THE PATHFINDER REPORT

February 2019

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CHARTING THE COURSE

Winter is Coming

By Mitch Siegler, Senior Managing Director

Fans of the critically-acclaimed HBO series *Game of Thrones* know "Winter is Coming" as the motto of House Stark, one of the Great Houses of the continent of Westeros. These words evoke warning and constant vigilance as the Starks, lords of the North, strive to always be prepared for the coming of winter, which impacts them greatly.

"Winter is Coming" is also an apt metaphor for investor caution and preparation. Today, we're about a decade into a bull market for many asset classes, including stocks and real estate. While we're not now ringing the bell and calling the market at a top, the easy money in stocks and real estate appears to be behind us. We believe 2019 will be a turning-point year and "caution", "hedging" and "harvesting" are our operative words.

Since trees don't grow to the sky, Pathfinder began preparing for the coming winter three years ago and we remain vigilant with respect to protecting our investment portfolio (more on the steps we've taken and are continuing to take below). Our awareness of the possibility of challenging times ahead for investors has become heightened by several factors, including increased market volatility, asset prices at or near record levels, the 2020 presidential elections, increasing anti-Capitalist sentiment and a likely housing slowdown, which we will discuss further below.

Market Volatility

The major stock market indices had their worst quarterly performance in a decade during the fourth quarter of 2018 sending them into bear market territory, down more than 20% from the highs. The Dow Jones Industrial Average (DJIA), S&P 500 and NASDAQ indices were down 11%, 13% and 15%, respectively, during the quarter. The S&P 500 was especially volatile, with intraday swings of more than 1% on four out of five trading days with intraday swings of 3% or more occurring ten times. Bond yields also swung wildly, with the benchmark 10-year Treasury note reaching 3.25% (it's back to 2.65% at press-time). We expect continued volatility in the months ahead.

Asset Values At/Near Peak Levels

The heightened market volatility occurs against a backdrop of stock, bond and real estate prices that are at or near record levels. It's been a decade since the collapse of Lehman Brothers and Bear Stearns, which precipitated the 2008 Great Recession. Stock market indices hit lows in March 2009 – the DJIA has quadrupled since then. Real estate values have similarly skyrocketed as interest rates and cap rates have fallen and remained low. In 2009, investors in stocks and real estate had considerable "margins of safety". While it's still possible today to buy assets with some margin of safety, you really must search far and wide to find these opportunities. Viewed through that prism, the investing environment is riskier now and expected investment returns during the next ten years are likely to be well below returns during the past decade.

2020 Election and Increasing Anti-Capitalist Sentiment

Uncertainty brings volatility and presidential elections can create both. Given the political divisions and large field of potential Democratic challengers, we expect the 2020 presidential election to be the mother of all uncertain events. The signs are already apparent: the biggest political story of 2019 is that Democrats are beating the drum for policies that include government control of huge chunks of the American economy. Bernie Sanders kicked off this theme in the 2016 primaries with calls for economic justice, restrictions on corporate money in politics and promises of health care and education for all. Recent proposals from the progressive/far left wing of the Democratic party, a few of which are summarized below, will exert strong influence on the upcoming presidential primaries:

1. Bernie Sanders' ***Medicare for All*** plan, endorsed by 16 other Senators, would replace all private health insurance with a federally-administered, single-payer system. Government bureaucrats would decide what health care and drugs you should receive and how much to pay doctors and hospitals. Remember *"You can keep your health plan"*?

2. ***The Green New Deal***, endorsed by 40 House Democrats and several presidential candidates, would mandate that the U.S. be "carbon-neutral" in just ten years. Since non-carbon sources account for only 11% of U.S. energy today, this would require a complete reinvention of our electric power and transportation systems with profound implications for industry, workers and homeowners. And if 29-year-old Congresswoman and avowed Democratic Socialist Alexandria Ocasio-Cortez (AOC for short) has her way, it would all be overseen by a Select Committee for a Green New Deal – five-year planners in the Politburo would be proud.

