PATHFINDER PARTNERS

Intelligent, Innovative Investing™

THE PATHFINDER REPORT

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CHARTING THE COURSE

The Making of a Pathfinder Acquisition

By Mitch Siegler, Senior Managing Director

Pathfinder acquired Casa Madrid, an 88-unit, value-add apartment property in San Diego County last month. Until now, we had completed 139 acquisitions, so this purchase represents just 0.7% of the properties we've acquired since 2006. As such, it's barely worth a mention. Yet, because this is the first property we've acquired since May 2022, it's worthy of some ink.

Why the Dry Spell?

Casa Madrid is our first multifamily property acquisition in two-and-a-half years – that's a long dry spell for a firm which has historically acquired a property every couple of months. This extended hiatus, which reflects our disciplined investment approach, was triggered by the 525- basis point (5.25%) rise in interest rates from March 2022 through July 2023. (Interest rates have remained at the July 2023 level since that time.) This rapid rise in interest rates, combined with a dearth of market sellers – created two conditions: negative leverage and a plummeting of transaction activity. We'll unpack both of those below.

Typically, real estate investors benefit from the use of debt, which has the effect of "leveraging" or amplifying investment returns. Consider this primitive example: A property acquired for $10,000,000, which generates income of $600,000, provides the investor who finances the purchase entirely with equity with a 6% return on equity. Easy math, right? Now, if that investor borrows 60% ($6,000,000) of the purchase price to complement his 40% ($4,000,000) in equity, the return on equity rises to 15.0% (lower, of course, once we factor in the interest expense, which we'll ignore in this example, which is only for illustration purposes). At a high level, if the investor's interest rate is below 6%, the use of debt is accretive to investment returns; if the interest rate is above 6%, the debt service cost is dilutive to returns.

Here's the rub. For the past couple of years, the prevailing borrowing (interest) rate has generally exceeded the prevailing capitalization (cap) rates (which are essentially a measure of the price of investment properties). This has made most acquisitions unworkable for Pathfinder and other conservative (read "disciplined") investors since it created a negative leverage situation. Our Chief Investment Officer characterizes the past couple of years as a "pencils down" underwriting environment (e.g. "fubbedaboutit – no transaction can pencil"). That goes a long way in explaining why the volume of multifamily transactions plummeted about 75% since 2022!

Wither Interest Rates?

Now, short-term interest rates haven't yet begun their down move – though it appears that this is poised to change. The Federal Reserve meets in mid-September and most Wall Street analysts expect a 25 to 50 basis point reduction in the Federal Funds rate, a key interest rate benchmark. (A basis point is 1/100 of a percentage point.) This will likely be the first of two or three interest rate cuts before the end of 2024 and possibly another three to five rate cuts in 2025 – though the crystal ball becomes rather opaque that far into the future. As rates move down, the acquisition environment becomes more attractive for institutional real estate investors. That should boost values and bring more sellers off the sidelines, leading to increased transaction activity. (The wild card is how many properties will be sold by distressed owners but that's a story for another day.) We forecast lower interest rates leading to more buying and selling activity for late 2024 and 2025.

Why Casa Madrid?

So, how were we able to find opportunity in Casa Madrid, notwithstanding today's higher interest rates?

Well, the property checks quite a few of the boxes we look for when acquiring a multifamily property:

Right size, right location, in a target market?	✓
Off-market acquisition (without much competition)?	✓
Long-term owners, unsophisticated property management?	✓
Rents well below those of competing properties?	✓
Never upgraded (opportunity to capture rent premiums through renovations/ property improvements)?	✓

An important intangible: San Diego County is our backyard, and we know the market well. The vacancy rate in the County is low (around 5% in August 2024) and median home prices are high ($998,000 in June 2024) so apartment demand is likely to remain quite high. Supply is constrained as well so that's unlikely to change anytime soon.

So, we've identified a potential acquisition with many strengths, limited weaknesses and substantial opportunities for adding value. We're just scratching the surface on the many boxes we'll need to check during the Pathfinder due diligence process and before we can think about closing (Disclaimer: There's much to consider; this business is not for the faint of heart.)

