THE PATHFINDER REPORT

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IN THIS ISSUE

CHARTING THE COURSE

May You Live in Interesting Times

By Mitch Siegler, Senior Managing Director

"It's not what we don't know that gets us in trouble. It's what we know for sure that just ain't so."
- Mark Twain

2023 seems custom-made for that ancient Chinese curse (headline) and Twain's famous quote. The year just ended was filled with surprises, which could be a warm-up act for 2024.

The economy surprised to the upside with falling inflation, a robust job market and booming stock market – maybe even a soft landing. Meanwhile, in a geopolitical and societal sense, 2023 was a hot mess. The new year portends further twists and turns, which we'll unpack below.

A Surprisingly Good Year for the Economy and Markets

In 2023, inflation plummeted while unemployment stayed low; economic growth and the stock market were strong, and the banking system proved resilient. Looking ahead, we're concerned about maturing real estate loans and a possible tipping point for government spending.

The Fed tamed inflation without tanking the economy (yet).

When the Fed stumbled in 2021, few imagined they would be so successful in bringing down inflation. The Fed's 2.0% inflation target seemed like wishful thinking in June 2022 with inflation at 9.1%. November 2023's inflation rate of 3.1% was near the Fed's target, and food, energy and rent inflation have plunged. Job growth remains solid, with 216,000 new jobs in December – the 36th month of job growth. Work remains but hats off to the Fed!

Economic growth and the stock market outperformed expectations.

Those who thought Fed tightening would cause a recession are pleased with Gross Domestic Product (GDP) growth, which should end 2023 at 2.4%. Last January, few expected more than mid-single digit growth in the stock market. Who woulda thought the Morningstar U.S. market index would return 26.4% with the tech-heavy NASDAQ 100 index up 35.4%?

There were just a handful of bank failures.

When interest rates rise rapidly, bank failures often follow. We saw this in 2008-2012, after the Great Financial Crisis, when nearly 500 banks collapsed. We saw it in the '80s-'90s, when high inflation sunk Savings & Loans and Thrifts – leading to 2,900 FDIC seizures. Pundits expected the worst last spring when First Republic Bank, Silicon Valley Bank and Signature Bank failed in short order because of a mismatch between assets (short-term deposits) and liabilities (longer-term Treasury securities). Nearly a year later, it looks like a nothing-burger.

Maturing real estate loans pose a major risk.

The Financial Stability Oversight Council (FSOC) says commercial real estate is among the major economic risks in 2024. FSOC's 2023 annual report flags $6 trillion of commercial real estate loans outstanding – half held by banks – and says "a substantial volume" of these loans will mature in the next few years.

Office buildings will be hard hit because of reduced demand. We see challenges for multifamily, too; more than $500 billion of apartment loans mature in 2024-2025, many with adjustable interest rates which can't be refinanced today. (Our long-term thesis for apartment demand remains constructive. We're currently evaluating investment opportunities and will let you know when we launch a new opportunity fund.)

Is the U.S. deficit at a tipping point?

The U.S. hit its $31.4 trillion debt ceiling last January and after months of wrangling, Congress suspended the debt ceiling until January 2025. Phew, right? Well, debt is now $34 trillion, 1.2 times the nation's GDP. Even following World War II, the ratio, 1.1, was lower.

Politicians from both parties spend like drunken sailors. Economists propounding modern monetary theory ("debt is no big deal") seem straight out of the Alfred E. Neuman (of *Mad Magazine*) school: "What, me worry?" Like many new-fangled theories, this one doesn't pass the sniff test.

Until 2022, low interest rates constrained debt service costs. Times changed, debt exploded, Congress became more dysfunctional, and the wall of worry grew higher. In November, Moody's cut the U.S. debt rating from "stable" to "negative." Treasury Secretary Janet Yellen disagreed but acknowledged that debt levels could become problematic. With higher interest rates, the government pays more on new borrowings, leaving fewer funds for defense, healthcare, and social services. Inflation remains a challenge and higher deficits pressure inflation. You would hope that this would be a major issue in an election year but don't bet on it.

