THE GREEN CITIES COMPANY

The Attractiveness and Durability of Multifamily

FIRST QUARTER 2023

Executive Summary

Investors are evaluating their portfolios amid the winds of change caused by the Federal Reserve's end to quantitative easing and the "easy money" era. The headwinds of a rising (or, arguably, even flat) interest rate environment and decelerating economy require different considerations to portfolio construction and risk, where enduring demand-drivers and cash flow durability become increasingly vital.

In that vein, commercial real estate's multifamily sector deserves contemplation. Demand-drivers originate from the basic and enduring human need for shelter, generating both (a) an innate demand inelasticity, and (b) natural insulator against technological disruption – the latter an increasing risk factor amid accelerating technological advancements and capabilities. Healthy overall fundamentals and an underlying secular demand "tailwind" propelled by (a) a worsening US home ownership affordability crisis, and (b) increasing household formations driven, in part, by evolving societal trends like delayed marriage and high divorce rates bolster growth expectations while cushioning downside risk.

Despite these merits, multifamily pricing has retrenched roughly 10-20% below its mid-COVID peak at YE'22 [1] alongside widespread repricing to stocks, bonds, and other real estate as markets turned windward over prior quarters. Current dynamics suggest further multifamily (and real estate) dislocation may emerge and will likely present an opportunity to acquire multifamily assets at a competitive cost basis with strong risk-appropriate return prospects aided by inflationary-friendly characteristics.

All said, while private real estate investments are certainly a product of the market, they are also notably influenced by investment manager acumen and execution, making manager selection critically important – and, considerably so as winds of change swirl. Under such conditions, forward-thinking managers who are shrewd, adaptable, nimble and possess value-creation capabilities at both the investment- and property-levels should stand in an advantaged position. Those who can also achieve efficiencies and better identify and mitigate risk, including through a vertically-integrated platform, the leveraging of data and technology, and advanced Environmental, Social and Governance (ESG) practices – the last of which has (a) a growing body of evidence supporting value-creation and risk mitigation, and (b) is itself symbolic of firm progressiveness and proficiency in adopting new practices – are likely to improve the likelihood of achieving risk-adjusted investment outperformance.

1 Estimate based on The Green Cities Company market participation/perspective and Green Street Advisors CPPI Index, 4Q'22.

Introduction

After years of monetary support and stimulus initiatives, starting with the Great Financial Crisis (GFC) and continuing more recently through COVID, the "easy money" era defined by quantitative easing (QE) appears over – at least for now.[2]

Today, the Federal Reserve is steadfast about its mission to stymie high inflation, ending years of QE that artificially lowered interest rates and facilitated the accumulation of over $7T of balance sheet assets since the mid-2000's in the form of treasuries and various fixed-income securities, and raising its benchmark rate. Understandably, since then interest rates have risen – and have squarely contributed to decelerating economic indicators that suggest an economic slowdown or recession is looming.

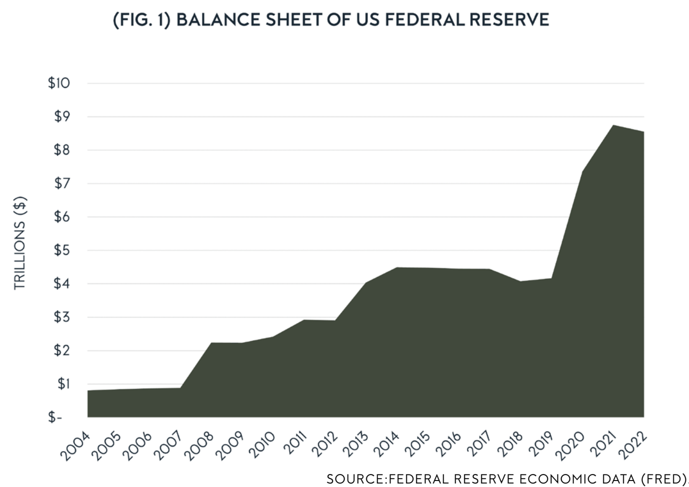
As investment "headwinds" form, investors are (re)considering where risk-appropriate return prospects are highest under these economic prospects, including one where the Fed may be conflicted or apprehensive to act in full or in part because of (i) the size of its balance sheet, and (ii) the potential to reignite any lasting inflationary embers by refueling the economy with QE.

Pertinent questions an investor might ask are:

- Where are demand-drivers solid and demand inelasticity high?
- Where are cash flows durable with good prospects for growth over the short- and long-term (i.e. low dispersion risk)? And, thereby, the risk of value diminution also low.

Individualized investment goals and risk propensity mean multiple 'right' answers exist, but multifamily commercial real estate stands out above others.

(FIG. 1) BALANCE SHEET OF US FEDERAL RESERVE



SOURCE:FEDERAL RESERVE ECONOMIC DATA (FRED).

2 Board of Governors of the Federal Reserve System, 2023.

Multifamily Investment

Multifamily is a unique commercial real estate sector unto itself. It provides a good (and service) unlike other real estate by (a) fulfilling a basic human need – shelter, while also (b) delivering a *home* that serves as a defining quality-of-life measure – or, the place to gather with family and friends; live with a pet; to eat, sleep and bathe; enjoy comforts, convenience and live a desired lifestyle.

As a result, multifamily enjoys "defensive" attributes tied to shelter and its associated inelasticity of demand, while also benefiting from the "offensive" demand-generators related to the innate human desire to improve one's quality-of-life.

- During periods of economic hardship, the basic human need for shelter is a protectionary quality of multifamily with, believably, high importance placed on its budgetary importance in the hierarchy of personal financial decision-making. More so, multifamily is typically a lower cost alternative to home ownership, catering to those who may "trade down" for financial reasons or in periods of transition.
- During periods of economic well-being, employment is often 'full', wages are rising, and individuals not only have (newfound) means to pay for rent or pay higher rent but are ostensibly more comfortable in taking a "leap of faith" to form a household and/or upgrade their living situation and quality-of-life with a greater confidence in the immediate employment, the labor market and economy.