Our Due Diligence/Closing Checklists (aka Think Twice Before Trying This at Home)

Month in, month out, we receive calls from long-term real estate investors who say something like "I've been investing in multifamily real estate for 42 years, but it's just become so darned complicated, and there's just so much nitty-gritty work involved…you Pathfinder guys are the pros, I'm just going to invest in your funds and let you do all the work."

And they're not wrong. We have deep relationships which allow us to access these opportunities. Our highly skilled team focuses entirely on managing, operating and adding value to apartment properties. We have expertise in property design, construction, finishes and more, enabling us to match the fit and finish of the properties with the wants and desires of tenants in that submarket.

We've learned which property features and benefits are most valued by tenants and have the skills to install washers/dryers and package lockers, build carports, add amenities like dog parks and dog wash stations, upgrade clubhouses, gyms and pool areas, construct accessory dwelling units (ADU's) and more.

We also have extensive lender relationships (critical at times like these when lenders are pickier and choosier than ever). And we have a great team of lawyers, accountants, tax and insurance specialists and third-party consultants – title and zoning experts, property condition inspectors and more – who help us navigate the pitfalls and keep headaches to a minimum. (Disclosure: Some headaches do remain, we simply can't eliminate them all, unfortunately.)

Getting Across the Finish Line

There are more than 75 items on the 2024 version of the Pathfinder "Due Diligence Checklist". We're checking entitlements, building permits and zoning regulations, reviewing the title report and verifying the certificates of occupancy. We're searching for tax liens, prior insurance claims and, prior litigation, verifying square footage, analyzing parking and verifying that necessary permits (pool/spa, elevator, etc.) are in place.

Firewalling the property – Since we're laser-focused on building in protections for our investors, we own each property in a single-purpose entity, which is firewalled from every other property in a fund. That means we need to form an entity, obtain an employer identification number, draft an Operating Agreement and a dozen things only a lawyer could love.

Building a Property Pro Forma – Meanwhile, our investment analysis team builds a comprehensive pro forma to model the property financial performance five to ten years into the future. Plenty of ingredients go into the pro forma cake, starting with historical financial statements, layering in the current rent roll and general ledger, utility, property tax and insurance costs. We check everything twice, obtain new insurance quotes and forecast future property taxes. The underwriting team also commissions a competitive market survey to understand current and potential rent levels – a key consideration in building a long-term pro forma.

Creating a Capital Expense Budget – Of course, we're looking to add value to the property, which means we're renovating kitchens and bathrooms, updating common areas, upgrading landscaping and signage and much more. To prepare the capital budget, we start with property condition reports (roofs, furnaces, drains, piping and more), You get the idea.

Leaving No Stone Unturned – Leaving nothing to chance, our team also audits every lease, brings in the termite inspector, obtains necessary third-party reports like environmental conditions, confirms that the property is not in a flood zone and much more.

But That's Not All… – We acquired Casa Madrid using equity from our newest opportunity fund (Pathfinder Multifamily Opportunity Fund IX – we're still accepting commitments, by the way) and a property-specific sidecar fund (that's closed). Having a sidecar fund means we also need to prepare a separate Investment Summary and draft a Partnership Agreement, Private Placement Memorandum and Subscription Agreement. The lawyers really seem to love this stuff and when they're finished with these, they get to jump to the preparation of the Federal and State securities filings (one of our favorite parts – not).

(Thanks for staying with us; we're almost there.) Now, we still need to finalize the loan documents, including the Loan Agreement, Promissory Note, Deed of Trust, Guaranties and Environmental Indemnity Agreements, Assignment of Management Agreements, Ancillary Loan Documents (lender-prepared consents, UCC's, W-9s) and more.

You think I'm kidding but this is basically a cursory summary of the process! To repeat, it's not for the faint of heart and there are plenty of ways to stumble if you're not experienced and highly detail oriented. When we acquire a property, we create a battle plan and assemble a great team – both staff and advisors – to execute the plan. We know the drill. We've had 139 opportunities to practice. Make that 140.

