THE PATHFINDER REPORT

June 2021

PATHFINDER PARTNERS

Intelligent, Innovative Investing™

Blacktail Canyon, a slot canyon in The Grand Canyon

IN THIS ISSUE

CHARTING THE COURSE

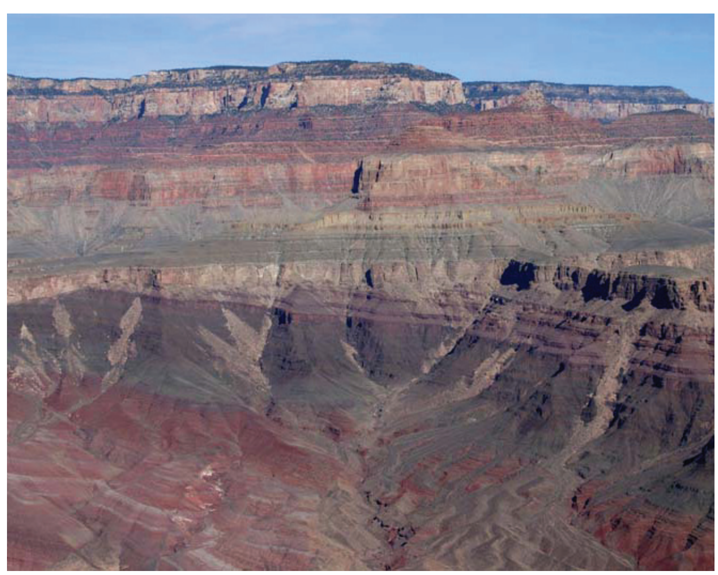
Great Unconformities in Geology, Economics and Investing

By Mitch Siegler, Senior Managing Director

The Great Unconformity, which John Wesley Powell observed when he explored the Grand Canyon in 1869, is one of geology's deepest mysteries. Powell saw a gap of up to 1.6 billion years – where one sedimentary rock formation was uplifted in the form of great mountains, then subsequently eroded away, eventually to be buried under younger sediments. Like sand in an hourglass, the oldest layers deposited earliest should be at the bottom, the youngest at the top, but that is not the case here with missing pages in the geologic record.

Inflation

Listen to Fed Chair Jerome Powell and you might conclude that there is no inflation today and little prospects for any in the future. Powell and other Fed leaders describe price pressures as "transitory" and say they plan to keep interest rates near zero until nearly everyone who wants a job has one, even after inflation has crept above their 2.0% annual target. Look elsewhere, though, and inflation pressures appear structural. Consider this:



Angular unconformity – The Grand Canyon

- **Equity values** are exploding, with the S&P 500 up 40% in the past year.
- **Single-family home** prices rose in March at the quickest pace in seven years. The S&P CoreLogic Case-Shiller 20-city home price index in March rose 13.3% year-over-year. In many of our markets in the western U.S., the increases are considerably higher. As home prices rise and homes become less affordable, more people must rent, fueling demand for rental homes and apartments, driving rents higher.
- **Rents**, until recently have fallen, helping to hold down the Consumer Price Index (CPI) despite large increases in home prices. This is due, in part, to the eviction moratorium, with a small number of renters gaming the system and paying nothing, which lowers average rents. The eviction moratorium is slated to end in September, which could unleash rent growth, contributing to inflation in the housing sector. Homeowner's equivalent rent, a Bureau of Labor Statistics metric, accounts for one-third of CPI – which conveniently excludes food and energy prices.
- Care to guess what is happening with **food, restaurant and gasoline prices**? Grocery prices rose 3.5% in 2020, the most in a decade. We expect surging restaurant demand this summer and more customers seeking seats in fewer restaurants (95,000 closed during the past year) means much higher prices at your favorite trattoria. And this recent headline from a local news source: "*Average San Diego County gas price rises for 18th time in 19 days*". We're betting it's a similar tale where you live. **Lumber** price futures rose 410% from January 2020 to May 2021 (perhaps the worst is over on this front as futures prices are down 25% from peak levels at press-time).

