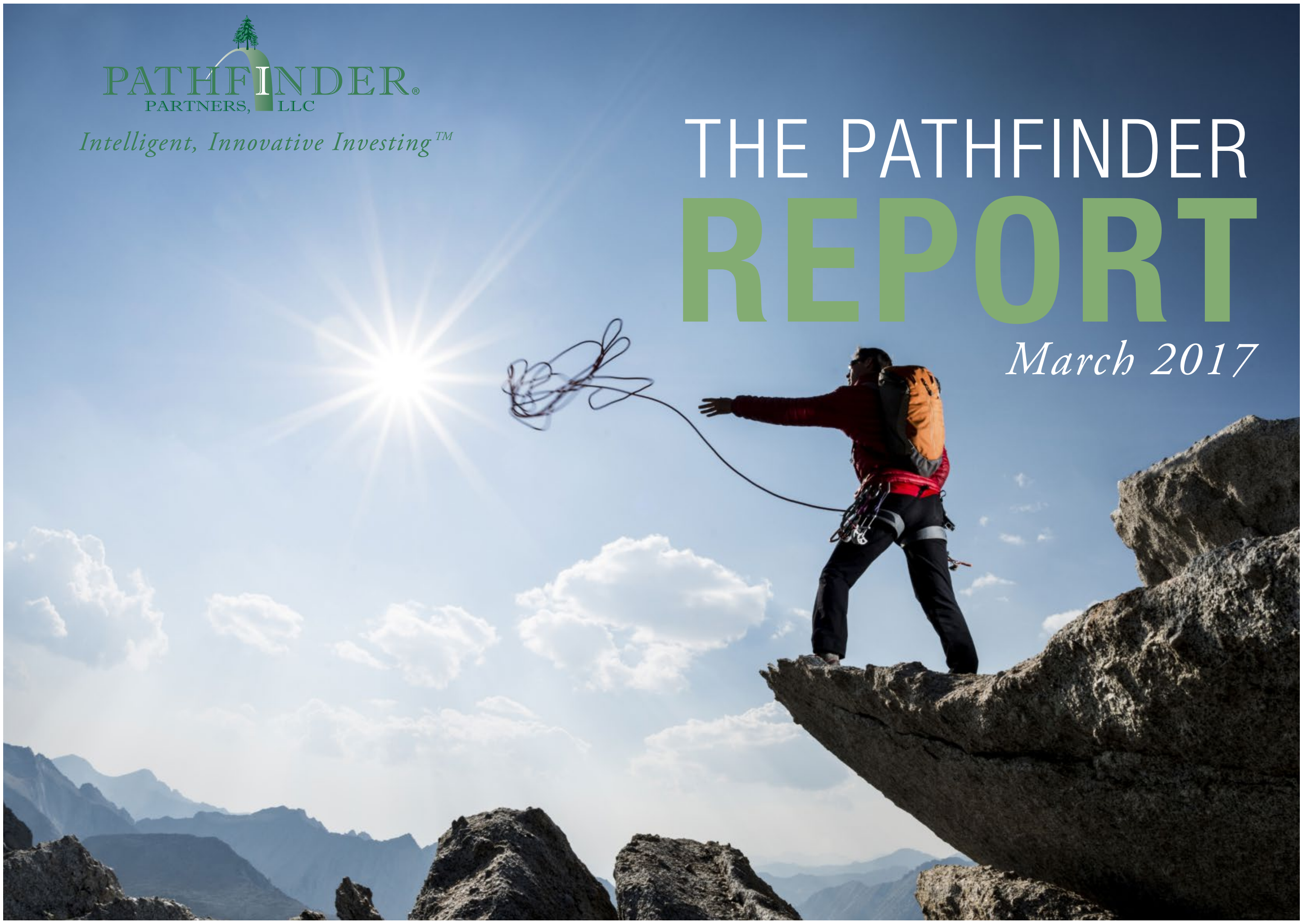


THE PATHFINDER REPORT

March 2017

IN THIS ISSUE

2 **CHARTING THE COURSE**
Seeing Around the Bend

5 **FINDING YOUR PATH**
Is Infrastructure Spending the Answer?

