IN THIS ISSUE

We are pleased to announce the launch of Pathfinder Multifamily Opportunity Fund IX, L.P. (the "Fund"). We are targeting a $100 million fundraise with favorable terms for investor commitments received before June 30, 2024. Contact us for more information on the Fund or click here to view a brief video about Pathfinder.

CHARTING THE COURSE

What Schrödinger's Cat Tells Us About Inflation and Interest Rates

By Mitch Siegler, Senior Managing Director

Schrödinger's cat is a thought experiment in physics which imagines a cat inside a steel box alongside a flask of poison and a radioactive material connected to a Geiger counter. If the Geiger counter detects even an atom of the radioactive material decaying, the flask is shattered, releasing the poison, killing the cat. If not, the cat lives out the balance of his nine lives. Since no one knows precisely what is happening inside the steel box, physicists must treat the cat as both dead and alive at the same time.

In a sense, the U.S. Federal Reserve ("Fed") operates in a similar fashion and economists and investors are left guessing about what's happening. Like the cat, which may be alive and dead at the same time, inflation may be cooling and overheated simultaneously. On the one hand, there are signs pointing to cooling inflation, leading many to conclude that interest rate cuts are just over the horizon. On the other hand, inflation remains too high and Fed pronouncements about upcoming interest rate reductions are sketchy. Pundits are puzzled by statements that make the Fed seem bilingual in English – various statements and pronouncements can make inflation seem both overheated and benign concurrently.

That may explain some Fed flip-flopping on rate cuts, which many had previously expected to begin in early 2024. Mixed signals on inflation have caused the Fed to hold rates steady this year and the Fed's current body English suggests that meaningful third quarter rate cuts aren't in the cards, as the inflation picture remains opaque and because of political concerns about rate cuts just prior to a presidential election. Smart money is now betting on two rate cuts in the fourth quarter of 2024 (maybe preceded by a small cut in September) and accelerating in 2025.

Economics: It Ain't What it Used to be

Forty years ago, when I first studied economics, the basic principles felt straightforward. Plotting supply and demand curves helped us understand the direction of prices – higher if demand exceeds supply, or lower if supply pressures were greater. The Phillips curve was a simple tool to demonstrate tradeoffs between inflation and employment – one rises while the other falls.

Today, we are bombarded with amorphous economic concepts like modern monetary theory ("MMT"), which postulates that government spending and taxation should be used to achieve full employment and price stability, irrespective of where we are in an economic cycle, and that government deficits don't have consequences. While the effect of unlimited spending on individual or household budgets is clear, MMT proponents are convinced that prudent household budgeting is unnecessary at the macroeconomic (governmental or societal) level – and spending more than you have won't materially affect inflation or the prices consumers pay. Some politicians are particularly taken with MMT since more spending appeals to more interest groups leading to more votes. Count us among the skeptics as to the prudence of such approaches or the negligible impact on prices and inflation from spending whatever the heck you want irrespective of your income or savings.

A View to Economic Growth in the Second Half of the Year

In a May interview, Ellen Zentner, Morgan Stanley's Chief U.S. Economist, set forth the firm's view on the economic outlook for the second half of 2024. In Morgan Stanley's base case, the U.S. economy is forecast to remain strong, but U.S. gross domestic product (economic) growth is slowing, from 3.1% in the fourth quarter of 2023, to 2.1% in the fourth quarter of 2024 and into 2025. Decent growth still, but certainly slowing.

Morgan Stanley attributes the continued economic growth to increased immigration driving population growth, which will continue to expand the labor supply and support the economy, without increasing inflation. While the labor market during the pandemic was characterized by persistent labor shortages, the availability of labor is now increasing, and could outstrip demand this year. The firm believes this will boost the unemployment rate from 3.7% at the end of 2023 to 4.2% at the end of 2024, and to 4.5% in 2025.

Because immigration and population growth boost the labor supply, Morgan Stanley expects slower wage gains as unemployment rises. That will crimp consumer spending in 2024 and into 2025 as a cooling labor market weighs on growth in real disposable income and elevated interest rates keep borrowing costs high.