All this aside, the annual U.S. inflation rate was 4.2% for the 12 months ended April 2021 after rising 2.6% in the prior year, according to U.S. Labor Department data published in mid-May. Higher than the Fed's 2.0% target, right? An inflation unconformity, perhaps?

Interest rates

We have addressed this subject for years and are no closer to understanding interest rates today than we were a decade ago. For years, a basic principle of finance has been turned on its head. Interest rates, which generally reward savers and ding borrowers, have been set below zero by central banks in many major European nations and in Japan. So, savings lose value and borrowers are paid to take out loans. Dubbed one of the most novel 21st century monetary experiments, negative interest rates became popular after Treasury officials realized they needed new tools because their economies continued to struggle years after the 2008 Great Financial Crisis. When the pandemic slammed the brakes on economies in 2020, central bankers looked for ways to cushion the blow and many cut rates to near zero and even below. With unemployment rates high and growth tepid elsewhere in the developed world, many central bankers will be slow to raise rates. If inflation takes hold, many could be caught flat-footed. Another possible unconformity?

Employment

The restaurant business has really had it rough during the past year. Shutdown/stay-at-home orders, followed by scads of operational rules and requirements, re-openings allowed only subject to capacity constraints, more shutdowns and now – or soon (depending on the locale) – the possibility of a complete reopening. Along the way, restaurants laid off their staffs, brought some team members back and now must rehire. But time waits for no man and many employees, buffeted by the winds of change, moved on to other restaurants or entirely new industries. In some cases, it has been a hard sell to recruit a minimum wage (or $15 per hour) former employee who might fare better collecting enhanced unemployment benefits. Of course, it is complicated.

Many restaurant operators and other businesses relying on minimum wage workers have responded by boosting wages. In high income neighborhoods, patrons at fine dining establishments are ready, willing and able to pay a few bucks more for a cocktail, appetizer and entrée, enabling the restaurant to pass on the higher wages. By no means does that work everywhere. As Amazon disintermediates brick-and-mortar retail, robots replace workers and work-from-home trends reverse, the implications for labor – and wages – are vast. Unconformities for labor abounds.

Government stimulus

The national unemployment rate, 8.3%, remains elevated and millions of Americans need government assistance. But this assistance may be becoming a permanent fixture. A third round of government stimulus checks are still being issued. While a fourth round is less certain, it is not inconceivable. A multi-trillion-dollar infrastructure bill is being bandied about so, one way or another, trillions more will likely find their way into the economy, sloshing around and adding to inflation pressures.

The U.S. national debt, $28 trillion at the end of 2020, is up 42% from 2016 and rose $5 trillion during the pandemic. Our nation's debt level has doubled since 2010. If those stats don't scare you, this may keep you up at night: the U.S. national debt is likely to reach $89 trillion by 2029, according to USDebtClock.org. This would put the country's debt-to-GDP ratio at 277%, surpassing Japan's current 272% debt-to-GDP ratio. Gulp. Yet another unconformity?

So, what is a savvy investor to do?

Yes, our economy is growing. Taxes will need to rise to pay for all of this spending and prevent even larger government deficits, with serious implications for inflation, interest rates, employment and economic growth. Sure, interest rates won't remain at uber-low levels forever. But, not to sound like a broken record, the trifecta of massive government spending, low inflation and super-low interest rates is not sustainable, certainly not for all three at the same time. Unconformities abound. Our condensed investor playbook:

1. Beware the bond market. When (not if) interest rates rise, bond prices will likely fall.
2. While you're at it, beware the stock market following a year when values rose 40%. Tech stocks, the market leaders during the past year have been looking a bit wobbly. There are still great opportunities for individual companies but across-the-board buying of broad indices seems increasingly risky at today's prices.
3. It's a good time to be a borrower. Fixed rate loans in particular look enticing.
4. With apologies to all of you with savings and money market accounts, it's a tough time to be a saver.
5. Stock up on assets that hedge inflation and shelter income with depreciation. We like real estate, especially apartments, on both counts.

