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CHARTING THE COURSE

Clean-Up on Aisle Five! Will the Fed Cause a Recession to Curb Inflation?

By Mitch Siegler, Senior Managing Director

When little Johnny wanders off from his mom while grocery shopping and a half-dozen jars of spaghetti sauce come crashing down, stock-boys with mops and brooms are quickly dispatched. And when inflation threatens to crash economic growth and equity markets, Fed Chairman Jay Powell steps in to take the punchbowl away.

This month marks the second anniversary of the first pandemic shutdowns. With spring, we may be on the cusp of a new day with plummeting Covid cases and life returning to "normal." We're also seeing a more hawkish Fed, one prioritizing inflation – *finally* – over employment and economic growth. Well, it's high time, with the recent news that January's inflation rate, 7.5%, is the highest in 40 years. Futures markets are predicting five Fed Funds increases this year and the first interest rate boost will come this month.

We've been talking with our kitchen cabinet of CEO's, portfolio managers, venture capitalists and private equity gurus to gauge how people are reading the tea leaves. We distill the collective wisdom and make sense of economic growth, employment, equity valuations, inflation, and interest rates below.

Brisk Economic Growth – Driven by Inventory Build, Consumers Spending Their Savings

Topline economic growth in 2021's fourth quarter was a blistering 6.8%, nearly tripling from 2.3% in the third quarter, which was depressed by Covid's Delta variant. (The Omicron variant surged in December and will impact growth in the first quarter.)

Growth isn't nearly as rosy as it appears. The largest component of Gross Domestic Product (GDP) growth was a buildup in inventories, accounting for 4.8% (70%) of the growth. While much of this is a necessary restocking of store shelves to counteract supply chain issues, it's a safe bet that this rate of inventory build-up is unsustainable, and growth will slow this year. (Rising interest rates restrain growth, and we make this call even before the first Fed increase.)

Another big contributor to growth was consumer spending, which accounted for two percentage points of fourth quarter GDP. Much of that was driven by a spend-down of savings; the personal savings rate fell from 9.5% in the third quarter to 7.4% in the fourth. As government policies for putting more money in the pockets of consumers have waned, consumers will need to rely more on the sweat of their own brows and their savings in the months ahead. Perhaps that will bring some relief to employers who continue to struggle to find workers.

Employment

The number of open positions continues to well exceed the number of officially unemployed as companies struggle to hire workers. The causes are diverse. There's burnout, epitomized by those nearing retirement age to drop out of the workforce and Millennials who've rented Sprinter® vans to tour national parks rather than climb the corporate ladder. There were school closures and virtual school, prompting working parents to drop out of the workforce. There's a dramatic slowdown in legal immigration (while the other kind has mushroomed). And there have been massive disincentives to work in the form of three $1,200-$1,400 Covid relief checks for hundreds of millions of Americans.

But, with the official unemployment rate at 4.0% in January (down from a pandemic peak of 14.8% in April 2020) and sizzling economic growth following pandemic shutdowns, it should be no surprise that prices for groceries, gas, homes, semiconductor chips and many other goods have been skyrocketing.

Loose Money in 2020-2021, Cracks in the Façade in 2022

Many attribute skyrocketing valuations for equities, real estate, fine art and other assets to extraordinary government stimulus in the U.S. and abroad. Since March 2020, U.S. fiscal stimulus has been extraordinary, with six trillion dollars in transfer-payments to state governments, businesses, and individuals and several trillion more in Federal Reserve monetary stimulus (purchases of Treasury securities). While not all these funds have made their way through the financial system – the $1.2 trillion infrastructure bill enacted in 2021 being an example – the majority of the 2020-2021 Covid relief funds were spent quickly.

This money was first used to backstop living expenses, then saved, since there were few places to travel or events to attend and shortages of so many goods. Many invested their extra cash, driving asset values higher. Last year set records for venture capital investment, SPAC's and public technology company stock price performance. As in the dot-com era, the metric was not always profitability or even revenues but often intangibles like total addressable market and potential growth rates (remember the focus on 'eyeballs' in 1999-2000?) As in a game of musical chairs, asset values rise when more people are chasing a finite number of assets (chairs).

