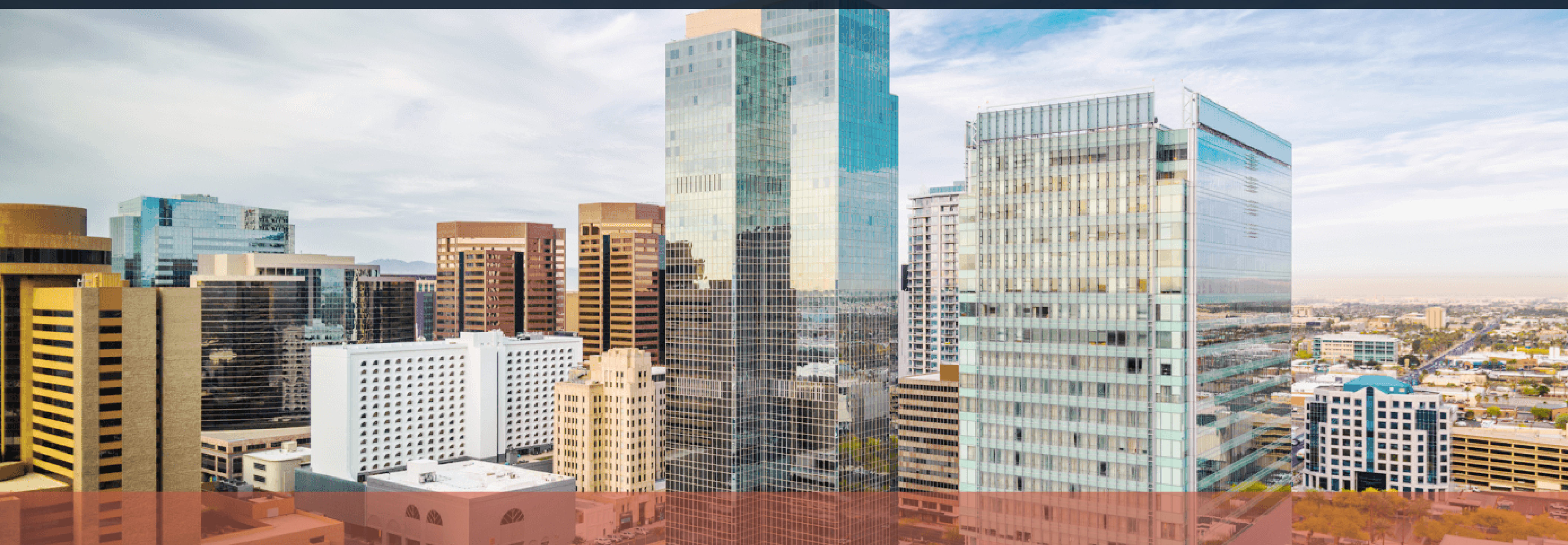
INVESTMENT OPPORTUNITIES IN THE CHANGING MULTIFAMILY PROPERTY MARKET

The multifamily asset class can deliver strong returns for diversified portfolios — but it requires investors to work with a knowledgeable partner.

WHITEHAVEN



It's a complicated time for investors of all kinds. For equity partnerships, joint ventures and other investment groups that handle other people's money as well as their own, finding and maintaining steady returns have grown **increasingly** challenging.

After a rough 2022, the equities market bounced back in the first quarter of 2023 — but not evenly. Technology stocks, which were the market's worst-performing sector in 2022, have come roaring back, but this has been driven primarily by the largest tech firms, including Alphabet (Google), Microsoft and Amazon. The banking sector, a strong performer in 2022, has been hit hard by worries around the well-publicized collapse of Silicon Valley Bank and Signature Bank. As of April, the equity risk premium — the difference between the S&P 500's earnings yield and that of 10-year Treasurys — **is at a 15-year low.**

In a time when many investment classes are either underperforming or unpredictable, many investment groups have been taking a new or closer look at real estate. Real estate has long provided a solid foundation for portfolios, thanks to its secure long-term returns and its tax advantages.

But to derive maximum value from this asset class, investors need to choose their assets carefully. Rising interest and mortgage rates have tamped down demand for single-family homes, and remote work has done the same for commercial real estate. In recent years, the multifamily subsector has proved to be strong, promising steady returns both now and in the coming years.

But the multifamily market is changing, the opportunities often hidden. Investment groups need a knowledgeable, experienced property-investment firm that understands how to identify the right properties and how to maximize their value. This partner also should demonstrate a history of strong returns.

