EverestHoldings

BLUE PAPERS – MARCH 2016

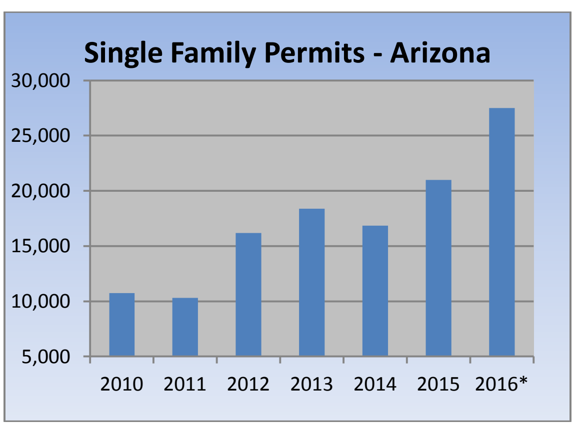
OVERVIEW

Looking back at our 2015 forecast, predictions called for a 15-20% increase in new home permits and a similar increase for multifamily activity. New home ended up 10.3% higher than 2014 and multifamily starts were up 13%. Total housing starts, including both single family and multifamily, were just over 1.1 million units in 2015. While this is meaningful improvement, most economists believe that the underlying demographic demand supports closer to 1.5 million new housing units per year. Locally, Phoenix experienced much stronger growth in 2015 as permits surged 44% higher. Multifamily deliveries increased to 6,600 in 2015, up from 5,600 units delivered in 2014. This is the most apartment deliveries in the Phoenix MSA since 2000.

OUTLOOK

The economic outlook for 2016 is for continued growth in both single and multifamily housing. Employers added 242,000 workers in February, a healthy increase that highlighted the labor market's steady gains. The unemployment rate has dropped to 4.9 percent and the private sector has chalked up 72 months of uninterrupted job gains, the longest streak on record. Higher employment should increase household formations throughout 2016.

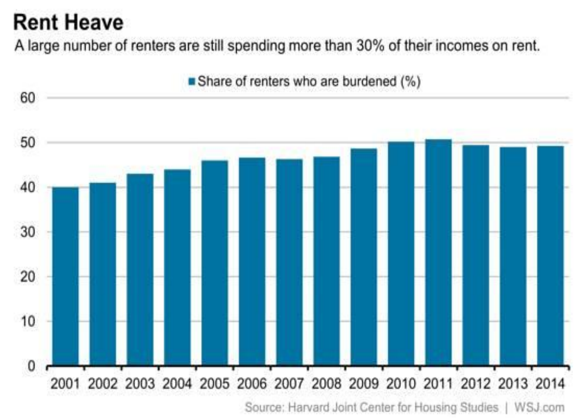
For first time buyers there should be some relief when it comes to financing a new home. The FHA has reduced its fees and may do so again in 2016. Fannie Mae and Freddie Mac are also working on lowering its stringent credit standards. Credit requirements are still high but are starting to normalize.



**Forecast from ASU*

ULI's Real Estate Consensus Forecast estimates that housing starts will increase 13% in 2016 to 842,500. This is still 200,000 units below the 20 year average.
Locally the forecast for single family starts is optimistic for 2016. Permits in January are up 50% from the prior year. However the builders have indicated that the labor base is stretched thin which may limit their capacity to grow at the same rate of demand.

The same ULI report referenced above projected better than average growth rate in apartment rents. Vacancies are down to 4.5% nationally from 7.1% in 2009. ULI expects vacancies to increase slightly in 2016 and 2017 to 4.8% and 5.0%. Rents are expected to rise 3.5% in 2016 and 3.0% in 2017, which is above the 20 year average of 2.7%.

