BRIDGE INVESTMENT GROUP

JULY 2019

Workforce & Affordable Housing:

A Ripe Environment for Double Bottom Line Returns

646-829-9152

Inna.Khidekel@BridgeIG.com
Jack.Robinson@BridgeIG.com

https://www.bridgeig.com

July 2019 | Jack Robinson, PhD, Managing Director, Research
Inna Khidekel, CFA, Partner, Capital Markets
Spencer Bolaños, Associate, Research

Bridge Investment Group Sees Significant Upside in A Market-Based Approach to Preserving and Rehabilitating Workforce & Affordable Housing within the US

Bridge Investment Group LLC ("Bridge") finds that the environment for investing in workforce and affordable housing is becoming increasingly favorable. New construction of affordable multifamily product has failed to keep up with demand, which has created a gap in supply for households earning less than 80% of their local area median income, the largest segment of the US workforce. Bridge sees this as a massive opportunity for market-based value-add investment strategies that seek to protect and preserve existing affordable housing stock.

The purpose of this paper is to examine the affordable housing crisis and the demographic and economic tailwinds that provide uplift to a market-based solution for workforce and affordable housing.[i] Persistent demand from lower-income workers in essential services and industries who are priced out of housing markets, coupled with rising AMI, presents the opportunity to drive both above-market returns and social and economic mobility.

The investment thesis is two-fold:

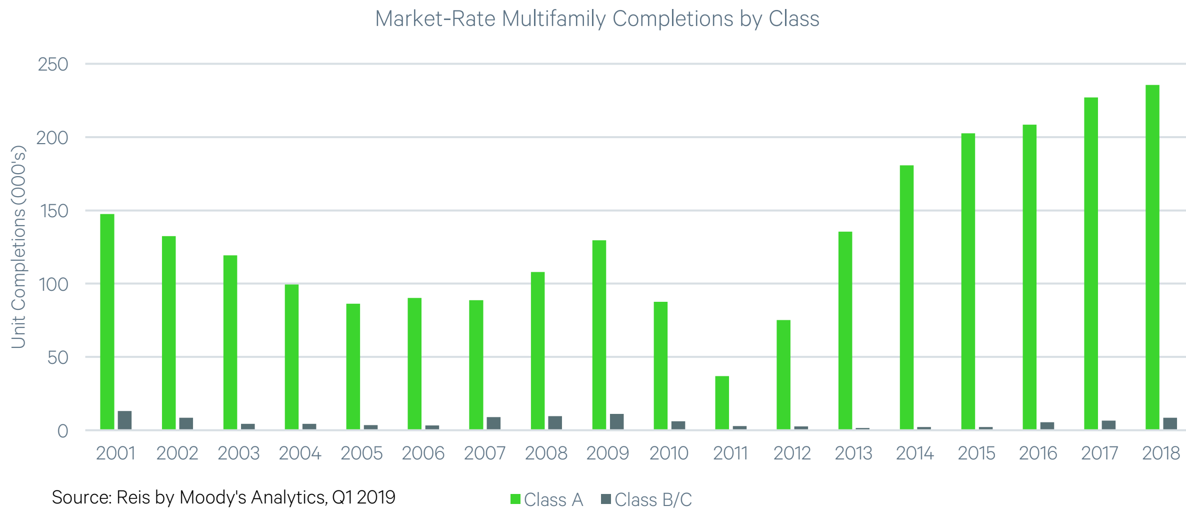
1. As structural supply headwinds persist, compounding demand will increasingly reduce lease-up risk, drive rent growth and durable cash flows, and insulate the sector from economic downturns.
2. Additionally, rising area median income in target markets increases the ability to achieve rent growth without putting workforce residents at risk of undue burden, particularly in a thoughtfully executed community-based housing solution that further lowers resident cost of living via robust onsite social-community programming.

Further in this paper, we will outline how Bridge capitalizes on these economic tailwinds with a hands-on, thoughtfully executed private sector approach while measuring our ability to drive social impact.

