IN THIS ISSUE

2 **CHARTING THE COURSE**
Strong Tailwinds Should Propel Multifamily

6 **FINDING YOUR PATH**
Rocky Mountain High

8 **GUEST FEATURE**
When You Evaluate Investment Returns, also Consider Risk

11 **ZEITGEIST: NEWS HIGHLIGHTS**

12 **TRAILBLAZING**
Passage, Vancouver (Portland Metro), WA

14 **NOTABLES AND QUOTABLES**
Staying the Course

CHARTING THE COURSE

Strong Tailwinds Should Propel Multifamily

By Mitch Siegler, Senior Managing Director

2022 was a terrible, horrible, downright lousy year for stock and bond investors. The S&P 500 lost 19.6%, the NASDAQ lost 25.0% and even fixed income investors lost money (-13.4% for investors in the U.S. Bond Aggregate/ Bloomberg index).

Amidst this carnage, investors in Pathfinder's Income Fund saw their investment grow in value by 16% (realized and unrealized returns) in 2022. Tumult in traditional equity and fixed markets and recent bank failures create turbulence for markets and investors, including multifamily investors. However, the multifamily sector has strong underlying fundamentals, which create powerful tailwinds and support for the sector.

Four Tailwinds Supporting the Multifamily Sector

1. **Underlying fundamentals strong: Supply/Demand imbalance remains in place.**

The supply of new housing has not kept pace with population growth and new household formation (demand) for decades. This lack of new supply is particularly acute in cities with limited land availability and a challenging entitlement/permitting climate. Many of these cities are also characterized by high home prices, increasing the propensity to rent, further boosting demand.

In our primary markets (Seattle, Portland, Sacramento, San Diego, Phoenix and Denver), occupancy levels have hovered at or above 95% for years. That doesn't leave much slack since residents are always moving in or out and some units are not immediately rent-ready because they're being renovated or prepared for lease. Think about 95% occupancy as essentially fully occupied. If a developer decides today to build a new apartment project on a vacant parcel, the time to entitle the land, obtain the building permits and construct the buildings is typically five years. It takes a long time for supply to adjust and in many cities where we operate, the shortage of housing is acute and years (or decades) in the making. Bringing the

conversation full circle, more demand than supply leads to high occupancy rates and strong rent growth.

2. **Workforce housing provides good value and is a sweet spot in the apartment sector.**

Multifamily housing is something of an investment safe harbor because everyone needs a place to rest his head. Older, workforce (Class-B) apartments are a superior value to newer, Class-A properties and far less expensive than homeownership. Our properties are typically suburban and older (generally '80s-and '90s-vintage) with renovated kitchens and bathrooms. The commute is a bit further and the properties aren't brand new but they're spacious, clean and fresh and the rents are much lower.

If we have a "hard landing" (today's more palatable phrase for "economic recession"), Class-A apartments, with their higher rents, could come under pressure and discounted rents or concessions could be commonplace. Workforce housing, on the other hand, should be more insulated and continue to outperform.

Rents in Class-A apartments (often located downtown and offering fancy swimming pools and exercise rooms) are typically 25-35% more expensive than in our suburban, Class-B properties. Rents in brand new apartments? Fuhgeddaboudit. Our research suggests that rents for a new, Class-A apartment are 61% higher than in a typical Pathfinder workforce housing (Class-B) apartment in our western U.S. markets.

New Class-A Apartments Require Rents 61% Higher Than Older Class-B Properties in Pathfinder Markets

Market	New Class-A Construction	Existing Class-A	Class-B	New Construction/ Class-B Rent Gap	New Construction/ Class-B Rent Gap
Denver	$2,943	$2,206	$1,714	$1,229	72%
Phoenix	$2,620	$2,005	$1,483	$1,137	77%
Portland	$2,172	$2,014	$1,623	$ 549	34%
Sacramento	$2,545	$2,349	$1,875	$ 670	36%
San Diego	$3,760	$3,111	$2,525	$1,235	49%
Seattle	$3,879	$2,431	$1,954	$1,925	99%
Avg. Rent	**$2,987**	**$2,353**	**$1,862**	**$1,124**	**61%**

Source: Yardi Matrix

High construction costs/interest rates require rent premiums for new Class-A properties of 27% above existing Class-A rents and 61% above Class-B rents