Tighter Lending Standards

We're seeing the effect of tighter lending standards on credit availability all around us. Defaults on automobile loans increased 13% from March 2023 to March 2024. That's the highest level in 30 years, according to Fitch. Credit card loan defaults have jumped 50% from 2023 to 2024, according to the New York Fed. You may be insulated, dear readers, but the data shows that ordinary Americans are feeling the pinch of higher inflation and interest rates and a slowing economy.

Real estate investors are feeling the impact of tighter lending standards, too. Many of those who acquired properties at the recent peak a couple of years ago used higher cost, higher leverage loans to finance their purchases. Those were the only loans they could find which would support those late-cycle acquisitions. Many of these loans were floating rate (adjustable) and shorter-term in nature (often three years). About $500 billion of such loans are maturing in 2024-2025 in the multifamily space alone. The situation for office loans is even uglier. Many of these borrowers will have no choice but to sell their properties, often for 25% to 30% below what they paid, wiping out their equity. We launched Pathfinder Multifamily Opportunity Fund IX, L.P. this spring to capitalize on the opportunity. Let us know if you'd like to participate in the Fund IX initial closing at the end of June.

What's Ahead for Interest Rates?

We agree with Morgan Stanley that lower rates are on the horizon, which should boost housing demand and spending on household goods in mid-2025. We're heartened by the April data, which shows prices for rents, goods, and services decelerating.

The Fed has held the policy rate steady in the 5.25% to 5.50% range since July 2023. Morgan Stanley expects the Fed to deliver the first 0.25% rate cut this September. In total, Morgan Stanley expects 0.75% rate cuts this year, and another 1.00% in cuts by mid-2025. That would lower the Fed Funds rate to around 4.5% by December and to about 3.5% by the end of 2025.

But even before rate cuts, the Fed has announced it will start phasing out Quantitative Tightening ("QT") in June. Morgan Stanley expects QT to end entirely around March 2025, when the Fed's balance sheet is a little above $3 trillion. Reduced QT should be stimulative to the economy, like interest rate cuts.

So, is inflation cooling or still too high? Is the cat alive or dead? The picture ought to become clearer in the months ahead.

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

Lessons from the WeWork Debacle

By Lorne Polger, Senior Managing Director

Although we do not invest in the office sector, I've followed with a keen eye the roaring success and subsequent dismal failure of WeWork, the office investment company known for its hip co-working environments.

WeWork professed to be a revolutionary technology start-up. The reality was quite different. Notwithstanding the catchy logo, marketing and space design, WeWork was, at its core, an office landlord that subleased its space and grew without control of operating costs. Investors, even incredibly savvy ones like SoftBank's Masayoshi Son, were so busy looking for the next unicorn (a startup with billion-dollar+ value) that they overlooked an important detail. The company's costs grew faster than its revenue.

WeWork was not the first to go down this slippery slope and they won't be the last. Faced with losses, most well-managed companies would slow growth and concentrate on profitability. Instead, co-founder and CEO Adam Neumann raised more and more capital (at higher valuations!) hoping to "work his way out of the hole" by increasing the paper value of the business. Of course, that's a house of cards.

WeWork grew rapidly. In 2014, their revenue was $74 million; its operating loss was $88 million. By 2019, the year Neumann left the company, its revenue had climbed to over $3 billion, and it was valued at an astonishing $47 billion. But its debt grew as fast as its revenue. That same year, its losses came in at $3.3 billion. Those losses peaked in 2021 at $4.4 billion. Growth is great if profit is a part of it. But growth for growth's sake is a dangerous concept.

The house of cards collapsed with WeWork's chapter 11 bankruptcy filing in 2023. Their bankruptcy schedules listed $15 billion of assets and about $19 billion of debt.

I've learned more from my mistakes than my successes. As entrepreneurs, investors, and mentors to other young entrepreneurs, we believe there are several prudent lessons from the WeWork story.