Moreover, the enduring nature and need for shelter should contribute to an inherently lower risk profile than other sectors that may have demand-drivers susceptible to technological disruption, which at times has proven unknowable or unforeseeable.

- The popularization of e-commerce opened up new avenues for consumption and changed both (a) retailers relationship with and need for physical 'brick-and-mortar' store locations, and (b) demand for industrial logistics assets to fulfill e-commerce orders.
- The workplace, as another example, is navigating a fundamental shift for in-office demand first brought on by COVID-related social distancing, work-from-home requirements, web-based meeting technology like Zoom and, more recently, the new "norms" of remote and hybrid work. Now, the permanence of remote and hybrid work cloud short- and long-term demand perspectives for office as pre-existing leases continue to expire and business needs change.

If valuations, and thereby investment performance and risk, are based on the stream of future expected cash flows, and those cash flows are premised on future demand, then the certainty of demand durability or variability should be held as paramount.

Accordingly, NCREIF calculated US multifamily as having a trailing 10-year Sharpe Ratio measuring return performance against risk at an attractive 1.72 [3], and above the risk-return equivalency threshold of 1.0, which is otherwise attained when return less the risk-free rate equals underlying volatility.

3 NCREIF Market Performance, 3Q'2022.

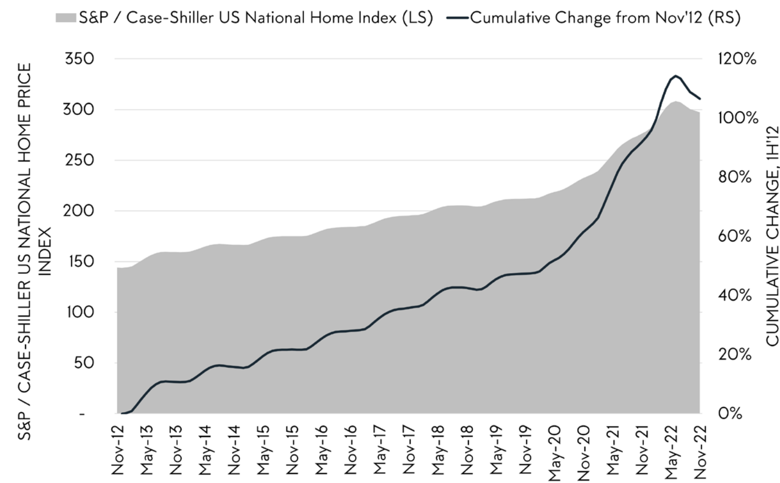
MULTIFAMILY DEMAND

Multifamily has enjoyed a long-term trend of rising demand, which persists through underlying secular demand-drivers, and are exemplified by the 23.5M US households that occupied apartments in 2020 – an increase of over 5.6M more than in 2010.[4] Chiefly, these demand-drivers are:

- **WORSENING HOME OWNERSHIP AFFORDABILITY** has and is expected to continue to expand the pool of renter-by-necessity demand. Over the prior 10-years ending 3Q'22, the Case-Shiller US National Home Price Index increased by 108% while median household incomes grew by 47% in aggregate, relegating homeownership as (i) unattainable for an estimated 1M in 2021 alone [5], while also (ii) elongating the down payment savings timeline by almost four years from 8.2 years to 11.9 years – or, time spent in non-owned housing (i.e. renting).[6]

Further still, the mortgage-to-rent ratio averaged roughly 1.8x in 2022 across the US's Top-50 MSAs – a figure 60% more costly than the trailing 10-year average of 1.1x.[7]

(FIG. 2) INCREASING US HOME PRICES



SOURCE:FEDERAL RESERVE ECONOMIC DATA (FRED).

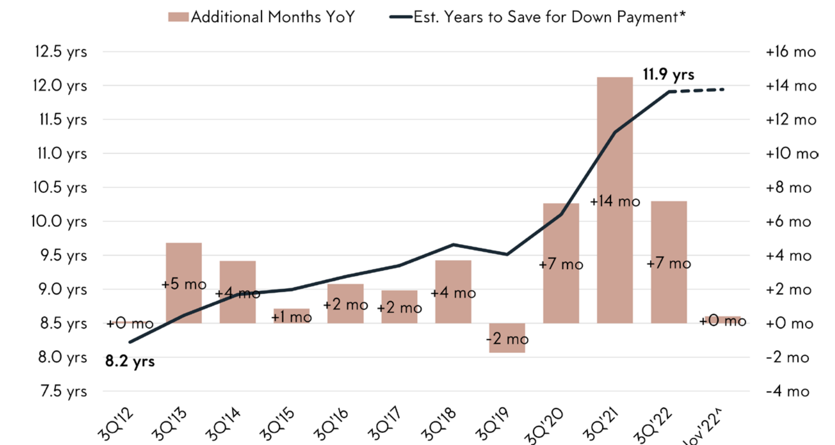
4 National Multifamily Housing Council (NMHC) estimate from US Census Bureau, updated Apr'2021.

5 National Association of Realtors: November 2022 REALTORS Confidence Index Report, 'First-time Buyer Share Falls to 26% in November with Nearly 1 Million Renter Households Priced Out of the Market.' December 23, 2021.

6 Federal Reserve Economic Data (FRED), Zillow, CoStar, Green Cities Research & Strategy. Assumes a 20% equity down payment on Zillow Home Value Index (ZHVI) and 8% annual savings rate of gross median household income. ZHVI reflects the 'All Homes' (SFR, Condo/ Co-op) time series, smoothed and seasonally adjusted, for the typical value of US homes in the 35th to 65th percentile range.