Supply of Affordable Housing Stock is Insufficient in the US

Over the last decade, new multifamily construction has failed to keep up with the demand for low and moderate-income housing. This phenomenon is driven partially by rising construction costs, which have stymied investment in lower rent-producing product. As of last year, newly delivered Class B and below multifamily housing continued to make up a tiny minority (10% or less since 2010) of all newly constructed units.[ii] As shown in Figure 1, the dearth of new Class B multifamily housing has been a feature of the real estate market since at least 2001 and has exacerbated the supply shortfall of affordable and workforce housing. These long-term trends indicate that most US developers do not favor the construction of Class B or below product without subsidies, LIHTC tax-credits, or other incentives. Yet even when such supports exist, supply falls well short of demand. In fact, an average of only 86,000 LIHTC units have been added to the total supply per year since 2010.[iii] The systematic preference for developing core luxury product has led to a widening gap in stock between newly built Class A and B units since 2011.[iv] Although the entire multifamily housing market continues to grow, the baseline of affordable and workforce product has stagnated over the last decade.

Figure 1: Multifamily Completions for Workforce & Affordable Product Continue to Stagnate



Bridge Targets Markets Experiencing Above-Average Growth that Support a Market-Based[v] Approach to Investing in Workforce & Affordable Housing

Armed with this knowledge, the Bridge Workforce & Affordable Housing ("WFAH") strategy initially identified 38 target markets as attractive environments for double bottom line investments. As of the date of this paper, Bridge WFAH had engaged in 16 of them so far. The following analysis examines the demographic and economic factors supporting workforce and affordable housing investment strategies in these 16 markets (hereinafter referred to as "Target Markets") as well as the US as a whole. In aggregate, we find that this diversified portfolio of markets experiences outsized population and employment growth, consequent low unemployment, and stable occupancy rates.

Current Bridge WFAH Target Markets as Metropolitan Statistical Areas

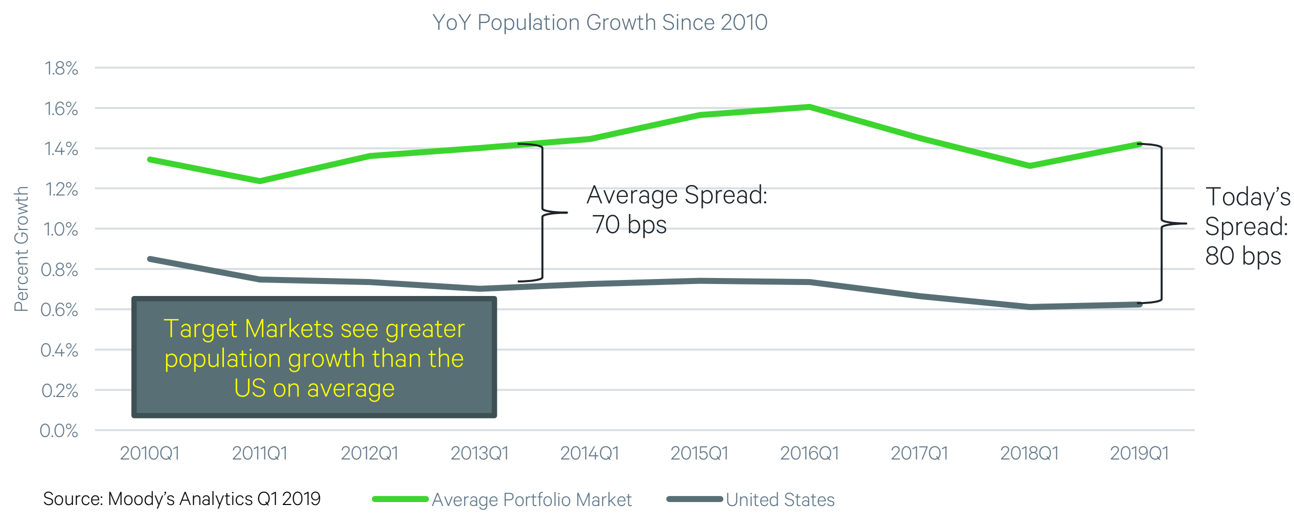
- Atlanta-Sandy Springs-Roswell, GA
- Denver-Aurora-Lakewood, CO
- Jackson, TN
- Chicago-Naperville-Elgin, IL-IN-WI
- Salt Lake City, UT
- Tampa-St. Petersburg-Clearwater, FL
- Dallas-Fort Worth-Arlington, TX
- Las Vegas-Henderson-Paradise, NV
- Raleigh, NC
- Washington-Arlington-Alexandria, DC-VA-MD-WV
- Naples-Immokalee-Marco Island, FL
- Nashville-Davidson--Murfreesboro--Franklin, TN
- Phoenix-Mesa-Scottsdale, AZ
- Columbia, SC
- Charlotte-Concord-Gastonia, NC-SC
- San Francisco-Oakland-Hayward, CA

