IN THIS ISSUE

CHARTING THE COURSE

Who Are You Gonna Believe? Me or Your Own Eyes?

By Mitch Siegler, Senior Managing Director

This line from comedian Chico Marx in the film "Duck Soup" sums up our feelings about Federal Reserve (Fed) pronouncements on interest rates and the real world we inhabit where prices of so many items have been skyrocketing.

The Fed has been keeping short-term interest rates near zero while buying $120 billion of debt securities each month – this includes $40 billion of mortgages even as home prices are going through the roof. All of this has the effect of holding down long-term interest rates.

Last fall, the Fed committed to not raise short-term interest rates until "labor market conditions have reached levels consistent with the committee's assessments of maximum time." The Fed has since repeated this promise to be patient at each monthly policy meeting since. Let's unpack that statement to understand what it means for Fed policy and interest rates. Consider this:

1. These statements represent a significant shift in Fed policy. Back in the day, the Fed promised to slow economic growth (aka "remove the punchbowl") to keep inflation in check. Now, the Fed is telling investors that it's willing to wait until well after the economy has fully recovered before raising rates to cool an overheating economy.

2. The Fed's monetary strategy was previously centered around a 2% inflation target. The new strategy could allow substantially higher inflation for longer. The Fed will now "aim to achieve inflation moderately above 2% for some time if inflation has been running persistently below 2%." At the risk of stating the obvious, the language is a bit ambiguous. Since the Fed's measure of annual price inflation has been averaging less than 1.6% for a decade, the new guidance could allow inflation averaging 2.4% for the next decade without setting off alarm bells.

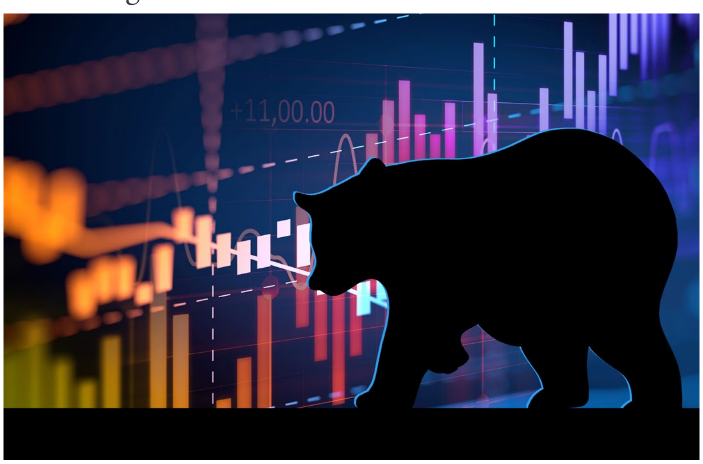
3. Discipline is not all that difficult when times are good. It's when times are tough that discipline is so critical. This relates to inflation since the Fed's policy

is great in theory – when inflation is on the distant horizon – but it's tougher for central bankers to look the other way when inflation is knocking on the door.

4. The pandemic shifted the goalposts a bit. In late 2019, Fed officials forecast annual inflation of 2% from 2020 through 2023. Inflation in 2020 was just 1.2%. Now, some Fed governors see 3% inflation in 2021, attributable to pandemic-related shocks to supply chains. The Fed sees this year's economic growth as being above normal because growth was sub-par during the pandemic and it's looking to smooth out the peaks and valleys in its forecasting. The speed with which supply chain and labor issues are resolved may tell the tale on inflation (and interest rates) in the years ahead. Interest rates

The Bear Case for Inflation and Interest Rates

Like the Fed, many investors and investment analysts are betting on rates remaining low until 2023. Their arguments center on economic growth being overstated as the economy reopens, continued high unemployment, considerable slack in the economy and concerns about closures caused by outbreaks from the Delta variant leading to slower economic growth.



The focus on waiting until the economy reaches full employment – a tenet of Fed behavior in past economic recoveries – seems to have been deemphasized this time. Perhaps that's because there are so many unknowns relating to employment now.

