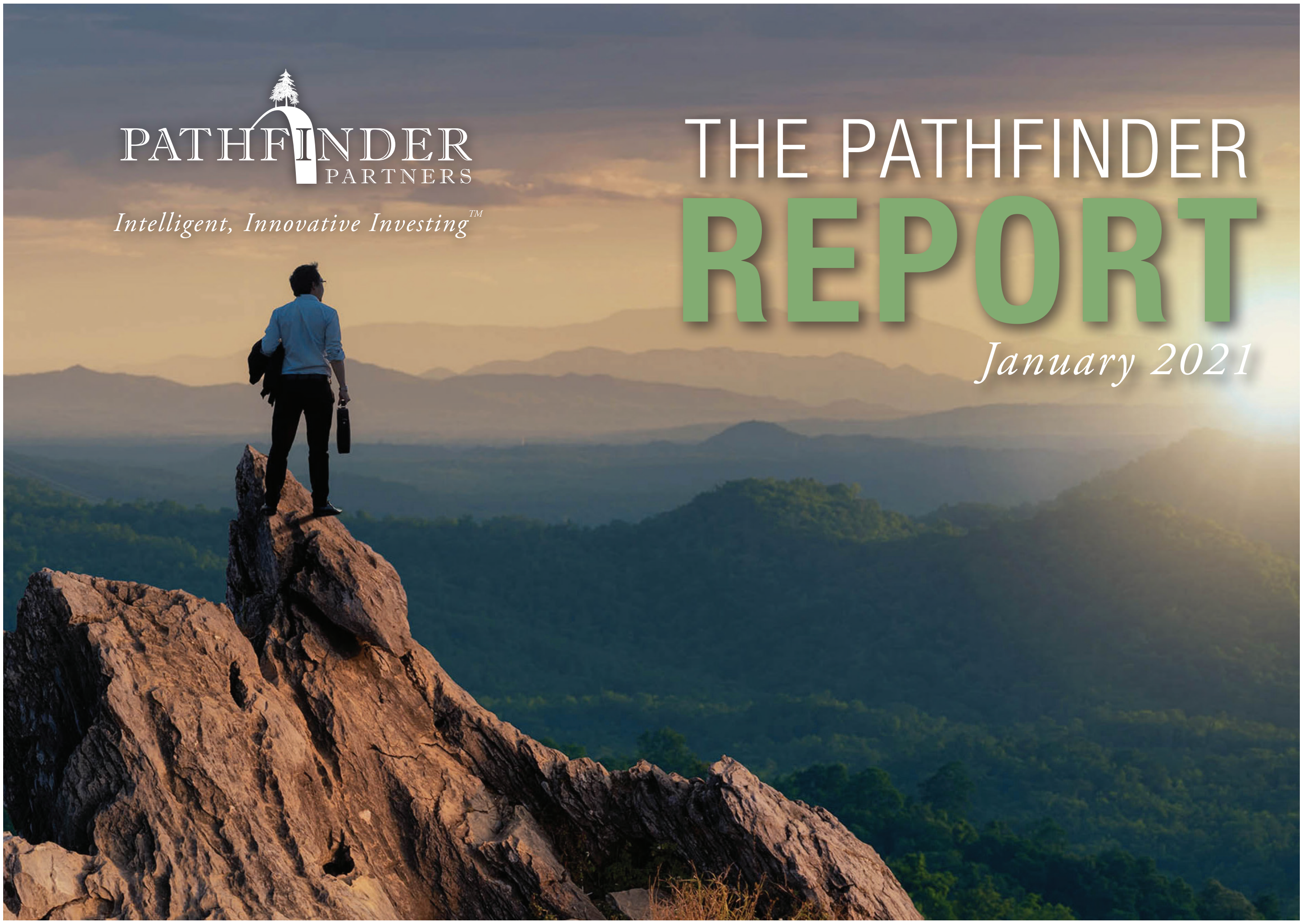

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CHARTING THE COURSE

Why the Next Few Years Could be a Golden Age for Multifamily Investing

By Mitch Siegler, Senior Managing Director

Reverse chronology is a method of storytelling where the plot is revealed in reverse order – the first scene is the conclusion, and the story unfolds in reverse until the final scene – the beginning. In that spirit we will begin with the conclusion – the next few years could prove to be a golden age for multifamily investing – and then set the table as to the reasons why.