3. Many of the same folks advocating for The Green New Deal are also behind ***a guaranteed government job for all*** to counter the effects of technological change and globalization. And who said there's no free lunch? Why strive to do well in school or work hard to compete for jobs if they're guaranteed?

4. Senator and Presidential candidate Elizabeth Warren proposed a new federal charter for businesses generating over $1 billion in annual revenue that would make these companies answer to more than shareholders. Her proposed ***system for corporate control*** would require that employees elect 40% of corporate directors who would be forced to consider "benefits" beyond shareholder returns. Lenin and Mao would be pleased.

5. These ideas would require vastly more federal revenue and proposals abound for how to generate it through ***much higher taxes***. Mr. Sanders calls for a top death tax rate of 77%. AOC, who proudly accepts the label "radical", wants a 70% tax rate on high incomes. Ms. Warren wants a new 2% "wealth tax" on assets over $50 million and 3% over $1 billion. (France recently scrapped its wealth tax because it was so counterproductive, stifling growth and causing entrepreneurs and wealthy taxpayers to flee.) The Democratic House Ways and Means Committee is developing a plan to increase the payroll tax from 12.4% to 14.8% on incomes above $400,000.

Irrespective of whether these knee-jerk proposals ever become law, they certainly change the political conversation and are likely to bring about changes in behavior. Notably, those affected, who own a disproportionate share of the nation's wealth (the wealthiest 1% own 50% of stocks, per Goldman Sachs), might be inclined to sell shares to pay the higher taxes. At the very least, that means greater volatility and slowing economic growth are likely. Declines in the prices of stocks and other assets, including real estate might not be far behind. As former British Prime Minister Margaret Thatcher said, "The problem with socialism is that you eventually run out of other people's money."

Housing Slowdown and Impact on the Economy

In addition to signs of slowing economic growth and heightened volatility, we expect home sales to slow, as often occurs during presidential election years. A 2008 survey found that "the election was really weighing on the minds of the would-be home buyers," according to a report issued by Realtytoday.com. Potential homebuyers are concerned about these risks and many may defer purchases until the political environment is less uncertain.

Election years can be stressful and uneasy for many Americans says movoto.com, an online real estate brokerage firm. People are less likely to make large purchases, particularly homes, in very uncertain times. The results of a presidential election can affect your finances, so fewer people are willing to invest in a home when their financial future might be uncertain or influenced by the incoming president – who (or whose party) may have different housing or mortgage policies that affect potential homebuyers in various ways. The mind boggles about the policy changes that may follow from the progressive, anti-Capitalist banter. And by the way: housing accounts for 15-18% of the U.S. economy, according to the National Association of Home Builders.

How Pathfinder is Preparing for "Winter"

As we've said in the past, investing in apartments provides steady income and growth, in good times and bad. Simply put, people need a place to rest their weary heads and an estimated 37% of Americans rent today – a number that has grown significantly during the past decade and is higher than at any time since 1965. Value-add apartments provide a strong margin of safety since the purchase price is based on the previous management (often unsophisticated) and property condition (generally never improved or not improved in decades). By renovating the property, we can dramatically boost rents and income. If you keep the leverage low (as we do), risks are substantially mitigated. If you focus on high-growth markets with strong population and job growth (as we do), you set yourself up for appreciation and success down the road. Since 2016, all our acquisitions have been these types of properties. We're being defensive, keeping our heads down below the parapets.

Meanwhile, we've been pruning our portfolio of assets outside of the value-add apartment 'sweet spot'. We've sold or are selling office buildings, retail and commercial centers and vacant land acquired years ago and are wrapping up our active residential development projects. Tightening our supply lines, chopping extra wood for the castle's wood-burning stoves and hunkering down for winter.

