

5 Fundamentals to Multifamily Real Estate

Why Multifamily Real Estate deserves a place in your portfolio and the 5 fundamentals driving its success today and into the future



M A R A P O L I N G

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A photograph of a suburban house with a large tree and a red text box overlay. The house has a brick chimney and a grey roof. The tree is large and leafy, casting shadows on the house and the ground. The red text box is semi-transparent and contains the text "Would your portfolio benefit from an investment with.....".

Would your portfolio
benefit from an
investment with.....

- Demand growing faster than new supply?
- Supply effectively stagnant?
- Existing supply demand imbalance forecasted to grow not abate?
- Stability of bonds and the returns of equities?
- Tax advantages not available to any other investment?



Demand for Multifamily Housing

- Demand continues to exceed supply and is forecasted to do so for the next decade or more
- Market demand of 300,000 new units per year – and that's the conservative estimate (we think it could be several hundred thousand higher)
- Driven by 4 significant demographic events

Young Adults (18 to 35)



- 80 Million young adults (children and grandchildren of baby boomers)
- 2 out of 3 rent – highest rate ever
- Why do they rent?
 - Home ownership too expensive
 - Current debt, including student loans
 - Flexible mobile lifestyle

Baby Boomers



- 78 Million - 1946 to 1963
- Renting at the same rate as prior generations, but larger – 50% larger
- 2.8 Million new renter households in last decade
- 3 Million + over next decade

Population Growth



- US on track to grow by 25 Million residents over next decade – 50 Million by 2040
- 1 out of 3 new residents immigrants – and immigrant households are more likely renters (65%)
- 3 Million+ new rental households over next decade



Declining Home Ownership

- Decreased 490 basis points from pre-great recession high
- Currently 64% nationally, but less than 60% in urban areas
- Every 100 basis point decline = over 1 M new rental households



Stagnant Supply

- Economics 101 tells us that when demand surges, prices rise, and then the market responds with new supply and we return to equilibrium...
- But what if the market cannot respond?
 - Rents rise
 - Vacancy falls
 - Values increase

No New Supply

Cost to build new multifamily units (and we are talking about Class B units), exceeds the cost of existing units by 50% or more

The result?

- Almost 100% of new unit construction is Class A
- Limited if any new supply in Class B (and that's where we invest)