7 **GUEST FEATURE**
How Rising Rates May Affect Multifamily – The Good, the Bad and the Ugly

9 **ZEITGEIST: NEWS HIGHLIGHTS**

11 **TRAILBLAZING**
Florera, Seattle, WA

13 **NOTABLES AND QUOTABLES**
Calm

We are pleased to announce the initial closing of our sixth major real estate investment vehicle, Pathfinder Partners 2017 Multifamily Opportunity Fund, L.P. (The "Fund"). We are targeting a $35-$50 million fundraise in the Fund and held an initial closing of $27 million in February. Click here for more information on the Fund and to view a brief video about Pathfinder.

PATHFINDER PARTNERS, LLC

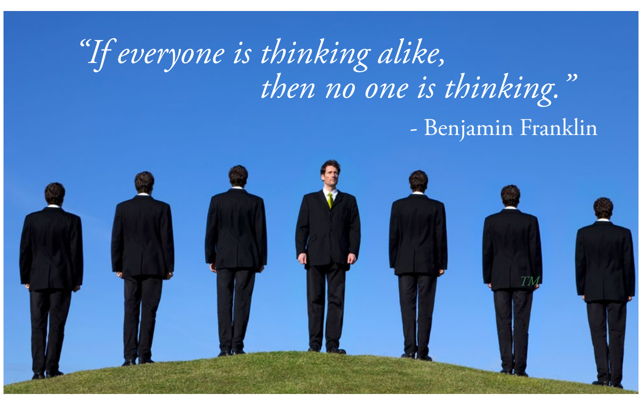
is pleased to announce the initial closing of

PATHFINDER PARTNERS 2017 MULTIFAMILY OPPORTUNITY FUND, L.P.

A real estate private equity fund focusing on western U.S., value-add multifamily properties

COMMITTED CAPITAL IN INITIAL CLOSING OF

$27,000,000



THIS ANNOUNCEMENT APPEARS AS A MATTER OF RECORD ONLY. FEBRUARY 21, 2017.

PATHFINDER® PARTNERS, LLC

Intelligent, Innovative Investing™

CHARTING THE COURSE

Seeing Around the Bend

By Mitch Siegler, Senior Managing Director

Since the inauguration, we've been hearing from even more pundits and doing even more reading than usual – and that's no small feat! While the bulk of our work is focused on real estate, investing and economics, there's no shortage of political spillover and attendant implications.

Earlier this month, we heard two terrific speakers at a real estate conference whose observations are now part of the giant soup pot of information that informs our decision-making. We thought we'd share a few pearls of wisdom from Art Laffer (he gained fame in the early '80s as a member of Ronald Reagan's Economic Policy Board and for his eponymous supply-side Laffer Curve, which seeks the optimum tax rate to maximize tax revenues) and Spencer Levy, head of Americas research for CBRE, the largest real estate brokerage firm. Both dazzled us (as only economists truly can) with their take on likely tax and fiscal policies and interest rate moves under President Trump and forecasts on the likely impact on economic growth and investing. Their insights are well worth the price of your newsletter subscription.

Laffer drove home the fact that it's a bit of a perfect storm (in a good way) for the Trump administration to make major changes to tax and fiscal policy by virtue of a rare monopoly on power, a very low bar on economic growth the past eight plus years and what he called a "long runway" – since it's highly unlikely that Democrats flip the Senate in 2018.

A Monopoly on Power

For the first time in our lives (we're considerably younger though Art's a rather spry 76) all seven levers of political power are controlled by one party. The big three – the White House, Senate and House – are obvious. Less apparent are Republican-controlled state legislatures and governorships (32 and 33, respectively) and the administration's opportunity now to put its mark on the Supreme Court and Federal Reserve.

A Low Bar on Economic Growth

Economic growth has been – and we're being awfully diplomatic here – tepid. The Obama years were the first since the Hoover administration without a single year's Gross Domestic Product (economic growth) rate above 3%. And, that's after President Obama took the helm of an economy in the doldrums following the 2008 Great Recession (it's much easier to show robust growth following the depths of a recession) and then benefiting from $1.4 trillion in deficit spending (the largest ever) to jump-start the economy in 2009. After that economic track record, the bar for President Trump is rather low. (Stated more colorfully, in the land of the blind, the one-eyed man can be king.)