Bridge Workforce & Affordable Housing Target Markets Continue to Experience Greater Demand Pressures than the US on Average

In addition to continued employment growth, Bridge expects that favorable population growth in general will stimulate demand for workforce and affordable product. Population growth in Target Markets has maintained an average spread over national growth rates by about 70 basis points per year since 2010 (see Figure 2).[vi] The effects of cumulative and compounding population growth will spur continued economic investment in these cities. Moreover, a slight acceleration in population growth in Target Markets since 2010 suggests that the spread between national and Target Market growth rates will continue to widen. In fact, population in Target

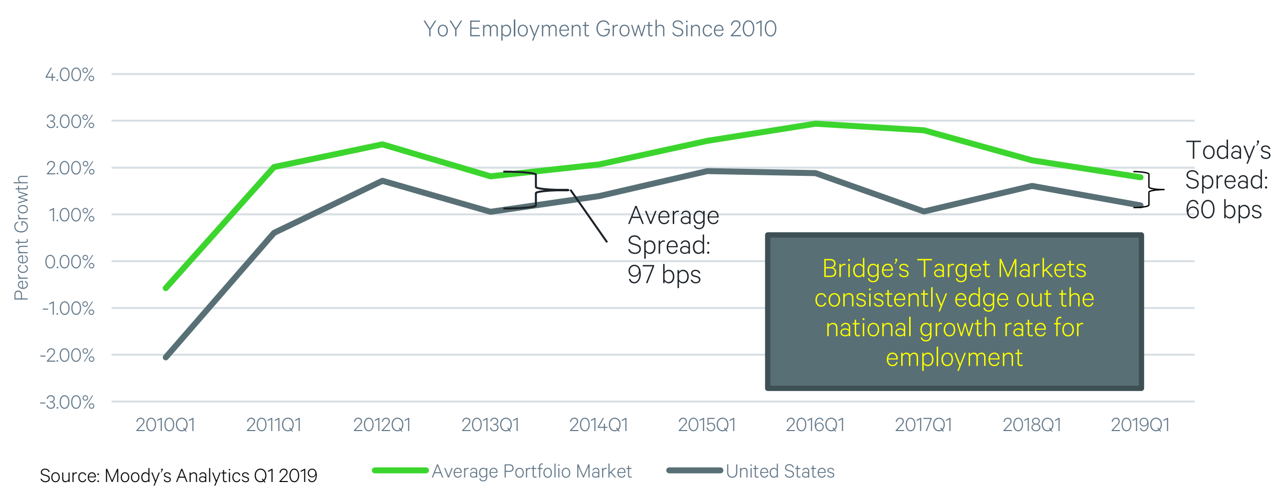
Markets grew by an additional 80 basis points this year over and above the national benchmark, thus beating expectations.[vii]

Figure 2: Population Growth in WFAH Target Markets Continues to Outpace the US by a Wide Margin