Some of these tectonic shifts are apparent in the bond market. The Minneapolis Fed's probability assessments, based on derivative contracts, indicated a 45% likelihood in May of 3% or higher annual inflation over the next five years and just a 30% likelihood in June. That correlates with a one-third fall in the 10-year Treasury rate, from 1.70% in May to under 1.20% in early August.

U.S. government securities now yield less than nothing after factoring in inflation. The real return on 10-year Treasury inflation-protected securities (TIPS) is -1.09% – before giving effect to future inflation. Based on the nominal yield on the 10-year of 1.29%at press time, the effective rate of inflation to generate breakeven for investors is 2.38%. If bond yields rise, as seems likely, the corresponding declines in the value of the underlying bonds would overwhelm the tiny rates of interest they pay. That's the inverse of what we saw 40 years ago as double-digit rates provided a big cushion to protect investors from further rises in inflation and declines in the value of the bonds themselves. This was born out over four decades as interest rates steadily fell and bond prices rose. Investors and their financial advisors could feel the sting of a rise in interest rates from today's ultra-low levels if they continue to hold a traditional 60/40 (60% stocks/40% bonds) investment portfolio.

A Big Wild Card: The Labor Shortage

A key tenet of the Fed's conclusion that inflation is transitory is that supply chain challenges and labor shortages are temporary and will resolve themselves soon. Chat up a server at a restaurant or a desk clerk at a hotel and you'll hear a familiar refrain: Virtually every service industry is seriously short-staffed, a problem that has persisted for months and shows no signs of reversing anytime soon. No-shows mean waitstaff doubling as dishwashers and hotel managers as reservation agents or housekeeping staff.

Help Wanted signs are everywhere and higher wages don't seem to be making a dent. There's almost a perfect match in the number of job openings (9.2 million) and unemployed Americans (9.5 million) but as summer wanes, the labor shortages continue. Employers hope for a fall turnaround – driven by the expiration of enhanced unemployment benefits on September 6 and kids returning to school in the weeks ahead – but we're not holding our breath. "It's very likely that September will come and go, and the issue won't resolve itself," says Ed Yardeni, president of Yardeni Research. Like it or not, generous jobless benefits seem to have made unemployment the preferred economic decision for millions of low-wage workers and there's no question that millions of parents exited the workforce when schools went virtual during the pandemic – many have not returned.

There are other contributing factors as well. Immigration, the driving force for many service industries, slowed to a crawl during the pandemic. Older workers left the workforce at a much higher rate during the pandemic; those 62 and older retired at a 15% clip during the pandemic as compared with a 10% rate during the Great Recession. And small companies must now compete with the big boys, like Amazon, which has boosted its starting wage to $15/hour. That's the effective pay rate for those collecting unemployment in Pennsylvania, a state with an official minimum wage of just half of that amount. It doesn't take an economist to conclude that wage rates in many areas and industries will likely rise. And new fears about the Delta variant may be dampening worker enthusiasm about returning to work.

Of course, there are plenty of fine arguments on the other side of the ledger. Cost pressures from supply chain disruptions are leading to layoffs in manufacturing. Automation and productivity-enhancing investments in software, robotics and workflow enhancements will likely cause many of today's unfilled positions to ultimately become obsolete. A McKinsey & Co. study last fall found that companies digitized 20 to 25 times as quickly as they previously thought possible during the pandemic.

The Bull Case for Inflation and Interest Rates

Several Fed Governors have said they want to begin raising rates as early as 2022 to control inflation. And in early August, Fed Governor Christopher Waller told CNBC the Fed could begin tapering bond purchases, another form of tightening, this October.

This isn't your parents' Fed. The Fed has purchased more than three-quarters of all federal debt issued during the pandemic, nearly nine times the share of Federal debt purchased during WWII. Today, the Fed holds more than one-third of all such debt owned by the public – an amount equivalent to that held by all other U.S. investors combined. In addition, the Fed holds 35% of all Federally insured mortgage-backed securities. So, when the Fed assures us that the increase in inflation is transitory and interest rates won't rise until 2023, we take those assurances with a large grain of salt – especially since the Fed has already boosted the rates it pays on reverse-repo borrowings and on bank reserves. Channeling Alfred E. Neuman, "What, me worry?"