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

Warning Signs Ahead

By Lorne Polger, Senior Managing Director

In September 2006, I gave a speech to the San Diego County Apartment Association. I had been a real estate lawyer for around 20 years, and my practice was focused on representing apartment investors and condominium converters. I warned that our real estate economy was not sustainable, that pricing had become out of whack, and that a period of economic decline was forthcoming. In hindsight, my prediction was both early and understated. At the time, it was not well received. I received calls and emails from several real estate industry insiders following my speech, chastising me for my negativity. Two years later, the Great Recession formally commenced. From October 2007 through March 2009, the Dow Jones Industrial Average fell 54% . Real estate values followed a similar pattern.

How did I know what was going to happen before it happened? Four ways.

First, excessive leverage in real estate investments. Over the years, people continue to gasp when I tell them that I worked on a $72,000,000 deal that was structured with $71,750,000 of debt, and $250,000 of equity. It was one of many that I worked on structured with similar leverage. How could that have been possible? In fact, this type of deal structure was prevalent back then. The banks were largely unregulated when it came to leverage in their loan portfolios, and it showed. And the big banks were not immune from this. In fact, some of the big banks created subsidiary organizations which lent in the riskier part of the capital stack, at higher rates, even within the same loan structure. By way of example, Bank of America may have made a $50 million loan on an $80 million asset. Not crazy leverage, right? But B of A's wholly-owned subsidiary, TriSail Capital Corporation, then may have loaned another $20 million (as either a second mortgage or mezzanine debt). And then, of the remaining $10 million in the capital stack, $8-9 million may have been structured as preferred equity ahead of the sponsor's equity. When the market dropped 35% in value, the sponsor, the preferred equity provider and TriSail were completely wiped out. Bottom line? Massive leverage + undercapitalized sponsor + overheated economy = Bad deal for all. Crisis for many.

Second, sloppy underwriting. From 2004-2006, I was privy to rosy predictions of continued meteoric price appreciation, sloppy and incomplete appraisals littered with bad comparable properties. Investors, underwriters and appraisers all appeared to be looking solely in the rear-view mirror instead of through the windshield to see what was ahead. Financial institution budgets weighted to fee income and producer bonus targets – greed – had something to do with it as well.

Third, the quality (or lack thereof) of many borrowers and sponsors. Money was flowing during those years to undercapitalized and inexperienced borrowers, many of whom took an undisciplined, cowboy approach to investing. Bad track records were overlooked as easily as a bad latte at Starbucks®. The impetus was more about getting money out the door than validating the quality of the investment or the principals. Again, greed.

Fourth, the cycle of real estate. Trees never grow to the sky. The music does stop occasionally; even Elton John does not play an endless live concert (except perhaps on his Pandora® channel). Values go up for a while, and then they go down for a while. It's the natural order of things.

What are Some of the Current Warning Signs?

As profit margins become more compressed as the cycle evolves, real estate investors begin to use financial engineering to make deals pencil. Let's walk through an example. Let's say you were developing an apartment building earlier in the cycle. Big Money Center Bank gave you a loan for 70% of the construction cost, and you funded the rest with equity. Pretty good cushion for the bank. Your return on costs was about 7% and the deal underwrote to a 20% annualized internal rate of return (IRR). Flash forward to today. The FDIC has started to get concerned about real estate lending practices, so they tightened the screws on the banks and told them to reduce the leverage on those loans. So now, 70%, became 60%. The equity check got bigger, just as the returns shrank. A deal that underwrote to a 7% return on costs is now closer to 6%. 20% IRR's shrank to 16%. So, what happened? Financial engineering. You add more debt or preferred equity to the capital stack at rates that are theoretically lower than the overall project returns to increase the return on equity. Makes sense, right? It does, until the deal has a cost overrun, or a project delay, or, heaven forbid, the economy slows. In each case, the equity return then gets marginalized; or in some cases, eliminated entirely.

As the cycle has evolved, we've been seeing more financial engineering in deals that have been presented to us as investors. And the numbers don't lie. According to the Mortgage Bankers Association, unregulated higher-leverage, higher-priced private debt funds placed $67 billion in mortgage loans in the U.S. in 2018, up from $52 billion in 2017 and $32 billion in 2016. Contrast this with the $70 billion loaned by Fannie Mae and Freddie Mac on apartment loans for 2018 (the agencies are capped at the same number for 2019). The numbers on a deal may not work with bank leverage at 60%, but they suddenly make sense with private, high-priced money at 80% leverage. Why? Because only half of the equity is required. But the risk rises exponentially as well.

