Quarterly Memo

The first three months of 2021 were a wild ride for capital markets: all-time highs in equities; a historic short squeeze styled as a modern Serville War; titanic debt fundraises with Lilliputian yields from companies whose operations have been nonexistent for a year; the overnight collapse of supply chain financier Greensill and super-secretive family office Archegos; as well as a growing dissociation between the capital markets and performance of the economy. This asset mania permeated throughout alternative assets as well with real estate, particularly multifamily, seeing tremendous gains in market pricing. For example, suburban Greenville, South Carolina was a market with cap rates typically in the 5.0%-6.0% range (adjusting for real estate tax reassessment) until about nine months ago when the floor fell out and pricing was indicative of 3.5%-4.5% cap rates. Many forecasts indicate this level of pricing will be sustained for the foreseeable future, and while these historically low cap rates are great for executing refinance and sale strategies, they make the process of sourcing and acquiring sound investments much more onerous. While the current market conditions warrant additional caution in our analyses, we recognize that the returns afforded by multifamily investment may yet be attractive relative to other asset classes. To that end, we are expanding our acquisitions team with an Atlanta-based team member who will allow us to broaden our market coverage and increase deal flow.

On the development front, investors are facing a different kind of headwind. As you most likely know, softwood lumber pricing has exploded exponentially in the past 12 months and is up 280% since the start of the pandemic.

This pricing increase is a perfect storm created by the collision of anomalous demand and supply drivers: new housing starts are up double digits year over year; a long-running mountain pine beetle infestation and a reduction in the Annual Allowable Cut in BC, Canada have greatly reduced timberland yields from the US' largest supplier; COVID-driven supply chain issues have slowed shipment volumes globally; and US trade policy has limited imports from Russia, the largest softwood lumber exporter in the world. In addition to sky-high lumber pricing, other construction costs have increased year over year and are approaching the inflection point where yields on new developments no longer validate construction. Strangely, this is very good news for the four developments in the Fund's portfolio – with our construction costs locked in, the increase in replacement cost immediately puts our investments in the money. Additionally, the increased barrier to entry protects the first mover advantage we have at our Virginia developments and delays the inevitable erosion of occupancy and rents as competitor properties are either scrapped or stalled.

In precis, market tightening conditions persist, driving yields to historic lows, while we continue to look for creative ways to deploy the Fund's capital while remaining conservative and diligent in our analysis.

Sincerely,

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Brett Gomes and Sam Foster