Notwithstanding Fed pronouncements to the contrary, we see inflation around every corner. Home values are exploding, used car prices are at peak levels, stock market indices are at or near records. Demand for rental housing is off the charts and rent growth can't be far behind, as evidenced by the red-hot apartment market. Prices at the pump are higher than we can remember for a long time and backorders, shortages and supply chain pressures are commonplace.

The most common measure of inflation, the Consumer Price Index (CPI), rose 5.4% in June compared with a year earlier, the fastest pace since 2008. The Fed's preferred inflation measure, the Personal Consumption Index, at 3.9% in May, rose at a slower pace but is still well above the central bank's 2% average inflation target.

How to Make Sense of It All?

It has been a year since the Fed committed to maintain short-term interest rates "until labor market conditions have reached levels…of maximum employment and inflation…is on track to moderately exceed 2% for some time." The Fed has continued to repeat this pledge at its regular policy meetings. However, some Fed officials appear to be waffling on this promise, with implications for both economic growth and the central bank's credibility. Instead of promising to take away the punchbowl when the party gets out of hand to squelch inflation, the Fed is now saying that it's willing to wait patiently until well after the economy has fully recovered – and inflation may have begun to take hold – before tightening.

Ken Langone, co-founder of Home Depot thinks the Fed may be missing the mark. He cites rising commodity prices and labor shortages as setting the stage for higher inflation and is particularly concerned about the prospect of additional trillions in government spending. "I think you're going to take a white-hot fire and throw a 5-gallon gas can on top of it. You're going to have flames so high it's going to be incredible," Langone said in a July 28 CNBC interview.

So, who are you gonna believe?

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 Eviction Moratorium Must End

By Lorne Polger, Senior Managing Director

It hardly seems like 18 months ago when the Covid-19 pandemic shut down business as we knew it. In some respects, I remember March 2020 like it was yesterday. We continue to live through a unique and at times, surreal, chapter in history.

The U.S. unemployment rate peaked at 14.8% in April 2020, the highest since the Great Depression. The U.S. economy, as measured by real (inflation-adjusted) gross domestic product (GDP), fell by 3.5% (year-over-year) in 2020, the first time that the economy shrank on an annual basis since 2009.

The federal government responded to the crisis when it enacted fiscal stimulus and relief to those affected by the Pandemic. The Federal Reserve also took a series of substantial monetary stimulus measures to complement the fiscal stimulus. Some of the most notable and effective programs included interest rate cuts, the Paycheck Protection Plan (PPP) lending program (with most loans later forgiven), and the Main Street Loan program. Some programs, like the two rounds of stimulus checks, felt more political in nature. Many of these programs were extraordinary in bridging the gap and helping businesses, their owners, and employees to make it through a very challenging time. I'm aware of many circumstances where a PPP loan made the difference between the continuation of a long-term business and its demise. Included among the relief policies was an eviction moratorium, as discussed in detail below.

The CARES Act created a moratorium on evictions that was initially set to expire in July 2020. The moratorium has been extended several times. In June 2021, the government announced it would be extended a final time to the end of July. In August, the Center for Disease Control (CDC) announced a temporary halt on evictions in counties experiencing substantial or high levels of community transmission of Covid. This new mandate – which impacts counties with about 90% of

the population – will expire in October, although it is anyone's guess whether it will be extended again (there is considerable pressure to do so).For renters to avail themselves of the benefits of the moratorium, they need to meet these current conditions:

You don't expect to make more than $99,000 as an individual, or $198,000 if married, in 2021.

You must have been laid off, had "extraordinary" out-of-pocket medical expenses (more than 7.5% of adjusted gross income), or had a "substantial" loss of household income.

You need to do everything you can to make "timely" partial payments as close to the rent you owe as "circumstances may permit."