THE PHOENIX OPPORTUNITY

During times of high inflation, leveraged hard assets such as real estate typically perform well, since investor income rises while fixed debt remains the same. In addition, real estate investment provides additional portfolio diversification and strong cash-flow generation, while delivering significant tax advantages, such as depreciation and maintenance write-offs.

Multifamily also has been a particularly strong play historically. During the 25 years ended in 2017, it delivered the **highest average annual return** in the real estate sector. More recently, it has proved to be steadier than the office and industrial subsectors. Since leases are only 12 months, this allows property owners to catch up with inflation once a year. By contrast, commercial and industrial leases are typically five to seven years. There is a structural shortage of single family residential units in many regions of the country. And the rising interest- and mortgage-rate environment is pushing people even in higher-income brackets to become tenants rather than homeowners. As a result, multifamily is likely to maintain its *upside* going forward, providing downside protection for investors.

Starting around mid-2021, the multifamily subsector once again became the most lucrative investment in real estate, with cash-rich investors driving up property prices. But the market has become more challenging in recent months.

PRICES OF MULTIFAMILY BUILDINGS DROPPED 8.7% IN FEBRUARY COMPARED WITH THE SAME MONTH A YEAR EARLIER, ACCORDING TO THE MSCI REAL ASSETS PRICING INDEX.

Rents are declining in many major metro areas, particularly for workforce housing, as residents struggle with inflation.

This isn't to say that attractive multifamily opportunities have dried up. It *does* mean that not all markets can offer those opportunities. It also requires investing in a multifamily firm that works hard to find the right properties — and can prove that its plays are continuing to deliver significant returns.

The Phoenix area is one market with a great deal of multifamily-investment upside. For the past five years, it has been at or near the top of population growth and job growth. Those strong growth trends are predicted to continue in the coming decades.

The region also is projected to experience a five-year young-adult population growth rate above 3%, one of the highest such rates in the country.

One significant source of that future employment and economic growth is its growing status as a technology hub. Chipmakers TSMC and Intel are building massive manufacturing campuses in the region; Arizona State University recently announced the construction of a new engineering school to meet the need for engineers and developers. In addition, the Phoenix region is becoming a major center for electric vehicle production, with companies including General Motors, ElectraMeccanica, and Exro Technologies establishing or expanding EV-related manufacturing and development facilities. These are important fundamentals to consider when evaluating a multifamily market, because they lead to rent growth, which, in turn, pushes up income and, therefore, valuations.

A SPECIALIST WITH DEEP MARKET KNOWLEDGE

Not surprisingly, then, the Phoenix area is **among the top 10 markets for multifamily investment**, and it's home to an abundance of multifamily properties in desirable locations. But many of these assets need to be repositioned to fulfill their value potential, with up-to-date interiors and in-demand amenities such as state-of-the-art gyms and high-tech packages.

Many large multifamily-investment companies have a Phoenix presence. But being national entities, they typically don't have the boots-on-the-ground knowledge of the Phoenix market to choose the most promising assets — particularly in a multifamily landscape where returns are no longer guaranteed.

Phoenix-based WhiteHaven has demonstrated that expertise. Founded in 2018 by principals Sam Grooms and Ben Leybovich, WhiteHaven has focused recently on higher-end properties in Greater Phoenix. Grooms, who oversees the firm's acquisitions, financing, reporting and construction, began his career at Deloitte, where he specialized in client companies' Securities and Exchange Commission filings. Leybovich, who handles new acquisitions, asset management and investor relations, has been a multifamily investor since 2006.

TOGETHER, THEY'VE BUILT A SUCCESSFUL PROPERTY-INVESTMENT FIRM UPON A FOUNDATION OF THREE CORE PRINCIPLES:

- Acquire quality assets in in-demand locations.
- Reposition the assets, extensively updating and improving amenities both inside the units and in common areas.
- Attract higher-qualified tenants, thus improving the property's operations and resale value.

"Most companies in our space are not local," Leybovich noted. "You can live in California or New York, and you can buy everywhere across the nation. We are based in Phoenix. Both Sam and I live in Phoenix. All our employees are in Phoenix. And we buy strictly in Phoenix."

Leybovich called WhiteHaven's focus on Phoenix his firm's "unfair competitive advantage." Its marketplace expertise and the relationships its principals have built up throughout their careers give the firm the ability to "see around the bend" — tracking and anticipating changes in the market in terms of location, demand, amenities and property choice. Being based in Phoenix "also enables us to handle the management of extensive renovations," Leybovich said. "We couldn't do that long-distance."