Are the Wheels Coming off the Geopolitical Bus?

2023 was a terrible, awful, no-good year geopolitically. Though we look ahead with hope, many fear that 2023 could be the warm-up act.

Russia, China, Iran, oh my!

Since the end of World War II, the U.S. has been the dominant superpower. After the U.S.S.R. imploded, China's rise accelerated. Concerns about our deterrence rose after the 2021 U.S. pullout from Afghanistan. In 2022, Russia invaded Ukraine and the U.S. and Europe responded by sending Ukraine $100 billion in weapons, financial and security assistance. The conflict seems stalled and future aid is in doubt. Ukraine has defended its territory and people valiantly though Russia now controls 20% of its territory. Europeans wonder who's next on Putin's menu.

In 2023, China flew spy balloons over the U.S. and ratcheted up its provocations toward Taiwan and the Philippines. Chinese weapons and technology have powered Russia's war machine and Russian oil has powered China's economy. Xi and Putin are two peas in a pod.

Iran's brazen aggression in the Middle East and attack drones and missiles, which Russia uses to pound Ukraine, is a piece of the same macabre puzzle. Hamas terrorists' barbarity on October 7th should have been clarifying. Sadly, too many can't connect the dots.

The Ukraine and Gaza wars are best seen as multi-front battles in a larger landscape. Russia, China, Iran (via proxies Hamas, Hezbollah and the Houthis – who attack commercial ships traversing the Red Sea) and North Korea (arming Russia and helping Hamas build its tunnel network) – are partners, fanning the flames of chaos and attacking democratic nations, particularly the U.S., Europe and Israel/moderate Arab states.

Many Americans care little about U.S. superpower status. Their disdain for sending dollars abroad ignores the costs of not doing so – like expending not just national treasure but also blood. If the U.S. loses its superpower status, the dollar's reserve currency status could go, driving our borrowing costs higher and our standard of living lower.

Following attacks and threats against Israel, thousands of U.S. troops in the Middle East, and ships in the Red Sea, the U.S. positioned two forward aircraft carrier groups in the Mediterranean Sea. Asymmetrical warfare – when the bad guys launch $1,000 drones which we defend against with $1 million missiles – is unsustainable. The fate of Ukraine, Israel and Taiwan have broad implications for Europe, the Middle East and Asia – and the U.S.

Ignorance, Hypocrisy, and Double Standards

Ignorance abounds; too many demonstrate too little moral clarity.

Without moral clarity, our society is at risk. Ignorance breeds hate and conspiracy theories. When surveyed, 25% of Americans believe that the FBI instigated the January 6th Capitol attacks. Meanwhile, 20% of 18-to-29-year-olds think the Holocaust was a myth. When surveyed, most protestors screaming "from the river to the sea" can't name the river or the sea – and don't know that this is a call for genocide against Jews (many change their views upon learning the facts). Many calling for "intifada" (a revolution by any means – something many protestors are also unaware of) and to "globalize the intifada" (violent revolution, including killing Jews and Christians worldwide) are similarly clueless.

Hypocrisy and double standards.

As the pandemic highlighted structural weaknesses and inequities in our economy and health care system, October 7th exposed myriad double standards in our society. Antisemitism on campus was excused under the umbrella of "free speech" by university administrations. War crimes and rapes of Israeli women were ignored – by U.N. Women and myriad "women's rights" groups. These actions – which would never be tolerated if perpetrated against any other minority group – were accepted, even celebrated. This hypocrisy exposes cracks in our society.

The Ivory Tower is wobbling.

America's strengths stem from our educational institutions. In the past few decades, higher education has changed, and many universities' reputations were scratched and dented in 2023.

Universities have long focused on academic excellence, individual merit, a free exchange of ideas and rigorous debate. Many top-tier institutions are in the news for other reasons: declining applications, soaring prices, burgeoning administrations, plagiarism, and admissions scandals (favoritism for athletes and children of graduates and donors).

