PATHFINDER PARTNERS

Intelligent, Innovative Investing™

THE PATHFINDER REPORT

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CHARTING THE COURSE

There Ain't No Such Thing as a Free Lunch

By Mitch Siegler, Senior Managing Director

When credit is tight, it acts as a governor on investment so that only the most credit-worthy projects are financed. When it's loose, anything goes.

Exhibit "A" – fast food restaurants – by any measure we have plenty. "Traffic is essentially flat because we have more restaurants…than ever before," says David Henkes, a senior principal at Technomic, a food industry consultant. The number of U.S. fast food establishments peaked in 2007 at 218,000 before the industry was pummeled by the global recession. By 2018, the number was 247,000 – up 13% compared with just 9% population growth. This as people are supposedly eating healthier. Skinning it differently, if the competition weren't brutal, you wouldn't be able to purchase a ten-pack of Burger King chicken nuggets for just $1.49.

Credit has become unhinged. Exhibit "B" – the downward spiral in credit quality for speculative-grade corporate debt. In January 2007, before the Great Recession, 19.7% of sub-investment-grade borrowers had ratings of Caa to C, the bottom of the barrel for Moody's. Today, more than twice as many borrowers, 43.6%, have earned these badges of shame. And as they say on late-night TV, that's not all. Back in the day, many of these bonds had covenants which provided creditors with a measure of protection. Today, "covenant-lite" bonds are the norm. And if it's this ugly during a long-term business expansion, the mind boggles at what could happen during a downturn.

And it's not just companies but countries, too, who are getting into the act. Exhibit "C" – Italian 10-year bond yields, which have fallen below their U.S. counterparts. Not to be left out of this dubious race to the bottom, Greek five-year bond yields – which exceeded 20% during the country's credit crisis – are now below similar maturity U.S. Treasuries. The downward pressure from European and Japanese bonds, valued at more than $10 trillion, seems to be pulling down yields elsewhere as well. While we love fresh pasta and gyros, Italy's and Greece's economies aren't quite on par with the USA's. Giuseppe, Anastasia, what could go wrong?

As we've written previously, a recession is likely on the horizon and this lack of credit discipline could make things worse. Now, we're not seeing a downturn this year but a hiccup in 2020-21 looks likely. Of course, any economic bumps will have major implications for the presidential election not to mention the well-being of lenders, investors and millions of Americans. Winter is Coming and it's likely to be felt around the globe.

We ponder this as we read the news stories of the President jawboning Federal Reserve Chair Jerome Powell, pushing him to cut interest rates. And the chatter about our Fearless Leader seeking appointments of people other than Ph.D. economists – folks like economic commentator Stephen Moore and pizza mogul Herman Cain (both pulled out of the running in the past couple of weeks) – causes our blood pressure to spike further.

You see, central bankers have a tried-and-true playbook for handling recessions. Cut interest rates and increase liquidity to the financial system (helicopter money, some would say). More money in the system allows banks to lend and businesses to hire and invest. Then, when the economy bounces back, the central banks can pull back on the stimulus throttle and tighten to keep a lid on inflation until the next time – wash, rinse and repeat.

Problem is, the playbook came apart at the seams during the 2008 downturn. We had so much debt in the system that adding more liquidity didn't really do the trick. (See Italy, Greece and our own U.S. 10-year Treasury rate, 2.48% at press-time, down from 3.25% in October; at this level, it simply doesn't allow for much rate cutting.) Arguably, the easy credit of the past dozen years exacerbated the problem making the likelihood and magnitude of the next downturn that much greater and deeper.

Easy money is manifested in several ways, including easy credit, rising asset prices and more corporate stock buybacks. We've talked about easy credit, which contributes in a major way to rising asset prices. To put those in perspective, the Dow Jones Industrial Average has risen more than 480% since the March 2009 lows. The appreciation in single-family home prices was 55% during the same period (and since average home equity is 40%, the return on equity is about 137%). It doesn't concern us a bit, but fine art prices grew 360% since 2000 according to the Artprice100® index. Of course, we can't tell you precisely how much of these gains are attributable to quantitative easing (aka easy money) but suffice to say it's not inconsequential. Some stock buybacks are good, others bad – it all depends. But it's hard to argue that stock buybacks don't crowd out some productive investment in research and development, expansion or job creation.