In addition, we've seen massive shifts in how certain segments of commercial real estate are used, perhaps increasing their vulnerability at the tail end of a cycle. Most notably, of course, are retail and office, laggards in performance for more than a decade. Bottom line, we don't shop like we used to, and we don't work like we used to. Those trends do not appear to be ebbing; in fact, they appear to be accelerating. An economic downturn could further magnify the challenges that those two sectors continue to face.

Another warning sign has been the massive increase in construction costs. Over the last three years alone, costs have risen more than 30% in many markets, dramatically above inflation. That makes tight deals even tighter (and riskier). Pathfinder has exited the development game in part for that reason.

Are Certain Geographic Markets More Vulnerable?

We all know that Vegas, Phoenix and Florida were among the worst-performing markets in the Great Recession, as oversupplied and speculative residential housing fueled the problem fires. Are there similar red flags in certain geographies this time around? We don't see it yet. We have concerns about demographic trends in high tax states. We have similar concerns about business exits from highly regulated states. But short of a potential oversupply of new Class-A apartment buildings in downtown Denver and Houston, and high-rise condominiums in downtown Miami, we're hard pressed to forecast distress in particular markets due to oversupply.

Is Another Great Recession Coming This Time?

In a word, no, or at least not one that can be currently predicted absent a geopolitical-type "black swan" event. And there are many reasons why.

Among them, first, as a direct result of lessons learned from the Great Recession, restrictions were placed on financial institutions. Risky lending practices were curtailed, and the Feds continue to watch with eagle eyes across all regulated lending platforms. I'm currently the chair of the loan committee of a community bank and can attest to how the FDIC is guiding banks with respect to curbs on current commercial real estate loan practices.

Second, this time around we did not overbuild in various sectors of commercial real estate and residential housing. In fact, we have generally undersupplied housing this time around, especially in difficult markets for development like coastal California. Arguably, among the four primary classes of investment real estate (office, retail, industrial and multifamily), while office and retail continue to perform at the bottom of the stack, this time around performance is not due to speculative development.

Third, macroeconomic factors suggest that if there is a dip, it likely won't be a big one. Unemployment remains at all-time lows. The economy is humming along across most sectors. Interest rates remain low. Political uncertainty may continue to prevail for the foreseeable future, but that uncertainty does not seem to have had a negative impact on the economy (yet).

What Lies Ahead?

We've said it many times over the past few years. We continue to believe that the safe play in the current environment is in the workforce housing sector. We don't see that going away any time soon as that element of housing has barely added any new supply over the past decade. Outside of workforce housing, we see both equal measures of concern and green shoots of opportunity. The early warning signs are starting to appear in the context of inexperienced and undercapitalized sponsors getting overleveraged, and over their skis, particularly in the context of development deals. We expect more of that ahead. On the positive side, these types of situations will present meaningful buy opportunities for well capitalized and experienced groups like Pathfinder. Either way, it will remain an interesting ride ahead.

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GUEST FEATURE

Thinking Outside the Box?

By Brent Rivard, Managing Director

The 800-pound gorilla is sitting next to me. It's time to sit down and finally write my article for the Pathfinder newsletter. I'm going to give 110% on this one and bring my 'A' game. Take it to the next level. Forget about a 20,000′ view, I'm going to dig in and get granular. I want to write something about being results-oriented and holding people accountable. I didn't think I had the bandwidth to get it done – but today, more than ever…I don't have a choice! It is what it is.

Business clichés – we all use them even if we're trying hard not to. My partner, Mitch Siegler's article reminded me that we can add one more to the list of top clichés – *Winter is Coming*. Or for that matter, *[insert anything here] is Coming* these days. Clichés are defined as "a phrase or opinion that is overused and betrays a lack of original thought." They may get overused, but I wanted to pick a few to describe further how Pathfinder is (and we all should consider) "preparing for winter."