Some institutions are under fire for pushing ideologies and an anti-Western worldview which has swallowed up large portions of curricula. When asked about their hatreds, students explain that they're the product of what they've been taught in class: the west is built on white supremacism and each group of people falls into either the "oppressor" or the "oppressed" categories. There are widespread charges of discrimination against Asian and Jewish applicants and critics charge that admissions and tenure decisions revolve around race, ethnicity, and ideology.

Following October 7th, Jewish college students were harassed and intimidated, and university presidents offered Congressional testimony devoid of moral clarity when they wouldn't say that calls for genocide against Jews violated campus policy. The president of Penn resigned. Harvard's president, who later resigned, was also the subject of a plagiarism scandal, further embarrassing the university.

Macroeconomic forces – like the U.S. moving to onshore manufacturing and future jobs being dominated by technologies which barely exist today – will cause more young people to choose vocational school or other avenues, over traditional, overpriced, four-year colleges. (The data is bearing this out as college applications are falling while demand for vocational schools is rising at double-digit clips.) We expect more heads to roll on campus in 2024 and the pendulum to begin its long swing back toward the center.

Minority rules.

Certain obnoxious tweeters (redundant, you say?) on X ("Formerly Twitter", we hate to say) similarly took up more than their fair share of oxygen and mindshare. In Congress, the Squad and the Gang of Eight (each a group of just eight of 435 members of the House on the left and the right) do the same thing. Recently, we've seen astounding media coverage on pro-Hamas protests in major cities and on campuses. The through line between these tweeters, fringe representatives and protestors: they make up for their small numbers with their volume and intensity. Diversity of viewpoints is necessary for a healthy democracy. Such discourse must be civil. The degree to which certain voices dominated conversations this year feels unhealthy.

The Elephant (and Donkey) in the Room: the '24 Presidential Election

Things we hold dear can disappear in a flash. Following the Great Financial Crisis, millions of Americans lost their homes and jobs. Covid-19 taught that personal freedoms aren't assured, and government can't always protect us. We've now learned that price stability can be fleeting. Trust in our institutions has been badly shaken.

President Biden won in 2020 on the strength of his experience and demeanor, which trumped his opponent's chaotic behavior. At 81, with a 40% approval rating among Democrats, and lagging former President Trump in every poll, President Biden's support for Ukraine has

remained stalwart and he's displayed strong backbone in withstanding pressure from his left flank to abandon Israel. One thing the current President has not been able to overcome – and it's apparent in every poll – is his age. Two-thirds of Americans and most Democrats think he's too old to run.

The President's reelection campaign has spent $40 million in key battleground states touting Bidenomics. Biden's standing has not improved, it has worsened. People focus less on the Inflation Reduction Act and more on the price of groceries and gas. Channeling Chico Marx, "Who are you going to believe: me or your own eyes?"

Meanwhile, Biden's likely opponent continually gains traction notwithstanding multiple indictments. Many who like his policies are put off by his demeanor. The 2024 election may be a contest between whether President Biden is too old or former President Trump is too chaotic. The next ten months will age us all.

Today, society is more polarized than ever. It's never been more difficult to distinguish fact from fiction, truth from propaganda – and that's before artificial intelligence really takes off. The polarization isn't just between left and right, Democrat and Republican. These battles are playing out within both the Republican and Democratic parties. We must come together as citizens, lest we be torn apart as a nation.

Looking Ahead with Hope

On a hopeful note, maybe this will be the year that we begin to move beyond the zero-sum game of politics – I win / you lose – toward compromise, coexistence, and consensus building. Let us each do our part to contribute to a more civil society. Maybe we can move toward that by being more intentional in how we talk with and listen to one another. We have work to do, and it will take everyone rowing the boat together in 2024.

Whether you like to row, ski, cook, travel, paint, read or something else, we hope you enjoy the year. Best wishes for a healthy and happy 2024.

