

AVANATH CAPITAL MANAGEMENT CLOSES TWO FUNDS TOTALING \$388 MILLION

Avanath Capital Management has announced the final close of both its “Avanath Affordable Housing III” and “Avanath III NY Co-Investment” Funds, totaling \$388 million in equity commitments.

The combination of these two funds makes it one of the largest dedicated affordable housing funds in the U.S.

The closing of these funds is nearly double the equity commitments from Avanath’s Fund II, which had its final closing at \$200 million in July 2015.

“The fund garnered tremendous institutional interest nationally and internationally,” explains John Williams, Avanath’s President and CIO. “As the institutional community begins to more deeply understand the affordability crisis in the U.S., we will see continued increased activity in the

affordable sector for years to come.”

The two funds are comprised of a total of 19 investors, including three pension funds, three foundations, four U.S. companies, four U.S. banks, four U.S. family offices, and one European family office.

To date, Avanath has acquired nine assets totaling \$123 million under the funds, and has an additional four assets under contract, with closings scheduled over the next several months.



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a message from the chairman

WHEN NICHE BECOMES MAINSTREAM

by Daryl J. Carter, Founder, Chairman & CEO

Sam Walton opened the first Walmart in Rogers, Arkansas in 1962. Other retailers thought that Mr. Sam (as he was affectionately known) had lost his mind when he created Walmart as a big box version of his Walton's 5&10.

Most thought that Mr. Sam's ideas – building a successful retail business around offering lower prices and great service – would never work, and at best, was a “niche” strategy that would only appeal to a limited sector.

Mr. Sam had the vision to see that a very broad swath of America (and later the world) would be attracted to his stores to take advantage of the lower prices and great customer service.

At worldwide sales of \$495 billion and 35% worldwide retail market share, Walmart certainly cannot be considered a “niche” today.

The concept of a niche market is one that we at Avanath know very well.

As experts in affordable housing and one of the very first institutional fund managers in this

sector, we have built a niche platform that acquires, preserves and operates affordable and workforce rental housing, while also generating attractive risk-adjusted returns for our investors.

We are viewed as a niche because most of the institutional capital that flows into the multifamily sector focuses on the Class A, core segment, where rents range from \$2,500 to \$5,000 per month. Of course, these rent levels require annual incomes of \$100,000 and above.

Like Sam Walton, Avanath is targeting the “masses” – providing quality rental housing for the broadest swath of the market. The median household income in the U.S. is \$57,000 per year. Avanath's residents typically earn between \$30,000 and \$70,000 per year.

There are 43.3 million rental households in the U.S. Avanath's average rent is \$1,200 per month, with a range of \$800 to \$2,000 per month – which is affordable to 23.1 million households or 53.3% of the rental market. Rental levels above \$2,000 can serve only 3.9 million households or only 9% of the market. Which is a bigger niche – 53.3% of the market or 9% of the market?*

This means that Avanath is serving the primary rental market in our nation.

Further, while we seek to accommodate the majority of U.S.

renters, our available supply is shrinking at a rapid pace. First, we lose approximately 100,000 Class C apartment units annually due to obsolescence or substandard conditions.

Second, we are losing affordable units to conversion to market-rate units. New York, for example, has 45,520 affordable units at risk of expiring and converting to market-rate in the next five years. Other states are close behind, such as California with 45,140 units, and Texas with 32,265 units at risk of expiration. Also, many of these affordable units require significant capital investment, better management, and amenities/ services that enhance the lives of the residents.

By addressing the needs of the largest sector of the rental market and bringing institutional capital to areas where affordable housing is most needed, we are able to maintain high occupancy, stabilized cash flow in times of both economic prosperity and uncertainty, and deliver strong risk-adjusted returns to investors, while also impacting local communities for the better.

Quality, affordable apartments and excellent customer service are indeed the mainstream. We are happy to copy Sam Walton's playbook!

**The State of the Nation's Housing 2017," publication by Joint Center for Housing Studies of Harvard University*



INVESTOR MEETING REAFFIRMS STRONG OUTLOOK ON AFFORDABLE AND WORKFORCE HOUSING FOR 2018

At the picturesque Alford Inn in the quiet community of Winter Park, Florida, guests from coast-to-coast gathered recently for Avanath's annual 2017 Investor Meeting.