Homeownership is a housing option that's even further out of reach for many residents of the six western U.S. cities where Pathfinder owns apartments. For those who can cobble together a down payment to buy a home in Seattle or San Diego (no easy feat in markets where median home prices are $780,000 and $880,000, respectively), the monthly cost of homeownership is $2,486-$2,689 more than renting, per Yardi Matrix. Home prices in Portland, Sacramento and Denver are a bit less expensive but the monthly gap in those cities is still $1,400-$1,500. Phoenix is a relative bargain, just $900 more to own than rent each month but that's in a city with meaningfully lower income levels. You get the idea – with high home prices and mortgage rates which have doubled in the past year, it's far cheaper to rent than to own.

3. **Apartment rent growth has been a solid inflation hedge for years. Property appreciation also produces investment returns, further hedging inflation. While rent growth has cooled, it remains at or above historical levels.**

We've long said that multifamily housing – particularly workforce housing in resilient, suburban markets – is a solid inflation hedge. That's because leases reset every year compared with leases in office or retail properties, which typically have terms of five to ten years. Hedging against inflation wasn't a major consideration for most of this millennium but that's changed big-time as inflation began accelerating in 2021.

For 20 years, from 2001-2020, inflation averaged 2.1%. During the same period, multifamily rents grew 2.6%. While there was some variability during periods of higher and lower inflation and external events, like the 2008 Financial Crisis and the pandemic created short-term swings, apartments have proven to be a very strong hedge against inflation.

For 14 years prior to the pandemic (2007-2020), rent growth in Pathfinder's markets averaged 4.6%. The pandemic upset the apple cart; rent growth in our markets skyrocketed to an average of 13.2% in 2021-2022. We've long said that this was an aberration and double-digit rent growth would not be sustained. Looking ahead three years (2023-2025), forecasted rent growth in our markets is 3.6% – near the 14-year average prior to the pandemic.

4. **Some economies are more resilient than others.**

We saw this clearly during the pandemic. When offices closed and many worked from home, cities with strong technology industries fared well. Economies with strong government employment sectors remained healthy while those dependent on tourism or heavy manufacturing struggled. For years, young people have migrated to areas with strong software, life sciences and health care economies – since these sectors frequently thrive in cities with outstanding universities – which tend to be in communities with robust arts and culture scenes. It's no surprise that apartment economics are healthier in more resilient communities.

Near-Term Turbulence Creates a Few Headwinds.

Anyone with a home mortgage or auto or credit card loan knows that interest rates have risen dramatically and quickly. Interest rate volatility has also led to several recent bank failures, which have been all over the news. Also in the news are stories about rent control initiatives in several cities and states and potential "Tenants' Bill of Rights" initiatives nationally. This turbulence creates headwinds for multifamily investors.

1. **Investment sales markets are frozen.**

In efficient markets, sellers and buyers meet to find the clearing price. Brokers and other intermediaries bring the parties together. Today, property owners have little motivation to sell since they're looking in the rearview mirror at the prices they might have obtained a year ago. Buyers are looking through the windshield and fear slower economic growth or a possible recession. Broker friends, whose transaction volumes are down as much as 75% year-over-year, say it's a great time to go skiing and hope that won't be the story next winter/spring as well.

2. **Higher interest rates make underwriting acquisitions challenging today.**

We haven't acquired or sold a property since May 2022. For the same reasons homebuying activity has slowed as mortgage rates rose from about 3% in spring 2022 to 6% today, multifamily buyers are challenged to find acquisitions that make sense in a world of higher interest rates. Many multifamily property owners don't even think about selling today since they know buyer interest will be muted and pricing won't be as attractive as it was a year ago when capitalization (cap) rates were lower. Other factors – including buyer and seller psychology, a more constrained lending environment and tax considerations – also come into play but it's primarily a story of interest rates exceeding cap rates.

3. **Recent bank failures have heightened market volatility.**

Over the past month, the failures of Silicon Valley Bank (SVB), Signature Bank and Credit Suisse were front page news stories. While banks generally have much healthier loan books today than in the lead-up to the 2008 Great Financial Crisis, it's the part of the iceberg that's hidden below the water's surface that you really need to worry about. In the case of SVB, the issue was a mismatch in terms: liabilities (bank deposits) had 90-day, 30-day or just 1-day durations while assets (the bank's holdings of treasury bonds) had five- and ten-year durations. The speed with which these institutions suffered runs on the bank and the slipshod nature of management controls and regulatory oversight spooked investors.