Eviction would "likely" lead you to either be homeless or to move to a place where you would be crowded closely with other people.

In theory, tenants who meet these conditions must provide a signed declaration to their landlord. The reality though has been rather different than the stated policy. In reality, the court systems in most jurisdictions where Pathfinder owns properties have basically shut off the unlawful detainer process, which removes a landlord's primary "stick" as to non-paying tenants. So, in practice, there really isn't a procedural mechanism to evict a tenant who is not paying their rent (whether they have a legitimate reason or not).

This relief program made sense in the spring of 2020. We were in an unparalleled health and economic crisis. There was legitimate concern that we would have a housing crisis perhaps not seen since the Depression absent some safety net to keep people in their residences, notwithstanding their ability to pay their mortgage or rent. But that was then, and this is now.

The economic recovery has been nothing short of amazing across most sectors. Remember that in April 2020, the unemployment rate reached 14.8% – the highest rate since 1948. I would not have predicted then the pace of our economic recovery. In early August, the unemployment rate dropped another 50 basis points to 5.4%. In some parts of the country, the rate is below 3%. The rate in February 2020, just before Covid hit, was 3.5%. But the percentages are not the most meaningful statistic.

As my partner Mitch noted in his article, there are almost an equal number of available jobs today as there are unemployed people. In my conversations with business owners this summer, it is apparent that we are essentially back to full employment, even with the recent surge in cases from the Delta variant. Whether in retail, hospitality, construction or manufacturing, the resonant theme of this summer is that "we have more work than we have people." Business owners are understandably frustrated right now.

Why shouldn't landlords have the same protections as tenants do? Why, at this point, should the federal government take away a legal contractual right? If I'm providing a service (a residence), is it legal, at this point, for the government to say that the beneficiary of the service doesn't have to pay for it? That is the essence of property rights. Some landlords are now pushing back. Many lawsuits have been filed over the past couple of weeks alleging that this policy now amounts to a "taking" by the government (A taking is when the government seizes private property for public use; typically, the government must compensate the owner for the value of that taking.)

Pathfinder's experience since Covid hit is that most of our tenants have paid their rent (about 96% on average during the month that their rent was due, and then another 2-3% sometime after that). Federal, state, and local safety net programs have helped as well. In fact, the majority of those that didn't pay their rent since March 2020, have not been because of a job loss due to Covid. Statistics from the National Multifamily Housing Council also bear this out. Their most recent monthly datapoint showed that almost 96% of renters paid their rent (keep in mind that there is always a percentage of tenants who don't pay their rent, in good times and bad).

So, what is the purpose of extending the moratorium at this point, other than playing politics? Or is it just that indecision from the legislative branch (in the form of allowing for the extension of the moratorium) will lead to a judicial solution? And what precedent are we now setting? It's okay to not pay your bills? It's okay to not work when work has become plentiful again?

And as noted in a recent Op-Ed in the Wall Street Journal, what about the longer term? One of the biggest issues facing the apartment industry is a continuing housing shortage across the U.S. How do you fix that? You build more housing. You adopt policies that encourage building. Does the continuation of a once-timely policy more than 18 months after the onset of the pandemic make sense? Especially when many apartment owners are mom-and-pop investors and their bills (for their mortgages, employees, insurance, etc.) need to be paid each month. If a landlord goes for six months or a year without income, and the current administration continues to extend the moratorium indefinitely (and arguably, illegally), doesn't that provide a significant disincentive to build more and invest in more? I think so.

On top of that, at some point, the rent comes due. I noted a recent statistic that there is over $5 billion in unpaid rent currently in California. With a continuation of the moratorium, that number will surely grow. When does that get paid? Ever? Or does it just grow like the national debt that at some point will choke off future generations?

Back in the early days of the Great Recession, we used to say trees don't grow to the sky. Similarly, now, I like to say that at some point, you have to pay the piper. At some point, you have to go back to work. At some point, you have to pay your bills. I believe it is now is that time.