7 Green Street Advisors, Mortgage-to-Rent Ratio.

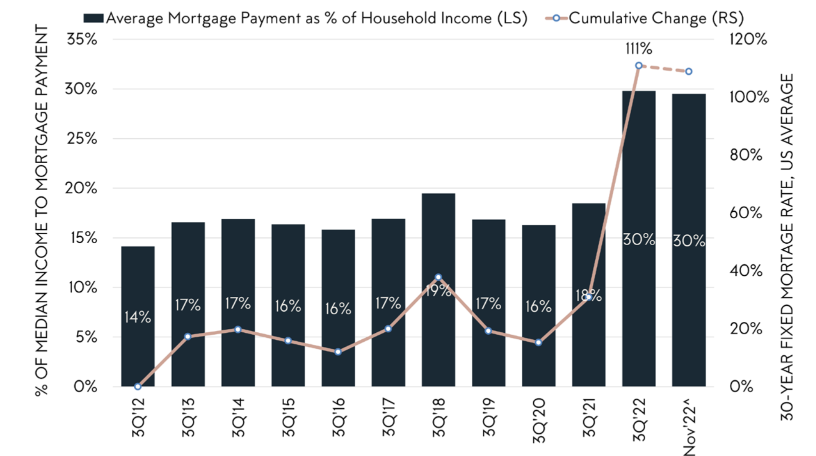
(FIG. 3) ELONGATING DOWN PAYMENT SAVINGS TIMELINES FOR HOMEOWNERSHIP



SOURCE: FEDERAL RESERVE ECONOMIC DATA (FRED), ZILLOW, COSTAR, GREEN CITIES RESEARCH & STRATEGY. ASSUMES A 20% EQUITY DOWN PAYMENT ON ZILLOW HOME VALUE INDEX (ZHVI) AND 8% ANNUAL SAVINGS RATE OF GROSS MEDIAN HOUSEHOLD INCOME. ZHVI REFLECTS THE 'ALL HOMES' (SFR, CONDO/ CO-OP) TIME SERIES, SMOOTHED AND SEASONALLY ADJUSTED, FOR THE TYPICAL VALUE OF US HOMES IN THE 35TH TO 65TH PERCENTILE RANGE.

(FIG. 4) RISING COST OF US HOME MORTGAGES HAS RISEN

PERCENTAGE OF US MEDIAN HOUSEHOLD INCOME REQUIRED TO PAY AVERAGE US 30-YEAR MORTGAGE



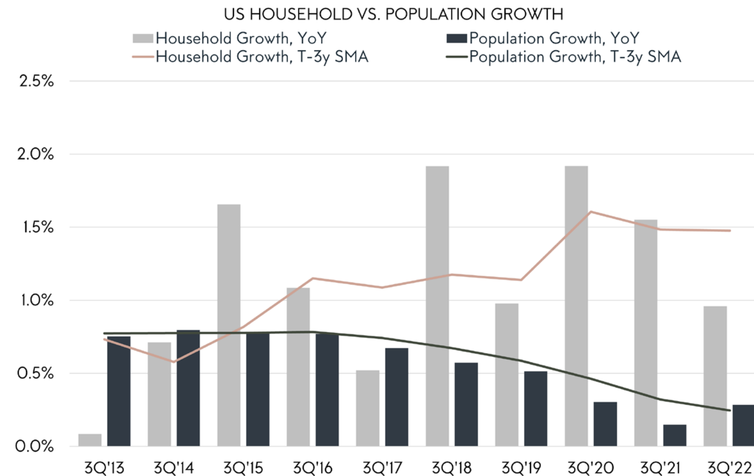
SOURCE: FEDERAL RESERVE ECONOMIC DATA (FRED), ZILLOW, COSTAR, GREEN CITIES RESEARCH & STRATEGY. RATIO ASSUMES AVERAGE US 30-YEAR FIXED RATE MORTGAGE ON 80% MORTGAGE OF ZILLOW HOME VALUE INDEX (ZHVI).

- **INCREASING US HOUSEHOLD FORMATIONS** have outpaced US population growth by almost twice over the past 10 years at a 1.1% average annual growth rate against 0.6%, respectively. Over the past five years (including prior to COVID) an average of 1.8M new households formed, exceeding 1.2M and 1.4M annual averages over the prior 10- and 20-year periods, respectively – or, what equates to 2.59 persons per household 2022 versus 2.74 in 2012 and 2001.[8] In other words, more households are forming with fewer people.

  Declining person per household figures are indicative of larger societal trends: delayed marriage, high divorce rates, fewer children (and, presumably, a declining need for dynamics household autonomy offers like added space and consistency of school and community), and a greater interest in and acceptance of living alone. In fact, 37M adults lived alone in 2021, four million more than in 2011, as population size grew and the proportion choosing to live alone grew to 14.6% from 14.2% (and 13.6% in 2001).[9] This trend is expected to continue with an estimated 41.1M persons, or four million more people, living alone by 2030."[10]

(FIG. 5) HOUSEHOLD GROWTH HAS EXCEEDED POPULATION GROWTH

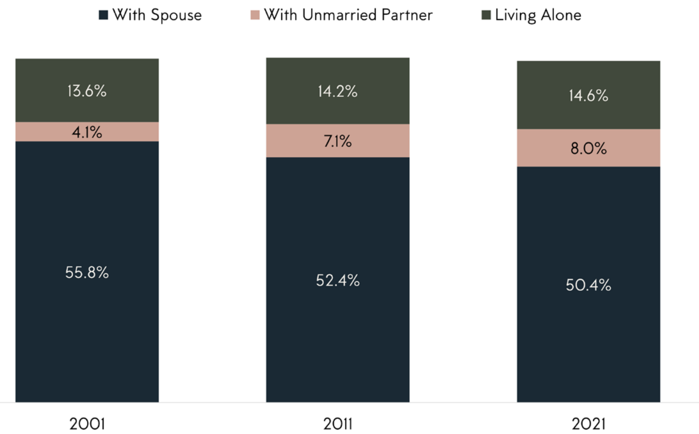
US HOUSEHOLD VS. POPULATION GROWTH



SOURCE: FEDERAL RESERVE ECONOMIC DATA (FRED).

(FIG. 6) AMERICANS ARE INCREASINGLY LIVING ALONE OR WITH UNMARRIED PARTNERS

US LIVING ARRANGEMENTS PERCENTAGE OF ADULTS 18 AND OLDER



SOURCE: US CENSUS BUREAU, NOVEMBER 2021.