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 msiegler@pathfinderfunds.com.

FINDING YOUR PATH

Real Estate Quiz

By Lorne Polger, Senior Managing Director

I've always been a big fan of quiz shows. I started young, watching shows in the 1960's like *Jeopardy* (with its original host, Art Fleming), *Concentration* and *The $64,000 Pyramid*.

I had a near photographic memory when I was younger (the years since have not been so kind; perhaps my brain has filled up with too many contracts, acquisition pro formas and spreadsheets). I was so good at *Concentration* that I auditioned for the show in Los Angeles when I was in law school and passed the qualification test; unfortunately, I never got the call up for the show. Alas, my Hollywood career was not meant to be. My screen test for *Jeopardy* did not go as well. I knew when the first two categories out of the box were "Disney Characters" (pre-kids at the time) and "15th Century Philosophers" that I was not destined to make it onto the small screen.

It's the end of summer. Before we start hitting the books (and our deal networks) hard again after Labor Day, I thought a few interesting real estate and financial factoids would be a welcome distraction for our readers. And there is a bonus! For any of you who let me know that you got all 15 questions right (no, you cannot call a friend or Google the answers!!), I'll put you in the drawing for two tickets to your choice of a Padres, Nuggets or Avalanche game this fall.

So, readers: Let's Make a Deal!

Question No. 1:
What city has the most apartment units being delivered in 2024?

A. Houston
B. Atlanta
C. New York
D. Dallas

Question No. 2:
How many governors are on the Board of the Federal Reserve System?

A. 8
B. 14
C. 22
D. 7

Question No. 3:
What was the rate of inflation in 2019?

A. 2.73%
B. 1.81%
C. 1.26%
D. 3.09%

Question No. 4:
As of March 31, 2024, how many banks are there in the U.S.?

A. 4,577
B. 10,632
C. 8,793
D. 6,162

Question No. 5:
Who is the largest apartment owner in the U.S.?

A. Equity Residential
B. Avalon Bay
C. Greystar
D. Pathfinder Partners

Question No. 6:
What is the average rent of a 2-bedroom apartment in San Diego County?

A. $3,254
B. $2,286
C. $2,479
D. $1,965

Question No. 7:
What was the average price of a single-family home in the U.S. in 2023?

A. $495,100
B. $326,400
C. $538,900
D. $362,800

Question No. 8:
What country has the highest rate of homeownership?

A. Norway
B. Canada
C. Romania
D. Germany

Question No. 9:
What state has the highest rate of homeownership?

A. Rhode Island
B. Maine
C. Wyoming
D. West Virginia

Question No. 10:
According to Moody's Analytics, what is the current office vacancy rate across the U.S.?

A. 16.8%
B. 20.1%
C. 14.2%
D. 23.7%

Question No. 11:
According to Bankrate, what was the average 30-year mortgage rate in 1981?

A. 13.47%
B. 16.63%
C. 10.91%
D. 20.18%

Question No. 12:
What was the lowest prime rate in the history of the U.S.:

A. 0.00%
B. 2.75%
C. 1.50%
D. 3.25%

Question No. 13:
What is the current percentage of renters in the U.S.?

A. 34%
B. 38%
C. 42%
D. 46%

Question No. 14:
What city has the cheapest apartment rents in the U.S.?

A. Wichita, Kansas
B. El Paso, Texas
C. Toledo, Ohio
D. Omaha, Nebraska

Question No. 15:
In what city will the 2032 Summer Olympics be held?

A. Barcelona
B. Brisbane
C. Berlin
D. Buenos Aires

Good luck everyone! I'll report on any perfect score participants in the fall. Enjoy the cooler temps, the autumn leaves and a little bit of football.

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.

