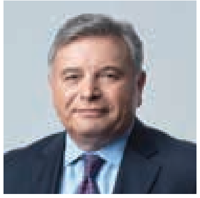

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