REALM

Investment Strategy Summary

Efficiency Units as a Solution for the Affordability Gap

January 2024

Efficiency Unit Investment Thesis

REALM

Investing in efficiency units that offer attainable rents in low vacancy markets provides a unique opportunity to earn compelling risk-adjusted returns. This opportunity is the result of factors listed below:

1. **Supply and Demand Dynamics –** As housing costs continue to rise, units affordable to the average household make up an increasingly small share of the multifamily inventory. Since the pandemic, average rent in US Cities has increased by nearly 20%.(1) Due to this, only approximately 35% of rental units are affordable to households earning median income(2). Supply is also unable to meaningfully increase as rising development costs and additional hurdles prevent new projects from offering affordable rents.

2. **Attractive Basis at Acquisition –** An arbitrage exists between the pricing of poorly performing hotels and that of Class-B & C multifamily assets. These struggling properties can be purchased at prices between \$40k-\$80k per unit and renovated to an all-in basis of approximately \$100k per unit, in markets where similar vintage multifamily assets often trade at prices of \$150k+ per unit. At a basis below market pricing and replacement cost, stabilized return on cost is consistently above 7%, compared to the US average market cap rate for multifamily of 5.9%.(3)

3. **Subsidized Lower Interest Rate Financing –** Banks and agencies are incentivized to provide more favorable debt terms to providers of affordable housing due to societal benefits. Reductions in interest rates range from 40-80 bps, which is highly beneficial to cash-on-cash returns.

4. **Expected Cap Rate Compression –** Until recently, agency financing was not accessible for efficiency unit assets. REALM expects that this shift will motivate institutional investors to perceive the asset type as investment-grade, increasing the amount of capital in the space and compressing cap rates. Similar trends have been observed in hotel cap rates in the early 2000's and manufactured housing cap rates in the 2010s.

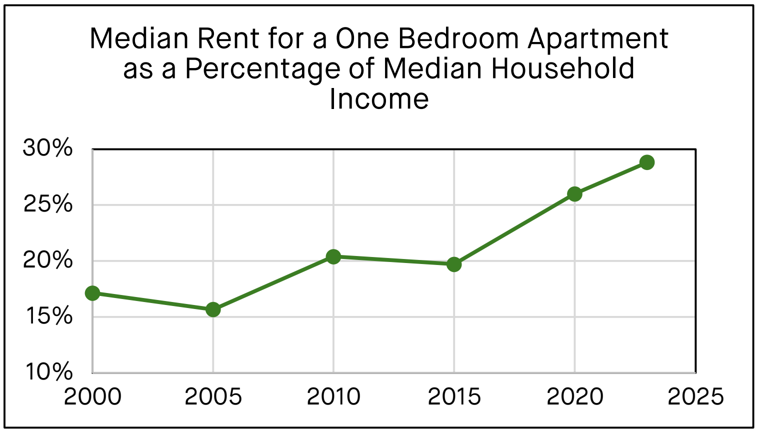
REALM Strike Zone

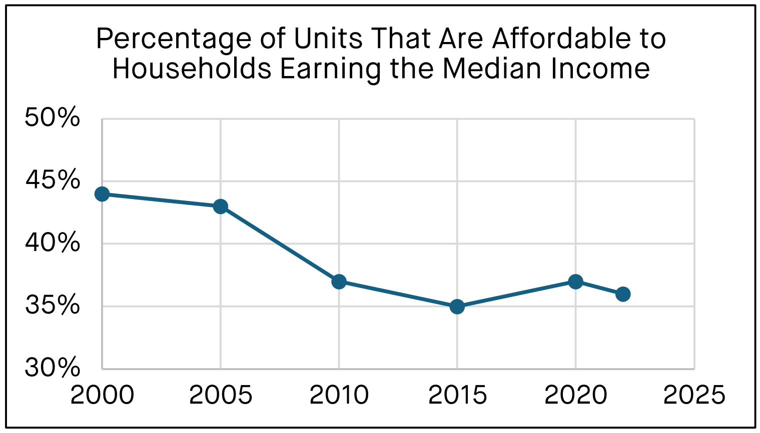
Basis	Post renovation basis less than \$100K per unit
Yield	7.5% stabilized annual return on cost
Equity	\$2M to \$20M
Debt	40%-70% Loan-to-Cost - Bridge to Permanent
Markets	MSAs with populations over 700K