Leybovich also noted that the region has "a long-term shortage in rental units." In addition, high mortgage rates are putting single-family houses out of reach for many people, particularly younger buyers. And as Grooms noted, "You also have people that are choosing to rent. The younger generation are seeking the flexibility and mobility of a rental home."

To meet this demand, WhiteHaven acquired multifamily properties built between 1995 and 2010. These are properties old enough to justify the **roughly $40,000** the firm spends to renovate each unit, but new enough to allow the property to compete with new construction but at much more attractive basis. “When we renovate, we become the quasi-class A,” Leybovich said.

The firm’s approach is meticulous and thorough, its underwriting conservative and disciplined even as it aggressively pursues growth. WhiteHaven sidesteps the softening of the rental market by focusing not on workforce properties but on what Leybovich termed “a higher segment.”

To be sure, the classic real estate mantra of **“location, location, location”** also applies. WhiteHaven chooses properties close to upper-scale retail, restaurants, recreation and other desirable amenities. These locations also are in neighborhoods whose median incomes are above the regional average. These properties can attract well-qualified tenants willing and able to pay higher rents once the asset provides the same style and amenities of new construction.

“Everything in real estate is driven by the exit,” Leybovich noted. “That determines the type of assets we buy.” Once repositioning of its assets is complete, WhiteHaven sells them to large institutional buyers that demand “a very stable, well-qualified and easy-to-manage tenant profile.”

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Ben Leybovich
Founder and Principal, WhiteHaven

A PROVEN TRACK RECORD

The properties that WhiteHaven has purchased and repositioned have all demonstrated this approach. The returns on investment demonstrate the strength of the firm's business model and expertise.

CANYON 35

Canyon 35 was WhiteHaven's first project. The firm acquired the property in August 2018 for $8.15 million. It then renovated 99% of the asset's 98 units and its clubhouse while building a new gym — all at a cost of $1.4 million. When WhiteHaven sold Canyon 35 in August 2021 for $15.5 million, it had increased rents an average of 71% and posted an equity multiple of 1.9x.

Acquired August 2018	$8.15 million
Repositioning costs	$1.4 million
Exited August 2021	$15.5 million
Rent increase	71%+
Equity multiple	1.9x

HAVEN AT SOUTH MOUNTAIN

Acquired in February 2019 for $10.75 million, exited November 2020 for $18.15 million. WhiteHaven's repositioning costs were $1.5 million. Average rent increase was 48%; equity multiple was 1.8x.

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Repositioning costs	$1.5 million
Exited November 2020	$18.15 million
Rent increase	48%+
Equity multiple	1.8x

HAVEN ON PEORIA

Acquired June 2019 for $19.75 million, exited April 2021 for $28.7 million. Repositioning costs were $1.5 million. Average rent increase was 33%; equity multiple was 1.5x.

Acquired June 2019	$19.75 million
Repositioning costs	$1.5 million
Exited April 2021	$28.7 million
Rent increase	33%+
Equity multiple	1.5x