A Long Runway to Impact the Economy

As noted above, the Republicans control the levers of power in Washington. The biggest threat – Democrats "flipping" the Senate in 2018 – is very long odds. Here's why. While 33 Senate seats will be contested, 23 of those seats are held by Dems (plus two held by Independents – Bernie Sanders and Maine's Angus King – both of whom caucus with the Dems) as compared with just nine now held by Republicans. Republicans are expected to target Democrat seats in Indiana, Missouri, Montana, North Dakota and West Virginia, all of which went for Romney in 2012 and Trump in 2016. Also likely targets by Republicans are Florida, Ohio, Pennsylvania, Wisconsin and Michigan, seats held by Democrats in states which went for Trump in 2016. Art Laffer's read of the political tea leaves is that Trump has plenty of runway since the Senate is likely safe in Republican hands at least until 2020.

The Stars Are Perfectly Aligned for Changes in U.S. Tax Policy

Here are two key reasons why:

• **Lowering tax rates will boost tax revenues** – This is at the heart of Laffer's supply-side economic theory and it makes even more sense today than during the Reagan era. The U.S. currently has the highest income tax rate – and the lowest tax revenues per capita – among all members of the 35-member Organization for Economic Cooperation and Development (OECD). That's why you're hearing so much chatter about "inversions" – companies moving their domicile offshore to lower-tax nations to save on taxes and then accumulating income offshore. Einstein defined insanity as "doing something over and over again and expecting a different result." Cutting tax rates should boost U.S. tax revenues and torpedo tax inversions, which should lead to hundreds of billions repatriated back to the U.S. for investment, hiring, dividend payouts and stock repurchases.

• **Accelerating write-offs for capital expenditures will boost economic growth** – The House's tax plan (aka the "Blueprint") calls for immediate write-offs for capital expenditures which should cause capital equipment purchases to skyrocket since the return on these investments will be much greater and the payback period greatly reduced.

Laffer doesn't like the protectionist jawboning (nor do we) – the trade/immigration restrictions, border tax adjustments and other nationalist mumbo-jumbo. He hopes and believes it's unlikely that Trump will be as protectionist as it now appears (as do we). He expects the economy to be unleashed by lower tax rates, a simplified tax system and less regulation – a la the roaring '20s, go-go '60s and Clinton '80s (as do we). The economy is all about incentives – change the incentives and you'll change the associated behavior. That's what the stock market seems to be anticipating – the Wilshire 5000 index is up 12% since the election.

Whither Interest Rates?

Where Laffer flies at 20,000 feet, CBRE's head of Americas research, Spencer Levy, is closer to the ground. Here's what he sees:

• **More U.S. manufacturing but few additional manufacturing jobs** – As we've written about previously, for every job leaving the U.S. for cheaper wages in China or Mexico, eight were lost to automation (according to a

research study by Ball State University). We're as excited as anyone about the prospect of more U.S. manufacturing and infrastructure jobs but we're likely to see much of this work done by robots. Levy, not so much raining on the parade as reporting the facts says "we may see more U.S. manufacturing but it will likely be jobless."

• **Capital will continue to pour into the U.S.** – Virtually every developed country in Europe and Asia is experiencing negative interest rates. Because populations aren't growing (and are shrinking in places as varied as Germany, Italy, Japan and South Korea), these nations also have a glut of savings. So, even record low U.S. interest rates look quite attractive to foreign capital. As U.S. rates rise (a March rate hike is looking like a slam-dunk with two more rate bumps likely this year), capital should continue to flood into U.S. assets, like stocks, bonds and real estate.

• **That is, unless we blow it by boosting rates too much, too fast** – Economist Paul Samuelson famously said that "Wall Street indexes predicted eight of the last five recessions." Well, a sharp rise in interest rates preceded every market downturn in the past several decades. And, nearly every recession in memory has been associated with an inverted yield curve (when short-term interest rates rise above long-term rates). Nothing is more powerful than the bond market. CBRE's Levy is calling for the 10-year Treasury rate to rise from a little under 2.5% today to 3.0% by year-end and 3.5% by mid-2018.

• **But, this time may be different (really)** – Bond and real estate investors are terrified of interest rate increases since prices of bonds and real estate typically fall when rates rise. But, if foreign capital continues to flow into the U.S. at the torrid pace it has been, this could put a lid on the rise in real estate "cap" rates typically seen when rates rise. That's especially true for owners of property types and in markets most favored by foreign investors (think multifamily and tech-heavy, job-creating cities like San Francisco, Seattle, Los Angeles and San Diego – and to a lesser extent Denver, Portland and Phoenix).