John Mauldin, who pens a great piece called *Thoughts from the Frontline*, wrote about a Bank for International Settlements study of "zombie" businesses. BIS identified 32,000 publicly-traded companies in 14 developed countries around the world which were at least ten years old and had an interest coverage ratio below 1.0 for three consecutive years. In short, these established companies aren't earning enough to service their debt, let alone make a profit to reinvest in and grow their businesses. And that's during a global economic boom – Gulp. A couple of lessons: (1) There's too much debt flying around and (2) Lenders aren't racing to act, preferring instead to "extend and pretend". Not exactly Darwin's survival of the fittest or the sign of a particularly healthy ecosystem.

In a similar vein, monopolies tend to be unhealthy, reducing competition and innovation. An Axios analysis found that in the U.S., just three companies control 80% of mobile telecom (*The Economist*); four companies control 50% of chicken production, 66% of hog production and 85% of the beef industry; and four companies control 85% of U.S. corn seed sales (the latter statistics are from The U.S. Agriculture Department). We'll spare you the technology statistics, like those for Google in search and online advertising, Amazon in online shopping and Facebook in social media – you get the idea. If healthy competition acts as an economic lubricant, monopolies and oligopolies are like an engine with dirty, gunky motor oil. This may be part of the reason we've had sluggish economic and wage growth for so long.

So, what's going to change? Unfortunately, not much – and this from people who enjoy low mortgage rates. The Fed and other central banks are caught in a continuous feedback loop, cutting rates and using monetary stimulus to bring on faster growth, not achieving the growth objectives, needing to cut rates and stimulate more to achieve the same results in a central banker's version of a perpetual motion machine. And with the passage of time, the natural cycle of economics comes into play and it's only a question of when, not if there's an economic downturn. Naturally, with low rates, the Fed has less room to maneuver. And that's before the President browbeats the Fed and the Fed becomes increasingly politicized.

With little inflation on the horizon and a world addicted to cheap credit, we expect rates to remain low (along with growth – and wages and inflation) and weak companies to continue to waste capital. Our future will likely increasingly resemble Japan, Europe and other slow-growth economies (and populations). Cause there is no free lunch.

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FINDING YOUR PATH

Stats and Trends in Multifamily

By Lorne Polger, Senior Managing Director

Ever since I was a kid, I've enjoyed reading and analyzing statistics. When I was young, it was following my hockey and baseball heroes, the Montreal Canadiens and Montreal Expos. I would scour the sports pages to see where Guy Lafleur and Ken Dryden stood in their respective points and goaltending stats. Today, I continue to enjoy following stats in the rotisserie baseball and football pools that my cousin and I have participated in for many years.

My adult reading has evolved a bit. These days, my intrigue with statistics focuses more on multifamily housing trends; in particular, construction, occupancy and rental rate increases/decreases across the U.S.

I've noted in a previous article that if I could distill real estate down to one of its most basic elements, it's the Law of Supply and Demand that I learned in my freshman year at Colorado College from Professor Mike Bird. That historically, rising demand and static supply will lead to price increases. Conversely, static demand and oversupply will leave to price decreases.

As the current economic cycle advances, multifamily rent growth appears to be dominated more recently by secondary and tertiary markets that are producing a disproportionate share of economic and population growth. One of the reasons may be that rents are low enough in those markets so that they can be raised without overly burdening tenants. According to Yardi Matrix, the metro areas that showed the largest percentage rent growth increases last year included Las Vegas, Reno, Phoenix, Tucson, California's Inland Empire, Tacoma, Sacramento and Austin.

What those markets also share is above-trend job and/or population growth that has stimulated demand for more multifamily housing (remember, folks need a place to live…). That has helped rents to rise steadily even where there is healthy supply growth (Austin, for example, has had significant new multifamily deliveries). Contrast that with rents in other high-growth markets (Sacramento and the Inland Empire are examples) that have not seen significant new supply. Our prediction is that markets can continue to show rent growth even if there is a strong supply pipeline if conditions (i.e., demand) remain strong. Those strong demand dynamics continue to be healthy across the markets we are investing in, and generally, across the geographic "smile" of the U.S. These trends have provided apartment investors with a choice between potentially higher growth and higher overall returns in faster-growing, less-liquid markets, and slower, steadier growth (and returns) in larger, more liquid markets.