Blocking and Tackling

It's defined as "The basic, fundamental skills, tasks, or roles necessary to the function of something." This one gets overused but for good reason. Over the last ten years as the market has recovered and reached near record levels, some businesses still prospered without taking care of the fundamentals. As the market slows and uncertainty increases, we need to block and tackle even better to find and create value for our customers or investors. For Pathfinder, this means strong and regular financial analysis and reporting. We receive daily leasing reports (yes, every single night) from our property managers. These may become spam emails that get deleted for a lot of firms, but we need to pay attention to the daily details as value is starting to be achieved at the margin. The ability to get real time information and develop strategies based on that information might be the difference in capitalizing on opportunities and harvesting that value or not. We're constantly analyzing our performance at a "granular" level for each property and investment and comparing performance to our forecasts and budgets. By identifying when we're off track sooner, we can fix the issues and "right the ship." As they say, "what gets measured, gets managed."

Best Practices

No definition needed for this one. Our investment strategy was born out of the over-leverage and mismanagement that created the 2008 Great Recession. We developed early what we felt were solid best practices for creating value for our investors while reducing risk. At the core of those best practices are fixing the uncontrollable facets of our business and staying focused on the items we can control. We have always and continue to be a firm that employs low leverage (less debt) on our properties and matching the debt to our business plans. By keeping the leverage low and fixing our interest rates, we have cushion for the factors we can't control like state of the market and interest rates. Over the last few years, we have started to see some firms employ higher leverage using private lenders and mezzanine debt to boost returns to investors. Feels like a winter forecast to me – glad we're bundled up and prepared.

On the "flipside," we can control how and when we invest in a property. Our value-add strategy for apartments includes renovations to common areas, upgrading units and often turning over property management to local market specialists. We can measure and control the velocity and level of renovations to adjust to changing market conditions and test certain levels of renovations unit by unit to determine what level – bronze, silver or gold – provides the most value to our tenants and ultimately to our investors. Depending on what works best at each property, we can use that information to apply those "best practices" to other properties.

The Hedgehog Concept

In his book, *Good to Great*, Jim Collins describes the hedgehog concept as the intersection of "1) what you are deeply passionate about, 2) what you can be the best in the world at, and 3) what best drives your economic or resource engine." It's an amazing concept that, unfortunately, has become somewhat of a business cliché, but that's not going to stop me from using it to prepare for Winter.

At Pathfinder, we are deeply passionate about residential real estate. Early on, we invested in a few non-residential assets, but we quickly learned that we like residential best. That's one of the reasons we've been actively selling our office buildings, retail centers and other non-residential assets – so we can focus on not only what we're passionate about, but what we believe we can be the best at. Value-add multifamily investments also happen to be what drives our economic engine. We believe value-add apartments provide the best risk-adjusted returns to our investors in any market.

The reasons Jim Collins called it *The Hedgehog Concept* is that the hedgehog is focused and disciplined. Not only are we focused on value-add multifamily, but we remain focused and disciplined in investing only in high-growth markets. There are opportunities all over the U.S. for multifamily investing in markets that do not have the population and job growth characteristics of the markets we invest in. Those markets don't provide the margin of safety – or the potential upside – that we believe is important.

At the end of the day (cliché intended), we'll continue to stay focused, get granular on our business and sleep well at night as we prepare for…Winter.

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ZEITGEIST – SIGN OF THE TIMES

2019 Multifamily Health Check-up

Despite the heightened volatility in debt and equity markets, Freddie Mac's 2019 *Multifamily Outlook* is reporting that the driving multifamily market economic indicators remain strong and there is little that is likely to significantly impact this market in 2019. The study reports an unemployment rate of 3.9% at the end of 2018 and estimated job growth of 2.6 million in 2019. Supported by the low unemployment rate, the U.S. Census Bureau reported 2.3 million new households were formed in 2018. This robust household formation growth has helped most apartment markets absorb the influx of new supply, keep occupancy rates stable and see continued – albeit moderate – rent growth. In addition, the U.S. homeownership rate continues to hover at historically low levels and evolving demographic and lifestyle preferences are increasing the demand for multifamily properties. Freddie Mac predicts that new apartment supply in 2019 will only marginally outpace absorption and gross income should grow 3.7%, above long-term averages and supporting the continued resilience of the multifamily market.