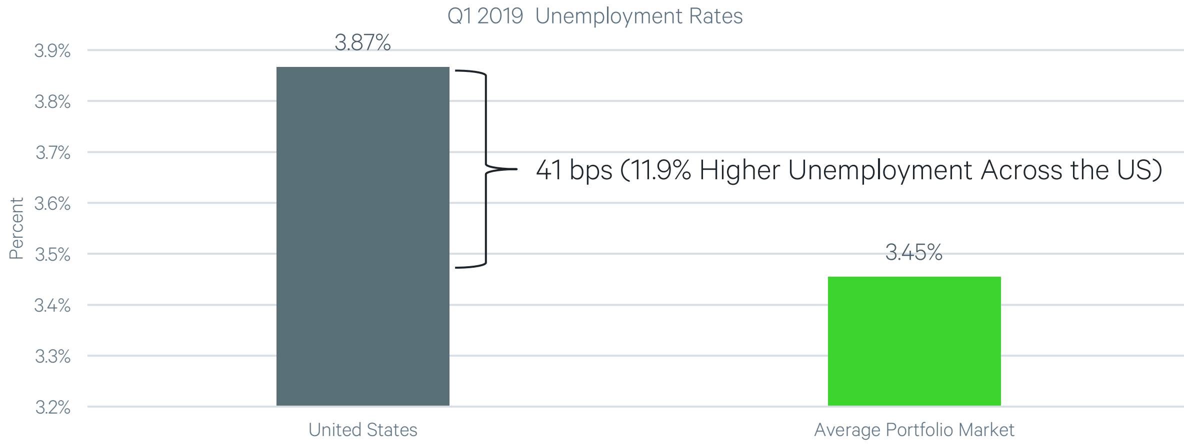
Since the GFC, WFAH Target Markets have experienced compounding investment from the business community. As shown in Figure 3, Target Markets have beaten the national employment growth rate by an average of 97 basis points per year since 2010.[viii] This trend continues through today as employment growth remains stable across all invested markets. In particular, assets in the Las Vegas, Nashville, Phoenix, and Hayward MSAs are expected to increase their defensibility as local economies continue to accelerate; notably, each of these markets were standout winners this year as each MSA's employee base grew by at least 250 basis points.[ix] Bridge asserts that this outsized growth in employment will bolster the demand for affordable multifamily product to house these MSAs' growing workforces while creating tailwinds for existing portfolio investments.

Figure 3: Employment Growth in WFAH Target Markets Has Historically Outpaced the US



As further evidence of economic defensibility, Bridge looks toward local unemployment rates. On average, Target Markets maintain consistently lower unemployment rates. 2019 has been particularly strong for Target Markets as unemployment has dropped to an average of only 3.45% (see Figure 4).[x] The national unemployment rate was materially higher.[xi] These historically low unemployment rates are a signal of strong local economies and tight labor markets, which are both critical drivers of demand. If this trend continues, Bridge expects that the aforementioned Target Markets will continue to experience a greater investment opportunity for workforce and affordable housing than the already strong demand in the United States as a whole.

Figure 4: The Unemployment Rate in WFAH Target Markets Has Fallen below the US Rate of Unemployment by an Average of 24 Basis Points per Year since 2010