The economy, sizzling before the pandemic, should come roaring back this year – This is an economic downturn precipitated by a health crisis. Once the health crisis is resolved, we expect the economy to rebound strongly. In fact, we're hearing many comparisons to The Roaring '20s. We expect a strong economic recovery this year continuing into 2022 and perhaps beyond. For perspective, let's look at the 2008 Great Financial Crisis (GFC). That was a downturn precipitated by the financial system with poor lending practices, excessive spending on homes, cars, boats and more. The GFC ended in June 2009 but we didn't return to full employment until 2018 (eight years later). This recession is fundamentally different, and many economists predict a return to full employment in 2023 (just three years later). During the GFC, the government stimulus needed to be redeployed back into the banking/financial system to shore it up. This time around, there was not excess spending preceding the downturn, the stimulus has been much greater already and it all flowed to people instead of the banking system. In many cases – because people didn't travel and restaurants were closed – there weren't many things to spend money on, leading to historically excess savings. So, when economic growth is unleashed, it could be like a tsunami.

Increased consumer and business confidence – Confidence is the key to a strong economy. We now have a new President articulating a national health plan and are making solid progress vaccinating millions more Americans each week. Half of Americans could be vaccinated by mid-year. Adding those who have been previously infected, Americans could achieve herd immunity by Labor Day. Business productivity and corporate profits have been strong for the majority of companies which were not hammered by the pandemic.

Robust job growth – When we review potential markets as multifamily investment candidates, we begin by assessing an area's population and job growth since these are key ingredients for household formation and determining the total addressable market (how many prospects could pay rent). We are coming off the heels of the deepest recession in a century with 22 million jobs lost last March-April (when unemployment hit 14.8%) – we are still down a mind-boggling 9.8 million jobs! Many economists forecast a sharp spring-back in the months ahead. Data firm IHS Markit Insight forecasts U.S. nonfarm payrolls increasing by 6.7 million by

December 2021. Oxford Economics predicts 5.8 million jobs and University of Michigan forecasts 5.3 million – all are above the 4.3 million jobs created in 1946, the beginning of the post-WWII boom, the best year for job growth on record. IHS Markit forecasts that we will still have unemployment of 4.3% by the end of 2021 while other, more bearish economists are calling for 5.5% to 6.0% (down from 6.7% in December). After all, tens of thousands of businesses closed permanently. Looking further ahead, Moody's Analytics expects jobs will return to pre-pandemic levels by late-2022 and thinks the unemployment rate will fall below 4%, pre-pandemic levels, by late 2023.

Strong income growth – Prior to the pandemic, the economy was at or near full employment. There was very little slack in the economy and wage pressures were beginning to build. While there's little pressure on wages today – especially in the hard-hit travel, hospitality and restaurant sectors – the Biden Administration's push for a $15 national minimum wage would spark wage growth. And certain regions could feel it sooner. Migration out of gateway cities like New York and San Francisco to places like Orlando and Boise translates into highly paid technology workers with a much lower cost of living and lots more disposable income. Effectively, these people received a substantial pay increase since their salaries remain unchanged while their cost of living fell dramatically. While the exodus may pressure pricier Class-A apartment properties in the San Francisco Bay Area and Los Angeles (where rents at new, Class-A properties have fallen 20% in a few months), it really does not change the highly favorable equation for value-conscious renters in suburban, Class-B properties, like Pathfinder's.

Migration – The exodus from urban to suburban areas and associated capital flows for new apartment projects in secondary/tertiary markets had been occurring for a decade before the pandemic. An estimated 60% of capital for new apartment projects is now targeting these areas, up from 45% in 2010. The shift in population creates winners and losers. The more expensive, Class-A properties in gateway cities are the losers since the pull from theater, nightlife, restaurants, and bars isn't too strong with most venues closed and residents shunning subways. Some who left moved to the 'burbs to save 30% on rent and have less density. Others leveraged work-from-home to get out of Dodge entirely by moving to smaller, less expensive cities with more open space. New York, San Francisco, and Los Angeles lost while Phoenix, Denver, Boise, California's Inland Empire, Dallas, Atlanta and Orlando won. We would not write off big cities and expect the excess apartment supplies there to be absorbed fairly soon. In the short-term, landlords will use concessions to fill those properties. In the medium-term, new construction there will slow. In the longer-term, people will return as the hustle and bustle of big cities has been a draw for centuries and that won't change. Meanwhile, some of those who moved to smaller cities will like what they experienced and some of this growth will stick. Since some level of work-from-home will be a permanent fixture, suburbs and smaller cities are poised to benefit.