There could be more shoes to drop in the banking arena. Small and mid-sized (regional) banks own more than half of commercial real estate (CRE) loans. Meanwhile, many shorter-term CRE loans made in 2021-2022 mature in 2024 and the refinancing environment

then may be challenging. That's particularly true for challenged asset classes like office buildings. For a variety of reasons, these regional banks may not want to add to their CRE loan books and it's an open question which lenders will step into the breech and what rates and terms may look like next year. Stay tuned to see how all of this plays out.

4. **Heightened regulatory concerns.**

While onerous rent control legislation has been enacted in just a handful of cities (New York, San Francisco and parts of Los Angeles, most famously), there are concerns that other areas could follow suit. And there is uncertainty about Federal initiatives – like the proposed "Tenant's Bill of Rights". Investors dislike uncertainty and the political uncertainty swirling around regulations is not for the faint of heart.

The answer to housing shortages is more housing. Those cities which look for easy answers – and rent control regulations are the ultimate "knee-jerk" reaction to systemic issues of poor zoning and land use regulations and out of control NIMBYism – will suffer as developers build elsewhere and housing stocks in regulated markets deteriorate further.

Much has been written about increased apartment supplies. But don't expect this year's higher apartment deliveries to alter the supply/demand imbalance.

Apartment deliveries have increased but we think it's a blip that likely won't be sustained.

For the past 50 years, annual apartment deliveries have averaged 360,000. In 2023 and 2024 they're projected to be 25% higher – 440,000 and 460,000, respectively. Viewed through a wide-angle lens, you'll see that apartment deliveries were substantially higher in the 1980s and even in the 1960s – on a much smaller population base. Guess when the last time more than 400,000 apartments were delivered: That was 1972 when there 125 million fewer Americans. Today's "higher" deliveries don't keep up with what's needed for today's larger population or reflect the cyclical increase in rental demand (because of high home prices and mortgage interest rates).

And we expect apartment deliveries in 2024-2025 to fall. That's because many "planned" projects won't be constructed anytime soon because of rising construction costs and higher interest rates. Many developers who own and entitle land still won't break ground on most projects because today's economics don't pencil for them to do so.

We've all experienced a few minutes of turbulence on otherwise pleasant cross-country flights. That's how we view the current moment for multifamily investors. If you put your seat belt on, you should be just fine.

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

Rocky Mountain High

By Lorne Polger, Senior Managing Director

He was born in the summer of his 27th year

Coming home to a place he'd never been before

He left yesterday behind him, you might say he was born again

You might say he found a key for every door

John Denver's iconic 1972 hit first spoke to me about 45 years ago. My family moved to Colorado from Canada in 1978. What a different place Denver was from Montreal; the scenic beauty of the majestic mountains and rivers was something I had never seen before.

My history in Colorado runs deep. I completed high school in Denver and did my undergraduate studies in Colorado Springs. My family owned a home in the Vail Valley beginning in the late 70's and I've been fortunate to have had a place up there for the last dozen years. I've learned to appreciate that the summers in the mountains are as spectacular as the winters.

Pathfinder began investing in Colorado back in 2009, when we purchased a portfolio of bank owned assets from an institution that was subsequently seized by the FDIC. Over the years, we've made over 20 investments in Colorado, including almost 1,200 multifamily units, primarily in the Denver/Boulder metro area, making it our most active investment market in unit count. Today, we own 577 multifamily units spread across five separate projects (with 14 additional units under construction today).