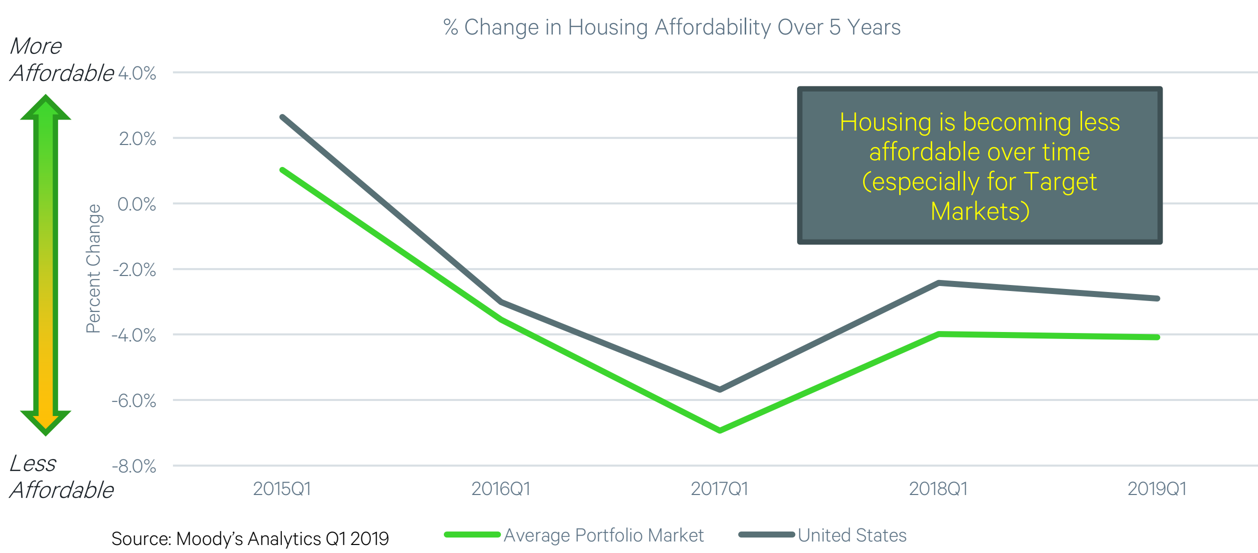


Source: Moody's Analytics Q1 2019

High Demand for Affordable Housing Continues to Reduce Lease-Up Risk and Drive Rent

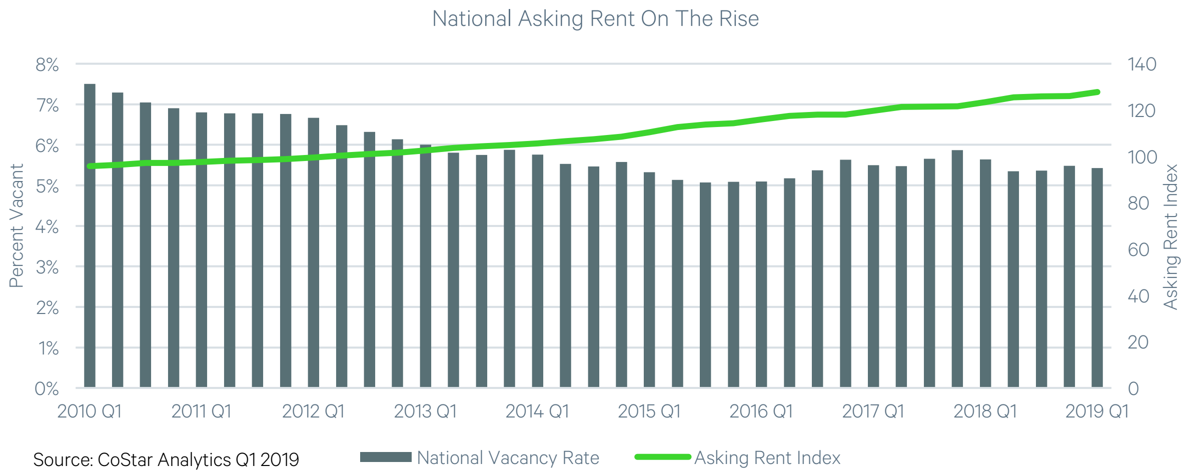
As further support for high housing demand in the Target Markets, Bridge points towards the declining rates in affordability. According to the Housing Affordability Index provided by the National Association of Realtors, the average metropolitan area within the United States is becoming more expensive over time. In the last four years alone, we have only experienced declining affordability at the national level (see Figure 5).[xii] Additionally, Target Markets are becoming less affordable at an even faster rate since 2015.[xiii] As shown in Figure 6, the national trend suggests that significant pent up demand for workforce housing will persist, which should keep vacancy rates low and reduce lease-up risk.