More government stimulus – In 2020, fiscal and monetary stimulus totaled $4 trillion, including the $900 billion economic stimulus bill Congress passed just before year-end. Struggling Americans are now getting some relief after months of very limited help from their government. Unfortunately, it's a Band-Aid and many of these people in jobs that can't be done from home will remain vulnerable years into the future. The Biden Administration is seeking an additional $2 trillion in stimulus, including additional enhanced unemployment benefits, stimulus checks of $1,400 to $2,000 per person and potentially some rent relief. Virtually all Democrats and some Republicans in Congress are supportive of dramatic stimulus. Without commenting on the long-term wisdom of such stimulus, it seems certain to jump-start an economic recovery in the short-term. Take it to the bank that we will have trillions in additional stimulus this year.

More household formations in next few years – Much of the government stimulus to date has been saved – the excess savings rate (over historical levels) has been $2.6 trillion since last March, according to Federal Reserve data analyzed by real estate firm Marcus & Millichap (M&M). Some of this will be used by first-time home buyers but the vast majority will not. We think stimulus checks will provide an incentive to lease an apartment for the millions of young people who have moved back home with their parents. Today, an astonishing 33.6% (24.9 million) of young adults are living with their parents – 5.1 million above the long-term average, according to M&M. This has been a long-term trend that was greatly accelerated with the pandemic.

A protracted period of low interest rates – Long-term interest rates (currently 1.10% on the 10-year Treasury), are extraordinarily low. We have financed recent purchases with long-term, fixed rate debt with rates of 2.85% to 3.50%. We expect and are prepared for rates to move higher – it is a question of when, not if. It has already begun; the 10-year, 0.95% before the Georgia Senate elections, rose to 1.10% in two weeks and may reach 1.50% in a few months. We do expect 2021-2022 to remain a very attractive borrowing environment and the Fed's messaging about keeping the Fed Funds rate near zero until 2023 suggests the continuation of historically low rates for a while. But too much pressure in the boiler could cause the economy to blow off steam and the Fed would move hard to protect against inflation. While the consensus is for the 10-year Treasury to peak at 3%, inflation could boost this to 4% or 5%. Accordingly, we think it is wise to fix interest rates rather than rolling the dice with floating rate loans.

Increasing inflation on the horizon – The Federal Reserve has long been targeting a 2% rate of inflation. It is good advice not to bet against the Fed – they will get what they want. While inflation may not yet be apparent in wages and many consumer sectors, inflation is widespread in financial asset prices (escalating stock and real estate values). The S&P 500 (stock market) index is up 56% from its March 2020 lows. Single-family home prices are on fire; sales were up 25% and median prices up 15% year-over-year, according to M&M. Expect higher inflation in a year or two. For the Fed to thread the needle between full employment and inflation pressures will be no easy feat. Once inflation goes beyond 2%, inflation expectations can rise leading to more pressure on wages and prices. And the pandemic has really consolidated market share (think grocers, leading brick and mortar retailers and Amazon). Greater market share means less competition and more pricing power. Commodity supplies have also been consolidated as capacity has been taken out of the system (think oil, chemicals, building materials and furniture). We have already seen big increases in prices for some of these things and will likely see an acceleration of the trend as we return to normal. Why all this talk of inflation? It would likely boost real estate values, including apartments.

Investment thesis for apartments remains strong – We have long said that the supply/demand imbalance for housing underpins a strong investment case for apartments. Looking ahead, not only is the case for apartments intact, it has strengthened since the pandemic began. However, the 2019 playbook is no longer relevant. Apartment demand and economic performance in the suburbs and secondary/tertiary markets has been excellent while demand and performance of Class-A properties in big cities has been tepid. Pension funds and endowments with real estate allocations may flee the hospitality, retail and office sectors and that capital could flow to the multifamily and industrial sectors.

No shortage of tailwinds. What could go wrong?

Two headwinds that concern us are excess supply and regulations targeting landlords.

Too much new supply – So far, strong demand for apartments has kept most buildings fully-occupied, despite the pandemic and competition from a flood of new apartments. The percentage of occupied apartments inched slowly downwards to 93.2% in the fourth quarter of 2020 from a peak of 93.8% in the second quarter of 2019, according to CoStar. That is a decline so slight, it's hard to see in the data.