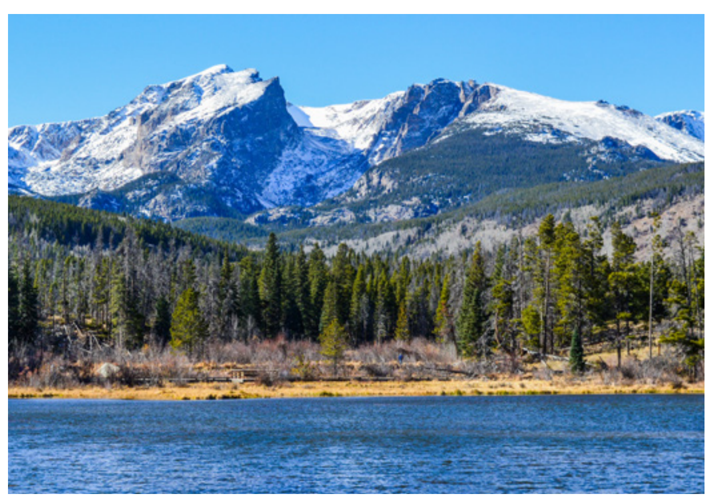
Colorado's population and economic growth trajectories have been nothing short of amazing. The population has doubled since 1980, from about 2.9 million to over 5.8 million. The Denver metro area's population has soared over that same time. Back in 1980, the metro area had about 1.3 million people; today, it's almost 3 million.

But the bigger story for Colorado is its economic diversity. My family's Denver-based real estate development and hard money lending business got crushed in the late 1980's when the oil and gas boom which had fueled Denver's growth turned bust. Denver was kind of a one-horse town at that point. The real estate industry was decimated during that cycle, as the various oil and gas industry companies closed their doors or pulled their wagons out of town. Instead of the cranes you see across the sky today, you saw empty high rise office buildings stretching from downtown through the various suburban office parks of Denver Tech Center, Greenwood Plaza, Panaroma Park and Inverness Business Park.

But that was then. What a different story today.

Today, the Denver metro's business base is made up of industry clusters that include aerospace, aviation, bioscience, broadband and digital communications, energy and natural resources, financial services, food and beverage production, healthcare and wellness, IT-software, arts and culture and outdoor recreation across its seven counties. According to the Denver Metro Chamber of Commerce, its unemployment rate is currently 2.9%, well below its historic average. Colorado job openings are also at a historic high; there are more job openings than there are unemployed. Real estate has also been booming. Almost 8 million square feet of new industrial buildings will be delivered this year, along with over 14,000 apartment units and almost 20,000 single family homes. We fully expect those numbers to shrink over the next few years, as inflation and high interest rates curb some of the growth. And developers have responded to the high housing prices and interest rates; this year, they will pull more construction permits for apartments than single family homes.

We like university systems that drive business and innovation, and Denver gets straight A's in this department. In the fiscal year ended June 2022, the University of Colorado and its hospital affiliates represented a $13.3 billion economic engine for the state,



according to an economic impact report from the Leeds School of Business. And CU is just one of several colleges and universities across the front range.

Denver has also become a young and wealthy population. The average annual household income in Denver is $111,981, while the median household income sits at $78,177. Residents aged 25 to 44 earn an average of $88,186. According to the Chamber of Commerce's reports, Metro Denver is a relatively young region with a median age of 37 years and has its largest population concentrations in the 30-44-year range (22.5%) and 15-29-year range (21%), supplying companies with a large and highly skilled workforce.

I would be remiss if I didn't mention the billion dollar plus impact the ski industry has on the state, along with the multiple professional sports teams that drive the economic engine of multiple ancillary businesses and give the locals lots to root for (as an aside, the Denver Broncos, Avalanche and Nuggets all sold out their season ticket packages this past year).

Still, there have been some growing pains along the way. While we're not seeing Silicon Valley home pricing, Denver is no longer the affordable mecca that it once was. As a result, homeownership rates have fallen.

Colorado's homeownership rate peaked in 2005 at 71.6% and has fallen steadily since to 65.9% in 2021, the 11th lowest rate in the country. Denver County's rate is now at a meager 54%, well below the national average. Not bad for apartment owners, but not great for young people trying to build equity.

Affordability concerns may disperse some of the housing demand toward less expensive areas of the state – like Fort Collins and Colorado Springs. Homelessness is pervasive, especially in downtown Denver. Downtown businesses have also suffered. According to CBRE, 27.2% of downtown offices are vacant. And in its fourth quarter 2022 office report, JLL reports that sublease space across the market equaled 4.8% of total inventory in Denver, the highest level on record.

And the population growth has slowed. Population growth in 2021 was the slowest in three decades.