In the past few months, publicly traded technology stocks have been hammered, with many of the best performers in 2020 and early 2021 down 30-50%. As crossover investors – those who invest in late-stage venture capital rounds immediately before a public offering – marking down their public company investment portfolios, it's inevitable that these same investors will soon take their medicine with markdowns on their private-company portfolios. That could translate into tougher times ahead for emerging companies seeking capital, lower valuations, and pressure on these companies to grow faster to satisfy more discriminating (read "less patient") investors. Plenty of fine companies (which are already behind schedule and running short of cash "runway" because of delays from supply chain disruptions and labor shortages) won't get the funding they need in what may be more of a "swing for the fences" financing environment. Look for ripple effects on economic growth in the next couple of years.

Surging Inflation – the Simmering Pot is Boiling Over

January's 7.5% inflation is the highest since the Reagan administration. That contributed to plummeting *real* disposable income, which fell 5.8% *after inflation* in the fourth quarter, on the heels of a 4.3% decline in the third quarter. Consumer incomes and savings benefitted greatly from government transfer payments in 2020 and early 2021 leading to a major sugar high for consumer spending as the economy reopened in the second half of 2021. Inflation fears have been dampening consumer confidence and consumers' blood sugar levels appear to be crashing in 2022.

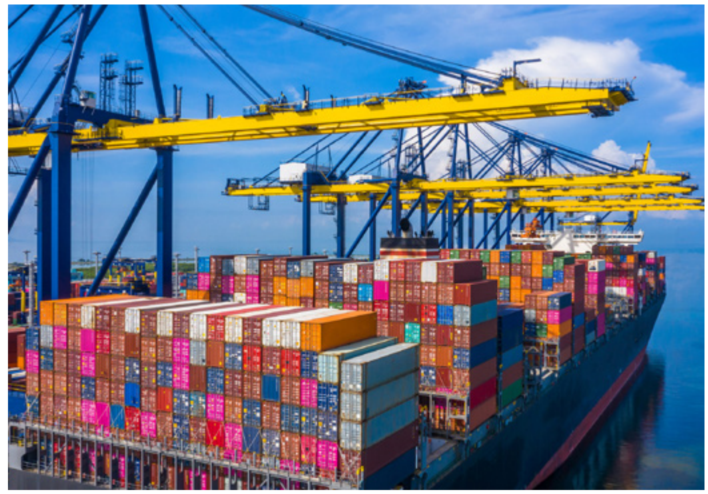
A late January NBC poll shined a spotlight on consumer agita. In response to a survey question "Do you think your family's income is going up faster, staying about even with or falling behind the cost of living?", only 7% reported that they were gaining ground while 31% felt they were breaking even and a whopping 61% said they were falling behind. If that's not a wake-up call for politicians and policymakers, they need to seriously dial back their Ambien dosages.

Inflation Drivers – Supply Chain Disruptions and Labor Shortages

For a year, the Fed and the Administration have explained away the sharp increase in inflation to pandemic-induced supply chain woes and labor shortages. Month after month, 100+ container ships remain anchored offshore near the ports of Long Beach and Los Angeles waiting to be unloaded; the vessel names change but the story remains the same. Manufacturers of consumer electronics, medical devices, autos and more have experienced production slowdowns attributable to a shortage of chips and other components. Producers respond with the lesser of two evils – they transport these parts via air freight, which keeps production lines operating but drives shipping costs through the roof.

But Covid-induced supply chain woes don't tell the full tale. Many restaurants and hotels continue to scramble to recruit dishwashers, housekeeping staff and other entry-level positions. McDonald's noted in its fourth quarter earnings release that it has reduced operating hours 10% system-wide because of staffing shortages. Quick-service restaurant operators, retailers and Amazon have all boosted wages by several dollars per hour over the past year. And they're still struggling to fill open positions.