Developers are expected to open 403,000 new apartments in 2021, with much of that concentrated in downtowns already crowded with new apartments, according to RealPage. Even if thousands of those units are delayed, 2021 will be the biggest year for multifamily deliveries in decades. New supply this year is expected to rise 17% from 2020 levels, when developers completed 344,000 new apartments despite the pandemic. Compare that to new supply averaging about 200,000 units annually most years since 2000, according to RealPage. And there is still a fair bit of supply in the pipeline since some projects were delayed and many timelines were extended.

Some projects will be mothballed but many will move forward since the land has already been acquired and the equity already committed. Most of these projects are Class-A in downtown areas in gateway cities – that's where the construction has been concentrated and it's a trend unlikely to radically change in the next year or two. Supply pressures in urban centers combined with the population exodus makes those areas a renter's market – you can likely save 20% on your rent or receive a couple of months' free rent on a 12-month lease in L.A., S.F. and N.Y. today. The migration to suburbs makes the 'burbs more balanced, tilting to a landlord's market in some areas. Rent growth will likely be turbocharged in places like Boise and Orlando which have seen far more population growth than new supply.

If you invest in Class-B properties in most suburbs, you should be fine in the short-term and good in the long-term. If you invest in Class-A properties in urban areas where restaurants, theaters and mass transit are largely closed, buckle up and prepare for a rough ride in 2021-2022.

Regulations – The other big risk is the hardest to forecast but the one that keeps many investors up at night: regulations like rent control and vacancy control. California had rent control ballot initiatives in 2018 and 2020. While they failed both times, they will almost certainly be back. Washington and Oregon are hotbeds for these types of initiatives and local regulations as well. #Cancelrent trended in many cities during the pandemic and these knee-jerk reactions to systemic challenges are not likely to go away in the current climate.

Optimists always, we want to end on a happy note.

There's light at the end of the tunnel, we have a new leadership team in Washington, the vaccination curve is steepening, the economy is strengthening and spring is just around the corner. The tailwinds for multifamily investing (including prospects for outstanding economic and job growth and government stimulus this year and ultra-low interest rates for several years) far outweigh the headwinds in most markets.

Best wishes for a healthy and happy year.

Mitch Siegler is Senior Managing Director of Pathfinder Partners. 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. He can be reached at msiegler@pathfinderfunds.com.

FINDING YOUR PATH

A Time for Leadership and a Time to Heal

By Lorne Polger, Senior Managing Director

In 1970, I missed Halloween. I was seven years old at the time and for reasons beyond my control, I was not allowed out that night. Sure, it happened 50 years ago (gulp), but it left an indelible mark on me. Fortunately, I was able to heal.

Why am I writing about a childhood memory? There is a tie to the present.

I grew up in Montreal, Quebec. Beginning in 1963 and culminating in October 1970, a domestic terrorism unit (the "FLQ") reigned terror on the streets as a means of gaining Quebec's sovereignty from Canada. In what became known as "the October Crisis", a long series of domestic terrorist attacks (including more than 200 bombings and dozens of robberies), culminated in the kidnapping of British trade commissioner James Cross and the kidnapping and murder of Quebec cabinet minister Pierre Laporte. Then Prime Minister Pierre Trudeau (the father of current Prime Minister

Justin Trudeau) deployed the Army into the streets of Montreal and invoked the War Measures Act – the only time it was ever applied during peacetime. Think about that now as Americans. A politician was kidnapped and killed to support a political belief.

The army was literally in the streets of Montreal. During peacetime. Sound familiar?

So why did I miss Halloween that year? The streets were teeming with troops and we were under curfew. Sorry kids, no candy this year.

As I watched the events at the U.S. Capitol unfold, I recalled those childhood memories.

When I moved to the U.S. in 1978, I was struck by the remarkable level of patriotism here. Did not really matter back then which party you affiliated with, the proud carrying of the red, white, and blue was universal. But you see, I did not fully relate. As is true with a lot of things in Canada, patriotism there was always a bit more subdued. And perhaps especially so in culturally divided Quebec. In some respects, you were either a francophone (French speaker) or an anglophone (English speaker) before you were a Canadian. Of course, most of us spoke both languages, but there was a definite divide based on your heritage. That divide and the feeling of lost identity ultimately led to the October Crisis, to the attempts at sovereignty, and unfortunately, to the flight of many English-led businesses out of the province of Quebec.