We're also starting to see more NIMBYism. Like most cities across the western U.S., Denver is badly in need of affordable housing. A local municipal golf course (Park Hill) was shuttered in 2018 after an investor purchased it for $24 million. Their plan was to develop a mix of residential, retail and park space, including a significant portion of income- restricted housing across its 155 acres. But two weeks ago, the voters turned the project down. The land may revert to a golf course, or the developers may go back to the drawing board to try something new. Either way, the large swath of land will continue to sit fallow for a while longer.

Like most cities, Denver has its pluses and minuses. But these days, the scales tip to the pluses. I'm fortunate to be able to spend time in both Colorado and California. And Pathfinder is fortunate to have made one of our largest investment allocations in the State. We are believers in the long-term prosperity of Colorado.

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. He can be reached at lpolger@pathfinderfunds.com.

GUEST FEATURE

When You Evaluate Investment Returns, also Consider Risk

By Scot Eisendrath, Managing Director

The phrase "risk-adjusted return" is defined by Investopedia as "the profit or potential profit from an investment that takes into account the degree of risk that must be accepted in order to achieve it".

Understanding the risk/return relationship is a key to successful long-term investing. As an example, commonsense tells you that the interest that you would earn from a treasury security backed by the U.S. government should pay a lower rate of interest than what you would earn from a corporate bond, assuming similar maturities. This is because a treasury security is considered a risk-free asset (in theory, the U.S. government would never default), and the income stream from a corporate bond is riskier because there is a chance the issuer may default, meaning they may not be able to pay the interest or repay the bond principal at maturity. To compensate an investor for buying the corporate bond, with its riskier cash flow stream, a premium rate or "risk premium" needs to be offered.

While most investors understand the concept of risk premiums and risk-adjusted returns, many don't properly respect risk or demand a sufficient return premium for the risk they are taking on, especially during bull markets. But, risk is always present, as we are reminded during bear markets or challenging economic cycles.

The past 18 months are a great example. Investors piled into riskier assets, such as technology stocks, cryptocurrencies and SPAC's, and they may have disregarded or discounted the risks associated with the potential returns of these more speculative investments. As the Federal Reserve began aggressively raising rates over the past year, these more speculative sectors saw the greatest decline in values.

The same concept of risk-adjusted returns also applies to real estate investing. The risks of a potential real estate investment need to be weighed in relation to the potential returns. Often, investors do not properly consider the risk factors when evaluating prospective real estate opportunities. Friends and family members frequently say "Hey, what do you think of this real estate investment that I'm considering?" They may send me a detailed offering memorandum and ask for my input, or it may be an informal conversation at a social event. Below are a few of the high-level questions and risks that I suggest you consider – along with potential returns – when evaluating a potential real estate investment:

- **Invest with good people** – For me, the most important thing is the person or team (called the "sponsor") that you are investing with and putting your trust in. Do you have a personal relationship with them, or do you know someone that has a relationship? Not a deal killer if you don't, but if you or someone you know has a relationship with the sponsor, and it's been a positive one, this can provide reassurance that you are dealing with reputable people. How long have they been in business? What's their track record, specifically in the property type and geography of the potential opportunity? Are they well capitalized? Do they have meaningful "skin in the game" – equity invested in the fund or property alongside other investors? These factors matter less in good times but can be very important if there are bumps in the road or things don't go exactly according to plan.

- **Deal terms need to be fair** – Going hand in hand with the quality of the sponsor are the terms of the deal between the limited partners and the general partner or sponsor. Are the fees excessive or are they reasonable? Sponsors may charge acquisition fees, disposition fees, construction management fees, asset management fees and refinance fees, to name some of the more common fees. Is the "promote" or carried interest (the percentage of profits which go to the sponsor) reasonable? Sponsors need to earn

reasonable fees and promote – that's why they are in the business. It's unreasonable for a sponsor to earn excessive fees or higher than a reasonable promote percentage. These increase the risk and lower the return for the limited partners – a double whammy! If I see an investment package where there are excessive fees, or the sponsor is asking for, let's say 50% of the profits, the investment is dead in the water for me. Deal terms and quality of sponsor are closely linked – I rarely see a reputable sponsor asking for excessive fees or more than their fair share of the profits. There is never a deal that is so "juicy" or a sponsor that is so good at what they do that should warrant excessive compensation for the sponsor.