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

Planning for Transitions – Big and Small

By Brent Rivard, Managing Director

Happy almost the end of summer! Though there are things that the Rivard Family misses about being mostly home last summer, it has been great to be able to travel again.

One of our trips this year only included three-fifths of the family with Laura, Cooper (our 17 year-old rising high school senior) and me exploring the country on a whirlwind college tour. We had a fun and exhausting week traveling across the south, northeast and back to California visiting a lot of schools and helping Cooper narrow down his list for this next life phase. Laura and I found ourselves emotional on the trip as we prepare for our own next life phase. It all got me thinking about transitions, both big and small, and how to prepare to make them successful.

Small transitions happen every day, but we may not think about them as transitions. Every morning we transition from asleep in bed to awake and ready to tackle the day. We transition from home life to work life and back, sometimes multiple times per day. I feel myself rapidly transitioning from business leader to parent and back again each day more often than I can keep track of. Even in our business lives, we make transitions throughout the day from focusing on our primary businesses to potentially board work or other causes.

For each of these small transitions, there is a common theme. The better prepared we are for the transition, the easier and more successful it can be. Sometimes we prepare with intention – we study up and make sure we are ready. Sometimes we lean on our experiences or learn from others experiences to transition smoothly. And sometimes we just wing it – or rely on coffee when it comes to that transition from sleep…

For the larger transitions, I believe that greater preparedness is the key to success. At Pathfinder, we find ourselves with large transitions in our business every day. The transition from pursuing a property to owning it

comes with an incredible number of transitions. For example, when we acquire a property, we transition from pursuer to owner. We take on new debt with lenders, we transition old property management to new property management and within Pathfinder we transition the property from our acquisition team to our asset management team. Even though we've now done this over 130 times, it's still important to not only rely on experience, but also intentional and careful preparation. We use detailed due diligence checklists and closing checklists, create document folders, commission extensive property condition reports and hold multiple transition meetings to dot the "I's" and cross the "T's". We're definitely not winging it!

As I thought about this transition for Cooper (and us!) to college, I started thinking about the transition processes that have made Pathfinder successful and, what do you know?? – there is a lot of overlap in our approach for successful large transitions:

- **Gather Data:** Reliable data is important to understand and analyze in any transition. At Pathfinder, we use a combination of third-party data combined with our own market knowledge and experience to drive successful acquisition transitions. There is almost too much data on colleges available

to review and digest but we've done our best to look for reliable, independent third-party data to help with Cooper's decision.

- **Bring in the Experts and Rely on Others' Experiences:** I've always been a big believer in hiring and relying on experts to help make decisions and transitions. What I do know, is that I don't know what I don't know! For Cooper, we engaged an expert college guidance counselor to help us make the best decision. We've also spent a lot of time talking to other parents and college students to help make informed decisions. At Pathfinder, we have always relied on third-party experts to help us make acquisitions. From property managers to property condition consultants, these experts have helped us make good purchases and avoid bad ones.
- **Set Expectations and Goals:** It would be hard to measure success if you didn't first set some expectations and goals. For Pathfinder, we create detailed budgets to establish expectations for investor returns and the timing of those returns. It helps us measure success or give us early warnings for required pivots or changes. For college planning, it's not as quantitative but we've been setting goals based on college reputation, majors available, location and a variety of other factors. Success will be measured by acceptance into a school, but also the overall college experience.
- **Execute Your Transition But Have a Plan B:** Once you've developed your well-thought-out plan using the above tactics, it's time to execute your transition. At Pathfinder, we use checklists and processes we've developed over the last 15 years to both execute our acquisitions, but also have backup plans if it doesn't go exactly as planned. It will come as no surprise that we have a checklist we are executing on for Cooper's college planning and we will have plenty of backup plans and schools ready for his big transition.

Earlier this year I wrote about our approach to Pathfinder's business during the pandemic. We "Acted Quickly but Decided Slowly" in everything we did as a business over the last 18 months. There were dozens of small and large transitions that we made since March 2020 and for most of them, we employed many of the above strategies to make them successful. The transition from in-office to at-home working and the transition from a focus on occupancy to a focus on rent collection, to name just a couple of the major transitions. In each of them, we employed the strategies above to reduce risk, increase success and feel confident in our decisions.