Create a Win-Win Financial Structure at the Outset.

WeWork raised over $12 billion privately. Yet, notwithstanding the skyrocketing valuations, even early investors were crushed in the end. In an article on the company, Bloomberg noted: "WeWork has become an extreme example of the excesses afforded to technology entrepreneurs in the era of unicorns. Neumann was able to raise billions of dollars at astronomical valuations and spend freely, while retaining effective control over operations through special classes of stock." Many critics of WeWork pointed out that the primary person who stood to profit from the company's IPO was its CEO. That's an inherent conflict of interest.

When Mitch Siegler and I started Pathfinder in 2006, one of our key tenets was to create a win-win investment relationship with our investors. We avoided heavy fees (large acquisition fees that are paid regardless of the success of the investment; disposition, debt placement and recapitalization fees, etc.) or getting paid regardless of how our investors did. By structuring our investment funds in a manner where most of our profits are derived from shared winnings, we created an alignment of interest with investors. As we've said for years, the general partner should only win if all partners win as well. When we invest with and/or mentor others, we continue to strive for that alignment of interest between sponsors and investors.

Adopting Good Governance Rules.

A strong and healthy Board of Directors can provide important strategic direction, industry expertise or connections, and accountability. This was missing from

WeWork. Neumann took $700 million out of the company just before the IPO. He also owned properties that WeWork then rented – a conflict of interest. A strong Board could have steered WeWork away from conflicts of interest and might have allowed the company to prosper.

It's not uncommon for startups – or even older, closely-held businesses – to lack a strong governance structure. It's much easier to run hard with the founder in charge, without guardrails. But savvy investors expect more.

Pathfinder is a partnership, which brings inherent checks and balances. We also created an advisory board 15 years ago. While advisory in nature, this group has provided tremendous feedback on important decisions, including those relating to key strategic decisions and governance. Good governance and checks and balances are key features we look for when we invest in and mentor other companies.

Using Your Talent the Right Way.

Neumann was a gifted salesman and visionary and a prolific fundraiser. And the more money he raised, the more he enriched himself.

Ironically, for someone who preached about creating connected communities, he was massively self-centered. In hindsight, his role should have been as visionary and fund raiser, while leaving the business operations to those with that strength. I recall sitting in a meeting with my Vistage chapter (a group of senior business executives) about ten years ago. The speaker was a former founder and CEO who had led his company's growth to over 500 employees. At one point, they started to focus more on profits than growth and decided to downsize. His view? "We did not have the right people on the bus." You could also ask yourself; do you have the right people in the right roles for their strengths? Sally may be tremendous at marketing, but is she the right person for the investor relations role? Tom may be a great salesperson, but is his role as a sales manager the right fit? WeWork brought folks on to fuel growth, but not profitability.

Understand What Sustainable Growth Looks Like.

Taking the right decisions for your business sometimes means compromising. It is impractical to try and expand beyond your means, so you must be realistic about your investments.

WeWork spent like drunken sailors. They snapped up properties in the most expensive areas of the most expensive cities. While this may have impressed investors and clients, it was not sustainable. Many of our competitors in the apartment world did the same things in 2021 and 2022, when prices were at all-time highs. How did they typically justify it? They had capital to deploy, and they could make the investments work with high leverage, typically at floating rates. Ugh. As we are seeing now that story doesn't end well (small plug…unless you're a prudent investor who has been waiting on the sidelines for a couple of years to pounce on those opportunities…ask us about Pathfinder Multifamily Opportunity Fund IX).

As challenging as it can be to simply wait and bide your time can be (we sat on the sidelines for the past two years), planning smaller and more achievable steps to maintain forward momentum creates a more solid foundation for long-term growth and success.

Do Not Underestimate Your Risks.