Answers:

1. C	**6.** C	**11.** B
2. D	**7.** A	**12.** D
3. B	**8.** C	**13.** A
4. A	**9.** D	**14.** C
5. C	**10.** B	**15.** B

GUEST FEATURE

Real Estate Investing Lessons Learned from a College Student, Ultramarathoner and Mike Tyson

By Jeff Wurtz, Chief Financial Officer

"Back to School!" Back-to-school feelings can vary quite a bit depending on whether you're a student or a parent. As a student, heading back to school was often a downer with the return to a structured schedule. Transitioning from lazy days to a more regimented routine can be tough – not to mention the stress that comes with a surge in homework and activities, which can be overwhelming. But as a parent, back-to-school often brings a sense of relief in returning to a structured routine and having some quiet time during school hours.

It's been a few years since our kids were young enough to really wear us out during the summer, but the summer of 2024 was one for the record books in the Wurtz home. This summer included a college graduation, a wedding, moving the newlyweds to San Francisco, welcoming one son home from Italy then sending him back to college, and bringing another son home from college and then sending him off to Mexico. And just to keep things extra interesting at home, our youngest started driving – Oh Boy! I was ready for the normalcy a new school year would bring.

As exhausting as our summer was, it was also filled with wonderful discussions that lead to some great lessons – both personal and professional.

We are the Product of our Experiences

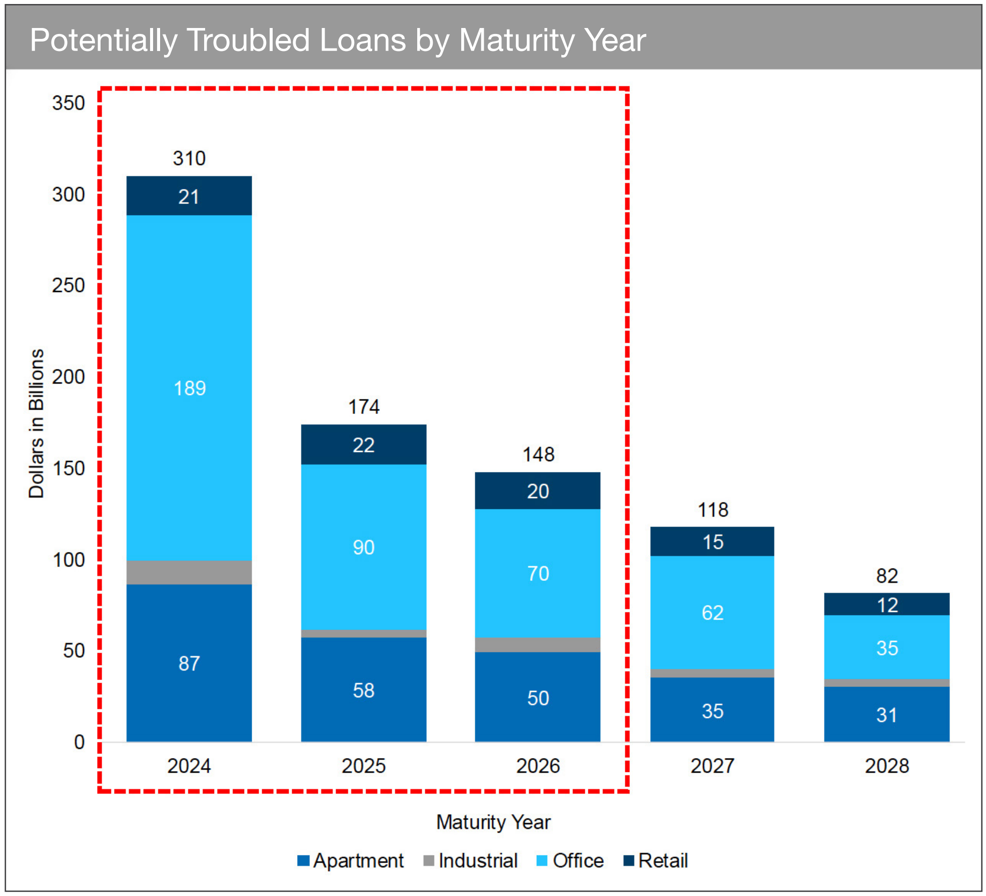
At one point this summer, my 21-year-old son asked me what I thought about him taking out a student loan to invest while in college (an idea shared with him by a friend). My initial thought was that he needs to find some new friends. But we explored the idea and had a conversation about the pros and cons, risks and rewards, if he chose that direction. As we talked, it was clear how little thought he had given to the potential downsides around the idea. I was talking to someone who had never experienced any sort of loss or negative financial outcome. He's not alone. We have a generation of college students and grads that had never known anything but financial increases – even through a worldwide pandemic.