What does this Canadian history lesson have to do with current events in the U.S.? Well, there are currently 25,000 national guardsmen in D.C. safeguarding the streets. The capitol is sealed with barbed wire fencing. We held a Presidential inauguration with only a handful of observers, instead of cheering throngs numbering in the tens of thousands. Why? What got us to this point? It's not a war between cultures or languages. It's a void in leadership.

What are some of the hallmarks of leadership? Here are a few traits that top my list.

- **Honesty.** Positive and virtuous attributes such as integrity, truthfulness, trustworthiness, loyalty, and sincerity.
- **Innovation.** The ability to look at a problem and create a solution.
- **Support.** Providing encouragement, recognition, and validation to improve.
- **Empathy.** Listening more, talking less. Elevating those around you before yourself. Having the humility to be open to the input of others with more experience.

- **Decisiveness.** The ability to make difficult decisions. Thinking slowly and acting quickly. Daring to fail. Accepting criticism as easily as applause.
- **Hard Work.** Putting your head down to be an effective problem solver.

We continue to muddle through a pandemic of epic proportions. A worldwide humanitarian crisis. We are still not at the finish line. If there ever is a time for effective leadership, this is it. Many are doing that. Some are not. It is a time to show leadership (in business, in government, and personally), to put self-interest and partisanship aside for the greater good. To listen to the experts, to show humility, to think slowly and act quickly. Many successful businesses, including ours, did that during this crisis.

Thankfully and mercifully, it appears that we will ultimately get over the hump, but not without a tragic loss of human life and a fair amount of economic ruin. Our republic was set up with certain guard rails in place, and through this crisis, the guard rails have held. Like him or not, we have a peacemaker and conciliator now in the office of President. The republic will be fine. But we need to strive for greater civility and need to find a better way to incentivize true leaders to run for public office. I have often joked that given the divisiveness of politics today, if nominated for dog catcher of San Diego I would not run, and if I elected, I would not serve.

We need to have a conversation about term limits for our elected officials. The process has evolved to the point where it appears that politicians now spend much of their time in office raising money and running for office, instead of legislating and leading. That doesn't make sense. We don't need a three-and-a-half-year election cycle every four years. That doesn't make sense. We don't need to spend billions (billions!!) of dollars every two years on elections. It would not hurt us to have new voices and new approaches every six, eight or ten years. The time of lifelong politicians has probably passed. Let us do something about it.

Rhetoric on both sides needs to be turned way down. Talking to each other instead of at each other is a hallmark of leadership. Let us show it. Take a moment to listen and hear what the other side is saying. Don't reject it out of hand. Give thought to it. Let us do something about it. Let us hold those accountable who consistently fan the flames, regardless of their political party affiliation. Encourage thoughtfulness and selflessness. Egos need to be checked at the doors. Encourage pragmatism in government. We need to ask ourselves, what changes and incentives can we create to do a better job? How can we

better communicate with each other instead of barking at each other? How can our leaders better govern? How do we heal?

It is time to ask those questions. It is time to have those discussions. It is time to act on the answers. And it is time to heal.

Lorne Polger is Senior Managing Director of Pathfinder Partners. 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

Act Quickly, But Decide Slowly – Lessons Learned During a Pandemic

By Brent Rivard, Managing Director

Like most, I cannot believe it has been almost a year since the pandemic upended our lives and businesses – time moved fast. On the other hand, it is starting to become hard to remember what "normal" life looked like prior to March 2020 – and time moved slowly. Either way, it has been long enough to do some reflection – what have I learned over the last ten months? What worked and what didn't and how can I apply those lessons to my professional and personal life in the future?

No matter how hard you try, it is hard to plan for the unexpected, or in this case, the unexpected that virtually NOBODY alive today has seen before. For reflection, I spent time looking back over the pictures on my phone, appointments on my calendar and business notes since January 2020.

It is clear that I didn't know what was coming last January. Most of the pictures are of my family, ski trips with my buddies and a couple of annual conferences. Oh, and nobody is wearing a mask. We were aware of Covid-19 but it wasn't even a small percentage of our focus. By February, it was creeping up on our radar. We started contingency planning at the office for avoiding the "spread." Mitch had the forethought to order a gross of facemasks in January – I was skeptical and I made a little fun of his nervousness. (As a sidenote, I ended up giving most of the masks to an ER doctor friend in April when they were short on PPE – Thanks, Mitch). I took my kids to Disneyland mid-February and went to my last live UCLA basketball game on February 29th. Today, both of those activities seem like things that will never happen in quite the same way again.