HAVEN ON THE RAIL

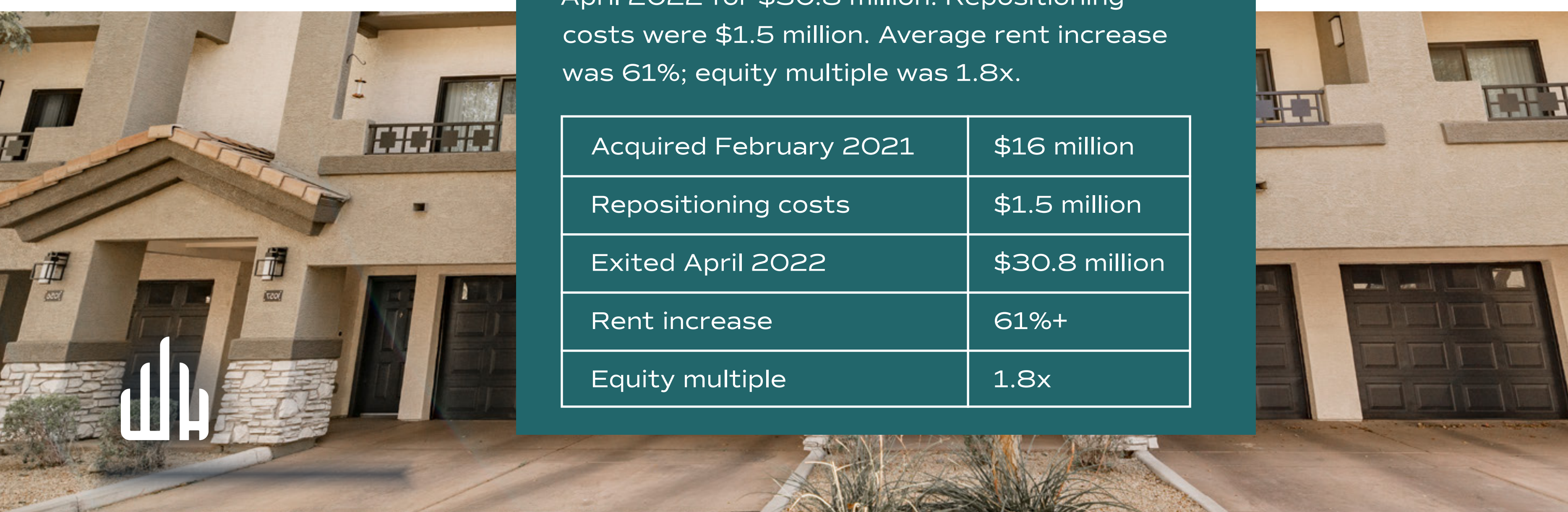
Acquired November 2019 for $10.6 million, exited August 2021 for $19.55 million. Repositioning costs were $3 million. Average rent increase was 44%; equity multiple was 2.0x.

Acquired November 2019	$10.6 million
Repositioning costs	$3 million
Exited August 2021	$19.55 million
Rent increase	44%+
Equity multiple	2.0x

HAVEN ON THOMAS

Acquired February 2021 for $16 million, exited April 2022 for $30.8 million. Repositioning costs were $1.5 million. Average rent increase was 61%; equity multiple was 1.8x.

Acquired February 2021	$16 million
Repositioning costs	$1.5 million
Exited April 2022	$30.8 million
Rent increase	61%+
Equity multiple	1.8x



WHITEHAVEN CURRENTLY HAS FOUR PROJECTS IN ITS PORTFOLIO, ALL OF WHICH CONFORM TO THE FIRM'S THREE PRINCIPLES:

HAVEN AT TOWNE CENTER

Haven at Towne Center, located in Glendale, west of the Arrowhead Towne Center shopping and restaurant district. Renovations at the 240-unit property, which was originally built in 1998, will be completed in December 2024.

HAVEN AT ARROWHEAD

Renovation at the 136-unit Haven at Arrowhead, on the Legend at Arrowhead golf course near the Thunderbird Conservation Park, will be complete this December.

HAVEN TOWNHOMES AT P83

Haven Townhomes at P83 in Peoria, just south of the Arrowhead Towne Center, is a 163-unit property with renovations scheduled for completion in August 2024.

HAVEN AT MIDTOWN

The most recent acquisition in the portfolio, Haven at Midtown is a 138-unit property built in 2002 located in midtown Phoenix. Renovations commenced July 2023.

THE WHITEHAVEN OPPORTUNITY

Though a relatively new firm, WhiteHaven has quickly built upon its business model thanks to its careful due diligence and underwriting. Having worked with investors since its founding, the firm also knows that investment groups won't work with property partners whose reporting is smoke and mirrors. "We're very transparent with our reporting," Leybovich said. "And I still take calls and texts from investors on a daily basis."

In an economic landscape fraught with uncertainty, investors should consider diversifying into an asset class that has outperformed equities and fixed income over the past *four decades*. Finding opportunities in the current multifamily market requires an investment partner firm that knows where those opportunities are – and can demonstrate a record of success. WhiteHaven's disciplined approach to multifamily investment could provide equity partnerships, joint ventures, investment groups and individual investors a haven in these challenging times.

FOR MORE INFORMATION ON WORKING WITH WHITEHAVEN, CONTACT BEN LEYBOVICH OR SAM GROOMS TODAY.

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WhiteHaven, founded in 2018, is an experienced multifamily sponsor, thoughtfully focused on creating value in the Greater Phoenix area. By focusing on core plus assets and committing to extensive programmatic improvements they maximize value for their investors, their tenants, and the Phoenix community. Since inception, they have transacted over $450 million, including the full-cycle disposition of five assets.

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