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

Of Interest

By Lorne Polger, Senior Managing Director

Interest rates, and more specifically, their rapid rise, have been front and center in economic discussions now for almost two years.

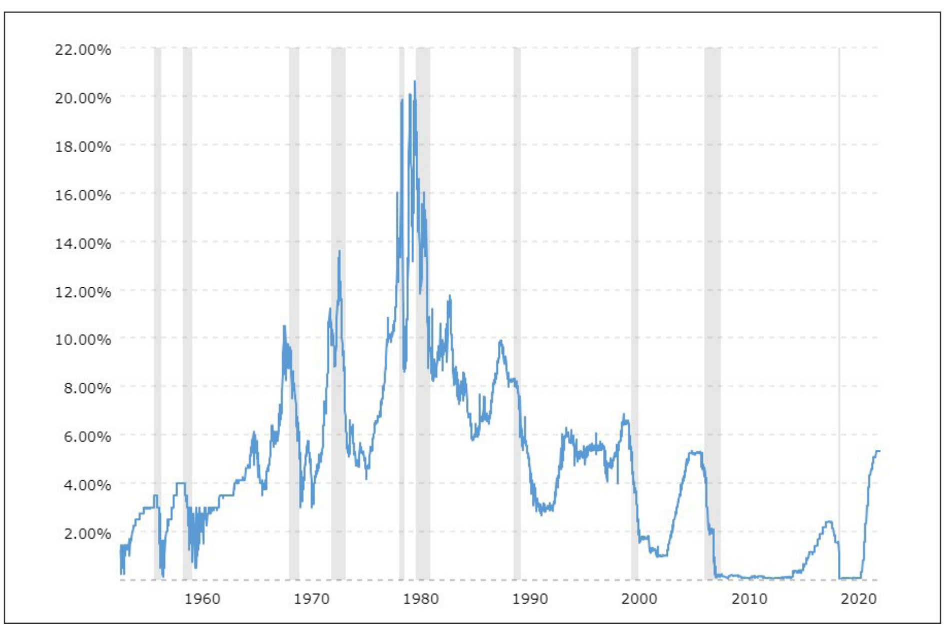
The Federal Reserve Board began increasing rates in March 2022. Since then, the Fed has increased rates eleven times resulting in an increase of 5%. We've been sitting at the peak Federal Funds rate of 5.5% since July 2023.

The rapid rise in rates has caused a near paralysis in commercial real estate investment. According to CBRE, U.S. commercial real estate investment transaction volume was down 53% in the 12 months ended September 2023.

Interest rates need to be placed into a historical context to better understand where we've been and where we are likely going. Let us look at that data.

Federal Funds Rate - 62 Year Historical Chart

The chart below shows the daily level of the Federal Funds rate dating back to 1954. The Fed Funds rate is the interest rate at which depository institutions, like banks and credit unions, lend reserve balances to other depository institutions overnight, on an uncollateralized basis. The Federal Open Market Committee (FOMC) meets eight times a year to determine the federal funds target rate. The Federal Funds rate is 5.33%. While this and other interest rates are substantially higher than their near-zero levels following the 2008 financial crisis and the pandemic, you would otherwise have to look to the 1950's to find rates this low.



Notwithstanding the clamor surrounding higher rates, today's rates look quite low in the context of history (rates were over 20% in 1979!). Rates were also higher in the late 1990's than today.

In raising rates in the dramatic fashion that occurred from March 2022 to July 2023, the Fed sought to slow the economy down and reduce inflation back to an annualized rate of 2%. Inflation peaked at 9.1% back in June 2022, and dropped to 3.1% as of November 2023. It appears the Fed is tracking toward its goal and low unemployment suggests we may even have a "soft landing".

Where Are Rates Heading?