No entrepreneur is entirely risk averse, but understanding the line between manageable risk and unmitigated risk is critical. Neumann did not understand that distinction. To drive down the rates it paid to landlords, WeWork would typically sign 15-year leases, much (much!!) longer than the industry standard, which these days is 3-5 years. Given that their business model was to then sublet their space on a short-term basis to its co-working tenants, the company was continuously scrabbling to reduce churn, without any assurance that it could meet its obligations.

When Covid-19 hit and demand for office space fell away, all WeWork could do was try to negotiate its way out of bad leases. House of cards.

We've mitigated our risks at Pathfinder over the years with multiple strategies. We use primarily fixed rate debt and match the term of the debt with the term of our funds. We don't over leverage (today, we are less than 60% leveraged across our portfolio of 36 apartment communities). We don't cross collateralize assets. We underwrite conservatively. We maintain sufficient property and liability insurance. We haven't chased deals in the next "you gotta be here" place (Boise and Orlando come to mind). Risk planning should be front and center in every discussion about growth.

Be Prepared to Pivot.

WeWork had no plan B. The company exploded and expanded when money was cheap, and demand was high. They were crushed when the pandemic changed how and where people work. They had no other direction and could only plough ahead in the same manner, struggling to service their massive debt in the face of rising interest rates.

Agility is key because the business landscape is always shifting. We started our business in 2006 with a singular focus on distress. When the distress ran its course around 2012, we pivoted to focus on value-add investments. When the value-add space got overheated, we pivoted to focus on core plus investments. And now, we're pivoting again to refocus on distressed and opportunistic investing. As a business owner, you must continually ask yourself if your company has the capacity to change direction?

My takeaway from WeWork: there must be a balance between rapid growth and level-headed planning. There needs to be something to fall back on when times get tough.

Establishing A Point of Difference.

For all the hype about WeWork's disruptive presence, the basic elements of their business were surprisingly traditional. It was a commercial property company in a world full of commercial property companies. It had its own style, of course (espresso machines and kombucha in the fridge), but a major reason for its downfall was oversupply in the sector.

What is your point of difference? How are you better at something than others? Or as many investors have asked us over the years, what is your secret sauce?

Transparency.

Many WeWork backers were dazzled by the Silicon Valley sheen that distracted them from its prosaic

structure and by some of the conflicts of interest just below the surface. We think that providing complete transparency to investors (full audits, detailed quarterly reports, annual meetings, etc.) is a critical component to long-term success. When it comes to investing, the news is not always good. If you are not completely transparent when the news is bad, it's going to come back and bite you.

Conclusion.

Greed, avarice and a lack of guardrails on growth typically do not end well. WeWork's story reminds me of a quote from a real estate book I read long ago: "As you build your real estate empire, don't get lost in greed and ambition. Whether through your money, your time, your knowledge, or something else: give back."

– Brandon Turner, "How to Invest in Real Estate:
The Ultimate Beginner's Guide to Getting Started"

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GUEST FEATURE

Real Estate Reimagined: A Surge in Apartment Conversions

By Matt Quinn, Managing Director

As a growing number of office buildings become obsolete due to remote work (the national vacancy rate is 18.8% and utilization is about half of pre-pandemic levels), a record number are being converted into apartments. In 2024, over 55,000 apartments are being constructed from office buildings, more than a 300% increase in three years and over 10% of the 500,000 new apartments expected in the U.S. this year. And the trend is forecasted to continue as cities confront rising office vacancies, reduced building values (and lower property tax rolls) and an ongoing housing shortage.