Fingers crossed for Cooper that our approach to his big transition is successful. I'm sure he will be fine. It's me who will struggle no matter where he goes. Check in with me early next year to see how it is all working out. I'll be preparing for the real impactful part of this process as one-fifth of the Rivard family sets off on his own adventures.

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 – NEWS HIGHLIGHTS

Multifamily is Firing on all Cylinders

Since the start of the pandemic, the multifamily housing industry has proven its resiliency and after a year of flat to declining rents, national rent growth has again turned positive. According to Yardi Matrix's June Multifamily National Report, rent growth increased 6.3% year-over-year to the highest level ever. Nine of the top 30 markets achieved double-digit rent growth over the same period with Phoenix leading the pack at 17%. In addition, June occupancy was at 96.5%, up from 95.7% in June 2020 and in line with the early 2000's all-time highs. Several factors are contributing to the trend including record breaking home prices, a lack of new construction and wage growth across multiple industries. In parallel, costs are going up for landlords including utilities, repairs and maintenance and staff salaries.

The multifamily sales market has also been on a tear. Real Capital Analytics data shows record multifamily sales of $92.1 billion through the first half of 2021 – 64% higher than the first half of 2020 and 7% higher than the first half of 2019, the high watermark year with $191 billion in transaction volume. Record low interest rates are helping fuel this growth. Rates for seven- to ten-year fixed-rate loans – the standard in the multifamily industry – are between 2.75% to 3.25% and three- to five-year fixed rates range from 2.0% to 2.5%. The total transaction size of the multifamily mortgage market may approach $400 billion in 2021. The increased demand for apartments and low interest rates have caused cap rates – the benchmark multifamily valuation metric calculated by dividing net income by sales price – to compress by 25 to 50 basis points in most markets, creating record-breaking pricing in many instances.

As demand for apartments continues to surge – both by renters and investors – and the debt environment continues to be favorable, it's likely to be a challenging environment for tenants seeking apartments and buyers in the near-term.

Back to the Office…Maybe Not so Fast

In July, global real estate firm JLL reported that nearly one-third of U.S. office workers had returned to their offices. In Austin, Dallas and Houston, the figure was about 50%. In New York City and San Francisco, it lagged at about 20%. Fast forward to August, and things are changing drastically thanks to the Delta variant. Twitter announced the closure of its San Francisco and New York offices only weeks after reopening. Apple and Google scrapped their plans for employees to return to the office later this summer. And Amazon pushed back its early October office re-openings to January 2022.

So, what does this mean for the real estate market? Well, it's likely not good for the office sector. Some U.S. cities – including the historically resilient Denver market – are experiencing their highest office vacancy rates since the Great Recession and office developers and lenders are understandably circumspect about starting new projects. Many companies with expensive office leases which navigated the pandemic successfully with remote workers are now looking to permanently downsize their office footprints and reduce overhead.

The longer-term trends may be even more opaque. U.S. companies that announced in July that they're moving quickly to return to the office are now shifting gears as they navigate the challenges of Delta variant-related outbreaks, potential vaccine mandates and complicated in-office mask policies. Today, most U.S. companies are wary of making official plans with the unpredictability associated with ongoing Covid-19 surges. In today's office world, the only thing that's certain is uncertainty.

TRAILBLAZING: BREEZE HILL, VISTA (SAN DIEGO), CA

"Creating Community Through Redevelopment"

"A great thought begins by seeing something different, with a shift of the mind's eye."

- Albert Einstein

In 2014, we toured an underperforming neighborhood retail center in Vista, a desirable suburban area of San Diego County. Two financial institutions owned the center and they were struggling with its operations and with their partnership. Today, the site is a vibrant, mixed-use development and home to Breeze Hill Apartments, a newly constructed, 88-unit Class-A community (www.breezehillvista.com).