A useful tool in predicting rate increases and decreases is the CME FedWatch. The Fed Funds rate is one of the most influential interest rates in the U.S. To hedge against potential changes in short-term interest rates, market participants turn to 30-day Fed Fund Futures contracts. These contracts are listed monthly. Using this information, CME Group created the FedWatch tool. It acts as a barometer for market participants to gauge the market's expectation of potential changes to the target rate while assessing potential Fed movements around FOMC meetings.

The most current prediction indicates a 40.3% chance of a 25-basis point reduction and a 48.9% chance of a 50-basis point reduction by the May 1, 2024 meeting of the Fed. By the July 31, 2024, meeting, FedWatch predicts a 41.6% chance that we will be 75 basis points below our current rates and a 40.4% chance that we will be 100-basis points below.

Finally, by the end of next year, FedWatch predicts a 28.6% chance that we will be 125 basis points below today's rates, a 36.3% chance that we will see a 150-basis point reduction and a 19.3% chance we will be 175 basis points below current rates. Rolling this all up, statisticians would say that FedWatch anticipates rates a year from now will be 138 basis points below today's rates.

Now the one thing about FedWatch is that their predictions are anything but static. The calculation changes weekly and is dependent on many factors. It does not, however, include the influence of geopolitical issues, consumer sentiments and similar related factors. That said, the unequivocal trend line is that meaningful rate reductions should occur this year.

Impacts on Lending.

As rates rose, commercial real estate lending fell. Debt coverage ratio tests became more difficult to achieve, especially in the climate of stagnant, or in some cases, declining operating revenues. In addition, the hardest hit sector (office) and the most speculative category (new construction) became persona non grata to banks, while alternative lenders saw their own credit facilities pulled or reduced, constraining their ability to lend. Debt leverage has historically been used by investors to increase returns. While rates rose, cap rates did not rise in lock step with them, so borrowers grew increasingly reluctant to invest, as the use of debt (in the form of negative leverage) drove down already marginal returns.

Looking forward to 2024 and 2025, I see us returning to a more normal environment. Over the past year, we've seen cap rates in our markets trend up, in some markets, quite significantly, as sellers were forced to acknowledge that buyers were no longer going to overpay for assets. Over the last quarter, we've tracked a number of apartment investments close at "neutral leverage"; i.e., where the cap rate was at or near the interest rate on the corresponding debt. From a lender's perspective, neutral or positive leverage makes the credit decision much easier than a transaction with negative leverage. In the event cap rates stay near current levels (and historically, changes in cap rates have lagged changes in interest rates, both up and down), and rates fall, lenders should be able to make more loans, as they will be more comfortable with their credit decisions.

Impacts on Deposit Rates.

Money market and CD rates have been hovering around 5% since the middle of 2023. Short term treasuries peaked in the mid-5% range, and have slowly ratcheted down, but they remain elevated. The 6-month treasury yield now sits at about 5.25%, down from a peak of 5.6%. As the Fed reduces rates over the course of the next couple of years, the rates investors receive on treasuries and money market instruments will also fall. The high rates of return for sitting on cash led many investors to keep their money there instead of investing.

As yields on short-term cash fall back down into the 4% range, or, even lower, we would expect that investors will view holding cash as less attractive. In turn, this should stimulate more investment activity.

Impacts on Commercial Real Estate Investments.

We expect that commercial real estate investment activity will pick up throughout the coming year. Buying quality

assets now below replacement cost with neutral or slightly positive debt leverage should prove to be a successful strategy, especially if you have the option to refinance in two or three years when rates should be significantly lower. The metrics of neutral or possibly positive debt leverage should increase investor confidence, and subsequently deal flow. The national brokerage firm Marcus & Millichap recently estimated that there is $300 billion of capital sitting on the sidelines waiting to pounce on opportunities. As rates start to head down, that capital will be put to work.

Predictions for 2024.

1. Rates will fall in 2024 by 100-150 basis points.
2. The reductions will not be significant enough to save many troubled real estate investments, especially given static income numbers.
3. Investment activity will increase, especially in the second half of the year.
4. 2024 will be an opportune time to purchase quality real estate assets, either all cash or with shorter term debt, and then refinance those assets in two or three years at lower rates.