The author showcasing 1 billion years of missing geologic "pages"
The Grand Canyon, Arizona, May 2021

We always like to end on a happy note, and we do see lots of light at the end of the tunnel. The nationwide vaccination rate is now over 50%, nearly two-thirds for American adults. More teens are getting vaccinated, and school-age kids aren't far behind.

Every seat on every airline we have flown on during the past few months has been full. Cruise ships are gearing back up. Entertainment venues are opening back up and ticket sales are brisk. Hotel rooms are booking up fast at higher nightly room rates. Restaurants are getting busier and we expect they'll be chock-full this summer. Hiring is brisk. There are shortages of just about everything and waitlists, backorders and prices continue to rise. The economy is coiled tight like a spring, and we are increasingly bullish about the economy for the balance of the year.

It's a good time for investors to be vigilant, not complacent. There's risk for investors lurking behind every corner so proceed carefully and keep an eye out for unconformities.

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

The Value of the Brand

By Lorne Polger, Senior Managing Director

When we set out to build our company 15 years ago, we recognized the importance of branding. While Mitch and I both had personal and business relationships through our 20 prior years of doing business, the "Pathfinder" brand was new.

So, we started from scratch. We built the brand employing various strategies. First, and foremost, we tried to consistently identify ourselves (and our team members) as being part of Pathfinder. We designed a trademarked symbol and used it on our business cards, letterhead, and website. When we met people, we introduced ourselves as being with Pathfinder Partners.

Shortly after we opened our doors, we put our company's website on the Internet (www.pathfinderfunds.com). We did not have much content at that time, but as we grew the company, we continued to add to and refine the site on a regular basis. It is currently in its fifth iteration. Future versions will surely follow.

In the early years, we thought it was important to have a media presence. This included speaking engagements, interviews, and quotations in articles. In each case, we ensured that the Pathfinder company name was prominently mentioned. That strategy continues today.

In 2009, we began publishing our quarterly newsletter, The Pathfinder Report. We focused on content that would be of value to our readers – not the usual self-promotion typical of company newsletters. We built a database of contacts we met through business and included them on the distribution list (that list continues to be updated regularly). Over the years, our friends have referred their friends and without any real marketing or promotion, our distribution list today is in the thousands.

Over the years, we have received many positive comments and can point to numerous property acquisitions and new investors that are directly attributable to the decade-plus of effort spent researching, analyzing and writing about economics, real estate market trends and investment strategies that we've shared with you. It is a labor of love, and well worth the effort.

Shortly after the launch of our first fund in 2007, we hired a local public relations firm, which was instrumental in helping us distribute press releases for our acquisitions, launches and closing of funds, as well as getting interviews in local, regional, and even national media. In each situation, the brand was prominently mentioned.

We regularly authored original content articles, some of which were republished in prominent periodicals. We wrote about what we were doing, why we were doing it, and why it mattered.

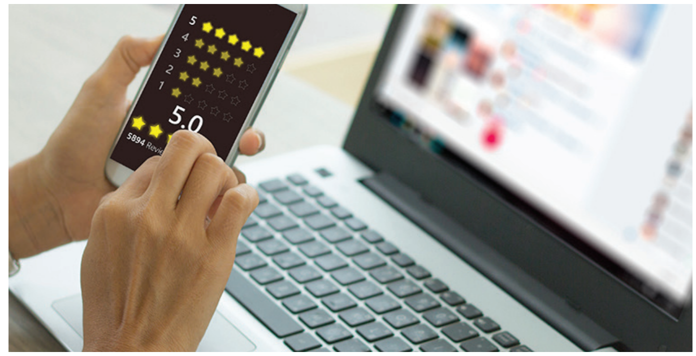
And finally, but perhaps most importantly, we leveraged our relationships. We gained a few pounds along the way, regularly attending breakfasts, coffees, luncheons, and dinners. We spoke at and sponsored events at regional and national real estate conferences. We mentored university students as well as young real estate entrepreneurs. We were and have remained extremely active in the community, serving on and leading civic, political, religious, and charitable boards and supporting a bevy of worthwhile causes. All these endeavors helped to build the Pathfinder brand.