Assorted Musings

Notwithstanding the President's hyperbolic tirades and overheated language like "disaster" and "catastrophe", there are plenty – repeat plenty – of causes for optimism. In a very short period of time, the U.S. has achieved something approaching energy independence. The quality of our higher education system is world-class (though it's priced accordingly). Among the nations, we're best positioned to lead the charge for new technologies by virtue of our rule of law and intellectual property laws, established university system, experienced venture capital investors and public equity markets. Our engineers, programmers and scientists are simply more creative than their peers in China and Russia. (This isn't technical or educational – it's cultural.) Oh, and not for nothing, we're the world's only true superpower with a military second to none.

As we tell our investors on what feels like a daily basis, 2017 may be a more volatile investing climate, characterized by greater political and economic uncertainty. The range of potential policy options has widened and markets dislike uncertainty. As mentioned earlier, stock prices have risen on expectations of a 15% corporate income tax cut – and many assets are priced for perfection. But if a massive tax cut doesn't materialize, look out below. Now, slow and steady goes the race.

Mitch Siegler is Senior Managing Director of Pathfinder Partners, LLC. Prior to co-founding Pathfinder in 2006, Mitch founded and served as CEO of several companies and was a partner with an investment banking and venture capital firm. Reach him at msiegler@pathfinderfunds.com.

FINDING YOUR PATH

Is Infrastructure Spending the Answer?

By Lorne Polger, Senior Managing Director

If this were *Jeopardy*, what would the question be?

"What is how to increase employment, Alex."

"What is how to improve our cities, Alex."

"What is how to cure all economic ills, Alex."

Mitch and I just returned from a whirlwind trip to Tokyo to celebrate a friend's 60th birthday. While I was fascinated with many of the cultural differences between our countries, the thing that kept jumping out at me was the vast infrastructure that has been built in the Tokyo metro area. (Also pretty amazed at how incredible the sushi was, but I'll save that one for my men's cooking group article.) Given all the talk about upcoming infrastructure spending in the U.S., I was intrigued enough to do some research on Japan's great infrastructure experiment.

After World War II, the Japanese government funded many much-needed public works projects that established one of the world's best infrastructures. In the 1970's, under the stewardship of Prime Minister Kakuei Tanaka, 10-year public works expenditures tripled from $37 billion to $105 billion. Tanaka, who died in 1993, left a legacy of money politics and corruption (he was convicted in the Lockheed bribery scandal in 1983). Tanaka ushered in massive new public spending for bridges and dams, roads and rail lines.

By the 1980's, the most useful projects had been built. Then the government began funding questionable projects to provide employment in rural areas, where political power was proportionally higher than in urban areas, and provided contracts to construction companies that provided support and kickbacks to the ruling political party, the LDP.

In the 1990's, the government turned to public works projects as a way of spending Japan out of recession, a Keynesian strategy that still hasn't worked. Between 1992 and 2000, Japan implemented ten separate spending stimulus packages in which public infrastructure investment was the major component. A total of 163 public corporations spent $50 billion a year of taxpayer money and sucked up almost 40 percent of the national budget, with construction accounting for a whopping nine percent of Japan's GNP (as compared to just one percent in the U.S. and five percent in Europe at the time). In fact, over $2 trillion was spent on infrastructure projects in the 1990's. As noted in a 2008 report from the Heritage Foundation, the relative prosperity of the Japanese declined as government spending on public infrastructure advanced.

By 2003, Japan was spending over $200 billion a year on public works projects such as highways, tunnels, dams and bridges. Construction was consuming almost 40 percent of the national budget.

Japanese governments seem to have never met a public works project they didn't like. But while the roads, trains and airports looked great, their beauty treatments were expensive. The spending has been a contributor to a national debt that reached $10.5 trillion in 2013, more than <u>twice</u> the annual gross domestic product of the country. (By comparison, the U.S. national debt currently stands at just under $20 trillion; the U.S. population is 325 million, almost three times that of Japan.)

Japan has funded multi-billion-dollar bullet trains, expressways and bridges that serve only a few people, gigantic overpasses that provide access to small country lanes, useless dams, and "airports for radishes." There are airports with no planes that pay passengers to use them and deep-water ports with no ships. That said, based on our recent experience, the trains sure run on time!