But it's not just entry-level positions that are going unfilled. Hospital capacity during Omicron remained constrained not because of a shortage of beds but a shortage of nurses, technicians and cafeteria and janitorial staff. Friends who run software, communications, life sciences, FinTech and manufacturing businesses tell stories of being unable to hire people for six-figure positions. Even if early retirements have peaked, schools fully and consistently reopen (enabling parents of school-age kids to return to work) and government transfer-payments that enabled many to earn more watching Netflix than working are a thing of the past, labor-force participation rates are unlikely to return to pre-pandemic levels soon. And labor shortages raise prices.



The biggest inflation concern may be wage-price spirals – akin to a dance where both partners are trying to lead. Prices go up. Workers see rising prices for the goods they buy each day and demand wage increases so they can keep pace. Companies raise prices to compensate for higher labor costs. Consumers buy more than they need to avoid paying more in a few months, adding further pressure on limited supply. And the flywheel spins.

Inflation – Why it's Such a Big Deal

Bread, tea, wheat and onions. In history, rising prices for these basic foodstuffs have driven people to the streets to protest and have brought down empires. The rising cost of bread brought about the French Revolution. Higher taxes raised tea prices and helped precipitate the Colonial Revolution. Rising onion prices led to a change in India's central government in 1980. High wheat prices contributed to the fall of the Soviet Union. In recent decades, more than a dozen Latin American governments, including Mexico and Argentina, have fallen following a surge in consumer prices. The Fed's tone has now shifted, and Fed governors will be acutely aware of their need to combat inflation with full force – even though doing so will certainly slow the economy and may very well tip it into recession.

Interest Rate Increases: What We Can Expect This Year from the Fed

Last spring and summer, the Fed characterized inflation as "transitory" and common knowledge was that interest rates would remain "lower for longer" with no interest rate boosts until mid-2023. Now, futures markets predict five rate increases in 2022 – with a 100% likelihood of a March hike trending down to a 59% likelihood of a

December increase. At the risk of stating the obvious, that's an awfully big shift, pretty darn fast. And don't be surprised if four or five 25 basis point rate hikes isn't all we'll get this year. The Fed has gone from being oh so patient to being downright panicky in a New York minute.

And increasing short-term interest rates aren't the Fed's only policy tool to slow the economy. The Fed has already begun shrinking its balance sheet by slowing its purchases of U.S. Treasury securities. At some point, bond sales could rise, accelerating the balance sheet effect. Reduced Fed demand for Treasuries will also contribute to higher longer-term interest rates.

What's An Investor to Do?

Financial advisors are busy rebalancing portfolios, paring positions in speculative assets and boosting their ownership of higher-quality, blue-chips. Apart from the rare contrarian, most are rightly fearful of the impact rising interest rates will have on their clients' bond portfolios and downshifting fixed income exposure accordingly. Venture capitalists are racing to pull term sheets and reprice deals. When the Fed takes the punchbowl away to cool inflation, the pendulum often swings too far, tipping the economy into recession. Long before, the stock market can get squeamish, and volatility can escalate.

In such an environment, we adore multifamily investments, a nearly perfect inflation hedge with rents resetting every year (or every month, in some cases). We love the Class-B, workforce housing sector, the value investor's sweet spot since rents, 25-40% lower than Class-A properties, are so affordable. We continue to prioritize safety with low leverage on our properties and an emphasis on long-term, fixed-rate loans.

As the spring flowers bloom, it's a time for optimism and we're hopeful that plunging Covid case rates mean that life is returning to normal. We see lots of economic tailwinds out there but no shortage of headwinds. Buckle up.

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 Tipping Point in Home Prices?

By Lorne Polger, Senior Managing Director

In his debut novel published in 2000, "*The Tipping Point: How Little Things Can Make a Big Difference*," Malcolm Gladwell defined the tipping point as "the moment of critical mass, the threshold, the boiling point." In real estate investing, the term is often used to describe the time when the markets change directions or inflect.

I believe we are now at, or at least quickly approaching, the tipping point in residential home prices in much of the U.S. In the short term, I think we will see a plateau in pricing, and in the mid-term, at a minimum, a modest decline.