Why do all that work? First, it's the right thing to do. And the cumulative effect made it easier to get people's attention. Investors. Brokers. Lenders. Influencers. Other principals. We could walk into a meeting and people would say, "we've heard of you guys." Our reputation preceded us.

Is this relevant today now that we are 15 years in? Absolutely. I would argue that is now more important than ever. It has never been more competitive than it is today to win deals and compete for capital. Many listed apartment properties these days garner dozens of offers. Hard money deposits have increased dramatically, almost becoming commonplace. Often, a seller will tell us, "It's not about offering the best price. We want to make sure our buyer performs as they have promised."

We have spent 15 years making sure that we perform on our promises. My last newsletter article discussed the power of relationships. If you combine the power of branding with the power of relationships, it can be a force multiplier. Having a positive reputation and a successful brand walking into a deal gives us a leg up on the competition.

Will the trend continue? I think so. Reputation can tip the scales where other terms are near equal. I think about it when we sell deals. All things being equal, who are we going to pick to buy our property? The buyer with the positive reputation for negotiating a contract quickly and fairly, performing in a timely manner, following through on commitments, closing on time, being good to deal with, etc. All elements to a successful brand building exercise.



Is Pathfinder Partners a household brand? Hardly. We will leave that to Tide® and Starbucks®. What we need is to have a name that investors and those in the apartment investment community recognize and respect. We are very grateful to have achieved some small measure of success in that regard, but the work isn't close to done. Building and maintaining a great brand requires a continuing commitment to never rest on your laurels. Constant attention and nurturing are required. It is a bit like having kids. Even when they are older, you are still their parents. We remain committed to working on it.

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

GUEST FEATURE

Bobbing and Weaving During the Pandemic

By Chris Gibson, Senior Associate

Real estate Asset Managers wear many hats. Our daily routine can include business planning, property operations, financial analysis, insurance negotiations, marketing, sales and everything in between. Our desk is anywhere and everywhere: the office, airplane, hotel room, property clubhouse and home.

Last March, when our team shifted to "work from home", we barely flinched and were confident that we'd be back in the office in no time. Reality set in shortly thereafter and we, along with all of our properties, were faced with the new world of lockdowns. Not much fazes an Asset Manager; we like to think we've seen pretty much everything under the sun. But, figuring out how to close property offices, clubhouses, pools and gyms – while providing a safe, secure and enjoyable place for our residents to live and play while grappling with a pandemic – was a brand new challenge.

Communication was fluid. We had daily Zoom calls, shared workbooks in the cloud and visited properties on FaceTime. We created new tools to monitor property and overall portfolio performance in real-time with daily property reporting (on occupancies, rent collections, pricing and more) and an economic sensitivity analysis (showing our "margin of safety" for covering all expenses should rent collections plummet). These tools enabled us to manage each property, each fund and the overall portfolio and to focus our resources where they were needed most. To conserve cash, we paused most deferred maintenance and improvement projects and implemented additional cash controls normally assigned to the property management team to make sure we tightly controlled every nickel going out the door.

From "day one", we developed plans for socially-distanced apartment leasing and self-guided apartment tours and produced 3-D virtual tours of unit floorplans

and common areas. Prospective tenants concerned about the virus were immediately empowered to tour units online, at their convenience, without having to interface with a leasing agent. Many loved it and these new and flexible tools are here to stay.

With uncertainty about supply chains and new Federal, state and local regulations popping up weekly, we tasked our onsite teams with stocking up on cleaning and PPE supplies and reconfiguring our common areas to comply with social distance regulations. When it came time to start reopening clubhouses, fitness centers and other common area amenities, we worked through preparedness checklists and created reopening plans specific to each property based on federal, state and local guidelines.