Not Enough

New construction, primarily Class A, \approx 280,000 units per year

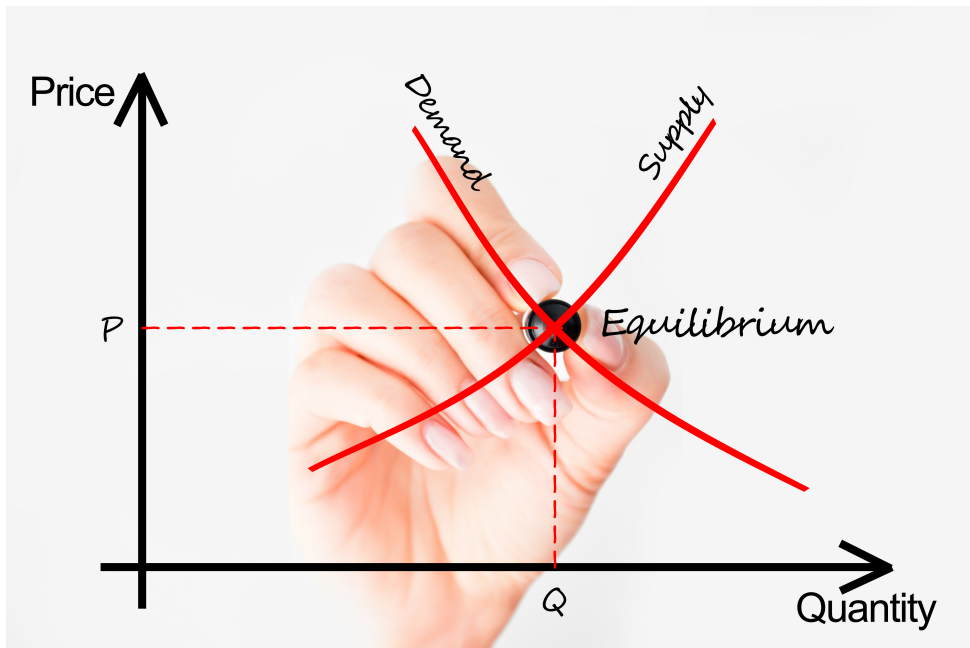
And declining

Major markets are absorbing the new construction, so no overbuild in Class A

But effectively no new supply for Class B

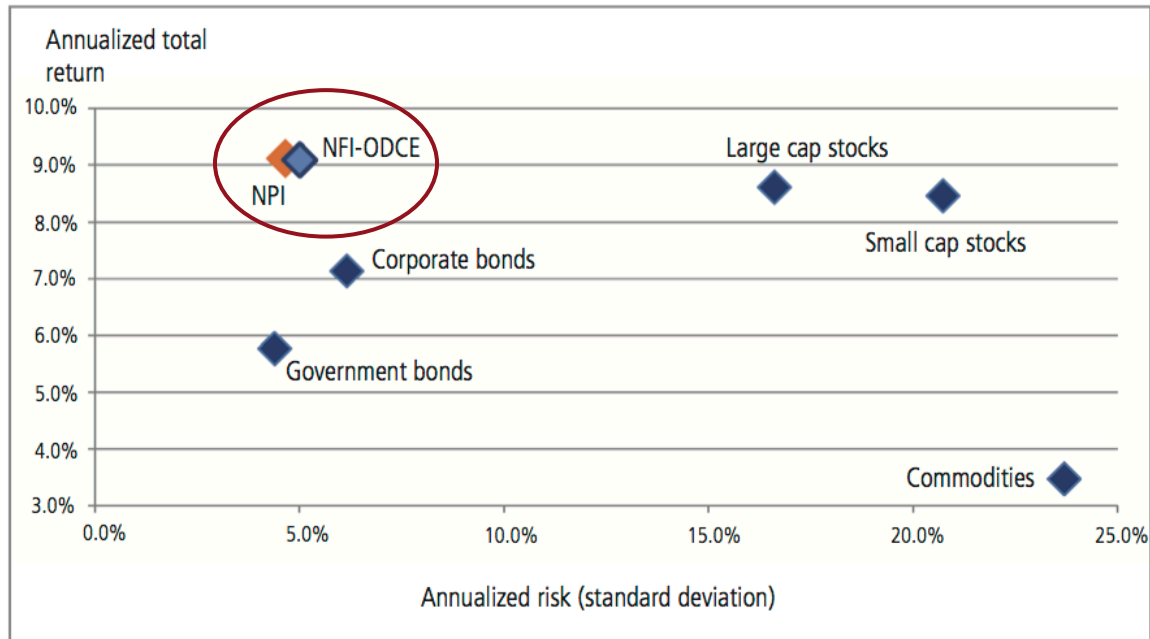


Supply Demand Imbalance



- 1 Million + unit shortfall following great recession
- New construction (again heavily Class A) of \approx 280,000 per year
- Demand 300,000+ (conservative, could be 500,000)
- And don't forget over 100,000 units removed from supply each year (aged out, deconstructed, replaced and counted as new units)
- Current shortfall anywhere from 100,000 to 300,000 units per year
- Continuing through next decade

Chart 1: 20-Year Return and Risk Profile Across Major Asset Classes



Source: Thomson Reuters Datastream

Data from 1993Q3-2013Q2

The indices used for each asset class are: Government bonds, Bank of America Merrill Lynch Treasury Master; Corporate bonds Baa-rated, Barclays US Aggregate Corporate Intermediate; Core Real Estate, NCREIF Property Index (NPI), NCREIF Fund Index—Open-End Diversified Core Equity (NFI-ODCE); Large capitalization stocks, Russell 1000 index; Small capitalization stocks, Russell 2000 index; Commodities, S&P GSCI Commodity Index. The risk free rate is the 10-year US Treasury note yield.

Stability

- Compare commercial real estate to other investments
- Stability on par with corporate and government bonds – but with higher yields
- Returns equal to or greater than large cap and small cap stocks
- Not an argument to move out of bonds or equities
- A reason to add multifamily real estate to diversify your portfolio

Returns

Generally we underwrite, and in many instances, experience returns in excess of...

8%+ Cash on cash

10%+ Equity growth

Significant tax advantages

All returns are estimates, see disclaimer included in this presentation along with PPM for details

Unique Tax Advantages

- Depreciate an appreciating asset
- Shelter cash flow – defer tax liability (paid later with future dollars at more favorable rates)
- 1031 Sale Exchange – defer taxes on gains (again, paid later with future dollars at more favorable rates)
- Potential for Step Up in Basis – elimination of tax exposure
- Consult your tax advisor to fully understand the tax advantages of a multifamily real estate investment

5 Fundamentals to Multifamily Real Estate

- Multifamily real estate deserves a place in your portfolio
- Purchase and operate your own residential assets (duplex, four-plex, etc.) or invest with someone like Mara Poling
- However you decide to proceed, we have two recommendations
- Continue your education (we can help)
- Decide which is the best fit for you and start investing

We sincerely hope that this has been of value to you. We are committed to helping you learn more about multifamily real estate so that you can decide the best way to join the multifamily investment world.

Please let me know how I can best be of service.

Thank you again,

Pat

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