The U.S. certainly has its own sordid history of "pork" projects, but Japan has some that would make an Iowa hog farmer blush. The 177-mile-long, $83 billion Daini Tomei expressway near Mt. Fuji boasts huge concrete supports, decorative gratings and stainless steel phone boxes that cost $23,000 each. It was built virtually parallel to an existing highway with a traffic load that peaked in 2000, and has been steadily declining – along with Japan's population – for years.

Then there is the Tokyo Bay Aqua-Line (also known as the Trans-Tokyo Bay Highway), a 14-kilometer tunnel-bridge that runs under Tokyo Bay. It was built at a cost of $11.2 billion after 23 years of planning and nine years of construction. It opened in 1997, but has not been widely used because few people want to fork over the expensive toll (equivalent to roughly $30 in U.S. dollars).

The Tokyo Bay Aqua-Line was a political project. Anticipated traffic figures were inflated to get the project approved. Due in part to its lower than projected traffic (approximately 40 percent of what was expected), it has amassed a huge operating debt that the next generation will have to pay back. And that's how the sausage is made.

But the perfect storm may be brewing for another reason. After years, if not decades, of warnings about Japan's aging population and low birth rate, the day of reckoning is here. Japan's most recent census shows that the population has shrunk by nearly a million people (from 128,057,352 in 2010 to 127,110,000 in 2015). But if that doesn't faze you, just wait. Notwithstanding Japanese Prime Minister Shinzo Abe's stated goal of keeping the population above 100 million, the Population Division of the U.N. Department of Economic and Social Affairs released its population estimate that showed that Japan would dip below 100 million shortly after 2050. By the end of the century, Japan stands to lose a whopping 34 percent of its population! So, who's going to pay for all that infrastructure AND take care of the elderly? Hmmmm.

Japan's birth rate has long been significantly below the 2.1 per woman that is needed to sustain the population level – it currently stands at just 1.4 – and there's no offset from immigration like in the U.S. Nearly one-third of all Japanese were older than 65 in 2015; the National Institute of Population and Social Securities Research suggests this will rise to 40 percent by 2050. Sound familiar? We're aging in the U.S. too. And if we significantly curtailed immigration here? The numbers would also stop making sense.

So, what has been the economic effect of this grand, long term experiment? From 2011 to 2015, Japanese GDP per capita shrunk from $46,440 (USD) to $32,484. During the same time, economic growth has been basically zero (small increase, small decrease). The unemployment rate has shrunk from 4.6% to 3.4% – not enough young people to do the jobs.

Japan is walking on a tightrope in terms of its economic recovery. A weak yen and a pick-up in global demand are fueling growth in the all-important export sector. However, a wind of protectionism is blowing across the world, casting a long shadow on Japan's economic outlook. Analysts see their economy growing just 1.0% this year. For 2018, they forecast lower growth, just 0.8%. There's no way to "pay back" the infrastructure projects with those kinds of numbers, much less take care of the aging population. Longer-term prospects aren't better.

For a metro area of 38.6 million people, Tokyo is extraordinary clean and orderly. In our five days there, we saw little homelessness, graffiti or garbage. Quite a contrast from walking the streets of Manhattan. So, that's the good news. The bad news is that the economic future looks bleak. Arguably, some of the vast sums of money spent on infrastructure may have been better used on research and technology. And, shockingly, maybe some of it shouldn't have been spent at all. Lessons for us here in the U.S. and California? Lots of them. And don't get me started on the $64 billion bullet train from Merced to Bakersfield.

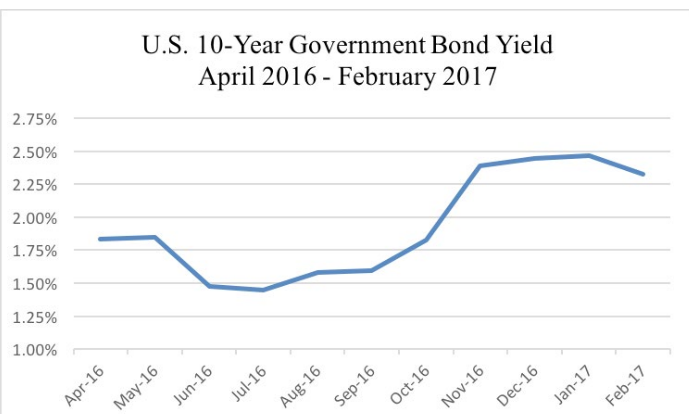
Lorne Polger is Senior Managing Director of Pathfinder Partners, LLC. Prior to co-founding Pathfinder in 2006, Lorne was a partner with a leading San Diego law firm, where he headed the Real Estate, Land Use and Environmental Law group. Reach him at lpolger@pathfinderfunds.com.