March. March 11, 2020 to be exact. I was lucky enough to be sitting in what would be my last large in-person meeting – a Board of Trustees meeting at my kids' school. The leadership of the school would prove to be ahead of most businesses and organizations while planning for the impacts of the pandemic on our more than 600 families and had been working on contingency plans since January. There was a particular slide in our board presentation that resonated with me. It would prove to be the primary principles that I embraced, both personally and professionally, as we ventured into the abyss of crisis. Here is what it said:

Principles through which we act/plan in a time of crisis

- Put ourselves in a position to act quickly but decide slowly.
- Make conservative choices based upon the most recent data.
- Only communicate definitive, future actions that are triggered by clear, objective symptoms.

I can't tell you how many times I referenced my photo of that slide over the past year. We closed the office on March 13th and the stay-at-home order went into effect not long after.

Put ourselves in a position to act quickly, but decide slowly

A lot of our conversations in the first few weeks of this crisis focused on this mantra. We took deep breaths and started thinking about our business in new ways and from different angles. There were new threats that we had not seen before – regulations that took away tools to deal with delinquent renters and increased delinquency because tenants were losing their jobs, for example. And of course, a level of uncertainty none of us had seen in our careers. We wanted to figure out a way to survive while being a good business partner and a good landlord, aware of those struggling in our community. We created new metrics for our business. The primary metric we created and have focused on throughout the pandemic is what we call Sustainable Economic Vacancy or SEV. It was not just vacancy we were worried about; it was rent collections. What reduction in collections could we sustain and still pay our bills, service our debt and protect investors' capital? On every level, we reminded ourselves to decide slowly but once we decided, to act quickly.

In addition, I was leaning on all my experiences to get through this and I started applying some of what I have learned as a pilot. I finished my pilot's license in 2013 and have racked up over 1,200 hours in the air in the last seven years including hours and hours of training, plus a great deal of reading and studying. I thought about what I had learned about flying, where risk is high, mistakes are costly and deciding slowly, but acting quickly can save lives. We focused on "flying the plane" and keeping the business moving in the right direction. We made small changes one at a time, measured the impact and course corrected as needed. We used what pilots call Crew

Resource Management or CRM; our team was working together in ways we hadn't seen before. In a crisis, you pull from everything you know to make it through.

Make conservative choices based upon the most recent data
The data and rules were changing. Every. Single. Day. The government was quick to act with the initial fiscal stimulus, but the rollout was spotty, and it was difficult to measure where the impact would be. Regulations regarding tenants, landlords, lenders and borrowers were changing quickly and differed in every market. The risks of the virus were not fully understood. Again, our business wasn't moving very quickly so we had the opportunity to digest the data to help us make thoughtful decisions. Lucky or smart, we had trimmed our portfolio down over the years to primarily multifamily real estate which, so far, have proven to be one of the most resilient asset classes during the pandemic. We made decisive changes to our business with the goal of protecting our assets and investor capital while being a good landlord. I can think of other businesses (like restaurants) where the strategy of making conservative choices may not have worked and aggressive strategies would need to be employed to protect businesses and employees. I don't envy those business owners and the pressures they faced and believe those that make it through will prove to be some of the strongest and most resilient businesses coming out of the crisis.

Only communicate definitive, future actions that are triggered by clear, objective symptoms. We increased communication in every way; to our investors, property managers, employees, tenants, lenders, vendors – even others in the same business, some would call them competitors, with whom we shared data and ideas. But before each communication, we discussed the messaging as a team to make sure that we were communicating definitively and had clear reasons for the communication. We produced seven comprehensive "Special Communications" for our investors during the past ten months and kept them updated and informed about our progress, challenges and strategies throughout the crisis. As I prepared to write this column, I looked back at ten months of notes from the daily meetings with my partners last spring which turned into bi-weekly, then weekly meetings as the fog cleared. I'm proud of the way we dealt with our business, our employees and our families. We weren't perfect but we stayed focused on the right issues at the right time. As an aside – there's nothing better than having great partners you can count on!