We also discussed his budget for the school year, and I reminded him that I'm happy to be his backstop but not his bank – meaning I'll keep him from ending up on the streets, but I have no intentions of funding his Chipotle and Jamba addictions. As a parent, I'm hopeful that he gets to experience what it feels like to get to the end of the month and realize he's nearly out of money, has almost no gas in his tank, his friends invite him to do something, but he still needs to pay rent on the first of the month. Such situations provide opportunities to learn one of my favorite lessons – that we are the product of our experiences. As easy as it would be to be my son's bank, doing so would shelter him from the low-stakes experiences in college that he will need later in life when the stakes of his decisions are much larger. Unfortunately, there's no shortcut to experience. So, I hope he learns to like Ramen.

Many real estate investors and sponsors that cut their teeth in the real estate market following the Great Recession had, until 2022, never experienced a down market and knew nothing other than significant rent increases and property appreciation. With such a long stretch of "wins", it's no wonder many in the real estate world became overly optimistic about potential opportunities and the market as a whole. Their experience had produced a rose-colored-glasses view where everything looked great, challenges were minimal and potential issues ignored. Many of these people stretched their assumptions – and the prices they were willing to pay – and threw caution to the wind as they structured purchases several years ago using three-year, floating rate loans. The interest rates on those loans skyrocketed and the loans, now due, generally can't be refinanced. (Like my son and his peers, these guys are now the product of their experiences.)

Today, we are seeing the fruits of decisions made when inexperienced people thought trees could grow to the sky. According to Newmark Research, $1.2 trillion of outstanding commercial real estate loans are potentially troubled (based on loan-to-value ratios), with $632 billion maturing between 2024 and 2026.

Many in the ranks of real estate investment firms with troubles in 2024 were the same groups which capitalized on low interest rates between 2020 and 2022, buying up thousands of apartments using floating-rate debt. They planned to renovate properties quickly and hike rents dramatically. But once interest rates soared, so did their monthly debt service.



Skyrocketing operational expenses have also put downward pressure on income. Higher debt payments and lower income have produced big declines in debt service coverage ratios (DSCR), putting these borrowers into the "troubled" category with their lenders. About 78% had an operating DSCR lower than the one listed in their project underwriting, and 62% of all securitized real estate loans from the 2020-2022 period had a DSCR below 1.00 – a hallmark of a project not covering its expenses and debt service costs. Even factoring out current interest rates, which are likely higher than when the loan was first made, and nearly half – 46.4% – had net operating income below the underwriting assumptions from three years ago.

Some sponsors may be able to work with their lender on a modification, but most will not find the needed capital to work out a loan modification as investors are unwilling to put in good money after bad. The math doesn't make sense based on the current values and equity requirements. And while interest rates are expected to start falling, it will be too little, too late for most of these sponsors as rates would need to fall 200-250 basis points to solve most of the problems for troubled operators – an unlikely scenario in the time frame needed. (A basis point is 1/100 of a percentage point.)

Unexpected Challenges lead to Unexpected Advantages for an Ultramarathoner

My daughter-in-law recently sent me an article about Cliff Young, who in 1983, at the age of age 61, became famous for his extraordinary performance in the Sydney to Melbourne Ultramarathon, a grueling 875-kilometer (545-mile) race. What makes the story even more amazing is that Cliff Young was a farmer, unlike the other entrants who were well known and proven ultrarunners – with some holding records and others bearing sponsorships.