8 CoStar.

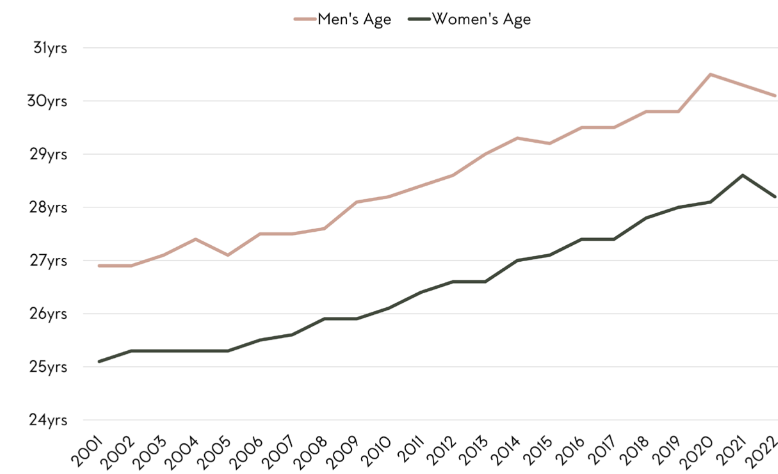
9 Living Arrangements Over the Decades: US Census Bureau. November 29, 2021

10 The Growth of Sole-person Households: Creating Even More Demand for Smaller, More Affordable Homes." The Economic & Housing Research Group, Freddie Mac. August 26, 2021

- **"LIFESTYLE" OR RENTER-BY-CHOICE PREFERENCES** have increased, particularly among the Millennial age cohort (age 26-41, born 1981-1996), as the desirability for a flexible (or even nomadic) and experiential-based lifestyle has increased, including because of the interest to pursue different jobs and/or work remotely in various locations.[11] The trend of delayed marriage further enables this lifestyle. In 2019, 56% of adults ages 21 to 36 had never been married compared to 39% of Baby Boomers at the same age.[12]

(FIG. 7) AMERICANS ARE GETTING MARRIED LATER

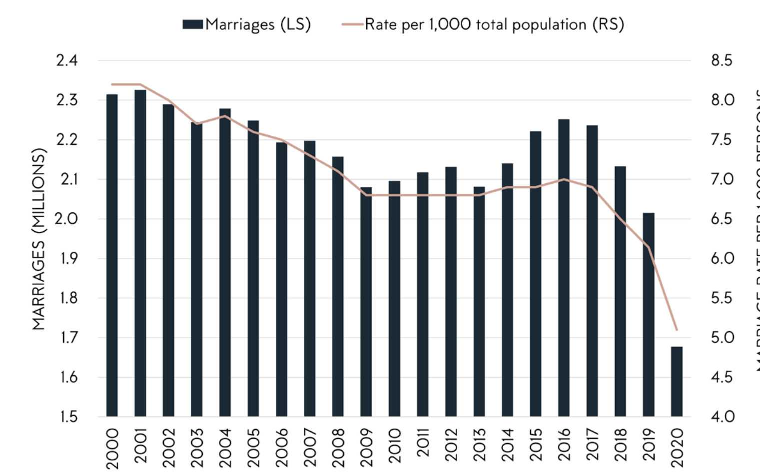
MEDIAN AGE AT FIRST MARRIAGE



SOURCE: US CENSUS BUREAU, DECENNIAL CENSUS AND CURRENT POPULATION SURVEY. NOTES: (I) STARTING IN 2019, ESTIMATES INCLUDE SAME-SEX MARRIED COUPLES; (II) 2011 AND 2021 REFLECT REVISED ESTIMATES BASED ON THE MOST RECENT DECENNIAL CENSUS; (III) 2014 IS BASED OFF THE 2014 CPS ASEC QUESTIONNAIRE WITH 30K ADDRESSES RECEIVING A REDESIGNED QUESTIONNAIRE AND 68K ADDRESSES SELECTED TO RECEIVE A SET OF QUESTIONS SIMILAR TO THOSE USED IN THE 2013 CPS ASEC.

(FIG. 8) DECLINING US MARRIAGES

US MARRIAGES & MARRIAGE RATE



SOURCE: CENTERS FOR DISEASE CONTROL (CDC) AND NATIONAL CENTER FOR HEALTH STATISTICS (NCHS). DATA FOR GEORGIA EXCLUDED IN 2013 AND 2014; DATA FOR LOUISIANA EXCLUDED IN 2006.

11 Multifamily Executive, The Rise of Renters by Choice. May 18, 2022.

12 Pew Research Center, "As Millennials Near 40, They're Approaching Family Life Differently than Prior Generations." May 27, 2020.

HOUSING SUPPLY

In short, the US is experiencing a severe and worsening housing shortage crisis. Since 2012, the nation's housing shortage more than doubled from a 1.65M unit shortfall to 3.8M in 2019, including a 978k shortage in California alone [13], before expanding to an estimated 5.8M in 2021.[14]

Policymaking, including exclusionary and discriminatory land-use and zoning policies, are partially at fault, limiting new home construction without a material remedy in sight that might address the nation's housing shortage or influence NIMBYism ("not-in-my-backyard") behavior that has impacted the housing stock.[15]

In many major cities, prime developable areas have largely been consumed, leaving open land and green spaces often outside the urban core as the most feasible areas for new development to meet the millions of units of US housing demand. Development in these areas, however, (a) can be plagued by lower desirability and quality-of-life given a location away from the concentration of employment and a city's cultural attractions as well as extended commute times, (b) often require cities to expand infrastructure and increase governmental services over a wider geographic area with fiscal implications, including issuing bonds, and (c) can come at the cost of sacrificing ecosystems and natural habitats benefiting cities and their residents.[16]

A solution to the US housing shortage crisis remains unclear. By one estimate, even if housing starts increased to 2.2M per annum – or, twice the decade-plus high in 2021 – it would still take over 5 years for supply to meet demand.[17] Doubling housing starts at a multi-decade high for five consecutive years, let alone attaining that annual amount, appears highly unlikely, especially amid current conditions. The confidence of national home builders declined each month through 2022 to a multi-decade low only outdone in the GFC era [18] – an era where new housing unit starts declined precipitously to an annualized rate of 478k housing units.[19] Further, construction labor needs would be massive when a pervasive shortage exists.