As summer turned to fall, our portfolio stabilized, our path during the crisis became clear, we began to think about what to do next. The pandemic is different than the "Great Recession" but still a crisis which we believe will produce investment opportunities. We launched Pathfinder Partners Opportunity Fund VIII in late summer and held our final closing at year-end with over $50 million in commitments. While we haven't found the distressed investment opportunities yet, we believe they will come and when they do, we will decide slowly, but act quickly! Meanwhile, we have grown our new Pathfinder Income Fund platform with a sixth property and expect to soon have a seventh. Capital flows in steadily as investors look out at a sea of uncertainty and volatility with few islands of stability – like our well-diversified portfolio of income-generating apartments

Here's to a brighter 2021 – I hope each of you has a safe and healthy year.

Brent Rivard is Managing Director, CFO and COO of Pathfinder Partners, LP. Prior to joining Pathfinder in 2008, Brent was the President of a national wealth management firm and CFO/COO of a one of southern California's leading privately-held commercial real estate brokerage firms. He can be reached at brivard@pathfinderfunds.com.

ZEITGEIST – SIGN OF THE TIMES

A Sigh of Economic Relief

There was a collective sigh of relief when Congress finally passed a second economic stimulus package at year-end. The $900 billion package includes $286 billion in direct stimulus checks and enhanced unemployment benefits and $325 billion in funding for small businesses through the Paycheck Protection Program (PPP). In the smaller print, U.S. apartment renters and landlords will also receive much needed support in the form of a $25 billion

rental assistance program. While this is a fraction of the estimated $70 billion in past due rent, it is the first offset to the national eviction moratorium in ten months.

The CARES Act passed in March provided $150 billion for states to use for a variety of needs including rental assistance programs. States like Colorado created programs like the Property Owner Preservation Program (POP) whereby landlords could apply for rental assistance on behalf of tenants who were past-due on rent. This program took the burden off of struggling tenants and allowed landlords to navigate the system, ultimately making the program more effective. Meanwhile, many states did nothing and others had programs which were very hard to navigate, leaving the burden of rental assistance to community-based organizations like the Salvation Army and local church groups and non-profits.

This batch of rental assistance is much more intentional. The Federal government will be establishing – for the first time ever – a rental assistance program to be administered by state and local governments. Every state will receive no less than $200 million and cities with populations of at least 200,000 can request their allocations directly. Jurisdictions are required to use 90% of the funds for rental payments. These programs will be instrumental in supporting tenants and landlords as we continue to navigate this economic crisis.

Apartments – A Look Back at 2020

When we entered lockdown last March, there were legitimate fears of a collapse in the apartment industry. In April, unemployment skyrocketed from 4.4% to 14.7% and a federal eviction moratorium followed. Landlords slowed renovation projects to conserve cash and discussed worst case scenarios with their lenders. As the pandemic progressed and stimulus money flooded the system, the industry experienced a reduction in collections and rental rates (although some sectors, namely class-B suburban apartments, fared better than others, like urban Class-A) but fears of a major collapse generally subsided. Other real estate asset classes including retail and hospitality, emerged as the most vulnerable to an economic depression. As we look back upon the apartment industry in 2020, it is worth noting a few interesting trends:

- **Urban, gateway markets underperformed** – San Jose, New York, San Francisco, Seattle, Washington D.C. and Boston top the list of worst performing markets with rental rates falling from -14% to -3%, respectively.
- **Lower-cost suburban markets, especially warmer ones, outperformed** – In California, San Francisco saw rents decline 9.4% while neighboring Sacramento and southern California's Inland Empire saw rents increase 6.1% and 7.3%, respectively. Phoenix, Reno, Salt Lake City and Las Vegas also saw year-over-year gains.
- **Technology is here to stay** – If virtual leasing and 3D apartment tours were an emerging trend in 2019, the pandemic accelerated their growth and adoption and they're mandatory now. The same goes for online tenant services (rental payments, maintenance requests, property manager communication, etc…).
- **The cream rose to the top** – Many apartment owners and managers, perhaps not nimble enough to navigate the rapidly changing environment, struggled with collections. While the overall average of rents collected by professionally managed apartments was about 94% through December, some operators drastically outperformed while others dramatically underperformed. When evictions – the prior go-to tool for landlords in enforcing rent payments – were halted, collecting rent became a daily operational grind and not all landlords were up for the challenge.

There is light at the end of the tunnel with a new President and the vaccine roll-out. Coming out of the pandemic, apartment owners will continue to need to be nimble.