Strong Year-Over-Year Rent Growth

Across the U.S., rents increased 3.2% year-over-year in March. Although this was a very modest decline from the prior month, rent growth remains robust across most markets. Two Pathfinder markets, Las Vegas (7.5%) and Phoenix (7.2%), led the way, with a significant gap over the next two runner-ups, Atlanta and the Inland Empire (both at 4.8%). Despite the large gap at the top, all top markets continued to perform well, with 25 of the top 30 markets showing annualized rent growth of 2.5% or more in March. Not a single market in the top 30 saw rents decline. This is a telling statistic in view of the significant number of multifamily deliveries (new rental housing projects that completed construction and started or completed lease-up) that occurred in 2017 and 2018.

Moderate Trailing 3 Months Rent Growth

Rents increased 0.1% nationally on a trailing three-month basis, which compares the last three months to the previous three months. The T-3 ranking demonstrates short-term changes and not necessarily long-term trends.

Interestingly, Raleigh led the nation with 0.4% growth, followed by a geographic mix which included Phoenix, Kansas City and Las Vegas (all 0.3%). Charlotte (0.2%) was also near the top of the rankings.

Carolina markets appear to be poised for fundamental growth compared to their larger coastal peers. Strong universities, lower taxes, pro-business environments and favorable costs of living all help those markets.

Robust Occupancy Trends

According to real estate analytics firm Reis, apartment vacancy rates remained unchanged in the first quarter of 2019 at 4.8%, a 0.1% increase from a year before. Both national and effective asking rents rose by 0.5% in the first quarter. The average asking rent has risen by 4.4% since the first quarter of 2018, and the average effective rent by 4.2%.

Net absorption was 37,159 units in the last quarter, lower than the previous quarter's 49,558 units absorbed. While Reis senior economist Barbara Byrne Denham notes that the first quarter tends to have the lowest net absorption activity, this year was weaker than most, down by over 10,000 units from the first quarter of 2018. Only 15 metro areas saw a vacancy rate increase last quarter, down from 40 in the fourth quarter of 2018.

Construction Deliveries Near Peak

According to RealPage, developers completed 287,000 apartment units in 2018, making it the fifth year in a row where over 250,000 were completed in the U.S. This was a bit of a decrease from 2017, but deliveries in 2019 are expected to be almost 320,000 units, making this coming year one of the highest on record. Deliveries are expected to reduce beginning in 2020, as rising construction costs, labor shortages and a potential oversupply of Class-A units has shrunk development pipelines. Good news for the supply side of the ledger.

Moderating Economic and Job Growth

February's news was weak job and decelerating economic (GDP) growth, signs that the economy is starting to slow.

In response to those and other developments, the Federal Reserve said it would only hike rates once in 2019 and likely not at all in 2020. Rates on the 10-year Treasury bill dropped precipitously to a low of 2.39% in March on the news (down from a high of 3.24% in November 2018), as investors began to worry about weaker growth. While slower growth is not necessarily good news for the multifamily market, all indications are that tenant demand is likely to remain robust and investor demand shows no signs of weakening. Concurrently, as construction costs continue to rise, we are finally starting to see slowing new construction. The combination of factors should bode well for existing inventory across all asset classes. Remember Professor Bird's lesson: strong demand and stagnant supply, leads to price increases.

Should the multifamily industry be worried about slower growth? Perhaps at the very top end of the market, but otherwise, we don't think so, at least not yet. A survey of members by the National Association of Business Economists found the consensus GDP forecast for 2019 to be 2.4%, down from 2.9% in 2018. Growth of 2.0% is forecast for 2020. The largest drags on the economy are expected to be trade policy and slower global growth. Job growth, while still strong, is likely to continue to moderate, in large part, because, the number of workers that can be pulled from the sidelines is diminishing. Immigration, another traditional source of workers, has become a political football for which Congress needs to create effective policy for the long-term health of the economy.