Most (93%) of contractors in need of filling a position were having "a hard time filling some or all positions" in Jan 2022 [20] when construction job openings totaled 383k. The latest available construction job openings totaled 388k in Nov'22, more than double the trailing 10-year average of 165k prior to COVID (2010-2019).[21]

13 Up for Growth: Housing Underproduction in the US, 2022
14 Realtor.com, 'Housing Supply.' October 2022.
15 Up for Growth: Housing Underproduction in the US, 2022.
16 Up for Growth: Housing Underproduction in the US, 2022.
17 Realtor.com, 'Housing Supply.' October 2022..
18 National Association of Home Builders, NAHB/Wells Fargo Housing Market Index, monthly with preliminary data through November 2022.
19 Federal Reserve Economic Data (FRED), New Privately-Owned Housing Units Started: Total Units.
20 Associated General Contractors of America, 2022 Construction Outlook National Survey, January 2022.
21 Federal Reserve Economic Data (FRED), Job Openings: Construction.

MULTIFAMILY SUPPLY

Multifamily fundamentals appear healthy overall amid high demand as new supply deliveries are set to peak in 2023. Despite high levels of new supply deliveries over the recent term, overall occupancy of 93.8% at YE'22 is effectively equal to and higher than the sector's trailing 10-year and 20-year averages of 93.9% and 93.4% [22], respectively.

Over 2023-2026, fewer (368k) net unit deliveries are expected per annum versus historic 5-year average of 399k and just above the historic 10-year 350k units per annum. More so, on a proportional basis the new supply reduction is more pronounced. New supply is expected to fall below 2% of existing units – which occurred only twice over the past 10-years in 2013 and 2014 – starting in 2024, and then into the low-to-mid 1% range in 2025 and 2026, well below long-term averages of 2.2% and 2.1% over the past 5- and 10-year periods, respectively.

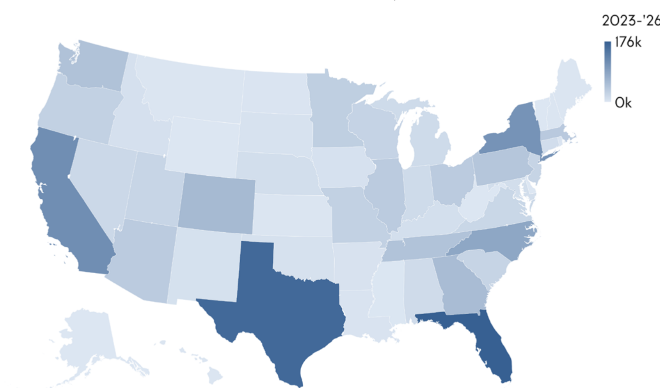
As additional context, multifamily demand growth (measured by occupied units) outpaced new supply by averaging 2.2% and 2.5% annually over the past 5- and 10-year periods, respectively – a trend that is not expected to abate. From a locational perspective, gross new supply from 2023-2026 is expected to be highest in Florida (176k units), Texas (164k), California (116k) and New York (109k) – or, the four most populous states. On a proportional basis where net unit deliveries are measured against total existing units, the concentration of new supply is expected in states like Utah (+17% aggregate increase), South Dakota (+16%), Colorado (+15%), Idaho (+15%), Florida (+15%), North Carolina (+15%) and Tennessee (+13%) while the Northeast, Midwest and West Coast, including California (+4%), are expected to see lower levels of relative new supply.

(FIG. 9) MULTIFAMILY: NEW SUPPLY - NET UNIT DELIVERIES

AS OF 4Q'22	T-10y Avg.	T-5y Avg.	2022	2023e	2024e	2025e	2026e	Fwd-4y Avg.
NET UNIT DELIVERIES	350k	399k	432k	502k	413k	265k	292k	368k
% OF EXISTING UNITS	2.1%	2.3%	2.4%	2.7%	2.2%	1.4%	1.5%	1.9%

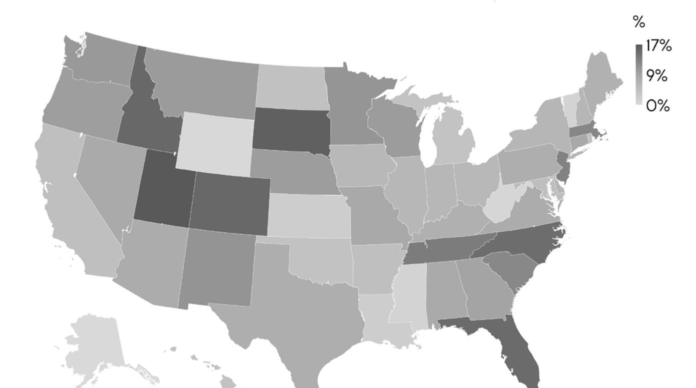
SOURCE: COSTAR, 4Q'22

(FIG. 10) NEW MULTIFAMILY SUPPLY, GROSS
EST. NET UNIT DELIVERIES, 2023-26E



SOURCE: COSTAR

(FIG. 11) NEW MFAM SUPPLY, PROPORTIONAL
EST. NET UNIT DELIVERIES AS % OF EXISTING UNITS, 2023-26E



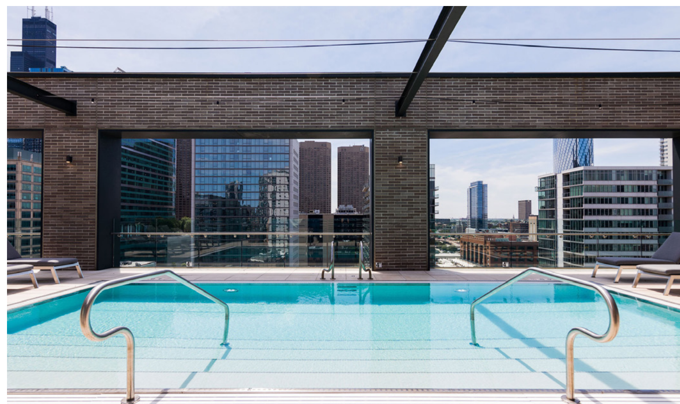
SOURCE: COSTAR, GREEN CITIES RESEARCH & STRATEGY