TRAILBLAZING: PARK PALOMA, PHOENIX, AZ

The Arcadian Dream

Arcadia, Arizona – a suburb of Phoenix – is a quintessential suburban neighborhood with tree-lined street and charming homes on large lots. The name means "idyllically innocent, simple or untroubled". These family-oriented characteristics attracted Pathfinder to Park Paloma, a 60-unit apartment community built in 1973 and located eight miles northeast of downtown Phoenix.

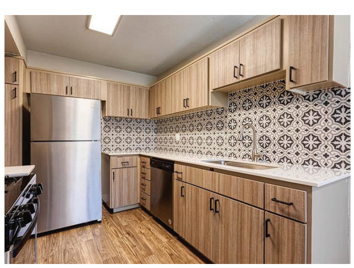
Built on former citrus groves, Arcadia is known for its lush, mature landscaping and has been designated a *Tree City* for 26 consecutive years. Residents enjoy the small-town feel and nearby big city amenities. Families are drawn to the area's top-performing public schools and outdoor enthusiasts enjoy the miles of trails along Camelback Mountain and the Arizona Canal.

Lower Arcadia – where Park Paloma is located – was recently named one of the City's "hottest neighborhoods" by *Phoenix Magazine*. This area is more urban and walkable and is home to several trendy eateries, indie shops, art galleries and yoga studios. Lower Arcadia is recognized as one of Phoenix's "top neighborhoods for millennials" by *Neighborhoods.com*.

Park Paloma is situated on a 1.8-acre parcel and includes a mix of one- and two-bedroom apartments averaging 819 square feet. Each apartment features French doors in the master bedroom, walk-in closets and private balconies. Park Paloma also features a swimming pool and spa, fitness and laundry facilities, gated access, covered parking and a shaded barbeque courtyard.

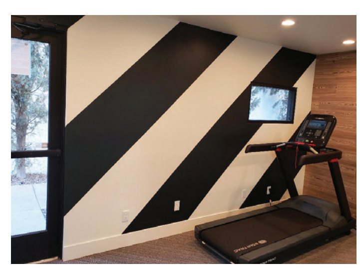
When we purchased Park Paloma a year ago, the property was well maintained but the common areas and apartment interiors were in original condition. Earlier this month, we completed a comprehensive exterior renovation including façade upgrades and painting, a remodel of the clubhouse with the addition of a new gym, new pool furniture, new signage and landscaping enhancements. We also installed washer/dryers in all apartments and renovated 13 units with upgraded kitchens and baths, new flooring and modern finishes. Our renovation plan focused on preserving the existing charm of the property while adding modern design and conveniences, attributes we believe will be well received by our residents.

New Façade and Signage



Renovated Kitchen

New Leasing Lobby



New Fitness Center

Arcadia: Did you know?

Frank Lloyd Wright's Spiral House: The David and Gladys Wright House, also known as the "Spiral House", was built in 1952 in Arcadia. This 2,500 square foot concrete-block home was designed and built for Frank Lloyd Wright's son and daughter-in-law. The home is situated on six acres amongst orange groves and offers sweeping views of Camelback Mountain. The spiraling design is intended to cool the interior by capturing the wind. The home's spatial concept became a milestone in the architect's career and later inspired the Guggenheim Museum building in New York City. Last year, the house sold for $7.25 million to a buyer who plans to restore and preserve the home.

Frank Lloyd Wright's "Spiral House" ©Outinaz / Wikimedia Commons / CC-BY-SA-4.0

NOTABLES AND QUOTABLES

Reflection

"We do not learn from experience. We learn from reflecting on experience."

- John Dewey, *American philosopher*

"It is the mark of an educated mind to be able to entertain a thought without accepting it."

- Aristotle, *Greek philosopher*

"The real man smiles in trouble, gathers strength from distress and grows brave by reflection."

- Thomas Paine, *English political theorist*

"Everything that irritates us about others can lead us to an understanding of ourselves."

- Carl Jung, *Swiss psychiatrist*

"The greatest of faults, I should say, is to be conscious of none."

- Thomas Carlyle, *British historian*

"Life can only be understood backwards; but it must be lived forwards."

- Søren Kierkegaard, *Danish philosopher*

"Reflect upon your present blessings – of which every man has many – not on your past misfortunes, of which all men have some."

- Charles Dickens, *English author*

"Whenever you find yourself on the side of the majority, it's time to pause and reflect."

- Mark Twain, *American author*

"Don't become too preoccupied with what is happening around you. Pay more attention to what is going on within you."

- Mary-Frances Winters, *American author*

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