GUEST FEATURE

How Rising Rates May Affect Multifamily – The Good, the Bad and the Ugly

By Scot Eisendrath, Managing Director

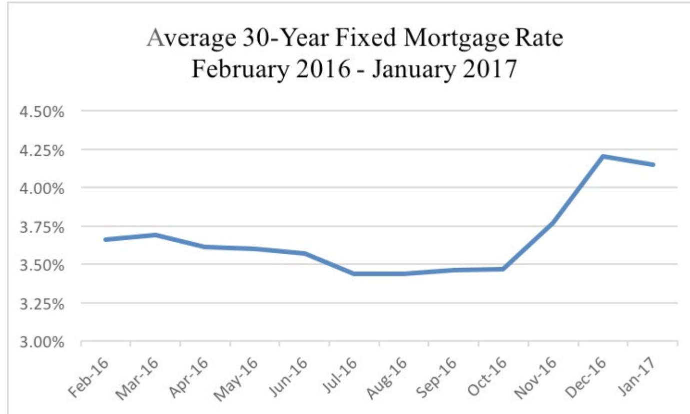
It seems inevitable that interest rates will increase. We've already seen the beginning with short-term rates as the Federal Reserve's Federal Open Market Committee ("FOMC") increased the Federal Funds Rate by a quarter point in December, and at their February meeting they indicated a second increase is not far behind. A March increase is as close to a sure thing as it gets. Most pundits expect a couple more rate increases during 2017. Long-term rates, as seen in the ten-year treasury security, have also been on the move, increasing from approximately 1.7% last October to 2.3% during the past few months (around 2.5% at press-time). What do rising rates mean for the multifamily market, both in terms of operating and investment performance?



Source: Investing.com

The Good

• Higher interest rates increase mortgage payments for homeowners, making renting a more affordable option and pricing potential homeowners out of the market. A 0.50% increase in the mortgage rate for a for a single-family home increases the monthly payment by about $100 based on the average sales price in January 2017. (The average rate for a fixed-rate, 30-year mortgage has increased by 0.68% from October 2016 to January 2017.)



Source: Freddie Mac

• Higher interest rates typically indicate an improving economy. While personal income growth has been anemic during the recent economic recovery, now that the economy has reached full employment, the middle class may finally see some meaningful wage growth, which will put more money in households' pockets to pay higher rents.

• Higher interest rates increase borrowing costs for for-sale developers limiting new development in an already supply-constrained market, which drives up the price of housing. Higher prices price potential buyers out of the homeownership market, leaving them in the rental pool.

The Bad

• Higher interest rates also increase the cost of financing for multifamily developers, making some new projects economically unfeasible. While bad for developers, this is good news for owners of existing multifamily projects as new rental supply is limited.

• As mentioned above, rising rates are most commonly indicative of a strengthening economy. Since income growth is a driver for home ownership, if incomes rise enough to offset the increase in mortgage payments due to rising rates, for-sale housing won't be as adversely affected by higher

rates. For multifamily investors, there is a sweet spot, where rates rise enough to deter renters from purchasing a home, and where incomes don't rise to the point that tenants leave apartments to buy homes.

• Rising interest rates and inflation typically go hand in hand, and inflation is a double-edged sword for multifamily properties. Higher inflation drives up operating costs for multifamily properties, which affects the bottom line. The upside is that investors consider real estate a hedge against inflation, making the asset class a more desirable investment option. It's a virtuous circle – as more investors pile into real estate to protect against inflation, the increased demand leads to an increase in values.

The Ugly

• Conventional wisdom is that there is a high correlation between interest rates and capitalization rates ("cap rates" – the rate of return on a real estate investment), so as interest rates rise, cap rates generally follow. A capitalization rate is also utilized to calculate a property's value (net operating income divided by the capitalization rate equals the property's value). So, if capitalization rates increase, prices typically fall in lock-step. Conventional wisdom isn't always correct though. According to a research report by Morgan Stanley, there is actually very little correlation historically between cap rates and interest rates, and there are many other factors that also affect capitalization rates, including credit availability, inflation and supply and demand for real estate. In fact, there have been many periods where interest rates and cap rates moved in opposite directions (think about the fact that bonds have been on a 30+ year bull market where interest rates have trended down, but cap rates have gone up and down during that period).