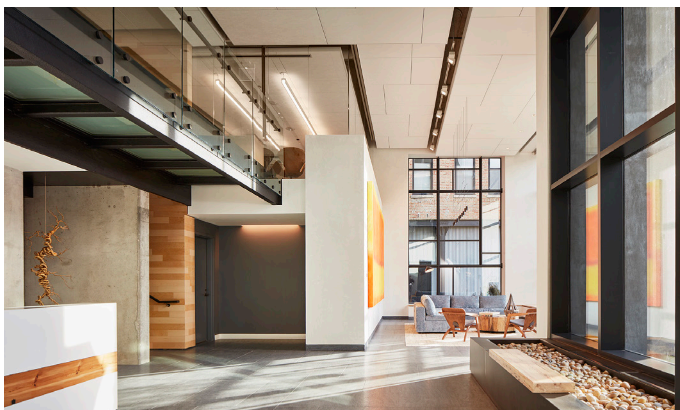
22 CoStar, 4Q'2022.

INFLATION-FRIENDLY CHARACTERISTICS

Multifamily is well-positioned to capture inflation comparative to other asset classes and against most other real estate sectors:

- Continuous leasing across mass-tenanted rent rolls (i.e. 100+ units) allows rents to reset and incorporate inflationary pressures in 'real-time';
- Increasing materials and labor costs cause new development projects to become more expensive and acts as a natural governor limiting competitive supply while also elevating 'replacement cost' estimates, which support rising valuations;
- Inflation reduces the real value of financing (i.e. outstanding balances and debt service).





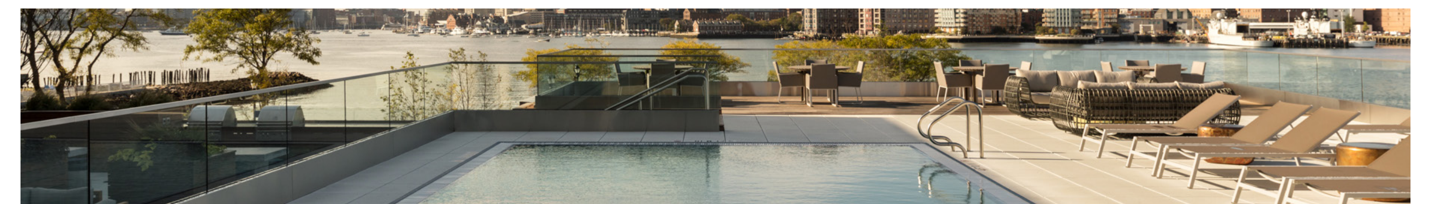
Investment Differentiators

Secular demand-drivers and limited supply both support multifamily sector investment, but the placement of capital within private equity real estate (PERE) requires more detailed considerations including manager, strategy, geography, and other factors like Environment, Social and Governance (ESG) considerations – all aimed at improving the prospect for outperformance while identifying and mitigating risk.

CHARACTERISTICS OF OUTPERFORMING MANAGERS

The question facing investors is whether the end of QE may unveil a newfound investment landscape unlike that of the recent era, which was defined by the secular decline of interest rates and cap rates (that disproportionately rewarded risk-takers). Without the valuation "tailwind" created by declining interest rates (and cap rates) that improved performance and/or masked shortcomings over prior decades, it stands to reason that those managers best suited to perform are those with outsized potential to generate alpha (and not necessarily capture beta).

Of course, along with great investment aptitude more importance will be placed on (a) effective risk identification, mitigation and control practices; (b) value-creation capabilities at the investment-level (i.e. proprietary research, acquisitions, capital markets, portfolio management, etc.) and property-level (i.e. in-house construction, design, marketing, asset management, etc.); (c) deep local geographical market knowledge and relationship network; and, (d) the flexibility and nimbleness to adapt and capitalize on evolving dynamics and conditions. Outside of requisite experience and expertise, the most successful managers are also likely to harbor a culture of collaboration, embrace change and seek to naturally evolve through an unending quest to improve best practices. Leveraging data, technology and proprietary insights will prove increasingly important to operational and construction-related efficiencies. Vertically-integrated platforms, particularly involving construction, will better enable firms to effectuate these practices and processes seamlessly, while also generating improved efficiencies, reducing fee-drag and, importantly, offering better alignment with principal and investment performance objectives.



MANAGER DILIGENCE AND ESG SYMBOLISM

Investors completing firm diligence will find some elements binary or easy to categorize, like vertical-integration, but others subjective or ambiguous, like firm self-improvement initiative, collaboration, adaptability and proficiency for effectuating organizational change, etc. As one gauge of the ambiguous, better insight may be gained by examining the state of a firm's Environmental, Social and Governance (ESG) program and practices.

Substantial ESG adoption has occurred over recent years, including a 245% increase in industry-standard GRESB benchmarking participation in the US over the past 10 years.[23] As a result, a firm's ESG program is likely to have been planned, implemented and updated over the recent past, and is likely indicative of a firm's progressiveness, initiative, willingness to improve best practices, firm-wide coordination and capabilities to execute in an evolving investment climate.

Moreover, beyond the symbolism of having an advanced ESG program in-place, those managers with advanced ESG programs are advantageously positioned to both (a) expand upon and refine established practices, and (b) likely have improved capacity to focus on new major and innovative initiatives improving investment practices in an evolving investment climate.