Making the Move

As the San Francisco Bay Area's economy continues to expand, many residents are moving to more affordable locations to live and work. The median home price is now the highest in the nation at $775,000 (and avocado toast can cost north of $15!). A recent study by Redfin reported that nearly 25% of online home searches by Bay Area residents are focused on out-of-the-area options, up from 19% the prior year. Top searches include Sacramento, Portland, Seattle and Austin – all cities with a robust economy and more affordable suburban home buying and rental options. The trend of migration out of expensive (and often very big) cities is being felt across the U.S. and is especially evident among millennials. A Brookings Institute study tracking millennial migration from 2004 to 2017 showed New York, Los Angeles, Chicago, Boston, Philadelphia, Miami and Washington D.C. as some of the biggest losers and Portland, Phoenix, Las Vegas, Sacramento, Dallas, Austin and Nashville as some of the biggest gainers, reflecting a trend towards smaller, more affordable cities. Phoenix-based moving company U-Haul also tracks migration data measured by how many one-way, do-it-yourself movers are arriving in various cities and states compared with how many are leaving. According to their data for 2018, Utah ranked #1 in net gains followed by Texas, Florida and South Carolina.

Inventory of For-Sale Housing Hits Ten Year High

A volatile stock market, temporary government shutdown and interest rate increases kept many would-be buyers on the sidelines over the past 90 days. The pace of U.S. homes sales declined for the sixth straight month in January, helping create the largest for-sale inventory increase in the last decade. On average, homes sold in January spent 59 days on the market and inventory levels are at a 3.9-month supply, a 15% increase from January 2018 levels. Nationwide, California experienced one of the more drastic slowdowns in home sales with approximately 30,700 sales in December 2018, the lowest level for a December in 11 years and a 20% decrease from December 2017. In Southern California, home sales historically rise between November and December but the region saw more than an 8% decline over the period. The U.S. new construction market – typically a leading indicator of overall home sales – saw meaningful price cuts in the fourth quarter of 2018 with more than 25% of new home inventory experiencing some level of price reduction.

TRAILBLAZING: DRIFTWOOD APARTMENTS, PACIFIC BEACH (SAN DIEGO, CA)

A True Coastal Treasure

Driftwood – Unrenovated Kitchen

Driftwood – Renovated Kitchen

Beachcombing involves "combing" the shoreline looking for things of value or interest. In 2015, while combing investment opportunities along San Diego's Pacific Coast, we discovered Driftwood – a 24-unit apartment community in the quaint Crown Point neighborhood of Pacific Beach in San Diego.

Driftwood, built in 1992, is situated on a one-acre parcel and includes four two-story garden-style apartment buildings comprised of two-bedroom/two-bathroom apartments averaging about 1,000 square feet. The property's low density and large setback from the street provides an open and spacious feel, a point of differentiation with the denser apartment communities nearby.

Crown Point – just west of Interstate-5 and centrally located between the major employment centers of Downtown San Diego and University Town Center – is in one of San Diego's most desired coastal neighborhoods. The property's proximity to Mission Bay Park (two blocks) and the Pacific Ocean (under one mile) provides an abundance of recreational activities for outdoor enthusiasts (swimming, sailing, fishing, paddle-boarding, surfing, biking and jogging). The neighborhood is thriving with eateries, retailers and nightlife – all just a short walk away.

Pathfinder purchased the property in 2015 from a non-profit organization; the buildings had not been upgraded in nearly a quarter-century. The interiors lacked functional floorplans and there was inadequate onsite parking – conditions that served the needs of the non-profit but would not meet the demands of today's renters. We saw beyond these inherit deficiencies and recognized a rare opportunity to reposition a well-located property into a high-end, boutique coastal community.