- **Consider the property type** – I try not to be too negative on particular property types, but you could probably show me any office or retail investment opportunity today and I'm a pass. In my opinion, the risks don't warrant potential returns, and many investors don't understand this. I know that many times the "prospective or forecasted" investment returns may be higher for a retail or office investment opportunity than for other real estate product types, but that is because you are taking on significant risk to hit those returns – and there's no assurance they will be achieved. The target returns for a multifamily or industrial acquisition are likely lower, but that is because they come with meaningfully less risk. It's hard enough to achieve success over the long-term with real estate investments, but wouldn't you rather have tailwinds than headwinds? Office and retail are beset with headwinds today. For example, hybrid work lowers demand for office space and internet shopping reduces demand for brick-and-mortar retail. Conversely, a severe shortage of rental housing combined with high home prices and mortgage rates drives demand for multifamily properties. Multifamily offers a significant margin of safety while things have to go really well for an office or retail investment to succeed.

- **Location, location, location** – One of the key components of value creation in real estate investing is demand and the resulting rent growth. It's straightforward to understand what the main drivers for demand are and where the subsequent rent growth comes from –they're population, income, and employment growth. More people with good jobs earning higher wages translates to greater demand for real estate. If you are investing in a growing area, you

will typically have these components. Of course, you will also normally have more supply in growing areas, which also needs to be weighed into the risk versus return equation.

- **Not all financing is the same** – Financing risk has been highlighted by the recent rapid rise in interest rates. Of course, a fixed rate loan is preferred over a floating rate loan because interest rate risk is taken out of the equation, but in some cases floating rate debt is appropriate for the circumstances (i.e., a property with a big turnaround, either through renovations, leasing up significant vacancy, or other heavy lifting). That said, because of the higher risk with a floating rate loan, the investor needs to be compensated with higher potential returns. The biggest red flag for me with financing is a high loan-to-value ratio – there is a high level of risk with acquisitions financed with high initial leverage. We are tracking one recently foreclosed multifamily property that was financed with a shorter-term adjustable rate mortgage at 90% loan-to-costs at acquisition.Ouch! What could go wrong?

- **Read the fine print (pro forma assumptions matter)** – Sponsors are trying to forecast the future, which is not an easy job. You can read research reports and confer with brokers, property managers and other consultants, but you are trying to look into the future and there's uncertainty – particularly if you're looking out many years. In any case, a sponsor should be reasonable with their pro forma assumptions and not overly optimistic. The assumptions in a pro forma go hand in hand with the projected returns. I've seen pro forma analyses with conservative assumptions and what may be considered lower returns, and pro forma analyses with aggressive assumptions and higher returns. The killer for me is aggressive assumptions with low returns! Look out for high market rent growth, a large reduction in operating expenses, and low residual capitalization (cap) rates – assumptions that may be warranted, but also may justify requiring higher returns to take on the additional risk in executing the business plan.

These are just a few of the factors that I focus on to evaluate potential real estate investments and weigh the risk and return profile of an opportunity. Many of these principles also apply to other types of investments. I hope these tips help you as you consider potential investments.

Scot Eisendrath is Managing Director of Pathfinder Partners. He is actively involved with the firm's financial analysis and underwriting and has spent more than 20 years in the commercial real estate industry with leading firms. He can be reached at seisendrath@pathfinderfunds.com.