One final prediction on the lighter side: There will be less snow than in 2023 but it really won't matter that much if you enjoy skiing or boarding like I do. I hope that 2024 will be a healthy and prosperous year for you.

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

Getting Things Done in 2024

By Brent Rivard, Managing Director

There are a few moments in your life that are inflection points – where the course of your life and career can change significantly. Some of those points are easy to figure out. The college you choose to go to creates a new path to develop relationships with friends, job opportunities and the team you'll root for your entire life no matter how bad they are (check UCLA basketball this season). Getting married and the decision to have children and build a family is definitely an inflection point. Changing jobs or careers can be inflection points that lead you down new paths for personal and professional growth. For me, one of the more impactful inflection points happened in 2007 and impacted my personal and professional growth to this day.

In 2007 I joined the real estate world as CFO of Grubb & Ellis/BRE Commercial in San Diego working for John Frager who is currently an Executive Managing Director at CBRE and a member of Pathfinder's Advisory Council. John introduced me to David Allen's book, *Getting Things Done: The Art of Stress-Free Productivity, or "GTD"* for short. Reading *GTD* and adopting David Allen's methods on productivity was an inflection point in my life. Unlike other productivity methods that I had read and tried previously, *GTD* was a philosophy that I could follow and which fit into any productivity system that worked for me.

Prior to *GTD*, I was a list guy. I would start each day creating a new list of the "tasks" on my plate. I also had hundreds of emails that needed attention, mail that needed to be opened, voicemails that needed to be responded to and even more in my head that would never make it out! It was difficult to prioritize because I didn't have one place or system to review my tasks and projects. There are several facets of the *GTD* philosophy that have become part of my DNA over the last 16 years. As we enter 2024 with an increased level of optimism for the economy and the real estate market, I believe we'll

see a lot more activity and opportunities. I thought now would be a good time to reflect and share my top four *GTD* strategies to prepare for a much busier 2024.

- **Create a Trusted System** – At the core of any productivity methodology is some sort of system to keep you organized. One of the things that drew me to David Allen's GTD methodology was that there is no perfect system for everybody. Some people work well with creating lists on paper. Some people keep folders and binders and some use technology. For me, I adopted Microsoft Outlook "Tasks" or "To-Do Lists" to stay organized. Every project, task, idea, etc. is in an Outlook task and is categorized. I've simplified my system over the years so tasks are in a few categories. "Work" tasks are ones that I do when I'm sitting at my computer. These could be phone calls to make, documents to review or other work-related tasks. By having them all in one place, I can review regularly and prioritize. "Waiting for" tasks are items that I've delegated to others. By creating a task to review regularly, I don't have to remember what I sent keeping my mind free for other ideas. "Someday/Maybe" tasks are ideas or thoughts that are not ready for action today but also things I don't want to forget. It doesn't matter how you organize your system, but I believe it's important to have a system that you trust. My system allows me to focus on what's important, work on the right stuff at the right time and increase productivity.

- **Mind Like Water** – In *GTD*, David Allen describes a pebble thrown into a calm pond. The water reacts with ripples, the pebble disappears, and the ripples go away after a few seconds. In the same way, thoughts or ideas come into our head and if we let them stay there, they create constant ripples

that interfere with our productivity. A "mind like water" gets those thoughts out of our head and into our trusted prioritization system. I primarily use email to myself to get ideas, tasks and anything else off my mind. In fact, in preparation for this article I looked back at how many emails I sent myself in 2023. It was an astounding 936 emails – almost 3 per day – most of which just have something in the subject line. What do I do with these emails? I clear them out each day and either complete them or put them into my trusted system. Mind. Like. Water.