Figure 5: Target Markets Are Becoming Less Affordable at a Faster Rate than the US on Average…



Source: Moody's Analytics Q1 2019

Figure 6: … Despite the Scale of US Demand Already Being Massive



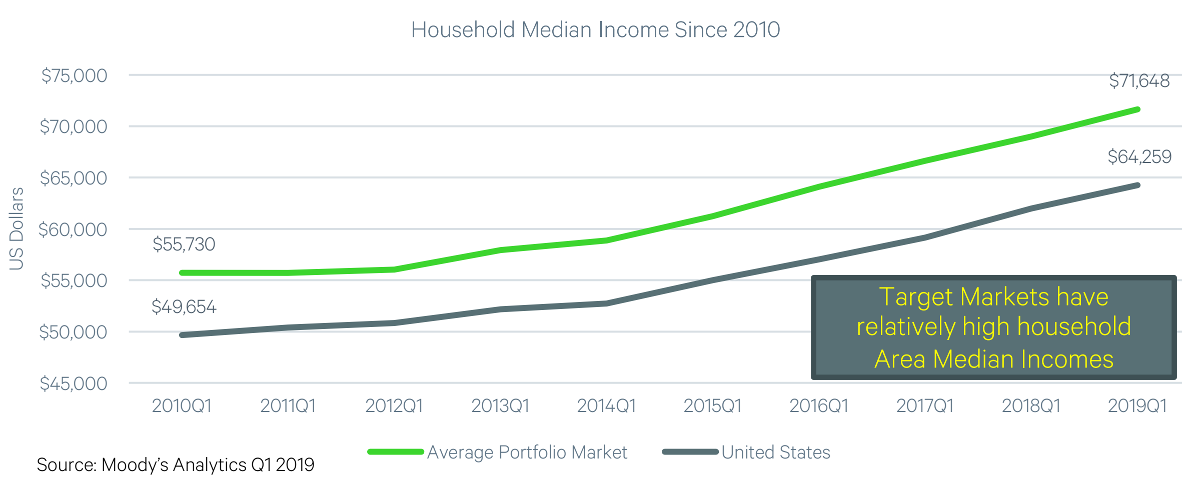
Source: CoStar Analytics Q1 2019

While the demand for workforce and affordable housing in Target Markets continues to outpace the US, we do not mean to diminish the size of the overall US market in any way. From a national perspective, an estimated 62% of all renters earn less than 80% of their area median income.[xiv] The growing demand from cost-burdened renters is a pervasive trend found in most metropolitan areas and will continue to be driven by large populations of teachers, policemen, firefighters, health care workers and other workforce professions representing the crux of the US renter base. Due to this momentum, workforce housing will continue to be undersupplied and rents will rise.

Bridge's Workforce and Affordable Housing Strategy Is Well-Positioned in both Rising and Contracting Market Rate Environments

On average, Target Markets have relatively high median household incomes. In Q1 2019, the median household income for our pre-specified target markets was about $72,000, or approximately $7,000 more than the national average (see Figure 7).[xv] While targeting these specific markets may appear non-intuitive at first, every one of the Target Markets have a significantly large and growing workforce population in desperate need of housing. Typically, high area median incomes are a signal of increasingly elevated single-family home prices, which has created a wide gap in housing supply for communities that have seen elevated proportions of sub-80% AMI households over the long-term.

Figure 7: Above Average Metro-Level AMI Increases the Stability of Workforce and Affordable Strategies



Source: Moody's Analytics Q1 2019

Communities experiencing increasing AMI provide the economic benefit of higher rent ceilings; at the same time, rising AMI increases the need for a market-based solution to preserve affordable housing units so individuals and families are not priced out of their communities. By investing in neighborhoods with growing AMI, WFAH strategies have the ability to distribute strong current yield while benefiting from the cash flow durability associated with above-market, stable occupancy.