To support our front-line workers – the on-site property management teams – we implemented tier-based incentive programs to promote timely rent collections and to reward teams for every incremental dollar of rent collected each month. We provided additional staffing to properties that required extra support for collecting rent, which often included going door-to-door to collect checks. We awarded managers with gift cards for specific achievements and wrote each team handwritten "thank you" cards to show them how much we appreciated their efforts during a time when many felt isolated or were starved of human contact.

To support our residents, we implemented monthly raffles whereby one (or more) household would receive a partial rent credit if they paid rent in-full and on-time. We opened our payment processing systems to all different payment types and absorbed bank fees for credit card payments.

We also provided our residents with a comprehensive list of rental assistance programs on a regular basis. We worked hard to understand each person's individual circumstances and listened to every story. If residents were experiencing genuine hardships, we offered extended payment plans and rent deferment options. When necessary, we had our staff take the time to walk residents through the cumbersome rental assistance applications step-by-step, to ensure they were completed accurately and submitted properly. Those who refused to communicate with staff or were simply trying to take advantage of the system, were dealt with quickly. We challenged ourselves to create a variety of unique strategies to get the attention of non-paying, non-communicative residents and offered them win-win options to help them catch up on past-due rent or to move them elsewhere so we could regain possession of the apartment and lease it to a new resident, willing and able to pay rent.

The pandemic was a time for each of us to adapt. An Asset Manager must always be able to adapt to succeed and our team did so in spades during the pandemic. The results have been impressive.

Since the beginning of the pandemic, we increased portfolio occupancy by 400 basis points (from 93% to 97%) and our rent collections at 98% have been well above industry benchmarks.

We've now resumed most capital improvement projects and we've been actively re-opening common areas for our residents in accordance with local regulations.

As we reflect on the past 15 months, we believe that our Asset Management team is smarter and more efficient than ever. We have come to the realization that there is no "new-normal" when it comes to managing properties where people live and that we all must constantly adapt to stay successful.

Chris Gibson is a Senior Associate at Pathfinder Partners, LLC. Prior to joining Pathfinder in 2014, Chris worked for a national commercial real estate management, fiduciary and advisory firm and for a real estate private equity firm. He can be reached at cgibson@pathfinderfunds.com.

ZEITGEIST – SIGN OF THE TIMES

A Return to Normalcy at Apartment Communities

Last month, as the U.S. made substantial progress towards herd immunity via vaccination, the Center for Disease Control (CDC) rescinded mask and social distancing mandates permitting states to relax their own rules and allowing many businesses to return to "normal". For apartment owners, it remains to be seen what the new, post-Covid-19 normal will look like. Will residents return to work at their offices alleviating the stress on parking, wireless internet, trash collections and water and electricity usage? Will the more tenant-friendly states repeal their lingering eviction moratoriums, rent caps and no late fee regulations? Can we bring back the clubhouse coffee machine and recommence resident events? Below are some of our predictions, based on our portfolio of 40+ apartment properties across the west.

Back to Work – Residents will return (and have already started returning) to the office but not at the same level as before, especially tech workers at higher-end communities. Landlords should expect utility and operational expenses to fall while budgeting in the long run for expenses that are higher than pre-pandemic levels. High-quality internet and Amazon package management will continue to be important. Owners will need to accept that some apartments will double as home offices indefinitely and adapt appropriately.

Landlord Regulations – The CDC's nationwide eviction moratorium is scheduled to expire on June 30th. Most of the larger, more populous states adopted additional regulations controlling evictions, rent increases, late fees and landlord collection techniques. The more landlord-friendly states have already rescinded many of these regulations and business is getting back to normal. The more tenant-friendly states (Washington, Oregon, California, etc.) have continued to extend these regulations. Assuming Covid-19 case numbers continue to plummet, these states will likely rescind their regulations later this year and landlords will see a return to pre-pandemic normalcy by 2022.