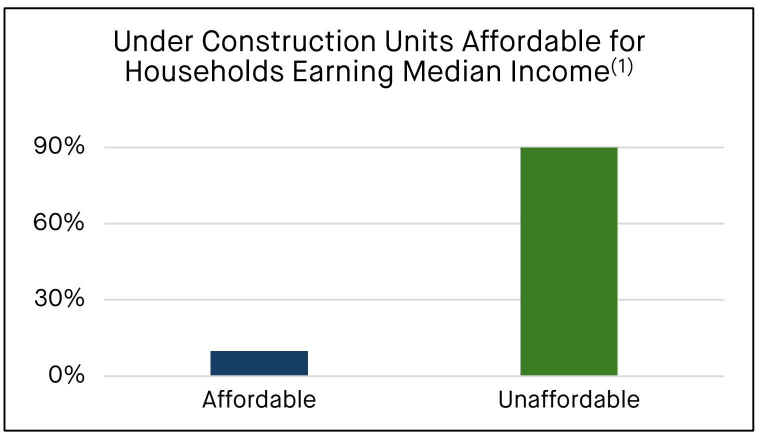
(1) U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average
(2) National Low Income Housing Coalition
(3) Costar Market Data

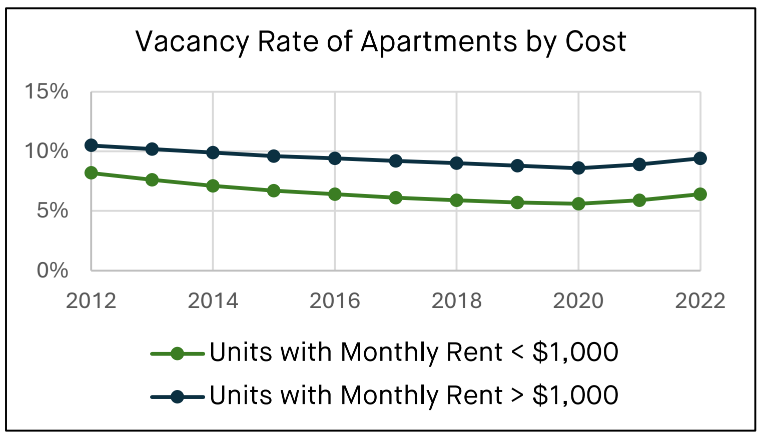
Supporting Data

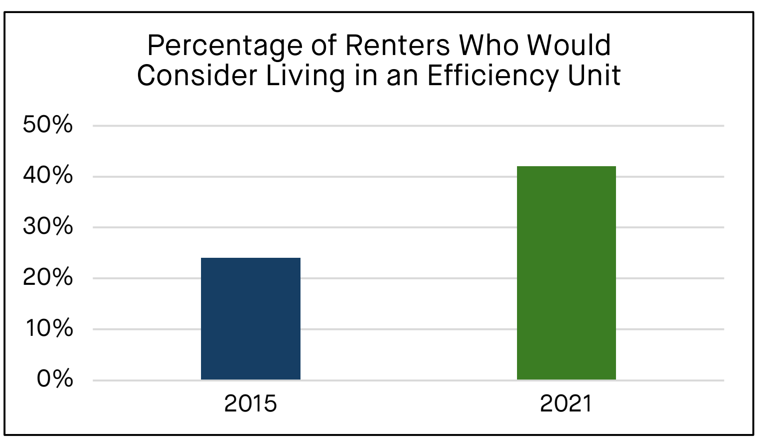
Current market dynamics suggest that investment in workforce housing, specifically in efficiency units, is becoming more attractive. Wages are increasing at a slower rate than the cost of living and housing, and new construction is not adding enough supply to meet the demand caused by this imbalance. As a result, vacancy rates of affordable units are consistently below the U.S. average vacancy rates. Renters are becoming more open to efficiency units as their options become increasingly limited and features other than unit size take higher priority. Investors are beginning to perceive efficiency units as a more stable, investment-grade asset type, similar to mobile home parks of a generation ago. These trends are illustrated by data below:

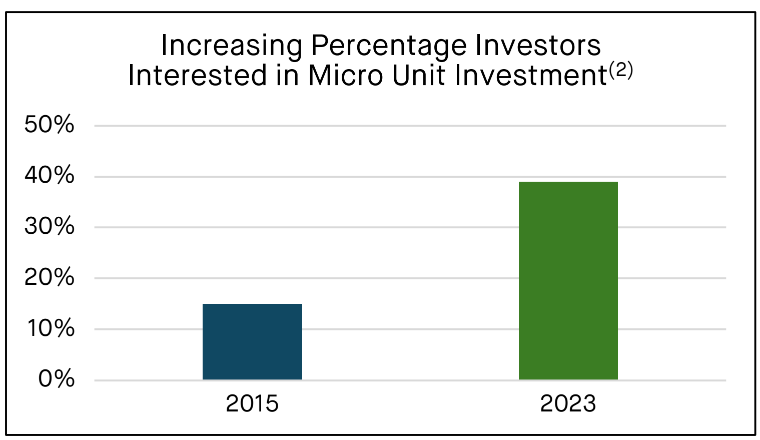












(1) "Affordable" rents are defined as rents that require no more than 30% of income.
(2) Member survey of the Urban Land Institute

Case Study
Madison Radisson

In April 2023, REALM purchased a 153-key Radisson Hotel (the "Property") located in Madison, Wisconsin at a low basis of $41K per door. REALM was attracted to Madison, the capital city of Wisconsin, as a stable market driven by government jobs, the University of Wisconsin, and a growing market for tech jobs with companies like Epic Systems and Exact Sciences with headquarters in the area. Madison ranks in the top five lowest vacancy markets in the country with a vacancy rate of 3.7%. Before closing, REALM's partner, VIVO Investment Group ("Vivo"), had already received unanimous support from Madison City Council to change the use from hotel to multifamily. Renovations included adding new common area and amenity spaces such as a gym, tenant lounge, and co-working space. Unit upgrades entailed re-painting, re-flooring, and adding kitchenettes to units. Renovations concluded within 9-months of acquisition. REALM underwrote rents of $923/mo., which is $200+/mo. less than the current average studio rent of $1,155/mo. in Madison. REALM anticipates leasing up the Property in early 2024 and marketing it for sale in 2025.

Property Description	
Address	517 Grand Canyon Dr.
Leasable Area	47,850
Avg. SF Per Unit / Units	300 / 153
Year Built / Renovated	1982 / 2023

Return Metrics	
Hold Period	24 Months
Total Profit	$1,807,420
Equity Multiple	1.4x
IRR	20%

Acquisition Summary		
Purchase Price	$41,176 / Unit	$6,300,000
Renovation Costs	$37,908 / Unit	$5,800,000
Closing Costs, Fees, and Reserves	$20,196 / Unit	$3,090,000
Total Project Costs	**$99,280 / Unit**	**$15,190,00**
Total Debt	67% LTC	$10,250,000
Equity Required		$4,940,000

Case Study

Extended Stay America Portfolio

In December 2023, REALM, along with its partner, Vivo Investment Group, purchased a portfolio of five off-market Extended Stay America hotels (the "Portfolio") located across three high-growth markets in North Carolina. Due to the scale, REALM was able to purchase the Portfolio at an attractive average basis of $77k per unit. Additionally, because the Portfolio was an extended stay brand, all units already have kitchenettes, individual electric panels, and sufficient fire suppression systems. Due to this, the renovation process is anticipated to be less intensive and expensive than other hotel to multifamily conversions. Renovations will consist mainly of adding gyms and outdoor amenity areas, as well as cosmetic upgrades to units such as new paint and LVP flooring. At four of the five properties, units can begin leasing 12-month leases under the current zoning. Simultaneously, REALM will apply for a change of use from hotel to multifamily with the municipalities, which is anticipated to take 60-90 days. REALM underwrote average rents of $1,050, which is $200-$300/mo. lower than average studio rents across the three markets. Once stabilized, REALM plans to obtain agency at the end of year two and market for sale in year three.

Property Description	
Locations	Raleigh/Durham/Charlotte
Leasable Area	212,100
Avg. SF Per Unit / Units	300 / 587
Year Built	1996-1997

Return Metrics – Inner REALM Investments	
Hold Period	3 Years
Total Profit	$9,044,182
Equity Multiple	1.5x
IRR	17.5%

Acquisition Summary		
Purchase Price	$76,661 / Unit	$45,000,000
Renovation Costs	$15,320 / Unit	$8,992,911
Closing Costs, Fees, and Reserves	$15,366 / Unit	$9,019,930
Total Project Cost	**$107,347 / Unit**	**$63,012,841**
Total Debt	68% LTC	$42,562,911
Equity Required		$20,449,930