Despite his lack of experience and unconventional running style (developed from years of running after sheep on his farm), Young ultimately won the race, finishing in five days and 15 hours—beating the previous record by two full days. His entire story is amazing and there are several great lessons to be learned from Cliff's experience, but what stood out most was that Cliff was successful because almost nothing went right for him the first day of the race - including following another runner off course and a team member setting an alarm for the wrong time. However, the unanticipated difficulties he experienced during the first part of the race worked together for his good as he discovered he was able to perform on less sleep and with less food than was the common wisdom of he peers. His resilient response to unexpected challenges led to unexpected advantages. Cliff Young's success at the end of the race was a product of his earlier experiences.

The past five years have produced some of the most unexpected challenges to the real estate industry that could be imagined with a worldwide pandemic, unprecedented inflation and interest rate increases, social unrest in many urban markets and skyrocketing operating expenses. It's safe to say that nobody underwrote all of those assumptions. However, those of us that made it through (for the most part unscathed) have become stronger because of it. We have learned to navigate areas like pandemic-era regulations and rising insurance expenses, created ancillary income streams to supplement income and sought efficiencies to offset higher costs from inflation. Like the story of Cliff Young, unexpected challenges have led to resilience and strength.

Closing Thought from Mike Tyson: Surviving First Contact

When Mike Tyson was asked by a reporter whether he was worried about Evander Holyfield and his fight plan he answered, "Everyone has a plan until they get punched in the mouth." What Tyson said is like the old saying "no plan survives first contact with the enemy."

Real estate is inherently cyclical and mounting evidence suggests the market is approaching a growth phase. The Pathfinder team's experience in "surviving first contact" over decades of experience brings confidence as we deploy capital in the current opportunity-rich environment. We anticipate and accept that there will be challenges. We also understand that we are the product of our experiences and believe that those experiences provide us with unexpected advantages.

And while the kids moan about going back to school this fall, we on the other hand, look forward to the opportunities available during this next phase of the real estate investment cycle to those of us that have eaten Ramen, run the race before and survived first (and second, and third…) contact.

Jeff Wurtz is Chief Financial Officer of Pathfinder Partners. Prior to joining Pathfinder in 2012, Jeff worked as a CPA focused on real estate and technology clients. He can be reached at jwurtz@pathfinderfunds.com.

ZEITGEIST – SIGN OF THE TIMES

Despite Record Supply, Apartment Fundamentals Remain Strong

In the second quarter of 2024, 119,000 apartments were completed in the U.S., a 29% year-over-year increase – for a total of 460,000 deliveries during the 12-month period – a record high. The net absorption of 127,000 apartments marked the sixth-strongest quarter in over two decades. Despite the new deliveries, the U.S.'s second quarter vacancy rate was 5.5%, unchanged from the prior quarter and the first time in two years the rate has not increased.

While deliveries hit a record high in the second quarter, multifamily units under construction fell to 708,000 (about 4% of existing inventory) from a peak of 760,000 in the first quarter. With fewer units starting construction, deliveries are projected to continue to decline in 2025 and 2026 while renter demand is expected to remain strong, resulting in higher rent growth and lower vacancy rates.

In parallel, second quarter apartment cap rates (a metric used to value properties that has an inverse relationship to value) remained unchanged – for the first time since the Fed began raising interest rates in 2022 – at 5.7%. Additionally, investment volume increased 82% in the second quarter to $38.3 billion, highlighted by Blackstone's $10 billion acquisition of AIR Communities' apartment portfolio. According to Kelli Carhart, leader of *CBRE's* Multifamily Capital Markets, "market sentiment has improved significantly, as many investors believe that values have bottomed". Despite record new supply and a turbulent interest rate environment, the forecast for multifamily performance remains strong.

Pickleball: Coming to an Apartment Near You

In the ever-evolving landscape of apartment living, amenities play a pivotal role in attracting and retaining

residents. From state-of-the-art fitness centers to luxurious rooftop lounges, property owners are regularly searching for the next hip amenity to set their communities apart. The latest trend – pickleball courts – has been making waves across multifamily housing. For those unfamiliar with the sport (and likely living deep in a Himalayan cave), pickleball combines elements of tennis, badminton and ping-pong and is the U.S.'s fastest growing sport. Played on a small court with a paddle and a plastic ball with holes, pickleball is generally easy to pick up and appeals to all ages.