Come on now Lorne, don't trees keep growing to the sky? Doesn't the music play forever? Sorry kids, not always, but especially so, not now. Below, a few reasons why.

Inflationary Pricing Trends

The last few years have seen meteoric growth in residential home pricing in many markets. Examples abound. Denver average home prices are up 13% in the past year. San Diego a whopping 20%. Phoenix, a nose-bleeding 30%. Housing costs (home prices and rents) aren't the only reason the Federal Reserve will increase interest rates this year, but it is certainly a major factor.

If you're a homeowner, you've been thrilled with these value increases. What's not to love? Your balance sheet has increased as your leverage has gone down. Yippee! But what if you want to sell? Well, you still get a limited tax break for your first $500,000 of gain if you're married ($250,000 if you're single), but after that, you're paying federal capital gains rates on the sale and ordinary income rates (in California and many other high-tax states) on top of that. And then don't forget that pesky 2.9% Medicare tax. So roughly a third is going to Uncle Sam.

So, you do the math and still feel pretty good about things…. until you start looking for that replacement home. They want $2,000,000 for that piece of junk? You've got to be kidding. Maybe I'll just stay put for now. Supply in San Diego was down 50% year over year, the number of homes sold down 48%! A little tight. For now.

The Affordability Gap

As a result of the massive increases in values, housing has become dramatically less affordable. Only 23% of San Diegans can afford the median priced home, which has risen to a sky-high $845,000 as February according to the California Association of Realtors. Home affordability in many other markets, including Seattle and Denver, are also quite low. As affordability falls, historically, demand has fallen with it.

Rising Interest Rates

Interest rates are predicted to rise this year. Goldman Sachs and Bank of America are predicting seven rate increases in 2022, meaning a minimum 1.75% increase in the prime rate of lending (from 3.25% to 5.00%). The current betting odds call for four-five rate increases this year. In any case, rates will rise, the only question is by how much. An increase in rates will correspondingly increase the cost of borrowing and reduce home affordability.

Here's an example. In 2020, Sally and John purchased their new home. Congratulations! They stretched for the $1,000,000 purchase price, but they were so happy. They saved up $200,000 toward the down payment and were able to get an $800,000 mortgage at the great rate of 2.75%, fixed for 30 years. A truly phenomenal rate. Their mortgage payment was $3,265/month. When you factor in property taxes, insurance and utility costs, their all-in monthly nut was around $5,000/month, no small sum, but given the high cost of renting a similar home, they felt good about it.

That was then. This is now. Last week, the average 30-year mortgage had risen to just under 4%. Still cheap when viewed through the historic prism of interest rates but climbing quite a bit from the low point just two years ago. Where would Sally and John's payment be today? $3,819/month, a $550 (17%) increase from their prior mortgage. Not horrible, but not insignificant either, especially for a young couple already stretching to meet their other needs in a rising price environment. (Did I mention $5/gallon gas, $300 grocery bills, $75,000/year college tuition payments for the kids, doubling of insurance premiums, etc.?)

But what happens next year after all these upcoming rate hikes targeted at slowing the rampant (not "transitory") inflation that we've been experiencing? Well, at a mortgage rate of 5.5%, their payment increases to $4,542/month, almost $1,300 (40%) higher than what Sally and John were paying based on their 2020 mortgage. Do you see where this is going? At some point, Sally and John waive the white flag and say, "we'll just continue to rent for the foreseeable future, it's just too darn expensive to buy right now." Tough for young couples trying to get ahead and not great for realtors and others serving the single-family home industry. Not bad for apartment demand, rent growth and apartment owners like Pathfinder and its investors.

Wilting Demand

As the cost of borrowing increases, affordability, already enormously stretched, could reach a breaking point. And when it does, demand will likely drop. If demand drops, prices could plateau, and even fall. And it's not just about interest rates. It's also about owners not wanting to move because of what they must pay for their next home, plus capital gains taxes. Not to mention that we've become less of a homeownership society. Homeownership peaked around 69% back in 2005 and it's been hovering around 64% since the Great Recession. Analysts think demographic trends could knock the rate down another few percentage points by 2025 – and that's before considering higher interest rates.