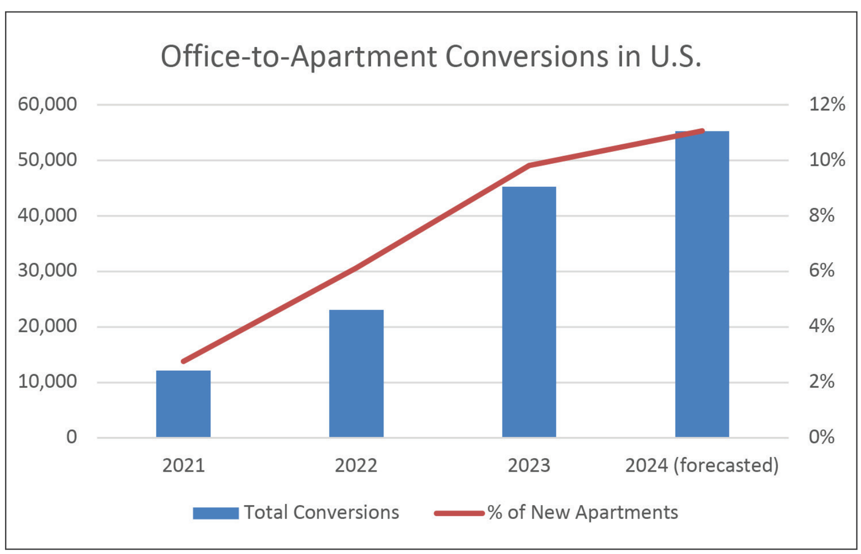
In many western U.S. markets where Pathfinder owns apartments, downtown central business districts remain challenged because of low office utilization rates several years after the end of the Pandemic. Downtown Seattle, Portland, San Fransisco and Los Angeles have been hit particularly hard. In St. Louis, entire sections of the City's central business district are vacant and the AT&T tower, one of the region's pre-eminent skyscrapers which sold for $205 million in 2006, recently sold for $3.6 million. These types of fire-sale transactions are resetting the cost bases for older office properties and helping facilitate conversions to apartments.

Washington D.C. and New York City are leading the nation with 5,820 and 5,215 conversion units underway, respectively. Since 1997, Metro Loft Management – one of New York City's premier converters – has converted 5,000 apartments and business is booming. The company is converting Pfizer's former NYC headquarters into 1,500 apartments, the largest such project in U.S. history, and the former J.P. Morgan headquarters into 1,300 apartments, the second largest. Local and state governments are supportive for various reasons, including rejuvenating struggling neighborhoods, increasing tax revenue and environmental benefits.

But converting an office building is easier said than done. A recent *Rent Café* study pegged the average age of converted offices at more than 70 years old and many are poorly lit, have low ceilings, massive mechanical systems and no outdoor spaces. Developers must be highly selective and choose buildings where conversion is relatively inexpensive or the location can justify higher costs. According to Gary London, a real estate consultant with San Diego-based *London Moeder Advisors*, "Only a small pool of obsolete office buildings are candidates for conversion, generally older buildings with smaller footprints. I fully expect to see an increase in demolition of obsolete office buildings that are not conversion candidates in the future".

Coinciding with the decline of the office sector are sea changes in retail shopping – primarily, the massive shift to online shopping that has occurred over the past 25 years. This contributes to the decline in popularity of brick-and-mortar malls and strip centers. Retail centers often have advantages over office buildings as conversion candidates, including large parking lots and horizontal construction. There is an estimated one billion square feet of obsolete retail space in the U.S. and a recent study by *Enterprise Community Centers* reported that strip mall conversions could facilitate more than 700,000 housing units, a meaningful portion of the country's 3- to 4 million-unit housing shortage.

Simon Property Group, an Indianapolis-based real estate developer, recently announced the planned conversion



Data: RentCafe; Chart: Axios "Charted: Number of office-to-apartment conversions surges" of an abandoned JCPenny in San Diego's Fashion Valley Mall into 850 residential units. The conversion represents a major addition to San Diego's housing stock, where only 4,000-5,000 units are built annually and large development sites are rare.

In California, where developable land can be scarce and expensive, there are 14,000 apartment conversion projects in the pipeline including 4,300 office-to-apartment and 3,800 hotel-to-apartment conversions. Hotel conversions are also growing rapidly. In 2023, hotel conversions accounted for 4,500 new apartments in the U.S., a 38% increase from the prior year and an all-time high. Hotels are generally easier and less expensive to convert because of their existing layouts and plumbing and electrical infrastructure. In New Orleans, the Kupperman Companies – a hotel owner/operator focused in the south – recently converted a Hilton Homewood Suites into an 86-unit, award-winning apartment complex. Like many conversions completed in the last few years, the hotel struggled during the Pandemic and was purchased at a steep discount. Because of the distressed sale and the property's existing infrastructure, Kupperman was able to complete the conversion relatively inexpensively and could provide affordable rental rates. As a result, the redevelopment was the recipient of *CoStar's* 2024 Impact Award for providing affordable housing to a community in need.