Demand – strong. Supply – steady, but slowing. Economy – slowing, but not crashing. I think Professor Bird would predict good times ahead in the apartment business.

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GUEST FEATURE

Why Rent Control Doesn't Work

By Scot Eisendrath, Managing Director

Rent regulation policies, which are typically enacted by individual municipalities, are intended to keep housing costs affordable for lower-income residents by limiting the rents that property owners may charge. Today, 182 of roughly 89,000 U.S. municipalities (0.2%) provide for some form of rent control; all are located in New York, New Jersey, California, Oregon, Maryland or Washington D.C. Meanwhile, 37 states (74%) have laws that prohibit local governments from implementing rent control.

Following the 2018 Democratic wave that swept the U.S. Congress and many state legislatures, and in response to ongoing housing affordability issues, about a dozen proposals at the state level have been proposed to enact or expand rent control, including initiatives in California, Colorado, Illinois and New York. Like similar initiatives to provide free health care or college tuition, they sound good at first but don't really stand up to scrutiny when you drill down a bit deeper.

In March 2019, Oregon became the fifth state, plus the District of Columbia, to allow rent control, and the first state to pass a statewide rent control law. Oregon's law restricts a landlord's ability to raise rents annually by more than 7% plus the rate of inflation and provides other tenant-friendly restrictions. In November 2018, California voters resoundingly defeated a ballot measure that would have repealed the 1995 Costa-Hawkins Rental Housing Act, which places limits on municipal rent control ordinances. Since nothing lasts very long in the politically-charged Golden State, lawmakers this spring introduced two new bills that would allow for additional regulation for residential rentals.

Rent control advocates argue that limiting a property owner's ability to raise rents has a direct impact on the people they are trying to help, low to middle-class residents. If you dig deeper, you'll find that rent control is an artificial price control that distorts the housing market. Such price controls have unintended consequences, which ultimately help a few people, but in the end do more harm than good for many. (Think higher minimum wages and their impact on jobs in inner cities and for high school and college students.)

Arguments for Rent Control

Those in favor of rent control often make arguments like these:

- Rent control allows low to moderate-income families and elderly people on fixed incomes to live in safe, healthy and affordable housing shielded from significant rent increases that may be unaffordable for them. By extension, some argue that rent control also helps to fight homelessness.
- Neighborhoods and communities are more stable with rent control due to longer-term residents.
- Rent control is good for the economy because it puts money in tenants' pockets that is spent in the local economy.

Arguments Against Rent Control

Meanwhile, economists and housing experts often respond as follows:

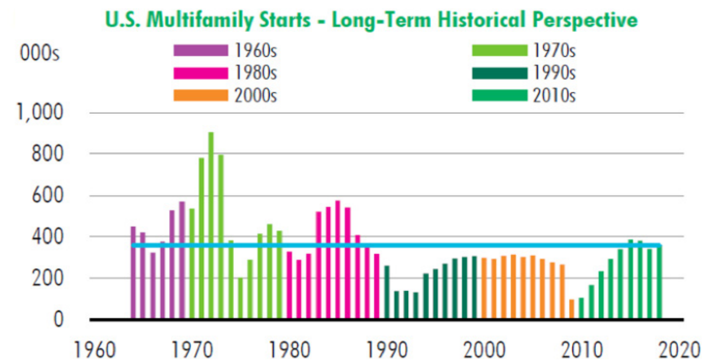
- Rent control acts as a deterrent to developers to build new housing units as artificial price controls disincentivize them to provide new rental housing. This limits supply, which leads to increased pricing of all housing.
- Owners of rental housing are not incentivized to invest in the maintenance

and renovation of existing properties, because rent control provides an insufficient return on investment. This leads to a further degradation in the quality of housing in a market.

- Rent control reduces the supply of affordable rental housing, since landlords may prefer to convert an apartment building to condominiums or adapt it to a commercial use rather than be constrained by a law that limits their profits. In a recent paper by Stanford University economists Rebecca Diamond and Tim McQuade titled "The Effects of Rent Control Expansion on Tenants, Landlords and Inequality: Evidence from San Francisco," the authors determined that owners of rent-controlled properties were more likely to convert their project to an alternate use not affected by the rent regulations, which led to a 15% reduction in the supply of buildings covered by the regulations.