When we purchased the property in 2014, it was comprised of three buildings including a CVS drug store, a Comerica Bank branch and an inline retail strip center that was more than 50% vacant. A year later, we had sold the Comerica and CVS parcels, returning our equity and leaving us with the remaining parcel with a zero cost basis. Prior to acquisition, we had identified an opportunity to redevelop the retail center into a

Before – Retail Strip Center

After – Breeze Hill Apartment Community

Breeze Hill Clubhouse Lounge

medium-density multifamily community. We received entitlement approvals a couple of years later and completed construction in 2019.

Breeze Hill includes a mix of one- and two-bedroom apartments averaging 790 square feet. Units include full size washer/dryers, vinyl plank flooring, modern kitchens and baths, detached and attached garages, patio/balconies and walk-in closets. Community amenities include a resident clubhouse, fitness room, heated pool and spa, gas BBQ area, package locker, game area and electric vehicle charging stations. Breeze Hill is adjacent to a park, elementary school, retail center and weekly farmer's market. Residents also enjoy several nearby restaurants and retail stores nearby.

Breeze Hill is an excellent example of creating community through infill redevelopment. The property provides much needed housing to the area – San Diego has an estimated shortfall of 59,000 apartments – while enhancing the community character, optimizing current infrastructure and promoting a pedestrian-friendly neighborhood. Additionally, infill projects such as Breeze Hill provide environmental benefits by reducing development pressure on outlying areas, helping safeguard lands that serve important ecological functions while reducing drive times and limiting greenhouse gas emissions.

We like to think of Breeze Hill as an improved puzzle piece, one that elevates the scene of a healthy, walkable lifestyle for the neighborhood and our residents.

Vista, California: Did you know?

"Hops Highway" Epicenter: Vista is home to nearly 20 craft breweries, the most per capita in the nation. In 2019, Vista won the "Gamechanger" award by the California Association for Local Economic Development for spurring economic growth for its support of local craft breweries. The City's craft beer revival has breathed new life into the community in the form of tourism and economic development. Beer aficionados come from all over to enjoy a cold, craft brewski in one of San Diego's friendliest cities.

NOTABLES AND QUOTABLES

Uncertainty

"Uncertainty is the only certainty there is and knowing how to live with insecurity is the only security."

- John Allen Paulos, *American Mathematics Professor*

"Although our intellect always longs for clarity and certainty, our nature often finds uncertainty fascinating."

- Karl Von Clausewitz, *Prussian Military General*

"If life were predictable, it would cease to be life, and be without flavor."

- Eleanor Roosevelt, *Former First Lady of U.S.*

"Uncertainty and mystery are energies of life. Don't let them scare you unduly, for they keep boredom at bay and spark creativity."

- R. I. Fitzhenry, *Canadian Publisher*

"The uncertainties of life will attempt to throw you off balance. Make peace with it, and the scale will tip back in your favor."

- Christine E. Szymanski, *American Author*

"Don't let yesterday use up too much of today."

- Cherokee Proverb

"Maturity of mind is the capacity to endure uncertainty."

- John Finley, *English Historian*

If there's one thing that's certain in business it's uncertainty."

- Stephen Covey, *American Author*

"The mistake is thinking there can be an antidote to the uncertainty."

- David Levithan, *American Author*

"Doubt, of whatever kind, can be ended by action alone."

- Thomas Carlyle, *Scottish Historian*

IMPORTANT DISCLOSURES

The information contained within this newsletter is not a solicitation or offer, or recommendation to acquire or dispose of any investment or to engage in any other transaction. Pathfinder does not render or offer to render personal investment advice through our newsletter. Information contained herein is opinion-based reflecting the judgments and observations of Pathfinder personnel and guest authors. Our opinions should be taken in context and not considered the sole or primary source of information.

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Do not assume that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by Pathfinder) made reference to directly or indirectly by Pathfinder in this newsletter, or indirectly via a link to an unaffiliated third-party web site, will be profitable or equal past performance level(s).

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.

Please add msiegler@pathfinderfunds.com to your address book to ensure you keep receiving our notifications.