- **Do It, Delegate it, or Defer It** – Whether it's an email, voicemail or snail mail, if it's something that requires action, David Allen suggests three primary options. The first option is that if it can be done in less than two minutes, then just get it done. This might be the most powerful part of his philosophy. The joy of completing a task, checking that box or crossing out that line on the paper is very satisfying. The second option is delegating the task. If it is a task that you need somebody else to do, send it off but also create that "Waiting For" on our own list so you don't forget what you sent. The third option is to defer the task by putting it on your calendar or in your system to be done later.

- **Each Day Empty** – This is the most difficult part of *GTD* in my opinion. David Allen suggests that you end each day with an empty "in" box. Most of our work comes to us via email or some other technological solution (i.e. Slack) these days. It is difficult to get your email inbox to zero every day but taking time to "process" your emails with the options above and get them into your trusted system pays dividends in productivity. I get as much joy out of deleting emails (and unsubscribing from lists) as I do from checking off tasks.

I believe *Getting Things Done* changed my life and career path and was the single most important career inflection point in my life. The added benefit was that it didn't just impact my work productivity, it also had a positive impact on my personal and family life. I'm thankful to John Frager for introducing it to me so many years ago and looking forward to a productive and successful 2024. Happy New Year!

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

ZEITGEIST – SIGN OF THE TIMES

Class-B: Multifamily's Goldilocks Sector

Multifamily real estate is widely considered a stable asset class and class-B apartments – which fall between class-A (luxury) and class-C (lower-end) – have proven particularly steady during challenging economic times. This stability is a result of the ongoing demand by middle-income renters for apartments that offer a balance between affordability and amenities.

From 2011 to 2023, rents on class-B apartments grew in 136 of 144 months (94%) compared with fewer than 80% of months for both snazzier, class-A and dowdier, class-C properties. Class-B properties are also a resilient sector. During the pandemic in 2020, class-B apartment revenue fell 9.1%, compared to declines of 13.4% and 11.4% for class-A and class-C properties, respectively.

Rents for unrenovated, '80s and '90s-vintage, class-B apartments have historically rented for about one-half of new, class-A properties. According to a recent *Cushman & Wakefield* report, tenants who moved from class-A to class-B apartments saved an average of $540 per month. While not as luxurious as class-A apartments, class-B properties are more modern and have more amenities than class-C properties. This balance helps make class-B apartments an attractive option for many tenants, especially those looking for value without sacrificing quality.

For investors, class-B apartments represent an opportunity to add value through renovations. By purchasing unrenovated, class-B properties and upgrading the common areas and apartment interiors, investors can increase rents while offering a 25-35% discount to class-A properties – a compelling value for middle-income renters and an attractive investment opportunity for experienced operators.

Apartment Distress and 2024 Buying Opportunities

Multifamily financial performance has done an about-face since its historic rally in 2021-2022, following the post-pandemic economic boom. According to *RealPage*, investor demand peaked in the fourth quarter of 2021 with over $161 billion in multifamily sales transactions.

U.S. occupancy and rent growth followed suit, peaking in the first quarter of 2022 at 97.5% and 17%, respectively. By the second quarter of 2022, occupancy and rent growth began to cool as inflation engulfed the economy and the Federal Reserve began raising interest rates – eventually bringing the Fed Funds rate from 0.00%-0.25% to 5.25%-5.50%. In parallel, an influx of new apartments came online as developers who started construction in the boom times of 2021-2022 delivered projects. In response to the cooling economy and increased supply, occupancy has fallen to 92.5% and rent growth is currently below 1%.

Meanwhile, nearly $500 billion of multifamily loans are set to mature in 2024 and 2025 and refinancing will be extremely challenging because of lower property values (down 20%-25% from the peak) and a tighter lending environment. A recent *Newmark* report noted, "These maturities will struggle to refinance even before taking valuation concerns into account. The maturing loans are biased toward commercial real estate CLO's (collateralized loan obligations), which include higher shares of transitional, floating-rate debt."