- Because rent control reduces the income a landlord collects, and may ultimately depress property values, it likely leads to lower income and property tax revenue, which affects the amount of money our government has available to invest in other forms of affordable housing. Schools, funded by property taxes, are also impacted.

In high cost areas like California and New York, we certainly have a housing affordability issue, which goes back to basic economics and the principles of supply and demand. As shown in the chart below, we are undersupplying housing, which is the root cause of increased prices. We are supplying apartments at the 50-year average of roughly 360,000 units per year. This is roughly the same supply that was being provided in the mid-1960's, although our population has increased by 70% since 1965, from 194 million to 329 million. Basic economic theory states that if there is a lack of supply and growing demand, prices will increase – which is why we've seen dramatic rent growth and high occupancy rates in multifamily for the past decade. Also, of note, median home prices have risen faster than rents (55.8% for homes vs. 34.5% for rents for the period from 2009 to 2018).



Source: CBRE Research, U.S. Census Bureau, Q4 2018.

I'm no Ph.D. economist but I did take Econ 101 and have a grasp of the fundamentals. It appears to me that instead of embracing a governmental policy such as rent control that reduces supply, driving up costs, we should look for ways to increase supply directly. Interestingly, the Stanford paper referenced above concluded that the cost of rent control to general renters was almost as high as the economic benefits to those that live in rent-controlled apartments, benefitting a few at the expense of many. This suggests that there should be a more efficient means to provide affordable housing.

Government can directly assist in this area by working to reduce the lengthy entitlement and approval processes and reduce development impact fees and other associated costs related to permitting, codes and local regulations. Examples are municipalities that offer expedited processing of entitlements, reduced development impact fees and/or increased density for projects that meet certain criteria, such as being located near mass transit. In California, the California Environmental Quality Act (CEQA) has led to massive delays of new housing projects, driving up housing costs significantly while benefitting a handful of trial lawyers – but that's a conversation for another day.

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ZEITGEIST – SIGN OF THE TIMES

California Housing Crisis – Zoning is the Ultimate Constraint

The California housing crisis is serious. Rents have been soaring, homelessness has sky-rocketed and the median home price is now above $500,000. A recent *McKinsey & Co.* report concluded the state is short 3.5 million homes. A separate report from *Next 10* found that at today's pace of development, it could take 1,000 years for some California areas to reach housing equilibrium.

California's super-strict zoning regulations created the problem and amending these regulations to allow for more density – coupled with reducing the control of local municipalities and local planning groups to block new housing projects – is the ultimate solution. Most areas in California are zoned are low density (for single-family homes) and rezoning to provide for greater density is virtually impossible due to community pushback. Theoretically, local municipalities should be able to solve the problem but in today's highly political environment this has proven to be unsuccessful. Community groups cite the need for environmental impact studies to protect a gnatcatcher or salamander when their ultimate objective is simply NIMBYism (Not In My Backyard).

California State Senator Scott Weiner's proposed (and highly contentious) new SB50 bill is attempting to address the problem by rewriting laws that block high-density housing. The bill recently passed its first legislative hurdle with a bipartisan 9-1 vote in the House committee but opposition to the bill is fierce – particularly by low-income tenant advocates and single-family homeowners living in areas at risk of increased density – and the measure has a tough road ahead. You should expect to hear a lot more about this bill in 2019.

It Pays to be Green

Debt financing is an essential component of most real estate investments and understanding the potential sources of financing can be like navigating a minefield. Among the most attractive options for savvy real estate investors are the Freddie Mac and Fannie Mae's "green" agency loan programs. The green loans offer savings in the form of reduced interest rates (and potentially greater leverage) in return for owners making environmental improvements to a property.