➢ Rising Household AMI Allows Greater Flexibility in Pushing Rents for At-Market Residents, Allowing for Subsidization of Low-Income Tenants while Driving Strong Overall Returns

Due to rising household incomes, WFAH strategies are able to take a unique market-rate approach to preserving affordable housing. For the 49% or less of Bridge WFAH residents that do not qualify as low-income—specifically, households earning less than 80% of Area Median Income ("AMI")—Bridge is able to capture the value of rising local economies. Marking-to-market the effective rental rates for a minority of tenants allows for the protection and preservation of a majority of each asset's affordable housing units that would not otherwise make sense economically.

A blended approach ensures that investors achieve attractive returns while preserving housing stock for at-risk individuals and families. For the workforce households in the target markets, rising AMI levels allow higher permissible rent ceilings for the rent-restricted units. This means that as Bridge residents' incomes rise, higher ceilings make it possible for residents to continue to reside in these units without being cost-burdened,[xvi] thereby increasing the possibility of greater household savings and reducing tenant turnover. This type of concerted, private sector-based approach to investing allows for the generation of strong risk-adjusted market returns while also promoting tangible social good. With a well-executed solution, there is not a trade-off between returns and social impact; in fact, both are accelerated.

➢ Workforce and Affordable Housing Target Markets Continue to See Near-Decade Highs in Multifamily Occupancy Rates

The impact of the affordable housing crisis has led to decreased vacancies and increased national asking rents consistently over the last decade. This is evident when rising occupancy rates are observed. Since 2010, multifamily occupancy has steadily climbed without regard to new development. The current national occupancy for class B product has exceeded 94%, which reinforces that overall supply has not kept pace with demand.[xvii] Less than one in ten deliveries currently is affordable. Overall, we believe this lease-up environment will continue to persist in both expansionary and contracting environments given structural issues and pricing economics that make new supply difficult to produce for sub-80% AMI households.

Adding to the supply constraints within Class B and affordable multifamily segments, demand is persistently high through inflationary and recessionary environments. In the current expansion in particular, tight labor markets have not resulted in substantial increases in wages. And while policy efforts from cities to the federal level have focused on raising the minimum wage, there are clear signs that rent inflation has outpaced other inflation components.[xviii] With little relief provided to workforce and affordable households, average vacancy rates for affordable units since 2000 were 5.76 percent, 281 basis points below Class A and 96 basis points below Class B. The combination of an absence of competing product and stable occupancy makes for a lower volatility investment strategy, with steady, durable cash flows and a mitigated J-curve relative to traditional value-add strategies.

Workforce and Affordable Housing Assets Have Proven that Impact Is Sustainable

From day one, Bridge's WFAH strategy has made it a mission to provide relevant and transparent performance data. We report measures of social improvement with the Global Impact Investment Network's IRIS framework, a widely accepted standard for tracking project-based impact. Bridge publishes a bi-annual IRIS report to communicate how we are enacting change in communities. The ability to measure asset-level impact through

IRIS metrics offers a new degree of actionable intelligence not often found in the real state sector. The strategy, which is also aligned with the United Nations Sustainable Development Goals, is measured by the metrics illustrated below.

AFFORDABILITY	ENVIRONMENTAL	SOCIAL & COMMUNITY
Client Households: Low Income (PI7318) Client Households: Total (PI7954) Number of Housing Units Improved (PI6058) Value of Housing Units Financed (PI723) Percent Affordable Housing (PD5833) • Percent Below 80% Area Median Income (AMI)	Water Savings from Services Sold (PI2884) • Monthly Average and Total Water Savings (kGallons) • Monthly Average and Total Cost Savings ($) • Total Cost of Efficient Improvements Installed ($) Energy Savings from Services Sold (PD4927) • Monthly Average and Total Energy Savings (kWh) • Monthly Average and Total Natural Gas Savings (Therms) • Monthly Average and Total Cost Savings ($) • Total Cost of Efficiency Improvements Installed ($)	Number of Community Facilities Financed (PI8007) Value of Community Facilities Financed (PI2410) Individuals Trained: Total (PI2998) Community Facilities Type (PD7557) Non-Financial Support Offered (PD9681) • Health & Wellness Programs • Community Building Programs • Education for Youth Programs • Economic Stability Programs • "Bridge Credit Plus" Users Credit Score Change (Avg)