Amenities / Resident Events – Amenities are wide open in Arizona and have been for several months. In Washington and Oregon, pools and gyms are just starting to open but at limited capacity. Policies around in-person tours (vs. virtual tours), resident events and mask wearing

vary property to property depending on local regulations and the risk tolerance of owners and property managers. Although the goalpost around these regulations seems to be ever changing, most municipalities are moving towards allowing apartment residents to enjoy their property's amenities. At Pathfinder, we expect to be fully open, at all properties, this year.

A Return to the Cities

The Covid-19 pandemic forced Americans to reevaluate a multitude of elements ranging from estate planning and retirement saving to hand-washing techniques and cooking abilities (or lack thereof). Perhaps the most drastic reevaluation involved people deciding where they wanted to live, with many renters moving away from cities to the suburbs.

Prior to the pandemic, a large portion renters (mostly young, educated professionals) favored high-cost, urban areas due to shorter commute times, walkability to restaurants, bars and entertainment venues and the ability to live amongst and mingle with liked-minded folks. The pandemic brought about stay-at-home orders – with work-from-home mitigating concerns about commute times. These orders also closed restaurants and entertainment venues causing many who had migrated away from urban markets toward the suburbs for apartment communities with larger units with patios/ balconies, yards and more common area open space.
This trend gained momentum throughout the pandemic depressing occupancy and rental rates at urban apartment communities while benefitting suburban, garden-style properties. As urban centers return to life and social distancing requirements fade, we expect many renters to return to cities. According to a recent report from researchers at Columbia University and NYU, urban demand will return in 2022 and rents will eventually snap back to pre-pandemic levels. That said, some portion of workers will never return to the office and continue to work from the suburbs indefinitely, one of many lasting legacies of the Covid-19 pandemic.

TRAILBLAZING: JUNIPER APARTMENTS, SACRAMENTO, CA

"An Exodus to the City of the Trees"

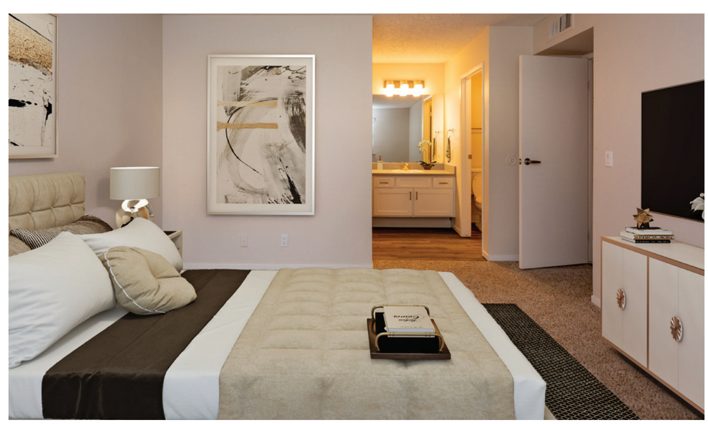
Prior to the pandemic, Sacramento was becoming a haven for migration from Bay Area residents seeking greater affordability and a slower pace of life. During the pandemic, this migration trend exploded, and Sacramento became the top metro area in the country for in-migration, aided by a 70% increase in people moving from the Bay Area. We have been fortunate to provide housing for some of these new residents at our Juniper apartment property (previously "Rosemont Park"), a 170-unit community we purchased in 2019 located ten miles east of downtown Sacramento.

The cost of living in Sacramento is 21% lower than the state's average and 56% lower than San Francisco. The median home price in San Francisco is $1,378,000, a whopping 321% greater than Sacramento's median price of $327,000. Median monthly two-bedroom rents in Sacramento were $1,780 in May compared with $3,600 in the San Francisco Bay Area.

This low cost of living is enjoyed in parallel with the City's unique historical sites and culture. Sacramento is known as America's "Farm-to-Fork" capital and is one the largest agricultural producers in the country supporting 40 farmer's markets and a vibrant culinary scene. The region offers a variety of outdoor activities including canoeing and rafting on the American and Sacramento River and the American River Parkway, which contains several parks and over 30 miles of trails. For urban dwellers, Sac's downtown is undergoing a renaissance with trendy eateries, boutique shops, hotels and entertainment venues.