23 CoStar, 4Q'2022.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)

ESG has become a sort of table stakes for industry participants [24] with increasing participation and interest from managers and investors alike who recognize that, besides the positive implications ESG initiatives have on the environment and society, ESG practices help to identify and mitigate certain risks and contribute to long-term value creation. In 2021, almost 40% of private equity real estate investors classified ESG as having a "major part" of managerial due diligence and 90% overall either a "major" or "minor" part.[25] And, ESG's growing importance expanded since the pandemic with the number of firms participating in the GRESB industry-standard real estate benchmark up by 48%, totaling $2.97T of real estate across 477 entities in the Americas and $6.96T and 1,820 entities worldwide in 2022.[26]

Investment strategies with an integrated focus on environmental and social factors are accretive to investment performance. Evidence of the value of an ESG-driven approach is prevalent in the market through enhanced results in tenant attraction, retention and promoter scores, rental unit value, and property valuations at disposition.

- Over four of five renters, or 82%, aged 22 to 35 years indicate energy-efficiency and environmentally friendly buildings are at least somewhat influential in their decision on where to rent – with 40% indicating they are very influential or the most influential factor [27]
- 83% of renters believe living in a green community is beneficial to their health [28]
- 61% of renters will pay more for an eco-friendly apartment [29]
- Green commercial buildings achieved rental premiums between 2-17% and sale price premiums between 8-26% [30]

Moreover, these indicators translated into fund-level investment outperformance where ESG integration and performance was documented against peer benchmarks.

- ESG adoption (gauged by GRESB participation) was associated with a +1.4% annualized increase in total return for funds in the Open-Ended Diversified Core Equity (ODCE) Index [31]
- ESG proficiency, as measured by GRESB submission score, improves annualized total returns by +0.36% for each scoring level improvement [32]

24 "Sustainability and Private Equity Real Estate Returns," The Journal of Real Estate Finance and Economics, June 2022. Pertains to ODCE fund performance.
25 "ESG moves up the real estate agenda," PERE: March 24, 2021.
26 PERE: ESG Report, December 2022/January 2023.
27 Grubb Properties: "Today's Young American Renter", 2022.
28 Multifamily Executive, 'Most Renters Will Pay More for Green Features Survey Finds'. October 9, 2018.
29 Apartmentdata.com
30 IEA – Asset Values, Multiple Benefits of Energy Efficiency Analysis referencing Miller et al; Eichholtz et al (a); Eichholtz et al (b); Pivo and Fisher; Wiley et al; Miller et al, 2021.
31 "Sustainability and Private Equity Real Estate Returns," The Journal of Real Estate Finance and Economics, June 2022. Pertains to ODCE fund performance.
32 "Sustainability and Private Equity Real Estate Returns," The Journal of Real Estate Finance and Economics, June 2022. Pertains to ODCE fund performance.

MULTIFAMILY INVESTMENT OPPORTUNITY AHEAD

Rising interest rates and economic consternation has contributed to widespread risk-asset repricing. At YE'22, multifamily pricing retrenched roughly 10-20% from peak mid-COVID valuations [32] – while still exhibiting strong operational fundamentals (and its attractive inflationary-friendly characteristics and inelastic demand-drivers that contribute to resiliency and downside risk protections).

A number of existing dynamics suggest future dislocation may materialize, including:

- Decelerating GDP growth and deteriorating economic indicators in tandem with continued hawkish Fed rhetoric
- Cap rate spreads over UST10y near pre-financial crisis levels
- Wide bid-ask spreads
- Negative or substantially narrow debt yields, where the all-in interest rate on financing exceeds or is only slightly below prevailing cap rates
- Financing proceeds and term "pullback"
- Increasing debt maturities and "forced" sales as time elapses

Further multifamily pricing retrenchment would likely present an opportunity to acquire multifamily assets (i) at an attractive basis, including potentially from distressed sellers; (ii) below replacement cost; (iii) amid a new construction "lull" or "pullback"; and/or, (iv) with attractive risk-appropriate relative value paired with secular demand drivers still in-tact.

Importantly though, it's not enough to expect dislocation. The window of opportunity to profit from dislocation is finite, making those prepared with available "dry powder" and able to deploy capital swiftly best positioned.

32 Estimate based on The Green Cities Company market participation/perspective and Green Street Advisors CPPI Index, 4Q'22."

In Summary

Investing is never easy, but without QE-aided "tailwinds", with the potential for looming economic hardships ahead, and a rising risk of technological disruption as the pace of technological advancements accelerate, it may become more difficult. Asset class and sector performance variance is likely to be differentiated as a result, making capital allocation decisions more important in light of today's distinctive dynamics.

Multifamily stands as one sector with durable and enduring demand-drivers capable of weathering economic hardships while benefiting from growth potential and downside protections derived from secular demand-drivers like (i) worsening home ownership affordability, (ii) accelerating household formations, and (iii) growing "lifestyle" or renter-by-choice preferences.

Meanwhile, the US is plagued by a chronic housing shortage with no immediate or clear remedy. Today, multifamily supply is 'healthy' overall with new deliveries expected to decline to long-term historic averages on a nominal basis but fail to keep pace on a proportional basis against historic new supply levels or multifamily demand growth.

Altogether, the attractiveness and durability of multifamily is rooted in its inherent human-based demand characteristics, including its resistance to technological disruption; its strong secular demand dynamics; and, our nation's housing shortage to be accentuated by declining multifamily deliveries over the short-term. Existing market dynamics and indicators suggest further multifamily dislocation is likely, and would present a unique risk-appropriate investment opportunity, especially with the 'right' manager possessing the alpha generating characteristics to succeed outside of the "easy money" era.