It's back to the fundamental principles of supply and demand that I learned back in 1980 in Professor Mike Bird's Economics 101. If demand drops and supply is stagnant, prices will drop to compensate. If demand drops and supply grows, watch out, that's a potential tsunami.

Supply Chain Fixes and Leveling Material Costs

Part of the reason for the spike in home prices has been the burgeoning costs of labor, materials and supplies over the last few years, caused, in part, by the pandemic. Supply chains have been disrupted, production has been curtailed, and labor has been extremely tight. While I don't believe these will change overnight, we are reading reports of prices for lumber and other materials leveling off and hearing that supply chain disruptions could be on the mend over the next six to 12 months. That should result in a slowdown of construction cost increases, which has been one of the pressure points on new home prices (which ripple through the resale market).

Is it time to put the house up for sale, take the profits and go cruise the National Parks in your Sprinter® van for a couple of years? Not suggesting that. But I think the run up in home prices is largely done. If you haven't refinanced yet, get that loan application in ASAP. If you're thinking of selling, it's probably as good a time as ever.

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GUEST FEATURE

The 2021 Apartment Market and What's Ahead in 2022

By Scot Eisendrath, Managing Director

What a time it is to be in the multifamily industry. Whether you are an investor, developer, broker, mortgage banker, contractor, property manager or any of the various other players, it's been extraordinary to watch the industry exit the pandemic firing on all cylinders.

Let's look back at 2021's property investment market with a focus on apartments. According to Real Capital Analytics, total commercial property sales reached a record $809 billion in 2021, one-third higher than the previous record of $600 billion in 2019, and close to double 2020's volume during a pandemic.

Apartments were the darling of the property sectors, ringing up $335 billion in sales in 2021, up 128% over 2020, and close to double 2019's previous record of $193 billion. (Industrial buildings, another red-hot property sector, came in a distant second with $166 billion in sales in 2021).

Last year, lenders lined up to provide borrowers debt to fund the robust sales and refinance activity. According to the Mortgage Bankers Association, there was $900 billion of commercial and multifamily mortgage lending in 2021, including record multifamily lending of $470 billion, a 54% increase over 2020 levels.

The surge in activity, especially in the multifamily sector, is due to several factors, including low interest rates, red-hot operating fundamentals (discussed below), lifestyle changes brought on by the pandemic and an abundance of capital (on both the debt and equity side) searching for yield with few viable alternatives.

Demand for apartments has been sizzling. Strong tenant demand has led to a very tight apartment market as evidenced by decreasing vacancy rates, diminishing concessions and rapid rent growth. According to CBRE, there were 618,000 net apartment units absorbed last year, while only 275,000 units were completed, resulting

in the vacancy rate plummeting from 4.7% to 2.5%. (A 5.0% vacancy rate has traditionally been considered a balanced market.) The supply/demand imbalance in the apartment market led to net effective rental rates increasing 13.4% from 2020 to 2021.

The supply/demand imbalance in Pathfinder's western U.S. markets is even more acute and, as shown in the chart below, rents (and home prices) grew even faster than the national average.

From a renter's perspective, the news isn't all bad. While rents increased in 2021 at a brisk pace after a flat 2020, tenants can take solace in the fact that rents

Pathfinder Target Markets
2021 Rent Growth and Home Price Appreciation

Market	Annual Rent Change %	Home Price Appreciation %
Phoenix	26.3	32.5
San Diego	15.9	25.9
Denver	15.5	20.3
Sacramento	14.6	16.0
Portland	12.8	17.9
Seattle	11.9	23.9
Sum of All Markets (a)	13.4	18.8

(a) "Sum of All Markets" based on CBRE's market data set.

Sources: *CBRE Econometric Advisors, S&P CoreLogic Case-Shiller Index, Redfin* are not increasing at the same pace as home prices are appreciating, not to mention the additional costs of homeownership due to rising interest rates. So, comparatively, renting still is the affordable alternative to owning for many people and in many markets.