• History often repeats itself. There will be multifamily borrowers that over-leverage their acquisitions, and as rates rise, they could find themselves unable to service the debt or have trouble refinancing when their loans mature. For most investors who use reasonable amounts of leverage, and take advantage of historically low rates by locking in longer-term debt, this should not be an issue.

In all economic environments, there are winners and losers. The real estate investment playing field has changed slightly over the past couple of months with the rise in interest rates, creating pitfalls and opportunities. The winners and losers will be determined by how investors play their cards, seize opportunities and avoid pitfalls.

Scot Eisendrath is Managing Director of Pathfinder Partners, LLC. He is actively involved with the firm's financial analysis and underwriting and has spent 20 years in the commercial real estate industry with leading firms. He can be reached at seisendrath@pathfinderfunds.com.

ZEITGEIST – SIGN OF THE TIMES

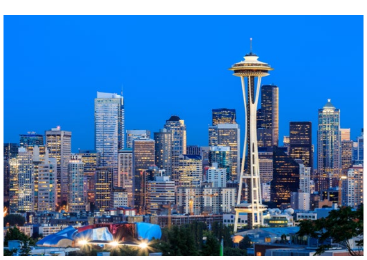
All Grown Up: Single-Family Home Rental Market Maturing

The single-family home rental market – which exploded over the past decade – is becoming an institutional asset class. Since 2006, the number of U.S. single-family home rentals has increased 35% from 11.7 million to 15.8 million. Concurrently, the homeownership rate has fallen from about 69% to 63% and new housing permits are 43% below the 1980-2015 average. These factors have resulted in significant demand for rental homes.

Private equity investors have taken note of the trend and several of the big players are increasing the size of their single-family rental portfolios. Earlier this year, Blackstone Group went public with its Invitation Homes, Inc. rental home subsidiary – which owns approximately 50,000 single-family rental homes – and several other groups are expanding their portfolios through consolidation and/or the acquisition of rental home portfolios. The trend is expected to continue as the consolidation of the asset class is still in its infancy with only 2% of the 16 million U.S. single-family rentals owned by large institutions.

Seattle Apartment Market Remains Strong Amid Development Boom

In our December issue, we cited *Zillow's Top 10 Markets for Rent Growth* which forecasted Seattle's rents to rise 7.2% in 2017, more than any other U.S. metro. The city's thriving economy has been driving historic rental demand and apartment developers are reacting by bringing additional units to the market.



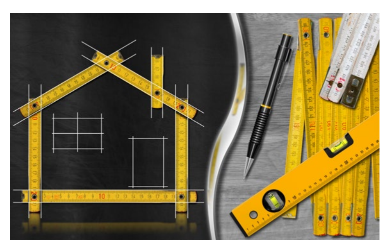
According to *Seattle Times* reporter Mike Resenberg, Seattle is adding apartments in record numbers, "The apartment boom in Seattle has already reached historic heights – more units opened in each of the past four years than ever before. Seattle is set to see almost 10,000 new market-rate apartments open in 2017, nearly twice as many as in any other year in the city's history."

Adding more supply should provide some relief to renters in greater Seattle, which saw rents grow at one of the fastest clips in the U.S. last year at 9.7% from August 2015 to August 2016. However, more apartments will not solve the housing crisis. Despite the fact that supply over the past four years has broken records, average rental rates in Seattle have soared 43% over the same period. With companies like Amazon hiring tens of thousands of new workers each year, we expect high demand to continue to pressure supply. The majority of the new apartments expected to open in downtown Seattle in 2017 are luxury units, unaffordable for many renters. In the longer term, rising construction costs and land costs are also raising concerns for developers and may slow the pace of future projects.

While 2017 is poised to break apartment construction records in Seattle, demand is forecasted to remain brisk as the city's job boom continues. We expect Seattle to continue to be among the hottest U.S. rental markets over the next several years.

Value-Add Back in Vogue

The acquisition and renovation of existing apartment buildings – also known as value-add multifamily investing – was a focal point among real estate industry professionals at the annual National Multifamily Housing Council (NMHC) conference, which drew thousands of attendees last month in San Diego, CA.