Our business plan involved rebranding the property (www.driftwoodsd.com) and completely remodeling the apartment interiors including reconfiguring the floorplans, adding washer/dyers and installing smart-home-features (keyless-entry locks, voice-activated lights, video-monitoring doorbells and smart phone compatibility). Additionally, we painted the exterior, installed drought-tolerant landscaping, increased parking and installed a dog wash station, resident package lockers, bike racks and two community BBQ/firepit lounge areas. In January, we completed our renovations and began leasing.

Like beachcombing, the search for a new home is a process of discovery and we believe our residents at Driftwood have found a true coastal treasure.

PACIFIC BEACH: Did You Know?

Pacific Beach – Early History: One of San Diego's oldest suburbs, Pacific Beach was established in 1887 by bankers and real estate operators who cleared away grainfields, mapped lots and hired an auctioneer. To attract people, the founders built a race track and a college, neither of which exist today. In 1902, Pacific Beach lots sold for $350-$700 for ocean front property. By 1950, the average home price was $12,000 – today's Pacific Beach's median home price is $895,000 and the median rent is $2,850/month (*Zillow*).

Mission Bay Park: A 4,235-acre park comprised of 46% land and 54% water, this is the largest man-made aquatic park in the country. The park provides an abundance of recreational activities including sailing, golfing, waterskiing, fishing, camping, cycling, jogging and 27 miles of shoreline, 19 of which are sandy beaches ideal for sunbathing. The first modern triathlon was held at Mission Bay Park in 1974.

Jefferson Pacific Beach: In September 2017, Texas-based developer JPI broke ground on a $104,000,000 mixed-use project comprised of 172-unit luxury apartments and 14,000 square feet of retail. The project, named Jefferson Pacific Beach, is located on the former site of the Guy Cadillac auto dealership and is designed to serve as a new gateway to Pacific Beach and Mission Bay. The project marks the first major new apartment development in the area in decades. Construction is scheduled for completion later this year.

NOTABLES AND QUOTABLES

Preparation

"Give me six hours to chop down a tree, and I will spend the first four sharpening the ax."

- Abraham Lincoln

"I don't believe in luck, I believe in preparation."

- Bobby Knight,
College basketball coach

"One important key to success is self-confidence. An important key to self-confidence is preparation."

- Arthur Ashe,
American tennis player

"The best preparation for tomorrow is to do today's work superbly well."

- Sir William Osler,
Canadian physician

"Success occurs when opportunity meets preparation."

- Zig Ziglar,
American author

"Spectacular achievement is always preceded by unspectacular preparation."

- Robert H. Schuller,
American author

"There is no shortcut to achievement. Life requires thorough preparation – veneer isn't worth anything."

- George Washington Carver,
American scientist

"Success depends on previous preparation and without such preparation there is sure to be failure."

- Confucius,
Chinese philosopher

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Investing involves risk of loss and you should be prepared to bear investment loss, including loss of original investment. Real estate investments are subject to the risks generally inherent to the ownership of real property and loans, including: uncertainty of cash flow to meet fixed and other obligations; uncertainty in capital markets as it relates to both procurements of equity and debt; adverse changes in local market conditions, population trends, neighborhood values, community conditions, general economic conditions, local employment conditions, interest rates, and real estate tax rates; changes in fiscal policies; changes in applicable laws and regulations (including tax laws); uninsured losses; delays in foreclosure; borrower bankruptcy and related legal expenses; and other risks that are beyond the control of Pathfinder or the General Partner. There can be no assurance of profitable operations because the cost of owning the properties may exceed the income produced, particularly since certain expenses related to real estate and its ownership, such as property taxes, utility costs, maintenance costs and insurance, tend to increase over time and are largely beyond the control of the owner. Moreover, although insurance is expected to be obtained to cover most casualty losses and general liability arising from the properties, no insurance will be available to cover cash deficits from ongoing operations.

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