Additionally, there continues to be innovation in the multifamily industry that benefits tenants. In many apartment complexes, landlords are adding smart amenities, including smart thermostats, locks and lighting, providing residents with updated features in their homes. Over the last couple of years, as tenants yearn for additional space, build-to-rent communities have gotten significant traction where residents are given the option to rent a professionally managed single-family home in a desirable suburban submarket without the need to qualify for a mortgage or provide a down payment, and without the upkeep and maintenance headaches of homeownership – as easy as renting an apartment. The apartment market continues to evolve to cater to customers' preferences.

So, what's in store this year? Many real estate investors believe that the multifamily investment market will not change much in 2022 as most of the factors noted above are expected to remain constant. Of course, interest rates, which are still near historical lows, will rise. As we deal with inflation, supply chain issues, geopolitical risks and rising interest rates, it's important to reflect on why housing has historically been such a good place to invest, and why it should continue to be so in the future: we have a severe shortage of housing in the U.S., and that won't change anytime soon.

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ZEITGEIST – SIGN OF THE TIMES

Working from Home, Forever?

Covid has upended the office market like Amazon destroyed the big box retailer and the belt killed off suspenders. The average vacancy of the top 50 U.S. office markets was almost 16% in January. Much of the "occupied" 84% is also vacant but leased to tenants that are locked into pre-Covid leases. According to the *VTS Office Demand Index*, new demand for office space is just 58% of its pre-pandemic level. Much of the change is attributable to a more permanent "work-from-anywhere-but-the-office" shift in mindset. And as companies look to renew long-term office leases that were inked pre-Covid, many are downsizing and adopting a hybrid-work model that requires less (or no) office space.

On the flipside, workers still need a place to work, and the temporary home offices of March 2020 have evolved into long-term solutions. According to a recent Pew Research poll, nearly 60% of U.S. workers who say their jobs can be done from home are working from home "all or most of the time" and 61% of these workers are doing so by choice versus necessity. 64% of these workers say it's easier to balance work and personal life while working from home and 60% say they would like to work from home "all or most of the time" once the pandemic is over. In short, most people who can work from home are working from home and they want to keep it that way. We'll see how things shake out once the pandemic is over (like "no new scary variants" over), but for the time being, the outlook for the office market appears to be bleak and the trajectory for the home office is Zooming.

(Editor's Note: We recognized the importance of improving our residents' work from home experience early in the pandemic including improving community Wi-Fi and increasing the availability of package lockers and frequency of trash pick-ups to meet higher demand.)

Eviction Moratoriums – What's the Latest?

Last August, the U.S. Supreme Court ruled 6-3 to strike down the Federal eviction moratorium, which had prevented landlords from evicting tenants unable to pay rent due to Covid-related financial hardships. Despite the court ruling, many state and local governments created or extended their own eviction moratoriums.

In two markets where Pathfinder operates, Oregon and California, prohibitions on evictions of tenants who can prove they have applied for emergency rental assistance were extended. In these states, evictions are prohibited for all tenants who can prove they have applied for assistance, regardless of the status of their application. Oregon extended this protection statewide until July 1 and California until April 1.

Colorado did not extend an eviction moratorium beyond the federal expiration date but did offer delinquent tenants an additional 30 days to receive emergency rental assistance or find new housing. Colorado landlords may proceed with evictions on tenants with pending rental assistance applications. The state also introduced new, more permanent laws extending the date late fees can be charged and dictating the frequency of rental rate increases.

Washington continues to offer eviction protections to tenants who have applied for rental relief and requires landlords to obtain a dispute resolution certificate – a process that can take several months – before moving forward with an eviction.

Although the Federal eviction moratorium expired more than four months ago, state and local extensions continue to delay (and complicate) the eviction of tenants who are not paying rent as a result of non-Covid-related hardship. We expect the most stringent regulations to be lifted this year but, like Colorado, some states may keep certain protections longer.