The current real estate cycle, now seven years old, coupled with heightened market uncertainty and rising construction costs has industry leaders considering value-add investments as an alternative to breaking ground on new, class-A developments in the urban cores. A value-add investment strategy provides investors with the opportunity to capitalize on the growing rental housing demand from Millennials and Baby Boomers while mitigating the risks associated with new development including lengthy entitlement processes, a more challenging environment for construction financing and escalating construction costs. The most popular value-add strategy consists of upgrading well-located, class-B and class-C apartments by adding common area amenities and updating unit interiors with new flooring, countertops and cabinets. These upgrades allow owners to compete with class-A developments while increasing rental rates and keeping their cost basis well below the levels for new construction.

TRAILBLAZING: FLORERA, SEATTLE, WA

Benefitting from the Thriving Emerald City

In the summer of 1981, Seattle held a contest to find a new nickname. The winner, "Emerald City", came from Sarah Sterling-Franklin of Carmel, California, whose submission described Seattle as "the jewel of the Northwest, the queen of the Evergreen State, the multi-faceted city of space, elegance, magic and beauty". We couldn't agree more! Florera, a 59-unit silver-LEED condominium project in Seattle's Green Lake neighborhood epitomizes the city's "cool" factor.

Green Lake is five miles north of downtown and adjacent to Green Lake Park (Seattle's Central Park), a 324-acre preserve surrounding a glacial lake. The park draws millions each year for the athletic fields, boating and swimming. Seattle residents view the park and three-mile path surrounding the lake as the City's premier destination for running, biking, roller-blading, picnicking and exercising with their dogs. The neighborhood boasts numerous restaurants, bars, entertainment venues and shops and has experienced a development and population boom in recent years.

Florera Condominiums

Built in 2007 as for-sale condominiums, Florera's sales were impacted by the Great Recession and the lender foreclosed in 2013 after the developer sold just 14 condos. In November 2013, Pathfinder acquired the 45 remaining unsold condos through a lender-approved short sale and operated the units as rentals (we subsequently bought two additional units from private owners, bringing our total ownership to 47). Florera's four-story structure consists of five commercial ground-floor units and 59 residential units located on the second, third and fourth floors along with a large rooftop deck. Pathfinder's units include five studios, 29 one-bedroom and 13 two-bedroom units. All condos have contemporary finishes, stainless steel appliances and washers/dryers. Community amenities include an attractive courtyard with a lounge area, clubhouse and entry lobby. Earlier this year, Pathfinder completed a renovation of the common areas aimed at modernizing the community and improving the quality of the finishes.

Market conditions in Seattle have drastically improved and the City's recovery during the past five years has exceeded all expectations. Amazon, which now employs 25,000 people in the area, is expanding rapidly and making large investments in the City. Other technology firms like Microsoft, Facebook, Google, eBay, Salesforce and Alibaba are also aggressively hiring. Companies headquartered outside the region, like Uber, have established offices in Seattle so they can better recruit from the pool of software engineers. According to the U.S. Bureau of Labor Statistics, Washington posted the nation's biggest gain in nonfarm jobs, 3.5%, between October 2015 and October 2016. Recent census data also shows the median household incomes in Seattle topped $80,000, a nearly $10,000 jump in one year, the biggest leap among large U.S. cities.

As Seattle's economy has blossomed, our Florera investment has benefitted from the population growth, increasing wages and higher rental rates. We plan to continue to follow Seattle's yellow-brick-road and make future investments in the city in 2017.

NOTABLES AND QUOTABLES

Calm

"Nothing gives a person so much advantage over another as to remain cool and unruffled under all circumstances."

- Thomas Jefferson

"A man of calm is like a shady tree, people who need shelter come to it."

- Toba Beta,
Indonesian author

"You can't calm the storm. So stop trying. What you can do is calm yourself. The storm will pass."

- Timber Hawkeye,
Israel-American author

"Be like a duck. Calm on the surface but always paddling like the dickens underneath."

- Michael Caine,
English author and actor

"Do not learn how to react. Learn how to respond."

- Buddha

"Opportunity seldom rises with blood pressure."

- Jarod Kintz,
American author

"He who is of calm and happy nature will hardly feel the pressure of age, but to he who is of an opposite disposition, youth and age are equally a burden."

- Plato

"The quieter you become the more you can hear."

- Ram Dass,
American spiritual teacher

"The only Zen you find at the top of the mountain is the Zen you bring with you."

- Zen proverb

IMPORTANT DISCLOSURES