Assets in our select Target Markets continue to meet impact goals through a strategic partnership with Project Access. The non-profit provides onsite family care services to Bridge properties such as school advancement programs for children, employment readiness classes and credit score enhancement with Bridge Credit Plus for adults, and skills-based initiatives such as our Second Language Acquisition and Technology program. By providing these amenities to residents in permanent on-site community centers, Bridge is able to create a massive competitive advantage in the social impact space. Enhancing resident quality of life at a lower cost of living beyond just "four walls and a roof" further compounds the sector's already strong AMI, occupancy and rent growth tailwinds, while driving down cost and turnover. Bridge believes that the WFAH strategy can accelerate social and economic mobility for residents and promote local wage growth (a critical factor in spurring future NOI growth for property managers).

Summary

The ever-growing demand for workforce and affordable housing cannot be ignored. Declining vacancy rates and rising asking rents amidst a backdrop of an increasing population of low to moderate income renters indicates that now is the time to invest in market-based affordable housing. Government assistance and tax credit programs, such as Section 8 and Section 42, are limited in their capacity to close the supply gap. Emerging strategies, such as Opportunity Zone Funds, have raised questions from market participants as to whether these can materially add to the existing supply of affordable housing; Bridge believes that the same structural issues that exist broadly across the US will limit the capability of these funds to substantially increase supply without additional public or private subsidies. Bridge's Workforce & Affordable Housing market-based strategy affords the opportunity to boost affordable housing without any reliance on subsidies and to achieve a truly double-bottom line outcome: risk-adjusted market rate returns and measurable social good.

With respect to Bridge's selection of Target Markets, the environment has never been riper. We can attribute this to demand pressures, our particular market-rate approach to preserving existing stock, and low volatility both from a lack of competing product and stable occupancy in inflationary and recessionary environments. From a strategic perspective, Bridge Investment Group is better equipped at capitalizing on economic tailwinds as we have the ability to research and target rising AMI metropolitan areas, which offer higher rent ceilings and potential NOI growth, while our "boots-on-the-ground" nationwide in-house operating platform of 2,700+ provides the hands-on execution to thoughtfully drive both above-market returns and social and economic mobility.

Disclosures and Disclaimers

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[i] Workforce and affordable households are defined in this paper as earning less than 80% of the local area median income (AMI).
[ii] REIS, Metro Level Class Cut Data, Q1 2019
[iii] Department of Housing and Urban Development, LIHTC database
[iv] REIS, Metro Level Class Cut Data, Q1 2019
[v] Market-rate workforce strategies do not use government subsidies or tax credits such as Section 8 or Section 42 (Low Income Housing Tax Credit).
[vi] Moody's Analytics, Population Growth Data, Q1 2019 tabulations
[vii] Moody's Analytics, Population Growth Data, Q1 2019 tabulations
[viii] Moody's Analytics, Employment Growth Data, Q1 2019 tabulations
[ix] Moody's Analytics, Employment Growth Data, Q1 2019 tabulations
[x] Moody's Analytics, Unemployment Data, Q1 2019 tabulations
[xi] Moody's Analytics, HH Median Income Data, Q1 2019 tabulations
[xii] National Association of Realtors, Housing Affordability Index
[xiii] National Association of Realtors, Housing Affordability Index
[xiv] NLIHC Tabulations of ACS PUMs Data
[xv] Moody's Analytic, HH Median Income Data, Q1 2019 tabulations
[xvi] Cost-burdened renters are defined by HUD as households who pay more than 30 percent of their income for housing.
[xvii] CoStar Analytics, Q1 2019
[xviii] Federal Reserve Bank of St. Louis Economic Research Division. Bridge Investment Group Research analysis of CPI-U inflation components since 2005 from Bridge's *Q2 2019 Real Estate Outlook: Value-Add, Class B Multifamily Real Estate is a Durable Recession-Resistant Strategy.*