Sacramento has also emerged as a tech hub, drawing from a talent pool fueled by the influx of the highly skilled and educated Bay Area workers, many of whom are now working remotely. Apple, Intel, Hewlett Packer and Oracle are among the well-known technology companies with a presence in Sacramento and several

Enhanced Leasing Office and Landscaping



Staged Apartment – Master Bedroom

others (Applied Spectra, Rhombus Systems and Zennify) are expanding or relocating to the city. This economic growth is contributing to Sacramento's employment base making it #10 in the nation for "Job Creation" (*Inc. Magazine*; 2020). These factors – along with a shortage of local housing – continue to propel apartment rents in Sacramento. The city experienced year-over-year rent growth of 7.3% in March – the second highest in the nation. Rents are forecast to grow 5.3% in 2021 (*Yardi Matrix*).

The Juniper apartments, built in 1978, is situated on a 7.4-acre parcel and includes a mix of one-, two-, three- and four-bedroom apartments averaging 790 square feet. The property features covered parking, a community garden, resident package lockers, laundry facilities, a dog park, a shaded BBQ and picnic area, and a pool and spa.

The previous owner completed extensive capital improvements during their ownership, primarily focusing on enhancements to common areas, painting the exterior and installing dual-pane windows. Since acquiring the property, we have rebranded the property with all new signage, revamped the website (liveatthejuniper.com), enhanced the landscaping and installed a new gas barbeque island and festoon lighting on the outdoor pergola. We have also upgraded the leasing office exterior and are adding new resort-style furniture and cabanas to our pool area.

We plan to modernize all 170 apartment interiors with washers and dryers. We also plan to repurpose the common area laundry rooms into additional amenity spaces including small co-working spaces, a fitness room and/or a dog wash station. To date, we have renovated 52 apartments (31%) and installed washer and dryers in ten units.

Nestled amongst tall trees in a quiet suburban neighborhood, we believe the Juniper apartments makes an ideal home for residents looking for a peaceful refuge from the hustle and bustle of the larger, nearby cities. We welcome them with open arms.

Sacramento: Did you know?

The Railyards: The nation's largest urban infill project, which has been in planning since 2002, is currently underway in downtown Sacramento aiming to transform 244 acres into a thriving, mixed-use urban community. The site is located on the north side of downtown and once served as the western terminus of the Transcontinental Railroad. The Railyards is expected to include 12,000 housing units, 2.9 million square feet of office, 1.9 million square feet of retail, hotel and commercial uses, 41 acres of parks, a 25,000-seat major league soccer stadium, a 1.3 million square foot Kaiser Permanente medical center, a 540,000-square-foot courthouse and a state-of-the-art mass transit hub. Once completed, the project is expected to create 19,000 permanent jobs.

Location of The Railyards

NOTABLES AND QUOTABLES

Perseverance

"A river cuts through rock not because of its power, but because of its persistence."

- Jim Watkins, *American author*

"If you survived a storm, you won't be bothered by the rain."

- Chinese Proverb

"Perseverance is stubbornness with a purpose."

- Josh Shipp, *American motivational speaker*

"To improve is to change, so to be perfect is to have changed often."

- Winston Churchill, *English Politician*

"Anyone can give up; it is the easiest thing in the world to do. But to hold it together when everyone would expect you to fall apart, now that is true strength."

- Chris Bradford, *English Author*

"Perseverance is not a long race; it is many short races one after another."

- Walter Elliot, *Scottish Politician*

"Whosoever desires constant success must change his conduct with the times."

- Machiavelli, *Italian Philosopher*

"It does not matter how slowly you go as long as you do not stop."

- Confucius, *Chinese Philosopher*

"There is no education like adversity."

- Benjamin Disraeli, *English Politician*

"Failure is only the opportunity to begin again, this time more intelligently."

- Henry Ford, *American Businessman*

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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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