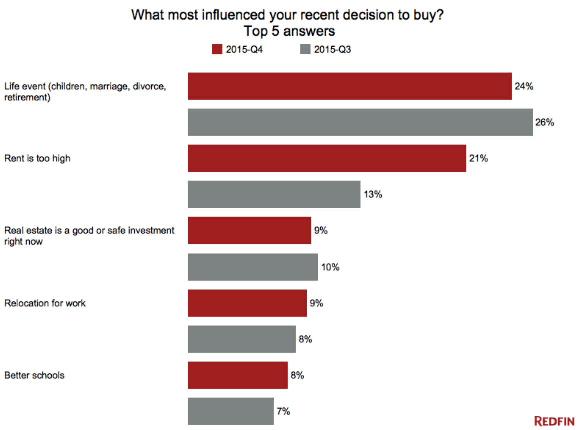


All this is good news for landlords. However renters are feeling the pinch. According to a recent Wall Street Journal article, nearly half of renters pay more than 30% of their income on rent, a ratio that economists consider financially burdensome. In mid-2015, 43 million families and individuals lived in rental housing, up nearly 9 million from 2005—the largest gain in any 10-year period on record. In contrast, the number of rental units expanded by just 8.2 million, most of that from the conversion of single-family homes into rentals.

INSIDER KNOWLEDGE:

- Look for more single family construction at affordable price points, which will bring down the average size of new homes as well as the average price. Most of new construction during the recovery has been in the move-up and luxury segments.

- Rents will rise faster than home prices in most markets. For some potential buyers rising rents may encourage a home purchase. Others may be negatively impacted as higher rent reduces their ability to save for a down payment.



- Expect that increased demand for rental and for-sale housing will create a housing shortage, especially for lower priced and affordable housing.
- 2016 could be the year that we see a reversal in the decline of the homeownership rate, which has fallen to historical lows. According to the National Association of Realtors, 94% of renters under 34 surveyed say they still want to buy a home in the future.
- Construction of multifamily homes will increase this year (nationally), but there's still a shortage of rental homes for the millions who need them. Rental vacancy rates are at or near their lowest level in 30 years, according to CoreLogic.

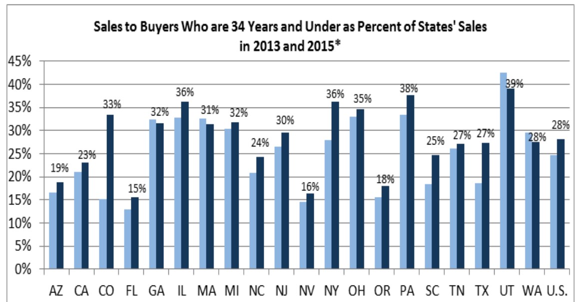
OPPORTUNITIES:

Taking into account these factors, we evaluate on an ongoing basis the types of investments we are pursuing and how the general market opportunities fit with our investment platforms. Here are some key takeaways from that analysis.

SINGLE FAMIY RESIDENTIAL

There is strong evidence to support the notion that the entry level buyer will make a strong comeback in 2016. In Phoenix there has been a solid uptick in sales and traffic in areas that have historically catered to buyers seeking affordable housing: Maricopa, Surprise, Buckeye, Queen Creek and San Tan Valley. Large land positions with some level of entitlements should experience healthy appreciation in the next few years as the market continues to recover.

Another investment platform outlined in our prior report was land banking for public and private builders. As the market recovers, the builders will seek out additional capital resources to help them control land to satisfy future growth prospects.



*Data labels are for 2015. Estimates have a sampling margin of error of four percent or less at 95 percent confidence in 2015. At the national level, the sampling margin of error is less than 1 percent. Respondents are asked about the characteristics of their most recent sale in the reference month. The current year's data is compared against data in 2013 when NAR started collecting this information from the RCI survey.

MULTIFAMILY

Multifamily remains the most stable sector in the real estate market. With strong rent growth, favorable demographics and record low vacancies, there is little perceived market risk in new multifamily investment and development. Accordingly this has lowered the cost of capital and made the market very efficient.

Despite these barriers to entry there are potential investment opportunities that are worth consideration. We continue to seek out future multifamily development sites that are geared toward larger scale (200+ units) developments in quality growth corridors. These are areas where rents are 10-20% below levels that justify new construction. In some cases the sites are under a different zoning designation that will require a re-entitlement.

A second potential investment platform is smaller scale development sites in better located areas. While most of the recent development activity has been large scale, we think there is demand for niche product built in established areas where there is little to no new product offerings.