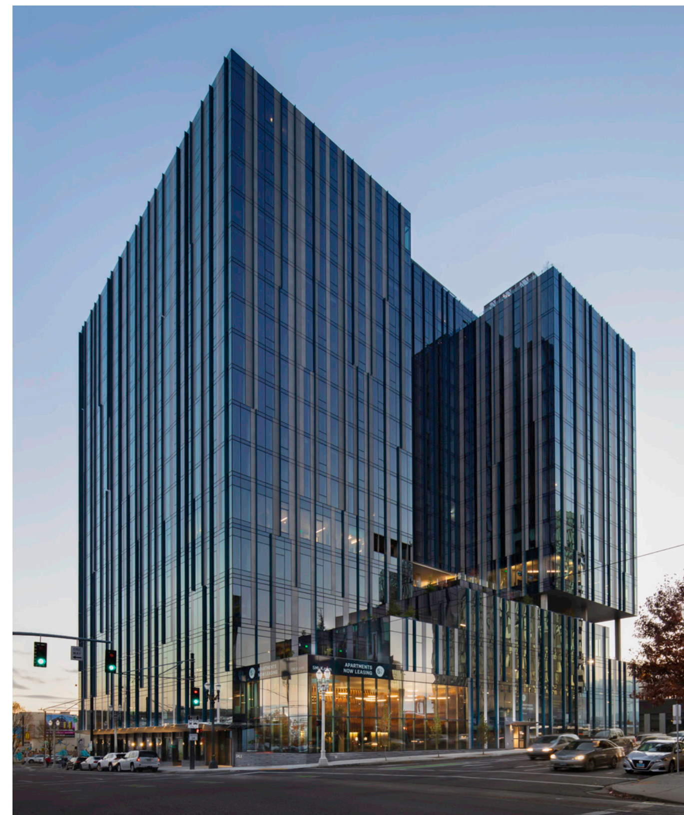
The Green Cities Company

The Green Cities Company ("Green Cities") is a $1.7B AUM [33] private equity real estate firm focused on multifamily value-add and ground-up development. Founded originally as a fee-development manager, Green Cities expanded into the investment management business in 2009 utilizing its construction roots to create a vertically integrated approach leveraging the expertise of in-house construction and interior design teams. In-house construction and design teams are accretive to our investment process by:

- Streamlining the design-build process with efficiencies for value-add capital expenditure initiatives and ground-up development;
- Identifying and controlling construction-related risks, including cost estimates and value-engineering;
- Eliminating or reducing associated fee-drag; and, importantly,
- Allowing Green Cities to consistently curate its desired impact and design at each asset, which is heavily oriented toward achieving ESG goals.

Green Cities assumed new ownership and expanded team in 2020. As a forward-thinking firm, Green Cities has been recognized as a global leader in ESG and Diversity, Equity, Inclusion and Access (DEI&A). By adding the concept of "access" to traditional considerations of diversity, equity, and inclusion, Green Cities believes we can elevate the built environment to a channel that advocates for social change. Green Cities' Funds also received the highest GRESB score globally for a multifamily fund (2021), multifamily/office fund (2020). Other industry recognition for ESG initiatives include:

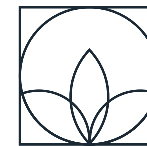
- Inaugural recipient of the 2021 ESG Momentum Award awarded by the Pension Real Estate Association (PREA)
- Fitwel Champion in 2019 with active Fitwel certified and Fitwel Viral Response certified properties
- Signatory of the United Nations-supported Principles for Responsible Investment (PRI) since 2017
- Certified B Corporation – one of the few real estate investment managers with such a distinction – since 2016
- 75% of active assets are LEED certified and 67% are Energy Star certified



33 Regulatory Assets Under Management as described in Green Cities' most recent Form ADV filed with the U.S. Securities and Exchange Commission.

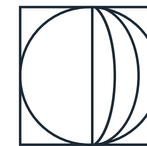
ESG AND THE GREEN CITIES INDEX (GCI)

To measure ESG and DEI&A strategies, report results to investors, and continue to drive innovation and industry-leading practice in ESG, we designed a proprietary framework, The Green Cities Index (GCI). This unique index is a robust metric fully integrating ESG and diversity, equity, inclusion, and access considerations throughout investments' lifecycle as well as in the Firm. This pioneering approach promotes a deep focus of five key pillars.



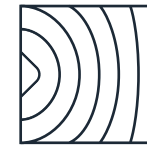
ENVIRONMENTAL IMPACT

Focus on optimizing the energy, emissions, water, waste, and materials and furnishings used by our properties.



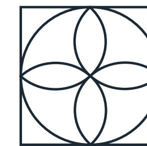
CLIMATE CHANGE MITIGATION

Action-oriented look to the future, taking bold steps to reduce fossil fuel usage and reduce emissions of greenhouse gases.



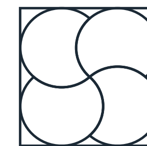
RESILIENCE

Enhancing the preparedness of our properties and tenants to withstand and recover from challenges like climate risks, social unrest, and large-scale health threats.



HEALTH & WELLBEING

Commitment to safety, comfort, and physical and emotional wellness to improve the quality of life for our tenants.



EQUITABLE COMMUNITIES

Engagement to create a positive, inclusive impact within our properties and on the neighborhoods where they reside, driving opportunity, justice, and anti-discrimination.

The Green Cities Company, drawing on its strength in construction and investment/asset management, is well-positioned to capture the "tailwinds" of multifamily investment while generating alpha through its vertically-integrated platform, including in-house construction, design, marketing and ESG teams, proprietary research, acquisitions, proactive asset management and pioneering ESG practices – all designed to find efficiencies, identify, mitigate and manage through risk while creating value.

Author of the Report

Blake Walker

DIRECTOR, RESEARCH & STRATEGY

E / BLAKE.WALKER@GREENCITIES.COM
T / 503.299.6000
D / 503.802.6641

Blake Walker is Director, Strategy and Research for The Green Cities Company overseeing macroeconomic and market-specific research while guiding the firm's overall strategies and investment decision with data and research-driven insights. Blake has over 16 years of private equity real estate investment experience across strategic investment research, portfolio management, PERE secondaries investing and acquisitions. Blake holds a BA in Economics from Duke University and a MA in Finance from the A.B. Freeman School of Business at Tulane University.

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ALL DATA AS OF FEBRUARY 9, 2023, UNLESS OTHERWISE NOTED.

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