Government-sponsored enterprises Freddie Mac and Fannie Mae have a capped amount of capital they will deploy each year for traditional loans but virtually unlimited funds for green loans. Additionally, interest rates for green loans are discounted about 10 basis points (0.1%); on a $10,000,000 loan with a ten-year term and 30-year amortization period, the savings would amount to nearly $100,000. In the first quarter of 2019 alone, Fannie used over 30% of their annual capacity for capped loans. The substantial capped loan volume has caused the agencies to increase interest rate spreads 25-50 basis points to incentivize borrowers to seek green loans.

To qualify for a green loan in 2018, a property was required to project a 15% reduction of utility usage following the implementation of the environmental improvements. To achieve these reductions, owners need to implement relatively simple improvements including high-efficiency showerheads and sink aerators. In 2019, properties are required to project a 30% reduction in utility usage with half the savings coming from energy consumption. To achieve these more robust reductions, more significant investments like roof insulation, high-efficiency appliances and LED interior and exterior lights are required. Identifying potential acquisitions that qualify for the green loan program will be critical in managing interest rate risk moving forward.

Industry Experts Weigh in on the 2019 Multifamily Housing Market

A recent survey by real estate brokerage firm *Berkadia* of over 150 investment sales brokers and mortgage bankers addressed several key questions about the current health of the multifamily real estate market and predictions for the future. A few key takeaways are outlined below:

- **2019 Outlook:** 89% of the respondents expect the number of multifamily transactions to remain the same or decrease from 2018. 77% believe the deal size will either grow or remain the same in 2019 (partially due to the number of large institutional funds with requirements to invest in larger deals).

- **Lending:** 82% of respondents expect Fannie and Freddie to provide a majority of multifamily loans in 2019, despite ongoing discussions in D.C. about reform to these government-sponsored entities due to their size and relative share of the commercial lending market. In 2007, during the financial crisis, Fannie and Freddie experienced massive losses on their mortgage portfolios – especially with subprime investments – and the federal government provided the companies with $200 billion in an attempt to save them. Today, government regulators have concerns above the size and relative market share of the two groups. In 2018, a record year for multifamily and commercial lending, Fannie and Freddie provided $142 billion of the $572 billion (25%) in total commercial and multifamily loans. About 62% of respondents believe that any regulation changes would have a significant impact on the commercial lending market.

- **Technology:** 55% of respondents believe big data will have the greatest impact on commercial real estate in 2019, with artificial intelligence (12%) and block-chain (10%) technologies coming in second and third, respectively. These technologies have already had a significant impact and are forecast to continue to disrupt the industry in the coming years. In the future, expect to see more highly targeted apartment marketing campaigns (say the word "rent" near your computer and expect to see an ad for apartments on your Google homepage) and self-guided leasing tours via your smartphone price reduction.

TRAILBLAZING: THE STERLING APARTMENTS, GILBERT, AZ

A Higher Standard of Living

The Sterling – Renovated Kitchen

The Sterling – Clubhouse Lounge Area

"Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skillful execution."

– Will A. Foster, American Entrepreneur

Our goal with apartment renovations and management is to provide a higher quality living experience for our residents. This approach is evident at our 107-unit Sterling apartment community in the family-friendly town of Gilbert, AZ, 18 miles southeast of downtown Phoenix.

The Sterling (previously named The Vintage), built in 2000, is situated on 9.3 acres and includes 13 residential buildings consisting of six studio lofts, 21 one-bedroom/one-bathroom, 40 two-bedroom/two-bathroom and 40 three-bedroom/three-bathroom units averaging a spacious 1,154 square feet. Sterling also contains a variety of high-end community amenities, not typically found in a community this size, including covered parking and garages, resort-style pool and spa, clubhouse, business center, theatre room, racquetball courts, fitness center and playground. Sterling is located just two miles from the Gilbert Heritage District, a popular shopping and dining destination home to numerous locally-owned restaurants, bars and boutique retail shops.

Gilbert, located within the Phoenix metropolitan area, is one of the fastest growing communities in the U.S. with extraordinarily strong population, employment and income growth. The town has grown from 5,717 in 1980 to more than 242,955 in 2015 (a 4,000% increase!) and the median household income exceeds $85,000 (*U.S. Census Bureau*). Gilbert boasts a nationally ranked K-12 education system with an average high school graduation rate of 90%; over 40% of Gilbert residents hold a Bachelor's degree or higher. The town has one of the lowest crime rates in the nation and known for its small-town values and big town amenities. It's no wonder Gilbert is continually recognized for its exceptionally family-friendly environment.