In addition to significantly tighter lender requirements and lower property values, refinancing will be further challenged by higher operating expenses (because of inflation) and significant increases in insurance expenses due to a massive number of weather-related claims in recent years. Lenders are providing well-capitalized and experienced operators with the opportunity to recapitalize, modify and extend their loans, but many others will be forced to sell – likely taking significant losses. As a result, many investors believe 2024-2025 will present an opportunity to acquire apartments at attractive prices.

TRAILBLAZING: V-ESPRIT, AURORA (DENVER), CO

"Enriching Lives in the Golden Hour"

According to the U.S. Census Bureau, the number of Americans 65 and older is expected to grow from 56 million in 2023 to over 95 million by 2060, a 70% increase. Advances in healthcare, better access to medicine and healthier lifestyles are contributing to longer life spans with many individuals now living into their 80's and beyond. The increase in the aging population has led to a surge in demand for senior living communities – a trend that we've monitored closely over the last decade.

In May 2017, we discovered V-Esprit (previously named Shalom Park), a 104-unit, age-qualified (55+) independent living community in Aurora, Colorado, ten miles southeast of downtown Denver. V-Esprit is situated on 14 acres and features breathtaking views of the Rocky Mountains. Residents have access to the adjacent Shalom Park amenity center, which includes a fitness center, therapeutic pool, salon and bistro.

When we purchased the property, V-Esprit consisted of 60 apartments and 44 patio homes and featured secured access, a theater room, a dining area and a library. The property was less than 40% leased and suffered from numerous operational issues. Our business plan included rebranding the property, implementing professional management and renovating the common areas and apartment interiors.

Our common area renovations included converting four apartments into a fitness room and card room (reducing

V-Esprit – Renovated Resident Lounge

the unit count from 104 to 100) and expanding the size of the resident lounge.We also renovated the theater room, dining room, common area hallways and added an outdoor BBQ and lawn game area.

We have renovated 66 apartments and recently constructed 14 “villas” on an adjacent parcel, increasing the unit count to 114. Each villa is 1,500 square feet and includes two bedrooms, two bathrooms, a den, laundry room, fireplace and attached garage.

Residents at the community benefit from maintenance-free living, on and off-campus transportation, concierge services and a variety of social activities. V-Esprit is an ideal setting for those seeking an elevated and convenient lifestyle in their golden years.

V-Esprit – New Patio Home

V-Esprit – Patio Home Model Unit

Baby Boomers: Did you know?

According to *Forbes*, Boomers – those born between 1946 and 1964 – are the richest generation in the world. Boomers are expected to pass down $84 trillion in assets through 2045, with $73 trillion going directly to heirs, particularly their Millennial children. This substantial wealth transfer is poised to position Millennials as the next wealthiest generation in history. This represents a significant change in fortune for Millennials, who have faced economic challenges including the 2007 financial crisis, high college debt and unaffordable home prices.

NOTABLES AND QUOTABLES

"Patience"

"Patience is bitter, but its fruit is sweet."

- Jean-Jacques Rousseau, *Swiss Philosopher*

"The strongest of all warriors are these two – time and patience."

- Leo Tolstoy, *Russian Author*

"To lose patience is to lose the battle."

- Mahatma Gandhi, *Indian Political Activist*

"Two things define you: your patience when you have nothing and your attitude when you have everything."

- George Bernard Shaw, *Irish Playwright*

"Patience is when you're supposed to get mad, but you choose to understand."

- Unknown

"Patience is the road to wisdom."

- Kao Kalia Yang, *Hmong-American Author*

"When it comes to patience, we don't have to change old habits; we can build better ones."

- Sue Bender, *American Author*

"Be patient and tough; someday this pain will be useful to you."

- Ovid, *Roman Poet*

"Patience and perseverance have a magical effect before which difficulties disappear and obstacles vanish."

- John Quincy Adams, *U.S. President*

"Patience is not the ability to wait but the ability to keep a good attitude while waiting."

- Joyce Meyer, *American Author*

IMPORTANT DISCLOSURES

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