ZEITGEIST – SIGN OF THE TIMES

The Golden Handcuffs of Homeownership

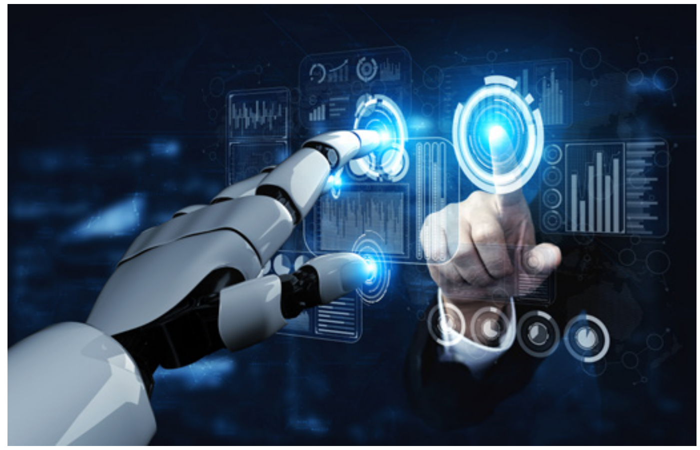
The days of 3% fixed-rate mortgages are in the past. Mortgage rates peaked above 7% in November 2022 and have since settled above 6%. This sharp uptick in borrowing costs has made it difficult for homeowners to upsize and replace their existing homes. Higher mortgage rates have also eroded the value in downsizing since the new monthly payment for a smaller (and less expensive) home is often higher than a homebuyer's existing mortgage. This phenomenon is even more pronounced in places like California where annual property tax increases are capped for an existing owner and reassessed at market value for a new buyer. And many Americans who recently bought a new home are becoming first time landlords – rather than sell their old home, they are renting it out and benefitting from the strong rental market and their previous home's once-in-a-lifetime low mortgage rate.

According to *Redfin*, year-over-year home sales fell 22% in February. New listings also fell 22% with the biggest declines in Sacramento (-46%), Oakland (-45%), Portland (-42%), San Jose (-42%) and Seattle (-41%). The combination of higher interest rates, limited for-sale housing supply and record price appreciation during the pandemic have made homeownership out of reach for an increasing number of Americans.

As a result, the cost of homeownership has made renting a relative bargain. According to a recent report from *John Burns Real Estate Consulting*, the average monthly differential between owning and renting is $2,689 in Seattle, $2,386 in San Diego, $1,491 in Denver, $1,402 in Portland, $1,388 in Sacramento and $910 in Phoenix. As a result, demand for apartments – especially Class-B work force housing – should continue to stay strong.

The Apartment Industry Meets Artificial Intelligence

Artificial Intelligence or "AI" is a household term with potential applications across a staggering number of industries. In the apartment business, AI is now being



used to assist in leasing efforts, rent collections, security monitoring and energy usage, with new applications seemingly coming to market every month.

A 2018 report by *Zillow* found that renters expect a response to online leasing inquiries within 24 hours. A reply within two minutes results in a 40% engagement success rate while waiting 30 minutes drops the rate to 10%. In response, many landlords are utilizing AI leasing agents who can work around the clock and respond to leasing inquiries immediately with increasingly natural language. AI "rent collectors" can generate customized text and email messages to late-paying tenants, reducing the collections burden for resident managers and allowing them to focus on leasing activities and resident service requests.

In addition, apartment properties can now utilize security cameras that are continuously monitored by AI software and alert a remote security agent to any criminal activity allowing them to immediately notify authorities or intervene via a remote speaker system. AI software is also being used to enhance a property's energy efficiency, helping reduce utility expenses for both tenants and landlords, while enhancing a property's overall sustainability.

The apartment industry is constantly adapting and artificial intelligence is the next wave of evolution. The technology is currently being used to create a safer, more efficient and more sustainable experience for both tenants and landlords and we hope it will continue to be utilized in a responsible fashion.

TRAILBLAZING: PASSAGE, VANCOUVER (PORTLAND METRO), WA

"The Passage Across the Columbia River"

The Columbia River is the largest river in the Pacific Northwest forming a boundary between Washington and Oregon before emptying into the Pacific Ocean. Native American tribes lived along the Columbia for an estimated 10,000 years and the first European explorers discovered the river in the 18th century while searching for trade routes. Last spring – while Pathfinder explored the Pacific Northwest – we found The Passage Apartments, a 1992-vintage apartment community in Vancouver, WA, ten miles north of downtown Portland.

The City of Vancouver is located on the Columbia River directly north of Portland and is one of the metro area's fastest growing cities with a population of approximately 193,000. The City benefits from Portland's diversified economy with a focus on technology, banking, real estate and financial and professional services. Vancouver is known for its high quality of life, strong employment, quality schools, no state income taxes (residents can also shop in Oregon without sales tax) and an abundance of retail, recreation and transportation options – key factors in attracting families and an educated workforce to the area.

Passage is a 104-unit, garden-style apartment with a mix of two and three-bedroom apartments averaging 1,034 square feet (very large by apartment standards) and feature in-unit washer/dryers, private patios/balconies, walk-in closets and fireplaces. Residents enjoy a community pool and spa, fitness center, lounge, game room, package locker and playground. Passage includes 186 surface parking spaces and 34 garages (220 total spaces). The property's residential buildings are two-story and each has eight units, providing every unit with a desirable corner location.