Neighborhoods with fledgling office or hotel districts are getting new life from apartment residents and retail centers, now vacant or struggling, are being transformed into apartment communities. And based on the size of the opportunity and the need for additional housing in the U.S., the trend to repurpose office buildings, retail malls/strip centers and hotels into apartments is expected to continue.

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ZEITGEIST – SIGN OF THE TIMES

Controlling Apartment Expenses While Creating New Revenue Streams

According to a recent *Yardi Matrix* analysis of 22,000 U.S. apartment properties, operating expenses rose 7.1% year-over-year, down from the peak increase of 8.7% in 2022. The Southeast led the nation with expense growth of 8.8% followed by the West (7.3%), Midwest (6.4%), Southwest (6.0%) and Northeast (4.7%). From 2019-2021, expense growth averaged 3.4%. Double digit rent growth in 2021 and 2022 softened the impact, but with near-term rent growth reverting to historical averages, elevated expenses are eroding net operating income at properties lacking proactive asset management.

The fastest growing expense in 2023 was property insurance, which rose 27.7%. Insurance companies have been increasing premiums in markets vulnerable to hurricanes, fires and floods due to high losses in recent years. Other expenses contributing to the trend include marketing (12.3%), administrative (9.6%) and repairs and maintenance (8.8%).

For property owners, mitigating expense growth requires a comprehensive and proactive management approach. To combat increases in insurance premiums, owners are digging deeper into their existing coverages. Sophisticated operators are shopping insurance coverage with multiple carriers (or consolidating carriers to achieve economies of scale) and modifying policy limits and deductibles to lower costs. To mitigate cost increases, operators are carefully analyzing the return on investment for any property improvements and focusing on tenant retention to reduce other costs like turnover, marketing and vacancy.

In addition to uncovering expense savings, landlords are focused on increasing revenue streams through initiatives like bulk internet, owner-sponsored renter insurance policies and revenue-sharing agreements with telecommunication providers. These initiatives often have a "win-win" element where the resident receives elevated services or cost savings and the landlord participates in a larger share of the upside by aggregating properties under a single service provider. In the current environment, the need for innovative and effective asset management is vital to success in apartment investing.

Wellness Amenities: An Emerging Apartment Trend

Integrating health and wellness features into multifamily housing is gaining popularity and reshaping how apartment communities are designed and experienced. The shift is being driven by Gen Z – the only renter-majority generation in the U.S. – and their increased awareness of well-being beyond physical fitness.

One of the key elements is the incorporation of amenities focused on holistic wellness, specifically mental health, and social gathering spaces that incorporate access to nature. In a recent poll by *Core Health and Fitness*, 59% of multifamily developers reported an increased demand for wellness amenities in their communities. Trends like Biophilic design – which emphasizes connection with nature using indoor plants, natural lighting, water features and fresh air – generated momentum during the Pandemic when indoor/outdoor spaces became important for safety reasons.

One River North, a newly developed multifamily community in Denver, CO, is at the forefront of the Biophilic trend and includes a man-made "canyon" amenity running through the property with a river, greenery and open-air terraces. Existing apartment communities are also by adding amenities like Zen gardens, community vegetable gardens and outdoor lounge areas aimed at reducing stress.

Incorporating wellness elements is becoming essential at higher-end apartments targeting younger renters and the rest of the industry is taking note. At Pathfinder, we have long been advocates for developing a sense of community through outdoor gathering spaces, dog parks, community gardens and thoughtful landscaping. We expect to expand this approach in parallel with evolving renter preferences.