When we purchased the property, the seller had completed partial interior renovations to 61 (57%) of the units while the common areas amenities were in original condition. Our business plan involved rebranding the property (www.thesterlinggilbert.com), upgrading the common area amenities, modernizing the units and installing smart-home-features (keyless-entry locks, Nest™ thermostats and voice-activated lighting, all of which are smart phone-enabled).

To date, we have renovated 44 apartments, remedied several deferred maintenance items, painted the exterior and completed a comprehensive renovation of the clubhouse, leasing office, fitness room and pool area. In the clubhouse, we added new vinyl plank flooring, two tone-paint, light fixtures, furniture, kitchen upgrades (new countertops, appliances, cabinets, plumbing fixtures, hardware and a Starbucks® coffee machine) and modernized the space with a contemporary fireplace and natural wood elements. Additionally, we made the clubhouse more functional by removing walls and creating new and enhanced gathering areas including an arcade room, a larger business center, two lounge areas, a community dining area and an upgraded theatre room with a large flat screen television and built-in cabinetry with mini fridges – all with convenient 24-hour key-fob access for our residents. In the pool area, we added new pool furniture, created a lounge area with an outdoor television and installed a BBQ. Our residents have been thrilled with the resort-style enhancements and we plan to further improve the property with the addition of a community dog park this summer.

The adjective "Sterling" is defined as "conforming to the highest standards" – a well-fitting name for a community that strives to heighten the quality of life for its residents.

GILBERT: Did You Know?

Gilbert's Water Tower: The most recognized landmark in Gilbert is the town's 230-foot-tall water tower. Built in 1927, the tower instantly became iconic and source of pride for the community. It was used initially to store water for the fire department and then to store drinking water until 1985. The water tower stands alongside an old adobe pump house that was previously the town's first jailhouse. In 2008, Gilbert open the Water Tower Plaza at base of the tower. The 0.7-acre plaza surrounds the historic water tower and pump house and features water walls, a splash pad, a large floating granite ball, a steel runnel structure and seating areas.

Gilbert's Notable Rankings:

- Best Place to Raise a Family in Phoenix (*Niche.com*, 2018)
- Best Place to Live, Work and Play (*Ranking Arizona*, 2018)
- Arizona's Fastest Growing City (*WalletHub*, 2018)
- Safest City in Arizona, 6th in the Country (*WalletHub*, 2018)
- 4th Best School District in America – Gilbert Public Schools (*Alarms.org*, 2018)
- 3rd Most Livable City in the U.S. (*SmartAsset*, 2018)
- Most Prosperous City in the Country (*Economic Innovation Group*, 2017)
- 2nd Safest City in the U.S. (*Law Street Media*, 2016)
- Best City for Raising a Family (*Move.org*, 2016)

Rivulon: Rivulon, a $750 million, 250-acre master-planned development located on Gilbert Road, is currently under construction. The project includes 3,000,000 square feet of Class-A office space and 500,000 square feet of retail and hospitality uses. Several buildings have been completed and tenants include Isagenix World Headquarters, a health and wellness firm, and several financial firms, car dealers and retailers. At capacity, Rivulon will add 15,000 jobs to Gilbert.

NOTABLES AND QUOTABLES

Thoughts on Patience

"Though patience be a tired mare, yet she will plod."

- William Shakespeare

"Rivers know this: There is no hurry. We shall get there someday."

- A.A. Milne,
British author

"Trees that are slow to grow bear the best fruit."

- Moliere,
French playwright

"Patience and time do more than force and rage."

- Jean De La Fontaine,
French poet

"Adopt the pace of nature: her secret is patience."

- Ralph Waldo Emerson,
American philosopher

"Genius is eternal patience."

- Michelangelo

"Patience is bitter, but its fruit is sweet."

- Aristotle

"Patience is the companion of wisdom."

- Augustine of Hippo,
Christian theologist

IMPORTANT DISCLOSURES

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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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