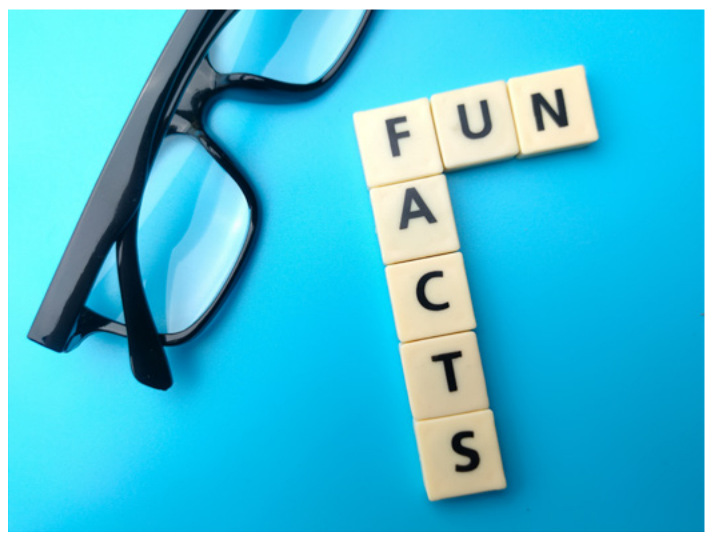
Passage – Game Room

Passage – Lounge Area

When Pathfinder purchased Passage, we financed the acquisition with a ten-year loan at a fixed interest rate of 3.50% for seven years. In our first year of ownership, we completed the construction of a new dog park, installed privacy fencing on all ground-floor apartments and resurfaced the pool deck. We recently commenced construction of a new built-in BBQ in the pool area and ordered new pool furniture. As we transition from spring to summer, we look forward to seeing our residents enjoy these new outdoor amenities and all that Vancouver has to offer.

Vancouver, WA: Did you know?

- Locals have nicknamed the city "The Couve", an abbreviated form of Vancouver.
- In 2017, Vancouver was named the most hipster-friendly place in the U.S.
- In 2022, Vancouver ranked as one of the best cities in the nation to work remotely.
- Vancouver is home to the Northwest's oldest apple tree.
- The five-acre Esther Short Park in downtown Vancouver is the oldest public square in Washington.
- Willie Nelson began his musical career in Vancouver while working as a radio announcer.



NOTABLES AND QUOTABLES

"Staying the Course"

"The race doesn't always belong to the swift nor the battle to the strong. It belongs rather to those who run the race, who stay the course and who fight the good fight."

- Carl Yastrzemski, *American Baseball Player*

"Sometimes you can't see the road ahead but as you keep going, it gets clearer. Stay the course as the fog of life dissipates."

- Sanjo Jendayi, *American Author*

"The most important thing is to stay the course – not to get shaken out of the market during a difficult time."

- John W. Rogers, Jr., *American Investor*

"If the boat started shaking, we stayed on course and didn't lose focus. That made the difference."

- Sebastian Vettel, *Formula One Driver*

"Set your course by the stars, not by the lights of every passing ship."

- Omar Bradley, *U.S. Army General*

"The most important role of a leader is to set a clear direction, be transparent about how to get there and to stay the course."

- Irene Rosenfeld, *American Businesswoman*

"Stay the course. When thwarted try again; harder; smarter. Persevere relentlessly."

- John Wooden, *American Basketball Coach*

"If you know you are right, stay the course even though the whole world seems to be against you and everyone you know questions your judgment. When you prevail, and you eventually will if you stick to the job, they will all tell you that they knew all along you could do it."

- Ralph Waldo Emerson, *American Author*

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.

Materials prepared by Pathfinder research personnel are based on public information. The information herein was obtained from various sources. Pathfinder does not guarantee the accuracy of the information. All opinions, projections and estimates constitute the judgment of the authors as of the date of the report and are subject to change without notice.

This newsletter is not intended and should not be construed as personalized investment advice. Neither Pathfinder nor any of its directors, officers, employees or consultants accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.

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.