TRAILBLAZING: CHESTNUT RIDGE, DENVER, CO

"Convenient Living Near Mile-High Innovation"

During the past few years, Denver has emerged as one of the nation's top technology hubs. According to *CB Richard Ellis (CBRE)*, Denver has the nation's 12th largest tech-talent labor pool with 115,000 workers, a 31% increase from 2015 and the sixth-fastest growth rate in the nation. Denver produced nearly 22,000 tech degree graduates between 2015 and 2019, ranking ninth on CBRE's "brain gain" index. In 2021, Denver ranked first in the U.S. for job growth within the science, technology and mathematic (STEM) sectors.

We have been following these trends and are excited about our acquisition last September of Chestnut Ridge in Denver's Tech Center area. The 156-unit property is 12 miles southeast of downtown Denver and three miles north of the Southeast Business Corridor, Denver's largest employment center with over 37 million square feet of office space. The Tech Center is home to notable companies Zoom, RingCentral, Xero, Comcast, Agilent Technologies and Arrow Electronics.

Chestnut Ridge, built in 1986, is situated on a 6.3-acre parcel and includes a mix of studios and one- and two-bedroom apartments averaging 865 square feet. The property features a 24-hour fitness center, swimming pool, outdoor barbeque area and clubhouse. The seller completed $2,000,000 in capital expenditures during their ownership including interior apartment renovations, upgrades to common area amenities, exterior painting and replacement of all roofs. We are enhancing the

Chestnut Ridge – Pool Area

Chestnut Ridge – Clubhouse Lounge

property's common areas with upgrades to the clubhouse including new furniture and décor, a package locker and a dog park.

Chestnut Ridge is a relatively affordable housing option in a high-end suburban market surrounded by mostly owner-occupied homes. The property's low-density (24 units/acre), spacious units and desirable amenities appeal to families and work-from-home residents. Residents have an abundance of nearby retail options including Whole Foods and Target and the property provides quick access to several major retail destinations including the Cherry Creek shopping district and Park Meadows Mall, Colorado's largest indoor shopping center.

As Denver's tech scene continues to flourish, we look forward to welcoming new residents into our community.

Denver, Colorado: Did you know?

Population Growth: Since 2010, Denver's population grew 17%, from 2,472,000 to about 2,900,000. The region ranked 5th in the U.S. in population growth for big cities during that period. By 2030, the population is expected to increase to more than 3,600,000, an annual growth rate of about 3%, among the fastest in the nation.

Employment Growth: From 2010-2020, cumulative job growth in the Denver metro area was 17%, a gain of 310,000 jobs. This is more than 40% above the national average for job growth.

Home Inventory and Values: Metro Denver, with 1.4 million households, only had 1,477 homes available for sale in December 2021. This lack of supply, combined with strong demand, drove record price gains. The median price of a single-family home sold in metro Denver rose from $503,000 at the end of 2020 to $599,990 at the end of 2021, a 19% increase.

NOTABLES AND QUOTABLES

Creativity

"You can't use up creativity. The more you use, the more you have."

- Maya Angelou, *American Author*

"Creativity is seeing what others see and thinking what no one else has ever thought."

- Albert Einstein, *German Physicist*

"Creativity is a wild mind and a disciplined eye."

- Dorothy Parker, *American Author*

"A business has to be evolving, it has to be fun and it has to exercise your creative interests."

- Richard Branson, *British Entrepreneur*

"Almost always, the dedicated creative minority has made the world better."

- Dr. Martin Luther King, *American Activist*

"Creativity is inventing, experimenting, growing, taking risks, breaking rules, making mistakes and having fun."

- Mary Lou Cook, *American Actress*

"There is no doubt that creativity is the most important human resource of all. Without creativity, there would be no progress, and we would be forever repeating the same patterns."

- Edward de Bono, *Maltese Author/Physician*

"Creativity is a type of learning process where teacher and pupil are located in the same individual."

- Arthur Koestler, *Hungarian Author*

"Creativity is one of the last remaining legal ways of gaining an unfair advantage over the competition."

- Ed McCabe, *American Advertising Executive*

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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.