TRAILBLAZING: ACCESSORY DWELLING UNITS

"Promoting Affordability and Creating More Housing"

Las Palmas – Laundry Room Converted to ADU

Accessory Dwelling Units (also known as ADUs or granny flats) have become a significant housing trend in several of the nation's most housing-constrained markets, including California, Oregon, Washington and Colorado. These secondary residential units, typically built on the same lot as a primary dwelling, play an important role in providing additional housing to communities that suffer from increasing unaffordability and a shortage of developable land.

When developed correctly – with a mindful approach to parking and maintaining the character of the surrounding neighborhood – ADUs are a versatile housing option that can provide additional rental income for the property owner or housing for an aging parent or family member. Additional benefits include:

Increased Housing Supply: ADUs contribute to the overall housing stock without the need for large swaths of developable land. In some California cities, ADUs now account for 20-30% of new housing units, playing a substantial role in addressing the housing shortage.

Affordability: ADUs are typically smaller units (studios and one-bedrooms) that provide a relatively affordable housing option at rents lower than those of larger apartments.

Economic and Social Benefits: ADUs can increase a property's value and create additional rental income, benefitting their owners. Socially, they support multigenerational living, allowing family members to live close by while maintaining privacy and independence.

Many states are implementing legislative changes to encourage ADU development and streamline permitting. California has been at the forefront of this movement – passing laws to speed up the approval process and reduce fees. Oregon, Washington and Colorado recently followed suit and enacted their own sets of incentives to promote the construction of ADUs.

Pathfinder has completed ten ADUs at six properties and we are currently building several more. We generally build one or two ADUs at a property and are careful to consider parking ratios and architectural character.

In constructing our ADUs, we seek to convert existing spaces like laundry rooms, maintenance rooms, garages and tuck-under parking spaces. In many cases, we've added fencing to create private yards, a desirable amenity for renters with pets. Our experience with ADUs has been a great success and our residents are loving their new living spaces.

Pathfinder ADU Studio Unit

NOTABLES AND QUOTABLES

"Opportunity"

"Opportunities are like sunrises. If you wait too long, you miss them."

- William Arthur Ward, *American Author*

"Opportunity dances with those already on the dance floor."

- H. Jackson Brown, *American Author*

"Let your hook be always cast; in the pool where you least expect it, there will be a fish."

- Ovid, *Roman Poet*

"Nothing is more expensive than a missed opportunity."

- H. Jackson Brown, *American Author*

"Every wall is a door."

- Ralph Waldo Emerson, *American Philosopher*

"A pessimist sees the difficulty in every opportunity. An optimist sees opportunity in every difficulty."

- Winston Churchill, *British Politician*

"I say luck is when an opportunity comes along and you're prepared for it."

- Denzel Washington, *American Actor*

"The reward for work well done is the opportunity to do more."

- Thomas Edison, *American Inventor*

"Pressure is nothing more than the shadow of great opportunity."

- Michael Johnson, *British Olympian*

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Investing involves risk of loss and you should be prepared to bear investment loss, including loss of original investment. Real estate investments are subject to the risks generally inherent to the ownership of real property and loans, including: uncertainty of cash flow to meet fixed and other obligations; uncertainty in capital markets as it relates to both procurements of equity and debt; adverse changes in local market conditions, population trends, neighborhood values, community conditions, general economic conditions, local employment conditions, interest rates, and real estate tax rates; changes in fiscal policies; changes in applicable laws and regulations (including tax laws); uninsured losses; delays in foreclosure; borrower bankruptcy and related legal expenses; and other risks that are beyond the control of Pathfinder or the General Partner. There can be no assurance of profitable operations because the cost of owning the properties may exceed the income produced, particularly since certain expenses related to real estate and its ownership, such as property taxes, utility costs, maintenance costs and insurance, tend to increase over time and are largely beyond the control of the owner. Moreover, although insurance is expected to be obtained to cover most casualty losses and general liability arising from the properties, no insurance will be available to cover cash deficits from ongoing operations.

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