This meeting of the minds confirmed what many of us already know; the landscape for affordable housing is bright in 2018, and beyond. Compared to other product types that are more cyclical, where investors are taking a more defensive posture in the new year, investment in affordable and workforce housing continues to grow.

Avanath kicked off the meeting with an outlook on the overall affordable housing market, with an emphasis on central Florida.

Avanath's affiliate McKinley-Avanath Property Management, which manages many of Avanath's Florida assets discussed demand drivers for Central Florida from immigration, to population growth, to tourism, and even engineering and agriculture.

"Population growth in Central Florida will not be incremental. It will be significant," said Albert Berriz President of McKinley-Avanath Property Management, noting that Central Florida's population is anticipated to grow by millions over the next four years.

In addition to its focus on Central Florida, Founder, Chairman and CEO, Daryl Carter highlighted Avanath's commitment to social impact, discussing a recent report in which the firm partnered with USC to create a benchmark for measuring the success of its social impact programs such as arts, classes, and after school programs.

"Our focus will remain on affordable investments that deliver risk-adjusted returns to our investors and deliver a positive impact on the local community," said Carter. "The data in this report will allow us to further quantify the social and fiscal benefits these social programs have on enriching communities and driving investor returns."

President and CIO, John Williams, discussed fund performance,



Jun Sakumoto of Avanath Capital Management

highlighting Avanath's track record of continuing to deliver above-average IRRs and announcing the close of Fund III at \$388 million.

“Because of our strong track record, Fund III, which is the combination of two funds, is one of the largest affordable housing funds in the country.”

- John Williams, President and CIO of Avanath

"We have already seen an 11% increase in value in the three assets acquired in Fund III during the first year of ownership. We plan to continue to focus on affordable and workforce investments in markets that are poised for strong economic growth," said Williams.





COMMUNITY SPOTLIGHT: COMMUNITY IMPACT COMES TO SILVER SPRINGS

Avanath is committed to improving communities holistically, investing not only in brick-and-mortar, but also in our residents.

At the property level, this entails community partnerships through which we offer on-site activities to improve quality of life for families and individuals.

For example, a recent USC study measured the impact of our partnership with COR-CDC at our Northpointe Apartments in Long Beach, CA, revealing an increase in focus, discipline, and good behavior among our teens and children, and an increase in parental involvement.

Rafael Garcia, who previously served at our Northpointe Apartments and is now Community Manager at our Silver Springs Apartments in Kent, WA, is committed to delivering a similar impact. He recently shared some insights on community programming, property management, and his own Avanath story.



From Left to Right: Rafael Garcia, Community Manager, Ion Bojonca, Maintenance Supervisor, Ken Westman, Maintenance Tech, Tammy Bender, Porter

Q: What new programs are you implementing at Silver Springs?

A: Building on the success of our Northpointe property, we have partnered with COR-CDC to introduce a series of activities aimed at increasing the quality of life of our residents.

Our community is home to many families, and beginning early to mid-2018, we plan to roll out after-school programs, fitness groups, movie nights, and summer kids activities.

Q: How does your team go above and beyond?

A: Authenticity and kindness is the key to success in this industry. I encourage my team to always be genuine and seek out opportunities for face-to-face interaction. Even with new property management technology, we work hard to

form personal relationships with each of our residents.

As a renter myself, I push my team to put themselves in our residents' shoes. This allows us to provide an elevated level of service at all times.

Q: How did you get where you are today?

A: Avanath has given me exceptional opportunities for upward mobility. I started nearly four years ago as a Property Administrator in Long Beach, was promoted to Assistant Community Manager, and was recently awarded my current position as Community Manager at Silver Springs.

I enjoy a fulfilling career as a member of this team, and have been able to see my work positively affect the community, which is rewarding each and every day.



AVANATH CULTIVATES A CULTURE OF LEADERSHIP

Fostering environments that cultivate young leaders is a core focus for Avanath, and a major component of our company culture.

Since August of 2017, we have been holding Internal Leadership workshops each month. Workshops are focused on professional development and have included communication and leadership strategies, giving our team the opportunity to hone their skills and continue growing and learning.