Compared to traditional tennis courts, pickleball courts require less space, making them an attractive option for apartment communities with limited land. Pickleball courts can easily replace existing tennis and basketball courts – and turn a single court into two or three pickleball courts – and create additional income via charging a fee for reservations, hosting leagues or tournaments and offering instructional clinics.

As apartment communities compete for residents through their amenity packages, pickleball courts are emerging as a high-demand, relatively low-cost option. Additionally, pickleball caters to a growing demand for wellness and recreation and can help foster a stronger sense of community among residents, reducing turnover and the associated operational expenses.

(Editor's Note: At one of our Phoenix, Arizona communities, Pathfinder is working to convert an unused basketball court into several pickleball courts, the first in our portfolio.)

TRAILBLAZING: INTERNET AS AN AMENITY

"The Benefits of Providing Bulk Internet at an Apartment Community"

In today's digital age, reliable and affordable internet access is essential for renters. Over 90% of U.S. apartment renters consider high-speed internet a "vital amenity" (*MultifamilyBiz.com*). Renters rely on the internet for remote work, online education, streaming entertainment, socializing and managing smart home devices.

One of the most effective ways for property owners to meet renters' growing needs for high-speed internet is by providing bulk internet to their communities. Here's how it works: The owner negotiates a contract with an internet service provider to deliver internet to all apartments at a discounted, bulk rate. Instead of each tenant establishing individual service, the entire community is covered under a single agreement. Other benefits of bulk internet include:

Cost Savings: Bulk agreements offer a reduced rate compared to individual contracts and eliminate set-up fees and hardware costs. This discount is passed on to residents, saving them 30%-40% off the retail costs.

Community-Wide Connectivity: Bulk agreements include seamless connectivity throughout an apartment community, allowing residents to access Wi-Fi in common areas including clubhouses, fitness rooms and pool areas.

Simplified Billing: Internet costs are included as a line-item on a resident's monthly rental statement, saving them from having to pay a separate bill.

Hassle-Free Setup: When a new resident moves-in, internet service is already in-place, reducing the time and waiting period to open a new account with an internet service provider.

Reliable High-Speed Internet: Under bulk agreements, service providers ensure infrastructure in the apartment community is robust enough to handle multiple users simultaneously, leading to faster speeds and more reliable connections.

Along with providing benefits to renters, bulk internet can be advantageous to property owners. Increased resident satisfaction can lead to higher tenant retention rates, reducing turnover and vacancy costs. As an added amenity, bulk internet can differentiate a property and boost its marketability. It can also generate additional revenue through a modest mark-up, creating a win-win situation where tenants receive high-quality internet at a 30-40% discount to retail costs and owners improve their bottom line.

We are in the process of rolling out bulk internet at select Pathfinder properties and are pleased to meet the internet needs of today's renters while enhancing their overall living experience.

NOTABLES AND QUOTABLES

"Patience"

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

- Aristotle, *Philosopher*

"Have patience. All things are difficult before they become easy."

- Saadi Shirazi, *Iranian Poet*

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

- Leo Tolstoy, *Author*

"He that can have patience can have what he will."

- Benjamin Franklin, *American Politician*

"To lose patience is to lose the battle."

- Mahatma Gandhi, *Indian Civil Rights Leader*

"Patience is the calm acceptance that things can happen in a different order than the one you have in mind."

- David G. Allen, *American Author*

"Adopt the pace of nature: her secret is patience."

- Ralph Waldo Emerson, *American Philosopher*

"Patience is not simply the ability to wait – it's how we behave while we're waiting."

- Joyce Meyer, *American Author*

"Trying to understand is like straining through muddy water. Have the patience to wait. Be still and allow the mud to settle."

- Lao Tzu, *Chinese Philosopher*

"We could never learn to be brave and patient if there were only joy in the world."

- Helen Keller, *American Disability Advocate*

"Our patience will achieve more than our force."

- Edmund Burke, *British Politician*

IMPORTANT DISCLOSURES

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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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